

## MEMORANDUM

**TO:** Joint Fiscal Committee  
**FROM:** Adam Greshin, Commissioner, Department of Finance & Management  
**RE:** 27/53 Reserve Schedule  
**DATE:** September 27, 2022

**This memorandum is an updated version of the report dated September 16, 2022, with a material revision to the liability associated with the 53<sup>rd</sup> week of Medicaid payments. The next year requiring a 53<sup>rd</sup> week of Medicaid payments is FY 2027, *not* FY 2033 as stated in the previous version.**

Pursuant to 32 V.S.A. § 308e(a)(2), the attached spreadsheet provides the anticipated liability for the next 53<sup>rd</sup> week of Medicaid payments and the next 27<sup>th</sup> state payroll. The 27/53 Reserve was created during the 2016 legislative session to establish a process to reserve funds for known future liabilities, thereby minimizing budgetary impact in the years the liabilities come due.

### **FY 2023 Reserve – technical correction needed**

Act 185 of 2022 Sec. D.102(a) establishes that “\$3,020,000 from the General Fund shall be reserved in the 27/53 reserve in fiscal year 2022. This action is the fiscal year 2023 contribution to the reserve . . .” The language incorrectly specifies that the reservation take place in fiscal year 2022. During fiscal year 2022 closeout, Finance & Management confirmed, in consultation with the Joint Fiscal Office, that the reservation of funds should take place in fiscal year 2023, so the action was not completed in 2022. Finance & Management expects to complete this reservation after enactment of Budget Adjustment Act legislation correcting the language and enabling the reserve to be made in fiscal year 2023.

### **Upcoming 27/53 Liabilities**

The next 53<sup>rd</sup> week of Medicaid payments is scheduled to occur in FY 2027 and has an estimated General Fund cost of \$14.59M. This estimate was derived by using the FY 2022 Medicaid costs as a starting point and then projecting the FY 2023 – FY 2027 costs based on a growth rate equivalent to the 3-year average Bureau of Labor Statistics’ CPI for Medical Care (July 2019 – June 2022), or 2.95%.

The next 27<sup>th</sup> payroll is scheduled to occur in FY 2033 and has an estimated General Fund cost of \$22.14M. This was derived by using the actual VTHR data imported July 2022, projected annually for FY 2023 salaries in the budget system and applying an assumed 5% inflationary rate for each year through FY 2033.

The attached spreadsheet provides a schedule for transfer to the 27/53 Reserve to ensure that there are funds available to help meet the future liabilities for the 27<sup>th</sup> payroll and 53<sup>rd</sup> week of Medicaid. Based on current estimates and the prior year fund balance, \$3.29M for the 53<sup>rd</sup> week and \$2.06M for the 27<sup>th</sup> pay period should be reserved in the fiscal year 2024 budget to meet these future liabilities.



Note that the FY 2024 amount reserved for the 53<sup>rd</sup> week of Medicaid is more than twice the amount reserved for this purpose in the FY 2023 budget as passed. The \$3.02M amount reserved in 2022 Act 185 Sec. D.102(a) was based on the September 2021 27/53 Reserve Schedule presented to the Joint Fiscal Committee, which estimated FY 2023 reserve needs of \$1.43M for 53<sup>rd</sup> Week and \$1.59M for 27<sup>th</sup> Payroll. The September 2021 report erroneously projected the next occurrence of a 53<sup>rd</sup> Medicaid payment to be coincident with the next 27<sup>th</sup> payroll in FY2033, which would allow 11 years to make reserve contributions prior to disbursement. It was recently confirmed that while the next 27<sup>th</sup> payroll occurs in FY 2033, the next year requiring a 53<sup>rd</sup> week of Medicaid payments will be FY 2027. The estimated annual amounts to be reserved for this purpose in the next four fiscal years have been updated accordingly in the attached schedule.

Pursuant to 32 V.S.A Sec. 308b(c)(2), funds for the 53<sup>rd</sup> payment will be transferred from the Human Services Caseload Reserve, subject to the balances and obligations within that fund.

Attachment: 27/53 Reserve Contribution Schedule for Estimated Liabilities



### 27/53 Reserve Contribution Schedule for Estimated Liabilities

Presented to JFC September 21, 2022 Per 32 V.S.A. § 308e(a)(2) - in millions  
 Revised September 27, 2022 for next 53rd Week payment due in FY 2027

| Projected Total Contributions | Total Need   | Fund Balance | Balance to Allocate | Years until Liability is Due | Annual Deposit |
|-------------------------------|--------------|--------------|---------------------|------------------------------|----------------|
| 53rd Week                     | 14.59        | 1.43         | 13.16               | 4                            | 3.29           |
| 27th Pay Period               | 22.14        | 1.59         | 20.55               | 10                           | 2.06           |
| <b>Total</b>                  | <b>36.73</b> | <b>3.02</b>  | <b>33.71</b>        |                              | <b>5.35</b>    |

| 53rd Week                               | As Passed   |             |             |              |              |             |             |             |              |              |              |
|---|-------------|-------------|-------------|--------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|
|   | 2023        | 2024        | 2025        | 2026         | 2027         | 2028        | 2029        | 2030        | 2031         | 2032         | 2033         |
| Prior Year Balance                      | -           | 1.43        | 4.72        | 8.01         | 11.30        | -           | 2.90        | 5.80        | 8.70         | 11.60        | 14.50        |
| Annual Contribution                     | 1.43        | 3.29        | 3.29        | 3.29         | 3.29         | 2.90        | 2.90        | 2.90        | 2.90         | 2.90         | 2.90         |
| <b>Total Reserved for the 53rd week</b> | <b>1.43</b> | <b>4.72</b> | <b>8.01</b> | <b>11.30</b> | <b>14.59</b> | <b>2.90</b> | <b>5.80</b> | <b>8.70</b> | <b>11.60</b> | <b>14.50</b> | <b>17.40</b> |

Notes: Assumed annual growth rate in Medicaid of 2.95% budget, based on 3 year average (Jul 2019 -Jun 2022) of Bureau of Labor Statistics CPI for Medical Care.

| 27th Pay Period                       | As Passed   |             |             |             |             |              |              |              |              |              |              |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                       | 2023        | 2024        | 2025        | 2026        | 2027        | 2028         | 2029         | 2030         | 2031         | 2032         | 2033         |
| Prior Year balance                    | -           | 1.59        | 3.65        | 5.70        | 7.76        | 9.81         | 11.87        | 13.92        | 15.98        | 18.03        | 20.09        |
| Annual Contribution                   | 1.59        | 2.06        | 2.06        | 2.06        | 2.06        | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         |
| <b>Total Reserved 27th Pay Period</b> | <b>1.59</b> | <b>3.65</b> | <b>5.70</b> | <b>7.76</b> | <b>9.81</b> | <b>11.87</b> | <b>13.92</b> | <b>15.98</b> | <b>18.03</b> | <b>20.09</b> | <b>22.14</b> |

Notes: Assumed inflationary growth rate of 5% over the FY2023 projected payroll.

| Total Projected Reserve Balance | As Passed   |             |              |              |              |              |              |              |              |              |              |
|---------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | 2023        | 2024        | 2025         | 2026         | 2027         | 2028         | 2029         | 2030         | 2031         | 2032         | 2033         |
| Prior year balance              | -           | 3.02        | 8.36         | 13.71        | 19.06        | 9.81         | 14.77        | 19.72        | 24.68        | 29.63        | 34.59        |
| 53rd Week contribution          | 1.43        | 3.29        | 3.29         | 3.29         | 3.29         | 2.90         | 2.90         | 2.90         | 2.90         | 2.90         | 2.90         |
| 27th Pay period Contribution    | 1.59        | 2.06        | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         | 2.06         |
| <b>Total</b>                    | <b>3.02</b> | <b>8.36</b> | <b>13.71</b> | <b>19.06</b> | <b>24.40</b> | <b>14.77</b> | <b>19.72</b> | <b>24.68</b> | <b>29.63</b> | <b>34.59</b> | <b>39.54</b> |