

Joint Fiscal Office

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MEMORANDUM

To: Representative Janet Ancel, Chair
Senator Ann Cummings, Vice Chair
Senator Jane Kitchel
Representative Kitty Toll
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 23, 2018

Subject: July 2018 – Fiscal Officer’s Report

What follows is an update of recent developments, some of which will be on the agenda for the July 27 meeting of the Joint Fiscal Committee.

1. FY2018 Revenues Preliminary Closeout

The closeout process for FY 2018 has been relatively slow given the late ending to the Legislative session. The final revenue report or final schedule 2 came in on July 17. We have just completed the true up with the Administration on Direct Applications such as monies from Abandoned Property, the Secretary of State Special Fund, and other receipts.

- **The General Fund:** On a preliminary basis, before direct applications and reversions, the General Fund is \$65.2 million or 4.4% over the January 2018 target and \$21.05 million or 1.4% over the April 2018 revised estimate. With direct applications and reversions and other year-end adjustments, the General Fund surplus grew another \$970,000.
 - Extra direct application receipts came from a variety of sources, including the Secretary of State Special Fund, The Treasurer’s Abandoned Property Funds, and The Tax Modernization Fund. The amount from the Property Transfer Tax was below estimate by \$440k.
- **The Transportation Fund:** The receipts are up \$1.4 million or 1/2% above forecasts, primarily due to Purchase and Use and other smaller fund sources.
- **The Education Fund:** The Fund is above projections by \$4.9 million or just over 2% above forecasts. Sales tax receipts and Lottery receipts were the biggest contributors. The strength in sales tax portends a forecast upgrade for FY 2019 and on.

The strong General Fund closeout is the sum of several factors. The largest are:

- Personal Income tax revenues were up \$38.3 million or 4.6% over forecast. The strong stock market, several one-time events, and the federal tax changes were likely factors in this overage. Withholding taxes were stronger than estimated - a healthy economic sign.
- Corporate tax revenues were up \$17 million or 18% over forecast. This could be in part due to new tax revenues from repatriation of foreign profits. This will be a one- or two-year event, and its overall revenue impact is very uncertain.
- Sales tax receipts were \$4.3 million or 1.7% above estimates. This reflects Vermont's capture of more online sales. Tom Kavet will talk more about this in his presentations on the 27th.
- We also had a strong "estate" year. Estate taxes came in \$4 million over target.

The closeout will result in about \$26 million going to the Teachers' Retirement Fund in FY 2018 with potentially \$10 million more in FY 2019.

2. FY 2019 Revenues

FY 2019 revenue projections are still being finalized by Tom Kavet and Jeff Carr. The revenue adjustment is likely to be positive, but the level of adjustment is unclear. With the full Sales tax moving over to the Education Fund, the Education Fund is likely to see an increase in revenues. Much of this will be driven by the recent Supreme Court case *South Dakota v. Wayfair, Inc.*, which will facilitate greater collection of revenues from online sales.

3. Medicaid Trending

The Medicaid program closed in a positive position with FY18 expenditures ending \$25m (gross) below budgeted projections. Caseload came in about 2% below estimate but most of the under spending was driven by \$22m in Pharmacy rebates coming in higher than anticipated with \$10m of these rebates coming in the last few days of June. As result of the end-of-June rebate payments, AHS did not need to use any of the \$7.1m of onetime General Fund to close FY18. These unused funds can be allocated for critical provider and substance use disorder expenditure needs. The childless New Adult portion of expenditures continue to drop as percent of the New Adult total which has a negative General Fund impact in Medicaid as result of the very high match rate for the childless New Adults. The rebate trends and timing and the childless New Adult expenditures will be specific areas of focus for the January update. The Medicaid Year End Report will be finalized this week for presentation to JFC and Emergency Board and will provide more detailed information on year end close as well as the budgeted amounts for FY19.

4. Property Tax Bill Issues

There appear to be more issues than usual with the Property Tax Adjustment claims as issued by the Tax Department on July 1. The Department reported 14,000 of

the 175,000 annual filings remained under review as of last week. Towns that submit bills early may have to reissue them. We are scheduling a presentation on this at the Joint Fiscal Committee meeting.

5. State Employees' and Teachers' Retirement Funds

Investment returns on FY 2018 retirement funds are estimated to have come in below the 7.5% assumed returns. Returns are expected to be closer to 6.5% after including preliminary June performance. With roughly \$4.3 billion invested, the lower return will negatively offset the new funds being added this legislative session. This summer's actuarial work will take these factors into account to produce the new actuarial position of the fund.

6. Legislative Special Session Costs

The estimated special session costs were roughly \$340,000 or about the cost of six days of session. The cost breakdowns are:

- Overall
 - Legislative Salaries and FICA \$168,400
 - Expenses (Miles, Lodging and Meals) \$152,000
 - Printing, Copying and other \$15,000-20,000
- Salaries and expenses between the House and Senate were \$278,000 and \$42,000 respectively

7. State of Vermont Security Operations Center (VTSOC)

The Joint Fiscal Committee will have an action item on the agenda to approve funding for the State of Vermont Security Operations Center. The Administration's write-up and Dan Smith's independent review will be sent to the Committee before the meeting.

8. Studies

- **The Study of Decarbonization Methods in Vermont:** The Decarbonization study is out to bid with a due date for proposals of Friday the 20th. Four proposals came in and we are reviewing them. We hope to have this study start in early August.
- **The Review and Evaluation of Health Care in Vermont:** The Corrections Health Care Study RFP is out with responses due August 10th.
- We have begun to work on the Child Care Capacity Study, The Basic Needs Study, and the Tax Expenditure report, which are all due this Fall.
- The Tax Structure Commission will await a fall start-up as we need to find staffing for this 2 ½-year effort.

9. JFO updates

- **The JFO Website**

- We are working with Blue House Group, who worked on the Legislative Website, to update our JFO website before the Legislative Session. We hope to have a website with improved organization and better compatibility with the legislative website operational before January. Catherine Benham is coordinating this.

- **Chloe Wexler's Position**

- We are changing Chloe Wexler's position to be a Data Analyst in our Office. She will remain the primary data person for Education Finance but will also, over time, replace Deb Brighton in her work in analysis related to human services and work in other areas as appropriate. She is working with Stephanie on the Child Care Study that was required in the budget. The position will remain at 80% time in our office.

- **Sorsha Anderson Transfer**

- We expect to complete the transfer of Sorsha Anderson to our office by September. She will be a session employee and will continue to staff House Ways and Means. Our hope is that during the Fall we can spend some time introducing her to the broader operations of the Joint Fiscal Office to allow her to better coordinate between JFO staff and the Committee.