

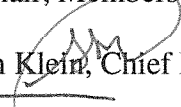
11/12/09

Joint Fiscal Office

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MEMORANDUM

To: Representative Michael Obuchowski, Chair, and Senator Ann Cummings
Vice Chair, Members of the Joint Fiscal Committee

From: 
Stephen Klein, Chief Fiscal Officer

Date: November 5, 2009

Subject: November 2009 –Fiscal Officers Report

What follows is an update of Vermont’s fiscal condition – some of which will be part of the November meeting of the Joint Fiscal Committee.

1. FY 2010 Revenues through October:

- a. General Fund Revenues – Preliminary General Fund revenues for the first four months of the fiscal year show revenues consistent or slightly ahead of target. Overall, the General Fund is up \$5.9 million, or 1.6% above target.
 - i. Income tax is up \$3.3 million, or 1.8% year-to-date.
 - ii. Sales tax is on target
 - iii. Rooms and Meals tax is up \$1.8 million, or 4% year-to-date
 - iv. Corporate tax is up \$2.1 million, or 12% over target, but as it is a volatile source this not likely to represent a trend
- b. Transportation Fund Revenues - Preliminary Transportation Fund revenues for the first four months of the fiscal year show revenues consistent or slightly ahead of target. Overall, the Transportation Fund is up \$1.2 million, or 1.6% over target.
- c. Education Fund Revenues are on target with no major deviations
- d. FY 2010 November forecast revision: the forecast revision will be available at the afternoon meeting with the Emergency Board.

2. FY 2010 Budget Pressures

- a. Commissioner Reardon gave an initial report identifying \$5 million of budget pressures in FY 2010. These adjustment items are:
 - i. Emergency Relief Assistant Fund (\$ 40,000)
 - ii. Sarcoidosis Benefit Trust Fund (\$ 400,000)
 - iii. AHS
 - 1. AABD COLA (\$ 600,000)
 - 2. Delayed Fed. funds for State Pharmacy Programs (per month) (\$ 808,000)
 - 3. General assistance shortfall (\$ 600,000)
 - 4. Corrections out-of-state beds (\$2,600,000)

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- 3. Projected shortfalls for FY 2011 and beyond.** The Joint Fiscal Office analysis of out-year shortfalls will continue to shift as the session approaches. Some items we are watching include:
- a. The impact of the revenue revision on available resources.
 - b. Increased participation in state health programs which may result in a general fund pressure.
 - c. The dramatic growth in teachers' retirement costs due to market pressures on the corpus. In FY 2010 Vermont funded \$41.5 million. The FY 2011 estimate is that \$63.5 million will be required. The state employee retirement fund cost pressures are not significant due to the increase being offset by the reduction in the number of state employees.
 - d. OPEB obligations for state teachers and state employees are estimated at \$33 million each.
 - e. The municipal share of the super circuit breaker, paid by the General Fund, is estimated to increase from \$13.3 million to \$16.7 million, or \$3.3 million, a 25% increase.
 - f. We are also watching for signs of additional federal support. The House Health Care bill would extend the Enhanced Medicaid match which would provide \$50 - \$65 million in FY 2011 relief.
- 4. The Education Fund**
- a. On December 1, the Tax Commissioner will release proposed FY 2011 tax rates. We are expecting to have a first sense of these at the JFC meeting on the 12th. It is expected that current law requirements will necessitate a rate increase of between 2-3 cents on both residential and nonresidential rates.
 - b. The legislature's decision to hold the base education payment constant was, in retrospect, counterproductive. If the legislature had not done so, the base educational payment would have fallen below FY 2010 levels due to deflation and lower adjusted growth rates.
 - c. As tax rates increase, income-sensitized individuals will experience a higher rate of tax cost growth than those not covered by income sensitivity. Currently, the property tax adjustment for each year is a pre-established amount based on the past year's income and property values. As the gross tax obligation rises, the fixed nature of the adjustment means that all the increase in tax obligation falls on the taxpayer. For example, if the prebate would have covered 50% of the property tax obligation, a 5% increase in property taxes would result in a 10% increase on the income sensitized obligation. The reverse happens when rates are declining.
 - d. Mark Perrault will update the committee on tax rate expectations at the November JFC meeting.
- 5. LIHEAP** – This year an estimated 27,400 households are expected to receive LIHEAP benefits. Last year, 26,313 households received benefits. The projected

benefit is scheduled to be 61.1% of the average household's fuel liability. Both this year and last year, the program has been funded entirely with federal funds. As in other years, the program funding has been designed with a reserve to provide some flexibility in the event that estimates deviate from reality.

6. Health Care Reform

Legislative staff, administration staff, and a number of legislators continue to work with our congressional delegation and others on federal health care reform analysis. We have heard very positive reports from the congressional folk about the staff interaction. While there may be some differences between the Douglas administration and the legislative leadership on issues such as the public option, both branches are extremely concerned with the fiscal impact on Vermont, and the teamwork has been important. While there have made some changes in the House and Senate versions, there is still considerable financial risk to Vermont depending on how the programs are designed and funded. JFO and the LC will continue to monitor the situation. Materials can be found at:

<http://www.leg.state.vt.us/jfo/Federal%20Health%20Care%20Reform%20Issues.htm>

7. **Global Commitment and Long-Term Care Waiver renewals:** Amendments to the GC waiver have been requested regarding a match on currently unmatched Pharmacy and Catamount programs. The pharmacy changes are requiring more time for CMS review and will be separated so the other amendments can proceed more speedily. Letters requesting extension for both waivers are submitted and are being evaluated. To the extent that the waiver approvals are simple extensions, Vermont should receive timely approvals.

8. Legislative Studies

- a. **Government Accountability Committee** – The government accountability committee and its consultants, the Public Strategy Group, continue to work on development of “more for less” strategic efforts for the upcoming budget process. We are past the halfway point in the contract, and PSG is working with the committee and its advisory group to narrow ideas for presentation. The process has involved considerable collaborative work between the Secretary of Administration, the Commissioner of the Department of Finance and Management, legislative participants, and the Joint Fiscal Office. To date, there has been very effective cooperation, and we hope for an outcome that will assist with developing Vermont's budget.
- b. **Blue Ribbon Tax Structure Commission** – The Tax Commission has been actively receiving testimony on its charge of evaluating the Vermont tax system. The commission expects to continue to work over the next year and is preparing an initial report to be submitted this January with a final report due the following year. We are in the process of interviewing staff for the Commission as when the session starts, Sara Teachout, Roz Daniels and Susan Mesner will not be available to assist the commission.

- c. **The Unemployment Trust Fund Reform Study** – The study commission continues to meet and review proposals. The commission is likely to make general recommendations without recommending a specific proposal. Interest costs are likely to occur starting in 2012 due to the timing of federal billing and the state fiscal year.
- d. **Commission on the Future of Economic Development** – The commission on the future of economic development is developing a proposal which will create a Vermont economic development board and sustained funding for an economic development process. We have been asked to come up with initial estimates of the cost. The duties of the commission are very preliminary, and the estimates could change. It is not clear whether these will be additional costs or achieved by reducing other expenditures. Nor is it clear how this initiative fits in an environment in which departments are being asked to take up to 8% reductions in general fund expenditures.

9. The Vermont Yankee relicensing update:

- a. With the passage of the legislative deadline on a power agreement, there is some lack of clarity of the level of activity and work on Vermont Yankee reauthorization which will occur in the upcoming session. Vermont Yankee is still negotiating with Vermont utilities with a goal of either having an agreement in place or an offer to be submitted to the Public Service Board prior to the session start.
- b. We are creating alternative scenarios to ensure we have the capacity to provide staffing for whatever work develops. We are trying to keep total expenses within already existing estimates. We may require guidance on priorities as the work volume and type unfold.

10. Legislative Budgets: We are in the process of reviewing legislative budgets for the FY 2011 budget year. We are working toward a preliminary reduction target of 3.2% below FY 2010 levels. The administration has put forward greater targets, and even the 3.2% reduction may be difficult to achieve. Normally we bring a Joint Fiscal Office budget to the Committee for approval in November. Given the uncertainties of revenues and our working goal to develop a joint approach with the other parts of the Legislative Branch, we will have to schedule a telephone discussion or approval process in December or early January.



Department of Health
Office of the Commissioner

To: Joint Fiscal Committee
From: Barbara Cimaglio
Re: Update on Chittenden Pilot
Date: 11/12/09

I am writing to give you an update on the progress of the Chittenden Pilot to improve substance abuse treatment by integrating services, and the additional funds allocated to this project in the FY10 ADAP budget.

As of my last report to JFC, no action had been taken by Maple Leaf and Howard to implement the Chittenden Pilot. Bill Young reported that he was looking for a suitable building to house the new parts of the program.

Subsequently we received FY 2011 budget instructions which require departments to identify 20% reductions in Global Commitment spending and 8% reductions in General Fund spending. I spoke to Bill Young about the challenge of launching a new initiative at a time when we are cutting ongoing programs, unless offsetting cost savings can be counted on to fund the expansion. Bill's estimate was that the full-year budget requirement would be at least \$1M. He replied that our fiscal caution would cause him to stop working on this project. He noted that they had been very close to coming to an agreement on a building site, and he would have to halt the negotiations due to the possibility that the State was not able to continue its support for the project. I assured him that we supported the concept, but the uncertain financial situation made it challenging for us to recommend going forward at this time. I indicated that I was willing to continue the planning process, including meeting with Fletcher Allen and local law enforcement to see what interim program changes might be feasible.

Bill replied by sharing his disagreement with our decision while acknowledging the seriousness of Vermont's fiscal situation.

BC

Cc: Jim Reardon, Rob Hofmann, Wendy Davis, Jim Giffin