

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: July 8, 2009

Subject: July 2009 –Fiscal Officers Report

What follows is an update on postsession developments – some of which will be part of the July Fiscal Committee meeting.

1. FY 2009 Revenues and Closeout:

- a. FY 2009 – Revenues - Very preliminary results indicate that we closed the year with revenues exceeding official April forecasts in the General Fund (GF) by about \$11 million after adjusting for estate tax transfers and property transfer tax revenue shortfalls. We fell short in the Transportation Fund and the Education Fund by about \$500,000 and \$1.1 million, respectively. The final General Fund surplus will be impacted by actual direct applications received versus estimates and may be less.
 - i. The General Fund's relative strength is largely in the estate tax. We received a total of \$23.4 million in estate tax revenue this year. This compares to a July forecast of \$16.3 million. The General Fund receives any surplus up to 125% of the July forecast or \$20.37 million. The remainder goes by law to the higher Education Trust Fund. This year, in Act 2 of the special session, we allocated \$1.5 million of the funds, which would have gone to the Higher Education Trust Fund for the Next Generation Scholarships—split among UVM, VSC, and VSAC. An estimated \$1.522 million of the surplus will go to the trust fund. In April, the estate tax forecast had been lowered to \$9.3 million so the \$20.37 million represents \$11 million over what we were expecting in April.
 - ii. Corporate tax revenues also substantially exceeded April estimates, coming in \$5 million over target. Much of this may be refunded at a later point.
 - iii. Income estimated payments were down \$2 million and made up in part by withholding taxes, resulting in \$1.3 million below forecasts.
 - iv. Sales, rooms and meals and property transfer taxes came in relatively close to target and combined are below the forecast by

about \$900,000 directly and the GF will be off by another \$400,000 in redirected property transfer funds.

- v. As the major strength in FY 2009 was in estate tax and corporate taxes, it will be difficult to see this lead to an improved FY 2010 forecast. There does appear to be a bottoming out of the quarterly forecast downgrades.
 - vi. Early revenue returns indicate the Transportation Fund is \$500,000 below estimates, with the major weakness being in the purchase and use tax. Given federal incentives in place, we should see some improvement in this area.
 - vii. The Education Fund is down \$1.1 million with lottery and purchase and use revenues being the key contributors to the shortfall. As revenues will continue to be counted for much of July as it is the end of the fiscal year, changes still may occur.
- b. FY 2009 - Closeout:
- With the FY 2009 revenue surplus, we will not be using the case load reserve, and there will be no need for the contingent special fund assessment. Even with the surpluses used for these purposes, contingent on other direct applications, we should have \$3 - \$6 million in reserves set aside in a shortfall reserve. Closeout will not be finalized until the end of July but a preliminary report should be available at the July 16 meeting.

2. FY 2010 Revenues and Budget Pressures

- a. The FY 2010 forecast revision will be available at the meeting. The revenues through June do not indicate a major variation from the April 2010 forecast. We continue to operate in a time of economic uncertainty which creates a difficult environment for forecasting.
- b. The FY 2010 budget will be impacted by a number of factors; continuing economic changes and the federal decisions on LIHEAP and Health Care reform are just a few. Currently, Congressional action on LIHEAP indicates that we may have sufficient federal funds for the program. A memorandum on LIHEAP is in the packet. Federal health care reform is a major budgetary risk for Vermont largely due to the issue of how states that have already taken the initiative will be treated and how the state federal partnership will be changed in the federal proposal. These risks are outlined in a document on our web page:
<http://www.leg.state.vt.us/jfo/Healthcare/Initial%20Analysis%20of%20Health%20Care%20Reform%2006-2009.pdf>

3. Tax change issues

- a. Due to a drafting issue, the federal income tax credit for purchase and use payments on cars purchased in 2009 was only partially blocked. It will pass through for non-itemizers and not for itemizers.
- b. The capital gains implementation change is requiring some transitional provisions which could create receipt and reporting anomalies.

- c. Current Use Cost reduction (Sec. 81, Act 54, 2009): The legislative language on creation of an approach to reduce 1.6 million in current use expense calls for a recommendation to the Joint Fiscal Committee in November. Representative Alison Clarkson has been working on this issue since the end of the session. The Joint Fiscal Committee might consider a subcommittee to work with her and others to develop this report. The committee could arrange a discussion meeting with interested parties in August or September to review ideas before the November presentation.

4. Legislative intent:

The legislative intent document for the budget has been circulated and is available on our web page. We have tried to have the intent document cross-reference the disparate budget documents that emerged this year. http://www.leg.state.vt.us/jfo/Appropriations/FY_2010_Statement_of_Legislative_Intent.pdf

5. Health Care Reform

- a. JFO, OVHA, and the Health Care Reform Commission drafted and circulated an *Initial Analysis of Health Care Reform* (link below), which highlights issues and concerns that can, and may potentially, have major fiscal and policy ramifications for the Vermont Health Care System and the Medicaid budget. The largest concern is that some sort of hold harmless provision will require Vermont to either forego federal aid or continue paying state funds, for what otherwise would be paid by the federal government. Things in Washington are very fluid and moving quickly, as congressional leaders aim to make significant progress before its next recess in August. JFO will continue to monitor the situation. <http://www.leg.state.vt.us/jfo/Healthcare/Initial%20Analysis%20of%20Health%20Care%20Reform%2006-2009.pdf>

6. Global Commitment and Long-Term Care Waiver renewals:

- a. At this point, it looks as if the state's approach to the Global Commitment waiver expiration and the long-term care waiver will be proposals for straight extension with minimal changes.
- b. The extension period is generally three years, trend rates will be the main area of discussion in the extension negotiations. However, how these waivers interplay with federal health care reform remains an area of uncertainty. Our Health Care reform briefing memorandum raises the concern that any health care reform initiative respect existing waivers and allow for extensions of existing waivers for a limited period. It is likely that federal health care reform will be implemented over time, and the ability to extend our current waiver would give Vermont an opportunity to make any necessary adjustments.

7. Catamount:

Present indications are that there will be no premium increases until January at the earliest. This represents a small savings for the Catamount budget. It says little for long-term costs as again federal health care reform hangs over all of these programs.

8. The Vermont Yankee relicensing update:

We have reduced our usage of Synapse during the summer although work is ongoing to develop the cost models needed for the upcoming session. Based on committee polling about information needs before legislative consideration of the Vermont Yankee relicensing, we will be bringing on Arnie Gundersen to work with the Department of Public Service to follow up the legislatively required audit of the plant's reliability. As we move toward a relicensing vote, the plant's long-term viability to generate economic returns will be a continuing issue, and his work should be helpful. Conversations with Susan Hofmann of the Department of Public Service indicated that the department would coordinate with Mr. Gundersen to avoid duplication of effort.

9. Education Fund Stabilization Reserve review:

16 V.S.A. § 4026(e) requires that the legislative Joint Fiscal Committee review the education fund when anticipated reserves fall below 3.5%. We expect that FY 2010 reserve levels will fall below this level, reaching 3.17% in FY 2010 (see letter from Jim Reardon). This should be a one-time occurrence with FY 2011 reserves moving back above 3.5%.

10. Legislative Budgets:

- a. The Legislative Budget will close the year with a surplus of \$512,000 (in addition to \$100,000 generated by the Health Care Reform Commission as noted below). This funding will help close the planned FY10 legislative budget deficit (\$491,000), cover outstanding invoices, and meet additional obligations that slipped from FY2009 into FY2010 (\$65,000). The legislature's FY10 budget request included a deficit of \$251,000, with the understanding that early 2009 adjournment would provide sufficient carry-forward funding to cover this deficit. After the April revenue downgrade, an additional \$240,000 was cut from the legislative budget. As a result, the FY10 legislative budget was left with a \$491,000 deficit, assuming an 18-week session. The FY10 budget does not include funding for salary increases for any legislative branch employees.
- b. Significant FY09 budget actions include:
 - i. Closed obligations to the Equipment Revolving Fund. This loan was used to finance the purchase of printers in 2005. This action will reduce demands on the state's short-term cash flow;
 - ii. Transferred funds to the Legislative IT budget to cover contractual obligations to International Roll Call for chamber automation;

- iii. Prepaid registrations for Vermont legislative participation in the August Council of State Governments conference in Burlington. Prepayment saved over 12% in registration fees and advanced funding to CSG to meet conference sponsorship needs. The legislature and administration continue efforts to ensure a successful conference.
- iv. The Health Care Reform Commission closed FY09 with a balance of \$100,000. One-half of this funding is for allocation to HCRC studies and one-half will be used to relieve the above-mentioned pressures on the FY10 legislative budget.
- c. All other legislative budgets ended the year in balance. We are continuing furloughs and have not programmed any salary increases. We will be managing budgets with an awareness of next year's tight budget environment in mind.
- d. This year we have been continuing to work collectively with other staff entities on Legislative budget development and preparation. Nathan Lavery has been extremely helpful in working with all legislative departments on budget issues.

11. Summer Studies and Summer Work

- a. The most recent draft of summer studies and summer appointments is included with this mailing. This is still a work in progress and will be posted to the web page upon completion. The list is enclosed.
- b. The Tax Commission appointments are being finalized. At the staff level, we are developing a list of consultants and potential approaches to the work plan.
- c. The Government Accountability Committee has been meeting and had as part of its charge the identification of \$30 million of general fund savings. The Fiscal Office will be assisting that committee with information gathering and the development of possible resources for its work.
- d. ARRA – follow up: Senator Jane Kitchel and Representative Janet Ancel have been appointed to work with the Governor's recovery office on ARRA follow up. With these appointments, we have been asked by several committee members to begin a series of conference calls on Vermont ARRA implementation. We will be discussing this with the appointees and will have more information about this at the upcoming meeting.

12. Joint Fiscal Office Updates

- a. Sandra Noyes will be applying for retirement as part of the incentive program this September. She has been a critical part of our staff for over 30 years and is ready for a nonlegislative role. We are facing the daunting task of replacing her varied functions in a manner consistent with office needs and fiscal restraint anticipated by the early retirement legislative initiative. She has been a pleasure to work with and this is major change for us all.

- b. We are proposing a one-year extension for contract for Tom Kavet. Given the revenue uncertainty we are in, we thought that next year might be a better time to formally bid the revenue estimating. If the committee is supportive of this approach, we will negotiate a one-year extension. Tom Kavet has expressed willingness to apply the 5% reduction that many exempt employees took to his base contract amount.
- c. We will also be proposing one-year extensions to Steve Kappel and Deb Brighton. These contracts are small and traditionally run \$10-\$15,000. Deb Brighton's contract is shared with the Administration.