

Joint Fiscal Office

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MEMORANDUM

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

From: Stephen Klein, Chief Fiscal Officer

Date: November 8, 2010

Subject: November 2010 – Fiscal Officers' Report

What follows is an update of pre-session developments – some of which will be part of the November Fiscal Committee meeting.

1. **FY 2011 Revenues:** Revenues are tracking up in the general fund and otherwise fairly close to targets through the first four months of the fiscal year.
 - a. General Fund – Through October, General Fund revenues are about \$13.8 million ahead of target. This is due largely to strength in corporate tax revenues which are up \$9.6 million year-to-date and some one-time bank receipts. Other revenue sources are showing consistency with targets.
 - b. The Transportation Fund is \$0.4 million off target which is negligible. Strength in DMV fees offsets slight downs in gas and purchase and use receipts.
 - c. The Education Fund is down \$0.2 million which is again essentially on target. Strength in sales tax revenues offsets weaker lottery and purchase and use receipts.

Based on the first four months, we are seeing relative stability versus forecasts which is a good sign for our January revision.

2. **FY 2012 Budget:** The administration has given agencies budget targets of 6% less in expenditures than the FY 2011 challenge-adjusted amounts. It is heavily involved in the budget building process.
3. **FY 2012 Deficit Projection update:** The Joint Fiscal Office and the Administration will be reviewing the \$112 million deficit estimate in the coming weeks as a number of elements have changed:
 - a. State employee retirement costs are slightly less than anticipated
 - b. Revenues have been strong
 - c. Medicaid costs are a little higher than anticipated due to caseload growth
 - d. FMAP – The federal match rate has become slightly less advantageous for Vermont due, in part, to our low unemployment rate
 - e. Some of the challenges may fall short of the financial expectations

Overall, however, the changes still leave the deficit in the \$112 to \$120 million range.

4. **Health Care Developments:**

- a. Nolan Langweil of the Joint Fiscal Office is working with other legislative and administration staff to develop a list of health care issues which the legislature may need to address in the upcoming session. A copy of this document is attached to this report. Among the direct budget issues are the following :
 - i. The Global Commitment waiver has yet to be finalized with the federal government (Centers for Medicare and Medicaid Services) and there appear to be some issues that are holding it up. We are hopeful this will be resolved in a positive way.
 - ii. We have a reduced federal Medicaid match rate which will result in added costs in the next fiscal years.
 - iii. Due to a number of data issues, the Act 128 health care design study is likely to be released in draft form in mid-January with a final report still close to February 1st. The details of this release and the process of seeking public input are still being worked out.
 - iv. Mark Larson has replaced Steve Maier as co-chair of the Health Care Reform Commission.

5. **Education Issues**

- a. **Federal Education Funds:**
 - i. We will need to take an action in the legislative session on the use of the federal education funds. As you are aware, Congress recently enacted \$19 million in assistance to Vermont to save or create elementary and secondary education jobs in FY 2011. Per federal law, the education aid is going out to districts in proportion to their school spending. In practice, the legislature could determine the ultimate disposition of the funds by withholding education payments as the governor has suggested. But the legislature cannot change the distribution of the federal aid dollars directly. While the governor applied for these funds, the legislature will determine their ultimate disposition.
 - ii. Schools districts are developing their FY2012 budgets now. It would be very useful to have a consistent message as to how these funds are to be used.
 - iii. The aid does not match the spending reduction targets. The legislature could change the targets to match the aid, but that could undermine any notion that the challenges are legitimate and not just a mandated reduction in across-the-board spending.
- b. **Education Fund Stabilization Reserve Review:** Preliminary education fund balance sheets are being developed in preparation for the administration's December 1 tax rate estimate.

6. **Vermont's Blue Ribbon Tax Structure Commission:** The Commission's charge is to create clear, principle-based concepts to improve individual tax types and the entire tax system. Michael Costa, the Commission's Staff Director, will be invited to the November JFC meeting and will provide an update on the specific directions the Commission is taking.

7. **Joint Fiscal Office Updates:**
 - a. **Kavet contract:** The Kavet contract is in place for four years with annual performance reviews.
 - b. **Richard Reed's retirement:** Richard Reed, who designed and built our budget system over the past five years, retired at the end of October. The budget system work has been taken on by Jeremy Fonte of our staff, and Theresa Utton-Jerman is providing more coverage of the work Jeremy had been doing. After discussions with the chair, compensation adjustments will be made to reflect these changes. Richard Reed may do some limited short-term consulting work this year, but we expect net savings in the current year and a \$40,000 + savings to the budget as we enter FY 2012 by not filling the position and utilizing existing staff. This will assist us in reducing our FY 2012 funding need.
 - c. **Joint Fiscal Office Web page** – The Office is in the process of revising its website to make it more user-friendly and increase information accessibility. The completion target is in December but if you want a preview, it can be viewed at <http://www.leg.state.vt.us/jfo/new/>.