

*FY 2012 & FY 2013
Vermont Budget Development Context
November 10, 2011*

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The Budget Context

Floods, Feds & Fluctuations = Fiscal Fitfulness

- ◆ Budgeting in an uncertain environment
- ◆ The federal context is unclear
- ◆ We are not alone – most other states are in similar positions

Federal Uncertainty Remains

- ◆ Federal FY 2012 budget not in place
 - Operating under a continuing resolution through November 18th
- ◆ *Joint Select Committee on Deficit Reduction* has yet to report with a pre-Thanksgiving deadline
 - May take a while to enact
- ◆ Policy uncertainty in federal health care reform
- ◆ Uncertainty in federal transportation funding level – risk for VT

◆ **The Federal Budget Deficit**

- The FFY 2011 federal deficit was about \$1.3 trillion, the same dollar amount as in FFY 2010
- This represents 8.6% of GDP, down from 8.9% GDP in FFY 2010

◆ **Federal Revenues**

- In FFY 2011 federal revenues = \$2.303 trillion, \$141 billion more than last year... 6.5%
- Federal Income Tax Growth:
 - ◆ Income withholding and payroll taxes up 4% - even after payroll tax cut in January 2011
 - ◆ Paid income and payroll taxes up by 16%, most from higher final 2010 payments filed in early 2011
 - ◆ Unemployment insurance tax receipts up by \$12 billion as states replenished trust funds
 - ◆ Refunds of individual income taxes down by \$22 billion, or 8%

Source: CBO 11/7/2011

Other States In Similar Position

- ◆ State year end balances
 - 5.5% with Alaska and Texas
 - 3.5% without
 - Vermont 5% plus 2.5% in caseload reserve
- ◆ State Budget Gaps declining (Aug 2011)
 - FY 2012 Gap \$91 billion
 - FY 2013 Gap \$32 billion
 - FY 2014 Gap \$12 billion
 - In NE 2-year budget states report FY 2013 gap resolved (CT, ME, NH), MA and RI report gaps
 - FY 2014 gaps in RI and VT, other states' gaps not yet reported

Source: NCSL Aug. 2011

FY12 Budget Adjustment Act (BAA)

Helped by:

- ◆ \$9-10 million in Medicaid utilization savings
- ◆ \$31 million avail. caseload reserve – **onetime!**
- ◆ \$10.9 million set aside for federal impacts

BAA pressures include

- ◆ \$6.8 million onetime flood costs – **maybe more**
- ◆ \$3.6 million in ANR-related, F&W, PCF, other
- ◆ \$3.5 million corrections pressures
- ◆ \$6.2 million renter rebate/fund needs/unmet savings targets, other

FY13 Projected GF Budget Gap \$74.5 million

- ◆ FY13 revenue is \$41.6m more than FY12
- ◆ Spending demands total \$116m
 - \$13m in FY12 base expense increase
 - \$13.6m annualization of FY12 onetime fund usage (\$7.6m medical SF, \$6m tobacco funds)
 - \$19.6m related to FMAP rate change
 - \$26m related to Medicaid program costs: base growth and autism mandate
 - \$25m retirement obligations & state personnel costs
 - \$ 7m technology replacement
 - \$ 8m required transfers (\$6m EF, \$2m reserves)
 - \$ 4m rest area funding pressure

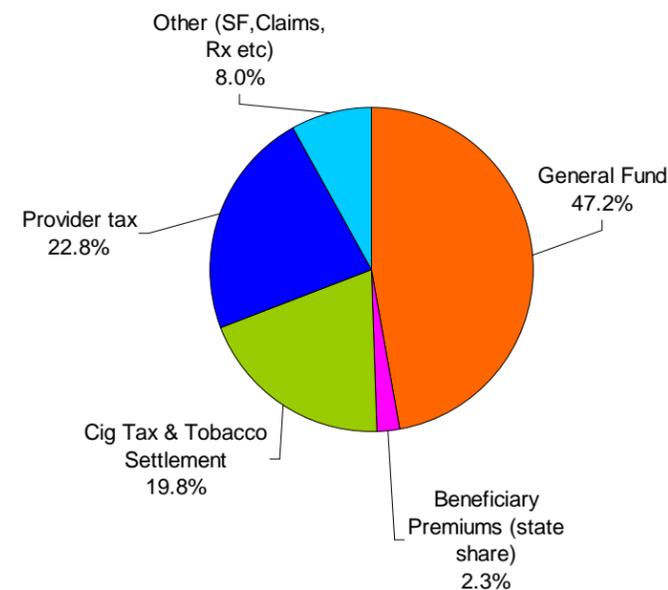
The Education Fund and the Decreasing Grand List

- ◆ Through FY 2014 Vermont continues to see declining grand lists
- ◆ Student counts continue to decline through 2015
- ◆ Due to onetime revenues and lower costs, and depending on base payment change it is possible the property tax increase can be kept to between flat and two cents
- ◆ As the grand list falls, tax rate increases will not impact taxpayers. To the extent any rate change is due grand list change, it is a wash in terms of total taxes paid

Medicaid

- ◆ Medicaid is a joint federal and state program
- ◆ Covers health care, long term care, mental health, developmental services, and other services for low income and disabled populations
- ◆ Vermont total program expenditure in FY12 is approx. \$1.4 billion
- ◆ In FY12, the state share is 42% (\$571m + certified)
- ◆ In FY13, state share will rise to 43.5%

FY12 As Passed
Medicaid State Funding Sources



Medicaid

- ◆ While total health care costs in Vermont are expected to grow by an average 7.1% rate, the Medicaid program has seen program expenditure growth below expectation at 4.25% in FY10 and 3.11% in FY11
- ◆ The FY12 BAA anticipates reducing appropriations as a result of the new lower base
- ◆ The projected growth in the program for FY13 is just under 3% for caseload and utilization combined
- ◆ Funding pressures persist in FY13 and beyond:
 - A change in the match rate is shifting \$20 million of cost to the state from the fed's share with no program change
 - Vermont's autism mandate will add \$10 million in state cost
 - The program relies on tobacco-related funds projected to decrease and provider taxes under pressure from the feds

Pensions and Retirement (1)

- ◆ Investment returns for FY11 for the combined pension funds: 20.9% for FY2011
 - Actuarial smoothing defers some of the positive return to later years
 - Market values of assets exceeded actuarial value of assets as of 6/30/11 which provides a cushion for lower returns in upcoming years
- ◆ This year, experience studies “reset” actuarial assumptions, increasing FY13 contributions. The assumed interest rate moved down from 8.25% (effective rate for VSERS 8.1%, 7.9% for VSTRS)

State employees (VSERS):

- ◆ Using revised assumptions, the FY10-funded percentage is 82.1%. FY11 results are 79.6%
- ◆ The actuarial request went up, largely due to interest rate assumptions 2/3 impact and demographic changes 1/3 impact
- ◆ Employee contributions were raised by an additional 1.3% for all plan members in FY 2011, and are projected to raise an additional \$5.3 million in employee contributions, reducing the growth employer contributions accordingly
- ◆ The FY 2013 recommended is \$37,081,933 as compared with \$31,287,864 in FY 2012 - an increase of 18.5% year over year

Pensions and Retirement (2)

State Teachers (VSTRS)

- ◆ Using revised assumptions, the FY11-funded percentage is 65.1%. FY12 results are 63.8%
- ◆ The funded ratio change is largely due to the interest rate changes; actual retirement experience; and the method of funding retiree health care
 - Retirements increased. In all there are 860 more retirees and beneficiaries than last year
 - Retiree health care costs continue to come from retirement contributions lessening the impact of the state contribution to the retirement fund
- ◆ Teachers absolute numbers are declining: The number of active teachers as of June 30th of each year reached a high of 10,799 in 2009, declining to 10,123 in 2011
- ◆ The FY 2013 recommend is \$60,182,755 as compared to \$51,242,932 in FY 2012 - an increase of 17.5% year over year
- ◆ Long-term funding for state employee's & teacher's retiree health care costs remains a major issue