Joint Fiscal Office

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MEMORANDUM

To: Senator Ann Cummings, Chair, Representative Martha Heath, Vice Chair, and members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 14, 2011

Subject: July 2011 – Fiscal Officers' Report

What follows is an update on post-session developments – some of which will be on the agenda for the July fiscal committee meeting.

1. **FY 2011 Revenues and Closeout**
   a. FY 2011 – Revenues - Very preliminary results indicate that Vermont closed the fiscal year with revenues exceeding the official January General Fund (GF) forecast by about $36 million. The Transportation Fund is estimated to be $200,000 below forecast and the Education Fund $600,000 over forecast for the year.
      i. The General Fund's relative strength is due largely to personal income and corporate tax revenues being substantially over target and sales tax being up about $2 million. Tom Kavet will be asked to provide more detail on this development.
      ii. In the Transportation Fund, slight shortfalls in the gasoline tax were made up by increased purchase and use tax revenues.
      iii. The Education Fund is up $600,000 with sales and use and purchase and use revenues being the key contributors to the increase.
      iv. Revenues will continue to be counted for much of July, so changes may occur as the books are closed on the fiscal year.

   b. FY 2010 - Closeout:
      i. With the General Fund FY 2011 revenue surplus, we anticipate an overall closeout of $25 to $30 million above the waterfall appropriations. The waterfall specified up to $3.6 million as a reserve for the state's unemployment interest payment and $7 million as a reserve against federal cuts. The additional revenue will be placed in the caseload reserve and provide a greater cushion against federal changes, which could occur in Federal FY 2012, including nine months of state FY 2012.
      ii. The Global Commitment/Medicaid spending was a about 2.2% below the expected level in FY 2011. If this trend continues, it

means additional savings in FY 2012 from budgeted amounts and a lower trend rate in 2013, which should help with budget formulation. Catamount expenditures are also down. Work will be done to better understand the forces that brought about these results.

iii. We are expecting a General Fund budget adjustment need of $1.0 million or so in renter rebate payments. We may also see some legal settlement obligations, which will create budget adjustment pressures.

iv. The estate tax ended the year up an estimated $35.9 million. Of this, $11 million will go to the Higher Education Trust Fund and $3.9 million to the Revenue Shortfall Reserve.

Jim Reardon will provide an update on where the closeout appears to be heading at the meeting.

2. FY 2012 and Beyond - Revenues and Budget Pressures

a. The FY 2012 revenue forecast revision will be available at the meeting. The revenues through June continued a positive trend, indicating an improvement to the FY 2012 January forecast. The loss of federal ARRA funds nationwide is a drag on the economic recovery, and we still face considerable economic uncertainty.

b. The FY 2012 budget assumed that $12 million in labor savings would be identified. Jim Reardon will report on progress toward this goal.

c. We have yet to hear of any resources for LIHEAP funding. Given the President’s proposed budget reductions in LIHEAP, there appears to be more of a funding risk this year than in the past.

d. We are awaiting news on the federal debt ceiling agreement. The discussion regarding the negotiation on raising the debt ceiling may give us some sense of the federal funding changes that Vermont will experience. There is very little information on what will be in the negotiated package if one happens at this point.

e. Based on the forecast revision, the closeout in Global Commitment and Catamount, and known federal changes, we will work with the Department of Finance and Management to develop a revised gap analysis for FY 2013 in the last week of July and first week of August.

3. Education Finance Study

a. We are completing contract negotiations with Lawrence Picus and Associates. We have also finished our reference check and they were generally very positive on Picus, his associates and their work. The only identified issue arose in Washington State where an independent education finance analyst challenged Picus’s work. We have on file some of the back and forth on this debate.

b. Larry Picus is holding the first week in August for a trip to Vermont with his team. Point people from other departments have been identified: They include Bill Talbot from the Department of Education and Susan Mesner from the Department of Taxes.

4. **Health Care Reform**
   a. The Joint Fiscal Office is working with BISHCA on the November review of the health care reform finance assumptions. The report will expand on the content that was included in the April report. We will submit an outline to the committee in September.
   b. Robin Lunge is expected to make a short report to the Joint Fiscal Committee on work-to-date at the July meeting.

5. **Medicaid**

   FY 2011 Year End

   i. Enrollments in Medicaid programs appear to have leveled out in the latter part of the SFY'11 compared to the steady increases we saw in the SFY'10.
   ii. Utilization was also down in the traditional Medicaid "fee for service" populations, resulting in lower than expected spending.

6. **Catamount and ESI**
   a. Enrollments in Catamount (with premium assistance) and ESI came in under projections for SFY'11. JFO had projected that enrollments could begin leveling off in FY'11 and '12. While it may be too soon to confirm, there are only 534 more enrollees than there were one year ago (June – May), compared to the rapid growth the program saw in the first couple of years.
   b. The combination of lower-than-projected enrollments and premiums, stronger revenues than budgeted from the employer assessment, and cigarette taxes contributed to an operating surplus of approximately $2.2 million in the Catamount Fund.
   c. The new Catamount changes went into effect July 1. JFO has posted a Q & A on its website to help legislators and constituents understand the basic mechanics of the new changes. http://www.leg.state.vt.us/jfo/healthcare/2011_Haircut_Q&A.pdf

7. **Proposed FMAP concerns**

   As the President and Congress continue to negotiate a budget deal, the "blended rate" FMAP proposal is still on the table which would combine the mix of matching rates (traditional FMAP, CHIP, and future enhancements as part of the ACA) into a single matching rate for each state. The federal government estimates it could save $100 billion over 10 years which consequently could result in as much as a $200-million reduction in federal reimbursements for Vermont over this period. If passed, this combined with other potential reductions and policies will have serious budgetary and programmatic implications. JFO has been in contact with congressional staffers and NCSL and will continue to monitor the situation.

8. Legislative intent

The legislative intent document for the budget has been circulated and is available on our web page. http://www.leg.state.vt.us/jfo/appropriations/fy_2012/Act%2063%20of%202011%20FY12%20Budget%20Intent%20.pdf

9. Vermont Economic Growth Incentives (VEGI)

a. The changes to the Vermont Economic Growth Incentives program that will be up for action at the July Joint Fiscal Committee meeting are more administerial model changes than substantial and primarily reflect updates to economic, fiscal, and demographic data, as follows:
   i. To reflect changes in the economy that affect the calculations of the costs and benefits of an application;
   ii. To reflect changes in tax statute and rates that affect the calculations of the costs and benefits of an application; and
   iii. To reflect changes to the model to maintain compatibility with the latest version of the REMI Input/Output software.

b. There is material in your package explaining these changes.

10. The Transportation Agency VTRANS submissions include two reports which have been transmitted to the Joint Transportation Oversight Committee

a. Paving transfers. The administration took advantage of a provision which allowed the transfer of up to $2,000,000 from other budget lines to provide more funds for paving projects.

b. AOT's report on bidding indicates that bids are still coming in below estimates for both roads and bridges which should result in increased project capacity.

11. Legislative Budgets

a. The Legislature's budget will close FY 2011 with an unallocated surplus of about $138,000, although the gross surplus (before anticipated obligations) will be closer to $812,000 – This is in part due to the early adjournment other efforts to control costs and lower than anticipated expenses. The Legislature's FY 2012 budget request included a deficit of $134,000, with the understanding that we would work to achieve the necessary carryforward. Thus, the first $134,000 of carryforward is dedicated to closing the FY 2012 legislative budget deficit. Additional potential uses include $150,000 for copier replacement (a capital expense) and $125,000 for performance budgeting activity. An additional $250,000 has been reserved for balancing the FY 2013 budget. The Legislature's FY 2012 budget does not include any salary increases for employees. Those earning more than $60,000 will continue with current furloughs.

b. The Joint Fiscal Office ended the budget year with an unallocated surplus of just under $7,000 and a gross surplus of about $276,000. Of the obligated funds, the largest share has been reserved for the Education Finance Study ($210,000). Funding has also been transferred from the

Health Care Reform Commission and obligated to support continued health care reform work ($37,000) and to offset a reduction in FY2012 base funding ($10,000). Eleven thousand dollars has also been reserved to cover one-time costs associated with hosting the Eastern States Legislative Fiscal Officers Association conference.

c. The Legislative Council, the Sergeant at Arms, and the Information Technology departments all met or exceeded their carryforward targets. Furloughs will be continued. These budgets will be managed with an awareness of FY 2013’s tight budget environment.

d. Work will continue with other staff entities on legislative budget development and preparation. Nathan Lavery continues to be extremely helpful in working with all legislative departments on budget issues.

12. Joint Fiscal Office Updates

a. The Fiscal Office is hosting a meeting of the Eastern States Legislative Fiscal Officers Association on September 20—23, in Burlington. The group is likely to be small given the financial pressure that states are under.

b. Nolan Langweil will receive a Legislative Staff Achievement award at the NCSL meeting due to his work on national health policy efforts and his work with the NCSL committees in this area. Congratulations to Nolan!

c. Neil Schickner will be working with the Agency of Transportation to assess road and bridge conditions subsequent to the in-flux of ARRA monies that we have experienced. Neil Schickner and the Agency of Transportation are also working to develop a model to project the annual costs on a long term basis of maintaining the state's existing highway and bridge infrastructure in a serviceable condition on a least cost basis. Experience with the model will provide a basis for extending the concept to the state's rail infrastructure.

d. Currently AOT, in consultation with the Transportation Committees, has a prioritization system which focuses on bridges where repairs can prevent more costly work later and high traffic roads.