

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: September 14, 2011

Subject: September 2011 – Fiscal Officers’ Report

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

1. **FY 2012 Revenues:** After the first two months of the fiscal year, revenue collections in the general fund have been strong. Revenues are tracking fairly close to targets through August.

General Fund (GF) – Through August, GF revenues are about \$6 million ahead of target. This is largely due to strength in the income tax and to a lesser extent rooms and meals revenue. Both income tax and rooms and meals tax are tracking about 6 percent over estimates with other tax sources on or near targets. The Transportation Fund revenues and Education Fund revenues are also on target. With the impact of hurricane Irene likely to have an impact on September revenues, we will need to continue to watch receipts closely. A number of payment dates have been postponed which will also impact collections timing. By mid November we should be able to see if there is enough deviance from forecast to merit revisiting revenues.

2. **Gap analysis:** In August we released a gap analysis for FY 2013. We estimated a shortfall between expected revenues and our spending trend of \$45 million or 3.7 percent of our FY 2012 Budget. This amount would have to be addressed through changes in government operations, revenues, or spending reductions. The analysis is available at:
http://www.leg.state.vt.us/JFO/appropriations/fy_2013/FY13_Gap_-_JFO_Aug_11_update_1.pdf.

With the flood damage raising expenditure needs and possibly impacting revenues, and the uncertainty of federal participation and federal resources, there is much uncertainty surrounding FY 2013.

Our August analysis was done with the administration but is not a consensus as they have chosen to not publish a shortfall at this time. They plan on adjusting

spending to meet any shortfall. Similar concerns were raised by the House Minority leader who expressed a preference for no projection of a budget gap. Most states and the federal government do out-year projections as a planning tool for budget consideration. Some states have resolved their FY 2013 issues through their two-year budgets while other states have not made projections. In August, NCSL published a survey of states with total budget gap projections for FY 2012 of \$89 billion and for FY 2013 of \$32 billion. Of the 21 states reporting budget gaps for FY 2013, Vermont's estimate was the fourth lowest. , We think this type of projection is worthwhile. However we agree with the concern to move away from a base growth estimate assumption to a more program-specific estimate. We would appreciate any guidance that the committee has to offer on this.

3. **The FY 2012 Budget Adjustment:** The FY 2012 budget adjustment will contain a number of challenges. The flood relief costs are the largest source of uncertainty. At present we will need to address emergency board approvals of \$6.8 million between May and September actions. As the full extent of the financial need becomes clearer, this is likely to grow. Further, as mentioned above, we may experience some changes in revenue availability with revenues stronger than anticipated but with potential flood losses.

On the plus side our Medicaid costs are running below budgeted amounts which may give us up to \$10 million to offset other budget pressures. On the downside, there are several areas where there is budget pressure. Corrections costs are exceeding estimates. We are unable to collect the new 0.80 percent assessment on dental claims due to an issue in the language as drafted. This represents a one-time revenue loss of at least \$300,000 assuming a correction in the budget adjustment and \$600,000 of base impact if this revenue is forgone. The Vermont State Hospital was not recertified which will require \$3.3 million. We also expect a shortfall in the \$12 million labor and retirement savings target, and an increase of \$1.2 million in renter rebates. Other costs include funding needs for the Sarcoidosis Fund and funding for the State troopers contract. Commissioner Reardon will go over other issues with the committee as they arise.

4. **Education Finance Study** Larry Picus and Associates have made their first two visits to Vermont and are in the process of identifying case study schools. Allen Odden will be coming to Vermont in the middle of October to visit with the chosen schools for case study research work. The schools they are focusing on for this research are "improving schools." Once they have been identified we will forward the names to you. The next date for public hearings and public input is November 15th.
5. **Transportation and capital bill needs analysis:** the Joint Fiscal Office had begun work on an assessment of transportation infrastructure needs and had been exploring a similar assessment of capital needs. With the hurricane and

flooding, this project is on hold as the state infrastructure has been substantially changed, and AOT staffs assigned to this project are all on the flood remedial efforts.

6. **Federal Jobs Act:** As you are aware President Obama has proposed a Jobs Act which would provide a series of benefits to Vermonters. We have attached a short summary of its key provisions and estimated impacts on Vermont.
7. **Act 48 Health Cost Study:** Act 48, the health care bill, requires BISHCA and the Legislative Joint Fiscal Office to issue a second report on cost estimates of the health care reform/single payer initiative in November. We are meeting regularly on that and hope to produce an estimate, a preliminary model for making such an estimate, and a review of the issues and variables that are at play. We hope this will provide a platform for further analysis of the health care reform effort.

As an offshoot from this work, Nolan Langweil has prepared an issue brief on Medicaid “churn” which is now up on our website at http://www.leg.state.vt.us/JFO/issue_briefs_and_memos/2011-09%20Coverage%20Instability%20and%20Churn.pdf

8. **Basic Needs:** Sara Teachout will be convening a meeting in October on potential changes to the basic needs/livable wage analysis. If any changes become recommendations, they will be brought to the committee at its November meeting.
9. **Capital Debt:** We are entering the second year of a two-year Capital Debt authorization. The capital debt affordability committee is not recommending a significant change for FY 2013. The Committee’s recommendation is maintaining the two-year authorization of \$153,160,000 for FY 2012 and FY2013. Subsequent years are likely to be about \$88 million a year. This is subject to change as the committee work is finalized. There may be some capacity in the Transportation Infrastructure Bond revenues to do a bond issue to help with the flooding-related work.
10. **Flood-related work/legislative briefings:** We had planned a major legislative briefing for November 10th on a variety of issues. With the advent of the flooding this briefing time may be used for flood-related information. We are awaiting leadership decisions on how this will play out.
11. **Joint Fiscal Office Updates:**
 - a. Jeremy Fonte who handles computer-related work and some of our office billing is on medical leave. If this leave extends, we may need to fill his position on a consultant basis.

- b. Maria, Stephanie, and Nathan of our staff are working with the fifth floor staff on the development of the new budget system. The hope is that we can integrate budget documents for both branches and have it be more useful to departments. We are also working on developing a program budget for the Joint Fiscal Office as a test case to provide a sense of what they might look like and how they impact budget review.
- c. Staff recognitions:
 - i. Stephanie Barrett has been named to a NCSL Task Force on Deficit Reduction which will be meeting in Washington with the Congressional staff working on the federal deficit reduction plan. She was also named to be staff Vice Chair of the NCSL standing committees.
 - ii. Maria Belliveau has been coordinating a meeting of staff from Eastern States Legislative Fiscal Offices which will happen in Burlington the week of September 20th. Ten states from Maine to North Carolina are sending a total of eighteen staff.
 - iii. Stephen Klein was reappointed for a third term on the Advisory Board of the Federal Reserve Bank of Boston Advisory Board New England Public Policy Center.
 - iv. Nolan Langweil was selected for one of two Legislative Staff Achievement awards by the Legislative Health Staff Network.
- d. As was the case last year, we will be preparing pre-session briefing materials in November on session issues. The flood-related issues will be a large part of this.

Summary of Jobs Act
Prepared by Stephanie Barrett
Legislative Joint Fiscal Office
September, 2011
[Estimates are White House Impact Estimates]

On September 8, the President proposed the American Jobs Act which would impact the state, businesses, and individuals. The plan would be paid for by increasing the total target for deficit reduction to be determined by the joint “super” committee. The American Jobs Act has several components summarized below.

Tax Cuts For Workers and Businesses

- The plan will expand the payroll tax cut passed last December by cutting workers’ payroll taxes in half next year. A typical household in Vermont, with a median income of around \$52,000, would receive a tax cut of \$1,610.
- The plan would cut the payroll tax in half to 3.1% for employers on the first \$5 million in wages, providing tax relief to all businesses but targeting it to the 98 percent of firms with wages below this level. The White House estimates that in Vermont, 20,000 firms will receive a payroll tax cut under the American Jobs Act.

Direct Investment Rebuilding and Modernizing America

- Infrastructure: The plan would provide \$50 billion in immediate investments for highways, transit, rail and aviation. The White House estimates \$136,000,000 in Vermont impact.
- Teachers and First Responders: The plan would provide \$35 billion to prevent layoffs. The White House estimates \$55,500,000 in funds to Vermont to support educator and first responder jobs. There is a Maintenance of Effort requirement on the education piece requiring states to maintain FY11 levels of support.
- School Construction: The plan proposes \$25 billion investment creating jobs by upgrading schools to meet 21st century needs. The White House estimates Vermont will receive \$57,500,000.
- Housing and Community: The plan would fund \$15 billion creating jobs rehabilitating and refurbishing vacant, foreclosed homes and businesses. The White House estimates Vermont could receive about \$20,000,000 to revitalize and refurbish local communities, in addition to funds that would be available through a competitive application.
- Community Colleges: The plan would provide \$5 billion to modernize community colleges. The White House estimates Vermont could receive \$5,300,000 in funding.

Unemployment Extension, Reform, and “Pathways Back to Work”

- The plans would combine an extension of unemployment benefits with reforms to unemployment insurance to help the long-term unemployed transition to work and establishing a new “Pathways Back to Work Fund” to provide low-income youths and adults with opportunities to work and to achieve needed training in growth industries. There are 1,100 unemployed Vermonters whose unemployment benefits would expire in the next six weeks, and there are currently 7,000 long-term unemployed Vermonters.