

# 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 12, 2012

Subject: July 2012 – 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 2012 Revenues and Closeout

- a. FY 2012 – Revenues - Preliminary results indicate that Vermont closed the fiscal year with revenues exceeding the official January General Fund (GF) forecast by about \$7 million. The Transportation Fund is estimated to be \$3.4 million below forecast and the Education Fund \$300,000 under forecast for the year. Small changes are still being logged.
- b. The General Fund’s relative strength is due largely to corporate tax revenues being substantially over target with sales, and rooms and meals taxes on target. Estate tax was weak and, while income tax is on target overall, withholding is weak. Tom Kavet will provide more detail on the forecast at the fiscal committee meeting. The property transfer tax is below projections which has a secondary impact on the General Fund. A portion of statutory receipts of VHCB that were to come into the General Fund will not due to the lower forecast.
- c. In the Transportation Fund, shortfalls in the gasoline tax, purchase and use tax, and fees are all issues. There is still the possibility that some of this loss is due to reporting issues; therefore, the numbers may change in the week ahead.
  - i. The Education Fund is potentially \$1,000,000 over forecast due to lottery receipts just added.
  - ii. Revenues will continue to be counted for much of July, so changes may occur as the books are closed on the fiscal year.
- d. FY 2012 - Closeout:
  - i. With the General Fund FY 2012 revenue surplus, we anticipate an overall closeout of \$5 - \$7 million which will be made available for state building-related costs in accordance with Sec. C.205 of Act 162 of 2012, which amended the budget adjustment. The language called for up to \$15,000,000 of any FY2012 additional unreserved and undesignated General Fund balance to be

appropriated to the Secretary of Administration for transfer upon approval of the Emergency Board to the Department of Buildings and General Services for pending state building projects in Central Vermont that are a direct result of the impact of damage sustained to state properties at the Waterbury Complex from Tropical Storm Irene.

- ii. The estate tax ended the year \$6 million below forecast. This tax is difficult to predict.

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

## 2. FY 2013 and Beyond - Revenues and Budget Pressures

- a. The FY 2013 revenue forecast revision will be available at the meeting. The revenues through June continued to be positive overall but the economy has weakened since January, indicating some risk for the FY 2013 forecast.
- b. For FY 2014, we are going to face an additional step down of base Federal Medicaid share (FMAP) which will place a \$20 million plus pressure on the budget.
- c. LIHEAP continues to be a known risk, and since it is a Presidential election year, it is difficult to know when we will have certainty in this area. At present, national information indicates the likelihood of level funding. Without program changes, for Vermont to equal the benefit of last year, we would need to add about \$8.5 million of state funds after application of the carryforward. Even at that level, 2011 - 2012 was the third year of a benefit step-down. In part, this is due to a planned increase in participants which took place last year. Program changes are under exploration and will be added to the Joint Fiscal Committee agenda in September. Over the past three years, oil fuel benefits averaged:

	Benefit	
i. 2011 - 2012	\$ 866	34%
ii. 2010 - 2011	\$ 1,064	52%
iii. 2009 - 2010	\$ 1,718	86%

Several other issues are relevant to heating. The Green Mountain Power/CVPS 25% discount program for those under 150% of poverty has yet to be put in place. There is still uncertainty as to whether it will happen in the months before this heating season. A new requirement for a natural gas discount up to 200% of poverty similarly is going slow although it has a January 15, 2013 projected start. In addition, Vermont continues to require a lower discount than neighboring states of fuel dealers involved in fuel assistance.

- d. Based on the forecast revision, the closeout in Medicaid programs, and with 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. Federal Funds-Related Irene Recovery**

- a. At the Joint Fiscal Committee meeting, we will spend some time on federal fund expectations related to Irene recovery. A number of issues are emerging:
  - i. Towns' capability of reporting expenditures to the Federal Emergency Management Administration (FEMA) and Transportation has led to fewer funds and slower funds than were anticipated. This is being addressed through state assistance with relevant paperwork and resubmissions to some extent. The result means considerable unknowns on receipts for state and local recovery efforts.
  - ii. Federal FEMA funds for the State Hospital are also an area of uncertainty. Current information indicates FEMA funds will be below amounts anticipated. There are substantial risks to the funding flows, but it is too early to know the resolution.
  - iii. Susan Minter, Irene Recovery Officer, will report to the Joint Fiscal Committee on these issues. At the same time as the Joint Fiscal Committee July 20 meeting the Institutions Committees and the Mental Health Oversight Committees will be hearing more detailed reports in their areas on FEMA and other financing issues.

### **4. The Mental Health Special Committee Report**

The Mental Health Report will be released on July 20 at a Special Mental Health Committee Meeting, scheduled for 9:30 a.m. The consultant will present the report to the committee via phone and possibly a video link.

### **5. Education Finance Research**

At the request of the Legislative Educational Opportunities Working Group, we have been assisting with its contract with the Jeffords Center for Policy Research to look at the connection between education finance and outcomes. This contract will be discussed next Wednesday, August 17.

### **6. Results First Initiative**

The work with the Pew Foundation, Results First model continues on schedule. We are likely to have Vermont data on corrections ready to run through the model by the end of July and report to the Joint Fiscal Committee in September. The next area the model may expand is juvenile programs. In late July, Nathan Lavery and Maria Belliveau from the Joint Fiscal Office, Sarah Clark and Monica Webber from the Department of

Corrections, and Robin Adler from the Vermont Center for Justice Research will all be part of a PEW state meeting to discuss the model and its outputs.

## **7. Health Care Reform**

- a. The administration is moving forward in its work on Health Care Reform. We are not extensively involved in this effort. The one area where we may play a role is in working toward base consensus assumptions to avoid institutional differences in the underlying data used to assess financing plans.
- b. The Administration has hired a consulting team from the University of Massachusetts in Amherst, Massachusetts to work on its financial analysis.

## **8. Medicaid**

- a. Background - In the January budget adjustment (Act 75 of 2012), the legislature reduced the original FY2012 Global Commitment budget by approximately \$32 million, due to lower caseload and utilization. The FY2012 amount was further reduced by another \$7.1 million in the Big Bill, as costs continued to come in below expectation, freeing up \$3 million of one-time state funds to balance FY2013. Act 75 also included the pass-through funding for University of Vermont (UVM) Graduate Medical Education of \$30 million. After passage of Act 79 of 2012, the Mental Health Bill, other estimated adjustments in Global Commitment funding related to the closure of the state hospital and the provision of services to this population in other settings were added.
- b. FY2012 Close Out – Caseload was 2,200 below estimates in the aggregate, 1,800 of which were from the Vermont Health Access Program (VHAP). Most the savings associated with this were booked in the Big Bill; it appears the Department of Vermont Health Access's (DVHA) Global Commitment expenditures are essentially on target, coming in at 1% below the adjusted budget. The savings estimate is \$6 million in total funds or \$2.5 million in state funds. FY2012 cigarette tax revenue has come in \$2 million above expectation. Approval from the Centers for Medicare and Medicaid Services (CMS) for the UVM Graduate Medical Education proposal was not received in time to include this funding in FY2012 but remains pending for FY2013. The year-end close-out process includes the true-up of the mental health budget. Currently, there is no projected change in the FY2013 budgeted amounts from information gathered in closeout. There is an estimated one-time balance of \$27 million in gross funds and \$12 million in state funds anticipated to be available to offset what is projected to be a \$20 million plus Federal Medical Assistance Percentages (FMAP) loss in FY2014.

## 9. 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\\_2013/FY13\\_Intent\\_Document\\_2012\\_session.pdf](http://www.leg.state.vt.us/JFO/appropriations/fy_2013/FY13_Intent_Document_2012_session.pdf)

## 10. Vermont Economic Growth Incentives (VEGI)

- a. This year, the base changes to the Vermont Economic Growth Incentives program do not involve model changes other than the normal updating process. There may be some meetings over the Summer and early Fall that will be brought before the fiscal committee at a later point
- b. The Emergency Board will have before it a motion to raise the 2012 calendar cap from \$10 million to \$12 million. As of June 28, projects having received initial or final approval total \$10,598,645. The proposed cap increase covers these projects and the potential for other applicants during the remainder of the year.

## 11. Private Activity Bond Cap

The Private Activity Bond Advisory Committee has been formed, and is now meeting in order to make recommendations on the use of the state's private activity bond capacity. At the July 20 Emergency Board meeting, there are no nontraditional users of the cap capacity being proposed; however, there may be some developments at a later point.

## 12. Transportation

- a. Maintenance of effort transfers: The Administration used its authority under Sec. 74 of No. 75 of 2012 (budget adjustment) to transfer \$2.7 million of appropriations to the paving program to ensure compliance with federal maintenance of efforts rules.
- b. Summer study: The study committee on transportation funding held its first meeting on June 8. The committee members are: Transportation Secretary, Brian Searles, Chair; Department of Motor Vehicles Commissioner, Robert Ide; Senator Jane Kitchel; Representative Diane Lanpher; Steve Jeffrey of the Vermont League of Cities and Towns; Susan Schreibman of the Vermont Association of Planning and Development Agencies, and Bud Meyers, Director, James M. Jeffords Center for Policy Research. Its next meeting is scheduled for August 17.

## 13. Legislative Budgets

- a. The Legislature's budget closed FY2012 on target. This is in part due to the early adjournment, other efforts to control costs, and lower-than-anticipated expenses. Before anticipated obligations, the gross surplus is about \$1.3 million, of which \$503,000 will revert to the General Fund. The Legislature's FY2013 budget included a deficit of \$187,000, with the

understanding that we would work to achieve the necessary carryforward. Thus, the first \$187,000 of carryforward (after reversion) is dedicated to closing the FY2013 projected legislative budget deficit. Additional planned uses include \$42,000 for member COLAs, \$180,000 for upgrading Office 2003 software to Office 2010, \$75,000 for equipment depreciation reserve (a capital expense), as well as funding for the mental health system study and performance budgeting activity. Finally, \$190,000 is reserved for FY2014 base budget needs depending on the level of base funding that is budgeted. Staff furloughs have been eliminated, and legislators will be at their full statutory pay in FY2013 and onward.

- b. The Joint Fiscal Office ended the budget year with an unallocated surplus of roughly \$87,000 and a gross surplus of about \$217,000. Per the Big Bill, \$10,000 will revert to the General Fund. Of the remaining obligated funds, the largest share has been reserved for completion of the Results First Pilot Project (\$70,000). Funding has also been reserved for upgrading the JFO Budget System to ensure compatibility with the Administration's new budget system. The Joint Fiscal Office will also be contributing \$10,000 to the Pre-Sentencing guidelines study discussed below.
- c. The Legislative Council, the Sergeant at Arms, and the Information Technology departments all met or exceeded their carryforward targets, and a combined \$100,000 will revert to the General Fund as prescribed in the Big Bill.
- d. Work will continue with other staff entities on legislative budget development and preparation.

#### **14. Joint Fiscal Office Updates**

- a. Results First - Over the next few weeks we will be using the Results First model to analyze corrections-related programs. Our data assembly has reached the point that we can "test" run the model in the Vermont context. In late July, Maria and Nathan will be part of a group meeting in Denver to discuss Results First with other states. We hope to set aside some time at the September meeting to discuss the initiative and its next steps. We have been working with the Center for Criminal Justice Research on the data for this effort.
- b. In a related project, the administration has asked us to join with the Courts, Corrections, and the Vermont Center for Criminal Justice Research to carry out a project that was developed by the Corrections Oversight Committee and embodied in which S.138 died at the end of last session. The initiative involves creating a set of sentencing information along the lines of Missouri's sentencing advisory commission. Missouri's initiative is described as creating collaboration with probation, corrections, and parole personnel, and with judges to "fashion a system that is just, proportionate, and wisely uses the state's resources." Senator Dick Sears and Representative Bill Lippert have

been very supportive of this initiative and will be taking legislative lead on this. The project entails commitments of:

- i. Administrative management, oversight, and administration and \$5,000 in financial resources from the courts. Judge Davenport will be the lead.
- ii. \$10,000 from Corrections budget
- iii. \$10,000 from the Joint Fiscal budget

Barring committee concerns, the Office will move forward with this initiative. (See emails attached)

c. Staffing updates

- i. Staff evaluations/survey responses – we have received 87 surveys as of this point which is a new high. We should have preliminary office evaluation information by the July 20 meeting. We will use this in our biannual staff evaluation process which is starting up.
- ii. Jeremy Fonte is out on unpaid medical leave through September and we are in the process of identifying how we will address his portfolio of activities. While we expect him back, we are also developing contingency plans to ensure that our budget system is operational for the session.