

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 5, 2012

Subject: September 2012 – Fiscal Officers’ Report

What follows is an update on post-session developments, some of which will be on the agenda for the September Joint Fiscal Committee meeting.

1. FY2013 September Fiscal Update:

- a. Closeout – The General Fund closeout is close to being finalized. At this point, the year ended with an \$11.3 million surplus which, according to the language of the budget, has been 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. As this was an appropriation, it raises the reserve requirement for FY2013, which is based on 5% of prior year appropriations.
- b. Revenues – Through the first two months of the fiscal year, General Fund revenues are just on target. Achieving the monthly target is largely due to a \$3-million estate windfall in August. The key areas of shortfall are in personal income withholding and corporate tax – especially refunds. September is an important month and will offer a clearer picture of the revenue trends. The Transportation Fund is \$200,000 under target, and the Education Fund is \$200,000 over, both close to projections.
- c. Budget Developments – FY2013 started out with a revenue shortfall due to the July forecast revision. At present, that starting shortfall is estimated at \$8 million. As of yet, there are no major budget adjustment needs identified, although there may be needs in Corrections, the Department for Children and Families, and costs incurred in certain litigation, such as the prescription drug monitoring case.
- d. LIHEAP – continues to be a known risk. We have assumed federal government’s level-funding for our projections. Without program changes, for Vermont to equal the benefit expenditure level of last year, we would need to add about \$8.5 million of state funds after application of the available carryforward in the program. The level funding assumption may be optimistic. We are hopeful that we will know more after Congress completes the continuing resolution in the coming weeks. A discussion of

LIHEAP will occur at the upcoming JFC meeting. As noted in July, 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%

This change in benefit levels is due to a planned expansion of eligible beneficiaries. In a related issue, the Green Mountain Power/CVPS 25% discount program for those under 150% of poverty is moving forward. The LIHEAP program has been asked to help administrate the program in order for a December 1 start date. Green Mountain Power will be paying the LIHEAP program for its work. As this relationship is somewhat unusual, we have asked that it be brought to the JFC meeting for its consideration. Materials are included in the package. A related requirement for a natural gas discount up to 200% of poverty has not yet been implemented, but the same type of relationship is being contemplated.

- e. FY2014 Budget Gap – In May, the FY2014 budget gap was projected to be \$5 to \$44 million. Updated information indicates the gap will very likely exceed these numbers. The July forecast revision reduced the revenue estimate for FY2014 by \$13.3 million. We are also expecting to see a potentially stronger impact of federal fund reductions in FY2014. Some of the shortfall may be offset by a two-year increase in FMAP for Vermont, due to provisions in the Federal ACA act. Provisions were added for states like Vermont, which had higher coverage already in place. The JFO staff has been meeting with the Department of Finance and Management to develop a consensus budget gap projection for FY2014.
- f. FY2014 Budget Process – The FY2013 budget called for the development of a “current services budget for FY2014” and a larger public process in building the FY2014 budget. The Commissioner of the Department of Finance and Management is working on developing this process.

2. FEMA Update:

An update on the status of FEMA funding will be made available at the September 19, 2012 JFC meeting. The State and FEMA are engaged in discussions. The State is working with consultants to assist with the FEMA process. Vermont has not received any range of estimated receipts from FEMA.

3. The Mental Health System Transition:

Commissioner Flood is planning on providing the JFC with a briefing on the mental health system transition. Plans for the new state hospital are close to being completed.

4. Results First Initiative:

The work with the Pew Foundation on the Results First model continues to develop. We have begun to use the analytical model on the corrections program and we will be sharing our results with the Department of Corrections to check the information and results that we are gathering. We are also working to identify how and to what extent the data can be used by the Legislature. We hope to have preliminary outputs to share with the committee and the Administration by the November JFC meeting. The process has been slow as we need to take the time to check the quality of the results. We are also moving to apply the modeling technique to the juvenile justice area.

5. Education Finance:

A revised education fund outlook sheet will be available at the September 19, 2012 JFC meeting. One of the issues we are trying to understand is why the estimate for property tax adjustments in FY2012 was too high. This will have an impact on the current education fund outlook and to a greater extent, if it continues, in future years.

6. Health Care Reform:

- a. The administration is moving forward in its work on Health Care Reform. The state received a third exchange grant for \$104 million, which should carry us through 2014. Over the coming month, we will be working on a summary of issues related to financing which the legislature will likely address in the upcoming session.
- b. One area where additional spending may arise is provider reimbursement increases which are coupled with participation in the states' payment reform initiative. Providers are being asked to participate in this initiative and, as part of that participation, the Administration is considering a reduction in the cost shift by increasing reimbursements.
- c. The Fiscal Office will have a UVM/MPA program intern working with us in health care through the upcoming session. Her name is Erin Flynn.

7. Medicaid:

- a. JFO and administration have discussions underway to develop base Medicaid estimates for use in the budget development. Baseline caseload projections are nearly complete, and utilization estimates are underway as well as discussions on the changes that implementation of the exchange will have on the FY2014 budget. We expect some modest growth overall and intend to have a baseline consensus reached three months earlier than usual so assumptions and models can be vetted throughout the process.
- b. One issue has arisen within the Global Commitment (GC) waiver. Although we are well within the overall spending limits, we may be reaching the limit on the amount of room for MCO investments we can make based on the actuarial analysis of base medical spending trends. In FY2012, the MCO investment amount increased significantly because of the mental health expenses that were covered through MCO investments.

This could impact the funding plans for the Vermont State Hospital and for other expansions not covered by Medicaid. The current GC waiver expires Jan. 1, 2014. The proposal for renewal and combining the GC and Choices for Care (CFC) waivers may mitigate this somewhat.

8. Burlington TIF:

There appear to be significant changes in the proposed improvements to be paid for with funds from the Burlington Waterfront TIF district, since the business plan submitted to the Joint Fiscal Committee on August 31, 2009. Therefore, the City of Burlington has been asked to make a presentation to the JFC with an update of the most recent plan for the district. There is no action expected from the committee as the original JFC motion approved the payment schedule and not the content of the TIF business plan. There is a memorandum attached with additional explanation in the package.

9. All Legislator Briefing/New Member Orientation:

- a. We are in the final development stages of the November all Member briefing and the new member orientation which is scheduled for November 28 – 30.
- b. Wednesday, November 28, is scheduled to be an all-legislator briefing. Last year's briefing ran from 10:15 a.m. to 3:30 p.m. The specific issues to be discussed have yet to be finalized. The issues which are likely to be covered are related to health care reform, the budget and federal fund developments, the FEMA/Irene funding status, and possibly an update related to administration initiatives being contemplated.
- c. This would be followed by the start of the new member orientation which would run Wednesday evening through 5:00 p.m. Friday. Friday would be the day of fiscal issues and Friday morning would include a panel of money chairs.

10. Joint Fiscal Office Updates:

- a. The Federal budget presentation by Marcia Howard of the Federal Funds Information service went well. A copy of her presentation is on our website at http://www.leg.state.vt.us/jfo/reports/Legislative%20Briefings/2012_Federal%20Funding%20Update%20-%20Howard.pdf
- b. Kavet Contract – The Department of Public Service (DPS) will be contracting with Tom Kavet to update some economic analysis and serve as an expert witness in Vermont Yankee litigation. This grew out of work Tom Kavet did under contract with the Vermont utilities several years ago. The prior work is accessible from our website at the following links: (1)<http://www.leg.state.vt.us/jfo/envy/Economic%20Analysis%20-%20Executive%20Summary10.pdf> and (2)<http://www.leg.state.vt.us/jfo/envy/Vermont%20Yankee%20Economic%20and%20Fiscal%20Impact%20Study%20Project%20020510.pdf>

Because the initial work was done under a separate contract with the utilities, after consideration and discussion with the money chairs and others, we did not identify that the proposed DPS contract was of sufficient conflict with his revenue work at JFO to warrant a formal objection to this work.

- c. JFO Computer systems – Jeremy Fonte remains out on medical leave but we expect him back in late September. In the interim, we are evaluating our JFO budget system to chart its future. With the changes to the Department of Finance and Management system, the continuing changing technology and software environment, and the relative complexity of our current system to maintain it, it made sense to conduct this review.
- d. Kavet and Picus evaluations – We are in the process of carrying out evaluation surveys of the Kavet and Picus work. This performance evaluation is called for as part of our contracts with these vendors. We have not received the number of responses we would like from survey recipients and are concerned that we may be experiencing some survey fatigue.
- e. We will have two temporary staff positions through the session. First, as we mentioned above, Erin Flynn will be working as a UVM intern in the health care finance area under the direction of Nolan Langweil. Second, Nancy Greenwalt will continue working with us on the implementation of the Results First model. Both of these staff positions are within existing budgeted amounts.
- f. At the suggestion of the Legislative Council, we are developing an MOU between the two offices to formalize some of the offices' interactions. One of the values of this is a clearer expectation of confidentiality when the offices assist each other with projects.