Joint Fiscal Office

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MEMORANDUM

To: Senator Jane Kitchel, Chair,
Representative Janet Ancel, Vice Chair,
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 23, 2015

Subject: July 2015 – Fiscal Officers' Report

What follows is an update of recent developments, some of which will be on the agenda for the July 27 meeting of the Joint Fiscal Committee.

1. **FY 2015 Revenues - The General Fund -** The FY 2015 General Fund revenues at year end were $17.9 million, or 1.3%, over the revised January 2015 forecast. The FY 2015 final numbers are a good indicator for FY 2016 and provide some evidence of a slightly improved economic outlook. Income tax revenues were $4.1 million, or about 0.6%, over forecast. Due to several isolated events, Corporate Tax Revenues were $19.3 million, or 19%, over target. Sales and Use and Meals and Rooms were essentially on target. Estate Tax trailed the January forecast by $14 million, offsetting the Corporate Tax windfall. We are hopeful that the revenue forecast revision for FY 2016 and FY 2017 will be consistent with prior forecasts, moving revenues in a positive direction.

   In addition to the revenue results, we expect end-of-the year transfers into the General Fund to exceed estimates by several million. Together, the revenue and transfers should allow us to meet the legislative allocations as follows:
   - $5 million reserved for LIHEAP;
   - $13 million reserved for Medicaid closeout and FY 2016 (discussed below); and
   - The remainder, which could be close to $7 million, will be divided:
     - 50% for payback of the retired teachers health care borrowing;
     - 25% for the Education Fund; and
     - 25% for the rainy day reserve.

2. **FY 2015 Revenue - Transportation State and Federal Funds -** Transportation funds ended the year essentially on target at $900,000, or 0.3% in the positive direction. The major uncertainty is federal action on the

transportation bill reauthorization. The U.S. House of Representative has passed a temporary measure but the U.S. Senate is working toward a multiyear action. As the current authorization runs through July 30, 2015, the results of this federal debate are critical for Vermont.

3. **FY 2015 Revenue - Education Fund -** Education Fund non-property tax revenues were essentially on target. Overall revenues were $400,000 below January estimates, or -0.2%. Final closeout of the Education Fund for FY 2015 is still under way and we expect that more information will be available at the July 27 meeting.

4. **Other Revenue Related Issues:**
   a. **Chainbridge Modeling Capacity -** We are in the process of updating the Chainbridge income tax model to tax year 2013 data. Last year was the first year we were able to use the model and Sara Teachout found it extremely helpful to meet legislative requests. Model costs are not insignificant. The update is about $79,000 which we split with the Tax Department. The software and modeling capacity gives the Office an independent capacity to evaluate legislative proposals which is an improvement over prior years. We are planning on a later update to the sales tax modeling as there is less variation in data.
   b. **REMI Modeling Capacity -** In addition, we expect to update the REMI Tax PI model for primary care health care reform studies and analysis related to estimating the economic impacts of taxing services in Vermont. Both of these studies were requested in the past session by the Legislature.
   c. **FY 2016 budget adjustment and FY 2017 budget development -** We will begin the process of developing a budget gap understanding after the revenue revision at the Emergency Board meeting. Once revenues are estimated, we can relate them to the fiscal issues that are emerging, some of which are identified below:
      i. While numbers are not finalized, the Pension fund returns were not strong this year with annual returns likely to be relatively flat. We might see some impact of this in the actuarial request for FY 2017.
      ii. A number of AHS budget pressures have been identified and are included in an attachment to this memorandum. Preliminary potential estimates of impact for FY 2016 and FY 2017 are as follows:

Fiscal Year	State Funds	Total Funds
FY 2016	$30-$32M	$63-$66M
FY 2017	$36-$50M	TBD

   iii. Federal budget uncertainty continues. We are hopeful to have a little more understanding of possible impacts in the next few months.

5. **Summer Committee Work -** While some work is under way, summer committees are still being appointed.
   a. Act 58, Sec. E.145.1 Special Committee on the utilization of information technology in government - appointments have yet to be made to this three-member commission.
   b. Act 58, Sec. C. 107 Government restructuring and operations - appointments have yet to be made to this three-member commission.
   c. Act 58, Sec. E.602.1 Vermont interactive technologies working group (Theresa Utton-Jerman and Stephanie Barrett assigned);
   d. Act 54, Sec. 22 Public Employees Health Benefits; Report Working Group (Joyce Manchester assigned); and
   e. Act 54, Sec. 18 Universal Primary Care; Report Working Group (Joyce Manchester assigned) are under way.

6. **Joint Fiscal Office Activities and Contracts** - The Joint Fiscal Office is involved in a number of activities:
   a. Nolan Langweil recently finished an All-payer model issue brief. It can be found at http://www.leg.state.vt.us/jfo/healthcare/All-payer_model_overview.pdf.
   b. We are in the process of interviewing, reference checking, and selection for the Education Adequacy Study, which is to be done this off session. We had three qualified bids for this contract.
   c. Stephanie Barrett, Catherine Benham, and I have been interviewing candidates and companies to help with the IT evaluation work required by the Capital Bill on major IT projects.
   d. The first of three JFO reviews of the Vermont Health Connect should be available at or before the JFC July 27 meeting. IT will be done after delivery of the July Administration report.
   e. We completed a survey of Tom Kavet's work in preparation for rebidding his contract. He received very high marks. Our plan is to put this contract out to bid after the completion of the revenue forecast process. Generally, five years is the longest we have gone without a rebid. Other contracts such as Deb Brighton and Stephen Kappel are much smaller and not subject to the same bid requirements.
   f. Dan Dickinson has been detailed to Japan with the Vermont Air Guard and will be back in October. Maria Belliveau has been ably handling his budget and grant work.
   g. Aidan Davis has left our staff as her temporary positon ended. She has taken a full time job with ITEP which does tax policy and will remain working out of the Burlington area.

h. All occupants of One Baldwin Street are likely to have to vacate for a period this summer and fall. This is due to a BGS project to replace the heating system in order to address air quality issues during the winter months.

AHS Significant Budget Pressures

The following is a preliminary list of the significant FY16 and FY17 budget pressures from AHS CO staff estimates shared with F&M for initial planning and FFIS sources as of 7/1/2015. These are estimates compared to the FY16 level as passed in H.490 and are subject to change.

Significant Pressures	FY16 BAA		FY17 *(over '16 as passed)*	
	GF $s	Gross $s	GF $s	Gross $s
LIHEAP administration – Ongoing lower federal grant levels mean a lower amount available to support admin costs. The admin functions are not a function of the grant amount and do increase concurrent with negotiated contract levels.	$1.0M	$1.0M	$1.0M	$1.0M
Medicaid 53rd Week – FY16 has 53rd week of vendor payments (analogous to 27th pay period). The appropriations budget is a modified cash basis and the impact of this payment should have been discussed in the budget.	$11.3M	$25.0M	*Could technically be pushed to FY17*	
Clawback – FFIS notification provides the calculated increase in this payment. This is a 100% GF payment states make back to the federal government to reflect state savings associated with the Medicare Part D Rx program. It is tied to federally determined Rx inflationary factors and state FMAP level.	$1.3M to $2.4M	$1.3M to $2.4M	$4.5M	$4.5M
Medicaid Closeout – FY15 closed $30m over expectation. The extent to which this rolls forward and impacts both FY16 and FY17 is yet to be determined. **Medicaid Caseload and Utilization -** Initial review of caseloads indicates several eligibility groups that are trending much higher than anticipated. Resolving eligibility processes, integrity and auto re-enrollment may offset to some degree. Utilization trends remain to be analyzed. Historically this C&U range from $30M to $60M gross	tbd *$13.5M*	tbd *$30.0M*	tbd *$13.5M* *$13.5M to $27.0M*	tbd *$30.0M* *$30M to $60M*
Base FMAP Rate - FFIS reported the preliminary FFY17 FMAP calculations indicate a drop in the federal share of 0.25%. **Other FMAP** – In FY17 the state is completely past the enhancement from "Leahy bump". *To the extent that the enhanced rate on childless New Adults and OAPD requests differ from the amounts already anticipated in the budget additional plus/minus match related fiscal impacts are also possible.*	*tbd*	*tbd*	$4.0M *tbd*	$4.0M *tbd*
ACO Payment – The contract provides for a 50%-60% shared savings payment to the ACO. The contract specifies the calculation of the base year total cost of care, growth rate and performance year comparison which is the basis for the payment. The savings calculation is meant to be a representation of the increased costs that otherwise would have been incurred without the contract.	*tbd*	tbd	*Likely to be lower contract ties next payments to additional savings*	
Total Preliminary Potential Impact	$27.1M to $29.1M	$57.3M to $58.4M	*tbd* *$36-$50M*	*tbd*