

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: September 11, 2015

Subject: September 2015 – Fiscal Officers’ Report

What follows is an update of recent developments, some of which will be on the agenda for the September 15 meeting of the Joint Fiscal Committee.

1. FY2016 Revenues - The General Fund - The first two months of revenue collections continue to provide mixed results with no additional clarity for the remainder of the year. Revenues are 1% off targets. On the positive side, we are seeing sales, and meals and rooms tax collections close to the forecasted amounts. Corporate and the property transfer tax collections are ahead of forecast. Income tax continues to trail forecasts primarily in the areas of withholding and higher than expected refunds. Estate and “Other” taxes are falling short of expectations. As we have seen, the shortfall in estate tax revenues reflects the irregularity of receipts which may be offset in the next few months. Overall, August is not a month where we collect major tax receipts; however, September and October revenues should be more informative as to whether we are meeting our forecast.

2. FY2016 Revenues – The Transportation Fund – Transportation Fund receipts are trailing forecasts due to lower than estimated purchase and use tax revenues, and lower diesel and fee revenue. Overall, the fund is off \$2.4 million from a cumulative target of \$43.2 million. September revenues will be an important indicator of trends.

3. FY2015 Closeout - Education Fund

- a. At the end of last session we expected that the Education Fund would have a full 5% stabilization reserve and an \$11.5 million surplus. Post closeout, FY2015, now has a full stabilization reserve and a \$15.1 million surplus available for use in FY2016 and beyond. The increase in the surplus is primarily attributable to additional revenue from the education tax, the Medicaid transfer, and an additional transfer from the General Fund at the end of the year.
- b. We are also anticipating a larger than usual reversion in the FY2016 Budget Adjustment Act (BAA) this January. This reversion is primarily attributable to special education aid and the education payment.

4. FY2016 Budget Adjustment and FY2017 Budget Development

- a. FY2016 Budget Adjustment - The Administration is beginning to develop its budget adjustment proposal. There will be some increases in Medicaid and Health Care spending due to FY2015 closing with expenditures exceeding estimates and the potential roll out of these higher costs. The pay act savings target may be an area of concern. Emily Byrne, Director of the Budget and Management Division for the Department of Finance and Management, will present other budget pressures at the Joint Fiscal Committee meeting.
- b. FY2017 Budget Development - The Administration has issued budget instructions asking departments to propose budgets that are level funded, including the absorption of the cost of pay increases. This is the early stage of budget development but it is clear it will be a difficult year.
- c. FY 2017 - JFO has begun the process of developing a consensus budget gap estimate with the Administration. Initially, it appears to be in the range of \$50 - \$70 million. Uncertainties remain as budget pressures and federal fund changes come to light.

5. Pension Fund Returns - While numbers are not finalized, the Pension Funds' returns for Fiscal Year 2015 were essentially flat. With an assumption that investment returns will annually be from 6%-8%, this will not help with the actuarial valuations that should come out within the next month or so.

6. The Retirement Incentive Program - The initial applicants for the retirement incentive program totaled 311 people. The program assumed that there would be 300 applicants. Although the numbers may go down slightly as the process continues, the Joint Fiscal Committee is being asked to approve some additional slots so that all applicants can be accommodated. Section B.1104.1 of Act 58 of 2015 (the FY2016 budget) stated:

(g) The Joint Fiscal Committee may vote to increase the number of individuals who are eligible for the retirement incentive set forth in this section.

(h) The State Treasurer shall report the number of individuals applying for the retirement incentive set forth in this section by agency to the Joint Fiscal Committee by September 8, 2015.

Treasurer Beth Pearce will be at the meeting to propose everyone that requests the incentive over the 300 participant cap be allowed to participate.

7. Chainbridge Modeling Capacity - The Department of Taxes has approved and submitted to the IRS a proposal to change the Chainbridge tool to allow the Joint Fiscal Office Staff to do modeling without the Tax Department's manual intervention in a manner we hope will meet IRS requirements. Sara Teachout already has existing model access with 2013 data. It will be refined once late filers are incorporated in the model.

The cost of model updates and changes are split between the Tax Department and the Joint Fiscal Office. This year the costs are just over \$40,000 for the Joint Fiscal Office.

8. REMI Modeling - Tom Kavet is leading the effort to operationalize the REMI Tax PI model which will enable the Office to do the analysis needed for primary care single-payer as well as for other studies being done this year. The added capacity, called REMI Tax-PI, is a new tool for evaluating the total fiscal and economic effects of tax policy changes. This modeling capacity should strengthen our capacity to understand economic impacts of proposals. While the Joint Fiscal Office is taking the lead in developing the model for Vermont, the Administration plans to use it also.

9. VEGI Updates - At the meeting you are being asked to address annual VEGI model updates which are standard but need approval. There is also a proposal to create a technical working group to update or review the background growth approach that the model uses. The growth assumptions can have major implications for awards and costs to the State so it seemed that creating a technical working group was appropriate prior to submitting a proposal. The Joint Fiscal Office supports Tom Kavet's proposal as to technical group makeup that is reflected in his memorandum.

10. Results Based Budgeting and Results First - Senators Becca Balint and Jane Kitchel and Representative Peter Fagan attended the Pew-MacArthur Results First Initiative conference in Washington D.C. last month. Karen Gennette and Robin Adler Weber from the Crime Research Group (CRG) and Susan Zeller and Dru Roessle from the Administration also attended the conference. A PEW Team is coming to Vermont for follow-up meetings with the Administration and the CRG team and will be available for discussions with the Legislature the morning of September 18. You will receive a separate invitation mailing on this.

Vermont is one of 19 states and 4 counties -- for a total of 23 jurisdictions, participating in this initiative which aims to help policymakers identify costs and benefits of public policy options. To date, work in Vermont has been focused on the adult criminal justice area. Results First provides information about cost-effective policy options and assigns dollar values to the benefits that states hope to achieve. It supports and compliments the Results Based Accountability (RBA) activities that are occurring in numerous departments across state government. An issue brief on the relationship of Results First and RBA is available at <http://www.leg.state.vt.us/jfo/reports/RBA-RF%20Discussion%20Brief.pdf>.

11. Joint Fiscal Office Contracts

- a. Legislative Economist Contract - While we did extensive advertising and four entities inquired about the contract, only Tom Kavet submitted a bid. A memorandum outlining the bid process and results has been sent to you separately. In that memorandum we are asking for your approval to negotiate a contract with Tom Kavet consistent with his bid proposal. His bid proposed two year rate commitments but we are suggesting a four year contract with lower rate growth in the later years.
- b. IT System Evaluation
 1. We are in the final stages of contract negotiation with an individual to help the office with evaluating state IT projects. The first project the contractor will

work with is the Case Management System in the Judiciary. Through that process, the contractor will be working with us to develop an approach to review and standardize IT project review.

2. Catherine Benham and I have been working with the Department of Information and Innovation to implement Sec. E.145.2 of Act 58 of 2015, which amended 22 V.S.A. § 901. This section clarified the Department of Information and Innovation's review functions. The work is targeted at creating more accessible and Legislative oriented project review materials.
3. The next Exchange IT Report to be produced by the Joint Fiscal Office will come out once we receive the State's report and the IVV report on the project. This should be around September 25.
- c. The Picus Team is at work on the Adequacy Study. They are in town September 9-10, and then back in November. Funding for this was contained in the Education Bill.
- d. We will be issuing a contract as required by the State House Working Group for further work and priority setting on State House security. Funding for this was in the Capital Bill of the 2015 session.

12. Other Summer Committee Work - below are some of these and current status.

- a. Act 58, Sec. E.145.1 - A special committee on the utilization of information technology in government. Appointments have been made to this three-member commission, and the first meeting is scheduled for September 17th at 930 am in the AHS offices in Williston. The appointees are Michael Shirling, Retired Burlington Police Chief; John Burton, President of Network Performance Inc. (NPI); and Tim Kenny, Chief Technology Officer of My Web Grocer. The Department of Information and Innovation is coordinating the meetings.
- b. Act 58, Sec. C. 107 - The appointments for a committee on government restructuring and operations has yet to be made for this three-member commission.
- c. Act 58, Sec. E.602.1 - The Vermont Interactive Technologies Working Group has been working through alternatives to VIT (Theresa Utton-Jerman and Stephanie Barrett assigned).
- d. Act 54, Sec. 22 - Public Employees Health Benefits; Report Working Group (Joyce Manchester and Nolan Langweil). The working group has been meeting regularly. Michael Costa is the Administrations' lead.
- e. Act 54, Sec. 18 - Universal Primary Care; Report Working Group (Joyce Manchester assigned). Michael Costa is the Administrations lead. Meetings have been ongoing.

We expect to return to our building on September 28, once construction is completed. The work is due to a BGS project to replace the heating system in order to address air quality issues during the winter months. The BGS is also refinishing the floors while we are out.