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 13, 2016

Subject: September 2016 – 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. FY2017 Revenues to Date

While it is still early for meaningful trends, through the first two months of fiscal year 2017, the General Fund is on target and the other funds are slightly below targets:

- The General Fund is up $1.1 million or .5% over target;
- The Transportation Fund is off $2.5 million from forecasts, or down 6% from the target; and
- The Education Fund is $700,000, or 2.1% off the target.

The General Fund continues to see personal income withholding payments lag targets while payments of estimated income taxes are exceeding targets. As these are two current year indicators compared to payments for past years or "paids" and refunds, there is not a clear sense of what is likely to occur. Similarly, sales tax is 2% under target while meals and rooms tax receipts are 6% above target. Corporate tax revenue continues to exceed targets. In all, the first quarter will be a better indicator of returns since September is a big income tax and corporate tax month.

The Transportation Fund is seeing weakness in the purchase and use tax receipts and DMV fees. Again, this is early in the fiscal year for any conclusions.

The Education Fund nonproperty tax revenues are impacted by the weakness in sales and purchase and use taxes that are offset somewhat by strength in lottery receipts. The lottery has been buoyed by some large jackpots.

Overall the Education Fund is strong. At the end of the session, we expected that FY2016 would end with an $18.8 million surplus. Following the FY2016 closeout, education property taxes were $4.4 million higher than anticipated and the property tax adjustment was $8.5 million lower than anticipated. We're also anticipating a significant reversion, primarily from special education. The net result of these changes means that we now anticipate that we will end FY2017 with a surplus in excess of $20 million.

2. Medicaid Trending

Overall, Medicaid spending is trending consistent with estimates through the first two months of the fiscal year. Here the uncertainty is due both to the early period of the year and the outcome of redeterminations.

3. The Global Commitment Waiver, the APM waiver and the ACO

Executive Branch officials and staff are still negotiating with the federal Health and Human Services Agency (HHS) over the extension of the Global Commitment waiver, the Alternative Payment Methodology (APM) waiver, and the new Accountable Care Organization (ACO). The Administration will provide a limited briefing to the Committee on these ongoing discussions at the meeting.

The Global Commitment waiver extension is of key importance as the State utilizes its waver authority to fund much of our health care system.

The other two waivers, which are outgrowths of legislative action, are in advanced stages of negotiation. Due to the timing—at the end of State and federal administrations—the nature of the agreements and the issues of implementation will shape the health care policy of the incoming Administration and Legislature.

4. FY 2018 Budget Development

The Administration has begun the process of developing the FY 2018 budget. Its plan is to have a proposed budget available for the incoming Administration to consider as a starting point for its own budget development. Agencies have been asked to submit budgets essentially level funded by September 20. The Administration's budget instructions talk of program revisions to meet this goal rather than operational cuts as follows:

> *"Recent budget exercises have generally resulted in budget presentations that address the targets by making small operational changes. Finance & Management does not believe this is a sustainable way to approach the budget process. By examining whole programs across state government, the Administration may be more successful addressing the role of state government than perpetuating the expectation that agencies and departments do more with less."* (Page 4 of the Budget Instructions issued August 3rd 2016.
> http://www.leg.state.vt.us/jfo/appropriations/fy_2018/FY2018%20Budget%20Instructions.pdf

5. The FY 2018 Baseline Budget Picture: Projected of Expenses Over Revenue

The Administration and the Joint Fiscal Office have begun work to analyze the budget pressures relative to the estimated revenues in FY 2018. This process will continue into September and October as we work toward a consensus.

Very initial discussions point toward a difference between projected General Fund expenditures and available revenues of about $30–$40 million. This difference is less than was estimated in recent years and could change in either direction as the Administration carries out its budget development process and numbers are refined.

6. The Department of Human Resources Classification Study

A review of the Vermont employee classification system is under way. The State uses the Willis classification system which has been in place since 1986. This study is looking at modernizing Vermont's employee classification system to provide more flexibility and responsiveness to the changing nature of positions and staffing needs. The consultants met with key stakeholders earlier this summer and are currently working on their report. Personnel would be happy to present DHR's interim report at the November JFC meeting.

7. JFO-related Activities

a) The JFO Health Care Exchange Study: The Joint Fiscal Office contracted with Strategic Solutions Group (SSG) of Needham, Mass. to carry out the analysis of Vermont Health Connect. http://ssg-llc.com/ SSG has been working since early August. At the Fiscal Committee meeting they will offer initial thoughts on the Vermont Health Connect readiness for open enrollment. The final report will discuss long-term recommendations for the Vermont Health Connect and alternatives to consider. It will be presented in December.

b) Two-year notice of Deb Brighton's retirement: Deb Brighton who has been critical for the Joint Fiscal Office's capacity to carry out analysis related to education finance, and has the State model for estimating revenues into the Education Fund has indicated that she will retire in two years. The Administration and the Joint Fiscal Office are beginning to explore how to adjust to this event. The Administration is likely to develop some of the technical expertise to replace Deb in the Department of Taxes using existing staff. If we were to forgo this expertise in the Fiscal Office, there would be a separation of powers concern with reliance on the Executive Branch to analyze legislative finance proposals. Over the coming year, we will be exploring alternatives to address this issue.

c) The Tax Study: The 10-year tax study work is well under way with a number of people working on different components, including: A tax preparer was hired to calculate income taxes for 12 hypothetical taxpayers in all 50 states and DC; Tom Kavet is preparing the cross-border analysis; the Tax Department is examining income tax mobility issues; and JFO Intern Chloe Wexler is working on multiple aspects of the study.

d) *New Fiscal Briefs:* Joyce Manchester will have posted two issue briefs on the JFO website in the weeks before the JFC meeting.

The first is: "An Analysis of State Appropriations as a Share of Income."
http://www.leg.state.vt.us/jfo/issue_briefs_and_memos/Prices_in_Vermont_Relative_to_the_U_S_.pdf

This was done in response to a legislative request to update a version of this prepared in April 2015. The set of slides shows how annual Vermont State appropriations compare to three measures of State income over the fiscal years 2007 to 2017. FY 2016 and FY 2017 data are based on projections made in the official consensus forecast process. State appropriations have not varied much as a share of Vermont Gross Domestic Product (GDP) or Vermont adjusted gross income in recent years, hovering a bit under 12 percent.

The second is an Analysis of Medicaid Enrollments http://www.leg.state.vt.us/jfo/healthcare/Issue_Brief_on_Medicaid_Enrollments_Ages_18-22.pdf Earlier this summer, the Joint Fiscal Office released an issue brief looking at the sizeable increase in the number of nondisabled adults in Vermont enrolled in full Medicaid coverage as General Adults or New Adults between early 2014 and early 2016. In mid-September, JFO will release an issue brief with a focus on the increased number of Vermonters ages 18 to 22 who were enrolled in Medicaid as General Adults. In particular, a sizable number of 19-year-olds and 20-year-olds were still enrolled in the Dr. Dynasaur—Child category in December 2015 even though eligibility for that category ends when a child turns 19 years of age. Some of those individuals will likely be eligible for other types of Medicaid or premium assistance, but some will likely not be eligible for any financial assistance from the State.