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: November 9, 2016

Subject: November 2016 – Fiscal Officers' Report

What follows is an update of recent developments, some of which will be on the agenda for the November 14 meeting of the Joint Fiscal Committee.

1. FY2017 Revenues to Date

The first four months of revenues show the General Fund on target and the other funds are slightly below targets:

- The General Fund is up $1.3 million or 0.3% over target;
- The Transportation Fund is off $2.9 million from forecasts, or down 3.1% from the target; and
- The Education Fund is down $1.2 million, or 1.8% off the target.

The General Fund continues to see personal income withholding payments lag targets while payments of estimated income taxes and paid returns are exceeding targets. Sales tax is 1.6% under target while meals and rooms tax receipts are 4.4% above target. Together these provide mixed indicators of current economic strength. Corporate tax revenue continues to be short of target, and we may see some additional refunding in November. The property transfer tax and the estate tax are still slightly ahead of forecast.

The Transportation Fund reflects weakness in the purchase and use tax receipts and DMV fees. With four months' experience, it is still early to identify any trend.

The Education Fund nonproperty tax revenues are impacted by the weakness in sales and purchase and use taxes.

The calculation of the rate for the education property tax rate is under way. While there is money on the bottom line of the Fund, preliminary indications indicate that there may be a small rate increase both with nonresidential and residential property tax. The numbers are scheduled to be released in December.

2. Medicaid Trending

Overall, Medicaid spending is trending just below current estimates through the first four months of the year. Through 10/28/16 we are running $14–$24 million or 1.3–2.4% below projected costs on an all funds basis. Legislative and Executive Branch staff are working on projecting updated caseload and expenditure for the remainder of this year and for FY 2018. While the redetermination process is almost complete, the data around reenrollment from cases that have not closed as a result of nonresponse remain a challenge in this process. The under-expenditure to date is against the budget that was revised in the rescission adopted in July that lowered the base trend. Additional reduction may be indicated as the impacts of redetermination continue to be understood. Any State fund impacts will depend on where savings occur by group because the match rate for childless new adults and SCHIP kids is enhanced.

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

The Global Commitment Waiver has been finalized and the financial impact is currently under review. Initial projections indicate an FY 2017 and FY 2018 impact of $5 million and $6.2 million in added State fund costs. The terms of the waiver will be discussed more fully at the meeting.

With the approval of the All-Payer Model (APM), the new Accountable Care Organization (ACO) contract negotiations are under way between DVHA and the ACO. The short-term fiscal impacts are not clear at this point.

4. FY 2018 Budget Development

The Administration has been continuing its budget development process and will be presenting a preliminary draft budget proposal to the incoming transition team in November. The FY 2018 Baseline Budget Picture currently projects expenses over available revenue, creating a $50–$70 million gap to close. Federal FMAP reimbursement rate changes and other reductions in federal receipts were a large part of the change from September. This does not take into account potential shifts in Medicaid costs or changes in revenues which may or may not offset some of this need.

5. LIHEAP Funding

The Joint Fiscal Office received information from the Department for Children and Families regarding the projected LIHEAP benefit for the current heating season, FY 2016/2017. Total program funding of $23,664,396 includes current year federal funds, federal carry forward, State funds from a fund swap of federal for State funds with the weatherization program, and $1,037,000 in unused State funds from the prior year.

There are two significant things to note regarding the source of funding. First, the Administration is not using the $1,200,000 that was included in Sec. B. 1107(b)(2)(B) of Act 172. That amount will be available for the budget adjustment process. The second significant thing to note is that $2,800,000 of the Federal LIHEAP block grant was swapped with the same amount of State Home Weatherization funds in order to secure

State funds to support LIHEAP clients with incomes over 150% of the Federal Poverty Guidelines and to augment the allowable federal funds for program administration.

The projected average fuel oil benefit the Administration has decided to provide is $865 for the current heating season which compares to $699 from the prior year. This represents purchasing power of 54% of a client's seasonal fuel liability this year compared to 43% last year. This higher benefit is made possible within existing funding as the caseload is lower than last year and the average cost of fuel is the same as last heating season at $2.11 per gallon of fuel oil.

7. JFO-related Activities

a) Personnel Changes: There have been several small personnel changes as we prepare for the upcoming session:

1. Joyce Manchester is going on 80% time for the remainder of this fiscal year and is projected to be on 80% time in FY 2018. She has been asked to carry out some research work for the Social Security Administration and they are picking up the 20% time we do not cover. The project will focus on how health care utilization for people on the Social Security Disability Insurance (SSDI) program differs by state as to what kinds of medical challenges people on SSDI face. The project grew out of an issue brief she did for JFO last year.

We expect the project will produce information that is useful to Vermont. Analysis of Medicare claims data will reveal the share of physician visits, outpatient visits, and hospital stays for diagnoses in major impairment groups for Vermont relative to other states. Mental impairments and musculoskeletal impairments tend to be the top two reasons for SSDI eligibility and will be a focus of the work.

2. As you know, Deb Brighton has indicated her desire to retire in the next two years. We have hired Chloe Wexler as a seven-month limited service employee. Chloe been working with us on the Tax Study to learn from Deb and get familiarized with the Education modeling that Deb Brighton does. We are hopeful that she can provide the analytical backup that Mark Perrault depends on as Deb winds down her consultancy. Deb will spend considerable time training Chloe on the model and related analysis.

In a sense we are trying to grow our own expertise in Education Finance. Deb Brighton's analytical expertise is unique and hard to replace, but Deb and we are hopeful that this will lead to a possible transition.

3. Dan Dickerson has been notified of a potential call up of the Vermont Air Guard from December through March. If this occurs, we will need to replace him on a temporary basis for the Fee bill and fiscal note production.

b) The JFO Health Care Exchange Study: The Joint Fiscal Office has been working with the Strategic Solutions Group (SSG) of Needham, Mass. to carry out the analysis of Vermont Health Connect. http://ssg-llc.com/ SSG is scheduled to report in late December. The report is in the writing stage and appears to be on track for completion in a manner consistent with the statutory time allotted.

c) The Tax Study: The 10-year tax study work is under way with a number of people working on different components. A tax preparer was hired to calculate income taxes for 12 hypothetical taxpayers in all 50 states and DC. That work is done but we are checking it for accuracy. Tom Kavet is preparing the cross-border analysis, and the Department of Taxes has examined income tax mobility issues. We will be using Bryan Pfeiffer as an editor as we work toward completion of this project. He was the editor on past versions of the study.

d) New Fiscal Briefs: Since the last meeting we have posted several new issues and fiscal briefs: The first is: "The Taxation of Social Security Benefits" prepared by Sara Teachout; http://www.leg.state.vt.us/jfo/issue_briefs_and_memos/2016-10%20Social%20Security%20Benefits.pdf This was done in response to considerable legislative interest in the issue which has come up due to questions raised this Fall.

The second is "All-Payer Model – Potential Benefits, Risks and Outstanding Questions" http://www.leg.state.vt.us/jfo/healthcare/APM_summary_sheet.pdf This was done by various staff in response to numerous questions we were receiving on the All-Payer Model.

Finally "Different Measures of Inflation" discusses the uses of various inflation measures. Joyce prepared it and it was released this week, http://www.leg.state.vt.us/jfo/issue_briefs_and_memos/Inflation_Measures_Issue_Brief.pdf

e) The VEGI Technical Working Group Report:

The VEGI Technical Working Group report will be completed early and released by the end of the week. The group members: Tom Kavet for the Legislature; Ken Jones from the Agency of Commerce and Community Development; Mathew Barewicz at the Department of Labor; and Rebecca Sameroff from the Department of Taxes addressed four questions specific to the model used to calculate VEGI awards:

1. Is the Cost-Benefit Model being effectively utilized?
2. Whether the inputs to the Cost-Benefit Model should be adjusted for applicants who assert that "but for" the incentive, the scale or timing of the project would change?
3. Whether the Program can integrate the use of business-specific background growth rates in addition to, or in place of, industry-specific background growth rates; and, if industry-specific background growth rates are recommended, a methodology to review, calculate, and set those rates?
4. Whether differential rates in annual average wages or annual average unemployment, defined by labor market area, are appropriate triggers for an incentive enhancement for projects located in, or lower wage threshold for jobs created in, qualifying labor market areas, and whether the margins of error in annual labor market area wage and unemployment rates are within an acceptable range of tolerance for this use.

A second working group at VEPC is addressing policy issues related to the VEGI program.