

Joint Fiscal Office

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MEMORANDUM

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

From: Stephen Klein, Chief Fiscal Officer

Date: September 12, 2017

Subject: September 2017 – Fiscal Officer’s Report

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

1. FY 2018 Revenue Collection Status

Preliminary revenues remained essentially on target after the first two months of the fiscal year. September will be a more informative month since that is when estimated tax payments come due for the first quarter of the fiscal year for both the Corporate tax and Income tax. After the first two months, General Fund revenues were \$500,000, or 0.2%, higher than forecasted. The Transportation Fund was on target, while the Education Fund was off by \$400,000, or 1% from the target.

Among the key factors:

- a. **General Fund** – Withholding was strong, resulting in Personal Income tax revenue being \$1.9 million over forecast year-to-date. Sales and Use tax revenue was down \$400,000, or 1%, with Meals and Rooms up \$400,000. Corporate tax collections were below the estimate by \$1.1 million. Additionally, the Estate tax was \$800,000 below the \$2.7 million estimate after the first two months. There have been no major Corporate tax refunds as yet.
- b. **Transportation Fund** – Strength in Diesel tax collections, which were up by \$400,000, offset weakness in Purchase and Use, which was down \$600,000 from the estimate. Department of Motor Vehicle fees were \$200,000 over the estimate.
- c. **Education Fund** – Overall, the Education Fund was \$400,000 below the estimate for the first two months. Sales and Use tax receipts and Purchase and Use receipts were down a total of \$500,000 from estimates. However, Investment Income and Lottery receipts provided a small offset.

2. Medicaid Trending

Medicaid expenditures through the first two months of the fiscal year were slightly below the amount budgeted. After the reductions to the Medicaid budget that were taken in August as part of the rescission process, through 9/8/17, Vermont has under spent the Medicaid budget by \$14.8M gross using an 8 year lookback to develop trends. The underspending was the result of the type of claims received for payment, savings from better collections of drug rebates, and slightly lower ACO payments. Pharmacy payments are a little over projections. There are a number of upside pressures still to be addressed so this underspending may be somewhat offset with other increases to come.

3. The Exchange

This fall's period for reenrollment on the exchange will be 45 days, running from November 1 to December 15, which is shorter than the two-month period last year. Details on how this will unfold could be presented at a later Committee meeting. The Department could increase the reenrollment period if it becomes necessary to do so, but as of now, the plan is for the reenrollment period to be 45 days.

4. Federal Budget Update

Staff from Vermont's Congressional Delegation will present their perspectives on the status of the federal budget at the Joint Fiscal Committee meeting. With the recent short-term extension of the debt limit and related funding decisions, the leadership has cancelled the special session tentatively planned for October. We will continue to monitor the federal budget and may receive a further update at the November 2017 JFC meeting.

5. Education Funding

The process has begun within the Administration to develop the education tax rates that the Administration will include in a letter to the Legislature on December 1. Very early projections continue to show the potential for a substantial 6- to 10- cent increase with a fully funded reserve and other current law assumptions. We will know more at the November meeting. Prior to the legislative session, the Administration may make proposals, and during the session, the Legislature may take steps to reduce some or all of any increase in education tax rates in FY 2019.

6. State Employees' and Teachers' Retirement Funds

As mentioned in July, the assumed rates of return for the retirement system, which are used in actuarial calculations, were reduced from 7.9% to 7.5% for FY 2018. This lower return projection will increase the funding obligations on an annual basis in future years.

Current estimates indicate a combined additional FY 2019 General Fund need of \$7.4 million to offset the change in assumed investment returns. Of this amount, \$6.2 million is the share that will come from the State Teachers' Retirement System. There will be other changes that impact General Fund need.

7. LIHEAP

Recent congressional action indicates that the federal LIHEAP block grant is likely to be level funded. The caseload and cost of fuel for the coming heating season is currently being estimated by DCF which will impact the average benefit level. There will be a presentation at the Joint Fiscal Committee meeting on LIHEAP.

8. Studies

- a. **The Minimum Wage Study Committee** - The Committee has met twice and materials that are prepared for it can be viewed at its website:
http://www.leg.state.vt.us/jfo/min_wage_study.aspx
- b. We have begun the development work for the **Tax Increment Financing Study**. We have talked with the Lincoln Land Institute; they are working on a national study in the same general time period.

9. Joint Fiscal Office Updates

- a. Nolan Langweil has completed **an issue brief on Surplus and Risk-Based Capital for Health Insurance Companies**. As insurance premiums continue to rise locally and nationwide, lawmakers are increasingly concerned with the affordability of health insurance. This issue brief discusses the idea of surplus, why insurance companies are required to have surpluses, the concept of risk-based capital, other states' requirements, and additional considerations. It can be found at [Surplus and Risk-based Capital for Health Insurance Companies](#).
- b. **Review of JFO website**: The Joint Fiscal Office has asked the Blue House Group, who developed and manages changes to the legislative website, to look at our website to see how it might be improved or better integrated into the Legislature's site. Based on what they come up with, we hope to bring a plan for the future of the JFO website forward to the Committee by next July.