

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: November 9, 2017

Subject: November 2017 – Fiscal Officer’s Report

What follows is an update of recent developments, some of which will be on the agenda for the November 9 meeting of the Joint Fiscal Committee.

1. Status of FY 2018 Revenue Collections through October

A. General Fund revenue collections are characterized by a weakness in personal income and corporate taxes making total General Fund receipts \$3.1 million below projections. Education Fund and Transportation Fund revenues are meeting targets. The specifics are below:

The General Fund: Though the month of October, revenues are trailing projections by only \$3.1 million, or about $\frac{3}{4}$ of 1%. However, this shortfall understates the weakness in the General Fund.

1. Personal income taxes are 2.7% below targets through October. Withholding has trailed expectations and estimated taxes are not strong. The federal tax debate could lead to behavioral changes impacting calendar year income and tax payments.
2. Corporate tax receipts are also in flux and have been generally below projections. October was the month that the expected corporate refunds anticipated in FY 2017 were to be paid. Only about half of the expect amount was paid in October so the State will likely have to pay the balance over the course of the next few months.
3. Meals and rooms and sales tax receipts are on target. This is good news.
4. Estate tax revenues were up for the month but still trail the four-month projection.

The Transportation Fund: Through October, four months into the fiscal year, revenues are \$700,000 over projections, or less than 1% over forecast.

The Education Fund: Through October, the Education Fund receipts are \$900,000 or just over 1% above projections. The Lottery represents \$600,000 of that overage. Receipts from the purchase and use tax represent the other \$300,000.

2. Budget Adjustment and FY 2019 Budget

A. Budget Adjustment: The House Appropriations Committee is planning to start work on the FY 2018 Budget Adjustment from December 18 through December 21. The Administration is currently preparing materials for the Committee. Some Budget Adjustment issues not fully developed in December may be held until January. Specifically, these issues could include Blue Cross Blue Shield payments and the settlement for Dartmouth Hitchcock reimbursement.

B. Projected Budget Gap: The projected FY 2019 current services budget gap is about \$45 million. This is lower than FY 2018 and FY 2017 when the estimated gap was \$76 million and \$58 million, respectively. This year, federal uncertainty on revenues and spending creates an added risk factor.

3. Medicaid Trending

Medicaid expenditures through the first four 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 10/27/17, Vermont has underspent the Medicaid budget by \$18.1 million 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. There are a number of upside pressures still to be addressed so this underspending may be offset with other increases to come.

4. The Exchange

This fall's period for re-enrollment on the Exchange will be 45 days, running from November 1 to December 15, which is shorter than the two-month period last year. The passive renewal of the QHP population involved 19,586 households and 97.8% were successful. This exceeds last year's 91.5% success rate. Other system functionality trends are good. There will be a presentation at the Joint Fiscal Committee meeting on the first weeks of re-enrollment. Further details on how this will unfold could be presented at a later Committee meeting. The Department of Vermont Health Access could increase the re-enrollment period if it becomes necessary to do so, but as of now, the plan is for the re-enrollment period to be 45 days.

5. Federal Action Update

Marcia Howard from the Federal Funds Information for the States (FFIS) will be presenting at the Joint Fiscal Committee meeting. In addition, staff from Vermont's Congressional Delegation will present their perspectives on the status of the federal budget at the all-legislative Briefing on November 30. With the recent short-term extension of the debt limit and related funding decisions, Vermont's legislative leadership

cancelled the special session tentatively planned for October. We will continue to monitor the federal budget. As you might imagine, there is considerable uncertainty regarding federal action on the budget and on taxes.

6. Education Funding

Current law education fund tax rates are under development with the goal to have an education tax letter by December 1. Mark Perrault will give an update at the meeting on the directions this work is taking. 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. 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.

7. 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. With this change:

- The Teachers Retirement system actuarial funded ratio as of 6/30/2017 is 54.2% compared to the prior year's funded ratio of 58.3%. The actuarial contribution increase for FY 2019 will be \$16.71 million.
- The State Employees Retirement System actuarial funded ratio as of 6/30/2017 is 71.4% compared to the prior year's funded ratio of 72.9%. The actuarial contribution increase for FY 2019 is \$60,280,480 or \$10,422,428 above FY 2018. However, the State employees increase may be offset in that the payment level actually made in FY 2018 was higher than it needed to be. The State Treasurer thinks that this and other factors may allow funding for the State Employee Retirement System to be essentially level funded in FY 2019.

8. Debt Affordability Committee recommendation:

The Debt Affordability Committee met and elected to recommend no change to the current authorization amount for FY 2019. However, the Committee did indicate that for FY 2020, current data suggests a decrease of 8.7% for the next biennium. This will be revisited next fall.

9. Studies:

- a. **The Minimum Wage Study Committee** – The Committee has met four times and is in the process of developing its final report. Materials that are prepared for it can be viewed at its [website here](#).
- b. Graham Campbell has been working on the **Tax Increment Financing Study**. A draft of the report should be done in November with a reporting date of early January.

10. Joint Fiscal Office Updates

- a. Mailing of Issue Briefs: New issue briefs are now being sent to the Legislature about every two weeks as suggested by the Joint Fiscal Committee.
- b. Chainbridge: Dan Dickerson and Graham are in the process of learning to use the Chainbridge Tax Modeling System. They will be going to Morgantown, West Virginia, next week for a related training.
- c. Review of JFO website: The Joint Fiscal Office has asked the Blue House Group, who developed and manages changes to the Legislature's website, to look at our website to see how it might be improved or better integrated into the Legislature's site. This process is ongoing and we hope to have a proposal for the Committees to review during the legislative session.
- d. Legislative Departments and Joint Fiscal Office Budget: We will be presenting an overview of the Legislative Departments' and the Joint Fiscal Offices' budgets at the Joint Fiscal meeting.
 - a. The overall FY 2019 legislative budgets are about 2.7% above the FY 2018 base appropriation and .9% over FY 2018 with Pay Act. The net impact on the General Fund for FY 2019 after reversions is about \$114,000. The Legislative Branch as a whole has a budget of \$15,153,626.
 - b. The Joint Fiscal Office increase is 4.3% base to base and 1.8% with Pay Act. Our proposed budget is \$1,834,005. The two major upward pressures for our budget are pay act and related salary adjustments and a final year of transition from Deb Brighton to Chloe Wexler in providing Education property tax analysis.

FY2019 Joint Fiscal Office Budget - DRAFT

11/7/2017

	FY16 Actual	FY17 Actual	FY18 Budgeted	FY18 Estimated	FY19 Request	
SOURCES OF FUNDS						
General fund appropriation	1,621,374	1,648,880	1,757,736	1,757,736	1,834,005	4.3%
Pay Act	30,000	39,500		45,000		
Internal Service Fund reduction	(1,554)			(789)		
TOTAL SOURCES	1,649,820	1,688,380	1,757,736	1,801,947	1,834,005	1.8%
USES OF FUNDS						
Personal Services						
Salaries	857,575	903,244	960,028	976,406	1,037,691	
Temp Emp - Salary/FICA	33,901	35,561	36,990	38,344	38,457	
FICA/Medicare	62,441	70,059	73,442	74,695	79,383	
Health insurance	144,264	139,208	154,402	158,094	165,481	
Retirement	92,342	108,323	107,806	120,913	131,452	
Dental	8,602	7,454	9,386	9,635	10,463	
Life insurance	2,574	2,899	4,051	3,476	4,379	
Disability	1,984	2,223	2,208	2,246	2,387	
Employee assistance program	333	356	360	360	390	
WC and Catamount	2,376	1,932	2,069	1,595	1,595	
Contract - Kavet	124,620	126,506	152,000	152,000	152,000	
Contract - Policy Integrity	10,476	5,226	15,000	10,000	10,000	
Contract - Brighton	34,600	56,464	45,000	50,000	20,000	
Contract - Ira Sollace	3,920	-	-	-	-	
Contract - JFOBud/Vantage Interface	1,800	900	2,000	8,000	6,000	
Contract - Results First related	12,812	9,000	20,000	11,000	5,000	
Other personal services	13,641	8,400	15,000	12,500	12,500	
Subtotal Personal Services	1,408,262	1,477,755	1,599,743	1,629,264	1,677,178	
Operating Expenses						
Hardware & Software	9,875	2,892	47,000	45,000	45,000	
Office Supplies and Equipment	1,399	1,480	3,000	3,000	3,000	
Fee for space	42,049	42,899	47,859	47,859	47,859	
Advertising	1,127	3,542	2,000	2,000	2,000	
Printing & copying	1,128	1,253	1,500	1,500	1,500	
Dues & subscriptions	20,376	12,661	16,000	16,000	16,000	
Registrations	2,819	2,610	4,000	4,000	4,000	
Insurances	2,243	2,349	2,398	2,398	2,398	
In state travel expenses	2,102	1,149	2,500	2,500	2,500	
Out of state travel expenses & training	15,110	10,455	16,000	18,000	16,000	
Accounting (audit/VISION)	12,075	11,386	11,885	11,570	11,570	
Other payments, adjustments	3,974	5,760	4,500	4,500	5,000	
Subtotal Operating Expenses	114,278	98,437	158,642	158,327	156,827	
TOTAL USES	1,522,540	1,576,192	1,758,385	1,787,591	1,834,005	
OPERATING BALANCE	127,280	112,188	(649)	14,356	0	
ONE-TIME ACTIVITIES						
Carry forward	108,124	246,847	47,806	158,831	101,187	
Carry forward reversion	(19,623)	(50,000)			(30,000)	
Rescission				(12,000)		
CRG- Funding	18,700	12,500				
CRG- Expenses	(5,000)	(12,500)				
Picus- Funding	291,475					
Picus- Expenses	(240,000)	(51,475)				
Chainbridge	(34,109)	(34,109)			(10,000)	
10-yr Tax Study		(41,637)				
Transfer from Legislature (minimum wage)				20,000		
Blue House Group (JFO website)				(13,000)	(45,000)	
Ad Hoc IT				(5,000)	(5,000)	
Brighton replacement		(22,983)	(50,000)	(62,000)	(10,000)	
NET BALANCE	246,847	158,831	(2,843)	101,187	1,187	

Legislative Branch FY19 Budget Request - DRAFT

Joint Fiscal Office

7-Nov-17

	A	B	C	D	E	F	G	H	I	J
	FY18 Appropriation	FY18 Adjustments (Pay Act, ISFs)	FY18 Appropriation (Adj.) (A + B)	FY19 Appropriation (proposed)	Base-to-Base \$ Increase (D - A)	Base-to-Base % Increase	\$ Increase w/ Adj. (D - C)	% increase w/ Adj.	FY19 Reversion (Proposed)	Net FY19 GF Impact (D - (A + I))
Legislative Branch	\$ 14,759,874	\$ 252,608	\$ 15,012,482	\$ 15,153,626	\$ 393,752	2.7%	\$ 141,144	0.9%	\$ 280,000	\$ 113,752
Legislature	7,581,882	84,508	7,666,390	7,700,916	119,034	1.6%	34,526	0.5%	175,000	(55,966)
Legislative Council	4,678,911	101,906	4,780,817	4,812,877	133,966	2.9%	32,060	0.7%	75,000	58,966
Sergeant at Arms	741,345	21,983	763,328	805,828	64,483	8.7%	42,500	5.6%	-	64,483
Joint Fiscal Office	1,757,736	44,211	1,801,947	1,834,005	76,269	4.3%	32,058	1.8%	30,000	46,269