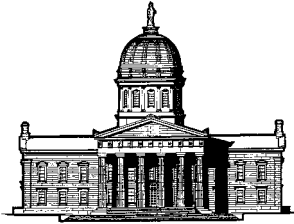


The Fiscal Focus

An Update for Vermont Legislators

Vol. 6, No. 1

July 2000



REVENUE UPDATE

The preliminary report of June revenue collections indicates that general fund receipts for fiscal year 2000 total \$885.7 million. This compares to \$830.3 million in fiscal year 1999 for a year to year growth rate of 6.7%. Fiscal year 2000 collections exceeded the official January Emergency Board forecast of \$848.1 million by \$37.6 million or 4.4%. Sales & Use tax and Rooms & Meals tax collections grew at healthy rates of 5.2% and 5.7%, respectively. However, the single element that accounts for most of the surplus (\$30.2 million) is the personal income tax, up an astonishing 12.7% over fiscal year 1999.

The transportation fund finished fiscal year 2000 with collections of \$181.2 million, up 7.2% compared to fiscal year 1999. Actual collections exceeded the official January forecast by \$2.3 million or 1.3%. The strongest component again this year was the Purchase & Use tax with a growth rate of 8.6%.

The education fund collected \$89.7 million compared to a January forecast of \$88.0 million. The greatest growth occurred in the Telecommunications Sales tax at 14.9% over fiscal year 1999.

On July 14th the Emergency Board convened and received testimony from the Administration's economist, Jeff Carr, and from the Joint Fiscal Office economist, Tom Kavet. The E-Board adopted

(Continued on page 3)

BUDGET UPDATE

All "contingent on revenue" appropriations included in the budget bill will be covered by the additional revenue. After required transfers, it is estimated that \$26 million will be available for future state share obligations to finance school construction. \$10 million will be applied to capital appropriations lowering the amount of debt to be issued this fall, thereby reducing budget pressure in the future from debt service.

Even after these expenditures, fiscal year 2001 surplus reserves are projected to be about \$28 million. The legislature will address the allocation of this surplus in the upcoming session. This reserve provides a cushion in the event of federal tax changes and other budget related pressures. For future years the sustainability of this surplus remains an area of uncertainty. Federal tax changes, the prospect of an economic downturn in fiscal year 2002 and the rapidly growing costs of health care (discussed on page 3), all will impact this sustainable revenue surplus. Once Congressional budget and tax actions are known, an out year picture will be easier to develop.

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Dear Legislator:

This is the first 2000 issue of THE FISCAL FOCUS. It is intended as a non-partisan update prepared by fiscal office staff to keep legislators informed. As your staff, we believe that it is important for a citizen legislature to be kept abreast of local, state, and federal financial developments while the General Assembly is adjourned. Our intention is to publish a second issue in the fall and a third issue just prior to the start of the new year.

It is important for us to understand what topics interest you so that we can incorporate them into future issues. If you have any comments or suggestions please let us know.

Joint Fiscal Staff

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FEDERAL FUNDS OUTLOOK – SSBG OF CONCERN

We still do not know the outcome of the federal budget deliberations. The largest area of risk is in the Social Services Block grant program. In Congress both the House and Senate Appropriations have approved Labor-HHS Appropriations bills. This bill is currently in committee of conference. The Senate version would reduce SSBG to \$600 million from the present level of \$1.7 billion. The House version would fund SSBG at \$1.7 billion. In both versions the ability of a state to transfer TANF funds to Title XX would be reduced from 10% to 4.25%. While a reduction in the TANF transfer percentage will reduce flexibility and require re-allocation of federal dollars, a reduction in SSBG to the Senate level would translate to a \$2.8 million cut to Vermont.

Vermont uses 80% of the SSBG for programs for abused and neglected children, the remaining funds are used to provide legal and community based services to low-income, disabled and mentally ill Vermonters. The Joint Fiscal Committee has written to Vermont's congressional delegation to express their concerns over the proposed level of SSBG funding. The Agency of Human Services have been communicating their concern. Also working to oppose these cuts are NCSL and the American Public Human Services Association.

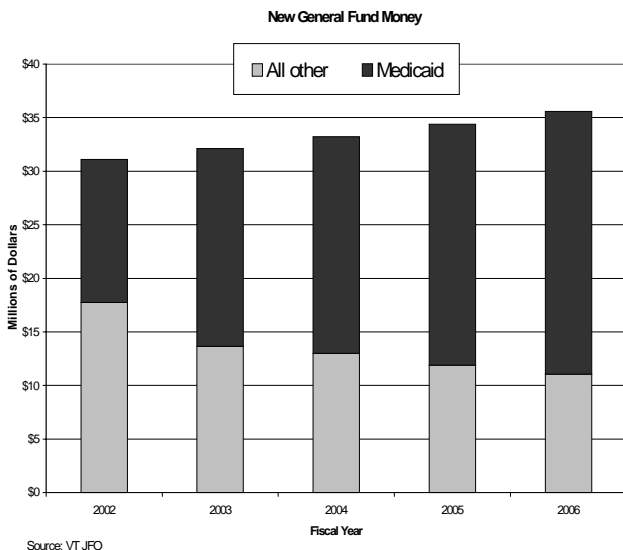
OFFICE NEWS

As many of you are aware, Steve Kappel has joined our office. Steve brings extensive experience and knowledge in the area of health care finance and policy. Prior to coming to JFO, Steve was executive director of the Vermont Program for Quality in Health Care. He has also worked for the Division of Health Care Administration, the Vermont Dept. of Health and BC/BS of Vermont.

MEDICAID OUT YEAR FUNDING IS PROBLEMATIC

For the past several years, increases in Medicaid spending have been partially offset by the use of dedicated funds, such as the tobacco tax, tobacco settlement, and provider tax revenues. In the immediate future, Medicaid expenditures are likely to consume an increasing share of the general fund, substantially reducing the amount available for other new spending including inflation.

Going forward, Vermont faces two related financial issues. The first is that, based on projections from HCFA, Medicaid expenditures will grow about 8% per year for the next five years, lower than historical rates, but much greater than the general fund rate. The second is that the amount of funding available from dedicated funds (50% of which are tobacco related) is likely to grow only slightly. The end result is Medicaid requiring an increased amount of new general fund support. The chart shows that after Medicaid expenditures, the general fund



amount available to support annual budget growth is significantly less by fiscal year 2006.

REVENUES *(continued from page 1)*

a fiscal year 2001 general fund forecast of \$886.0 million. This new forecast represents an increase of \$35.0 million compared to the forecast adopted six months ago. The new transportation fund forecast for fiscal year 2001 is \$191.7 million, a \$6.7 million

increase over the January forecast. The education

fund forecast for fiscal year 2001 is \$91.3 million which is a \$700,000 increase over the January forecast.

All estimates are in accordance with current law and assume no change at the federal level. Legislation pending in congress that could alter the structure of the personal income tax or even phase out the estate tax would have a negative impact on Vermont State tax collections. JFO monitors developments in Washington and will prepare a statement of revenue impact if there is a change in federal law.

EDUCATION FUND UPDATE

Based on preliminary fiscal year 2000 closeout, the education fund moves into fiscal year 2001 in solid financial shape. The key factor in this change was a lower cost of income sensitivity payments a.k.a. prebates. Other offsetting changes included a slight increase in education fund revenues and reduced lottery proceeds due to the acquisition of new equipment.

In the final days of the session there was some concern that paying for income sensitivity would cost more than the \$66.4 million appropriated. While all the returns have yet to be processed due to extensions and other factors, current projections indicate a fiscal year 2000 cost of less than \$62 million.

This savings should impact future years as well. Property taxes that support education include the statewide tax rate and the local share portion. The savings from the statewide property tax portion of income sensitivity will result in more money available in the education fund. While the savings from the local share portion of income sensitivity will be used to provide a higher fiscal year 2002 yield currently projected to be \$40.

Fiscal year 2000 was the first year of implementation for the true-up process. As you are probably aware, the income sensitivity filing led to some confusion. However the experiences of this year should prove useful in developing estimates and processes for next year.

Joint Fiscal Committee

On July 14th in addition to other items covered in this newsletter, the Joint Fiscal Committee took the following actions:

- Accepted the Banking, Insurance, Securities, and Health Care Administration fiscal year 2000 transfer to the General Fund of \$4.28 million, \$1.68 million more than budgeted for fiscal year 2000.
- Approved a contract renewal between the Joint Fiscal Office and Tom Kavet for continued provision of economic forecasting and consulting work. The renewed contract has a term of two years.
- Received an update on the proposed yield and the cost of income sensitivity.
- Issued a letter of concern to VT Congressional delegation regarding SSBG as described on page 2.