Key Fiscal Issues - Overview

2011 Legislative Session

- Other states’ issues are consistent with Vermont’s key issues

- With the revenue revision our starting budget gap is projected at $111 million. This is still a huge financial issue.

- How we address FY 2012 in the budget, health care, education finance, tax policy and elsewhere is critical to FY 2013 and beyond.
Other States: Top Fiscal Issues for 2011 Sessions

Number of States

- Budget: 31
- Health Care/Medicaid: 18
- Education: 13
- Taxes/Revenues: 12
- Pensions/Retirement: 8

Source: NCSL survey of state legislative fiscal offices, November 2010.
Solving the Budget Gap and Sustainability

- The GF revenue forecast is up $27 million in FY 2011. This can be held to meet FY 2012 budget needs.

- The FY 2012 projection is up $10 million

- With these new revenues counted, the FY 2012 gap is about $111. With challenges still uncertain it could be higher... either way it is still huge.

- However the reliance on money carried forward or other one time resources is not a long term solution and could result in the deficit moving forward to FY 2013
FY12 Gap may be impacted by $25m of non-ed Challenge savings yet to be determined
FY13-15 assumes 3.5% spending growth rate
Only ongoing gap solution reduce outyear deficits
The Education Fund and the Decreasing Grand List

- In the next few years Vermont will see decreasing grand lists

- From FY 2012 to FY 2013:
  - the Education grand list will decline 2.6%
  - At a fixed tax rate over $38 million less will be collected in the education fund from property taxes

- As the grand list falls tax rate increases may not reflect additional tax obligations by taxpayers.
The Education Fund, Continued..

- With the impact of grand list changes, keeping the Education Fund in balance will require some combination of:
  - increased tax rates,
  - more state assistance or
  - Additional education spending declines

- For example, assuming an $.87 and $1.36 tax rate for FY 2012, in FY 2013 tax rates will have to be $.02-$04 more than FY 2012 to keep a 5% fund reserve.

- The funding need will be higher if the projected $23.2 million reduction target is not achieved by 2013
Education Fund and State Funding

The State is to increase its funding of the Education Fund in FY 2012

- $38 million due to reduction in ARRA funding
- $18 million funding promise
- $6.8 million replacement ongoing Special Medicaid revenue
- $4.2m in fund growth
- $67 million total
Medicaid

- Vermont’s health care finance system contains an underlying revenue/spending imbalance: Revenue growth trails expenditure growth by $17 - $25 million a year.

- State Health Care costs grow at 6% a year. Federal changes can also raise or lower state share of obligations. Non-GF state sources grew at an average rate of 2.3% The general fund growth has been limited.

- In SFY 2011: State Medicaid/Catamount spending is projected at approx. $1.4 billion. Of this, approximately $450 million are state/ARRA funds.
SFY 11 State Funding Shares: Medicaid/Catamount

Medicaid Funding Source - State Share

- ARRA Funds 20%
- General Funds 32%
- Provider Taxes 18%
- Tobacco, Settlement, & Cigarettes 18%
- Beneficiary Premiums 3%
- Other 9%
Medicaid Issues For FY 2012

- $21 is state GF need to cover $50m gross growth in Global Commitment
- $11 is change in Federal Medicaid Match Rate (FMAP)
- $1.6 is Long Term Care Growth
- $33.6 Million ...Total
Health Reform

- Vermont has a long history of health reform with the goal of access, quality and cost containment
  - Recent efforts include Catamount Health, Blueprint for Health, Health Information technology, etc.

- Act 128 of 2010 will propose three system design options for the legislature to consider.
  - Single-payer, public-option, and third to be determined by consultant
  - Legislature hired Dr. William Hsiao of Harvard university
  - Draft report will be released January 19, 2011.

- State must also move forward with planning and implementing aspects of the Affordable Care Act.
  - Such as planning for a health insurance exchange
  - While some of the pieces have already gone into effect, many of the major initiative will go into effect starting January 1, 2014.
Taxes and Revenues

- Review Blue Ribbon Tax Structure Commission Recommendations:
  - Individual Income Tax – should Vermont restructure the tax and move to AGI? If so, does Vermont eliminate deductions and exemptions in favor of lower marginal rates?
  - Sales Tax – should Vermont broaden the tax base to most consumer expenditures and lower the rate?
  - Tax Expenditures – should there be a systematic review of all tax expenditures?
  - Should Vermont develop a tax incidence model

- Other issues includes changes in taxation related to Vermont Yankee, any fee changes or tax adjustments due to federal tax changes
In the past year’s there have been several system improvements but more is needed. Required pension contributions from the State are expected to increase at 4-5% annually.

The state teachers and state employees pension funds have an FY 2010 funded ratio of 66.5% and 81.2% respectively. Both ratios are slightly better than FY 2009 ratios (65.4% and 78.9%).

In the teachers’ retirement system, the State’s share of retiree health insurance (Approx. $20 million) is paid from retirement contributions lessening actual state contributions to retirement fund and creating possible IRS issues.

GASB 45 (OPEB - Other Post Employment Benefits) To move to an actuarial funding of retiree health care costs:
- Teachers retirement would need an additional $28.2M a year
- State employees retirement would need an additional $18.1M a year