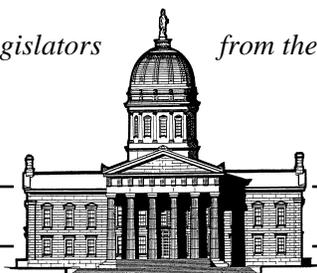

The Fiscal Focus

An update for Vermont Legislators

from the Joint Fiscal Office



October 2009

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Revenue Update

Three months into FY 2010, revenues are consistent with the current forecasts adopted by the Emergency Board in July 2009.

General Fund

For the first quarter, the General Fund has seen strength in corporate, rooms and meals, and estate tax receipts. Personnel income tax and sales and use tax are on target with expectations set in July. Vermont received \$2.5 million in estate tax payments which is about \$1 million over expectations. Overall, first quarter General Fund revenues are up \$6.1 million or just 2% over the first quarter targets.

Transportation Fund

The Transportation Fund is \$2 million or 3% over forecasts. Purchase and use has been strong but this likely is related to the cash for clunker sales and may be a temporary phenomenon. Gas and diesel revenues are just ahead of estimates. Estimates do not include the revenues related to the transportation infrastructure bond fund (TIB). Act 50 (the Transportation Bill) created the special TIB account within the Transportation Fund, and the 2% assessment on the retail price of gasoline and \$0.03 per gallon assessment on diesel are placed in this fund.

Education Fund

The Education Fund is on target.

The next revenue forecast will be presented to the Emergency Board in a meeting for Nov. 12, 2009.

ARRA Update

To date, the State of Vermont has received nearly \$140 million in formula-based cash; most of the cash is associated with Medicaid (enhanced FMAP) and transportation. This total does not include ARRA funds that bypass state government and go directly to individual Vermonters or other Vermont entities based on competitive grants. Overall, the state has been allocated \$1.3 billion to date.

Building on the success of the August ARRA conference call, another conference call is scheduled for all legislators to be briefed on various ARRA activities by Tom Evslin, Chief of the Office of Economic Stimulus and Recovery (ESR). Details of the call are as follows:

When: Thursday, Oct. 15, 2009 at Noon to 1 pm

Phone: 1-877-278-8686 PIN: 143-409

Please submit questions in advance to:

Joan.Stewart@state.vt.us

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Dear Vermont Legislator,

*This is the second 2009 issue of **THE FISCAL FOCUS**. This is a nonpartisan update prepared by the Joint Fiscal Office staff to keep legislators informed of events during the off-season. As your staff, we believe it is important for a citizen legislature to be kept abreast of local, state, and federal financial developments while the General Assembly is adjourned. This update is sent to all House and Senate members.*

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

Joint Fiscal Office staff

Exec. Budget Instructions

On Friday Oct. 2, the Secretary of Administration released budget instructions for FY 2011. The instructions require the departments and agencies to submit initial FY 2011 budget proposals that reflect a 8% reduction from FY 2010 as adjusted by the savings targets in the budget and the rescission plan approved in August.

Within this -8% target, departments are expected to absorb inflationary expenses including pay act impacts. The instructions ask the departments to itemize the restructuring, elimination and reductions in programs, services, staffing, activities, etc. necessary to meet the FY 2011 targets. The agencies are asked to identify the associated changes in statute, session law or rule that will be required for any proposed changes. The responses to the FY2011 budget target of -8% are due by Oct. 19, and final budget submissions are due by Dec. 14.

The budget adjustment requests are also due by Oct. 19 and should include changes that can be initiated in FY2010 to help meet the FY2011 targets.

LIHEAP Update

LIHEAP (Low Income Home Energy Assistance Program) is a federal funded program that provides a benefit to income-eligible clients to assist with their heating costs. Last heating season, a record number of households, 26,313, received help from the LIHEAP program.

Last heating season, the LIHEAP program spent \$32,304,441, and the average full season benefit was \$1,718. According to the Vermont Fuel Report issued by the Department of Public Service, the average price of heating oil for the five-month period November through March was \$2.70 per gallon. Last season was the first year that the program required participating fuel dealers to offer a discount to clients, which was 3%, making the effective cost of the oil \$2.62 per gallon. Therefore, the full season benefit purchased approximately 655 gallons of home heating oil per household. A formula was developed several years ago by the Department of Public Service that set average winter fuel oil consumption at 764 gallons. Based on full season benefit of \$1,718, the average price of heating oil with the 3% discount, and the average number of gallons needed to heat a home, the average client had 86% of winter home heat paid by the LIHEAP program. The average benefit level was set prior to the decline in oil prices. For context, the benefit covered 56% in FY08 and 71% in FY07. The target level is 60%.

This year, the Administration has approved a five cent per gallon discount applicable only to the LIHEAP-funded portion of a beneficiaries heating bill.

Although it is not certain how much will be appropriated by the Federal Government for this season's heating program, recent news reports look encouraging. The House Appropriation's Committee passed a \$25.6 million block grant for Vermont, the same level as last heating season. The missing piece are the contingency funds. Last heating season Vermont received \$13 million on top of the regular grant.

Federal Health Care Reform Update

Federal health care reform continues to take center stage on Capitol Hill, the final outcome of which could have either positive or negative fiscal implications for Vermont. To date, there are three major proposals:

The Senate HELP Committee Bill. The Senate Health, Education, Labor and Pension (HELP) Committee, which was chaired by Senator Dodd in Senator Kennedy's absence, passed this bill out of committee 6/9/2009.

The House "Tri-Committee" Bill. Also known as H.R. 3200, there are three House committees that have jurisdiction over this legislation – Ways & Means, Energy & Commerce, and Education & Labor. While it has made it through all of the committees of jurisdiction, it has yet to reach the House floor.

The Senate Finance Committee Bill. As of Oct. 8th, this bill has yet to pass out of committee. When it does, it will either go to a conference committee between the Senate HELP and Finance Committees, or it will go straight to the Senate floor.

While significant attention has been focused on the debate between the "public option" and the "co-op" approach, the bills propose many other significant reforms and have many conceptual similarities. For instance, all of the bills:

- ✦ Institute an "individual mandate" requiring everyone to have health insurance the same way everyone is required to have auto insurance, with some exceptions
- ✦ Grandfather current coverage for individuals
- ✦ Have some form of affordability credits and/or individual subsidies

- ✦ Have some form of Health Insurance Exchange to assist the uninsured in obtaining insurance
- ✦ Expand Medicaid eligibility levels to groups not previously covered

While many of the proposed reforms are similar conceptually, variation exists in timing and methods of implementation, and the amount of federal assistance to be provided to states.

The full impacts, particularly the fiscal implications, for Vermont are yet to be determined. Much will depend on changes and/or expansion in Medicaid eligibility, increased enrollment of those currently eligible but not enrolled as a result of an insurance mandate, the level of federal participation in covering the newly eligible and enrolled, maintenance of eligibility provisions, additional pharmaceutical rebates, and how the exchanges work in conjunction with existing state programs, and other issues.

While the Congressional Budget Office has released some preliminary estimates concerning costs and enrollments, the numbers are still fluid and uncertain at this time. The legislation is very likely to change continually as it works its way through the conference committee.

The Joint Fiscal Office and Legislative Council have been in continuous contact with congressional staff and will continue to monitor the legislation closely. Discussion documents on the federal proposal are available in the JFO website www.leg.state.vt.us/jfo/Healthcare.htm. Joint Fiscal Office staff will also be working with the Office of Vermont Health Access to estimate the fiscal impacts, particularly to the Medicaid program.

NCSL is also a great resource for information on federal health care reform, go to <http://www.ncsl.org/> and click on the America's Healthy Future Act 2009 link.

Joint Fiscal Committee Actions

August 18, 2009 Meeting

- The Committee heard from the Administration on questions posed on August 5th regarding the Administration's Proposed FY 2010 Reduction Plan.
- The plan was approved and the committee took the following actions relating to the plan:
 - Created a subcommittee of four JFC and two Health Access Oversight Committee members to review the Choice for Care program until the legislature is back in session.
 - The Committee approved two motions regarding the personnel savings target of \$7.4 million in FY 2010. The first was a request that the Administration report to the Committee on how the plan would meet the requirements of 32 V.S.A. Section 704(d). The second was a statement of committee intent that if agreement between the Administration and the union was not reached, savings would be sought through attrition, and vacancies and reductions-in-force would only be a last resort action. As a matter of equity, no bargaining units would be held harmless from the savings plan.

New JFC Member: The Committee had a change in membership. On August 5, 2009, Representative Westman was thanked for his years of service and wished good luck in his new post as Commissioner of Taxes. Representative Hube was welcomed as the new member of the Committee.

September 10, 2009 Meeting

- Received a report from the administration on the Revenue Shortfall Reserve Fund; Human Resources Caseload Reserve Transfers; FY 2010 Budget Adjustment Pressures; FY 2011 Budget Development Process; and Status Closeout of Education, General, and Transportation Funds.
- Approved Child Care Eligibility and Rates Rule proposal from the Department for Children & Families with inclusion of one and three of the House Human Services Committee recommendations.
- Approved two Medicaid Waiver extension proposals, Global Commitment and Choices for Care (long-term care).
- Received updates on the Chittenden County Unified Substance Abuse Treatment Pilot Program and the financing of a new wing at the Rutland Regional Medical Center (RRMC) for Vermont State Hospital overcrowding issues.
- Approved a Burlington Tax Increment Financing Business Plan with amendments.
- Dates of next Committee meetings were set for a Special Joint Meeting with Mental Health Oversight Committee on Oct. 28 at 1:00 p.m. to receive the RRMC report; and a regularly scheduled meeting on Nov. 12th to receive the revenue forecast.

Government Accountability Committee Update

The Joint Legislative Government Accountability Committee (JLGAC) is exploring ways to rethink how the state delivers some services with the help of the Public Strategies Group (PSG). The PSG has considerable experience consulting on results-based government and government services generally. The Accountability Committee has formed a Steering Team to work with PSG to coordinate this exploration over the next three months. That team involves three legislator/members of the committee: Donna Sweaney, Diane Snelling, and Michael Obuchowski, along with the secretary of administration and the commissioner of finance and management. The contract with PSG will run through the end of the year and will include work on long-term results as well as a focus on helping to find savings in FY2011 and FY 2012.

ARRA Update Continued

(Continued from page 1)

Jobs Created: Among the topics will be a discussion of the reported number of jobs created and retained by ARRA money flowing through the State of Vermont. Because of federal reporting rules specifying only jobs created at the initial grant level (i.e., not considering jobs created/retained at subsequent levels as the funds flow or multiplier impacts) this total will be well below the actual number of jobs created and/or retained. ESR is aware of this issue and will discuss the full ARRA impact during the Oct. 15th conference call.

Recovery Bonds: ARRA created a new category of bonds called Recovery Zone Bonds to provide a lower cost mechanism for borrowing on economic development and public facilities projects. These bonds may only be issued until Dec. 31, 2010. ARRA specified that the allocation be made to counties. However, in Vermont, the counties do not have the authority to issue the debt. The Treasurer and ESR are working with side judges to ensure that the \$135 million of bonding authority for economic development projects and the \$90 million of bonding for municipal projects can be used statewide. This effort is moving as quickly as possible given the short time frame in which such bonds may be issued. An Emergency Board meeting on this topic is scheduled for Oct. 14 at 12:15, and the JFC will be required to act to implement a plan that allows these bonds to be utilized effectively in Vermont.

Other ARRA: Smart Grid and Broadband applications were submitted on time and are under review at the federal level.

Notes from ESR's biweekly update to Representative Ancel and Senator Kitchel are available at: www.leg.state.vt.us/jfo/ARRA%202009.htm.

ARRA information is always available from ESR's website: www.recovery.vermont.gov.

Miscellaneous Updates

Current Use: Sec. 81 of Act 54 established a goal of saving \$1.6 million in the Current Use program in FY2011. Multiple strategies for achieving this goal with recommendations will be discussed by the JFC at its Nov. 12th meeting. Prior to the JFC meeting, a public meeting will be held on Nov. 4th at 1:30.

Tax Commission: The Blue Ribbon Tax Structure Commission has held three meetings since the members were appointed in August. The Commissioners are William Schubart-Chair, Kathy Hoyt-Vice Chair, and William Sayre. The Commission is charged with recommending whether Vermont should change from a personal income tax based on federal taxable income or federal adjusted gross income by January 2010. Four additional meetings have been scheduled this fall on Oct. 20th, Nov. 3rd and 17th, and Dec. 8th. Work will continue for an additional year when it considers options for reforming Vermont's tax system. Additional information is available at <http://www.leg.state.vt.us/jfo/Tax%20Commission.htm>.

Vermont State Hospital Alternatives - Rutland
Act 43 (the Capital Bill) directed the Treasurer and JFO to report on the feasibility of financing a new psychiatric wing at Rutland Regional Medical Center in a manner that would not place additional debt burden on the State or RRMC. Two consultants were utilized to research the feasibility of such a financing arrangement. The conclusion we reached is that such a financing arrangement is feasible and should continue to be pursued. However, we do not believe that a financing arrangement of this type could be executed today given current financial market conditions, the uncertainty created by Federal health care reform legislation, and several business considerations and risk factors that have been identified by the financial community. The report is at www.leg.state.vt.us/jfo/RRMC%20Report%2009-2009.pdf. A joint meeting of the Mental Health Oversight Committee and the JFC is scheduled for Oct. 28, 2009.

JOINT FISCAL OFFICE STAFF

CHIEF FISCAL OFFICER

Stephen Klein sklein@leg.state.vt.us

ASSOCIATE FISCAL OFFICERS

Stephanie Barrett sbarrett@leg.state.vt.us
Maria Belliveau mbelliveau@leg.state.vt.us
Catherine Benham cbenham@leg.state.vt.us

FISCAL ANALYSTS

Nolan Langweil nlangweil@leg.state.vt.us
Nathan Lavery nlavery@leg.state.vt.us
Mark Perrault mperrault@leg.state.vt.us
Neil Schickner nschickner@leg.state.vt.us
Sara Teachout steachout@leg.state.vt.us

OPERATIONS AND SYSTEMS

Rebecca Buck rbuck@leg.state.vt.us
Jeremy Fonte jfonte@leg.state.vt.us
Richard Reed rreed@leg.state.vt.us
Theresa Utton-Jerman tutton@leg.state.vt.us

Legislative Joint Fiscal Office

One Baldwin Street, Montpelier, VT 05633-5701
Tel: (802) 828 - 2295 Fax: (802) - 828-2483
Website: www.leg.state.vt.us/jfo

Capital Debt Affordability

The Capital Debt Affordability Advisory Committee (CDAAC) has recommended an increase to the annual debt limit of \$1,830,000. For FY 2011, the State could authorize new long-term, tax-supported, general obligation debt in an amount not to exceed \$71,825,000, which is up from \$69,995,000 in FY 2010. The amount of the FY 2010 limit allocated to transportation debt was \$10,000,000; the allocations for FY 2011 has yet to be determined.

The CDAAC believes that the recommendation for FY 2011 is consistent with a policy of providing important capital contributions to the State's physical infrastructure requirements within a framework of acceptable debt affordability. The recommendation would constitute nearly a 60% increase in annual bonding levels over five fiscal years and would fall within the state's debt guidelines, which are benchmarked to other Triple-A rated states. All general obligation debt is retired over a 20-year period, while the transportation debt is retired over a 10-year period. The report is available at www.vermonttreasurer.gov.



Legislative Joint Fiscal Office

1 Baldwin Street
Montpelier, VT 05633-5701