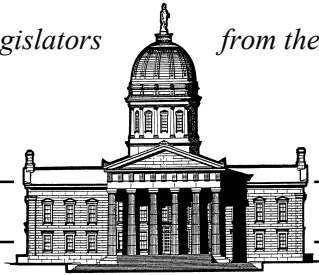

The Fiscal Focus

An update for Vermont Legislators

from the Joint Fiscal Office



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Revenue Update

The first five months of revenues are tracking well with the targets set for all three funds for FY 2012. These collections indicate that the January revisions to the revenue forecasts for all three funds will likely be modest adjustments.

The General Fund is \$12.1 million ahead of the cumulative targets with a majority of the additional revenue from the corporate income tax, which is \$10.2 million above targets. It is anticipated that much of this could be returned to corporations through refunds in the coming months. The remaining amount is from the personal income tax and the meals and rooms tax which are \$2.5 million and \$2.2 million, respectively above the cumulative forecast. Some of the overage is offset by lower than expected revenues in property transfer tax and other revenues. In combination, this puts the revenues 2.6% above the quarterly targets.

The Transportation Fund is \$1.5 million ahead of the quarterly targets, or 1.7% over the four-month forecast. One million of the amount over forecast is from additional DMV fees, with the remaining portion from the diesel tax and other categories.

The Education Fund is essentially on track. The

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JFC Actions

The Joint Fiscal Committee welcomed Rep. David Sharp, who was appointed to replace Mark Larson.

In addition to the Medicaid, Education, Retirement, and Health Insurance Exchange updates discussed elsewhere, on Nov. 8, the JFC:

- Reviewed the budget building process—current analysis points to a FY 2013 gap of \$75 million to be addressed by the administration in the budget development process
- Reviewed the Tax department computer modernization efforts
- Heard an update on LIHEAP funding
- Heard a report of proposed distribution of Justice Reinvestment Funds. ❖

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Results First Pilot

The Speaker, President Pro Tempore, and House and Senate Appropriations Committee chairs and the Government Accountability Committee have agreed to pilot a statistical tool designed to help states assess public policy options.

Results First is an effort by the Pew Center on the States to partner with states to implement a rigorous cost-benefit model for evaluating specified policy choices. The model's foundation is the aggregation of high-quality, evidence-based research in various public policy areas. The model is customized for each state by incorporating state-specific population and fiscal data. The model assists policy makers by estimating state-specific return on investment for certain policies options. Members will be able to evaluate the best mix of policies to achieve objectives at the lowest cost and highest benefit to the state.

Pew is providing the model (initially developed by the Washington State Institute on Public Policy) and technical assistance at no cost to the state. JFO will be contracting to load the model with Vermont-specific data. The initial 18-month pilot will begin in February and will focus on criminal justice policy. Vermont will be one of 11 states working with the model.

Pew Center Director, Gary VanLandingham has presented the model to several members and staff. Further presentations are likely to be scheduled during the legislative session. To learn more about Results First, please visit: http://www.pewcenteronthestates.org/initiatives_detail.aspx?initiativeID=61282. ❖

Dear Vermont Legislator,

This is the third 2011 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.

It is important for us to hear what topics interest you for future issues. If you have any comments or suggestions, please let us know.

Joint Fiscal Office

FY13 Education Tax Rates

On December 1st, the Commissioner of Taxes announced the recommended adjustment to education tax rates for FY2013 as required by statute.

Under the consensus outlook prepared by the Administration and JFO, both the homestead and the non-homestead tax rates would increase by 2 cents in FY2013, to \$0.89 and \$1.38, respectively. However, an alternative scenario proposed by the Administration would leave the rates unchanged in FY2013.

The consensus scenario, based on current law, assumes statewide education spending will grow by 1.7%, and that the base education amount will increase to \$8,891. The Administration's alternate proposal assumes spending is flat and a base education amount of \$8,723, making it unnecessary to raise the rates. A spreadsheet comparing both scenarios is available at <http://www.leg.state.vt.us/jfo/education.aspx>. ❖

FY13 Retirement Obligations

In fiscal year 2011, investment returns for the combined pension funds were 20.9%. While this helped the funds bounce back from the impact of the market downturn, some of the positive impacts were offset by changes in the assumptions that are used in calculating long-term funding needs.

Key among the changes was a reduction in the assumed annual return of the funds. Previously the assumed annual rate of interest earned on investment funds was 8.25% a year. For the state employees' fund, it is now at 8.1% and for the state teachers' fund, it is at 7.9%. In addition, changes were made based on changing demographics of the covered populations.

Vermont State Employees Retirement System (VSERS)

At the close of FY 2011, the state employee system is funded at 79.6%. State employee contributions were raised by an additional 1.3% for all plan members in FY 2011, and that is projected to raise an additional \$5.3 million in employee contributions, reducing the growth in employer contributions accordingly. Even with that change, the FY 2013 actuary recommended contribution (ARC) is \$37,081,933 as compared with \$31,287,864 in FY 2012 — an increase of 18.5% year over year. In the state budget, this contribution is made by the funds appropriated to the departments for personnel costs and is funded by a mix of state and federal funding sources.

Vermont State Teachers Retirement System (VSERS)

The state teachers fund, using revised assumptions was funded at 63.8% at the close of FY 2011. Again, this funding level is due to changes in investment earning assumptions and actual retirement experience. It is also due to the method of funding retiree health care which is undergoing change. Prior to FY 2012, the payment for retiree health care costs came completely from the retirement contribution which effectively reduced the amount that was available to fund the system. The legislature began the process of adding funds to pay for the health care obligation separately in the FY 2012 budget. Other issues of note in the teachers' system in FY 2011 include:

- Retirements increased. In all there are 860 more retirees and beneficiaries than last year
- Teachers' absolute numbers are declining: The number of active teachers as of June 30th of each year reached a high of 10,799 in 2009, declining to 10,123 in 2011

Sustained continuation of this dynamic will have near and long-term funding implications

The FY 2013 recommended contribution is \$60,182,755 as compared to \$51,242,932 in FY 2012 , an increase of 17.5% year over year.

Long-term funding for state employees' & teachers' retiree health care costs remains a major cost pressure for the state. ❖

FY12 Budget Adjustment

On Dec. 12, the Commissioner of Finance submitted the Administration proposal for adjustment to the FY 2012 budget. While it appears that the Administration's proposed Budget Adjustment Act (BAA) has a \$44.4 million increase, eliminating duplicative appropriations means it is actually up \$19.9 million across all funds. When the impact of Irene is factored out of these appropriations, the budget adjustment is essentially level for total unduplicated appropriations.

Irene-related: \$25 million in transfers and appropriations

- Backfilling the \$5.8m transferred by the emergency board in September to the Emergency Relief and Assistance Fund (ERAF)
- Transferring an additional \$15 million to the ERAF for ongoing expenses
- Covering the Waterbury impact on the fee-for-space fund of \$3 million
- Funding Vermont National and Air Guard disaster supplies and equipment at \$700k
- Funding the Petroleum Clean-Up fund for oil spills related to Irene at \$1.75 million
- Shifting VT State Hospital (VSH) funding to flow through the Global Commitment (GC) since most of the interim settings for serving these patients will allow the match
- Creating 21 new AOT positions related to Irene for federal reporting and local assistance

Other Significant Budget Adjustments (in order of budget)

- \$1 million reduction in the cost of the homeowner rebate and \$300k increase in the cost of the renter rebate
- \$950k increase in Public Safety for trooper contract-related expenses, DUI, and database costs
- Medicaid—A reduction of \$31.4 million gross (\$13.2 million GF) for reduced GC utilization and caseload, and \$2 million GF down related to acute care in Choice for Care (CFC). DVHA is seeking authorization for 17 new positions
- \$30 million increase in Global Commitment (GC) for UVM General Medical Education (GME); the \$12 million match for this is provided by UVM with no state GF impact; pending federal approval this will draw \$18 million in federal funds for UVM
- The DCF budget includes increases for the STARS Childcare program, general assistance grants, as well as authorization for 9 new social worker positions
- \$2.6 million increase in Department of Corrections for out-of-state beds
- \$1.2 million increase in Fish & Wildlife to offset lower than expected license revenue and deferred vehicle replacement
- \$180k for promotion and support of new biweekly Toronto to Burlington air service
- \$2.5 million covers the shortfall in meeting the \$12 million savings target in FY 2012

LIHEAP

Federal funding is not settled yet; efforts are being made to encourage passage of a continuing resolution that would provide additional federal funding. The BAA does not include state funding for LIHEAP, but state action will continue to be discussed pending federal action or inaction. ❖

Health Insurance Exchange

On November 29, 2011, the U.S. Department of Health & Human Services (HHS) announced that Vermont was one of 12 states awarded a “level one” planning grant to help states create their Health Benefit Exchanges (Exchanges) as part of the Patient Protection and Affordable Care Act of 2010 (ACA). Under the ACA, states will create Exchanges where individuals and small businesses can purchase insurance. These Exchanges must be operational by January 1, 2014 and self-sustaining by January 1, 2015.

The \$18 million will be used to support further development and continuance of a number of activities, including stakeholder engagement, program integration, financial management, health insurance market reforms, business operations, and information technology. The funds will also be used to support a number of staff positions for the Exchange and other agencies in the development and implementation of Vermont’s Health Benefits Exchange. Act 48 envisioned the Exchange to be used as a platform for the evolution to a universal and unified health system. More information on exchanges can be found at:

Department of Vermont Health Access:
<http://dvha.vermont.gov/administration/health-benefits-exchange>

NCSL – American Health Benefit Exchanges:
<http://www.ncsl.org/default.aspx?tabid=21393>

U.S. Department of Health & Human Services: <http://www.healthcare.gov/law/features/choices/exchanges/index.html> ❖

Irene Impact & VSH Update

Congress passed and the President signed into law a bill which (1) waives for Vermont and other afflicted states the \$100 million cap on federal disaster relief for Hurricane Irene, (2) extends the 180-day time period during which emergency repairs are 100% funded by federal aid, and (3) increases appropriations for federal disaster relief.

On Dec. 9 and taking into account the federal legislation, the Administration released new Irene damage estimates summarized below. The estimates are comprehensive, covering both transportation and non-transportation damages, both state and local.

Total Cost Estimate (\$ millions)

	Total	Fed	State	Local
Worst	572.1	412.9	99.7	9.7
Best	497.1	349.2	88.4	9.7

State Fund Estimate (\$ millions)

	GF	TF	EF	Capital
Worst	15.0	30.7	4.0	50
Best	15.0	19.4	4.0	50

On Dec. 13, the Administration issued a community-based plan to replace VT State Hospital (VSH) services. The plan includes a new and expandable 15-bed facility in central Vermont (7-10 interim beds at Fletcher Allen), 14 beds at the Brattleboro Retreat, 6 beds at Rutland Medical Center and up to 5 secure beds at Windsor Correctional Facility. Capital costs are estimated to be \$26.6m; insurance and FEMA funds may help pay for this. This approach would be combined with geographically balanced, community services, including transitional beds, and emergency and individual services with a cost estimate of \$16 million. ❖

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Revenue Update Continued

revenues through November are \$400,000 less than the quarterly targets. This is a forecast of select components of the Education Fund’s revenue sources and does not include the property tax.

State Revenue Collections for July – Nov. 2011
(\$ in millions)

Fund	Target	Actual	Var.
GF	\$460.5	\$472.6	\$12.1
TF	\$ 88.7	\$ 90.2	\$ 1.5
EF	\$ 66.8	\$ 66.4	-\$ 0.4

The Joint Fiscal Office, along with the Administration, follows revenue collections monthly and posts the information, compared to targets established by the economists, at www.leg.state.vt.us/jfo. ❖



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