



The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

October 2014

Volume 21 – No.2

Dear Vermont Legislator,

THE FISCAL FOCUS 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 informed 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.

Sincerely, The Joint Fiscal Office

****ALL LEGISLATOR BRIEFING****

Mark your calendars; it's that time of the year again! The annual All Legislator Briefing will be held on Wednesday, November 19th from 10:00 a.m. to 3:00 p.m. in the House Chamber.

TABLE OF CONTENTS

<u>REVENUE UPDATE- FY 2015 1ST QUARTER</u>	<u>1</u>
<u>FY2015 RESCISSION PLAN</u>	<u>2</u>
<u>FY 2016 BUDGET PRESSURE PREVIEW</u>	<u>2</u>
<u>CAPITAL DEBT</u>	<u>3</u>
<u>LIHEAP UPDATE</u>	<u>3</u>
<u>SEPTEMBER 5, 2014 JOINT FISCAL COMMITTEE ACTIONS</u>	<u>3</u>
<u>IJO OFFICE NEWS</u>	<u>4</u>

REVENUE UPDATE- FY 2015 1ST QUARTER

General Fund – GF receipts have remained sluggish over the first 3 months of FY15. Overall GF receipts are at \$327.1 million for the months of July, August, and September, which is \$3.8 million below the target level of the July predictions. Personal income taxes have been an area of major concern for the GF at \$7.8 million below quarterly targets. During July and August, withholding was a major contributor to the personal income shortfall. In September, withholding was essentially on target which is a positive development. Both Sales & Use and Meals & Rooms tax revenues narrowly exceeded forecasts with collections of \$1.4 million and \$1.0 million above respective targets. Corporate returns have been the relative bright spot thus far for the fiscal year at \$5.4 million above forecasts for the quarter. Estate tax is \$4 million below target which is essentially the “all other” shortfall of \$3.7 million. The “all other” shortfall partially offsets the strength of corporate returns.

Transportation Fund – Total TF receipts have equaled estimates through the first 3 months of the fiscal year at \$66.1 million (approximately \$200,000 above estimates). Gasoline taxes are \$1.1 million below estimates while diesel is \$1.0 million above. Purchase & Use and DMV fees have both approximately equaled estimates for the first quarter.

Education Fund – Non-property tax EF receipts are approximately \$500,000 above first quarter estimates at \$44.8 million in total revenue. Strong sales & use tax revenues have offset weak lottery ticket sales.

FY2015 RESCISSION PLAN

On August 11, 2014, the Secretary of Administration submitted a FY 2015 General Fund rescission plan to the Joint Fiscal Committee for approval. The rescission was necessitated due to a downgrade in the FY 2015 revenue forecast approved by the Emergency Board on July 24, 2014. The downgrade resulted in a \$28.8 million change to the projected General Fund revenues for FY 2015. This, in addition to related adjustments such as the property transfer tax, created a shortfall in the General Fund of \$31.28 million.

The plan as submitted by the Governor included the use of \$8.52 million of direct applications (funds transferred from special funds) and reversions (funds removed from current year appropriations.) In addition to these revenue changes, the Governor recommended that current year appropriations be reduced by \$22.76 million. These reductions included, among other things, removing the 1.6% reimbursement rate increase for Medicaid providers, reverting some carry forward funds in the Choices-for-Care program for one-time investments, reverting one-time funds for services to the developmentally disabled, lowering caseload projections in the Reach Up program and child development caseload to reflect current trends, reduction to several grants, including the Youth in Transition grant, and recognizing vacancy savings in various appropriations.

The Joint Fiscal Committee made a few changes to the plan, including adding back \$500,000 one-time funds to support services for the developmentally disabled, adding back half of the Choices-for-Care one-time investments, including funds for the contingency fund, and adding back \$310,000 to the Youth in Transition grant. These increases were partially offset by reverting an additional \$206,000 from the Global Commitment carry forward and making the direct application from the Vermont Enterprise Fund higher by \$254,000.

It should be noted that this plan involves reliance on \$16.3 of one-time revenue resources and spending reductions. This adds to the difficulty of balancing the FY 2016 budget as these funds will have to be found for future years. For specific information on the rescissions, please follow the link below to the Joint Fiscal Office website: http://www.leg.state.vt.us/jfo/budget_fy2015.aspx.

FY 2016 BUDGET PRESSURE PREVIEW

Developing the FY 2016 Budget will present some difficult challenges. The July FY 2016 forecast for the General Fund projected \$1,411.7 million in revenue. In addition to this forecasted revenue, there is projected to be \$25 million of direct applications and reversions, for total available funds of about \$1,437 million in FY 2016. Compare this to the FY 2015 base appropriation, which after the rescission, is \$1,424 million. This translates into there being only \$13 million available for new spending in FY 2016 over FY 2015.

There are several identified budget pressures that the Legislature will have to manage in FY 2016. First, the federal match rate (FMAP) in Medicaid will be reduced again in FY 2016. Vermont will also begin the phase down of the 2-year, 2.2% Medicaid match rate increase received in both FFY 2014 and 2015 as part of the Affordable Care Act (often referred to as the “Leahy Bump.”) These two Medicaid FMAP issues will result in a \$19 million pressure. Additional pressures on the General Fund include pay act obligations of \$8.3 million, the base education transfer increase of \$8M, and

Teachers and State Employee retirement and health care obligations currently estimated at \$19 million. Other issues to resolve include the rollout of this year’s pay act, increased Debt Service requirements, possible costs associated with opening the new Waterbury facility, and additional General Fund expenditures to relieve pressure on the Transportation Fund.

Overall, the upward pressures are likely to result in a projected gap in excess of the \$70M gap we faced last year when constructing the FY 2015 budget. The JFO is working with the Administration to finalize numbers on the projected gap, which will be presented at the November meeting of the Joint Fiscal Committee.

CAPITAL DEBT

The Capital Debt Affordability Advisory Committee (CDAAC) issued an interim report, with a final recommendation expected later this fall. The preliminary two-year recommendation range would be \$124.5-\$134.8 million. This is less than the previous biennium recommendation of \$159.9 million. CDAAC is waiting for baseline economic and financial projections currently being developed. Once CDAAC receives these projections, it will reconvene and provide a final recommendation that may be lower or higher than the preliminary range. However, CDAAC does expect that the final recommendation will be lower than last biennium due primarily to reductions in projected growth rates for General and Transportation Fund revenues over the next ten years.

LIHEAP UPDATE

The Joint Fiscal Committee met on September 5th and received testimony from the Department for Children and Families regarding the projected average fuel oil benefit for clients in the Low Income Home Energy Assistance Program (LIHEAP) for the upcoming heating season. The current assumption is that the federal block grant will be level funded at just over \$19 million. In addition to the federal funds, the Legislature appropriated \$6 million general funds to support the program and there is a projected carry forward of just over \$2 million for a total program of \$27.2 million.

The eligible caseload is projected to be slightly lower than last heating season, 26,000 households this coming season compared to 26,625 last season. Based upon these assumptions, the average full season fuel oil benefit is projected to be \$792, the same as last heating season.

Heating Season	Avg. Oil Benefit	Purchase Power	Federal Funds	State Funds
2014/15 est.	\$792	28% est.	\$19.1M	\$6.0M
2013/14	\$792	28% est.	\$19.1M	\$8.1M
2012/13	\$898	31%	\$18.4M	\$9.7M
2011/12	\$900	33%	\$19.5M	\$6.1M
2010/11	\$866	34%	\$27.6M	-0-
2009/10	\$1,064	52%	\$27.3M	-0-

SEPTEMBER 5, 2014 JOINT FISCAL COMMITTEE ACTIONS

- Approved House and Senate Committees on Institutions recommendation that Agencies of Natural Resources and Energy, and of Agriculture proceed with work related to locating shared lab space at Vermont Technical College.

- Heard a report on the [Administration’s Transportation rescission plan](#) which did not require approval as it was \$2,535,430 or just below 1% of the appropriations. The rescissions will be met by a series of small reversions and project changes due to timing.
- Received an update on Mental Health system development from the Commissioner and Deputy Commissioner of Mental Health.
- Reviewed the model development for analyzing health care costs. The Joint Fiscal Office and the Administration have expanded the relationship with Regional Economic Models (REMI) to understand better the tax impacts of health care finance changes.
- Reviewed initial budget adjustment pressures which, although not specific, included out-of-state beds in the Department of Corrections, a possible increase in the Medicaid caseload, and the impact of a lower-than-anticipated census in the Vermont Veterans Home.
- Reviewed the FY 2016 Budget Development Process. Budget instructions have gone out asking agencies to consider a level funding and a five percent reduction budget. This is the beginning of the FY 2016 budget development process.
- LIHEAP Update – Sean Brown, Deputy Commissioner, Economic Services, reported that, based upon the current assumptions on funding and caseload, the average full season fuel oil benefit is projected to be \$792, the same as last heating season.

JFO OFFICE NEWS

Nathan Lavery has decided to take on a new challenge; he has accepted the position of Finance Director for the Burlington School District. We will miss him and know he will be a tremendous asset for Burlington. His last day with JFO will be in late October. We wish him great success!



JOINT FISCAL OFFICE STAFF

Legislative Joint Fiscal Office
One Baldwin Street,
Montpelier, VT 05633-5701
Tel: (802) 828 - 2295 Fax: (802) - 828-2483

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

OPERATIONS STAFF

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

SENIOR ECONOMIST

Joyce Manchester jmanchester@leg.state.vt.us

SENIOR 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

FISCAL ANALYST

Daniel Dickerson ddickerson@leg.state.vt.us