The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

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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

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REVENUE THRU NOV. 2014

Revenue collections in the General Fund are entering the second quarter of fiscal year 2015 significantly below the forecast set in July. The Transportation Fund is slightly below and the Education Fund is a little above the respective estimates.

The General Fund is $18.6 million short, or 3.5% below the November targets. The majority of the problem is in the individual income tax, although estate tax and insurance premiums revenues are also disappointing. Some of the weakness has been compensated for by strength in the corporate income tax which, however, is volatile and could change. According to the economists, the lower than anticipated income tax withholding may be due to the tax planning and income shifting done by high income taxpayers last spring. The situation should become clearer in January, when the revenue forecast is updated by the Emergency Board. There will likely be a downgrade, although the scope of the change is unknown at this time.

The Transportation Fund continues to suffer from low per-gallon based gasoline tax revenues. After the first five months of the fiscal year, the gasoline tax is $2.1 million less than was anticipated, or 6% off the monthly target. This is buoyed somewhat by the diesel tax and the purchase and use tax. Overall, the Transportation Fund is shy $800,000 through November.

The non-property tax revenues into the Education Fund are sales-based and have met targets through the first 5 months of the fiscal year. The sales tax is 2.5% higher than the monthly target and the motor vehicle purchase and use tax is 2.3% ahead. Both of these taxes account for the Education Fund exceeding its targets by $1.1 million to date.

EDUCATION TAX RATE

On December 1st, the Commissioner of Taxes recommended that education tax rates increase by two cents next year. The recommendation is based on a consensus Education Fund Outlook prepared by the Administration and the Joint Fiscal Office.

As the Commissioner notes in her letter, pursuant to a bulletin issued by the Agencies of Education and Human Services, this recommendation assumes that school districts will not fully implement Act 166, the universal pre-kindergarten legislation, enacted last session. Implementation of Act 166 would have required an additional penny on the education tax rates in FY 2016.

If the Commissioner's recommendation is adopted by the Legislature, the base tax rate on homesteads will increase from $0.98 to $1.00 and the uniform tax rate on non-residential property will increase from $1.51½ to $1.53½ per $100 of fair market value. Pursuant to legislation enacted last session, the base tax rate on household income will increase from 1.80% to 1.94%. At these tax rates, the Education Fund stabilization reserve is expected to be about $2.8 million short of 5% of prior year net appropriations.

Statewide education spending (without full implementation of Act 166) is assumed to grow by 3.1%, or about $41 million, over FY 2015. Board-approved school budgets are generally reported to the Agency of Education prior to town meeting week and actual statewide spending may be higher or lower than 3.1%. The major drivers of spending remain teacher salaries, health insurance, and special education costs. Full implementation of Act 166 will place additional upward pressure on education spending in FY 2017.

FEDERAL "CADILLAC" TAX

On November 25, 2014, the Joint Fiscal Office posted a new Issue Brief, "The Cadillac Tax: An Excise Tax on High-Value Health Insurance Plans." A summary of the Brief appears below:

The "Cadillac tax" is a federal excise tax on high-value health insurance plans beginning in 2018. The 40-percent excise tax applies to the value of health benefits over a certain threshold, equal to $10,200 for individual plans and $27,500 for family plans in 2018 and indexed in later years. JFO estimates that many Vermonters, and most State employees, have insurance plans that will be subject to the tax in 2018. Some employers will likely modify their plans or shift the tax to their employees in order to prevent their costs from increasing substantially.

Based on current plan design and Vermont's share of the national economy, JFO estimates that the aggregate excise tax bill in Vermont could be about $9 million in 2018 and about $40 million in 2023. All individual and family plans offered to State employees in 2015 are projected to be subject to the tax in 2018, imposing a new tax of about $6.8 million on the State government or its employees in the absence of changes in plan choice and design. In addition, JFO projects that two of the seven individual plans and one of the family plans offered to Vermont school employees through VEHI would be subject to the tax at the start of 2018. Revenues from the excise tax will partially offset the federal costs of the Affordable Care Act.

CAPITAL DEBT LIMIT

The Capital Debt Affordability Advisory Committee recommends that the maximum amount of net-tax-supported debt for the next two years, FY 2016 and FY 2017, should be $144.0 million. This is a decrease of $15.9 million over the previous biennium. Offsetting this decrease are additional funds of $11.4 million available for the upcoming capital bill from a bond premium made at the sale of bonds this fall. It is unknown if there will be an additional bond premium next year as that will depend on the interest rates, coupons, and par amount of bonds sold next fall.

NOVEMBER 19, 2014 JOINT FISCAL COMMITTEE ACTIONS

- Heard a preliminary report on the Taxation & Regulation of Marijuana done under contract between the Administration and the RAND Corporation in response to Sec. 8a of Act 155 of 2014. Beau Kilmer, Ph.D., Co-Director, RAND Drug Policy Research Center, and Senior Policy Researcher, RAND Corporation summarized the key issues that they will be covering.
- Reviewed the Administration's plans to address FY 2015 budget adjustment needs. The Administration needs to respond to a number of issues:
    - $1.5 million in legislatively mandated reductions (FY 2015 Efficiency and Enhancement Savings Sec. B.1103 of Act 179 of 2014);
    - Increased costs of employee health insurance creating an additional General Fund burden of $3.5 million;
    - A potential revenue shortfall for FY 2015. Through October, General Fund revenues tracked $11.9 million below targets (*now $18.9 million through November, see first article*).
- Heard a report on the Vermont Veterans Home and its continued funding needs. The administration presented a preliminary plan to reduce the homes staffing to more directly correspond to its occupancy count.
- Reviewed LIHEAP funding and a report from Richard Moffi, Fuel, Utility Program Director, Dept. for Children and Families that federal funds and oil prices have led to sufficient funding for this program to meet legislative targets.
- Reviewed funding for the Genetically Modified Organisms (GMO) Defense Fund. As of November 3, $333,000 has been donated and $435,356 has been spent by the Attorney General's Office in implementation of and administration of the program. The Administration expects that some funds from State settlements may become available for the program. The FY2015 budget was built assuming $2.028 million of settlement receipts and the State has received $1.809 million year to date. Up to $1.5 million of receipts that exceed the budgeted level are targeted for deposit into the GMO Defense (a.k.a. Food Fight) Fund.
- Reviewed the projected FY 2016 budget gap of $99.5 million. This gap is projected based on current spending trends and the current adopted revenue forecast for FY 2016. This estimate could change as expenditure estimates are further refined and when the revenue forecast is updated.
- The Committee approved changes described in a memorandum to the basic needs budget methodology.

- The Committee approved a Casella land donation at the Newport Vermont Airport and heard reports from the Administration on the new position pilot, the Vermont Scholars program and the upcoming education tax rate determination to be released on December 1, 2014 (*see article*).
- JFC agendas and all materials are available at: http://www.leg.state.vt.us/jfo/jfc_meetings.aspx#meetings2014

OTHER FISCAL UPDATES

As a result of the anemic FY 2015 revenue performance compared to expectations, the Administration has sent out spending reduction targets of $17 million ($1.5 million of reductions required by Act 179 of the Budget Bill and $15.5 million in additional reductions to be included in the Budget Adjustment). The Agency of Human Services has the largest amount to reduce at $10.3 million. Public Safety, ANR and the Agency of Administration have the largest target reductions of the remaining agencies and departments.

The report on ANR Pilot payments, required by Act 179, was issued jointly by JFO, ANR, and PVR. The report presents three options for revising the method of payment; town by town impacts for the first two of these options are included in the report. The third option requires more analysis by ANR and PVR before specific impacts can be calculated.

The statewide survey portion of the UMASS study on the Use of Paraprofessionals is underway. If you hear from local school administrators and educators, please encourage them to participate in the online survey. A brief summary of the project is available at AOE, or contact Stephanie Barrett at JFO for more information on this project.

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