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

ALL LEGISLATOR BRIEFING

Mark your calendars; it's almost that time of the year again! The annual All Legislator Briefing will be held on Tuesday, December 1, 2015 from 10:00 a.m. to 3:00 p.m. in the House Chamber.

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REVENUE UPDATE

First quarter revenue performance can be found in the Monthly Collection document prepared by Sara Teachout. This tracks monthly and cumulative revenue collections against the estimated level based on our most current consensus revenue forecast, and the monthly distribution established by the economists. The Schedule 2 document shows year-to-date revenue collections in comparison to the same period a year ago. Revenues through September are summarized by fund below:

Fund	$ compared to forecast target	% compared to forecast target	% compared to 2014 Sept. collections
GF	+$4.9m	+1.5%	+4.0%
TF	-$0.2m	-0.3%	+4.9%
TIB	-$0.1	-2.7%	-14.8%
EF	-$0.7m	-1.5%	+3.5%

General Fund (GF) – The personal income tax is coming in on target, and the sales tax is just below target while meals and rooms is slightly above expectation. The volatile corporate tax is significantly above the target level through September. All the other GF revenue items combined came in below the target level thus far for the fiscal year.

Transportation (TF) & Transportation Infrastructure Bond (TIB) Funds – Gasoline and DMV fees slightly exceeded targets while Diesel and Purchase & Use taxes just missed the mark through September. TIB is tied to price level so the comparison to prior year reflects current lower fuel prices. While federal funds are not part of the forecast, the amount of federal transportation funds drawn down through September is several million dollars below the level for the same time last year, and the stability of federal funding in this area remains a source of anxiety for all states.

Education Fund (EF) – The EF is impacted proportionally by Sales and Purchase & Use taxes running just under expectation; lottery revenues are additionally under target.

MEDICAID BUDGET PRESSURES

At this time, most of the known FY16 budget adjustment pressures will be in the Medicaid area. The caseload and utilization trends show an adjustment need of $54.1m gross ($14.2m State). A significant adjustment was expected as FY15 spending exceeded the budgeted level and allocated one-time funds from the FY15 GF close out. In addition to caseload and utilization trends, there are several other Medicaid cost pressures, including:

1. ACO payment per the contract provision for shared savings valued at $6.5m gross ($2.9m State).
2. Autism services known as Applied Behavior Analysis (ABA). The reduction included in the FY16 budget of $2.5m gross was unachievable. In addition there is a $300k adjustment and AHS decided to increase the service rate by another $2.5m to provide access, resulting in a total $5.3m gross ($2.4m State) adjustment.
3. Orkambi, a new Cystic Fibrosis drug, will have a significant annual cost per patient. It will require an adjustment of $4.8m gross ($2.2m State)
4. Buy In is the Medicare Part B premiums that Medicaid covers for eligible low-income Vermonters. It will increase by roughly 50% in the absence of congressional action to avoid it. The adjustment needed will be $7.9m gross ($3.6m State).
5. The Medicare Part D Clawback payment required by the federal government is also increasing by $2.4m State funds; this payment is tied to national pharmacy inflation.

It is yet to be determined if the 53rd week of vendors' payments will be operationalized in FY16 or FY17, but regardless of the year, the current cost estimate is $23m gross ($10.3m State) across all the Medicaid programmatic areas.

Looking to FY17 in comparison to FY16 as passed, aside from the 53rd week, all the Medicaid budget adjustment pressures roll forward at the same level or up to more than twice the BAA need. In addition, there are State budget impacts unrelated to program cost, such as $5.4m needed due to all the FMAP impacts and $1.4m needed due to reduced tobacco settlement revenues and a depleted Tobacco Trust Fund. In total, the FY17 Medicaid program cost is anticipated to increase in the range of $133m gross, with State funds needed up in the range of $60m. A detailed summary of Medicaid pressures was presented to the House Committee on Health Care on Wednesday, October 14th.

LIHEAP

LIHEAP (Low Income Home Energy Assistance Program) is a federally funded program that provides a benefit to income eligible clients to assist with their heating costs. The current projection is that the federal block grant will be $18.4 million for this coming heating season, which is slightly less than the $19 million that Vermont received last heating season. In addition to the federal funds, the Legislature included a contingent appropriation in Sec. C.108(a)(1) of Act 58, authorizing expenditure of the amount necessary, up to $5 million, to achieve up to the same purchasing power as that provided during the 2014–2015 heating season.

The eligible fuel liability caseload is projected to be 24,700, which is slightly less than last year's caseload of 25,147 households. The Department for Children and Families is currently working on an estimate of what the purchasing power would be given the available funds, the caseload, and the estimated cost of fuel. The estimate was not available in time for this article.

Heating Season	Avg. Oil Benefit	Purchase Power	Federal Funds	State Funds
2015/16 est.	N/A	N/A	$18.4M	$5M
2014/15	$783	34%	$19.0M	$5M
2013/14	$792	29%	$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-

PRELIMINARY GF BUDGET GAP

In addition to the Medicaid pressure outlined in the previous article, there are GF pressures in other areas; most are the usual fiscal suspects. They include:

1. Payroll costs – roll out impacts and new contract costs if any are yet to be determined.
2. Retirement – funding the ARC obligations for State employees and teachers.
3. Health care costs – funding the obligations for both State employees and retired teachers.
4. Education Fund – funding index amount and FY15 surplus allocation transfer requirements.
5. Debt Service – funding the bond obligations.
6. Current Use – funding need will track municipal budget increases.
7. Reducing Transportation Fund support for State Troopers.
8. Impact of opiate crisis across multiple agencies.

While the list above is not exhaustive, in combination with the Medicaid pressures and offset by the growth in GF forecast in FY17, a budget gap in the range of $80 to $90 million is projected.

UPDATE ON REPORTS, STUDIES, COMMITTEES

Social Security Disability Insurance

Joyce Manchester at JFO has authored the paper, "Why is the Prevalence of Young People on the Social Security Disability Program in Northern New England so High, and Why has it Risen so Rapidly Since 2000?" The Social Security Disability Insurance (SSDI) program provides income support and Medicare benefits to working-age adults with disabilities who are unable to work more than a minimal amount. Data from the Social Security Administration and the Census Bureau show that New Hampshire, Vermont, and Maine have the highest shares of young people under age 35 on the SSDI program among all the states. The paper displays the data and attempts to explain that finding for Vermont along four dimensions.

Capital Debt

The Capital Debt Affordability Advisory Committee (CDAAC) is recommending the same two-year limit of $144.0 million for FY16–17 for long-term net tax supported debt. For the FY2018–19 biennium, the CDAAC has suggested that borrowing capacity may need to decline in order to slow the growth of Vermont's total debt outstanding, to better align with the practices of other AAA rated states.

Special Committee on IT

The Special Committee on the Utilization of Information Technology has been meeting during September and October in an effort to develop a report for early session release. The group is charged with evaluating the State's overall IT governance and management structure as well as IT systems, programs, and procurement practices. They will make a recommendation on how the General Assembly can best fulfill its IT oversight role. The three appointed members are Mike Schirling, Chair, retired Burlington Police Chief and current Executive Director of BTC Igniter; John Burton, President of NPI; and Tim Kenney, President and CTO of MyWebGrocer. The Committee website is at http://aoa.vermont.gov/it-comittee.

Government Restructuring Commission

The Government Restructuring and Operations Review Commission held an initial organizational meeting this week. Unlike the IT committee, the Government Restructuring and Operations Review Commission has an 18-month timeline for its work. The members are former Representative Jeff Wilson; Paul Costello from Rural Vermont; and John Sayles, Chair, Vermont Foodbank Programs. Website for the Commission: http://aoa.vermont.gov/govt-restructuring

All-Payer Model Quick Facts

Per the exploration required in Act 54 of 2015, the Green Mountain Care Board (GMCB) and the Administration expect to reach an agreed-upon all-payer model framework this fall with CMS. Once reached, determinations on whether and how to proceed can be assessed. An all-payer model is an agreement with the federal government in which third-party payers – Medicare, Medicaid, and commercial insurers – agree to use a standardized methodology to pay for health care services with the goal of creating more equitable and consistent provider payments, promoting quality of care and performance measures, and achieving cost containment. Potential elements of such a model include:

- Mutually agreed-upon rate of growth in total costs of care with required Medicare savings.
- Mutually agreed-upon group of services (such as inpatient services, outpatient services, etc.) for which revenue will be regulated or monitored.
- Mutually agreed-upon quality measures and related performance benchmarks.
- Waivers of certain federal Medicare laws and regulations.

Act 54 appropriated $340,000 to the GMCB to ensure the regulatory structures and processes, such as provider rate-setting, will be in place to implement an all-payer model agreement. To date, Maryland is the only state to have implemented an all-payer model. It is not clear what impact an agreement would have on the State/Medicaid budget near and long term. More on the risks, opportunities, and other information are in the JFO all-payer issue brief.

FEDERAL TRANSPORTATION REAUTHORIZATION BILL UPDATE

Federal transportation funding has been in limbo for some time due to Congress's failure to pass a multi-year "reauthorization act." To disburse federal transportation funds, the federal Department of Transportation (DOT) needs from Congress both (1) appropriations authority, and (2) spending authority; and to fill the gap, Congress has been periodically extending both on a short-term basis. In late September, Congress passed and the President signed a continuing resolution which extends DOT's appropriations authority to December 11. DOT's spending authority has been extended to October 29 but the Federal Highway Trust Fund is expected to become insolvent at some uncertain date in December so Congress will need to extend spending authority by October 29 and then come up with additional money in November–December. These issues have routinely been handled by Congress in the past but the recent leadership shake-up in the House does add an element of uncertainty.

OTHER FEDERAL UPDATES

While it is risky to estimate how and when fiscal and programmatic issues will be resolved *(too hopeful?)* by Congress, a major convergence *(sounds supernatural)* in November/December is clear. FFIS provided an Issue Brief with a map through the next few months, in addition to the Transportation funding discussed above. These include:

- The debt ceiling including extraordinary measures will be hit on November 5th and the Treasury's cash on hand will not last long thereafter.
- The current Continuing Resolution allowing the government to operate runs out on December 11th.
- Authorizations for TANF and Child Care Development Fund also expire on December 11th.
- Sequestration (i.e., across-the-board reductions) of FY16 nonexempt mandatory programs took effect on October 1, 2015, affecting Social Services Block Grant and Vocational Rehab Grants among others.
- On December 31, 2014 several federal tax provisions expired; the deadline for extending these is December 31, 2015 for 2015 filings. These include a deduction for state and local general sales taxes as well as some energy efficiency, low-income housing, and research and development provisions.

SEPTEMBER 15, 2015 JOINT FISCAL COMMITTEE ACTIONS

The Joint Fiscal Committee met on September 15, 2015, It heard the following updates or reports:

- Fiscal Updates relating to FY15 Final Close Out, FY16 BAA and FY17 Pressures from the Department of Finance & Management
- State Employee Retirement Incentive Report from Beth Pearce, Vermont State Treasurer

It approved the following requests:

- Request by BGS for approval on a Less Than Fair Market Value Lease to Chittenden Children's Advocacy Center for Chittenden County Unit for Special Investigations (CUSI)
- Annual Update of the Vermont Economic Growth Incentive Cost-Benefit Model (with amendments as recommended by Tom Kavet)

- Request from Department of Public Safety for authorization to establish one new limited service Criminal Analyst position supported by federal Homeland Security funds
- Request from the Department of Liquor Control for a $19,100 grant from the National Alcohol Beverage Control Association to support a study of the warehouse, and to support an education speaker at the Marijuana Awareness Conference held in October
- Request from Agency of Human Services for a 3-year, $8.9 million grant for a SNAP Employment and Training Pilot. This includes 13 limited services positions at DCF, DOL, and DAIL
- After completion of a bid process, contracting with Tom Kavet as Legislative Economist

JOINT FISCAL OFFICE NEWS

Dan Dickerson comes back from his assignment in Japan and Korea with the Vermont Air National Guard on October 19th and will be back in the office on the 26th. We are happy to have him back. Maria Belliveau did a great job as JFO Business Manager while he was away but is especially looking forward to passing those responsibilities back to him.

Dan Smith will be serving as an IT consultant for the Joint Fiscal Office in the upcoming session. Dan Smith served as Deputy Chief Information Officer for AHS from 2013 to June of this year. Prior to that, he was IT manager at the Vermont Department of Health for six years. Since 1992 (before beginning State service and to a limited extent during), he ran an independent consulting business, P&C Software Services, LLC – providing services primarily for the U.S. Department of Homeland Security and covering the entire range of the system development lifecycle, project management, requirements analysis, application development, and long-term support. Project timelines have ranged from six months to 20 years, and include the development and maintenance of the Coast Guard's primary deployable and shore-based logistics.

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