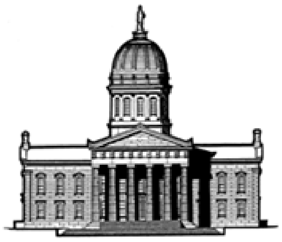

The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

December 2016 **Volume 23 – No 3**

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

HAPPY HOLIDAYS

TABLE OF CONTENTS

November Revenue (Actual to Forecast)

Revenue collections for the first five months of FY 2017 (July through November) have been slightly lagging the forecast in all three funds - the General, Transportation and Education Funds.

FY 2017 Target Tracking

Fund	July through November Collections ($ millions)		
	Target	Actual	Difference
General	$558.4	$557.2	($1.2)
Transportation	$113.4	$111.2	($2.3)
Education	$79.4	$78.5	($0.9)

The poor revenue showing, along with significant uncertainty at the federal level, make it unlikely that the next official revenue forecast in January 2017 will improve the State's revenue outlook.

General Fund

The General Fund is $1.2 million below the cumulative revenue collections target through November 2016. Several of the major tax sources missed the monthly targets. Individual income tax collections were the most significant, with revenue $5.3 million less or 1.9% below forecast. Sales and use (-$1.5 million) and corporate income tax (-$0.4 million) revenues were also weak. Meals and rooms tax collections, which have been trending ahead all year, were $4.0 million ahead of targets, and offset a good portion of the misses in the General Fund.

Transportation Fund

Transportation Fund collections at $2.3 million below the target through the month of November were off by 2.0% from the forecast. The revenue from gasoline and diesel taxes were just over the amounts projected, but purchase and use tax and DMV fees were low. The Transportation Fund has been trailing the FY 2017 target revenue amounts in each of the past five months.

Education Fund

The non-property tax revenues that go into the Education Fund, primarily the sales tax and purchase and use tax, suffer from the same lackluster performance as the General and Transportation Funds. The lottery revenues were slightly ahead of the forecast. All together the Education Fund ended November with $0.9 million less than the cumulative targets.

Teachers And State Employees Retirement Systems

Pension funding continues to be an area of concern, particularly the Teachers' Retirement system. The funded ratios (the actuarial value of the system's assets divided by the system's liabilities) were 58.3% and 74.6% for the Teachers and State Employees systems in FY 2016, respectively. Both ratios are below the FY 2015 ratios of 58.6% and 75.1%. These actuarial valuations include a practice of smoothing market performance over a multi-year period to offset market volatility. Generally, a well-funded system should be funded over 80%. The funded levels are a bit lower if the June 30 market values are used, as required in the 2014 GASB reporting rules. For comparative purposes across states, market values on a specific date provide greater consistency as each state has its own actuarial parameters.

In the case of the Teachers' Retirement system, the Legislature has been fully funding the actuarially recommended contribution, or ARC, since 2007. The Legislature began separately funding the retired teachers' healthcare obligation in FY15, removing some significant pressure on the fund.

Investment performance below assumed levels has been a key factor in the continuing decline of the funded level. Low performance coupled with prior years underfunding are the main drivers of the current low-funded positon. However, recent updates, as required by IRS regulation in the mortality tables have also had an impact. As life expectancy grows, the payments required of the system become greater, increasing projected liabilities and cost.

Last year the Legislature, at the request of the Treasurer, put in place a system of faster amortization of the unfunded liabilities to begin in FY 2020. These changes will require a higher level of annual state appropriation, which, over time, should help bring the funded levels up.

Separately, the State's obligation for retiree health care remains a liability that will need to be addressed over time. This will be an increasing cost in the coming years and is known in the retirement analysis community as an OPEB obligation (Other Post Employment Benefits).

Education Tax Rates For FY2018

On December 1, the Commissioner of Taxes recommended a property yield, an income yield, and a nonresidential property tax rate for next year. The yields indicate how much per-pupil spending can be supported with the base tax rate on homestead property set at $1.00 and the base tax rate on household income set at 2%. This recommendation is based on a consensus Education Fund Outlook prepared by the Administration and the Joint Fiscal Office.

If the Commissioner's recommendation is adopted by the Legislature, preliminary estimates indicate that the average tax rate on homestead property will decrease from $1.527 to $1.510, the uniform tax rate on nonresidential property will increase from $1.535 to $1.550, and the average tax rate on household income will decrease from 2.70% to 2.53%. At these tax rates, the median tax bill for each class of taxpayer will increase by about 2.35% next year.

The most important factor determining education tax rates and median tax bills is statewide education spending, which is projected to grow by 3.2% or about $38.5 million over FY 2017. However, actual statewide education spending, which is determined collectively by voters in each school district, next year may be higher or lower. Board-approved school budgets are generally reported to the Agency of Education prior to town meeting week in March.

These estimated education tax rates reflect the cost of the incentives provided to qualified school districts that have completed mergers pursuant to Act 46. Without the Act 46 tax incentives, the average tax rate on homestead property and the average tax rate on household income would have been $1.54 and 2.6%, respectively. The statewide cost of the Act 46 tax incentives will be about $10 million in FY 2017.

The Commissioner's letter to the Legislature, which includes a more detailed discussion of the current education tax rate projections, is available on the JFO webpage at: http://www.leg.state.vt.us/jfo/education/2016-Education-Tax-Rate-Letter.pdf.

The Department of Education website provides several reports and visualizations on provisions and activity related to Act 46. The links below will bring you to the following:
1 – Map of Merger activity map
2 – Report of Merger activity
3 – Act 46 – Special Education Funding report

LIHEAP Update

We now have estimates for the caseload and average benefit for the current heating season. The Administration has projected that this season's eligible fuel liability caseload will be 21,500, which is lower than last year's caseload of 22,618 households. The Department for Children and Families has estimated that the full season fuel benefit will be an average of $865 this heating season. This benefit would pay an estimated 54% of the average household's seasonal fuel oil bill. The average full season fuel benefit last heating season was $699 which paid for an estimated 43% of the average household's seasonal fuel bill.

Heating Season	Avg. Oil Benefit	Purchase Power	Federal Funds	State Funds
2016/17 est.	$865	54%	$16.2M*	$3.8M
2015/16	$699	43%	$16.2M*	$2.9M
2014/15	$783	36%	$18.9M	$5.0M
2013/14	$797	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-

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 Federal block grant is anticipated to be similar to prior years' heating season's block grant, however, the Legislature allowed that in FY 2016 and 2017 up to 15% of the block grant could be swapped with State funds in the Home Weatherization fund to address the eligible population between 151% and 185% of the federal poverty level and some administrative costs. The State funds for this heating season include $1 million carried forward from FY 2016 and the fund swap from the Home Weatherization program of $2.8 million.

**Please note that the estimated Federal LIHEAP block grant is $18.9M in both FY 2016 and 2017. In FY17 $2.8 million of this was transferred to the Home Weatherization Fund and, in return, $2.8M State funds were transferred back from Weatherization to LIHEAP serve clients from 151% -185% FPL and the administrative costs which require State funds. In FY 2016 the $2.8M was transferred from LIHEAP to Weatherization but $1.6M State funds were returned to LIHEAP, leaving $1.2M in Weatherization.*

November 14, 2016 Joint Fiscal Committee Actions

The Joint Fiscal Committee met on November 14, 2016 and heard testimony and took action on several issues, including:

- Received preliminary fiscal updates from the Commissioner of Finance and Management, Andy Pallito, on FY 2017 Budget Adjustment Pressures; FY 2018 Budget Development Process and the projected Revenue and Expenditures; and FY 2017 Personnel, Labor, and Administrative Cost Savings.
- Received an update on the Global Commitment Waiver from the Agency of Human Services. The new five-year waiver is expected to have a financial impact of $6.2 million in FY 2017 and FY 2018, with a phasedown of expenditures in later years.
- Received a summary of the Tax Computer System Modernization Implementation from the Commissioner of Taxes, Mary Peterson.
- Received a summary of the Vermont Veterans' Home Report from VVH CEO, Melissa Jackson.
- Received a summary of the Human Resources Classification Study and State Employee Position Classification System Report from the Commissioner of Human Resources, Tom Cheney.

- Approved Vermont Public Transit Association (VPTA) as the provider for a proposed contract for Non-Emergency Medical Transportation (NEMT) with the Department of Vermont Health Access.
- Approved Grant JFO#2857 – a $3,625,000 grant from the U.S. Department of Food and Drug Administration to the Vermont Agency of Agriculture, Food & Markets with the caveat that if the federal funding is discontinued, the State would not meet the program's financial gap.
- Received a fiscal update from the Chief Fiscal Officer, Stephen Klein.
- Received an update on a Vermont Employment Growth Incentive Working Group recommendations/report from the Joint Fiscal Office, Sara Teachout.

JFO Odds and Ends

The following list of reports JFO is preparing and the anticipated release/web posting date.

Estate Tax Exclusion Amount Report – released

Education: Report on the Implementation of S.175 of 2016 - December 15, 2016
Vermont Health Connect Study – December 21, 2016
10 Year Tax Study – January 15, 2017
Basic Needs Report – January 15, 2017

Daniel Dickerson has been deployed along with 300 Vermont National Guard Airmen from the 158th Fighter Wing to a location in the Middle East in support of Operation Inherent Resolve. During his deployment, his responsibilities in the JFO will be handled by other staff members. We all wish Dan the best and are looking forward to his return.

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
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