



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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FY 2018 New Revenue Forecasts

General Fund

The Emergency Board adopted a new revenue forecast for FY 2018 at its meeting on July 21, 2017. The new forecast anticipates \$28.8 million (just under 2%) less in FY 2018 General Fund (GF) revenues than the forecast used for the FY 2018 Budget. Most of this decrease is due to a one-time corporate tax refund that was anticipated in FY 2017 but will instead be paid in FY 2018, totaling up to \$16.3 million. The remaining \$12.5 million of the decrease is attributable to a tempered economic outlook, as well as other factors described in [Tom Kavet's July 2017 Economic Review and Revenue Forecast Update](#).

Consistent with section D.105 of Act 85 of 2017, the [FY 2018 Appropriations Bill as Passed in June 2017](#), the Administration has already presented a plan to cover the anticipated one-time corporate tax refunds to the E-Board, which was adopted. For additional information please see the [One Time Corporate Refund Plan](#).

The Administration will present a rescission plan to the Joint Fiscal Committee at its scheduled meeting on August 17, 2017. The Committee will then hold public hearings and a vote on the rescission plan either on August 17th or August 18th, 2017. The rescission plan will need to account for the remaining \$12.5 million gap in anticipated FY 2018 GF revenues compared to budgeted expenditures.

Transportation Fund

The new revenue forecast adopted by the Emergency Board anticipates a \$3.5 million reduction in anticipated FY 2018 Transportation Fund (TF) revenues than the forecast that was used for the FY 2018 budget. The Administration's rescission plan will also include a proposal for dealing with the anticipated TF shortfall.

Education Fund

The new revenue forecast adopted by the Emergency Board anticipates a \$1.6 million reduction in anticipated FY 2018 Education Fund revenues than the forecast that was used for the FY 2018 budget.

FY 2017 Close-Out Summary**Medicaid Program**

The State's Medicaid/SCHIP program ended FY 2017 in a positive fiscal position. This is true even after addressing funding needs related to several issues that arose subsequent to the passage of the Budget Adjustment bill. The caseload has stabilized and Vermont is now performing an annual eligibility redetermination process. The [FY17 Medicaid Year End Report](#) is available and provides five-year summaries of expenditures and caseload.

In the aggregate, across all funding sources and programs, FY 2017 total expenditures came in \$31.2 million, or 1.8%, below the level budgeted. However, for several reasons, this translated into only \$3.3 million of unexpended GF. First, revenues into the State Health Care Resource Fund (SHCRF) fell short by \$3.4 million. Additionally, approximately \$4.8 million of increased state funding was required in FY 2017 due to the percentage of total expenditure on Childless New Adults being lower than anticipated. Vermont draws an enhanced FMAP of 87% (federal share) on the Childless New Adults. Since there were fewer Childless New Adults and more New Adults with Kids than we anticipated, there was a smaller percentage of the costs for which we were able to draw the enhanced FMAP.

General Fund

FY 2017 closed out with a positive \$10.38 million which was deposited into the Rainy Day Fund. This positive balance was due to GF revenues which came in \$1M above expectation. As discussed earlier, this reflects a combination of factors. First, \$16.3 million of corporate refunds expected to be paid in FY 2017 were moved to FY 2018. Moving this payment to FY 2018 offset a shortfall in income tax receipts from forecasted levels in FY 2017. Direct applications (special fund transfers into the general fund), particularly from the Department of Financial Regulation, the Secretary of State, and Abandoned Property receipts all performed better than expected. The [preliminary FY17 close out summary](#) was presented to the JFC at the July 21 meeting.

Transportation Fund

The Transportation Fund ended FY 2017 with a shortfall of \$6.3 million. The budget adjustment anticipated a shortfall and reductions in appropriations were authorized in order to maintain the TF stabilization reserve required level. The [letter on FY2017 TF reductions](#) was presented to the JFC.

Education Fund

In FY 2017, we were expecting a full stabilization reserve of \$33.5 million and a surplus of \$26.1 million. After taking into account the preliminary FY 2017 closeout, we ended the year

with a full stabilization reserve and a \$26.4 million surplus, a slight increase. These funds are available as anticipated for use in FY 2018.

Recapturing Savings from Teachers' Health Care Transition

As a result of the Affordable Care Act all school employees will be insured under new health insurance plans as of January 1, 2018. The new health plans cover similar health care services, but have lower premium costs. The plans also create higher out-of-pocket exposure through deductibles and co-payment requirements. However, because the premiums for these plans are markedly lower, there are opportunities to keep employees' out-of-pocket costs at current levels while also realizing savings.

The FY 2018 Budget Act establishes a mechanism for returning some savings from the transition to these new health insurance plans to education property taxpayers by reducing payments from the Education Fund to school districts. The statewide reduction in payments is estimated to be \$13 million across the period of two fiscal years, with 65% or \$8.5 million recaptured through adjustments in FY 2018 and 35% or \$4.5 million recaptured through adjustments in FY 2019.

By August 15th, the Agency of Education will notify supervisory unions of the amount by which the education payments of their member school districts will be reduced. The recapture will be based on the difference between actual FY 2017 health care expenditures and projected FY 2018 health care expenditures plus 5%. Projected FY 2018 health care expenditures assume, among other factors, that school districts contribute 80% of the premium for the VEHI Gold Consumer-Driven Health plan and between \$2,100 and \$4,200 towards out-of-pocket costs.

July 21, 2017 Joint Fiscal Committee Actions

The Joint Fiscal Committee met on July 21, 2017 and heard testimony on several issues including:

- End of FY 2017 Medicaid and AHS year reports. Key elements included:
 - Caseloads appear to have stabilized and redeterminations are following an annual schedule.
 - The State's Medicaid ended in a positive position. Due to specific allocations in the FY 2018 Appropriations bill only \$3.3 million in general funds is available to carry forward to FY 2018. For more information please see the [FY 2017 Medicaid Year-End Report](#).
 - The AHS budget ended FY 2017 in an overall positive position with a surplus of .8% of the general fund appropriation. The total appropriated amount for the AHS budget in FY 2018, before any rescissions and other general fund reductions, is less than the FY 2017 appropriated amount, dropping from \$691 million to \$682 million. For more information please see the [AHS Year End Report](#).

- Reconciliations with Blue Cross for calendar year 2016 represent a \$10 million budget risk in FY 2018. For more information please see the [2016 QHP Reconciliation Memo - DVHA](#).
- Reviewed FY 2017 preliminary closeout for the general and transportation funds.
 - When adjusting for the Corporate tax refunds that were expected to occur in FY 2017 and are now projected to occur in FY 2018, the general fund revenues were essentially on target for FY 2017. For more information please see the [FY 2017 Preliminary Closeout](#) document that was handed out at the July 21 JFC meeting.
 - As discussed earlier, extra receipts from the Department of Financial Regulation, the Secretary of States Special Fund and Abandoned Property led to \$10.3 million in General Fund carry forward for FY 2017. This was added to the General Fund Surplus Reserve, also referred to as the Rainy Day Fund.
 - The Transportation Fund ended the year \$3.3 million lower than the January forecast and \$6.3 million lower for the fiscal year. A number of re-allocations were made to offset this shortfall which can be found in the [Memo from Secretary of Administration Re: Transportation Fund FY 2017 Appropriation Reductions](#).
- Heard a report on General Assistance Housing. While funding is tight the administration reported that they will find the resources to cover anticipated spending.
- Approved a grant funded limited service position in the Department of Health to work with the Lead Certification Program.
- The revised FY 2018 General Fund revenue forecast was presented. The forecast was reduced by \$28.8 million, of which \$16.3 million was attributable to the corporate tax refund payment being moved from FY 2017 to FY 2018, as discussed in previous articles.
- Discussed plans to hear any submitted rescission plan on August 17 with a public hearing to take place that day or the following day, depending upon the nature of the plan.

The next Joint Fiscal Committee Meetings are scheduled for August 17, August 18, and September 14, 2017

JFO Odds and Ends

- Sara Teachout has moved to BlueCross BlueShield of Vermont as Director of Government, Public and Media Relations. We have hired Graham Campbell and he will start on August 7. Graham recently received his Master's degree in Economics and Public Policy from the Woodrow Wilson School at Princeton University.
- The most recent issue briefs can be found on our site and include:
 1. How Does Health Care Utilization Vary with the Choice of HSAs vs. HRAs? See: [HSAs vs HRAs](#)
 2. Preliminary Summary Review: Two Studies on the Effects of Raising the Minimum Wage to \$13 per Hour in Seattle. See: [Minimum Wage Studies](#)



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