



The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

October 2017

Volume 24 – 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 Legislative Briefing on Nov. 30, 2017 @10 AM in the Statehouse ****

Table of Contents

First Quarter Revenue (Through September - Actual to Forecast)	1
Budget Update	2
LIHEAP	2
Vermont Health Connect Open Enrollment	3
Medicaid Pilot Program with OneCare Vermont ACO	3
Other Health Care Updates	5
Capital Debt	5
September 14 Joint Fiscal Committee Actions	6
Grants and Limited-Service Positions Update	6

First Quarter Revenue (Through September - Actual to Forecast)

Through the first three months of the fiscal year, overall, revenues are tracking expectations. Although it is early in the fiscal year, so far we are not seeing any major revenue issues of concern.

The General Fund is 0.6% or \$2.9 million below estimates. A \$1 million shortfall in personal income and a \$3M shortfall in corporate tax revenue is partially offset by \$1 million extra in meals and rooms tax receipts and \$200,000 extra in other revenue. The Corporate tax review will likely be very volatile this year since the impact of refunds and the timing of receipts is uncertain.

The Transportation Fund is almost 2% over its three month target, or up \$1.3 million. The strength has been in the diesel tax, DMV fees, and purchase and use revenues.

The Education Fund is 1%, or \$500,000, over the three month projection. Receipts from the purchase and use tax and lottery have been ahead of targets.

Budget Update

The administration has issued [FY19 budget instructions](#) to the Agencies and Departments asking them to submit level-funded GF budget requests by October 16. The document also includes a timeline for the Governor's budget-building process leading up to his budget address to the Legislature on January 23, 2018. JFO and Finance & Management have begun to discuss the major budget pressures facing the State heading into FY19. These pressures include debt service requirements, retirement and retiree health care obligations, payroll obligations pending outcome of pay act negotiations, funding the Ed Fund transfer indexed increase, and caseload growth and utilization pressures. The difference between these budget pressures and the anticipated available revenue for the year is known as the "projected budget gap." The lack of clarity and basic information about the federal budget and its specific impact on the State for the remainder of FY18 and FY19 is especially challenging this year.

The Budget Adjustment (BAA) process for FY18 is expected to get underway the week before Christmas when House Appropriations will meet to hear initial proposals from the Administration. Currently, Medicaid spending appears to be tracking the budget, as adjusted by the rescission in August. Reconciliation with Blue Cross/Blue Shield (BCBS) related to the Health Care Exchange for FY16 is likely to be included in the FY18 BAA. Other likely areas that will appear in the BAA include Emergency Housing in the General Assistance Program, unavailable Federal match funds for Woodside, and necessary match to Federal Emergency management (FEMA) funds. Both the FY18 BAA and the FY19 impacts will become more defined as the budget process continues.

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. Federal funding for LIHEAP is anticipated to be similar to the block grant that Vermont received last year, although it is not yet finalized. The President's proposed budget eliminated funding for the LIHEAP program however; both the House and Senate Appropriations committees have approved individual bills that fund the block grant at last year's level. Currently, Vermont is anticipating that the federal LIHEAP block grant will be level funded at \$18.96 million for the coming heating season.

Starting in FY16, the Vermont Legislature allowed that up to 15% of the federal 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 \$128,000 carried forward from FY17 and the fund swap from the Home Weatherization program of \$2.8 million.

The Administration has projected that this season's eligible fuel liability caseload will be 20,000, which is lower than last year's caseload of 21,286 households. The Department for Children and Families has estimated that the full-season fuel benefit will be an average of \$879 this heating season. This benefit will pay an estimated 53% of the average household's seasonal fuel oil bill.

The average full-season fuel benefit last heating season was \$831 which paid for an estimated 50% of the average household’s seasonal fuel bill.

Heating Season	Avg. Oil Benefit	Purchase Power	Federal Funds	State Funds
2017/18est.	\$879	53%	\$16.1M	\$2.9M
2016/17	\$831	50%	\$16.2M	\$3.8M
2015/16	\$699	43%	\$14.6M	\$2.9M
2014/15	\$783	36%	\$18.9M	\$5.0M
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-

Vermont Health Connect Open Enrollment

Open enrollment for Vermont Health Connect (VHC) for 2018 will run from November 1, 2017 to December 15, 2017. Open enrollment will last a month and a half (45 days); this is a narrower timeframe than previous ACA open enrollment periods. It has been reported in the media that the Trump administration has scheduled maintenance of the federal website during the open enrollment period. However, Vermont Health Connect (VHC) has its own website and does not use the federal marketplace website (Healthcare.gov). According to VHC officials, any maintenance done to the federal data service hubs that the State does interface (“ping”) with are likely to be minimal. As such, it is not anticipated that the maintenance as reported in the media would have an impact on Vermonters trying to enroll through Vermont Health Connect.

As a State-operated exchange Vermont has the option to extend the enrollment period, CMS has said that state-based marketplaces that expect operational difficulties related to the shorter timeframe can supplement the timeframe this year, as a transitional measure. DVHA has contingency options to extend the enrollment period if there are unforeseen operational difficulties. At this time they do not expect to trigger the contingency plans since operational queues and renewal testing are in good shape, but they will work with anyone who attempts to enroll by December 15 even if it takes a bit longer to get them across the finish line as was done in past years.

Medicaid Pilot Program with OneCare Vermont ACO

The Vermont All-Payer Model (APM) Agreement with the Centers for Medicare and Medicaid Services (CMS) was signed in October 2016. The APM agreement aims to reduce health care cost growth by moving away from fee-for-service reimbursement to risk-based arrangements through provider-led and -governed Accountable Care Organizations (ACOs). These financial risk arrangements between all health care payers (Medicaid, Medicare, and commercial carriers) and an ACO are also tied to quality and health outcomes. The goals of the APM are to: (1) limit

health care cost growth to no more than 3.5% in aggregate across all payers, (2) increase access to primary care, and (3) improve the health outcomes of Vermonters. A comprehensive frequently asked questions [\(FAQ\) document](#) on the agreement is available at the Green Mountain Care Board.

In February 2017, the Vermont Medicaid Program began a pilot program by partnering with OneCare Vermont ACO to manage care for approximately 29,000 Medicaid beneficiaries. The number of attributed lives dropped to 26,000 in August as a result of changes in individuals Medicaid eligibility status or change in primary care provider. Of these attributed lives, the distribution is approximately split 50/50 between children and adults, and approximately 7% of the 26,000 are in the categorically eligible group of aged, blind or disabled. This pilot program is the initial phase of Medicaid's participation in Vermont's APM agreement which transitions from rewarding providers with volume based fee-for-service payments to rewarding them on outcomes with value-based payments. Primary goals of the program are to increase provider flexibility and support health care professionals to deliver the care they know to be most effective in promoting and managing the health of the population they serve. For each attributed member, the Department of Vermont Health Access (DVHA) pays OneCare a monthly fixed prospective payment (FPP) for services from hospitals and hospital owned practices participating in the OneCare Vermont ACO. The Medicaid program will continue fee-for-service payments for all other services and providers for these members. The ACO is responsible for both the cost and quality of care for each attributed member whether they use very little care or require services consistently during the year. The ACO has agreed to a risk-based spending target for the attributed population. If the ACO exceeds its spending target for the year it is liable for up to 3% of total target if overspent and if the ACO spends less, it may retain up to 3% of the total target if underspent.

Act 25 of 2017 requires DVHA to make periodic reports on the financial and operational performance of this pilot program. The [second of these reports was submitted in mid-September](#) and provides financial and operating performance through August. The report found that the total cost of care for this population was running about \$1 million above expectation through August, but with the most recent weekly reporting from Medicaid, which includes September, the total cost of care is running below expectation by \$2 million. Time lags on the claims system means that significant caution is needed before relying on these monthly reports until there is both a full year of experience and the claims information is caught up for the period being analyzed. The report provides updates on operational performance, specific utilization analysis compared to the comparable non-pilot Medicaid population, reporting on number of primary care and specialists available in the ACO network, and consumer inquiries, complaints, or grievances.

Medicaid and OneCare are in the process of executing a second-year contract that will expand the number of Medicaid lives attributed to the ACO with an approximate 2% increase in cost basis. OneCare also anticipates having initial risk-based agreements under the APM with both Medicare and the BCBS Exchange plans. Medicare is projected to represent approximately 54% of the total ACO revenue but 31% of the patients. Medicaid is projected to represent approximately 22% of the ACO revenue but 40% of the patients. BCBS Exchange plans are projected to represent approximately 17% of ACO revenue but 29% of the patients. Other sources and payments provide the remainder of ACO revenue.

Other Health Care Updates

Children Health Insurance Program – Federal funding for the CHIP program expired on September 30. On October 4, the U.S. Senate Finance Committee advanced a bill that would provide funding for five years, but would reduce the enhanced match the CHIP program receives through the ACA, back down to its traditional federal-state partnership over time by FFY21. The House Energy and Commerce Committee did advance a companion bill to fund CHIP but with contentious Medicaid and ACA reductions included. Currently the enhanced match is approximately 91% federal dollars and 9% state dollars. Without the ACA enhancement, the match would be approximately 68% federal and 32% state dollars. The impact to the State under the Senate plan is expected to result in a fully annualized budget impact of approximately \$14 million by FY21. If no funding is provided the total state impact will be \$21 million in January of 2018.

FQHC – Primary Care Federal Funding – Vermont has 12 FQHC operating 63 sites statewide including dental clinics. These clinics serve approximately 172,000 Vermonters. The clinics in Vermont face a loss of up to \$14 million in funding if Congress does not act to fund grants expired on September 30. These grants support provider loan repayment, the FQHC sliding fee scale, substance abuse treatment, dental services and capital improvements. These funds flow directly to the clinics and would impact the system in January if no funding is available for the next grant cycle. This funding reduction represents 70% of the clinics total federal grant funding and over 10% of all revenue. It is likely that these clinics will look to the State for support if there is inadequate Congressional action.

VEHI 2019 Rates – The Vermont Education Health Initiative (VEHI) has filed its initial [2019 premium rates](#) for the new teacher health plans with the Department of Financial Regulation (DFR).

Household Health Insurance Survey – A [memo on the history of this survey](#) has been posted on the JFO site. The survey has not been conducted since 2014, but from 2000 to 2014 provided the basis of understanding Vermonters health insurance coverage across age and income demographic levels. The terms and condition of the Global Commitment 1115 Waiver require the Agency of Human Services (AHS) to meet certain benchmarks for which this survey is the measurement tool. AHS/VDH has taken up the mantle of conducting the next round of this survey from DFR and is analyzing whether the cost can be accommodated or will require additional resources.

Capital Debt

The Capital Debt Affordability Advisory Committee (CDAAC) reaffirmed its two-year recommendation of \$132.46 million for FY18 through FY19 for long-term net tax supported debt. For the FY20/FY21 biennium, the CDAAC has suggested that borrowing capacity may need to be less in order to slow the growth of Vermont's total outstanding debt, to better align with the practices of other AAA rated states. [The CDAAC report](#) is available on the Treasurer's website.

September 14 Joint Fiscal Committee Actions

The Joint Fiscal Committee met on September 14, 2017 and heard testimony on several issues and took actions that included:

- Review of estimates for the 27th/53rd payroll obligation in 2022 and related plans to deposit \$3.55M into the reserve in the FY 2019 budget.
- Presentation from the Congressional Delegation on potential Federal fiscal issues which could impact Vermont. The most immediate are the CHIP reauthorization and the “Primary Care Cliff” issue which involves funding for FQHC’s and other clinics in Vermont that not funded through the State. There is a more detailed description of these issues in this newsletter.
- Initial projections for this year’s LIHEAP assistance. Assuming level funding of federal receipts, the program expects to cover 53% of need, up from 50% last year.
- Approval of technical changes and updates to the existing Vermont Economic Growth Incentive Model. The eventual replacement and updating of the model will occur after further review has taken place.
- Review of the State’s Single Audit which is a regular review process that began last year. In the past year, the number of findings or identified issues and repeat findings has declined due to increased attention and action by the Department of Financial Operations.
- Update from Susanne Young, Secretary of Administration, on clean water funding.
- Approval of a federally funded limited service position in the Attorney General’s Medicaid Fraud Office. Jason Turner, the director of the office, reported on receipts and pending settlements for the program and made the case for the added staff.
- The Joint Fiscal Officer report on recent activity including:
 - Initial Medicaid trends which are within appropriated amounts.
 - Plans for a shorter Medicaid re-enrollment period, that is scheduled to run between November 1 and December 15; 45 days rather than 60 days.
 - The initial impact of reducing expected retirement system investment returns which may result in an added \$7.4M general fund obligation.
 - A new issue brief on “[Surplus and Risk-Based Capital for Health Insurance Companies](#)” prepared by Nolan Langweil.

Grants and Limited-Service Positions Update

The following grants and/or limited-service positions were approved by the Joint Fiscal Committee in the first quarter of State fiscal year 2018 (7/1-9/30/2017):

Grant #	Agency/Dept.	Grantor	Amount	Description
JFO 2885	Agency of Agriculture, Food and Markets			Two (2) limited-service positions to be tasked with performing inspections under the Agency's new produce safety program
JFO 2886	Agency of Agriculture, Food and Markets			One (1) limited-service position to be tasked with providing engineering support to farmers who apply to or are enrolled in the USDA Environmental Quality Incentives Program (EQIP)
JFO 2887	Dept. of Housing and Community Development	Alma Gibbs Donchian Foundation	\$9,000	Funding for programs within the Division of Historic Preservation in the form of \$3,000 sub-grants
JFO 2888	Attorney General			One (1) limited-service position to help the AG's Medicaid Fraud and Residential Abuse Unit (MFRAU) to develop and carry out investigations into potential Medicaid fraud.

Each grant/limited-service position request, and its supporting documentation, is listed on the Joint Fiscal Office website. <http://www.leg.state.vt.us/jfo/grants/default.html>



JOINT FISCAL OFFICE STAFF

Legislative Joint Fiscal Office
 One Baldwin Street
 Montpelier, VT 05633-5701

Tel: (802) 828-2295 web address: www.leg.state.vt.us/jfo/

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

FISCAL ANALYSTS

Graham Campbell gcampbell@leg.state.vt.us

Daniel Dickerson ddickerson@leg.state.vt.us

Chloe Wexler cwexler@leg.state.vt.us