



The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

December 2018

Volume 25 – 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

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FY 2019 Revenue Collections, Nov. 2018

General Fund – Through November, 2018 the GF revenues for FY 2019 are running \$30.4 million over year to date forecast adopted in July. Personal income taxes are \$19.7 million over forecast and corporate income taxes are \$10.7 million over forecast. Small surpluses in rooms and meals taxes and property transfer taxes offset shortfalls in other revenue. Both the income tax and the corporate tax revenue may be a timing issue. As no revised withholding table was distributed, we can expect substantial refunds in April. The forecast update in January 2019 should provide more insight on the impact of the lagging withholding issue. Corporate repatriation revenues remain an issue to be monitored. At this time they are strong, however, potential litigation in other states may have revenue implications.

Transportation Fund – Revenues in this fund are up \$2.2 million year-to-date with gasoline, diesel, and purchase and use taxes running on target. DMV fees and other taxes are largely the source of the overage.

Education Fund – Revenues in this fund remain an area of caution. The non-property tax revenues are down year-to-date \$2.2 million. This is an improvement from the revenue position in October when we were below expectations by \$4.4 million. Sales tax revenues in November were over the monthly target but are still down \$3.7 million year-to-date. The holiday season contains the biggest months for sales tax, December and January revenue receipts will give us clearer picture of the sales tax revenue for the year. Lottery revenue is up \$1.4 million for the year, this is mostly driven by recent large jackpots in multi-state games.

Retirement Funds and Retired Teachers' Health Care

The annual actuarial valuation reports provide the current financial picture of our two major retirement systems as well as the foundation for the funding request for the next budget year. In total, the FY 2020 funding request for the two systems is a \$40 million increase across all funds. A portion of this pressure is a result of the accelerated amortization (i.e. quicker pay off of system liabilities) that was enacted two years ago to be effective in FY 2020. In addition the retired teachers' health care funding need (aka Other Post-Employment Benefits (OPEB) is in the \$3-\$4 million range. The General Fund portion is approximately \$34 million.

Vermont State Employees' Retirement System – [The VSERS actuarial report](#) finds the June 2018 funded level of this system, on an actuarial basis, to be 70.7%; this is a drop from 2017 at 71.4%. For FY 2020, the actuarially determined contribution is \$78.9 million, up from \$63.0 million in FY 2019. This contribution is paid as a charge to agencies and represents the obligation shared by a variety of funds. This is a total funding increase of \$15.9 million. The GF share is in the range of 35%-40% or up to \$6.4 million; the remaining amounts will come from special funds including the Transportation Fund and federal funding sources where applicable.

Vermont State Teachers' Retirement System – [VSTRS actuarial report](#) finds the June 2018 funded ratio of total pension liability based on the actuarial value of assets improved slightly from 54.2% at the end of FY 2017 to 55.2%. The improvement to the Teacher's retirement funding level was due, in part, to the funds added by the Legislature at the end of Fiscal Year 2018.

The VSTRS funding request for FY 2020 is \$129.5 million. This is up from \$105.6 million in FY 2019 and is higher than the FY 2020 actuarial request of \$126.2 million. The \$3.3 million in excess of the actuarial recommend is an effort to have the one-time funds reduce the long term funding needs rather than reduce near-term funding pressure. Of this total funding request and similar to last year, the normal cost of \$7.1m (contribution for currently working members of the system) is paid from the Education Fund, and \$5.7 to \$6.0 million will be covered by school districts from federal grants. The GF portion of FY 2020 will be approximately \$116.5 million up nearly \$24 million over the GF amount budgeted in FY 2019. This is in part due to the acceleration of amortization mentioned above.

Retired Teachers OPEB Obligation — This annual obligation was pulled out of the teachers' retirement system in FY 2015. For three years, this obligation was covered by a combination of an internal loan and annual appropriations. In FY 2018, the system was positive on an operating basis and in FY 2019 this system is beginning to pay down the internal loan balance. If funding is maintained, the loan balance will be paid off in FY 2022. For FY 2020 the budgeted funding need is expected to increase by \$3 to \$4 million, which includes covering the internal loan pay down.

Budget Pressures

FY 2019 BAA – The Administration has reported that the budget adjustment requests for the current fiscal year, FY 2019, are likely to be fairly minimal. Medicaid is the one area that may be more significant in BAA. DVHA monitors total Medicaid outflows weekly against budgeted expectations. For the past several weeks, Medicaid payments net overall have been running higher than expectation by \$6-\$8 million gross State and federal funds. This spread can move significantly week to week. There may also be one-time pressure in FY 2019 in Medicaid as a significantly greater number of enrollees are slated to move into the Accountable Care Organization (ACO) for 2019 and away from the fee for service payment model. This payment pressure is one-time since the upfront monthly member payment is made to the ACO at the same time the claims lag for these patients is concurrently absorbed. Staff working groups are meeting to monitor both issues and update the overall budget forecast in Medicaid.

FY 2020 — As noted in another article, the single largest pressure in the new budget will be from the retirement obligations, expected to be in the \$34 million GF impact range. Debt service requirements are adding \$5.8 million to the budget. Pay Act for FY 2020 is already appropriated but is a roughly \$10 million pressure above the FY 2019 base. In addition, we expect some additional pressure, the size of which is yet to be determined, on reclassifications that are now in the pipeline.

In Medicaid, there will be new adult match rate, utilization, rate change and DDS caseload pressure. In other AHS areas, we also anticipate pressure in family services and child welfare. These pressures are in addition to those in the unfunded liabilities report which includes the stagnation in benefits such as the child care subsidy market rate and the Reach Up program.

Education Tax Rates For FY 2020

On November 30, the [Commissioner of Taxes released a letter](#) with a projected property yield, income yield, and 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%.

If the Commissioner's projections were to be adopted by the Legislature, preliminary estimates indicate that the average tax rate on homestead property will remain at \$1.50, the uniform tax rate on nonresidential property will remain at \$1.58, and the average tax rate on household income will decrease from 2.49% to 2.45%. At these tax rates, the average tax bill for each class of taxpayer would increase by about 1.5% next year.

The most important factor determining education tax rates and tax bills is statewide education spending, which is projected to grow by 3.24% or about \$45 million over FY 2019. However, actual statewide education spending, which is determined collectively by voters, may be higher or lower next year. Board-approved school budgets are generally reported to the Agency of Education prior to town meeting week in March.

Another significant factor is a projected increase in sales tax revenue attributable to accelerating economic growth, upbeat consumer sentiment and related retail spending, as well as the recent *Wayfair* decision that opened the door to state e-commerce sales taxation. The July forecast upgraded the estimate of sales tax revenue for FY 2019 and FY 2020 by \$14.7 and \$18.6 million, respectively. However, to date, collections are lagging.

These projected education tax rates for FY 2020 include the cost of the incentives provided to qualified school districts that completed voluntary mergers pursuant to Act 46. The statewide cost of the Act 46 tax incentives peaked at \$14.7 million in FY 2019 and is estimated to be about \$11.7 million in FY 2020.

Board Issues Final Report on School District Mergers

On November 30, the State Board of Education (the Board) issued its final report on school district merger decisions pursuant to Act 46. The release of this report marks the conclusion of a multi-year process to create more sustainable and efficient school governance structures and improve access to quality elementary and secondary education in Vermont.

The Board's final report: (1) merges 45 districts to form 11 new union districts; (2) enlarges three existing union districts; (3) creates a net reduction of 34 districts, and (4) conditionally requires an additional four districts to merge with four existing union districts. The report also allows 47 districts to retain their current governance structure.

As a result of Act 46 and its predecessor legislation (Acts 153 of 2010 and 156 of 2012), 206 districts in 185 municipalities formed 50 new union districts for a reduction of 156 districts. By July 1, 2019, more than 85% of Vermont's elementary and secondary students will live in a new union district or a preexisting supervisory district. As noted in the report, the ultimate authority to determine district merger outcomes belongs to the Legislature.

Reserves: Status and Potential Changes

The following chart provides the total reserves and fund balances in the major funds of the State for FY17, FY18 and FY19 projected. Language in the budget (Act 11 of 2018 Spec. Session) recognized that the restructuring of the revenues and elimination of the transfer between the General Fund and Education Fund in FY19 required a look at these fund reserve requirements. The budget adjustment is likely to include recommendations related to the Education Fund, specifically eliminating the 3.5%-5% range for a flat 5%. The range was due to the General Fund transfer already being covered in the 5% General Fund stabilization reserve. Additionally, the budget directed consideration of incorporating all or part of the State Health Care Resources Fund, a major fund without a reserve, in to the GF. This is because the GF is now much smaller but also has capacity in its stabilization reserve.

Two major changes impacted fund balances. The Global Commitment Fund balance was moved into the caseload reserve in FY 2019. And some of the Federal Receipt Fund moved to the caseload reserve and some was used during the FY 2018 budget process reducing the amount remaining in that account to address ups and downs in federal receipts outside of reserves.

Major Fund Reserves and Balances (millions)	FY17	FY18	FY19 proj
General Fund - Stabilization Reserve (5%)	74.1	77.0	78.2
General Fund - Rainy Day Fund (up to 5%)	17.2	12.5	15.9
General Fund - Human Service Caseload Reserve	10.0	22.0	100.1
General Fund - 27/53 Payments Reserve	5.3	10.8	12.5
General Fund Total Reserves	106.6	122.3	206.7
Transportation Fund - Stabilization Reserve (5%)	13.3	13.5	13.8
Education Fund - Stabilization Reserve (5%)	33.5	34.6	37.0
Total Reserves	153.3	170.3	257.5
State Health Care Resources Fund Balance	0.0	1.6	0.0
Global Commitment Fund Balance	81.5	79.8	0.0
Federal Receipts Fund Balance (FY18 est. only)	51.3	18.0	18.0
Total Fund Balances	132.8	99.5	18.0
Total Reserves and Fund Balances	286.2	269.8	275.5

JFO Studies and Reports Update

Available on the JFO website are:

- [Child Care and Pre-K Capacity Study](#)
- [Births in Vermont Affected by the Opioid Epidemic](#)
- [The Aging of Vermont Median Age in Vermont Counties](#)
- [The FY 2020 Education Fund Outlook](#)

Among those underway for January are: reports on Decarbonization, Correction Health Care, Tax Expenditures and the Livable wage. A part of the Tax Expenditure report we will be producing a detailed analysis of the Vermont Capital Gains exclusion.

November 8, 2018 Joint Fiscal Committee Actions

The Joint Fiscal Committee met on November 8, 2018, heard testimony and took the following actions:

- Received fiscal updates from the Administration on FY 2019 budget pressures, the FY 2020 budget development process, projections on revenue and expenditures for FY 2020, Caseload reserves and the Global Commitment Fund. Review of statutory reserves for Caseload and the Education Fund had begun with the Joint Fiscal Office per D.109 of Act 11 of SS 2018.
- Received an update on the movement of State employees following a fire incident at the National Life Building to the Dill Building in Berlin and the Barre City Place in Barre.

- Received an update on the Tax Computer Modernization Fund and proposals for changing the level of funding as the tax system is largely in place. The Department of Taxes will deliver a proposal in January to the Legislature.
- Approved two grants: (1) JFO #2933 for \$7,583,030 from the Centers for Disease Control and Prevention to the VT Dept. of Health. Funds and positions would be used to improve prevention and management of diabetes and cardiovascular disease in rural high-risk populations in Vermont. (2) JFO #2934 for \$8,211,854 from the Substance Abuse and Mental Health Services Administration to the VT Agency of Education to partner with the VT Dept. of Mental Health and three supervisory unions in the State to promote the improvement of mental health services and outcomes in school-age youth.
- Received an update from the Fiscal Office on: the Legislature’s Budget for FY 2020; the Decarbonization Study; federal tax deductibility for Legislators’ expenses; and an update on State Employees and Teachers’ Retirement.
- Approved changes to the methodology for the Basic Needs Budget that were brought forth by the JFO.
- Heard testimony from the State Treasurer on Vermont’s bond rating downgrade from Moody’s.

Grants and Limited-Service Positions Update

The following grants and/or limited-service positions have been reviewed to-date by the Joint Fiscal Committee in the second quarter (10/1/18-12/31/18) of State FY 2019.

Grant #	Agency/Dept.	Grantor	Amount	Description
JFO #2924	VT Dept. of Environmental Conservation			Two (2) limited-service positions titled Environmental Analyst III and Grants Management Specialist, both funded through U.S. EPA Lake Champlain Basin Program grant dollars.
JFO #2925	VT Military Department			Four (4) limited-service positions titled Security Guard to contribute to the protection of military facilities in VT. Positions would be federally funded.
JFO #2926	VT Agency of Transportation	GHSA and the Foundation for Advancing Alcohol Responsibility	\$20,000	Funds would be used to provide training to law enforcement to reduce drug-impaired driving.
JFO #2927	VT Secretary of State	LYRASIS	\$15,000	Funds will be used to develop a Performing Arts Readiness network in Vermont with the goal of protecting historical records in the event of an emergency.
JFO #2928	VT Secretary of State	US Dept. of Labor	\$450,000	Funds will augment State funding that has been budgeted to perform a three-yea review of licensing criteria for certain career fields falling under the purview of the Office of Professional Regulation.

JFO #2929	VT Dept. of Public Safety	Federal Emergency Management Agency FEMA	\$1,001,577	Funds to be used to provide public assistance to counties that were impacted by severe storms and flooding that occurred on May 4-5, 2018.
JFO #2930	VT Judiciary	US Dept. of Health & Human Services	\$2,041,347	Funds would be used to continue an expanded Windsor DUI court docket, which would include Windham and Orange Counties. One (1) limited-service position is associated with this request.
JFO #2931	VT Dept. of Public Safety	US Dept. of Homeland Security	\$143,455	Funds would be used to integrate preparedness activities for nonprofit organizations that are at a high risk of terrorist attacks with broader state and local preparedness efforts.
JFO #2932	VT Dept. of Public Safety	FEMA	\$947,877	Funds would be used for pre-disaster mitigation projects and also used to support local hazard mitigation planning efforts.
JFO #2933	VT Dept. of Health	Centers for Disease Control and Prevention	\$7,583,030	Funds and positions would be used to improve prevention and management of diabetes and cardiovascular disease in rural high-risk populations in Vermont. <i>Two (2) limited-service positions are associated with this request.</i>
JFO #2934	VT Agency of Education	Substance Abuse and Mental Health Services Administration	\$8,211,854	Funds would be used to partner with the VT Dept. of Mental Health and three supervisory unions in the state to promote the improvement of mental health services and outcomes in school-age youth. <i>One (1) limited-service position is associated with this request.</i>
JFO #2935 ¹	VT Center for Crime Victim Services	US Dept. of Justice	\$664,632	The funds will be used on a project aimed at combatting human trafficking in Vermont. <i>Two (2) limited-service positions are associated with this request.</i> The VT Dept. of Public Safety will be a partner on this project
JFO #2936 ¹	VT Dept. of Health			Four (4) limited-service positions within the VT Dept. of Health. The positions would oversee an existing, but expanded, grant program aimed at combatting the opioid crisis in Vermont.
JFO #2937 ¹	VT Dept. of Public Safety	US Dept. of Justice	\$535,000	Funds to be used to develop and enhance anti-human trafficking prevention and intervention strategies. The work would be done in partnership with the VT Center for Crime Victim Services. <i>One (1) limited-service position is associated with this request.</i>
JFO #2938 ¹	VT Dept. of Public Safety	US Dept. of Justice	\$173,780	Funds to be used to update the technology utilized for anonymous reporting of threats to safety of students and personnel in schools.

¹ This item is still within the statutory review period and the Governor’s approval is not yet final.

JFO #2939 ¹	VT Dept. of Public Safety	US Dept. of Justice	\$231,464	Funds to be used to enhance the SURVIVermont initiative for educating the public on active shooter response best practices.
JFO #2940 ¹	VT Dept. of Health			Two (2) limited-service positions, one within the VT Dept. of Health and one within the VT Dept. of Mental Health. The positions would oversee a project to expand early identification of maternal depression and provide access to mental health and substance use disorder screening and treatment.



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