The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

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FY 2007 Closeout

The General Fund (GF) ended the year with surplus funds of $31.78 million over the end-of-session revenue estimate. This surplus was anticipated in the provisions of Sec. 277 of the big bill (Act 65 of 2007). After filling the GF rainy day fund and carrying forward $10.67 million to FY2008 for onetime expenditures, the surplus allowed the following appropriations and transfers to be made:

$13.66 million for the Education Fund;
$8.00 million for transportation,
  $6.5 million for TF shortfall and
  $1.5 million for projects;
$2.00 million for school construction;
$2.27 million for economic development initiatives;
$2.47 million for partially funding of pay act;
$1.81 million for costs associated with the
  Bennington State Office Building; and
$1.50 million to reduce internal service fund deficits.

The surplus was not sufficient to allow funding of the individual group market initiative or provide additional funding for transportation and school construction.

The Transportation Fund (TF) did not meet its revenue projection and fell short of revenue by $3.3 million. This shortfall combined with the $3.7 million downgrade in the forecast for FY2008 means there would have been a deficit of $7.1 million but the $6.5 million of GF provided in Sec. 277 means we face a smaller gap to close in the budget adjustment process for FY2008. ❖

Economic Outlook

The Emergency Board met on July 24th with legislative economist Tom Kavet and administration economist Jeff Carr to discuss the economic outlook and adopt revisions to the consensus state revenue forecast. The overall forecast revision was roughly a 1% change in FY2008 and less than 0.5% in FY2009. The changes in revenue from the estimates made in January 2007 for FY2008 and FY2009 are summarized by fund below:

FY 2008 Revenue Estimates ($ millions)
(* Education Fund is non property tax revenue)

Fund	Change	FY08 Estimate
General Fund	+ 17.5	$ 1,170.2
Transportation Fund	- 2.9	$ 229.4
Education Fund*	- 2.1	$ 166.4

As a result of the increase in the FY2008 forecast, two provisions for contingent funding will occur.

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LIHEAP Update

LIHEAP (Low Income Home Energy Assistance Program) is a federal and state funded program that provides a benefit to income-eligible clients to assist with their heating costs. Prior to the 2005/2006 heating season the LIHEAP program had been entirely funded with federal dollars but, due to the rise in heating costs, the state committed funds in order to provide a benefit to recipients that reflected prior year's support levels. For the past two heating seasons the state committed to providing a benefit level that would cover at least 62% of the average households heating cost, based on the estimated cost that would be incurred by households that heat with oil. This year, with the legislative decision to expand eligibility to about 750 more individuals with slightly more assets, the benefit percent is being reduced to 60% to offset the added cost.

This past legislative session the asset test that a household must meet in order to become eligible for benefits was raised from a $3,000 maximum for people 60 years or older and $2,000 maximum for people with no elderly household members to $5,000 with some exclusions established by rule. It is estimated that this change in the asset test will enable 750 more people to become eligible for benefits. In addition to the 750 new clients, the base caseload has grown by an estimated 2%. The Administration and legislative staff have developed an estimate of the cost of the 2007/2008 LIHEAP program based on a benefit level that would pay approximately 60% of the average households heating cost. This season's average benefit will be $1,169, compared to last season's average benefit of $1,368. Last year's benefit was established in August of 2006 based on projected fuel costs and an assumption of the severity of the winter. While the benefit was designed to fund a 62% benefit, at the end of the heating season, when actual fuel cost figures were available, it turned out that the $1,368 average benefit supported an estimated 71% of the average household's heating cost. It is estimated that the State will have to contribute $6,477,000 in order to support this heating season's benefit level.

Another change from last year affects clients who live in Section 8 housing. Part of the calculation of a Section 8 client's monthly rent includes consideration of the cost of heating the housing unit. Due to the increase in the cost of fuel, in October 2006 the Vermont State Housing Authority increased the amount of the subsidy they provide for heat. As a result of this increase, most Section 8 clients received an increase in their subsidy amounts, resulting in a decrease in the rent that they pay. The reduction in the amount of rent the clients pay is intended to be used to offset the cost of heating the housing unit. Due to the timing of determining LIHEAP eligibility last heating season many of the Section 8 housing clients received a LIHEAP benefit, however, due to the increase in heating subsidy built into the Section 8 rent many of these clients will no longer be eligible for LIHEAP benefits this coming heating season. This change in Section 8 eligibility will save Vermont's LIHEAP program an estimated $1,057,000 during the coming heating season.

Vermont's LIHEAP benefit level is greater than other states, however, many states provide a smaller benefit to a larger number of people while Vermont currently provides a larger benefit to a lower number of very low income households. In making state to state comparisons it is important to note that the program allows states to set eligibility parameters up to the median state income. In Vermont the benefit is provided to those below 125% of FPL which in FY2007 was $17,100 annually for a two-person household. The decision this year to increase eligibility through a larger asset test but to offset the cost of this with a slightly lower benefit could be considered a small step in the direction of other states. ❖

Transportation Update

The Transportation Fund continues to experience strong project demand with revenue falling short of expectations. The following time line provides some perspective on the recent history of the transportation fund:

During the 2006 session, increases in DMV fees were enacted and were projected to raise $13.6 million in additional revenue for the fund in FY2007. This effort to increase capacity in the fund has essentially been a case of one step forward one step back. FY2006 ended with a $5.8 million deficit that was solved by administration reversions i.e. cancellation of previous appropriations that would normally have remained as a resource for transportation project funding. Furthermore, the FY2007 forecast for the underlying revenue base was essentially downgraded by $10 million, so instead of having $13.6 more there was only $3.6 million. Since the FY2007 transportation budget had already been passed at the higher expectation, the revenue downgrade combined with flood related emergency needs required cuts in state transportation spending of $11.8 million which also resulted in $10.3 million less spending of federal transportation funds.

Despite the revenue downgrade in the forecast, the transportation fund closed FY2007 down even further, with a $3.3 million deficit. The new revenue forecast adopted in July for FY2008 was again downgraded resulting in a projected deficit of $3.7 million for the as passed budget. This was anticipated. General funds of $6.5 million were transferred to help cover both these impacts. At this point we face a $650,000 hole in budget adjustment.

With continued transportation infrastructure needs and insufficient revenues, the Legislature, the Treasurer and the Administration are discussing the possibility of working on a study of future approaches to meeting these needs.❖

Vermont's Bridge Rankings

The collapse of the interstate bridge in Minneapolis has prompted a number of inquiries and news stories about the status of Vermont's bridges. FHWA requires the state to periodically inspect and file condition reports on bridges in the state that are eligible for federal aid funding. The fed's condition rating system is technical and also very broad. The most serious rating that a bridge is "structurally deficient", for example covers bridges that are so dangerous they are closed to traffic as well as bridges that pose little risk but which will require work within the medium term in order to maintain their structual integrity. A bridge that is "functionally obsolete" means the bridge does not meet modern geometric design standards (e.g. its too narrow or the turn onto the bridge is too sharp). A bridge thus could be structurally sound but functionally obsolete. A bridge that is both structurally deficient and functionally obsolete is classified as being structurally deficient.

FHWA compiles the bridge ratings from each state and publishes summary data each year. The latest FHWA bridge report is for 2006. Vermont's ranking relative to other states is summarized below. The percentages are the proportions of the state's bridges that fall within the designated category. The rankings are from 1 = best to 52 = worst (50 states, D.C. and Puerto Rico).

FHWA Bridge Condition Data 2006

National Highway System	Number Count		
	SD	FO	SD+FO
National Average	5.4%	14.9%	20.3%
Vermont	13.0%	23.3%	36.3%
Vermont ranking	48	46	47
All Federal Aid Bridges	**Number Count**		
	SD	FO	SD+FO
National Average	12.4%	13.4%	25.8%
Vermont	16.1%	18.5%	34.6%
Vermont ranking	44	39	43

"SD" = structurally deficient
"FO" = functionally obsolete

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Future of VT State Hospital

Last session in Act 9, the legislature authorized hiring a consultant to look at alternatives for the Vermont state hospital. The Speaker and the Senate President Pro-tem brought on a very experienced team consisting of Con Hogan, former Secretary of Human Services; Richard Surles, former Commissioner of Mental Health; and Tom Moore, former Deputy Commissioner of Social Rehabilitation Services (SRS). This summer, they have been reviewing all the existing documents and reports, working closely with the administration and gathering input from legislators and advocates to develop options for review and provide recommendations that will be presented to the committees of jurisdiction in a final report this fall.

As required by Act 9, the consultants have provided an interim report. This report identified several overall inter-related policy areas which will need to be considered as the state hospital replacement planning continues. Addressing these issues are considered key to having the VSH replacement process result in an integrated system that is able to provide the best treatment to patients. The issues are briefly summarized here:

- How Vermont laws on emergency detention and expediting treatment will impact options and costs.
- How in-patient beds are defined and the importance of identifying the right types of beds in the right settings to ensure the entire mental health system is sustained and strengthened. This includes how to maximize existing acute care bed capacity and address the local hospitals' concerns.
- The future role for a Waterbury state owned and operated facility.
- How to address treatment for the corrections population in need of psychiatric hospitalization.

The interim report is available on the Legislative web sites. The final report is due on Nov. 1, 2007. ❖

Catamount Update

In July The Center for Medicare and Medicaid Services (CMS) refused to provide federal matching funds for Catamount Health Plan premium assistance for individuals with incomes over 200% of the federal poverty level (FPL). This action triggered the provisions of Sec. 106 of Act 65 requiring the Commission on Health Care Reform (CHCR) to make a recommendation to the Emergency Board on whether to proceed with implementing the program, delay the start-up, or limit access to the program. Both the CHCR and the Emergency Board reviewed the implications of the lost federal matching funds on the solvency of the Catamount Fund. Both recommended proceeding with the implementation of the program to provide premium assistance to eligible uninsured Vermonters up to 300% of the FPL. The motion adopted by the Emergency Board outlines a commitment of allocations from the general fund to the Catamount program given CMS' current position. The amounts are for $3.5 million in FY08 and $7.5 million in FY09 and FY10 respectively to keep the Catamount fund solvent thru FY10.

If the federal matching funds had been provided, the projected fund balance at the end of FY10 would have been a surplus of $7 million. Without the additional general fund, the balance at the end of FY10 is projected at a cumulative deficit of $17.9 million. The commitment of $18.5 million of general fund over three years allows the fund to remain in the black through FY10. Efforts will continue to obtain a waiver so there can be federal matching funds for the premium assistance provided for those between 200% - 300% FPL.

The Catamount Program will begin enrolling eligible Vermonters on October 1, 2007 with coverage beginning on November 1, 2007. Information can be found by going to the administration web site http://hcr.vermont.gov/ . ❖

Economic Outlook

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First, Sec. 269 included $5 million for contingent base funding needs, $4.3 million for the Department of Corrections operations costs, and $700,000 to fund the 2008 legislative session for 18 weeks. Second, Sec. 266 (b) allowed for up to $2 million dollars of additional property transfer tax revenue to be available to the Vermont Housing and Conversation Board if the property transfer tax revenue forecast was increased. This forecast was increased by $1.1 million which will be available to the VHCB in FY 2008. At his Emergency Board presentation, Tom Kavet expressed concern over the manner in which the Sec. 266 provision was constructed. He suggests that contingent funds in the future be conditioned on actual revenues exceeding a forecast at year end as opposed to be conditioned on a mid-year line item forecast change.

FY 2009 Revenue Estimates ($ millions)
(* Education fund is non property tax revenue)

Fund	Change	FY 08 Estimate
General Fund	+7.8	$1198.8
Transportation Fund	-2.7	$234.4
Education Fund*	-2.1	$172.0

The U.S. and Vermont economies continue to be in a period of expansion but that period is showing age. The housing and residential real estate market is the source of much uncertainty for the future. Vermont has experienced these forces. Vermont has moved from being among the top ten states with the lowest unemployment rate to ranking 18th, although this is still the best in New England. The forecast will be revised again in January 2008. The full report can be accessed at the Joint Fiscal Office webpage http://www.leg.state.vt.us/jfo/ and clicking on the link "July 2007 Economic Outlook." ❖

Joint Fiscal Office Staff Update

There have had several staffing changes at the Joint Fiscal Office (JFO).

- Donald Dickey has moved from JFO to the Health Care Reform Commission.

- Nathan Lavery, who had been working with us during the legislative session, will stay on to help develop the JFO budget system.

- Steve Kappel has retired from the Joint Fiscal office to set up a consulting practice. We will continue to use his services for a transition period.

- Nolan Langweil has joined our staff as a fiscal analyst for health care and Medicaid. He is coming from Connecticut where he has worked in a variety of positions involving health care finance. He will be facing a learning curve as he works to understand Global Commitment, Catamount and Vermont health programs generally.

Please join us in our best wishes for Steve and Don and in welcoming Nathan and Nolan. ❖

Dear Vermont Legislator,

This is the first 2007 issue of THE FISCAL FOCUS. This 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 abreast of local, state, and federal financial developments while the General Assembly is adjourned. This update is sent to all House and Senate members.

It is important for us to understand what topics interest you so we can incorporate them into future issues. If you have any comments or suggestions, please let us know.

Joint Fiscal Office Staff ❖

JOINT FISCAL OFFICE STAFF

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

FISCAL ANALYSTS

Nolan Langweil	nlangweil@leg.state.vt.us
Nathan Laver	nlavery@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

BUDGET SYSTEM MANAGER

Richard Reed	rreed@leg.state.vt.us

STAFF ASSOCIATES

Rebecca Buck	rbuck@leg.state.vt.us
Sandy Noyes	snoyes@leg.state.vt.us
Virginia Catone	vcatone@leg.state.vt.us

Joint Fiscal Committee Meeting

The JFC met on July 24, 2007. The following summarizes the actions of the committee:

- Reviewed list of reports and summer studies for the legislature and the projected legislative budget
- Reviewed FY 2006 closeout and preliminary information on budget adjustment pressures discussed elsewhere in this newsletter.
- Approved banking and insurance and health care transfers to the General Fund as required by statute
- Received a revenue and economic update from Tom Kavet in preparation for the July Revenue revision
- Received a report on state positions in the position pool and an update on LIHEAP funding needs ❖

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

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