The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

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Revenue Update

After five months of collections, the General Fund has received $344.7 million compared to a target of $340.6 million. The difference ($4 million) is attributed to an estate tax payment in October. Even though we are exceeding anticipated receipts, these collections represent a decline compared to the same five month period last year ($346.9 million). All major sources of revenue are within four to five hundred thousand dollars of target except for the corporate income tax which is below forecast by $2.9 million. Overall, the General Fund continues to be on track for achieving the total fiscal year 2003 forecast of $852.0 million. The month to month fluctuations in the performance of various tax categories are a source of continued concern. At the same time, one area of potential good news is the continued strength of the withholding portion of the personal income tax.

Transportation Fund collections are performing slightly above expectations with $82.1 million in revenue compared to a five month target of $80.1 million. This represents a revenue growth of 5.5% compared to the same period last year. Purchase and use collections continue to perform well, up $0.9 million compared to the forecast. The Transportation Fund is also on track for achieving the total fiscal year 2003 forecast of $206.4 million.

The Education Fund has received $33.3 million compared to a five month target of $34.2 million and these collections are less than the same period last year ($34.8 million). Weak corporate income tax collections and lottery receipts are contributing to the lackluster performance in this fund. Notwithstanding, it is reasonable to expect that the fiscal year 2003 forecast of $87.6 million is achievable.

The official revenue forecasts will be updated in January by the Emergency Board. ❖

Medicaid Rx Savings

One of the major drivers of increased Medicaid spending is payment for prescription drugs. From 1997 through 2002, spending increased an average of 21% per year. A variety of mechanisms has been put in place to try to reduce this rate of growth, including a preferred drug list (PDL). This list is a tool to assist prescribers and consumers in choosing among therapeutic equivalents.

In Vermont's Medicaid program, the PDL is developed by a board that includes physicians and pharmacists. Board members make choices among drugs based on both cost and quality. Prior approval by Medicaid's pharmacy benefits manager is necessary to prescribe other drugs in the same class as a preferred drug.

In building the FY 2003 budget, OVHA (the Office of Vermont Health Access) assumed $3 million in savings from the first three classes of drugs that were included on the PDL. These were acid reducers, anti-inflammatories, and narcotic analgesics. From March 11, 2002 through September 30, 2002, OVHA has reported $2.9 million in savings (compared to the same period, last year). This is roughly a $1.3 to $1.4 million savings in the first quarter of FY 2003, suggesting that the $3 million savings in the budget will be achieved. Additional savings have been budgeted for other therapeutic classes, but it is unlikely that actual savings will be of the same magnitude as has been realized in the first three classes. ❖

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Dear Legislator,

This is the third 2002 issue of THE FISCAL FOCUS. It is intended as a nonpartisan update prepared by the 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

LIHEAP Update

LIHEAP (Low Income Home Energy Assistance Program) is a federally-funded program to provide support for heating in northern states and air conditioning in southern states. The federal LIHEAP budget has not been approved by Congress for this heating season and is, in fact, targeted by the President for an 18% reduction. A continuing resolution is supporting the program at the President's proposed reduced level. This reduced funding translates into a total funding level for Vermont of $8.161 million compared to $9.945 million last year.

The average family's benefit last heating season was $478 plus a $112 bonus benefit for a total benefit of $590. This seasons average family benefit is expected to be $428. There are several reasons for this decrease including an increased set aside for the crisis benefit program as required by law, reduced refunds of unused benefits from fuel dealers, and the decrease in overall federal funding. If funding remained at the FY2002 level, it would result in an estimated increase of $100 to the average benefit.

The current price of oil is $1.20/gal compared to last year $1.22/ gal. Last year the price of oil was dropping and the winter was the fifth warmest on record, unlike this year where the risk is that oil prices will rise and the forecast is for a much colder winter. The Federal Energy Information Administration has predicted that oil prices will reach $1.35 a gallon this winter which, compared to last heating season, translates into an additional $125 for a household using 500 gallons a year to heat its home.❖

Retirement Funds

State employees and teachers retirement systems are weathering the stock market downturn. Market values in the retirement systems have dropped over the past two years. However on an actuarial basis, the two systems continue to make progress toward full funding.

Based on standard measures of the systems, the funds continue to do well. The Government Accounting Standard Board suggests a measure of the Actuarial Value of Assets over the Actuarial Accrued Liability, known as GASB 25. This measure is designed to adjust the market value for short-term fluctuations. Where market growth is rapid, the measure "smoothes" that growth so not all the market value is counted. Where, as in the present case, the market value is falling, not all of the decline is included and the actuarial value of assets exceeds the market value. An older measure, known as GASB 5 takes into account year-to-year fluctuations and compares actual market value to the Pension Benefit Obligations at a given point in time.

The Teachers' Retirement System: The fund's assets are at a level sufficient to cover about 90% of its obligations under both the above measures. Its funded ratios, which are likely to be adjusted when a review of actuarial assumptions is completed, are as follows:

	GASB 5	GASB 25
2002	90.5%	89.5%
2001	104.7%	89.0%
2000	117.3%	88.4%

In FY 2002 and FY 2001 the fund's return on invested assets has been -4.7% and -1.86%, respectively.

The State Employees' Retirement System: The fund's assets are at a level sufficient to cover between 97% and 100% of its obligations under both the above measures. Its funded ratio are as follows:

	GASB 5	GASB 25
2002	99.8%	97.4%
2001	109.1%	93.0%
2000	126.7%	92.6%

In the past two years, FY 2002 and FY 2001, the fund's return on invested assets has been -5.1% and -6.77%, respectively.❖

Current Budget Pressures

All areas of state government have been affected through the rescission process. At this point it is unclear what recommendations the new administration will make for budget adjustment or policy changes to address budget pressures. A summary of several significant issues is listed below; most of these are in the Agency of Human Services and are caseload driven.

▶The Department of Corrections was appropriated funds for 375 out-of-state beds, as of the November 478 beds were being used. By the end of the year, up to 600 beds could be needed. The potential impact is $2+ million.

▶In SRS there are higher caseloads in both substitute care and subsidized adoption as well as higher average cost per case. The department is also facing a reduction in federal Title IVE (child welfare) funds. Total pressure could total $3 million.

▶In DDMHS developmental services and flexible-family-funding are above estimates. When combined with licensing/staffing issues at the Vermont State Hospital this could have a $1 million impact on the department's budget.

▶In PATH, caseload for AABD is running above estimates, resulting in a $400,000 impact on the state supplement. In Reach-Up spending appears on course, however the General Assistance programs are running above estimates.

In addition to Corrections, the entire spectrum of the criminal justice system, Public Safety, State's Attorney, Defender General, Judiciary is facing higher than expected demands which are likely to roll out to FY2004. ❖

Joint Fiscal Committee

The Joint Fiscal Committee met on November 8, 2002. The following issues were addressed:

▶Received a report on staff shortfalls in Public Safety. Due to the long lead time in filling state police positions, the Committee approved a letter to the Governor-elect, urging him to commit funding to enable the Department to begin to recruit candidates. Governor-elect Douglas announced that he would make such a commitment, and recruitment and training of six new troopers is underway.

▶Approved AMTRAK funding through March 2003. This will give the legislature a chance to address the state's long term commitment to AMTRAK and its Vermont Service.

▶Approved homeland security funding grants for the departments of Agriculture and Public Safety. The grants include $74,733 for animal plant and inspection services and $446,349 for local planning for emergency response through local community emergency response teams.

▶Received a briefing on Legal Aid's challenge to the rescissions impacting elective surgery, chiropractic and denture services and authorized the Legislative Counsel to file a brief on behalf of the Joint Fiscal Committee on the constitutional authority of the legislature. The court subsequently upheld the constitutionality of the rescission process but required PATH to hold a hearing on implementation rules. A legal aid appeal is underway.

▶Reviewed a Joint Fiscal Office study on the tax impact of tourism and marketing expenditures. An article on this study is in this newsletter. ❖

FY2003 Federal Budget

The federal budget for FY 2003 which began September 30th remains in limbo until Congress reconvenes in January. In the interim, the federal budget is operating on a series of continuing resolutions. The only guide to possible outcomes is the President's recommended funding level.

Key characteristics of the President's proposed budget are growth in mandatory spending of 9.2%, primarily in direct benefit programs such as food stamps, child nutrition, and Medicaid, and flat or reduced funding levels for most discretionary programs. The Department of Justice and the Department of Labor will experience the largest funding decreases. Observers project that increases are likely to be in special education, funding for first responders, and the voter reform act. Unemployment insurance benefits are likely to be retroactively extended. ❖

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Tourism and Marketing

The FY 2003 budget directed the Joint Fiscal Office, in coordination with other state agencies, to review and evaluate the impacts of tourism and marketing spending on Vermont revenues. The study concluded that while state tourism and marketing efforts are important, it is impossible with the data currently available to measure a direct fiscal return to the state on the amount spent in the budget for tourism and marketing promotion. Advertising impacts are realized over time and may or may not change revenues in the same fiscal year as the expenditure.

The study also looks at other states' uses of funding formulas for tourism advertising and the history of Vermont's budget for these expenditures. The report also contains a review of current Department benchmarks and a comparison of the budgets and funding for tourism and marketing activities in all 50 states.

Copies of the report are available on the JFO website at: www.leg.state.vt.us/jfo. ❖

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