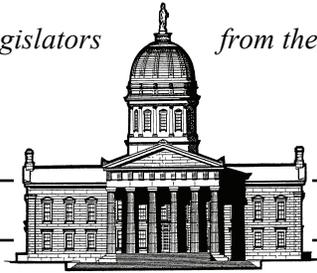


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# The Fiscal Focus

An update for Vermont Legislators

from the Joint Fiscal Office



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## Revenue Update

Revenues through November are generally tracking the forecast and, therefore, it does not appear that there will be a major change in the forecast when the Emergency Board meets in January.

To date, the General Fund is over forecast by \$11 million largely due to a \$13 million windfall estate tax settlement. However, current law provides that anything over 125% of the July estate tax forecast be deposited in the Higher Education Trust Fund meaning only a fraction of the windfall will remain in the GF. Corporate income tax revenues are exceeding forecasts, however, this is a very volatile category. Current strength in corporate tax does not necessarily translate into a better base and trend in future years. Income tax is tracking below forecast, but we may see some one time capital gains revenue affect this year. The positive factors in the General Fund for FY06 may not carry forward into FY07. For this reason, it is unlikely that a major upgrade will occur for FY07. Rhode Island and Massachusetts are other New England states that foresee slower revenue growth in future years.

The Transportation Fund continues to be on target for FY06. In July, the Emergency Board reduced Transportation Fund expectations by \$5 million, so tracking "on target" indicates the reduction made in July was appropriate. While there is some weakness in the purchase and use tax, it is too early to know if the revenue estimate will be changed in January.

The non-property tax portion of the Education Fund is running just over forecast due to stronger than anticipated lottery receipts.❖

## Budget Pressures

### FY06 Budget Adjustment

The House Appropriations Committee met this week to begin the budget adjustment process. Nearly half-way through the fiscal year there are several areas of significant pressure, the largest of which is Human Services as summarized below.

- **Mental Health and Vermont State Hospital** – Approximately \$2 million increase in General Fund for increased reimbursement to the Brattleboro Retreat, nursing and psychiatric services, Valley Vista and Conifer Park, replacement of funds related to the Institute of Mental Disease Medicaid issue, and several one time costs.
- **Children and Family Services** – \$2.1 million GF is needed for increased caseload costs in substitute care and subsidized adoption and replacement of federal IVE funds. In the Reach Up program, there is good news in that caseloads are coming in lower than expected. These freed up funds offset the \$1.2 million needed due to a roughly \$10 per month cost per case increase in the program.
- **Disabilities Aging and Independent Living** – This department needs \$1.4 million for developmental services-related costs which include a week of costs rolled forward from FY05 and flexi-

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## The Fiscal Focus

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Dear Legislator,

This is the third 2005 issue of THE FISCAL FOCUS. This is 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

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## Budget Pressures cont.

ble family funding caseload. There is also nearly \$600,000 needed for Medicare Part D outreach and Area Agency on Aging funding.

- **Corrections** – \$1.4 million is mainly due to position reclassifications that were implemented in October. The reduction in out-of-state bed need has not materialized. While there is no budget adjustment expected relating to bed need, the funds that the legislature had hoped would be redirected within this budget to community supervision will not be available to be reallocated. The General Funds transferred from Corrections to LIHEAP by the Emergency Board for fuel assistance will be restored in the budget adjustment as well.
- **Medicaid** – The Global Commitment is anticipated to address the shortfall in the FY06 Medicaid budget as well as partially address the FY07 program deficit. We do anticipate the appropriation changes needed to reflect the October 1<sup>st</sup> start date of the Global Commitment waiver will be included in the budget adjustment bill.

### FY07 Budget Pressures

As we look at the big fiscal pressures in the General Fund for FY07, we see the roll out impact of many of the items above, as well as a FY07 Medicaid deficit of \$22 million. Although the specifics of federal funding in human service areas are still unclear, the outlook is pessimistic, and the legislature will have to determine the best way to address this anticipated

pressure when the programs affected are known. Another area of pressure is funding of the teachers retirement system which needs \$13 million of additional ongoing base funds. The article on page 3 provides more information on this issue.

The one area of increased federal funds is transportation. Congressional approval of the new multiyear federal highway reauthorization bill creates a pressing issue for the 2006 session. Under the bill, SAFETEA-LU, Vermont will be receiving an average of \$61 million a year in additional federal funds through FFY09. Most of the extra money (\$55.4 out of \$61) is in the form of earmarks tied to specific projects. For the most part the earmarked projects were already prioritized for advancement over the time period (2/3 of the \$312 million total in earmarks). The extra federal funds in FY07 thereafter create a state match funding gap in the range of \$12-\$18 million per year. With the state match and new federal money transportation spending could increase by \$73-\$74 million per year.

Local education and the state education finance system will be experiencing several fiscal pressures:

- School construction projects including tech centers are potentially a \$17-\$22 million state liability. Last year's capital bill contained \$9 million to meet this expense.
- School districts will receive a substantially higher base education payment per student. This is due to the inflation index for this payment moving up more than 5%. This change in revenue for school districts and the proposed statewide rate reduction from \$1.10 to \$0.99 will soften the impact of grand list growth on school tax payments.
- Special education costs are likely to rise as federal special education funds are not likely to grow. If the federal special education dollars are flat, state and local spending needs to rise to make up the difference. The current budget adjustment also includes an increase in the state-placed students budget.
- In FY 2007, eligibility for income sensitivity will rise from \$75,000 to include households with incomes of up to \$85,000. Eligibility above that level is limited to homestead values below \$200,000.❖

## Fuel Assistance Update

On Nov. 1, the Emergency Board redirected \$10.2 million to supplement the federal funds available for LIHEAP. This action was taken to ensure that low income Vermonters maintain the same the average power they had in recent years despite the significant increases in fuel prices. The LIHEAP benefit will cover 62% of the average heating bill this season. Of the total \$3.5 million was from the Weatherization Fund, and \$6.7 was transferred from General Funds appropriated to Corrections to be replaced in budget adjustment. The GF portion will be reduced if federal LIHEAP contingency payments come in later.

At their Nov. 17<sup>th</sup> meeting, JFC was informed of the progress in processing fuel assistance applications. JFC was very concerned about the backlog in processing applications and requested an update on this processing. This concern resulted in a significant improvement in the processing of applications. The Dec. 7<sup>th</sup> report from the Department for Children and Families provided the following:

Approximately 3,000 more Vermonters have applied for fuel assistance this year than last. Additional staff and overtime have been assigned to the program, and despite 1,058 new applications since Nov. 15, the number of applications in the pipeline has been cut by more than half.

	Nov. 15	Dec. 7
Applications:	25,500	26,558
Processed:	20,700	24,285
In the pipeline:	4,800	2,273

Benefits for September applicants were issued on Nov. 30, ahead of the normal schedule. For applications since then, benefit determinations are being made at an accelerated pace and processed weekly.

The Fuel Office (1-800-479-6151 or [http://www.dsw.state.vt.us/Programs\\_Pages/Fuel/fuel.shtml](http://www.dsw.state.vt.us/Programs_Pages/Fuel/fuel.shtml)), in collaboration with the Community Action Agencies, expedites seasonal fuel assistance applications in urgent situations. The Emergency Fuel Program is available to eligible Vermonters 24 hrs/ day through a local community action agency. ❖

## Teachers Retirement

The Commission on Funding the Vermont State Teachers' Retirement System (VSTRS) established in the 2005 session has issued its report. The commission was established to address the underfunding of the VSTRS evidenced by the findings that the system-funded ratio has declined from 92.3% in 2001 to 81.1% in 2005 and the unfunded liability increased from \$93.8 million in 2001 to \$315.1 million in 2005. The key recommendations of the study include:

- Make no change in benefits at this time.
- Adopt the Entry Age Normal (EAN) actuarial methodology to provide a more accurate picture of the plan's funded status, consistent with most public retirement plans.
- Reamortize the Unfunded Actuarial Liability (UAL) over 30 years. This will reduce the state's required additional annual contribution.
- Increase the assumed rate of investment return to 8.25%. This 0.25% increase reflects the effect of the new unified pension fund investment process.
- Create separate appropriations for normal and UAL costs to make plan costs associated with underfunding distinct from costs associated with paying benefits.
- Enact stronger statutory language to ensure that future appropriations match the actuarial recommendation.
- Fully fund both normal and UAL costs beginning in FY 2007.

Implemented together, these recommendations would cut the additional money needed to fully fund the actuary recommendation in FY 2007 from \$35 million to less than \$13 million. If the Governor and the Legislature follow these recommendations, the FY07 funding level will need to be roughly \$13 million higher than the FY06 appropriation to achieve full funding. ❖

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## Joint Fiscal Committee Update

The Joint Fiscal Committee met on Nov. 17, 2005 and again on Dec. 13, 2005. The following summarizes the actions of the committee at these two meetings.

- Reviewed the conditions of approval of Global Commitment set in the Sept. 30<sup>th</sup> motion. Found that the conditions were satisfied and granted final approval on December 13<sup>th</sup>.
- Reviewed current Medicaid deficit projections. After Global Commitment FY06 is expected to have a \$14 million surplus to be applied to FY07 bringing that shortfall down from \$33 million to \$22 million. There will be updates to these estimates in January.
- Reviewed Medicare Part D implementation.
- Reviewed Budget Pressures – House Appropriations meeting week of December 12, 2005. The budget adjustment bill will be taken up in the House in January - page 1.
- Reviewed the progress the Department for Children and Families has made in processing fuel assistance applications - page 3.
- Received updates on property tax rates.
- Approved Fiscal Committee budget for FY 2007.
- Approved additional \$50,000 expenditure from the Environmental Contingency Fund for remediation of a site in Barre. ❖

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