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# Joint Fiscal Office

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## MEMORANDUM

To: Representative Martha Heath, Chair,  
Senator Jane Kitchel, Vice Chair,  
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 16, 2013

Subject: July 2013 – Fiscal Officers' Report

What follows is an update of postsession developments, some of which will be on the agenda for the July Fiscal Committee meeting:

### 1. FY 2013 Revenues and Closeout:

- a. FY 2013 – Revenues – The finalization of yearend revenues was slow due to delayed reporting in transportation funds and in lottery receipts that impact the Education Fund. There is a limited likelihood that additional changes will occur before the JFC meeting on July 23.
- b. General Fund (GF): Preliminary results indicate that FY 2013 GF revenues exceeded January forecasts by \$26.1 million. The difference from the forecast occurred in several of the revenue sources, including:
  - i. Income Tax: +\$ 36 million
  - ii. Sales and Use: - \$ 1.6 million
  - iii. Corporate Tax: +\$ 0.9 million
  - iv. Meals and Rooms: +\$ 2.6 million
  - v. All Other revenue: -\$ 11.8 million (\$5 million of the shortfall was due all to the Estate Tax being 24% below projections.)
- c. The Transportation Fund is approximately \$2.8 million below the FY 2013 forecast. The transportation revenue bill raised about \$1.6 million which was allocated to projects in FY14 and can be applied to offset the anticipated shortfall. The FY14 spending need can be addressed in budget adjustment. This means there is \$1 million left to address through spending postponements or other means. The shortfall was spread between the gas tax revenues and fees.
- d. The Education Fund is about \$300,000 below forecast. \$500,000 in receipts over forecast in lottery proceeds helped to offset sales tax shortfalls of \$800,000.
- e. Commissioner Jim Reardon will provide an update on the yearend closeout at the Joint Fiscal Committee July 23 meeting.

**2. The General Fund Surplus Disposition:**

- a. We will have a detailed explanation and presentation of the General Fund surplus allocation at the JFC meeting but, assuming these numbers hold, it will be essentially as follows:
  - i. \$13,050,000 will go into a property tax relief fund. Some of this will be deposited in the Education Fund depending upon the FY 2014 forecast, and some will await legislative action;
  - ii. \$6,525,000 will be appropriated to the Secretary of Administration for federal fund offset needs;
  - iii. \$6,525,000, adjusted for changes in direct applications and reversions, will stay in the Rainy Day Fund.
- b. Depending upon the change to the FY 2014 General Fund forecast, which will be made on July 23rd, some of the property tax relief funds will be deposited in the Education Fund and lead to the Education Fund transfer from the General Fund being permanently raised.

**3. FY 2014 Revenue Changes:**

- a. Tom Kavet and Jeff Carr are working on the revenue forecast for FY 2014. The substantial increase in FY 2013 in the General Fund was largely due to one-time events which we are not expecting to roll out into FY 2014. The new projections will be presented at the Joint Fiscal Committee Meeting.
- b. The FY 2013 Transportation Fund shortfall will be addressed by the Agency of Transportation by eliminating appropriations which would otherwise be carried forward into the next year. The FY 2014 implications await the Transportation Fund revenue forecast update.

**4. FY 2014 and Beyond - Budget Pressures:**

- a. We are beginning to see some budget pressures which may impact the FY 2014 Budget Adjustment process, including:
  - i. The State Police/trooper contract has an \$810,000 cost in FY 2014 which was not budgeted. The contract negotiations were not finalized in time to address this during the legislative budget process.
  - ii. Secretary Spaulding and Commissioner Reardon will address developments related to the Veterans Home at the July meeting, which may have financial implications for the FY 2014 budget and beyond.
  - iii. Projected LIHEAP need for the upcoming heating season is likely to exceed the \$6 million of state funds set aside for the program. Program Director Richard Moffi will present an update at the July meeting.
  - iv. The Developmental Services area may see some budget pressures beyond the \$2.5 million savings target that was built into the budget. The Developmental Services budget is \$170 million. There are many moving pieces and a more detailed analysis underway.

- v. Federal funding at the Brattleboro Retreat is another area where uncertainty exists. It is not likely we will know much before September.
  - vi. The impact to the State from the federal Sequester is still being assessed. There may be some budget pressures which will be clearer in the Fall.
- b. Medicaid caseload estimates will be presented at the July meeting.

**5. FEMA-related issues:**

- a. Irene and State buildings:
  - a. Barriers to demolition of the state buildings in Waterbury have been eliminated, and demolition is scheduled to start this fall. Commissioner Obuchowski will provide a brief update at the JFC meeting, and included in the members' packet is the most recent Buildings Report on Construction.
  - b. The Federal Sandy Recovery Improvement Act included language which may facilitate some additional funding for Vermont beyond what was otherwise expected. The Administration hopes to have some clarification of the funding expectations in August and this information could be presented at the September JFC meeting.
- b. We have also scheduled a brief update on the damage and potential for relief related to the recent rains. The Administration is working to encourage documentation of storm damages.

**6. Other Federal Fund reductions**

- a. Federal reductions to the Supplemental Nutrition Assistance Program (SNAP) are likely to happen this fall. A combination of the end of the American Recovery and Reinvestment Act (ARRA) funding and recent budget cuts could impact recipients.
- b. Reductions in housing and other federally funded programs are likely to be identified in the coming months.

**7. Tax Analysis and the Tax MOU:**

- a. We are working with the Tax Department on several fronts to build our tax analysis capacity for the upcoming session. The Tax Department has hired three new staff in the planning and tax analysis area. To date, two of these new staff have started work.
- b. The new hires are:
  - i. Victor Gauto, who has been hired as the Economist and started work in June. Victor received his PhD from the University of Minnesota in Applied Economics and is experienced in modeling and analysis. He is becoming familiar with the Vermont data and the issues we deal with.
  - ii. Mary Beth Spellman has been hired to replace Michael Costa. She will be head of Policy Outreach and Legislative Affairs (POLA).

- Mary Beth has an LLM and JD. Previously, she was working as an attorney in the Pentagon. She starts this week.
- iii. A third hire will be replace Rachel Stanger, also in tax analysis. The hire is not yet finalized but will likely start work in September.
- c. The Department, and its new staff, will be working with the Joint Fiscal Office on four fronts:
- i. First, they will be working with Sara Teachout and the individual we are planning on hiring in the coming months (see d.) to develop the capacity for income tax analysis during the coming session. We are hoping that the JFO revenue team will be up to speed before the start of the session to facilitate the work of the revenue committees.
  - ii. Second, the Tax Department will be working with Mark Perrault on estimating issues related to the Education Fund in preparation for December 1, the Commissioner's education tax rate projection release date, and in preparation for legislative and committee work this fall and the upcoming session.
  - iii. Third, we will be working together to upgrade the long-term tax estimating capacity of the department and the independent capacity for JFO analysis. We are looking at Connecticut's Legislative Fiscal Office's modeling capacity which is built upon federal data as one alternative.
  - iv. Finally, we are working toward completing the MOU between JFO and the Tax Department to provide access to our office nonidentifiable state data.
- d. The Joint Fiscal Office is in the process of screening applicants for the tax position that was created this past session. No candidate has been identified to date.

## **8. Summer Study Committee updates:**

Several summer studies have begun to meet or begin to organize:

- a. The Workforce Development Work Group has met twice and plans to do an inventory of workforce activity at the state level. Nathan Lavery and Steve Gold are providing staff support for this work. Steve Gold is under contract with our office and will also be providing some assistance with Reach up and other human service issues.
- b. Center for Criminal Justice Research [Sec. 3 of Act 61 of 2013]: Act 61 called for the Center for Criminal Justice Research, working with the Joint Fiscal Office, to develop estimates of costs associated with the arrest, prosecution, defense, adjudication, and correction of criminal and juvenile defendants in Vermont. The work is to use the cost benefit methodology developed by the Washington State Institute of Public Policy and currently used collaboratively by the Joint Fiscal Office and the PEW Charitable Trust for the Vermont Results First Project. Nathan Lavery is coordinating this work with Max Schlueter.
- c. Section E.220 of the Budget (Act 50) established a study committee on the future funding for the Center for Crime Victims Services (CCVS). Maria

Belliveau, Erik Fitzpatrick, and I have met with the CCVS staff and are now awaiting committee appointments.

- d. Sara Teachout will be presenting her work on establishing purposes for tax expenditures. A briefing memorandum is included with the materials for the meeting.

#### **9. Legislative Budgets:**

- a. The Legislature's budget closed FY 2013 with a positive balance. The ending balance, net of required reversions, is \$462,000. This is in part due to the early adjournment, as well as other efforts to control costs. For example, the Legislature spent \$40,000 less on printing costs than anticipated. Expanded use of iPads and other efforts to disseminate information electronically may have contributed to these savings. Potential uses of carryforward funding include \$85,000 for e-mail migration, \$30,000 for website redesign, \$46,000 for expansion of the iPad program, and \$60,000 for other IT equipment for legislative committees.
- b. The Joint Fiscal Office ended the year with a positive balance of \$226,000 net of required reversions. Most of the carryforward funding will be spent on the following projects: \$50,000 to add an additional revenue position and \$20,000 for renovations to create a secure workspace for this position, \$65,000 to support the Results First pilot project, \$50,000 for upgrading the JFO Budget System to ensure compatibility with the Administration's new budget system, and \$30,000 for health care-related research.
- c. The Legislative Council, the Sergeant at Arms, and the Information Technology departments all met or exceeded their carryforward targets, and \$25,000 will revert from the Legislative Council budget to the General Fund as prescribed in the Big Bill.
- d. Work will continue with other staff entities on legislative budget development and preparation.

#### **10. Other Joint Fiscal Office Updates:**

- a. Results First: Much of this year's Results First work will be in the area of criminal justice, based on the legislative request in Act 61 discussed above in section 5. We have also been working with New Mexico, another state that has been involved in this project, to explore their "report card" system for agency performance. In late July, Maria and Nathan will be part of a group meeting in Denver to discuss Results First with other states.
- b. Draft Web Portal policy memo: Included in the July meeting materials is a draft web portal policy memo requested by the committee in February. This policy automatically results in review of these charges at a formal committee meeting. Currently, we operate with a standing request by current members of the Joint Fiscal Committee for such review. Until this standing request is withdrawn, the Joint Fiscal Office considers all proposed web portal charges to be held for review at a Joint Fiscal Committee meeting. Staff recommends that the Joint Fiscal Committee not adopt the draft policy and instead continue the current practice (including honoring standing

requests). Statutory change should be considered if the statute is not meeting the needs of the General Assembly for oversight and approval of web portal charges, rather than adopting a blanket policy that nullifies the flexibility provided by 22 V.S.A. § 953(c)(2).

- c. We have hired Steve Gold on a limited contractual basis to help with summer study work on Workforce Development. He is also involved with the Reach up study group and may be brought in other projects as needed. His contract is for a maximum of 120 hours of work.