Joint Fiscal Office

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MEMORANDUM

To: Senator Jane Kitchel, Chair,
Representative Janet Ancel, Vice Chair,
Members of the Joint Fiscal Committee

From: Stephen Klein, Chief Fiscal Officer

Date: July 22, 2016

Subject: July 2016 – Fiscal Officers' Report

What follows is an update of recent developments, some of which will be on the agenda for the July 25 meeting of the Joint Fiscal Committee.

1. FY2016 Revenues and Closeout

With the close of the fiscal year, revenues into the three main funds were below forecast by around 1%.

General Fund – $16.2 million	(-1.1%)
Transportation Fund – $2.1 million	(-0.8%)
Education Fund – $0.5 million	(-0.2)

The General Fund shortfall, which was spread between income tax, sales tax corporate tax expectations and the estate tax, was more than offset by reduced expenditures.

Global Commitment and health care spending generally were below expected levels. In Medicaid alone, the amount budgeted for the 52 weekly program payments was sufficient to cover the 53rd week in addition to the normal 52 weekly payments. In part, this savings was due to a lower than estimated average weekly cost of Medicaid payments. Savings in the pharmacy program also were an important factor. A new Rx manager has been able to bring up state receipts in this area. With the lower average weekly program cost, the anticipated cost of the 53rd week of $10.3 million in State funds was high. Actual costs were closer to $7 million.

As the General Fund revenues closed below estimates, there will be no surplus to distribute at the close of the year.

The Transportation Fund shortfall will be addressed through project timing and through rescissions that will be presented to the Joint Fiscal Committee. Most likely this will be at the September meeting.

The Education Fund was buoyed by strong lottery returns which offset downs in sales and purchase and use taxes. The Fund is helped by a lower property tax adjustment meaning more revenue to the Fund—possibly $8 million above expectations. There may also be a special education appropriation reversion.

2. FY 2017 Revenues

FY 2017 also had a downward revenue revision in all three funds. These revisions are all over 1%:

General Fund – $21 million	(-1.5%)
Transportation Fund – $3.5 million	(-1.2%)
Education Fund – $3.4 million	(-1.8%)

The General Fund: The revenue reduction is due to several small changes. The economy's slow growth, a downward revisit to the estimates of last year's income tax increases, some impact from the aging population which reduces sales tax growth, and the reduced expectations in estate revenues all contributed.

The Administration submitted a rescission plan for the General Fund which uses carry forward, unspent DVHA funds, a reduction in Medicaid trend, and Health Care Resources Fund balances to address the shortfall. The rescission plan will be up for committee discussion and possible action at the July 25th meeting. Action could be postponed depending on the plan's complexity and any concerns that arise from the Committee or through the public hearing process.

The Legislature's FY 2017 budget created some additional reserves that are in place. First, the Legislature set up a $1.2 million short-term reserve in Sec. B. 1107. This reserve is to offset any revenue shortfalls, to cover LIHEAP and to cover possible Green Mountain Care Board costs related to the All Payer Model. The reserve will remain in place and may be accessed with Joint Fiscal Committee approval later this Fall to address these potential needs.

Second, in Secs. B.1104 and B.1105, the Legislature conditionally set aside $5.6 million in FY 2017, if not needed for the 53rd week for a 27/53 reserve to meet these types of obligations in future years. With the 53rd week being addressed in FY 2016, these funds are being reserved as the Legislature recommended.

The Transportation Fund: The Transportation Fund reduction was due in part to estimating issues on the receipts from the two-year registration renewals and some reduction in purchase and use revenue. The Transportation Fund rescission will be addressed at a later Joint Fiscal Committee meeting—likely in September.

The Education Fund: As indicated above, the Education Fund will see more revenue due to a lower property tax adjustment and a possible reversion in Special Education. The lower property tax adjustment will have a positive impact on the fund of about $8 million.

3. The Medicaid Redeterminations and Health Care issues generally

Redeterminations: The Medicaid eligibility redetermination process is continuing with roughly 9,000 households processed per month. The plan is to complete the process by November, the start of the open enrollment period. After the open enrollment period, processing redeterminations will continue at the same level in order to keep current in future years. The redetermination processing to date shows about 50–53% of those contacted responding; roughly 9% closed and not reachable and 40% not responding.

Of those households that responded and are completed, about 13% are found not eligible for Medicaid but about 77% of that ineligible group is eligible for other financial assistance. The amount of services these individuals used before the eligibility redeterminations is still not known which creates uncertainty as to the cost impacts.

The Health Care Exchange: The health care exchange continues to report improved metrics such as errors and operating efficiencies. We are reviewing these metrics on a weekly basis and will use them as part of the data available for the study of the Exchange that we will be contracting for in the next few weeks.

As indicated on our website we received three bids for the Health Care Exchange Study. We are in the process of reviewing the bids and hope to have a contract in place by late July or early August.

The ACO contract and All Payer Model: The Administration is negotiating an ACO contract. One unique feature of the ACO arrangement is that it will involve prospective payments for Medicaid unlike the current practice of paying once services are delivered. This may have budget implications on the timing of fund outflows. It may also be relevant to think about how this interacts with the reconciliation process by which we are determining actual caseloads. The financial implications could impact FY 2017 and/or FY 2018. The interaction between this negotiation and the All Payer Model implementation will also need to be understood better.

4. Legislative Closeout

Legislative budget: The Legislative budget ended the year with a surplus of just over $400,000, or a 5.8% net unobligated carry forward. This carry forward is the result of savings from prior years and, in part, due to the early completion of the session. There has also been savings in the equipment line and in printing and copying as iPad usage continues to increase.

Joint Fiscal Committee budget: The Joint Fiscal Committee budget has a net unobligated carry forward of roughly $50,000 or 3% of total budgeted funds. Some of this might be used in our Health Exchange or Tax Study projects.

Sergeant at Arms' budget: The Sergeant at Arms' budget has about $43,000 in carry forward which has been building over the past two years. Again it is a mix of lower unemployment costs than estimated and some savings due to early adjournments and lower part time security. The lower security costs are due to lower need and lower usage due to the lack of staff availability.

5. Joint Fiscal Committee Issues

Chainbridge Modeling Capacity: The Chainbridge model now allows the Joint Fiscal Office to do tax analysis without action by the Tax Department. The IRS approved a system change which was installed enabling us to use the model directly. For the income tax, we have model access with 2013 data. We are discussing with the Tax Department whether it makes sense to update the data given the tax changes that have occurred. The costs of changes to the model are split between the Tax Department and the Joint Fiscal Office. Our share of data updates is about $40,000.

REMI Modeling: We have dropped the TAX PI modeling from REMI. After considerable work we found that the model was not well suited to Vermont which has so much commerce beyond the borders of the State.

VEGI Updates: At the meeting you will be asked to address annual VEGI model updates which are standard but need approval. There is also a proposal to create a technical working group to update or review the background growth and other assumptions that the model uses. This working group was called for in the Economic Development bill. The growth assumptions can have major implications for awards and costs to the State.

Results Based Budgeting and Results First: We are continuing to work with the Crime Research Group (CRG) and the Administration to carry out program reviews and inventories in the Child Welfare & Substance Abuse areas. The contract which we are doing with CRG is for $15,000 with another $20,000 coming from the Administration and grant sources. The deliverables include:

A. A Survey of child welfare programs.
B. A Program Inventory Brief for child welfare programs.
C. A Preliminary Results First analysis for child welfare programs.

The Tax Study: Sara Teachout and Joyce Manchester are working on our ten-year tax study. We are also using a summer intern, Chloe Wexler, and Tom Kavet to do research related to this Study. The Economic Development Bill called for the Study to include a look at cross border issues, which Tom Kavet is working on.

The Tax Expenditure Report: Sara and Joyce are also working on the Tax Expenditure Report which was expanded this year and will contain more analysis of specific expenditures.

The Livable Wage Study: The livable wage study is due to be completed this year. Dan Dickerson is leading this work. We are also looking to renew Tom Kavet and

Deb Brighton's work on the benefits cliff which will be relevant if there continues to be growing discussions of changes to the minimum wage.

Caseload and Medicaid-related Analysis: Joyce Manchester, Nolan Langweil, and Stephanie Barrett will be spending considerable time this summer to monitor the Medicaid and related caseload issues as the redetermination process continues. The change in leadership and the lack of information in this important budget area merit continued oversight.

JFO Biennial Performance Survey: The JFO Biennial Performance Survey results were very positive with 88 completed which was the best response rate yet. The survey focuses on technical support, quality of JFO presentations, knowledge of the subject matter, impartiality and non-partisanship had an overall office score of 4.69 out of 5.00. The majority of those that responded including all four parties and both members of the House and Senate were more than satisfied with the services provided by the staff. The area of most criticism was the timeliness of response to questions. We also evaluate the office on nonpartisanship and received a 96.5% positive response on that measure. These surveys began in 1999 and this is the ninth biennial survey completed. The JFO takes the survey results and comments into consideration when planning for the upcoming legislative session. A chart on survey responses is attached to this report.