REPORT ON UNFUNDED BUDGET PRESSURES

2016 Act 172 Sec. E.100.9

February 24, 2017

Department of Finance and Management

CONTENTS

SUMMARY

Act 172 of 2016, Sec. E.100.9 required the Commissioner of Finance and management to prepare a report on the current service obligations of several state liabilities. This report provides a summary of the projected liabilities at the beginning of FY 2018.

SECTIONS (a)(1) & (2)

(1) PENSION LIABILITIES FOR THE VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM (VSERS) AND THE VERMONT STATE TEACHERS' RETIREMENT SYSTEM (VSTRS)

(2) OTHER POSTEMPLOYMENT BENEFIT [OPEB] LIABILITIES UNDER CURRENT LAW AND RELEVANT GOVERNMENT ACCOUNTING STANDARDS BOARD STANDARDS FOR THE SYSTEMS IN SUBDIVISION (1) OF THIS SUBSECTION

VSERS	
Pension	582,183,599
OPEB	1,144,449,968
VSTRS	
Pension	1,225,727,845
OPEB	677,897,654
All amounts reflect the Unfunded Actuarial Accrued Liability as of 6/30/2016	

SECTION (a)(3)

(3) CHILD CARE FEE SCALE FUNDING REQUIREMENTS PURSUANT TO 33 V.S.A. § 3512 TO BRING TOTAL YEAR FUNDING TO CURRENT MARKET RATES AND CURRENT FEDERAL POVERTY LEVEL

Child Care Fee Scale Funding		
Market Rate	*Additional*	*Total*
to 2010 Market Rate	2,000,022	2,000,022
to 2012 Market Rate	2,414,167	4,414,189
to 2014 Market Rate	2,993,246	7,407,435
to 2015 Market Rate	1,619,610	9,027,045
Current Federal Poverty Level		
to FY 2017 FPL		300,000

Notes:

- FPL
  - The current CCFAP income standard is based on the 2016 FPL.
- Market Rate History
  - In January 2010, CCFAP rates were established based on a 2008 Market Rate Survey (MRS)
  - In 2013 the legislature increased all rates by 3%.
  - In 2016 funding was added and used to increase infant rates to reflect the estimated 2009 rates; if a provider's rate met or exceeded the 2010 MRS after the 2013 increase, they were given a 3% increase.
  - The most recent MRS was completed in 2015.

SECTION (a)(4)

(4) REACH UP FUNDING FULL BENEFIT OBLIGATIONS PRIOR TO ANY RATEABLE REDUCTIONS MADE PURSUANT TO 33 V.S.A. 1103(a) WHICH ENSURE THAT THE EXPENDITURES FOR THE PROGRAMS SHALL NOT EXCEED APPROPRIATIONS

Reach up ($ Millions)	
Obligation prior to Ratable Reduction	42.30
Base appropriation	20.96
Amount for full funding	21.34
** Based on Caseload in September 2016 and average household benefit information	

SECTION (a)(5)

(5) STATUTORY FUNDING LEVELS FROM THE PROPERTY TRANSFER TAX TO THE CURRENT USE ADMINISTRATION SPECIAL FUND (32 V.S.A. § 9610(c)), THE VERMONT HOUSING AND CONSERVATION FUND (10 V.S.A. § 312), AND THE MUNICIPAL AND REGIONAL PLANNING FUND (24 V.S.A. § 4306(a))

Property Transfer Tax (PTT) Allocation	
PTT Revenue - 1/19/2017 Emergency Board Adopted Forecast	41,900,000
32 V.S.A. § 9610 (c)	
1% to Current Use Administration Special Fund	419,000
Remainder for allocation	41,481,000
10 V.S.A. § 312	
50% to the Vermont Housing & Conservation Board (VHCB)	20,740,500
32 V.S.A. § 435 (b)(10)	
33% to the General Fund	13,688,730
24 V.S.A. § 4306 (a)	
17% to the Municipal & Regional Planning Fund	7,051,770
70% to Regional Planning Commission	*4,936,239*
20% to Municipal Planning Commission	*1,410,354*
10% to Geographic Information Services	*705,177*
** Based on current law	

SECTION (a)(6)

(6) MAINTENANCE OF TRANSPORTATION ROAD AND BRIDGE INFRASTRUCTURE AT CURRENT LEVELS

Transportation Infrastructure ($ Millions)	
Annual Need	849
Available Funds	582
Net Unfunded	267

Note: Amounts reflect the cost of maintaining total transportation infrastructure, not just road and bridge repair.

SECTION (a)(7)

(7) PROJECTED FUND LIABILITIES OF THE FUNDS IDENTIFIED IN NOTE III.B. OF THE "NOTES" SECTION OF THE MOST RECENT COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), INCLUDING WORKERS' COMPENSATION FUND, THE STATE LIABILITY INSURANCE FUND, THE MEDICAL INSURANCE FUNDS AND THE DENTAL INSURANCE FUND

	State Liability Insurance Fund	Risk Management - All Other Funds	Workers Compensation Fund	Medical Insurance Fund	Dental Insurance Fund	Life Insurance Fund
FY 2015 Starting Balance	1,748,823	24,360	(7,365,087)	(8,860,203)	539,694	833,848
Revenue	2,494,952	2,801,462	11,755,225	164,678,081	6,948,291	2,020,591
Expenses	(4,266,445)	(2,855,132)	(10,545,671)	(160,101,567)	(6,550,035)	(2,169,316)
Other *	221,036	-	31,424	(8,310)	155	1,219
Operating Income (loss)	(1,550,457)	(53,670)	1,240,978	4,568,204	398,411	(147,506)
FY 2016 Starting Balance	198,366	(29,310)	(6,124,109)	(4,291,999)	938,105	686,342
Revenue	3,034,035	2,841,907	12,578,622	180,443,274	6,723,207	1,924,369
Expenses	(3,946,072)	(2,835,467)	(5,394,263)	(169,791,510)	(6,520,838)	(2,655,302)
Other *	20,879	-	85,202	24,615	2,679	1,782
Operating Income (loss)	(891,158)	6,440	7,269,561	10,676,379	205,048	(729,151)
FY2017 Starting Balance	(692,792)	(22,870)	1,145,452	6,384,380	1,143,153	(42,809)
Projected Revenue	3,048,979	3,996,644	13,773,926	188,327,551	5,878,504	2,276,647
Projected Expenses	(2,733,804)	(3,971,264)	(12,614,475)	(181,549,569)	(6,344,316)	(2,412,757)
Other *	-	-	-	-	-	1,200
Projected Operating Income (Loss)	315,175	25,380	1,159,450	6,777,982	(465,812)	(134,910)
FY 2018 Projected Starting Balance	(377,617)	2,510	2,304,902	13,162,362	677,341	(177,719)
Budgeted Revenue	3,149,683	3,824,476	11,075,858	196,199,434	6,496,410	2,581,124
Budgeted Expenses	(3,149,683)	(3,824,476)	(11,075,858)	(197,754,746)	(6,438,657)	(2,404,302)
Other *	-	-	-	-	-	1,200
Budgeted Operating Income (Loss)	-	-	-	(1,555,312)	57,753	178,022
FY 2018 Budgeted Ending Balance	(377,617)	2,510	2,304,902	11,607,050	735,094	303

* Other includes the non-operating revenues, including gain/loss on the disposal of capital assets, and other revenue, expense gains, losses and transfers, including Insurance recoveries, capital contributions, and other transfers in/out.

See notes on page 8

SECTION (a)(8)

(8) A SUMMARY OF OTHER NONMAJOR ENTERPRISE FUNDS AND INTERNAL SERVICE FUNDS WHERE DEFICITS EXIST IN EXCESS OF $1,500,000 INCLUDING: VERMONT LIFE MAGAZINE; THE COPY CENTER FUND; THE POSTAGE FUND; THE FACILITIES OPERATIONS FUND, AND THE PROPERTY MANAGEMENT FUND

	Federal Surplus Property	Vermont Life Magazine	Single Audit Revolving Fund (1)	Financial & HR Information Fund	Communication & Information Technology Fund (2)	Fleet Fund (3)
FY 2015 Starting Balance	(109,592)	(2,408,678)	(270,617)	(1,155,591)	(1,021,813)	2,525,670
Revenue	2,276,520	1,208,407	3,069,257	8,815,115	37,603,713	5,423,635
Expenses	(2,303,395)	(1,637,440)	(3,131,363)	(8,628,190)	(38,018,895)	(5,237,455)
Other *	-	(2,435)	-	-	635,000	391,671
Operating Income (loss)	(26,875)	(431,468)	(62,106)	186,925	219,818	577,851
FY 2016 Starting Balance	(136,467)	(2,840,146)	(332,723)	(968,666)	(801,995)	3,103,521
Revenue	3,032,116	1,183,076	3,363,011	10,183,590	39,603,540	4,463,300
Expenses	(3,007,312)	(1,556,820)	(3,332,032)	(9,580,662)	(41,638,077)	(5,009,765)
Other *	-	(7,408)	-	-	(5,493)	232,374
Operating Income (loss)	24,804	(381,152)	30,979	602,928	(2,040,030)	(314,091)
FY2017 Starting Balance	(111,663)	(3,221,298)	(301,744)	(365,738)	(2,842,025)	2,789,430
Projected Revenue	2,654,318	1,089,000	3,229,749	9,698,589	34,965,389	4,630,943
Projected Expenses	(2,655,354)	(1,337,344)	(3,215,825)	(9,104,426)	(35,568,242)	(4,671,243)
Other *	-	(7,600)	196,169	-	-	-
Projected Operating Income (Loss)	(1,036)	(255,944)	210,093	594,163	(602,853)	(40,301)
FY 2018 Projected Starting Balance	(112,699)	(3,477,242)	(91,651)	228,425	(3,444,878)	2,749,129
Budgeted Revenue	2,843,217	1,134,500	3,418,588	9,698,589	37,944,161	4,642,520
Budgeted Expenses	(2,831,333)	(1,322,151)	(3,406,809)	(9,342,544)	(36,755,161)	(4,788,024)
Other *	-	(7,800)	-	-	-	-
Budgeted Operating Income (Loss)	11,884	(195,451)	11,779	356,045	1,189,000	(145,504)
FY 2018 Budgeted Ending Balance	(100,814)	(3,672,693)	(79,872)	584,470	(2,255,878)	2,603,625

* Other includes the non-operating revenues, including gain/loss on the disposal of capital assets, and other revenue, expense gains, losses and transfers, including Insurance recoveries, capital contributions, and other transfers in/out.

See notes on page 8

SECTION (a)(8) CONTINUED

	Copy Center Fund	Postage Fund	Facilities Operations Fund (4)	Property Management Fund (5)	Human Resources Fund (6)
FY 2015 Starting Balance	(1,914,692)	(2,120,973)	(3,447,139)	(23,958,919)	(275,484)
Revenue	2,342,640	2,783,904	26,701,990	22,151,141	4,264,706
Expenses	(2,132,387)	(3,030,389)	(27,339,756)	(23,290,479)	(4,233,038)
Other *	(3,736)	-	1,597,307	2,667,060	-
Operating Income (loss)	206,517	(246,485)	959,541	1,527,722	31,668
FY 2016 Starting Balance	(1,708,175)	(2,367,458)	(2,487,598)	(22,431,197)	(243,816)
Revenue	2,509,537	2,818,374	27,280,879	22,382,550	4,535,593
Expenses	(2,257,146)	(3,088,666)	(26,051,592)	(23,542,395)	(4,235,399)
Other *	(1,057)	-	49,011	(635,500)	-
Operating Income (loss)	251,334	(270,292)	1,278,298	(1,795,345)	300,194
FY2017 Starting Balance	(1,456,841)	(2,637,750)	(1,209,300)	(24,226,542)	56,378
Projected Revenue	2,504,387	2,693,470	28,509,191	22,941,009	4,619,119
Projected Expenses	(2,258,804)	(3,070,290)	(28,509,191)	(23,967,694)	(4,619,119)
Other *	-	-	(1,114,784)	719,643	
Projected Operating Income (Loss)	245,583	(376,821)	(1,114,784)	(307,042)	-
FY 2018 Projected Starting Balance	(1,211,258)	(3,014,571)	(2,324,084)	(24,533,584)	56,378
Budgeted Revenue	2,516,909	2,700,203	30,057,403	23,086,985	5,225,193
Budgeted Expenses	(2,315,274)	(3,077,966)	(30,057,403)	(23,845,781)	(5,465,193)
Other *	-	-	(1,129,156)	727,321	-
Budgeted Operating Income (Loss)	201,635	(377,763)	(1,129,156)	(31,475)	(240,000)
FY 2018 Budgeted Ending Balance	(1,009,623)	(3,392,333)	(3,453,240)	(24,565,059)	(183,622)

* Other includes the non-operating revenues, including gain/loss on the disposal of capital assets, and other revenue, expense gains, losses and transfers, including Insurance recoveries, capital contributions, and other transfers in/out

See notes on page 8

NOTES ON FUND BALANCES:

INSURANCE FUNDS

The projected expenses in the insurance funds are set by an actuary. These projections are used to set rates, but there can be variation from the actual experience and in year to year changes. Best practice is to have some balance of working capital in these funds to weather any changes in the actuarial projections based on expenses that have been incurred but not reported (IBNR) for that fiscal year.

(1) - SINGLE AUDIT FUND

Deficit mitigation plan adopted in the FY 2017 BAA to manage historical structural deficit. The remaining deficit is a result of payroll accrual accounting at the end of the Fiscal year. This account will always drive a small annual deficit in the Financial statements.

(2) COMMUNICATION & INFORMATION TECHNOLOGY FUND

Projected loss in FY 2017 is driven by the net impact of the statewide implementation of VOIP, Office 365, and security changes. These costs will be recouped over a few years through the statewide IT allocation. Currently, there is a plan to implement additional cost savings and changing the rate model to work towards recouping costs.

(3) FLEET FUND

The fleet fund currently shows a positive balance. Fleet has reduced rates to begin to eliminate the positive fund balance. However, potential clarifications by the Governmental Accounting Standards Board rules (GASB) may result in changes in the accounting and balance in the fund.

(4) FACILITIES OPERATIONS FUND

The billing for FFS does not include the projected pay act expenses for the program or the deprecation expense, as such there will continue to be a one year lag in the revenue and expenses in the fund.

(5) PROPERTY MANAGEMENT FUND

Part of the deficit in the Property Management Fund related to the purchase of two buildings, the payback amount for the buildings will be paid over a 50 year period. The remaining balance is associated with an operating loss in the program. There is currently a lease surcharge to begin minimize the continued accumulation of a fund deficit, however the current the lease charge is not sufficient to recoup prior year losses.

(6) HUMAN RESOURCES FUND

In the FY 2018 budget the Department of Human Resources will be implementing a talent management system, at a projected cost of $300K. The cost of the system will be recouped over five years through $60K allocation to departments and agencies. The $240K deficit will be eliminated at the end of the five year payback period.