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Adam Greshin, Commissioner

MEMORANDUM

TO: Senator Jane Kitchel, Chair, Senate Committee on Appropriations
Rep. Kitty Toll, Chair, House Committee on Appropriations

FROM: Adam Greshin, Commissioner of Finance and Management AWG

DATE: February 15, 2018

RE: Report on Unfunded Budget Pressures Fiscal Year 2019

Presented here for your review is the Report on Unfunded Budget Pressures pursuant to Acts and Resolves 2016, No. 172, Section E.100.9. I apologize for the delay in its delivery and welcome any questions that you may have.

REPORT ON UNFUNDED BUDGET PRESSURES

2016 Act 172 Sec. E.100.9

February 15, 2018

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 2019.

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	717,577,722
OPEB	1,435,113,042
VSTERS	
Pension	1,502,453,387
OPEB	891,459,018
All amounts reflect the Unfunded Actuarial Accrued Liability as of 6/30/2017	

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	3,802,151	3,802,151
to 2012 Market Rate	2,863,317	6,665,468
to 2014 Market Rate	2,658,268	9,323,736
to 2015 Market Rate	1,609,688	10,933,424
to 2017 Market Rate	4,687,715	15,621,139
Current Federal Poverty Level		
to FY 2018 FPL		375,000

Notes:

- FPL
    - The current CCFAP income standard is based on the 2017 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.
    - For fiscal year 2018, pursuant to 2017 Acts and Resolves No. 85, Section E.318(a)(1), approximately $300K of funding was added and used to bring the FPL basis up to the 2017 level.
    - The most recent MRS was completed in 2017.

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	21.00
Amount for full funding	21.30
** Based on Caseload in September 2017 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))

Fiscal Year 2019 Property Transfer Tax (PTT) Allocation	
PTT Revenue - 1/18/2018 Emergency Board Adopted Forecast	44,400,000
32 V.S.A. § 9610 (c)	
1% to Current Use Administration Special Fund	444,000
Remainder for allocation	43,956,000
10 V.S.A. § 312	
50% to the Vermont Housing & Conservation Board (VHCB)	21,978,000
32 V.S.A. § 435 (b)(10)	
33% to the General Fund	14,505,480
24 V.S.A. § 4306 (a)	
17% to the Municipal & Regional Planning Fund	7,472,520
70% to Regional Planning Commission	*5,230,764*
20% to Municipal Planning Commission	*1,494,504*
10% to Geographic Information Services	*747,252*

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 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)
FY 2017 Starting Balance	(692,792)	(22,870)	1,145,452	6,384,380	1,143,153	(42,809)
Revenue	3,034,001	3,827,227	13,727,134	190,804,322	5,888,524	2,317,619
Expenses	(4,552,080)	(3,726,128)	(4,796,485)	(177,650,289)	(6,608,124)	(2,118,806)
Other *	43,417	-	194,645	130,912	3,704	794
Operating Income (loss)	(1,474,662)	101,099	9,125,294	13,284,945	(715,896)	199,607
FY2018 Starting Balance	(2,167,454)	78,229	10,270,746	19,669,325	427,257	156,798
Projected Revenue	3,149,437	3,824,476	7,753,828	195,237,034	6,899,616	2,319,145
Projected Expenses	(2,844,522)	(3,730,528)	(11,253,623)	(190,066,857)	(6,896,653)	(2,321,645)
Other *	95,111	-	103,757	-	(2,963)	2,500
Projected Operating Income (Loss)	400,026	93,948	(3,396,038)	5,170,177	-	-
FY 2019 Projected Starting Balance	(1,767,428)	172,177	6,874,708	24,839,502	427,257	156,798
Budgeted Revenue	3,695,150	3,954,520	7,048,301	205,631,945	6,934,775	2,388,794
Budgeted Expenses	(3,395,297)	(3,954,520)	(11,579,265)	(205,586,790)	(6,931,812)	(2,391,294)
Other *	95,111	-	103,757	-	(2,963)	2,500
Budgeted Operating Income (Loss)	394,964	-	(4,427,207)	45,155	-	-
FY 2019 Budgeted Ending Balance	(1,372,464)	172,177	2,447,501	24,884,656	427,257	156,798

* 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)	Communication & Information Technology Fund (2)	Copy Center Fund	Postage Fund	Facilities Operations Fund (3)	Property Management Fund (4)
FY 2016 Starting Balance	(136,467)	(2,840,146)	(332,723)	(801,995)	(1,708,175)	(2,367,458)	(2,487,598)	(22,431,197)
Revenue	3,032,116	1,183,076	3,363,011	39,603,540	2,509,537	2,818,374	27,280,879	22,382,550
Expenses	(3,007,312)	(1,556,820)	(3,332,032)	(41,638,077)	(2,257,146)	(3,088,666)	(26,051,592)	(23,542,395)
Other *	-	(7,408)	-	(5,493)	(1,057)	-	49,011	(635,500)
Operating Income (loss)	24,804	(381,152)	30,979	(2,040,030)	251,334	(270,292)	1,278,298	(1,795,345)
FY2017 Starting Balance	(111,663)	(3,221,298)	(301,744)	(2,842,025)	(1,456,841)	(2,637,750)	(1,209,300)	(24,226,542)
Revenue	403,228	1,226,332	3,168,474	32,392,051	2,608,829	2,779,208	29,659,723	20,779,518
Expenses	(418,097)	(1,521,100)	(3,124,068)	(33,839,599)	(2,412,283)	(3,120,028)	(29,774,268)	(21,108,928)
Other *	-	(19,421)	196,169	31,780	(933)	-	15,979	(339,748)
Operating Income (loss)	(14,869)	(314,189)	240,575	(1,415,768)	195,613	(340,820)	(98,566)	(669,158)
FY2018 Starting Balance	(126,532)	(3,535,487)	(61,169)	(4,257,793)	(1,261,228)	(2,978,570)	(1,307,866)	(24,895,700)
Projected Revenue	32,788	1,407,198	3,821,492	36,879,735	2,370,655	2,794,794	29,363,661	19,929,932
Projected Expenses	(32,196)	(1,404,703)	(3,737,329)	(36,879,735)	(2,112,096)	(3,093,793)	(29,201,123)	(20,859,391)
Other *	-	-		-	(1,000)	-	(382,000)	849,585
Projected Operating Income (Loss)	592	2,495	84,163	-	257,559	(298,999)	(219,462)	(79,874)
FY 2019 Projected Starting Balance	(125,940)	(3,532,992)	22,994	(4,257,793)	(1,003,669)	(3,277,569)	(1,527,328)	(24,975,574)
Budgeted Revenue	1,436,163	1,497,170	3,059,272	64,476,640	2,457,915	2,794,070	29,988,009	20,428,180
Budgeted Expenses	(1,440,256)	(1,471,160)	(3,058,430)	(64,476,640)	(2,228,478)	(3,083,219)	(29,988,009)	(21,380,876)
Other *	-		-	-	(1,909)	-	(518,000)	870,825
Budgeted Operating Income (Loss)	(4,093)	26,010	842	-	227,528	(289,149)	(518,000)	(81,871)
FY 2019 Budgeted Ending Balance	(130,033)	(3,506,982)	23,836	(4,257,793)	(776,141)	(3,566,718)	(2,045,328)	(25,057,445)

* 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

The Single Audit Revolving Fund's previous deficit position was caused by expense accruals that were billed in subsequent fiscal years. To eliminate this issue, billings now include an estimate for expense accruals.

(2) COMMUNICATION & INFORMATION TECHNOLOGY FUND

The Communications and Information Technology Fund's deficit is the result of investments from fiscal years 2016 - 2017 in Voice Over Internet Protocol phone system (VOIP) and an enterprise solution for the State's email and office suite ("0365 Solution") of products. Prior to fiscal year 2016 certain legacy deficit positions were caused by a combination of billing practices and financing strategies of the State. Beginning in fiscal year 2019 and forward, specific cost centers will be established to more closely match revenue and expenses with an emphasis on revenue strategies that are less variable in nature. In addition, billing will continue for the VOIP and 0365 solution which will be geared toward recapturing the deficit position.

(3) FACILITIES OPERATIONS FUND

The Facilities Operations Fund can experience major fluctuations due to many unpredictable factors (such as weather, building damage, equipment failure) and some predictable factors, such as employee advancements (pay act & reclassifications) which do not adjust the billing rate during the year. Continued investments in energy efficiency, strategic maintenance management, and regular review of all operations should help trend this fund toward surplus.

(4) PROPERTY MANAGEMENT FUND

Much of the Property Management Fund's deficit is due to two buildings that have been financed over a twenty-year period but whose recovery of costs is fifty years. This part of the deficit should be eliminated gradually over the next thirty years. Additionally, the fund operated with staff and operating costs with no mechanism to bill back these costs. The Administration has added a surcharge to the existing leases to aid in covering the cost associated with the program operations.