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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 

**DATE:** January 24, 2019

**RE:** Report on Unfunded Budget Pressures Fiscal Year 2020

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Presented here for your review is the Report on Unfunded Budget Pressures pursuant to Acts and Resolves 2016, No. 172, Section E.100.9 and as amended by Act 11 of 2018 Special Session, Sec.E323(a).



# REPORT ON UNFUNDED BUDGET PRESSURES

2016 Act 172 Sec. E.100.9

January 24, 2019

Department of Finance and Management

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## SUMMARY

Act 172 of 2016, Sec. E.100.9, as amended by Act 11 of 2018 Special Session, Sec.E323(a), requires the Administration 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 2020.

## 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	779,804,010
OPEB	1,609,886,712
VSTRS	
Pension	1,513,433,335
OPEB	973,370,355

Note: All amounts reflect the Unfunded Actuarial Liability as of 6/30/2018. For consistency, all values were derived from Segal's Actuarially Determined Contribution report. Values may differ from Segal's GASB report due to differences in actuarial assumptions. For example, VSERS OPEB unfunded liability is higher than the value reported in the GASB 74 report (\$1,218,504,402).

## 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

<b>Child Care Fee Scale Funding</b>		
<b>Market Rate</b>	<b><i>Additional</i></b>	<b><i>Total</i></b>
to 2010 Market Rate	350,000	350,000
to 2012 Market Rate	400,000	750,000
to 2014 Market Rate	695,521	1,445,521
to 2015 Market Rate	1,070,500	2,516,021
to 2017 Market Rate	3,733,820	6,249,841
<b>Current Federal Poverty Level</b>		
to FY 2019 FPL		375,000

- FPL
  - The current CCFAP income standard is based on the 2018 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, INCLUDING THE STANDARD OF NEED FOR THE CURRENT FISCAL YEAR, 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

<b>Reach up (\$ Millions)</b>	
Obligation prior to Rateable Reduction	52.1
Base appropriation	20.7
Amount for full funding	31.4
*Based on current Reach Up caseload and the consumer price index for 2019	

**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))

<b>Fiscal Year 2020 Property Tax Transfer (PTT) Allocation</b>	
<b>PTT Revenue - 1/22/2019 Emergency Board Adopted Forecast</b>	47,100,000
<b>32 V.S.A. § 9610 (c)</b>	
2% to Current Use Administration Special Fund	942,000
<b>32 V.S.A. § 9610 (d)</b>	
\$2,500,000 to Vermont Housing Finance Agency	2,500,000
Remainder for allocation	43,658,000
<b>10 V.S.A. § 312</b>	
50% to the Vermont Housing & Conservation Board (VHCB)	21,829,000
<b>32 V.S.A. § 435 (b)(10)</b>	
33% to the General Fund	14,407,140
<b>24 V.S.A. § 4306 (a)</b>	
17% to the Municipal & Regional Planning Fund	7,421,860
70% to Regional Planning Commission	5,195,302
20% to Municipal Planning Commission	1,484,372
10% to Geographic Information Services	742,186

**\*\*Based on current law**

**SECTION (a)(6)**

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

<b>Transportation Infrastructure (\$ Millions)</b>	
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
<b>FY 2017 Starting Balance</b>	(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
<b>FY2018 Starting Balance</b>	(2,167,454)	78,229	10,270,746	19,669,325	427,257	156,798
Revenue	3,149,564	1,101,623	8,017,875	197,277,562	6,772,914	2,648,913
Expenses	(4,243,067)	(1,267,567)	(15,654,102)	(184,298,459)	(6,790,326)	(2,265,544)
Other *	80,439	-	400,681	445,169	3,587	6,448
Operating Income (loss)	(1,013,064)	(165,944)	(7,235,546)	13,424,272	(13,825)	389,817
<b>FY 2019 Starting Balance</b>	(3,180,518)	(87,715)	3,035,200	33,093,597	413,432	546,615
Projected Revenue	3,695,150	3,954,520	6,387,164	198,694,062	7,051,529	2,730,008
Projected Expenses	(3,034,798)	(3,954,520)	(10,437,796)	(190,898,144)	(6,979,542)	(2,902,233)
Other *	95,111	-	326,843	-	3,546	12,000
Projected Operating Income (Loss)	755,463	-	(3,723,789)	7,795,918	75,533	(160,225)
<b>FY 2020 Projected Starting Balance</b>	(2,425,055)	(87,715)	(688,589)	40,889,515	488,965	386,390
Budgeted Revenue	3,038,634	3,568,841	8,226,917	200,115,038	7,223,518	2,815,241
Budgeted Expenses	(3,049,972)	(3,568,841)	(10,594,363)	(199,451,767)	(7,301,139)	(2,639,546)
Other *	87,775	-	400,000	-	3,546	12,000
Budgeted Operating Income (Loss)	76,437	-	(1,967,446)	663,271	(74,075)	187,695
<b>FY 2020 Budgeted Ending Balance</b>	(2,348,618)	(87,715)	(2,656,035)	41,552,786	414,890	574,085

\* Other includes the Non-Operating Revenues, including Gain/Loss on the disposal of Capital Assets, and Other Revenue, Expenses 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**

	Liquor Control Fund	Vermont Lottery Commission	Federal Surplus Property	Human Resources Fund	Communication & Information Technology Fund (1)	Copy Center Fund	Postage Fund	Facilities Operations Fund (3)	Property Management Fund (4)
<b>FY2017 Starting Balance</b>	(3,116,717)	(2,665,699)	(111,663)	56,378	(2,842,025)	(1,456,841)	(2,637,750)	(1,209,300)	(24,226,542)
Revenue	63,210,431	122,375,359	403,228	4,611,602	32,392,051	2,608,829	2,779,208	29,659,723	20,779,518
Expenses	(60,916,611)	(96,913,584)	(418,097)	(4,452,090)	(33,839,599)	(2,412,283)	(3,120,028)	(29,774,268)	(21,108,928)
Other *	(1,001,593)	(25,545,234)	-	-	31,780	(933)	-	15,979	(339,748)
Operating Income (loss)	1,292,227	(83,459)	(14,869)	159,512	(1,415,768)	195,613	(340,820)	(98,566)	(669,158)
<b>FY2018 Starting Balance</b>	(1,824,490)	(2,749,158)	(126,532)	215,890	(4,257,793)	(1,261,228)	(2,978,570)	(1,307,866)	(24,895,700)
Revenue	65,843,224	132,424,624	710,298	4,923,530	32,476,226	2,573,740	2,687,852	29,893,661	22,109,589
Expenses	(64,163,895)	(105,521,857)	(733,157)	(5,321,821)	(34,976,582)	(2,637,338)	(2,960,051)	(29,734,345)	(21,389,879)
Other *	(1,049,030)	(27,162,825)	-	-	-	-	-	(40,342)	(12,961)
Operating Income (loss)	630,299	(260,058)	(22,859)	(398,291)	(2,500,356)	(63,598)	(272,199)	118,974	706,749
<b>FY 2019 Starting Balance</b>	(1,194,191)	(3,009,216)	(149,391)	(182,401)	(6,758,149)	(1,324,826)	(3,250,769)	(1,188,892)	(24,188,951)
Projected Revenue	68,476,953	125,540,000	1,381,881	5,374,899	64,476,640	2,452,649	2,645,495	29,988,009	20,428,180
Projected Expenses	(68,914,056)	(100,903,405)	(1,363,458)	(5,314,899)	(64,476,640)	(2,312,723)	(2,529,983)	(29,729,331)	(21,380,876)
Other *	(1,755,000)	(24,636,595)	-	-	-	-	-	(40,342)	870,825
Projected Operating Income (Loss)	(2,192,103)	-	18,423	60,000	-	139,926	115,512	218,336	(81,871)
<b>FY 2020 Projected Starting Balance</b>	(3,386,294)	(3,009,216)	(130,968)	(122,401)	(6,758,149)	(1,184,900)	(3,135,257)	(970,556)	(24,270,822)
Budgeted Revenue	70,531,262	129,300,000	1,271,331	6,202,634	72,473,821	2,501,702	2,698,405	30,601,226	20,451,080
Budgeted Expenses	(67,610,272)	(104,392,374)	(1,254,381)	(6,142,634)	(71,473,821)	(2,358,977)	(2,593,233)	(30,601,226)	(21,380,876)
Other *	(1,780,000)	(24,907,626)	-	-	-	-	-	(36,320)	871,350
Budgeted Operating Income (Loss)	1,140,990	-	16,950	60,000	1,000,000	142,725	105,172	(36,320)	(58,446)
<b>FY 2020 Budgeted Ending Balance</b>	(2,245,304)	(3,009,216)	(114,018)	(62,401)	(5,758,149)	(1,042,175)	(3,030,085)	(1,006,876)	(24,329,268)

\* Other includes the Non-Operating Revenues, including Gain/Loss on the disposal of Capital Assets, and Other Revenue, Expenses Gains, Losses and Transfers, including Insurance Recoveries, Capital Contributions, and other transfers in/out.

\*\* Deficit position of Vermont Life Magazine was paid, the amount (\$3,536,000), was appropriated in Act 11 of 2018 Special Session, Sec.C.1000(b)(4).

## SECTION (a)(8) CONTINUED

### 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) COMMUNICATION & INFORMATION TECHNOLOGY FUND

For fiscal year 2018, the statewide effect of the movement of IT personnel to the Agency of Digital Services (ADS) was negligible. While the operating loss of \$2,500,356 in the CIT fund for fiscal year 2018 can be attributed to the movement of personnel, it is due to the accrual basis accounting treatment of payroll costs and compensated absences, and of their discreet capture in the CIT fund for the first time. Beginning in fiscal year 2019 and going forward, both Accounts Receivable billing practices and budgeted rates for ADS services will closely match operating costs, account for payroll expenses accrued during fiscal year 2018, and begin to mitigate the cumulative fund deficit.

#### (2) 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.

#### (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 initially operated with staff and operating costs but lacked associated revenue. The Administration has added a surcharge to the existing leases to cover the operating expenses and deficit. Program management has also addressed, via corrective agreements and billings, a few instances of tenant subsidization where invoicing did not recover the full cost of the leased space.

#### (5) HUMAN RESOURCES SERVICES FUND

The deficit balance in the Human Resources Services (HRS) Fund is associated with the creation of the Ethics Commission. The Commission was established during FY18, but associated revenue was not built into the HRS fund rate setting calculations until FY19. The resulting deficit will be addressed during future budgeting cycles.