REPORT ON UNFUNDED BUDGET PRESSURES

32 V.S.A. § 306(a)(1)(B and C)

January 21,2020

Department of Finance and Management

CONTENTS

SUMMARY

Act 72 of 2016, Sec. E.100.9, as amended by Act 11 of 2018 Special Session, Sec.E323(a) and as further amended by Act 72 of 2019, Sec.E.124 modifying 32 V.S.A § 306(a)(1) to require 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 2021.

SECTION (B)

- MAINTENANCE OF TRANSPORTATION ROAD AND BRIDGE INFRASTRUCTURE AT CURRENT LEVELS

Transportation Infrastructure ($ Millions)	
Annual Need	849
Available Funds	616
Net Unfunded	233

Note: Amounts reflect the cost of maintaining total transportation infrastructure, not just road and bridge repair. This number is reflective of point in time (1/16/2020) and may need to be updated prior to publishing this report.

SECTIONS (C) (i)

- PENSION LIABILITIES FOR THE VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM (VSERS) AND THE VERMONT STATE TEACHERS' RETIREMENT SYSTEM (VSTRS)
- OTHER POSTEMPLOYMENT BENEFIT [OPEB] LIABILITIES UNDER CURRENT LAW AND RELEVANT GOVERNMENT ACCOUNTING STANDARDS BOARD STANDARDS FOR THESE SYSTEMS

VSERS	
Pension	815,464,698
OPEB	1,227,566,057
VSTRS	
Pension	1,554,459,287
OPEB	1,040,752,841
All amounts reflect the Unfunded Actuarial Liability as of 6/30/2019. OPEB values use the GASB 74 actuarial reporting standard for consistency with the CAFR and other financial reports.	

SECTION (C)(ii)

- 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 2015 Market Rate	1,444,699	1,444,699
to 2017 Market Rate	4,700,000	6,144,699
Current Federal Poverty Level		
to FY 2020 FPL		880,000

- FPL
  - The current CCFAP income standard is based on the 2019 FPL.
  - This is an estimated FPL. Each year the poverty guidelines are published at the end of January. Estimate is based on a 2.6% increase in income which was an average increase between the 2018 and 2019 FPL.
  - In July 2019, funds were added to change the income guidelines to ensure a smooth transition for families.

- 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.
  - In January 2019, additional federal funding was used to increase the infant and toddler rates to 2017 Market Rates.
  - In July 2019, additional funding was used to increase the preschool and school age rates to the 2014 Market Rates.
  - The most recent MRS was completed in 2017.

The estimates above for rates are only for the preschool and school age rates, as the infant and toddler rates are at the 2017 level.

SECTION (C)(iii)

- 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

Reach up ($ Millions)	
Obligation prior to Rateable Reduction	45.7
Base appropriation	21.8
Amount for full funding	23.9
*Based on current Reach Up caseload and the consumer price index for 2020	

SECTION (C)(iv)

- 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 2021 Property Transfer Tax (PTT) Allocation	
PTT Revenue - 1/16/2020 Emergency Board Adopted Forecast	48,200,000
32 V.S.A. § 9610 (d)	
$2,500,000 to Vermont Housing Finance Agency	2,500,000
32 V.S.A. § 9610 (c)	
2% to Current Use Administration Special Fund	914,000
Remainder for allocation	44,786,000
10 V.S.A. § 312	
50% to the Vermont Housing & Conservation Board (VHCB)	22,393,000
32 V.S.A. § 435 (b)(10)	
33% to the General Fund	14,779,380
24 V.S.A. § 4306 (a)	
17% to the Municipal & Regional Planning Fund	7,613,620
70% to Regional Planning Commission	*5,329,534*
20% to Municipal Planning Commission	*1,522,724*
10% to Geographic Information Services	*761,362*

****Based on Vermont statutory language**

SECTION (C)(v)

- 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	Workers Compensation Fund	Medical Insurance Fund	Dental Insurance Fund	Federal Surplus Property	Copy Center Fund	Facilities Operations Fund	General Obligation Bond Projects	Communication & Information Technology Fund	Postage Fund	Property Management Fund
FY 2017 Starting Balance	(692,792)	1,145,452	6,384,380	1,143,153	(111,663)	(1,456,841)	(1,209,300)	8,965,236	(2,842,025)	(2,637,750)	(24,226,542)
Revenue	3,034,001	13,727,134	190,804,322	5,888,524	403,228	2,608,829	29,659,723	75,000	32,392,051	2,779,208	20,779,518
Expenses	(4,552,080)	(4,796,485)	(177,650,289)	(6,608,124)	(418,097)	(2,412,283)	(29,774,268)	(66,770,731)	(33,839,599)	(3,120,028)	(21,108,928)
Other *	43,417	194,645	130,912	3,704	-	(933)	15,979	115,408,605	31,780	-	(339,748)
Operating Income (loss)	(1,474,662)	9,125,294	13,284,945	(715,896)	(14,869)	195,613	(98,566)	48,712,874	(1,415,768)	(340,820)	(669,158)
FY2018 Starting Balance	(2,167,454)	10,270,746	19,669,325	427,257	(126,532)	(1,261,228)	(1,307,866)	57,678,110	(4,257,793)	(2,978,570)	(24,895,700)
Revenue	3,149,564	8,017,875	197,277,562	6,772,914	710,298	2,573,740	29,893,661	-	32,476,226	2,687,852	22,109,589
Expenses	(4,243,067)	(15,654,102)	(184,298,459)	(6,790,326)	(733,157)	(2,637,338)	(29,734,345)	(83,946,503)	(34,976,582)	(2,960,051)	(21,389,879)
Other *	80,439	400,681	445,169	3,587	-	-	(40,342)	(1,512,399)	-	-	(12,961)
Operating Income (loss)	(1,013,064)	(7,235,546)	13,424,272	(13,825)	(22,859)	(63,598)	118,974	(85,458,902)	(2,500,356)	(272,199)	706,749
FY 2019 Starting Balance	(3,180,518)	3,035,200	33,093,597	413,432	(149,391)	(1,324,826)	(1,188,892)	(27,780,792)	(6,758,149)	(3,250,769)	(24,188,951)
Revenue	3,695,585	6,208,300	201,053,818	7,010,824	382,634	2,433,415	31,574,173	-	68,884,050	2,734,095	23,333,992
Expenses	(4,761,345)	(12,715,455)	(191,673,293)	(6,744,960)	(416,384)	(2,383,664)	(30,935,794)	(62,488,128)	(67,506,487)	(3,089,280)	(22,624,481)
Other *	118,056	566,285	996,216	8,323		(1,125)	(21,902)	152,336,133	(183,400)	-	(13,969)
Operating Income (Loss)	(947,704)	(5,940,870)	10,376,741	274,187	(33,750)	48,626	616,477	89,848,005	1,194,163	(355,185)	695,542
FY 2020 Starting Balance	(4,128,222)	(2,905,670)	43,470,338	687,619	(183,141)	(1,276,200)	(572,415)	62,067,213	(5,563,986)	(3,605,954)	(23,493,409)
Projected Revenue	3,038,634	8,226,918	185,000,000	6,500,000	440,000	2,481,337	31,371,316	-	70,670,620	2,788,898	23,525,431
Projected Expenses	(5,462,533)	(11,960,251)	(185,000,000)	(6,800,000)	(450,000)	(2,431,337)	(31,384,860)	(62,067,213)	(69,670,620)	(2,833,926)	(22,979,159)
Other *	100,000	400,000	-	-	-	-	-	-	-	-	(14,248)
Operating Income (Loss)	(2,323,899)	(3,333,333)	-	(300,000)	(10,000)	50,000	(13,543)	(62,067,213)	1,000,000	(45,028)	532,024
FY 2020 Projected Ending Balance	(6,452,121)	(6,239,003)	43,470,338	387,619	(193,141)	(1,226,200)	(585,958)	-	(4,563,986)	(3,650,982)	(22,961,385)
Budgeted Revenue	5,654,148	12,981,960	185,000,000	6,500,000	440,000	2,500,000	31,763,463	-	78,207,475	2,890,000	23,701,500
Budgeted Expenses	(5,754,148)	(12,763,771)	(190,000,000)	(6,800,000)	(435,000)	(2,400,000)	(31,891,684)	(63,000,000)	(77,207,475)	(2,890,000)	(23,282,949)
Other *	100,000	400,000	-	-	-	-	-	126,000,000	-	-	(14,533)
Budgeted Operating Income (Loss)	-	618,189	(5,000,000)	(300,000)	5,000	100,000	(128,221)	63,000,000	1,000,000	-	404,018
FY 2021 Budgeted Ending Balance	(6,452,121)	(5,620,814)	38,470,338	87,619	(188,141)	(1,126,200)	(714,179)	63,000,000	(3,563,986)	(3,650,982)	(22,557,367)

*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.

SECTION (C)(vi)

A SUMMARY OF OTHER NONMAJOR ENTERPRISE FUNDS AND INTERNAL SERVICE FUNDS WHERE DEFICITS EXIST IN EXCESS OF $1,500,000

Not applicable, as the Fiscal Year 2019 CAFR contains no other nonmajor enterprise funds or internal service funds in deficit positions.

NOTES ON FUND BALANCES:

STATE LIABILITY INSURANCE FUND

The State Liability Insurance Fund ended FY19 in a deficit position. Premiums allotted to departments in FY17 through FY19 did not fully cover the incurred but not reported (IBNR) ultimate loss calculations provided by a new independent actuary consultant, nor the other costs including administrative overhead. In conjunction with a Governor's Recommended fiscal year 2020 BAA request to mitigate the projected fund deficit for fiscal year 2020, program management appropriately budgeted allocated rates for fiscal year 2021 to begin returning the funds to sustainable balances in coming years.

WORKERS COMPENSATION FUND

The Workers Compensation Insurance Fund ended FY19 in a deficit position for the first time since FY15. Due to an excess fund surplus in FY17 resulting from the implementation of the Third Party Administrator (TPA), discounted premiums were charged to customers for FY19 and FY20. However, those respective years' premiums charged to departments did not fully cover the incurred but not reported (IBNR) ultimate loss calculations provided by a new independent actuary consultant, nor other costs including administrative overhead. In conjunction with a Governor's Recommended fiscal year 2020 BAA request to mitigate the projected fund deficits for fiscal year 2020, program management has removed the premium discount starting in FY21, and appropriately budgeted allocated rates to return the funds to sustainable balances in coming years.

COMMUNICATION & INFORMATION TECHNOLOGY FUND

Fiscal year 2019 was the first state fiscal year in which all embedded IT staff and associated operating costs were entirely consolidated with ADS. The operating gain of $1,194,163 in the Communications & Information Technology (CIT) Fund for fiscal year 2019 can be attributed to the Timesheet Billing Method to Agencies for IT services based on the federally approved rate, as well as recouping prior fiscal year costs for the Voice Over Internet Protocol phone services through a bill-back method to customer departments. As Accounts Receivable billing practices and budgeted rates continue to closely match operating costs, the projected out-years' deficit fund balances will be mitigated.

POSTAGE FUND

The deficit net position in the Postage Fund is due to the difference in the rate charged to departments to operate the program as compared to official postage rates, known as the marginal rate. The marginal rate has not proved sufficient to cover the actual operating costs despite management-initiated efficiencies. In addition, unbilled services (e.g., bomb screening and inter-office mail) were not historically recovered via the marginal rate charged to departments. In order to address the deficit, program management instituted a marginal rate increase in FY20, but capitalization or additional structural changes may be required if operations management cannot fully address the fund deficit.

COPY CENTER FUND

The Copy Center Fund's deficit net position is the result of a decline in usage, driven by technology replacements of printed materials, limiting the fund's revenue potential without reducing fixed costs. To eliminate the deficit, Copy Center management may consider modest rate increases in future years, while continuing to aggressively pursue additional business opportunities including partnership with the Postal Center. FY19 was the third year out of the past four to end with an operating surplus.

FEDERAL SURPLUS PROPERTY FUND

The deficit in the Federal Surplus Property Fund is due mainly to the lack of inventory available for sale from the federal government that could in turn be retrieved for sale by the State. Program management will continue to evaluate administrative expenses, making reductions where appropriate and ensuring proper allocation of costs between the State and Federal surplus property programs. Management will also continue to pursue increasing revenue by actively retrieving goods for sale.

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. Fiscal year 2019 resulted in an operating surplus, and continued investments in energy efficiency, strategic maintenance management, and regular review of all operations should help to continue reducing the fund's deficit.

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 have a cost-recovery schedule of fifty years. This part of the deficit should be eliminated gradually over the next twenty to 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.

GENERAL OBLIGATION BONDS PROJECT FUND

The deficit in the General Obligation Bonds Project Fund in fiscal year 2019 is attributed to capital spending in anticipation of general obligation bonds in FY20.