REPORT ON UNFUNDED BUDGET PRESSURES

32 V.S.A. § 306(a)(1)(B and C)

January 27, 2022

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), 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 2023.

SECTION (B)

- MAINTENANCE OF TRANSPORTATION ROAD AND BRIDGE INFRASTRUCTURE AT CURRENT LEVELS

Transportation Infrastructure ($ Millions)		
Annual Need	$	925.8
Available Funds	$	788.4
Net Unfunded	$	137.4

Notes:
1) Amounts reflect the cost of maintaining total transportation infrastructure, not just road and bridge repair.
2) $20.25M one-time appropriation for DMV System Modernization proposed in Sec. B.1100.1 of FY2023 Governor's Recommended Budget is not included in "Available Funds" above.

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	$	829,827,694
OPEB	$	1,473,073,282
VSTRS		
Pension	$	1,695,489,780
OPEB	$	1,275,587,042

Note: All amounts reflect the unfunded actuarial liability as of 6/30/2021. For consistency with the ACFR and other financial reports, pension system values use the GASB 67 accounting standard and OPEB values use the GASB 74. These values may differ from those presented in the actuarial valuations used to determine the needed employer contribution for each pension system.

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 THE CURRENT FEDERAL POVERTY LEVEL

In FY 2022, the Child Care Financial Assistance Program pursuant to 33 V.S.A. § 3512 is fully funded based on current market rates and the federal poverty 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 Ratable Reduction	48.3
Base Appropriation	24.0
Amount for full funding	24.3
*Based on current Reach Up caseload and the consumer price index for 2021	

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 2023 Property Tax (PTT) Allocation	
PTT Revenue – January 13, 2022 Emergency Board Adopted Forecast	77,300,000
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	1,496,000
Remainder for allocation	73,304,000
10 V.S.A § 312	
50% to the Vermont Housing & Conservation Board (VHCB)	36,652,000
32 V.S.A. § 435 (b)(10)	
33% to the General Fund	24,190,320
24 V.S.A. § 4306 (a)	
17% to the Municipal & Regional Planning Fund	12,461,680
70% to the Regional Planning Commission	*8,723,176*
20% to the Municipal Planning Commission	*2,492,336*
10% to the Geographic Information Services	*1,246,168*
** 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 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR), 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 Comp Fund	Medical Insurance Fund	Dental Insurance Fund	Offender Work Programs	Federal Surplus Property	Copy Center Fund	Postage Fund	Human Resources Fund	Property Management Fund	Liquor Control Fund	Vermont Lottery Commission
FY 2019 Starting Balance	(3,180,518)	(87,715)	3,035,200	33,093,597	413,432	695,557	(149,391)	(1,324,826)	(3,250,769)	(182,401)	(24,188,951)	(1,194,191)	(309,216)
Revenue	3,695,585	3,009,902	6,208,300	201,053,818	7,010,824	2,822,245	382,634	2,433,415	2,734,095	5,374,999	23,333,992	67,591,468	139,273,655
Expenses	(4,761,345)	(2,852,221)	(12,715,455)	(191,673,293)	(6,744,960)	(3,329,152)	(416,384)	(2,383,664)	(3,089,280)	(5,184,673)	(22,624,481)	(64,787,510)	(110,094,330)
Other *	118,056	-	566,285	996,216	8,323			(1,125)	-		(13,969)	(1,689,609)	(29,173,748)
Operating Income (Loss)	(947,704)	157,681	(5,940,870)	10,376,741	274,187	(506,907)	(33,750)	48,626	(355,185)	190,326	695,542	1,114,349	(5,577)
FY 2020 Starting Balance	(4,128,222)	69,966	(2,905,670)	43,470,338	687,619	188,650	(183,141)	(1,276,200)	(3,605,954)	7,925	(23,493,409)	(79,842)	(3,014,793)
Revenue	3,038,634	3,611,044	8,227,292	200,040,823	7,067,302	2,013,059	218,395	2,265,486	2,746,316	5,859,468	22,556,587	91,102,215	137,388,381
Expenses	(2,364,071)	(3,410,153)	(13,393,751)	(179,673,493)	(5,663,565)	(2,722,346)	(229,733)	(2,342,159)	(2,797,061)	(6,364,299)	(22,624,100)	(71,662,421)	(109,865,819)
Other *	2,401,884	128,000	3,070,704	830,275	9,208		-	(3,617)	-	-	(19,469)	(22,973,380)	(27,522,562)
Operating Income (Loss)	3,076,447	328,891	(2,095,755)	21,197,605	1,412,945	(709,287)	(11,338)	(80,290)	(50,745)	(504,831)	(86,982)	(3,533,586)	-
FY 2021 Starting Balance	(1,051,775)	398,857	(5,001,425)	64,667,943	2,100,564	(520,637)	(194,479)	(1,356,490)	(3,656,699)	(496,906)	(23,580,391)	(3,613,428)	(3,014,793)
Revenue	5,371,441	4,304,221	12,332,862	198,742,918	7,193,372	2,111,243	847,495	2,548,421	2,909,753	6,200,408	25,009,273	96,667,036	161,540,486
Expenses	(5,316,670)	(4,815,276)	(13,278,460)	(206,945,371)	(6,875,145)	(2,628,051)	(830,176)	(2,236,822)	(2,766,513)	(6,057,731)	(23,094,835)	(81,966,433)	(129,651,785)
Other *	14,232		36,604	136,485	4,060			500		-	(18,105)	(22,760,627)	(31,888,701)
Operating Income (Loss)	69,003	(511,055)	(908,994)	(8,065,968)	322,287	(516,808)	17,319	312,099	143,240	142,677	1,896,333	(8,060,024)	-
FY 2022 Starting Balance	(982,772)	(112,198)	(5,910,419)	56,601,975	2,422,851	(1,037,445)	(177,160)	(1,044,391)	(3,513,459)	(354,229)	(21,684,058)	(3,613,428)	(3,014,793)
Projected Revenue	5,027,983	4,675,547	12,536,870	180,000,000	6,500,000	1,951,982	300,000	2,500,000	3,000,000	6,449,979	23,000,000	99,156,102	145,000,000
Projected Expenses	(6,165,637)	(5,687,278)	(12,943,288)	(205,000,000)	(7,000,000)	(2,400,000)	(295,000)	(2,350,000)	(2,900,000)	(6,449,979)	(22,750,000)	(79,560,225)	(116,000,000)
Other *	10,000		50,000	150,000							(15,000)	(22,740,000)	(29,000,000)
Projected Operating Income (Loss)	(1,127,654)	(1,011,731)	(356,418)	(24,850,000)	(500,000)	(448,018)	5,000	150,000	100,000	-	235,000	(3,144,123)	-
FY 2022 Projected Ending Balance	(2,110,426)	(1,123,929)	(6,266,837)	31,751,975	1,922,851	(1,485,463)	(172,160)	(894,391)	(3,413,459)	(354,229)	(21,449,058)	(6,757,551)	(3,014,793)
Budgeted Revenue	6,311,243	5,980,303	13,106,391	210,000,000	7,000,000	1,699,065	300,000	2,500,000	3,000,000	7,926,082	23,000,000	104,113,907	151,000,000
Budgeted Expenses	(6,331,905)	(5,905,869)	(13,208,277)	(210,000,000)	(7,000,000)	(1,699,065)	(295,000)	(2,350,000)	(2,900,000)	(7,926,082)	(22,750,000)	(83,538,236)	(120,800,000)
Other *	25,000		100,000	150,000		-					(13,000)	(19,431,431)	(30,200,000)
Budgeted Operating Income (Loss)	4,338	74,434	(1,886)	150,000	-	-	5,000	150,000	100,000	-	237,000	1,144,240	-
FY 2023 Budgeted Ending Balance	(2,106,088)	(1,049,495)	(6,268,723)	31,901,975	1,922,851	(1,485,463)	(167,160)	(744,391)	(3,313,459)	(354,229)	(21,212,058)	(3,484,221)	(3,014,793)

* 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

The Fiscal Year 2021 ACFR contains no other nonmajor enterprise funds or internal service funds in deficit positions.

NOTES ON FUND BALANCES:

STATE LIABILITY INSURANCE FUND

The State Liability Fund deficit is due to consecutive years of revenues being outpaced by actual and projected liability driven expenses. Program management identified deficiencies in the rate setting model which have been corrected for fiscal year 2021. The outlook for the program is improving as the growth of claims has slowed per actuarial projections. Program management will work closely with the Administration to identify additional risk mitigation opportunities.

WORKERS COMPENSATION FUND

Program management is attempting to manage the fund to break-even annually. However, program costs are exceeding revenue in FY 2022 with the fund projected to end the year in a significant deficit position. The Governor's Recommended Budget for FY 2023 proposes a transfer from the General Fund to offset this projected operating deficit.

RISK MANAGEMENT – ALL OTHER INSURANCE FUND

The All Other Insurance Fund deficit is a result of higher program costs and the revenues approved during fiscal year 2021 rate setting proved insufficient. In fiscal year 2021, the new Cyber Security program incurred claims, though no revenue source had been identified for deductible coverage. Increased premium pressure will likely be much worse in fiscal year 2022 as statewide policy premiums (specifically for the Property and Cyber Security programs) are far outpacing the approved revenue/statewide billings. The Governor's Recommended Budget for FY 2023 proposes a transfer from the General Fund to offset this projected operating deficit.

POSTAGE FUND

The deficit net position in the Postage Fund is due to the marginal rate (percentage points saved off federal postage rates) used to operate the program has not proven sufficient to cover the actual operating costs despite management efforts to initiate efficiencies. In addition, unbilled services (bomb screening and inter-office mail) are costly. Program management will attempt to address the fund deficit through improved business operations, while continuing to explore efficiencies gained through a partnership and colocation with the copy center. The fund ended the fiscal year with a surplus change in net position due to a modest marginal rate increase which was implemented in fiscal year 2020.

COPY CENTER FUND

The Copy Center Fund's deficit net position is the result of a long-term decline in usage, driven by digital replacements of printed materials, limiting the program's revenue potential without a corresponding reduction in fixed costs. To eliminate the deficit, program management may implement rate increases, while continuing to aggressively pursue additional opportunities including synergistic partnership with the postal services program. The Copy Center ended the fiscal year with a surplus change in net position because of these actions.

FEDERAL SURPLUS PROPERTY FUND

The deficit in the Federal Surplus Property Fund is due mainly to the lack of inventory for sale from the federal government that could in turn be retrieved for sale by the State. Program management will continue to pursue increasing revenue by actively retrieving goods for sale as well as to encourage increased participation by towns and eligible organizations. At the start of fiscal year 2021, the program model shifted to an administrative service fee-based participation via the State Surplus Property program which will allow for more consistent and predictable expenses year to year.

PROPERTY MANAGEMENT FUND

The Property Management Fund deficit is due to cost recovery assumptions which will be mitigated going forward as follows. First, there are two buildings that have been financed over a twenty-year period with recovery of costs scheduled over fifty years. This part of the deficit should be eliminated gradually over the next twenty to thirty years. The Governor’s Recommended FY 2022 Budget Adjustment Act proposes to retire remaining part of the deficit with a transfer from the General Fund.

LIQUOR CONTROL FUND

The deficit in the Liquor Control Fund is due primarily to a combination of unforeseen IT implementation costs and an annual transfer amount that exceeded available retained earnings. Additionally, as with the State Lottery Fund, the reporting of Other Post-Employment Benefits liability is also a factor. The Governor’s Recommended FY 2023 Budget includes a transfer amount that is intended to mitigate the deficit condition.

STATE LOTTERY FUND

The deficit in the State Lottery Fund is due to the accrual of the Fund’s Proportionate Share of the Net Pension and Net OPEB Liabilities. This deficit will be funded over time by the Pension and OPEB actuarially determined contributions which includes payments for the amortization of the unfunded actuarial accrued liability.

OFFENDER WORK PROGRAMS

The Vermont Offender Work Program includes the Vermont Correctional Industries (VCI), Facility Work Camps, and Community Work Crews. The deficit is attributable to the closure of the Windsor Work Camp, the State converting to open office environments which has nearly eliminated state purchases of furniture from VCI, and a decline in offenders that are being sentenced to Community Work Crews. Additionally, the pandemic effectively shut down operations for VCI and the Work Crews/Camps through fiscal year 2021. Structural program changes are being planned and implemented with the assistance of federal grant funding. Work has already begun with statewide partners to ensure the continuation of these vocational programs that are successful in mitigating recidivism.

HUMAN RESOURCES

The Human Resources Services fund ended fiscal year 2021 with an operating income surplus which helped improve the deficit net position. Program management will continue to review the rate setting process to ensure that all anticipated expenses are considered while also considering opportunities for efficiencies where appropriate.