REPORT ON UNFUNDED BUDGET PRESSURES

32 V.S.A. § 306(a)(1)(B and C)

January 26, 2021

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 2022.

SECTION (B)

- MAINTENANCE OF TRANSPORTATION ROAD AND BRIDGE INFRASTRUCTURE AT CURRENT LEVELS

Transportation Infrastructure ($ Millions)	
Annual Need	$ 874
Available Funds	$ 651
Net Unfunded	$ 223
Note: Amounts reflect the cost of maintaining total transportation infrastructure, not just road and bridge repair.	

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	$ 1,111,186,438
OPEB	$ 1,425,377,649
VSTRS	
Pension	$ 1,951,128,430
OPEB	$ 1,259,400,309
Note: All amounts reflect the unfunded actuarial liability as of 6/30/2020. For consistency with the CAFR 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 CURRENT FEDERAL POVERTY LEVEL

Child Care Fee Scale Funding		
Market Rate Only[1]		
	to 2017 Market Rate Preschool and School Age	$4,000,000
	to 2019 Market Rate for Infants and Toddlers, 2017 Market Rate for Preschool and School Age	$6,100,000
	to 2019 Market Rate for all age categories	$10,100,000
Market Rate[1] and 2021 FPL Adjustment[2]		
	to 2017 Market Rate Preschool & School Age and 2021 Estimated FPL	$4,400,000
	To 2019 Market Rate for Infants and Toddlers, 2017 Market Rate for Preschool and School Age and 2021 Estimated FPL	$6,600,000
	to 2019 Market Rate for all age categories and 2021 Estimated FPL	$10,600,000
Current Federal Poverty Level[2] (FPL) at Current Rates		
	to Estimated 2021 FPL Only	$800,000

- Income Guidelines and Federal Poverty Level (FPL) Notes and History
  - The CCFAP income standard is based on the 2020 FPL as of 10/25/2020.
  - **Federal Poverty Level (FPL) was estimated in 2021 prior to it being released by the federal government.**
  - In July 2019, funds were added to change the income guidelines to ensure a smooth transition for families.
  - In October 2020, funds were added bring the income guidelines to the 2020 FPL
- Market Rate History
  - In January 2010, CCFAP rates were established based on a 2008 Market Rate Survey (MRS)

[1] Market Rate projections assume pre-COVID utilization.
[2] The FPL is included in the progressive rate structure. Therefore, the effect of changing the FPL is presented above assuming either the current rate structure, or increased market rates.

- 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.
- In October 2020, additional funding was used to increase the preschool and school age rates to the 2015 Market Rates.
- The most recent MRS was completed in 2020 using 2019 data.

The Governor's FY22 budget proposes shifting the Child Care Financial Assistance Program as proposed in the Governor's 5-Year Plan. Below identifies the new unfunded budget pressure with this initiative.

Budget Pressure[3]	Cost[4]
50th percentile of the 2019 Market Rates	$0

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	44.9
Base Appropriation	21.4
Amount for full funding	23.5
*Based on current Reach Up caseload and the consumer price index for 2020	

[3] All costs include the shift of the Child Care Financial Assistance Co-payment structure in SFY22, moving the fee scale to a range of 150% Federal Poverty Level (FPL) to 350% FPL.
[4] October 2020 utilization data was used to identify cost.

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 2022 Property Tax (PTT) Allocation	
PTT Revenue – 1/19 Emergency Board Adopted Forecast	62,300,000
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	1,196,000
Remainder for allocation	58,604,000
10 V.S.A § 312	
50% to the Vermont Housing & Conservation Board (VHCB)	29,302,000
32 V.S.A. § 435 (b)(10)	
33% to the General Fund	19,339,320
24 V.S.A. § 4306 (a)	
17% to the Municipal & Regional Planning Fund	9,962,680
70% to the Regional Planning Commission	*6,973,876*
20% to the Municipal Planning Commission	*1,992,536*
10% to the Geographic Information Services	*996,268*
** 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 Comp Fund	Medical Insurance Fund	Dental Insurance Fund	Offender Work Programs	Federal Surplus Property	Communication Information Technology Fund	Copy Center Fund	Postage Fund	Facilities Operations Fund	Property Management Fund	Liquor Control Fund	Vermont Lottery Commission
FY2018 Starting Balance	(2,167,454)	10,270,746	19,669,325	427,257	1,054,031	(126,532)	(4,257,793)	(1,261,228)	(2,978,570)	(1,307,866)	(24,895,700)	(1,824,490)	(2,749,158)
Revenue	3,149,564	8,017,875	197,277,562	6,772,914	2,585,128	710,298	32,476,226	2,573,740	2,687,852	29,893,661	22,109,589	65,843,224	132,424,624
Expenses	(4,243,067)	(15,654,102)	(184,298,459)	(6,790,326)	(2,943,602)	(733,157)	(34,976,582)	(2,637,338)	(2,960,051)	(29,734,345)	(21,389,879)	(64,163,895)	(105,521,857)
Other *	80,439	400,681	445,169	3,587		-	-	-	-	(40,342)	(12,961)	(1,049,030)	(27,162,825)
Operating Income (loss)	(1,013,064)	(7,235,546)	13,424,272	(13,825)	(358,474)	(22,859)	(2,500,356)	(63,598)	(272,199)	118,974	706,749	630,299	(260,058)
FY 2019 Starting Balance	(3,180,518)	3,035,200	33,093,597	413,432	695,557	(149,391)	(6,758,149)	(1,324,826)	(3,250,769)	(1,188,892)	(24,188,951)	(1,194,191)	(309,216)
Revenue	3,695,585	6,208,300	201,053,818	7,010,824	2,822,245	382,634	68,884,050	2,433,415	2,734,095	31,574,173	23,333,992	67,591,468	139,273,655
Expenses	(4,761,345)	(12,715,455)	(191,673,293)	(6,744,960)	(3,329,152)	(416,384)	(67,506,487)	(2,383,664)	(3,089,280)	(30,935,794)	(22,624,481)	(64,787,510)	(110,094,330)
Other *	118,056	566,285	996,216	8,323			(183,400)	(1,125)	-	(21,902)	(13,969)	(1,689,609)	(29,173,748)
Projected Operating Income (Loss)	(947,704)	(5,940,870)	10,376,741	274,187	(506,907)	(33,750)	1,194,163	48,626	(355,185)	616,477	695,542	1,114,349	(5,577)
FY 2020 Starting Balance	(4,128,222)	(2,905,670)	43,470,338	687,619	188,650	(183,141)	(5,563,986)	(1,276,200)	(3,605,954)	(572,415)	(23,493,409)	(79,842)	(3,014,793)
Revenue	3,038,634	8,227,292	200,040,823	7,067,302	2,013,059	218,395	84,075,928	2,265,486	2,746,316	32,925,042	22,556,587	91,102,215	137,388,381
Expenses	(2,364,071)	(13,393,751)	(179,673,493)	(5,663,565)	(2,722,346)	(229,733)	(78,662,814)	(2,342,159)	(2,797,061)	(31,120,647)	(22,624,100)	(71,662,421)	(109,865,819)
Other *	2,401,884	3,070,704	830,275	9,208		-	-	(3,617)	-	(31,268)	(19,469)	(22,973,380)	(27,522,562)
Projected Operating Income (Loss)	3,076,447	(2,095,755)	21,197,605	1,412,945	(709,287)	(11,338)	5,413,114	(80,290)	(50,745)	1,773,127	(86,982)	(3,533,586)	-
FY 2021 Starting Balance	(1,051,775)	(5,001,425)	64,667,943	2,100,564	(520,637)	(194,479)	(150,872)	(1,356,490)	(3,656,699)	1,200,712	(23,580,391)	(3,613,428)	(3,014,793)
Projected Revenue	5,371,441	12,332,862	200,000,000	7,000,000	1,930,685	300,000	77,432,079	2,500,000	3,000,000	33,767,520	20,036,587	94,746,304	158,438,000
Projected Expenses	(5,037,983)	(12,686,870)	(190,000,000)	(6,800,000)	(1,930,685)	(295,000)	(76,432,079)	(2,400,000)	(3,000,000)	(30,569,206)	(19,908,324)	(73,095,669)	(126,689,482)
Other *		100,000	750,000			-		-	-	(40,000)	(20,000)	(22,750,000)	(31,748,518)
Budgeted Operating Income (Loss)	333,458	(254,008)	10,750,000	200,000	-	5,000	1,000,000	100,000	-	3,158,314	108,263	(1,099,366)	-
FY 2021 Projected Ending Balance	(718,317)	(5,255,433)	75,417,943	2,300,564	(520,637)	(189,479)	849,128	(1,256,490)	(3,656,699)	4,359,026	(23,472,128)	(4,712,794)	(3,014,793)
Budgeted Revenue	5,027,983	12,536,870	175,000,000	6,250,000	1,951,982	300,000	81,191,291	2,500,000	3,000,000	31,761,208	20,036,587	98,536,156	140,800,000
Budgeted Expenses	(5,037,983)	(12,686,870)	(190,000,000)	(6,800,000)	(1,951,982)	(295,000)	(80,191,291)	(2,400,000)	(3,000,000)	(31,761,208)	(20,144,705)	(74,557,583)	(113,100,504)
Other *	10,000	150,000	750,000							(45,000)	(20,000)	(22,750,000)	(27,699,496)
Budgeted Operating Income (Loss)	-	-	(14,250,000)	(550,000)	-	5,000	1,000,000	100,000	-	(45,000)	(128,118)	1,228,573	-
FY 2022 Budgeted Ending Balance	(718,317)	(5,255,433)	61,167,943	61,167,943	(520,637)	(184,479)	1,849,128	(1,156,490)	(3,656,699)	4,314,026	(23,600,246)	(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

Not applicable, as the Fiscal Year 2020 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 Fund's 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, and the program was supported with a transfer from the general fund in fiscal year 2020. The outlook for the program is improving as the growth of claims has slowed per actuarial projections. Program management will work closely with the State administration to identify additional risk mitigation opportunities.

WORKERS COMPENSATION FUND

The Workers' Compensation Fund deficit is the result of responding to an excess fund surplus in fiscal year 2017 by charging discounted premiums to customers beginning in fiscal year 2018 through fiscal year 2020. The fund balance was further reduced by larger than expected Incurred But Not Reported (IBNR) ultimate loss calculations (provided by an independent actuary consultant) in fiscal years 2018 and 2019. Program management has removed the premium discount and returned rate to a break-even level for fiscal year 2021, and the program was supported with a transfer from the general fund in fiscal year 2020. Program management will work closely with State administration to identify additional workplace safety and other risk mitigation opportunities. A reserve fulfillment surcharge may need to be applied if programmatic savings cannot otherwise be realized.

COMMUNICATION & INFORMATION TECHNOLOGY FUND

The operations of the Agency of Digital Services (ADS) are accounted for in the Communications & Technology (CIT) Fund. The fund's deficit balance was reduced this year due to implementing a new reporting system to better identify operating costs. The new reporting system improvements include robust billing practices and budgeted rates for ADS services, aligning expenditures to receivables and acting upon the management of aged receivables, and improved timesheet billing methods to Agencies for IT services based on the federally approved rate. In addition, ADS has been recouping prior fiscal year costs for the Voice Over IP phone services through a bill back method to consuming agencies users. These actions will further enable ADS to improve the deficit fund balance.

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 interoffice mail) have not been fully funded in recent years. 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. A modest marginal rate increase 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.

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. Starting in fiscal year 2021, the program model will shift 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

Much of the Property Management Fund deficit is due to two buildings that have been financed over a twentyyear 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. Additionally, the fund initially operated with staff and operating costs for lease management work that was not being recovered through billed revenue. The administration has added a surcharge to existing leases to cover the operating expenses and deficit. The level of surcharge will be monitored during budgeting each year. 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 leased space. Program management will also continue to monitor recoverable expenses to pursue corresponding back-charge revenues.

LIQUOR CONTROL FUND

The deficit in the Liquor Control Fund is due to the accrual of the Fund's Proportionate Share of the Net Pension and Net OPEB Liabilities.

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.

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.

HUMAN RESOURCES

The Human Resources Services fund ended fiscal year 2020 in a deficit position as estimated revenues, via a one-time statewide allocation, proved insufficient to cover operating expenses. Expenses not covered by revenue this year include depreciation for the upgraded talent and acquisition management system (TAMS), a new position/commission based within the Agency of Administration, as well as collectively bargained salary increases for the approximately 95 employees within this fund. Program management will review the rate setting process to ensure that all anticipated expenses and opportunities for increased efficiencies are considered.