REPORT ON UNFUNDED BUDGET PRESSURES

32 V.S.A. § 306(a)(1)(B and C)

January 20, 2023

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 Available Funds	$909.6 $795.1
Net Unfunded	$114.5
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	$ 1,123,933,825
OPEB	$ 802,517,251
VSTRS	
Pension	$ 1,928,558,829
OPEB	$ 717,851,240
Note: All amounts reflect the unfunded actuarial liability as of 6/30/2022. 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 2023, 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	56.53
Base Appropriation	28.04
Amount for full funding	28.49
*Based on current Reach Up caseload and the ratable reduction of 49.6%	

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 17, 2023 Emergency Board Adopted Forecast	62,400,000
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	1,198,000
Remainder for allocation	58,702,000
10 V.S.A § 312	
50% to the Vermont Housing & Conservation Board (VHCB)	29,351,000
32 V.S.A. § 435 (b)(10)	
33% to the General Fund	19,371,660
24 V.S.A. § 4306 (a)	
17% to the Municipal & Regional Planning Fund	9,979,340
70% to the Regional Planning Commission	*6,985,538*
20% to the Municipal Planning Commission	*1,995,868*
10% to the Geographic Information Services	*997,934*
** 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	Workers Comp Fund	Medical Insurance Fund	Dental Insurance Fund	Postage Fund	Property Management Fund	Liquor Control Fund	Vermont Lottery Commission	General Obligation Bond Projects Fund
FY 2020 Starting Balance	(4,128,222)	(2,905,670)	43,470,338	687,619	(3,605,954)	(23,493,409)	(1,923,335)	(3,014,793)	(27,780,792)
Revenue	3,038,634	8,227,292	200,040,823	7,067,302	2,746,316	22,556,587	91,117,540	137,388,381	8,000
Expenses	(2,364,071)	(13,393,751)	(179,673,493)	(5,663,565)	(2,797,061)	(22,624,100)	(71,651,126)	(109,865,819)	(58,937,700)
Other *	2,401,884	3,070,704	830,275	9,208	-	(19,469)	(23,000,000)	(27,522,562)	94,152,613
Operating Income (Loss)	3,076,447	(2,095,755)	21,197,605	1,412,945	(50,745)	(86,982)	(3,533,586)	-	35,222,913
FY 2021 Starting Balance	(1,051,775)	(5,001,425)	64,667,943	2,100,564	(3,656,699)	(23,580,391)	(5,456,921)	(3,014,793)	7,442,121
Revenue	5,371,441	12,332,862	198,742,918	7,193,372	2,909,753	25,009,273	96,667,036	161,578,528	-
Expenses	(5,316,670)	(13,278,460)	(206,945,371)	(6,875,145)	(2,766,513)	(23,094,835)	(76,315,817)	(129,689,827)	(44,439,960)
Other *	14,232	36,604	136,485	4,060		(18,105)	(22,763,156)	(31,888,701)	90,580,036
Operating Income (Loss)	69,003	(908,994)	(8,065,968)	322,287	143,240	1,896,333	(2,411,937)	-	46,140,076
FY 2022 Starting Balance	(982,772)	(5,910,419)	56,601,975	2,422,851	(3,513,459)	(21,684,058)	(7,868,858)	(3,014,793)	53,582,197
Projected Revenue	5,027,983	12,474,370	191,196,603	6,215,747	2,793,022	21,165,894	102,788,576	151,516,681	5,000
Projected Expenses	(6,137,567)	(13,116,769)	(219,983,437)	(6,541,014)	(2,609,673)	(21,198,979)	(80,580,283)	(120,319,947)	(52,374,833)
Other *	6,725,481	2,038,316	82,139	4,187	-	10,655,744	(22,758,356)	(31,136,102)	(7,998,238)
Projected Operating Income (Loss)	5,615,897	1,395,917	(28,704,695)	(321,080)	183,349	10,622,659	(550,063)	60,632	(60,368,071)
FY 2023 Starting Balance	4,633,125	(4,514,502)	27,897,280	2,101,771	(3,330,110)	(11,061,399)	(8,418,921)	(2,954,161)	(6,785,874)
Budgeted Revenue	5,600,243	13,106,391	233,083,335	6,773,741	2,243,972	21,855,000	103,390,781	151,000,000	4,333
Budgeted Expenses	(5,865,526)	(14,060,556)	(232,832,150)	(6,589,669)	(2,049,500)	(21,851,000)	(83,500,000)	(120,800,000)	(51,917,498)
Other *	25,041	38,316	109,312	5,818	-	2,000	(20,400,000)	(30,200,000)	92,366,325
Budgeted Operating Income (Loss)	(240,242)	(915,849)	360,497	189,890	194,472	6,000	(509,219)	-	40,453,160
FY 2023 Budgeted Ending Balance	4,392,883	(5,430,351)	28,257,777	2,291,661	(3,135,638)	(11,055,399)	(8,928,140)	(2,954,161)	33,667,286
Budgeted Revenue	6,232,201	14,312,088	243,943,561	6,773,741	2,311,291	21,656,500	106,492,504	151,000,000	5,778
Budgeted Expenses	(5,773,254)	(13,462,384)	(242,981,474)	(6,572,918)	(2,110,985)	(21,655,000)	(85,170,000)	(120,800,000)	(51,917,498)
Other *	35,000	42,000	95,726	5,003	-	2,150	(21,400,000)	(30,200,000)	69,274,744
Budgeted Operating Income (Loss)	493,947	891,704	1,057,813	205,826	200,306	3,650	(77,496)	-	17,363,024
FY 2024 Budgeted Ending Balance	4,886,830	(4,538,647)	29,315,590	2,497,487	(2,935,332)	(11,051,749)	(9,005,635)	(2,954,161)	51,030,310

* 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 2022 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 was 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 starting in fiscal year 2021. The outlook for the program continues to improve 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

The Workers' Compensation Fund deficit momentum has slowed relative to the prior two years now that revenues are back to a break-even mode. Program management will work closely with State administration to identify additional workplace safety and other risk mitigation opportunities.

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 is projected to continue ending each fiscal year with a surplus change in net position due to a modest marginal rate increase which was implemented in fiscal year 2020.

PROPERTY MANAGEMENT FUND

The Property Management Fund deficit had a significant reduction in its deficit net position in fiscal year 2022 due to a $10 million transfer in from the General fund to offset prior year deficits from incurred program costs without sufficient revenue recovery. The remaining deficit is due to the following cost recovery assumptions which will be mitigated going forward. Program management will continue to monitor for subsidized leases and track all expenses for revenue recovery.

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.

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.

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.