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Memorandum

To: Steve Klein, Legislative Joint Fiscal Office
From: Tom Kavet
CC: Nolan Langweil, Legislative Joint Fiscal office
Date: February 17, 2010
Re: Summary of Broad Economic and Employment Impacts of Proposed AHS Budget Cuts

EXECUTIVE SUMMARY

Per your request, I have performed a broad economic impact analysis associated with more than 90 proposed budget reductions affecting the Agency of Human Services (AHS), with an emphasis on employment impacts in Vermont. The measures included in this analysis total more than \$30 million in State spending reductions and will trigger an additional associated loss of nearly \$24 million in Federal matching funds the State now receives. The analysis was undertaken using a State economic model created by REMI (Regional Economic Models, Inc. of Amherst, MA) and maintained by the Joint Fiscal Office. The model measures both direct and secondary indirect and induced economic impacts. This analysis is intended to be a broad overview of potential economic and employment impacts, and could be significantly refined through more detailed modeling of individual program components.

State and local government spending is being cut throughout the country with significant aggregate economic impacts. More than 43 states have enacted significant spending cuts over the past two years, eliminating some 151,000 direct jobs since August of 2008. Although Federal ARRA stimulus spending is estimated to have prevented state and local government job losses that would otherwise have been as much as three times this figure, they have not been sufficient to prevent widespread job losses and the associated negative economic impacts from the curtailment of state and local government spending.

In Vermont, the proposed AHS cuts reviewed herein are likely to result in the loss of more than 1,000 jobs per year, and could approach losses of 1,400 jobs per year. Employment impacts from the loss of matching federal funds are estimated to total approximately 400 to 650 per year, with losses from State expenditure reductions totaling about 600 to 750 per year. Total economic impacts could approach losses of \$50 million per year in Gross State Product and exceed \$40 million per year in personal income.

Please let me know if you or others would like to review more complete impact metrics from this analysis or would like to pursue more in-depth analyses of these or other proposed budgetary measures.