

Vermont Fiscal Update

January 7, Update

Legislative Joint Fiscal Office

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<http://www.leg.state.vt.us/jfo/>



Order of Presentation

- Federal Context
- Other States
- General Fund Deficit Overview
- Other Key State Funds
 - Transportation (TF)
 - Medicaid/Global Commitment
 - Other Pressures

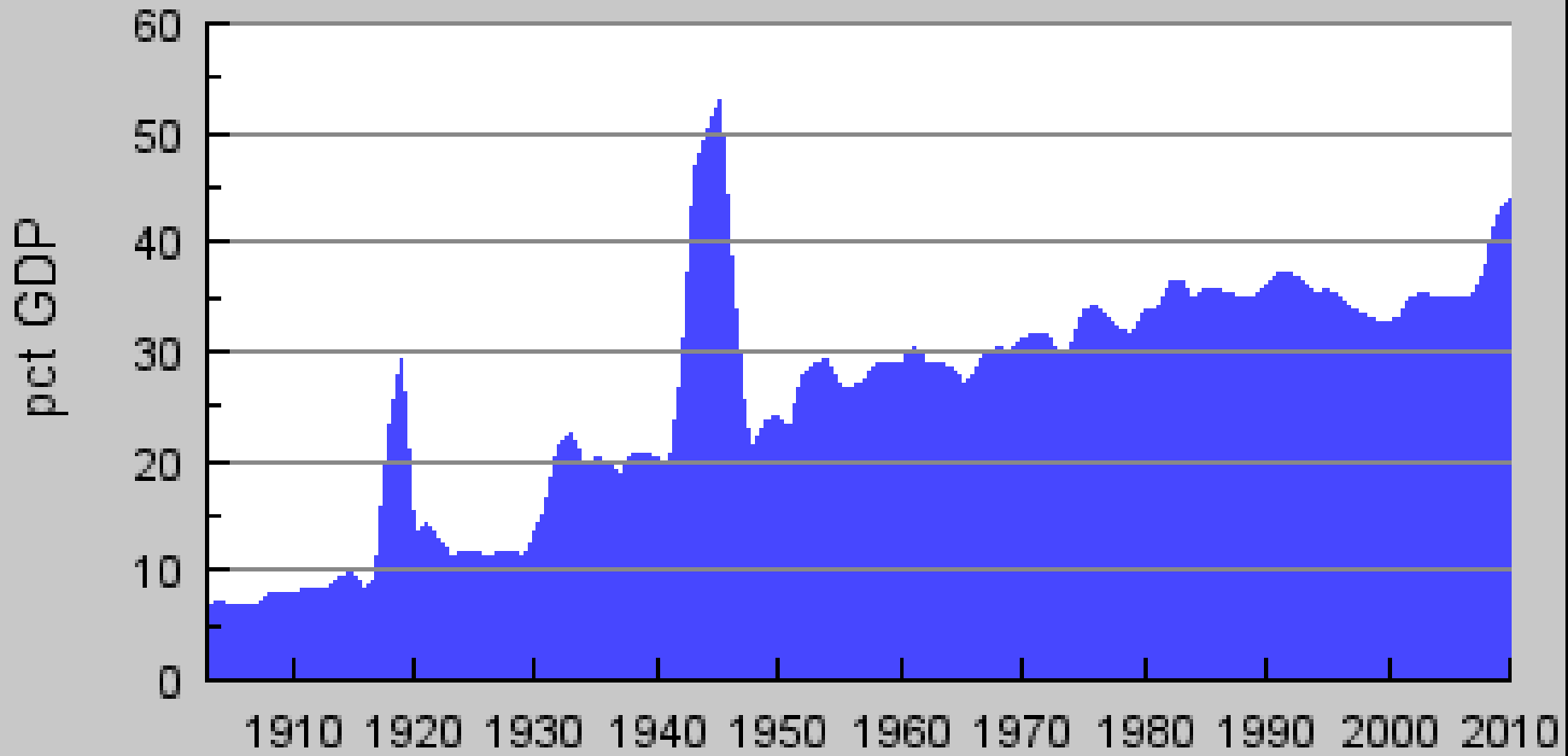
The Federal Budget

- No Extensive Relief Expected
 - Federal funding changes in health care and other areas are likely to result in more state fiscal pressure.
 - \$23 million of the increase in the FY12 GF Budget Gap estimate between Aug and Dec is due to less federal funding.
 - Federal health care reform will impact the state supplemental drug rebates
 - Federal budget deficit and new Congress major deterrents to federal spending

CBO Oct. Fed. Deficit Estimates

- CBO estimates that the federal budget deficit was slightly less than \$1.3 trillion in fiscal year 2010 and \$122 billion less than the shortfall recorded in 2009.
- The 2010 deficit was equal to 8.9 percent of gross domestic product (GDP), down from 10.0 percent in 2009.
- The 2010 deficit was the second-highest shortfall—and 2009 the highest—since 1945, relative to the size of the economy.

US Government Spending As Percent Of GDP US from FY 1903 to FY 2010

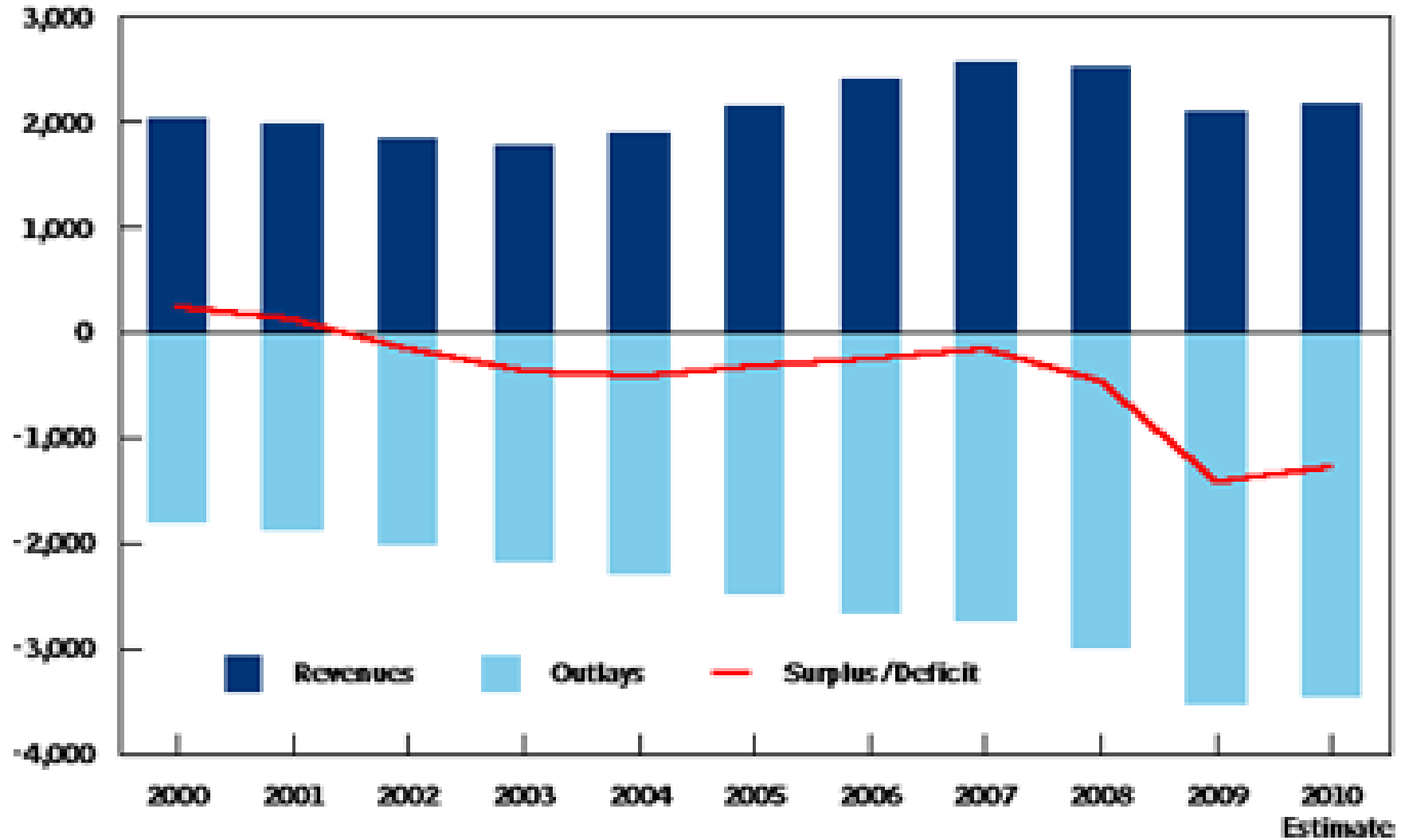


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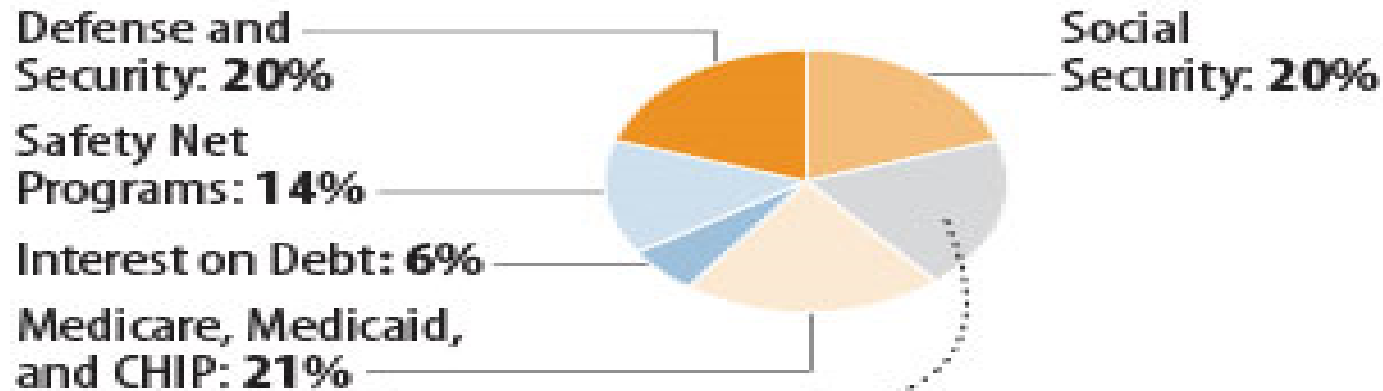
usgovernmentspending.com

Revenues, Outlays, and Deficit or Surplus Over the Past Decade

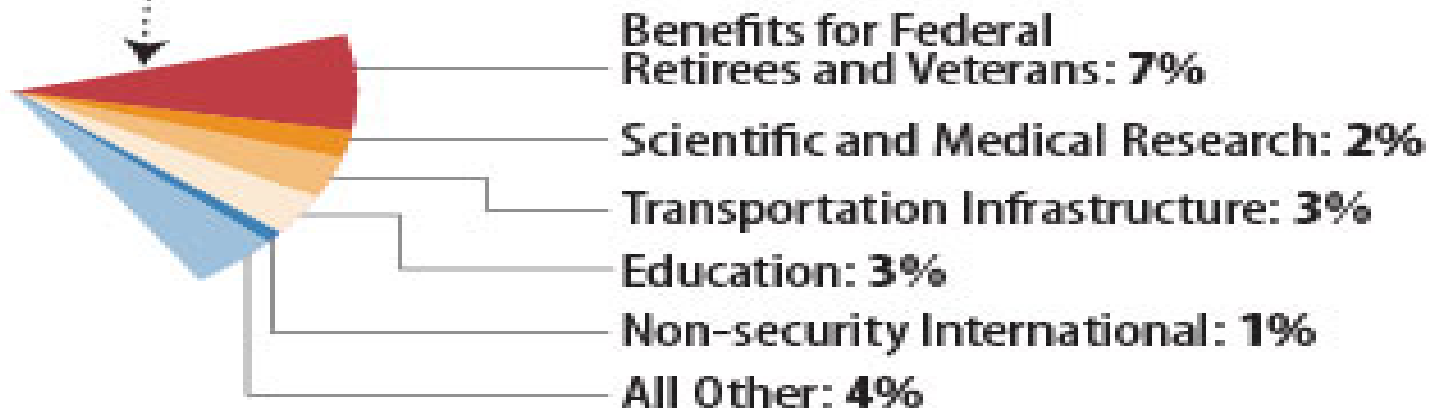
(Billions of dollars)



Most of Budget Goes Toward Defense, Social Security, and Major Health Programs



Program Areas in the Remaining Fifth of the Budget



Source: Congressional Budget Office, 2010.
 Note: Percentages may not total 100 due to rounding.

State Fiscal Pressures Nationwide

- FY 2011 Year End Balances: Forty-five states reporting.
 - The estimated FY 2011 combined year-end balance is 4.0 percent. This is a decline from the 5.7 percent balance at the end of FY 2010.
 - Without Alaska and Texas, the aggregate year-end balance falls to 1.1 percent. (The rainy day fund balances in these states are \$13 billion and \$8.2 billion, respectively.)
 - Fourteen states have reported FY 2011 budget gaps ranging from 47% in Illinois to .2% in Pennsylvania. Nine states in excess of 2%. (Nov. 2010).
- FY 2012 Budget gaps: 34 states have forecast gaps, 11 have no reported gap. (Nov. 2010)
 - The cumulative tally for FY 2012 gaps is \$96 billion.
 - Twenty two states expect to address gaps in excess of 9 percent of their general fund budgets.
 - Vermont gap is projected at 8.6% (*does not include recent revision discussed later*)
- FY 2013 Budget gaps: 24 states have forecast gaps. (Nov, 2010)
 - The sum of these FY 2013 gaps is \$65 billion.
 - Thirteen states foresee double-digit gaps.
 - Vermont has gap if FY 2012 budget is solved with temporary fixes.

TD Bank 10/27/2010 Overall Vulnerability Scorecard (ranked worst to least)

- | | |
|-------------------|------------------|
| 1. Illinois | 24. Vermont |
| 2. New Jersey | 29. New York |
| 3. Rhode Island | 40. Texas |
| 4. Nevada | 41. Delaware |
| 5. Connecticut | 42. Virginia |
| 6. South Carolina | 43. Iowa |
| 7. Kentucky | 45. Arkansas |
| 8. Massachusetts | 46. Wyoming |
| 9. Hawaii | 47. Idaho |
| 10. California | 48. Tennessee |
| 13. Maine | 49. South Dakota |
| 17. New Hampshire | 50. North Dakota |

FY 2012 Budget Gaps: Center for Budget and Policy Priorities -- 10/7/10

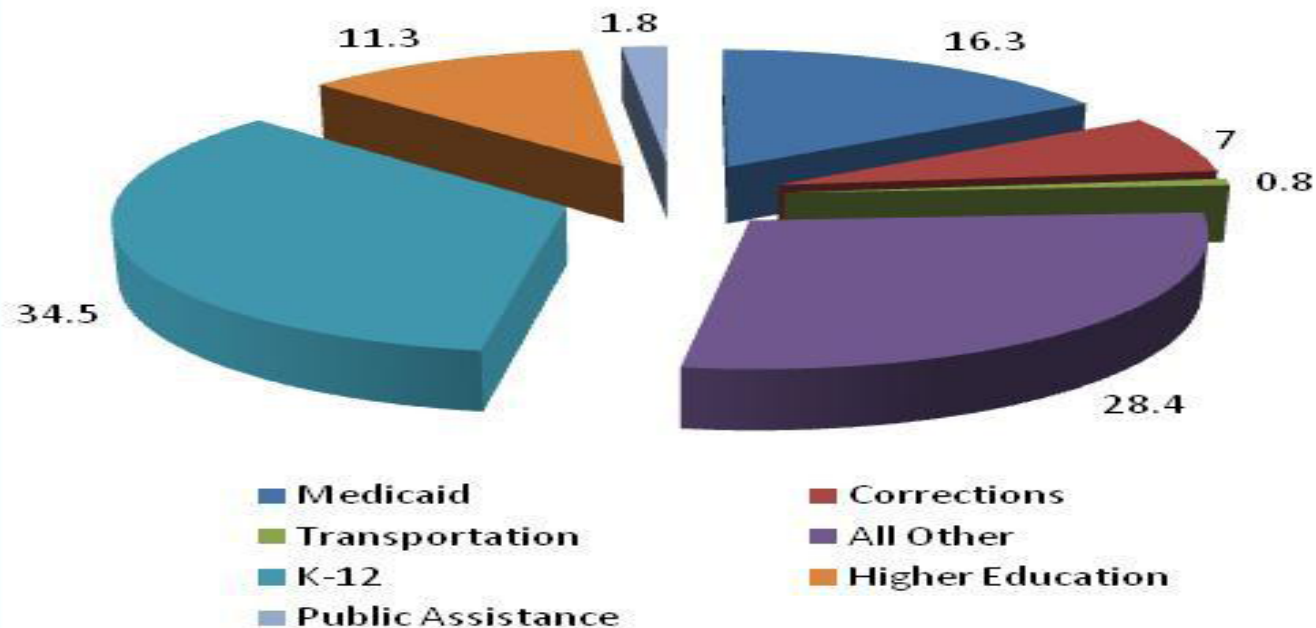
		FY 2012 proj. shortfall	% Fy 11
1.	Illinois	\$17.0 billion	52.3%
2.	New Jersey	\$10.5 billion	37.5%
3.	Nevada	\$ 1.3 billion	36.7%
4.	Mississippi	\$ 1.2 billion	27.6%
5.	South Carolina	\$ 1.3 billion	26.1%
6.	California	\$21.3 billion	25.7%
7.	Minnesota	\$ 3.8 billion	25.0%
8.	Texas	\$10.0 billion	22.3%
9.	Connecticut	\$ 3.8 billion	21.6%
10.	Oregon	\$ 2.5 billion	17.6%

24.	Vermont	\$112 million	10%

State Averages

State General Fund Expenditures, FY2008

Source: NASBO



Where the money goes. K-12 education and Medicaid are the largest single expenditure categories. "All other" spending in states includes the Children's Health Insurance Program (CHIP), institutional and community care for the mentally ill and developmentally disabled, public health programs, employer contributions to pensions and health benefits, economic development, environmental projects, state police, parks and recreation, housing, and general aid to local governments.

Vermont is facing its fourth year of recession-impacted budgeting:

- General Fund Budget Gap FY2009/11 (\$753 million):
 - ARRA funds (base) \$401.1 million
 - Budget reductions and adjustments \$190.2 million
 - New revenue & compliance \$30.2 million
 - Reserve funds and redirected funds \$61.6 million
 - Rescission plans (cuts & redirects) \$71.2 million
- State filled positions reduced by 661 (April 2008 to July 2010).
- FY 2012 Gap estimate *\$112 million or \$150 million ??*
Assumes \$33 million of year two “Challenges” savings are obtained.

The Vermont Budget Gap

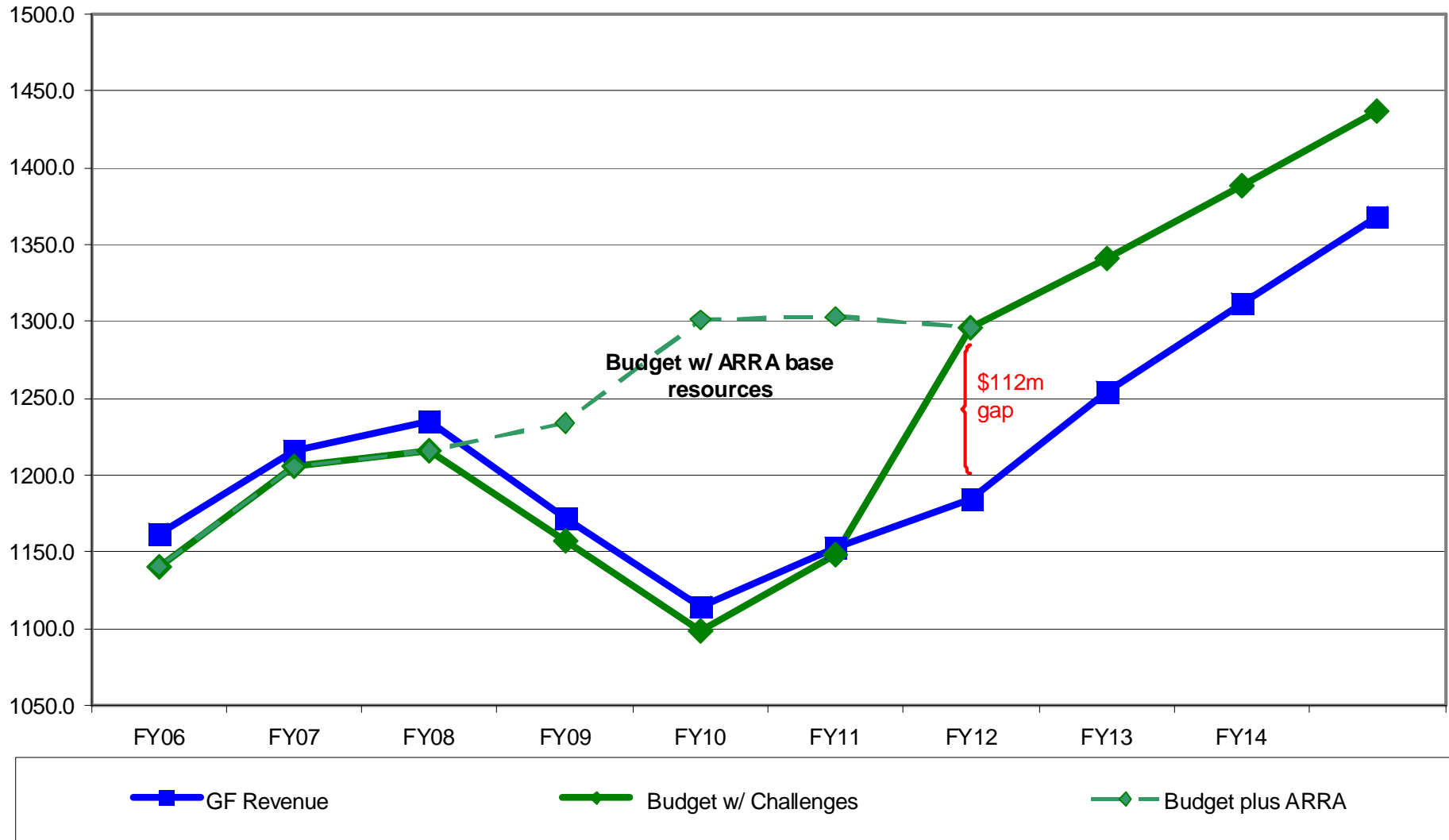
- \$112 million or \$150 Million???
- Before counting a revenue upgrade the gap has grown to \$150 million:
 - \$23 million in change in federal support
 - Clawback \$6 million, GC waiver \$6 million, FMAP \$11 million
 - \$15 net million due to new estimates
 - \$8 million of FY11 Challenge savings were not ongoing
 - \$8 million in higher AHS pressures
 - Other available GC carry-forward, less UI interest; internal fund deficits, stabilization reserve need, higher retirement obligation
- Next weeks revenue upgrade is an offset...but problem in one time revenues and ongoing expenses

Key Themes – General Fund

- We are emerging from a long recession but the effects will stay with us
 - FY 2012 GF revenues at \$1174 million are \$26 million below FY 2008 levels
 - Our low point was FY 2010 at \$1038 million. Just above FY 2005 revenues.
 - FY 2012 assumes 7.7% revenue growth from FY 2011.
- The GF growth of total appropriations including ARRA has been:
 - FY 2008 over FY 2007 2.1%
 - FY 2009 over FY 2008 1.9%
 - FY 2010 over FY 2009 5.5%
 - FY 2011 proj over FY 2010 0.5%
 - FY 2012 proj over FY 2011 **-4.7%**
- The FY 2012 budget:
 - The FY 2012 budget will rely on \$72 million in “challenge savings” of which \$27-35 million is identified.
 - Note: each 1% of spending is about \$12 million.

GF Budget Gap Picture

Aug '10 Consensus on FY12 Gap -
 FY13-15 assumes 3.5% budget growth rate and current 5 year revenue forecast
 FY12 Gap solutions that are ongoing will reduce outyear deficits



What are the key state funds?

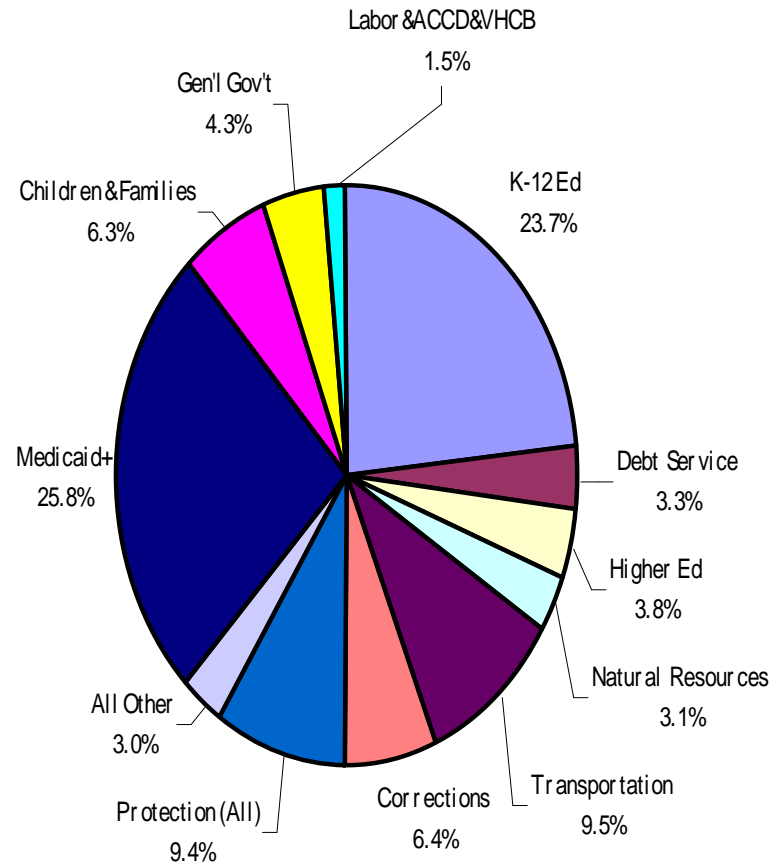
FY 2011 expenditures

- General Fund & ARRA base \$ 1,303 M
- Transportation Fund \$ 235 M
- Health Care Related \$ 240 M
- Other Special Funds \$ 223 M
- Education Fund \$ 1,314 M

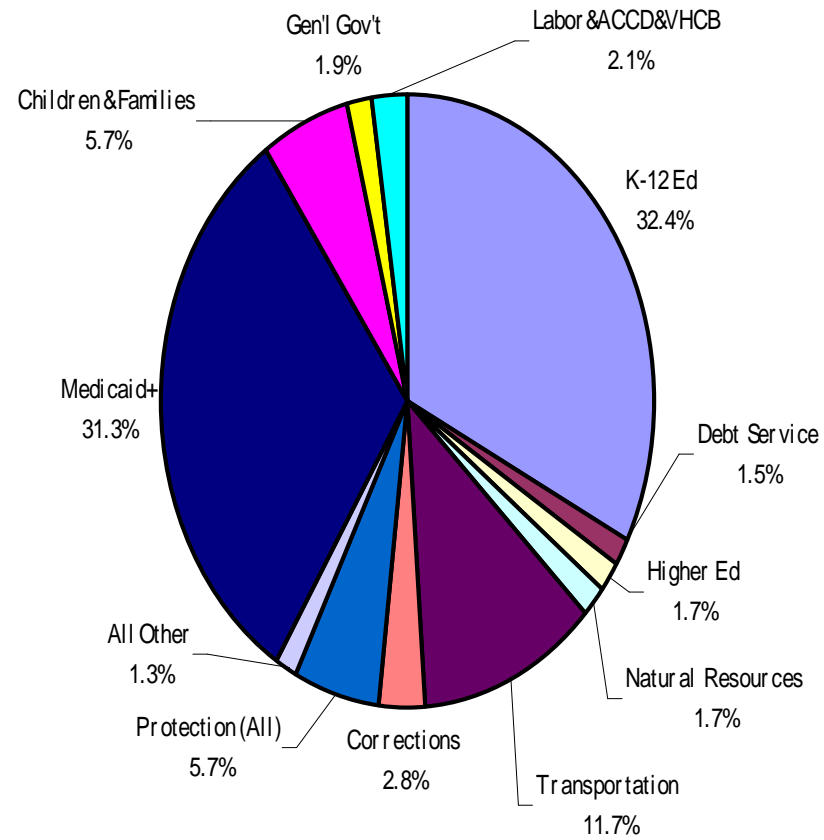
(includes Transportation Infrastructure Bond Fund \$18.6 M)

*(EF revenues:\$918M net state property tax,
\$234m GF overlap w/ transfer,
\$155M other state revenue: Sales, Purchase &Use, Lottery, VT Yankee)*

FY11 Budget As Passed - All State Funds (incl. ARRA \$119m GF-like) = \$2.13 Billion
Excludes FF Other ARRA and Net Ed Property Tax



**FY11 Budget As Passed - All Funds Uses = \$4.77 Billion
Includes Net Ed Property Tax and All ARRA and FF**



Key Themes – Transportation Fund

State revenues: After sharply declining in FY09, state transportation revenue has rebounded due to (1) increases in DMV fees; and (2) the creation of the new Transportation Infrastructure Bond (TIB) fuel “assessments” however:

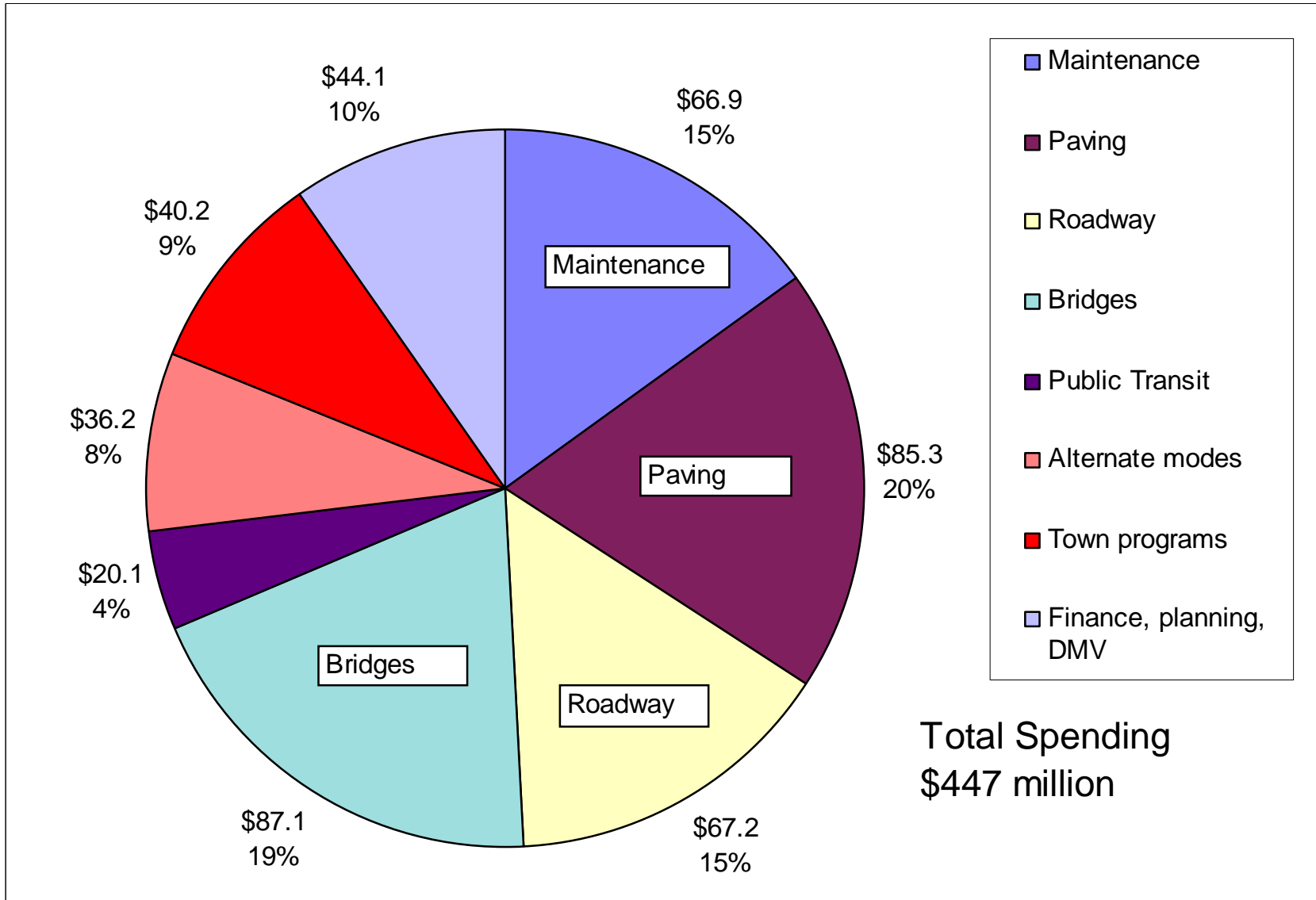
- ▶ Fuel tax revenue is still on a flat to declining trend (since 2003); and
- ▶ Even with DMV fee increases and TIB assessments, FY10 revenue was only 2.3% above FY08 revenue.
- ▶ On the other hand, the 6 year decline in Purchase & Use Tax revenue in which total source revenue fell from \$86 to \$65 million (-24%), has bottomed out and is rebounding (Sep 2010 12 month total \$70.2 million).

Federal revenues: Federal revenues and spending have soared in the past two years (12-month spending increased from \$176 million in Sept. 2008, to \$206 million in Sept, 2009. to \$276 million in Sep 2010. The increase is due to (1) ARRA stimulus funds; and (2) favorable formulas for annual funds (the “Jeffords” legacy). As ARRA winds down and the new multi-year federal highway bill is negotiated in Congress, it is likely that Vermont’s total federal funds will level off if not decline.

FY2010/11 spending: Total transportation appropriations in FY2010/11 were 41% higher than in FY08/09 (\$1.1 billion vs. \$790 million). Given the slow-to-no-growth nature of state revenue sources, how much future spending declines mainly depends on the yet to be passed federal reauthorization bill.

Overall infrastructure needs still loom large

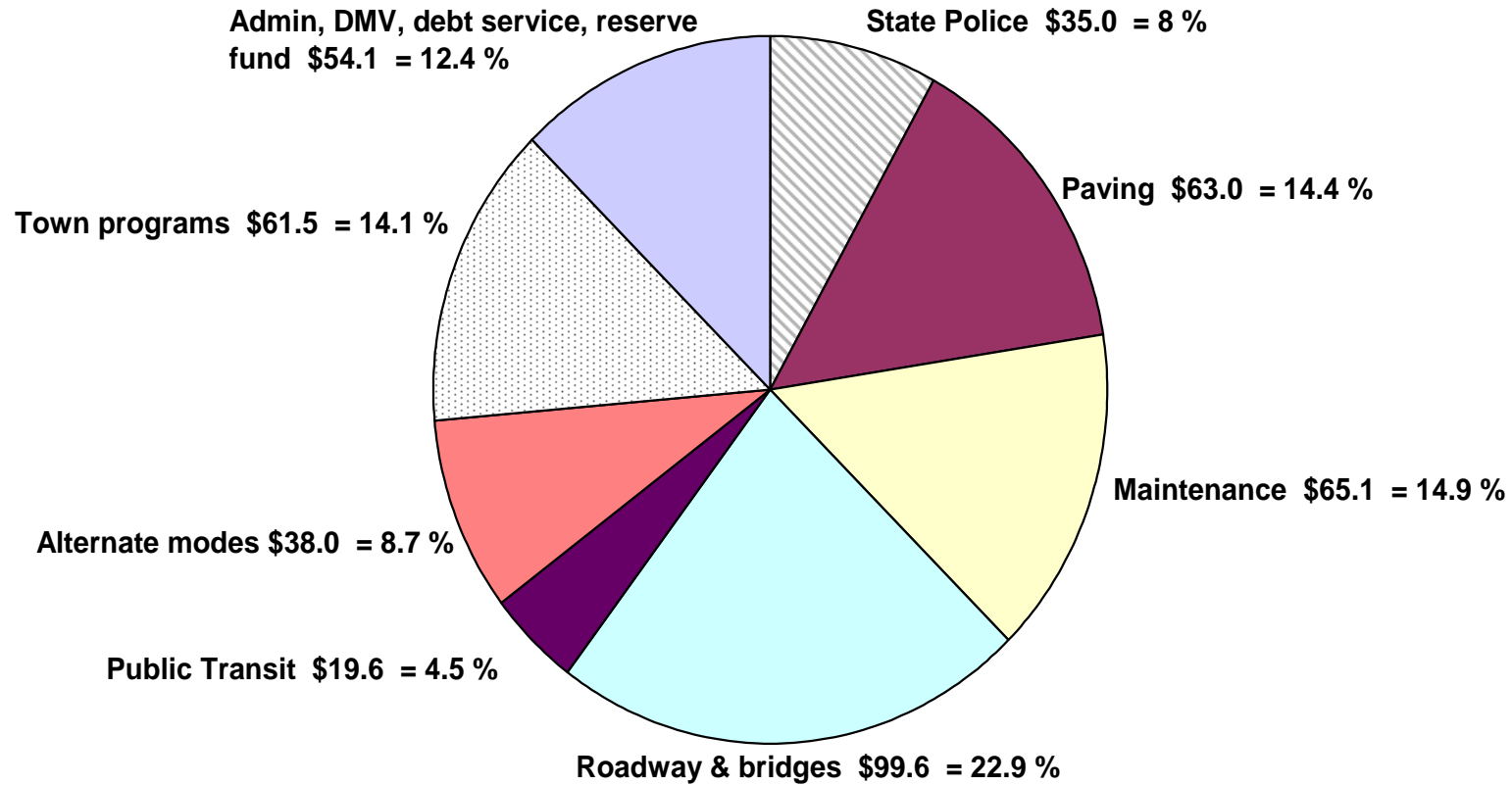
FY10 Transportation Spending – All Sources



Total Spending
\$447 million

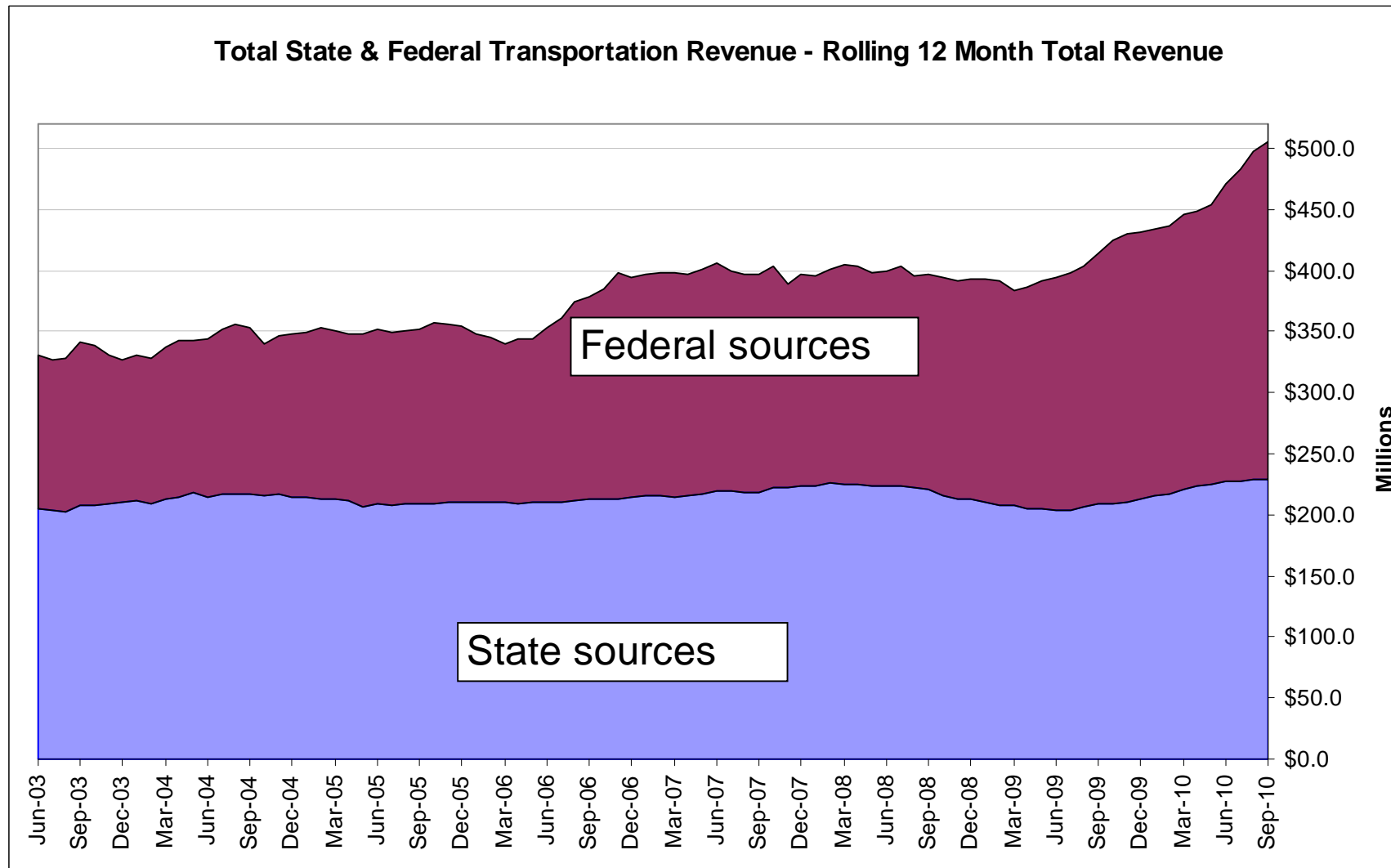
FY 2008 Transportation Fund + Federal Fund Uses

Total \$435.7 million



FY 2008 transportation appropriations as amended. Actual state revenue came in \$3.1 million below final appropriations. AOT balanced the budget by not carrying forward appropriated but unspent funds in the same amount.

Using a wider scale, the major contribution of federal funds to the recent increase in spending becomes more evident



Health Care FY 2012 Issues

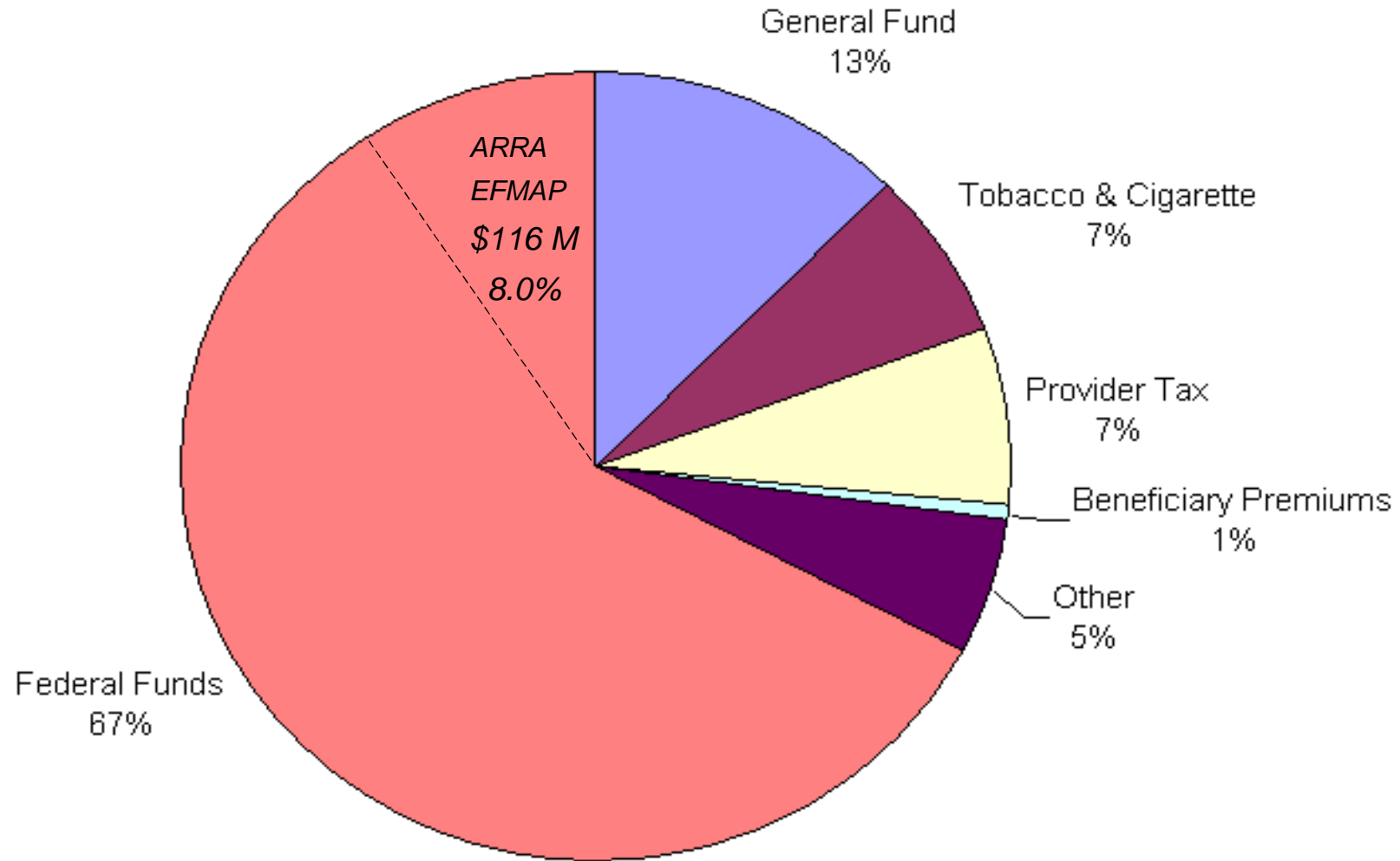
- BISHCA numbers indicate Vermont has lower than average per capita health care cost but cost growth is faster than national averages:
 - 2005 – 2008: Nationally, health care costs have grown at an average annual rate of 5.7%; Vermont costs have been growing at over 8.2%.
- Implementation of federal health care reform (a.k.a. ACA) will require policy and financial decisions such as:
 - How the “health insurance exchange” in Vermont will be set up
 - Clarification and implementation of federal health care reform requirements and impacts on Vermont.
 - Planning for Medicaid expansion funded by the federal law
- Act 128 - The Health Care Reform Commission has contracted for a major study of three health care design option scenarios in Vermont
 - draft will be available in January.

Medicaid/Global Commitment

- Medicaid growth was roughly 5.6% last year (09-10) and has continued to grow at 6 +%
 - Revenues that support state programs are the tobacco tax and tobacco settlement funds, the provider tax and State general funds – which are not keeping pace.
- For FY 2012 Overall Medicaid/Catamount Deficit = approx. \$40 million:
 - Currently much of Vermont's health care programs federally funded through a waiver that allows roughly 60% federal match for services. Due to underlying strength in our economy, our match rate will decline to about 58%. Each 1% is +/- \$10 million.
 - For FY 2011, the Catamount Fund has a sustainability issue and requires an appropriation \$7M in GF in addition to \$22M fund revenue.

Medicaid Funding Sources

Est. SFY 2011 = \$1.36B



Note: "Tobacco & Other" includes tobacco settlement funds, cigarette taxes and tobacco product taxes

Where are we? FY 2012 and Beyond – Other Fiscal Issues

- State Employee and Teachers' retirement obligations:
 - Teachers' retirement system has an FY 2010 funded ratio of 66.5%
 - State employees' retirement has an FY 2010 funded ratio of 81.2%
 - Both ratios are slightly better than FY 2009 ratios (65.4% and 78.9% respectively)
 - Required pension contributions from the State are expected to increase at 4-5% annually
 - In the teachers' retirement system, the State's share of retiree health insurance (Approx. \$20 million) is paid out in retirement contributions, causing additional funding pressure and possible IRS issues.
- GASB 45 (OPEB - Other Post Employment Benefits) To move to an actuarial funding of retiree health care costs:
 - Teachers retirement would need an additional \$28.2M a year
 - State employees retirement would need an additional \$18.1M a year
- Capital Bill Pressures
 - Demands from Education, Higher Education, State Buildings, technology and other areas far exceed the state's bonding capacity which is projected to be \$79.6 million in FY 2012.
 - Schools and Tech Centers have a \$28 million backlog, moratorium in place except for emergencies and consolidation.
 - State Hospital, state lab, annual technology investment needs.