

2010 Legislative Orientation Joint Fiscal Office Economic and Revenue Review

*Montpelier, Vermont
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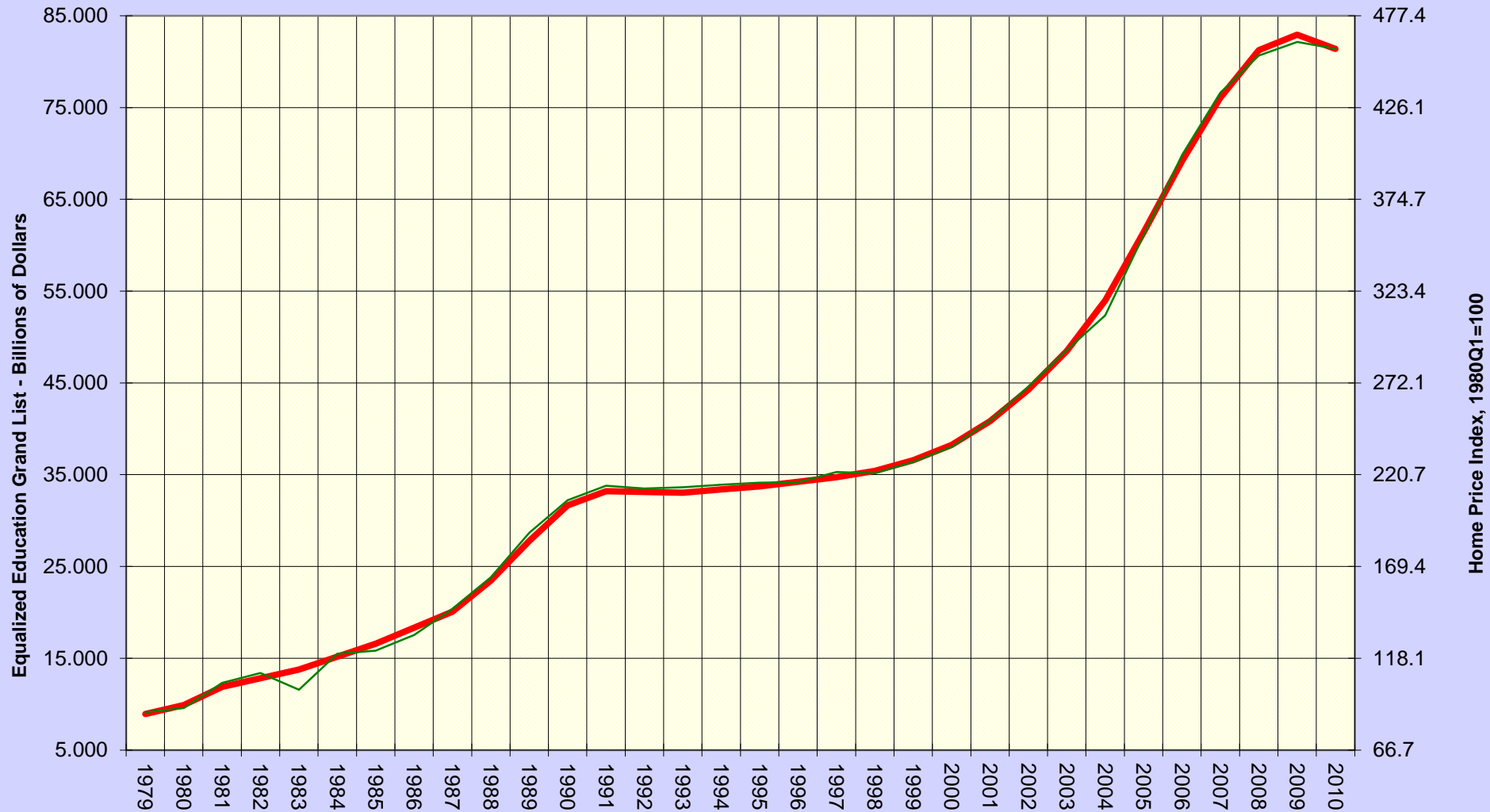
JFO Analyses: Linkages Between Economics and Public Policy Issues

Economics  Public Policy Issues

- Macro-Economics
 - Demographics
 - Micro-Economics
 - Data and Forecasts
 - Policy Review and Commentary
- State Revenues
 - State Expenses
 - Tax Policy Impacts
 - Public Policy Options
 - Oversight Functions
 - Special Studies

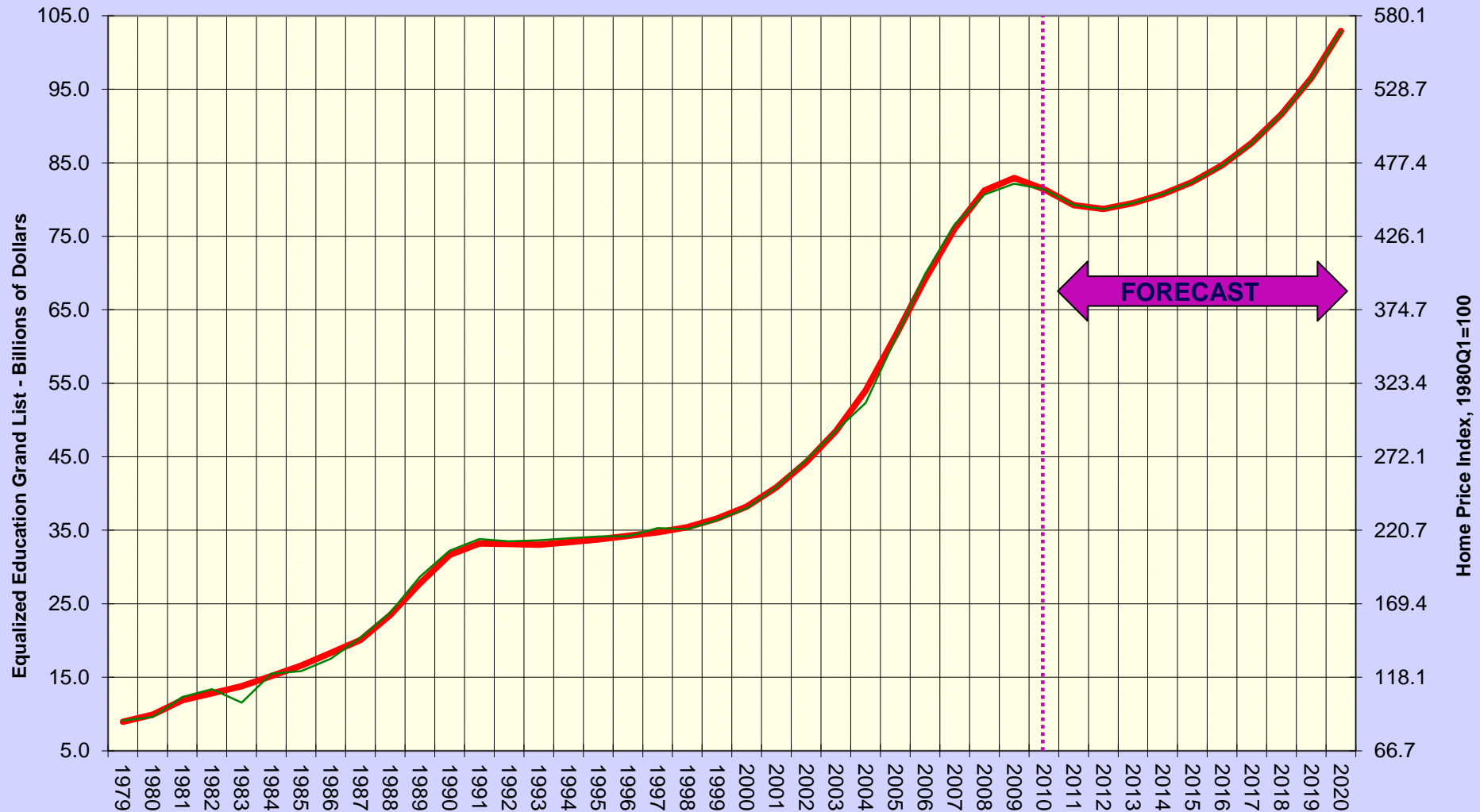
Macro-Economics State Revenues

Vermont Adjusted Equalized Education Grand List (thick red line) Vs.
 FHFA Vermont Home Price Index, (Index 1980Q1 = 100)
 Lagged Five Quarters (thin green line)



Macro-Economics State Revenues

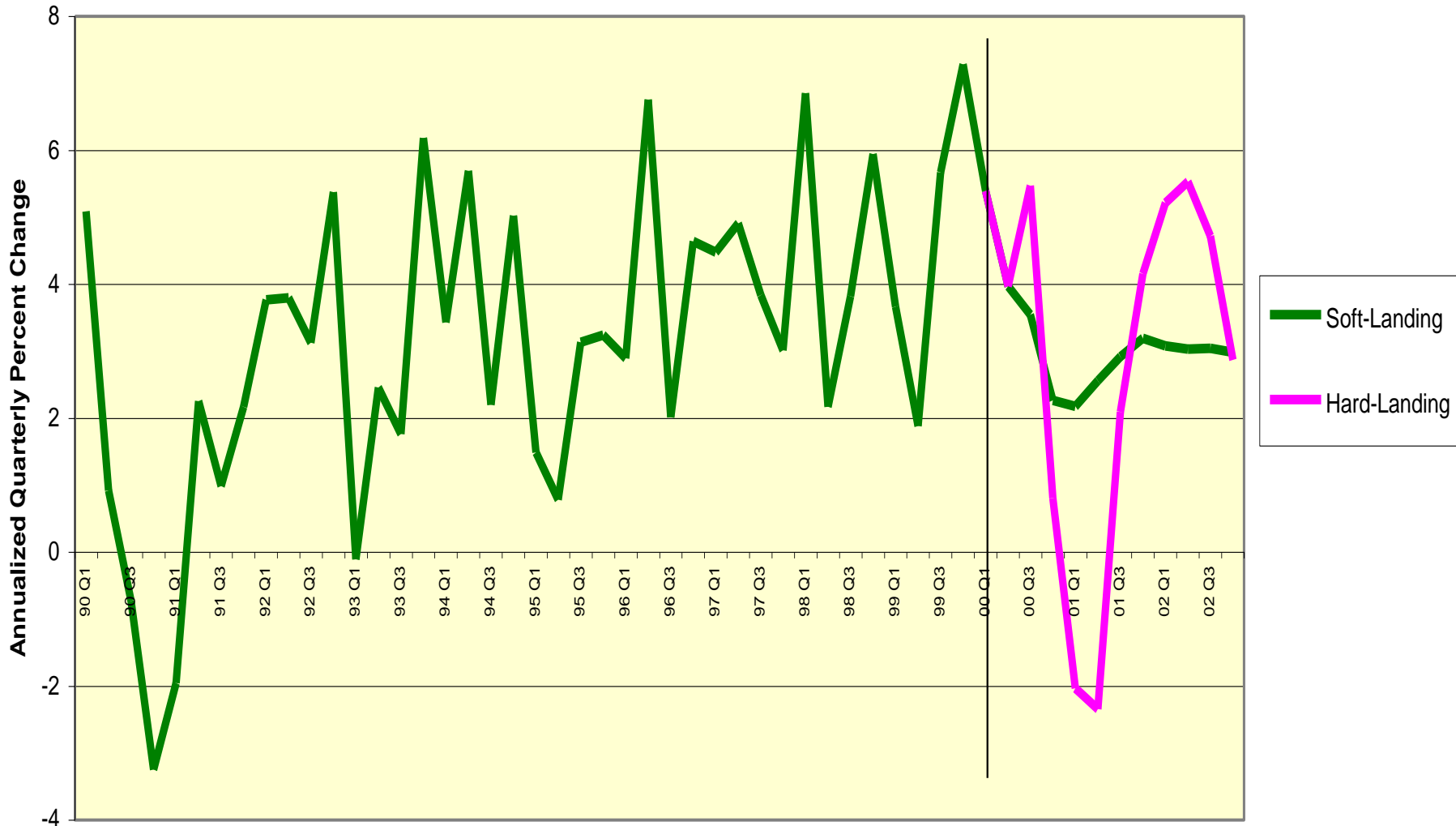
Vermont Adjusted Equalized Education Grand List (thick red line) Vs.
FHFA Vermont Home Price Index, (Index 1980Q1 = 100)
Lagged Five Quarters (thin green line)



Economic Forecasts State Revenues

What Kind of Landing?

Quarterly Growth in Real GDP at Annual Rates



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Economic Forecasts State Revenues

- Official State Revenue Projections Prepared Semi-Annually, in January and July
- Forecasts of 45 Revenue Concepts
- Consensus Forecast Process With Administration Economist, if Possible
- Forms Basis of Official State Budgets
- Education Fund Forecasts of About 60 Key Variables Affecting both Revenues and Expenses

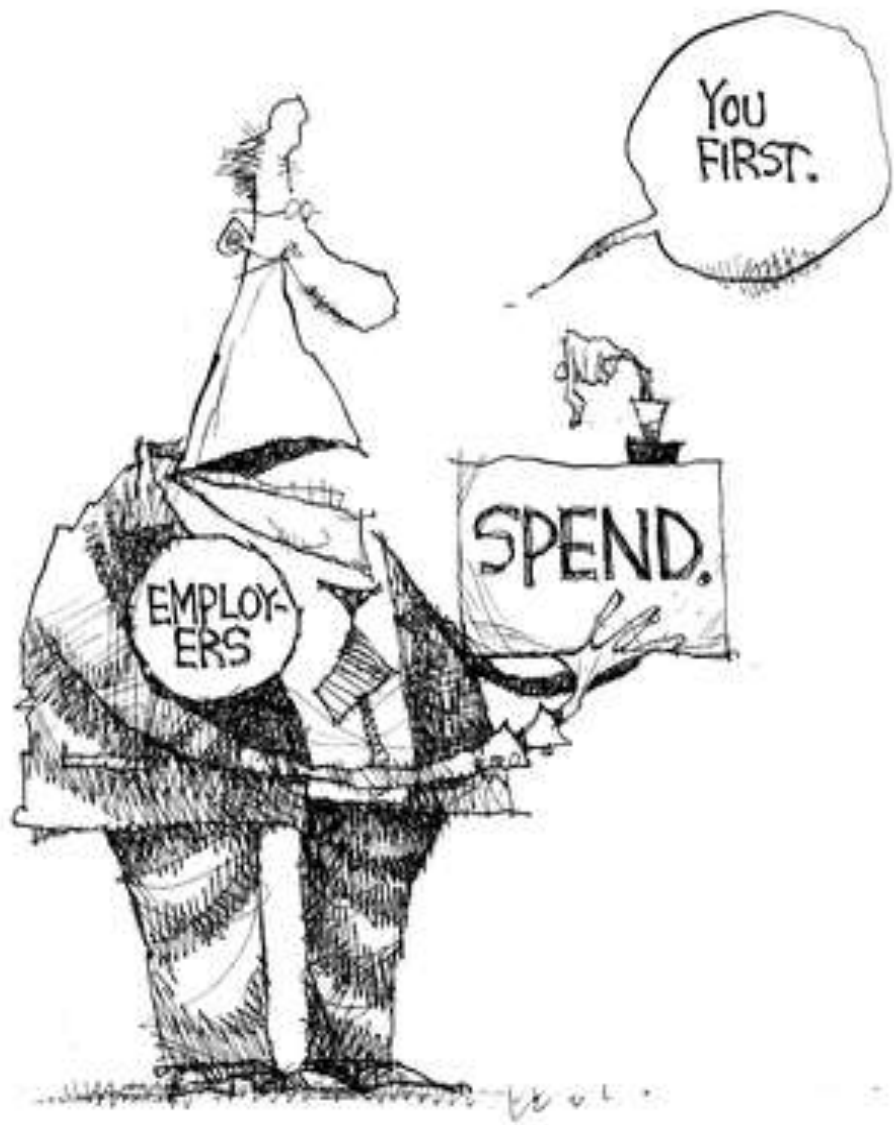
Detailed Economic and Revenue Outlook Updates for Vermont Are Available Every January and July at:

- Vermont Legislative Joint Fiscal Office Website:
 - *www.leg.state.vt.us/jfo*
 - see Publications and Archives
- Latest Consensus JFO and Administration Economic and Revenue Outlook (some hard copy handouts may be available here or at the Joint Fiscal Office):

<http://www.leg.state.vt.us/jfo/State%20Forecasts/2010-07%20July%20Forecast.pdf>

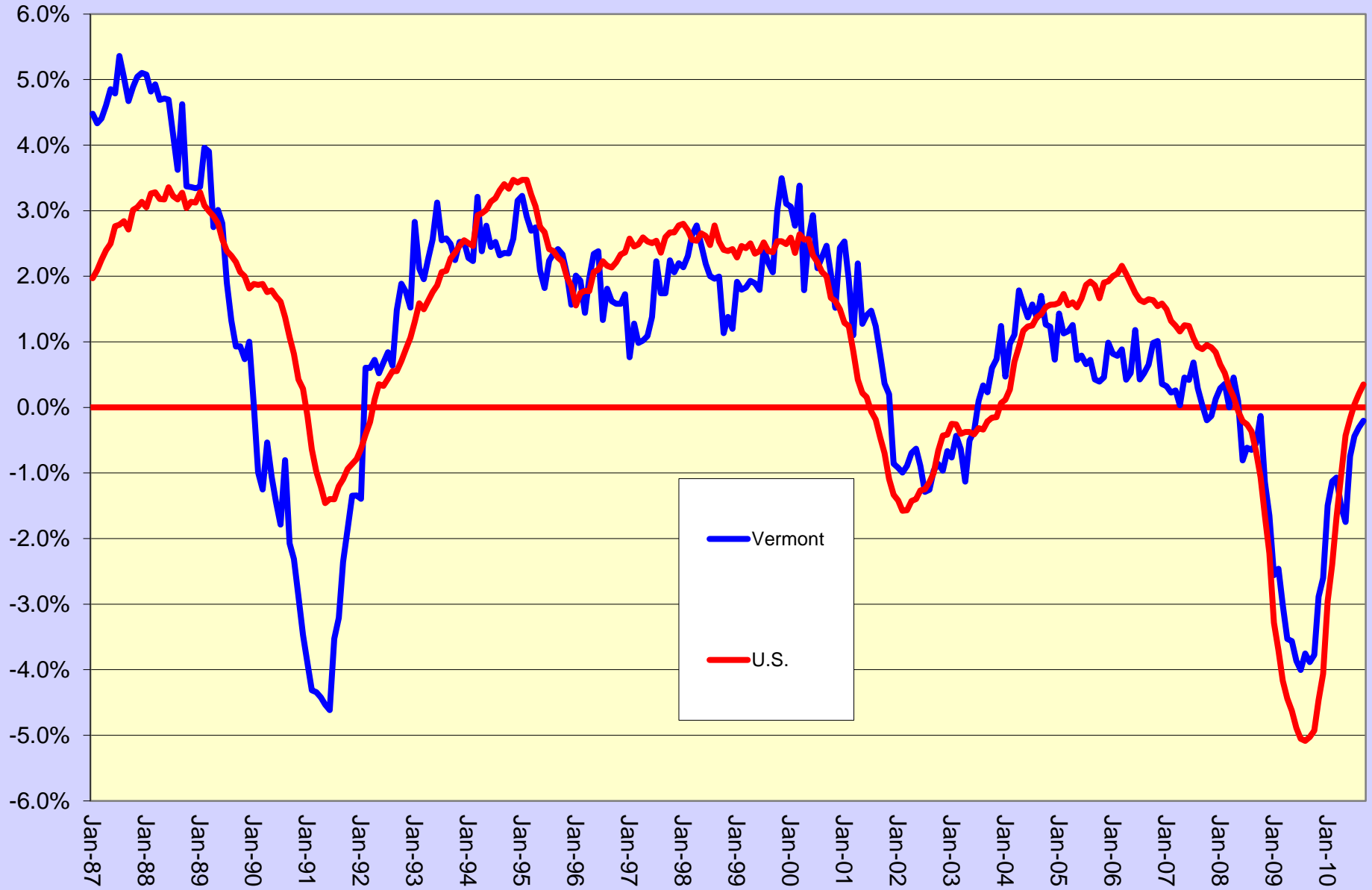
A Fragile and Tentative Recovery is Underway, but Risks Abound...

- Huge Federal fiscal and monetary support turn GDP growth positive, but fiscal support wanes and real GDP growth slows to 2% - well below potential (2.5%-3.0%) - as job growth stalls
- Housing market deterioration has slowed, but price declines are still at least a year from bottoming out, with little prospect for an immediate recovery in new construction, existing home sales and related consumer expenditures
- Household deleveraging has slowed, but continues, shedding \$1 trillion over the past 2 years, weighing on consumer spending
- Credit flows have improved, but are still subaltern - especially for small businesses (<100 employees)
- Consumer and small business confidence are still close to all time lows



No Hiring Yet: U.S. and Vermont Labor Markets Continue to Struggle

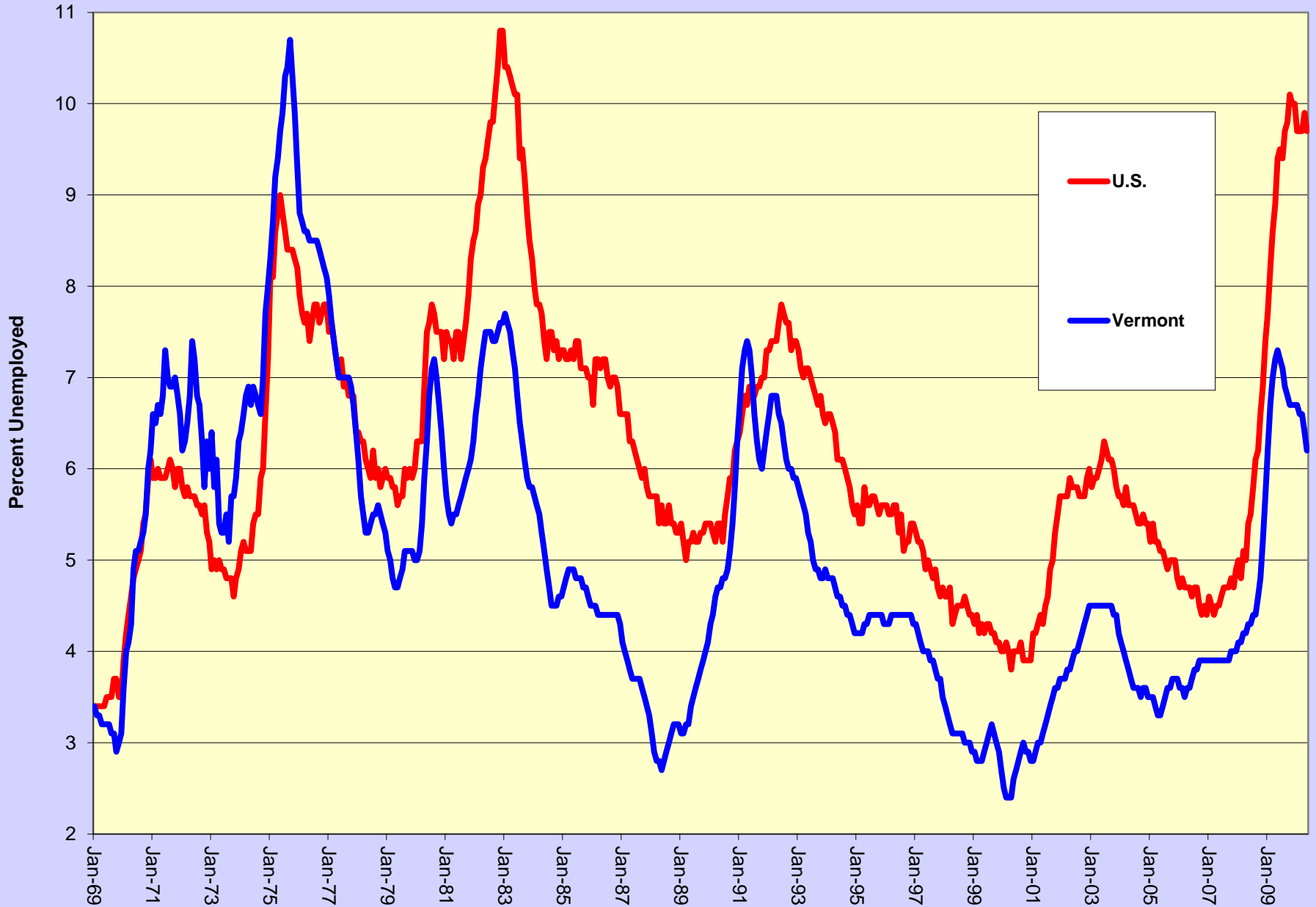
(Total Nonagricultural Employment, Percent Change vs. Year Ago, Seasonally Adjusted Data)



Source: Bureau of Labor Statistics, U.S. Department of Labor

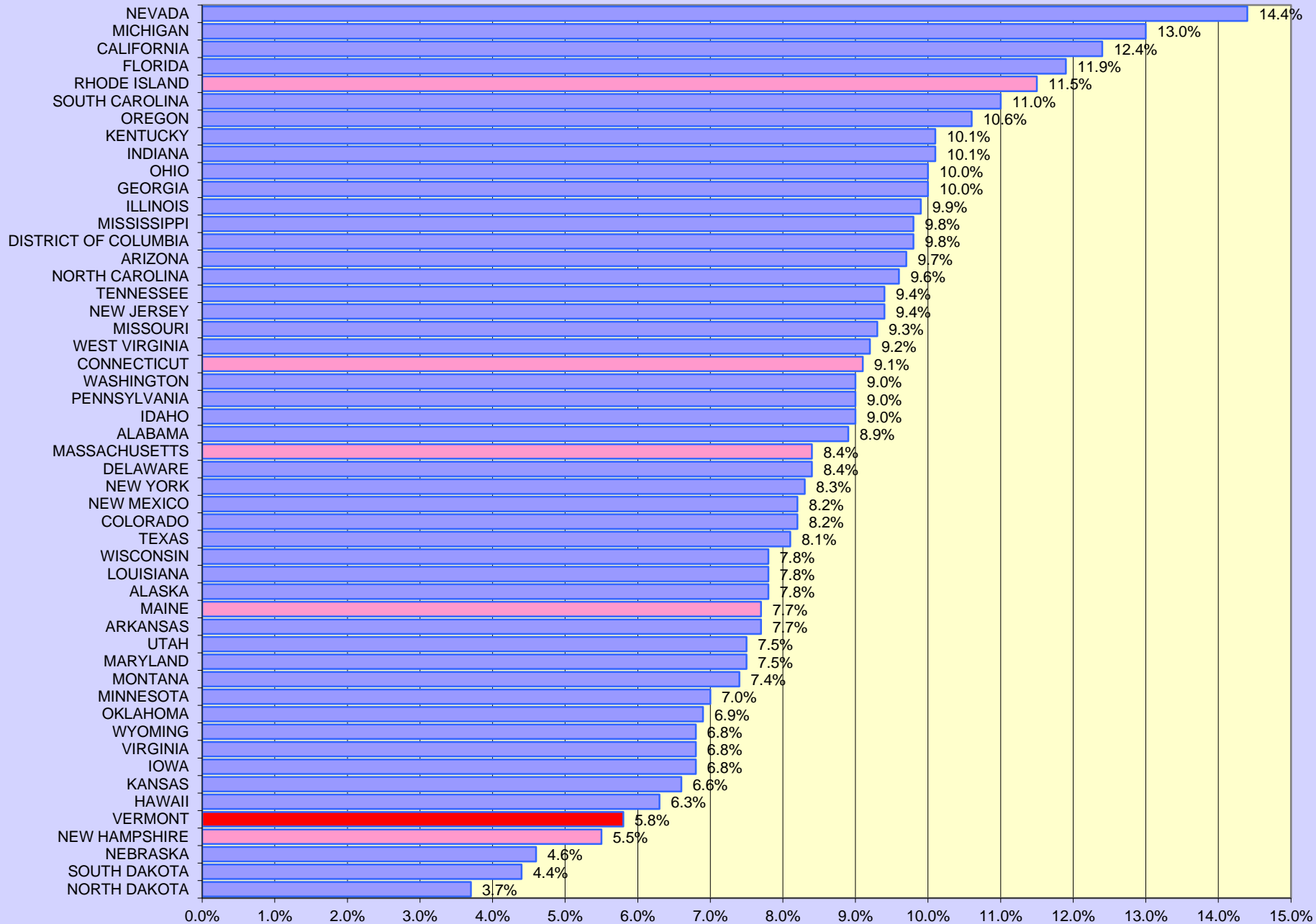
U.S. and Vermont Unemployment Rates Continue to Diverge

(Seasonally adjusted data, Source: Bureau of Labor Statistics, U.S. Department of Labor)



Unemployment Rate by State - September 2010

Seasonally Adjusted Data, Source: U.S. Bureau of Labor Statistics

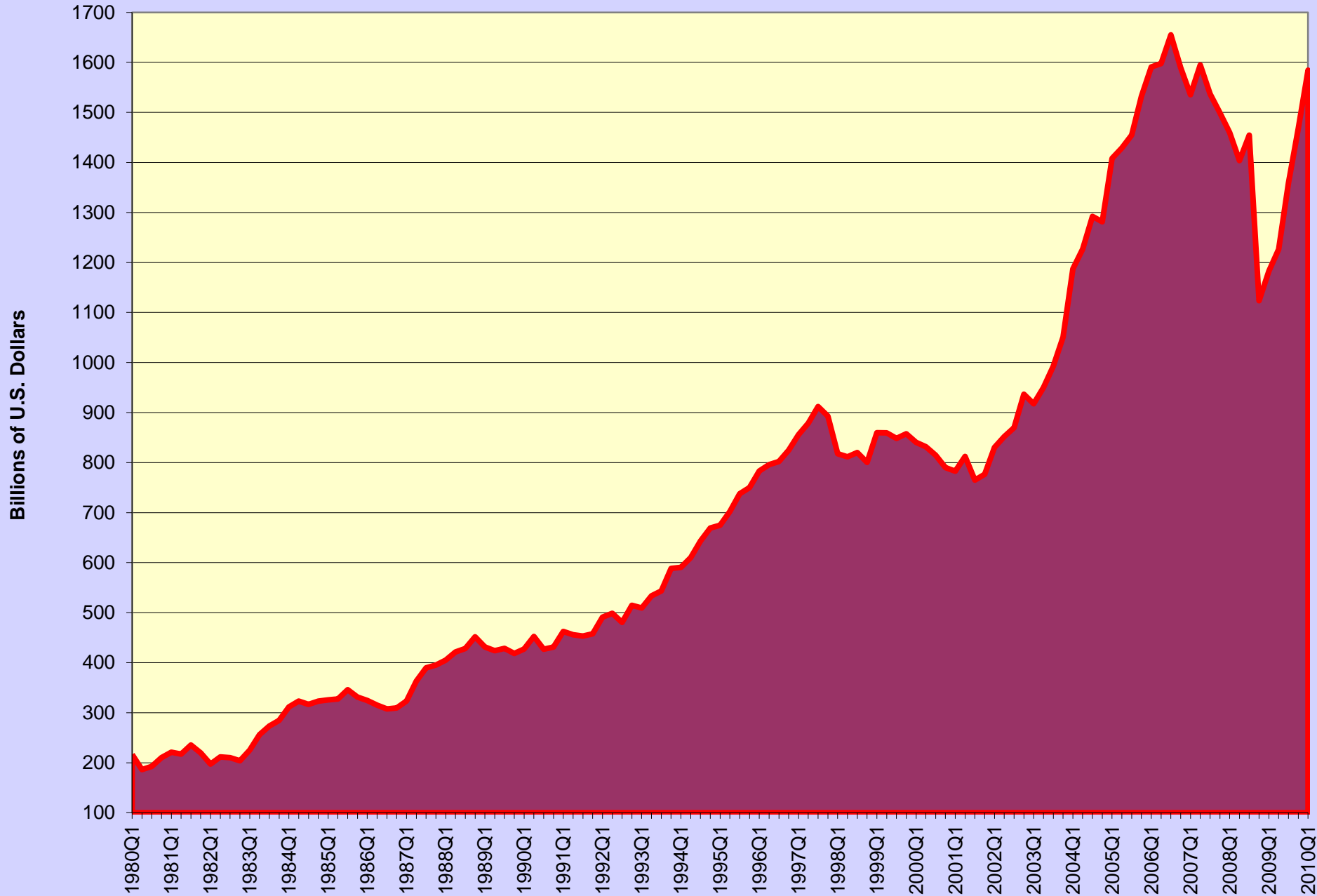


Although Conditions Supporting Future Growth are in Place...

- Corporate balance sheets are exceptionally strong, with profits up 40%, margins at their highest levels since WWII and productivity gains exceeding 6%
- Unemployment remains stubbornly high, at nearly 10%, but leading indicators such as hours worked and temporary employment hiring portend improvement in the next year
- The stock market has recovered to pre-crash levels, but remains volatile and sensitive to external shocks
- Fed monetary support is unprecedented, with recent QE probably adding about 35 basis points to real GDP in 2011 and lowering the unemployment rate by about 25 basis points
- Exports will benefit from the weaker U.S. dollar
- Some extension of expiring tax cuts are likely to be enacted, even if other fiscal stimulus (spending) wanes

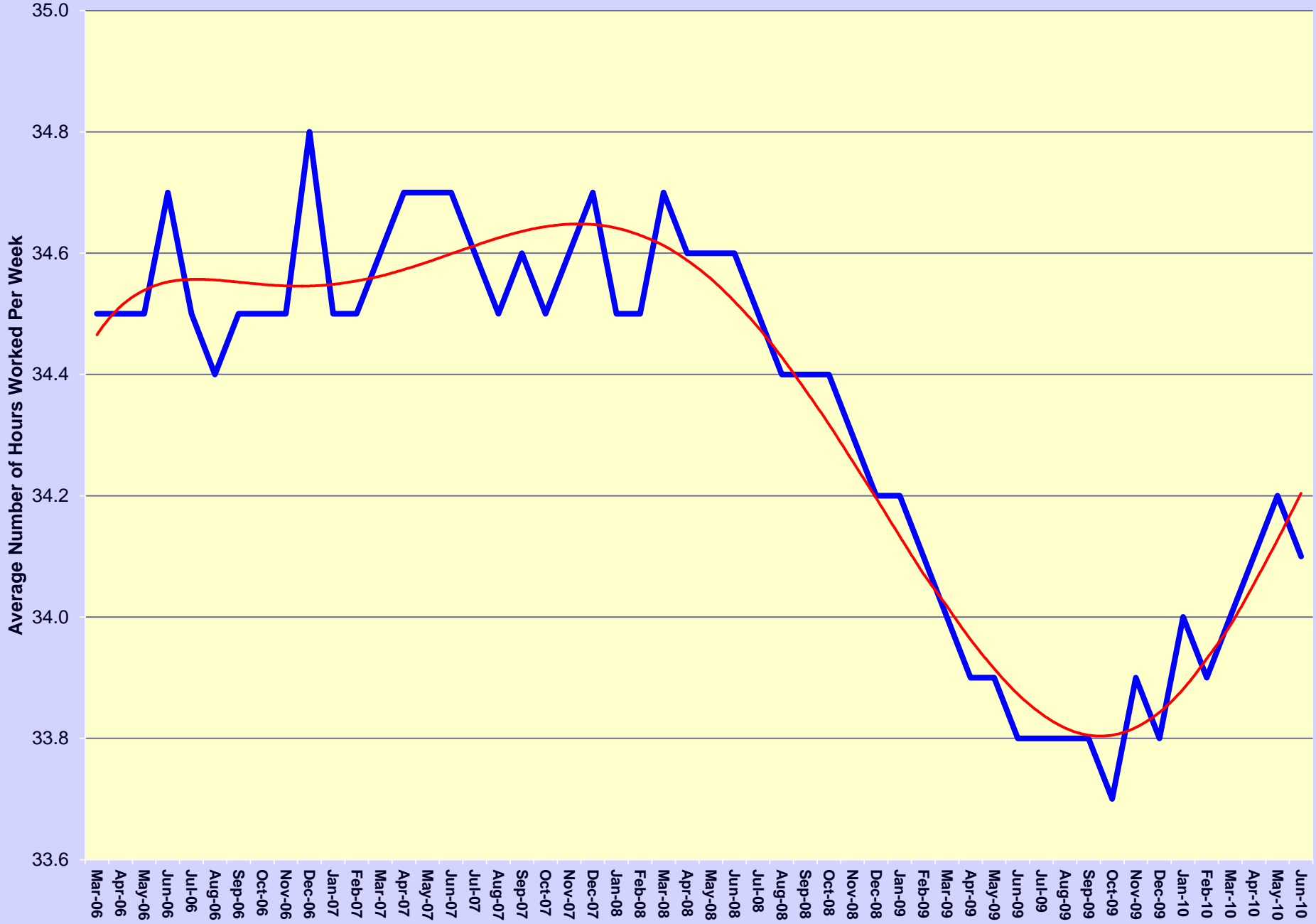
Productivity Growth Drives "V-Shaped" Recovery for Corporate Profits

(U.S. corporate profits with inventory valuation and capital consumption adjustment; Source: US BEA)



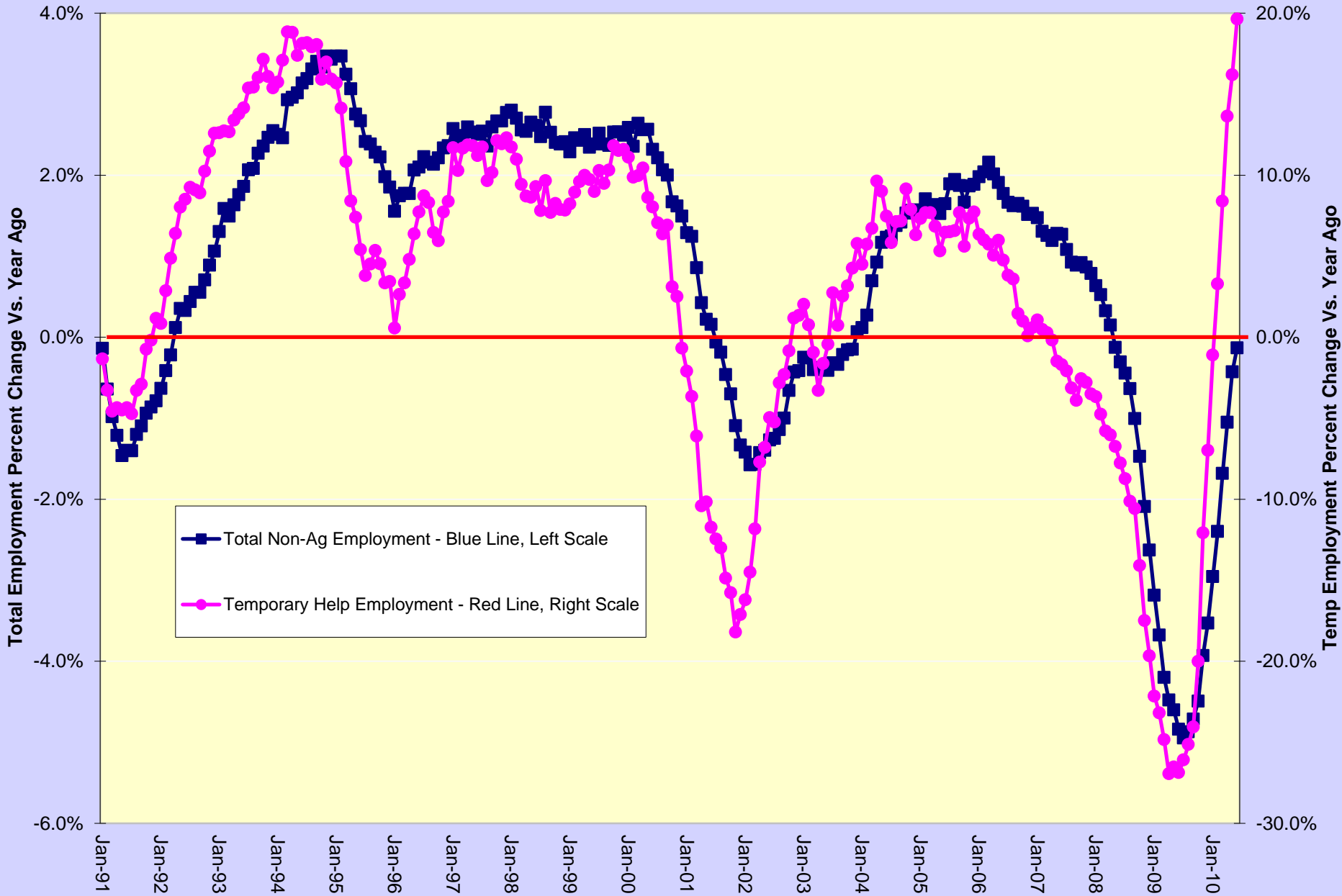
More Hours Worked Will Eventually Lead to New Hiring...

Average Weekly Hours Worked for All Private Sector Employees, Source: U.S. Bureau of Labor Statistics



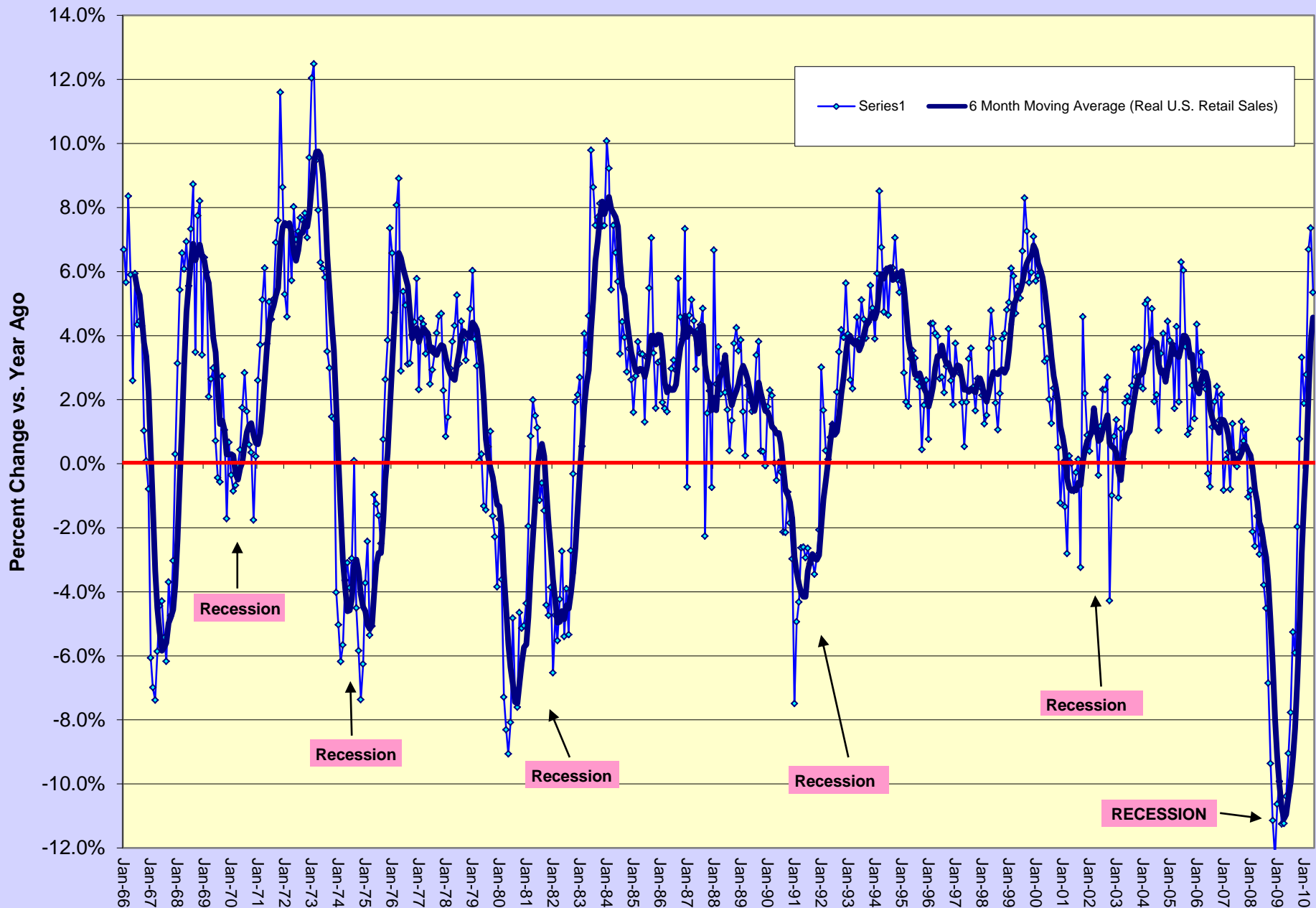
Temp Employment Gains Suggests U.S. Job Growth Will Resume Soon

Year Ago Percent Change, Seasonally Adjusted Data, Source: U.S. Bureau of Labor Statistics



Consumers Resume Spending, But Sentiment Remains Fragile

Total Constant Dollar U.S. Retail Sales - Percent Change from Year Ago, Source: U.S. Census Bureau



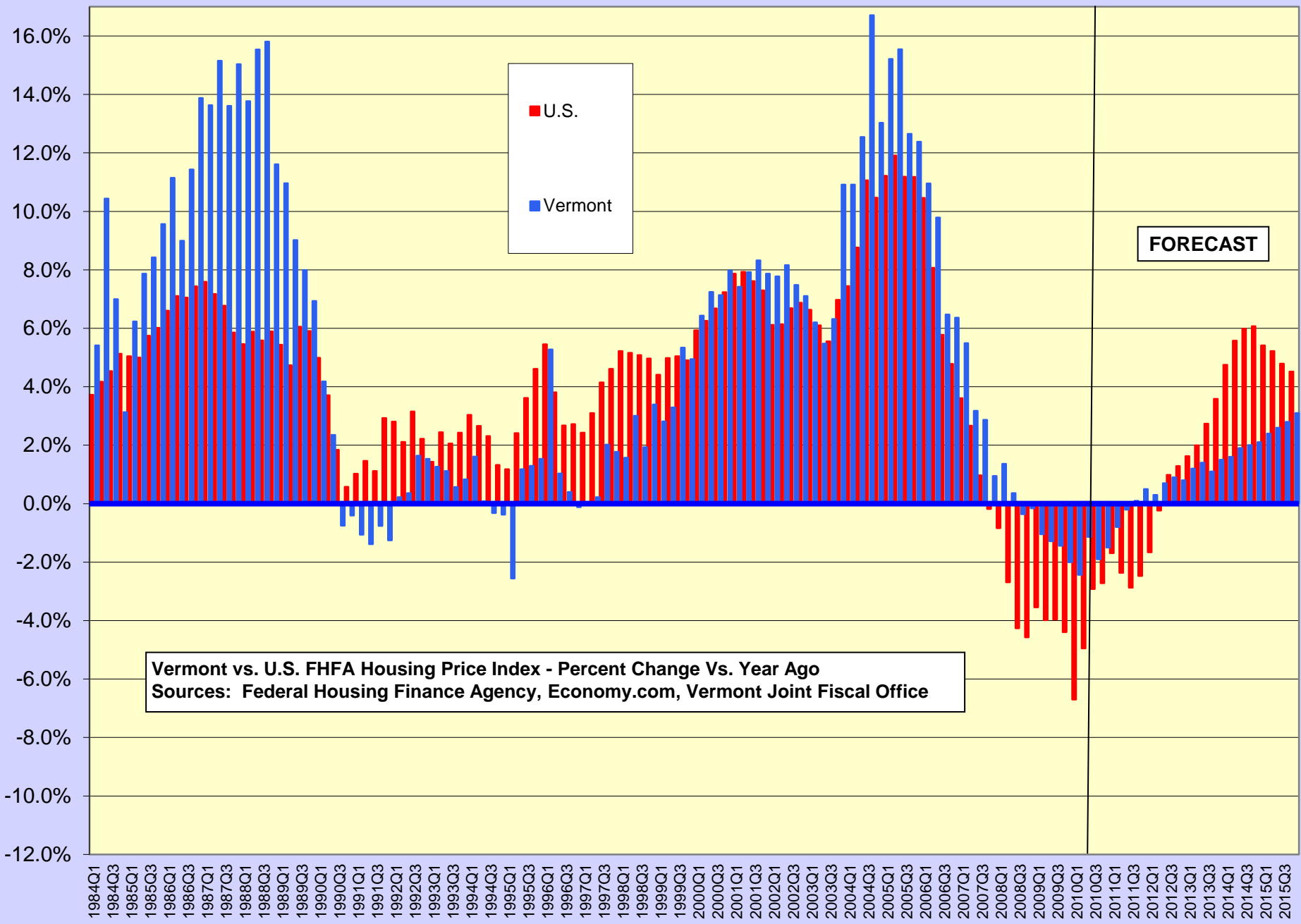
...Risks Remain on the Downside

- The economy is still psychologically vulnerable to additional negative shocks, such as the recent European debt crisis, from Greece to now Ireland illustrates
- So-called “double-dip” recession risks now probably exceed 30%
- Federal and global fiscal and monetary policy constraints could lead to “Hooveresque” policy blunders and short-circuit recovery
- Protectionism, trade wars and currency manipulation could still devolve into double dip recessionary triggers
- Housing will remain depressed for a number of years, until backlogs are worked off and credit flows resume



Greek debtors discussing repayment terms.

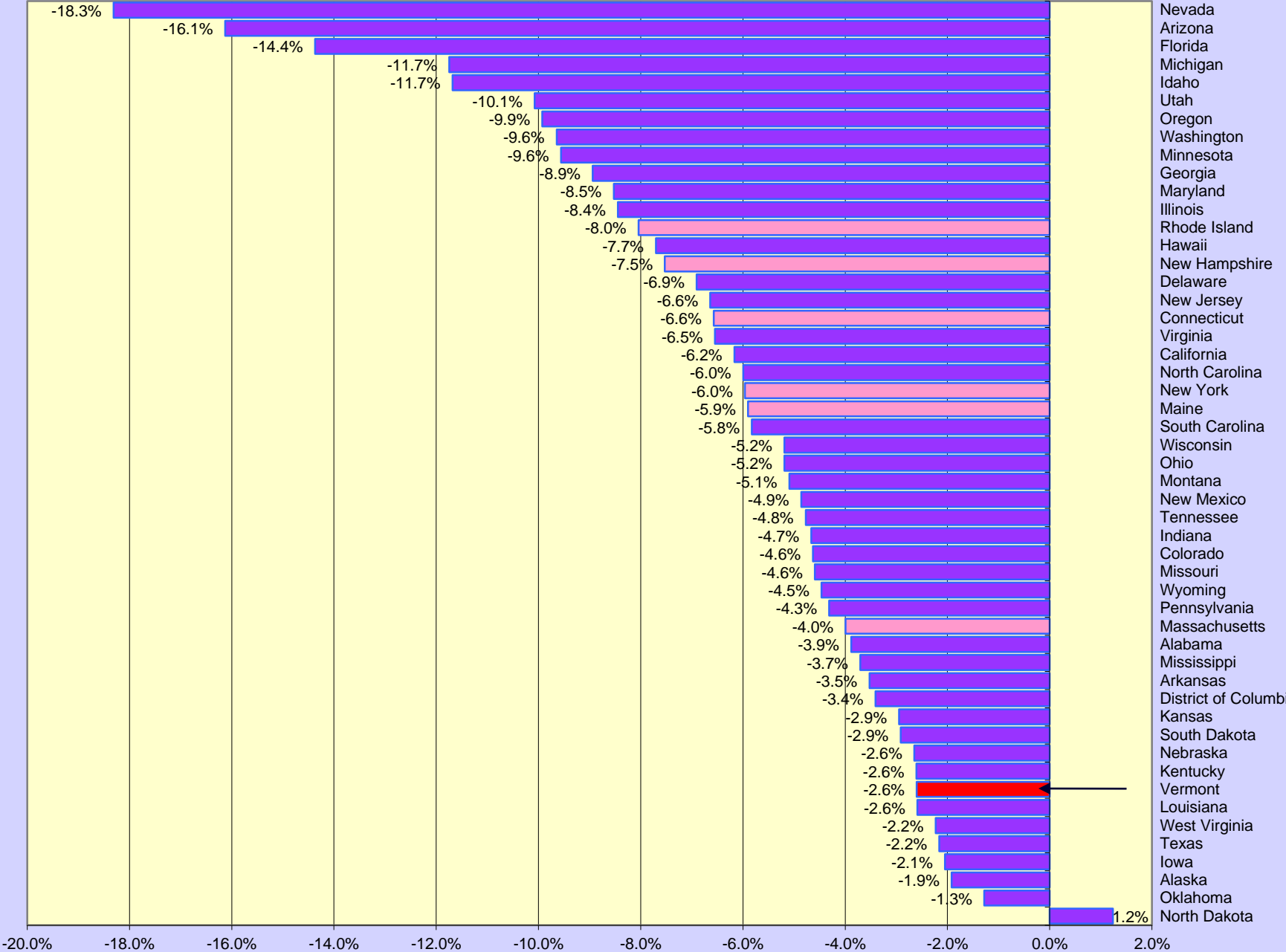
More Pain Ahead As Price Declines Will Continue to Weigh on Real Estate Markets



Vermont vs. U.S. FHFA Housing Price Index - Percent Change Vs. Year Ago
Sources: Federal Housing Finance Agency, Economy.com, Vermont Joint Fiscal Office

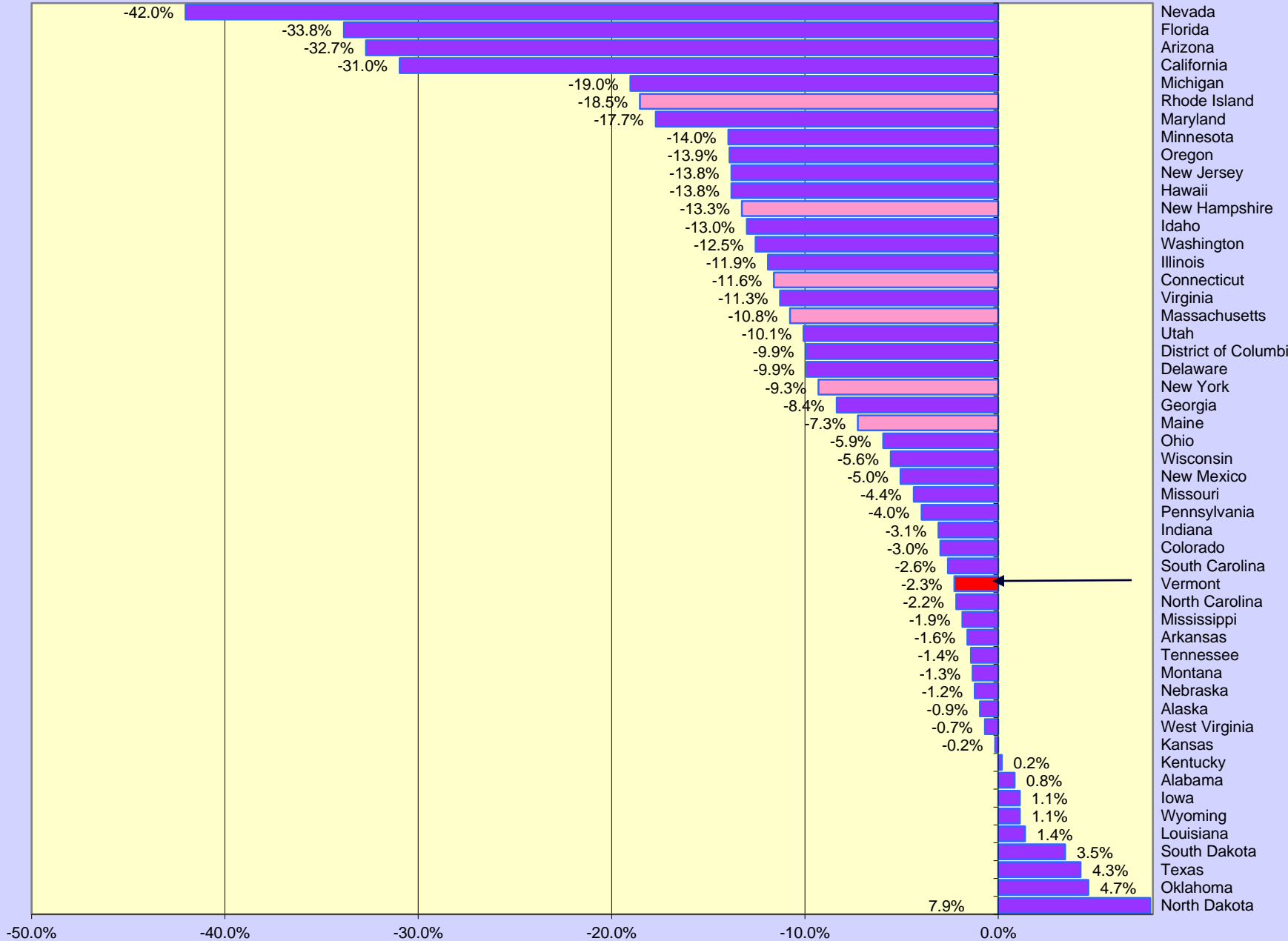
Real Estate Markets are Regional: Home Price Changes in 2010Q1

Percent Change, First Quarter of 2010 vs. First Quarter of 2009, Source: FHFA Home Price Index



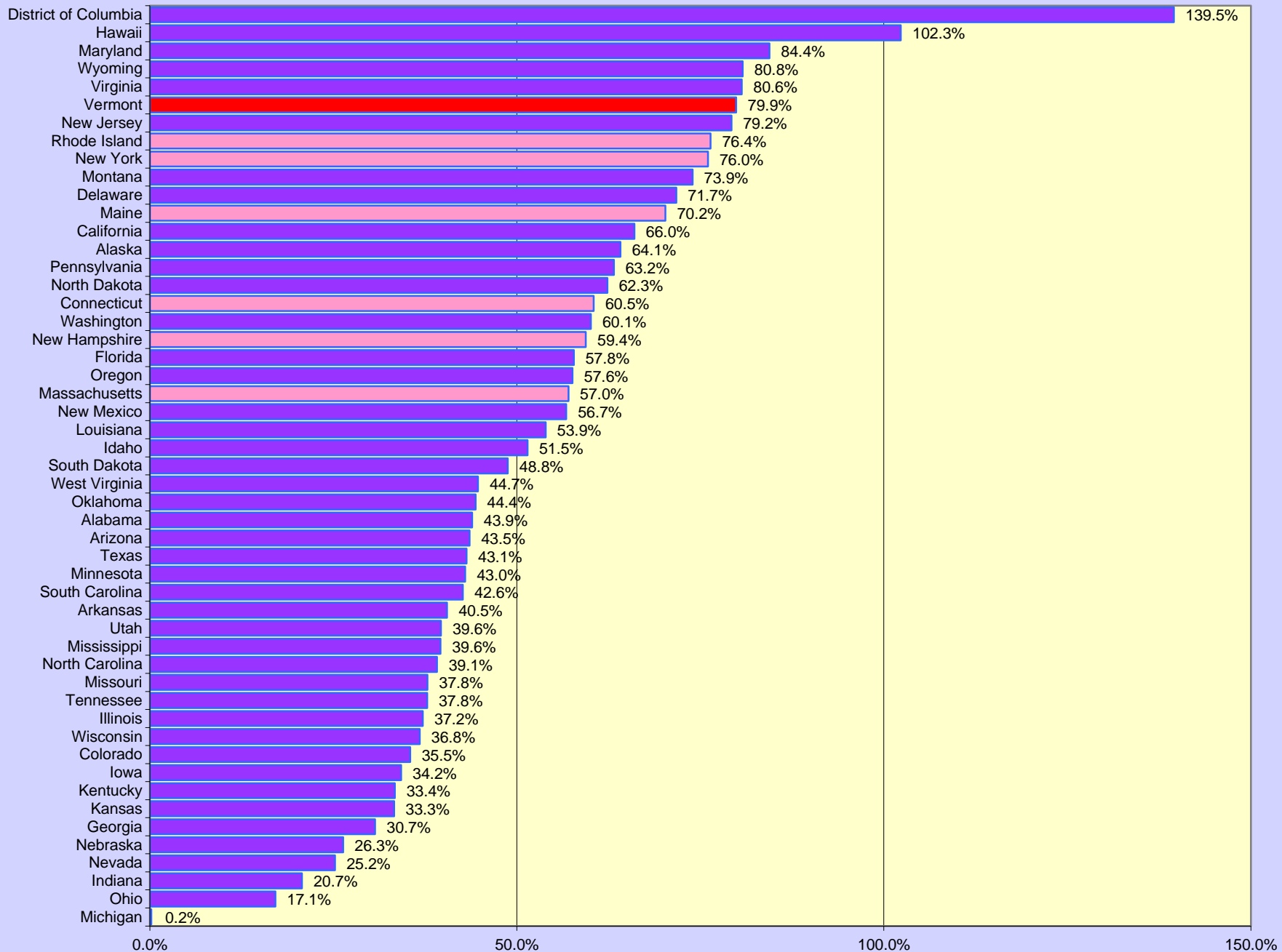
Real Estate Markets are Regional: 3 Year Change in Home Prices

Percent Change, First Quarter of 2010 vs. First Quarter of 2007, Source: FHFA Home Price Index



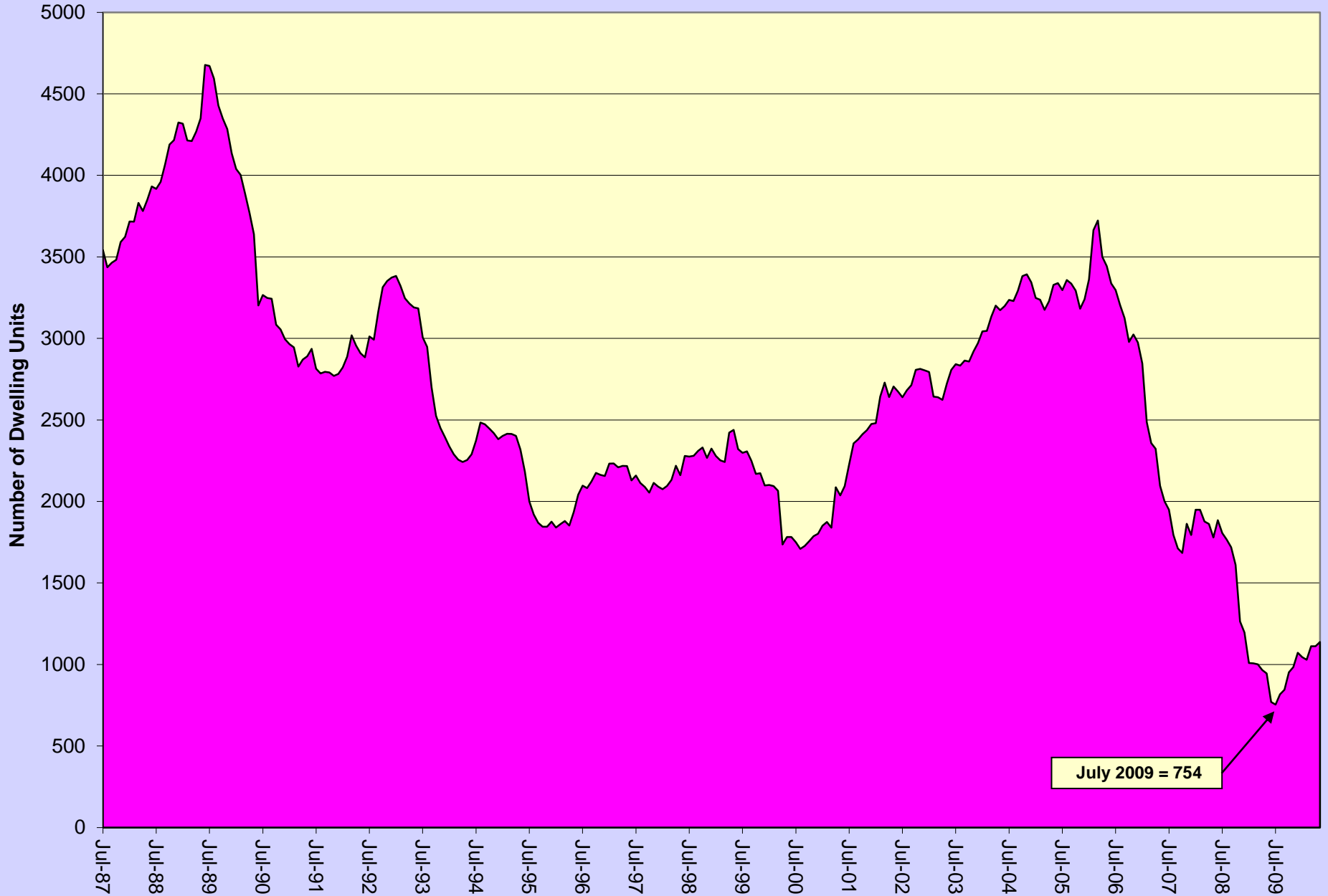
Real Estate Markets are Regional: 10 Year Growth in Home Prices

Percent Change, First Quarter of 2010 vs. First Quarter of 2000, Source: FHFA Home Price Index



Vermont Housing Markets Struggle to Recover Amidst Declining Home Prices

(Total Housing Starts, 12 Month Moving Totals, Source: F.W. Dodge Division of McGraw-Hill, Kavet, Rockler & Associates, LLC)



Revenue Impacts

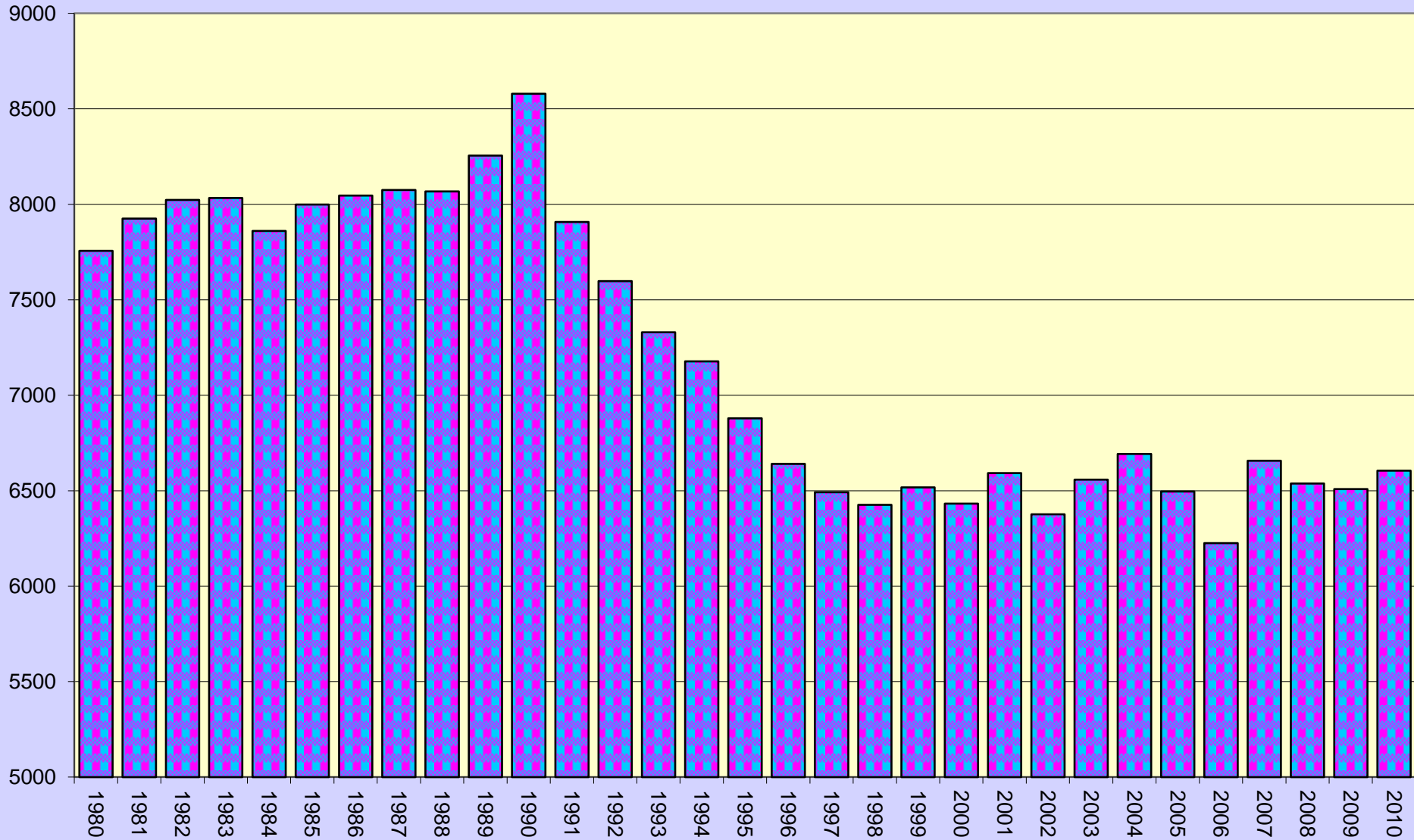
- Unprecedented revenue declines, with two consecutive annual declines in total General Fund revenues in FY09 and FY10
- General Fund revenues in the current fiscal year are not expected to exceed *FY06* levels
- What about state level “stimulus” measures? What else can be done at the state level?
- The economy is cyclical, adjustments can be painful, but declines do end and ultimately lead to renewed growth

Demographic Forecasts State Expenses

Age	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0	593701	597239	600416	604683	609903	612153	614950	616559	618145	618814	619985	620460	621049	621760	622553	624194	626073	628025	630072	632209	634431	636800	639365	642050	644890
1	6641	6492	6426	6518	6433	6592	6377	6558	6693	6496	6225	6657	6538	6509	6605	6673	6718	6760	6786	6793	6785	6763	6727	6683	6636
2	6815	6524	6413	6356	6729	6511	6666	6444	6605	6696	6505	6253	6657	6581	6587	6700	6771	6818	6861	6887	6900	6894	6876	6844	6805
3	7128	6771	6516	6412	6680	6796	6561	6723	6482	6628	6700	6513	6236	6678	6631	6651	6767	6839	6893	6937	6967	6980	6980	6963	6936
4	7336	7078	6754	6507	6948	6724	6838	6589	6745	6510	6639	6690	6493	6232	6716	6680	6700	6816	6892	6948	6998	7031	7044	7051	7033
5	7738	7384	7155	6834	7168	6981	6764	6850	6607	6770	6514	6629	6679	6474	6272	6761	6731	6751	6868	6943	7006	7054	7093	7112	7119
6	8046	7675	7318	7135	7727	7197	7024	6769	6871	6619	6789	6508	6640	6666	6498	6306	6798	6767	6792	6914	6992	7053	7110	7149	7171
7	8580	7978	7640	7330	7893	7757	7217	7029	6784	6878	6638	6784	6514	6641	6672	6512	6322	6819	6787	6813	6939	7019	7088	7142	7185
8	8543	8541	7970	7614	8050	7932	7785	7231	7052	6788	6910	6641	6807	6534	6646	6684	6524	6335	6834	6806	6834	6961	7044	7088	7117
9	8177	8170	8198	7659	8395	8080	7950	7804	7230	7045	6802	6903	6658	6822	6544	6668	6711	6552	6360	6861	6835	6885	7000	7087	7163
10	8771	8716	8743	8780	8816	8413	8101	7988	7798	7212	7053	6794	6922	6664	6851	6584	6713	6754	6597	6403	6911	6887	6921	7059	7152
11	8871	8762	8741	8777	9141	8830	8437	8144	7484	7786	7210	7047	6817	6937	6720	6918	6655	6795	6833	6672	6474	6992	6974	7011	7154
12	8821	8712	8634	8626	9117	9151	8871	8474	8137	7975	7782	7201	7062	6831	7015	6807	7008	6746	6892	6927	6765	6571	7096	7085	7129
13	8574	8775	8701	8636	9113	9114	9171	8882	8460	8122	7963	7775	7201	7068	6916	7108	6905	7104	6843	7001	7034	6872	6685	7222	7213
14	8855	8616	8849	8788	9101	9112	9145	9168	8878	8454	8121	7973	7777	7201	7148	7007	7199	6999	7198	6941	7104	7139	6978	6795	7343
15	8863	8868	8660	8909	9041	9095	9133	9134	9170	8873	8456	8129	7985	7763	7266	7220	7083	7276	7075	7274	7019	7196	7233	7075	6891
16	8672	8902	8944	8748	9167	9009	9102	9106	9123	9149	8877	8449	8142	7961	7823	7336	7297	7157	7352	7149	7345	7094	7278	7319	7158
17	8689	8682	8941	9000	9019	9165	9048	9121	9137	9137	9179	8914	8509	8159	8021	7896	7409	7376	7237	7427	7225	7424	7173	7364	7400
18	8402	8909	8966	9286	8957	9044	9231	9093	9170	9174	9181	9239	9000	8554	8212	8083	7959	7474	7442	7301	7492	7285	7486	7238	7435
19	7763	8136	8581	8623	9078	9965	10000	10161	10031	10068	10092	10119	10240	9988	8568	8238	8110	7988	7498	7470	7325	7519	7313	7514	7268
20	8019	8121	8489	8964	9689	10269	10981	10955	11153	11027	11108	11127	11219	11333	9930	8528	8200	8075	7951	7464	7431	7290	7484	7278	7484
21	7548	7880	7963	8323	9299	9603	10203	10930	10857	11031	10996	11006	11067	11146	11151	9776	8399	8070	7946	7821	7339	7311	7176	7370	7162
22	7317	7292	7572	7638	8430	8681	9037	9626	10324	10155	10408	10285	10332	10407	10873	10893	9546	8192	7867	7749	7624	7155	7129	6986	7189
23	6774	6985	6925	7172	7434	7537	7816	8160	8747	9402	9163	9363	9253	9379	10125	10586	10616	9298	7972	7649	7536	7419	6958	6930	6797
24	6852	6597	6711	6699	6735	6708	6857	7094	6744	8036	8652	8212	8482	8427	9155	9894	10343	10380	9087	7786	7476	7362	7249	6791	6767
25	8290	6882	6594	6756	6253	6549	6523	6675	6875	7241	7804	8243	7793	8189	8307	9041	9769	10212	10242	8976	7684	7375	7271	7156	6704
26	9352	8126	6724	6448	6428	5977	6294	6230	6366	6556	6956	7408	7821	7392	8181	8306	9041	9769	10218	10240	8977	7686	7381	7276	7156
27	9173	9258	8028	8658	6261	6463	6051	6332	6268	6425	6637	6968	7406	7810	7453	8253	8383	9122	9852	10302	10323	9047	7752	7446	7341
28	8958	9252	9322	8115	6449	6309	6552	6067	6384	6313	6524	6652	7010	7444	7904	7547	8361	8491	9232	9968	10148	10438	9151	7746	7541
29	7867	8608	8891	9002	7076	6522	6431	6617	6140	6469	6394	6571	6726	7088	7535	8011	7646	8475	8604	9351	10091	10543	10562	9267	7949
30	8161	8740	9548	9893	7696	7117	6586	6456	6624	6136	6481	6365	6573	6736	7144	7612	8093	7725	8506	8689	9439	10190	10644	10666	9357
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33	8978	8734	8221	8367	7670	7910	8269	7927	7344	6725	6569	6710	6167	6610	6464	6713	6834	7264	7761	8258	7884	8740	8880	9653	10437
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36	10427	10443	10010	9905	9142	8571	8211	7799	8063	8369	8064	7419	6761	6559	6750	6258	6724	6571	6817	6937	7383	7909	8430	8061	8943
37	10346	10363	10360	9956	9687	9185	8654	8290	7847	8089	8401	8060	7437	6760	6595	6791	6299	6767	6613	6858	6979	7432	7975	8501	8133
38	10517	10587	10577	10599	9788	9727	9249	8665	8256	7849	8093	8381	8067	7429	6792	6634	6834	6340	6813	6657	6902	7022	7486	8041	8578
39	10292	10012	10053	10064	10032	9834	9799	9266	8675	8259	7869	8097	8068	8075	7449	6827	6669	6872	6378	6855	6699	6945	7068	7536	8143
40	11583	11569	11227	11288	10505	10058	9889	9821	9265	8707	8274	7882	8117	8399	8077	7462	6841	6694	6895	6405	6885	6730	6977	7103	7575
41	10865	11330	11286	10968	10479	10545	10121	9904	9803	9283	8721	8285	7892	8127	8379	8071	7463	6841	6698	6899	6417	6886	6974	7141	6988
42	10616	10699	11127	11101	10498	10477	10576	10105	9889	9794	9268	8705	8281	7874	8092	8354	8051	7445	6830	6686	6891	6412	6894	6743	6991
43	10502	10656	10711	11155	10605	10510	10504	10584	10103	9896	9805	9268	8719	8284	7835	8065	8327	8009	7420	6814	6668	6876	6397	6847	6783
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45	10469	10594	10865	11008	10318	10703	10620	10509	10504	10575	10090	9884	9810	9267	8679	8206	7775	8001	8262	7964	7371	6770	6631	6841	6876
46	9617	10279	10375	10654	10552	10313	10700	10596	10487	10489	10549	10074	9881	9798	9217	8642	8177	7746	7969	8230	7938	7350	6754	6620	6834
47	9277	9378	9999	10106	10225	10528	10283	10657	10544	10446	10434	10506	10042	9844	9740	9175	8608	8142	7715	7938	8201	7913	7332	6739	6607
48	9160	9397	9475	10115	10047	10198	10503	10259	10628	10532	10426	10411	10492	10029	9783	9691	9136	8574	8112	7683	7908	8173	7890	7313	6726
49	8632	8717	8917	9003	9867	10003	10155	10446	10212	10587	10494	10385	10379	10462	9967	9738	9651	9101	8541	8					

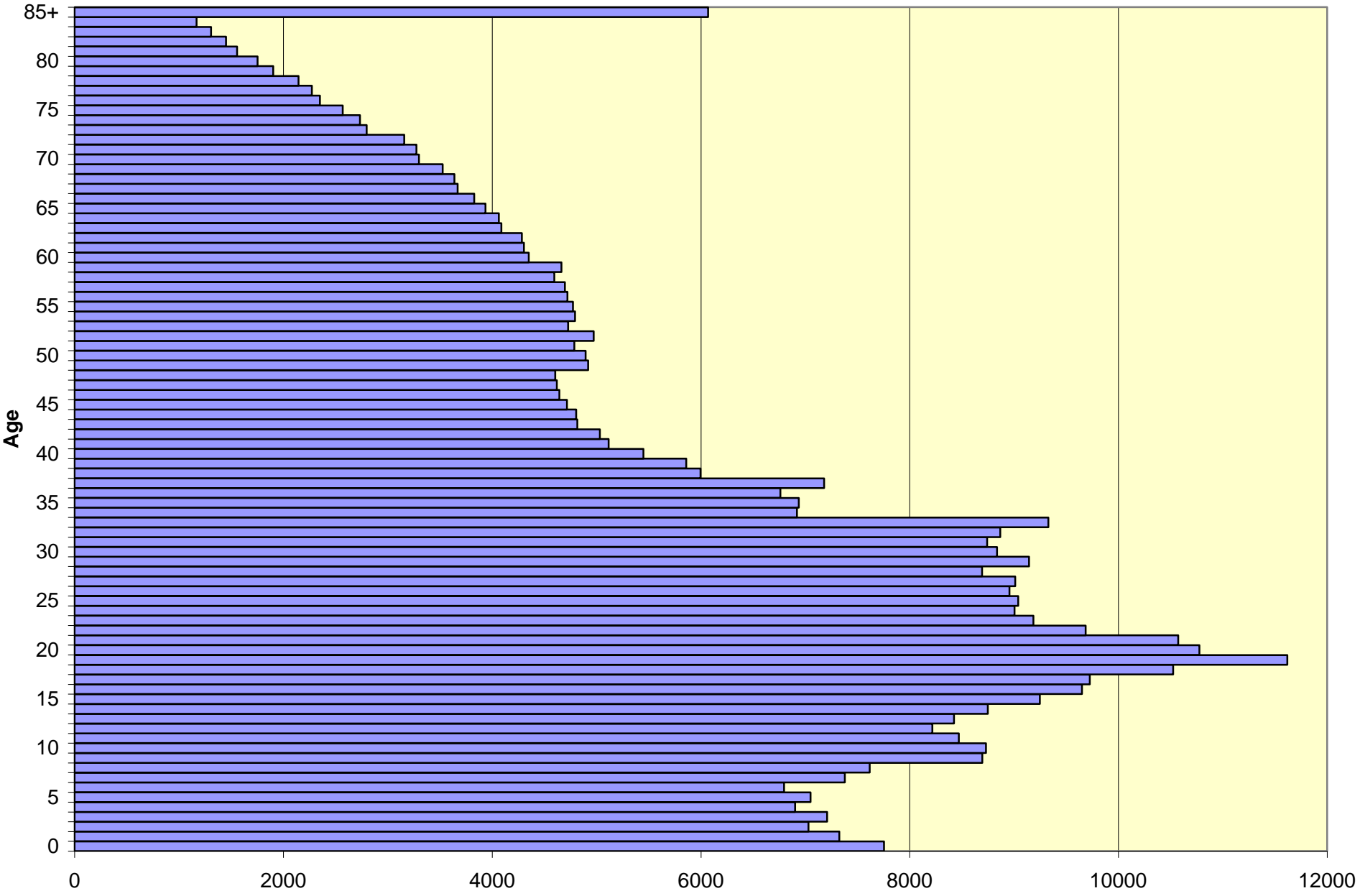
Demographics State Expenses

Vermont Population - Age 0 (Births)



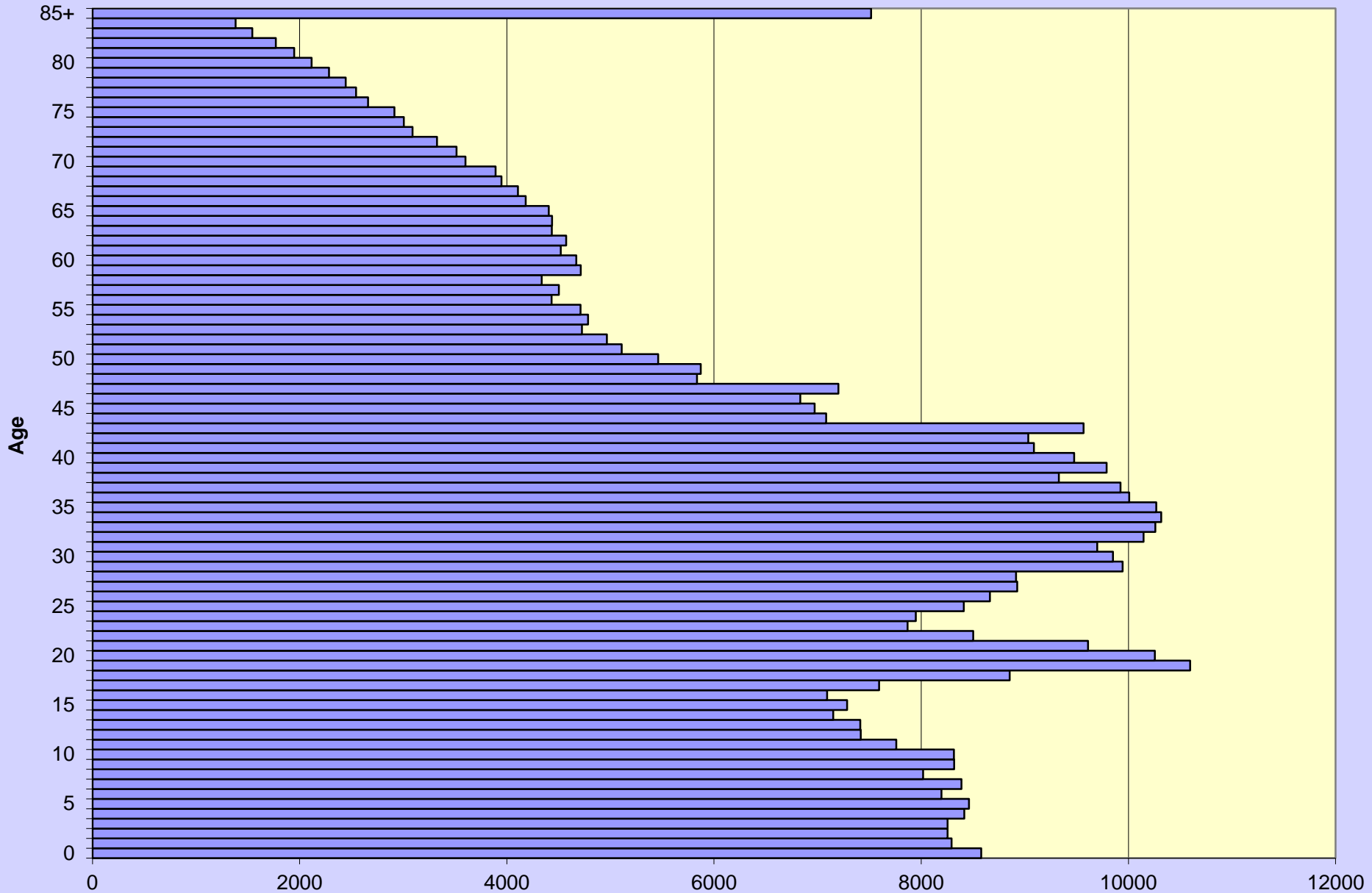
Source: U.S. Census Bureau, Vermont Legislative Joint Fiscal Office Estimates

Vermont Population by Age - July 1980



Source: U.S. Census Bureau

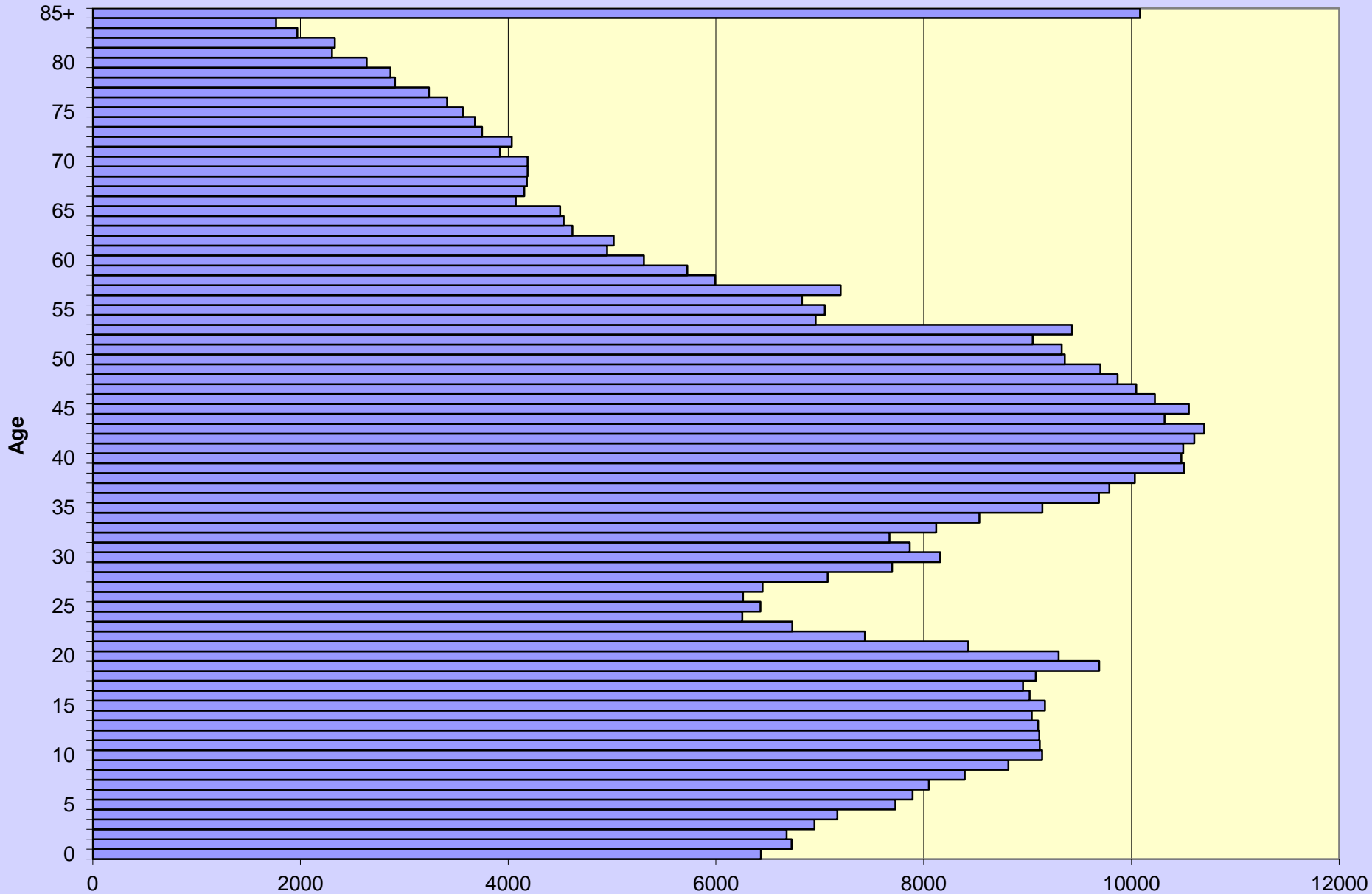
Vermont Population by Age - July 1990



Number of Persons

Source: U.S. Census Bureau

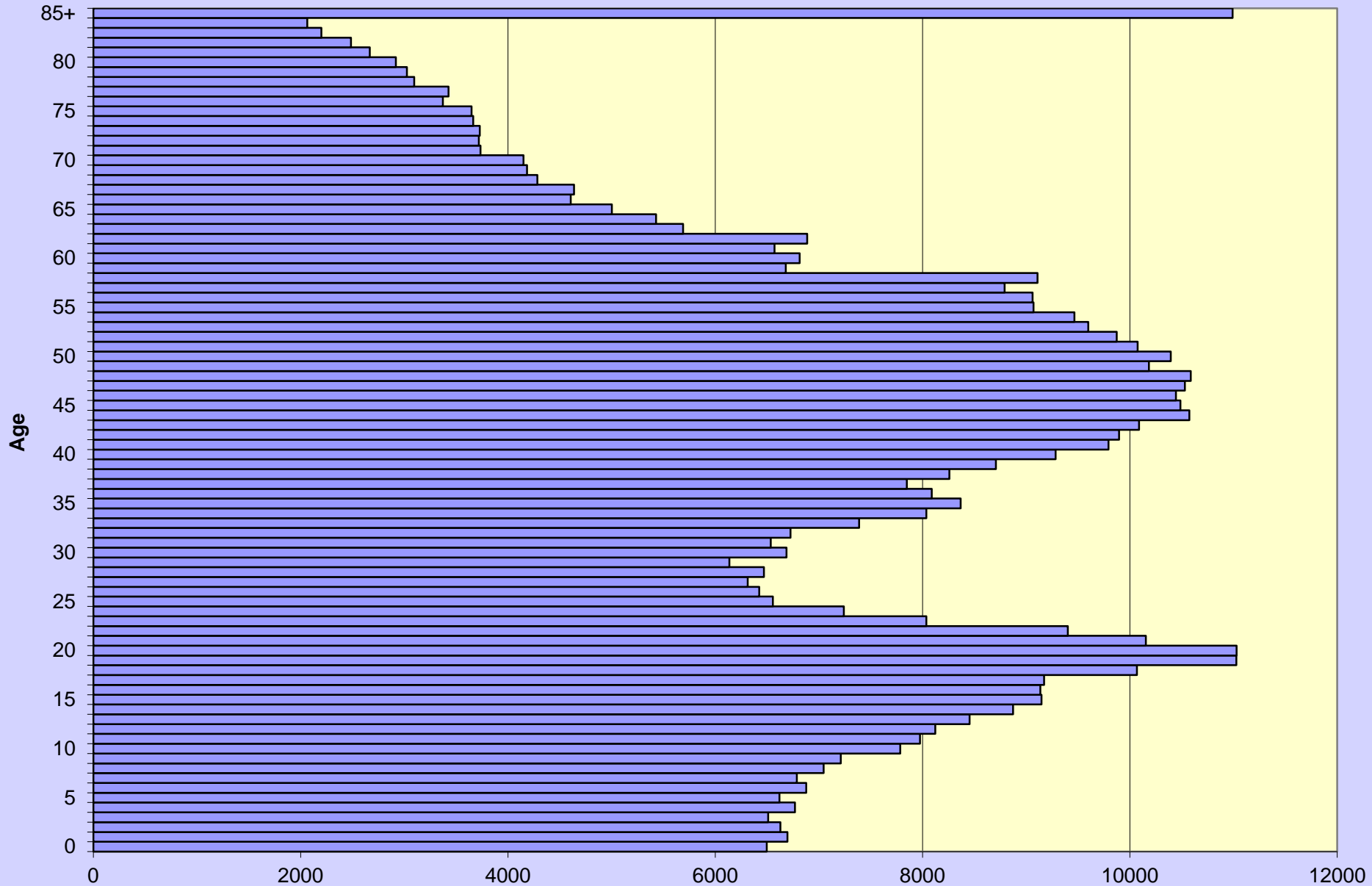
Vermont Population by Age - July 2000



Number of Persons

Source: U.S. Census Bureau

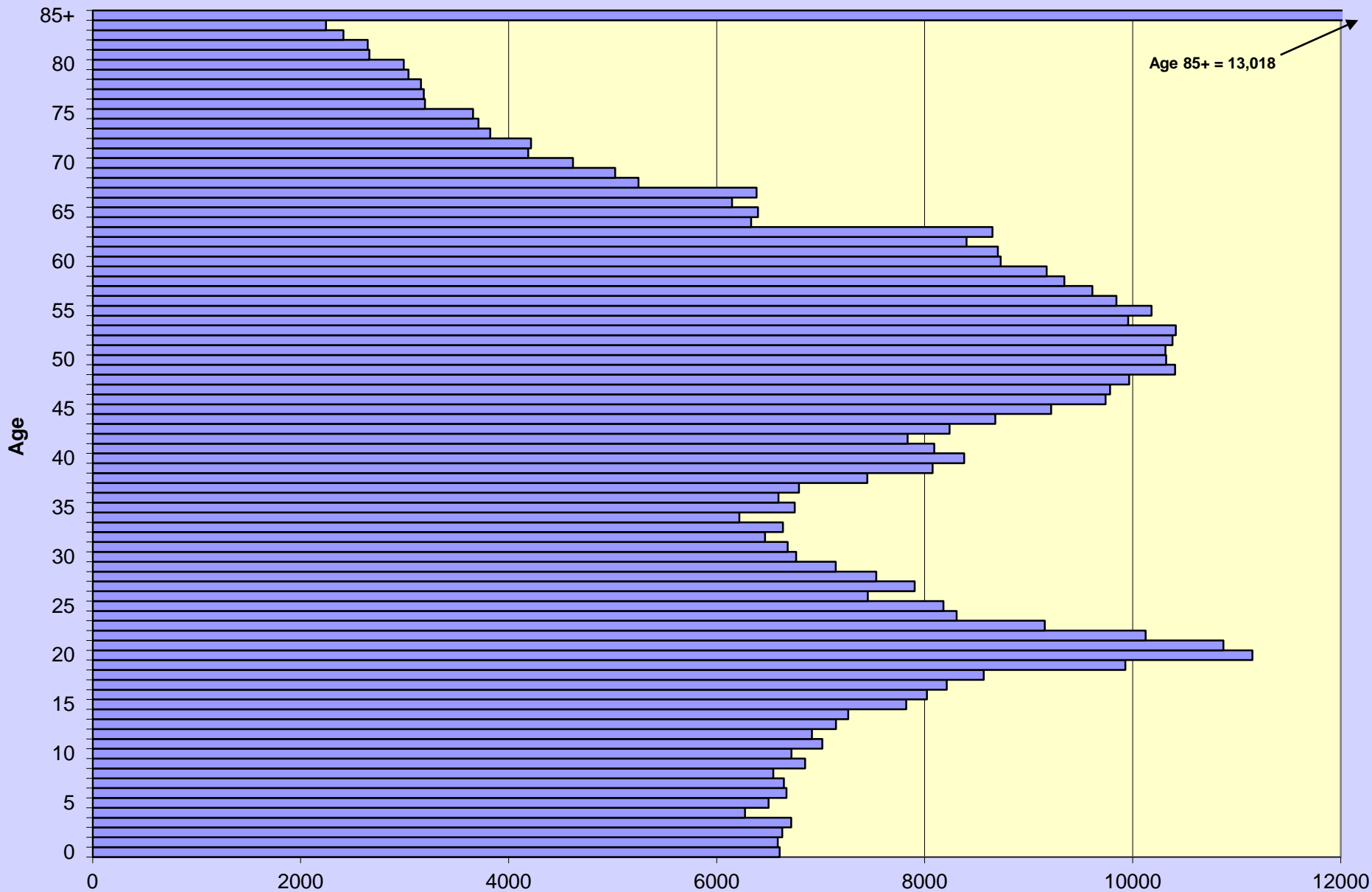
Vermont Population by Age - July 2005



Number of Persons

Source: U.S. Census Bureau

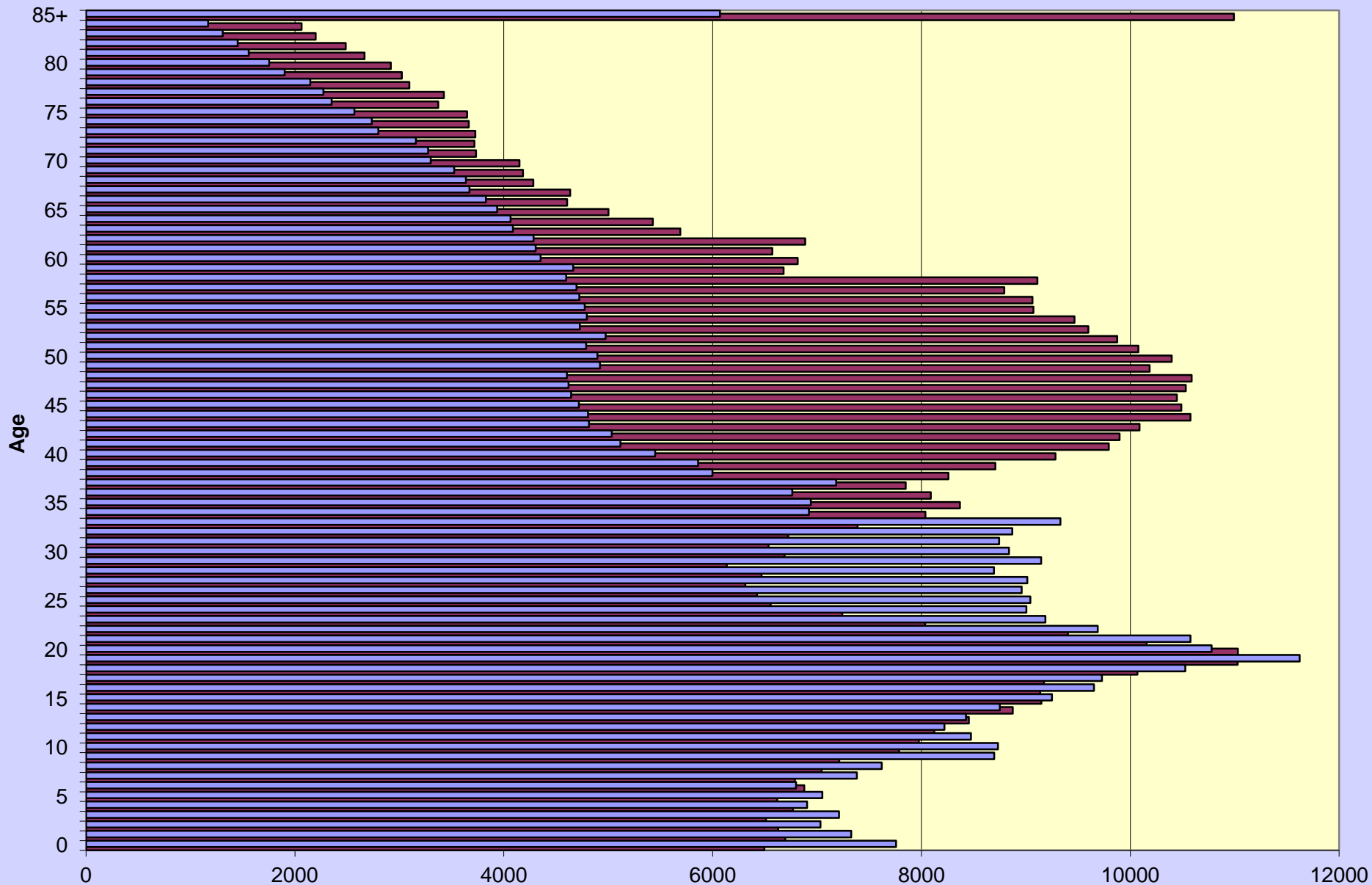
Vermont Population by Age - July 2010



Number of Persons

Source: U.S. Census Bureau

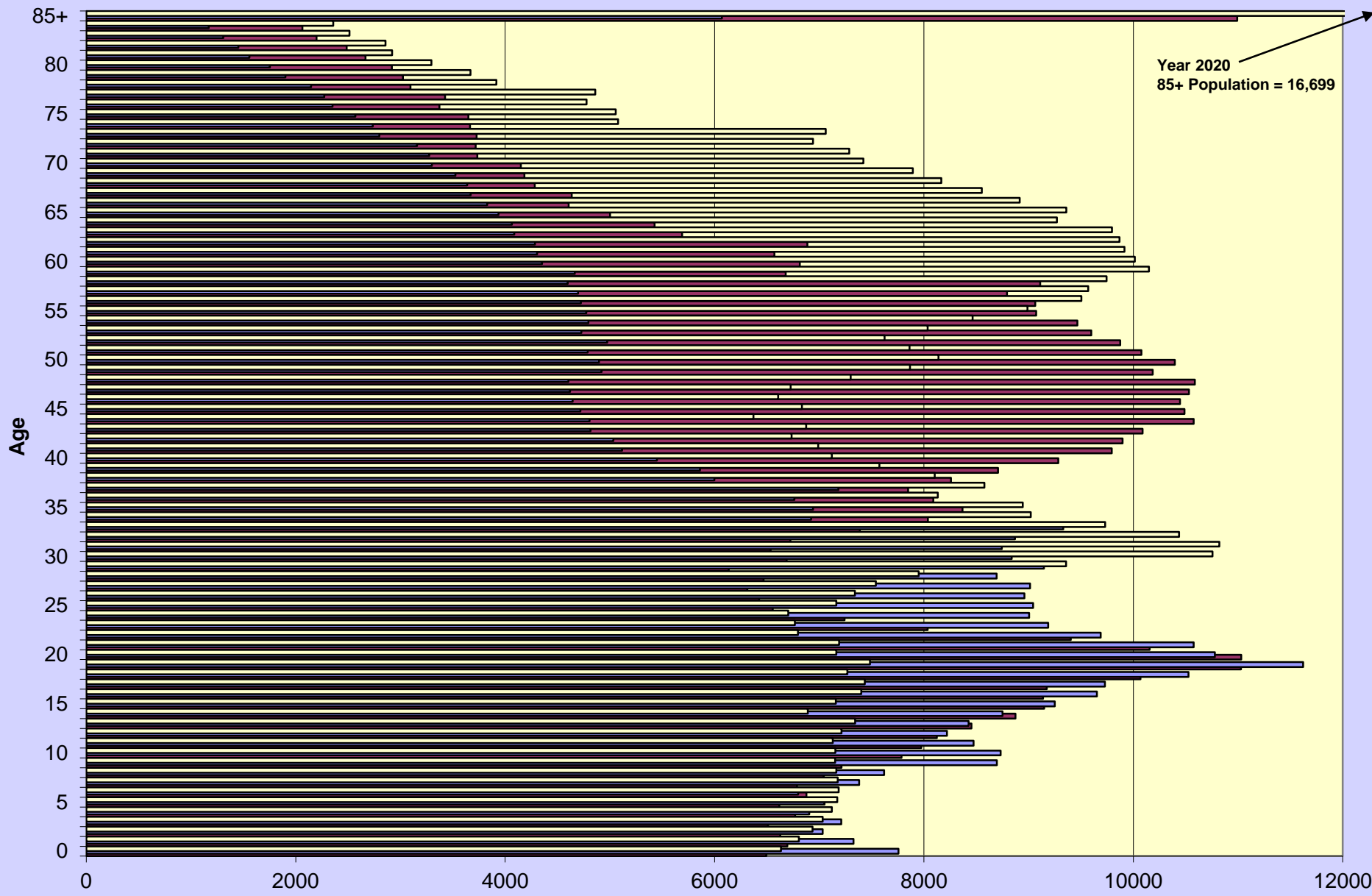
The Aging of the Vermont Population - July 1980 (blue) vs. July 2005 (red)



Number of Persons

Source: U.S. Census Bureau

The Aging of the Vermont Population - July 1980 (blue) vs. July 2005 (red) vs. July 2020 (clear)



Year 2020
85+ Population = 16,699

Number of Persons

Source: U.S. Census Bureau

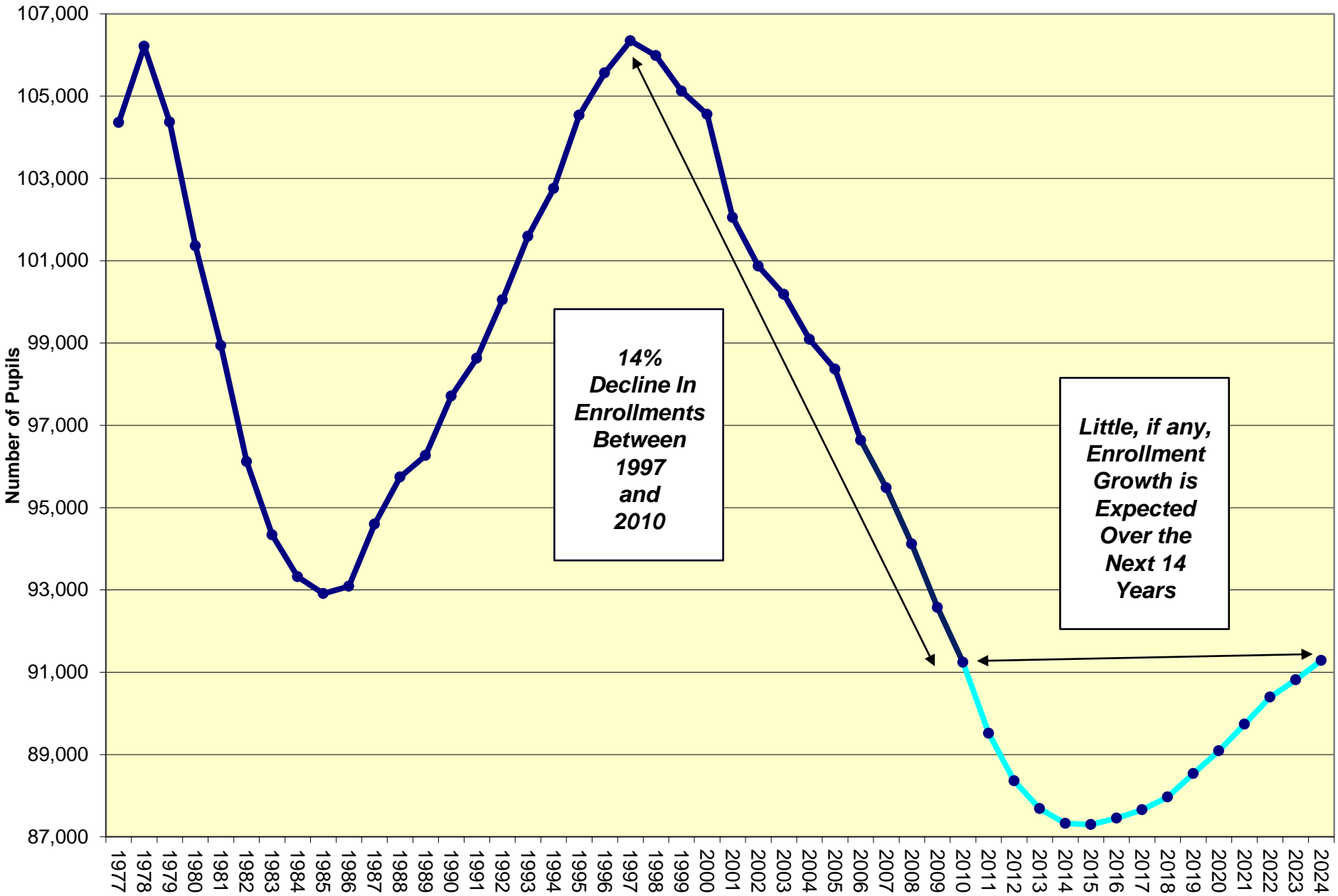
Demographic Forecasts State Expenses

TABLE 2

Vermont Enrollment and Population Projections by Selected Age-Cohorts
Consensus JFO and Administration Forecast - October 2010

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Pop	618,814	619,985	620,460	621,049	621,760	622,553	624,194	626,073	628,025
%ch	0.11%	0.19%	0.08%	0.09%	0.11%	0.13%	0.26%	0.30%	0.31%
0-4Year	33,100	32,583	32,742	32,603	32,474	32,829	33,247	33,648	34,007
%ch	-0.10%	-1.56%	0.49%	-0.42%	-0.40%	1.09%	1.27%	1.21%	1.07%
5-19Year	124,307	122,161	119,603	117,493	115,122	112,563	110,394	108,709	107,400
%ch	-2.10%	-1.73%	-2.09%	-1.76%	-2.02%	-2.22%	-1.93%	-1.53%	-1.20%
VT Enrollments	98,363	96,636	95,481	94,114	92,572	91,239	89,514	88,358	87,686
%ch	-0.73%	-1.76%	-1.20%	-1.43%	-1.64%	-1.44%	-1.89%	-1.29%	-0.76%
POP SHARES									
0-4Year	5.349%	5.255%	5.277%	5.250%	5.223%	5.273%	5.326%	5.374%	5.415%
5-19Year	20.088%	19.704%	19.277%	18.918%	18.516%	18.081%	17.686%	17.364%	17.101%
20-24Year	7.412%	7.580%	7.593%	7.556%	7.647%	7.709%	7.727%	7.670%	7.552%
25-44Year	25.562%	25.022%	24.583%	24.271%	23.897%	23.804%	23.807%	23.897%	24.052%
45-64Year	28.402%	29.007%	29.553%	29.885%	30.256%	30.395%	30.398%	30.104%	29.743%
65+Year	13.187%	13.432%	13.718%	14.120%	14.461%	14.738%	15.055%	15.592%	16.138%
Total	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%
POP LEVELS									
0-4Year	33,100	32,583	32,742	32,603	32,474	32,829	33,247	33,648	34,007
5-19Year	124,307	122,161	119,603	117,493	115,122	112,563	110,394	108,709	107,400
20-24Year	45,865	46,993	47,109	46,927	47,548	47,990	48,232	48,018	47,427
25-44Year	158,184	155,135	152,528	150,734	148,584	148,190	148,603	149,611	151,051
45-64Year	175,754	179,836	183,366	185,598	188,121	189,227	189,744	188,471	186,791
65+Year	81,604	83,277	85,112	87,694	89,911	91,754	93,974	97,615	101,349
Total	618,814	619,985	620,460	621,049	621,760	622,553	624,194	626,073	628,025

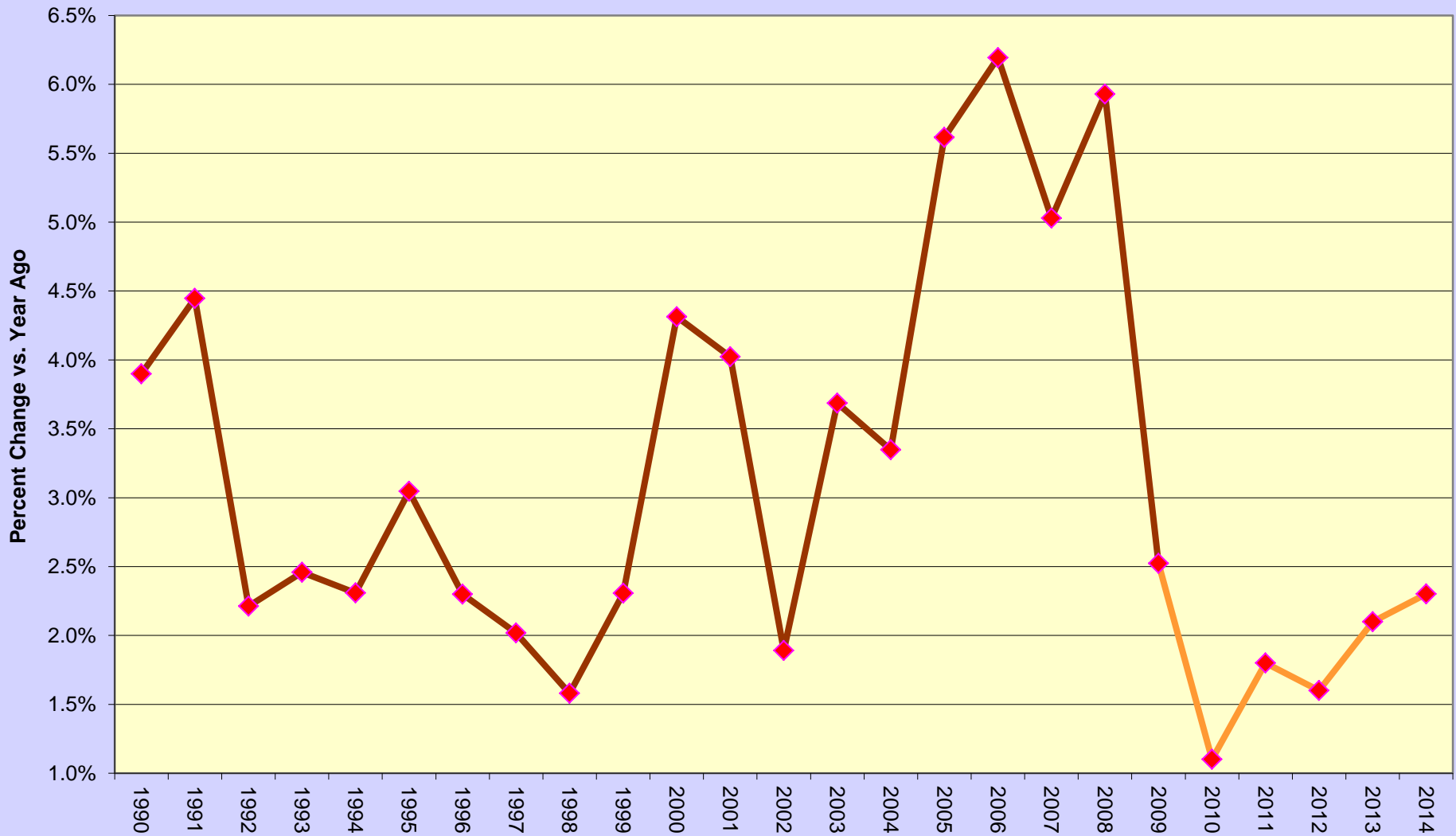
Vermont Public School Enrollments Will Not Reach 2010 Levels for at Least 13 Years



Sources: Vermont DOE and Consensus Administration and Joint Fiscal Office Projections - October 2010

E-Fund Cost Pressures Will Exceed Tax Base Growth, With Health Care Inflation Leading the Way

Cost Pressures Recede, But Revenue Growth Will Still Lag Behind...
(Implicit State and Local Government Deflator, Percent Change vs. Year Ago)



Source: U.S. Department of Commerce, Vermont Joint Fical Office and Administration Consensus Forecasts

Economics Tax Policy Impacts

- Tax Increases: MV Fees, Cigarette Tax, etc.
- Tax Cuts: Income Tax, Sales & Use Tax
- Federal Tax Change Impacts
- Neighboring State Tax Changes (e.g., NH Income Tax, NY, et. al., Cigarette Tax Changes)
- Tax Collection and Compliance (e.g., Diesel Tax Change)
- Tax Credits, Tax Expenditures (e.g., Business Subsidies, VEPC, VEGI, TIFs, etc.)

Economics Tax Policy Impacts

The Arizona Alt-Fuel Debacle

- What Happens When Tax Policy Impacts Are Not Adequately Estimated?
- End-of-Session, “last minute” legislation
- Pet Project of Speaker of House
- No Party Opposition - Governor’s Support
- Federal Highway Funds Threatened
- So-Called “Minor” Changes to Existing Policies

Economics Tax Policy Impacts

The Arizona Alt-Fuel Debacle

- What Happens When Tax Policy Impacts Are Not Adequately Estimated?
- 1% Program Cap Changed to “Registered” Vehicles, Instead of “New” Vehicles
- Refundable Credit of 30%-50% of a New Vehicle Plus Fuel Conversion Costs
- No Fuel Use Requirement
- No Resident Requirement for Credit
- “Quick and Dirty” Estimates of \$2-\$11 Million

Economics Tax Policy Impacts

The Arizona Alt-Fuel Debacle

- What Happens When Tax Policy Impacts Are Not Adequately Estimated?
- Potential \$400-\$800 Million Out-of-Budget Expense!
- 5-10% of Total State Budget
- Possible 4 Year Budget Freeze
- Program Cancellation - Lawsuits Abound
- Speaker Loses Re-election Bid
- Becomes Major Political Issue in Subsequent Elections

Other JFO Economic Functions and Special Projects

- State Economic Model Specification and Management (REMI, REDYN, IMPLAN)
- Legislative Oversight Functions (e.g., VEPC, State Agencies and Departments, Legislation Compliance Follow-up, etc.)
- Legislative Studies and Sub-Committee Support Functions (e.g., Property Tax Analysis, Livable Income, Healthcare, Energy, Education Expenditures, etc.)
- Special Topic Research/Analysis (Economic Development, Fiscal Cost-Benefit Models, Electric Utility Deregulation, etc.)

For Further Information, Contact The Joint Fiscal Office or:

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