



# VT Revenue and Budget Picture: Facing Vermont's Fiscal Challenges

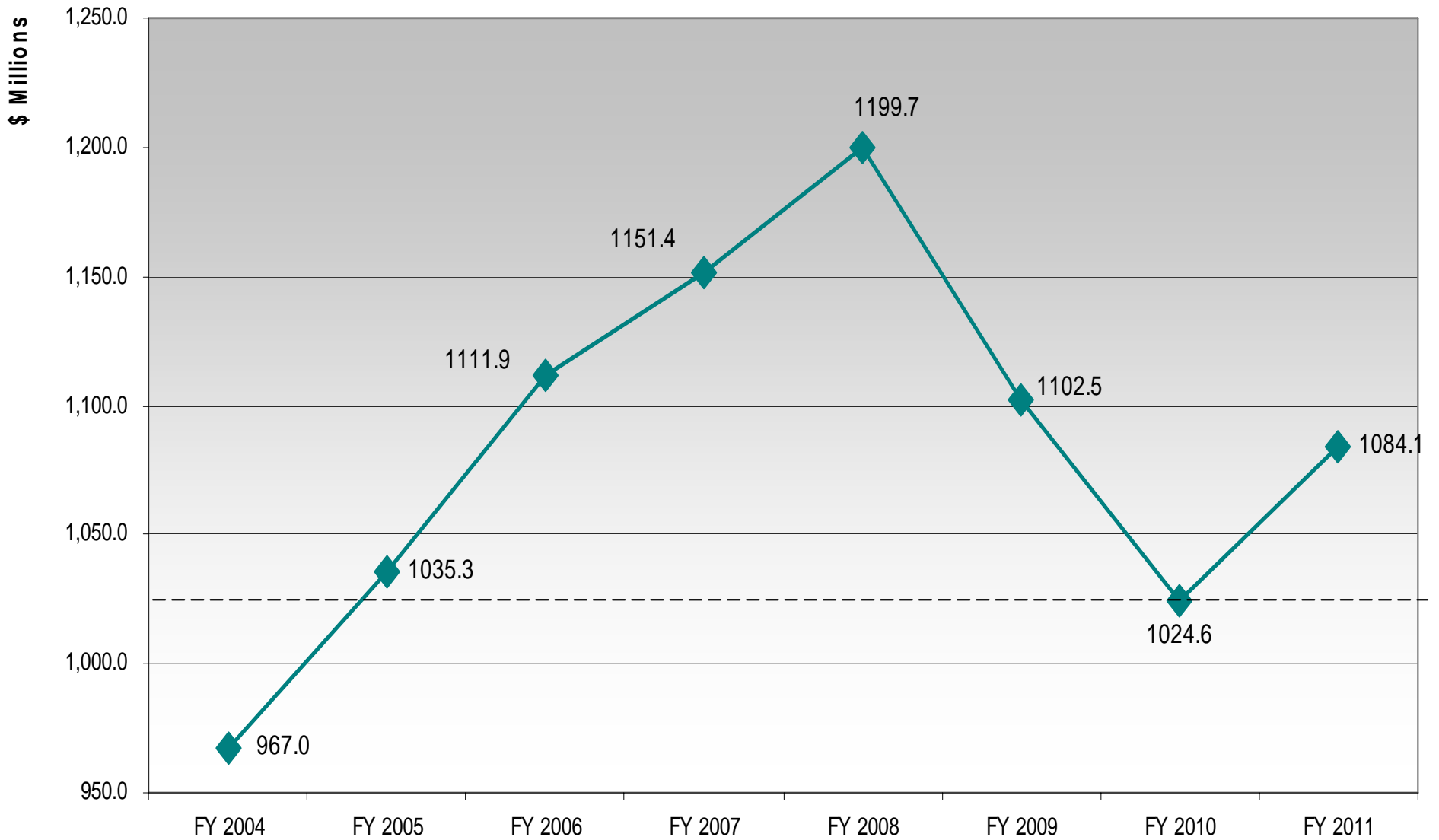
*September 30, 2009*

*Prepared by the Legislative Joint Fiscal Office*

Like the Nation and Vermont, state governments have been hit hard by the recession. Revenues have fallen due to a dramatic decline in economic activity

- Among other states, the extreme for revenue loss is the State of Michigan where FY 2010 projected state revenues have fallen to FY 1988 levels.
- In the State of Florida, reportedly revenues are at FY 2001 levels.
- Vermont's FY 2010 total revenues are below those of FY 2005.

### VT Available General Fund Revenue

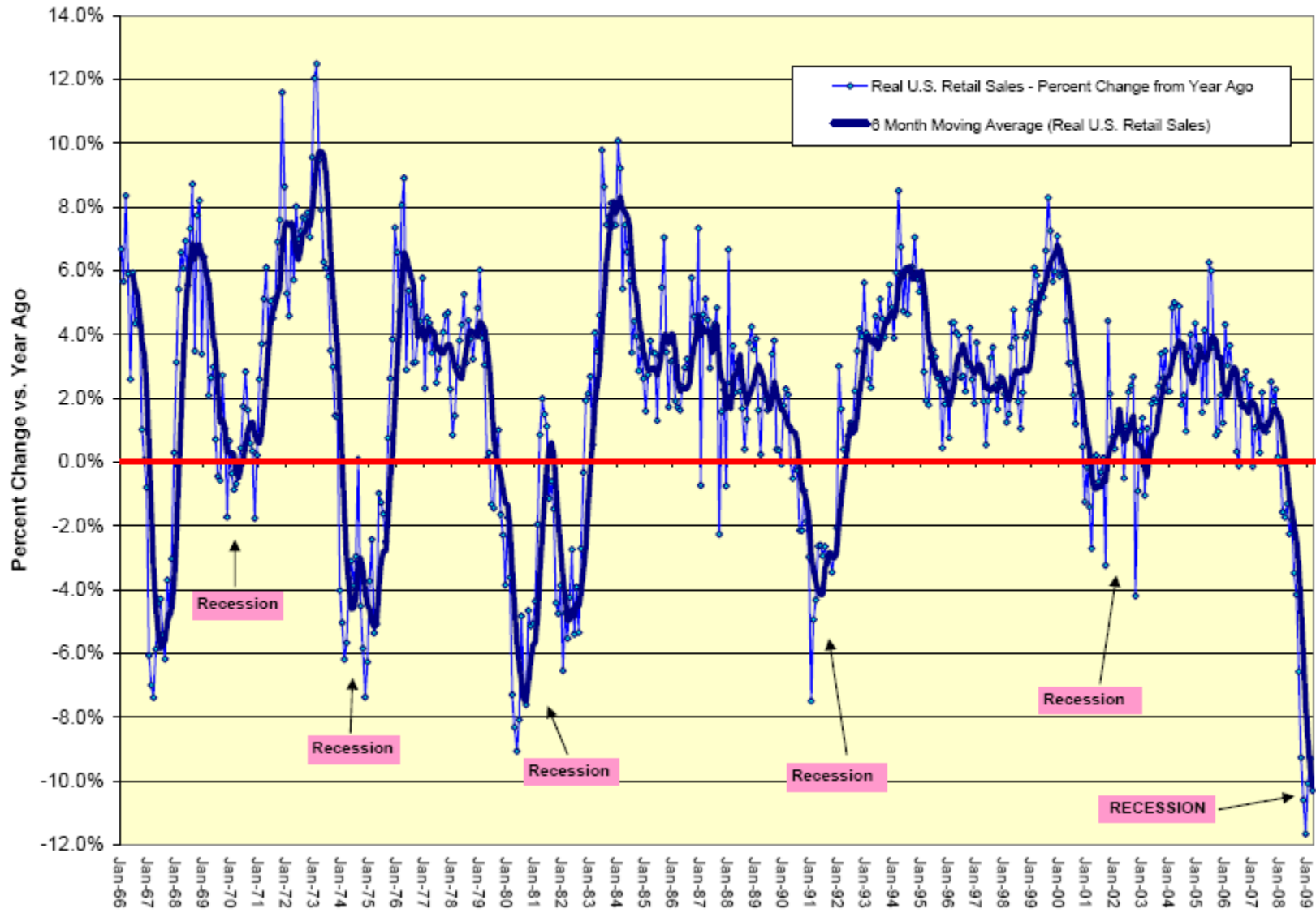


## Less income = less income and sales tax revenue as well as other revenue sources

- In July of 2007, FY 2010 income tax revenues were projected at \$650 million. As of July, 2009 Vermont revised the projection downward to \$494 million, with risk on the downside - a 24% decline.
- In July of 2007, FY 2010 sales tax revenues were projected at \$373 million. As of July, 2009 Vermont revised the projection downward to \$313 million, with risk on the downside - a 16% decline.
- Overall, since July 2007, total projected general fund revenue for FY 2010 decreased from \$1,249 million to \$1,024 million, an 18% decline.

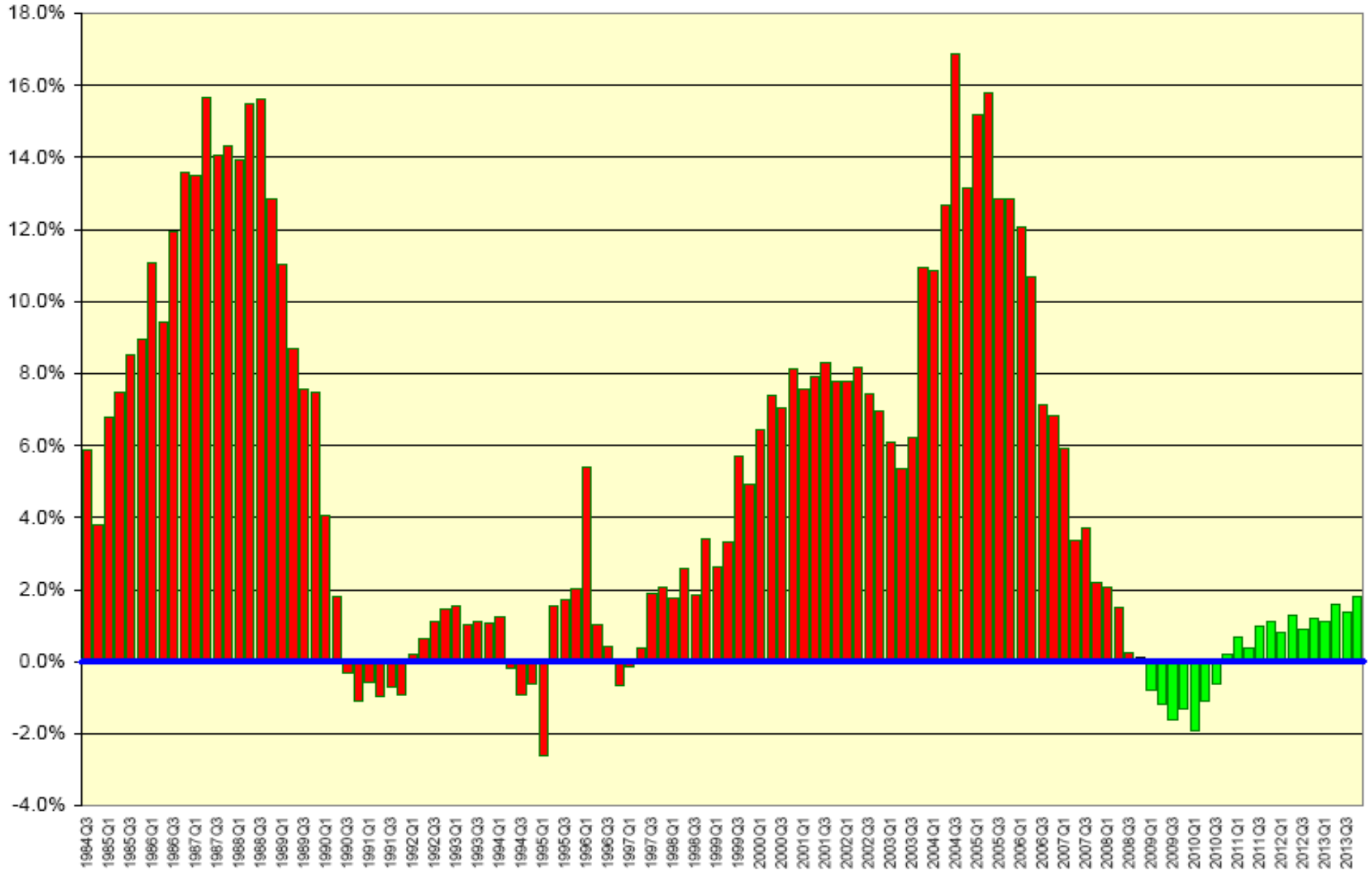
# Consumer Spending Plunges as Wealth, Credit and Jobs Evaporate

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



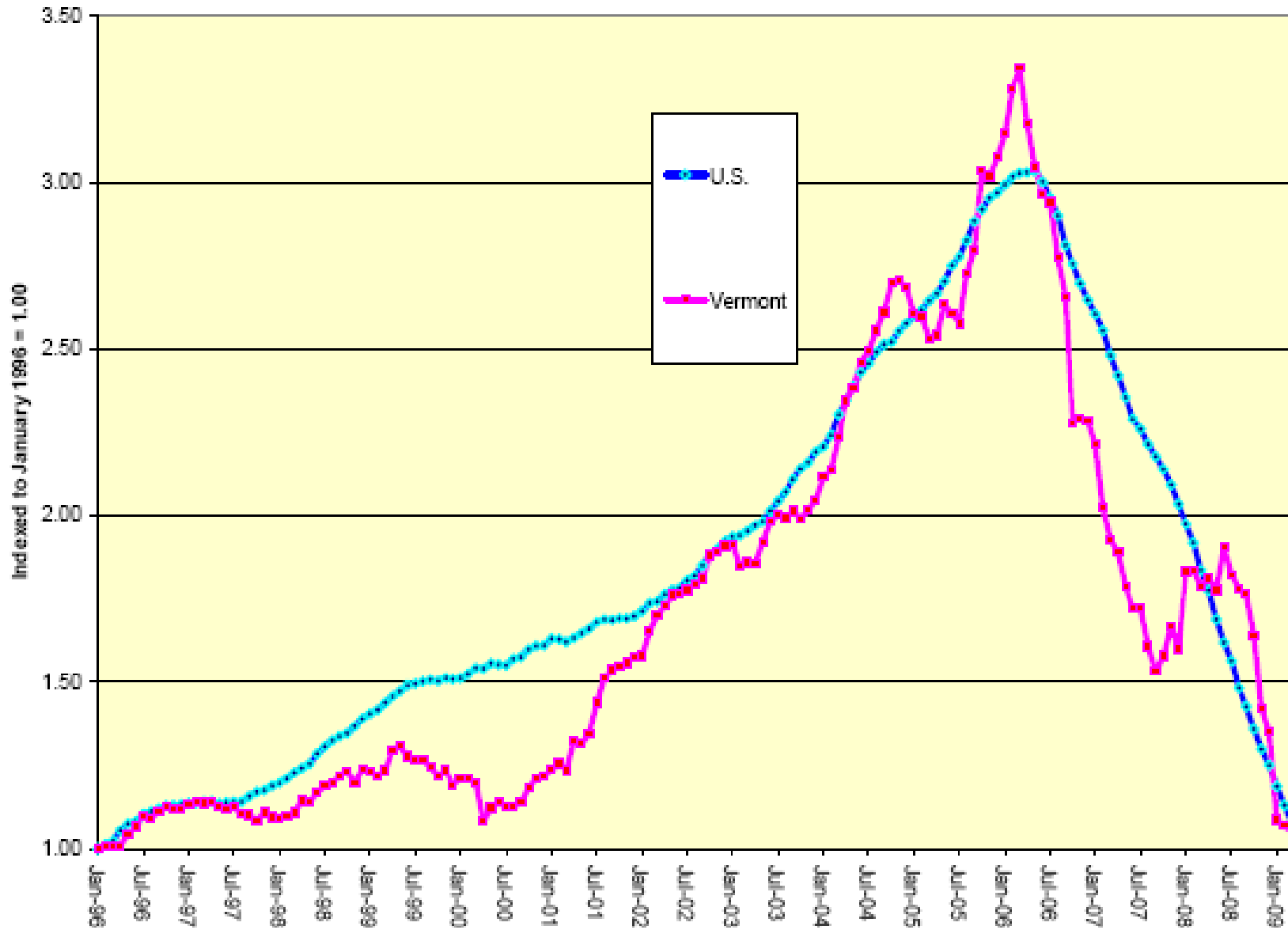
# The Anatomy of Asset Price Bubbles: What Goes Up, Must Come Down...

(OFHEO Vermont Housing Price Index Percent Change Vs. Year Ago)



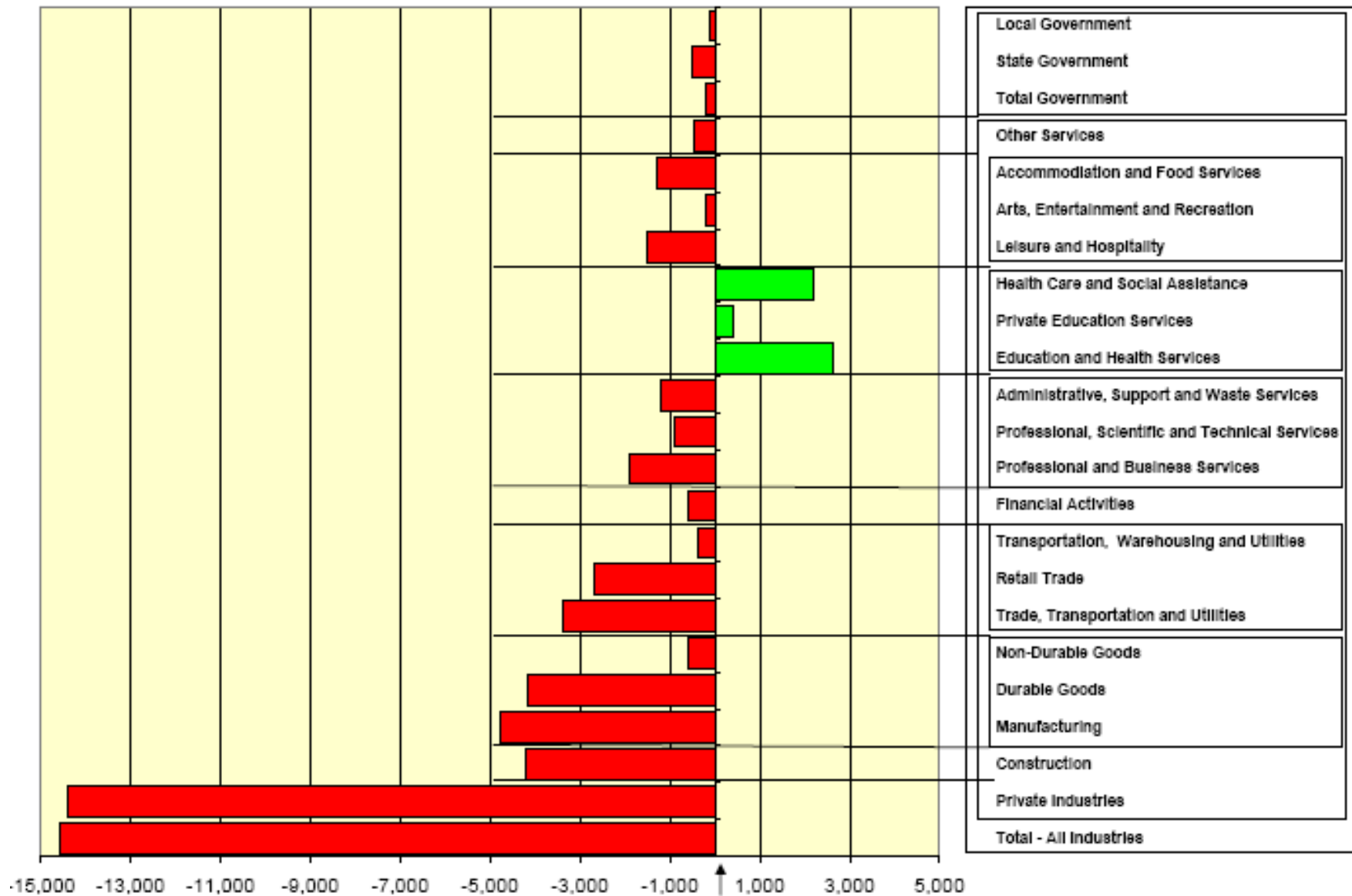
# No Bottom Yet: Residential Construction Spending Continues to Slide

(Indexed Value of Residential Construction Starts, January 1996=1.00)



Source: F.W. Dodge, McGraw-Hill

## Net Employment Changes in Vermont Since Start of Recession (November 2007)



Change in Employment, SAAR, Source: Vermont Department of Labor, Data Through March 2009

## While revenues have been declining expenses continue to rise

- Corrections, Medicaid, unemployment insurance, and mental health are all growing at a pace that far outstrips even normal revenue growth.
- In the past, increased federal resources, such as our Medicaid waiver, coupled with the rapid revenue growth experienced prior to 2008, allowed Vermont to avoid deficits.
- A second stimulus package or extraordinary revenue growth could help, but we can't build a budget on that.

## A number of actions have been taken to balance FY 2009 and FY 2010 (Slide 1)

- In FY 2009 and FY 2010, State general fund appropriations declined by 4.5% and 6.6% respectively. This was despite a \$20 million increase in tax revenues for FY 2010.
- Federal stimulus funds were used to make up much of this decline in general fund appropriations.
- With Federal stimulus funding, total general fund and ARRA expenditures grew at just under 2% per year, far below the cost pressures faced by Vermont.

## A number of actions have been taken to balance FY 2009 and FY 2010 (Slide 2)

- The number of active state employees today has been reduced from a high in July 2008 of 8,383 to an estimated 7,960 as of July 2009.
- Another 90 positions are likely to be eliminated as the result of the retirement incentive.
- At that point, the number of State employees in Vermont will reach 2003 levels, with more reductions possible.
- The reductions have been to both classified and exempt positions.

## A number of actions have been taken to balance FY 2009 and FY 2010 (Slide 3)

- Exempt (non bargaining unit) employees earning over \$60,000 had furloughs or a 5% pay reduction and no pay increase for the past two years. All exempts, regardless of salary level, had no raise this past July.
- Union employees are being asked to take another \$7.4 million in pay reductions (roughly the equivalent of a 4% reduction).
- Tax changes included: Reducing the capital gains exemption to \$2,500 for two years then a flat \$5,000 (with some exceptions), and a \$5,000 cap on the state and local tax deduction, lowering tax rates, cigarette tax increases, an estate tax exemption set at \$2 million, a tax amnesty program and other changes.

## A number of actions have been taken to balance FY 2009 and FY 2010 (Slide 4)

The Legislature and the Administration have:

- Closed four interstate rest areas;
- Increased individual co-pays for the state's pharmacy programs;
- Reduced health care provider reimbursement from already insufficient levels by 2%;
- Closed courts; and
- Cut smoking cessation programs as well as numerous other reductions across state government.

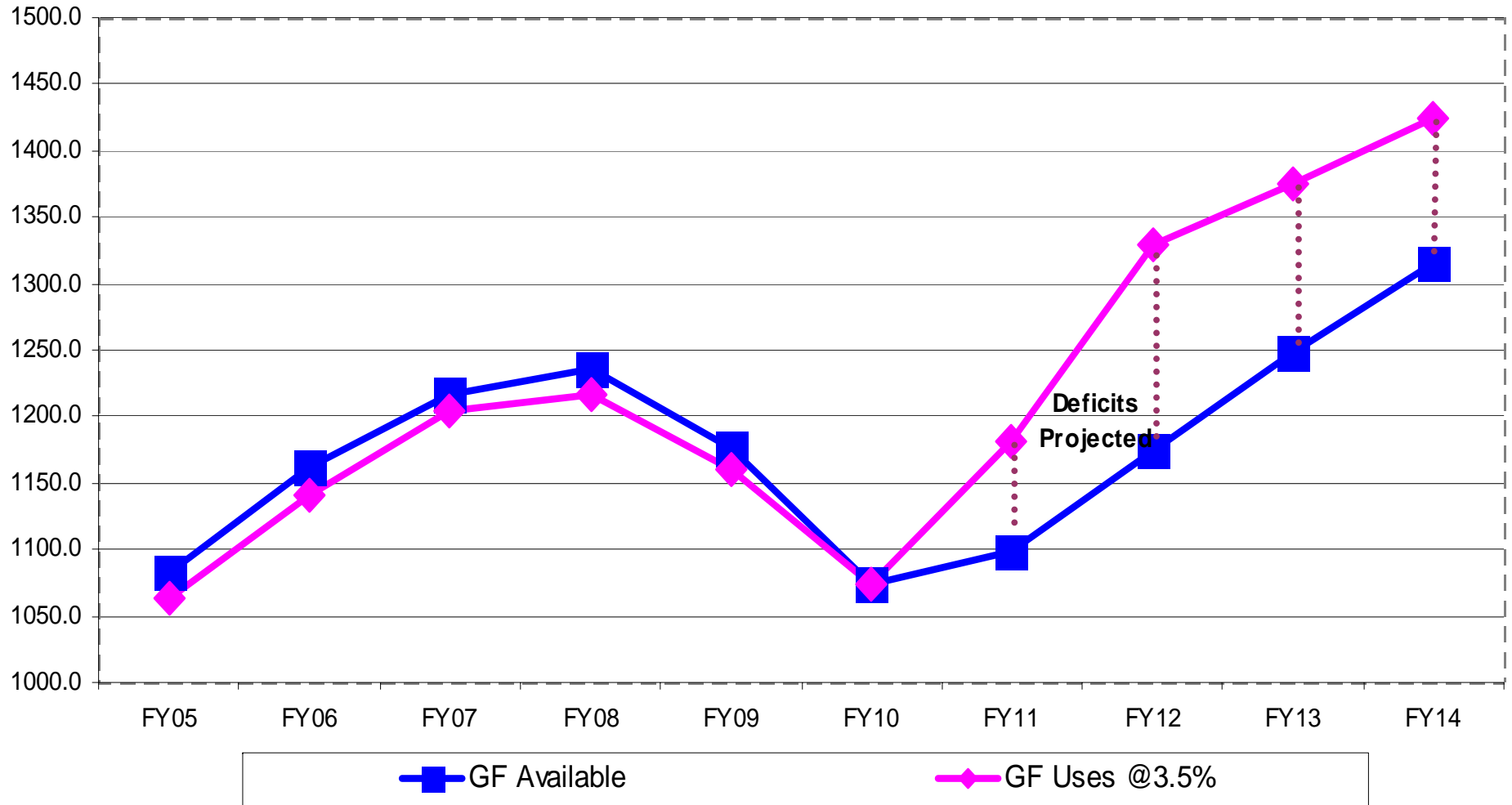
# The next fiscal years will see additional reductions (Slide 1)

- With the federal fiscal stimulus funds and budget reductions already made, Vermont's budget is in balance through this fiscal year, 2010.
- However, since the federal stimulus funds are short term, Vermont is facing deficits on into the future.
- The current deficit projection for Vermont is:
  - FY 2011 (\$ 82 million) = 6.4% shortfall
  - FY 2012 (\$155 million) = 11.6% shortfall
  - FY 2013 (\$127 million) = 9.2% shortfall

# GF Budget Picture - Sept 09 - Projection thru FY14

Assumes 3.5% growth on FY10 base including ARRA,

(ARRA funds used to support GF Base in FY09=\$75m, FY10=\$175m, and FY11=\$100m)



# The next fiscal years will see additional reductions (Slide 2)

- Cuts that impact ongoing base spending in one year will impact future years.
- These deficit projections could change based on several factors, including:
  - Federal health care reform which could make the shortfalls worse or which could provide some relief;
  - The federal government might provide new stimulus funds or it could reduce federal assistance; and
  - Revenues could come in greater or less than the annual 5-6% growth rate projected for FY 2011 through FY 2013.

## Even these deficit projections understate the problems faced by Vermont.

- There is no solution built into the budget for the Vermont State Hospital given the identified need for a new facility.
- Vermont's pension systems and share of retiree health care funding pose significant challenges.
- There are \$40 million of currently approved school construction projects awaiting capital funds.
- The Unemployment Insurance Fund remains underfunded.

# Transportation and infrastructure has its own set of problems (Slide 1)

- Transportation revenues continue to fall short of expectations and have essentially been flat since FY 2005. As we push for fuel efficiency and smaller cars the state's gasoline and purchase and use tax revenues decline.
- This year the legislature created and funded a Transportation Infrastructure Bond (TIB) Fund which will allow much needed transportation projects to go forward.
- This TIB Fund coupled with ARRA transportation funding, will provide some relief in the short term but infrastructure problems remain.

## Addressing the known general fund deficits will require substantial changes

- The state budget supports services that impact the lives and concerns of Vermonters.
- As reductions are made they will impact services and how they are provided.
- The following chart illustrates the use of state general funds. There will be few easy decisions.

# The State Budget - Context

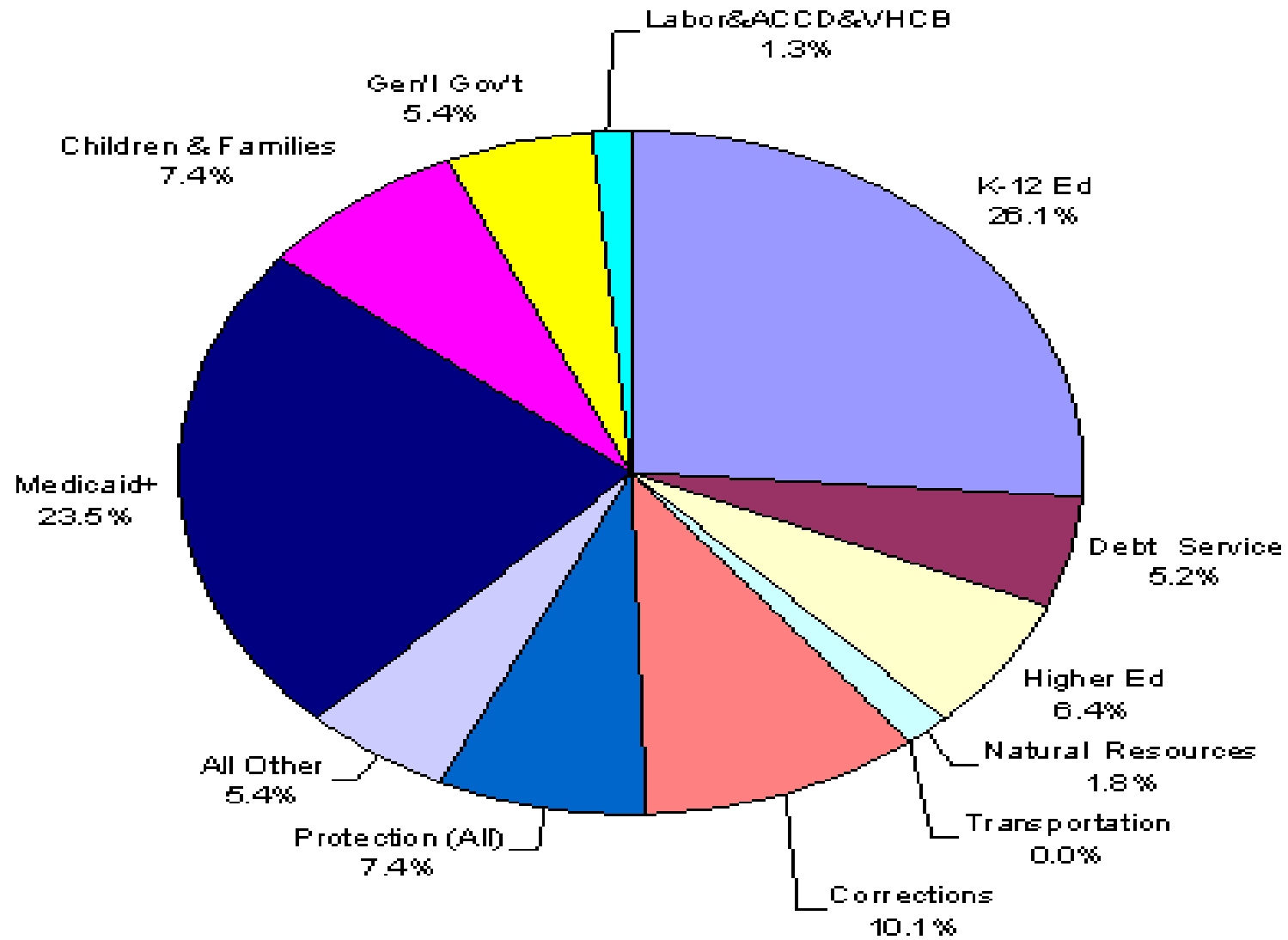
So, how big is the budget?

Once duplications are accounted for

- Total 'Real' FY10 Budget = \$4.6 Billion, including ARRA, which breaks down by funding sources as follows:

– Federal Funds	\$ 1.44 B	31%
– Fed. ARRA Funds	\$ 373 M	8%
– General Fund	\$ 1.09 B	23%
– Education Fund	\$ 1.07 B	23%
– Transportation Fund	\$ 215 M	5%
– Special Funds	\$ 450 M	10%
- The focus of this presentation is the General Fund plus \$174.5m ARRA funds used in place of general funds.
- American Recovery and Reinvestment Act, ARRA - \$174.5m of the ARRA funds offset General Fund; \$117.2m is for transportation projects and the rest of the ARRA funds are allocated to specified activities that are additional expenditures.

# FY10 Budget As Passed - GF and ARRA GF Like = \$1.268 Billion



# In FY 2012 a budget has to be built that is essentially 12% less than in FY 2010— How would you do it?

- Percent of Total
  - K-12 education 26% \_\_\_\_\_
  - Medicaid 24% \_\_\_\_\_
  - Corrections 10% \_\_\_\_\_
  - Public Safety (st. police/judic/othr) 7% \_\_\_\_\_
  - Children and families 7% \_\_\_\_\_
  - Higher education 6% \_\_\_\_\_
  - Debt Service 5% \_\_\_\_\_
  - Everything else 15% \_\_\_\_\_  
(General gov't, Labor, ANR, Econ. Develop. other)
  - Total 100% 88%