Budget Overview – Legislative Perspective –
Legislative Briefing 12/01/2015

Stephen Klein
Legislative Joint Fiscal Office
Basic Budget Dynamics

- Total was $4.4B in FY09 now to $5.5B in FY16
  - Average annual growth 3.6% since FY09

- GF is 26.5% of total
  - GF growth has averaged 3.6% since FY09
- Health Care Funds are 5.6% of total (up from 3.4% in FY09)
- Federal funds now 35% of total (up from 33% in FY09).
  - Base FF growth has averaged 4.0% since FY09
- EF – local spending decisions – state fund pressure – state contribution 22%
- TF – system needs grow – constant revenue challenge with potential federal fund decline – with federal fund re-enactment in April?

2015 Rates – GSP 2.4%, Population 0.2%, Employment 1.9%
FY16 Appropriations By Fund
$5.5B

Focus is on Appropriations but Revenue forecast is important

- Federal Funds: 34.9%
- General Fund: 26.5%
- Transportation Fund & TIB: 5.0%
- Education Fund: 22.5%
- Healthcare funds: 5.6%
- Special funds: 5.4%

*GF transfer is not in EF % it is reflected in the GF %*
FY16 State Budget Uses (All Funds)
Appropriations = $5.5B

preK-12 Ed 32.5%
- 89k Students
- 250 districts – 300+ schools
- 10k+ teachers, aides and administrators
- 8,086 retired teachers
- Agency of Education – 176 employers

Transportation 10.7%
- 421k car /144k truck registrations
- 534k operator licenses
- 3,453 state & highway miles
- pave 400-500 miles/yr

Natural Resources 1.8%
- 2720 bridges >20ft and 1,266 bridges <20ft
- 60+ years old, inspect, clean etc
- 569 obsolete, 279 structurally deficient
- 10 State Airports
- 4.8m public transit rides

Higher Ed 1.5%

Debt Service 1.3%

Protection (All) 5.2%

Corrections 2.6%

All Other Appropriations 3.6%

Children & Families 5.5%

Medicaid+ 31.6%
- 45% state $s – 55% federal $s
- Medical, Rx, Long Term Care
- Mental Health, Substance Abuse,
- Developmental Disability services
- 69k kids & 122k adults covered +
- Premium assistance for 13k VTers
- VHC Exchange
- Blueprint for Health
- Training programs
- Prevention investments

Gen'l Gov't 1.9%
- Labor/ACCD/VHCB/NextGen 1.7%

Labor/ACCD/VHCB/NextGen 1.7%

Gen'l Gov't 1.9%
FY16 Budget Uses (State Funds)
Appropriations = $2.57B
Excl. FF & Ed Property Tax

K-12 Ed: 24.4%
Debt Service: 2.8%
Higher Ed: 3.2%
Natural Resources: 2.9%
Transportation: 9.7%
Corrections: 5.6%
Protection (All): 9.1%
All Other Appropriations: 4.3%
Children & Families: 5.9%
Gen'l Gov't: 3.6%
Labor/ACCD/VHCB/NextGen: 1.8%
Medicaid+: 26.5%
FY16 Budget Uses (GF)
Appropriations = $1.47B
This chart shows estimated FY 2016 tax revenue and tax expenditures for select major state revenue sources. The percentage is the value of the tax expenditures against the anticipated revenue for each of these tax types. Tax expenditures are statutory provisions which reduce the amount of revenue collected by the state in order to encourage a particular activity or limit the amount of taxes collected from groups of individuals.
Vermont - GF Projected Gap
a.k.a. "the hungry alligator"

Nominal Dollars (millions)

GF Uses
Appropriations + Transfers Out
3.3% growth assumption

GF Sources
Revenue + Transfers In

FY17 gap
est. $58.5m

FY17 BAA net $18m - $40m
pressure less $22m offsets
includes 53rd week of payments

allocated surplus
Vermont - GF Projected Gap
a.k.a. "the hungry alligator"

Real or Constant Dollars\(^1\) (millions)

\(^1\)State and Local Price Index used inflate/deflate both uses and sources to base year of 2015
### Revenue Tracking - GF (in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income</td>
<td>.4</td>
<td>-2.5</td>
<td>-.1</td>
<td>.3</td>
<td>.2%</td>
</tr>
<tr>
<td>Sales</td>
<td>.5</td>
<td>-.5</td>
<td>-.5</td>
<td>-.5</td>
<td>-.6%</td>
</tr>
<tr>
<td>Meals and Rooms</td>
<td>.4</td>
<td>-.1</td>
<td>.6</td>
<td>.8</td>
<td>1.4%</td>
</tr>
<tr>
<td>Corporate</td>
<td>.5</td>
<td>1.6</td>
<td>8.4</td>
<td>8.4</td>
<td>33%</td>
</tr>
<tr>
<td>Other (estate +)</td>
<td>-.9</td>
<td>-1.2</td>
<td>-3.6</td>
<td>-4.9</td>
<td>(12%)</td>
</tr>
<tr>
<td>Total</td>
<td>1.1</td>
<td>-2.5</td>
<td>4.9</td>
<td>4.2</td>
<td>.9%</td>
</tr>
</tbody>
</table>

*Revenue Tracking for first four months of the year on Target. Minimal Revenue change likely.*
## Big GF chunks in FY 2016

### Total FY16 GF Appropriations

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Fund (GF transfer)</td>
<td>$303M</td>
</tr>
<tr>
<td>Teachers Retirement/OPEB [14%/Yr. 5yr]</td>
<td>$89 M</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$354M</td>
</tr>
<tr>
<td>Corrections</td>
<td>$142M</td>
</tr>
<tr>
<td>Higher Ed</td>
<td>$83 M</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$67 M</td>
</tr>
</tbody>
</table>

**Subtotal** $1,038 M

70% of GF

Total FY16 GF Appropriations $1,470 M
FY 2016-7 Budget and Finance Issues

• A difficult FY 2016 Budget Adjustment
  • $40 million in upwards pressure which includes $36 million of Medicaid related adjustments

• A FY2017 projected difference between revenues & spending pressures of $58.5 million.
  • Medicaid related pressures are $53 million

• The Education Fund has one time balances this year. Are they used for tax relief or a transition and changes for Act 46?

• Other health care/human service issues with budget impacts:
  • Health Care All payer model, Marijuana, DCF, Opioids.....

• Continued federal uncertainty: Transportation funding is unresolved and there may be other pressures
Reserve Issues

• FY16 General Fund Reserves
  • Actual Stabilization Reserve - close 2015 $69.3m (5% of Appropriations)
  • Rainy Day Fund $6.8m (.4%) (May be used in Budget Adj.)
  • *National studies for a state with Vermont’s progressive tax structure point to reserve needs of over 10*

• FY 2016 Transportation Reserves – close of 2015 $12.6m (5% of prior year appropriations)
• FY 2016 Education Fund $32.5 million (5% of prior year net appropriation)

• Vermont has also borrowed against cash flow for several policy initiatives (Retiree health care, Investment funds). In FY2016, $30 m retirement health care borrowing authority reduced by $3.6 million
Retirement Funding as of 6/30/2015

• State Employees – Decline in funded ratio:
  • FY 2014 77.9%
  • FY 2015 75.1% Actuarial Value
  • *FY 2015 74.6% (Market Value)*

• State Teachers – Slight decline in funded ratio; Retiree Health Care separation will help but was offset by market weakness:
  • FY 2014 59.9%
  • FY 2015 58.6% Actuarial Value
  • *FY 2015 58.3% (Market Value)*

*The Government Accounting Standards Board (GASB) #67 requires a market value report for comparison purposes, however this measure can be volatile.*
Federal Context – CBO – 9/15

• Number of Americans over 65: 45 million today, 61 million in 2024; Vermonters over 65: 15% of population in 2011; 17.5% in 2015; 20% in 2020

• Social Security, Medicare and Medicaid are 48% of federal spending in FFY 2015 – 9.9% of GDP the highest shares ever.

• With rising interest rates, The CBO projects federal debt interest payments to grow from 1.3% of GDP 2015 to 3% GDP in 2025

• Discretionary spending which includes funding for defense and nondefense activities (highways, elementary & secondary education, housing, veterans’ health care, etc) is expected to decline as a share of GDP from 6.5% in 2015 to 5.1% in 2025
Federal Revenues and Outlays, 1980 to 2015
(Percentage of gross domestic product)

Outlays
Average Outlays, 1966 to 2015 (20.2%)

Revenues
Average Revenues, 1966 to 2015 (17.4%)

Sources: Congressional Budget Office; Bureau of Economic Analysis, Office of Management and Budget, Department of the Treasury.