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2009 Budget: Election-Year Caution Postpones Facing Trouble Ahead

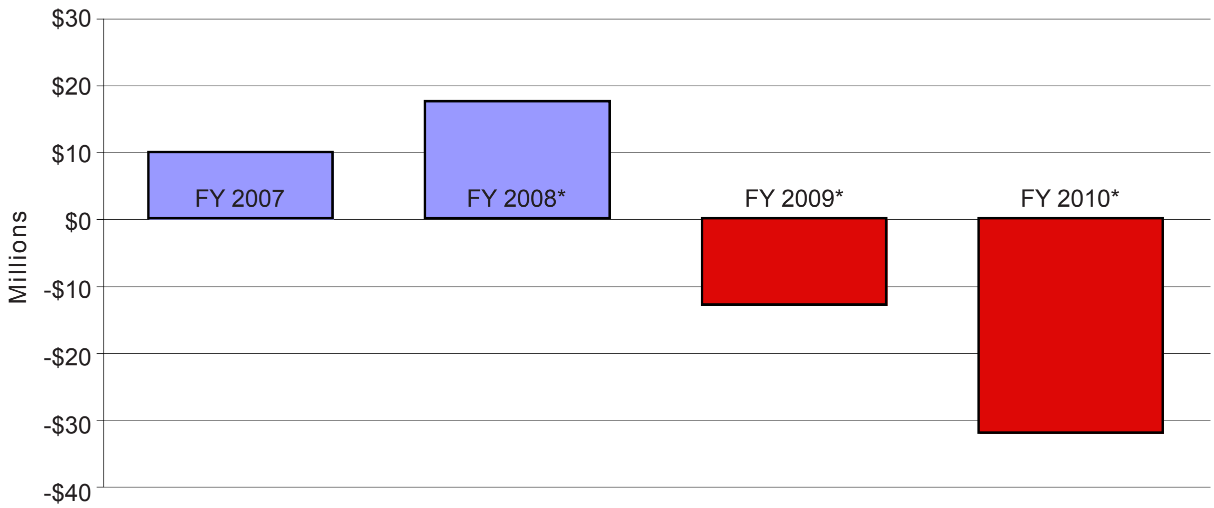
by Jack Hoffman

When the Vermont Legislature adjourned in May, it almost balanced the fiscal 2009 General Fund budget. According to the latest projections, the Legislature appropriated about $13 million more than the state is expected to collect in General Fund taxes and other revenues next year. In the scheme of things, the shortfall is small — 1 percent of General Fund spending. And a small surplus at the end of the current year is expected to cover that deficit.

But the deficit is a sign of troubles to come if Vermont continues on its current path. For the past couple of years, the General Fund has produced operating surpluses — that is, the revenue collected in a given year has exceeded the general operating expenses. That cushion is likely to disappear. Next year, revenues are expected to fall short of anticipated expenditures.

Extra money in the General Fund on June 30, the end of fiscal 2008, will mask the transition from surpluses to deficits. But once the 2009 shortfall is covered, the cookie jar will be empty. Moreover, the deficit projected for fiscal 2010 is based on the assumption that spending will continue on its current path — a growth rate of 3 percent — which does not allow for an increased demand for services as a result of a slowing economy.

Figure 1. General Fund Operating Balance 2007 - 2010



Data Source: Joint Fiscal Office

*** Joint Fiscal Office projections based on current revenue estimates for fiscal 2008-2010, Legislature-approved appropriations for fiscal 2008 and 2009, and 3 percent growth for appropriations in fiscal 2010.**

Spending Priorities in Sync

Signs of the recession were apparent at the start of the session. The revenue forecast was lowered, and legislative leaders warned that the budget proposed by the administration wouldn't adequately fund all the services that Vermonters will need — especially those struggling in a faltering economy.

Despite partisan rhetoric, the Republican administration and the heavily Democratic Legislature ended the session largely in step on next year's spending priorities.

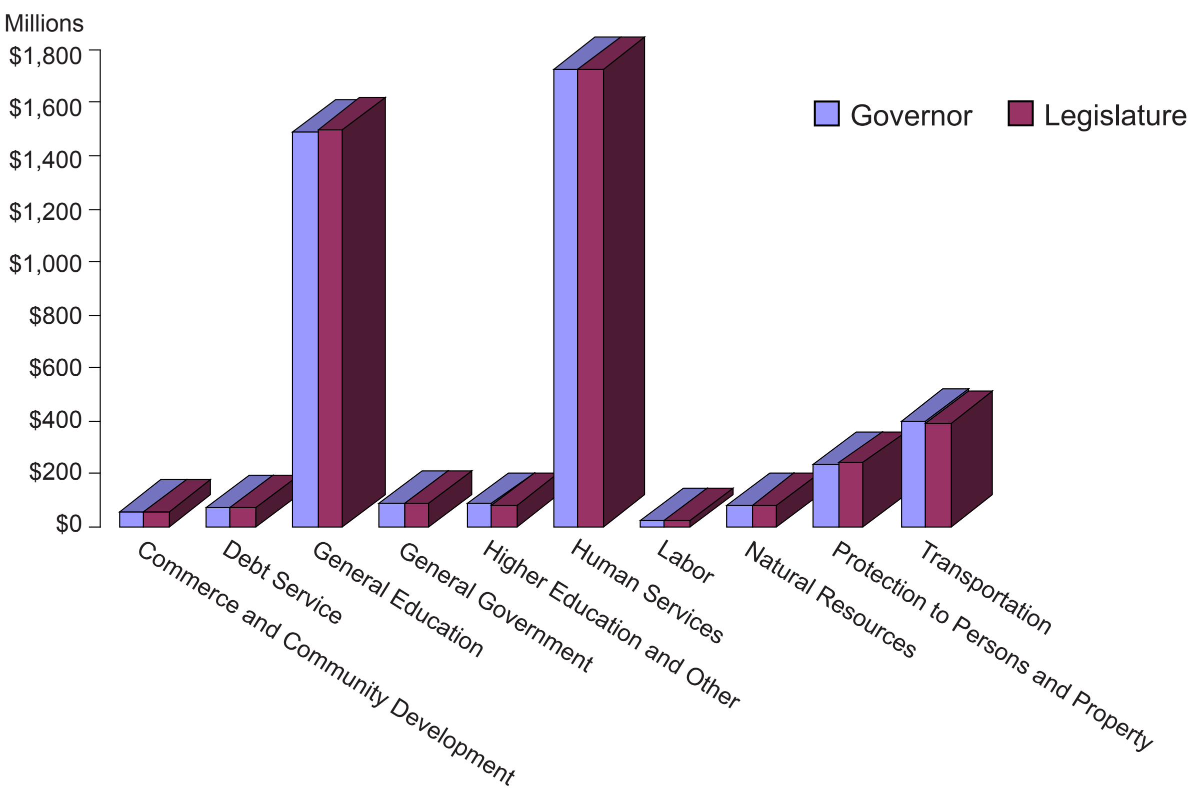
On the spending side, the Legislature trimmed a little more than $1.6 million, or 0.04 percent, off a total budget of $4.2 billion that the governor proposed. That figure includes both state and federal funds.

Looking beyond total spending, a line-by-line review of the 2009 Appropriations Bill reveals that the changes made by the Legislature amounted to nibbling around the edges, not shifting where the state spends its money. For nearly 90 percent of the budget line items, the administration got at least 95 percent of what it asked for.

The Legislature did make some changes. The administration, for example, wanted to reduce tax reimbursement payments to Vermont hospitals by $8 million. The Legislature restored the payments.

The administration wanted to reduce funding for the Vermont Housing and Conservation Board by $4.6 million. That would have been a substantial cut in state funding — about 30 percent — and a reduction in overall funding of about 9 percent. The Legislature

Figure 2. Spending Priorities in Sync:
Legislature's FY2009 Budget Matches Governor's



Data Source: Joint Fiscal Office

Figure 2 shows the total state and federal funds recommended by the governor in January and appropriated by the Legislature in May for each of the major functions of state government.

voted to restore that funding — and more — which will result in a slight increase in appropriations to the Housing and Conservation Board next year.

Still, in the context of a $4 billion budget, the Legislature's changes were small, rarely more than a few percent up or down from the governor's recommendation.

New revenues revealed bigger policy differences — and perhaps more surprising ones. The session began in January with grim economic news — a forecast that the state would take in slightly less in fiscal 2009 than in 2008. That's happened rarely in the last 30 years, and it was a sign of trouble ahead.

The governor seemed to acknowledge the need for additional revenue. He proposed leasing the state lottery, which he said would bring in a one-time payment of $50 million. The Legislature never warmed to the proposal, and, as the national economy worsened during the winter, the $50 million lease price appeared overly optimistic. Once the idea of leasing the lottery died, however, so did serious discussion of raising additional revenue, except through fees, and the Legislature never really pushed the administration on the need for more money.

The governor also had called for a change in the way Vermont taxes capital gains. He made a moral argument against the current policy, which excludes 40 percent of capital gains from taxation, saying it was unfair to wage-earning Vermonters. "Our state is one of only a few that has such an unfair penalty for doing an honest day's work," the governor said in January. "This is grossly unfair. We must close this loophole and eliminate this working tax penalty."

Depending on how tightly the loophole was closed, it could have produced $20 million to $30 million for the state — and some legislators were eager to use that potential revenue, which was clearly needed. But the governor didn't want to close the loophole to generate more money. His plan called for lowering tax rates for those in the upper income brackets to offset the increase in capital gains taxes. Democratic leaders balked at raising taxes in an election year, too. In the end, nothing was done to eliminate the "working tax penalty.

One place the administration and the Legislature agreed to go for new revenue was to low- and moderate-income Vermonters enrolled in state-run health care programs. The Legislature approved smaller premium increases than the administration had sought and rejected proposed increases in copayments. Nevertheless, families living at 200 to 300 percent of the federal poverty level will see their premiums in the Catamount Health program rise in the range of 22 to 37 percent.

The premium increases could be mitigated for some people if Vermont gets federal approval to change the way it determines income eligibility. Under Catamount Health, premiums are based on income. The proposed change would disregard certain income and allow some Catamount subscribers to move into income brackets with lower premiums than they pay now.

By the end of the 2008 session, the debate over balancing the budget came down to a debate about what to cut. Other options — raising new revenue or using some of the state's reserve funds — never got serious consideration, at least in public. But the operating deficit projected for 2010 means the next administration and the next Legislature will have to confront these choices again.

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Public Assets Institute

PO Box 942, Montpelier, Vermont 05601
802-223-6677
www.publicassets.org

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