

January 2015 Pre-Forecast Revision Revenue/Budget Overview

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January 8, 2015

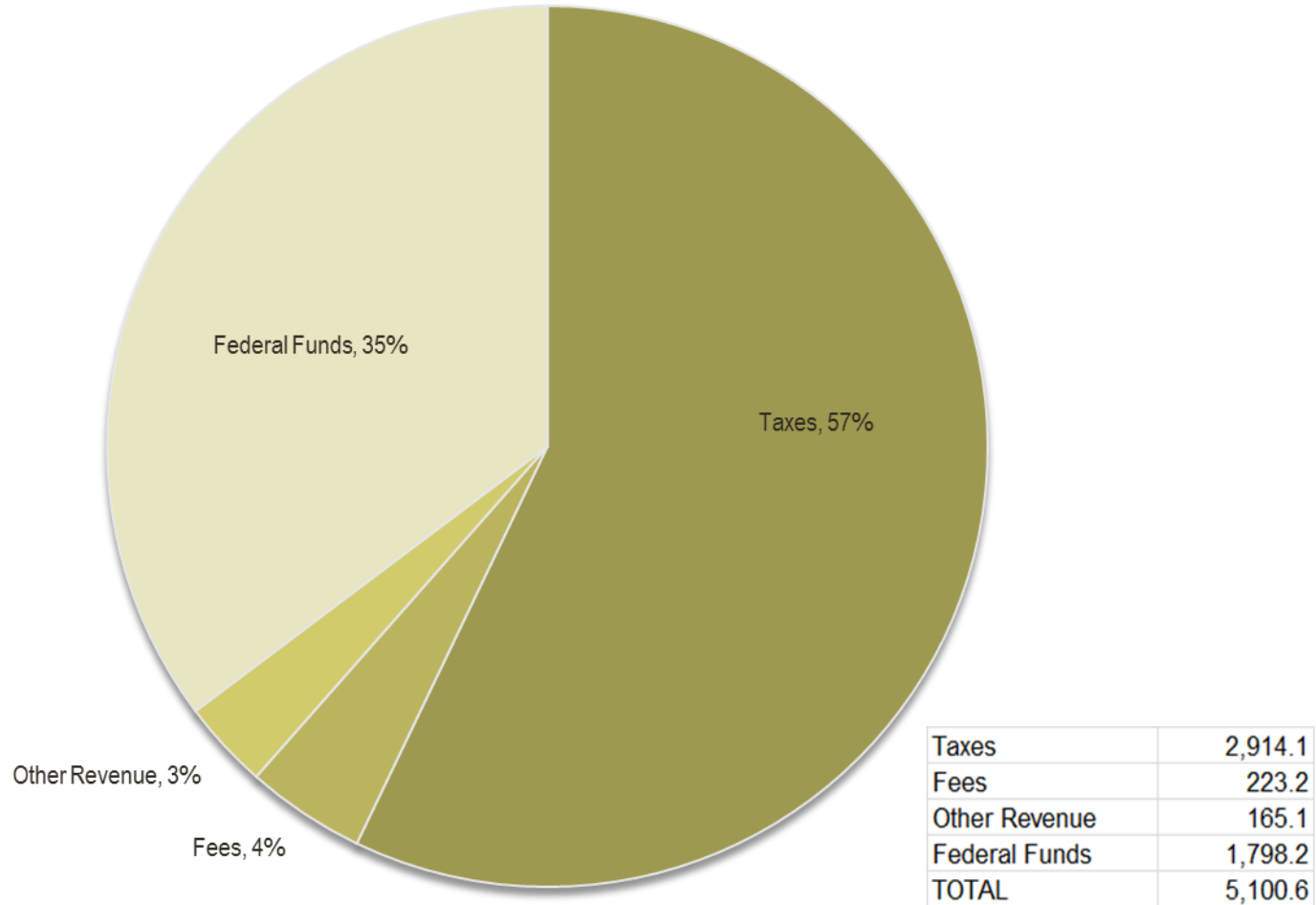
Vermont Legislative Joint Fiscal Office

Basic Budget Dynamics

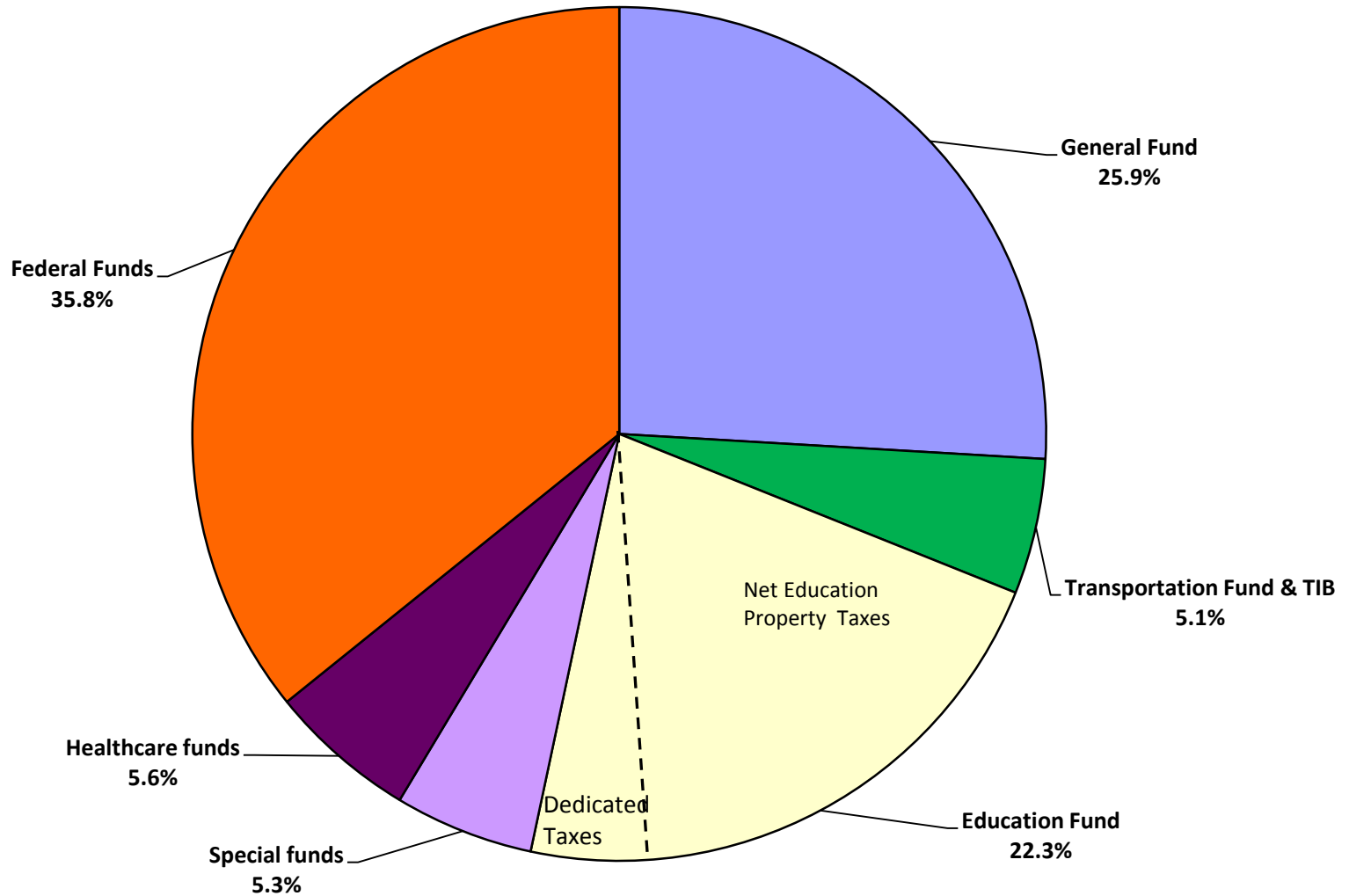
- Total State Budget: \$4.7B in FY10; \$5.5B in FY15
- GF Budget \$1.1B in FY10; \$1.4B in FY15
 - Average annual (AV) All Fund growth 3.2% since FY10
 - GF AV revenue growth w/o direct apps/reversions since FY 2010 5.2%
 - GF AV projected revenue growth FY 2014– FY 2019 projected at 3.1%
- Fund Shares:
 - GF is 26% of total – GF growth has averaged 5.3% since FY10. With August rescission FY 2015 GF growth 2.35%
 - Health Care Funds are 6% of total (up from 3.4% in FY09)
 - Federal funds now 36% of total (up from 31% in FY 10, not counting ARRA). Base FF growth without ARRA has averaged 6.2% since FY10
 - EF – local spending decisions – state and local funding pressure – 28% of all state funds state contribution. 32% of Education Fund receipts are from non–property tax state funds
 - TF – System needs continue to grow – there is a revenue challenge with a potential decline of federal funds–federal authorization expires after May, 2015

FY14 Total State Revenue

All Sources = \$5.1 billion

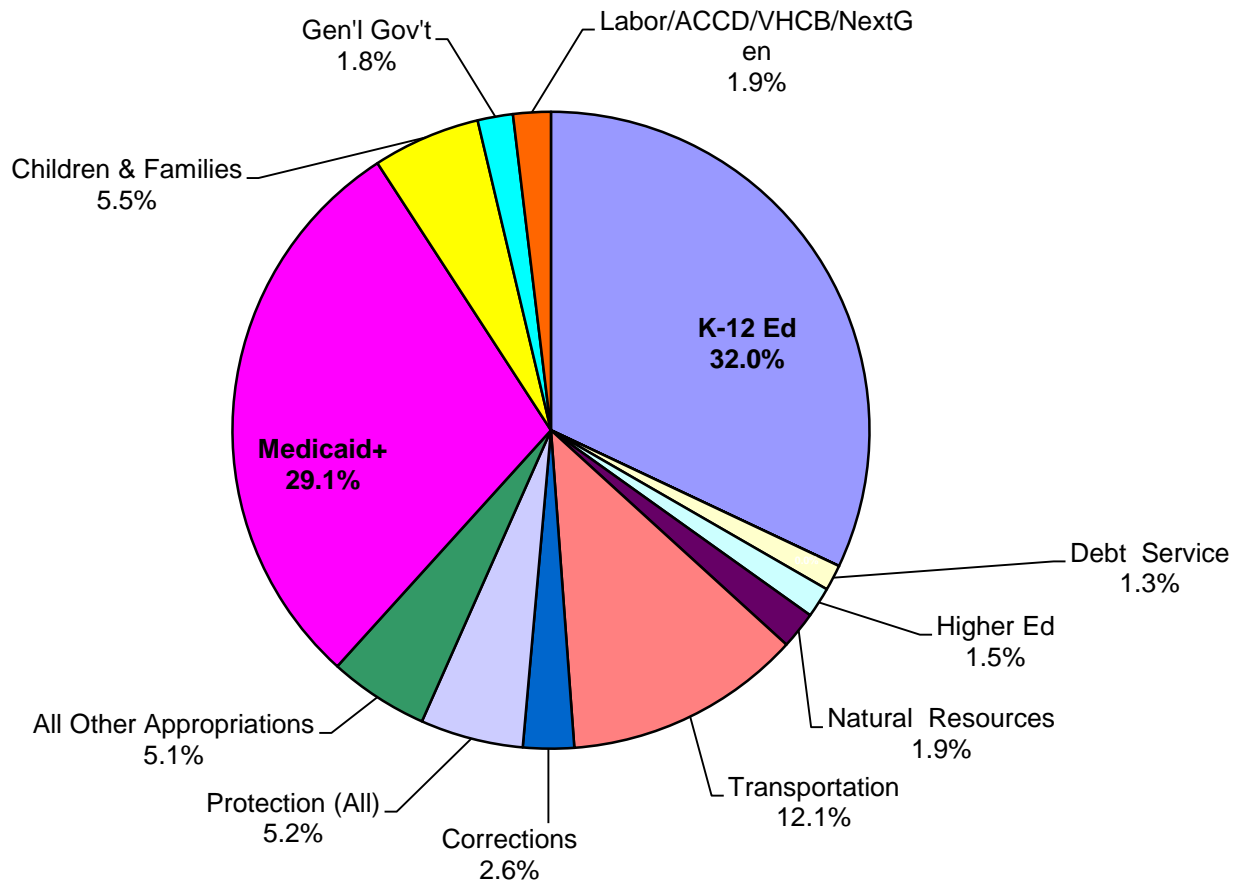


FY15 Total Appropriations By Fund \$5.47B (includes Aug'14 rescission)

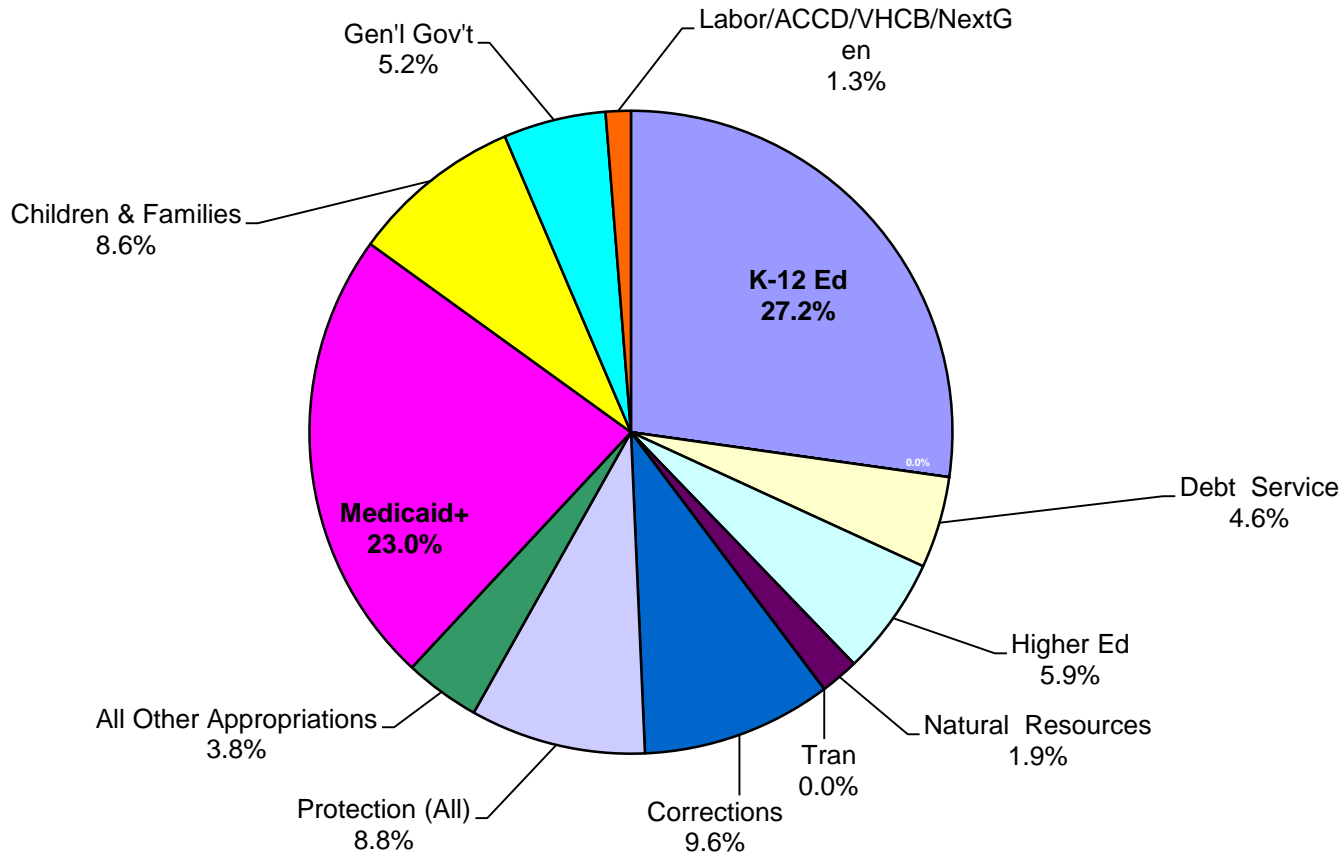


FY15 Budget w/ Rescission – By Major Program or Function

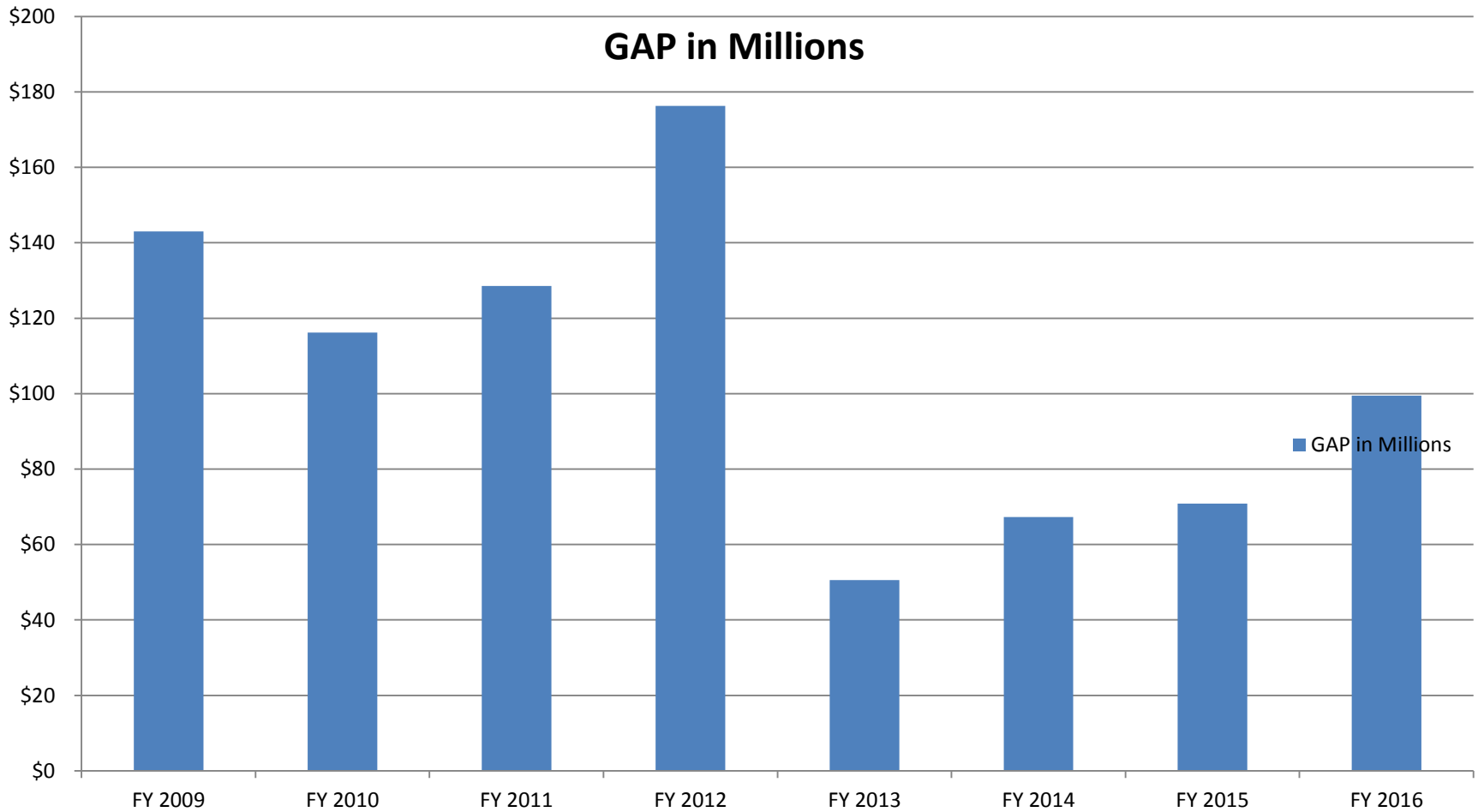
Appropriations = \$5.47B



FY15 General Funds - By Major Program or Function Appropriations = \$1.4B



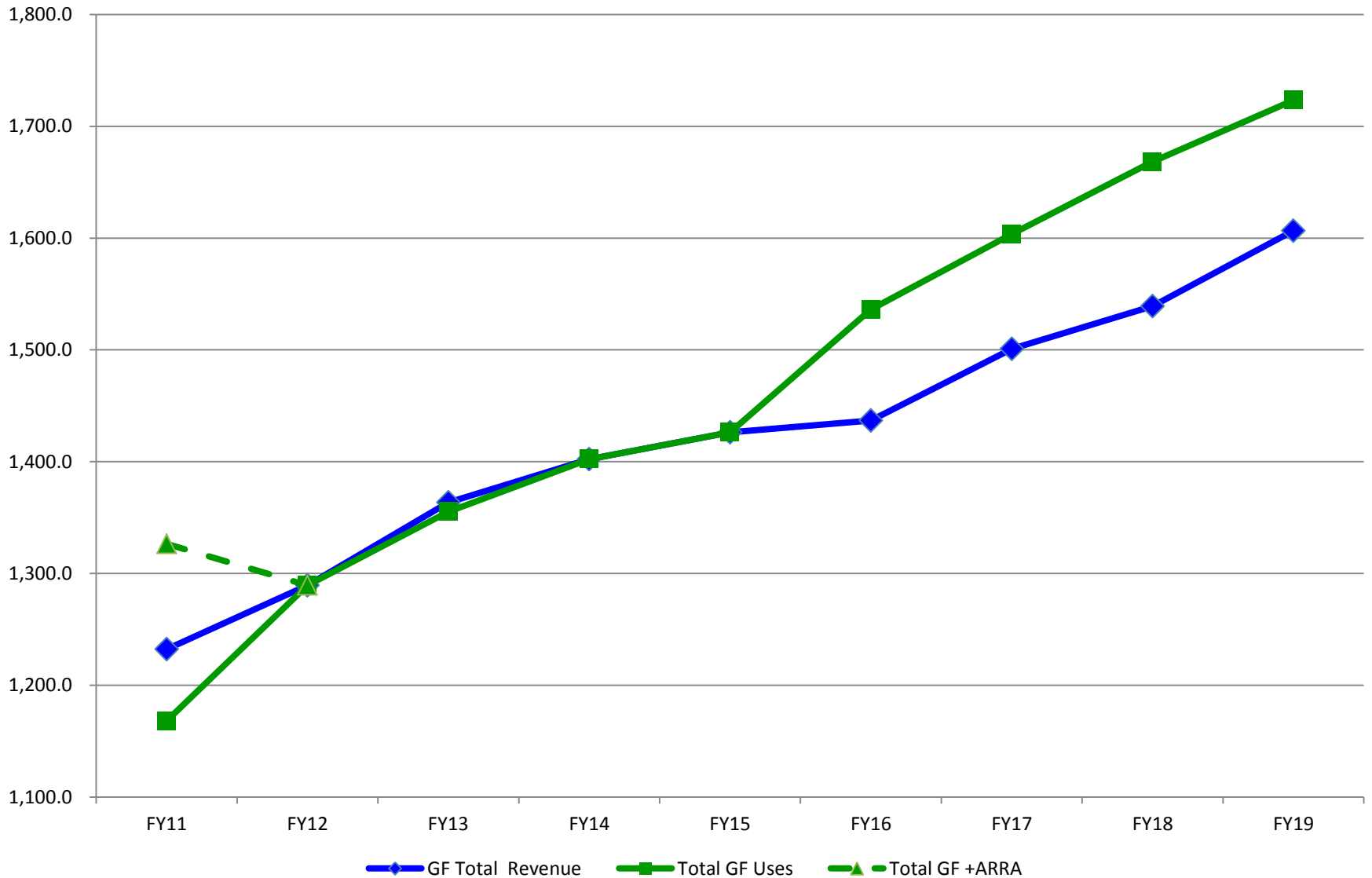
Projected Budget Gap



Out Year GF Budget Picture

July 2014 Revenue Forecast

FY15 Budget - 3.3% Avg. Annual Growth Rate in FY17-FY19



FY 2016 Estimated Budget Gap: +/- \$99.5 million

FY 2016 Available Revenue	Amount (Millions)
FY 2016 Estimated Revenue Including Direct Apps and Reversions (July 2014 forecast)	\$ 1,436.7
FY 2015 Base Appropriations & Transfers	1,423.9
FY 2016 Additional Revenue Available	\$ 12.8

Current Services Budget Needs:		
Item Description	Explanation	
Backfill one-time funds from the FY 2015 rescission	Includes GC and LTC carry forward.	\$ 8.4
Medicaid	Includes loss of FMAP, ACA bump, reduced tobacco funding, caseload & annualized Exchange Costs .	35.8
Other AHS/DOC	Includes replacement of DOC one-time funds, DOC OOS caseload, Vermont Veterans' Home and other.	14.7
State/Teacher Employee Related	Includes Pay Act, benefit rate increase, retirement obligations and retired teacher health care.	28.2
Transfer to the Ed Fund	Statutorily required.	7.5
Debt Service		5.1
IT Projects	Various IT projects across state government.	10.0
Public Safety TF Reduction		2.5
Total FY 2016 Current Services Budget Needs		\$ 112.2
FY 2016 Budget Gap		\$99.5

FY 2015 – Spending and Revenue Issues

Total GF		<u>\$1.42B</u>
• Education Fund	(GF transfer)	\$296M
• Medicaid		\$326M
• Corrections		\$135M
• Higher Ed		\$84 M
• Teachers Retirement/OPEB [23% 5yr Growth]		\$81 M
• Debt Service		\$65 M
Subtotal		\$988 M
		<u>69% of GF</u>

Note:

Tax expenditures: statutory provisions which reduce the amount of revenue that would otherwise be collected to encourage a particular activity or to limit the amount of taxes collected from groups of individuals.

Tax expenditures have essentially the same fiscal effects as direct government appropriations. Tax expenditures are all exemptions, exclusions, deductions, credits, preferential rates or deferral of liability applicable to the state's tax sources. Calculation methodology is changing.

Revenue Tracking

	Jul	Aug	Sep	Oct	Nov	Dec
• Personal income	-2.7	-7	-7.8	-14.9	-18	-19
• Sales	1	1.3	1.4	2.5	2.5	2.0
• Corporate	.3	2.7	5.4	4.5	5.1	12.0
• Other (estate +)	-.8	-3	-3.7	-5.7	-9.1	-7.4
• Total	-1.8	-5.4	-3.8	-11.9	-18.6	-11.1
• <i>GF Revenue Tracking for first six months of the year</i>						
• <i>TF</i>	<i>1.1</i>	<i>-.7</i>	<i>.2</i>	<i>1</i>	<i>-.8</i>	<i>1.1</i>
• <i>EF</i>	<i>.6</i>	<i>.2</i>	<i>.5</i>	<i>.5</i>	<i>1.1</i>	<i>1.3</i>

Reserve Issues

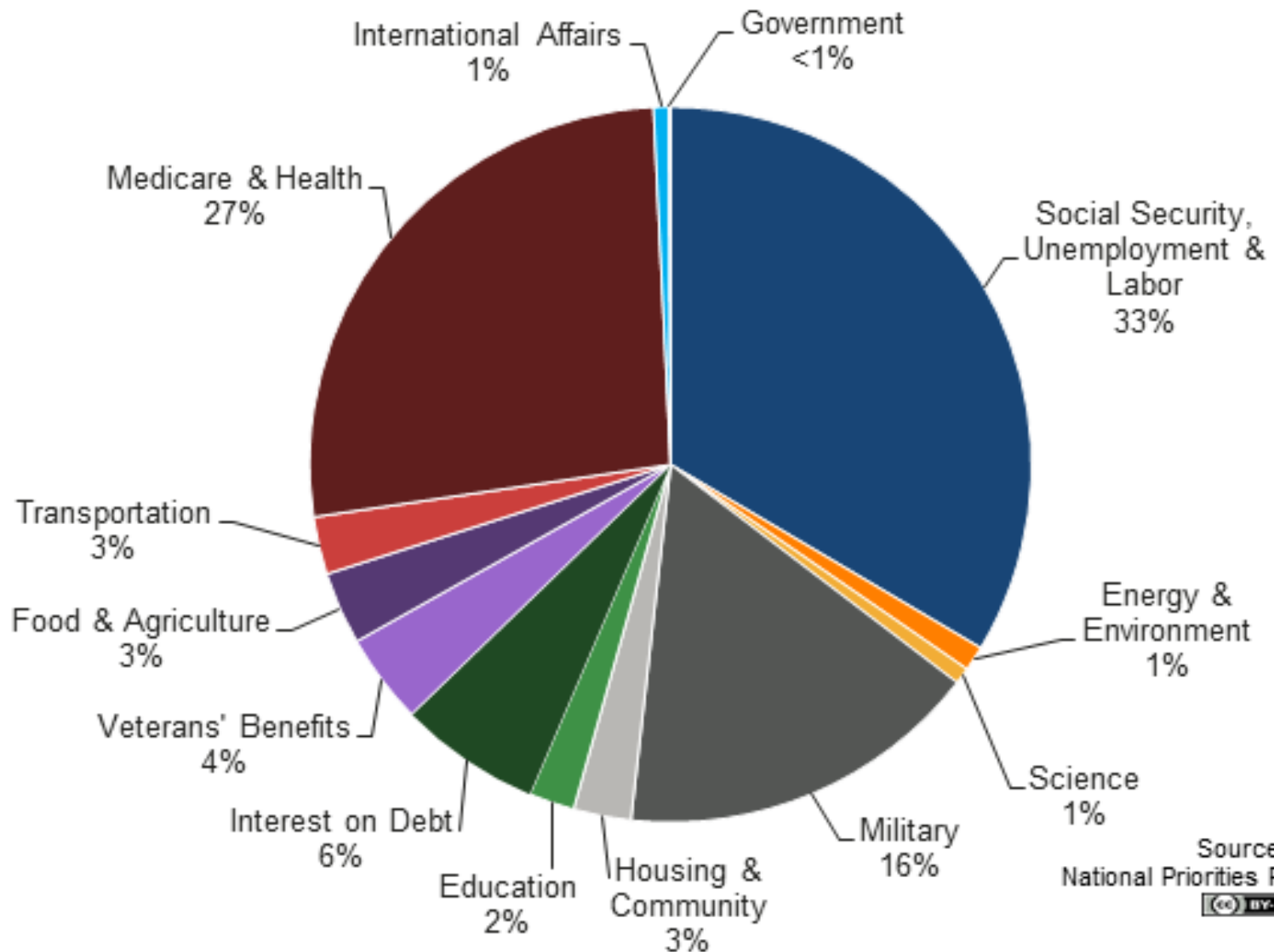
- FY15 General Fund Reserves
 - Actual Stabilization Reserve \$69.3m (5% of Appropriations)
 - Rainy Day Fund \$4.39m (.3%) (May be used in Budget Adj.)
 - *National studies for a state with Vermont's progressive tax structure point to reserve needs of over 10%*
- FY 2015 Transportation Reserves \$12.6m (5% of prior year appropriations)
- FY 2015 Education Fund \$31.3 million (5% of prior year net appropriation)
- Special Funds - Limited reserves in state special funds
- Vermont has also borrowed against cash flow for several policy initiatives (Retiree health care, Investment funds)

Retirement Funding

- State Employees – Slight improvement in funded ratio:
 - FY 2013 76.7%
 - FY2014 77.9% Actuarial Value
 - **FY 2014 82.5% (Market Value)**
- State Teachers – FY 2013 is before implementing funding changes to Teacher’s retiree health care. This delays improvement in funded ratio:
 - FY 2013 60.5%
 - FY 2014 59.9% Actuarial Value
 - **FY 2014 64.0% (Market Value)**

The Government Accounting Standards Board (GASB) #67 requires a market value report for comparison purposes, however this measure can be volatile.

President's Proposed Total Spending (Fiscal Year 2015)



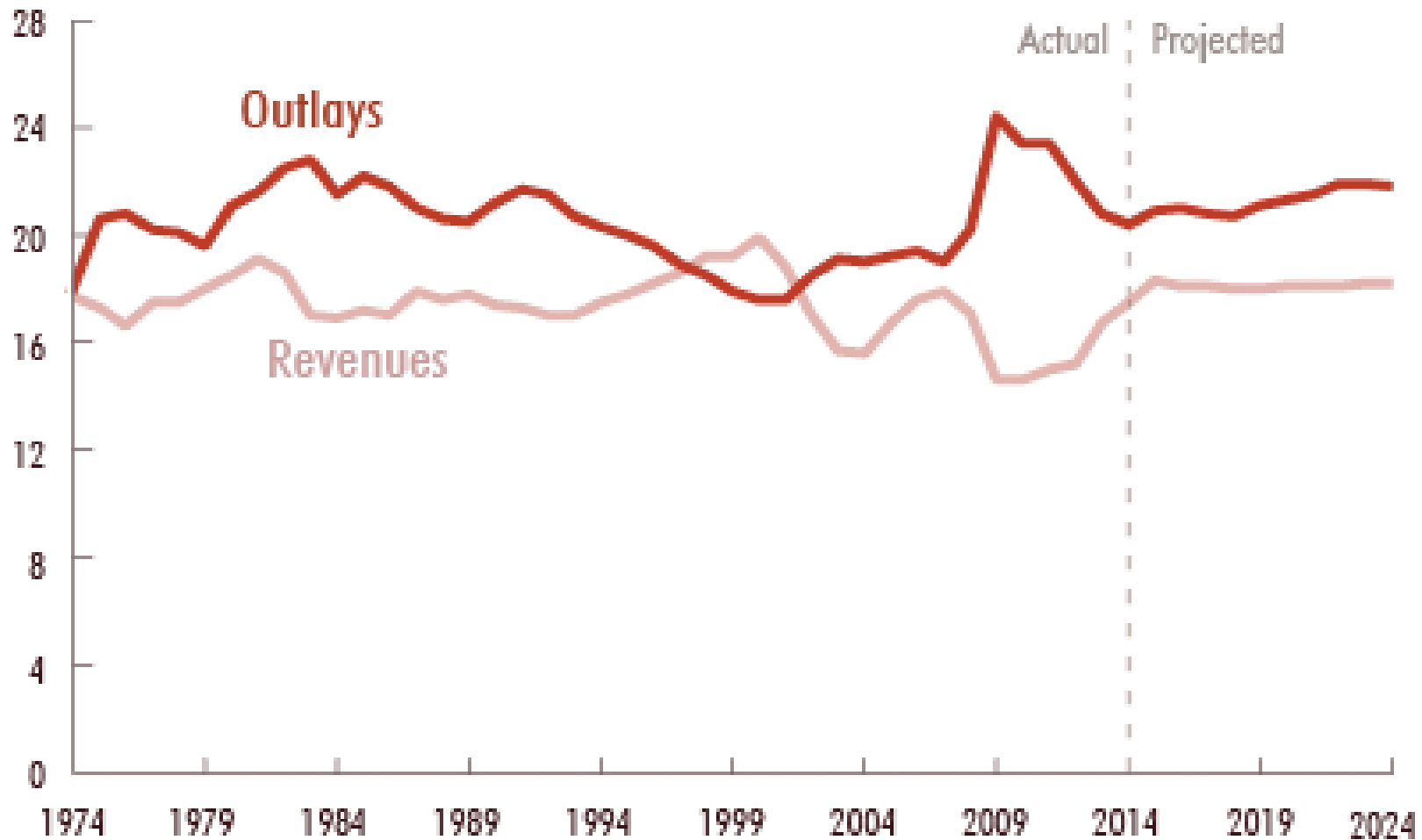
Source: OMB
National Priorities Project

Federal Context – CBO – 9/15

- Number of Americans over 65: 45 million today, 61 million in 2024
- Federal Health Care Subsidies: 4.9% GDP in 2014, 5.9% in 2024
- With rising interest rates, federal debt interest payments likely to grow from 1.3% of GDP 2014 to 3% GDP in 2024
- There are limits set on annual funding for defense and nondefense activities (highways, elementary & secondary education, housing, veterans' health care, Etc). Federal spending apart from Social Security, major health care programs, and net interest is
 - 9.3% of GDP in 2014,
 - 7.3 % of GDP in 2024.

The Federal Context – CBO, 8/27

Percentage of GDP



Institutions Issues

- Building related costs
 - Fit up
 - Impact on ongoing general fund expense – staffing fee for space
 - Space leasing
- IT projects
 - Ongoing maintenance
 - Transition costs
 - Potential for savings or expense with changing system
- Corrections related budget issues