

Welcome to the Budget House Appropriations Committee

Budget Overview January, 2018

What is the State Budget?

- The State Budget is a plan for the coming fiscal year that authorizes the expenditure of funds for specific purposes.
- The budget includes the spending of funds (much like a budget your household uses) from the following sources:
 - General Funds
 - Transportation Funds
 - Education Funds
 - Federal Funds
 - Medicaid (Global Commitment Funds)
 - Special Funds (many funds such as Clean Water Fund...)
 - Tobacco Funds (Source is Tobacco Master Settlement)
 - Fish and Wildlife Funds
 - Other Misc. Funds

Where Does the Money Come From?

- **General Fund:** Personal Income taxes, 64% of the sales and Use tax, Corporate tax, Meals and Rooms tax, Liquor tax, Property Transfer tax, and misc. other taxes
- **Transportation Fund:** Gas tax, Automobile Purchase and Use tax, and Federal funds dedicated to transportation projects
- **Education Fund:** 36% of Sales and Use tax, Lottery proceeds, General Fund transfer (20% of EF). Balance is paid in property taxes
- **Federal Funds:** Various federal grants and funding streams
- **Medicaid Global Commitment Funds:** Vermont has a Federal waiver for most of Medicaid with flexibility and investments that would otherwise not be allowed

Where Does the Money Come From continued

- **Special Funds:** Includes several sources of revenue raised for specific purposes (Clean Water fund, VT Dairy Promotion fund, etc.)
- **Fish and Wildlife Fund:** License fees and federal grants dedicated to fish and wildlife purposes
- **Other Misc. Funds:** There are several other funds established for specific purposes including, for example, Enterprise Funds (like VT Life Magazine), and Capital Funds from the issuance of bonds

What is the Money Spent On?

- General Government
- Protections to Persons and Property
- Human Services
- Labor
- General Education (K-12)
- Higher Education (College, VSAC)
- Natural Resources
- Commerce and Community Development
- Transportation
- Debt Service

Capital Bill

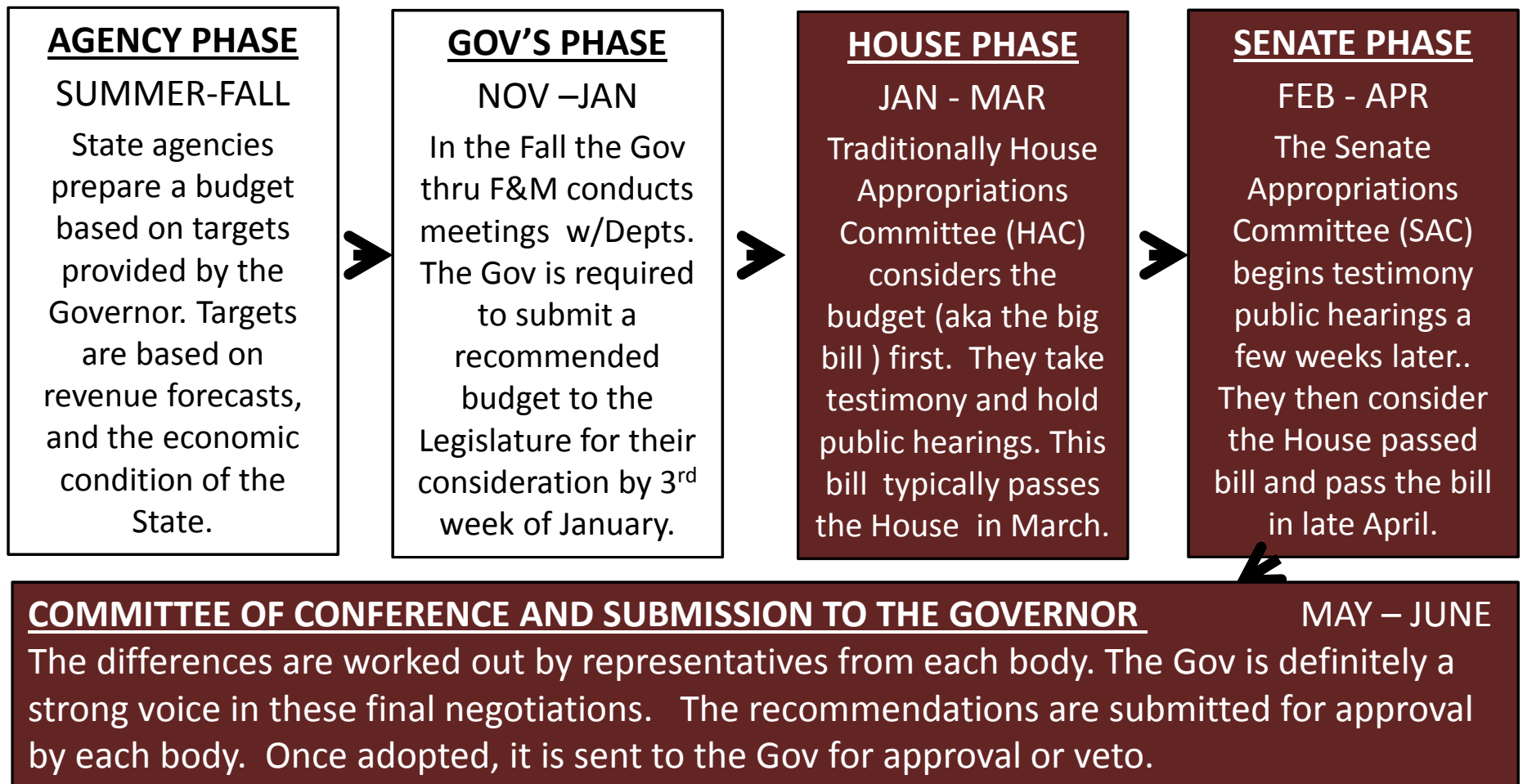
- **Source:** Funds from General Obligation Bonds
- **Uses:** For acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, assistance to municipalities for construction of water and sewage systems, and local schools.
- **Not Part of Omnibus Appropriation Bill (the budget)**

Process for Developing Vermont's Omnibus Appropriations Bill

This is the only bill that must pass the Legislature annually

The operating budget is developed each year - the fiscal year runs from July 1 thru June 30

The process of establishing budget is ~9 months prior to the start of the fiscal year



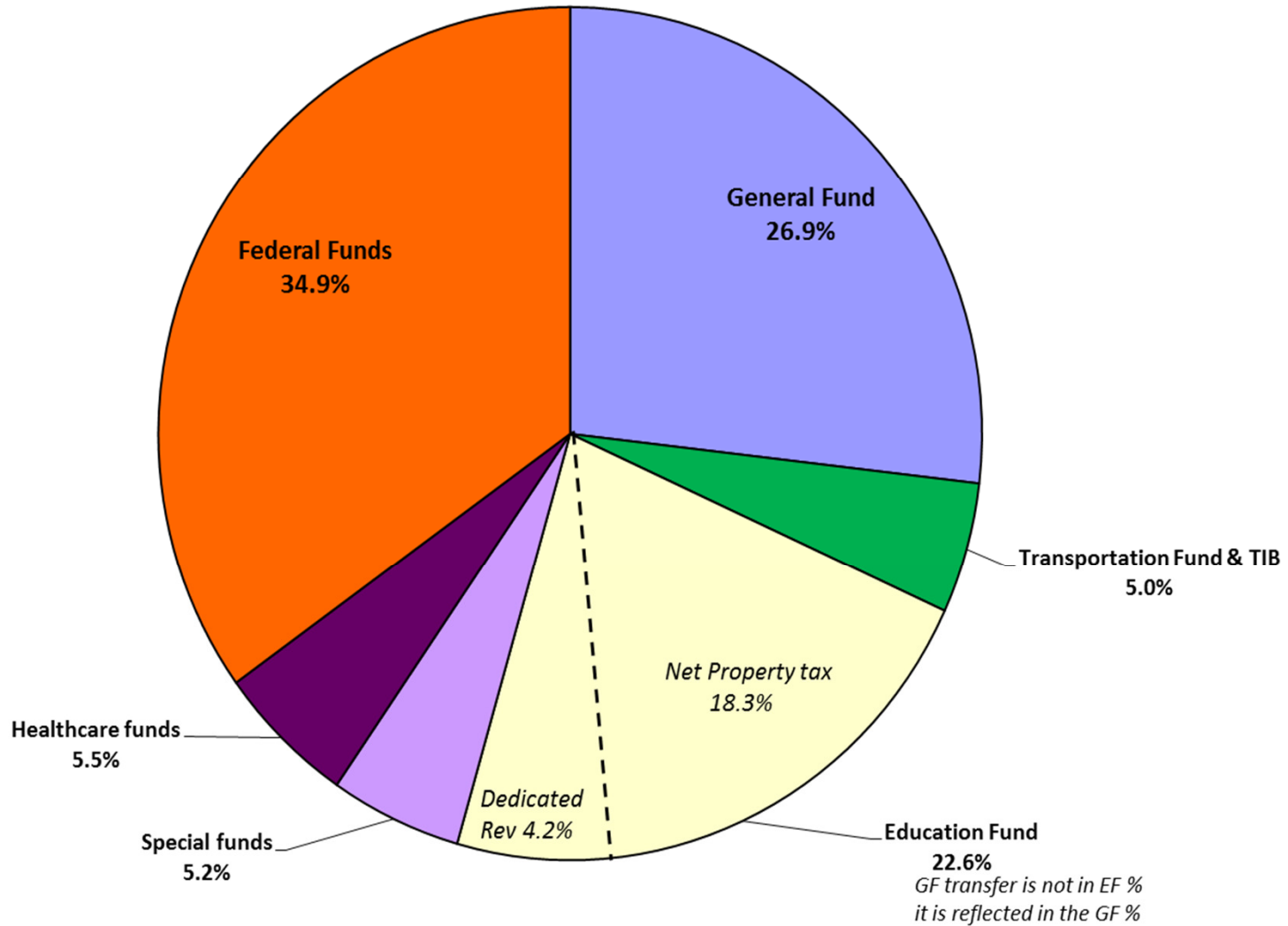
Basic Budget Information

- Total was \$5.0B in FY13, growing to \$5.8B in FY18
 - Average annual growth rate 4.1% since FY12
- GF represent 26.9% of total spending
 - GF growth rate has averaged 3.7% since FY13
- Federal funds represent 34.9% of total
- Base Federal Funds growth has averaged 2.7% since FY13
- Medicaid is supported by special funds (tobacco and State Health Care Resource Funds), GF, and Federal funds. Health care spending is now 31.6% of total spending
- EF – local spending decisions – State funding pressure
- TF – system needs constant maintenance. Vermont is experiencing declining gas tax revenues due to high efficiency cars

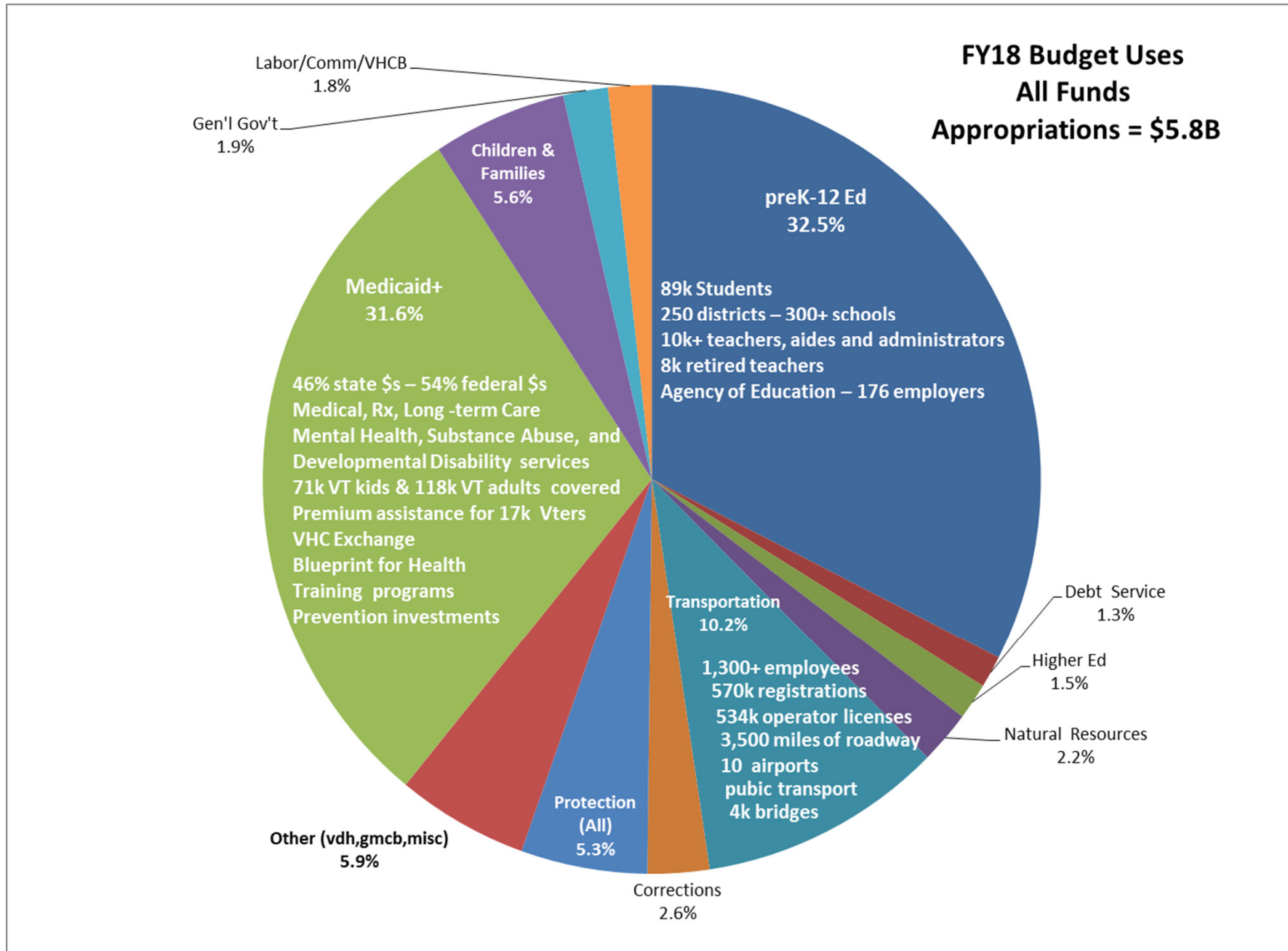
2018 Growth Rates - Gross State Product 1.3%, Population 0.1%, Employment 1%

FY18 Appropriations By Fund \$5.8B

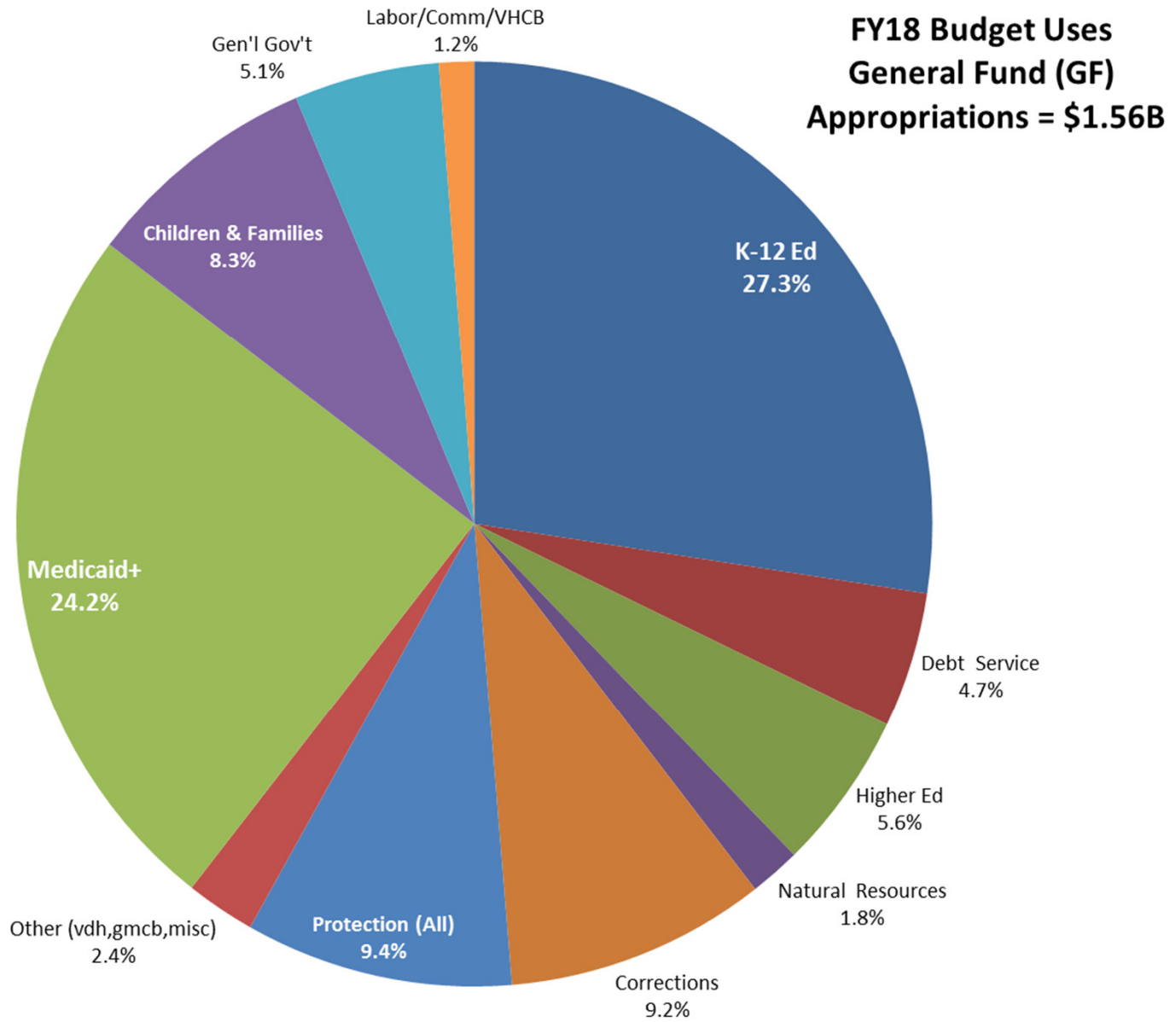
*Focus is on Appropriations but
Revenue forecast is important*



Where does the money get spent?



General Fund Budget Uses



Major GF Expenditures in FY 2018 (July 1, 2017 – June 30, 2018)

Total FY18 GF Appropriations	<u>\$1,561 M</u>
• Education Fund (GF transfer)	\$314M
• Teachers Retirement/Retired	
Teacher's Health Care [10.3% 5yr]	\$104M
• Medicaid	\$386M
• Corrections	\$143M
• Children and Families	\$130M
• Higher Ed	\$87M
• Debt Service	\$74M
Subtotal	\$1,238 M
	79% of GF

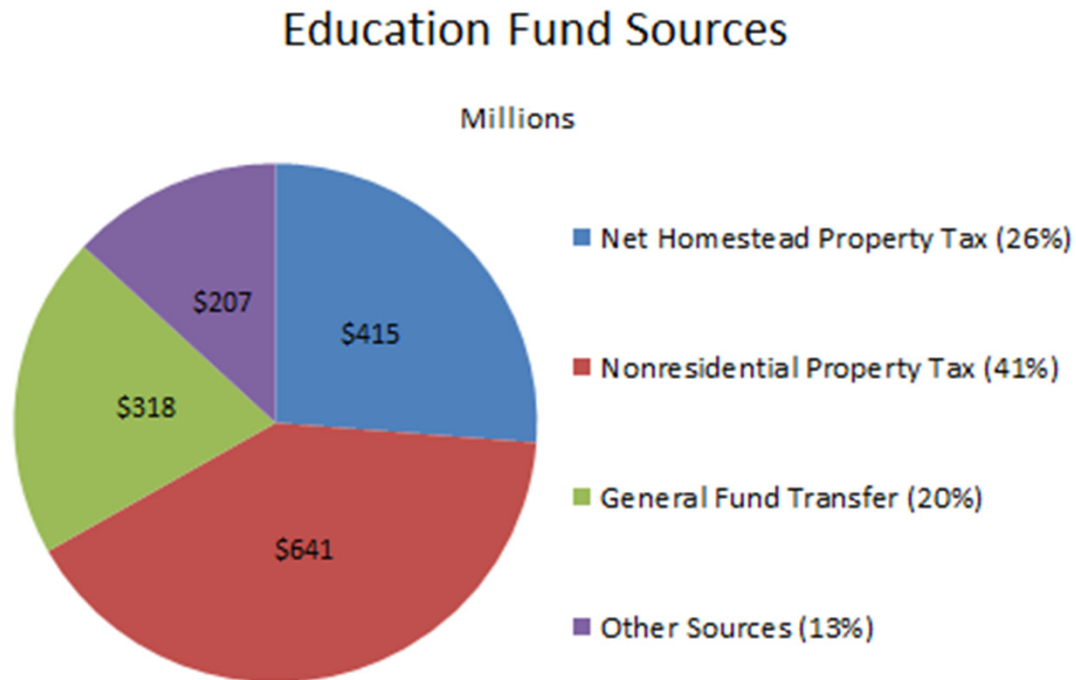
FY 2019 Issues (July 2018 – June 2019) –

The General Fund GAP

- The Governor and the Legislature have begun to discuss the major budget pressures facing the State in FY19 which include:
 - debt service requirements,
 - retirement and retiree health care obligations,
 - payroll obligations pending pay act negotiations,
 - funding the Ed Fund transfer indexed increase, and
 - Medicaid caseload growth and utilization pressures.
- The difference between these budget pressures and the anticipated available revenue is the “budget gap.”

Education Fund Sources

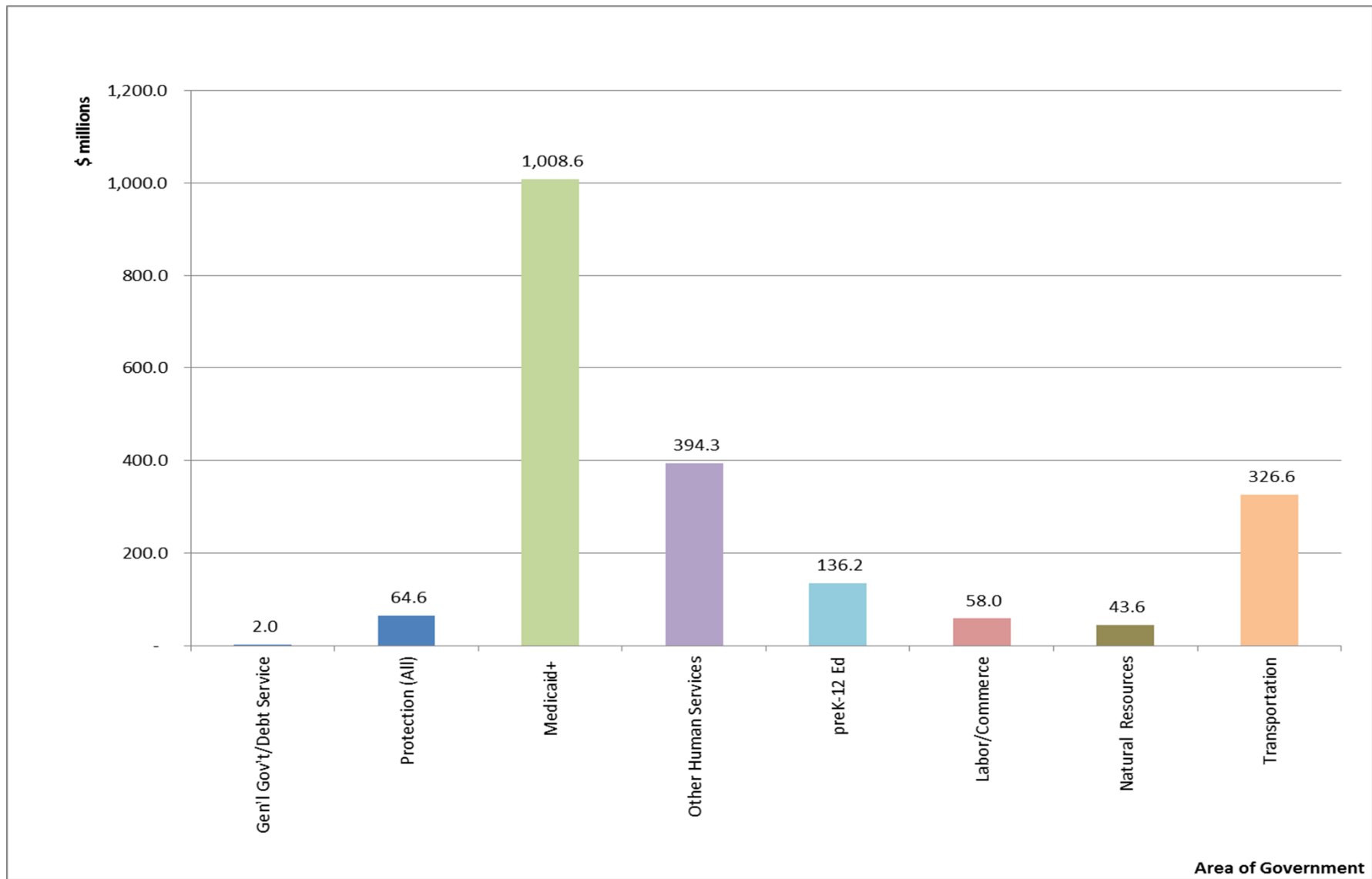
* This does not include Teacher's Retirement costs of \$103 Million General Funds or Agency of Education costs of \$32 Million State Funds



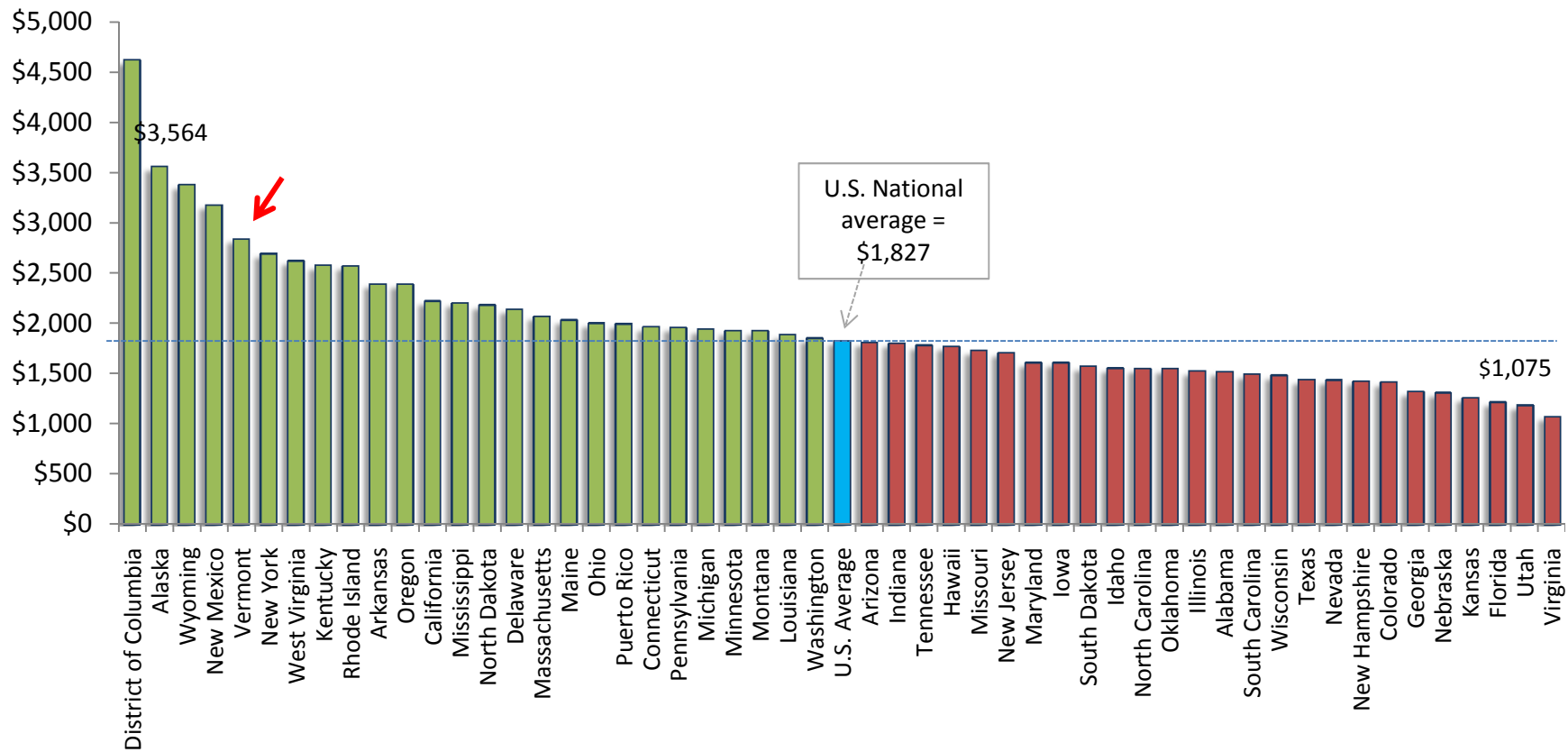
Good Reserves = Good Bond Rating

- **FY 2018 General Fund Reserves 7.5%% of FY 2018 appropriations**
 - Stabilization Reserve \$77 Million
 - Rainy Day Fund \$2 Million to \$7.3 Million
 - Human Services Caseload Reserve \$22 Million
 - 53rd week 27th pay period \$9 Million
 - *National studies for a state with Vermont's progressive tax structure point to reserve needs about 10%-13%.*
- **FY 2018 Transportation Reserves 5% of FY 2018 appropriations**
 - Close of 2018 \$13.4 Million (5% of prior year appropriations)
- **FY 2018 Education Fund (3.5 to 5% of FY 2018 appropriations)**
 - Reserve: \$24.1 Million (3.55% of prior year net appropriation)
- Vermont has also borrowed against cash flow for several policy initiatives (Retired Teachers Health Care, local investment funds). In FY 2017, \$26.4 Million retirement health care borrowing authority.

Federal Funds in Vermont = \$2B FY17



Fed Grants Per Capita Distribution



Source: FFIS Grants Database