

SHORT RUN & LONG RUN SUSTAINABLE FISCAL SYSTEMS?

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House Room 34, Seat 67

Current Fiscal CRISIS

Structural Current Services Gap – the fact that we continue to have an ongoing current services budget gap during an economic expansion is cause for grave concern. When the next recession occurs – and there is always another recession at some point – we will have to make substantial spending cuts just when Vermonters need support and/or increase taxes, which is the worst thing to do during a recession.

Vermont has to have spending and tax systems that are robust and sustainable across the business cycle and as our economy and society evolve over time. In order to achieve this in the short run we must freeze or cap the costs of spending items and of tax allocations. In order to achieve this in the long run I think that we need to exercise more control over the rates of growth both spending and taxation that may be built into our systems and we need to redouble our efforts to apply objective performance measures to all spending and tax allocations.

Results Based Accounting // Objective Performance Measures -- uneven application?
Tax Expenditure Analysis & Alteration – incomplete? Vicious Cycle of awarding tax allocations to certain groups which then means that the rest of the taxpayers have to pay more to make up the difference or there is a loss of tax revenue.

(I.) KEY FACTORS --

(A) RATES OF GROWTH:

ENTITLEMENTS --Both Spending Allocations & Tax Allocations
TOTAL COST OF STATE EMPLOYEE COMPENSATION

(B) URGENT SPENDING NEEDS: Clean Water, Opiate Addiction, Economic Development

(C) SPECIAL TAX & FUND FRAMEWORKS

We have a system in which certain taxes go into certain funds for certain purposes. This has been a key way in which revenue increases have been justified. But it makes things difficult in that different revenue sources grow at different rates, and different policy needs grow at different rates.

(II.) SHORT RUN RECOMMENDATIONS:

TEMPORARILY FREEZE OR CAP as many budget spending items as is feasible at last year's level.

This should include some way to limit the rate of growth of total state employee compensation costs by freezing or limiting the growth of compensation for the state employees above some salary level. I would extend this restriction in the rate of growth to cover teachers and other education staff if possible. I would also try to extend this to cover higher level salaries in any organization or agency that receives substantial state funding. This temporary freeze would give tax revenues a chance to catch up to the growth of spending.

TEMPORARILY FREEZE OR CAP the cost of as many tax expenditures as is feasible at last year's level.

Once a special tax provision is in place the state tends to lose control of the cost in lost revenue as that will depend on how many taxpayers qualify for the provision. Depending on the structure of the provision, as the economy grows and as income grows the amount of allocated revenue can also grow. Freezing or capping may only work with income tax provisions or property tax provisions, it likely can't work with the sales tax. The temporary freeze on the cost of lost tax revenue would

USE THE CAPITAL BILL to fund emerging budget needs as possible – this is being done in terms of the funding of Clean Water investments in the short term.

(III.) LONG RUN RECOMMENDATIONS:

LIMIT COMMITMENTS TO ENTITLEMENTS & RATES OF GROWTH –

I think that we need link spending growth to the growth of tax revenue in some way going forward, at least in terms of base spending. We need to evaluate the rate of growth of lost tax revenue through special tax provisions in the same way.

TRANSCEND POLITICAL PREFERENCES: Need both budget reform & tax reform, and everything has to be on the table.

UNIFIED FISCAL FRAMEWORK FOR ANALYSIS:

I think that we should review Budget Allocations, Capital Bill Allocations, and Tax Expenditure Allocations within same framework of objective performance measures. For particular policy goal look at the allocations in all three areas and evaluate for cost and relative effectiveness in achieving the goal.

I think that we should work towards the creation of a unified fiscal plan in which during economic expansions when tax revenue grows we use less capital debt and build recession reserves. Then during recessions we spend more to support Vermonters even as tax revenue drops using the recession reserves, and we increase spending funded in the Capital Bill.