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.

<table>
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<tr>
<th>AGENCY PHASE</th>
<th>GOV’S PHASE</th>
<th>HOUSE PHASE</th>
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COMMITTEE OF CONFERENCE AND SUBMISSION TO THE GOVERNOR  MAY – JUNE
The differences are worked out by representatives from each body. The Gov is definitely a strong voice in these final negotiations. The recommendations are submitted for approval by each body. Once adopted, it is sent to the Gov for approval or veto.
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%
Focus is on Appropriations but
Revenue forecast is important

FY18 Appropriations By Fund
$5.8B

Federal Funds 34.9%
General Fund 26.9%
Transportation Fund & TIR 5.0%
Net Property tax 18.3%
Education Fund 22.6%
Dedicated Rev 4.2%
Healthcare funds 5.5%
Special funds 5.2%

GF transfer is not in EF %
it is reflected in the GF %
Where does the money get spent?

FY18 Budget Uses
All Funds
Appropriations = $5.8B

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

Transportation 10.2%
- 1,300+ employees
- 570k registrations
- 534k operator licenses
- 3,500 miles of roadway
- 10 airports
- Public transport
- 4k bridges

Natural Resources 2.2%

Other (vdh,gmcb,misc) 5.9%
- Protection (All) 5.3%
- Corrections 2.6%

Debt Service 1.3%
Higher Ed 1.5%

Gen'l Gov't 1.9%
Labor/Comm/VHCB 1.8%

Medicaid+ 31.6%
- 46% state $s – 54% federal $s
- Medical, Rx, Long-term Care
- Mental Health, Substance Abuse, and Developmental Disability services
- 71k VT kids & 118k VT adults covered
- Premium assistance for 17k Vters
- VHC Exchange
- Blueprint for Health
- Training programs
- Prevention investments
FY18 Budget Uses
General Fund (GF) Appropriations = $1.56B

- K-12 Ed: 27.3%
- Medicaid+: 24.2%
- Children & Families: 8.3%
- Protection (All): 9.4%
- Corrections: 9.2%
- Higher Ed: 5.6%
- Natural Resources: 1.8%
- Debt Service: 4.7%
- Other (vhgmcn,misc): 2.4%
- Gen'l Gov't: 5.1%
- Labor/Comm/VHCB: 1.2%
### Major GF Expenditures in FY 2018
(July 1, 2017 – June 30, 2018)

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>Total FY18 GF Appropriations</strong></td>
<td>$1,561 M</td>
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<tr>
<td>Education Fund (GF transfer)</td>
<td>$314M</td>
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<tr>
<td>Teachers Retirement/Retired</td>
<td></td>
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<tr>
<td>Teacher’s Health Care [10.3% 5yr]</td>
<td>$104M</td>
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<td>Medicaid</td>
<td>$386M</td>
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<tr>
<td>Corrections</td>
<td>$143M</td>
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<td>Children and Families</td>
<td>$130M</td>
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<td>Higher Ed</td>
<td>$87M</td>
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<tr>
<td>Debt Service</td>
<td>$74M</td>
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<td><strong>Subtotal</strong></td>
<td>$1,238 M</td>
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79% of GF
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