

Budget Context

Legislative Joint Fiscal Office

Prepared for the Pension Benefits, Design, and Funding Taskforce
July 29th 2021

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Overview

- Vermont's underlying revenue and fiscal outlook is strong and impacted by outside events
- What does demographic change, the pandemic and global warming mean for Vermont?
- What are the demands we need to meet as a state?
- Other areas of fiscal pressure

Vermont's underlying revenue and fiscal outlook is strong and impacted by outside events

- On Friday, July 30th the Emergency Board will be adopting a new revenue forecast
 - Revenues came in with a \$200 million surplus for FY 2021 which is allocated by statute- \$54 million will go to State Employee OPEB
 - Revenues continue to be strong through FY 2026
 - From FY 2023 - FY 2026, average annual growth of the General Fund will be around 2.5%.
- Vermont's underlying economy has been impacted by
 - Aging population
 - Fewer Kids – lower birth rates
 - Demographics impact state funding in many ways
- While the Pandemic and Global Warming have had impacts – it is too early to know if they are transitory or how they will impact underlying trends
- What follows are charts from October – December 2020 – We will be updating the demographic and budget charts this Fall.

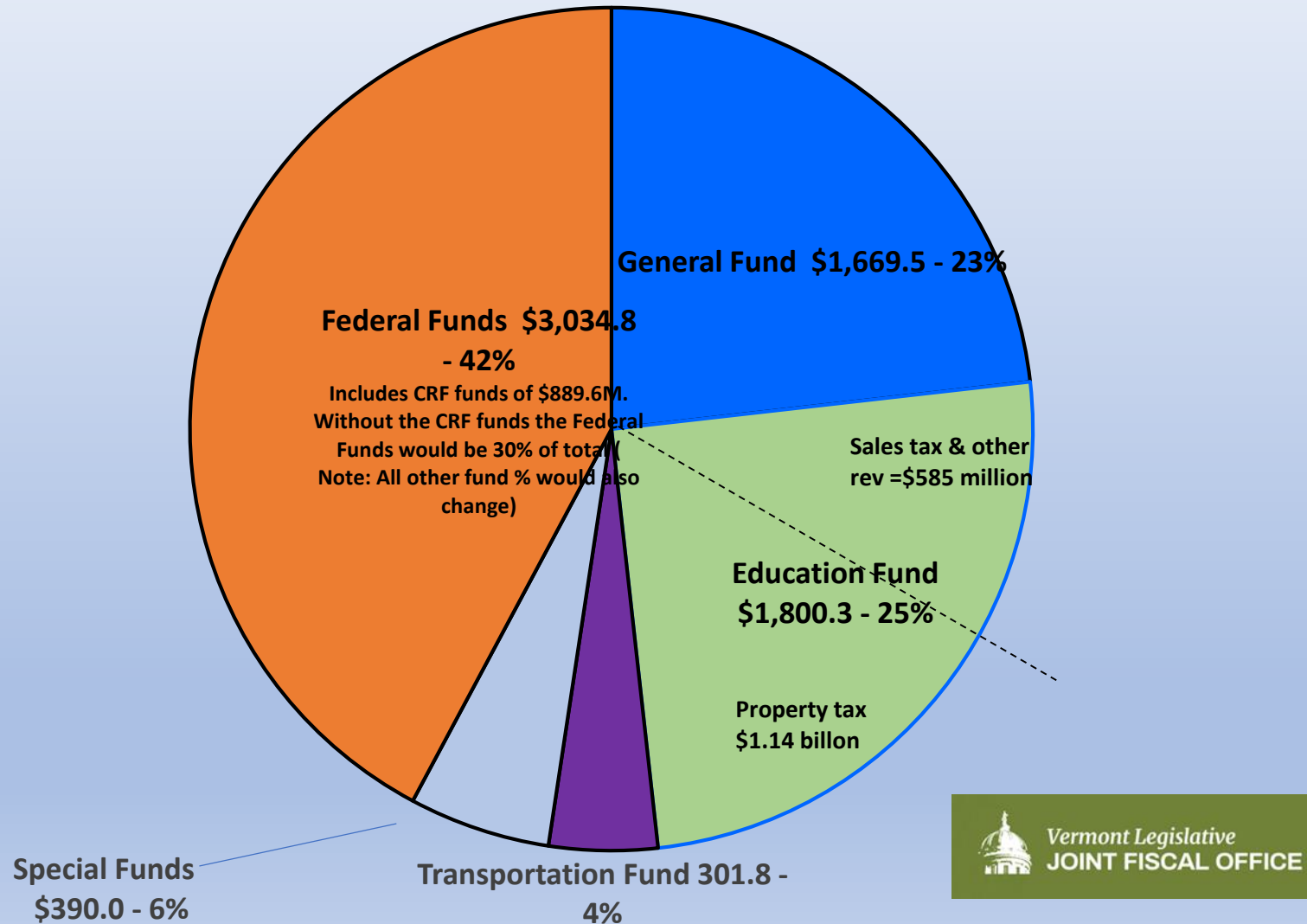
Background on the State Budget

Budget growth due to federal relief: FY 21/FY 22 up \$1 billion
(not including ESSER and other Federal ARPA Funds)

| <i>\$s in millions</i> | FY19 | FY20 | FY21 | FY22 |
|---|------------------|------------------|------------------|------------------|
| Total Budget (unduplicated appropriations) | \$5,958.0 | \$6,330.5 | \$7,360.6 | \$7,175.3 |
| select sources below (remainder of budget is from Education and Special fund sources) | | | | |
| General Fund (state) | \$1,596.5 | \$1,607.3 | \$1,734.5 | \$1,808.9 |
| Federal Funds (all other fed lines) | \$2,025.3 | \$2,090.6 | \$2,164.5 | \$2,307.8 |
| Fed - Coronavirus Relief Funds (CRF)* | \$0.0 | \$185.4 | \$911.1 | \$0.0 |
| Fed - ARPA State Fiscal Recovery | \$0.0 | \$0.0 | \$63.0 | \$474.9 |

**CRF was also allocated and reverted through JFC processes including \$225m at acceptance*

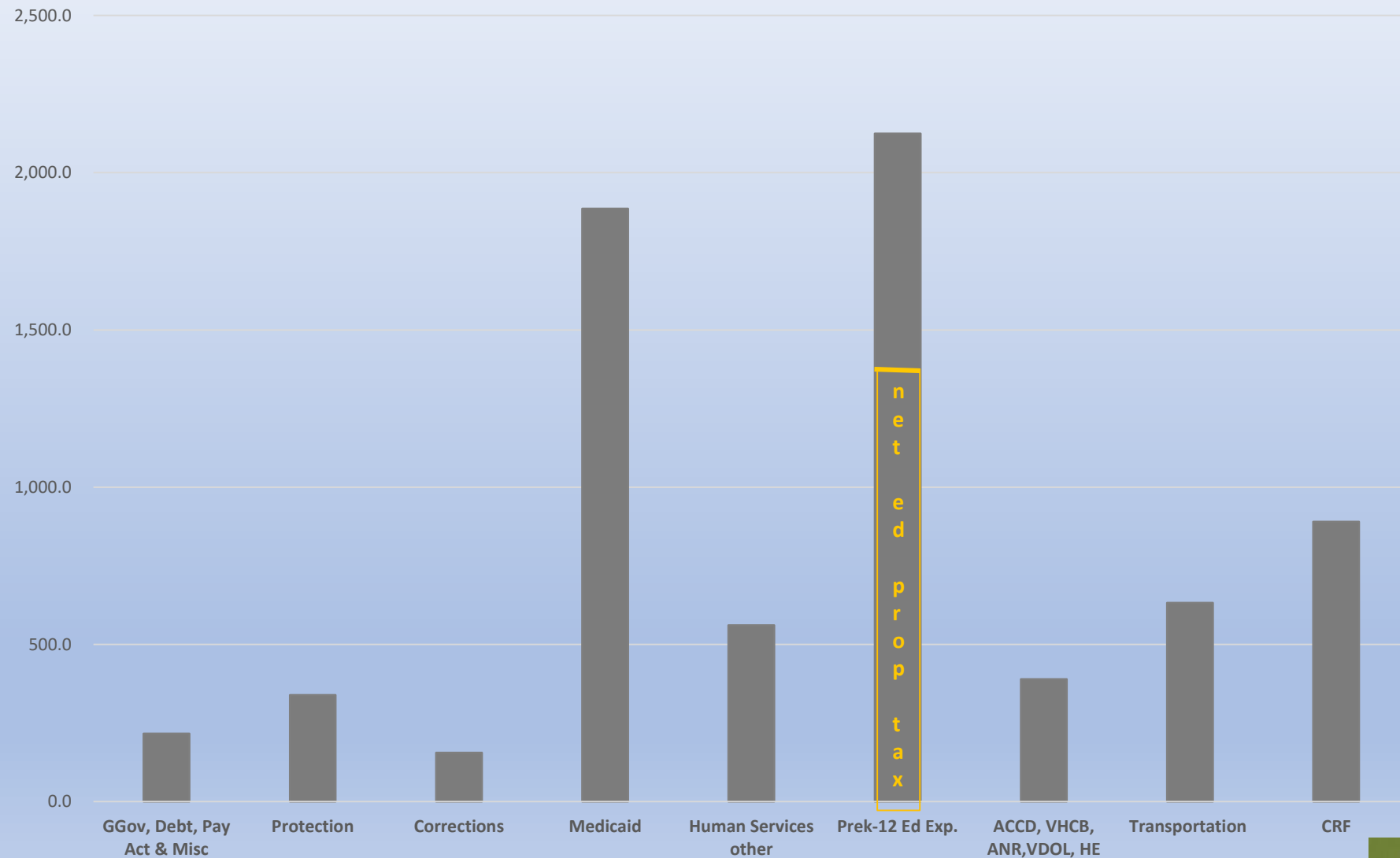
FY 2021 APPROPRIATIONS AS PASSED (UNDUPLICATED) \$7.2 Billion ALL FUNDS



How Is The Money Spent? Budget Frame By Program or Function

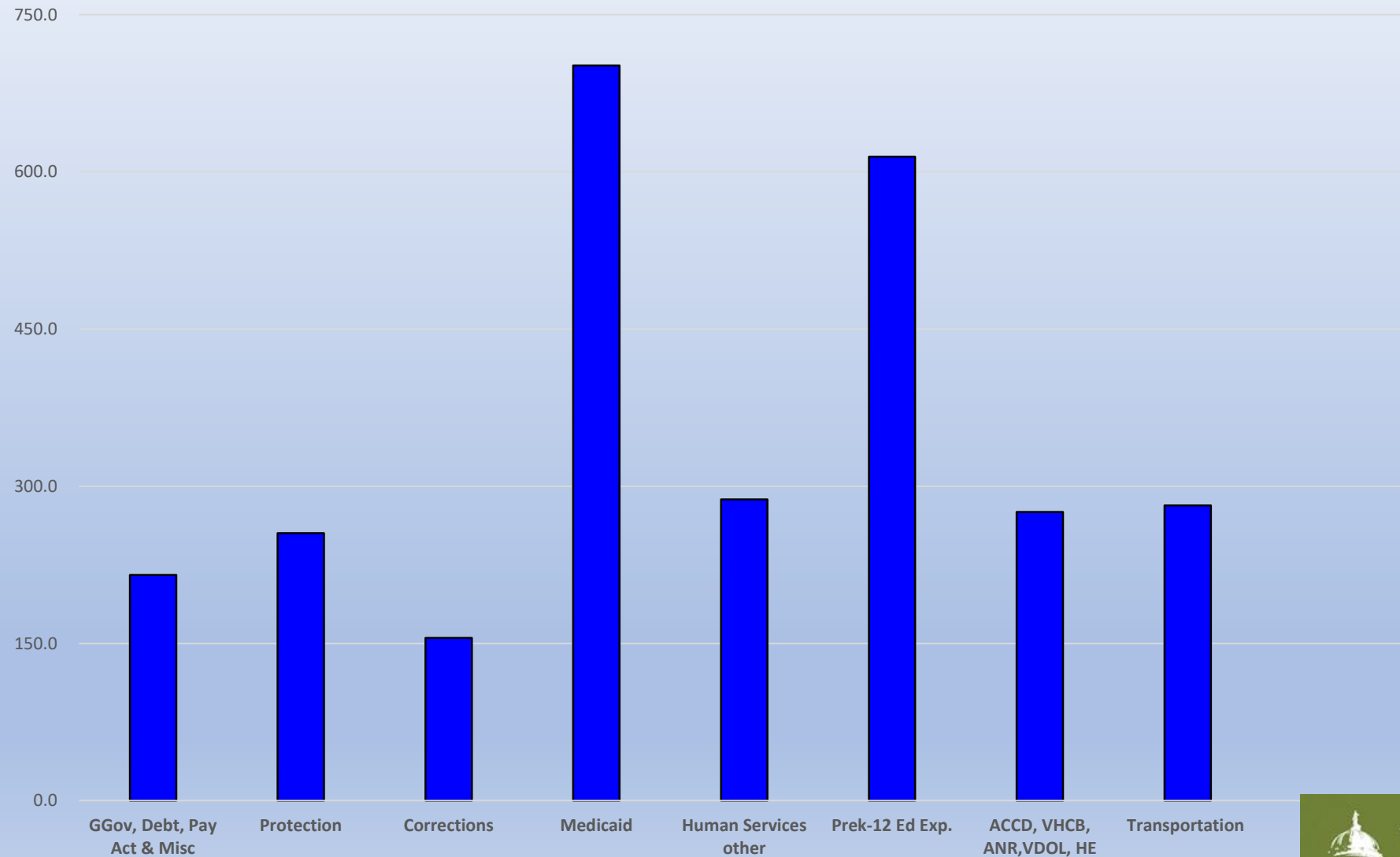
FY21 Appropriations As Passed (Unduplicated)

\$7.2 Billion ALL FUNDS w/ CRF



How Is The Money Spent? Budget Frame By Program or Function FY21 Appropriations As Passed (Unduplicated)

State Funds \$2.8 Billion (excludes FF, CRF and net ed propey tax)



HOW IS THE MONEY SPENT

- Very High Level - Final Budget Frame **FY 2021**

| Final Alternate Budget Frame | \$ | % |
|---|--------------|-------------|
| State Employees Payroll (FY21 \$919m base + \$1400 onetime) | 0.925 | 15% |
| Operating Exps (includes debt service and tchr retirement) | 0.651 | 10% |
| Grants & Contracts | 4.727 | 75% |
| FY21 Total Operating Budget w/o CRF | 6.303 | 100% |

- Grants & contracts are funds that go out to local communities, organizations and service providers. These range from items like road construction or state marketing efforts that benefit all or most Vermonters to health care and financial support for low income, elderly or disabled Vermonters eligible for various programs. Some contracts are also for technical assistance or services.

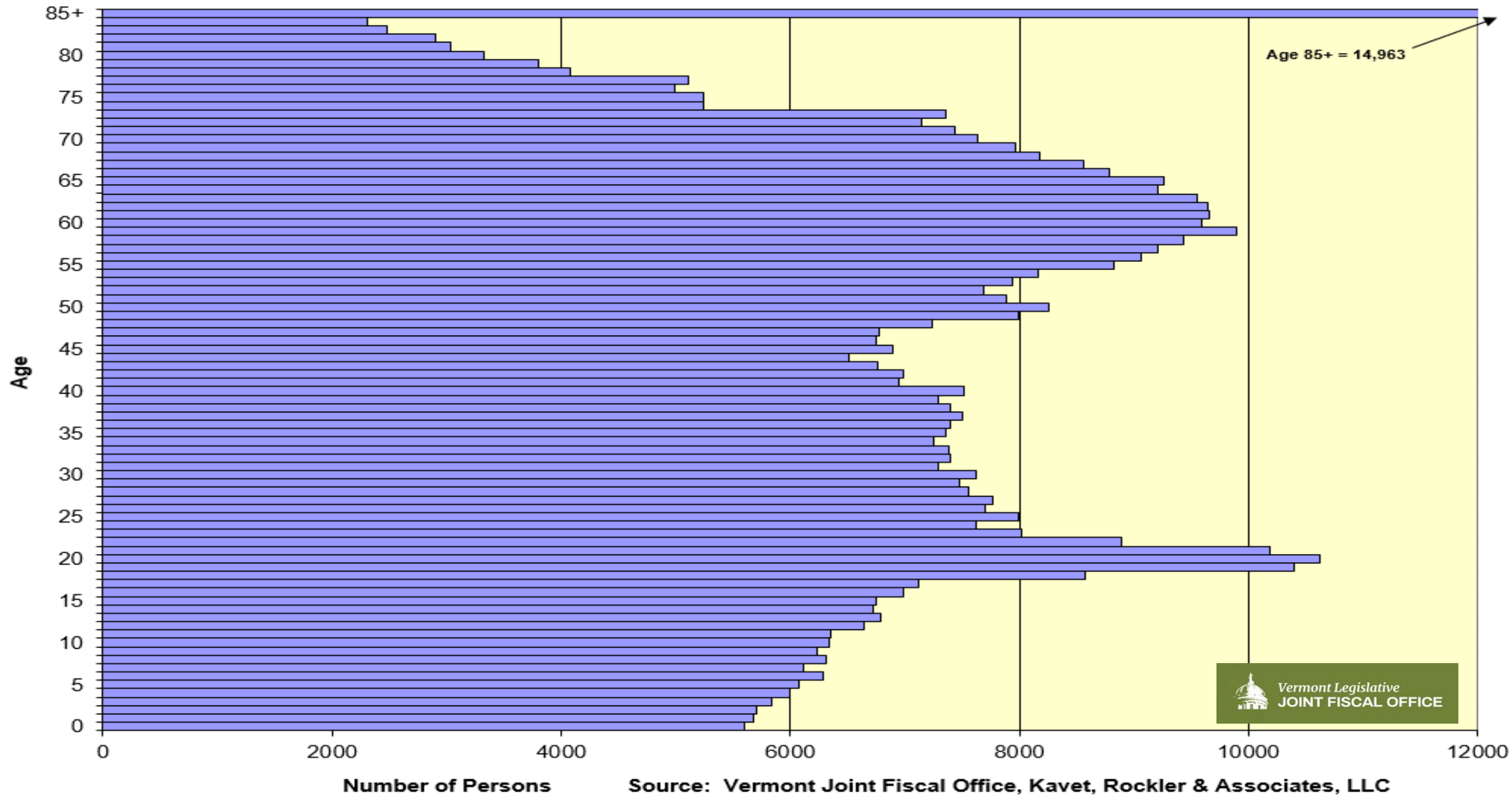
Big GF Base chunks in FY 2021

| | |
|---|-------------------------|
| Total FY21 GF Appropriations | <u>\$1,669 M</u> |
| • Teachers' Retirement/OPEB [12.2% 5yr] | \$151M* |
| • Medicaid/Global Commitment | \$607M |
| • Corrections | \$153M |
| • Children and Families | \$150M |
| • Higher Ed | \$93M |
| • Debt Service | \$76M |
| Subtotal | \$1,230M |
| | <u>74% of GF</u> |

**In FY 2022 This is \$187 million does not include Teacher Pensions normal cost total increase = (\$66m)*

Demographics, Pandemic and Federal Funds

Vermont Population by Age - July 2020



Age 85+ = 14,963



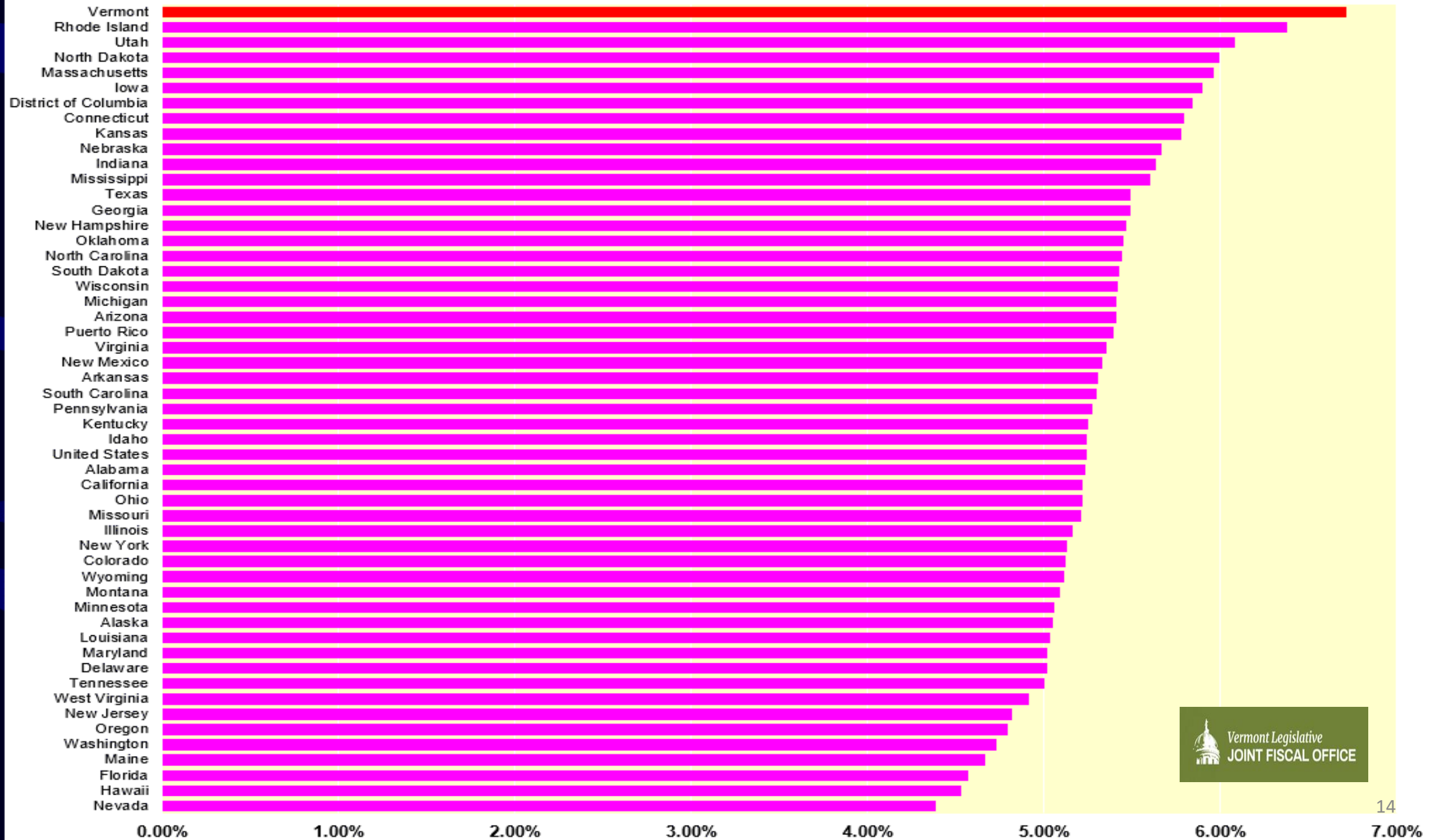
Number of Persons

Source: Vermont Joint Fiscal Office, Kavet, Rockler & Associates, LLC

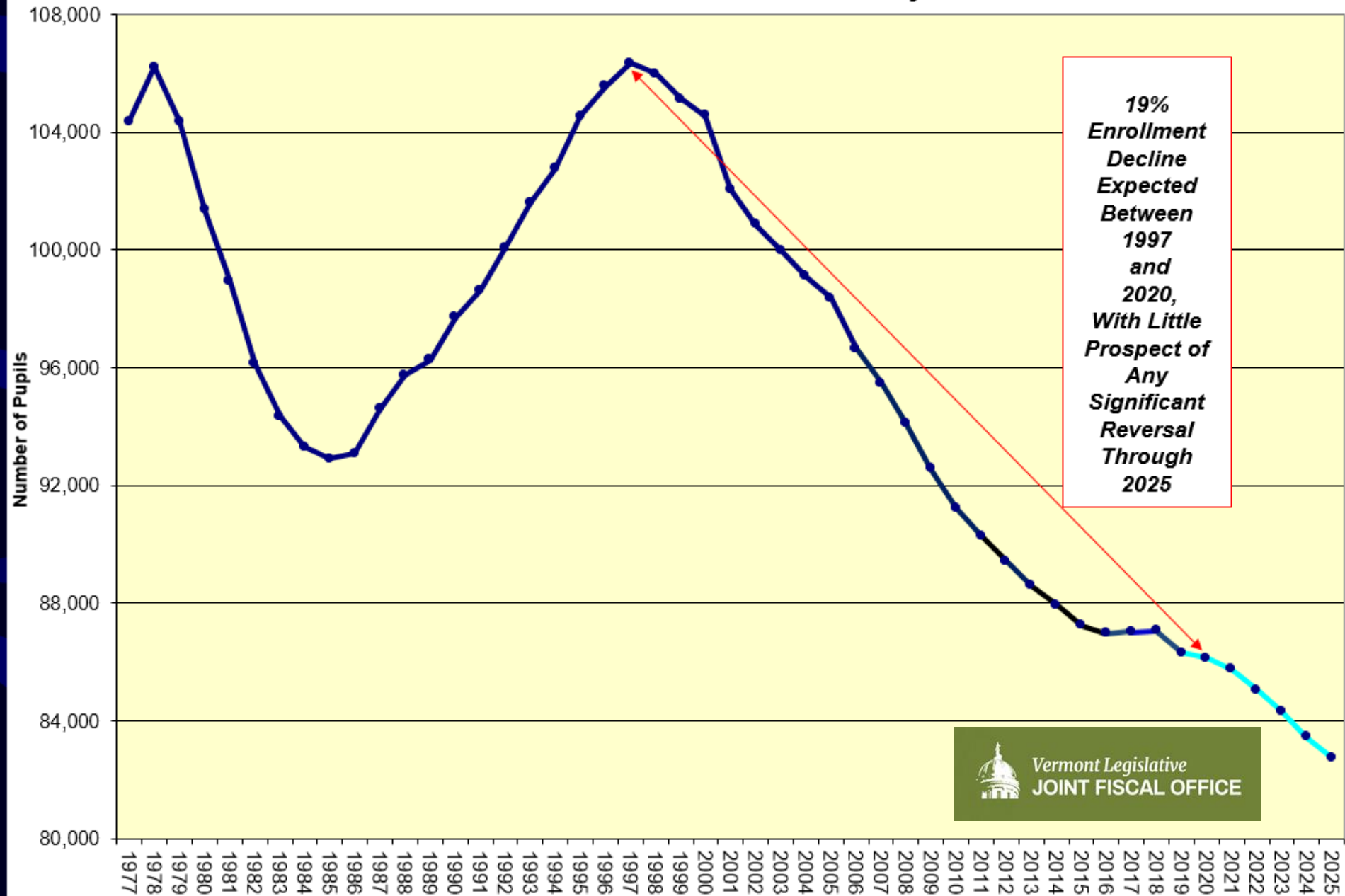
Letting Data Inform Policy Discussion

- The State with the Oldest Median Population Age in 2019 was Maine, at 45.1 Years
- Vermont was the 4th Highest, at 42.8 Years, After NH (43.0) and WV (42.9)
- Florida was Next, at 42.4 Years
- Guess Which U.S. State has the Highest Share of 18-21 Year-Olds as a Percent of Its Total Population?

Share of State Population Age 18-21 in 2018



Vermont Public School Enrollment Declines Not Likely to be Reversed Soon...



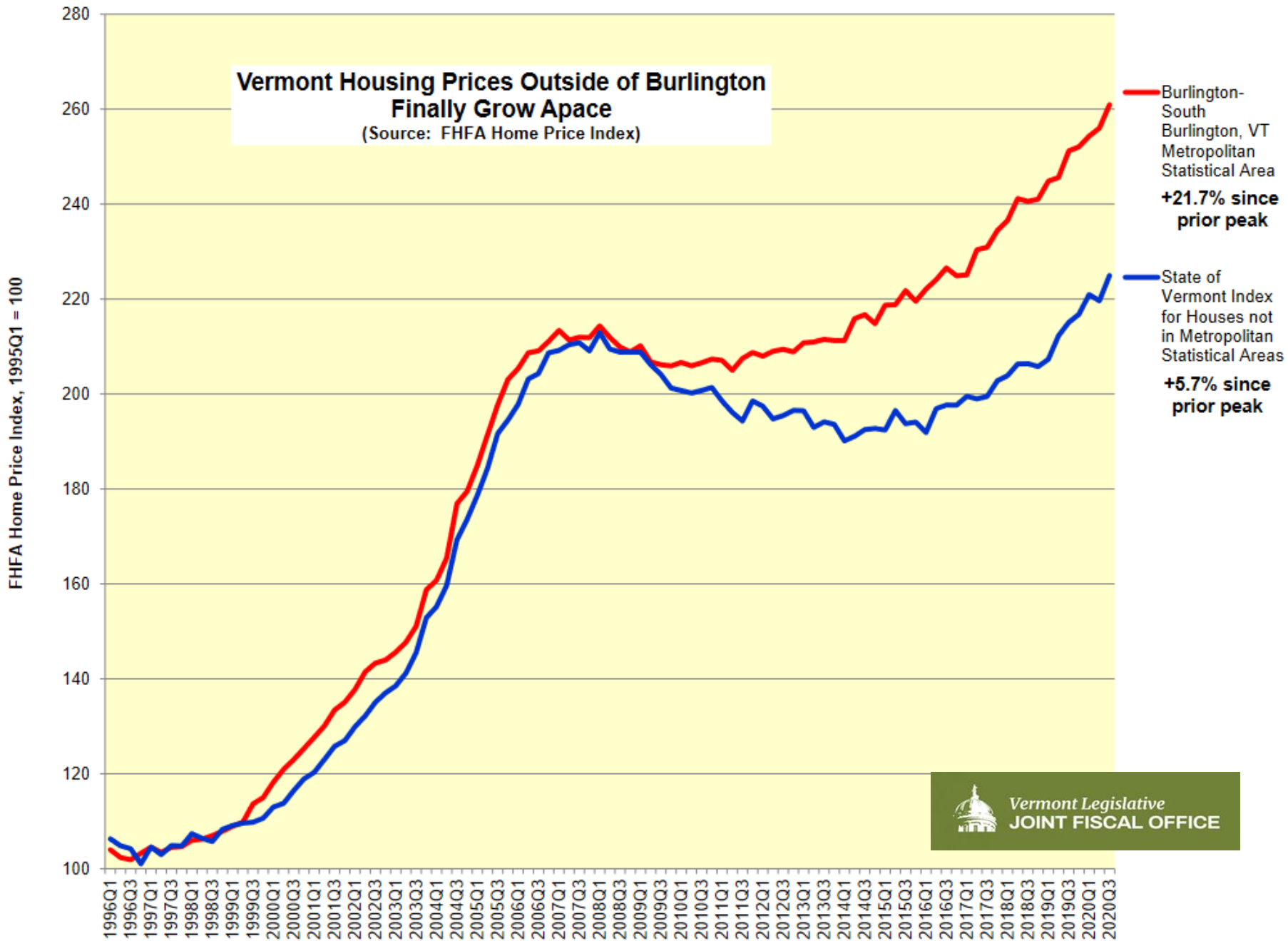
Sources: Vermont AOE and Consensus Administration and Joint Fiscal Office Projections - October 2020



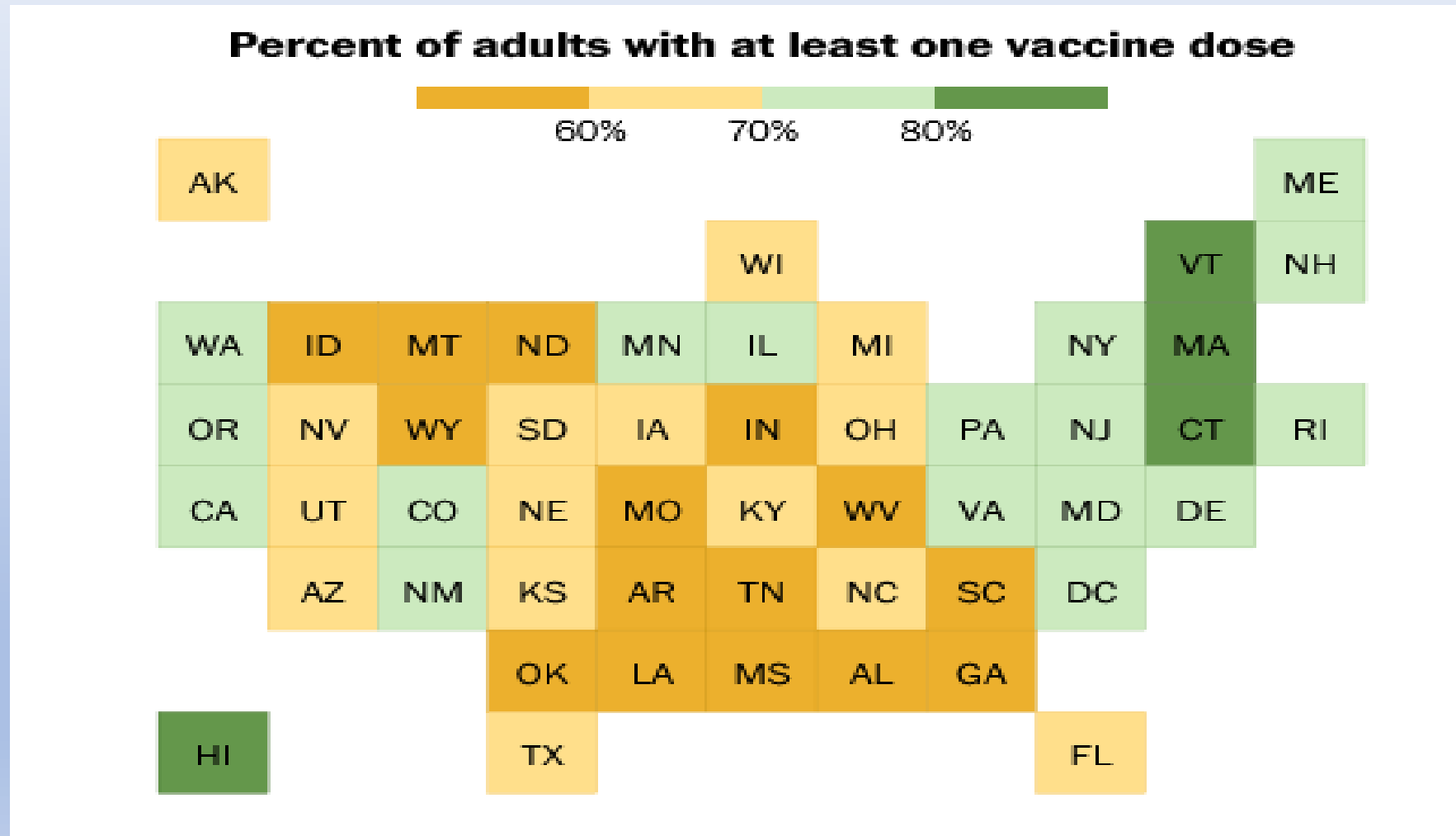
Pandemic

What does demographic change, the pandemic and global warming mean for Vermont

- Changing demographics, Like in other states, Vermont is experiencing difficulties filling positions
 - This is true for the state workforce
 - Need for higher wages
 - Training
 - Other Factors
- Changing demographics will impact service needs
 - Health Care, Social Services, Services generally, Need for child care many others
- The pandemic has led to demographic impacts
 - Vermont has been a leading state in vaccination
 - Growth in housing prices in Vermont
 - New entrants to the state/in education countered by a rise of home schooling
 - An issue of affordability for Vermonters requiring considerable public investment
- Will Climate change have demographic impacts?
- The impact of federal relief has been huge. What will it mean for the future?
- Is fiscal strength transitory or long term?
 - What happens when the Federal Aid diminishes?
 - What will happen when The Federal Government tackles its unprecedented deficits?



Washington Post (As of 7/28/2021)



MAYO Clinic (As of 7/28/2021) <https://www.mayoclinic.org/coronavirus-covid-19/vaccine-tracker>

View COVID-19 vaccines by state as a table

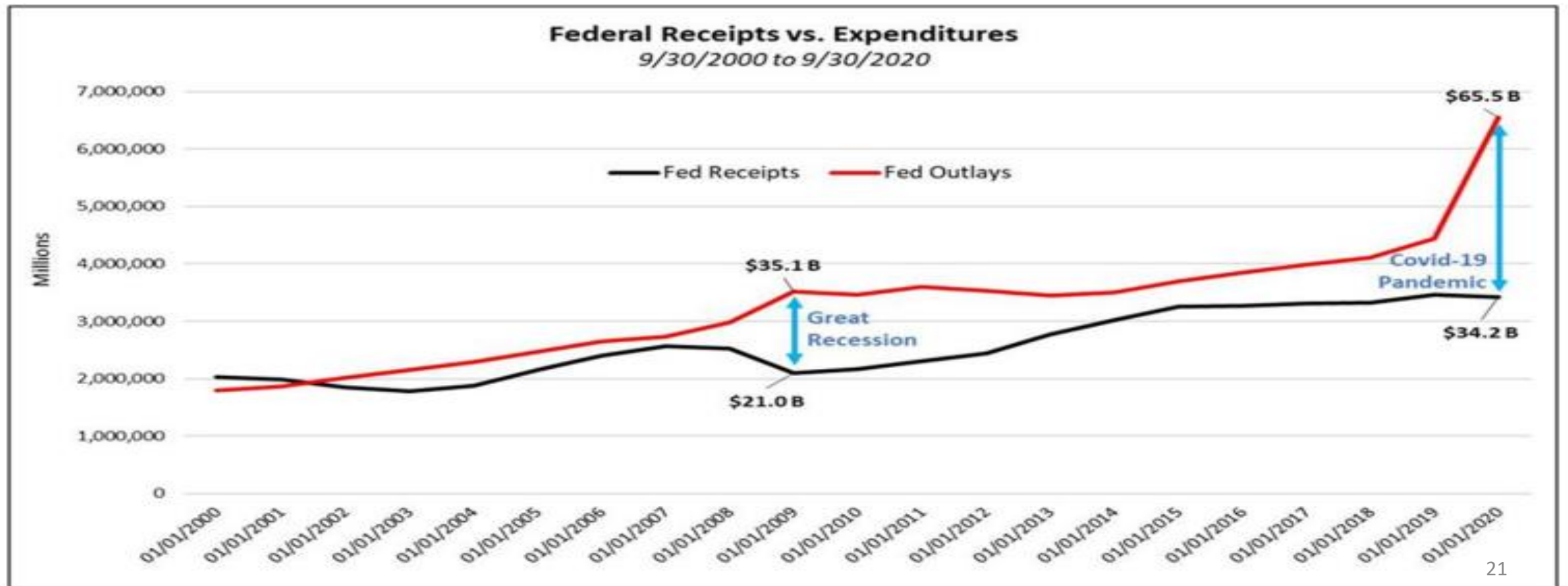
This data is subject to change.

| Location | At least 1 dose | Fully vaccinated | Population |
|---------------|-----------------|------------------|------------|
| Vermont | 75.3% | 67.4% | 624,313 |
| Massachusetts | 72.3% | 63.6% | 6,850,553 |
| Maine | 68.1% | 63.3% | 1,335,492 |
| Connecticut | 69.4% | 63% | 3,575,074 |
| Rhode Island | 66.7% | 61.1% | 1,057,231 |
| Maryland | 64.2% | 58.5% | 6,018,848 |
| New Hampshire | 64.3% | 58% | 1,348,124 |
| New Jersey | 65.4% | 57.8% | 8,878,503 |
| Washington | 63.6% | 57.3% | 7,404,107 |
| New Mexico | 64.9% | 56.7% | 2,092,454 |

Federal Relief has played a major role in the economy

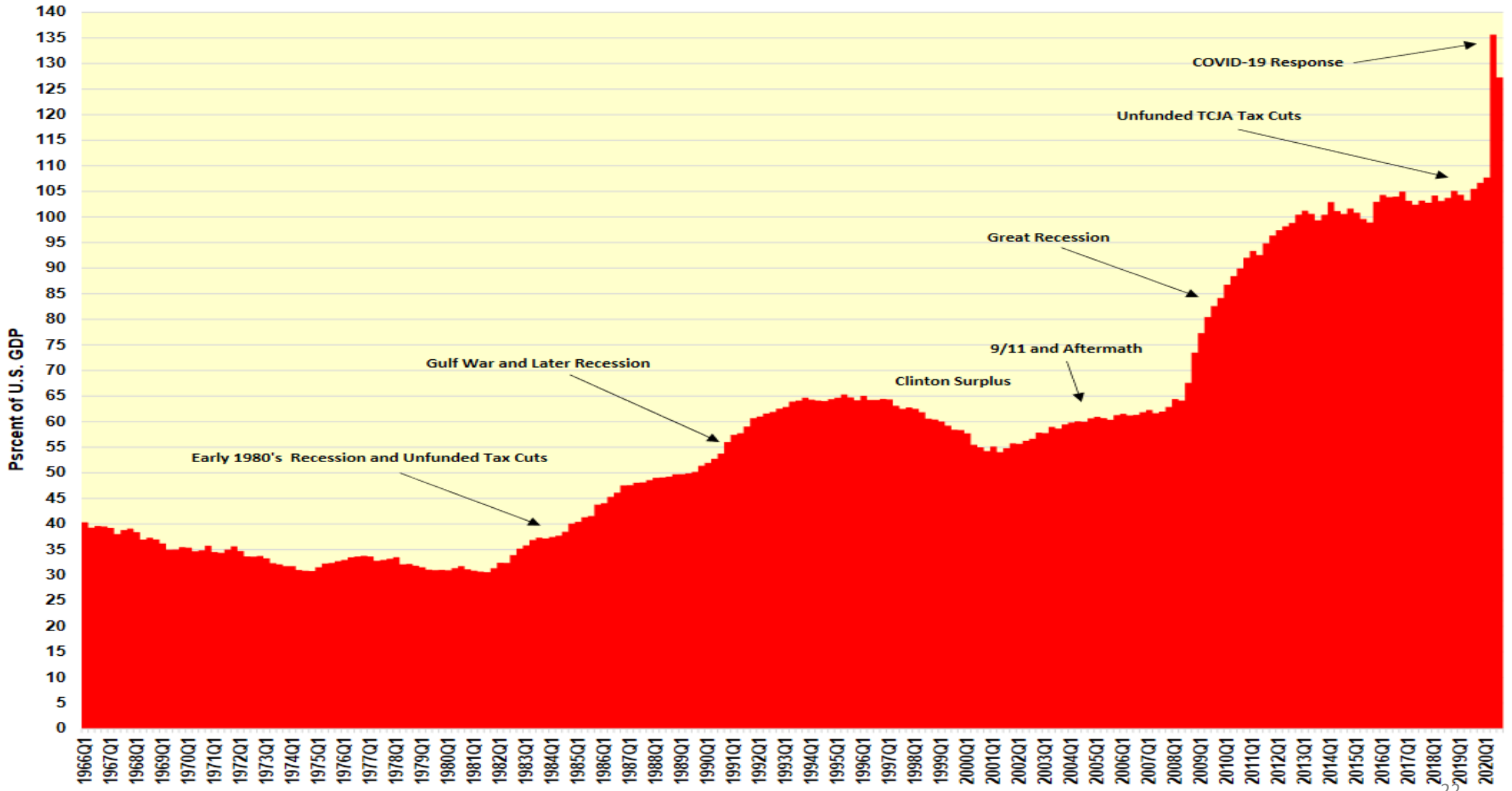
Federal Receipts vs Expenditures 9/30/2000 to 9/30/2020 Federal Reserve

Vermont has received over \$10 billion in direct and indirect aid



Awash in Red Ink - Deficit Spending Drives Debt as a Percent of GDP to Record Levels

(Total Public Debt as a Percent of GDP, Seasonally Adjusted Quarterly Data, Source: U.S. Treasury)



Spending pressures facing Vermont?

- Unfunded Liabilities
- Underfunded State Operations
- Other Areas of Fiscal Pressure
- Legislative Initiatives Under consideration

Unfunded Liabilities 1/26/2021 Page 1

<https://lifo.vermont.gov/assets/Uploads/0b96730b08/Unfunded-Budget-Pressures-Report.pdf>

Unfunded liabilities... Pensions Through 6/30/2020 \$5,657 million

VSERS

Pension \$1,040 million

OPEB \$1,425 million

VSTRS

Pension \$1,933 million

OPEB \$1,259 million

- PENSION LIABILITIES FOR THE VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM (VSERS) AND THE VERMONT STATE TEACHERS' RETIREMENT SYSTEM (VSTRS)
- OTHER POSTEMPLOYMENT BENEFIT [OPEB] LIABILITIES UNDER CURRENT LAW AND RELEVANT GOVERNMENT ACCOUNTING STANDARDS BOARD STANDARDS FOR THESE SYSTEMS

Unfunded Liabilities 1/26/2021

(<https://lifo.vermont.gov/assets/Uploads/0b96730b08/Unfunded-Budget-Pressures-Report.pdf>)

Transportation Unfunded liabilities... 6/30/2020 funding need \$223 million annually

- MAINTENANCE OF TRANSPORTATION ROAD AND BRIDGE INFRASTRUCTURE AT CURRENT LEVELS

| Transportation Infrastructure (\$ Millions) | |
|---|--------|
| Annual Need | \$ 874 |
| Available Funds | \$ 651 |
| Net Unfunded | \$ 223 |
| Note: Amounts reflect the cost of maintaining total transportation infrastructure, not just road and bridge repair. | |

Reach Up funding to eliminate ratable reduction of 49% \$20-22 million annually

- REACH UP FUNDING FULL BENEFIT OBLIGATIONS, INCLUDING THE STANDARD OF NEED FOR THE CURRENT FISCAL YEAR, PRIOR TO ANY RATEABLE REDUCTIONS MADE PURSUANT TO 33 V.S.A. 1103(A) WHICH ENSURE THAT THE EXPENDITURES FOR THE PROGRAMS SHALL NOT EXCEED APPROPRIATIONS

| Reach up (\$ Millions) | |
|---|------|
| Obligation prior to Ratable Reduction | 44.9 |
| Base Appropriation | 21.4 |
| Amount for full funding | 23.5 |
| *Based on current Reach Up caseload and the consumer price index for 2020 | |

Unfunded Liabilities 1/26/2021 Page 4

(<https://lifo.vermont.gov/assets/Uploads/0b96730b08/Unfunded-Budget-Pressures-Report.pdf>)

- In FY 2022 \$26.4 million of the property transfer tax was redirected from Vermont Housing and Conservation Board and Municipal and Regional Planning to meet Other state needs – This is before the forecast upgrade.

| Fiscal Year 2022 Property Tax (PTT) Allocation | |
|---|------------|
| PTT Revenue – 1/19 Emergency Board Adopted Forecast | 62,300,000 |
| 32 V.S.A. § 9610 (d) \$2,500,000 to Vermont Housing Finance Agency | 2,500,000 |
| 32 V.S.A. § 9610 (c) 2% to Current Use Administration Special Fund | 1,196,000 |
| Remainder for allocation | 58,604,000 |
| 10 V.S.A § 312 50% to the Vermont Housing & Conservation Board (VHCB) | 29,302,000 |
| 32 V.S.A. § 435 (b)(10) 33% to the General Fund | 19,339,320 |
| 24 V.S.A. § 4306 (a) 17% to the Municipal & Regional Planning Fund | 9,962,680 |
| <i>70% to the Regional Planning Commission</i> | 6,973,876 |
| <i>20% to the Municipal Planning Commission</i> | 1,992,536 |
| <i>10% to the Geographic Information Services</i> | 996,268 |
| ** Based on Vermont statutory language | |

Other Areas of Fiscal Pressure Page 1

- Base State Funding
 - This has been constrained for years it has created issues for workforce replacement and , service needs in a variety of departments.
 - Our social service system is built on community service providers. Funding constraints have created difficult financial stress on those entities in their current configurations.
- Higher Education Funding has become a recognized issue
 - State colleges alone have asked for a \$12.5 - \$15 million increase to annual appropriations from FY 22 levels in addition to further limited period investments
 - VSAC and UVM also have funding issues
- Physical Facilities
 - State: State Courts, State buildings - the condition of state buildings varies
 - Short term Court building projects \$10,706,000
 - A new correctional facility has been estimated as \$140 million

Other Areas of State Fiscal Pressure Page 2

- Physical Facilities (Cont.)
 - School construction needs statewide have been estimated in broad terms as between \$300-\$600 million <https://vtdigger.org/2020/02/12/state-school-construction-needs-top-565-million/>
 - State IT is a major expense over the next few years. In FY 2022 the Legislature authorized \$56 million which is a small share of the projects under development
- Other major initiatives under consideration include:
 - Global Warming: estimates are from \$100 to \$200 million annually. The initial thinking is incentives for +/- 40,000 electric cars, and major investments in energy efficiency in housing
 - Broad Band: We are hopeful for continued federal funding but estimates are substantially above current resources committed
 - Clean Water: has received some federal funding put total water/wastewater/ stormwater over the next ten years has been estimated at \$2 billion.
 - Another estimated \$350 million in Brownfield clean up has also been projected
 - Waterbury Dam construction need is about \$15 million in state funds

Legislative Issues

- Education
 - Pupil Weighting
 - School Universal Meals
- Other issues: Housing, Workforce Training, Economic Investments