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The 2013 Budget: Is it Adequate?

by Jack Hoffman

The fiscal 2013 budget adopted by the Vermont House last month would increase state spending by about 6 percent over the current budget year. That may sound like a lot, compared to inflation, say. But Vermont's General Fund budget was cut by 6.6 percent in fiscal 2012[1]—so the proposed increase isn't enough to make up for lost ground, let alone cover inflation or any increased need for services.

Focusing on a one-year percentage increase highlights an important flaw in Vermont's budget process: No one can say whether 6 percent is too much, too little, or just enough, because Montpelier presents Vermonters with no vision of what the budget is meant to achieve—other than to keep state government running.

The "purpose" section of the House's Omnibus Appropriations Act for fiscal 2013 states:

> *The purpose of this act is to provide appropriations for the operations of state government during fiscal year 2013. It is the express intent of the general assembly that activities of the various agencies, departments, divisions, boards, and commissions be limited to those which can be supported by funds appropriated in this act or other acts passed prior to June 30, 2012.*

Although Vermont is the only state not required by law to balance its budget, the expectation in Montpelier and among Vermonters is that spending will match available revenues each year. That's a fiscally responsible stance. But instead of looking at both available revenue and the cost of meeting Vermonters' needs, state budgets start with the revenue estimate and then attempt to adjust spending to match what's in the till.

In other words, Vermont takes the short-term approach of "managing to the money," rather than working toward a long-term strategy to meet Vermonters' needs.

If we think of the state as a bus, the process the governor and legislative budget-writers have followed is to look in the gas tank, estimate how much fuel they have, and try to figure out how far they can get in the coming year. If times are good, they may carry a few more passengers. At other times, in order to go a little farther they'll tell some passengers to walk.

A better approach would be to determine how many passengers are on the bus and where they need to go, figure out the most efficient way to get there, and then make sure there's enough fuel in the tank to get everybody to their destinations.

How we got here

Gov. Richard Snelling, who served from 1977 to 1985 and again from January 1991 to August 1991, earned a reputation for being a good manager of state government. His view was that government had a counter-cyclical role in the economy, which is the opposite of managing to the money. He said state government should grow faster when the economy slowed and more slowly when the economy was better and the private sector stronger.

Snelling maintained that state government could respond to Vermonters' needs for additional services in the difficult times, cut back in the good times, and have a long-term, sustainable growth rate of about 2 percentage points above inflation.[2] He wasn't proposing a rule that the budget ought to grow 2 percentage points above inflation each year. He simply said that was a sustainable growth rate—a reasonable long-term average through the economic peaks and valleys.

Managing to the money, which took root in the mid-1990s, shifted the goal from addressing Vermonters'

1 Includes American Recovery and Reconstruction Act (ARRA) funds used for "base" appropriations—for essential, ongoing programs and services—in fiscal 2011. In fiscal 2009-11, Vermont used ARRA funds to pay for base appropriations that otherwise would have been covered with in-state revenues. Vermont received additional ARRA funds for projects and programs the state might not have undertaken without those federal funds.

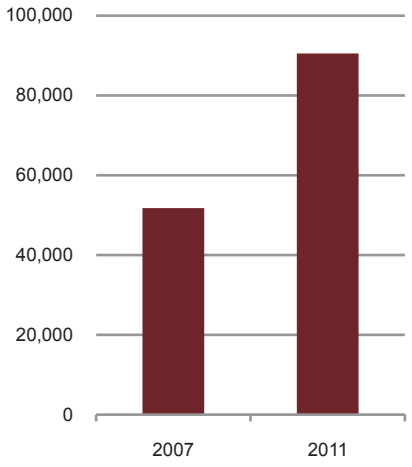
2 Gov. Richard Snelling, Inaugural Address, Jan. 10, 1991.

needs to making the numbers work. That approach didn't pose serious problems before the Great Recession, because the economy was relatively strong. Both the administration and the Legislature assumed an average budget growth rate of 3 percent to 3.5 percent, but sometimes growth exceeded that. For instance, between 1997 and 2008 General Fund spending grew at an annual average rate of 4.7 percent because revenues also were growing at that rate. (As it turns out, 4.7 percent was also 2 percentage points above inflation for that period.) For 25 years before the Great Recession—fiscal 1983 through fiscal 2008—Vermont's General Fund expenditures grew at an average annual rate of 5.3 percent. Inflation averaged 3.1 percent a year.

FIGURE 1

Food Stamp Demand Rose 75%

Vermonters enrolled in 3SquaresVT, 2007-11



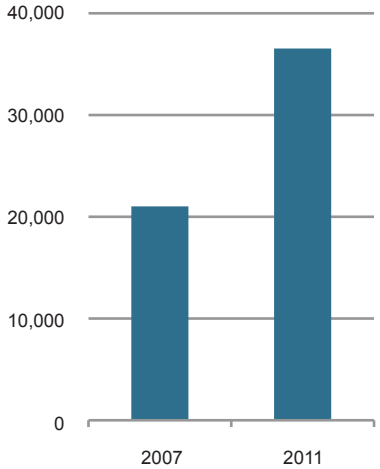
Data source: Agency of Human Services, Economic Services Division

When the recession hit in December 2007 the economy shrank and tax receipts declined. Now managing to the money meant something different: appropriating less money for essential services just when more Vermonters were turning to state government for help. From fiscal 2007 to 2012, the growth of General Fund spending averaged 1.6 percent a year—including use of federal funds Vermont received to make up for the drop in state revenues. The increase approved by the House last week pushes up the average annual growth rate for 2007 to 2013 to 2.4 percent.

FIGURE 2

Heating Assistance Rose 74%

Households receiving LIHEAP, 2007-11



Data source: Vermont Office of Home Heating Fuel Assistance

More than 13,000 jobs disappeared in the first 18 months of the Great Recession. Just as in previous recessions, more families turned to the state for help. From fiscal 2007 through fiscal 2011 the number of Vermonters receiving food stamps through the state's 3SquaresVT program increased by 75 percent—to more than 90,000 (**Figure 1**). In the same period, the number of households needing fuel assistance through the Low-Income Home Energy Assistance Program (LIHEAP) rose 74 percent—to more than 36,000 (**Figure 2**). Reach Up, the program to help support low-income families with children, saw a 31 percent increase in enrollment.[3] And the number of Vermonters receiving health care through Medicaid increased. Meanwhile, the cost of the health care services covered by Medicaid was rising at more than 6 percent a year.

Food stamps and LIHEAP are usually supported entirely with federal funds, so increased demand for those services shouldn't create a direct demand for more state funds. However, Vermont did step in to help when federal LIHEAP funding was cut a few years ago, and in response to more cuts scheduled for next year the House approved $5.1 million from the General Fund for heating assistance. Medicaid and Reach Up require a state match for the federal funding, so increases in enrollment have demanded increases in state funding. General Fund spending for Reach Up, for example, grew at an annual rate of 8.3 percent from 2007 to 2012.

These larger increases were offset with cuts in other areas, which is how budget growth slowed to 1.6 percent after the recession. That's why the courts closed their doors at least one day a month, and the state reduced its workforce by 8 percent, especially positions involving planning, data collection, and analysis. These cuts were not the result of an assessment that the courts were open too much or that the state had too many employees. They were simply the result of manage-to-the-money math: There wasn't enough money coming in at current tax rates, so the state needed to cut spending regardless of Vermonters' needs. If the spending track from 1983 to 2008 had continued

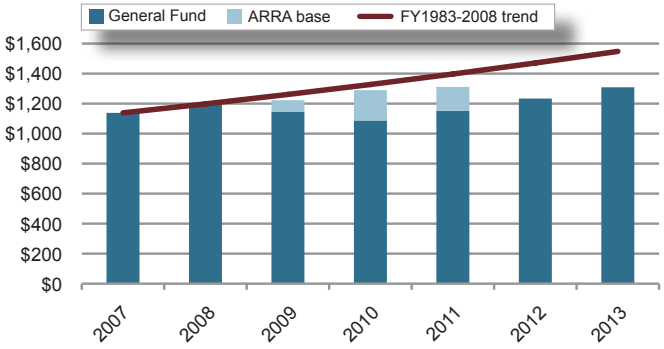
3 Vermont Agency of Human Services, Economic Services Division.

through the recession, the fiscal 2013 General Fund budget would be about $240 million higher (**Figure 3**).

FIGURE 3

Recession Spending Fell Below Long-Term Trend

General Fund, including federal ARRA funds, FY2007-13, in millions



Data source: Vermont Joint Fiscal Office

What's enough? Who knows

Even this long-term growth trend doesn't answer the question of how much Vermont should be spending in fiscal 2013. In fact, Vermont doesn't know what it should cost to carry out all of the current functions and obligations of state government. One way of knowing would be to prepare a current services budget each year, which would provide an assessment of the cost of delivering existing state services with adjustments for known or anticipated changes—for example, higher fuel costs or higher unemployment. But Vermont does not prepare a current services budget.

Instead, what Vermont has published in recent years is a consensus "budget gap" estimate. The administration and the Legislature's Joint Fiscal Office agree on a projected General Fund spending amount. Their economists also prepare a consensus estimate of how much revenue the state expects to collect with no changes to current law. The difference between the spending and revenue forecasts is the budget gap that needs to be closed to balance the budget. For the last few years, Montpelier has relied primarily on budget cuts and one-time revenue windfalls to close the gap, though officials have used small tax and fee increases to raise some additional funds. Both the administration and the Legislature have generally opposed raising broad-based taxes.

TABLE 1

FY2013 General Fund Budget Gap

	in millions
Available revenue	$1,307
Estimated need	$1,358
Difference	$51
Governor's proposal to close the gap	
One-time funds (Human Services)	$20
Human Services cuts	$19
Increased special fund revenues	$12
	$51

Data source: Vermont Joint Fiscal Office; Department of Finance and Management

It's not clear how the spending side of the budget gap calculation is derived, though it is usually based on the prior year's budget—which itself may have been inadequate—with some adjustments up or down for unavoidable expenses or anticipated savings. The administration does not release information from agencies and departments showing how much they need to run their programs or carry out their obligations for the coming year. The budget gap estimates for the last three years show the demand for General Fund spending going down: The spending forecast for fiscal 2013 is about $40 million less than the fiscal 2010 projection.[4] It's hard to imagine the need for spending was dropping while the economy remained soft and demand for services high.

The real budget gap

Even with this forecast of declining spending, the administration and the Legislature calculated about a $50 million budget gap for fiscal 2013. When he presented his budget in January, Gov. Peter Shumlin recommended using one-time revenues left over from the previous year, primarily from human services; cutting human services programs; and using unanticipated revenues from other state funds, such as cigarette taxes and taxes from health care providers (**Table 1**).

This is the gap in the General Fund, which covers most functions of state government—such as the judicial and prison systems, environmental regulation, economic development, human service programs, state police, and a portion of education. But the $1.3 billion General Fund accounts for only about a quarter of all of the money the state will spend in fiscal 2013.

There is no discussion of a shortfall in the remaining three-quarters of state spending. Appropriations from the Education Fund, not counting money it receives from the General Fund, are about $1.1 billion. Spending

4 Joint Fiscal Office forecast, November 2009.

from federal funds, including additional money provided for recovery from Tropical Storm Irene, will total almost $1.8 billion. Transportation, state-funded health care, and other functions grouped into "special funds" come to almost $750 million. With a few other minor funds, state spending totals $5 billion, including the General Fund (**Table 2**).

TABLE 2

House Approved Spending, by Major Fund, FY2013

	in millions
Federal funds	$1,774
General Fund	$1,309
Education Fund (less General Fund transfer)	$1,113
State Health Care Resources Fund	$266
Special funds	$238
Transportation Fund	$235
Fish and Wildlife Fund, Tobacco funds, Infrastructure Bonds	$75
	$5,010

Data source: Vermont Joint Fiscal Office; Department of Finance and Management

Vermont has numerous needs that are not being addressed—such as the backlog of paving and bridge repair projects even before Irene struck. But the difference between necessary spending on Vermont's highway system and available transportation funds is not included in the budget gap projections. Nor do costs disappear simply because the General Fund has balanced its books. For instance, when the Legislature reduces the annual transfer from the General Fund to the Education Fund—as it has in recent years—the gap in the Education Fund grows and has to be closed by increasing property taxes or cutting school budgets. Projected shortfalls in education funding are never included in the budget gap projections.

Eyes on the goal

Vermont's budget process has become an exercise in making the numbers work—holding General Fund spending to an arbitrary measure of acceptable growth, which by definition does not exceed anticipated revenue. In the meantime, we seem to have lost sight of the purpose of the state budget—and of state government: to meet Vermonters' needs.

Vermont should have a budget process that begins with an objective assessment of need. But before that assessment is made, there should be public agreement and understanding of what we're trying to achieve with the $5 billion we're spending each year. High on the list should be meeting the fundamental human needs of Vermonters, which include adequate food and housing, safe neighborhoods, a clean environment, high quality education, a fair and speedy judicial system, and economic opportunities sufficient to support a decent standard of living.

Vermont also needs to re-establish a system of accountability—tracking how well it is doing in meeting those fundamental needs. The state should resurrect the Vermont Well-Being Reports, last published in 2006, which measured the overall health of Vermont society. Can we honestly say Vermont is meeting its commitment to residents when more than 70,000 people are living below the poverty level?[5]

Vermont needs to develop new indicators so people can see whether everyone is sharing in the state's economic prosperity, or just a few at the top. When the governor calls for rebuilding Vermont's middle class, it should be easy for Vermonters to access information that shows the state's progress toward that goal. The growth in Vermont's income disparity over the last 25 or 30 years should tell us we've been moving in the wrong direction.

Finally, the annual budget process needs to provide a meaningful way for Vermonters to provide input beyond being allowed to speak for two minutes at a public hearing. After all, it's Vermonters' tax dollars that fund state government. The state should be using these funds for the wellbeing of Vermonters.

Without objective needs assessments, meaningful public participation, and easily accessible, comprehensible transparency and accountability, the budget process is disconnected from the people—and the debate shrinks to the budget's percentage increase or decrease in a given year. Vermonters deserve better.

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5 U.S. Census, American Community Survey, 2008-2010.

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The Public Assets Institute supports democracy by helping Vermonters understand and keep informed about how their government is raising and spending money and using other public assets.