



Vermonters Would Pay More with Governor’s Budget Cuts

by Jack Hoffman

In proposing his latest budget to the Legislature, Governor Douglas says he will show a balanced state budget with a minimal increase in taxes. But his plan is obsessively focused on reducing the General Fund bottom line, the most visible part of state spending, while hiding other costs—and ignoring other needs—of Vermonters.

To achieve his goal, the governor would make cuts that would lose Vermont millions of dollars in matching federal revenue—money to cover expenses that Vermonters then would have to pick up. He would not really reduce the financial burden on Vermonters, either, because his proposal shifts costs from the General Fund onto local property taxpayers, health insurance premiums and co-pays, and individual Vermonters who are most in need. The plan would reduce the size and cost of state government, with little consideration of what the state should be doing to address the needs of Vermonters during this difficult recession.

Administration documents show \$43 million¹ in cuts from the spending plan approved by the Legislature – including \$10.8 million that would have been paid for with federal Medicaid matching funds. However, the administration’s figures don’t reflect another \$14 million to \$16 million in federal funds for human services, farmland conservation and the Americorps program the state would have to forgo as a result of the proposed cuts.²

The governor’s plan would also begin the process of dismantling the Vermont Housing and Conservation Board, which would be cut by 85 percent,³ and the state’s education funding system, the one public structure that Vermonters have successfully maintained even in the economic downturn.

Figure 1. Administration’s Counter-Proposal to Legislature’s FY 2010 Budget

Budget Reductions	
Human Services	-\$20,750,096 ⁴
Unspecified Workforce/Contract changes	-\$5,300,000
K-12 Education	-\$4,752,966 ⁵
Unspecified government restructuring	-\$5,000,000
VHCB	-\$5,000,000 ⁶
Other reductions	-\$2,890,011
Total reductions	-\$43,693,073

Budget Increases	
Next Generation Scholarships	\$2,600,000
Rest Area Operations	\$400,000
Vermont Telecom Authority	\$500,000
Economic Development	\$4,400,000
Sales Tax Holiday	\$1,133,333
Total increases	\$9,033,333

Human Services Cuts

The proposed cuts target human services programs simply because that is where the money is. The human services budget represents the largest share of state spending: the Legislature appropriated \$1.87 billion for human services for fiscal 2010⁷—about \$2 of every \$5 the state is projected to spend.

But the plan shows little regard for what the cuts mean to the people affected. The \$21 million cut from human services programs⁸ is a relatively small percentage of total human services spending, but it is a critical amount to providers and recipients of services.

Several cuts would reduce payments to Medicaid providers—hospitals, doctors, chiropractors, and dentists. Administration officials suggested these cuts would help drive down the cost of health care. But lowering the amount the state pays to doctors and hospitals doesn't reduce the demand for services or reduce overall health care costs. When hospitals receive smaller Medicaid payments, they typically pass those costs on to those with private health insurance. We also know from past experience that when payments to family physicians are reduced, they are forced to cut back on the number of Medicaid patients they serve. Those patients still need care, but they turn to emergency rooms, often after they have gotten much sicker—and that is the most expensive health care, both in dollars and in patients' wellbeing.

With many of the Medicaid cuts the administration has proposed, Vermont will save only 30 cents for each \$1 reduction in spending. That is because the cost of Medicaid is shared with the federal government. The plan cuts \$15.4 million in Medicaid services to save \$4.6 million in state funds.⁹ Administration officials have said that any federal matching funds they don't draw in fiscal 2010 still will be available in fiscal 2011. But the state can use the federal money only if it puts up its share of matching funds. Given all the governor has said about reducing state spending even further, it seems unlikely he will suddenly propose an increase in Medicaid spending next January in order to take advantage of federal funding. For all practical purposes, the federal money passed up in fiscal 2010 will be lost.

In addition to cuts to Medicaid providers, the plan would reduce Medicaid patients' maximum annual benefit for dental services from \$495 to \$200.¹⁰ It would also eliminate coverage for chiropractic services, even though the state currently requires all private insurers to provide that coverage.

Housing and Conservation Board

The Vermont Housing and Conservation Board (VHCB) was created in the mid-1980s to invest in affordable housing and land conservation. The Legislature initially appropriated \$15 million for the VHCB in fiscal 2009, but the funding was reduced to \$13.2 million in midyear budget cuts.¹¹ For fiscal 2010, the Legislature reduced the board's funding to \$7.1 million, and now the governor has proposed another \$5 million cut.

Besides sharply curtailing investments in housing and land conservation, the administration's proposal would jeopardize \$6.5 million - \$9 million in federal money available for farmland conservation, Americorps volunteers, and lead paint abatement.

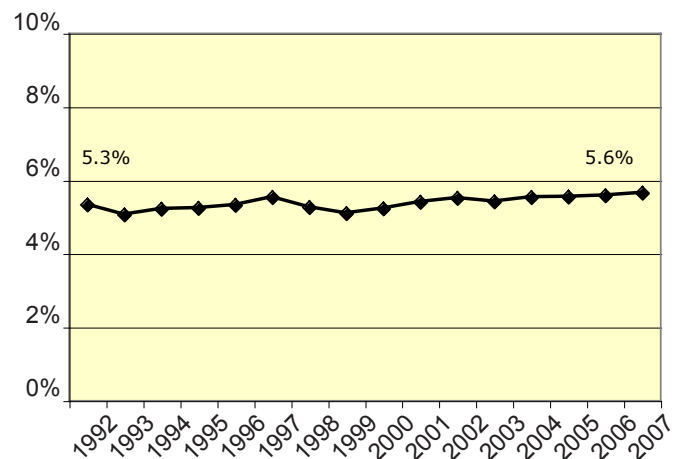
With state funding pared to \$2 million in fiscal 2010 from \$15 million in fiscal 2008, the VHCB would become largely a pass-through for federal funding provided by the American Recovery and Reinvestment Act. It is not clear what would become of the board after the federal stimulus money runs out.

Education Funding

With the latest budget proposal, the governor has renewed his complaint about "skyrocketing education spending" and his call for an overhaul of Vermont's education funding system. The administration keeps warning that, without reform, more than 25 percent of all general funding spending—about \$320 million in fiscal 2010—will go to education.

But these claims are not borne out by facts. Education spending as a percentage of the state's overall economy varied little from 1992 to 2007, the latest year data are available. Education spending remained between 5.1 percent and 5.6 percent of Vermont's gross state product during the period (**Figure 2**).

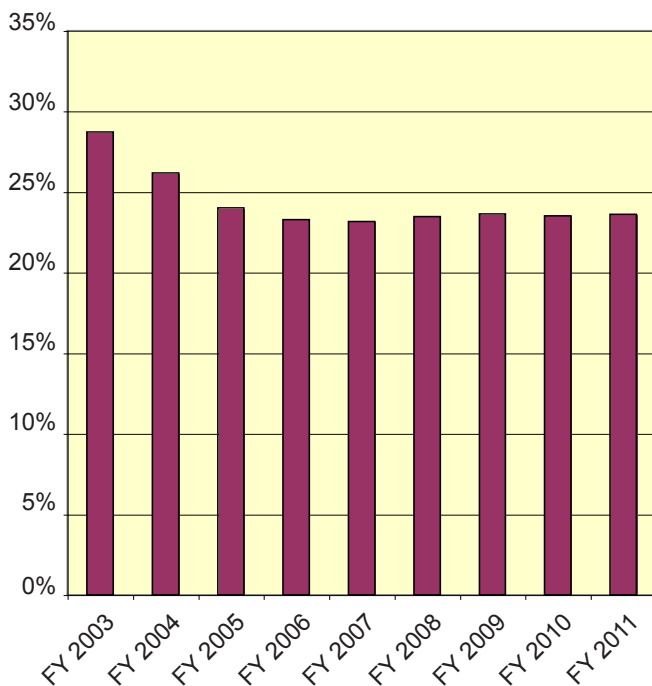
Figure 2. Total Education Expenditures as a Percentage of Vermont Gross State Product



Source: Vermont Superintendents Association

As a percentage of the general fund budget, the amount transferred to the Education Fund has declined—not grown—since fiscal 2003. At that time, the annual transfer to the Education Fund amounted to nearly 28 percent of the General Fund¹² (**Figure 3**). It dropped to 24 percent in fiscal 2005 when Act 68 took effect and the percentage has remained flat ever since. The Education Fund has remained stable, which is not the case with the state’s other major accounts. There is no indication that education costs are putting undue pressure on the General Fund.

Figure 3. Transfers to Education Fund as a Percentage of General Fund



Data source: Joint Fiscal Office

With his new plan, the governor has proposed to shift General Fund costs to the property tax. He would have the Education Fund pay for retired teachers’ pensions and health care. Those costs have traditionally been a General Fund obligation, although in recent years the state has fallen behind in its payments to the retirement fund.

For fiscal 2010, the payment should be about \$40 million, and in fiscal 2011 nearly \$60 million.¹³ To cover this additional cost to the Education Fund, the governor is proposing to use one-time funds and a property tax

increase in fiscal 2010 and to freeze per-pupil spending for fiscal 2011. Schools could spend no more per pupil than they’re spending for fiscal 2010. The two-thirds of school districts that are expecting enrollments to decline in fiscal 2011 would have to reduce their total spending—probably by laying off teachers.

If forced to freeze spending, local school districts should be able to reduce the property tax. The residential rate, which will be 86 cents per \$100 of assessed value this year, could drop by as much as 6 cents in fiscal 2011. However, the governor has proposed to drop the property tax rate only 1 cent and use the rest of the saving from the budget freeze to cover the cost of teachers’ retirement.

The plan would force local school officials to make the difficult budget cuts, which would certainly increase pupil-teacher ratios around the state. But most of the savings would only cover costs that are now General Fund obligations. In other words, the administration wants to shift costs from General Fund taxes, primarily the progressive income tax, onto the property tax.

The governor’s plan relies on federal stimulus funds to help pay for education and cover some of the cost of teachers’ retirement in fiscal 2010 and 2011. But the plan does not show what happens in fiscal 2012, when the federal stimulus money is expected to run out. According to the Joint Fiscal Office, the Education Fund could have a shortfall of more than \$100 million if the liability for teachers’ retirement and health care is shifted from the General Fund.¹⁴

Unspecified Cuts

The plan includes more than \$10 million in unspecified cuts.¹⁵ These include:

- \$5 million in “structural changes”
- \$2.3 million in “workforce savings”
- \$3 million in “personal service contract reductions”.

The structural changes are to be drawn from a report on ways to improve government efficiency that was prepared for the governor four years ago. While they believe they can cut \$5 million in fiscal 2010, administration officials said the ultimate goal was to save \$20 million a year through government reorganization and reform. The budget plan does not say precisely

what changes will be made, but it lists some structural reforms to be analyzed and suggests new names for some reorganized state agencies, such as the Agency of Regulations and Permitting, the Agency of Public Safety, the Agency of Health Care Reform, and the Department of Revenue.

It is also not clear what cuts would have to be made to achieve the workforce savings and reduce personal services contracts. The administration set a target of \$17 million to cut from the state payroll—a reduction of about 6 percent.¹⁶ The legislature approved \$14.7 million in cuts. Despite negotiations with the Vermont State Employees Association to find other ways to reduce the payroll, it appears most of the savings will come through layoffs. With fewer state workers, Vermonters will see a reduction in the level and efficiency of the services they receive from state agencies.

Conclusion

The state budget is a policy document, not a bureaucratic balance sheet. A good state budget is not simply one where expenditures equal revenues. A good state budget is one where expenditures and revenues are sufficient to meet the needs of all the state's citizens.

Balancing the state budget is responsible fiscal policy. Reorganizing state government to make it more efficient is a worthy goal—although the upfront costs usually make it easier to do when the economy is growing, not shrinking.

But reducing the size of government does not necessarily make it more efficient or effective, and balancing the budget simply by shifting costs does not reduce what Vermonters ultimately have to pay. Because the governor's budget proposal is focused on reducing the General Fund bottom line at all costs—even when that means returning federal funds and increasing costs to Vermonters—it fails to map out a viable policy direction for the state's future. This is not a plan the legislature can or should follow.

ENDNOTES

- 1 Gov. James H. Douglas, "Alternative Approach to FY 2010 Budget," May 19, 2009.
- 2 Joint Fiscal Office estimate
- 3 Vermont Housing and Conservation Coalition analysis of governor's budget proposal, May 19, 2009.
- 4 Includes loss of \$10.8 million in federal funds recognized in administration's figures, but does not include additional lost federal funding associated with other human services programs, such as long-term care and "Temporary Aid to Needy Families" (TANF).
- 5 Proposal includes shifting teachers' retirement and other costs to Education Fund after fiscal 2010.
- 6 Will likely result in loss of an additional \$6.5 million - \$9 million in federal funding for farmland conservation, Americorps volunteers, and lead paint abatement.
- 7 Joint Fiscal Office, unduplicated state and federal funds.
- 8 Douglas, op. cit.
- 9 Ibid.
- 10 Ibid.
- 11 Vermont Housing and Conservation Coalition, op. cit.
- 12 Joint Fiscal Office, Appropriations History 1983-2008; Five Year Outlook, FY2009-FY2013, 5/9/2009; History of GF transfers to the Education Fund, FY2000-2011, "total transfers."
- 13 Douglas, op. cit.
- 14 Joint Fiscal Office, Draft Issue Brief, "Teachers Retirement Obligations and the Proposed Transfer to the Education Fund," May 20, 2009.
- 15 Douglas, op. cit.
- 16 Based on Department of Finance and Management calculation that approximately 40 percent of the state's payroll expenses fall to the General Fund.

© 2009 by Public Assets Institute

This research was funded in part by the Annie E. Casey Foundation and the Public Welfare Foundation. We thank them for their support but acknowledge that the findings presented in this report are those of the Public Assets Institute and do not necessarily reflect the opinions of the foundations.

Public Assets Institute



PO Box 942, Montpelier, Vermont 05601
802-223-6677
www.publicassets.org

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.