

***Public Infrastructure and Economic Development***  
Presentation to the Rural Economic Development Working Group

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**I. Introduction**

- A. Public Assets Institute -- nonpartisan, nonprofit organization. We do independent fiscal analysis on public policy issues.
- B. I appreciate the fact that you're meeting to think about rural economic development.
- C. You probably have or will at some point talk about agriculture, tax credits, or the creative economy as you discuss rural economic development. These are all important.
- D. I want to talk about something more basic -- public infrastructure -- this isn't the flashy part of economic development, but is critical to the well-being of Vermonters and the economic health of communities.

**II. Public infrastructure**

- A. When I talk about public infrastructure, I'm talking about all the things that state and local government, and nonprofit organizations, do for citizens.
  - 1. Transportation infrastructure -- roads, bridges, rail, airports and all the staffing required to maintain them
  - 2. Public education infrastructure
  - 3. Health care infrastructure -- most of the cost of the health care system is paid for with government funds -- directly or indirectly
  - 4. Energy infrastructure -- regulation, planning, development and ownership of less profitable markets

- a) Rural Electrification Administration formed in 1935 to provide rural areas with lighting and electricity. Made long-term loans to state and local governments and non-profits. Electric coops still exist.
- 5. Communication -- radio, TV, telephone, internet
  - a) REA jurisdiction was expanded in 1949 to include telephone
- 6. Childcare, eldercare, mental health services, police, corrections
- 7. Clean water, land conservation, recreation

### III. Perception of public infrastructure

- A. If we think of individual, free-enterprise activities as patches in a quilt, the public infrastructure is the thread, the border, the backing, and the fill that makes it possible for those patches to come together to form a quilt. And while the patches provide the color and the images that make it striking and memorable, the quilt would not be possible without the support provided by those structural materials.
- B. The problem presented by the public infrastructure is that it is necessary, but largely invisible and taken for granted.

### IV. Funding the public infrastructure

- A. I'm talking with you about this today because not only is this public infrastructure important, but providing the funds to keep it in place is one of the major roles of the legislature.
  - 1. the budget the House passed last week reflects priorities that affect the public infrastructure, whether or not those priorities are clearly articulated
- B. Summary
  - 1. if you're interested in economic development
  - 2. and you understand that economic development is dependent on an adequate public infrastructure

3. the question is how do you ensure that funding for this infrastructure is reliable into the future?

## V. Structural deficit analysis

- A. We decided to take a look back at state budgets to see what we could learn that might help us going forward.
- B. What we've done
  1. Looked at a 14-year period from 1992-2005
  2. Used budget data available from JFO
  3. I want to talk about our preliminary findings

## VI. Preliminary Findings

- A. First, let's look at the state's priorities as expressed in the budget
  1. Looking at the 14-year trend
    - a) we see some areas declining as a percentage of the total budget
      - (1) education and higher education
      - (2) natural resources
      - (3) employment and training
      - (4) transportation
    - b) increases as a percentage of the total budget
      - (1) Human services
      - (2) Public Safety
      - (3) Development and Community Affairs
  2. overall a little more than 4%/year budget growth in real dollars
  3. Medicaid and Corrections were in the top ten (within Human Services)
    - a) Medicaid -- 14.4% per year
    - b) Corrections -- 11.2% per year
- B. Sources of funds for the budget
  1. Looking at where the money comes from to pay for the public infrastructure
    - a) FY-92 -- largest single source was general fund, second was federal funds, then transportation, then special funds

- b) GF and TF real growth has been flat over this period
  - c) Real growth in the budget has been covered by federal funds (87% increase) and special funds (490% increase)
  - d) FY-05 (last year) -- largest source was federal funds, then GF, then Special Funds, then TF
2. Looking at this a different way
- a) GF -- 3% real growth for the entire 14-year period; virtually zero annual growth
  - b) increased reliance on federal funds and special funds
    - (1) use of special funds during this period have increased to nearly \$400 m in FY-05
    - (2) Federal funds account for 27% of all state appropriations (FY-05); 39% of appropriations excluding school property taxes
      - (a) special funds are the source for 10% of total FY-05 spending
      - (b) transportation fund accounts for only 5.6% of spending
3. An observation -- in the budget balancing process, revenue that comes without having to raise state taxes is considered "free money"
- a) federal money and special fund money are in this category
  - b) Obviously, if the money is there, we should use it
  - c) when it is used for ongoing programs, however, it creates concerns:
    - (1) difficult to monitor; no regular published public reporting
    - (2) difficult to project; no overall projections done (unlike GF, TF, EF)

(3) subjects important state services to whim of Washington or potentially unsustainable funding sources

(4) depending on funding that cannot be monitored, projected, or relied upon creates crises year after year and makes the public infrastructure unreliable

C. Is Vermont's spending sustainable (2005 dollars)?

1. Over the entire 14-year period

a) Non-fed, state and local budget growth -- avg. annual growth 2.6%

b) GSP growth -- avg. annual 2.4%

c) Personal income growth - avg. annual 2.7%

2. Vermont's spending growth has been pretty much in line with, and slightly below, personal income growth

3. As a percent of GSP and Personal Income, we're hovering around 10-12%

4. HOWEVER -- new funding demands for the same services could push that higher or force budget cuts or both;

a) reliance on federal dollars with huge new federal commitments (war, tax cuts) will probably mean reduced federal funds for Vermont

b) new challenges ahead

(1) JFO suggests (2/16/06 document on website) -- FY-08 could be the beginning of large new challenges -- \$100 million

(2) GASB 45 -- health care costs included in actuary's calculation of needed annual contribution to pension funds

(3) aging population

(4) rising energy costs

(5) rising health care costs

(6) declining manufacturing sector -- best paying jobs

(7) increase in low-paying service jobs

D. No silver bullet -- some things we can do

1. begin to report on and do projections for the 41% of funding that we rely on but know little about -- especially federal funds and special funds.
2. talk about the relationship between public infrastructure and economic development so that as the state faces these new funding pressures, the legislature can make prudent choices that support, rather than undermine, the state's economic future.