



# Reducing State Services: The Wrong Fix

by Jack Hoffman

Vermont has a revenue problem. The recession has meant less economic activity: Vermonters and Vermont businesses are earning and buying less. This has significantly reduced the amount the state collects, but it has not reduced Vermonters' need for the court system, highways, schools, food inspections, and other state-funded services.

While the problem is on the revenue side of the ledger, the state has looked primarily to the spending side to solve it. The Legislature enacted some new revenue measures last session to fill the budget gap. But in fiscal 2009 and fiscal 2010, it made almost \$4 in cuts for every \$1 of revenue it raised. As they begin work on the fiscal 2011 budget, lawmakers are starting with a budget that has already been cut by \$75 million. Yet they are facing an additional \$150 million hole and proposing even more cuts to deal with it. They cannot do so without undermining the public services that Vermonters depend on and leaving the state at a disadvantage when the economy begins to rebound.

Public Assets Institute has recommended that Vermont follow the example of many other states and adopt a balanced approach to balancing the budget during this economic slowdown. The balanced approach—which includes restoring lost revenue and using rainy day funds in addition to cuts—recognizes that all Vermonters both use public services and pay taxes.

Vermont has benefited from hundreds of millions of federal economic recovery dollars to help it get through the recession. The federal money is being spread over three state fiscal years (2009 through 2011), replacing much of the state's lost revenue needed to pay for basic public services. But even after using the federal funds, Vermont was short of revenue—almost \$69 million in fiscal 2009 and \$146 million in fiscal 2010 (Table 1). The Legislature relied primarily on budget cuts to make up for the revenue shortfall.

TABLE 1

## Gaps Were Closed Primarily with Budget Cuts<sup>1</sup>

Dollars in millions

<b>Budget Gaps</b>	<b>FY2009</b>	<b>FY2010</b>
Total General Fund need	\$ 1,318.9	\$ 1,350.0
<i>State revenue</i>	1,175.6	1,029.7
<i>Federal recovery funds</i>	74.7	174.5
Total available funds	1,250.3	1,204.2
<b>Budget gap (difference)</b>	68.6	145.8
<b>Closing the Gap</b>		
Budget cuts	67.6	98.8
Revenues		
Rainy day funds (reserves)	1.0	16.3
New revenue	-	26.1
<b>Total cuts and revenues</b>	\$ 68.6	\$ 141.2

## Calculating the Cuts

The budget gap is the difference between the estimated cost of providing public services and the revenue the state expects to collect. The federal government and a handful of states prepare formal projections of costs each year. These “current services budgets” take into account adjustments for inflation, pay raises, and increased demand for services, such as the rising need for food stamps and unemployment benefits in a recession.

Vermont doesn't publish current services budgets, but it should. If it did, people could compare them side by side with appropriations to see whether the Legislature was appropriating adequate funds to provide necessary state services like operating the courts, protecting the environment and public safety, educating children, and caring for the most vulnerable citizens. They also could see exactly how much services have been cut in recent years.

In the absence of a current services budget, the Legislature uses budget and budget gap projections prepared by the Joint Fiscal Office. These estimates typically assume that the base budget should grow at about 3.5 percent a year—although annual growth in actual General Fund appropriations has been higher than that since 2002.

Public Assets Institute used these projections as a measure of how much the state needed to spend to pay for existing services. Based on the Joint Fiscal Office estimates, General Fund spending should have been \$1,319 million for fiscal 2009 and \$1,350 million this year.

However, those amounts exceeded the available revenue—even with additional federal economic recovery funds—and the Legislature responded by cutting services. For fiscal 2009, lawmakers cut General Fund spending by \$68 million and \$99 million for fiscal 2010.

The Legislature did make up some lost revenue those years. In 2009, they used \$1 million in rainy day funds (out of a total of more than \$75 million).<sup>2</sup> In fiscal 2010, they used an additional \$16 million of the reserves and also made some tax changes: They reduced Vermont's tax exemption on capital gains, reduced the deductibility of state income taxes, and approved some minor tax increases. The tax changes generated about \$26 million.

Over the two years, the Legislature replaced about \$43 million in revenue, but cut \$166 million in spending (**Figure 1**). While this approach was better than relying on budget cuts alone, to make nearly \$4 in cuts for every \$1 of new revenue cannot reasonably be described as balanced.

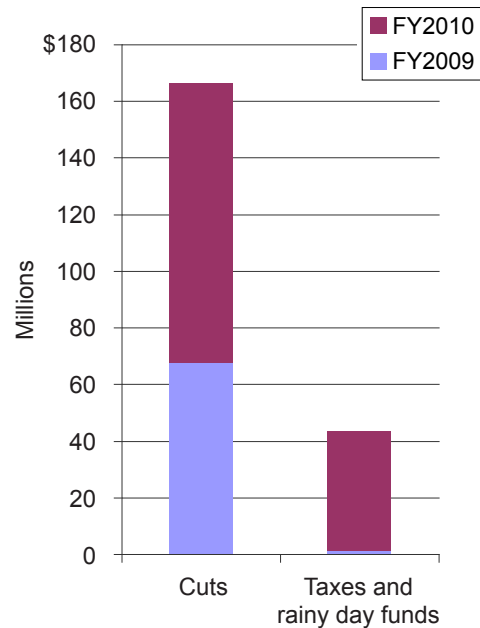
### Before the Recession

Recessions pose especially difficult fiscal problems because state tax receipts decline just when more people need public services. But even before the recession, Vermont's budget was not keeping up with the need for services. From fiscal 2002 to fiscal 2008, the General Fund budget grew at an average annual rate of just over 5 percent. But during much of that period, health care costs were rising at more than 7 percent.<sup>3</sup>

FIGURE 1

### Cuts to Revenue Almost 4 to 1

Total of cuts vs. revenue used to close FY2009 and FY2010 budget gaps



Data source: Joint Fiscal Office

One way to cut costs is by improving efficiency. The Legislature has taken a good first step by hiring a consultant to look for real savings in the way state government carries out its duties. While the Legislature should be finding more efficient ways to deliver the services that all Vermonters use, simply cutting the budget does not necessarily save money. Some cuts that eliminate state funding for services merely shift costs—often higher costs—onto average Vermonters. Cuts to Medicaid, for example, increase Vermonters' out-of-pocket expenses because the state loses federal matching money that would have helped pay for a portion of the services. Without that federal help, the full cost of health care falls to Vermonters, in many cases those who can least afford it.

The state has also been reducing the number of state employees as a way to reduce costs. It has cut more than 600 jobs through attrition and layoffs—nearly 7 percent of the state's work force. But the gradual erosion of personnel, services, and infrastructure is beginning to show.

## Growing Cracks

Bridge closings—in Middlesex and Richmond in recent years and now the Champlain Bridge to New York—are the most visible examples of a neglected public infrastructure. But other cracks are beginning to appear.

- The Burlington police recently warned that they could not be expected to care for people who are ending up on city streets because of cutbacks in mental health services.<sup>4</sup>
- Staff cuts at the Department of Aging, Disabilities, and Independent Living are leaving many of Vermont's most vulnerable citizens, especially older people with disabilities, without proper care.<sup>5</sup>
- Inadequate staffing is blamed for the death of a young Rutland woman who did not receive proper medical care in a Vermont prison.<sup>6</sup>
- Poor Vermont schoolchildren are missing out on a new federally funded hot meal program because the Vermont Department of Education lacks one employee to oversee the program—an employee whose position also would be funded fully by the federal government.<sup>7</sup>

## More Cuts Threatened

The recession hasn't lessened Vermonters' need for decent roads, good schools, home visits for the elderly, or health care. The annual cost of providing those services rises—whether or not the Legislature chooses to appropriate enough money to fund them. With even modest growth, the estimated cost of services needed in 2009—\$1,319 million—could be expected to rise to about \$1,412 million in 2011.<sup>8</sup>

But the Joint Fiscal Office is projecting a decline in the cost of needed services next year. The fiscal office appears to be assuming that Vermonters have no need for the services that were cut in 2010. The difference between the Joint Fiscal Office projection and even a modest growth in the cost of services is about \$75 million.

That Joint Fiscal Office projection is likely to be the starting point for the 2011 budget debate. In other words, lawmakers discussing the budget are really starting with cuts of at least \$75 million. And even with this lower starting point and a final round of federal recovery funds, both the Joint Fiscal Office and the Douglas administration are estimating a budget gap of about \$150 million.

The real problem the Legislature faces for next year is a revenue shortfall of about \$225 million—\$75 million in cuts already made and the additional \$150 million gap.

Legislative leaders are warning of further cuts, but they shouldn't assume the need for services has gone away. Closing the courts two and a half days a month doesn't eliminate Vermonters' need for a timely resolution of their cases. Cutting home visits to elderly Vermonters doesn't reduce their need for help on the days they're left alone. Underfunding teachers' retirement doesn't mean that obligation has disappeared.

A balanced approach to solving the 2011 budget problem should mean finding new revenue to fill a significant share of the remaining \$150 million gap. Montpelier must be sensitive to the limits on citizens' ability to pay taxes during a recession. But lawmakers also must recognize that in any economy, and particularly during a recession, cutting back services that Vermonters depend on—plowed roads, good schools, a fair and efficient judicial system—has serious consequences for our state. A balanced approach that includes new revenue to address the fiscal 2011 budget gap not only helps Vermonters weather the recession, it also keeps the state on track for a solid recovery.

## ENDNOTES

1. Data from Joint Fiscal Office file GENERAL-#244527-v7-GF\_five\_year\_cliff\_analysis.XLS. “General Fund need” calculated from available revenue and projected budget gaps; “State Revenue” for FY2010 adjusted to exclude funds contained in “Closing the Gap.” The remaining \$4.6 million budget gap projected for FY2010 is expected to be addressed in a budget adjustment bill in the 2010 legislative session.
2. Fiscal Year 2010 Executive Budget Recommendations, Jan. 22, 2009, page 23, projected fiscal 2009 stabilization reserve balances: General Fund \$60 million; Human Services caseload reserve \$16.3 million.
3. 2007 Vermont Health Care Expenditure Analysis & Three-Year Forecast, Vermont Department of Banking, Insurance, Securities, and Health Care Administration.
4. “Mental Illness Taxes Services,” *Burlington Free Press*, Nov. 23, 2009.
5. Ed Paquin, executive director Disability Rights Vermont, analysis of proposed fiscal 2011 budget cuts, Nov. 30, 2009.
6. “Dying in Cell 40: Flaws in Vermont’s prison medical system were fatal for Ashley Ellis,” Terry Allen, *vtdigger.org*, Dec. 14, 2009.
7. Interview with Vermont Department of Education staff.
8. Assumes an annual growth of 3.5 percent, the figure typically used by the Joint Fiscal Office even though in some years that was not enough to cover the cost increase for health care services alone.

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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.