



Owning our Fiscal Future

Making Important and Necessary Choices

Vermont Business Roundtable Annual Meeting

January 14, 2010

Presented by Ken Perine, Chair
Tax & Fiscal Policy Task Force



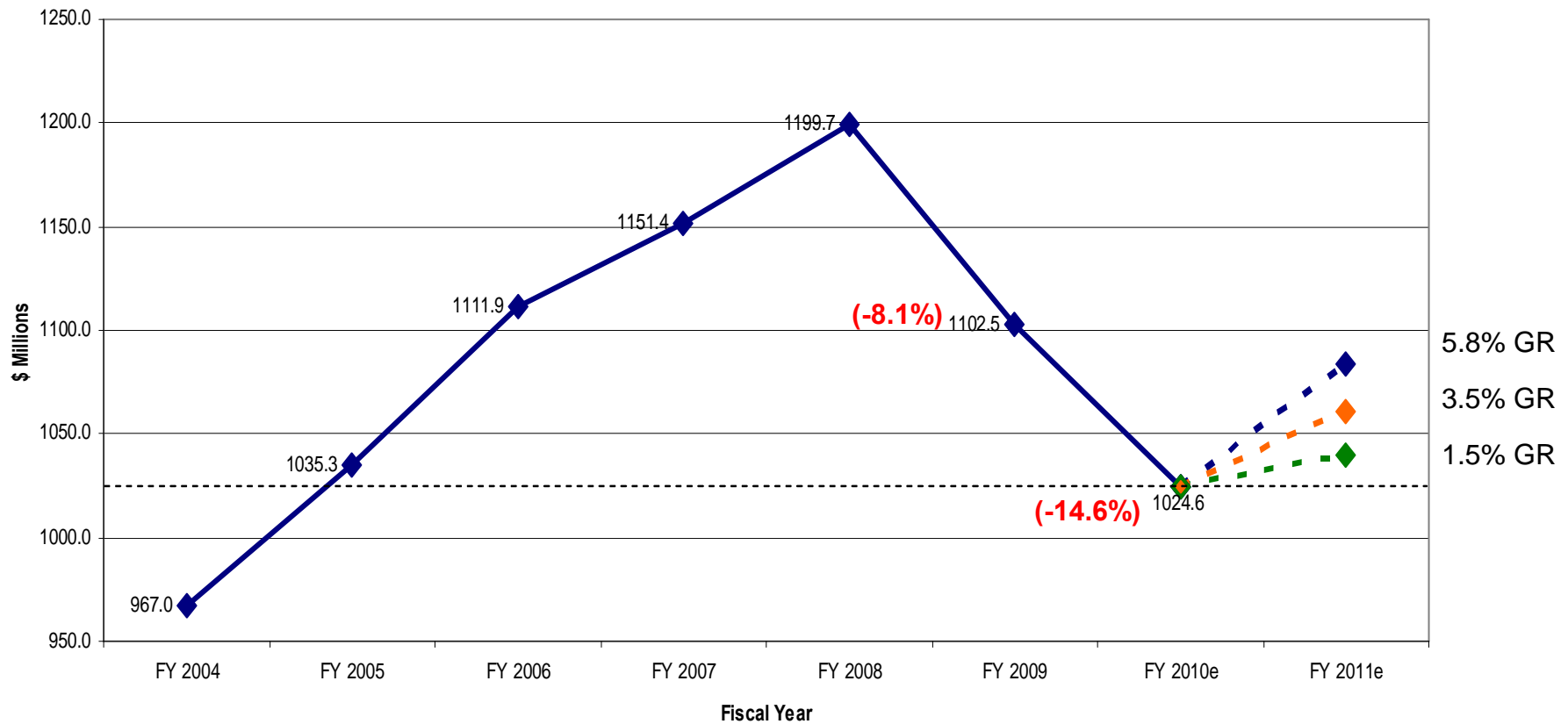
Owning Our Fiscal Future

- Key Problem Statements
- How We Got Here
- Policy Alternatives
- Recommendations

Key Problems

2010 Revenues are below 2005 levels

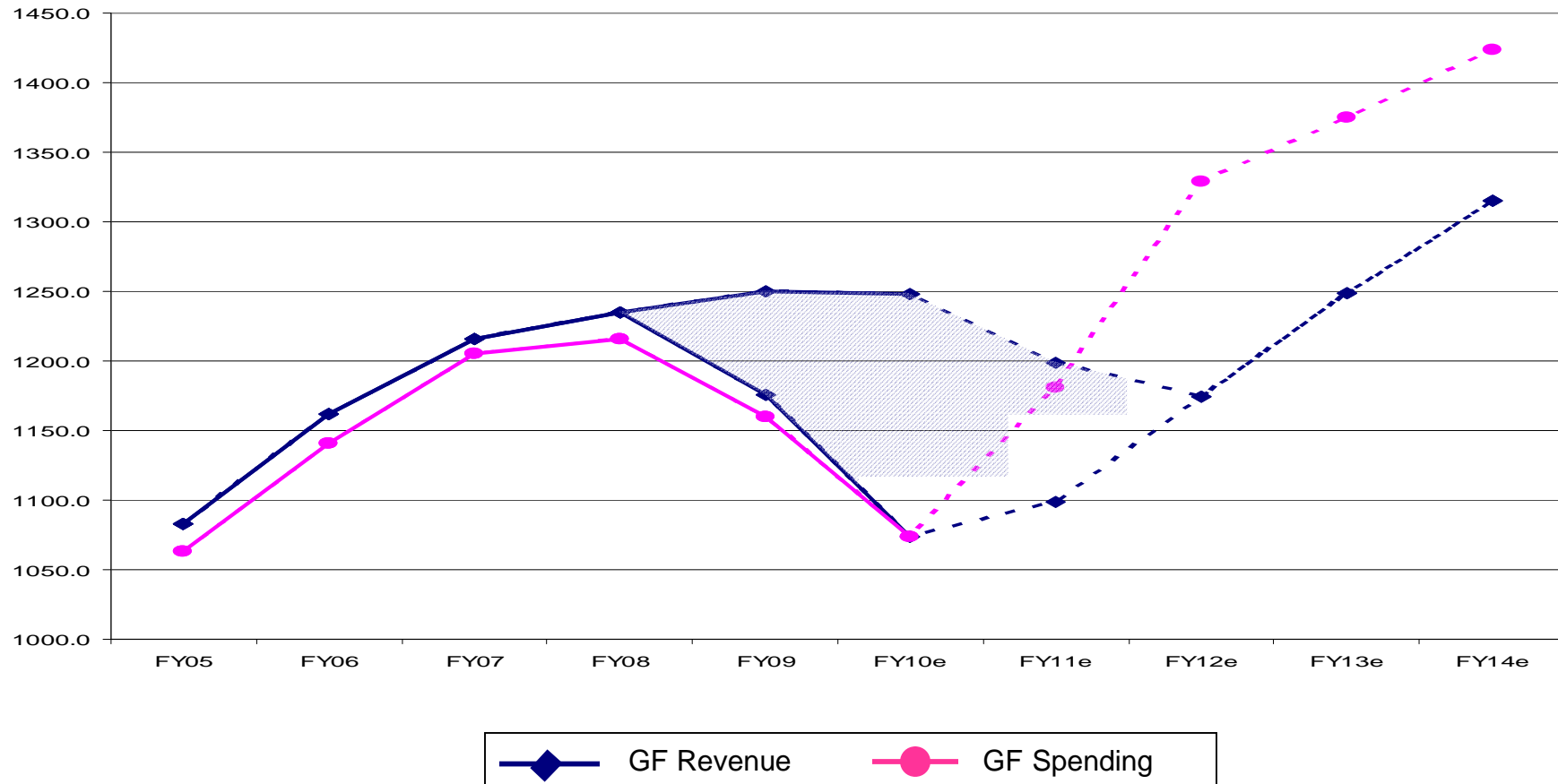
VT Available General Fund Revenue




Key Problems

Spending is Outpacing Available Revenues

GF Budget Picture – Sept 09 – Projection thru FY14e





Key Problems

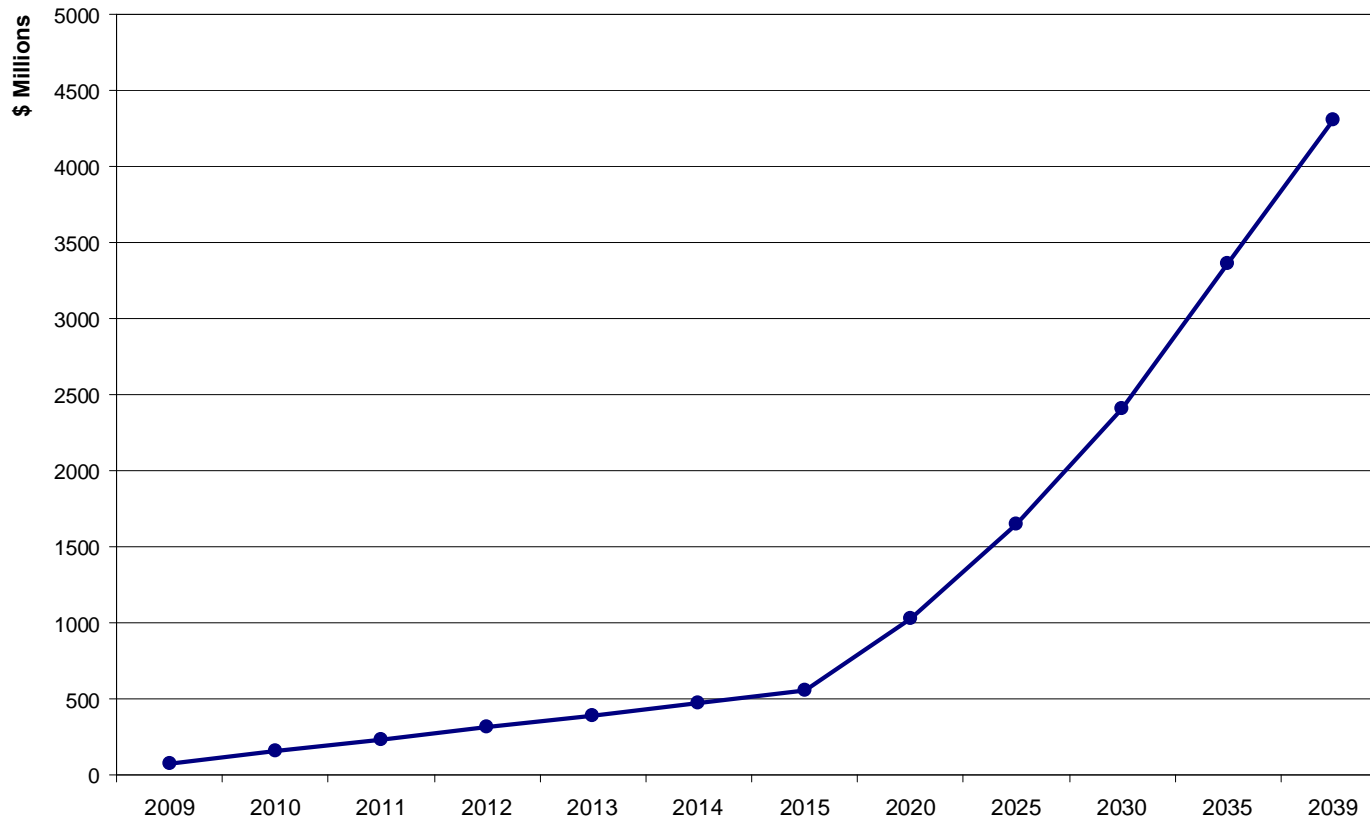
Other Fiscal Obligations

	At 6/30/08	Estimated 6/30/09
Pension	\$ 466.6M	\$ 1,051.3M
Other Post Retirement Benefits (OPEB)	\$ 1,614.6M	\$ 1,688.6M
Totals	\$ 2,081.2M	\$ 2,739.9M
Cost per VT household to cover unfunded liabilities	\$ 8,649	\$ 11,386

Key Problems

Long-term Unfunded Liabilities

Projection of the Cumulative Unfunded Liability for State Worker and Teacher OPEBs





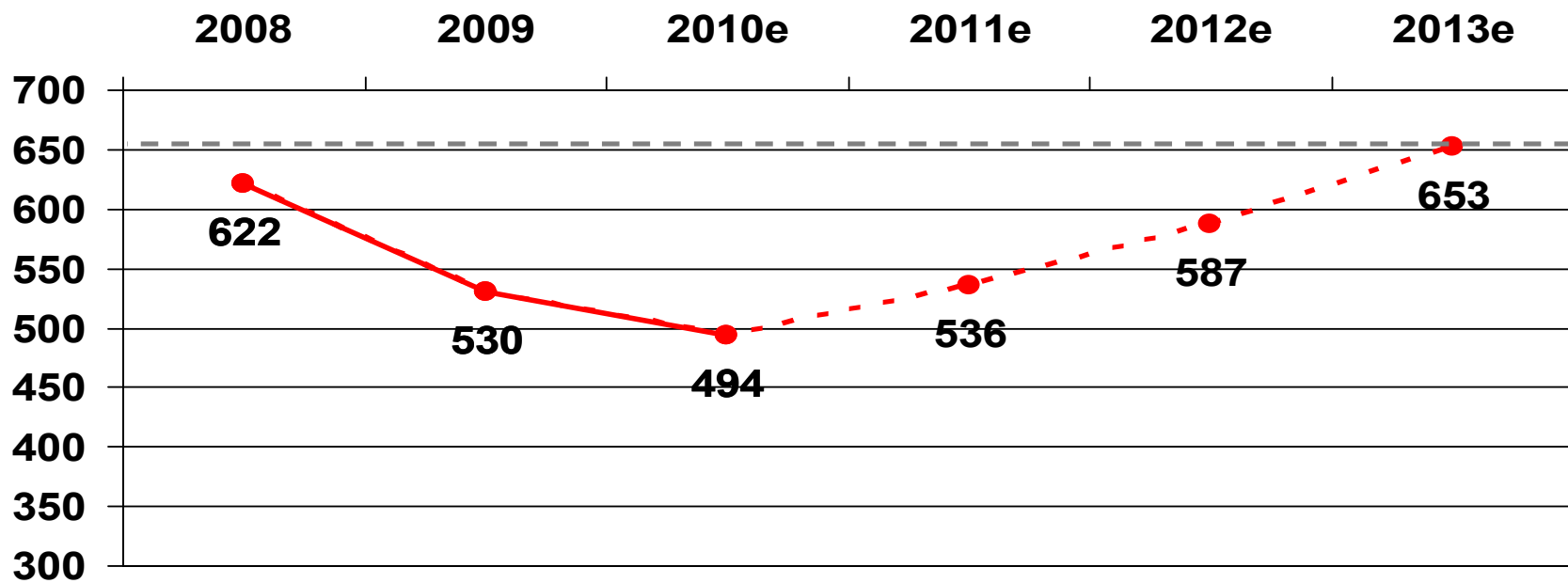
Key Problem Statements

- In order to craft effective solutions to these anticipated budget shortfalls, one must understand how we collect current revenues and what sources have been the biggest contributors to revenue decline.

Key Problems

General Fund Revenues

Personal Income Tax Revenue





How We Got Here

- We have a very progressive tax rate policy that results in only 6% (30,799) of all filers paying 51% (\$270.5M) of the total personal income tax (Joint Fiscal Office, 2009).
- At \$200,000 income level and greater, those represent 7,829 filers paying 38.9%
 - At \$300,000 and greater, those represent 3,716 filers paying 30.4% of all income tax
 - At \$500,000 and greater, those represent 1,571 filers paying 22.5% of all income tax
- These higher income Vermonters rely on capital gains for much of their income. Their income can be dramatically impacted by one-time events (like the sale of a business).
- This variability in income tax revenue is one of the downsides of a highly progressive tax rate.



Policy Alternatives

- Do nothing and HOPE the economy recovers with a corresponding rebound of the stock market and business activity. (*We do not believe this to be a viable option.*)
- The consensus economic forecast for the next few years is for a long, slow, saucer-shaped recovery. The FOMC projects GDP growth between -1.3% and -0.5% in 2009, and 2.5% and 3.3% in 2010.
- Incomes will not grow significantly and will mean revenue shortfalls for the foreseeable future at current expenditure levels.
- Running these deficits would affect our bond ratings and, thus, the cost of borrowing money.
- The problems will multiply based on a 3.5% spending increase. (*Look at the Gap slide again.*)



Policy Alternatives

- Raise taxes. (*We do not endorse raising taxes.*)
- Vermonters already pay some of the highest personal income tax rates in the country. The current tax burden represents 13.4% of personal income compared to New Hampshire at 9.1%.



Policy Alternatives

- Raise tax revenues.
 - At the worst, do no harm to the top tiers. Following the %millionairesqtax+hike, Maryland lost one-third of \$1M+ filers, equating to a loss of \$100M in tax revenues.
 - Adjust taxes and fees to improve revenues.



Policy Alternatives

- We can cut expenses.
 - This will inevitably mean cutting services to our needy.
 - Vermonters spend the highest per capita for government in New England and one of the highest in the Northeast.
 - Vermonters spend \$3,805 more per pupil for education than the average state with no discernible improvement in student performance.



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Roundtable General Recommendations

Taxation

- Any changes to Vermont's tax structure must ensure that they produce a stable and reliable source of revenues, and are revenue neutral or positive.
- Must reduce administrative complexity of the tax code and increase transparency.



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Roundtable Recommendations

Expenditures

- Decrease state government spending by 8-9% by prioritizing the programs and services we provide and eliminating those that do not serve a broad enough citizenry or do not produce successful outcomes. Refer to the Vermont Institute on Government Effectiveness report, 2005.
- Challenge the education community to reduce the difference between Vermont's per pupil spending (\$13,471) and national average (\$9,666) by half = $\$13,471 - \$1,903 = \$11,568$.
- Adopt the recommendations that come forth from the Pension Commission pertaining to the state employees and teacher retirement programs.
- Re-examine the property tax rebate program, particularly income thresholds and eligibility criteria. Apply standards of fairness, equity, and transparency.



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Conclusions

- Vermont's current fiscal policy is unsustainable and future years look worse. The recovery from this recession will take 5-6 years.
- We've already cut waste, fraud and abuse out of state government. Now is the time for radical departure from past practice.
- Finding solutions will require bipartisan cooperation, strong executive and legislative leadership, and a willingness to discuss all options.
- Public engagement and understanding is vital in finding solutions.
- Ultimately, this is about more than numbers; it is about adhering to a policy of living within our means.