



Remember that projected \$112M budget gap? Now it's \$150M

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Picture a frame with too many puzzle pieces to fit inside the wooden rectangle.

That's the way Jeb Spaulding sees the budget that he is trying to put together for soon-to-be Gov. Peter Shumlin. Spaulding will become secretary of administration. The frame in Spaulding's analogy is the amount of tax money available to pay for state government. The puzzle pieces are all the demands for state services.

The gap between projected revenues and expenditures was pegged at \$112 million in the fall, but the state and Legislature's financial analysts agreed it had swelled to \$150 million by the time Shumlin's transition team began working on its budget earlier this month. The new administration won't deliver a spending plan to the Legislature until Jan. 25, but Spaulding has already warned, "There is a good chance the governor will present a budget that he doesn't like. To close a gap of that size is going to cause some pain."

Talk of pain worries advocates for the young, old and vulnerable. "Significant budget cuts to programs and benefits that serve children and their families shortchange our kids," Sheila Reed, legislative coordinator for Voices for Vermont's Children, said. "We cannot afford an under-educated workforce, children growing up hungry and in poor health, and families unable to make ends meet."

The "Great Recession" can be blamed for much of the state's financial struggle. Tax revenues shrunk as the economy stalled, while pressures on government services grew. Congress softened the recession's impact with the American Recovery and Reinvestment Act, which pumped more than \$400 million into this state to shore up sagging funding for education, subsidized health care and transportation.

"We have been saved by the U.S. cavalry riding in with big saddlebags of money, but they aren't doing that next year, so we are on our own," Spaulding said. The end of the federal stimulus funding leaves gaps and tough choices for the Shumlin administration as it writes a budget for the 12 months beginning July 1. The options: find some cash or slash.

For example, the Douglas administration and 2010 Legislature plugged \$38 million in federal stimulus dollars into education funding for this year, but that financial aid won't be available next year. Will the administration come up with \$38 million in state dollars to cover the loss or short the Education Fund?

Increased caseload and costs for subsidized health care, coupled with flat revenues from tobacco taxes, contributed another \$30 million or more to the gap. A decrease in the percentage share that the federal government provides for a host of human service programs added \$17 million to the problem. The first interest payment is due on money the state borrowed from the federal government to meet its unemployment insurance obligations. That's a new \$6 million expense.

If state agencies fail to deliver \$38 million in anticipated savings through "Challenges for Change," a restructuring process the Legislature and Douglas administration embraced in the last session, that would add to the \$150 million gap.

“They are huge numbers,” Steve Klein, chief fiscal officer for the Legislature, said of the funding shortfalls. And a briefing document Klein and staff prepared for lawmakers noted this would be the fourth year of “recession impacted budgeting.”

“Every year it becomes harder,” Sen. Jane Kitchel, D-Caledonia, said. She will head the Senate Appropriations Committee. “I don’t think there is a full awareness of the extent to which the state workforce has been subjected to reduction,” she said as an example. “It has really been whacked.” Since 2008, 661 positions have been cut. State workers also agreed to a 3 percent pay cut and a freeze on step increases. “So it isn’t just a matter of going in and making easy cuts,” Kitchel said. “You go through every single service, every single expenditure and you prioritize.”

Paul Cillo and John McClaughry look at government from polar opposite perspectives, but share the view that traditional budget cutting won’t work this year. Cillo, a former Democratic House leader, is president of Public Assets Institute. “This manage-to-the-money thinking has been a problem,” Cillo said. “It treats money as the most important thing and you end up making choices that undermine the society you want Vermont to be.” Cillo would like to see more options considered. In an essay entitled “The People versus the Bean Counters,” he wrote, “During the last major recession, 20 years ago, the state put people first and then worked out the money part. It raised income taxes on the wealthiest and other taxes as well. It even ran a deficit for a couple of years. Vermont came out of the recession stronger than it went in.”

McClaughry, one-time Republican senator and currently president of the Ethan Allen Institute, suggested lawmakers and the Douglas administration already made all the easy changes that could yield significant savings or revenue. “We are running out of money, and we can’t do all the things we are doing now, and we can’t raise taxes or we bust the economy,” McClaughry said.

In tough times, governors and lawmakers talk about restructuring government to find efficiencies and savings. “That is a great thing to promise,” McClaughry said, noting that many people believe government is overgrown and ineffective.” The problem is, no one ever follows through on the promise. He noted the Democratic Party platform in 2004 called for a “thorough-going” review of government, but after they won control of the Legislature, “they completely dropped the ball.” “Decisions have consequences and nobody wants to face the consequences,” McClaughry concluded.

State employees are wary, even if they see Shumlin as more sympathetic to worker issues than his predecessor. “We already think state government has been cut to the bone,” Conor Casey, legislative coordinator for the Vermont State Employees Association, said. While talk of restructuring government has merit, Casey said workers worry about unrealistic savings targets. The union hopes the Shumlin administration will review the plethora of private contracts. “We are trying to come up with how some of this work can be brought back in-house and save the state money,” Casey said. The union will offer a report on potential savings in January.

The union will continue to question plans to commit more than \$10 million for construction of a 15-bed secure residential facility in Waterbury — when it won’t result in closure and total replacement of the state’s aging psychiatric hospital. VSEA would prefer to see the state invest in a new hospital. Protecting the employee retirement plan will also be a priority. Jes Kraus, VSEA director, said “We are cognizant that it a component many people are looking at.”

“The instruction that have been given to me are we need to present a tough-love budget this year that relies on a minimum of one-time funds an gimmickry,” Spaulding said. “The governor-elect hasn’t changed his tune about not wanting to raise broad-based taxes,” he added. “We are looking at everything,” Spaulding continued. The budget team — Spaulding, former Senate Appropriations Chairwoman Susan Bartlett and Finance Commissioner Jim Reardon — have looked at what other states have tried. Utah, for example, moved to four-day work weeks for state government.

“I’m reviewing the Tiger Team reports that the Douglas administration worked so hard on,” Spaulding said. In 2009, Gov. Jim Douglas had assembled teams of employees across state government to suggest changes. Spaulding said he even asked former aides to Gov. Howard Dean for his budget-saving ideas. Still, based on the numbers, Shumlin warned the budget debate “is going to be a very sobering and unhappy conversation.”

House Speaker Shap Smith, D-Morristown, predicts the Democratic majority in the Legislature will be more receptive to a Shumlin budget than they were to Douglas budgets “because they will believe it will come through a lens in which they have more confidence.” Even if the budget includes painful cuts, Smith said, “There will be a real attempt to refrain from language like ‘dead on arrival.’”

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