

**VSA / VPA / VSBA Legislative Bulletin:
Revenue Shortfalls May Result in Major
Cost-shifts to Education Fund**

Legislative leaders are committed to adjourning the 2009 session on May 8th. If that goal is to be met, the last two weeks of the session will require reaching agreement on how to balance the state's budget, and will necessarily include consideration of tax increases, spending reductions, and cost-shifts to the Education Fund.

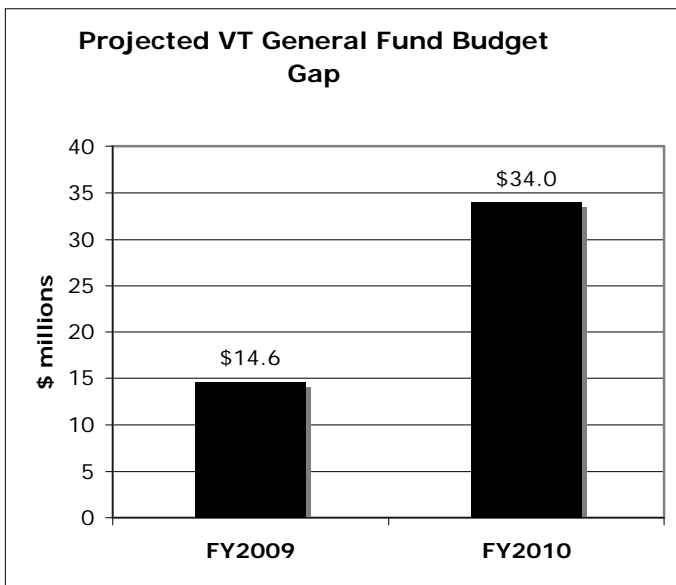
We anticipate that shifting some or all of the employer obligation for the teachers' retirement system from the State General Fund to the Education Fund, and thereby to property tax payers, will be a major component of the negotiations between the House, the Senate, and the Administration.

We strongly encourage you to contact your local Senators and Representatives and remind them that shifting any teacher retirement obligations from the General Fund to the Education Fund will increase property taxes.

Both the Senate and the House have approved appropriations bills that include all three of these options. Moreover, significantly decreased revenue projections released on Friday by state economists mean that all three options must now be reconsidered, and an additional \$14.6 million must be found in either spending reductions or revenue increases in order to balance the General Fund budget in fiscal year 2009, and another \$34 million in fiscal year 2010.

Additional Information

The following information details the revenue projections, teachers' retirement fiscal facts, the education provisions in the appropriations bills, and lists the ideas the conference committee negotiators have been directed to consider when attempting to balance the FY'09 and FY '10 budgets. (Naturally, the negotiations may include concepts that are not listed).



As this chart indicates, the State is facing severe projected General Fund budget gaps this year and next year. Fiscal year 2011 is projected to be an even larger gap than fiscal year 2010. These gaps must be closed, either through spending reductions, revenue increases or a combination of the two. The Legislature and the Administration will be negotiating between now and the end of the legislative session on solutions to balance the budget.

**Employer obligation to the State Teachers’ Retirement System:
fiscal year 2010**

Current liability	\$19.8 million
Accrued liability	\$21.7 million
Retiree health care	\$19.5 million
Total:	\$61 million

Since the inception of the teachers’ retirement system, the law has required the State to fund the total amount listed above through the General Fund. We anticipate negotiations between the Senate, the House, and the Administration to consider shifting any or all of the three listed components of the teachers’ retirement system to the Education Fund. (Note: “Accrued liability” is the amount of the FY ’10 obligation that is the result of the State having not fully funded teachers’ retirement at actuarially-required amounts in past years.)

**House- and Senate-Approved Appropriations Bill and Tax Bill:
Education Provisions Comparison**

House: H.441 (appropriations bill) and H.442 (tax bill).

Senate: H.441 (strike-all, combined bill).

Glossary: ARRA: The American Recovery and Reinvestment Act (i.e., the federal stimulus package); EF: Education Fund; SFSF: State Fiscal Stabilization Fund, part of the ARRA.

Subject	House	Senate
Education tax rates	85¢ for homesteads, \$1.34 for non-homestead (this is the same rate that was recommended by the Tax Commissioner last winter and is a 2¢ reduction from fiscal year 2009 rates).	
State Fiscal Stabilization Funds (part of the ARRA)	The House committed \$38.6 million of SFSF revenue as follows: \$23 million for the General Fund transfer (see below), \$6.7 million for the teachers’ retirement system (see below), and \$9 million for higher education (UVM and VSCs).	The Senate committed \$38.6 million of SFSF revenue to direct payments to districts as part of their regular education payments from the state (see below). The General Fund transfer is smaller in the Senate bill than in the House bill. The Senate appropriated General Fund monies in place of the SFSF revenue that the House directed towards teachers’ retirement and higher education.

Subject	House	Senate
Education payment	\$1.136 billion; all from the EF.	\$1.136 billion; \$38.6 million from the SFSF, remainder from the EF.
General Fund Transfer to EF	\$297 million; \$23 million from the SFSF, remainder from the General Fund.	\$259 million; all from the General Fund.
Special education: state aid	Reduce allocation for state aid for SpEd by \$5.3 million; districts expected to use ARRA SpEd revenue to address the reduction.	
State-placed students: state aid	Reduce allocation for state aid for SPS by \$500,000; districts expected to use ARRA revenue to address the reduction.	
Teachers' retirement system contributions: employer share	\$33.5 million General Fund contribution, \$6.7 million from the SFSF, \$1.2 million from Medicare Part D reimbursement funds.	\$40.3 million General Fund contribution, and a \$1.2 million from Medicare Part D reimbursement funds. Senate also authorizes a commission to study retirement contributions.
School-based Medicaid reimbursement transfer	For fiscal years 2009 and 2010, notwithstanding 16 V.S.A. § 2959a(g), reimbursements to be retained in the state's Medicaid fund and not transferred to the EF (i.e., reduction in EF revenue of \$10 million total over two years).	
Community High School of Vermont: state aid	\$3 million of the education payment (appropriated from the EF) is directed to the Community High School of Vermont. In prior years, the General Fund appropriated funds for this purpose.	
DOE Employees (permanent)	One new permanent classified position is authorized to comply with Act 1 of 2009 (Child Sexual Abuse Prevention, formerly S.13).	N/A
DOE Employees (limited service)	Five limited-service positions are authorized to implement ARRA in Vermont, with \$325,000 appropriated to pay the employees from the state's share of school-based Medicaid reimbursements (16 V.S.A. 2959a(f)).	
Early education initiative grants (EEI)	\$1.1 million is appropriated from the EF to families with at-risk preschoolers (the EEI program). In prior years, the General Fund appropriated funds for this purpose.	

Subject	House	Senate
Technical education equipment replacement fund	This special fund (16 V.S.A. § 1564) is repealed. State aid for technical education equipment will be awarded as part of the total state appropriation for technical education (\$12.8 million in fiscal year 2010).	
Dual enrollment programs	\$285,000 appropriation from the General Fund to the Vermont State Colleges.	
School Quality Standards Waiver	N/A	Authorizes Commissioner of Education to provide waivers for SQS rules, or “any other rule that might be authorized by Title 16” when the Commissioner can demonstrate that the rule is “duplicative or impedes the efficient operation of the district or SU...”
School Nutrition Pilot Project	N/A	Senate authorizes DOE to apply for a federal pilot project to simplify a family’s application to the State Nutrition Assistance Program.
VISION Computer system	N/A	The following will allow for a cost-shift from the General Fund to the EF for the DOE’s VISION computer system: 16 V.S.A. § 4025(b)(2) is amended to read: <i>(2) To cover the cost of fund auditing, accounting and of short term borrowing to meet fund cash flow requirements.</i>

List of Items Negotiators Will Consider to Balance the Budget

When the Senate was constructing its version of the appropriations bill earlier this month, it was already anticipated that revenue projections released on Friday, April 24th would necessitate additional tax increases, spending decreases, or cost-shifts to the Education Fund and other sources. Therefore, in the Senate-passed version of H.441, specific ideas were included in the bill as items for the negotiators to consider.

The Legislative Conferees (negotiators)	
Sen. Susan Bartlett (D) Lamoille	Rep. Martha Heath (D) Westford
Sen. Richard Sears (D) Bennington	Rep. Mark Larson (D) Burlington
Sen. Diane Snelling (R) Chittenden	Rep. John Morley (R) Orleans

The following is the list of ideas that were included in the Senate-approved version of H.441. Note that items #1 and #2 both require cost-shifts to the Education Fund.

Sec. E.1104 APRIL 24, 2009 REVENUE REVISION

(a) The senate recognizes this fiscal year 2010 budget proposal is being developed and approved just prior to the April 24, 2009 official revenue forecast revision. It is extremely likely that this revision will result in a general fund and transportation fund revenue downgrade for fiscal years 2009 and 2010.

(b) To the extent that a general fund downgrade does result, the budget conference committee is directed to look to the following among options to address the general fund shortfall:

- (1) Potential reduction in the general fund transfer to the education fund not to exceed the administration’s \$23,000,000 cost shift.*
- (2) Potential K-12 expense reallocations to the education fund and a limited version of the administration’s proposed cost shift of the teachers’ retirement obligation to the education fund, including a potential transfer of current liabilities and current retiree or new employee health care obligations, and limitations to the base education payment.*
- (3) Further reductions to health care provider payments, including Medicaid reimbursement for cross-over claims.*
- (4) Possible Medicaid or Medicaid waiver program benefit changes or elimination of any eligibility expansions to Catamount health assistance.*
- (5) To the extent that no agreement is reached on state employee reductions in accordance with the legislative intent under section E.1103 of this act, further position reductions.*
- (6) Addition of agency of natural resources’ costs to the pilot special fund.*
- (7) Elimination of tax expenditures.*
- (8) Reductions of other state programmatic support.*

(c) To the extent that a transportation fund downgrade does result, the transportation conference committee is directed to consider the following principles in addressing the transportation fund shortfall.

Expenditure reductions:

- (1) Shall not disproportionately impact town highway aid.*
- (2) Shall preserve Vermont's ability to maximize the draw down of federal funds.*
- (3) Shall be consistent with the legislature priority setting and transportation planning process.*

End