JEB SPAULDING
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

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Fortitude and Foresight Required to Solve Vermont's Budgetary Challenges

By State Treasurer Jeb Spaulding

The last few years have been tough all around. Many Vermonters have lost their jobs; some their homes and businesses. Others have taken pay cuts, experienced reductions in government assistance, and watched their retirement savings take a nose dive.

On the State government front, the Governor and State legislators recently tackled their toughest budget year to date. With fortitude and a commitment to finding workable solutions, they successfully produced a balanced budget plan that closed a $150 million hole in the budget for the fiscal year begun on July 1. I do not believe many, if any, other states passed a balanced budget this year, while still maintaining reserves and avoiding broad-based taxes.

Recently, Vermont's leading economists have said that they believe our state is now out of recession. State revenues appear to have stabilized and are projected to increase by some $70 million this fiscal year and another $80 million next year. Our official State unemployment rate is among the lowest in the country. Our home foreclosure rate is very low comparatively and, in some parts of the state, there are signs of life in real estate and tourism markets. Vermont remains the only New England state with a triple-A bond rating. The recovery, however, has been tentative and fragile – largely dependent upon federal fiscal and monetary assistance.

With economic conditions slowly improving, one might assume that building a State budget for next year will be easier. Unfortunately, that will not be the case. The new Governor and legislature will be tackling their toughest budgetary challenge yet. Why is that? The biggest reason is because the hundreds of millions of dollars in temporary stimulus money from the federal government will end this year. These funds have been used strategically by Vermont to produce balanced budgets for the past two years. In addition, with reductions in capital gains taxes and implementation of federal health care reform, even with the inflow of State generated taxes on the upswing, Vermont will face a budget gap estimated in excess of $110 million next fiscal year. And, as the saying goes, all of the low-hanging fruit has been picked. Most constituencies already have been impacted by budget cuts. Additional savings and/or revenues will be harder to find than ever, but find them we must.

The good news is that if budget makers are able to produce a plan to balance expenditures and revenues for next year, Vermont should then be on a more stable and positive financial trajectory. In this election year, it will be helpful if candidates do not paint themselves into corners by taking any options off the table for bringing the State into budgetary balance. We may well need a combination of further spending reductions, revenue enhancements, and judicious use of reserves to get the job done. Solving the puzzle in a way that preserves our economic competitiveness and is compassionate to our citizens will require creativity and the willingness to sacrifice in the short-term.

For the longer run, Vermont leaders and citizens need to coalesce around a strategic economic plan that identifies and responds to the large scale trends and conditions that are going to affect us in the next five, ten, and fifteen years. This plan must identify Vermont's assets and liabilities, as well as our relative market position and comparative advantages in the northeast, U.S. and the world. From such an assessment, we can formulate concrete actions that will allow us to take advantage of economic opportunities and insulate Vermonters from future economic threats.

Vermont's leaders have demonstrated the fortitude to achieve workable short term budgetary solutions. Now, we need leaders with the foresight and ability to develop and implement an economic strategy that will work for the long run.