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Turbulence, challenge, and opportunity for the state's economy

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State Treasurer Mike Pieciak discusses the mixed trends shaping the economy's fortunes — and the tough conversations needed to address the threats

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When it comes to Vermont's immediate economic future here's the good news: State revenues are rising. The not-so-good news? State expenditures are rising faster.

Over the horizon, storm clouds could form over Vermont's economic horizon in the coming year, State Treasurer

Michael Pieciak told approximately 50 business, nonprofit, and municipal leaders from across the region.

The Brattleboro Development Credit Corporation (BDCC) CEO Roundtable — "Over the Horizon: State Revenue Pressures, Macro Risks and Regional Executive Strategy" — on July 7 at the SIT International Center was held in the shadow of the announcement that Brattleboro Memorial Hospital (BMH) was planning to close its birthing center.

The announcement, made as BMH attempts to add from a $14.5 million budget deficit, has caused an uproar in southern Windham County.

"This time represents state revenue pressures, macro risks, and regional executive strategy," BDCC Executive Director Adam Grinold said in introducing Pieciak.

"So we are all navigating a complex fiscal policy landscape here in Vermont. It was made far more clear about the recent BMH birthing center announcement," he continued.

"We are all, each and every one of us, facing these macroeconomic risks of changing demographics and intensifying state pressure on revenues," Grinold said. "Today is about anticipating those challenges before they become a crisis."

More revenues, higher costs

Pieciak began his talk by speaking about positives, such as Vermont state revenues increasing by 2% or 3% a year. But, he warned, it is important to remember that Vermont exists in the context of the broader American economy.

"We just assume that the state is going to continue on as projected, strong — you know, sort of 2% or 3% growth," he said. "But to the extent that the broader economy sees a boom or a bust, that impacts Vermont and our revenues and our expenses."

The state, he said, is "not forecasting a recession over the next two budget years, but if that were to occur, then that would put even more pressure on our revenues."

Pieciak warned the state's revenues "would not be as high because the economy would not be as strong, and our expenses would go up because more people would need help, and they would be turning to state government for that help."

Vermont's economy still has structural challenges that need to be solved, Pieciak said, but the state's revenues are increasing, not decreasing.

"Every year our revenues are increasing, so our general fund revenues go up year over year," Pieciak said. "From last year's budget to this year's budget, they went up about $61 million. So you would say that's a great thing. You have $61 million of new money. You can do new programs. You can solve new problems. You can make new housing investments."

But that's not the full story, Pieciak said.

"Our expenses are oddly outpacing that revenue growth," Pieciak said. "So even though we're seeing about 3% increase on our revenue side, there are some particular drivers of costs that are well above that 3% increase."

Pieciak attributed the rise to healthcare costs, education costs, and the cost of funding the state's pension system, which in some ways also comes back to healthcare, since those costs are included in pensions.

Through the Medicare and Medicaid system, which provides "health care for a lot of Vermonters," Pieciak said, "the cost of providing the same services went up about $75 million."

"So if you think about revenue growth being a good thing, which it is, it really quickly gets consumed by a lot of the mandatory costs," he said.

Health care costs, education costs, and fully funding Vermont's pension funds after years of underfunding are eating up a lot of those new revenues. About pensions, thanks to long negotiations, Vermont can now make sure everybody with a state pension — state employees, teachers, and municipal workers — will see, over the next 12 years, the promises fulfilled that were made to them, Pieciak said.

"We've made good progress on our pension reform," Pieciak said. "The underfunded portion of our pension system is set to be largely retired by 2038. Now that is still a ways out into the future, but it's now sort of over the horizon. We're putting hundreds of millions of dollars toward our unfunded pension system to make up for past underpayments, and once we get to a point where we're at fully funded or near fully funded, some of those funds can be diverted to other needs across state government. So that is something on the long-term structural focus that would be good for Vermont."

Which brings the conversation back to healthcare, which Pieciak described as "fundamental to the expense increases that we're seeing across the board."

"Health care costs impact Medicaid and other programs," he said. "They certainly impact things like long-term care and providing home-based care for seniors here in Vermont. They impact our pension system. Healthcare is driving budgetary impacts, and what we're seeing at the treasurer's office is felt at school boards all across Vermont as well."

Three challenges for the state

Vermont faces three broad challenges, Pieciak said.

"No. 1 is the fact that we are a rural state," he said. "We have 650,000 people spread over this entire state. A city like Boston proper has many more people, and they're able to have far fewer hospitals at a much larger scale to be able to provide the healthcare that's needed for that population. We have to spread that healthcare infrastructure out over a broad rural community."

The second challenge is that Vermont is an older state and older people use more healthcare.

"We're the third-oldest state in the country," Pieciak said. "You have more people consuming and needing healthcare than younger people who are paying into the system without consuming as much."

The third challenge comes from insurance.

"In Vermont it used to be that the majority were private payers like commercial payers," Pieciak said. "The public payers, like Medicaid and Medicare, were under 50%, and that's a high percentage."

Now, he said, "the public payers are over 50%, and that commercial payer is becoming less and less a part of our market, and oftentimes the reimbursement rate is fixed."

"So it's falling more and more on that commercial market, and then you're in this negative cycle, where, 'Oh, my god, like, I can't afford to do business here! I can't afford to offer health insurance!' So that market shrinks and shrinks," Pieciak said.

"A state like New Hampshire has a much stronger mix in terms of how many commercial payers they have versus public payers," he added.

These three challenges are not insolvable, Pieciak said. New Hampshire and Maine are rural states with older demographics yet still have lower healthcare costs than Vermont.

"So I do think there are solutions that require more collaboration between all of our healthcare providers [and] understanding what services are going to need to be required and where and what services are better done in an aggregated way," Pieciak said.

He predicted that such change will require "tough" and "important" conversations.

One idea would be to expand the pool, he said, by bringing down the eligibility age for Medicare across the country.

"That would be a great way of providing a lot more coverage and being able to bring more people into the system," Pieciak said.

"It becomes a little bit more challenging when it's state by state rather than national," he added. "I do think maybe you could do it in a broader regional approach if the federal government doesn't move forward."

Lowering health care costs

Pieciak's office has worked on two successful major initiatives to help Vermonters lower healthcare costs, he said.

The first was working to eliminate up to $100 million of medical debt held by 65,000 Vermonters.

"We're in the process of negotiating with almost every hospital in Vermont now to purchase and eliminate that medical debt," he said. "It's with a one-time amount of money at $1 million, so we're able to buy it at a discount and have a pretty big impact without having a big price tag."

Along with this initiative, his office has barred medical debt from being included on personal credit reports.

"We saw this as both financial relief, but also providing people better access to healthcare, which obviously provides better health outcomes," he said. "It has financial outcomes as well."

He also introduced the idea of a pharmacy discount card to the Legislature, which has culminated in a new law signed by the governor on June 15. The program will be launched by the end of this year or early in 2027.

"There are five other states that operate in this program, and Vermont will be the sixth," Pieciak said. "And by joining their partnership, Vermonters that sign up for the discount card will see similar savings to what they're seeing in those five states."

On average, that will save customers an average of 80% on generic drugs and 20% on name-brand drugs, he said, adding that Connecticut residents with high prescription drug needs save about $300 a month with the program.

"They're equating that to tens of millions of dollars of savings in Connecticut," he said. "We would see similarly millions and millions of dollars of savings here in Vermont."

Pieciak also said more focus must be put on primary care.

"Primary care is like maybe like 6% or 7% of our overall healthcare investment," he said.

"If we invested more in primary care and made it more accessible and easier for people to get primary care appointments, we'd bring so much of those later costs down, either through prevention or more immediate identification and diagnosis and then treatment," Pieciak added.

"We are really, really challenged in that space," he said.

"I personally had to get a new primary care doctor last September," said Pieciak, noting that he finally has a physical scheduled for this September.

"It took about a year from when I started to look to when I could get a physical, and that's way too long," he said.

If people cannot see a doctor, or if they postpone seeing one because of cost, their medical problems will not go away, Pieciak said.

"It's going to have a worse health outcome, and it's going to have a worse financial outcomes, and it will cost more to take care of them," he said.

Pieciak said he endorsed the concept of universal primary care, which could provide broad access to healthcare.

"It's basically something that would be built into people's healthcare plan so that you don't pay for primary care access," he said. "It also incentivizes more primary care doctors to do their business here in Vermont by cutting out a lot of the bureaucracy and the paperwork. But I think there are also more incentives we need to be focused on to have more primary care doctors in our state, too."

Feeling a federal impact

Despite those initiatives, on the horizon in Washington, D.C., is the `"One Big Beautiful Bill," the budget reconciliation act that Republicans in Congress passed last year. Its financial impacts are yet to be felt.

"They implemented this bill, but they delayed a lot of the financial impacts until after the midterm election," Pieciak said.

So when the Legislature returns in January, "that's the budget that they will be working on," he noted.

The administrative costs of operating the Supplemental Nutrition Assistance Program (SNAP, aka food stamps, known in Vermont as 3SquaresVT) will be borne more by the state, he said, and some Medicaid work requirements will take effect.

"I think that's probably a relatively small but meaningful impact on our state budget, like a couple of million dollars more in administrative costs and other impacts. Then, about a year after that, you'll see even more of the Medicaid and reimbursement rates paid to providers blended in, and that will be more like tens of millions of dollars of cost."

There will be more expenses and fewer benefits for a lot of state residents.

"It's just going to be hard for the state of Vermont to be able to fill that gap with all these other growing needs that we have," Pieciak said.

Vermont needs to face the costs of healthcare while still growing its economy, he believes.

"Underlying economic growth is certainly a shortage of housing and shortage of jobs that are high-wage jobs," Pieciak said.

Then it goes back to healthcare costs, which, he said, are "weighing down small businesses and large businesses alike, and it's making it really challenging for them not just to grow in Vermont, but to even maintain and operate in Vermont."

"A lot of those pressures I was talking about with state government are the same pressures that all of business leaders in this room are feeling," Pieciak told his audience.

"You look at your own revenue lines and you see maybe revenue growth, and then you look and you see personnel costs going up, probably at a far greater rate than your revenue growth, particularly when it comes to your year-over-year healthcare

costs," he said. "That is really something I think that we have to be laser-focused on."

The housing crisis

Vermont has made some progress on housing issues, which for years was its No. 1 economic problem, one that is now eclipsed by healthcare, Pieciak said.

"It hasn't been solved by any means," he said. "But we have made progress."

Focusing on housing and other ways to grow the state's economy will be crucial in the coming year, Pieciak said, describing the economic divide that has widened in the local economy and the pressure on the housing market that has built up with the shifting housing and workforce trends since Covid hit in 2020.

"When you look at the revenue drivers for our state, the personal income tax is like by far the biggest general fund driver," he said, attributing that growth to wage inflation and unprecedented economic growth.

Since the pandemic, "People were earning more money and people were more successful," Pieciak said. "But then we also saw a lot of wealthy people move to Vermont and paying higher taxes."

In three years, the state saw roughly a 30% increase in the number of Vermonters earning more than $100,000 a year.

But many of those new Vermonters were not deriving their incomes from Vermont.

"They have a remote job, so a lot of people came and bought a house and took that house off of the market without adding a job to the local workforce," Pieciak said. "That put more pressure on all of us that earn our income from the Vermont economy."

Meanwhile, "in the same way that we saw growth in that higher income bracket, we saw a decrease in people on the lower income spectrum," he continued. "Folks that are working

class and middle class were stretched even further in this economy and looking to live somewhere else."

What is the answer?

"On the one side it's good news that people are moving here," Pieciak said. "On the other side, it drove up our housing costs, and it really shows how important it is to invest in more housing everywhere, not just in places like Burlington, but in places like Brattleboro as well."

Doing so "helps places absorb more people and helps them absorb more people without having this dramatic, shocking increase in cost," he said.

Right now, things must center on fiscal discipline, Pieciak said.

"There certainly are challenges ahead of us, but we have tremendous amount of opportunity and a tremendous number of leaders in Montpelier," he said.

Vermont leaders are focused on the problem that it is really hard, economically, to live in the state right now, Pieciak said.

This is good news, he pointed out.

"Whether you're thinking about that for yourself, your family, or your business, in those moments of extreme challenge come new direction and opportunity, and I think that's sort of the energy that I'm feeling when I go around the state," he said. "So I want to leave on that more optimistic tone."

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