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Kristin L. Clouser, Secretary

April 3, 2024

Honorable Jane Kitchel
Chair, Senate Committee on Appropriations
Vermont State House
109 State Street
Montpelier, VT 05602

Via Email

Dear Senator Kitchel:

I write with comments on H.883 – *An act relating to making appropriations for the support of government.* The Administration is deeply troubled by the House budget, which seems little more than an empty vessel while all the cargo, carrying $132 million in increased taxes and fees, is hidden elsewhere, in other vessels moving through the legislature. This is not transparent and denies legislators and Vermonters a full understanding of total spending and its impact on costs of living. In addition, we believe the total level of spending currently proposed is financially unsustainable and will further exacerbate both the growing structural deficits in the state budget as well as the crisis of affordability facing far too many Vermonters.

The Governor's budget, on the other hand, demonstrates his spending priorities in one document and strategically invests in housing, public safety and vulnerable populations. It does not require Vermonters to dig deeper into their own wallets to pay higher taxes and fees. The Governor's budget is also structurally balanced – it does not book an unidentified $5 million of "labor savings", nor does it rely on a contingent surplus to run an expanded critical safety net program. These mechanisms used by the House equate to an underfunded budget that is out of balance.

The Administration is ready to work with the Senate to provide a clear, fully funded and transparent budget that prioritizes our most pressing needs while living within current revenue.

Housing Investments

Even in a softening revenue environment, the Governor's budget devoted significant resources to permanent housing. The Administration is surprised and disappointed that the House chose to reduce or eliminate housing investments within the budget itself. Of note, the Governor budgeted $6 million for the Vermont Housing Improvement Program (VHIP) – currently, Vermont's most successful and cost-effective housing program. Astoundingly, the House eliminated this initiative from the budget and put only $1 million in H.829 under the faulty assumption that because the VHIP program had $15 million in carryforward, they had substantial unused capacity. In fact, much of this carryforward is already obligated for units already in the pipeline and needed to help meet the housing needs of many

low income and homeless households. The House's action threatens to halt the state's most cost effective, expedient, and effective program for housing reinvestment and unit generation.
Also of concern, the House cut in half the proposed $2 million appropriation to the Manufactured Home Improvement and Repair Program and the $4 million appropriation to the Healthy Homes initiative and eliminated the expansion in the Downtown and Village Center tax credit. Each of these programs support unit generation and preservation to address our housing crisis. H.829, which is promoted as the House's long-term housing plan, is a tax bill disguised as housing policy that generates significant revenue for the General Fund (not necessarily dedicated to housing) while doing little to address our critical need for new unit generation, faster and more affordably.

Mortgaging Our Future

Last year the Governor and the legislature acted to ensure Vermont can meet its state match obligation for Infrastructure Investment and Jobs Act (IIJA) money. Act 78 of 2023 (section C.108) reserved $14.5 million in anticipation of an 80/20 federal match for water and wastewater projects in the two remaining years of IIJA funding. The House budget takes $5 million of that sum and risks leaving $25 million federal dollars on the table, including subsidies targeted to infrastructure projects in underserved communities.

Additionally, the House reduced by $4 million the Governor's proposed transfer to the Capital Expenditure Cash Fund which requires an equal reduction in capital projects or an increase in borrowing and future debt. Both choices – reductions in state match money and lower "pay-go" transfers - will leave future legislators, who likely will face a more challenging revenue picture, scrambling to maintain investment in critical infrastructure and unable to maximize federal revenue. This change also reduces funding for a practice highlighted by the rating agencies in our State Bond Ratings Report and which Fitch Ratings described as a "positive development" in prudent state management.

Emergency Housing

The Governor's FY25 budget proposal included $17.5 million in one-time funding and $8.3 million in base funding – a total of $25.8 million – for emergency housing, including the hotel/motel program and related support. These figures were derived using specific eligibility criteria and standard assumptions about nightly room rates, room availability and staffing costs. The House budget appropriates the same funding amount, however, it includes language which broadens eligibility criteria and the number of allowable days significantly. It would cost at least another $37 million to operate the program in line with the House language, which is not included in the House budget. Only a portion of this additional amount, $20 million, is included in contingency funding in Section B.1102 for the General Assistance Emergency Housing program. These funds are not only insufficient to run the program as the language in the House budget describes, they may not materialize and a change in revenue environment later in the year may require some or all of the contingent funds to be rescinded. If those funds do not materialize, the program, as expanded by the House, could run out of funding as early as December. It's important to note that expanding eligibility is not only financially unsustainable, it can – and often does – mean we have to turn away more vulnerable, at risk families, because eligibility exceeds available room capacity. Targeted eligibility – and accountability for beneficiaries – helps ensure we are protecting those in greatest need. The Administration requests the Senate remove the language in Section E.321 and the contingency funding in Section B.1102, thereby restoring the emergency housing program as proposed in the Governor's recommended budget.

Even with the cuts and contingency spending above, the machinations still required for the House to create a balanced budget is alarming. In addition to tasking the Administration to find $5 million of labor savings, the House also pre-books $3 million of FY24 AHS carryforward (which is not yet materialized), reverts and transfers $5 million from ARPA SFR (in addition to the $5 million ARPA SFR in the budget adjustment) and $3 million from the Tobacco Fund. The House spends another $23.5 million of the yet-to-be-realized FY24 "surplus." All of this, and another $132 million in new taxes and higher fees through other bills are raised on Vermonters already straining under the weight of over $240 million in higher property taxes, higher government fees and a new payroll tax that will kick in this July.

As Vermont's economy and revenues revert to a more normal, sustainable rate of growth, we must focus our priorities and align our spending decisions within available revenue. The last thing we should be doing is compounding the already high cost of living in Vermont. The Governor's budget prioritizes housing, public safety, and support for the most vulnerable with targeted investments in programs and services that are affordable and within current revenue. This is not the time to add more pressure on Vermonters.

The Administration is ready to work with the Senate to craft a single appropriations document that achieves our shared goals, is fully transparent with all spending decisions and comes with a price tag Vermonters can afford.

Sincerely,

DocuSigned by:
Kristin L. Clouser
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Kristin Clouser
Secretary of Administration

Cc: Representative Diane Lanpher, House Committee on Appropriations, Chair
Senator Philip Baruth, State Senate, Senate President Pro Tempore
Representative Jill Krowinski, House of Representatives, Speaker
Catherine Benham, Joint Fiscal Office, Chief Fiscal Officer
Emily Byrne, Joint Fiscal Office, Deputy Fiscal Officer
Aimee Pope, Joint Fiscal Office, Associate Fiscal Officer
Adam Greshin, Department of Finance and Management, Commissioner