VERMONT

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Kristin L. Clouser, Secretary

May 2, 2023

Vermont State House
109 State Street
Montpelier, VT 05602

H.494 Committee of Conference
Senator Jane Kitchel
Senator Andrew Perchlik
Senator Richard Westman
Representative Diane Lanpher
Representative Robin Scheu
Representative Theresa Wood

Via Email

To Members of the H.494 Committee of Conference:

I write with comments on H.494 – *An act relating to making appropriations for the support of government* – as passed by the Senate.

The Administration acknowledges the Senate's work to improve the bill and appreciates the inclusion of projected federal state match requirements through FY26. Unfortunately, in a time of unprecedented revenue surplus, the bill continues to rely unnecessarily on raising taxes and fees on Vermonters to achieve a balanced budget.

The Administration has been very clear, beginning with the Governor's budget speech in January, that we have plenty of available revenue to achieve our shared goals. The Governor's budget recommendation leveraged a historic $390 million in surplus revenue. We do not need to collect even more money from Vermonters, who are already supporting one of the highest tax burdens in the nation and paying more for everyday essentials, like food, housing and transportation.

There is a collaborative path forward, however.

For example, the Administration shares the Legislature's priority to address the shortage of childcare. The Governor put forward a budget that more than doubled state funding for the

Child Care Financial Assistance Program (CCFAP), increased capacity for school aged children and established equity in CCFAP payments. It is a $56 million General Fund proposal – putting us well on the way to a system of affordable options that can be expanded in future years. The Senate's response was a broader $115 million package paid for, in part, by eliminating the progressive Child Tax Credit and instituting a regressive payroll tax. While we agree on the goal, the Administration cannot support a new or higher tax, or the elimination of the Child Tax Credit for lower income working families.

In addition to the $56 million marked for childcare in the Governor's proposed budget, the Governor recommended increasing the Earned Income Tax Credit (EITC) -- one of the strongest and most effective anti-poverty tools -- to 45% of the federal credit at a cost of $5.25m. The House is now contemplating increasing EITC to at least 55%, but only coupled with one of the largest personal income tax increases ever in Vermont. If there is appetite to decouple the increase in EITC from other taxes, there is an opportunity to reach consensus on EITC along with, or separate from, childcare.

The Governor's recommended budget was mindful of the consensus economic forecast from the Emergency Board predicting a reduction in revenue for FY24, which appears to be reflected in the substantial drop in personal income tax collections this April. Personal income tax receipts are one of the strongest indicators of general economic conditions for Vermonters. Personal income tax revenues coming in nearly $43 million below the April forecast (and over $100 million below last April's revenue) is a warning that the economic conditions in Vermont may already be slowing down.

Placing additional taxes, fees and penalties on Vermonters risks worsening the negative impacts of inflation and a slower economy. This concern is why the Administration's base initiatives were carefully chosen and scaled to fit within existing revenue. Additionally, it is why the Administration chose to use surplus revenue to offset known future expenses, as well as utilize some base revenue toward one-time initiatives. Even with a huge surplus and record base revenue, choices were necessary. Accordingly, the Administration was concerned with the substantial addition to base spending embedded in the House proposal, and the Senate appears to have taken the base even higher than the House – to a 13% increase in base spending. Considering inflation, ongoing fiscal uncertainty and the consensus revenue forecast, the Legislature's budget sets the stage for a very difficult budget adjustment come January and an even more difficult budget development next spring.

The 13% base increase is especially concerning because it does not include the cost of entirely new programs that rely on over half a billion dollars of new revenue for Childcare, Universal School Meals, Paid Family Medical Leave, Clean Heat Standard and more.

Again, it's worth noting that the Administration and the Legislature are in broad agreement with many initiatives within the budget – there is a path forward. However, reliance on new taxes and fees, combined with the overall increase in base spending, must be resolved for the Administration to recommend that the Governor allow this bill to become law.

Importantly, the Administration is eager to work with the Committee of Conference to prioritize the most valuable investments, craft responsible alternatives to new fees and taxes, and to finalize a budget that allows us to both make significant, meaningful progress *and* deliver a sustainable budget for Vermonters.

Sincerely,

Kristin L. Clouser

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Date: 2023.05.02 14:28:58 -04'00'

Kristin Clouser
Secretary of Administration

Cc: Senator Philip Baruth, State Senate, Senate President Pro Tempore
Representative Jill Krowinski, House of Representatives, Speaker
Catherine Benham, Joint Fiscal Office, Chief Fiscal Officer
Sarah Clark, Joint Fiscal Office, Deputy Fiscal Officer
Stephanie Barrett, Joint Fiscal Office, Associate Fiscal Officer
Adam Greshin, Department of Finance and Management, Commissioner

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