Lake Champlain Chamber

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Representative Tom Stevens
Chair, House Committee General and Housing
Vermont State House
115 State Street
Montpelier, VT 05633-5301

CC: Members of the House Committee on General and Housing

February 14, 2023

Chair Stevens,
Thank you for the opportunity to provide in-person testimony on February 3rd on H.66. As a follow-up, we hope to reiterate some of the concerns we shared during our testimony in hopes you'd take them into consideration during the final stages of your markup process.

We would reiterate that given our quickly approaching forecasted budget constraints, many competing needs, as well as a loud and consistent message from Vermonters that childcare and housing are their top priorities, this might not be the best allocation of our state's resources. Currently, Vermont is facing an unprecedented workforce shortage as a result of the confluence of systemic failures in housing and childcare investments as well as our state's aging demographics and a contraction of our workforce of about 8% in the wake of the pandemic. These issues would represent a better use of the state's finite resources as they would assist those who are present in the workforce and help others participate in our workforce.

That said, if you are to pass a version of this legislation this week, a reasonable version of this program would;

- Seek to utilize outside expertise by contracting to a **privately administered program** to insulate the state from liability, shorten the stand-up time, and bring in outside expertise. We have concerns about the start-up costs associated with this proposal, which it sounds like could range from $20 to $80 million. That amount of funding could be leveraged with a private insurer to potentially buy down rates or use outside of such a program for other large needs. *We would hope to see greater collaboration between the Legislature and the Administration given the existing program the Governor has already launched.*
- **The cost of the payroll tax, or premium for the employee's insurance benefit, should be covered by the employee**, with the ability for the employer to cover the cost if they so choose. Compliance with such a program already comes at a high cost to employers in the form of loss of productivity, cost of hiring temporary

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replacements, overtime costs for employees who need to cover for the absent employee's workload, and stress to colleagues.

- **We have concerns about the legislature annually adjusting the tax rate.** We've seen the challenges of making benefit and cost changes to a special fund at the Office of the Treasurer in the past, which created an unfunded liability so large we still have not clawed our way back. As an aside, if we did not have that unfunded liability, we would not be paying the equivalent of nearly two times the annual cost of this proposed program towards that liability each year. In the past, when we've asked about how earlier iterations of this program would handle structural or financial issues that arose, the answer was to "raise the tax." That answer is inadequate, and we hope to see something more reassuring should this proposal proceed. *A well-designed system would be one that has internal safeguards and be counter-cyclical to accommodate for economic downturns.*
- **More reasonable benefits should be discussed as a starting point.** 12 weeks at 100% wage replacement is a large ask for a brand new program. If you go forward, we'd certainly suggest starting small and building on the program when and if it is successful. Additionally, most insurance programs create a nudge to not use leave beyond what is necessary by not providing 100% wage replacement. *A wage replacement rate of 60% would limit the risk of a new program while creating the necessary nudge for beneficiaries to use the program judiciously and efficiently, thus benefiting the broader risk pool.*
- **A leave program should require more attachment to the workforce than two quarters for wages**. Previous iterations of this proposal were built around a wage threshold which is more appropriate. Similarly, the program should require that an individual be employed in order to be eligible for the program as we have unemployment insurance and workers' compensation programs for individuals who need to separate from an employer, however, this program is an insurance benefit built around employment, and as you currently have drafted, paid for by the employer. *Both of these provisions inject a higher propensity to adverse selection and misuse by those in seasonal employment, which could have negative impacts on others in the risk pool.*
- **Would suggest capping contribution at the social security contribution maximum** for consistency and ease of compliance, as well as to keep a better alignment of the marginal benefit of the program for individuals to the marginal cost.
- **We advise against the tax refund for individuals making less than $25,000**. Individuals in this traunch are, at most, contributing $72.50 to the program while potentially receiving close to 80 times that in a benefit. All those utilizing the program should be contributing, and given the generosity of the benefit, these

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individuals already see the highest marginal benefit for the lowest marginal cost. *Exempting individuals earning less than $25,000 would exempt a little over 40% of all taxpayers.*

- **Greater caution should be given to self-employed individuals** who need more strict and different base periods and required time in the pool to avoid adverse selection.

Again, thank you for your time and consideration of these concerns.

Sincerely,

Austin Robert Davis
Government Affairs Manager