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Susanne R. Young, Secretary

March 29, 2018

Honorable Jane Kitchel, Chair
Senate Appropriations Committee
Vermont State House
Montpelier, VT 05609

RE: H.924, An Act Relating to Making Appropriations for the Support of Government

Dear Senator Kitchel:

I write with respect to H.924, *An Act Relating to Making Appropriations for the Support of Government*, as passed by the House on Friday, March 23, 2018.

The Administration appreciates the hard work and long hours spent by the House Appropriations Committee. H.924 reflects the Governor's call for moderation in state spending. With a disciplined and collaborative focus on pro-growth policies, and diligently working to prevent the cost of state government from rising faster than wages, Vermont's economy can again grow faster than the cost of living, our state can be measurably more affordable each year for families and businesses, and we can more sustainably meet our obligations to the most vulnerable.

The Governor's budget relied entirely on existing sources of revenue and did not anticipate any new taxes or fees. In his view, Vermonters need another year of relief that moderates the tax burden and cost of living, so they can keep more of what they earn. As proposed, the Governor's budget made difficult decisions to achieve this goal. H.924, as passed the House, however, relies upon additional sources of revenue.

First, the full \$30 million of the inadvertent tax hike on Vermont taxpayers resulting from federal tax reform was not returned to Vermonters as the Governor proposed in his Working Family Taxpayer Protection Act, most of which was included in H.911, *An Act Relating to Changes in Vermont's Personal Income Tax and Education Financing System*, as passed by the House on March 21, 2018. Instead, H.911 used approximately \$4 million of that tax hike to support the expenditures in H.924. The Governor remains committed to returning to Vermonters the full income tax increase resulting from the federal tax bill.

Second, H.924 relies on a new tax on e-cigarettes that is proposed in H.922, *An Act Relating to Making Numerous Revenue Changes*, as passed by the House on March 22, 2018. The Governor is committed to a second year of a budget that does not require new taxes or fees. We look forward to working with the Senate on all revenue and appropriations bills over the coming weeks.

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The House accepted many of the initiatives in the Governor's recommended budget that advance his goals to grow the economy, make Vermont more affordable and protect the most vulnerable. The Administration seeks the Senate's support on those initiatives, as well as several other proposals not accepted by the House, as outlined below:

Military pensions tax exemption (\$2.7M). Exempting 100% of military retirement pay will allow Vermont to join the overwhelming number of states that provide some tax relief to military retirees. The Governor fully funded this tax exemption in his budget, but the House chose not to advance it. This exemption recognizes retirees for their military service, is an important and effective recruitment and retention tool for the Vermont Guard, and encourages highly skilled, mid-career professionals to stay and work in Vermont.

National Guard scholarships (\$640k). The Vermont National Guard can't effectively compete for recruits that have a desire to serve in the Guard but also want to pursue higher education. Recruiters report that high school students are being advised to consider joining the Guard in neighboring states, such as Massachusetts, New Hampshire and New York. The House support for these scholarships is reflected in its decision to fully support them. But the House limited their availability to the University of Vermont (UVM) and Vermont State Colleges (VSC). The inclusion of all Vermont post-secondary institutions, as proposed and supported by UVM and VSC, will provide additional incentives to high school students considering a career in the Vermont National Guard.

AHS dental sealant and home visit initiatives (\$500k). Dental health is a key part of overall health and well-being. The dental sealant initiative is a state-wide, school-based dental health program that will improve the health and self-confidence of Vermont children and help reduce long-term healthcare costs. The home visit initiative, to be piloted in two communities in FY2019, is a voluntary, universal program that will be available to babies born in Vermont. Three home visits by a nurse will be provided during the first 16 weeks of an infant's life, with more sustained visits for newborns and families exposed to substance abuse.

Mental health forensics temporary facility operating costs (\$1.5M). Because the House did not include a capital appropriation for a temporary mental health facility in the Capital Bill Adjustment, the House did not fund operating costs for a temporary facility in FY2019. With our shared goal to address the critical need for in-patient beds and the continued stress felt by emergency rooms across the state, the work to increase patient beds in the near term continues. We look forward to working with the Senate committees of jurisdiction to achieve this goal.

ThinkVermont/MOVE (\$3.2M). We have an urgent need to change the trajectory of our demographics. Vermont is the safest and healthiest state in the nation, with one of the best public education systems. The Governor's Think Vermont/Move, proposed to be funded with FY2018 funds in the FY2018 Budget Adjustment Act (BAA), aggressively leverages these attributes to attract workforce age Americans in markets where Vermont's values and brand are best known. This recruitment effort – which will enable more focused outreach at the individual level – will bring more workers and businesses to Vermont, expand our tax base and reverse Vermont's current demographic trends. The Governor's FY2018 BAA proposal reserved these funds; their appropriation to this initiative upon passage of H.924 will allow the Administration to begin this important work this spring.

Housing Revitalization Pilot (\$625k). In many communities the cost to repair and update existing housing stock can exceed the appraised value of the building or an owner's ability to borrow. Without tools or funding to close that gap, property values and quality of life continue to decline in many neighborhoods. The Governor's budget funded, but the House did not include in H.924, an initial pilot project in which municipalities may submit applications to the Downtown Board to compete for homeowner tax credits.



Cybersecurity. The Governor's budget proposed \$600,000 to a cybersecurity program in the Agency of Digital Services, one that will partner with Norwich University to establish a Security Operations Center that provides continuous monitoring and protection against cyber-attacks on state systems while training a workforce of cybersecurity professionals. The House supported, but did not fully fund, the program in FY2019. Full funding of this program will allow 24/7 coverage, as opposed to intermittent monitoring, and will also allow more complete data collection and analysis of potential threats.

Strategic results-based budgeting: The Governor made difficult choices to prioritize spending, budget strategically and leverage the commitment he shares with the Legislature involving results-based accountability. Some programs that were not achieving desired results were discontinued, such as the AHEC loan program and primary care case management. Other programs were recommended for reduced funding, such as hospital disproportionate share payments and children's integrated services. These decisions and others freed resources to invest in programs that would have the most impact on economic development, affordability and protecting the most vulnerable. The Administration welcomes the opportunity to explain these recommendations fully to the Committee.

Tobacco Litigation Settlement Fund and Substance Use Disorder (SUD) Response Fund: The House Appropriations Committee had scant time to consider how best to implement the shared commitment to use \$14 million to combat opioid abuse and addiction. H.924 includes the House proposal to establish a new special fund and create a related working group. The Administration is ready to work with all committees of jurisdiction to develop a plan that reflects the recommendations of the Opioid Coordination Council (OCC) and determine whether a new special fund is needed.

We look forward to working with the Senate Appropriations Committee on a budget that effectively addresses the needs of our state in a sustainable and responsible fashion.

Sincerely,



Susanne Young
Secretary of Administration

Cc: Senator Tim Ashe, Senate President Pro Tempore
Representative Mitzi Johnson, Speaker, House of Representatives
Representative Catherine Toll, Chair, House Appropriations Committee
Representative Janet Ancel, Chair, House Ways and Means Committee
Senator Ann Cummings, Chair, Senate Finance Committee
Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office
Major General Steven A. Cray, Vermont Adjutant General
Adam Greshin, Commissioner, Finance and Management
Governor's Cabinet