State of Vermont
Agency of Administration
Office of the Secretary
Pavilion Office Building
109 State Street, 5th Floor
Montpelier, VT 05609-0201
www.aoa.vermont.gov

[phone] 802-828-3322
[fax] 802-828-3320

Susanne R. Young, Secretary

May 8, 2018

H.924 Committee of Conference
Vermont State House
115 State Street
Montpelier, VT 05633-5501

Dear Committee of Conference:

The Administration appreciates the hard work done by both chambers on H.924, *An Act Relating to Making Appropriations for the Support of Government*, including a collective effort by the Legislature to slow the overall rate of State expenditures. As you know, the Governor is focused on keeping the rate of growth of government spending at or below the long-term growth in average wages, as represented by the Growth Rate Calculation (GRC), to keep State spending in check with what taxpayers can afford and provide greater opportunity to those we serve. His budget grew at 2.33%, slightly below the 2.36% GRC ceiling. Both the House and Senate budgets grew at a higher rate, representing approximately $5 million in extra spending. We look forward to working with the Committee of Conference to bring the total level of FY19 spending at or below the GRC.

We are pleased that both chambers support several of the Governor's key priorities, including the **DCF child protection initiative ($500,000)**, **the Vermont Outdoor Recreation Economic Collaborative pilot ($100,000)**, and a continuation of the successful **woodstove changeout program ($200,000)**, although we would prefer the budget fund the woodstove program on an ongoing basis with base funds instead of one-time funds. We are also pleased both chambers allocated funds to the Governor's new **cybersecurity initiative**. We note the Senate version of the budget provided the full amount necessary to establish the Security Operations Center and staff it at the appropriate level to reduce the risk of cyber threats to the State, develop a cybersecurity ecosystem through public-private partnerships, and to curb the overall cost of cybersecurity though centralized services of highly specialized resources.

As Committee of Conference members already know, one of the Governor's top priorities this year is to provide Vermonters with property tax rate stabilization and to continue to enable structural reforms to our education system so that more value is being invested directly in students versus inefficient overhead costs. His **5-Year Education Revitalization and Tax Stabilization Plan** is a comprehensive, bipartisan

VERMONT

approach built on ideas from the Administration's January 18th, 2018 communication to Representative Ancel, legislative action so far this year, and education stakeholders. It will prevent a $58 million property tax hike this year and stabilize statewide property tax rates at the current level for 5 years while generating almost $200 million in net savings which can be reinvested in more and better early education, K-12 education, technical education, higher education opportunities as well as lower tax rates. To initiate this plan, we ask for the following allocations from the FY2018 and the FY2019 budgets:

- $19 million from the $34 million received in tobacco settlement funds ($14 million from this settlement remains earmarked for opioid programs) (FY2018)
- $8.6 million in FY18 General Fund surplus revenues (as suggested in Senate waterfall language for FY18 Education Fund Budget Stabilization Reserve) (FY2018)
- $11.4 million in FY18 General Fund surplus revenues (FY2018)
- $7 million from the General Fund Balance Reserve (FY2018)
- $4 million in direct applications from special funds (FY2018)
- $2 million in direct application from the Department of Financial Regulation non-smoothing (FY2019)
- $2 million reversion from Pay Act and reclassifications appropriations (FY2019)

A total of $54 million, as noted above, would be directed to the Education Fund, all of which will be returned from the Education Fund to the General Fund over a 5-year payment period as the revitalization plan is implemented and savings are generated.

The Governor has several other priorities in his recommended budget to advance key issues critical to the State. The Administration asks the Committee of Conference to implement the following:

1. **Sec. B.215 National Guard Tuition Benefit Program:** The Vermont National Guard can't 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 recognized the importance of this program but limited the availability to UVM and the Vermont State Colleges. Fully reinstating the proposed funding of $640,000 to include all Vermont post-secondary institutions will provide additional incentives to high school students considering a career in the Vermont National Guard. An additional, and important, benefit to the state is the fact that a fully staffed National Guard ensures the Guard is fully equipped to serve Vermont in the event of emergencies or disasters.
2. **Working Family Taxpayer Protection Act:** The Governor put forward a path to ensure Vermonters don't see a surprise $30 million tax increase due to changes in federal law. We appreciate both chambers collaborating with the Administration to try to insulate Vermonters from the changes of the Federal Tax Cut Jobs Act in H.911, *An Act Relating to Changes in Vermont's Personal Income Tax and Education Financing System*, however neither the House nor the Senate is currently returning the full $30M, thus placing $4-$5M of new taxes on working households with children. The Governor is committed to offsetting the full income tax increase.

3. **Social Security tax exemption for low and moderate-income Vermonters:** The Governor's budget fully funded a phase-in of this exemption. While the House and Senate accepted the need for this tax exemption, they funded it by taking it out of the $30 million inadvertent tax hike on Vermont taxpayers resulting from federal tax reform. We do not believe the Social Security tax exemption should be taken out of the money that rightfully should be returned.

4. **Military Pensions Tax Exemption:** 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 disappointingly, both chambers chose not to hear testimony from our veterans and consider this proposal. This exemption recognizes retirees for their military service, provides an incentive to veterans to move to Vermont to participate in our workforce, as their skills can be easily transferred to civilian occupations, encourages retirees who are already here to stay, and is an additional recruitment and retention tool for the National Guard and Reserve.

5. **Sec. C.1000(14) - ACCD - Marketing Funds – ThinkVermont Innovation Initiative:** Between the BAA and FY19 budget, the Governor proposed nearly $4M in complimentary spending to address our urgent demographic crisis and to grow our economy. In the budget as passed by the Senate, in FY19 we would invest a little less than $400,000 in relocation, marketing and pro-growth programs. We appreciate the House's funding the Vermont College Graduate Placement and Small Business Recruitment Initiative (Sec. C.1000) and the ThinkVermont Innovation initiative as originally proposed in the Governor's budget and ask that the Conference Committee work with the Administration to place a critical amount of funding in areas that attract new residents, retain current Vermonters, and grow our job opportunities.

6. **Sec. F.102.1 One-stop web portal surcharge:** A surcharge to fund a one-stop navigable portal is not needed as both the ACCD and ADS are prepared to provide program management and technical expertise from their existing resources to design and implement a portal.

7. **Dental sealant and universal home visit initiatives:** The Administration is committed to health care reform initiatives that focus on prevention. 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. The goal of these services is to ensure new parents are supported in bonding with their infant and gain the confidence and knowledge needed for both infant and parent health and well-being. Studies of a universal home visiting program found that families participating in the program had lower emergency care costs, reduced maternal anxiety, improved parenting behaviors, and higher home environment quality. Additionally, universal home visits provide the opportunity to link families to community services, especially for women struggling with addiction.

8. **Sec. C.105 et seq. – Tobacco Litigation Settlement Funds**: The Senate's version of H.924 includes prescribed appropriations for the Administration's use of the tobacco settlement funds. Among those uses are inadequately funded proposals for MAT at the DOC and for a PFOA blood testing project. Additionally, the CHINS proposal limits AHS' role to that of a consultant.

Alternatively, the Administration is ready to work with all committees of jurisdiction to develop a plan that reflects the recommendations previously shared and uses $14M in available settlement funds.

9. **Sec. D.101(d)(1) - Fund Transfers, Reversions, and Reserves:** As the language currently stands, to the extent that the fiscal year 2019 general fund July E-Board forecast exceeds $1,568,200,000, funds carried forward in Sec. C.1000(d)(5) would be repurposed to pay down the Retired Teachers' Health and Medical Benefits interfund loan. The premature commitment of any potential fiscal year 2019 revenue upgrade, prior to fully contemplating offsetting spending pressures, is ill-advised. The Administration believes the more appropriate and prudent approach to discussing any fiscal year 2019 revenue upgrade would be the 2019 Budget Adjustment process.

In addition to the above omissions, we note that two of the Governor's priorities – the VHFA Down Payment Assistance Program and the Downtown and Village Center Tax Credit program - were funded with an e-cigarette tax in H.922, *An Act Relating to Making Numerous Revenue Changes*, a tax the Governor will not support. In his recommended budget, these two initiatives were fully funded, and we would ask the conferees to put them back in the budget as proposed. H.922 also appears to be on track to include a new tax on opiates, with funding directed towards staffing the Opiate Coordination Council. Again, knowing the Governor does not support new taxes and fees, the Legislature should not jeopardize the State's ability to coordinate, streamline, and strengthen our response to the opiate crisis.

As Committee of Conference members are aware, the May 7, 2018 Emergency Board meeting recognized available General Fund revenue in FY2018 to exceed its January 2018 forecast by at least $44.2 million. As previously noted, the Governor proposes to direct $20 million of this surplus to his **Education Revitalization and Tax Stabilization Plan.** For the remaining $24.2 million, we propose the following uses:

- $10 million for paving, which applied to both State-only and federally-matched levelling projects, could leverage an additional $5 million, for a total of $15 million of project work. This investment would result in improvements to almost 100 miles of State highway, targeted to those sections in greatest need of repair (and not already included in the capital improvement plan). AOT expects this work could be completed in the 2018 construction season;
- $2.6 million for school safety grants, including:
    - $1 million to cover the school safety grant match requirement in the Capital Bill (H.923, Sec. 26);
    - $1.6 million to expand participation.
- $250,000 to VEDA for loss reserves on loans to farmers, as proposed by the Senate (Sec. C.1000 (a) (11));
- $450,000 to the Agency of Agriculture, Food and Markets to help offset the premium costs for dairy farmers participating in the Federal Margin Protection Program, as proposed by the Senate (Sec. C.1000 (a) (12));

VERMONT

- $3.6 million to retire Vermont Life's financial obligations;
- $3 million to make recreation infrastructure improvements in State Forests and State Parks to increase public access and to expand grant programs to promote expanded use and stewardship of Vermont's outdoor recreation assets; and,
- $4.3 million to incentivize early adoption and implementation of stormwater management improvements on private property essential to achieving goals of Lake Champlain TMDL (total maximum daily load) and other water quality initiatives.

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 but careful and responsible decisions to achieve this goal. The Administration is willing to work with the House and Senate to include his priorities in a revised budget, and to find ways to achieve a budget that effectively addresses the needs of our state in a sustainable and responsible fashion.

Sincerely,

Susanne R. Young

Cc: Commissioner Adam Greshin, Department of Finance and Management

VERMONT