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Susanne R. Young, Secretary

June 10, 2020

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

Dear Senator Kitchel:

I write with respect to H.961, *An act relating to making first quarter fiscal year 2021 appropriations for the support of State government*, as passed by the House on June 9, 2020. The work of the House to move forward a single quarter budget to allow government to continue operations over the next three months in this time of great uncertainty is appreciated.

The Governor's first quarter proposed budget for fiscal year 2021 was guided by the science and the data around the COVID-19 virus and our focus is to contain its spread while we conduct the critical work required to restart Vermont's economy, stabilize our healthcare system and get our kids back in school in the fall. Just three weeks ago, the State and Legislative economists completed a consensus projection of the reduction in General Fund revenue for fiscal year 2021, as compared to the consensus forecast reached in January 2020. Their projection estimated that the State would suffer a \$230 million **reduction** in General Fund revenues. This is in addition to \$44 million less revenue in the Transportation Fund and \$100 million less in the Education Fund, for a total reduction in revenue to expend on state government functions of \$374 million.

While recent, more optimistic developments may lead to an improved forecast over time, it remains certain that there will be a significant reduction in General Fund revenue from what we expected in January. This is why the Administration and the Legislature agreed early on in the state of emergency to prepare a budget for the first quarter beginning July 1 and to return in late summer to complete a full FY21 budget. Until then, in the first quarter of the fiscal year all available resources must first be focused on the immediate needs of individuals, communities and businesses around Vermont rather than on spending more on state government programs and services, as proposed by the House.

The Administration's first quarter budget aligned proposed spending with forecasted revenue and was crafted without expectation of further federal relief. Congress has been generous in providing emergency and recovery relief and Vermont was fortunate to receive the \$1.25 billion in Coronavirus Relief Fund (CRF) assistance. As we know, the U.S. Treasury guidance and administrative requirements for its use have been slow to evolve and have imposed ever-increasing limitations with every iteration including the provision that prohibits CRF payments from being used to address our revenue shortfall. This has been a

frustrating process for us all and it is a driving factor in our reluctance to set aside CRF in the hopes there will be a change in policy that allows it to be used to bail out state government by replacing lost revenues.

Given the gravity of the impacts to businesses and communities, we believe these dollars should be deployed without delay to support the people of Vermont. Specifically, we urge you to reconsider the recommendation of the committees of jurisdiction to severely reduce and restrict the amount of grant funds going to assist businesses. The re-emergence of the variety of business sectors impacted by the Covid-19 business interruption is an essential requirement for the revenue creation upon which our budget is built.

The House increased spending authorization by \$33 million

The Governor's proposal gave first quarter spending authority to departments and agencies equal to 23 percent of their full year FY20 Budget Adjustment Act appropriation. Exceptions were made for seasonal spending patterns within certain agencies - AOT and ANR, for example – but for most of state government we proposed spending slightly less in the first quarter of FY21 than was spent in the first quarter of FY20. This not only allows us to start to align spending now with future anticipated revenue but is a necessary and prudent strategy to avoid deeper cuts in the last three quarters of FY21 should the economists' estimated revenue reductions materialize in the August forecast, and assuming no additional federal relief is forthcoming. Reductions in spending are far more painful when spread out over nine months than a full fiscal year.

The House proposal differs most significantly from the Governor's recommended first quarter budget by increasing spending authority from the FY20 adjusted budget by approximately \$33 million, primarily by increasing the recommended percentage from 23 percent to 25 percent. The House proposes to pay for this additional spending by establishing "fiscal capacity" that directs financial resources to state government and away from Vermont residents and businesses in need. Moreover, it does not prepare the State for the financial reality of FY22, and beyond, if we do not achieve significant success in economic recovery.

Every dollar we spend maintaining an unsustainable spending trajectory in state government is one less dollar available to combat the pandemic and restart our economy. The Administration requests that the Senate adopt the Governor's first quarter budget as proposed and refrain from spending any General Fund capacity built during the first quarter until the final FY21 budget is considered. Only then will we have an honest sense of where that General Fund money can be best spent—on needs created by the pandemic not supported by federal funds or specific critical operations of state government.

The House proposes unwarranted and unnecessary restrictions on the Administration's ability to manage government in a critical downturn.

The Administration initiated a hiring freeze for non-COVID related employees in mid-April and took other proactive steps to slow spending this quarter, such as forgoing salary increases and avoiding commitments through contract and other discretionary matters whenever possible and will continue to do so. While the support of the hiring freeze and agreement with this step is appreciated, the House proposal

adds a requirement that the Joint Fiscal Committee (JFC) be notified of any approved hiring during the first quarter of FY21. It then goes further and removes the ability of the Secretary of Administration to implement statutorily authorized position sweeps without the Legislative Joint Fiscal Committee approval. Managing the labor pool is an Executive Branch responsibility and while we intend to remain open and transparent in this regard, micromanagement of the Executive's ability to take action during the pandemic, with requirements that do not exist in normal times, is unwarranted and counterproductive, especially in light of the House's proposal *that spending be increased at the same time*.

Coupled with the above, the House also prohibits the Administration from making "changes to policies or program structures" prior to approval of the full FY21 budget - over the next three to four months - without input from the legislative policy committees of jurisdiction *and* without approval by the Joint Fiscal Committee. With this overbroad and vague limitation, the House proposal essentially paralyzes the Executive Branch for the foreseeable future during the worst economic crisis in our history. No policy, however minor, is spared. All program structures are saved in their current state. The encroachment of this directive is troubling at best and, as you well know, while the Governor may not totally negate a legislative policy decision by refusing to exercise his spending authority, he is not obliged to spend the money unnecessarily.

Thank you in advance for considering the Governor's first quarter FY21 budget as proposed. It was guided by the uncertain length of our emergency response effort, and the pandemic-related stresses on Vermont's economy and its health care and education systems. It was our best assessment of what was needed to ensure state government will continue to operate, to retain resources to combat the COVID pandemic, and to maintain capacity to invest in our economic recovery. If unforeseen circumstances require us to reassess needs of state government, the bill provides a back stop through the Emergency Board.

The Administration looks forward to working with you on a first quarter budget that makes sense under the circumstances and prioritizes economic recovery over government spending.

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 Committee on Appropriations
Representative Janet Ancel, Chair, House Committee on Ways and Means
Senator Ann Cummings, Chair, Senate Committee on Finance
Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office
Adam Greshin, Commissioner, Department of Finance and Management
Governor's Executive Cabinet