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Susanne R. Young, Secretary

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

Dear Senator Kitchel:

I write with respect to H.542, *An Act Relating to Making Appropriations for the Support of Government*, as passed by the House on March 29, 2019. The Administration appreciates the thoughtful work of the House Appropriations Committee. H.542 reflects a disciplined and collaborative focus on pro-growth policies, while maintaining fiscal restraint through building reserves and limiting new, long-term commitments. Most importantly, it makes strategic investments of limited resources in initiatives that will continue to address our demographic challenge.

The Governor continues to believe that our single biggest challenge is our troubling demographic trajectory that hinders our ability to continue funding programs, services, and institutions we all value. This challenge was also recognized by Moody's, who noted our demographics and debt burden as reasons for the downgrade to our bond rating this past summer. In addition to building reserves, and in order to be able to continue to afford our existing commitments, the Governor's proposed budget contained a multi-prong approach that continues his focus on growing our economy. Many of the initiatives proposed are designed to attract new workers from outside Vermont, and to get those who are here back to work, contributing to our tax base, our vibrancy, and our overall economic health.

Many of the Governor's spending initiatives were funded in H.542, in whole or in part, such as: the broadband connectivity initiatives supported in H.513, *An Act Relating to Broadband Deployment Throughout Vermont,* as passed by the House; directing money to make a small, but meaningful, start down the path to prefunding health care expenses (OPEB) for state employees; and the design by the Vermont State Colleges of an associate degree program to be delivered in our regional career tech ed centers. H.542 reflects bipartisan support for investments in programs that grow the economy, make Vermont more affordable, and protect the most vulnerable. Our comments and concerns relative to the Governor's budget are offered in the context of appreciation for the thoughtful and considered reception given the Governor's proposals by the House.

Paid Family and Medical Leave

The Governor included in his proposed budget $1 million of base funding to the "Twin State Voluntary Paid Family and Medical Leave" plan, see H.396 as introduced. This Plan joins the Vermont and New Hampshire state employee workforce to create a pool of 18,500 lives that will create an affordable rate to be offered to private employers, sole proprietors, and individuals. Further, the plan will be administered, after a competitive bid process, by an insurance carrier.

H.542 only reserves $430,000 to cover state employees in FY20 based on a 0.1 percent payroll tax, under the paid leave initiative in H.107, *An Act Relating to Paid Family and Medical Leave*, as passed the House, should the State as an employer decide to negotiate a cost-share with employees. Again, should H.107 become law, and the State enters into a cost-share with State employees, this amount will need to be increased in the out years when the payroll tax increases to .55 percent.

H.107 also requires the State to administer a mandatory program should it be unable to secure an insurance carrier to do so. Sufficient revenue has not been set aside to sustain a State-run program, nor will the 0.1 percent payroll tax build an adequate reserve, if we find ourselves going down this path. And of course, the Governor strongly believes that any paid family and medical leave plan should be voluntary at the outset. Further, the Joint Fiscal Office estimates the payroll tax contemplated in H.107 will cost Vermont workers $76 million through an employee-paid payroll tax.

The Governor's Twin State proposal creates a simple, professionally administered, voluntary program that ensures universal access by allowing for both employers and individuals to opt-in. Based on RFI responses, the estimated cost will be $207 - $250 for an average salary wage earner per year. The Administration looks forward to continued discussion with the Senate as it considers H.107 and H.396 in the coming weeks.

Early Care and Learning: Child Care

H.542 and its companion policy bill, H.531, *An Act Relating to Vermont's Child Care and Early Learning System*, fully support the Administration's proposal to increase funding for early care and learning. By investing in financial assistance for our early care and education workforce and lifting subsidy levels –thereby reducing parents' co-pay obligations – these bills make substantial progress in delivering more affordable and accessible child care options to parents.

While the Governor's recommended budget proposed a $7 million increase with an annual adjustment tied to the consumer price index, the House passed budget appropriates nearly $1 million more than proposed, but without consideration to future program needs. This level of support is heartening; however, in FY20 it comes at the expense of other proposals with the same goal to attract working families to Vermont. As you work on the budget, we would appreciate the opportunity to discuss the additional investment the House made and whether it is the most optimal use of funding to achieve the underlying goal of more affordable child care options for working families.

Rebuilding Existing Housing Stock

Vermont has aging housing stock, especially in existing rental property. These properties could be modernized and weatherized to be more affordable and attractive to individuals and families that we hope will choose to move to Vermont. The Governor proposed $1 million for the Vermont Housing Incentive Program to provide small grants to owners of existing properties that are vacant, blighted and in need of substantial repair. H.542 did not appropriate funds for this purpose, perhaps in light of the ongoing work on housing that was underway in the Senate. This incentive program, coupled with the Administration's proposal to eliminate the land gains tax, will help create more housing options at a time when another major housing bond is not feasible.

Growing the Economy: ThinkVermont-Move

Another strategy, funded through base funding in the Governor's proposed budget, is to direct $2.5 million towards workforce recruitment and relocation efforts by the Agency of Commerce and Community Development and the Department of Labor. Two million of this funding was included in S.162, *An Act Relating to Promoting Economic Development*, as it passed out of the Senate Economic Development Committee, indicative of our shared goal to fund programs focused on recruitment of out-of-state workers to relocate in Vermont.

H.542 however, taking direction from House-passed H.533, *An Act Relating to Workforce Development*, devoted almost $1.1 million to training our existing workforce, $500,000 to relocation efforts, and converted the Governor's base funding request to one-time funding. Attracting workers to Vermont and continuing to train and retrain our existing workforce are both critical. Prioritization is difficult, and the Governor's proposed funding of the VSAC non-degree grant program was where the Administration directed resources for our in-state workforce at this time.

If we hope to stem our declining demographic trends, additional focus on our ultimate need to attract more people to Vermont is critical. The Administration supports full restoration of the $2.5 million base appropriation split with $2 million to the Agency of Commerce and Community Development and $500,000 to the Department of Labor. This work needs to be assured of ongoing base appropriations as the work we face to reverse our demographics is going to take sustained and steady efforts over time.

VSAC Advancement (Non-degree grant) Program

The Governor proposed $1 million of base funding for VSAC's non-degree grant program. As noted above, this program is a proven initiative that builds and trains our current workforce. While pleased that the House supported the program with $500,000 of one-time funding, the Administration supports restoring the appropriation to the full $1 million and adding this to VSAC's base funding.

Electric Vehicles: EV Purchase and Lease Incentive

Understanding that a cleaner environment will promote a stronger economy, the Governor proposed investing in Electric Vehicle (EV) charging infrastructure and promoting the purchase of electric vehicles. The proposal makes EVs more affordable to lower income Vermonters through the use of $1.5 million from the litigation settlement fund. The Transportation budget included an additional $300,000 to invest in charging infrastructure. H.542 decreased the total amount for EV incentives and chargers by $300,000 when it directed the additional transportation money intended for infrastructure to the incentive program. The Administration supports reinstatement of the Governor's proposal, which provides $300,000 more for EV charging infrastructure when counting all uses of the VW settlement fund.

Clean Water

The Governor's proposed budget identified $8 million of an existing revenue source, from the estate tax, to dedicate to the Clean Water Fund making this the third dedicated revenue source for the Fund. This $8 million, along with an expected $6 million from the surcharge on the property transfer tax and another $1 million from the bottle return escheat program, brought the anticipated revenue in the Clean Water Fund to $15 million and the total funds dedicated to clean water to $48 million between state and federal funding for clean water projects in FY20.

At its December 21, 2018 meeting, and as required by 10 V.S.A. §1389, the Clean Water Board recommended a total of $28.35 million of spending on clean water projects, assuming the additional $8 million in general fund monies and $12.15 million proposed in the FY20-21 Capital Bill, be allocated as follows:

- $9.64 million for work in the agricultural sector, including $2.8 million for land conservation and water quality project work by VHCB;
- $2.55 million for innovation and partner support;
- $2.8 million for natural resources restoration;
- $7.45 million to manage stormwater runoff from developed land and roads;
- $5.91 million for wastewater treatment; and
- $25,000 to start work on a statutorily required clean water audit.

Because H.542, as passed the House, does not anticipate an additional infusion of $8 million, the House reduced the proposed budgets of three agencies and/or departments by that amount. If the Senate also determines it will not fund the additional $8 million in clean water projects, the Clean Water Board should be authorized to determine where those reductions should be made after consultation with the Clean Water Initiative to insure limited funds are directed to the most shovel-ready projects. The Administration remains optimistic, however, that a dedicated source of existing revenue will be identified in the coming weeks to fulfill our commitments and compliment the clean water project delivery model outlined in S.96, *An Act Relating to Provision of Water Quality Service*, as passed the Senate on April 2.

Protecting the Most Vulnerable

Department of Children and Families, Family Services Division:
The proposed budget directed $2 million to expand staff coverage in DCF's Family Services Division to hire family services workers and supervisors, as well as resource coordinators, to meet the needs created by a 33 percent increase in caseloads, including the 42 percent increase in conditional custody cases. Much of this work is the result of the opioid crisis that has devastated families and exposed children to increased risks of abuse and neglect. The House reduced the proposed funding by almost $700,000 and did not increase the number of case workers. The Administration appreciates the support from the House that funds additional resources to meet these pressing needs, but the staffing changes included in H.542 are not ideal to meet the challenges at hand.

SUD / MH Workforce Development:
As directed by Act 11 of 2018, Section C.106.1, the Agency of Human Services convened a work group of stakeholders and developed a comprehensive plan to expand the workforce for substance use disorder treatment and mental health professionals. The plan was presented by Secretary Gobeille to the House Appropriations Committee on January 11, 2019. The House declined to act on that proposal and instead, in Section E.301.2, asked for a substantially similar report to be delivered to the Health Reform Oversight Committee by August 1, 2020. Considering our shared desire to address the opioid crisis, and also considering the unrealistic time frame – at most two months – to develop the report, we are perplexed by the House's action and we ask the Senate either to adopt the stakeholders' proposal or provide greater direction as to how to proceed.

Savings:
One of the Governor's strategic priorities is to achieve a true strategic budgeting construct based on programmatic results and return on investment. In FY20, we were able to find efficiencies or redirect underutilized resources towards more effective programs or services. For example, declining Reach Up caseloads allowed us to bring a Reach Up contract in house, better utilizing DCF case workers while distributing half the projected savings back to Parent Child Centers to make infrastructure improvements. Underutilized funds in the weatherization program were redirected to LIHEAP administration to shore up this critical program for Vermont families. The House accepted many, but not all, of the Governor's efficiencies. Understanding the limited resources, the Governor focused his budget proposals on priorities that will help with Vermont's challenging demographics, while building capacity through savings and efficiencies towards that goal.

Modernization and Delivery of State Services More Efficiently
H.542 contains two sections, E.100.1 and E.300.4, that overlap significantly. The first requires the Secretary of Administration to determine whether savings could be achieved by consolidating the administrative functions of community-based organizations, including the area agencies on aging, community action agencies, parent-child centers, designated agencies, specialized services agencies, regional planning commissions, and regional economic development corporations. The other requires the Agency of Human Services to evaluate the methods used by the Agency and

its community partners to deliver services to clients in order to identify opportunities for improved efficiency while ensuring high-quality.

The Administration welcomes the opportunity to identify administrative savings among all programs supported by state government. The Secretary of Administration and Secretary of Human Services should work in consultation on achieving the specific goals outlined in H.542 in a reasoned, thoughtful and measured manner, perhaps as contemplated in E.300.4, with the assistance of an outside professional. We encourage the Committee to give the language further consideration as to how best to approach this important task.

Conclusion

Overall, H.542 spends approximately $10 million more than the Governor's recommended spending plan after taking into account the $8 million shift of the clean water funding to other spending. The proposed budget was supported with some increased fees and additional revenue of $18 million, including from an e-cigarette tax and modernization of our existing revenue streams to include on-line marketplace facilitators and travel companies. To date, tax proposals from the House, particularly H.541, *An Act Relating to Changes that Affect the Revenue of the State*, raise additional revenues that are unnecessary if the Legislature works with the Administration to identify the same level of savings contained in the proposed budget.

The Administration looks forward to working with the Senate Appropriations Committee in the same collaborative spirit we enjoyed in the House on meeting the challenge of our demographics in a sustainable and responsible budget - one that does not spend more than Vermonters can afford and that continues to put Vermont in a more competitive position relative to other states.

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 Cabinet