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Kristin L. Clouser, Secretary

January 25, 2022

Honorable Jane Kitchel
Chair, Senate Committee on Appropriations
Vermont State House
109 State Street
Montpelier, VT 05602

Dear Senator Kitchel:

I write with comments on H.679 – *An act relating to fiscal year 2022 budget adjustments*. The Administration appreciates the work the House did on this bill, particularly considering its size and complexity. H.679 reflects the dynamic fiscal environment we face. The Administration also appreciates that the House accepted many of the Governor’s initiatives to put surplus money to work for Vermonters now. Several items, detailed below, require further attention. We are happy to make our departments and agencies of jurisdiction available to your committee for further explanation.

Use of Funds

The Governor has stated clearly that ARPA-SFR (ARPA) funds should be reserved for long-term, tangible infrastructure projects which will transform communities and make a lasting difference to our state. As you may recall, we worked together to include intent language in Act 74 of 2021 that directed ARPA dollars to investments in housing, water, sewer and stormwater, broadband, climate change mitigation, and economic recovery. The Governor is still committed to this framework, and that is why he proposed \$75 million of ARPA funding for a package of housing initiatives. This can make a lasting, and in many cases, permanent difference to housing-insecure Vermonters. More emergent, one-time crisis-related needs, such as the workforce stabilization effort or support for VDOL’s unemployment insurance division, are better met with surplus General Fund dollars. In addition to these two exchanges from General Fund into ARPA, the House proposed almost \$24 million additional uses of ARPA dollars, including financial assistance for education and training for those in priority sectors like health care and the trades, as well as funding for childcare worker retention, which are featured in the Governor’s FY23 budget proposal – funded with General Fund dollars.

In total, the House spends over \$100 million in ARPA initiatives which, when netted against the \$9 million VHFA swap out of ARPA, results in over \$90 million in new ARPA spending, approximately 20% of the remaining ARPA funds available. While the proposals advanced by the House include several worthy initiatives, absent a comprehensive look at the full menu of proposed investments, it limits the ability to ensure ARPA funds are put to the highest and best use. Specifically, the House’s proposals bring available ARPA funds for infrastructure projects to revitalize our rural communities across the state down to \$430 million and could require a commensurate and significant scaling back of investments in our

shared priorities around clean water, climate action, housing, broadband, or economic recovery. In comparison, the Governor's proposal makes ARPA investments in housing, and leaves over \$500 million in ARPA funds for additional long-term, transformative investments in the Governor's FY23 budget.

The Administration is aware of the pension reform task force's call for an additional \$50 million for the teachers' pension and looks forward to seeing and reviewing the details of your proposal. Please know, we are willing to work with the Legislature to achieve a successful outcome that we can all support. We do not believe shifting short-term, one-time General Fund expenses into ARPA is the best plan and puts this once-in-a-generation opportunity for transforming our communities at risk.

State Balance Sheet Clean-Up

Several proposals in the Governor's FY22 budget adjustment are designed to improve the state's financial standing now and into the future. The Governor, with the support of the Treasurer's office, proposed to retire \$20 million general obligation bonds. When combined with a \$22 million initiative to retire all our TIB bonds, the proposal would reduce state-backed debt outstanding by over \$40 million. In addition to the benefits received from interest savings, this sends an unmistakable message to our creditors, and the credit rating agencies, that financial security is a top priority for government leaders. The House declined to fund this priority, but we would ask the Senate to restore it.

The Administration also requests the Senate fully fund the Governor's initiative to close the Property Management internal service fund deficit. This deficit – currently \$21 million - has been on the state's balance sheet for almost two decades. There's a plan to close half of it through adjustments to the internal services fund, but there's no plan to close the remaining \$10 million. The Governor's budget adjustment included the full \$10 million but H.679 cuts this amount in half. This is not the kind of initiative that gets top billing when money is tight, but it should be a prime consideration before surplus funds are allocated to new programs or services which will not be sustainable in future years.

Similarly, the Governor's budget adjustment put \$6.7 million towards bolstering our state liability fund. We are pleased the House chose to include \$5 million, however, this amount barely covers our cyber policy and deductible (a combined \$4 million), and therefore does little to build up the fund and mitigate future risk. The state now has a pay-as-you-go approach to liability claims which is poor policy considering the magnitude of potential claims. We should be putting aside more money in this area, not less.

Home and Community Based Services (HCBS)

The HCBS spending plan language in the Governor's budget adjustment was intentional. Its omission creates challenges in the implementation of the spending plan and associated Medicaid federal reporting. In the event the language in Sec.72 (e)(1) remains, it should at a minimum reference the Governor's original, recommended HCBS language to reconcile it with the entire CMS-approved HCBS spending plan.

AHS spent months formulating a strong and thoughtful plan for the HCBS federal money. The House language in H.679 lacks clarity where HCBS funds are implicated and draws on other funding streams, including Global Commitment and ARPA-SFR, complicating the implementation of associated spending. The Administration asks the Senate to restore the original language submitted in the Governor's proposal, which is necessary even if the spending plan is amended.



Childcare

The Administration fully supports additional funding for childcare, but H.679 uses ARPA-SFR funds when an alternate federal funding source - \$26 million in Stabilization ARPA funds - currently exists to address the same needs. Due to the restrictive nature of federal funding sources, a new program specific to SFR funds would need to be created, in addition to the existing program. The Administration believes the childcare income tax credit proposed in the Governor's FY23 budget, coupled with the proposed Child Care Financial Assistance Program (CCFAP), provides more meaningful and lasting help for providers and families – without the additional administrative burden for a temporary assistance program that the blending of federal funding sources would entail. The Administration asks the Senate to remove the \$6 million ARPA-SFR appropriation to DCF in Section 68.

Healthcare Workforce Retention

The House workforce retention proposal in H.679 uses three different federal funding sources – ARPA-SFR, Medicaid FMAP and HCBS – as well as the General Fund. This may or may not be feasible, but the administrative challenge is evident. The Governor proposed a simple, bifurcated structure of funding: General Fund for one subset of the workforce and HCBS for another specific group of eligible workers. While the General Fund may have been used to supplement any potential shortfall in need-based grants to HCBS providers, the funds were not contemplated for pooled use.

As important, the Governor's proposal includes a one-year work requirement for recipients of financial incentives. This should be part of any financial package – education or work-related. And the subsidies should be needs based, as opposed to a flat amount, which would direct the money to where it is most needed. Other challenges with the House language include narrowing the eligible employer type; removing employer discretion as to how best to use an award (e.g., recruitment, retention and/or training); and prescribing an award amount of \$3,000/FTE which further hampers employer flexibility. AHS is ready to work with the Senate to design a workforce retention package that meets our shared goal in a more efficient manner.

Emergency Housing FEMA and ERAP Intent Language

The Administration requests changes to the House's proposed language in Section 54 to accurately reflect DCF's intended manner of addressing General Assistance Emergency Housing (GA EH) needs. DCF will continue to utilize 100% FEMA funds through June 30, 2022 if such funds remain available. To the extent FEMA funding ends, DCF requests discretion to transition current recipients of GA EH into transitional housing administered by DCF outside of the GA EH program using federal Emergency Rental Assistance Program funding. It should also be noted that without long-term investments of ARPA-SFR, as recommended in the Governor's FY22 budget adjustment and FY23 budget, AHS will not be able to implement its plan to permanently house Vermonters.

Housing

The House did not support one of the highest priority housing initiatives the Governor put forward, which is \$5 million to VHFA for a program focused on creating “missing middle” housing for moderate-income homebuyers. The program will serve a broad spectrum of affordability, supporting homebuilders to create modest homes for households and ultimately increase homeownership. As the Governor said in his Budget Address, according to the Vermont Association of Realtors, only 136 homes were for sale in Vermont during the week of January 10th that a middle-income family can afford. This part of our housing



crisis needs our utmost attention as we continue our progress on addressing options for low-income households. There is no reason we shouldn't put money to work now in advance of this summer's construction season to help retain families we currently have that are here and attract new residents we desperately need.

Career Technical Education

Our local education agencies (LEAs) have directly received nearly \$400 million in Elementary and Secondary School Emergency Relief (ESSER) funding. However, due to Vermont's school governance and education finance system, not all our Career Technical Education (CTE) centers and programs received commensurate relief. As part of his support for CTE, the Governor proposed \$1.5 million from the Education Fund to support CTE centers with costs associated with ongoing and new COVID-19 challenges connected to recovery. The \$1.5 million would support infrastructure needs, academic readiness, social and emotional learning, and employability skill development at all 17 CTE centers.

The House reduced the Governor's \$1.5 million request to \$500,000 and directed it exclusively to our three independent CTE centers. We understand at least one of these centers has a substantial budget deficit. The Administration would be happy to work with the Legislature on longer-term solutions to CTE funding and governance, but in the interim, asks that the full amount be restored to support CTE centers statewide.

The Administration also requests the Senate appropriate \$150,000 in General Fund to support the Agency of Education's vaccine incentive program for independent schools (recognized and approved) that are not eligible to receive ESSER funds. This initiative was originally funded with CRF however the program was not initiated by the end of last year and therefore does not qualify for CRF funding. This was not included in the Governor's budget adjustment however the program is ongoing, and the Agency has already received several requests for grants.

We look forward to working with you in the coming days to provide clarity and improve H.679.

Sincerely,

Kristin Clouser
Secretary, Agency of Administration

Cc: Representative Mary Hooper, House Committee on Appropriations, Chair
Senator Rebecca Balint, State Senate, Senate President Pro Tempore
Representative Jill Krowinski, House of Representatives, Speaker
Catherine Benham, Joint Fiscal Office, Chief Fiscal Officer
Adam Greshin, Department of Finance and Management, Commissioner

