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] 802-828-2428

Kristin L. Clouser, Secretary

March 31, 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.740 – *An act relating to making appropriations for the support of government.* The Administration understands the work required to appropriate $8.1 billion and we appreciate the House budget reflects some of the Governor's priorities. There are, however, essential initiatives not included that are necessary to ensure Vermonters see the maximum benefit of these historic funds. Several items, detailed below, require attention – and adequate investment – if the budget is going to receive the Governor's support.

What follows is not an exhaustive list of every change the Administration would like to see, but it does represent our most pressing concerns with the House budget. As always, we look forward to working with your committee to provide further explanation.

Housing
The Governor and the Legislature seem to agree on Vermont's need for more housing working Vermonters can afford. This is why the Administration was both mystified and disappointed by the removal of $20 million from the Governor's $70 million ARPA request for housing. Half of this reduction - $10 million – was directed to the Vermont Housing Finance Agency to establish a Missing Middle Income Home Ownership Development to support the development of new homes for purchase by working-class families. The data is clear: housing in this price range is virtually non-existent in Vermont. The other half of the reduction came from our successful Vermont Housing Investment Program (VHIP) to bring blighted and vacant rental units back online, and from grants to Vermont municipalities to support the development of affordable mixed-income rental housing. The House has stated the policy language behind these initiatives is travelling in other bills, but the House budget does not fund these investments. The best result would be to put the language *and* the funding in the budget, but at a minimum, the Administration asks the Senate to restore funding for these important initiatives.

Economic Development
As you will recall during BAA discussions, the Administration raised significant concerns with the amount of ARPA being spent on short-term, programmatic initiatives and the impact of that spending on the five major ARPA spending categories agreed to last year:

- economic development;
- housing;
- climate change mitigation;
- water/sewer/wastewater infrastructure; and
- broadband.

As a result of BAA ARPA spending, the House was faced with an $85 million gap when contemplating the FY23 ARPA budget. Unfortunately, the House addressed that gap, at least in part, by cutting $100 million in ARPA economic growth investments for small businesses and rural communities who need these investments most.

Some of this money targeted COVID-impacted businesses, and a large component was directed to economically disadvantaged communities to help promote economic growth, housing, and job retention and creation. These investments are urgently needed to prevent further economic decline and stagnant grand list values - with an emphasis on the rural regions of our state that have been left behind over the past several decades. The Administration asks the Senate to restore this critical component of the Governor's budget.

Tax Relief
In an era of skyrocketing costs of living, the Governor feels very strongly that the Legislature should consider his progressive tax relief proposals. The Governor's recommendations benefit at least 25 percent of low- and middle-income resident taxpayers – purposefully prioritizing workforce expansion – via a suite of proposals. Making Vermont more attractive to young workers and families and helping more working families escape poverty are essential to the development of a workforce that will grow and support Vermont's economy. Expanding two proven credits, the Earned Income Tax Credit and the Child and Dependent Care Credit, puts more money in the pockets of Vermont's working-class families. Allowing all Vermonters to deduct student loan interest helps retain and attract young workers. Additionally, Vermont's population is one of the oldest in our country and raising the income threshold that qualifies for the Social Security exemption by $30,000 will help to improve the quality of life for many more Vermont seniors. This relief is especially important at a time when inflation is hurting so many of these Vermonters. The Governor will only support a budget that responsibly alleviates the crisis of affordability, does not raise tax or fee rates, and provides adequate, targeted tax relief.

Unfortunately, the House's tax relief initiatives, which cost the same as the Governor's proposal, only help an estimated 13 percent of resident taxpayers, in a less strategic and targeted way. Specifically, the House's tax credit is only for those with children 6 and under, creating a cliff for families when their kids turn 7. The House proposal also fails seniors by only increasing the income thresholds for Vermont's Social Security exemption by $5,000. It is our hope that the Senate Finance and Appropriations Committees will collaborate with the Administration to expand tax relief to more Vermonters and in a more strategic and progressive way.

State Employee Pension Reform
As the Governor has shared with both the Speaker and Pro Tem, and Commissioner Greshin shared with you, we can support the reforms in S.286, *An act relating to amending various public pension and other postemployment benefits*, with the addition of language that would allow for all new employees – regardless of classified or exempt status – to have a choice between a defined contribution or defined benefit plan and/or the inclusion of risk sharing provisions. Over the past two years, the Governor has consistently called for responsible structural changes to accompany any additional investment into the pension system. These changes are necessary to prevent waste of taxpayer dollars resulting from an unsustainable structural model. To be comfortable allocating the funding in the budget, the policy in S.286 must reflect a sustainable path forward.

Capital Expenditure Cash Fund
The Governor's budget included a fiscally prudent proposal to reduce the state's debt by using available General Fund revenue to pay for certain capital expenditures upfront, with cash. The proposal created a mechanism – the Capital Expenditure Cash Fund – which would allow the state to continue to shift long-term borrowing into upfront cash payments. This plan would reduce annual debt service costs and preserve borrowing capacity for "counter cyclical" stimulus investments when we really need it, like during a recession. The House neglected to include the $6 million transfer to seed this fund. In addition, instead of reducing borrowing by the amount that would have been used for BGS engineering staff, the House reallocated that sum to new borrowing. This amounts to a $3.9 million *increase* to the General Fund with no compensating reduction in debt issuance or debt service costs. The Administration and the Treasurer's office developed the Capital Expenditure Cash Fund by thinking about how we could use our unexpected increase in revenues strategically to free up both borrowing capacity and spending capacity for future unanticipated expenditures. The Administration urges the Senate to implement this more responsible approach to state fiscal management and planning.

Substance Use Prevention
Somewhat unbelievably, the House's proposed budget strips prevention funding, eliminating an upstream approach to more permanently prevent and address drug use and addiction. Specifically, the House budget eliminates funds for local substance use prevention efforts across the state. Vermont continues to face a crisis of addiction which has worsened during the pandemic. This is not the time to turn away from prevention.

DAIL – Long Term Care Oversight
Section E.329 allocates five positions created in Section E.100 to the Developmental Disabilities Services Division which ignores the reason DAIL asked for the positions – which is to provide better protection to our most vulnerable senior citizens. The Administration asks the Senate to strike Section E.329 from the bill and support full funding of our proposal to enhance long-term care facility oversight.

In addition to the specific concerns highlighted above, a broader concern is the number and size of appropriations travelling in other bills. Not all those bills have a home in H.740 and it is unclear how the pieces will fit together without making significant changes to the budget.

It is also important to reiterate that the Administration has emphasized its most acute concerns through the body of this letter. By no means is this an exhaustive list of every change the Administration would like to see. For example, the Administration continues to have concerns with reductions in funding for the VOREC community grant program, the removal of funding for relocation marketing and new/remote workers to help correct our demographic trajectory, and reductions in funding for CTE centers through the yield bill, to mention only a few.

The Administration, however, is ready to work with the Senate to create a budget that accommodates the Governor's and the Legislature's shared priorities in a way that maximizes the benefit to Vermonters and the value of these historic funds.

Sincerely,

Kristin L. Clouser

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Date: 2022.03.31 14:28:24 -04'00'

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
Stephanie Barrett, Joint Fiscal Office, Associate Fiscal Officer
Adam Greshin, Department of Finance and Management, Commissioner