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Kristin L. Clouser, Secretary

January 31, 2024

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

Dear Senator Kitchel:

I write with comments on H.839 – *An act relating to fiscal year 2024 budget adjustments.*

The Administration appreciates that the House included most of the recommended adjustments to Act 78 and accepted the Governor's priorities which include:

- reserving required state match for FEMA public assistance which leverages federal funds;
- additional funds for the General Assistance Emergency Housing program to account for utilization pressures through June 30th; and,
- funding to expand safety-net homeless shelter capacity in select communities to aid in the transition from the financially unsustainable hotel and motel program.

We are ready to put these funds to work immediately upon passage.

The Administration is concerned, however, with House additions to the Governor's recommended budget adjustment which, in aggregate, spend $29.2 million more from the General Fund in FY24, and require an additional $1.4 million contribution to the Stabilization Reserve in FY25.

This significant additional spending in the FY24 BAA prevents consideration of critical obligations and initiatives in the FY25 budget. Many of these additions will come out of higher impact investments in housing, healthcare, higher education and flood recovery in next year's budget; most, if not all, of which are priorities the Legislature has said it shares.

Given the House's increased spending in the FY24 BAA, and assuming all funds identified within the Governor's recommended FY25 budget are reverted, just $30 million in one-time General Funds remain to support all other one-time obligations and initiatives in FY25. The FY25 needs for emergency housing ($16.5 million with reconfigured eligibility) and state match for FEMA hazard mitigation ($12.5 million) will consume most of this, leaving very little to invest in other needs and priorities.

Considering the limited resources available, the Administration advocates for a stronger focus on high-impact areas where we can make a lasting difference such as the Vermont Housing

Improvement Program (VHIP), the Manufactured Home Improvement Repair Program (MHIR), Healthy Homes and Vermont State University bridge funding. At a minimum, the additional spending in the FY24 BAA should be tabled so that it can be considered and prioritized among all the needs Vermont has in FY25.

While not exhaustive, of particular concern to the Administration in the House proposal are the following:

- Emergency Housing Program Expansion
  The House extends the Act 81 cohort and Adverse Weather Conditions policy through the end of the fiscal year and includes a $75/day room rate ceiling on hotel/motel establishments. Though we are supportive of the rate ceiling, we are very concerned about this benefit expansion – both its fiscal implications and the mixed message it says to hotel and motel owners currently profiting from the pandemic-era program. If this program expansion continues in FY25 as it is structured in the House-passed BAA, it will cost Vermont an astounding $41M without providing services needed to help recipients achieve housing security and economic independence. The longer we continue to use a temporary, emergency program as a permanent housing solution, the less we have available to build and upgrade the homes and rentals these individuals need for long-term stability.

- $10 Million for "Grants to Municipalities" (Section 39)
  While the language within the House FY24 BAA indicates this is for flood-impacted counties which are eligible for FEMA public assistance, the purpose and use of the funds is not clear. The Governor's proposal, accepted by the House, transfers $6 million to the Emergency Relief and Assistance Fund (ERAF), much of which will be used by municipalities to meet their FY24 and FY25 flood-related FEMA match requirements. The Governor's FY25 budget appropriates another $12.5 million to the Department of Public Safety to be used as FEMA match for flood hazard mitigation grants to municipalities. This represents half the total $25 million need for FEMA matching funds which will unlock an additional $75 million in funding for flood hazard mitigation work in our communities. If that is not the House's intended use, the $10 million appropriation jeopardizes a substantially larger opportunity to leverage federal funds to improve the resilience of our communities to future weather events.

- ARPA Reversions and Reallocations (Section 95)
  The House passed BAA waterfall language regarding ARPA reversions and reallocations is premature when made before FY25 budget discussions, does not leverage federal funds, and is not the best use of scarce resources. While the House's first proposed use of unobligated funds – grants to municipalities for flood recovery – is an eligible ARPA expense, the requirements of the U.S. Treasury rules are quite strict and redirecting the funds to disaster recovery programs which would have to be designed and completely implemented in less than a year would be extremely high risk. Further, the Governor's FY25 budget proposal includes a construct that would facilitate the use of unobligated ARPA funds for FEMA public

assistance match and municipal support for hazard mitigation without any risk of recapture. Reserving adequate state funds to meet our match requirements will be a heavy lift and, because of federal funds that match will leverage, we should not risk coming up short.

Again, while the Administration appreciates the House's acceptance of most of the Governor's proposed initiatives, we remain very concerned with the additional spending in the House proposal and the impact of that spending on the Legislature's FY25 budget options. This level of additional spending is not something we can support without understanding what will be removed to accommodate added investments. This is particularly true if the source of funding is FEMA match money or other funds the Governor has directed to help communities rebound from the summer flood. At a minimum, we ask that these larger spending debates are had in the context of the broader budget and committee priorities.

The Administration looks forward to working with the Senate to craft a budget adjustment that addresses our shared priorities and acknowledges the financial constraints we face.

Sincerely,

Kristin L. Clouser

Digitally signed by Kristin L. Clouser
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Kristin Clouser
Secretary, Agency of Administration

Cc: Representative Diane Lanpher, House Committee on Appropriations, Chair
Senator Philip Baruth, 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