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April 1, 2025

Senate Committee on Appropriations
Vermont State House
115 State Street
Montpelier, VT 05633-5301

Via: Email

Dear Senator Perchlik:

I write with comments on H.493 – *An act relating to making appropriations for the support of government*.

The Administration appreciates the areas of agreement and common ground in the House passed budget and asks the Senate to support these shared priorities, including transferring a portion of this year's revenue upgrade to the Education Fund to help stabilize statewide property taxes and prepare for a transformation that will make our public education system more equitable, higher quality, and financially sustainable.

H.493, as passed by the House, includes funding for impactful tax credits and exemptions valued at $13.5 million, including the military pension exemption. We look forward to working together to provide much needed and strategically targeted tax relief. The House also agreed to eliminate the annual transfer from the Transportation Fund to the General Fund - a structural realignment that will boost the revenue available for critical state and local highway investment.

The House budget, however, increases base spending by $25 million. Considering uncertainty at the federal level and the economic outlook, we should be more cautious in base funding commitments. We oppose the House's decisions to reduce funding for critical housing and public health and safety initiatives. The Governor's proposed budget made strategic investments that worked together to fix structural issues and address root causes. Below, we have identified House cuts that fundamentally alter this essential, strategic approach.

Housing:
Many in the Legislature have voiced concern about Vermont's housing crisis. The Administration has a detailed, multi-pronged plan for addressing this crisis. It requires fixing policies that continue to increase costs and stifle housing *and* smart investments in the areas we know will move the needle. The House shifted $4 million in base funding to one-time for the Vermont Housing Improvement Program (VHIP), one of the lowest-cost and fastest tools for bringing new, affordable units online. A base appropriation to VHIP would reliably produce about one-hundred affordable units of housing across Vermont and we urge the Senate to restore it.

In addition, the House budget cuts $16 million from four housing programs, including two successfully piloted by the Vermont Housing Finance Agency (VHFA) – the Missing Middle Homeownership Development program and the Rental Revolving Loan Fund. The budget also reduces funding to the Vermont Infrastructure Sustainability fund, which would provide low-interest loans to build infrastructure for housing projects. The House cut $2 million for the State Brownfields Revitalization program. Each of these investments removes known barriers to homebuilding and revitalization. Without them, Vermont cannot achieve its housing affordability goals or reverse our workforce crisis.

H.493 also sets aside $10 million in base funds for H.91 - *An act relating to the Emergency Temporary Shelter Program*. Though we may agree on the concepts in this bill, we have not yet been invited to testify to the entirety of it. We are opposed to diverting money from proven permanent or transitional housing solutions to the hotel/motel program and are not yet persuaded that additional funds are necessary for H.91. We, instead, propose building on the model established in the Governor's Executive Order from March 28 to prioritize the most vulnerable as we continue to move away from the hotel/motel program and transition to a shelter-based approach.

Substance Abuse Treatment and Prevention
H.493 cuts funding for more effective addiction treatment, recovery and prevention.

For example, the House budget cuts $500,000 in one-time funding and $1.5 million in base funding for intensive recovery housing, which would close gaps in our current system by addressing the needs of individuals experiencing homelessness and individuals convicted of drug and addiction-related crimes.

Additionally, the House budget cuts a proposed $320,000 base appropriation to support four aftercare positions for residential treatment and recovery providers. These positions address a critical gap in care by ensuring successful movement from treatment to recovery.

The House also cut one-time funding for work related to implementation of more comprehensive treatment services in Corrections.

This Continuum of Care proposal addresses foundational issues and gaps in our current system. Eliminating critical pieces of this continuum compromises the state's ability to address pressing homelessness and public safety issues.

Rate Increases to Providers
It appears the House cut funding for substance abuse prevention and treatment, and other health and safety issues, to fund rate increases to community providers.

This "funding over fixing" approach creates significant and fundamental structural issues for provider organizations. For example, DAs and SSAs received consecutive rate increases of 8%, 5% and 3% from fiscal year 2023 through 2025. Yet they continue to struggle with accountability for specific and measurable outcomes, the delivery of core services and resist meaningful movement towards payment reform. Any additional increases must be accompanied by accountability requirements and address relative funding across DAs and SSAs with respect to the service lines, service volumes, and performance outcomes of each provider.

PCB Remediation Funding for Schools
The Governor's budget included $10 million for PCB remediation in schools: $9.52 million to the Environmental Contingency Fund (ECF) for granting and another $480,000 to the Department of Health (VDH) for staffing. This funding is needed to conduct PCB mitigation and remediation work for Priority 1 and 2 schools. The House reduced the ECF appropriation by $4 million and the VDH appropriation by $240,000.

This reduction will result in either discontinuing the work at North Country Union High School *or* leaving nine schools with health action levels in learning spaces without a funding source. Priority 1 and 2 schools are facilities with PCB detections above specified levels, where initial mitigation measures were not successful in reducing indoor air concentrations. In Priority 1 schools, the spaces cannot be used. Priority 1 schools include Bellows Falls Union High School, Green Mountain Union High School, Hartford High School, North Country Union High School, Rutland Town Elementary School, the Soar Learning Center, and Twin Valley Elementary School. Priority 2 schools include Brighton Elementary School, Saint Paul's School, and U32 Union High School.

Debt Obligations:
The House budget cuts in half (by $7.3 million) the recommended transfer to the Cash Fund – a fund that replaces borrowing with upfront cash payments. This is a core fiscal responsibility and affordability initiative. The $7.3 million is needed for the $126 million capital bill, where it will have the greatest long-term impact and return for taxpayers. The budget also spends $10 million of a $20 million appropriation made to the Treasurer three years ago to retire outstanding

general obligation debt. These funds should either be spent for their original purpose or set aside to address federal issues as needed.

These actions leave Vermont more exposed to the unpredictable interest rate cycle and ensure a larger portion of future General Fund budgets will be consumed by debt service. Unfortunately, our debt service payment is already increasing 10.8% next year, an increase of almost $8 million. As the Governor has repeatedly requested, we should be working to reverse this trend.

Finally, additional section by section feedback related to House budgetary and language proposals is included in the attached addendum to this letter. We look forward to working with the Senate to focus on shared priorities – education, housing, affordability, public safety – while maintaining our tradition of balanced, sustainable budgets that Vermonters can afford.

Sincerely,

Sarah Clark

Digitally signed by Sarah Clark
Date: 2025.04.01 16:45:37 -04'00'

Sarah Clark
Secretary of Administration

Cc: Representative Robin Scheu, 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

Attachment: Addendum

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ADDENDUM:

Sec. B.1100(j)(1) – Agency of Education
The Administration appreciates the House's support for the Governor's request for $4 million to the Agency of Education to initiate statewide education transformation. However, we ask the Senate to remove the added contingency language, which requires the Agency to submit for approval a "detailed, unambiguous plan" to the Joint Fiscal Committee (JFC). The JFC, in turn, "shall consult" with the House and Senate Education chairs when reviewing the plan to determine, among other things, whether it meets the "detailed" and "unambiguous" criteria. The Secretary of Education submitted a 7-page memo to the House and Senate Education Committees dated March 21 that explains – with precision – how the appropriation would be used. Contingency language is therefore unnecessary and will cost valuable Agency time as they navigate a significant transformation.

Sec. B.1101 – Fiscal Year 2025 Closeout
While a few technical issues require attention (noted in the technical letter), the Administration is also concerned by the intent of this section. The House proposal would reserve FY25 surplus funds (which the Governor had targeted towards education transformation) to replace reductions in federal funds. To make that happen while the General Assembly is not in session, the Joint Fiscal Committee would make recommendations to the Emergency Board (Eboard) which would be empowered to "unreserve and transfer funds to achieve the purposes of the Joint Fiscal Committee". The Eboard clearly has the authority to transfer funds among existing appropriations "to make expenditures necessitated by unforeseen emergencies". To draw funds from a reserve and then transfer without an act of legislation appears to encroach on authority reserved for the General Assembly.

The Governor can call a special session of the Legislature at any time. The executive branch and the legislative branch have the tools to navigate uncharted waters, as we saw during the COVID emergency and recent floods. The expansion of Eboard authority, in response to what may or may not be a change in federal funding, is unwarranted.

Sec. E.100.1 Community Based Organizations; Report
A comprehensive analysis of the funding structure for Vermont community-based organizations will require resources and significant time. This would be an unfunded mandate for the Secretary of Administration's office, which is small and does not have the resources to conduct the study.

Sec. E.105 – ADS; CIT Fund Transfer
The Governor's budget proposed a $15 million General Fund transfer to the Communications and Information Technology (CIT) Fund to enable ADS to convert to a new billing recovery model that will shift approximately

$15 million of services currently billed to agencies and departments via the Service Level Agreement (SLA) recovery method (which is billed in arrears), to an Allocation recovery method (which is billed the same year services are received) beginning in FY27. The one-time transfer in FY26 addresses a $15 million “double billing” in FY27 when departments would otherwise be asked to pay for their FY26 SLA costs (typically billed in arrears) and their FY27 projected costs. The House reduced the transfer amount to $10 million, inserted language that prevents ADS from recovering a *guaranteed* shortfall through Allocation and then directed ADS to seek redress in the FY26 budget adjustment. This simply pushes costs into the future when we may not have the funds to pay for the inevitable deficit. The Administration requests the Senate remove this section and restore the full transfer amount.

Sec. E.127.2 – General Fund and Transportation Fund Balance Reserves
The Administration appreciates several technical changes to statutory language concerning the use of the Balance Reserve, as recommended by the Governor’s budget adjustment proposal. However, we do not support empowering the Eboard to use General Fund reserves to replenish federal fund spending authority without an act of legislation. Here again, the necessary tools already exist in statutes to respond to emergencies.

E.131.2 – Capital Debt Affordability Advisory Committee
Vermont’s establishment of and ongoing commitment to the Capital Debt Affordability Advisory Committee (CDAAC) is viewed very positively by the credit rating agencies, and any changes to the committee or its charge will be scrutinized closely by them. The Administration believes moving to a biennial versus annual report will be viewed negatively by the credit rating agencies. Changes that could be interpreted as weakening or bypassing the committee could negatively impact the State’s bond rating and lead to higher borrowing costs. Further, while the Treasurer broached these proposed changes with the CDAAC members this past September, they were not discussed or debated at length, nor were they voted on by the members. The Administration requests these statutory changes to CDAAC be removed from the bill and not be considered until formally approved by CDAAC voting members in the future.

E.134.1/E.134.2 Vermont Pension Investment Corporation; Compensation Report
The Administration believes these two sections should be removed. For context, the Chief Investment Officer of VPIC, who oversees a staff of three, is one of the highest paid state employees with compensation superior to all Secretaries and Commissioners. The Department of Human Resources (DHR) determines compensation levels and can work with VPIC at their request, especially as VPIC already hired a consultant to do a compensation study in 2022. DHR will be able to use this study as a base for their analysis within standard state processes.

Sec. E.142.3 – Flood-Prone Properties; Assistance Programs
The Administration proposes to remove this section. FEMA conducts a home buyout program, and the State currently has two funds that provide voluntary buyouts for homeowners that do not meet the FEMA requirements: the Flood Resilient Communities Fund and the Community Resilience and Disaster Mitigation Fund.

Secs. E.215 – Military; Administration
The House reduced by $100,000 the appropriation to the National Guard Tuition Benefit Program. In some years, depending on deployment schedules, part of this annual appropriation has been reverted at year end. In FY26, the Guard is anticipating a larger number of members returning from deployment which may yield greater need. Education benefits are a critical recruitment tool for the Guard. We ask the Senate to restore the program's full appropriation.

Sec. E.306 –Nursing Homes; Skilled Nursing Facilities; Extraordinary Financial Relief (EFR)
DVHA's Division of Rate Setting (DRS) follows Health Care Administrative Rules (HCAR) to assess the need for EFRs as submitted by Nursing Homes. As such, the language under subsection (a) conflicts with established procedures and we request that it be struck. However, DRS can comply with the provisions of subsection (b), and AHS will provide within the report recommendations for establishing proactive steps to reduce the use of EFRs.

Sec. E.333 – Developmental Disability Services; Payment Reform
The Administration opposes this language. On February 13, 2023, the Governor signed H.1 into law as Act 2 of 2023. This Act made clear the intent of the General Assembly, and the desire of the Governor, to proceed with payment reform after seeking and considering input, not approval, from the General Assembly. Subsection (a) conflicts with Act 2 of 2023 and interferes with the authority of the executive branch, DAIL, to administer its programs.

Operationally, rate reform and conflict-free case management (CFCM) must be considered together. Payment reform is necessitated by providing standardized rates in tandem with case-managed services. In turn, CMS (our federal partner) views standardized rates to be a compliance component of CFCM. Even if payment reform were delayed, DAs/SSAs will be unable to move funding within budgets once federally mandated CFCM compliance measures are implemented. The joint approach to CFCM and rate reform was thoughtfully considered and has been in process for several years. Practically speaking, there is insufficient time to develop an alternative approach without disrupting the implementation of CFCM and comport with federal requirements.

International Business Development Office
The House budget removed $350,000 in base funds for this program, which assists Vermont companies with export growth, trade missions and

global market expansion. Considering the uncertainty in international trade created by the federal administration, it is critical to maintain this program to support Vermont businesses. Looking to avoid costly tariffs, the trade office will also better position us to work with Quebec and Canadian companies seeking to establish business operations in the U.S. Working to help them do business in Vermont will strengthen our economy and relationship with our northern neighbors.

Grants for Relocation Outreach Work (GROW)
The House removed the $350,000 increase in GROW grants from the Governor's proposed budget, which amounts to a reduction relative to FY25. Tourism and Marketing had proposed to reduce other expenditures in their budget to allow an increase in GROW grants. These grants support communities with additional capacity for relocation and retention activities to help address our workforce crisis. This funding is especially critical now due to the possibility of reduced visitation to Vermont by Canadians and the need to make up those visitors elsewhere, which will require marketing.

IDEAL Vermont
The Governor's budget included a $220,000 appropriation to the Office of Racial Equity to continue this important initiative for an additional two years. The House removed the appropriation. IDEAL Vermont is a coalition of Vermont municipalities dedicated to advancing racial and other forms of equity throughout the state with shared learning and tangible action. The initiative is supported by technical expertise from State agencies which have contributed through written submissions in IDEAL Vermont newsletters, in-person presentations, facilitated discussions, and connections to specific state programs and opportunities. Fourteen municipalities from all regions of the state participate, and this appropriation would allow ORE to prepare another round of recruitment. The Administration asks the Senate to restore the Governor's requested funding.

Municipal Technical Assistance Program
The Governor's budget proposed $3 million to continue the Municipal Technical Assistance Program (MTAP) for another year. Operated by the Agency of Administration in coordination with Regional Planning Commissions, this program assists our smallest communities in applying for assistance with recovery and development projects. MTAP is no longer accepting new grant applications but with additional funding, projects that have already been identified by Regional Planning Commissions will receive support.

To receive this information in an alternative format or for other accessibility requests, please contact:
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