

PHILIP B. SCOTT
GOVERNOR



State of Vermont
OFFICE OF THE GOVERNOR

April 8, 2021

The Honorable BetsyAnn Wrask
Clerk of the Vermont House of Representatives
115 State Street
Montpelier, VT 05633

Dear Ms. Wrask:

Pursuant to Chapter II, Section 11 of the Vermont Constitution, H.81, *An act relating to statewide public school employee health benefits*, will become law without my signature for the reasons stated herein.

In late June 2018, as the Administration debated the state budget with the Legislature, which ultimately became Act 11 of 2018 (Special Session), the Senate Education Committee added language creating a statewide school employee health care bargaining structure without testimony from my Administration. The Legislature nevertheless included it in the budget, which went into law without my signature. It has since resulted in school employee health care plans that are outpacing premium growth of health care exchange plans and significantly outpacing grand list growth, which is the primary revenue source for school district budgets.

I agree that changes to the bargaining structure established in Act 11 should be made, specifically when it comes to impasse proceedings and establishing reasonable cost containment principles. This was made clear in the first negotiation held by the Act 11 Commission on Public School Employee Benefits ("Commission"), which was not a transparent process. It ended, predictably, in an impasse between both parties that was settled by a single arbitrator from outside Vermont who is entirely unaccountable to Vermont taxpayers.

The arbitrator's award, which was not explained to the people of Vermont or elected officials, has had a major impact on school district budgets, and therefore on property tax bills. It has been estimated the initial contract added \$25 to \$30 million in costs onto already overburdened taxpayers. Make no mistake, this bargaining construct, the rules governing it, and the costly and unsustainable outcomes it has produced are a product of how the Legislature ultimately chose to move forward on this issue in 2018.

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H.81 does make some very small, positive changes, including the requirement for the parties to include a cost estimate with their proposals and a requirement for the arbitrator to fully explain the basis for the final award. There are also technical changes I support, including clarification of employee definition, more flexibility for removal of Commissioners by the appointing authority, and timelines for getting data to the Commission.

Unfortunately, H.81 does not adequately address cost containment. To the contrary, it puts taxpayers on the hook for still higher costs by removing uniform cost-sharing arrangements for premiums and out-of-pocket costs. The Commission now has the opportunity to begin negotiating a sliding health care contribution. Given the potential benefit to lower paid unlicensed employees, I am not opposed to this concept. However, I'm concerned that if higher paid teachers and administrators – who on their own earn 50 percent more than the average Vermont household – do not offset the cost through higher health benefit contributions, then taxpayers are, yet again, left making up the added cost.

It is important to know that the Legislature's Joint Fiscal Office (JFO) testified that employees who do not pay much for health care are likely to use more of it, driving up premiums for all participants. The JFO noted the public school employee plans are more generous than most and premium increases have surpassed increases in the cost of care and enrollment. The JFO warned legislative committee members that to add this flexibility in bargaining could increase the incentive to use more services because the user pays so little.

The JFO also estimated school employee health care premium costs of about \$311 million in Fiscal Year 2024. This means any 1 percentage point shift in the premium share of all participating employees represents \$3.1 million. If the premium share for all participating employees shifted down 1 percentage point, employees would pay \$3.1 million less and employers (the taxpayers) would pay \$3.1 million more. If only non-licensed employees negotiated a 1 percentage point change in the premium share, the shift would be about \$1 million.

As these costs go up in school budgets, it can lead to less money available for student programming and other student enrichment activities. I continue to be concerned that more and more funding is being diverted away from students and into operational overhead – even as the number of students in our schools has declined. This deepens the educational inequality that exists from district to district, because many districts cannot absorb the cost without cuts to educational options for our children. If we want to give every student access to the best education in America and make Vermont a more affordable and prosperous place to live and work, we have to break this cycle.


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To avoid this additional tax burden on Vermonters and reverse the growing inequality in our schools, I call on the General Assembly to make the following additional changes to H.81 before it adjourns for this session of the biennium:

- Include a provision that would limit the employer's total health care benefit contributions to 80%. The employees themselves would determine the cost share among those higher paid licensed teachers and administrators and lower paid unlicensed school employees. In this way, the system becomes more progressive as higher paid employees alleviate the burden of costly health care plans on their lower paid unlicensed colleagues. The cost would not shift to taxpayers who cannot afford higher property taxes to pay for even more generous health care plans for public school employees at the expense of options for their children.
- Make the effective date for all sections of the bill a uniform date to improve bargaining procedures in 2021.
- Considering the fiscal note presented by the JFO showed clear financial consequences to taxpayers, I ask for these fiscal impacts to be reviewed by the House Ways & Means and Senate Finance Committees and additional modeling on future impacts to taxpayers be presented to the public.

This is the single biggest self-insured group in the state of Vermont, and it is publicly funded. This is very important work. As Vermonters continue to recover from an unprecedented pandemic, we must be very sensitive to – and transparent about – laws that are likely to lead to increased taxes and fees, such as this one.

Sincerely,


Philip B. Scott
Governor

PBS/kp