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Susanne R. Young, Secretary

May 14, 2019

Committees of Conference
H.514, H.527, H.541, H.542
Vermont State House
115 State Street
Montpelier, VT 05633-5501

Dear Committees of Conference:

I write with respect to H.514, *An act relating to miscellaneous tax provisions,* H.527 *An act relating to Executive and Judicial branch fees,* H.541, *An act relating to changes that affect the revenue of the State*, and H.542, *An act relating to making appropriations for the support of government*, all now in conference committees. This letter supplements my April 10, 2019 letter to the Chair of the Senate Appropriations Committee.

The Governor's budget, revenue and fee bills presented in January, balanced the need to address Vermont's biggest challenge, it's troubling demographic trajectory and the economic and fiscal impacts of an aging population, with our limited resources. With economic growth lagging behind other states in the region, forecasted structural pressures in the state budget in the near and long term, and the possibility of an economic downturn on the horizon, the Governor's top priority is to grow Vermont's workforce, and the economy. We need to build a better fiscal foundation to enhance our social safety nets, protect our environment and natural assets and much, much more.

Our investments reflect our priorities and these money bills are the most important tools in our toolbox to achieve these ends. We view the budget work in the aggregate as a prioritization exercise and we appreciate the ongoing collaboration between the two branches, recognizing our priorities do not always perfectly align.

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Unlike past years, the Governor proposed new revenue – approximately $18.5 million – on top of the $57 million in current law revenue growth projected for FY20. With this new revenue the Governor targeted tax relief to spur economic growth and to expand our workforce. In total, between underlying revenue

growth and moderate tax and fee increases, the Governor's proposed General Fund budget spends $52 million more than the FY19 adjusted budget, which reflects a 3.3 percent year-over-year increase. That does not include approximately 4 percent growth in school spending, which must be considered in budgeting and spending deliberations. When combined, this growth puts additional pressure on Vermonters' checkbooks and factors into what the Governor believes is Vermont's already-too-high cost of living.

With these spending concerns in mind, the bills noted above go substantially further than the baselines for revenue growth, fees and expenditures set in the Governor's proposed budget. For example, H.542 as passed the Senate, spends $15 million more than the Governor's recommended budget and has not yet funded clean water projects required by the federal government. Between the priorities funded in the Senate's proposal and the requirements not funded – we estimate that the impact on Vermonters is closer to $23 million. Moreover, the additional taxes and fees required for this increased spending are difficult to support, considering the substantial surplus building in FY19 and a potential revenue upgrade in FY20.

When policy bills circulating in one or both chambers are added in – such as the mandatory paid family and medical leave initiative and the minimum wage bill – the overall taxing and spending picture is very concerning. In each of his three budgets the Governor maintained a focus on priorities while ensuring expenditures remained at or below a level Vermonters can afford.

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Expenditures

The Administration is ready to work with the Committees of Conference to fund mutually agreeable initiatives while keeping the overall growth in spending to a more reasonable level. The Governor strongly prefers to focus base funding on economic growth and workforce training – an approach that reflects a sustained commitment to combat the serious and growing demographic challenge we face. With more residents in the state, and more workers in the economy, we can generate the revenue we need to fund the benefits and programs we all want. Without them, we will struggle to afford what we have, and the already high burden of taxes will fall on a steadily decreasing number of workers. Put more simply: if we do not reverse our demographic trends, we will not be able to afford what we currently have, or the good work we would like to do in the future.

In this vein, we ask you to consider in your deliberations how some of the programmatic spending under consideration can be sustained down the road. While economic growth across the state is uneven, we are in one of the longest periods of economic expansion and unemployment is at an unprecedented low. Should this dynamic change, we have concerns around our ability to operate the programs at the base level set in this budget.

One of these concerns is related to the new budget neutrality construct in Vermont's section 1115 waiver that provides significantly less room under the Medicaid cap against which each Medicaid policy decision

must be analyzed. Growth in Global Commitment spending in the Governor's budget is $31 million. Proposed legislative changes add another $14 million, bringing the total potential Medicaid spending growth to $45 million. Medicaid enrollment continues to decline which results in a lower budget neutrality cap. Higher spending coupled with lower enrollment is a problematic scenario that may have consequences on reaching the Medicaid cap.

New Taxes and Tax Increases

H.541 contains new taxes and tax adjustments that, if passed, will hinder our ability to attract new people and businesses to Vermont and keep Vermont affordable for those who live here and would like to stay. Maintaining our tax competitiveness with other states is critical and the Governor presented several proposals with his budget that make us more attractive. H.541, as passed the Senate, reinstates the higher top income tax bracket. This provision, coupled with the Senate's removal of an increase to the threshold for the estate tax, undoes the progress we had hoped for in interstate tax competitiveness in this and last year's reform packages.

Last year, the Legislature's amendments to the Governor's tax reform package shifted $7 million of additional tax onto Vermont's high earners. Coupled with the capital gains changes in H.541, an additional $5 million of tax burden will be added on the same demographic when fully effective. The likely effect on those who can afford to live and establish businesses elsewhere, but choose Vermont, should be taken into consideration. These and other proposals, such as expanding the base for the property transfer tax in H.541, will also add to the perception that Vermont is not friendly to business.

As with spending policies, there are additional tax increases in policy bills outside of H.541 that add to the growing list of unnecessary tax burdens. Clean water funding, for example, is included in S.96. The Governor's proposed budget identified $8 million of an existing revenue source, the estate tax, to fund clean water projects. Because the House and Senate budgets removed these appropriations, it is our understanding there is now a need for additional revenue in S.96. This is not the approach the Governor would have taken and, again, it contributes to our concerns as we look at tax proposals in the aggregate.

Add to these taxes a payroll tax being contemplated to support mandatory paid family and medical leave under consideration, the cumulative effect could be over $100 million in additional burdens on Vermont businesses and Vermonters.

Fees

The House passed Executive Fee Bill, H.527, raises over $800,000 more than the Governor's proposal. The Senate's amended bill raises $1.7 million more than the House and almost $2.5 million more than the Governor. These increases do not account for fees found in other bills under consideration, such as the municipal clerk fee bill, which passed both bodies and raises $450,000 at the local level, or fees in bills still in circulation such as the 0.5 percent increase to the Universal Service Fee in H.513, and the contractor registry fee in S.163. While fees are important to maintaining different programs across government, we are concerned about the aggregate impact on Vermonters.

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Despite our concerns listed above, we have found common ground on many important initiatives, including cybersecurity, higher education, and childcare. I believe we are truly working together on behalf of Vermonters and that is enough to have made this session a success. We hope to continue to work together with the Committees of Conference to iron out our differences and present a package to the Governor that, in the aggregate, balances our shared and divergent goals.

Sincerely,

Susanne Young
Secretary of Administration

Cc: Senator Tim Ashe, Senate President Pro Tempore
Representative Mitzi Johnson, Speaker, House of Representatives
Senator Jane Kitchel, Chair, Senate Appropriations Committee
Senator Ann Cummings, Chair, Senate Committee on Finance
Senator Becca Balint, Senate Majority Leader
Representative Catherine Toll, Chair, House Committee on Appropriations
Representative Janet Ancel, Chair, House Committee on Ways and Means
Representative Sam Young, Conferee, House Committee on Ways and Means
Representative Robin Scheu, Conferee, House Committee on Ways and Means
Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office
Adam Greshin, Commissioner, Department of Finance and Management
Kaj Samsom, Commissioner, Vermont Department of Taxes
Governor's Cabinet