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Kristin L. Clouser, Secretary

February 8, 2022

Members of Committee of Conference – H.679
Vermont State House
115 State Street
Montpelier, VT 05602

Dear Committee of Conference members,

I write with comments on the Senate amendments to H.679 – *An act relating to fiscal year 2022 budget adjustments.* The Senate made several changes to the bill to bring it closer to the Governor's recommended budget adjustment, including directing a potential surplus towards retiring outstanding debt and mitigating a long-term deficit in the Property Management internal service fund, restoring the Governor's full liability fund request, and providing financial support to all our CTE centers statewide.

We further appreciate the Senate directing a potential surplus to swap out ARPA-SFR funding for three more emergent, one-time needs contained within the Governor's recommended budget adjustment, namely, retention efforts in the Department of Corrections and the Veteran's Home and Department of Labor UI modernization. While this is certainly a step in the right direction, the surplus construct continues to place ARPA-SFR funding at risk and does not adequately address the Administration's primary concern with H.679 and its use of ARPA-SFR dollars.

Despite the Senate's changes, H.679 still invests substantial ARPA-SFR funds before fully considering the Governor's FY23 budget proposal for statewide ARPA investments in transformative infrastructure projects in our rural communities. The Senate amendment to H.679 spends $85 million more ARPA-SFR than the Governor and directs those ARPA-SFR funds outside of the five spending categories agreed upon by the legislature and the Governor last year. That's almost equal to the total appropriation to broadband in the Governor's FY23 ARPA budget. It exceeds the total appropriation to water and sewer projects in that budget. In total, Senate action reduces available ARPA-SFR from $508 million to $423 million – a 17% reduction. While a portion of this ARPA-SFR funding could be recaptured if a potential surplus exceeds $25 million, even this construct only allows for a recapture of approximately 34% of the additional ARPA SFR funds allocated by the Senate.

From the outset, the Governor has been clear that ARPA-SFR should be directed to long-term, tangible infrastructure projects that can, literally, transform communities so that we recover stronger and are better positioned to reverse our demographic declines. The IIJA funding discussed in the Senate's amendment should be used to supplement this important and necessary work as Vermont's need is greater than what even the significant ARPA-SFR funds provide. These projects are critical, and they are *expensive.* That is why they haven't been done, and they might never be done if we fail to direct these resources to once-in-a-generation investments.

In most cases, the disagreement is not over priorities. To cite one example, the Administration shares the Legislature's concern with healthcare workforce retention and recruitment. That's why the Governor's budget adjustment directs $15 million General Fund to healthcare workers and another $18 million of federal money to home and community-based service providers (HCBS). These amounts are supplemented in the Governor's proposed FY23 budget with $15 million in nursing income tax credits, $5 million in nursing scholarships and loan repayment, and a three-percent base rate adjustment to our partner healthcare agencies. The $60 million package uses a combination of surplus and base General Fund and enhanced federal matching funds. No ARPA-SFR is required.

Also of note, the Administration agrees with the Legislature's support for our childcare workforce, however, the $6 million in short-term funding included in the BAA is duplicative of the existing $26 million in Stabilization ARPA funds to address the same needs. Further, the Governor's FY23 budget includes additional money in this area, a $5 million income tax credit for childcare providers, in addition to a base CCFAP increase which will supplement salaries. We believe these proposed solutions in the FY23 budget, using General Funds dollars, will have a long-term impact on our childcare crisis.

The Administration is opposed to the prevailing wage amendment as it may hinder the timely deployment of ARPA funds and could carve smaller contractors out of the market. Recognizing the short timeframe for deploying ARPA-SFR programs on capital projects, the U.S. Treasury has taken a measured approach to application of Davis-Bacon wage requirements and chosen not to apply those requirements to smaller projects. Projects costing over $10 million will require either compliance with Davis-Bacon or documentation by the State of a similar prevailing wage standard. Because the federal grant terms require application of all Vermont laws, introduction of a separate and unique threshold could create unanticipated consequences and delay or prevent implementation of much needed smaller projects in rural communities.

Finally, the Governor's strong preference – given the state's housing and workforce crises - is to have the VHIP funds secured in the BAA as passed by the House, instead of strategically placing it at risk of passage in S.210, knowing the Governor's concerns with the rental registry and inspection language.

We have the financial resources to meet our near-term and long-term needs if we are deliberate and strategic in the deployment of our funding sources. The Administration is ready to work with the legislature to achieve our shared goals – including pension reform – without threatening our ability to invest in the long-term prosperity of our state.

Sincerely,

Kristin L. Clouser Digitally signed by Kristin L. Clouser Date: 2022.02.08 15:57:58 -05'00'

Kristin Clouser
Secretary, Agency of Administration

Cc: Senator Jane Kitchel, Chair, Senate Committee on Appropriations
Representative Mary Hooper, Chair, House Committee on Appropriations
Senator Rebecca Balint, Senate President Pro Tempore
Representative Jill Krowinski, Speaker, House of Representatives
Catherine Benham, Chief Fiscal Officer, Joint Fiscal Office
Stephanie Barrett, Associate Fiscal Officer, Joint Fiscal Office
Adam Greshin, Commissioner, Department of Finance and Management
Governor's Cabinet