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Kristin L. Clouser, Secretary

April 26, 2022

Members of Committee of Conference – H.470
Vermont State House
115 State Street
Montpelier, VT 05602

To the Members of the Committee of Conference:

We have reviewed H.740 – *An act relating to making appropriations for the support of government* – as passed by the Senate on April 20, 2022. From the Administration's point of view, the Senate made several improvements to the House version, notably by directing surplus money towards debt retirement and deficit mitigation, and by restoring the maintenance budget in the T-Fund.

The Senate also appears to have left room for additional investments in housing, workforce and economic development, although the details of those investments remain unsettled as the specifics are included in policy bills which have yet to be finalized or pass (some of which contain provisions the Governor will not support). Accordingly, the contents of pending policy bills -- including the tax relief package, yield bill, pension bill, workforce package, housing package, and economic development bill -- will inform the Administration's feedback on the budget and the Governor's final decisions.

While work on these policy issues advances, we are sharing, for the purpose of clarity, what the Governor needs to see in a budget for it to reflect an acceptable amount of consensus and compromise.

Economic Development

The budget as passed by both the House and the Senate all but eliminates the Governor's recommendations for community economic revitalization initiatives. The Governor's budget invested $100 million ARPA-SRF in small businesses and rural communities. The House did not include any of those investments. The Senate restored only $15 million of the Governor's recommend and did not fund the $50 million capital investment grant program or the $30 million grand list enhancement initiative. That's money taken directly away from our efforts to reverse the shrinking workforce and economic stagnation in our smaller communities. This is a pivotal time to make investments in the areas of the state that need it the most in order to provide sustainable long-term economic revitalization. The Governor feels strongly this budget must include more investments in the revitalization of communities which are in desperate need.

Workforce Investment

The Governor's budget included substantial investments in workforce training and development. The Senate targeted $26.9 million towards this critical component of Vermont's economy, although the details of this appropriation are still being negotiated. While we support many of the initiatives in the House-passed version of H.703, as the two Chambers decide what will ultimately be funded for workforce development, the Administration would like to highlight the initiatives that are most important and critical to our communities. Specifically, VDOL's Regional Workforce Expansion, the Vermont Trades Scholarship Program, the Vermont Trades Loan Reimbursement Program, Rural Cell Service Expansion, CTE Construction and Trades Training Program, New & Remote Worker Grants and Relocation Marketing and Support Services.

Our demographics – namely our rapidly aging population, shrinking workforce, and declining school enrollment – continue to be the greatest threat our state faces, and our biggest obstacle to achieving a more prosperous future for all communities in Vermont. The systemic challenges of a shrinking workforce have been highlighted by the pandemic, and this budget must contain commensurate investment in training and retention of Vermonters coupled with policies and incentives to attract more to live and work here. However, we must acknowledge that training our way out of this problem is not realistic or the answer – we must also make Vermont more affordable for working families and businesses.

Tax Relief

As the costs of living grow due to inflation, the Administration appreciates that tax relief is under consideration. And, for your awareness, additional tax relief will be necessary to earn the Governor's support. While we strongly prefer the Governor's more progressive and strategic tax relief package, at this point we are focusing on the two highest and most economically valuable priorities. We strongly encourage the Legislature to include the Earned Income Tax Credit (EITC) to help more working families escape poverty and achieve independence; and Military Pension tax relief to encourage more retired servicemembers to stay or settle in Vermont.

Helping working families afford Vermont is essential to the development of a workforce that will grow and support Vermont's economy – and generate the tax revenue necessary to pay for the services of state government. Expanding the EITC to 45% is a proven, and progressive, anti-poverty tool that helps Vermont's struggling working families keep more of what they earn and would elevate Vermont to match the most generous fully refundable EITC of any state in the country.

Exempting military retirement from state income tax is another important component of keeping and recruiting high-skill, high-value workers and their families. It will also help keep more retirees, and their economic contributions, here as full-time residents. Vermont is one of only three states that fully tax this income right now, as all other states with an income tax offer at least a partial exemption. It is very important to recognize that national data shows 70% of military retirees retire between the ages of 35 and 50 – when they still have many years ahead of them in the civilian workforce. Keeping and recruiting more of this demographic to our state will have very significant workforce and economic benefits. We expect the next tax benefits to be very positive – meaning, over time, we expect this program will generate more tax revenue for the State than it costs to implement the benefit, on top of the many other economic benefits. Exempting this pay would also help the nearly 4,000 retirees here now and 750 surviving spouses and dependents, as well as make Vermont more attractive for new retirees.

The Governor will not support tax relief that doesn't alleviate the tax burden for these two populations.

Housing

The Governor and the Legislature seem to agree on Vermont's need for more housing working Vermonters can afford. Both S.210 and S.226 contain urgent and necessary investments in housing to help low and middle-income Vermonters, including two important programs: 1) the Missing Middle Income Home Ownership Program; and 2) Our successful Vermont Housing Investment Program (VHIP) to bring blighted and vacant rental units back online (though the Legislature has cut $5 million from the Governor's budget). Both housing investments have been strategically placed in policy bills, knowing the Governor's concerns with previously vetoed policies within those bills, and thereby placing these important investments at high risk of being vetoed. Housing is an issue that is too important to use as a bargaining chip, so we urge you to put housing investments (and the corresponding language for these investments) in the budget and provide Vermonter's the housing we so desperately need.

Finally, as we've noted, there are many areas of agreement in this budget. So as the Committee of Conference works to restore these important investments, I need to be very clear about the Governor's point of view: it cannot come at the expense of currently funded initiatives in housing, broadband, climate change mitigation, or water and sewer infrastructure. Instead, we are confident we can work together to resolve the few remaining differences and pass a budget that truly makes a long-term difference for Vermonters and struggling communities throughout the entire state.

Sincerely,

Kristin L. Clouser
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Date: 2022.04.26 17:35:00 -04'00'

Kristin Clouser
Secretary, Agency of Administration

Cc: Senator Ann Cummings, Chair, Senate Committee on Finance
Representative Janet Ancel, Chair, House Committee on Ways and Means
Senator Rebecca Balint, Senate President Pro Tempore
Representative Jill Krowinski, Speaker, House of Representatives
Catherine Benham, Chief Fiscal Officer, Joint Fiscal Office
Sarah Clark, Deputy Fiscal Officer, Joint Fiscal Office
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