

April 15, 2013

The Honorable Senator Jane Kitchel, Chair
Senate Appropriations Committee
State House
Montpelier, VT 05602

Dear Senator Kitchel:

I am writing to provide the Administration's input into the House-passed version of the Fiscal Year (FY) 14 Appropriations Bill, H.530. We appreciate the hard work done by the House on this bill and the degree to which the House Committee on Appropriations (HAC) collaborated with the Administration in its development.

The Secretary of Administration is sending in a separate memo the reasons that the House proposed \$23.1 million in new taxes in FY 14 to support General Fund (GF) expenditures is not necessary. With the significant interaction between the FY14 budget and revenue proposals, it is necessary to address them both concurrently. Although in general agreement with the bill, the Administration has specific concerns with respect to certain House provisions. The Administration's concerns are as follows:

Major Issues:

Department for Children and Families – Income Support:

The Governor and the Administration urge the Senate to adopt our recommendation for a bold approach to the delivery of income support in Vermont, specifically:

- Increasing child care assistance by \$12M;
- Funding that increase through restructuring of the Earned Income Tax Credit;
- Addressing our current unlimited access to Reach Up benefits.

Section E.310.2 – Health Care Claims Tax:

The budget passed by the House (and the revenue plan passed to support it) lacks a financing plan for the Exchange. The Governor's budget included a proposal to finance the Exchange starting January 2015 when federal funding for Vermont Health Connect ends. The Affordable Care Act requires that State Based Exchanges enact a financial self-sustainability plan and CMS included the enactment of a financing plan as a condition for Vermont's certification as a State Based Exchange in its letter to Vermont on January 3, 2013. Failure to pass an Exchange financing plan places the success of Vermont's Exchange at risk. While it is impossible to predict CMS's response to a failure to enact a financing plan, possible ramifications could include withholding of previous authorized

federal funding for Vermont Health Connect, refusal to authorize additional funding for Vermont Health Connect, refusal to authorize federal participation in Vermont's proposed state based premium assistance program or other limitations on the flexibility Vermont may request of CMS in implementing Vermont Health Connect.

Employer Assessment:

The House chose to repeal the employer assessment on those employers not providing health care in FY 15 and replace it with \$15 million in new taxes. We cannot support this action. Employers who do not offer insurance have a competitive advantage over employers who do. The assessment, though small, creates a more level playing field. Further, the employer assessment supports Medicaid-funded initiatives such as the Blueprint for Health, employer-sponsored insurance premium assistance programs and an immunization program. All of these purposes still exist, in addition to proposed premium and cost sharing assistance in the exchange.

Other Issues and Additional Detail:

Positions:

We have reviewed the House adjustments to the positions requested for approval by the Administration. We will agree to the House adjustments but encourage the Senate Appropriations Committee to be cautious in their deliberations, since thirty-eight (38) of the remaining sixty-six (66) positions are for the Department for Children and Families and Mental Health.

Section B.1104 – Fiscal Year 2014 Surplus Contingent Reserve Transfers and Appropriations:

This language was included on a one-time basis in the FY13 Big Bill but was not included in the Governor's Recommendation for FY14. The House added the language again. The Administration feels that end-of-year balances are sufficiently addressed under current law, and the inserted language unduly complicates issues.

Sections B.209 and E.209 - Public Safety:

The House plan reduces the Department of Public Safety General Fund appropriation by \$35,000 by shifting funding for the Southern Vermont Wilderness Search and Rescue Team from 50/50 GF/SF to 100% SF. The House assumed that VAST funding for northern snowmobile law enforcement could backfill the GF, which VAST will not do. If the \$35,000 GF is removed, there will be no funding available for the Southern Vermont Wilderness Search and Rescue Team for FY14.

Section B. 214 – Public Safety – Radiological Emergency Response Plan:

The Division of Emergency Management and Homeland Security seeks to revise the current RERP budget from \$2,437,615 to \$2,728,417. The increase in the amount of \$290,802 is reflective of a change to the sub-grant to the American Red Cross. This change will allow for the implementation of the first of a two-year phased project which will enhance the State of Vermont's capability to care for evacuees after an incident at Vermont Yankee Nuclear Power Plant. This project and related funding is critical to the success of plan changes such as designation of shelter sites, staging of resources, coordination with local officials and training approximately 2,000 volunteers to be ready to assist evacuees. The project will create a scalable, efficient, and effective methodology for responding to this aspect of a radiological emergency. It will also provide more detail to plans in

order to meet current FEMA Radiological Emergency Preparedness congregate care requirements. With the completion of this project, the State of Vermont, will be more prepared to meet the challenges of a potential incident at Vermont Yankee.

Section B.318 – DCF Child Care Development:

See discussion above. The House plan scales back the Governor’s proposal from \$16.7M to \$3.3M.

Sections B.323 and E.323 – DCF ReachUp:

See discussion above. The House plan adds back \$4.2M to this appropriation, that would limit participation to 60 months effective October 1, and reinvest any immediate savings. While Reach Up caseload growth has moderated somewhat of late, the Administration maintains that this program is on long-term trajectory that is unsustainable, and the House’s proposal will do little to moderate that growth.

Our consultant has reexamined the FY 14 Reach Up caseload estimates and it continues to go down. Savings are driven by continued lowering unemployment rates. Based on an updated analysis of Reach Up entries and exits, the caseload is expected to be mostly flat through FY 14, with an average caseload of 6500 that fiscal year. Using the estimate as previously done, the additional savings from the House passed version of the budget will be \$2,190,960 (358 families).

The Reach Up caseload has been revised downward twice since the Governor’s Recommended budget was submitted in January. The Agency of Human Services believes we should further adjust downward by an additional \$800,000.

Section B.338 – Corrections – Correctional Services:

The Department of Corrections carried forward \$2.1M from FY 12 to FY 13. We have seen some slowing of caseload and will plan to carry \$1.2M into FY 14 from FY 13. We may also review the number of probation officer positions and keep some positions vacant longer to achieve savings from vacancy savings.

Section E.211 – Public Safety – Emergency Management:

The House bill adds subsection (b) stating “the Secretary of Administration shall not submit a budget including funding for the Emergency Recovery and Mitigation Program beyond fiscal year 2018 without express legislative approval for such program continuance.” This provision is clearly an infringement on the Administration’s executive authority to make budget recommendations.

Section E.333 – DAIL Developmental Services:

The House language proposal conflicts with the current System of Care Plan process for evaluating, reviewing, and prioritizing services for persons with developmental services (18 V.S.A. §8725). The House’s proposed language creates multiple, conflicting policy processes. DAIL’s current System of Care Plan identifies a process to address potential budget issues. Creating an additional process jeopardizes DAIL’s ability to achieve the \$2.5M budgeted savings in FY14. DAIL is available to work with the legislature to develop language that is consistent with the current of system of care structure.

Sections B.700 and E.700 to E.700.3 - Agency of Natural Resources – Administration:

The House deleted sections E.700.1-E.700.3 and switched the funding for a new climate change position from the Regional Greenhouse Gas Initiative (RGGI) to General Fund. The House made GF available for this purpose by reducing the GF transfer to the Clean Energy Development Fund (CEDF) by \$100K in Sec. D.101(a)(1)(E). Appropriation funding, in Sec. B.700, was amended to reduce Special Funds by \$101,016 and increase General Fund by the same amount, compared to the Governor’s Recommend. These changes remove the Governor’s Recommended language to reallocate net revenues from the sale of carbon credits to the air pollution control account of the Environmental Permit Fund to fund activities related to climate change and reducing greenhouse gas emissions.

The Administration views RGGI as a more appropriate funding source for these activities for three reasons. First, the purpose of the Regional Greenhouse Gas Initiative is to reduce climate change resulting from greenhouse gas emissions. Second, we are expecting RGGI funds to increase as a consequence of the reduction in allowances under the new cap (the price of allowances will go up; the current revenue is around \$1.5-2.0 million per year and modeling based on the new cap suggests that revenue will go to \$3+ million a year). This means that there will be no negative effect on current programs supported by RGGI caused by funding this position out of RGGI funds. Third, while we appropriated \$100,000 from RGGI in the Governor’s Recommended budget, that is a conservative estimate and this funding source is likely to be able to support important climate change activities associated with this position.

Sec. E.700 was amended to add a more descriptive title for the climate change position; we are neutral in regard to that change. The Administration strongly prefers the Governor’s Recommend version of Secs. B.700 and E.700.1-700.3 to the version passed by the House.

Section B.801 – Economic Development:

The House eliminated the Governor’s recommendation to increase the Vermont Training Program (VTP) by \$150,000 GF. The VTP reduction will mean that 236 current or new employees will not receive training at a time when Vermont businesses are having a tough time filling positions with people with appropriate job skills. The Administration is requesting that this amount be restored by the Senate because these funds are crucial to providing more training resources to bridge the training gap.

Sections B.802, B.804 and E.802 – Housing and Community Development and Community Development Block Grant:

We are requesting an increase in the FY14 Federal Funds appropriation for the Department of Housing and Community Development of \$8,000,000. These funds are from an additional HUD Community Development Block Grant (CDBG) Disaster Recovery award of \$17,932,000 to Vermont. This is in addition to the CDBG Disaster Recovery Program funds that Vermont received in 2012. The funding is to be used in flood-impacted areas for housing, economic revitalization and community infrastructure. We are also requesting a limited service position to staff this program. This award was not made until the end of March and so the funds were not included in the original Governor’s Recommended FY14 Budget. Wording for Section E.802 is below and the changes to the appropriation Sections B.802 and B. 804 are in the attachment to this letter.

Sec. E.802 - Housing and community development

(b) The establishment of one (1) new classified limited service position-Grant Specialist- is authorized in fiscal year 2013.

Explanation: (b) The amount of Community Development Block Grant- Disaster Recovery program funds is being increased by HUD for disaster related situations. (See our proposed changes to sections B.802 and B.804.) The additional funding involves the need for a grant specialist for this program. This grant specialist will be involved in planning for use of these additional funds as well as doing program design, management of a public participation process, and development of compliance and reporting mechanisms. [This Sec. E.802 (b) should be added to Sec. F.100 Effective Dates as effective upon passage.]

We appreciate your consideration of these comments, and look forward to working with the Legislature to resolve these policy and budgetary issues.

Sincerely,



Jim Reardon
Commissioner

cc: Representative Martha Heath, Chair, House Appropriations Committee
Representative Janet Ancel, Chair, House Ways and Means Committee
Representative Shap Smith, Speaker, House of Representatives
Senator Tim Ashe, Chair, Senate Finance Committee
Senator John Campbell, President Pro Tem, Senate
Steve Klein, Joint Fiscal Office
Jeb Spaulding, Secretary, Agency of Administration

Attachment -- Suggested Changes to House Version Numbers

Section B. 802 -Housing and community development

	<i>House Version</i>	<i>Rec Change (difference)</i>	<i>Rec Amount</i>
Personal services	\$ 6,288,668	\$ 65,500	\$ 6,354,168
Operating expenses	\$ 772,325	\$ 10,000	\$ 782,325
Grants	\$ 2,454,341	\$ -	\$ 2,454,341
Total	\$ 9,515,334	\$ 75,500	\$ 9,590,834
Source of funds			
General fund	\$ 2,266,663	\$ -	\$ 2,266,663
Special funds	\$ 3,754,534	\$ -	\$ 3,754,534
Federal funds	\$ 3,435,337	\$ 75,500	\$ 3,510,837
Interdepartmental transfers	\$ 58,800	\$ -	\$ 58,800
Total	\$ 9,515,334	\$ 75,500	\$ 9,590,834

Sec. B.804 -Community development block grant

	<i>House Version</i>	<i>Rec Change (difference)</i>	<i>Rec Amount</i>
Grants	\$ 17,524,135	\$ 7,924,500	\$ 25,448,635
Total	\$ 17,524,135	\$ 7,924,500	\$ 25,448,635
Source of funds			
Federal funds	\$ 17,524,135	\$ 7,924,500	\$ 25,448,635
Total	\$ 17,524,135	\$ 7,924,500	\$ 25,448,635