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December 15, 2008

Joint Fiscal Committee
Vermont State House
Montpelier, VT

Dear Members of the Joint Fiscal Committee:

As you well know, Vermont's economy is not immune to the effects of the national recession. The Administration's economist recently warned that the state's revenue outlook is less than promising with significant downside risk for upcoming revenue forecasts. He cautioned that economic conditions will get much worse over the next two to four quarters before they bottom out and the economy begins a very slow recovery. He concludes with arguably the most important reality we are facing: no one really knows how long or how deep this recession will go. That is why it is so important for us to work together to make the difficult, but necessary, decisions today to keep the state budget balanced.

At present, the state's General Fund is facing a \$66 million gap in FY2009 – \$37 million from a downgrade in the consensus revenue forecast and \$29 million in upward budgetary pressures across state government.

The Administration recognizes that the Joint Fiscal Committee (the Committee) does not have authority to bridge the entire \$66 million gap through the Joint Fiscal process, specifically the \$29 million of upward pressures which are typically addressed in the Budget Adjustment Act. It is critical, however, that we address the \$37 million revenue shortfall as quickly as possible. An abridged rescission plan that delays difficult decisions simply shifts a greater impact forward; with less time to blunt impacts, programs and services could face more severe cuts in the months ahead.

After many discussions this past week, and despite early agreement among leadership that addressing the entire \$37 million shortfall was a necessary step for the December Committee meeting, it is clear that the Committee is unwilling to pursue the full amount needed to fill the revenue gap. Therefore, it is with disappointment that I enclose a list that details only \$19.7 million in reductions within the areas of agreement between the Administration and leaders of the Committee. Although this submission represents progress between the parties, it falls short of what the Committee can and must do now to reduce the size of the budget gap for FY2009.

I understand well the difficulty of this process. We are tasked with the responsibility of choosing between important priorities in every area of state government, including programs that the most vulnerable rely on everyday. Vermonters – especially those who will be directly impacted by these changes – deserve to know as soon as possible how their lives will be affected. At a time when so many are worried about their employment, economic security and future, we are doing them a disservice to put off this important work. This task requires us to find the strength and commitment to make these tough choices now.

The longer we wait to make reductions, the more difficult those decisions become, and the deeper we have to cut to find the savings. These choices will only get harder with each passing day and the impact to Vermonters will be greater. In human service programs alone, we estimate that for every month of delay, we will need either to find an extra \$3M in new cuts or take substantially deeper program reductions in order to achieve the same savings. The cumulative effect of this inaction could mean the difference between a small benefit reduction now and program elimination later.

Time is not our only adversary in this process. As the economy continues to soften, there is a very real possibility that we could see further revenue reductions in the January and April forecasts. There is little doubt in my mind that we will once again be asked to trim the state budget early next calendar year to meet additional revenue downgrades to the FY2009 budget.

I know that some in the Legislature have urged deficit spending and the use of our Budget Stabilization Reserves (a.k.a. the “Rainy Day Funds”) to close the current projected budget shortfall. While it’s certainly raining out, we do not know how long the storm will last. Deficit spending is imprudent fiscal management and the Administration does not support such an effort.

The reserve fund is designed to be used in situations when we experience unexpected revenue shortfalls, not in place of making tough decisions now. If the Legislature plans to use reserve money now and revenues are downgraded again in April – with only three months left in the fiscal year – we would have few options but to make deep and devastating cuts in programs and benefits that serve vulnerable populations. That is not an acceptable alternative and must be avoided.

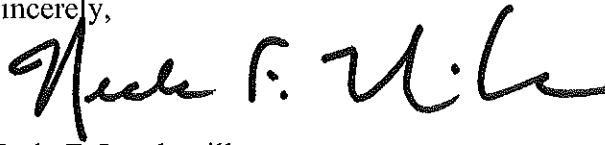
Others are advocating tax increases as a way to fund shortfalls and avoid difficult decisions. Economists widely agree that tax increases during challenging economic times serve only to slow recovery and further exacerbate the financial strain on family budgets. I want to reiterate the Governor’s strong opposition to tax increases on already over-taxed Vermonters.

Governor Douglas remains committed to his work at the national level to ensure that any federal economic stimulus package that is considered by Congress contains direct support for states. Despite efforts by the Governor and Vermont’s Congressional delegation, there is no bill on the horizon and we do not know when assistance will come, how much it will be, or what strings will be attached. It is not responsible to delay decisions here in Vermont in anticipation of uncertain federal assistance.

We cannot allow this current challenge to be compounded in the months ahead by inaction today. At Governor Douglas' request, I respectfully ask the Committee to reconsider its position and continue discussions about how we best address the deficit that we currently face.

Our team remains ready to work with the Committee and the Joint Fiscal staff night and day to build on our preliminary work and address our current budget shortfall.

Sincerely,

A handwritten signature in black ink, appearing to read "Neale F. Lunderville". The signature is fluid and cursive, with the first name being the most prominent.

Neale F. Lunderville
Secretary of Administration