WLR February 3: Budget Priorities, Legal Trails, Six More Weeks of Winter, Federal Funding Freeze, and More

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In this *Weekly Legislative Report,* we update you on Governor Phil Scott's budget proposal, a number of bills we're tracking that would have municipal effects if they became law, and our reflections following a turbulent few days for federally funded initiatives.

First Up: Smooth Sailing Through the Senate for H.78

Our first bill, H.78(opens in a new tab), passed the House on third reading last Tuesday and was expedited to the Senate Government Operations Committee where on Friday we, along with the Secretary of State's office and the Vermont Municipal Clerks and Treasurers Association, testified in favor of it. Committee Chair Brian Collamore stated that he intended for the committee to vote out the bill on Tuesday. He also said he would work with Senate Pro Tem Phillip Baruth to suspend rules for the full Senate to vote for third reading the following day and message to the governor forthwith for his signature – well in advance of Town Meeting Day.

The Governor's Budget Balancing Act

On Tuesday January 28, Governor Scott addressed a joint assembly(opens in a new tab) to deliver his ninth Budget Address, this one for the Fiscal Year 2026. Between 2020 and 2025, the state budget has climbed from $6.3 billion to $8.6 billion. For the coming year, the governor has laid out a $9 billion budget which he says follows through on his commitment "to Vermonters to prioritize affordability and solutions to address demographics".

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Notably, Governor Scott's budget would eliminate the 5.9% tax increase forecasted by the Administration in December(opens in a new tab), keeping state property taxes flat. The budget plan is supported by strong state revenues, which are 4% higher than projected, and includes substantial spending cuts – including Universal School Meals.

Leading Democrats found some things to love, such as expanded earned income tax credits, and found some things lacking(opens in a new tab), such as adequate funding for flood recovery and homelessness response.

Along with his proposed budget, the governor forwarded four bills advancing his key priorities for this legislative session: housing, public safety, education, and affordability.

More on Housing

In broad strokes, the governor's Pathways to Accelerate and Transform Housing (PATH) for Vermont(opens in a new tab) answers the call from municipalities to create more housing. It includes directing permanent millions of dollars in base funding to some of our favorite housing programs, such as the Vermont Housing Improvement Program (VHIP)(opens in a new tab) and the Manufactured Home Improvement and Repair Program (MHIR)(opens in a new tab). It would again use onetime money for the Vermont Housing Finance Agency (VHFA)'s Middle Income Homeownership Development Program (opens in a new tab) and Rental Revolving Loan Fund(opens in a new tab). The popular Downtown and Village Center Tax Credit and Brownfields Revitalization program would each receive a $2M increase.

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As you know, we can't talk about housing development without talking about Act 250 reform. The governor's proposal would extend the temporary Act 250 exemptions created in Act 181 out to 2035, make qualifying for Tier 1A and 1B easier for municipalities, and would pause Tier 3 implementation by calling for a study to evaluate the need. PATH also tackles permit appeals brought against housing developments by increasing the threshold for petition appeals from any 20 people to 20% of the municipality's population and proposes to hold appellants accountable for legal fees incurred by homebuilders in the process of defending an appeal in the event the permit is upheld.

The most exciting part of Governor Scott's Housing Bill is a new funding and financing proposal for infrastructure. The Governor's team is calling the proposed new program Strategic Projects for Advancing Rural Communities (SPARC) and says it is designed to help communities fund infrastructure to support new housing and economic development projects. The funding package would include grants, low-interest loans, and new authority for local governments to enter into "Community Agreements" with development partners to finance public infrastructure through tax increment. SPARC is similar to – but different from – a parallel proposal by the Let's Build Homes coalition, providing a lot of details to unpack and generating a lot of interest among legislators. The critical debate points for any future public infrastructure program will be: who is paying for it and will the Education Fund remain whole.

We will be sure to update you when the governor's housing bill is released and as more details emerge.

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More on Transportation

In an unwelcome surprise and a signal of trouble ahead for the state's Transportation Fund, town highway programs are **cut** by 5.3% overall in the Governor's budget(opens in a new tab). Town Highway Bridge funding is slashed by 16.6%, and Town Highway Structure funding is reduced by 10.2%. A rare bright spot is the proposed 2000% increase for town highway federal disaster funding. Overall, Governor Scott is now recommending $96.6 million in "Town Highway" program funding, down from an all-time high of $102 million in FY25.

VLCT provided testimony(opens in a new tab) to the Senate Committee on Transportation on January 30 and will meet with the House Committee on Transportation on February 5. Our message is clear: town highway aid should be increasing not decreasing. With frequent storms and washouts, longer mud seasons, and increased vehicle traffic, we need more investment in transportation infrastructure. Please help us advocate for more town highway funding in the FY26 budget by letting your legislator on the House(opens in a new tab) and Senate(opens in a new tab) Transportation Committees know how critical town highway funding is for your community.

S.4 Legal Trails Law

Windsor County Senator Alison Clarkson has sponsored bill S.4(opens in a new tab), an act related to maintenance and use of legal trails. Also

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sponsoring the bill are Senators Becca White, Martine Gulick, Ruth Hardy, Andrew Perchlik, Anne Watson, and David Weeks.

If adopted, S.4 would prevent future challenges by property owners to the use and care of town trails – like the headline-grabbing suit still unfolding in Tunbridge(opens in a new tab). VLCT hopes to see progress on this priority issue soon, with two members of the Senate Committee on Transportation (White and Perchlik) supporting action to protect the authority of municipalities to regulate and maintain legal trails.

Happy Groundhog Day: Issues that Seem to Come Back Again and Again

Saturday February 2 was Groundhog Day, and Punxsutawney Phil, America's most famous groundhog, saw his shadow, forecasting six more weeks of winter. To celebrate, we're highlighting a few perennial issues that seem to come up every session but never "get off the wall".

Military Pensions

Will this be the year that Governor Scott and allied lawmakers finally pass an income tax exemption on military pensions? Nine states do not have income tax (including New Hampshire), and another 26 exempt military benefits from income tax, including New York and the rest of New England. Proponents of this exemption say Vermont's outlier status costs us well skilled military retirees, many of whom retire from service within their prime working years

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and could choose second careers here. This year's bill H.43(opens in a new tab) is much the same as the last four or five versions we've seen, but now boasts over 60 co-sponsors, including Chair of the House Committee on Commerce Michael Marcotte (R), longtime leader of the National Guard Caucus Sarita Austin (D), Labor Caucus Chair Conor Casey, and all three co-chairs of the Rural Caucus: Lisa Hango (R), Monique Priestley (D), and Laura Sibilia (I). Those are some big guns!

Dr. Dynasaur

Dr. Dynasaur may be Vermont's most well-known and well-loved state program. Created under Governor Kunin for children ineligible for Medicaid under the age of six, it saw sweeping expansions under our most recent doctor governor, Howard Dean, to cover pregnancy and all children up to age 18 (now 19) and up to 300% of the federal poverty level – bringing affordable healthcare to 99% of all Vermont children.

More recent expansions of the program have included a change to provide 12 months of continuous enrollment for children – even if an adult in the household has a change of eligibility – and Act 48(opens in a new tab) of 2022 which created a "Dr. Dynasaur-like program" for children regardless of immigration status.

Democratic lawmakers have made various less successful attempts over the years to build on the program in order to extend affordable healthcare coverage to more Vermonters. This year, three bills have been introduced to do just that. S.8(opens in a new tab) proposes to expand eligibility up to the

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age of 26. Both S.14(opens in a new tab) and H.114(opens in a new tab) not only propose to expand income eligibility for pregnant people and study expansions for other populations but also carry sponsorship by the respective Healthcare Committee Chairs, Senator Lyons and Representative Black. Maybe this Groundhog Day issue will come out of the shadows this session.

Federal Funding Freeze

Vermont's municipal governments deliver many of our most essential government services: public safety, ambulance service, and maintaining safe roadways and clean drinking water. Local government is responsible for maintaining some of our most vital community spaces, like parks, trails, playgrounds, and libraries. We administer elections, issue and collect property taxes, foster civility, and protect precious natural resources. The federal government is an essential funding partner in much of the critical work that municipalities perform for Vermonters every day.

Rest assured that when we have clear and final information regarding last week's "federal funding freeze" we will share it with you through our website, vlct.org, as well as the bi-weekly *VLCT News,* the monthly *VLCT Journal*, and the *Weekly Legislative Report* (like this one).

VLCT's Advocacy and Municipal Operations Support teams continue to work with our national partners to understand how federal programs and funding are evolving. We advise all members who are concerned about potential funding effects on their local initiatives to contact their grantors directly –

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including federal agencies and state pass-through agencies – to learn the details regarding specific federal grant programs.

Additionally, the National League of Cities, which advocates for and works to protect the interests of cities, towns, and villages by influencing federal policy, strengthening local leadership, and driving innovative solutions, recently shared a fact sheet, **Presidential Actions Summary: Impact to Local Governments**(opens in a new tab), which you may find helpful.

VLCT will continue to advocate for robust federal investment in Vermont's local governments.

What We're Tracking

The first bill deadline of the year has passed, and so far 170 bills have been released for introduction across both chambers. VLCT is already tracking 25 with the potential to affect local government. We are expecting key bills to be noticed next week, including for our priority issues 3 Acre permitting, flood recovery, municipal liability, and Local Option Tax. Committee bills may be introduced later and are likely to come for housing, elections, and transportation. Here are a few bills we're tracking:

- H.128 an act relating to unlawful drug activity in a dwelling by a person who is not a legal tenant(opens in a new tab)

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- S.35 an act relating to automated traffic law enforcement(opens in a new tab)

- H.109 an act relating to municipal ordinances governing the maintenance of properties within downtown districts(opens in a new tab)

- S.6 An act relating to infant changing stations in restrooms in public buildings and places of accommodation(opens in a new tab)

What We're Reading

Legislative reports provide the factual and fiscal foundation for much of the State House debate around new legislative proposals. This week, we're also highlighting some key presentations from the administration to the legislature:

- Governor's Fiscal Year 2026 Budget Summary (opens in a new tab)

- Governor's Pathways to Accelerate and Transform Housing (PATH) for Vermont(opens in a new tab)

- Municipal Water and Wastewater Connections Permitting and Housing, Report of the Department of Environmental Conservation(opens in a new tab)

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- Joint Fiscal Office January 2025 Economic Review and Revenue Forecast Update(opens in a new tab)

Stay Involved

There will be many opportunities for you to help Josh and Samantha in VLCT's advocacy work. Remember to register and attend our **bi-weekly Advocacy Chats**(opens in a new tab)**,** which are held via Zoom every other Monday at 1 PM (or the next day if the Monday is a VLCT holiday).

- You can find (and share) this legislative report and future reports and alerts on our main Advocacy webpage(opens in a new tab).

- To support VLCT's advocacy work; participate in policy development, testimony, and legislative actions; or just learn more, reach out to Josh and Samantha by email at jhanford@vlct.org(opens in a new tab) and ssheehan@vlct.org(opens in a new tab).

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