January 26: Governor Announces $9.4B Budget and New Bills Take Shape

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While the major debates of the 2026 session have already been well defined, this week we heard the fine print as Governor Scott delivered his annual budget address and agency officials released a slate of new policy proposals related to housing, public safety, and energy.

Several municipal priorities also received airtime this week, as local officials testified about bills related to drinking water and public records, and VLCT continued its advocacy for improved municipal land use authority.

In this *Weekly Legislative Report*, we recap Governor Scott's proposed fiscal year 2027 budget and transportation shortfall, recent testimonies from municipal officials on drinking water and public records, and new bills introduced this week that could have a big effect on local government.

Governor Scott Introduces $9.4 Billion State Budget

On Tuesday, Governor Phil Scott delivered his tenth annual budget address to a joint assembly of the House and Senate. While the governor's budget is the largest ever presented, the administration's funding plan for fiscal year 2027 is relatively austere. The $9.4 billion spending plan represents a 3% year-over-year increase and will rely on more than $100 million in transfers to the education fund to buy down property tax increases, from the projected 12% increase to 5.5%. State property taxes have increased by 41% in the last five years.

State economists recently downgraded revenue forecasts for the general fund (by $8 million) and the transportation fund (by $9 million), while systemic costs have continued to rise – necessary pension contributions will increase

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9.7% and education spending is up 6.8%. All in, a level-funded FY27 budget will cost about $139 million more than it did last year.

Governor Scott proposes a $10 million transfer to the transportation fund (more on that below), which is $23 million short of what is needed to capture an additional $163 million in federal funds,(opens in a new tab) while saying "I want to be crystal clear, I will not support raising the gas tax". The education fund buy-down proposes $30 million from funds previously set aside for federal cuts and $75 million from the FY26 annual budget adjustment. The governor has indicated support for S.220, which would cap school budget increases(opens in a new tab) for 2028 and 2029.

While the spending plan seems fuller of band aids than big ideas, Governor Scott did lay out potentially transformative low- or no-cost policy proposals. On housing, he said "it's clear we need to rethink our regulatory process to make real headway." He also announced his support for repealing the "Road Rule" in Act 181 of 2024 and extending current Act 250 exemptions to 2030. VLCT has also called for an extension of the temporary exemptions to 2030 and raised serious concerns with the road rule – currently set to take effect this July.

During the off-session months, Governor Scott took executive action to create the "community accountability court" in Burlington(opens in a new tab) which he says has closed over 500 active criminal cases involving 60 repeat offenders over 50 court days. Scott's budget includes $500,000 to expand the accountability court to more counties. He also is calling for a full repeal of "raise the age to 19" from Act 201 of 2018(opens in a new tab).

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It's been a decade or more since Vermont lawmakers seriously debated the value of nuclear energy – but Scott is now proposing reforms to the state's Renewable Energy Standard (RES) that would instead create a "Clean Energy Standard"(opens in a new tab), allowing Vermont utilities to meet state targets by using "zero emissions" sources, including nuclear power.

Governor Scott approached the conclusion of his budget address with a quote from the final inaugural speech of Governor Snelling in 1991: "We cannot and will not set lower standards for the education of our children, for the health of the population, for assistance to the troubled, jobless or homeless, or for protection of the environment. But we clearly must rethink how those goals are to be achieved."

It was Snelling's successor, Governor Howard Dean, who went on to present 11 balanced state budgets, reversing Vermont's chronic deficit position. It was also Governor Dean who signed Act 60 of 1997, the Equal Education Opportunity Act, which radically changed and centralized Vermont's public education system.

Governor Scott's most recent addresses to the joint assembly have certainly teed up big questions about what this administration's legacy will be. Will it be a full and transformative implementation of Act 73 to unlock state investment for transportation, housing, and more? Or will the state's fiscal position slip backward into a pattern of chronic shortfalls and constrained investment?

Rural Caucus Update: VLCT Testimony and Bill Introduction

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In past legislative sessions, VLCT has coordinated with the rural caucus on issues related to land use, transportation, technical assistance, and most recently for the successful passage of the Community Housing and Infrastructure Program (CHIP). Last week, the VLCT Advocacy team presented to the rural caucus for the first time this year(opens in a new tab) to introduce VLCT's proposal to allow municipal regulatory authority over agricultural practices within Act 250 exempted areas. Josh and Samantha also touched on our underlying concerns related to Act 181 implementation and its risks for rural communities.

VLCT demonstrated to law makers that under Act 181 most communities will experience a vast increase in Act 250 jurisdiction for all types of development – while very few will achieve total Act 250 exemption for a small area under Tier 1A. Furthermore, Tier 1 status requires months (or years) of public process, strict statutory requirements, and approval from the state's oversight body, the Land Use Review Board (LURB).

While rural leaders and members of the agriculture committees have expressed a commitment to the preservation of working lands, they have also indicated an understanding of the need to plan for a variety of land uses in our most densely developed areas. As Josh put it, we need someone to "call balls and strikes" in these areas where a variety of public, civic, private, and agricultural uses are co-existing.

Also last week, the rural caucus released **H.703,**(opens in a new tab) **an act relating to Act 250 location-based jurisdiction**, for introduction, and the bill was referred to the House Committee on Environment. **H.703 includes several actions VLCT has called for**, including:

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- Delaying Tier 3 Rule to February 2027
- Delaying Road Rule implementation to March 2027
- Extending current Act 250 exemptions for designated growth areas to July 2027
- Removing requirement for municipalities to enforce existing Act 250 permits in Tier 1A areas

The bill as proposed would also take several actions related to landowner engagement and tax fairness:

- Requiring that the LURB send notice by mail to all property owners in a proposed Tier 2 or Tier 3 area prior to a public hearing on Tier 3 rules
- Appropriating $20,000 to meet notice requirements
- Directing listers and assessors to account for any impact on the fair market value of a parcel from Act 250 regulations

VLCT strongly supports H.703 to **allow local officials and the affected property owners time to understand and engage in the sweeping land use planning changes** underway – and to provide **appropriate legislative oversight** before new Act 250 jurisdictional triggers take effect.

Public Records Act Reforms Could Prevent Fraud and Protect Taxpayers

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On Wednesday, VLCT again testified before the House Committee on Government Operations and Military Affairs in favor of modernizing reforms to Vermont's Public Records Act(opens in a new tab) (PRA) (beginning at 30 minutes into the recording). Josh and Samantha were joined by Colchester's Deputy Town Manager Ranae Marshall.

In her testimony(opens in a new tab), Ranae spoke in support of the recommendations already put forward by VLCT, and added these requests from the Town of Colchester:

- Consider applying the Public Records Act only for requests from residents and businesses within the state of Vermont.

- Consider adding language to the Public Records Act that requires information about financial transactions to be produced electronically, mailed, or photographed no less than six months ***after*** the transactions have been completed (contracts related to records completed and paid).

Officials in Colchester had recently thwarted an attempted fraud against the municipality related to a request for records of town purchases. Ranae reminded lawmakers that in fulfilling public records requests, the liability to the municipality for inadvertently releasing protected information – such as medical information, personal identifying information, or information that puts the municipality at undue risk or disadvantage – is **far greater** than the penalties for failing to comply with the PRA.

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The committee also heard from officials from the Department of Public Safety who spoke to the interagency coordination necessary for the release of records from law enforcement agencies. Municipal and state law enforcement agencies must not only comply with federal standards for the storage of police records, but for complex requests they must coordinate with other agencies, prosecutors, and the judicial branch in order to appropriately protect information that:

- if released, would jeopardize the integrity of an ongoing investigation, case, or appeal – and to protect the privacy of witnesses and victims

- includes sensitive information not appropriate to release to the public – such as records related to emergency telecommunications infrastructure, the security of public buildings, or emergency planning.

Potable Water Bills

Last week the Senate Natural Resources and Energy Committee took testimony on S.212(opens in a new tab), an act relating to potable water supply and wastewater system connections, and S.213(opens in a new tab), an act relating to the use of smart meters by public water systems. The committee heard from a number of municipal officials, including: Liz Royer, Executive Director of Vermont Rural Water Association(opens in a new tab), Megan Moir, Director of Burlington Public Works(opens in a new tab)

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(beginning at 2:14:10 in the recording), Harry Shepard, Vice President of Green Mountain Water and Environment Association and Public Works Director of the Town of Stowe(opens in a new tab) (2:18:45), Josh Hanford, Director, Intergovernmental Relations. VLCT(opens in a new tab) (1:16:05) and Bryan Redman, Director of Drinking Water and Groundwater, DEC, Agency of Natural Resources(opens in a new tab) (1:22:30).

S.212 is the result of the Act 47 Municipal Water & Wastewater Connections Permitting and Housing Report(opens in a new tab). VLCT along with members from South Burlington, Burlington, Brattleboro, and Stowe served on the working group. The report explored whether unnecessary duplication exists between local and state permitting that, if eliminated, might expedite timelines for housing projects and other development. The report documents the stakeholder group's activities and identifies ways to improve existing processes.

The report offered two primary legislative recommendations for consideration:

1. Repeal full delegation authority currently granted to the Agency of Natural Resources (ANR); and modify existing partial delegation to provide authorizing language for a proposed Local Technical Review program; and

2. The creation of a general permit allowing qualified municipalities to conduct local technical review of water and wastewater connections without redundant state review while maintaining statewide consistency and accessibility of data and records.

S.212 seeks to implement partial delegation for technical review of permits for connections to municipal systems. This new municipal authority, if granted,

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may be helpful for a few municipalities. However, a second option, which Brian Redman from the Department of Environmental Conservation (DEC) testified they are actively pursuing (and does not require a statutory change) would develop a general permit for municipalities. The consensus is that most municipalities would seek this general permit option.

S.213 would require municipal water utilities using "smart meters" to allow customers to opt out of using smart meters due to concerns about cyber security and fears that radio waves emitted from the meters may cause health issues. The committee heard that municipalities and utility districts are already managing these concerns by regularly allowing customers to opt out of smart meters, if feasible, and cyber security concerns are managed by limiting the information collected.

Joint Transportation Hearing: Budget Shortfall or Cliff Jump?

Following the governor's budget address, Vermont Agency of Transportation Secretary Joe Flynn presented the agency's $934 million budget(opens in a new tab) to a joint hearing of the House and Senate Transportation Committees. Flynn's testimony (opens in a new tab)began with a sobering update: in order to present a balanced budget, the agency plans to eliminate an additional 31 staff in fiscal year 2027. This is in addition to the 31 positions let go this past fall to true up the fiscal year 2026 budget, for a total reduction in force of 62 budgeted positions (27 of which are currently vacant).

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This should raise a serious alarm for anyone doubting how serious the Vermont transportation fund revenue shortfall is. In addition, this not-so-rosy budget picture assumes the legislature will support a controversial $10 million Vehicle Purchase and Use Tax revenue transfer back from the Education Fund to the transportation fund. In just the last five years, Vehicle Purchase & Use Tax deposits into the Education Fund have totaled $225 million, which **could have** generated almost $2 billion more in an 80-90% federal transportation funding match over that time.

That is worth repeating: **the state's efforts to buy down property taxes using transportation revenue has cost us $2 billion in federal investments over five years.**

While the administration proposes a small increase for the overall fiscal year 2027 budget, Senate Transportation Chair Westman correctly pointed out that the increase is entirely due to $49 million in federal funds going to the interstate highway system. House Transportation Chair Walker also expressed concern, indicating that **all** state and local highway transportation programs will see a **sharp decline in funding for the local roads and bridges** that Vermonters rely on every day.

Total proposed "Town Highway" program aid is down by over $7 million, or -7.3%, from $96,665,344 in FY26 to $89,648,226 in FY27. As we reported in our Legislative Preview(opens in a new tab), the reduction in town highway aid is made even more concerning as transportation construction and paving project costs have risen by 40-60% over the last five years.

VLCT continues(opens in a new tab) to make transportation funding a top priority this session. Funding to fix municipal roads and bridges cannot wait

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until the other competing priorities of the legislature and governor are resolved.

VLCT recommends legislative actions to:

- Diversify and increase transportation fund revenue sources.
- Direct the full Purchase and Use Tax on motor vehicles to the transportation fund.
- Remit a portion of registration fees and excess weight permit fees to the municipality in which the vehicle is registered.
- Fully fund core municipal transportation programs – Town Highway Aid, Town Structures, and Town Bridges – according to need.
- Provide incentives for municipalities to take over state highways that function as main streets.
- Allow VTrans to enter into agreements with municipalities for use of state-owned equipment for small transportation projects.

VLCT also supports bill H.766,(opens in a new tab) introduced by Representative Molly Burke, (D), Brattleboro and additional sponsors Rep. Kate Laley and Rep. Chloe Tomlison, that would allow municipalities to create a Local Option Tax for gas sales. VLCT is open to other revenue raising schemes such as an increase in the state's gas tax, increasing revenue from electric vehicles, ending the purchase and use tax revenue to the education

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fund, and a new tax on parcel delivery.

Our message is clear: whatever proposals to raise transportation revenues are supported by the legislature and the governor will be supported by VLCT as long as town highway aid will benefit.

As any road commissioner or public works director will tell you, the roads and bridges aren't getting any better, and they won't fix themselves. The best time to spend a dollar on transportation was yesterday; the second-best time is today.

What We're Tracking

So far in this session, 399 new bills have been released for introduction across both chambers and 574 bills not passed or vetoed from last year are still active. VLCT adds new bills from 2026 with the potential to affect local government to its tracking list daily. Here are a few new bills we are tracking with great interest:

- **S.305**(opens in a new tab) An act relating to housing and land use
- **H. 730**(opens in a new tab) An act relating to Act 250 location-based jurisdiction
- **S.303**(opens in a new tab) An act relating to administration of the three-acre stormwater discharge permit

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- **S. 255**(opens in a new tab) An act relating to establishing a pilot Law Enforcement Governance Council in Windham County

- **H.594**(opens in a new tab) An act relating to establishing the Temporary Emergency Housing and Accountability Program and the Return Home Program in fiscal years 2027 and 2028

- **H. 633**(opens in a new tab) An act relating to requiring municipalities to hold a vote concerning the operation of cannabis retail establishments

- **H.773**(opens in a new tab) An act relating to property tax sales for property that is abandoned or unfit for human habitation

- **S. 220**(opens in a new tab) An act relating to addressing education spending in fiscal years 2028 and 2029

- **H.774**(opens in a new tab) An act relating to a three-year education property tax freeze

- **S.297**(opens in a new tab) An act relating to electronic ballot return in local elections

- **H.602**(opens in a new tab) An act relating to housing and land use

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What We're Reading

At the start of every legislative session, several new reports are published by legislative working groups, committees, state agencies and boards, and the non-partisan Joint Fiscal Office. These reports provide the factual and fiscal foundation for much of the State House to debate around new legislative proposals.

Here are some recently released reports we are interested in, as well as some recent reporting from local press related to top issues for local government.

- DEC Permit Expediting Report(opens in a new tab), Department of Environmental Conservation
- Statewide Land Bank Progress Report(opens in a new tab), Department of Housing and Community Development
- Vermont Towns Face Salt Shortage Ahead of Winter Storm(opens in a new tab), Vermont Public
- Scott Administration Eyes Job Cuts to Solve Budget Shortfall in Transportation(opens in a new tab), Vermont Public
- What Comes After Climate Fights? Better Numbers, Lawmakers Say (opens in a new tab), VT Digger
- Bracing for Tight Budget Year(opens in a new tab), Vermont Public

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Get Involved

With work in the State House underway, the **most important key to our success is your input and participation** in VLCT's advocacy work. Don't forget to register to attend our Advocacy Chats to learn what mid-session progress has been made on the issues that matter most to local government. Also, hear what your municipal colleagues from around the state have to say about the hot topics and share your concerns for the legislature. You can register here to join us on Monday, February 9 at 1 PM(opens in a new tab).

- You can find (and share) this legislative preview, last month's advocacy update, and future reports and alerts on our main Advocacy webpage (opens in a new tab).
- Before you visit the State House, check VLCT's Effective Testimony Guide for Municipal Officials(opens in a new tab) for best practices and answers to frequently asked questions.
- 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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