State Budgets – The Picture Begins to Clear

Second Budget Adjustment. On Thursday, the House Appropriations Committee explained H.953, a second budget adjustment bill, to the House. The legislation is necessary in light of the effects COVID-19 is having on the FY20 budget. It is unprecedented that a second budget adjustment bill would be passed in the same legislative session, but much is unprecedented in the current crisis. The House took up the bill today.

The new budget adjustment bill reduces FY20 appropriations to address an estimated $52 million in loss of revenue. This would affect the last month and half of the fiscal year until July 1. Among other items, reductions would affect municipally-oriented programs, including:
  • water program grants ($751,000);
  • Department of Housing and Community Development grants ($100,000);
  • Agency of Transportation building operating expenses ($600,000); and
  • Transportation Municipal Mitigation Assistance Program ($117,000).

H.953 would provide the authority for the state to use inter-fund borrowing from the Coronavirus Relief Fund or state reserves to cover an estimated $143 million in FY20 General Fund revenue that will not arrive in state coffers until FY21. The revenue deferred to FY21 is a result of moving the income tax due date from April 15 to July 15; moving the homestead declaration and homestead income form filing deadline to July 15; and waiving penalties and interest for non-payment of March and April sales and use, meals, and rooms taxes to May. Repayment of the deferred revenue would occur when payments are made in FY21. And the budget adjustment would appropriate Coronavirus Relief Funds for expenses incurred in FY20.

Miscellaneous Tax Bill. Also on Thursday, the House Ways and Means Committee voted out H.954, the Miscellaneous Tax Bill. Every year there is a miscellaneous tax bill to address technical issues around taxation in the state. H.954 includes language that would direct the Department of Taxes – in consultation with VLCT, the Vermont Municipal Clerks’ and Treasurers’ Association, the Vermont Bankers Association, and the Association of Vermont Credit Unions – to submit an implementation plan to transfer the responsibility for billing and collecting the statewide education property taxes from municipalities to the department. The plan would be due to the legislature by next January.
H.954 would also allow the Joint Fiscal Office and Secretary of Administration to delay submitting to the legislature July revenue estimates and a report on Medicaid- and Medicaid-related programs to August 15.

**Capital Bill.** On Thursday, the House Corrections and Institutions Committee voted out H.955, the capital bill. In the first year of a biennium, the legislature adopts a two-year capital budget. During the second year, the legislature makes any adjustments to that budget that are necessary due to changed circumstances. This year, H.955 expressly states that the General Assembly acknowledges that “continued funding of capital projects and infrastructure will help boost our local economy and support the health and welfare of Vermonters.”

H.955 would allocate $550,000 for engineering and construction grants for public water systems with confirmed concentrations of per- and polyfluoroalkyl substances (PFAS) that exceed 20 nanograms per liter and are under a do-not-drink public notice. Of that amount, $130,000 would be from the Vermont Drinking Water Revolving Loan Fund and $50,000 would go to grants to schools operating water systems that are over the limit and under do-not-drink orders. Funding to the Department of Environmental Conservation includes:

- Water Pollution Control/EPA Revolving Loan Fund Match (CWSRF) .................................................. $1,605,497
- Municipal Pollution Control Grants (pollution control projects) ................................................................. $3,300,000

H.955 would appropriate $1.1 million to the Housing and Conservation Board for agricultural water quality projects and $1.7 million for land conservation and water quality projects. The board is appropriated $3.8 million for housing and conservation projects in FY21, an adjustment of $2 million over the appropriated amount for FY21 in Act 42 of last year.

**Skinny Start Budget – First Quarter FY21.** On Tuesday, the Administration asked all agencies and departments to find 8 percent savings in their budgets going forward, citing the fact that the most recent revenue forecast for FY21 anticipates a greater than 10 percent decline in available revenue from FY20 revenues.

The legislature and administration have agreed that, given the uncertainties about the current economy and how long the emergency will last, the administration will propose a “Skinny Start Budget” for the first quarter of FY 21 (July 1 to September 30). In August, after receiving updated revenue estimates, the administration and legislature will propose a new FY21 appropriations recommendation.

The Skinny Start Budget will commence with a General Fund appropriation of 23 percent of each department’s FY20 enacted budget adjustment act (which over the course of the fiscal year would amount to an 8 percent reduction). This budget would assume federal fund appropriations of 25 percent of a department’s FY20 enacted budget adjustment act. The Skinny Start Budget also would assume 60 percent of an affected department’s FY20 budget after the budget adjustment – which takes into account seasonal construction timing – and 30 percent of Education Fund appropriations.

The current actions are just the beginning of budgeting discussions. In taking this cautious, incremental approach, the administration and legislature are poised to react to any federal assistance that may be forthcoming and to the certain gyrations in the economy over the next year. We will keep you apprised of developments as this session and the next drag on.

**Resources**
- FY21 “Skinny Start” Budget Instructions
- H.953 Budget Adjustment
- H.954 Miscellaneous Tax
The Unprecedented Times Continue

The legislature is finally starting to “turn on the spigot” of legislation that has been pending for two months. Until recently, both the House and Senate have focused exclusively on COVID-19-related legislation. But during the past two weeks, we’ve seen hints that the legislature would start moving non-COVID related bills. This week, the Senate made it official by starting to take bills off the Senate calendars where they have lain dormant since the beginning of the crisis in the middle of March. Bills that are largely seen as non-controversial are the first to move off the calendar, and Senate President Pro-Tem Tim Ashe promised others will follow. House and Senate leadership has made clear that after the FY20 second budget adjustment bill (H. 953) is finished – hopefully within the next week or two – the legislature will immediately turn to finalizing a “Skinny Start” FY21 budget bill, to address the first quarter of FY21. This week, Senator Jane Kitchel, Chair of the Senate Appropriations Committee, indicated that the “Skinny Start” budget would (hopefully) be finished by the second or third week of June – just in time for the start of the new fiscal year on July 1. (See article on page 1.)

The House is moving a little more slowly with legislation, taking up several COVID-19-related bills this week and planning to discuss a handful of non-pandemic bills next week. Additionally, H.953 is being debated today on the House floor, and H. 955, the Capital Bill, was introduced on Thursday and is in the House Appropriations Committee.

It is clear that Senate committees as well as the Senate as a whole will now be meeting more frequently to move bills out of committee and onto the floor. It remains to be seen how soon the House will follow. If the legislature does take a brief summer time-out in mid-June before returning in August to pass a full FY21 budget, they will face a very ambitious agenda during the next four or five weeks. It does take much longer and it is more difficult to conduct committee meetings and floor sessions remotely; therefore, only time will tell how many policy-related bills will be passed this year.

Additionally, the state faces unprecedented budgetary issues, with the most recent forecasts (May 12) showing General Fund revenues in FY 21 down by $266 million, the Education Fund down by $113 million, and the Transportation Fund down by $52 million. Updated revenue forecasts are expected by today or Monday. This harsh new reality will certainly affect all bills that have any financial implications. Although the pandemic continues to create a great deal of uncertainty in Vermont as everywhere else, we can expect that the legislature will spend a good deal of time this summer doing work that customarily would be finalized by this week – but unprecedented times calls for unprecedented measures.

Resource
• Joint Fiscal Office Update (May 12, 2020)

Governor Signs Important Legislation

On Thursday, Governor Scott signed three bills into law.

• **S.344** is an act relating to temporary municipal tax rate provisions in response to the COVID-19 pandemic. It allows a municipality to extend or establish a new time and method to pay property taxes; establishes a grace period for or decreases or waives penalties, fees or interest for late payment of taxes; and reduces the municipal property tax rate. Such measures may be adopted by majority vote of the local legislative body and will expire on January 1, 2021. This legislation applies only to property tax payments paid from taxpayers to towns.

• **S.182** addresses emergency medical services (EMS) and public safety in response to COVID-19. The law eliminates requiring emergency service providers to be credentialed and retains the licensing requirements of the Department of Health. It extends ambulance license terms from one to three years, requires the Department of Financial Regulation to enforce provisions that require insurers to directly reimburse
ambulance service providers. The new law also allows county’s operations reserve funds to be used for the emergency needs of the county sheriff. (See article in Weekly Legislative Report No. 17.)

- **S.333** establishes a moratorium on ejecting a tenant from a property and foreclosure actions against occupied dwellings during the COVID-19 emergency.

All three of these acts took effect upon their passage.

**Municipalities Are Essential**

VLCT has joined the National League of Cities’ “Cities Are Essential” campaign to designate federal funding in the Phase 4 COVID-19 stimulus package for cities, towns, and villages throughout the U.S. If attached strings are limited, this package could assist municipalities with lost revenue, ease the concerns of residents about tax hikes or significant budget cuts, and promote the revitalization of businesses and downtowns. Comments made at the national level about it being a better option for states and municipalities to declare bankruptcy than to receive aid from the federal government are reckless and uninformed. First, municipalities cannot declare bankruptcy in Vermont; and second, we know local officials would not want to do so even if that option were available. Local officials care about their communities and want to be in a position to help the recovery, not exacerbate the negative effects of the pandemic. The Phase 4 COVID-19 stimulus package funding is not intended to “bail out” mismanaged local governments or pension systems but rather to offer the opportunity for positive front-line assistance in the recovery.

We need your help with this national campaign.

While our advocacy team is working hard on the state level to achieve statutory and budget changes that will assist municipalities in both the short and long term, VLCT is also asking all of our members to **let us know how the pandemic has specifically affected your town or city (or the communities in your region)**. Your facts and explanations are crucial in our effort to seek funds that can stimulate local economies and help meet the particular needs of various communities. We’d also like to hear your ideas for how your local government, if properly funded, could help residents and businesses regain stability, and on the other hand the concerns you have if municipalities continue to be financially strapped – for instance, having to reduce budgets or eliminate employee positions.

Of course, it is important to write to members of our Congressional delegation emphasizing the need for these funds and expressing gratitude for the support Vermont municipalities have already received from them.

To collect more specific information across the state and over time, VLCT has created a COVID-19 Fiscal Impacts Survey. The survey asks you to describe the experience of your municipality in its recovery efforts and for stories of your circumstances and the concerns your residents and business owners have expressed if municipalities are unable to remain fiscally stable. For more information about the survey, please visit vlct.org/impactsurvey.

We plan to forward the data we collect to our Congressional delegation and to NLC. If you share those stories and concerns with the delegation directly, please copy VLCT on any communication so that we can be as effective as possible in our efforts to assist all of you in getting those critical funds.

For more information about NLC’s campaign, visit covid19.nlc.org/cities-are-essential. If you would like to provide some information or have questions, please contact me directly at mcarroll@vlct.org.

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VLCT