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Michael K. Smith, Secretary

August 21, 2008

Senator Susan Bartlett, Chair
Rep. Michael Obuchowski, Vice Chair
Members of the Joint Fiscal Committee
State House
Montpelier, VT 05633

Dear Senator Bartlett, Rep. Obuchowski, and Members of JFC:

As you are aware, during the last Emergency Board meeting on July 29, 2008, the consensus revenue estimate was revised downward for fiscal year 2009 (the current fiscal year) in the General Fund by \$24 million; in the Transportation Fund by \$8 million; and in the Education Fund by \$5 million. These reductions present the administration and the legislature with an imbalance between the revenue estimates and current law expenditures. As of today, current law expenditures exceed estimated revenues for fiscal year 2009.

Because these reductions in revenue exceed 1%, I am required to submit for your review a deficit reduction plan. The plan we are asking the Joint Fiscal Committee to approve has not been developed in a vacuum. We have met repeatedly with legislative staff and the Chairs of Appropriations to seek their input into the process. It serves no purpose to be at odds with one another when most Vermonters expect collaboration, not conflict. In the General Fund, we are seeking approximately \$24 million in reductions throughout state government. We have been particularly sensitive to the needs of the most vulnerable and have tried to minimize the impact of reductions in those areas. In the Transportation Fund, we have developed a list of \$4 million in reductions. Secondly, we developed a contingency list of reductions that would have to be implemented toward the end of this calendar year, should no alternative plan be implemented at that time. The Education Fund is projected to end the year with a 4.9% reserve, so no action is required, even with a \$5 million downgrade.

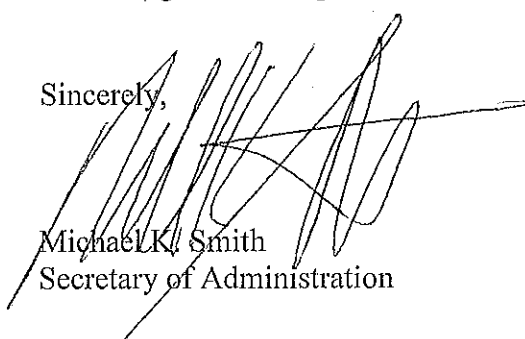
I have said from the beginning that reducing the General and Transportation Funds by approximately \$24 million and \$8 million respectively will have an impact. Our job, both within the administration and the legislature, is to minimize that impact. Although this will be of no comfort to those departments and agencies that must reduce their budget, it is worth noting that Vermont's fiscal picture is less severe than in many other states, and much different than that of the early 1990s when Vermont faced an

approximately 10% reduction in General Fund revenues. Our General Fund revenue reduction is 2.0%. Raising taxes is not an option. Both economists have said that increasing the gas tax would be counterproductive, in that with higher gas prices, revenues would actually decrease. Also, Vermonters are paying \$800 million more for fuel prices than they did one year ago. On an annual basis, the run-up in energy prices is equivalent to roughly doubling the personal income tax, the rooms and meals tax, and the motor vehicle purchase and use tax. To swamp Vermonters with more taxes when they are getting crushed with higher fuel costs is too much for the average Vermonter, especially when we are still one of the higher taxed states in the nation. Nor is it prudent to use the Stabilization Reserve Funds. Those reserves need to be maintained for any potential revenue downgrades in the future where we are unable to react in a timely manner. The only responsible option is to reduce expenditures.

Although we have tried to avoid reductions in our state workforce, we have included 16 RIFs (reductions in force). This represents a reduction of less than two-tenths of 1% in our 8,900 person workforce through the RIF process. We will make every effort to assist those employees that have been affected by a RIF to be relocated elsewhere in state government where a vacancy may occur and for which they are qualified.

We have attached a list of reductions by departments and agencies, as well as impact statements regarding the reductions. Also, for Friday's meeting we will have key Commissioners available to answer questions. With the information we are providing and the availability of the Commissioners, we are attempting to give you a clear and complete picture of the plan, but also an understanding of the enormous work in accomplishing these reductions – both by the legislature and the administration – over the past few weeks. We look forward to continuing to work together over the course of the next few days to finalize this plan.

Sincerely,



Michael K. Smith
Secretary of Administration

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