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STATE OF VERMONT  
OFFICE OF THE STATE TREASURER

**TO:** Governor Phil Scott  
Representative Mitzi Johnson, Speaker of the House  
Senator Tim Ashe, Senate President Pro Tempore

**FROM:** Beth Pearce, State Treasurer 

**RE:** FY19 Budget

**DATE:** June 12, 2018

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On May 18, I wrote to you detailing the negative consequences of a protracted budget impasse on our reputation in the financial community and, more importantly, on Vermont citizens. With less than three weeks until the start of a new fiscal year, a continued impasse, and the threat of a government shutdown, I ask that you show good faith to Vermonters by passing a budget and taking the threat of a shutdown off the table. Everyone loses when negotiations fail to produce a timely and complete budget.

As the prospect of a shutdown becomes more and more likely, so does the likelihood that the State will suffer real and permanent costs, even if it is averted at the last moment. For these reasons, I ask that you find a way to bridge the remaining differences and resolve this matter at once, and I offer the full cooperation and assistance of my Office in order to resolve outstanding issues.

Like many Vermonters, I am reminded by current events in Montpelier of recent shutdowns at the federal level. In 2011, during the federal debt ceiling crisis, citizens were worried about whether they would receive Social Security checks, whether National Parks would close, and whether the federal government would be there to serve them in countless other ways. Nationally, the financial markets were shaken by a lack of certainty in government to do its most basic functions: to pay its bills and serve its citizens. Closer to home, Vermont retirees living on a fixed income were worried about whether they would have enough money to pay their bills and afford groceries.

In 2013 and again in 2018, the federal government shut down. All three of these events negatively impacted Vermonters and were the result of partisanship at its worst. These failures reminded Vermonters that while our federal institutions may have failed them, Vermont State government and services did not. Pursuant to the Vermont Constitution, "[n]o money shall be drawn out of the Treasury, unless first appropriated by act of legislation." Moreover, a continuing resolution fix only prolongs the institutional gridlock and impedes the collaboration necessary to pass the annual budget in a timely manner.

It is imperative that we avoid a government shutdown. As I noted in my May 18 memorandum, a shutdown would prevent State agencies from providing the critical public services to Vermonters. A

shutdown would result in real and permanent costs, such as foregone and irrecoverable revenues and the additional costs of agency disruption and contingency planning. Even the threat of a shutdown can reduce the public's faith in government, impose additional costs to fund a special Legislative session, and jeopardize the State's high credit rating.

As the budget impasse lingers into the summer, its effects are already beginning to be felt, both inside and outside of Montpelier. Vermonters are beginning to ask whether the critical public services they rely on are going to be available come July. Public retirees are questioning whether they will still receive the pensions they earned over a lifetime of service. And State employees are requesting guidance on how a shutdown will impact their work, their families, and their livelihoods.

While every effort should be made to avoid a State government shutdown, it is time for the Administration to provide guidance and direction to the public and State employees on what happens in the event of a shutdown. While commonplace in Washington, DC, a shutdown of Vermont State government is uncharted territory. Additionally, it is imperative that the Administration take all reasonable steps to limit the damage to the State in the event of a government shutdown. It is time for the Administration to share its contingency plans with Vermonters.

As your State Treasurer, I am responsible for managing the State's debt as well as the administration of the retirement systems. State law provides us with the ability to continue to make our debt service payments, and I see no impediment to them being made. I also believe that we can continue to pay retiree pensions which are administered through a trust. That said, it remains unclear whether we will have the authority to employ the staff needed to administer the pensions and other programs, although our intention is not to disrupt these needed services for our customers. We will pay pensions to retirees who rely on this income.

As I have said before, the failure to pass a timely budget could place the State's high credit rating in jeopardy. While I will not dwell on this point again here, I will reiterate that even the threat of a shutdown can jeopardize the State's credit rating or reputation in the financial community. With every day this impasse draws on, the risks become greater. I urge both sides to take the long view here and remember that Vermont's well-earned reputation as a fiscally responsible State is on the line.

I urge the leadership in the Administration and the Legislature to find a compromise budget solution that is in keeping with principles of sound fiscal stewardship. This includes fully funding our reserves. In a time when revenues are exceeding expectations, it is imperative that we fund our reserves to provide for future downturns in the business cycle. It also includes responsible budgeting, in which ongoing anticipated revenues match ongoing anticipated expenses, including the paying down of long-term liabilities. Ratings agencies continue to raise concerns about states that use one-time revenues to fill persistent budget gaps. Finally, it includes fully funding the State's long-term obligations, such as its unfunded pension liabilities, and using unexpected revenues to chip away at these obligations in a way that provides long-term value to the taxpayer.

As we inch closer to a July 1 shutdown in Vermont, I believe that State government has already failed our citizens. When Vermonters are forced to contend with whether to defer paying a bill this month because next month's check may not come, or cancel a vacation because their favorite State Park may be closed over the Fourth of July break, we have already failed. More significant consequences to at-risk citizens are on the horizon if the current budget impasse goes unresolved.

As state officials, we have an obligation to Vermonters to serve them in a responsible and proactive manner that does not undermine their faith in government. It would be a truly Pyrrhic victory for one side to "win" a budget argument this year at the cost of a potential credit downgrade and millions of dollars of increased debt service costs for years going forward. I urge the Administration and the Legislature to swiftly come to an agreement that results in a structurally sound budget that fully funds our reserves and continues the operations of government in serving Vermont taxpayers.

cc: Jason Gibbs, Chief of Staff, Office of Governor Phil Scott  
Susanne Young, Secretary of Administration  
Brad Ferland, Deputy Secretary of Administration  
Adam Greshin, Commissioner, Department of Finance and Management  
Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office