PHILIP B. SCOTT
Governor

State of Vermont
OFFICE OF THE GOVERNOR

May 22, 2018

The Honorable John Bloomer, Jr.
Secretary of the Senate
115 State Street
Montpelier, VT 05633-5401

Dear Mr. Bloomer:

Pursuant to Chapter II, Section 11 of the Vermont Constitution, I am returning S.40, *An act relating to increasing the minimum wage*, without my signature because of my objections described herein:

I know what it's like to be a working Vermonter struggling to make ends meet. I have worried about putting food on the table and experienced winters when I had to buy heating oil one 5-gallon bucket at a time to keep my family warm. I know the struggles of running a small business striving to make payroll and stay afloat, in the face of seemingly never-ending tax and fee increases, expensive mandates and duplicative regulations. And I know for many years the costs of living have been rising faster than wages, and many families, and most of our state, haven't fully recovered from the Great Recession.

On my first day in office, I signed an Executive Order outlining the strategic priorities of my Administration: to grow the economy, make Vermont more affordable, and protect the most vulnerable. Improving the economic opportunities of those struggling to ascend the economic ladder is central to all three of these outcomes. My Administration is measuring our progress in meeting these priorities through key performance indicators defined in the State strategic plan, which include organic job and wage growth by region and reducing the percent of household income spent on housing, healthcare and taxes and fees, among other metrics.

By taking a strategic, results-based approach, we can position Vermont's economy and the wages of workers to grow faster than the cost of living; we can make our state *measurably* more affordable each year for families and businesses; and we can meet our obligations to the most vulnerable and make additional investments in priorities Vermonters' value. To achieve these outcomes, however, we need to take actions that are based on real, evidence-based public policy.
As Vermonters, we share a deep desire to improve the economic security of every community and every family. As a member of the Vermont Senate, I voted to increase the minimum wage and tie annual increases to inflation.

So, while I agree with the spirit of S.40, I believe the bill is more likely to harm those it intends to help, weaken small businesses and the economy as a whole, and deepen the economic inequality that exists between Chittenden County and other counties in the state.

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The Weight of Evidence Indicates S.40 is Bad Economic Policy
What we *want* the outcome of a new law to be is sometimes very different than what the analysis and evidence indicates the results will be. This is one of those cases. Unfortunately, the evidence available to us – much of it from the Legislature's own economist –indicates that the mandated wage increase proposed in S.40 will result in negative outcomes for job seekers, current employees, job creators and our economy as a whole.

More specifically, according to the bill's fiscal note,[1] as well as memoranda[2] from the Legislature's economist, many of the assumed economic gains of a mandated minimum wage increase will be offset by negative economic consequences. Job losses resulting from mandated wages increase of this scope are likely, and the cited data also indicates reductions in hours, reduced employee benefits, price increases, and more.

As reported by Vermont employers in 2016, the number of hours worked per week decreased 2.9 percent since 2008. The population of long-term unemployed, a large number of who have entry-level skills, has been rising. This population of Vermonters is having the most difficult time gaining economic traction because they need more skills to meet the demand for available jobs. And over the last four years since the last mandate to ratchet up the base minimum wage was implemented, the labor force participation rate has declined. Forcing employers to raise the mandated minimum wage faster than the current law requires will reduce entry-level opportunities.

Additionally, according to a study on the effects of a minimum wage increase in Seattle,[3] the data suggests the hours worked in low-skill jobs fell by 9.4 percent. Alternative measures suggest that the number of entry-level jobs actually declined by 6.8 percent. Perhaps most strikingly, total net payroll for low-wage workers fell by an average of $125 per month—that equates to a $1,500 decline in income annually. Put very simply: while hourly wages increased, actual annual income decreased – meaning mandating a higher minimum wage had the opposite impact it was intended to have.

S.40 Fails to Address & Expands the 'Benefits Cliff'
We all share the goal of providing Vermonters the resources they need to thrive, but we can't do that if we do not also fully consider net value of wages, benefits and prices of goods and services, and their inseparable relationship.

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[1] Fiscal Note
https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Ways%20and%20Means/Bills/S.40/S.40~Joyce%20Manchester~Fiscal%20Note~4-4-2018.pdf

[2] May 2018 JFO Memorandum, page 7
https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Appropriations/Bills/S.40/S.40-MINIMUMWAGE~Tom%20Kavet,%20Legislature's%20Economist,%20Kavet,%20Rockler%20and%20Associates,%20LLC~Memo%20-%20Minimum%20Wage%20Review%20-%20May%202017~4-19-2018.pdf

[3] UW Study, pages 28, 35-36
http://www.leg.state.vt.us/jfo/Minimum_Wage_Study_Committee/MWSC%20-%20Background/NBER%20Working%20Paper%20Series%20-%20Minimum%20Wage%20Increases.pdf

S.40 will push many Vermonters over the "benefits cliff," which could result in a total decline in their resources. According to the Vermont Legislative Joint Fiscal Office, roughly 2,000 families—with 3,000 children—could potentially lose child care assistance because of these changes[4] in S.40. The current "fix" contained in the bill for this loss in benefits falls unacceptably short of real reform. It only states that the sliding scale for the Child Care Financial Assistance Program shall be adjusted, contingent on "the extent funds are appropriated."

While it is positive that some thought, albeit incomplete, was given to the impact on this policy change to childcare assistance recipients, S.40 also fails to adequately assess the net impact on Vermonters receiving assistance from Medicaid, LIHEAP, Section 8 Housing, 3SquaresVT, the Earned Income Tax Credit (EITC), SSDI, and SSI.

These reasons alone constitute sufficient reason to veto this proposal.

S.40 Hurts Small, Local Businesses the Most

Ninety percent of all Vermont businesses have fewer than 20 employees.[5] These businesses are the backbone of our economy. They employ 29 percent of our employed population and pay 26 percent of wages. Under current law, these businesses will already have to raise the minimum wage every single year in perpetuity. This alone is a challenge—not counting other mandates State government has imposed on them in recent years. Our small businesses simply cannot afford this legislation.

Take, for example, Caleb Magoon of Power Play Sports in Morrisville and Waterbury Sports in Waterbury, who said, "My heart is 100 percent behind raising the minimum wage. I understand the want and need to raise up those at the bottom of the pay scale. But my head knows better; the numbers simply don't add up for businesses like mine." [6]

Similarly, David Anderson, owner of Maple Hill Residential Care Home, said, "We operate at the line between profit and loss every day. The minimum wage increase will create an environment in which it will be impossible to staff our home adequately to support the residents we have."[7]

These are just two examples, among many.

Most Regions in Vermont Cannot Absorb Impacts of S.40

The effects of a mandated minimum wage increase beyond the currently scheduled increases will be drastically different by region. Vermonters and small businesses in Benson will be impacted differently

[4] Deb Brighton, The Benefits Cliff and S.40 https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20General/Bills/S.40/S.40~Deb%20Brighton~The%20%E2%80%9CBenefits%20Cliff%E2%80%9D%20and%20S.40~3-22-2018.pdf

[5] http://www.leg.state.vt.us/jfo/Minimum_Wage_Study_Committee/MWSC%20-%20September%202017/VSJF%20testimony_Min%20Wage%20Study%20Committee%209.6.17.pdf

[6] https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20General/Bills/S.40/Written%20Copies%20of%20Testimony/S.40~Caleb%20Magoon~Copy%20of%20Testimony~4-4-2018.pdf

[7] https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20General/Bills/S.40/Public%20Comment/S.40~David%20Anderson%20~Comments%20from%20Maple%20Hill%20Residential%20Care%20Home~4-12-2018.pdf

than those in Burlington. Those in Essex Town will be affected differently than those in Essex County. Rural areas of Vermont—which are struggling economically under a growing crisis of affordability compounded by years of a one-size fits all approach in Montpelier—will be hit the hardest by this proposal.[8]

Employers on the eastern border of our state will also be hurt more by this measure than employers further from the border. Vermont small businesses on the Vermont-New Hampshire border are already in tight competition with New Hampshire, which has no state sales or income tax. If this legislation were to be implemented, the minimum wage differential between Vermont and New Hampshire would rise from 38 percent to a shocking 107 percent.[9] Vermont small businesses—the staples of our rural communities—would simply be unable to compete.

Real Economic Growth & Real Wage Growth is a Better Path Forward

Vermont has the sixth highest minimum wage in the country and it is scheduled to increase each year based on a mandated cost of living adjustment. As announced by the Vermont Department of Labor on May 18, the seasonally-adjusted statewide unemployment rate for April was 2.8 percent and overall Vermont's unemployment rate was tied for fifth lowest in the country.

The fact is the labor market is competing aggressively to recruit and retain skilled and reliable workers. As a result, we are seeing employers increase wages above the rate of inflation to be more competitive. In 2017, the average wage in Vermont increased by 2.4 percent over the year versus the general level of inflation as measured by the CPI that grew by 2.1 percent for the same time period.

There are also many good paying jobs available right now in Vermont. There's also a shortage of skilled labor. Through our focus on labor force expansion, and efforts like the newly created "Returnship Program," we are training more workers so they can reenter the workforce or move into better paying jobs. We've held the line on taxes and fees; passed the largest housing package in state history; increased support for childcare and state colleges; and more. Yet, there is much more work to do to change the economic trajectory of our state.

Here's the bottom line: We can continue to encourage higher wages and more take home pay without the negative economic consequences of policies that contributed to our economic challenges and the current crisis of affordability facing many families and businesses.

To do this, we must more aggressively prioritize policies – like technical education and trades training – that help low-wage workers move up the economic ladder, and help employers create more good jobs. We must continue the hard work of making Vermont measurably more affordable for families and businesses each year. And we must continue to modernize government and eliminate the "benefits cliff" that is preventing many families from making more money and achieving economic independence.

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[8] VT Digger August 15, 2017
https://vtdigger.org/2017/08/15/economists-debate-impact-15-hourly-minimum-wage/#.WZ8lhCiGNaQ

[9] October, 2017 JFO Memo, page 6
http://www.leg.state.vt.us/jfo/Minimum_Wage_Study_Committee/MWSC%20-%20October%202,%202017/Kavet%20-%20Memo%20Minimum%20Wage%20100217%20(2).pdf

In conclusion, for these reasons and more, I cannot support S.40 and return it without my signature pursuant to Chapter II, Section 11 of the Vermont Constitution.

Sincerely,

Philip B. Scott
Governor

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