

PHILIP B. SCOTT
Governor



State of Vermont
OFFICE OF THE GOVERNOR

May 22, 2018

The Honorable William M. MaGill
Clerk of the Vermont House of Representatives
115 State Street
Montpelier, VT 05633

Dear Mr. MaGill:

Pursuant to Chapter II, Section 11 of the Vermont Constitution, I am returning H.196, *An act relating to paid family leave*, without my signature because of my objections described herein:

First, I support the goal of providing Vermonters with a program that allows workers time to take care of family and bond with new children. Over the course of the Biennium, I have repeatedly voiced that I would be – and still am – open to working to create a State-run, voluntary system which provides this type of benefit for individuals who choose to invest a portion of each pay check, while allowing others to opt-out. Unfortunately, the Legislature decided to pursue a program that increases taxes taken out of the paychecks of all Vermonters at a time when we're just starting to confront the crisis of affordability facings families and businesses.

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. Helping every family to ascend the economic ladder and be more economically secure is central to all three of these outcomes. My Administration is currently measuring our progress in meeting these priorities through key performance measures defined in the State strategic plan, which include job and wage growth by region and the percent of household income spent on housing, healthcare and taxes and fees, among other important metrics.

By taking a strategic, results-based approach we can help Vermont's economy grow faster than the costs of living; make our state measurably more affordable each year for families and businesses; meet our obligations to the most vulnerable; and make additional investments in Vermont's priorities. To achieve these outcomes, however, we need real, evidence-based public policy that regards tax increases as financing options of last resort.

I don't believe H.196 meets this test. Unfortunately, the majority in the Legislature spent no time considering my Administration's point of view, particularly our willingness to collaborate on a voluntary program.

Vermonters Need a Break for Ever-Increasing Taxes

I have been clear since I announced I was running for Governor, and throughout the Biennium, that I cannot support legislation which raises taxes on Vermonters. After years of constantly-increasing taxes and fees, Vermonters need a break. They need the opportunity to keep more of what they earn. While businesses need a stable and predictable environment in which they can invest, grow and create more good jobs.

While the goals of this legislation are admirable, it simply is not responsible to impose a new \$16.3 million payroll tax on Vermonters —further exacerbating the crisis of affordability – without even contemplating a voluntary option. Moreover, as I'll detail below, I believe the startup costs of this program, and the payroll taxes required to fund it, are significantly understated.

H.196 Significantly Understates Implementation Costs

As subject-matter experts from the Department of Labor and Department of Taxes testified during the committee process that, to implement this policy well, would require adequate funding to support the design of a new insurance system, similar to building a variation of Vermont Health Connect for paid leave. Despite the guidance of the Departments that would be responsible for implementation and administration of the program, the Legislature funded it at the bare-minimum, creating a program that will likely run a large deficit in the future requiring additional tax dollars. Simply, the \$16.3 million in new taxes H.196 would raise, would not be enough to start and operate the program.

Again, according to analysis and testimony from analysts at both the Department of Labor and Department of Taxes, the Legislature's estimations of start-up and ongoing costs are severely understated. Overlooking expert testimony resulted in downplaying the actual startup costs of a complex entitlement program and lower cost projections when presenting the required payroll tax increase. In addition to being a disappointing sleight of hand, underestimating the costs of implementing this program would jeopardize the program's administration and functionality.

Even with the modest assumptions for startup costs, and according to the Vermont Legislative Joint Fiscal Office fiscal note, the paid family leave fund would run a deficit for 4 of the next 5 years. Using just slightly larger cost assumptions run by my Administration (not even the full cost we estimate), the fund is not solvent.

Undoubtedly, in future years, the payroll tax would need to increase substantially to sustain the program conceived in H.196. Essentially, this bill establishes a tax rate which is known to be insufficient and there would be no way to avoid increases. That involuntary rate increase in future years stands in direct conflict with the goal of making Vermont more affordable for working families.

We Must be Pragmatic

We have numerous programs in Vermont that help Vermonters, and each year we have difficult conversations about their sustainability and funding. We must take greater care when creating new programs and fully consider the implementation, sustainability, and future costs to taxpayers and the very people these programs are designed to help.

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We must also consider the statewide impacts, as the ability to sustain continually rising costs and higher taxes vary greatly from region to region, county to county and town to town. Most communities in the state have not fully recovered job losses from the Great Recession. Implementing the payroll tax required to fund it would slow the recovery in these areas at this time.

For years, Vermonters have made it clear to me, and to many of their elected officials in the Legislature, they cannot afford new taxes. We cannot continue to make the state less affordable for them and less appealing for families and businesses—even for well-intentioned programs like this one.

In this case, I believe we can craft a voluntary program that avoids the economic disadvantages of higher payroll taxes on already overburdened working Vermonters. I hope to work collaboratively with a future Legislature to consider such a voluntary option, in which individuals could choose to invest in, or opt-out of, and that would offer similar benefits to those envisioned in H.196.

As noted, based on the objections outlined above, I cannot support this legislation and must return it without my signature pursuant to Chapter II, Section 11 of the Vermont Constitution.

Sincerely,



Philip B. Scott
Governor

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