

JAMES H. DOUGLAS
Governor



State of Vermont
OFFICE OF THE GOVERNOR

May 15, 2009

Senator Peter Shumlin
Senate Pro Tempore
State House
Montpelier, Vermont 05602

Representative Shap Smith
Speaker of the House
State House
Montpelier, Vermont 05602

Dear Senator Shumlin and Speaker Smith:

I received your letter in regards to our May 13 meeting and I would like to take this opportunity to respond to your comments and further our discussion about a way forward in addressing the challenges the people of Vermont face.

When Vermonters went to the polls last November, they consciously chose a Governor of one party and a Legislature controlled by another and did so with a clear mandate: work together in their best interest to guide our state through this once in a generation economic crisis. Vermonters expect and deserve cooperation and compromise – not political brinksmanship – especially during these difficult times.

In some important areas we were able to work together to get the job done. We worked quickly to provide low-interest loans to struggling farmers. We collaborated on a transportation package that will help repair roads, bridges and culverts across Vermont. We agreed on a capital bonding bill that will infuse construction money into the Vermont economy. And, not to be forgotten, we acted to pass landmark sex offender legislation and enhance our state's online sex offender registry.

However, these important accomplishments will be overshadowed if the Legislature fails to address the unfinished business left when you adjourned last Saturday – specifically, reaching agreement on a balanced and sustainable budget that includes investments and reforms essential for job creation and economic growth. A growing number of Vermonters share my concern that steps taken by the General Assembly this session are only short term patches that set our state on a dangerous course for years to come. The Legislature's action – and, in some cases, inaction – will have a profound impact on employers and runs counter to a speedy and robust economic recovery. For these reasons, the Legislature's work this session is incomplete.

It is unfortunate that many urgent fiscal issues facing Vermont did not receive an adequate airing during the session. As a result, many legislators – through no fault of their own – may not realize that the Legislature’s budget leaves a \$67 million General Fund deficit in fiscal 2011 and a gaping \$141 million hole in fiscal 2012 when federal stimulus monies run dry. Members may not know that your budget raises \$9.3 million in income taxes with over \$5.5 million of those new taxes coming from small businesses and farms. They may not know that this budget could hinder economic growth well into the future by cutting workforce training money, which could jeopardize up to \$7.2 million in federal stimulus dollars, and zeroes out Next Generation scholarships for over 600 Vermont students.

Members may not know that while your budget reduces some programs, others are increasing at dramatic levels. Despite base revenues *decreasing* by 5.58%, your budget actually *increases* overall spending by 3.11% – well above the current rate of inflation – using one-time federal stimulus money. Human service programs alone will grow nearly \$150 million in the Legislature’s budget, a 5.5% increase. I have attached information documenting this growth in human service spending.

And your members may be interested to learn that the *New York Times* recently ranked Vermont #1 in the nation for government assistance across six categories of social services, while *Forbes* magazine ranks us #1 as the highest taxed state in the nation. I have attached both reports for your information. They put in context how your budget raises already high taxes to support aid programs that are already the very best in the country. This unsustainable course is fiscally irresponsible and disrespects beleaguered taxpayers who support our state’s platinum level programs, especially as working families struggle with the effects of this Great Recession.

I have made Vermont’s economic health my primary mission as Governor and welcome an open dialogue about our competing approaches to fiscal stewardship. It is an important discussion for legislators and, indeed, all Vermonters. On Tuesday, May 19, my Administration will once again detail a responsible approach to meeting the fiscal challenges that face our state in fiscal 2010 and beyond – while protecting vulnerable Vermonters and investing in economic recovery. My plan will seek to balance the Legislature’s desire for higher taxes with the need for ongoing financial sustainability.

That said, I do not expect my ideas will satisfy your demands. Although I have pushed for us to stay at the table to find common ground, you have consistently held that your respective caucuses are unwilling to budge beyond their current position – a stance that makes reaching true compromise impossible. It is evident from your comments in recent press reports, as well as from our Wednesday meeting, that any of my ideas and plans short of your position will be dismissed since your members are quite “comfortable” with your budget. With the clock ticking – there are only 46 days until the next budget year begins – no one should be “comfortable” with our present dilemma.

It is unfortunate that you are unwilling to attempt to find a moderate compromise supported by a multi-partisan coalition of lawmakers – one that includes Republicans, Democrats, Progressives and Independents – that represents the views and opinions held by most

Vermonters. Rather you seem intent on a budget that satisfies more fiscally liberal members of your caucus, even if that comes at the expense of fiscal prudence. If my only choice is between allowing your fiscal 2010 budget to become law or a veto, I must choose veto. I cannot abandon Vermonters' long-term economic security for short-lived political accord.

For these reasons, I am calling for a special session of the General Assembly on Tuesday, June 2, 2009 to deal expressly with the state budget and related job creation investments. I have messaged a proclamation to that effect to the Secretary of the Senate and the Clerk of the House. Further, I respectfully request you to direct legislative clerks to expedite their review of H. 441, *An Act Making Appropriations for the Support of Government*, and speed it to my desk for action within the week.

I further request that the first order of business for the special session be to decide the fate of H. 441. It is clearly evident that budget negotiations cannot begin in earnest until you and your members have the opportunity to enforce your political will.

On any given day, on any given issue, your supermajorities can override my veto. If this budget becomes law over my veto – and despite my repeated attempts to forge a compromise that puts the public interest over special interests – I am prepared to accept that outcome. But understand that what you reap is what you sow; the adverse effects of your tax and spending choices will ripple through the Vermont economy for years to come and those consequences will be your sole responsibility.

Fiscal 2010 Budget Overview

Attached for your review are the documents distributed by the Joint Fiscal Office (JFO) during your budget considerations. My Administration believes that this presentation minimizes the risks embedded in H. 441 as passed. These documents, however, illustrate the fiscal hazards which the Legislature left unattended.

I urge you to review carefully the consequences of H. 441 as found on line 10 of “GF Bal After ARRA.” The budget you passed results in General Fund deficits of \$67.38 million in fiscal 2011 and \$141.59 million in fiscal 2012. As you know, work on the fiscal 2011 budget begins just a few short months from now.

The magnitude of these deficits is huge and I am concerned that your budget provides no path or solutions for these deficits. You have an obligation to be upfront with Vermonters about these deficits in your budget proposals. Vermonters deserve to know which additional taxes you plan to increase beyond those already proposed in H. 441 or which cuts are you willing to make to close these gaps. Waiting until next year to inform Vermonters of this choice is not a responsible option.

I cannot follow legislative leaders and lead Vermonters down a path, inclusive of tax increases that results in growing deficits of over \$200 million in the next two years.

Also, attached is the JFO's Education Fund Outlook, inclusive of H. 12 Adjustments. This presentation shows that 2010 property tax rates will drop by only one cent despite a 6.9% increase in the education grand list.

Like the Legislature, I proposed changes in the Education Fund to free up general funds to support important human services programs. However, unlike the Legislature, I proposed a cap on school spending that protected property taxpayers. In the context of the rapid growth in school budgets and the significant decline in the number of students in our schools over recent years, I believe a one year cap on school spending is justified as a path to protecting human services programs while avoiding higher taxes.

Budget: Tax Increases

Your budget includes increases in income taxes, estate taxes, property taxes, liquor tax, cigarette taxes, tobacco taxes, taxes on computer downloads – and, of course, this is on top of an increased gas and diesel tax in the transportation bill. As I have stated many times, Vermont has one of the highest – if not the highest – tax burden of any state in the country. For years I've heard legislators and pundits dismiss, although unsuccessfully, studies and reports showing our rarified ranking. That said, you don't need another study: just ask any low or middle income working Vermonter if he or she is paying too much in property or income taxes and you'll get your answer unequivocally.

Throughout the budget process I have made my opposition to increased and new taxes on Vermonters very clear. And you were equally clear that \$26 million in higher taxes is important to you. I was ready to meet you half way – on common ground – so that we can advance a budget that protects both those who depend on government services and the taxpayers whose hard earned dollars support our government. By walking away from our negotiations, you chose to move forward with a budget that runs counter to job creation and economic recovery.

The foundation of your proposal to treat unearned income like earned income – to tax folks who work for a living at the same rate as those who live off trusts and investments – is admirable and just. I made a similar proposal in 2006, albeit with several key differences. My proposal excluded Vermonters over 65 years old who may be living off retirement savings, as well as farmers and loggers who take capital gains as a course of business.

My proposal also had the expressed purpose of infusing every dollar raised through altering the capital gains exemption into reduced tax rates across our very high and very progressive marginal rate structure. I stood firm that these tax changes not be a vehicle for more government spending.

The tax proposal you offered in H.441 fundamentally diverges from my original proposal in two key ways: a) it raises \$9.3 million more in income tax than is used to reduce rates, exacerbating already high income taxes; and b) rather than addressing inequity, it severely punishes small businesses and farms – completely contrary to economic recovery.

First, the combined tax hit for changes in capital gains exclusion (+\$16.2 million) and limiting deductions (+\$15.5 million) is \$31.7 million. Your proposal only drops rates by \$22.4 million with the \$9.3 million tax increase going to business-as-usual General Fund spending.

Of that \$9.3 million increase, \$5.5 million is borne directly by small businesses and farms that run their businesses through their income tax returns and as a result of the combined effect of eliminating both the capital gains and state tax exemptions. Under your plan, 2,003 Vermont businesses and farms would pay an average of \$3,052 *more* in income taxes per year – and that is with the lower tax rates you propose. Attached you will find information from the Vermont Department of Taxes that demonstrates the impact on small businesses. When the state decoupled from the federal income tax in 2001, these exemptions were implemented to add a level of fairness to those impacted by decoupling. In other words, these exemptions provided equity for our current tax system. Capping or eliminating these exemptions without using all the savings to flattening our brackets would lead to a less fair system – precisely the opposite of your stated purpose.

Further, this major change in tax policy was added in the final hours of the legislative session without full committee review or testimony from the public, and clearly with little or no consideration of the impact this would have on Vermont's struggling small businesses.

This change, coupled with the increased unemployment insurance costs, higher gas taxes, higher electric rates and other increased costs will have a devastating impact not only on these businesses and farms, but on the Vermonters they employ. The Democratic supermajorities would be well-served to follow the counsel of President Obama, who has noted that state and local tax increases run counter to economic recovery. Of state and local tax increases to avoid, I would place a tax on small businesses and farms in the first order.

Budget: Spending Priorities

Any long term and lasting solutions to our budget challenges must involve and address the need for cost containment in education spending. The post-ARRA education fund proposal that my administration presented to the General Assembly in March was geared toward finding a balance between the need to fund education and the need to protect important human service programs. Placing the responsibility for teachers' retirement in the Education Fund – where it rightly belongs – will help protect General Funds from devastating cuts in human service programs in future years.

As I've said before, the assertion that my plan would raise property taxes demonstrates either a lack of understanding of the plan or just plain old political spin. What my education plan actually does is protect taxpayers through a cap on education spending.

My administration is committed to finding a lasting solution to soaring property taxes and has offered numerous proposals to slow the spending growth from the Education Fund to a sustainable level that protects property taxpayers. Until you accept that in order to build a sustainable budget for years to come it must include cost containment in education spending, the resolution that Vermonters are begging for will be beyond their grasp.

As I've said before, a budget is a statement of priorities. And at this time in our state's history, it's essential that we get our priorities right. At a time of declining revenues, we must focus on those state government functions that Vermonters need in order to get by and those programs that will help us build a more robust economy and create better opportunities for the people we serve. Everything else can wait.

With so many Vermonters out of work and looking to improve their skill-set to compete for jobs and with young Vermonters struggling to afford the college degree that will help them build our 21st century economy, I cannot understand why this budget eliminates funding for Next Generation programs, but instead increases funding for the Vermont Housing and Conservation Board (VHCB). I certainly support protecting our forests and open spaces, however, I believe that our continued investment in future generations – tomorrow's nurses, engineers, police officers and inventors – is far more important, especially at this time.

Although you've noted a \$6.3 million cut to the VHCB on your list of budget reductions, facts pulled directly from the budget tell a decidedly different tale. Through general fund appropriations, federal ARRA money and capital money, VHCB looks to gain at least another \$6–7 million in program funds, with as much as \$500,000 of that for administrative expenses. The effect of your budget decision will result in more than \$6 million for a non-essential program at the expense of over 600 Vermonters whose dream of attending college could be dashed.

In human services, I proposed curbing assistance to Reach Up (TANF) recipients who remain on state welfare assistance for over 60 months – *that's five years* – after they've failed to meet their work requirement. It is difficult to understand why lawmakers rejected this modest but important change and instead chose to allow a brand new human service program – an offshoot of the Reach Up program – to begin, while trimming back services in existing and proven programs.

I have heard your public comments that you cannot go any further in making reductions to the state budget. Statements such as “draconian,” “devastating” and “cut to the bone and into the marrow” have been used to express just how painful reductions would be to programs and services. I know any reductions can be difficult, but the rhetoric surrounding our budget realities is misleading. In fact, the budget for human services has been increased by \$150 million for fiscal 2010. That means that even in this deep economic contraction, with revenues below fiscal 2006 levels, we are providing 5.5% greater resources for our human services needs. It is simply inaccurate to portray a 5.5% increase as cut to human services.

Vermonters are rightly proud of our generosity and of the programs and services we provide at the state and local levels. As I have already indicated, a report by the *New York Times* ranks Vermont as the most generous state in terms of government aid across six categories. According to the study, Vermont ranks near the top of all states in our share of poor children and parents who receive cash welfare; our share of eligible people who receive food stamps; our share of uninsured poor adults covered by government health insurance programs; and our share of uninsured low-income children covered by government health insurance programs. No one

can claim that Vermont does not take care of its most vulnerable, and even now – even with the reductions being considered – we are proudly upholding that commitment.

But we cannot be blind to the struggles of those Vermonters who do not receive state assistance – those working families who pay the taxes that support these programs and services and who are struggling themselves to pay the bills. How can we ask working Vermonters to pay higher taxes when we are receiving hundreds of millions from the federal government and already have the nation's most generous social programs?

Budget: Questionable Budget Language

In your rush to pass a budget in the final days of the session, policy language, studies and reports were added that further complicate the state's work and distract from our focus on building a responsible budget and planning for the future.

Your bill forces the administration to conduct a whopping 40 new studies and reports, more than double the 17 reports we were required to do last year. Each of these reports and studies requires state employees to take valuable time away from the programs they administer and the people they serve. Additionally, in the budget bill alone, there are 4 legislative led studies that will require a minimum of 15 legislators to continue their work into the summer.

Not only do these reports and studies take staff time away from more pressing work but they will cost Vermonters tens of thousands of dollars to conduct. And we all know from our many years in public service that the vast majority of studies and reports required by the Legislature go unread.

The most troubling sections of these last-minute language additions involve your desire to interfere with the relationship between the Administration and the Vermont State Employees Association (VSEA).

As in our federal system, the structure of Vermont state government provides for three coequal branches of government that serve distinct and necessary functions. This separation preserves liberties and tempers the power of any one branch. Just as the Legislative branch has the prerogative to propose and pass legislation, the Executive branch is charged with executing the functions of government. Legislative micromanagement over the Executive interferes with the proper workings of our government and impairs the state's ability to efficiently and effectively carry out necessary work the people demand and deserve.

In particular, the Legislature's insertion into negotiations between the Executive and VSEA raises issues of the separation of powers. As you know, in the last decade, our labor costs have risen nearly 70% and funding the workforce at current levels is unsustainable. We sought \$17 million in long-term labor savings through a 5% pay reduction and other savings measures. Layoffs have never been our first choice, but because the VSEA has been unwilling to agree to even minor concessions, we are left with no options but to continue the reductions in force process.

Further, language in the budget stipulates that if negotiations between the Administration and the VSEA are unsuccessful, no reductions in force shall take place unless approved by the Joint Fiscal Committee. It is the obligation of the Executive branch and its department heads to use their expertise and familiarity with their departments to manage their workforce and make cuts in the least disruptive manner possible. The budget language impedes this responsibility to carry out our constitutionally-assigned function and clearly disrupts the separation of powers between the Legislature and the Executive. Executive authority to manage the state labor force would be fundamentally impaired by the Legislature's unprecedented interference.

The 11th hour insertion of language to create a State Employee Retirement Incentive program is fraught with problems. The core idea merits study and may, if properly structured, provide long-term labor savings for the state. That said, the language added to the budget lacks the careful study and analysis needed to turn a good concept into a good program.

There have been no data collected on the effectiveness of such a plan. In fact, your proposal retirement incentive plan may lead to *increased* costs to the state. And while the Legislature has often mistakenly argued that the Administration does not have a comprehensive plan to reduce the size of state government, a retirement incentive proposal would by nature be scattershot.

Encouraging experienced employees to take early retirement may require two or more less experienced employees to handle the workload or lead to a reduced level of service. Additionally, the Administration would have little to no control over the proportion of staff reductions in different areas of government. That is to say, one Agency may be disproportionately affected by this proposal, leading to a profound impact on programs and services.

This proposal also allows an employee who takes advantage of this program to return to state service as an employee after one year in retirement. That means the State could pay a lump sum up to \$15,000 to a state employee who are retirement eligible only to have him or her return to the state payroll.

The "Health Insurance Share Guarantee" provision was drafted in such a way that may unintentionally provide benefits that are not currently available to retirees. While group health insurance is the only insurance available to retirees, the language in the budget could be interpreted to indicate payment for any primary or secondary coverage. This provision may also promise coverage for the employee and his or her dependents for at least 10 years; currently, dependents cannot continue coverage past age 22. This language could obligate the State to provide coverage for additional years beyond what is now allowed.

Finally, and most concerning, this major policy change has not been debated, evaluated or considered for the potential impact on the state budget. With such a tight budget, we have little room to experiment with taxpayer money.

Job Creation & Economic Development

A balanced budget that can be sustained by taxpayers is the necessary foundation on which to build a vibrant economy. But that is only half of what is needed to preserve government services, create jobs and put Vermonters back on the path to prosperity. A responsible budget and targeted investments in job creation are both necessary to meet the needs of Vermonters for this and years to come.

Nearly 26,000 of our friends, neighbors and family members are out of work. While our 7.2% jobless rate is below the national average, it is as high as it has been in nearly two decades. We all know that this recession will eventually end; the question that we must answer, however, is will we emerge stronger and more resilient than before, with greater job opportunities for this and new generations of Vermonters? I believe the answer can, and must be yes.

The path forward is not uncharted. Just last year, when the downturn was beginning to manifest, we demonstrated our ability to move quickly with the passage of the Economic Growth Initiative. Even in the worst economic climate in decades, the initiatives advanced in that plan have borne real results. Of the Sales Tax Holiday, one retailer told me he did more sales in one day than he had in the preceding month. Another indicated that because of the boost it gave his business he did not have to close one of his locations and lay off employees. It also gave low and middle-income families a well deserved break on items such as furniture and appliances.

I hear repeatedly from new businesses locating in Vermont that economic development tools like Green VEGI – which was part of the Economic Growth Initiative – were some of the most important reasons for their decision to locate in Vermont. In fact, one company that recently hired several dozen Vermonters in Franklin County stated that the Vermont Training Program – which was cut by \$700,000 in your budget – was one of the primary reasons they chose Vermont. These economic development initiatives are tools that affect the lives of Vermonters and can be the difference between a paycheck and an unemployment check for thousands of our friends and neighbors.

During last fall's campaign season, the vast majority of Vermonters I talked to told me that they wanted bold action to create jobs and economic opportunity in our state. I am sure that you, and every other candidate for office, heard the same. Since November more Vermont businesses have reduced their workforces, cut back hours or taken other cost saving measures to stay afloat. Unfortunately, some have been forced to close all together. Our urgency has only become greater.

That is why at the outset of this legislative session I asked that the Legislature pass a comprehensive package of economic development reforms within the first 100 days. Although some worked very hard on an economic development bill – especially Senator Vince Illuzzi and his committee – and while the final bill contains some provisions that will help our businesses, this legislation is far from the comprehensive package Vermonters sought.

In fact, one highly respected economist, University of Vermont Professor Art Woolf characterized the bill as at best “milquetoast,” saying, “There's basically nothing in this bill that

in the short run is going to materially affect the economy, given the depth of the recession we're in. Politicians always want to be seen as doing something, so this is one of those bills they can point to and say they're doing something. In reality, I think the economic impact is very minor.”

The decision to remove the Research and Development (R&D) Tax Credit, which passed the Senate, from the final economic development bill is not only a missed opportunity, it puts Vermont at a competitive disadvantage as we compete for high-tech, green and emerging industries. Forty-one other states have an R&D Tax Credit to complement the federal credit. We must do all we can to attract these types of businesses because they provide high-wage, stable employment for Vermonters.

While I was pleased that the Legislature passed limited reforms to the permit process, the kind of comprehensive permit reform that will spur employment in the building trades and help put homeownership in reach of more Vermont families was not achieved.

But perhaps most disappointing of all is your lack of attention to *SmartVermont* – my bold proposal to leverage the \$17.1 million in American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds (SFSF) into over \$150 million in job creation investments. While H.441 uses \$8.5 million of these funds, \$4.4 million is used to supplant base funding in the public safety budget – a dangerous precedent itself – leaving only \$4.1 million for economic development. This is only \$4.1 million of the \$11 million that we can draw down this fiscal year. I am prepared to offer alternative reductions in the General Fund to make this money available for investments in job creation around the state.

Building up our base spending as revenues continue to decline will only exacerbate our challenges in the coming two years as we seek to manage our budget challenges without the aid of ARRA dollars. In order for us to really jumpstart job creation, we need to infuse every possible ARRA dollar into our economy.

The failure to act boldly on job creation, combined with the detrimental effects your budget will have on small businesses leaves me greatly concerned about our ability to position Vermont as a place to do business for the next decade and beyond. I hope that when you return you will reconsider your approach to economic development.

UI Trust Fund

Possibly the most detrimental action or inaction for employers this session was your unwillingness to offer even a temporary fix to the Unemployment Insurance Trust Fund. We all agree that the need to address the downward trajectory of the fund is urgent. At a press conference during the Legislature’s Town Meeting break, both of you pledged to call a meeting with businesses leaders to find a solution to this challenge. Unfortunately, the Legislature adjourned without taking any action on this critical issue.

Throughout the session, my Administration worked closely with business groups and lawmakers to find a balanced and acceptable solution. I highlighted the issue in my Budget Address and Labor Commissioner Pat Moulton Powden repeatedly sounded her concerns to both

of you and to the committees of jurisdiction regarding the cost of inaction. Without changes, Vermont will face a \$160 million deficit in the fund by the end of next year. This will require the state to borrow even more from the federal government – costing Vermont employers millions in foregone tax benefits at the federal level – and draining General Fund resources to pay the interest on the debt. I have attached documents highlighting the severity of this problem.

While employers are understandably concerned about the increased unemployment insurance tax, especially in these difficult economic times, they recognize that a balanced approach that makes reasonable adjustments to both benefits and the wage base is in the best long-term interest of all Vermonters. In fact, they have actively lobbied to draw attention to this pressing issue.

Any solution – even an interim patch – must be a balanced approach. Small businesses agree that higher UI taxes will have to be part of the solution, but so too must modest benefit reductions. The assertion that reducing the weekly benefit by just \$16 from \$425 per week to \$409 will have a negative effect on our economy is quite overstated. It is also fair and reasonable to say that an employee who is relieved from a job for misconduct or inappropriate behavior should not be permitted to receive UI benefits. Further, it would be more than appropriate for Vermont to tie duration of benefits to the length of time of employment. We are one of only 9 states that have a fixed duration of benefits – and with federal extensions that are now up to 72 weeks – regardless of how many weeks you have worked.

These modest changes pale to the long-term cost of failing to address this problem. I renew my urgent request that the Legislature address unemployment insurance at the first available opportunity.

Conclusion

Vermonters need their elected representatives to consider the impacts of their actions and inactions, not just this year but for the years ahead. As I have said, I am proud that we were able to work together during the past four months to address some of the issues Vermonters needed us to address.

In far too many cases, however, the Legislature failed to provide adequate solutions to our largest challenges. The budget you passed exacerbates our fiscal challenges in future years with huge deficits just around the corner. Many of your budget priorities run counter to economic development at a time when hardworking Vermonters need their government to do everything it can to support job creation. Income tax hikes on small businesses and farms will have a costly impact on these pillars of our economy that provide employment for so many Vermonters. The decision to eliminate funds for training and scholarships, and instead to increase funding for VHCB, are examples of misplaced priorities that endanger the economic future of our state.

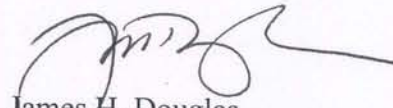
Although a modest economic development bill was passed in the final hours of the session, more still must be done to encourage economic growth in Vermont. An R&D tax credit,

Sales Tax Holiday and other proven economic development tools are needed to help employers and their employees weather this storm and grow out of the recession. And by failing to make commonsense, reasonable changes to deal with the challenges of the UI Trust Fund, Vermont businesses and state government are on the hook for a \$160 million deficit by the end of next year.

While we are rightly proud of our generosity, we must be mindful of the costs that taxpayers bear in supporting programs and services. A growing and vibrant economy, together with a balanced and sustainable budget is absolutely necessary to maintain the high level of services state government provides. We cannot keep looking to taxpayers to make the tough choices when government is unwilling to limit its own spending. The deficits for fiscal 2011 and 2012 projected in your budget will require even greater tax increases, even deeper cuts or both to deal with the problem.

Vermonters expect us to work together and I hope that when you come back we can address what was left undone this session and fix what is broken in the Legislature's budget.

Sincerely,

A handwritten signature in black ink, appearing to read 'JD', with a long horizontal flourish extending to the right.

James H. Douglas
Governor

Enclosures
JHD/tyh