

Budget Address
Governor Peter Shumlin
January 15, 2014

Mr. President, Mr. Speaker, members of the General Assembly, distinguished guests, and fellow Vermonters:

Good things are happening all across our great state. Vermont's unemployment rate is the fifth lowest in America, and the lowest this side of the Mississippi. Jobs have rebounded from the depths of the recession, with over 11,000 new jobs created since I first spoke to you three years ago. In the last year alone, we have seen 2,000 jobs created in our manufacturing and professional services sectors, with our wages rising faster than inflation.

This broad-based growth has kept Vermont's economy diverse, as we draw world-wide attention for our award-winning products: cheeses, artisan furniture, craft beers and spirits, and many others born from the creativity of our hands and the abundance of our lands. Our downtowns are on the comeback as vibrant centers for jobs, retail, and residential life, from Brattleboro to Barre, Newport to St. Albans and Rutland. Visitors from around the globe continue to come to Vermont to ski and hike our mountains, stay at our inns and resorts, and enjoy our state's beautiful outdoors.

Today, I am honored to present my fourth budget, one that is balanced and fiscally restrained. It invests in areas critical to our most vulnerable and to our future job growth, while rejecting broad-based tax increases on hardworking Vermonters. It keeps our reserves full, and our pension contributions funded at the recommended levels. It matches Montpelier's appetite for spending with Vermonters' ability to pay.

Once again it will require discipline to meet the \$71 million gap between our projected revenues and spending. The President and Congress, and our great federal delegation, helped all states through one of the worst downturns in American history by sending hundreds of billions of dollars in stimulus. That funding is now over. Instead Washington is now cutting back on key programs that help our most vulnerable. But the good news is that as we have been creating jobs, our General Fund revenues have been recovering, up \$178 million in the past three years and projected to be more than \$250 million after this next fiscal year.

So our challenge in balancing the budget is not to eviscerate worthwhile programs serving Vermonters, but instead to curb the rate of growth and bring our programs back in line with our revenue. Over the past five budgets, we have relied on between \$44 and \$55 million in one-time funds to balance our books, a trend we know we must reduce. Today, I present you with a budget that closes our gap by relying on only \$30 million in one-time funds, about half as much as last year. Accounting

for replacement of one-time funds in this year's budget, my spending proposal for Fiscal Year 15 will rise by 3.56%.

Every spending proposal I have pursued as Governor has been designed to promote economic development and prosperity for all Vermonters. This budget is no different. It keeps our promise to invest in our infrastructure and in our people, and it relies on a unified, coordinated strategy, targeting every sector of our economy and every one of our communities.

To accomplish our vision, we are continuing to focus on the big things that will make the difference:

- Help families raise healthy children;
- Create the best education system in America, to assure that more of our kids move beyond high school into good paying, high-skilled jobs;
- Support our businesses, our downtowns, and our job growth;
- Provide access to quality, affordable health care; and
- Protect our environment and quality of life that is, I believe, unrivaled in America.

Education delivers economic opportunity.

I'm very proud to have Rebecca Holcombe, an extraordinary educator and policy leader, as our new Secretary of Education. Welcome Rebecca!

Vermont continues to lead the country in our educational enterprise. More than 90% of our kids are graduating from high school, the highest rate in the nation. Thanks to your help last year, we now can finally move more of our low income kids beyond high school through flexible, individualized education, and opportunities for dual enrollment and early college. Better education and training beyond high school means more of our kids will grow up ready for the high-skilled, well-paying jobs that our companies are creating. We will make even greater progress if you pass the Vermont Strong Scholars proposal I brought you last year, giving a full year of free tuition to those who choose to enter STEM jobs in Vermont after attending one of the Vermont State Colleges or UVM.

Even in these tough budget times, I propose to continue our investment in higher education by including an additional 2% increase beginning in January 2015 for our state colleges and university, the second consecutive annual increase after five years of level funding.

Better educating our youngest will give us the greatest return on our investment. We know that kids with great family support and high-quality early education do better in school, earn higher wages as adults, and are less likely to go on welfare or go to jail.

Thanks to our success in obtaining the \$37 million Race to the Top grant, we now have a tremendous opportunity to build the foundation for this healthy start, especially for children born into poverty. As I said last week, if you send me the universal

pre-kindergarten bill that passed the House last spring, we will help give all of our kids a strong start.

While I am incredibly proud of the progress we have made together on education, I am not at all happy that Vermonters will once again bear an increase of five to seven cents in the statewide property tax rate next year based upon projections for local school spending.

There have been reports of significant school budget increases proposed in communities large and small across our state. We all understand the tremendous value we receive from investing in our kids. None of us, however, can afford higher spending and higher property taxes year after year, while our overall student population continues to decline. I urge Vermonters at town meetings across our state this year to carefully scrutinize school budgets that increase per pupil spending and grow faster than our incomes. Look hard to see if you can achieve savings for better outcomes at a lower cost. Remember, you have the power to determine your school budgets, but you can't make a difference if you don't participate.

To do our part here in Montpelier, this past year we increased the portion of the Sales and Use Tax going to the Education Fund, adding \$9.5 million to help keep property taxes lower. My budget proposal fully funds the required transfer to the Education Fund in Fiscal Year 2015.

I also thank you for hosting with me yesterday a forum of national and local experts to address rising property taxes. We all know that there are no easy answers, and that the state

funding system can burden local districts that are trying to do the right thing. I pledge to work with you this year to look at the facts and explore any options that would improve our school funding system.

This year we must also address one of our most difficult long-term fiscal problems by fixing how we pay for health insurance for retired teachers. The problem is that, right now, we really are not paying for it, because the state never established an explicit funding source for this obligation. For decades, the annual costs of retired teacher health insurance premiums have been taken right out of the state teacher pension fund itself. Treasurer Pearce, Speaker Smith, Pro Tem Campbell, our teachers, and many others have been working together with us on a phased in, permanent solution. I have proposed \$2.5 million in this budget to help get this done, working in partnership to find a responsible fix this session.

A few weeks ago, I announced my support for increased funding for initiatives designed to help move Vermonters out of poverty. In these challenging times, as the federal government continues to make shortsighted cuts that hurt our most vulnerable, our state must do what we can to blunt the damage by allocating our limited resources wisely.

That is why my budget includes the following additional funds to support Vermonters in need:

- A doubling of the Vermont Rental Subsidy to \$1,000,000

with \$200,000 in additional funds for Family Supportive Housing, so we can help prevent homelessness in the first place;

- An increase of \$300,000 for the Emergency Solutions Grant to help support homeless shelters, so that no one freezes in the streets;
- Increased support for children, including an \$800,000 boost to childcare centers that provide the highest quality care and an additional \$740,000 for families in need, so that more low income children can get a strong start; and
- An increase of \$650,000 in funds for substance abuse and mental health treatment services for Reach Up recipients, to help remove barriers to work and economic independence.

We have paid for these increases from growth in the Property Transfer Tax and our base general fund without program cuts, and I ask for your support.

I have also included in this budget new funding to support the ambitious drug abuse prevention and treatment agenda I laid out for you last week. This new funding will mean a 14% increase in prevention services and a nearly 40% increase in treatment services for those who are suffering from addiction.

We are also on track to create the best community-based mental health care system in the country. We are building

state-of-the-art bricks and mortar and expanding community-based care: securing 14 acute care beds in Brattleboro and 6 in Rutland; opening a 7-bed Secure Therapeutic Center in Middlesex; and expanding the number of our statewide intensive residential and crisis beds. Our new, therapeutic 25-bed hospital in Berlin will open this summer.

None of us can expect success in delivering on our promise of a top-quality, healing mental health care system if we deny timely treatment to our most critically ill patients when they most need it. We are an outlier among the states, because it takes so long for treatment decisions to wind their way through our court system. While it is critical that we continue to protect patient rights, so too is it critical that we support those patients by ending the practice of leaving them for weeks and weeks without judicial resolution, delaying their recovery, placing caregivers and others at risk, and preventing us from serving other patients in need. I ask for your thoughtful guidance and help to fix this problem this session.

We will also continue to push for the best health care system in the nation. My budget proposes a 2% increase in Medicaid reimbursement rates starting in 2015 for our hardworking providers, to help reduce the cost-shift for those of us who pay private insurance.

There has been a lot of focus on the troubled rollout of the federally-mandated exchange. I am very disappointed, and I take responsibility for it. But the difficult rollout of the

exchanges here and across America should remind us once again that we need – we deserve – and we can have – simple, universal, affordable, comprehensive health care for all, where costs are sustainable and access to quality care is guaranteed because you are a Vermonter.

Al Gobeille and the Green Mountain Health Care Board are working with our hospitals, doctors and providers, consumers and our business community to control costs and reform our payment system. This is a partnership that is, I believe, without precedent in any other state. They are moving us to a more rational system that reimburses for quality of care, not quantity. I believe that their success, combined with a fair way to pay for it, will be a recipe for job growth unrivalled in the country.

Coming out of one of the worst downturns in American history, Vermont's economy continues to make great strides.

Last year, we retired our Unemployment Insurance Trust Fund loan more than 15 months earlier than projected, saving taxpayers \$700,000 in interest and employers nearly \$12 million in federal payments, while providing relief to businesses that suffered layoffs due to Tropical Storm Irene.

My proposed budget maintains our commitment to job growth by:

- Providing \$3.3 million of support through the Next Generation Fund;

- Expanding the Registered Apprenticeship program and the On-the-Job-Training program to engage more Vermonters who are looking to “earn while you learn”; and
- Increasing funding by 9% to our hardworking Regional Development Corporations, the Vermont Employee Ownership Center, and the Small Business Development Center.

In 2013, Vermont signed up its 1,000th captive insurance company, as we remain the leader in this global industry. Every year, the Vermont captive industry brings in more than \$20 million to the state, supporting more than 1,400 well-paying jobs.

This year, we have a chance to get a jump start on a new opportunity. The Legacy Insurance Management Act – called LIMA – creates specialized Vermont-based insurance companies that help other companies consolidate policies and redeploy capital. This could be the next success in our efforts to serve as a specialized global financial services destination. Patterned after Vermont’s captives sector, LIMA would add tax revenue and skilled, well-paying financial jobs. The House passed enabling legislation for this last year, and I hope to see it on my desk this session.

My administration is also doing more to keep capital circulating in the state for the benefit of our local companies. By revising our state securities rules to allow far greater participation in local investment through the Vermont Small Business Offering Exemption, we can help Vermont companies raise the capital

they need right here in Vermont. To accomplish this, my Department of Financial Regulation will implement new rules doubling to \$1 million the cap on these investments.

Burlington was just named one of the top-ten emerging tech cities in the United States. Ever since IBM CEO Tom Watson had the wisdom to build a plant here in Vermont to stimulate our economy, Vermont has been a leader in technology. Back then, our jobless rate was 12% and there was no tech industry. Now, our tech industry is a significant multiplier in our economy. It has spawned a culture of innovation that has resulted in many booming businesses, millions of dollars of development and other capital investment, and a cascading effect of jobs within our communities.

High tech jobs and high skilled engineering are helping Vermont companies become national and global leaders. Think: Dealer.com; My Web Grocer; Dynapower; BioTek; Chroma; Global Z; Logic Supply; GW Plastics; and Green Mountain Digital, to name just a few. What they make is vastly different, but what makes each company successful is the innovative thinking and skilled R&D that goes into their products. Jobs are the result: one engineering or development job can generate 20 more jobs in production and manufacturing.

But Vermont must compete to recruit and retain these companies, and the stakes are higher than ever. That is why I have asked my team to work together with you this session on further ways to encourage and grow technology development

leading to even more manufacturing and job growth right here in Vermont.

We can't grow jobs and enhance our quality of life in Vermont without maintaining a great transportation system.

Early in my Administration, we made the tough call to end the state's decades-long, \$100 million Circ Highway saga. We launched a collaborative community process to examine and identify practical, achievable 21st century solutions to Chittenden County's traffic congestion. We are now moving forward with wide consensus on new, common-sense projects to meet these needs.

We have also paved more than 800 miles of road—25% of our system – and moved the portion of state roads in “very poor condition” from 34% in 2009 to just under 22% today; and have made similar progress rehabilitating more than 100 bridges.

To continue this great progress, my budget proposal includes \$686 million for transportation – an increase of \$33 million over last year. This is the biggest investment in our transportation system in our state's history, and I ask for your support.

This funding will allow us to:

- Repair or replace over 100 more bridges, and perform preventive maintenance on dozens more structures;
- Lay 300 more miles of pavement statewide;

- Expand car and vanpooling, and our bus network, which saw increased ridership again last year; and
- Support the establishment of a “Green Highway” with electric vehicle charging stations connecting Montreal to Montpelier, and beyond in New England.

On rail, we took a giant leap forward when we secured another federal grant of \$9 million to fund the rebirth of the western corridor. Our rail team is moving projects faster than ever to connect downtown Burlington to Rutland to Bennington to Albany, and on to New York City. My budget proposes \$19 million to extend these improvements, bringing us closer to our goal of growing jobs and economic opportunity by delivering better freight and passenger rail service up and down the western side of Vermont.

We build commerce and a healthier, greener Vermont when we invest in our roads, bridges, rail, buses, airports, sidewalks and bike paths. We also help put Vermonters to work. Every \$1 million of transportation spending creates and sustains about 48 jobs. Our \$686 million dollar investment in transportation will represent thousands of jobs for Vermonters.

Especially in a winter like this one, with our dedicated VTrans crews out there clearing the way to keep us safe, we appreciate how critical it is to support this effort. We must continue rebuilding our aging transportation network to make up for the maintenance and repair neglected for years so that we provide Vermonters with good roads and strong bridges once again.

Our downtowns and village centers define the Vermont way of life. In these past three years, we have supported our downtowns to grow jobs, increase housing, and help our environment.

- We prioritized the redevelopment of the State Office Complex to help Waterbury recover from Irene;
- We are anchoring a state-of-the-art office building in Barre, bringing hundreds of jobs close to the restaurants and shops in the beautifully restored downtown;
- We provided funds for Vermont Technical College and Community College of Vermont to expand and locate campuses in the renovated Brooks Building, healing the burned-out heart of downtown Brattleboro; and
- We are working with leaders in St. Albans to allow Mylan, one of the area's largest employers, to expand while sparking a redevelopment effort throughout the entire downtown.

The results mean jobs, community pride, and economic growth, all across Vermont. We have seen the benefit all over the state – in Hardwick, Newport, St. Johnsbury, Winooski, Vergennes and elsewhere. One reason this is happening is because of downtown tax credits. Every public dollar in this program brings about \$15 of additional investment, and creates a chain-reaction of other economic improvements.

That is why I ask you to support my budget request of an additional \$500,000 in downtown tax credits, leveraging \$7.5 million more in downtown improvements statewide.

My budget also continues our strong commitment to affordable housing and conservation of our working lands by including a 9% increase for the Vermont Housing and Conservation Board. We continue our support for Farm to Plate and the Vermont Ag Development Program, which have helped fuel the increase of more than 1000 jobs in the local food economy since I took office. We also recognize the tremendous scenic, cultural, environmental, recreational, and economic impact of our Working Lands initiative by for the first time including its funding in the base budget, with a 5% increase.

Our greenhouse gas emissions are now back to a level not seen since 1990, even though our economy has grown significantly since that time. Our renewable energy, conservation, and efficiency policies have helped get us there. Vermont's participation in the Regional Greenhouse Gas Initiative, a model for our country, has generated more than \$3 million for conservation and efficiency this year alone.

This is great progress, but we must do more for our environment. Despite significant investments and well-intentioned initiatives over the years, we are now facing up to the long-standing reality that our lakes and streams have not

improved. Under the leadership of Commissioner David Mears, we are working with the EPA and our communities to have a conversation about common-sense solutions to the water quality problems that have for too long plagued our state and fouled our lakes. My recommended capital budget adjustment includes an additional \$1.1 million to support improving Vermont's water quality.

We are aggressively moving to green, clean, local renewable energy, and the job growth that comes with it.

Vermont's difficult debate about the continued operation of Vermont Yankee is coming to a close. We now can focus on our need to embrace a decommissioning process that best serves Vermonters, and to help those affected by the loss of jobs where I was born, grew up, ran a business, and raised my daughters, in Windham County. They now need our help. We pressed Entergy for timely decommissioning and significant support for jobs and economic transition that will bring more than \$20 million for Windham County, clean energy development, and the state. It is now time to move past years of disputes with Entergy and strive to find common agreement wherever possible going forward, to get this right for Vermont.

Some people have suggested that our investments in renewable energy are costly, and claim that we should stop our progress. These voices are misinformed. Building renewables isn't just good for our planet and for jobs; it is also good for our wallets:

- Our strategy of building local, renewable energy projects while maximizing our energy efficiency is working, already helping us defer nearly \$400 million of transmission costs which our region's ratepayers would otherwise have to pay;
- Our local renewable energy companies are doing their part to lower prices, bringing Standard Offer projects in at half the cost previously projected thanks to last year's move to a new market-based program;
- We expanded renewable energy and efficiency investments by expanding VEDA's Vermont Sustainable Energy Loan Fund; and
- We are saving taxpayers' money by installing solar on many of our state buildings.

The amount of solar in Vermont has more than tripled since I became Governor, and more projects are coming online every month. When we see solar panels on rooftops in our neighborhoods or on our fields, we are often looking at projects made possible by our net metering program. I am committed to continuing and expanding net metering this session, by substantially raising the percentage of peak load that can be supplied by these projects, while ensuring that they remain affordable. With the leadership of people like Chairman Tony Klein and a wide array of our utilities and businesses, I know we can get this right.

To secure our economic success and our children's future in the Green Mountain state we are compelled to keep climbing with every initiative we pursue, never satisfied that our work is done. I know we will continue our progress this session, with the help of your guidance and good judgment. While we will have our differences at times about policy choices, we share – along with the citizens we all represent – a common set of values: community, hard work, and fairness. These common values guide us and they will continue to ensure our success. I look forward to a productive session serving the Vermont we all love. Thank you.