

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

Two weeks ago, I stood before you and outlined what I believe are the major challenges we face, and opportunities to address them.

For those who have been here a while: I don't have to tell you building the budget is never easy.

Year after year, we're faced with many worthy initiatives and programs. It's our job to separate our wants from our needs, make sure we're meeting our goals, determine where we need to do more and where we can get by with less.

This is the difficult task before us. It's a process that forces us to find balance between our hearts and our minds, understanding that each dollar we spend comes directly from hardworking Vermonters, many struggling to get by.

But I'm certain, if we build consensus on solutions, and compromise when we can't, we can come to agreement on a budget that supports everyone by growing our economy, making Vermont more affordable and protecting the most vulnerable.

The budget I present today is balanced and spends within our means, while investing in both our obligations and areas that will give us the highest return.

As I've said many times, I believe our biggest threat is our declining labor force.

It's the root of every problem we face.

To put this in perspective, every county except Chittenden has seen a decline in the number of people working. Every county, including Chittenden, has fewer people available for work.

This makes it incredibly difficult for businesses to recruit new employees and expand, harder for communities to grow and leaves fewer of us to cover the cost of state government. This is the problem.

As our working-age population continues to decline, we simply need more people helping to pay the bills.

Together, we have an opportunity to change this, with policies that better prepare students for a career, keep more of our kids after graduation, provide training for Vermonters so they can get a good job and attract new workers and new families to join our communities.

This is how we can grow our economy and revenues, be better able to support the programs we provide today and meet the needs of an uncertain future.

This work is crucial, because despite having a surplus for the first time in many years, we still face difficult budgeting decisions.

Put simply, the day-to-day operational costs of state government and increasing payments on our debt exceeded growth in our economy.

Without any new investments—just paying the bills—we began building this budget with about a \$40 million gap.

That's just our basic obligations—debt service, pension funding, contracted salary increases, caseload pressures at AHS, clean water and others.

Through this process, I challenged my team to think differently, to question our assumptions and “the way we've always done it,” to think outside the box and to innovate, so that even with these spending pressures, we can make a difference and emerge stronger and more sustainable.

With this in mind, all of us in this chamber today understand the pressures we face with our unfunded liabilities, the future financial commitments for pensions and retiree health plans.

I welcome the opportunity to work together with you and Treasurer Pearce towards a future when our liabilities are fully funded.

And I'm pleased to say this work is already moving forward in the House Appropriations Committee.

My team, the Treasurer and legislators met to share ideas and collaborate on a proposal which will retire a portion of our debt, using \$22.2 million from this year's surplus to pay off a loan currently funding health benefits for retired teachers.

Another \$2.4 million would be used to put ourselves on a path to pre-fund this liability for the first time in history. And if successful, we will have \$75 million in this fund for future retired teachers' health care costs by 2025.

Additionally, directing \$3.3 million of surplus as a pre-payment to the teachers' pension fund will further decrease that liability.

Finally, we can redirect 50 percent of future year surpluses to the retired state employees' health fund to pay those debts as well.

These are examples of the work we've done to present a budget to you today that's balanced, makes investments to expand our workforce, strengthens our communities and supports economic growth in all corners of the state.

Now, I know you have your own priorities for this year's budget—which is an important part of this process—and I look forward to hearing them because we need all ideas on the table to restore our fiscal fundamentals.

As I said in my inaugural address, despite the challenges we face, we can be hopeful because we know there's a path forward.

It starts with making sure we maintain the things that set us apart—the health and safety of our communities and our commitment to protecting our neighbors in need.

I've long said public safety should be the top priority of any government. Today, keeping people safe is no longer limited to our highways and homes—we must also protect Vermonters online.

As cybersecurity threats grow and cause more harm, keeping data safe and systems operating is essential.

To do so, I've called for a one-time investment of \$2.3 million to strengthen the State's firewall and upgrade critical IT infrastructure.

We must also stay focused on protecting our communities, which starts with our children.

Last year, we acted quickly to strengthen the safety of school buildings across the state, but we have more to do.

With the same sense of urgency, let's use budget adjustment to immediately fund an additional \$1.5 million in safety improvements at schools who couldn't secure grants last year. We'll also make capital investments to ensure more schools are E9-1-1-compliant.

I'm also pleased to share I'll be joining with the Vermont NEA to launch a "See Something, Say Something" public service campaign, and we'll invite the media to join us in this important cause.

To further protect our kids, we can direct \$1.3 million of this year's surplus to lead testing in every school.

In my first budget address, I talked about the most undeserving victims of our opioid crisis: the children born to addiction. That day—two years ago—I vowed we would not fail them.

This budget continues to support our investments in prevention, treatment, recovery and enforcement.

And with an increased investment of \$2 million to the Family Services Division, we can give these children more of the support, hope and opportunity they deserve.

We all know the serious and harmful impact of our opioid crisis and with your help, we'll continue to address it. Today, I'd like to address another threat to public health.

Between 2017 and 2018, 1.5 million more kids began using e-cigarettes and vape products across the nation. This is the biggest one-year spike of any substance in nearly 50 years.

Right here in Vermont, use among young people nearly doubled. And the Surgeon General has declared this an epidemic.

After all the progress made to lower nicotine addiction, this is not only concerning—it's frustrating.

I think you all know it's not my first instinct to add a tax, but with a growing health risk for our kids, I'm proposing to levy the same tax as we do on tobacco products.

Let's learn from the past, let's not make the same mistakes with e-cigarettes or anything else. Our kids must know the dangers of these behaviors, and we should stop it in its tracks.

Two weeks ago, I asked you to consider the power of transforming the good education system we have now to the very best in the country.

Combined with our quality of life, good jobs and working to make Vermont more affordable, this could be the most effective economic development tool we could ever ask for.

It's an alignment of assets and priorities to accomplish what most of us have told our constituents we would do: give every family, in every community, the chance to succeed and prosper.

It would also enhance our brand.

Unfortunately, marketing our state as the safe, healthy and beautiful place we are isn't enough anymore. If it was, we'd be seeing our labor force and communities growing instead of shrinking.

We have to distinguish ourselves, and what better way than as the state with the best education in America.

Think about how powerful this will be—really think about it. Imagine what it would mean for our kids, our communities and our state. Imagine what it would mean for our economy. And imagine what it would mean for the ability of future generations to solve problems and help people.

But we must do more than imagine it—we must have the courage to make real change, together.

As our demographics demonstrate, we can't afford to do things the way we've always done them—not if we want to maintain services, revitalize every county and invest more in our priorities.

We must continue our work to transform our system. So, let's keep moving forward.

I know you have thoughts on how to do this as well, but to get the conversation started, here are some ideas to consider:

First, I propose we invest an additional \$7 million into our child care system to make it more accessible and affordable for low-income and working families.

If you'll work with me to modernize our tax system, in response to the Supreme Court's Wayfair decision, we can improve compliance and fund these investments in child care without raising property taxes.

To help more people pursue education and training opportunities outside the traditional college track—and earn credentials too—my budget increases funding for VSAC's Non-Degree Grant program by over \$1 million.

Last year, we committed \$400,000 from the Capital Bill for programs and equipment to increase training opportunities for adults looking for new skills. It's been successful, so let's do it again this year.

And we'll continue to increase our support for higher education, so my budget proposes \$700,000 for UVM to replace declining Medicaid revenue and \$3.2 million more to Vermont State Colleges.

With this funding, the State Colleges will stop a planned three percent tuition increase on Vermonters for this coming school year.

It will also support the creation of an associate degree program, delivered in at least three tech centers throughout the state, where students earn the first year of their degree as a high school senior and the second as a Vermont State College student.

If we keep the focus on our kids and the good we can do for them, we can continue to strengthen our system, giving every kid the best possible education and the tools to reach their full potential, from cradle to career.

To help revitalize all areas of our state, let's modernize regulation to support growth in our local economic centers, expand broadband access and take action on climate change to strengthen our environment and economy.

Last term, we agreed on the need to evaluate Act 250. These regulations were put in place when we were growing too fast. Over time, they've become complex, and in some cases, redundant with other regulations.

Today, with many areas not growing at all, we have an opportunity—and a necessity—to do better.

We can enhance our high environmental standards and breathe new life into our downtowns and village centers.

Specifically, let's give communities the opportunity to raise the bar when it comes to planning and environmental protection.

And when they meet these new standards, let's reward them and encourage growth by exempting them from Act 250.

Adding even more balance, let's help them expand protections for natural areas and give our rural economy a fighting chance.

Given that chance, they'll make it, because there are few more resilient than our farmers and loggers.

Let's create flexibility for our forestry businesses, working lands and trail networks. Let's simplify construction approval in rural industrial parks and reduce their fees. Let's help farms create new revenue from tourism and on-site businesses. Let's get the most mileage from our transportation dollars by exempting projects that have environmental protections already built in. And if other State permits provide the very same protections, let's not force applicants to jump through the same hoop twice.

These are my ideas. I know you have others and I look forward to working with you.

But here's the bottom line: we need to modernize Act 250. I believe it's essential to expanding our economy and restoring the health of our smaller communities.

We must also continue to strengthen broadband in our state.

Currently, 75 percent of the state has high-speed broadband or better. There is clearly work to do to make this essential tool available to more homes and businesses, and we have to acknowledge it's not just about access—we need to increase speeds.

Many communities are trying to expand infrastructure; while there are grants and loans, they don't always fit with local plans or budgets.

To help, and to support our focus on the rural economy, I'm proposing to make bonding available for municipal broadband in areas that need it.

To expand service, I'm proposing to invest \$1 million for connectivity, and let's eliminate the sunset on 248(a)—it's worked to speed up telecom projects and we must continue to make progress.

My team has been working closely on a partnership with Microsoft to expand broadband access and computer science education to communities with the greatest needs.

This partnership will come with an investment in Vermont to support expanding broadband and to help kids and families in our communities learn more of the digital skills they need.

Making these opportunities equitable and accessible for all is a goal we share, and I believe these initiatives move us in the right direction.

We can also have a stronger economy by building a cleaner economy.

Transitioning to electric vehicles can save millions of dollars. In 2015, approximately \$830 million was spent on gasoline sales in Vermont. If this travel had all been powered by electricity, the cost would've been significantly less, saving drivers more than \$500 million.

Plus, our "Comprehensive Energy Plan" recognizes more electric vehicles are essential to meeting our climate and energy goals.

We need 10 percent—about 50,000—of the cars and trucks on our roads to be electric by 2025, and 25 percent by 2030.

I don't believe we can meet those goals unless we help people make this transition.

Today, we only have about 1,000 EVs on the road—less than one percent of new passenger vehicle registrations.

We all know transportation costs are high for rural Vermonters—that's one of the reasons I will not support a carbon tax.

But in its final report, the Vermont Climate Action Commission recommends an incentive to make electric vehicles more affordable, which I believe is a better approach because, as we've seen, incentives work. So, I'm proposing \$1.5 million in rebates to help more people purchase or lease new or used EVs.

And to lead by example, I'm asking for your support in using \$500,000 to invest in more EVs and EV infrastructure for the State fleet.

This is another great area of balance, because meeting these targets isn't just about making our state cleaner and healthier—it's also about growing the economy.

I view clean water the same way.

The environmental benefits are obvious. What might be less obvious is that it's also an investment in growing our economy and creating jobs.

In just the last two years, we've invested more than \$100 million in clean water projects, improved 15,000 acres of agricultural lands and conserved or restored more than 1,500 acres of river corridors, floodplains and wetlands.

It's not an exaggeration to say that the 20-year, \$2 billion project ahead of us is as much a major infrastructure program as it is essential environmental policy.

That's why my budget fully funds the Clean Water Board's recommendation. This includes about \$15 million for the State's Clean Water Fund, over \$12 million in capital funds and \$1 million in transportation dollars. Combined with over \$19 million in federal funds, all told, this budget dedicates nearly \$48 million to clean water projects.

I want to thank Treasurer Pearce for her continued leadership in this area. Her bridge plan for FY18 and FY19, and the Legislature's input and support, have set us on the right track.

And, for what is one of the worst kept secrets in Montpelier, our clean water proposal includes dedicating \$8 million in ongoing revenue from the estate tax to the Clean Water Fund.

Now, before either side of the aisle jumps to conclusions, I hope you'll listen to the details, because it's a packaged concept.

First, the estate tax is a stable source—average revenue since 2004 has been about \$19.5 million, and the lowest year was 2015 at \$9.9 million. Using a portion of this revenue for long-term investments makes a lot of sense.

And what this budget shows is that we can fund the clean water plan with existing resources.

What we've also found in this research is that by reforming this policy, we can better sustain the revenue and the fiscal health of our state.

Tax professionals consistently tell me that because we are so far out of line with other states, the estate tax is a factor in retirees leaving.

As part of this plan, I propose increasing the current exemption from \$2.75 million to \$5.75 million over four years. This will align us with Maine and New York, and more closely with the federal exemption.

Here's why this is important: currently, we're one of only 12 states that have this tax at all, and the recent doubling of the federal exemption to over \$11 million makes our exclusion radically out of step.

Vermonters impacted by this tax are well-advised from tax professionals, and they are highly mobile.

If we can come together, this change will help keep more of these taxpayers here and support a legacy of clean, healthy lakes, rivers and streams, all at the same time.

This is just one example of reforms we can make and policies we can implement to help us keep more people and more revenue here.

Last year, we worked together to make sure that low- and middle-income Vermonters weren't taxed on their social security, helping retirees live a little more comfortably after spending their lives in the workforce, and this year, we can help another deserving group.

Our veterans have served their country, put others ahead of themselves and, in many cases, placed their lives on the line for our nation and the values and principles we hold dear.

Only seven states, including us, fully tax military retirement benefits. Before we leave this spring, let's reduce that to six, and eliminate it completely by the time we adjourn next year—it's the least we can do.

Another area where we've agreed is the need for more housing that's affordable.

I'm sure you hear it as much as I do from young families trying to find that first affordable home, seniors looking to downsize and even employers trying to recruit workers.

Across the state, there are abandoned, vacant and blighted properties which are currently driving down property values but have the potential to unlock needed stock.

So, let's eliminate the land gains tax. This was implemented in the 70s to halt rapid development and housing speculation, but that was before most communities adopted land use regulations, before Act 250 was fully implemented and before we faced a demographic crisis.

Currently, when a property owner sells within six years of purchase, they may pay a substantial penalty.

Eliminating this tax will reduce a major barrier to investment in our neighborhoods, create more capacity, and increase grand lists as low-value properties are restored to their full potential.

Next, let's make sure these updated properties are efficient. Eighty percent of our housing stock is at least 40 years old, and nearly half of that is 80 years old.

We know the cost to heat these older homes can push them out of reach for some. So, my budget includes \$1 million to restore these units if weatherization is part of the project.

Finally, so many of the neighborhoods affected by these issues are in and around our downtowns.

We also know young families and workers want to be close to jobs, services and restaurants, social and community events.

So, let's continue to make these areas attractive places to put down roots by increasing the Downtown and Historic tax credit to \$2.6 million.

Each of these initiatives will encourage upgrades to homes that already exist, in the places we want to see grow.

Attracting and retaining more workers is also a key goal of the paid family leave plan I put forward last week with Governor Chris Sununu.

Our proposal would provide universally accessible and competitively-priced plans for all employers and employees in both states.

Now, I know that some of you want to go all the way to a government-run program, funded by an increase in the payroll tax.

Let me address that by first saying if you give my plan a fair shot, you might see there are advantages to taking the step I'm proposing.

First, we can launch more quickly, more affordably and more reliably than if the State had to create the program from scratch.

Second, it ensures we aren't placing the burden of startup costs, or the risk of underfunding and insolvency, on taxpayers.

And third, we're not mandating another cost on our employers and employees for an expense they may not be able to afford.

I understand your concerns that a voluntary approach might not have a big enough pool to sustain a program.

That's why our proposal places all eligible state employees from both states into the plan, creating a large and diverse pool overnight.

And my budget includes funding to offer this coverage to our state employees if we move forward.

With a voluntary plan, we can deliver a workable and scalable program that's administered efficiently, reduces risk to taxpayers and state government and balances the value of paid family leave with our ability to pay.

Let's show Vermonters we can work together to reach a goal we agree on, even if we have different ideas on how to get there.

In every corner of our state, there are communities, businesses and non-profits – large and small – ready to grow, but good jobs go unfilled because we need more working-age people.

That should alarm each of us in this room, but we can work together to change it.

We can change it by creating the greatest cradle-to-career education system in the nation. We can change it by investing in housing, downtowns and our environment to make Vermont an affordable and attractive place to live. And we can change it by reaching potential Vermonters and showing them a clear path to move to our state.

I'm pleased we moved forward on some smaller initiatives last year, like your remote worker program, Returnships and the "Stay to Stay" pilot, all focused on growing our workforce.

Each of these incremental steps has helped but we must do more.

This year, my budget includes a total of \$2.5 million to identify those most likely to consider moving to Vermont, tell them our story and make it easier for them to get here.

It starts with data-driven marketing to identify and reach those interested in what Vermont has to offer.

It includes funding for relocation support to really sell Vermont by helping those who want to move here find a great job, housing and a community they're drawn to, in the regions and job sectors that need them most.

From the overwhelming interest in the remote worker initiative you proposed last year, again we saw incentives work. So, let's build on that success and invest more this year to relocate new workers for jobs with Vermont businesses.

The fact is: every new worker we recruit to live here allows a business, a community, a school and tax revenue to grow.

We cannot lose sight of this fact.

If we want to fund more early education or science and technology for kids, we need more taxpayers, not more taxes.

Better roads and bridges? More taxpayers.

More drug prevention and treatment? More taxpayers.

Each new taxpayer provides a bit of relief to someone who's already here and allows us to continue funding programs and services that Vermonters need and value.

This has to be our focus and we must act now.

We all know our challenges are great. But I believe in the strength of this institution. I believe in each of you and our ability to solve problems and help people.

At a time when it's so easy to focus on the bad, let's believe in the good, the good that comes from the people of Vermont. And the good that can come from this building.

I know I do—I've seen it—and it's what keeps me coming back after nearly twenty years.

Our success, our ability to achieve real results, relies on the way we choose to engage each other, how we choose to treat each other and the issues we choose to address.

We have an opportunity to follow the example of those who came before us, who confronted the challenges of their time, who faced adversity with the courage to do what was right over what was easy. And when the world seemed as though it was coming apart, had the wisdom to bring us together.

Today, we can be the example. We can reject hate and anger, partisanship and division. We can recognize Vermonters call for balance, for civility and for us to work together. And we can commit to solving the problems ahead of us and helping the people who sent us here to do so.

If we do, we will make a difference in the lives of Vermonters, and our actions will prove that the best work still comes when we're guided by our core beliefs in freedom and unity.

###