

Mr. President, Members of the General Assembly, fellow Vermonters:

Nineteen days ago, I stood in this very spot to lay out my vision for Vermont. One that helps us harness the power of our values, natural beauty and quality of life, to propel a strong, dynamic economy. And one that believes we can achieve great things through the strength and resourcefulness of our people, and our history of unity and respect for each other.

Over the weekend, this was demonstrated yet again, as thousands of Vermonters peacefully marched into Montpelier to show solidarity in our resolve against bias, discrimination and intolerance.

As I promised, I will continue to protect the rights of Vermonters and the human rights of all people.

In my Inaugural address, I outlined a vision where we build the best education system in the country, making economic growth the focus of each effort we undertake, and create opportunity for all Vermonters.

I am committed to this vision and believe we can achieve it, if we find common ground, listen to the people we are here to serve, and make the difficult decisions necessary to set a new course.

As I said on that day, if we work together and consider the motto of Vermont's Mountain Battalion... we can "ascend to victory," even when the climb sometimes feels too steep.

While I am optimistic about our future, I will always be honest about the scope of our challenges, and the tough task of addressing them. I'll do so because Vermonters deserve leadership that will make difficult choices, knowing they will lead to a better future.

The biggest obstacle we face to economic sustainability is a shrinking workforce.

From 2010 to 2016, we lost an average of 2,300 workers per year from the workforce. That's 16,000 fewer people in jobs, paying taxes. Consider this: That number represents the entire population of Essex County, Grand Isle County, and the town of Hardwick combined.

With stagnant population growth, these declines mean working age Vermonters make up a smaller portion of our population. That age group went from nearly 29 to 23 percent of our population in only four years.

National projections show that 34 states expect to see their working age population grow over the next 25 years. Vermont currently isn't one of them. By 2040, the number of working age people across the country is expected to grow by 15 percent. But Vermont's will drop by more than 10 percent.

A shrinking workforce creates a downward spiral. With fewer workers, we have less revenue, and the state becomes less and less affordable. That makes it harder and harder to rebuild, and we're already

seeing these effects. We must act now, and begin our ascent.

We have avoided the reality of this crisis for far too long. I am committed to doing whatever it takes to put us on a new path to a more prosperous future.

I'm reminded of the year I participated in the "Race to the Top of Vermont." Looking at the top of Mt. Mansfield, I wondered if I could do it. But I learned a long time ago – after you look at that peak – you turn your focus to the stretch right in front of you. And that's what I did, pedaling a few feet at a time, until I made it to the top.

Climbing the mountain in front of us may feel daunting. I urge you not to feel overwhelmed, but to join me in working stretch by stretch. Because great things are at the top, if we have the discipline and commitment to follow through.

On my first day in office, I directed my entire Administration to look at every policy, process, and practice and ask: Does it strengthen the economy? Does it help Vermonters keep more of what they earn? And, does it protect the most vulnerable?

My Administration has taken the same approach in this budget. We have looked across all of state government with those questions in mind. And I have set limits that reflect the changes working families see in their own finances.

Achieving a balanced budget in this current environment will not be easy. We face a significant budget gap, because year after year, soft revenues fail to match spending pressures. It will require some hard choices to overcome these challenges but it's an opportunity to rethink how we approach our budget.

The framework I've established in this budget is necessary to put us on a more sustainable path, and meet the expectations of the Vermonters who elected us.

Today I present a balanced budget that does not increase taxes or fees; does not make program cuts that impact Vermonters in need; and matches base spending with base revenue, not one-time funds, to avoid future shortfalls. In fact, base spending in the General Fund for the next fiscal year will be *below* base spending for the current one.

I deliver this balanced budget while investing in economic development, education and training, and housing for all Vermonters. My budget makes important investments in fighting opiate addiction, and cleaning up our impaired waterways.

I am proposing to fund our pension obligations at their full recommended annual levels and will set aside reserve accounts to ensure we can respond to changes from Washington. And, my budget takes more steps to address inefficiencies and challenges in funding our education system, while creating

greater opportunity for our children.

This year, I will not propose a tax or fee bill, but instead offer modest tax relief to help working families and create jobs. Frankly, I would have liked to go further with broad-based income tax cuts for Vermonters, but given the budget challenges we face, holding the line on tax increases is a fair approach.

Finally, my budget creates the framework for an effective and productive state government for decades to come.

I started laying this foundation on day one. My Government Modernization and Efficiency Team and PIVOT program are guiding efforts to modernize state government, making it more efficient, and producing better outcomes.

Because of these early efforts, today we have in hand a list of programs throughout state government – a rough inventory of what we do. Believe it or not, this is not something we had before.

This is a first step towards giving all of us – the Legislature included – the tools we need to build a budget based on solid data, tied directly to actual outcomes. By next year, we will finally have what we need for true Results Based Accountability.

In my Inaugural address, I shared a vision for a more innovative and unified education system that sets higher standards, and turns Vermont into an education destination for families. I believe we can reach these goals without spending more, but only if we are finally willing to act boldly.

It will take courage, and compromise. But we can make more transformative changes to our education system this year.

First, we need to have an honest discussion, listen to each other, and work to find common ground. Because our current system is not working to the best of its capacity for our kids, parents, teachers, administrators or taxpayers.

Our teachers and support staff work hard, and are dedicated to helping our children learn. They have nurtured a system based on teaching our students well, and providing diverse learning experiences. And our school boards have worked to maintain quality, while slowing the increase in costs.

But they are confined by a rigid, antiquated and inefficient structure that isn't evolving as quickly as technology, society and fiscal realities demand.

Teachers face challenges today that my generation never dreamed of. Opiates have impacted our

schools the same way they've impacted every corner of our communities. And students are entering school with unique needs and growing behavioral challenges.

With these changes, and so many more, it's clear we need a new approach. Today's kids require a different learning model, one that is nimble and more deeply connected to the world around us.

We must also be honest about how we distribute funding. Our schools have 20,000 fewer kids than they did 20 years ago. We can no longer afford to allow so much of the nearly \$19,000 we spend for each K-through-12 student to be diverted away from the child and toward empty spaces and overhead costs.

This structural inefficiency also leaves too little of our \$1.6 billion education commitment for investments in early care, higher education, and trades training. And, we can no longer ask property tax payers to pay more every year for education without offering better efficiency, and better outcomes.

If we are willing to rethink how we do things – and if we have the courage to align overhead costs with the size of our student population, wherever we can – we can create the best education system in the nation, give our kids the brightest possible future, and attract more families to Vermont for a stronger economy.

To start us on this new path, I'm proposing a realignment of priorities and spending that allows us to unify the system from early care to higher education and trades training.

Here's the bottom line: For the future of our kids, for our teachers and for our economic well-being, we need to act.

Numerous reports show Vermont is among the least affordable states for child care. This is not just an education issue, it's a workforce issue that undermines the security of families and slows our growth.

For example, a woman from Peacham worked full-time in the dairy industry when she and her husband had their first child. She had planned to go back to work, hoping for the security of two incomes. But when they found child care would eat up her entire paycheck, it made more sense for her to stay home.

This demonstrates why investing in high-quality care and early learning serves as an economic driver in supporting working parents and the businesses that employ them. It also dramatically reduces future costs in healthcare, special education, and corrections.

That's why I'm proposing we increase investment in early care and pre-K by \$9.6 million.

My budget directs \$7.5 million of this to the Child Care Financial Assistance Program. I'm also proposing investment in competitive grants supporting early care and pre-K. We'll invest \$1 million in full-day pre-K programs for high-poverty kids. And propose a \$600,000 grant for the development of a model that helps childcare providers share services.

We further localize this effort with \$500,000 for pilot programs at the municipal level. This will spur ideas like unique scholarship opportunities, or grants that expand the number of spots available, and to help make quality child care centers more affordable.

With additional investments in innovation, modernization, and distance learning in our K-through-12 system, I hope to inspire fresh thinking in our classrooms, fund technology and training for school districts, and connect every school in Vermont with high-speed Internet access.

To promote more interest in science, technology, engineering and math (STEM) – as well as traditional trades – I’ve proposed grants to support coding camps, and boost Career Technical Education programs.

This is an area I, personally, am very passionate about. When I first entered college, it was to be a tech education teacher. Being able to build something from nothing always inspired me. So, it is especially meaningful for me to propose investments that will provide young Vermonters with more career and technical experience.

With these programs, we can train a new generation of skilled contractors, engineers, and scientists.

Another area where Vermont consistently ranks as one of lowest in the nation is in our level of support for state colleges and universities.

We have approximately 40,000 students in our higher education system. That’s 40,000 soon-to-be professionals, who choose to be in Vermont. Whether they grew up here, or were drawn from out of state, we need more of them to stay after graduation. So, let’s partner with our colleges and universities in this effort.

My budget proposes a base increase of \$4 million to Vermont State Colleges. In return, I’m asking them to use this additional funding to support my strategic goals.

They will work with employers to align degree programs with market demands, to keep tuition increases below inflation through Fiscal Year 2021, and to continue to find cost savings while meeting established performance measures.

I am also proposing an annual increase of \$1 million in base appropriations for both the University of Vermont and VSAC, to get more low and middle-income Vermonters the opportunities they need.

Finally, I propose an additional \$500,000 to fund scholarships for Vermont National Guard members to attend Vermont colleges and universities. This is one small way we can show our gratitude to the men and women who defend our freedoms.

If we are going to have the most valuable early care through higher education system, we must manage education spending in a unified way. This is the first step in better aligning programs, eliminating inefficiencies, and measuring results across the entire system.

With this goal in mind, my budget moves spending for higher education, retired teachers' health care and normal liability for teachers' retirement to the Education Fund.

In future fiscal years, we will transfer early care and Pre-K funding, to the Education Fund as well.

To cover these costs, I'm proposing to increase the General Fund transfer to the Education Fund by nearly \$86 million above statutorily recommended levels.

In addition, I'm proposing two savings measures that will help offset the investments I've outlined. These measures will keep property taxes level for the first time in years.

First, I'm proposing parity in what teachers and state employees contribute toward the cost of their health care. State employees currently pay 20 percent of their healthcare premiums, and most private sector workers pay even more. By comparison, teachers currently pay about 15 percent.

By establishing parity among these public employees – asking everyone to pay 20 percent – we can generate \$15 million in savings per year. And with most teachers' contracts expiring on June 30th, I will seek legislation requiring new contracts include this change.

Second, I am asking school districts to level-fund – including tuition to other public and independent schools – at Fiscal Year 17 levels. Vermonters need immediate relief from rising taxes and the high costs of living that make Vermont unaffordable for many.

I want to be very clear, I'm not asking school districts for anything more than what I've asked from state government. We will be tightening our belts in Montpelier and rethinking every program and service at every level - looking to reduce overhead costs and streamline services across all agencies and departments. And we are committed to working with you to see this change through. But we must see it through.

I have a deep appreciation for the work school boards have done to curb costs over the past few years. It is admirable, often thankless, service to our communities.

I also know how difficult it will be to adjust to level funding in advance of voting on Town Meeting Day.

That's why I'm proposing to set May 23 as a special statewide election on local school budgets. This gives local school boards three additional months to develop level funded budgets.

Finally, I am asking the Legislature to move quickly on these actions, to give school boards time to make these adjustments.

Believe me when I say I know these are incredibly strong measures. But over the last 20 years, student counts have continuously dropped. Costs have continued to rise faster than our ability to pay. And property taxes have become one of the biggest contributors to our crisis of affordability.

We must accelerate our work to align the size of the system with the number of students we are serving. If we don't, we will have to settle for higher taxes and fewer educational options. And I refuse to settle for either.

This challenge is real and the need to act is urgent.

I talked with a woman who works at an area hospital. A full-time worker who, in her fifties, was moving back in with her parents, who - in their seventies - still couldn't retire. She had to make this move because neither she, nor her parents, could afford their property taxes on their own.

So, I'm asking you to remember: Vermonters need this. Please don't instinctively lock up with resistance to change. I promised to make the difficult choices to put Vermont on a more sustainable path. And this is one of them.

By taking these steps we can keep property tax rates level, and we'll make it possible for a more comprehensive approach to the entire early care-through-college spectrum.

If you have the courage to join me in support of these measures, we will ensure our children are getting high-quality early care; our Pre-K-through-12 students get an education that better prepares them for success; and, we'll give both college and non-college bound students the opportunity to be trained for today's marketplace.

Together, we will begin the difficult work of making our education system the most efficient, productive and valuable economic development tool we have. We'll rebuild our workforce, attract families seeking world-class education, and retain the best and the brightest from our schools.

We can do this, if we look past next year to a future that provides every Vermont child the best opportunity for success in the most efficient and innovative system in the nation.

Structural reform and strategic investment in education has long-term benefits to other critical systems, like healthcare and human services. And, the reforms I'm proposing to the Education Fund also allow us to balance the budget without making deep and painful cuts to services.

Human services is one of the biggest cost drivers for the state. In Fiscal Year 18, we are facing significant caseload pressures in several areas. We should be encouraged, however, by a reduced expenditure in Medicaid during Fiscal Year 17 – a trend I believe will continue. But, even with this progress, caseload pressures combine to contribute \$15 million to the overall budget gap.

To restore the fiscal responsibility Vermonters have demanded, restraint on human services' spending is necessary. But I'm proud to recommend a series of reductions that will not affect vulnerable Vermonters... and will help fund important investments to combat opiate addiction.

It's an understatement to say that Vermont Health Connect has not lived up to our expectations. I promised a solution to the Exchange, and even with the uncertainty in Washington, we continue to evaluate better options for the future.

We will be thorough because Vermonters cannot afford for us to head down the wrong path, once again.

But, there are changes we can make today that will save money, and give Vermonters a better experience.

To start, we will remove the state as a middleman between health insurance companies and those who do not qualify for subsidies, like Medicaid. By eliminating this frustrating and costly process, we will save \$2.8 million.

On the delivery side, Vermont has incredible hospitals, doctors, nurses, and other health professionals. My wife Diana happens to be one of them, so I hear about the victories and the setbacks they see every day. I want to thank them for their continued partnership as we move to a new model for care.

Over the last few years, we have seen a decrease in the number of uninsured, and in the amount of non-reimbursed care. And to reflect this progress, I'm proposing we reduce the "disproportionate share" payments for hospitals by 10 percent.

Additionally, we've examined and adjusted positions, contracts, and administrative costs across the Agency of Human Services, finding an additional \$2.1 million in savings.

We've also found commonsense adjustments in our corrections system.

The correctional facility in Windsor has the highest per-capita costs of any male facility across the state. We have a plan to close it, and transfer each inmate. This move will save \$3.5 million. And, as we have in the past, we'll work to move frontline employees into existing vacancies.

In addition, we will expand the State's Electronic Monitoring and Home Detention program using existing resources. Implementing 24/7 electronic monitoring statewide will reduce the out-of-state caseload. Coupled with other Corrections changes, we will save approximately \$1.7 million.

Our opiate epidemic remains one of the most serious, and costly, challenges we face. My Administration will address this crisis through education, prevention, enforcement and treatment. This includes nearly \$1 million in funds to the medically-assisted-treatment hub in St. Albans, and funding for our new Director of Drug Prevention Policy.

My Administration will also work to increase the number of medical professionals specializing in addiction treatment, a critical step to winning this battle.

As part of our investment in higher education, Vermont State Colleges will convene a summit in the next 60 days with substance abuse treatment professionals, and our higher education institutions. They will identify ways to increase the number of treatment counselors, with coursework starting next fall.

As we work to end addiction, we cannot forget the most undeserving victims of this crisis: Children of addicted parents. A new report this month found the number of young children entering custody with the Department for Children and Families rose 41 percent in two years.

We now have an entire generation of young Vermonters suffering the effects of their parents' drug use.

Just last week, my team met with a loving mother whose family adopted one of these children as an infant. Her son – now in fifth grade – has been lost in an education system that's not prepared to meet the needs of kids like him. We owe it to him – we owe it to all of them – to make this right. We need to learn more, and find better ways to support these kids, and their families.

As a start, I have invested nearly \$800,000 to support the Guardian ad Litem program, and other services, so we have more trusted professionals advocating for the best interests of these children.

I know many dedicated legal advocates, counselors, families and teachers have been fighting for these kids behind the scenes for years. It's time to bring their needs, stories and challenges forward, and work together to give these kids the opportunities they deserve.

That's why I will charge the Director of Drug Prevention Policy; the Opiate Coordination Council; the Agency of Education; and the Agency of Human Services with finding solutions for these kids.

We cannot let this go unaddressed on our watch. We must not, and we will not, fail these children.

To better support our commitments to social justice, the environment, education, affordable healthcare, and more, it's essential we grow the economy.

Last week, I signed an Executive Order to create the Agency of Economic Opportunity, which will align the Agency of Commerce and Community Development with the Department of Labor.

It's only been a week, and I'm already hearing some resistance to the idea. I understand this is not how we've always done things. But, for the life of me, I cannot see how we can stand by the status quo, knowing the workforce challenges we face.

For years, we have all heard from employers who cannot fill positions. They are pleading for more qualified workers. At the same time, we all know Vermonters who cannot find jobs, or who work two or three jobs to make ends meet. The way we've been doing things hasn't addressed this disconnect.

In this new Agency, we will literally put those in state government who help Vermonters find jobs shoulder-to-shoulder with those helping businesses create jobs.

I urge you to consider this commonsense move to make state government more responsive to the people we serve.

This new structure is the vehicle for change. To fuel it, we need direct investment in economic development activities that will produce results.

At the core of my proposal is a \$35 million housing bond, in partnership with the Vermont Housing and Conservation Board. VHCB will lead an effort to expand housing across the full spectrum – from homeless populations to home ownership for middle-income families.

To further support workforce development, the additional \$1 million we're investing in VSAC will be directly applied to its grant program for adults seeking non-degree education and training. And we'll increase trades training through the Vermont Training Fund by \$200,000.

Co-working and maker spaces around Vermont have had success supporting entrepreneurs. To support more of these incubators, we'll increase the downtown and village-center tax credits by \$200,000.

We'll invest \$400,000 to nearly double the number of small business development counselors, giving entrepreneurs in Bennington, Franklin and Windsor Counties access to services to help them grow.

To attract more businesses and workers to our state, we're putting \$750,000 in economic development marketing. We expect to leverage an additional \$750,000 in private marketing partnerships, bringing the total campaign to \$1.5 million.

These are just a few examples of what we can do to support both our workforce and our businesses. And with these efforts led by one unified Agency of Economic Opportunity, we'll have a coordinated approach for better outcomes.

If there is one thing Vermonters agree on, it is love of our landscape. Whether you hunt, fish, ski or hike, our landscape contributes to our high quality of life. It plays a significant role in the \$2.5 billion spent annually by tourists and vacation homeowners.

To further protect this working landscape, my budget makes investments to support our Agencies of Agriculture and Natural Resources, plus important partner organizations.

Protecting our lakes, streams and landscape is vital to our economic security. That's why I am committed to cleaning up our waterways, using existing state resources and financial tools.

My capital and transportation budgets commit \$20 million in each of the next two years for clean-up of our impaired waterways. I will commit another \$10 million from existing revenue and other sources, for the full \$50 million in funding.

Last week, Treasurer Beth Pearce released her recommendations for financing clean water initiatives over the next 20 years. I thank her for the hard work and collaboration. Let's all continue to work together in the coming months to find solutions that address our shared goal of water clean-up, without raising taxes and fees.

I'm also committed to working towards energy efficiency and renewable energy goals. I believe we can reach our goal of 90 percent renewables. But, for as long as I'm Governor, we'll make progress without destroying our ridgelines.

To further promote energy efficiency and decrease our reliance on fuel sources that impact our climate, I'm proposing a tax holiday and rebate program on hybrids, electric vehicles and energy efficient products. Vermonters will see a 6 percent savings through these initiatives, encouraging more to invest in energy efficiency.

We can continue to work together on approaches like this, which support both our environment and our economy.

In early September 2011, just days after Tropical Storm Irene flooded our rivers, filled our streets, and destroyed our homes, I remember arriving in Brandon to find the Brandon House of Pizza in the middle of Route 7. When the nearby river flooded, it ripped the shop from its foundation, moving it to the middle of the town's only major roadway.

I met with a town official who was working on ways to dismantle the building to get it out of the road –

and that's how you'd typically handle this situation. But time was not on our side, so we needed a new idea to get traffic flowing. I suggested we get a crane and move the entire building.

It took some work, people willing to roll up their sleeves, think differently, and go the extra mile. But with one phone call, a company in Chittenden County found us a crane. The contractor could have easily said he didn't have one, and moved on. But he thought outside the box and tracked down a crane in New York, and that crane was in Brandon the very next day. We worked together, moved the multi-story building, and got traffic moving along Route 7.

This story, and so many like them, show the resourcefulness of Vermonters. Despite the many challenges we face, I know, we too, can work together to think differently about how to address our economy, workforce, education system, and social and environmental issues.

We can change the status quo, work with willing partners, and recognize that chipping away at the building, piece by piece, has not solved the problem. We need a new approach.

For our economic security, we need to clear the way to get our economy moving and growing again. We have an opportunity to achieve great things. But only if we are unafraid of change, and willing to make difficult choices.

We must be bold, because that's the right thing to do for all Vermonters.

I look forward to working with you on these efforts, and to a productive Legislative session. Thank you.