

Mr. President, Madam Speaker, Supreme Court Justices, members of the General Assembly and fellow Vermonters:

Less than two weeks ago, I came before you to report on the state of the state to share my vision for Vermont and some ideas on how to grow our economy, make Vermont more affordable and protect the most vulnerable.

These are the priorities that guide my administration and are reflected in the budget I present today, which is balanced and spends within our means without raising taxes.

It's my belief the state budget should not grow any faster than people's paychecks. Our goal should be to do our work in ways that help Vermonters keep more of what they earn, making it easier—not harder—for every family to live a secure and stable life.

Fiscal discipline can be a powerful tool that will help all people and all communities reach their full potential.

That means examining the true costs of every program we fund, rethinking old policies and outdated systems and measuring the value of every taxpayer dollar invested based on the results we're getting out, not how much money we're putting in.

We have to ask tough questions like: Are programs reducing need; actually breaking the cycle of poverty; and helping Vermonters achieve economic independence? Are fiscal and economic policies giving families in all parts of the state an equal opportunity to get ahead and keep more of what they earn?

Likewise, we have to be honest about the answers.

With each budget proposal, I've been focused on our fiscal fundamentals, to balance what we want with what we need, and to set us on a path where our capacity to solve problems and help people grows, while the burden on taxpayers shrinks.

This is the approach we took, and in the upcoming fiscal year, across all funds, our budget totals \$6.3 billion, with \$4.2 billion of state revenue sources and \$2.1 billion in federal dollars. This is an increase of about 2% over the current year.

The transportation budget includes \$276.7 million in state funds, which is leveraging another \$335.6 million in federal funds. This amounts to a \$25.5 million increase—about 4% over the current year—making it the largest transportation budget since the Irene recovery, all without raising additional taxes or fees.

This includes \$100 million for roads and paving, major projects like the new draw bridge in Grand Isle and our rail project in Middlebury to get us closer to having Amtrak service from Burlington to Rutland to New York City, as well as other public transportation priorities. It provides for 158 new park and ride spaces, investments in bike and pedestrian projects and so much more.

And we're now in the second year of the \$124 million capital bill. I'll propose a few changes—and I'll come back to highlight some of them in a few minutes—but we remain on target in most areas.

In the Education Fund, based on estimates from districts, we project spending to total over \$1.8 billion, an \$87 million, 5% increase over the current year.

Unfortunately, we're seeing spending, property taxes, as well as inequity, continue to increase while educational opportunities, student performance and the number of kids continue to decrease. Since Act 60 was passed, we've lost 26,000 students from our K-12 public schools while education spending has more than doubled.

The General Fund budget I'm presenting spends \$1.7 billion, which is an increase of 2.8% or \$46 million over the current year.

Here's the frustrating part: Even with organic revenue growth, we still started building our General Fund budget with a \$70 million gap.

And even with consistent revenue growth, each year we've had to make difficult decisions with reductions to agencies, departments, programs and services.

In December, the Tax Structure Commission issued a report making it clear that without intervention, only the greater Burlington area is likely to grow while the rest of the state gets smaller, with fewer workers, jobs and resources to support schools, hospitals and communities. The rating agencies have also warned us about the impact of our demographics, resulting in the recent bond rating downgrade, and we could see more if we fail to address this issue.

Our demographic crisis is – without question – the greatest challenge we face as a state. Confronting this crisis is the only way we'll be able to address other critical needs, whether it's human services, public safety, transportation or climate change and transitioning to a clean energy economy. Addressing this reality is crucial to Vermont's future.

But here's the thing: We can fix it, so long as we resist the temptation to ignore it, get distracted by politics or become deterred by hard work.

And like I said in my State of the State address, if we work together to face this challenge head on, then our businesses and economy will grow, putting more kids in our schools, broadening our tax base and making our communities stronger and more resilient than ever before.

There are a few obvious areas we can look to in order to make substantial gains in addressing our financial pressures.

One of them is our \$4.5 billion retirement liability. This year's General Fund payment on that obligation is \$199 million, which is \$8 million more than last year. As I've said, if you're interested, I remain willing to work with you on this issue. But in the meantime, let's focus on the areas where we have more consensus.

To start, my budget prioritizes spending to prevent root causes rather than just treat consequences. To do that, the Department of Finance and Management – working closely with every agency, department and division—has worked to find efficiencies, make structural changes and create savings in order to reinvest in areas that prevent problems in the first place, which will further reduce costs over time.

For example, we can help babies from high-risk families when they arrive home as newborns.

By investing \$1 million more in our newborn home visiting program, we can cover roughly a quarter of all the babies born each year, giving these parents the support they need to build a better foundation for their kids. This model has improved the health of babies and moms, reduced costs of child protection, special education, substance abuse and criminal justice services down the road, and put families on a path to economic self-sufficiency.

Coupled with the universal afterschool network I proposed in the State of the State, and expanding mental health services in schools, we can prevent serious problems before they develop and give every child the hope and opportunity they need and deserve.

My budget also contains proposals to improve the health of our communities.

Tragically, suicide is a growing risk around the country, and we know all too well Vermont is not immune. Our approach must focus on early intervention for those at risk. That's why my budget invests over \$1 million more in suicide prevention and mental health services. This includes strengthening our Prevention Lifeline network and increased investments in proven programs like the Zero Suicide initiative and others serving seniors and veterans.

And I'd like to pilot a new mental health Mobile Response Unit. In other states, this model has reduced emergency room visits and hospital admissions, saved many hours of law enforcement time and helped foster kids find stability. I propose to begin this initiative in Rutland and if it's successful, with your support we can work to expand it statewide.

Our Agency of Human Services and Department of Public Safety are also working together to expand an initiative that partners social workers with troopers. We'll be able to triple the number of barracks

where we embed these professionals, which will reduce the volume of emergency calls, hospitalizations and court involvement for some of our most vulnerable Vermonters, all within existing resources.

Applying this focus on improved coordination and preventing problems before they occur can also make the healthcare system better and more affordable. This is the reason we're making the transition to Accountable Care.

The concept itself is straightforward: The Accountable Care Organization is a network of doctors, hospitals and health centers who have agreed to be paid based on the quality of the care they provide instead of the quantity. The challenge is changing the way we pay for something that is 20% of our state's economy without making it harder to access care, adding new costs or reducing quality.

For these reasons, many Vermonters are skeptical. I know I was—and still am somewhat—because we've seen firsthand that there's no quick fix or political promise to make healthcare more affordable. But the early results give me reason to be cautiously optimistic.

In 2018, the providers the state paid through the ACO reduced the amount of money spent on healthcare services by \$7.7 million. In the same year, the providers who were not paid through the ACO spent \$1.5 million more than expected. Early results for 2019 show a similar pattern.

But we know the numbers don't always tell the full story, so here's a real-life example of how it can improve care and reduce costs: Before this initiative began, a Vermonter in their mid-40s with several complex conditions wasn't getting the primary care and support they needed and ended up in the emergency department six times in one year. But the next year, doctors participating in the ACO put together a plan focused on regular communication and managing the factors that sent them to the emergency room. This more personal and better managed approach was successful. This person didn't have to go to the ER at all and the cost of their care decreased by 60%, saving tens of thousands of dollars.

Now, I understand the ACO hasn't done a great job explaining how they're improving people's health and reducing costs. But there are compelling stories to be told, and accountable care is showing more potential than any other healthcare reform I can remember.

So, I recommend we continue to support this work by asking you to authorize the \$5.7 million for delivery system reforms proposed in budget adjustment on the condition the ACO operate as a non-profit or meet those same transparency standards.

Making the healthcare system more affordable includes addressing the high costs of prescription drugs.

Thanks to your legislation and the work of my administration, we're one of only four states moving forward with the design of a prescription importation program and pursuing federal authorization. Our

estimates show this could save millions of dollars, especially if we can broaden the scope to include drugs like insulin.

While there's still work to do with the federal government, my budget includes the resources AHS needs to continue this important effort, because lowering the costs of prescription drugs is the right thing to do to help seniors and families in every corner of our state.

Ultimately, to put all Vermonters on a better path, we must increase economic opportunity in each of our 14 counties. That's why this budget includes more investments in downtowns and regional economic centers, and tools to help employers survive and create more good paying jobs.

As I mentioned in my State of the State, we've already begun bipartisan reforms of Act 250 that will support more smart growth in the areas where we want it and desperately need it.

Places like Brattleboro, Randolph, Lyndonville, Rutland, Bristol and so many others are the key to building stronger regional economies and restoring the health of the small towns around them.

Today, I propose increasing the downtown and village center tax credits to \$4 million—a \$1.4 million increase. These dollars support important projects—like Springfield's Woolson Block and Bennington's Putnam Block—that are often the first step in community revitalization.

Over the last couple of decades, we've also seen how successful Tax Increment Financing can be. In fact, we learned in our E-Board meeting last week that Milton has retired one of its TIF districts which is now adding hundreds of thousands of dollars of revenue to the Education Fund.

TIFs not only create economic growth but also empower communities to shape their own future. It's a bottom up, grassroots approach. It's a tool that could really benefit towns statewide. But the fact is: The majority of TIFs have been in Chittenden County, including two in Burlington.

So, I'll continue to support expanding them across Vermont, including a proposal to make them available to smaller communities in order to spark economic activity and help them reimagine their future.

There are many other opportunities to support our regional economic centers and the smaller communities around them.

For example, after setbacks caused by the EB-5 fraud, the City of Newport is now poised for a once-in-a-generation redevelopment. They've done a lot of thoughtful planning, investing in their downtown and leveraging the outdoor economy.

So, the capital bill now includes \$1.5 million to begin the process of helping revitalize Main Street. This will help bring public and private investment together to implement a larger vision for Newport and the Northeast Kingdom.

I also propose a \$2.8 million investment that will leverage another \$11.3 million in federal funds to complete the Lamoille Valley Rail Trail.

This 93-mile, four-season, multi-use recreation path that began in 2006 will span northern Vermont from St. Johnsbury to Swanton. The trail will bring people through 18 towns and villages across five counties in some of the most rural parts of our state. This is a big deal for a region that feels disconnected. When complete, the activity it will create—along with cross promotion—will strengthen businesses, economies and the quality of life in meaningful ways.

And to further strengthen Vermont's small towns, agriculture and other businesses, I've budgeted \$750,000 for the Working Lands initiative, which will help expand production of quality food, forest products and jobs.

Things like the rail trail and our world-renowned local food and breweries are a big draw for the state, and tourism is a top contributor to our economy. But we're investing far less than every other state in the region and we compete with them for visitors every single day. So, my budget includes an additional \$1 million investment in tourism, economic development and outdoor recreation marketing.

Let's couple the most beautiful state in the nation with an increased investment to remind the 70 million people who live within a six-hour drive that we're not only a great place to visit but also to live, work, play and, hopefully, invest in.

Leveling the economic playing field from county to county requires us to make it easier for every community to attract and keep more residents, from the young couple looking for a place to call home to the senior looking to downsize.

That's why, as another part of my Community Investment Package, my budget includes \$1 million for incentives to rehabilitate old homes into decent, affordable, energy efficient rental properties.

And I'll also propose reforms to the Renter Rebate Program.

Now, this has been a very effective program but very costly to administer and very frustrating for applicants. In fact, not everyone who qualifies even bothers applying because of the difficult process. By simplifying the application and improving efficiency, we'll reduce the burden and lower administrative costs resulting in about \$800,000 more in rebates for the low-income renters who need them.

This is an important reminder that when we take the time to rethink how we do things, we can almost always find a better, more efficient way and pass the savings on to Vermonters.

We must also make sure we're responding to the needs of employers and taking advantage of opportunities in the global economy.

First, let's make it easier to start, register and operate a business here. Working with the Secretary of State, my budget includes \$1 million for a streamlined and online business portal, which will make it much easier for them to navigate state government.

We'll also support our small technology businesses with an investment of \$1 million to help them secure federal Small Business Innovation grants for groundbreaking work done right here in Vermont and to tap into the research capabilities at our colleges and universities. And when they're successful, we'll provide a match to the federal grant to help them grow and create jobs.

To support more small business growth, I'm proposing a \$1 million incentive program through the Vermont Economic Development Authority (VEDA) to provide low-cost loans that convert to no-cost grants after meeting expansion and payroll goals.

To recognize the incredible importance of our larger anchor employers—the cornerstones of our regional economies—I propose a \$3 million Vermont Capital Investment Incentive Program which encourages these companies to make new upgrades at local facilities. And in exchange for the incentives, they'll commit to maintain certain payroll levels.

The other part of the equation to help our businesses and communities thrive is expanding and strengthening our workforce.

We know the benefits of accessible, affordable childcare for parents, kids and our economy, which is why we've worked together to increase funding by 30%—about \$10 million—over the last three years, and these investments are working.

Let's build on this success with an additional \$3 million for childcare assistance, and let's also expand the lottery and commit these new revenues to this initiative each year moving forward.

Last year, I introduced a paid family leave program that creates a viable, affordable option without a new tax or a new bureaucracy. It's voluntary and offers flexibility. Our goals in this area are similar but our approach to getting there is vastly different.

I hear every day that one of the major hurdles to staying or relocating here is the affordability of life in Vermont. This includes taxes and fees. That's why I cannot support a new \$29 million payroll tax on working Vermonters.

But with the agreement we reached with the State Employees Union to provide this benefit, we've already taken a major step forward and we'll have an opportunity to enhance Vermonters' quality of life without adding to the tax burden.

Over the last four years, we've added more than 700 apprentices to our workforce, which includes a 36% increase in the number of women in these important programs.

Apprenticeships are great opportunities for Vermonters to earn while they learn, gaining the specific job skills they need in a wide range of industries with an average wage after completion of over \$20 an hour. These programs are industry-driven, allowing employers to recruit for good jobs they have available. But there's an opportunity and need to do more.

That's why I've directed the Department of Labor to work with the Vermont State Colleges and tech centers throughout the state to double the number of apprentices by 2023.

To further increase training, I've also asked DOL and the Agency of Education to work with the State Colleges to align our Adult Education and Adult CTE system with CCV, VTC, our tech centers and regional stakeholders. This will create a seamless pathway from school to training to work. It brings together those who need new skills to get a good job and businesses looking for employees. It will also help State Colleges expand their reach into our communities.

If you're willing to look at things differently and move with urgency, we can have a unified, statewide training program next year.

While these will be valuable steps, we need to do more to keep our high school and college graduates here contributing to our communities.

With one of the lowest unemployment rates in the nation, we hear about our growing labor shortage in every sector on a daily basis. But one area that's especially alarming is the shortage of nurses. Many providers are forced to use traveling nurses, which has added to the cost of healthcare for all of us.

So, I ask you to work with me on a \$1 million incentive to keep graduates from our registered nurse and licensed practical nurse programs right here in our state, filling positions desperately needed by employers.

We'll also continue our efforts to recruit more people to live and work here.

This includes increased funding for DOL's Vermont Relocation Assistance Program to ensure folks interested in moving here have the information they need about jobs, housing and opportunities available to them across the state.

And we'll continue to advocate for more legal immigration as a way to bring more hardworking people to Vermont to contribute to our economy and grow our workforce. This includes funding to the Department of Labor that will help communities plan for, and explore, refugee resettlement and opportunities to welcome more New Americans to Vermont.

These efforts not only benefit our state, they also signal we're committed to the values this nation was built on. That America is still a land of opportunity for all who seek freedom from oppression, security for their families or, in some cases, just a fresh start.

As long as I'm governor, they'll be welcome right here in Vermont.

And to create an incentive for military veterans to return to Vermont and join our workforce, I'm once again proposing to exempt military retirement pay from the income tax.

Vermont's neighbors, New York, New Hampshire and Massachusetts, have already done it, leaving us as one of only eight states who fully tax these benefits. I hope you'll join me this year in eliminating the tax on those who have devoted their lives in service to our nation.

While targeted tax relief can help us retain and attract more taxpayers, the fact is, it's not enough. Making our tax rates more competitive and Vermont more affordable for every Vermonter, and every potential Vermonter, is key to retaining and recruiting workers.

That's why, as I said at the beginning, this budget does not raise taxes.

While we make Vermont more affordable, we must continue to leverage, and therefore strengthen, our quality of life and environment.

We're four years into our 20-year, \$1 billion clean water initiative and it shows that with careful work tied to specific outcomes, we can develop, fund and implement a plan that has positive economic and environmental results.

Since the passage of Vermont's Clean Water Act, the state has awarded \$138 million for projects statewide. In total, these infrastructure investments have reduced phosphorous runoff by more than 36,000 pounds, making a difference in our water quality, public health, flood resilience, outdoor recreation and so much more.

Our work on clean water began with a process that inventoried what we we're already doing, what more we needed to do, how much it would cost and how to fund it. We should learn from this and use it as a model for our work to build a clean energy economy and combat climate change.

We've seen how climate change is affecting our environment, natural resources and economy. That's why I'm committed to meeting our greenhouse gas emission goals with incentives and innovation, not penalties or barriers to growth.

I think it's important to note we spend many millions—if not hundreds of millions—of dollars in clean energy and climate change mitigation initiatives each year. And we rank pretty well in carbon emissions as compared to other states. But let me be clear: Regardless of our ranking, we should and will do more, and we'll do it responsibly.

On top of everything we're already doing and everything I'm proposing in this budget, I propose committing 25% of all future end-of-year budget surpluses for additional investments that address climate change, specifically for initiatives that support weatherization or electrification.

To put this in perspective: Had we done this last year, we'd be investing about \$10 million more in climate change initiatives right now.

Driving an EV is proving to be economical. On average, it's the equivalent of spending about \$1.50 per gallon and we're learning that maintaining an EV is also less expensive.

Think about this: No more changing the engine oil or transmission fluid. There's no radiator, no coolant or belts; no air, oil or fuel filters; and no check engine lights, which affected over 36,000 vehicles during inspections in Vermont last year. That frustration alone should make all of us consider an EV.

However, we know higher purchase prices, lack of consumer knowledge and the distance between public charging stations remain barriers to buying one.

My budget proposes to invest \$3 million to address these obstacles and help meet our climate and energy goals. To encourage the sale of EVs, we'll increase funding for incentives, consumer education and support services, and make investments for more charging stations on our highways and at our workplaces.

We must make this transition but regardless of what powers your vehicle, if you're using our roads and bridges, you should contribute to maintaining them. So, while we wait for Congress to work on a national solution, electric utilities have introduced EV-specific rates and will recommend a pilot program for the collection of revenue from EV charging stations to support long-term transportation maintenance.

We have to acknowledge that adding thousands more EVs will have an impact on the grid. As the Vermont Council on Rural Development said, we can address climate change while also generating economic activity, creating jobs, attracting new Vermonters and other benefits. To do this, we need to encourage the expansion and creation of companies that focus on energy storage, grid modernization and more.

My \$3.15 million Clean Grid Modernization Package will encourage companies to start and expand here by making R&D work eligible for a tax credit and will provide \$2 million in capital and technical assistance.

And to send a crystal-clear message about how highly we value climate economy employers and how much we want them to be part of our future, I propose we eliminate the corporate income tax on these job creators.

My fellow Vermonters, we must meet our history together. The issues we face are significant but none greater than the demographic crisis and the economic challenges it brings.

Confronting this crisis now is the only way to preserve our ability to solve problems in the future.

In 1961, American journalist and historian, Theodore White, wrote of President Kennedy, "Never, at any moment... had he believed... that individuals were helpless as the 'engines of history' rolled toward them."

Friends, while there's no easy answer, no simple solution, no single idea that can completely stop the rolling consequences of our demographics, we are not helpless.

If we accept the challenge, set clear objectives, have the discipline to commit to solutions and follow through, we can reverse these trends. We can restore economic vitality to every corner of our state. We can make Vermont more affordable for every family and every business. And together we'll ensure a brighter future with renewed hope and greater opportunity for generations to come.

###