

Madam Speaker, Mr. President, Mr. Chief Justice, Members of the General Assembly and fellow Vermonters.

Three weeks ago, I shared with you my agenda for the session ahead, and my vision for the future of our state. A future filled with endless potential, a growing workforce, a stronger economy, and where no Vermonter must look elsewhere for prosperity.

I'm confident, together, we can make this future a reality.

But that success is dependent upon restoring our fiscal foundation, having the courage to confront the challenges we face and spending only what Vermonters can afford.

Today I present to you a balanced budget that makes strategic investments to grow the economy, make Vermont more affordable and protect the most vulnerable.

And for the second consecutive year, it does not raise taxes or fees.

In the past, we've set spending levels based only on revenue projections, without considering wage growth or whether spending is growing faster than taxpayers can actually afford.

So last year, I asked my administration to develop a Growth Rate Calculation – a six-year rolling average of wage growth to ensure the state budget does not grow faster than wages. This year, that growth rate is 2.36 percent.

Let's get right to the bottom line:

\$3,785,000,000 is what we agreed to spend in state dollars this fiscal year.

Total spending proposed in my budget for next year is \$3,867,000,000.

This is an increase of \$82 million – reached without exceeding the growth rate calculation or raising any taxes or fees.

Too many hardworking Vermonters face the same problem the state budget faces: Expenses and costs growing faster than income. Except unlike us, they can't tax anyone to make up the difference.

And we know it's not just taxes. It's utility bills, healthcare costs and other necessities that also make it harder for many Vermonters to get ahead – and too many aren't even getting by. As a matter of principle, I don't believe any of these costs should be growing faster than wages. Especially the costs we in this Chamber can influence.

But if we work together, we can provide relief and greater opportunity to those we serve.

That's what this budget does.

It's driven by performance indicators, which we'll use to measure our progress, and report to Vermonters, so they can hold us accountable for our work.

We'll be able to measure our impact on the economy by the size of our workforce, growth in the number of workers and size of employers, and regional wage growth.

We'll track our progress in making Vermont more affordable based on the percent of income spent on housing (including utilities), health care, taxes and fees.

And to determine the impact in protecting the most vulnerable and moving folks out of poverty, we'll report the percent of households who live below 200 percent of the federal poverty level, the rate of homelessness, the number of children ready for kindergarten, and access to affordable healthcare.

These are breakthrough indicators that will tell us if families, children and communities are doing better. And when they are, we will all be better off, with greater resources.

This is the benefit of having a clearly defined strategic plan and a budget that supports this approach.

That's why this budget prioritizes investments that will get more Vermonters into the workforce, recruit families to our state, create jobs, expand small businesses and grow wages.

It's why it modernizes our employment growth incentive, provides tax relief for retirees with low incomes, includes new incentives to revitalize homes in our downtowns, and calls on us to work together to transform our education system and how we pay for it.

It's why it expands our mental health capacity, invests in the prevention of illnesses, builds healthier communities, and addresses the health of mothers and babies dealing with addiction.

And it's why it continues our commitment to cleaner energy, cleaner transportation and cleaner water.

The truth is, for decades, the cost of state government has been designed to grow about 5 percent each year. So, balancing this budget without raising taxes was not easy. It took careful, diligent and difficult work.

So, I want to thank my entire Administration – every secretary, commissioner, director and every hardworking state employee – for their willingness to think differently, to innovate, modernize and make difficult decisions that put the state in a better fiscal position for the future.

This includes taking a look at one of the most under-reported fiscal issues we face: Vermont's long-term debt.

Through the collaborative effort of the Administration, Treasurer and many others, we have one of the best credit ratings in the country – a Triple-A Bond rating. This is good news that saves Vermonters money.

But maintaining this rating is becoming increasingly difficult, so we must face these facts:

First, we're the only Triple-A state with a shrinking workforce.

Because of this, our per capita debt assigned to every Vermonter has increased since 2013 while its declined in all other Triple-A states.

Additionally, Vermont's pension liabilities – the money owed retired public employees, including teachers – is the second highest among these same states.

Put simply, the difference between the money we set aside to pay benefits is hundreds of millions of dollars less than it should be. And if we do nothing, these unfunded liabilities will be more than we raise in annual revenue.

It's time to deal with this issue, head on.

Working with the Treasurer, our retirees and unions, we must prevent future obligations from forcing deep cuts in vital programs and services – jeopardizing the retirement of thousands or impairing our ability to make investments in essential infrastructure.

That's why my budget devotes \$20 million more than required, to pay down these liabilities.

We must also do more to ensure the secure retirement of all Vermonters.

With the second oldest population in the nation, 45 percent of Vermonters are either retired or about to retire. And we know many of them do so elsewhere.

There's a reason approximately 26,000 native born Vermonters live in Florida, and it's not just the weather because 27,000 native-born Vermonters now live in New Hampshire.

Many folks on fixed incomes want to stay here in Vermont and can't afford that second home elsewhere. They deserve, as much as anyone, to live with the dignity in retirement they earned through a lifetime of work.

Only five states fully tax social security retirement benefits. Today, I ask you to join me in bringing that number to four, by phasing in the elimination of this tax on seniors living on low and moderate incomes.

An important step to a secure retirement is homeownership. I still remember how it felt when we bought our first home.

We couldn't get a traditional loan, so I worked out a deal with the owner to finance the sale. It was a two-story house in Morrisville, and I worked nights and weekends that summer to convert the second floor to an apartment that we rented to help pay the mortgage.

Perhaps I remember those years more fondly now than I did when I was bringing home fuel oil five gallons at a time because I couldn't afford to fill the tank. Or waking up at 1:30 a.m. to fill the wood

stove to get through the night. Or coming home after a long day's work to frozen pipes in the crawl space.

I understand the struggles of fixing up an older house because, like many of you, I've done it. We worked hard for that first house. It wasn't perfect, but it was ours and I was proud of it.

Today, many have even greater obstacles as they search to find a home they can afford.

Last year, we came together to bring more new housing to the market, which was a good start.

This year's budget funds a \$1 million housing package to build on that progress.

To help working families achieve the dream of homeownership, it doubles our funding in the Down Payment Assistance Program.

And for the second consecutive year, it increases our investment in downtown and village center tax credits.

But many of the neighborhoods surrounding our downtowns aren't living up to potential, because the cost to fix up existing housing exceeds the value of the home.

That's why I propose \$625,000 in incentives to help renovate and upgrade existing housing stock. Helping to attract young, working families to communities across the state.

As I've said, training and attracting people to fill our jobs and our schools, support our businesses and broaden our tax base should be the top priority of every elected official.

In addition to our housing package, there is a lot we can do to grow our workforce.

In my State of the State, I highlighted more than 300 good jobs that businesses need to fill, today. At the same time, nearly 50 percent of Vermonters who graduate from high school don't go on to college or post-secondary training.

It's my hope that every Vermonter, regardless of background or interest, has a path to meaningful employment. Whether studying for a PHD, LNA or CDL – all Vermonters deserve the chance to get ahead. So, let's work together to bridge this gap.

To increase availability of technical and trades education, while working with businesses to fill positions in targeted sectors, I'll ask you to commit \$500,000 to purchase training equipment, fit up new space, and expand adult career and technical education, across the state.

There's also a lot we can do by redeploying existing resources.

This includes how we support retirement-age Vermonters who want to remain in the workforce. These folks have so much to offer from mentoring young employees to institutional knowledge in virtually

every field. With our workforce challenges, helping those looking to stay engaged and employed is a must.

So, we'll expand the Senior Community Service Employment Program, and dedicate nearly a third of the Vermont Strong Internship fund to provide training for those seniors who want to return to work.

And as we make strides in the battle against opiates, we'll do more to help Vermonters in recovery find and hold a job – where, through an honest day's work, they can earn back the trust and self-esteem that addiction took from them.

I've directed the Department of Labor to provide employment services directly to those in recovery, through regular hours at Vermont's Recovery Centers.

This work has already begun. Employment counselors will serve three recovery centers by the end of this Spring, and all of them by the end of the year – at no additional cost to Vermonters.

In addition to strengthening our current workforce, we must also expand it.

As you know, we face population trends that – left unaddressed – will continue to result in fewer workers, fewer taxpayers and fewer students in our schools.

That's why I've proposed a \$3.2 million investment in a campaign to reverse these trends.

My administration has already begun discussions to gain your support for this funding, so we can set Vermont apart as a state that's serious about identifying, connecting with and persuading more people to become Vermonters.

Here's what makes this approach different:

First, we'll focus on those most likely to move to Vermont: People who lived here but left, who came here for college, who vacation or do business here, and maybe even those who haven't been here before, but share our values and want to raise their family in the safest and healthiest state in the country.

Second, we recognize that traditional marketing isn't enough. So, we'll speak directly with them in a personalized way.

Finally, we must provide the right information to those looking to move to Vermont. We can do this by creating a gateway portal of information on jobs, schools, housing and recreation. Imagine how likely you might be to move, if right when you started to consider it you received all the information you needed to make it a reality.

Our plan will train Department of Labor employees to provide all the knowledge someone needs from the moment they first "Think Vermont."

In contrast, past efforts have relied on traditional marketing strategies, which cast a wide net hoping as many people as possible will see the content.

These efforts aren't working in today's competitive world. In 2018, the technology exists to identify people who want to hear our story. So, let's use these tools coupled with direct contact to close the deal.

Companies use these strategies around the globe because the technology exists to better identify potential customers and deliver them the right message, on the right platform, at the right time.

These techniques will help us identify "could be Vermonters" and specifically target the most realistic prospects – using tax dollars more efficiently and with a higher, and more measurable, success rate.

There's no question, this approach is different. But I urge you to listen to the science and success stories, and commit the investment needed to make this strategy work.

Many of our larger businesses have the resources to recruit and relocate the workforce they need, but smaller businesses simply do not.

We can help, first, by becoming a conduit between our schools and our employers to help locate the workers they need to stay competitive, helping keep more of our college graduates here in Vermont.

Additionally, we can invest in a public-private partnership that uses a recruiter to place out-of-state workers with our small businesses.

This budget directs \$100,000 to help the Department of Labor begin this work.

With new investments, innovation and redeploying existing resources, we can strengthen our economy.

Vermont ranks as one of the top states for the number of start-ups, but we rank last among the 25 smallest states in helping those businesses scale up, succeed, and grow.

That's in part because our current tools cannot keep pace with the marketplace.

Here's an example:

Recently, the Agency of Commerce was approached by an entrepreneur needing \$100,000 in quick capital to buy a local business being forced to close.

The need was immediate to prevent foreclosure. Unfortunately, the restrictions of our existing programs couldn't get it done. This deal would have saved 40 jobs.

With more flexibility, we could have helped. So, I propose investing \$400,000 in a ThinkVermont Innovation Fund to help small businesses and entrepreneurs finance scalable opportunities faster.

We can also attract more entrepreneurs in a way that expands our workforce and our economy by modernizing the Vermont Employment Growth Incentive (VEGI). Over the last decade, this program has helped generate thousands of jobs, and brought in more state revenue.

I'll propose enhancements to VEGI that make it more accessible to small businesses and B-Corporations – companies committed to social and environmental goals, as well as a profitable bottom line.

This would be the first incentive of its kind for B-Corps, making Vermont the destination for mission-driven businesses and attracting the mission-driven millennials we need for our future.

We will also help nurture our cybersecurity industry and grow this workforce, while better protecting Vermont's data and systems from cyber threats.

With a \$600,000 investment and a partnership with Norwich University, we can establish a Security Operations Center that provides round-the-clock monitoring and protection against cyber-attacks.

By working with students from Norwich, this partnership will also build a deep bench of experienced cybersecurity professionals to support our workforce goals.

Our work to address climate change and meet our clean energy and clean water goals also present real opportunities to strengthen the economy.

Focusing on chimneys and tailpipes – the two greatest sources of emissions – we can stimulate more economic investment and job creation, just like we've done with solar energy.

Here are just a few examples.

Our Clean Energy Plan identified wood heat as a critical way to achieve Vermont's goal of 90 percent renewable energy by 2050. So, at the recommendation of my Climate Action Commission, we will invest \$300,000 to help homeowners replace old, non-EPA certified wood stoves with modern efficient ones.

This improves air quality, in and outside the home, saves folks money by reducing what they burn, and supports local shops and our forest products economy.

To help make electric vehicles more affordable and to meet my Administration's goal to double the number of renewable energy vehicles in Vermont by 2022, this year, we will draw down \$1.8 million from our Volkswagen settlement to electrify our system – making Vermont more accessible to electric vehicles for both residents and visitors.

Additionally, my Administration will work on solutions to encourage less expensive charging rates at times when its most beneficial to our electric grid.

And while all this is going on, we're exploring how to make Vermont the nation's leading manufacturer of battery storage technology.

My point is this: Environmental innovation can also be economic innovation, and we can't do one without the other.

Here's another example of how my administration is looking at things differently. The key to cleaning up our lakes and waterways is reducing the amount of phosphorous flowing into them.

Right now, we're using a 20th Century strategy, building infrastructure to capture phosphorous. Its estimated to cost taxpayers more than a billion dollars over the next 20 years, which doesn't even include maintenance and upgrade costs.

I believe there is a more innovative solution – one that creates economic growth by generating revenue and jobs and could be exported to places struggling with this very same challenge.

There is a large market for phosphorous in the energy, fertilizer and compost industries, and manufacturers purchase phosphorous and raw organic materials for their products.

My administration is exploring how the State can help create a commercial enterprise that captures a large amount of Vermont's excess phosphorous and convert it to a wholesale or retail product.

We'll soon be looking to harness the imagination and competitive nature of entrepreneurs, scientists and inventors, seeking proposals for the most efficient and commercially viable ways to segregate, process, package and sell phosphorous.

This is the kind of creative thinking we need to solve this problem, and I invite you to join with us in this effort.

I think most are aware that a larger workforce and a stronger economy are essential to generating the revenue we need to maintain the public investments we value. So too is ensuring we get the most value out of every dollar we spend to protect our most vulnerable.

I'd like to give thanks to our Agency of Human Services for its work to identify how to improve operations, find savings and efficiencies, repurpose existing resources and reduce overhead, while making progress modernizing systems and management to strengthen our social safety net.

This allowed us to balance the need for affordability while protecting services for those who need it most.

Thanks to that work, we can invest \$7.8 million in new initiatives. Efforts that not only seek to tackle some of our toughest challenges, from opioids to mental health, but also focus on prevention, which will reduce healthcare spending in the long-run.

To start, we will invest \$500,000 in two prevention initiatives.

First, we'll focus on the dental health of our kids. According to the Centers for Disease Control, poor dental hygiene leads to missed school, diminished classroom performance and serious health complications.

To strengthen children's health, while reducing long-term healthcare costs, we will begin rolling out a statewide school-based dental health program.

Next, we'll pilot a voluntary universal home visits program for pregnant women and babies. This initiative will provide three home visits for the first 16 weeks after birth, and it's modeled on programs we know improve the health of babies and mothers, while lowering costs.

We propose to launch this program in two high-impact regions this year, and if proven successful, expand statewide.

At the recommendation of my Opioid Coordination Council, this program will provide additional care for mothers suffering from substance abuse – beginning during pregnancy and through the child's second year.

Programs like CHARM in Chittenden County have demonstrated the tremendous value this type of support brings to moms and infants faced with addiction.

I'm also proposing to invest \$500,000 more to help the Department of Children and Families provide additional supports to children impacted by the opioid epidemic.

These children are the true victims of our struggle with addiction, and so long as I'm governor, we will not turn our backs or a blind eye to them. Because there's hope for a better future and we owe it to them to make it a reality.

This focus on community-based prevention isn't a function for government alone.

In fact, Rise Vermont – a movement created and led by Northwestern Medical Center, its surrounding communities and state partners like the Department of Health – has empowered its residents to make healthier choices, encouraging exercise and eating better to reduce chronic diseases like diabetes and heart disease.

Rise Vermont is outcome-focused, evidenced-based, and it's working. That's because Vermonters are involved in their own health. It's tailored to meet each community's prevention needs. So, I'm pleased Rise Vermont, with the support of OneCare, is expanding this model statewide.

Coupled with the state's existing prevention initiatives and those I've asked you to support today, Rise Vermont will improve health and continue our transition to a prevention-focused model of healthcare that lowers costs and builds upon our reputation as the nation's healthiest state.

Together, we've made improving our response to the mental health needs of Vermonters a priority – and getting them help as quickly as possible leads to better outcomes and more effective use of resources.

That's why this budget proposes nearly half a million dollars to put outreach workers in targeted areas throughout the state, getting people the care they need, when they need it, and reducing some of the strain on our emergency rooms.

We also need to ensure adequate facilities for those suffering from mental illness.

To address our most pressing mental healthcare needs, I have requested \$6.4 million for two facility upgrades – replacing the temporary secure residential facility in Middlesex and creating a forensics unit at the Northwest State Correctional Facility.

This is the first phase of our strategic plan to address an issue state government has grappled with for decades, and will better meet patients' needs while saving taxpayers millions of dollars.

As I said, it's no easy task to present a balanced budget without raising taxes or fees.

We must recognize that investments to grow the economy and make Vermont more affordable are essential to a future where our classrooms are full of kids, and students graduate with greater opportunity.

Where every community – every county – thrives.

Where we have a cleaner environment, safer and healthier neighborhoods;

And a future where we've restored our fiscal fundamentals, and no longer face revenue shortfalls year after year.

Across Vermont, many school boards have been working to manage budgets, mitigate tax increases and provide students more value for every dollar of the \$1.6 billion we currently spend.

We all want every child, regardless of district, to receive the best education possible. But we must be honest about whether we're achieving that vision.

The Brigham decision and Act 60 were both about equal access to education funding. But after two decades, opportunities, outcomes and funding remain alarmingly unequal.

We have some schools offering a wide range of foreign languages, environmental studies, coding, cutting-edge science, technology and engineering classes. Not to mention, sports, drama and music programs. And we have other schools that can't offer any of these opportunities.

We have districts which trimmed programs for kids to restrain budget growth to one, two or three percent each year, only to learn their tax rates are going up eight, nine or 10 percent because others have increased spending dramatically.

We have statewide test results that suggest the substantial increase in education spending over the last 20 years has not closed the achievement gaps in our schools.

And, year after year, Vermonters have endured property tax rate increases they cannot afford.

It's time to accept reality.

Due to the steady decrease in student population, the current funding mechanism is weakening the very system it was meant to strengthen.

With only 76,000 students in an education infrastructure built for well over 100,000, inefficiency prevents us from investing more in educational programs for our kids even as taxes skyrocket.

Friends, for our kids, communities, educators, economy and our future, we must do better.

We know the challenge. We're losing, on average, six workers from our workforce and three students from our schools, every single day.

It's why the Legislature passed Act 46, which – through difficult discussions – has positioned many districts to take the next essential steps. But we must accelerate this work.

Our goal should be to reach an agreement this session that meets the following objectives:

First, we must contain costs to eliminate the current deficit and achieve savings that will expand over time and prevent costs from growing faster than wages.

Second, we must establish a statewide funding system that is fully transparent, easily understood and truly equitable for every child.

Third, we need to provide districts the flexibility, tools and incentives they need to make sure consolidations improve outcomes for children and save money.

And finally, working with school boards, superintendents and unions, we should chart a course that steadily moves us from an average of 1 adult for every 4 students to having 1 adult for every 5 students, over the next 5 years – using the natural retirement and attrition of the current workforce.

Changing the average ratio by one, would save us well over \$100 million each year, once complete. And, we would still have the lowest ratio in the nation.

The scope of this challenge means all ideas must be on the table. To start this discussion, my team identified more than a dozen reforms with \$75 million in potential savings, which we've shared with you.

The fact is, there are multiple paths to achieve the needed savings. So, I look forward to hearing your ideas as well, and forming the best path to eliminate the existing deficit.

This work must be driven by our vision for the future, not our memories of the past.

Just as we did when we formed union high schools more than a half century ago, if we put what "can be" ahead of what "was," we can take an enormous step forward.

If we have the courage to discuss all options with civility and respect, and are willing to listen and learn from each other, we can save millions of dollars, invest in creating the best Cradle-to-Career system in the nation, give our kids the brightest possible future, and attract more families to all areas of Vermont.

We started down this path last year, by increasing the appropriation to the Vermont State Colleges and making our child care assistance program available to more families.

We'll continue these investments this year. And we'll make more by directing the Vermont Training Program to increase funding to train early childcare professionals... and by investing more in Career Technical Education, and scholarships that will put more members of the National Guard into our colleges and universities.

We know investment in these areas brings long term benefits for our kids, families and economy. But to make more, we must have the courage to reform our K-12 education system, and we must act now.

These priorities represent a transformative vision.

Now, I have no doubt that some will contrast our approach with their desire for new or higher taxes, or more expensive mandates on job creators.

Benjamin Franklin said, "there's a place for everything, and everything has its place." This is the time, and this is the place to make Vermont more affordable for families and businesses, not less.

As Governor, I've spoken to thousands of Vermonters.

To parents trying to give their kids the college education they didn't have. To small business owners taking a chance on hiring an extra set of hands in a tough economy.

I've talked to farmers, truck drivers, servers, electricians, and state employees, who work hard every day to make ends meet, but tell me it's getting harder.

And I've heard older Vermonters brag about their grandkids but wonder if the home they love – the state that gave them so much – will be affordable for those they hope to leave it to.

It's not bold to spend more than Vermonters can afford, or to experiment with policies our economy cannot sustain.

Instead, let's make real progress, and ensure the promise of Vermont is achievable for this generation, the next, and the one after that.

Ours is tough work. Many past governors and legislators have been fortunate to lead through economic booms. When the question wasn't as much about whether to fund an initiative or not, but by how much.

Those were simpler days, and days worth remembering but we must recognize that these days are different.

However, we can do what is truly bold.

We can have the courage to put Vermont on a clear, disciplined path. We can work to restore our economic foundation. We can expand our workforce, create jobs and make Vermont more affordable for our families and businesses.

And if we do, we will see better days again. Of this, I am certain.

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