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Gov. Shumlin Outlines Budget and Part II of Agenda for Progress
From Health Care to Property Taxes to Economic Development, Shumlin Lays out Packed Agenda for Legislative Biennium

MONTPELIER – In a detailed address outlining many of the important issues he will seek to address this legislative biennium, Gov. Peter Shumlin today outlined his fiscal year 2016 budget and Part II of his Agenda for Progress to grow jobs, expand affordability and preserve quality of life for Vermonters.

In addition to a balanced budget that closes a \$94 million budget gap, the Governor laid out the rest of his aggressive agenda that includes proposals to cut in half the Medicaid cost shift; reduce private health insurance premiums; help get school spending under control; eliminate the cost of an associate's degree for some Vermont students and provide Vermont employers a pipeline of skilled workers; and increase economic development incentives.

All of these proposals are designed to help working Vermonters by growing jobs and economic opportunity for the state.

"When you listen to the voices of so many Vermonters, from every corner of our state, from every background, and of every political persuasion, their frustration and uncertainty about their future is clear," the Governor said. "We know many of the drivers of this unease: Rising health care costs and rising property taxes, among others, and no corresponding rise in incomes and property values. Many hardworking Vermonters who would be proud to call themselves members of the middle class are left with a feeling that they are treading water or, worse, dipping below the surface."

FISCAL YEAR 2016 BUDGET

Vermont's economy has shown many signs of recovery since the Great Recession. State revenues have rebounded, growing by \$175 million between 2011 and 2014 after falling by more than \$97 million between 2008 and 2009. This has coincided with increased job growth, a steady decline in the unemployment rate, and a drop in the number of foreclosures. But while Vermont's economy continues to grow, the growth rate has not been as robust as economists had predicted. In early 2014, the consensus economic forecast was that State revenue would grow by 5 percent over the prior fiscal year. Revenue is now expected to grow by only 3 percent for this fiscal year and general fund revenue growth is expected to remain around 3.5 percent for the next five years.

The Governor noted that these realities lead to a simple yet challenging conclusion. “Like a family trying to adjust its budget to meet reality, it is our responsibility as state leaders to match state government spending with Vermonters’ ability to pay,” he said.

To meet that challenge, the Governor today laid out a balanced budget that begins to address the structural deficit by continuing to practice fiscal responsibility; reducing reliance on one-time funds; restructuring some state programs while making difficult cuts to others; investing in programs that deliver more to Vermonters in economic opportunity and support than they cost; and raising revenue without asking Vermonters to pay higher income, sales, or rooms and meals tax rates.

- **Promote Fiscal Responsibility:** To maintain Vermont’s top bond rating and avoid charging current budget challenges to future generations, the Governor’s budget fully funds retirement contributions and debt obligations. It also fully funds the General Fund transfer to the Education Fund, recognizing that Vermonters cannot afford to shoulder additional property tax expenses.
- **Reduce Reliance on One-time Funds:** The FY2016 proposal relies on \$11 million in one-time funds, down from a high of \$59 million in FY2012. While federal stimulus funds helped pull Vermont, and many other states, through the Great Recession, it is time to wean the state off those funds in order to chart a fiscally sustainable path forward.
- **Find Efficiencies through Restructuring and Difficult Cuts:** The Governor’s budget proposes more than \$15 million in ongoing savings through the streamlining, consolidating and restructuring of some government services. Among others, this includes the consolidation of some libraries, public safety call centers, the on-site septic program, and the Community High School of Vermont. The budget also cuts some programs such as the state LIHEAP appropriation, instead relying solely on federal funds as neighboring states do. The Governor acknowledged the difficult choices presented in the budget, but said those choices must be made if we are to finally shed the harm of the great recession and put the state on a sustainable fiscal path. “I ask critics of my proposals for restructuring to follow a simple rule: If you don’t like my recommendations, make your own that achieve equal ongoing savings,” he said.
- **Invest in Programs that Deliver Economic Opportunity and Support to Vermonters:** Wherever possible, the Governor’s budget makes smart choices by not cutting programs that deliver more to Vermonters in economic opportunity and support than they cost, such as the Vermont Rental Subsidy, the Family Supportive Housing Initiative, and the Emergency Solutions grants. The Governor’s budget does not cut one dime from critical child protection services. In fact, it supports increased staffing and other changes made in response to the tragic deaths of Vermont children last year. The Governor will also lay out proposals this year to strengthen communication, transparency, enforcement and protection in Vermont’s child safety work. Closely related to the issue of child safety is

continuing to make progress on addressing and preventing opiate and heroin addiction. While Vermont has made incredible progress, there is more work to do. To that end, the Governor's budget increases by 16 percent overall drug treatment spending, providing continued support for treatment and recovery centers as well as the statewide rapid intervention program.

- **Raise Revenue:** To meet a portion of the budget gap, the Governor is proposing to close an income tax loophole that allows Vermonters to deduct from the current year's state taxes the taxes they paid the previous year. The majority of income tax states already disallow this exemption. Reforming this loophole will cost taxpayers who use it an average of \$175 and raise an expected \$15.5 million.

HEALTH CARE: CUTTING BY HALF THE MEDICAID COST SHIFT AND REDUCING PRIVATE INSURANCE PREMIUMS

The Governor laid out an aggressive health care reform agenda that will continue to make progress on moving to payment for quality outcomes instead of number of procedures, fixing the state's chronic underpayment of Medicaid which shifts costs and artificially inflates private insurance premiums and increasing access to and affordability of health care for Vermonters. The Governor outlined a five-point plan to make progress towards these goals:

- **Pursue the Federal "All Payer" Waiver:** Vermont must continue work to become the first state to move from the current quantity based, fee for service system to one that pays providers for the quality outcomes they produce by pursuing an "all payer" waiver with the federal government. The Green Mountain Care Board (GMCB) is working closely with the Administration to submit a waiver application to the federal government that will allow the alignment of how providers are paid across private insurance and public programs to ensure that providers have the right incentives for improving quality and reducing cost. The Governor wants to secure this waiver by January 1, 2017.
- **Strengthen the Green Mountain Care Board:** To make sure that the Board institutionalizes its early cost containment success, the Governor is asking the legislature to enhance its role as a central regulator so it can treat health care like the public good that it is and ensure that Vermont has an integrated, cost-effective health care system for the long run. Specifically, the Governor wants to give the Board the ability to act where needed to open investigations into pressing issues and problems; programmatic and budget approval of the Vermont Information Technology Leader, VITL, to ensure alignment of health care technology investments with a more integrated, universal statewide system; and the power to approve innovative payment and delivery models promoted by Accountable Care Organizations, physicians, and clinics.

- **Invest in Vermont's Blueprint for Health and Payment Reform:** To build on the early success this effort has shown in bending the cost curve while ensuring high quality health care for Vermonters, the Governor's budget more than doubles payments to Medicaid's Blueprint providers with a new \$4.5 million appropriation, which includes increasing Medicaid's community health team payments by \$1 million and adding \$3.5 million to Medicaid medical home payments. The budget also supports Home Health organizations with an additional \$1.25 million to help them move forward with payment reform and invests \$500,000 to leverage \$5 million in federal funds to expand and support community providers such as the Support and Services at Home (SASH) program, Vermont Care Alliance, and others.
- **Reduce by Half the Medicaid Cost Shift:** To address the Medicaid cost shift that drives up private insurance premiums by an astonishing \$150 million every year, the Governor is proposing to invest \$25 million in the latter half of FY 2016, when new insurance rates begin, for payments to health care providers. On an annualized basis, this will mean \$50 million in cost shift reduction. To ensure that the cost shift is not further exacerbated by the nearly 20,000 newly insured Vermonters resulting from Vermont Health Connect, the budget also includes \$30 million to cover these Vermonters in Medicaid. All of these increases will help compensate Medicaid providers more fairly for the work that they do to keep their patients healthy, stabilizing the entire health care system for the benefit of all. Together, these increased payments will reduce the current Medicaid cost shift by half. The Governor's budget proposal includes language to ensure the Green Mountain Care Board with insurers and hospitals will recover the savings created by these increased payments, reducing premiums by up to 5 percent from what they would have been.
- **Cut the Uninsured Rate by Expanding Access and Increasing Affordability:** The Governor's budget sets aside an additional \$2 million to help Vermonters pay for their out of pocket health care costs, doubling state funding available to help Vermonters afford to go to the doctor when they are sick, treat their chronic conditions, and pay for their prescriptions through Vermont Health Connect Cost Sharing Reductions. These funds will be targeted to families with income between \$48,000 and \$72,000 who often feel the burden of high out of pocket costs. The Governor reiterated that he is open to other ideas to increase health care affordability, increase coverage, or provide backstop care for our few remaining uninsured.

To pay for these health investments, the Governor is proposing a seven tenths of one percent (0.7 percent) payroll tax on Vermont businesses. Every dollar raised will draw down \$1.10 in federal funds, more than doubling the money raised through the payroll tax. In FY2016, the proposal would raise \$41 million in state funds matched with an additional \$45 million in federal dollars. The money raised from this tax will go into the State Health Care Resource Fund and all of it will be dedicated to reducing the cost shift and improving health care quality and delivery.

About \$55 million of will be applied directly to the cost shift to reduce private insurance premiums, essentially getting \$55 million in relief for \$45 million raised in state funds.

SCHOOL SPENDING, EDUCATIONAL OUTCOMES AND PROPERTY TAXES

With student enrollments down 20 percent since 1998, a 4.6 to 1 staff to student ratio, and property taxes rising fast, the Governor outlined a number of proposals to help address the education spending problem in Vermont while improving education quality, including:

- Release a new online tool developed by the Agency of Education that allows for a clearer understanding of education spending, tax rates by district, and implications of declining enrollment and staffing to inform the conversations at the local level. To see the tool, [CLICK HERE](#).
- Place a moratorium on any new legislation that adds costs to districts.
- Phase out contradictory, expensive incentives including the small schools grant and the phantom student provision.
- Target construction aid for districts that are actively trying to right-size through a merger. The capital budget proposes \$3 million for State Aid for School District consolidation.
- Pass no strike imposition legislation prohibiting teacher strikes and board-imposed contracts while requiring both teachers and school boards to agree to a process for resolving labor disputes through third party decision making in the rare but disrupting instances when no negotiated agreement is reached.
- Enhance authority of the State Board of Education to redistrict in cases where a school or district is orphaned and needs to be part of a bigger union.
- Ensure decisions such as principal hiring, health care contracting, and other significant spending take place at the supervisory union level and empower Principals to hire all staff at their schools.

The Governor is also proposing that the state take its data sharing to the next level by partnering with all districts, starting with the most vulnerable, to create tailored performance measures, including targets for student outcomes, school climate, staff to student ratios and per pupil spending. Districts will get feedback, and if changes are needed, they will receive guidance and time to make progress. For those districts that do not make progress despite feedback from this process, the Governor will work with the Legislature this session to determine possible monetary or restructuring penalties. This work will add no additional burden to the education fund.

The Governor concluded with a plea to Vermonters and the legislature on the issue of property taxes and school spending. “This is my plea: let’s all commit ourselves to an environment where we listen to all ideas, and do not judge them too soon. Let’s investigate them, challenge each other respectfully, and be open to change,” he said.

HIGHER EDUCATION: FREE ASSOCIATES DEGREE IN ENGINEERING TECHNOLOGY AND ENHANCED JOB TRAINING

Building on expanded dual enrollment and early college programs as well as the Vermont Strong Scholars Program, the Governor announced that he will implement an innovative new public/private partnership to create a pathway for Vermont Technical College (VTC) students to earn a free Associates Degree in Engineering Technology and a pipeline for Vermont employers looking for skilled employees.

Overseen by the Agency of Commerce and Community Development (ACCD), the new program will work like this: ACCD will partner with VTC to recruit employers who have job openings. VTC and participating employers will then work together to recruit motivated high school seniors, through campus visits and employer tours. Students who sign up for an Engineering Technology degree through VAST early college at VTC will get their first year of higher education free while finishing high school, then will be guaranteed a summer internship at the partnering employer to gain critical job skills. When they return to VTC for their second year, the employer will pay for their first semester’s tuition, a cost of about \$5,000. The Vermont Strong Scholars program will then pay back their loans for their final semester if they stay and work in Vermont after graduation.

This program will increase enrollment at VTC, connect young people to education, a job, and a future in Vermont while supplying trained, well-educated workers to Vermont employers who need them.

To build on Vermont’s high school and higher education programs like VAST, targeted job training programs and state-registered apprentice and job training programs, the Governor is proposing this year to increase job training efforts to match Vermonters with current job openings and areas with projected job growth.

The State has made a significant commitment to workforce training through funding of the Vermont Training Program and the Next Generation Program, with more than \$3.3 million available to utilize and leverage with federal funds. Through the Agency of Commerce and the Department of Labor, this money can also be supplemented by targeted funds in response to economic challenges facing a region or county.

Just recently, the State also received an influx of more than \$6.6 million in federal grants to engage in workforce training, which it will use in partnership with the University of Vermont, Vermont Technical College, Community College of Vermont, and Vermont HITEC. These grant awards will allow Vermont to focus job training at key existing employers with high need and to

create a ready workforce for new employers in Vermont, such as Precyse and GlobalFoundries, looking to expand their job offerings.

ECONOMIC DEVELOPMENT: BOOSTING VEGI, MARKETING AND GLOBALFOUNDRIES

Vermont's future lies in the amazing success of the many high tech and advanced manufacturing companies that are growing statewide. The signs of success are everywhere, from Burlington being named one of the top emerging tech hubs in America to growing companies like Dealer.com, MyWebGrocer, and Logic Supply to new high tech startups like the new ad-free social media site Ello and Designbook, a new crowdsourcing and start-up platform. But it's not just Burlington: Pwnie Express in Barre has been recognized by Wired magazine for its cyber security devices; Global Z in Bennington has been quietly growing into a global leader in data management; Yonder, the app Backpacker Magazine described as "what happens when Instagram and Foursquare meet at REI and have a baby together," is growing in Woodstock.

Vermont's manufacturers are also on a comeback, employing more than 11 percent of the State's workforce. Innovative companies such as Mack Molding in Arlington and Cavendish and GW Plastics in Bethel have successfully expanded into new areas. Vermont Precision Tool in St. Albans has taken on some of the very capable workforce that Kennametal left behind in Lyndonville. In Bennington, car parts fabricator NSK is adding jobs and has employed some of Plasan's former workforce. Cabot Hosiery has seen orders for their Darn Tough "Made in Vermont" brand double.

A part of this success has been Vermont's targeted incentives like the Vermont Economic Growth Incentive (VEGI) program. In this most recent round of funding the Vermont Economic Progress Council is using VEGI to leverage \$21.4 million in new full-time payroll and over \$37 million in qualifying capital investments in the recipient companies over the next five years. These investments are spread throughout the state, from National Hanger Company in North Bennington to Cabot Hosiery in Northfield, Vermont Packinghouse in Springfield, and Blodgett Ovens in Essex. With their awards, these companies will create over 550 new jobs for Vermonters, with an average yearly salary of more than \$50,000.

To build on this success and bolster the VEGI program, the Governor is proposing three improvements, including:

- Remove the \$1 million cap for special projects outside of Chittenden County.
- Work to change the qualifying wage rate to recognize regional economic differences, increasing the number of companies around the state that qualify for job creation support
- Enable companies to use VEGI dollars earlier for training new hires.

With tourism supporting 30,000 jobs, the Governor is also proposing to partner with the Vermont Chamber of Commerce to use increased revenue from the rooms and meals tax to boost tourism and marketing funding. Under the proposal, 15 percent of Rooms and Meals tax receipts above budgeted projections will be invested in increased tourism and marketing support. The fund will also be used to promote remarkable companies like Ello, Faraday, Dealer.com, Keurig Green Mountain, Rhino Foods, and so many more that show what a great place Vermont is for technology businesses, manufacturing and entrepreneurship.

Lastly, Vermont is entering a new era of advanced manufacturing with the pending purchase of IBM by GlobalFoundries. The company is committed to Vermont, and they backed that talk up with action by offering jobs to every single one of the IBM employees that are a part of the deal. If the sale is approved, GlobalFoundries wants to build on IBM's strong foundation here in Vermont and grow jobs as it seeks to become the worldwide leader in chip R&D and radio frequency silicon chips, the kind that nearly every wireless device use.

To make sure GlobalFoundries is a success in Vermont, the Governor has asked his Commerce Secretary Pat Moulton to work closely with the company to support further investments as the company takes over the operation of this critical economic engine for Vermont.

CONCLUSION

The Governor concluded his address by saying, "It is an extraordinary privilege to govern a state where we all know each other, where a citizen legislature shows the country how to take on the biggest challenges we face, and where we really do put aside partisan differences that can paralyze democracy. Each of us comes to elected office filled with the intention to do good for our communities and our state. Every election is an opportunity to remind ourselves of our purpose, and renew our commitment to help Vermonters through our service. Vermonters expect nothing less from us, and I believe they deserve even more. I hope the proposals presented today and last week will help tackle the big problems we currently face and leave Vermonters with a feeling that state government can make their lives and our state better. I look forward to the opportunity to debate, shape, and implement these proposals with you this session and beyond, to make lasting progress for jobs, our kids, our quality of life, and our environment."

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