

BUDGET ADDRESS
GOVERNOR PETER SHUMLIN

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

Two years ago, I delivered my first budget address. Times were tough. We faced a budget gap of \$176 million and together we made painful choices.

As I begin my second term, the picture has brightened. Since the depths of the recession, our revenues are up twenty-seven percent. We enjoy the lowest unemployment rate this side of the Mississippi and we are slowly emerging from the Great Recession in better shape than our neighbors.

We are also delivering on our promise to rebuild Vermont stronger than the way Irene found us. We just broke ground on a new state hospital and are building the best community-based mental health care system in America. Between insurance, FEMA, and recaptured federal reimbursements, once the new state hospital is certified, the \$43 million total cost for Brattleboro, Rutland, and Berlin will be paid for in a year and a half without reaching into the pockets of Vermont taxpayers. This is an extraordinary result, and I want to thank you for your collaboration and swift action.

Unfortunately, we once again face big challenges in our state budget that will require more tough choices and restraint, as we confront continued uncertainty about the fiscal crisis in Washington.

Today I present a proposal that balances our budget without raising broad-based taxes. It invests in areas critical to our future jobs success. It keeps our reserves full, and our pension contributions funded at the recommended levels.

It is a budget that matches Montpelier's appetite for spending with Vermonters' ability to pay. It also redirects existing dollars to grow prosperity, protecting vulnerable Vermonters while providing the help they need to get off welfare and get back to work.

My budget also includes targeted investments that will ensure a brighter jobs future and greater prosperity, such as early childhood education, continued workforce development training, and more funds to enhance our creative economy.

To support Vermont's farmers and our national leadership in our farm-to-plate, forest products, and value-added agriculture, we allocate \$1.5 million to our working lands.

To make higher education affordable to all Vermonters, my budget includes the first increase in five years: An additional \$2.5 million for UVM, the state colleges, and VSAC, all directed solely at reducing tuition for Vermonters.

But there are five areas where bold transformation and targeted investments are critically needed in order to keep Vermont on the path to prosperity: First our education system, including support for our youngest children; second, our welfare benefits program; third, health care costs; fourth, our transportation funding; and fifth, our investments in clean energy and efficiency.

First, the most important investments we can make to grow jobs and secure prosperity for our children are the education initiatives that I called for in my inaugural address.

We used to think of high school as the four walls of the traditional building near our village downtown. But now, with our 21st century technology – with virtual learning, our technical education centers, our internship and apprenticeship opportunities, and our many colleges willing to offer credits to our students while they are in high school, the four walls of our school buildings have been dissolved. We must embrace and harness this change. This requires us to think of our education system not simply as K-through-12, but K-through-job.

Now I am not saying that everyone needs a four-year or advanced degree to make a good living. For some students, post-secondary job training or a two-year college degree will secure a good-paying job in the field they love. But

I am saying that a high school degree alone is no longer good enough to ensure a bright future.

We know that sixty-two percent of the jobs in the new economy will require post-secondary education, and that only forty-five percent of our high school graduates are continuing their education today. We have to seize the opportunity to reshape our education system to meet the demands of our STEM-hungry workforce. And I believe that the key to our success is to allow the existing money we are spending right now to follow each student. We must make this happen this session.

Vermonters agree that giving our kids a strong start, as early in life as possible, is the best thing we can do to ensure their bright future. We have a responsibility to examine how we are using taxpayer money so we provide the strongest possible start for our highest priority, our children.

In my inaugural address, I called for the largest increase ever in the State's early childhood support, by redirecting \$16.7 million from the State's portion of the Earned Income Tax Credit to help lower-income families pay for the cost of quality childcare. This is not new money – it is money the State is already spending by supplementing the federal Earned Income Tax Credit.

There's been a fair amount of discussion about my proposal, and some misunderstanding. Let me tell you why I believe this change makes sense. Here are the facts:

- This year, Vermont taxpayers paid \$26 million to supplement the federal earned income tax credit.
- While twenty-three other states also make some match to the federal credit, twenty-seven states choose to contribute nothing.
- Vermont's contribution is the second-highest in the nation.
- Many of you may be as surprised as I was to learn that because this program is federally-indexed, Vermont's contribution has risen forty-nine percent in the past eight years, while state spending in other programs per beneficiary has stagnated.

- Reallocating \$16.7 million from our current \$26 million credit will bring us in line with other states. And here's the point that may be getting lost: No one is proposing to eliminate the important and critical Earned Income Tax Credit, and we never would. Our proposal would mean that an average eligible recipient with no need for childcare would see a fifteen percent reduction in the combined federal/state payment, in a program that has seen more than triple that growth in the past eight years.

It is also important to remember that since we adopted the State's earned income tax credit, Vermont has made a number of other policy choices to help lower income Vermonters pay their bills.

- Our income tax is now among the most progressive in the country. On average, we ask people who make under \$35,000 to pay a tax rate of less than two cents on every dollar.
- As a result of Acts 60 and 68, our property tax and renters rebate is now based upon income, giving the biggest benefit to those who earn the least.
- Our sales tax now exempts clothing and shoes, in addition to food and medicine.
- Despite federal cuts, in the past few years we have scrambled to keep Vermonters warm in the winter by filling the gap for heating fuel assistance.

All of these policies deliver targeted help to lower income Vermonters.

We cannot be satisfied with business as usual; we have to invest for the future. With the second richest Earned Income Tax Credit in America, we have to ask ourselves: Is a once-a-year check from the State – a check that has increased 49% in the past few years – the best help we can offer to lower income Vermonters who are struggling to stay in the workforce?

Secretary Racine and the rest of my team have examined this question and our answer is: No. We have concluded that the biggest barrier to work for most lower-income Vermonters is the cost of quality child care. We believe

we should help chip away the benefits cliff for working Vermonters to make sure the next generation has the best chance possible.

Here is the transformation our plan offers: Our proposal raises the childcare subsidy for all eligible families. Today, families making about \$40,000 per year only get a minimal benefit that pays just ten cents of every dollar for childcare. Those same families under our proposal will have up to 50 cents of every dollar of their childcare expenses paid by the State.

This will enable lower-income children to access quality care that ensures healthy brain development, school readiness, and a bright future, while it enables their parents to work and contribute to their family's economic success without actually losing money by going to work. This is a smart, strategic way to create a better future for our children.

The second area that requires bold action builds off our historic commitment to childcare. We have an opportunity right now to match this significantly increased investment in early childhood education with a fix to the way we deliver our welfare to work benefits.

We face an insidious problem right now in our welfare system. It is a problem that hurts both those who desperately want to move from welfare to work and Vermont's taxpayers who pay for our welfare program.

It might surprise most Vermonters to learn that Vermont is the only state in the country that extends Reach Up benefits without interruption to the entire household for a lifetime. In contrast to Vermont, forty-six states limit assistance to five years or fewer, and all of our neighbors have limitations either in the time period or cash benefit of their welfare programs.

Extending welfare to work benefits without interruption for a lifetime does nothing to actually encourage people to get a job. What is far more troubling is that we actually penalize Vermonters who want to earn more money and get a job because we reduce their childcare and other benefits as they begin to earn money, causing many to stay out of the workforce or quit their new job because they do better on welfare. Meanwhile, we have seen our welfare rolls grow and our state budget strain under the pressure.

There is no doubt in my mind that solving the way we deliver welfare to work benefits will improve our long-term prosperity. Vermont is a caring state. The well-being of our most vulnerable families matters to us deeply, and we know that for some the road out of poverty will be longer than for others. This administration will continue to make sure our social safety net is strong for those who are fighting against the unrelenting undertow of poverty.

But it is neither compassionate nor prudent to continue a system in which struggling Vermonters are financially punished for getting off government assistance, finding a job, and providing for their children by going to work.

Here's how the system should work, as reflected in my budget: The State will provide benefits for a maximum of five years, by providing up to three years of initial benefits to Vermonters who need time to stabilize their lives, receive job training opportunities, and find a job. For those who need more help, the State will provide an additional two years of non-consecutive eligibility.

There is no better social program than a good paying job. We will not allow vulnerable Vermonters, such as those who are disabled, to fall through the cracks, but we will ask those who can work to get the training and support they need and get a job.

This fix is long overdue. It takes courage to say it, but say it we must: Benefits for Vermonters who are able to work must be temporary, not timeless. It is long past time for Vermont to reform our welfare system from one that discourages work to one that makes prosperity achievable for all Vermont families, including those living in poverty.

The third great obstacle standing in the path of job growth and prosperity is the skyrocketing cost of health care.

Currently, we spend twenty cents of every dollar we earn on health care, more than the national average. And those costs are growing at unsustainable rates. If our health care costs grow in this decade at the same rate we saw in the last decade, costs will again double by 2020.

Two years ago, you joined me in starting down the path to the first universal, sensible, single-payer, publicly-financed health care system in America that finally takes on these unsustainable, job killing costs.

Our partnership began with the passage of Act 48, and the establishment of the Green Mountain Care Board. It continues with the creation of the health insurance exchange, as required by federal law.

In addition to the plan we are releasing today that describes the benefits and costs of a universal health care system and the options to pay for it, we are also releasing a plan detailing the implementation of next year's federally-mandated health care exchange, which will require no additional revenue in Fiscal Year 2014.

My budget also makes certain that Vermonters currently in Catamount and VHAP do not suffer federally-imposed cost increases, by allocating the money needed to buy back the premium increases that would otherwise result from the less generous federal exchange.

I also keep my promise to begin to fix the so-called cost shift from Medicaid to our business community who struggle to provide their employees with health insurance, by including long-overdue inflationary increases in Medicaid payments that will help reduce premiums. This step alone will lower private insurance premiums by almost \$25 million every single year.

This is hard work and we have more ahead of us. But with your help, we will create the best health care system in America, right here in Vermont.

The fourth challenge that requires bold action is the transportation fund shortfall. This is a good news/bad news story. As we move to more fuel-efficient cars and drive less, we are buying fewer gallons of gasoline – 34 million fewer gallons per year since 2005. As a result, our revenues to maintain our crumbling roads and bridges have dropped, and are projected to drop even further. This is not a question of raising new revenue or creating new programs, it is a question of repairing and refilling a leaky bucket.

If we fail to repair the leaks, our state transportation fund receipts, which are \$36.5 million short this coming year, will result in our sending back to

Washington more than \$40 million of federal highway funds this year alone, causing us to delay or cancel critical road and bridge repairs. Sending money back to Washington is not a smart way to continue the progress we have made in improving the condition of our aging roads and bridges. I pledge to partner with you, reviewing the good work of the Legislative Study Committee on Transportation Funding, to determine the best way to repair the leaks this year, and into the future.

Meanwhile, we must also continue to make strategic transportation improvements, including the rehabilitation of the western corridor rail line to bring passenger rail from Bennington to Rutland to Burlington to create jobs and economic development that the western side of our State so desperately needs. My budget proposes \$11 million to build upon last year's investment and accelerate our progress on this critical western rail initiative.

Let me now turn to the fifth and last area where our investment will increase our prosperity and our quality of life. Our leadership in clean energy in Vermont is remarkable:

We have more green jobs per capita than any state in the country.

Since I became governor two years ago, we have seen the amount of solar energy on our grid double. We are successfully harnessing the sun, the wind, our water, fields, forests, and manure to generate clean, green power.

We continue to lead the nation in electric energy efficiency.

We are on the right path, but it's not enough.

We have done a great job of creating jobs and saving money by helping Vermonters cut down on electric usage. We have done a lousy job of keeping our homes and buildings comfortable and affordable in our cold winters on days like today.

We heat about sixty percent of our homes with traditional heating oil – a huge and growing expense for Vermonters, and a huge cost to our environment. Meanwhile, we have for several winters now kept needy Vermonters from freezing in their homes by scrambling to pay for heating

oil as the federal government callously slashes its contribution to the LIHEAP program.

We must do better. That is why my budget proposes to join our neighbors in Connecticut and Massachusetts by assessing a ten-percent surcharge on the retail value of break open tickets and applying the \$17 million raised to comprehensive energy program funding.

I propose to allocate the \$17 million for three purposes:

First, to keep low income Vermonters warm in the winter through the State's first-ever base budget contribution to LIHEAP, at the level of \$6 million. Let's recognize the sad fact that Washington is unlikely to fund this critical program adequately and let's do something about it, so that all Vermonters stay warm in the winter.

Second, we must create jobs, save energy, and stop wasting dollars in drafty homes by investing another \$6 million per year in thermal efficiency. We have a simple choice. As oil prices continue to rise, we can send our hard-earned Vermont dollars to oil producing countries that mostly don't like us, or we can buy less oil and help fight climate change by keeping our heat inside our homes and buildings.

Third, I propose that we provide \$5 million as a stable source of support for the Clean Energy Development Fund to continue our leadership in building renewable energy and efficiency projects.

I know we are going to have plenty of debates this session, and at times we will disagree. But I am optimistic about the outcome. Together, we share a tremendous opportunity and a responsibility to help our economy and to grow prosperity for all Vermonters.

- We can reshape our education system to match the needs of our 21st century jobs. And we can put our money where our mouths have long been by providing childcare benefits to better nurture and educate our most vulnerable children.

- We can encourage independence and employment while ensuring that no Vermonter is penalized for having a job.
- We can create the best, most affordable health care system in America.
- We can rebuild our crumbling roads and bridges and improve our rail corridors.
- We can keep Vermont at the forefront of the clean energy revolution.

And we can do all of this while we build jobs and save money.

I ask you to join me, but I also commit to you an open door and an open mind. We will have our differences, but we will carry out our work in the best Vermont tradition, without malice and with respect for each other, regardless of party label. We will work together to find common ground.

But we must also take bold action, not simply find ways to say no. Vermonters expect nothing less; nor should we.