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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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Budget Address
Governor Peter Shumlin
January 15, 2015

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

As I stated here a week ago we have many challenges and opportunities ahead. Today, as I deliver the toughest budget I've put together, I will present to you Part 2 of my plan for how we can help secure a better future for all of us.

When I listen to the voices of Vermonters, from every corner of our state, from every background, and of every political persuasion, their frustration and uncertainty about their future is clear. They play by the rules, work hard - sometimes at more than one job, but their bills keep piling up faster than they can bring in the money to pay them. At a time when the wealth gap between the people at the top and everyone else is more extreme than since before the Great Depression, Vermonters hear about the recovery both in Vermont and nationally; they hear about our state's low unemployment numbers; and they wonder: Why aren't I seeing it? Why is my family being held back?

We know many of the drivers of this unease. Rising health care costs and rising property taxes, among others, with 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.

Like a family trying to adjust its budget to meet reality, it is our responsibility as state leaders to match spending with Vermonters' ability to pay. Government must be effective, efficient, and affordable.

Let's not forget that the budget is just the math that shows us how we will achieve what really matters: to provide the services Vermonters need while creating opportunity for all of us to fulfill our full potential as citizens, family members, workers, and business owners.

Though many Vermonters are struggling with affordability, all the news is not bad news. Our state economy is doing much better now than when I became governor four years ago. Unemployment is down; jobs are up; and foreclosures and bankruptcies have dropped sharply. General Fund revenues grew \$175 million from FY11 to FY14. Contrast that with 2008 and 2009, when state revenues fell by more than \$97 million and Vermonters were losing jobs left and right.

Nevertheless, when I gave this speech last year, the official revenue forecast for FY16 was \$40 million higher than it is today. A year ago, the consensus economic forecast was that our state revenue would go up by 5% in this budget year enabling us to grow our way back to a

balanced budget. That has not happened. We now know that revenue this year will, at best, grow only by 3%, and we continue to expect a downgrade in projected growth when our economists release an update later this month. Looking ahead, the General Fund is expected to grow around 3.5% for the next five years.

We have already made some tough decisions together and reduced the FY 15 budget by \$34 million. Many of these ongoing spending reductions are carried forward into the FY16 budget. Over the past four years we have also been weaning the State off the significant one-time federal stimulus dollars that helped pull Vermont, and many other states, through the downturn without completely eviscerating state government. We have reduced our reliance from a high of \$59 million in FY12 to the FY16 proposal which includes only \$11 million of non-recurring funds.

Reduced growth rates in Vermont and across the country; dried up federal funds; the need to promote affordability for Vermonters – these realities lead to a single challenging conclusion: working together, we must take a different approach by curbing state spending to bring the cost of state services back in line with growth. While it will take more than one year to adjust to this new reality, my FY16 budget makes a strong start.

To those who would call upon us to solve our \$94 million budget gap by raising it in taxes, I am here to tell you that will not work, even if we could afford it, because our economy is growing more slowly than our state spending. Simple math tells us that we would have to raise revenue year after year if we fail to match our spending rate with our growth rate.

With all of this in mind, I am presenting a balanced budget knowing that it is the beginning of a conversation regarding how to structure state government sustainably to meet the needs of Vermonters. You can expect me to engage deeply with you on how best to do this.

I want to share the five principles that guided our work:

First, I won't charge our budget challenges to our kids and grandkids. My budget fully funds our retirement contributions and debt obligations. I am proud that we have maintained one of the strongest bond ratings in the country. With Vermonters struggling to pay their property tax bills, I also fully fund the General Fund transfer to the Education Fund.

Second, state government must address ways to be more efficient. Therefore, I propose more than \$15 million in ongoing savings driven by this principle. These include streamlining and consolidating government services and restructuring some programs. It is a necessary job of all good organizations – public and private – to continually look at what they do and ask: Is what we are doing meeting our core principles, and are we doing it the best way we can? These choices are rarely popular or without critics. Change is always hard. All of these cuts, and others detailed in the budget, have been proposed because I believe we can offer them while still providing core state services. But let me be clear – they are real; I know each matters deeply; and they are tough:

- In addition to personnel or labor cost savings, I am proposing consolidation of some libraries, public safety call centers, the onsite septic program, and the Community High School of Vermont.
- I propose that we not include state LIHEAP in the base budget this year, relying instead on our past practice of stretching our \$18 million federal appropriation. While we cannot fill all the holes left by federal cuts, we will use the budget adjustment to make necessary enhancements.
- My budget counts \$125 of social security income toward Reach Up eligibility to make it consistent with some other state programs. This reduces total Reach Up spending while preserving all other aspects of the program including those we added with you last session to help fix the benefits cliff.

My budget also presents a net reduction of funding for 11 state employee positions and requests additional savings of approximately \$9 million in personnel costs. This will require the Vermont State Employees Association to support some of the choices our budget will present – through reduced salaries and expenses and other ways – to avoid even larger problems if we fail.

I know we will debate these and other parts of the budget throughout the session, but I ask critics of my proposals for restructuring to follow a simple rule: If you don't like my recommendations, propose your own that achieve equal ongoing savings.

Our **third** principle is this: wherever possible, make smart choices by not cutting programs that deliver more to Vermonters in economic opportunity and support than they cost. You will see that we retain investments in the Vermont Rental Subsidy, the Family Supportive Housing Initiative, and the Emergency Solutions grants that have a proven record of avoiding temporary motel shelters and helping the homeless move to stable housing. For programs that help sustain our most vulnerable, we have held spending wherever possible at last year's levels.

The **fourth** principle underlying our budget proposal is that we should not cut state programs if it will do far more harm than good down the road – as we saw in the depths of the recession with cuts that eroded our ability to adequately protect Vermonters, including vulnerable children. My budget does not cut one dime from Child Protection services; in fact, it supports the increased staffing and other progress we made in response to the tragedies last year. While we may never entirely prevent people with empty hearts from committing horrible crimes against those they should love and protect, the state must do everything it can to help our vulnerable children.

We will present proposals to you this year to strengthen communication, transparency, enforcement, and protection in our child safety work. We also used the position pilot you wisely authorized last year to allow DCF to better manage the workload within its existing appropriation by adding social workers, as well as other child protection staff, within its present budget authority. While this is a necessary and substantial start, more is needed. I want to thank the Department and its hard-working staff for the improvements they have already made

and the further work they will do with Senators Sears and Ayer, Representatives Lippert and Pugh, and all of you to better protect our children.

One truth we should all acknowledge: the horrible tragedies inflicted upon innocent children across our state last year were driven by addiction. In their memory we must continue our work to prevent opiate and heroin abuse. The budget I propose continues support for treatment centers, recovery centers, and our statewide criminal justice rapid intervention program, and increases by 16% overall drug treatment spending to make sure last year's progress is more than a one-time success. Together, Vermonters are facing the ravages of heroin and opiate addiction in our families, friends and communities, and we must continue to fight.

Finally, my budget relies on the principle of balance. We cannot just restructure and cut to close our \$94 million hole without inflicting significant damage upon Vermonters who need us. You have heard many times over the past four years my opposition to raising income, sales, and rooms & meals tax rates to fund state government. I remain convinced that our tax rates are already high enough, and as I travel across our state, Vermonters echo that view.

Nevertheless, to meet a portion of our budget gap, I am proposing we close an income tax loophole that we partially fixed in 2009, by eliminating the deduction of state and local taxes paid from state tax returns. Vermont is in the minority of income tax states that still allow taxpayers who itemize to use this loophole to deduct from this year's state taxes the taxes they paid last year. The average benefit for those who use this deduction is \$175. Eliminating it raises \$15.5 million toward our budget gap. This progressive and principled approach is sensible and timely.

I hope we can return to these five principles as we debate this year's tough budget together. I do not insist that I have all the answers; I do know we must work together to fund state government and deliver services affordably to Vermonters.

Balancing our budget is only part of our responsibility this year. The key to our future is a growing, vibrant, entrepreneurial economy that supports jobs and better wages. Last week, I urged us all to seize our advantage to power Vermont forward in energy innovation to grow more jobs and lower our energy bills. I urged us to take the anger and frustration we feel when we see and smell algae blooms in our lakes to do more to protect our waters that are so vital to our economy and our way of life.

We also know that the future of our working families and job creators depends upon improving access and affordability of health care by getting control of the unsustainable increases in health care spending. The future of our children depends upon finding solutions to the high costs of public education while improving quality and moving more of our kids beyond high school. The future of our state depends upon offering greater access to higher education and job training, and providing better support for our employers who drive economic development and job creation.

Let me tell you my proposals in each of these areas.

HEALTH CARE

I have pursued health care reform for nearly two decades because I know how much the ever-rising cost of health care hurts families and businesses. The U.S. health care system is unsustainable, unfair, and unaffordable for too many. I know, perhaps better than anyone else in this room, just how hard it is to change the health care system. Yet it is absolutely critical that we do so or it will destroy the rest of our economy and the ability of Vermonters to pay their bills.

That is why, despite great challenges and recent setbacks, I remain absolutely committed to continued improvement to our health care system so that we can fulfill the vision set forth by Act 48.

Let's make real progress together by moving to payment for quality outcomes instead of number of procedures; by fixing the state's chronic underpayment of Medicaid which shifts costs and artificially inflates private insurance premiums; and by increasing health care access and affordability for Vermonters. Here are the five ways I propose we accomplish these goals:

First, we need to accelerate the hard work we've begun on cost containment and move to a more rational way to pay our providers. It does not make sense that doctors and hospitals receive different amounts of money for the same procedures, depending upon who pays. It also does not make sense that our providers get paid for the number of procedures they perform, not results. Our current payment system does not reward healthy outcomes; it creates administrative headaches for our providers; it underpays our primary care community which threatens their survival; and isn't fair because some of us – usually our businesses that offer health insurance and those of us with private insurance – end up paying more than our share to support the costs of the whole health care system.

That's why we must push full-steam ahead to become the first state to move from the current fee for service system to one that pays providers for the quality outcomes they produce by pursuing our "all payer" waiver with the federal government. The Green Mountain Care Board is working closely with my health care team to submit a waiver application that will allow us to align how we pay our providers across private insurance and public programs to ensure that providers have the right incentives for improving quality while bending the cost curve. This should be achievable by January 2017 if we all work together, and I ask for your support.

Second, to aid these efforts, I propose we strengthen the Green Mountain Care Board. The Board is already successfully containing costs and moving the state steadily to a new, more rational payment system. In the past two budget years, the Board has held hospital spending growth to just 3%, less than half the growth rate that was seen over the previous seven years and the lowest hospital growth rate in over 30 years.

To make sure that the Board institutionalizes its early cost containment success, I will ask the Legislature to enhance the Board's role as the central regulator of health care so it can treat health care like the public good that it is. The Green Mountain Care Board, which was created by you in part based upon the well-established regulatory model of our Public Service Board, should also have the ability to open investigations into pressing issues and act where needed. It needs the ability to align health care technology investments with a more unified statewide system by having budgetary and programmatic oversight of the Vermont Information Technology Leaders, VITL. The Board should also have the power to approve innovative payment and delivery models promoted by our Accountable Care Organizations, physicians, and clinics.

Make no mistake: the Board faces a significant challenge, since national health care costs are expected to grow over 6% annually by 2019. While many of the other 49 states might sit back and continue health care business as usual, Vermonters cannot afford to do so. In order to continue our cost containment progress, we must strengthen our Board.

Third, we need additional investment in Vermont's Blueprint for Health to build on its early success in reducing costs while improving quality. It has been central to our reform efforts; our job now is to position it for a strong future. Our Blueprint medical homes and community health teams have effectively increased social services for the sickest and most needy Vermonters on Medicaid, and have reduced the medical needs of those with private insurance while saving about \$550 per person every single year.

Today, its future is at risk because participating providers have not seen an increase in payments since the Blueprint launched. My budget fixes this by more than doubling payments to Medicaid's Blueprint providers with a new \$4.5 million appropriation, including increasing Medicaid's community health team payments by \$1 million and adding \$3.5 million to Medicaid medical home payments. My budget also supports our hard working Home Health organizations with an additional \$1.25 million to help them move forward with payment reform.

I also propose that we expand to more Vermonters the good work done by home and community providers, like the Support and Services at Home (SASH) program and Vermont Care Alliance, by supporting my request for an additional \$500,000 that will draw down \$5 million in federal match. Programs like these keep Vermonters with chronic conditions healthier by managing their needs before they get sicker. It saves money and improves quality of life and we should make this model more widely available. This investment just makes sense; I need your support.

Fourth, in order to make sure Vermonters have access to the care they need, we need to do more to fix the state's broken Medicaid reimbursement rates. Anyone in business will tell you: when you get paid as little as 40 to 60 cents on a dollar of cost, you can't stay in business. This puts our independent rural providers with high numbers of Medicaid patients at the greatest risk. All across Vermont, providers who treat Medicaid patients have two choices to

limit losses: charge patients with private insurance a higher rate; or turn away Medicaid patients who desperately need care.

Current Medicaid reimbursements drive up private insurance costs for businesses and individuals, acting as a hidden tax or cost shift. This amounts to an astonishing \$150 million in private premium inflation every single year. Our failure to fix this by increasing state Medicaid reimbursements also means we are failing to draw down tens of millions of dollars in available matching federal funds.

Therefore, my budget invests \$25 million starting January 1, 2016, providing a 50% increase to our primary care providers and reducing the current Medicaid cost shift by half. My budget also will commit nearly \$30 million in FY16 to cover the nearly 20,000 people who now have insurance coverage thanks to Vermont Health Connect and our Medicaid expansions.

Every dollar of this increased payment in Medicaid reimbursements will be used to reduce the cost shift and bring down private insurance rates. My budget proposal includes language that requires the Green Mountain Care Board through its hospital budget and rate review processes to return the savings created by these increased payments, reducing premiums for businesses and individuals by up to 5% from what they would have otherwise charged.

Fifth, we should better address health care access and affordability for Vermonters. We all should be very proud that, as a result of our implementation of the Affordable Care Act, we have now cut in half the number of Vermonters without health insurance. Vermont is one of two states in the country that now offers enhanced financial help, beyond what the Affordable Care Act provides, to those struggling to pay their share of health care costs. Yet we know from the recent household insurance survey that the biggest obstacle to care continues to be cost. Some of these individuals have insurance, but struggle mightily to meet their other out of pocket costs, deductibles, and co-pays when they get sick. Others refuse to sign up for insurance at all because of exactly the same concerns.

That is why I recommend an additional \$2 million to double the state's current funding that helps families with incomes between \$48,000 and \$72,000 to afford to go to the doctor when they are sick, and pick up their prescriptions when they need them.

I know that some of you have other ideas to increase health care affordability, increase coverage, or provide backstop care for our few remaining uninsured, and I welcome all good ideas.

You might be asking: How are we going to pay for this? I propose to pay for all of the investments I just outlined with a seven-tenths of a percent (0.7%) payroll tax. The money raised from this tax will go into the State Health Care Resource Fund and will be dedicated to reducing the cost shift and improving health care quality and delivery. Why, you will ask, is a small payroll tax actually a sensible choice for businesses that have to pay it? Why is it the right

move for Vermont? Every dollar the state collects allows us to draw down \$1.10 of federal funds, more than doubling our money. In FY16, my proposal would raise \$41 million in state funds matched with an additional \$45 million in federal dollars.

This proposal makes sense for businesses that provide health insurance because we can reduce the cost shift overall by more money than the tax raises by drawing down the federal match, lowering private insurance premiums. It benefits all Vermonters because the combined state and federal dollars raised increase payments to providers and increase access for Vermonters, while making commercial insurance more affordable for individuals and businesses. It will also leverage cost shift reduction for businesses that offer insurance today by asking for a small contribution through the payroll tax from *all* businesses, including those that do not currently offer insurance.

Many of you share my disappointment that we will not achieve, at this time, the grand vision of Green Mountain Care. I know you, like me, want to ensure Vermont continues to make great strides in health care reform. Let me assure you that if we adopt the package that I have just outlined, we will have achieved a significant and meaningful part of the goal we set out for ourselves in Act 48 – real cost containment, a more rational delivery and payment system, and a high-quality, integrated health care system with better access and affordability for all Vermonters. These are huge accomplishments, critical to our economy, to putting more dollars in Vermonter's pockets, and improving our quality of life. I ask for your support this session.

EDUCATION/PROPERTY TAX

There may be nothing more important to our future prosperity than providing a quality education for all our children. Yet today, Vermonters feel tapped out trying to meet that goal. There is no mystery why: While the number of students in our schools plummets, our property taxes skyrocket, and our property values and incomes stagnate. You heard it and I heard it from Vermonters all over the state these past months – they are frustrated at rising costs they struggle to control and they want action.

Adding to their frustration is unease that we are not buying better outcomes with all the money that we spend. While our public schools receive deserved praise, the quality of education varies greatly across the state, and we are not making progress where we need it the most: engaging our kids living in poverty to excel in school and seek education beyond high school.

Some seek precipitous changes that would fundamentally alter the way we delivery education in Vermont. To roll back the more than \$230 million in increased education spending added in the past decade all at once would require us to immediately eliminate at least 2,500 of our teachers or close dozens and dozens of our schools.

So drastic a move obviously would harm our ability to deliver high-quality, equitable education, but let there be no doubt that Vermonters want action and real change. If you think

tax rates look bad now, let me share some really bad news: if we do nothing, projections for the next five years are worse; projections for the next 10 years are even worse than that. In fact, the numbers become eye-popping. Complacency is not an option. The status quo is not an option. Never before in my life as a public servant have I seen more will, across parties and across interests, to improve quality and lower costs.

Let's remember the facts as we act:

- Since 1998, Vermont has seen student enrollment decline by 24,000, a whopping 20% statewide, and some communities have lost over 50% of their students. There is no end to the decline presently in sight, as our population ages.
- Despite this decline, we employ more teachers and paraprofessionals than ever, with a statewide student-to-staff ratio of 4.7 to 1.
- We have the lowest class sizes in the country. Due to declining enrollment, 20% of our elementary classrooms have between two to nine children.

The question is: Are we getting quality education for our higher price in these micro-classrooms? The answer is no. We buy those very small classes at the expense of foreign language, tech classes, the arts, sports, and other critical offerings. Our kids suffer as quality declines, and it is their future that takes the hit.

- Some of our schools are so small, the scores can't even be reported in a statistically significant way, meaning we have zero data to measure their progress.
- We have one of the highest high school graduation rates in the country, but our students pursue post-secondary education at one of the lowest rates in the nation, with students living in poverty the least likely to move beyond high school.
- Our complex and archaic governance structure has principals and superintendents voting with their feet. An astounding 30% of them leave their jobs every single year, destabilizing critical leadership.

Property taxes rise; student counts drop; and quality does not improve appreciably despite the enormous amount of money we are spending. We have to ask ourselves: Given all of these facts, are we spending money wisely, targeting our limited dollars where they will make the biggest difference for our children?

This is not a problem we can pretend to fix by changing the way we collect revenue. We pay for education through property tax, income tax, sales tax, vehicle purchase tax, and lottery. To those who believe that the answer to our education spending problem is to ask for more money from any of Vermonters' pockets, you have missed the point. Vermonters understand

that we have a spending problem, and we need to fix it. They expect better outcomes for our students at lower costs. That should be our goal.

In doing so, we must not compromise our constitutional obligation to ensure that every child has access to equal educational opportunity. Let's not return to a pre Act 60/68 system where the quality of our kid's education depends upon the wealth of the community they happen to live in.

Across Vermont, parents, teachers, school boards, students and voters are asking for help. I believe that when you give Vermonters the facts with good data, they will do the right thing every time. To support them, I made it a top priority to develop a partnership with schools and communities to give them the information they need to chart a better future for their children and their taxpayers.

This past summer, I tasked my Education Secretary, Rebecca Holcombe to begin this work. Impressively, she has already met directly with members of almost every single local school board, and has shared data with every district in the state. The data is compelling, and uses facts, not emotion to demonstrate the need for partnership and change.

We know there is a will to act at the local level. With overwhelming support, Chittenden East voters in six participating school districts approved a new merged district with a single board. Working together, they will have more power to provide superior and affordable education to their kids, and I applaud them for it. Other communities are engaging in similar conversations right now.

Vermont's schools are built upon a long tradition of local control, but we have to ask: What does that really mean today? For many communities where student counts have dropped precipitously, local control means board members finding themselves no longer in a position of deciding what opportunities to provide to their kids, but instead deciding what opportunities they have to take away. Do we cut foreign languages? The arts? Sports teams? Technology and computer classes? Meanwhile, even if one town makes cuts, the town next door might not – thereby driving up everyone's costs and making local control more like local not-in-control.

But if you really want to make a mess of our school system, ask Montpelier to come up with a one-size-fits-all solution of central control. Every time we try to solve the big problems in education by ourselves under this Dome, we run into a reality roadblock: every school, every district, and every community and region in our state is different and faces unique challenges that require unique solutions.

That is why I'm so convinced that partnership is the answer. The partnership of local communities with my Agency and the State Board of Education, driven by real data about quality and cost, will result in a more affordable system with better outcomes for our kids. This will make local control real control, partnered with the state.

Montpelier has a critical role to play in this partnership. We are fortunate that so many have come forward with ideas to help, but no one is sure which may work. So 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.

Here are my proposals:

- **First**, we need to provide even more data to help people answer the questions they have about rising spending. My Agency of Education has today launched online tools right on our website to help communities understand their education spending, phantom students, tax rates, enrollment, and staffing. Encourage your communities to check it out as they review local budgets.
- **Second**, let's commit to a moratorium on new mandates from Montpelier that adds costs to districts.
- **Third**, we must phase out or eliminate contradictory incentives built into the funding formula like the small schools grant and the phantom student provision.
- **Fourth**, we will target construction aid for districts that are actively trying to right-size through a merger. My capital budget proposes \$3 million for this purpose.
- **Fifth**, we should pass legislation prohibiting both teacher strikes and board-imposed contracts, while requiring both sides to resolve differences through third party decision-making when negotiation fails.
- **Sixth**, we should consider giving enhanced redistricting authority to the State Board of Education or another entity when schools are orphaned and need to be part of a bigger union.
- **Seventh**, we should make sure decisions such as principal hiring, health care contracting, and other significant spending take place at the supervisory union level, and we should empower principals to hire all staff at their schools.

These proposals will help, but a bigger transformation is required to truly bend our costs and shore up our challenged schools. So here is our bigger idea.

Last year, you appropriated \$3.5 million to the Agency of Education to help evaluate what we are buying with our education fund dollars. I have asked Secretary Holcombe to use this significant commitment to broaden and deepen our Education Quality Review program to help communities get a clearer picture of how effectively they are serving students and spending money.

The Agency will go into schools with evaluation teams of colleagues and state experts. They will use data to set educational and fiscal targets, involving student performance, school climate, per pupil spending increases, and staff to student ratios, among others. They will then help schools achieve them. We will work with our most vulnerable districts first, and our goal will be to support improvement. A partnership means working together, but we must be prepared to act when necessary.

We will give districts time to make progress, but if they do not make improvements in their fiscal or educational results, we should either adjust the funding formula to ensure that other taxpayers do not support continued bad choices or, when absolutely necessary, find ways to exercise authority to close schools. I propose we work this session to structure this enhanced review system to improve quality and cut costs.

I know my proposals will not be welcome by everyone, but I hope you will consider them thoroughly and review them with an open mind, realizing that even more drastic solutions may be demanded by Vermonters if we fail to act. It will take time, hard work, courage and partnership – in Montpelier and in our schools and communities – to see progress, but it is critical that we start now.

HIGHER EDUCATION AND WORKFORCE TRAINING

Let's not forget the reasons we are striving every day to improve our education system. It is the right thing to do for our kids. It also prepares them for good jobs, drives economic development, and attracts families to our state which desperately needs young workers.

We have had many successes. I am proud that my Administration secured two highly competitive early childhood grants, attracting \$70 million dollars in federal funds to help give our youngest Vermonters a strong start.

We are also better preparing our students for the higher-skill, higher-wage jobs that are increasingly part of Vermont's innovative jobs landscape. Nearly 1,300 juniors and seniors are taking college courses right now through our dual enrollment program. Last year, 142 high school seniors took advantage of our early college program at six Vermont colleges, making higher education more affordable by earning a whole first year of college for free. Meanwhile, more than 4,200 first-generation students participated in VSAC's GEAR UP and Talent Search programs to help prepare for college.

This progress matters. It matters to the parents of those young Vermonters who understand the importance of providing their children the opportunity to move beyond high school, but struggle to afford it. It matters to our employers, who need qualified applicants to fill many open jobs. It matters to all of us because the future success of these students means the future success of our entire state.

Now listen to our next step. We are going to partner with businesses and Vermont Tech to create a free Associates Degree in Engineering Technology, and it can be done with no additional cost to the Education Fund.

This is how it will work: Our Agency will recruit employers who need high-skilled workers. Vermont Tech and these participating employers will work together to find motivated high school seniors. Students who sign up for VAST early college will get their first year of college credit free while finishing high school, followed by a guaranteed summer internship at the partnering employer to gain critical job skills. When they return to Vermont Tech for their second year, the employer will pay for their first semester's tuition, about \$5000, and the Vermont Strong Scholars program will then pay back loans for their final semester if they stay and work in Vermont after graduation.

This partnership is a four-way win. Vermont Tech increases enrollment; our students get degrees; our businesses get the trained employees they need; and our young people stay in Vermont.

We know our businesses' success also means success for working Vermonters. In addition to our high school and higher education programs like VAST, we have expanded other targeted job training programs to ensure Vermonters starting out or looking to move up in the workplace have the training they require. This year we will increase our job training efforts, with more than \$3.3 million in Next Generation and other funds for our workforce training programs. We also will benefit from \$6.6 million in recent federal grants for workforce training and help the long-term unemployed, in partnership with UVM, our state colleges, and Vermont HITEC.

ECONOMIC DEVELOPMENT

You may not have predicted this a decade ago, but today our advanced manufacturers are on a comeback, employing more than 11% of our workforce. We're seeing innovative companies such as Mack Molding in Arlington, and GW Plastics in Bethel successfully expand into growing markets, like medical devices. Vermont Precision Tool in Swanton has hired some of the very capable workforce from Kennametal 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 its Darn Tough "Made in Vermont" socks double, as they expand their physical plant and add jobs. The list of manufacturers going strong and creating jobs is impressive.

We expect our newest advanced manufacturing company will build on the foundation of one of our oldest. When IBM announced it would sell its chip manufacturing division to GlobalFoundries, we entered a new era of advanced manufacturing in Vermont. In GlobalFoundries, we will have a partner who will see Vermont's success as its success. The company is, in essence, a very large start-up. If the IBM sale is approved, GlobalFoundries will essentially double its U.S. workforce in one fell swoop. It will gain a foothold, through the

strategic acquisition of the Vermont operations, in providing state-of-the-art chips that nearly every wireless device – from your smart phone to your tablet — relies on today.

GlobalFoundries will also gain our highly-skilled, innovative workforce – and it has offered jobs to every single employee who is not being retained by IBM. Meanwhile, IBM will maintain a presence in Vermont with continued R&D work at the Essex campus for hundreds of current IBM employees, good news for Vermont.

We are partnering with GlobalFoundries to ensure its Vermont success. I am grateful for the productive meetings with CEO Sanjay Jha and his team, and have asked my Commerce Secretary Pat Moulton to work closely with GlobalFoundries to support this new company's growth and investment in Vermont. We will continue to be accessible, nimble, supportive, and innovative as we build this critical relationship.

The spirit of innovation is alive and well all around our state. Burlington was named one of the top emerging tech hubs in the country last year. In addition to Dealer.com and MyWebGrocer, there is a new wave of high tech startups like our LaunchVT pitch contest winner IrisVR; online game designer GameTheory; Designbook; a new crowdsourcing and start-up platform; and the new ad-free social media site Ello – which had as many as 40,000 users sign up per hour this past September.

That growth is not just in Burlington: Pwnie Express in Barre has been recognized by Wired magazine for its cyber security devices; Global Z in Bennington has quietly become a global leader in data management; Yonder, the app that Backpacker Magazine described as “what happens when Instagram and Foursquare meet at REI and have a baby together,” is growing in Woodstock.

Our economic development programs – including the Vermont Employment Growth Incentive (VEGI), the Entrepreneurial Lending Fund, the Vermont Small Business Offering Exemption, and others – are nurturing businesses at all stages and helping to foster this job growth.

In its most recent round of awards, the Vermont Economic Progress Council used 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. The investment is spread throughout the state, from National Hanger Company in North Bennington to Vermont Packinghouse in Springfield and Blodgett Ovens in Essex. With their awards, these companies will create more than 550 new jobs, with an average yearly salary of more than \$50,000 each.

VEGI has been an important and successful economic development tool, and it is one we must continue to sharpen to help improve our economy. Therefore I will ask you make the following 3 improvements in the program:

- **First**, we will present a proposal to remove the \$1 million cap for special projects outside of Chittenden County.
- **Second**, we will work with you 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.
- **Third**, we will also enable companies to use VEGI dollars earlier for training new hires.

Another of our important economic drivers continues to be tourism. We are within a day's drive of more than 80 million people starving for what Vermont offers: our quality of life, our ski slopes and trails, our beautiful downtowns, our beer, our award-winning cheese, our local food, and so much more. They come to experience all the things that we love about Vermont.

Growing tourism grows our economy, and directly supports more than 30,000 jobs. That is why I will partner with the Vermont Chamber of Commerce on a plan to use increased revenue from the rooms and meals tax to boost our tourism and marketing efforts. In 2014, visitors to Vermont spent more than \$2.5 billion. I propose we take 15% of future growth of our rooms and meals tax receipt above budgeted projections and invest it in tourism and marketing support and promotion, capping it at \$750,000. This budget-neutral proposal will grow jobs and promote Vermont.

We also need to shout from the rooftops what a great place Vermont is for technology businesses, manufacturing and start-ups. We need do a better job of telling the story of our remarkable entrepreneurs because they show that Vermont is a great place to work and do business. We launched our Great Jobs in Vermont campaign because we know that when folks visit Vermont they fall in love and want to come back to work or start a business as so many of our successful entrepreneurs have already done. We want others to learn what we already know: Vermont is the best place to live, work, and raise a family.

CONCLUSION

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.