

GOVERNOR SHUMLIN'S BUDGET ADDRESS

Delivered Tuesday January 25, 2011 - Montpelier

Mr. President, Mr. Speaker, Mr. President Pro Tem, Members of the General Assembly, distinguished guests, fellow Vermonters:

Two weeks ago, we gathered here to commemorate a new day in our state's long and rich history. In my inaugural address, I laid out my vision for Vermont – a bold and ambitious agenda for job growth whose success depends on our ability to work together to get big things done.

That was a day for Vermonters to challenge our own imagination for what we must make possible: a new and innovative economy, quality health care for all Vermonters in a cost restrained system, broadband and cell service to every corner of the state, and educational excellence for a new century of job creators.

I stand here today to present a budget that is as sobering as it is necessary, matching state spending with our state revenues, in keeping with the long tradition of frugality and common sense that is the lifeblood of Vermonters. My budget puts Vermont on a solid and sustainable path to fiscal responsibility. Facing our fourth consecutive year of budget shortfalls, I am committed to making the painful choices today that will help ensure that we are not back here next year making drastic cuts. We must match the promises government makes with the capacity of Vermont taxpayers to support those promises.

To meet that responsibility, I am proposing to close a \$176 million shortfall in the next fiscal year by imposing roughly \$83 million in General Fund reductions, raising \$36 million in additional federal funding through provider and managed care assessments, utilizing \$27 million in unanticipated receipts and \$30 million in Global Commitment carry forward and federal matching grants.

I would like to take a moment to acknowledge what our state has done to address projected budget shortfalls in the past three years. Hundreds of state employee jobs have been eliminated, many agency and department budgets were reduced several times, state employees took a 3% pay cut for two years, and teacher retirement was recalibrated to save \$15 million in this fiscal year. Compared to other states, Vermont's Governor and legislature responded quickly and wisely to crisis, and you should be commended for that response.

Some might be wondering why we have a \$176 million problem rather than the \$150 million shortfall that we have all heard about. Here's why: if we were to continue to book all of the hoped-for "Challenges for Change" savings, the shortfall would be \$150 million. While "Challenges for Change"

was a well-intentioned initiative, we simply cannot budget \$26 million in savings that may not likely be realized, and I won't.

This budget also includes over \$120 million in unavoidable increases resulting from statutory commitments to the Education, Unemployment, and Pension Funds, as well as rising human service caseloads resulting from the Great Recession. Even with these increases, when adjusted for temporary federal aid, the budget that I propose today represents a General Fund spending reduction of over \$25 million from last year. This is the first time in a decade in which state spending is lower than the previous year.

The top contributors to the \$83 million in reductions are the following:

- A \$23 million ongoing reduction from the General Fund transfer to the Education Fund. This reduction, which I announced last month, will require continued spending restraint by our hardworking school boards and local communities to hold back property tax increases. The \$19 million in one-time federal funding that I am releasing this year will give our local communities additional time to make further spending reductions, but they must be made.
- \$12 million in government labor, private contract, health insurance, and retirement savings.
- \$7.2 million in savings throughout the corrections system.
- \$5 million from folding the Catamount Health program into the Vermont Health Access program, otherwise known as VHAP, to create one single health care pool for Vermont.
- \$4.6 million in reduced funding for our regional mental health agencies.

My administration takes no pleasure in delivering this budget, and we will work in partnership with the mental health, health care, and human service community to ensure that vulnerable Vermonters are protected.

Critics will observe that some of the budget reductions that I put before you today are the same reductions that I worked with you to protect when proposed by the previous governor. They will rightfully ask, "What has changed?"

My response is simple: what we face in this budget year is the reality that the hundreds of millions of stimulus funds that were allocated by the federal government to cushion the blow of the worst recession in American history are now gone.

We all knew that this day would come. It is now our responsibility to make difficult choices, and to find a balance between compassion for our most vulnerable citizens and the imperative to put our state on solid fiscal footing. I believe this budget achieves that balance.

In addition to reducing spending, my budget maximizes federal dollars available to our state. For over 20 years, Vermont has asked our hospitals and health care providers to cooperate in a partnership that has used ingenuity to utilize federal dollars to support health care services for Vermonters. My administration understands that in these difficult times, every dollar that we draw down from the federal government is a dollar saved for Vermont taxpayers.

Therefore, I am expanding upon what is an imperfect but effective revenue stream. We do so first by applying the same assessment to health insurance companies and dentists that we have been applying to our hospitals and nursing homes. This will net 9.2 million new dollars for the General Fund.

Second, we increase the current assessment on hospitals and nursing homes, which will net \$18.7 million.

Some recent good news about our revenues from fiscal year 2011 has helped our effort. My budget utilizes \$27 million in General Fund unanticipated revenues to bridge our shortfall.

Some might ask why I am not utilizing the state's rainy day fund. There are two simple answers: first, we must minimize the use of one-time money to meet ongoing financial commitments. Second, we must preserve the rainy day funds until we can project with confidence that we will be able to replenish that fund in the out years. My budget team cannot provide me with that assurance for fiscal years 2013 or 2014, and therefore we must not tap into those funds this year.

In light of the hundreds of millions of dollars in budget shortfalls that we have had to endure over the past few years, it should be abundantly clear that the current reserve of five percent of our state budget is not adequate to withstand tough times. I call upon the legislature to join me in raising our reserves to eight percent as soon as we return to better times.

Critics might also ask: why are we not raising taxes? After all, Illinois recently raised its top income tax rate from three percent to five percent. But remember: Vermont is not Illinois, and our situation is vastly different. Our top income tax rate is not five percent; it is nearly nine percent. Our tax rates must remain competitive with other New England states to grow jobs.

Others might say, "Well, forget Illinois and remember Governor Snelling." When facing a less severe shortfall, he temporarily raised income, sales, and rooms and meals taxes. But I would remind my friends that Governor Snelling was working in economic times less dire than our own and he started with income tax rates that were lower than our rates of today. The sales tax was four percent; today it is six percent. Our rooms and meals tax was seven percent; today it's nine percent. The Snelling solution made sense then, but it would be counterproductive now.

As difficult as this budget is, our spending priorities also reflect my belief that the choices we make here will lead to extraordinary opportunities for all Vermonters. To achieve long-term budget discipline, we must be innovative and go where the money is.

Health care is the largest area of growth in our state budget and we must bring it under control. As taxpayers, we are the largest source of health care payments for our state, and we are paying twice as much in taxes today to keep Vermonters healthy than we were just a decade ago. That is yet another reason why it is so important that we pass a single payer health care plan that Dr. William Hsiao estimates will save Vermonters over \$500 million in the first year alone.

We will work together to pass a bill that takes the first step in putting Vermont on a solid road to single payer health care, and we must do it before we adjourn this spring.

In addition to bringing health care costs under control, I am committed to replacing the State Hospital and treating our most vulnerable citizens with the dignity and respect they deserve.

To do that, I recommend first that we suspend current plans to build a 15-bed facility that cannot be expanded. Short-term planning will only lead to long-term problems.

Second, I have directed my administration to work diligently with our hospitals and the Brattleboro Retreat to finalize plans for partnerships and deliver to me within six months both the treatment and financial implications of those partnerships. This summer, my administration will determine whether any of the partnerships are clinically and financially prudent, and that date will represent a deadline for determining the number of beds that could be provided from such partnerships.

Third, my budget proposal next January will include a plan to build a state of the art new State Hospital to meet Vermonters' needs for the next 50 years. We have waited long enough.

The second fastest area of growth in the state budget is corrections. A decade ago we spent \$71 million on our corrections system. Today, we spend almost \$131 million, an increase of nearly 100 percent. On any given day, of the 2,100 prisoners that taxpayers are currently supporting, 180 are in prison because they have no other place to go. Sixty-nine percent of our female inmates and 45 percent of our male inmates are non-violent offenders.

What do we know about these non-violent offenders? Many of them have difficulty reading and writing, and most have drug and alcohol related addictions. When their time is up, a lack of adequate housing, adult basic education, drug and alcohol counseling, mental health services and job options leave them on our Main Streets with the same lack of skills and substance abuse challenges that led them into prison in the first place. As a result, half of our non-violent offenders end up back in prison within three years, costing us an average of \$45,000 a year per inmate.

Therefore, we are proposing to move the women inmates from St. Albans to Chittenden Regional, and the men to St. Albans to maximize unused bed space and save money. Since roughly one third of our incarcerated women are from Chittenden County this will help them transition back into their home communities. We will create a parent-child visiting space for these parents and their children. This will not only help mothers bond with their children, it will also help them learn better parenting skills for when their time is up and they are reunited with their families.

By implementing these reforms, we will save \$2 million. At the same time, I ask the Legislature to join me in investing \$1 million in prevention and alternative justice in community based programs across Vermont to help keep non-violent offenders out of jail.

My Administration will also re-allocate an additional \$300,000 to unlock the waiting lists for methadone treatment.

These choices represent the first steps in my administration's war on recidivism.

There is a direct link between our non-violent offenders and early childhood education. Most primary school teachers can identify which of their students will run into problems later in life. The evidence is irrefutable: the years up to age five are a critical time for brain development. It should come as no surprise that one dollar spent on early education saves seven to sixteen dollars later in life. To give all of our children a bright future and bring long-term fiscal discipline to corrections, special education and human services spending, we must take bold preventative action.

Today I am calling for expansion of the state's pre-kindergarten program for ages three, four, and five, by lifting the cap on the number of students counted in Pre-K funding. Vermonters will be able to exercise local control and vote to spend money without the heavy hand of Montpelier preventing them from doing so.

When this cap is lifted, over time, if half of Vermont's eligible children are enrolled in a Pre-K program – an optimistic goal – the cost to the state's Education Fund would be about \$14 million. Let us make Vermont the national leader in early childhood education.

We must also invest in workforce development. My budget proposes \$4.8 million for fiscal 2012 to assist Vermont workers and employers with high quality job training.

As Vermonters grow older, we must keep more young people in our state in order to have a workforce to train. Ensuring that young Vermonters pursue post-secondary education is critical to our economic future. Vermont students and families have one of the highest education debt loads in the nation. I propose a sustainable higher education income tax credit that will enable Vermont students who stay here and work here to reduce their college debt.

Two weeks ago, I launched Connect VT, an ambitious plan to deliver broadband and cell service to every corner of Vermont. Vermont cannot succeed in creating jobs or competing in our global economy if we fail.

To get this essential project done, in addition to using federal funds and private investments, I propose spending \$13 million from our two-year capital budget and fully utilizing the \$40 million revenue bond capacity of the Vermont Telecommunications Authority. These investments will expedite the build out of fiber optics lines and wireless networks across our state, including the most rural areas that for economic reasons are least likely to attract private providers.

We will also need to address three regulatory areas that have the potential to hamper, if not derail, our progress. These are utility pole regulations for fiber and telecommunication attachments, consolidated land use and environmental permits for the placement of poles, and long-term telecommunication lease agreements to erect infrastructure on state land and buildings. It could cost as much as five times the cost per mile to string fiber on poles if the regulation for our utility companies and providers are not clarified from the start. Rapid build out could be delayed and millions of dollars could be wasted if we fail to act.

Shortly I will submit legislation to expedite these actions so that we can deliver broadband and cell service to every last mile by 2013.

A clean Lake Champlain is also critical to our quality of life and our attractiveness to tourists, anglers, boaters and birders who share our love of our lake. Although we protect our great lake with Quebec and New York, much of the water runs through our state, and its cleanliness is as crucial to our economic vitality as it is to our culture and our health. Lake Champlain provides drinking water for more than 200,000 people, while the state's reputation for environmental quality and lake stewardship reflects upon all of us.

We must make faster progress in cleaning up the lake. I will work together with our Congressional delegation and President Obama to seek waivers that will enable us to place federal dollars in a central pool that would give our communities and farmers the flexibility to maximize our efforts and get results.

The time for talk is over; we must clean up Lake Champlain.

Increasing investments in energy efficiency is a top priority of my administration. Vermont spends over \$1.5 billion a year on electricity and heating, and many of Vermonters' hard-earned dollars go to oil-rich countries that will do just fine without us. To protect both our pocketbooks and our environment, we need to transition away from a dependence on fossil fuels and move toward more efficient, affordable, and cleaner renewable energy. Vermont can be a leader in the fight against climate change and at the same time save money and create good paying jobs that cannot be exported to China.

By investing in energy efficiency and renewable energy development in state buildings and lands, we will save taxpayer dollars. I have asked the Lieutenant Governor to work closely with the Commissioner of Building and General Services on this initiative and have allocated \$3.5 million to help us achieve this goal.

The budget also increases state support for our weatherization programs, investing \$7 million for weatherizing low-income Vermonters' homes.

However, we have much more to do in order to make Vermont the energy efficiency state. Our challenge is to give all Vermonters, not just those in the lower income brackets, incentives to make their homes and businesses more efficient. I ask you to stand with me in this legislative session to make this happen.

I am recommending a new approach to the Capital Budget this year by using an unprecedented two-year authorization of over \$150 million. This two-year approach will enable us to accelerate important capital projects, borrow at historically low interest rates, take advantage of comparatively low construction costs, and put Vermonters to work.

My budget also includes full funding for the Vermont Housing and Conservation Trust Fund. This will be the first time in many years that the Governor has included full funding for this extraordinarily

successful partnership that creates affordable housing and conserves precious agricultural lands that help ensure a bright future for our farmers.

Finally, my budget addresses the deteriorating condition of our roads, highways and bridges. We need to bring our transportation network into the 21st century, and to support this effort I am proposing to spend \$106 million on improvements to more than 65 bridges and culverts, and preventive maintenance work on dozens of other structures. Additionally, the Morrisville Truck Route will finally begin construction this year and work will continue on the Bennington Bypass.

Expanding passenger and freight rail in Vermont is also a top priority. My budget invests in rail upgrades to the western corridor, with the goal of returning passenger service from Bennington to Rutland to Burlington to Montreal as soon as possible. These investments, coupled with improvements to our rail line on the eastern side of the state, bode well for Vermont's rail future.

As some states reject federal money for high-speed rail, I am also committed to working in partnership with my colleagues in New England and the Premier of Quebec with a vision of a high-speed rail line from New York to Montreal, with a spur to Boston.

High speed rail is the transportation of our global future, and it is high time that Vermont gets on board.

Having been immersed in the difficult choices of the budget that I present today, I understand that my proposals may lack perfection and invite disagreement. The best Governor from Putney, George D. Aiken, in his first address to the joint assembly in 1937, said, "With some things I have said today, many of you will disagree. This is inevitable. But when we disagree on a subject and express our viewpoints openly, then we are in reality making progress."

Aiken continued, "Let us forget our political differences, forget that we may not attend the same church, or that we belong to different occupational classes, but remember that we are all Vermonters working to promote the welfare and prosperity of the people of our state."

In that spirit, let us make the hard decisions that this work requires of us, always mindful that balancing our budget gap is one step in our climb to a brighter economic future for the people that we serve.

Let us never lose sight that at this time of economic hardship, our best days are still ahead of us.

If we allow the need to put our fiscal house in order to divert us from our once in a lifetime opportunity to connect Vermont by 2013, begin to build a single payer health care system, reduce recidivism by giving hope and dignity to our non-violent offenders and use the dollars saved to help make Vermont the Education State, we fail those who put their faith in us to get tough things done. By putting the state that we all love on a fiscally responsible path, we do more than just serve as responsible stewards for our children and grandchildren; we create opportunities to put Vermonters back to work, one job at a time.

Governor Aiken often said, "Nothing makes me happier than to see a Vermont family with a good job."

With boldness and courage, we will make it happen today.

Let's get back to work.

Thank you.