

Inaugural address  
of

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**Inaugural Address**

Tom, I thank you for those extremely generous words.

Governor Hoff and Mrs. Hoff, I would like at this time on behalf of the people of the State of Vermont to thank you first, Governor Hoff, for six years of dedicated, exciting service and to thank you also for the help which you have given to me and to my associates during this transition period. It really isn't a transition from one government to another. It's merely the shifting of responsibilities because you, I am positive, will continue to have a great interest in the affairs of this state and will contribute wherever and whenever there is opportunity so to do.

I am sure the people of the State of Vermont wish for you happiness, comfort and satisfaction for many, many years in exciting service in many fields.

And, Mrs. Hoff, on behalf of the people of the State of Vermont, I would very much like to thank you for occupying so graciously an equally important office, that of First Lady of the State of Vermont.

Mr. Speaker, Mr. President Pro Tem, Mr. Chief Justice Holden, and the Associate Justices of the Supreme Court, Governors Emerson, Arthur, Keyser and Johnson and their ladies, and members of this distinguished body, the House of Representatives and the Senate of the State of Vermont, one of the great deliberative bodies in the United States, one with a long and rich tradition:

The "swearing in" process is deeply embedded in the history and traditions of our democratic society. It does emphasize the degree of fidelity and performance which the people expect of their elected officers.

It is a great privilege to serve one's state in this capacity, and I would be insensitive indeed if I did not express my own deep sense of pride and appreciation for the opportunity which has been given to me to work during the next two years with this Legislature and the many other officers of state government.

State government does not operate in a vacuum. We are much affected by what goes on in the nation and in the world around us, perhaps more today than ever before, and as we look around, we see much that we do not like.

We see ourselves involved in a war in Southeast Asia of which our people have grown weary; a war which we have neither been able to win by military force nor by negotiated peace.

Crime is on the increase. Racial and class tensions divide us. Organized protest has become for many a way of life.

The world monetary system is in precarious balance and the trend of both our balance of payments and balance of trade continues to move against us. Inflation increases at a rapid rate and continues to deal cruelly with the elderly and others on fixed incomes. Interest rates are the highest in a hundred years.

Here in Vermont, as elsewhere, we enjoy increasing affluence amid increasing poverty. We have the highest level of employment in our history and simultaneously the highest level of people on welfare. Large numbers of our people are unable to secure adequate housing. We have lost thousands of farms from production and the annual loss continues at a rapid rate with no solution in sight.

Real estate taxes are climbing rapidly. Yet the towns are not able to keep up with the demands for better schools and other town services. At the state level even though we are participating in more than 82 programs in which the Federal Government pays all or part of the cost, we are unable to support the level of service our people want. At the moment, we have a financial problem of substantial proportions.

All of these things are disturbing. And yet, we have some blessings to count, too. An abundant, vigorous economy; education, public health and medical science showing rapid improvement. A new thrust toward equality of opportunity gives promise of progress in eliminating discrimination among our people.

And here in Vermont, we have a natural environment which is the envy of millions. It is unique in a way, perhaps difficult to describe, but the beauty and simplicity of our physical environment, the sharpness of four distinct seasons, the green, vigorous quality of its vegetation, the open lands and forest cover and the

sparkling clarity of our lakes and streams with the abundance of fish and game all help make Vermont what it is today. But we see increasing evidence that much of this is destined to gradually diminish in the years ahead and these things will become even more precious when there is less to enjoy.

This trend may be inevitable but if we care enough we can slow it down, introduce a sense of order and prevent the waste and spoliation. We can still have economic growth without destroying the Vermont we love.

It is helpful, I think, at a time like this to restate our goals. Let's see if you agree with me as to what Vermonters want most of all.

They want, I believe, their state government to provide for the public safety, to maintain order and a fair and efficient system of justice under law. They want their children to have the opportunity for a good education at the elementary and secondary levels. They want every child in the state to enjoy this privilege regardless of whether he lives in a rich or poor family and regardless of whether he lives in a rich or poor town.

They want no qualified young Vermonter to be denied the opportunity for a college education for financial reasons alone.

They want the State to provide for the care and comfort of all citizens who are unable to provide for themselves because of age, immaturity, or physical or mental disability. They want our system, imperfect though it may be, to separate those who *can* work and won't, from those who *would* work but cannot.

They want to preserve and protect the natural environment in which we live. They want clean water, clean air, and a reasonable number of natural areas which provide a chance for nature to perform its miracles of life and growth.

They want to see a continuing increase in job opportunities through industrial development, and they want the cost of government distributed as fairly as may be.

To accomplish these objectives, there is much that needs to be done. A few of the specific programs to which we must turn our attention are the following:

1. Increase state aid to education to 40% of the cost.
2. Improve the formula for distribution of state aid to make it more equitable for all communities.
3. Improve and amend the Vermont Student Loan Act to provide for all qualified students and comply with recent changes in the federal law.
4. Improve and modernize our teachers retirement system.
5. Provision of facilities and a better program for vocational education and technical training for all qualified young Vermont people. This responds to human needs as well as supporting more rapid economic development.
6. Coordination of effort and increased activity in the field of vocational rehabilitation, alcoholic rehabilitation and rehabilitation of criminal offenders.
7. Completion of the program for elimination of stream pollution.
8. Some tax assistance to farmers by a more realistic plan for valuation of farm lands in order to preserve open lands for the benefit of the state.
9. Relief for the elderly from the excessive burden of real estate taxation on their homes.
10. Repeal of the personal property and business inventory taxes and the adoption of a new method for valuation of machinery and equipment.
11. We need action now to find a solution to providing low cost housing. A satisfactory answer to this problem would also help towards more industrial growth.
12. Enact legislation to authorize a system of full-time district attorneys.
13. Better coordination of our various law enforcement activities to increase efficiency and provide a

better answer to rural police protection.

14. Improved coordination of efforts in the field of natural resources.
15. Step up our efforts to attract diversified light industry into areas of the state not now enjoying economic growth.
16. Provide adequate care and facilities for our elderly people by making plans now to provide adequate housing, nursing home and hospital facilities.

These are only a few of the matters that press for attention. But as we analyze the state's financial situation, we clearly recognize that we can't hope to accomplish all of these programs at once. Our first and overriding necessity is to put our financial house in order. Our commitments in state government have been growing faster than the pace of our economic growth and we have committed ourselves to programs the cost of which are skyrocketing beyond the most optimistic revenue projections.

The dimension of our present problems today may be seen at a glance. In our present biennium, state appropriations for the general fund were 141.6 million and this compares with departmental budget requests for the next biennium of 243.2 million—an increase, from one biennium to the next, of 72 per cent.

In the recent six weeks of budget hearings, we have cut more than 50 million dollars from these requests. We have eliminated every nonessential item we could find. We have drawn the line on further expansion of our employee work force and we have not included a single one of the 877 new positions that were requested by department heads.

But despite all of this analysis and scrutiny, these basic facts present themselves:

1. If we want to relieve our towns and cities of some of the pressures on their local property taxes by raising state aid to the local school districts to 40 per cent of the actual costs, it will cost the state an additional 17.4 million dollars, for the biennium.
2. If we want to keep our commitment to care for those less fortunate than ourselves through our state welfare program, it will cost us 14.6 million more than the last biennium.
3. If we are going to keep our present commitments to the University of Vermont and state colleges, to our regional correction system, to our mental health program, to our vocational education program, and to our state employees, the need for increased spending is startling.

We added these costs for the next biennium and took into consideration that on the very day this Administration takes office, we are told we can expect a five to six million dollar deficit in this current biennium over which we have no control. We felt this situation was too complex, and too important to the future of the state to be treated in the usual routine fashion. It needs more than that.

The choices open are not pleasant. We could drastically cut education or welfare, the two major areas of spending, or we could impose an arbitrary percentage cut across the board. But these would not be valid alternatives and programs vital to our people would suffer.

Last summer, I thought we had a choice open to us. We could either have an austerity program or increased taxes. It is crystal clear now that no such choice is available. We need both an austerity program and new taxes.

With all these facts in mind, this Administration will break with tradition and present a program that we hope will solve our problem.

1. First of all, we will present a one-year, hold-the-line budget to cover the operations of state government for the next fiscal year.
2. During this first year, this Administration will undertake a thorough and painstaking review of our state government to see if we can improve administrative efficiency. Although we worked night and day during the budget hearings of the last six weeks, it is impossible in such a short time to cover every department with a fine tooth comb. We need and must take the time to look into every department to uncover overlapping programs, inefficient operations and even eliminating outdated programs that may no longer be necessary. Let me give you some examples of what I have in mind.

The Commissioner of Social Welfare and I have already worked out a plan for a top-to-bottom study of procedures, policies and practices in this ever-growing area of welfare. Many of you know, I think, that from last year to this year we have an increase of over one third in the number of applicants for welfare in that department. We both agree that we must take a hard look at our welfare program, reexamine our commitments, and be absolutely certain the state is on the right track.

The Highway Board and the Highway Commissioner have already started a thorough study of the money we are spending to administer the highway program as well as planning, designing and building highways. They have already found areas where money can be saved and this money is badly needed to keep our highway commitments in Southwestern Vermont.

With the state proposing to spend almost 67 million dollars on elementary and secondary education, including teacher retirement, during the next two years—which is more money than the entire general fund biennial budget presented to this Legislature eight years ago—I think it is time we found out if we are getting our money's worth for the dollars we are spending on Education. The Commissioner of Education fully agrees with this. Can we build adequate school buildings for less money? Can neighboring communities pool resources more effectively than they are now doing? I know this is a subject that some think has been studied to death in other years, but I am proposing a Task Force on the cost of school buildings to see if there isn't a better way to get the job done at lower levels of cost than presently being experienced. The projected increase in the money the state will be spending on education in future years is simply unbelievable. We must find ways to do more with less money.

We must take a hard look at the many programs which have been started with Federal funds but where the Federal Government has pulled out completely or partially and left the state to carry the load. Can we afford to carry on if Uncle Sam admits he doesn't have the resources to help us any longer?

These are samples of the things we want to do in this first year of the biennium. We can accomplish much of this with our own people. I am not asking for any special appropriation for this self-examination but I will be asking many Vermonters to volunteer their talents in this endeavor. I do hope to utilize the services of the Lieutenant Governor on a full-time basis in this appraisal.

After we have had this year of searching analysis and re-appraisal, I will come back before this Legislature next January with a new budget and a new program for the second year of this biennium. By that time we will know better what our problems are, what our priorities should be and where we can best allocate our resources. We will know where we are getting full value for our dollar and where we have to make changes. We will have the knowledge we need to move into the decade of the 1970's with the confidence that we have a much more efficient governmental machine and are making the best possible use of our resources.

Despite the fact that this year's budget is a hold-the-line budget, I regret to tell you that we still must have more revenue for the next fiscal year. The one-year budget I will present calls for expenditures of approximately 17 million dollars more than projected revenues. Reluctant as I have been to come to this conclusion, after exhausting all other possibilities and only as a last resort, I must ask you to face together with me the prospect of a tax program adequate to meet our needs and also remove some of the inequities in the present system.

The key elements for such a program are three: first, to provide adequate revenues to balance the state budget; second, to protect those who pay local property taxes from further cruel increases in that burden; and third, to remove inequities in the present tax structure so as to provide a solid and fair basis upon which to spread the increased cost of state government. To these ends, this is the program:

For revenue—

A general sales tax, with sales of food for home consumption exempt. This is what we have been calling a Maine-type sales tax. I would propose that we improve upon the Maine law by channeling the benefits of the food exemption more effectively to the lower income families, so as to remove the regressive tendency of a sales tax on these families.

This can be achieved by picking up the tax on all retail sales, food included, at the point of sale and then instituting a tax refund system ranging from \$20 per person in the family of each taxpayer who pays no

Federal income tax to \$0 for persons in the family of taxpayers with Federal income tax liabilities of \$1400 or more. This would mean that individuals with gross income of approximately \$11,000 or more would not receive any refund. This refund can be handled as a credit against the state income tax and in the case where the refund is more than the state tax liability, the refunds will be paid in cash.

Another advantage of the refund system is that the host of nonresident vacationists who enjoy Vermont would receive no rebate on their purchases, since they are not Vermont income tax payers, and would thus be paying a fairer share of the tax burden than they are now paying.

The annual revenue yield of such a general sales tax, levied at the rate of 4 per cent, is estimated at 25 million dollars. After deducting the amounts to be refunded to Vermont residents, the amounts Vermont is already receiving from existing sales taxes on rooms and meals, the cost of administration and tax relief to the elderly, the net receipts would be approximately 17 million dollars. A substantial part of this revenue would come from two sources not ordinarily appreciated. One of them is the purchases by industry of products which are not for resale, and the tax on such purchases would produce an estimated 20 per cent of the total yield. The other is the contribution to the revenue which will be made by tourists and other visitors to the State for recreational purposes, which has been estimated at about 15 per cent of the total new revenue after allowing for the existing contribution from these sources in the form of the meals and rooms tax. All of the states around us except one already have sales taxes, and in order to discourage border-hopping, Vermont could also back up the sales tax with a use tax, which would require any Vermont resident to report and pay tax on purchases in New Hampshire which were untaxed.

While the sales tax will provide the bulk of the revenue needed to balance the state budget, a fair apportionment of the burden also requires increases in business taxes. I am accordingly proposing a 20 per cent increase in the corporate income tax. This will produce an additional one million dollars annually from this source at current levels of the economy.

As I mentioned a few minutes before, the current projection of the amount of the present deficit by June 30, 1969, will be between 5 and 6 million dollars, but that will not be known with any degree of certainty until April. I recommend that this deficit be funded by imposition of temporary increases in beverage, liquor, cigarettes, and tobacco taxes and that the funds be earmarked exclusively for that purpose.

For tax equity—

A revision of the taxation of machinery and equipment and inventories of business known generally as the personal property tax has been discussed over the past two years, largely as the result of the reports of the Tax Study Committee of the Vermont Legislative Council. Those reports document beyond question that there are glaring inequities in the application of the personal property tax, both as among towns and as among industries within the same town. These inequities often result in various manipulations and harmful uncertainty in the determination of the tax burden of individual taxpayers. The same inequities also result often in business personal property failing to pay its fair share of the local property tax burden, as compared with other property owners.

After careful study of the various reports and of the various alternatives, it is my judgment that Vermont can no longer afford to put off the solution of this problem. Delay will only cause the problem to become worse as the amounts involved become larger, and readjustment thus becomes more difficult. I, therefore, recommend this comprehensive program, to place Vermont among those states which have had the courage and resourcefulness to deal with similar problems:

1. Elimination of the fair market value standard for evaluation of machinery and equipment used in business, and the substitution of 50 per cent of original cost to the taxpayer as shown by the taxpayer's books for purposes of local assessment.
2. Machinery and equipment, so valued, would be listed and taxed at the local tax rate as all other property.
3. Inventories of manufacturers, wholesalers and retailers should be completely exempted from the local property tax, and the revenue loss to the towns should be replaced by an activity tax payable by business.
4. The inventory replacement tax should be in the form of a levy of three mills (three-tenths of one per

cent) on the gross margin of all business which is relieved of the property tax on inventories. Gross margin would be defined as the difference between the annual shipments (or sales in the case of retailers) and the annual purchases by each business unit. At the rate of three mills, this inventories replacement tax should produce somewhat more than all of the towns together are now realizing from local assessment of business inventories. The entire proceeds, less costs of administration, would be returned by the state to the towns in which the inventories are located.

A second reform which is long overdue, in the interest of greater tax equity, is the revision of the real property tax which has been under consideration by the Legislature for several sessions.

For relief of real estate—

I recommend a five-point program including the following:

1. I suggest that we use part of the proceeds of the sales tax to provide substantial additional state aid to education. I recommend a sum sufficient to bring the aggregate amount of aid to education to approximately 40 per cent of cost. We have seen the local districts struggling to keep up with the rapidly mounting cost of education. In doing so, many towns have had to increase real estate taxes to unbearable levels. The time has long since passed when property taxes were an accurate or equitable measure of ability to pay. The inequities fall with the greatest severity upon those living on fixed incomes. This burden and attendant inequities will continue to increase unless measures are taken to alleviate it.

Public education is the major cause of accelerating real estate taxes and represents 65 to 70 per cent of town expenditures throughout the state. Hence, state aid to education furnishes an appropriate vehicle to accomplish the desired result. Substantial increase in state aid thus pursues the twin goals of tax equity and improvement in public education. It will assist the towns in providing a better level of pay for teachers. It will serve as one of the best incentives toward regionalization of school districts. It may not result in property taxes being lowered in many towns, but does make it possible to prevent taxes from being raised. It is estimated that the extra amount needed to reach this level will approximate for the biennium 17.4 million of which 6.2 million is for the first year.

2. To make it fully effective, we must improve the formula for distribution of state aid to education to more completely achieve equalization of the burden between school districts.

I recommend legislation to implement the cost sharing formula approved by the Legislative Council Tax Study Committee in its report of December 1967. This formula provides greater equity for the less wealthy districts and more closely approximates equalization among all districts.

3. Require business personal property to carry its fair share of local tax burden in towns where it has not done so in the past, through adoption of the replacement program I have already described.
4. Provide a rational system of property tax relief for our senior citizens who are attempting to live on fixed incomes which cannot absorb the increased tax bills produced by an expanding economy.
5. Implementation of a state policy to preserve open space by providing a tax valuation provision program for farms, forests and other open lands which would permit such lands to be taxed according to their value for open space uses, with a deferred tax obligation for the difference between their tax liability so valued and the tax liability that would have been imposed had such lands been valued according to their fair market value for other purposes.

The proposal to provide property tax relief for senior citizens requires some further explanation. At the outset I have rejected the idea of a homestead tax exemption which was once popular among the Southern states. Such an exemption disperses tax relief to young and old alike and to family units which do not need it, and also could cause havoc with many towns' tax basis.

To serve its purpose satisfactorily, property tax relief for senior citizens must be provided at state expense, and without burdening other local property taxpayers. It should be directed so as to benefit those senior citizens whose income is insufficient to bear a reasonable local property tax, and it should recognize the difference in situation between senior citizens who live in low tax rate towns as compared with those who live in high tax rate towns. Accordingly, I will submit for your consideration legislation which will

provide an average of \$100 per dwelling unit in tax relief for senior citizens, and will vary that amount depending upon the income level of the family unit and the comparative effective tax rate of the town in which the unit resides. To provide a reasonable measure of such tax relief the state must be prepared to spend approximately one million dollars annually from its non-property tax resources. This is little enough to discharge our obligation to our senior citizens who are living on fixed incomes and retirement pensions in a time of rapid inflation. This will be a top priority program for this administration.

Property tax relief for farms, forestry and open space generally is as much or more a benefit to the state at large as it is a concession to the individual property owners. The Legislature has had under consideration a variety of approaches to this problem in an effort to preserve open space as long as possible. I strongly recommend that we try the deferred tax system of the type similar to that used in the State of Connecticut. I believe it can be administered so as to avoid the possibility of abuse by land speculators. For the latter purpose, it will be necessary to define very carefully the qualifications of the open-space land owner for the proposed system of tax concessions. I would recommend that the following be a minimum set of qualifications:

1. That the land is actively devoted to agricultural uses;
2. That the land is occupied and operated as a farm by the owner, and is used as his place of residence;
3. That the land area consist of at least 50 acres and that conditions 1 and 2 above be met;
4. Whenever there is a sale of land for other than farm uses which has voluntarily been placed in the system, there shall be paid to the town the accumulated amount of tax which has been deferred for each of the five tax years next preceding the sale.

Forestry tax relief is becoming more important each year, if we are to reserve the forest economy as Vermont has known it. For the time being, I would recommend that forestry be included under the legislation proposed for the relief of farm lands. Ultimately, however, I am impressed with the reasoning of the Tax Study Committee Report which recommended a more fundamental improvement in our entire system of taxing forestry lands. I commend to the Legislature a further review of the details of this problem, as recommended in the Study Committee report, so that it will be right for definitive action at the 1970 Session.

This is what might be called "a tax package"; a program to provide adequate revenues, tax equity and real estate tax relief. It definitely is intended to shift a substantial part of the tax burden from property to non-property taxes. To achieve this goal will admittedly require significant adjustments in our present tax structure. This will not be easy, nor will it be any easier if we defer these problems longer.

I have devoted a large part of this message to the subject of money—why we need it and how we should raise it. But there are other problems that we must not ignore and even in a time of hold-the-line budgets, we can make significant progress in these areas without increased expenditures of funds.

I am concerned about the areas of economic development and housing and in many ways these subjects go hand in hand. Adequate housing is absolutely vital to the attraction of new industrial firms.

I want to single out economic development because it has become crystal clear to me as I sat through the budget hearings that if this state is to continue providing the services people demand, we must press on to expand our tax base with new industrial and recreational development. We must help our Vermonters make the best possible utilization of their talents and abilities in jobs that will produce the best possible economic return. We do have areas of the State that are desperate for new economic development. There is no reason why the 1970's can't be more productive to the development of Vermont than the 1960's have been if we make the necessary effort. These developments must conform to our overall planning for the state because we must avoid the mistake made by most of our sister states who have sacrificed their natural beauty and environment for industrial jobs. We can avoid this by having a close working relationship between planning and development.

The problem of housing for low and middle income Vermont families becomes worse by the day. The problem is further complicated by archaic building codes, lagging technology, and local resistance to increased school costs which are bound to accompany the influx of young families into our suburban communities where the need for housing is most acute. Our goal is safe, decent and adequate housing for all



Vermonters of low and middle income at a cost they can afford.

We have within our borders a strong and well diversified private financial system; we have the massive commitment of federal resources in the form of rent subsidies, interest subsidies, mortgage guarantees and insurance, and powerful support of public housing and urban renewal.

We have state commitments in the form of the Vermont Housing Authority to upgrade and increase private rental housing through federal rent subsidies to low income people who otherwise are driven by economic necessity to substandard shelter.

We have the Vermont Home Mortgage Credit Agency which can effectively supply credit for the purchase of homes by middle income people, by supplementing bank resources in times of stringency such as we are experiencing now. This program is ready to go into high gear just as soon as routine constitutional questions are settled. Hopefully this will be soon.

Appropriately, too, this state agency offers a helping hand to qualified young families who momentarily lack the normal down-payment to buy a home. This particular program is now in operation and it already has established a successful record in putting a respectable number of young families into safe and decent conventional homes.

I intend to assign responsibility in my office for the coordination of all these federal, state and private resources in order to get the most out of them.

If we start with coordination, and then proceed with determination, I have every reason to hope and expect that our record of solid accomplishment in the solution of this challenging problem will be a good one.

I have an abiding faith in the judgment and wisdom of Vermont's people. It seems to me that as we continue in the days ahead to define the problems facing our state, and to analyze the resources available to meet those problems, our citizens will largely support the measures taken by this Session of the General Assembly and by this Administration. I believe the people of Vermont want their house put in order and that they will approve of our actions taken for that purpose.

Vermont is a small state but a great one. It has a bright history and the future can be even brighter. The challenges we must meet will test us severely but I have every confidence that we can successfully meet those challenges.

I cannot at this time promise or prophesy the results but I can promise you my total commitment to carrying the work forward. Thank you.