House Ways and Means Committee
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Testimony of Paul Cillo, President
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Good afternoon , Madame Chair, members of the committee.

My name is Paul Cillo. I'm the president of Public Assets Institute. We're a Montpelier-based nonprofit, nonpartisan, public policy think tank that was established in 2003.

For those of you who don't know about Public Assets Institute, we analyze Vermont fiscal policy—tax, budget, and economic policy— with the ordinary Vermonter in mind. We gather the facts, usually from state or federal data bases, and explain what they mean in a way that people can understand.

We do this because we believe that government should be using the people's money for the people's well being. And giving Vermonters the facts and information to speak up in the public debate is the best way to make that happen.

We regularly publish reports, fact sheets, and blog posts on our website www.publicassets.org. If you're not on our list to receive notices of our publications and would like to be, please let me know.

I'd like to talk to you today about the One Vermont Proposal to close the projected fiscal 2016 budget gap in a way that also addresses the underlying cause of the year-after-year gaps. One Vermont is a coalition of organizations and individuals committed to having Vermont be a state that works for all of it's residents. Public Assets is a member of One Vermont and did the analysis of the proposal with the help of ITEP, the Institute on Taxation and Economic Policy in Washington, DC.

Before I discuss the proposal, I'd like to provide some context. In December, Public Assets published our State of Working Vermont 2014 report. State of Working Vermont is an annual report that analyzes the previous year's data about the Vermont economy, jobs, and employment. We publish it in chartbook format. The 2014 report is based on 2013 US Census data as well as data available from the state. It's available on our website.

Some relevant highlights from the report:
First of all, Vermont's economy is recovering. In fact, we've had the second fastest growing economy in New England since the bottom of the recession in June 2009. That's the good news.

The bad news is that during the same period real median household income dropped 6 percent. Poverty increased. In 2013, nearly 60 percent of single mothers with children under 5 years old lived in poverty. Homelessness increased. And the number of Vermonters on food stamps increased. In 2013, an average of more than 100,000 Vermonters a month needed the 3SquaresVT program to help them feed their families. That's nearly 1 in 6 Vermonters.

How could we have relatively good economic growth and increasing hardship for tens of thousands of Vermonters?

Our economy is growing, thanks in part to increased worker productivity, but those workers are not seeing the fruits of their labor in higher wages. The gains are going to those at the top, who are receiving more and more of the state's total income.

Until 1981 income inequality had been going down in Vermont since before the Great Depression in the 1920s. The percentage of income going to the top 1 percent in Vermont reached a low of about 6 percent in 1981. Then it began to climb, reaching a peak of more than 20 percent prior to the recession. In 2012—the latest data we have—the percentage of Vermont income going to the top 1 percent was higher than in the 1920s.

High income inequality is a social and economic ill. It dampens economic growth, increases poverty, and reduces the state's tax revenue. In our opinion, it's the biggest economic issue Vermont faces in 2015.

So with that context, let's look at the structural problems with the current budget situation.

First the expense side: We know that health care costs in Vermont have been increasing at a rate faster than economic growth for more than two decades. So health care costs have been squeezing the rest of state government.

With health care costs accounting for about a third of the entire state budget, the Legislature has adapted by cutting Medicaid payments to providers and cutting the rest of state government. Between fiscal 2010 and the budget proposed by the governor for 2016, in inflation adjusted dollars, total spending is up $283 million. The health care portion of the budget went up $367 million over that period. That means the spending for rest of the state government and public education went down $84 million.

The result has been higher insurance premiums as state costs are shifted onto private insurance; higher property taxes as the General Fund transfer to the Education Fund has been reduced; and reduction in state services with cuts across state government.

On the revenue side, the state's overall tax system is regressive. While Vermont does have a progressive income tax, which is projected to perform better than the other major General Fund taxes next year as it has in the past, the wealthiest Vermonters still contribute a smaller share of their income overall to pay for state services than do middle- and lower-income Vermonters. That becomes a greater problem for revenue growth as more and more of the income of the state goes to those at the top, which, as I pointed out earlier has been the trend in Vermont for more than 30 years.

So after analyzing the problem, One Vermont has proposed that the Legislature enact a three part solution:

1. Adopt the administration's 0.7 percent health care payroll tax.
The governor has proposed a 0.7 percent payroll tax to raise the revenue the state needs to increase its payments to hospitals, doctors, and other health care providers. Meanwhile, the Green Mountain Care Board is making progress in slowing the growth of health care costs through regulation and redesign of the system for paying for health services. Both of these steps can begin to take the pressure off the rest of state government.

2. Refrain from making additional cuts to state services.
Cuts over the past decade or more have already undermined the state's ability to competently deliver the services that Vermonters need and want. The failure to raise sufficient General Fund revenue to support these services has shifted costs onto the property tax and pushed up health insurance premiums.

3. Eliminate income tax breaks and lower tax rates.
Vermont is one of six states in the country that still uses federal taxable income rather than adjusted gross income as the base for the state income tax. That means our top marginal rate is higher than necessary to raise the needed revenue. Additionally, tax breaks that primarily benefit upper-income taxpayers are undermining the progressivity and performance of the state's tax system. The state can lower marginal rates, increase revenue, and improve the progressivity of the tax system by eliminating itemized deductions and replacing personal exemptions with a refundable tax credit.

Public Assets' analysis based on projected fiscal 2016 budget gap data from JFO shows that by taking these steps the Legislature can balance the budget without additional budget cuts while lowering income tax rates and make progress on addressing the structural problems that create budget gaps year after year.

I'd be happy to answer any questions.