Statement to Vermont House and Senate Appropriations Committees
Monday, Feb. 13, 2012

Thank you very much for the opportunity to testify today before these very important legislative bodies.

My name is Donald Horenstein. My wife and I are residents at Wake Robin, a residential retirement care community in Shelburne, Vermont. Like most of the residents or their widows at Wake Robin, I am a beneficiary of the government-administered and financed G. I. Bill of Rights of World War II that underwrote my college education at the Wharton School of the University of Pennsylvania. Employment wise, I am a retired financial investment analyst, corporate management financial liaison representative and a business entrepreneur. Volunteer-wise, I participate in efforts of social and economic justice, including work with Vermont Interfaith Action (VIA) and other venues.

Based upon my education and business experience, I find that Vermont's budgetary process is systemically dysfunctional and contrary to sensible and effective short and long range planning. Its end product does not adequately meet the legitimate needs of Vermonters of any income or wealth level, hurts Vermont's economy, its businesses and free enterprise, and it impedes the effectiveness of appropriate and necessary functions of Vermont's state and local governments. The process would severely restrict any growth opportunities for a going business if not put it into bankruptcy. Please allow me to explain.

Fundamentally, the process is backwards in its conception and implementation and is clearly self-defeating. Rather than determining the legitimate need for necessary, just and constructive government revenues (~~see attached, the VIA Research Report and my Message and Invitation to Governor Shumlin~~) that, in turn, should define the appropriate and necessary levels of taxation, the reverse course continues to be taken by the Appropriations Committees and the Governor's administration. Instead, tax considerations define the level and type of government spending, inevitably leading to a budget balancing act, usually on the backs of the most needy, vulnerable and politically weak among us. Importantly, it also demeans our personal dignity and sense of self respect and impugns our respect for our elected officials. Attractive government revenue-enhancing opportunities and growth arrangements for government and business partnerships are lost with this damaging reversal of a sensible and effective course of action. And opportunities for growth of government revenues vanish as well.

Let's put a stop to this misguided, counter-productive route and run Vermont's government the way well-regarded business managements operate successful and well-regarded companies.

Thank you very much for your thoughtful consideration.

Donald N. Horenstein
508 Wake Robin Drive, Shelburne, VT 05482
(802) 985-2992

Donald N. Horenstein
508 Wake Robin Drive
Shelburne, VT 05482
(802) 985-2992

Resume

My connection with Vermont goes back to 1944 when, as a high school student in Philadelphia, Pa., I worked as a Victory Farm Volunteer on a farm in Addison, VT. Following service in the military, I attended and graduated from the Wharton School, University of Pennsylvania, in June, 1952, having majored in corporate finance and political science, with my education financed by the G.I. Bill of Rights of World War II.

In 1952 my professional career began as a securities analyst for National Securities and Research Corp. (Mutual Fund) and later for Lehman Brothers and Ladenburgh Thalmann (investment bankers). From 1963 to 1974, I headed a firm that was engaged in corporate investor relations, writing corporate annual reports and representing management to the investment community. I joined AMAX in 1974, an international mining Fortune 500 company, where I set up a new department to direct investor relations for this company, having in excess of 100,000 shareholders of record. In 1986, I formed the Investor Relations Management Group, where I represented AMAX and other companies in investor relations consulting. I was a member of The New York Society of Security Analysts for 50 years.

My wife Mary Ann and I retired to Vermont in 1995. Over the years I have been involved in a number of activities for various organizations. These include the Lyric Theatre, Board member of the Vermont Mozart Festival, and the Burlington Chamber Orchestra, Board member of the Burlington Employees' Retirement System Board, panel member of various Reparative Justice boards under the Dept. of Corrections, teacher to offenders at a prison in Burlington and involvement in "mentoring" organizational activities for needy young people (I had once been a Big Brother to a boy in New York City for ten years). Currently I am a member of the Board of the Shalom Shuk at Ohavi Zedek Synagogue, a reduced price or free clothing and household goods outlet for bargain hunters, many if not most of whom are refugees from Africa and Asia. I continue to be active in public efforts to advance integrated housing for different income and age groups, close the gap between Haves and Have-nots, and strengthen Vermont's economy for the benefit of all income groups and business enterprises. I view myself as a people-oriented Progressive Capitalist, sensitive to the Common Good. Mary Ann and I reside at Wake Robin in Shelburne, a continuing care retirement community.

Vermont – Our Favorite State Can Do Much Better

When all is said and done, Vermont is, in essence, **defined by three over-riding factors, namely the quality of life for all Vermonters, the strength and inclusiveness of its economy, and a taxation system that is appropriately and adequately productive to meet its desired goals, reasonably easy to understand and administer, and necessary, fair and just.**

Unfortunately, Vermont's debilitating political scene has failed to confront and reverse trends in its poorly performing economy, becoming less inclusive for much of Vt's labor force. Further, it has weakened the quality of life for many Vermonters as demonstrated by its frequent failure to deliver necessary state services over the past twenty plus years. Costly consequences include the exodus of young men and women from Vermont, failure to adequately service many unmet needs of the state's aging population (its fastest population growth sector) and under-funding for and reduced delivery of vital human services (including the death of vulnerable children), and an eroding infrastructure, excessive poverty, inadequate affordable decent housing, a need to broaden health insurance coverage, needed public transportation, remedial reforms at significant cost savings of Vt's Dept. of Corrections incarceration procedures and remedy of Vt's public employee pensions' actuarial deficits.

At the same time, intelligent and successful business leaders assert that Vermont's high personal, business and property taxes (driving some profitable businesses and wealthy persons from Vermont) 1) fund unnecessary state services for unworthy purposes; 2) weaken the state's local economies; 3) elevate the cost of living beyond the ability of many persons to come and live in Vermont, and 4) reduce the quality of life for lower and middle income Vermonters. **Urgently and in response to many of these valid concerns, a non-partisan knowledgeable Blue Ribbon Panel must constructively reassess services offered by Vermont as to their necessity, adequacy, effectiveness, and costs, with the goals of enhancing the quality of life for all Vermonters, strengthening the state's economy, and stimulating both the profitable business growth and up-scale job formation. Revision of the legislature's incoherent budgetary-appropriations process is a must.**

Discussion of taxation and financing without considering its purposes lacks credibility and usefulness, often hurts many deserving persons and programs and invites counter productive and false statements. Three examples illustrate these destructive exaggerations and falsehoods: 1) Lower taxes create jobs. False! There is no connection. Real jobs are created when demand for a company's or organization's products and/or services merits hiring of additional job seekers. 2) Lower business taxes are crucial for business growth. False! Businesses grow when profitable sales of their products and services grow, independent of taxes. 3) Vermont's excessive debt outstanding precludes safe additional debt financing. This false statement is contradicted by the experience of financing the personally successful and economically growth engendering WWII GI Bill of Rights programs in the 1940s. At that time, federal debt was 123% of GDP vs. 95% in 2014 and recently declining despite heavy purchases of federal debt by the Federal Reserve system to keep interest rates low. At the same time, the top incremental federal tax rate was 93% vs. 37% today. Yet opponents of fiscal investments by Vermont erroneously claim that both debt and taxes are too high, robbing Vermont of the opportunity to grow its economy safely and productively. Further, taxes should be recognized as a positive investment in people, not as an unfair redistribution of wealth from the wealthy to undeserving middle and lower income persons. While higher income Vermonters commonly pay higher taxes in the state's system of progressive income taxation, they also are likely to be the state's largest financial and quality of life beneficiaries. Indeed, tax financing for education, health care, decent affordable housing and public transportation needs are necessary ingredients defining an area's labor force's quality and usefulness, very important factors for corporate CEO's and CFO's.

Fortunately Vermont has the potential of achieving significant economic growth and deliver necessary beneficial public services to its citizens and businesses. A productive and profitable goal is a grand alliance of government and private enterprise. Broad and constructive attention to Vermont's underperforming economy must be a top priority of Vermont's political leaders.

Basically Vermont's economy grows when 1) products and/or services, made in Vermont, are profitably exported; 2) when people with sustainable purchasing power move to Vermont to live or visit as students, residents, retirees or vacationers; and 3) when their savings and investments are held in Vermont's financial institutions. Profitable fiscal investments that generate decent paying jobs further grow its economy. And importantly, Vermont has the human, physical and financial resources to develop a "Silicon Valley-Like Industry" to attract many people to come and live their retirement years in Vermont.

Vermont has demonstrated itself as a people-oriented state, attracting students (college, university, nursing, medical students), each of whom bring considerable assets into the state. The senior citizen retirement industry would be a major source of income, drawing persons from the top 5% of U.S. annual income level. Vermont's varied and attractive assets are particularly appealing to senior citizens to live their retirement years here. Further, Vermont's economy would benefit from a reversal of its damaging housing crisis caused by 1) Ultra high regressive property taxes (they should be sharply reduced or eliminated in favor of increases in personal and business income taxes. (Note, property and sales taxes are regressive and negate economic growth, while progressive income taxation is economically growth engendering); 2) Flat worker compensation trends, below livable wage rates over the past 20+ years, resulting in stagnant consumer disposable income; 3) Restrictive and regressive construction zoning laws; and 4) An unhealthy and counter-productive widening of the economic gap between "Haves" and "Have-nots."

What's to be done? Is there a constructive, people-focused solution to Vermont's housing crisis and its under-performing economy? Yes, if Vermont's governor and both state and county legislators respond constructively and positively. Consider the following three-pronged building and retirement industry approach:

1) Construction of attractive high-rise housing, with commercial adjuncts, for low, middle and upper income Vermonters. Assuming secure financial demand, Vermont's residential housing crisis could be overcome with construction of a number of attractive, utilitarian, appropriately sited, high-rise (say 15-20 floors) residential apartment buildings. Each building would contain a variety of restaurants, and other appropriate commercial businesses, priced for consumers of various income levels. Apartments would be priced to enable persons and families of all income levels to comfortably afford and safely live there. Rents and/or purchase of condominiums would reflect size, appurtenances, floor locations and any special additions for each accommodation. Each building would be located on sub-marginal lands to keep to a minimum both over-all costs and possible public objections to sites chosen, yet still be attractive to prospective residents, and reasonably near to commercial urban areas, connected with public and/or private transportation. **A singularly important collateral benefit of such multi-income family living is the known positive outcomes it would generate in the learning and personal growth and positive behavior of the children living in these accommodations, irrespective of the income of their families.** Net revenue producing fiscal debt financing by Vermont would be expected. According to Vermont's Capital Debt Affordability Advisory Committee Report for the fiscal year ended 6/30/13, debt service as a percent of Vermont's operating revenue was 4.6% or 20+ times interest coverage, while debt as a percent of Vermont's Gross State Product (GSP) was 1.96%. This debt service indicator is extremely liberal coverage for both interest and debt retirement requirement, while debt as a percent of Vermont's GSP is extremely small, each attractive sales messages.

2) A second engine in this economic triad would be The Senior Citizens Retirement Living Industry. Demand-wise, Vermont's aging population and the state's numerous attributes favorable to this industry, are already in place. Depending on costs, attractiveness, and services offered, upper-income Vermonters and out-of-state retirees (having annual incomes in the top 5% of U.S. annual income levels) could be attracted by Vermont's variety of retirement homes and communities. Continuing care retirement communities (CCRC's), such as Wake Robin (Vermont's only CCRC), generate substantial residential entry fees and monthly living fees, in addition to their personal living, entertainment, business, medical, and other spending. Additionally, wages paid to the employees and operating costs of the CCRC, often purchased from Vermont businesses, are significant generators of funds, each having a financial multiplier effect. In fact, Wake Robin contributed an estimated $51 million to $56 million to Vermont's economy in 2014. A CCRC similar to Wake Robin is estimated to cost in excess of $100 million today, depending on its size.

3) The third part of the triad is the long overdue need to repair and upgrade Vermont's deteriorating infrastructure, estimated to cost in excess of $2 billion. Included is the construction of a first-rate school of nursing with both instruction facilities and living quarters for students, and to adequately fund the costs for attractive compensation for an outstanding faculty and administrators. Given Vermont's well-regarded medical establishment and educational institutions, the state could even become the nursing capital of the U.S., a logical component to its new retirement industry.

Importantly, the expected financial returns by entrepreneurs should far exceed any increases they likely will pay in income taxes necessary to finance increases in the delivery of appropriate, and deserving necessary state service. All Vermonters would likely gain in income and an elevated quality of life. As President J. F. Kennedy once noted, "A rising tide lifts all boats." **Vermont's political leaders, led by its governor, are urged to appeal to the most sensible and best instincts of most Vermonters, not the worst instincts and fears of some Vermonters. Vermonters can and should act on these proven and optimistic notes.**

Donald N. Horenstein
508 Wake Robin Drive
Shelburne, VT 05482
802-985-2992

12/11/15

A Profile of Vermont

I – Assets

1. Good and experienced labor force.
2. Talented, knowledgeable and successful business and organizational leaders.
3. Knowledgeable, successful and caring population. Worthwhile efforts at volunteerism partially meet the needs of Vermonters.
4. Demonstrated willingness of many upper-income Vermonters to adequately finance, via progressive income taxation, increases in the delivery of many necessary state services to elevate the quality of life for all Vermonters.
5. Reputation as a very welcoming state for persons of all religions, races, nationalities, color and sexual orientations.
6. Generally a safe place to live.
7. Productive dairy, animal, vegetable and fruit farm operations.
8. A variety of good restaurants.
9. Diverse, well-regarded colleges and universities.
10. Outstanding health care system.
11. Excellent cultural offerings.
12. Healthy and diverse recreational opportunities.
13. Beautiful and well-maintained public lands and lakes, open to all.
14. Attractive, safe, and well-maintained highways, free of advertising billboards, allowing beautiful views of mountains, valleys, forests and rivers.
15. A wonderful place to live and raise a family.
16. A wonderful place for senior citizens to live their retirement years.
17. A wonderful place to own and operate a business.
18. A wonderful place to work and pursue a career.
19. Strong state finances to invest up to $1.2 billion in infrastructure and in needed capital projects.

II- - Reversible Public Liabilities – Elevation of Quality of Life for All Vermonters

1. Vermont must reverse the departure of young men and women due to a paucity of decent paying and interesting jobs, and/or to seek higher education at decent schools having lower tuition and living costs. Further, Vermont's senior citizens, the state's fastest growing population sector, are not receiving their due in the receipt of necessary and vital public services. The state must maintain and broaden decent services for "Haves" and businesses, and significantly increase and improve delivery of vital and effective state services to "Have-Nots," including:
   a. Disabled persons of all ages.
   b. Appropriate and effective improvement and consolidation of Vermont's public education system, including vocational training.
   c. Dramatic increases in affordable and decent housing.
   d. Safe, reliable and comfortable public transportation.
   e. Broad increases in decent health care insurance via a single payer system financed by progressive income taxation, **not** by worker payroll taxation.

f. Stronger and more effective state regulation of utilities, financial companies, and medical, casualty and life insurance companies. The last few FairPoint telephone directories include very tiny print, requiring a magnifying glass to read as well as omitting many business and residential listings. Further, Blue Cross-Blue Shield of Vermont has not disclosed publicly its Consolidated Financial statements since 2004, raising serious and compelling questions concerning 1) the efficiency, competitiveness and fairness of its operations, 2) what management pays themselves, and 3) the record of premiums charged for its various levels of insurance coverage. Once again, Vermont has been negligent about important oversight responsibilities.
g. Necessary increases in police protection.
h. Reform of the Corrections Department's unnecessary, expensive and damaging incarceration of persons arrested for non-violent, drug related crimes. Instead, such persons should be released from incarceration and treated medically for their addiction, saving up to $35,000 to $40,000 annually per person as well as improving lives. Where incarceration is judged necessary, such persons should be imprisoned within Vermont's borders in appropriate and humane quarters, not sent elsewhere.
i. Extend and upgrade necessary services for needy or "problem" children to enhance the health, learning, and social and living behaviors.
j. Up-grade appropriate and medically necessary aid to single mothers and their child or children, including adequate and affordable housing.
k. Adequately meet necessary and basic needs of Vermont's increasingly sizable aging population.
l. Eliminate poverty, especially among children.
m. Enforcement of a minimum wage of $15 per hour for all state employees and for employees of organizations and businesses that Vermont works with.
n. Vermont should be guided by "The Common Good" in its labor relations, its commercial transactions and its other dealings. (See Introduction)

2. Reform of political campaign finance is a vital issue. "Take money out of elections!"
3. Reform of Vermont's Rube Goldberg legislative budgetary-appropriations process. It is backward in its implementation, fails to address adequately necessary state service needs, and is unnecessarily costly and completely ill suited to maintain Vermont's basic quality of life goals.
4. Lack of adequate public disclosure of Vermont's operations and financials, succinctly written and understandable. Vermonters and tax payers are thus denied the opportunity to analyze the efficiency of government operations, the appropriateness and adequacy of the delivery of needed public services or the amount of taxation required. As such, no reliable, comparable analyses of management competence can be effectively made.
5. Vermont's employee pension system for teachers and other public employees is significantly underfunded.

III—Facts vs. Self-Serving Opinions and Falsehoods Propagated by Misinformed Vermont Elected Officials and Business and Organizational Leaders

Failure of Vermont's economy and businesses to expand significantly, develop up-scale jobs, and increase worker compensation can in no small part be attributed to poor and misinformed political leadership over the past 23 years. Business and organizational leaders often voice self-serving opinions and falsehoods to advance their own limited agendas. Some major examples include:

1. **Vermont's excessive outstanding debt precludes issuance of additional bonds to finance investments in a Vermonter "Bill of Rights" or in schools, hospitals, public mass transit, decent and affordable housing and infrastructure. FALSE**

   This claim is contradicted by respected economists and by the successful debt financing of the G.I. Bill of Rights of World War II, when federal debt stood at 123% of GDP (vs. an estimated 75% today,) and progressive income taxes had a top rate of 94% vs. 37% today. Public investments in education, business-start-ups and purchase of residential homes led to a 20-year period of the nation's most robust economic growth over the past 70 years, with a subsequent decline in outstanding public debt and interest rates. And as Paul Krugman, Nobel economist, noted in the *New York Times* of 8/21/15, "many economists argue that the economy needs a sufficient amount of public debt out there to function well…maybe more than we currently have." And Krugman further noted that "Narayana Kocherlakota, departing president of the Minneapolis Fed makes the case that we need more, not less, government debt."

   Today, Vermont's sale of general obligation bonds, at historically low interest rates, would save the state millions of dollars. Failure to make needed investments denies Vermont's economy of a major growth boost including the construction of needed facilities for the benefit of all Vermonters. According to Vermont's Capital Debt Affordability Advisory Committee Report for the fiscal year ended 6/30/13, debt service as a percent of Vermont's operating revenue was 4.6% or 20+ times coverage, while debt as a percent of Vermont's Gross State Product (GSP) was 1.96%. This debt service is extremely wide coverage for both interest expense and debt retirement requirements, while debt as a percent of Vermont's GSP was extremely small, each factor attractive to investors.

2. **Lower business taxes enable businesses to hire more employees and generate additional tax revenues for Vermont. FALSE on each account.**

   Job creation occurs when rising demand for a company's or an organization's services and/or products merits hiring of additional employees, **not because of tax reductions.** In point of fact, from 1980 to 2010 Vermont's corporate taxes declined from 11.5% to 6.2% of total state revenues, while meals, rooms, sales and use taxes rose from 28% to 35%. No noticeable creation of upscale jobs occurred during this period.

3. **Vermont's corporate taxes are too high and will drive businesses out of the state, with a huge loss of jobs. FALSE.**

   This assertion betrays a basic lack of understanding of capitalism, business management priorities, and organizational know-how. The top priority of business management is to maximize profits through achievement of (1) attractive returns on their investment in property, plant and equipment; (2) providing capable and inspiring leadership to its employees; and (3) developing broad and profitable consumer acceptance of its services and/or products. In order to achieve these results, documented evidence and studies show clearly that business CEO's and CFO's give most weight to the quality of an area's labor force and to transportation issues and such quality of life issues as its schools, health care, housing and cultural offerings when seeking a desirable locale for their business operations. **State and local taxes were the least important factors.** (See Part 5 below for an extensive discussion of Vermont's tax system.)

4. **Government spending of tax proceeds by bureaucrats and elected political figures is wasteful, non-productive, and harmful to the economy. Further, tax payers resent the use of government spending to finance and prolong the unwholesome living habits of lazy, indolent and dishonest persons. As a general rule, private enterprise can more effectively and efficiently produce and deliver products and/or services than can government. TRUE AND FALSE**

It is **TRUE** that all hard working, aware, and thinking persons likely resent this state of affairs when it occurs. It is also true that there are many instances of costly pork barreling, corporate welfare and preferred treatment of special interests. On the other hand, it is **FALSE** when it is used as a negative pretext to limit public spending for legitimate and necessary aid to persons of real need.

5. **Progressive taxation is unfair to hard-working and successful income earners and investors and is an unjust and wasteful redistribution of wealth.**
FALSE
The widening chasm between rich and poor is due to many factors, including unfair and regressive taxation (such as property and sales taxes), corporate reduction of health and retirement benefits, and an inadequate educational establishment with its attendant problems. These trends suggest that any redistribution of wealth mostly involves moving wealth from middle and low income sectors of the population to the wealthy, not the reverse.
Progressive taxation is a desirable, necessary, constructive and profitable investment in people and the common good. Importantly, taxes are the fuel that a civilized and just society needs to meet its basic responsibilities. They are required of all its citizens and businesses to pay for the privilege of receiving society's services, protection, opportunities and the quality of life these support. Businesses gain huge returns on their investments of tax payments through better schools that in turn produce higher value-added jobs, more productive and better paid workers, future managers and entrepreneurs, and consumers who buy their products and services. Higher income persons derive more from society and its opportunities than middle or low income earners. In fact, it is the wealthy among us, in their enlightened self-interest, who will benefit most in terms of assets, income and quality of life, from the changes recommended.

6. **High personal income taxes will drive the wealthy and high income earners out of Vermont and damage its economy and quality of life. FALSE ON BOTH ACCOUNTS.**
Four valid measures contradict these false and tired claims. First, like tens of thousands of college students during the Christmas holidays, and thousands of upper income senior citizens from all sections of the country (including my parents and grandparents from Philadelphia), many upper income Vermont retirees vacation in the warm and sunny climes of Florida during the late fall, winter and early spring months. **Income tax considerations were and are not the motivating factor for their vacation choices.**

To be sure, some Vermont vacationers, seeking to avoid Vermont income taxation, opt to extend their Florida vacation to six months plus to become registered residents of Florida (having minimal or no income taxation) and then return to reside, once again, in Vermont income tax free, yet enjoy the state's many public services and attractions. While it is fine and logical for retired persons of wealth and high income to vacation annually in Florida or other locales of their choice, income tax rates are not the determining factor that motivates or defines their vacations.

In contrast to the tax dodgers, many other upper income Vermonters are known to support higher progressive income taxes to finance shortfalls in the provision of vital state services for vulnerable and needy Vermonters.

Why have Democrat and Republican governors and state legislators allowed wealthy tax dodgers to, in effect, determine the amount of state revenues available to finance necessary state services? Why do these political leaders continue to falsely claim that progressive income tax rates are the primary factor that determines where a person lives or vacations and thus have opposed any increase in taxes on high income Vermonters? To whom are they beholden?

Second, according an IRS report, "State Migration Flows To and From Vermont," inflows of persons into Vermont had higher Aggregate Adjusted Gross Income (AGI) than did outflows each year from 1993 to 2010, even though outflows to Florida exceeded inflows from Florida. And, as noted above, with regard to these outflows to Florida, many Vermont vacationers extend their stay to qualify as Florida residents, and then return to reside in Vermont until their next annual vacation in Florida. Again, high taxes are **not** the factor for their annual vacations. As a result, Vermont's taxable incomes that finance vital state services for all Vermonters are estimated by knowledgeable observers to be reduced by an estimated $1 million annually or cumulatively $23 million since 1992. Absent the Florida annual outflow, AGI inflow would dramatically exceed annual outflow.

Third, according to the U.S. Census Bureau, in 1999, Vermont's Personal Income Tax Revenue per capita amounted to $646 vs. the U.S. average of $633, or a ranking of 22. And, since 2000, Vermont's personal income taxes declined from 47.0% of total state tax receipts to 40.5% in 2010, according to Vermont's Dept. of Taxes Biennial reports.

Fourth, because of Vermont's heavy reliance on regressive property and sales taxes, the wealthy actually pay a lower percentage of their income for all state and local taxes than do low and moderate income Vermonters. In brief, **Vermont's dysfunctional tax structure impedes achievement of economical growth and wealth accumulation.**

IV Overview – A Summing Up

A positive turnaround in Vermont's economy, up-scale job formation, increase in state revenues, strong growth opportunities for businesses and elevation of Vermonters' quality of life can be achieved as noted in Parts 1,2 and 3 and in "A Public-Private Manifesto for Vermont." As noted in the latter paper, "Vermont's economy grows when (a) products and/or services, made in Vermont, are exported profitably; (b) when people with sustained purchasing power move to Vermont to live or visit as students, residents, retirees, or vacationers; and (c) when their savings and investments are moved to and held in Vermont's financial institutions. Profitable government fiscal investments that generate decent paying jobs further grow an economy." **The expected attractive financial returns to entrepreneurs should far exceed any increases they pay in the higher progressive income taxes needed to finance increases in the delivery of appropriate and necessary state services.**

The earlier series of papers promote Vermont as an ideal locale for the establishment of a Senior Citizen Retirement Living industry. Depending on demand, retiree entry fees of $400,000 plus and monthly living fees of $4,000 plus, would give a big boost to Vermont's economy, business profits and up-scale job formation (see Part 2, pp. 4-5). And as noted in Part 2, Wake Robin's dollar contribution to Vermont's economy in 2014, amounted to an estimated $51 million to $56 million. Additionally, huge increases in investments by public and private business combinations in high rise housing complement this effort. A grand alliance of government and business is needed to make this happen. As an adjunct, nursing education, particularly for geriatric care, should be expanded. Indeed, why can't Vermont become the nursing-education capital of the U.S.?

Vermont needs inspirational, respected and knowledgeable political, business and organizational leaders to get this message to Vermont voters. Please be a part of this effort. Thank you. Be well and at peace.

Donald N. Horenstein
508 Wake Robin Drive
Shelburne, VT 05402
(802) 985 2992

8/31/15

Proposed Vermont Think Tank Overview

A Grand, Mutually Profitable and Respectful Alliance of
Business and Government, with Appropriate and Necessary Services to Vermonters, Businesses and Organizations

I – Objectives –

1) Appropriate increases in vital and necessary state services
2) Grow Vermont's Gross State Product (GSP) internally and externally
3) Increase up-scale jobs, personal incomes and business earnings
4) Reduction of property, sales and other regressive taxes

II – Methods –

1) Appropriate increase in progressive income taxation to finance #1 above
2) Sell up to $900 million Vermont general obligation bonds to finance infrastructure and related capital projects under government- private enterprise joint ventures

III – Anticipated Outcomes –

1) Increases in Vermont revenues from increased employment income taxes
2) Increased quality of life for all Vermonters
3) Lower crime through increases in state and local police forces
4) Major dollar savings in state operations
5) Higher quality labor force through an improved education system
6) More attractive Vermont qualities to elevate travel and vacationing opportunities for visitors
7) Improved pension system's finances benefiting Vermont's finances and assuring contractual retiree pension payouts
8) Higher state bond rating flowing from #7 above
9) Orderly reduction in Vermont's public debt outstanding and interest costs
10) Significant positive investment returns likely from government-private enterprise joint ventures
11) Significant increases in up-scale jobs, personal incomes and business earnings
12) Appropriate increases in the delivery of vital and necessary state services

IV—Challenges--Opportunities

As this writer has noted, an important element driving the creation of a Think Tank for Vermont is the nation's political gridlock that has perversely enveloped Vermont in its destructive web. This reality has deprived the state of funds necessary to finance desired state and local programs such as public transportation, assistance for its aging population, desperately needed housing and heating for many Vermonters and aid to accomplished but work capable disabled persons. Those behind this web have slanderously labeled desired programs as either un-American or excessively costly or both, including government sponsored and operated universal health insurance long since proven to be more cost effective and operationally superior to private, profit making insurance companies. (Note: importance to financial analysts of the Medical Loss Ratio in assessing a company's operating efficiency.) And only now that Attorney General Eric Holder has endorsed medical treatment for minor drug offenders rather than expensive (in both dollars and human lives) incarceration programs, has Governor Shumlin taken a modest and belated leadership role. This problem was allowed to grow and fester in Vermont for 16 years, as then Senator Shumlin and the legislature did nothing when prompt action could have saved more than $500 million and untold hundreds of human lives. Vermont's employee pension system has suffered similar destructive inattention (see #2 below).

The proposed Think Tank seeks to encourage Vermont's many able, diverse and experienced leaders, educators and successful retirees to address and solve many of these problems as opportunities to elevate the quality of life for all Vermonters, seriously strengthen Vermont's economy and profitable business opportunities and increase up-scale jobs for its talented and experienced work force. The delivery of appropriate and necessary state services to Vermonters is basically an investment in people. As President John F. Kennedy noted, "A rising tide lifts all boats." All Vermonters would benefit.

Failure to govern effectively and justly is certain to yield adverse results. The recent defeat of 34 school budgets in Vermont is directly contrary to the best interests of Vermont's labor force and business needs. It can be construed as the direct result of the state's excessive reliance on regressive property taxes, Governor Shumlin's resistance to adequate, just and necessary increases in progressive income taxation, and the legislature's failure to oppose the Governor's stance. Vermont's best interests were severely damaged, leaving all Vermonters poorer economically and in quality of life.

Dealing constructively with the following challenges can help to free Vermont from dependence on the uncertain and often contradictory largess of Uncle Sam! Vermont can and must break away from the ill effects of our nation's self-destructive political web and bring constructive, just, and long overdue political and economic harmony into our state. Specifically:

1. Are Vermonters aware that, according to the Center for Public Integrity, a respected organization that analyzes the governing behavior of states, Vermont is one of only three states that doesn't require its publicly elected officials to disclose their sources of income? Vulnerability to possible conflicts of interest and disrespect and distrust by the electorate are thus invited. (Note—At a League of Women Voters meeting in Montpelier some ten or twelve years ago, then Senator Shumlin stated he would not change this arrangement for Vermont.) Governor, has your position changed?

2. Or that Vermont's pensioned employees (State Teachers Retirement System—10,500 members; and Vermont State Retirement System: general state employees and state police—7800 members) and Vermont must collectively pay-up to eliminate the actuarial deficit of $1.459 billion (as of 6/30/13) that acts to reduce Vermont's credit rating, perversely increasing its borrowing costs. In fact, the actuarial deficit is grossly understated because it is based on an unrealistic and overly optimistic 7.95% investment return assumption, before inflation, on a blended portfolio of bonds and stocks. If the actuarial deficit persists, 18,300 active state employees' retirement plans are vulnerable to severe cuts in their contractual pensions.

3. We must confront adequately and justly Vermont's failure to meet the legitimate and basic needs of dependent Vermonters. These needs must be honestly costed, fully funded and delivered in a timely and effective fashion. Reform of Vermont's legislature's dysfunctional budgetary-appropriations process that perversely places service needs in a non-responsive, financially wasteful straight jacket is long overdue because it systemically prevents the state from meeting its basic and necessary service obligations to Vermonters such as: a) Vermont's aging population, b) Vermonters with disabilities, c) Vermont children in poverty, d) workers not earning a livable wage, e) adequate health care coverage, f) adequate funding for public and higher education and appropriate and necessary student aid, g) adequate funding and more competent management of public transportation requirements, including The Vermonter, the western corridor passenger RR lines and many city and town poorly functioning traffic light systems. The procedure should be reformed to emulate the appropriations process of profit making businesses.

4. Seek opportunities to profitably grow Vermont's GSP. Vermont's education and medical systems are credible candidates.

5. Develop a cost effective, well managed and appropriately delivered single payer health insurance system for all Vermonters. In this regard, require Blue Cross-Blue Shield (BC-BS) of Vermont to fully disclose publicly their consolidated operating and financial results annually that were unilaterally suspended by BC-BS in 2004. What does management need to hide?

6. Require Vermont to issue a financial and operating Annual Report, researched and

prepared by Vermont's Ombudsman, the governor and the legislature. Taxpayers and all Vermonters deserve to know how and why their taxes are levied and spent. Costs to appropriately deliver, on a timely basis, necessary services noted in #3 above and a balance sheet, including a description of Vermont's outstanding debt should be features of the report.

7. Persuade Vermont's taxpayers that progressive income taxation is not only fair and just, but a must to economically and effectively meet adequately Vermont's diverse revenue needs. (See "Eleven Self-Destructive Falsehoods that Weaken Vermont's Quality of Life, its Economy and Job Formation"-p. 15).

8. Persuade the legislature and governor that Vermont is financially strong enough to support comfortably the issuance of up to an additional $900 million of general obligation bonds, as needed, to invest in infrastructure and related capital projects in joint ventures with financially strong and worthy private enterprise groups. It is important that successful business owners and leaders take the lead to make this effort successful. In points of fact, according to Moody's Investors Service, Vermont's Net Tax-Supported Debt per Capita declined from $992 in 1997 to $792 in 2012; Net Tax-Supported Debt as a per cent of Personal Income declined from 4.9% in 1996 to 2.0% in 2012; and Net Tax-Supported Debt Service as a Percent of Revenues declined from 7.2% in 1996 to 4.9% in 2012. Each decline impressively strengthened Vermont's financial viability. In particular, debt service expense was covered twenty times by revenues in 2012, greatly attractive to investors. And importantly, according to Vermont's Capital Debt Affordability Advisory Committee report of September, 2013, Vermont's debt ($546 million) as a % of GSP was 1.96%. This compares with federal debt as a % of GDP of 123% during WW II in the 1940s when the GI Bill and Marshall Plan programs were successfully underwritten and which led to the most robust economic growth in the past 80 years, as well as increases in an up-scale and educated labor force. It should be noted that at that time the top incremental federal income tax rate was 93%, not today's 37%. Vermont can and should emulate this record with higher progressive income taxation, appropriate investment in people, and funding for necessary and profitable infrastructure and related capital project opportunities.

9. The Think Tank's non-partisan judgments must rely on agreed upon facts, not opinions. As Senator Pat Moynihan once observed, "Everyone is entitled to his own opinion, but not to his own facts." Politeness, intellectual honesty and willingness to learn should guide members' views and their working behavior. And, importantly, members must be alert for false and/or misleading information. With regard to the release of public and private announcements and news releases, full disclosure of all relevant facts and information is a must to be considered intellectually honest, is respectful of its intended audiences and is sensitive to the electorate's concerns and legitimate needs. Partial disclosure is the reverse. It is intellectually dishonest, does a disservice to the community, is disrespectful of its audiences and is counter productive.

Two examples of false and/or misleading claims debase our political dialogue and are injurious to the development of constructive and mutually profitable government-business joint ventures. One ongoing, vexing issue that its proponents misleadingly harp on concerns taxation. In a nutshell, they state that 1) businesses are attracted to operate in those areas having low taxes and/or 2) low taxation promotes higher economic growth, resulting in job growth. False on both accounts. Dr. Robert G. Lynch, Associate Professor at the State University of New York at Cortland, in a study in 1996 " Do State and Local Tax Incentives Work?" for the Economic Policy Institute, found that: 1)"There is no evidence that state and local tax cuts, when paid for by reducing public services, stimulate economic activity or create jobs. 2) There is little evidence that the level of state and local taxation figures prominently in business location decisions. 3) Factors such as the cost and quality of labor, the quality of public services (schools, roads and highways, sewer systems, recreational facilities, higher education, health services), the proximity to markets, and the access to raw materials and supplies are more important than tax incentives in business location decisions. 4) There is little evidence that job losses or job transfers from one state to another are a consequence of business tax incentives. 5) Tax cuts and incentives cause state and local governments collectively to lose billions of dollars annually in tax revenues 6) Lower tax revenues cause state and local governments to cut back on the quantity or quality of public services. These reductions can damage the economy, because businesses often need these public services to survive. 7) The net effect of tax cuts is likely to be a reduction in spending, which causes economic activity and job creation to slow down."

And importantly, in a presentation at the University of Vermont on 3/29/99, "Relocation and Expansion Decision: What Firms Consider," Robert M. Ady, managing partner of World Business Chicago (formerly President of Fantus Consulting, the world's leading firm concerned with business relocation services) stated tha state and local "taxes are not relatively important when compared with other geographically variable costs." Rather, Mr. Ady pointed out that the most important cost factors for a manufacturing company are labor-36% (service companies-72%), followed by transportation-35%, utilities-17% (service companies;-8%), occupancy-8% (service companies-15%) and taxes-4% (service companies-5%). Other factors dictating location included quality of life considerations. And a similar study at the University of North Carolina in 1999 came to the same conclusions and also noted that "state incentives play only a marginal role in the location decisions of private firms. Critics of government incentives contend that they are not effective in attracting and retaining private investments, and can divert public expenditures from investments in human resources, quality of life, infrastructure and services that business executives consider more important in their location decisions."

With respect to taxation, economic growth and job formation, a top priority of business management is to maximize pre-tax earnings through broad and profitable consumer acceptance of its services and/or products. Demand for a company's products or services determines job additions or reductions, not tax rates. And a respected study of 9/14/12 by the non-partisan Congressional Research Service, concluded, "Throughout the late 1940s and 1950s, the top marginal tax rate was typically above 90%: today it is 35%. Additionally, the top capital gains tax rate was....35% in the 1970's; today it is 15%....There is not conclusive evidence, however to substantiate a clear relationship between the 65 year steady reduction in the top tax rates and economic growth. Analysis of such data suggests the reduction in the top tax rates have had little association with saving, investment, or productivity growth. However, the top tax rate reductions appear to be associated with increasing concentration of income at the top of the income distribution."

Another major example of misleading and false claims concerns the denial of public debt financing for necessary and long overdue infrastructure and related capital programs while at the same time private enterprise successfully and profitably uses low interest bearing debt to finance their growing capital needs (see *The Wall Street Journal* – 4/2/14). Naysayers stridently but falsely claim that our nation's, our state's (such as Vermont's) and local debt is too high. Yet they are the same persons who voted for two highly injurious and questionable wars, and at the same time promoted tax reductions that resulted in huge increases in public debt tc finance these wars. How can an observer in good conscience believe them? What are their real motives and concerns? After all, the extremely successful GI Bill of Rights and Marshall Plan of WW II clearly contradict these false claims. In Vermont's case, its governor and legislators have embraced needless and excessively austere accounting that restrict debt but which in fact perversely deny safe and proven opportunities for growth of Vermont's GAP.

Why can't Vermont's political parties break away from this publicly destructive perverse behavior that unnecessarily damages our state? Vermont, with its strong finances and extraordinarily low market interest rates can comfortably finance its necessary and long overdue capital needs. Investors would be attracted to sucl financing. Vermont should immediately avail itself of this timely opportunity!

Hopefully, the deliberations of this Think Tank can make an important contribution to the constructive and effective working of Vermont's government and a major force in the strengthening of its economy and job formation. It can provide the leadership, so lacking in recent years, on these and other important issues.

,Donald N. Horensstein
508Wake Robin Drive, Shelburne, VT 05482
(802) 985-2992

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Proposed Vermont Think Tank

1) Introduction – For over twenty years, Vermont's governors and elected legislators of each of its political parties, have largely failed, with some major exceptions, to adequately meet vital, basic and necessary needs of many of its residents and taxpayers, damaging the state's economy and reducing the quality of life to most Vermonters. As some examples, why haven't Vermont's elected officials constructively dealt with the state's poorly financed and mismanaged pension systems that put at severe risk the adequacy of funds for its beneficiaries' retirement, or dealt with its huge prison population, most of whom are incarcerated for drug-related crimes but are medically treatable with constructive savings of human lives and tens of millions of dollars,, or have confronted the state's underserved aging population, or have dealt with huge pockets of poverty, especially among children, or have dealt with problems of Vermont's education system.

Failure by the government to invest in vital infrastructure and related Capital projects \have stymied up-scale job formation, reduced consumer disposal income (accounting for about 70% of Vermont's GDP) and severely curtailed business income potentials. Not since Republican Governor Richard Snelling raised graduated income tax rates in 1992 to finance vital services, has any governor, Republican or Democrat, taken the initiative to raise income taxes for similar purposes.

Currently, Democratic Governor Shumlin has taken the route of the Tea Party in opposing any increases in progressive income taxation, despite clear signals that point to negative outcomes. The national political gridlock now beckons Vermont to seek an alternative political approach to appropriately open up opportunities for Vermonters to have their basic, legitimate and necessary public needs met by government actions. Indeed, the Wall Street Journal's Gerald Seib wrote on 11/12/13 that "an electorate profoundly dissatisfied with the political status quo—so dissatisfied, in fact, that it seems more open….to somebody challenging the current system….it could take the form of …a radicalized center in the country."

Distressingly, politicians too often are believed to spend a majority of their time seeking financing from special interests to finance their election efforts, showering seductive but false claims on their electorate and/or failing to honestly confront unpalatable but important issues that face their electorate and society as a whole, such as fair, effective and productive taxation necessary to finance the appropriate and vital government programs and services. A Think Tank could open up new opportunities for Vermont's public to make a constructive stand. The over-riding goal is a grand alliance that combines the enlightened self interest of profitable businesses and job formation with delivery of appropriate, cost-effective and valued government services to all Vermonters that elevates the productivity and quality of their lives.

2) Complexion of Vermont's Think Tank—

Members are non-partisan leaders, intellectually honest and principled conservatives, centrists and liberals, committed to a We society, not a Me society, and who care about Vermont's:

A - Quality of life for all its residents;

B - Health of its economy and business success and opportunities;

C --Concern whether Vermont's politically elected officials are appropriately and adequately serving its citizens' vital, basic and necessary needs and
D -Whether its tax system is productive and fair, yielding sufficient revenues to finance C above.

3) Suggested topics for discussion

A - Basically, we must ask what kind of society do Vermonters want? Can the "Common Good" be a necessary and vital part in a free and just society and a mutually beneficial and unifying force for all income groups? What is or should be the role of government in this quest? What are the human and dollar costs of under-serving Vermonters? Why haven't Vermont legislators constructively reformed their convoluted, upside down, non-responsive legislative budgetary appropriations process for the constructive and profitable benefit for all Vermonters and businesses? Why doesn't Vermont provide a clear and proper accounting of expenditures of taxpayers' money, quarterly and annually? Is progressive income taxation a positive factor in the economy, paradoxically benefiting in particular the wealthy and high income earners (when structured in combination with major public capital expenditures in much needed repairs and up-grading of important infrastructure facilities and related capital projects), or is progressive income taxation an unfair redistribution of wealth? Why shouldn't Vermont's legislators and governor design, finance and administer a Vermont "Bill of Rights" for all Vermonters similar to the long lasting and extraordinarily successful G.I. Bill of Rights program of WW 11? And why shouldn't Vermont's state government and private enterprise act as a mutually positive and profitable team to strengthen our economy and create up-scale jobs, paying livable wages and assuring significant increase in the state's income tax revenues in these efforts?

B - Strengthen Vermont's economy, business opportunities and profit potential an up-scale job formation. It is vital to attract money into Vermont's economy by profitable export of products and services nationally and internationally. Possible identity of these products and services might include: 1) Medical industry, including hospitals, nurse training and pharmaceuticals; 2) Schools—secondary schools, colleges and universities; 3) 3-D manufacturing; 4) Visitor attractions—skiing, Lake Champlain, museums, concerts.

C - Reform of government operations: 1) state's legislative budgetary-appropriations taxation; 2) strengthen progressive income taxation and reduce reliance on regressive taxation; 3) necessity for publication of Financial Annual Report of state operations, including balance sheets and income reports; 4) necessity to adequately and sensibly meet vital, basic and necessary needs of many of its residents and businesses.

D) Active development of government-business partnerships to upgrade infrastructure and related necessary capital projects

Donald N. Horenstein
508 Wake Robin Drive
Shelburne, VT 05482
(802) 985-2992
E_Mail – donald.horenstein@gmail.com

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Vermont's Political Choice

Continuation of the Current Negative Status Quo or
Economic Growth and Elevated Vermonter Quality of Life Initiatives

Amazingly, Vermont's political leaders have chosen to maintain a flat economy over the past 20 plus years, short-changing appropriate and necessary needs of many Vermonters, retarding formation of up-scale jobs, and failing to sensibly stimulate profitable growth of worthy business opportunities, yet still getting reelected to office, year after year. Many Vermonters and tax payers (largely wealthy and upper income Vermonters) have helped maintain this sorry and unnecessary state of affairs. Demonization of government by an oligarchy consisting of special interests and wealthy Vermonters have been the major agents. Ironically, they have denied themselves significant profitable business and investment opportunities, as these papers have indicated.

An examination of Vermont's current political landscape reveals:

1) An alarming exodus of employable young persons and students, simultaneous with dramatic increases in the state's population of senior citizens, many of whom require costly special services.

2) Gubernatorial and legislative failure a) to examine appropriately the necessity for and costs of a variety of state services. (A non-partisan, knowledgeable and respected Blue Ribbon Panel must constructively reassess services "offered by Vermont as to their necessity, adequacy, effectiveness, and costs—with the goals of enhancing the quality of life for all Vermonters, strengthening the state's economy, and stimulating both profitable business growth and up-scale job formation."—See Introduction—a Public-Private Manifesto for Vermont—Page 1); and b) to examine Vermont's "Reversible Public Liabilities" (see "A Profile of Vermont"-II).

3) Gubernatorial and legislative a) continual embrace of regressive and harmful state and local taxation policies (see Parts 5 and 6); excessive use of growth-inhibiting austere accounting practices, denying growth-generating, debt-financed infrastructure and related capital investments; c) embrace of falsehoods propagated by influential elected officials; and d) failure of Vermont's governors to lead its elected officials to reverse all such negative political positions that have hurt the state of Vermont, Vermonters and its tax payers.

A clarion call to Vermont's gubernatorial candidates and political leaders is urgently needed to bring about appropriate and necessary changes in the state's taxation policies and to undertake productive government actions. Importantly, Vermont's political leaders must end their damaging and inhumane silence concerning the state's failure to deliver vital, appropriate, and necessary services to needs and deserving Vermonters.