

September 2016

A Framework for Progress: **Investing in Vermont's people, infrastructure, and good government**



Government is, or ought to be, instituted for the common benefit, protection, and security of the people, nation, or community. This clause, from Article 7 of the Vermont Constitution, affirms two fundamental roles of government: to improve the lives of all citizens through activities that serve the common good; and to protect the most vulnerable.

Citing Article 7, Vermont passed a law in 2012 prescribing the purpose of the state budget: “to address the needs of the people of Vermont in a way that advances human dignity and equity.”¹ Vermont can be a great place to live, work, and raise a family if its elected leaders and policymakers make the state work for all of its residents.

We’re not there yet.

More than half of Vermont’s single mothers with young children live in poverty. People who are unable to work face dwindling benefits and economic uncertainty. Women over 65, many of whom spent years taking care of families, are more likely than men to live in poverty. The percentage of high school graduates going to college is stuck at around 60 percent. Wages are stagnant, while the cost of basic needs like child care and health care go up. The state’s infrastructure is deteriorating.

Policy decisions over the past two decades have created this situation; policymakers made cuts when economic growth was slow and mistrust of government was high. But it is short-sighted to reduce spending on critical programs and defund the very functions that make government more effective, such as policy development, evaluation, and long-term planning.

The good news is that policymakers can now make different decisions, reverse the negative trends, and move the state forward. That will require leadership and political will.

Our recommendations focus on actions that elected officials can take now to deploy state resources more effectively to serve the common good. The list is neither comprehensive nor exclusive. But

Vermont can and should make progress in three fundamental areas

these policy changes would provide a good start in strengthening infrastructure, bettering the lives of low- and moderate-income Vermonters, and improving the policymaking process itself. Flowing from the tax, budget, and economic policy areas that are the focus of Public Assets’ work, the recommendations zero in on three fundamental initiatives:

- 1. Ensure that work pays and all Vermont families can meet their basic needs.**
- 2. Make smart, evidence-based investments** in programs and infrastructure.
- 3. Restore public confidence in state government** by improving and promoting good governance, including efficacy, fairness, and transparency.

A Framework for Progress is a companion document to our [State of Working Vermont](#) report, released in December, which provides the data and analysis behind these recommendations. We acknowledge Vermonters’ well-being also requires racial justice, environmental quality, protection of workers’ rights, and gender equality, which these recommendations can advance but not accomplish on their own.

¹ Vermont Statutes, [32 V.S.A. § 306a](#).



1 ■ Ensure that work pays and all Vermont families can meet their basic needs.

A. Make work pay. A person working full time should have enough income to support a family.

- **Increase the state minimum wage and state Earned Income Tax Credit (EITC) to ensure working families have a livable income.**² The minimum wage can ensure that employees are adequately compensated and that employers contribute their fair share. But the minimum wage alone won't lift all working families out of poverty. The EITC for working families, which is based on income and family size, is a proven effective tool for reducing poverty, particularly among children.³ It encourages work⁴ and improves the health of low-income women and children.⁵
- **Eliminate public benefits barriers that reduce incomes when earnings increase.** So-called "benefit cliffs" are points at which earnings from work trigger ineligibility for public benefits, leaving families with less money than they had when their earnings were lower. Vermont can smooth these cliffs with an investment of state funds and ensure that additional dollars earned through work add up to more money coming into a household.⁶
- **Expand short-term compensation programs to help employers avoid layoffs.** Job layoffs are devastating for families and disruptive for businesses. A better approach is to use unemployment compensation funds to support workers who stay on the job with reduced hours. With such a strategy, called work sharing, employees maintain skills and employers avoid the costs of retraining workers. Vermont has a limited Short Time Compensation Program that could be expanded to help prepare for the next recession.⁷

² Jeannette Wicks-Lim and Jeffrey Thompson, "[Combining Minimum Wage and Earned Income Tax Credit Policies to Guarantee a Decent Living Standard to All U.S. Workers.](#)" Political Economy Research Institute (PERI), October 2010.

³ Hilary Hoynes, "[A Revolution in Poverty Policy: The Earned Income Tax Credit and the Well-Being of American Families.](#)" Pathways, Summer 2014, 23-27.

⁴ Austin Nichols and Jesse Rothstein, "[The Earned Income Tax Credit.](#)" National Bureau of Economic Research Working Paper 21211, May 2015.

⁵ David Simon, "[Expansions to the Earned Income Tax Credit Improved the Health of Children Born to Low-Income Mothers.](#)" London School of Economics, June 9, 2015.

⁶ Deb Brighton, "[Benefits Cliffs and Work Incentives.](#)" Vermont Agency of Human Services, November 1, 2012.

⁷ Dean Baker, "[Work Sharing: A Creative Way to Avoid Unemployment.](#)" Center for Economic and Policy Research, February 27, 2012; Vermont Department of Labor, [Short Time Compensation \(STC\) Program.](#)



Ensure basic needs and work that pays

B. Ensure family economic security. Protect and better administer supports for the neediest, especially children.

- **Make high quality, affordable early care and education available to all children who need it.** A recent study of child care in Vermont found that nearly four out of five infants and toddlers who are likely to need care lack access to high-quality programs.⁸ While Vermont provides income-based financial assistance to help families cover the cost of care, it falls short of federal recommendations.⁹ Greater investment also is needed to ensure that qualified child care workers earn a livable wage and that those who earn professional degrees or certifications receive professional compensation.¹⁰
- **Increase future financial security by opening state-administered retirement plans to everyone.** Fewer than half of private sector employees in Vermont participated in employer-sponsored retirement plans in 2012.¹¹ Many employers do not offer plans,¹² people often do not enroll in plans on their own,¹³ and with real wages stagnant many employees struggle to save.¹⁴ Large publicly managed retirement systems typically get better returns on their investments than individual account holders.¹⁵ A state-sponsored retirement plan open to all Vermonters could encourage saving through automatic deductions and would maximize the value of those savings.
- **Ensure that Reach Up fulfills its statutory purpose of addressing the “well-being of children by providing for their immediate basic needs, including food, housing, and clothing.”**¹⁶ While Vermont does better than most states in reaching families in poverty, public assistance to individual families falls short. About three-quarters of families in poverty received assistance through Reach Up in 2014,¹⁷ but the amount of those benefits was less than half of what the state deemed necessary to meet the families’ basic needs. Reach Up funding should be adequate to fulfill the purpose of the program.

C. Advance better cost containment and public funding of health

care. Specific recommendations for health care reform are beyond the scope of this report. But Vermont should continue on the dual track laid out in 2011: controlling costs and publicly funding health care. Cost control is essential because health care consumes a bigger and bigger share of the state budget each year, crowding out other critical programs and services.¹⁸ Public funding is essential to creating a system of universal, high-quality care that is affordable to all Vermonters.

8 Let’s Grow Kids, [“Stalled at the Start: Vermont’s Child Care Challenge.”](#) June 2016, 5.

9 Vermont Department for Children and Families Child Development Division, [2014 Vermont Child Care Market Rate Survey.](#)

10 U.S. Department of Education and U.S. Department of Health and Human Services, [“High-Quality Early Learning Settings Depend on a High-Quality Workforce.”](#) June 2016.

11 Christian Weller, Nari Rhee, and Carolyn Arcand, [“Financial Security Scorecard: A State-by-State Analysis of Economic Pressures Facing Future Retirees.”](#) March 2014, 31.

12 Ruth Helman et al., [“The 2013 Retirement Confidence Survey: Perceived Savings Needs Outpace Reality for Many.”](#) Employee Benefit Research Institute Issue Brief 384, March 2013.

13 Jack VanDerHei, [“The Impact of Automatic Enrollment in 401\(k\) Plans on Future Retirement Accumulations: A Simulation Study Based on Plan Design Modifications of Large Plan Sponsors.”](#) Employee Benefit Research Institute Issue Brief 341, April 2010.

14 Helman, [“Retirement Confidence.”](#)

15 Executive Office of the President of the United States, [“The Effects of Conflicted Investment Advice on Retirement Savings.”](#) February 2015.

16 Vermont Statutes, [33 V.S.A. § 1102.](#)

17 Since the 1996 federal welfare reform, the share of poor families receiving benefits nationally has plummeted from 82 percent to 23 percent. [“Your State on Welfare.”](#) Minnesota Public Radio “Marketplace,” 2016.

18 Health care costs as a percentage of Vermont’s total state budget rose to 37 percent in 2016 from 28 percent in 2006. Public Assets analysis of Joint Fiscal Office data.



2. Make smart, evidence-based investments in programs and infrastructure.

In writing a budget, elected officials need to consider how the state can make investments that stimulate and sustain Vermont's economy now and in the future. Longer-term investments have slid, in part because of the recession, but also because of efforts to curb spending and reduce government. Vermont policymakers and political leaders need to look beyond balancing next year's budget and start creating the state we want 5, 10, and 20 years from now.

A. Improve Vermont's education system. Investments in our education system are necessary to enable individuals to reach their potential, create an informed populace capable of engaging in democratic decision-making, and build a smart, adaptable workforce to keep our economy strong.

- **Add two years to public education.** Understanding that education should start when children are 3 or 4,¹⁹ Vermont is launching universal pre-kindergarten in the 2016-17 school year. But public education also needs to extend at the other end. Vermont should include at least two years at a Vermont public college or university as part of the public education system, with funding through the Education Fund, which currently covers pre-K education. To avoid increasing property taxes on Vermonters' homes, this should be done either by increasing General Fund support to the Education Fund or through income-based school taxes (see page 8, Recommendation 3C).

- **Improve adult education and workforce training.** Lifelong learning is essential in the 21st century. Vermont needs to continue to invest in adult education and workforce training.²⁰ The workforce training effort should focus on those who face the most difficult barriers to employment: long-term joblessness, a criminal record, lack of a high school diploma, and mental and physical disabilities.²¹

19 Timothy J. Bartik, "[What Works in State Economic Development?](#)" Wisconsin Family Impact Seminars, Feb. 26, 2009, 23.

20 Jeffrey Thompson, "[Prioritizing Approaches to Economic Development in New England: Skills, Infrastructure, and Tax Incentives.](#)" Political Economy Research Institute, August 2010, 18.

21 Timothy J. Bartik, "[State Economic Development Policies: What Works?](#)" (presented at the 19th Annual State Fiscal Policy Conference, Center on Budget and Policy Priorities, Washington D.C.), November 30, 2011, 5.



Make smart investments

B. Increase public investment in infrastructure, including roads, public transportation, clean water, telecommunications, and housing.²² Taxpayers' money is better spent on infrastructure that serves all Vermonters for decades than on tax breaks that favor a few chosen businesses.

- **Fund transportation in ways that are both financially and environmentally sustainable.** Repairing and upgrading roads, bridges, public transport, and airports creates jobs and strengthens the economy by increasing the efficiency of moving people and goods.²³ Such improvements require sustainable revenue streams, but taxes from the sale of motor fuels are declining as drivers turn to more fuel-efficient or electric vehicles. Improved energy efficiency is essential to addressing climate change, and a carbon pollution tax also will help to reduce gasoline and diesel consumption. But this means the Transportation Fund will need a comprehensive revenue overhaul that coherently meets both goals: reliable funding and reduced carbon emissions.
- **Ensure that state investment in high-speed Internet benefits the public.** Vermont has set an ambitious goal of building a telecommunications network that delivers 100-megabits-per-second Internet service to every home and business by 2024.²⁴ This will require both public and private investment. Wherever the state invests public funds in this essential service, it should take an ownership interest in its pricing and delivery in order to benefit the broad public good.
- **Make needed repairs to Vermont's aging drinking water, wastewater, and solid waste systems.** A 2014 engineering report card gave Vermont two Cs and a D on its public waste and water treatment systems.²⁵ Repairs and upgrades will cost hundreds of millions of dollars in the coming decades. But Vermont cannot afford to let this critical infrastructure deteriorate further.
- **Invest in long-term improvements in affordable housing.** Vermont provides housing assistance in two ways: mortgage and rental assistance for families; and crisis intervention programs such as temporary shelter or the Low Income Home Energy Assistance Program (LIHEAP). But the Vermont Housing Finance Agency estimates that more than half of rental housing units cost residents more than 30 percent of their household income,²⁶ and emergency responses, while necessary, do little to address the underlying causes of housing insecurity. Investments in weatherization and permanent housing would provide more affordable housing and take the pressure off crisis intervention programs such as LIHEAP and temporary shelter in motels.

²² Thompson, "Prioritizing," 31.

²³ Ibid, 1.

²⁴ Vermont Department of Public Service, [Vermont Telecommunications Plan](#), December 2014, 71.

²⁵ American Society of Civil Engineers, ["2014 Report Card for Vermont's Infrastructure."](#) Oct. 12, 2014, 43.

²⁶ Vermont Housing Finance Authority, [Vermont Housing Profile](#), November 2013.



3 ■ Restore public confidence in state government by promoting good governance and improving efficacy, fairness, and transparency.

Government is necessary to serve the common good and do those things we can't do individually—among them, educate our children; maintain highways; enforce laws and operate the judicial system; and provide basic services for those who can't provide for themselves, including health care for the poor and elderly. Because a civilized society depends on government, it needs to be effective, competent, and adequately resourced.

The public conversation about government tends to focus on cost and size, not performance. But when things go wrong—computer problems with Vermont Health Connect,²⁷ water contamination in Bennington, pollution in Lake Champlain, state agency staff shortages—we're reminded that state government's first priority is addressing Vermonters' needs. For more than two decades, state budget writers have started with projected revenues and hewed spending to that number, rather than first assessing needs, setting priorities, and figuring out how to pay for them. One result of this “manage to the money” strategy has been the erosion of government's ability to do long-term policy development, effective program analysis, and even routine employee evaluation.²⁸

A. Restore government's capacity to do its job. During the Great Recession Vermont followed the national push for austerity and smaller government and cut key state positions over the past decade, especially in data collection and analysis.

- **Strengthen results-based accountability and performance measurement throughout state government.** The administration and Legislature have been developing performance measures and working to rebuild the evaluation process that was dismantled a decade ago. Now evaluation and performance need to be fully incorporated into the budget process so policymakers can make funding decisions based on effectiveness.
- **Restore policy and planning staff.** Governor Howard Dean's administration eliminated the Office of Policy Research and Coordination in 1994, and the Jim Douglas administration eliminated planning positions in the late 2000s. Rather than treating planning and policy development as luxuries, the administration and the Legislature should recognize and fund these functions as essential.

²⁷ Douglas R. Hoffer, “[Vermont Health Connect: Future Improvement Contingent on Successful System Development Project](http://www.sevendaysvt.com/OffMessage/archives/2015/04/16/hoffer-issues-tough-report-on-vermont-health-connect),” April 14, 2015. See also: <http://www.sevendaysvt.com/OffMessage/archives/2015/04/16/hoffer-issues-tough-report-on-vermont-health-connect>; <http://www.burlingtonfreepress.com/story/news/2014/08/08/billing-problems-plague-vermont-health-connect/13814019/>; <http://www.wcax.com/story/26103725/shumlin-vt-health-connect-exchange-not-worth-the-money>

²⁸ Hoffer, “[Most Classified Employees in Three Departments Did Not Receive Annual Performance Evaluations for 2015](#),” Report of the Vermont State Auditor, July 26, 2016.



Restore confidence in government

B. Include long-range planning in the budget process to

weather volatility. Budget writing is a balancing act between need and available revenue. When the economy falters, revenues shrink just when people require additional public services. Better fiscal planning would allow policymakers to manage volatility and fulfill the state's obligations even when revenues fluctuate.

- **Provide clear estimates of spending now and at least five years into the future, as is done with revenue.** At the moment, the true cost of all the state's obligations is unknown. The administration is legally required to produce a current services budget,²⁹ which establishes the cost of fulfilling those obligations. But detailed program-by-program projections are needed, and those projections should be estimated further into the future to account for anticipated changes in the need for services, expected revenues, and demographics, as is recommended by state credit rating agencies.³⁰
- **Increase rainy day funds and make them easier to use.**³¹ Vermont maintains stabilization reserves for the General Fund, Transportation Fund, and Education Fund. But each reserve is capped at 5 percent and used only in emergencies. A larger, more usable Rainy Day Fund would improve Vermont's ability to manage fiscal volatility and maintain critical public services during recessions. Experts recommend rainy day funds equal to at least 15 percent of the budget.³²

C. Fund state services equitably. Vermont can assess taxes more fairly. Currently, certain businesses receive tax breaks not available to others, and the individual tax system is regressive, meaning higher-income families pay a smaller share of their income in state and local taxes than do middle-income families.

- **Eliminate school property taxes on primary residences.** Two-thirds of Vermont homeowners pay school taxes based on their income rather than on the value of their homes. But the school funding system is still regressive. Vermont could make the system fairer and simpler by eliminating school property taxes for all primary residences and basing all residents' school taxes on income.
- **Avoid business tax incentive gimmicks.** Studies demonstrate the ineffectiveness of tax breaks to encourage job creation.³³ Tax breaks typically benefit individual established businesses, but local start-up companies—often with little tax liability—lead the way in creating new jobs.³⁴ Money for tax breaks to individual businesses would be better spent on infrastructure improvements and workforce training benefiting a broad range of businesses.

29 [Act 172 of 2016](#), Vermont Legislature, Sec. E.100.7, 118.

30 Moody's Investors Service, "[U.S. States Ratings Methodology](#)," April 17, 2013; Standard and Poor's Financial Services, proposed "[U.S. State Ratings Methodology](#)," May 25, 2016.

31 Bo Zhao and Barry Bluestone, "[The States' Struggle to Save for Rainy Days](#)," (presented at National Conference of State Legislatures, 2016 Atlantic State Fiscal Leaders Meeting, Boston), February 19, 2016.

32 Elizabeth McNichol, "[2013 Is a Good Year to Repair \(if Not Replenish\) State Rainy Day Funds](#)," Center on Budget and Policy Priorities, January 13, 2013.

33 Thompson, "[Prioritizing](#)," 9-12; Bartik, "[What Works](#)," 1-2; Robert G. Lynch, "[Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development](#)," Economic Policy Institute, 2004, 19.

34 Michael Mazerov and Michael Leachman, "[State Job Creation Strategies Often Off Base](#)," Center on Budget and Policy Priorities, Feb. 3, 2016.

Conclusion: True costs

How much would it cost to fulfill the statutory purpose of the state budget to meet Vermonters' basic needs and advance human dignity? Until the state prepares annual current services budgets and completes other performance measures, it is impossible to know. But we do know that we are not spending more and more on state services—contrary to conventional wisdom.

It is true that the nominal size of the Vermont budget goes up almost every year. But adjusted for economic growth, Vermont state spending has not been mushrooming out of control. In fact, the cost of state government represented a smaller share of Vermonters' total personal income in 2015 than it did in 2006 or 2007.

This is not to say that what we spent 10 years ago was the right amount or the correct share of personal income. Today we have an opiate addiction crisis that must be addressed. Five years ago, Tropical Storm Irene hit the state and demanded an immediate response.

The budget process should start with an assessment of the cost of addressing the state's needs and improving Vermonters' lives. Those needs change with economic conditions, the weather, and events beyond our borders. We also need to look at what's not working—services or programs that are no longer effective or relevant to addressing Vermonters' needs. There is no easy formula for state spending in any given year.

With total personal income of more than \$30 billion, Vermont has the capacity to do more if it chooses to.

What can Vermont afford? It's a fair question. But it is also fair—and crucial—to ask whether we can afford our current levels of poverty and its long-term effects on families, children, and Vermont's civic life and economy. Can we afford to have a state where a few get much more than their fair share while many work for wages that don't support their families?

With annual total personal income of nearly \$30 billion, Vermont has the capacity to do more if it chooses to. We know we can—because just 10 years ago we made that choice. Vermont needs the leadership and political will to invest in progress and promote the common good of all Vermonters.

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