

The Vermont State Colleges' current financial predicament is the direct result of the lack of state funding and the overreliance on tuition, room and board, and fee revenue to sustain operations. That costs incurred as result of the coronavirus merely highlighted this inequity; the Vermont State Colleges are operating more like small private colleges than state-supported institutions of higher education. It's inaccurate to attribute the responsibility for the State Colleges' problems solely to demographics; while the number of high school graduates has been decreasing, Vermont ranks 45th nationally in higher education continuation rates among high school graduate¹. Uncompetitive tuition rates, the direct result of the lack of state funding, make the Vermont State Colleges unaffordable for many Vermonters. Furthermore, the high tuition also makes it more likely for Vermonters to seek higher education opportunities out of state, and makes the Vermont State Colleges' ability to attract and recruit out-of-state students more difficult.

The Vermont State Colleges require additional state support to remain solvent, and to continue providing access to higher education to Vermont's working and middle-class families. Vermont's state appropriations per Vermont FTE student attending a public higher education institution has fallen from 3rd in the nation in 1989, to 49th in the nation today. The Vermont State Colleges currently receive \$29 million in state appropriations— 17% of the Vermont State Colleges budget. Regionally, New England state's support their public institutions of higher education with an average of 35% of their budgets being comprised of state appropriations. Increasing Vermont's state appropriations to the regional average will require more than doubling the current state appropriation of \$29 million.

Below are recommendations of current spending that could be reallocated to support the Vermont State Colleges (\$16.7 million):

Travel & Tourism (\$3.1m):

Vermont's current Tourism and Marketing funding scheme is a well-intentioned program with the goal of helping Vermont's tourism sector. Unfortunately, it's also an unaccountable corporate welfare program benefitting a sector of the economy— tourism— to which the state already provides massive subsidies in the form of food stamps, Medicaid, and other social programs to support the low-wage workers that generate the sector's economic activity. As the Auditor's Office noted in its 2018 report on Vermont's economic development programs: *"Efforts to measure the impact of Tourism and Marketing spending are hindered by the fact that public marketing expenditures are dwarfed by private sector spending and there is no way to assess the relative impacts of each. The Department's primary performance measure is Rooms and Meals tax revenues, but there is no correlation between public expenditures and state revenues".*²

¹ The National Center of Higher Education Management Systems, 2016.

² Office of the Vermont State Auditor, Making Economic Development Policy: Anecdotes or Peer Reviewed Literature, Page 3. 2018.

Advocates for maintaining and increasing Vermont state subsidies for tourism and marketing often point to the supposedly lucrative return on investment, which they claim can be measured in increased Rooms and Meals tax receipts. However, the Vermont Legislature's own economist found an inverse relationship between state appropriations for tourism and marketing and meals and rooms tax receipts over the past decade³. From 2005-2015, Vermont tourism and marketing funding fell by 40%, while meals and rooms tax revenue increased 19% over its pre-Great Recession peak.

VT Training Program (\$1.2m):

Workforce training is a commendable public investment. However, the current structure of the Vermont Training Program makes it impossible to substantiate whether this training would have occurred without public investment. These funds should be redirected to the Vermont State Colleges, which create vital training and educational opportunities for Vermonters that would not exist without the Colleges' continued operation. As Chancellor Spaulding acknowledged in his proposal to shutter NVU and VTC-Randolph, most of the students at these campuses would be forced to seek educational opportunities out-of-state and many programs would have to be eliminated since they cannot be easily consolidated.

Regional Development Corporations (\$1.3m):

These grants to Vermont's regional development are unaccountable relative to the performance measures the vast majority of state spending is subject to. Furthermore, these grants cannot be audited for efficacy. As the Vermont Auditor's Office noted in its 2018 report on economic development programs: *"It is difficult to measure the effectiveness of grants to Regional Development Corporations because they are only required to report on outputs reflecting their day to day activities (e.g., business visits, meetings, maintenance of a data base, etc.)."*⁴ We do know that the Vermont State Colleges are economic drivers in their rural communities, and these funds would be more effectively allocated there.

VEGI (\$3-\$4 million):

Vermont should immediately cease this taxpayer handout for already profitably companies to create or maintain jobs that require even further public subsidies for their employees in the form of public assistance. Vermont cannot win a competition among states fighting to award the largest corporate welfare handouts. Vermont's finite resources would be better spent ensuring access to affordable, quality higher education, particularly by investing in the Vermont State Colleges whose student population is composed of 83% Vermont students. Most of those are first-generation college students. One report cited by the Office of the Vermont Auditor in their 2018 review of Vermont's economic development programs notes: *"This paper reviews the research literature in the United States on effects of state and local "economic development incentives." Such incentives are tax breaks or grants,*

³ Kavet, Rockler, & Associates, Draft Economic Development Initiatives, Page 3. 2015

⁴ Office of the Vermont State Auditor, Making Economic Development Policy: Anecdotes or Peer Reviewed Literature, Page 3. 2018.

provided by state or local governments to individual firms, that are intended to affect firms' decisions about business location, expansion, or job retention. Incentives' benefits versus costs depend greatly on what percentage of incented firms would not have made a particular location/expansion/retention decision "but for" the incentive. Based on a review of 34 estimates of "but for" percentages, from 30 different studies, this paper concludes that typical incentives probably tip somewhere between 2 percent and 25 percent of incented firms toward making a decision favoring the location providing the incentive. In other words, for at least 75 percent of incented firms, the firm would have made a similar decision location/expansion/retention decision without the incentive⁵."

Statewide Property Tax Exemption for Ski Areas (\$1.4m):

Vermont currently exempts ski lifts and snow-making equipment from the Vermont property tax. There is no statutory purpose given for this corporate handout in Vermont's Tax Expenditure report. As Vermont has seen its ski resorts swallowed up by large, multi-national corporations, there's no need to continue this corporate handout to the ski industry— an industry that already benefits substantially from sweetheart deals of leases of state lands and economic assistance paid to their low-wage employees. Vermont should end this corporate subsidy and recapture the revenue from the Education Fund by slightly reducing the portion of Rooms and Meals revenues dedicated to the Education Fund.

New Worker Program (\$1.2m):

This is the successor to the Remote Worker Grant Program. Instead of paying remote workers of non-Vermont companies to move here, taxpayers are now subsidizing Vermont businesses to move their workers in-state. If Vermont companies want to attract workers, they should raise wages. The efficacy of this program is also dubious at best, as it provides a reimbursement for moving costs, which means the program's participants had the cash available to move here already. It's unclear how many of the program's participants *would* have moved to Vermont without this subsidy, but every participant *could* have afforded to do so.

VSAC Grant Portability (\$5.5 million):

If the State of Vermont cannot afford to maintain access to higher education for Vermont's working families and rural communities, than we can no longer afford the luxury of subsidizing sending Vermonters out of state for educational opportunities. Vermont dedicates a disproportionate amount of its educational grant funding to sending students out of state; over 25% of VSAC's state funding goes to this purpose annually. In fact, Vermont is one of only two states that allow "full portability," meaning its grants can be used at any accredited institution of higher education in the nation without reciprocation from the states those institutions are located in. This grant portability completely

⁵ Bartik, Timothy J. 2018. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

contradicts Vermont's stated goal of attracting more young people and increasing economic development in Vermont's rural regions. These grants should be redirected to students attending college in Vermont or re-appropriated directly to the Vermont State Colleges.

Below are recommendations of proposed spending in the Governor's FY21 budget that could be reallocated to support of the Vermont State Colleges (\$7.9 million):

- \$1 million tax incentives for new nurses
 - This money should be redirected to making Vermont's nursing programs at the Vermont State Colleges more affordable and to provide for their continued operation.
- \$1 million in new marketing funding for advertising, economic development and outdoor recreation
 - As stated above, there is no way to measure the success of further corporate handouts to support tourism and marketing. These funds would be better spent supporting Vermont's rural economy by funding the Vermont State Colleges.
- \$1 million technology-based economic development grants
 - These grants have minimal performance measures attached to ensure these companies would not have spent their own money on this development. Instead, Vermont should focus on ensuring affordable access to the Vermont state colleges to support the states future technological entrepreneurs and workforce.
- \$3 million expansion of VEGI
 - As discussed above, we should not be expanding VEGI, but scrapping the program in favor of measureable economic development tools like the Vermont State Colleges.
- \$1 million for VEDA to subsidize loans for companies to buy machinery
 - It's unclear why taxpayers should subsidize the purchase of machinery if the State cannot provide access to higher education to young Vermonters.
- \$500,000 Refundable tax research and development tax credit for clean energy companies
 - The return on investment of state R&D tax credits added on top of federal tax credits is dubious at best. This money would be more beneficial to the state of Vermont if it were allocated to educating students in the clean energy field and providing the necessary workforce for clean energy employers.

- \$400,000 for the elimination of corporate taxes on clean energy grid optimization companies
 - These state corporate taxes are already deductible from the federal corporate tax. The supposed benefit of such a corporate giveaway pales in comparison with the need for higher education for Vermont's working-class families.

Below are recommendations of proposed new revenue that could be allocated to support of the Vermont State Colleges:

Taxation and Regulation of Marijuana:

Regardless of any individual's opinion on whether marijuana ought to be legalized or not, its legalization already the law of the land in Vermont. Many opponents of legal marijuana now admit that the current legalized structure is the worst of both worlds— we've essentially legalized the black-market without the revenue and safety provided by a full tax-and-regulate system. Following the success of tax-and-regulate in several states nationally, the legislative momentum in this direction appears inevitable. The only question that remains is what that system will look like and how quickly Vermont gets there.

The amount of revenue that will be realized by Vermont's future tax and regulate system is difficult to project without knowing the excise taxes that will be levied and the legal market's ability to capture market share from the black market. Some revenue projections have been as high as \$15-\$25 million, while others are lower. It should be understood that it will be a year or two after the passage of the tax and regulate legislation before the state starts reaping its cut of the revenues. That said, funding the Vermont State Colleges should be a priority when the Appropriations Committees determine where that revenue should be allocated. While there are large statewide needs competing for that revenue, Vermont should prioritize a solvent, affordable and quality public higher education system before starting new programs or using the money to lower taxes elsewhere.

Partial Claw-back of Trump Tax Cuts for the Wealthy:

Vermont should recapture a portion of the income tax cuts received by its wealthiest residents to address income inequality, increase social mobility, and secure economic development in Vermont's rural regions by allocating these funds to the Vermont State Colleges. A marginal income tax rate increase of 1%-2% on Vermont's highest income tax bracket (individuals earning over \$200,000, and joint filers earning over \$244,000) would, on its own, provide the state with sufficient revenue to double funding to the Vermont State Colleges. This partial claw-back of the Trump tax cuts would only affect Vermont's wealthiest individuals, who received \$237 million in annual savings from the trump tax cuts, in addition to most of the income growth over the past decade.. Would Vermont rather provide affordable educational opportunities to our students or allow income inequality to

be exacerbated by these tax cuts and watch as economic opportunities in our rural communities are devastated by the closure of these critical public institutions?