Testimony of Paul A. Cillo, President, Public Assets Institute

Pension Benefits, Design, and Funding Task Force

September 9, 2021

Good afternoon, Co-Chairs Rep. Copeland Hanzas and Sen. White, and members of the task force. My name is Paul Cillo. I'm the president of Public Assets Institute, a nonpartisan, nonprofit, public policy think tank here in Montpelier. For those of you who may not be familiar with Public Assets, we research and analyze Vermont tax, budget, and economic policy from the perspective of everyday residents. We publish all of our work on our website at publicassets.org.

By way of background, I'm a lifelong Vermonter originally from Castleton, graduated from UVM, and have lived in Hardwick for the past 40 years. I've had a long history of public service in Hardwick as a Selectboard member, chair the Planning Commission and the Special Committee that led to the successful merger of the village and town in 1988, as well as a member of a number of nonprofit boards. I also served in the Vermont House for 10 years, four on the Ways and Means Committee and four as Majority Leader. And I serve on the Vermont Business Roundtable Pension Reform Task Force. My comments today are not as a representative of the Task Force, but in my role at Public Assets Institute.

I say this to let you know that I have been in many situations dealing with gnarly issues like the one you're working on here, and I appreciate your efforts to reach a fair solution. The easy issues never need a task force. Thank you for your public service.

I am here to talk with you today about state revenue strategies that might be useful to you as you think about addressing the fiscal issues related to the state's public employee pension systems. As with all state budget issues public employee pensions have a revenue side and a spending side. In the case of pensions, there are three sources of revenue: employee contributions, employer contributions, and investment returns. My comments are related to the revenue side, specifically state revenue.

There is, and has been for decades, a tendency to avoid discussion of revenues, or to quickly write off discussion of revenue as not possible because the state cannot afford it. I'd like to suggest to you that is not true.

There is no magic to Vermont's current level of taxation. It is about 11-12 percent of total personal income. In 2020, personal income—a measure of Vermonters' collective resources—was $36.6 billion. We raise a little over $4 billion in state and local taxes to fund public services in Vermont such as schools, town and state roads, the courts, and libraries, including all public employee compensation. However, not all of that $4 billion comes from the personal income of Vermonters. Some is paid by nonresidents—property taxes, income taxes, sales taxes, fuel taxes, rooms and meals taxes are all collected from nonresidents as well as residents.

So the amount collected from Vermont residents is closer to 10 percent of personal income. That is Vermont's tax effort toward all of our state and local public services. So the claims we frequently hear that "Vermont has no more tax capacity" or that "Vermonters are taxed out" simply don't stand up.

The Vermont Constitution is a lot about the common good. That's the reason founders came together to form a state in the 18th century. Chapter 1, Article 9 states in part: "previous to any law being made to raise a tax, the purpose for it is to be raised ought to appear evident to the Legislature to be of more service to community than the money would be if not collected."

Some suggest that it's irresponsible to raise revenue—that we should make do without additional revenue. I'd suggest that it's irresponsible to not raise revenue when the common good of the people requires it. This is the balance that the Constitution has empowered the Legislature with the responsibility to strike.

Now, why is there a perception that Vermont cannot afford to raise revenue? A major reason is that we have had a growing divide between those at the top and everyone else, and we tax lower income people more heavily than many people with higher incomes. That's the definition of a regressive tax.

When the COVID-19 recession hit, many Vermonters had still not recovered from the Great Recession. While real income for those at the top was up 8 percent, those at the bottom saw a 7 percent drop from 2007 to 2019. And there was no improvement in poverty or real median household income by the end of this recovery. Half of all Vermont income in 2019 was in the hands of the top 20 percent.

It is true that most Vermonters pay enough in taxes. But that's not true for all Vermonters. Many Vermonters at the top, with much greater amounts of discretionary income, still pay less as a percentage of their income in state and local taxes than their lower-income neighbors, according to a 50-state analysis by the Institute on Taxation and Economic Policy.

Additionally, the 2017 federal tax cuts left $500 million in formerly collected federal taxes in the hands of Vermonters—most of it in the hands of the top 20 percent of taxpayers. This is money previously paid in taxes that is no longer being collected—$500 million each year.

So the suggestion that all Vermonters are overtaxed is not true. A revenue strategy targeted to those at the top could raise additional needed revenue without hurting those who already pay enough. Specifically, a one percent surcharge on the income of the top one percent of Vermont taxpayers would raise about $33 million, three percent would raise $100 million. As you've heard from Graham Campbell, eliminating Vermont's capital gains exclusion would raise another $15-20 million per year.

As you work to come up with a fair allocation of responsibility to address the public pension challenges, I would encourage you to consider state revenues like those I've just discussed as part of the solution. What's at stake is the integrity of state government services and public schools that need to attract talented young people and retain current talent with an attractive compensation package. In the end, the question is not what's the cheapest way out for the state. The question is how do we best meet our state residents' needs for these critical public services.