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# The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

*A Monthly Publication of The Ethan Allen Institute*

INSIDE:



## State Spending: Totally Unsustainable

COMMENTARY

Accentuated by the recession, the state's recent economic news and fiscal projections inescapably suggest that Vermonters simply cannot sustain their present level of government spending.

The Emergency Board met November 12 and heard its economists report that it should not be necessary to downgrade the General Fund revenue projections again this quarter. That suggests the economy may have bottomed out. The governor and other members of the board seized upon this as a thin ray of hope breaking through desolate economic clouds.

But that thin ray of hope cannot be allowed to divert attention from what is rapidly becoming the most serious fiscal situation in the state's history.

Projected General Fund revenues have dropped 14 percent over the past two years. This year's projected revenue will be lower than the revenue that the fund took in five years ago.

The Unemployment Fund faces an ever-deepening shortfall, heading toward $400 million by 2013. Somewhere big money has to be found to fill that hole – beginning with higher taxes on employers – and then accumulate an additional $300 million in anticipation of a future recession.

Projected general fund shortfalls in fiscal years 2011-14 total an astonishing $470 million, starting with $82 million in the fiscal year beginning next July. The federal stimulus money will have disappeared by then.

There is no agreed plan in place for coping with the federally decertified Vermont State Hospital. The Feds are not putting any money into its operation, so Vermont taxpayers are shouldering the full burden.

David Coates, the retired partner of the Burlington accounting firm KPMG, informed legislators last spring that as of June 30, 2008 the state's unfunded pension liabilities, as computed by the state actuary, were $466 million. This is just about a three-fold increase in liabilities in just five years.

When it comes to the other post-retirement benefits (i.e., medical insurance), Coates reported, the situation is even more alarming: "The state actuary has calculated the unfunded liability for both plans [teachers and state employees] at June 30, 2008 to be $1.6 billion. This is projected to increase to over $4 billion in thirty years, if we continue to fund these plans as we have in the past."

Coates concluded: "Vermont is currently on a path that is not financially sustainable."

Then there's the Education Fund. In the years 2004-2009 the boom in real estate assessments brought in tons of money for the educrats to spend – and even allowed the legislature to lower the two state property tax rates by a penny each in 2009. The year over year percentage increase in the education grand lists was 11.1 percent in 2004, 13.5 percent in 2005, 12.4 percent in 2006, 9.7 percent in 2008, and 2.6 percent in 2009.

But with the national housing market crash the state's education grand lists are now trending negative: -0.9 percent this year, -3.0 percent in 2011, and -0.5 percent in 2012. That means the current tax rates will raise fewer education dollars. Tax commissioner Rich Westman ruefully admits that he will be the first occupant of

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## The Ethan Allen Letter

The Ethan Allen Institute is an independent, non-profit, nonpartisan public policy research and educational organization, incorporated in 1993 under Vermont law.

The Institute sponsors and conducts research on important public policy questions facing the people of Vermont, and makes its findings and recommendations known through various channels to the general public, the news media, and civic leaders at all levels.




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# PRESIDENT'S MESSAGE

## Vermonters – Get Ready!

I wish my message this month were about all of us getting ready for the Holidays, for the music, for reunions with families and friends – and for all the wonderful feelings of renewal that this time of year can inspire.

Instead, though, we have to get ready to face the ruinous policies of many of the people who supposedly work for us in Washington and Montpelier.

The Washington Three are working mightily to help Congress enact a destructive, unaffordable, and unconstitutional health care scheme, designed more to increase the government's power than to solve any real world problem. On the heels of that, they are promoting the lunatic Waxman-Markey cap-and-trade energy tax bill that, if enacted, will lay an enormous cost to Vermont businesses, schools, hospitals, farms, and ordinary consumers and homeowners.

As for Vermont, the page 1 commentary this month about our darkening fiscal crisis contains a lot of scary numbers. The ones that really stick out most for me are these: unfunded pension liabilities of our public employees ($466 million) and the unfunded post-retirement medical obligations to teachers and state employees ($1.6 billion). These obligations are, as David Coates notes, "not financially sustainable".

The *Vermont Economy Newsletter* warns you to get ready to "get your checkbook out" to pay for the coming education tax increases. My personal checkbook will be out in 2010 for something else: making a generous contribution to the Institute to strengthen its voice against all this economic irresponsibility. I hope you feel the same way.

*Rick Bornemann*

*Your membership renewal letter will be in the mail this month – please give generously.*

# EAI Tackled Major State Issues in 2009

REPORT

EAI kicked off 2009 by distributing its updated *Off the Rails* report to legislators – this time including four pages of specific recommendations for getting the state back on the rails.

We shocked some people by supporting five-cents-a-gallon motor fuel tax increase to pay for salvaging our highway system (the rate hadn't been raised since 1997). That measure eventually passed with little resistance, although it was characterized as an "assessment" over our objection. EAI explained to key Senators that the House-passed "autopilot" tax increase feature was an abomination, and it quietly disappeared from the final measure.

In March we resumed our search for a new President and CEO. That resulted in the September arrival of Rick Bornemann. His assignment is to make EAI more of an influence in policy debates, expand coalition building, undertake (for the first time) some pro-liberty, pro-taxpayer lobbying, and raise lots more money for the cause.

On April 14 EAI hosted its 15th annual Jefferson Day Dinner, featuring Vermont historian and former college president Nicholas Muller. Gov. Douglas and former Gov. Tom Salmon were in the dinner audience.

I spoke on "Ten Threats to Our Liberties" at the State House Tea Party Rally on April 15, and again in Bradford on September 16. (You can access the text at www.ethanallen.org.) I also keynoted a kickoff meeting of Vermonters for Choice in Health Care in Williston on November 17.

On May 28 we featured economist David Hale at our Sheraton Economic Series, and on October 15 Lawrence Reed, President of the Foundation for Economic Education, spoke from the same podium. Each meeting attracted an audience of more than a hundred.

Our commentary (the fourth on the subject) on "the nether world of Vermont politics" exposed the Shumlin-Starr manipulations to impose a hidden tax on milk. So far the Vermont Milk Commission has rebuffed their increasingly desperate efforts to pull off this stunt.

In several commentaries we explained the likely consequences of the increasingly frenzied anti-nuke campaign to "vote Vermont Yankee off the island". In October we exposed the bizarre corporate welfare economics of solar photovoltaic electricity that our liberal legislature has mandated our utilities to buy at an absurd 30 cents per kwhr (five times the present price of Vermont Yankee's nuclear electricity). (See p. 6.)

Beginning in June we repeatedly hammered ObamaCare and the lunatic Waxman-Markey Cap-and-Tax energy regulation bill, both now struggling to survive in Congress.

In July our www.VermontTransparency.org site, under development for eight months, went live. It won the plaudits of the *Free Press* and many others, as a reliable and understandable source of information on state taxing and spending, school district spending, and how to find legislative voting records, etc. (please visit!) (The project is an unique joint effort of EAI and the liberal Public Assets Institute.)

On July 31 we held our third annual Milton Friedman Day dinner in Barre. Former St. Johnsbury Academy headmaster and Senator Bernier Mayo spoke on "Strengthening Faith Based Education".

On November 30 we released the report of our Commission on Rebalancing Education Cost and Value (see p. 4). This, our major effort of the year, charts a radically new path for education in Vermont: away from an overly expensive union-dominated public school system, and toward an era of parental choice, provider competition, technological advance, and higher achievement – at no increased taxpayer cost. Fourteen Vermonters with vast experience in educational issues lent their support to this product.

The overriding issue of 2009 – and 2010 – has been and will be our state budget crisis. EAI has pointed out for four years where this train is heading. For years our activist legislatures have created government obligations that our economy and its suffering taxpayers simply cannot meet. Our *Off the Rails* study (2006) showed what is likely to happen by 2030 – and that was before the October 2008 financial crash. Now it's worse.

The state deficit picture (see the JFO chart on page 4 of the October EA Letter) shows a predicted $470 million shortfall over the years 2011-14 (see chart on p. 8). Coping with the fiscal issue (i.e. shrinking government) will be the paramount concern of the Institute during 2010.

While all this was going on, we produced 26 print commentaries, 250 daily radio commentaries on WDEV, and, of course, 12 Ethan Allen Letters.

This month brings to a close my 16 years of leadership of the Institute. I plan to remain in harness through 2010, at least, to support the expansive program of our new President. I hope all EAI members will renew – generously – to help make EAI a more powerful player in the never-ending battle to protect our liberties, save and stimulate our economic prospects, and make Vermont more affordable and livable.

– John McClaughry

# Rebalancing Education Cost and Value

COMMENTARY

How can Vermonters get equal or better educational outcomes for their children, with fewer taxpayer dollars?

That intriguing question has rarely if ever been squarely posed. A State Board of Education's policy commission is laboring to produce "transformation" policies, with no attention to what those policies might cost taxpayers.

A legislatively created committee (a majority of which are teacher union-dependent) is currently trying to find an affordable way to finance the current system of education. It's not unreasonable to suspect that it will recommend offloading current education expenses (notably health insurance) onto some other taxpayer account, plus creating a new mega-organization in the name of (supposed) "greater efficiencies in delivery."

A completely different approach is that of the Commission on Rebalancing Education Cost and Value. This private sector commission, created by the Ethan Allen Institute, consists of 15 former superintendents, principals, school board and Senate education committee members, and PhDs. Its chair is Chris Robbins, who just completed a six year term on the State Board of Education and is also the current Chair of VSAC.

In his foreword to the report, Robbins says "The fundamental premise of this report is that a policy of creating an ever-enlarging 'system', directed from the top down, populated with thousands of teachers, administrators, and bureaucrats, controlling the annual expenditure of $1,450 million taxpayer dollars, jealously protective of the benefits enjoyed by the people employed in the 'system', and dismissive of the abilities and preferences of parents and children, is a policy headed off in a totally wrong direction."

"Such a policy will, ultimately, and despite the best intentions of many persons within that system, shortchange our students, defeat the preferences of many parents, and spend ever escalating amounts of taxpayer dollars for little or no added educational benefit."

"Instead of enlarging and fortifying the 'system', we recommend deconstructing the current 'system' and rebuilding it based on the needs and desires of parents and students."

The new report, entitled *Better Value, Fewer Taxpayer Dollars*, includes a detailed economic analysis of today's public education system. That analysis concludes that "it is very clear than Vermonters – taxpayers and parents – are not getting their money's worth from our very high per pupil education spending. It is also clear that this spending trend is unsustainable."

The Commission believes that "the great majority of parents and children have the capacity to identify the kind of education most suitable to their children's needs and preferences, and that public financial support for education should flow not through overgrown and nonproductive bureaucracies, but directly through the consumers to a wide array of educational providers, some public, some private, that attract revenues by offering a product that their customers want."

The Commission recommends giving tuition certificates to students instead of payments to schools, as is now done in 90 Vermont tuition towns. It advocates creation of charter schools, now in operation in forty other states, and more virtual schooling. It supports tax credits for Student Tuition Organizations (to fund scholarships to faith-based schools), and Education Freedom Districts (where voters could create their own education models).

The Commission also recommends that compliance with the Federal special education mandate be made a responsibility of the State Department of Education. It would contract with appropriate providers, including public schools, for free and appropriate services for eligible students, and defend against lawsuits.

A table in the report suggests that if parents chose to send only 20 percent of today's public school children to independent schools and other educational programs costing typically half the per pupil cost of comparable public schools, education spending would decrease by $81 million a year.

A 2008 Friedman Foundation poll revealed that 89 percent of Vermont voters favored independent, charter, virtual or home schooling over traditional public schools. If parents acted on those preferences, the savings to taxpayers could be as much as three times that amount.

Moving to a competition and choice model, the report says, "will stimulate a vibrant, dynamic educational marketplace that will help our children acquire the skills they need to flourish in the 21st century, and put Vermont on the nation's map as a hotbed of imagination, innovation, and achievement."

Such a shift would, of course, force many of our near-monopoly public schools to reshape their policies and programs, to keep on attracting revenue-paying students. This will stimulate furious opposition from the least imaginative and most security-conscious public school officials, plus the Vermont-NEA teachers union.

That's understandable. But most parents and taxpayers probably believe that they – as well as our schoolchildren – will benefit more from dynamic 21st century competition and choice in education, than paying ever more to keep the 20th century monopoly system alive.

# Better Value, Fewer Taxpayer Dollars

*The report of the Commission on Rebalancing Education Cost and Value*

December 2009

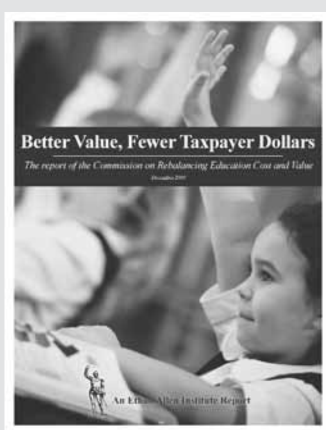
EAI's new report on thorough-going education reform focuses on how Vermonters can get more educational value for the same or fewer taxpayer dollars. The key proposals are described in the commentary on the facing page.

The central proposition of the report is that we can't get better value for fewer taxpayers' dollars by erecting new "governance" structures, increasing centralized control of public education, and maintaining the near-monopoly of the current $1.45 billion educational "system".

As Chairman Chris Robbins says, we need to deconstruct the present "system" instead of looking for ways to make it bigger, more powerful, and more exclusive. President Barack Obama has said, "My guiding principle is, and always has been, that consumers do better when there is choice and competition". The Report recommends precisely that.

The Members of the Commission are:

- Chris Robbins (Chairman), member of the State Board of Education 2003-09; former president, Vermont School Boards Association; chairman, Vermont Student Assistance Corporation.
- David A. Bisson, Barre Town, retired superintendent of public and parochial school districts and former chair, Vermont Catholic School Board
- Bruce E. Buxton, Rochester, headmaster emeritus, Falmouth (MA) Academy
- William J. Cruess, Danville, retired assistant headmaster and business manager, St. Johnsbury Academy
- Sr. Shirley Davis, Rutland, former principal, Mt. St. Joseph Academy and assistant superintendent, Vermont Catholic Schools
- Hon. Walt Freed, Dorset, former Speaker of the Vermont House
- Apple Gifford, Newfane, curriculum director, Oak Meadow School
- Peter W. Lind, Rutland, former headmaster and current board chair, Rutland Area Christian School
- Bernier Mayo, St. Johnsbury, former headmaster, St. Johnsbury Academy, superintendent of public and Catholic school districts, and Vermont Senator
- John McClaughry, Kirby, former vice chair, Vermont Senate Education Committee and president, Ethan Allen Institute
- Dr. Jeffrey Pascoe, South Burlington, Laureate Learning Systems, Inc.
- William R. Sayre, Bristol, economist and former chair, Associated Industries of Vermont
- Dr. Bruce Shields, Eden, agribusiness and forest products leader
- Wendy Wilton, Rutland, former member of the Vermont Senate Education Committee
- Dr. Arthur Woolf, Westford, associate professor of economics, University of Vermont and former state economist




The Report (26pp., PDF format) can be downloaded from the EAI web page at www.ethanallen.org/pdf/educationreport_2009.pdf. Over 500 hard copies have been distributed to legislators, education leaders, and the media. Hard copies are available – please contact EAI to order.

# The New Solar Electricity Rip-off

COMMENTARY

One of the most intense concerns of the enviro-laden majority party in recent legislatures has been to find some invisible way of subsidizing its favorite corporate welfare recipient, "renewable energy".

The 2005 legislature created a "Clean Energy Development Fund" to make grants and loans to qualified wind, solar, biomass, methane, small hydro and other renewable energy promoters. The solons funded it by socking Vermont Yankee to the tune of $28 million, in return for permitting the nuclear plant to store spent fuel rods in concrete casks on its own property.

But that wasn't enough. The follow-on idea is called SPEED. It requires electric utilities to purchase up to 50Mw of wind, solar and methane-generated electricity at shockingly high rates.

Vermont has already had a bad experience with this kind of corporate welfare game. A 1978 federal law called PURPA, now mercifully expiring, required Vermont utilities to purchase power on long-term contracts from a dozen Independent Power Producers (small hydro plants and one big woodchip plant). The government calculated the purchase price in the belief that fossil fuel prices would soon reach $100/barrel of oil equivalent. (Even after two decades of dollar depreciation, oil is now around $80/bbl.) That's why IPP power (8 percent of Vermont's consumption) has been the most expensive part of every utility's portfolio.

But never mind that experience. When the legislature can't tap some handy pot of money to promote this fetish, it forces the Public Service Board and the utilities to do its dirty work in the hope nobody will notice the increase in electricity rates.

The 2009 amendments to the SPEED program forced the utilities to purchase up to 50Mw of qualified renewable electricity through a "feed in tariff". Willem Post, an experienced mechanical engineer from Woodstock, has performed a detailed analysis of the economics of commercial solar photovoltaic electricity.

Post took as his model a one Mw rated system (83,333 sq. ft., roof-mounted on a big box store). He assumed, generously, that the system would have a 25-year service life and no component replacement. The system's installed cost at today's prices would be $6.5 million ($6500/kw). Thanks to the 30 percent federal tax credit, the amount to finance drops to $4.55 million.

Of course the sun doesn't shine all the time. Post assumed, realistically, that in Vermont the panels would receive peak sun 4.3 hours per day on average, at 80 percent conversion efficiency. That projects to 1,255,600 kwhr/year.

Under the SPEED program, the legislature decreed that utilities must purchase solar electricity at a rate of 30 cents/kwhr. This is about five times what the utilities are now paying for wholesale nuclear-generated electricity. Post assumed that the 30-cent "feed in tariff" would continue through 2029. For the remaining five years the utilities would pay the seller 2/3 of the prevailing rate.

Over the 25 years this Big Box PV system will produce $8.574 million in revenues. The financing cost for the system (at 6 percent interest) comes to $8.9 million. From this the big box owner can deduct 10-year depreciation and interest paid ($3.796 million) from its other income, leaving a net gain to the owner of $3.47 million.

From Post's spread sheet one can calculate that over the 25 years the utility's other ratepayers will pay an extra $2.19 million for the Big Box PV kilowatt hours, assuming a current wholesale retail market price of 12 cents/kwhr increasing by 4.7 percent a year to 37.8 cents/kwhr in 2034. (From 2029 to 2034 the PV electricity will be less expensive than the market rate – unless the PV producers can persuade a future PSB or legislature to increase their FIT rate to keep the subsidies coming.)

So here's the 25 year scorecard: utility rate payers – IBM, Killington, small businesses, town governments, farms, churches, and Grandma – will pay $2.19 million in higher electricity costs. Federal and state taxpayers will pay $1.95 million in up-front tax credit subsidy, plus $3.796 million to make up for the depreciation and interest deductions (at a combined Federal and state income tax bracket rate of 35 percent).

Big Box PV pockets $3.47 million after all expenses – for installing and operating less than one tenth of one percent of Vermont's electricity capacity. No wonder the Public Service Board received 200 Mw worth of feed in tariff proposals, four times the (current) 50Mw cap.

For whom is this a good deal, again?

# NEWS & VIEWS

**Coming Event:** The Manchester TTP group will present a Newt Gingrich film on President Reagan and his accomplishments on Sunday, December 6 at 1:00 at the Masonic Lodge on Spruce Street in Manchester Center. EAI VP John McClaughry, a former Senior Policy Advisor in the Reagan White house, will offer personal recollections. The public is invited.

**Coming Event:** The *Vermont Economic Newsletter* holds its 19th annual Vermont Economic Outlook Conference at the Sheraton Burlington on Friday, January 8: "After the Recession: What Is the New Normal?" For more information: rheaps@vteconomy.com, 879-7774.

**Coming Event:** The Vermont Campaign for Liberty is planning an all-day meeting at the House Chamber in Montpelier on Saturday, January 9, 9-4. Details to follow.

**Larry Reed's Great Talk** at the Sheraton on October 15 can now be viewed on line. Go to www.ethanallen.org and follow the link on the home page.

**Another Hit for Vermont:** The Heritage Foundation has calculated the negative effects for the states of the energy price increases mandated by the House-passed Waxman-Markey cap-and-trade energy tax bill. Projected changes in Vermont's annual GDP range from minus $200 million to almost a billion in 2031; an eventual (2035) extra dollar a gallon for gasoline; and 3,825 fewer non-farm jobs in 2012.

For whom is this bill a benefit again? And why are our three members of Congress supporting it? (WebMemo 2585-VT, 8/19/09.)

**Vermont's Economic Prospects:** "We are at a crossroads. We need tax policies, investment strategies and regulatory policies that reflect an encouragement of business investment in Vermont, as well as structural improvements to the programs and services of state government in order to lower the cost of government and make it sustainable over the long term." – Ernie Pomerleau (LCRCC), testifying before the Blue Ribbon Tax Commission 10/09.

**Prof. Gore on Geothermal Energy:** Global warmist Al Gore, on the Conan O'Brien Show [11/18], boosted geothermal energy as a way to make use of the Earth's core temperatures of "several millions of degrees". Geophysics puts the temperature of Earth's solid iron-nickel core at no more than 7,000 degrees C.

The surface of the Sun measures to about 10,000 degrees C. If the Earth's core were "several millions of degrees", the entire planet would vaporize into a swirling ball of plasma. Fortunately for Mother Earth, Prof. Gore is again dramatically off base.

In the artwork for his new book, Prof. Gore included a NASA image of the earth, adding four hurricanes at once, including one spinning in the wrong direction next to Florida and, in a physical impossibility, one on the equator next to Peru.

**President Obama Speaks:** "My guiding principle is, and always has been, that consumers do better when there is choice and competition." (Address to Congress on health care, 9/9/09.)

"But this is not about consumers! This is about seizing political power over consumers and medical providers and sucking up trillions in new taxes! Get out of our way!" (Actually Obama didn't say these last three sentences, at least publicly.)

**Teachers' Union on School Consolidation:** "We have to look for every available dollar, but let's make sure the dollars really are there. Just shoving two districts together doesn't necessarily save money. In fact, it could cost money if you make the district too large and too inefficient," said Michigan Education Association spokesman Doug Pratt. (EIA, 10/27/09.) (An item from our thinly-populated "NEA Wisdom" file.)

# State Spending: Totally Unsustainable

Continued from Page 1

that office ever to recommend that the legislature increase the education property tax rates, after four reductions.

The Vermont Economy Newsletter observes that the Education Fund is likely to show a $70 million hole this year. One final dose of federal stimulus money will cover $40 million of that. There is not enough in the education reserve fund to cover the $30 million remainder.

Writes VEN, "The legislature will either have to send more money to the Education Fund to keep property taxes down and raise income taxes to do so, or transfer less money to the Education Fund to avoid an income tax increase, but see school property taxes soar. Either way, get your checkbook out."

The Transportation Fund, despite the federal stimulus injection, suddenly faces an enormous expenditure in replacing the condemned Champlain Bridge in West Addison.

What's the way out – if declaring bankruptcy is not an option? That's hard to say, but any realistic analysis must begin with the stark realization that forty years of Vermont's liberal politics has created a government spending machine that is now far outstripping the capacity of already overburdened Vermont taxpayers to keep it running.

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