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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

Bruce Shields Named EAI President

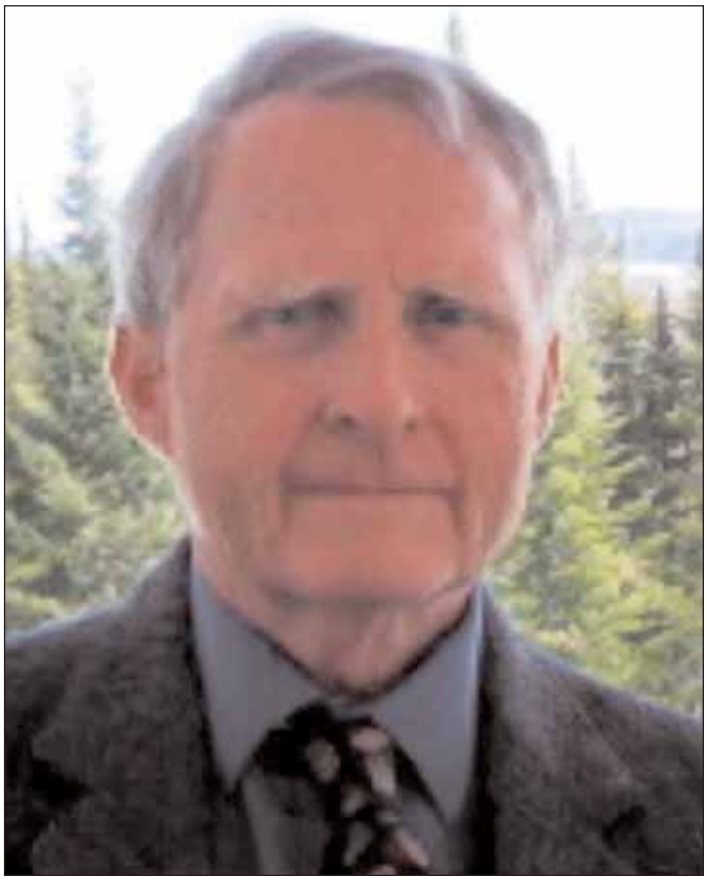
Dr. Bruce Shields of Eden, a longtime member of the Institute's Advisory Council, is the long-awaited new President and CEO of Ethan Allen Institute. He was elected by the Board at its meeting of December 12, and will assume his duties in mid-January.

Bruce has a long record of leadership and service to a wide range of Vermont organizations. He has served 10 years as Eden town moderator, 15 years as lister, and three years on the Lamoille North Supervisory District School Board.

Bruce, a family tree farmer, has been active in farm and forestry work for many years. He has served as state treasurer of the Vermont Farm Bureau since 1994 and as vice president and president of the Lamoille County Farm Bureau for 13 years. He has been active for many years in leadership positions in the Vermont Timber Truckers and Producers Association, the Vermont Sugar Makers Association, the Vermont Forestry Foundation, and the Vermont Forest Products Association.

Bruce's small business experience includes managing the Morrisville Agway store for five years and a partnership in the Demeritt Lumber Company of North Wolcott.

Bruce graduated from Harvard, earned a diploma in literature at Edinburgh University in Scotland, and received M.A. and PhD degrees from Rutgers. He has taught at Russell Sage College, Norwich University and Johnson State College.



"The election of a man as qualified, experienced and well known as Bruce Shields to be EAI President will launch EAI into a new phase in our effort to become a more influential force in Vermont for liberty, community, limited and solvent government, competitive enterprise, and economic opportunity", said newly elected Board chair Jack McMullen of Burlington.

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.

MEMBERSHIP

The Ethan Allen Institute relies upon the generous support of its more than 600 members to support its work. Contributions to the Institute, a 501(c)(3) educational organization, are tax deductible to individuals, corporations, and foundations. The Institute neither solicits nor accepts funding from government sources.

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Members receive the monthly Letter, invitations to all Institute events, periodic email news, and (on request) all publications. For a list of available publications or other information, please contact the Institute by phone, fax, mail, e-mail. Most publications can be downloaded from the web site.

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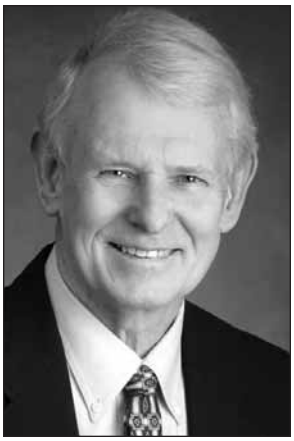
EDITOR'S MESSAGE

A New Era for the Institute



It was a happy day for me last week when Bruce Shields agreed to come aboard as EAI's new President.

As you can see from the announcement on the front page, Bruce is a long-time Vermonter of many accomplishments. He steps into this new role not only to take charge of the Institute's current operations, but to lay the groundwork for a greatly expanded program in support of our mission – educating Vermonters in the fundamentals of a free society.

The breadth and depth of the Institute's 2012 program have not yet been spelled out, but I hope it will include meetings with EAI members and friends across the state, where I can give Bruce a very enthusiastic introduction.

In that connection, let me encourage you to communicate directly with bruce@ethanallen.org with congratulations, and with your suggestions for issues, programs and events for the coming year. In particular, would you be willing to be the local host for a public meeting in your area? I know Bruce will appreciate your active support as much as I have.

Our members usually receive their **annual renewal appeal** in mid-December. This year we postponed sending it out for a month, so that the Board could finalize the election of our new President and two new Board members (see page 5).

So please watch your mailbox about two weeks from now! We need – and deeply appreciate – your continued support of our efforts to get Vermont back "on the rails".

EDITOR

Renewal Mailing Coming Soon! *Your support will help make the Institute a more powerful voice in this important year ahead.*

Unicorn Power for Vermont!

COMMENTARY

Four years ago the VPIRG plan for the Extreme Green Makeover suffered a severe setback when Gov. Jim Douglas vetoed Sen. Peter Shumlin's bill to levy a $25 million tax on the state's leading generator of clean electricity , Vermont Yankee, to fund a new state entity to go about persuading Vermonters to stop wasting money on heating fuels.

The Democratic legislature failed to override the veto, but the Senator from VPIRG vowed to come back with an even more far reaching Green plan in 2008. And he did.

Shumlin's S.350 of 2008 proposed creation of a climate supergovernment to mastermind what has been called a Manhattan Project for Green Social Engineering. It also featured strict "smart growth" land use control strategies, cap-and-trade control of greenhouse gas emissions, , new Act 250 rules to impose "carbon neutrality" on developments, mandates for the protection of "dead and dying wildlife trees", doubling (heavily subsidized) passenger rail traffic by 2028, getting all single-occupancy vehicles off the highways, steeply increased vehicle sales and use taxes and registration fees on low-mpg vehicles, energy efficiency standards that must be met before homeowners could sell their houses, and biofueled bus tours to visit biofuel producing farms.

Happily, cooler heads prevailed, and the bill was reduced before passage to report making and a continuation of various working groups.

But now Peter Shumlin is Governor. Together with his Climate Cabinet, he has in place the supergovernment envisioned in 2008. He has enthusiastically adopted the ambitious plan of his Department of Public Service to make Vermonters get 90 percent of their energy from renewable sources by 2050.

His administration is committed to forcing ratepayers to subsidize a vast increase in renewable energy. That is largely because it needs some new power sources to replace Vermont Yankee's 280Mw of dependable low cost base load electricity.

Shumlin's key legislative allies of 2008 have now introduced bills (S.170 by Sen. Ginny Lyons, H.468 by Rep. Tony Klein) to move more quickly in the direction of the bill he championed back then.

The main feature of both bills is adoption of a "Renewable Portfolio Standard", whereby Vermont's utilities will be required to buy ever more electricity from "renewable" sources, regardless of price.

Under current law, the Clean Energy Development Fund subsidizes favored renewable energy producers. The state also mandates that the utilities make a "standard offer" to buy up to 50 Mw of in-state renewable energy (wind, solar, landfill and farm methane, biomass) at prices ranging from three to four times the market price.

The Lyons bill doubles the standard offer to 100 Mw, and levies a 3 cents/kwhr penalty tax on utilities that fail to meet the fiendishly complex requirements of the new Renewable Portfolio Standard (their ratepayers will pay it, of course.) The tax proceeds will go directly into the Clean Energy Development Fund, now almost out of money since the Vermont Yankee cash cow will stop making forced contributions in March.

What a sweet strategy! Extinguish the low-cost competition (Vermont Yankee) to drive electricity prices higher, then subsidize favored renewable energy producers, then mandate that utilities buy their product at far above market prices, and send the bill to their captive ratepayers!

The Lyons bill dropped the gas guzzler tax of the earlier Shumlin bill, but found suitable replacements in the requirement that every residence in the state obtain its hot water from solar collectors 13 years from now, plus a 5 percent "fossil heating fuel efficiency tax" to make heating oil, propane and natural gas more expensive. This new tax will take effect two months after the 2012 election.

Another feature of the reborn 2008 Shumlin bill is the all-out taxpayer financed "climate change educational campaign", also known as the "Green Madrassah", through which the next generation of Vermonters will be thoroughly indoctrinated in Al Gore and Bill McKibben's apocalyptic climate theology. This is designed to reduce resistance to the increasingly desperate tax and regulatory schemes that will likely be needed to push Vermont to the goal of 90 percent of energy from renewables by 2050.

One recent blog comment on the Shumlin energy plan hit the mark: "These people believe they can power the state on the combustion of unicorn flatulence." One might note that the collectors and sellers of unicorn flatulence will make out handsomely in the process, while Vermont's energy consumers take a hell of a beating.

Merry Fiscal Christmas!

COMMENTARY

The good news is that Vermont still has its AAA bond rating, one of only nine states to be so favored. The bad news, of course, is that the three private agencies that bestow these coveted ratings are the same agencies that cheerfully rated securities backed by toxic mortgages as ultrasafe investments in the run-up to the financial collapse of 2008.

In recent months the three increasingly nervous agencies – S&P, Fitch, and Moody – have begun to be a lot more critical of shoddy financial instruments and unpayable sovereign debt. Last month S&P announced that almost all of the European Union countries have been put on "credit watch", the first step to a rating downgrade.

That doesn't suggest that Vermont's bonds are likely to be downgraded any time soon. It has happily been an article of faith in Vermont from time immemorial, among liberals and conservatives alike, that the first untouchable item in any state budget is funding to cover debt service.

On the other hand, the state's inability to back off its ever more ambitious spending programs can't help but raise question about just how sound Vermont's long term finances are.

The nonpartisan Illinois-based Institute for Truth in Accounting has just come out with a glossy report entitled *The Financial Health of the States*. It focuses on the assets each state has to cover its obligations, as reported by the states for fiscal year 2009.

For that year, Vermont reported liabilities not related to capital assets of $5.1 billion, of which only $584 million came from state bond issues. But ITA's researchers identified $2.6 billion in additional liabilities, off the balance sheet. These are largely the result of unfunded pensions and retiree health benefits for the state employee and teacher retirement systems.

The state's accountants may object to ITA's methodology, which showed Vermont to be the 18th weakest among the 50 states. But the ITA report does raise troubling questions.

Buried in the state's 2010 Comprehensive Annual Financial Report is the news that unfunded accrued liabilities for state employee pensions is $294 million, and for teachers, $712 million. Worse yet, the unfunded accrued "Other Post Employment Benefits" (OPEB, mainly health insurance) for state employees is $917 million, and for teachers, $703 million.

The state's annual contribution for state employee OPEB is running at 39 percent of the Actuarially Required Contribution, the amount needed to pay annual benefits and eliminate the unfunded liability by 2031. There is no annual state contribution to cover those liabilities for retired teachers. Their OPEB benefits are just deducted from their pension fund, which is only 67 percent funded. (The state employee fund is 81 percent funded.) Not yet a disaster, but not good.

Another eyebrow raising fact is that the state's actuaries are assuming that the pension funds will earn a 7.9 to 8.1 percent a year long term return on their investments. With 10-year U.S. Treasury bonds yielding 2 percent, one has to wonder just what sort of investments the fund managers will be buying to produce that dazzling yield.

Another troubling consideration is that the Government Accounting Standards Board (GASB), that establishes reporting standards for state and municipal finances, has announced that it will soon require states to report "net pension liability". This will drag out into the open the extent to which a state has short-changed its pension and OPEB funds (Vermont: $2.6 billion). The new rule will also force a more realistic assumed rate of interest on pension fund investments, which will increase annual required contributions.

The state faces sizable ($100 million) expenditures for Tropical Storm Irene recovery, plus the ever growing Medicaid budget burden, plus a limping economy, plus a steady aging of the working age population, plus a constant migration of upper income taxpayers to more friendly tax climes.

Vermont may keep its AAA bond rating for several more years, until somebody notices that it has imposed $3 billion in new payroll, income and sales taxes to pay for Gov. Shumlin's enthusiasm for ever larger government, Green Mountain Care.

Unless those huge new taxes to pay for single payer health care somehow produce an equally huge revenue-producing economic boom – does anybody really believe that? – the Shumlin years may turn out to be, putting it very mildly, a fiscal disappointment.

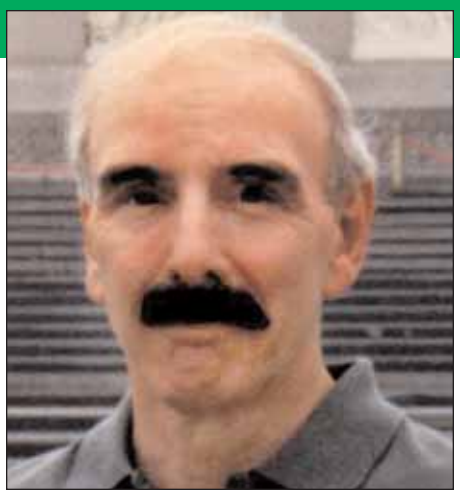
New EAI Directors ...

Connie Houston

Ferrisburg

Connie Houston of Ferrisburg is the managing broker of Lang McLaughry Spera Middlebury LLC with offices in Middlebury and Vergennes. She ran her own real estate business for many years before joining the firm in 2004. She and her husband Bill presently own Houston Enterprises, an industrial incubator business. They are in the process of developing Country Commons, a condominium project in Vergennes.

Connie served as a State Representative for 14 years and was House Majority Leader during her final four. She has served on several bank and non-profit boards and is presently a member of the Addison County Chamber of Commerce, Vermont Chamber of Commerce, and Vermont Association of Realtors®.



Jack McMullen

Burlington

Jack McMullen of Burlington has been elected the new chairman of the Institute Board after serving on the Board since 2000.

A graduate of both Harvard Business School and Harvard Law School, he is currently Managing Principal of Cambridge Meridian Group, Inc., a strategy consulting firm serving Fortune 500 and technology-based companies. Earlier he taught business strategy at Harvard Law School. He serves or has served on the Boards of three publicly held companies and more than ten venture backed, chiefly technology-oriented companies.

Jack serves on the Boards of GBIC and AIV and has been active in number of other Vermont civic enterprises. He was the Republican nominee for the U. S. Senate in 2004.

Rob Roper

Stowe

Rob Roper has been involved in Vermont politics and civic affairs since moving here in 1998.

He previously was for eight years a senior copywriter for major international advertising firms in New York, spending two of those years servicing corporate accounts in Tokyo.

Rob worked as Media Relations director for Jack McMullen's U.S. Senate campaign in 2004, and served as chairman of the Vermont Republican State Committee from 2007-09.

He currently edits the online newsletter True North Reports, and hosts the Ethan Allen Institute's Common Sense Radio talk show, weekdays 11-noon on WDEV.

Rob is a graduate of Kenyon College, and lives in Stowe with his wife Hilary and two children.

McClaughry Quoted in National Health Care Publication

The [Hsaio] report provides suggested policy reforms to address the rising costs to the taxpayers of health care, which it claims if implemented can create savings starting in 2014. The report estimates by 2020, budget savings from these steps will range from $553 million (5.5 percent) to $1.8 billion (18.3 percent of total spending)...

"The state is quite vague about exactly how these 'savings' will be made to appear. 'Efficiency,' 'fraud control,' and especially 'payment reform' appear to be the key factors, but many suspect the state can hit its savings targets only by Quebec single-payer methods: fewer providers, less equipment, and lower reimbursement," [EAI vice president John] McClaughry said.

– *Health Care Reform News* 12/13/11 at www.newsheartland.org.

NEWS & VIEWS

Coming Event: The annual Vermont Economic Outlook Conference is set for Friday, January 13, 2012 at the Sheraton Burlington Conference Center. Details at www.vteconomy.com.

National School Choice Week is January 22-28. For an event handbook visit www.schoolchoiceweek.com.

We Told You So: "Challenges for Change, the 2010 plan to improve government efficiency, flopped when it became a pretext for more budget cuts." (Public Assets Institute, 12/28/11)

That is, instead of saving budget dollars by doing more efficiently all the same things government does, CfC mandated (some) reduced spending but couldn't deliver the efficiencies. See "The Challenge for Change Dream World" (June 2010) on our web site (Commentaries-General).

Latest Vermont Ranking: The Small Business & Entrepreneurship Council has released its 2011 small business survival rankings of the states. Vermont, Rank: 48th.

Highlights: High personal income, individual capital gains, corporate income, and corporate capital gains taxes; High property taxes; High electric utility costs; High workers' compensation costs; High level of state and local government employees; High level of state and local government spending; High five-year rate of increase in state and local government spending; Poor private property protections; High state minimum wage.

Yes, but what's the problem?

Forbes.com annually ranks the states on "Best for Business and Careers." The ingredients are business costs, labor supply, regulatory environment, economic climate, growth prospects, and quality of life. Vermont: 45th, ahead of MS, MI, RI, HA, and ME.

"This [ranking] represents a halt in progress over the past couple of years. In 2009 Vermont ranked 47th overall, and last year we were 45th as well. However, in 2006, 2007 and 2008 we ranked 30th, 32nd and 36th respectively, so our overall slide has been precipitous." – (*True North Reports* 12/14/11)

Karl Marx, Call Your Office: "We don't want to redistribute the wealth to make a moral point. We want to harness the nation's wealth for the common good, which in the end creates a more prosperous, more just society." *Rutland Herald* editorial, 12/10/11.

And if the wealthy don't want to be harnessed, we have the Gulag….

Shumlin in Wonderland: "Shumlin wants Vermont to get 90 percent of its energy from renewable resources by 2050. Currently, Vermont gets 25 percent of its energy from renewables."

"'If Vermont can be the first to get off our addiction to oil and move to renewables as this plan outlines, we will have the jobs and economic opportunities for our children and grandchildren in the 21st century,' Shumlin said." (WCAX, 12/15/11).

Meanwhile, consumers will have to pay higher electric bills, businesses (other than the Shumlin supporters cashing in on renewable subsidies) will take a serious hit, and Vermont will become a penurious renewable energy theme park. See the EAI critique at www.ethanallen.org.

From a Doctor's Wife: "My husband is one of the dreaded specialists and would be on a global budget, so coupled with that and the payroll tax, the writing is on the wall that we would head out of this state. We will not be the [specialty doctor] to go bankrupt in town. There are too many more opportunities in other states. I fear badly for the businesses that can-

Continued on Page 7

More Leftist Totalitarianism

In an excellent column on True North Reports ("Vermonters Against the First Amendment", www.truenorthreports.com, December 21) Kevin Ryan lays out the purpose of yet another left wing group, this one called "Vermonters Say Corporations Are Not People."

This latest Leninist irruption is built on the idea that "you, as a human being, have rights, but if you dare to get together with anyone else to speak, write, influence an election or spend as much as a nickel to do so, Congress may pass a law sending you to prison."

The December 15 organizing meeting decided to obtain supportive resolutions for a Constitutional amendment to give Congress and states the power to punish groups of people who exercise their First Amendment rights. The Bernie Sanders version would deny free speech right to all corporations and "private entities" other than, presumably, individuals. The Peter Welch version (H.J.Res. 90) authorizes punishment only for speech by for-profit organizations, exempting labor unions and nonprofits.

The Burlington City Council's leftist members pushed through a supportive resolution on December 19. The new group – which would ironically be gagged under the Sanders amendment – has vowed to put a similar resolution on Town Meeting ballots across the state. – JMc

Continued From Page 6

NEWS & VIEWS

not move. Sure, we will lose "dumping" a building and a house in Vermont, but it's better than going bankrupt [under Green Mountain Care]". (email 12/14/11)

Campaign for Vermont is discussed in a long interview with founder Bruce Lisman in the December issue of *Vermont Business* Magazine.

Our Energy Future: "For Vermont to shift 90 percent of its energy consumption to renewable resources, Vermonters will have to abandon the internal combustion engine in a big way." (*Rutland Herald* editorial, 12/17/11)

If you work in the woods you might want to save up for a thousand-yard extension cord and a battery-powered skidder.

Health Benefit Exchange: Sen. Vince Illuzzi has introduced a bill (S.208) to prevent the Green Mountain Care Board from prohibiting businesses and individuals from buying health insurance sold off the new Exchange. This will keep alive the policies of thousands of Vermonters who enjoy consumer directed health plans and Health Savings Accounts, which the backers of Green Mountain Care are eager to extinguish.

Hsaio on the Canadian Miracle: "The [Canadian] government underfunded national health insurance, which led to long waiting lines for elective surgery, MRIs and so forth. But when Canada adequately financed its NHI, it was a very good system." – Dr. William Hsaio (*NY Times*, 11/3/09).

Translation: with unlimited funding, single payer will work very well.

President Obama Speaks on Health Policy: "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).

Health Care Inflation Kills! "Rep. Mike Fisher seemed to agree, stating, "It would be dishonest to ever say that we will ever reduce the cost of healthcare. The rate of inflation is quite literally killing all of us who are paying healthcare bills." (TNR, Morrisville 12/13/11).

How will the non-payers dispose of all the corpses?

Golden Oldie: "Why would [business people] try to expand a business in a state where a large and clamorous fraction of the population apparently views even the most responsible and environmentally concerned capitalism as a barely tolerable evil, rather than as a source of wealth creation that benefits a whole society?" – EAI Commentary, September 2002.

Unsolicited Testimonial: "You would be amazed at the number of people that EAI's sponsorship of Common Sense Radio impacts. Wherever I go in the state I bump into listeners and the comments are positive 90 percent of the time." – CSR listener from Barre (11/4/11)

Blindness on the Left: "The Left loves to focus on how to alleviate poverty when the answer is wealth creation. Property is the natural state of man. Prosperity requires free markets, respect for contracts, and protection of private property. No big secret, but it seems to escape the Left." – Ed Crane, Cato Policy Report (11/11)

Indiana's Dazzling Education Reforms

"The [2011] innovations in the Hoosier State broke the decades-old fixation on zoning children into schools by ZIP code, creating a new environment of expansion for charter schools and giving school districts new flexibility in addressing inflexible union contracts.

In just one legislative session, Indiana catapulted itself to the top of the list for school choice states. And the benefit of the hard work came into focus in November, when Indiana's became the nation's largest first-year program, with nearly 4,000 students accepted for school vouchers. The statewide program, which has the broadest eligibility of any school choice program in the country, allows low- and middle-income families the ability to choose a private school.

The Legislature also took steps to increase the number of quality charter schools offering public-school options when it approved a proposal to allow most of the state's private colleges to sponsor charter schools. It enabled charters to take over unused buildings owned by traditional public schools. The state also gave online virtual charter schools a boost with more equitable funding.

Indiana limited the scope of collective-bargaining agreements between teachers unions and school districts, established performance pay for teachers and tied student performance to the teacher evaluation process. With the disappearance of ironclad tenure for teachers and the arrival of merit-based promotions, Indiana has laid the groundwork for public-school reforms that will revolutionize its industry of learning.

– Jeanne Allen, Center for Education Reform, Politico (12/12/11)

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MEDIA

St. Albans Messenger *December 13, 2011*

Gov. Shumlin's Slick Move

It was announced Friday that the state had reached an agreement with the state employees union that would restore a three percent pay cut imposed in 2009 and grant them a two percent increase in 2012 and 2013. …

Obviously, the state employees are thrilled. They got their pay cut restored and got a wage increase tossed in….

But the much larger teachers union can't be as thrilled. The governor essentially tossed them under the bus by underfunding what the state contributes to the education fund. School boards have been told to level fund their budgets or to brace themselves for the need to ask local property taxpayers for more money. This places more downward pressure on teachers' salaries.

The difference between the two is that the governor can take all the credit for the thrill felt by the state's employees' union, and he can shift the blame to the school boards and local taxpayers for any cuts in school budgets, knowing that the convoluted way we pay for education in Vermont is not thoroughly understood. He also gains by appearing fiscally tough on school budgets, which translates well to the average voter.

It would have been better for Vermont had he pushed for a cost of living increase for state employees, but from the lower base, thus saving taxpayers more going forward. Then, instead of raising what the state put in the education fund by 2.1 percent, instead of the six percent [inflation over the last three years] he could have been a bit more generous, at least showing support for what schools have been able to accomplish with their restrained budgets.

– Emerson Lynn