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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

Vermont's $3 Billion Pension Problem

COMMENTARY

Three billion dollars is about six times the state of Vermont's total bonded debt. It's also what the state owes to the retired state employees and teachers covered by the two state retirement funds, including their post-retirement health care benefits. This $3 billion – the unfunded liability – is above and beyond what the legislature has already funded to meet those obligations.

This is an enormous debt – $4,830 for every man, woman and child in the state. Whose fault is it? It's the fault of legislators and governors of both parties stretching far back into the past.

Long years ago legislatures and governors established state-managed pension plans for state employees (1944) and public school teachers (1947). The two plans require contributions from future beneficiaries, and from taxpayers. The plans promise defined benefits on the future day when the beneficiaries reach certain ages and accumulate sufficient years of service, and then retire.

The two state retirement plan management boards, supervised by the treasurer, hired fund managers to manage and grow the money until it would be paid out. They also hired actuaries to compute how much the legislature had to appropriate each year to make sure there would be enough in the funds to make the defined future payments.

So far so good. But a latent peril of the funding system was the fact that the annual required contributions came to a very large number in the appropriations bill. When revenues were scarce, and other spending demands more popular, legislators shaved the pension fund contributions to reach a supposedly balanced budget. That of course pushed the fund's accrued deficit further into the red.

David Coates CPA has watchdogged the status of Vermont's retirement funds for a long time, as a member of the Commission on the Design and Funding of Retirement and Retiree Health Benefit Plans for State Employees and Teachers (CDFRRHBPSET!) . In a recent commentary for the Vermont Business Roundtable, Coates laid out the dimensions of Vermont's current problem.

The unfunded pension liabilities for state employees and teachers now total $1.2 billion. The unfunded retiree health benefits promised to state employees and teachers total $1.8 billion. That adds to $3.0 billion – $4,830 for every man, woman and child in Vermont.

These numbers were as of mid-2011. Two years prior to that date, the total was $2.7 billion. In just two years, despite appropriations, the total liabilities increased by $300 million. In the year since it is likely that the deficits have increased yet further.

A further disappointing fact is that the great bulk of the Vermont retiree post-employment health benefits are "pay as you go". The legislature appropriates around 40 percent of the annual required contribution for state employee health benefits.

The teachers' health benefits are not funded at all. Whatever is needed to pay retired teachers' benefits is simply subtracted from their retirement fund assets, driving that fund $24 million further out of whack.

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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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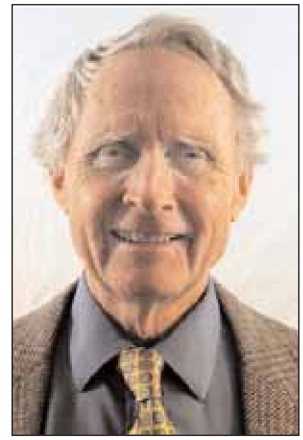
ETHAN ALLEN INSTITUTE
4836 Kirby Mountain Road
Concord, VT 05824
Phone: 802-695-1448 Fax: 802-695-1436
E-mail: eai@ethanallen.org
Web page: http://www.ethanallen.org

PRESIDENT'S MESSAGE

Vermont's Fiscal Alarm Lights Flashing



Gov. Shumlin just signed this year's health care bill. This one creates the Exchange that he hopes will bring federal tax credit money rolling in to finance Green Mountain Care – along with over a billion dollars in new taxes that he won't tell us about until after he is reelected.

Like most Vermonters who pay attention to this issue, I am wondering how our economy and taxpayers can possibly take on the obligation to create and finance a program that will have to raise and manage a majority of our expected $6 billion in health spending in 2017.

Then I read our cover story in this issue, and learned that the state has run up an astounding $3 billion in pension and retiree health care benefits that its government has no idea how it will pay for.

Our state's fiscal control panel indicators are flashing orange. What can a free market, fiscally responsible voice like the Ethan Allen Institute do to wake Vermonters up to the unavoidable consequences of the unaffordable big government future the Left is actively shaping for us?

Sponsoring David Coates' talk in the Sheraton Economic Series is one way – see the facing page. Publishing John McClaughry's respected commentaries in newspapers, *True North Reports*, *Vermont Tiger* and *Vermont Digger* is another.

This month we'll release the new *Vermont Voters Report Card*, and 10 handy questions that citizens can use to elicit information from those seeking public office (watch your mailbox).

Rob Roper is on the airwaves every weekday bringing Common Sense Radio to Radio Vermont listeners. Meredith Angwin has won national recognition for her incisive analysis of energy issues.

We have more coming down the pike. Please help us continue to help Vermonters to grasp the fundamentals of a free society – including maintaining its solvency.

Bruce Shields

President

The Ethan Allen Institute presents –

Sheraton Economic Series 2012

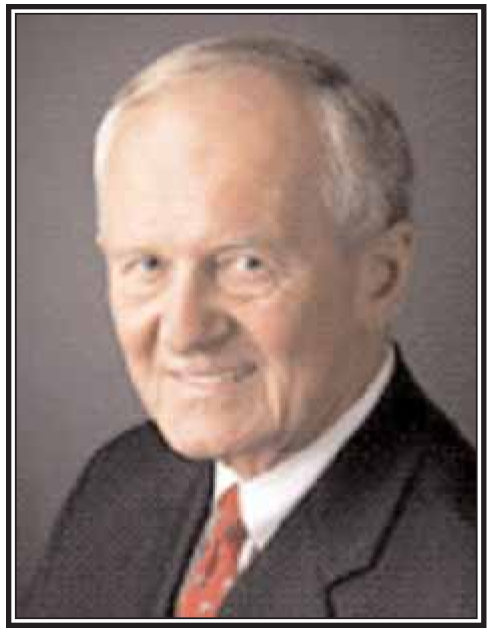
Vermont's Troublesome Pension Problem

featuring David Coates

Sheraton Burlington Conference Center

University Amphitheatre

Tuesday, June 19, 2012 • 7:00 p.m.



As of June 30, 2011, the state of Vermont owed an astonishing $3.0 billion in unfunded pension and retiree health benefits for state employees and teachers. This figure was approximately six times the state's outstanding general fund, transportation fund and special fund general obligation bond debt on the same date.

David Coates CPA recently wrote that "a major structural overhaul is the only solution to this growing fiscal problem". In this talk he will explore several ideas to get Vermont's fiscal house in order.

Mr. Coates serves on the Commission on the Design and Funding of Retirement and Retiree Health Benefits Plans for State Employees and Teachers, as well as the Governor's Council of Economic Advisors, the Governor's Advisory Board for Economic Development, the Vermont Debt Affordability Advisory Committee, and the Vermont Municipal Bond Bank.

In his business career, Coates was managing partner of KPMG's Burlington office. He has served on the board of the National Life Group since 1993, and has also held key leadership positions at the New England Culinary Institute. Coates is a Director of Green Mountain Power Corp., A.N. Deringer, Inc., and the Lake Champlain Maritime Museum. The Vermont Chamber of Commerce named Coates as its Citizen of the Year in 2003.

The Sheraton Economic Series is sponsored by the Ethan Allen Institute, hosted by the Sheraton Burlington Conference Center, and cosponsored by the Vermont Economy Newsletter, Vermont Business Magazine, Vermont Tiger, True North Radio, and the Lake Champlain Regional Chamber of Commerce. Mr. Coates' presentation is also sponsored by the Vermont Business Roundtable and the Vermont Chamber of Commerce.

Public invited – reservations not necessary – no admission charge

Ethan Allen Institute

Ideas for Vermont's Future

4836 Kirby Mountain Road
Concord, VT 05824

Voice 802-695-1448 – Fax 802-695-1436

eai@ethanallen.org – www.ethanallen.org

Legislative Wrap-up: It Could Have Been Lots Worse

COMMENTARY

The 2011-2012 legislature has given up and gone home, and pretty much on schedule to boot.

A major source of contention, traditionally, is the General Fund appropriation bill for the coming fiscal year (FY2013). To the lawmakers' credit, the spending issues were resolved rather easily, and several non-germane policy riders were rebuffed..

The General Fund budget is balanced and the budget stabilization reserves are filled to 100 percent of their statutory requirements. General Fund spending is slated to increase by 5.4 percent over this year's amount. The FY2014 budget deficit is estimated at $5-44 million.

At the end of FY2013, the legislature prescribed that half of any General Fund surplus will be restored to the Education Fund to reduce the $27.5 million snatch Gov. Shumlin engineered a year ago. If this happens – not highly likely – property taxpayers would be relieved of having to pay for at least part of the Shumlin sleight of hand.

An election year gimmick proposed by Sen. Jane Kitchel (D-Caledonia) – to rebate any possible surplus to residential school property taxpayers only – fell by the wayside. Despite repeated efforts by Progressive legislators, the legislature declined to increase higher bracket income tax rates to cope with "growing inequality". The administratively-created use tax on "cloud computing" products was happily stalled at least for a year, to the relief of businesses like dealer.com that were considering relocating to more friendly climes rather than absorb the unexpected tax hit.

In a post-adjournment news conference, House Speaker Shap Smith promised to push next year to expand the sales and use tax to include services. That, he said, would allow a rate below the present 6 percent on the broader tax base. He didn't say how long it would take for revenue-hungry legislators to push the rate back up to 6 percent.

Strong majorities in both chambers expressed outrage at the Shumlin administration's deal with Gaz Metro to merge Gaz-owned Green Mountain Power with CVPS. That deal allows CVPS to disregard the required refunding of $21 million to ratepayers who were forced to underwrite a 2001 bailout. Instead, the governor wants to let CVPS hand over the $21 million to such favorite Shumlin causes as the Clean Energy Development Fund.

Heavy pressure from the governor's office persuaded House Democrats to back off from even a resolution of disapproval, and refuse to accept a 27-3 Senate-passed provision to change the applicable law to require the refund.

The Shumlin version of a Health Benefits Exchange, prohibiting small businesses from buying insurance plans outside the Exchange, won passage on party line votes. The Exchange, costing millions of dollars to set up, will disappear in 2017 when the governor expects that the Green Mountain Care single payer plan will terminate health insurance altogether.

A public school choice bill will allow small numbers of high schoolers to transfer to other public high schools that will have them. Curiously, the sending school won't lose any of its budgeted funds, and will continue to count the departed student as attending for property tax computation purposes.

The receiving school will get nothing for taking on the additional student. Independent schools were dropped from the bill when they refused to accede to government tuition controls. It's hard to see how this will be much of a step forward.

Among the good news was the last minute death of the PSB-designed Renewable Portfolio Standard, by which the government would force electric ratepayers to pay $311-$435 million to subsidize the renewable industrial complex over the next 30 years. Also good news was the failure of the heavy-handed American Federation of Teachers effort to get the legislature to force unionization of private child care providers.

To sum up: the budget is balanced, there were no significant tax rate increases, and several really bad ideas fell by the wayside. Given the complexion of the legislature and the ambitions of the governor, this can be viewed as far from the worst outcome.

However the special interest pressure for ever more renewable energy subsidies persists unabated, and Vermont continues to march down the road toward government-run single payer Green Mountain Care, the costs of which the Shumlin administration will keep secret until after the November election.

COMMENTARY

Renewable Portfolio Standard Disappears Again

By Meredith Angwin

Vermont does not have a Renewable Portfolio Standard, though it has other incentives for renewables. For example, Vermont requires utilities to buy renewable power through the SPEED program of feed-in tariffs. Since Vermont does not require Renewable Energy Credits [RECs], Vermont renewable sources can sell RECs to out-of-state utilities. Therefore, Vermont renewable providers can add to their profits with out-of-state money.

In the last few wild days of the Vermont legislature's recent session, a long-debated Renewable Portfolio Standard bill passed – after having the actual Renewable Portfolio Standard parts of the bill removed! Therefore, RECs are still not required in Vermont. Instead, the legislature expanded the Standard Offer (a feed-in tariff) for renewables. The State now authorizes 127 MW of renewables at Standard Offer rates, up from 50 MW before the bill was passed [Act 170 of 2012]…

Many people say they are willing to pay more for renewable power. Not very many people actually choose to pay more. Only 2 percent of CVPS customers have chosen to purchase more expensive, renewable "Cow Power". (3,300 customers out of 160,000).

Margaret Cheney is representative from Norwich and vice chair of the House Committee on Natural Resources and Energy. She summed up the matter well in discussing the change in the bill: "The major concerns were the cost impact of a renewable portfolio standard."

Meanwhile, the fact that other states have portfolio standards helps underwrite the costs of renewables in Vermont.

(*Valley News*, May 20, 2012)

Please Get This Straight

Act 88 of 2011 declares that health care is a "public good". Robin Lunge, health care "reform" (sic) Director, says "… Health care coverage is a 'public good.' This means that it needs to be available to all Vermonters on a fair basis, like electricity, because just like all Vermonters rely on our electric system for power, we all depend at some point in our life on our health care system." (BFP, 3/6/12)

This is ridiculous. It is utterly inconceivable that health care can be a public good.

For something to be a "public good", consumption of the good by one individual does not reduce availability of the good for consumption by others; and no one can be effectively excluded from using the good. Economists call these conditions "non-rivalrous" and "non-excludable".

If you consume an hour of your doctor's time, three X-rays, and a 90 day supply of Lipitor, those resources are not available for consumption by others, hence your consumption is "rivalrous".

If you have no resources (cash or insurance) to exchange for the professional services, X-rays and pharmaceuticals, you will be excluded from such consumption (unless you're lucky enough to receive them as charity, or can send the bill to the taxpayers.) Hence that consumption is "excludable".

The knowledge of how to tie your shoestrings is a public good. Your big sister can show you how to do it, you can do it all you want without paying anybody royalties, and no one can exclude people from tying their shoestrings.

That tune running through your head is a public good. You can sing it in the shower without diminishing its availability to others, and no can keep you from singing it (but if you record your artistry and exchange it for resources, you may run into copyright infringement problems.)

But the single payer advocates are like Humpty Dumpty in *Alice in Wonderland*: "When I use a word, it means just what I choose it to mean – neither more nor less." They might as well describe health care as supercalifragilisticexpialidocious. – JMc

NEWS & VIEWS

Coming Event: The Institute's annual Friedman Day celebration of parental choice in education will again be held on July 31, at the Sheraton Burlington. Watch the website and next month's *EA Letter* for program details.

Coming Product: EAI's biennial *Vermont Voters' Report Card* (2011-12) will appear in June, and be sent to EAI members via U.S. Mail. It will highlight nine House and nine Senate roll call votes over the past two years, that we believe are of greatest significance for Vermonters. Members and other groups are welcome to download the Report Card from the website (PDF, 5x8", two sheets printed front and back.).

Coming Issue: Speaker Shap Smith has promised to move forward with a sales tax on services next year (if re-elected). For a concise background on this issue, see our December 2010 commentary at http://ethanallen.org/html/general.html#WatchOutForANewSalesTaxOnServices.

So Saith Sorrell: "Congress may regulate under the Commerce Clause the conduct of individual people whose decisions *not* to participate in interstate commerce nonetheless have a substantial effect on interstate commerce." – AG William Sorrell's Supreme Court brief in support of the ObamaCare individual mandate.

After being shellacked by courts on campaign finance, data mining, and Vermont Yankee, will Sorrell go 0-for-4 with ObamaCare? The Court's decision is expected in late June.

Our Adamant No-New-Tax Governor: An AP story in the May 27 *Washington Post*, on the Shumlin administration's desperate efforts to collect more taxes from Vermonters, referred to our state's "adamant no-new-tax governor" (reporter David Gram's gratuitous characterization).

Somehow Gram overlooked Shumlin's signature on the hospital tax increase, nursing home tax increase, home health tax increase, physician tax increase, cigarette tax increase, insurance claims tax increase, residential property tax rate increase, nonresidential property tax rate increase, and electrical use tax increase.

Coming all too soon is a humongous payroll tax (think 14 percent total) to finance Shumlin's dream of a Canadian style single payer health system. If Gram had changed "adamant no-new-tax governor" to "revenue hungry governor", it would have been far closer to the truth.

Anti-Nukie Lynch Mob: Read the frightening account of the anti-nuclear mob that took over the May 23 NRC public hearing in Brattleboro, by Meredith Angwin of our Energy Education Project, at http://ansnuclearcafe.org/2012/05/29/nrc-public-meeting-in-brattleboro/#comments. This is really ugly.

Small Business Friendliness: The Ewing W. Kauffman Foundation surveyed small businesses nationally and graded the states. Overall friendliness: Vermont F (49th), New Hampshire A (8th).

Contributing to Vermont's F grade was ease of starting a business (F), business regulations (D), tax code (D), environmental rules (F), zoning (F). Helping Vermont to beat out No. 50 Rhode Island: health and safety (A), worker training (A+).

Vermont also ranked 49th in the ALEC Economic Outlook ranking. Vermont climbed to 49th from 50th in 2009, and has remained at that level since.

The good news: Vermont ranked 19th in Economic Performance, made possible by its cumulative personal income per capita growth 2000-10. (*Rich States, Poor States*, 2012).

New Energy Act: "I cannot support the raping of a pristine environment in exchange for intermittent [wind] power that has to be subsidized by both the taxpayer and the ratepayer. At a time when Vermont already has an ample power supply, this is no energy plan, it is a blind obsession." – Sen. Joe Benning, on S.214.

That Was Then: "I don't know what single payer means, but we don't want to force people into a plan if they are happy with what they have." – Senate president Peter Shumlin (WCAX, 1/14/07)

Well, Duh: "Chris Dutton is the CEO of the Vermont Electric Power Company, which runs the statewide electric grid. He says this may be a good time to diversify the energy portfolio with renewable resources: 'Because over time, like any commodity, [natural] gas is going to go up again. On the other hand, it's a tough political sell to say you should cut back on a lower-cost resource in the portfolio in favor of a higher cost resource.'" (VPR, 5/18/12).

However, Gov. Shumlin remains determined to make that sell. Any buyers out there?

Strike! From the Occupy Movement handout promoting the May 1 International Workers Day statehouse rally: "Strike! Strike! Strike Everywhere." "We call for protests to organize and disrupt the system … We call for workers to not only strike, but seize their workplaces collectively ... we call for the seizure and use of abandoned buildings, of abandoned land, of every property seized and abandoned by speculators …" (Courtesy of Vermont Workers Center.)

New Hampshire School Choice: In May the NH legislature passed and the governor signed the School Choice Scholarship Act. It gives an 85 percent tax credit for corporate gifts to nonprofits who give scholarships to families earning below 300 percent of the federal poverty level.

The legislation, promoted for a decade by EAI's counterpart organi-

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NEWS & VIEWS

zation, the Josiah Bartlett Center, passed by 70 percent majorities in both House and Senate.

Saving Health Dollars: "The wide adoption of market-based healthcare plans like health savings accounts (HSAs) could significantly lower U.S. healthcare costs in the short run, according to a new study from RAND Corp … Consumer-directed health plans account for about 13 percent of all healthcare coverage provided by employers. The study concluded that if the plans' market share rose to 50 percent, healthcare costs in the United States could drop by $57 billion annually. (*The Hill*, 5/8/12)

So why do the Green Mountain Care partisans want to exterminate HSA plans? Because they reduce government control over people's health and lives.

New Hampshire View: "In New Hampshire we are very supportive of Vermont adopting single payer health care and absorbing all health in the state into Montpelier's grip. Vermont's health care choices are part of our New Hampshire economic development plan." – Charlie Arlinghaus, (Josiah Bartlett Center, Concord, NH, 3/2/12)

Canadian View: "When the government supplies you with 'free' health care, you are not a powerful customer who must be satisfied. They are doing you a favour, and you owe the state gratitude and deference in return for this awesome generosity. They can give you deplorable service, but because it's free, you are totally disempowered. Payment makes you powerful. Its absence makes you invisible." – Brian Crowley, Atlantic Institute for Market Studies (Halifax, NS), 2009.

Single Payer News from UK: "Prime Minister David Cameron … is working to partially privatize the National Health Service, beginning a massive outsourcing of medical services to private health care providers throughout the UK … But in the United States, left-wing enthusiasts of socialized medicine don't seem bothered at the loss of a role model. Many won't even acknowledge it." (*Daily Caller*, 2/17/12)

Europe's Sovereign Debt Crisis: "Inflation gnaws at our trust in money, in our most important institutions, in politicians and in the central banks, which in German are dubbed 'guardians of the currency' for a good reason. Because they experienced it so bitterly, Germans know that in the end high inflation causes societies to disintegrate. It robs the individual of trust in the future, without which no country can thrive." (*Das Bild*, 5/12/12)

Canadian Health Care Wait Times: "Canadians seeking surgical or other therapeutic treatment faced a median wait time of 19.0 weeks in 2011, the longest wait time since 1993. The median surgical wait time in 2011 jumped to 19.0 weeks from 18.2 weeks in 2010, exceeding the previous all-time high of 18.3 weeks recorded in 2007, according to the 21st annual edition of *Waiting Your Turn: Wait Times for Health Care in Canada*, released by the Fraser Institute. (12/21/11)

Global Warming Spending: In May Senator James Inhofe revealed a new study by the Congressional Research Office reporting that in the five Fiscal Years 2008-2012, the U.S. government will spend $68.4 Billion on global warming/climate change issues. (SEPP 5/22/12)

Report from the Field: "I was at a meeting where Bill McKibben called anyone who used fossil fuels an 'eco-criminal.' Presumably, he either walked, skateboarded or rode a mule from his office at Middlebury to the meeting in Burlington." (ESH 5/22/12).

Vermont's $3 Billion Pension Problem

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In fairness, the state has in recent years created an additional fund for the purpose of paying down the shortfall in the primary fund. This effort to catch up with years of irresponsibility shows some good faith, but ultimately fiscal solvency can only be achieved by making the annual required contributions to the respective funds.

The Government Accounting Standards Board (GASB) prescribes the way in which governments present their financial condition. GASB is on the verge of requiring state and municipal governments to tell the whole truth about their unfunded retirement benefit obligations. This will, nationally, suddenly drag $3 trillion of buried liabilities into the daylight.

Kevin Williamson, writing in *National Review* (5/15/12), observes that "pension funding costs already are a significant and growing share of state and local spending. That means that taxpayers right now are going to have to bear higher taxes or reduced services (or both) in exchange for precisely nothing."

If the state of Vermont launches a government-run single payer health care plan – Green Mountain Care – in 2017, it will have to raise well over $1 billion in new taxes to finance its benefits. It is frankly impossible to imagine that the legislature will ever be able to do that, and also come to grips with today's horrendous retirement liability shortfalls.

The Ethan Allen Letter

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St. Johnsbury Caledonian-Record *May 9, 2012*

Vermont's New "Genuine Progress Indicator"

Whatever else the recently adjourned legislature may have done, its more progressive members are cheering enactment of a bill defining the "Vermont Genuine Progress Indicator." Its purpose is "to measure the state of Vermont's economic, environmental, and societal well-being as a supplement to the measurement derived from the gross state product and other existing statistical measurements."

The idea behind this makes some sense. We Americans have an insatiable addiction to more stuff. We want bigger homes, more powerful trucks, snazzier cars, boats, lawn tractors, fancy foods, fashionable clothes, exotic liqueurs, antique furniture, gaudy jewelry, and bottled water from Fiji.

But as the sponsors of the new law urgently point out, creating and transporting all this stuff does not come without costs. To many Vermonters, the costs in terms of resources spent otherwise, and in terms of environmental damage, often seem beyond the bounds of reason.

On the other hand, given that the bill was spearheaded by Sanderista senator Anthony Pollina, with a long track record of trying to get government to forcibly reorder society in the name of social justice and other such concepts popular on the Left, one can be nervous about where this movement is heading.

Pollina says "We should strive for an economy that produces widely shared prosperity in a way that builds strong families, strengthens communities and protects the environment." What he didn't add, wisely, was "And once the government has this GPI metric, it will use its powers to force you to live your lives to contribute to Genuine Progress, instead of satisfying your selfish little desires."

It's not hard to foresee Progressives demanding a fancy car tax, a luxury goods tax, a junk food tax, a kilowatt hour and horsepower tax, a carbon emission tax, a large home surtax, a motor and heating fuel surtax, and, if they could get away with it, an import tax on anything coming from somewhere else (except fair traded Colombian coffee and Chinese solar panels), all in the name of saving the planet, subsidizing the Left's favorite renewable energy entrepreneurs, reducing obscene income inequalities, and promoting social justice.

Enacting those measures would be progress, all right, at least as viewed by Progressives. But liberty is also a value, and there wouldn't be much of that left in the all-seeing, all-knowing and all-controlling Progressive state.