

Lake Champlain Regional Chamber of Commerce/GBIC

Recommendations for Government Sustainability and Effectiveness

For Consideration by the Vermont Legislature

Vermonters' ability to protect the environment, provide for the economically less fortunate, and provide opportunity for the current and future generations depends on the capacity of the state's tax payers to provide the public resources necessary to achieve those longstanding goals and collective desires. Without the tax and revenue generating business activities which produce adequate and improving wages for workers and competitive income for owners and risk-takers, our natural and cultural resources are at risk, and the social safety net cannot be maintained or improved.

Toward a Clear Vision for the Future: An Overview of Major Economic Development Issues in Northwest Vermont and Chittenden County, 2001

Introduction

As business owners and taxpayers, we understand and support the mission of state government and the challenge of providing services in the face of tight or diminishing resources. We believe state government exists to ensure our public safety and provide services to those who are disadvantaged to maintain or improve their quality of life. Just as we are accountable to our stakeholders to make strategic yet sometimes difficult choices, we believe that our state leaders have the same affirmative obligation to make the same difficult choices so that the scope and scale of our spending matches our ability to pay for services.

We commend our state officials for their proactive approach to solving our state's fiscal needs – evaluating areas for more effective government operation including our education system, leveraging the state's federal stimulus funds, maximizing the use of technology, and taking a comprehensive look at modernizing the way in which we raise revenues, as well as providing a long term vision for the tax structure. As business owners, we too, have had to make choices that many of us never expected to face. While we work to remain viable, strive to retain jobs and prepare our businesses for the eventual turnaround, **we ask that the Legislature consider the impact of our current tax and fiscal policy, and the effect that these policies have on our ability to grow the wealth necessary to fund our robust government services.**

We want to stay in Vermont, and we have made hard choices, some of which are listed below. We ask that the State of Vermont follow suit.

- We have increased our marketing efforts and reduced our profit margins in an attempt to increase our volume of business.
- We have taken a hard look at our competitors to determine if we can do it better, cheaper and faster.
- We have embraced technology and reevaluated our processes to realize cost savings and efficiencies in our operations.
- We made investments in our companies by focusing on improvements that will bring a return on our investment.
- We, reluctantly, have trimmed our workforce either through reduced hours, benefits or layoffs, in the hope that our businesses can survive and come back stronger when the economy improves.

We are struggling in this economy. Our businesses have sustained cost increases related to health insurance, unemployment insurance, licensing and registration fees, heating and gas prices, material costs, employee benefits, changes to estate, capital gains, and property taxes, and in the amount of state income tax deductions. **Our elected leaders must take a thoughtful and comprehensive look at the cumulative impact of these decisions before additional costs (including fees or surcharges) are levied on our operations.** This paper includes a vision for our tax, education and government systems, some principles that should guide changes made, general and specific recommendations and research data illustrating how Vermont is perceived and ranked in terms of tax policy.

Vision

Our vision for Vermont's tax system is:

- It should adequately provide the safety net of social programs that our most vulnerable citizens rely upon;
- It should prioritize economic and social investment given the available resources and capacity to pay for same;
- It must support a sustainable future where vitality, security and opportunity are inherent. We define "sustainable" as being economically successful, environmentally sound, and socially equitable; and
- It must equitably include all citizens and businesses so that every adult and working Vermonter shares proportional to their means in the tax burden and responsibility to support state and local services.

We believe that we must have a tax structure that places Vermont in the middle tier of comparative state tax burdens, rather than its current position of being at or near the top. (See appendix for a summary of recent studies and rankings.) Our tax system must be constructed to grow wealth by making it attractive for individuals, households and businesses to live here, invest here, grow here, and even to pass away here.

Principles

Our tax and spending policy must include:

1. fiscal restraint to include a prioritization of programs and funding within the state's financial means
2. sustainability
3. affordability in the short and long term
4. equitability in sharing the burden
5. stability
6. simplicity
7. predictability
8. encouragement of investment
9. a business environment that is economically competitive in a global economy.

Recommendations

We believe consensus is possible around a broad outline of change in state policy and governance that should include the following.

1. Sustainability and Accountability for State Programs

In the face of economic indicators such as decreasing revenues, job losses, sagging consumer confidence and housing trends, we must redefine the core government functions and change the cost curves for the public pensions and other legacy costs to become more sustainable.

- a. Our state faces a significant shortfall in funding over the next two years. The Legislature has used program and budget cuts, tax revenue increases and federal stimulus funds to address our spending. We believe we have gone beyond our taxing capacity and therefore, must now identify those essential services that should be provided by state government and trim or eliminate those programs that are not vital.
- b. One standard or benchmark for government compensation (pay and benefits) going forward should be to put the public sector on par with, but not better than, the private sector. A recent study of average compensation costs of state employees versus private sector employees by David Coates found that the average base salary and benefit package is \$66,000 for state employees and \$44,000 for private employees.
- c. Any increases to the State budget going forward must be based on a financial model of sustainable spending. Increases should not exceed the annual percentage rate increase in the gross state product or the Consumer Price Index, whichever is less. Within the spending limit, we support prudent allocations that represent investment spending (that is, spending that provides a return to the state of increased tax dollars and a higher gross state product).

2. Government Effectiveness and Efficiency

Focus on increasing the effectiveness of State government by implementing various recommendations that have been prepared to date, with particular emphasis on investing in technology and adopting best practices.

- a. The state must examine the structure of state government to identify opportunities for restructuring, streamlining or eliminating programs to increase efficiency, reduce costs and enhance accountability. Revisit the 2005 Institute on Government Effectiveness and the 1995 Civil Service Review findings and recommendations.
<http://www.vermontinstitute.org/static/vermontinstitute/index.php>
- b. A broad and deep deployment of information technology is fundamental to bringing about necessary change. There must be a full consolidation of the state's IT infrastructure and leadership. By example, the state's Chief Information Officer operates without direct central control of IT spending or planning and this practice must change.
- c. The state must constantly evaluate and change programs and business practices for effectiveness. Adoption of techniques used in many Vermont businesses, and known often as LEAN methods, is recommended.
- d. Given that spending cuts are necessary to balance the budget, they must be based on an evaluation and prioritization of programs by necessity and effectiveness, not on a simplistic across the board model.

3. Education Quality and Cost Control

Rein in educational spending.

- a. We must develop a statewide vision for an education system that uniformly delivers quality outcomes, invests resources that align with demographic and enrollment trends and uses resources effectively and efficiently.
- b. Education spending continues to outpace revenues despite statewide enrollment reductions. A significant emphasis on cost control must be instituted including a thorough evaluation of the spending patterns of our educational system such as administrative oversight, teacher and staff/pupil ratios, cost shifts from the federal and state levels as well as from human services, resulting in an increase in services we are asking from this system as well as necessary changes to retirement benefits. The identification of the root causes of these cost drivers is critical.
- c. Consolidation of local school districts and facilities into regional districts/facilities cannot continue to evade scrutiny and real action. To ensure the highest quality and affordable education, we urge the legislature and Governor to enact legislation establishing a Blue Ribbon Commission that is given 24 months to recommend the consolidation of school districts and school facilities. Such a recommendation would be subject to a full up or down vote by the General Assembly or State Board of Education.

4. Tax Policy

Our tax policy must result in a competitive advantage to retain jobs and recruit business.

- a. We must collect more tax revenue for the State by lowering tax rates and encouraging more people to become income tax paying residents of our State and by encouraging more businesses to stay and new ones to relocate.
- b. Our tax policy must encourage entrepreneurial activity, create good jobs, and change the reality and perception of Vermont as a high tax state. (Set a goal of getting to a ranking of 25th nationally in the next 10 years.)
- c. We must work to broaden our tax base and create more equity as to who pays income taxes. We cannot continue to have a tax structure that reduces the state's economic activity and penalizes wealthier Vermonters. The target should be tax rates for each income cohort which matches the average of other states with income taxes. Rates above this level for any cohort may be temporarily necessary, but they should be temporary.
- d. The recent changes by the Legislature in capital gains exemptions, depreciation, the estate tax and deductibility of state taxes enacted during the last few years should be repealed. These changes do not raise a lot of money, but they do make Vermont stand out as a less competitive place to live or conduct business.
- e. A reinforcement of the connection between education spending and how education is financed is critical; therefore, a reexamination of the income sensitivity thresholds is needed.

5. Economic Development

Our economy must be strong and diverse, with a base of small and large globally competitive employers, and will provide meaningful and challenging jobs that are consistent with Vermont's culture, values and a high quality of life.

- a. Vermont must create and implement a long term strategic plan for economic development, within the next 18 months. Stewardship of the strategic plan must be the non partisan responsibility of the Agency of Commerce and Community Development, acting in the role of convener for the various arms of economic development in the private, public and educational sectors. The plan must be focused on clear, measurable objectives with indicators of progress. Particular focus must be on supporting value adding industries and employers that create jobs and taxable profits.
- b. The current "toolbox" of support for economic development efforts must be aligned with unifying strategic objectives and expanded. Our legislature must make an unwavering commitment to **growing and expanding:** sources of capital, incentives that foster job creation and retention, workforce development initiatives, educational and training opportunities that align with the needs of business and more innovative programs like the creation of centers of excellence

for industry. This may be accomplished through more favorable tax policies and investment in existing programs such as the Vermont Economic Development Authority, Vermont Training Program and the Workforce Education and Training Fund that support these efforts.

- c. The state should promote entrepreneurial efforts by creating more effective incentives for private investors and traditional sources of capital to invest in Vermont's small businesses. Vermont should adopt business taxation policies that are competitive with other states. (Commission on the Future of Economic Development)
- d. Economic development will be best served by more predictable, simplified regulatory and administrative systems in state government.

Summary

We are at a crossroads at which we must all work together to encourage the scale and type of business environment that will be sustainable. Progress will only be possible in an environment of mutual respect and an understanding that we are all working toward the same goals. 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. We stand ready to assist in this effort.