

FALL  
**2018**

# **A Framework for Progress:** **Investing in Vermont's people, infrastructure, and good government**



**T**he Vermont Legislature launched a worthy and challenging task in 2012 when it passed a law setting forth the purpose of the state budget: to address the needs of the people of Vermont. To assure progress and demonstrate to Vermonters that the budget is doing what the law intended, policymakers should establish specific goals to achieve over the next five years.

The 2012 law states, in part:

- The state budget should be designed to address the needs of the people of Vermont in a way that advances human dignity and equity.
- Spending and revenue policies will seek to promote economic well-being among the people of Vermont and foster a vibrant economy. Integral to achieving the purpose of the state budget is continuous evaluation of the raising and spending of public funds by systems of outcome measurement based on indicators that measure success in accomplishing the purposes of the state budget.
- Spending and revenue policies will reflect the public policy goals established in state law and recognize every person’s need for health, housing, dignified work, education, food, social security, and a healthy environment.<sup>1</sup>

Since the Legislature declared this intent, poverty in Vermont has inched down a bit—but there are still 25 percent more people living in poverty than in the early 2000s. Median household income has stagnated for years and fell last year. High-quality child care is unaffordable to many families and nonexistent in some parts of the state. And while Vermont has reduced the disparity in education funding between rich and poor communities, the disparities in educational achievement among individual students—as a result of poverty, discrimination, or other nonacademic factors—persist.

It’s important to continue to track indicators of Vermonters’ well-being. But indicators are only signposts to a better Vermont. To move in that direction, the state needs a vision for the next 5, 10, and 20 years, with specific goals for reducing poverty, raising incomes for average working Vermonters, closing the achievement gap for students who face extra hurdles in school, expanding the availability of high-quality affordable child care, and addressing other pressing issues.

Goal-setting is a task for the Legislature and the administration. This report includes some suggested targets, but its main focus is on actions for deploying state resources more effectively to move critical indicators in the right direction. The list is not comprehensive or exclusive. But the policy changes included here can strengthen the state’s infrastructure, shift attention to the needs of low- and moderate-income Vermonters, and improve the policymaking process itself. The recommendations fall into three main initiatives:

- 1. Make work pay** and ensure that all Vermonters can meet basic needs.
- 2. Make smart, evidence-based investments** in programs and infrastructure.
- 3. Make state government more effective** by increasing public engagement, fairness, and transparency.

This is the second edition of A Framework for Progress. Like the [first edition](#) published in the fall of 2016, it is a companion document to Public Assets Institute’s [State of Working Vermont](#), which is released each December and provides the data and analysis behind these recommendations. We have carried forward numerous recommendations from the previous edition because, in spite of progress, many of the same issues remain. We acknowledge that Vermonters’ well-being also requires racial justice, protection of workers’ rights, gender equality, and a healthy environment, which these recommendations can advance but not accomplish on their own.

<sup>1</sup> Vermont Statutes, [32 V.S.A. § 306a](#).



# 1 Make work pay and ensure that all Vermonters can meet basic needs.

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**A. Make work pay.** A person working full time should have enough income to support a family.

- **Ensure that working families have a livable income** by raising the minimum wage and expanding the state Earned Income Tax Credit (EITC). The administration and the Legislature worked together this year to increase the Vermont EITC. That was a good step. But eligibility for the tax benefit needs to be broader so that working families have an adequate income to afford their basic needs. Employers also have a responsibility to see that one full-time job pays well enough to live on. This is why the state's minimum wage should increase to \$15 an hour and continue to grow to keep up with rising costs. In addition, a paid family and medical leave program would allow workers to care for family members without losing their jobs or income.
- **Take concrete steps to reduce barriers to public benefits** that discourage workers from seeking advancement or longer hours. Policymakers and elected officials have talked for years about eliminating so-called benefit cliffs—points at which higher earnings trigger ineligibility for public benefits. Rather than waiting for a solution that will fix all eligibility problems at once, the Legislature should start by solving one of the biggest problems: eligibility for the Child Care Financial Assistance Program (CCFAP). Perhaps the solution could be a model for other programs. But even if it is not, it will remove one major obstacle for low-income families trying to work their way out of poverty.
- **Expand short-term compensation programs** to help employers avoid layoffs. Even though many Vermonters are just beginning to feel the effect of the economic recovery that began more than nine years ago, the next recession cannot be far off. Vermont should start preparing by expanding compensation programs to help employers and employees avoid layoffs, which are devastating for families and disruptive for businesses. A better approach is to use unemployment compensation funds to support workers who stay on the job with reduced hours. With such a strategy, called work sharing, employees maintain skills and employers avoid the costs of retraining workers. Vermont already has a limited short-term compensation program, which should be beefed up.



## Make work pay

**B. Ensure family economic security.** Protect and better administer supports for the neediest Vermonters, especially children.

- **Meet the state’s guidelines for funding the Child Care Financial Assistance Program.** Although the total number of regulated child care providers dropped slightly in the last two years, the number of high-quality slots—those with a 4-STAR or 5-STAR rating—increased nearly 25 percent. At the same time, average weekly rates charged by licensed providers rose more than 8.5 percent. The Legislature should set a firm date to begin providing child care subsidies that cover the rates charged by at least 75 percent of 4-STAR and 5-STAR providers. This is the federal recommendation that the state committed to follow years ago. Once achieved, it will give more Vermont families access to the high-quality child care they need.
- **Promote state-administered retirement savings plans.** The Green Mountain Secure Retirement Plan is scheduled to go live in January 2019. Employers with 50 or fewer employees can sign up, and employees will be automatically enrolled. At present, the state estimates that 45 percent of workers—104,000 Vermonters—do not have access to retirement plans through their employers.<sup>2</sup> An energetic promotion campaign with specific enrollment targets would ease the economic insecurity many older Vermonters face.
- **Provide Reach Up benefits that are adequate to meet the immediate basic needs of eligible children.** A key purpose of Vermont’s Reach Up program is to provide support to low-income families to meet the basic needs of eligible children—food, housing, and clothing.<sup>3</sup> What the program provides, however, is enough to cover less than 40 percent of the cost of these necessities. Demand for Reach Up benefits has dropped as the economy has slowly improved, providing an opportunity for the state to bring the monthly benefit up to a level that families can live on. Instead, the administration and the Legislature have cut Reach Up funding as the caseload has declined. It’s time to reverse course and ensure that Reach Up meets its statutory commitment “to improve the well-being of children by providing for their immediate basic needs.”

## C. Hold the line on health care.

Health care is a major expenditure for individuals, state government, and businesses that cannot be ignored. Yet after the collapse of Vermont’s effort to create a publicly funded health care system in 2014, policymakers have shown little appetite to take up another major reform initiative. Instead, Vermont continues to overhaul its fee-for-service model to pay for health care, which is one cause of high costs. Meanwhile, any changes Congress might make are more likely to hurt than to help consumers. Until public pressure for affordable health care builds again in Washington and Montpelier, policymakers should do what they can to prevent any rollback of the gains Vermont has made in the last 25 years.

<sup>2</sup> David John and Gary Koenig, “[Workplace Retirement Plans Will Help Workers Build Economic Security](#),” AARP Public Policy Institute, August 2015.

<sup>3</sup> Vermont Statutes, [33 V.S.A. § 1102](#).



## 2 Build for the future by making smart, evidence-based investments in programs and infrastructure.

To make progress, Vermont must invest in the future. For decades—even before the recession—Montpelier has been reluctant to do much more than keep the machinery of government turning, preferably with fewer employees. Many political leaders acknowledge the pressing need for investments to clean up Lake Champlain, expand early care and learning, make higher education affordable, maintain and upgrade our transportation system, and educate and retrain the labor force. These efforts will not get cheaper by putting them off. Setting firm, short-term goals is one way to overcome inertia and make progress on the things that can better Vermonters' lives.

**A. Improve Vermont's education system.** Investments in our education system are necessary to enable individuals to reach their potential, create an informed populace capable of engaging in democratic decision-making, and build a smart, adaptable workforce to keep our economy strong.

- **Make sure that all young children can take advantage of pre-K education.** Vermont began offering pre-kindergarten education for 10 hours per week for 35 weeks per year in parts of the state in 2015-16 and expanded it statewide in 2016-17. While this was a good step, a 2017 report found that in the first year of the program there was no increase in enrollment among low-income families.<sup>4</sup> Families face barriers to enrollment such as distance from available programs, lack of transportation, and inadequate or inconvenient hours of care. In addition, providers need to ensure that their pre-K programs meet state standards. Targeted outreach to families and additional support for providers would make this program accessible to more families.
- **Improve adult education and workforce training.** Lifelong learning is essential in the 21st century. Vermont needs to continue to invest in adult education and workforce training.<sup>5</sup> The workforce training effort should focus on those who face the most difficult barriers to employment: long-term joblessness, a criminal record, lack of a high school diploma, and mental and physical disabilities.<sup>6</sup>

<sup>4</sup> Vermont Departments of Education and Human Services, "[Preliminary Evaluation of Pre-Kindergarten Education Programs to Promote Optimum Outcomes for Children and to Collect Data that Will Inform Future Decisions](#)," April 2017, p. 10.

<sup>5</sup> Jeffrey Thompson, "[Prioritizing Approaches to Economic Development in New England: Skills, Infrastructure, and Tax Incentives](#)," Political Economy Research Institute, August 2010, p. 18.

<sup>6</sup> Timothy J. Bartik, "[State Economic Development Policies: What Works?](#)" Presentation at the 19th Annual State Fiscal Policy Conference, Center on Budget and Policy Priorities (Washington D.C.), November 30, 2011, p. 5.



## Build for the future

**B. Increase public investment in infrastructure**, including roads, public transportation, clean water, telecommunications, and housing.<sup>7</sup> Taxpayers' money is better spent on infrastructure that will serve all Vermonters for decades than on tax breaks that favor a few chosen businesses in the short term.

- **Fund transportation** in ways that are both financially and environmentally sustainable. Repairing and upgrading roads, bridges, public transport, and airports creates jobs and strengthens the economy by increasing the efficiency of moving people and goods.<sup>8</sup> Such improvements require sustainable revenue streams. But taxes from the sale of motor fuels are declining as drivers turn to more fuel-efficient or electric vehicles. A carbon pollution tax—necessary to combat climate change—would reduce gasoline and diesel consumption further. Therefore, imposition of such a tax must be part of a comprehensive overhaul of revenue to support the Transportation Fund. Vermont's goals should be twofold: Reliably fund the public transportation network; and reduce carbon emissions.
- **Make needed repairs** to Vermont's aging drinking water, wastewater, and solid waste systems. A 2014 engineering report card gave Vermont two Cs and a D on its public waste and water treatment systems.<sup>9</sup> Repairs and upgrades will cost hundreds of millions of dollars in the coming decades. But Vermont cannot afford to let this critical infrastructure deteriorate further.
- **Fully fund the Vermont Housing and Conservation Board** and increase the Vermont Rental Subsidy Program. Vermont provides housing assistance in two ways: mortgage and rental assistance for families; and crisis intervention programs such as temporary shelter or the Low Income Home Energy Assistance Program (LIHEAP). But nearly half of rental housing units cost residents more than 30 percent of their household income,<sup>10</sup> and emergency responses, while necessary, do little to address the underlying problems. Investments in permanent housing and weatherization would provide more affordable housing and take the pressure off crisis intervention programs such as LIHEAP and temporary shelter in motels.

<sup>7</sup> Thompson, op. cit., p. 31.

<sup>8</sup> Thompson, op. cit., p. 1.

<sup>9</sup> American Society of Civil Engineers, "[2014 Report Card for Vermont's Infrastructure](#)," Oct. 12, 2014, p. 43.

<sup>10</sup> U.S. Census Bureau, American Community Survey data, 2017 1-year estimates.



## **3** Make state government more effective by increasing public engagement, fairness, and transparency.

Government is necessary to serve the common good and do those things individuals cannot do on their own, such as educate children; maintain highways; enforce laws and operate the judicial system; and provide health care, food aid, and shelter to those in need. Because a civilized society depends on government, it must be effective, competent, and adequately funded.

Much of the public discussion of government focuses on cost and size rather than performance. But when things go wrong—natural disasters, contamination of drinking water, pollution in Lake Champlain, or tasks left undone—we are reminded that state government’s first priority is addressing Vermonters’ needs. For more than two decades, state budget writers have started with projected revenues and adjusted spending to that number, rather than assessing needs, devising a long-range plan to address them, setting priorities, and figuring out long-term revenue strategies to finance the plan. One result of this manage-to-the-money approach has been the erosion of government’s ability to prepare for the future and effectively manage programs and personnel to achieve specific, desired objectives.<sup>11</sup>

**A. Create an infrastructure for public engagement.** The 2012 law that codified the purpose of the state budget also called for more public participation early in the budget process. Vermonters now have an opportunity to comment on the budget in late fall, before the governor presents it to the Legislature. But for genuine citizen involvement, the state needs to develop an infrastructure for public engagement, including regular forums throughout the year where people can help shape the state’s policies and priorities.

**B. Include long-range planning in the budget process.** Budget writing is a balancing act between need and available revenue. When the economy falters, revenues shrink just when people need additional public services. Better fiscal planning would allow policymakers to manage volatility and fulfill the state’s obligations even when revenues fluctuate.

- **Provide clear estimates of spending** now and at least five years into the future, as is done with revenue. Gov. Phil Scott’s administration is the first to publish current services budgets with line-by-line estimates of the costs of delivering services;<sup>12</sup> its estimates come much closer than ever before to the true cost of the state’s obligations. The next step is five-year expenditure estimates, which would complement the five-year revenue forecasts prepared for the administration and the Legislature and bring the state into compliance with state credit rating agency recommendations.<sup>13</sup>

<sup>11</sup> For instance, the Vermont Agency of Education cited staffing shortages after it failed to deliver a report requested by the Legislature. <https://vtdigger.org/2017/11/15/lawmakers-threaten-sue-education-agency-secretary/>.

<sup>12</sup> The Legislature required current service budget projections at the same time as it passed the statute stating the purpose of the state budget, in the spring of 2012.

<sup>13</sup> Moody’s Investors Service, “[U.S. States Ratings Methodology](#),” April 17, 2013, p. 8.



## Make government more effective

- **Increase rainy day funds and make them easier to use.**<sup>14</sup> Vermont maintains stabilization reserves for the General Fund, Transportation Fund, and Education Fund. But each reserve is capped at 5 percent and tapped only in emergencies. A larger, more usable rainy day fund would improve Vermont's ability to manage fiscal volatility and maintain critical public services during recessions. Experts recommend rainy day funds equal to at least 15 percent of the budget.<sup>15</sup>

**C. Fund state services equitably.** Currently, certain businesses receive tax breaks not available to others, and the individual tax system is regressive, meaning many middle-income families pay a larger share of their income in state and local taxes than do some of their wealthier neighbors. Vermont should assess taxes more fairly.

- **Eliminate school property taxes on primary residences.** Two-thirds of Vermont homeowners pay school taxes based on their income rather than on the value of their homes. But the school funding system is still regressive. Vermont could make the system fairer and simpler by eliminating school property taxes for all primary residences and basing all residents' school taxes on income.
- **Increase transparency** by refining current services budgets to provide the fullest picture of Vermont's current obligations. The current service budgets now published by the governor's office are the most detailed in many years. But in some areas they still don't reflect the full cost of the state's obligations, the purpose of a current services budget. To assess whether the state budget is adequate, Vermonters need to know the cost of services the state has committed to provide, as well as the amount the governor and Legislature have appropriated. For example, the current services budget should reflect the cost of meeting basic needs for Reach Up families rather than the cost of a chronically underfunded program.

<sup>14</sup> Bo Zhao and Barry Bluestone, "[The States' Struggle to Save for Rainy Days](#)," Presentation, The Pew Charitable Trusts, February 19, 2016.

<sup>15</sup> Elizabeth McNichol, "[2013 Is a Good Year to Repair \(if Not Replenish\) State Rainy Day Funds](#)," Center on Budget and Policy Priorities, January 13, 2013.

## Setting goals for progress

Austerity has been the watchword in Montpelier for more than a decade. Gov. Jim Douglas started reducing state government before the Great Recession hit at the end of 2007. His successor, Gov. Peter Shumlin, forestalled new initiatives presumably to concentrate resources on systemic health care reform, but then abandoned reform. Gov. Phil Scott came into office promising no new taxes, which meant no new money to address the problems that had been growing since the recession. Legislators often acknowledge the problems and say they wish more could be done.

Vermont can make progress, but to do so it needs to make a to-do list and start addressing the problems that are not going to get better on their own. Leaders in Montpelier do not have to tackle everything at once. But a five-year plan, with specific goals, might demonstrate to Vermonters that Montpelier really does want to move the state forward.

Median household income in Vermont has been stagnant for years, and a recent Census report showed that Vermont was one of only 10 states where real median household

income—that is, after adjusting for inflation—declined in 2017. A top priority for political leaders should be to increase the buying power of low- and moderate-income Vermonters. One thing that would help would be to finish what the Legislature started in 2018 and set a deadline for raising the state minimum wage to \$15 an hour.

**With annual total personal income of over \$30 billion, Vermont has the capacity to tackle its problems if Montpelier chooses to**

In recent years, Vermont's poverty rate has been trending down slowly. But the overall poverty rate has stayed higher than 10 percent since 2005. Last year it rose above 11 percent; the year before that it was nearly 12 percent. In the early 2000s the rate fell to single digits. Getting it back down to that level would be a good goal.

With annual total personal income of over \$30 billion, Vermont has the capacity to tackle its problems if Montpelier chooses to do so. We know we can do more, because prior to the Great Recession we were putting a bigger portion of our resources into state government than we do today. Vermonters cannot afford to wait any longer for real progress.

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