Ethan Allen Institute

Newsletter - April 2015 (Printer Edition)

Healthcare Symposium Brings Big Ideas

The Ethan Allen Institute was proud to co-sponsor (along with Vermonters for Healthcare Freedom, NFIB and the Green Mountain Patriots) a symposium on healthcare reform on March 21st. The purpose of the event was to explore a variety of directions Vermont can and should take in the aftermath of our failed experiment with Single Payer.

About seventy-five people filled the Holliday Inn conference hall to hear headline speakers Dr. Alieta Eck, Dr. Josh Umbehr, and the Heartland Institute's Sean Parnell. Other speakers included Todd Kummar of VT Open MRI, who is providing imaging technology for half to one third the price of UVM Medical Center, Dr. Frank Landry, a leader in the concierge medicine movement in Vermont, and Dr. Michael Ciampi, from Direct Pay Family Practices, who has developed an all-cash model for primary care in Maine. Over half a dozen Vermont legislators.

Throughout the course of the day, the speakers provided examples of existing, succeeding free market approaches to healthcare reform. Two prominent examples:

Dr. Eck is providing free care for over 400 people per week in New Jersey from a clinic run through her church. The average cost of a visit to Eck's clinic is $13, which is covered by donations to the clinic. If that same patient were to seek care at a Federally Qualified Health Clinic, the bill to Medicaid would be $160. Eck is behind legislation now on the wall in New Jersey that would incentivize doctors to donate four hours per week to similar free clinics in exchange for the state assuming the doctors' malpractice insurance liability. If all doctors did this, Eck predicts we could do away with the need for Medicaid. https://www.youtube.com/watch?v=9R_yqQBTRxI

Dr. Josh Umbehr advocates for removing primary care from the world of insurance entirely. He argues that car insurance doesn't cover gasoline, oil changes and tire rotation. You have it only in case of a catastrophic event, and healthcare should work the same way. At Umbehr's practice, all patients pay a monthly fee of $50 ($10 for kids), and in return receive 24/7 access to the doctor, who provides basic medical care for no extra charge. Umbehr described stitching a cut for a patient on Thanksgiving evening, a procedure that would have cost hundreds of dollars at an emergency room, as part of his basic service. He also allows his patients to obtain prescription drugs through his office at cost. A retail prescription of migraine headache medicine, for example, costs $80. Umbehr gives it to his patients for $6 – all part of the $50 per week service. https://www.youtube.com/watch?v=-PefZ7jpdr8

Thanks to everyone who came out on a Saturday to make the day a big success. Video highlights of the conference are expected to be posted on line within the next month. We will post links to them when they are available.

Commentary: Forced Consolidation vs. Going Independent

By Rob Roper

Last November, Vermonters sent a loud and clear message to Montpelier to fix Vermont's education financing system and lower our property tax burden. The response now coming out of the legislature is based on mandatory consolidation of school districts into units of no fewer than 1100 students, which will affect all but 12 of Vermont's 273 school districts. Other measures include ending small school grants, getting rid of the "phantom student" formula that mitigates the financial impact of losing student population, and a nuanced cap on spending increases of around 2%.

One Representative described this "solution" (which is not likely to save any money) in a post to constituents: "Lawmakers don't want 'blood on their hands' so instead of making tough decisions they create circumstances - like fiscal pressures in school districts - so voters will close their own schools." This is called, "fiscal asphyxiation."

But, communities do have an option to keep their local schools as well as local control over them: Going Independent.

In 2013 the town of North Bennington, fearing that some sort of Montpelier-driven, forced school consolidation movement was in the wind, did just this. Rather than stand by and be asphyxiated, they voted to close their local public elementary school (a move that added North Bennington to Vermont's ninety-plus "non-operating" districts that provide school choice with tuition following the child to any public or approved, non-religious, independent school anywhere), and then rented the building back to a new, independent school, the Village School of North Bennington (VSNB), which is run by the same principal and staffed by the same teachers as the old school.

The results have been tremendously successful for taxpayers, the community and the kids.

Tom Martin, the Head of School for VSNB recently penned a letter to education officials and legislators outlining some of the efficiencies the new, independent governance structure has allowed them to achieve in a very short time.

VSNB cut the overall operating budget from $2.1 million to $1.8 million – a nearly half a million dollars in savings if you take into account the projected growth in the budget to roughly $2.3 million if the school had remained public. The tuition for the school has remained flat at $12,938, more than $4000 less than the $17,000 plus average for a comparable public school. And, as the letter explains, "This expenditure will provide a comprehensive program for all children in our school pre-k through grade 6 including children with special needs."

Opportunities and outcomes have improved as well. In a post on VSNB's website titled, "The Value of Independence," Martin wrote,

> Independence enables our exceptional educators to make real decisions in their classrooms where the outcomes truly matter. They are empowered to do what they believe is best for our children and community, and in this freedom provide exemplary service. In the mission-driven independent governance structure, strategic planning has replaced management. This process has empowered VSNB

to institute a foreign language program with our area college, establish a 1:1 computer initiative, expand our string program, broaden our community partnerships, seek NEASC accreditation, welcome pre-k children this fall, and provide our community with wrap-around services for our children.

Going independent has been a win/win for North Bennington. It has also been a successful solution for the only the other Vermont community to embark on this course so far, the Mountain School at Winhall, which went independent in 1998, although for different reasons.

This is an option every school that is threatened with either closure or the probability of being twisted out of recognition by Montpelier's "reforms" should consider. It will not necessarily help a community escape the financial realities all Vermont schools are facing today – no more revenue and declining student populations (though some schools could use independence as a means to attract more students and privately fund raise). But it does offer schools the kind of flexibility necessary to remain viable under these more challenging conditions.

Going independent won't work for everybody. Conditions have to be right, and the leadership has to be up to the task. With the loss of over 25,000 K-12 students since passage of Act 60 means it makes sense for some schools to close or consolidate. But, at least 'going independent' gives options and opportunities to communities that don't want to let their local schools go without a fight. If they succeed, everybody will benefit.

- *Rob Roper is president of the Ethan Allen Institute*

Commentary: Disappointing Budget with a Silver Lining

By John McClaughry

Last Friday the Vermont House completed deliberations on a fiscal year 2016 general fund budget and an associated tax package. The appropriations committee, after months of intense work and no little agony, produced a budget that covers a $113 million deficit.

The House-passed bill (H.490) reduces the governor's budget request by $53 million, and calls for $35 million in new revenues. It accepts Gov. Shumlin's proposal for $10.8 million in labor force savings. Some $24 million in one-time money – including $5 million from the Rainy Day Fund - will go toward closing the gap.

Over Republican objections, the House voted to raise $35 million with two income tax increases (H.489). One caps itemized deductions to two and a half times the standard deduction. The other eliminates the deduction for state income taxes paid, which also hits high bracket taxpayers the hardest.

The two bills do not include Gov. Shumlin's proposal for a new payroll tax. They also do not include a $1.44 per six pack sugary beverage tax or a new carbon tax sought by an enviro coalition headed by VPIRG.

Several pro-spending and taxing groups, including the Vermont Workers Center, the Public Assets Institute, and the Vermont State Employees Association, made a concerted pitch for higher taxes and no spending cuts. After Republicans and less liberal Democrats voted down their proposals, most of the "Working Vermonters Caucus" voted no on the tax increase measure, as did most of the Republicans. It passed 76-67. The appropriations bill then passed 96-46, with four Republicans from the Appropriations Committee voting in favor.

Publisher Emerson Lynn of the St. Albans Messenger, a long time voice for fiscal sanity, didn't find a lot to cheer about. In an editorial he said "We're contenting ourselves by thinking we've made progress when all we've done is reduce spending [a little] from what we all consider to be an unacceptably high target. It should be difficult to claim victory if we reduce from a five percent spending increase to a four percent increase, when we only have the revenue for a three percent increase."

That's surely true in the short term, but there is one unprecedented new section in the appropriations bill that may become a landmark event . It's labelled "Intent" and it's worth quoting at length.

"This fiscal year 2016 appropriations bill represents the beginning of a multiyear process to bend the trend of State spending and bring revenues and spending into a long-term balance. … It is the intent to move forward on the following goals:

- reduce the reliance on one-time funding for base budget needs;
- bend the rate of spending growth and bring the expenditure pressures in line with revenue growth to end the cycle of annual budget gaps;
- create an ongoing expectation that Administration and Legislative proposals for budget changes and new programs contain a multiyear analysis of what the changes will cost;
- move toward budgeting based on using less than 100 percent of forecasted revenue to build a reserve which can help offset the variability of revenues that comes with a progressive tax system and the risk of reliance on federal funds; and
- explore moving to a two-year budgeting cycle where the interim year will be such as to allow time to be spent focusing on program performance, results-based analysis, and evidenced-based program evaluation."

These provisions were approved by a Democratic House with Republican support. They indicate that a long overdue new era of serious responsibility in state taxing and spending may soon be at hand. The task now will be to fend off a Progressive assault on the "Intent" section in the Senate.

Gov. Shumlin has installed a "Results Based Accountability" system under a very able Chief Performance Officer. By itself, this can't pare back government to its core missions, within the revenues that Vermonter can afford to pay. But it's an important step in getting better results from money spent.

The remaining vital step is to initiate "a top to bottom Performance Review of the functions of state government….to find creative, smart new ways to make government run more efficiently on the resources we have."

That's from the 2004 Vermont Democratic Platform. Add to that the Republican willingness to pare down today's high-tax, do-everything state government, and the door is open to a bipartisan drive to redefine, restructure, and restrain something that is now too big, too inefficient, and too costly for Vermont.

- John McClaughry is vice president of the Ethan Allen Institute (www.ethanallen.org).

Commentary: Time for Facts About Vermont Health Connect

By Wendy Wilton

It is good news that Auditor Hoffer has scheduled a performance audit of Vermont Health Connect this spring. The auditor's work will be vitally important information for the Legislature to consider as it determines the fate of the state's exchange. Hopefully, they will have his report before the session ends.

Much has been said and written about the problems with development and roll-out of Vermont Health Connect and the expected $200 million cost of this poorly managed effort. However, there could be more financial costs lurking on the horizon that the auditor needs to tell us about.

Vermont Health Connect has been dysfunctional from the start and still is. The backlog of coverage changes is over 11,000 cases. Enrollment, determining Medicaid and subsidy eligibility, changing eligibility and benefit profiles, processing premiums, and processing insurance claims, and other activities have all experienced failures. Participating insurers are owed millions of dollars in premiums, but have continued to pay for care. This will have negative impacts on other subscribers' rates unless the state makes good on what it owes.

Auditor Hoffer should consider exploring these areas of concern:

- How many and what is the value of premium payments processed through Vermont Health Connect that have not been reconciled and paid to Blue Cross Blue Shield and MVP?
- Vermont Health Connect has been dysfunctional from the start and still is.
- Where (in what account) is the cash representing unreconciled premiums?
- How many and what is the value of provider payments made by BCBS and MVP associated with the above flawed beneficiary application and claim processes that remain unpaid?
- Of those newly enrolled in Medicaid, how many have eligibility documentation that is inaccurate? What is the state's financial exposure due to flawed Medicaid enrollments?
- Similarly, how many and what is the value of paid premium subsidies associated with flawed income determinations?
- The state has a significant ($57 million), no bid contract with Optum-possibly similar to the Gruber contract. What controls exist to ensure the invoices are detailed and accurate, work will be done on time and within budget, and that the contractor will deliver the solutions?
- What is the per month-per member cost of Vermont Health Connect? How does this compare to BCBS and MVP's per month-per member costs?

Three years ago, I concluded a single payer health care system would make the state insolvent due to unforeseen cost escalation, lack of savings, and unsustainable taxes. Vermont Health Connect represents a similar risk to the state's precarious finances with unexpected costs and lack of control. The auditor's report, if thorough and timely, could give the Legislature essential facts to take decisive and imperative action.

- Wendy Wilton, is treasurer for the City of Rutland, and a member of the Ethan Allen Institute board of directors.

Events

April 7: *School Choice in Vermont: How to Lower Property Taxes and Improve Student Outcomes*, by EAI president Rob Roper at the Elmore Town Hall, 6:30 pm.

April 14: *School Choice in Vermont: How to Lower Property Taxes and Improve Student Outcomes*, by EAI president Rob Roper at Castleton College, 7:00 pm.

April 20: *Jefferson Day Observance*. EAI VP John McClaughry continues his 23 year tradition of events honoring the life and principles of Thomas Jefferson with a talk "Thomas Jefferson's Message to the Youth of Today", at Burr and Burton Academy in Manchester. This is a presentation to B&B's history students and not open to the general public.

Roll Call Votes

House Votes for $1.48 Billion General Fund Budget (96-46), March 26, 2015. Click to see how your representative(s) voted.

House Votes for $33.2 Million in Tax Increases (76-67), March 26, 2015. CLICK to see how your representative(s) voted.

House Rejects Additional $12 Million Income Tax Increase (43-98), March 26, 2015. CLICK to see how your representative(s) voted.

House Rejects $10 Million Occupancy Tax (16-124), March 26, 2015**.** Click to see how your representative(s) voted.

Senate Passes Restrictions on Firearms Ownership for Some Felons/Mentally Ill Citizens (20-8), March 25, 2015. CLICK to see how your representative(s) voted.

Senate Votes to Allow Election Day Voter Registration (20-7), March 26, 2015. Click to see you your senator(s) voted.

Please Help Us Hold Montpelier Accountable! Make a

Contribution to EAI today.

Thanks to all who have already made a donation to our 2015 campaign! For those who haven't yet, please help us fight all the potential taxes mentioned above and other encroachments on our liberty. Be generous. We're only as strong as you make us. Thanks!

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P.S. EAI is a 501c(3) nonprofit, educational organization that neither solicits nor accepts government funding. Contributions are TAX DEDUCTIBLE for businesses and individuals.

News & Views

Economic Update. According to the Bureau of Labor Statistics, Vermont's unemployment level dropped to 3.9%. However, according to analysis by the left-leaning Public Assets Institute, "the state still struggles to turn lower unemployment into more people working. In February, for example, unemployment went down by 433, but the number of people employed increased by just 128. The last time Vermont's unemployment rate was at this level, in May 2007, there were 5,600 more Vermonters working. Private employers reported 600 fewer jobs in February than in January."

Local Businesses Lack Confidence in Vermont's Economy. Vermont CPA firm, Davis & Hodgdon, completed a semi-annual economic survey of Vermont businesses. The results show that 52% of businesses exclusive to VT believe the state's economy is declining; 17% feel it is improving. From the Press Release: "Across the board, business owners are reporting that high taxes and rising costs of health care are making it difficult to stay competitive with neighboring states. 'Frustrated business owners see the correlation between increased taxes on individuals and the lack of qualified employees', said John Davis, managing partner of the firm. 'The existing tax structure in the state of Vermont makes it difficult for employees to stay put in the state and just as challenging for qualified employees to relocate to our state.'"

40 Jobs Up the Chimney. Vermont Castings announced it will close its plant in Bethel, which is estimated to cost 40 of the plant's 80 jobs. The remainder are expected to be shifted to the company's Randolph plant, which will remain open. The iconic "Vermont" brand has been owned by an out of state (Kentucky) company since 2013. http://digital.vpr.net/post/report-vermont-castings-close-bethel-plant

Revision Military Cuts 27 Jobs. According to WCAX, "Company officials say the job cuts are due to a lack of work at the facility after a big helmet contract expired. Employees let go Wednesday say they saw the layoffs coming when helmet production went from 8,000 to 9,000 a month to zero." (WCAX, 3/4/15) http://www.wcax.com/story/28261564/job-cuts-at-revision-military-in-newport

Vermont Ranked One of States with "Failing" Welfare Programs. The Heartland Institute recently updated a study of all 50 states in regard to Welfare Reform efforts since the passage of the federal welfare reform bill in 1996. This Report Card studied and scored each state's welfare program outcomes, based on overall poverty rates, work participation rates, unemployment figures, teen birthrates, and the decline in the number of Temporary Assistance for Needy Families (TANF) program recipients, as well as cash diversion, state work requirements, service integration, time limits, and sanctions. Vermont scored 48th, and earned an "F".

What You Owe. Vermont State Debt has reached $5,317 per capita, placing Vermont #10 for high debt levels among the states. (Tax Foundation, 2015).

Taxing Away Obesity. "One of the more unusual solutions to the state's budget crisis is a proposed 2-cents-per-ounce tax on sugary drinks. Sponsored by state Rep. Alison Clarkson, D-Woodstock, H.235 aims to raise about $34 million by taxing beverages like soda, fruit juice, teas and sports drinks. While the tax would help fund Vermont's budget obesity, the bill claims to be a solution to a personal obesity crisis." – Bruce Parker, Vermont Watchdog 3/6/15.

The People Speak. "Sixty-four percent of poll respondents said they supported the governor's decision to abandon single payer at this time, while only 20 percent said they were opposed and 10 percent saying they were unsure. Among Democrats, 54 percent said they supported the governor's decision." (Castleton Polling Institute, 700 respondents, +/-4%)

Poor Elijah on Consolidation: "Consolidating power in the hands of bureaucrats, superintendents, and minions operating ever farther from the schools and classrooms they govern doesn't foster equity or quality. All it promotes is inappropriately uniform, one-size-fits-all regulations and policies… All it promotes is inappropriately uniform, one-size-fits-all regulations and policies.…When are we going to realize that schools have become so expensive because of the mandates and "initiatives" forced on them from above? Yet these are the same administrative officials and state bureaucracies in whom consolidation would vest even more power.….The last thing we should do is surrender more authority to remote officials who have proven the most inclined to inflate costs and the least competent to ensure the quality of our children's education." – Weathersfield schoolteacher Peter Berger (VTDigger 3/25/15)

Wait for it... The 24th annual edition of the Fraser Institute's survey of wait times between referral and specialist appointment under Canada's provincial single payer health care systems shows the national average to be 18.2 weeks, about the same as 2013. Quebec is slightly better at 16.9 weeks. So now will you vote $2 billion to emulate Quebec's system? (HC News 2/15)

Minimum Wage Effects. "A summary of the research published last year by the Institute for the Study of Labor, and authored by University of California-Irvine economist David

Neumark, found that each 10% hike in the minimum wage on the state and federal level has caused a 1% to 2% drop in youth employment." - Michael Saltsman WSJ 3/24/15

Enviro Prophecy 1969. "At the first Earth Day celebration, in 1969, environmentalist Nigel Calder warned, 'The threat of a new ice age must now stand alongside nuclear war as a likely source of wholesale death and misery for mankind.'" – Walter Williams (Town Hall 3/11/15)

Swiss Reject Carbon Tax. Swiss voters overwhelmingly rejected an initiative that would have scrapped the country's VAT tax and replaced it with a Carbon Tax on things like gasoline and heating oil. This is similar to a proposal by a VPIRG led coalition in Vermont, using a Carbon Tax to, in part, replace or reduce other taxes.
Roughly 92% of Swiss voters opposed the Carbon tax. Coincidentally, this is the same percentage of Vermonters who opposed a carbon tax in a survey done by EAI in January and early February.

McClaughry Testifies on Climate Change (VIDEO).

Book of the Month

Hidden in Plain Sight
What Really Caused the World's Worst Financial Crisis and Why It Could Happen Again
by Peter J. Wallison,
Encounter Books, 356 pages

This is a condensed version of John McClaughry's review published in Reason, May 2015.

Eight years after the nation's financial system began its rapid slide into calamity, we all know why. Greedy Wall Street operators, aided by the repeal of the 1933 Glass-Steagall Act and only feebly regulated by the Bush administration, ran wild in the pursuit of greater profits for the rich. Eventually many big banks failed and were bailed out by taxpayers. But in 2010, President Barack Obama and the Democratic Congress took bold action to create powerful new government regulatory machinery. Still, much more regulation is needed to forestall future damage.

This narrative of the economic debacle is heavily promoted in the mainstream media and by regulators. But in Hidden in Plain Sight, financial scholar Peter Wallison argues that the story is laughably false. Worse yet, he says, the true causes of the debacle have not been dealt with, and there is every reason to believe that the same thing can happen all over again.

Wallison's story of the runup to the 2007 collapse begins with the Democratic Congress of 1992 and the 1993 arrival of the Clinton administration. Political operator James A. Johnson became the chairman of the Federal National Mortgage Association (Fannie Mae). He worked energetically and successfully to prevent Congress from privatizing Fannie Mae after the Republicans took control in 1995. He mobilized support on the left by buying millions of mortgages that increasingly departed downward from Fannie's historic underwriting standards. This subprime mortgage purchase binge is central to Wallison's story.

Here's the quick version. In 1992 Congress set "affordable housing" goals for Fannie Mae and its savings-and-loan counterpart, Freddie Mac …That year a manageable 30 percent of Fannie's portfolio qualified as "affordable housing." In 1997 the Department of Housing and Urban Development (HUD), as authorized by Congress, increased the required fraction to 42 percent. In 2000 HUD increased the goal to 50 percent. In 2008 the Bush administration inexplicably upped the goal to 56 percent.

To find enough "nontraditional mortgages" to meet these increasing requirements, Fannie and Freddie bought increasingly lower-quality mortgage paper. By 2008, half of the nation's home mortgages—32 million of them—were subprime, and 76 percent of those were owned by the GSEs….

"With all these new buyers entering the market because of the affordable housing goals, together with the loosened underwriting standards the goal produced, housing prices began to rise," Wallison writes. "By 2000, the developing bubble was already larger than any bubble in U.S. history, and it kept rising until 2007...when it finally topped out, and housing prices began to fall."

With housing prices falling, financial regulation came into play… Frightened investors dumped housing paper. Financial credit regulators, which had previously considered Fannie and Freddie paper almost risk-free, started requiring banks to have more capital. But the financial firms that held or stood behind $2 trillion in PMBS could hardly float new stock issues when much of their assets were rapidly shrinking in value.

Between 1995 and 2008, Wallison writes, the government and investors following federal incentives "spread Non-Traditional Mortgages throughout the financial system, degraded underwriting standards, built an enormous and unprecedented housing bubble, and ultimately precipitated a massive mortgage meltdown. The result was a financial crisis."

Wallison sharply attacks the "false narrative" of the financial crisis offered by activists, politicians, and regulators with a direct interest in sweeping new regulation. We would have done much better, he writes, "if the narrative about the financial crisis had properly located the problems in the reduction of mortgage underwriting standards brought on by the government's housing policies and implemented largely through the affordable housing goals." Continuing belief in this false narrative, evidenced by the Dodd-Frank act, the Financial Crisis Inquiry Commission's myopic 2010 report, and proposed legislation in the most recent Congress, make it likely that there will be another financial crisis in the future.

Wallison's book is well-informed, detailed, clear, and sharply focused—though readers unfamiliar with finance will find it thick going in some places.

Perhaps most useful, Hiding in Plain Sight makes it clear that the next crisis will likely be caused by people peddling—or at least believing—a false narrative about the last one. This book would make a very good text for a business school course titled "Financial Crises: How They're Caused, How They're Made Worse, and How They Can Be Prevented."

- Review by John McClaughry, founder and vice president of the Ethan Allen Institute.

The Final Word

April Survey: *Should Vermont levy a 2¢ per ounce (eg. a 40¢ tax on a 20 oz. soda, etc.) on sugar sweetened beverages, including sodas, teas, sports drinks, and juices. This would come at a total estimated cost to taxpayers of over $30 million?*

CLICK HERE TO TAKE THE SURVEY

Comments will be made available to legislators. Respondents will remain anonymous, so please take a moment to leave a comment!

Results of the March Survey:

"Agree or Disagree: The Legislature should allow all K-12 students to participate in Vermont's school choice "tuitioning" program (currently available in 93 towns) in order to help reduce education costs, cut property taxes, and improve student outcomes/opportunities.?"

Total Responses: 397

Yes. 81.61% (324)
No. 16.21% (64)
Don't Know. 2.27% (9)
185 respondents left comments. You can read them on line.