



The Vermont

affordability myth

By Wallace Roberts
Special to the Vermont Guardian

Vermont's political leaders continue to wring their hands over the state's "affordability problem," framing the issue in such a way as to make it appear that the problem is unique to Vermont and that state government can fix it.

With those assumptions, it's no surprise then that the solutions being discussed call for tweaking municipal zoning laws, Act 250 regulations, and fiddling with the tax formula for education funding, but those kinds of solutions do not address the most important cause of the problem, which is that our vanishing affordability is not the result of "market forces." It is the inevitable outcome of national economic, tax, and labor policies made over the last quarter century.

Inflation has certainly played a part. In 1974, after it was clear that the first oil shock would dramatically heighten inflation, you could buy four

bags of groceries at the local supermarket for \$40. According to the inflation calculator at the Bureau of Labor Statistics, those same four bags of groceries bought 32 years ago for \$40 would today cost \$165, an increase of 400 percent.

That increase would not be noticeable if a person's wages had increased the same amount, but of course, they have not for most people. According to a new report, *New Data Show Incomes Concentration Jumped Again in 2005*, published by the Center on Budget and Policy Priorities, the annual average wage for 90 percent of U.S. workers in 2005 has increased by only 15.2 percent, adjusted for inflation, since 1970, while the incomes of the top 100 chief executive officers (CEOs) have increased 2,193 percent.

It's not just the CEOs who are cleaning up. The economists who issued this report, Thomas Piketty and Emmanuel Saez, said the top 300,000 wage earners together earned almost as much money as the bottom 150 million.

Piketty and Saez sliced the pie in several dif-

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What companies really pay in taxes

By Shay Totten
Vermont Guardian

ST. JOHNSBURY — When a Northeast Kingdom manufacturer sought to grow its global business, Vermont was on its short list to house the \$45 million expansion and up to 45 jobs.

In the end, Vermont was once again the bridesmaid and not the bride as EHV Weidmann, which has offices in Switzerland, chose that European country for the expansion. Vermont came in second, ahead of the Ukraine and China, according to company officials.

The company cited the higher taxes it would pay in Vermont as compared to what it would pay overseas as one major factor, according to a letter from one company official to Gov. Jim Douglas.

The story, first reported in *The Caledonian-Record*, quickly appeared as an Associated Press wire story in other Vermont papers under the headline, "High taxes deter plant expansion."

Company officials reiterated that to the *Vermont Guardian*, however the *Guardian* has also learned that EHV Weidmann has been receiving preferential tax treatment at both the state

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Judging the courts on domestic violence

Editor's note: Over the next several weeks, the Vermont Guardian will examine the complex nature of domestic abuse that often occurs in homes, but is hardly contained by their walls. This week, examine the criminal justice system. In the coming weeks we will look at how communities are responding to domestic violence; and what is being done in schools and youth programs.

By S.A. Troy

The criminal justice system has three primary responsibilities, according to Judge Amy Davenport, chief administrative judge for the state: Keeping victims and communities safe, holding offenders accountable, and providing opportunity for offender rehabilitation.

However, there is a general consensus among key members of Vermont's criminal justice system, which includes law enforcement, prosecutors, judges, corrections officials, and victims' advocates, that while there is a critical role to be played by the criminal justice system, without the community-at-large reinforcing the idea that domestic violence is not tolerated, they

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and local levels for close to a decade.

"I was on committee to evaluate the sites, and as we evaluating those six sites we came down, operationally, in terms of expense. What we felt was a pretty good number in Vermont, but we still felt this number was actually quite high," said John Goodrich, the company's vice president and general manager.

While Vermont's taxes and operational costs were higher than the Ukraine, the state fared better in other areas, but "Vermont was a far cry from the best winner in that regard which was Switzerland."

Goodrich notes that while Switzerland is a high-price country, their tax structure benefits companies.

"The state and federal taxes on profits are about 60 percent of what we pay here in Vermont," Goodrich noted.

Those high taxes are despite being granted a number of local and state tax breaks in recent years.

The company's most recent local tax stabilization agreement had it paying less than fair market value on its properties through 2005. It wasn't until 2006 that it was paying on 100 percent of its assessed value. The only reason that town officials decided not to renew the agreement was because St. Johnsbury is undergoing a reappraisal and it expects that values for its industrial properties to grow far less than that of residential properties.

Town Manager Mike Welch said the agreement was worth it to the town since EHV Weidmann is a good corporate citizen and employs many local people. The company has a workforce of about 242 full-time and 40 part-employees.

"EHV is certainly a very important part of our local economy here and jobs and active member of our community," said Welch. "Also, we have, in the past, approached them about property taxes when we've had to make major sewer and water improvements and they are our highest water user."

The town has also given up ownership to a road near the plant to help make it easier for the company to consider expanding in Vermont.

"I think their problem is mostly to do with the state taxes, because we've really tried to work with them locally," said Welch.

What do they pay?

In 2006, EHV Weidmann paid about \$90,000 in property taxes to the state. Most of that probably stayed in St. Johnsbury, Welch notes, because the community is a so-called receiving town.

That same year, EHV Weidmann paid about \$60,000 in local taxes to the town's highway and general fund on its buildings and personal property.

In all, EHV Weidmann's six properties in town are valued at slightly more than \$5 million and its personal property valued at roughly \$926,000.

The *Guardian* has also learned that EHV Weidmann had some of its tax credits recouped by the state after the company saw its employment levels drop below what it had when it had taken the tax credit through the Economic Advancement Tax Incentives (EATI) program.

Despite calling Vermont's tax burden heavy, Goodrich would not divulge what Weidmann pays in taxes, or what annual sales are from the Vermont plant, saying he didn't want that number made public.

A recent report by the Joint Fiscal Office found that of the 23 out-of-state companies with Vermont taxable income of more than \$1 billion, two paid only \$250, which is the alternative minimum allowed by the state. In the \$100 million to \$1 billion taxable income group, 22 of the 140 companies only paid \$250, and 25 of the 111 companies with taxable income of \$50 to \$100 million paid \$250.

Meanwhile, Vermont companies of the same size pay based on their taxable income, and it's not until you get into taxable income below \$10,000 that you see Vermont companies taking advantage of the alternative minimum.

In fact, of the 860 companies with taxable income of \$10,000 to upwards of \$50 million, only two filed for the alternative minimum payment of \$250. Both of those companies were in the \$10,000-\$25,000 income group.

Goodrich said if a company such as Weidmann has carry-forward losses for a couple of years and pays little, if anything, in corporate taxes, it's the long view they take when making decisions on where to invest resources.

"If we have a situation with some operating loss carry forward, you might minimize your taxes for a year or two, but if you're looking at making a major

investment that is, in the case of our company, something that is going to last 20 to 30 years that is what you base your decision on," said Goodrich. "And, Vermont's marginal rate is among the highest in the nation."

Goodrich said his business was also soured on its experience with the Vermont Economic Progress Council (VEPC) and the tax credits it earned, and then had taken away.

"We lost out on a tax credit because we had to have seven more people [on the payroll] than we did, but if you counted our temps we exceeded that," said Goodrich.

EHV Weidmann was authorized to earn \$233,173 in Economic Advancement Tax Incentives (EATI) on Feb. 25, 1999. The earning period, based on the economic activity to occur, was Jan. 1, 1999, to Dec. 31, 2003. Those credits were applied to the company's tax liabilities, said Fred Kenney, VEPC's executive director, in an e-mail interview with the *Guardian*.

By law, a company can lose its EATI status if for 120 consecutive days its employment levels drop below 75 percent of the level it had at the time of its award. An EATI award can also be recaptured, or taken back, after it has been applied to a tax liability.

In this case, EHV Weidmann asked for and received a deferral to get its employment levels back up during a 12-month period. At the end of that year, employee levels were still not back to their original levels, so the state moved forward with recapture. However, in 2005 the Legislature amended the recapture provision and Weidmann appealed the VEPC decision directly to the tax commissioner, who upheld the ruling.

"In this case, the employment level did not reach the statutory level by the end of the deferral period and VEPC could not recommend mitigation due to the cost-benefit results. Therefore, VEPC requested that the Tax Department recapture the amount of earned and applied (utilized) credits in accordance with the formula in statute," Kenney said.


Kenney would not say how much money was recaptured, though he did say the law decreases the amount of incentives that can be recaptured the longer lapse there is between the time tax credits are earned, and when recapture is triggered.

In a letter to Gov. Jim Douglas, which also served as Goodrich's resignation as chairman of the

governor's Commission on the Future of Economic Development, he wrote, "Our situation points out a couple of real issues Vermont faces in its economic development process. There is a strong impression by many investment decision makers that Vermont is unfriendly to business. While there are numerous complaints about tax credits, what is in place to encourage and make Vermont a competitive offering to industries such as ours?"

"It is fundamentally critical that Vermont re-orient to bring our state into a modicum of competitiveness. We have an on-going business here and I hope to remain, while continuing to offer good jobs to a worthy and high-performing work force. Good economic development means creating opportunity for all the work force training initiatives we have," he continued.

In response, Douglas lay the blame for Vermont's poor business climate strictly at the feet of the Legislature, though ironically it is the EATI program being administered by the Douglas administration that is partly to blame for the company's decision.

"Your letter hit home for me. I have worked hard since becoming Governor to erase the perception that Vermont is unfriendly to business. It is an uphill battle: the political philosophy that has been in place in the General Assembly for many, many years results in well-intentioned but often heavy-handed actions that have made it extremely challenging for business owners, both large and small. I have tried to address many of those issues in an ongoing effort to make this state more attractive to investors and employers," Douglas wrote. 

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say it's a war that can't be won.

Yet the questions remain: What is the criminal justice system's response to domestic violence, and is it succeeding?

Domestic violence laws in Vermont

According to the Vermont Network Against Sexual and Domestic Violence (the Network), before 1980 there were no laws specifically protecting victims of domestic violence.

In the past 27 years, many laws have been passed, but three are said to have made the largest impact in terms of increasing the numbers of offenders coming into the legal system.

In 1990, violating a relief from abuse order became a crime — the first offense is a misdemeanor, and subsequent violations are felonies. When caught the first time, offenders can be ordered to participate in domestic abuse counseling.

In 1993, the Legislature passed a law criminalizing domestic assault and stalking. Domestic assault is defined as attempting to cause a family or household member bodily injury, or causing the member physical harm, or willfully causing the member to fear imminent serious bodily injury.

Depending on the severity of the assault and whether a weapon was used, an offender may be charged with a misdemeanor domestic assault or first or second degree aggravated domestic assault, which are felonies. A unique aspect to domestic assault is that once convicted of a misdemeanor domestic assault, the next time a defendant is charged, even if it's for another misde-

meanor assault charge, the prosecutor can enhance the charge to a felony.

In perhaps one of the most sweeping changes of all, a process which began in 1985 and was expanded in 2002, criminal procedures were enhanced to allow law enforcement to arrest an individual for misdemeanor domestic assault even if the event occurred prior to the officer's arrival on scene as long as there is sufficient evidence.

These laws, along with tougher penalties on driving under the influence (DUI) that also came into force during this time, resulted in an enormous increase of offenders finding their way into the courts.

According to Susan Onderwyzer, program services executive for Vermont Department of Corrections, from 1990-2005, the volume of overall sentencing increased 72 percent.

Law enforcement — the first line of defense

In 1993, Vermont became the first state to provide specific domestic violence (DV) training to all full-time police officers.

Today, according to TJ Anderson, coordinator of training services for the Vermont Police Academy, 43 out of 700 hours are spent on DV and DV-related subjects, such as vulnerable adult abuse, sexual assault, child abuse, and stalking.

Yet, according to a report released by the National Center for Women and Policing, domestic violence crimes account for up to 40 percent of all calls to police, and one-third of all law enforce-

ment's time.

"Currently part-time officers are not required to take any DV training and officers are also not required to take any additional DV training to maintain their certification after their initial training has been completed," notes Anderson.

The wide reach of domestic violence is also reflected in the state's crime statistics.

Domestic violence is the leading cause of violent death in Vermont. As reported in the 2007 State of Vermont Domestic Violence Fatality Review Commission Report, 49 percent of all homicides from 1994-2006 were domestic violence related. Adding in the number of suicides that followed, the percentage increases to 61 percent.

Sgt. Jeff Fontaine, a 27-year veteran of the Colchester police department, characterized the change in law enforcement's attitude toward domestic violence as having made huge strides. When he started and officers were called to a home where domestic violence was suspected, the standard procedure was to separate the couple, sending one to a neighbor to cool off.

Now with mandates to arrest the dominant aggressor, the shift has gone from "trying to put a Band-Aid on a situation to actually thinking it can change," said Fontaine.

Police officers now refer victims to services and follow-up with them directly for welfare checks.

Many counties have special domestic violence investigators that serve on the state's attorneys' prosecution team.

When Bill Northrup retired from the state police after 27

years of service, 12 of which were as a detective, he decided he wasn't ready to call it a day. For the last 10 years, Northrup has served as Franklin County's special DV investigator. Like Fontaine, Northrup said in the early 1980's police treated domestic calls as a family matter where the police were reluctant to get involved. In the late 1980's, the police started to approach DV as a criminal matter, and the force became more proactive. In the early 1990's, Northrup, along with Scot Kline in the Chittenden County State's Attorneys office, drafted the domestic violence protocol for Chittenden County that then became standard for the state.

From his years as a detective, Northrup knew how serious and pervasive a problem domestic violence was in Vermont. "Most of the homicides and serious assault cases I investigated were domestic related."

Step two: The prosecution

With the increase in arrests came an increase in cases in the state's attorneys' offices for prosecution.

The state now has five federally-funded prosecutors, via the Violence Against Women Act (VAWA), in five counties including Chittenden, Franklin, Windham, Lamoille, and Washington whose jobs are to solely focus on domestic violence cases. These include a range of charges that can be grouped into two categories: domestic assaults and domestic-related.

Domestic-related charges include violation of relief from abuse order, violation of conditions of release, stalking, aggravated stalking, unlawful restraint, unlawful mischief, and disorderly conduct.

In Chittenden County, VAWA funded deputy state's attorney Peter Bever said he that he averages 400 new cases a year, a number that has stayed consistent in the last three years.

T.J. Donovan, recently elected as the state's attorney in Chittenden County, confirms that Bever has one of the highest caseloads of any attorney in the office.

"Domestics, drugs, and DUI's are our top three crimes in Chittenden County," said Donovan.

Franklin County, which has the highest per capita reports of domestic violence in the state, also has a special DV team that pros-

ecutes about 250 cases a year. Based on statistics she provided for her grant, Deborah Celis, Franklin County's VAWA funded deputy state's attorney, reports 80 percent of her 2005 caseload resulted in a conviction.

One contributor to her success may be the fact that on her team, in addition to a full-time victim advocate whose job is to advocate for the victim during prosecution and keep her informed about the proceedings, she also has one full-time and one part-time dedicated DV investigators.

Despite the high rate of convictions, Celis said domestic violence cases present obstacles.

"Unlike other assault cases where the victim and perpetrators may have been unknown to each other, that isn't the case with domestics. This is someone you have a house with, often have children with, so it becomes more complicated," Celis said.

Celis says she never counts on having a victim testify, which means the strength of her case most often rests solely on the evidence. "When law enforcement goes on a call, they don't have one to two hours to get all the information we need. That's why having special DV investigators is so important," she said.

Northrup put in more bluntly: "It's impossible for your patrol officers to do all the follow-up necessary in domestics cases."

He explains that a typical patrol officer has to prioritize among all the calls received, and if they have a simple assault case and five burglaries with good leads, the officer may have to put simple assault on the back burner and never come back to it. That means there could be enough evidence to establish probable cause, but not enough for a conviction.

"Being a victim of domestic assault is a perilous position which is an important justification for specialized domestic investigators. We try to complete every case as though the victim isn't there to testify," Northrup said.

Northrup also makes the case that these positions should be regular, full-time positions in every state's attorney's office and be state funded. For most counties that have VAWA funding for a prosecutor, a victim advocate, and a special investigator these funds are drying up.

In the last few years, VAWA funding has remained level, Celis said, which essentially means

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ferent ways. The size of the pie — total reported income — increased almost 9 percent in 2005, but average income for the bottom 90 percent dropped by \$172, or 0.6 percent.

The top 1 percent of tax filers (with incomes above \$348,000) received their largest share of national income since 1928. The average income of a member of this group rose to more than \$1.1 million, an increase of 14 percent.

Here some other perspectives. Data analyzed by MIT professor Thomas Kochan show that the productivity of U.S. manufacturing rose by about 70 percent between 1979 and 2005, but the real wages of production workers remained flat over that period.

Two other economists, I. Dew-Becker and R.A. Gordon, analyzed inflation, income, and worker productivity in 2005 and said their analysis shows that “[o]ver the entire period 1966-2001 ... median real wage and salary income barely grew at all ... because half of the income gains went to the top 10 percent of the income distribution.”

It wasn't always thus. Before Ronald Reagan became president in 1981 and instituted huge tax cuts for the rich, the country had enjoyed more than 40 years of increasing prosperity, and the wage differential was only a fraction of what it is today. How has this huge disparity come to exist?

Robert Kuttner, editor of *The American Prospect*, took note of this phenomenon last fall and wrote that it is part of a pattern: employer-provided health coverage declined from 69 percent in 1979 to 56 percent in 2004, and the top 1 percent's share of interest, dividends, and capital gains has risen from 37.8 percent in 1979 to 57.5 percent in 2004.

“Politically, it's evident what is occurring,” Kuttner wrote. “Those in a position to capture astronomical incomes are awarding themselves an ever-larger share of the national economic pie. Meanwhile, ordinary incomes, job security, health security, and retirement security are eroding.”

How closely do incomes in Vermont mirror the national trends? Data are harder to come by, but Doug Hoffer, a Burlington-based policy analyst, who devised the original livable wage calculations for the Peace and Justice Center, shows that wages failed to keep pace with inflation from 1989 to 2005.

These figures show that in 1989, the median household income in Vermont, adjusted for inflation, was \$46,194, and in 2005,

it was \$48,508, an increase of only 5 percent in 15 years. To put this another way, if in 1989 your median income was \$46,194, you would have had to earn \$72,755 in 2005 for your money to have the same purchasing power.

Politicians and policy analysts focus on the affordability of housing because prices have been rising faster than in other areas of the economy.

According to the Vermont Housing Finance Agency, the median purchase price of a single-family home in Vermont in 2006 was \$197,000, an increase of 8 percent over the previous year, almost four times the rate of inflation. That median purchase price also represents a 97 percent increase since 1996.

The situation with property taxes in Vermont is similar but to a smaller degree. According to a tax study published by the Legislature's Joint Fiscal Office in January, the inflation-adjusted Vermont Education Property Tax Revenue Estimates rose only 14 percent, adjusted for inflation, from 1996-2005, much less than the median single-family home price.

Nevertheless, for most Vermonters who have had essentially flat incomes over this period, a 14 percent hike is a real hit. And it's little solace that much of this hike is the result of their homes becoming more valuable because of the rising sales prices of single-family homes.

Vermont is not an island

In addition to being subjected to the national trends of flat wages and rapidly rising housing prices, Vermonters must contend with state policies that contribute to the affordability problem. First, its income tax system is coupled to the federal system so that tax cuts for the wealthy mean that Vermont tax revenues from the wealthy are reduced. The balance is made up by higher taxes on everyone else, or programs are cut.

Second, a significant portion of Vermont's affordability problem is caused by the fact that the tax for school funding is based on property that affects working families much more than it does wealthy ones.

Hoffer wrote recently that “when we consider all state and local taxes (including the regressive property and sales taxes), the richest Vermonters actually pay a lower percentage of income than low- and moderate-income families.”

Hoffer also estimated that “state tax liability for someone with \$1 million in taxable income has declined by 64 percent since 1968, 37 percent in the last 10 years alone.”

A third area where state policy helps create the affordability problem is corporate income taxes. A recent study by Citizens for Tax Justice (CTJ), a non-partisan research group in Washington, shows that as a percentage of gross state product, corporate income taxes in Vermont dropped 42 percent from 1989 to 2003, about two points more than the national average.

The CTJ study also shows that in 2001, IBM paid no income taxes in any state where it had operations, including Vermont, despite the company's global profit of \$5.6 billion.

Besides tax policy, another area where the state's political leaders help make Vermont a less affordable place to live is in the allocation of state funds for affordable housing. For the past six years the Legislature and governor have not followed the rules for allocating the receipts from the property transfer tax. A total of 49 percent of those receipts are supposed to go to the Vermont Housing and Conservation Board (VHCB) to be used to building affordable housing and to conserve farmland and natural resource areas.

To plug holes in the state budget without raising taxes, Gov. Jim Douglas and the Legislature have allocated \$27.6 million less to VHCB that it would otherwise have been entitled to receive under state law from 2001 to the present. But the impact of the cut is far larger than the diverted funds.

For every VHCB dollar invest-

ed in a project, approximately \$4 are invested from other sources, so this action by lawmakers has really cost Vermont another \$122 million, for a total of \$150 million. The cumulative lost opportunities from this “fiscal savings” is 750 affordable homes, 50 farms, and 58 community conservation projects.

Lawmakers are playing a similar game in this session. The Democratic majorities in both houses seem stymied by Gov. Douglas' threat to veto any tax increase or new tax and may agree with his plan to raid the funding set-aside for the Catamount Health program, which was enacted last year to provide health insurance for Vermonters who have none, in order to make up budget deficits in other areas.

And on it goes. Vermont can't do much by itself to fix the affordability problem by forcing employers to pay wages that keep pace with inflation, but it can change state policies that aggravate income disparities and intensify the local impact of the national affordability problem. Just recently, for instance, Maryland, not usually known for progressive legislation, passed a law requiring all companies that do business with the state to pay a “living wage.”

Piketty and Saez said that gap between the rich and the rest of us has not been as wide as it is now since 1928 on the eve of the Great Depression. Then, as now, the income disparities blossomed over more than a decade of growth fueled by the hands-off policies of a federal government under the control of free market fundamentalists. Then, as now, much of the difference in incomes was due to stock market speculation and tax


policies that favored the wealthy.

An additional factor that today increases income inequality is globalization which has exported millions of U.S. jobs to low-wage countries, with most of the “savings” being pocketed by the corporate executives responsible for the decision to export — and the companies' shareholders.


In the 1920s, as now, there was little complaint about income inequality from the workers or the middle class, apparently because they all embraced the myth that anyone can get rich in this country with hard work and a little luck. The Depression disabused many of that myth, but it won't die.

What changed the United States back then was that the voters, 25 percent of whom lost their jobs between the stock market crash and 1932, got their act together and created the political movement that brought in the New Deal and with it steeply progressive tax rates along with a host of regulations and reforms that transformed the country.

As important as the laws and regulations, the country enshrined a commitment to income security for all people in this country, a commitment that has since been sacrificed on the altar of greed.


History is full of sudden and unpredictable twists and turns. Perhaps people will be fortunate enough to create the 21st-century version of that political movement — before we are hit by another severe Depression. If not, we can catch up at the food shelf. 

Wallace Roberts is an independent journalist who writes about public policy issues. He lives in Williamstown.



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