JAMES H. DOUGLAS
GOVERNOR

State of Vermont
OFFICE OF THE GOVERNOR

Governor Jim Douglas
Final State of the State Address
Briefing Documents
January 7, 2010

"In these uncertain times, we must transform our public and economic framework by redesigning how we deliver state services and refocusing efforts to create jobs and ensure economic security for Vermonters. Out of necessity and because it is the right thing to do, we must act now to write the next chapter in the proud history of Vermont."

- Governor Jim Douglas, State of the State Address, Thursday, January 7, 2010

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Introduction

Since taking office in 2003, Governor Douglas has worked diligently on behalf of Vermont residents to change, reform and strengthen our great state. The last decade has seen many accomplishments in a number of areas, including environmental protection, public safety, and health care. These successes have helped build a strong foundation, but one that is being threatened by massive budget shortfalls, unfunded liabilities and a broken system of education funding. In his speech, Governor Douglas stated, “Working families have been battered by recession and employers weakened by state policies that are barriers to job creation.

“The trajectory of the Vermont economy for the next decade will be shaped by our decisions this year. If we are content to limp out of this recession, hobbled by flat job growth, we can choose to recycle old ideas and hope for a different outcome. But if we want to spring out of this recession – strong and nimble – we must have the heart to reform, the wisdom to act, and the courage to stand against those who will say it cannot be done.

“Mere ‘recovery’ is not enough for Vermonters who have persevered through this long season of decline. We must strive for a healthy and growing economy, prepared to compete with states next door and countries around the world. Prepared to compete – and win. These times demand new thinking – they demand bold action – and they demand it now.”

In his final State of the State Address, Governor Douglas proposed creative solutions and a path forward toward success by working collaboratively with legislators to craft a balanced and responsible budget – the task at the heart of getting our state back on track. These briefing documents provide further detail regarding some of Governor Douglas’ important proposals.

Jobs – Growth - Prosperity

"If we want to keep the jobs we have, if we want to get our small businesses to succeed in a global economy, if we want to attract rather than turn away people and potential companies, then we need to focus on the fundamentals."

- Governor Jim Douglas, State of the State Address, Thursday, January 7, 2010

All across Vermont, employers and employees are standing strong in an economic climate more difficult than any seen in generations. As a new decade begins, we must embrace the policies that Vermonters in every economic sector need to restart the engine of our prosperity: lower taxes; universal broadband and wireless technology; clean, reliable and affordable energy; a well-trained workforce; and an education system that is as efficient as it is effective.

As public servants, it is our responsibility to ensure that the next generation will inherit a strong, vibrant Vermont. If we are to live up to that responsibility, we cannot leave behind a tax structure that is unfair and unaffordable, a technological infrastructure that is outdated and inefficient, or an unemployment insurance fund that is overleveraged or bankrupt.

In his speech, Governor Douglas laid out a firm commitment to economic recovery and charted the path toward a prosperous future. He proposed tax relief for struggling businesses, allocating federal stimulus funds into economic development programs and a plan to put government spending on a sustainable path. He discussed the need for a reliable energy future and an education system that teaches our students without taxing them out of state when they graduate. If we make these commitments now, in the early days of this new decade, we can put Vermont on a path to prosperity for generations to come.

Governor Douglas' proposals include:

- **Investments in job creation –** eliminate the $10 million cap in the Vermont Employment Growth Incentive program.

- **Tax relief to farmers and small business owners –** protect farmers, small-business owners and older Vermonters from increases in the capital gains and estate taxes enacted during the last legislative sessions.

- **Responsibly addressing the unemployment insurance fund shortfall –** use a balanced approach that does not place an unfair burden on either employers or the unemployed.

- **Securing a clean and reliable energy future –** relicense Vermont Yankee so that it will remain a valued employer and a reliable supplier of clean and affordable electricity.

- **Building out our advanced telecommunications infrastructure** – bring broadband access to every corner of our state along with an advanced fiber-optic network.

Capital Gains Tax

In the 2009 session, the Legislature enacted changes in the tax treatment of capital gains income, but their plan did not provide protection for anyone under 70. These changes resulted in $9.3 million in new taxes to help fund ongoing spending increases.

Favorable treatment of capital gains income encourages entrepreneurship and investment, protects the retirement income of seniors, and eases the transfer of small, family-owned businesses from one generation to the next.

Governor Douglas proposes to roll back the capital gains tax changes made by the Legislature last year.

- Effective January 1, 2011, long-term capital gains will again be eligible for the 40% exemption, as they were in tax year 2008.

- The individual income tax rate decreases effective in 2009 and 2010 will remain in effect.

While removing the capital gains exemption could be justified if all the revenues were used to lower tax rates for working Vermonters, spending $13 million, a sizable portion of the proceeds – as the Legislature did – amounts to a tax hike on already over-taxed residents.

Estate Tax Reform

Changes the Legislature made in the capital gains and estate taxes have swelled the ranks of Vermonters who are looking at other states – like New Hampshire or Florida – for their new, permanent residences. In addition, the estate tax change was particularly unfair to farmers whose assets are not easily mobile. It is a punitive tax that discourages farmers and small business owners from passing along their life's work to sons and daughters.

Vermont currently piggybacks on the federal estate tax, with some modifications. Last session the Legislature amended the Vermont estate tax to block the federal rise in the exclusion amount to $3.5 million, leaving Vermont's tax with an exclusion of $2 million for individual estate taxpayers.

The Legislature also intended to block the one-year federal repeal of the estate tax, but changes to law did not accomplish this, leaving the Vermont statutes around the estate tax ambiguous. Given this confusion, we propose the Legislature clarify its intent to decouple from the underlying federal statute and implement a permanent $3.5 million estate tax exemption.

The official FY11 revenue forecast for the estate tax is $18.1 million based on the current $2 million exemption. The Governor's proposal would save Vermont taxpayers $3.5 million in estate taxes. It's important to understand that while current federal law sunset the estate tax for calendar year 2010, it also instituted a new capital gains tax on the sale of estate property upon which the state "piggy-backs." The proceeds from that new capital gains tax on inheritances is expected to be $3 million for a 12-month period. Therefore, to avoid double taxing inheritances, once with an estate tax and yet again with the capital gains tax, the Legislature must revisit the estate tax and raise the exemption to the Governor's recommend.

With Vermont's high marginal income tax rates, there is little justification for taxing the estates of Vermonters who have built their businesses here, or farmers looking to pass on their legacy.

Removing Cap on Vermont Employment Growth Incentives (VEGI)

Since its inception in 2007, the VEGI Program has had extremely positive results:

- Number of Active Authorizations: 28
- Amount of Incentives Authorized: $16 million
- Estimated New Job Creation (direct & indirect): 3,987
- Estimated New Payroll: $84 million
- Estimated Average Compensation: $54,984
- Estimated New Capital Investments: $137 million
- Estimated Net Revenue Return to the State: $12.4 million

However, the program is currently capped at $10 million annually. The projects authorized during late 2009, which will commence new economic activity during calendar 2010, total $4,913,838, committing 49% of the 2010 annual cap.

The application process for the January 28, 2010 Vermont Economic Progress Council (VEPC) Board meeting is already poised to put the program over its annual cap. Applications to be considered at that board meeting could include three companies who plan to file applications for incentives estimated at more than $6.3 million. When combined with the $4.9 million already authorized, the incentives total $11.2 million, exceeding the cap.

In addition, VEPC and Agency of Commerce and Community Development staff have met with several other companies who are seriously considering starting, relocating, or growing a company in Vermont. These new applicants are projecting the creation of several hundred jobs and millions of dollars in capital investment, some in environmental technology sectors.

Failure to eliminate the cap could mean a lost opportunity to attract hundreds of new high-paying jobs, millions in capital investment in clean and environmental technology sectors, and the generation of over $6 million in new net tax revenues to the state.

Vermont's Unemployment Insurance Trust Fund

Vermont, like many states, is faced with a crisis in its unemployment insurance (UI) trust fund. The best solution to unemployment is a strong economy driven by a vibrant economic development policy that enables Vermonters to find quality jobs. These jobs must come from diverse economic sectors and different sizes of employers that are geographically dispersed throughout our state. Policies that meet these objectives will help sustain a stable job base. Failure to consistently support a strong economic development policy results in risks to our economy far beyond the crisis we face with our UI trust fund.

Addressing the UI trust fund crisis requires a balanced approach that does not unfairly place the burden of returning the fund to solvency on either employers or the unemployed. The Administration is proposing such a plan, with phased-in increases in the taxable wage base and modest adjustments to certain unemployment benefits. This combination will begin to return our trust fund to solvency before Vermont experiences another recession.

Vermont made deliberate choices to increase unemployment benefits without addressing increases in our UI taxes. Twice the Legislature increased UI benefits (expenses) above the cost of living, ranking Vermont above the national average in a number of benefit areas. However, the Legislature failed to address income to the trust fund, leaving us to spend down our UI trust fund at a time it should have been growing. This coupled with high unemployment, means we will be forced to borrow from the federal government to pay UI benefits in 2010 and beyond.

Failure to take comprehensive action last year has meant that our problem has grown by an additional $30 million. If we don't act this year, the fund will be in deficit for the foreseeable future, leaving us unprepared to handle the demands of the next downturn. Because borrowing eliminates a federal tax credit for business and because the money must be paid back with interest, failure to act also prolongs both the tax increase on employers and the direct hit to future General Funds. We must act now.

<u>Phased-in tax increases:</u> Vermont has above average UI tax rates compared to other states, yet the taxable wage base that employers use to calculate those taxes remains low. We are proposing phased-in increases in the taxable wage base over the next 4 years from the current $10,000 to $18,000, as well as indexing future wage base increases to increases in benefits, to assure trust fund solvency down the road. We've also included a trigger to lower the taxable wage base if the fund balance grows too high.

<u>Changes in benefits:</u> Vermont has a generous unemployment benefits system, but we must balance that system to assure sustainability of the fund and availability of a workforce. Our proposal includes adjustments that will continue to keep benefits at or above national averages, as well as addresses seasonal issues and issues of fairness for those who are unemployed due to their own misconduct.

Examples of benefits adjustments include:

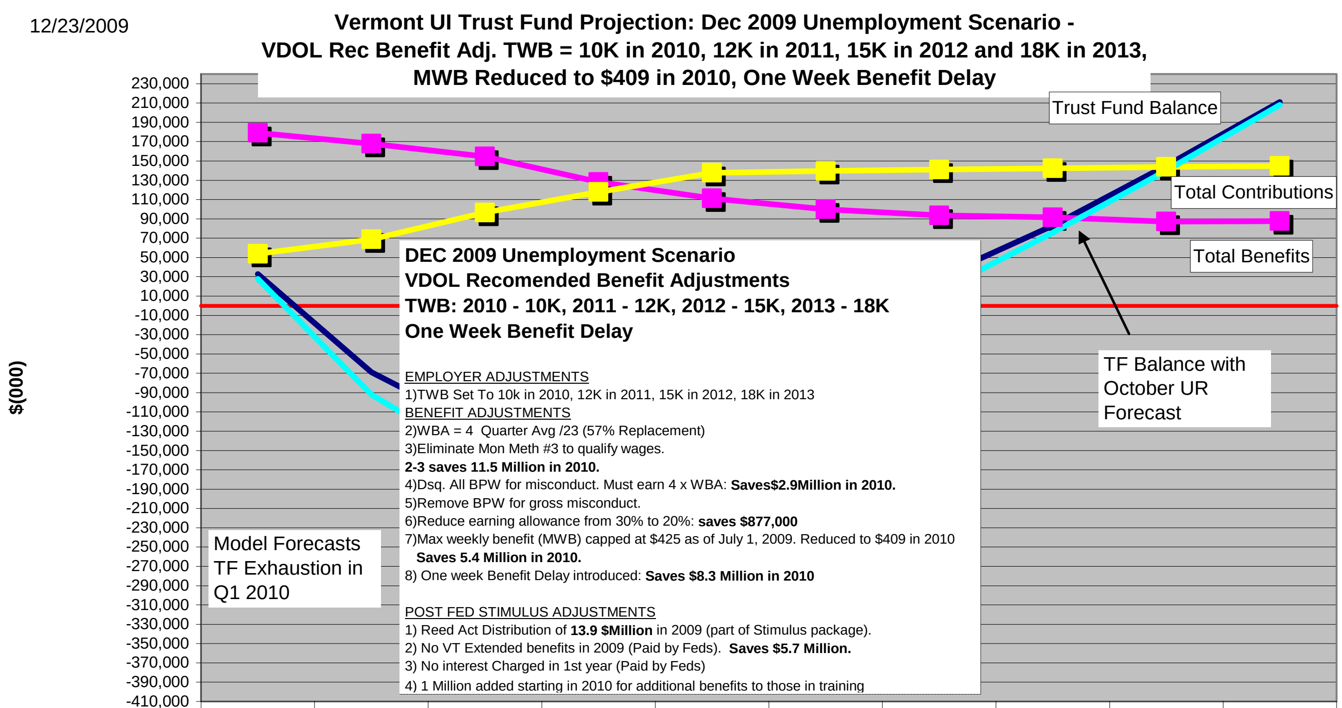
- Reinstituting the one-week waiting period that Vermont had until 2000, making us now one of only 13 states that have no waiting period. The annual savings would vary but would be approximately $5 million in 2010.

- Calculating the weekly benefit amount based on a full year of wages versus the two quarters presently used.

- Disqualifying a person fired for misconduct from receiving UI benefits. Presently there is only a delay in receiving benefits.

- Increasing the penalty for workers fired for gross misconduct which is typically violence or theft in the workplace.

The proposal recognizes that unemployment insurance is an employer-financed program designed to ensure some level of economic stability during recessionary periods. It seeks to balance the solution between the needs of employers and the needs of the unemployed. The plan requires some borrowing but minimizes those impacts as much as possible without jeopardizing the economic health of employers and the unemployed.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Trust Fund Balance	32,777	-69,023	-128,962	-136,311	-100,591	-42,811	29,748	83,050	145,144	211,142
Total Benefits	179,293	167,968	154,605	128,198	111,167	99,935	93,624	91,748	87,308	87,857
Total Contributions	53,831	68,786	96,604	117,887	137,698	139,680	141,266	142,480	143,908	144,911
Balance Oct VDOL	27,821	-92,031	-162,091	-170,824	-129,957	-67,242	15,208	75,684	139,917	208,098

SOURCE: VDOL Benefit Finance Model, December, 2009

State Fiscal Stabilization Fund (ARRA)

Last year the Governor proposed using one-time money from the State Fiscal Stabilization Fund (SFSF) of the American Recovery and Reinvestment Act (ARRA) for job creation and economic stimulus. The Legislature disagreed and instead, used much of the money for on-going state expenses. The Governor again proposes that these responsible investments be undertaken using SFSF funds, including:

- $1 million to the Vermont Training Program to restore the Legislature's reduction in FY10 from $2.8 million to $1.8 million. This reduction in funding means this critical program will serve 1,800 fewer Vermonters and 40 fewer companies this year. An independent firm hired in 2008 to determine the program's return on investment found that for every dollar invested in the program, the state realizes $2.67 in revenues over and above the invested dollar; therefore the reduction in funding will result in a revenue loss of approximately $2.67 million for FY 10.

- $1 million to assist businesses impacted by the closure of the Lake Champlain Bridge or other economic factors, through a combination of direct grants and low-interest loans.

- $3.17 million to the Vermont Telecommunications Authority for the Backroads Broadband Project. This project will complete the universal broadband access goal of Act 79 by incenting providers to serve Vermont's most hard-to-reach areas and encouraging swift adoption by consumers in newly-served areas.

- $500,000 for the Vermont Department of Tourism and Marketing to assist in marketing Vermont as a vacation destination. According to an analysis conducted by Economic and Policy Resources, Inc. for the Department of Tourism and Marketing, estimated visitor spending in Vermont was $1.61 billion in 2007. That resulted in an estimated $3.1 billion impact on Vermont's $22.7 billion Gross State Product, about 13.7 percent of the state's total, and 37,490 direct and indirect jobs, about 12 percent of the state's total employment of 300,941 for that year.

- $1 million to VEDA to provide subsidized loans and credit support to farmers and expand on the programs VEDA used to assist farmers in 2004, 2006 and 2009. Through the 2009 program, VEDA provided $6.6 million in loans at subsidized rates and allowed farmers to use the loans to consolidate existing open accounts for needed inputs such as feed, fuel and fertilizer.

- $2 million to the Vermont Economic Development Authority (VEDA) to buy down the interest rate on loans it makes to Vermont companies; the money would leverage a total of $22.5 million in low-cost loans, which VEDA estimates would positively impact 2,335 jobs and create an additional 637 jobs.

VEDA LOAN SUBSIDIES FUNDED WITH FEDERAL STIMULUS FUNDS

WITH ADDITIONAL $2,000,000 (TOTAL = $3,000,000) AMERICAN RECOVERY & REINVESTMENT ACT (ARRA) APPROPRIATIONS

ARRA Program as of 12/31/09	#LNS	$ LOANS	$ PROJECTS	SUBSIDY $	JOBS IMPACTED AT CLOSING	JOBS CREATE/RET (0-2 YEARS)
LOANS CLOSED 2/17/09 - 12/31/09	23	$7,731,441	$26,859,351	$592,970	705	216
LOANS APPROVED, NOT CLOSED	9	6,780,026	29,004,142	542,070	269	206
ENERGY EFFICENCY LOANS	16	$677,126	$1,216,201	$78,600		
ARRA SUBSIDY LOANS	48	$15,188,593	$57,079,694	$1,213,640	974	422
REMAINING AVAILABLE (ESTIMATE)	50	$22,500,000	$76,893,000	$1,799,000	2,335	637
ESTIMATED ARRA SUBSIDY TOTAL	98	$37,688,593	$133,972,694	$3,012,640	3,309	1,059

ESTIMATED COST PER JOB IMPACTED $910; CREATED/RETAINED $2,845;

Technology Investments

Businesses – including the self-employed – increasingly depend on high-capacity affordable broadband and predictable, reasonable energy costs. Vermont will be able to provide both of these necessary economic incentives due to a number of factors:

- The head start Vermont has achieved since 2007 through the E-State initiative;
- Success in winning a $69 million dollar ARRA grant for Smart Grid deployment;
- Electric utility plans for a further investment of over $120 million dollars in Smart Grid and communications;
- A significant public safety communications infrastructure effort;
- Vermont Telecommunications Authority (VTA) support for, and coordination of, fiber to schools, government offices and other critical institutions, as well as towers for mobile communication;
- Existing VTA bonding authority and the availability of low-interest Recovery Zone Facility Bonds for telecommunications projects;
- Legally enforceable commitments by Comcast and FairPoint for 100% coverage of new communities;
- A number of outstanding and anticipated requests for stimulus funding for broadband and broadband adoption, at least some of which are likely to be approved;
- The Backroads Broadband Project that will help complete the task of bringing affordable high speed broadband to the most remote parts of the state, spur rapid adoption in formerly unserved areas, and fill in where stimulus funds are not available; and
- A rapid transition to e-government which will provide better service to Vermonters at sustainably lower cost.

The Smart Grid projects will allow both businesses and consumers to tailor their electrical use to take advantage of low off-peak rates. By the end of 2012, most of Vermont will be covered by Smart Meters and we will be poised to use relatively low cost electricity to replace petroleum-based fuels, both for transportation and home heating. Assuming the relicensing of Vermont

Yankee, we should be able to widen our advantage in electrical rates over other New England states. The Smart Grid also makes good use of small and medium-sized alternative energy sources so we will be better able to grow distributed electricity generation.

Vermont electric utilities are in the process of building at least 1,200 miles of high capacity fiber to nearly every area of the state. This construction will be largely completed in the next two years and does not depend on state or federal funding. Using this backbone for general communication as well as energy-related purposes, we will be able to reduce wholesale and institutional broadband costs to those typically found in metropolitan areas. Businesses which value Vermont's unparalleled quality of life, environmental ethic and skilled workforce will find themselves well-connected when they locate here. This connectivity is valuable to Vermonters and the Vermont economy by itself, but it is also the information backbone for the Smart Grid, cellular towers, public safety, e-Health, e-Government, and e-Education.

Re-license Vermont Yankee

Decisive action on our long-term energy future is critical to our economic future. The decision about the future of the Vermont Yankee nuclear power plant is important for employers – both large and small – who rely on affordable and competitive electric rates. It's important as we seek to maintain a clean energy portfolio and move to more renewable sources. And it is everything to hundreds of employees, who pay taxes and contribute to the Vermont economy.

The Vermont Yankee nuclear power plant is not only a substantial source of revenue for the state, but is a significant employer, expected to average over $100 million per year annually in full-time salaries to employees over the next 20 years, if re-licensed.

Since 2004, there has been a tax on net megawatt hours of generation produced by the facility. It is assumed for the revenue/burden analysis that the taxes generated by this arrangement will approximate the taxes levied on energy production in the future should the license be extended. Over three calendar years, the plant is projected to produce 4.86 GWh per year on average. The resultant electrical energy tax from that level of generation is $2.9 million per year, $57.3 million total over 20 years, or a net present value of $36.0 million in 2012 dollars.

Vermont Yankee also pays its education taxes based on generation, and with a 3-year average generation of 4.86 GWh per year, the tax revenues are projected to be $2.1 million per year, a 20-year total of $41.8 million, or a net present value of $26.3 million.

Vermont Yankee currently ranks among the 60 largest private and public employers in Vermont, and is in the top 5 in the Windham County area. Its economic impact over a 20-year period is estimated to range from a low of $1.5 billion to a high of $5.1 billion, representing between 0.2% and 0.6% of estimated Gross State Product over the 20 years.

The Governor urges the Legislature to vote to let the Public Service Board decide the case for re-licensing; to let Federal and state regulators make this important decision, away from the political fray.

Education Reform

"The ever-growing burden of property taxes threatens the financial security of Vermonters and the potential of our employers. Getting a handle on this cost is essential to our economic future."

- Governor Jim Douglas, State of the State Address, Thursday, January 7, 2010

Vermont's K-12 education system is among the best resourced in the United States. According to Department of Education (DOE) statistics, Vermont ranks first in the ratio of students to teachers at 11 to 1. This is 54% higher than the national average of 15.4 to 1. Vermont ranks 4th in public school revenues per enrolled student at $16,210, or 43% higher than the national average of $11,369.

However, when it comes to wealth, Vermonters are not in the top tier. DOE statistics show that Vermont ranks 24th in personal income per capita at $34,623. This amount is below the national average of $36,629.

When Act 60 passed the Legislature in 1997, it equalized access to education spending by all school districts. At the time, it was clearly understood that low spending school districts would be encouraged to spend more given the improved access to funding through the statewide property taxes. However, even since 2005, school spending and property taxes have continued to grow at very rapid rates. In 2005, the net residential property tax was $254.2 million. For 2011, it is projected to be $375.6 million, equaling an annual growth rate of 6.7%. Similarly, the non-residential property tax has grown from $385.8 million to $562.8 million, for a 6.5% annual growth rate.

This growth was not driven by more students in the classroom, as the student population actually decreased over this 6-year period from 99,994 to 92,631 or 7.4%. Despite this decline, education spending rose from $1.06 billion to $1.37 billion. On a per pupil basis, spending grew at the annual rate of 5.63%. The core driver of these increases has been increased staffing at our schools.

Since 1997, staffing levels have grown by 23%, from 15,555 to 19,145 while at the same time the student population has decreased by 11.5%, from 106,341 to 94,116.

Income sensitivity payments have grown from $92.3 million in 2005 to a projected $167.8 million in 2011 for an increase of 82%. Basically, income sensitivity transfers the burden of the property tax from eligible beneficiaries to property tax payers who are not eligible, namely non-residential property owners and property owners with household incomes above $90,000. Even with recent changes that placed an $8,000 cap on benefits, 363 owners of homes valued at $800,000 or more receive a benefit, and of this group, 136 people living in homes valued at $1 million or more get a subsidy.

Given the above statistics, the challenge before us is to sharply bend the education spending curve to one that is affordable to Vermonters, as well as reconstruct the Act 60/Act 68 education funding machinery so that it supports sustainable spending for the future.

The Choices Before Us (And the Status Quo is Not Among Them):

If left unchecked, residential property tax rates will rise by 26% over the next 3 years. That increase, combined with a $150 million budget deficit, mean that doing nothing is not an option. Relative to the Education Fund, three major goals for this legislative session must be:

1. To lower property tax rates: Current projections call for a 2 cent increase in both the residential and non-residential property tax rates this year. The combination of these tax increases and dramatically slower growth in the grand list this year, result in $59 million in new taxes. If left unchecked, the 3-year rate increase is projected to be 22 cents for both residential and non-residential. During this recession, we must seek to lower property tax rates on households and businesses struggling to make ends meet.

2. To lower property tax rates through constraints on education spending: As noted above, the core driver behind the growth in education spending is increased staffing levels in our schools. Pressure needs to be exerted that not only inhibits such increases, but actually results in staffing decreases to more affordable levels.

3. To lower property tax rates through rebalancing the income sensitivity program: The cost of income sensitivity to the education fund is growing at exorbitant rates. For fiscal 2011, the estimate is an increase of $26.2 million – 18% higher than this year. Through rebalancing the income sensitivity program, not only will the direct costs of this program be diminished, but indirectly, voter behaviors will be affected such that higher levels of education spending will not be as readily approved.

To achieve the above, the Governor offers the following proposals:

- Property Tax Rates: Rather than increase rates by 2 cents, as currently projected, the Governor proposes to lower both the residential and non-residential rates by 1 cent, from $.86 to $.85 and $1.35 to $1.34 respectively.

- Income Sensitivity: The Governor proposes to right-size the Legislature's eligibility increases over recent years by making income sensitivity subsidies more progressive based on income levels. For incomes between $60,000 and $75,000, the minimum percentage of income should be 2.25%. For incomes from $75,000 to $90,000, the minimum percentage of income should be 3.5%. Further, the benefit should be limited to the first $400,000 of a homestead residence.

  In addition, to provide assistance to those of low and moderate income, the Governor proposes to enhance benefits. These include raising the renters rebate income eligibility cap from $47,000 to $54,000 and lowering income requirements for the program so that low income households receive a greater benefit. These thresholds have not changed since 1995.

- Efficient Governance: In Vermont, we have 290 separate school districts – one for every 312 students – 63 different supervisory bodies and a State Board of Education. That's a total of 354 different education governing bodies for a state with only 251 towns. There can be no doubt we have room to make our system of education more efficient and affordable. Yet, the Education Fund and property tax payers support two expensive programs that discourage consolidation. Over the next three years, the Governor proposes to phase-out the small schools grants and the "phantom student" subsidy. The latter pays school districts for non-existent students by limiting an annual enrollment decrease to 3.5% even though the actual decrease may be much more. These changes, in addition to those recommended by the Public Strategies Group, can save over $25 million during the next few years.

- Reduce Education Costs:

  Health Care Premiums: State employees pay 20% of their healthcare premiums while taxpayers cover the rest. Many taxpayers cover more than 20% of premium costs while some cover the full cost. It is reasonable for teachers to be on par with state employees and cover 20% of health care premiums. As contracts come up for renewal, such a requirement should be incorporated in each contract with local teachers' unions.

  Reduced Staffing Levels: As noted above, Vermont has the lowest overall ratio of students to teachers at 11 to 1, according to the DOE. Vermont needs to set an affordable standard for this key ratio. The Governor recommends a 13 to 1 statewide ratio as this is far below the national average of 15.4 to 1 and still among the best in the nation. At a 13 to 1 ratio, Vermont would be ranked as 8th best in the nation, just between New Hampshire to our east, New York to our west and well above Massachusetts to our south.

  The Governor's proposal is to leverage a retirement bubble over the next few years to achieve the savings. For example, if only one position were filled for every two retirements, Vermont could achieve a 13 to 1 teacher pupil ratio over the next approximately 4 years, saving the education system over $100 million.

  There are many methods to achieve this standard: from statutory position caps at the district or supervisory union level; to restricting access to the State Teachers' Retirement system as the "check valve" to ensure a portion of positions vacated due to retirements are not filled. We will work with the Legislature to develop the most appropriate mechanism to accomplish the goal and achieve the savings.

- School Construction Assistance:

  Like teachers' retirement costs, school construction costs properly belong in the education fund. These costs have been historically borne by the general fund, despite significant increases in the transfer of general funds to the education fund and the redirection of tax revenues, such as the sales tax and purchase and use tax, from the general fund to the education fund.

The Results of These Reforms

The Governor's proposals for education reform go to the heart of runaway spending and, taken together, stop the projected two cent increase, plus drop the rates by another penny. Compared against a system left unreformed, the Governor's proposal will result in $33 million in lower property taxes – a welcome break for taxpayers.