2/7/2023
TESTIMONY TO HOUSE COMMERCE by Charlie Kimbell
Prepared Remarks

Chair Marcotte, Vice Chair Jerome, Ranking Member Nicoll and members of the committee.

Thank you for the invitation to testify on H. 10, an act relating to amending the Vermont Employment Growth Incentive Program, or VEGI.

I apologize for not being there in person, but I had work conflicts today that keep me from making the trek to the Statehouse. I hope that the committee enjoys Room 35, home base for the six years of my legislative career. But it is in the capacity as the most recent House member of the Vermont Economic Progress Council, on which I served for three years, that I meet with you today to discuss H. 10.

I will try to keep my remarks brief.

It is human nature to defend a group that you are a part of. I often found myself in that position as a member of VEPC, defending the VEGI and the TIF programs administered by VEPC to members of the legislature and the press. I have great respect for the VEPC staff and the work they do, as well as the well-intentioned and knowledgeable members of the Board.

The real question is…does VEGI work in its present form? Are there new, quality jobs created that would not have been created "but for" the incentive? The answer is a definite "maybe."

If not the present program, can it be changed to deliver more accountable, measurable results? Again, "maybe."

What is the consequence of not having a program like VEGI in Vermont to offer employers who are being wooed by other states? We really don't know.

Is there an easier way to administer the program, which is insanely process oriented, in which the payout over 9 years starts to diminish any incentive to change current behavior? Absolutely. But what you give up in complexity you lose in accountability.

The committee had some questions about the program last week which can easily be answered by reviewing the annual VEGI report: https://legislature.vermont.gov/assets/Legislative-Reports/2022-VEGI-Annual-Report-FINAL.pdf. As my former committee members will recall, I valued the reports that were prepared for us, as they are treasure troves of information. The annual VEGI report is one of them.

There is another report that was done for the legislature in 2016. Technical Working Group Review of the Vermont Employment Growth Incentive. https://legislature.vermont.gov/assets/Legislative-Reports/TWG-Final-Report-11-09-2016.pdf.

- Tom Kavet, Legislative Economist; Kavet, Rockler & Associates, LLC
- Ken Jones, Economic Research Analyst, Agency of Commerce and Community Development
- Mathew Barewicz, Economic & Labor Market Information Chief, Vermont Department of Labor
- Rebecca Sameroff, Senior Fiscal Analyst, Vermont Department of Taxes

Definitely worth the read.

1. Is the financial model right? Calculating the Cost-Benefit Analysis of VEGI Awards:

Financial model created by Regional Economic Models, Inc (REMI) with updates to assumptions in Vermont. Answer: Better than anything else available as long as the inputs are updated annually.

2. Can you adjust the "but for" provision, making it not 0 or 100% but on some kind of sliding scale? Not really, unless you want to differentiate "would not have occurred" from "would have occurred in a substantially different, less desirable manner."
3. Whether the Program can integrate the use of business-specific background growth rates in addition to, or in place of, industry-specific background growth rates; and, if industry-specific background growth rates are recommended, a methodology to review, calculate, and set those rates.
4. Whether differential rates in annual average wages or annual average unemployment, defined by labor market area, are appropriate triggers for an incentive enhancement for projects located in, or lower wage threshold for jobs created in, qualifying labor market areas, and whether the margins of error in annual labor market area wage and unemployment rates are within an acceptable range of tolerance for this use

I would contend that VEGI is not able to overcome the **fundamentals of economic development**. A business, whether new or existing, considers a combination of factors in deciding where to locate:

- Proximity to markets and customers.
- Availability of supplies.
- Quality and size of available labor pool.
- Cost of doing business.
- Regulatory environment. Predictable, Reasonable, Transparent.
- Access to capital.
- Quality of infrastructure. Roads, utilities.
- Quality of life for employees and owners.
- Cultural Fit.

VEGI really addresses just two of those: cost of doing business and a cultural fit.

Fundamentally, businesses will decide on doing business in an area that is best for their own interests, whatever that may be. VEGI and other incentives will seldom be the sole deciding factor in that decision.

However, any administration that takes on responsibility for the number and/or quality of jobs in the state will always advocate for tools or programs to increase the number of jobs. VEGI is not a perfect tool. It's too complicated, it is a pain to administer, the key question of the "but for" is not auditable. BUT it is one of the only tools we have. Some version of it is required by state government, to engage businesses who consider other options. And they do.

Specific to the bill:

- Membership. 11 to nine, shift to legislative appointees. Don't think you accomplish anything by doing that, except maybe by removing requirement that legislative appointees don't have to be currently serving members.

- Administrative support from DFR instead of ACCD. Doesn't line up with who is talking to businesses about incentives. Not the same as EB-5. Significant oversight by the Tax already in administering any awards.
- Curiously, did you know that the Department of Taxes is the department that administers the annual Health Care Fund Contribution Assessment, in which employers have to get employees to sign a form as to whether or not they participate in the company's health program? It's not the Health Department. It's not Labor. It's Tax.
- Legal advice only from AG's office? Again, not necessary. Differences in interpreting statutory language. Had come up in interpreting TIF funds where there was a real difference of opinion. Capacity.
- Considering successor businesses ineligible for VEGI. "the Council shall treat a business and its legal predecessor or successor in interest as the same entity." That is a good question. VEGI is supposed to be for new jobs, not for job retention. Are there cases in which an argument could be made that they are in fact new jobs because it is a new company and had it not been for that new company the jobs would be lost? Reasonable.
- The committee has already recognized that the 5% unemployment rate is too high and would effectively kill VEGI.
- I'd contend that you cannot have a program with a built in pause mechanism like the one contemplated.
- Sure, we, in this committee over the years, have theorized about a flexible incentive mechanism to recognize the changes in supply and demand for workers: when unemployment is low (and workforce participation is high), focus on education and skill development. When unemployment is high, focus on job development. The reality is the state needs to be constantly focusing on education and skill development, that it cannot pause that button at all. And, the natural churn of businesses requires that new jobs get created all of the time, so even in times of low unemployment (and high workforce participation rates) you need to focus on the jobs of today and of the future.
- Aggregation of information and availability of data. Again, I suggest you look at the information that is in the annual report to determine if you, as a legislature need more data than what is provided. There is a provision that allows for the legislature to obtain information through the JFO for consideration.

There have been some high profile cases of VEGI awards where it didn't seem necessary. Agreed. There have been even more cases where the awards granted were never earned.

How does VEPC make decisions?

What is like to be in the room where it happened?

Rigorous work up by the VEPC staff working with the applicants, regional development corporations, an economist to determine the right cost benefit analysis. VEPC reviews the applications and relies heavily on the numbers worked up by the staff, the REMI model and the economist who reviews each application. The discussion for VEPC is really around the "but for". Would they do this anyway? In the end it is a subjective call. The auditor has questioned whether or not there is vigorous debate with applicants during the executive session with Council about the "but for." I can tell you there is. It is true that there are times when the auditable evidence of competing incentives from other states is not readily available, and even when it is whether or not it would be the deciding factor. Perhaps another state would give a bigger incentive but the applicant decided against it anyway for some other reason.

Other food for thought:

For individuals and families, what factors do they consider?

- Promise of a better life.
- Cultural fit and support system in place (family, child care, faith, value system)
- Opportunity for personal growth.
- Financial security and opportunity. Meet needs and build wealth.
    - Housing, job security and opportunities, retirement.
- Personal security, freedom from fear
- Quality of life, recreation, environment, weather.
- Availability of goods and services - telecommunications, medical care, food, clothing.

Other related articles:

https://smartincentives.org/state-incentive-program-general-trends/