Unlocking Vermont's Economic Potential

A Focus on Tradable Sector Economic Development

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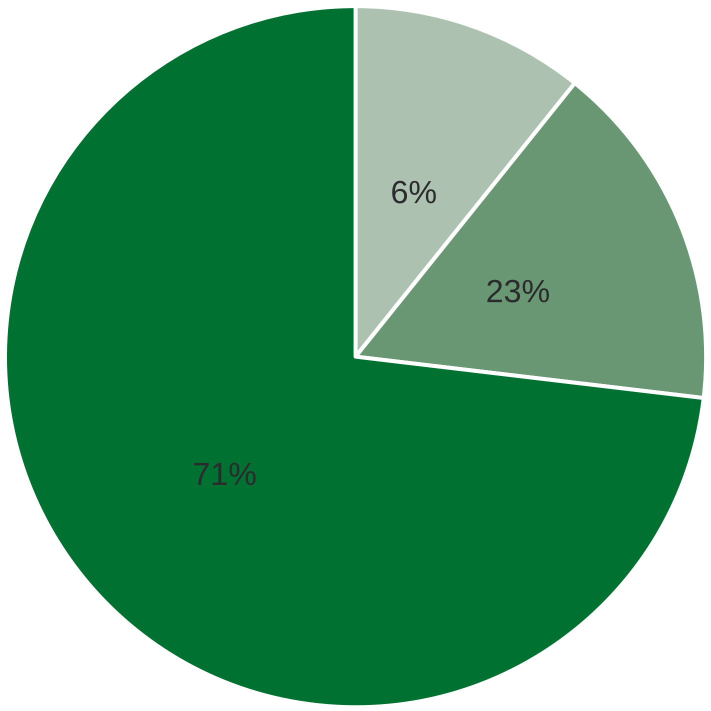
71% of Vermont Wage Earners Earn Less than $50k Annually*

Vermont Wage Earners by Range



Source: VT Department of Taxes - W2s 2021 (est. 343k workforce)
* Some wage earners receive more than one W2 or live in other states but work in Vermont.

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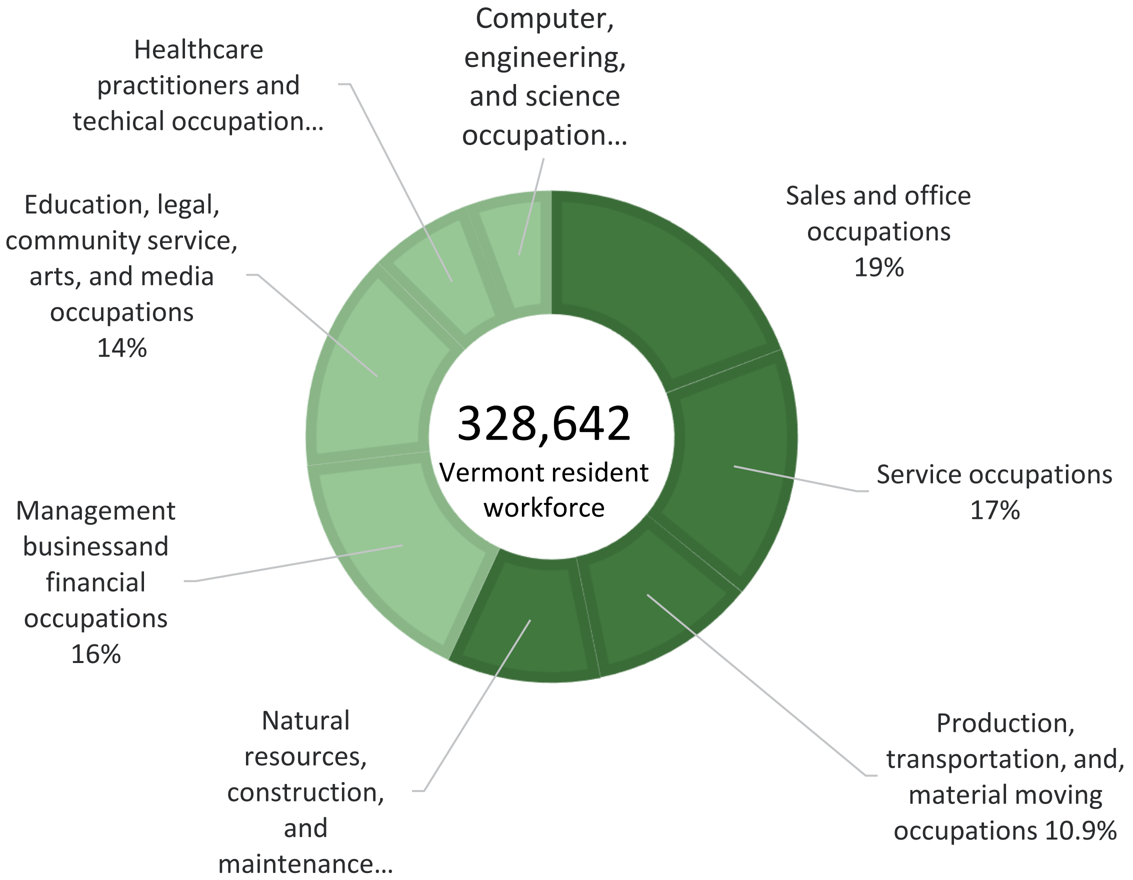
Nearly Two-Thirds of Vermonters Work in Lower Skilled Occupations

Occupations of Vermont Residents 2020

Source: U.S Census Bureau, American Community Survey



Occupations requiring post-secondary education	Occupations requiring a high school diplomas or less
Occupations that generally, at a minimum, require a post-secondary certificate of degree to learn the skills necessary to perform the job	Occupations that generally do not require a post-secondary certificate, Associate, Bachelor's or professional degree

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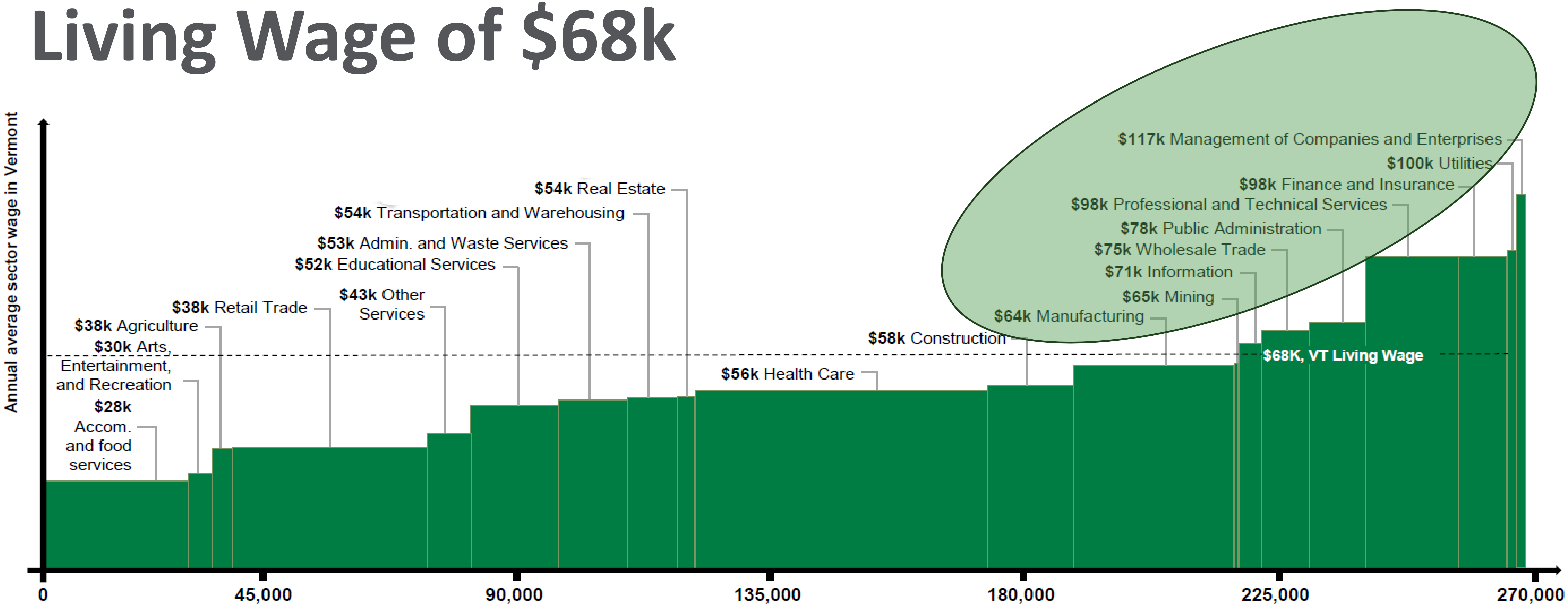
Vermont should focus employment growth efforts on industries paying above Vermont's Living Wage of $68k



Sources: The data shown here is economic sector data from the Bureau of Labor Statistics. This differs from the occupational data from the American Community Survey (ACS, 2020). The living wage was sourced from Living Wage MIT.

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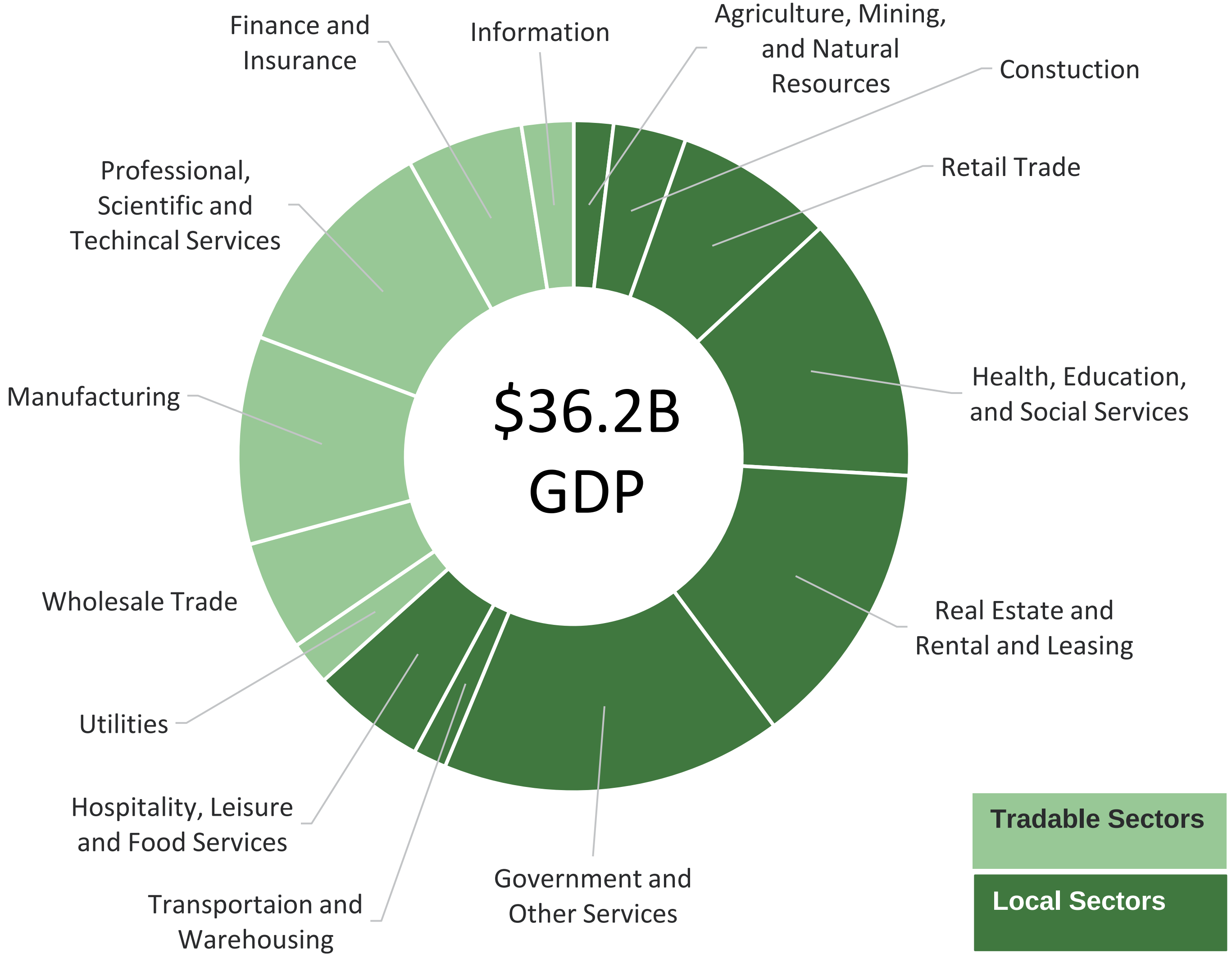
Vermont's Economy is Primarily Sustained by Local Sectors such as Healthcare, Education, and Social Services

63% of Vermont's GDP contribution stems from local sectors



Source: Bureau of Economic Analysis GDP Data

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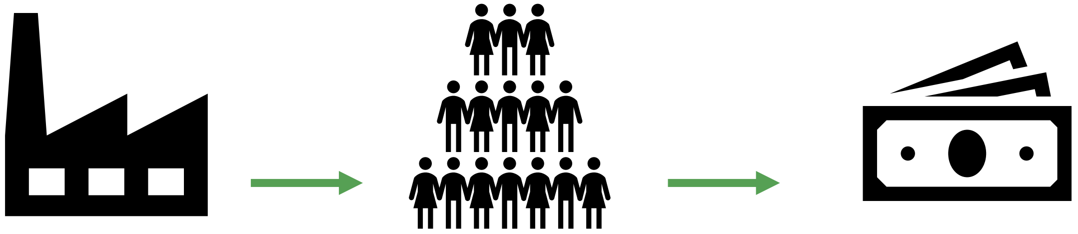
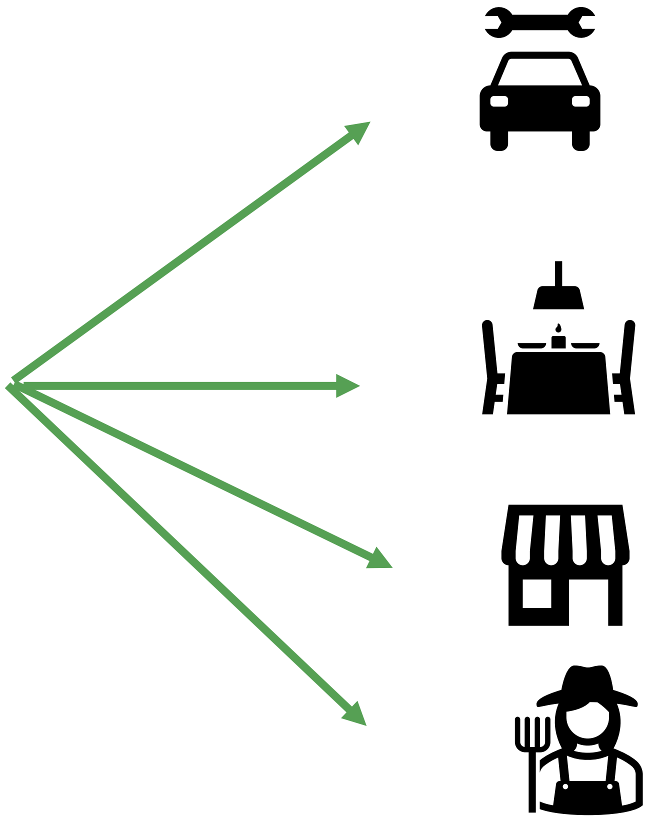
Tradeable Sectors: A Tide that Lifts all Boats





Tradeable Sectors Produce Goods and Services Primarily Sold to Customers Outside of their Local Region and are therefore Importers of Capital which ultimately benefits Local Sector Businesses

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Recommendations

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Growing Businesses in tradable sectors and reducing barriers to business growth can increase economic activity

Subtheme	Recommendation	Rationale	Owner	Relevant Programs	CEDS Alignment (Goals)	CEDS Alignment (Actions)	Peer Programs
Need for Continued Support for Tradeable Sectors	**BA1.** To grow tradeable sectors, identify up to three sectors or clusters where the state has a competitive advantage and develop a strategy to support growth in these clusters. These could potentially include: finance and insurance, manufacturing, and professional, scientific, and technical services (currently ~25% of the state's GDP).	✓ Vermont's GDP primarily consists of local sectors (63.5%), which are less resilient to economic shocks ✓ Tradeable sectors can attract outside investment and talent to the state	ACCD	Vermont Employment Growth Incentive; Elevate Vermont (ACCD)	• **West Central Vermont CEDS** – Goal #3 Business Development and Job Creation • **Northern Vermont CEDS** – Goal #2 Cultivating Business Growth • **East Central Vermont CEDS** – Goal #2 An Innovative Business Environment • **Southern Vermont CEDS** – Objective #2 Expand our Business Infrastructure	**West Central Vermont CEDS** – High Wage Employers: To add high wage employment, attract businesses with high location quotients and encourage the growth of those already in Vermont. **Northern Vermont CEDS** – Cultivate, Attract, and Grow Businesses: Supporting the formation and growth of export-oriented businesses. **Southern Vermont CEDS** – Enhance business retention, expansion, and attraction efforts. Define emerging clusters in high wage, high growth job sectors.	• Massachusetts Life Science Credits: Offers various tax incentives to life sciences companies. • New York Business Incentives: Includes a directory of state credits and incentives broken down by industry, including: mfg, development and expansion, and research and development.
High Cost of Doing Business	**BA2.** Evaluate ways to streamline or reduce barriers to business attraction, retention, and growth. Barriers addressed could include: duplicative permitting processes; corporate tax rate structures; and high costs energy and transportation.	✓ Vermont has a relatively high cost of doing business compared to other states in the region ✓ Even with targeted business incentives (above), barriers and the cost of doing business could still be prohibitive to business growth	ACCD; Vermont Chamber of Commerce; RDCs and RPCs; VEDA	Zoning for Great Neighborhoods (ACCD); Vermont's Permitting and Compliance Portal	• **West Central Vermont CEDS** – Goal #3 Business Development and Job Creation • **Northern Vermont CEDS** – Goal #2 Cultivating Business Growth • **East Central Vermont CEDS** – Goal #2 An Innovative Business Environment • **Southern Vermont CEDS** – Objective #2 Expand our Business Infrastructure	**Northern Vermont CEDS** – Enhance Economic Competitiveness: Supporting the development of innovation-based industry clusters that create high-wage jobs. **West Central Vermont CEDS** – Permit Reform: Advocate for less duplicative and overlapping federal, state and local permitting processes.	• California Governor's Office of Business and Economic Development: Centralizes economic development and business assistance, including regulatory and permitting compliance.

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In a peer program review, VEGI aligns incentives with program goals

In order to help reduce employment costs, every New England state has implemented job creation incentive programs. The table below highlights the objectives of identified peers, distinguishing features, and alignment with leading practices. The Vermont Employment Growth Incentive successfully aligns incentives with program goals by targeting incentive to companies within tradeable sectors. Furthermore, the program ties payment amounts to the prospective qualifying jobs, payroll, and capital investments, effectively supporting its objective to maximize economic activity.

	Description	Leading Practices Alignment	Funding	Outcomes
Vermont Employment Growth Incentive	The VEGI program provides cash payments to businesses that have been authorized to earn the incentive and that meet performance requirements.	✓ **Align incentives with program goals**	$30.6 million (2007-2019)	From 2007-2019: • 8,418 jobs created • $1B in private investment • 132 total applications considered
Massachusetts Economic Development Incentive Program	The EDIP seeks to create new jobs and help businesses grow by offering credits to lower taxes in exchange for job creation.	✓ **Align incentives with program goals**	$19.6 million (2021)	In 2021: • $678 million in private investment • 32 projects approved • 1,356 jobs to be created • 2,613 jobs to be retained
Rhode Island Qualified Jobs Tax Incentive	The QJIP offers annual redeemable tax credits for businesses to expand their workforce in Rhode Island or relocate jobs from out of state.	✓ **Align incentives with program goals**	$14 million (2016-2018)	From 2016-2018: • 117 projects approved
Maine Employment Tax Increment Financing Program	ETIF is a state program that helps new and established Maine businesses hire new employees by paying the business a percentage of qualified employee income up to ten years.	✓ **Align incentives with program goals**	$13.3 million (2016)	In 2016: • 135 projects approved • 1,194 jobs created

**Note: Program maturity rating is based on a combination of leading practices alignment and growth in average hourly earnings.* Sources: Massachusetts Office of Business Development, Tech Maine, Rhode Island Department of Revenue.

KEY: Lagging | On Path | Emerging Leader | Best in Class

Program Peer Reviews 24

Sources: Rhode Island Commerce, New Hampshire Office of Energy and Planning, Vermont Agency of Commerce and Community Development

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A review of best-in-class programs highlighted five leading practices that help increase per capita income

A literature review revealed the following leading practices of an ideal state incentive program. These leading practices can be summarized by four major factors: goals, costs, targets, and design. Incentive programs must account for the economic conditions of the region and tailor incentives to state-specific goals. Policymakers can optimize programming by evaluating budgetary priorities and avoiding excessive incentive costs that threaten other areas of government spending. Effective incentives also will incorporate a targeted approach. This can include targeting specific clusters, distressed regions, firms with higher multiplier effects and high wage premiums, etc. Finally, incentives can be designed in a manner that helps businesses overcome practical barriers to growth. Incentives that incorporate these principles will have more of an impact on job creation and income growth and allow for larger positive economic spillover effects.

LEADING PRACTICES	
Target Firms with High Multipliers	By focusing on businesses that provide multiplier effects, States can increase the number of jobs created through the incentive. For example, businesses who purchase from local suppliers effectively increase demand and jobs at these vendors, maximizing job creation.
Target Firms that Pay a High Wage Premium	Although the creation of jobs is the central focus of incentive programs, it is also important to consider the types of jobs being created. States can maximize year-over-year wage growth by using incentives to target higher-quality, high-wage jobs.
Provide Up-Front Incentives	Up-front cash incentives are more impactful on business location decisions, as decision makers tend to focus on shorter-term benefits.
Avoid Cutting Other Expenditures to Finance Incentives	If governments finance incentives by reducing public spending on items like education or training, the negative economic impacts may outweigh the benefits of the incentives.
Align Incentives with Program Goals	The most effective incentives are those that address the ultimate goals of the program. For example, these goals may include slowing population loss, increasing median wages, reducing unemployment, etc. It is important to ensure that incentives are designed to catalyze the program's objectives that are unique to the region. To accomplish this, state agencies must first identify the most pressing economic and community needs and design incentives to help fill these gaps.

BENEFITS OF STRONG PROGRAM

- Larger increases in per capita income
- Boost to labor and housing demand, which increases wages and property values
- Improved business retention and attraction

Addressing this leading practice is an important precursor for the incorporation of the remaining leading practices and would allow the program to support the greatest areas of economic need specific to the region.

Sources: Brookings, Bradley, Upjohn Institute, Pew.

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VEGI Proposal/ Aligns with Best Practices

- Add option to apply for a Forgivable loan: provides upfront payment with underwriting provided by VEDA. Forgiven if targets are met after 3 years.

- Eliminate Sunset: Goal to increase the median wage and incentivize growth in tradeable and higher paying sectors.

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Questions

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