



February 21, 2023 | 1

Vermont Economic Progress Council

Abbie Sherman, Executive Director

Act 157 (2016)

Section H.13. VEGI Policy Review

Section H.14 VEGI Technical Working Group Review

H.14 Technical Working Group Review

➤ Committee consisted of:

- Legislative Economist (Tom Kavet)
- ACCD Policy Analyst (Ken Jones)
- Labor Economic & Labor Market Information Chief (Mathew Barewicz)
- Tax Fiscal Analyst (Rebecca Sameroff)

➤ Review Questions:

- Whether the Cost-Benefit Model is effectively utilized;
- Whether to adjust Cost-Benefit Model inputs for scale or timing of a project;
- Business-Specific and Industry-Specific Background Growth Rates; and
- Determination for LMA Qualifying Wage and Enhancement

H.14 - Is the CB Model Effectively Utilized?

- Is it effective in producing a reasonable estimate of net State government revenue growth, given the Model input assumptions?
 - best thought of as a “*theoretical* net State government revenue”
- Is it effective in determining an appropriate incentive amount (not too high or too low)?

H.14 - Is the CB Model Effectively Utilized?

Variables in the Cost-Benefit Model:

- Income Tax Effective Rate
- Sales Tax Base
- Homestead and Non-Homestead Property Tax Rates
- Gasoline and Diesel Tax
- Population Base
- Inflation
- Wages
- Government Costs (General Fund, Transportation Fund)
- Education Fund Costs
- Government Inflation Costs

Variables in the Incentive Calculation:

- Discount Rate (present value of future revenue and cost streams)
- Background Growth Rate

H.14 – Whether the Inputs to the CB Model should be adjusted for applicants whose scale or timing would change?

- “Technically, it would be impossible to custom-adjust the baseline forecast in the VEGI Model to account for an alternative (no incentive) project scale or timing variation, and compare that scenario to the full project (with incentives) as submitted in the VEGI Application.”
 - Would represent an additional step in the application process.
 - Create a fair amount of complexity for applicants and program administrators in establishing and monitoring a custom baseline scenario.
 - Values would be entirely at the discretion of the applicant with no means of verification or validation.

H.14 – Integrate business-specific background growth rates? Or if industry-specific is recommended, method to review, calculate and set those rates.

➤ Three Concerns:

- Growth differential in small state can be heavily influenced by a small number of firms.
- Future industry growth differentials can vary significantly from historical long-term differentials.
- Use of any growth differential as a discount mechanism may disadvantage larger firms, since their bases are larger, and percentage growth achievement may be corresponding more difficult.

H.14 - Determination for LMA Qualifying Wage and Enhancement

- Reduced Wage Threshold (140% of State Minimum Wage) Qualification
 - LMAs with an annual average unemployment that is greater than the Statewide average.
- Points Discussed:
 - Unemployment Rate is reasonable and consistent metric for assessing general economic condition for an area
 - Focus on available labor is more consistent with the intent of the VEGI Program
 - Unemployment Rate comparison excludes a greater number of areas eligible
 - Error rate associated with the unemployment rate is only available for the statewide metric.

H.14 - Determination for LMA Qualifying Wage and Enhancement

➤ LMA Enhancement Eligible Area Criteria:

- Annual average unemployment rate for LMA is greater than the statewide average for the same time period

OR

- Annual average wage for the LMA is lower than the statewide average for the same time period.

H.13 – VEGI Policy Review

- Whether Enhanced Incentives are appropriate and necessary;
- **Whether and how to include equity investments in incentive recipients;**
- Whether and under what circumstances to recapture incentives;
- How to most effectively ensure recipients are in compliance with federal and state air and water quality laws and regulations;
- The size, industry, and profile of the businesses that historically have experienced the most growth in Vermont and whether the Program should be more targeted to those businesses;
- **Changes to benefit the creation and growth of more small businesses;**
- **Whether additional applicant and program data report and transparency could be accomplished; and**
- **Quantifiable standards for the type, quality, and value of employee benefits that an applicant must offer.**

H.13 – Equity Investments

The statutory purpose of the Vermont Employment Growth Incentive Program is to generate net new revenue to the State by encouraging a business to add new payroll, create new jobs, and make new capital investments and sharing a portion of the revenue with the business.

- The State takes no risk and makes no investment in companies approved for incentives.
- Companies take all of the risk.
 - Incur debt and/or take on equity investors to achieve the growth outlined in their application.
 - Incentive is not paid until the activity occurs.
- Incentive payments are justified by a determination that the company's economic activity would not have occurred unless the incentive was authorized
- Payment only occurs when the company performs

H.13 – Equity Investments

- All businesses will be sold at some point in their life cycle – acquisition, merger, succession
- In most cases, only the ownership changes – the management, operations, and employment continues as before
- Authorized companies accept as part of the authorization that incentives do not automatically transfer:

5. Changes in name, ownership, acquisition, sale of authorized company:

If, after the Authorization Document is issued, the company changes its official name, or circumstances regarding ownership of an authorized company change, the company must [notify VEPC staff](#), immediately by email, followed by a signed letter. The benefits of the Vermont Employment Growth Incentives do not automatically transfer from one entity to another following the acquisition, sale or reorganization of a business that has been authorized for incentives. The decision to authorize the incentives is based, in part, on subjective criteria that may not apply after an acquisition of an authorized entity or other transaction involving an authorized entity. Therefore, the incentives are not considered an asset that is automatically transferred. The authorized company will be required to provide details of a merger or acquisition to VEPC for review, which may result in the affirmation or termination of the incentives.

H.13 – Equity Investments

- Positive economic Impacts:
 - Strengthens the acquired entity
 - Allows for even more growth through investment by the acquiring entity
- Recapture: If the acquired entity is closed or moved, existing statute allows for recapture or the prevention of incentive payment

“Business growth is fueled by acquisitions. Anything that you do to counter that transaction would be counter to the purpose of the [VEGI] program.”

Tom Moody, Downs, Rachlin, Martin, 2016

H.13 – Small Businesses

- What is a “small” business?
 - “Microbusiness” – 1 to 9 full-time employees
 - “Small” – 10 to 99 full-time employees
 - “Medium” – 100 to 499 full-time employees
 - “Large” – 500 or more full-time employees
- Vast majority of businesses in Vermont are “small”
 - As of December 31, 2022 – 37 “small” businesses are Active or Complete; 30 of those have under 50 employees
- The perception that the VEGI program benefits only “big businesses” is not supported by the data
- However, there will always be a subset of small businesses that VEGI is not the appropriate tool.

VEGI Data – Small Businesses

# Employees	# Apps	%	Total Incentive	Average Incentive	Qual. Jobs Anticipated
0 - 20	22	44%	14,530,634	660,483	794
21 - 50	8	16%	5,867,646	733,456	313
51 - 75	4	8%	4,315,592	1,078,898	283
76 - 100	3	6%	1,257,793	419,264	137
101 - 150	4	8%	3,728,221	932,055	185
151 - 200	2	4%	1,731,468	865,734	75
201 - 500	4	8%	13,451,701	3,362,925	631
500+	3	6%	3,280,985	1,093,662	699
Total	50		48,164,040	963,281	3117

H.13 – Transparency & Confidentiality

- 2000 Opinion from Attorney General’s Office
 - Under current statute, materials and information are considered confidential because release could reasonably cause adverse impact in the market for the applicant
- The State, its employees, and those appointed to make incentive determinations, must not be put in a position that might damage the competitiveness of our State’s businesses.

“For a company such as ours who operates on a global scale, proprietary information is crucial to Seventh Generation’s participation. While we embrace transparency heavily, our opinion is that strategic plans must remain confidential. Reporting in aggregate is the preferred method.”

Chris Lyon, Seventh Generation, 2016

H.13 – Quality Jobs

- Current Definition of a Qualifying Job:
 - Employee works in Vermont
 - Is not an owner (does not have 10% or more ownership interest)
 - Receives an average annual wage that is 140% or 160% above Minimum Wage
 - The business provides at least three of the following:
 - Health care with 50% or more of the premium paid by the business;
 - Dental assistance
 - Paid vacation
 - Paid holidays
 - Child care
 - Other extraordinary employee benefits
 - Retirement benefits
 - Other paid time off, excluding paid sick days

2022 VEGI Annual Report – Quality Jobs

TABLE 5

Summary of Benefits Offered

From Claims For Approved Applicants In Years 1 Through 5 As Of December 31, 2020

Benefit Type	Number of Claimants Offering Benefit	Percent of Claimants Offering Benefit	Average Percent Paid By Employer
Health Care	29	100%	80.13% ¹²
Dental	21	72%	
Prescription	19	66%	
Vision	13	45%	
Life Insurance	23	79%	
Short-Term/Long-Term Disability Insurance	22	76%	
Profit Sharing	11	38%	
Retirement Contribution	23	79%	
Tuition Assistance	13	45%	
Paid Leave (Vacation, Holiday)	29	100%	
Other (see details below)	12	41%	

2020 Claims – Quality Jobs

2021 Wage Levels for VEGI Award Years 1-5



