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VEGI Background growth

The program is not intended to reward economic activity that would have occurred without the incentive.[1] Among other things, the statute requires VEPC to account for background or organic growth in the incentive calculation. Growth is measured in payroll and the rate is calculated annually using a statewide, 15-year average annual rate of change by industrial sector.[2]

This approach is not unreasonable for applicants with little history in Vermont. But when VEPC authorizes awards to in-state firms whose growth has exceeded the industry average, the program wastes taxpayer funds. This is especially costly when VEPC authorizes multiple awards for companies with above-average rates of growth over time. This is not uncommon and has likely cost the State millions.[3]

<u>Hypothetical</u>: Although the program measures growth in payroll, jobs is a good surrogate and makes this easier to explain. For example, a company with 100 employees promises to create 30 jobs over five years. The industry average annual growth rate is 3%, while the applicant's growth rate is 6%. Using the industry average, a company with 100 jobs would be expected to add 16 jobs over five years, so VEPC would calculate an award based on the fiscal impacts of an additional 14 jobs (30 minus 16).

At 6% annual growth, the hypothetical company would be expected to create 34 jobs over five years <u>without an incentive</u>. Therefore, if VEPC were required to use company-specific growth rate, this applicant would have to promise more than 34 jobs to be eligible for an award. By using the industry average, however, VEPC can award the faster growing company for 14 jobs that (based on historic growth patterns) would have been created without the incentive.

One of the companies whose records we reviewed experienced dramatic growth in the two years prior to its application (jobs more than doubled). However, the industry-average annual growth rate applied to this firm was under 4%. Using an industry average that is significantly less than a company's actual growth rate resulted in wasted tax dollars. This example illustrates the misleading nature of VEPC's characterization of the program.

> The "*program provides incentives from the State of Vermont to businesses <u>to encourage prospective economic activity in Vermont that is beyond an applicant's "organic" or background growth.</u>*"[4] (emphasis added)

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1 32 V.S.A. § 3332 (5)
2 VEPC: VEGI Policies and Procedures – Background Growth Calculation.
3 **Including VEGI's predecessor EATI, VEPC has authorized multiple awards for 15 companies over 22 years. One company got five awards (Green Mountain Coffee / Keurig, including two that were terminated); one company got four (Autumn Harp); six companies got three (Commonwealth Dairy/Yogurt, Dealer.com, GS Blodgett, Mylan, Revision Ballistics / Military, and Twincraft), and seven companies got two (Champlain Chocolate, Energizer Battery, Logic Supply, National Hanger, New England Precision, Rhino Foods, and Vermont Precision Tool). Those awards totaled almost $47 million.**
4 2020 VEGI Annual Report, page 1.