REPORT EXCERPT:

Vermont Employment growth Incentive Parts 2 and 3:

VEPC Due Diligence and Other Matters

INTRODUCTION

The Vermont Employment Growth Incentive (VEGI) is the State's flagship business grant program and is administered by the Vermont Economic Progress Council (VEPC). The Legislature created VEGI in 2006 to replace the Economic Advancement Tax Incentive (EATI), which ran from 1998 - 2006.

From the program's inception through December 2019, VEPC authorized $90.4 million in VEGI awards. Of that, $38.5 million has been rescinded or forfeited. The remaining $51.8 million has been paid out or is available to eligible companies. In addition, $34 million in tax credits have been applied to offset income tax from the EATI.

VEPC claims there is no cost to taxpayers because the incentives are paid from tax revenues derived from economic activity incentivized by the program that would not have occurred "but for" the awards.

The "but for" criterion is the touchstone of the program. In theory, it protects taxpayers. But, in practice, VEGI's effectiveness cannot be determined because applicant self-attestations about intent (the "but for") are based on corporate decisions that cannot be independently tested or verified. Therefore, it is impossible to validate VEPC's claims about job creation purportedly resulting from the awards.

There has long been uncertainty about the effectiveness of incentive programs that rely on "but for" attestations. In a recent literature review, a leading economist Timothy Bartik[1] reported that:

> "*Based on a review of 34 estimates of "but for" percentages, from 30 different studies, this paper concludes that typical incentives probably tip somewhere between 2 percent and 25 percent of incented firms toward making a decision favoring the location providing the incentive.* ***In other words, for at least 75 percent of incented firms, the firm would have made a similar location / expansion / retention decision without the incentive.***"[2] (emphasis added)

Putting aside claims about the "but for," the cost of the two programs – VEGI and EATI – is approaching $100 million over the last 24 years, and that does not include the cost of administering them, which is not insignificant.

In the absence of direct evidence on the veracity of the "but for" attestations, we've chosen to review the award authorized last year for Marvell Technology (Part I), and VEPC's due diligence in administering the program (i.e., examining application materials, public statements, VEPC staff analyses, and other relevant information).

1 Mr. Bartik's work has been cited more than 6,500 times since 2015.
2 Bartik, Timothy. Upjohn Institute Working Paper 18-289, July 2018.

Part II: DUE DILIGENCE

In each of the VEGI applications we reviewed, VEPC failed to perform sufficient due diligence in evaluating applications and awarding public dollars. Following are brief descriptions of three applications.

1. An applicant noted it had previously received a substantial incentive to expand operations in another state. The applicant stated that it would decide where to make its next investment based on total cost, net of any incentives. The implication was that the company was willing and able to shop around and that incentives were an important consideration. However, the applicant reported that it was not seeking incentives from any other state, so it's unclear whether the company was seriously considering out-of-state alternatives.

   The VEPC staff write-up submitted to the Council referred to "competition" from the state where the company had received an earlier incentive. But there is no evidence to support this assertion because the applicant admitted it was not seeking an incentive from that or any other state. It is unclear why, in the face of a somewhat insubstantial "but for" statement, VEPC staff accepted the applicant's insinuation and mischaracterized the facts. The application was approved.

2. An applicant described three options for an expansion, assigned risk levels to each, and stated that the Vermont option required financial assistance to make it work. However, there is no evidence that VEPC requested information to support the company's characterization of the costs and risks of the options, which was the basis of the applicant's "but for" attestation.

   Also, VEPC never verified the assertion that the firm needed financial assistance. This is significant because the company's payroll had grown significantly in the preceding three years, which demonstrated its ability to grow without VEGI incentives. If the company meets its performance goals, the award authorized by VEPC represents 1.5% of the company's expected new payroll over the five-year term of a VEGI award. While every dollar matters these facts argue for a closer examination of whether such an incentive is pivotal to the company's decision.

   These deficiencies were not highlighted in the VEPC staff write-up, but the write-up did include this cautionary note to the Council:

   > *"The company has been quoted in the news…about their growth plans in Vermont, so the Council should vigorously question how the company's 'but for' statement matches with their representations to the media about their plan to continue growing in Vermont."*

   While the matter may have been discussed in executive session, there is no evidence that the Council sought additional documentation. The application was approved.

3. An applicant described investments made some years prior that resulted in considerable growth. It then sought to expand into what it characterized as a new product line to meet new and growing demand. Having reached capacity in its facility, the company said it needed an incentive to grow.

   Based on information submitted by the applicant, this was a successful company, which needed to expand to keep up with its competitors. Given its growth and access to capital, the assertion that it would not expand without incentives was curious and the staff expressed concern:

   > *"The Council should vigorously question the company's But For statement. There has been not [sic] backup documentation provided to support the statements in this application, so the Council should question the assertion that without the incentive this investment wouldn't happen."*

   There is no evidence VEPC sought additional documentation. The application was approved.