Summary of Vermont Employment Growth Incentive Technical Working Group Review (2016)

Overview

Act 157 from 2016 created a Technical Working Group (TWG) to answer four key questions about the Vermont Employment Growth Incentive (VEGI). These four questions make up the report.

Question 1: Is the cost-benefit model being effectively utilized?

The most direct objective of the Cost-Benefit Model is the estimation of theoretical net State fiscal impacts and the Model is structurally aligned with this. A "complete annual compilation of changes resulting from Model updates" was proposed by the JFO and endorsed by the TWG. The TWG also anticipated that technical discussion between the VEGI manager and the Legislative State Economists would continue in order to support the JFC's understanding of proposed changes and their impacts. The TWG determined that the model is effective in providing an estimate of theoretical net changes in State revenue. As the Cost-Benefit Model does not identify the appropriate incentive amount, the TWG determined that there was no effective model in place to make these determinations.

Question 2: Should the inputs to the Cost-Benefit Model be adjusted for those applicants who assert that "but for" the incentive the scale or timing of the project would change?

The assumptions of the Cost-Benefit Model were in contrast with the "but for" language of the VEGI applicant evaluation criteria, which affirms that proposed projects would not occur in Vermont or would occur in a "less than desirable manner" without VEGI incentive. The Model overstates the benefits of projects occurring in a different manner without an incentive because it is assuming that no activity occurs without an incentive and is unable to measure how "different" or "less desirable" a project would be. Two options were discussed by the TWG which included replacing the Model's control baseline forecast with a custom-adjusted "alternative baseline forecast", and removing the "but for" language which would only allow projects that would not happen "in whole" to qualify for an incentive award. Neither of these suggestions was fully supported as the first would add too much administrative and applicant complexity and the second could cause a decline in applications.

Question 3: In addition to or in place of industry-specific background growth rates, can the Program integrate the use of business-specific background growth rates as well as methods to review, calculate and set rates for industry-specific background growth rates if they are recommended?

The TWG expressed three concerns about the "background growth" discount rates: a small number of firms can have a lot of influence on the growth differential between industries which can create volatility in these differentials; there is variation between historical long-term differentials and future industry growth differentials; larger firms may be disadvantaged by any uses of growth differentials. The TWG did not reach a unanimous recommendation on these concerns or question 3, however, the report does list some of the voiced suggestions which include making no changes, keeping the current (2016) overall private sector "background growth" discount rate or a rate based on 1990 to 2015 growth and apply this equally or with slight variation, and generating projected future wage and salary growth for the private sector as a "single discount" using Bureau of Labor Statistics and Moody's Vermont State forecasts.

Question 4: Are differential rates in annual average wages or annual average unemployment appropriate triggers for an incentive enhancement for projects located in, or lower wage threshold for jobs created in, qualifying labor market areas? Are the margins of error in annual labor in annual labor market area wage and unemployment rates within an acceptable range of tolerance for this use?

The TWG determined that it is appropriate to use the annual average unemployment rate in assessing whether a reduced wage gap is appropriate for an eligible area. The TWG also determined that the use of the annual average wage rate and the annual average unemployment rate to identify if an area is eligible for an enhanced award amount is reliable and recommended. There were no technical changes proposed.

Report of Reference

Vermont Employment Growth Incentive Technical Working Group, "Vermont Employment Growth Incentive Technical Working Group Review," VEGI Technical Working Group (2016), https://legislature.vermont.gov/Documents/2024/WorkGroups/House%20Commerce/Reports%20and%20Resources/W~Vermont%20Economic%20Growth%20Incentive%20Technical%20Working%20Group~Vermont%20Economic%20Growth%20Incentive%20Technical%20Working%20Group%202016%20Review~2-7-2023.pdf