

H. 736 – Unlocking Vermont’s Economic Potential
Ralston-Scheuermann
Section-by-Section Summary

Overview

Vermont’s recovery from the Great Recession continues, but we have not regained our pre-recession strength – either in traditional economic measures, or in the newly released Genuine Progress Indicator. Vermont’s lower-than-average unemployment rate is being influenced by negative forces. It appears Vermont may be at risk of resetting our wage earnings at a lower rate leading to lower real median income in the state. According to the January 2014 Economic Review published by Kavet, Rockler & Associates,

“...much of the recent improvement in the U.S. unemployment rate has been the result of declining labor market participation. In December of 2013, the participation rate dropped to its lowest level in more than 35 years, as unemployed workers discouraged by the persistently weak job market dropped out of the labor force in droves. This serves to lower the unemployment rate, but underscores the exceptionally weak employment growth that has characterized this recovery.”

But, the Kavet report has a hopeful tone, and highlights indicators that show our economy may be poised for real improvement.

“...there are perceptible shifts on the economic horizon that could soon result in accelerating economic growth and improved State revenues.”

Now is the time for bold, strategic initiatives that fan the sparks of “new economy” entrepreneurship in Vermont while helping our important legacy industries improve their competitive position in regional markets.

The House Commerce and Economic Development Committee is working on two bills, that taken together, will build on our goals to “Encourage, Reward, and Protect” private sector risk-taking that leads to living wage job growth and increased state revenues. One bill focus on workforce development; the other deals with strategic incentives to unlock Vermont’s economic potential.

This is a section-by-section summary of the latter.

Section 1 – Creation of a One-Stop Shop for Business Start-ups

This section creates a long-desired “One-Stop Shop” for new businesses being created in Vermont. The current structure for setting up and registering a business is extremely complicated, and the bureaucratic hoops through which Vermonters must jump can both discourage entrepreneurs and result in incorrectly set-up businesses. This section will allow Vermonters to set-up their new business much more easily and efficiently, in one shop within the Agency of Commerce and Community Development.

This section also directs the Department of Economic Development to certify Vermont’s “Knowledge-Based (“New Economy”) Businesses” – businesses whose value and purpose is based on intellectual property rights, information technology, and similar products and services.

Section 2-3 – Vermont Entrepreneurial Lending Program

Financial capital is one of the key ingredients of economic growth. New Economy businesses often start and move through growth with few assets that can collateralize traditional commercial loans. This section will create the Entrepreneurial Loan Program (administered by VEDA), designed to help knowledge-based business overcome these barriers. The State and VEDA will join together to provide a loan-loss reserve of 20% of the fund to underwrite the higher level of risk in these new economy loans. No State funds will be loaned through the program.

Section 4 – Vermont Entrepreneurial Investment Tax Credits

Private investment capital (equity) is the principal source of venture capital for Vermont start-up and growth businesses. Private equity is fully at risk in a venture, and frequently that capital will be leveraged with commercial debt. The State wants to encourage investment of at-risk private capital in Vermont businesses.

This section will create an Investment Tax Credit of 60% of those investments, which can be earned by the investor over a four-year period.

Section 5 – Connecting Capital Providers and Entrepreneurs

It has become evident that one missing link in Vermont's capital market is actually connecting capital providers with the entrepreneurs. This section will simply provide \$10,000 to the Vermont Technology Alliance to award grants of up to \$2,000 to an organization to sponsor a networking event.

Section 6 – Expanding Downtown Tax Credits for Technology Infrastructure

In an effort to promote the siting of knowledge-based and other technology businesses in our state's downtowns, this section increases the amount of Downtown Tax Credits available by \$500,000 to be allocated for technology infrastructure tax credits.

Section 7 – Middle-Income Housing to Attract EB5 Financing

While there are many federal and state housing initiatives that we must continue to support, there continues to be a demand for middle-income housing that is not being met. From recent graduates and individuals in their early work lives, to young families, to businesses in many regions of the state, it is clear that working Vermonters continue to have a very difficult time finding an affordable home – either for rent or for purchase.

At the same time, it has become evident that one of the sectors in which foreign EB5 investors are investing is real estate.

In order to meet this housing demand, this section instructs the Agency of Commerce and Community Development to implement a program within the EB5 program that will facilitate the bundling of multiple middle-income housing projects, across different regions of the state to attract EB5 investment.

Section 8 – Creation of a Strategic Electric Rate Class for Vermont Manufacturers

In an effort to support Vermont's critical manufacturing industry, this section allows for Vermont manufacturers to opt-out of the Efficiency Vermont Program, and thus the monthly EEC charge, if that manufacturer so chooses.

This section also directs the Public Service board to open a docket to investigate potential changes to our state's electricity rate structure for our state's manufacturers, that would result in a 10% reduction in electricity charges paid by manufacturers in 2012.

Section 9 – Creation of a “Domestic Export” Marketing Program for Vermont Producers

Currently, the State of Vermont has programs in place to help businesses when they want to export products internationally. But, there is, obviously, a large domestic market that Vermont producers should be encouraged to pursue.

This section directs the Agency of Commerce and Community Development and the Chief Marketing Office to create a “Domestic Export Pilot Program” within the “Made in Vermont” designation program that would do the following:

- 1) Connect Vermont producers, with brokers, buyers, and distributors in other US state and regional markets;
- 2) Provide technical and marketing assistance to our state's producers; and
- 3) Provide matching grants of up to \$2,000 per business per year to attend trade shows and other events.

Sections 10-14 – Elimination of Taxes and Fees on New Knowledge-Based Businesses

This section is designed to encourage the creation of new businesses by eliminating the business franchise taxes and fees for the first three years of a new knowledge-based business.

Section 15 – Sales Tax on Pre-Written Software

This section will exempt from the sales tax charges for remotely-accessed software. Any product that can be purchased either online or in a retail establishment would continue to be subject to a sales tax. This provision would simply exempt from the tax products that are solely available remotely.

Section 16 – Knowledge-Based Business Capital Gains

In another effort to encourage the development and growth of Vermont's knowledge-based business sector, this section would allow Vermonters a 50% reduction in their net capital gain income from the sale of assets of a knowledge-based business held by the individual for at least one year.

Section 17-18 – Property Taxes on Regional “Incubator” Spaces in Downtowns

This section would allow Regional Development Corporation to designate one parcel of real property in a designated downtown in its region to be exempt from property tax if the entire property is to be used as a regional incubator space.

Sections 19-20 – VEGI “But For” Clause for Knowledge-Based Businesses

This section would modify the Vermont Economic Growth Incentive to eliminate the “but for” standard for knowledge-based businesses that apply.

Sections 21-23 – Criminal Penalties for Computer Crimes; Protection of Trade Secrets

In an effort to build upon the intellectual property “Protection” initiatives that the Vermont Legislature improved in the 2013 session, this section increases the criminal penalties for computer crimes and provides greater protection of trade secrets for Vermont companies.

Section 24 – Knowledge-Based Businesses and Government Contracting

This section modifies the State of Vermont government contracting process to make it easier for small, though qualified, knowledge-based businesses based in Vermont to provide services to the State of Vermont.

This section also allows a Vermont business who licenses their software to the State to license the same software to other users for a fee.

Section 25 – Securities Exemption

This section increases the caps on the sale of securities in a Vermont knowledge-based business. The proposal increases from 100 to 1,000 Vermonters allowed to invest, and from \$1,000 to \$10,000 per individual investor. In addition, the limit on the total offer would be \$1 million, up from \$500,000.

Section 26 – Licensed Lender Study

This section directs the Department of Financial Regulation to evaluate any statutory or regulatory changes to Vermont's licensed lender laws that are necessary to open private capital markets and remove unnecessary barriers to business investment in the State.