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# Memorandum

To: Steve Klein, Chief Fiscal Officer, Joint Fiscal Office  
From: Tom Kavet  
CC: Sara Teachout, JFO  
Date: January 22, 2015  
Re: Northeast Kingdom Economic Impact Analysis

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## Background

Per Act 119, Section 34 of the 2014 legislative session, the Joint Fiscal Office was directed to provide consultation and review associated with work performed by the Agency of Commerce and Community Development (ACCD) in estimating the economic, demographic and fiscal impacts of proposed major development projects underway or pending in the Northeast Kingdom (NEK). The intent of this analysis was to identify potential public education and/or infrastructure demand associated with these developments that could require significant State and/or local expenditure.

## Review Summary

In the absence of comprehensive and detailed project input information that could support traditional economic impact analysis, ACCD has assembled interesting and useful information in assessing possible impacts from the NEK development that has taken place to date and is likely to occur. Based on the limited information assembled by ACCD in this analysis, and in the context of a region that has historically seen very weak economic growth and declining infrastructure utilization, it does not seem as if any of the development that has taken place thus far has created, or will create, excessive public expenditure demands. Given changing estimates of project magnitudes and likely delays in financing that may affect the remaining development projects, it is unlikely that significant public spending will be necessary to support the planned development identified herein.

It is important to note that this analysis is neither definitive nor comprehensive in scope, and thus, if there are concerns regarding potential public infrastructure needs in connection with ongoing development, that indicators such as school enrollments, traffic counts and frequent communication with local government authorities be maintained so as to identify at the earliest possible date any emerging trends that may be counter to the conclusions drawn in the ACCD report.

## Q & A Overview of Analytic Output

During previous Committee discussion on this issue, a series of questions were raised by Committee members as being germane to the analysis requested. We have attempted to briefly summarize answers to these questions on the following page with the information available to date, however, few have definitive or detailed answers due to the paucity and quality of project input data.

- **Q:** What are the likely aggregate economic and demographic impacts of these developments on the State and region?

*A: These are unknown and unquantified, due to the absence of accurate project input data, but are probably not so large as to give rise to significant demand for public infrastructure and/or education spending.*

- **Q:** What are the likely population impacts of these developments and how might they impact area schools and other public institutions?

*A: Based on the data available to date, it appears that the net population impacts are likely to be relatively small and could serve to slow the decline in area school enrollments, but probably not generate significant growth that would require additional classroom or other population-based infrastructure capacity.*

- **Q:** What types of jobs will these developments create and how might this impact job training programs?

*A: Construction jobs have been and will be a large part of the initial employment impacts. Aside from specific more highly skilled manufacturing jobs that may be needed at AnC Bio, and are likely to be brought in from outside the region, most hospitality and retail jobs require very little, if any, training.*

- **Q:** How might population changes and in-migration affect local housing development and over what period of time?

*A: Although there will be and probably has been some net in-migration as a result of these developments, it is not likely to be so large as to overwhelm the existing housing stock or the capacity of the region to develop additional housing as needed. Given the preponderance of relatively low paying hospitality and retail jobs that will be created, affordable housing may be more of an issue than housing stock capacity.*

- **Q:** How might local public transit and other transportation infrastructure needs be affected?

*A: Although this analysis is inconclusive, aside from specific access roads to new development locations and related traffic volume at and around these sites, it does not appear that large scale new public transportation infrastructure will be needed.*

## Projects Considered

The development projects to be considered, as reported in the media at the time, included:

- 1) A 75,000-square-foot research tower in Newport for AnC Bio, a South Korean biotechnology firm that will produce stem cells, vaccines and possibly artificial organs. The tower will be located on a 40-acre campus that includes the former Bogner clothing plant, a 90,000-square-foot facility that was originally expected to begin manufacturing and distributing AnC Bio products in the spring of 2013. To date, the project has obtained permits a reported \$50 million has been raised for the project, which will cost a total of \$104 million.
- 2) A high-end window \$20 million manufacturing plant employing 140 workers, which was also be located on the 40-acre AnC Bio campus, Menck Window Systems, based in Hamburg, Germany, which was cancelled in late 2013 when EB-5 financing fell through.
- 3) A marina and grand hotel on Lake Memphremagog in Newport, located near I-91 and a walkable distance from downtown, will feature restaurants, retail space and conference facilities. The 150-suite hotel will accommodate 1,200 people and cost \$100 million to build. The land, now occupied by a retail strip mall, is owned by Burlington real estate developer and Newport native Tony Pomerleau.
- 4) A \$70 million investment in the Renaissance Block, a four-story residential and commercial space near the Orleans County Courthouse in downtown Newport. The new building would take the place of a row of late 19th century offices and shops on Main Street now owned by the Spates family.
- 5) A new \$22 million, 150,000 square foot Wal-Mart superstore planned for Derby.
- 6) The \$20 million Newport Airport expansion, which will include a 1,000-foot extension of the runway, new hanger space for regional passenger service, a private aviation light plane manufacturing and repair facility, an expanded terminal and a bonded warehouse for free trade zone goods. The expansion will pave the way for small jet (20-seat) service in Newport.
- 7) The Burke Mountain Resort will get a makeover that will include the construction of four “rustic” lodges that will house as many as 1,250 people on the mountain. This fall the company will invest \$1 million in snowmaking upgrades at the ski area. Total investment: \$108 million.
- 8) Jay Peak Resort will receive another \$170 million investment for the West Bowl ski area which will have 15 trails and three lifts and the Stateside project, which includes an 84-unit hotel, 100 dwellings and a medical center.

Project #2 was cancelled in late 2013, due to financing problems. Project #5 was not included in the analysis, but would have likely *lowered*, not raised, the net employment and population impacts.<sup>1</sup> Thus, this omission does not materially bias the analysis with respect to public expenditure impacts. Project #8 was included with other prior Jay Peak development activity, as completed.

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<sup>1</sup> See, for example, findings of slight net negative employment and population impacts from a Wal-Mart development in a joint analysis sponsored by two opposing parties during recent Bennington Wal-Mart Act 250 hearings, in which access to confidential Wal-mart data allowed detailed analysis of store employment data and impacts, at: [www.ilsr.org/wp.../benningtoneis\\_0.pdf](http://www.ilsr.org/wp.../benningtoneis_0.pdf)

## Analytic Perspectives

From the outset, the ACCD analysis was hampered by the absence of detailed project input information from the developers with which to perform this analysis. As a result of this, traditional economic impact analysis modeling was not performed and not all of the above projects were included in the analysis. In the place of comprehensive regional modelling, an assortment of statistics were reviewed by ACCD as a way to assess likely, though not definitive, impacts.

Although we do not disagree with the general interpretation of much the data assembled by ACCD or most of its broad conclusions, we note several methodological and interpretative issues that could bias the conclusions.

For example, we do not consider the use of Caledonia County as a comparative baseline to Orleans or any other county in the state to be an appropriate or accurate approach to quantifying potential impacts. There are simply too many differences between the two counties that have nothing to do with the subject developments to assume that Orleans County would have performed as did Caledonia County in the absence of these developments. Thus, the income, expenditure, tax revenue and employment estimates derived through use of Caledonia vs. Orleans differentials should not be relied upon as definitive quantitative impact estimates.

Without a baseline from a credible economic model, it would have been better to use a simple projected trend of the affected County's growth or, better, a projected trend of the County's share of state as a baseline, rather than a neighboring county that has different economic conditions and structure.

We also find some of the conclusions drawn from the winter/summer construction employment comparison to be unsupported by available data.<sup>2</sup> Firstly, there is not a significant seasonal differential between large and small projects in construction. The seasonal temperature variations and frozen precipitation that affect outdoor labor productivity and materials, including excavation and foundation work, apply equally to large and small projects. All construction projects regardless of size attempt to perform sitework before the ground is frozen and have closed in shells so as to be able to perform interior finish work and protect the foundation during the winter months. Although it is true that some of the measured construction employment likely came from outside the area, it is also possible that in the absence of the known developments, construction employment would have been substantially lower than reported. All of these effects could have been captured in an economic impact model and quantified, had the data been available to run such a model.

The housing section of the analysis references "housing shortages" in Orleans County. There is no credible evidence of any housing shortages in the County over the period analyzed. In fact, excessive investment in housing (leading to excess supply) was one of the causal factors behind the residential construction decline during the last

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<sup>2</sup> X-13 Census seasonal adjustment statistics associated with detailed construction data provided by Dodge Analytics/McGraw Hill Construction show comparable seasonality present across construction size groupings within construction categories and between categories of construction of varying average size.

recession. While there are undoubtedly affordability issues with respect to housing, this is more appropriately described as an income shortage than a housing shortage. Affordable housing issues, which are not mentioned in the ACCD report, are pronounced in the region and may be exacerbated by the proposed developments, due to the high number of low wage jobs that are likely to be created by the subject developments.