

## **Wood Products Manufacture Study**

House Ways and Means Committee

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**Summary Overview:** (Note: Please see full Wood Products Manufacture Study, dated Jan. 15, 2015, for more detail)

- Last session, as part of Act 174, the Legislature tasked the Agency of Commerce and Community Development (ACCD) to “study and recommend economic and tax incentives to ensure wood products manufacturers remain in Vermont, and that they thrive in Vermont.”
- Because of the ongoing statewide research being conducted by the Forest Committee of the Working Lands Enterprise Board, it is the recommendation of ACCD that any comprehensive analysis or prospective recommendations wait until the conclusion of that work (Summer 2015)
- In the meantime, given a) the challenges facing the wood products manufacturing sector and b) the importance of this sector to the Vermont and NEK economy, ACCD recommends a one-year extension of the existing Wood Products Manufacture Incentive (WPM Incentive).
- By statute, eligibility for the WPM Incentive is limited to businesses operating in “any two adjacent counties having at least four percent of their combined jobs provided by employers that manufacture finished wood products and having the highest combined unemployment rate in the state for at least one month in the previous calendar year.”
- Before the WPM Incentive, there existed a WPM Tax Credit from 2005 - 2013. The primary differences between the two are that the WPM Tax Credit

stipulated a 5% threshold for combined jobs in finished wood products manufacturing between the two adjacent counties (versus 4% with the WPM Incentive) and that the current WPM Incentive functions as a payment against income tax liability (capped at \$150,000) versus a tax credit.

- For as far back as DOL provided data for the WPM Tax Credit and WPM Incentive eligibility, the two qualifying contiguous counties with the highest unemployment rates in the state have always been Essex and Orleans. Furthermore, in 2013, the poverty rates in Essex and Orleans were 17% and 18%, respectively – much higher than the state average of 12%.
- 12% of workers in Essex County are employed in finished wood products manufacturing -- nearly quadruple the employment dependence on this sector as in any other VT county.
- At least two companies have claimed the WPM Tax Credit over the course of its history.
- Vermont's wood manufacturing sector is notable for the fact that Ethan Allen, with Vermont operations in Beecher Falls (Essex Co.) and Orleans, has more than twice as many employees (492) as the next largest wood products manufacturer in our state. Therefore they have an immense economic impact not only on the forest and wood products supply chain, but also on the Northeast Kingdom economy overall.
- Ethan Allen has specifically cited the existence of the WPM Incentive as a factor in its decision to maintain a manufacturing operation in Vermont. As a publicly traded, international corporation, Ethan Allen also operates manufacturing plants in New Jersey, North Carolina, and Mexico.
- If Ethan Allen were to leave Vermont, the cost to the state would likely be at least two orders of magnitude (100x) greater than the cost associated with the WPM Incentive. The mean average annual investment by the state in the WPM Tax Credit from 2005 – 2013 has amounted \$107,600/ year in foregone tax revenue. Last session \$150,000 was appropriated for the WPM Incentive. Ethan Allen reports that it brings in \$38 million in annual revenue to Northern Vermont.