

# CAMPAIGN FOR VERMONT

CampaignForVermont.org

## **A Pathway to Economic Renewal and Shared Prosperity**

**December 22, 2014**

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**Executive Summary:**

Let's stop kidding ourselves; the Vermont economy is at best floundering if not faltering. The demographics of our state economy profiled below are definitive in this regard. Campaign for Vermont believes that economic growth and shared prosperity is the best way forward for Vermont and its citizens. It's a noble goal and it offers the best solutions to issues of poverty, hunger, and upward mobility. We believe that Vermont can be an economic powerhouse of its own definition. One that attracts business investment, creates value-added jobs, and a bridge out of poverty for those seeking opportunity. Economic growth offers the promise of more jobs, a larger workforce, and higher incomes. The economy of our state is centered in Chittenden County yet counties to the south, north and east are suffering from population declines and loss of economic critical mass.

We can change course, but it will take a citizens coalition supporting ideas that would enable economic prosperity.

In this paper we offer a strategic plan—a set of ideas that Campaign for Vermont believes are essential building blocks for a renewed economy - none of which include grants or other expensive financial incentives to employers.

We believe a long-term commitment to economic growth requires a strategic plan coupled with a strategic budget that informs us about the effectiveness of the resources supporting that plan.

We ask that you consider our State's policy choices. We are convinced it will take a more talented management of our State than we have gotten used to. The horrible recession and very weak economic recovery only hint at the unfolding drama taking place in the world around us. We believe solutions should be focused and human-sized so they are understood and measured. This is America; we are Vermonters. This is the time to care about our fellow citizens and respond to the changing times. Stand up if you believe our ideas make sense. Or share your ideas with us so we can chart a common and winning course.

**Signed,**



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**Bruce Lisman**



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**Cyrus Patten**

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# A Pathway to Shared Prosperity

## Summary:

Campaign for Vermont believes we can create conditions that encourage innovation and economic growth, and set the stage for Vermont to become an economic powerhouse by its own definition.

Those are:

- A competent, transparent, and accountable government, and one that is in a continuing state of self-improvement.
- A Strategic Plan that highlights goals and steps to reach those goals with an accompanying Strategic Budget that would define the cost to achieving those goals.
- Budget growth that more closely relates to available resources, making policy decisions more predictable.
- Reform of our Education System—of quality, governance, and funding.
- The inclusion of Affordability as an essential theme in State governance.

With a 'platform for growth' in place, CFV believes there is significantly greater leverage from economic renewal strategies. They are:

- Build a broad-based and lasting coalition in support of a more dynamic economy and shared prosperity. This effort could be spearheaded by an economic 'champion' identified by the Next Generation Commission.
- Bring coherence, efficiency, simplicity, and funding for economic development agencies.
- Build a calling effort on our largest employers that will illuminate their needs and wants while building strong relationships.
- Reimagine the importance of our considerable number of small businesses, and create a better understanding of who they are and how we can truly help them.
- Train, improve, and enlarge our workforce. It's the true lynchpin of shared prosperity. Our efforts are incomprehensible. We can fix that.
- Broaden the definition of manufacturing, provide a broader array of support for those that make things here, and become the state of "efficient manufacturing."
- Expand the Earned Income Tax Credit and eliminate benefit cliffs thereby providing true economic resources for working class Vermonters. Presidents as different as Obama and Reagan have endorsed this program's value.
- Re-define the value of our extensive higher education industry and focus on retaining the 43,000 students who annually attend our colleges.<sup>1</sup>
- Better connect the links between ideas to patents and patents to revenue and revenue to jobs. UVM offers the keys.

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<sup>1</sup> [UVM](#): 11,788 + [VSC](#): 12,656 + [Independent Colleges](#): +/-19,000 = +/-43,444

## Vermont Trends

### The Demographic and Economic Trends are Dreadful:

Bad demographic trends have very negative consequences for the future of our state. Availability of a qualified workforce is a necessary condition for economic growth, at least equal in importance to the availability of capital. Absence of workers will discourage current and potential employers, it will weigh heavily on our education system, even with funding reform, and threatens what will be a smaller tax base than we have now.

Statistics that profile the state of our economy speak for themselves.

- Vermont's population is stagnant, growing at less than 2/10ths of a percent (.02%) per year, and even declined in 2012 (the first time in 70 years).<sup>2</sup>
- The 'working age group' – those between 20 and 64 - declined slightly in 2011 and dramatically in 2012 to 61% of the population, and is projected to continue declining.<sup>3</sup>
- The 'young working age group' – those between 20 and 44 - has been in steady decline since 2000. Today, there are 20,000 fewer Vermonters in this age group than there were in 2000. This is a bad trend for an old state and a good indicator of the direction of school age kids in the future.<sup>3</sup>
- The 'older working age group' – those between 45 and 65 – has been declining steadily since 2011. Baby boomers are retiring and this group continues to shrink.<sup>3</sup> Our state's population has gotten older faster than census department predictions.
- Vermont School enrollment has declined steadily since 1997; by nearly 17%.<sup>2</sup> The only other state that has seen such a decline is Maine. Between 2001 and 2011 VT enrollment dropped 12.5%. NE enrollment dropped 3.62% and US enrollment increased 4.75%.<sup>4</sup>
- Median wages have tracked the nation as a whole, averaging only 2.1% yearly growth since 2004.<sup>5</sup> The fastest growing industries are retail, personal care, and food prep; all of which generally provide low-wage jobs.<sup>6</sup> Further troubling, cost of living<sup>7</sup> and the state budget continue to rise at a much faster rate.<sup>8</sup>
- Between 2000 and 2013, Rutland, Essex, Windsor, Bennington and Windham counties all experienced population declines. Since 2010, the above counties as well as Addison, Caledonia, Orange, Orleans, and Washington counties have seen additional declines. Even the fastest growing counties – Lamoille, Chittenden and Franklin grew more slowly than the nation as a whole.<sup>9</sup>

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<sup>2</sup> <http://quickfacts.census.gov/qfd/states/50000.html>

<sup>3</sup> <http://www.leg.state.vt.us/jfo/education/2013%20Vermont%20Enrollment%20and%20Population%20Projections.pdf>

<sup>4</sup> National Center for Education Statistics - <http://nces.ed.gov/ccd/elsi/>

<sup>5</sup> <http://www.vtmi.info/oessummary.htm>

<sup>6</sup> <http://www.vtmi.info/projst.pdf>

<sup>7</sup> See affordability section

<sup>8</sup> See CFV position paper "[Achieving Accountability](#)" released September 2, 2011.

<sup>9</sup> Vermont population by county 2000-2013 <http://healthvermont.gov/research/pop/VermontPopulationData.aspx>

- Even optimistic projections predict stagnant population growth in Addison, Bennington, Orange, and Washington counties and population loss in Essex and Rutland counties by 2030.<sup>10</sup>

Both our labor force and number of employed Vermonters are nearly the same as 2005 and our low unemployment rate is not a sign of good times. The chart below shows these trends over the past five and ten years.

### Unemployment and Workforce Statistics

	2005	2010	2011	2012	2013	2014	Change (10-14)	%
<b>Labor Force</b>	348,883	359,763	358,254	355,613	351,371	350,761	-9,002	-2.50%
<b>Employed</b>	336,629	336,846	338,296	338,288	336,038	337,811	965	0.29%
<b>Unemployed</b>	12,242	22,913	19,958	17,329	15,329	12,961	-9,952	43.43%
<b>Unemployment Rate</b>	3.52	6.38	5.58	4.88	4.35	3.70	-2.68	

\*2005 and 2010-2013 are yearly averages. 2014 data is YTD through September.<sup>11</sup>

You can see from the above that Vermont has lost 9000 workers since 2010, more than the entire population of Grand Isle County.

The unemployment rate is a simple function of the number unemployed persons divided by the labor force. Put in other words, a shrinking workforce coupled with stagnant job creation constructs the illusion of a low unemployment rate. In reality, Vermont's economy is not a vibrant economy with robust job creation as some politicians would have you believe.

Recent national statistics show that Vermont's job growth, as a percentage, ranks in the bottom 10 over the past two years.<sup>12</sup>

### Median Household Income

Currently, Vermont is ranked 18<sup>th</sup> in the country for median household income at \$54,982. Even though Vermont comes in above the national average, we lag behind other New England states and have seen little wage growth in recent years.

### Historical Median Household Income (In 2013 Dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	% Change
<b>Vermont</b>	60,502	60,056	53,242	54,859	56,819	59,753	53,715	56,390	54,842	-9.4%
<b>N.E. Avg.</b>	62,435	63,749	63,603	61,732	61,507	62,153	59,588	60,285	60,807	-2.6%
<b>U.S. Avg.</b>	55,278	55,689	56,436	54,423	54,059	52,646	51,842	51,758	51,939	-6.1%

Data collected from the [U.S. Census Bureau](#)

<sup>10</sup> DAIL population projection (Scenario A) <http://dail.vermont.gov/dail-publications/publications-general-reports/vt-population-projections-2010-2030>

<sup>11</sup> <http://www.vtmi.info/Labforce.cfm?qperiodyear=2005&qareatype=01&qadjusted=Y>

<sup>12</sup> [http://vermontbiz.com/news/october/vermont-again-near-bottom-national-job-growth-study?utm\\_source=VBM+Mailing+List&utm\\_campaign=70ff329733-Enews\\_10\\_31\\_2014&utm\\_medium=email&utm\\_term=0\\_85838110bc-70ff329733-286299605](http://vermontbiz.com/news/october/vermont-again-near-bottom-national-job-growth-study?utm_source=VBM+Mailing+List&utm_campaign=70ff329733-Enews_10_31_2014&utm_medium=email&utm_term=0_85838110bc-70ff329733-286299605)

### **Nothing is Pre-Ordained and Powerful Forces Can Work in Our Favor**

Demographics and economic trends can be reversed. Seattle was a troubled city before Microsoft moved there just as that company's growth accelerated. Albuquerque was in ascent before Microsoft left and it has suffered the consequences since. Microsoft moved to Seattle, but Amazon, taking advantage of a new innovators ecosystem, grew up there, confirming Seattle as a limitless "innovation environment." Detroit was at the heartbeat of manufacturing in the world, before it wasn't. Texas was driven by oil and gas, an outsized financial system, and agriculture but with a long history of boom and bust. Now it's a diversified economy with the further benefit of being a headquarters state for corporations.

North Carolina was a mid-ranked economy before the combination of higher education institutions that churned out research ('Research Triangle') and quality graduates, a renewed education system, and an in-migration of labor seeking all range of jobs set off a chain reaction that accelerated growth that continues today. Louisiana is in a long-term bootstrapping exercise that includes a focus on secondary education, work force development, infusing growth capital, and remarkable government transparency. Formerly "dead" population centers are experiencing renewed growth because natural gas has been discovered or manufacturing is drawn to cheap energy.

A bad recession and crummy economic recovery has spawned vast amounts of research on job creation, while at the same time exposing powerful shifts underway in our economy. Well before the recession began in 2007 the correlations between economic growth and jobs growth, jobs growth and wage growth, wage growth and productivity growth had broken; so had the correlation between higher education attainment and job attainment.<sup>13</sup> This weak economic recovery served to illustrate trends already underway. This recovery has also highlighted the effects of big themes such as: the globalization of workforces, the drive for corporate efficiencies, the replacement of workers with technology substitutes, the uneven distribution of wealth and income, the change in the type of entry level jobs, the ease by which corporate growth can take place far away from its origins.

We know that there is a wide separation between the affluent and the poor, but now we know that economic mobility has declined and intergenerational poverty is more pronounced. In our State, unemployment is low but many of the job openings are in retail, hospitality, and leisure (tourism) - jobs that don't pay well.<sup>14</sup> We see the serious impact that trend has had on personal income taxes in Vermont.<sup>15</sup>

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<sup>13</sup> Enrico Moretti, *The New Geography of Jobs*. Houghton Mifflin Harcourt 2012. Page 104-105 (the "Great Divergence").

<sup>14</sup> Vermont Department of Labor, *Short Term Occupation Projections (openings 2013-2015)*: <http://www.vtlmi.info/projst.pdf>

<sup>15</sup> July 2014 Economic Review and Revenue Forecast Update - Table 1A (Page 19): [http://www.leg.state.vt.us/jfo/state\\_forecasts/2014-07%20July%20Forecast.pdf](http://www.leg.state.vt.us/jfo/state_forecasts/2014-07%20July%20Forecast.pdf)

The economy is in recovery, but not everyone is participating. In our State, nearly 37,000<sup>16</sup> children receive free or reduced lunch in their school, at least 30% of people in Vermont are dependent on the Agency of Human Services<sup>17</sup>, and 85,000 Vermonters are food insecure.<sup>18</sup>

But, despite the current gloom, history isn't always a guide to a future as illustrated by the successes above. The history of the American economy is filled with examples of unexpected innovation that has enhanced productivity and raised the quality of life for its citizens. Our bet is on Americans and Vermonters in our great economy. It's never paid to bet against our fellow citizens. That doesn't mean everything is just fine. Rather, if things are going to get better, it will come on the heels of innovation – often not the government's domain, but it can sure work hard to create conditions that encourage innovation and growth. That's our theme.

## Essential Baseline Requirements

### Competent Government and Budget Restraint

A badly managed state is dangerous for its citizens. It injects uncertainty into programs run by or funded by the state; results are likely to be disappointing; long term investment in important sectors will likely be hamstrung and of course, hoped for outcomes will be dashed. Poor management of the State's budget will inhibit real economic growth by injecting ever-greater uncertainty and unpredictability. There is no literature anywhere that says unpredictable or irrational choices by a government ever results in greater economic growth.

Campaign for Vermont has written often of the dangers of spending at an unsustainable rate. You can read about how our state house leaders have not honored this core principle of sound fiscal management in our paper "[Achieving Accountability](#)"<sup>19</sup> and in our recent Op-Ed: "[Inevitable Consequences](#)."<sup>20</sup>

The failure to restrain spending and the inability to prove to Vermonters that the money has been well spent has left the state and its citizens in a precarious position.

We've urged this government to disclose more about where money is spent and how effectively money is spent. We're a high tax state, and likely to remain a high tax state. Telling people how well their money is spent is simply the best antidote to high taxes. Having performance metrics is critical to measurement but also critical to great management and leadership. Transparency is key.

What enterprise do you know of that can be managed or led without good data? None.

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<sup>16</sup> Vermont Agency of Education Child Nutrition Annual Report. 30,800 free, 5,900 reduced. [http://education.vermont.gov/documents/EDU-Child\\_Nutrition\\_Eligibility\\_Report.pdf](http://education.vermont.gov/documents/EDU-Child_Nutrition_Eligibility_Report.pdf)

<sup>17</sup> AHS Strategic Plan, Page 4: <http://humanservices.vermont.gov/strategic-plan/ahs-strategic-plan/ahs-strategic-plan/view>

<sup>18</sup> <http://www.vtfoodbank.org/About/AboutHunger/HouseholdFoodSecurity.aspx>

<sup>19</sup> [https://www.campaignforvermont.org/pdfs/06.03.13\\_CFV\\_Achieving\\_Accountability.pdf](https://www.campaignforvermont.org/pdfs/06.03.13_CFV_Achieving_Accountability.pdf)

<sup>20</sup> <http://vtdigger.org/2014/06/27/tom-pelham-inevitable-consequences/>

Duplication of services and efforts can be found across state government, wasting taxpayer resources and creating confusion for those who need those resources. Economic development programs are not immune from mismanagement and wasting of resources, in fact they are one of the first places we should look.

There is no balanced scorecard of metrics that the state government uses to measure, plan and track economic prosperity. The governor's scorecard is more a campaign tool than a management tool.

See the CFV position paper "[Achieving Vermont Ethics Standards and Accountability in Government](#)."<sup>21</sup>

We believe the first place to look for better performance is AHS. Its budget has grown at a rate of 5.7% (state funds) annually since 2009. It represents 45% of the General Fund and is growing at 8.5% per year.<sup>22</sup> It employs 43%<sup>23</sup> of the state employee pool; and provides a significant amount of funds to private groups that provide outsourced services. And its mission, "To improve the conditions and well-being of Vermonters and protect those who cannot protect themselves," is so critical to who we are as Vermonters that this is the place to begin an intense re-examination of how our government manages itself, uses tax payer funds wisely, and gets good results.

### **Affordability**

Affordability—the cost to live in Vermont is among the most pervasive issues that all Vermonters face. Heating oil prices in Vermont are 12<sup>th</sup> highest; propane prices rank 4<sup>th</sup>; natural gas prices rank 8<sup>th</sup>;<sup>24</sup> gasoline is in the top 10<sup>25</sup>; the cost of residential electricity is the 7<sup>th</sup> highest<sup>26</sup>; food prices are nearly 25% above the national average; rents are above the national average<sup>27</sup>; property taxes rank 3<sup>rd</sup> as a percentage of income<sup>28</sup>; and the "Total Tax Implication"<sup>29</sup> ranks us 10<sup>th</sup>. Vermont's disposable income per capita is ranked 20<sup>th</sup> at \$40,900 - over \$6,000 below the New England average.<sup>30</sup> Some of our high costs relate directly to public policy. Some to geography. Some to economic density. But, making the State more affordable (or affordable relative to other northern states) should be a primary goal of our government.

There are many examples of governments creating affordability problems. Some are obvious – income, gas, property, and sales taxes – and some are not – corporate taxes, permitting fees, capital funds, and tax exemptions that are passed along to customers – all of which have the potential to affect affordability. It is unrealistic to expect that raising costs of doing business will

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<sup>21</sup> <http://www.campaignforvermont.org/cms-assets/documents/147019-779001.cfv-ethics-position-paper.pdf>

<sup>22</sup> Joint Fiscal Office FY2009-FY2014 State Budget Comparison

<sup>23</sup> Calculated from a public records request for employee counts per department/agency from the Vermont Department of Human Resources.

<sup>24</sup> November 3<sup>rd</sup> weekly YTD for Heating Oil and Propane, August monthly YTD for Natural Gas - Heating Oil, Propane, Natural Gas, rankings calculated from EIA.gov data.

<sup>25</sup> Based on data collected from fuelguagereport.aaa.com. Average fuel price of regular grade gasoline as of 11/13/2014.

<sup>26</sup> Ranking based on August 2014 data: [http://www.eia.gov/electricity/monthly/epm\\_table\\_grapher.cfm?t=epmt\\_5\\_6\\_a](http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a)

<sup>27</sup> Food and Rent index prices collected from numbeo.com

<sup>28</sup> Property tax rate ranks collected from tax-rates.org

<sup>29</sup> Total Tax Implication calculated by adding median property tax, average family income tax, and sales tax based on US average taxable retail expenditures. Collected from tax-rates.org

<sup>30</sup> Bureau of Economic Analysis – Personal Disposable Income Per Capita, Table SA50-53 (iTable tool)

not be passed along to customers, especially if the pressure is applied across an entire industry. None of these things are inherently bad, but we must be aware of their effects and honest with ourselves. We should demand the same of our elected officials.

Vermont spends \$600 million on tax exemptions, over 10% of the state budget. They don't show up in the state budget, they are considered "tax expenditures" (forgone revenue a.k.a hidden tax). Many of these exemptions make sense, like food and clothing. Some should cause us to pause and think, like manufacturing materials, aircraft parts, or the sale of a mobile home park. We must understand that large exemptions are really pass-offs on the rest of the tax base. Some of them might be worth it, some may not.

Other pass-offs include permitting charges for development, which often times discriminate against small businesses, and efficiency charges. The state of Vermont collected over \$21 million in fees in 2013.<sup>31</sup> That's not counting business licenses. Green Mountain Power has a 6% surcharge on residential customers that feeds into an energy efficiency fund established by the legislature.<sup>32</sup> It's essentially another hidden tax. Again these aren't necessarily bad, but they do contribute to high costs of living.

After all, affordability goes to both quality of life and standard of living that our fellow Vermonters experience. The high costs to live here attack the well-being of everyone, but in particular those in the middle class—those who aren't insulated from high costs by income levels or government aid. Rising costs to live in Vermont broaden the attack on living standards that particularly target both the retired and the poor. It affects the ability to spend locally, attract young people, raise a family, and retire here. In short, affordability affects our ability to live in Vermont.

### **An Education Framework for Growth**

Education is a magnet for parents and their children. It centered the growth of American suburbs in the 1950's and 1960's. And it remains top of mind for parents. An education system that is among the best in the world can both attract economic investment, young families with children and does better for children who are in a disadvantaged situation, if it is well managed. Our current system, though well intentioned, is expensive and administratively bloated.

Campaign for Vermont has offered a pathway for enhancing the quality of our education system, pre-k rollout to all school districts, and re-casting both the governance and the methodology of financing education in our paper "[Education for the 21<sup>st</sup> Century](#)."<sup>33</sup>

We believe in local control—but real local control. If we re-connect local taxpayers with a more local budget than the right decisions on spending and taxes will be made. Vermonters aren't idiots; the current system treats them that way with its top down approach.

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<sup>31</sup> 2014 Fiscal Facts, page 7 - <http://www.leg.state.vt.us/jfo/publications/2014%20Fiscal%20Facts.pdf>

<sup>32</sup> Rate 01:  $0.00931/0.1469 = 0.063$  (energy charge/efficiency charge) - <http://www.greenmountainpower.com/upload/photos/3082012DecemberRatesAndServicesGMPLegacy.pdf>

<sup>33</sup> <http://www.campaignforvermont.org/wp-content/uploads/2014/09/12.08.12-CFV-Education-Paper.pdf>

A well-positioned education system can – and will – create a skilled and diversified workforce capable of meeting the needs of modern and cutting-edge companies and attracting such businesses to Vermont. We can do this.

## Specific Recommendations

### **Build a Broad-based Coalition in Support of Economic Growth**

Campaign for Vermont doesn't believe there is one thing that enables broader economic growth—it's a whole series of connected policy actions. Reversing long-term negative demographic trends cited above will take time to reverse. Support for a long-term approach that is protected from those who would advocate for no-growth policies that suppress economic prosperity is essential. And, it's the persistence of those policies that will generate predictable responses.

We must broaden our understanding of economic development. Often we think of tax incentives, TIF districts, or downtown tax credits as means of economic development. We must change our thinking if we are going to succeed. It starts with a solid education system, accessible post-secondary training, efficient use of resources, and investing in high-impact areas. In short we must start thinking about economic development holistically.

Persistence of growth policies needs a broad based citizens' coalition that will protect this vitally important theme from shortsighted decision-making. Instability and unpredictable public policy from all levels of government is a persistent issue for businesses. If they know what to expect, they can plan for the future and expand job opportunities. A strategic plan and an accompanying Strategic Budget will provide this type of predictability.

### **Substantial Realignment of State Resources Supporting Economic Development**

A broad based citizens coalition is critical, but not enough in and of itself. A cohesive approach across state government is also needed such as recommended by the [Next Generation Commission](#). A coordinated effort across state government to focus resources of economic development will better serve our small business employers and workers.

In the fall of 2014, the Agency of Commerce & Community Development (ACCD) released a 'Comprehensive Economic Development Strategy' (CEDS) plan for economic development. We observe that CEDS is really an entry requirement for U.S. Economic Development Association grant seeking. We also observe that governments at every level are basically out of money. We have a list of prior efforts to develop some planning mechanisms that noticeably creak under the weight of process, and empty coffers. So far we have failed to create the public private partnerships that are working so effectively at economic renewal around the US. It's time for the business community to step up and lead.

Our economic development effort at the State level offers EB5 consulting, export/import advice, navigation through a labyrinth of grant initiatives, workforce development (VPT), and loans and tax incentives, but lacking a tied-together approach, much of the value is fixing glitches: need fast work on an Act 250 issue? Call someone. Need a project expedited? Call someone. Object to the

uneven enforcement of a regulation? Call someone. That might get results, but it isn't a functioning process. It's an invitation to grant favors and treating people and employers unevenly.

Economic Development under the ACCD has suffered a long-term neglect — funding has declined from 17% to 12% of the state budget between 2002 and 2015. It has suffered from a lack of support during a time in which human services and education have absorbed large amounts of tax dollars — 39% and 14% increases respectively since 2009. Further, the Commissioner of Economic Development position sat unfilled for eight years. ACCD's decline is a good proxy for the state of economic policy in Vermont.<sup>34</sup>

Currently the state resources aimed at economic growth are scattered across the landscape of state government, thwarting a common focus and coordinated effort toward success. Absent such synergy, many opportunities for small businesses go undiscovered and get lost among the stove pipe system we now have. This disarray of state efforts could be addressed by an economic 'champion' as proposed by the Next Generation Commission. This individual would lead a group of experts on economic development responsible for coordinating all facets of economic development within the state of Vermont with the goal of creating shared prosperity for all Vermonters.

To dedicated students of state government, the following list of "stove pipe" service centers and associated recent financial information in support of economic development might seem rational, but to most folks outside government it's a confusing and time absorbing maze.

<a href="#">Vermont Economic Development Authority</a> (VEDA)	Total assets \$208.6 M
<a href="#">Vermont Sustainable Jobs Fund</a> (VSJF)	Budget of \$587,000
<a href="#">Agency of Commerce and Community Development</a> (ACCD)	Budget of \$41.7 M
<a href="#">Vermont Employment Growth Incentive</a> (VEGI)	Tax Incentives of \$29.2M
<a href="#">Working Lands Enterprise Initiative</a> (WLEI)	Budget of \$1.425 M
<a href="#">Vermont Housing Financing Agency</a> (VHFA)	Total assets of \$620.2M
<a href="#">Vermont Housing Conservation Board</a> (VHCB)	Total assets - \$153M
<a href="#">Efficiency Vermont</a> (EV)	Budget - \$41.4 M
<a href="#">Vermont Clean Energy Development Fund</a> (CEDF)	Budget of \$5.5 M
<a href="#">Vermont Office of Economic Opportunity</a> (OEO)	Budget of \$5.8 M
<a href="#">Vermont Training Program</a> (VTP)	Budget of \$5 M
<a href="#">Vermont Workforce Development Program</a> (WDP)	Grants totaling \$350,000
<a href="#">Vermont Center for Emerging Technologies</a> (VCET)	Capital Fund of \$5M

Many of these entities support overlapping initiatives. For example, VEDA invests in agriculture and energy efficiency, the VSJF supports the "Farm to Plate" program and the Renewable Energy Atlas, the VHCB sponsors the Vermont Farm and Forest Viability Program, the WLEI invests in "agriculture and forest based business," EV invests in efficiency savings for agricultural facilities, businesses and residential facilities while OEO as well invests in home energy efficiency, and the

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<sup>34</sup> Joint Fiscal Office conference appropriations 2009-2015 (minus federal funds):  
[http://www.leg.state.vt.us/ifo/appropriations/fy\\_2015/Multi\\_Year\\_Approps\\_09thru15\\_CAGRs.pdf](http://www.leg.state.vt.us/ifo/appropriations/fy_2015/Multi_Year_Approps_09thru15_CAGRs.pdf)

CEDF invests in renewable energy generation. The state is decommissioning Vermont Yankee, they have a state energy plan, but has not tied it to economic development – even though energy is one of the highest costs of virtually every business in Vermont. It's time to tie together, strengthen and accelerate the work to create a sustainable economic future.

As part of this, ACCD needs as much renewal as AHS. Creating a one-stop-shop for our small businesses, starting with the Secretary of State's website and tying in with regional development efforts, will provide essential tools to small business owners. Additionally, creating a common application for all state funding and grant programs will streamline the process for small business owners and give them better access to state resources. We're a small state with few financial resources; we need to focus those resources. That's the only way it can have an impact.

### **We Don't Know Our Employers Well Enough**

Campaign for Vermont recommends that the state, under the direction of an economic 'champion,' form a calling effort on our non-Vermont-based employers that would include their headquarters. And, in partnership with our regional economic development teams, develop a deep and broad systematic calling effort on the largest VT-based companies. Our state was blindsided by Energizer's decision to leave; we didn't know of the concerns of Huber+Suhner or Kennametal; and we still don't know the concerns of Blodgett, or General Electric, or Global Foundries.

Governors visit and shake hands and that's good but doesn't necessarily lead to a substantive and knowing relationship. It won't give us market-based direction about job skills needed, or opportunities to share a common vision, or help in overcoming challenges before they become chronic problems. We may know the local representative of a non-Vermont-based company and many know the owner or CEO of a locally owned company. That isn't the same as knowing the company's needs, wants, challenges and goals. Developing a cumulative knowledge base is crucial to building a durable and shared relationship over time that transcends any one governor's time in office.

We know surprisingly little about the largest group of employers in the State—small enterprises. They employ 60% or more of all jobs in the private sector.<sup>35</sup> They're ubiquitous, but they may have little access to the services offered by the State such as Efficiency Vermont, VMEC, UVM's Family Business Center. We can provide solutions and support, but only if we know them well. Not all small businesses are the same, but often we treat them simply as small businesses. Most aren't planning to grow. Some have aspirations, and a few will actually exceed those aspirational challenges.

The Kauffman Institute and other related research points to start-ups as a source for job growth, and they aren't often wrong.<sup>36</sup> Newer research is showing that much of the net employment growth in our country comes from as few as 350,000 'high impact' entities.<sup>40</sup> Ninety percent of them have fewer than 19 employees when they began a rapid acceleration.<sup>37</sup> They aren't

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<sup>35</sup> <http://www.sba.gov/sites/default/files/vt12.pdf>

<sup>36</sup> <http://www.kauffman.org/>

<sup>37</sup> SBA, Accelerating Job Creation in America, 2011: <http://www.sba.gov/sites/default/files/HighImpactReport.pdf>

necessarily technology companies, but most are innovative. Spotting them before they face challenges too great to overcome is critical. Engaging with them before they migrate to another state is crucial. Only intensive canvassing will give us a picture of the full universe of small business in Vermont. Those calling efforts should be done locally through regional economic development efforts, but be coordinated with statewide efforts. We want more dynamic information, and we need a 'heat map' of small businesses in every commercial center in Vermont. Who they are, what do they need, and what we can do for them. Vermont can be, and ought to be the best place and most welcoming place for small business.

### **Train, Improve, and Enlarge Our Workforce**

Workforce development – training, improving, and enlarging our workforce – is the lynchpin of shared prosperity in Vermont. It empowers Vermonters with earning potential and provides Vermont businesses with human capital to grow. Nothing is more important.

Workforce development efforts are spread across many state agencies and many private contractors (Vermont Training Program, Career Resource Centers, Regional Development Centers, The Office of Continuing Education and Workforce Development, Workforce Investment Boards, etc.), making it difficult to measure effectiveness or to even know how much we are investing. There is no universal budget that can be tracked or defined. And, the most popular program among our employers, the Vermont Training Program (VTP) has had its budget reduced by over 30% since 2010.<sup>38</sup>

There are success stories in the system, but the economy around us has changed and the unfolding of the demographic trends here is accelerating. Today's successful workforce development efforts don't look like the programs of the past. Considering the changed nature of starter jobs and bridge jobs, the shrinking and aging labor pool in Vermont, the number of Vermonters that are dependent upon financial aid, tomorrow's workforce efforts shouldn't look like today's.

[The Next Generation Commission](#) (2006) delivered its mostly ignored recommendations that, "Vermont must view the future holistically by viewing economic development, workforce development, and education policy as necessarily integrated." Campaign for Vermont is in full agreement with that assessment.

### **We recommend the following to improve our workforce:**

- Create a comprehensive budget for workforce development; define every program, every funding source; and develop a method to accurately measure results. No program in the state should be continued unless it has a 5-year horizon for results and budgets. The chronic lack of budget visibility limits the effectiveness of programming and results. This effort should be under the purview of the economic 'champion.'

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<sup>38</sup> Obtained by a public records request to the Vermont Department of Economic Development. We did not compare current funding levels to 2008 and 2009 because they were bolstered by Federal ARRA funds.

- Restore the budget of the Vermont Training Program. Until the development of a more robust workforce development effort, it's the closest thing we have to an employer-driven customized effort. Vermont somehow seems skeptical and disinterested in participating in some of the exciting workforce development efforts underway around the world. That must change.
- Re-invigorate the Workforce Investment Boards (WIBS). The most successful programs in America have deep ties to the business community and its leaders. Without knowing what jobs are what skills are likely to be in demand, the program will fail.
- The 17 Tech Centers are oriented in different ways and have different relationships with their surrounding school districts. But, entry-level jobs are going through a radical change, and the nature of those new entry-level positions often require more than basic job skills. Just as The Vermont Training Program is a 'market-driven' training program, a close alliance with employers driving curriculum at each tech center can do the same. Some have that tight group of advisors for curriculum, but not all of them do.
- We need to connect Tech Centers and career path to our state college units. Some entry level or career track positions require more than a high school education, but less than a four-year college education. That's where our state college system should be more closely aligned, by offering skills that 'finish' a high school graduate with higher-level skills including interviewing skills.
- Internships are ever more popular, but apprenticeship offers intensive training for particular skills. Unions have used them successfully for years. We should offer tax credits that encourage broader acceptance of the apprenticeship way.

Other parts of the United States and the world have been able to implement successful workforce development efforts. We should look them as model for what we can do in Vermont.<sup>39</sup>

### **The "Efficient Manufacturing State"**

Targeting economic investments and encouraging growth in specific high-impact areas will use our resources most efficiently and have the most effect on prosperity in our state. Efficient manufacturing and research and development efforts are such opportunities.

We have a sizeable base of manufacturers in our state and manufacturing represents about 12% of our economy, 11% of our workforce<sup>40</sup> and pays 36% above average Vermont wages.<sup>41</sup> It offers a rich stream of value and has a powerful effect on an economy. And, research on high impact entities show that manufacturing is host to a significant percentage of those entities that create much of the jobs growth in the U.S.

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<sup>39</sup><http://www.brookings.edu/~media/research/files/papers/2013/12/04%20workforce%20development%20jacobs/fedroleworkforcedev>

<sup>40</sup> VT Advanced Manufacturing Report - <http://accd.vermont.gov/sites/accd/files/Documents/accd/AMP-Report-2013.pdf>

<sup>41</sup> Vermont Economy Newsletter, June 2011 - <http://www.vmec.org/about-vmec/why-manufacturing-is-important-to-vermont>

Additionally, manufacturing inspires research and development and innovation. Positions in research and development across several sectors may have multiplier effects as high as five.<sup>42</sup> Meaning that for every one position created in R&D it creates five jobs in other areas. This is a phenomenal return on investment, and provides many opportunities for the state to encourage growth. For example, in biomedical research at UVM and Fletcher Allen, eye protection devices at Revision Eyewear, or UTC Aerospace.

In 2013, a blue ribbon group created a blueprint for reviving manufacturing – but like most such efforts, failed to gain funding, sponsorship or the program management for its implementation.

Recent innovations in Vermont have increased the efficiency of manufacturing in some businesses. We can find more efficiencies. A partnership between the Vermont Manufacturing Extension Center (VMEC), Vermont Technology Alliance (VTTA), Efficiency Vermont, higher education institutions, and other experts led by an economic ‘champion’ could create a coalition that would provide support for manufacturers in the state to find and implement efficiencies in their manufacturing processes.

Creating such efficiencies in Vermont’s manufacturing industries will make Vermont businesses more competitive and sustainable, and free capital for reinvestment. This is the kind of growth we need to promote a dynamic and prosperous economy. Let’s make Vermont the state of efficient manufacturing.

### **Closing the Income Gap and Enlarging the Work Force: Expand the EITC**

Campaign for Vermont recommends that the State enact a 100% increase in the Earned Income Tax Credit (EITC), effective in 2019. We recommend that the legislation set very specific and enforceable triggers activating that increase based upon reforms in state government that would off-set the cost to the general fund of increasing the EITC. No reforms—No increased EITC.

The EITC is among the most powerful tools available to provide direct and efficient aid to low income people. It is a wage subsidy for low-income workers.

Presidents since Ford (the EITC effort began in 1975) to Reagan (‘the best anti-poverty...the best job creation measure), to Clinton (if you work 40 hours a week... you will no longer be in poverty’) to Obama (‘this will boost those on the first rungs of the ladder) have embraced this program. In 2009 President Obama proposed expanding the program, and making it more generous for those without children. He was right. Studies show it is a powerful force in raising the incomes of low income women. The President said EITC induces one in ten parents to enter the labor force when introducing new incentives for working.

In 2012 the cost of the EITC was about \$26.5 million benefiting 44,500 filers earning up to \$50,000. At this limit of \$50,000 this program is an excellent pathway to Vermont’s middleclass (median income is just about that level). This isn’t an entitlement. It would be available for those who do not rely upon human service benefits and on a progressive basis for those with some

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<sup>42</sup> Page 15 - [http://eml.berkeley.edu/~webfac/eichengreen/e196\\_fa11/moretti\\_196\\_11-2-11.pdf](http://eml.berkeley.edu/~webfac/eichengreen/e196_fa11/moretti_196_11-2-11.pdf)

reliance on those benefits. A filer earning between \$15,000 and \$25,000 annually, would see a cash increase of over \$1,000.<sup>43</sup>

The cost of increasing the EITC would be less than 0.8% of the General Fund. Reforms in economic development, human services, and education spending can provide a cost-neutral pathway for an increase in the EITC.

We believe the systems delivering economic development programs and human services benefits are unfocused on clear goals and related measurements for success, and are bureaucratically expensive.

### **Higher Education Matters, But Not in the Way You Think**

Vermont is home to 43,000 college students, likely half of whom come from out of state.<sup>44</sup> This gives us an incredible opportunity to bring jobs to our state if we focus on employing and retaining our college students.

We have nearly 30 higher education institutions in Vermont; the most per capita in the country.<sup>45</sup> It provides us with a special opportunity. They are in the business of importing young people between the ages of 17 and 25. We ought to take advantage of that. To some extent, we already have—nearly 35,000 UVM graduates live in Vermont and a significant number weren't born Vermonters. Champlain College reports that more than half their graduating seniors remained in Vermont. We can do more, and we should.

The State does little to provide services that would keep them here. We ought to build a proactive program that has a long-term orientation providing matching services, orientation opportunities and recruiting efforts. In many states, the Chambers of Commerce run programs for high school students to learn to start businesses – Junior Achievement. In some states (California), middle school and high school students are required to have one week of outdoor, experiential, science-based education every year. Vermont could become a leader in bringing these ideas together into a program that would teach and support the kind of entrepreneurship that would promote its brand and cadre of green entrepreneurs.

Moreover, research is re-affirming that Champlain College's approach to 'taught' entrepreneurship works. Some are born with that talent. Others are shown it. Let's find ways to reach more young men and women.

The Bayh-Dole Act, passed in 1980 gave universities the rights to patent innovation that is funded by federal grants. It encouraged higher education institutions to commercialize intellectual capital supported by government grants, mostly for research.

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<sup>43</sup> 2012 Vermont Income Tax Returns - [http://www.state.vt.us/tax/pdf.word.excel/statistics/2012/income\\_stats\\_2012\\_state.pdf](http://www.state.vt.us/tax/pdf.word.excel/statistics/2012/income_stats_2012_state.pdf)

<sup>44</sup> UVM: 11,788 + VSC: 12,656 + Independent Colleges: +/-19,000 = +/-43,444

<sup>45</sup> Number of colleges from VSAC (link below). Ranked 1# by both Answers.com and eHow.com.

[http://services.vsac.org/wps/wcm/connect/0116c6004065aec6ad14ff5080bf804e/VHEC\\_Degree\\_Directory.pdf?MOD=AJPERES](http://services.vsac.org/wps/wcm/connect/0116c6004065aec6ad14ff5080bf804e/VHEC_Degree_Directory.pdf?MOD=AJPERES)

The results have been spectacular. Research centered universities have spawned large numbers of innovation-based companies. Since the 1980's and especially since the 90's these efforts have converted ideas to patents to ventures to revenues to jobs. Lots of jobs. Large companies such as Google, Cisco, Cirrus, and Yahoo were developed from this process. In 2013, 5,714 patents were issued and 14,995 new applications were filed.<sup>46</sup> It's a big deal.

The University of Vermont has a strong effort which currently has 49 active license agreements with companies providing goods or services.<sup>47</sup> Sixteen startups have been formed from this effort, fourteen of which are in Vermont.<sup>48</sup> They're good at this. Let's unleash them throughout the state. An economic 'champion' working with the Vermont Technology Council, VCET, and the Independent College Association have an opportunity to create a broader based effort that would include teasing out ideas on additional college campuses, hospitals, and other educational institutions. After all, intellectual capital resides there.

## **Conclusion**

Vermont lacks an economic development strategy that links research, entrepreneurship, manufacturing, startup capital, higher education, workforce training, and affordability under one comprehensive economic development plan. Businesses are changing to meet the needs of our modern economy, so must our approach to economic development. We must learn to approach it holistically.

We believe in Vermonters, but Vermonters are beginning to lose faith in Vermont. Demographics continue to be concerning as our state ages; incomes are declining and good-paying jobs are becoming harder and harder to find. We can turn things around, but only if we partner together in a cohesive push for reform. We can capture the innovative Vermont spirit. We can invest in our future. We can create prosperity for every Vermonter. It is not too late. [Join us](#) in calling on – and mobilizing - our leaders for reform.

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<sup>46</sup> AUTM U.S. Licensing Activity Survey: FY2013

[http://www.autm.net/AM/Template.cfm?Section=FY\\_2013\\_Licensing\\_Activity\\_Survey&Template=/CM/ContentDisplay.cfm&ContentID=13870](http://www.autm.net/AM/Template.cfm?Section=FY_2013_Licensing_Activity_Survey&Template=/CM/ContentDisplay.cfm&ContentID=13870)

<sup>47</sup> Information obtained from UVM Office of Technology and Commercialization

<sup>48</sup> [http://www.uvm.edu/uvminnovations/?Page=about/default.php&SM=\\_aboutmenu.html](http://www.uvm.edu/uvminnovations/?Page=about/default.php&SM=_aboutmenu.html)