

Doug Hoffer Testimony
House Committee on Ways & Means
19 January 2016

Enterprise Fund

General comments:

- According to the statute, the EF is for rapid response. In my view, none of the three EF applications qualified as emergencies.
- The members of the E Board have little time to evaluate the proposals or ask for additional information, especially during the legislative session. Absent extraordinary circumstances, it is not prudent to make such decisions in haste.
- The EF is not a program *per se* and has
 - No wage requirements (GF would not have met the VEGI wage threshold);
 - No consideration of background growth; and
 - Weak (and ad hoc) recapture provisions. Note that each grant agreement states that any funds recaptured would revert to the EF for allocation to other projects. But if the EF is not renewed, the legislature should make clear where recaptured funds should go.
- The information provided in each proposal is prepared by the Agency of Commerce, which cannot be considered an objective source since it is clearly an advocate for the companies. The three memos from the Governor that I reviewed raise questions about the Agency's level of due diligence and the reliability of the data provided. For example:
 - Due diligence:
 - ❖ The Governor's memo stated that the Canadian firm "*is negotiating with New Hampshire and New York concerning incentives [but] company management is not at liberty to discuss what is offered since amounts are not final.*" No information was provided to support this claim. We don't know if the Agency even requested any documentation.
 - ❖ On behalf of the Canadian firm, the Governor's memo stated that "*Vermont environmental laws concerning air quality will require additional investment on the company's part to comply and adapt its production compared to other locations under consideration. Incentives are necessary to mitigate the more stringent regulations.*" No evidence was presented to substantiate the assertion that Vermont's air quality requirements are more stringent than NY or NH and would require

additional investment. Here again, we don't know if the Agency requested evidence to support the claim.

➤ Data reliability:

- ❖ The Governor's memo in support of a grant to G.W. Plastics stated that *"Each job created by the company adds approximately \$14,000 in new tax revenues to the State per year."* This seemed inconceivable so I questioned it. ACCD staff subsequently admitted that it was an error. The actual figure would be less than half what they reported.
- ❖ The Governor's memo in support of a grant to Global Foundries included the results of a cost-benefit model run estimating the fiscal impacts of GF's capital investments and the conversion of 100 temporary jobs to permanent positions. ACCD claims that in the three years following the capital investments (after all the construction jobs are gone), the state can expect \$3.3 million in new tax revenues. I have requested the supporting documentation, but my initial view is that the estimate is wildly optimistic.

All EF grants are in addition to the promise of significant taxpayer support through VEGI and VTP.

Promised and Expected Public Assistance for EF Companies						
	VEGI	Enterprise Fund	VT Training Program	Total	# New Jobs	Cost / Job
BHS Composites	\$694,711	\$200,000	\$90,000	\$984,711	75	\$13,129
GW Plastics	\$977,125	\$500,000	\$55,000	\$1,532,125	73	\$20,988
Global Foundries	\$0	\$1,000,000	\$185,000	\$1,185,000	0	NA
Totals	\$1,671,836	\$1,700,000	\$330,000	\$3,701,836	148	\$25,012

For a single person with a job paying \$35,000, the state can expect to receive about \$900 per year in income tax. In addition, the state would receive sales and education tax revenues from the new job (along with revenues from indirect economic activity). Nevertheless, it would likely take 10 – 15 years to recoup the average amount expended per job (assuming they all survive).

Enterprise Fund Example - GW Plastics

The Agency’s January 15 report stated that “298 full-time jobs [have been] retained”¹ as a result of the \$500,000 EF grant. That implies that the company was considering relocating the entire Vermont operation out of state. No evidence was presented to support that claim. Indeed, the Governor’s memo stated that

*“GW would maintain existing facilities and employment (300 full-time) in Bethel and Royalton.”*²

This is not surprising because one of the factors contributing to the company’s position as one of top injection molders in the world is its “long-tenured work force.”³ Thus, if the company moved the entire operation, it would surrender one of its key assets.

The memo also called attention to various cost factors related to other possible locations. For example:

“The benefits of the San Antonio, Texas option include low cost (\$800,000) investment to transform their warehouse to manufacturing space, with warehouse space available across the street from their plant, putting the new operation in immediate proximity to existing company technical resources. Plus, significant cost advantages over Vermont including 47% lower power costs, 125% lower UI, 33% lower Worker’s Comp rates, hourly workforce starting wages that are 24% lower, and a better labor supply. An argument against Texas is shipping costs to the NH customer. While they ship all over the United States—and the world—from all plants, closer is an advantage.”(Emphasis added)

It is noteworthy that no effort was made to compare the three possible locations for all of the factors listed. This would be instructive. For example:

- According to the Energy Information Administration (U.S. Dept. of Energy), it is true that industrial electric rates in Texas are 47% lower than in Vermont. But the rates in New Hampshire are 23% higher than in Vermont.

Industrial Electric Rates Per kWh	
TX	5.44
VT	10.21
NH	12.55

Source: EIA, 2015

In addition, according to the 2013 Census of Manufactures, the cost of purchased electricity for “plastics manufacturers” is 1.79% of the value of shipments. Therefore, for every \$1 million in shipments, a Texas facility would save less than one-tenth of one percent from lower electric costs.

¹ Vermont Enterprise Fund Report, ACCD, January 15, 2015; p.3.

² Oct. 19, 2015 memorandum from Gov. Shumlin to the E Board; p.5.

³ Vermont Enterprise Fund Report, ACCD, January 15, 2015; p.4.

- Unemployment insurance tax rates vary considerably. But at the low end, the impact is modest. We can assume that a successful company like GW Plastics has a comparatively low experience rating (meaning limited benefit payments). If so, the difference between the effective tax rates in the three states is *de minimus*.

Unemployment Insurance Tax Rates by State			
	Wage subject to tax	Minimum rate and resulting tax	Maximum rate and resulting tax
TX	\$9,000	0.45% --- \$41	7.47% --- \$672
VT	\$16,400	0.40% --- \$66	8.4% --- \$1,378
NH	\$14,000	0.10% --- \$14	7.5% --- \$1,050

- The memo asserted that “hourly workforce starting wages are 24% lower” in Texas than in Vermont. This is true in some cases but wages in this industry are even higher in New Hampshire. For example, here are the figures for two occupations common to firms doing plastic injection molding.

Extruding and Drawing Machine Setters, Operators, and Tenders, Metal and Plastic, OCC 51-4021		
	Starting Hourly Wage (10 th percentile)	Median Hourly Wage
TX	\$9.21	\$13.49
VT	\$11.31	\$15.97
NH	\$11.37	\$16.60

Source: BLS, OES 2014

Molding, Coremaking, and Casting Machine Setters, Operators, and Tenders, Metal and Plastic, OCC 51-4072		
	Starting Hourly Wage (10 th percentile)	Median Hourly Wage
TX	\$8.43	\$12.75
VT	\$9.89	\$13.01
NH	\$9.95	\$13.97

Source: BLS, OES 2014

While the entry-level wage is considerably lower in Texas, that wage would soon increase as workers gained experience and skills on the job (and we assume GW Plastics works hard to avoid high turnover). Therefore, the more appropriate comparison is the median hourly wage, which is very similar in Vermont and Texas.

By comparing Vermont only to Texas, the Governor’s memo failed to give E Board members all of the relevant information needed to evaluate GW Plastics’ claim that it needed public assistance to justify expanding in Vermont rather than Texas or New Hampshire.