A Proposal to Increase Funding for Vermont Startups

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John Rosenblum

- Business leader and technology inventor
- Governor's appointee to "Enhancing Vermont's Software and Information Technology Economy" Committee (report in Jan 2013)
- Business experience from startup to multinational corps including J&J, Abbott, Roche, Oracle, and IBM
- Founded and led Green Mountain Logic, a Montpelier Vermont software company
- Green Mountain Logic was acquired by Phase Forward in 2007 and Oracle in 2010
- Current leadership roles in 3 Vermont startups
- Supporting UVM Office of Technology Commercialization and UVM SPARK program

Vermont's Advantages

- Vermont has a unique advantage over ***ALL*** other US states because:
  - Brand/lifestyle is huge draw for creative people
  - In vicinity of three major metropolitan areas
- Vermont also has:
  - Strong startup community
  - Lots of wealthy non-resident home owners
  - Small government with history of trail-blazing
  - Relatively low tech labor cost (~12% < Boston)

Vermont's Challenges

- Startups have trouble getting funded
- Wealthy non-residents don't contribute much to the economy
- Difficult to attract major corporate facilities
- Higher education spending is relatively low
- Tourist advertising ignores the tech economy
  - Lowers valuation of tech startups for funding
  - Influences Vermont's graduating students!!

Limitations of Recent and Current State Incentives

- VEGI's "But for" approval criterion are inappropriate for startups
- VEDA debt funding is a poor fit for most tech startups
- Past income/capital gains tax incentives required budgetary allocation and didn't incentivize non-resident investors
- State based stock offerings (e.g. Ben & Jerry) don't work for most startups

Vermont Employment Growth Incentive (VEGI)

There are no taxpayer dollars appropriated for the VEGI incentives!

"With an affirmative But For determination, the state is giving back to the company, as the incentive payment, a portion of the new tax revenues generated by that company, which the state never would have received. Therefore, there is theoretically no cost to the taxpayers."

Companies must determine:

- If the economic activity would not occur or would occur in a significantly different and significantly less desirable manner without the incentive (But For);
- If the economic activity will generate more incremental tax revenue for the state than is foregone through the incentive; and
- If the company and economic activity meet a set of program guidelines.

Proposal

1. Adjust VEGI "But for" criterion to work better for startups in recognition that startups are the drivers of Vermont's future economy and that startup resources and business options are easy to evaluate, making a lower standard appropriate.
2. Expand VEGI to include an education property tax credit for investors in VEGI qualified startups.
   - Incentivize both residents and non-residents to invest in Vermont.
   - Create a major new source of startup funding.
   - State has an existing method for reimbursing towns.
   - Allow investment funds to "pass-through" the tax credit to their investors for qualified investments.

Optionally

Create a Networking Program for Investors and Entrepreneurs:

- Hold monthly catered networking investment meetings at ski areas.
- Direct mail invitations to non-resident home owners.
- Host Vermont startup pitches.
- Most work and costs for this project are likely to be supplied by Vermont volunteer, chamber of commerce, and investment organizations.