SENATE FINANCE
TUESDAY, MARCH 17, 2015, 1:30 PM
FRED KENNEY, EXECUTIVE DIRECTOR,
VERMONT ECONOMIC PROGRESS COUNCIL

VEGI WAGE THRESHOLD

Statutory Reference: 32 VSA §5930b(a)(24)

Background:
The VEGI program statute includes a minimum wage threshold for a new job to be considered qualifying and for the new wages of that job to be included in the VEGI incentive calculation: *"the minimum annualized Vermont gross wages and salaries paid, as determined by the council, but **not less than 60 percent above the minimum wage at the time of application**, in order for a new job to be a qualifying job under this section."*

For 2015, the VEGI Wage Threshold is $14.64/hour, based on a Vermont Minimum Wage of $9.15. Current statute requires that the Vermont minimum wage escalate over the next three years to $10.50/hour in 2018. That means that in 2018, the VEGI Wage Threshold will be $16.80/hour or $34,944 annually.

Proposal:
Uncouple the VEGI Wage Threshold from the Vermont minimum wage and instead equate it with the Vermont livable wage.

Rationale:
It is important to remember that this is a minimum, not the wage most employers pay. Only new qualifying jobs created by a company authorized to earn the VEGI incentive can be counted toward the incentive. The annual wages/salaries of the projected job creation for applicants to date range from $27,000 to $127,000 and average $31,000. The weighted average is $45,000.

However, if the VEGI Wage Threshold is not de-coupled from the minimum wage, more and more potential new entry level jobs will be ineligible for the incentive and the opportunity to attract and encourage job growth, especially outside of Chittenden County, with the VEGI program will be lost.

In 2014, the General Assembly de-coupled the Vermont Training Program from the Vermont minimum wage and instead tied it to the Vermont Livable Wage.

Connecting the VEGI wage threshold to the Livable Wage ensures that the new jobs created by companies receiving the VEGI incentive are paid a wage consistent with this state policy objective. It also means that the wage threshold for the VEGI program and the Vermont Training program will be consistent, simplifying the marketing and utilization of those programs.

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VEGI CAP ON INCENTIVES FOR PROJECTS IN HIGH UNEMPLOYMENT/LOW INCOME AREAS

Statutory Reference: 32 VSA §5930b(b)(5)

Background:
The VEGI program statute includes a provision that gives the Vermont Economic Progress Council (VEPC) the discretion to authorize incentives beyond the normal calculation. When this authority is exercised, the amount by which the incentive is increased in turn decreases the net revenue return to the state close to a dollar-for-dollar basis. Use of this authority is limited to projects that will occur in regions of the state "in which the rate of unemployment is greater than the average for the state or in which the average annual wage is below the average annual wage for the state." These regions are determined and certified to VEPC annually by the Department of Labor. For the past three years the certification has indicated that only projects outside the Burlington/South Burlington and Hartford Labor Market Areas are eligible.

The Council can decide whether or not to use the authority if the project will occur in an eligible region. And, the Council can decide the level of increase to approve, up to the point at which the net revenue return is zero.

Example:

	Normal	Using 50% of Sub 5	Using 100% of Sub 5
Incentive Percentage:	94.79%	102.18%	109.57%
Incentive Amount:	$196.958	$212,313	$227,668
Net Revenue Return:	$174,255	$ 87,128	$0

The authority is capped at $1,000,000 each calendar year. The amount counted against the cap is the difference between the normal net revenue return to the state and the net revenue return resulting from the use of the authority, aggregated for each calendar year. Using the example above, if the Council approved use of the Sub 5 authority at 100% of the increase, $174,255 would be applied against the cap.

Because there is a cap on the use of this authority, the Council developed criteria, beyond the statutory geographic requirement, to help decide if the authority should be utilized. These criteria help the Council determine which projects outside Chittenden County and Hartford are the most deserving candidates for use of the authority, instead of deciding on a first-come first-served basis throughout the calendar year.

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Proposal:
Eliminate the $1,000,000 cap on the use of the Sub 5 authority.

Rationale:
One of the criticisms of the VEGI program is the level of incentives that are authorized for projects/companies outside of Chittenden County. About 25% of Vermont's population is in Chittenden County and 35% of Vermont's personal income (as percent of state revenue) is within Chittenden County. But about 46% of the VEGI incentives authorized are for projects in Chittenden County.

Eliminating the cap on Sub 5 authorizations would mean that the Council would not have to make a determination on the best allocation of the cap each year. More projects within the eligible regions could be authorized for higher incentives.

This step would not impact the $10,000,000 overall annual cap on the program. It would mean that more of the incentives allocated within the overall cap are to projects outside of Chittenden County/Hartford.

The change could result in a decrease in the overall net revenue return to the state.

Additional Data:
Historic and Potential Utilization of Sub 5 Authority:

Year	Number of Eligible Projects	Number of Projects w/Sub 5	Amount of Cap Used	Potential Use of Cap
2010	1	1	$92,104	$92,104
2011	2	1	$322,655	$568,660
2012	3	1	$247,632	$560,799
2013	3	2	$139,822	$268,461
2014	1	1	$90,833	$90,833
2015*	2	1	$196,958	$997,227
* To Date				

Impact of Use of Authority on Net Revenue Return:

Increase in Incentive Amounts due to Use of Sub % Authority:	**$1,090,004**
Decrease in Net Revenue Return to the State:	**$ 901,534**

VEGI PERFORMANCE REQUIREMENT DEADLINE (GRACE PERIOD)

Statutory Reference:
32 V.S.A. § 5930b(c) (6)

Background:
If VEPC authorizes VEGI incentives, the company must meet performance requirements in order to actually earn the approved annual incentive. The performance levels must be maintained for the company to be paid all five installments of the earned incentive.

The Performance Requirements consist of:

- Maintain base year full-time payroll and headcount;
- Increase full-time payroll by new qualifying payroll performance requirement; and either
    - Increase full-time employment by new qualifying employee performance requirement, or
    - Make qualifying capital investments equal to or greater than performance requirement.

Here is an example:

Performance Requirements:

	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
QUALIFYING PAYROLL	$195,033	$195,950	$200,033	$262,483	$320,117	**$1,173,616**
QUALIFYING JOBS	4	5	6	7	8	**30**
QUALIFYING CAPITAL INVESTMENT	$60,000	$2,250,000	$50,000	$50,000	$50,000	**$2,460,000**

Theoretical Incentive Earning and Payment Schedule:

Year	Incentive Earned	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
1	$57,245	$3,690	$11,449	$11,449	$11,449	$11,449				
2	$57,396		$3,699	$11,479	$11,479	$11,479	$11,479			
3	$58,634			$3,779	$11,727	$11,727	$11,727	$11,727		
4	$79,978				$5,171	$15,996	$15,996	$15,996	$15,996	
5	$99,659					$6,456	$19,932	$19,932	$19,932	$19,932
Total	$352,912									
Annual Sum of Incentives:		**$3,690**	**$15,148**	**$26,707**	**$39,826**	**$57,107**	**$59,133**	**$47,654**	**$35,927**	**$19,932**
Cumulative Total		$3,690	$18,838	$45,545	$85,371	$142,478	$201,611	$249,265	$285,193	$305,125

To earn the incentive, the company must meet the Performance Requirements by December 31 of the target year. If the PRs are not met by December 31 of the target year, no incentive is earned. However, for Year 1, Year 2, and Year 3, the company has 24 additional months to earn the incentive (known as the "grace period'). For Year 4 the grace period is 12 months and there is no grace period for Year 5. The limitation on the grace period was intended to keep all potential economic activity within the five-year period used in the cost-benefit modeling.

If a claim filed within the grace period shows the PRs for the target year is met, the incentive is earned and installments are still paid out in five installments, if the PRs are maintained.

Here is a payout schedule using the example above where the company did not meet Year 1 PRs until sometime during Year 2. The claim filed for Year 2 also showed that Year 2 PRs were also met:

Year	Incentive Earned	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Incenitve Paid
1	$57,245		$3,690	$11,449	$11,449	$11,449	$11,449				$49,486
2	$57,396		$3,699	$11,479	$11,479	$11,479	$11,479				$49,616
3											$0
4											$0
5											$0
Total	$114,641										$99,102
Annual Sum of Incentives:			$7,389	$22,928	$22,928	$22,928	$22,928	$0	$0	$0	
Cumulative Total			$7,389	$30,317	$53,245	$76,173	$99,102	$99,102	$99,102	$99,102	

If a company gets to the end of the 24 month grace period (or 12 month grace period for Year 4) and has not met the target year PRs, the Tax Department notifies VEPC and the Council must rescind the incentives for that year and terminate the authority for the company to earn any incentive in the subsequent award years.

If PRs for any previous year are not impacted, the remaining installments are paid as long as the performance levels are maintained.

Proposal:
Provide the VEPC Board the authority to review the circumstances for the delay in meeting performance requirements and the discretion to extend the grace period if warranted by the evidence. The Year 1 grace period could be extended for two 12- month extensions, reviewed annually. The Year 2 grace period could be extended for only one 12-month period. When the Tax Department notifies VEPC that a company has not met PRs by the end of a grace period for target Year 1 or Year 2, the notification would trigger a review by staff and communication with the company to determine the cause. The

company would be invited to submit evidence and attend the next VEPC Board meeting to present its case. The extension could be granted by the Council if it determines that there is a reasonable likelihood that the company will meet the PRs for the target year during the extension period.

Rationale:
The inclusion of the grace periods indicate a recognition that the Performance Requirements are based on businesses projections. Expansion, start-up, and relocation plans can be delayed for many reasons, many outside the control of the company.

However, to maintain fiscal integrity and ensure a performance-based program, the rules require that the projected economic activity occur within the five-year cost-benefit model period. This ensures that the tax revenues projected by the model are accruing to the state before the entire incentive is paid out to the company over nine years.

This proposal maintains the underlying principles of the program:

- The economic activity must still occur within the modeled five-year period;
- The company must still meet the Performance Requirements to earn the incentive; and
- No incentive is paid until Performance Requirements are met.

The proposal changes the automatic nature of incentive termination without review, opting instead for a review of the circumstances and the discretion to allow an extension, if warranted.

Year 1	Year 2	Year 3	Year 4	Year 5
PRs	Existing Grace Period		Proposed Review	Proposed Review
	PRs	Existing Grace Period		Proposed Review
		PRs	Existing Grace Period	
			PRs	Existing Grace Period
				PRs

VEGI TRAINING ENHANCEMENT

Statutory Reference: 32 VSA §5930b and 10 VSA chapter 22 (NEW INITIATIVE)

Background:
The Vermont Employment Growth Incentive (VEGI) program provides an inducement to Vermont companies to expand and to businesses from outside Vermont to relocate to, expand into, or start-up in Vermont. To be approved, the economic activity must be beyond the businesses' organic growth and occur, or occur in a materially different manner, because of the incentive. To earn the incentive, the company must add new qualifying payroll and new qualifying employees. The program does not have an appropriation because the incentives are paid from future incremental revenues generated by the new economic activity of the approved companies. The state would not realize these revenues except for the approved incentives.

If approved, a company can earn an incentive each year there is incremental hiring for up to five years. To earn the incentive, the company must:

- Maintain base year full-time payroll and headcount;
- Increase full-time payroll by new qualifying payroll performance requirement; and either
  - Increase full-time employment by new qualifying employee performance requirement, or
  - Make qualifying capital investments equal to or greater than performance requirement.

If earned, the incentive is paid out in five equal annual installments in the form of a cash payment. The installments are only paid if the performance requirements are maintained.

Since the VEGI program requires new job creation, companies that are authorized to earn the VEGI incentive are often incurring substantial employee training costs. Recruiting and training highly skilled employees is critical to any business undertaking a new venture. To help with these employee training costs, Vermont can offer grants from the Vermont Training Program (VTP). The VTP offers performance based grants that can cover up to 50% of the employee training cost. Grants typically run for twelve months and are paid out as employee training is successfully completed. This program does have an appropriation and there are often more requests than funding available.. In order to spread limited resources across the state the program asks that companies wait two years between grant awards. .

Proposal:
Link the VEGI and VTP programs for certain applicants that will require substantial training to hire and employ Vermonters and to assure those Vermonters can succeed in their new jobs. Offer an enhancement to the VEGI program by paying an earned incentive in one payment instead of five installments and an enhancement to the VTP by offering a 75%/25% match for new employee training costs.

Basic Structure:

- Company must be eligible for and approved for VEGI incentives and present a training plan for new employee training that is eligible for VTP funding. Offer eligible companies 75% reimbursement new employee training (vs normal up to 50%) if the company will dedicate the VEGI incentive payment to training costs.
- If earned because performance requirements are met, annual incentive will be paid in one installment (vs 20% each year for five years).
    - A portion of earned incentive is paid to VTP to cover the extra 25% of the training grant paid to the company by VTP.
    - Remainder goes to company as the incentive payment, but must be dedicated to training costs.
- If company does not meet VEGI performance requirements, no VEGI incentive is paid, but company can still be reimbursed for training costs by VTP, but at normal 50% rate. Proposal includes recapture provision in case company earns and is paid VEGI incentive and training grant but then reduces payroll/employment below level required to earn it. Normally, installments would just stop.

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ILLUSTRATION OF ENHANCED TRAINING INCENTIVE

SAMPLE PROJECT ELIGIBLE FOR VEGI AND VTP:

	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
QUALIFYING PAYROLL	$0	$655,200	$1,171,040	$1,466,400	$1,734,720	$5,027,360
QUALIFYING JOBS	0	27	29	35	40	131
QUALIFYING CAPEX	$5,970,000	$5,210,000	$2,370,000	$2,640,000	$0	$16,190,000

RESULTING VEGI (NORMAL)

Year	Max. Inc Amount	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Totals
1	$0	$0	$0	$0	$0	$0					$0
2	$196,167		$22,886	$39,233	$39,233	$39,233	$39,233				$179,820
3	$350,609			$40,904	$70,122	$70,122	$70,122	$70,122			$321,392
4	$439,040				$29,269	$87,808	$87,808	$87,808	$87,808		$380,501
5	$519,375					$8,656	$103,875	$103,875	$103,875	$103,875	$424,156
Total	$1,505,192										
Annual Sum of Incentives:		$0	$22,886	$80,137	$138,624	$205,819	$301,038	$261,805	$191,683	$103,875	
Cumulative Total		$0	$22,886	$103,023	$241,648	$447,467	$748,505	$1,010,310	$1,201,993	$1,305,868	$1,305,868

RESULTING VTP (NORMAL) (at 50%)

Year 1	Year 2	Year 3	Year 4	Year 5	Total
$0	$67,500	$0	$0	$100,000	$167,500

RESULTING ENHANCED VEGI

Year	Maximum Earned Incentive	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Totals
1	$0	$0	$0	$0	$0	$0					$0
2	$196,167		$179,820	$0	$0	$0	$0				$179,820
3	$350,609			$321,392	$0	$0	$0	$0			$321,392
4	$439,040				$380,501	$0	$0	$0	$0		$380,501
5	$519,375					$424,156	$0	$0	$0	$0	$424,156
Total	$1,505,192										
Annual Sum of Incentives:		$0	$179,820	$321,392	$380,501	$424,156	$0	$0	$0	$0	
Cumulative Total:		$0	$179,820	$501,212	$881,713	$1,305,869	$1,305,869	$1,305,869	$1,305,869	$1,305,869	$1,305,869

RESULTING ENHANCED VTP (At 75%)

Year 1	Year 2	Year 3	Year 4	Year 5	Total
$0	$101,250	$0	$0	$150,000	$251,250

TIMELINE UNDER PROPOSAL

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Totals
	$101,250			$150,000					$251,250
	to company			to company					
	from VTP			from VTP					
		$33,750			$50,000				$83,750
		to VTP			to VTP				
		from VEGI			from VEGI				
		$146,070	$321,392	$380,501	$374,156				$1,222,119
		to company	to company	to company	to company				$1,305,869
		from VEGI	from VEGI	from VEGI	from VEGI				

Timing and Payment Structure:

Year 1:

- Company invests $5.9 million in new facility and machinery and equipment.

Year 2:

- Company files VEGI Claim for Year 1 activity**.** Performance requirements met, but no incentive earned.
- Company invests $5.2 million in new facility and machinery and equipment, hires 27 new employees, generating $655,000 in new payroll, and invests $135,000 in training.
- VTP reimburses company for 75% of training costs = $101,250

Year 3:

- Company files VEGI claim for Year 2 activity. Performance requirements met; incentive of $179,820 earned.
- VEGI program pays $33,750 to VTP for extra 25% in training funds; VEGI pays $146,070 to company, which must be dedicated to training costs.
- Company invests $2.3 million in renovations and machinery & equipment, hires 29 new employees, generating $1.1 million in new payroll, and invests $145,000 in training.

Year 4:

- Company files VEGI claim for Year 3 activity. Performance requirements met; incentive of $321,392 earned.
- VEGI program pays $321,392 to company, of which $145,000 must be dedicated to training costs.
- Company invests $2.6 million in renovations and machinery & equipment, hires 35 new employees, generating $1.5 million in new payroll, and invests $175,000 in training.

Year 5:

- Company files VEGI claim for Year 4 activity. Performance requirements met; incentive of $380,501 earned.
- VEGI program pays $380,501 to company, of which $175,000 must be dedicated to training costs.
- Company hires 40 new employees, generating $1.7 million in new payroll, and invests $200,000 in training.
- VTP reimburses company for 75% of training costs = $150,000

Year 6:

- Company files VEGI claim for Year 5 activity. Performance requirements met; incentive of $424,156 earned.
- VEGI program pays $50,000 to VTP for extra 25% in training funds; VEGI pays $374,156 to company, of which $200,000 must be dedicated to training costs.

Rationale:
Almost every company hiring new employees must train those employees. Sometimes basic training is required just to bring new employees to a level that allows them to show up for work on time every day. Job specific training is then required so employees can become proficient at their job and become a successful, productive employee. Training can be expensive and result in lost production, especially if a company is ramping up quickly to meet market demands. This is often the case if the company is eligible for VEGI incentives.

Ensuring a robust and funded training plan for companies that have been approved for employment incentives means those companies are more likely to succeed in their expansion. And, the hired employees will have a greater chance of remaining employed and their wages increase after training. Even employees that decide to move to another company have a better chance of being re-hired because of the training received.

The VTP often cannot meet all requests for assistance and can only provide funding for one year for each company. The potential for additional dollars for the VTP is unlikely given budget constraints. This proposal provides a way to fund more training using dollars that would be paid to the company anyway as a VEGI incentive payment.

Implications:

- Training will occur that otherwise might not, resulting in increased wages and employees better prepared to remain in the workplace.
- Businesses with substantial training requirements will have a better chance of successful growth and expansion.
- The VEGI incentive is usually paid out in five installments, only after the incentive is earned – that is, the economic activity required to earn the incentive has occurred. The installment system gives the State the ability to stop the installments if the company reduces payroll/employment below the level that earned the incentive. Under the proposal, the company must still earn the incentive, but the incentive is paid in one payment to help reimburse the business for training costs. The proposal includes a recapture provision in place of the installment system to protect the state if the company reduces employment/payroll below the level that earned the incentive.
- Additionally, the normal method of paying the earned incentive in five installments spreads the fiscal impact over nine years. Paying the full earned incentive in one payment for each year shortens the fiscal impact to five years. However, if the incentive is earned, the economic activity that earned the incentive has occurred and the expected incremental revenues are accruing to the state during the same five years.

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ENHANCED VEGI FOR VALUE-ADD BUSINESSES

Statutory Reference: 32 VSA §5930b(h) (NEW INITIATIVE)

Background:
The manufacturing and high-technology sectors are extremely important to the resurgence of Vermont's economy. Manufacturing continues to be a vibrant sector in Vermont employing over 32,000 Vermonters. Manufacturing is a cornerstone of innovation in our economy: manufacturing firms fund most domestic corporate research and development (R&D), and the resulting innovations and productivity growth improve our standard of living. Manufacturing also drives the export of products and the importation of dollars. For every dollar spent on manufacturing puts $1.37 into the economy. Manufacturing jobs are high paying and include benefits. Similarly, jobs in high-tech pay very well, include benefits, include workers with high levels of education, and help drive innovation. These are the key value-add businesses in our economy.

Proposal:
Enact an enhancement of the normal VEGI calculation for applicants that will add new jobs in these sectors. As with the "Green VEGI" enhancement for environmental technology companies passed in 2008, the business would have to be certified by the Secretary of Commerce and Community Development. The enhancement would work the same as the "Green VEGI" incentive: an increase in the statutory "Incentive Ratio" from 80% to 90% and a decrease in the background growth applied against new payroll to 20% of the normal background growth required for the sector. All other controls and requirements remain the same.

Rationale:
Companies creating manufacturing and high-tech jobs in Vermont are key value-add businesses for the economy. These sectors have greater relative stimulation to the economy due to local supply chain relationships and higher wage rates. We need more economic development tools to attract new businesses in these sectors and encourage the growth of Vermont businesses, creating more good jobs for Vermonters.