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TO: House Commerce & Economic Development Committee

FROM: Vermont Sustainable Jobs Fund

RE: Ideas and Suggested Areas of Economic Development Focus

Below, please find some initial ideas and suggestions for areas of economic development over the next few years. The VSJF stands ready to assist in strengthening Vermont's economy, especially in areas outside Chittenden County and in those economic sectors where Vermont has a particular comparative advantage and which align with the Vermont brand (among consumers and visitors).

- **Focus on ways to capitalize on the VT Brand** and what it means to people in and out of the state (innovation, authenticity, quality/craftsmanship, strong sense of place, human scale, beauty / working landscape) BY aligning VT Brand identity with further development of the sectors/clusters of businesses people associate VT with (e.g., working lands businesses, recreation, green technology, etc.)
 - **Provider greater funding and staffing capacity in the Office of the Chief Marketing Officer:** While it is not the primary or secondary role for state government to implement marketing communications, an understanding of marketing and branding is imperative for a state that relies so heavily on its brand in economic development, and how to use marketing principles to effectively communicate with constituents. With the exception of a few state departments (Tourism & Marketing, State Parks), the majority of state agencies lack sufficient skills in marketing and effective communication that can meet Vermonters and visitors where they are at in a fragmented media age. Vermont does not have the money for huge marketing efforts, but if state government was able to work more collaboratively with expanded marketing resources for the CMOs office to manage internal marketing and communication, the collective power and strength of the Vermont brand could finally earn Vermont its economic place on the national stage and boost our overall economy. **NOTE: Governor's budget recommend is to increase funding to \$750k.**
- **Orient Department of Economic Development programs and services** in 2 ways:
 - 1) broad services for all types of businesses (e.g., accessing gov't contracts, international trade, tech transfer, workforce training funds, etc.); and

- 2) sector/cluster based businesses in 4-5 sectors based on our comparative advantage (e.g., working lands businesses, renewable energy technologies, contract manufacturing, health info services, recreation, climate economy businesses)
- A sector/cluster based approach would focus on developing a cluster of mutually supporting businesses with a healthy ecosystem of business services, financing, workforce development initiatives, government support services (like #1 above) etc. which creates the conditions for businesses in each sector to thrive.
 - This sector based work could be contracted out to organizations such as the VSJF who have a strong partnership with ACCD but who can be more nimble and can raise additional needed funds from other sources.
 - The VT Council on Rural Development's Climate Action Council is recommending a state appropriation of \$300k be made to the VSJF to develop a **Climate Economy Accelerator** in order to grow entrepreneurial opportunities and provide a network for businesses to promote their solutions, products, or services that could lead to collaboration and innovation. The entrepreneurial network will connect the climate economy business community to spark collaboration and stimulate growth, while the accelerator will serve as a catalyst to offer comprehensive technical services, peer-support, and financing tools to entrepreneurs to attract them to Vermont as a national nucleus of climate economy leadership and innovation. The State of Vermont should provide \$300,000 of seed funding to the Vermont Sustainable Jobs Fund to leverage private and philanthropic investment in order to carry out this work to boost economic development, innovation, and job creation in the state (total annual program budget anticipated to be \$500k).
- **Vermont is home to a number of decent sized (90+ employees) contract manufacturers** (e.g., MSI in Morrisville, Kalow Technologies in N. Clarendon, National Electronics in Vergennes, etc.) who have growth potential and are good sized companies doing high quality work on contract for others. What this enables is the contracting company can do what they do best – product R&D and sales/marketing – and enables the contract manufacturer to do what they do best – manufacture stuff. As more companies get frustrated with doing manufacturing in China, Vermont contract manufacturers (with our strong work ethic and quality brand identity) have opportunities to on-shore more work. Many of these contract manufacturers fly under the radar and many have customer concentration challenges. We need more of these kinds of businesses and to help the ones we have be more successful and profitable ---- because they are at the scale where if their profitability would increase, they could be paying better wages and benefits more easily than a start up can.
 - **Build greater collaboration and program alignment between the Department of Economic Development and Department of Housing & Community Affairs ...** promoting public/private investment and worker housing in small downtowns and village center that spurs excitement in a community (e.g., Barre re-development, Bristol, etc.) which attracts young entrepreneurs and gets the economic fly-wheel going in that downtown. These

communities then become employment hubs so that people can live in rural areas if they wish and not have to drive to Chittenden Co. in order to get a better paying job.

- **Increase the emphasis on business development support systems** (i.e., business assistance/coaching services, alternative financing) which focuses on building business profitability SO THAT they can increase wages/salaries → in order to rebuild the middle class → which builds our economic base.
 - [VT-SBDC](#) is significantly under-capacity in its staffing given the need. We have recommended to the Administration that they **double the annual state funding level** so that they can increase the number of business advisors covering the state. This is something the legislature could consider putting the state budget if the Governor does not include it in his recommend. **NOTE: the Governor's budget calls for a \$400k increase in the base budget for VT-SBDC (from ~\$350k to \$750k in total).**
 - VSJF's [VT Ag & Forest Products Development Program](#) has seen marked improvement in business profitability and thus livable wage growth, through its coaching efforts over the past 5 years.
 - The key here though is that we have to focus in on helping the businesses to be smart and innovative, have excellent customer service and communications skills, and have strong sales & marketing skills SO THAT they can be more successful and create higher paying jobs
 - **Increase the Working Lands Enterprise Initiative Governor's recommended budget by \$200k for a total of \$1million to be used for small grants to businesses and business support services.**
 - Explore whether the creation of a small grants and business assistance program for Trades related businesses similar to the Working Lands Enterprise Initiative (WLEI) would be of benefit. Any such program should be modeled after the successful WLEI in terms of the make up of the board, multiple state agencies involvement in its implementation, and its focus on providing small business enterprise grants and business support services to enable Trades related businesses to expand their operations, plan for succession, and expand workforce training opportunities.
- **Increase the focus on building the next generation of tradespeople** (plumbers, electricians, machinists, HVAC operators, etc.) – which means greatly expanding the opportunities for apprenticeships, internships, and a CTE education. We need a wide range of job creation as not everyone wants a high tech job.
 - We recommend that the House Commerce Committee collaborate more closely with the House Education Committee, especially re: CTE improvements and exploring economic sub-sectors that are growing and thus need more skilled workers.
 - Ask Matthew Barewicz to provide data/analysis at the 3 digit NAICS code level, and firm sizes by county to better understand the labor market.
 - Read [Pathways to Promising Careers](#) report just out and encourage alignment of education and workforce development programs accordingly.

- **Connect our research university with entrepreneurs** to drive innovative product creation that can get to commercialization faster
 - Fully fund VT-SBDC's technology commercialization advisor position – they are at jeopardy of losing this position because funding ran out on 12/31/16. This position is the only one in the state focused on linking entrepreneurs with innovation and research resources – such as the SBIR program, links with UVM and other research institutions, etc.

- We need **more state employees in economic development** not fewer and they need strong customer service and communications skills. It's all about relationships and high touch – which takes time and takes sufficient staffing levels. Because many Vermonters say they have lost trust in the government (and even more so in the federal gov't), we need to orient our public facing agencies in a way that rebuilds that trust. A strong customer service / communications focus among agency staff who are good at networking, matchmaking and high quality referrals would go a long way in rebuilding trust.

- **Encourage greater cross agency/department collaboration around economic development** ... for instance, the VAAFM's Ag Development Division, CEDF/Dept of Public Service grants/financing efforts, Agency of Ed's STEM priority areas aligned with VT's CEDS, and VT FP& R wood utilization division ... are not highly coordinated or as collaborative as they should be. Each of these departments or divisions are working on efforts to improve the economy but they are still operating in silos. The best example of doing it right has been the Working Lands Enterprise Initiative which has forged strong relationships between VAAFM, ACCD, and VT FP&R. The staff and leadership connected to this initiative has done an exemplary job over the past 4 years and other parts of state government could learn from them re: how to do it well.

- **We need real focus on developing a workforce development strategy*** – a coordinated approach is needed across ACCD, VT-DOL, VAAFM, FP&R, AHS and AOE– to really focus on growing the workforce to meet employer needs – this includes developing strategies to recruit workers; someone needs to be responsible for workforce development in the state
 - Conduct a demand study by major economic sector that drives strategy for growing our workforce based on business needs
 - Initiate a program that institutes career training and planning starting in middle school
 - Build up regional capacity on workforce development and economic development – supported with resources, people, infrastructure investment
 - * this final suggestion is courtesy of Jeff Lewis and Jennifer Stromsten (VT Futures Project)

Three Thoughts on Economic Development Outside of Chittenden County

1. Strengthen Regional Centers

Focus on the 16 regional centers that serve as the commerce, service, rental housing, and employment hubs for the 13 non-Chittenden counties. They are not all performing equally in relation to the areas they serve. The reasons why may be the keys to bringing growth to the underperforming areas. These communities are where the promise and the challenges concentrate. They have an outsized influence on the economy, representing 29% of the out-state population but more than half of the non-Chittenden Co. wages; half the jobs; 44% of the renters; and 35% of the households age 35 and younger. They are also home to 38% of the balance of state's poverty and 29% of its senior households. Taken together they have a population as large as Chittenden County and have a comparable share of the state's jobs. Wages in these 16 communities have increased by 15% since 2010 compared to 9% in Chittenden County, and 12% in the balance of the rest of the state. Still, they lag well behind Chittenden County's wages. These key communities include:

- *Southern Vermont*: Brattleboro, Bennington, Rutland, Rockingham, Springfield, and Windsor;
- *Central Vermont*: Barre City, Middlebury, Montpelier, Morristown, and Randolph; and
- *Northern VT*: Lyndon, Newport, St. Johnsbury, St. Albans, and Swanton.

Some are outperforming the region they serve and are doing better than the state as a whole in key indicators like job and wage growth, population growth, and homeownership among households under 35. Others are seriously underperforming. Find out why some are doing well and others are most definitely not. Looking just at the key economic and demographic data, the answers are not obvious.

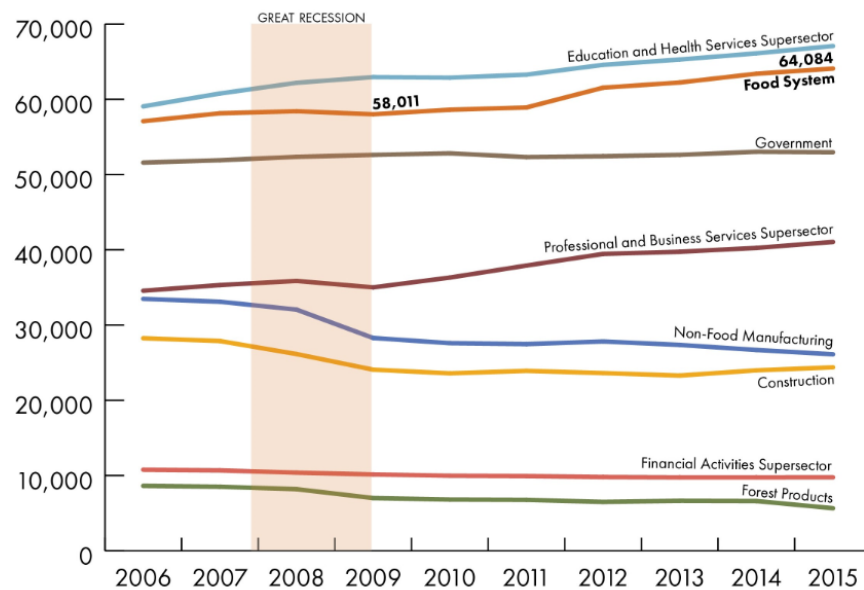
2. Look at the sectors where job growth is happening already and where the rest of the state can compete with Chittenden County.

There is not a big mismatch between the job industries represented outside of Chittenden County and those in Chittenden County. Non-Chittenden County areas comprise 68% of the state's total and private sector jobs. It employs 69% of workers in traditionally blue collar industries and 65% in white collar. Of the 11 different industry supersectors, non-Chittenden County employment in all but four (Natural Resources (96%), Leisure and Hospitality (72%), Information (60%), and Business Services (56%)), fall between 65% and 70% of the Vermont total.

The real difference is the rate of growth and the average wage in each job sector. Manufacturing was the only supersector of the VT economy that grew faster outside of Chittenden County from 2010 to 2015 (+3.8% non-Chittenden County compared to -5.8% in Chittenden County). In the past five years, the big job gains in the rest of the state have occurred in Leisure & Hospitality Jobs (mostly food service), Professional & Business Services, and Health Services, followed by Manufacturing, Construction, and Agriculture & Food Systems.

Job losses outside of Chittenden County occurred in the Government, Retail, and Information sectors. Only in Manufacturing, Leisure & Hospitality, and Education & Health Service jobs did the rest of the state produce more new jobs than Chittenden County.

Food System Continues to Show Solid Job Growth After Great Recession



Average wage differentials are even more striking. Only in the Natural Resource sector and Government jobs do areas outside of Chittenden County jobs pay as well as Chittenden County jobs. The higher the average wage, the bigger the differential. For the traditional blue collar industries (Natural Resources, Construction, Trade, Manufacturing, and Hospitality), the average wage difference between Chittenden County and the rest of the state is nearly \$8,000/year. For the more typically white collar jobs (Information, Financial, Business & Professional, Education & Health Services, and Other, the average wage difference is \$12,700. Despite this wage differential, there are no indicators that jobs are relocating away from the high cost of labor in Chittenden County.

3. Focus on what’s happening to young adults.

Consider the movement and tenure of young adults a bellwether for the future of each region. When growth comes in young homeowners it is perhaps the most significant indicator of a positive future for a community. In the past five years, while the number of young adult (<35 years) home owners in the balance of state dropped by 14%, Barre City, Randolph, and Morristown saw a more than 30% growth among young adult homeowners. Each saw corresponding declines in their renter population. Each also outperformed their region in terms of job growth. This is not a direct cause and effect situation but involves a nexus of factors that could be tailored to address different community situations. On the other hand, communities like Brattleboro, Rockingham, Springfield, Middlebury, and Lyndon went the other way, seeing large increases in young renters (<35 years old) and correspondingly large declines in young

home ownership. These are the communities, by and large, with the highest poverty rates and poorest job and wage numbers. The truth seems to be that these two trends may be going on simultaneously in the same community. Growing the conditions for young homeownership while addressing what may be seen as an entry-level job crisis are keys.