How does VEGI work?

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Step 1: Company applies for a VEGI award

- Company approaches VEPC with a proposal to add payroll, jobs, and/or make a capital expenditure. They file an application laying out over a certain period of time:
  - The amount of jobs and payroll they plan to add over that time period.
  - The amount of capital investment they plan to add over that time period.
  - Or both

- Company establishes targets for both payroll, jobs, and capital expenditure for each year.

Step 2: Estimate the Costs and Benefits to the State

- VEPC uses the Cost-Benefit Model to estimate the positive revenue impacts of this new payroll and new investment. These benefits are then offset by the costs to the state.

- The model produces a number for final net new tax revenues over the time period.

Step 3: Calculate the Incentive Percentage

- Take the net revenue impact and multiply it by 80%. This is the **business share of potential growth**
- Sum the annual payroll requirements across all years.
- Divide the business share of potential growth by the sum of annual payroll requirements.

$$\frac{Business\ share\ of\ potential\ growth}{Sum\ of\ annual\ payroll\ requirements\ across\ all\ years} = \text{Incentive percentage}$$

Step 4: Calculate the incentive

- VEPC calculates the **qualifying payroll**. Annual payroll requirements less any background growth.
- The incentive for each year is determined by multiplying the incentive percentage by the qualifying payroll for each award year.

$$\text{Qualifying Payroll x Incentive Percentage} = \text{Incentive to Business}$$

Step 5: Divide by 5

- An incentive is earned each award year. Each award year’s incentive is, in turn, paid out in five installments over five years.

- For an applicant with five separate award years, if they earn all of them, incentives will be paid out over the course of 9 years.

Calculating a VEGI Award: An Example

	Inputs	
1	Total Revenue Growth (From Cost Benefit Model)	$2,200,000
2	Costs to the State (From Cost Benefit Model)	$675,000
3	Net revenue growth (Line 1 minus 2)	$1,525,000
4	Business Share of Potential Growth	80%
5	**Business Share (Line 3 multiplied by Line 4)**	**$1,220,000**

Payroll Requirements	
Year 1	$170,000
Year 2	$1,260,000
Year 3	$560,000
Year 4	$1,408,000
Year 5	$306,000
Total Payroll Requirement	**$3,704,000**

$$\text{Incentive percentage} = \frac{\$1{,}220{,}000}{\$3{,}704{,}000} = \underline{\mathbf{33\%}}$$

Incentive by Award Year									
Column	A	B	C	D	E	F	G	H	I
Year	Revenue Growth	Costs to State	Net Revenue Growth (Column A minus B)	Business Share (Column D times 80%)	Payroll Requirement	Background Growth (assume 25% of annual payroll requirement, Column E times 25%)	Qualifying Payroll (Column E minus Column F)	Incentive Percentage	Incentive (Column G times Column H)
1	$440,000	$135,000	$305,000	$244,000	$170,000	$42,500	$127,500	33%	$41,995
2	$440,000	$135,000	$305,000	$244,000	$1,260,000	$315,000	$945,000	33%	$311,258
3	$440,000	$135,000	$305,000	$244,000	$560,000	$140,000	$420,000	33%	$138,337
4	$440,000	$135,000	$305,000	$244,000	$1,408,000	$352,000	$1,056,000	33%	$347,819
5	$440,000	$135,000	$305,000	$244,000	$306,000	$76,500	$229,500	33%	$75,591
Total	**$2,200,000**	**$675,000**	**$1,525,000**	**$1,220,000**	**$3,704,000**	**$926,000**	**$2,778,000**	**33%**	**$915,000**

The Flow of Money: An Example

Flow of Money						
	Year 1 Award	Year 2 Award	Year 3 Award	Year 4 Award	Year 5 Award	Total Incentives
2020	$8,399					$8,399
2021	$8,399	$62,252				$70,651
2022	$8,399	$62,252	$27,667			$98,318
2023	$8,399	$62,252	$27,667	$69,564		$167,882
2024	$8,399	$62,252	$27,667	$69,564	$15,118	$183,000
2025		$62,252	$27,667	$69,564	$15,118	$174,601
2026			$27,667	$69,564	$15,118	$112,349
2027				$69,564	$15,118	$84,682
2028					$15,118	$15,118
Totals	**$41,995**	**$311,258**	**$138,337**	**$347,819**	**$75,591**	**$915,000**

Note: First year’s awards are prorated depending upon when the hire started

How does the money get to the company?

- Department of Taxes verifies that the company hit their targets
  - For payroll and jobs, they verify by looking at wage withholding
  - For capital expenditures, they verify by looking at the depreciation schedules for the company
- So how does the money get to the company?
  - Employers withhold state and federal income taxes on behalf on their employees for each paycheck. Each employer has a withholding account with the Department of Taxes for state income taxes.
  - Department of Taxes, upon verification of the targets, will place a credit in the withholding account of the company.
  - Department generates a check against the withholding account, which gets sent to the company (similar to a tax refund)

Governor’s Budget and VEGI

- Includes an expansion of the VEGI program, largely in the structure of awards.
- How it would work:
  - For businesses with less than 100 employees:
    - Cost-benefit model determines the potential net revenue benefit for the state.
    - VEDA offers the business a forgivable loan with a 3-year term.
    - If the company hits its payroll, job, and/or capital investment requirements, VEDA will forgive the loan.
    - Department of Taxes, upon verification of the targets, will reimburse VEDA.
    - If the company does not hit the targets, some portion of the loan will become repayable.
  - For businesses with more than 100 employees and a proposal of $20m in capital investment
    - “A direct cash payment in annual installments in a format the Council specifies…”

Governor’s Budget and VEGI

- Pilot program for businesses under 100 employees contains $1 million in funding for VEDA
- The Vermont Investment Incentive includes $3 million in FY21.
- Recent language by Commissioner Goldstein in W&M committee showed a change in the VEGI cap to $25 million
  - Right now, it is $15 million for one or more initial approvals and $10 million for one or more final approvals.