Vermont Economic Progress Council

Report to House Ways and Means

January 23, 2019

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Vermont Economic Progress Council Background

- VEPC is an independent body created by the General Assembly 25 years ago that is attached to ACCD for administrative support.
- VEPC is housed within ACCD and receives legal, grants management, IT, and other services from the Agency.
- VEPC’s budget is included in the DED budget.
- VEPC is staffed by an Executive Director appointed by the Governor with the consent of the Senate, and one classified employee, a Grants Program Manager.

VEPC Programmatic Responsibilities

- VEPC administers two programs in accordance with statute:
  - Vermont Employment Growth Incentive
    - The application and approval process for the Vermont Employment Growth Incentive (VEGI) program.
    - VEPC partners with the Vermont Tax Department on claims and monitoring of this program.
  - Tax Increment Financing
    - The application and approval process, as well as monitoring and oversight, of TIF districts.
    - VEPC partners with the Tax Department and the State Auditor’s Office on administration and oversight of this program.

- In Accordance with statute VEPC also has review responsibilities for the ThinkVermont Innovation Grant.

Vermont Economic Progress Council

Vermont Economic Growth Incentive

VEGI Background

- The State of Vermont created the VEGI program to encourage business recruitment, growth, and expansion.
- The program can provide a performance-based cash incentive for prospective job and payroll creation and capital investment that is beyond organic growth and which occurs because of the incentive.
- As an "incentive," the program is neither a grant nor financing. Rather, it is an inducement to create quality jobs and invest in Vermont when that would not otherwise occur without the incentive.
- The VEGI program is performance-based. No incentive is paid to the company at the time the incentives are authorized.
- Companies can only be authorized to earn the incentive through application to VEPC.
- VEPC's authorization determines eligibility and sets the level of incentive based on the economic activity that is projected to occur.

VEGI: Criteria For Approval

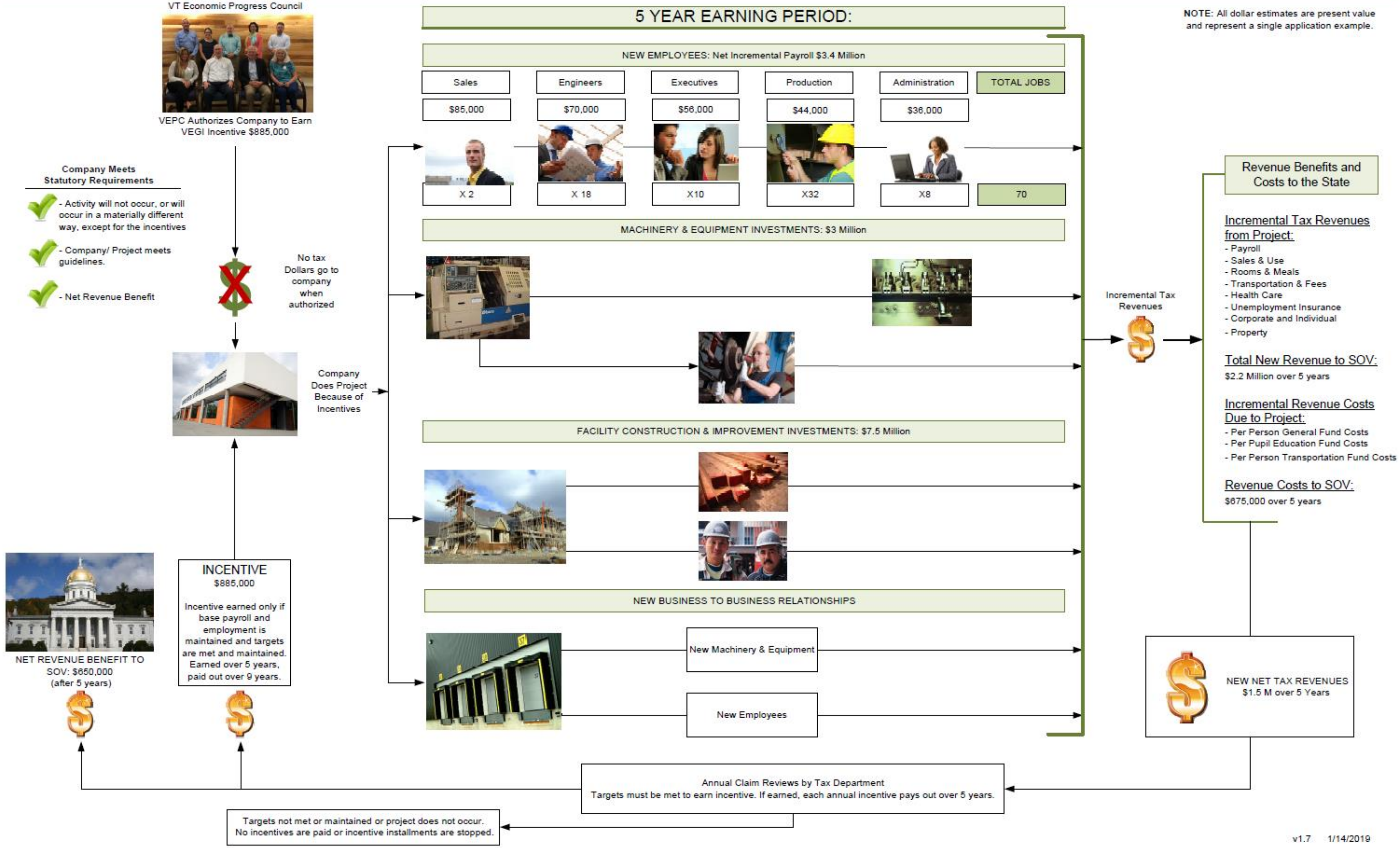
VEPC Determines eligibility based on 5 criteria for approval

- The total estimated incremental tax revenues from all sources generated to the State by the proposed economic activity exceeds the revenue costs of the activity to the State, including the cost of the incentive;
- The host municipality welcomes the new business and the proposed economic activity conforms to applicable town and regional plans;
- The business is in compliance with State regulations and laws;
- If the business proposes to expand within a limited local market, an incentive would not give the business an unfair competitive advantage over other Vermont businesses in the same or similar line of business and in the same limited local market; and
- But for the incentive, the proposed economic activity:
  - (A) would not occur; or
  - (B) would occur in a significantly different manner that is significantly less desirable to the State.

“But For”

- VEPC staff advice applicants on the eligibility threshold on the “But-For” requirement, discouraging potential applicants who obviously do not meet it. Many inquiries do not go any further than the initial conversation.
- Further, applicants’ activities must exceed background growth for the industry, which is calculated according to a quantitative model set by Joint Fiscal. This leads to a further drop out rate after pre-app. They may meet the “But For” but if their growth doesn’t surpass the projections for the industry they are not incentivized.
- VEPC’s board does a detailed review of all but-for claims, reviewing not only statements made but also the required back up documentation that applicants provide. Each board member is picked based on this their individual experiences in business and government and use this expertise to review documentation and ask questions of applicants before making a determination.
- A subjective process can still be audited for conformance with policy.

HOW VEGI WORKS



VERMONT

VERMONT ECONOMIC PROGRESS COUNCIL

VERMONT EMPLOYMENT GROWTH INCENTIVE

ILLUSTRATION OF INCENTIVE CALCULATION

Applicant: Sample Company
NAICS: 333911

PERFORMANCE MEASURES BASED ON APPLICATION	2016	2017	2018	2019	2020	2021	Totals
BASE FULL-TIME PAYROLL	$ 3,879,000						
NEW QUALIFYING PAYROLL		$439,000	$491,000	$712,000	$865,000	$897,000	$3,404,000
NEW QUALIFYING JOBS		9	9	16	18	18	70
NEW QUALIFYING CAPITAL INVESTMENT		$8,000,000	$1,000,000	$900,000	$100,000	$0	$10,000,000

INCENTIVE PERCENTAGE CALCULATION		
Pre-Incentive Net Fiscal Benefit for State: (As calculated by cost-benefit model)		$1,462,760
(TIMES) Statutory Incentive Ratio	X	80%
(EQUALS) Post-Incentive Ratio C/B Net Fiscal Benefit:	=	$1,170,208
(DIVIDED BY)Total Qualified Payroll Increase	÷	$3,404,000
(EQUALS) Incentive Percentage	=	34.38%

PAYROLL AND BACKGROUND GROWTH CALCULATION		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Totals
Background Growth Rate:	0.99%	2017	2018	2019	2020	2021	
Base Payroll	$3,879,000	$4,434,000	$5,058,000	$5,922,000	$6,965,000	$8,071,000	
Incremental Qualifying Payroll		$439,000	$491,000	$712,000	$865,000	$897,000	$3,404,000
Organic Growth		$3,917,315	$3,956,009	$3,995,085	$4,034,547	$4,074,399	
Incremental Background growth		$38,315	$38,694	$39,076	$39,462	$39,852	$195,399
Payroll to be incented		$400,685	$452,306	$672,924	$825,538	$857,148	$3,208,601

THEORETICAL INCENTIVE AMOUNT AND PAYOUT CALCULATION

Year	Max. Incentive Amount	Number of Jobs	2018 1	2019 2	2020 3	2021 4	2022 5	2023 6	2024 7	2025 8	2026 9	TOTALS
1 - 2017	$137,755	9	$22,959	$27,551	$27,551	$27,551	$27,551					$133,163
2 - 2018	$155,503	9		$25,917	$31,101	$31,101	$31,101	$31,101				$150,319
3 - 2019	$231,351	16			$38,559	$46,270	$46,270	$46,270	$46,270			$223,640
4 - 2020	$283,820	18				$47,303	$56,764	$56,764	$56,764	$56,764		$274,359
5 - 2021	$294,688	18					$49,115	$58,938	$58,938	$58,938	$58,938	$284,865
Total	$1,103,117	70										
Annual Sum of Incentives:			$22,959	$53,468	$97,211	$152,225	$210,801	$193,072	$161,972	$115,702	$58,938	
Cumulative Total			$22,959	$76,427	$173,638	$325,863	$536,664	$729,736	$891,708	$1,007,409	$1,066,347	$1,066,347

NET REVENUE BENEFIT TO STATE OF VERMONT (AFTER ALL COSTS, INCLUDING COST OF INCENTIVES): $650,000

1. To earn incentive, company must maintian or increase base full-time payroll and meet payroll and either headcount or capital investment perfromance measures by December 31 of each year. The performance measures are set by the applicant in their Final Application

2. This number is calculated by a cost-benefit analysis that determines the revenue benefits and costs to the State of Vermont generated by the proposed economic activity presented by the applicant (see #1 above). The result is the amount of incremental net new tax revenues that will be generated over five years from all sources to the State of Vermont because of the project activity.

3. Statute requires that only 80% of the net revenue benefit be used to calculate the incentive (90% for Green VEGI applications).

4. Statute requires that the adjusted net revenue benefit be divided by the total qualifying payroll that will be created by the project to get the Incentive Percentage for which the applicant is eligible.

5. Background Growth Rates for each industry sector (by NAICS) are determined annually using 15 years of data. The industry growth rate is applied to the applicant's total full-time payroll to determine the amount of "background" or "organic" payroll growth that would occur regardless of the incentive. (This amount is adjusted to 20% of normal background growth for Green VEGI applications.) The background growth is then subtracted from the new qualifying payroll projected by the applicant to get the net payroll for which an incentive can be calculated.

6. For each year, the Incentive Percentage is multiplied by the net new qualifying payroll (after background growth is discounted) to get the incentive amount that can be earned that year. To earn the incentive, base payroll and employment must be maintained, and payroll and either headcount or capital investment performance measures must be fully met.

7. For each year that an incentive is earned, it is paid out in five installments if the payroll and headcount targets are maintained. The first installment is adjusted for partial year hiring and is therefore an estimate until the hiring actiually ocurs an dthe actual incentive is paid.

8. The "Maximum Incentive Amount" assumes all hires start January 1 of each year. This is the maximum amount of incentive that could be earned if all new qualifying employees are hired January 1 of each year.

9. The first incentive installment is a prorated adjustment estimated to account for partial year hiring, based on the data provided in the application. The actual amount of the first installment will depend on the number of days each new qualifying hire actually works during their first year. The second through fifth installments are the full earned incentive amount

10. This is the estimated amount of the incentive check that would be paid to the company each year. The actual amount will depend on the prorated amount of each first installment and performance each year.

11. This is the total net estimated incentive amount that the applicant would be paid, including the prorated adjustment to each first installment. It is an estimate because the actual first installment amounts cannot be known until after each annual incentive is earned.

12. This is the net amount of tax revenues that will be generated to the State of Vermont by the economic activity of the applicant, after the costs of the incentive and other revenues costs.

VEGI Claims

- An annual VEGI claim must be filed with the Tax Department through a claim form created by the Tax Department.
- The Tax Department reviews each claim filed by a company individually.
- Performance requirements will not be deemed to have been met even if missed by only the smallest of margins.
- Performance requirements cannot be adjusted after a Final Application is approved.
- Once the life of a VEGI award has ended, Tax and VEPC can no longer oversee or monitor past participants.

	VEGI GRACE PERIOD AND POTENTIAL EXTENSIONS					
	TARGET YEAR 1	TARGET YEAR 2	TARGET YEAR 3	TARGET YEAR 4	TARGET YEAR 5	YEAR 6
Year 1	Year 1 -Meet PRs by Dce 31	Grace Period - 1st 12 Months	Grace Period - 2nd 12 Months	Potential Grace Period Extension - 1st 12 Months	Potential Grace Period Extension - 2nd 12 Months	
Year 2		Year 2 - Meet PRs by Dec. 31	Grace Period - 1st 12 Months	Grace Period - 2nd 12 Months	Potential Grace Period Extension - 1st 12 Months	
Year 3			Year 3 - Meet PRs by Dec. 31	Grace Period - 1st 12 Months	Grace Period - 2nd 12 Months	
Year 4				Year 4 - Meet PRs by Dec. 31	Grace Period - Only 12 Months	
Year 5					Year 5- Meet PRs by Dec 31	
Claims:		April 30 - File Claim for Year 1	April 30 - File Claim for Year 2	April 30 - File Claim for Year 3	April 30 - File Claim for Year 4	April 30 - File Claim for Year 5
Ext Requests			No later than Nov - file 1st GP extension request for Year 1	No later than Nov - file 2nd GP extension request for Year 1		
				No later than Nov - file 1st GP extension request for Year 2		
		Modeling and authorization period				
		Target Year		PR = Performance Requirements		
		Grace Period		GP = Grace Period		
		Potential Grace Period Extensions				

Update

VEGI: CALENDAR YEAR 2016 Actual data from calendar year 2016. * *Data is reported on a 2-year lag, so claims for 2016 were filed with tax in April 2017 and reported to VEPC in 2018. Later in 2019, we will have access to 2017 data.*	**\$4.2 M** Net New Revenue to the State, Total	**\$35.9 M** Qualifying Direct New Payroll, Total	**693** Qualifying Direct New Jobs, Total	**\$58.2 M** Qualifying Direct Capital Investment, Total
VEGI: PROJECTIONS 2017–2021 (5 YEARS) Projections are based on participant data as of December 31, 2018.	**\$9.3 M** Net New Revenue to the State, Total	**\$45.2 M** Qualifying Direct New Payroll, Total	**1,030** Qualifying Direct New Jobs, Total	**\$230.8 M** Qualifying Direct Capital Investment, Total

HIGHLIGHTS

- Estimated fiscal return to the State: $22,620,866
- Average wage of VEGI job created: $59,346
- Disbursement (2007-2016): $22.6 million
- New qualifying jobs projected (2007-2023): 3,074

2018/2019 VEGI Awards

What was done in 2018?

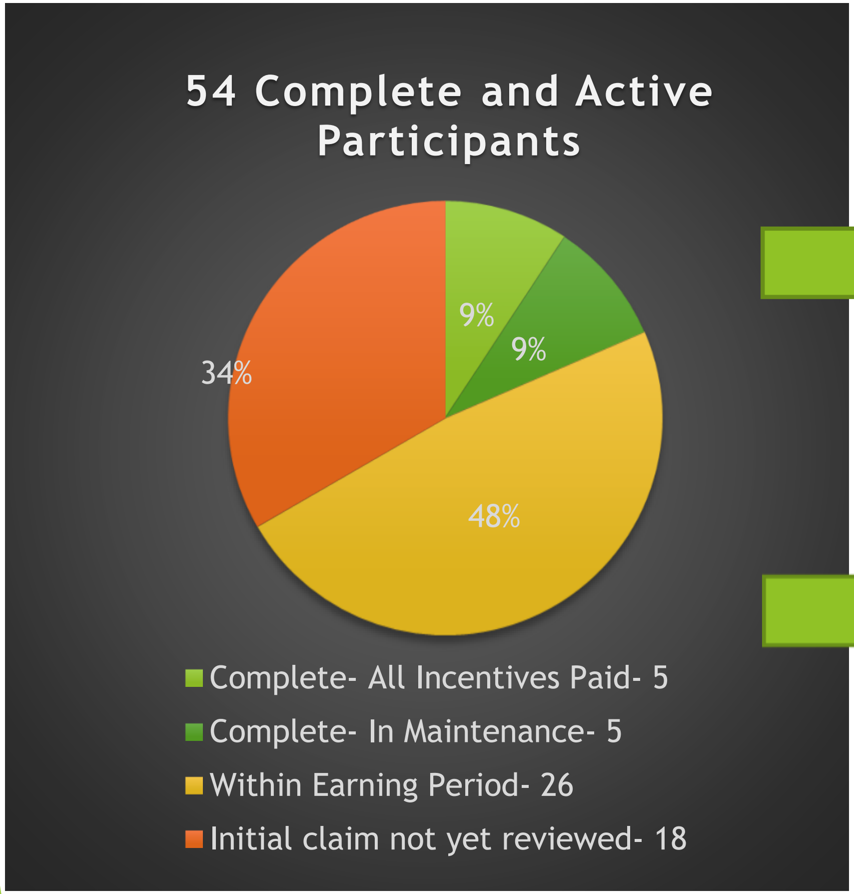
- VEPC considered 13 applications for activities beginning in 2018
  - 1 initial approval was rescinded
  - 5 were deferred until next year
  - 7 were approved
- At least 10 additional inquiries
- Max incentives approved come to $4.6 M
- The minimum net revenue benefit to the state will be $1.9 M
- 408 qualifying full-time jobs
- $18.9M in payroll; average wage of more than $46k
- $68.3M in capex
- 3 LMA enhancements approved (Morrisville, Brattleboro, Randolph)
- 1 green enhancement approved

What is happening in 2019 so far?

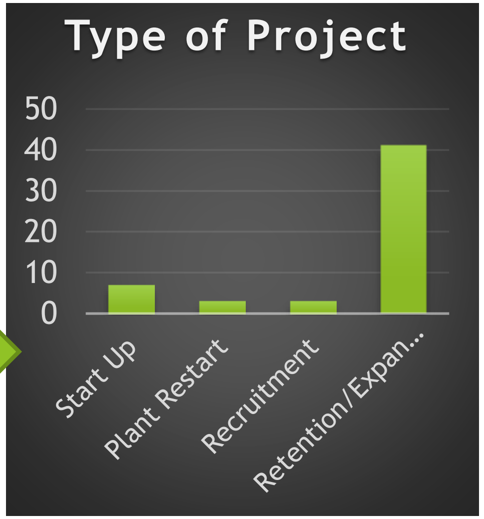
- 5 initial applications approved for 2019 activities
- 447 new qualifying jobs
- $8.2M in payroll
- $58.5M in capex
- 1 LMA incentive approved
- $511,000 NRB to state

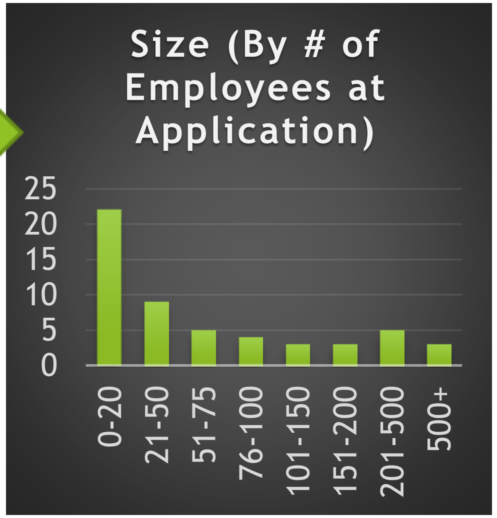
VEGI Participants (2007-2018)

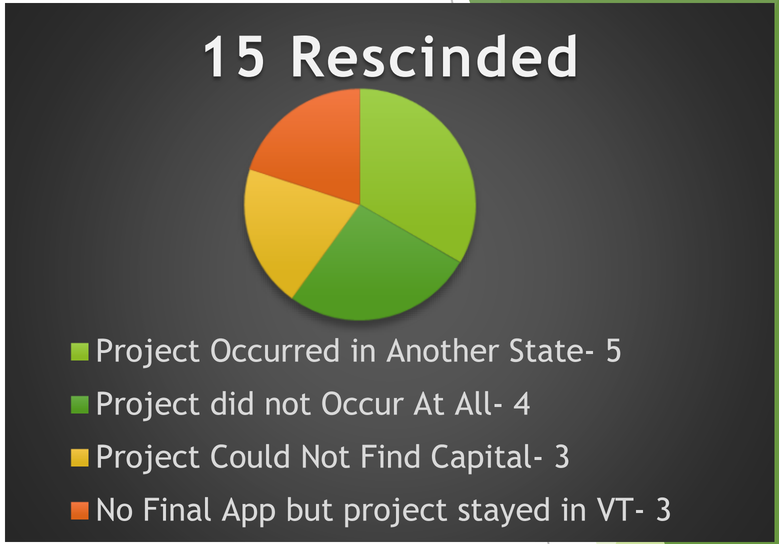
124 Total Participants

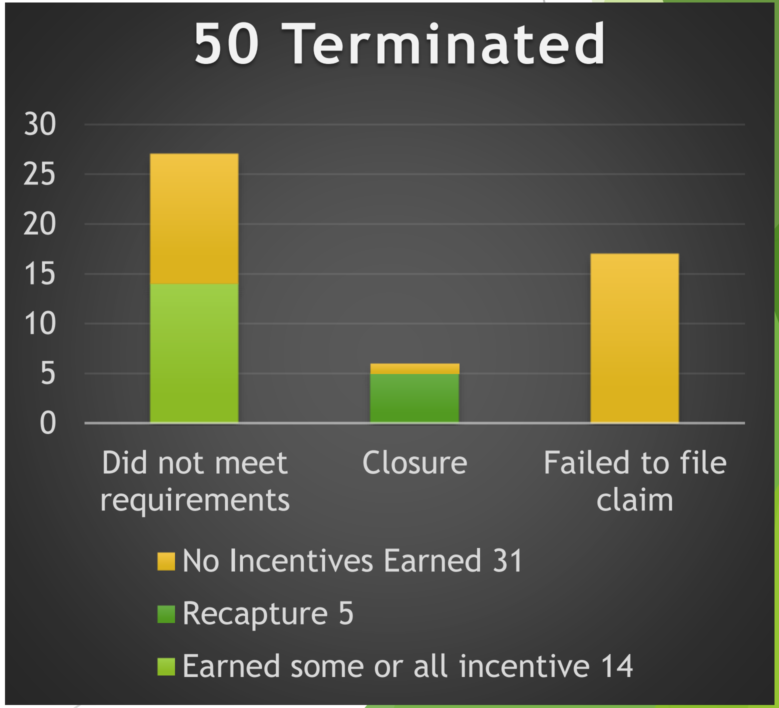


5 Participants have been denied







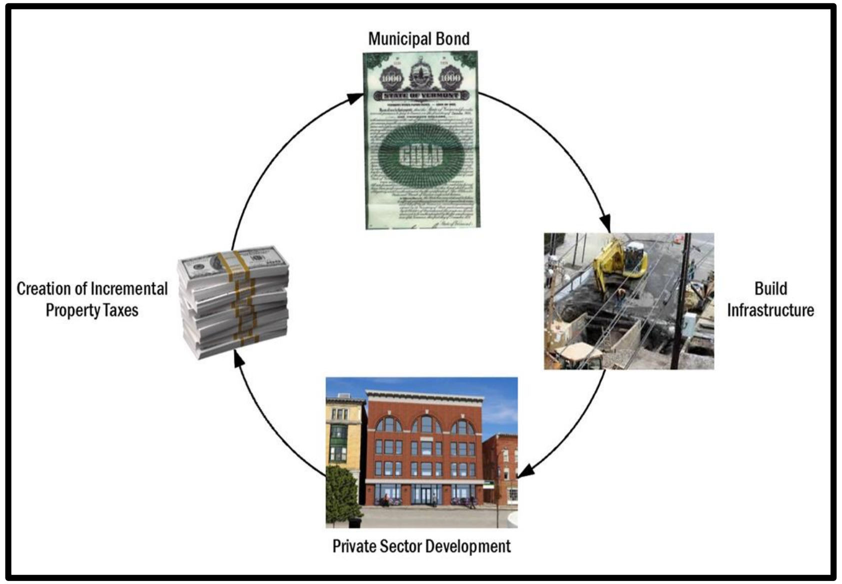


Vermont Economic Progress Council

Tax Increment Financing Districts

What are TIF Districts?

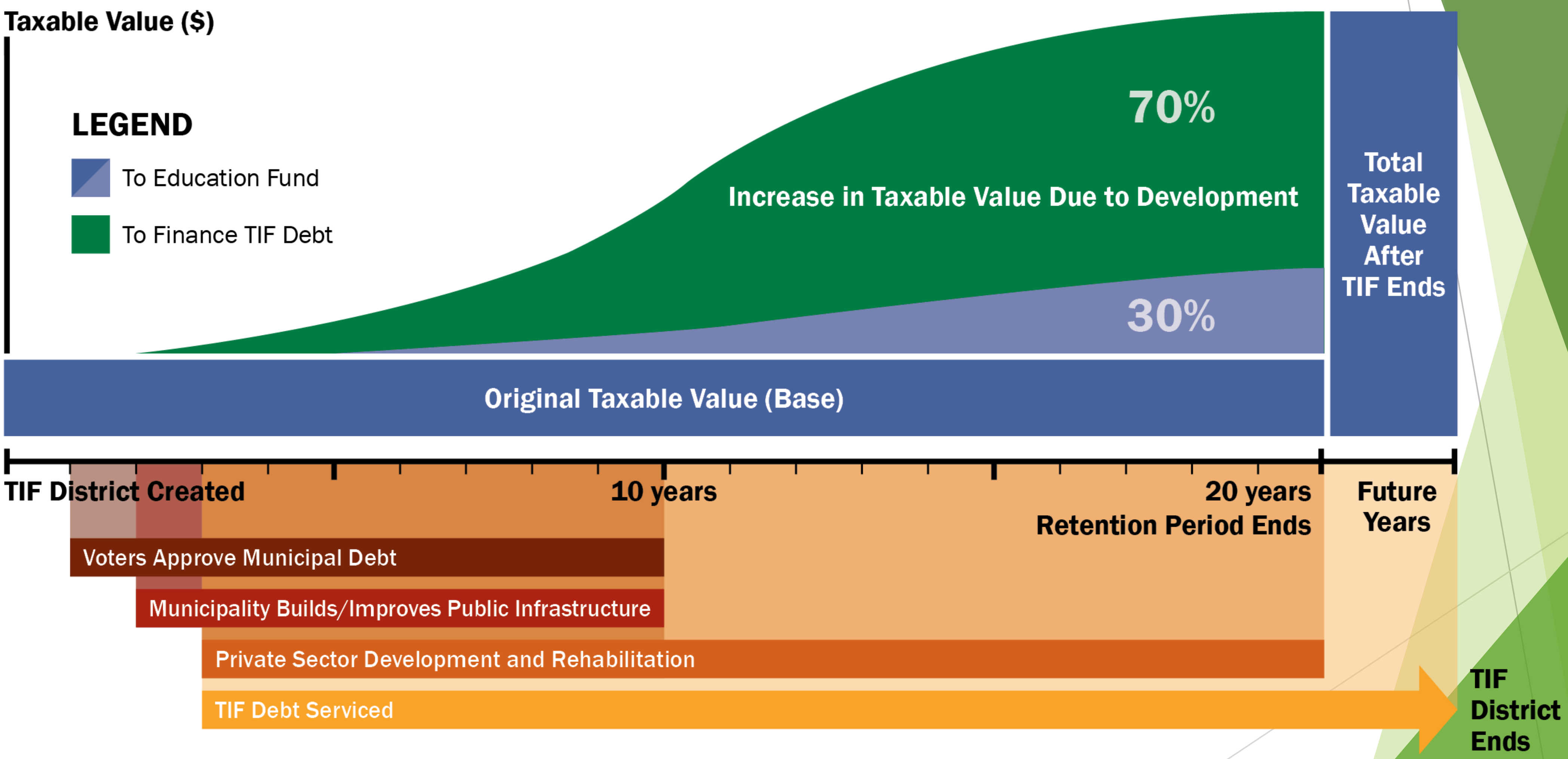
- Financially: A financing tool to build public infrastructure needed to encourage private sector development. The private development then generates new tax revenue to pay for the infrastructure.



- Geographically: A district, designated by a municipality, where the municipality would like to encourage private sector development.

*See TIF Overview Appendix

Tax Increment Financing: Timeline and Revenue Distribution



Tax Increment Financing

Purpose: To provide revenue, beyond normal municipal budgets and debt load, to develop public infrastructure that will encourage private sector development and/or redevelopment.

Statute specifically requires:

- Infrastructure improvements must serve the TIF District and stimulate private sector development or redevelopment;
- Development must provide employment opportunities;
- Development must improve and broaden the tax base; and
- Development must enhance the economic vitality of the municipality, region, or state.

Vermont's TIF Districts (By Date Created)

PRE-ACT 60 TIF DISTRICTS:

Burlington Waterfront-1996

- Town Center parcels continue until 2035.

Newport City Industrial Park- 1997

- Debt paid off in 2015.

EATI-ERA TIF DISTRICTS:

Milton North/South-1998

- Retention Period ends in March 2019

SPECIAL LEGISLATION:

Winooski Downtown- 2000

- Retention period ends 2024.

POST-ACT 184 (2006) TIF DISTRICTS:

Milton Town Core- 2008

- Retention period = 2011-2031

Colchester- 2010

- 2014 District dissolved by Select Board.

Burlington Downtown- 2011

- Retention period = 2016-2036

Hartford Downtown- 2011

- Retention period = 2014-2034

St Albans City Downtown-2012

- Retention period = 2013-2033

Barre City Downtown- 2012

- Retention period = 2015-2035

South Burlington City Center- 2012

- Retention period = 2017-2037

POST-ACT 69 (2017) TIF DISTRICTS:

Bennington Downtown-2017

- First debt not yet incurred

Montpelier Downtown-2018

- First Debt not yet incurred

- 4 District Opportunities Remain Under Act 69

Vermont TIF Location Criteria
2 of 3:

Compact,
high density, or
in existing
industrial area

Approved growth center
Designated downtown
Designated village center
New town center
Neighborhood development area

Economically distressed:
80% of median income
1%> unemployment
80% of residential sales price

Vermont TIF Project Criteria
3 of 5:

Compact,
High density, or
in existing industrial area

Approved growth center
Designated downtown
Designated village center
New town center
Neighborhood
devel rea

Economically distressed:
80% of median income
1%> unemployment
80% of residential sales price

Clearly requires substantial public investment

At least one new or expanded business within the district

Includes new or rehabilitated affordable housing

Enhanced transportation flow or improved public transit

Remediation and redevelopment of a brownfield

Vermont TIF Additional Approval Criteria

Infrastructure nexus

Increment proportionality

Financial & market viability

Statutory purpose

But-for

High
in exis
area

Appr th
center
New town center
Neighborhood
devel rea

Economically
ed:
n income
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80% of residential sales price

clearly requires substantial public investment

at least one new or expanded business within the district

includes new or rehabilitated affordable housing

Enhanced transportation flow or improved public transit

remediation and redevelopment of a brownfield

TIF Update

TIF: FISCAL YEAR 2017 Figures for all TIFs for fiscal year 2017 (July 1, 2016–June 30, 2017). *** Data is reported to VEPC annually by February 15. Fiscal year 2018 data will be reported to the Legislature by April 1, 2018*	**$8.2 M** Total Incremental Revenue	**$636,000** Net Incremental Revenue to Education Fund	**$5.9 M** Public Infrastructure Investment	**$17.7 M** Increase in Property Values
TIF: PROJECTIONS Figures for all TIFs from FY2018 through FY2038. Data includes newly approved TIF districts in Bennington and Montpelier.	**$289.8 M** Total Incremental Revenue	**$45.6 M** Net Incremental Revenue to Education Fund	**$214.3 M** Public Infrastructure Investment	**$511.8 M** Increase in Property Values

THROUGH 2017

- $55.3 M total incremental revenue generated
- $2.5 M of the above total has gone to the Education Fund
- $109 M total public infrastructure investment
- $335.7 M increase in Education Grand List

Barre’s Enterprise Ally Before

Barre Enterprise Ally After

Why does Vermont have a TIF program?

- Economically feasible development in downtowns is extremely difficult.
- In rural areas costs to build are so high that a return can’t be made, making development unattractive.
- Much of Vermont’s downtown infrastructure is old and inadequate to meet current needs.
- Each is different and have different needs, but many have issues with parking, sewer lines, water, storm water treatment, housing, and brownfields.
- Funding from State and Federal levels is limited.
- TIF enables public-private partnerships to finance infrastructure and attain development goals.

TIF Oversite and Monitoring

VEPC's Continuing Role:

- Oversight and Compliance Monitoring
  - Semi-annual monitoring visits
  - Annual reporting on progress from the TIF districts to VEPC
  - Submittal of annual report to General Assembly by April 1
  - Substantial change requests and non-compliance procedures

Additional Oversite:

- Annual independent audits
- Performance audits conducted by State Auditor's Office several times during the life of a district