

Vermont Economic Progress Council

Megan Sullivan, Executive Director

Presentation to House Commerce Committee, 1/17/19

Overview

- ▶ Vermont Economic Progress Council (VEPC)
 - ▶ Background and status of the Council
 - ▶ Current members
 - ▶ Programmatic responsibilities
- ▶ Vermont Employment Growth Incentive (VEGI)
 - ▶ What is VEGI and how does it work?
 - ▶ What has the program accomplished? General update
 - ▶ How is the program monitored?
- ▶ Tax Increment Financing (TIF)
 - ▶ What is Vermont's TIF Program, and how does it work?
 - ▶ What has been accomplished? General update
 - ▶ How is the program monitored?

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 management specialist.

Council Members

Name, geographic location, term ending

- ▶ *Mr. John Davis - South Burlington - 3/31/2019
- ▶ *Mr. Stephan Morse, Chair - Newfane - 3/31/2019
- ▶ Ms. Betsy Gentile - Brattleboro - 3/31/2021
- ▶ Mr. Michael Keane - No. Bennington - 3/31/2021
- ▶ *Mr. Thaddeus Richardson - Lyndonville - 3/31/2019
- ▶ Ms. Rachel Smith - St. Albans - 3/31/2021
- ▶ *Ms. Emma Marvin - Morrisville - 3/31/2019
- ▶ Ms. Patricia Horn - Windsor - 03/31/2021
- ▶ Mr. Mark Nicholson - Barre - 03/31/2021

General Assembly Appointees

- ▶ Jean O'Sullivan - Burlington - House of Representatives Appointee
- ▶ Vacant - Senate Appointee

Each county in Vermont has 2 non-voting members representing the Regional Development Corporation and the Regional Planning Commission.

*Terms for 4 members expire in March 2019, with statutory allowance for reappointment by the Governor.



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.

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Vermont Economic Progress Council

Vermont Economic Growth Incentive

Vermont Employment Growth Incentive

- ▶ 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*.
- ▶ Companies must be authorized to earn the incentive through application to VEPC.
- ▶ The VEGI program is performance-based. No incentive is paid to the company at the time the incentives are authorized.
- ▶ The authorization determines eligibility and sets the level of incentive based on the economic activity that is projected to occur.

* See Program Overview Appendix

HOW VEGI WORKS

VT Economic Progress Council



VEPC Authorizes Company to Earn VEGI Incentive \$885,000

Company Meets Statutory Requirements

- Activity will not occur, or will occur in a materially different way, except for the incentives
- Company/ Project meets guidelines.
- Net Revenue Benefit



No tax Dollars go to company when authorized



Company Does Project Because of Incentives



NET REVENUE BENEFIT TO SOV: \$850,000 (after 5 years)

INCENTIVE
\$885,000

Incentive earned only if base payroll and employment is maintained and targets are met and maintained. Earned over 5 years, paid out over 9 years.

5 YEAR EARNING PERIOD:

NEW EMPLOYEES: Net Incremental Payroll \$3.4 Million

Sales	Engineers	Executives	Production	Administration	TOTAL JOBS
\$85,000	\$70,000	\$56,000	\$44,000	\$36,000	
X 2	X 18	X 10	X 32	X 8	70

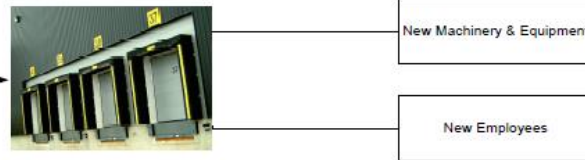
MACHINERY & EQUIPMENT INVESTMENTS: \$3 Million



FACILITY CONSTRUCTION & IMPROVEMENT INVESTMENTS: \$7.5 Million



NEW BUSINESS TO BUSINESS RELATIONSHIPS



Incremental Tax Revenues

Revenue Benefits and Costs to the State

Incremental Tax Revenues from Project:

- Payroll
- Sales & Use
- Rooms & Meals
- Transportation & Fees
- Health Care
- Unemployment Insurance
- Corporate and Individual
- Property

Total New Revenue to SOV:
\$2.2 Million over 5 years

Incremental Revenue Costs Due to Project:

- Per Person General Fund Costs
- Per Pupil Education Fund Costs
- Per Person Transportation Fund Costs

Revenue Costs to SOV:
\$675,000 over 5 years



NEW NET TAX REVENUES
\$1.5 M over 5 Years

Annual Claim Reviews by Tax Department

Targets must be met to earn incentive. If earned, each annual incentive pays out over 5 years.

Targets not met or maintained or project does not occur. No incentives are paid or incentive installments are stopped.

NOTE: All dollar estimates are present value and represent a single application example.



**VERMONT ECONOMIC PROGRESS COUNCIL
VERMONT EMPLOYMENT GROWTH INCENTIVE
ILLUSTRATION OF INCENTIVE CALCULATION**

Applicant: Sample Company
NAICS: 333911

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

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

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.

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%

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.

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 actually occurs and the actual incentive is paid.

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.

PAYROLL AND BACKGROUND GROWTH CALCULATION							
	2016	Yr 1 2017	Yr 2 2018	Yr 3 2019	Yr 4 2020	Yr 5 2021	Totals
Background Growth Rate:	0.99%						
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

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.

THEORETICAL INCENTIVE AMOUNT AND PAYOUT CALCULATION												
Year	Max. Incentive Amount	Number of Jobs	2018	2019	2020	2021	2022	2023	2024	2025	2026	TOTALS
			1	2	3	4	5	6	7	8	9	
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	\$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

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.

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

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

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.

VEGI Enhancements

Green Enhancement

- ▶ Businesses primarily engaged in research, design, engineering, development, or manufacturing related to the green economy.
- ▶ VEGI incentive calculation will use a 90% Incentive Ratio (instead of the normal 80)

LMA Enhancement

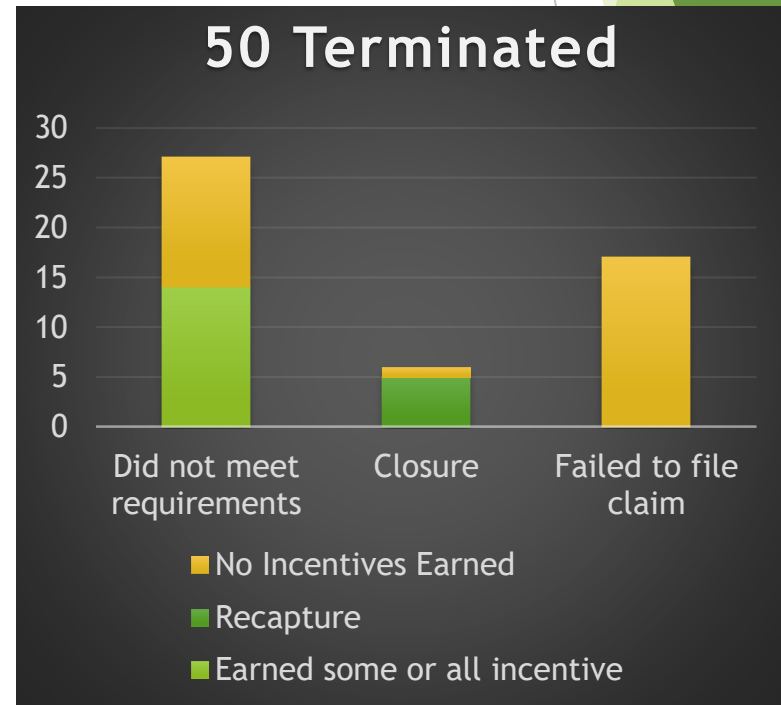
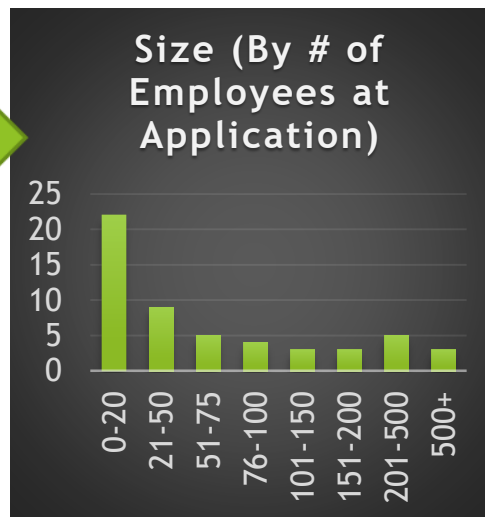
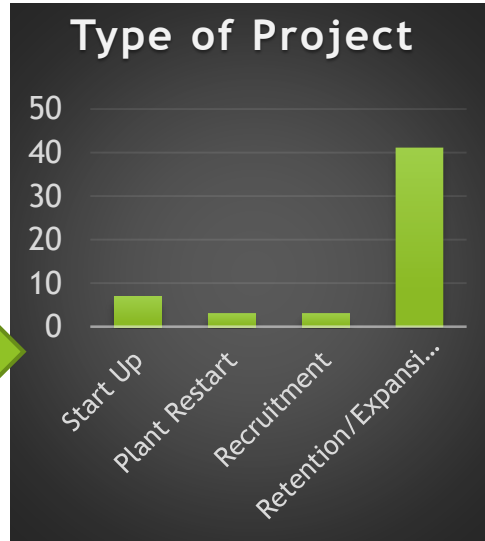
- ▶ VEPC Board has the discretion to increase an incentive amount in an economically distressed region.
- ▶ \$1,000,000 cap in any calendar year, unless increased by the Joint Fiscal Committee
- ▶ VEGI Incentive calculation up to 100% Incentive Ratio.

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 no longer have oversight or monitoring responsibilities.









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 Dec 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				

VEGI Participants (2007-2018)



*See Application Summary Appendix

Update

<p>VEGI: CALENDAR YEAR 2016</p> <p>Actual data from calendar year 2016.</p> <p><i>* 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.</i></p>	 <p>\$4.2 M</p> <p>Net New Revenue to the State, Total</p>	 <p>\$35.9 M</p> <p>Qualifying Direct New Payroll, Total</p>	 <p>693</p> <p>Qualifying Direct New Jobs, Total</p>	 <p>\$58.2 M</p> <p>Qualifying Direct Capital Investment, Total</p>
<p>VEGI: PROJECTIONS 2017-2021 (5 YEARS)</p> <p>Projections are based on participant data as of December 31, 2018.</p>	 <p>\$9.3 M</p> <p>Net New Revenue to the State, Total</p>	 <p>\$45.2 M</p> <p>Qualifying Direct New Payroll, Total</p>	 <p>1,030</p> <p>Qualifying Direct New Jobs, Total</p>	 <p>\$230.8 M</p> <p>Qualifying Direct Capital Investment, Total</p>

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

*See Long Falls Paperboard Employee Stories Attachment



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Vermont Economic Progress Council

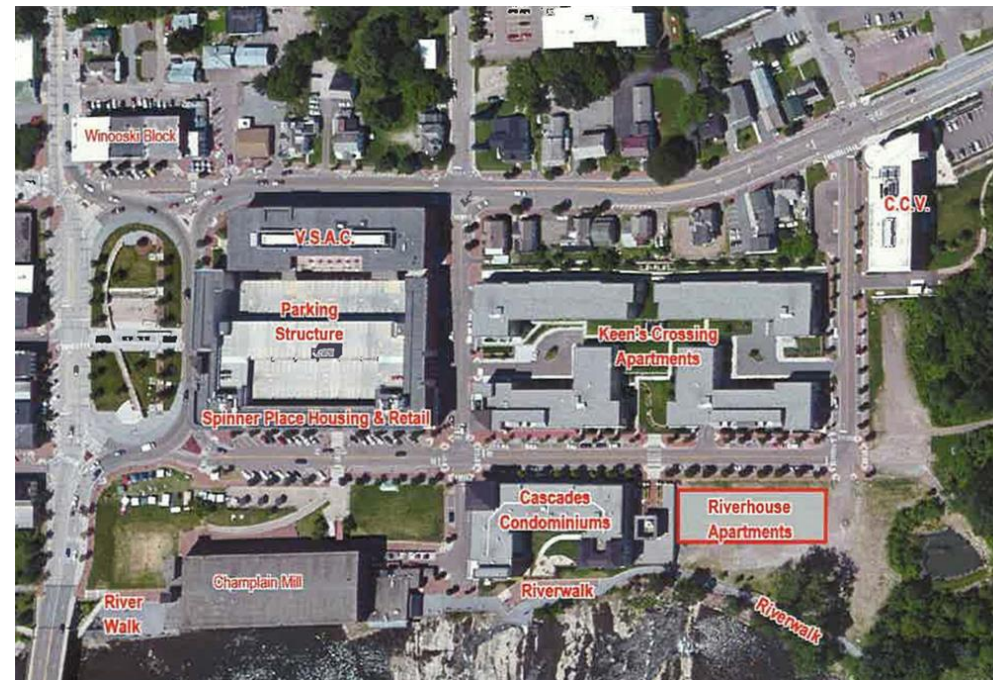
Tax Increment Financing Districts

Tax Increment Financing (TIF)

- ▶ TIF is a tool used by approved municipalities in Vermont to ease the taxpayer burden associated with necessary infrastructure improvements. The additional, or incremental, property tax revenue that is generated by the private development is used to service debt associated with the infrastructure improvements.



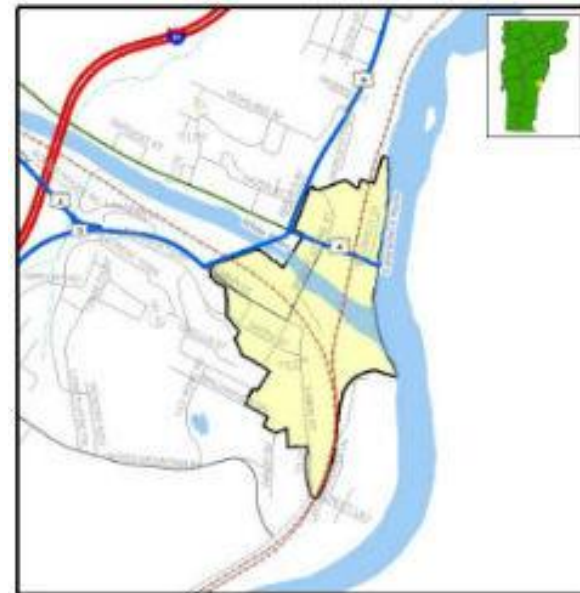
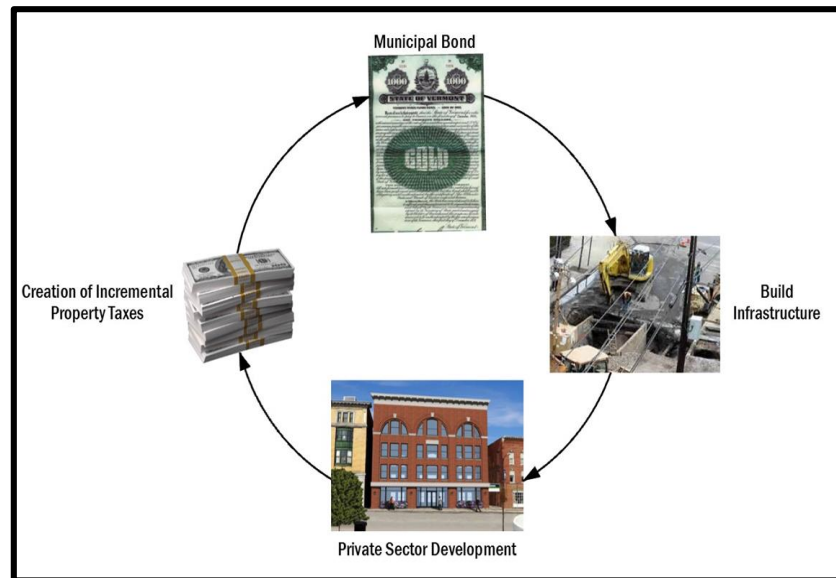
▶ Winooski TIF District 2004



▶ Winooski TIF District 2012 (Google Maps Imagery)

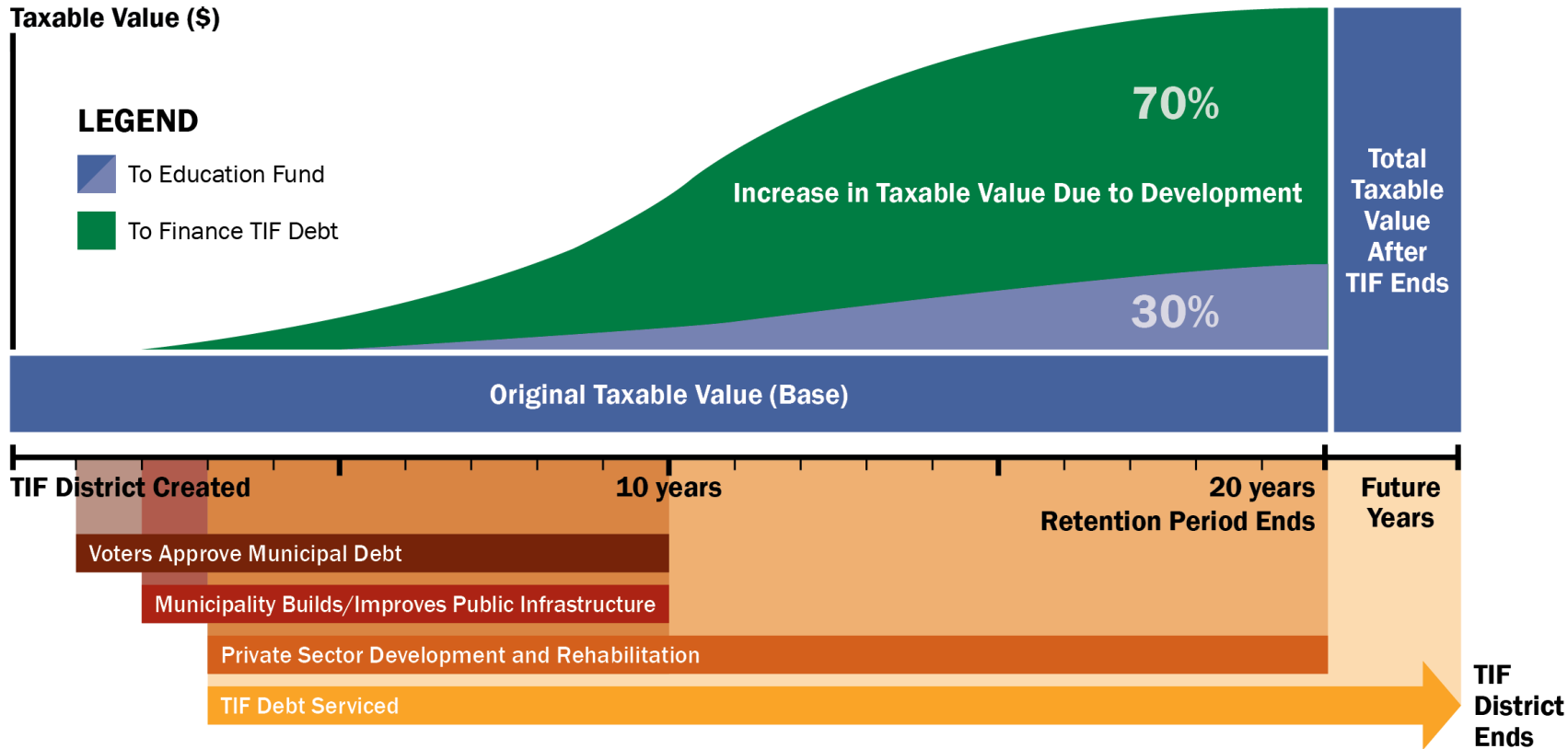
What are TIF Districts?

- ▶ 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



The revenue going to the Ed Fund from the original taxable value continues to go to the Ed Fund at the same level – this remains unchanged. In fact, the Ed Fund will actually see a slight increase over the term of the TIF.

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.

*See TIF Primer Appendix



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

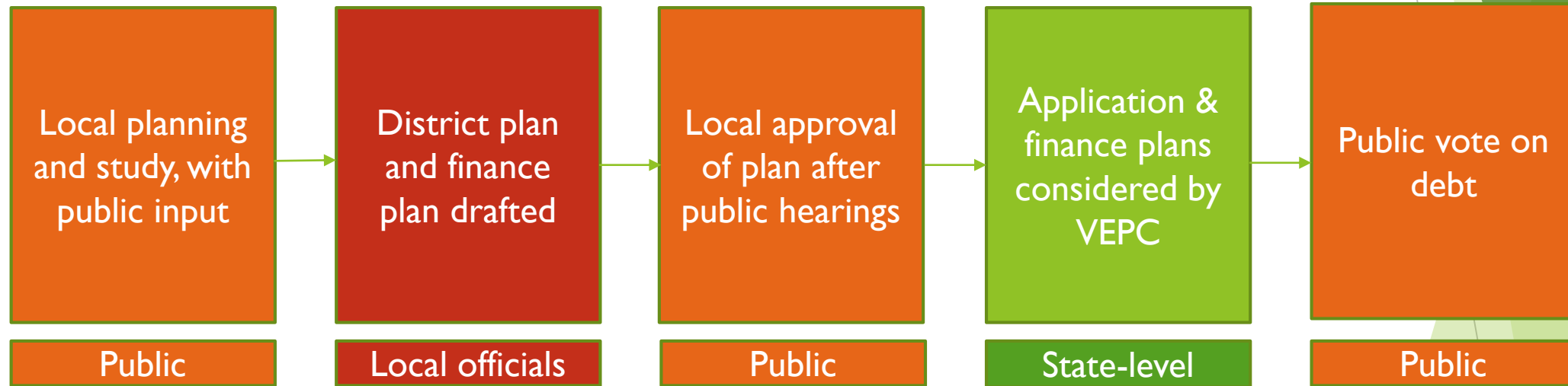
- First debt not yet incurred

Montpelier Downtown-2018

- First Debt not yet incurred

- 4 District Opportunities Remain Under Act 69

Vermont TIF Process



*See Creating a TIF District Appendix

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

Clearly
requires
substantial
public
investment

At least one
new or
expanded
business
within the
district

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

Includes new
or
rehabilitated
affordable
housing

Enhanced
transportation
flow or
improved
public transit

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

Remediation
and
redevelopment
of a
brownfield

Infrastructure
nexus

Increment
proportionality

Financial &
market
viability

Statutory
purpose

But-for

Vermont TIF Additional Approval Criteria

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

High
in exist

area

Appro
center

New town center
Neighborhood
devel

Economically

80% of residential sales
price

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.
- Even in more 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 Oversight 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 Oversight:

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