

## GROWING THE ECONOMY

# Modernize the Vermont Employment Growth Incentive to Help Small Businesses & Mission-Drive Employers Create Jobs



- **WHAT:** Modernize the Vermont Employment Growth Incentive (VEGI) Program by making it easier for small businesses to access and to take advantage of the benefit.

This program generates economic activity in Vermont that is beyond an applicant’s “organic” or background growth and that would not occur, would not occur in Vermont, or would occur in a significantly different and less desirable manner, except for the VEGI ncentive provided.

Through VEGI, the State offers an economic incentive for business recruitment, growth, and expansion. The incentive is based on the revenue return generated to the State by prospective qualifying job and payroll creation and capital investments. The businesses must be qualified and meet performance requirements.

- **WHY:** Currently, a business must wait up to five years to realize the VEGI growth benefit. In some instances, a high-growth firm would grow faster and hire more workers if the full VEGI benefit was available to the firm in one year. Other small firms struggle to take advantage of the VEGI program due to the program’s strict background growth requirements. Modernizations would reduce the onerous background growth requirement on companies with fewer than 19 employees – truly small businesses.
- **HOW:** By adding a VEGI enhancement for benefit corporations (B-Corps) and low-profit limited liability corporations (L3Cs), Vermont can become the destination for mission-driven businesses. Vermont was the first state in the nation to recognize L3Cs and the second state in the nation to recognize B-Corps. While existing Vermont companies have registered under L3C and B-Corp laws, dozens of states have since passed similar laws. Vermont can regain its unique status as the leader in domiciling mission-driven businesses. A VEGI enhancement would be the first incentive of its kind nationwide and would make Vermont attractive to entrepreneurs starting social enterprises and induce other businesses to consider different legal forms when opening or expanding in Vermont.
- **GOALS:**
  - Offer job growth incentives that are more meaningful and impactful for small businesses.
  - Make Vermont the destination for mission-driven businesses.
  - Provide an enhanced incentive for businesses creating jobs that support the goals of the Vermont Clean Water Act.
  - Tie the Wage Threshold for qualifying jobs to Vermont’s Livable Wage.

- Eliminate the enhanced incentive for workforce training.
- Eliminate the Labor Market Area (LMA) cap to encourage increased quality job growth in economically disadvantaged areas of Vermont.
- **ISSUE 1:** The VEGI program has always been more difficult for small businesses to utilize for several reasons:
  - While the VEGI application process is not overburdensome or complicated, many small businesses lack the capacity to dedicate staff time to State program applications and claim processes, as it can detract staff time from critical business operations. The incentive must be enough to both encourage greater than normal growth and outweigh the opportunity cost to the company.
  - Very small businesses are not normally adding new jobs at a rate and volume that can overcome the background growth rates utilized in the VEGI incentive calculation. If an incentive can be calculated (because the new jobs do overcome background growth), it is often an amount that is not worth the company's staff time to apply and file annual claims.
- **ISSUE 2:** Vermont was the first state in the nation to recognize L3Cs and the second state in the nation to recognize B-Corps. While existing Vermont companies have registered under L3C and B-Corp laws, dozens of states have since passed similar laws, eliminating Vermont's unique status as a leader in domiciling mission-driven businesses. A VEGI enhancement would be the first incentive of its kind nationwide and would make Vermont attractive to entrepreneurs starting social enterprises and induce other businesses to consider different legal forms when opening or expanding in Vermont.
- **ISSUE 3:** Vermont recognizes that clean water has an impact on maintaining our quality of life and improving economic development. Many Vermont businesses are anxious to share their ingenuity and apply their entrepreneurial spirit to help accomplish the goals of the Vermont Clean Water Act. Vermont offers an enhanced incentive to businesses that create jobs in environmental technology sectors but the enhancement does not specifically mention activities that support the Vermont Clean Water Act.
- **ISSUE 4:** Under the current VEGI construct, if annual performance requirements are met, the company earns a scheduled incentive amount that is paid out in five equal payments over five years. For example, the company can earn a \$50,000 incentive for payroll and jobs added and capital investments made in 2017. That incentive would be paid out in five \$10,000 payments from 2018-2022, as long as the performance requirements are maintained. Similar incentives can be earned for the next four years if additional new economic activity was scheduled and approved for those years. Under the current construct, incentives can be earned for up to five years and payments made for up to nine years.

For many small and medium businesses, the value of the incentive to the company, and the effectiveness of the program as an incentive, are seriously diminished due to the five-year payout for each year earned. This is especially true for small businesses and start-ups that need the cash early on. The incentive is fully-earned in relation to the activity that occurred during the previous year. That activity starts generating tax revenue as soon as new employees are added and capital investments are made in Vermont.

The five-year payout in the original design of the VEGI program was intended to avoid the requirement for recapture. Since the earned incentives are paid out over time, if performance requirements are not maintained, remaining incentive payments can be terminated, negating the need for a recapture.

- **ISSUE 5:** The VEGI Wage Threshold is 60% (or 40% in an LMA) above minimum wage. With a current minimum wage below that which is considered a livable wage in Vermont, this provision ensures that Vermont is only incentivizing businesses to create high quality jobs. These thresholds as currently calculated also ensure the minimum hourly wage is not so high that businesses of all sizes, industries, and locations throughout Vermont could utilize this program. The 2019 Wage Threshold for VEGI applicants is \$17.25 or \$15.09 in an LMA. If the Vermont minimum wage is increased to \$15.00 per hour, VEGI's Wage Threshold calculation will raise to \$24.00 or \$21.00 in an LMA. These wage thresholds will push the program out of reach for many small businesses or those considering locating or expanding in an economically disadvantaged area of the state.
- **ISSUE 6:** The Department of Taxes, Agency of Commerce program managers, and participating companies have found that the Vermont Employee Training Incentive (VETI) is difficult to understand and cumbersome to administer. The enhancement combines VEGI payments with a Vermont Training Program grant to provide a business with more of the funding earlier in the VEGI payout schedule to assist the business with training costs. The proposal will improve this concept by paying the company the full amount of the earned VEGI incentive, making the VETI unnecessary.
- **ISSUE 7:** The LMA Enhancement allows the State to promote job creation in Vermont's economically disadvantaged areas. The current cap overly restricts the ability of this tool to be used for business growth opportunities in areas of Vermont that have not experienced the economic recovery seen elsewhere.
- **PROPOSAL:** This proposal addresses these issues by:
  - Creating a VEGI Enhancement for small, mission-driven, and start-up businesses using the same incentive calculation construct as the Enhancement for Environmental Technology businesses (32 VSA §3335). The proposal defines a business as "small" if it has 19 or fewer full-time employees at the time of application. It defines "mission-based" as a business that is registered with the Vermont Secretary of State or is registered in another state as an L3C or B-Corp, or

- that will be so-registered when a final VEGI application is filed. A “start-up” is defined as a business that was established within a year of application. This will increase the incentive value and encourage additional growth among Vermont small businesses and start-ups, attract mission-based businesses to Vermont, and attract Vermont businesses to choose a mission-based form of corporation.
- Providing a specific incentive enhancement for businesses that will create qualifying jobs that provide research, development, design, engineering, and production of products and services that reduce water pollution, including the reduction of sediment and harmful nutrient pollution such as phosphorus and nitrogen, and other activities supporting the goals of the Vermont Clean Water Act.
  - Allowing for payment of the entire earned incentive for the year it is earned, instead of paying out the incentive in five payments. This method of payment would be available to all new applicants. Applicant companies selecting this method of incentive payment would be required to sign a certification that they understand that paid incentives may be recaptured if the company fails to maintain the performance requirements that earned the incentive.
  - Tie VEGI’s Wage Threshold to Vermont’s livable wage as defined in 2 V.S.A. § 505 to maintain VEGI’s standard of incentivizing high-quality jobs while also ensuring that the program stays within reach for small and rural businesses that want to grow jobs in Vermont. In order to maintain current standards, this proposal allows the current Wage Threshold to be used in non-LMA areas until the Livable Wage reaches \$17.25 an hour.
  - Delete the enhanced incentive for workforce training, known as the Vermont Employment Training Incentive (VETI).
  - Eliminate the cap on LMA enhancements.

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