DOUGLAS R. HOFFER
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

To: Senator Ann Cummings
Date: 26 March 2019
Re: S.162
Cc: Senate Finance Committee
Senator Tim Ashe, President Pro Tempore

My office published a report last year that called attention to the challenge of evaluating the efficacy of various economic development programs. A big part of my job is to help you make informed decisions about how to allocate scarce resources. For the reasons discussed below, this bill is ill advised.

Sec. 1 – Marketing Vermont sounds like a good thing, but I don't how to measure the effectiveness of such expenditures.

Sec. 2 – New worker incentives: it is impossible to know if some of the successful applicants would have come without an incentive. Additional thoughts:

- No fiscal analysis: The tourist and restaurant industries are listed as priority sectors. Is it likely that a $5,000 award to a low-wage worker is cost-effective?
- The churn in the labor market includes so-called "replacement openings" for positions where the employee either moved up, moved to another occupation, or left the labor force. That is, replacement openings are <u>not</u> new jobs and are usually filled by locals. Therefore, it is a virtual certainty that some in-migrants will take jobs that would otherwise go to Vermonters.
- Measuring performance: There is no way to determine if jobs or families have been "retained."

Sec. 2 – (c)(3) This provision calls for the Agency to "adopt measurable goals, performance measures, and an audit strategy to assess the utilization and performance of the Program." This should be done in advance and should be reviewed by my office.

Sec. 2 – (d)(2) Qualifying expenses include "repayment of student loan debt [and] down payment assistance." We often hear concerns about the number of young college grads that leave Vermont. I am certain that some would prefer to stay but – in part because of student debt, need to go elsewhere to earn higher wages. To offer this type of assistance to in-migrants but not Vermont residents suggests skewed priorities. The same is true for down payment assistance.

Sec. 4 – (d)(1)(A)(ii) The definition of a "New Worker" includes "a full-time employee of a business located in Vermont [who] becomes a full-time resident of this State on or after January 1, 2020." What if a Global Foundries employee living and working in NY is asked to relocate to Vermont? Is she eligible for the incentive? If so, is that a wise investment?

132 State Street ♦ Montpelier, Vermont 05633-5101
802.828.2281 ♦ Toll-Free in VT only: 877.290.1400 ♦ Fax: 802.828.2198
auditor@vermont.gov♦ www.auditor.vermont.gov

Sec. 4 – (b)(1) Paying the "incentive" in a lump sum is a mistake. I strongly encourage you to ask JFO and/or Tom Kavet to weigh in on this unnecessary and misguided proposal.

Sec. 4 – (b)(2)(C) To my knowledge, there is no evidence of a need for "enhancements" for small business, start-up business, or mission-based businesses. In addition, there is huge churn in small businesses, so it would be difficult to know if applicants would not start-up or expand "but for" the incentive. Also, providing incentives and enhancements to small businesses and start-ups is not prudent as they have high rates of failure, which would make it impossible to recapture funds, especially if we give them then 50% of the award in year one (see below).

Sec. 4 -- § 3334 There is no way for my office to audit the efficacy of VEGI enhancements and, to my knowledge, there is no evidence that the existing limits on such enhancements have inhibited applications. Thus, there is no justification for increasing the annual caps.

Sec. 4 -- § 3335 This section would expand the definition of an "environmental technology business" to include those focused on "the reduction of water pollution, the reduction of sediment and reduction of pollution by harmful nutrients such as phosphorus and nitrogen, and other activities supporting the goals of the Vermont Clean Water Act, 2015 Acts and Resolves No. 64." The State is required by law to spend hundreds of millions of dollars on these efforts over the next 20 years. This will result in many businesses expanding to meet the increased demand for services. In light of this, it makes no sense to offer incentives. Why should taxpayers pay twice?

Sec. 4 -- § 3336 See (b)(2)(C) above.

Sec. 4 -- § 3337(3)(A) Up-front payments: A small business may request a lump sum if it provides "evidence that the business has a good faith need for a lump-sum payment." First, "good faith need" is not defined so you are giving VEPC enormous discretion. Second, VEGI was never intended to be a substitute for equity or debt so evidence of "good faith need" cannot include a stated need for financing assistance. That is better addressed by banks, VEDA, or private investors.

Sec 5 – The requested report requires VEPC to address "the effectiveness, costs, and benefits of modifying the background growth rate when calculating the value of these enhanced incentives." The bill has no background or guidance on this matter. How exactly is ACCD proposing to modify the background growth rate? Moreover, why do you assume ACCD can be objective?

132 State Street ♦ Montpelier, Vermont 05633-5101
802.828.2281 ♦ Toll-Free in VT only: 877.290.1400 ♦ Fax: 802.828.2198
auditor@vermont.gov♦ www.auditor.vermont.gov