Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

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Prepared by: Daniel Dickerson

S.162 An act relating to promoting economic development – As Introduced

https://legislature.vermont.gov/Documents/2020/Docs/BILLS/S-0162/S-0162%20As%20Introduced.pdf

Bill Summary
The bill would expand the economic development marketing responsibilities of the Dept. of Tourism and Marketing to include the retention of workers and their families. The bill would direct the Agency of Commerce and Community Development (ACCD) to establish a New Worker Relocation Incentive Program and would appropriate funding in FY20 for the Agency to implement the program and provide incentives. Finally, the bill would make changes to the Vermont Economic Growth Incentive (VEGI) program and require the Vermont Economic Progress Council (VEPC) to report on enhanced incentives by December 15, 2019.

Fiscal Summary
Sec. 2 – New Worker Relocation Incentive Program
The bill would require ACCD to implement an incentive program for new workers to begin on January 1, 2020. The program would be modeled after the New Remote Worker Grant Program, which was passed into law in 2018. This proposal is one of the Governor's economic development initiatives for State FY2020. Key distinctions between the programs would be as follows:

1. Definition of "New Worker"
    a. **Current program** – Full-time employee of business located outside of Vermont, who performs majority of duties remotely, and moves to Vermont on or after January 1, 2019.
    b. **Proposal** – Same as above, except that individuals who work for Vermont-based businesses would now be eligible to apply, and the new program would be open to individuals moving to Vermont on or after January 1, 2020.
2. Definition of "Qualifying Expenses"
    a. **Current program** – relocation expenses, computer hardware/software expenses, broadband access/upgrade expenses, and co-working space membership expenses.
    b. **Proposal** – relocation expenses, student loan debt repayment expenses, down-payment assistance, initial rental deposit expenses.

3. Allowable Grant Amount
    a. **Current program** – Up to $10,000 per new remote worker, at a grant rate of not more than $5,000 per year.

   b. **Proposal** – A base grant of $5,000 per new worker who moves to any area of Vermont, with an enhanced grant of up to $2,500 additionally if the new worker moves to a designated labor market area (undefined in the bill). ACCD would be directed to prioritize workers in priority sectors when awarding grants.

The proposed grant program would not replace the current program. New remote workers would not be able to apply for grants under the proposed grant program until funding for the current program was completely encumbered. **All grants under this new program would be subject to available funding.**

<u>*Sec. 3 – Appropriations*</u>

The bill would authorize a FY2020 appropriation of $2,000,000 from the General Fund to ACCD to be used as follows:

1. $500,000 – For ACCD to identify, recruit, and provide relocation assistance to potential new workers.
2. $1,500,000 – For ACCD to provide incentives through the program described in Sec. 2 of this proposed legislation.

<u>*Sec. 4-5 – VEGI*</u>

The bill proposes to make the following substantive changes to the existing VEGI program:

1. **32 V.S.A. §3334 -** It would increase the enhanced VEGI caps for initial approvals and final approvals under the enhanced incentive program for businesses in a qualifying labor market area.
   a. Initial approval cap would increase from $1,500,000 to $2,000,000.
   b. Final approval cap would increase from $1,000,000 to $1,500,000.
2. **32 V.S.A. §3335 -** It would expand the definition of "environmental technology business" for the purposes of enhanced incentives to include businesses that are investing in water pollution reduction mechanisms.
3. **32 V.S.A. §3336 -** It would eliminate the enhanced incentive for workforce training. ACCD, the Dept. of Taxes, and businesses have all found this provision difficult to understand and administer. The Administration proposed replacing this provision with a lump-sum incentive payment option (see below).
4. **32 V.S.A. §3336 –** It would create an enhanced incentive for small business, start-up business, and mission-based business. In calculating incentive values for these types of businesses, VEPC would calculate the business's share of new revenue growth (or the statutory incentive ratio) at 90% of the State net fiscal benefit produced by the VEGI cost-benefit model. The ratio for typical VEGI calculations is 80% of the State net fiscal benefit. Calculating an incentive using 90% will result in a larger incentive.
5. **32 V.S.A. §3337** It would give a small business[1] the option of applying to receive 50% of an earned VEGI award year incentive as a lump-sum payment, instead of 20% per year over the typical five-year window. The remaining 50% of an award would be paid out over the subsequent four years. This was proposed by the Administration as a more effective way of providing businesses more of the VEGI incentive value earlier in the payment cycle, as opposed to the administratively difficult enhanced incentive for

[1] A "small business" would be defined in 32 VSA §3336, per this bill, as a business with 19 or fewer employees at the time that a VEGI application is made by the business.

workforce training (proposed to be eliminated above). The Administration's proposal was for a 100% lump-sum payment option, while this bill sets the percentage at 50%.

The provisions relating to VEGI would not create any FY2020 direct costs to the State. New applicants would need to apply, be accepted, and then a year of activity would pass before the applicant could apply for a lump-sum payment, or receive an enhanced incentive payment. The cost to the State from lump-sum payments, or the new enhanced VEGI provisions, would not begin until FY2021 at the earliest, but potentially not until FY2022 depending on the timing of payments made by the Tax Department.

The proposed VEGI changes do cumulatively compound the risk that benefits accruing to the State (i.e. income taxes, property taxes, etc.) from offering the VEGI incentives will not outweigh the costs over time. For example, expanding the enhanced incentives to a wider pool of businesses means that, going forward, fewer businesses would have to adhere fully to the carefully calibrated traditional incentive calculation spelled out in 32 VSA §3333, which would result in higher incentives going to those businesses than under the current structure.

Additionally, the provision to provide lump-sum payments weakens the State's ability to protect State dollars in the event that a business fails to maintain performance requirements after a lump-sum payment is made. Based on the average incentive for small businesses VEGI authorizations over the past three years[2], and adjusted for the enhanced VEGI eligibility for small businesses, the potential additional cost to the State for each lump-sum payment could be approximately $51,000 per applicant, per year. Hypothetically, if four small businesses applied and were approved for VEGI between passage of this bill and January 2020, and were subsequently approved for incentive payments in 2021, the additional cost to the General Fund in FY21 or FY22 (depending on timing of payments) would be approximately $200,000. This cost could grow in future years.

[2] VEPC has indicated that 6 businesses meeting the definition of "small business" have been approved for VEGI over the past three years and the average incentive for each business is approximately $848,000. Three of the businesses are receiving enhanced VEGI for being in a qualifying labor market area. Assuming that performance measures are met, each business would earn $170,000 of its total incentive each year, which under current law would be paid out at $34,000 per year for five years. ***Under this proposal, the business could apply to receive $85,000 of its annual award in the first year, or $51,000 more than under current law***. The new enhanced VEGI for small businesses could increase this cost.