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To: House Committee on Commerce and Economic Development
From: Doug Hoffer
Re: H.159
Date: 22 April 2022

Here is a summary of my testimony from Thursday April 21, 2022.

Sec. 2 - § 4. NEW RELOCATING EMPLOYEE INCENTIVES

As the JFO memo made clear, the consultant's fiscal analysis of the earlier incentive programs was fatally flawed and of no real value to policy makers. As you may recall, we reviewed the first of these programs in 2019 and raised concerns about this type of program.

The bill also includes this curious provision.

> *(c)(4) "The Agency shall…adopt measurable goals, performance measures, and an audit strategy to assess the utilization and performance of the program."*

This approach has been used a number of times since the pandemic began and I strongly recommend that you resist this. That is, creating programs funded with millions of taxpayer dollars before the Agency has proposed goals and performance measures is terribly risky. As we've found, this is a recipe for trouble, especially for an agency that improperly awarded funds in the Economic Recovery Grant program. Proposals for new programs should be accompanied by well-considered goals and performance measures.

Sec. 3. THINK VERMONT REGIONAL RECRUITMENT AND RELOCATION NETWORK

In light of the serious questions raised about the worker relocation incentive program, I'm not sure how you can justify more millions to support that effort. The bill would effectively double the budget for the Dept. of Tourism & Marketing (T&M).

In addition, the program has no meaningful outcomes *per se*. If we can't measure the impact of incentives on decisions by in-migrants, how can T&M determine the success of this multi-million-dollar undertaking? The bill defines success as "earned media coverage" and "positive news coverage." Seems a little thin.

The Department is expected to report the number of inquiries received and individuals served and the employment and relocation status data on those served. But it is not clear how T&M can attribute employment and relocation to its efforts if we can't even do that for the worker relocation incentive program. The Agency is asking you to commit millions without a credible way to measure success.

Sec. 4. 2021 Acts and Resolves No. 74,
Sec. H.18 is amended to read: Sec. H.18 CAPITAL INVESTMENT GRANT PROGRAM

I realize the Senate removed the $40 million requested by the Governor to expand this program, but I want to briefly share a few thoughts since there may be an effort to revisit the issue.

A little history: Act 74 was written long before the U.S. Treasury Dept. released its Final Rules. As a result, the purpose statement does not reflect the Rules and is misleading.

> *(2) The purpose of the program is to make funding available for* ***transformational projects*** *that will provide each region of the State with the opportunity to attract businesses, retain existing businesses, create jobs, and invest in their communities by encouraging capital investments and economic growth.*

The Final Rules make clear that the money cannot be used for traditional economic development. The money can only be used in response to COVID-related health or economic harms. This requires a critical change in program design that has not yet been resolved.

In addition, having examined the available information about projects still under consideration, it is clear that few, if any, are even remotely transformational (e.g., expanding a brewery will not transform Vermont's economy).

We have communicated several times with the Administration about program design to ensure that it complies with the Rules and will continue to follow the process as it moves through the JFO and the JFC.

As with earlier State programs of this nature (ERG and HCS), compliance is crucial because the federal government retains the fright to recoup funds spent improperly (which we found in both audits). Indeed, we were notified last week that the Treasury Department's Office of the Inspector General had initiated a desk audit of Vermont.

On a personal note, as someone who has spent a great deal of time over the last 30 years looking at economic development policy and programs, I am not persuaded that the CIP is a wise investment of taxpayer funds. It is not part of a coherent strategic plan and does not target any of the most important problems we face, including the urban – rural divide, the mismatch of job skills and job openings, etc.

Finally, the removal of the requirement for a net fiscal analysis (NFI) is irresponsible and – in my view, bespeaks a desire to avoid accountability and to knowingly give away taxpayer funds that will not produce a good return on investment.

Note that the NFI process resulted in a very important lesson. When informed that the Agency could not award the amounts originally requested, most applicants agreed to take the smaller amounts and move forward with their projects. This calls into question the Agency's practice (here and in other programs like VEGI) of offering as much as possible rather than trying to determine how much is required to actually make a difference in the companies' decisions.

Sec. 5. VEDA SHORT-TERM FORGIVABLE LOANS

I have no doubt that VEDA would manage the program professionally, but I have not seen evidence of unmet need to justify a $20 million forgivable loan program, especially after we have already spent over $3 billion for economic recovery efforts.

Moreover, the U.S. House passed [HR 3807] on April 7, 2022. The Relief for Restaurants and other Hard Hit Small Businesses Act of 2022 appropriates another $42 billion to provide "support for restaurants, arts and entertainment venues, and small businesses impacted by the COVID-19 pandemic."

I mention this because H.159's forgivable loan program is intended to serve the same cohort of businesses. If Congress approves HR 3807, it may obviate the need for a Vermont-based loan program.

I recommend that you consider making this program contingent on what happens in Congress. That is, ask the JFC to decide after Oct. 1st as to whether we still need this program.

Something to consider: Federal funds generally cannot be used to pay for the exact same activity already paid for from another source of funding. This is sometimes referred to as a prohibition on duplication of benefits (DOB), or "double-dipping." Therefore, if you create the forgivable loan program, borrowers will not be eligible for federal funds later for operating costs. Best to wait.

Sec. 14a. COVID-19-RELATED PAID LEAVE GRANT PROGRAM

I discussed this with my Deputy, and we agreed that it seems like it would be terribly complicated to administer this program. I encourage you to consider alternative ways of achieving the same goal and with better targeting.

TIF

In my view, there is a lot wrong with TIF but that's for another day. What I want to say today is that the world has changed significantly since the last time you all discussed TIF.

If you want to help small towns, you now have a viable alternative that would eliminate the complexity and costs of the current TIF program. That is, you could easily seed a revolving loan fund that would provide an opportunity to accomplish the same goals. For now, just a few comments.

"But for" – VEPC is required to make a determination that the development sought would not occur "but for" the TIF-related investments. But there is no evidence that VEPC reviews the background growth rate of the TIF district and there is no requirement that the applicant town seek voter approval for non-TIF traditional borrowing authority before seeking a TIF district. JFO discusses this issue and provides evidence about background growth rates on Table 3 (p. 19) of the report.

We estimate that TIF-related interest costs will be $107 million just from existing TIFs. A low-interest revolving loan fund seeded with federal funds and administered by VEDA could greatly reduce interest costs.

The proposed new program does not include a performance audit by the Auditor's office. This sounds good to some, but it would significantly reduce the nature and amount of accountability.

VLCT report: The report contains a number of factual errors and almost no actual analyses. I think it's seriously flawed and should be discounted in your deliberations. Examples:

- Figure 2 (p.14): Towns are required to report jobs data to VEPC, but VEPC has not developed a consistent methodology, so they all do it their own way. Note that the DOL does not report job data at sub-town levels so there is no official source.

The table shows that 227 new jobs have been created in Burlington from 2013 – 2019. Interestingly, this includes 130 jobs at the old Macy's which is now the temporary home of Burlington High School. Obviously, these jobs are not the result of TIF.

Overall, the report (and VEPC) report thousands of jobs resulting from TIF. I doubt seriously that the number is anywhere near that high. Moreover, the reported figures include construction jobs, which have short-term value but are gone once the capital projects are completed.

- Figure 4 (p.17): This table purports to show how much increment has gone to the Education Fund from 2013 - 2019. Oddly, it shows millions going from Bennington and Montpelier even though neither town has even borrowed money yet.

  In addition, the Table shows $2.9m going from the Burlington Waterfront TIF to the Ed Fund. The actual figure is $17,000. Again, the report said $2.9m but the real number was only $17,000.