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Department of Economic Development (DED)
Budget Narrative for Fiscal Year 2022

GOALS/OBJECTIVES/PERFORMANCE MEASURES

Housed in the Agency of Commerce and Community Development, the Department of Economic Development works to improve the economic well-being of Vermonters. Our primary objective is to build the Vermont economy by helping companies, individuals and organizations gain access to the resources they need to grow their businesses, expand markets, create new jobs, find workers, build skills, invest in Vermont and improve Vermonters' quality of life.

We will measure our success by the value and number of capital investments in the state, the increase in the number of businesses created or recruited, and the increase in the size of the workforce.

DEPARTMENT/PROGRAM DESCRIPTION

At present, the 21-person Department of Economic Development comprises the following programs:

DED staff assist businesses through various programs with workforce development, permitting, international trade, government contracting, incentives, business expansion, recruitment and access to capital. We focus on business outreach, working around the state with program leaders, Regional Development Corporations (RDCs) and other partners. We connect businesses to the services and programs they need, identify trends and challenges, and help take the pulse of the Vermont economy, communicating outwards how the state can help, and bringing back intelligence on what businesses need.

Worker Recruitment:

New Worker Relocation: The New Worker Grant Program was created to grow our population and to assist employers in their search for employees. DED developed the grant program guidelines, content, and application materials. DED staff fielded inquiries, both national and international, from media, applicants' families, and businesses who were interested in the program. The program was implemented beginning calendar year 2020. Progress in the program slowed during the COVID shut down but interest picked up throughout summer and fall of 2020. To date the program has awarded \$367,952 to 78 grantees. Including their families, this has brought 185 new residents to Vermont who have settled into 13 different counties across the state. Of these new residents, 38 are school aged children and many grantees expressed their excitement as they planned to grow their families here. Grantees have shared that the main things that attracted them to relocate to Vermont were that it is a safe place to live and raise a family, access to outdoor recreation, job offers and the New Worker Relocation Grant Program. The average age of the grantees

is 33 years old. Of the 78 grantees awarded to date, 90% have completed their bachelor's degree and 54% have completed graduate school. Interest in the program remains strong as the Department continues to receive interest and applications. There is \$302,048 remaining to award grants to applicants who applied in the third quarter of calendar year 2020.

Business Support Programs:

Entrepreneurship: DED develops and supports a focused approach to grow and retain start-up businesses. DED was a founding sponsor and continues to support LaunchVT. LaunchVT has helped accelerate 60 Vermont startups. These companies have gone on to create over 200 jobs, generate \$13 million in annual revenue (in 2019, a \$4 million increase from 2018), and receive \$40 million in follow-on funding (a \$20 million increase from 2018). DED works with partners such as the Small Business Development Centers to educate entrepreneurs and help them in their first steps toward success. Additionally, each of the Regional Development Corporations (RDCs) host workshops about access to financing and capital and they help connect entrepreneurs with available financial tools.

Recruitment: We have a dedicated person on the team to work on recruitment mainly through our Foreign Direct Investment efforts in Canada. To attract businesses to start a branch and/or relocate in Vermont, DED targets recruitment efforts to foreign businesses that seek a U.S. presence (in particular, those based in Quebec) and those for whom co-locating within a cluster or with a supplier makes sense. In the past two years, three Canadian companies have expanded their business into Vermont creating 35 jobs. MITICO and THEO Décor, both growing Montreal-based companies, expanded their operations into Northeast Kingdom locations. Importantly, we also encourage foreign investment to retain Vermont jobs and companies. Lucas Industries in North Springfield was purchased by Canadian company PCM Innovations in 2019, keeping 45 quality jobs here in the State. We also want to reach out to those who have a predisposition to Vermont such as alumni, second homeowners and tourists. This targeted approach is driven by the fact that newer companies to Vermont had some prior connection to the state. DED is also collaborating with the Vermont Outdoor Recreation Economic Committee and the Vermont Outdoor Business Association to attract and welcome businesses in that sector. DED deploys a team approach to identifying and working with businesses to ensure we are offering businesses the best possible match of technical assistance expertise. We actively market our applicable financial incentives, specifically Vermont Employment Growth Incentive (VEGI), VT Training Program (VTP), and VT Economic Development Authority (VEDA). Historically, Vermont targets prospects in small to midsize operations, from 20 to 400 employees, which complements the state's small scale and labor force.

In the past, we participated at Select USA conferences to meet businesses looking for a foothold in the USA. We will do so this year virtually. Vermont can and should be present at these and other events to raise awareness of the opportunities and capabilities of Vermont.

Economic Development Marketing: Since FY16 we have been utilizing an initial appropriation and follow-on one-time appropriations to develop a targeted marketing plan to attract investment, entrepreneurs, and talent to Vermont. We completed a strategic marketing plan at the end of FY16 and started to implement elements of the plan. In FY17 and FY18 we developed and launched ThinkVermont.com to attract more people to Vermont. In FY19 we implemented an automated jobs board that aggregates job postings from scores of Vermont businesses and other jobseeker resources, boosting website traffic and offering employers additional exposure. During FY19 and FY20 we received overwhelming media attention as a place to live due to the Remote Worker Grant Program, the New Worker Relocation Grant Program, and the Stay to Stay program launched by VDTM. In FY20 we embarked on an AI-enhanced targeting initiative to refine and improve our digital advertising effectiveness. We have placed test ads outside of Vermont on LinkedIn and Facebook. This effort has been stalled due to COVID-19 response but we expect to continue to refine our advertising with this targeted marketing analysis for the remainder of FY21 as restrictions lift, and into FY22. In FY20 we partnered with VDOL to create a Relocation Specialist program that directs inquiries from people seeking to live and work in Vermont to VDOL representatives who can help them find jobs. This effort was also curtailed due to COVID-19 but is currently being revised and expanded to include regional partners for a more comprehensive and organized service to potential new Vermonters. In FY21 DED began partnering with VDOL to support and expand re-employment initiatives in the wake of COVID-19.

Vermont Training Program (VTP): Workforce training is one of the key challenges identified by states across the nation as new technologies demand new skills. In Vermont, where we have low unemployment, an aging demographic and stagnant population growth, workforce development is critical and one of the Department's priorities. There are jobs employers are unable to fill due to a mismatch of skills. The customized Vermont Training Program helps Vermonters stay on top of skills required in a rapidly changing, global marketplace. The program partners with employers and training providers to train both new and incumbent workers for the jobs of tomorrow. Training can fall into categories such as on-the-job, classroom, or other specialized training. Grants can cover up to 50% of the training cost, with the employer providing the balance. Since development of a workforce 'pipeline' is of crucial importance, in FY17 the Legislature changed the statute to allow a carve out of up to 10% of the allocated funds to be used on employers who are developing programming at high school and earlier levels to introduce and prepare students for the jobs and careers of the future. During FY20, we awarded \$1.3 M in grants to 45 businesses. The majority of which were in the advanced manufacturing sector, 24% of which are employers with less than 50 employees. Over 300 of the trainees have received a certificate, credential of value or were enrolled in an apprenticeship.

Vermont Economic Progress Council (VEPC): VEPC is an independent body governed by an eleven-member board, nine members appointed by the Governor and two by the legislature. VEPC has two full-time staff: an executive director appointed by the Governor and a grants manager from the state classified system. VEPC administers the application and authorization process for two programs: the Vermont Employment Growth Incentive

(VEGI) program (including the Enhanced VEGI for Environmental Technology companies) and the Tax Increment Financing District (TIF) program.

Tax Increment Financing Districts: TIF Districts encourage public and private property development or redevelopment by using incremental property taxes to finance public infrastructure. In addition to the application and authorization process, VEPC staff have considerable responsibilities for the monitoring and oversight of TIF Districts with no additional resources or staff. During the 2017 session, six additional TIF districts were permitted. To date, two additional TIF Districts have been authorized by VEPC including one in the Town of Bennington and one in the City of Montpelier. In Fiscal Year 2019 TIF Districts invested \$11 million in public infrastructure and realized a \$29.5 million increase in property values.

Project Based TIF proposal: This program will allow rural communities with an identified gap in project financing to move a critical project forward by allowing the town to pay for a portion of their debt and related costs for the improvement project using education and municipal tax increment from the increased taxable value of the identified redeveloped parcels. The proposed project must be located within an approved designation by the Vermont Downtown Development Board, or within an industrial park as defined in 10 VSA § 212(7). Municipalities with approved TIF Districts would be ineligible to apply. Due to the small scale, project based economic development will be simpler to both use and administer than the TIF District program and will allow municipalities to advance key community driven development and redevelopment opportunities.

Vermont Employment Growth Incentive: The purpose of the Vermont Employment Growth Incentive Program is to generate net new revenue to the State by encouraging a business to add new payroll, create new jobs, and make new capital investments and by sharing a portion of the State's new revenue with the business.

The VEGI program provides cash incentives to businesses after an approved business in the program meets and maintains approved job, payroll, and capital investment targets. This incentive is used to encourage prospective economic activity that is beyond an applicant's background growth and that would not occur at all, in Vermont, or would occur in a significantly different and less desirable manner, except for the incentive provided. The incentives are calculated using a model approved by the Joint Fiscal Committee. Once authorized, the incentives can only be earned and installments paid if performance requirements are met and maintained. In calendar year 2020, the Council approved two business projects that will contribute \$1.2 million in net new tax revenue (after the cost of the incentive) over the next five years by creating 125 new jobs, with \$11.7 million in new qualifying payroll and the investment of \$6.9 million in capital plant and equipment.

Vermont companies such as Beta Technologies, Glavel, NuHarbor Security, GS Blodgett, DealerPolicy, KAD Models and Prototyping, Twincraft, and Marvell, are growing jobs in Vermont due to the program. 64% of VEGI program participants employ less than 75 people when they apply to VEGI.

The VEGI program was ranked by Good Jobs First, a group that is strongly anti-incentive:

- Vermont is #1 nationally in [taxpayer safeguards](#)
- Vermont is #3 in [job quality standards](#)

Windham County Economic Development Program: In a Memorandum of Understanding between the State of Vermont and Entergy (Vermont Yankee), Entergy agreed to provide \$10 million to the State of Vermont “to promote economic development in Windham County.” The terms of that agreement have been satisfied. This program is administered by the Director of Business Support through the Windham County Economic Development Program. Project authorizations and amendments require the support of the ACCD Secretary. None of the funds are used for administration. Program management, time and resources have been absorbed by existing staff and budget. In calendar 2020 a non-competitive grant was extended to Brattleboro Development Credit Corporation (BDCC) in the amount of \$1.47M for the provision of economic development in Windham County. This allocation, in part, will serve as BDCC’s match in their pending application to Community Development Financial Institutions (CDFI). This award depleted the original allocation from Vermont Yankee. The generated program income (monies accumulated from loan repayment) balance is rapidly approaching the \$1M mark. ACCD will need to formalize the close-out of the WCEDP program and determine how best to deploy the program income monies in CY2021.

Brownfields Initiative: Funding from the Environmental Protection Agency (EPA) allowed the State of Vermont to establish the Brownfields Initiative which promotes the return of contaminated properties to productive reuse. ACCD was awarded an EPA Revolving Loan Fund (RLF) in 2014 that supports the clean-up initiative; it is a state-wide effort. The RLF has been repeatedly augmented with additional EPA awards, those allocations exceed a collective \$3M in clean-up funding for Vermont projects. Our RLF continues to be one of the most successful RLF’s in EPA’s Region 1 territory. In 2020 the program manager successfully competed in a supplemental award competition which increased the fund by \$375,000. These funds are administered by the Director of Business Support with a portion of program management borne by the EPA grant. The initiative makes loans to for profits and sub-grants to non-profits to support environmental remediation efforts. In CY2020 another 5 projects advanced; specifically, the Town of Hardwick (\$36,518.40 Subgrant), Twin Pines Housing (\$65,000 Subgrant), Albany Community Trust (Subgrant \$17,850), Montpelier Granite Works (\$200,000 Loan) and KAD Models and Prototypes (\$19,880 Loan). Collectively these awards will support clean-up and redevelopment projects all over Vermont and will leverage millions in public and private investment. The generated program income (monies accumulated from loan repayment) balance is rapidly approaching the \$.25M mark. The pipeline of project prospects remains steady and CY2021 is anticipated to be another busy year for the initiative.

Office of Economic Adjustment (OEA): VT DED has recently been participating to two grants awarded by the US Department of Defenses’ Office of Economic Adjustment (OEA).

In one grant, the New England Regional Collaboration (the “Collaboration”), we act as Fiscal Agent on behalf of an \$1,500,000 award made to benefit all six New England states. The principal focus of this grant is to create a mechanism to get the states to coordinate their efforts to support the defense manufacturing sector across the region. We are creating this collaboration by working together to accomplish two initial tasks. The first task is to bring cybersecurity awareness and training to small and medium sized businesses in each of the states. The second task is to expand the supply chain by helping small and medium sized businesses to win more contracts in the defense manufacturing sector. As Fiscal Agent, Vermont recently executed a contract with the with the Connecticut Center for Advanced Technology (CCAT) which will help expose smaller New England defense manufacturers to new manufacturing technologies such as additive manufacturing, robotics, artificial intelligence and virtual reality that their customers are beginning to expect that they will adopt. It is also likely that in calendar 2021 the Collaboration will pursue another round of grant funding from OEA to help expand the available workforce for the defense manufacturing sector in New England.

In the second grant, VT DED helped to jump-start the additive manufacturing sector in Vermont. Our state has a relatively large number of small manufacturing firms that manufacture precision metal parts by removing metal from a block in a process known as subtractive manufacturing. The manufacturing world is quickly adopting additive manufacturing techniques in which parts are printed by adding more and more metal to build-up a part. Additive requires new machinery, design and workforce skills. Our grant was structured to help businesses build an additive capability. Our grant was divided into two tasks. In one, Vermont Technical College (VTC) is participating as a sub-grantee and has created an Advanced Manufacturing curriculum. They began offering classes utilizing the new additive curriculum this past Spring. In the second task, DED is worked with VTC and Vermont defense manufacturing businesses to create a program in which VTC will create a lab to house metals-based additive manufacturing equipment and a partnership with businesses that will be able to utilize the equipment for research and development as well as prototyping new parts. This equipment will be available to VTC to train degree students and incumbent workers during class hours and available to participating businesses on nights, weekends and vacation periods for them to do research and design, as well as, prototyping work so that they can learn how to use additive manufacturing in their businesses. The work done under this grant recently led to a roughly \$12 million Federal award to VTC to fund building and equipping a new additive manufacturing lab. This grant was closed-out in 2020.

VT Procurement Technical Assistance Center (VT PTAC): With seven full-time staff, the VT Procurement Technical Assistance Center works closely with businesses around the state to help them navigate the processes of applying for contracts from federal, state and municipal government organizations. This is accomplished through a cooperative agreement with the Defense Logistics Agency and State General Funds.

In FY20 the Vermont Procurement Technical Assistance Center had a very successful year, garnering more than 6,067 contracts totaling \$226 Million in government contracts that went to 251 Vermont businesses. Vermont's PTAC is currently working with 736 active businesses and in 2020 met with 156 new businesses and had 1,933 follow-up meetings.

Financial Services (Captive Insurance): The financial services program plays a central role in supporting Vermont as the leading captive insurance domicile and is a key contributor to the state's revenues. The captive insurance industry is more competitive than ever, with over 30 states and numerous international jurisdictions competing for new captive business. The Captive Insurance Economic Development Director is responsible for the marketing and business development of Vermont's captive insurance industry, working closely with the Department of Financial Regulation and Vermont Captive Insurance Association to maximize resources and strengthen our state's reputation as the premier on-shore captive insurance domicile. Strategies include the development and implementation of marketing plans, providing policy recommendations to state and federal policymakers to assure a beneficial business environment for expansion and relocation within the state, and acting as a spokesperson on behalf of Vermont to the global captive insurance industry. All such efforts, if successful, result in increased revenues for the state and high-quality, high-paying jobs for Vermonters. Based on 2018 figures, Vermont's captive insurance industry supports over 400 direct jobs that paid roughly double the state's average annual wage for all service-providing industries and contributes over \$158 million to the state's GDP. In 2019 the program generated nearly \$25 million in premium taxes and fees annually for the state. Appropriate funding of this program is vital to the continued revenue, jobs and related economic activity of this industry and its resulting benefits. In calendar year 2019, Vermont licensed 22 new captive insurance companies, with 585 active licensed captives, and 1159 total captives licensed to date.

International Trade Division: The International Trade Division provides technical assistance and trade counseling, import and export leads, workshops, coordinated trade missions and trade shows, and many other useful services to help Vermont companies seeking to succeed in international markets. The international team works with partners in US Customs, US Dept. of Commerce, the Small Business Administration, VEDA-EXIM bank, the Vermont Chamber, the VT Small Business Development Center network, Best of New England, The Council of State Governments, the VT Training Program, the Procurement Technical Assistance Center and others in serving Vermont's international trade needs. Two staff share the responsibility of administering a U.S. Small Business Administration State Trade Expansion Program (STEP) grant that helps small businesses export goods. During FY20, DED provided \$300,000 funding to 87 ESBC activities to offset expenses associated with exporting, including export training participation in international trade shows and missions. These 37 New-to-Export activities and 50 Market-Expansion activities benefitted companies that represented a wide range of business sectors, including the aerospace, medical, and manufacturing industries. Businesses pursued international markets in various countries, such as Germany, Mexico, and Canada, and attended numerous trade shows, including MEDICA, Aeromart, and Outdoor Retailer. The program was awarded an additional \$300,000 from the SBA in FY21 to aid Vermont businesses attending tradeshow, now mostly virtual, as well as develop and enhance their digital assets for ecommerce and export promotion. The office also has a team member who recruits international businesses, including those from Canada, to locate in Vermont.

The Vermont EB-5 regional center. At this time ACCD does not have a dedicated staff resource to administer the program. DFR is administering any of the remaining USCIS reporting and monitoring duties.

DED Partners

Regional Development Corporations (RDCS): The Department partners with 12 Regional Development Corporations (RDCs) around the state to assist in all aspects of business growth and retention, including site location and workforce needs. The RDCs are our key first point of contact with many of the states' businesses, and help measure the economic health of each region. They also work with communities on a variety of economic development related projects. They are essentially an "arm" of the department on key issues and opportunities around the state. Each RDC leverages the state dollars with other private and/or public dollars from local communities to fund their operations. The RDCs are independent, non-profit corporations, staffed by professionals and directed by independent boards of directors. Each is operating under a performance-based grant agreement with the department, which includes operational goals, performance measures and expectations consistent with the state's goals. Each also has a regional work plan that reflects the varying needs in regions around the state. The regional network is critical as the needs and challenges of the various regions around the state vary.

Vermont Small Business Development Center (Vt. SBDC): The Vermont Small Business Development Center provide valuable no-cost, confidential business advising and low-cost training services to all small businesses and new ventures in Vermont. Its advisors are highly trained, experienced business people who can help Vermont's hundreds of start-ups and small businesses grow and mature by advising on plans, marketing, financing options, partnerships and more. We are encouraging a goal that there will be SBDC coverage in all regions for at least 2 days per week.

Vermont Employee Ownership Center: The VEOC offers services ranging from conceptual information to hands-on assistance to anyone interested in exploring or implementing employee ownership. VEOC has worked with more than 200 companies, providing education, training and technical assistance, business assessments and an employee ownership loan fund. With an aging demographic, Vermont is particularly challenged in creating paths of succession for its many privately owned and family-owned businesses and VEOC is an important pathway to continuity for many businesses.

VCET: The Vermont Center for Emerging Technologies serves as an incubator and a co-working space for entrepreneurs who are at the early stage of their businesses. They provide technical assistance, mentoring and in some cases funding for these startups.

UVM Innovations: This is the tech commercialization hub for university research driven business. We provide funding for some pre-venture and very early stage work. They will help us develop SBIR/STTR technical assistance at the state level so that we can bring this capability to the entire state. In FY20 we granted funds directly to two startups.

KEY BUDGET ISSUES AND CHALLENGES:

The Department of Economic Development must use its limited resources in the most cost-effective manner to stimulate growth and identify what efficiencies we can. During the past few years we implemented and expanded new grant programs: Remote Worker, Think Vermont Innovation Initiative, and New Worker Relocation without additional headcount. As such there is some strain on resources. The strain on resources was evident when we implemented the Emergency Economic Recovery Grants (versions 1.0 and 2.0) during this past calendar year and fell behind in processing applications for the New Worker Relocation Grant Program.

If the project based TIF program passes we will have an additional workload for the VEPC team as several small towns and villages would be eligible to apply.

We are also driving forward with the implementation of the Economic Development Marketing plan utilizing internal and external resources. An open question is how to continue to support this important initiative going forward. This effort is of utmost importance to grow the businesses, workforce, and viability and vitality of the future Vermont Economy.