

Notes on the Senate Committee on Economic Development, Housing and General Affairs' 4/10 meeting on H.10

Summary: The committee seemed generally to support H.10 and the VEGI program more generally. However, they indicated that they intended to revise provisions of the bill further. They plan to meet, discuss, and potentially vote in the next week.

Lindsay Kurrle, Secretary, Agency of Commerce and Community Development

- VEGI is “most effective business tool that we have”
 - State investment is key to economic development
 - **Sen Ram Hinsdale:** I agree. It should be a program for businesses that want to grow here. Not just to keep businesses around
 - We agree. The narrative can be complicated.
 - I have such faith for the people who serve on the council. They want to keep the public trust. Maximum transparency while also keeping business privacy.
 - **Sen Clarkson:** Public money for private businesses means “heightened expectation” of transparency and understanding. It’s a “fine line”
- 2007-2021 the state has paid out \$35 million in incentives. Created 9,000 new jobs at an average wage of 60,000. \$1 billion in capital investments. (All figures are in the VEGI report).
 - Funds are only distributed after the business meets specific performance targets. It's paid out as a credit.
 - For every dollar spent, ~\$46 spent on payroll expenses. Good ratio!
 - **Sen Harrison:** I would prefer the appropriations were more clear. Tax credits are harder to follow and determine.
 - **Sen Clarkson:** the tax expenditure bill, where this is, is even more transparent than the budget.
- Incentive payments are not prorated for partial completion of targets.
 - **Sen Harrison:** Costs per job is about 3,000 per job, which is much less than what other states pay. That is because it's only paid out upon full completion. That’s why I support the program.
- We want to do more. We want to give people a reason to believe it.
 - **Sen Ram Hinsdale:** I have an interest in supporting housing manufacturing in the future.
- VITA Forgivable loan program. It is immensely helpful for businesses. I think this program is great value for small businesses that need to grow

- **Sen Ram Hinsdale:** I'm very sold on the small business forgivable loan. This is an avenue. This is the provision "I feel most strongly about." I will sell and defend that piece. I don't know why it's so concerning?
- **Sen Harrison:** we should talk about the personnel vs. the capital. The capital is where I'm concerned about.
 - **Sen Clarkson:** Capital translates into jobs. More innovation means more jobs.
 - **Sen. Harrison** (agreeing): Especially in manufacturing.
- Capital investment is crucial to businesses growth. It helps build infrastructure.

Doug Hoffer, State Auditor, State Auditor's Office

- The total cost of the program, including its predecessor, is roughly \$100 million.
- I am the only person (in the room) who has seen the data and documentation that VEPC uses to decide distribution of funds. (slightly combative)
 - **Sen Ram Hinsdale:** Our legislative appointees will see that.
 - The awards were made virtually without due diligence. In a few cases I urged the council to look harder.
- Global foundries will not ask people to move. VEPC assumed that every single job was new, and none of them were!
 - **Sen Ram Hinsdale:** didn't our previous governor give a large sum out of the enterprise fund. We've had this problem. Maybe we should talk about other examples.
 - I can't even tell you the names of the companies (that received awards) I reviewed because of lack of transparency.
 - **Sen Ram Hinsdale:** When you say "awarded" do you mean that they met the metrics of success and received the money or just had the opportunity to eventually receive the funds?
 - The key is the "but for." "If they were going to create the jobs anyway you're wasting every single dollar."
 - The most respected researcher on incentives came out and said that at least 75% of activity supposedly encouraged from the programs would have occurred anyway.
 - **Sen Ram Hinsdale:** But would have occurred at a lower pay with less talent.
 - That's not what he said. It all would have happened anyway. He is extremely well referenced. Name is Tim Bartick. Cites by 1000s every year.
 - **Sen Brock:** I've served as the auditor. In 2004 and 2005 the same issues occurred then. I remember asking a business owner why they didn't apply and they said "I won't lie." I still view VEGI as successful because it is a judgemental rather

than audit result. It's hard to prove the casualty of incentives. I have major criticisms of the degree of testing that is occurring. There is a serious lack of scrutiny. It's not just the money, it's the attitude of the development officials.

Companies are impressed when states go after them.

- You're correct, but I can't audit faith. Only about 2-3% of job growth in Vermont comes from interstate activity. Companies want quality of life, infrastructure, and a good educated workforce. Nothing to do with taxes and incentives
 - **Sen Clarkson:** Those jobs may have been created anyways, but did you consider the timeframe? Was it accelerated?
 - Yes. I don't think VEPC did. Business owners already want to grow quickly.
 - **Sen Ram Hinsdale:** I've heard from businesses that participate on VEGI who still are not meeting demand. They're paying people well before they actually fully meet demand, because of VEGI. They couldn't have grown as quickly without VEGI.
 - Last year, 29,000 jobs were created in Vermont. The economy handles itself pretty well. We are intervening in a way that is unnecessary. We should make investments but not in this manner.
- The forgivable loan program. I have several problems:
 - Where did 5,000 per worker come from? At least VEGI has a model for judging productivity.
 - What if the business goes down? How do you know the business won't close in a year or two? You need a fiscal note because it could be a huge cost.
 - Businesses need technical assistance more than anything to go from small to medium size.
 - I don't know what problem this program is trying to solve. There is no shortage of jobs without the incentive already.

Rik Sehgal, Legislative Counsel, Office of Legislative Counsel

- Will give a walkthrough of new changes.
- Repealing the sunset entirely.
 - **Sen Harrison:** I think it's more clear if it's at the beginning. It's important to note the legislature can end it at any time.
- Strategic planning: a five year plan has its own section. It is a five year cycle.

- Added the forgivable loan from S.247.
 - **Sen Ram Hinsdale:** Maybe we take the “but for” out? Is there a different public purpose than that?
 - **Sen Brock:** the “but for” spurs the VEPC board to look into the activities of a company, however imperfectly.
 - **Sen Cummings:** We do this because every other state does it. If we don’t do it then we look like we don’t care.
 - **Sen Hinsdale:** Businesses say they wouldn't do it in the same way, or the same timeframe (Sen Clarkson agreeing).
 - **Sen Harrison:** “Just because you can’t prove it doesn't mean its not true.
- **Sen Cummings:** I'm kind of shocked that they don’t have a strategic plan already. VEGI should be part of a larger process. It should be more professionalized. Businesses expect professionalism
- **Sen Ram Hinsdale:** A statewide development plan would be good. Can we look into other states and see what they have?
 - **Sen Cummings:** Boston had a definitive plan. We must do something like that. “What are your strengths, what kind of businesses do we want”
- Capital investment portion of loan program. There is a formula for calculating incentives.

Jessica Hartleben, Executive Director, Vermont Economic Progress Council

- Re: membership changes
 - Changes to composition and appointment do not need to happen. We “feel strongly” that legislators should remain well represented on the VEPC council.
 - There have been issues in filling appointments in the past. It's hard for legislators to come but it's imperative they participate.
- Re: code of ethics
 - Members currently follow the executive code of ethics.
- Re: executive session
 - Requiring non-council members is unprecedented.
- Re: JFO cost benefit model
 - Council currently relies on ACCD to contract with executive branch economists. Operationally VEPC cant independently contract with people.
- Re: strategic plan
 - VEPC is not a good vehicle for state-wide analysis policy recommendations. We could provide support with this goal however.
 - It is far beyond the scope of the council. We would need a full time staff member.
- Re: sunset repeal

- We approve. It helps give clarity to businesses.

Closing thoughts:

- **Sen Ram Hinsdale:** We need to work it out a bit and come back with a new draft. Senator Harrison will take the lead.