VERMONT
VERMONT ECONOMIC PROGRESS COUNCIL

# VERMONT EMPLOYMENT GROWTH INCENTIVE AUTHORIZATION CRITERIA

As part of the approval process for the Vermont Employment Growth Incentive program, the Vermont Economic Progress Council must determine if all applications meet three basic criteria:

- Whether the economic activity would not occur or would occur in a significantly different and significantly less desirable manner unless the incentive were approved (But For);
- Whether the economic activity will generate more new revenue for the state than is foregone when the incentive is paid (cost-benefit modeling); and
- Whether the company and economic activity meet a set of "quality control" guidelines.

## BUT FOR:

**Statutory Citation**: 32 VSA §5930a(c):

> ***"The council shall first review each application* [for VEGI incentives] *and ascertain, to the best of its judgment, that but for the economic incentive to be offered, the proposed economic development would not occur or would occur in a significantly different and significantly less desirable manner. Applications that do not meet the "but for" test are not eligible for economic incentives, and shall not be considered further by the council."***

**Why is this part of the program**? Because there are no taxpayer dollars appropriated for these incentives. The cost-benefit modeling that is required by statute is conducted with the assumption that the economic activity for which an incentive is sought will all be incremental to the state's economy. With an affirmative But For determination, the state is giving back to the company, as the incentive payment, a portion of the new tax revenues generated by that company, which the state never would have received. Therefore, there is theoretically no cost to the taxpayers. Without the But For, the state is giving up that which it would have gained anyway, which represents a cost to the taxpayers. Vermont has limited economic development resources. Including a But For "gatekeeper" provision ensures that the program is acting as a true incentive for economic activity that would not have occurred and does not reward economic activity that would take place normally or without an incentive.

## PROGRAM GUIDLEINES:

**Statutory Citation**: 32 VSA §5930a(c):

> *"The council shall first review each application* **[for VEGI incentives]** *and ascertain, to the best of its judgment, that but for the economic incentive to be offered, the proposed economic development would not occur or would occur in a significantly different and significantly less desirable manner. Applications that do not meet the "but for" test are not eligible for economic incentives, and shall not be considered further by the council. If the "but for" test is answered in the affirmative, then prior to approving any application for an economic incentive under (VEGI), the council shall evaluate the overall consistency of each application with the following guidelines:*
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> *(1) The enterprise should create new, full-time jobs to be filled by individuals who are Vermont residents. The new jobs shall not include jobs or employees transferred from an existing business in the state, or replacements for vacant or terminated positions in the applicant's business. The new jobs include those that exceed the applicant's average annual employment level in Vermont during the two preceding fiscal years, unless the council determines that the enterprise will establish a significantly different, new line of business and create new jobs in the new line of business that were not part of the enterprise prior to filing its application for incentives with the council. The enterprise should provide opportunities that increase income, reduce unemployment, and reduce facility vacancy rates. Preference should be given to projects that enhance economic activity in areas of the state with the highest levels of unemployment and the lowest levels of economic activity.*
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> *(2) The new jobs should make a net positive contribution to employment consistent with the applicable wage threshold for the labor market area. The new jobs should offer benefits and opportunities for advancement and professional growth consistent with the employment sector.*
>
> *(3) The enterprise should create positive fiscal impacts on the state, the host municipality, and the region as projected by the cost-benefit model applied by the council under subsection (d) of this section.*
>
> *(4) The enterprise should be welcomed by the host municipality, and should conform to all appropriate town and regional plans and to all permit and approval requirements.*
>
> *(5) The enterprise should protect or improve Vermont's natural, historical, and cultural resources, and enhance Vermont's historic settlement patterns.*
>
> *(6) It is desirable for the enterprise to make use of Vermont resources.*
>
> *(7) It is desirable for the enterprise to strengthen the quality of life in the host municipality, and to foster cooperation within the region.*
>
> *(8) It is desirable for the enterprise to use existing infrastructure or to locate in an existing downtown redevelopment project.*
>
> *(9) If the enterprise proposes to expand within a limited local market, then the enterprise should not be given an unfair competitive advantage over other Vermont businesses in the same or similar line of business and in the same limited local market as a result of the economic incentive granted."*

**Why are these guidelines part of the program**? When enacting the VEGI program, the Vermont General Assembly recognized that utilization of Vermont's limited economic development resources should be limited to activity that meet broader economic development goals of the state. The guidelines help ensure that the incentives, among other goals, will:

- Create well-paying jobs with good benefits and opportunities for advancement.
- Do not get authorized for jobs that already exist in Vermont;
- Encourage projects that do not have detrimental impacts on municipalities or regions;
- Encourage business relationships within the state;
- Encourage community involvement by the applicant; and
- Do not provide an unfair competitive advantage.

## <u>COST-BENEFIT MODELING</u>:

**Statutory Citation**: 32 VSA §5930a(d):

> *"The council shall apply the cost-benefit model in reviewing applications* **[for VEGI incentives]** *to determine the net fiscal benefit to the state. The cost-benefit model shall be a uniform and comprehensive methodology for assessing and measuring the projected net fiscal benefit or cost to the state of proposed economic development activities. Any modification of the cost-benefit model shall be subject to the approval of the joint fiscal committee. The cost-benefit analysis shall include consideration of the effect of the passage of time and inflation on the value of multi-year fiscal benefits and costs."*

## Why is this part of the program?

**Background growth cannot be included in the approved incentive**: The purpose of this program is to provide an incentive for economic activity that would not occur except for the incentive and for activity which is above and beyond activity that t would normally occur or would occur anyway. The "But For" criterion ensures the former, the model, by measuring and accounting for "background" or "organic" growth ensures the latter. Even economic activity that is occurring because of an incentive includes some activity that would have occurred as the natural business growth of a company. One purpose of the cost-benefit model is to measure and account for the background growth and exclude it from the incentive calculation.

**The revenue costs and revenue benefits to the state must be determined**: Statute requires that the Council determine the fiscal benefits and costs to the state of the proposed economic activity. To determine the fiscal benefits and costs, the model calculates the economic impacts of the proposed economic activity, including the multiplier and indirect impacts of the proposed activity. The model then calculates the annual revenue benefits and the revenue costs based on the overall economic impact. The difference between the total revenue benefits and the total revenue costs, after accounting for the present value, is the net revenue (fiscal) benefit or cost to the state.

## How does the cost-benefit model work?

To perform this evaluation, the Vermont Economic Progress Council utilizes a cost-benefit model that was developed by a Vermont economist in conjunction with the General Assembly's Joint Fiscal Office. The model was approved by the Joint Fiscal Committee and, in accordance with statute, any changes or updates to the model are submitted to the Joint Fiscal Committee of the General Assembly for approval.

The cost-benefit model includes three key components: 1) Initial input; 2) Economic and Input-Output; and 3) Fiscal Impact.

1. The cost-benefit evaluation begins with a thorough review of a completed VEGI application. The analysis considers applicant-specific information such as location of the project, project development schedule, the business' industrial category or sector, and the projected incremental expenditures associated with the project, including investments in plant and equipment, incremental payroll and employment levels. The output from these input calculations essentially translates the applicant's projected incremental activity associated with the incentives into data variables that are meaningful to the economic Input-Output component of the model.

2. The economic input-output component of the cost-benefit model is used to calculate the total economic and demographic changes associated with the applicant's projected project. In its most elemental form, this component calculates and reports the total changes in economic activity that the project can be expected to produce if the applicant completes its proposed project as planned. These calculated and reported changes in economic activity include: total employment; change in total personal income; change in total population; change in total population by age; and change in total personal consumption. These data are then used for calculations in the third component of the model.

3. The third component of the model involves estimating the impact on total state costs - as measured in foregone state tax revenues and increased public expenditures - and comparing them to the expected increase in all state tax revenues flowing from the additional economic activity anticipated from the proposed project's implementation. Future benefits and costs are then discounted to "present value" as of the year of application. Total costs over the impact assessment period are expressed as a net total for the year in which the incentive application is reviewed. The present value revenue benefits less the present value revenue costs produce the net revenue benefit to the state, which is the starting point for the VEGI incentive calculation.

Several economic modeling software exist that could be used for the second component of the VEGI cost-benefit model, the economic input-output component. The software that is currently utilized was developed by Regional Economic Modeling, Inc. (REMI) of Amherst, Massachusetts. That is why people erroneously refer to the VEGI cost-benefit model as the "REMI" model. Although the REMI software is utilized for part of the model, it is not the whole model.