VERMONT ECONOMIC PROGRESS COUNCIL

VERMONT EMPLOYMENT GROWTH INCENTIVE MANDATORY AUTHORIZATION CRITERIA

Statutory Citation: 32 VSA Chapter 105, Subchapter 2, Section 3332(b):

(b) Mandatory criteria. The Council shall not approve an application unless it finds:

(1) Except as otherwise provided for an enhanced incentive for a business in a qualifying labor market area under section 3334 of this title, the new revenue the proposed activity generates to the State exceeds the costs of the activity to the State.

(2) The host municipality welcomes the new business.

(3) The proposed economic activity conforms to applicable town and regional plans.

(4) If the business proposes to expand within a limited local market, an incentive would not give the business an unfair competitive advantage over other Vermont businesses in the same or similar line of business and in the same limited local market.

(5) But for the incentive, the proposed economic activity:

(A) would not occur; or

(B) would occur in a significantly different manner that is significantly less desirable to the State.

To approve VEGI incentives, the Vermont Economic Progress Council must find for each application and project, that:

- The total estimated incremental tax revenues from all sources generated to the State by the proposed economic activity exceeds the revenue costs of the activity to the State, including the cost of the incentive;
- The host municipality welcomes the new business;
- The proposed economic activity conforms to applicable town and regional plans;
- If the business proposes to expand within a limited local market, an incentive would not give the business an unfair competitive advantage over other Vermont businesses in the same or similar line of business and in the same limited local market; and
- But for the incentive, the proposed economic activity:
  (A) would not occur; or
  (B) would occur in a significantly different manner that is significantly less desirable to the State.

COST-BENEFIT MODELING:

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, an economic input-output model is used to determine 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.

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 would normally occur or would occur anyway. The "But For" criterion ensures the former. Accounting for "background" or "organic" growth ensures the latter. Even economic activity that is occurring because of an incentive includes some activity that might occur 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.

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.

LOCAL SUPPORT AND PLAN CONFORMANCE

VEPC must find that the host municipality welcomes the new business and that the proposed economic activity conforms to applicable town and regional plans.

Applicants must upload to their VEGI application letters obtained from the Regional Development Corporation, Regional Planning Commission, and the host municipality. The letters must indicate local and regional support for the company and project (or lack thereof) and include information on the company's history of compliance with local, regional, and state ordinances, zoning, permitting and other regulations and comment on the potential project's conformance with local and regional plans and compliance with local, regional, and state ordinances, zoning, permitting and other regulations.

LIMITED LOCAL MARKET

If the applicant business proposes to expand (or locate) within a limited, local market, the VEGI incentive cannot give the business an unfair competitive advantage over other Vermont businesses in the same or similar line of business ***and*** in the same limited, local market. A "limited, local market" means that the product or service offered by the applicant is sold within an area smaller than the State of Vermont, such as a county, region, or Labor Market Area and there is another business in the same or similar line of business with the same market. Such businesses also usually draw customers from only within Vermont, are not circulating dollars into the Vermont economy from outside of the State, and also draw employees from similar businesses in the community or region. Examples include (but are not limited to) doctor's offices, car dealerships, physical therapy offices, restaurants, grocery stores, etc.

Applicants must include information on their market segment, their competitors within and outside Vermont, and any expected impact of the project and authorization of incentives on other similar Vermont companies.

BUT FOR:

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 be all or partially 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 a true 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.

How is this finding determined? The Council will consider all evidence, including the But For statement and all supporting documentation, provided by the applicant and information obtained by staff during the application process. Two company officers must certify the application, including the But For statement. Additionally, one of the officers of the company (the Authorizing Official or Senior Authorizing Official) that certified the application must attend the Council meeting at which the application will be considered, present the project to the Council, and respond to questions posed by Council members. Only the Council members, not staff, can make the But For determination. It is the responsibility of the applicant to present a clear But For case and support it with documentation and evidence.

How this criterion is addressed differs for each applicant and depends on the company, the project and the situation. A company could be making a "grow, no grow" decision that is dependent on receiving an economic incentive. The company could be making a location decision where several states are vying for the location or expansion. The incentive could be a key factor, making an impact of significance, on the scope or timing of a project. Or, the incentive could make a difference regarding whether or not a project occurs because of a financial significance to the company.

What are the application requirements?

VEGI applicants must provide a But For statement as part of the application. Two company officers, authorized to act on behalf of the company, are required to act as Authorizing Official and Senior Authorizing Official to certify, sign, and submit the application.

The But For statement included by the applicant in a VEGI application must include narrative detail supporting the specific But For argument being made by the applicant sufficient for the Council to make a But For determination. For example:

- If the But For is a "yes" or "no" go decision, who is making that decision and what factors are being considered?
- If the But For is based on a location decision, who is making that decision and what factors are being considered?

- If the But For is about a significantly different and less desirable outcome (scope, scale, timing, financial viability), provide details about how the project would be significantly different and less desirable, from the State's perspective (i.e. fewer jobs, less new payroll, reduced new tax revenues).

Any But For statement regarding a "significantly different and less desirable" outcome must include data in the application showing the different and desired outcome because of the incentive (more jobs, more jobs created sooner, better job) and address the following:

- How is it significantly different ***and*** less desirable than what would occur without the incentive?
- What is the ***significance*** of the difference and desirability? What is the level of significance?

To supplement the But For statement, applicants must submit supporting documentation and/or information, ***as appropriate***, to substantiate their But For, such as:

- Information regarding incentives offered by other locales and copies of any specific incentive offers. Include names and contact information for any out-of-state officials contacted.
- Data (spreadsheets) documenting significantly different/significantly less desirable outcomes without the incentive.
- Any press releases, media statements, news reports, regarding the project contained in the application.
- Copies of any signed or proposed lease or Purchase and Sale agreements.
- Financial statements.
- Business plans.
- Equity/Financing plans.
- Market information.

Also, the following questions must be addressed by all applicants as part of the But For application form:

- Have you placed ads for the new jobs? Where?
- Will you need any permits? Have you applied for permits for this project? Have any been approved?
- Will you purchase, build or lease? Have you negotiated or signed any purchase and sales or lease agreements?
- Have you made any payments or obligations to architects, engineers, or designers for sites in Vermont or elsewhere?
- Are you negotiating with any economic development officials in (fill in alternate location)? Who are they and what are they offering for incentives?
- Are any permits in place or applied for in Vermont or in (alternate location)? What type, date?
- How will the project be financed? Are any elements of the financing plan in place? Equity investors? Bank financing?
- Will the project receive or has it received any public funds or financing (VEDA, USDA/RD, CDBG, USEDA)?
- Is there a business plan for this project?

Any supplemental information must be submitted with the application by uploading it as an attachment to the But For application form.

A company official (one of the application signatories) is required to attend the VEPC meeting at which the application will be considered. The applicant will have the opportunity to briefly outline the company, project and application and VEPC Board members will ask the applicant questions about the application, including questions pertinent to the But For.

Due to the presentation of proprietary business information by the applicant, as required by statute, the Council will meet with the applicant and deliberate in executive (closed) session. However, a vote on the application will take place in public (open) session during the meeting at which the application is considered. A majority of votes (6) acting in the same manner are required to take any action. If the Council finds that they do not have all the information required to make a determination, the application can be tabled. The Council will consider all application information and all application criteria together to make an approval or denial decision.