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Memorandum

To: Steve Klein, Chief Fiscal Officer, JFO; Joint Fiscal Committee
From: Tom Kavet
CC: Theresa Utton, JFO; Ken Jones, ACCD; Megan Sullivan, VEPC
Date: September 15, 2019
Re: Review of Proposed VEPC Cost-Benefit Model Update

As requested, I have reviewed the memo from Ken Jones to Megan Sullivan sent to the Joint Fiscal Committee on September 12, 2019, and updated and corrected on September 15, 2019, that describes proposed model changes to the VEPC Cost-Benefit Model used to calibrate business award levels as a part of the VEGI program. As a part of this review, I requested further information and spreadsheets related to the changes described in the memo and discussed these with Ken.

The model updates proposed in the memo represent relatively minor changes to the underlying Cost-Benefit Model and consist primarily of the utilization of the latest REMI State model (Version 2.3.1), with historical data through 2017, more recent data from Consensus JFO and Administration economic and revenue forecasts, State expenditures, updated discount rate data and normalized (with REMI) Tax Department effective tax rate information for selected taxes. Most of the proposed changes in Ken Jones' memo are regular annual model updates that will improve model output, consistent with the most recent data available. As noted in prior updates, however, these changes can create inconsistencies in costs, benefits and award levels from year to year.

The other model specification changes recommended in the current memo consist primarily of more accurate mapping of REMI output categories with tax revenue categories. Even though these changes result in several large increases in the effective normalized tax rates used between the 2018 and 2019 models (see the memo page sent as "Standard variable change 2019 final"), as operative in the model, they do not significantly change award levels or net model output.

Accordingly, I recommend the JFC approve these changes, with the caveat that in future years a few sample runs (typical of those performed for VEPC applicants) be run to demonstrate and quantify "before" and "after" effects of these changes. Such runs will help the JFC understand the magnitude of "regular" update changes associated with the program, as well as any model specification improvements that may also similarly affect award levels and program costs to the State.

Please let me know if you or others have any questions regarding these changes or the methodological constructs that underlie the VEGI Cost-Benefit Model.