Vermont Economic Progress Council:

The Vermont Economic Progress Council (VEPC or the Council) Board consists of citizen appointees (nine appointed by the Governor and two appointed by the General Assembly) from varying backgrounds, experience, and expertise. They represent every region of the State. Most either currently manage or own businesses or have in the past. They have varying experience in their role administering the Vermont Employment Growth Incentive (VEGI) program, ranging from several months to over ten years. All are passionate about the issues for which they were selected to serve as a volunteer on this Board – job creation and economic development. And all take their fiscal responsibility to Vermont taxpayers very seriously.

Vermont Employment Growth Incentive Program:

The State of Vermont offers incentives to encourage business recruitment, growth, and expansion through the Vermont Employment Growth Incentive program (VEGI). The VEGI program can provide a performance-based cash incentive for prospective job and payroll creation and capital investment that is beyond organic growth and which occurs because of the incentive. Companies must be authorized to earn the incentive through application to VEPC.

The Council understands that VEGI is the State's primary recruitment and expansion tool. This isn't to say that there is only one tool in the State's tool box, but is to say that this is the only readily available tool to do this type of work. The program is well designed to offer a Vermont-appropriate incentive for specific economic growth projects in a certain "sweet spot" of company and project size and scope. Other economic development tools serve different purposes and VEGI is not appropriate for every type and size project in every sector.

The Council's role in relation to the VEGI program is administrative. The Council, including staff, administer the application and authorization process in accordance with statute.

Once authorized, to actually earn the incentive each year the company **must maintain their base payroll, meet their payroll performance requirement, and meet either their new qualifying job or their capital investment performance requirement.** The incentive earned that year is then paid out in five cash installments if the performance requirements are maintained.

Where Incentive Dollars Come From:

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 – the amount of net tax revenues that will be created by the project and accrue to the State of Vermont over five years less the revenue costs. This number is the starting point to the VEGI incentive calculation.

Statute requires that only 80% of the net revenue benefit be used to calculate the incentive for regular VEGI applications, creating the adjusted net revenue benefit.

Labor Market Area Enhancement:

Statute (32 VSA §3334) gives the Council the authority to increase an incentive amount for projects located in a labor market area (LMA) that are economically disadvantaged, defined in statute as areas in which the average annual unemployment rate is greater than the average annual unemployment rate for the State or in which the average annual wage is below the average annual wage for the State. The LMA data are certified by the Vermont Department of Labor annually and provided to the Council to determine which LMA's are eligible.

The authority for the Council to approve enhanced incentives for projects that will occur in the eligible regions of the state has been in Statute since the inception of the VEGI program. In creating this enhancement, the General Assembly recognized the importance of encouraging more job growth and investment in certain economically disadvantaged regions of the state.

The only statutory limitation impacting eligibility for this enhancement is geographic. If a project will be located within a certain LMA, the project is statutorily eligible for the enhancement and the Council ***may*** increase the incentive. However, the aggregate amount that incentives can be increased using this authority during a calendar year is capped by statute (32 VSA §3334(b)). Due to the cap and the impact on estimated net revenue return to the State, in addition to the statutory geographic limitation the Council administratively added several criteria for the Council to review to determine: A) Should the project be considered for the LMA Enhancement if it is geographically eligible; and B) If so, to what extent the incentive should be increased.

Eligible applicants are required to request the enhancement, provide justification for the increased incentive as part of their But For statement, and provide additional information that the Council considers when determining whether the circumstances warrant approval of the enhancement and the amount of the increase. The additional criteria are:

- Will the project result in extraordinary and/or increased benefits to the State that are in addition to the job creation and incremental revenue generated by the project?
- Will the project result in the reopening or avoid imminent closure of a business?
- Does the project involve a critical business operation upon which a community relies for employment or tax revenue?
- Will the project likely be a catalyst for business attraction and growth, or provide economic diversity to a region dependent on a single economic driver?
- Can the projects demonstrate substantial in-state business-to-business interactivity?
- Does the project plan to utilize an existing facility that is currently underutilized or is not being utilized?
- Has the applicant provided compelling evidence that the increased incentive is essential or critical to advancing the project in Vermont?

For each dollar an incentive is increased under this enhancement, the estimated net return to the State is reduced by a dollar. If the Council increases the incentive by using 100% of estimated net return to the State, the net revenue return is reduced to $0. However, increasing the incentive and decreasing the net return ***does not*** represent a cost to the State. It only reduces the estimated net positive revenue return. The Council would have to use ***more than*** 100% of the estimated net revenue return to increase the incentive to cause a cost to the State (known as a "net negative return").

The table below provides data on the percentage increase for VEGI applications that included projects to occur in eligible LMAs. Since the program inception, through June 2022, the Council has considered 144 VEGI applications, 62 (43%) of which included projects to occur in eligible LMAs. Only 31 were approved for an increase under the enhancement. That is 22% of the total applications filed. Of the 31 approved, 37% had the incentives increased to a point that utilizes 100% of the estimated net revenue benefit, making the project essentially revenue neutral for the State. As the data presented show, the Council has been prudent in its use of the LMA Enhancement.

Percent Increase Approved	# of Applications	% of Applications
101-200%	0	0%
76-100%	23	37%
51-75%	4	6%
26-50%	4	6%
1-25%	0	0%
0%	31	50%
TOTAL	**62**	**100%**

2022 VEGI Applications:

VEPC staff is aware of at least one additional company intending to apply to the program and which is located in an economically distressed LMA and could benefit from the enhancement, assuming all criteria are met. This company is likely to apply in time for consideration at VEPC's October 27 meeting. An approval from VEPC is required before they could begin their project.

Final Applications for all 2022 applicants must be submitted to VEPC no later than November 18, with a determination by the Council at their December 15, 2022, meeting. Both approved LMA applicants are in the process of revising their VEGI application and have notified VEPC staff that they intend to submit for consideration at either the October 27 or November 17 VEPC meeting.