Background Growth Rates Used for VEGI

Joint Fiscal Committee
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Vermont Employment Growth Incentive (VEGI)

- Administered by the Vermont Economic Progress Council (VEPC)
- Businesses can earn incentives for:
  - New jobs
  - Increasing payroll
  - Making additional capital investments
- Businesses must show that the project would:
  - Not happen without incentive ("But For") or happen in a less desirable way
  - Generate more tax revenue than the incentive would cost the State
  - Be welcomed by the municipality and retain local competition
- Enhanced incentives for specific scenarios:
  - Environmental technology projects/firms
  - Projects in disadvantaged labor markets

Background on VEGI

- Annual caps:
  - $10,000,000 for initial approvals
  - $5,000,000 for final approvals
- Disadvantaged Labor Market Area caps:
  - $1,500,000 for initial approvals
  - $1,000,000 for final approvals
- Incentives are tax expenditures to the State

Application Process

- Applicant submits proposal to VEPC, specifying a performance requirement:
  - Payroll, jobs, or capital investment
  - Meeting performance requirement determines if the incentive is earned
- “But For” statement
  - Applicant must justify why economic activity would only occur with incentive or happen less desirably in its absence

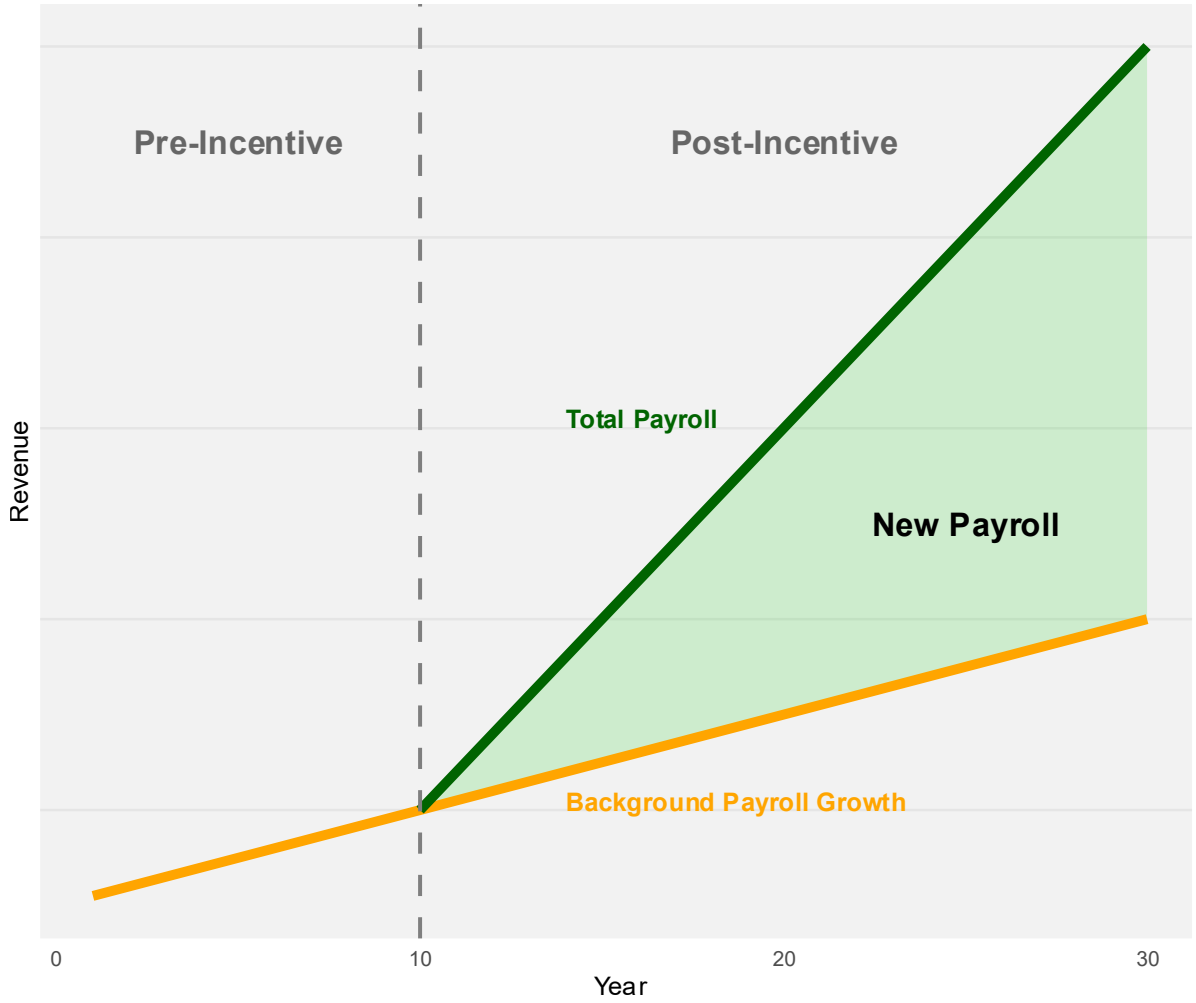
Incentive Calculation

- New tax revenue generated by proposed project must be greater than the cost to the State of the incentive
- Cost-Benefit model used to estimate tax revenues and costs before and after project starts
  - Background payroll growth rates used in calculation
- New State revenues come from changes in:
  - Total income
  - Grand List
  - Consumer purchases
  - Population
- Incentive is a percentage of new payroll, less background payroll growth

Incentive Payout

- Paid in five annual installments once performance benchmarks are met
- Annual claim must be filed with the Department of Taxes by a business to claim the incentive
  - Must include data on meeting performance requirements

Role of Background Growth Rates



- If award meets "But For" criterion, business payrolls would have grown less without incentive
- Can only observe total payrolls
- Estimate background payroll growth
  - Depends on industry characteristics
- Incentive calculation excludes estimated background growth

Estimating Background Growth Rates

Current Practice:

- Calculate background payroll growth using 15-year ***industry-average*** payroll growth rate
  - Background growth rate is the ***same for all companies*** in the same industry
  - Use North American Industrial Classification System (NAICS) codes
  - Include most recent economic recession and expansion

Auditor's Report:

- Recommends using a ***company-specific*** background payroll growth rate
  - Background growth rate is ***different for each company***; does not include data from other companies
- Recommends using average payroll growth for each individual company for the period before the incentive

Resources

- VEGI Master Document:
  - VEGI Master Document
- VEGI 2025 Annual Report:
  - VEGI 2025 Annual Report