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STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE

To:	Catherine Benham, Chief Fiscal Officer
From:	Tom Kavet and Joyce Manchester
Date:	April 13, 2022
Subject:	Request for Review of the PFM/Smart Incentives Report on the New Relocating Employee Program

Summary

Following our initial response to your request earlier in the session to review the subject report, we met twice in February with the study authors and Department of Finance and Regulation (DFR) personnel to share our concerns regarding the study methodology, data and conclusions. Those discussions had given us hope that the report would either be revised or withdrawn. After several conversations with DFR in recent days, we understand they are now considering a revised cover letter to the legislature. Here, we summarize our original review of the report and will offer a more comprehensive and detailed analysis upon request.

As required in Section 2b of Act 51 of 2021, DFR conducted an RFP process and retained PFM Group Consulting LLC to study and report on the effectiveness of incentive programs to attract new workers in meeting the demographic challenges and workforce shortages that exist in Vermont.[1]

Three major areas of concern in the design and implementation of the analysis contribute to our conclusion that the report should not be used to evaluate the effectiveness of the New Relocating Employee Program that is now Section 2 of H.159:

1. The report relies on unrepresentative and misleading data to derive its most important conclusions.
2. The report excludes all State fiscal costs aside from the direct subsidies to households.
3. The report ignores broader and more recent migratory and demographic currents in reaching its conclusions.

The Reasoning Behind Our Conclusions

A quick overview of the report's methodology provides background for the discussion of our three areas of concern below.

[1] "Study on Effectiveness of Incentive Programs in Attracting New Workers, Final Report," December 8, 2021 as well as the transmittal letter from Commissioner Pieciak to the committees of jurisdiction are available at: https://dfr.vermont.gov/sites/finreg/files/doc_library/dfr-legislative-report-act51-worker-incentive-program-study.pdf.

The report used a small sample survey consisting of fewer than one-third of all award recipients in 2018 and 2019 to determine whether the awards were a critical determinant in the recipient's decision to move to Vermont. Besides the obvious bias in asking someone who has received money what they think of the program that gave them the money, the survey instrument never asked whether they would have moved to Vermont in the absence of the award or whether it was a critical determinant in their decision to move. Instead, the survey offered a menu of nine, not mutually exclusive, possible motivating factors for moving. The survey asked respondents whether each factor was "not important, minimally important, neutral, somewhat important, or very important." In-migrants who did not receive an award were not considered.

Despite our concerns with the analytic portions of the report and its broad conclusions, its survey results offer some interesting insights into why people may move to Vermont. Access to outdoor recreation and nature, a safe place to live and raise a family, access to community/cultural amenities, job opportunities, and existing connection to Vermont rank as the most cited factors that are "very important" to recipients' decisions to relocate.

1. **The report relies on unrepresentative and misleading data to derive its most important conclusions.**

One factor in the survey to award recipients was "Vermont awarded me a grant incentive to relocate." If a respondent indicated that factor to be either "somewhat important" or "very important," the study deemed the award to be "of material importance" for their relocation decision. The share of "very important" or "somewhat important" responses to the award question became a critical assumption and input to all ensuing modeling and analysis. A closer look at the survey responses, however, reveals that the five other motivational factors mentioned above had "very important" response rates that were above the response rate for the award receipt factor – some were two or even three times the response rate for the award receipt factor.

A "soft" questionnaire to less than one-third of the recipients of taxpayer funds asking if such payments are "somewhat important" or "very important" is hardly sufficient to develop credible model inputs that drive compounding estimates of the rate of return on investment (ROI) and state economic impacts. Even if one dismisses the obvious survey bias, the assumptions and math used to generate those critical model inputs is problematic. A fixed percentage from a single factor in a multiple-choice questionnaire cannot be a valid model input. Doing this with responses from all nine factors implies the various motivational factors surveyed explain more than 400 percent of the economic impacts, an impossible result. Moreover, the survey data was the sole source of information. No data from other in-migrants who did not receive the payment was considered or used in developing those critical model inputs. Such an approach overstates the likely program benefits.

2. **The report excludes all State fiscal costs aside from the direct subsidies.**

Excluding all fiscal costs aside from the direct subsidies runs counter to prior State economic impact analyses, including those by VEPC/VEGI and by ACCD for the current Capital Investment Program. Increased in-migration leads to State costs and benefits, and both need to be considered in any credible ROI analyses.

In tandem with the methodological survey concerns regarding critical model inputs, the exclusion of other State fiscal costs renders the study's ensuing econometric modeling output an unrealistic exaggeration of potential net benefits from this program. Accordingly, all assertions of net positive economic and fiscal impacts on jobs, wages, tax revenues and GDP are of limited to no value and should not be considered as a factual basis for evaluating the New Relocating Workers Program.

3. **The report ignores broader and more recent migratory and demographic currents.**

The in-migrant analysis needs to be placed in the context of the larger demographic currents occurring in our state. Vermont has seen in-migration of about 10,000 households and 20,000 to 30,000 persons per year on average over the last decade. Recent Census data suggest significantly more net in-migration over this period than was previously estimated, and the pandemic has clearly amplified short-term (at the least) beneficial population movements. The New Relocating Employee Incentive Program is designed to affect those flows in some meaningful way, but it needs to be understood as a very small part of a much larger phenomenon. Numerous studies analyze factors affecting migratory flows; the cost of moving is rarely the most significant variable except among the poorest migrants. Simply expanding the program without a way to discern those who would move without the incentive from those who were decisively influenced to move by the incentive could cost the State tens of millions of dollars (a normal year of 10,000 in-migrant households times some average award amount) without making any measurable change in net in-migration. For example, in a normal year, a $5,000 average "incentive" award could cost the State $50 million, with no change in net migration. Despite this drawback, some may support the existence and expansion of the program for other reasons. Based solely on this study, however, State fiscal ROI should not be one of them.

JFO's Process

We note that in the past 25 years, there are only a handful of instances in which a report of this nature has been found to be of such low quality as to require JFO review and correction. In such past instances, the reports were either revised or withdrawn following technical discussions. JFO engaged in a similar technical review process with this report, resulting in comprehensive discussions with the authors of the report on February 2, 2022 and again on February 11, 2022. Commissioner Pieciak was part of the first discussion, and his designee participated in the second one. During the second conversation, the authors told us they would "soften" some of their findings in a revised cover letter. That revision was sent to Commissioner Pieciak, but JFO was unaware of it until April 11. The revised cover letter cited two new scenarios, one of which softened the conclusions significantly, but the new scenarios relied on the same flawed analytical approach and therefore cannot be considered valid. Commissioner Pieciak is currently working on a revised transmittal letter to the various committees of jurisdiction, and JFO will revise this memo when that updated transmittal letter is released.

JFO is willing to testify in greater depth if you or others have further interest or need additional technical or analytic details.