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# Memorandum

To: Steve Klein, Chief Fiscal Officer, Joint Fiscal Office  
From: Tom Kavet  
CC: Sara Teachout, JFO  
Date: September 4, 2015  
Re: Review of VEGI Fiscal Cost-Benefit Model "Annual Update" Memo of 9/2/15

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As requested, I have reviewed the memo from Ken Jones, Economic Research Analyst at ACCD, to Fred Kenney, VEPC Executive Director, recommending VEGI Cost-Benefit Model adjustments based on regularly updated model inputs. The model input changes were based on consensus JFO and Administration projections made with Administration Economist, Jeff Carr, consistent with the last State economic and revenue forecast in July.

*Based on this review, all of the suggested changes are acceptable and normal updates to the model that will not significantly affect total State costs for the program.*

One area of future potential change noted in the memo that is not normally adjusted on an annual basis was the calculation of the background growth rate by industry. This rate, which varies by industry sector, is one of the discount measures used in the Cost-Benefit Model to maximize the likelihood of some public return on the expenditure of the VEGI tax incentives.

In order to address this issue more thoroughly, at a meeting between VEPC and JFO personnel, it was suggested that a VEGI Technical Working Group be reconvened to analyze and make recommendations, if any, to changes in the background growth rate. This group would have a function and composition similar to the original VEPC TWG that developed the operational protocols for the VEGI program.

For this to happen, however, it is critical that the group be technical in orientation and unbiased. As such, it should consist only of economists and analysts and not administrative or other senior staff. Thus, the recommendation in the memo that "VEPC staff" be included in the group, along with "ACCD's economic analyst," is not advisable. In order for the group to have the best possible chance of reaching consensus recommendations, I suggest membership consisting of Ken Jones, ACCD economic analyst, Rebecca Sameroff, Tax Department senior fiscal analyst, Matt Barewicz, Labor Department economist, Susan Mesner, economist and Deputy Auditor (and original TWG member) and myself for the Joint Fiscal Office (also an original TWG member). Although anyone would be welcome to attend and observe the TWG meetings, only the above group would be voting members.

Please let me know if you or others have any questions regarding any aspect of the VEGI Cost-Benefit Model, the proposed annual Model changes or the Technical Working Group recommendation.