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Memorandum

To: Steve Klein, Chief Fiscal Officer, Joint Fiscal Office

From: Tom Kavet

CC: Joint Fiscal Committee, Fred Kenney, VEPC-ACCD

Date: July 22, 2016

Re: Review of Fred Kenney's memo to JFC of July 11, 2016 regarding VEGI Updating

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Per your request, I have reviewed the memo from Fred Kenney, Executive Director of the Vermont Economic Progress Council, dated July 11, 2016, to the Joint Fiscal Committee, and the included memo of the same date from Ken Jones to Fred.

For the most part, the discussed content in these two memos concern standard annual operating updates for the VEGI Cost-Benefit (C-B) model. This model is based on a Vermont economic model developed and maintained by Regional Economic Models, Inc. (REMI) of Amherst, MA. Output from this model drives calculations of both theoretical costs and benefits and are used to set VEGI award levels. As such, even minor changes in model assumptions can have enormous impacts on public expenditures and the State's theoretical return on investment from this program. This is the reason JFC review and approval is required for even "routine" model changes.

I would recommend adoption of the updates specified in these memos, with the caveat that the Vermont Economic Progress Council provide to the Joint Fiscal Office the below additional information for further review and presentation to the Joint Fiscal Committee at their next regularly scheduled meeting in September:

1) The existing model value(s) and the proposed updated value(s) should be detailed in the memo. For example, if the Property Value Inflator is to be updated, the current value of X.X% in year XXXX should be stated and the new value of X.X% in year XXXX stated. This allows easy recognition of changes that are minor and changes that may be more significant. More significant changes may prompt additional accuracy and content review and confirmation.

2) Three hypothetical relevant[1] company model runs should be performed with all existing model values and with all (not each) newly proposed updated values. Comparisons of critical output (such as award levels, theoretical State fiscal costs and benefits, State return on investment, etc.) should be presented in an easy to read table.

3) Some of the current update assumptions should be reviewed by the mandated Technical Working Group as a part of the statutory charge in the last legislative session as expressed in H.868, Section H.14, 1 ("whether the cost-benefit model is effectively utilized"), including, in the memo from Ken Jones to Fred Kenney, item b.5. regarding population sourcing, item b.7. regarding corporate income tax payments, and item b.9. specification of REMI output variables linked to specific Vermont tax sources and tax rates.

4) The REMI model number and date of model release should be specified in the memo. Whenever the general REMI model is updated, at least three recent actual model runs should be performed to insure that the new model is working as expected and that model parameters are not changed in ways that significantly affect State costs or program objectives.

5) In section g. of the memo from Ken Jones to Fred Kenney, any changes to the Regional Differential based on DOL data not now available should be presented with both prior and new values whenever it may be presented to the JFC for approval.

Please let me know if you or others have any questions regarding any of these recommendations or the memos upon which they are based.

[1] "Relevant" hypothetical companies should be typical VEGI applications, in terms of industries, regions and proposed investments, as well as those with maximum sensitivity to the updated assumptions in the C-B model.