



Business Incentives and Economic Development Expenditures: An Overview of Vermont's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Vermont's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Vermont.

In Fiscal Year (FY) 2014, the most recent year for actual spending data is available for all program types, the State of Vermont spent \$22 million on economic development program expenditures and in FY 2013 spent \$32 million on economic development tax expenditures.¹

Overview of Business Incentives

Vermont has a moderately large number of incentive programs, with a total of 28 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.²

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Vermont. For a current list of incentive programs as defined by the state, please see the [Agency for Commerce and Community Development](#) website.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.



Figure 1: Vermont State Business Incentives by Agency, 2015

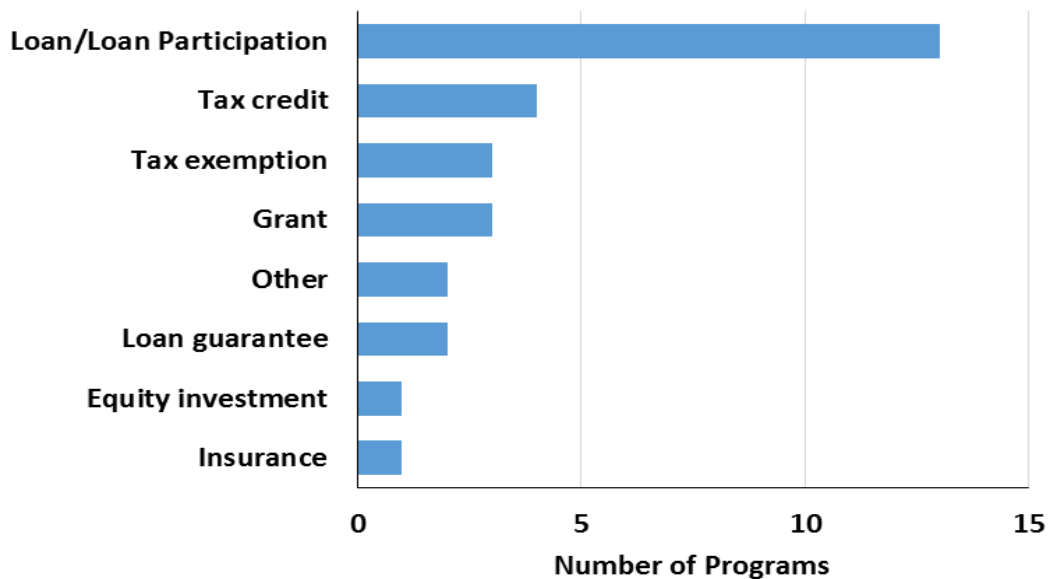
State Agency	Number of Programs
Vermont Economic Development Authority	15
Vermont Department of Taxes	5
Vermont Department of Economic Development	3
Vermont Economic Progress Council	2
Vermont Community Loan Fund	1
Community Capital of Vermont	1
Vermont Center for Emerging Technologies	1

Source: C2ER State Business Incentives Database

In Vermont, the responsibility for administering these incentive programs is spread across 7 different state agencies. The primary agency responsible for administering incentive programs is the Vermont Economic Development Authority (VEDA)³ (See Figure 1.) VEDA primarily administers business loans and other non-tax programs while the Vermont Department of Taxes and other state agencies administer primarily tax-incentives.

Figure 2: Incentive Programs by Type

Vermont Incentive Programs by Type (2015)



Source: C2ER State Business Incentives Database

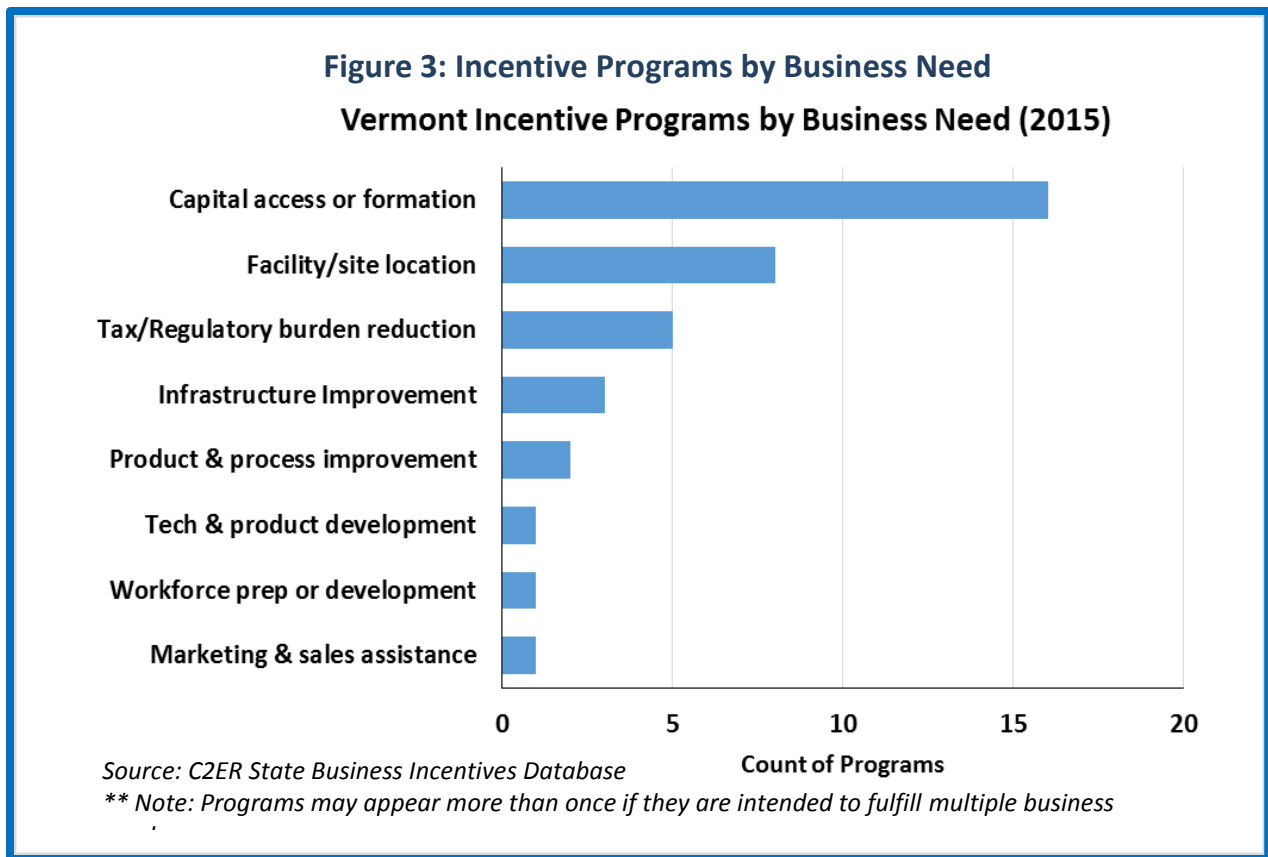
** Note: Programs may appear more than once if they are intended to fulfill multiple business

³ Vermont’s state budget lists appropriations by function category, lumping together all agency programs, thereby possibly undercounting each agencies’ total number of programs.



The Vermont Economic Development Authority (VEDA) is a quasi-independent organization self-described as “Vermont’s statewide economic development finance lender”.⁴ VEDA’s role in Vermont’s economy is to provide businesses and projects with access to capital at below-market rates. Since its inception in 1974, VEDA has shifted from a state-funded to a “self-funded” entity and derives a majority of its operational revenue from fees and interest accrued from loans issued. Notably, in 1996, the Vermont State Legislature terminated the Authority’s ability to borrow from the State Treasury to fund the Vermont Jobs Fund – which administers: loans to local development corporations; industrial revenue bonds; and direct loans to businesses and projects – instead directing the Authority to recapitalize by borrowing from the capital markets.⁵

VEDA is responsible for administering 15 of Vermont’s 28 economic development incentives. Twelve of VEDA’s programs are either loan or loan guarantee programs, two offer tax incentives; of which, one offers an option for equity investment, and one program offers insurance in the form of cash rebates to eligible banks for incurred losses on loans issued. (See Figure 2.) More than 55 percent of Vermont’s incentive programs provide direct business financing. About 30 percent offer tax incentives, and 15 percent offer indirect business financing.



⁴ Vermont Economic Development Authority. VEDA About Us. August 2015 Accessed at: <http://www.veda.org/about-veda/>

⁵ The Vermont Business Roundtable. Financing Study of the Vermont Economic Development Authority Loan Fund. February 1998. Accessed at: <http://vtroundtable.org/article/view/19095/1/3358>



More than 40 percent of Vermont's incentive programs provide capital access or formation, 22 percent provide facility/site location assistance, 14 percent offer tax/regulatory burden reduction, 11 percent provide infrastructure improvement, 5 percent support product and process improvement, and 1 percent provide technology, product and workforce preparation development and marketing and sales assistance, respectively. (See Figure 3.)

Economic Development Program Expenditures

Examining Vermont's budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.⁶

According to Vermont's FY 2014 Budget which details the state finances and appropriations for the 2013-2014 fiscal year, the state spent approximately \$22 million on economic development in FY 2014.⁷ This level of spending represents an average of \$908 per establishment investment in FY 2014, which is slightly above the national median of \$875 for states in the 2014 fiscal year.

Between FY 2014 and FY 2016, Vermont began increasing investments towards economic development. Due to revenue shortfalls, Vermont has begun consolidating its smaller programs and departments and has discontinued funding for some state-sponsored initiatives and organizations. For instance, in FY 2016, Vermont consolidated the Vermont Center for Geographic Information (VGCI) into the Agency for Commerce and Community Development (ACCD);⁸ the state's largest economic development entity, which houses both the Vermont Department of Economic Development and Vermont Economic Progress Council. By restructuring its agencies, Vermont increased its investment in the administration of state economic development expenditures from roughly \$3 million in FY 2014 to \$5 million in FY 2015, a 41 percent uptick. Once complete, the consolidation of VGCI into ACCD, among other changes, will boost Vermont's investments in administration by 28 percent between FY 2015 and FY 2016. (See Figure 4.)

Overall, Vermont felt the effects of the Great Recession, cutting economic development spending from roughly \$30 million in FY 2007 to below \$20 million in subsequent years, and only more recently increasing the state's economic development funding. (See Figure 5.)

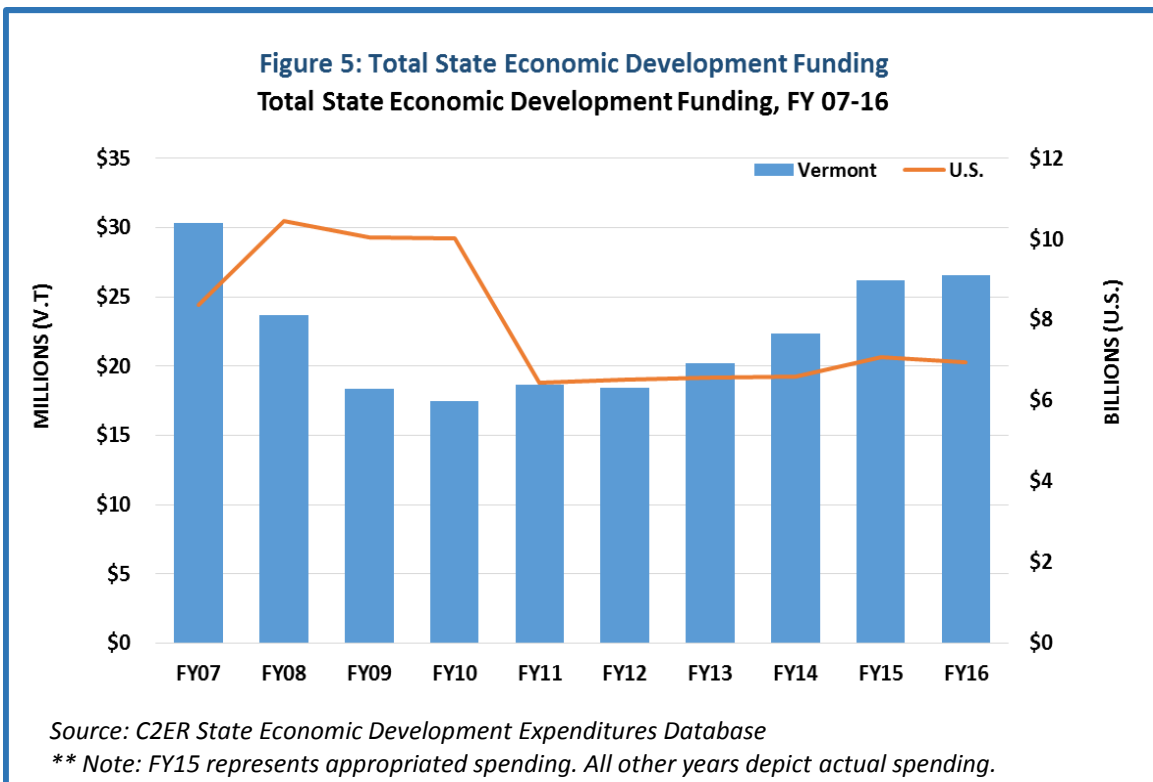
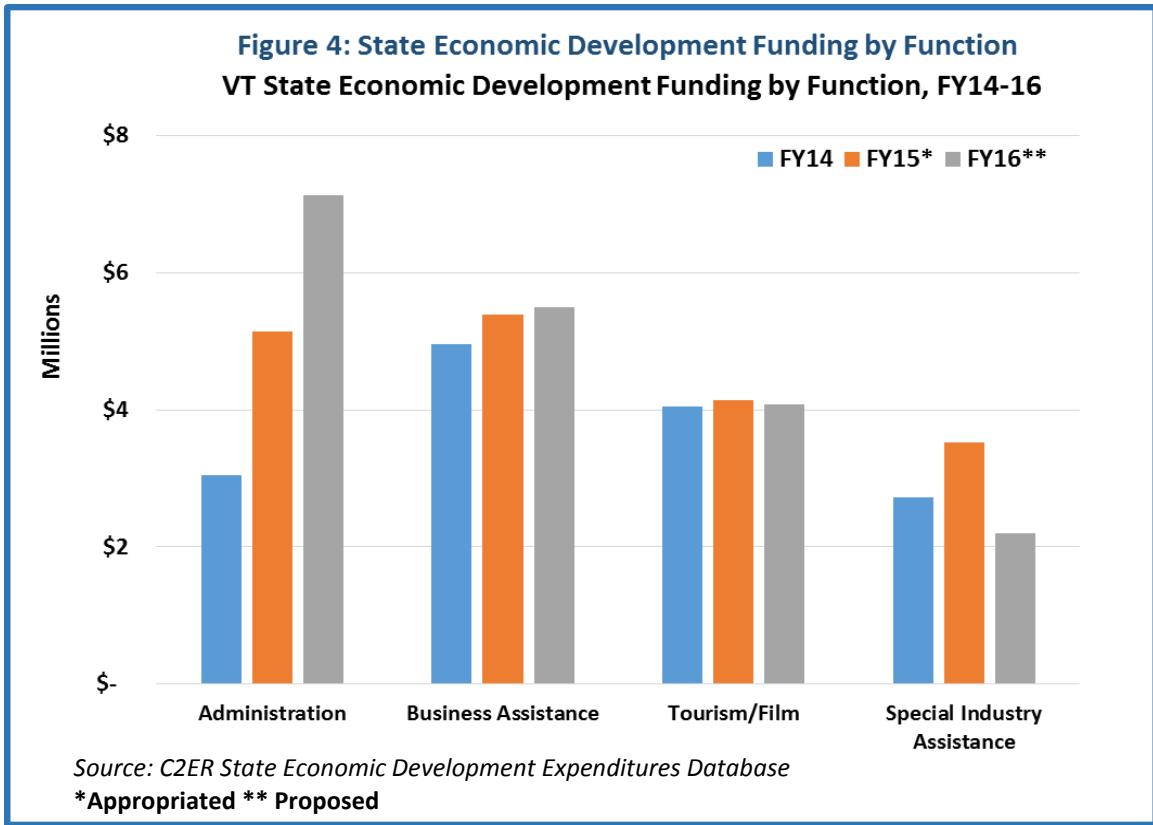
State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

⁶ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

⁷ This total excludes all federal and local economic development expenditures

⁸ FY 2016 State of Vermont Executive Budget Recommendation. State of Vermont. August 25, 2015 Accessed at: http://www.leg.state.vt.us/jfo/budget_fy2016.aspx





Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁹ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [FY 2015 Vermont Tax Expenditure Report](#), published by the Legislative Joint Fiscal Office and the Vermont Department of Taxes in January 2015, is used for the analysis in this section. Data collected by reviewing and recording all line items in the report relate to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. For a large number of tax expenditures, the estimated FY 2013 fiscal effect is recorded. In some cases, tax incentives are described as ‘under \$100,000’. In other cases, tax incentives are listed as ‘not estimated’ or ‘*’ indicating suppressed data – due to less than 10 claimants – and therefore are not reported to maintain confidentiality; so expenditures for these incentives are not reflected in the aggregate total.

In FY 2013, the State of Vermont’s economic development tax expenditures totaled approximately \$32 million, which is significantly greater than the \$21 million Vermont invested in economic development program expenditures for that fiscal year. Vermont administers its economic development tax expenditures through the Department of Taxes, although the Vermont Economic Progress Council (VEPC) has the authority to issue tax credits for its VEGI program.

For FY 2013, from a total of 28 economic development tax expenditures, approximately 43 percent of Vermont’s tax expenditures impacted sales and use, 36 percent were directed towards corporate income, 14 percent were directed towards property, and 7 percent were aimed at franchises in the state. The primary economic development functional goals of these tax expenditures were to provide special industry assistance, business assistance, community assistance, technology transfer, and entrepreneurial development. Nearly 54 percent of Vermont’s tax expenditures provided special industry assistance of which, the state’s construction industry was the primary beneficiary followed by the agriculture industry. Roughly, 21 percent of Vermont’s tax expenditures provided business assistance while nearly 18 percent provided community assistance. Approximately, 4 percent of tax expenditures provided technology transfer and entrepreneurial development, respectively. Altogether, the single largest expenditure was ‘Agricultural Inputs’ which totaled \$18 million or 57 percent of the total in FY 2013, followed by ‘Tax Increment Financing (TIF)’ Districts which totaled over \$4 million or 13 percent of the total in that same fiscal year. Both Research and Development Tax Credits and the Vermont Employment Growth Incentive (VEGI) were estimated over \$2 million in FY 2013; each representing 7 percent of all economic development tax expenditures in that fiscal year.

⁹ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



Analysis of Available Outcome Data

On June 12, 2014, Vermont Governor Peter Shumlin signed into legislation [Vermont Act No. 186](#), also known as “The Outcomes Bill”. Act 186 outlines eight basic population-level outcomes and sub-outcomes; tied to each outcome are population-level indicators and alternate indicators. The Bill allows a process by which agencies may suggest changes, additions, or eliminations of indicators annually. The Vermont Government Accountability Committee (GAO) and the Joint Fiscal Committee has been charged with overseeing the implementation of the bill. The Outcomes Bill draws from the Fiscal Policy Studies Institute’s Result-Based Accountability™ (RBA) methodology.

Under Vermont Act No. 186, eight population-level quality of life outcomes and sub-outcomes are prescribed for the “well-being of Vermonters”. Attached to each outcome and sub-outcome are population-level indicators. Initially, each population-level indicator is evaluated for its appropriateness by the Chief Performance Officer (CPO); who is housed within the Vermont Department of Administration. Colors are assigned to each indicator by the CPO, depending on how well the indicator appropriately captures its assigned outcome or sub-outcome. Additionally, the CPO designates two employees from each state agency to be a performance accountability liaison (PAL) to the General Assembly. PAL’s are responsible for reviewing with the General Assembly any of the population level-outcomes and indicators to which their own agency contributes, and for responding to any requests for RBA by the General Assembly. PAL’s report to the CPO on any action taken on quality of life outcomes. Each year, on or before July 30th, the Chief Performance Officer reports to the General Assembly on the state’s progress in reaching the population-level outcomes for each area.^{10 11} As of FY 2015, RBA remains in its pilot-phase. Departments are given a three to five year window, from their involvement in RBA, to integrate performance measures into future contracts and grant awards.¹²

Conclusion

In summary, Vermont administers a moderately large number of incentives, with an emphasis on providing access to capital and capital formation. The bulk of the state’s economic development expenditures are spent through tax expenditures, in particular sales and use taxes. Considering available resources, Vermont has sought greater accountability for improving the quality of life of its residents. As a result, the state has signed into legislation Vermont Act No. 186 which prescribes eight quality of life outcomes and sub-outcomes for the betterment of its Vermonters’ health and wealth. Vermont has attached data indicators to each of these outcomes and sub-outcomes which are annually assessed for their appropriateness and accuracy.

¹⁰ Vermont Act No. 186 (S.293). State of Vermont. June 12, 2014. Accessed at: <http://www.leg.state.vt.us/DOCS/2014/ACTS/ACT186.PDF>

¹¹ Results-Based Accountability. State of Vermont. Volume 1, Issue 1. January 2015. Accessed at: http://spotlight.vermont.gov/sites/finance_transparency/files/PerformanceMeasures/LegRBA_All-in-One.pdf

¹² FY 2016 State of Vermont Executive Budget Recommendation. State of Vermont. August 25, 2015 Accessed at: http://www.leg.state.vt.us/jfo/budget_fy2016.aspx



Appendix A: Full List of Vermont State Business Incentives (2015)

Program Name	Program Provider	Business Need(s)	Type
Direct Loan Program	Vermont Economic Development Authority	Facility/site location	Loan/Loan Participation
Tax-Exempt Revenue Bond Program for Manufacturers	Vermont Economic Development Authority	Capital access or formation; Facility/site location	Other
Local Development Corporation Loans	Vermont Economic Development Authority	Capital access or formation; Facility/site location	Loan/Loan Participation
Export Finance Program	Vermont Economic Development Authority	Capital access or formation	Loan guarantee
Vermont Small Business Loan Program	Vermont Economic Development Authority	Capital access or formation; Facility/site location	Loan/Loan Participation
Vermont Agricultural Credit Corporation	Vermont Economic Development Authority	Capital access or formation; Facility/site location	Loan/Loan Participation
Research and Development Tax Credit	Vermont Department of Taxes	Tech & product development	Tax credit
Tax Increment Financing Districts (TIF)	Vermont Economic Progress Council	Infrastructure Improvement	Other
Vermont Sustainable Jobs Fund	Vermont Department of Economic Development	Capital access or formation; Product & process improvement	Grant
Vermont Community Loan Fund	Vermont Community Loan Fund	Capital access or formation; Facility/site location	Loan/Loan Participation
Vermont Training Program	Vermont Department of Economic Development	Workforce prep or development	Grant
Machinery and Equipment Sales Tax Exemption	Vermont Department of Taxes	Marketing & sales assistance	Tax exemption
Vermont Employment Growth Incentive (VEGI)	Vermont Economic Progress Council	Capital access or formation	Grant
Vermont State Infrastructure Bank (SIB)	Vermont Economic Development Authority	Infrastructure Improvement	Loan/Loan Participation
Technology Loan Program	Vermont Economic Development Authority	Capital access or formation	Loan/Loan Participation
Vermont Capital Access Program (VCAP)	Vermont Economic Development Authority	Capital access or formation	Insurance
Vermont Business Energy Conservation Loan Program	Vermont Economic Development Authority	Product & process improvement	Loan/Loan Participation



Program Name	Program Provider	Business Need(s)	Type
Brownfields Revitalization Fund (BRF) Loan Program	Vermont Economic Development Authority	Facility/site location; Infrastructure Improvement	Loan/Loan Participation
Investment Tax Credit	Vermont Department of Taxes	Tax/Regulatory burden reduction	Tax credit
Vermont Seed Capital Fund	Vermont Center for Emerging Technologies	Capital access or formation; Tax/Regulatory burden reduction	Tax credit; Equity investment
Downtown and Village Center Program	Vermont Department of Economic Development	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Retail Sales and Use Tax Exemptions	Vermont Department of Taxes	Tax/Regulatory burden reduction	Tax exemption
Property Tax Exemptions	Vermont Department of Taxes	Tax/Regulatory burden reduction	Tax exemption
Entrepreneurial Loan Program	Vermont Economic Development Authority	Capital access or formation	Loan/Loan Participation
Business Loan Program	Community Capital of Vermont	Capital access or formation	Loan/Loan Participation
Commercial Energy Loan Program	Vermont Economic Development Authority	Capital access or formation	Loan/Loan Participation
Small Business Energy Loan Program	Vermont Economic Development Authority	Capital access or formation	Loan/Loan Participation
Energy Loan Guarantee Program	Vermont Economic Development Authority	Facility/site location	Loan guarantee



Appendix B: VT Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$3,051,299
Business Assistance	Other business assistance	\$4,954,466
Community Assistance	Community center revitalization	-
Community Assistance	Infrastructure (e.g., road/sewer/telecommunications)	\$410,785
Community Assistance	Other community assistance	\$7,180,321
Special Industry Assistance	Agriculture/agribusiness	\$2,724,289
Tourism/Film	Tourism advertising	\$703,197
Tourism/Film	Tourism promotion (exec. Advertising)	\$3,346,429
TOTAL		\$22,370,786



Appendix C: VT Economic Development Tax Expenditures (2015)

Description	Total Funds
Historic Rehabilitation Tax Credit	None
Façade Improvement Tax Credit	None
Code Improvement Tax Credit	None
Machinery and Equipment Tax Credit	None
Research and Development Tax Credit	2,238,000
EATI Tax Credits (carry forward only)	*
Downtown Tax Credits (carry forward)	None
Wood Products Manufacture Tax Credit	*
Business Solar Energy Tax Credit	None
Vermont Employment Growth Incentive	2,238,000
Agricultural Inputs	18,000,000
Fuels for Railroads and Boats	Not estimated
Property used in research	Not estimated
Agricultural machinery and equipment	2,100,000
Energy Purchases for Farming	1,000,000
Aircraft and depreciable parts for commercial use	Under \$100,000
Railroad Rolling Stock and Depreciable Parts	Under \$100,000
Ferryboats and depreciable parts	100,000
Tracked vehicles	Not estimated
Sales of Building Materials	Under \$100,000
Property incorporated into a net metering system	Under \$100,000
Reallocation of Receipts from Construction materials	Under \$100,000
Owned by Agricultural Societies	449,000
Whey Processing Facilities	None
Tax Increment Financing Districts	4,214,000
VEPC Approved Stabilization Agreements	36,000
Downtown and Village Center Program Tax Credits	1,450,200
Entrepreneurs' Seed Capital Fund Credit	None

(*) Less than 10 claimants, to maintain confidentiality amount not available.

** Data represents amount of tax credits used for FY2013.