Transforming our Economy

"I believe now is the time for us to redouble our efforts to support existing companies, encourage entrepreneurship, and attract new employers by transforming our economy to meet the demands of the 21st century … As the economy continues to soften, it is important that we act to enhance our economic development efforts and pass this practical plan in the first 100 days of this session."

- Governor Jim Douglas, Inaugural Address, Thursday, January 8, 2009

Since first taking office in 2003, Governor Douglas has made strengthening Vermont's economy and increasing jobs and opportunities for Vermont residents among his highest priorities. In successive terms, he has proposed multi-part strategies that built upon earlier initiatives.

This new package of proposals will help keep costs down, inspire innovation, grow good jobs for Vermonters, and position Vermont to emerge successfully from the national recession. These proposals are long-term solutions that will not add to the short-term burdens. They will encourage emerging industries and businesses to make Vermont their home so that young people will not have to leave in pursuit of a high-paying job or an affordable place to live.

Governor Douglas is determined to keep our state on a path to prosperity by fostering innovative businesses and entrepreneurs, making commonsense reforms to our permitting process, using existing infrastructure to help businesses expand or relocate in Vermont, developing more affordable housing options, promoting greater energy efficiency, and creating more jobs in emerging green industries.

The Governor's strategy includes:

- Green Growth Zones
- Smart Grid for Vermont
- Innovation Challenge
- R&D Tax Credits
- Opportunity Zones
- Urban Homesteads
- Tech VEGI
- Economic Response Team

Green Growth Zones

Concept: To create economic development opportunities within definable sites anchored by renewable energy generation infrastructure. The state will provide incentives for the development of renewable generation to achieve a greater measure of control over energy costs and a reduction in greenhouse gas emissions. Additional incentives will be provided to enterprises or housing within the Zone, which will have access to some portion of the developed electricity and, potentially, surplus heat being made available at reduced cost.

Electrical Generation: Any form of generation from renewable sources will be considered eligible for designation as the energy component of a Green Growth Zones including wind, solar, geothermal and biomass, as affirmed by the Department of Public Service. Incentives in the form of financing, expedited permitting and rate setting will be made available to the owners of the generation facility component of the Green Growth Zone to encourage their participation.

Zones: Green Growth Zones will be identifiable, designated areas in which generation will occur as well as business and/or housing development.

Benefits: Enterprises within the zones will be treated separately from enterprises outside of the zone for purposes of electric rate setting, permitting, taxation and access to other state or quasi-governmental resources.

- *Electrical Rates*: A portion of the power generated by the renewable infrastructure will be made available to commercial enterprises or housing within the Zone. The pricing of the power within the Zone will be independent of the pricing outside of the Zone with the goal of lower rates for the Green Growth Zone customers.
- *Waste Heat*: Green Growth Zones that incorporate co-generation facilities can sell their excess heat within the Zone.
- *Permitting*: The Green Growth Zone will be eligible for an “umbrella permit” and will receive expedited, priority permitting from the Natural Resources Board and relevant state agencies. Renewable generation that needs a certificate of public good (CPG) from the Public Service Board (PSB) will have certain criteria reduced or automatically “checked off,” if located in a Green Growth Zone.
- *Financing*: Special loan rates will be set up through the Vermont Economic Development Authority (VEDA) and subsidized by the State to be below VEDA’s normal lending rates.
- *Vermont Employment Growth Incentives*: Companies within the Zone will be eligible for a separate VEGI set-aside program, outside of the existing cap with an altered formula to achieve higher benefits.
- *Tax Increment Financing*: The entire Green Growth Zone will be considered a 10-year TIF (Tax Increment Financing) zone. The incremental new property taxes generated will be available to pay off debt associated with the construction of infrastructure that serves the Zone.
- *Clean Energy Development Fund*: Renewable generation projects within the Green Growth Zone will get preferential scoring for grants and loans by the Clean Energy Development Fund (CEDF) Investment Committee, as well as increased funding levels.

Designation Process: Each Regional Development Corporation, in conjunction with a host community, may designate one or more Green Growth Zones for their region. Applications will be made to the Vermont Economic Progress Council to consider and approve or reject the application for Green Growth Zone status. The application must include a letter from the Department of Public Service confirming that the generation source(s) within the Zone is/are renewable, as well as letters of support from legislative body of the host community and Regional Planning Commission.

Expedited Public Service Board approval of Green Growth Zones: Unlike other requests to build electric generation facilities, those brought under the auspices of a Green Growth Zone would actually have been considered by the community in which the project would be constructed. By statute, (V.S.A. § 248(j)), the PSB can issue a CPG "without the notice and hearings otherwise required by this chapter" in cases where the generating facilities "will be of limited size and scope" and other conditions such as environmental impact and public good are met.

Example: A regional development corporation comes forward with partners from an existing industrial park, a wood chip generation developer, and the host community to apply for Green Growth Zone designation. They meet the VEGI criteria for job creation and DPS's review of their generation proposal. The financing and incentives would offset some of the cost for constructing the generation, thus lowering the costs it would otherwise have to charge the park customers. The total power costs to the park customers would be further reduced through the use of the waste heat from the electric generation through combined heat and power (CHP). Further, any market benefits that arise from the location of the generation and their attributes (such as renewable energy credits or RECs) would be split among the developer and park customers as they see fit.

Smart Grid for Vermont

Concept: A *Smart Grid* will empower Vermonters by giving them the tools they need to lower electricity consumption and costs; improve system reliability; and give all Vermonters an opportunity to help shape our shared energy future. This statewide initiative will transform our electric grid and deliver economic and environmental benefits to Vermont consumers that are especially needed in a time of high energy prices.

Plan: A *Smart Grid* is an enhanced electric transmission and distribution network that uses an internet-like communications network technology, distributed computing and associated sensors and software to provide consumers with the decision-making information they need to better manage their family or business consumption and energy costs.

Vermonters will have the option of having Smart Meters installed in their homes that will tell them how much energy they are consuming at any given time and also provide them with real time prices so they can make informed choices about their energy use.

Achieving a statewide *Smart Grid* goal won't require construction of new transmission lines but will require enhancements of the existing system and the development of a statewide wireless communications network – both of which are currently underway.

Our utilities, to their credit, have begun to move in this direction. But they need greater regulatory cooperation and clear coordination with the Vermont Telecommunication Authority.

DPS, the Vermont Telecommunications Authority, and the Agency of Administration will oversee this project and ensure its completion.

The Vermont Innovation Challenge

Concept: The *Vermont Innovation Challenge* is meant to facilitate the development of new ideas and products by Vermont companies and entrepreneurs that will help find solutions to the most difficult challenges of our time, such as climate change, energy independence and health care costs.

The challenge will inspire employers and employees on the cutting edge of new technologies to compete for meaningful incentives that will lead to their success and allow them to compete in the global economy here in Vermont.

Plan: The State, in consultation with a panel of industry experts and leading scientific scholars, will outline a series of goals that both solve an engineering challenge and benefit the public good. These will be "stretch" goals by their nature – difficult to obtain.

The first company, small business or entrepreneur to cross the line and achieve the goal secures the right to operate new or expanded manufacturing operations free from state taxes, specifically state corporate taxes and education property taxes. The tax waiver will apply to the line of business specific to the invention – i.e., it will apply to capital, operating costs and labor specific to the challenge, not the company's entire business – and will sunset with the life of the product or 15 years, whichever comes first. In the case of sole proprietorship, limited liability companies, or subchapter S corporations, the tax waiver will apply to state income taxes specific to the invention.

Further, the first company over the line in each challenge will earn a cash incentive to kick-start job growth. The expert panel will work with the Clean Energy Development Fund to establish the incentives using the Fund's future revenue.

The initial series of challenges will focus on reducing energy consumption. For instance,

- The first company to produce a commercially viable residential wind turbine that increases its rated capacity 50% above current standards;
- The first company to produce a commercially viable pellet or wood stove technology that increases the efficiency of such stoves by 50% over current industry efficiency leaders;
- The first company to produce a commercially viable rooftop solar system capable of providing power, heating and/or cooling energy for a building at a substantially lower installation and maintenance costs than traditional electric and deliverable fossil fuel sources;
- The first company to produce a commercially viable automobile capable of exceeding 70 MPG, or components for that vehicle such as advanced ignition systems, new generation

transmissions or lightweight materials; or an automobile that does not rely on any combustible fossil fuel but has horsepower and mileage comparable to today's average;

- The first company to produce a commercially viable engine for other motorized items (like airplanes, motorcycles, boats, lawn mowers or snow blowers) that achieves efficiency improvements of greater that 50% over the existing technology or that reduce by 50% the CO2 emissions these engines produce; or
- The first company to produce a commercially viable non-petroleum based fuel (other than corn-based ethanol) for vehicles that achieves an efficiency 150% greater than carbon fuels and has a non-subsidized price equal to the average retail price of petroleum fuels over the past three years.

Over time, we'll also extend this program to cover innovations in software, biomedical fields and other areas where the skill and drive of Vermonters can excel. To ensure fairness, accuracy and success, Vermont Economic Progress Council (VEPC) will establish the guidelines and criteria for this program.

Research and Development (R&D) Tax Credit

<u>Concept:</u> The *Vermont R & D Tax Credit* will enable Vermont businesses, especially those engaged in information technology (IT) to push the envelope, in much the same way we hope the Innovation Challenge will cause businesses to reach higher than they would have otherwise.

The IT sector in Vermont has become a key economic driver, especially software development. Software is projected to be the third fastest-growing industry in the U.S. economy over the next decade, according to the Bureau of Labor Statistics at the U.S. Department of Labor. Wages are expected to increase more than 60% through 2014 — about four times the 14% growth projected for all industries combined, and current estimates are that well over 250 software related companies exist in Vermont today and that number is growing.

Products based on intellectual property, such as IT hardware and software, comprise 40% of the growth of the national economy. This continued growth is predicated on the investment in, and commercial benefits of, research and development spending. The economic benefits of continued investment in research and development by Vermont firms and the desire to expand such activity justifies extending a state R&D tax credit to those activities that qualify for the recently re-authorized federal R & D tax credit.

Since it was enacted in 1981, the federal R & D tax credit has provided businesses with a tax credit for certain qualified expenditures, in an effort to spur both innovation and economic growth by promoting private sector investment in R & D. This was considered a net benefit for the United States and its economy because the economic and societal benefits of improved technology, processes, and products were great, and because companies who engage in such risky ventures frequently were unable to recoup the full costs of the investment.

The plan: By using the federal rules for an R & D tax credit – similar to the way Vermont piggybacks its income tax system on the federal one – our state can provide a valuable benefit to existing Vermont firms and encourage others to be created or to relocate here.

While society clearly benefits from innovation, companies engaged in R&D face high risks, and often times fail to reap the full rewards of their investments. IT, particularly software development, is a research-intensive industry with a strong pressure to bring new products to market quickly. Products can move from the drawing board to the shelf in 18 months or less. Or in the case of some IT hardware or scientific products, the process can take years, though this compares to the decades such advances might have required in the past.

Given this rapid pace of evolution and development and the technological breakthroughs and innovations made possible by the increasing power of computers and collaborative programs, a company's competitive advantage is defined by its ability to predict market demand and meet it quickly. Research and development determines whether such companies will be innovators or imitators in their field, leaders on the edge or followers seeking to catch up. Since the greatest cost for such research is typically the salaries of the workers producing this intellectual capital, the R & D tax credit reduces the cost of capital, thereby reducing the risks of such investment.

This permits companies to "push the envelope" in their technology development, an especially crucial element for software development. This increased investment can result in the creation of new jobs, new products, and ultimately new revenues for state government far in excess of the foregone tax revenues exempted under the R & D tax credit.

Opportunity Zones

Concept: We can use our existing infrastructure – such as aging, empty industrial facilities – as a resource to attract new employers or help existing employers expand. Creating *Opportunity Zones* will help revitalize communities that have been hit hard by the migration of manufacturing jobs out of New England.

Plan: Industrial facilities that have been vacant for five years or more would be afforded certain benefits to create incentives for renovation and renewal of use. No income tax on revenue from rental of space in the building would accrue to the owner for 10 years. There would be a five-year tax increment allocation to the community for infrastructure costs associated with support for the renovation of the building.

Urban Homesteading

Concept: Throughout Vermont's downtowns there are buildings with thriving commercial space on the first floor but underutilized space on the upper floors. By encouraging first-time homeowners to invest in these spaces we can significantly increase economic activity in our downtowns and village centers, and create more affordable housing options for Vermonters. The Homestead model produces units of housing in smart growth locations at very affordable prices.

Plan: The *Urban Homestead* program would provide incentives to the buyers of newly subdivided condominiums in the now underutilized upper stories of mixed-use buildings, mills and other buildings. Similarly, mill structures, vacant schools and other underutilized structures could be converted to affordable condominiums.

This initiative would allow us to create affordable housing units with little impact on open space, farmland and the environment.

These units would provide homeownership opportunities for Vermonters in downtowns and village centers. And, by permitting the owners to invest "sweat equity" by undertaking some of the conversion work themselves, the price of such units can be lowered further still.

Tech VEGI

Concept: Over the last several years, Vermont has set the stage to promote job creation in the knowledge-based economy and in particular, the information technology (IT) industry. We are deploying new telecommunication infrastructure regularly under the leadership of the Vermont Telecommunications Authority and our higher learning institutions have become leaders in training the next generation in this industry.

With these key pieces in place – infrastructure, education and support – the logical next step is to provide an incentive to IT companies to help them grow in Vermont: *Tech VEGI*. These jobs are high paying; have a low environmental impact and have been able to flourish throughout our state, from downtown Bellows Falls to St. Johnsbury.

Plan: Fortunately, we have an existing program, the Vermont Employment Growth Incentive (VEGI), which is an effective tool to recruit new companies to Vermont and encourage existing Vermont companies to grow. Enhancing the VEGI program to allow for a greater benefit for IT companies can seamlessly enable this important industry sector to grow and prosper in Vermont.

To be eligible, businesses have to meet the current VEGI eligibility and approval requirements, but if an existing Vermont company or a relocating company will add new jobs in software development or external software and systems implementation, they may be eligible for an increased level of VEGI incentive.

Economic Response Team

Concept: The State of Vermont is not immune to the effects of a global economic downturn, which has stressed our business community and our citizens. As Vermont's economy has slowed, businesses have downsized or closed. This not only results in greater demand for government services, but also is coupled with a resultant revenue decline that further strains our ability to provide them.

These factors require state government to adopt short, intermediate and long term solutions that will position the state to intervene where possible and provide assistance to Vermont companies to mitigate the impacts of the economic downturn on those businesses; their employees; and ultimately all of Vermont.

The *Economic Response Team* or ERT, will identify companies at risk as well as those companies that may have opportunities to expand and add jobs. We will enhance our communications between government, its partners, and Vermont companies so that the state can make a rapid response to the needs of businesses before decisions are made that could impact our state.

Comprised of a small team of officials from government agencies such as Departments of Economic Development and Labor and representatives of the General Assembly, and led by the Commissioner of Economic Development, the team will be able to nimbly respond to changing conditions and bring the appropriate resources to bear quickly. The appropriate stakeholders, geographically and industry-specific, will be called upon to join the ERT, including but not limited to Regional Development Corporations; the Vermont Economic Development Authority; the Vermont Economic Progress Council; the USDA Rural Development Office; institutions of higher learning; and the Vermont Small Business Development Center.

Plan: While the communications network between the state, its partners, and Vermont's private sector is well established, the ERT will bring an immediate focus to sharing information among state agencies like Economic Development, Labor, BISHCA and Human Services, who already work with businesses pursuant to their own programs.

The state enjoys an excellent communication ring through the Department of Economic Development and its federal and community partners. However, with a team similar to the Fuel and Food Partnership Model, the ERT will constantly share information and demonstrate a united front to any business in need. We also will add a third ring of communication, formally gathering information on the health and circumstances of businesses from the major business trade associations to include the chambers of commerce, homebuilders, bankers and others.

To be successful, information must be gathered from these sources on a regular basis and analyzed to facilitate the ERT's work. Utilizing this information, the ERT will then develop a plan to address the situation, cut through red tape as necessary, expedite the deployment of resources and examine temporary measures to help a business that is in trouble. Relevant state, federal, regional, local or private resources that may be brought to bear include, but are not limited to, training, financing, lowering utility costs, workplace safety, international trade, government contracting opportunities, and permitting assistance.

Once a solution is identified, an appropriate case manager will be assigned who will have access to a team of partners as needed to support the deployment of resources according to the plan.

While our government agencies, statewide and regional partners have been on the ground continually working with businesses every day, the current economic climate calls for a renewed focus and a redoubling of our efforts to ensure greater coordination and a more rapid response that will assist companies and ultimately keep Vermonters working.

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