

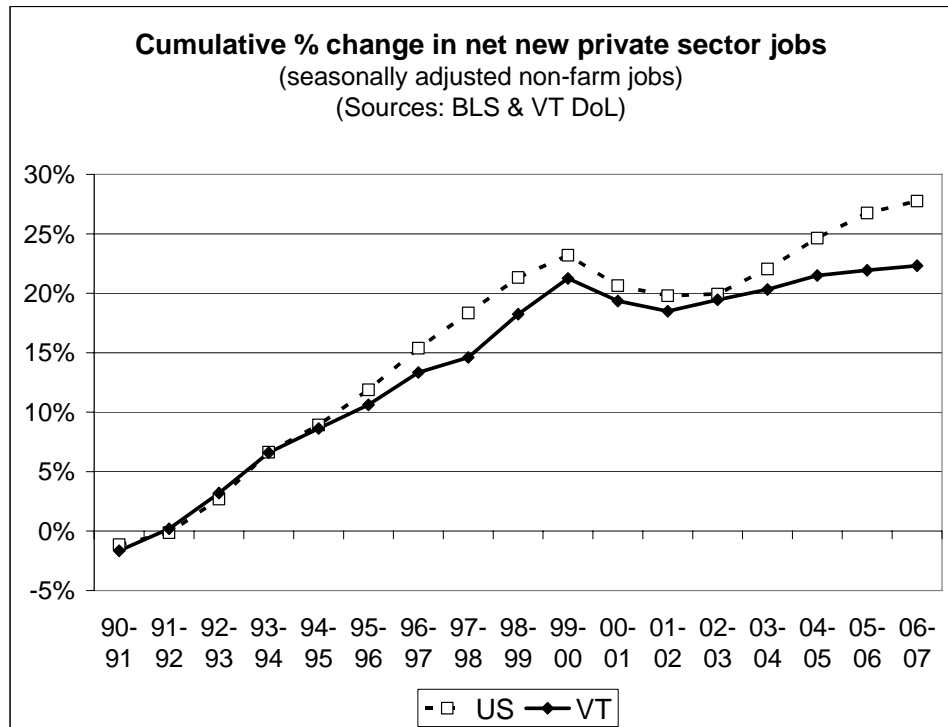
To: Jay Kaplan, Chair - CFED
 From: Doug Hoffer
 Date: 6 March 2008
 Re: February meeting

I just watched the CFED's February meeting and offer the following comments.

Bill Botzow asked a critical question. "What do we need to know to make good decisions" about economic development (ED)? In my view, we need to be realistic about what a small state can do in the face of huge forces beyond our control such as interest rates, the federal budget, trade agreements, currency exchange rates, and so on. Not surprisingly, the Vermont economy tracks the national economy very closely (although we've been trailing the U.S. for the last few years; see below).

During this period, the state has spent hundreds of millions on a variety of ED programs only to mirror the national trend. This does not mean we wasted all that money; but we should think carefully about the return on investment.

This leads to an issue raised by Sam Matthews regarding the public meetings. She suggested that people be given choices as to which policies and programs should be prioritized and how scarce resources should be allocated. This is a critical question and



must be answered each year by the legislature. But in order to make informed decisions, policy makers need to know which policies and programs are working and which are not; which produce measurable returns on investment and which do not. This is what we need to know to make good decisions.

The enabling statute specifically called for consideration of the relative importance and merits of various ED strategies such as tax policy, infrastructure, workforce development, quality of life, and so on. These questions can only be answered by research and analysis. To date, the CFED has not undertaken this research. Instead, the CFED is preparing to initiate a series of public meetings at which Vermonters will be asked for their opinions. But if research findings are not available to participants, the responses will be (as Bill Botzow said) largely subjective and/or self-serving.

Re. the exercise about listing "sectors" and then making funding choices: Two things struck me. First, Sam Matthews' comment about the difference between funding sector-specific efforts vs. activities/strategies that cut across and serve all sectors was right on the money. If, as I argued above, much of the state's efforts have had little demonstrable impact on major indices (e.g., jobs, wages, etc.), it could be argued that the majority of the available resources should be directed to the basics: education and workforce training, infrastructure, and quality of life (social infrastructure). This is especially important when we consider one of the most costly components of the existing strategy: tax "incentives". One of the members stated that the financial services tax credit program had been carefully targeted and successful. I disagree.

The three graphs at right show job growth before and during the program. In all three sectors, growth was positive before the program and generally continued with little change (except for Holding Companies where one firm bumped the number in '97).

All three sectors did reasonably well during the market expansion but leveled off or declined with the recession. So we spent \$10 million in foregone revenues but, apparently, got very little for it.

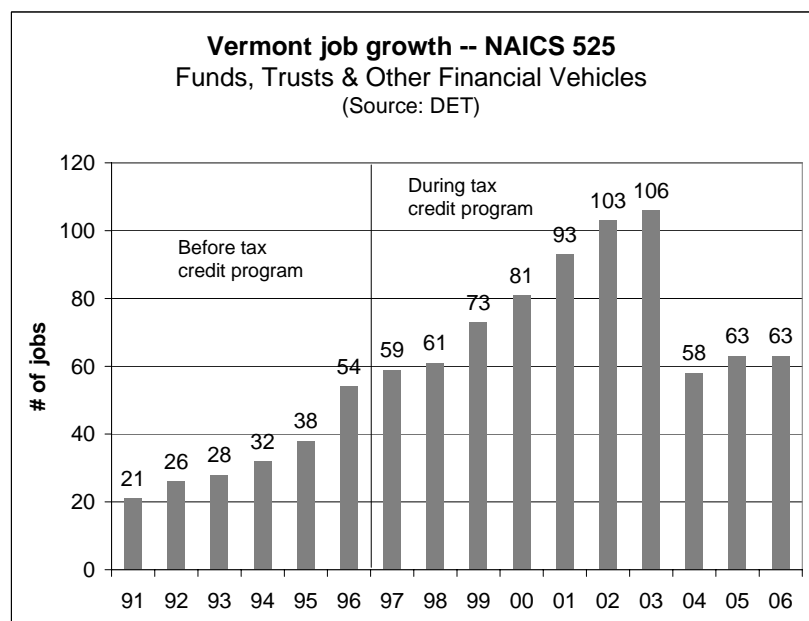
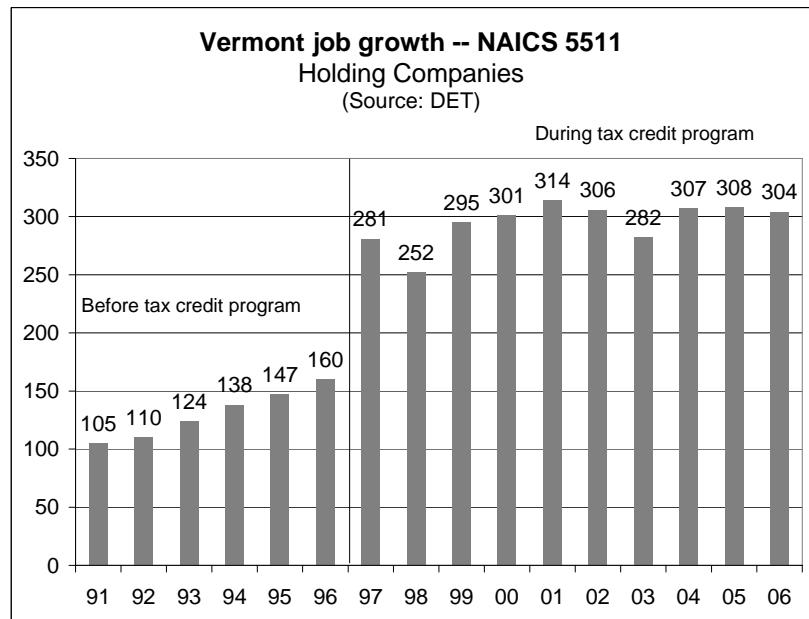
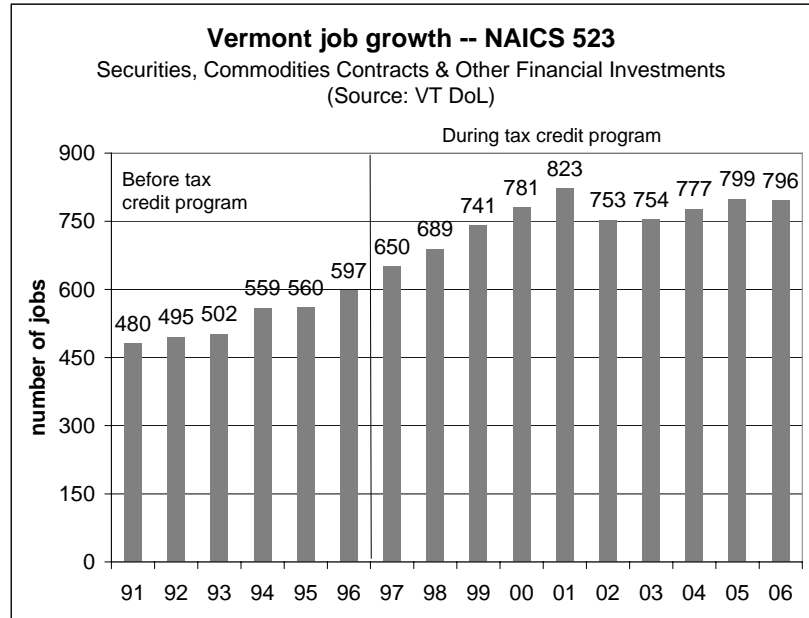
This is a perfect example of why tax "incentives" are not long-term investments. Market conditions are much more important than taxes.

It is noteworthy that most (if not all) of the "green" technology firms that met with the commission last year grew in Vermont without such tax "incentives". This should be a warning about whether the proposed expansion of the VEGI program is needed or prudent.

Along with a literature search, this is exactly the kind of analysis that the legislature asked of the CFED. That is, what are the comparative costs and benefits of tax "incentives" vs. investments in infrastructure, workforce training, or quality of life?

This leads to the other thing that struck me about your funding exercise. Once you reach agreement on where to spend the available funds, you have to decide how to spend the money. And this leads to the UEDB.

The unified economic development budget (UEDB) contained no performance data, which was specifically requested by the legislature [Act 65 §225(c)(3)]. The report discussed performance measurement at length, but did not include data from any of the agencies and departments involved in ED. Moreover, the report did not contain a list of performance reports currently available or where they could be obtained.



Performance measurement has been required by statute for over a decade.¹ But after all this time, the report acknowledged how far we have to go:

*"Frequently, goals are unstated, unclear, or contradictory. When programs do have goals, they are often not stated in terms that support measurement. Finally, programs often have goals that are stated in terms of inputs or process, rather than outcomes."*²

In addition, there appear to be some gaps in the figures for funds appropriated for core activities. Unless I'm mistaken, Table D1 does not include the following appropriations.

	UEDB report	FY08 Budget	Source (Act 65 2007)
ACCD			
Agency Administration ³	\$0	\$2,496,209	§218
Housing & Community Affairs -	\$0	\$2,669,172	§219
Tourism & Marketing ⁵	\$3,012,203	\$4,174,127	§227
Agriculture			
Administration ⁶	\$0	\$692,361	§80
Agricultural Development	\$0	\$3,012,216	§82
Labor			
Administration	\$0	\$3,227,777	§165
Apprenticeships ⁷	\$0	NA	
Employment & Labor Market Info. ⁸	\$0	NA	
Employment services (Wagner Peyser) ⁹	\$0	NA	
UVM - EPSCoR¹⁰	\$0	\$396,115	§190(b)
State Colleges - Mfg. Extension Center¹¹	\$0	\$446,652	§193(b)

These expenditures total more than \$11 million. Had they been included, the total for "core" activities would rise from \$40 million to over \$51 million (not counting millions more in tax expenditures).

The statute calls for the UEDB to "include appropriations or expenditures for all of the types of development assistance, workforce training and education, and the development-related research granted or managed by the state during the prior two fiscal years by all agencies and departments of the state, including but not limited to the agencies of commerce and community development and agriculture, food and markets; the departments of labor and taxes; and the Vermont economic development authority" [Act 65, 2007, Sec. 225(b), emphasis added].

¹ 32 VSA 307(c) and 10 V.S.A. 7.

² UEDB, The Snelling Center for Government, Nov. 30, 2007, p.12.

³ As the parent agency for DED, Tourism, and Housing & Community Affairs, ACCD's administrative costs should be included. The figure is for ACCD admin. minus the amounts shown in Table D1 and the \$50,000 appropriated for the Council on Rural Development, which was earmarked from that source [Act 65 § 218].

⁴ The figure is the total of personal services and operating expenses.

⁵ The figure from the report does not match Act 65, 2007, Sec. 227.

⁶ Approximately one third of the Agency's budget is related to economic development. Therefore, we assume one third of the administrative budget is directly related to development activities.

⁷ Neither Act 65 nor the Governor's budget provides details about funding for this program.

⁸ "Information generated by the [ELMI] Division is used by other state agencies particularly the Dept. of Economic Development and the [RDCs]. [It] produces monthly reports...used[d] by a wide variety of Vermont businesses." Governor's FY08 Budget p.382. No budget data available.

⁹ Neither Act 65 nor the Governor's budget provides details about funding for this program.

¹⁰ Experimental Program to Stimulate Competitive Research. State match required to receive federal funds.

¹¹ State match required to receive federal funds.

The report discussed the fact that some expenditures are for "core" economic development activities and others for indirect or tertiary activities. However, no data was provided for indirect or tertiary activities. This is a significant omission because some of the activities and expenditures excluded are substantial. For example:

- VHCB's mission is clearly related to economic development (\$25m budget). Affordable housing is essential for economic development; land conservation is critical for agriculture; and protecting open land benefits the tourist industry. Excluding VHCB is also inconsistent because the report includes all CDBG funds, much of which is directed to affordable housing.
- Controlling energy costs is vital for businesses. Thus, the report could have included Efficiency Vermont (\$31m budget). "In 2006, Efficiency Vermont helped businesses reduce their annual energy costs by a total of \$2,380,000. Since [its] inception in 2000, business sector resource savings have accumulated a total economic lifetime value of \$174,000,000."¹² Efficiency Vermont is funded with a tax (a "lines charge") and the budget is approved by the Public Service Board. At the very least, the portion of the budget related to business investments could have been included.
- The report did not include the millions in public funds spent for research and technical assistance at UVM and the state colleges. These institutions are sometimes characterized as "private", but they receive significant public funds and (understandably) tout their contributions to economic development. Therefore, the report could also have included expenditures for publicly funded research, the UVM Extension Service, EPSCoR, and the loan forgiveness programs for nursing.
- Although considered by some a "social service", the state's child care programs are essential to the labor market. Parents of young children cannot go to work without it. The labor pool would shrink dramatically if child care was only available to those who could afford it. Therefore, millions devoted to child care subsidies could also be included in the UEDB (~ \$40m budget).
- Vocational Rehabilitation programs have helped over 6,000 Vermonters enter the workforce in the last five years (\$6m budget).¹³ This too could be included.
- Other programs for possible inclusion (indirect, dual purpose, or tertiary): Historic Sites, Council on the Arts, REACH UP, Dept. of Labor wage & hour / workplace safety, trade adjustment assistance, ED-related transportation, etc.

The report would be improved if:

- Tax expenditures were reported together with appropriations in a master table.
- Budget figures were adjusted for inflation using the state & local price deflator from BEA.
- Comparative data from other jurisdictions was provided whenever possible.

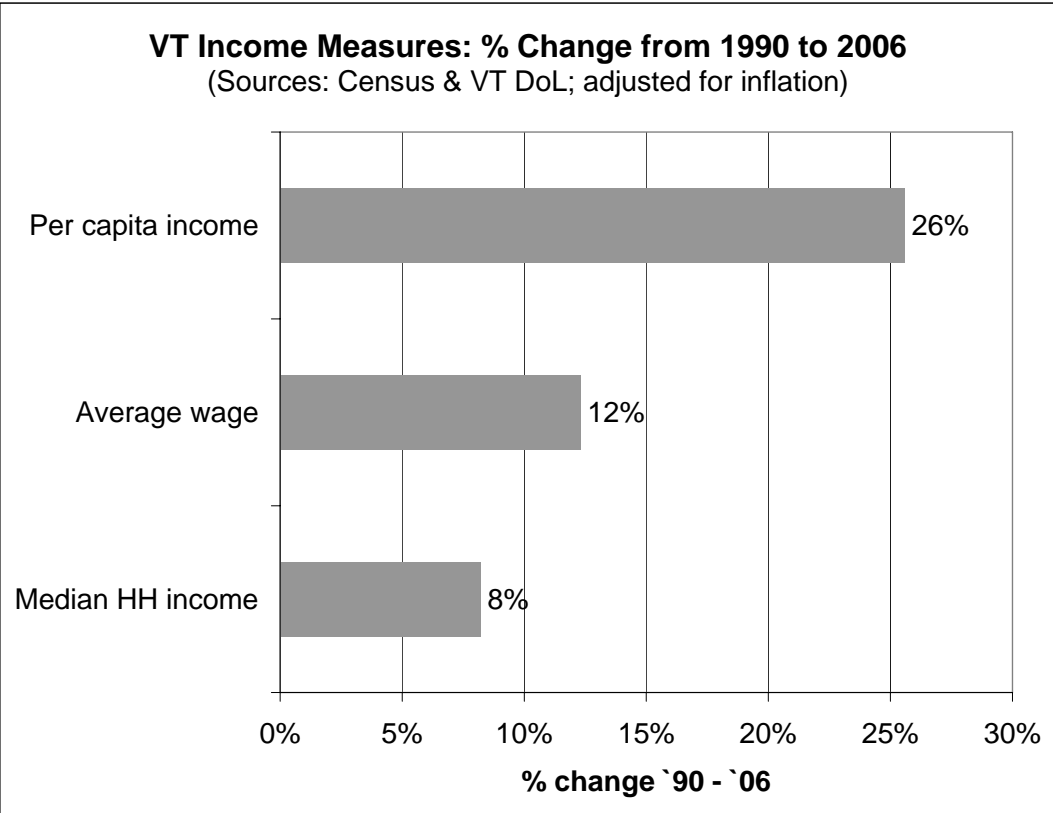
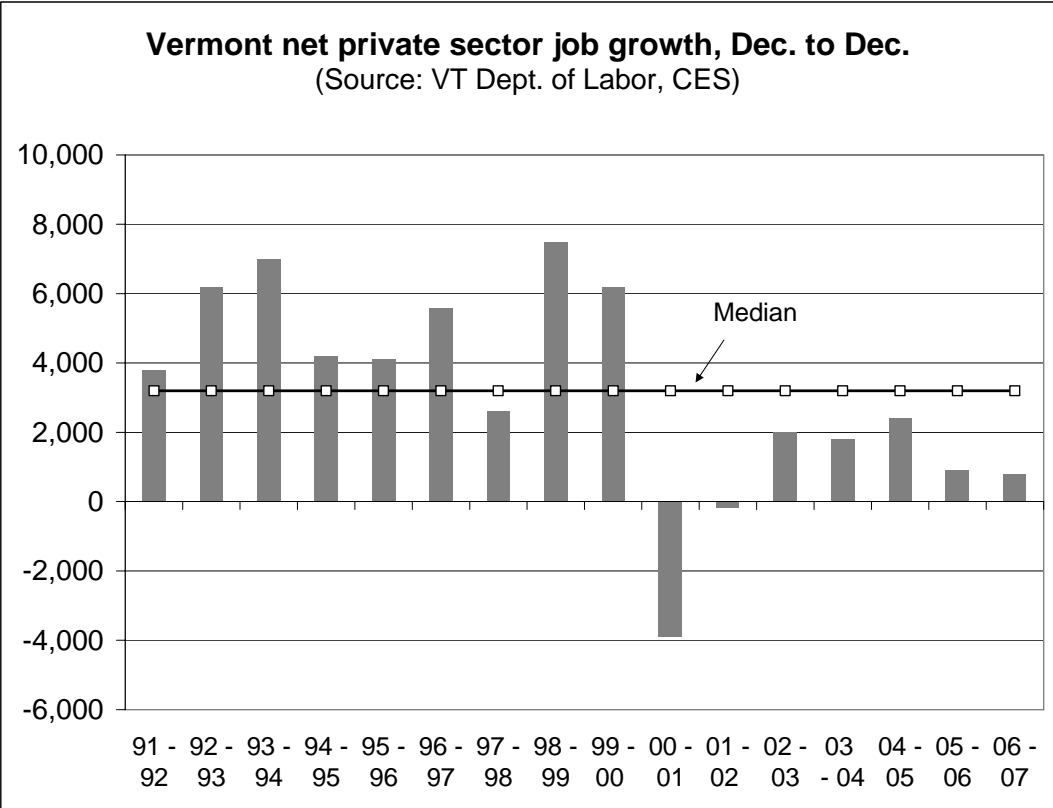
In addition, although not presently required by statute, it would be helpful to report independent federal expenditures for economic development (e.g., USDA Rural Development, EDA, Commerce, Labor, etc.). While the state has no direct control over these programs, they often work in tandem with state programs. Not only would this information help us better understand the full scope of economic development efforts, but - as with discussions about workforce education & training "silos" - it might help us avoid redundancies and achieve better coordination.

The statute only requires two prior years of budget data. This is not sufficient to track trends. Four or five years of budget data would be more helpful and could be phased in over time. This is also (and especially) important for performance measures, which should include ten years of data or more if possible.

¹² 2006 Efficiency Vermont Annual Report, Oct. 24, 2007, p.1.

¹³ *VovRehab Vermont*, 2006 Annual Report, p.4.

Data: Sec. Dorn's presentation was helpful but did not provide some important information. For example, there was no data on jobs (only "employment", which includes self-employment); no significant historical data; no data showing comparisons to the national economy, and the only income data presented was per capita. Historical data provides critical perspective and the choice of income measure makes a huge difference in the story told about how the economy is working for regular folks (median HH buying power has only increased 8% in 16 years).



Average wages can also be misleading. For example, Sec. Dorn made a presentation to the Commission on the Future of Economic Development in October 2006. He stated that the average wage for the financial services industry in 2004 was \$90,969. Here is how the Agency arrived at that number.

NAICS code	SECTOR 52, Finance and Insurance (not including banks or insurance companies)	Annual average employment	Average annual wage	Gross wages
521-525	Monetary authorities - central bank/Funds, trusts, & other financial vehicles	58	\$53,939	\$3,128,478
523	Securities, commodity contracts, investments	777	\$106,785	\$83,007,189
5511	Mgt of companies & enterprises	307	\$57,884	\$17,751,125
	Total	1,142	\$90,969	\$103,886,792

Source: VT Dept. of Labor

The overall average wage was \$90,969 ($\$103,886,792 \div 1,142$). But almost a third of the jobs averaged under \$60,000. Furthermore, the occupational employment statistics show that there were only 370 "Securities, Commodities, and Financial Services Sales Agents" in 2004 (less than half the 777 jobs in that sector) and their average wage was \$77,120. Not surprisingly, the brokerage firms have other employees, including receptionists and secretaries who averaged \$22,000 and \$25,000 respectively. In the end, it's clear that some percentage of the 370 brokers earned a great deal of money while the majority of workers earned much less. This is an example of why **industry average wage data should be used with caution.**

There has been a lot of discussion about demographic changes and the impact on the labor market. However, wages are often what drive people to make decisions about where to live. The figures below tell the story.

Median Annual Wage (OES)				
Occupation	VT	NYC		Boston
			Var.	
Electrical Engineers	\$71,400	\$92,830	30%	\$88,510
Civil Engineers	\$63,990	\$77,350	21%	\$74,620
Computer Systems Analysts	\$61,390	\$85,650	40%	\$77,620
Dental Hygienists	\$56,560	\$73,890	31%	\$73,640
Physical Therapists	\$55,740	\$70,070	26%	\$64,240
Database Administrators	\$55,570	\$83,040	49%	\$74,700
Network and Computer Systems Administrators	\$55,000	\$85,060	55%	\$72,710
Computer Programmers	\$54,800	\$74,750	36%	\$73,070
Registered Nurses	\$51,830	\$76,490	48%	\$70,340
Environmental Scientists / Specialists, incl. Health	\$49,460	\$69,520	41%	\$78,230
Radiologic Technologists and Technicians	\$46,210	\$65,900	43%	\$62,910
Electricians	\$38,540	\$65,650	70%	\$53,580
Plumbers, Pipefitters, and Steamfitters	\$37,250	\$58,330	57%	\$55,620
Industrial Machinery Mechanics	\$36,250	\$44,860	24%	\$47,130
Carpenters	\$35,440	\$55,630	57%	\$48,980
Librarians	\$34,960	\$53,410	53%	\$56,350

And as you consider how to distribute education and workforce training funds, please keep this in mind. The estimated number of annual job openings requiring postsecondary training is only 27% of total job openings, while 61% require no more than short- or moderate-term on-the-job training. The point is not to diminish the importance of postsecondary education, only to keep it in perspective and to target the available resources to where they will do the most good.

Estimated Annual Job Openings by Educational / Training Requirements, 2004 - 2014*						
Educational / Training Category	Est. annual job openings from growth		Est. annual job openings from net replacement		Est. total annual job openings	
	#	%	#	%	#	%
Short-term on-the-job training (less than 1 month)	1,230	34%	3,749	48%	4,979	44%
Moderate-term on-the-job training (1 to 12 months)	545	15%	1,413	18%	1,958	17%
Long-term on-the-job training (12 months or more)**	225	6%	522	7%	747	7%
Work experience in a related occupation	181	5%	448	6%	629	6%
Bachelor's degree (B.A., B.S.)	520	14%	728	9%	1,248	11%
Postsecondary vocational award	230	6%	350	4%	580	5%
Associate's degree	252	7%	230	3%	482	4%
Bachelor's or higher degree, plus work experience	113	3%	170	2%	283	2%
Master's degree (M.A., M.S.)	134	4%	148	2%	282	2%
First professional degree (e.g., M.D., L.L.D.)	68	2%	74	1%	142	1%
Doctoral degree (Ph.D.)	46	1%	49	1%	95	1%
Totals	3,544		7,881		11,425	
All postsecondary training***	1,363	38%	1,749	22%	3,112	27%
* Source: VT Dept. of Labor, Occupational Projections 2004 - 2014, released 10/30/06.						
** Mostly construction trades.						
*** Defined as non-employment based training.						
Note: Some figures don't match DoL published data due to rounding.						