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State Employment Growth Programs

This report examines state-based economic development with a focus on employment growth programs. Many states provide economic incentives, such as tax credits, to companies in order to stimulate job creation and expansion. The primary focus of this report is to address the different metrics that are utilized by states to determine the amount of funds awarded to companies in comparison to the Vermont Economic Growth Incentive Program. This will be achieved through a comprehensive analysis of the job development programs in the states of Oregon, Virginia, Ohio, Missouri, and Georgia, which illustrate some major trends exhibited throughout the nation.

Vermont Economic Growth Incentive Program

The State of Vermont's Vermont Economic Growth Incentive (VEGI) program promotes business recruitment and growth through the allocation of cash incentives. The program intends to encourage economic activity in Vermont that exceeds the business's background growth or organic growth rate, which refers to growth that would have occurred without the aid of an incentive.¹ In determining the amount a company receives, the VEGI program considers company-specific data and then adjusts it to account for the background growth. Background growth refers to the rate at which an entire industry is growing with regard to the number of employees in a given period. Therefore, the VEGI, through this method of calculation, attempts to ensure that companies do not receive funds for development that would have occurred without the incentive; this is known as the "But For" rule. Any type of business within the State of Vermont or a company that is seeking to relocate to Vermont is eligible to apply for the cash incentive. There are no limitations based on industry, size, and location. This, in addition to its use of background-growth data and company-specific information, make the VEGI program demonstratively unique in its construction.² Figure 1

¹ Background growth data is often referenced as 'organic growth data.'

² Vermont Department of Economic Development Agency of Commerce and Community Development, "Vermont Economic Growth Incentive: Program Overview," accessed February 12, 2011, http://www.thinkvermont.com/Portals/0/VEGI_Program_Overview.pdf.

demonstrates the process by which the VEGI program determines the amount awarded to each company.

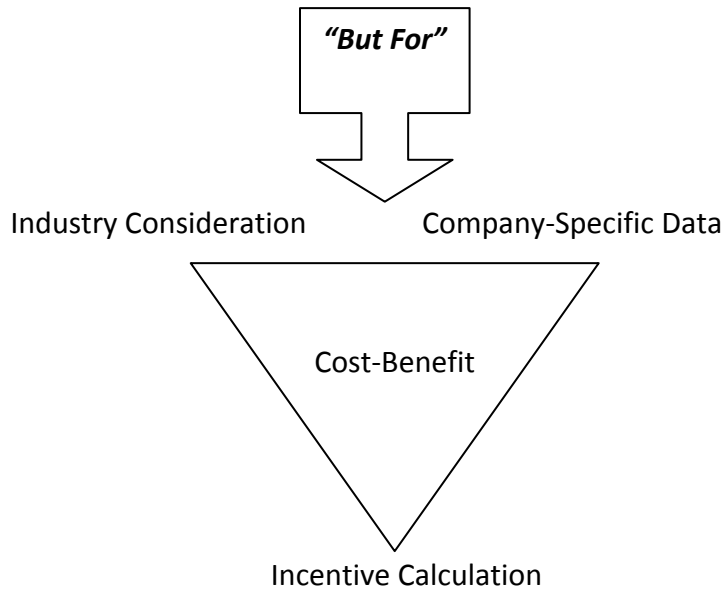


Figure 1: VEGI Program Design
Source: Developed by the authors.

State Economic Development Programs

This report examined 31 different state economic development program, which were identified in the National Congress of State Legislatures' report, "Taking Measure of State Economic Development," by Judy Zelio and the National Congress of State Legislatures list of "2010 State Job Creation Initiatives."³ These two reports indicated states that had created economic development programs centered on job development. A majority of the states' economic development programs from this list have stricter eligibility requirements that limit the applicant pool; one example of this is Kentucky's Business Investment program that limits the type of business that can apply to agribusinesses, manufacturing, and national and regional headquarters.⁴ Often eligibility is dependent upon circumstances prescribed by the state such as the industry, location, scale, and scope. Therefore, a majority of the states are inherently accounting for specific factors before they consider the award amount allocated to a company.

³ Judy Zelio, "Taking the Measure of State Economic Development," National Congress of State Legislatures, January 2009, <http://www.ncsl.org/Portals/1/documents/temp/fiscal/EDPreport1208.pdf>, accessed February 26, 2011; The National Congress of State Legislatures, "2010 State Job Creation Initiatives," May 11, 2010, accessed February 26, 2011, <http://www.ncsl.org/default.aspx?tabid=20247>.

⁴ Kentucky Cabinet for Economic Development, "Kentucky Economic Development Finance Authority (KEDFA): Kentucky Business Investment (KBI) Program," accessed February 26, 2011, <http://www.thinkkentucky.com/kyedc/pdfs/KBIFactSheet.pdf>

This information is provided by the company itself through the application process.⁵ This differs from the VEGI program which enables any Vermont business from any industry to apply. Furthermore, besides having stricter eligibility requirements, certain states have predetermined award amounts.⁶ Through an analysis of these different states examined, this report will now detail five programs that illustrate the major trends exhibited across programs. Figure 2 represents the process through which states allocate incentives.

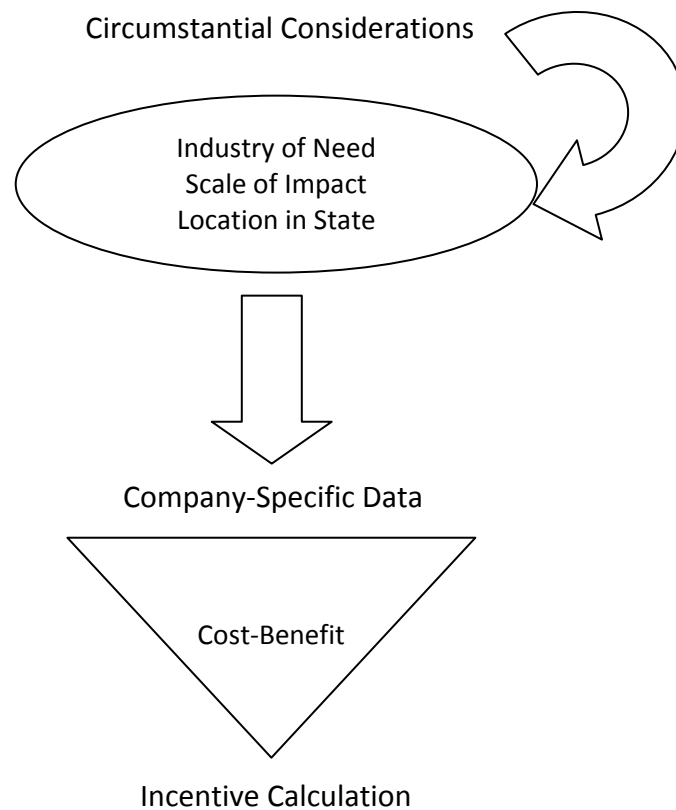


Figure 2: Non-VEGI Program Design (Prevailing Trends)

Oregon

Oregon’s job development program is known as Building Opportunities for Oregon Small Business Today (BOOST) Fund.⁷ The BOOST grant program awards incentives for small businesses to generate new, full-time jobs in the State of Oregon. The BOOST program allows each eligible company to receive up to \$2,500 dollars for each full-time job created and a

⁵ Judy Zelio, “Taking Measure of State Economic Development”; The National Congress of State Legislatures, “2010 State Job Creation Initiatives.”

⁶ Business Oregon, “BOOST Grant Application,” accessed February 12, 2011, <http://www.oregon4biz.com/assets/docs/BOOSTgrant-app.pdf>.

⁷ BOOST Grant Application.”

maximum of \$50,000 dollars annually. In order for an Oregon business to qualify they must demonstrate the following criteria:

- Have 100 or fewer employees,
- Must produce and retain new full-time jobs for a period of at least 6 months,
- Be a trade-sector business in manufacturing, and,
- Demonstrate that they will be offering industry-comparable wages.

Therefore, this program, through its eligibility requirements, must pre-determine the type of company that can apply, and the amount that a company will be rewarded. Again, throughout the application process it is the individual company providing its own data.

Virginia

The Virginia Job Incentive Program (VJIP) program encourages both the expansion of existing companies and the start-up of new businesses. VJIP seeks to offset recruiting and training costs incurred by companies that are creating new jobs or implementing technological advancements. Companies that are eligible must meet the following criteria:

- Consider another state or country for the new location or expansion,
- Generate over 50% of its revenue from outside Virginia,
- Create at least 25 net new jobs within 12 months from the date of the first hire,
- Make a new capital investment of at least \$1,000,000 associated with the location or expansion, and
- Pay a minimum entry-level wage rate of \$10.00 per hour. In areas that have unemployment of two times or more the state level, this wage minimum may be waived. Only full-time jobs are eligible for funding.

Once a company meets these specific requirements, Virginia will grant reimbursement for their new hires. A company must fill out an application for the reimbursement and must provide the name of their new employees, the date of their hire, their job classification, and their starting hourly wage. They must have a minimum of 25 employees who have been employed for at least 90 days prior to the application.⁸

Ohio

Ohio's Job Creation Tax Credit does not limit its applicability to certain industries or make distinctions based on the location of the project. It does however have particular demands regarding the requisite level of employment. A business wishing to receive the tax credit must demonstrate to the state Tax Credit Authority that:

⁸ Virginia Department of Business Assistance, "New Jobs Program," accessed February 12, 2011, http://www.dba.virginia.gov/vjip_newjobs.shtml.

- At least \$660,000 in total annual payroll during the first three years of project operation must be created, either through the creation of 25 full-time jobs at 150% of the federal minimum wage, or 10 full-time jobs at 400% of the federal minimum wage, and these jobs must be sustained for the duration of the credit.
- It is financially sound and has the ability to make the necessary investment.
- The state tax credit is a “major factor” in its decision to proceed with the project. Therefore, a project that begins, or payroll generated thereof, prior to its approval is not eligible for assistance.
- The community in which the proposed project will reside will commit to a level of financial support for the project.

Once deemed eligible for assistance, the tax credit rate and term are determined by the Authority based on the number of jobs to be created, the new payroll to be generated by the project, the fixed-asset investment in the project and the extent of interstate competition for the project.⁹

Georgia

Georgia’s Job Tax Credit program is an example of an incentive structure that uses location, scale, and industry as qualifiers for state assistance. It provides businesses in certain “strategic” industries, such as technology, telecom, distribution, or manufacturing, the opportunity to qualify for tax credits. These are based upon how many new, full-time jobs they create, and where they create them. The state is divided into four “tiers,” with Tier 1 constituting the most financially disadvantaged counties, and Tier 4 comprising the most advantaged. This determination is based upon the unemployment rate, per-capita income, and percentage of residents below the poverty line of each county. The associated number of jobs a company must create in order to be awarded a tax credit increases as the tier number increases, while the amount of each credit decreases. In Tiers 1 and 2, the credits may be applied to 100% of corporate income tax liability, and the employer must create 5 and 10 jobs respectively. In Tiers 3 and 4, they may only be applied to 50% of the liability, and employers must create 15 or 20. The amount received in credit for each job may be anywhere from \$750 to \$4000.¹⁰

Missouri

The Business Use Incentives for Large Scale Development (BUILD) program in Missouri is a mechanism for the state to encourage job growth within its borders by helping businesses to defray the costs of capital investments. Companies which are eligible are those which are

⁹ Ohio Department of Development, “Job Creation Tax Program (JCTC) for Projects Approved After October 17, 2009,” accessed February 12, 2011, <http://www.development.ohio.gov/Business/jctc/documents/NewJCTCProgramSummaryFINAL.pdf>.

¹⁰“Georgia: Business Incentives,” Georgia Department of Economic Development’s Official Business Website, accessed February 12, 2011, <http://www.georgia.org/SiteCollectionDocuments/Business/Taxation/Business%20Incentives%20Brochure%204%2024%2010%20small.pdf>.

either 1) engaged in enterprises such as manufacturing, processing, assemblage, research, and development, or trucking, or 2) are locating their headquarters or other office space, such as a call center, in Missouri. To qualify for assistance in the first instance, a project must create a minimum of 100 new jobs in a three-year period. To be eligible for the second category, a company must create at least 500 jobs, or 200 jobs in a distressed area. All projects must be shown to be economically sound and of benefit to the state. Furthermore, receiving the credit must be shown to be a “major factor” in the company’s decision to go forward with the project, and that without it they would not be able to create new jobs. The incentive amount is determined by assessing a number of factors. These include whether the project will be located in an economically-depressed region, the number of new jobs to be created, the amount by which the wage paid for the new jobs exceeds the average county wage, the total payroll to be created by the project, the economic impact on the state and locality, and the costs to and financial assistance from the locality.¹¹

Conclusion

The state development programs described above all hold significant variations between them and they all differ from the Vermont Employment Growth Incentive program in key regards. The latter is unique in its use of a formula of both background-growth data and company-specific information to determine award amounts for eligible businesses.¹² Furthermore, the VEGI program enables any form of business in the State of Vermont, or looking to relocate to Vermont, to apply for assistance. As demonstrated, other states account for such factors as industry, location, and scale in their eligibility criteria. These parameters are utilized by such programs to adjust their funding appropriately and achieve specific development goals. Despite these differences, states such as Ohio and Missouri do employ the “but for” criteria in their application process, similar to that of Vermont. In sum, although state job development programs vary in their design and implementation, they all have an overarching goal of fostering job growth through the tailored use of state funds.¹³

Prepared in response to a request by Representative Kitzmiller of Montpelier by Kelly Walsh, Adam Roof, and Christopher Teel, under the supervision of graduate student Kate Fournier and Professor Anthony Gierzynski on February 28, 2011.

Disclaimer: This report has been compiled by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the report does not reflect the official policy of the University of Vermont.

¹¹ St. Louis Regional Chamber and Growth Association, “Missouri Incentive Programs,” accessed February 12, 2011, <http://www.stlrcga.org/Documents/library/MO%20Incentives.pdf>.

¹² “Vermont Economic Growth Incentive: Program Overview.”

¹³ Judy Zelio, “Taking Measure of State Economic Development”; The National Congress of State Legislatures, “2010 State Job Creation Initiative.”