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State Employment Growth Programs

This report updates a 2011 overview of the Vermont Economic Growth Incentive (VEGI) and similar job creation programs in other states. The focus of this report is to identify the different mechanisms through which states offer economic incentives to stimulate job creation. A discussion of the VEGI is followed by an analysis of similar job creation programs in five other states. A comparison of the VEGI and these programs highlights variations among state efforts to promote private sector job growth.

Vermont Economic Growth Incentive Program

The State of Vermont's Vermont Economic Growth Incentive (VEGI) program is designed to promote business recruitment and growth through the allocation of cash incentives. The program is meant to facilitate a level of job creation above a business's organic growth rate, or the rate at which a business would hire new employees absent an incentive.[1]

The VEGI attempts to ensure that companies do not receive funds for economic development that would have occurred without the incentive; this is known as the "but for" rule. Any type of business within or considering relocation to Vermont is eligible to apply for the cash incentive. There are no limitations based on industry, size, or location.[2]

The Vermont Economic Progress Council (VEPC), an independent board of citizens appointed by the Governor and General Assembly, evaluates applications to the VEGI program. The VEPC

[1] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Quick Program Facts," accessed March 28, 2016, http://accd.vermont.gov/sites/accd/files/Documents/business/vegi/2015/QuickProgramFacts.pdf.

[2] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Quick Program Facts."

assesses applications on the basis of the "but for" rule and conducts cost-benefit analyses of proposed expansions. The Vermont Department of Taxes reviews yearly incentive installments paid to businesses under the VEGI.[3]

The VEPC requires job creation in Vermont to meet specific standards to qualify for VEGI assistance. Qualifying jobs must be "net new" to the state – that is, these positions may not replace pre-existing jobs.[4] Jobs must offer at least 35 hours of work per week on a permanent basis. New hires may own no more than 10 percent of a business applying for VEGI assistance. Employers must offer at least three of the following benefits to new hires: health care, dental assistance, paid vacation, paid holidays, child care, extraordinary employee benefits (e.g., profit sharing), retirement benefits, or other paid time off.[5] Lastly, these new positions must offer pay above the VEGI Wage Threshold. For businesses operating in Labor Market Areas where unemployment rates are below the state average, new hires must be paid at least 160 percent of the state minimum wage. In areas where the unemployment rate exceeds the state average, new positions need to pay only 140 percent of the state minimum wage to qualify for VEGI assistance.[6]

Incentives are awarded in the form of five cash installments paid annually. Exact values of incentives are calculated based on the incremental tax revenues generated by a new project, including those from capital investments.[7] Companies must maintain or increase base payroll as well as meet payroll performance, new qualifying job, and capital investment performance measures each year to earn the incentive.

According to the 2015 VEGI Annual Report, 3,897 jobs created between 2007 and 2013 qualified for the VEGI cash incentive. During this same period over $10 million worth of incentives were paid to businesses in Vermont, at an estimated net revenue benefit of over $36.5 million for the state.[8] Between 2007 and 2014 the Vermont Economic Progress Council considered 86 applications worth nearly $65 million of cash incentives.[9]

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[3] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Quick Program Facts."

[4] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Quick Program Facts."

[5] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Wage Threshold," accessed March 29, 2016, http://accd.vermont.gov/sites/accd/files/Documents/business/vegi/2015/WageThreshold.pdf.

[6] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Wage Threshold."

[7] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Quick Program Facts."

[8] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Program Annual Report 2015," accessed March 28, 2016, http://accd.vermont.gov/sites/accd/files/Documents/business/vegi/2015/2015_VEGI_AnnualReport_Final.pdf.

[9] Vermont Agency of Commerce and Community Development, "Vermont Employment Growth Incentive Program Annual Report 2015."

State Economic Development Programs

The National Conference of State Legislatures (NCSL) has published [summaries detailing job creation programs in 40 states](). [10] Some of these programs incentivize job and payroll growth via tax credits while other programs, like the VEGI, offer direct cash payments to qualifying businesses. A review of major trends among these programs reveals a few ways in which the VEGI program is unique. In comparison to the VEGI, many state economic development programs place stricter eligibility requirements on prospective applicants, such as those that limit tax incentives to companies within specific industries or to large-scale development projects.[11] These programs also vary in the amounts they award to participating businesses, as well as in how these awards are disbursed. An analysis of four job creation programs—in Georgia, Missouri, Ohio, Virginia, and Kansas—highlights key variations among states' economic development strategies.

Virginia

The Virginia Job Investment Program (VJIP) encourages both the expansion of existing companies and the start-up of new businesses.[12] VJIP (not discussed in the NCSL summary) seeks to offset recruiting and training costs incurred by companies that are creating new jobs or implementing technological advancements. The program is limited to companies that create "basic employment" for Virginia.[13] The VJIP defines basic employment as employment that brings new income into the state, stimulates further employment, and is the basis for further economic growth.[14] All businesses involved must also derive at least 50% of their revenue from out of state sources.[15] Examples of activities eligible for VJIP assistance include manufacturing, regional distribution, research and development.[16]

The VJIP has different criteria for small businesses and larger companies. For companies with more than 250 employees, the proposed expansion must meet the following criteria:

- consider another state or country for the new location or expansion;
- 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

[10] National Conference of State Legislatures, "Job Creation Tax Credits – 50 State Table," accessed on March 19, 2016, http://www.ncsl.org/research/financial-services-and-commerce/job-creation-tax-credits.aspx.
[11] National Conference of State Legislatures, "Job Creation Tax Credits – 50 State Table."
[12] Virginia Economic Development Partnership, "Virginia Jobs Investment Program," accessed March 28, 2016, http://www.yesvirginia.org/AssetRich/VJIP.
[13] Virginia Economic Development Partnership, "Virginia Jobs Investment Program."
[14] Virginia Economic Development Partnership, "Virginia Jobs Investment Program."
[15] Virginia Economic Development Partnership, "Virginia Jobs Investment Program."
[16] Virginia Economic Development Partnership, "Virginia Jobs Investment Program."

- pay a minimum entry-level wage rate of $9.79 per hour. In areas that have unemployment two times or more of the state level, this wage minimum may be waived. Only full-time jobs are eligible for funding.[17]

For businesses with 250 employees or fewer, a company must meet these criteria:

- create at least five net new full-time jobs within 12 months from the date of the first hire;
- make a new capital investment of at least $100,000 associated with the start-up or expansion; and
- pay an entry-level wage rate of at least $9.79 per hour. In areas that have unemployment one and a half times or more of the state level, this wage minimum may be waived.[18]

Companies that are working to improve the skills of their workforce through retraining programs may also qualify for assistance under this program. Interested companies must demonstrate they are integrating new technology, changing a product line to keep up with marketplace demands, or substantially changing their delivery process in a way that requires new skills. To be eligible for assistance companies, projects must involve:

- retraining 10 full-time employees (only 5 for companies with 250 or fewer employees);
- making a new capital investment associated with the training project of at least $500,000 (only $50,000 for companies with 250 or fewer employees); and,
- paying an entry-level wage rate of at least $9.79 per hour. In areas that have unemployment one and a half times or more of the state level, this wage minimum may be waived.[19]

Once a company meets these specific requirements, Virginia will grant reimbursement for its new hires or retraining costs. A company must fill out an application for the reimbursement and must provide the name of its new employees, the date of their hire, their job classification, and their starting hourly wage.[20] Funding is based on a customized budget determined by an assessment of a company's recruiting and retraining activities.

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[17] Virginia Economic Development Partnership, "Virginia Jobs Investment Program," accessed March 28, 2016, http://www.yesvirginia.org/AssetRich/VJIP.

[18] Virginia Economic Development Partnership, "Virginia Jobs Investment Program," accessed March 28, 2016.

[19] Virginia Economic Development Partnership, "Virginia Jobs Investment Program," accessed March 28, 2016.

[20] Virginia Economic Development Partnership, "Virginia Jobs Investment Program," accessed March 28, 2016, http://www.yesvirginia.org/AssetRich/VJIP.

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.[21] It does, however, have particular demands regarding the requisite level of employment. A business wishing to receive the tax credit must satisfy the following requirements:

- 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.[22]
- 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.[23] The exact value of the tax credit is then calculated by also considering the income tax revenue withheld over the preceding 12 months at the approved business. The authority can grant tax credits allowing companies to receive refundable credits up to 75 percent of withheld state income taxes for up to 15 years.[24]

Each taxpayer must complete an annual progress report before March 1 of each year during a tax credit agreement. This report must include a company's number of full time employees, total payroll, income tax revenue, and other information deemed appropriate.[25]

Georgia

Georgia's Job Tax Credit (JTC) program is an example of an incentive structure that uses location, scale, and industry as qualifiers for state assistance. The exact value of these tax

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[21] Ohio Development Services Agency, "Job Creation Tax Credit Program (JCTC) for Projects Approved After October 17, 2009," accessed March 28, 2016, https://www.development.ohio.gov/files/bs/JCTCSummary.pdf.
[22] Ohio Development Services Agency, "Job Creation Tax Credit Program (JCTC) for Projects Approved After October 17, 2009."
[23] Ohio Development Services Agency, "Job Creation Tax Credit Program (JCTC) for Projects Approved After October 17, 2009."
[24] Ohio Development Services Agency, "Job Creation Tax Credit Program (JCTC) for Projects Approved After October 17, 2009."
[25] [25] Ohio Development Services Agency, "Job Creation Tax Credit Program (JCTC) for Projects Approved After October 17, 2009."

credits is contingent upon how many new, full-time jobs a business creates and where these jobs are located.[26] Businesses operating in seven sectors, including tourism, telecom, distribution and manufacturing industries, are eligible to apply tax credits.[27] Organizations offering services for the elderly or individuals with disabilities may also apply for the job tax credit. Retail businesses are not eligible to participate in the JTC program, but establishments engaged in more than one business activity (e.g., retail and distribution) may receive credit for new positions created in qualified sectors.

Like the VEGI, the Georgia JTC program awards credit to businesses on basis of a 'but for' rule, which stipulates that awards must incentivize economic activity which would not be undertaken in absence of the tax credit.[28] The JTC defines "new full-time employee jobs" as positions of employment not previously located in the state which require at least 35 hours of work per week.[29] These positions must offer pay equal or above the average county wage. The JTC considers part-time jobs which become full-time positions as new jobs.[30] Jobs that are classified as independent contractors for federal tax purposes do not qualify for the JTC.

The Job Tax Credit program ranks Georgia's counties and census tracts by economic tier. Counties are classified into one of four tiers on the bases of unemployment rate, per capita income, and the percentage of residents with incomes below the poverty level.[31] Tier designations confer different requirements and rewards upon companies participating in the credit program.[32] Businesses located within a Tier 1, or most financially disadvantaged, county are eligible to receive up a tax credit of $4,000 per job after creating a minimum of two new positions.[33] These credits may be used towards 100 percent of a company's income tax liability, with excess funds funneled towards withholding taxes. In Tier 4, Georgia's least financially disadvantaged counties, businesses may receive a tax credit up to $1,250 per job after creating at least twenty-five new positions. In this tier, a company may only use earned credits towards 50 percent of its tax liability.[34]

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[26] Georgia Department of Economic Development, "Job Tax Credit," Accessed on April 4, 2016, http://www.georgia.org/competitive-advantages/tax-credits/job-credit/.
[27] Georgia Department of Community Affairs, "Georgia Job Tax Credit Program," Accessed on April 5, 2016, http://www.dca.state.ga.us/economic/taxcredits/programs/taxcredit.asp.
[28] Georgia Department of Economic Development, "Job Tax Credit."
[29] Georgia Department of Community Affairs, "Rules of Department of Community Affairs Job Tax Credit Program," Accessed on April 5, 2016, http://www.dca.state.ga.us/economic/taxcredits/programs/downloads/JTC-Regulations-Current.PDF.
[30] Georgia Department of Community Affairs, "Rules of Department of Community Affairs Job Tax Credit Program."
[31] Georgia Department of Economic Development, "Job Tax Credit."
[32]Georgia Department of Community Affairs, "Overview of Job Tax Credit Benefits," Accessed on April 5, 2016, http://www.dca.state.ga.us/economic/taxcredits/programs/downloads/Overview_of_Job_Tax_Credit_Benefits.pdf.
[33] Georgia Department of Community Affairs, "Overview of Job Tax Credit Benefits."
[34] Georgia Department of Community Affairs, "Overview of Job Tax Credit Benefits."

Under the Job Tax Credit Program, the tax credit awarded each new job a company creates ranges from $750 to $3,500.[35] In Georgia, all counties (other than Webster County) participate in Joint Development Authorities, or cross-country company partnerships. JDA participation carries a $500 bonus for each new job created.[36]

Companies meeting the requirements of the JTC program will receive credits for each new full-time job created in the first year of the program. Companies receive tax credits in successive years for maintaining these new jobs.[37] Businesses continue to receive credits for each new job created within five years of joining the Job Tax Credit program.[38]

Missouri

The Missouri Works program facilitates the creation of quality jobs by rewarding companies that add new jobs with tax benefits. Missouri Works is made up of five different types of programs that each have their own criteria and benefits.[39]

The Zone Works and Rural Works programs are distinct as the projects must be in an "enhanced enterprise zone" or a "rural" county respectively.[40] An enhanced enterprise zone is an area specified by the Missouri Department of Economic Development as having the potential to create sustainable jobs and make an impact on local industry development.[41] In this chart, "WH" means the retention of the state withholding tax generated by new jobs. Missouri Works mandates that these jobs must be full time positions in which the company offers or pays 50% of health insurance.[42] Additional benefits may available to companies using the Statewide or Mega Works programs based on the following criteria:

- the overall size of the project;
- the financial stability of the company;
- the level of economic distress in the area;
- the competitiveness of alternate locations; and
- the percent of local incentives committed to the project.[43]

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[35] Georgia Department of Community Affairs, "Overview of Job Tax Credit Benefits."
[36] Georgia Department of Community Affairs, "Rules of Department of Community Affairs Job Tax Credit Program."
[37] Georgia Department of Economic Development, "Job Tax Credit."
[38] Georgia Department of Economic Development, "Job Tax Credit."
[39] Missouri Department of Economic Development, "Missouri Works Program," accessed March 28, 2016, https://ded.mo.gov/BCS%20Programs/BCSProgramDetails.aspx?BCSProgramID=113.
[40] Missouri Department of Economic Development, "Missouri Works Program."
[41] Missouri Department of Economic Development, "Enhanced Enterprise Zone," accessed March 28, 2016, https://www.ded.mo.gov/BCS%20Programs/BCSProgramDetails.aspx?BCSProgramID=39.
[42] Missouri Department of Economic Development, "Missouri Works Program," accessed March 28, 2016, https://ded.mo.gov/BCS%20Programs/BCSProgramDetails.aspx?BCSProgramID=113.
[43] Missouri Department of Economic Development, "Missouri Works Program."

Table 1: Missouri Works Programs

Program	Minimum New Jobs	Minimum New Private Capital Investment	Minimum Average Wage	Automatic Benefit
Zone Works	2	$100,000	80% of County Avg. Wage	WH, 5 or 6 years
Rural Works	2	$100,000	90% of County Avg. Wage	WH, 5 or 6 years
Statewide Works	10	N/A	90% of County Avg. Wage	WH, 5 or 6 years
Mega Works 120	100	N/A	120% of County Avg. Wage	6% of new payroll, 5 or 6 years
Mega Works 140	100	N/A	140% of County Avg. Wage	7% of new payroll, 5 or 6 years
Source: Missouri Department of Economic Development, "Missouri Works Program," accessed March 28, 2016, https://ded.mo.gov/BCS%20Programs/BCSProgramDetails.aspx?BCSProgramID=113				

Companies receiving assistance must report to the Department of Economic Development annually to report the number of new jobs created, the annual payroll, and proof of providing health insurance. The Tax Credit Accountability Act reporting form must be submitted to the Department of Economic Development by June 30th every year the company receives tax credits.[44]

Tax credits may be applied to state income tax or financial institution tax. They may also be sold, transferred, or assigned. Tax credits issued for the entire program shall not exceed $106 million for FY2014, $111 million for FY2015, and $116 million for 2016 forward.[45] There is no annual limit on the retained withholding tax the program can provide.[46]

[44] Missouri Department of Economic Development, "Missouri Works Program."
[45] Missouri Department of Economic Development, "Missouri Works Program."
[46] Missouri Department of Economic Development, "Missouri Works Program."

Kansas

The Promoting Employment Across Kansas (PEAK) program aims to create jobs in Kansas by incentivizing businesses from other states or foreign countries to relocate, locate, or expand operations to Kansas. To be eligible, businesses must meet the following criteria:

- create 5 new jobs in non-metropolitan counties, or 10 in counties specified as metropolitan;
- pay wages that meet or exceed the county median wage; and,
- make available to full-time employees "adequate" health care coverage and pay 50 percent of their premium.[47]

Applications for the PEAK program are approved by the Kansas Secretary of Commerce. The Secretary of Commerce decides on a benefit period of up to 10 years for qualified applicants. During that period PEAK program participants can retain 95 percent of the withholding tax of PEAK-eligible employees.[48] Though the PEAK program focuses on businesses not currently operating in Kansas, the Secretary of Commerce does retain the authority to approve PEAK funding for existing Kansas businesses considering expansion.[49]

Conclusion

The VEGI program enables all businesses in the state, as well as those looking to relocate to Vermont, to apply for assistance. Similar programs in Georgia and Missouri place stricter eligibility requirements upon applicants. For example, programs may choose to incentivize growth only in specific industries or geographic locations. While job creation programs in Ohio, Georgia, and Missouri award incentives via tax credits, programs in Vermont and Virginia distribute direct cash payments on the basis of incremental tax revenues generated by approved programs. Unlike the VEGI, some programs specify the award amount a business may earn per job created. These parameters are utilized by such programs to adjust their funding appropriately and achieve specific development goals. In contrast to many of these programs, Kansas' PEAK program promotes employment by incentivizing the expansion of new businesses into the state. 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.

[47] Kansas Department of Commerce, "Promoting Employment Across Kansas (PEAK) Program," accessed March 30, 2016, http://www.kansascommerce.com/index.aspx?NID=141.
[48] Kansas Department of Commerce, "Promoting Employment Across Kansas (PEAK) Program."
[49] Kansas Department of Commerce, "Promoting Employment Across Kansas (PEAK) Program."

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