

**UNIFIED ECONOMIC DEVELOPMENT BUDGET
2008**

Prepared for Department of Finance and Management
State of Vermont

Pursuant to Act 65 of the 2007 Legislature

Prepared by:

The Snelling Center for Government

Respectfully submitted
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Unified Economic Development Budget – 2008 Report Executive Summary

Pursuant to Act 65 of the 2007 Legislature, this report has been prepared for the Department of Finance and Management and the Vermont legislature by the Snelling Center for Government. The report examines possible definitions of economic development, state appropriations, and ways to evaluate of the results of Vermont's economic development activities, including both current activities and possible improvements.

The first step in any effort to understand economic development is to define it. The definition proposed in this report was adopted as a starting point by the Commission on the Future of Economic Development:

Economic development is the process of generating economic wealth and vitality in Vermont for the well-being of its citizens. State policies that promote economic development seek to improve economic well-being and quality of life through specific activities directed at employers, employees, and business activities, that can be directly correlated to creating or retaining good jobs and enhancing opportunity and prosperity.

Spending for economic development in Vermont, including both state and federal funds is about \$40 million in state fiscal years 2007 (appropriated) and 2008 (appropriated), with about 25 percent coming from the federal government. The largest shares of this are appropriated to the Departments of Housing & Community Affairs, Labor, and Economic Development.

Most departments have developed some mechanisms to evaluate the effects of their programs, but these evaluation efforts are not always coordinated and do not always provide the information necessary to determine program efficiency and effectiveness.

The report offers the following recommendations to improve evaluation of economic development efforts:

- Where possible, clarify and focus program goals to reflect desired policy outcomes and department / agency role in achieving the goals
- Link goals and evaluation process more closely. Ensure that goals are measurable and that measures are appropriate to goal
- Where possible, standardize measures across agencies and across time to ensure consistency and appropriateness; develop data sources to support those measures
- Consider alternate methods to monitor the effects of outstanding tax credits (note that programs to grant tax credits have been eliminated, except for a property tax stabilization program)
- Consider the use of client surveys
- In addition to current program-specific evaluation processes and in consultation with departments, agencies, and clients, create a unified evaluation process
- Strengthen the link between evaluation efforts and the work of the Commission on the Future of Economic Development

INTRODUCTION

This report has been prepared for the Vermont Department of Finance and Management and the Vermont legislature by the Snelling Center for Government. The goal of this report is to improve our understanding of the costs and benefits of the state's current economic development efforts, and to identify ways in which program evaluation may be improved.

During the 2006 legislative session, the Vermont legislature included language in the FY 2007 appropriations act¹, requiring that the Commissioner of Finance and Management submit a proposal to create a "unified economic development budget" as part of the Governor's proposed FY 2008 budget (see Appendix 1). That proposal was submitted to the legislature in January of 2007, and provided a very valuable foundation for this report.

Similar language, requiring submission of a unified economic development budget (rather than a proposal) was included in the FY 2008 appropriations act.

This report addresses the following topics:

- A discussion of possible definitions for the concept of economic development
- A proposal for categorizing state spending as it relates to economic development into core, indirect, and other spending
- Presentation of a detailed budget for traditionally-identified areas of economic development, including spending and foregone revenue
- A discussion of methods and issues in the evaluation of economic development activities
- Recommendations

The report would not have been possible without the assistance of the departments and agencies that supplied information, especially the individuals who participated in interviews.

DEFINITIONS OF ECONOMIC DEVELOPMENT

Traditional definitions of economic development focus on two key areas – jobs and the economy as a whole. The broad topic of jobs includes creation of new jobs, either by expansion of existing employers or attraction of new employers, workforce development (enhancement of the skills of the existing workforce), and changes in the mix of jobs.

Broader economic goals include increasing the state's gross domestic product, increasing the tax base, increasing the median household income, raising Vermont's comparative rankings, and improving the sustainability of the state economy, making it less susceptible to downturns.

Some have advocated for additional areas of focus, most commonly on income distribution. For example, if total state personal income increases, does that increase affect all Vermonters does it impact only certain income groups?

Vermont's Commission on the Future of Economic Development (CFED), created by the legislature in Act 184 of the 2005-2006 session, is considering the following definition:

¹ See Appendix for language

Economic development is the process of generating economic wealth and vitality in Vermont for the well-being of its citizens. State policies that promote economic development seek to improve economic well-being and quality of life through specific activities directed at employers, employees, and business activities, that can be directly correlated to creating or retaining good jobs and enhancing opportunity and prosperity.

One of the purposes of this report is to improve our understanding of how state spending advances the goals of economic development. It can be argued that nearly all state spending has as a goal to “improve the economic well-being and quality of life for the community...” The Commission on the Future of Economic Development identified three types of expenditures related to economic development, making a clear statement that no judgments were being made about relative importance:

Core economic development activities are those Vermont expenditures and tax programs that directly benefit Vermont employers, employees, entrepreneurial start-ups, business sectors or industries. Core economic development activities are typically funded through a State of Vermont appropriation and managed by a department or agency within the state government including but not limited to the Departments of Economic Development and the regional development corporations, Travel and Tourism, Labor, the Agency of Agriculture, the Vermont Economic Development Authority, and the Vermont Economic Progress Council, or by contractors or grantees of the state. Core economic development activities also include certain federally funded activities that are under the control or close influence of the state government and otherwise fit the definition of “core” activities, such as Community Development Block Grants, the Rural Development programs, EDA funding.

Indirect economic development activities are expenditures and tax programs that benefit the physical and social infrastructure of the state. Many agencies and departments of Vermont state government fund and carry out a mix of core and indirect economic development activities.

Other economic development activities: Funding of economic development activities also comes from sources other than a state appropriation. Federal funding direct to industry or other implementing agencies and not-for-profits is part of the mix, as are private initiatives by business associations, development groups and industries. These also are critical to the success of an economic development strategy for the state but are not under the direct control or influence of the state.

BUDGET INFORMATION

From a budgetary point of view, there are three broad categories of economic development:

- spending, including both state activities such as technical assistance programs and grants made by the state, either to other economic development entities or directly to clients
- loans
- revenue offsets, usually in the form of tax deductions or credits

Each presents unique reporting issues.

The principal challenge in reporting of state spending is definitional. In part, this is tied to issues around the definition of economic development. Additional challenges are encountered when we try to move beyond direct spending. For example, should the costs of administering a grant program be counted, and if so, how should these costs be estimated? Calculation of indirect costs is frequently a challenge in cost estimation. This is particularly true for departments whose missions include activities other than economic development.

A second challenge in reporting spending is the level of detail in reporting systems. For example, the state budget process often operates at a much higher level than specific programs. This has necessitated the use of a survey to collect the financial information presented in last's year's proposal and in this report.

The main challenge in understanding the economic development effects of loans is timing. The effects of loans take place over several years. VEDA addresses this issue by requiring an annual report from loan recipients that includes employment information. However, like other efforts to evaluate economic development programs by analyzing impacts on employment, this reporting process must address issues such as distinguishing new jobs created as a consequence of the loan, establishing a consistent definition of "jobs" (VEDA uses FTEs, unlike Department of Labor reporting), and accurately understanding offsetting economic developments (e.g. when a loan helps to preserve jobs in a declining industry).

The impacts of tax credits are probably the most challenging to measure. The first issue is that data that can be obtained from tax returns reflects dollars, not impacts. No measure of program benefits can be clearly derived from the tax return.

The second issue is that there may be long time lags between the granting of tax credits and their use, and a further lag between use and appearance in Tax Department data. For example, tax returns for calendar year 2005 are due in April of 2006. Returns must then be processed. Due in part to the granting of extensions, data are not finalized until the end of 2006. Analysis of data takes several months, producing a total lag of up to 18 months.

Reports and Analysis

In September of 2007, in support of this report, the Department of Finance and Management sent surveys to the following agencies and departments:

- The Agency of Commerce and Community Development
 - The Department of Economic Development
 - The Department of Housing and Community Affairs
 - The Department of Tourism and Marketing
- The Department of Agriculture
- The Office of Economic Opportunity (part of the Department of Children and Families)
- The Department of Information and Innovation (DII)
- The Department of Finance and Management
- The Department of Labor
- The Public Service Department
- The Vermont Economic Development Agency (VEDA)
- The Vermont Economic Progress Council (VEPC)

These surveys were similar to those sent out in 2006, but were modified to comply with the language in Act 65. Financial and programmatic information was requested for each program known to focus on core economic development activities. Returned surveys were reviewed by Snelling Center staff and were entered into a database. Every effort was made to ensure data accuracy, but due to complexities such as programs being transferred among departments, amounts shown may not exactly tie to other reports.

The first five tables below show information on those programs that receive a specific appropriation. The final two tables present information on programs that are based on the granting of tax credits (historical VEPC) or programs that provide or facilitate loans (VEDA).

Table 1 shows appropriated amounts for 2006 – 2008 and actual spending for 2006 and 2007. Appropriations increased about 27 percent from 2006 to 2007, and about one percent from 2007 to 2008 (average annual increase of about 14 percent). The largest component of the growth from 2006 to 2007 was the creation of the Clean Energy Development fund in the Department of Public Service. In both years, actual spending was below appropriated.

Table 1 – Total Amounts by Year, Appropriated and Actual
Fiscal Year

	2006	2007	2008
Appropriated	\$31,613,683	\$39,675,280	\$40,434,472
Actual	\$29,513,856	\$31,108,289	

Table two shows appropriations of federal funds and state appropriations divided into base and one-time. One-time funds account for about one-fourth of state expenditures.

Table 2 – Total Appropriated Amounts by Year, Base² and One-Time
Fiscal Year

Source of Funds	2006	2007	2008
Federal	\$9,061,466	\$9,374,627	\$9,591,604
State			
Base	\$17,551,799	\$22,645,492	\$23,350,291
One-time	\$5,000,418	\$7,655,161	\$7,492,577
	\$31,613,683	\$39,675,280	\$40,434,472

Detail table D2 (Appendix 3) shows source of funds for individual programs, as appropriated for fiscal year 2008.

² Base includes funds from both the appropriations and capital bills

Table 3 shows appropriations by source of funds. General and federal funds have been fairly consistent, while special fund appropriations have grown substantially. "Other" includes interdepartmental transfers and other state funds.

Table 3 – Total Appropriated Amounts by Year and Source of Funds

	Fiscal Year		
	2006	2007	2008
General	\$16,984,651	\$19,166,770	\$18,713,271
Special	\$5,563,401	\$11,133,473	\$11,830,428
Federal	\$9,061,466	\$9,374,627	\$9,591,604
Other	\$4,165	\$411	\$299,168
Total	\$31,613,683	\$39,675,280	\$40,434,472

Table 4 shows appropriations by type of program. Programs were classified by Snelling Center staff, based on information provided on surveys. Roughly half of appropriations in each year are distributed as grants. Training programs are the second-largest category, but are declining as a percent of total appropriations.

Table 4 – Total Appropriated Amounts by Year and Program Type

	Fiscal Year		
	2006	2007	2008
Administration	\$722,406	\$703,187	\$853,705
Grant	\$16,170,603	\$20,957,895	\$21,502,290
Marketing assistance	\$467,610	\$843,191	\$583,169
Other	\$49,791	\$150,000	\$100,000
Promotion	\$2,394,507	\$2,664,931	\$2,445,203
Recruitment	\$804,586	\$877,602	\$795,877
Regulation	\$243,627	\$222,685	\$260,469
Research and Dev.			\$300,000
Technical assistance	\$1,250,826	\$1,455,051	\$2,188,300
Training	\$9,509,727	\$11,800,738	\$11,405,459
Grand Total	\$31,613,683	\$39,675,280	\$40,434,472

Table 4a shows FY 2008 appropriations using a different classification scheme, as recommended by Hatry et al. This provides a different perspective on how economic development funds are spent.

Table 4a – FY 2008 Economic Development Expenditures by Type of Spending, FY 2008 (Appropriated)

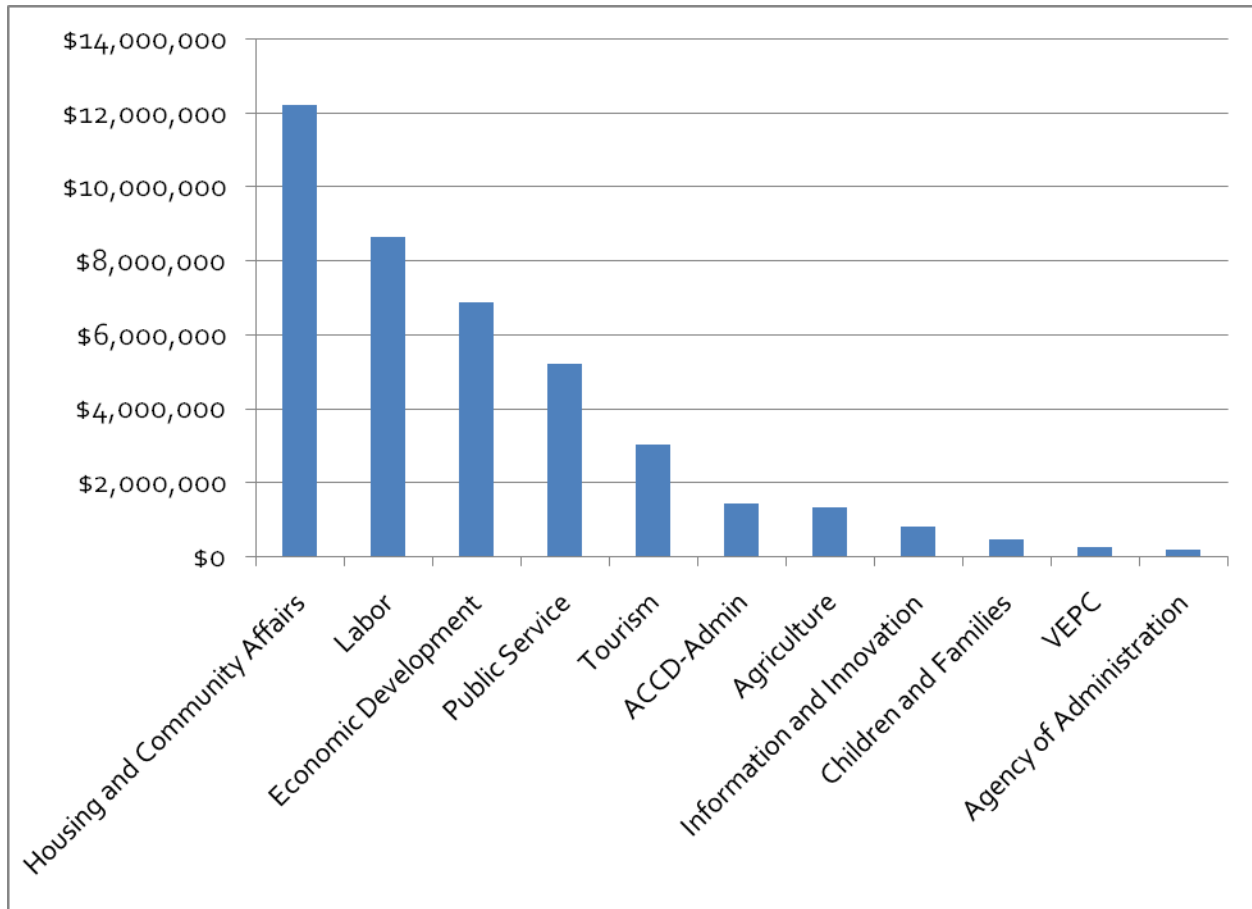
Administration	\$564,282
Business Assistance (financial)	\$444,448
Business Assistance (non-financial)	\$3,831,275
Community Economic Development	\$13,003,001
Export	\$12,000
Infrastructure	\$7,684,500
Tourism	\$2,912,203
Workforce	\$11,430,459
Business Attraction	\$380,350
Other	\$171,954
TOTAL	\$40,434,472

Table 5 and Figure 1 show appropriated amounts and actual spending for each agency and department. The table is ordered by FY 2008 appropriations. Note that ACCD figures do not include component departments. About one-third of appropriations are to the Department of Housing and Community Affairs, primarily for two programs – Community Development Block Grants and Regional Assistance Grants. These two programs represent about one-fourth of all primary economic development spending. The appropriations to Department of Labor for its training programs represent the next largest share, primarily for training under the Workforce Investment Act. The Department of Economic Development is the third large slice of the pie (about 17 percent in 2007). This spending includes over 20 different programs.

Table 5 – Total Appropriated and Actual by Year and Department

	Fiscal Year				
	2006		2007		2008
	Appropriated	Actual	Appropriated	Actual	Appropriated
Housing & Community Affairs	\$13,121,771	\$12,048,890	\$12,074,430	\$11,321,140	\$12,241,842
Labor	\$7,251,892	\$6,127,225	\$8,797,938	\$6,351,996	\$8,666,265
Economic Development	\$6,386,975	\$6,207,226	\$6,898,939	\$6,555,556	\$6,882,643
Public Service			\$4,800,000	\$601,900	\$5,219,500
Tourism	\$2,731,507	\$3,068,718	\$3,231,931	\$3,912,464	\$3,012,203
ACCD-Admin	\$236,200	\$236,200	\$1,300,000	\$300,000	\$1,421,200
Agriculture	\$869,338	\$824,054	\$1,331,042	\$1,023,226	\$1,312,840
Information and Innovation	\$215,000	\$215,000	\$430,000	\$430,000	\$815,000
Children and Families	\$351,000	\$336,543	\$411,000	\$397,229	\$446,000
VEPC					\$226,979
Agency of Administration	\$450,000	\$450,000	\$400,000	\$214,778	\$190,000
Grand Total	\$31,613,683	\$29,513,856	\$39,675,280	\$31,108,289	\$40,434,472

Figure 1 – FY 2008 Appropriations



The Vermont Economic Progress Council (VEPC) is an independent entity that administers several different state economic development programs. For several years, VEPC's primary tool was tax credits, but its focus is shifting to direct financial grants. Table 6 shows the economic activity for three tax-based programs in FY 2006 and 2007. Authorization for the two EATI programs ended in 12/2006. Authorization for property tax programs ended in June of 2006, except for the property tax stabilization program, which continues.

Table 6 – VEPC Tax Incentives (estimated)

	2006	2007
Economic Advantage Tax Incentive (income tax)	(\$3,000,000)	(\$3,000,000)
Economic Advantage Tax Incentive (purchase and use tax)	(\$45,000)	(\$45,000)
Property Tax Incentive	(\$894,513)	(\$500,000)

According to information provided by the Department of Economic Development, "Through 2006, incentives with a net value of \$100 million were authorized for 142 projects under the Economic Advancement Tax Incentive Program. The incentives can be earned through 2010 and utilized through 2015. Through the 2006 tax year a total of \$27 million in income tax credits, sales and use exemptions, and property tax reductions and exemptions have been exercised."

VEPC estimates that just under \$32 million of credits remain to be exercised (the balance have expired). Slightly less than half have already been earned, and must be used before the end of 2016. Slightly more than half must be earned by the end of 2011, and used before the end of 2016. Note that these figures are maximums – historically only a portion of authorized credits are used.

Tax expenditures related to economic development are also reported by the Vermont Department of Taxes, based on information from tax returns. Table 7, below, shows tax expenditures for FY 2005, the most recent data available.

Table 7 – FY2005 Tax Expenditures for Selected Programs

Payroll Credit (EATI)	\$1,025,680
Research & Development Credit (EATI)	475,440
Capital Investment Credit (EATI)	3,943,052
Export Credit(EATI)	283,901
Downtown Credits	292,137
Wood Products Credit	150,994
Affordable Housing Credit	451,943
Charitable Housing Credit	21,202
Financial Services Credit	75,563
Investment Tax Credit	9,890
TOTAL	\$6,729,802

The Vermont Economic Development Authority (VEDA) focuses on the financing of projects with an economic development component. Services include direct loans, leveraging of private loans, and loan subsidies.

Table 8 – VEDA Loans and Subsidies

Subsidies Received By Borrowers:

VEDA Commercial Subsidies	\$817,719
VEDA Agricultural Subsidies	\$930,929

Loan Balances Receiving Subsidy at June 30, 2007:

Commercial Subsidized Loans	\$53,029,511
Agricultural Subsidized Loans	\$33,867,777

New Small Business Loans in FY 2007:

15 loans totaling \$584,425

PROGRAM EVALUATION

Introduction

Whether in the public or private sector, program evaluation is an essential activity. In order to allocate scarce resources among competing needs and to ensure that those resources are being used as effectively as possible, it is essential to understand:

- What programs are intended to accomplish
- What resources are being dedicated to programs
- Whether desired outcomes are being achieved

Programs always have goals – the challenge is whether those goals are clearly stated and achievable, and whether they are in a form that supports evaluation. Resources that are dedicated to programs take a variety of forms, from funding to personnel. While identification of goals and resources can be very challenging, the larger challenge is to measure progress toward goals. What are the sources of information? How reliable are they? Are all appropriate and important measures being monitored?

At its simplest, program evaluation is a system of measurements to chart the progress of a program toward its stated goals. There are at least three different types of measures: input measures, process measures, and outcome measures. Input measures typically measure the resources that support a program. For example, an input measure would be number of instructors hired for a training program.

Process measures, sometimes called intermediate outcome measures, examine steps along the way toward an ultimate desired outcome. For example, the number individuals who graduate from a training program is a process measure.

Assuming the goal of the training program is employment, the outcome measure is number of program graduates who find employment in the field.

In addition to measuring progress toward goals, a second component of program evaluation is operational – how well is the agency serving its customers and using its resources? This aspect of evaluation can look at indicators such as customer satisfaction (do customers believe that their needs were met or that the agency performs a valuable function?) and efficiency (were the agency's goals met using the minimum of resources?). Operational evaluation can provide valuable feedback to program managers – are they meeting their customers' needs? Are they using resources effectively?

For example it would be valuable for a manager to understand the number of jobs created per dollars spent in a specific program, but even more valuable to be able to reliably compare the jobs/dollars relationships among different programs.

Current Situation

One of the topics addressed in the annual economic development survey is program impacts. One reported measure of impact is job creation and retention, including both positions and payroll. To the extent that these figures are both accurate and attributable to specific program activity, these are good outcome measures.

Other programs rely on statistics such as counts of program participants (most common statistic), program spending, or number of grants.

Challenges

The evaluation of public programs is a challenge for a variety of reasons. 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.

The examples below are selected from the information provided by various state departments. Please note that comments are directed at the goal statement itself, not at the value of the underlying program.

The Department of Labor has a workforce investment program that has as its goal, “70% employment rate for adult participants leaving program; returning to school or obtaining other certificates for youth.” This goal incorporates a clear and measurable outcome.

One program, managed by the Department of Information and Innovation has as its goal to “achieve 100% broadband availability and 100% cellular coverage across the state by 2010.” This is another example of a clear and measurable goal.

The Department of Agriculture’s Dairy Marketing Campaign has as its goal to

Increase profitability, measured by return on assets; increase dairy herd to 150,000; enhance dairy industry by attracting new dairy processing to state, develop opportunities for existing dairy processors, and assist with innovation and growth of these processors; enhance the image of VT dairy farmers, dairy industry and related agricultural businesses.

This complex goal includes some specific and measurable targets (“increase dairy herd to 150,000”) along with some difficult-to-measure process goals (“enhance the image of VT dairy farmers, dairy and industry and related agricultural businesses”). While this is clearly a valuable activity, it is difficult to understand how progress will be measured.

The Department of Economic Development’s Environmental Consortium grant has as its goal to “[p]romote the economic vitality of the environmental and renewable energy service, technology, and education sectors in Vermont.” This is an example of an outcome goal whose measurement would be extremely difficult.

Several departments manage grants. The stated goal of these programs is often to spend the grant (an input measure). In these situations, it is not clear how the evaluation required under the grant, if any, dovetails with the departments’ roles and activities. For example, the Department of Economic Development administers a Small Business Development Center grant from the federal Small Business Administration. Grant funds ultimately go “to 12 Regional Development Corporations (RDC) to act as intake offices and locations for the VtSBDC Business Advisors, as legislatively mandated.” Evaluation of the ultimate impact of these grants is quite different from evaluation of DED’s role in the process. To the extent possible, evaluation should focus on that part of the process for which each entity is accountable.

Public programs have limited resources. As is true in most other public programs, when faced with a choice of dedicating resources to program activities or to evaluation, economic development program managers will often choose to maximize application of resources to program activities, leaving scant resources for evaluation.

Data sources and definitions present additional challenges. Most program evaluations are based on a combination of job creation and tax revenue.

Measurement of job creation provides a good illustration of issues faced. First, there is no consistent definition of "jobs." Some programs use total employees, while others use full-time equivalents. Data sources include the Department of Labor's Unemployment Insurance (UI) database and respondent surveys (VEDA). While the UI database is one of the fundamental tools for evaluation of economic development programs [Hatry, 1990], there are several limitations to the use of this data, including:

- The lack of information on hours worked or wage rates / salaries
- The links between jobs and employees are not always clear (job sharing, individuals with multiple jobs)
- Because of resource limitations, not all fields in the database receive the same editing

There are several other sources of labor information, but unlike the UI database, which is a census, the other sources are based on samples.

One other data shortcoming was identified by staff at the Department of Labor – lack of timely information on job openings. They indicated that a better understanding of job vacancies could improve the targeting of training programs. They believe that businesses may be looking to fill positions which require skills that Vermonters may not currently have.

Finally, in an area as complex as economic development, there are a variety of additional measurement challenges. Two of these are especially important.

The first is distinguishing program effects from external effects. For example, imagine a program with a goal of increasing employment in the software industry in Vermont by 20 percent. External forces may produce an increase in employment independent of any program activities. On the other hand, if the program is operating during a time of reduced employment, the program may be considered a success if it holds employment constant.

The second is a result of the dissemination of economic development activities across several departments and agencies. Several of the people interviewed for this report raised the issue of how to distinguish the effects of their programs from the effects of other state efforts.

RECOMMENDATIONS

Based on discussions with interested parties, review of submitted information, and review of applicable literature, we offer the following recommendations for consideration:

- Where possible, clarify and focus program goals to reflect desired policy outcomes and department / agency role in achieving the goals
- Link goals and evaluation process more closely. Ensure that goals are measurable and that measures are appropriate to goal
- Where possible, standardize measures across agencies and across time to ensure consistency and appropriateness; develop data sources to support those measures
- Consider alternate methods to monitor the effects of outstanding tax credits (note that programs to grant tax credits have been eliminated, except for a property tax stabilization program)
- Consider the use of client surveys
- In addition to current program-specific evaluation processes and in consultation with departments, agencies, and clients, create a unified evaluation process
- Strengthen the link between evaluation efforts and the work of the Commission on the Future of Economic Development

Program Goals

As discussed above, Vermont economic development programs vary greatly in the content of their goal statements. While a number of programs include specific outcomes in their goal statements, many others are less specific or reflect outcomes that are not measurable.

Goals and Evaluation

The evaluation process must be driven by the goal – one of the two key functions of evaluation is to measure progress toward the goal. The goal in turn should be measurable. One of the important considerations here is the role of a department in achieving a program goal. A department's goal and evaluation progress will look very different when the department has full program responsibility compared to a role of managing a pass-through grant.

Standardization

Interdepartmental cooperation is essential. Last year's meeting of the analytical personnel was a very good start. Efforts should continue in the area of standardizing measures (such as ways to count employment). In addition to standardization across departments, measures should, to the greatest extent possible, remain constant over time, to permit historical comparisons.

Work on understanding and strengthening existing data sources should also continue. For example, the Department of Labor's Unemployment Insurance database is a critical data source, but efforts to improve it are hampered by limited resources.

Tax Credits

We believe that if the use of tax credits once more becomes a major economic development tool, the way tax-based information is included in the evaluation of economic development needs to be revisited. While tracking of amount of credits authorized is important, this measure is of little value in understanding the ultimate impact of tax credits.

Some current evaluation efforts may also be redundant. Much of what is currently collected independently is also included in the state's tax expenditure report. One possible approach would be to use that report as a source of financial information, and focus additional data collection activities on measuring the results of these programs.

Client Surveys

Client surveys could add additional valuable information to the evaluation process. Surveys could support measurement of program efficacy and progress as well as operational activity. For example, employers who have expressed an interest in moving to Vermont could be asked what worked and didn't work in recruitment efforts, and could also be asked their opinion of individuals with whom they have had contact.

Unified Evaluation Process

We believe that the most important addition to the evaluation process would be the addition of a centralized evaluation program to compliment the work being done by individual departments and agencies. Evaluations done by individual departments are the best way to examine operations, but as discussed above, they do not always provide an accurate picture of the effects of the state's economic development efforts.

This centralized process could have two specific goals:

- Standardization of definitions, data sources, and other evaluation processes.
- Development of a "client-centered" evaluation component

As discussed above, one of the challenges in understanding the value of economic development activities is inconsistent data. Building on the work group that was convened last year by the Department of Finance and Management, efforts to share and standardize information among the various agencies and departments should continue.

The idea behind "client-centered" evaluation is to make the customer's perceptions a critical component of program evaluation. In an environment where the customer is likely to interact with multiple agencies, this type of evaluation must take place from the perspective of the customer, not the individual departments.

For example, consider an employer who has had discussions with several different state agencies. It may not be possible (or even helpful) to determine the relative contribution of each agency, but it is important to understand what the customer sees and how he or she reacts.

This is analogous to changes in the way that medical care is evaluated. Each department in a hospital may conduct evaluations of how it is performing, but there is no "big picture" of how the health care experience was perceived by the patient. Issues such as coordination between departments, which are critical to the patient, are not likely to be measured by individual department evaluation systems.

This approach could also reduce the burden on customers who would otherwise receive requests for information from several different departments.

Key functions for the centralized evaluation process would include:

- Maintenance of a database that would include all entities that have contacted any component of the state's economic development system, and which departments or agencies they have contacted
- Administration of surveys to measure client satisfaction, process efficiency, and outcomes. Surveys could be modular – asking for overall information and focusing on specific departments where appropriate.
- Development of a mechanism to allocate credit for outcomes among agencies and departments

The entity responsible for the unified evaluation process could also assume responsibility for the annual survey from which information in this report is derived. This survey appears to be very valuable, but needs some refinement.

We recommend that responsibility for this higher-level evaluation process be given to the Secretary of Administration.

Commission on the Future of Economic Development

Finally, it is essential to create a strong linkage between the evaluation of current economic development activities with the work of the CFED. Goals and the evaluation of progress toward those goals will be affected by decisions made by the Commission.

Appendix 1 – Legislative Language

Act 215, 2006 Session

Sec. 225a. UNIFIED ECONOMIC DEVELOPMENT BUDGET

(a) The commissioner of finance and management shall submit a proposal to create a unified economic development budget to the general assembly together with the FY 2008 budget report of the governor required under 32 V.S.A. § 306. Said proposal shall be submitted to the house and senate committees on appropriations, the house committees on ways and means and commerce, and the senate committees on finance and economic development, housing and general affairs on or before January 15, 2007.

(b) The unified economic development budget shall include all of the types of development assistance granted during the prior fiscal year by all agencies and departments of the state, specifically including the agency of commerce; the agency of agriculture, food and markets; the department of labor; and the department of taxes.

(c) The unified development budget shall specifically include:

(1) The aggregate amount and program-specific amounts of uncollected or diverted state tax revenues resulting from each type of development assistance provided in the tax statutes, as reported on tax returns filed during the fiscal year to the department of taxes and on the expenditure report required by 32 V.S.A. § 302.

(2) The aggregate amount and program-specific amounts of all state economic development assistance, including grants, loans, and tax expenditures.

(3) Performance measurements in terms of jobs created, payroll increases or decreases, and other measures of economic advancement.

Act 65, 2007 Session

Sec. 225. UNIFIED ECONOMIC DEVELOPMENT BUDGET (UEDB)

(a) For purposes of evaluating the effect on economic development in this state, the commissioner of finance and management, in collaboration with the secretary of commerce and community development, shall submit a unified economic development budget as part of the annual budget report to the legislature under 32 V.S.A. § 306.

(b) The unified economic development budget shall 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.

(c) The unified development budget shall specifically include:

(1) the aggregate amount and program-specific amounts of all state economic development assistance, including grants, loans, and tax expenditures.

(2) The aggregate amount and program-specific amounts of uncollected or diverted state tax revenues resulting from each type of development assistance provided in the tax statutes, as reported in the annual tax

expenditure report (32 V.S.A. § 312). If current data is not available, the report may use the average of the three most recent years reported.

(3) Performance measurements, including estimated jobs created, payroll increases or decreases, and other measures of economic advancement, with clear descriptions of data sources and methodologies.

Appendix 2 – Recommended Criteria for Program Evaluation

In "Monitoring the Outcomes of Economic Development Programs," Harry Hatry and colleagues identified 12 criteria for program evaluation.

- 1) The performance monitoring system should focus on service outcomes and quality.
- 2) The performance monitoring system should focus on helping program managers improve their operations
- 3) The procedures should provide frequent and timely performance information
- 4) The performance monitoring procedures for individual programs should focus on the outcomes accruing to the clients of program services
- 5) Multiple performance indicators are needed to assess service quality and outcomes
- 6) Nontraditional data sources, such as client surveys and unemployment insurance data, are needed, and should be used to help assess service quality and outcomes
- 7) Performance indicators should include both "intermediate" and "end" outcomes
- 8) The procedures should include indicators that attempt to show the extent of the contribution of agency assistance to the outcome(s) reported by the client
- 9) The system should provide breakouts that array service quality and outcome indicators by client characteristics
- 10) The system should provide comparisons of performance for previous years, for target levels, and across categories of clients
- 11) The system should include explanatory factors as well as performance data
- 12) The data collection and management procedures should be designed to be as inexpensive as possible and keep demands on personnel time to a minimum.

Appendix 3 - Detail Reports

Table D1 - Appropriated and Actual by Department and Program, FY 2006 – FY 2008

Department	ProgramName	FiscalYear				
		2006		2007		2008
		Approp.	Actual	Approp.	Actual	Approp.
ACCD-Admin	Brownfields - EPA			\$1,000,000	\$0	\$800,000
	Eco-engineering					\$300,000
	Sustainable Jobs Fund Grant	\$186,200	\$186,200	\$250,000	\$250,000	\$246,200
	Vermont Software Developers Association					\$25,000
	VT Council on Rural Development Grant	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
ACCD-Admin Total		\$236,200	\$236,200	\$1,300,000	\$300,000	\$1,421,200
Agency of Administration	Regional Market Program	\$450,000	\$450,000	\$400,000	\$214,778	\$190,000
Agriculture	Animal Health	\$46,846	\$43,717	\$41,107	\$45,437	\$41,908
	Buy Local campaign	\$51,500	\$55,000	\$130,000	\$60,256	\$50,000
	Consumer Protection	\$61,616	\$57,234	\$58,994	\$61,302	\$77,740
	Dairy	\$62,095	\$60,009	\$58,066	\$59,085	\$61,534
	Eastern States	\$131,460	\$130,022	\$130,286	\$127,837	\$138,436
	Export Programs	\$13,500	\$13,020	\$13,500	\$11,000	\$12,000
	Farm Energy	\$77,665	\$77,179	\$180,050	\$113,325	\$383,012
	Livestock Program	\$66,936	\$71,633	\$71,616	\$69,435	\$74,190
	Meat Inspection	\$73,070	\$72,943	\$64,518	\$68,869	\$79,287
	Vermont Dairy Promotion Council	\$260,000	\$223,937	\$276,000	\$197,399	\$235,987
	Vermont Dairy Task Force	\$24,650	\$19,360	\$306,905	\$209,281	\$158,746
Agriculture Total		\$869,338	\$824,054	\$1,331,042	\$1,023,226	\$1,312,840
Children and Families	Microbusiness Program/ Job Start Technical Assistance	\$351,000	\$336,543	\$411,000	\$397,229	\$446,000
Economic Development	Broad Band Infrastructure Initiative	\$214,166	\$238,597			
	Business Support	\$448,202	\$436,454	\$433,780	\$472,780	\$498,169

	Comm on Future of Econ Deve (VEPC)			\$60,000	\$38,046	\$171,954
	Communication and Marketing	\$132,172	\$114,800			
	Econ Dev Council of Northern VT Grant	\$24,881	\$24,881	\$24,881	\$24,881	\$24,881
	Employment Ownership Center Grant			\$25,000	\$25,000	\$25,000
	Financial Services	\$343,000	\$377,761	\$378,325	\$378,325	\$380,350
	Job Development Zones Grant	\$41,198	\$41,198	\$37,940	\$37,940	\$35,746
	Job Start Grant	\$197,965	\$197,965	\$197,965	\$197,965	\$197,965
	RDC Block Grants	\$1,105,742	\$1,105,742	\$1,115,742	\$1,115,742	\$1,187,742
	Recruitment	\$461,586	\$387,743	\$499,277	\$705,767	\$415,527
	SBDC Grant	\$340,610	\$340,610	\$340,610	\$340,610	\$340,610
	South Windsor Incubator Project			\$25,000	\$25,000	
	VEPC	\$191,567	\$197,130	\$217,469	\$208,906	\$217,469
	Vermont Center for Emerging Technologies	\$25,000	\$25,000			
	Vermont Environmental Consortium					\$40,000
	Vermont Global Trade Partnership	\$150,863	\$186,245	\$170,236	\$178,250	\$208,036
	Vermont Procurement Technical Assistance Center	\$354,921	\$355,258	\$355,196	\$357,196	\$369,718
	Vermont Trade Commission					\$12,000
	Vermont Training Program	\$1,906,835	\$1,757,536	\$2,591,800	\$1,915,412	\$2,293,194
	Administration Budget	\$398,667	\$370,706	\$425,718	\$533,736	\$464,282
	Bennington Incubator Grant	\$49,600	\$49,600			
Economic Development Total		\$6,386,975	\$6,207,226	\$6,898,939	\$6,555,556	\$6,882,643
Housing and Community Affairs	Certified Local Governments Program	\$47,305	\$42,264	\$48,066	\$58,311	\$48,243
	Community Development Block Grants - Regular	\$8,646,118	\$7,737,616	\$7,446,530	\$6,618,540	\$7,446,530
	Downtown Transportation Fund	\$800,000	\$568,069	\$800,000	\$885,394	\$800,000
	Micro 1% Technical Assistance Contract	\$82,739	\$80,764	\$74,673	\$82,574	\$75,175
	Municipal Assistance Grants	\$787,913	\$862,481	\$823,369	\$794,531	\$860,421
	Regional Assistance Grants	\$2,757,696	\$2,757,696	\$2,881,792	\$2,881,790	\$3,011,473
Housing and Community Affairs Total		\$13,121,771	\$12,048,890	\$12,074,430	\$11,321,140	\$12,241,842

Information and Innovation	Broadband Grant for Telecommunications	\$150,000	\$150,000	\$150,000	\$150,000	\$200,000
	North link Broadband Project			\$100,000	\$100,000	\$500,000
	DII-Telecommunications grant			\$115,000	\$115,000	\$115,000
	Broadband Council grants	\$15,209	\$15,209	\$15,000	\$15,000	
	Telecommunication Program Activities	\$49,791	\$49,791	\$50,000	\$50,000	
Information and Innovation Total		\$215,000	\$215,000	\$430,000	\$430,000	\$815,000
Labor	Governor's IT Grant			\$531,673	\$225,000	
	H-1B IT and Healthcare Training	\$335,700				
	Next Generation Adult Technical Education			\$450,000	\$0	\$450,000
	Next Generation WETF			\$900,000	\$8,330	\$1,300,000
	Registered Internship Program	\$820,682	\$827,092	\$827,092	\$926,559	\$827,092
	Workforce Education and Training Program	\$364,653	\$215,273	\$364,653	\$293,728	\$364,653
	Workforce Investment Act	\$5,730,857	\$5,084,860	\$5,724,520	\$4,898,379	\$5,724,520
Labor Total		\$7,251,892	\$6,127,225	\$8,797,938	\$6,351,996	\$8,666,265
Public Service	Clean Energy Development Fund			\$4,800,000	\$601,900	\$5,219,500
Tourism	Film Comm. Grant	\$180,000	\$135,000	\$180,000	\$225,000	\$180,000
	Fund for Tourism Marketing grants			\$100,000	\$90,312	\$100,000
	Quadricentennial			\$100,000	\$37,290	\$100,000
	Sales and Marketing	\$2,394,507	\$2,760,329	\$2,664,931	\$3,376,112	\$2,445,203
	UVM Tourism Data Center	\$56,000	\$48,389	\$56,000	\$28,000	\$56,000
	VT Convention and Tourism Bureau grant	\$101,000	\$100,000	\$101,000	\$125,750	\$101,000
	VT Ski Areas Assoc (started in FY06)		\$25,000	\$30,000	\$30,000	\$30,000
Tourism Total		\$2,731,507	\$3,068,718	\$3,231,931	\$3,912,464	\$3,012,203
VEPC	Vermont Employment Growth Incentive					\$226,979
Grand Total		\$31,613,683	\$29,513,856	\$39,675,280	\$31,108,289	\$40,434,472

Table D2 – Source of Funds by Program, FY 2008 Appropriated

Department	ProgramName	Federal	State	Total
ACCD-Admin	Brownfields - EPA	\$800,000	\$0	\$800,000
	Eco-engineering	\$0	\$300,000	\$300,000
	Sustainable Jobs Fund Grant	\$0	\$246,200	\$246,200
	Vermont Software Developers Association	\$0	\$25,000	\$25,000
	VT Council on Rural Development Grant	\$0	\$50,000	\$50,000
ACCD-Admin Total		\$800,000	\$621,200	\$1,421,200
Agency of Administration	Regional Market Program	\$0	\$190,000	\$190,000
Agriculture	Animal Health	\$6,286	\$35,622	\$41,908
	Buy Local campaign	\$0	\$50,000	\$50,000
	Consumer Protection	\$0	\$77,740	\$77,740
	Dairy	\$0	\$61,534	\$61,534
	Eastern States	\$0	\$138,436	\$138,436
	Export Programs	\$0	\$12,000	\$12,000
	Farm Energy	\$0	\$383,012	\$383,012
	Livestock Program	\$0	\$74,190	\$74,190
	Meat Inspection	\$0	\$79,287	\$79,287
	Vermont Dairy Promotion Council	\$0	\$235,987	\$235,987
	Vermont Dairy Task Force	\$0	\$158,746	\$158,746
Agriculture Total		\$6,286	\$1,306,554	\$1,312,840
Children and Families	Microbusiness Program/ Job Start Technical Assistance	\$66,900	\$379,100	\$446,000
Economic Development	Administration Budget	\$0	\$464,282	\$464,282
	Business Support	\$0	\$498,169	\$498,169
	Comm on Future of Econ Deve (VEPC)	\$0	\$171,954	\$171,954
	Econ Dev Council of Northern VT Grant	\$0	\$24,881	\$24,881

	Employment Ownership Center Grant	\$0	\$25,000	\$25,000
	Financial Services	\$0	\$380,350	\$380,350
	Job Development Zones Grant	\$0	\$35,746	\$35,746
	Job Start Grant	\$0	\$197,965	\$197,965
	RDC Block Grants	\$0	\$1,187,742	\$1,187,742
	Recruitment	\$0	\$415,527	\$415,527
	SBDC Grant	\$0	\$340,610	\$340,610
	VEPC	\$0	\$217,469	\$217,469
	Vermont Environmental Consortium	\$0	\$40,000	\$40,000
	Vermont Global Trade Partnership	\$0	\$208,036	\$208,036
	Vermont Procurement Technical Assistance Center	\$198,470	\$171,248	\$369,718
	Vermont Trade Commission	\$0	\$12,000	\$12,000
	Vermont Training Program	\$0	\$2,293,194	\$2,293,194
Economic Development Total		\$198,470	\$6,684,173	\$6,882,643
Housing and Community Affairs	Certified Local Governments Program	\$48,243	\$0	\$48,243
	Community Development Block Grants - Regular	\$7,446,530	\$0	\$7,446,530
	Downtown Transportation Fund	\$0	\$800,000	\$800,000
	Micro 1% Technical Assistance Contract	\$75,175	\$0	\$75,175
	Municipal Assistance Grants	\$0	\$860,421	\$860,421
	Regional Assistance Grants	\$0	\$3,011,473	\$3,011,473
Housing and Community Affairs Total		\$7,569,948	\$4,671,894	\$12,241,842
Information and Innovation	Broadband Grant for Telecommunications	\$0	\$200,000	\$200,000
	DII-Telecommunications grant	\$0	\$115,000	\$115,000
	North link Broadband Project	\$500,000	\$0	\$500,000
	Telecommunication Program Activities	\$0	\$0	\$0
Information and Innovation Total		\$500,000	\$315,000	\$815,000
Labor	Next Generation Adult Technical Education	\$450,000	\$0	\$450,000
	Next Generation WETF	\$0	\$1,300,000	\$1,300,000

	Registered Internship Program	\$0	\$827,092	\$827,092
	Workforce Education and Training Program	\$0	\$364,653	\$364,653
	Workforce Investment Act	\$0	\$5,724,520	\$5,724,520
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Labor Total		\$450,000	\$8,216,265	\$8,666,265
Public Service	Clean Energy Development Fund	\$0	\$5,219,500	\$5,219,500
Tourism	Film Comm. Grant	\$0	\$180,000	\$180,000
	Fund for Tourism Marketing grants	\$0	\$100,000	\$100,000
	Quadricentennial	\$0	\$100,000	\$100,000
	Sales and Marketing	\$0	\$2,445,203	\$2,445,203
	UVM Tourism Data Center	\$0	\$56,000	\$56,000
	VT Convention and Tourism Bureau grant	\$0	\$101,000	\$101,000
	VT Ski Areas Assoc (started in FY06)	\$0	\$30,000	\$30,000
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Tourism Total		\$0	\$3,012,203	\$3,012,203
VEPC	Vermont Employment Growth Incentive	\$0	\$226,979	\$226,979
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Grand Total		\$9,591,604	\$30,842,868	\$40,434,472

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