the Innovation state

A Business Plan for Vermont

Matt Dunne for Vermont
Matt Dunne

Business experience @ Google and Logic Associates

Exec. Director of AmeriCorps*VISTA program

11 years in the Vermont State House and Senate

Endorsed by 30 Business Leaders across the state

Experience and background in business:

• Worked as Marketing Director for Vermont-based technology company Logic Associates, growing it to 120 employees around the world.
• Currently head of Community Relations at Google, traveling around the country, engaging with local leaders and learning about innovative practices in other states and towns.
• Worked as Director of the AmeriCorps*VISTA program under President Clinton.
  • Oversaw 6,000 people and an $85 million budget.
  • Charged not only with running the program, but with transforming it to make it more effective and efficient.
• Served 11 years as a legislator and was first elected to the state House at age 22.
  • A focus on economic development.
    • Successful legislation: Land Recycling Act, Vermont Film Commission, Downtowns Bill, Broadband Grants Program, Seed Capital Fund.
    • Proposed reorganization of Senate structure to include an Economic Development Committee.
    • Chaired Small Business Caucus.
• Endorsed by over 30 business leaders around the state, including Mike Lane, COO of dealer.com and Will Raap Founder of Gardener’s Supply.
Three stories to illustrate the challenges Vermont businesses are having.

• A company told me they were trying to hire University of Vermont students, but when the recent graduates realized the house they could afford doesn't have high speed internet or cell service, they chose to take jobs in Colorado instead.

• While celebrating the sale of Logic Associates I received panicked calls from the Governor. Senator Hinda Miller had an identical experience after selling her company.

• When Senator Miller and I toured the state to meet with business leaders and economic experts, the economist advising the Governor told us that there were no jobs in the Upper Valley. When I pressed him on that statement, noting that the Upper Valley has some of the lowest unemployment in the state, it became clear that the state’s understanding of local jobs did not align with reality.
A vision for Vermont

“Build a Vermont future that is a global leader in the innovation economy, based on a foundation of authentic communities, strategic location, and our premium Vermont brand.”

Vermont has amazing potential and we have a clear vision for what the future of Vermont looks like:

• “Build a Vermont future that is a global leader in the innovation economy, based on a foundation of authentic communities, strategic location, and our premium Vermont brand.”
What we know:

- Companies go to people
- Vermont will struggle to compete in commodities
- Unlikely that we will attract new large corporate campuses in Vermont
- Source of food is a growing concern
- Vermont success = exporting IP, importing cash

From looking at Vermont’s history in business and studying economic development plans of other states, a few lessons have become clear:

- Companies go to where the people are.
  - Richard Florida identified a number of years ago that innovative companies grow where innovative people want to live (eg: San Francisco, Washington DC, Boulder, Austin).
  - This is in contrast to past generations when innovative companies would move to where legacy businesses existed.

- Vermont will struggle to compete in commodity manufacturing.
  - Vermont will not be the place companies turn to manufacture goods at the lowest cost.
  - Our advantage lies in the value-add of being in Vermont and in our brand.

- It is unlikely that we will attract new large corporate campuses to Vermont.
  - They are most likely to be “home grown,” such as IDX and Green Mountain Coffee.

- The source and quality of food is a growing concern to people across the country.
- Vermont success will come from exporting innovation / technological know-how and importing cash.
  - IP does not necessarily mean patents. It means technology products, online platforms, efficiency, farms, countertops, higher education, high-end wood products, etc.
Vermont has a rich history and tradition of innovation.

**PAST**
- Estey organs
- Fellows Gear Shaper machine tools
- Fairbanks Scales

**CONTEMPORARY**
- Burton Snowboards
- Jogbra
- Logic Associates
- IDX

**FUTURE**
- Software Platforms
- Food
- Efficiency / Renewable Energy
- Biotech
- Agro/Eco Tourism
- Specialized manufacturing
- Creative economy

Vermont has a truly rich history of innovation and entrepreneurship.

- We have led the way in technologies like scales, machine tools, and organs.
- We are the home to entrepreneurs who have created companies such as Burton Snowboards and Jogbra.
- We can be a leader in the next generation economy as well in sectors ranging from food to renewable energy to specialized manufacturing.
- Innovation is not limited to engineers— in a rural context we have had and can again encourage farming, machinist, wood design, tourism and garage innovators.
So what went wrong?

- Lack of comprehensive business plan for the state.
- Fell behind on new technology.
- Failed to invest in higher education, job training programs and tech transfer.
- Disconnect between state leaders and business leaders.
- Complicated regulations and taxes.
- Burdensome costs like health care.

Unfortunately, despite our history of innovative ideas, Vermont has fallen behind.

- Lack of comprehensive business plan.
  - CNBC placed Vermont 37th in a ranking of the top states for business. ([http://www.cnbc.com/id/37875678](http://www.cnbc.com/id/37875678))
- We have fallen behind on new technology.
- We have not invested in our future and have enacted short-sighted budget cuts without planning for the long term.
  - Failed to invest in higher education, job training programs and tech transfer.
  - We are 49th in spending for higher education per-capita. ([http://www.vermonticolleges.org/documents/CHEFUnity.pdf](http://www.vermonticolleges.org/documents/CHEFUnity.pdf))
  - Vermont has one of the highest financial bars nationally for attending post-secondary education. For example, the cheapest college in Vermont in terms of cost per credit hour is the Community College of Vermont. However, CCV is the most expensive community college in America. ([http://www.costhelper.com/cost/education/community-college.html](http://www.costhelper.com/cost/education/community-college.html))
- Disconnect between state leaders and business leaders.
  - Lack of transparency on how taxes are spent, timelines for new regulations, permitting processes, etc.
- High cost of doing business.
  - For example, the cost of health care is rising by $1 million a day.
Vermont’s college seniors graduate with 8th highest per-capita debt load. (http://projectonstudentdebt.org/files/pub/classof2008.pdf)


Vermont is 49th in spending for higher education per-capita. (http://www.vermonticolleges.org/documents/CHEFUnity.pdf)

We are ranked 44th in terms of using the internet to engage citizens and e-government. (http://www.brookings.edu/reports/2008/0826_egovernment_west.aspx)

Vermont is currently last in broadband connectivity. (http://cwafiles.org/speedmatters/state_reports_2009/CWA_Report_on_Internet_Speeds_2009.pdf)
A report by CNBC published in July 2010 ranking the top states for business, lists Vermont as number 37 overall. ([http://www.cnbc.com/id/37875678](http://www.cnbc.com/id/37875678))

- We are behind in areas such as infrastructure, innovation and access to capital.
  - Transportation & Infrastructure measures the vitality of a state’s transportation system by the value of goods shipped by air, land and water, availability of air travel in each state, and the quality of the roads.
  - Technology & Innovation measures support for innovation, the number of patents issued to residents, and the deployment of broadband services.
  - Access to Capital measures flow and access to funding and venture capital.

- However we are leading the way in areas such as quality of life and education.
  - Quality of Life measures, among other things, local attractions, crime rate, and health care.
  - Education measures test scores, class sizes and spending for K-12 education as well as the number of higher education institutions in the state.

<table>
<thead>
<tr>
<th>Category</th>
<th>2009 Rank</th>
<th>2010 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Doing Business</td>
<td>35</td>
<td>42</td>
</tr>
<tr>
<td>Workforce</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Quality of Life</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Economy</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Transportation &amp; Infrastructure</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Technology &amp; Innovation</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>Education</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Business Friendliness</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>Access to Capital</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Cost of Living</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>OVERALL</td>
<td>30</td>
<td>37</td>
</tr>
</tbody>
</table>
By the numbers (cont’d)

The number of new businesses in Vermont by year are published on the Secretary of State’s website (http://www.sec.state.vt.us/corps/dobiz/stats.htm).

The number of new businesses has sharply dropped off since 2003 - which just so happens to be the year when Dubie took office.

Meanwhile, the number of new businesses in the United States has remained remarkably constant from year to year (http://www.kauffman.org/uploadedFiles/exploring_firm_formation_1-13-10.pdf).

- National data (only available up to 2005) shows that the number of new businesses between 1995-2005 has held steady at about 500,000 each year, with an increase in new businesses between 2003 and 2005.
We have real opportunities…

• Top colleges and universities
• World-renowned brand
• A quality of life envied nationally
• Strong public schools
• Unique geographic position
• Abundance of natural resources
• Underutilized rail, air and fiber-optic assets
• The size and scale to move quickly
• Authentic communities
• Skilled and motivated workforce
• One of the highest state bond ratings in the country

However, we have a huge number of opportunities in front of us to turn the business climate in Vermont around.

• As Frank Bryant said, “We dropped so far behind the rest of America on the racetrack of progress we’ve been lapped. Now we’re ahead.”
• We have some of the world’s best institutions of higher education both in Vermont and right over our borders in New Hampshire and New York, despite a consistent lack of support from the public sector.
• We have a world-renowned brand that is synonymous with freshness, quality and green.
  • We can leverage our brand to sell products developed and manufactured in the state.
  • In addition to expanding agro-tourism and improving our state parks and trails, we can also use our brand to help increase tourism to Vermont.
• A high quality of life that is the envy of the country.
• Strong public schools for young families.
• Unique geographic position at the center of three major cities: Boston, New York, and Montreal.
• Abundance of natural resources and some of the nation’s best farm land.
• Underutilized rail, air and fiber-optic assets.
• Appropriate size and scale that allows us to move quickly to capture new opportunities.
• We have authentic communities and traditional downtowns which people around the world are increasingly seeking out.
• A highly skilled and motivated workforce.
• One of the highest state bond ratings in the country.
Vision of Vermont at the center of four economies.

• Churn Economy
  • Innovative new ideas coming out of our classrooms, barns and shop floors.
  • New start-up companies led by innovators and entrepreneurs.
  • Financial gains from exits accomplished are reinvested in new Vermont-based companies and ideas.

• Creative Economy
  • Developing a place where innovative people want to congregate.
  • Tolerant, diverse communities.
  • Growing arts and music scenes.

• Place Based Economy
  • Leveraging our natural assets to make Vermont a destination both for residents and for tourists.
  • Building out our parks and trails.
  • Year-round tourism.
  • Revitalizing our downtowns.

• Slow Money Economy
  • Investing locally and for the long term, particularly in the agriculture and food sectors.
  • Historic preservation.

• These economies are complemented by our unique Vermont brand and our strategic geographic location.
How do we reach this vision?

- Build the **infrastructure** for 21st century innovation
- Provide the **capital** to allow businesses to grow.
- Invest in **education** from higher-ed to pre-k to train the next generation of workers, innovators, and entrepreneurs
- Reshape the **culture** in Montpelier to reduce costs, create better collaboration, and eliminate unnecessary regulations.

How do we move Vermont forward and help make our state a competitive 21st century location to do business?

- Build out the infrastructure for innovation and efficiency through strategic, long-term investments.
  - Broadband / cell service
  - Transportation
  - Recycle industrial sites
  - Revitalize our downtowns
- Provide the capital to allow businesses to grow.
  - Incentives for Vermonters investing in Vermont companies
  - Expand the seed capital fund
  - Develop micro-loan programs
- Invest in education to train the next generation of Vermonters.
  - Improve tech transfer programs
  - Reduce barriers to attending college or university
  - Increase job training opportunities
  - Develop an innovative model for early childhood education
  - Help institutions of higher education expand aggressively, which will produce huge economic multiplier effects locally due to jobs, housing and purchasing needs.
- Change the climate and attitude to business in Montpelier to stimulate entrepreneurship.
  - Increase transparency and responsiveness of government
  - Reform our health care system so that all Vermonters are covered under a single-payer self-insurance program
  - Shift how state leaders think about business
Build out the infrastructure for 21st century innovation

• Provide high speed fiber-optic broadband Internet and cell service to the last mile of every town.
• Expand our transportation options by building out rail and air.
• Re-develop our 4 million sq ft of abandoned industrial sites.
• Revitalize our downtowns.
• Support the development of slaughterhouses, regional “Intervales,” and other processing facilities.

We must build out the environment and the infrastructure necessary to stimulate innovation.
• Provide high speed broadband to every corner of Vermont.
  • Internet is truly the electricity of our time.
  • Vermont is currently ranked last in connectivity.
• We can be more competitive in local economies if we have faster, more convenient transportation to regional commercial hubs.
• We do a very good job of telling people where they can’t develop, but we don’t do a good job telling people where they can.
  • A first priority should be the locations that we all agree should be developed, such as the 4 million square feet of abandoned industrial space.
  • We can fast track the process of developing these areas by pre-permitting and providing additional financial incentives.
• By redeveloping our downtowns and building vertically, we can add new space for housing, retail, education and entertainment.
  • It will also help create housing suitable for young people entering our cities.
• Support development of slaughterhouses, regional “Intervales,” and processing facilities around the state.
A word about broadband…

• Broadband = innovative environment
• Broadband = increased efficiency, new jobs, and better business
• Broadband = more jobs
• Broadband = economic development
  – One study found the total annual economic impact of bringing universal broadband to Vermont would be an influx of $275 million and 5,270 new jobs.
  – Another study shows it would increase GSP by 5.69% or about $1.51 billion.

• Broadband is about more than getting to email faster.
• Broadband creates an innovative environment.
  • Access to research, data and communication with brilliant minds around the world.
  • How can we create the next Google or Facebook in Vermont if you still have to wait for a website to load?
• Broadband opens the door to new technologies and new ways of doing business.
  • Availability of digital tools such as GIS mapping, telemedicine and video conferencing.
  • Farmers can obtain real-time access to vital information such as prices and weather.
  • Opportunities to improve education through distance learning, online classes, etc.
• Broadband creates new jobs for rural communities and allows existing businesses to grow.
  • Now anyone can start a web design company from his or her farm house.
  • One company said the day they received broadband in their office, they would hire 15 new people.
  • Bring web-based businesses such as graphic design or web design to rural neighborhoods.
• Studies have shown that broadband brings tangible economic development.
  • Study shows that 10% increase in broadband penetration adds 1.3% to GSP.
  • With Vermont at 47% broadband penetration, bringing us to 100% would increase GDP by 5.69% or about $1.51 billion.
  • Case study in South Dundas, Canada: after investing in broadband 54% of businesses with access to the fiber network reported they had job growth – compared to 27% percent of businesses that had dial-up Internet access had job growth and 5% percent of those with no Internet access had job growth.
  (http://www.brookings.edu/~/media/Files/rc/reports/2010/0223_broadband_west/0223_broadband_west.pdf)
• Connected Nation found that bringing universal broadband to Vermont would bring an annual economic benefit of $275,359,624, create 5,270 new jobs, save $1,382,086 annually on health care, and cut 7,067,884 lbs of CO2 emissions annually.
  (http://connectednation.org/_documents/Connected_Nation_EIS_Study_Full_Report_02212008.pdf)
Provide the capital that allows businesses to grow

- Expand the **seed capital fund** to provide capital to early stage businesses.
- Create **incentives for Vermonters investing in Vermont** companies.
- Develop **micro-loan programs** for Vermont, similar to Kiva.
Invest in education to train the next generation of Vermonters

• Grow tech transfer programs to bring ideas from classrooms to the global marketplace.
• Leverage federal dollars to establish service scholarships and reduce student debt.
• Create job training programs for growth sector jobs in fields such as IT, green, and next generation agriculture.
• Make Vermont a demonstration state for high quality early childhood education.

Our greatest resources for future innovation are our universities and young people.
• We must reinvest in education and create other incubators of innovation.
• Expand and grow tech transfer programs to bring ideas, patents and IP from our universities and classrooms to the global marketplace.
• Establish service scholarship to reduce student debt.
  • Use federal dollars to develop a student service scholarship program to ensure that every Vermonter who attends one of our state colleges or the University of Vermont and commits to two years of national service can graduate from college debt-free.
• Create job training programs for new graduates or those already in the labor market.
  • Provide skills training for jobs in high growth fields such as IT, green energy and next generation agriculture.
• Bend the cost curve on special education and provide a strong foundation for our children by providing high quality early childhood education.
  • With our size and scale we can work with national organizations to create the first demonstration project for state-wide early childhood education.
Change the business climate to stimulate entrepreneurship

• Implement comprehensive health care reform that self-insures all Vermonters and reduces costs.
• Change management culture in Montpelier.
  – Predictable regulation
  – Measurement
  – Transparency
  – Responsive
• Make in the nation’s largest investment in energy efficiency.

Change the business climate to stimulate entrepreneurship.
• Reduce some of the burdensome costs for businesses.
  • Health care costs are rising at $1 million per day.
  • We can self-insure all Vermonters under a single payer system like many large companies do and redesign how we implement reimbursements, so businesses and individuals pay less and doctors are rewarded based on making people better.
• Run the state based on 21st century business ideas.
  • Encourage a churn economy.
  • Develop effective regulation.
  • Provide clear, transparent guidelines on easy to use websites where all information and forms are easily accessible.
  • Create clear, metrics-driven goals and post measurements transparently so Vermonters can track our progress.
• Provide the nation’s largest investment in energy efficiency.
What will a forward-looking Vermont look like?

- Larger, younger and more diverse population.
- 4x increase in startups across the state.
- Clusters around industries of emerging innovation (renewable energy / efficiency, agriculture, biotech, preservation).
- Thriving four-season tourism that leverages our agriculture, history and natural resources.
- Vibrant downtowns where connections are made across innovation sectors.
- A state government that is transparent, flat, efficient, and responsive.

A vision for the future of Vermont.
- A larger, more diverse population of Vermonters.
- A 4x increase in startups and a greater churn of new businesses and investments developed out of classrooms, shop floors, garages, barns and farms.
- Clusters around industries of emerging innovation including renewable energy / efficiency, agriculture, biotech, and preservation.
- Thriving four-season tourism that leverages our agricultural assets, historic landmarks and natural resources.
- Vibrant downtowns where connections are made across innovation sectors.
- A state government that is transparent, flat, efficient, and responsive.
Jobs now and in the future

• Investment in broadband, renewable energy, brownfields, downtowns, and additional capital will create jobs in:
  – Construction and contracting
  – Skilled trade work
  – Farms and woods for switch grass and wood chips to power biomass
  – Increased business and sales for merchants in our downtowns
  – Thought leadership and consulting

These plans are about more than just creating high tech jobs in the short term.
• We will create jobs across sectors of the economy from construction, to trade work, to agriculture, to storefronts.
• It’s not just about short-term jobs or a one-time spike in new jobs – these investments will build out our long-term infrastructure to spur innovation, new business creation, and existing business growth.
So how do we do it?

- Revenue bonds for new investments (broadband, efficiency)
- Expanded capital: micro-finance, seed capital fund, incentives for Vermonters investing in Vermont companies
- Responsive agency of commerce
- Increased efficiency and reduced overhead to power the state infrastructure (e.g. cloud computing)
- Investment in higher education
- Transparency in state government
- New, experienced leadership with background in business

We need clear steps to fulfill and fund this vision without exorbitant taxes.

- We can use our high credit rating to issue revenue bonds for our new investments.
  - Two separate revenue bonds for broadband and for efficiency—approximately $400 million each.
    - Leases from carriers will pay down the fiber bond.
    - Differential in utility bill from increased energy efficiency will pay down the efficiency bond.
  - These investments will grow the pie and fund future revenue growth for the state.
- We will expand the available capital for businesses and start-ups.
  - Use existing Economic Development Authority to expand the seed capital fund to $35 million.
  - Tax deduction for people coming out of poverty who are starting their own business.
  - Defer capital gains tax when investing the gains into a Vermont-based company.
- Establish a responsive agency of commerce.
- Increase efficiency through projects like adopting a cloud computing model to power Vermont’s IT needs.
  - Cities with larger staffs than Vermont’s have already made the change and seen huge savings.
    (http://www.brookings.edu/~/media/Files/rc/papers/2010/0407_cloud_computing_west/0407_cloud_computing_west.pdf)
    - Los Angeles – 30,000 employees – 23.6% savings
    - Washington DC – 38,000 employees – 48% savings
- Greater investment in higher education.
- Increased transparency in state government.
- A Vermont governor with experience working in both the private and public sectors and who knows what businesses need to succeed in Vermont.
Thank You

Questions?
Appendix
### Appendix 1: SWOT Analysis

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRENGTHS</strong></td>
<td><strong>WEAKNESSES</strong></td>
</tr>
<tr>
<td>• Institutions of higher education</td>
<td>• Poor internet and cell phone service</td>
</tr>
<tr>
<td>• Brand</td>
<td>• Complicated regulation and taxes</td>
</tr>
<tr>
<td>• Quality of life</td>
<td>• Poor measurement techniques</td>
</tr>
<tr>
<td>• Location</td>
<td>• Ineffective deployment of capital</td>
</tr>
<tr>
<td>• Small size and scale</td>
<td>• Disconnect between Gov’t and Biz</td>
</tr>
<tr>
<td><strong>OPPORTUNITIES</strong></td>
<td><strong>THREATS</strong></td>
</tr>
<tr>
<td>• People looking to move to smaller, greener, more authentic communities.</td>
<td>• Failing to keep up with 21st century technology.</td>
</tr>
<tr>
<td>• Growth of telecommuting</td>
<td>• Rising costs of health care.</td>
</tr>
<tr>
<td>• Renewable energy technologies</td>
<td>• Delivery of services</td>
</tr>
<tr>
<td></td>
<td>• Disney-fication of Vermont</td>
</tr>
</tbody>
</table>

Appendix 1: SWOT Analysis

- Business school students and strategy consultants often perform SWOT analyses to determine how to maximize an organization’s potential. The same can be done for a small state like Vermont, an exercise which shows just how much potential we have.
- We have a large number of strengths and opportunities, and our weaknesses and threats can easily be solved with the right leadership and investments.
Appendix 2: Mapping out the churn economy.

- Capital and entrepreneurs feed into the economy to build innovative new companies.
- They are supported by investments in key infrastructure such as broadband and redeveloped downtowns.
- The capital and talent from the sale of these companies feeds back into the economy and the cycle continues.