



September 18, 2024 (Amended)

Douglas R. Hoffer
Vermont State Auditor
132 State Street
Montpelier, VT 05633-5101

Re: "Report of the Vermont State Auditor: Department of Economic Development: Capital Investment Grant Program and Community Recovery and Revitalization Grant Program"

Dear Mr. Hoffer,

The Department of Economic Development (DED) appreciates the time and effort the Office of the Vermont State Auditor (SAO) spent working on its audit of the [Capital Investment Program](#) (CIP) and the [Community Recovery and Revitalization Program](#) (CRRP). I recognize that a significant amount of time was dedicated to this report by representatives of the SAO and DED and that this was further complicated due to the fluctuating audit objective.

DED would like to say for the record that thorough due diligence was applied in our processes, and decision-making was informed by input from relevant stakeholders, including subject matter experts. Additionally, DED documented the rationale for award amounts to ensure transparency and fully complied with state law in all its actions and decisions.

The SAO performance analysis focuses on compliance with State statutes while disregarding that the program funding was provided under Federal guidelines that control the use of the funds and the associated compliance requirements. Doing so led the SAO to assert that DED failed to follow the rules. We categorically deny this. Further, the SAO emphatically [complained](#) to the Vermont Legislature about DED's interpretation of the U.S. Treasury directive for CIP implementation. The SAO then issued a technical inquiry to the U.S. Treasury, which subsequently [confirmed](#) that DED's methodology was aligned with ARPA rules.

The SAO raises a valid point regarding the affordable housing grants. The SAO recommends an affordability period extension beyond our current grant closeout date of 12/31/2026. Because such an extension would be after the closeout date, DED will endeavor to find a solution for how this could be achieved legally and administratively.

Below is DED's response to each objective area outlined in the SAO report titled: *Report of the Vermont State Auditor: Department of Economic Development: Capital Investment Grant Program and Community Recovery and Revitalization Grant Program*.

Objective 1a: DED finds that the report omits important facts regarding the Federal and State intention for these programs, which was to efficiently distribute COVID recovery funds to prevent business closures and job losses while fostering long-term growth and sustainability for impacted entities. Furthermore, the SAO demonstrates an apparent lack of understanding of capital projects and the inevitable dynamics that occur throughout the process between proposal and completion. Commonly, plans are made for a project and then costs increase (often by 25-50%), finding funding becomes more difficult, and permitting may restrict the project's scope. Because of the complex and evolving nature of capital projects, the ability to review them on a formulaic basis is limited.

Additionally, the SAO focuses on a restrictive definition of "need" that requires applicants to exhaust all cash, investments, or borrowing capacity. DED assessed need by determining whether applicants made reasonable efforts to secure funding and demonstrated a clear funding gap. The SAO's assertion that applicants have negligible resources to meet the requirement of "need" contradicts the aforementioned program intentions and does not account for the flexibility necessary to support diverse applicants. For example, under the SAO interpretation, non-profit endowments would be expected to be extinguished before becoming eligible.

Objective 1b: DED used an Interagency Team to ensure cross-agency collaboration and sought input from relevant agencies, such as the Department for Children and Families (DCF) for childcare facilities, the Agency of Natural Resources (ANR) for water and wastewater infrastructure, and the Department of Housing and Community Development (DHCD) for affordable housing applications. These interactions often raised new considerations that DED incorporated into decisions.

Objective 1c: When determining award amounts, DED considered several factors like geographic diversity, size of project, amount of need, and other intricacies that are not easily captured by a purely numerical approach. DED capped most CIP awards at the lesser of \$500,000 or the applicant's Net Fiscal Impact (NFI) to the State. The intention was to distribute funds more broadly, despite a statutory cap of \$1.5 million per project. For the same reason, most CRRP awards were capped at the lesser of 20% of the total project cost, or \$500,000, despite a statutory cap of \$1 million per project. Under rare special circumstances, awards exceeded \$500,000 and the documented reasoning for this was provided to the SAO.

The NFI requirement was ultimately removed by the Legislature in statute for CRRP. It did not accurately reflect the benefits of essential projects like childcare and affordable housing. While the SAO criticized this decision, the NFI model was inadequate for assessing true social impact and economic recovery goals. Therefore, it is inappropriate

to rate DED's performance on a measure that was eliminated by statute and therefore could not be a performance requirement of the CRRP program.

It is important to note that the work of the SAO was conducted while DED was in the process of enacting these programs, rather than following their completion. While DED worked with SAO to improve processes throughout the stages of the programs in real-time, DED does not believe that conducting a program analysis of in-progress work accurately reflects their full impact.

DED is appreciative of the work of all parties to complete the SAO report, and we remain available to discuss any further questions or concerns related to CIP and CRRP.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan Goldstein". The signature is fluid and cursive, with a large initial "J" and "G".

Joan Goldstein
Commissioner
Vermont Department of Economic Development

Attachments:

[SAO memo from March 2022 to Vermont Legislature](#)

[SAO attachment to memo from March 2022](#)

[Agency of Administration memo dated August 2024](#)