

Evaluation of the Maine Seed Capital Tax Credit

August 11, 2021

Report to the Government Oversight Committee by the
Office of Program Evaluation and Government Accountability

Key takeaways

Context: Annual program cap recently increased from \$5 to \$15 million (\$13.5m in 2021-2022)

- **Program goals and program design are not aligned**
 - Program cannot be reasonably expected to deliver expected outcomes
- **Available program data is inconsistent and incomplete**
 - Data issues inhibit program oversight

Road map

- **Program background**

- What is the MSCTC?
- Program history
- Program participation 2010-2020
- Program context

- **Evaluation results**

- 6 key areas
- Areas of misalignment (overview) – 3 examples

- **Recommendations**

What is the Maine Seed Capital Tax Credit?

- **Seeks to incentivize private equity investment** in small businesses by providing a tax credit to investors
- **Reduces investment risk** for investors by State providing an income tax credit of a portion of private investment
- **40% tax credit** of amount invested (from April 2020)

Program history

- Effective on January 1, 1988 – first of its kind in the nation
- **Five eligible business categories** have developed over time:
 - Export businesses (1988)
 - Manufacturers (1991)
 - Engaged in development or application of advanced technologies (1997, 1999)
 - Certified visual media production companies (2009)
 - Value-added natural resource enterprises (2013)

Program participation – 2010-2020

- **\$42.5 million** in tax credits issued
- **\$95.7 million** in private equity investments in businesses
- **134** unique businesses (many participate in multiple years)
- Wide range of investment amounts (2020: \$1,500 - \$1.4 million)

Program context and attribution

- One part of a statewide “eco-system” to support startups and entrepreneurs, which also includes:
 - Maine Technology Institute
 - Maine Venture Fund
 - Individuals and groups of private equity investors (in/out of State)
- In 2016, 21 of the 29 businesses receiving MSCTC investment also received funding from MTI, MVF or both
- Some businesses likely to be eligible for PTDZ/ETIF programs and/or federal R&D grants

Evaluation results

We addressed program outcomes and design across 6 key areas:

- 1. Fiscal and economic impacts**
- 2. Private investment**
- 3. Business development**
- 4. Job creation and retention**
- 5. Municipal tax bases**
- 6. Innovation**

Areas of misalignment

Program goals	Description of misalignment in program design
Increasing investment	<ul style="list-style-type: none">• Program design provides credits to investors who may already be likely to invest in a business.• Program design may limit opportunities to attract out-of-State investment.
Intended business beneficiaries	<ul style="list-style-type: none">• Program design does not address whether the business experiences significant difficulty in obtaining equity financing.• Program design allows some businesses to benefit that may not be considered to have the potential for rapid growth.
Increasing employment	<ul style="list-style-type: none">• Program design does not drive the program goal of increasing job opportunities in <u>export</u> businesses, or require creation or retention of employees for businesses to benefit.• Program design does not focus on increasing average wages.
Increasing municipal tax bases	<ul style="list-style-type: none">• MSCTC does not have design features which would be expected to increase municipal tax bases.
Promoting innovation	<ul style="list-style-type: none">• Program design does not effectively focus on the strategy of promoting innovation.

Example 1: Increasing investment

- Purpose of incentives
- Program design - Permits business founders to claim credits for investments in their own business
 - In two businesses we spoke to, all investment came from founders (\$1.4 million in tax credits)
- Is this what the Legislature intends for this program?

Example 2: Intended business beneficiaries

- Program design allows some businesses to benefit that may not be considered to have potential for rapid growth
- Why does this matter?
- Examples:
 - Film companies
 - Export, manufacturing, natural resources - used for tourism and hospitality

Example 3: Increasing employment

- Stated goal – increase job opportunities in export businesses
- Program design does not require job creation and retention
- Program data is inadequate to assess the extent to which businesses create/retain jobs
 - No common understanding of reportable jobs
 - Incomplete data (2018: **27%** businesses not reporting, 2017: **42%**)
- Program design does not focus on increasing average wages
 - Program provides the same benefits to businesses whether they are in higher wage sectors (STEM) or lower wage sectors (hospitality)

Recommended Legislative Action: Goals

- **Re-evaluate and clearly define program goals and what “success” looks like in terms of outcomes.**

Why?

- Misalignment between goals and design – should one or both change?
- Differences in program expectations amongst businesses, investors, and stakeholders

Recommended Legislative Action: Design

➤ **Adjust program design to advance the goals.**

Consider:

- How is it intended to work with other State programs?
- Increasing investment: Business founders or “arms-length” investors?
- Job creation: What kind? (Industry, skill level, wage level)
- Municipal taxes: Is this a program goal?

Recommended Legislative Action: Data

- **Adjust program reporting requirements to allow for effective Legislative oversight of whether the program is meeting its goals.**

Consider:

- Business outcomes
- Employment outcomes
- Cost context: other State or federal funding received

Recommended Management Action: Data

- **Improve FAME's processes for program data collection, analysis and reporting.**

Including:

- Data collection: ensure data is consistent and complete
- Analysis: ensure analysis is reliable
- Reporting: comply with annual reporting

Acknowledgements and next steps

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- MRS, DECD, MTI, MVF
- Program stakeholders, including investors and businesses

Next steps

- Public comment
- Work session and vote