

1. We are aware that DECD has contracted to conduct an evaluation of state investments in economic development.

A. Please identify for us which tax expenditures the contractor will be evaluating.

- The full listing is **attached**

B. Has a work plan been established for the evaluation? Have further guidelines or details regarding expectations been provided to the contractor by DECD? Are there any intermediate status updates or other reports the contractor will be providing to DECD? If so can you provide us with copies?

- The consultant has provided DECD with a full work plan for the first phase of work. The timeline is **attached**, showing current status. The consultant has also been working with DECD and a steering committee, with updates provided on a bi-weekly basis. The consultant also provides a status update report on a monthly basis.
- The steering committee is made up of: Emily Cain, Maine State Senator; Andre Cushing, Maine State Senator; LuAnn Ballesteros, MIEAB & Jackson Laboratory; Peter Delgreco, Maine & Company; Steve Levesque, MRRRA; Bob Martin, MTI; Jake Ward, University of Maine; Brian Whitney, DECD.

C. How will these evaluations be coordinated with other efforts underway to evaluate tax expenditures?

- It is our belief that the most effective way to coordinate is prior to the passage of legislation.
- In completing the comprehensive review of economic development programs, DECD is fulfilling its statutory obligation.

D. Will a report on the results of this contract be submitted to the Legislature? When?

- It is anticipated that the first full report will be available to the Legislature by February 1, 2014, the date DECD is statutorily required to report.

2. Based on DECD's experiences in supporting economic development in Maine please describe the role that tax expenditures play in DECD's economic development strategies compared to other economic development tools available to the department. Are there tax expenditures that overlap with each other or other economic development incentives? Are some tax expenditures more valuable than others for attracting investment in Maine?

- The State of Maine has a number of tax credits, exemptions and incentives to help spur economic activity. From the Pine Tree Development Zone program which offers sales and use tax exemptions or credits, corporate income tax credits, and other tax benefits to eligible businesses that provide quality employment, to the Business Equipment Tax Exemption and Business Equipment Tax Reimbursement programs, to myriad tax credit programs for everything from research and development expenses to day care and long-term care expenses, DECD's tool kit is comprised almost entirely of tax expenditure-related programs.
- In addition to these programs, Maine also offers some business financing options through the Finance Authority of Maine, the Maine Rural Development Authority, the Small Enterprise Growth Fund, and the Maine Technology Institute.
- The Governor's Account Executives, DECD's team of experienced and knowledgeable business liaisons, work one-on-one with business owners and managers to help connect them with the resources and assistance that suit the individual businesses' needs. They also work with the Maine International Trade Center (MITC), the Maine Technology Institute (MTI), the Maine Center of Entrepreneurial Development, the Procurement Technical Assistance Center, and the Small Business Development Centers - - all organizations that receive some level of state funding - - to ensure that the appropriate resources and assistance are brought to bear. (Note: Janine Bisailon-Cary and Bob Martin, who serve as president of MITC and MTI respectively, are both employees of DECD.)
- With respect to your questions about the effectiveness and value of the state's economic incentives, we are, as you know, currently engaged in a comprehensive evaluation of our economic development and research and development incentives to better assess which programs are most

impactful. This statutorily obligated evaluation will survey the recipients of Maine's economic incentive programs and the resulting report will include:

- A priority ranking of programs by effectiveness to recruit and retain business and jobs in Maine.
- An assessment of the performance and sustainability of the businesses in the state receiving grants and participating in the state's economic development and research & development programs.
- Measurements of indirect benefits to Maine's economy.
- Potential cluster effects.
- Recommendations to the Governor, DECD and the Legislature on how to improve Maine's overall business climate.
- Recommendations to improve the state-supported programs.
- The effects of the economic development activities on the competitiveness of the Seven Targeted Industry Sectors
- A list of businesses, departments, agencies, and municipalities surveyed as well as supporting documents and database.

3. Please describe attempts by DECD over the last 10 years to evaluate the effectiveness of Maine's tax expenditures and quantify the amount of economic activity attributable to tax expenditures. What data, funding and administrative resources are needed in order to make that determination?

- It would be fair to state that a true evaluation of Maine's tax expenditure programs by DECD did not exist prior to 2006. Only four of the tax expenditure programs are administered by DECD; Pine Tree Development Zones, Employment Tax Increment financing, Municipal Tax Increment Financing and the Maine Film Tax Credit. Administration and reporting requirements for these programs are directed by the various statutes. DECD does not maintain or administer any funds for these programs.
- In December 2006, the Office of Program Evaluation and Government Accountability (OPEGA) issued a performance audit of economic development programs in Maine. This report was critical of the current evaluation methods for Maine's economic development portfolio and suggested that more in-depth evaluations would be appropriate. The 123rd Legislature subsequently passed Public Law 2007 Chapter 434 (LD 1163), "An Act to Implement the Recommendations of the Office of Program Evaluation and Government Accountability Regarding Economic Development in Maine." In compliance with this act, the Department of Economic and Community Development developed and submitted to the Governor

and the Legislature a plan for the comprehensive evaluation of state investments in economic development (5 MRSA §13056-A); which was predicated upon a proposed new definition of “economic development incentive.” The list of programs to be included under this evaluation utilized an inventory developed by the Maine Development Foundation. In April, 2009, the legislature mandated an evaluation per the plan, and appropriated \$150,000 for the project (Public Law Chapter 539 (LD 2289) Part GGG. DECD was assigned as project manager for DAFS on this project.

- The plan described the design framework for the evaluation, including a logic model for the system, the identification of appropriate metrics and indicators, and an implementation plan. The plan was based on the ongoing Comprehensive Research and Development Evaluation methodology which had been considered to be a good model for Maine.
- A contract was awarded to a consortium of consultants and a report was published in March 2009. The report’s key findings were that “Maine’s Economic Development programs are serving their intended purpose” and “The programs have been effective in creating and retaining jobs”. Recommendations included: Reassessing current program design for Pine Tree Zones and Business Equipment Tax Reimbursement; Improve outreach and marketing efforts to business owners on state programs and how they can be accessed; Build closer linkages across programs; create new mechanisms to obtain feedback from program customers; and strengthen the evaluation process, perhaps by merging it with the ongoing R&D evaluation process.
- The 124th Legislature passed Public Law 2007 Chapter 337 (LD1468) which eliminated a number of reporting requirements related to economic development incentives and increased the evaluation allocation from \$150k to \$200k but did not address the funding mechanism which was set at 0.08%. An error was committed in statute which put the decimal point in the wrong place. The funding mechanism was intended to be 0.8%. This assessment would only yield approximately \$4,100 to cover the cost of the evaluation.
- The 125th Legislature passed Public Law 2011 Chapter 563 (LD323) “An Act to Implement a Coordinated Strategy to attract New Business, Expand Existing Businesses and Develop a Consistent and Recognizable Maine Brand” which amended the reporting deadlines for the R&D report and Economic Development evaluation now due on February 1, 2014 and amended the assessment from 0.08% to 0.8%.

- In 2013, DECD worked closely with OPEGA to identify the issues addressed in the past and utilized their assistance in preparing an RFP for both evaluations which was awarded to Investment Consulting Associates (ICA) in May 2013.
- Under the direction of Brian Whitney, Director of Business Development and Innovation a Comprehensive Evaluation Steering Committee has been established and weekly conference calls are held to discuss progress. The Steering Committee is comprised of Maine business leaders, legislators and ICA representatives. DECD is confident that the reports due in February will provide a realistic evaluation of Maine incentive programs as well as a framework by which to evaluate the programs into the future.
- In the last 10 years 4,186 businesses have been certified for Pine Tree Development Zone (PTDZ) program with 11,878 anticipated jobs and over \$1.4 billion in planned investment. This program was expanded from a regional program to a statewide program in 2009.
- In the last 10 years 303 applications and amendments have been reviewed and/or approved by DECD through the Municipal Tax Increment Financing program (TIF). TIF districts are a local tool whereby a town can dedicate new tax revenues from a previously undeveloped area for a specific purpose, usually within or related to that development. Approval of all TIF's is provided by DECD.
- Statute directs DECD to contract with independent, nonpartisan reviewers to conduct comprehensive evaluations of both State Investments in Economic Development and Research and Development. Additionally through these evaluations, DECD is required to contract with an independent, nonpartisan reviewer to report on the purpose, problems, effectiveness and status of investments of programs not included in the Research and Development evaluation. The first report under this requirement will be due February 1st of the next First Regular Session. Funding for these evaluations could be an issue if the assessment does not yield enough revenue.
- Administrative resources at DECD are limited to program staff that is primarily in appointed positions. DECD tried unsuccessfully to advocate for the transfer of an Economist during the dissolution of the former State Planning Office.

4. Are you aware of efforts by other states or private sources to evaluate the impact of tax expenditures on economic development and identify the most successful tax strategies for a state to expand economic development? Can you recommend any models for us?

- In regards to credits and incentives specifically, there is a great deal of scholarly research available regarding the use and effectiveness of economic incentives in the pursuit of investment and business attraction. A sample list of studies and articles is **attached**.
- Several states have begun to reexamine how they use tax and other incentives as components of their economic development policies. Florida, Wyoming, Michigan, and Ohio have all reconfigured their overall incentive programs to reflect changes in state policy and to better encourage specific actions. Several states are also beginning to work towards greater transparency and reporting from their incentive programs. Often, these initiatives run come to loggerheads with other state mandates to preserve the confidentiality of taxpayer information. States such as Kentucky are attempting to resolve this conflict.
- Finally, we assume that your question does not relate to tax strategies more generally (including but not limited to a discussion of items and activities liable to tax, rate levels, and exempted items or activities)

LEAD AGENCY	PROGRAM
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Cluster Initiative Program (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Certified Media Production Tax Credit
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Development Loans (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Economic Development Program
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Seed Grant Program (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine Tourism Marketing Promotion Fund
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Community Enterprise Grant Program
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine International Trade Center
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Downtown Revitalization Grant Program
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Business Ombudsman [answers?]
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Communities for Maine's Future
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Equity Capital Fund (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Loring Development Authority
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine Technology Centers
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	TechStart Program (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Phase 0 and Phase II SBIR Application awards plus TAP support (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Brunswick Naval Air Station Job Tax Increment Financing
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine Made - Maine Products Marketing Program
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	North Star Alliance Cluster Award Matching Fund (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine Technology Asset Fund (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Municipal Tax Increment Financing
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Marine Research Fund (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine Biomedical Research Fund (MTI)
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Maine Micro-Enterprise Initiative Fund
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT/ MAINE REVENUE SERVICES	ETIF
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT/ MAINE REVENUE SERVICES	Pine Tree Development Zones
MAINE REVENUE SERVICES	Business Equipment Tax Reimbursement
MAINE REVENUE SERVICES	Sales Tax Exemptions (Manufacturing Machinery , Equipment and Tangible Personal Property)
MAINE REVENUE SERVICES	Sales Tax Exemptions (Fuel and Electricity for Manufacturing)
MAINE REVENUE SERVICES	Business Equipment Tax Exemption
MAINE REVENUE SERVICES	Shipbuilding Facility Credit
MAINE REVENUE SERVICES	Sales Tax Exemptions (Products Used in Agricultural and Aquaculture Production, and Bait)
MAINE REVENUE SERVICES	Sales Tax Exemptions (Commercial Agriculture, Commercial Fishing, and Commercial Wood Harvesting Machinery and Equipment)
MAINE REVENUE SERVICES	Sales Tax Exemptions (Machinery and Equipment for Research)
MAINE REVENUE SERVICES	Jobs and Investment Tax Credit
MAINE REVENUE SERVICES	Super Credit for Substantially Increased Research and Development
MAINE REVENUE SERVICES	High-Technology Investment Tax Credit
MAINE REVENUE SERVICES	Research Expense Tax Credit
MAINE REVENUE SERVICES	Credit for Rehabilitation of Historic Properties
FINANCE AUTHORITY OF MAINE	Commercial Loan Insurance Program
FINANCE AUTHORITY OF MAINE	Economic Recovery Loan Program
FINANCE AUTHORITY OF MAINE	Maine Seed Capital Investment Tax Credit
FINANCE AUTHORITY OF MAINE	Regional Economic Development Revolving Loan Program
FINANCE AUTHORITY OF MAINE	Maine Economic Development Venture Capital Revolving Investment Program (VCRIP)
FINANCE AUTHORITY OF MAINE	Linked Investment Program for Commercial Enterprises
FINANCE AUTHORITY OF MAINE	Maine New Markets Capital Investment Program
FINANCE AUTHORITY OF MAINE	Linked Investment Program for Agriculture
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT/ U.S. DEPARTMENT OF LABOR	Maine Manufacturing Extension Partnership (MEP)
SMALL BUSINESS ADMINISTRATION/ DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	Small Business Development Centers (SBDC)
RURAL DEVELOPMENT AUTHORITY	Commercial Facilities Development Program
RURAL DEVELOPMENT AUTHORITY	Speculative Industrial Buildings Program
MAINE COMMUNITY COLLEGE SYSTEM	Maine Quality Centers
DEPARTMENT OF DEFENSE	Maine Procurement Technical Assistance Center (PTAC)
CENTER FOR LAW AND INNOVATION - UNIVERSITY OF MAINE LAW SCHOOL	Maine Patent Program
DEPARTMENT OF AGRICULTURE	Agricultural Marketing Loan Fund
DEPARTMENT OF AGRICULTURE	Maine Farms for the Future Grants
DEPARTMENT OF AGRICULTURE	Potato Marketing Improvement Fund
DEPARTMENT OF AGRICULTURE	Agricultural Development Grant Program

