

MAINE STATE LEGISLATURE

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A black and white photograph of the Maine State Capitol building, featuring a prominent dome and classical columns. The image is used as a background for the title section.

REVIEW OF ECONOMIC DEVELOPMENT & RESEARCH AND DEVELOPMENT INVESTMENTS

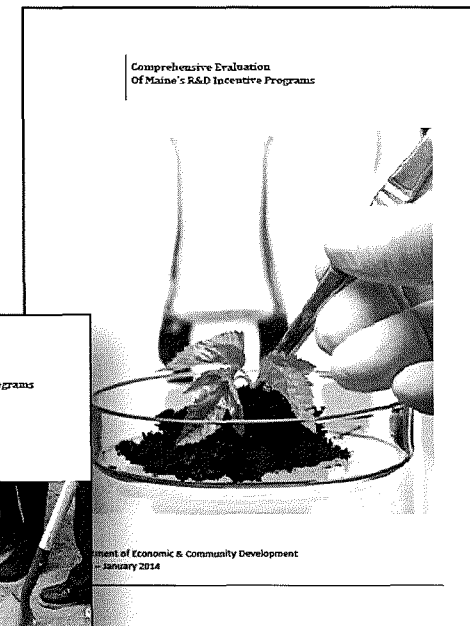
Maine Department of Community and Economic Development

February, 2014



AGENDA

- Overview
- Purpose and Goals
- Methodology
- Findings
 - Benchmarking
 - General
 - Economic Development
 - R&D
- Recommendations
- Next Steps
- Q&A



OVERVIEW

Goal: Review and Adjust

- State has developed a suite of policy and investment tools aimed at attracting investment and at meeting its overall economic development goals
- These tools are of varying levels of importance due to changing economic conditions and specific requirements of businesses.
- These needs and targets change over time, and the toolset must be evaluated and updated accordingly.

Evaluate both Research and Development & Economic Development Investments, evaluate effectiveness, and create a map forward for further change

GOALS:

Biennial Progress Reports

- Evaluation of programs by effectiveness to establish, recruit and retain;
- Assessment of recipients meeting goals and taking action steps outlined in the Science and Technology Action Plan;
- Recommendations to DECD on how to become a more competitive innovation economy;
- Assessment of the performance of the programs (financial, capital investment, jobs, wages, etc);
- Assessment to determine if the activities and programs increase the competitiveness of the industry sectors in the state of Maine;
- Recommendations to improve the state-supported programs; and
- List of groups surveyed as well as supporting documents and database.

Six-Year Evaluation Report for Research & Development

- Updated Action Plan as well as a summary of previous Biennial Reports.

While the Biennial reports have been submitted, additional information will be provided in the Overall Evaluation Report, due in June of this year

QUESTIONS TO BE ANSWERED BY BOTH REPORTS

- Is Maine creating an environment where science, technology, innovation and entrepreneurship stimulate Maine's economy?
- How competitive is the State of Maine at attracting new investment?
- How competitive is Maine's innovation capacity regarding innovation inputs, outputs and outcomes compared to other States?
- Has Maine's investment in economic development and research & development stimulated and sustained consistent, competitive growth in Maine's economy compared to other states nationally?
- Are Maine's investments in R&D broadening the impact from the nonprofit research institutions and increasing private sector R&D activity?
- What is the return on investment (financial, workforce, capital investment, other) of the individual programs?

METHODOLOGY

- Examine Existing Reporting
- Survey Construction and Dissemination
- Interviews
- Benchmarking
- Cost Benefit Analysis
- Annual Report Review



EXISTING PROGRAMS

Department of Economic and Community Development

Economic Development

- Certified Media Production Tax Credit
- Economic Development Program
- Maine Tourism Marketing Promotion Fund
- Community Enterprise Grant Program
- Maine International Trade Center
- Downtown Revitalization Grant Program
- Business Ombudsman
- Communities for Maine's Future
- Loring Development Authority
- Maine Technology Centers
- Brunswick Naval Air Station Job Tax Increment Financing
- Maine Made - Maine Products Marketing Program
- Municipal Tax Increment Financing
- Maine Micro-Enterprise Initiative Fund - INACTIVE

EXISTING PROGRAMS

Department of Economic and Community Development (Continued)

Research & Development

- Cluster Initiative Program (MTI)
- Development Loans (MTI)
- Seed Grant Program (MTI)
- Equity Capital Fund (MTI)
- TechStart Program (MTI)
- Phase 0 and Phase II SBIR Application awards plus TAP support (MTI)
- North Star Alliance Cluster Award Matching Fund (MTI) - INACTIVE
- Maine Technology Asset Fund (MTI)
- Marine Research Fund (MTI)
- Maine Biomedical Research Fund (MTI)

Department of Economic and Community Development/ Maine Revenue Service

Economic Development

- ETIF
- Pine Tree Development Zones

EXISTING PROGRAMS

Maine Revenue Service

Economic Development

- Business Equipment Tax Reimbursement
- Sales Tax Exemptions (Manufacturing Machinery , Equipment and Tangible Personal Property)
- Sales Tax Exemptions (Fuel and Electricity for Manufacturing)
- Business Equipment Tax Exemption
- Shipbuilding Facility Credit
- Sales Tax Exemptions (Products Used in Agricultural and Aquaculture Production, and Bait)
- Sales Tax Exemptions (Commercial Agriculture, Commercial Fishing, and Commercial Wood Harvesting Machinery and Equipment)
- Jobs and Investment Tax Credit
- Credit for Rehabilitation of Historic Properties

Research & Development

- High-Technology Investment Tax Credit
- Sales Tax Exemptions (Machinery and Equipment for Research)
- Super Credit for Substantially Increased Research and Development
- Research Expense Tax Credit

EXISTING PROGRAMS

Finance Authority of Maine (FAME)

Economic Development

- Commercial Loan Insurance Program
- Economic Recovery Loan Program
- Maine Seed Capital Investment Tax Credit
- Regional Economic Development Revolving Loan Program
- Linked Investment Program for Commercial Enterprises
- Maine New Markets Capital Investment Program
- Linked Investment Program for Agriculture

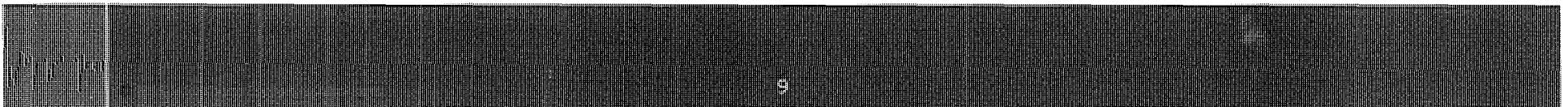
Research & Development

- Maine Economic Development Venture Capital Revolving Investment Program (VCRIP)

Department of Economic and Community Development/ U.S. Department of Labor

Economic Development

- Maine Manufacturing Extension Partnership (MEP)



EXISTING PROGRAMS

Small Business Administration/ Department of Economic And Community Development

Economic Development

- Small Business Development Centers (SBDC)

Rural Development Authority

Economic Development

- Commercial Facilities Development Program
- Speculative Industrial Buildings Program

Maine Community College System

Economic Development

- Maine Quality Centers

Department of Defense

Economic Development

- Maine Procurement Technical Assistance Center (PTAC)

EXISTING PROGRAMS

Center for Law and Innovation - University of Maine Law School

Research and Development

- Maine Patent Program

Department of Agriculture

Economic Development

- Agricultural Marketing Loan Fund
- Maine Farms for the Future Grants
- Potato Marketing Improvement Fund
- Agricultural Development Grant Program

FINDINGS

FINDINGS - GENERAL

Data Availability

- State lacks coordinated, central reporting for job creation, wages, and capital investment for all economic development and research & development programs
- Required the analyst team to develop and implement an independent survey tool to collect data from program participants

FINDINGS - GENERAL

Reporting Requirements

- While reporting is required by most programs, the *mechanism* is not specified, nor are the *repercussions* for not reporting
- There is also a lack of coordination between and among programs in reporting data
- As a result, even the efforts of the analyst team, DECD and MTI staff were able to garner only a 30% response rate overall
- This is acceptable as a sample from which to draw program conclusions, but not acceptable as fulfillment of reporting requirements

FINDINGS - GENERAL

3rd Party Access (confidentiality)

- Most of the programs in place have implicit or explicit confidentiality clauses between the company, DECD, Maine Revenue Service (MRS) or other administering agencies
- The 3rd Party Analyst team also has confidentiality agreements in place with DECD
- Many companies as well as Maine State agencies cited confidentiality issues as the reason for not sharing company information or program performance data
- MRS in particular is not permitted to share taxpayer information
- These circumstances significantly hinder the ability to collect and review program performance data

FINDINGS – BENCHMARKING

Benchmark 1: State Investment Trends

Explores the competitive position of the State of Maine in attracting FDI and domestic investment from various source markets and in different industries and business activities.

Investment projects peaked in 2013

- 14 investment projects were recorded in 2013, equivalent to a share of 20.3% of the total number of projects
- Last year a total of 836 jobs were created and \$292.10 million capital was invested by these projects

Key investors account for one quarter of projects

- The top 10% of investors have created a total of 17 projects, 25% of the total projects. These investors have created a combined total of 1,355 jobs, nearly one-fifth of the overall total.

Business Services is top sector with one-sixth of projects

Top five destinations attract almost one-third of projects

- Portland is the top destination city accounting for one-eighth of projects tracked.
- Total investment into Portland resulted in the creation of 222 jobs and \$71.40 million capital investment.

FINDINGS – BENCHMARKING

Benchmark 2: Business Environment Competitiveness

Compares and contrasts multiple location benchmarks and rankings across various evaluations of business environment, cost, tax, and other business factors

Measures Examined

- Competitiveness
- Business Climate
- Innovation
- Economic Freedom
- Entrepreneurship
- State Management
- Quality of Life

- Generally, Maine performs poorly with an on-average ranking of 35.05
- Geographically proximate states such as New Hampshire, Massachusetts and Connecticut perform considerably better
- Several studies cite poor data availability and/or perceptions of business climate and overall competitiveness
- The Wall Street Journal admires the State's ability to govern smoothly.
- Maine's incentive and credit programs are judged to suffer from a lack of transparency
- High Quality of Life rankings

FINDINGS – BENCHMARKING

Benchmark 3: Incentive Award Productivity

Examines trends in incentives across the United States, highlights recently awarded incentives to companies investing in different states and shows which incentive programs offered by state governments are most active.

- **Group 1:** States that both attracted a significant amount of capital expenditures and created new employment but also spent considerable budgets on awarding incentives (MI, TN, OH, KY, NY, IN, LA)
- **Group 2:** States that attracted a significant amount of capital expenditures though did not transmit its budget spent on incentives into employment (California).
- **Group 3:** States that created a high number of jobs but did not attract large proportions of capital expenditures whilst spending much public money on incentives (Pennsylvania and New Jersey)
- **Group 4:** States that spent quantities on incentives that did not transfer into either significant capital expenditures or employment creation (AZ, CT, CO, ID, NV)
- States not top-15 “big spenders” but featuring in top-15 at attracting investment : Texas, North Carolina and Florida.

FINDINGS – BENCHMARKING

Benchmark 4: Transparency in Incentives

Shows transparent statutory incentive programs and general transparency in public communications regarding the amount of public funds allocated to incentive programs.

Transparency Index Including Incentive Programs		
Green: Ranks 1 st – 16 th	Amber: Ranks 17 th – 33 rd	Red: Ranks 34 th – 50 th
Connecticut	Alabama	California
Florida	Alaska	Georgia
Illinois	Arkansas	Hawaii
Iowa	Arizona	Idaho
Indiana*	Colorado	Kansas
Kentucky	Delaware	Maine
Louisiana	Minnesota	New Hampshire
Maryland*	Mississippi	Nebraska
Massachusetts	Montana	Nevada
Michigan	New Mexico	North Dakota
Missouri	Oklahoma	Rhode Island
New Jersey	Oregon	Vermont
New York	South Dakota	Washington
North Carolina	South Carolina	West Virginia
Ohio	Utah	Wyoming
Pennsylvania	Washington	
Texas		
Tennessee		
Virginia		
Wisconsin		

FINDINGS – BENCHMARKING

Benchmark 5: Competitive States' Programs for both Research & Development and Economic Development

focuses on specific incentive programs across competing states. ICA has selected four competitive states as its benchmark for analyzing incentive programs across these states, Connecticut, Massachusetts, New Hampshire, and Iowa

- Chosen due to geography, similarity in targets, and inclusion in Brookings institution study of incentive best practices
- Full comparisons included in the report
- Will be used as one source for suggestions on best practices in further recommendations

FINDINGS:

APPROACH CBA MODEL

Scenario – with incentive

1

- + Corporate income tax for the State of Maine
- + Sales Tax revenues
- + Personal income taxes for the State of Maine
- + Residents dividends tax
- + Payroll taxes employer State of Maine
- + Direct Tax Revenues

- Cost of administering the program
- Cost of incentive program

Direct Revenues after incentive costs

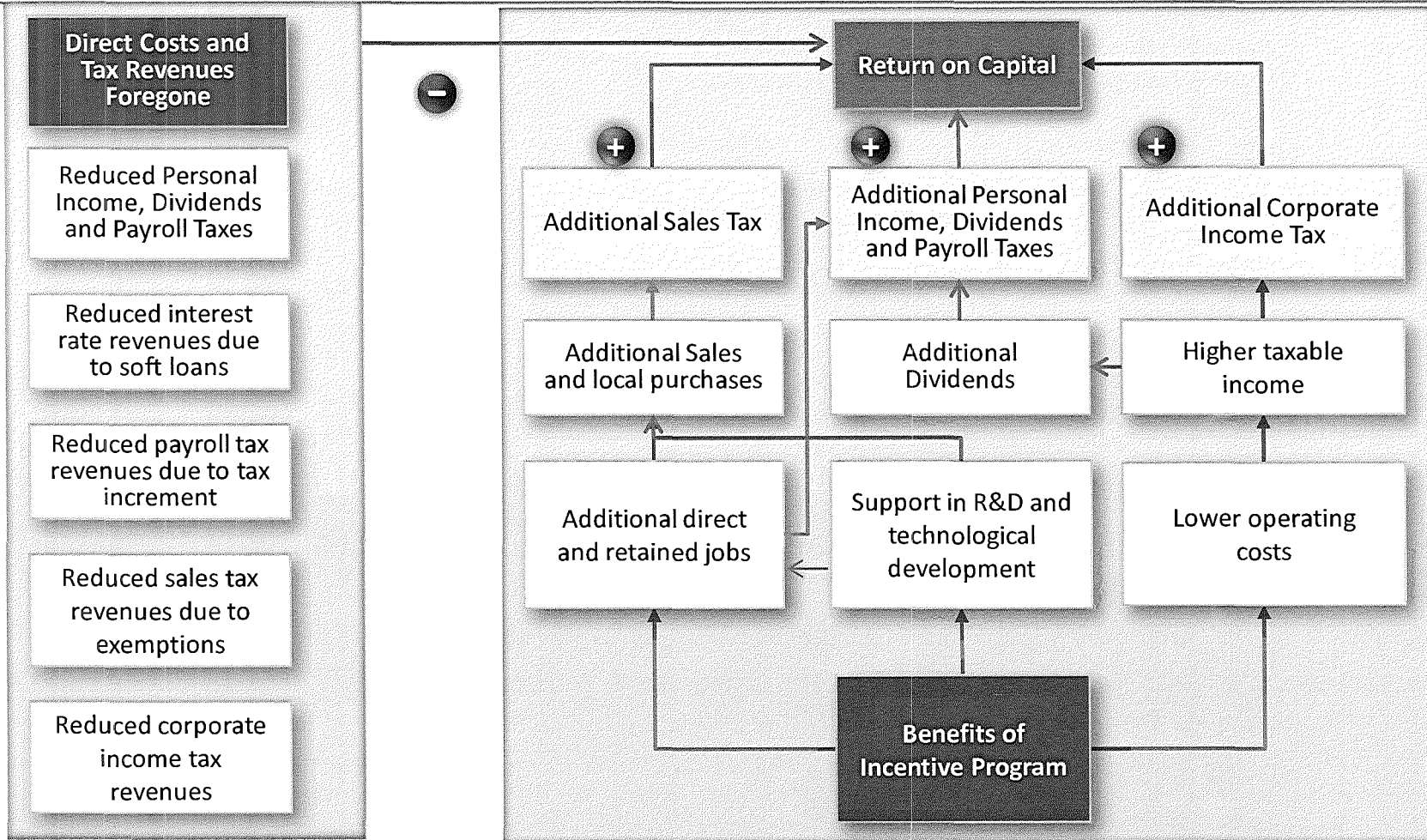
Scenario – without incentive

2

- Corporate income tax for the State of Maine
- Sales Tax revenues
- Personal income taxes for the State of Maine
- Residents dividends tax
- Payroll taxes employer State of Maine
- Direct Tax Revenues

Direct Revenues without incentives

DYNAMIC AND INTEGRATED MODEL



INTERPRETATION

**Scenario – with
incentive**

1

**Scenario – without
incentive**

2

If Direct Revenues after incentive costs $>$ Direct Revenues without incentives
IRR = Positive

If Direct Revenues after incentive costs $<$ Direct Revenues without incentives
IRR = Negative

A positive IRR implies that on every Dollar spent on the incentive program results in a higher return in the form of higher tax revenues

FURTHER ASPECTS AND IMPLICATIONS

- *A sensitivity analysis* allows to estimate the effects of different scenarios in relation to the IRR; What if only 25% - 50% or 75% or the complete sample of companies would have established themselves in Maine even without the availability of the incentive program;
- Besides the Direct Cost and Benefits of the various programs, the CBA also calculates the *indirect benefits*, such as:
 - Additional Capital Investment
 - Increased Exports Volume
 - Increased Local Demand

OVERVIEW OF RESULTS

Description	BETR	PTZD	MTI Development Loans*	FAME
No. of companies	399	285	10.7	248
Average number of Employees 2010 - 2012	110.2	85.5	21.7	74.3
Average total new jobs 2010 - 2012 per company	1.4	17.3	5.3	2.8
Average total retained jobs 2010 - 2012	18.7	16.8	2.7	11.7
Average Capital Expenditure 2010 - 2012	\$ 87,000	\$ 1,150,503	\$ 291,176	\$ 256,392
Average amount of local purchases 2010 - 2012	\$ 1,976,325	\$ 5,971,722	\$ 806,632	\$ 7,924,388

* Total number of development loan projects with 17, 9 and 6 projects in 2010 to 2012 respectively

ECONOMIC DEVELOPMENT:

BUSINESS EQUIPMENT TAX REIMBURSEMENT (BETR)

- Designed to encourage new capital investment in Maine
- Provides for a reimbursement of property taxes paid on qualified tangible, personal, depreciable property held for business use
- Reimbursement of 100% of taxes paid is limited to 12 years
- After 12 years, the reimbursement percentage declines until reaching 50% in year 18
- The 50% reimbursement rate remains in effect for the remaining life of the property.

ECONOMIC DEVELOPMENT: BUSINESS EQUIPMENT TAX REIMBURSEMENT (BETR)

Benefits for State of Maine	With Incentive	Without Incentive
Corporate income tax	\$148,417,234	\$122,995,581
Personal income tax	\$307,916,956	\$255,175,385
Dividends tax	\$426,087,689	\$348,800,204
Sales tax	\$25,729,470	\$22,429,093
Payroll tax	\$209,578,855	\$171,563,622
Property tax		\$156,218,476
Tax Revenues	\$1,117,730,204	\$1,077,182,360
Cost of administering the program	\$532,708	
Direct Revenues after incentive costs	\$1,117,197,496	\$1,077,182,360
IRR Incentive Program: Direct Benefits	3.7%	

ECONOMIC DEVELOPMENT:

PINE TREE DEVELOPMENT ZONE (PTDZ)

- Offers eligible businesses in Maine the chance to greatly reduce, or in some cases, virtually eliminate state taxes for up to ten years.
- Eligible sectors: biotechnology; aquaculture and marine technology; composite materials technology; environmental technology; advanced technologies for forestry and agriculture; manufacturing, including precision manufacturing; information technology; and financial services.
- Benefit highlights include:
 - 100% Corporate Income Tax credit for 5 years; 50% credit for years 6-10
 - Elimination of Property Sales & Use Tax for 10 years
 - 80% Employment Tax Increment Finance (ETIF)

ECONOMIC DEVELOPMENT: PINE TREE DEVELOPMENT ZONE (PTDZ)

■ Cost/Benefit Analysis of the ETIF Component

Benefits for State of Maine	With Incentive	Without Incentive
Corporate income tax for the State of Maine	\$178,200,497	\$537,724,597
Sales Tax revenues	\$651,530,191	\$704,356,925
Personal income taxes for the State of Maine	\$237,054,316	\$141,122,719
Residents dividends tax	\$121,127,400	\$107,700,632
Payroll taxes employer State of Maine	\$23,469,368	\$69,858,695
Direct Tax Revenues	\$1,211,381,772	\$1,560,763,568
Cost of administrating the program	\$532,708	
Direct Revenues after incentive costs	\$1,210,849,063	\$1,560,763,568
IRR Incentive Program: Direct Benefits	-22.4%	

ECONOMIC DEVELOPMENT:

PINE TREE DEVELOPMENT ZONE (PTDZ)

- **HOWEVER:** Model on previous page assumes that all companies would have established themselves in the State of Maine regardless whether they would be entitled to the benefits of PTDZ or not.
- PTDZ includes “but for” language and that the company would not have chosen to locate in Maine ‘but for’ this funding.

Sensitivity index	IRR
0%	125.2%
25%	72.2%
50%	30.7%
75%	-0.2%
100%	-22.4%

RESEARCH & DEVELOPMENT:

MTI DEVELOPMENT LOANS

- Loans of up to \$500,000 are offered three times a year to fund later stage R&D activities leading to commercialization of new products such as prototype development, testing and manufacturing pilot projects
- Loan repayment is triggered by commercialization of the technology
- All projects must fall under one of Maine's seven technology sectors and require matching investments of 1:1

RESEARCH & DEVELOPMENT: MTI DEVELOPMENT LOANS

Benefits for State of Maine	With Incentive	Without Incentive
Corporate income tax for the State of Maine	\$3,633,222	\$3,047,827
Sales Tax revenues	\$3,396,252	\$2,828,575
Personal income taxes for the State of Maine	\$2,316,188	\$1,454,919
Residents dividends tax	\$556,902	\$548,961
Payroll taxes employer State of Maine	\$1,146,562	\$720,215
Direct Tax Revenues	\$11,049,126	\$8,600,497
Cost of DL and grant program	\$848,603	
Cost of administrating the program	\$532,708	
Direct Revenues after incentive costs	\$9,667,814	\$8,600,497
IRR Incentive Program: Direct Benefits	12.4%	

ECONOMIC DEVELOPMENT:

FINANCE AUTHORITY OF MAINE (FAME)

Commercial Loan Insurance Program

- Loan insurance is available for almost any prudent business activity, and insures up to 90 percent of a loan to a maximum FAME insurance exposure of \$4 million
- This maximum insurance amount is set at least annually in accordance with FAME's Direct Loan and Loan Insurance Credit Policy

Economic Recovery Loan Program (ERLP)

- This program provides subordinate (gap) financing to assist businesses in their efforts to remain viable and/or improve productivity
- Eligible companies are Maine-based businesses that exhibit a reasonable ability to repay the loan and demonstrate that other sources of capital have been exhausted

ECONOMIC DEVELOPMENT: FINANCE AUTHORITY OF MAINE (FAME)

Benefits for State of Maine	With Incentive	Without Incentive
Corporate income tax for the State of Maine	\$890,949,194	\$746,282,493
Sales Tax revenues	\$772,028,392	\$646,799,722
Personal income taxes for the State of Maine	\$182,098,249	\$146,781,049
Residents dividends tax	\$136,565,166	\$134,617,737
Payroll taxes employer State of Maine	\$90,142,438	\$72,659,686
Direct Tax Revenues	\$2,071,783,438	\$1,747,140,687
FAME Revenues from loan insurance program	\$1,463,525	
FAME Revenues from ERLP	\$350,671	
Cost to cover for default	\$485,249	
Cost of administrating the program	\$532,708	
Direct Revenues after incentive costs	\$2,072,579,677	\$1,747,140,687
IRR Incentive Program: Direct Benefits	18.6%	

OTHER ECONOMIC DEVELOPMENT PROGRAMS

	Target Technology Incubator	Loring Development Fund	Maine Tourism Marketing Promotion Fund (MTMPF)	Maine Manufacturing Extension Partnership (MEP) 2012-2013
Number of Jobs Created 2012	5	1,082	--	89 direct 599 indirect new and retained
Number of Jobs Retained 2012	--	--	--	178 direct 599 indirect new and retained
Value of Program 2012	\$1,000,000	\$4,397,205 (Total Revenue)	--	See Appendix
Value Cost of Program 2012	--	\$200,000 (Total Funding)	\$893,200	See Appendix
Average Benefit Received by Company 2012	--	--	--	--
Is the Program Traceable?	Yes	Yes	Not easily	Yes
Is There a Website you Can Find With a Google Search?	Yes	Yes	Not easily	Yes

OTHER ECONOMIC DEVELOPMENT PROGRAMS

	Target Technology Incubator	Loring Development Fund	Maine Tourism Marketing Promotion Fund (MTMPF)	Maine Manufacturing Extension Partnership (MEP) 2012-2013
Does it Include Annual Reports in a Location That You Can Readily Find?	No	No	No	Yes
Does it Include Application Process and Forms Online?	No	No	Yes	No
What are the Target Sectors of the Program?	R&D/Innovation	None	Tourism Industry	Manufacturing
Are the Benefits of the Program Clearly Stated?	Yes	Yes	In Annual Report and legislative mandate only	Yes
Are the Eligibility Requirements Posted Online and Clear?	Yes	No	Yes	No
Does the Program Claim to Purge Non- Compliant Companies?	--	--	--	--
Are There any Caps on Benefits?	--	--	--	--

RECOMMENDATIONS

RECOMMENDATIONS – GENERAL

- **Central Website and/or Guiding Organization:** Provide a means for coordinating all investment programs (whether Economic Development or R&D) so that potential investors, companies, and entrepreneurs may find relevant data easily. Consider establishing an ombudsman function
- **Enhance Collaboration Between Programs:** Develop a culture wherein data is shared with DECD on all programs to enhance both effectiveness and reporting
- **Evaluate Programs Across Platforms:** Whether R&D or Economic Development, the programs in both report are intended to contribute to the ongoing economic success of the State. Reviewing them separately (Economic Development or R&D) increases segmentation and reduces the chances for total effectiveness

RECOMMENDATIONS – GENERAL

- **Develop Central Storage for Incentive Report Documentation:** Legislative changes should be made to allow the analyst team designated by the State of Maine to have full access to program data as needed.
- **Incentive Contingency Clauses and Reporting:** Checks and balances should be worked into the Legislative Mandate behind each of the incentive programs to allow the programs to perform more successfully and to have the reporting to understand their own success.
- **Data Confidentiality:** Legislative changes should be made to provide for full access to and evaluation of program data as needed, whether this performed by a State agency or by a contracted third party under a confidentiality agreement

RECOMMENDATIONS - ECONOMIC DEVELOPMENT

- Align the State's programs to emphasize the comparative advantages of the state or compensate for the lack of these comparative advantages;
- Develop a clear, transparent, and coherent common framework to facilitate coordination;
- Conform to good practice principles of simplicity, clarity, certainty, and a minimum of subjective evaluation;
- Directly align to operational requirements of companies and tap into the value chains of companies;
- Simplify the application and administration processes;
- Provide a clear mechanism and expectation for transparency and reporting;
- Develop means for full costing and reporting of incentives annually
- Ensure reporting requirements to monitor obligations are included in the incentives law;
- Ensure clawbacks are clearly enshrined in incentives law and sanctions if the company does not comply;
- Form an Incentive Working Group

RECOMMENDATIONS - RESEARCH & DEVELOPMENT

- Consider revising Maine's primary R&D programs with the following enhancements featured in competitive states:
 - Include donations to State research organizations as qualified R&D expenses;
 - Align programs to target industry sectors for State (MTI);
 - Allow excess credits to be sold back to the State for a portion of their value; and
 - Link directly to primary industry attraction program – Pine Tree Development Zone.
- Continue to seek ways to fill the funding gap between early stage research and full commercialization for small companies.
- Continue coaching, but also evaluate the business viability of both the product/service/technology and of the prospective entrepreneur and business team;
- Develop a clear, transparent, and coherent common framework within each program to facilitate coordination and harmonization where possible – both with other research programs and within the broader economic development framework;

NEXT STEPS

ITEMS OUTSTANDING AND NEXT STEPS

- Review Remaining Annual Reports (received after January 1, 2014)
- Develop and Implement Survey to Maine Research Universities
- Expanded Benchmarking of Maine vs. Peer States
 - Programs and Results
- Evaluate Maine Programs against needs of Industry Targets
- Develop Full Program Recommendations
 - Adjustments to Current Programs
 - Program Elimination or Refocus
 - Suggestions for Additional Programs
- Develop an Adjusted Workplan and Implementation Schedule for Future Years

Q&A
