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FINANCE AUTHORITY OF MAINE

Maine Seed Capital Tax Credit Program

Annual Report—Calendar Year 2021 Activity

Executive Summary:

This report by FAME of Calendar Year 2021 (CY2021) Maine Seed Capital Tax Credit Program activity continues the meaningful shift in both the level of information provided and the reliability of the data provided that began with FAME's CY 2020 report. FAME has administered the program since its creation by the Legislature in 1987. We have watched it change and grow over the years to enable the success of various Maine start-up companies. As you may recall, the program is designed to encourage equity and near-equity investments in eligible Maine businesses, directly and through private venture capital funds. FAME may authorize state income tax credits or refundable tax credits to investors for up to 40% of the cash equity they provide to eligible Maine businesses. Investments may be used for fixed assets, research or working capital. The program reduces the risk of a Maine investment, encouraging investors to commit capital to Maine companies that might otherwise be invested outside the state.

As a result of both additional reporting requirements on participating companies added by the Legislature to the program in 2020 by PL 2019, ch. 616, Pt. LL, §11, and suggestions provided by the Office of Program Evaluation and Government Accountability (OPEGA) in connection with its program review and report dated August 2021, FAME substantially revised and expanded the annual report form sent to participating companies commencing with the 2020 reporting year. The format of the form was modified for CY2021 to make clarifications but requested the same substantive data as in CY2020. A copy of the CY2021 form is attached as Addendum A. The post-CY2020 forms added several new data requests, added detailed definitions of terms like "employees," and broke some general informational requests into separate, more detailed requests, when compared to historical reporting forms.

Historically, responses by program participants to FAME's annual report requests have been unsatisfactory. Last year, and again this year, in order to obtain better reporting compliance from participating companies, FAME engaged in substantially greater efforts to contact companies that did not respond to initial requests for reports, reaching out (sometimes several times) by phone and email to ensure the report was submitted. Similarly enhanced efforts were undertaken to contact companies that filed initial reports that were, upon subsequent review, determined to have been answered incompletely or erroneously, to verify or clarify data provided. These enhanced efforts resulted in completed reports filed by 82% of participating companies in CY2020, and 79% for CY2021, a markedly better response rate

than prior years.¹ The data provided below comes from the Authority’s records of program activity, as well as from the reports collected from participating companies.² Although reports are required of all companies that have been approved to participate, the data provided below specifically excludes any information provided by companies that still have not received the benefit of any program credits, to avoid any potential skewing of the data by companies who have not yet used credits to incentivize investment.

The data provided below reflects that Calendar Year 2021 was a strong year for the program. All told, FAME received over 121 investor applications, representing total investments of over \$18.5 million in 29 Maine companies (a list of which is attached as Addendum B), and awarded credits totaling almost \$7.5 million. Those companies that filed reports disclosed that they raised additional capital (without credits) from both private and public (state and federal) sources, totaling over \$205 million. Those same companies reported over \$52 million in revenue from Maine operations (representing 77% of company total revenues), as well as in-state spending on goods and services of over \$66 million. These companies also reported employing over 528 Maine workers (nearly half of which were reported as dependent on the companies having received the benefit of program credits) across the state, with a total Maine payroll of over \$30.5 million.

In general, FAME found the information provided by participating companies to be consistent with program expectations and supportive of the premise that the program is a vital tool to driving investment in Maine companies that generate significant economic activity in the state. Specifically, **in 2021, \$7.5 million of credits leveraged nearly \$224 million of private and public investment in Maine companies. Those companies in turn generated revenues of \$52 million from Maine operations and spent over \$66 million in Maine, including over \$30 million on payroll to support the employment of 528 Maine workers.**³

FAME is required by the program statute to report its determination of whether the investments that received credits over the year would have been made “but for”/in the absence of the credit. It is FAME’s belief that the credits were a significant factor in each investment and that a majority of the investments that received credits in 2021 would not have been made on the same terms without the credit; however, this belief is based solely on anecdotal information from participating companies and investors. As we have previously stated in legislative hearings, FAME does not believe it is possible to determine with absolute certainty whether any of the investments that were the subject of program credits would have been made but for/without the credit. Investors certify as part of their FAME application that their decision to invest was made in part based on the potential of receiving the benefit of a program. However, investment decisions are multi-faceted, including

¹ The Authority intends to commence rulemaking in the coming year to add additional reporting fields and impose penalties for companies not filing the annual report (on top of future credit disqualification) in order to continue to improve response rates.

² Data provided by participating companies is self-certified as accurate, but not independently verified by FAME.

³ Since approximately 20% of participating companies did not file a report, and their impact is thus not reflected in these totals, it is likely that the public benefits from the participating companies is understated.

subjective assessments of risk, other investment alternatives, other economic development incentives, and whether incentives like the program credits adequately compensate for the risks involved.

Calendar Year 2021 Detailed Compilation of Reported Data:

1. Number of program-participating companies required to report for calendar year 2021 (“Covered Companies”)*: 75
2. Number of Covered Companies that filed 2021 annual report (“Reporting Companies”): 59 (79%)
3. Number of Covered Companies receiving program-qualified investments during the year: 29
4. Number of investments in Covered Companies during the year: 121
5. Total amount of program-qualified investments received by Covered Companies during the year: \$18,557,943
6. Total program credits issued to investors due to investments in Covered Companies during the year: \$7,423,177
7. Total other private investments (non-credit) received by Reporting Companies: \$102,020,870
8. Total public (state and federal) investments/grants received by Reporting Companies: \$103,627,082
9. Total Number of persons employed by Reporting Companies on 12/31/2021:
 - a. Employees: Maine: 488; Other: 172
 - b. Independent Contractors: Maine: 40; Other: 42
 - c. Total Maine Workers (Employees and Independent Contractors): 528
 - d. Location of Maine Workers (by county)**:
 1. Androscoggin: 23
 2. Cumberland: 274
 3. Franklin: 6
 4. Hancock: 11
 5. Knox: 7
 6. Lincoln: 11
 7. Oxford: 2
 8. Penobscot: 36
 9. Sagadahoc: 5
 10. Somerset: 28
 11. Waldo: 2
 12. York: 101
 13. Kennebec: 6
 14. Washington: 1
10. Total number of Maine Workers reported by Reporting Companies in 2021 that would not be employed without the business having ever received investments for which program credits were awarded (“Credit Dependent Maine Workers”): 229 (43%)

11. Total Maine Worker payroll of Reporting Companies: \$30,615,891
12. Total Credit-Dependent Maine Worker payroll of Reporting Companies: \$10,030,737
13. Total Sales Revenue from Maine-based operations of Reporting Companies: \$52,417,764
14. Total Sales Revenue from operations in other states by Reporting Companies: \$15,328,151
15. Total Sales Revenue from all operations by Reporting Companies: \$67,745,915
16. Total in-state spending by Reporting Companies: \$66,421,359

*Covered Companies DOES NOT include companies that have been approved to participate in the program but that have not received the benefit of any Program Credits.

**Not all responders disclosed worker location.