

# MAINE STATE LEGISLATURE

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**Report Re: Resolve 2007 Ch. 123 Directing the Department of  
Economic and Community Development to Review and Report  
on Whether a State Tax Increment Financing Structure Should  
be Established to Support Economic Development in  
Washington County**

**Prepared by the Department of Economic and Community Development**

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April 1, 2008

Members of the Joint Standing Committee on Taxation  
Maine State Legislature  
Augusta, ME 04333

**Re: Resolve 2007 Ch. 123 Directing the Department of Economic and Community Development To Review and Report on Whether a State Tax Increment Financing Structure Should Be Established To Support Economic Development in Washington County**

Resolves of 2007, Chapter 123 during the First Regular Session of the 123<sup>rd</sup> Legislature, directed the Department of Economic and Community Development to “review the state tax increment financing mechanism established in MRSA, Title 30-A, c. 206, sub-c. 2, to determine whether a similar mechanism to share state revenues from new economic activity in Washington County with the Washington County Development Authority would be an effective method of providing economic development assistance to Washington County.”

Eleven years ago the Task Force on Tax Increment Financing concluded that the state tax increment financing law had “not been effective in creating new jobs” and had been used sparingly. The Task Force highlighted a couple reasons: 1) the program was available only within a Municipal Tax Increment Financing district, and 2) the program was only useful if employment was increased in the district and resulted in more state income taxes being withheld. The benefit was limited to 25% of the state income tax withholding increment.

The Task Force considered making several changes to the state tax increment financing law to enhance its usefulness. In the end, however, the Task Force concluded that the current law needed more than just “tweaking”. Therefore, the Task Force recommended that the current law be allowed to sunset on June 30, 1996 as scheduled. The Task Force further recommended that the state tax increment financing law be replaced by a job development incentive law not tied to Municipal Tax Increment Financing districts at all.

The purpose of the brief history note above is that others have reviewed this statute and found it flawed. The last of the state tax increment financing development programs (approved in 1995 and 1996) were concluded in 2006. The program was replaced by Employment Tax Increment Financing (ETIF) in 1996. This permitted support for quality job creation anywhere in Maine regardless of the geography. The highest reimbursement (75%) went to companies expanding in distressed areas. Others received 30% or 50%.

With the creation of Pine Tree Development Zones in 2004 an enhanced ETIF (80% reimbursement) became available in any approved Pine Tree Zone parcel in the

state. Washington County has 2,739 PTZ acres (or 55% of the Washington-Hancock "Downeast PTZ" 5,000 acre limit).

Any discussion of a program like state tax increment financing for Washington County would need to include an understanding of how existing ETIFs and PTZs would be affected. Assuming that some sort of grandfathering was accomplished, a county-wide program modeled after the state tax increment financing law would require setting a prior year base period by identifying and certifying:

- All designated businesses in the county,
- The sales tax paid by designated businesses,
- The number of employees at designated businesses, and
- The total state income taxes withheld by designated businesses.

Under this hypothetical program, the DECD Commissioner would need to certify that businesses could not expand but for the county-wide program. Every year designated businesses within the county would need to report current year information which would be compared to the established base period. The state tax assessor would need to determine whether any "shifting" of sales or employment had occurred in order to ensure that only "net new" events were supported. The assessor would also have to reduce any county reimbursement by the retail sales increases, as retail is not supported under the statute. Once the process was completed 25% of the "county tax increment" defined as "net annual gain, if any, in sales tax paid as a result of taxable events occurring within the county-wide district, and the net annual gain, if any, in state income taxes withheld as a result of wages paid for labor performed within the district" would be reimbursed to the WCDA.

The state tax increment financing law was reviewed previously, found to be flawed and permitted to sunset. It is complicated as structured and even if the entire process of designating companies, setting baselines, assuring "but for" status, tracking sales and income taxes, etc., is followed, there is no assurance that there will be any economic "increment" that will be available each year to support Washington County.