STATE OF MAINE
DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT

DECD
Maine Department of Economic and Community Development

PAUL R. LEPAGE
GOVERNOR

GEORGE C. GERVAIS
COMMISSIONER

127th MAINE LEGISLATURE

GOVERNMENT OVERSIGHT COMMITTEE

GEORGE C. GERVAIS
MAINE DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

AUGUST 20, 2015

I have been invited before you today to review the status of the Open Recommendations to the legislature from OPEGA's 2006 Report on Economic Development Programs in Maine.

I'd like to first provide a little background on the department, and talk a bit about the comprehensive economic development evaluation that was completed in 2014, then address some of the questions we received.

In 2004, the Department of Economic and Community Development had a total of 43 positions which is 10 more positions than it has today. In fact, DECD had nearly 90 positions in the late eighties. Today there are just over 30. The General Fund budget of the department has faced cuts over the years. The DECD GF budget now represents roughly .3% (yes, three tenths of one percent) of the total GF budget for economic development.

DECD's major offices include: The Maine Office of Tourism; Office of Community Development; Office of Business Development and Innovation;

59 STATE HOUSE STATION • AUGUSTA • MAINE • 04333-0059
PHONE: (207) 624-9800 • FACSIMILE: (207) 287-2861
WWW.BUSINESSINMAINE.COM

PAUL R. LEPAGE
GOVERNOR

GEORGE C. GERVAIS
COMMISSIONER

The Maine Technology Institute and Maine International Trade Center. The addition of the Code Enforcement Training and Certification Program and oversight of the State Landfills from the former State Planning Office added two additional positions to the department along with additional oversight and responsibilities. DECD would be happy to discuss what other roles and responsibilities should be included in its mission with the understanding that increases in workload cannot be successfully undertaken with existing staffing levels.

A review of the State's Economic Development Programs has been a constant topic of discussion over the years. Gaining access to the data, as you have heard countless times is hindered by confidentiality statutes. Given the security issues we face in today's world we need to be careful about how we approach this problem. Now we appear to be discussing the access to this data and who should have that responsibility.

I don't have to tell you that the world we live in today is challenging. Technology has changed over time and so has the environment we all work in. Data breaches around the world are a daily occurrence, confidentiality of data and the security of our state systems are more critical today than ever before.

While I agree with the need to assess our programs because without such assessment we cannot truly determine a program's success, nor maximize Maine's competitive advantage to other states, this has to be a well thought

59 STATE HOUSE STATION • AUGUSTA • MAINE • 04333-0059
PHONE: (207) 624-9800 • FACSIMILE: (207) 287-2861
WWW.BUSINESSINMAINE.COM

PAUL R. LEPAGE
GOVERNOR

GEORGE C. GERVAIS
COMMISSIONER

out process. Confidential data, if placed in the wrong hands, can have a negative impact on the way we do business. We do intend to increase the response rate to improve the quality of both the CEDE and R&D reports for the upcoming 2016 versions of these reports while respecting the confidentiality of the data we seek.

In 2011, the Office of Fiscal and Program Review presented its "Brief History of Time" relating to evaluating economic development programs. This report focused on the efforts going back to 1997. In addition to the access to data issue, this report highlighted the legislative efforts and challenges to fund the Economic Development Evaluation report. The original funding formula contained a "decimal point error" that was later adjusted in statute; however, given current budgets it still falls far short. Note that the initial 2008 report was funded by the legislature. The lack of funding for the CEDE report had resulted in the gap between 2008 and 2014 reports. The assessment for the Research and Development Evaluation has been successful in generating the funds necessary to cover the cost of the independent third party evaluation.

DECD has always agreed that evaluations of existing and proposed economic development programs are necessary to ensure programs are functioning both individually and as a whole to create a climate that enhances Maine's competitive standing both nationally and globally. We also agree that Economic Development and Research and Development programs should be evaluated in **one-report.** Statute requires separate reports, but for 2016 we

59 STATE HOUSE STATION • AUGUSTA • MAINE • 04333-0059
PHONE: (207) 624-9800 • FACSIMILE: (207) 287-2861
WWW.BUSINESSINMAINE.COM

will be testing a combined version of presenting the data, being careful to keep intact the ability to also report separately. Changes to existing statute would be needed to effectively combine the Comprehensive Evaluation of Economic and Development Programs and Research and Development Programs. A combined evaluation will be less costly than conducting two individual evaluations.

To be clear, DECD is continuing with its statutory and contractual obligation to produce the Comprehensive Evaluation of State Investments in Economic Development and Comprehensive Evaluation of State Investments in Research and Development by February 1, 2016, as we did to produce the 2014 evaluations.

Public Laws of 2015 Chapter 344, provides OPEGA with the authority to review tax expenditure programs on an individual staggered basis. Tax programs are only part of the suite of programs contributing to the economic vitality of the State. Recommendations over the years have consistently emphasized the requirement for a Third Party evaluation of programs. An independent review provides an evaluation and recommendations which are **non-biased** and **non-political**. The CEDE and R&D reports provided by DECD are developed and written by an independent third party.

DECD cannot answer why the repeated recommendations of different Third Party evaluators over the years were never addressed. The 2014 evaluations were presented to the Joint Standing Committee on Appropriations and Financial Affairs on February 27, 2014 and chairs and members of the Labor, Commerce, Research & Economic Development Committee, Taxation Committee, Workforce & Economic Future Committee and the Government Oversight Committee were invited to the presentation. DECD's contracted Third Party Evaluator, Investment Consultant Associates, presented its findings and recommendations with assistance from a Steering Committee which included State Senators Emily Cain and Andre Cushing, Brian Whitney of DECD, Steve Levesque from the Midcoast Regional Redevelopment Authority, Peter DelGreco of Maine & Company, Robert Martin from the Maine Technology Institute, Jake Ward from the University of Maine and Luann Ballesteros from Jackson Laboratory.

DECD is required to report findings and recommendations of the third party reviewer to the Legislature and Governor. OPEGA, pursuant to PL 2015 Chapter 344 must report to the Joint Standing Committee on Taxation. This may cause an unexpected barrier as to which committee of jurisdiction, if any, should be reviewing the recommendations as they relate to Maine's overall economic development programs which include tax expenditure programs. There is likely to be a duplication of effort here as well, unless OPEGA does not intend to report on any of the programs that DECD, through an independent third party, is already charged with reporting on.

While an individual review of programs can provide a more in-depth analysis as to the effectiveness of an individual program, we can't lose sight that it is the suite of programs available that is crucial. Any evaluation of tax expenditure programs conducted in Public Law 2015 Chapter 344 should complement the overall independent third party biennial evaluations.

In addition to reporting on the state's many economic development programs, we strive to have a team in place to understand all of the programs available. This team is within the Business Development arm of DECD. The "Governor's Account Executive" team is a team of 4 who act as the conduit for all of state government when a business requires assistance. Their role is both to react when needed, and to promote through proactive outreach. They also act as coordinators between the many programs regardless of being state run or otherwise. Each interaction with a business or organization results in a unique set of circumstances. This team helps make connections between all relevant programs, agencies, and/or organizations to see a project through, or to help overcome a challenge. With well over 26,000 small businesses in Maine this is a busy team!

Additional Questions Submitted to DECD on behalf of GOC
Regarding Status of Actions on OPEGA Recommendations Not Fully Addressed
from 2006 Report on Economic Development Programs (7/30/15)

A. With regard to Finding 4, recommendation C on the List of Recommendations Not Fully Addressed - Please provide, or direct OPEGA to, any DECD reports on Pine Tree Development Zones submitted to the Legislature to fulfill the requirements of 30-A MRSA §5250-P for the years 2009, 2011, 2013 and 2015. Please specify which of these reports, if any, or provide any other report that informs the Legislature as to whether the PTZ program meets the criteria given in 5 MRSA §13070-O.

Attached are the PTDZ reports that were submitted to the Labor, Commerce, Research and Economic Development Committee on April 1st of 2013 and of 2015, the years reports were due since I have been commissioner.

The PTDZ program has been an existing program as opposed to a "proposal" in the years requested, therefore a report regarding the criteria given in 5 MRSA §13070-O does not exist. We have, however, included the section of the January 2014 Comprehensive Economic Development Evaluation for your review. The evaluation clearly shows the benefits to the state of the tax environment the PTDZ seeks to simulate.

STATE OF MAINE
DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT

PAUL R. LEPAGE
GOVERNOR

GEORGE C. GERVAIS
COMMISSIONER

April 1, 2013

To: Honorable John Patrick
Honorable Erin Herbig
Joint Standing Committee on Labor, Commerce, Research and Economic Development

From: Commissioner George Gervais

Re: 2011-2012 Pine Tree Development Zone Report

Please find enclosed copies of the 2011-12 Pine Tree Development Zone Biennial Report from the Office of Business Development pursuant to 30-A MRSA §5250-P.

The Office of Business Development is part of the Department of Economic and Community Development. Should you have any questions regarding this report, please feel free to contact Ron McKinnon, Senior Program Manager, Office of Business Development.

59 STATE HOUSE STATION • AUGUSTA • MAINE • 04333-0059
PHONE: (207) 624-9800 • FACSIMILE: (207) 287-2681
WWW.BUSINESSINMAINE.COM

PTDZ Certified Business Reports Data, 2012 and 2010

New Hires, Investment, and Payroll: 2012 and 2010 Reports	2012 PTDZ Report			2010 PTDZ Report		
	New Hires	Investment	Payroll	New Hires	Investment	Payroll
Androscoggin	326	$12,145,443	$19,344,260	260	$10,674,518	$4,465,762
Aroostook	202	$50,639,231	$93,564,216	807	$16,969,791	$31,506,362
Cumberland	759	$53,721,371	$77,058,370	336	$10,449,020	$13,043,793
Franklin	115	$573,425	$5,844,422	31	$2,636,745	$2,011,724
Hancock	108	$4,015,679	$3,157,332	0	$0	$0
Kennebec	881	$30,698,115	$23,487,271	1,092	$19,358,797	$28,651,040
Knox	180	$6,817,390	$8,776,406	11	$564,000	$508,010
Lincoln	46	$9,996,317	$2,273,283	17	$1,015,254	$1,757,043
Oxford	68	$4,816,555	$6,693,631	10	$959,103	$295,543
Penobscot	590	$22,465,403	$88,617,240	771	$114,563,959	$39,731,125
Piscataquis	182	$22,090,965	$8,279,164	72	$18,520,415	$2,791,615
Sagadahoc	0	$44,811	$0	8	$60,347	$32,841
Somerset	235	$79,747,753	$9,904,760	350	$1,491,309	$2,235,015
Waldo	364	$34,035,559	$22,764,160	364	$13,303,860	$10,426,314
Washington	590	$44,709,317	$8,830,124	450	$3,950,168	$890,441
York	364	$41,623,704	$26,961,582	254	$23,128,316	$11,428,753
State Totals	**5,010**	**$418,141,038**	**$405,556,221**	**4,833**	**$237,645,602**	**$149,775,381**

Number of Active Certifications by Sector, 2013*	Number of Companies	Anticipated New Hires**	Anticipated Investment**	Anticipated Payroll**
Advanced Technologies for Forestry and Agric.	5	210	$94,283,962	$5,416,540
Aquaculture and Marine Technology	6	115	$27,869,000	$3,519,000
Biotechnology	20	336	$171,934,584	$51,191,927
Composite Materials Technology	18	576	$73,637,829	$27,619,439
Environmental Technology	13	120	$52,970,900	$5,664,674
Financial Services	11	867	$29,558,191	$95,410,312
Information Technology	54	2,635	$247,575,578	$106,130,110
Manufacturing	300	7,005	$965,328,210	$831,124,023
Precision Manufacturing	17	349	$35,933,000	$16,216,825
Overall Totals (Minus Duplication)	**390**	**10,265**	**$1,019,582,434**	**$1,071,563,282**

**Number of companies may include some duplication due to 51 companies being certified under more than one sector.*

***Figures shown are company estimates for the full term of benefits for all currently active certifications (certified 2004 to present).*

April 1, 2015

To: Honorable Amy Volk
Honorable Erin Herbig
Joint Standing Committee on Labor, Commerce, Research and Economic Development

From: Commissioner George C. Gervais

Re: 2013-2014 Pine Tree Development Zone Report

Please find enclosed copies of the 2013-14 Pine Tree Development Zone Biennial Report from the Office of Business Development pursuant to 30-A MRSA §5250-P.

The Office of Business Development is part of the Department of Economic and Community Development. Should you have any questions regarding this report, please feel free to contact Doug Ray, Director of Legislative Affairs and Communications.

Pine Tree Development Zone Biennial Report: 2013-2014

PTDZ Report Figures, 2013 and 2014 Reports

County	2013 PTDZ Report: 193 Reports Filed					2014 PTDZ Report: 196 Reports Filed				
	Total Number of Maine Employees	Total Maine Payroll	Number of Qualified Employees	Qualified Employee Payroll	Investment	Total Number of Maine Employees	Total Maine Payroll	Number of Qualified Employees	Qualified Employee Payroll	Investment
Androscoggin	3,877	$195,594,383	799	$24,585,284	$5,634,467	5,075	$241,825,100	1,273	$38,682,447	$7,032,376
Aroostook	1,749	$84,815,085	796	$49,175,197	$35,644,041	1,796	$85,679,395	841	$53,437,505	$55,590,792
Cumberland	4,596	$323,228,945	980	$70,988,651	$80,014,249	4,847	$352,655,181	1,180	$84,555,104	$48,643,829
Franklin	772	$17,066,794	375	$10,299,051	$4,097,678	927	$22,953,026	356	$9,763,642	$3,553,404
Hancock	298	$10,657,984	115	$3,440,123	$5,642,077	54	$1,582,428	22	$1,075,020	$4,988,188
Kennebec	2,727	$97,092,852	988	$34,102,761	$42,085,703	2,827	$110,819,095	796	$38,604,552	$49,159,473
Knox	778	$27,332,286	177	$8,664,348	$631,597	928	$35,300,998	214	$11,563,991	$2,748,945
Lincoln	356	$13,113,109	80	$3,448,993	$2,585,926	258	$11,398,090	172	$7,655,568	$5,739,404
Oxford	118	$3,000,656	22	$920,894	$1,081,742	576	$22,911,719	114	$3,219,493	$4,677,973
Penobscot	1,821	$74,255,666	1,063	$52,499,642	$29,188,662	1,366	$36,491,001	331	$10,064,814	$30,763,503
Piscataquis	373	$13,266,783	115	$4,486,270	$22,345,031	194	$5,705,576	57	$2,287,004	$347,168
Sagadahoc	5,180	$349,157,441	0	$0	$21,269,733	5,790	$365,511,401	145	$6,997,644	$25,736,724
Somerset	463	$14,831,879	141	$5,623,277	$7,425,662	1,400	$40,313,863	213	$8,222,649	$76,406,982
Waldo	1,062	$42,190,408	807	$32,716,737	$27,833,930	1,323	$53,568,160	1,002	$43,799,391	$8,910,057
Washington	1,176	$37,154,221	513	$5,002,992	$16,978,948	1,051	$28,701,775	830	$23,901,476	$17,396,150
York	2,261	$106,171,050	452	$26,368,225	$20,572,271	2,021	$95,413,665	406	$24,217,187	$19,574,294
Total	**27,607**	**$1,408,929,542**	**7,423**	**$332,322,445**	**$323,031,717**	**30,433**	**$1,510,830,473**	**7,952**	**$368,047,487**	**$361,269,262**

Number of Active Certifications by Sector, 2015*

	Number of Certifications	Anticipated New Hires**	Anticipated Payroll**	Anticipated Investment**
Advanced Technologies for Forestry and Agric.	5	204	$5,235,240	$94,533,962
Aquaculture and Marine Technology	6	125	$4,841,500	$10,394,000
Biotechnology	16	246	$12,967,878	$163,620,184
Composite Materials Technology	12	438	$18,839,793	$51,939,700
Environmental Technology	5	45	$1,935,560	$32,388,900
Financial Services	11	1,009	$99,666,437	$40,175,813
Information Technology	40	2,439	$106,211,047	$243,267,834
Manufacturing	214	6,210	$775,155,138	$1,158,541,891
Precision Manufacturing	9	324	$15,008,825	$33,145,500
Overall Totals (Minus Duplication)	**287**	**10,282**	**$1,005,157,083**	**$1,481,349,200**

*Number of certifications may include some duplication due to 30 companies being certified under more than one sector.

**Figures shown are company estimates for the full term of benefits for all currently active certifications (certified 4/1/2005 to present).

The results of the IRR study are portrayed in the Table 4:

Table 4 ETIF benefits for the State of Maine, with and without incentives

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%	

The three integrated benefits in the form of a reduced corporate income tax rate, sales and use tax exemption, as well as the reimbursement of payroll taxes clearly leave their marks in the direct financial revenue streams. In 2012, 285 certified companies created 5,010 new jobs and 4878 jobs were retained. These statistics explain the significant difference in the amount of personal income taxes. Lower effective corporate income tax rates results in higher profitability and higher dividends tax revenues.

Important consideration

The negative IRR implies that the PTDZ is an *expensive* program, however the model currently 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. Without the PTDZ, perhaps only 6 out of 10 companies would establish in Maine (i.e. a sensitivity of 60%).

Critically, the PTDZ includes "but for" language, stating that the PTDZ benefits are the final driving factor in selecting the location and that the company would not have chosen to locate in Maine 'but for' this funding. Hence, the sensitivity index could be set at 0%. Regardless, a range of values better demonstrates the value and impact of the program.

Table 5 shows the impact of the sensitivity index on the IRR.

Table 5 PTDZ sensitivity index and the IRR

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

Source: Author's own calculations

The exact sensitivity index remains arbitrary, however, as table XX shows, breakeven point is reached with a sensitivity index of 75%. More concrete, 25 out of 100 companies would not have established themselves without the PTDZ program, and this explains why the IRR becomes positive proportionate to a lower sensitivity index. The other end of the spectrum (i.e. 0%), illustrates the IRR of 125.2% and simulates a scenario in which none of the 285 PTDZ companies would have established in Maine without the PTDZ program.

Development Loans by Maine Technology Institute (MTI)

Development 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. Loan repayment is triggered by commercialization of the technology. MTI is administering this soft-loan program and during the period 2010 – 2012 the institute approved 32 business projects and provided close to 9.3 Million in conditional loans.

	Target Technology Incubator	Loring Development Fund	Maine Tourism Marketing Promotion Fund (MTMPF)	Maine Manufacturing Extension Partnership (MEP) 2012-2013
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?	--	--	--	--

Cost Benefit Analysis

Many US States make use of a comprehensive set of fiscal and financial incentives to attract investment, and increasingly, legislation is forcing State Governments to conduct periodic cost benefit assessments (CBAs) in order to evaluate the effectiveness of their programs. Its effectiveness is, in essence, the outcome of a formula that incorporates the extent to which programs are being utilized, what economic development benefits are welcomed at which financial costs.

For smaller (lower funding level) incentive programs, the most common means for evaluating costs and benefits is to assess the additional number of jobs created or retained as well as the amount of attracted capital investments. The cost of the program equals the taxes foregone or the annual amount of public aid that was awarded in the form of a grant or subsidy. This static approach is appropriate when there is little additional documentation or data availability of the specific program aside from these parameters. In addition, from a resource perspective, a straightforward and static CBA approach is justified for less critical programs, especially when different programs must be evaluated simultaneously.

If the incentive program is more substantial and involves a larger group of certified companies, it is preferable to measure the direct and indirect costs and benefits by means of an Internal Rate of Return (IRR) simulation technique. An IRR simulation technique measures the interrelated economic and financial impacts of the aggregated group of firms benefitting from that program.

Consider for instance the Pine Tree Development Zone (PTDZ) program offering corporate income tax reductions, sales tax exemptions and Employment Tax Increment Financing (ETIF) Benefits. At an aggregated firm level group, the overall incentive program impacts the overall operating and fiscal costs, thus, subsequently the aggregated profitability. Additional profits are re-invested or partly paid in the form of dividends to Maine residents, which ultimately, spend more of their net disposable income on local products and services, creating more local demand (i.e. indirect or multiplier benefit). The additional personal income taxes and additional dividends taxes resulting from more jobs or higher dividends, as well as the additional corporate income taxes and sales taxes though increased local sales are direct benefits for the State of Maine show how all these economic developments interrelate. This type of financial modeling incorporates the dynamic economic welfare effects over time (i.e. a 3 to 5 year period) and uses a more holistic approach towards the economic development indicators.

Similarly from a cost perspective, it is necessary to assess what would have happened to Maine's economy if the specific incentive program was not provided at all. Economists refer to these as "counterfactual arguments". In other words, what would have been the direct and indirect financial consequences when, for instance, the number of retained jobs had to be deducted from the total headcount as a result of abandoning this program? How would this loss in employment impact the total labor costs, total sales revenues, and profitability, resulting in lower personal income taxes, sales taxes and corporate income taxes? Does this loss in tax revenues compensate for not having to spend public means to finance this incentive program?

Four comprehensive and prioritized incentive programs, the Business Equipment Tax Reimbursement (BETR), the Pine Tree Development Zone (PTDZ), the Development Loans (DL) and the Commercial Loan (CL) program administered by the Finance Authority of Maine have been subject to a dynamic and comprehensive CBA in the form of an IRR analysis. The methodology and results are outlined in the next sections.

Results of the Cost Benefit Analysis

There are different techniques to evaluate the costs and benefits of incentive programs. In this study, the IRR approach (in some cases also referred to as the Economic Rate of Return or ERR) was chosen as it allows for a straightforward and consistent comparison of the positive (or negative) multiplier effects for Maine's economy over a longer period of time. More explicit to this case, this analysis shows the financial feasibility by calculating the amount of dollars the State of Maine can expect in the form of additional tax returns for each invested dollar that was spent on the program over a period of three years. The financial amounts in previous years have been discounted at a rate of 5% to present the current values.

The financial effects of not spending public funds have also been incorporated. Negative effects incur when companies are not able to retain their jobs as a result of not providing or abandoning the program. Pro rata, the aggregated total sales output, total taxable income, and total amount of spendable income will be lower. Our analysis calculates the direct financial tax returns in the situation in which companies enjoy an incentive benefit versus a situation in which the same incentive program was not offered.

Survey and Annual Report

Various sources have been used to assist in the development of the CBA analysis. The two most important primary sources are the annual reports of the respective programs and the survey that was released to the companies receiving state aid. In the survey, specific questions were addressed to identify the direct and indirect benefits that can be attributed to the specific programs. In addition, the survey helped to identify important company specific indicators such as, amongst others, total sales

- Examination of annual reports (for those programs that generate annual reports and provided those reports along to the consultant team).

Note that the survey indicated above has created a means for direct reporting on behalf of the private sector companies who have benefitted from use of the State's economic development programs. While the requirement to report is indicated in each of the State's current programs, a comprehensive means for reporting had not previously existed. While not within the scope of the current project, the data was not available through other means and was critical to the success of the cost-benefit analysis.

Findings

While the remainder of this report provides detailed findings for the entire suite of tools available to the state, the project team found broadly that:

- While identified in earlier reports, the need remains across all Maine incentive programs for:
  - Better outreach;
  - Centralized and coordinated information on incentive programs;
  - Centralized and coordinated reporting requirements and forms;
- A refined reporting process and set of metrics is required to assess the importance and outcomes of community development practices, even though the requirement for public sector reporting is included in each incentive and credit program
  - This has partially been addressed through the survey tool developed by the project team
- There is a perception among public sector and private sector interviewees that the State's suite of economic development incentive and credit programs should be streamlined, made more flexible, and work in conjunction with overall tax reform;
- The State's communities vary greatly in their economic opportunities and challenges and the incentive tools should be made available across a broader range of needs to meet this challenge.

The cost benefit analysis of the State's most significant programs contributed to the following insights:

- While the Pine Tree Development Zone (PTDZ) program received significant praise from public and private sector interviews, preliminary cost benefit analysis shows the program is very costly to the state of Maine;
- Cost Benefit Assessments present consistently high rates of return for the development loan program by MTI and FAME's loan insurance and economic recovery loan programs;
- Management teams of certified companies do not always realize that they are in fact receiving a form of incentive. Following to the survey results, many companies claimed that they do not receive any form of state aid, despite the fact that these companies were identified as a beneficiary. We suspect that companies have internalized their benefits over the years and perceive them as "a given".
- When different incentive types (i.e. tax credits, reimbursements or exemptions) are combined in one program, it requires strong communication and coordination skills between different agencies and departments to make sure that annual evaluations are harmonized.

B. With regard to Finding 3 – DECD has indicated that it does not currently have the resources to take on the role of Portfolio Coordinator and related responsibilities as described in OPEGA's 2006 report (pages 32-34). What resources would DECD need to take on this role with all the elements described in OPEGA's report? What elements of that role, if any, would be difficult or unworkable for DECD to fulfill and why? What statutory changes that would be needed to support DECD's role as Portfolio Coordinator?

We have not conducted the analysis required to accurately answer these questions. We understand the 2006 OPEGA Report to be a set of recommendations to the legislature for action.

C. With regard to Finding 3 and Finding 5 – What resources would DECD to take on the role and responsibility of regularly collecting program and performance data for the full inventory of economic development programs (whether administration of them falls under DECD's responsibility or not)? What authorities would DECD need to require and compel businesses to report data? What statutory changes would be needed?

The Comprehensive Evaluation of Economic Development will collect program and performance data. The legislature should deal with the proper funding of this evaluation tool. The fact that the CEDE is required to be conducted by an independent 3rd party is respected.

Attached is a copy of a portion of Public Law, Chapter 337 from the 124th legislature. The statutory language removed at the time (sections E and F) gave DECD authority to compel and require a business to report data.

~~(1) The amount of public funds spent for the direct benefit of businesses in the State under municipal tax increment financing, employment tax increment financing and the Governor's training initiative. The report must identify the amount of economic development incentives under the jurisdiction of the department received by each employer and the public benefit resulting from those economic development incentives; and~~

~~(2) The activities in the State, in the aggregate, of businesses receiving funds through the Maine Seed Capital Tax Credit program, including the following:~~

~~(a) The total amount of tax credit certificates issued by the Finance Authority of Maine;~~

~~(b) The total amount of private investment;~~

~~(c) Total employment;~~

~~(d) The total number of jobs created;~~

~~(e) The total number of jobs retained;~~

~~(f) Total payroll; and~~

~~(g) Total annual sales.~~

~~The Finance Authority of Maine shall provide the department with the information collected in accordance with Title 10, section 1100-T, subsection 6 and assist in the preparation of this report.~~

E. ~~The department shall report by October 1st annually to the State Tax Assessor a listing of businesses that have failed to submit reports required under subsection 3. The report must document that each business included in the report was provided with reasonable official notification of its noncompliance and that its failure to submit the required report within 30 days would result in the withholding and potential forfeiture of reimbursements for which the business may be eligible under Title 36, chapter 915. The notification must be in the form of a letter posted by certified mail before August 15th of the reporting year. If the department subsequently receives a report from the business, the department shall so notify the State Tax Assessor.~~

F. ~~Prior to any forfeiture of benefits under Title 36, section 6652, subsection 3, the department shall make a written determination that the report required by subsection 3 either has not been received or is not in an acceptable form. A copy of that written determination, including the reasons for the determination, must be mailed to the claimant by certified mail. The determination made by the department constitutes final agency action that is subject to review by the Superior Court in accordance with the Maine Administrative Procedure Act, except that sections 11006 and 11007 do not apply. The Superior Court shall conduct a de novo hearing and make a de novo determination as~~

~~to whether the claimant has filed a report in substantial compliance with this section. The Superior Court shall make its own determination as to all questions of fact and law. The Superior Court shall enter such orders and decrees as the case may require. In the event that the department's determination is appealed to Superior Court pursuant to this paragraph, forfeiture of the claimant's right to receive reimbursement of taxes under Title 36, chapter 915 may not occur unless the Superior Court, subject to any appeal to the Law Court, finds that the claimant had not substantially complied with the reporting requirements of this section.~~

5. Rules. Rules adopted by the commissioner under this section are routine technical rules as defined in chapter 375, subchapter ~~II-A~~ 2-A.

Sec. 6. 5 MRSA §13103, sub-§2, ¶G, as amended by PL 2003, c. 50, Pt. B, §1 and affected by §2, is further amended to read:

G. Submit each biennium a report to the Governor, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the joint standing committee of the Legislature having jurisdiction over business, research and economic development matters. The report must include detailed information on the status of the funds in the Maine Biomedical Research Fund~~,~~ and a listing and explanation of each specific source of funding from grant sources for biomedical research ~~and its use and the number of new jobs created in the State and where those jobs are located~~.

Sec. 7. 5 MRSA §13109, sub-§4, as repealed and replaced by PL 2005, c. 425, §7, is amended to read:

4. Payments to fund. Notwithstanding section 1585 or any other provision of law, agencies or private entities that receive General Fund or general obligation bonds for research and development shall contribute to the fund an amount not to exceed 0.8% of General Fund appropriations received by and general obligation bonds issued to an agency or entity for research and development efforts. Private entities that receive funds from general obligation bonds for research and development efforts shall pay to the Treasurer of State in the fiscal year in which the general obligation bond was issued an amount not to exceed 0.8% of the proceeds from the bond issue in any fiscal year, which payment must be made from available resources other than bond proceeds. Only those programs that receive $500,000 or more in research and development appropriations in any fiscal year, or those entities that receive funds from a general obligation bond issue of $500,000 or more for research and development efforts in any fiscal year, as identified and certified by the Office of Innovation and the Office of Fiscal and Program Review, may be assessed. The Office of Innovation shall provide to each agency or private entity an annual budget for the fund and a detailed account of each institution's required assessment. Total payments made pursuant to this section may not exceed ~~$120,000~~ $200,000 in any fiscal year.

Sec. 8. 5 MRSA §15302, sub-§10, as amended by PL 2001, c. 562, §1, is repealed.

Sec. 9. 7 MRSA §309, as amended by PL 1999, c. 72, §6, is further amended to read:

§ 309. Annual review

The commissioner and the Agriculture Development Committee shall, on an annual basis, review the effectiveness of the programs operated under the provisions of this chapter and provide a summary of the review to the Commissioner of Economic and Community Development.

Sec. 10. 36 MRSA §6652, sub-§3, as enacted by PL 1999, c. 768, §6, is repealed.

D. With regard to Finding 1 – What is DECD's perspective on the advantages and disadvantages of folding the independent evaluations currently required by 5 MRSA §13056-A and §13107 into the newly established process for legislative review of tax expenditures described in Public Law 2015 Chapter 344?

It is premature to discuss combining these reports into the Tax Incentives reports, although we feel there is a risk of redundancy.

E. What role does DECD play in setting the overall economic development strategy for the State, including establishing the related goals and monitoring whether the goals are achieved? What is the current economic development strategy and what specific goals is the State trying to achieve?

It is assumed that the legislature had in mind the need for DECD to be connected in many ways to organizations throughout the state as the DECD Commissioner statutorily sits on over 20 boards and commissions. It is through participation on these boards and commissions, as well as the broad list of activities and duties that has the department in constant contact with the private sector, non-profit organizations, and other government bodies throughout the state's various regions that gives the department a unique perspective on the economic development opportunities and barriers. It is through these conversations and activities that bring us to the conclusion that before we consider any drastic changes to the common themes within Maine's past economic development strategies, we must first determine what has been keeping these from reaching true success.

Maine's ability to compete for a larger share of economic activity needs to improve. It is with this need in mind that the LePage administration has chosen to focus on fixing the cracks in Maine's economic foundation as a top priority. The attached document "Making Maine Competitive" gives a brief outline of our strategy. We remain focused on "Part I" and see this still as a critical first step towards creating wealth and "a high quality of life for Maine people".

F. Some legislators have heard concerns from local businesses that it is difficult and confusing to get assistance from DECD. What is DECD doing, and what more can be done, to be effective and helpful in assisting local businesses that need help?

My office number is 624-9805. I would hope any legislator who becomes aware of a problem like this calls on behalf of the business immediately.