Executive Summary

OPEGA Evaluation of the Credit for Maine Shipbuilding Facility Investment

About the Credit for Maine Shipbuilding Facility Investment

The Credit for Maine Shipbuilding Facility Investment (Shipbuilding Credit) was enacted in 2018 under Title 36 §5219-RR. It is a non-refundable income tax credit of up to $45M over 15 years for a business that makes a qualifying investment of $200M in a Maine shipbuilding facility. The annual credit amount is adjusted based on the claimant's employment levels, with no credit available in years when qualifying employment falls below 4,000. The Department of Economic and Community Development (DECD) and Maine Revenue Services (MRS) jointly administer the credit, and the agencies' small administrative costs are covered by existing resources.

The Shipbuilding Credit Is Accessible by One Business

Although statute does not explicitly limit the number of users of the credit, OPEGA found that only one business in Maine can access it. Maine has many boat and shipbuilding businesses, but only Bath Iron Works is large enough to meet the employment threshold for the Shipbuilding Credit. Additionally, statute caps the credit at $200M of qualifying investment, and Bath Iron Works has invested that full amount. Consequently, no more credit is available, even if another shipbuilder could meet the credit's employment requirements.

Job Creation and Investment Have Occurred; It's Unclear How Much Is Due to the Credit

Job creation and investment by the credit's sole user have exceeded statutory minimums. However, it is unclear how much impact the Shipbuilding Credit had on the timing, magnitude, or nature of job creation and investment. The impact of an incentive on behavior is often difficult to ascertain, because many factors influence business investment decisions. In the case of Bath Iron Works, federal contracting and naval policy are likely significant factors, since the business derives its revenue from producing and maintaining naval destroyers for the federal government. The relative importance of these various factors is difficult to observe and quantify.

The Credit Is Sizable and Substantially Impacts Tax Competitiveness for a Large Shipbuilder

The Shipbuilding Credit represents a substantial discount on the qualifying investment – roughly 22.5% in total. A cost reduction of this magnitude has the potential to impact a business's competitiveness within its industry. Effective tax rate analysis shows that, for a large shipbuilder that can access the Shipbuilding Credit, Maine's tax environment ranks in the middle among comparison states when state and local incentives are applied. However, if the Shipbuilding Credit were not available, and all other variables were held constant, Maine's tax environment would be the least competitive among comparison states.

Recommendations from OPEGA's Evaluation

Since the Shipbuilding Credit is fully committed, no future applications or certifications for the credit are expected. Consequently, OPEGA did not seek opportunities to improve those processes. Instead, we focused on how design of similar incentives might be improved in the future and areas where ongoing collection and reporting of credit data can be strengthened to better support oversight.

Recommendations	
1	The Legislature May Want to Consider Other Tools for Providing Incentives to Single Entities in the Future
2	The Legislature May Want to Consider Approaches to Increase Transparency Around Use of Multiple Incentives
3	DECD Should More Effectively Implement Statutory Requirements Around Annual Data Reporting
4	DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality and Preference for Maine Companies

May 2024 – Maine State Legislature's Office of Program Evaluation & Government Accountability