FINAL REPORT

Pine Tree Development Zones (PTDZ) – A Limited Scope Review

Report No. SP-PTDZ2-19

OPEGA found that:

- Since 2017, the Legislature has made significant changes in the PTDZ program including clarification of the program's goals.
- PTDZ's clarified goals focus on creation and retention of quality jobs as the program's ultimate goal.
- The amended design of PTDZ ensures that benefits will mostly be provided only to businesses that create and retain at least one quality job and requires notarization of "but for" statements filed by applicants. However, these amendments do not guarantee that PTDZ is actually resulting in more quality job creation and retention than would have happened without the program.
- Proactive program management could support strengthened oversight and help ensure PTDZ is effective.
- While generally in line with the overarching goals of Maine's Statewide Strategic Plan, PTDZ does not speak to the specific actions outlined in the Plan.
- The report expected from Maine's Economic Recovery Committee in December 2020 may shed more light on PTDZ's role in the economic recovery following the COVID-19 pandemic.

November 2020

a report to the
Government Oversight Committee
from the
Office of Program Evaluation & Government Accountability
of the Maine State Legislature

GOVERNMENT OVERSIGHT COMMITTEE OF THE 129TH LEGISLATURE

OFFICE OF PROGRAM EVALUATION & GOVERNMENT ACCOUNTABILITY

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ABOUT OPEGA & THE GOVERNMENT OVERSIGHT COMMITTEE

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DANIELLE D. FOX
DIRECTOR

MAINE STATE LEGISLATURE
OFFICE OF PROGRAM EVALUATION AND
GOVERNMENT ACCOUNTABILITY

November 20, 2020

Sen. Justin M. Chenette, Senate Chair
Rep. Anne-Marie Mastraccio, House Chair
Members Government Oversight Committee

As directed by the 129th Legislature's Government Oversight Committee (GOC), OPEGA has completed a limited scope review of the Pine Tree Development Zones (PTDZ) program. This limited scope review is a special project, and not part of the ongoing tax expenditure evaluations conducted by OPEGA pursuant to 3 MRSA §999(1)(A). The scope statement for this review, as approved by the GOC on December 10, 2019, is included in Appendix F.

OPEGA would like to thank the management and staff of both the Department of Economic and Community Development (DECD) and Maine Revenue Service (MRS) for their cooperation throughout this review.

In accordance with Title 3 §997, OPEGA provided both DECD and MRS an opportunity to submit comments after reviewing the report draft. Neither agency submitted comment for inclusion in this report.

Sincerely,

Danielle D. Fox

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Director, OPEGA

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Pine Tree Development Zones – A Limited Scope Review

Introduction and background

In this section, we cover:

- Scope of this review, and the timeline of events leading up to it; and
- Basic background on the PTDZ program's requirements and its varied benefits.

This limited scope review aims to support legislative oversight of the PTDZ program as it approaches its scheduled closure to new applicants in 2021

In August 2017, OPEGA released an evaluation of the PTDZ program. This evaluation found that the program's design did not strongly support its goals and that the data needed to support oversight of the program's outcomes was not being collected.[1] At the time of the report, the PTDZ program was approaching its statutory end date, with new applicants no longer being accepted after the end of 2018.

After the report's release, in July of 2018, the Legislature enacted LD 1654, An Act To Protect Economic Competitiveness in Maine by Extending the End Date for Pine Tree Development Zone Benefits and Making Other Changes to the Program (PL 2017, c. 440). This law extended the duration of the PTDZ program – moving the date on which the program would stop accepting new applicants from December 31 of 2018 to December 31 of 2021. The law also made other changes to PTDZ, including enactment of new public policy objectives, or goals, for the program.

In August 2019, the Government Oversight Committee (GOC) directed OPEGA to conduct a limited scope review of PTDZ in order to provide the Legislature with additional information about the PTDZ program prior to the program's newly established date to stop accepting new applicants—December 31, 2021. The GOC approved the scope for this review in December, 2019.[2] The evaluation seeks to support legislative oversight of the PTDZ program by providing information about:

1. Changes made to the PTDZ program since OPEGA's 2017 report;
2. The extent to which the PTDZ program's current design effectively targets the program's newly stated objectives; and
3. The alignment of the PTDZ program with the State's Strategic Economic Development Plan under development by the Strategic Planning Task Force led by the Department of Economic and Community Development (DECD).

[1] The recommendations from OPEGA's 2017 PTDZ evaluation are summarized in the table in Appendix B. The full report is available at http://mainelegislature.org/doc/1809.
[2] This limited scope review of PTDZ is a special project assigned by the GOC to OPEGA, and not a standard tax evaluation conducted pursuant to 3 MRSA §999(1)(A).

The PTDZ program at a glance

PTDZ is one of Maine's primary economic development programs. For participating businesses that create at least one new, quality job in Maine, PTDZ provides a number of tax and cost reductions. Given the limited scope of this review, we do not describe each element of PTDZ in detail, but rather provide an overview of the program. OPEGA's 2017 report includes a comprehensive explanation of the program, and descriptions of each of PTDZ's benefits can be found in Appendix A of this report.

Program Administration

DECD acts as the gateway to the PTDZ program. It is responsible for determining eligibility for the program and for managing annual reporting by participants. However, a number of additional entities have responsibilities for administering PTDZ's individual benefits. These entities include Maine Revenue Services (MRS), the Public Utilities Commission (PUC), Efficiency Maine Trust and electricity distribution companies in the State.

In the 2017 PTDZ evaluation report, OPEGA found the program as a whole could not be effectively administered in part because of this fragmented responsibility. OPEGA found there was no single entity with the statutory authority to oversee, or coordinate, the PTDZ benefits distributed by the others or with access to usage data for all of the program's benefits. This remains the case today.

PTDZ Eligibility

In order to participate in the PTDZ program, a business must be for-profit and engaged in a qualified business activity in one of the program's targeted sectors. The business must also hire at least one new, full-time employee to work directly in its qualified business activity in Maine. [3]

PTDZ Targeted Sectors

- financial services
- manufacturing
- biotechnology
- information technology
- aquaculture and marine technology
- precision manufacturing technology
- composite materials technology
- environmental technology
- advanced technologies for forestry and agriculture
- call centers in Aroostook or Washington Counties

Sources: 30-A MRSA §5250-I(16) & (18); 5 MRSA §15301(2)

Statute includes a number of requirements that ensure qualifying employees are new to the business and meet minimum quality standards. Among these, is the requirement that qualifying employees may not be shifted to a qualified business activity from a non-qualified business activity of the business or an affiliated business. In addition, a business must provide employees a retirement plan, group health insurance and salaries in excess of program minimums in order for those employees to be considered "qualifying."[4]

PTDZ applicants are also required to provide a signed statement certifying that they would not go forward with their expansion or location project in Maine absent the program's benefits.[5] This is commonly referred to as the "but for" requirement.

3 30-A MRSA §5250-I(16) and (17)
4 30-A MRSA §5250-I(18)
5 30-A MRSA §5250-I(17) paragraph A

Program Benefits

The PTDZ program offers 10 different benefits to participant businesses. Four of these benefits directly reduce a business's taxes, while the remaining six provide other cost reductions.

Table 1. The Ten PTDZ Benefits

Benefits that reduce business taxes	Benefit that reduce other business costs
Income Tax Credits	Enhanced Employment Tax Increment Financing (ETIF) Payments
Insurance Premium Tax Credits	Discounted Utility Rates
Sales Tax Exemptions	Line Extension Benefits
Sales Tax Reimbursements	Electricity Sales Benefits*
	Exclusion from Municipal Tax Increment Financing (TIF) Limitations*
	Conservation Program Benefits**

*These benefits are not provided directly to PTDZ participating businesses, but may benefit them indirectly. See Appendix A for more information on each benefit.

**Conservation benefits have never been defined or accessed. As such, they have never directly impacted a PTDZ business's taxes or costs; however, it is possible that they could.

The types of benefits available through the PTDZ program have not changed since OPEGA's 2017 evaluation report. However, the Legislature has made some changes to eligibility requirements and to the program's public policy goals. These changes will be discussed in the following section.

How has the PTDZ program changed since OPEGA's 2017 evaluation report?

The Legislature extended the program and made design changes including clarifying program goals and amending the "but for" requirement. State agencies also made changes in how they administer the program.

In this section, we cover:

- Taxation Committee's response to OPEGA's 2017 evaluation findings; and
- Changes made to PTDZ by the 128th and 129th Legislatures, with associated State agency actions.

What follows is a legislative timeline of key actions taken in response to OPEGA's 2017 PTDZ evaluation report. Appendix B details all of the actions taken by the Legislature and State agencies in response to the specific recommendations of the 2017 PTDZ report.

A 2017 report from the Taxation Committee supported changes to PTDZ based on OPEGA's evaluation findings

As part of the tax expenditure evaluation process prescribed by statute (3 MRSA §999), the Joint Standing Committee on Taxation submitted its response to OPEGA's 2017 PTDZ evaluation to the Legislature in December of that year.[6] The Taxation Committee expressed agreement, in its report, with the evaluation's recommendation that MRS should provide additional information about PTDZ benefits in future biennial tax expenditure reports in order to improve transparency. The report also stated agreement with OPEGA's findings that additional data should be made available if the Legislature desired a full analysis of PTDZ costs and outcomes and that DECD should begin notifying all entities who administer PTDZ benefits when a business is decertified.

The Committee's report also addressed OPEGA's finding that while PTDZ's goals spoke to targeting areas of high unemployment, the program's design did little to target these areas. On this point, the Committee noted that "the original purpose of the program to create jobs by incentivizing economic development in areas of the state with high unemployment and low levels of economic investment has been diluted by subsequent amendments to the program since its enactment."[7] The Committee stated that if the PTDZ program were to be extended, then the design, data availability, and administrative weaknesses identified in the OPEGA evaluation should be resolved.

LD 1654 – An Act to Protect Economic Competitiveness in Maine by Extending the End Date for Pine Tree Development Zone Benefits and Making Other Changes to the Program – submitted as a department bill by DECD in response to OPEGA's report was referred to the Joint Standing Committee on Labor, Commerce, Research and Economic Development

[6] The full Taxation Committee report can be found at https://legislature.maine.gov/doc/1986.
[7] Taxation Committee report pg. 25.

(LCRED). In its report, the Taxation Committee acknowledged this bill was headed to LCRED and expressed willingness to work with LCRED as it considered the bill.[8]

The 128th Legislature made substantial changes to PTDZ by enacting PL 2017, c. 440

In the Second Regular Session of the 128th Legislature, the LCRED Committee considered LD 1654. The bill, as amended, was enacted as PL 2017, c. 440 and became effective in July of 2018. It made the following changes to PTDZ's design:

<u>Stated the goals of the program</u>

The law created a new section of statute clarifying the goals of the program for the purposes of evaluation. These goals did not change the program's original focus on job creation, but eliminated two goals that OPEGA's 2017 evaluation had identified as potentially overly broad: improving and broadening the tax base, and improving the general economy of the State. The new goals include no reference to targeting areas of higher unemployment in Maine, possibly in response to OPEGA's evaluation finding that PTDZ previously had a goal of targeting areas of higher unemployment, but that the program's design was not strongly targeting these areas of the state.

<u>Established new certification requirements to ensure no program participants could receive sales tax benefits prior to creating at least one net new, qualifying job</u>

OPEGA's 2017 evaluation reported that a business could begin to receive some PTDZ benefits before hiring any qualifying employees. PL 2017, c. 440 responded to this finding by specifying that sales tax benefits be withheld until a business receives a certificate of qualification from DECD. This certificate indicates the DECD Commissioner has verified that the business has added at least one qualifying employee.

<u>Required new data to be gathered from PTDZ participants annually</u>

In 2017, OPEGA found that the data necessary for effective and efficient evaluation of the PTDZ Program was not readily available from administering agencies. Regarding PTDZ participants, OPEGA found that the data businesses provided to DECD in annual reports had an insufficient level of detail to generate meaningful estimates of program outcomes.[9] PL 2017, c. 440 directs businesses to report annually the number of new PTDZ qualifying employees hired within the year, and the estimated aggregate PTDZ benefits received or claimed that year.[10]

DECD has confirmed to OPEGA that they began collecting the new data in the spring of 2019. DECD has also been in the process of implementing a new database to streamline collection of this data, and to make reporting the data more efficient. However, DECD reports that the budgetary impacts of the coronavirus pandemic have significantly delayed implementation of the new database, and the implementation date is currently unknown.

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[8] This work resulted in PL 2017, c. 440, detailed in the following section.
[9] See pg. 40 of OPEGA's 2017 PTDZ report.
[10] Chapter 440 also requires PTDZ businesses to continue reporting to DECD annually: the number of total and PTDZ qualifying employees per year along with salaries and wages; and amounts invested in the qualified business activity during the year.

<u>Amended PTDZ's "but for" requirement</u>[11]

PL 2017, c.440 added a requirement that a business's "but for" statement be notarized starting in January 2019. This change was made in response to OPEGA's 2017 finding that the "but for" requirement in statute at that time was ineffective. DECD has updated PTDZ rules to reflect this new statutory requirement that PTDZ "but for" statements be notarized.

<u>Required increased PTDZ reporting to the Legislature</u>

Also related to data availability and transparency, PL 2017, c. 440 requires both DECD and MRS to report increased PTDZ data to the Legislature. The law requires DECD to report annually to the Legislature the names of PTDZ businesses, aggregate benefits received for the year, and aggregate information for the three most recent report years on:

- employee levels,
- salary and wage information, including benefits, and
- amount of qualified investments.

PL 2017, c. 440 also required MRS to begin reporting, to the Legislature, the State's aggregate revenue loss for each fiscal year resulting from provision of PTDZ benefits. However, this increased MRS reporting was later repealed by the 129th Legislature.

The 129th Legislature enacted additional laws affecting the PTDZ program

The requirement, described above, that MRS report on aggregate revenue loss from PTDZ was repealed during the 129th Legislature by LD 2047—An Act to Amend the State Tax Laws (PL 2019, c. 659).

The biennial budget bill of the 129th Legislature (PL 2019, c. 343, Part IIII, section 8) eliminated the statutory requirement for the State Economist to review, and provide an opinion on, each PTDZ application to assist the DECD Commissioner in certifying that PTDZ-qualified business activity would not result in substantial detriment to existing Maine businesses. OPEGA's evaluation had found that an application would likely never be denied on this basis because those involved had stated their general belief that the benefits of any business expansion in the State almost always outweigh any potential detriment.

PL 2019, c. 343 Part O, section 1 also authorized the Department of Administrative and Financial Services (DAFS) to enter into financing on behalf of MRS for "the acquisition, licensing, installation, implementation, maintenance and support of computer hardware, software and other systems to support the operations of the tax collection system." In June 2019, the chairs of the GOC sent a memorandum to the Appropriations and Financial Affairs Committee stating the GOC's support of this budget proposal for modernization of the tax collection system. The GOC chairs' support was based, in part, on the expectation that the new system would allow MRS to track some PTDZ data that had been difficult to isolate in the current tax data warehouse—such as PTDZ sales tax reimbursements. Part O, section 1 requires that the upgraded systems "must be capable of collecting data that facilitates

[11] In the design assessment section of this report, OPEGA addresses the current state of the "but for" requirement and what effect it could be expected to have on the PTDZ program.

evaluation of tax expenditures conducted for the purpose of legislative oversight of those programs."

In summary

Amendments to the PTDZ program, in response to OPEGA's 2017 PTDZ evaluation report, were made by both the 128th and 129th Legislature. State agencies have been working to implement these changes. While not all of the recommendations from OPEGA's 2017 PTDZ evaluation report have been addressed,[12] some of the changes that were enacted substantially changed the design of the PTDZ program. The next section discusses what these substantive design changes mean for oversight of the program.

[12] The table in Appendix B shows all of the 2017 report's recommendations and actions associated with each.

How does PTDZ's design align with the program's newly established statutory goals?

Legislative changes clarified that PTDZ's ultimate goal is to create and retain quality jobs. Design changes ensured benefits are provided primarily to businesses that create and retain jobs. However, the changes are not enough to guarantee that new jobs created by PTDZ participants are the result of the program.

In this section, we cover how:

- PTDZ's newly enacted goals focus on job creation as the ultimate program objective;
- Amendments to the program's design ensure that most program benefits go only to businesses that create and retain at least one qualifying job in Maine;
- PTDZ's notarized "but for" does not guarantee that new jobs reported by program participants are actually created because of the program; and
- Proactive program management could support strengthened oversight and help ensure PTDZ is effective.

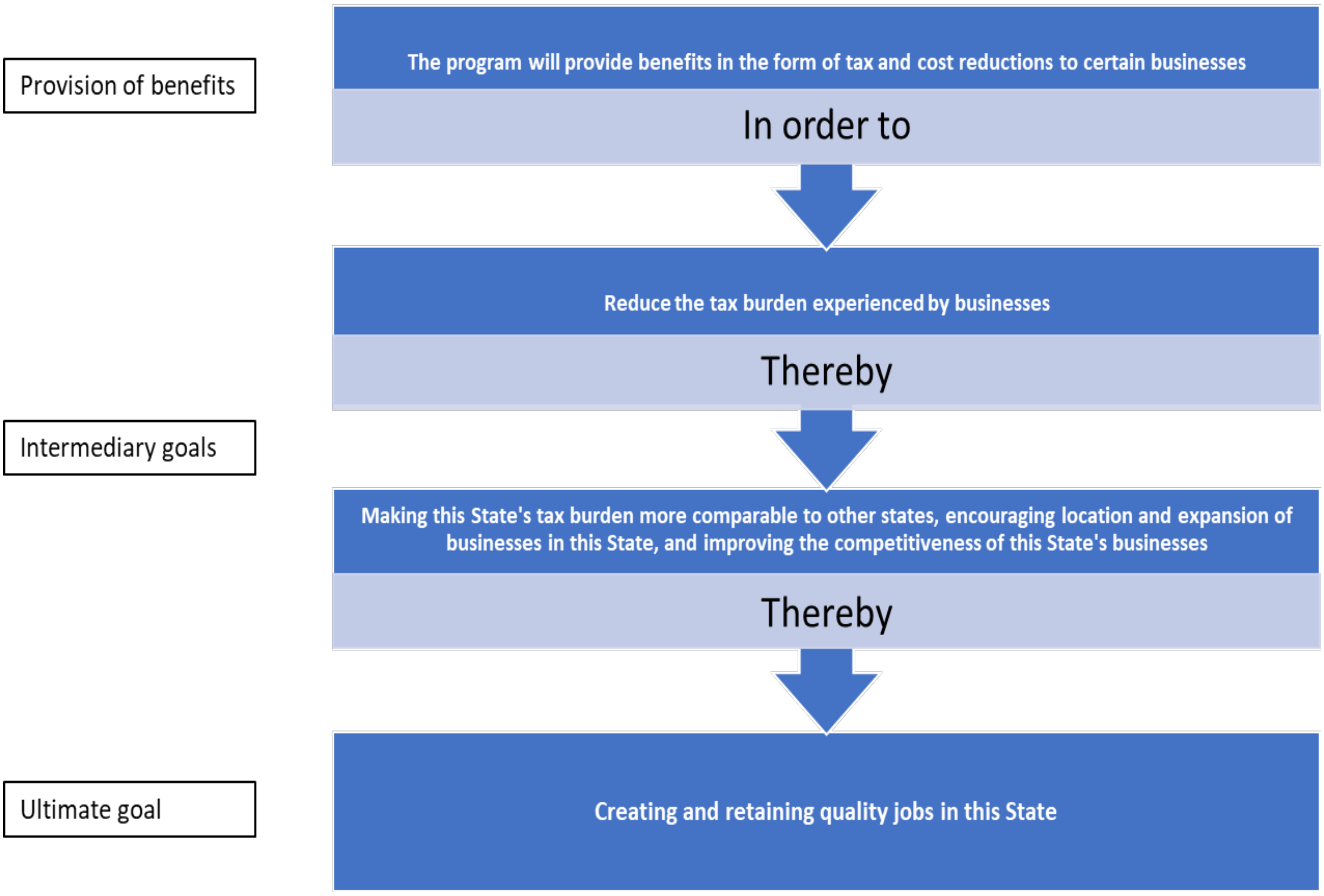
PTDZ's newly enacted goals clarify that the program's ultimate goal is the creation and retention of quality jobs

One of the most significant changes made to the PTDZ program following OPEGA's 2017 evaluation report was the introduction of evaluation goals into PTDZ statute. These goals clarified policymakers' vision for how the program is intended to work, with job creation and retention as the program's primary goal, to be achieved via other intermediary goals. These intermediary goals—like making the State's tax burden more comparable to other states'—are not the final goals the program is targeting. Instead, they are more like midway points the program aims to move through on its way to the final goal of creation and retention of quality jobs.

As stated, the new goals represent what is commonly referred to as a "logic chain"—a diagram showing what is expected to happen when the program provides tax and other cost reductions to businesses, and how that is expected to drive towards the ultimate goal of creating and retaining jobs in the State.[13] Presented in this way, the goals shed light on how the program is expected to work. This logic chain, and the statutory language from which it was derived, are shown below.

[13] For another example of the use of logic chains in tax expenditure design see: Washington State Joint Legislative Audit and Review Committee (JLARC). 2014. "Legislative Auditor Report to the Legislature: Guidance for Drafting Performance Statements in Tax Preference Legislation" (http://leg.wa.gov/jlarc/AuditAndStudyReports/Pages/LegAuditorsReportTaxPrefDataMetrics.aspx).

Figure 1. PTDZ’s Newly Enacted Public Policy Objectives



Excerpted from 30-A MRSA §5250-P(2):
“... the specific public policy objective of the Pine Tree Development Zone program established by this subchapter is to create and retain quality jobs in this State by reducing the tax burden experienced by businesses and thereby making this State's business tax burden more comparable to other states, encouraging location and expansion of businesses in this State and improving the competitiveness of this State's businesses;”

Looking at the program’s goals in the form of a logic chain shows the cause-and-effect that policymakers hope will flow from the provision of PTDZ benefits: providing tax and other cost reductions will create certain business conditions that will result in the creation and retention of quality jobs. The logic chain also highlights the fact that policymakers have called out the creation and retention of quality jobs as the ultimate goal of the program. Consequently, the effectiveness of the PTDZ program hinges on whether the logic chain bears out and whether program participants actually create and retain quality jobs in Maine.

Amendments to PTDZ's design ensure that most program benefits go only to businesses that create and retain at least one qualifying job in Maine

PTDZ's design includes elements to ensure at least some new, qualifying jobs will be created and retained by participants. Changes made by PL 2017, c. 440 require participants to create at least one quality job before they can access most program benefits.[14] This removed the potential, identified in OPEGA's 2017 report, for PTDZ participants to access sales tax exemptions and reimbursements without ever creating any new, qualifying jobs.

Other key elements were already in place at the time of OPEGA's 2017 evaluation report, and continue to be important to the program. These elements include clearly defined quality standards that qualifying jobs must meet[15] and measures to ensure qualifying employees are actually net, new to the State, not just shifted from one business location to another.

In addition, some program benefits—such as the ETIF benefit, and income tax credits—have always been fully, or partly based on the increase in a business's PTDZ qualifying employment. This means that participants can get greater income tax credits and ETIF benefits the more qualifying jobs they create. In contrast, other benefits—sales tax exemptions and reimbursements, for example—are provided regardless of additional job creation, after the initial one job hurdle has been cleared. These benefits are only connected to job creation if they support achievement of PTDZ's intermediary goals, and therefore subsequently drive creation and retention of quality jobs.

PTDZ's amended design does ensure that the program's primary benefits will only be provided to businesses that create and retain at least one new, quality job in Maine. Additional program elements link the value of some PTDZ benefits to the number of qualifying jobs created by participants. Taken together, these design elements prevent the program from providing State-funded benefits to businesses that are not creating any new jobs. However, this alone does not assure that State funds spent on PTDZ benefits will only be spent in support of job creation that would otherwise not happen.

It remains unclear whether PTDZ will cause businesses to create more quality jobs than would be created without the program

Although PTDZ may be providing benefits only to businesses that create qualifying jobs, the program is only an effective use of State funds if it causes the creation of more quality jobs than would happen in its absence. Otherwise, State funds are being spent on program benefits provided to support jobs that would have been created regardless. To avoid this, the Legislature included a "but for" requirement in PTDZ statute.

PTDZ's "but for" requires applicants to sign a statement establishing that they would not go forward with their expansion or location project in Maine absent the program's benefits. In theory, this should provide assurance that the jobs accompanying the expansion or location would not be created if it were not for PTDZ benefits. However, OPEGA has found that such attestations are often not meaningful.[16]

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[14] ETIF benefits are only available to participants that create at least 5 qualifying, new jobs in Maine. ETIF is actually a stand-alone program, but that PTDZ increases the ETIF benefit available to participants of both programs.
[15] OPEGA notes that there are no quality standards set specifically for retained jobs. We have assumed the job retention referenced in PTDZ's goals is the retention of new, qualifying PTDZ jobs over the life of the PTDZ business's participation.
[16] OPEGA had findings related to the "but for" requirements in both the 2017 PTDZ report and the 2019 ETIF report.

The Legislature added a notarization requirement via PL 2017, c. 440. However, OPEGA maintains that the "but for" still provides very little assurance that State funds spent on PTDZ benefits are supporting job creation that would otherwise not have happened.

This challenge is at the heart of measuring program effectiveness, and it is not unique to PTDZ, nor to Maine. Evaluators, and those designing tax evaluations, across the country are struggling with how to ensure tax incentives will impact business behavior and how to measure the impact they have. Although there are no easy answers to date, active program oversight can improve the chances that a tax incentive will be an effective use of State resources. In the next section we'll discuss how the Legislature's clarification of PTDZ's public policy purpose has paved the way for more effective oversight.

Strong oversight, supported by proactive program management, can increase the likelihood of achieving desired program outcomes

Although there is no consensus about how to ensure tax incentives will produce desired impacts on business behavior, there are two proven ways oversight bodies can improve the chances that a program will work and keep tabs on how it is performing. The first involves assessing the strength of program's design to improve the likelihood that it will cause the desired behavior. The second is ongoing monitoring of actual program outcomes via data collection and performance metrics linked to key program goals. Both are discussed below.

Assessing the Program's Design

The Legislature's clarification of PTDZ's goals, and the logic chain those goals suggest, are a big step forward for oversight of the program. They provide the basis for assessing the degree to which the program's elements, such as beneficiary requirements, support the design, and how plausible it is that the design will achieve the stated goals. An assessment of this nature might be part of an evaluation of a tax expenditure program, but can also be an ongoing conversation between proactive programs managers and legislative oversight committees.[17] OPEGA provides a brief guide to this type of design assessment in Appendix E.

Assessing program design involves asking questions about the logic chain at the program's core. For example, does the program target the right barriers? PTDZ's design, as illustrated by the logic chain, presumes that taxes and other costs are the barriers that must be overcome to encourage businesses to create quality jobs in the State. In assessing design, policymakers might ask themselves whether this is the right barrier. Similarly, policymakers can examine whether the cause and effect relationships assumed in the logic chain are reasonable, and the degree to which they are supported by personal experience or current research. Ultimately, through engaging in such work, legislators could gain a sense at the outset of a program about how confident they are that achieving the program's intermediary goals would increase the likelihood that the program performs as intended.

[17] Because of the limited scope of this special project, OPEGA did not perform a full design assessment as part of this review.

Ongoing Real-time Monitoring

While design assessment can help increase confidence that the program is targeting the right problems in effective ways, only ongoing monitoring provides perspective about how the program is actually functioning in the real world. It is critical for oversight bodies to have ready access to basic information about the program's usage and costs—things like the number of participants and the amount of benefits provided, for instance. Data should also be available about the program's outcomes at regular intervals—not simply when a sunset is approaching. Good outcome data includes performance metrics that are strongly linked to the program's intermediary and ultimate goals.

Supporting legislative oversight bodies in such real-time monitoring and ongoing design assessment requires proactive program managers. A proactive program manager implements statute to ensure compliance, but also moves beyond that to support oversight by focusing on how well the program is achieving its outcomes. This proactive management might include efforts such as:

- working with policymakers to get clarity if program goals are unclear and to set shared benchmarks for program performance;

- initiating, or advocating for, collection of new or different data if the data currently being collected is not what is needed to monitor the program's effects;

- proposing changes to the program over time, based on shifting economic conditions, feedback from participants about difficulties using the program, or advances in research; and

- providing timely, up-to-date information to help support legislative oversight of the program and data driven decision making about allocation of State resources.

Without proactive program management, oversight is challenging—policymakers may struggle to get the ongoing information they need to assess whether a program is meeting their expectations, whether it is cost effective, or even how much it is actually costing the state. When this information is not available from those responsible for a program, the only information policymakers have to support their decision-making may be from their own personal experiences, from lobbyists representing particular interests, or from infrequent outside evaluations such as those performed by OPEGA. While these information sources are useful, they work best as a complement to—not a substitute for—proactive management from the experts most familiar with the program's inner workings.

Both the U.S. Government Accountability Office (GAO), and evaluators of tax expenditure program in other states, have identified proactive program management and oversight as vital to effective tax expenditures.[18] OPEGA provides a GAO-derived framework in Appendix C

[18] See: U.S Government Accountability Office (GAO). 2005. "Understanding the Tax Reform Debate: Background, Criteria, & Questions." GAO-05-1009SP (https://www.gao.gov/products/GAO-05-1009SP);

U.S Government Accountability Office (GAO). 2012."Tax Expenditures: Background and Evaluation Criteria and Questions." GAO-13-167SP (https://www.gao.gov/products/GAO-13-167SP);

Washington State Joint Legislative Audit and Review Committee (JLARC). 2014. "Legislative Auditor Report to the Legislature: Guidance for Drafting Performance Statements in Tax Preference Legislation" (http://leg.wa.gov/jlarc/AuditAndStudyReports/Pages/LegAuditorsReportTaxPrefDataMetrics.aspx);

that oversight bodies may use in interfacing with program managers. This framework may support the Legislature in identifying where it requires additional support from program managers to effectively oversee the PTDZ program.

In summary

The Legislature has clarified PTDZ's statutory goals with language that suggests a logic chain that sheds light on how the program is expected to work. This logic chain begins with provision of tax and other cost reductions to businesses, all with the ultimate goal of a broader economic benefit—the creation and retention of quality jobs. PTDZ's "but for" requirement recognizes that the program is only an effective use of state resources if it is generating more job creation than would happen without the program. However, the "but for" requirement—despite recent amendments—continues to provide no assurance that PTDZ is impacting business behavior as intended.

Instead of relying on "but for" requirements, those interested in ensuring PTDZ is effective should focus on strong oversight supported by proactive management. Combined, these things can provide policymakers with information about whether tax expenditure programs are functioning as intended and meeting their goals. While OPEGA did not assess PTDZ's administration or oversight in this limited scope review, prior review of the program and continuing calls for evaluation of PTDZ suggest dissatisfaction with the available information. OPEGA provides a GAO-derived framework in Appendix D for the Legislature to consider in future oversight of PTDZ and other tax expenditure programs.

This section addressed program level oversight of PTDZ. The next section presents another lens the Legislature might apply in its oversight: how the program fits within Maine's Statewide Strategic Plan for economic development.

Murray, Matthew N. and Donald J. Bruce. 2017. "Best Practices for the Design and Evaluation of State Tax Incentive Programs for Economic Development." Report prepared under a contract with the Alabama Department of Revenue (https://revenue.alabama.gov/wp-content/uploads/2017/05/TaxIncentives_BestPractices20170104.pdf).

How does PTDZ align with Maine's Statewide Strategic Plan?

While PTDZ doesn't target any of the specific actions highlighted in Maine's Statewide Strategic Plan, it does align broadly with the Plan's overarching goals. The economic impacts of COVID-19 may increase the PTDZ program's relevance for the near term.

In this section, we cover:

- Origins of the Statewide Strategic Plan for economic development;
- Structure and contents of the Plan;
- PTDZ's alignment with the Plan;
- How legislators might engage with the Statewide Strategic Plan for oversight purposes; and
- What current economic conditions mean for the Statewide Strategic Plan overall and for PTDZ specifically.

Since 2006, the GOC has sought a strategic plan to support oversight of economic development programs in the State

The Government Oversight Committee has had a long-standing concern about the lack of an overall economic development strategy for the State. The Committee has had a recurring parallel concern about the impact of this lack of strategy on the Legislature's ability to assess individual economic development programs. In 2006, OPEGA produced a Report on Economic Development Programs in Maine. One finding of that report was a lack of overall strategic coordination of the State's economic development programs.

The GOC has continued to monitor progress made in addressing the findings of the 2006 report. Most recently, in 2017 the GOC put forward LD 367, to support the Maine Economic Growth Council developing an economic improvement plan in line with its statutory obligations. LD 367 died on the Special Appropriations table when the 128th Legislature adjourned. However, in 2019 Governor Mills began the process of creating a plan of the nature that the GOC had envisioned.

Maine's Statewide Strategic Plan was created with input across economic sectors and regions of the State

The Department of Economic and Community Development led development of the Statewide Strategic Plan in collaboration with other government agencies, business leaders, and private organizations. Through public meetings, working groups, and online comments, the plan is described by DECD as including the input of more than 1,500 voices.[19]

[19] See https://www.maine.gov/decd/strategic-plan for description of the plan and planning process (accessed 8/17/20).

The Strategic Work Team, responsible for the content of the Plan, included representatives from:

- the Maine Development Foundation,
- Kennebec Technologies,
- Androscoggin Valley Council of Governments,
- Maine State Chamber of Commerce,
- Maine Technology Institute,
- Maine Venture Fund,
- Coastal Enterprises,
- the University of Maine,
- the Maine State Building and Construction Trades Council,
- the Maine State Community College System,
- Aroostook Partnership,
- FocusMaine, and
- the City of Portland.[20]

The Statewide Strategic Plan lays out high-level goals and specific actions within several strategy areas

The Plan consists of high-level goals and specific actions within strategy areas aimed at achieving those goals. The goals address what the developers of the plan have identified as shortcomings for Maine. The Plan also identifies areas of opportunity where plan developers believe the State is uniquely positioned for innovation and economic development based on assessments of Maine's strengths, global demand, and the potential for job creation. DECD explained to OPEGA the high-level goals and the strategy areas are mission-critical. They also noted that the specific actions identified in the Plan may flex as conditions change and priorities shift.

On the following page is a summary of the high-level goals, needs, and opportunities identified in the Statewide Strategic Plan. OPEGA's summary of the full document is included in Appendix C, and the document is available on DECD's website in its entirety.[21]

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[20] See *Maine Economic Development Strategy 2020-2029, Appendix A* for information on the Steering Committee and Strategic Working Group composition and roles. Available at https://www.maine.gov/decd/strategic-plan (accessed 8/17/20).
[21] https://www.maine.gov/decd/sites/maine.gov.decd/files/inline-files/DECD_120919_sm.pdf

OPEGA Summary of Maine's Statewide Strategic Plan	
10 Year Goals	
(1) Grow the average wage by 10% to the benefit of workers at all income levels	
(2) Increase the value of what Maine sells per worker by 10%	
(3) Attract 75,000 people to Maine's workforce from within and outside the State	
Major Needs	**Strategies**
(1) Draw More Workers to Workforce	Private sector, non-profits, tourism industry and State will work together to brand Maine as a great place to live
	Draw foreign immigrants to ME with programs that support credential acceptance and support housing and transportation needs
	Programs to move 100,000 Mainers of working age who are not in the workforce into the workforce
	Expand and simplify debt relief programs such as the Educational Opportunity Tax Credit
(2) Increase Innovation For Economic Growth	Capitalize on growth of renewable energy sources
	Pursue opportunities for sustainable fishing, such as aquaculture
	Grow the support services for the aquaculture industry including fish vaccines, testing for exports, and veterinary support
	Continue growth of bio-based alternative products
	Invest in research and development using existing entities such as the Maine Venture Fund, Maine Technology Institute, and the Finance Authority of Maine
Opportunities Chosen based on Maine's current strengths, global demand, and the potential for job creation	
Bio-Based Alternatives (using Forest Products and Manufacturing)	Advanced Building Materials
	Bioplastics
	Biofuels
Create Solutions for Climate Change (using Technical Services and Manufacturing)	On/Offshore Wind Power
	Tidal Power
	Battery Development
	Solar Development
Safe, Climate-Responsible Food Source (Using Food Systems and Marine Resources, Manufacturing and Technical Services)	Aquaculture
	Finfish Veterinary Services
	Shellfish Vaccines
	Testing for Exports

While PTDZ doesn't target specific actions highlighted in Maine's Statewide Strategic Plan, it does align broadly with the Plan's overarching goals

OPEGA observed that the PTDZ program does align broadly with the Plan's overarching goals, but does not speak to any of the specific actions identified in Maine's Statewide Strategic Plan. For example, PTDZ targets job growth, which is aligned with the Plan's 10-year goal of attracting 75,000 people to Maine's workforce. However, the Plan describes a number of specific actions to support this growth in Maine's workforce—things like expanding and simplifying debt relief programs like the Educational Opportunity Tax Credit, or improving the quality of early childhood education. PTDZ does not speak to these specific efforts.[22]

[22] DECD has described the Plan's specific actions as building on top of existing economic development efforts – such as PTDZ. It may be that the continued existence of programs like PTDZ were factored in when prioritizing efforts for the future.

The ways in which PTDZ aligns with the Plan's overarching goals are discussed below. The discussion makes no claims about whether, or how much, PTDZ is actually contributing toward each element of the Plan.[23] Instead, we focus on how the design of the PTDZ program, and its legislatively established purpose, are consistent with the Strategic Plan's goals.

Strategic Plan 10-Year Goals
(1) Grow the average wage by 10% to the benefit of workers at all income levels
(2) Increase the value of what Maine sells per worker by 10%
(3) Attract 75,000 people to Maine's workforce from within and outside the State

Goal 1: Grow the average wage by 10% to the benefit of workers at all income levels

PTDZ's primary goal of creating quality jobs in the State aligns with this 10-year goal from the Statewide Strategic Plan. The program defines quality jobs, in part, as having an income greater than the county per capita income level. While PTDZ does not specify a 10% increase in income for new jobs, the income criterion in the program targets new jobs paying above average wages.

Goal 2: Increase the value of what Maine sells per worker by 10%

The Plan identifies a problem in Maine with the "lower-than-average value of the products and services we produce." One way to increase the value of products and services produced is by focusing on industries that develop new products and services. The Plan identifies a number of such industries where Maine has natural strengths and where opportunities exist for exports. Some of the industries identified as opportunities—including biotech, aquaculture, composite materials—are specifically targeted by PTDZ.

Opportunities Chosen based on Maine's current strengths, global demand, and the potential for job creation	
Bio-Based Alternatives (using Forest Products and Manufacturing)	Advanced Building Materials
	Bioplastics
	Biofuels
Create Solutions for Climate Change (using Technical Services and Manufacturing)	On/Offshore Wind Power
	Tidal Power
	Battery Development
	Solar Development
Safe, Climate-Responsible Food Source (Using Food Systems and Marine Resources, Manufacturing and Technical Services)	Aquaculture
	Finfish Veterinary Services
	Shellfish Vaccines
	Testing for Exports

Goal 3: Attract 75,000 people to Maine's workforce from within and outside the State

The third goal highlighted in the Plan focuses on drawing workers into Maine's workforce. OPEGA observes that PTDZ is generally aligned with this goal because of the program's objective to create and retain jobs. However, the program does not speak to any of the specific strategies the Plan connects to this goal. Since these strategies are intended to address obstacles to Mainers entering the workforce, and PTDZ does not speak to these obstacles, then PTDZ may not be enough to drive significant increase in the State's workforce.

[23] We are identifying here areas of strategic alignment between the program and the Plan, but this is not an endorsement that PTDZ is achieving outcomes that actually support the goals in practice.

Strategic Plan Major Need	Strategies
Draw More Workers into the Workforce	Private sector, non-profits, tourism industry and State will work together to brand Maine as a great place to live
	Draw foreign immigrants to ME with programs that support credential acceptance and support housing and transportation needs
	Programs to move 100,000 Mainers of working age who are not in the workforce into the workforce
	Expand and simplify debt relief programs such as the Educational Opportunity Tax Credit

All told, PTDZ may support the major elements of the Statewide Strategic Plan to the degree that the program achieves its own goals. Understanding a program's alignment with the plan is just one way the Plan may be used. We turn next to ways that the Plan may be used in Legislative oversight.

Legislators could use the Statewide Strategic Plan to examine existing tools and build on, or improve, programs at the State level and in their communities

Aside from the assessment of PTDZ's fit within the Plan, legislators might wonder how to use the Statewide Strategic Plan for oversight. DECD described the Plan as a road map enabling disparate groups in the state (state and local government, businesses, other stakeholders) to move in the same direction.[24] DECD noted that the majority of economic development happens outside of State government. The Plan provides a central vision around which outside entities, businesses, and local communities can connect and coordinate.

The Department suggested to OPEGA that legislators might use the Plan's high-level goals as a filter when considering legislation or deciding resource priorities. Regarding the more specific strategies laid out in the Plan—the pieces intended to flex, as needed, to support the overarching goals—DECD noted legislators could use the Plan in the State House and in their communities to examine existing tools, and build on or improve programs.

The Department had also intended to begin using the Plan in some specific ways this year to increase coordination between state and local economic development entities, and to assess the State's current economic development toolbox. However, these efforts have been put on hold as the State has responded to the impact of the COVID-19 pandemic.[25]

[24] In terms of how the Legislature itself might use the plan--DECD told OPEGA they have not yet had a chance to directly involve the Legislature. Shortly after the Plan was released in November 2019, the COVID-19 pandemic required the Legislature to focus on emergency business and ending session as soon as possible. DECD intends to directly process the Strategy with legislative committees in the future.

[25] For instance, DECD was finalizing a bid for contracted work to evaluate Maine's economic development toolbox when the pandemic hit. The Department ultimately had to pull the RFP because of the cost of the bids they received and the fiscal pressures presented by the COVID-19 pandemic. At the time of this report, DECD was envisioning doing the work in-house and had reworked the job description for the currently vacant position of the Director of Tax Incentive Programs to include evaluating how existing economic development programs fit with the 10-year plan and the work of the economic recovery plan.

The COVID-19 pandemic has shifted Maine's focus from economic growth to economic recovery, which may impact Legislative use of the Statewide Strategic Plan and consideration of PTDZ

The pandemic has presented unprecedented economic challenges at the state and local levels. According to DECD, the Plan was focused on forward-looking economic development, but present conditions require a focus on economic recovery as well. DECD told OPEGA that this shift does not invalidate the Plan. Instead, the Department is continuing to target the high-level economic development goals in the Plan while adapting to meet the near-term challenges presented by the pandemic. This may mean a change in prioritization of some of the specific action items within the Plan. As an example, DECD officials cited broadband connectivity. This was always part of the Plan, but now—in response to the COVID-19 pandemic—the Department notes this need has become more urgent.

The increased need for economic recovery within the State may also impact the role of PTDZ in the portfolio of the State's economic tools. The Department noted that PTDZ's fit with the state's Plan might have been viewed differently pre-pandemic. According to DECD conditions of low employment, such as the State experienced before the pandemic, might have allowed for surgical targeting of specific types of jobs which the administration saw as more valuable for economic development. However, given the present conditions of increased unemployment, DECD said any job becomes desirable. DECD described PTDZ as a heavy instrument, originally designed during, and intended for, times of high unemployment like Maine is experiencing now.

Pandemic aside, DECD described the Statewide Strategic Plan as focused on <u>adding</u> to Maine's toolbox, rather than <u>replacing</u> existing tools like PTDZ. Department staff urged caution when considering changes to PTDZ as they saw it as a key piece in Maine's current economic development toolbox and wanted to avoid unintended destabilization of the business environment.

The second report of the Economic Recovery Committee may shed more light on PTDZ's potential role in the State's current approach when it is released in December 2020. Governor Mills created the Committee in May 2020 in response to the pandemic and its economic impact on Maine. The Committee has focused on two consecutive strategies regarding the Maine economy: (1) stabilize and support and (2) sustain and grow. At the time of this report, the Economic Recovery Committee is working on the second phase of its work, part of which will focus on bridging the strategies needed to respond to COVID-19's impact on the near-term economy to Maine's Statewide Strategic Plan. This second phase of work is schedule to report out December 1, 2020.

In summary

While PTDZ does not target any of the specific actions highlighted in Maine's Statewide Strategic Plan, it may support the Plan's overarching goals. The economic impacts of the COVID-19 pandemic may increase the PTDZ program's relevance for the near term as the State focuses on economic recovery. The December 1, 2020 report from the Economy Recovery Committee may shed additional light on the PTDZ's role in the recovery.

Conclusions

- Since 2017, the Legislature has made significant changes in the PTDZ program including clarification of the program's goals.
- PTDZ's clarified goals focus on creation and retention of quality jobs as the program's ultimate goal.
- The amended design of PTDZ ensures that benefits will mostly be provided only to businesses that create and retain at least one quality job and requires notarization of "but for" statements filed by applicants. However, these amendments do not guarantee that PTDZ is actually resulting in more quality job creation and retention than would have happened without the program.
- Proactive program management could support strengthened oversight and help ensure PTDZ is effective.
- While generally in line with the overarching goals of Maine's Statewide Strategic Plan, PTDZ does not speak to the specific actions outlined in the Plan.
- The report expected from Maine's Economic Recovery Committee in December 2020 may shed more light on PTDZ's role in the economic recovery following the COVID-19 pandemic.

Appendix A. Description of PTDZ Benefits

Summary of PTDZ Benefits		
Benefit	**Description of Benefits**	**Administrator**
Exclusion from TIF Limitations 30-A MRSA §5250-I(14)(A)	For municipalities applying for new TIF districts that include grandfathered (as of 2008) Pine Tree Zones, the PTDZ acreage within the proposed TIF district does not count toward the municipality's acreage cap for TIF districts.	DECD
Expanded ETIF Reimbursements 30-A MRSA §5250-I(14)(B)	For PTDZ businesses that hire 5 or more qualifying employees to work directly in a QBA, the available ETIF reimbursement increases to 80% of the Maine income taxes withheld and paid on behalf of the qualifying employees.	Jointly administered by DECD and MRS
Sales Tax Exemptions 36 MRSA §1760(87)	Sales to PTDZ qualified businesses of tangible personal property or the transmission and distribution of electricity are exempt from tax as long as the purchases are used directly and primarily in one or more QBAs.	MRS
Sales Tax Reimbursements 36 MRSA §2016	Reimbursement to PTDZ qualified businesses, or their contractors, of sales tax paid for tangible property that is physically incorporated in, and becomes a permanent part of, real property that is owned by, or sold to, a qualified PTDZ business and used directly and primarily in a QBA.	MRS
Insurance Premium Tax Credits 36 MRSA §2529	100% credit on insurance premium taxes (due under Title 36, Ch. 357) for up to five years for premiums attributable to a QBA. Tier 1 businesses may receive a 50% credit on insurance premium taxes for an additional 5 years.	MRS
Income Tax Credits 36 MRSA §5219-W	A qualified PTDZ business may claim a credit of 100% of income taxes attributable to the QBA for the first 5 tax years beginning with the tax year in which the qualified business activity commences. Tier 1 businesses may receive a credit of 50% of income taxes for the following 5 tax years.	MRS
Discounted Utility Rates 35-A MRSA §3210-E(1)	Maine's electricity distribution companies can set the discount rates and conditions for their own customers. The PUC approves rates.	The electricity distribution companies administer the benefit.
Electricity Sales Benefits 35-A MRSA §3210-E(5)	Competitive Electricity Providers (CEPs) who have PTDZ customers are the direct beneficiaries of this provision. Under this provision, CEPs do not have to meet the statutorily required portfolio standard (RPS) for renewable energy for electricity supplied to PTDZ businesses. PTDZ businesses only receive a direct benefit if CEPs pass the cost savings on via reduced rates.	The PUC
Line Extensions 35-A MRSA §3210-E(2)	PTDZ businesses may receive special consideration in PUC decisions about the terms and conditions of electric line extensions.	Utilities and the PUC
Conservation Programs 35-A MRSA §3210-E(4)	PTDZ businesses may be offered the opportunity to participate in energy conservation programs that are "special programs of enhanced value."	Efficiency Maine Trust

Appendix B. Changes to the PTDZ Program Related to OPEGA's 2017 PTDZ Report Recommendations

2017 OPEGA Report Recommendations		Actions Taken Since the Report's Release
1	(A) Many disparate benefits administered by various agencies – overall program coordination	• PL 2017, c. 440 required PTDZ businesses to begin reporting total PTDZ benefits claimed in their annual reports. DECD began receiving this new data in 2019.
	(B) "But-for" statutory requirement is ineffective	• PL 2017, c. 440 §2 added a notarization requirement to the "but for" statement required by statute. • DECD updated PTDZ rules to reflect the notarization requirement.
	(C) Some PTDZ benefits are not defined adequately in statute	No published information found addressing this recommendation.
	(D) Businesses may receive PTDZ benefits without ever hiring any qualifying employees and most benefits are not proportionate to jobs created	PL 2017, c. 440 §4 delayed the issuance of certificates of qualification until after DECD's Commissioner verifies a business has added at least one employee. Sales tax on purchases that occurred between the letter of certification and the certificate of qualification can be reimbursed, but only after the certificate of qualification is awarded.
	(E) Statutory attempt to ensure PTDZ certified projects will not adversely impact other businesses is ineffective	PL 2019, c. 343, Pt. IIII, §8 eliminated the State Economist's review of, and advisory opinion on, PTDZ applications.
	(F) Statutory anti-shifting provisions are weak	DECD clarified that using ETIF data they can determine if a company is shifting employees. Since only a very small percentage of PTDZ beneficiaries are not in the ETIF program, DECD suggests the risk of unidentifiable employee shifting is low.
	(G) Amendments to statute affected the number and quality of jobs a business can count as PTDZ eligible	Under 30-A MRSA §5250-A(4-A), the adjustment to base levels of employment due to waterfront catastrophic occurrences expired from statute in 2011. Any business with an adjusted baseline under this provision will be expired from the program at the end of 2020.
	(H) Program does not focus on the most economically distressed communities	• Under 30-A §5250-J(5), the last of the Tier 2 PTDZ's have expired. In 2020 the entire state except for certain municipalities in York and Cumberland counties continues to be a Pine Tree zone. • PL 2017, c. 440, §5 re-stated the goals of the program and does not reference economically distressed communities.
	(I) "Income derived from employment" is not defined in statute	No action taken regarding this recommendation.
	(J) Statutory sales tax exemption requirements are challenging to enforce	No action taken regarding this recommendation.

2	**MRS should include enhanced information about PTDZ benefits in future biennial tax expenditure reports to improve transparency:** 1) Include PTDZ Insurance Premiums tax credit benefit (as a range) in MSTER 2) Base sales tax reimbursement future estimates on past actuals 3) Describe how sales tax exemption estimation works 4) Estimate and report forgone revenue for PTDZ ETIF separately from the standard ETIF program	• MRS reported that they included insurance premium tax credits with PTDZ income tax credits reported in the 2020-2021 Maine State Tax Expenditure Report (MSTER). The report did not state that the figure included both credits. MRS states they will clarify this in the next MSTER. • The 2020-2021 MSTER included what the 2017 ETIF would have been in the absence of PTDZ, effectively estimating the cost of each program separately.
3	**DECD should notify all entities that administer PTDZ benefits when a business is decertified**	DECD's internal process manual now requires that, when a PTDZ participant is decertified, notification is sent to electricity suppliers that provide PTDZ benefits.

4	**Additional data should be captured and/or made accessible if the Legislature desires full analysis of PTDZ costs and outcomes**	• PL 2017, c. 440 §4 required:
		  ○ Participating businesses to annually report to DECD number of employees along with salaries and wages, hires in the year, investments made, and aggregate PTDZ benefits received;
		  ○ DECD to report annually to the Legislature: names of PTDZ businesses, aggregate benefits received for the year, and aggregate information for the three most recent report years on employee levels, salary and wage information including benefits, and amount of qualified investments; and
		  ○ The State Tax Assessor to report out the aggregate revenue loss to the State for each fiscal year resulting from certain PTDZ benefits. The Legislature later repealed this reporting requirement (PL 2019, c. 659, §E-3).
		• In June, 2019, GOC chairs sent a memo to the Appropriations Committee in support of a budget proposal to modernize MRS's tax system to support collecting data to facilitate evaluation of tax expenditures and legislative oversight of those programs. Funding for MRS to initiate this project was authorized in PL 2019, c. 343 §O-1.
		• DECD has been in the process of implementing a new database to streamline collection of, and access to, PTDZ data. DECD reported to OPEGA that budgetary impacts from the COVID-19 pandemic have significantly delayed these efforts, and currently the database's expected implementation date is unknown.

Appendix C. Summary of Maine's Statewide Strategic Plan

OPEGA Summary of Maine's Statewide Strategic Plan

<table>
<tr><th colspan="2">10 Year Goals</th></tr>
<tr><td colspan="2">(1) Grow the average wage by 10% to the benefit of workers at all income levels</td></tr>
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<tr><th>Major Needs</th><th>Strategies</th></tr>
<tr><td rowspan="4">(1) Draw More Workers to Workforce</td><td>Private sector, non-profits, tourism industry and State will work together to brand Maine as a great place to live</td></tr>
<tr><td>Draw foreign immigrants to Maine with programs that support credential acceptance and support housing and transportation needs</td></tr>
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<tr><td>Expand and simplify debt relief programs such as the Educational Opportunity Tax Credit</td></tr>
<tr><td rowspan="5">(2) Increase Innovation For Economic Growth</td><td>Capitalize on growth of renewable energy sources</td></tr>
<tr><td>Pursue opportunities for sustainable fishing, such as aquaculture</td></tr>
<tr><td>Grow the support services for the aquaculture industry including fish vaccines, testing for exports, and veterinary support</td></tr>
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<tr><th colspan="2">Opportunities
Chosen based on Maine's current strengths, global demand, and the potential for job creation</th></tr>
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<tr><td>Bioplastics</td></tr>
<tr><td>Biofuels</td></tr>
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<tr><td>Shellfish Vaccines</td></tr>
<tr><td>Testing for Exports</td></tr>
</table>

Strategies	
Strategy A: Grow Local Talent	**Action A1: Maine's Career Exploration** Program starting with kindergartners to one year post high school; workforce skills development starting at a young age
	Action A2: Web Portal Matching Students and Employers A simplified and well-publicized system of apprenticeships and internships in Maine
	Action A3: Align Curriculums with Digital Economy Skills DOE is reviewing Maine's Career and Educational Development Standards to better reflect technology and career skills workers will need
	Action A4: Engage Workers in Continuing Education to Achieve Credentials for Career Advancement Create partnerships between employers, adult education programs, community colleges, UMaine System, and private colleges to create "microcredentials" for specific skills and jobs
	Action A5: Expand the Professional Preparation of Educators at All Levels from Infants to High School in STEM and Other Digital Economy Skills
	Action A6: Improve the Quality of Early Childhood Education System by Supplementing Salaries for Early Childhood Educators; Will Improve System, and Attract and Retain Talent
Strategy B: Attract New Talent	**Action B1: Increase the Labor Force Participation of Existing Residents** Increase the participation of seniors, people with disabilities, veterans and young people who are disengaged from school and work via accommodations, support, and flexible work arrangements; tap into older Mainers to strengthen the economy; increase the participation of those with opioid dependence; support workforce participation among economically disadvantaged through DHHS training, tuition, transportation, childcare, and other services; increase participation of women in workforce through family-friendly policies and affordable childcare
	Action B2: Support Governor's Welcome Home Program Increase Workforce Attraction and Retention marketing initiatives; develop a new Welcome Home program to attract young families and skilled workers
	Action B3: Expand—and Simplify—the Education Opportunity Tax Credit Simplify and expand credit for college debt repayment to drive the action of moving to Maine
	Action B4: Help New Americans and Other Newcomers Get Qualified to Work in Maine Develop and implement a process for effective and timely recognition of credentials issued internationally, via the military, or other states; current teaching certification process is onerous; work with municipalities to set up service and cultural centers for new arrivals
	Action B5: Promote "Quality of Place" Investments Work with local communities to explore asset development that attracts and retains people
	Action B6: Support Learning Attract young families to Maine via national marketing of the NextGen529 investment plan with matching contributions grant

Strategy C: Promote Innovation in Areas of Maine Strength*	**Action C1: Increase R&D Investment Levels in Maine** Create a combination of public subsidies, tax incentives, and higher education investments to partner with the private sector and lift R&D expenditures and investments
	Action C2: Raise the Investment Cap of the Maine Seed Capital Credit Increase ceiling from $5 to $15 million to help about 40 startups and create 2,300 new jobs
	Action C3: Revitalize the Maine Innovation Economy Advisory Board Board brings together major private, nonprofit and public research organizations in Maine; will provide oversight and coordination to State's overall effort to ensure that funds are targeted to areas that translate into new and profitable business growth
	Action C4: Promote Exports in Order to Strengthen the Climate for Startups Expand the work of the existing Maine International Trade Center; develop a domestic exports program
Strategy D: Connectivity	**Action D1: Provide a Loan Guarantee Program for Financiers of Broadband Projects** FAME to provide loan guarantee insurance to private lenders to high speed internet providers
	Action D2: Continue Providing Local Planning Grants to Increase Take Rates and Encourage Projects
	Action D3: Provide a Consistent, Predictable, and Robust Annual Level of ConnectME Infrastructure Grants
Strategy E: Supporting Infrastructure	**Action E1: Set the Bar High for Childcare; Aim to Create a World-Class System in Maine** The Children's Cabinet has been asked to design a long-term plan for Maine to move to an early care and education system for children from birth through age 4 that is high-quality, accessible, and affordable; including expanding universal pre-K, increasing slots for infant and toddler care, investing in childcare workforce, and improving access to childcare subsidy programs
	Action E2: Establish an Adequate and Sustainable Funding System for Public Transportation ME's transportation funding system is not adequate to fund highway improvements or any other major function of the DOT; have created the Blue Ribbon Commission to Study and Recommend Solutions for the State's Transportation Systems; employers and local governments can provide assistance and incentives to carpool and use public transit
	Action E3: Expand the Production of Workforce Housing in Maine More production of affordable apartments and starter homes is needed to keep pace with demand; Maine needs to develop its own tools for workforce housing

* The Statewide Strategic Plan identifies Food/Marine, Forest Products, Making/Manufacturing, and Technical Services as areas of Maine strength that will provide a focus for all of Maine's public research and development (R&D) programs (see pgs. 14 & 28 of the full Plan).

Strategy F: Maintain Stable Business Environment	**Action F1: Review and Simplify the Application/Decision Process and Pipeline** Review and document Maine's existing regulatory environment and look for ways to increase efficiency; look for ways to pre-permit certain anticipated areas of development
	Action F2: Create a Web Portal Where Applicants Can Track Their Applications Create online portal to enable businesses to understand the regulatory system for their particular projects, the standards they meet, the application path, and estimated time for approval
	Action F3: Control and Reduce Energy Costs Increasing Maine-based generation can support energy price stability and security; leading in clean energy can create new jobs; and increased support and investment in energy efficiency can reduce use and cost savings
	Action F4: Control Healthcare Costs DHHS is reviewing a number of options to stabilize and reduce costs while creating better access
Strategy G: Promote Hubs of Excellence	**Action G1: Communities to Identify Gaps for Their Hubs of Excellence** The State will partner with community leaders to look at their areas of interest and support efforts to fill missing elements in becoming a hub of excellence in their chosen area
	Action G2: Identify Areas of Supply Chain Opportunity The State, in partnership with industry groups, will identify supply chain opportunities and work with local communities on asset development, education, and market connections

Appendix D. Oversight Framework for Tax Expenditure Programs

The following is a framework derived from the U.S. Government Accountability Office (GAO) for the oversight of tax expenditure program management. The GAO has recommended increased scrutiny of tax expenditures since 1994 and provided criteria in 2012 for Congress to use for assessing tax expenditures. The GAO directed the framework to Congress, as the overseers of the expenditures, and observed that Congress would be looking to program managers for the information needed to assess the expenditures.

OPEGA has adapted the GAO's criteria for Maine legislative purposes. This framework might serve as a tool for legislators' ongoing oversight of tax expenditures, including the PTDZ program.

1. What is the tax expenditure's purpose and is it being achieved?

- What is the tax expenditure's intended purpose?
- Have performance measures been established to monitor success in achieving the tax expenditure's intended purpose?
    - Are the measures clearly linked to the program's goals?
    - Is the right data being collected to support calculation of the performance measures?
- Is there evidence, or research, to support the program's design or logic?
- Does the tax expenditure succeed in achieving its intended purpose?

2. Even if its purpose is achieved, is the tax expenditure good policy?

- Is the program addressing the actual problem or barrier to the desired goal?
- Does the tax expenditure generate net benefits in the form of efficiency gains for the State as a whole?
- Is the tax expenditure fair or equitable?
- Is the tax expenditure simple, transparent, and administrable?

3. How does the tax expenditure relate to other state programs?

- Is the program aligned with Maine's overall economic needs/development plan?
- Does it duplicate or overlap with other programs?
- Would an alternative more effectively achieve its intended purpose?
    - Is a different design preferable?
    - Is a spending or other non-tax policy tool preferable to the tax expenditure?

4. What are the consequences for the budget from the tax expenditure?

- Are there budget effects not captured by MRS tax expenditure estimates?
- Are there options for limiting the tax expenditure's revenue loss?

5. How should evaluation of the tax expenditure be managed?

- What level of management does the Legislature expect? Should the manager be proactively suggesting changes to the program to make it more effective?
- What level of tradeoff is the Legislature comfortable with between program transparency and accountability and the cost of management?
- What agency or agencies should evaluate the tax expenditure?
- When should the tax expenditure be evaluated?
- What data are needed to evaluate the tax expenditure?

Derived from: United States Government Accountability Office (GAO). 2012 "Tax Expenditures: Background and Evaluation Criteria and Questions." GAO-13-167SP (https://www.gao.gov/products/GAO-13-167SP).

Appendix E. Using Design Assessment to Support Program Oversight

A program's design is essentially how a program's actions are supposed to achieve its aims. The design consists of inputs and both shorter and longer term goals all interconnected by assumptions about cause and effect. For example, a program's design might assume that a particular benefit will cause businesses to behave in a particular way which will in turn result in a particular outcome for the state or its citizens.

This assessment of program design involves first identifying the components parts – inputs, short-term and long-term goals, as well as the assumptions that link them. One can then assess the degree to which the program's elements, such as beneficiary requirements, support the design, and how plausible it is that the design will achieve the stated goals.

This type of design assessment can support oversight of government programs by:

<u>Identifying assumptions implicit in a program's design</u>
Shedding light on the often hidden, but powerful elements of a program's design enables oversight entities, stakeholders, program administrators, and evaluators to consider how strong the assumptions are, whether certain assumptions are unfounded, whether assumed barriers to intended outcomes represent actual barriers, etc.

This may identify:

(1) Assumptions about what the problem is (barriers to a goal being achieved)—Identifying these out presents an opportunity for policymakers to examine whether these are the real, current, or most significant barriers to the desired outcome.
(2) Assumptions about how the program will address those problems (or barriers)—sometimes linked together as a logic chain—Identifying these supports policymakers in devising benchmarks or other ways of monitoring program results, and in considering whether the program make sense as an approach to the problem identified and is supported by research.

<u>Assessing alignment of program elements with program goals</u>
Program elements that may be at odds with, or seemingly contradict, the underlying program design may represent opportunities for changes to programmatic requirements to better align with the intended outcomes. Conversely, this could indicate the program's design itself may need amendment, if the program elements in question are important to overseers, but are not reflected in the program's intended outcomes.

This assessment may identify:

(1) Areas of alignment (where design supports goals);
(2) Goals that are not supported by the design; and
(3) Parts of the design which seem unrelated to the goals, or may be working against the goals.

For other materials related to program design and program logic, see:

Washington State Joint Legislative Audit and Review Committee (JLARC). 2014. "Legislative Auditor Report to the Legislature: Guidance for Drafting Performance Statements in Tax Preference Legislation" (http://leg.wa.gov/jlarc/AuditAndStudyReports/Pages/LegAuditorsReportTaxPrefDataMetrics.aspx).

U.S. Department of Health and Human Services Centers for Disease Control and Prevention, Office of the Director, Office of Strategy and Innovation. 2011. "Introduction to program evaluation for public health programs: A self-study guide" (https://www.cdc.gov/eval/guide/CDCEvalManual.pdf).

Appendix F. Project Scope Statement

MAINE STATE LEGISLATURE
GOVERNMENT OVERSIGHT COMMITTEE

Limited Scope Review of the Design of the Pine Tree Development Zones (PTDZ) Program

At its meeting on August 14, 2019, the Government Oversight Committee (GOC) added a limited scope review of the design of the Pine Tree Development Zones Program to OPEGA's Work Plan. On December 10, 2019, the GOC voted to approve the project direction for the review. The limited scope review of PTDZ is a special project and not a tax evaluation conducted by OPEGA pursuant to 3 MRSA §999(1)(A). The project scope approved by the GOC is described below.

Approved Project Scope

The limited scope review of the PTDZ Program will focus on:

1. The extent to which the PTDZ Program's current design effectively targets the program's newly stated objectives and intended beneficiaries.
2. The degree to which the recommendations of OPEGA's 2017 PTDZ report have been addressed.
3. The alignment of the PTDZ Program with the State's strategic economic development plan under development by the Strategic Planning Task Force led by DECD.

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