

**Parameters for OPEGA’s Full Evaluation of the  
Pine Tree Development Zone (PTDZ) Program  
as approved by the Government Oversight Committee 1-22-16**

Enacted	Statute(s)	Type	Category	Est. Revenue Loss
2003	30-A MRSA Ch206 Subchapter 4 and related statutes: 35-A MRSA §3210-E 36 MRSA §5219-W 36 MRSA §2016 36 MRSA §2529 36 MRSA §1760.87 36 MRSA §6754.1.D	Sales & Use Exemptions and Reimbursements, Income Credits, Withholding Reimbursements and Other	Business Incentive, Job Creation	FY16 \$2,609,000 - \$4,108,998 FY17 \$2,723,000 - \$4,222,998

*Source for Estimated Revenue Loss: Maine State Tax Expenditure Report 2016 – 2017. A range of numbers is included because Maine Revenue Services has little data on which to base an estimate of the sales & use tax exemption or reimbursement portions of the program.*

**Program Description**

The Pine Tree Development Zone (PTDZ) program offers reduction of a number of taxes for up to 10 years for certain businesses that expand or begin operations in eligible areas of Maine (PTD zones). Depending on the location and level of a business’s qualified activity, potential PTDZ benefits include:

- Corporate Income Tax Credits – 100% credit for 5 years, 50% for an additional 5 years for businesses in tier 1 locations;
- Withholding Tax Reimbursements – 80% of Maine income taxes withheld on behalf of employees filling new jobs may be reimbursed to the business for up to 10 years;
- Sales and Use Tax Exemptions – exemption from tax on purchases of tangible personal property and electricity used for qualified business activity for up to 10 years for tier 1 locations or 5 years for tier 2 locations;
- Sales and Use Tax Reimbursements – reimbursement to contractors or subcontractors of tax paid on tangible property purchases that are to be physically incorporated in, and become a permanent part of, real property of a qualified business and used in its qualified business activity (for example, reimbursement of sales taxes paid on materials used in constructing a new facility);
- Insurance Premiums Tax Credits – 100% credit for 5 years, 50% for an additional 5 years for businesses in tier 1 locations (only applies to Financial Services sector);
- Access to reduced electricity rates and more favorable line extension terms and conditions as approved by the Public Utilities Commission; and
- Access to conservation programs offered by Efficiency Maine Trust.

To be eligible for this program a business must be engaged in qualified business activity and must intend to hire at least one qualified new employee to work in these activities. Qualified business activities include operations in targeted business sectors and within eligible PTD zones.

Business sectors that currently qualify for the PTDZ program include:

- Financial Services,
- Manufacturing,
- Biotechnology,
- Information Technology,
- Aquaculture and Marine Technology,
- Precision Manufacturing Technology,
- Composite Materials Technology,
- Environmental Technology,
- Advanced Technologies for Forestry and Agriculture, and
- Call centers in Aroostook or Washington Counties (as of the 127<sup>th</sup> Legislature).

Eligible PTD zones of the State are divided into two tiers:

- Tier 1 locations – defined under 30-A MRSA §5250-J.3-A as:
  - Property within a military redevelopment zone;
  - Units of local government that had been designated by the Department of Economic and Community Development (DECD) as participating in the PTDZ program as of December 31, 2008;
  - For calendar year 2009, all units of local government, regardless of county;
  - Beginning January 1, 2010, units of local government in counties other than Cumberland or York County;
  - Beginning January 1, 2010, units of local government within Cumberland or York County with a municipal unemployment rate 15% higher than its labor market unemployment rate, based on Department of Labor (DOL) data from the last completed calendar year;
  - As of the 127<sup>th</sup> Legislature, The Town of Sanford; or
  - Beginning January 1, 2016, the Town of Berwick in York County.
- Tier 2 locations – defined under 30-A MRSA §5250-J.3-B as:
  - Beginning January 1, 2010, all units of local government in Cumberland or York County that are not tier 1 locations.

Although no new businesses may be certified in tier 2 locations as of December 31, 2013, those already certified prior to that date may continue to receive the benefits for which they were determined to be eligible through December 31, 2018. New businesses in tier 1 locations may continue to apply for certification until December 31, 2018 with all PTDZ benefits ending on December 31, 2028.

To receive PTDZ benefits a business must first be certified by DECD. This process requires an interested business to submit a letter to DECD notifying the commissioner of its intent to apply for program benefits and describing why the proposed business project could not go forward without the aid of PTDZ benefits (this letter is referred to as the “but for” letter). The business must also submit a completed application including the following information:

- a description of the proposed project that requires PTDZ support;
- employment and payroll information for the three calendar years preceding the application (to establish the business’s base employment levels); and
- certification that any new employees that will be claimed as “qualified employees” for the purposes of obtaining benefits under this program will be offered retirement and health benefits and will be paid more than the average per capita income for the county in which they are employed.

After being certified as eligible for PTDZ benefits, a business must certify that it will hire at least one qualified employee above its base level of employment within two years in order to begin receiving most benefits (five new employees are required for the reimbursement of withholding taxes). The business must continue to have qualified employees above its base level in order to continue to receive benefits. Statute and rules promulgated by DECD both specify that PTDZ benefits may not be received based on the transfer of employees or property from a nonqualified business activity to a qualified one.

The PTDZ program is administered by DECD. By April 1st of each odd-numbered year DECD’s commissioner is required to report to the joint standing committee of the Legislature with jurisdiction over economic development matters on the status of the program. In addition, 5 MRSA § 13056-A requires DECD to submit to the Legislature a biennial comprehensive evaluation of state investments in economic development. The PTDZ program is required to be included in this evaluation and businesses certified under the program are required to submit any information requested by DECD as part of the

evaluation effort. The most recent comprehensive evaluation was released in 2014 and did include analysis of the Pine Tree Development Zone program.

**Evaluation Parameters Subject to Committee Approval**

The following parameters are submitted for GOC approval as required by 3 MRSA §999 subsection 1, paragraph A.

(1) Purposes, Intent or Goals

Intent — To encourage development in economically distressed communities in Maine in order to provide new employment opportunities; improve existing employment opportunities; improve and broaden the tax base; and improve the general economy of the State.

Goal — To provide new qualifying employment opportunities in certain industries in economically distressed communities.

(2) Beneficiaries

Primary Intended Beneficiaries — Businesses in Pine Tree Development Zones that add new qualifying jobs in certain industries

Secondary Intended Beneficiaries — Workers and job seekers; economically distressed communities

(3) Evaluation Objectives

Below are the objectives the evaluation proposes to address. The objectives are coded to indicate which of the performance measures in section (4) below could potentially be applicable.

Each objective will be explored to the degree possible based on the level of resources required and the availability of necessary data. Any substantial statutory changes since the program’s enactment will be considered in addressing objectives impacted by those changes.

Objectives Allowed Under 3 MRSA §999 subsection 1 paragraph A	Applicable Measures
(a) The fiscal impact of the tax expenditure, including past and estimated future impacts;	C, D, E Qualitative
(b) The extent to which the design of the tax expenditure is effective in accomplishing the tax expenditure’s purposes, intent or goals and consistent with best practices;	Qualitative
(c) The extent to which the tax expenditure is achieving its purposes, intent or goals, taking into consideration the economic context, market conditions and indirect benefits;	A, F, I, J, K Qualitative
(d) The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries;	A, B, I Qualitative
(e) The extent to which it is likely that the desired behavior might have occurred without the tax expenditure, taking into consideration similar tax expenditures offered by other states;	C, G, M Qualitative
(f) The extent to which the State’s administration of the tax expenditure, including enforcement efforts, is efficient and effective;	Qualitative
(g) The extent to which there are other state or federal tax expenditures, direct expenditures or other programs that have similar purposes, intent or goals as the tax expenditure, and the extent to which such similar initiatives are coordinated, complementary or duplicative;	Qualitative
(h) The extent to which the tax expenditure is a cost-effective use resources compared to other options for using the same resources or addressing the same purposes, intent or goals; and	C, D, E, F, H, L, M Qualitative
(i) Any opportunities to improve the effectiveness of the tax expenditure in meeting its purposes, intent or goals.	Qualitative

OPEGA will perform additional work as necessary, and as possible within existing resources, to provide context for OPEGA’s assessment of this program in Maine, including review of literature or reports concerning these programs nationally or in other states.

**(4) Performance Measures**

Performance measures are coded to indicate which of the above objectives they could potentially help address. Measures will be calculated to the degree possible based on the level of resources required and the availability of necessary data.

A	# Total businesses receiving any benefits under the PTDZ program (also by benefit type)
B	Participation rate (% of Maine businesses certified for the program; also % of Maine communities with PTDZ certified businesses)
C	Total \$ value of PTDZ tax benefits received by businesses (also by benefit type)
D	Total direct program cost (direct tax revenue lost plus administrative costs)
E	Net impact on State budget (using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
F	Total \$ value of payroll and benefits associated with new quality jobs created by certified PTDZ businesses
G	Average tax benefit per business, including min & max (also by benefit type)
H	Leveraging Ratio, for example [ $\frac{\$ \text{ of payroll \& benefits associated with new jobs}}{\text{Total direct program cost}}$ ]
I	Change in unemployment rate for each community where a business received PTDZ benefits, compared to change in unemployment rate for the State
J	Indicators of economic impact in targeted business/industry or geographic area (i.e. jobs created, GDP – using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
K	# New quality jobs created by PTDZ certified businesses
L	Cost per new quality job created (i.e. $\frac{\text{Total direct program cost}}{\text{\# new quality jobs created by PTDZ certified business}}$ )
M	Return on Investment, for example [ $\frac{\$ \text{ amount reimbursed to businesses}}{\$ \text{ value of payroll and benefits associated with new quality jobs created by certified PTDZ businesses}}$ ]

Performance measures would typically be calculated by year to allow for analysis of percentage changes year over year, trends, etc. Further calculations and breakouts that would be considered, as appropriate, include:

- per capita,
- comparison to industry or geographic trends,
- comparison to time period preceding program implementation or receipt of program benefits,
- by business sector,
- by new vs. continuing beneficiary,
- by county or municipality,
- by job type (FT, PT, temporary, permanent), or
- by firm size.