

Government Oversight Committee
129th Maine Legislature

Office of Program Evaluation and Government
Accountability

Limited Scope Review of
Pine Tree Development Zone Program
November 2020

PTDZ Limited Review Project Scope

Support legislative oversight of the PTDZ program by providing information about:

1. Changes to the PTDZ program since OPEGA's 2017 report;
2. How effectively PTDZ's current design targets the program's newly stated objectives; and
3. The alignment of the PTDZ program with Maine's new Statewide Strategic Economic Development Plan.

Appendix F, on page 30, shows the review scope as set by the Government Oversight Committee.

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

This presentation will cover:

- Brief overview of the PTDZ program,
- Scope of this review,
- Report conclusions.

PTDZ Program at a Glance – Eligibility

To be eligible for PTDZ, a business must:

- Be a for-profit business operating in a PTDZ targeted sector.
- Hire at least one new, full-time employee to work directly in its qualified business activity in Maine.
- Provide a signed statement certifying that it would not go forward with the expansion or location project in Maine absent the program's benefits. (Commonly referred to as the "but for" requirement.)

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)

See page 2 of the report for a list of PTDZ targeted sectors and more about eligibility.

PTDZ Program at a Glance – 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.

PTDZ Program at a Glance – Administration

DECD is responsible for certifying businesses as PTDZ eligible.

Individual benefits are administered by:

- MRS,
- DECD,
- Utility companies,
- The PUC, and
- Efficiency Maine Trust.

Appendix A, on page 21, shows the administering agency for each PTDZ benefit.

Changes to PTDZ since 2017

The 128th made a number of changes to PTDZ:

- Clarified the goals of the program for the purposes of evaluation;
- Established new certification requirements to ensure no sales tax benefits can be received until after at least one net new, qualifying job has been created;
- Required new data to be gathered from PTDZ participants annually;
- Amended PTDZ's "but for" requirement; and
- Required increased PTDZ reporting to the Legislature.

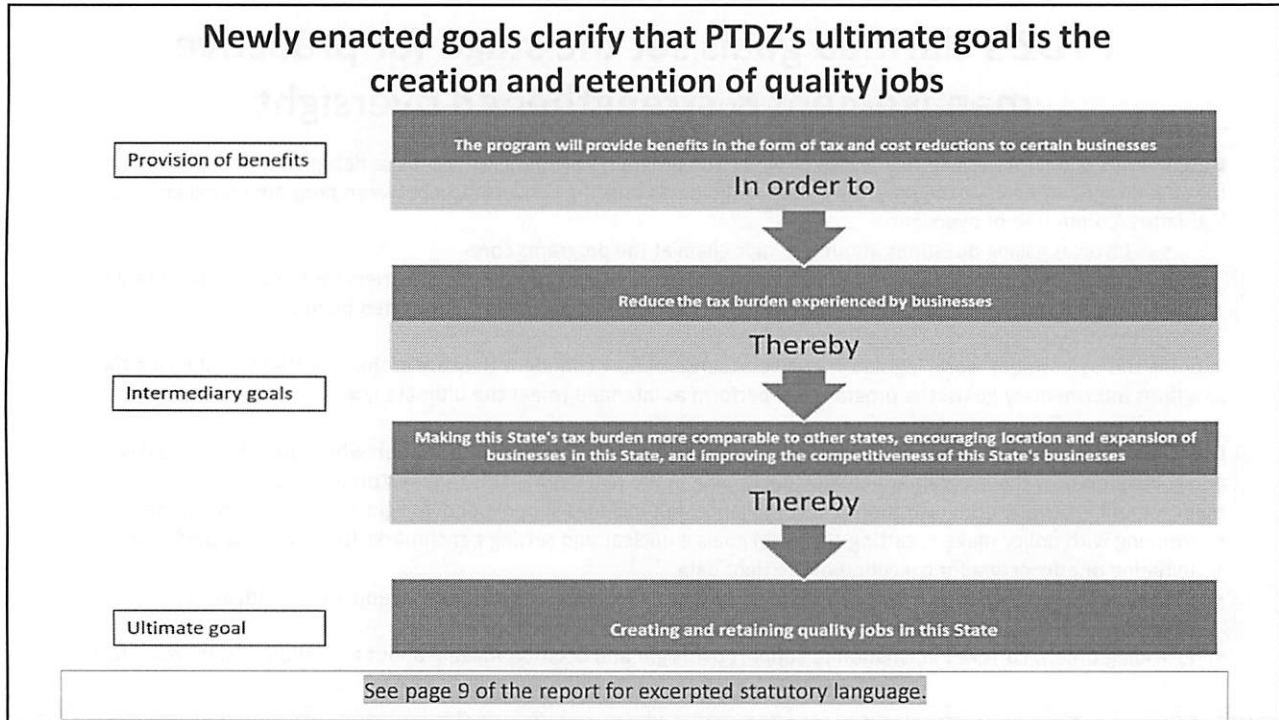
Appendix B, on pages 22-23, shows all known actions related to issues identified in the 2017 PTDZ report.

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

Title 30-A Section 5250-P

".....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..."

- Legislative changes clarified that the ultimate goal of the program 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 the new jobs are the result of the program



Design changes ensured benefits are provided primarily to businesses that create and retain jobs.

- Changes made by PL 2017 c. 440 requires program participants create at least one new job before they can access benefits
 - OPEGA's 2017 report had identified that PTDZ participants received tax exemptions and reimbursements without ever creating a job
- Other design elements that ensure creation and retention of high quality jobs were in place at time of 2017 report
 - Clearly defined quality standards that qualifying jobs must meet
 - Measures to ensure qualifying jobs are actually net, new (not shifted)
 - Some benefits (ETIF) based on the increase in qualifying employment (unlike sales tax benefits that are provided when one-job-hurdle is cleared)

PTDZ's clarified goals set the stage for proactive management & strengthened oversight

Design Assessment - Assessing the degree to which the program's elements support the design and how plausible it is that the design will achieve the program's goals could be an ongoing conversation between program managers and legislature/committee of oversight

- Involves asking questions about the logic chain at the programs core-
- Are the identified or presumed barriers (to business expansion) the right barriers for the program to target?
- Are the cause and effect relationships in the logic chain reasonable? Supported by research?

In doing this assessment work, legislators can get a sense of how confident they are in the idea that by achieving the programs intermediary goals, the program will perform as intended (meet the ultimate goal)

Ongoing real-time monitoring – It's critical to have ready access to program information which provides necessary perspective on how the program is actually functioning in the real world. This requires proactive program management – beyond administration and compliance, but includes support of oversight by focusing on outcomes

- Working with policy makers, getting clarity on goals if unclear and setting benchmarks for measuring performance
- Initiating or advocating for collection of the right data
- Proposing changes when economic conditions shift, or in response to participant feedback, or with advances in research
- Providing timely, current information to support oversight and decision-making about allocation of state resources

Overview of Maine's Statewide Strategic Plan

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

Strategic Plan Strategy Areas

Strategy A: Grow Local Talent	Strategy E: Supporting Infrastructure
Strategy B: Attract New Talent	Strategy F: Maintain Stable Business Environment
Strategy C: Promote Innovation in Areas of Maine Strength	Strategy G: Promote Hubs of Excellence
Strategy D: Connectivity	

See OPEGA's complete summary of the Statewide Strategic Plan in Appendix C starting on page 24.

PTDZ's Alignment with the Statewide Strategic Plan

- While PTDZ is generally in line with the overarching goals of Maine's Statewide Strategic Plan, it does not speak to the specific actions outlined in the Plan.
- DECD describes the Statewide Strategic Plan as intended to add to Maine's toolbox, rather than replacing existing tools like PTDZ.
- Statewide Strategic Plan was focused on growth, but economic challenges presented by the COVID-19 pandemic have shifted Maine's focus to economic recovery.
- Maine's Economic Recovery Committee is expected to produce its 2nd report on December 1, 2020. This report is intended to bridge the State's COVID-19 response to the Statewide Strategic Plan.

See full discussion of PTDZ alignment with the Statewide Strategic Plan beginning on page 16.

In Summary

- 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.