THE PEW CHARITABLE TRUSTS

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November 13, 2020

Senator Justin Chenette, Chair
Representative Anne-Marie Mastraccio, Chair
Maine Government Oversight Committee
82 State House Station
Augusta, ME 04333-0082

Dear Chairperson Chenette and Chairperson Mastraccio,

My name is Shane Benz and I am a researcher with The Pew Charitable Trusts' State Fiscal Health project. Pew is a public charity that provides research and technical assistance to state policymakers to help them make evidence-based decisions across a range of policy issues. I am writing to provide information about Pew's research on tax incentive evaluation and how Maine's evaluation process aligns with many of our best practices.

For the last eight years, Pew has conducted nonpartisan research and analysis on how states can improve the effectiveness of their economic development tax incentive programs by implementing regular and rigorous evaluation processes. When we began this work in 2012 only a small number of states required such analysis. Today, over 30 states regularly review these programs. The growing number of evaluations has contributed to improvements in tax incentive policy across the country, helping states strengthen their economies while protecting their budgets.

Maine is a leader in tax incentive evaluation because it has:

1. A well-designed plan to regularly evaluate tax incentives;
2. Experience producing quality evaluations with rigorous analysis; and
3. A process for informing policy choices.

Maine's tax incentive evaluation process follows many of Pew's recommended practices. For instance, the scope of evaluation includes all major economic development tax incentives, plus other tax expenditures, which provides policymakers with valuable information about the state's entire portfolio of tax incentive programs. Additionally, requiring an experienced and non-partisan office, like the Office of Program Evaluation and Government Accountability (OPEGA), to conduct the evaluations provides certainty that the information is high quality and objective. Finally, your committee works with OPEGA to set a strategic schedule for when programs will be reviewed and whether they receive a "full evaluation" or "expedited review" to balance OPEGA's workload.

The state's well-designed evaluation law and your committee's guidance has facilitated OPEGA in consistently producing high-quality evaluations, positioning them as a leader among their peers. We regularly feature OPEGA's work in our research and technical assistance. Most recently, Pew highlighted

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OPEGA's reviews of the Maine Capital Investment Credit (MCIC) and the Business Equipment Tax Reimbursement/Business Equipment Tax Exemption (BETR/BETE) programs during a yearly convening attended by over 100 state incentive evaluators from across the country (see addendum for examples of Pew publications featuring Maine).

OPEGA's reports demonstrate creativity and rigor to measure economic and fiscal impacts and routinely address key concepts that help lawmakers decide whether incentives are performing as expected. The office's evaluations incorporate helpful information for policymakers to use when setting policy, such as whether an incentive is designed to achieve its stated goals; whether the existing program is the best way to achieve these goals; whether the incentive is efficiently and effectively administered; and whether the incentive encourages business activity that would occur absent the incentive (see the addendum for explanations of these concepts). Answering these questions gives states valuable information about the effectiveness of their incentive programs.

Finally, when OPEGA publishes its findings, policymakers take notice, thanks in large part to the hearings held by your committee. Pew's research has found that policy improvements are more likely when states create a formal procedure to review the results of tax incentive evaluations. In response to evaluations of the New Markets Credit, Major Business Headquarters Expansion, and Pine Tree Development Zone programs, the state has enacted substantive modifications to each of these incentives.

Since establishing its evaluation process in 2015, Maine has become a leader in incentive evaluations. OPEGA has demonstrated its ability to regularly produce high-quality evaluations that are used to improve the design of the state's programs. Your committee's hearings on the evaluations generate in-depth policy discussions. The process and its outcomes serve as an example for other states to follow. With the publication of the MCIC and BETR/BETE evaluations, Maine continues to uphold the high standards set with prior evaluations.

Thank you for the opportunity to comment on Maine's tax incentive evaluation process.

Sincerely,

Shane Benz

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Addenda

Pew publications that have profiled Maine's evaluation work

- Maine tax incentive evaluation fact sheet
  Maine is leading other states because it has a well-designed plan to regularly evaluate tax incentives, experience in producing quality evaluations that rigorously measure economic impact, and a process for informing policy choices.

- How States Can Consider and Design Effective Tax Incentives
  In 2017, Maine lawmakers approved an incentive program to encourage business headquarters to locate in the state, but they delayed implementation until 2020 to give the state's Office of Program Evaluation and Government Accountability time to evaluate the program's design. The study provided lawmakers with information they needed to amend the program before it went into effect. Based on the findings, they strengthened reporting requirements for participating businesses and clarified the process for recapturing credits when necessary.

- States Improved Tax Incentive Evaluations in 2018
  The Pine Tree Development Zones (PTDZ) program is one of Maine's primary economic development tools. But when analysts in the state Legislature's Office of Program Evaluation and Government Accountability (OPEGA) studied the program in 2017, they identified a potentially serious flaw: A business could take advantage of various tax incentives for up to two years merely by promising to create jobs. Then, even if it did not create any jobs after that time, the company would not have to return any of the benefits.

- New Jersey Tax Incentives Need a Periodic Checkup
  Periodic evaluation of tax incentive programs is a proven approach. Less than a decade ago, few states consistently examined their incentive programs. But today, as The Pew Charitable Trusts' research shows, state after state is using evaluations to answer hard questions about incentives, such as to what extent they successfully influence business behavior and what return on investment they provide. This information is helping legislatures make decisions. For instance, the Maine State Legislature relied on an evaluation in 2018 to fix a flaw in a program that allowed state businesses to receive incentives merely for promising to create jobs.

- How States Can gather Better Data for Evaluating Tax Incentives
  In addition to upgrading reporting for existing tax incentives, states can ensure that new programs launch with appropriate requirements. When the Maine Legislature created an incentive in 2017 to encourage businesses to locate their headquarters in the state, they worked with the staff of the Legislature's Office of Program Evaluation and Government Accountability (OPEGA) to ensure the program had well-designed reporting requirements.

- 2018 Roundtable on Evaluating Economic Development Tax Incentives
  Day 1, Session 2: Better Data- Improving Business Reporting Requirements

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Explanation of Evaluation Concepts

Is the incentive designed to achieve its stated goals?

Establishing clear and measurable goals for tax incentives is a critical step in designing programs that achieve the intended outcomes. Evaluations are an opportunity to identify disconnects between stated goals and program design. One way to do this is by analyzing whether benefits flow to the people, places, and businesses that policymakers intended. Clear goals also help evaluators assess program success and identify specific aspects of an incentive that may not be working as envisioned.

Are these programs the best way to achieve these goals?

In thinking critically about whether a program's design contributes to its goals, policymakers should also consider whether the program itself is the best way to accomplish the desired objectives, or if other strategies may be more effective.

Is the incentive structured to be efficiently and effectively administered?

An incentive's effectiveness can also depend on how it is administered, since inefficiently managed programs can reduce economic impact while increasing the fiscal impact on the state. Incentive administration should be designed to be efficient, consistent, and transparent. This does not mean trying to achieve the lowest possible administrative cost. Instead, the goal should be to strike a balance between a state's interests and that of businesses.

Does the incentive encourage business activity that would have occurred anyway?

Tax incentives only benefit states to the extent that they encourage people or businesses to do something that they would not otherwise have done. As a result, it is important for evaluations to assess a program's ability to change business behavior.