FINANCE AUTHORITY OF MAINE

Testimony by Christopher Roney
General Counsel

Regarding

OPEGA Evaluation of the Maine Seed Capital Tax Credit Program

September 8, 2021

Joint Standing Committee on Government Oversight

Senator Libby, Representative McDonald, and Distinguished Members of the Joint Standing Committee on Government Oversight:

My name is Chris Roney. I am the General Counsel at the Finance Authority of Maine (FAME). I live in Freeport and am here to testify regarding the August 2021 Office of Program Evaluation and Government Accountability (OPEGA) evaluation of the Maine Seed Capital Tax Credit Program.

FAME has administered the Seed Capital Tax Credit Program, the first of its kind in the nation, since its creation by the Legislature in 1987. We have watched it change and grow over the years to enable the success of great Maine start-up companies. I personally work closely with businesses and investors on the program and have observed many success stories. We believe the credit is an invaluable part of Maine's economic development offerings and have often received such feedback from both the benefitting companies and investors alike. The program has meant a great deal to their company's growth and success. We believe, and OPEGA observed in its report, that the credit has been associated with substantial private equity investments in Maine businesses over the years.

We worked closely with OPEGA staff for approximately one and one-half years on a review of the program. We cooperated fully and did our best to be helpful and responsive. As noted in the report, OPEGA spoke with a range of program participants and stakeholders, all of whom were complimentary about the accessibility and helpfulness of FAME staff in assisting businesses, investors, and interested parties in navigating the program requirements.

As you may recall, the program is designed to encourage equity and near-equity investments in eligible Maine businesses by individual investors and private venture capital funds. FAME may authorize state income tax credits or refundable tax credits to investors for up to forty percent of the cash equity they provide to eligible Maine businesses. Investments may be used for fixed assets, research or working capital. The program reduces the risk of a Maine investment, thereby encouraging investors to commit capital to Maine companies that might not otherwise benefit from such investment.

I would like to make a few comments on the report's findings and recommendations, and then would be pleased to make myself available to answer any questions you might have.

I will start by acknowledging at the outset that FAME could and should have done a better job on data collection and reporting, and we intend to address these deficiencies immediately. We regret these shortcomings and wish to assure you that they were not intentional by any means. The truth is that this program has grown in size and complexity over the thirty-six years it has existed, and our focus has largely been on implementation without adding needed resources to data collection and reporting. We are now engaged in internal discussions and plans to improve the reporting requirements and collection, as well as to increase our staff resources to better meet the needs of the program. We of course welcome your suggestions, as well.

While I have specific comments on the report's conclusions and recommendations, I would begin by summarizing our overarching thoughts, that improvements to the program and data reporting requirements are welcome; however, as noted in the report, with economic development incentives it can be very difficult to attribute a particular investment or business success directly to a specific incentive versus the overall collective offering of various incentives, such as those offered by our partner organizations, the Maine Department of Economic and Community Development (DECD), the Maine Technology Institute (MTI), and the Maine Venture Fund (MVF), all of which may collectively help to drive investor and business activities. Further, as we consider possible modifications to the program, we should bear in mind the desired precision of data and results may impose additional burdens on the companies and investors involved, as well as serve as potential disincentives for them to participate at all.

- ✓ **Conclusion 1—Business annual report data is inconsistent and incomplete**:

  The OPEGA review has brought this issue squarely to our attention. While we have been soliciting the statutorily-required information from participating businesses over the years, the review makes clear that improvement is needed regarding several aspects of this process. Definitions are needed to ensure companies report comparable data, and FAME needs to track and analyze the data better to identify potential inconsistencies. We also need to be clearer in reporting the data and disclosing the limitations of the information we provide to the Legislature. We already have revised our annual report form to include the data points that the most recent law (increasing credit limits) added last year, and to improve the clarity of our report form to reduce inconsistent responses and to obtain more detailed data. For example, because we believe that leveraging not only private investment but also public investment (including other state and federal sources of loans, grants and equity investment) is valuable, we will collect that data but ensure that it is separately reported. Naturally, we welcome input from you, the Taxation Committee, and others for other improvements. On the FAME reporting side, while we will still collect annual data from all participating companies, regardless of whether they have received credits in a given year (to ensure continued eligibility), we will focus our reporting of collected information on only those who have obtained investment to avoid reporting potentially misleading data. We have not yet determined how to ensure more compliance with company reporting without penalizing passive investors who have no control over the process (which would render credits uncertain and worthless), but are considering instituting fines in addition to ceasing new credit awards. We welcome your suggestions on this topic, as well.

✓ **Conclusion 2-Goal is to create jobs but program design does not drive this and annual report data does not reliably measure results**:

Please see above discussion regarding issues concerning annual reports data. Of course, the program design falls entirely within the purview of the Legislature; however, we would like to share our view that jobs is only one economic factor that is impacted by the investment that is driven by this program. Additional economic benefits are derived by business operations, including spending on payroll, rent, materials and other supplies. There are also taxes paid, which may include property, payroll and sales taxes. These benefits exist even if no jobs are added, and even though some may be lost. Indeed, even with business failures, there would have been some period of economic activity driven by the business prior to failure that may not have existed without the investments that obtain credits under this program.

✓ **Conclusion 3—Goal is to increase investment, but program allows some with connections to company to get credits that may have invested anyway, and program may not sufficiently attract out of state investment**:

Our rules focus on the investor's control over the business, not their level of ownership, although anyone with over 50% is ineligible. If an individual is a full-time management employee and owner, they are NOT eligible for the credit, regardless of their ownership level. We believe this is a better model because some large (often venture capital (VC)) investors may obtain a significant ownership stake in a business in return for their investment and, thus, lower percentage restrictions could serve as a barrier to these investments.

We would also caution against placing too much emphasis on trying to determine if investments (from any source) would be made without the credits. It is our view, based on our interaction with investors and companies, that the credit is an important factor in the investment decision of investors. However, because the credit is a risk mitigant, there are likely many factors that together convince an investor to invest, and not any one factor alone. We believe it would be nearly impossible to reliably determine whether any investment would have been made without the credit. Indeed, we are hearing this already from program stakeholders with whom we have consulted about this report.

On the issue of out-of-state investment: we are attracting more and more out-of-state investments from regional, national and international VC sources. The Legislature added refundable credits to VC funds in order to stimulate critical "smart money" investments from out-of-state venture funds that previously had no interest in deals in Maine, bringing to the state not only critical investment funds but also other resources like business experience, connections, and other funding relationships. Refundability is key to these investors because they have no Maine income tax to offset. The Legislature could add refundable credits for individual investors, as well, but this is entirely a policy choice. It may add to the program fiscal note, however, and it may prove difficult for Maine Revenue Services to track these extra individual returns.

✓ **Conclusion 4—The program benefits companies that do not have potential for rapid growth, like film businesses and tourism businesses**:

This is entirely a policy choice for the Legislature, but FAME would suggest that export and hospitality/tourism businesses, while not necessarily rapid growth companies, are historically important businesses to the Maine economy and bring much money into the state from out-of-state and employ large numbers of Maine citizens. As you know, our license plates say "Vacationland" for a reason.

✓ **Conclusion 5-The program does not increase municipal tax bases**:

While this may or may not be true, it is only one element of the potential economic benefit of operating businesses in the state participating in the program, as discussed earlier, and we do not believe it is the most important of the many benefits. Viewing this as an aspirational, ancillary goal of most economic development programs, we believe this element could be removed as a key program goal.

✓ **Conclusion 6-Maine Economic Development Plan cites program as important for promoting innovation, program allows companies that are not innovative to participate:**

FAME's only observation on this issue is that innovative businesses are an important and growing subset of the eligible businesses for this program, but there are many other types of businesses (e.g. manufacturing and tourism/hospitality) that can and should benefit from the program. It is the Legislature's purview to determine these structural boundaries, but we would not suggest overly narrowing the list of potential businesses that might be eligible to participate in the program.

And now a few thoughts regarding the report's various recommendations:

- **That the Legislature, in consultation with FAME, the Department of Economic and Community Development (DECD), and other stakeholders as appropriate, re-evaluate and clearly define program goals and what "success" looks like in terms of outcomes and results. Thereafter, the program design should be adjusted, through amendments to statute or agency rules as appropriate, to ensure the program requirements align with the goals:**

  We support this recommendation and look forward to collaborating with DECD and stakeholders to assist in this process. FAME believes it will be very important in that process to ensure that there is not an over-emphasis on jobs as a measurement of success to the exclusion of other benefits, and that credits not be contingent on outcomes that are not within the control of the investor. In addition, business outcomes should be only one factor in considering success, recognizing they drive benefit regardless of failure. Finally, we believe it would be an extremely difficult and perhaps not too valuable an exercise to attempt to determine definitively that investments would not have happened "but for" or without the credits, as investments in small companies are driven by a variety factors, of which the credit likely is just one. Our conversations with business and investor stakeholders on this issue support this belief.

- **That the Legislature, in consultation with FAME and DECD as appropriate, adjust the program's reporting requirements to allow for effective oversight of whether the program is meeting its goals (e.g. the type of data and information gathered and reported, both by businesses and FAME, should specifically align with the MSCTC's goals):**

  FAME supports this recommendation and looks forward to working with parties to determine the appropriate scope of required reporting. We would caution against reporting levels that might over-burden participants and possibly discourage program participation, however.

- **That FAME improve our processes for program data collection, analysis and reporting**:

  We agree with this final recommendation. FAME takes seriously its role as administrator of the program and welcomes suggestions for improvements. The program has grown and evolved over the years and clearly would benefit from additional staff resources and attention to data collection and reporting details. If all of the recommendations are implemented, however, we will require additional resources.

The report's findings and recommendations are appreciated. We look forward to working with the Legislature, DECD, MRS, MTI, MVF, members of Maine's business and venture capital/angel investor communities, to improve the program. As noted above, we have been engaging with a variety of program stakeholders about the report since its publication. Some plan on testifying today. Many have expressed their support for the program, noting what a difference it made in their businesses' success. Most favor modest improvements to the program and not a radical overhaul. We agree with them.

As we consider possible changes to the program, we should bear in mind the potential for desired precision of data and results to impose additional burdens on the companies and investors involved, as well as the potential for such changes to serve as disincentives for them to participate in the program at all.

Thank you for your consideration of our comments. I will be happy to answer any questions you have.

Testimony by John Burns
Strategic Advisor, Small Enterprise Growth Fund
d/b/a/ Maine Venture Fund

Regarding

Office of Program Evaluation and Government Accountability ("OPEGA") August 2021 Evaluation of the Maine Seed Capital Tax Credit

Government Oversight Committee

August 30, 2021

Senator Libby, Representative McDonald, and Distinguished Members of the Joint Standing Committee on Government Oversight:

My name is John Burns. I currently serve as Strategic Advisor to the Maine Venture Fund ("MVF") after having served for twenty-one years until June of this year as Managing Director. I live in Blue Hill and am here to provide my perspective on the Maine Seed Capital Tax Credit Program (hereafter "SCTC" or "Program"), and OPEGA's recent report on the program.

First, some brief background on MVF. MVF was created twenty-four years ago by the Legislature and is the State's venture capital fund. MVF invests in scalable Maine companies in exchange for a minority equity stake in the company, providing guidance, support, and advice in addition to rounds of capital. For any investment MVF makes, co-investment is required, allowing other investors to validate the investment opportunity, and the SCTC is often an effective and frequently used mechanism for attracting private investors to invest alongside MVF.

In my capacity, I have clearly had a ring-side seat for observing how this tax credit program impacts the innovation, entrepreneurial and small business community in Maine. The primary message of my testimony is that, on balance, a tax incentive program to attract capital to Maine companies is still good policy, and the SCTC is a very important component of assisting scalable Maine companies to access critical capital. Of course, the Program should be continually reviewed, as now, and adapted for the times as it has been several times over the years.

Scalable companies, that is those that have the potential to grow to significant size and create many well-paying jobs for Maine people, typically require significant amounts of capital. The fact remains that Maine remains off the beaten path for sufficient capital to support the scalable company ecosystem; the State must entice private sources of capital, like high net worth individuals, venture capital funds, and private equity funds, to give serious consideration to, and invest in, Maine based companies. This enticement can take many forms of course, but an investment tax credit is a powerful tool that should provide an excellent ROI for the State investment of foregone tax revenue. To my knowledge, a formal quantitative analysis of the ROI on the credit has never been conducted. An analysis would of course require many assumptions and require some subjectivity, but among elements to consider are the fact that the private investment is made in year one, but the credit is claimed over four years at minimum, the jobs created provide living wages for families, wages on which state income tax is paid, those employees and their families shop and pay taxes in their local communities, and the secondary and tertiary effects of the velocity of capital.

A significant and visible positive impact of the SCTC is the creation and existence of an organized 'angel' (high net worth individuals, or "accredited investors") group in Maine, the Maine Angels. Maine Angels has invested over $33 million since founding by Maine Venture Fund Board members and others in 2003. Most of that $33 million has been in Maine based companies. Angels bring diverse business and entrepreneurial experience to Maine entrepreneurs and having a robust angel group in our State is critical for the growth of the kinds of businesses Maine needs to grow its economy. The angels bring not only capital but their own commercial experience, technical expertise, and connections to other successful individuals around the world. Would Maine Angels exist had it not been for the SCTC? Perhaps, but I believe it would not be as large and robust as it is.

In addition, in the past few years, more and more VC firms have "found" Maine and our talented young companies and entrepreneurs; funds like True Wealth, T-Street, Resolve, 3dot6, York IE, Sustain VC, Yes VC, and others. Years ago the Legislature made the credit available to traditionally structured VC firms. More can and needs to be done to market Maine's SCTC to sophisticated venture funds around New England and beyond. As noted, Maine continues to be an overlooked State for venture capital ("VC") investment. In 2020, VC investment in the U.S. was about $130 billion, and scant few of those dollars came to Maine companies. If, on the margin, we can make a Maine-based investment opportunity attractive to a VC firm, then Maine companies gain access to a much larger pool of capital than can be generated from Maine sources. And not just the capital for that round, but the technical, financial and networking benefits that large VC's can bring. VC funds that invest in Maine companies are much more likely to consider doing it again. Once you have to drive or fly to Portland or Bangor, why not check in on two or more of your companies. Attracting these VC investors is additionally critical to ensure that local investment, from MVF, Maine Angels members, MTI, and others, is not stranded because those sources run dry.

Attracting sophisticated, deep-pocketed investors to look at and invest in Maine's high-potential companies was and is a key objective of the tax credit program. High-potential, high-growth companies typically need several rounds of equity investment capital before they are able to grow using internally generated cash flow. The amount of money that individual investors can provide is typically insufficient to get a high-growth, high-potential company to that point. Larger, deeper-pocketed investors are a necessary ingredient for the ultimate success of those high-growth, high-potential companies. For many reasons, it is in these companies' interest to be able to attract larger, sophisticated investors.

Some comments on the OPEGA report itself:

- In my experience, I am in agreement with the reports' position that he credit should only be available for businesses that have the potential to scale (i.e. not tourism, film, hospitality, etc.).
- The report states that the credit does not necessarily lead to increase in the municipal tax base, but doesn't site data demonstrating that. Job growth would of course affect a municipal tax base through more local citizens paying property tax, excise taxes, shopping locally, etc., but employees don't necessarily live near the employer, especially with the remote work trend accelerated by covid. Perhaps a better measure would be State income tax impact.
- The "but for" criticism; yes, many of the investments made by individuals or by "traditional venture capital funds" may have occurred without the credit, but there is no clear way to know that for certain. A calculation must be made that the benefits of the Program outweigh the 'risk' that a credit is being given when it isn't necessary.
- Yes, data collection, analysis and reporting could and should be more detailed and consistent.

If and when the Program is reevaluated, some elements that the Legislature might consider in strengthening the program:

- Allow members of the National Angel Capital Association to avail themselves of the credit. Members of the ACA are high net worth individuals interested in entrepreneurship and innovation. Tapping into this robust, well managed, nationwide organization could open Maine to large pools of capital. At a minimum, allow ACA groups that are structured as pools of capital take advantage.
- Note: Individual investors in Maine that use the credit are often very protective of the credit and do not look kindly on VC's or investors from outside the State using up the available credits (i.e. expansion of eligibility for the credit to investors outside the State). Though this position will be unpopular with some of my friends at Maine Angels, I think that limiting the credit to Maine individual taxpayers is shortsighted and deprives scalable Maine companies of deeper pocketed investment pools, deep expertise, and broad networks.
- The level of the credit is often the subject of review. The reduction to 40% from 50% did not seem to effect the credits impact or popularity. A review of other States credit levels and utilization as part of Program review would be interesting and informative.

The Maine Seed Capital Tax Credit is a valuable component of Maine's toolbox of initiatives and programs designed to encourage and support research, development, and innovation in the Maine economy leading to growth in well-paying jobs. Thank you for your time and consideration.

Testimony by Joe Powers
Managing Director, Small Enterprise Growth Fund
d/b/a/ Maine Venture Fund

Regarding

Maine Seed Capital Tax Credit

OPEGA Report: Report No. TE-SEED-19

Joint Standing Committee on Government Oversight

September 8, 2021

Senator Libby, Representative McDonald, and Distinguished Members of the Joint Standing Committee on Government Oversight:

My name is Joe Powers. I serve as Managing Director of the Small Enterprise Growth Fund, which does business as Maine Venture Fund ("MVF"). I live in Portland and am here to testify regarding the recent report by the Office of Program Evaluation and Government Accountability (OPEGA) and generally in support of the Maine Seed Capital Tax Credit Program. The OPEGA report was very helpful in illuminating areas where the program can be improved. Pragmatic refinement would be welcome, but, should they be considered, any major detrimental changes or cuts to the program could directly harm the Maine start-up sector's economic recovery at this critical time.

For those not aware, MVF is a state-sponsored pool of seed capital under the purview of eleven gubernatorially-appointed board members and managed by a small three-person operational team, which I lead. Our statutory mission, established more than twenty years ago, is to support the highest potential start-up companies in Maine through capital investment. MVF differentiates itself as a capital provider by focusing on equity investments, which means we purchase a small ownership stake in our Maine-based portfolio companies and then work alongside them, typically via their boards, to help support them in achieving long-term success. This model, generally referred to as venture capital, is an essential ingredient in growing vibrant economies; the companies that attract venture investment represent a fraction of 1% of all U.S. companies but make up more than 20% of gross domestic product (GDP), and job growth within these companies is roughly eight times that of the average private company, according to the Brookings Institute.

MVF-backed companies have included Certify, Blue Tarp, Hyperlite Mountain Gear, Pika Energy, and Sea Bags, among dozens of others. However, MVF is a small Fund; nearly 90% the investment that these companies receive, on average, comes from other sources. The Seed Capital Tax Credit has been a critical carrot to incentivize other investors, both in the state and outside, to help support these companies to the tune of roughly $200 million over the last twenty years.

Which brings me to the OPEGA report itself – an impressively thorough and helpful review of the Maine Seed Capital Tax Credit Program, or "MSCTC". The report concludes that "the MSCTC is associated with substantial private equity investments in Maine businesses", which is the primary objective. However, the report also flags several concerns around data collection and reporting. OPEGA highlighted well-researched gaps and areas for improvement, but, in my view, these may have overshadowed the positive aspects of the program that I see in my position from the ground level as an investor. Specifically, the program could and absolutely should be improved (for example, limiting slow-growth business access), but absolutely *should not* be restricted or curtailed as a whole.

Most ambitious Maine companies cite lack of access to capital as their primary obstacle to growth. This is a widespread challenge outside of major metro areas; the Seed Capital Tax Credit is a key tool to level the playing field for our companies in attracting the attention of investors both in and outside of Maine, and the credit does that to great effect. If anything, Maine companies would benefit from greater marketing of the program, as many investors outside of Maine are still not aware that it exists. Among those who are aware, the credibility of the Seed Capital Tax Credit incentive has been slowly growing each year as the program has proven more and more successful. Making any drastic "front end" changes would kill that momentum and send a signal that Maine is "closed for business", at least among this critical investor community.

OPEGA recommends that "the Legislature...and other stakeholders as appropriate, re-evaluate and clearly define program goals and what 'success' looks like in terms of outcomes." My suggestion would be to narrow program goals to focus explicitly on the impact to Maine companies, and limit focus on ancillary (but hard to measure) metrics like municipal tax revenue. The program will no doubt continue to be a key lever for Maine's ongoing economic recovery in the start-up sector, and streamlining it (i.e. reducing complexity while improving tracking) for the benefit of Maine companies is welcome.

Thank you for your time and consideration.

CVI

CEI Ventures

Testimony to the Committee on Government Oversight
Comment <u>in Support of</u> the Evaluation of the Maine Seed Capital Tax Credit

Nathaniel Henshaw, President, CEI Ventures, Inc.

September 8, 2021

Senator Libby, Representative McDonald, and Distinguished Members of the Government Oversight Committee:

My name is Nathaniel V. Henshaw. I am a Brunswick resident and President of CEI Ventures Inc. (CVI), the socially responsible venture capital subsidiary of Coastal Enterprises, Inc. (CEI), a 43-year-old Community Development Financial Institution based in Brunswick. Using the Maine Seed Capital Tax Credit Program, CVI helps create good (quality) jobs for all people, including those with low incomes. First, I'd like to commend the Office of Program Evaluation & Government Accountability on the substantive report. We would like to comment on the following questions that are raised in the evaluation.

The report discusses the challenges of <u>job creation</u> metrics. It is worth noting that counting and measuring the number and quality of jobs created by and lasting effects of economic activity catalyzed by any given investment can be complicated and challenging. For example, a company may increase its workforce significantly due to a specific investment and provide workers with valuable training and transferable skills in the process. It may be difficult to quantify the talent that was nurtured, business innovation that was fostered, state and federal taxes that were paid, and community impacts and social costs that were exerted or evaded because of that investment while the company was growing, regardless of the particular company's disposition ten years on. Additionally, former employees might likely go on to create other successful companies, hire and train additional workers, and contribute to a business ecosystem that perpetuates the cycle of innovation and entrepreneurship.

Typically - inevitably - some of the companies in a venture portfolio will fail, while the winners vastly make up for those that don't succeed. Therefore, one successful company that goes on to create a few hundred jobs can make up for many (or even a majority of) companies that go out of business or fail to reach full potential.

At CVI, we measure job creation in our portfolio by measuring jobs at the time of the initial investment and then quarterly over the investment period until we exit, with that difference each quarter and upon exit being the number of net new jobs. Between October 1, 2018, and September 30, 2020, we invested nearly $1.6 million into qualifying companies. These funds were leveraged 7x by both in state and out of state investors. Furthermore, during the 2-year period, and despite a global pandemic, these companies created 46 "good" (quality, benefited) jobs in the State of Maine. As we emerge from the pandemic, hiring at these companies continues to increase at an accelerated pace.

There is considerable discussion in the report around internal "investments which would have happened anyway." Regarding these types of investments by interested investors, it is important to note that the

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Maine Seed Capital Tax Credit serves as critical incentive to put needed money into existing portfolio companies. It is possible that this will be the crucial difference between a company's survival or failure. This becomes even more critical during a recession and specifically applies to the economic turmoil brought about by the current COVID-19 pandemic.

CVI measures equity leverage on our investments. It may be evident yet it is important to emphasize that equity is catalytic. Growing businesses need equity funding to secure debt financing as the two complement each other. While debt is often used to finance hard costs such as equipment purchases, real estate, or facility improvements, equity is often used for soft costs related to hiring, R&D, and working capital necessary to support growth. Therefore, the Maine Seed Capital Tax Credit plays an important role in leveraging both debt and equity. In combination, the two can support municipal tax bases and economic growth.

CVI's portfolio businesses significantly export out of state. This brings value to Maine and sells the Maine brand. Additionally, Maine's Seed Capital Tax Credit has allowed us to import capital from out of state as well as raise it locally.

Examples of Maine Seed Capital Tax Credit eligible companies that we have invested in include:

- MedRhythms, Portland. Makes a stroke rehabilitation device for patients learning to walk again.
- Pika Energy, Westbrook. Grew a successful business in the solar power industry and employed a lot of UMaine Engineering Grads in the process.
- Vetro, Portland. Developed innovative GIS mapping system for internet service providers and has grown from startup to employing over 50 people. The company also attracted highly skilled out-of-staters to move to Maine.
- CourseStorm, Bangor helps community education providers register students for courses.

Thank you for your attention to this important economic development tool and for considering our testimony. Please don't hesitate to contact me with questions.

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TESTIMONY OF TIMOTHY P. AGNEW TO THE JOINT STANDING COMMITTEE ON GOVERNMENT OVERSIGHT REGARDING THE OPEGA EVALUATION OF THE MAINE SEED CAPITAL TAX CREDIT PROGRAM SEPTEMBER 8, 2021

Senator Libby, Representative McDonald, Members of the Joint Standing Committee on Government Oversight, my name is Timothy Agnew of Portland.

I first want to compliment OPEGA and the authors of the Report on an in-depth and insightful analysis of the Program. They have accurately reported the history of the Program and identified potential improvements for FAME and the Legislature to consider.

By way of background, I was the Chief Executive Officer of the Finance Authority of Maine when the Program was first implemented back in 1988 and I have tracked its development and implementation over the life of the program. Since leaving FAME in 1999, I have been active in venture capital investing as well as serving as Chair of the boards of both the Maine Technology Institute and the Maine Venture Fund. In each of those capacities, I have seen the key role the Program plays in helping Maine early-stage businesses raise the investment capital they need to grow.

According to the legislative purpose language in the statute (copied below), the primary purpose of the Program is "to encourage the increased availability of risk equity capital to enterprises that have the potential for rapid growth and that bring capital into the State...." The Legislature noted at the time that Maine businesses have struggled to raise venture capital and that venture capital investment in Maine is "substantially below the national average and the average of the other New England states."

With the changes to the Program approved by the Legislature in the last couple of years, venture capital investment in Maine has increased dramatically. Over the period from 2002 to 2011, the average annual venture capital investment per capita in Maine was only about one seventh of the national average. In 2020, we had increased to one third of the national average, moving up from 48th place to 42nd. We have moved ahead of Vermont and we are just behind Rhode Island. New Hampshire once attracted 8.5 times Maine's venture capital per capita; in 2020, that number dropped to 1.6 times.[1] The Seed Capital Tax Credit has helped to put Maine on the map as a place where start-up businesses can raise the venture capital they need to grow and it is accomplishing its Legislative Purpose.

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[1] Sources: National Venture Capital Association, Statista, U.S. Census

The details regarding investor and company eligibility, the percentage of the tax credit, and the amount of tax credit available have been adjusted many times over the years. There is no magic formula that delivers the maximum amount of investment and job creation. The goal is to achieve the best balance of the amount of the credit and the definition of eligibility to attract investors to take the risk of investing in early-stage, money-losing Maine businesses that have the potential to grow good jobs and generate tax revenue. I look forward to continuing to work with the Legislature to address that goal.

Thank you for your time and attention. I would be happy to answer any questions.

Title 10, Section 1100-T, subsection 1 (emphasis added):

"**Legislative findings; authorization**. The Legislature finds that the growth of new and existing small businesses in the State results in increased job opportunities for Maine residents, produces more spending in the State and increases municipal tax bases. Businesses that export their products or services out of the State bring capital into the State and help to develop export markets for Maine products. Small new and existing businesses can provide significant economic benefits to the State if they can obtain sufficient seed equity financing to carry them from start-up through the initial development phases of a business. The jobs created by such businesses tend to pay higher wages and offer more benefits than other businesses; however, ***the per capita level of private venture capital investment in businesses located in the State is substantially below the national average and the average of the other New England states. In order to encourage the increased availability of risk equity capital to enterprises that have the potential for rapid growth and that bring capital into the State, the authority is authorized to issue certificates of eligibility for the seed capital investment tax credit*** permitted by Title 36, section 5216-B, subject to the requirements of this section. This program is known as the Maine Seed Capital Tax Credit Program." [PL 2011, c. 454, §1 (AMD).]

Testimony on the MSCTC for 9/8/21

My name is Sandra Stone, and I am an active angel investor in early stage startups and a beneficiary of FAME's MSCTC program. I was Chair of the Maine Angels (Maine's Angel investment network) from 2011 – 2015, and serve on the Board of CEI Ventures Inc. and on the Investment Advisory Board of the Dirigo Angel Fund 1.

I have experienced the more active attention to those companies pitching for investment that qualify for MSCTC, and at Maine Angels we often encourage company prospects to confer with FAME on their possible eligibility if they are not aware of the program. There is indeed an incentive to invest in a company that qualifies for an annual (tax credit) return on that investment in the first 4 years when a company is most often in growth expenditure mode and scaling. It helps to "de-risk" a high risk/high reward investment opportunity by returning 10% of capital per year as a tax credit for the first 4 years. Often an investor will therefore consider a higher level of investment exposure when there is knowledge of early tax credit to reduce the risk, particularly when ecosystem partners have also vetted and analyzed the deal and we co-invest together. Yet that credit alone is not enough for an investor to consider an opportunity that doesn't have realistic and attractive financial projected returns on its own merits. It will however, often make a Maine investment more attractive than another one being considered that operates out of state without that kind of tax credit. The tax credit could and should encourage investments in sectors that Maine wants to promote. Clarifying the targeted sectors, specifying the types of jobs, and re-examining and aligning with primary goals makes sense.

I observed first-hand the increased attention to the MSCTC incentive as it approached its maximum cap. I kept a spreadsheet on member investments, and from 2004 to 2011, Maine Angels investors had invested in 9 Maine companies, 5 of which were MSCTC eligible. In 2012, Maine Angels added 6 Maine Companies to the groups' portfolio, and all 6 were MSCTC eligible. By 2016, Maine Angels began tracking investments on an online investment platform and not all of the older data has been entered into that program. By the end of 2016, Maine Angels' members had invested in a total of 71 companies. Of those investments, 33 were in Maine companies, 28 were MSCTC eligible, and 22 were still active.

I strongly feel that Maine companies seeking funding are more attractive to out of state investors when they have "local" Maine investors. Maine Angels will usually not even consider an out of state deal that comes to us as an unknown entity. We tend to require investment commitments and a positive diligence report from a known and trusted angel group that is local to any out of state venture applying for funding. Local investors will have the beneficial contacts, resource referrals, and personal proximity to mentor and verify appropriately. (When Maine Angels has a strong investment prospect that seeks more than our group can collectively invest, we reach out to our investor syndication colleagues in our New England Angel Capital Association to attract their investment dollars as well. We share deal flow, and find that they also question when a Maine deal cannot attract in-state dollars, which many would consider a red flag.)

So I would certainly urge continued allocation of some proportion of the tax credits to in-state investors who help to raise awareness and visibility of small and medium size businesses with prospects for outsized growth. However, I question the direct payout up front of the total credit back to private venture capital funds rather than stepped payout as done with the tax credits to individual investors.

I am concerned about the reports recommendation to require additional reporting of data. Impact is important to measure, but it would be hard for the investor to credibly collate those specifics. Early stage companies are often overwhelmed and in the weeds with building their business, and may find additional tracking and arduous calculations a time and talent drain at the very time they most need to focus on their venture. My suggestions would be to identify key metrics that would be performance informative for the company as well, and designate a state facilitator to follow up on all first year recipient companies to help set up a consistent format for collecting and verifying the priority key data.

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I am not available at the start time of the session on Wednesday, but will attempt to join on zoom as soon as I am able.

Thank you for the opportunity to lend my voice to this important and impactful investment incentive review.

Sandra Stone

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TESTIMONY OF JOSHUA BRODER, CEO OF TILSON

TO THE

JOINT STANDING COMMITTEE ON GOVERNMENT OVERSIGHT

REGARDING THE OPEGA EVALUATION OF THE

MAINE SEED CAPITAL TAX CREDIT PROGRAM

SEPTEMBER 8, 2021

Senator Libby, Representative McDonald, and Distinguished Members of the Joint Standing Committee on Government Oversight:

My name is Joshua Broder. I serve as the CEO of Tilson, a Maine-based network deployment and IT professional services firm with around 600 employees. Last year, I was both humbled and honored to be selected as co-chair of the Governor's Economic Recovery Committee, which was established to develop specific policy recommendations to stabilize Maine's economy and build a bridge to future prosperity in the wake of the COVID-19 pandemic. I am testifying today in support of keeping the Maine Capital Seed Tax Credit, expanding the credit's capacity, and not introducing new burdensome qualification and reporting requirements.

In my business, I'm involved in major capital projects all over the country, and Maine's incentives in this area are not competitive because they don't contemplate start-up projects at the scale that the economy is functioning nationally. I worry we are playing "small ball," which means we are expending some resources but getting less impact than we could. Job creation in the recovery, especially in the manufacturing sector, is urgent. Today's Seed Capital Tax Credit is working. It should be continued, and I partially disagree with the OPEGA report's finding that the current tax credit is misaligned with the goal of attracting out-of-state investment. I've seen time and time again that even when Maine-based investors participate in credit earning seed investment rounds, in months those rounds lead to out-of-state investment at a larger scale, or more directly, participating Maine investors anchor raises that include out-of-state investors, and but for that anchor, the seed round wouldn't proceed. I do think that the current credit caps, as explained below, make the credit less attractive to-out of-state investors than it could be, and by expanding them there would be more participation.

Governor's Economic Recovery Committee

- The pandemic's impact on early-stage, high-growth businesses has highlighted the importance of nurturing an entrepreneurial ecosystem that cultivates nationally competitive, growth-oriented businesses that are innovating to meet new markets and economic circumstances.

- Fundamental to their growth, and to Maine's economic recovery, is the need to encourage early-stage investment in those new businesses.
  - "In today's economy, innovation drives job growth and wage growth, with each new job created in an industry that competes nationally or internationally creating on average 1.6 additional jobs across Maine's local small business sector." *ERC Report*, footnote on Page 9.
  - Furthermore, when Maine's products are shipped and sold outside of Maine, they bring new and additional dollars into our state economy.
  - Yet start-ups, particularly in the manufacturing sector, are capital-intensive and state incentives to stimulate investments in them becomes critically important.

- Maine's Seed Capital Tax Credit Program has a proven track record of attracting investments in early-stage manufacturing businesses, although changes to the credit recently have diminished its impact, namely reducing the per company lifetime investment limit and the per investor cap.

- For all these reasons, the ERC strongly recommends building upon and strengthening that program by increasing funding levels and caps.

- More specifically, the ERC Report recommends expanding the Maine Seed Capital Tax Credit to include:
  - A higher per company lifetime investment limit of $6M
  - A higher annual per company investment limit of $5M
  - A higher annual total amount of credit available of $20M

- I understand that the program allocation was recently expanded to a cap of $15 million and that last year, the program was not fully utilized, so it appears it has room to grow, but the structural limitations recently imposed on the available credits made them a mismatch for the most meaningfully scaled project.

I disagree with the OPEGA report's recommendation that there be additional reporting requirements.

Thank you and I am happy to try to answer any questions you may have.