OPEGA
TAX
EXPENDITURE
REPORT

Evaluation of the Credit for Paper Manufacturing Facility Investment

September
2024

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

GOVERNMENT OVERSIGHT COMMITTEE OF THE 131ST LEGISLATURE

Senator Craig V. Hickman, Chair
Senator Lisa Keim, Lead
Senator Richard Bennett
Senator Jill C. Duson
Senator Jeff Timberlake
Senator Mike Tipping

Representative Jessica L. Fay, Chair
Representative Amy Arata, Lead
Representative Mark Blier
Representative Anne-Marie Mastraccio
Representative H. Sawin Millett, Jr.
Representative Margaret M. O'Neil

<u>Committee Clerk</u>
Vacant
Phone: (207) 287-1901
Fax: (207) 287-1906

Mailing Address:
Government Oversight Committee
82 State House Station
Augusta, Maine 04333-0082

OFFICE OF PROGRAM EVALUATION & GOVERNMENT ACCOUNTABILITY

Director: Peter Schleck

<u>Staff</u>
Matthew Kruk, Principal Analyst
Jennifer Henderson, Senior Analyst
Amy Gagne, Senior Analyst
Kari Hojara, Senior Analyst
Joel Lee, Analyst
Lisa Plimpton, Analyst
Hillary Risler, Analyst
Vacant, Administrative Secretary

Mailing Address:
82 State House Station
Augusta, Maine 04333-0082
Phone: (207) 287-1901
Fax: (207) 287-1906
Web: http://legislature.maine.gov/opega

Requests for OPEGA reviews are considered by the Government Oversight Committee in accordance with a standard process. Requests must be made in writing and must be initiated or sponsored by a legislator. Individual legislators or citizens should review the process and FAQ that are posted on OPEGA's website at http://legislature.maine.gov/opega/request-for-a-review. There is also a form there to help facilitate the GOC's consideration of the request. Legislative committees can request reviews directly through a written communication to the Government Oversight Committee.

Copies of OPEGA's reports are free.

Reports are available in electronic format at:
http://legislature.maine.gov/opega/opega-reports

Hard copies may be obtained by contacting OPEGA at:

(207) 287-1901

OPEGA Evaluation of the Credit for Paper Manufacturing Facility Investment

About the Credit for Paper Manufacturing Facility Investment

The Credit for Paper Manufacturing Facility Investment (Paper Manufacturing Credit) was enacted in 2021 under Title 36 §5219-YY and may be claimed beginning in tax year 2024. It is a refundable income tax credit of up to $16M over 10 years for a business that makes a qualifying investment of $40M in a Maine paper manufacturing facility. The annual credit amount is 4% of the qualifying investment, capped at $1.6M. The Department of Economic and Community Development (DECD) and Maine Revenue Services (MRS) jointly administer the credit, and both agencies' administrative costs are small enough to absorb within existing resources.

The Paper Manufacturing Credit Is Accessible by One Business

Although statute does not explicitly limit the number of users of the credit, OPEGA found that only one business in Maine can qualify. Maine has several paper manufacturers, but only Twin Rivers Paper Company (Twin Rivers) meets all of the requirements for the Paper Manufacturing Credit. In addition, the window for qualifying investment for the credit closed on December 31, 2023, so no further investment can qualify even if another paper manufacturer were able to meet the credit's statutory requirements in the future.

Job Retention and Investment Have Occurred; It's Unclear How Much Is Due to the Credit

Job retention and investment by the credit's sole user have met statutory minimums. However, it is unclear how the Paper Manufacturing Credit impacted the timing, magnitude, or nature of the company's employment and investment decisions. Assessing the impact of incentives on behavior is difficult because many factors influence business decisions, and the relative importance of these factors may not be visible from outside the company.

That said, the Paper Manufacturing Credit offers a substantial discount on a company's qualifying investment–up to 40% in total. A cost reduction of this magnitude is more likely to impact a business's investment decisions and its ability to be competitive within its industry. Effective tax rate analysis shows that Maine's tax environment for a business that can access the Paper Manufacturing Credit is competitive with comparison states but is less so without the credit. Since this increase in tax competitiveness is only available to the credit's one user, other Maine paper manufacturers could be at a disadvantage in the marketplace if they cannot access comparable tax incentives.

Recommendations from OPEGA's Evaluation

Because the period for qualifying investment under the Paper Manufacturing Credit has passed, no future applications for initial certificates of approval are expected. Consequently, OPEGA did not consider opportunities to improve that process. Instead, our recommendations focus on how design of similar future incentives might be improved and how ongoing data collection and reporting can be strengthened to better support oversight.

Recommendations for Legislative Consideration	
1	The Legislature May Want to Consider Other Tools for Providing Incentives to Single Entities in the Future
2	The Legislature May Want to Consider Approaches to Increase Transparency Around Use of Multiple Incentives
3	Clarification of One Measure for Evaluating the Credit May Be Needed
Recommendations for Program Administrators	
4	DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality
5	DECD Should Include Additional Information in Annual Reports to Allow Legislators to Monitor Fiscal Impact Developments

PETER SCHLECK
DIRECTOR

MAINE STATE LEGISLATURE

OFFICE OF PROGRAM EVALUATION AND GOVERNMENT ACCOUNTABILITY

September 18, 2024

Sen. Craig V. Hickman, Chair
Rep. Jessica L. Fay, Chair
Members, Government Oversight Committee

As directed by the 131st Legislature's Government Oversight Committee (GOC), and in accordance with the parameters approved by the Committee, OPEGA has completed a review of the Credit for Paper Manufacturing Facility Investment. The approved project parameters, included in Appendix F, establish the goals, intended beneficiaries, and base performance measures considered in this evaluation. The methods and references for this review are in Appendix A.

OPEGA conducts reviews of tax expenditures in accordance with Title 3 §§998 and 999. The statutory tax expenditure review process ensures that tax expenditures are reviewed regularly, according to a schedule approved by the GOC. The process is detailed in Appendix E.

OPEGA would like to thank the Department of Economic and Community Development, Maine Revenue Services, and Twin Rivers Paper Company, for their cooperation throughout this review.

In accordance with Title 3 §997, OPEGA provided reviewed agencies an opportunity to submit comments after reviewing the report draft. Both DECD and MRS provided comment letters which are included at the end of this report.

Sincerely,

Peter Schleck
Director, OPEGA

82 STATE HOUSE STATION, ROOM 104 CROSS OFFICE BUILDING
AUGUSTA, MAINE 04333-0082
TELEPHONE: 207-287-1901 FAX: 207-287-1906 E-MAIL: Peter.Schleck@legislature.maine.gov

Table of Contents

Evaluation of the Credit for Paper Manufacturing Facility Investment

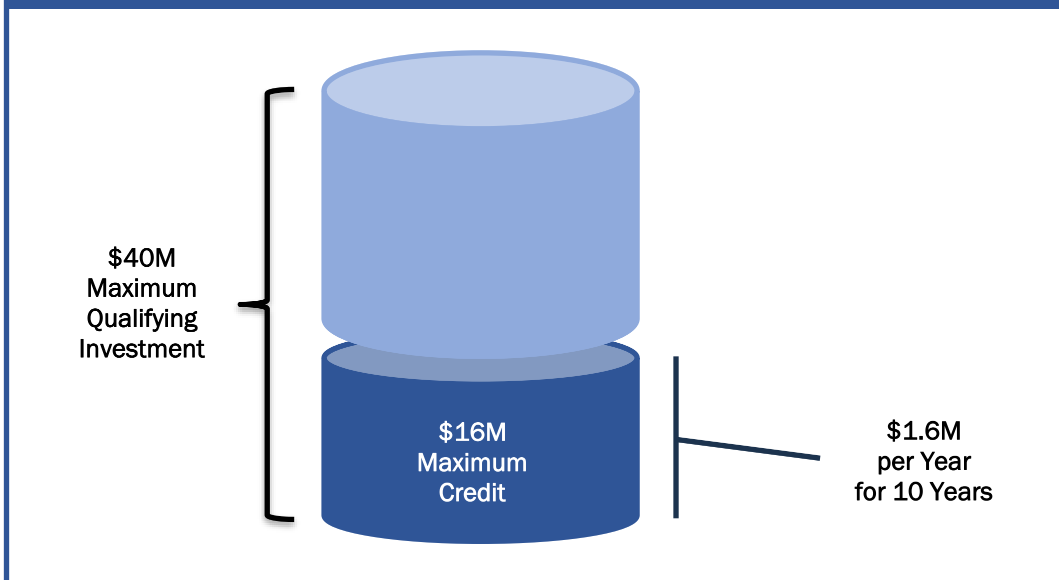
What Is the Credit for Paper Manufacturing Facility Investment?

Maine's Credit for Paper Manufacturing Facility Investment provides a refundable credit of up to $16M over 10 years. It can be accessed by only one business and may be claimed starting in tax year 2024.

The Credit Is Refundable and Provides Up to $16M over 10 Years

The Credit for Paper Manufacturing Facility Investment (Paper Manufacturing Credit) was enacted in 2021 under Title 36 §5219-YY. It is a refundable income tax credit for a qualifying paper manufacturer that invests at least $15M, and up to $40M, in a paper manufacturing facility by the end of calendar year 2023. The credit is for 4% of the qualifying investment per year, for 10 years, for a cumulative credit of 40% of the qualifying investment, up to a maximum of $16M.[1]

The Paper Manufacturing Credit Is Equal to 40% of the Qualified Investment Over 10 Years



Both the Department of Economic and Community Development (DECD) and Maine Revenue Services (MRS) have roles in administering the Paper Manufacturing Credit. DECD is responsible for certifying a qualified applicant, providing a certificate of completion once the qualifying investment is made, and collecting annual report data. MRS processes credit claims as part of the normal income tax filing process. Both agencies report that the annual cost of administering the credit is minimal enough to absorb within existing resources.[2]

[1] The credit may not exceed $1.6M per year and has a lifetime statutory cap of $16M per Title 36 §5219-YY(3)(B)(2).
[2] The fiscal note for the credit did include one-time administrative costs of $33,000 for MRS computer programming.

Tax year 2024 is the earliest that statute allows this credit to be claimed, and MRS estimated that claims will likely begin in state fiscal year 2026. Statute includes provisions to protect the state's financial interest in the event a business's certificate is revoked, including if the certified business fails to make the qualified investment within two years or the paper manufacturing facility ceases operations.[3]

Credit Certification Includes Two Phases, and Only One Phase Is Currently Complete

Maine's Paper Manufacturing Credit requires two phases of certification before it can be claimed. First, the business must apply to DECD for an initial certificate of approval based on the business's qualifications and the anticipated investment. Then after the qualifying investment is made, the business must apply to DECD for a certificate of completion. Through the certificate of completion DECD authorizes the amount of investment that is eligible as the basis for the credit and the amount of credit available to the business.

Table 1. The Paper Manufacturing Credit Has Two Stages of Certification
Certificate of Approval A business applies to the DECD Commissioner for a certificate of approval before the investment is complete. If DECD determines that the applicant is qualified, the Commissioner issues a certificate of approval specifying the total amount of qualified investment approved under the certificate. No more than $40,000,000 of qualified investment can be approved in certificates of approval in the program.
Certificate of Completion After making a qualified investment, the business applies to the DECD Commissioner for a certificate of completion. If the Commissioner determines that a qualified investment has been made, the Commissioner issues a certificate of completion stating the amount of qualified investment and the amount of tax credit the qualified applicant may receive based on that investment.

Source: 36 MRS §5219-YY.

Once the certificate of completion is awarded, the credit may be claimed starting in the tax year of the certification and for the following nine years.[4] Statute includes no timing requirement for how quickly the business must apply for the certificate of completion once the qualifying investment is made. As a result, it appears that a business could invest during the required investment window and then wait to apply for the certificate of completion until a future date of its choosing. This makes the credit's fiscal impact less predictable until all qualified investments have received a certificate of completion.

As of the writing of this report, DECD has issued one certificate of approval for up to $40M and one certificate of completion for $23.7M for the Paper Manufacturing Credit. The investment window for the credit closed as of December 31, 2023, so no new investment can be made. However, the certificate of completion process is still ongoing, and there are some amounts for which a certificate of approval was awarded but for which the business has not yet sought a certificate of completion. This is discussed in more detail in the report section about the qualifying investment reported to date, beginning on page 9.

[3] If a certificate is revoked within 5 years of the date it was issued, the business must return all credits claimed. If the certificate is revoked from 6 to 10 years after the date it was issued, the business must return the total credits claimed during the period from 6 years to 10 years after the certificate was issued. Title 36 §5219-YY(2)(D) lists all events that can trigger revocation.
[4] The credit can also not be claimed earlier than tax year 2024 per Title 36 §5219-YY(3).

Statute Includes Goals for the Credit and Data Reporting to Support Transparency and Oversight

When the Legislature enacted the Paper Manufacturing Credit, lawmakers established the purpose of the credit and performance measures for its evaluation.

Table 2. Paper Manufacturing Credit Statutory Purpose and Performance Measures	
Purpose	Provide incentives for the revitalization of paper manufacturing facilities in counties with high unemployment Create or retain high-quality jobs in the State Encourage paper manufacturers to modernize their paper manufacturing equipment to better compete in the marketplace
Performance Measures	1. Number of qualified employees added or retained, and comparison to minimum requirements 2. Amount of qualified investment, and comparison to the minimum requirements 3. Increase in the vitality and competitiveness of the State's paper industry 4. Change in the number of paper manufacturers and machinery used for the production of paper products in Maine and the number of modernization projects undertaken at those paper manufacturing facilities[5] 5. Measures of fiscal impact and overall economic impact to the State and to the regions in which certified applicants are located 6. Annual revenues of each parent company of recipients* 7. CEO salaries, stock buybacks, and executive officer sales of stock following receipt of the tax credit for each recipient* 8. Summary of information on profitability from SEC filings after receipt of the tax credit for each recipient*

*Performance measures 6 - 8 are not included in statute but were added for this evaluation by the Government Oversight Committee of the 131st Legislature.

Statute also requires annual data reports from users of the Paper Manufacturing Credit and from the agencies that administer it. The information from these annual reports is considered public information under statute. This provides transparency about the credit's use and ensures some data is routinely available to support oversight of the credit's performance.

Table 3. Annual Data Reporting Required for the Paper Manufacturing Credit	
Certified Applicant	Reports qualified employment and investment to DECD
DECD	Reports aggregate qualified employment and investment to the Taxation Committee
MRS	Reports revenue loss from the credit to the Taxation Committee, including the amount of the credit used to reduce the tax liability of the taxpayer and the amount of the credit refunded to the taxpayer, stated separately

[5] OPEGA notes that this performance measure may need clarification as it is not readily measurable in its current form. See discussion in recommendation 3.

Though this reporting provides valuable oversight information, OPEGA finds that some further information would better allow legislators to monitor developments in the ongoing certificate of completion process and consequently in the expected fiscal impact of the credit. This is discussed in recommendation 5.

The remainder of this report is OPEGA's assessment of the credit in relation to its statutory goals and performance measures. The sections that follow will address:

- Whether the credit is likely to have influenced paper manufacturing facility investment;
- The amount and types of qualified investment reported;
- The degree to which qualifying jobs have been retained or created; and
- How the credit impacts the ability of a Maine paper manufacturer to compete in the industry.

The report concludes with opportunities for improvement and OPEGA's associated recommendations. Because the period for qualifying investment under the Paper Manufacturing Credit has passed, no future applications for initial certificates of approval are expected. Consequently, OPEGA did not consider opportunities to improve that process. Instead, our recommendations focus on how design of similar future incentives might be improved and how ongoing data collection and reporting for this credit can be strengthened to better support oversight.

Has the Credit Influenced Investment in Maine Paper Manufacturing Facilities?

Only one paper manufacturer in Maine meets all of the credit's eligibility requirements. Publicly visible factors suggest the credit may have influenced Twin Rivers' investment decisions.

Only One Paper Manufacturer in Maine Meets All of the Credit's Eligibility Requirements

To be eligible for the Paper Manufacturing Credit, a business must meet the statutory requirements shown in the table below.

Table 4. Statutory Requirements for Certification for the Paper Manufacturing Credit	
Employment	Applicant must have at least 400 qualified employees, at least 75% of whom earn at least 115% of the per capita personal income in the county. Qualified employees must be full-time, based at a paper manufacturing facility, and provided group health insurance and a qualifying retirement plan.
Investment	Applicant must intend to make a qualified investment within two years of application. Investment must be at least $15M between January 1, 2019 and December 31, 2023 to modernize or improve a paper manufacturing facility.

Location	Facility must be in a county with unemployment that is 20% higher than the state average unemployment rate. Headquarters of the applicant must be in Maine. Facility cannot be located within a low-income community.[6]
Other Incentives Disallowed	Applicants, facilities, or investments may not qualify if they participate in the following other incentives: • Pine Tree Development Zone Program; • Employment Tax Increment Financing Program; • Dirigo Business Incentives Program; and • New Markets Capital Investment Credit.

Though statute does not explicitly limit the number of users of the credit, the requirements are such that only one paper manufacturer in Maine can access the credit—Twin Rivers Paper Company (Twin Rivers). Maine has other large paper manufacturing businesses, and OPEGA heard from stakeholders that some are making significant investments in their facilities. However, only Twin Rivers meets all of the statutory requirements for this credit. The requirements that make other paper manufacturers ineligible are shown in the table below.

Table 5. Comparison of Maine Paper Mills to the Paper Manufacturing Credit Requirements

Mill	Location Town and County	County Eligible?	Maine Headquarters?	Not a Low-Income Community?
ND Paper	Old Town, Penobscot County	No	-	-
ND Paper	Rumford, Oxford County	No	-	-
Sappi North America	Westbrook, Cumberland County	No	-	-
Sappi North America	Skowhegan, Somerset County	**Yes**	No	-
St. Croix Tissue	Baileyville, Washington County	**Yes**	**Yes**	No
Twin Rivers Paper Company	Madawaska, Aroostook County	**Yes**	**Yes**	**Yes**

Source: OPEGA analysis of publicly available information about Maine paper mills.

St. Croix Tissue and Twin Rivers are the only large paper manufacturers that have facilities in eligible counties and have Maine headquarters. However, St. Croix Tissue is ineligible because it is located in a low-income community and has previously received a qualified low-income community investment under Title 36 §5219-HH (the New Markets Capital Investment Credit).

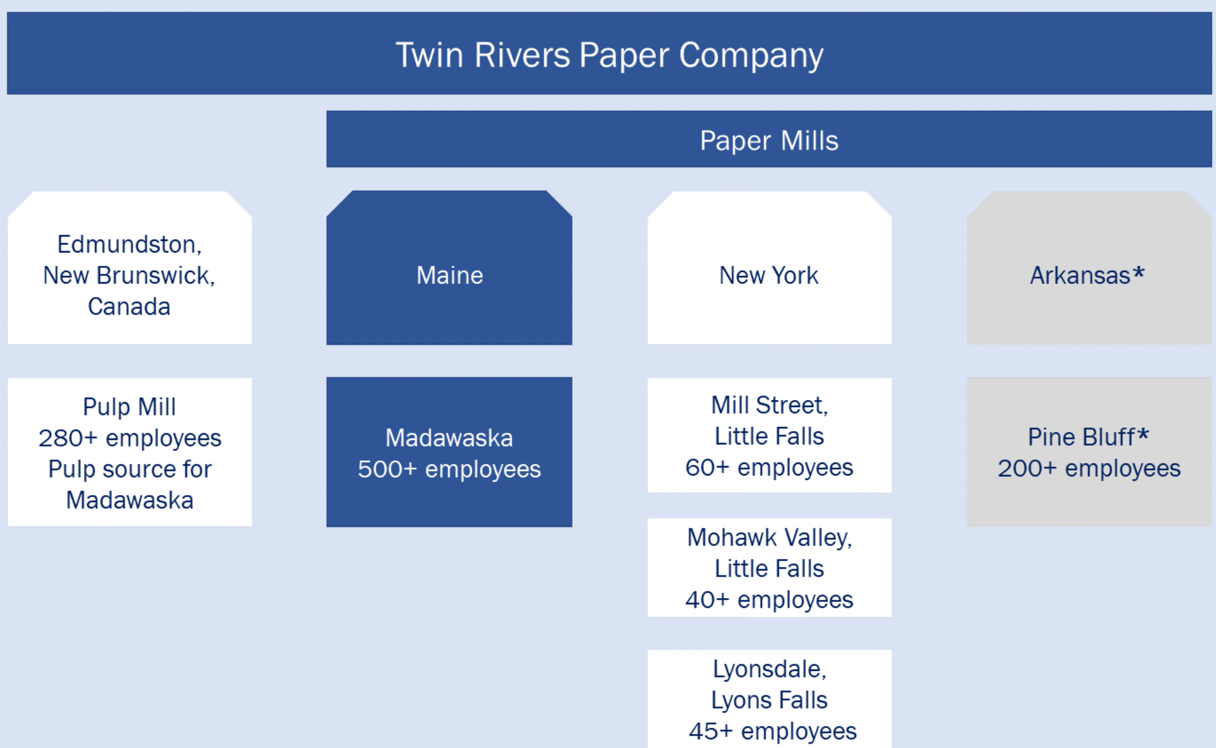
The fact that only one business in the industry can qualify for the Paper Manufacturing Credit impacts the credit's ability to incent investment in Maine paper manufacturing facilities more broadly and its performance for other goals that speak to the industry as a whole. Additionally, OPEGA notes that single-entity tax credits may not be the most efficient or effective tools for directing incentives to specific businesses or projects in the state. This is discussed further in recommendation 1.

[6] For this credit, a low-income community is defined by Internal Revenue Code (IRC), Section 45D(e)(1).

Twin Rivers Paper Company Is the Sole User of Maine's Paper Manufacturing Credit

Public reporting confirms that Twin Rivers is the only company that has received an initial certificate of approval for the Paper Manufacturing Credit. In addition, the window for qualifying investment for the credit closed on December 31, 2023, so no further investment can qualify even if another paper manufacturer were able to meet the credit's statutory requirements in the future. Since Twin Rivers is the only possible user of the credit, much of the analysis that follows focuses on Twin Rivers specifically. As such, information about its business structure and operations is provided below for context.

Twin Rivers is headquartered in Madawaska, Maine and describes itself as an integrated specialty paper manufacturer producing more than half a million tons of paper per year for the publishing, label, technical and packaging sectors. Twin Rivers is a private company. Its major shareholders are Atlas Holdings and Blue Wolf Capital Partners. Twin Rivers also maintains operations in New York, and New Brunswick, Canada. At the time of OPEGA's evaluation Twin Rivers also had a mill in Pine Bluff, Arkansas, but that facility was sold in spring 2024.[7]



* When this evaluation began, Twin Rivers owned the mill in Pine Bluff, Arkansas, but that facility was sold in spring 2024.

Source: Created by OPEGA based on information from Twin Rivers' website https://www.twinriverspaper.com/operations/.

Twin Rivers' Madawaska mill is integrated with its pulp mill in Edmundston, New Brunswick with pipelines running across the Saint John River between the two facilities. The Madawaska mill houses four paper machines and employs over 500 people (more information about the number of employees that qualify under the credit is included later in the report). The mill produces coated, uncoated, and hybrid papers, and has a production capacity of 340,000 tons of paper per year, the largest capacity of any of Twin Rivers' mills.

[7] From Twin Rivers' website (https://www.twinriverspaper.com/operations/) and OPEGA communications with the company.

The 'But For' Is Difficult to Assess Conclusively Based on Publicly Available Information

The concept of the "but for" refers to the likelihood that a business would, or would not, have engaged in a behavior if an incentive had not been provided. The "but for" is complex and has traditionally been difficult to measure, because many factors other than incentives affect business decisions about location and investment. For most businesses, these factors include things like energy costs, workforce availability, labor costs, infrastructure availability, housing availability, and even weather considerations depending on the business sector. Other factors are more specific to the business itself, and may be difficult or impossible for those outside the business to see. These factors include things such as a business's financial condition or investment strategy—pieces of information that private companies are not typically required to report publicly and often do not want revealed to industry competitors.

The Center for Regional and Economic Competitiveness, together with Smart Incentives[8] (an organization engaged in efforts to evaluate and improve the effectiveness of incentive programs), has identified factors related to the "but for" concept that can be used to assess the likelihood of a business being swayed by an incentive. Examples of these factors include whether the business is investing in a new facility or expanding an existing one, how capital intensive the business sector is, and the magnitude of the incentive in comparison to the planned investment.

OPEGA used the factors identified by the CREC and Smart Incentives as a basis for assessing the likelihood that the Paper Manufacturing Credit influenced Twin Rivers' investment decision. The results of this assessment are discussed in the following section.

Publicly Visible Factors Suggest the Credit May Have Influenced Twin Rivers' Investment

OPEGA compared Twin Rivers' investment to the factors identified by the CREC and Smart Incentives and found that many of the factors suggest the Paper Manufacturing Credit may have influenced the investment.

Table 6. Factors Related to How Influential the Paper Manufacturing Credit May Have Been in Twin Rivers' Investment Decisions

Company Has Operations in Multiple Locations	✓
Considered Multiple Locations	Unclear
New Facility, Not an Expansion	No
Cost Sensitive or Capital-Intensive Industry	✓
Described Financing Gap or Other Disadvantage	✓
Larger Incentive Amount Relative to Projected Investment	✓

Source: OPEGA comparison of publicly available information about Twin Rivers to factors identified by the CREC.

Twin Rivers has operations in multiple locations and is operating in a cost sensitive and capital-intensive industry. An industry of this nature is more likely influenced by incentives, according to Smart Incentives, due to a focus on efficiency and reduction of costs. Maine's Paper Manufacturing Credit is generous. It provides a 40% reduction in the cost of a qualifying investment (up to $16M for a maximum $40M investment). An incentive of this magnitude is more likely than a smaller incentive to influence a cost-focused business.

Additionally, the CREC notes that business investments may be more influenced by incentives when there is a financing gap for the investment or when the business experiences other financial disadvantages. OPEGA

[8] See https://smartincentives.org/our-work/ and https://www.creconline.org/about-crec/.

found that both of these conditions may apply to Twin Rivers' investments and hence make them more likely to have been influenced by the credit. In terms of financing gap, capital investments to modernize an existing facility may stabilize jobs by extending the life of a mill, but may not necessarily produce enough immediate return to attract private capital. An incentive can span this gap by reducing the cost of the investment. In terms of other financial disadvantages, OPEGA learned from staff of the Maine Forest Products Council that the cost of energy in Maine is higher than competitor states, creating a cost disadvantage for energy-intensive operations like paper mills.

The state tax environment is another factor that affects businesses financially. OPEGA contracted for an effective tax rate analysis comparing the tax environment for a paper manufacturer in Maine versus other states with major paper manufacturing industries. This analysis showed that Maine's tax environment is competitive with other states for a paper manufacturer that can access the Paper Manufacturing Credit, but less so without the credit. This makes the Paper Manufacturing Credit valuable to a business that can access it and more likely to influence that business's behavior. However, it may simultaneously put other Maine paper manufacturers that are unable to access the Paper Manufacturing Credit at a competitive disadvantage unless they have access to other comparable incentives.

Two of the factors identified by the CREC suggest that Twin Rivers' investment may have been less swayable by an incentive or are difficult to assess based on publicly available information. The CREC found that incentives are less likely to influence investments like those made by Twin Rivers, which are focused on improving or expanding existing facilities rather than establishing new facilities. Additionally, the CREC found that investments are more likely to be swayed by incentives for a business actively considering multiple locations. Based on publicly available information, it is unclear whether Twin Rivers considered other locations as the site of the investment or if Maine was the only viable location. If Twin Rivers was not considering other locations, then the credit may have been less influential.

OPEGA also noted that the Paper Manufacturing Credit was enacted in 2021 but allows qualified investments beginning on January 1, 2019. A credit that provides tax reduction for actions taken before the credit existed is not typically considered likely to have influenced taxpayer behavior, though sometimes taxpayers may act in anticipation of a credit that is expected in the future. Because so many factors are involved, it is unclear to what degree Twin Rivers' 2019 and 2020 investment may have been influenced by the credit's anticipated enactment. This is one reason why systematically assessing the "but for" prior to awarding a single-entity incentive can be beneficial, as discussed in the following section.

Altogether, we cannot say definitively how much the Paper Manufacturing Credit may have influenced the timing, nature, or size of Twin Rivers' qualified investment. Publicly visible evidence suggests the credit may have been influential, particularly given its magnitude—40% of the cost of the investment. However, Twin Rivers has not yet requested final certification for all of the qualified investment the company has reported to date (see the section about investment on page 9 for more information). If the company does not end up claiming the full amount of credit that would be available based on all of the reported qualifying investment, that may indicate the credit was less influential than expected.

A Structure for Establishing the "But For" Prior to Committing State Funds May Be Beneficial for Future Incentives

Ultimately, committing funds to a tax incentive is a policy decision based on varying and complex factors centering on the concepts of likelihood and significance. Likelihood refers to the "but for" or the assessment of how likely it is that an incentive will impact a business decision. Examples of business decisions may include things such as whether to move facilities into, or out of, the state; to increase or slow hiring; or to invest in new machinery and equipment. Assessing the likelihood that an incentive will impact these kinds of decisions, without all of the information available to those within the business, is inherently difficult.

The difficulty is compounded when one attempts to simultaneously weigh how significant the business decision is for the citizens of the state. What is considered more or less significant may differ greatly among policymakers, among policy areas, and over time. Some examples of factors that may be relevant to significance include whether the business is considered critical to the state or local economy; whether it is engaged in a heritage industry or is otherwise deeply connected to the state's history or identity; or whether it is in a growth industry the state is actively seeking to cultivate.

Assessing these elements after funds are committed is of limited value, since the funding decision has been made. An after-the-fact evaluation can report how an incentive is performing against established goals (as this report will do) and shed light on how likely it is that the incentive influenced business behavior (as discussed above). However, information about the likelihood of influencing business behavior is of limited utility when funds are already committed, as with the Paper Manufacturing Credit. OPEGA researched the mechanisms that a sample of other states use to conduct pre-award assessments of the "but for" in their discretionary incentives. A summary of this information is included in Appendix D.

The next sections discuss the investments and jobs connected with the Paper Manufacturing Credit.

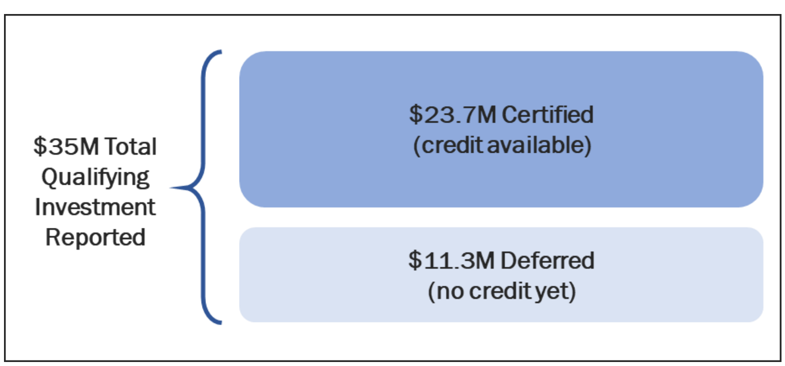
What Investment Has Occurred?

Twin Rivers reported making approximately $35M in qualifying investment, and roughly 29% of it went to Maine suppliers. Of the total investment, $23.7M has received final certification from DECD to date.

Twin Rivers Reported Approximately $35M in Qualified Investment; $23.7M of this Investment Has Been Certified for the Credit to Date

In annual reports for the Paper Manufacturing Credit, Twin Rivers reported investing approximately $35M to modernize the Madawaska mill between 2019 and 2023. The company submitted $23.7M of this investment to DECD for a certificate of completion in June 2024. DECD issued the certificate for the submitted investment and authorized a credit for the company of about $9.5M (nearly $950,000 per year for 10 years).

The difference between the $35M qualified investment in Twin Rivers' annual reports, and the $23.7M approved for a certificate of completion to date, is about $11M. Twin Rivers refers to this amount as "deferred" qualified investment.



The company explained to OPEGA that although this "deferred" investment did already occur, the business conditions have not yet been right for the installation of equipment that was purchased. The company reports that it will submit these "deferred" qualified investments to DECD for a certificate of completion when business conditions are right for installation of the equipment.[9]

Assuming the full $35M of qualified investment reported by the company is eventually submitted for a certificate of completion, and approved by DECD, a credit of approximately $13.9M would be authorized for Twin Rivers. Since the credit is refundable, the company will be able to claim all of the authorized credit, regardless of its tax liability in any given year.[10] The timing of credit claims is difficult to predict at this time because of the "deferred" qualified investment. To enable the Legislature to monitor developments in the certified qualified investment, and hence the expected fiscal impact of the credit, OPEGA recommends that some additional information be included in DECD's annual report on the credit (see recommendation 5).

Because Twin Rivers has reported $35M in qualifying investment, and expects to seek final certification of this full amount, this evaluation focuses on the full $35M investment and associated impacts. In the sections that follow we also note where impacts or expected outcomes may vary if Twin Rivers does not eventually seek final certification of the full $35M investment.

The Reported $35M in Qualified Investment Was Spent on Various Projects to Modernize the Mill

Twin Rivers did not authorize OPEGA to publicly report the individual projects included in the $35M of qualified investment reported.[11] However, the company did authorize publicly reporting a breakdown of the investment by spending categories defined by the company, as shown in the following table.

Table 7. Twin Rivers' Reported Qualified Investment by Spending Categories (in millions)

Productivity	Improvements to machinery and equipment designed to increase production, allow for the production of alternative types of paper, or improve operational efficiencies.	**$12.8M**
Infrastructure	Improvements in mill infrastructure assets designed to protect and support the papermaking equipment, such as improvement to process piping.	**$12.4M**
Obsolescence & Upgrade	Replacement of obsolete or aged papermaking machinery and equipment for which it has become difficult to obtain parts and services when needed.	**$5.5M**
Business Continuity	Procurement of critical spares, and modern technology and standards, needed to protect a reliable, continuous papermaking process.	**$1.5M**
Mechanical Restoration	Modification, replacement, or repair of degraded mechanical equipment to modernize or improve the paper manufacturing facility.	**$1.5M**
Electrical Restoration	Modification, replacement, or repair of degraded electrical equipment to modernize or improve the paper manufacturing facility.	**$1.0M**

Source: Data provided to OPEGA by Twin Rivers.

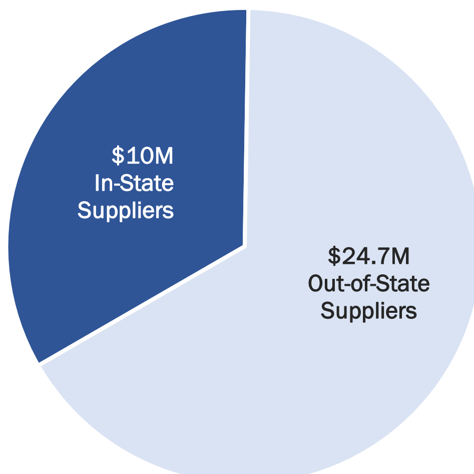
[9] The Paper Manufacturing Credit does not require qualified investment to be submitted for a certificate of completion within a certain amount of time after the investment occurred, so it appears that Twin Rivers may submit at its discretion. OPEGA asked DECD and MRS about potential issues that might emerge around multiple certificates of completion with differing time periods and with individual amounts that might be less than the $15M minimum required to meet the statutory definition of qualified investment. The agencies reported that they are working together, with Twin Rivers, to ensure the company will be able to access the credit associated with all of the qualified investment reported to date. DECD noted that the $15M minimum should not be a problem because the company's total qualified investment (aggregated across possibly multiple certificates of completion) is well over the $15M minimum.
[10] Assuming Twin Rivers' certificate of approval is not revoked or transferred in that time.
[11] Twin Rivers' management expressed that, as a private company, Twin Rivers is not required to share information publicly beyond that required by the Paper Manufacturing Credit statute. Management expressed concern that if details about Twin Rivers' operations or financial status were released to the public, it could put the company at a competitive disadvantage.

Twin Rivers reported to OPEGA that the equipment which has not yet been installed, and hence for which the company has not yet sought final certification, included about $189,000 of the investment in the obsolescence and upgrade category and $11.2M of the amount in the productivity category.

Roughly 29% of the Qualified Investment Reported by Twin Rivers Went to Maine Suppliers

Although the Paper Manufacturing Credit does not require preference for in-state vendors, the amount of qualifying investment that goes to Maine suppliers has repercussions for the economic ripple effects that might flow outward from the paper manufacturing facility to the regional and state economy. Twin Rivers reported to OPEGA that about 29% (almost $10M) of the total $35M qualifying investment went to suppliers in state. The remaining 71% went to suppliers out of state.

Approximately 29% of the $35M in Reported Qualified Investment Went to In-State Suppliers



Source: OPEGA analysis of data provided by Twin Rivers.

OPEGA estimated the economic ripple effects from the qualified investment that went to Maine suppliers. The estimated effects on jobs, gross domestic product (GDP), and state tax revenue are discussed next.

In-State Qualified Investment Spending Supported Some Jobs and Contributed to Maine's GDP

OPEGA estimated the one-time impact on Maine's economy from the $35M of qualifying investment reported by Twin Rivers in connection with the Paper Manufacturing Credit. We found that the qualified investment that went to in-state suppliers, nearly $10M between 2019 and 2023, temporarily supported approximately 71 jobs total across those years.[12] The spending also generated state tax revenue of an estimated $430,000 and estimated state GDP of $6.4M in that timeframe.[13]

The estimated economic impacts discussed above represent the one-time effects of the qualifying investment that Twin Rivers made in connection with the credit, and specifically of the qualifying investment spent in state. However, as discussed previously, it is unknown how much the Paper Manufacturing Credit influenced the nature or size of the investment, and hence its economic ripple effects. The table that follows shows that

12 "Temporarily supported jobs" in this context, refers to jobs supported by the specific one-time qualifying investment. Ongoing jobs at the paper mill, and in its supply chain, are not included in this figure. However, they are discussed in the next section.
13 Appendix C describes the methods and assumptions used in modeling these economic impacts.

while the economic impacts of the qualifying investment can be estimated, the impact due to the credit is less clear and varies widely depending on how much one assumes the credit influenced the qualifying investment.

Table 8. The Reported Qualifying Investment Has Economic Impacts, But It Is Unclear How Much the Credit Influenced These Impacts

Credit's Assumed Influence	One-Time Impacts from the Qualifying Investment		
	Jobs	State Tax Revenue	State GDP
0%	0	$0	0
25%	18	$107,500	$1.6M
50%	36	$215,000	$3.2M
75%	53	$322,500	$4.8M
100%	71	$430,000	$6.4M

Source: OPEGA economic modeling analysis. See Appendix C.

While it is unlikely that the credit had 0% or 100% influence over the investment, it is unknown what level of influence is more likely. Isolating the role of a single factor amongst the many that influence behavior is commonly referred to as attribution. Attribution is a challenge for evaluations of tax incentives because of the multitude of factors involved in investment decisions. The challenge is greater after the investment has already been made—as in this case—because the actual conditions at the time the investment was considered are no longer observable.

Limited Publicly Available Information about Other Incentives Impacts Transparency

Another factor in assessing the influence of an incentive on a business's investments is the value of other incentives that supported the same activities. Understanding how multiple incentives come together to support a given business or project has also been a common area of interest for policymakers. However, it can often be challenging to obtain this data, and use it in oversight, for several reasons. This matter extends beyond the Paper Manufacturing Credit alone, and is discussed in recommendation 2.

The complete package of incentives used by Twin Rivers at the time of the qualified investment was not public information when this evaluation began, so OPEGA asked Twin Rivers for this information. Twin Rivers reported receiving approximately $1.5M annually from the state's Employment Tax Increment Financing Program (ETIF)[14] from 2010 through 2020. These ETIF benefits were received prior to the company's application for the Paper Manufacturing Credit, but some of the timing does overlap with the reported qualified investment. Twin Rivers also reported receiving a $4M DOT credit between 2022 and 2023 for part of the cost of relocating a major pipeline at the Madawaska mill that was co-located with an international bridge that had to be replaced. Finally, Twin Rivers reported receiving approximately $800,000 annually in benefits from the BETE program and MRS public reports show that the company received approximately $787,000 from BETR in 2020, the most recent year for which MRS reports on the program are available.[15]

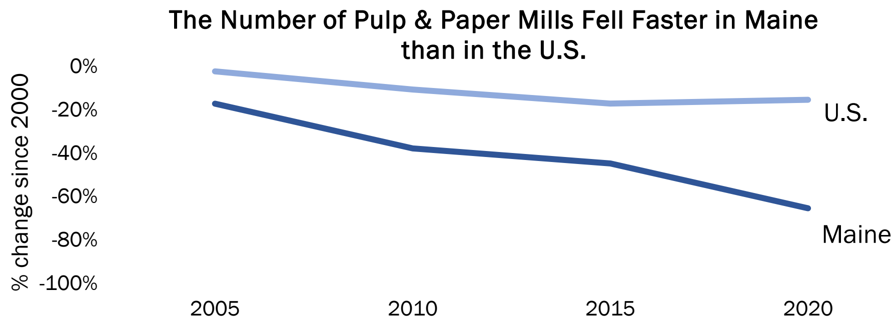
[14] Under Title 36, Chapter 917, ETIF provides payments to businesses that increase employment above an established base level.
[15] BETR (Business Equipment Tax Reimbursement) pursuant to Title 36, Chapter 915, and BETE (Business Equipment Tax Exemption) pursuant to Title 36, Chapter 105, Subchapter 4-C, reduce or eliminate personal property tax on qualifying business equipment.

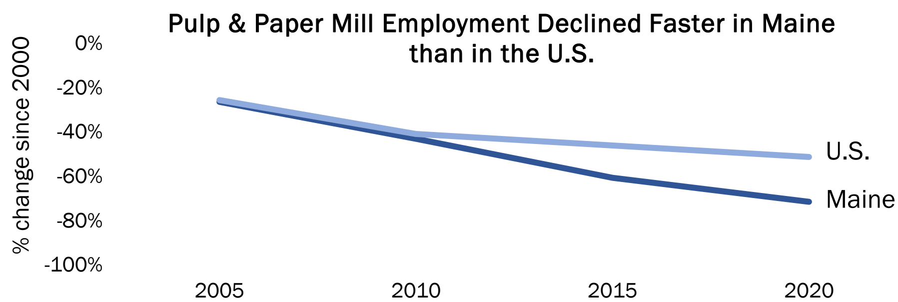
Has Job Creation or Retention Been Connected with the Credit?

Jobs have been retained at Twin Rivers. Employment in the paper manufacturing industry has been trending downward in Maine and nationally.

Paper Manufacturing Employment Has Been Decreasing in Maine and Nationally

From 2000 to 2020, average employment in pulp and paper mills dropped significantly across the U.S. (51% decrease), and even more so in Maine (72% decrease). The number of pulp and paper mills also dropped during that time period and also decreased more quickly in Maine than nationally.[16]





	Maine		US	
	establishments	employment	establishments	employment
2000	29	10,355	942	188,961
2020	10	2,943	797	91,952

Source: OPEGA analysis of data from the U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages for NAICs code 3221.

Despite the declines in mill facilities and employment, in 2020 Maine had the highest concentration of private sector employment in pulp and paper mills of any U.S. state—0.8% of private sector employment in Maine versus the national average of 0.1%. The data shows that, although pulp and paper mill employment has declined in Maine and nationally, the industry remains important to Maine's economy. This state and national industry data also provides context for the discussion of employment at Twin Rivers since it was certified for the Paper Manufacturing Credit.

[16] OPEGA analysis of data from the U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages for NAICs code 3221.

Twin Rivers' Qualifying Employment Has Been Fairly Stable and Is Primarily Aroostook County Residents

Twin Rivers has reported more than the required minimum 400 qualified employees since receiving an initial certificate of approval for the Paper Manufacturing Credit in 2022. As shown in the table below, the number of qualified employees has remained relatively steady since certification. The company reported a decrease of 21 qualifying employees during 2022, the year it was certified. However, this decrease was mostly recouped in the subsequent year, resulting in a net decrease of two employees in the period from initial certification through the most recent annual report—March 2022 through December 2023.

Table 9. Twin Rivers' Employment Has Been Relatively Stable

Date	Average Qualifying Employment
March 2022 (Initial Certification)	473
December 2022	452
December 2023	471

Source: March 2022 data provided to OPEGA by Twin Rivers for this evaluation. All other data from Twin Rivers' annual reports to DECD.

Since Twin Rivers is situated in Madawaska, on the Maine border with New Brunswick, Canada, some of its qualifying employees commute from New Brunswick. However, according to information provided by Twin Rivers, as of August 2023, 94.5% of qualifying employees were residents of Aroostook County, including the communities listed in the table that follows.

Table 10. Maine Towns Where Twin Rivers' Qualified Employees Reside

Allagash	New Canada
Caribou	Sinclair
Cross Lake	St. Agatha
Eagle Lake	St. David
Fort Kent	St. Francis
Frenchville	St. John
Grand Isle	Van Buren
Madawaska	Wallagrass

Source: Reported to OPEGA by Twin Rivers.

The remaining 5.5% of qualifying employees were residents of New Brunswick, Canada—specifically the communities of Edmundston, St. Basile and St. Jacques.

Statute Includes Quality Standards for Jobs; Compliance with This Requirement Should Be Better Monitored

In addition to minimum employment levels, statute also includes requirements for the minimum standards of job quality that must be met for the Paper Manufacturing Credit. A qualifying job must provide the employee with income greater than the average per capita income in the county as well as access to a retirement program and group health insurance.[17] In addition, for each tax year in which the credit is claimed, at least 75% of qualifying employees must earn at least 115% of the average per capita income in the county.[18]

OPEGA observed that Twin Rivers' annual reports show that the business met requirements for employee income. However, annual reporting guidance from DECD did not require Twin Rivers to affirm, or provide evidence, that these employees were provided access to the required group health insurance and retirement plans. Although Twin Rivers may be fully in compliance with this requirement, program administrators should confirm ongoing compliance, particularly given the size of the Paper Manufacturing Credit. This is discussed further in recommendation 4.

Twin Rivers' Operations Have Supply Chain Impacts in Aroostook County and Throughout Maine

Twin Rivers is a large regional employer with a substantial in-state supply chain. As such, the company's ongoing operations produce economic benefits for the town of Madawaska and the surrounding region, and ripple effects throughout Maine. Though these economic impacts can be estimated, it remains unknown to those outside of Twin Rivers how significantly the Paper Manufacturing Credit has impacted the mill's ongoing operations or longevity. This means we can estimate the mill's economic impacts but cannot attribute those impacts to the credit.

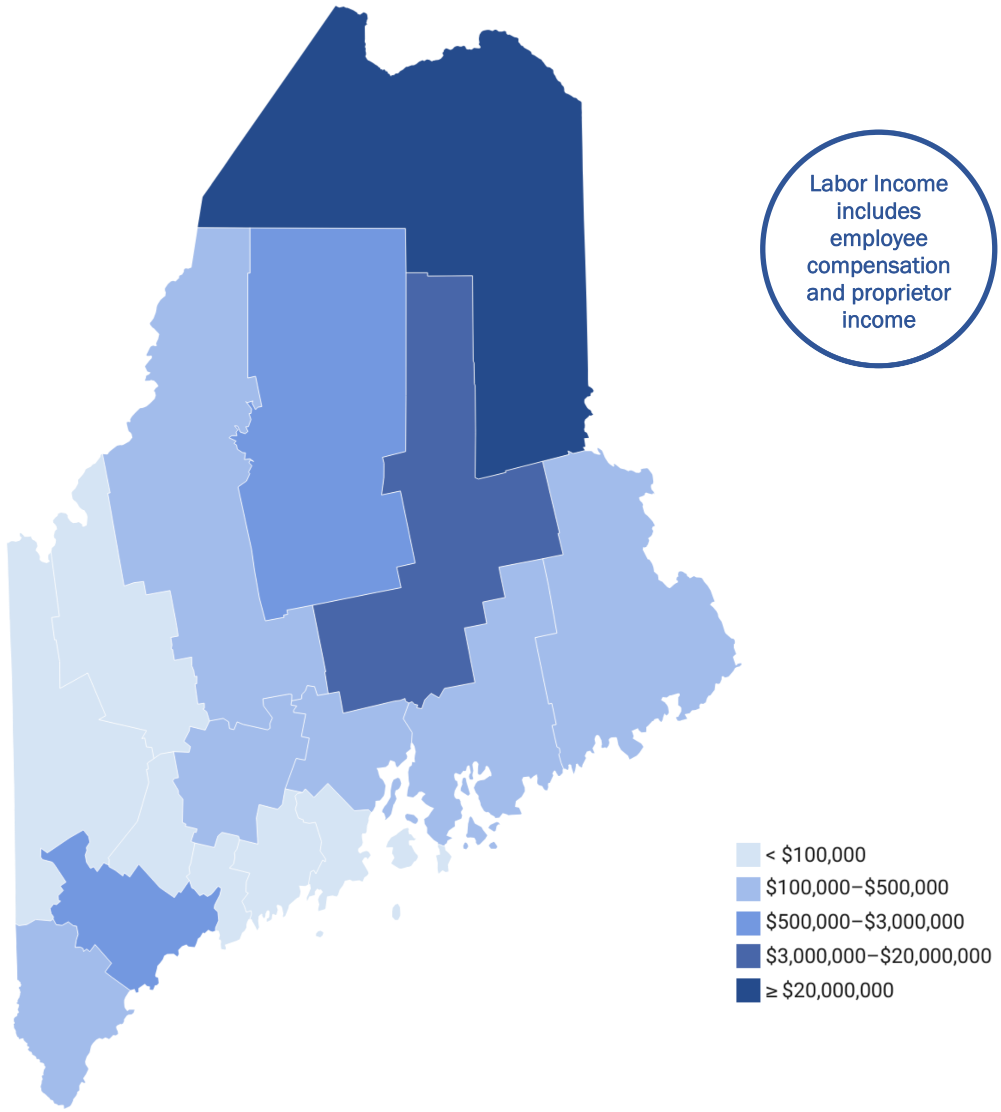
OPEGA estimated that, in 2023, Twin Rivers in-state supply chain supported approximately 487 indirect jobs, with 392 of these jobs in Aroostook County. These supply chain jobs supporting Twin Rivers' operations represented roughly 1.4% of total employment in Aroostook County in 2023. These indirect jobs combined with Twin Rivers' direct employment at the mill together represent approximately 3.1% of total Aroostook County employment.[19]

The map that follows shows the estimated labor income in each Maine county from Twin Rivers' in-state supply chain. Aroostook County benefits the most economically and provides much of the mill's in-state commercial logging and transportation services. However, Penobscot County also receives significant labor income from both forestry and professional services, and all other Maine counties receive at least some labor income from the mill's in-state supply chain.

In addition to employment impacts, OPEGA also modeled the estimated effect of Twin Rivers' in-state supply chain on Maine's GDP in 2023. As with labor income, the majority of this economic impact was focused in northern Maine. The GDP impact of Twin Rivers' supply chain was roughly $58M statewide, with $47M of that total staying in Aroostook County.

[17] Title 36 §5219-YY(1)(H).
[18] Title 36 §5219-YY(3)(B)(1).
[19] See Appendix C for more about the economic modeling underlying these estimates.

Estimated Impact of Twin Rivers' In-State Supply Chain on Labor Income, 2023



Source: OPEGA economic modeling analysis. See Appendix C. Map created with Datawrapper.

As previously stated, these estimated economic impacts do not measure the effects of the Paper Manufacturing Credit. Instead, they estimate the economic impacts of the continued operations of Twin Rivers' mill in Madawaska, assuming operations there remain steady. Without knowing how much the credit influenced the timing, nature, or magnitude of Twin Rivers' investment in the mill, and without knowing how crucial those investments were to keeping the mill viable, we cannot say definitively how much responsibility the credit has for the economic impacts of continued mill operations. However, the estimated impacts of the mill's operations can still be a useful data point for policymakers in considering what value the state has received in connection with the Paper Manufacturing Credit, which is expected to provide approximately $13.9M of refundable income tax credits to Twin Rivers.[20]

[20] Based on the $34.7M of qualified investment Twin Rivers has reported to DECD, assuming the company eventually applies for and receives a certificate of completion for the almost $11M that has been reported as qualified investment but for which final certification has not yet been sought, and provided the mill remains in operation as required by statute.

Does the Credit Make Maine's Paper Manufacturing Industry More Competitive?

Tax environment is one factor affecting business competitiveness. For a business that can access the Paper Manufacturing Credit, Maine's tax environment is among the most competitive. Absent the credit Maine ranks in the middle among comparison states.

State Tax Environment Is a Factor in Industry Competitiveness and Is Impacted by Incentives; Effective Tax Rate Analysis Estimates the Impacts of Incentives

Many factors influence the competitiveness of an industry, such as labor and energy costs. The state tax environment, and its effect on business profitability, is also a factor in competitiveness and is the factor states are typically seeking to influence via tax incentives for businesses. The Paper Manufacturing Credit reduces the cost of investments in paper manufacturing facilities, presumably allowing users of the credit to improve profitability and better compete within the industry.

To quantify the tax impact of the Paper Manufacturing Credit on the competitiveness of Maine's paper manufacturing industry, OPEGA commissioned the consulting firm, EY (formerly known as Ernst & Young), to perform a comparative effective tax rate analysis.[21] This analysis compared a hypothetical paper manufacturing facility investment in Maine and five other states, modeling the impacts of the state and local tax environments and available incentives on the hypothetical business's internal rate of return from the investment.[22] Appendix B provides more information about EY's analysis and methods.

This effective tax rate (ETR) analysis does not quantify a state's tax rate. Rather it quantifies the impact of state and local taxes on a business's profits. For example, if state and local taxes reduce a business's rate of return from 20% to 18%, that would translate to a 10% ETR (calculated as the 2.0 percentage point difference, divided by the 20% initial rate of return). EY's analysis identified **pre-incentive** ETRs to illustrate the comparative base tax environments in the sample states and how they would affect the rate of return on a hypothetical investment. Then **post-incentive** ETRs were modeled to quantify the impact of tax credits and other pertinent incentives on the rate of return.

The comparison states, and counties, selected for this analysis are those with a major presence in the paper manufacturing industry. Aroostook County was selected for Maine, and was compared to the following:

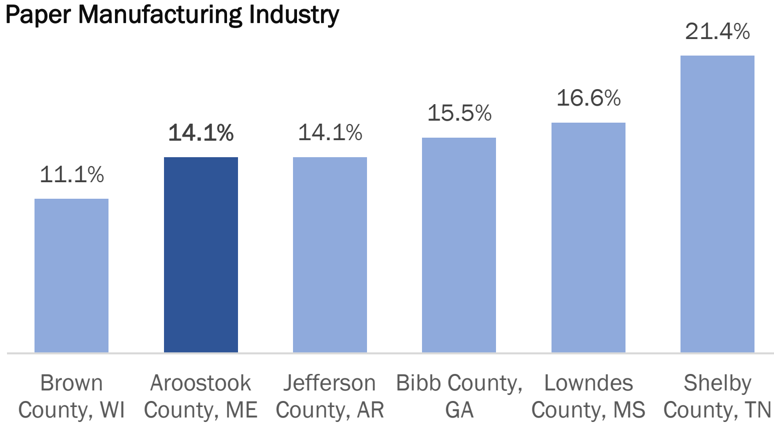
- Arkansas – Jefferson County,
- Georgia – Bibb County,
- Mississippi – Lowndes County,
- Tennessee – Shelby County, and
- Wisconsin – Brown County.

[21] Across the states, policymakers often inquire about measuring how tax incentives impact the ability of local businesses to compete with those in other states. This can be resource-intensive to measure because it requires in-depth understanding of (and ability to model) tax incentives and tax environments in comparison states, including county and city tax variation. EY's Quantitative Economics and Statistics practice maintains the state-specific tax incentive knowledge necessary for industry tax competitiveness analysis and has a proprietary model for assessing effective tax rates across states. Their services were recommended by the nonpartisan staff of the Joint Legislative Audit and Review Committee in Washington State, where lawmakers found EY's analysis valuable.
[22] A hypothetical business was used in this analysis to avoid requesting, or disclosing, any of Twin Rivers' non-public financial details. The hypothetical business was structured to reflect the relative size of Twin Rivers and the hypothetical investment was based on the size and type of investment allowed by the Paper Manufacturing Credit.

Before Incentives Are Considered, Maine Is Among the Lower Taxed States for the Paper Manufacturing Industry

The pre-incentive ETR analysis demonstrates that before the application of incentives, Aroostook County, Maine is among the more favorable tax environments for the paper manufacturing industry, with an ETR of 14.1%. When incentives are ignored for all states, Maine's tax environment is just 3.0 percentage points away from the most competitive of the comparison states (Wisconsin) and is a full 7.3 percentage points better than the state with the least competitive base tax environment for a paper manufacturer (Tennessee).

Pre-Incentives, Maine Is Among the Lowest Taxed States for the Paper Manufacturing Industry



Source: EY analysis using Business Tax Competitiveness Model. See Appendix B for details.

Wisconsin has the lowest pre-incentive ETR. EY identified Wisconsin's pre-incentive favorability as being attributable to its low statutory sales tax rates and a recently enacted exemption of personal property. Maine is equal to Arkansas, despite Arkansas having lower state sales tax and property tax impacts, because Maine has no local sales tax.

With Incentives, Maine Remains Among the Lower Taxed States for a Business that Can Access the Paper Manufacturing Credit

After incentives are included, Maine's tax environment remains one of the more competitive among comparison states for a paper manufacturer that can access the Paper Manufacturing Credit.[23] Maine's ETR post-incentives is just 2.5 percentage points away from than the most competitive state (Arkansas) and is much better (11.8 percentage points) than the least competitive state (Tennessee).

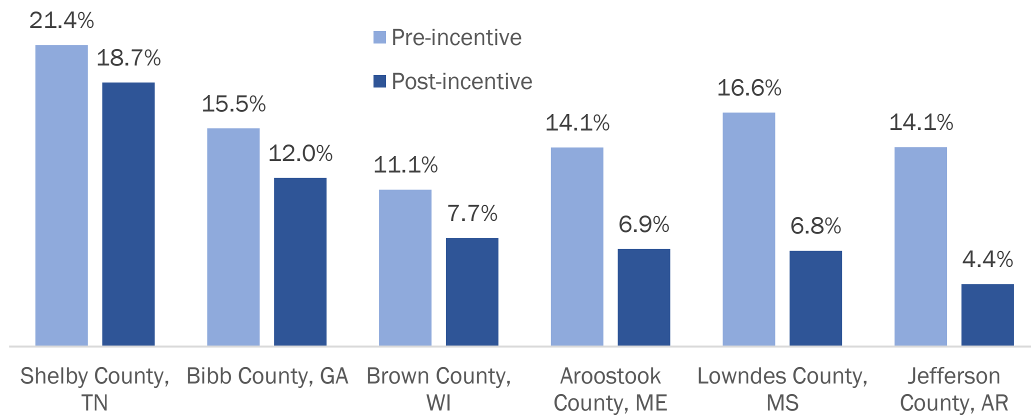
Wisconsin had the lowest pre-incentive ETR but fell to 4th post-incentives due to its relatively smaller tax incentives when compared to Maine, Mississippi, and Arkansas. Incentives made the biggest reduction in ETR in Mississippi and Arkansas where the ETRs decreased by 9.8 and 9.7 percentage points respectively, post-incentive. EY attributed the big improvement in these states' tax environments to the Advantage Jobs Incentive Program in Mississippi, and the Create Rebate Incentive in Arkansas.[24]

---

[23] The analysis is based on a hypothetical business investing the maximum allowed under statute and accessing the full available Paper Manufacturing Credit of $16M. Given that Twin Rivers reported less than the maximum investment and has only been certified for $9.5M in credit to date, the actual impact on tax competitiveness for the company will be somewhat less than what was available and was the basis for the modeling.

[24] Appendix B provides more information on the packages of incentives included in this analysis for the comparison states.

With Incentives, Maine's Tax Environment Remains Competitive for a Company That Can Access the Paper Manufacturing Credit

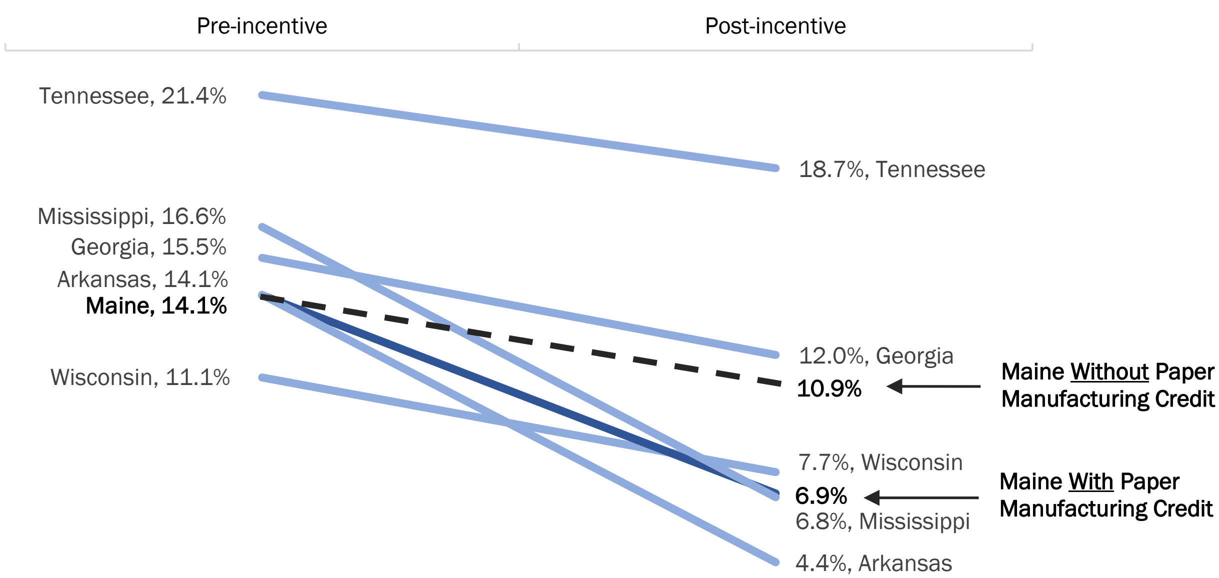


Source: EY analysis using Business Tax Competitiveness Model. See Appendix B for details.

Absent the Credit, or a Comparable Alternative, Maine's Tax Environment Ranks in the Middle Among Comparison States

After applying incentives to the analysis, Maine's ETR dropped 7.2 percentage points. More than half of this decline (4.0 percentage points) was from the Paper Manufacturing Credit. This means that without the Paper Manufacturing Credit, or a comparable alternative, Maine's ETR for a paper manufacturer would increase by 4.0 percentage points. This would put Maine's ETR at 10.9% and would move Maine from among the lowest taxed states closer to the midpoint between the highest and lowest comparison states, as shown in the chart that follows.

Absent the Credit, or a Comparable Alternative, Maine's Tax Environment Ranks in the Middle Among Comparison States



Source: EY Analysis using Business Tax Competitiveness Model. See Appendix B for details.

This analysis suggests that the Paper Manufacturing Credit improves financial competitiveness for a manufacturer that can access it. Without access to the credit (or another incentive of comparable value) Maine paper manufacturers would experience a total tax burden that is more in the middle, neither among the highest or lowest taxed comparison states. However, because the Paper Manufacturing Credit provides a large tax reduction for a paper manufacturer that can access it, Maine's tax environment becomes more competitive with others that also provide generous incentives, such as Mississippi and Arkansas.[25]

The fact that this increase in tax competitiveness is only available to the credit's one eligible beneficiary could potentially put other Maine paper manufacturers at a disadvantage in the marketplace. That limited accessibility also impacts the credit's outcomes for one of its statutory performance measures which seeks to assess the "increase in the vitality and competitiveness of the State's paper industry in the marketplace." It is possible that Maine's other paper manufacturers access different state incentives that offer comparable benefits and hence put them on equal footing in terms of tax competitiveness. However, whether this is the case is not readily apparent based on publicly reported information. A comprehensive database of state incentive awards, as discussed in recommendation 2, is a tool that could potentially shed more light on matters such as this in future evaluations.

The Paper Manufacturing Credit Confers More Benefit Than the New Dirigo Incentive

OPEGA also considered how the Paper Manufacturing Credit would compare to the newly enacted Dirigo tax incentive in terms of conferring a competitive financial advantage in the paper manufacturing industry.[26] EY modeled the post-incentive ETR as if the hypothetical paper manufacturing business were to receive the Dirigo business incentive instead of the Paper Manufacturing Credit, since statute prohibits the two incentives from being used together. However, we noted that some comparison states allowed packages of incentives to be used together to increase tax competitiveness.

Table 11. For a Business that Can Access It, the Paper Manufacturing Credit Offers More Benefit Than Maine's New Dirigo Incentive

Incentive	Pre-incentive ETR	Post-incentive ETR	Percentage Point Change
Paper Manufacturing Credit	14.1%	6.9%	7.2
Dirigo	14.1%	9.3%	4.8

Source: EY analysis using Business Tax Competitiveness Model. See Appendix B for details.

This analysis showed that the Dirigo business incentive has a smaller impact on post-incentive ETR than the Paper Manufacturing Credit. This suggests that, for a paper manufacturer that can access it, the Paper Manufacturing Credit has a more positive impact on competitiveness than Dirigo.

[25] Though OPEGA notes that Twin Rivers has not invested enough to access the entire credit allowed by statute and hence will not experience the full increase in tax competitiveness.

[26] The Dirigo Business Incentive is authorized by Title 36 §5219-AAA. It provides a tax credit to qualified businesses for tax years beginning on or after January 1, 2025. To allow for the most direct comparison, while the Dirigo tax incentive cannot be claimed until 2025, EY ran the model including the credit starting from the same timeframe as the Paper Manufacturing Credit.

Overall Conclusions & Performance Measures

Overall Conclusions

- The Paper Manufacturing Credit provides a maximum of $16M over 10 years beginning in tax year 2024.
- Only one Maine paper manufacturer can meet all of the credit's requirements. That limited accessibility impacts the credit's outcomes for the paper manufacturing industry as a whole.
- It is unknown how much the credit may have impacted the timing, magnitude, or nature of qualifying investments. However, job retention and investment reported by the credit's sole user have met statutory minimums.
- For a business that can access the Paper Manufacturing Credit, Maine's tax environment is among the lowest taxed comparison states, but Maine ranks in the middle without the credit or another comparably sized incentive. Since this increased tax competitiveness is accessible to only one business, other Maine paper manufacturers could be at a disadvantage without access to comparable incentives.
- Statute requires data reporting to support oversight and transparency. However, DECD's confirmation of job quality should be strengthened.
- If the state continues creating incentives for single entities, there may be more effective and efficient vehicles than stand-alone statutory tax credits.

Performance Measures for the Paper Manufacturing Credit

Title 36 §5219-YY(6)(B) specifies performance measures to be used in evaluation of the Paper Manufacturing Credit. Additionally, the Government Oversight Committee approved three more performance measures for inclusion in this evaluation (measures six, seven and eight). The performance measures have been discussed in applicable sections of this report and are summarized in the table below for ease of reference.

Table 12. Performance Measures for Evaluation of the Paper Manufacturing Credit (M=million)	
(1) Employment during the period being reviewed, and comparison to the minimum employment requirements	Minimum required qualifying employees: 400 <u>Qualifying Employees Reported by Twin Rivers</u> March 2022 (at initial certification): 473 December 2022: 452 December 2023: 471
(2) Amount of qualified investment (QI) during the period being reviewed, and comparison to the minimum expenditure requirements	Minimum aggregate QI required: $15M Approximately $35M aggregate QI reported by Twin Rivers, of which $23.7M has been certified for the credit to date.[27]
(3) Increase in the vitality and competitiveness of the State's paper industry in the marketplace	Maine's effective tax rate (ETR) for a paper manufacturer is 6.9% after incentives, near the lowest taxed comparison states. Without the Paper Manufacturing Credit, or another comparable incentive, Maine's tax environment ranks more in the middle among comparison states. See page 18 for further discussion.

[27] Twin Rivers has not yet submitted the remaining, roughly $11M, for a certificate of completion but expects to in future.

(4) Change in the number of paper manufacturers and machinery used for the production of paper products located in the State and the number of modernization projects undertaken at those paper facilities during the period being reviewed	One paper manufacturing facility is participating in the credit. The facility has four paper machines.[28] The number of modernization projects undertaken is unclear.[29]
(5) Measures of fiscal impact and overall economic impact on the State and to the regions in which certified applicants are located	Expected cost to the state: $13.9M[30] Estimated **One-Time** Impacts of the QI on Maine Economy[31] 71 jobs temporarily supported $430,000 in state tax revenue $6.4M in state GDP Estimated impacts of Twin Rivers' ongoing operations are discussed on page 15.
(6) Annual revenues of each parent company of recipients **(7)** CEO salaries, stock buybacks, and executive sales of stock following receipt of the tax credit for each recipient **(8)** Summary of information on profitability from SEC filings after receipt of the tax credit for each recipient	Twin Rivers declined to provide information responsive to these measures.*

Sources: Employment and investment figures are from participant application and annual reports. Economic impacts were estimated by OPEGA (see Appendix C for more information). ETR analysis was performed by EY (see Appendix B for details).

* Note: Because Twin Rivers is not a publicly traded company, it is not required to file with the SEC, and information about revenues and profitability is not publicly available. For this evaluation, OPEGA requested that Twin Rivers provide the annual revenues of their parent company for PM6 and provide alternate applicable information for PM7 and PM8. Twin Rivers declined to provide this information, noting that "Twin Rivers Paper Company, and its parent, are privately held entities, not publicly traded companies. Accordingly Twin Rivers is not required by state or federal law to publicly disclose information of a confidential nature, including information regarding its annual revenues. Twin Rivers considers this business confidential information, the release of which could be harmful to the company as it would provide an unfair advantage to its competitors."

[28] OPEGA asked whether DECD or the Maine Forest Products Council collects data ongoingly about the number of paper manufacturers or paper machines industry-wide in Maine and learned that neither entity does so. If this data is critical to future legislative oversight of the credit, new data collection may need to be initiated.

[29] The phrase "modernization projects" is not defined and so cannot be consistently and meaningfully measured. For example, on one extreme, all of Twin Rivers' qualifying investment could be considered a single modernization project, because a single mill is being modernized. Alternately, each individual initiative supported by the company's qualifying investment could be counted separately – which would be roughly 70 modernization projects. It is unclear how "modernization projects" should be counted or what level of modernization projects would indicate the credit was effective. See further discussion in recommendation 3.

[30] Based on the approximately $35M of qualified investment Twin Rivers has reported to DECD, assuming the company eventually applies for and receives a certificate of completion for the roughly $11M that has been reported as QI but for which a final certificate has not yet been sought, and provided the mill remains in operation as required by statute.

[31] Estimated economic impacts reflect the full effects of the qualifying investment spending in-state, without regard for whether Twin Rivers may have invested the same, or a similar, amount absent the credit. See discussion beginning on the bottom of page 11 for discussion of how these effects may vary based on attribution.

Opportunities for Improvement & Recommendations

This section includes opportunities for improvement OPEGA identified in this evaluation. Associated recommendations are directed to legislators for consideration, or to program administrators. A list of the recommendations is provided in the table below, and more detail follows.

Since the period for qualifying investment for the Paper Manufacturing Credit is closed, no future applications for initial certificates of approval are expected. As a result, OPEGA did not consider opportunities to improve that process. Instead, our recommendations focus on how design of similar future incentives might be improved and how ongoing data collection and reporting for this credit can be strengthened to better support oversight.

Recommendations for Legislative Consideration	
1	The Legislature May Want to Consider Other Tools for Providing Incentives to Single Entities in the Future
2	The Legislature May Want to Consider Approaches to Increase Transparency Around Use of Multiple Incentives
3	Clarification of One Measure for Evaluating the Credit May Be Needed
Recommendations for Program Administrators	
4	DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality
5	DECD Should Include Additional Information in Annual Reports to Allow Legislators to Monitor Fiscal Impact Developments

1 The Legislature May Want to Consider Other Tools for Providing Incentives to Single Entities in the Future

Although the purpose established in statute for the Paper Manufacturing Credit refers to supporting paper manufacturers in Maine generally, the credit's design limits its availability to one entity—Twin Rivers Paper Company. OPEGA observed that this is not the only Maine tax incentive that appears to direct financial incentives to single entities, and incentives directing benefits to specific entities are increasingly common in other states. However, stand-alone statutory income tax credits may not be an efficient or effective way to target benefits to individual entities. Other states use a variety of tools such as closing funds and discretionary grants to provide these types of micro-targeted incentives, and some of these tools may offer opportunities for Maine to increase effectiveness or efficiency in the following areas.

<u>Nimble and Predictable Incentives</u>

Enacting single-entity credits, one at a time, is not nimble or predictable for businesses or for the state. This method requires drafting and passage of new statutory language for each single-entity credit—a resource intensive effort. It is also bound to the legislative calendar, rather than the timing of business investment decisions or emerging state economic priorities. Attempting to navigate this timing issue can create risks for both the business considering investment locations and for the state. Other states have developed processes to nimbly support targeted businesses through discretionary incentives with expedited processes, some of which include legislative approval.

<u>A Simpler Tax Code</u>

Single-entity tax incentives seem to be increasingly common, and when a state has a handful of these credits, each with differing requirements and rules, they contribute to an overcomplicated tax code. A simple tax code is desirable because it makes the tax system easier for taxpayers to navigate and allows for more efficient state administration. Although the added complexity from adding just one targeted credit may be small, it adds up quickly as the single-entity credits increase in number. Additionally, OPEGA notes that administering incentives through a pre-existing structure that reaches most Maine citizens and businesses, like the income tax filing system, can be efficient for an incentive that is available to a large pool of taxpayers. However, a structure with broad reach like the tax filing system is not an efficient way to administer narrowly targeted incentives that each have differing requirements and often require the creation of unique tax forms.

Transparency and Clarity of Purpose

Single-entity incentives, like the Paper Manufacturing Credit, can lack transparency of purpose in terms of being clear to the public about what the incentive is attempting to accomplish for the state. Much of the statutory language for the Paper Manufacturing Credit appears to target the entire industry, but the credit is only available to a single entity. This seeming mismatch between the purpose language and the possible participants can create confusion for the public, and among stakeholders, about which businesses can qualify for the credit. If the state intends to target funds for specific businesses or projects that are deemed critical to economic development, a discretionary incentive specifically for that purpose, like those in some other states, could provide greater transparency and clarity of purpose.

Comparative Value for the State

OPEGA notes that assessing the value of committing state funds within the context of a stand-alone bill targeting a single entity is challenging. When dealing with limited resources, comparing options before committing funds can help ensure incentives are targeting the highest economic priorities and delivering the most value for Maine. However, this kind of thorough cost-benefit comparison may not readily align with the timing of processing bills and may include information that businesses would not want shared publicly in legislative committee meetings. Discretionary incentives in other states sometimes include processes for comparing potential projects up-front to identify the best cost-benefit for the state. The selection processes for awarding these discretionary incentives are sometimes public, but in other cases allow for protection of certain information that businesses consider confidential.

Recommended Legislative Action: If there is a continued desire to direct incentives to individual entities or projects, the Legislature may want to consider alternate vehicles for this practice that could be more effective and efficient. Instead of numerous individually targeted tax credits, other states sometimes use discretionary incentives to direct state funds to specific entities as determined necessary. Appendix D includes a list of some programs in other states for policymaker consideration. The vehicles currently in use by these states reflect a variety of structures, including:

- pre-award processes to assess the "but for," analyze value and cost-benefit for the state, and weigh the relative value of various possible state investments;
- factors that target state priorities of the moment, as may be reflected in a state's economic development plan, potentially including heritage industries, targeted growth industries, or particular geographic areas; and
- legislative oversight at various stages, including in the design of discretionary incentive programs, at review and approval of applications, and in ongoing monitoring to ensure the state receives the value expected.

OPEGA notes that this recommendation is future looking and long-term oriented, and is not meant to suggest changes to incentives already committed.

2 The Legislature May Want to Consider Approaches to Increase Transparency Around Use of Multiple Incentives

Beyond the Paper Manufacturing Credit, the Legislature has shown interest in monitoring co-use of incentives and understanding how incentives may come together as a package to help support a business's investment in Maine. However, OPEGA has found time and again, that this kind of oversight is limited by challenges in bringing together data across tax expenditures.

Tax expenditure data is collected in various state agencies (FAME, MRS, DECD) and managed differently in each agency. Because data collection across agencies is often not coordinated, data fields and time periods often do not align, making it a challenge to match investments or users across programs and administrators. An additional issue is that there are various degrees of confidential protections for the data, depending on the administrators and programs the data are connected with. This makes ongoing monitoring of co-use impossible unless one has access to confidential data, and even agencies with access to confidential data (like OPEGA) may be unable to report the analysis of that confidential data publicly for policymaker use.

For this evaluation, OPEGA gathered information from various sources about the incentives Twin Rivers accessed during the period that its reported qualified investment occurred. However, that sort of cross-incentive information is not readily available to the public or to support legislative oversight on an ongoing basis. Without being able to see easily which incentives are being used in combination, it is difficult to assess whether the state is effectively offering a comprehensive suite of incentives or whether there may be combined incentives use that might raise concern for policymakers.

Recommended Legislative Action: If there is a desire to monitor co-use of incentives, then some additional system or reporting may be needed. This could be accomplished in various ways. On the lower resource end, transparency could be increased with an assessment up-front of the overall package being used by a business at the time they are applying for a substantial credit. For example, when major incentives are awarded to a business in Virginia, the full package of incentives are reported through that states' Major Employment and Investment Project Approval Commission.[32]

Up-front assessment could add transparency for substantial incentives, but would not solve the larger ongoing issues around data collection and transparency. For a longer term, and more resource intensive effort, the state could consider moving toward standard online reporting for some, or all, incentives. An example of online reporting is Tennessee's searchable database of its FastTrack Project Grants.[33] Another example comes from Iowa, where the Department of Revenue oversaw the creation of a database that compiled information from four state agencies and authorities about incentive awards and claims.[34]

---

[32] "Annual Report of the MEI (Major Employment and Investment) Project Approval Commission." Calendar Year 2018. Reports to the General Assembly. https://rga.lis.virginia.gov/Published/2019/RD66/PDF.
[33] https://www.tn.gov/transparenttn/state-financial-overview/open-ecd/openecd/fasttrack-project-database.html.
[34] https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/06/how-states-can-gather-better-data-for-evaluating-tax-incentives.

3 Clarification of One Measure for Evaluating the Credit May Be Needed

One of the performance measures included in Title 36 §5219-YY(6)(B) for evaluating the Paper Manufacturing Credit is currently unclear and hence unusable in evaluating the credit. Measure (4) requires the credit to be evaluated based on the "change in the number of paper manufacturers and machinery used for the production of paper products located in the state and the number of modernization projects undertaken at those paper manufacturing facilities during the period being reviewed."

This performance measure includes two elements which OPEGA finds to be unclear. They are described in the following table.

"change in the number of paper manufacturers and machinery used for the production of paper products located in the State…"	OPEGA finds this measure to be incongruous with the design of the credit. It is unclear how the number of paper manufacturers is expected to change since the participating paper manufacturer must continue operating in Maine to claim the credit, and other paper manufacturers cannot access the credit, and hence could experience some competitive disadvantage. Additionally, no data is currently collected via annual reports regarding the number of paper manufacturers or paper machines in the state.[35]
"…the number of modernization projects undertaken at those paper facilities during the period being reviewed"	The phrase "modernization projects" is not defined specifically enough to be consistently and meaningfully measured. For example, on one extreme one could reasonably consider all of Twin Rivers' qualifying investment a single modernization project because a single mill is being modernized. Alternately, one could count each individual initiative supported by the company's qualifying investment – which would be roughly 70 projects. It is unclear how "modernization projects" should be counted or what level of modernization projects would indicate the credit was effective.

As it currently exists in statute, this measure is not usable for assessing the effectiveness of the Paper Manufacturing Credit. Best practices suggest that measures designated to evaluate programs should be clear, measurable, and directly related to goals or intended outcomes of the program. Additionally, to facilitate timely and effective evaluation, data directly related to the measures should be routinely collected.

Recommended Legislative Action: If the intent behind performance measure (4) is important to future evaluation of the effects of this credit, then the measure should be clarified and supporting data may need to be collected going forward.[36]

[35] OPEGA also asked more whether DECD or the Maine Forest Products Council collects this kind of data ongoingly and learned that neither entity does so.

[36] OPEGA might typically recommend statute be amended to address a lack of clarity in statutory language. However, if policymakers decide this performance measure is not critical to future evaluations, leaving it in statute will have no negative effect. Given that, it may not be worth the legislative resources required to consider a bill to amend statute for this point alone.

4 DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality

OPEGA found that DECD has taken limited steps to monitor ongoing compliance with statutory requirements related to the minimum quality thresholds for qualifying employees. These requirements are directly related to benefits the state expected to receive in connection with this credit: creation or retention of high-quality jobs. As such, it is important that program administrators take steps to provide public assurance that credit users are complying with the requirements.

Title 36 §5219-YY(1)(H) requires that qualified employees must be full-time and working at a Maine paper manufacturing facility. They must also be provided with income that exceeds the average annual per capita income in the county in which they are employed and must be provided with group health insurance and a qualifying retirement plan.

To date, DECD has required Twin Rivers to provide counts of qualifying employees in annual reports as required by statute. However, DECD has not required any confirmation that each employee counted as qualified has been provided with the group health insurance and qualifying retirement plans required by statute. Although one might assume that Twin Rivers is keeping these requirements in mind when determining which employees to include in their qualified count, additional public assurance that the state is benefitting as expected in terms of quality jobs is warranted for a credit of this magnitude.

OPEGA also acknowledges that MRS has audit authority for the Paper Manufacturing Credit. This makes audits a possibility but not a requirement for the credit. In addition, audits generally function as detective, rather than preventive, controls. Detective controls typically exist to check the accuracy and appropriateness of transactions that have already occurred and to detect any issues or noncompliance. Preventive controls, on the other hand, ensure accuracy and appropriateness before transactions are complete, hence preventing issues or noncompliance. Control systems that include both preventive and detective controls are often more robust than systems that rely only on one or the other.

Recommended Management Action: DECD should take additional steps to confirm compliance with the Paper Manufacturing Credit's statutory requirements for job quality. Monitoring compliance with these requirements need not be administratively burdensome for the agency or the credit user. At a minimum, DECD could confirm compliance by requiring Twin Rivers to attest to compliance with each of the job quality elements as part of the company's annual reporting. While this step would not perfectly confirm compliance, controls such as these strike a balance by providing additional checks on compliance with critical requirements without creating undue burden for state administrators or the program user.

5 DECD Should Include Additional Information in Annual Reports to Allow Legislators to Monitor Fiscal Impact Developments

OPEGA found that additional information is needed in DECD's annual report on the Paper Manufacturing Credit to facilitate oversight of developments in the amount of qualified investment that is fully certified and the amount of credit authorized annually.

DECD has been reporting annually to the Legislature on the Paper Manufacturing Credit's qualified investment and employment as required by Title 36 §5219-YY(4)(B). To date, this reporting has included the total qualified investment reported by Twin Rivers. However, Twin Rivers recently deferred submission for final certification of some of that qualified investment. Due to this deferral, the amount that has been reported as total qualified investment is not the same as the amount of qualified investment that has received final certification. This is important because credit can only be claimed based on the qualified investment that has received final certification ($23.7M as of June 2024).

If DECD continues to report the total qualified investment (approximately $35M), without regard for the investment's certification status, this would present an incomplete picture of the credit's use and cost.

Recommended Management Action: In future annual reports to the Legislature, DECD should include additional information about how much of the reported qualified investment has received final certification. This information will allow users of the reports to monitor certification status and better predict the future fiscal impact of the credit. Statute allows the DECD Commissioner to prescribe forms for the annual report, so changes to reporting format should be possible without legislation. OPEGA also recommends that DECD consider whether any of the Department's other annual reports might benefit from similar additions to better support oversight.

Appendix A. Methods and References

The GOC approved parameters for the evaluation of the Credit for Paper Manufacturing Facility Investment are detailed in Appendix F.

In the course of this evaluation, information was obtained from the following sources:

- relevant statute, including the history of changes made since the enactment of the credit;
- documents related to annual reporting by Twin Rivers and DECD;
- documents related to Twin Rivers' initial application for, and subsequent receipt of, a certificate of approval for the credit;
- interviews with state program administrators and Twin Rivers' management;
- interviews with business community stakeholders and the town of Madawaska; and
- a site visit to Twin Rivers' paper manufacturing facility in Madawaska, Maine.

No confidential taxpayer data was obtained in the course of this evaluation.

In addition to analyzing publicly available data, assessing the program design, and interviewing program stakeholders, OPEGA undertook economic modeling in the course of this evaluation (see Appendix C) and contracted an effective tax rate analysis of the competitiveness of Maine's paper manufacturing industry (see Appendix B).

Works and resources cited or considered in the body of the report include the following:

Center for Regional Economic Competitiveness (CREC). 2020. "Estimating the Influence of Incentives on Investment Decisions: A New Approach to the But-for Question." Retrieved 9.25.23. (https://smartincentives.org/wp-content/uploads/Estimating-the-Influence-of-Incentives-Nov-2020.pdf)

Additional sources were accessed to prepare the summary of other states' single-entity incentives in Appendix D. These included online statutes and economic development agency websites for other states and the selected sources listed in that appendix.

Appendix B. Contracted Effective Tax Rate Analysis Methods

OPEGA commissioned EY's Quantitative Economics and Statistics practice to provide a measure of industry competitiveness by demonstrating the impact of state and local taxes on a hypothetical company's internal rate of return through an effective tax rate (ETR) analysis. For the analysis, EY used models of hypothetical business investments in six different state tax environments to compare the impacts of the local tax climates and available incentives in those states on the hypothetical business.

Table 13. Hypothetical Firm Profile Used in Analysis for Paper Manufacturing Industry

NAICS industry	322
Number of employees	662
Average employee wages	$80,428
Capital investments	$40 million
Annual business revenue	$331 million
Operating annual expenses	$298,301,277
Profit margin	10.0%

Source: EY industry analysis using IRS Corporate Sourcebook data; commodities data from the Bureau of Economic Analysis; and County Business Patterns and Economic Census data from the US Census Bureau.

The hypothetical firm was created, not to be a true stand-in for the single claimant of Maine's Paper Manufacturing Credit, but instead to provide a consistent standard for comparison across states' tax environments. The model firm was created to meet the standards required by Maine's credit and simulate a similar business and investment. The results of the comparison are not intended to provide information on the hypothetical business or a credit claimant, but instead of the impacts of the states' tax environment and the impacts of their available incentives on those impacts.

The states and counties chosen for the analysis were chosen by OPEGA based on industry knowledge and the industry employment in those places and are shown in the table below.

Table 14. Comparison States and Counties

Paper Manufacturing (NAICS 322)		
State	**County**	**Industry Employment**
Maine	Aroostook County	587
Arkansas	Jefferson County	1,131
Georgia	Bibb County	1,576
Mississippi	Lowndes County	508
Tennessee	Shelby County	1,894
Wisconsin	Brown County	5,071

Source: EY analysis of employment data from JobsEQ, which summarizes Quarterly Employment and Wage data from US Bureau of Labor Statistics.

For each of the comparison states, EY identified the tax burden from property, income, franchise, unemployment, and sales and use taxes.

Table 15. Summary of current statutory tax rates for Maine and benchmark states, 2023

Total state and local tax rates for locations in:	State corporate income or franchise tax rate*	Combined state and local sales tax rate	Real property tax rate**	Personal property tax rate**
Arkansas, Jefferson County	5.10% CIT + $300 flat fee franchise tax	10.00%	1.10%	1.10%
Georgia, Bibb County	5.75% CIT + $5k flat fee	8.00%	1.38%	1.38%
Maine, Aroostook County	8.93% CIT	5.50%	1.82%	1.82%
Mississippi, Lowndes County	5.00% CIT + 0.125% franchise rate	7.00%	1.45%	1.45%
Tennessee, Shelby County	6.50% CIT + 0.25% franchise rate	9.75%	1.58%	1.19%
Wisconsin, Brown County	7.90% CIT	5.50%	1.70%	0.00%

*Mississippi franchise taxes will be fully phased out after the 2027 tax year.
**Property tax rate is the product of the millage rate and the assessment ratio but does not reflect differences in local valuation approaches or personal property depreciation schedules.
Source: EY analysis using various sources for tax rates including TRTA Checkpoint for sales tax rates, and state and county tax websites for other tax rates.

EY also identified the incentives that would be available to the hypothetical firm based on its hypothetical capital investment. The base tax environment was included in the pre-incentive ETR calculation. Then the incentives were added to determine the post-incentive ETR. The incentives from each state are summarized in the table below.

Table 16. Summary of Incentives Included in the Analysis, by State and Type

State	Property	Sales and Use	Income	Grant	Incentives
AR	√		√	√	Arkansas Economic Development Grant (Governor's Deal Closing Fund), Create Rebate, Ark Plus Income Tax Credit, Property Tax Abatement (IRB/PILOT)
GA	√	√	√		Jobs Tax Credit, Property Tax Abatement, Project of Regional Significance, REBA Grant
ME	√		√		Tax Credit for Paper Manufacturing Facility Investment, Business Equipment Tax Exemption, Maine Capital Investment Credit, Municipal Tax Increment Financing Rebate
MS	√		√	√	Manufacturing Investment Tax Credit, Advantage Jobs Incentive Program, Jobs Tax Credit, Industrial Property Tax Exemption
TN	√		√		Enhanced Job Tax Credit, Industrial Machinery Tax Credit, Local Payment in Lieu of Tax (PILOT) Incentive
WI	√		√		Enterprise Zone, Tax Increment District, Manufacturing and Agriculture Tax Credit

Source: EY research of state tax websites and tax incentives codes.

EY's analysis shows a comparison of the of the state's starting impacts on business profitability through the calculation of an effective tax rate (ETR) and then a comparison of how the states rate on ETR after available incentives are factored in. Again, ETR is a measure of the tax burdens imposed by state and local tax systems and are represented here as the percentage change in the internal rate of return due to taxes. A higher ETR is suboptimal for a business, while a lower ETR represents a more favorable position for businesses.

EY's model makes a number of choices which impact results and are detailed below.

1. **Sales Factor for State Corporate Income Tax Apportionment.** For the modeling, EY assumes that 10% of sales are to in-state customers.

2. **Sales and Use Tax Statutory Exemptions**. EY included these exemptions as part of the pre-incentive ETR since they are not discretionary.

3. **Type of Business and Investment.** For the purposes of the analysis, EY modeled a C-corporation with new investments and associated employment and payroll. The hypothetical firm was not new to the state in the scenario. The model used continuous reinvestment by year to replace depreciated property even though in reality equipment would be replaced as it wears out or becomes outdated. This approach to reinvestment allowed the hypothetical firm in Mississippi to qualify for particular tax credits.

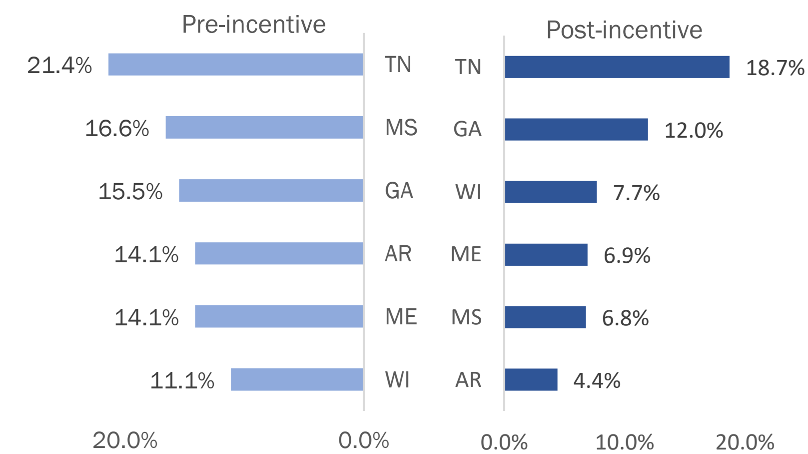
Ultimately, this analysis suggests that among the selected comparison locations for paper manufacturing, Aroostook County, Maine's pre-incentive and post-incentive tax environments are favorable for investments in the paper manufacturing industry (see the table and figure that follow).

Table 17. Summary of ETR Analysis Results

Location	Pre-incentive ETR	Post-incentive ETR	PP Change	Rank
Jefferson County, AR	14.1%	4.4%	9.7%	1
Lowndes County, MS	16.6%	6.8%	9.8%	2
Aroostook County, ME	14.1%	6.9%	7.2%	3
Brown County, WI	11.1%	7.7%	3.4%	4
Bibb County, GA	15.5%	12.0%	3.5%	5
Shelby County, TN	21.4%	18.7%	2.7%	6
Average, excluding Maine	15.7%	9.9%	5.8%	

Source: EY Analysis using Business Tax Competitiveness Model

Ranked State ETRs Pre- and Post-Incentives



Source: EY Analysis using Business Tax Competitiveness Model

EY's analysis also provided the breakdown of the relative impact of Maine's incentives on the reduction in ETR, showing that the Paper Manufacturing Credit is responsible for more than half of the 7.2 percentage point reduction, with 4.0 percentage points of the reduction in ETR attributed to that credit.

EY's final report can be provided upon request.

Appendix C. Economic Modeling Methodology and Assumptions

OPEGA used the IMPLAN[37] economic modeling software, and data from DECD and Twin Rivers on the Paper Manufacturing Credit, to separately estimate the impact of ongoing mill operations and Twin Rivers' one-time qualified investment (QI) upon which the Paper Manufacturing Credit is based. Below we describe the inputs and assumptions used in that modeling as well as the outputs produced by the model.

Model Inputs

- Employment - The primary input driver of the economic model for mill operations was employment at the mill. Twin Rivers reported 452 qualified employees in its year-end 2022 report to DECD and 471 in its year-end 2023 report. Absent Twin Rivers' actual payroll data, we used the IMPLAN model to estimate direct, fully loaded, employee compensation based on the employment level, industry sector, and county in which the mill is located.
- Qualified Investment - OPEGA modeled the economic effects of the Maine portion of Twin Rivers' qualified investment—nearly $10M. The timing and amount of in-state investment was based on the total QI spending that Twin Rivers reported to DECD in annual reports, along with additional data received directly from Twin Rivers about the amount, and nature, of in-state QI spending.
- Timing - For inputs in prior years, such as Twin Rivers' QI spending in 2019 through 2021, OPEGA used the appropriate data year matched to the year of the event. For any event year after the latest available IMPLAN data year (2022), OPEGA continued to use the relationships implicit in that data year. For example, spending and employment reported for 2023 used the 2022 IMPLAN data year since the 2023 data year is not currently available. Over time, these relationships between industrial sectors in a data year are expected to change, but forward-looking analyses cannot account for those equilibrium effects under an input-output model structure. Consequently, future year estimates become more approximate.
- Sectors and Regions - Normal mill operations were modeled separately from the qualified investment, which is considered to be over and above typical spending at the facility. OPEGA modeled the impact of normal operations on the economies of Aroostook County using the IMPLAN "Paper Mills" sector #145 and Aroostook County as the region. Other counties in Maine were added to the model in a multi-region input/output structure.[38] For modeling Twin Rivers' qualified investment, OPEGA had to make assumptions about the sectors impacted. Twin Rivers did not provide details of the specific nature, sector, or vendor for all in-state qualified investment, but did provide a list of general types of QI spending and the amount spent in-state for each type. OPEGA categorized this list into IMPLAN sectors to estimate Twin Rivers' in-state QI spending by industry sector. For the QI analysis, OPEGA did not know where in Maine purchases were made, so we modeled the impact on a state-wide basis.

Model Outputs

IMPLAN's outputs of economic measures include predicted employment, employee and proprietor compensation, and economic value-added, which is equivalent to Gross Domestic Product of a region (GDP). IMPLAN uses the Bureau of Economic Analysis's (BEA) definition of employment which includes full-time, part-time, and temporary positions. OPEGA converted IMPLAN's employment measure to full-time equivalents (FTEs) using industry ratios based on national averages from the BEA. The resulting FTEs are roughly equivalent to the number of jobs resulting from the impact of Twin Rivers' qualified investment and ongoing operations.

[37] IMPLAN® model, 2020 & 2021 Data, using inputs provided by OPEGA and IMPLAN Group LLC, IMPLAN System (data and software), 16905 Northcross Dr., Suite 120, Huntersville, NC 28078 www.IMPLAN.com.
[38] The multi-region input/output (MRIO) structure allows the model to use the more localized data from the smaller region and still capture the wider economic effects of suppliers outside the local region.

IMPLAN also provides estimates of direct, indirect and induced economic effects. **Direct effects** are the economic impacts specifically associated with the sector experiencing a change of inputs.

Indirect effects (also called supply chain effects) are the estimates of sector-to-sector purchases in the supply chain that stem from the initial changes in the directly affected sector. In OPEGA's model, IMPLAN uses regional trade flow information specific to the paper mill sector in relation to its suppliers to estimate the impact to Aroostook County and other Maine county economies.[39] Because this trade flow information is broken down into finer geographies, OPEGA was also able to estimate indirect (supply chain) effects of annual Twin Rivers mill operations for each of Maine's counties. The same types of parameters – employment, labor income, value added – are estimated for indirect effects and are additive to the direct effects of the mill.

Direct and indirect effects modeled for the Paper Manufacturing Credit are discussed throughout this report and summarized in the tables below.

Table 18. Estimated Value of Twin Rivers Papermill Operations to the Aroostook County and Maine State Economies in 2023 (not including QI)

	Direct Impacts	Indirect Impacts	Combined Direct & Indirect Impacts
TOTAL Jobs	**471**	**487**	**958**
Aroostook County	471	392	863
The Rest of Maine		96	96
TOTAL Labor Income ($M)	**$45.42**	**$34.54**	**$79.96**
Aroostook County	$45.42	$27.58	$73.00
The Rest of Maine		$6.96	$6.96
TOTAL GDP Impact ($M)	**$78.21**	**$58.12**	**$136.32**
Aroostook County	$78.21	$47.12	$125.33
The Rest of Maine		$11.00	$11.00

Table 19. Estimated One-Time Effects of Qualifying Investment (QI) Spending by Year

	2019 - 2021	2022	2023	Total
Indirect Jobs Supported by QI Spending	3	35	33	71
GDP Impact ($M)	$0.25	$3.21	$2.95	$6.40
State Tax Revenue ($M)*	$0.02	$0.21	$0.20	$0.43

*State tax revenue includes the following taxes (where applicable) associated with the goods and services purchased with the qualifying investment: Taxes on Production and Imports, Net of Subsidies (including Sales Tax); Social Insurance Taxes; Corporate Profits Taxes; Personal Income Taxes; Personal Motor Vehicle License Taxes; Personal Property Taxes (very minor at state level); and Other Personal Taxes (Hunting/Fishing Licenses etc.).

The IMPLAN model also provides **induced effects**. The model data includes trade flows between households and businesses and estimates the effects of wages paid to direct employees, and the employees of suppliers, on businesses not directly in the supply chain for the mill, such as hospitals, restaurants, and other household spending. This economic activity is tied to wages, after removal of taxes and savings, and adjusted for commuters into the region. While this economic activity is logically expected, whether to use it or not depends on the modeling objectives. We excluded induced effects in modeling the ongoing operations of the mill based on the assumption that, absent those ongoing operations, some of that household spending would still occur due to unemployment compensation and re-employment. Attempting to estimate the impacts on household spending from potential out-migration, or reduction in household income, was beyond the scope and resources of this evaluation. However, while excluding induced effects from our results avoids a potentially significant overstatement, it may also result in a smaller understatement of the total economic impacts of the mill's ongoing operations.

[39] IMPLAN uses trade flow data published by the U.S. Department of Commerce's Bureau of Economic Analysis (BEA).

Appendix D. Other States' Approaches to Single-User Incentives

Recommendation 1 suggests that policymakers consider whether other approaches for directing support to single business entities and investments might help Maine be more transparent, nimble, and effective in these sorts of targeted economic development endeavors. This appendix highlights approaches from other states for targeting large business investments.

OPEGA compiled a list (see table that follows) from discussion with stakeholders and additional research. This list is not intended to be comprehensive, but instead, to provide a range of other ways that states approach providing economic development incentives for single users. The list includes funds and programs in six states: Arkansas, California, Michigan, North Carolina, Texas and Virginia. OPEGA looked for the existence of approaches in Massachusetts, New Hampshire, and Vermont as they are neighbors of Maine and New Hampshire and Vermont are demographically similar, small northern New England states. Massachusetts and New Hampshire do not appear to have such incentive vehicles.

From review of the varied approaches in other states, OPEGA prepared a summary of the attributes of the programs especially as they relate to fostering consistency, transparency, value for the state, responsiveness, and legislative oversight role.

Award Methods & Authority

Many of the closing funds and discretionary grants or incentives have statutorily prescribed procedures or standards that are applied in the determination of awards and in some cases, how much is granted (for instance, Arkansas Amendment 82 projects, and Texas Enterprise Fund Awards). Conversely, California Competes, North Carolina Job Development Investment Grants and Michigan Strategic Fund have statutory guidelines but are ultimately discretionary funds. Many other funds appear to be entirely discretionary—Arkansas Governor's Deal Closing Fund, Michigan Strategic Outreach and Reserve Fund, One North Carolina Fund, Virginia Commonwealth Opportunity Fund, Virginia Major Employment and Investment Project.

Transparency & Reporting

Many of the funds announce and report grantees and award amounts after the fact, and the details of the negotiations and considerations are often not transparent. On the lower end of the transparency spectrum, in Texas the Governor and Speaker of the House ultimately decide on the dispersal of Enterprise Funds, with their considerations not made public. The Arkansas Governor's Quick Action Closing Fund has required annual reporting on the incentives provided, but there is not transparency in terms of how the deals are made. However, Arkansas' Amendment 82 Projects must be voted on in the General Assembly, bringing a higher level of public scrutiny (though the underlying economic impact analyses are not necessarily made public). Michigan's Strategic Outreach and Reserve Fund requires legislative approval and thus brings public scrutiny, though again the details of the negotiations may not be public and legislators have had to sign confidentiality agreements in the past.

Measuring Value for the State

Because of the discretionary nature of many of these grants/funds, the determinations used by states to assess value to the state are not always available. However, there are some ways that states try to ascertain and weigh value to the state at the front end. For Arkansas Amendment 82 projects, the Arkansas Economic Development Commission performs economic impact and cost-benefit analysis ahead of the referral of projects to the General Assembly. The General Assembly can also ask for independent verification of the analyses. In California, a competitive application process allows the state to weigh options in terms of their value to the state. In Michigan, Strategic Fund projects are subject to an application and due diligence process (confirmation of application materials), certain types of projects such as job retention and retail are excluded and certain sectors are targeted in seeking value to the state.

North Carolina's Job Development Investment Grant projects undergo an application process that includes providing information on the but for[40] and undergoing a cost-benefit analysis. Virginia's Commonwealth Opportunity Fund requires "an active and realistic competition between Virginia and another state or country" in addition to a return on investment analysis. The Texas Enterprise Fund also requires that a project be actively considering at least one viable out-of-state location. Considerations for how to assess whether this is true are provided.

Ability to Respond Promptly to Opportunities

All of these funds/grants appear to have the ability to be quickly responsive to economic project needs and opportunities. This appears to be the purpose of many of these programs. They do this in different ways. In Arkansas for Amendment 82 Projects that require General Assembly approval, the approval can take place in regular, fiscal, or extraordinary session. Michigan's legislative approval for the SOAR fund is through a Senate budget subcommittee. Many of these funds have rolling application processes, or in the case of California, multiple application periods in a year. Despite these factors, there have been concerns about transparency of how the decisions are being made[41] and about value to the state[42] given these large investments.

Legislative Oversight

Many of these funds or grants incorporate legislative oversight. In Arkansas, the General Assembly, upon referral by the Governor, makes "the final and definitive decisions" concerning the proposed Amendment 82 projects. California Competes awards are approved by a statutorily-created committee that includes appointees from the Speaker of the Assembly and the Senate Committee on Rules. In Michigan, the state's Michigan Strategic Fund awards SOAR grants from a legislatively created $1 billion fund, which have to receive legislative approval in some cases. In North Carolina, there is a Commission made of Executive Branch officers and legislators that vets Job Development Investment Grant projects according to criteria established in statute. In Virginia, a legislative committee reviews and approves incentives on larger projects. In Texas, the Speaker of the House (along with the Governor and Lt. Governor) is involved in grant approval.

The table that follows lists the incentives identified.

Table 20. Selected Other States' Approaches to Single-User/Project Incentives

Incentive	Benefits Determination	Transparency	Value for the State	Legislative Oversight	Allowed with Other Incentives
Arkansas					
Amendment 82 Projects Governor recommends a project for review by the Arkansas Economic Development Commission, the Arkansas Finance Authority and the Chief Fiscal Officer of the state.	The General Assembly authorizes review of proposed projects according to statutorily prescribed procedures.	Selection of projects is voted on in the General Assembly; but economic impact analyses are not public.	Commission does economic impact and cost-benefit analysis before referral to General Assembly.	Governor refers projects to the General Assembly for final selection.	Yes.

[40] https://www.commerce.nc.gov/criteria-job-development-investment-grant-jdig/download?attachment pg. 18-20 provides a list of situations in which grants will be regarded as not necessary, or not necessary for projects to be completed in North Carolina.
[41] See for example, https://www.bridgemi.com/michigan-government/michigan-embraces-silence-tax-break-deals-other-states-move-ban-it.
[42] https://www.commerce.nc.gov/criteria-job-development-investment-grant-jdig/download?attachment pg. 18-20 provides a list of situations in which grants will be regarded as not necessary or not necessary for Projects to be completed in North Carolina.

Table 20. Selected Other States' Approaches to Single-User/Project Incentives (continued)					
Incentive	**Benefits Determination**	**Transparency**	**Value for the State**	**Legislative Oversight**	**Allowed with Other Incentives**
Economic Development Incentive Quick Action Closing Fund Fund to attract new businesses or retain existing to compete with other states.	Variable benefits as determined by the Arkansas Economic Development Commission and the Governor.	Award process is not transparent, but recipients and grant amounts are reported annually.	Unclear whether award process considers "but for" or impact to the state.	Not in individual awards. Annual appropriation to the fund.	Yes (encouraged).
ArkPlus Tax Credit Discretionary 10% income tax credit for competitive situations. Business must meet investment and payroll thresholds.	Awarded at the discretion of the Executive Director of the Arkansas Economic Development Commission.	Required reporting on expenditures and employment.	Value to the state is assessed at the discretion of the Executive Director of the Arkansas Economic Development Commission.	None identified.	Yes.
California					
California Competes Tax Credit (CCTC) Income tax credit available to businesses that want to locate, or stay in California. Three application periods in a year; $180 million available in tax credits.	Statute establishes purpose and factors to be considered by GO-Biz, but award is discretionary.	Award agreements are publicly available. Website lists grantees, investment and incentive amounts.	Competitive application process. Applicants are analyzed on 14 different factors of evaluation.	Approval by a committee that includes appointees from Speaker of the Assembly and Senate Committee on Rules.	Yes.
Michigan					
Business Development Program (Michigan Strategic Fund) Performance-based grants and loans for eligible business seeking to locate or expand in Michigan rather than another state. Rolling applications.	Base standards are established in law. Information on grant award criteria is provided. Awards may not exceed $10M.	Reporting after the fact, criteria are public, actual decision process does not appear to be public and there is room for discretion.	All projects are subject to an application and due diligence process. Retail and retention projects are not eligible. Certain sectors are prioritized.	Reporting to the legislature, after the award.	Commitment of staff, financial or economic support by the local municipality is required for all projects.
Strategic Outreach and Reserve (SOAR) Fund The discretionary $1 Billion economic development fund was created to lure big business.	SOAR grants are awarded by the Michigan Strategic Fund then require legislative approval.	Legislative process is public; though details of negotiations may not be.	Unclear whether award process considers "but for" or impact to the state.	Require legislative approval.	Yes.

Table 20. Selected Other States' Approaches to Single-User/Project Incentives (continued)					
Incentive	**Benefits Determination**	**Transparency**	**Value for the State**	**Legislative Oversight**	**Allowed with Other Incentives**
North Carolina					
One North Carolina Fund (OneNC) Discretionary cash grant program that allows the Governor to respond quickly to competitive job-creation projects. Rolling applications, subject to fund availability.	NC Dept of Commerce administers OneNC on behalf of the Governor. Awards are based on the number of jobs created, level of investment, location and economic impact of the project, and importance of the project to the state and region.	Not up front. Required reporting at the end of each fiscal quarter on the Fund, and yearly on the grant recipients.	NC Dept of Commerce reviews applications and makes recommendations to the Governor. Unclear whether award process considers "but for" or impact to the state.	None identified.	Local governments are required to provide an incentive match, based on county tier.
Job Development Investment Grant (JDIG) Cash grants directly to a company that creates jobs and invests in the state. Awarded only in competitive recruitment or retention situations. Rolling applications, subject to fund availability.	Discretionary, but statute sets maximum grant size and factors to consider. Total annual awards capped at $35M or $45M.	Committee votes on awards, but information may be considered confidential and not made public.	Applications subject to cost-benefit analysis. "But for" is considered. Projects are subject to a yearly performance review. Grants are paid out over time.	None identified.	Yes.
Texas					
Texas Enterprise Fund Used for "deal-closing" grants. Appears to have a rolling application process.	Calculated "according to a uniform analytical model for each applicant."	Information on use of fund and individual grants published after the fact Decision process is not public.	Vetting process is "a thorough 11-step due diligence screening process" that includes economic impact. Grantee must be actively considering viable out-of-state location option.	Approved by Governor and Speaker of the House.	Needs to be supported by locality, particularly in the form of local economic incentive offers.
Virginia					
Commonwealth Opportunity Fund (COF) A "deal-closing" fund at the Governor's discretion to secure a company location or expansion in Virginia in the face of serious competition from other states or countries. Rolling applications.	Negotiated amount determined by the Secretary of Commerce & Trade, based on recommendation of Virginia Economic Development Partnership and subject to approval of the Governor.	Not up front. Public release of approved list of projects. Annual reporting required.	Must be "an active and realistic competition between VA and another state or country." Capital investment and job creation requirements. Pre-award review includes ROI analysis.	None identified.	Yes, and matching local financial participation is required.

Table 20. Selected Other States' Approaches to Single-User/Project Incentives (continued)

Incentive	Benefits Determination	Transparency	Value for the State	Legislative Oversight	Allowed with Other Incentives
Major Employment and Investment Project (MEI) Discretionary grant program created to attract competitive projects. Rolling application process.	Custom performance grant. MEI Commission (legislative committee) reviews and approves incentives in certain circumstances, including when the incentives package will exceed $10M.	Not up front. Public release of approved list of projects.	Unclear whether award process considers "but for" or impact to the state.	Legislative commission approves certain projects and reports annually to the General Assembly.	No.

Above table sourced from state economic development websites, online state laws, and the following:

"Amazon Web Services Plans to Invest $35 Billion in the Commonwealth by 2040 to Expand Data Center Campuses." 1.20.2023. *Office of the Governor Glenn Youngkin.* https://www.governor.virginia.gov/newsroom/news-releases/2023/january/name-991808-en.html

"Business Watch: Michigan Approves $846 Million in Aggressive Bid to Attract New Businesses." 9.28.2022. *Bridge Michigan.* https://www.bridgemi.com/business-watch/michigan-approves-846-million-aggressive-bid-attract-new-business

"DePre To Establish HQ, Manufacturing Operations in Tennessee." 9.25.2023. *Business Facilities.* https://businessfacilities.com/depre-to-establish-hq-manufacturing-operations-in-tennessee/

"Michigan Embraces Silence in Tax Break Deals as Other States Move to Ban It." 1.6.2022. *Bridge Michigan.* https://www.bridgemi.com/michigan-government/michigan-embraces-silence-tax-break-deals-other-states-move-ban-it

"Michigan Gives $175M to Gotion Electric Vehicle Project Despite Backlash." 4.20.2023. *MLive.Com.* https://www.mlive.com/public-interest/2023/04/michigan-gives-175m-to-gotion-electric-vehicle-project-despite-backlash.html#:~:text=The%20project%20was%20put%20under%20a%20microscope%20after,gave%20the%20grants%20the%20green%20light%20on%20Thursday.

"Press Release: Governor Whitmer Signs Legislation Enabling Michigan to Attract Billions in Investment, Create Tens of Thousands of Good-Paying Jobs." 12.20.2021. *Michigan.Gov.* https://www.michigan.gov/whitmer/news/press-releases/2021/12/20/governor-whitmer-signs-legislation-enabling-michigan-to-attract-billions-in-investment-create-tens-

Shultis, Ron. 2019. "Tennessee: Open for Business, But Open to the Public? A Review of the Transparency of Tennessee's Economic Development Programs. *Beacon Center of Tennessee.* https://rga.lis.virginia.gov/Published/2019/RD66/PDF

Appendix E. Maine's Tax Expenditure Review Process

OPEGA conducts reviews of tax expenditures in accordance with Title 3 §§998 and 999. Tax expenditures are defined by Title 5 §1666 as "state tax revenue losses attributable to provisions of Maine tax laws that allow a special exclusion, exemption or deduction or provide a special credit, a preferential rate of tax or a deferral of tax liability." Tax expenditure reviews fall into one of two categories, full evaluation and expedited review. The GOC, in consultation with the Joint Standing Committee of the Legislature having jurisdiction over taxation matters, assigns a category to tax expenditures and establishes a prioritized schedule for the reviews.

The tax expenditure review process was established as the result of Resolves, 2013, chapter 115, which directed OPEGA to develop a proposal to be considered by the Joint Standing Committee on Taxation during the 127th Legislative Session. On March 2, 2015, OPEGA submitted the report outlining the proposal for implementing ongoing reviews and included a chart of identified tax expenditures (http://mainelegislature.org/doc/578). The report states that the purposes of establishing a formal, ongoing legislative review process are to ensure that:

- Tax expenditures are reviewed regularly according to a strategic schedule organized so that tax expenditures with similar goals are reviewed at the same time;
- Reviews are rigorous in collecting and assessing relevant data, determining the benefits and costs, and drawing clear conclusions based on measurable goals; and
- Reviews inform policy choices and the policymaking process.

The proposal became LD 941 An Act to Improve Tax Expenditure Transparency and Accountability and was enacted as Public Law 2015, chapter 344. Part of this law, Title 3 §999, provides that the GOC establish parameters for each full review based on the following:

- The purposes, intent or goals of the tax expenditure, as informed by original legislative intent as well as subsequent legislative and policy developments and changes in the state economy and fiscal condition;
- The intended beneficiaries of the tax expenditure;
- The evaluation objectives, which may include an assessment of:
  - The fiscal impact of the tax expenditure, including past and estimated future impacts;
  - 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;
  - 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;
  - The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries;
  - 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;
  - The extent to which the state's administration of the tax expenditure, including enforcement efforts, is efficient and effective;
  - 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;
  - The extent to which the tax expenditure is a cost-effective use of resources compared to other options for using the same resources or addressing the same purposes, intent or goals; and
  - Any opportunities to improve the effectiveness of the tax expenditure in meeting its purposes, intent or goals; and
- The performance measures appropriate for analyzing the evaluation objectives. Performance measures must be clear and relevant to the specific tax expenditure and the approved evaluation objectives.

Appendix F. GOC Approved Evaluation Parameters

Credit for Maine Paper Manufacturing Facility Investment – Evaluation Parameters

The Government Oversight Committee (GOC) considered proposed evaluation parameters for OPEGA's full evaluation of the Credit for Maine Paper Manufacturing Facility Investment and received stakeholder input on March 24, 2023. The GOC voted to approve the following evaluation parameters, pursuant to 3 MRSA §999(1)(A) on April 14, 2023.

Purposes, Intent or Goals
1. To provide incentives for the revitalization of paper manufacturing facilities in counties with high unemployment and to create or retain high-quality jobs in the State by encouraging paper manufacturers to modernize their paper manufacturing equipment to better compete in the marketplace.
Intended Beneficiaries
Directly: businesses making investments in paper manufacturing facilities in counties with high unemployment Indirectly: job seekers
Evaluation Objectives
1. The fiscal impact of the tax expenditure, including past and estimated future impacts; 2. 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; 3. 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; 4. The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries; 5. 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; 6. The extent to which the State's administration of the tax expenditure, including enforcement efforts, is efficient and effective; 7. 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; 8. The extent to which the tax expenditure is a cost-effective use of resources compared to other options for using the same resources or addressing the same purposes, intent or goals; and 9. Any opportunities to improve the effectiveness of the tax expenditure in meeting its purposes, intent or goal.
Performance Measures
1. Number of qualified employees added or retained during the period being reviewed, and comparison to minimum employment requirements; 2. Amount of qualified investment during the period being reviewed, and comparison to the minimum investment requirements; 3. The increase in the vitality and competitiveness of the State's paper industry in the marketplace; 4. The change in the number of paper manufacturers and machinery used for the production of paper products located in the State and the number of modernization projects undertaken at those paper manufacturing facilities during the period being reviewed; 5. Measures of fiscal impact and overall economic impact to the State and to the regions in which certified applicants are located; 6. Annual revenues of each parent company of recipients; 7. CEO salaries, stock buybacks, and executive officer sales of stock following receipt of the tax credit for each recipient; and 8. Summary of information on profitability from SEC filings after receipt of the tax credit for each recipient.

STATE OF MAINE
DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT

JANET T. MILLS
GOVERNOR

MAINE.
ECONOMIC & COMMUNITY DEVELOPMENT

HEATHER JOHNSON
COMMISSIONER

September 9, 2024

Peter Schleck
Director
Office of Program Evaluation and Government Accountability
82 State House Station
Augusta, ME 04333

Dear Director Schleck,

Thank you for the opportunity to review and respond to OPEGA's report on the Credit for Paper Manufacturing Facility Investment. Our department was pleased to participate in the review process and found it helpful as we continue to seek to implement and oversee Maine's business incentive programs effectively.

Our department will review our reporting documentation to help improve clarity for the reporting company, legislators, and others who may review the information. We can identify an appropriate way for the company to attest to the qualifications of the employees report as qualified in future report years. This action, as recommended by OPEGA, will provide an additional check on compliance with critical program requirements. The department can also implement OPEGA's reporting recommendation to include additional information regarding the amount of qualified investment that has received a certificate of completion.

We appreciate your thoughtful review of this program and look forward to continuing to work with you and the Government Oversight Committee.

Sincerely,

Heather Johnson
Commissioner

59 STATE HOUSE STATION • AUGUSTA • MAINE • 04333-0059
PHONE: (207) 624-9800 • FACSIMILE: (207) 287-2681
WWW.MAINE.GOV/DECD

STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
BURTON M. CROSS BUILDING, 3RD FLOOR
78 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0078

SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

JANET T. MILLS
GOVERNOR

KIRSTEN LC FIGUEROA
COMMISSIONER

June 11, 2024

Peter Schleck, Director
Office of Program Evaluation and Government Accountability
Maine State Legislature
82 State House Station
Augusta, ME 04333-0082

RE: OPEGA Confidential Final Report on the Paper Manufacturing Facility Credit, for 15-Day Agency Review and Comment

To Director Schleck,

Thank you for the opportunity to review and comment on the Paper Manufacturing Facility Credit Report.

The Department appreciates OPEGA's careful review of the credit and thorough analysis. The State of Maine has several highly targeted income tax credits providing incentives to single or potentially small numbers of entities and the Legislature regularly considers enacting new ones. The development of best practices in designing these incentives is an important issue for the State due to their recurring nature.

OPEGA's discussion and recommendations on designing similar incentives and on the consideration of other tools for providing incentives to single entities in the future meaningfully moves the discussion forward in an important area of recurring interest in the State.

Sincerely,

Kirsten LC Figueroa

Kirsten LC Figueroa, Commissioner
Department of Administrative and Financial Services