

**Parameters for OPEGA’s Full Evaluation of the
Employment Tax Increment Financing (ETIF) Program
as approved by the Government Oversight Committee 1-22-16**

Enacted	Statute(s)	Type	Category	Est. Revenue Loss
1995	36 MRSA Chapter 917	Income Reimbursement	Business Incentive, Job Creation	FY16 \$13,289,000 * FY17 \$13,949,000 *

Source for Estimated Revenue Loss: Maine State Tax Expenditure Report 2016 – 2017, adjusted by OPEGA to remove \$722,000 per year estimated attributable to the Brunswick Naval Air Station and Loring Job Increment Financing Fund programs.

Program Description

Employment Tax Increment Financing (ETIF) is a program that reimburses approved, for-profit businesses 30-50% of the Maine state withholding taxes paid on behalf of qualified employees. The reimbursement rate goes up to 80% for Pine Tree Development Zone certified businesses. To qualify for ETIF a business must:

- have plans to hire 5 or more new, full-time employees over a two year period; and
- offer each new employee health and retirement benefits and an annual income higher than the most recent annual per capita personal income in the county where the employee works.

The portion of withholding taxes a business is eligible to be reimbursed for is based on the level of local unemployment. The withholding taxes refunded may only include the standard amount required to be withheld, not any excess withholding.

Only for-profit businesses may receive ETIF reimbursements, and retail businesses are eligible only under very limited circumstances. Businesses in Pine Tree Development Zones (PTDZ) are automatically approved for the ETIF program as part of their PTDZ application, with a minimum of at least 5 new hires. Once approved, businesses may continue to claim the reimbursement for up to ten years.

The Department of Economic and Community Development (DECD) assists businesses with the ETIF application process and is authorized to approve qualified applicants. Under statute the State Economist is charged with reviewing ETIF applications and providing an advisory opinion to assist in DECD’s approval decision. The State Tax Assessor is responsible for calculating the actual reimbursement due to approved businesses and authorizing payment. In addition, under 36 MRSA §6761 the Assessor may audit business recipients of ETIF. This program may not exceed \$20,000,000 annually (adjusted by the % change in CPI from 1996 to the date of calculation).

Evaluation Parameters Subject to Committee Approval

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

(1) Purposes, Intent or Goals

Intent — To encourage the creation of net new quality jobs in this State, improve and broaden the tax base, and improve the general economy of the State.

Goal — To encourage the creation of net new quality jobs.

(2) Beneficiaries

Primary Intended Beneficiaries — For-profit businesses that create new quality jobs

Secondary Intended Beneficiaries — Job seekers

(3) Evaluation Objectives

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

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

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

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

(4) Performance Measures

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

A # Total businesses receiving ETIF reimbursement
B Participation rate (% of Maine businesses certified for the program)
C Total \$ value of reimbursements paid to businesses
D Total direct program cost (direct tax revenue lost plus administrative costs)
E Net impact on State budget (using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
F Total \$ value of payroll and benefits associated with new quality jobs created by businesses receiving ETIF reimbursement
G Average tax reimbursement per business, including min & max
H Leveraging Ratio, for example [$\frac{\$ \text{ of payroll \& benefits associated with new jobs}}{\text{Total direct program cost}}$]

I	Indicators of economic impact in targeted business/industry or geographic area (i.e. jobs created, GDP – using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
J	# New quality jobs created by recipients of ETIF reimbursement
K	Cost per new quality job created, for example $[\text{Total direct program cost}]/[\text{\# new quality jobs created by recipients of ETIF reimbursement}]$
L	Comparison of actual wages and benefits for qualifying jobs to minimum requirements
M	Return on Investment, for example $[\text{\$ amount reimbursed to businesses}]/[\text{\$ value of payroll and benefits associated with new quality jobs created by businesses receiving ETIF reimbursement}]$

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

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