Maine Center for Economic Policy

Mailing: PO Box 437
Street: 1 Weston Court, Suite 103
Augusta, ME 04332
207.622.7381
mecep.org

Testimony in Opposition to LD 1217 An Act Regarding the New Markets Tax Credit and the Maine New Markets Capital Investment Program

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Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying in opposition to LD 1217.

We believe business tax giveaway programs like the state New Markets Tax Credit are not a wise or effective use of Maine taxpayer dollars. Programs like this disproportionately benefit wealthy out-of-state investors over communities and have uncertain returns on the investment of public dollars.

This bill would extend the New Markets program and authorize an additional $97.5 million in tax credits, or 39% of the $250m of total investment the state hopes to attract. The New Markets program provides refundable tax credits to private investors in exchange for investment of capital in projects through community development entities in qualified low-income communities.

The New Markets program has a fraught history. It first came under scrutiny when Cate Street Capital used investments in the East Millinocket Paper Mill as a cover to extract money from the state without providing any benefits. The mill subsequently shuttered while out of state investors continued to receive millions of dollars in payments of Mainers' tax dollars.[i] To address this investor exploitation of the New Markets program, FAME adopted an emergency rule prohibiting one day loans and limiting the amount of the credit that can be used for debt. This loophole cost Mainers millions of tax dollars.

More recently funding from the New Markets program has unfortunately gone to wealthy foreign investors who subsequently pulled out of their projects. In Old Town, a company owned by one of the wealthiest families in the world decided to purchase and invest in the mill. Nine Dragons Paper received $12 million in New Markets tax credits, with additional financing for a total state investment of $31.8 million, in addition to also participating and receiving benefits from the Pine Tree Development Zone program. Just a few years later, the mill was shuttered and almost 200 jobs were lost.

Investments like these are not good use of taxpayer dollars. This is money that should instead be used to deliver long-term benefits and jobs to communities and workers, not to the short-term benefit of the bottom line of out-of-state investors. Too often wealthy investors swoop in, extract profits and wealth from our state and communities, and then leave without regard to the long-term consequences or costs of such actions. Instead, we should support those who are invested in the long term vibrancy of our communities, who are here to stay and contribute long term.

There are numerous other programs that exist to encourage investing in Maine businesses, including the Seed Capital Tax Credit Program; the federal New Markets program, which provides much greater benefits than the state program (recipients of the state credit must also participate in the federal program in order to qualify for the state program); the Dirigo credit; the Maine Venture Fund, established by the Legislature in 1995 to make capital investments directly in Maine businesses; and millions more in targeted tax breaks given away to businesses each year.

We don't know the extent to which businesses stack these benefits and use multiple at once because we don't have transparency on which businesses are participating in which programs. As with Maine's other business tax expenditure programs, the New Markets program needs greater transparency. The public deserves to know what is being done with their tax dollars and who is receiving them. In its report on the program, OPEGA found the equity investors receiving credits for projects in Maine have been national financial institutions,[ii] which are unlikely to have any Maine tax liability. This means Maine is cutting checks to out-of-state investors. No other state has New Markets credit that is refundable.

We support the elements of the bill that focus on diversity, equity, and inclusion, but just 12% ($11.7m) of the funds are dedicated to minority-owned businesses, with half of those investments designated to come from Maine-based minority-led investment entities. We agree underserved communities in Maine deserve greater investment and minority business owners face greater barriers, but we believe there are better ways to support them than programs that further exacerbate income inequality.

Instead of providing tax giveaways to wealthy investors with little to no accountability, the state could instead provide greater supports to small Maine businesses that are the heart of our communities through investments like direct grants and loans that have greater transparency and accountability and can be better targeted to those who need them most.

Thank you for your time. I would be happy to answer any questions.
Contact information: maura@mecep.org

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[i] Richardson, Whit. "Payday at the Mill." Portland Press Herald. https://www.pressherald.com/paydayatthemill/
[ii] Office of Program Evaluation and Government Accountability, "New Markets Capital Investment Program." March 2017. https://legislature.maine.gov/doc/1571