Parameters for OPEGA's Full Evaluation of the New Markets Capital Investment Program as approved by the Government Oversight Committee 1-22-16

Enacted	Statute(s)	Type	Category	Est. Revenue Loss
2011	36 MRSA §5219-HH 10 MRSA §1100-Z	Income Credit	Business Incentive, Financial Investment	FY16 $9,205,000 FY17 $13,509,000

Source for Estimated Revenue Loss: Maine State Tax Expenditure Report 2016 – 2017

Program Description

Maine's New Markets Capital Investment Program is a state program modeled after the federal New Markets Tax Credit program. It provides a 39% credit for investors with qualified equity investments in low-income community businesses made via a qualified community development entity (CDE). To be considered qualified, a CDE must meet a number of requirements including:

- being certified by the US Treasury, and
- having an existing allocation agreement under the federal New Markets program.

The credit may be taken over seven years, with 0% allowed in the first two years, 7% in year three and 8% in each of the remaining years. The credit is fully refundable or may be carried forward for up to 20 years. This means credits may be paid out in full if the investor owes no taxes in the state. Credits may also be subject to recapture by the State Tax Assessor pursuant to 36 MRSA §5219-HH.7. Total authorized credits under this program may not exceed $20,000,000 per year. As of the writing of this document, all funds available under this program had been allocated.

There is a two step application process for the New Markets program. First the Finance Authority of Maine (FAME) reviews each CDE's application for an allocation. If approved, an allocation reserves tax credits to be claimed against future qualified investments and is valid for to up to two years.

The second step occurs once the CDE has a pool of funding (from private investors or issuance of long term debt) ready to invest in a qualified low-income community business. At that point the CDE must file a certification application with FAME providing details of the proposed investment such as:

- a description of the qualified low-income community business proposed to receive the investment proceeds; and
- how the qualified business intends to use the investment proceeds.

FAME reviews the proposed investment to determine whether it can be approved as a qualified equity investment under program rules. Upon approval, FAME notifies Maine Revenue Service of the investors (individuals or businesses) deemed eligible for the credit and how much each is entitled to. The investors later claim their credit by filing with Maine Revenue Services.

The New Markets program requires all CDEs that have been approved for allocations and all those that have received certifications to file annual reports with FAME. Statute also required FAME to report to the Taxation Committee and Appropriations Committee on the New Markets program, including the amount of private investment received and number of jobs created or retained, by January 31, 2015. No further reports from FAME are required under statute.

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 promote economic development by encouraging major investments in qualified businesses and developments located in economically distressed areas of the State; to preserve jobs and make the State more competitive in the attraction of investment capital.

Goal – To encourage new investments in qualified businesses and developments located in economically distressed areas of the State.

(2) Beneficiaries

Primary Intended Beneficiaries – Qualified businesses in economically distressed areas of the State

Secondary Intended Beneficiaries – Economically distressed communities

Credit Recipient – Investors (or others to whom the credits are transferred)

(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, F 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, B, C, D, G, H, J, L Qualitative
(d)	The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries;	A, B, C, G, H, I, M 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, D, I, J 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	E, F, G, H, I, J, K 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

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 qualified investments under the program
B	# Economically distressed communities where businesses received qualified investment under the program
C	$ Value of tax credits to investors ($ value paid in past years and expected in coming years)
D	$ Value of credits available compared to credits taken
E	Total direct program cost (credits plus administrative costs)
F	Net impact on State budget (using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
G	Total qualified investment received by businesses
H	$ Value of average qualified investment received per business (also min and max)
I	Average value of tax credits per investor (also min and max)
J	$ Value of tax credits received by investors per $ of qualified investment
K	Leveraging Ratio, for example [$ of qualified investment]\[Net impact on State budget]
L	Indicators of economic growth in economically distressed areas with businesses that received qualified investments under the program (such as change in # qualifying businesses, # jobs, per capita income, or unemployment rate – using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
M	Participation Rate (% of economically distressed communities in the State that have benefitted from the program)

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

- per beneficiary,
- per geographic region,
- comparison to industry or geographic trends,
- comparison to time period preceding program implementation or receipt of program benefits,
- by new vs. continuing beneficiary,
- by taxpayers' state of residence,
- by reduction of tax liability vs refunded credit,
- by type of qualifying business,
- by taxpayer type, or
- by relevant indicator of community economic distress level, i.e. per capita income, unemployment rate, etc.