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REPORT

Evaluation of the Credit for Maine Shipbuilding Facility Investment

May
2024

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

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OPEGA Evaluation of the Credit for Maine Shipbuilding Facility Investment

About the Credit for Maine Shipbuilding Facility Investment

The Credit for Maine Shipbuilding Facility Investment (Shipbuilding Credit) was enacted in 2018 under Title 36 §5219-RR. It is a non-refundable income tax credit of up to $45M over 15 years for a business that makes a qualifying investment of $200M in a Maine shipbuilding facility. The annual credit amount is adjusted based on the claimant's employment levels, with no credit available in years when qualifying employment falls below 4,000. The Department of Economic and Community Development (DECD) and Maine Revenue Services (MRS) jointly administer the credit, and the agencies' small administrative costs are covered by existing resources.

The Shipbuilding 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 access it. Maine has many boat and shipbuilding businesses, but only Bath Iron Works is large enough to meet the employment threshold for the Shipbuilding Credit. Additionally, statute caps the credit at $200M of qualifying investment, and Bath Iron Works has invested that full amount. Consequently, no more credit is available, even if another shipbuilder could meet the credit's employment requirements.

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

Job creation and investment by the credit's sole user have exceeded statutory minimums. However, it is unclear how much impact the Shipbuilding Credit had on the timing, magnitude, or nature of job creation and investment. The impact of an incentive on behavior is often difficult to ascertain, because many factors influence business investment decisions. In the case of Bath Iron Works, federal contracting and naval policy are likely significant factors, since the business derives its revenue from producing and maintaining naval destroyers for the federal government. The relative importance of these various factors is difficult to observe and quantify.

The Credit Is Sizable and Substantially Impacts Tax Competitiveness for a Large Shipbuilder

The Shipbuilding Credit represents a substantial discount on the qualifying investment – roughly 22.5% in total. A cost reduction of this magnitude has the potential to impact a business's competitiveness within its industry. Effective tax rate analysis shows that, for a large shipbuilder that can access the Shipbuilding Credit, Maine's tax environment ranks in the middle among comparison states when state and local incentives are applied. However, if the Shipbuilding Credit were not available, and all other variables were held constant, Maine's tax environment would be the least competitive among comparison states.

Recommendations from OPEGA's Evaluation

Since the Shipbuilding Credit is fully committed, no future applications or certifications for the credit are expected. Consequently, OPEGA did not seek opportunities to improve those processes. Instead, we focused on how design of similar incentives might be improved in the future and areas where ongoing collection and reporting of credit data can be strengthened to better support oversight.

Recommendations	
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	DECD Should More Effectively Implement Statutory Requirements Around Annual Data Reporting
4	DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality and Preference for Maine Companies

PETER SCHLECK
DIRECTOR

MAINE STATE LEGISLATURE

OFFICE OF PROGRAM EVALUATION AND
GOVERNMENT ACCOUNTABILITY

May 15, 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 Maine Shipbuilding Facility Investment. The approved project parameters, included in Appendix F, establish the goals, intended beneficiaries, and base performance measures considered in this evaluation. Information about methods and resources can be found 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 (DECD), Maine Revenue Services (MRS), and Bath Iron Works, 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

Peter Schleck
Director, OPEGA

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Evaluation of the Credit for Maine Shipbuilding Facility Investment

What Is the Credit for Maine Shipbuilding Facility Investment?

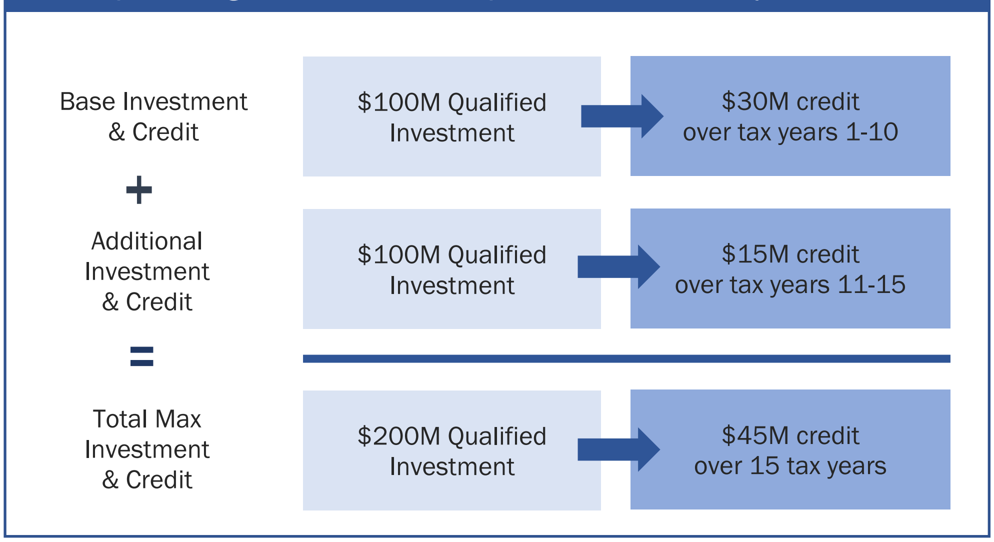
It is a non-refundable income tax credit of up to $45M over 15 years and can be accessed by only one business.

The Credit Provides a Maximum Benefit of $45M over 15 Years

The Credit for Shipbuilding Facility Investment (Shipbuilding Credit) was enacted in 2018 under Title 36 §5219-RR. Its enactment followed the sunset of a prior credit for the shipbuilding industry under Title 36, Chapter 919 which stopped allowing credits for any calendar year beginning after December 31, 2018.

The credit provides up to $45M in total income tax reduction over 15 years. The base credit is for up to $30M over 10 years for a qualifying investment of $100M. An additional credit of up to $15M is available over the subsequent 5 years if another $100M in qualifying investment is made prior to January 1, 2025.

The Shipbuilding Credit Provides up to $45M over 15 years



The annual amount of the credit is calculated as 3% of the qualified investment amount, and also varies based on the employment level of the credit claimant. The default credit per year is $3M, but can vary with employment. If employment falls below 5,500, then the annual credit decreases incrementally with no credit available in any year during which employment drops below 4,000. Alternately, the annual credit increases incrementally with employment levels over 6,000, to as much as $3.5M per year for employment levels of 7,500 or greater.[1]

[1] While reaching employment targets can increase the annual credit amount, the total amount of credit aggregated across years is unchanged. Consequently, reaching employment targets accelerates the payments but does not increase the total credit available.

The credit's design includes some elements to limit fiscal impact. For example, it is non-refundable, and is only available after the qualifying investment has been made. It also has an aggregate statutory cap ($30M if $100M in qualifying investment is made, or $45M if $200M).

Both the Department of Economic and Community Development (DECD) and Maine Revenue Services (MRS) have roles in administering the Shipbuilding Credit. DECD is responsible for certifying qualified applicants and collecting annual report data from certified businesses. After a business is certified, MRS processes annual credit claims as part of normal income tax filings. Both agencies report that the cost of administering the credit is minimal enough to absorb within existing resources.

The Shipbuilding Credit Can Be Accessed by Only One Business

To be certified for the Shipbuilding Credit, a business must meet key statutory requirements:

- Employment – the business must employ at least 5,000 qualified employees in positions that meet minimum quality requirements.[2]
- Investment – the business must invest at least $100M (or $200M for the maximum credit) in construction, improvement, modernization or expansion of a Maine shipbuilding facility.[3]
- Other State Incentives – the business cannot qualify for the Pine Tree Development Zone or Employment Tax Increment Financing program at the time of application for the Shipbuilding Credit.[4]

Although statute does not explicitly limit the number of users of the credit, OPEGA found that only one business in Maine could meet the requirements—Bath Iron Works (BIW). Maine has many other boat or ship building businesses, and OPEGA heard from stakeholders that some of these other shipbuilders are making investments in their facilities in the state. However, only BIW is large enough to meet the employment requirement for participation in the Shipbuilding Credit.[5]

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 in recommendation 1.

Bath Iron Works Is the Sole User of Maine's Shipbuilding Credit

Public reporting confirms that BIW is the only user of the credit and shows BIW has invested the maximum for which a benefit is provided – $200M, triggering a $45M credit. Hence, there is no remaining credit available even if another shipbuilder were able to meet the statutory employment requirements. Because BIW is the only possible user of the credit, much of the analysis that follows focuses on BIW specifically. As such, information about the nature of its primary product and corporate structure is provided below for context.

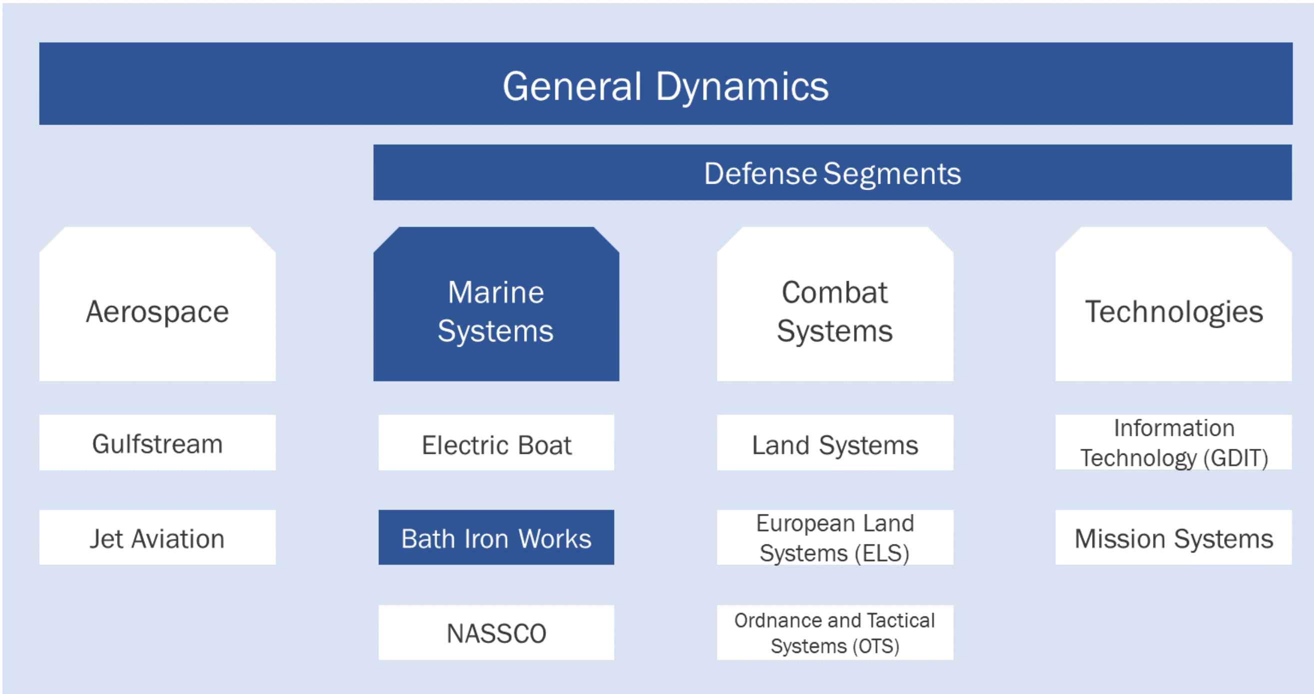
[2] Qualified employees must be full-time and working at a Maine shipbuilding facility. They must be provided income that exceeds the average annual per capita income in the state and also provided with group health insurance and a qualifying retirement program. Though at least 5,000 qualifying employees are required for initial certification, the amount of the credit varies annually with employment levels (see page 10 for details on how the annual credit amount varies with employment levels).

[3] Qualifying investments must be made on, or after, January 1, 2018.

[4] Title 36 §5219-RR(1)(G)(4) prohibits a business from being certified for the Shipbuilding Credit if it qualifies for the Pine Tree Development Zone program or the Employment Tax Increment Financing program at the time of application. Although BIW had previously been certified for both programs, it was decertified from them effective December 31, 2018, and provided evidence of this point in its January 2020 application for the Shipbuilding Credit.

[5] Since the Portsmouth Naval Shipyard is a government entity, it is not eligible for this credit regardless of its employment level.

BIW is a wholly owned subsidiary of General Dynamics Corporation (GD) and was acquired in 1995. GD is a global aerospace and defense company headquartered in Virginia and consists of ten business units, organized into four operating segments. BIW is a business unit within the Marine Systems segment, one of GD's Defense segments.



Source: Created by OPEGA based on information in General Dynamics' 2023 10-K report to the Securities and Exchange Commission.

BIW currently produces Arleigh Burke-class destroyers, also known as DDG-51s. The Congressional Research Service reports that the DDG-51 program is one of the longest-running shipbuilding programs in U.S. Navy history. The Navy began procuring DDG-51s in FY1985 and had procured a total of 92 through FY2023.[6] The Congressional Research Service also reports that BIW and Huntington Ingalls Industries of Pascagoula, Mississippi have been the Navy's sole providers of DDG-51s.[7]

The Purpose of the Shipbuilding Credit Is Established in Statute and Is the Basis for This Evaluation

When the Legislature enacted the Shipbuilding Credit, lawmakers established the purpose of the credit for use in evaluating it:

> [...]the specific public policy objective of the credit provided under this section is to create and retain jobs in the shipbuilding industry in this State by providing an income tax credit to reduce the cost of investments in shipbuilding businesses and thereby encourage investment in shipbuilding businesses and improve the competitiveness of this State's shipbuilding industry[.]

[6] Congressional Research Services (CRS). 2023. "Navy DDG-51 and DDG-1000 Destroyer Programs: Background and Issues for Congress." Retrieved 5.12.2023. https://crsreports.congress.gov/product/pdf/RL/RL32109/267. (FYs referred to here are federal fiscal years.) The report also notes the "Navy did not procure any DDG-51s in FY2006-FY2009. Instead, the Navy in FY2007-FY2009 procured three Zumwalt [DDG-1000] class destroyers. The Navy plans no further procurement of DDG-1000s."
[7] Congressional Research Services (CRS). 2023. "Navy DDG(X) Next-Generation Destroyer Program: Background and Issues for Congress." Retrieved 5.12.2023. https://crsreports.congress.gov/product/pdf/IF/IF11679.

The remainder of this report is OPEGA's assessment of the credit in relation to this purpose statement. The sections that follow will address:

- How likely the credit is to have influenced shipbuilding facility investment;
- The amount and types of qualified investment to date;
- The degree to which qualifying jobs have been maintained or created;
- How the credit impacts the ability of a Maine shipbuilder to compete within the industry; and
- Whether the credit is designed to support public accountability and oversight.

The report concludes with opportunities for improvement and OPEGA's associated recommendations. Because the Shipbuilding Credit is fully committed, no future applications or certifications for the credit are expected. Consequently, OPEGA did not consider opportunities to improve those completed processes. 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.

How Does the Credit Impact Decisions to Invest in Maine Shipbuilding Facilities?

Business decisions are affected by many factors. Publicly visible factors provide mixed evidence about the likelihood that the credit influenced BIW's investment.

The "But For" Is Difficult to Measure, and BIW's Business Decisions Are Impacted by Many Factors Difficult to Quantify from Outside the Company

In discussion of incentives, the phrase "but for" often refers to the likelihood that a business would have engaged in a behavior even if an incentive the business received had not been provided. The "but for" is complex and difficult to measure, because many factors besides incentives affect business decisions about location and investment. For most businesses, these factors include things like energy costs, workforce availability, labor costs, infrastructure, housing availability, and even weather considerations depending on the industry.

Considering BIW's investment and job creation decisions specifically, the influence of various factors is especially unclear given the nature of the goods the company produces—naval destroyers. BIW's parent company, General Dynamics, derives the majority of its revenue from the federal government.[8] BIW described its own contracting arrangement as a "monopsony" wherein there is one buyer, the U.S. Navy, for its destroyers. In monopsonies, buyers have significant market power and influence over costs, as one would expect when there is no competition for a particular good.

At present, BIW and Huntington Ingalls Industries of Mississippi are the only shipyards that manufacture a particular U.S. Navy ship, the DDG-51 III. BIW told OPEGA that contracts are awarded to the two yards via a bidding process. However, changes in the quantity or types of vessels the Navy requires, can significantly impact the nature of BIW's investments and workforce needs.[9] U.S. military strategy and planning decisions

[8] In 2022, GD reported that 70% of consolidated revenue was from the U.S. government (2022 10-K, page 15, https://www.sec.gov/ix?doc=/Archives/edgar/data/0000040533/000004053323000014/gd-20221231.htm).
[9] For instance, BIW described the challenges associated with the Navy's shift to, and then away from, the Zumwalt destroyer. BIW management said the shipyard altered the make-up of its workforce to produce the electric-heavy Zumwalts, then only ended up producing three before the Navy switched back to DDG-51s.

clearly influence BIW's investment and workforce decisions, since the U.S. Navy is BIW's only customer. Unfortunately, these factors are difficult to observe, quantify, and disentangle from the influence of state incentives like the Shipbuilding Credit.

Factors Related to the "But For" Provide Mixed Evidence About the Credit's Influence on BIW's Investment

The Center for Regional and Economic Competitiveness (CREC), together with Smart Incentives[10] (an organization engaged in efforts to evaluate and improve the effectiveness of incentive programs), has identified factors that are related to "but for" and the likelihood of a business being swayed by incentives. 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. The organizations also note that incentives can be psychologically important to businesses, as a demonstration of state or community commitment to the investment's success:

> Incentive advocates often overstate the role that incentives play during the investment process. Unfortunately, they tend to downplay (or forget) the critical characteristics of a competitive business environment. At the same time, incentive opponents tend to underrate the importance of incentives, often ignoring their role in making a location more financially competitive when compared with others that have similar business advantages. In addition, opponents greatly downplay the psychological importance of incentives as a demonstration of a state's or a community's commitment and willingness to share in the risk of a large investment a company might be making.[11]

OPEGA assessed BIW's investment against the "but for" factors identified by the CREC and Smart Incentives. We found that some of the factors suggest the Shipbuilding Credit may have had less influence on BIW's investment decisions. For example, the CREC found incentives are more likely to influence investment when a business is weighing multiple location options, and it is unlikely that BIW considered multiple locations for the capital investment. General Dynamics, BIW's parent company, has multiple business locations. However, the primary work done at BIW is not currently done at any other GD facilities and would involve high start-up costs to move elsewhere.[12] In addition, incentives are believed more likely to sway investments in new facilities versus expansion of existing facilities, and BIW's investment in Maine is an expansion project.

However, other factors suggest the Shipbuilding Credit could be influential to BIW's investment decision. OPEGA's contracted analysis identified a corporate income tax disadvantage for large shipyards in Maine in comparison to other major shipbuilding states (more about this analysis begins on page 12). Tax incentives can be important to decisions when such financial disadvantages exist.

Additionally, BIW operates in the manufacturing sector, a sector that is capital-intensive and cost sensitive. Efficiency is a priority in this sector, and reducing costs, including through use of a tax incentive, can influence investment decisions. To this point, incentives that are substantial relative to the investment are generally accepted to be more influential in business decisions, because they provide valuable cost reduction. The cost reduction available via the Shipbuilding Credit is sizable—a total $45M credit for a $200M investment, or 22.5% of the cost of the investment.

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10 https://smartincentives.org/our-work/ and https://www.creconline.org/about-crec/.

11 "Estimating the Influence of Incentives on Investment Decisions: A New Approach to the But-for Question." *Center for Regional Economic Competitiveness.* Pg. 1. https://crecstorage.blob.core.windows.net/sede/sites/8/2021/04/Estimating-the-Influence-4-Final.pdf derived from this report published January 2019: https://www.upjohn.org/sites/default/files/inline-files/MBDPevalrpt.pdf.

12 Shipyards require large capital investments and the five major shipyards doing comparable work to BIW in the U.S. are all either approaching or over 100 years old (http://shipbuildinghistory.com/shipyards/large.htm).

Table 1. Evidence of Shipbuilding Credit Swaying BIW Investment is Mixed	
Company Has Operations in Multiple Locations	Not for the DDG-51
Considered Multiple Locations	Unlikely
New Facility, Not an Expansion	No
Cost Sensitive or Capital-Intensive Industry	✓
Described Financing Gap or Other Disadvantage	✓
Incentive Amount Relative to Projected Investment	✓

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

Altogether, the evidence is mixed about how much the credit may have influenced the timing, nature, or size of BIW's qualified investments. However, the magnitude of the credit does make it more likely to influence business behavior.

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

Ultimately, committing funds to a tax incentive is a policy decision based on varying and complex factors centering on the concepts of likelihood and magnitude. 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 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 in preceding pages). However, information about the likelihood of influencing business behavior is of limited utility when funds are already committed, as with the Shipbuilding Credit.

Given this, OPEGA offers the above perspective with regard to designing future large tax incentives (further discussion is also in recommendation 1). In addition, while researching the discretionary incentives used by other states to direct large benefits to single entities, OPEGA gathered information about which incentives include pre-award assessments of factors such as the "but for" or the value the state expects that projects will deliver for citizens. A summary of this information is included in Appendix D.

The next sections of this report will discuss the investments and jobs connected with the Shipbuilding Credit.

What Investment Has Qualified for the Credit?

The state has received the expected investment in shipbuilding facilities, with roughly half of qualifying investment—just over $100M—spent in Maine.

BIW Has Made $200M in Qualified Investment, Supporting a Variety of Projects

The Shipbuilding Credit's design ensures that benefits will only be provided to a business after the qualifying investment (QI) has been made. Annual reports filed by BIW show that, between 2018 and 2021, the business invested the maximum qualified investment for which a credit is available: $200M.

Statute defines qualifying investment broadly, which allows many varied projects to qualify. The definition includes expenditures incurred on or after January 1, 2018 related to the construction, improvement, modernization or expansion of a Maine shipbuilding facility, including expenditures for:

- investigation, planning, design, engineering, permitting, acquisition, financing;
- construction, demolition, alteration, relocation, remodeling, repair, reconstruction;
- design, purchase or installation of machinery and equipment;
- clearing, filling, grading, reclamation of land, activities undertaken to upgrade a waterway serving the facility;
- training and development of employees;
- capitalized interest;
- professional services, including architectural, engineering, legal, accounting or financial services, administration;
- environmental and utility costs, including sewage treatment plants, water, air and solid waste equipment and treatment plants, environmental protection devices, electrical facilities, storm or sanitary sewer lines, water lines or amenities, any other utility services, preparation of environmental impact studies, informing the public about the facility and environmental impact and environmental remediation, mitigation, clean-up and protection costs; and
- related offices, support facilities and structures.[13]

OPEGA requested a high-level summary of categories of spending that made up BIW's $200M QI for the Shipbuilding Credit. BIW said they could not readily provide this kind of summary for two reasons. First, because of the large quantity of projects included in the QI (thousands, according to BIW). Second, because BIW found that attempting to categorize the projects would be arbitrary and likely incomplete due to the sheer number of projects and the difficulty of disentangling overlap when many projects span multiple types of work or support multiple goals.

In lieu of a complete summary of all QI projects, BIW provided OPEGA with descriptions of a sample of larger projects, including rehabilitation of a pier, replacement of ventilation in the assembly building, and upgrades to the dry dock. In addition to these larger projects, BIW stated the investment also supported lots of small projects. Summaries of both the larger and smaller projects are included on the following page.

[13] Salaries or other compensation paid to employees do not qualify (except for employees who are engaged in the design, engineering and construction of the facility).

Sample BIW Projects Supported by the Shipbuilding Credit

Pier 3 Rehabilitation

Repair and improvements to support continued use of the pier for ship completion work, trials and testing. Approximate investment $50M. Maine-based lead contractor.

Assembly Building Ventilation Replacement

Upgrades to air handling and filtration to keep work environment cleaner. Approximate investment $13M. Out-of-state lead contractor hired 3 Maine subcontractors for majority of the work.

Design and Build of Material Kitting Terminal

Design and build of a new kitting terminal building inside the main shipyard facility in Bath to increase efficiency by moving most material kitting currently performed at Brunswick facility into the main shipyard. Approximate investment $13M (to date). Maine-based lead contractor.

Upgrades to Dry Dock

Replacement of the dry dock's existing mooring dolphins (structures used to help moor and secure ships and floating structures). Approximate investment $7M. Maine-based lead contractor.

New Maintenance Complex

Renovation of existing building to house the Facilities and Maintenance team. Approximate investment $7M. Maine-based lead contractor.

James Building/BIW Technology Center Renovation

Renovation of the Brunswick building formerly known as the "James Building" to house the Engineering and Design department. Approximate investment $4M. Maine-based lead contractor.

Source: Summary of information provided to OPEGA by BIW.

Smaller BIW Projects Supported by the Shipbuilding Credit

- buying new tools, forklifts, and vehicles (for example, trucks for transporting material);
- roofing;
- replacement of rigging equipment;
- radios;
- audio equipment for an auditorium;
- bathroom renovations;
- adjustable office desks;
- new racks for material storage;
- doors for buildings, and window replacement;
- building repairs;
- piping repair and replacement;
- welding equipment;
- software development;
- turnstiles (for secure entry);
- dry dock controls replacement; and
- equipment for monitoring river conditions.

Source: Summary of information provided to OPEGA by BIW.

Approximately 54% of BIW's Qualified Investment Went to Maine Businesses

The Shipbuilding Credit includes a provision requiring that certified applicants give preference to Maine workers, companies and bidders as long as the supplies, products, services and bids meet the standards required by the certified applicant regarding value, quality, delivery terms and price.[14] OPEGA found that BIW has a policy which generally gives preference to Maine vendors, and that approximately 54% ($107M) of BIW's qualifying investment went to Maine businesses.[15]

When OPEGA asked BIW for evidence of compliance with the requirement to give preference to Maine vendors, BIW shared their purchasing policy. The policy "allows for a preference for Maine vendors as long as certain conditions are met and as long as BIW's obligations to the U.S. Government are still met and fulfilled." However, we also found that DECD had not asked BIW for the policy, or for any other evidence or confirmation of compliance with this preferential purchasing requirement. DECD's ineffective monitoring of compliance with this requirement is discussed in recommendation 4.

Giving preference to Maine vendors can have important implications for the broader economic impacts of the Shipbuilding Credit, as dollars spent with Maine vendors have the potential to generate downstream economic effects in this state's economy whereas dollars spent with out-of-state vendors do not. The economic impacts estimated in connection with BIW's in-state QI spending is discussed in the next section.

Qualified Investment Supported Jobs in Maine Beyond BIW and Contributed to Maine's GDP

OPEGA estimated the one-time impacts of BIW's $200M QI on Maine's economy. We found that the QI spent in-state, approximately $107M between 2018 and 2021, temporarily supported 977 jobs. The spending also generated estimated state tax revenue of $3.2M and estimated state GDP of $60.7M.[16]

These estimated economic impacts represent the one-time effects, outside the shipyard, of BIW's QI spending in Maine. However, as discussed previously, it is unknown how much the Shipbuilding Credit influenced the nature or size of the investment, and hence its economic ripple effects. The table below shows that while the economic impacts of the QI are relatively clear, the impacts that are due to (or attributable to) the credit are less clear and vary widely based on how much influence one assumes the credit had on the investment.

Table 2. The QI Has Clear Economic Impacts, Though It Is Unclear How Much the Shipbuilding Credit Influenced These Impacts

Credit's Assumed Influence	One-Time Economic Impacts Supported by QI		
	Jobs	State Tax Revenue	State GDP
0%	0	$0	$0
25%	244	$0.8M	$15.2M
50%	489	$1.6M	$30.4M
75%	733	$2.4M	$45.5M
100%	977	$3.2M	$60.7M

Source: OPEGA economic modeling analysis. See Appendix C.

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14 Title 36 §5219-RR(8).

15 Since BIW reporting to DECD included spending beyond the $200M QI for which a credit is available, OPEGA had to estimate the total spent in-state of the $200M. We calculated this by combining the annual in-state QI reported by BIW to DECD for 2019-2020 plus a portion of BIW's reported 2021 in-state spending (because the $200M QI was reached and exceeded sometime during 2021).

16 Appendix C describes the methods and assumptions OPEGA used in modeling economic impacts. The phrase "temporary jobs" is used here because those jobs are related to the specific spending of the one-time qualifying investment, not to ongoing spending from shipyard operations. Jobs at the shipyard, and supported ongoingly in the shipyard's supply chain, are discussed in the next section.

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. This 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. Assessing attribution is also more difficult when significant factors are unknowable to those outside the business, as is the case with BIW.

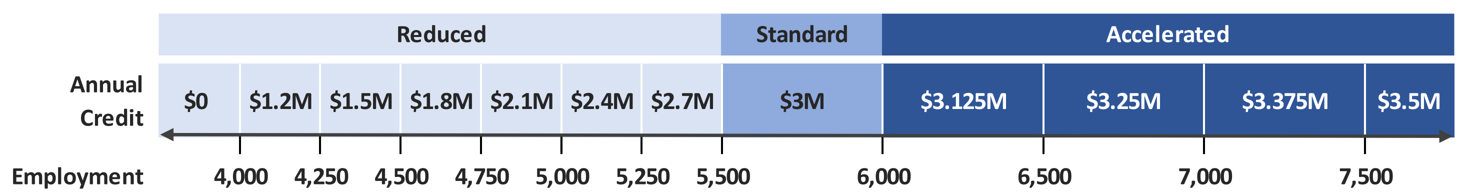
What Job Creation Has Been Associated with the Credit?

Job creation has exceeded the minimum threshold in statute.

Qualifying Employment Levels at BIW Have Exceeded the Minimum Requirements in Statute

The Shipbuilding Credit's design ensures at least some job retention or creation will occur, because the amount of the annual credit is tied directly to the business's level of qualified employment. Statute does not allow certified applicants to claim the credit in years when they have less than 4,000 employees, and the credit is reduced when employment levels are below 5,500. For years in which employment exceeds 6,000 an accelerated credit is available.[17]

The Shipbuilding Credit Varies Annually Based on Employment



BIW has exceeded statute's minimum qualified employment levels in all years since certification, and in 2021 and 2022 employment levels were high enough to trigger accelerated credits. BIW reported 6,870 qualified employees in the 2023 annual report to DECD and told OPEGA that shipyard employees included residents of 15 out of Maine's 16 counties.

Table 3. Employment Has Exceeded 5,500 Annually

Calendar Year	Average Employment
2019	5,844
2020	5,677
2021	6,744
2022	6,870

Source: Annual reports provided by BIW to DECD.

[17] The accelerated credit, allowed pursuant to Title 36 §5219-RR(5), doesn't increase the total $45M credit allowed. Instead, it permits some credit to be claimed sooner than it would otherwise be available, potentially shortening the total number of years to claim the aggregate $45M credit.

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

In addition to employment levels, statute also includes requirements for the minimum standards of quality that qualifying jobs must meet. A qualifying job must provide the employee with income greater than the average annual per capita income in the state as well as access to a retirement program and group health insurance.

OPEGA compared the average annual salary and wages reported by BIW to Maine's average per capita income from 2019 through 2022 and found that BIW's reported salary and wages have consistently exceeded this threshold.[18] However, we also noted that annual reporting guidance provided by DECD has not required BIW to affirm, or in any other way acknowledge, that qualifying employees are provided access to the required group health insurance and retirement programs. OPEGA finds that DECD should confirm ongoing compliance with these job quality requirements, particularly given the size of the Shipbuilding Credit. This is discussed further in recommendation 4.

BIW is a Large Employer with Commensurate Impacts on the Region Generally

Though it's unknown how substantially the Shipbuilding Credit has affected BIW's job creation and retention, it is clear that BIW's ongoing operations have a significant impact on the city of Bath and the surrounding towns and region. In addition to direct employment at the shipyard, BIW has indirect supply chain effects on the region. In 2020, the year BIW was certified for the Shipbuilding Credit, OPEGA estimates that the shipyard directly employed approximately 0.9% of Maine's total workforce and indirectly supported another almost 0.5% of Maine's workforce (roughly 2,770 jobs) via the shipyard's in-state supply chain.[19]

BIW's impacts extend beyond the direct and indirect employment impacts, to the work that BIW is doing in collaboration with local, state, and other partners to grow and support the regional workforce. BIW maintains a training facility to prepare its workforce for the technical work associated with shipbuilding. Some of the necessary skills, such as welding, are desirable for other employers as well, and sometimes BIW loses workers after training to jobs that don't require shift work or may not be as physically demanding. In this way, BIW and business community stakeholders report that BIW's training facility is also serving as a source of workers with marketable skills for other employers in the region.

BIW has also recognized challenges in the areas of housing, childcare, and transportation for its workforce. In response, BIW is collaborating with local and federal partners to address these challenges. Some of these collaborative efforts are likely to benefit the region generally and workforce beyond the shipyard. One example of these efforts BIW described to OPEGA is a $750,000 pilot project with the Maine Department of Transportation to provide transportation into Bath for BIW workers, as parking within Bath and the BIW facility is limited. BIW also stated that contracts through the U.S. Navy may include funding for workforce building initiatives.

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[18] Maine per capita income obtained from the U.S. Bureau of Economic Analysis (BEA) at www.bea.gov.

[19] See Appendix C for more about the economic modeling underlying these estimates.

Does the Credit Make Maine's Shipbuilding Industry More Competitive?

Tax environment is one factor in a business's competitiveness within its industry. For a large shipbuilder that can access the Shipbuilding Credit, Maine's tax environment ranks in the middle among comparison states, but absent the credit would be the least competitive.

State Tax Environment Is a Factor in Industry Competitiveness and Is Impacted by Business 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 one such factor in competitiveness and is the factor states are typically seeking to influence via tax incentives for businesses. The Shipbuilding Credit reduces a large shipbuilder's cost of investing in shipbuilding facilities, presumably improving profitability and allowing the shipbuilder to better compete within the industry.

To quantify the tax impact of the Shipbuilding Credit on the competitiveness of Maine's shipbuilding industry, OPEGA commissioned the consulting firm EY (formerly known as Ernst & Young) to perform a comparative effective tax rate analysis.[20] This analysis compared a hypothetical shipbuilding facility investment in Maine and four 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.[21] 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 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 locations and how they would affect a large shipbuilder's rate of return on a hypothetical investment. Then **post-incentive** ETRs were modeled, to quantify the impact on the rate of return of all tax credits and other pertinent incentives that are available for the hypothetical company in each location.

The comparison states and counties (or equivalents) selected for this analysis are those with a major presence in the shipbuilding industry. Sagadahoc County was selected for Maine, and was compared to the following:

- California - San Diego County,
- Connecticut - New London County,
- Mississippi - Jackson County, and
- Virginia - Newport News City (County).

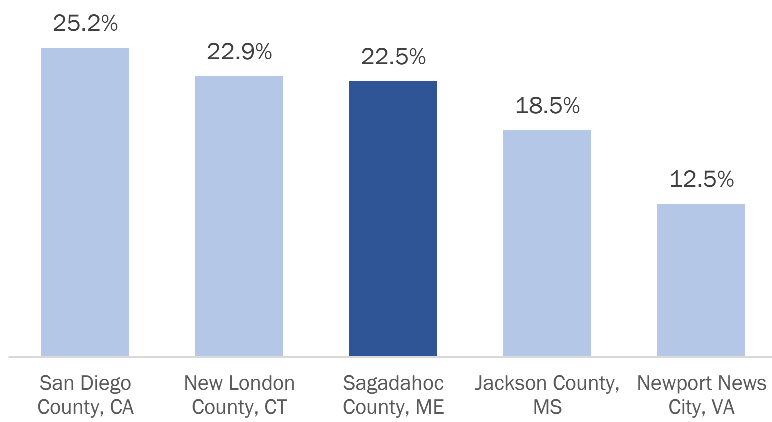
[20] Across the states, policymakers often inquire about measuring how tax incentives impact the ability of local businesses to compete with those in other states. This can be resource-intensive to measure because it requires in-depth understanding of (and ability to model) tax incentives and tax environments 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 to OPEGA by the staff of the nonpartisan legislative evaluation office in Washington State, where lawmakers found EY's analysis valuable.

[21] A hypothetical business was used in this analysis in order to avoid requesting, or disclosing, any of BIW's non-public financial details. The hypothetical business was structured to reflect the relative size of BIW and the hypothetical investment was based on the size and type of investment that qualifies for the Shipbuilding Credit.

Before Incentives, Maine's Tax Environment for a Large Shipbuilder Is Closer to That of the Highest Taxed States

Before incentives are applied, EY's analysis showed that the spread between the highest and lowest taxed states was large—12.7 percentage points. Maine's tax environment ranked in the middle among the five comparison locations but was closer to the highest taxed state rather than the lowest. Maine's ETR of 22.5% was just 2.7 percentage points less than the highest taxed state (California) but was a full 10 percentage points more than the lowest taxed state (Virginia).

Without Incentives, Maine's Tax Environment for a Large Shipbuilder Is Closer to the Higher Taxed States



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

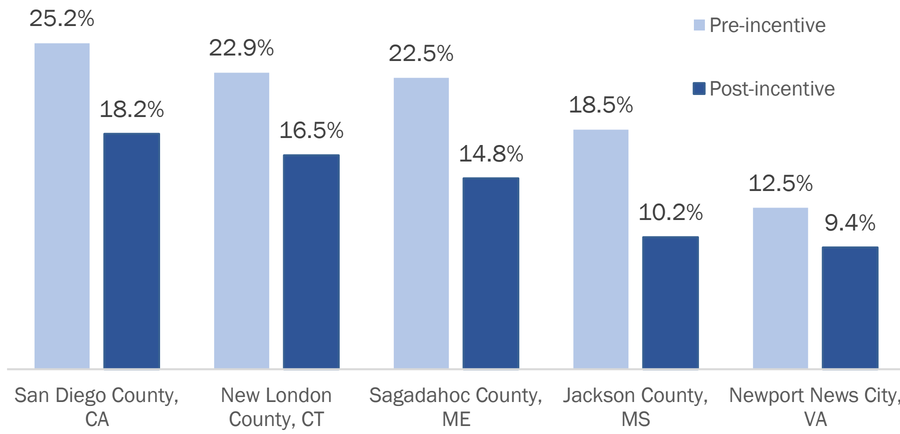
EY noted that significant contributors to Maine's pre-incentive ETR include corporate income tax that is higher than other states for this industry, partly due to Maine's apportionment practices—including counting sales to the federal government as in-state sales. The state with the lowest ETR—Virginia—has apportionment practices resulting in less corporate income tax, a lower corporate income tax rate, lower real property taxes, and lower combined state and local sales tax in comparison to the other locations. Jackson County, Mississippi also had a lower ETR than Maine for a large shipbuilder, primarily because of the difference in corporate income tax rates (8.93% in Maine vs. 5.00% in Mississippi) and to a lesser extent Maine's higher unemployment insurance rates. This is despite Mississippi's higher starting sales and property taxes.[22]

With Incentives, Maine's Tax Environment for a Large Shipbuilder Moves Closer to the Lowest Taxed States

After applying all state and local incentives that would be available to a large shipbuilder in each location, the rankings of the comparison states remain the same, but the overall spread between the highest and lowest states shrinks from 12.7 to 8.8 percentage points. Maine's ETR (14.8%) remains in the middle of the pack, but shifts closer to the lowest taxed state, Virginia. After incentives, Maine's ETR is just 5.4 percentage points higher than Virginia's (versus the 10 percentage point difference before incentives). Maine's ETR also moves further from the highest taxed state, California, with a difference of 3.4 percentage points after incentives versus 2.7 points before incentives.

[22] For more detail about the effects of various tax types on the ETR, see Appendix B.

When Incentives Are Factored In, Maine's Tax Environment for a Large Shipbuilder Shifts Closer to the Lowest Taxed States

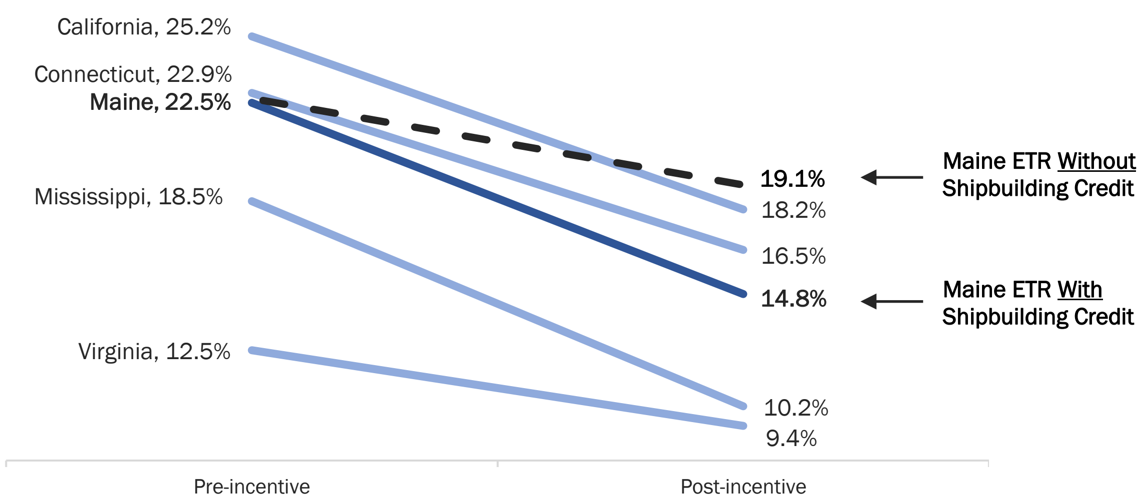


Source: EY analysis using Business Tax Competitiveness Model. See Appendix B for details.

Without the Shipbuilding Credit Maine's Tax Environment for a Large Shipbuilder Would Be the Least Competitive

After applying incentives to the analysis, Maine's ETR dropped 7.7 percentage points. More than half of this decline (4.3 percentage points) was from the Shipbuilding Credit.[23] This means that, without the Shipbuilding Credit, Maine's ETR for a large shipbuilder would be 4.3 percentage points more, and at 19.1% would be highest among the comparison states.

Without the Shipbuilding Credit Maine's Tax Environment for a Large Shipbuilder Would Be the Least Competitive



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

Ultimately, this analysis suggests that the Shipbuilding Credit has a fairly substantial impact on tax competitiveness for a large shipbuilder in Maine that is able to access the credit.

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

Does the Credit's Design Support Public Accountability and Oversight?

The Shipbuilding Credit has clear statutory goals and strong public reporting requirements, though DECD should strengthen publicly reported data.

The Credit Has Clear Statutory Goals; However, Some Goals are Broad While the Design Is Narrow

When the Legislature enacted the Shipbuilding Credit, lawmakers established the purpose of the credit in statute along with performance measures to evaluate the credit's impacts. OPEGA assessed the Shipbuilding Credit's design and performance to date in comparison to these goals and measures. We noted that some of the goals speak to expected impacts on Maine's shipbuilding industry, broadly. However, the requirements for qualified applicants allow only one entity to access the credit. This can create a lack of clarity about the purpose for the credit, which is discussed in recommendation 1.

Shipbuilding Credit Goals

Create and retain jobs in Maine's shipbuilding industry

Provide an income tax credit to reduce the cost of investments in shipbuilding businesses

Encourage investment in shipbuilding businesses

Improve the competitiveness of this state's shipbuilding industry

Public Reporting Is Required by Statute, but the Data Collected and Distributed by DECD Should Be Strengthened

The public reporting required for the Shipbuilding Credit is a step forward from many other Maine tax expenditures in terms of transparency and public accountability. Statute requires both DECD and MRS to report data on use of the Shipbuilding Credit to the Legislature's Taxation Committee annually. DECD is also required to gather data annually from the certified credit applicant on jobs and investment. Statute explicitly makes this data public. This is unlike many other tax expenditures in Maine that have their data held only by MRS, meaning it is considered confidential taxpayer information by default, and therefore cannot be publicly shared.

OPEGA observed that BIW, MRS and DECD have been providing the reports required by statute. However, some of the data DECD has gathered from BIW, and reported publicly, is unclear and potentially misleading. One example of this is DECD's reporting to the Legislature on the amount of qualifying investment (QI) under the credit. DECD has reported qualifying investment beyond the $200M maximum for which a benefit is allowed. The most recently reported aggregate QI was approximately $302M, exceeding the maximum for which credit is allowed by more than $100M, or about 50%.

Table 5. Reported QI Exceeds the Maximum for Which Benefits Are Provided

Report Year	Aggregate QI Reported	
2019	$107,482,348	
2020	$161,851,866	
2021	$224,044,093	← $200M is the maximum that can qualify for the credit
2022	$302,311,836	

Source: Annual reports provided by BIW and DECD.

Though this reporting follows the language in statute, and DECD interprets this reporting method as required by statute, OPEGA finds it to be potentially misleading. Reporting in this way conflates the investment connected to the credit with all other BIW investment that can meet the broad definition of QI in statute. Such reporting can create an unclear public record as to the amount of investment that qualifies under the program and could contribute to a misconception that all BIW investment is due to the credit.

OPEGA also found that the nature of some data required by statute is open to interpretation, and DECD has not provided clarification on these points to BIW or in the Department's own public annual reports. An example of this is the statutorily required reporting on the "total dollar amount that was spent on goods and services obtained from businesses with an office in the state from which business operations in the state are managed." There are two aspects to this data element that are open to interpretation and could substantially impact the amounts reported:

1. Timing – whether to report incremental annual figures, or totals across years; and
2. Scope – whether to report spending operation-wide, or only from qualifying investment.

BIW clarified for OPEGA that the data provided has been an annual amount for BIW's operation-wide Maine spending, not QI spending alone. This suggests that at least some of the Maine spending included in DECD's reports to the Taxation Committee may have little direct connection to the Shipbuilding Credit. Its inclusion in reporting on the credit's effects, without any clarifying explanatory language can therefore be misleading. BIW has been diligent in reporting, but has received no clarifying guidance from DECD on this and other data points that may be open to interpretation. Additionally, DECD has not taken steps to provide clarification in its reports to the Taxation Committee as to how these figures should be accurately interpreted. Opportunities for improvement in DECD's implementation of reporting requirements are discussed in recommendation 3.

Limited Public Information About Other Incentives Impacts Transparency

OPEGA has found that policymakers are often interested, not only in the impacts of individual credits, but also in the combined state supports for a given business or project. It is difficult to provide complete information in this regard. Although the Shipbuilding Credit requires public data reporting at an individual business participant level, many other tax incentives and economic development tools in the state do not. Additionally, the data that is collected is kept in various formats across multiple agencies. Combined, these issues can make it difficult for policymakers and the public to observe the full package of incentives the state is providing to any single business or in support of any single project. This matter extends beyond the Shipbuilding Credit alone and is discussed further in recommendation 2.

OPEGA asked BIW about other incentives accessed during the time period that the qualified investment was made. BIW reported benefitting from a handful of other incentives during the same time period, including municipal TIFs,[24] the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs,[25] and some smaller grants and programs related to employee training and energy use.[26] According to BIW, most of these other incentives did not support the same types of projects as the Shipbuilding Credit, with the exception of the BETR and BETE programs.

[24] Municipal Tax Increment Financing Districts (TIFs), pursuant to Title 30-A, chapter 206, subchapter 1.
[25] The BETR and BETE programs reduce or eliminate personal property tax on qualifying business equipment pursuant to Title 36, chapter 915 and Title 36, chapter 105, subchapter 4-C respectively.
[26] These other programs include Net Energy Billing Agreements, Efficiency Maine rebates, and workforce training reimbursements.

Overall Conclusions & Performance Measures

Overall Conclusions

- The Shipbuilding Credit provides up to $45M over 15 years and is usable by only one participant.
- It is unknown how much the credit may have impacted the timing, magnitude, or nature of qualifying investments. However, job creation and investment by the credit's sole user have exceeded statutory minimums.
- Tax environment is one factor in a business's competitiveness within its industry. For a large shipbuilder that can access the Shipbuilding Credit, Maine's tax environment ranks in the middle among comparison states, but absent the credit would be the least competitive.
- Statute requires data reporting to support oversight and transparency. However, DECD's implementation of data reporting 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.

Statutory Performance Measures for the Shipbuilding Credit

Title 36 §5219-RR(10)(B) specifies performance measures to be used in evaluation of the Shipbuilding 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 Table 6 for ease of reference.

Table 6. Performance Measures for Evaluation of the Shipbuilding Credit
(M=million; B=billion)

(1) Employment during the period being reviewed, and comparison to the minimum employment requirements	Minimum required qualifying employees: 4,000 – 5,500[27] <u>Qualifying Employees Reported Annually</u> 2019: 5,844 2020: 5,677 2021: 6,744 2022: 6,870
(2) Amount of qualified investment (QI) during the period being reviewed, and comparison to the minimum expenditure requirements	Minimum aggregate QI required: $100M $200M aggregate QI was invested by BIW as of mid-2021[28]
(3) Measures of industry competitiveness	Maine's effective tax rate (ETR) for a large shipbuilding firm is 14.8% after incentives, middle among five major shipbuilding states. Absent the Shipbuilding Credit Maine's tax environment would be the least competitive. See further discussion beginning on page 12.

[27] Annual credit is reduced if qualified employment falls below 5,500. No credit is available if qualified employment falls below 4,000.
[28] $200M is the maximum QI for which a credit is provided under statute.

(4) Measures of fiscal impact and overall economic impact on the state	Expected cost to the state: $45M over 15 years[29] Estimated **One-Time Impacts of QI** on Maine Economy:[30] 977 jobs temporarily supported $3.2M in state tax revenue $60.7M in state GDP Estimated impacts of BIW's ongoing operations are discussed on page 11.
(5) Information regarding procedures for ensuring compliance with requirements to give preference to Maine workers, companies and bidders in contracts, purchasing supplies, and subcontracting work related to the qualified investment	Roughly 54% of aggregate QI went to Maine businesses[31] BIW standing policy gives preference to Maine businesses when possible.
(6) Annual revenues of each parent company of recipients	Parent company (General Dynamics) 2022 revenue: $39.4B
(7) CEO salaries, stock buybacks,[32] and executive sales of stock following receipt of the tax credit for each recipient	<u>General Dynamics 2022 Data</u> (Data not available for BIW*) CEO salary: $1.7M Stock buybacks: $1.2B Executive stock sales: $19.3M
(8) Summary of information on profitability from SEC filings after receipt of the tax credit for each recipient	<u>General Dynamics 2022 Data</u> (Data not available for BIW*) Operating earnings: $4.2B Operating margin: $10.7%

Sources: Employment and investment figures are from participant application and annual reports. General Dynamics (parent company of BIW) annual revenue, CEO salary, stock buyback, and profitability data from SEC filings. General Dynamics executive sales of stock from insidertrades.com as of 8/1/23.

* OPEGA requested data related to PM7 and PM8 from BIW. BIW reported it was unable to provide this data because "[i]t is the general policy of General Dynamics not to release financial data, including profitability or revenue data, at the business unit level or any information beyond that which is publicly available through the SEC. General Dynamics is comprised of 10 corporate business units organized into four business groups: Aerospace, Combat Systems, Marine Systems, and Technology. All of the company's publicly available financial information is consolidated at the General Dynamics Corporate level and further broken down at the business group level for SEC reporting purposes. As a general matter, financial information on individual business units, like Bath Iron Works, is not publicly available or disclosed. One of the reasons for the consolidation of financial information only at business group or corporate parent level is due to competitive concerns. For example, BIW competes against a single other shipbuilder, Huntington Ingalls in Mississippi. Those competitions are limited by law to just 2 suppliers who are qualified to construct destroyers for the US Navy. As competitors bidding on future work, we have an interest in limiting the amount of financial data available that would help determine costs."

29 Assuming that the full credit amount is claimed.
30 Estimated impacts reflect the economic effects of the total $200M QI, without regard for whether BIW may have invested the same, or similar, amounts absent the credit. BIW invested the $200M QI in the years 2018 through part of 2021.
31 In the period during which BIW invested the $200M of QI, 2018 through part of 2021.
32 A stock buy-back is when a public company uses cash to buy shares of its own stock on the open market.

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, as applicable. A list of the recommendations is provided in the table below, and more detail follows.

Since the Shipbuilding Credit is fully committed, and hence no future applications or certifications for the credit are expected, OPEGA did not consider opportunities to improve those completed processes. 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
Recommendations for Program Administrators	
3	DECD Should More Effectively Implement Statutory Requirements Around Annual Data Reporting
4	DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality and Preference for Maine Companies

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 Shipbuilding Credit refers to supporting the shipbuilding industry as a whole, the credit's design limits its availability to only one entity—Bath Iron Works. OPEGA observed that the Shipbuilding Credit is not the only Maine tax incentive that appears to direct financial incentives to single entities, and that providing incentives to single entities is a common practice nationally. However, the Shipbuilding Credit model of a statutory income tax credit targeting a single business may not be the most efficient and effective way to target benefits to individual entities. Other states use a variety of tools to provide these types of micro-targeted incentives (see Appendix D for a summary of approaches). Some of the tools in use by other states 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>Transparency and Clarity of Purpose</u>

While much of the statutory language for the Shipbuilding Credit appears to target the entire industry, the credit is only available to a single entity. This seeming mismatch between the purpose language and the possible participants can create a lack of transparency about purpose and can cause 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 investing state dollars 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 consider confidential and would not want shared publicly. Discretionary incentives in other states sometimes include processes for comparing potential projects to identify the best cost-benefit for the state based on the funds the state can dedicate and the outcomes that are highest value for citizens. 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. Rather than having 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," to analyze cost-benefit for the state, and to weigh the relative value of possible state investments when economic development budgets are limited;
- factors that target state priorities of the moment, such as those in a state's economic development plan, potentially targeting heritage industries, growth industries, or particular geographic areas; and
- legislative oversight at various stages, including in the initial design of the discretionary incentive program, in reviewing applications and awarding funds, 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 Shipbuilding Credit, the Legislature has shown interest in monitoring co-use of incentives and understanding how incentives sometimes come together as a package to help support a business's investment in Maine. However, OPEGA has consistently found 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 which 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.

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 incentive use that might raise concern for policymakers.

Recommended Legislative Action: If there is a desire on the part of policymakers to monitor co-use of incentives, then some additional system or reporting is 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 state's Major Employment and Investment Project Approval Commission.[33]

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.[34] Another example comes from Iowa, where the Department of Revenue oversaw the creation of a database including information from four state agencies and authorities about incentive awards and claims.[35]

3 DECD Should More Effectively Implement Statutory Requirements Around Annual Data Reporting

Data collection is an important step in ensuring transparency and public accountability for state-funded incentives. To this end, the Legislature has increasingly included data requirements in statutory language for tax incentives. However, the reporting and other requirements are only as valuable as the robustness of their implementation.

OPEGA found that BIW has been providing the data requested by DECD, and DECD has been requesting exactly the data specified by statute. However, the resulting data, reported publicly by DECD, is unclear and potentially misleading in a couple of areas. We find this inadequate to support policymakers in ensuring that the state is receiving the expected benefits from a credit providing substantial benefits ($45M over 15 years). Specific issues OPEGA identified with publicly reported data are described below.

<u>Reporting Qualifying Investment Beyond the Maximum for Which Credit Is Allowed</u>

DECD has not provided guidance as to when the certified applicant can stop reporting ongoing qualifying investment after the maximum amount eligible for a credit has been reached. As a result, BIW has continued to report this data annually, and DECD has reported continuing QI to the Legislature. This can create a potentially misleading public perception that the credit is influencing all

[33] "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.
[34] https://www.tn.gov/transparenttn/state-financial-overview/open-ecd/openecd/fasttrack-project-database.html.
[35] https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/06/how-states-can-gather-better-data-for-evaluating-tax-incentives.

of BIW's investment for as long as this reporting continues, even though the credit is only provided for a maximum of $200M in QI.

When OPEGA asked why investment beyond $200M is being reported as "qualified investment," DECD said they continue to request and report QI data annually because it is statutorily required.[36] The Department also stated that it is useful to know the total investment the company is making, even if it is beyond the point of affecting the credit amount. While that may be, a proactive administrative approach would seek to address problematic data requirements by proposing adjustments to the language where needed or providing clarification when reporting the data publicly. In this case, OPEGA finds the continuing investment (beyond the $200M) should be clearly identified as such in public reporting to ensure users of the data have accurate information.

Not Providing Clarity about Maine Spending Data Required from BIW and Reported Publicly

BIW has been diligent in reporting but has not received guidance, beyond the language in statute, about one of the requirements to report Maine spending. OPEGA reviewed annual reports filed by BIW, and found it was not clear whether the amounts reported to date were incremental annual figures, or aggregate figures accumulating across years. It was also unclear whether the figures included Maine spending only from the QI or Maine spending companywide.

Table 7. Excerpted Data Reported by BIW to DECD, and by DECD to the Taxation Committee

	2019	2020	2021	2022
Statutory Language - Title 36 §5219-RR(9)(a)(3) "The total dollar amount that was spent on goods and services obtained from businesses with an office in the state from which business operations in the state are managed"	$89,953,142	$107,656,291	$124,259,476	$138,668,514

Source: Excerpted from reports submitted by DECD to the Taxation Committee.

OPEGA requested clarification from BIW and learned that these figures are annual rather than cumulative. This means they can be added across years to determine the aggregate spend. We also learned that the figures represent total BIW spending with Maine vendors rather than just the QI spending that went to Maine vendors. As such, the reported figures speak more broadly to BIW's spending in Maine and less directly to the impact of the Shipbuilding Credit. Clarification on these points should be included in future public reporting to support an accurate understanding of the data.

Recommended Management Action: DECD should strengthen the annual reporting process for the Shipbuilding Credit to add clarity about both the data it requires from BIW and the data it reports publicly about the credit. At a minimum, DECD should take the following steps.

A) DECD should address the issue of ongoing reporting of "qualified investment." DECD could address this by proposing an amendment to statute to eliminate the requirement to report QI beyond the maximum for which a credit is available. This would reduce administrative burden on BIW. The company told OPEGA that QI is the most burdensome part of annual reporting, because it requires ongoing assessment of which investments meet the statutory definition of QI even though those investments can't qualify for the credit because the maximum QI has already been made.

[36] Pursuant to 36 MRSA §5219-RR(9)(A).

Until, or unless the statutory reporting language is amended, OPEGA understands that DECD will continue to collect this data from BIW, and to include it in annual reports to the Legislature. While this reporting continues, OPEGA suggests the Department include language in its annual report to clarify that the investment over $200M being reported as "qualifying investment" is not the basis for the credit.

B) DECD should provide guidance to BIW about whether Maine spending reported pursuant to §5219-RR(9)(a)(3) should be an annual incremental figure, or an aggregate figure, and whether it should include companywide spending or only spending from the $200M QI for which a credit is available. DECD should also clarify these points in its future annual reports to the Legislature on the Shipbuilding Credit.

4 DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality and Preference for Maine Companies

OPEGA found that DECD has taken limited steps to monitor ongoing compliance with some statutory provisions for the Shipbuilding Credit. These statutory provisions include the requirements to give preference to Maine companies and some of the required minimum quality thresholds for qualifying employees. These requirements are directly related to benefits the state expected to receive in connection with this credit – support for Maine companies and 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.

<u>Preference for Maine Companies</u>

Title 36 §5219-RR(8) requires that a company certified for the Shipbuilding Credit must give preference to Maine workers, companies and bidders as long as the supplies, products, services and bids meet the standards required by the certified applicant regarding value, quality, delivery terms and price. OPEGA found that DECD has implemented this requirement by noting it in BIW's certification letter and by collecting statutorily required data about BIW's spending with Maine vendors. DECD explained to OPEGA that further steps to monitor compliance were considered, but have not been taken, because the Department is not aware of a meaningful way to prove that preference is being given to Maine workers and suppliers when decisions are still at a company's discretion based on value, quality, delivery terms and price.

Monitoring compliance can be challenging, and the right level of monitoring is often subjective and varies depending on how critical the requirement is, the financial magnitude at question, and the administrative resources that monitoring would require. In the case of the Shipbuilding Credit, OPEGA finds that the Maine preference requirement is critical, as it speaks directly to one of the economic benefits expected from the credit—increased spending in the Maine economy. In addition, the magnitude of the Shipbuilding Credit, $45M over 15 years, suggests its monitoring is worth some level of administrative resources.

Based on these factors, OPEGA suggests some low-effort monitoring steps, such as requesting the company's purchasing policy as evidence of preference for Maine vendors and requiring the company to attest annually to providing the required preference, are warranted.[37]

[37] OPEGA obtained BIW's purchasing policy and noted that it allows for a preference for Maine vendors as long as certain conditions are met and as long as BIW's obligations to the U.S. Government are still met and fulfilled.

Minimum Job Quality Requirements

Title 36 §5219-RR(1)(H) requires that qualified employees must be full-time and working at a Maine shipbuilding facility. They must also be provided income (taxable under Title 36, Chapter 803) that exceeds the average annual per capita income in the state and must be provided with group health insurance and a qualifying retirement program.

Currently DECD requires BIW to provide counts of qualifying employees in annual reports, along with average and median payroll for qualified employees. However, DECD does not require any confirmation that each employee counted as qualified has met the minimum quality requirements in statute. Although one might assume that BIW 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.[38]

Recommended Management Action: DECD should take additional steps to confirm compliance with the Shipbuilding Credit's statutory requirements for preference for Maine companies and 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 with the Maine preference requirement by requiring an updated purchasing policy and attestation on this matter as part of BIW's annual reporting. Similar attestation would also add a layer of assurance around compliance with job quality requirements for qualified employees. While these steps do not perfectly ensure compliance, they strike a balance by providing additional checks on compliance with critical requirements without creating undue burden for DECD or BIW.

[38] While OPEGA acknowledges that MRS has audit authority for the Shipbuilding Credit, audits are a possibility and not a requirement for the credit. In addition, audits in general function as detective, rather than preventive controls. Detective controls generally 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, exist to 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. Detective controls alone have the disadvantage that since they focus on transactions that have already occurred, funds have typically already been distributed and the opportunities to address issues before distribution of funds has been missed.

Appendix A. Methods and References

The GOC approved parameters for the evaluation of the credit for Maine Shipbuilding Facility Investment are detailed in Appendix F.

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

- relevant statute, including the history of changes made since the enactment of the credit and including the history of a similar predecessor credit now expired;
- documents related to annual reporting by BIW and DECD and to application for certification for the credit;
- MRS form "Credit for Maine Shipbuilding Facility Investment Worksheet;"
- MRS' Maine State Tax Expenditure Reports;
- publicly available reporting by General Dynamics to the United States Securities and Exchange Commission;
- interviews with state program administrators and BIW management;
- interviews with business community stakeholders and the City of Bath; and
- a site visit to BIW's shipyard facility in Bath, 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 for this evaluation, OPEGA conducted economic modeling (see Appendix C) and contracted for an effective tax rate analysis of the competitiveness of Maine's shipbuilding 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)

Congressional Research Services (CRS). 2023 "Navy DDG-51 and DDG-1000 Destroyer Programs: Background and Issues for Congress." Retrieved 5.12.2023. (https://crsreports.congress.gov/product/pdf/RL/RL32109/267)

Congressional Research Services (CRS). 2023. "Navy DDG(X) Next-Generation Destroyer Program: Background and Issues for Congress." Retrieved 5.12.2023. (https://crsreports.congress.gov/product/pdf/IF/IF11679)

Eckstein, Megan. 2021. "Bath Iron Works Plays Catch-Up on Ship Delivery After Years of Upheaval." *Defense News*. Retrieved 5.12.2023. (https://www.defensenews.com/breaking-news/2021/12/06/bath-iron-works-plays-catch-up-on-ship-delivery-after-years-of-upheaval/)

Finance Charts.com. "General Dynamics (GD) Share Buybacks: $56M." Retrieved 8.1.2023. (https://www.financecharts.com/stocks/GD/cash-flow/repurchase-of-capital-stock)

General Dynamics. 2020-2023. "10-K" and "Proxy Statements." U.S. Security and Exchange Commission (SEC). Retrieved 4.19.2023. (https://www.sec.gov/edgar/search-and-access)

InsiderTrades.com. "General Dynamics Insider Trading History Chart." Retrieved 8.1.2023. (https://www.insidertrades.com/general-dynamics-co-stock/)

Maritime Administration (MARAD). 2021. "The Economic Importance of the U.S. Private Shipbuilding and Repairing Industry." Retrieved 7.5.2023. (https://www.maritime.dot.gov/sites/marad.dot.gov/files/2021-06/Economic%20Contributions%20of%20U.S.%20Shipbuilding%20and%20Repairing%20Industry.pdf)

Shipbuilding History.com.[39] "U.S. Builders of Large Ships." Retrieved 7.5.2023. (http://shipbuildinghistory.com/shipyards/large.htm)

United States Government Accountability Office (GAO). 2008. "Zumwalt-Class Destroyer Program Emblematic of Challenges Facing Navy Shipbuilding Statement of Paul L. Francis, Director Acquisition and Sourcing Management." *Testimony Before the Subcommittee on Seapower and Expeditionary Forces, Committee on Armed Services, House of Representatives DEFENSE ACQUISITIONS*. GAO-08-1061T. Retrieved 5.12.2023. (https://www.gao.gov/assets/gao-08-1061t.pdf)

Wallace, Ryan for the Center for Business and Economic Research, University of Southern Maine. 2022. "The Impact of General Dynamics Bath Iron Works on the Maine Economy." Retrieved 2.3.2023. (https://gdbiw.com/wp-content/uploads/2022/12/BIW-Economic-Report.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.

[39] OPEGA identified this source of U.S. shipbuilders from the Maritime Administration report which notes that "www.shipbuildinghistory.com is maintained by Tim Colton, a professional with more than 60 years of experience in the shipbuilding industry. His resume is accessible at http://shipbuildinghistory.com/resume.htm."

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 five different state tax environments to compare the impacts of the local tax climates and available incentives in those states on the hypothetical business.

Table 8. Hypothetical Firm Profile Used in Analysis for Ship and Boat Building Industry

NAICS industry	3366
Number of employees	6084
Average employee wages	$71,032
Capital investments	$200 million
Annual business revenue	$1.7 billion
Operating annual expenses	$1.6 billion
Profit margin	9.1%

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 Shipbuilding 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, about the states' relative tax environments and how they are impacted by available incentives.

The states and counties chosen for the analysis were chosen by EY and OPEGA based on industry knowledge and the industry employment in those places and are shown in Table 9 below.

Table 9. Comparison States and Counties

Ship and Boat Building (NAICS 3366)		
State	**County**	**Industry Employment**
Maine	Sagadahoc County	6,450
California	San Diego County	7,267
Connecticut	New London County	12,357
Mississippi	Jackson County	11,179
Virginia	Newport News City	23,411

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 10. EY Summary of Current Statutory Tax Rates, 2023

Locations	State corporate income or franchise tax rate*	Combined state & local sales tax rate	Real property tax rate**	Personal property tax rate**
California: San Diego County	8.84% CIT	7.86%	1.13%	1.13%
Connecticut: New London County	7.50% CIT or 0.31% franchise rate	6.35%	2.61%	2.61%
Maine: Sagadahoc County	8.93% CIT	5.50%	1.27%	1.27%
Mississippi: Jackson County	5.00% CIT + 0.125% franchise rate	7.00%	1.85%	1.85%
Virginia: Newport News City	6.00% CIT	6.00%	1.20%	3.75%

*Connecticut taxpayers pay the greater of the corporate income tax or the franchise tax. Connecticut and 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 Table 11.

Table 11. Summary of Incentives Included in the Analysis, by State and Type

State	Property	Sales and Use	Income	Grant	Incentives
CA		√	√		CA Competes Tax Credit, CAEAFTA SUT Exclusion Program, Special Purpose Building SUT exclusion, San Diego Business Cooperation Program
CT	√		√	√	Manufacturing Machinery and Equipment Tax Exemption, Fixed Capital Investment Credit (FCIC), JobsCT, Enterprise Zone
ME	√		√		Tax Credit for Maine Shipbuilding Facility Investment, Business Equipment Tax Exemption, Maine Capital Investment Credit, Municipal Tax Increment Financing Rebate
MS	√		√	√	Manufacturing Investment Tax Credit, Jobs Tax Credit, Industrial Property Tax Exemption
VA				√	Major Employment and Investment Project (MEI)

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

EY's analysis compares the tax environments in the selected states through the calculation of an effective tax rate (ETR) before, and after, available incentives are factored in. The ETR is a measure of the tax burdens imposed by state and local tax systems and is calculated 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 5% of sales are to in-state customers and 95% of sales are estimated as sales to the federal government based on the product (naval ships) produced by the industry. EY states "*Sales to the federal government are included in the numerator when determining the sales factor for corporate income tax apportionment when states have throwback provisions. States with throwback provisions in our study include California and Mississippi. Maine includes sales to the federal government as sales in the numerator as well, meaning that Maine, California, and Mississippi have 100% sales factor when calculating the state corporate income tax. In states without these provisions, a 5% sales factor lowers apportioned income in Connecticut and Virginia.*"

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

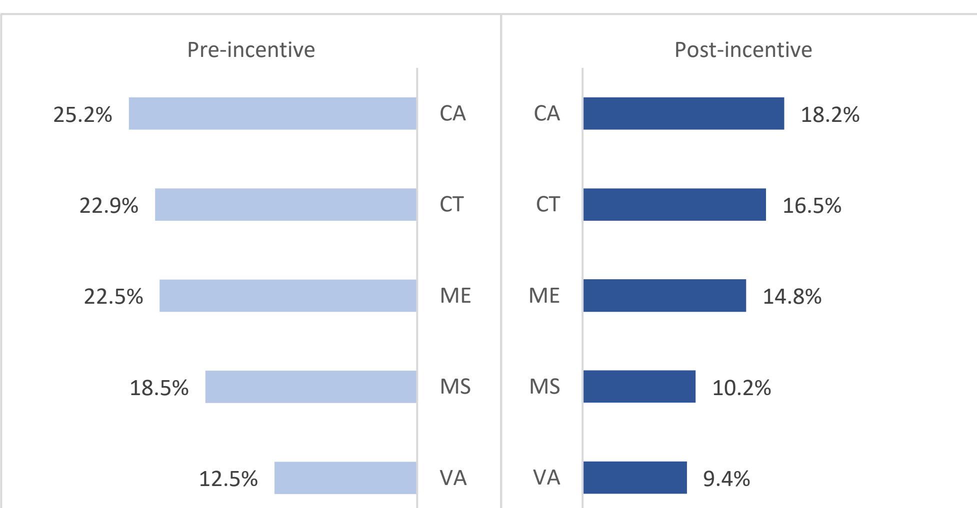
3. **Type of Business and Investment.** For the purposes of the analysis, EY modeled a C-corporation with new investments and associated employment and payroll. The hypothetical firm was not new to the state in the scenario. The model used continuous reinvestment by year to replace depreciated property 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.

The results of the analysis show that pre-incentives, Maine's tax environment is closer to the less favorable states for the hypothetical shipbuilding business to make its investment. After factoring in incentives, Maine shifts closer to the more favorable tax environments among comparison states (see Table 12 and the figure below).

Table 12. Summary of ETR Analysis Results

Location	Pre-incentive ETR	Post-incentive ETR	PP Change	Rank
Newport News City, VA	12.5%	9.4%	3.1	1
Jackson County, MS	18.5%	10.2%	8.3	2
Sagadahoc County, ME	22.5%	14.8%	7.7	3
New London County, CT	22.9%	16.5%	6.4	4
San Diego County, CA	25.2%	18.2%	7.0	5
Average, excluding ME	19.8%	14.7%	6.2	

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 Shipbuilding Credit is responsible for more than half of the 7.7 percentage point reduction, with 4.3 of the percentage point reduction in ETR attributed to that credit.

EY's full report can be provided upon request.

Appendix C. Economic Modeling Methodology and Assumptions

OPEGA used the IMPLAN[40] economic modeling software, and data from DECD and BIW annual reports on the Shipbuilding Credit, to separately estimate the impact of ongoing shipyard operations and BIW's one-time qualified investment (QI) upon which the 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 for the economic model for shipyard operations was employment. OPEGA used employment level data from BIW's annual reporting as input data, but we did not use BIW's reported payroll data as it did not include benefits and social insurance taxes and hence could understate the employment impact. Instead, we used the IMPLAN model to estimate direct, fully loaded, employee compensation based on the employment level, the industry sector, and the county in which the shipyard is located.
- Qualified Investment - OPEGA modeled the economic effects of the Maine portion of BIW's qualified investment—an estimated $107.7M out of the BIW's total QI of $200M allowed under the Shipbuilding Credit. This input was based on BIW's reported actual total QI spending, and spending within the state in years 2018 through 2021, when BIW reached the maximum $200M QI for which credit is awarded.
- Timing - For inputs in prior years, such as BIW's QI spending through 2021 and its employment from 2019 through 2021, OPEGA used the appropriate data year matched to the year of the event. For any event year after IMPLAN data year 2021, OPEGA continued to use the relationships implicit in that data year. Over time, these relationships between industrial sectors 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 - For modeling ongoing operations of the BIW shipyard, OPEGA used the IMPLAN "Shipbuilding and Repairing" sector #360 and Sagadahoc County as the geographic region. Other counties in Maine were added to the model in a multi-region input/output structure.[41] For modeling BIW's qualified investment, OPEGA had to make assumptions about the sectors impacted. BIW did not provide details of the specific nature, sector, or vendor for all in-state qualified investment. However, the company was able to provide a list of sample projects. OPEGA categorized this list into IMPLAN sectors, developed percentages based upon the amount of these projects, and applied those percentages to the total in-state spending for each year to estimate BIW's spending by industry sector.

Model Outputs

IMPLAN's output of economic measures include predicted employment, employee and proprietor compensation, and economic value-added, which is closely 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 BIW's qualified investment and ongoing operations.

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[40] 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.

[41] 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.

In producing its economic measures, 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 shipbuilding sector in relation to its suppliers to estimate the impact to the Sagadahoc County and Maine State economies.[42] Because this trade flow information is broken down into finer geographies, OPEGA was also able to estimate indirect (supply chain) effects of annual BIW shipyard 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 facility.

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

Table 13. Estimated Value of BIW Shipyard Operations to Maine Economy in 2020 (not including QI)

	Direct Impacts	Indirect Impacts	Combined Direct & Indirect Impacts
Jobs	5,677	2,771	8,448
Labor Income ($M)	$488.72	$158.75	$647.47
GDP Impact ($M)	$499.06	$229.66	$728.72

Table 14. Estimated Effects of Qualifying Investment Spending by Year

	2018 - 2019	2020	2021*	Total
Indirect Jobs Supported by Spending	464	310	203	977
GDP ($M)	$27.29	$18.19	$15.25	$60.73
State Tax Revenue ($M)**	$1.61	$0.85	$0.78	$3.24

* Year in which QI reached $200M.
**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 facility, such as hospitals, restaurants, and anything that households spend money on. This economic activity is related to people's 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 objectives of a modeling effort. We excluded induced effects in modeling the impact of the ongoing operations of the shipyard 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. As such, we excluded induced effects from our results, which avoids a potentially significant overstatement, but may also result in a smaller understatement of the total economic impacts of the shipyard's ongoing operations.

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

Previously Published Economic Model

OPEGA also reviewed the 2022 economic impact study of the BIW facility produced by the University of Southern Maine's Center for Business and Economic Research (CBER). The purpose of the CBER report was "to document and quantify the impact of General Dynamics Bath Iron Works (BIW) on the Maine economy and workforce over the past decade." OPEGA's objective was different and focused on the impact of the tax credit on both BIW and the rest of the state. Despite these differences in focus—along with differences in software, timeframes, and data—the results were directionally similar for the year when modeling overlapped. Fully attributed GDP contribution in the CBER model was estimated to be $1.26 billion in 2021 while OPEGA's estimate for the same year was $1.02 billion. CBER estimated state and local tax receipts in 2021 to be $43.9M while OPEGA's estimate was $41.2M.

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 15) 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. Vermont has a tax incentive program for "business recruitment, growth and expansion," which appears to be a broadly available business incentive rather than targeting a single user or project.

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 and 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 the 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[43] 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 and 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[44] and about value to the state[45] 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. The Michigan Strategic Fund awards SOAR grants from a legislatively created $1 billion fund, which must receive legislative approval in some cases. In North Carolina, there is a Commission made up 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 following table lists the incentives identified.

Table 15: 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.

43 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.
44 See for example, https://www.bridgemi.com/michigan-government/michigan-embraces-silence-tax-break-deals-other-states-move-ban-it.
45 See for example, https://uca.edu/acre/files/2018/11/QACF_infosheet_Oct2018_v5.pdf.

Table 15: 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 15: 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 15: 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 is 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

"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-

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." 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 Shipbuilding Facility Investment – Evaluation Parameters

The Government Oversight Committee (GOC) considered proposed evaluation parameters for OPEGA's full evaluation of the Credit for Maine Shipbuilding 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 create and retain jobs in the shipbuilding industry in this state by providing an income tax credit to reduce the cost of investments in shipbuilding businesses and thereby encourage investment in shipbuilding businesses and improve the competitiveness of this state's shipbuilding industry.

Intended Beneficiaries

Directly: eligible businesses making investments in shipbuilding facilities in Maine

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. Employment during the period being reviewed, and comparison to the minimum employment requirements;
2. Amount of qualified investment during the period being reviewed, and comparison to the minimum expenditure requirements;
3. Measures of industry competitiveness;
4. Measures of fiscal impact and overall economic impact to the state;
5. Information regarding the procedures for ensuring compliance with requirements to give preference to Maine workers, companies, and bidders when awarding contracts, purchasing supplies, and subcontracting work related to the qualified investment;
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.

April 4, 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 Maine Shipbuilding 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 has requested and received a copy of the relevant "Maine Preference Policy" from Bath Iron Works and will continue to do so as part of the annual reporting process, as recommended by OPEGA. We believe the company's continued reporting of the value of goods and services obtained from Maine businesses—both from overall spending and as a subset of the report year's incremental qualified investment, which statute requires to be reported independently—demonstrates the impact of the credit's local procurement requirement.

Additionally, we 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 they report as qualified in future report years. We can also adjust reporting language to clarify for readers that the numbers are annual and the total credit allowed does not change for investment beyond $200 million. Whether statute should be amended to stop collecting information on investment in excess of $200 million is something we are open to discussing with legislators, although we do see value in reporting impacts beyond the minimum required to receive the full credit.

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

STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
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SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

JANET T. MILLS
GOVERNOR

KIRSTEN LC FIGUEROA
COMMISSIONER

April 12, 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 Credit for Maine Shipbuilding Facility Investment, for 15-Day Agency Review and Comment

Dear Director Schleck,

Thank you for the opportunity to review and comment on the Credit for Maine Shipbuilding Facility Investment 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, Commissioner
Department of Administrative and Financial Services