AT A GLANCE

OPEGA Evaluation of Employment Tax Increment Financing (ETIF) –An Evaluation of Program Design and Analysis of Program Activity from 2010 through 2016

About the Employment Tax Increment Financing Program

The Employment Tax Increment Financing (ETIF) Program provides payments to approved, for-profit businesses that hire 5 or more new, qualifying, full-time employees over a two year period. A business's payment is calculated based on the withholding taxes of the qualifying employees hired. The payment is scaled based on the level of local unemployment – from 30% for a business in a lower unemployment area to 50% or 75% for businesses in higher unemployment areas. The payment rate goes up to 80% for Pine Tree Development Zone (PTDZ) certified businesses. Only for-profit businesses may receive ETIF reimbursements, and retail businesses are eligible only under very limited circumstances.

Agencies Responsible for ETIF Administration

The Department of Economic and Community Development (DECD) assists businesses with the ETIF application process and is authorized to approve qualified applicants. Once approved, a business may receive ETIF payments for up to 10 years.

Maine Revenue Service's (MRS) State Tax Assessor is responsible for approving and authorizing ETIF payments for businesses. This approval is based on data DECD collects from businesses through an annual reporting process that can be resource intensive for both the agency and the businesses. ETIF payments are funded via annual transfers of General Fund undedicated revenue to the state employment tax increment contingent account as provided in Title 36 § 6758(3).

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

Program Goal: to encourage the creation of net new quality jobs.

Primary Intended Beneficiaries: for-profit businesses that create new quality jobs.

Secondary Intended Beneficiaries: job-seekers.

OPEGA Analysis of DECD and MRS Data for Program Years 2010 through 2016

Payments for program years 2010 through 2016 were distributed to businesses in State fiscal years 2012 through 2018, and totaled $84.7 million. OPEGA estimated that as many as 1,295 unique, new jobs may have been created, in part, due to these payments. However, it is hard to attribute the jobs specifically to ETIF since many ETIF businesses are also participants in other State tax incentive programs.

Total ETIF Payments Fiscal Years 2012 – 2018

Program Year	2010	2011	2012	2013	2014	2015	2016
Fiscal Year of Payments	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Total ETIF Payments (in millions)	$8.03	$9.64	$11.56	$12.98	$13.68	$14.82	$13.31

Source: OPEGA analysis of ETIF payment records from MRS and ETIF annual reports filed with DECD by businesses.

Additional Evaluation Findings

DECD, and economic development stakeholders OPEGA interviewed, refer to ETIF as one of Maine's primary economic development tools – in part, because it is accessible to a broad range of businesses. However, stakeholders also note that the program does not directly address barriers to business development in Maine.

OPEGA found that the ETIF Program's design supports creation of net, new quality jobs at a relatively low financial risk to the State. The risk is low partially because businesses can only receive payments in years that the jobs are filled and also because if just 11.52% of the jobs created were due to ETIF, the impact on the State budget is positive. We also found that the program is administered diligently, within existing resources, by DECD and MRS. Administrative costs represent less than 1% of the program's total direct cost to the State.

ETIF requires business applicants to attest that the business activity leading to the creation of the net new jobs would not occur but for the availability of ETIF benefits. OPEGA found this attestation to be a weak tool for ensuring financial benefits are provided only to businesses that would otherwise not have hired net new employees. This problem is not unique to Maine, but has been found to be an issue in other states with similar programs as well.

Recommendations for Improvements to the ETIF Program

1. ETIF objectives should be reconsidered based on Maine's current economic development needs.
2. ETIF's requirements should be reviewed in light of current business realities and updated where necessary.
3. Statute should be amended to clearly reflect all intended outcomes against which ETIF's effectiveness will be measured.
4. ETIF statute or rule should be amended to support effective implementation of the "but for" application requirement.
5. ETIF's economic consideration requirements should be made more explicit or eliminated.
6. The Legislature should clarify whether the same qualifying jobs may be claimed for both ETIF and the Major Business Headquarters Expansion Program.
7. Statute should be amended to address businesses that change ownership.
8. Confidentiality status of ETIF data should be clarified.
9. DECD and MRS should address opportunities to improve fiscal impact forecasts and update rules.
10. MRS should strengthen controls to prevent overpayments and ensure accurate ETIF records.
11. DECD should address information technology and staffing challenges.