

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Government Oversight
Hearing Date: February 26, 2021

OPEGA Report, *“Pine Tree Development Zones (PTDZ) – a limited scope review”*

Senator Libby, Representative McDonald, and members of the Government Oversight Committee – good morning, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am here today at the request of the Administration to provide comment on the Pine Tree Development Zones report released by the Legislature’s Office of Program Evaluation and Government Accountability (“OPEGA”).

We have two principle comments on the report. First, the report discusses “proactive program management” but does not specify what additional duties or roles OPEGA is recommending the program managers perform. We would be happy to participate in discussions with OPEGA, this Committee and the Committee on Taxation regarding potential improvements in this area.

Second, the report discusses data collection and “ongoing real-time monitoring.” A little background may be useful on this point. Maine Revenue Services (“MRS”) currently administers and collects information across 48 different tax types. This information is generally limited to what MRS needs for tax administration purposes and is protected, confidential tax information.

The protection of confidential tax information is crucial. The State’s tax system could not function without taxpayer confidence that the information they are required to provide to MRS will be limited in scope and will remain

confidential. That doesn't mean that MRS can't collect nonconfidential information or information for non-tax administration purposes. But it does mean that MRS's focus, computer systems, and procedures are all developed around those primary goals of protecting taxpayers' confidential information and only collecting the needed information.

In addition to the State administrative side of data collection, when considering whether new or different data is needed to monitor the program, we think it is important to take into account the compliance costs and burdens of the additional reporting requirements on program participants – and work to minimize them to the extent practicable.

Finally, I would like to invite a discussion at some future point on the general tax expenditure review process, including the selection and timing of reviews, to maximize the policy review benefits of OPEGA's reports to the State and, if possible, to streamline the process.

I would be happy to respond to any questions you may have now.



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HEATHER JOHNSON
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Testimony on PTDZ Program
Government Oversight Committee 2/26/21

Senator Libby, Representative McDonald, and members of the Committee on Government Oversight, my name is Phoenix McLaughlin, and I am the Tax Incentive Policy Manager for the Department of Economic and Community Development. I am here today to speak about the Pine Tree Development Zone program.

My primary role is managing the Pine Tree Development Zone and Employment Tax Increment Financing programs for the Department. This position requires a great deal of familiarity with the ins and outs of the Pine Tree Zone program—I explain the details of the program to businesses, manage the application and certification process, and help businesses through the annual reporting process and review their submissions.

With this perspective, there are a few points I want to offer the Committee today as you discuss the Pine Tree Zone program:

First, PTDZ is one of the State's foremost business development tools. When a business connects to DECD to figure out how their investment plans could work in Maine, Pine Tree Zones almost always tops the list of programs the Department discusses with them, if they fit the criteria. Whether a major wood products manufacturer is comparing multiple states to make their next investment, or a local business is looking for ways to grow their steel fabrication shop, Pine Tree Zones is the best package Maine has to offer. It is the largest tool the State has for incentivizing business starts and expansions in Maine, and it forms a key part of the Department's attraction efforts. The State does not have another comparable program.

Second, I want to offer my support for many of the points covered in OPEGA's recent report on Pine Tree Zones. Some of the key changes the Legislature made to the program since OPEGA's 2017 report substantively improved how benefits are administered, such as that they kick in only after the company can confirm they have added new positions. OPEGA's points about how the program could be improved are also on-target, namely that it would benefit from clearer data collection and analysis—although there are some inherent limitations on what information can be gathered and evaluated with the current program design. The Office is also right that the Pine Tree Zone program matches up broadly with the top-line goals of the strategic plan, but we have not yet linked it to the specific action items the plan recommends.

Lastly, because the program is important to the State but can still be improved and better incorporated into the economic development strategy, we are working to review PTDZ to identify the best path forward for the policy. A lot of the Department's longer-term policy work was delayed with the onset of the pandemic, and that included a full review of the PTDZ program. Now we have the chance to dive deeper into incentive policy. We



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want to be sure our incentive programs are cohesive with the economic development strategy, reflect current research into best practices for development incentives, and are responsive to the national economic landscape as we hopefully approach the end of the pandemic. Engaging with all the right people and organizations to ensure a thorough review of PTZ will take time but will ultimately lead to the best policy outcome.

The Pine Tree Development Zone program is an important tool the State has to support business growth in Maine. We appreciate the continued work of OPEGA and this Committee to analyze and improve the program, and we hope to build on this conversation in the coming months.

Thank you for your time, and I am happy to answer any questions.

Good morning Sen. Libby, Rep. McDonald and Members of the Government Oversight Committee (GOC). My name is Linda Caprara. I represent the Maine State Chamber of Commerce and I am a resident of Winthrop.

We wanted to take this opportunity to provide some comments on the interim report on the State's Pine Tree Zone Development Program (PTDZ). We are pleased to see that the report states that the PTDZ program does in fact align with the goals of Maine's Strategic Plan. Those goals are to grow the average wage by 10% to the benefit of all income levels; increase the value of what Maine sells per worker by 10% and attract 75,000 people to Maine's workforce from within and outside the state.

The PTDZ program is one of Maine's primary economic development programs that has helped to grow Maine's economy and continues to do so. Since its enactment, the PTDZ program has made a significant contribution to the level of investment we have seen here in Maine. It has clearly met its intent to improve economic development in the state.

DECD reported as of in 2019:

- 180 businesses were currently enrolled in the PTDZ program,**
- these companies have over 7,000 employees that were PTDZ eligible, with a combined well over \$380 million in payroll**
- over \$500 million in qualified investment is associated with the PTDZ Program**

The Legislature has made some changes to the program over the past few years. Changes have included clarifying job creation as the main

goal of the program, requiring that companies add at least one new job before qualifying for benefits. We feel that this was appropriate. In addition, a “but for” clause was added to provide some assurance that the program in fact does influence companies decision-making process when they decide to invest in a particular state or location. One could argue that it does or doesn’t have anything to do with the investment but it *is* an additional step the business has to adhere to that helps to validate that argument.

Over the years, the Maine Legislature has clearly recognized the importance of the PTDZ program. Originally, the PTDZ program was directed at economically distressed areas of the state. But, in 2009, during the recession, the Legislature voted and the House in particular overwhelmingly voted 142-0 (9 absent) to make available the program to companies across the state. In 2018, the Legislature voted to extend the program until December of 2021.

Many people believe that Maine has significant investment dollars and programs available to attract jobs and opportunities to Maine. In fact, Maine has few incentives on the books to attract investment. Keeping Maine businesses competitive should be number one priority. We feel the PTDZ is one incentive that has worked and the state needs to ensure it’s future on a going forward basis. We believe that the PTDZ program will ultimately help the state realize its goal of growing Maines economy. This will be crucial over the next few years, given the economic crisis the COVID-19 Pandemic has brought to our economy. I would be happy to answer any questions.



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February 25, 2021

Senator Nate Libby, Senate Chair
Representative Genevieve McDonald, House Chair
Maine Government Oversight Committee
82 State House Station
Augusta, ME 04333-0082

SUBJECT: Neutral Commentary on OPEGA's Limited Scope Review of Pine Tree Development Zones

Dear Chairperson Libby and Chairperson McDonald,

My name is Alison Wakefield and I am a researcher with The Pew Charitable Trusts' State Fiscal Health project. Pew has supported states' efforts to evaluate their tax incentives since 2012. We provide technical assistance to states across the country with designing evaluation processes and, once those systems are in place, helping to ensure evaluations draw clear, well-supported conclusions. Finally, we help policymakers understand and use these findings to inform policy decisions. Pew has worked with legislators in Maine and the Office of Program Evaluation and Government Accountability (OPEGA) for several years, including assistance in establishing the state's tax expenditure review process and producing high-quality evaluations.

Since establishing its evaluation process in 2015, Maine has become a leader in incentive evaluations. OPEGA has demonstrated its ability to regularly produce high-quality evaluations that are used to improve the design of the state's programs. Committee hearings on the evaluations generate in-depth policy discussions. The process and its outcomes serve as an example for other states to follow.

While Pew remains neutral on the Pine Tree Development Zones (PTDZ) program and the Limited Scope Review (LSR), we are submitting commentary describing how OPEGA's analysis aligns with our research. As detailed in the LSR, Maine has already acted upon several key recommendations from OPEGA's 2017 PTDZ evaluation. This supplemental report provides policymakers with an opportunity to build on this successful track record by using OPEGA's thoughtful analysis to maximize the benefits of the newly defined program goals and further enhance impact and oversight by revisiting findings from the first evaluation.

Maximizing the Benefits of Clear Program Goals

Our research has found that clearly defined goals are crucial to evaluate impact, effectively design programs, and determine alignment with economic development objectives. Lawmakers made a significant decision during the 128th Legislature when they revised PTDZ's goals. Not only will this revision facilitate future quantitative analysis, but also it will enable OPEGA to assess the program qualitatively and provide insights into whether the incentive is designed to achieve its goal of creating and retaining quality jobs in Maine.

OPEGA's analysis employed several best practices for incentive evaluation. For instance, they used a logic chain to describe how policymakers expect the program to work, identify intermediate goals, and assess whether the incentive is designed to meet its goals. Through this exercise, OPEGA identified several design elements that support the program's goals, such as the requirement that a business hire at least one qualifying employee before receiving benefits and definitions of quality standards for qualifying jobs.



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OPEGA also identified areas for the legislature to consider further, including whether the program targets the right barriers to creating quality jobs and how proactive program management could be used to increase effectiveness.

Pew's research also recommends that a tax incentive's goal be placed in the broader context of the state's economic development objectives. OPEGA's report includes a thoughtful analysis of this issue. They first review PTDZ's alignment with the Statewide Strategic Plan for economic development. They then provide suggestions for how the plan could be used for oversight purposes and conclude with a discussion of how the current economic climate may impact PTDZ and the state's economic development strategy. OPEGA helpfully offers the following, "Legislators could use the Statewide Strategic Plan to examine tools and build on, or improve, programs at the State level and in their communities." This statement encapsulates how thoughtful planning and evaluation can be married together for effective policymaking.

Revisiting Findings from the 2017 Evaluation

Policymakers have made demonstrable improvements to the design and administration of PTDZ. But additional opportunities for reform remain. Below are select findings from OPEGA's first evaluation that could be explored further:

- OPEGA identified various gaps in data collection that limited their ability to produce rigorous economic and fiscal impact estimates. The state has expanded data collection from program beneficiaries and the Dept. of Economic and Community Development now reports additional data to the legislature. Lawmakers may wish to consult with OPEGA about whether these changes are sufficient for rigorous quantitative analysis or whether gaps remain.
- PTDZ is a collection of benefits that are administered by several different state agencies. OPEGA found that many benefits "do not all target the same direct beneficiaries, and in some cases have very little in common." They also found that no agency is placed to comprehensively oversee the program. Lawmakers may wish to explore this finding further to better understand how the program works "in the real world," as suggested in OPEGA's LSR, both for businesses and for administering agencies.
- OPEGA also found that some terms and benefits were not adequately defined in statute. Pew has found that details matter with incentives. Clear definitions can often mean the difference between effective and ineffective programs.

Thank you for the opportunity to comment on OPEGA's LSR of the Pine Tree Development Zones program. We are happy to serve as a resource as you consider the future of this program over the coming year.

Sincerely,

Alison Wakefield
Manager, The Pew Charitable Trusts