Maine Center for Economic Policy

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Testimony in Opposition to LD 1475, An Act to Promote Biomanufacturing and Biotechnology Development by Establishing a Tax Credit

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Senator Grohoski, Representative Perry, and members of the Taxation Committee, my name is Maura Pillsbury and I am an analyst at Maine Center for Economic Policy. I am here today to testify in opposition to LD 1475.

This bill would provide up $18 million in tax credits for businesses making qualifying investments of between $5 million - $15 million in building a biotechnology incubator or biomanufacturing facility. The tax credit is six percent of the qualified investment, limited to $900,000 a year for five years, with a total limit of $4.5 million per recipient.

I'd like to first convey that we recognize the importance of attracting high growth sectors to Maine and we appreciate the effort to tackle important issues that this bill represents. We agree that supporting and expanding high growth sectors in Maine is an important goal, which can lead to job growth and boost Maine's economy. However, we do not believe this proposal is an optimal approach for supporting this growth, and there are other approaches that would be a better use of public dollars.

First, the bill as written does not actually require attraction of new biomanufacturing or biotechnology in order for a business to receive the credit. It requires investment in facilities but does not require tenants or occupancy. The bill does limit the credit if over 25 percent of the facility is used for a purpose aside from biotechnology or biomanufacturing, but does not address what will happen if the facility is built or renovated and remains vacant.

Second, this credit is refundable, which means the state could be writing substantial checks to businesses that have no Maine tax liability and are not even primarily located within the state of Maine. This means any funds received through this tax credit are not guaranteed to be reinvested back in our state. We applaud the inclusion of a clawback provision, which would recoup funds if a recipient does not make the promised investment. If the Committee chooses to move this bill forward, we urge the Committee to also include a sunset date, which would provide for more proactive reconsideration of whether the credit should continue in the future.

Third, we believe other types of investments in building Maine's workforce are more important than providing tax cuts to already wealthy businesses. These investments, such as child care, paid family leave, and providing education and training, would help support Mainers' pursuit of jobs in these sectors. Research has shown that incubators may not deliver on their promises,[i]

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and their success largely depends on the ability of the incubator to match the services it provides to the needs of participants.[ii] Incubators typically provide support to young firms and entrepreneurs. We believe supporting entrepreneurs themselves would be a more effective and equitable approach.

Finally, the state of Maine should carefully consider investments we make with public money. This program has a high price tag but gives the state limited control. Unlike for example, a grant program, a tax credit such as this gives millions of dollars to businesses for qualifying projects with limited reporting requirements, and no mechanism to end funding if the state decides it is a dubious investment of taxpayer money. The bill as written includes no requirements for quality job creation or other benchmarks that would gauge the success of this investment of Mainers' tax dollars. When the state uses public money to subsidize businesses, we should have a higher bar for the types of projects we fund than giving guaranteed money away without any guarantee of outcomes. With no guardrails on this tax credit, recipients will receive the credit regardless of their success. OPEGA has recently undertaken evaluations of four programs very similar in structure to this one. Year after year, we see reports on these types of credits in our state fail to show any measurable impact on improving outcomes for investments and the workforce. Shouldn't we make investments with public money that have a better guarantee of return?

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

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[i] The Kauffman Foundation, "Are Incubators Beneficial to Emerging Businesses?" 15 March 2015 https://www.kauffman.org/currents/are-incubators-beneficial-to-emerging-businesses/

[ii] van Weele, Marijn Frank J. van Rijnsoever, and Frans Nauta "You can't always get what you want: How entrepreneur's perceived resource needs affect the incubator's assertiveness." *Technovation,* Volume 59, 2017, Pages 18-33.