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THE MAINE SENATE
131st Legislature

3 State House Station
Augusta, Maine 04333

LD 1974, "An Act to Reauthorize Maine's New Markets Tax Credit Program"

January 9, 2024

Joint Standing Committee on Taxation

Senator Grohoski, Representative Perry and Distinguished Members of the Joint Standing Committee on Taxation:

I am Senator Trey Stewart; and I represent District 2, which includes several municipalities in Aroostook and Penobscot Counties. I am here to present LD 1974, "*An Act to Reauthorize Maine's New Markets Tax Credit Program*," otherwise known as NMTC.

I appreciate the opportunity to offer this legislation today, which is a renewal of the Maine New Markets Capital Investment Credit Program. The program was originally enacted in 2011 and ceased in 2018. I am now seeking to revive the capital investment program – reauthorizing additional investment and extending the sunset date to 2031. This state program replicates the larger Federal New Market Tax Credit.

The Federal New Markets Tax Credit was established in 2000. Congress authorizes the amount of credit, which the Treasury then allocates to qualified applicants. The original allocation authority eligible for the NMTC program was $15 billion from 2001 to 2007. Congress has subsequently increased the total allocation authority to $91 billion and extended the program through 2025.

The NMTC has supported over 5,300 projects in all 50 states, the District of Columbia and Puerto Rico through program year 2016. Approximately 43 percent of the United State's roughly 73,000 census tracts qualify for NMTC investments; by 2016, approximately 3,400 had received NMTC projects. In recent years, all applicants have pledged to place at least 75 percent of their NMTC projects in "severely distressed" census tracts.

To provide a bit of the program's history in Maine, the New Markets Capital Investment Program creates a $250 million fund, providing a 39% tax credit ($97.5 million), enabling the State to partner with federally licensed Community Development Entities to deploy capital into our communities and businesses that need it the most. The amendments authorize a second round of funding to begin on or after January 1, 2024, with no fiscal impact on the State until July 1, 2026.

Under the first round of funding, 17 businesses have received investments totaling $248 million in a premature OPEGA report released on the program in 2017 (two years before the sunset date), which analyzes the ten businesses in economically distressed communities that had received a total investment of $182.9 million at that time.

The State recognized that the program created and retained over 1,800 direct and indirect jobs. Additionally, when looking at gross state product, the State received a 22x ROI; and the program at that time had generated $15.8 million in revenue for the general fund.

Examples of the businesses that have received investment include:

- JSI Store Fixtures in Milo received a $25 million investment. The investment provided the company with working capital, allowing it to refinance existing high-interest debt and maintain its Milo location while expanding to a second location in Bangor.
- St. Croix Tissue in Baileyville received a $40 million investment. Their project involved the installation of two new tissue production machines, in combination with the Woodland pulp mill, diversifying the product mix of the combined facility. St. Croix dedicated $500,000 to a workforce development program.
- The Press Hotel in Portland received a $10 million investment that provided a renovation to a vacant, historic building.
- The Farnsworth Museum in Rockland received a $10 million investment. This project involved building capital improvements and updating heating and fire suppression systems. In 2016, the first year after the completion of the improvements, management calculated a 25% increase in attendance.
- Quoddy Shoe in Lewiston received a $600,000 investment. The investment allowed the company to pivot from wholesale distribution to a more profitable, direct, made-to-order sales model, all products made in the State.

In addition to the program's success, it has had its fair share of scrutiny, all resolved by the legislature and through FAME by regulation. The Maine NMTC Program became the focus of public concern in April 2015 when media reported that the State was committed to paying $16 million in tax credits for investments at Great Northern Paper, which shut down 14 months after the investments were made. News articles described how the transactions for that project, and other projects, involved immediately returning portions of the invested funds to institutions that lent money in what is referred to as "one-day loans." Essentially, this means the State is paying tax credits on investments that the businesses did not get to keep; and questions were raised about the legitimacy and motivations for those transactions.

To address the concerns, there have been five significant changes to the Capital Investment Program since its inception to increase the viability and success of the program:

- Statutory change was made in August 2012 to increase the per-business investment limit from $10 million to $40 million for certain types of businesses.
- In May of 2013 a new law applied investment limits on a "per project" rather than "per business" basis.

- Rules were amended in August of 2013 to remove the requirement that "substantially all" invested funds be spent within the low-income community where the business is located.
- In October of 2013 statute expanded the definition of qualifying businesses to include those in municipalities with unemployment rates exceeding the State average.
- In September of 2015 rules were adjusted to prevent "one-day loans."

To wrap up my testimony, I would like to leave you with this: In a state with limited Capital Investment Programs, it would be a shame to let a program with a documented history of success fall to the wayside. The Maine New Markets Capital Investment Program is a confirmed winner with its outstanding job creation, retention, and tremendous return to the State. This program is a proven lifeline for underserved communities and businesses.

Thank you very much for your time and attention.