Maine Center for Economic Policy

Mailing: PO Box 437
Street: 1 Weston Court, Suite 103
Augusta, ME 04332
Tel: 207.622.7381
www.mecep.org

Testimony Against LD 730, An Act To Protect Economic Competitiveness in Maine by
Extending the End Date for Pine Tree Development Zone Benefits
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Senator Curry, Representative Roberts, and Members of the Committee on Innovation, Development, Economic Advancement and Business. My name is Sarah Austin. I'm a tax and budget analyst at the Maine Center for Economic Policy. I'm here to testify against LD 730, An Act To Protect Economic Competitiveness in Maine by Extending the End Date for Pine Tree Development Zone Benefits.

The Pine Tree Development Zone is a tax expenditure program enacted in 2003 with the intent of fostering quality job creation in economically distressed areas of the state, with a focus on the manufacturing and research and development industries. Eligible new or expanding businesses located in PTDZs could apply for a slate of tax breaks and other benefits, under the presumption that such tax breaks would spur job creation that would not have otherwise occurred.

Since then, the program's geographic scope has been expanded dramatically, with the entire state declared a PTDZ under a two-tier system. Tier 1 Areas cover relatively more distressed regions, where employers may receive tax benefits for up to 10 years. The remainder of the state is categorized as Tier 2, where benefits are extended for up to five years.

The window for application into the program for businesses in Tier 2 Areas closed in 2013, but those in Tier 1 Areas — that is, all of the state except a portion of York and Cumberland Counties — are still eligible to apply to the program until the end of 2021. LD 730 would create a three-year extension for new applicants to be accepted into the program for Tier 1 areas until 2024.

A 2017 review by the Legislature's nonpartisan watchdog organization, OPEGA, found that the program's design did not support its stated goal of creating quality jobs in distressed areas.[i] Later that year, instead of reform the program to better meet this goal, the legislature removed the intended goal of prioritizing job growth in distressed areas of the state.[ii]

The program continues to fail to hold up to administrative scrutiny to demonstrate positive effects on job creation, its new, narrower goal. Applicants must submit a 'but for' letter, which now must be notarized, to profess that the qualifying jobs they are creating would not have happened if the incentives of the PTDZ weren't available to them, a claim that is nearly impossible to prove.

With the exception of employment tax increment financing benefits, the program fails to scale benefits to the number of jobs that are created. So, an employer that adds 1 new job will receive the same level of benefit as an employer that creates 20 new jobs.

The PTDZ add-on to the state's employment tax increment financing program removes all existing incentive to prioritize development in more distressed areas of the state. The normal ETIF program is better suited to deliver benefits proportionate to need — offering a 75 percent reimbursement rate on new employee tax withholdings to employers in the most distressed areas, and only a 30 percent rate to employers in areas with more favorable employment rates. However, the PTDZ expansion of ETIFs erase this structure by offering an 80 percent flat rate to all qualifying employers regardless of local employment needs.

Tax incentives are poor tools for job creation. Tax expenditures are rarely a deciding factor in hiring or location decisions. That's because considerations like workforce skills, infrastructure, and demand for products and services weigh more heavily on business decisions than the relatively small amount that businesses allocate to state and local taxes. Between 1995 and 2013, 87 percent of private sector job creation came from businesses already located within a state; 11 percent were from businesses establishing new branches within another state; and only 3 percent came from businesses moving their operations to another state.[iii]

Maine is better off focusing on job creation strategies that do work. Investments in public schools and universities, high quality infrastructure, and family and worker friendly communities with important services like quality childcare and care for aging loved ones.

For these reasons, we urge this committee to vote ought not to pass on LD 730.

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[i] https://legislature.maine.gov/doc/1809
[ii] Page 5. http://legislature.maine.gov/doc/4702
[iii] Center on Budget and Policy Priorities.2016 State Job Creation Strategies often off-Basehttps://www.cbpp.org/research/statebudget-andtax/state~jobecreation~strategies~often~offAbase _ftn 16