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January 8, 2020

Danielle Fox, Director  
OPEGA  
SHS 82  
Augusta ME 04333-0082

Re: Maine Seed Capital Tax Credit Program Proposed Evaluation Parameters

Dear Ms. Fox,

I understand that OPEGA is proposing a series of evaluation parameters for your upcoming review of the Maine Seed Capital Tax Credit Program, a program I have been involved with in various ways since its inception.

I have reviewed the OPEGA recommendations and FAME's suggested edits, and I am in support of both. I would like to suggest the addition of an additional parameter under Performance Measures: "The amount of investment made with the Seed Capital Tax Credit that supports grants and investments by the Maine Technology Institute and/or the Small Enterprise Growth Fund." Both the Maine Technology Institute and Small Enterprise Growth Fund require private funding to at least match the amount of funding provided by those State entities, and in many cases that private funding depends on the Maine Seed Capital Tax Credit Program to attract that private capital.

Thanks for your consideration of these comments. Please let me know if you have any questions.

Sincerely,

/s/

Timothy P. Agnew

**Testimony by Christopher Roney, Esq.**

**General Counsel**

***Regarding Proposed Evaluation Parameters for OPEGA Evaluation of the  
Maine Seed Capital Tax Credit Program***

**Government Oversight Committee**

**January 10, 2020**

Senator Chenette, Representative Mastraccio, and Distinguished Members of the Government Oversight Committee:

My name is Chris Roney. I am the General Counsel at the Finance Authority of Maine (FAME). I live in Freeport and am here to testify in partial support of and partial opposition to the proposed evaluation parameters for the Office of Program Evaluation and Government Accountability (OPEGA) evaluation of the Maine Seed Capital Tax Credit Program.

FAME helped to develop the concept and has been tasked by statute since the program's creation in 1987 with administering this tax credit in partnership with Maine Revenue Services. We have taken our role as co-administrator of the program very seriously, and have sought to administer our portion of the program with fairness, transparency, and accountability.

We have over the years sought and obtained improvements to this credit and, while it remains an imperfect program worthy of further refinements, we continue to believe that it is overall a successful and worthwhile program with great benefits to the state's economic growth. Indeed, the Governor's recently unveiled state economic development plan, the Maine Economic Development Strategy 2020-2029, has as one of its key recommendations increasing the annual tax credit cap of the Maine Seed Capital Tax Credit Program from \$5 million to \$15 million, believing this would promote innovation in our economy and likely help about forty start-up companies and create 2,300 new jobs.

On past projects, FAME has enjoyed working closely with OPEGA staff and has appreciated their professionalism and thoroughness in approaching complex topics. We look forward to doing so again on this project.

We largely agree with the first two pages of the proposed parameters for evaluation; it is the last two pages (the worksheet) with which we have some disagreement and proposed edits, which I have handed out with my testimony. With respect to the first two pages with which we largely agree, I will note that on the bottom of page two, we wonder whether it is wise or correct to rely so heavily on a pending bill (LD 1200, which we supported), in setting forth the purpose and beneficiaries of the program. This bill has been carried over on the Appropriations Table

having received a unanimous Ought to Pass As Amended vote in Taxation Committee. But it may or may not pass and be funded this session (that will be up to you), and we think evaluation of the program, especially the program's purposes and beneficiaries, should rely on the actual existing statute. LD 1200, though instructive, is not yet a "clear statement of legislative intent" in our view and, thus, should not be the sole basis for evaluation of the program.

Our handout shows in redline form the proposed changes we suggest you make to the worksheet on pages three and four. Most of our suggested edits are based on the existing statute; the others are recommendations based on intimate experience and knowledge of the program gained over the thirty-two years FAME has administered it. Above all, we would urge an evaluation of the credit not just from a lost revenue perspective, but, rather, from a more dynamic fiscal impact evaluation. That is, the net gains/losses, direct and indirect, to the local businesses and economies stimulated by this program should be considered, for they likely would not have occurred without this incentive.

I am happy to respond to any of our suggested edits through your questions.

Thank you for your consideration and we look forward to working with you and OPEGA during this process.



Maine Seed Capital Tax Credit Program – Proposed Evaluation Parameters	
OPEGA recommendation	GOC discussion/decision
<p><b>Purpose</b>                      Source: LD 1200, as amended by Committee Amendment A (Section 10)  <a href="#">10 MRSA §1100-T(1)</a></p>	
<p>(1) To increase job opportunities for residents of the State in <a href="#">certain types of businesses, including those</a> that export products or services from the State;</p> <p>(2) To increase private investment in small new and existing businesses <a href="#">that need additional capital to develop or grow</a>, especially those that experience significant difficulty in the absence of investment incentives in obtaining equity financing to carry the businesses from start-up through initial development <a href="#">phases</a>; and</p> <p>(3) To increase municipal tax bases.</p> <p><a href="#">(4) Stimulate additional economic activity through spending by businesses assisted with the credit.</a></p>	
<p><b>Beneficiaries</b>                      Source: Derived from the purpose</p>	
<p>(1) Small new and existing businesses, especially those that experience significant difficulty in the absence of investment incentives in obtaining equity financing to carry the businesses from start-up through initial development <a href="#">phases</a>; and</p> <p>(2) Job-seekers in the State.</p> <p><a href="#">(3) Municipalities and taxpayers that benefit from increasing tax bases and additional economic activity.</a></p>	
<p><b>Evaluation objectives</b>                      Source: 3 MRSA §999(1)(A)(3)                      Each objective will be addressed to the degree possible based on its relevance, the level of resources required and the availability of necessary data.</p>	
<p>(a) The fiscal impact of the tax expenditure, including past and estimated future impacts;</p>	

- (b) The extent to which the design of the tax expenditure is effective in accomplishing the tax expenditure's purposes, intent or goals and consistent with best practices;
- (c) The extent to which the tax expenditure is achieving its purposes, intent or goals, taking into consideration the economic context, market conditions and indirect benefits;
- (d) The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries;
- (e) The extent to which it is likely that the desired behavior might have occurred without the tax expenditure, taking into consideration similar tax expenditures offered by other states;
- (f) The extent to which the State's administration of the tax expenditure, including enforcement efforts, is efficient and effective;
- (g) The extent to which there are other state or federal tax expenditures, direct expenditures or other programs that have similar purposes, intent or goals as the tax expenditure, and the extent to which such similar initiatives are coordinated, complementary or duplicative;
- (h) The extent to which the tax expenditure is a cost-effective use of resources compared to other options for using the same resources or addressing the same purposes, intent or goals; and
- (i) Identify aAny opportunities to improve the effectiveness of the tax expenditure in meeting its purposes, intent or goal.

**Performance measures**

Source: LD 1200, as amended by Committee Amendment A (Section 10)

- (1) The number and geographic distribution of full-time employees, both direct and indirect (using appropriate multipliers), added or retained during a period being reviewed who would not have been added or retained in the absence of the credit;
- (2) The amount of qualified investment in eligible businesses during the period being reviewed;
- (3) The change in the number of businesses created or retained in the State as a result of the credit;



(4) Measures of fiscal impact and overall economic impact to the State;  
and

(5) The amount of the tax revenue loss for each year being reviewed  
divided by the number of jobs created or retained, both direct and  
indirect (using appropriate multipliers):-

(6) The amount of the tax revenue loss for each year being reviewed  
compared to the value of positive economic impact, direct and indirect,  
including additional property, payroll and sales taxes generated, as well  
as other economic benefits; and:

(7) The amount of total investments made in eligible businesses  
leveraged by the tax credit eligible investments.