SEN. CHRISTOPHER K. JOHNSON, SENATE CHAIR
REP. CHUCK KRUGER, HOUSE CHAIR

MEMBERS:
SEN. ROGER J. KATZ
SEN. DAVID C. BURNS
SEN. MARGARET M. CRAVEN
SEN. TROY D. JACKSON
SEN. EDWARD M. YOUNGBLOOD
REP. PAUL T. DAVIS, SR.
REP. ANDREA M. BOLAND
REP. H. DAVID COTTA
REP. LANCE E. HARVELL
REP. MATTHEW J. PETERSON

MAINE STATE LEGISLATURE
GOVERNMENT OVERSIGHT COMMITTEE

MEETING SUMMARY

August 20, 2014
Approved September 24, 2014

CALL TO ORDER

The Chair, Sen. Johnson, called the Government Oversight Committee to order at 9:05 a.m. in Room 220 Cross Office Building.

ATTENDANCE

Senators:	Sen. Johnson, Sen. Katz, Sen. Burns, Sen. Craven, Sen. Jackson, and Sen. Youngblood
Representatives:	Rep. Kruger, and Rep. Cotta Joining the meeting in progress: Rep. Davis and Rep. Harvell Absent: Rep. Boland and Rep. Peterson
Legislative Officers and Staff:	Beth Ashcroft, Director of OPEGA Wendy Cherubini, Senior Analyst, OPEGA Scott Farwell, Analyst, OPEGA Lucia Nixon, Analyst, OPEGA Maura Pillsbury, Analyst, OPEGA Etta Connors, Adm. Secretary, OPEGA
University of Maine System Staff Providing Information to the Committee:	James Page, Chancellor, University of Maine System Carol Kim, Vice President for Research, University of Maine Jake Ward, Vice President for Innovation and Economic Development, University of Maine Allyson Handley, President, University of Maine at Augusta

INTRODUCTION OF GOVERNMENT OVERSIGHT COMMITTEE MEMBERS

The members of the Government Oversight Committee introduced themselves for the benefit of the listening audience.

SUMMARY OF THE JUNE 26, 2014 GOC MEETING

Motion: That the Government Oversight Committee approves the Summary of the June 26, 2014 GOC meeting as written. (Motion by Chair Kruger, second by Sen. Jackson, passed unanimous vote 8-0).

NEW BUSINESS

- **Report on Maine Economic Improvement Fund**

  - **Public Comment Period**

Director Ashcroft reported that OPEGA received written testimony from Brian Beal, Professor of Marine Ecology, University of Maine at Machias, who could not be at today's meeting. (A copy of Professor Beal's testimony is attached to the Meeting Summary.)

Chair Johnson asked who at the meeting wanted to testify regarding OPEGA's Maine Economic Improvement Fund Report. Those testifying or providing information to the GOC follows.

James Page, Chancellor of the University of Maine System. (A copy of Chancellor Page's testimony is attached to the Meeting Summary).

Rep. Cotta appreciated the Chancellor's testimony but said it appears to be an after the fact reaction to any criticisms of the Administration of MEIF. He noted MEIF is currently administered by the Board of Trustees and asked if the Chancellor saw any benefit to a third party, or some other entity, taking over managing the MEIF. Chancellor Page said that in terms of management they looked in two categories. One is the actual administration of the Funds and second is the assessment of the proposals being brought in to compete. There is a robust and objective process for assessing the proposals and happens at two levels. For the major proposals at the University of Maine and the University of Southern Maine the campus competitive activity is determined internal to the campuses and for the Small Campus Initiative (SCI) they engage the American Academy of Arts and Science, an outside organization. Experts in the field do assess the particulars of the requests. The Chancellor thinks that process has work very well. He said many of the projects and proposals are part of much longer and larger research initiatives and are not individual stand-alone projects. A continuity of where the programs fit into larger research initiatives over a many year period are best handled close to the critical mass of those research programs on the main campuses.

Rep. Cotta said he understands that if the MEIF is involved in a project that may be longer than a year it is looked at in that light. He is concerned with the 2006 Report, which precedes Chancellor Page's involvement in the University System, where it was agreed that the University of Maine Orono would retain 80% of the funds from MEIF and University of Southern Maine would get 20%. That assumes that they and they alone, would be postured to carry on long term research in certain areas and that flies in the face of a smaller campus. Rep. Cotta said two years ago the University of Maine System, then the University of Maine Orono, had demonstrated a program to build out, and the build out was used in the sense that they would develop a facility to administer research in the six targeted areas for them and them alone. He said that the SCI legislation was an attempt by the Legislature to say you cannot retain 100% of the funds and is not an on campus facility. The SCI was to have the University System look at the small campuses and award them a certain percentage of the MEIF.

Chancellor Page said Rep. Cotta's point was well made. The University has talent, needs and capacities on all of the small campuses, but what they don't have is the ability to maintain a research support infrastructure and he sees it as a partial responsibility of the infrastructure at the University of Maine at Orono to support those. He gave the example of the recent $20 million Experimental Program to

Stimulate Competitive Research (EPSCoR) grant received and to be distributed to many institutions throughout Maine. The approximate cost for preparing that proposal, with no guarantee that the University would be successful in receiving the grant, was in the $100,000 plus range. It is not realistic for the small campuses to maintain an infrastructure that would put those kinds of proposals together. The Chancellor said they do look to Orono to be the flagship campus which has responsibility in its charter as a land grant to maintain that research profile to outreach, support, and be collaborative and draw in those abilities and capacities from the other campuses. The Trustees and he have a committee that looks to the flagship campus to maintain the strategic infrastructure to compete for research opportunities to benefit Maine, that they do involve the other campuses.

Sen. Craven asked if Chancellor Page could give an example for his statement that all the campuses worked together. The Chancellor said for the EPSCoR award the University of Maine was the lead institution receiving $20 million from the federal government and asked Ms. Kim to provide the actual distribution and partnerships involved in the grant. Ms. Kim said the partners included in the EPSCoR grant is the University of Maine as the lead institute, University of Southern Maine, University of New England, St. Joseph's College, Southern Maine Community College, and UMaine Machias.

Ms. Kim noted that the University was just finishing up on the grant awarded 5 ½ years ago which also included UMaine Machias, Presque Isle, and UMA. She said they have included a number of the campuses and it has been a very successful collaboration. Based on the interaction and collaboration the University had with the first EPSCoR is what set them up to be successful for the newly awarded ESPCoR.

Sen. Craven asked how the University decided a project was worth investing in. Ms. Kim said depending on the theme of the proposal. For the new EPSCoR grant a statewide group of scientists came together for ideas on a large project that would involve multiple institutions and would address a particularly large scientific question. After the statewide meeting, which was more than a year before the grant was due, Maine EPSCoR solicits pre-proposals from the different groups. There is a preliminary determination of eligibility based on the RFP and what the National Science Foundation (NSF) is looking for in reviewing the proposals is to make sure they are addressing a NSF objective. The pre-proposals are vetted through the American Academy of Arts and Science to review and rank them. Finalists are selected to present an oral presentation to MIEAB, which is a State organization. The MIEAB Board is the governing group and from their recommendations a finalist is chosen.

Sen. Katz asked what goal of the national proposal of the EPSCoR grant is being fulfilled and what work will be done on the various campuses. Ms. Kim said the objective is to study the working waterfront and looking at it from a culture aspect, as well as the science behind decision making for policies and decisions made affecting the waterfront and the coastal communities. There is a socioeconomic component and also the science behind decision making.

Sen. Katz said legislators represent different parts of the State and have an interest in seeing their local universities being part of the research and development and asked, from a pure delivery of product and best use of dollars perspective, what is the best structure for the State to be using in terms of the research and development dollars. From a policy perspective, is the Legislature doing the right thing from the University's view when it says some of the money has to be used on individual campuses. Chancellor Page said regarding MEIF, there are competing tensions in Sen. Katz's question which is why he thinks the current system is working generally very well. Every region of the State has the resources embedded in the campuses in those various regions and people want to maintain those structures and to be responsive to the needs of the communities they serve. At the same time, research is an expensive endeavor, and the System is always trying to avoid duplication of support services. Not having two laboratories when statewide one would do, not having two back offices for grant preparation where statewide one would do, has competing tensions. You have to recognize that there are matters of organizational course and if you start defusing everything you lose the ability to plan long term and maintain an effective use of resources. The current model which focuses the majority of any MEIF on the land grant campus and to some degree Southern Maine is a compromise in recognizing the above pieces, and at the same time, the SCI does call out and insists upon a recognition and awareness that model could go too far. He said it was not reasonable for him to charge one of the smaller campuses to undertake a research mission comparable to the flagship.

Chancellor Page said he is working with the University of Maine President and Mr. Ward to take on a more statewide mission so the University System has a coordinated long term strategy rather than the campuses working in silos. He said the University has a model that is working, but they need to have a more integrated strategic planning process that involves their researchers from all the campuses if they are going to be effective in focusing the resources and moving the economy and research down the road.

Sen. Katz said one of the findings of OPEGA's Report was that there was a Task Force set up that was supposed to report back to the Legislature by January, 2013, but that did not happen. He does not know why the Legislature as an institution did not track to know that the Report was not in, but asked if the Chancellor knew how it happened that the Report was not submitted. Chancellor Page said there were a lot of transitions, and everyone lost track of what everyone else was doing, but that will not happen again.

Sen. Burns said he was very encouraged to see included in item 3 of Chancellor Page's testimony that the University is talking about collaboration with the SCI. He said 100% of MEIF was going to two campuses and that was unrealistic, inappropriate and not consistent with the statute and asked why it took so long and an OPEGA review in order for that type of language to come forward and for people to realize that there are opportunities with SCI to do more in depth research. Chancellor Page said in the first instance, operationally for decades the University of Maine System worked as a federation and that meant the campuses were encouraged to work, with good intentions, as silos. Their reward systems, budgets and future planning were based on what happened within a mile of that campus in terms of campus activity. Whatever the benefits or the detriments of that model were, the Chancellor and Trustees at the time believed that was a model that can work and it was the mindset that governed the administration for a very long period of time. It was called out on many occasions by the Trustees, legislative groups and community members as not being the most efficient. That was the working model until at least several years ago. Chancellor Page said he has been very explicit in saying that the University System has to leverage their resources, both human and capital, across all of their institutions if they are going to be successful. The campuses still have different missions, they are not looking for harmonization to make everybody the same, but are looking for collaboration and coordination at every level across the campuses and that needs to be the working model for how the system works.

In response to Sen. Burns' question of why did it take an OPEGA Report to have changes made, Chancellor Page said that he thinks many of the things in the Report are things the University has been discussing for a couple of years. In their internal workings they are trying to make both organizational and cultural changes which are deeply embedded and takes some time. He thinks OPEGA has been a good catalyst for drawing some of the items out and bringing them to the place where the University can have a dialogue with legislators. He did not think it would be fair to his colleagues to say that nobody in their organization was thinking of these issues before OPEGA called them out. It moved some of the issues forward in a different and quicker way, it allowed the University a format to talk with the GOC, and is moving the University forward a little faster and more publicly, but there was not much included that the University was not already trying to accomplish.

Sen. Burns followed up on the issue of the Task Force's Report and said it was his understanding that the group had not done any more work on the Report since April, 2013. He received the Task Force's 85 page Report a couple days earlier and is concerned that some things do not seem to be consistent with what he is hearing the Chancellor talking about regarding collaboration. There are issues with that and Sen. Burns asked if the Report was a consensus of the Task Force because it isn't of Dr. Beal. He asked if the Task Force was ready to sign off on the Report, or is it still a work in progress. Chancellor Page said Mr. Ward has more direct engagement with the Task Force so referred to him to answer Sen. Burns' question, but said he would be happy to talk with Sen. Burns about his concerns.

Mr. Ward, Co-chair of the Task Force, has been working on the Report and said the members have not met as a Committee since April 2013, but did at that time have a consensus on recommendations that are included in the Report. The Report has gone out to members of the Task Force for input and he is still waiting for comments from three or four of the members. He does have Dr. Beal's comments and they will be included in the next draft of the Report and hopes to have that finished up in the next week or so. Like any committee it is difficult to say you will get a 100% consensus on the recommendations and so if the Task Force wants another meeting, he would be happy to have the meeting. Sen. Johnson asked that the GOC receive copies of the revised draft of the Report.

Sen. Burns said one area in particular that disturbs him was the emphasis about the inability of SCI being able to carry out some of the research that the grants would dictate. He noted there is an institution on the coast that has been doing applied research since the 80's and has the opportunity of probably being the exemplary leading technology institution on the East Coast, but part of the Task Force's Report appears to fly in the face of that saying everything is going to be kept at the flagship University whether it is appropriate or whether there is a better place for it. He said those types of issues are what concern him. Mr. Ward said some of that language in the Report has been changed based on Dr. Beal's comments to reflect that and that UMaine Machias is an exemplary example of where that activity is happening regarding capacity. He said that is not necessarily shared at the other smaller campuses so the Report language has been changed to specify where Machias does have that capacity and should be expanded on and built upon. Mr. Ward said there are three researchers at UMaine Machias and that is still a fairly small group so it still has to be consistent with its size and capability and said Dr. Beal has done an outstanding job of leveraging his research grant. The biggest thing that has to be looked at is how the University crosses campuses with all that activity. There are probably reasonable ways to make investments at UMaine Machias and Mr. Ward said he was not suggesting that there should not be, but that is what the Report is going to address with the SCI. Sen. Burns said the issue to him is that money can help fix that situation.

Sen. Burns referred to Dr. Beal's testimony and said he would look to the future for some type of effort to make up for lost time at UMaine Machias and thinks it would enhance the entire effort as far as Maine technology is concerned. After University staff had a chance to review Dr. Beal's testimony he would like to have feedback from them.

Chancellor Page noted that Dr. Handley was at the meeting in case the Committee had questions about SCI because her campus in Augusta has been involved in the SCI.

Rep. Cotta said the last meeting of the Task Force was April 2013 and he also had concerns that the Task Force's Report was received in August 2014 and asked if there was resistance to the contents of the Report. Mr. Ward said he personally took on a couple of big tasks that took a tremendous amount of time over the last year and the Report just got thrown on the back burner. Rep. Cotta said given the interests in the administration of the Maine Economic Improvement Fund, he understands where you could be side tracked, but finds it poor time management on somebody's part.

Chair Johnson recognized Dr. Handley.

Dr. Handley said UMA has been a beneficiary of the SCI and said one of the faculty members, Dr. Chris Lage has a PhD from the University of Maine Orono. UMA hired him and his research has continued with his major professors at the Orono campus. He, along with Dr. Peter Milligan, who is a scientist at UMA, have benefited from EPSCoR. She thanked the GOC members, as legislators, for supporting the SCI and also to the Legislature at large for the support of R&D because Dr. Lage and Dr. Milligan benefited from competitive funds in a previous EPSCoR round. Dr. Handley said EPSCoR is a federal program that is designed to increase the research and development of all institutions. The research done by the Doctors is research that everyone is interested in because it involved tagging and gps systems with wild turkey proliferation in the State of Maine. What continues to be an important part of the SCI, as well as the Legislature's support of small campus research, is that it has the capacity to interest undergraduate students in STEM. Several of the students involved in the research of turkeys have gone on to pursue graduate degrees in science, technology, engineering and math. Dr. Handley said she would encourage the Legislature to support the investment of R&D, not only for the flagship University, but for all of the public. It is a competitive world for funding of R&D, additional funds need to be set aside, particularly for the flagship institutions to undertake their R&D agenda. She thanked the Committee for their support and is excited to see the route Chancellor Page is taking in establishing greater collaboration.

Sen. Burns asked why it was appropriate for the University to still have a system where the bulk of the MEIF is given to two major campuses without an RFP process, whereas a small portion of the money is disbursed to the small campuses through SCI and who have to go through a stringent RFP process with an outside entity reviewing the process. Chancellor Page said, as outlined by Dr. Kim earlier, there is a very robust internal process that is the equivalent of an internal system RFP process, to sort out which of the research initiatives are going to receive the full support of the Institution and move forward to the granting agencies and the federal government. The outside review process that the SCI goes through is a scaled down version of something that occurs within the system in its larger piece. The Chancellor said they felt early on, to meet the spirit of the SCI funding, that it should not be Orono, or even his office, but to go directly to the outside review group to assess the research pieces. It is a difference in scale. While you will not see a document that says RFP internal to the University of Maine, it is an equivalent process, and in many respects, a more stringent one.

Dr. Handley agreed and said the other reality is with flagship, and certainly with USM, not only do they have necessary internal structure, but they also have a more consistent history by virtue of their mission with attracting outside funds. The expectation is that those other sources of R&D funding are able to be leveraged if the institution, because of their scale, had a greater degree of autonomy to do their internal processes. The scale of the research is different and as a State, you need to grow that capacity of the larger institutions while benefitting the smaller ones. Dr. Handley said Maine needs to have parallel tracks with the two larger institutions to compete in areas where Maine has the deciding advantage of energy, natural products, etc. It is not meant to be prohibitive, but is moving the smaller institutions to a level of peer review by its nature, is more firmly entrenched when you have more faculty and a mission that is researched focused.

Sen. Burns asked why having a small campus that has a great idea and needs research money where the flagship campus supports, underwrites and collaborates with them, is not as good as having UMO go out and apply on their own? Dr. Handley thinks the collaboration is the guiding view of this Chancellor's time in his role and the University is having a lot more of that. The two larger institutions, in order to maintain their academic credibility, must compete at a much higher level relevant to peer review of other flagship land and sea grant institutions. She said a lot of it is inside baseball and she knows it is frustrating to try to figure out how it works, but it is part of advancing the academic agenda, not only for individual faculty members, but at the institutions who are consistently ranked using a different report card from what is used for UMA, Machias or Farmington.

Sen. Burns asked if the process the major campuses go through for portion of money received for R&D is more stringent than the SCI RFP process, who makes those decisions and are they talking about the MEIF. Chancellor Page said he would give the same example as Dr. Kim gave earlier and it would be very representative of the EPSCoR process that you would see for the large campus and large project initiatives. Sen. Burns said he was not referring to EPSCoR but the money that is received by the University for R&D. The Chancellor said it was the same internally as well. The MEIF money that is received by the Orono campus is first channeled through there and goes through a parallel process of what is happening, how does this work, what are the competitive projects and interest. Sen. Burns asked what entity actually does that bidding. Dr. Kim said once the money arrives at her campus there is, on the Vice President's website for Research, a form for requesting funds whether it is for a faculty member, startup funds, equipment, money for helping getting a project off the ground, and that request is reviewed by her office, as well as the Provost and President. Those requests have to be in line with the MEIF priorities as well as their signature and emerging priorities. The University went through that process last year and identified seven signature programs and seven emerging programs on their campus based on the strengths that they built over many decades. Once they identify that the request does fit, they look at the track record of either the department, or faculty member, on whether they have produced and been productive publishing papers or writing external grants. If they show they have not been productive and successful in obtaining external monies, or not shown a track record, they will not receive the money. Dr. Kim said the process goes through her Office in collaboration with the Provost and President.

Sen. Burns asked if the above described process was in written form. Dr. Kim said in terms of the MEIF priorities, yes. In terms of the signature and emerging priorities, that process had just been finished this past May/June and that should be added to the website as well. Sen. Burns ask Chair Johnson if the GOC could ask the University to provide a copy of their process to members of the Committee. Dr. Kim agreed to provide them.

Rep. Cotta said he has heard the word collaboration several times and the intent that he reads in the enabling legislation was a collaborative effort of both public and private in supporting the goals of the MEIF in those identified sectors. He said it is not all about brick and mortar, sometimes intellectual property is resident on the other campuses. Chancellor Page agreed. Rep. Cotta said Dr. Kim talked about mentoring and grant writing as being part of the matrix, but he has a document that says that the MEIF specific goal is 60% of the overall activity in the MEIF sectors, which implies that MEIF would be used in other than those targeted areas to the level of 40%. Chancellor Page said UMaine System maintains sponsored programs grants and contracts effort growing greater than 3% annually, and recognizing that not all R&D is in the seven sectors, the MEIF specific goal is 60% of the overall goal for activity in the MEIF sectors. He said the intent is to ensure that the 60% is not quota, but is a guideline target that at least 60% is used within those sectors. The goal is an overall increase in R&D activity. That is UMS's strategic outcome – to go from a baseline to an increased amount of money over a five year period, 2013 to 2017. All of the University's R&D does not fit in the seven sectors so the overall goal of increasing R&D is a targeted number, they are targeting that 60% of that goal would be in the MEIF sector. The MEIF money is only used in seven sectors, however they do have activity in other sectors beyond that so having an overall goal of $90 million, they would expect 60% of the $90 million to be in the seven sectors of the increased activity.

Rep. Cotta said the $14.7 million MEIF would be a fenced account and would have to go into those sectors. He said it was also his understanding that at one point, as much as two years ago, 352 people were funded payroll wise out of the MEIF and asked if the people were waiting for work to be assigned or posturing to execute what they already have. Mr. Ward said part of the faculty that are in those seven sectors and part of their salary is paid out of MEIF with the rest of it coming from other solicited grants and contract sources. There are also technicians in some of the labs that are funded specifically from MEIF to support the researchers that are doing projects in the seven sectors.

Chair Johnson referred to the Chancellor's updated response to Recommendation 2 – UMS should ensure metrics reported for MEIF are consistent, complete, and accurate and asked if there was a timeframe in which he expected the accounting system changes and revisions to the MEIF report to be completed? Chancellor Page did not have the specific dates with him, but will get them for the GOC members. Chair Johnson said he thinks that information will be helpful to the GOC to understand how quickly the issue will be moving forward.

Chair Johnson and the other members of the GOC thanked those from the University System for attending the meeting and answering the Committee's questions.

Chair Johnson referred to Director Ashcroft to discuss what the GOC should do in moving forward.

Director Ashcroft said it might be helpful if the Committee discussed what additional information they would like OPEGA to gather, what additional questions they have about what is in OPEGA's MEIF Report, or additional information the Committee wants from the University for purposes of considering whether there is anything the GOC wants to do.

Motion: That the Government Oversight Committee moves to the Committee Work Session on OPEGA's Maine Economic Improvement Fund Report. (Motion by Chair Kruger).

Discussion: Sen. Burns asked if the GOC moved to work session are they locked into that or can they go back if more testimony is needed at a later time because as Director Ashcroft noted, there is more information that is needed. Director Ashcroft said the work session is an opportunity for the Committee to discuss what additional information they want for the purpose of either:

a. Getting the GOC to a point where they feel comfortable voting on OPEGA's Report. Approving the Report only means that the Committee finds the work that OPEGA presented to them to be credible, objective and worth legislative consideration. It does not say anything to the actions that will stem from that.

b. For the GOC to decide, in addition to the actions the agency itself has committed to taking, is there anything the Committee wants to take for further action. In the past such actions have included potentially initiating legislation, sending letters to a policy committee describing the concerns of the GOC or things that you hope they will take up in the next session. The GOC in the past has directed that the agency report back on what actions they have taken at particular intervals.

Director Ashcroft said the question of whether or not the GOC wants to vote on the Report is somewhat separate and does not mean the Committee cannot continue to work on it.

Sen. Burns said he was willing to go into a work session, but was not ready to accept the MEIF Report.

Motion: That the Government Oversight Committee moves to the Committee Work Session on OPEGA's Maine Economic Improvement Fund Report. (Motion by Chair Kruger, second by Sen. Burns, passed unanimous vote 10-0).

- **Committee Work Session**

Director Ashcroft asked if there was anything the GOC had for further questions about the information that OPEGA provided in the Report, or what OPEGA reported to the Committee.

Sen. Burns referred to concerns raised in Dr. Beal's testimony that OPEGA did not talk with anyone at the small campuses regarding MEIF and thinks that should have been part of the review because that was really what brought the matter to the forefront – the concern of equity and the sharing of resources. He thinks it would have been valuable to get input from individuals like Dr. Beal. Sen. Burns' other concern was he would like to see the final consensus on the MEIF Task Force's Report once it has been fully vetted and the criteria for the two different types of disbursement of funding, one for the SCI and one for the internal.

Chair Johnson said he thought that the two things that Sen. Burns was asking for would be reasonable for the GOC to discuss for follow-up actions.

Sen. Katz said, focusing on the fact that the MEIF Task Force's Report was supposed to have been completed and reported back to the Legislature by January 2013, that he appreciated the response of the Chancellor as to why it didn't happen, but he is also concerned about, as a legislative branch of government, why nobody from the Legislature picked up that the Report had not been received. He didn't know what protocols are in place when the Legislature says to someone study this and report back by a particular date, what tracking the Legislature does as an institution to know when the reporting does not happen. If there is nothing in place, that might be something the Committee might want to explore further.

Sen. Craven agreed with Sen. Burns' concern and she would like feedback from some of the smaller campuses that would be willing to attend a GOC meeting to express their side of the issue.

Director Ashcroft said she was trying to parse out what OPEGA was tasked with answering and what they attempted to answer for the GOC in the Report versus what she knows has been the Committee's larger driving concern of some Committee members since OPEGA began the review. She thought they had agreed very early on in the process that whether the distribution of funding among campuses met statutory intent was more of a policy matter and something the statute did not speak to specifically enough for OPEGA to be able to opine on. The whole focus of the review was around whether there was compliance with statute and there were processes in place for the University to comply with statute. To the degree that discussions continue to be what has been happening to the small campuses, whether there is enough money going to them and what the split should be, Director Ashcroft said she feels that is outside the scope of what OPEGA was attempting to answer for the Committee, as the Committee had agreed when OPEGA began the review. That is one reason OPEGA did not talk with the smaller campuses. The process that they had to go through in order to compete for the funds was clearly evident and that was what OPEGA was focusing on describing to the GOC. OPEGA was not attempting, at any point, to assess whether or not the smaller campuses had been getting adequate funds through the allocation process. Director Ashcroft apologized to Dr. Beal and others if there was an impression that OPEGA should have been delving into that piece of it and the reason OPEGA did not talk with them was because they were not focused on that as an objective. She said OPEGA can ask smaller campuses to come speak to the Committee, but if it is a policy matter, she did not know how far the GOC wanted to get into that before deciding whether they would take action.

Chair Johnson said clearly there is an issue that concerns people of whether MEIF is working for their local campus, are people getting what they need for funding, and in times of short and difficult funding that is the concern of many people. He said whether they are administering the MEIF program in compliance within statute is a different question. If you want to change how much money the Legislature is committing to the Fund and how it might be allocated, or determined, he thinks is a policy question to pursue and it would be useful for the GOC to answer that core question. The GOC is expecting from the University the MEIF Task Force's Report and a line of inquiry of how the Legislature fell down on following up on the due date of the Report is appropriate. That was not the scope of the question, but the lack of a Report being filed on a timely manner was one of OPEGA's Report findings. Chair Johnson said informing people who may choose to introduce legislation to take these matters to the next step regarding the policy issues raised could be useful and thinks the GOC should ask what the criteria are that are currently being used, get a copy of the MEIF Task Force Report so everyone knows what the various people at small campuses feel about the process and their observations. He said that would help inform individuals who wish to bring forward a bill to suggest an improvement on the policy side. The GOC's job is to answer the question put before them of are we complying with statute. Weaknesses were found in how the data is being gathered and how the reporting is happening to know whether that is being done correctly and OPEGA made recommendations to correct that. He said all of the concerns being raised are of value, but not necessarily in the GOC's purview.

Director Ashcroft clarified that the Committee would see value to inviting folks from the smaller campuses to come speak to the GOC. She would like some sense of what the Committee members would like to hear from them about. It sounds like the Committee wants to hear from them about their experience with the processes that are in place for them to compete.

Sen. Burns said he disagrees with Director Ashcroft of what the GOC's initial goal was regarding the review. He knows the Committee agreed on a set of criteria that OPEGA was to review, but included in that was the intent and the actual carrying out of the statute of how it was intended to be and how the MEIF money was to be utilized. He said he knows some of it is internal policy and some is clear intent of the Legislature and is not sure that intent was followed. The Committee should receive input from people who felt the same way who are inside the system. Sen. Burns said it is difficult for some people to come forward to say they feel that they were never invited, and as in the Report, very few people even knew about MEIF or SCI. That is not appropriate. He said it took legislation to bring the matters about to have some fairness to the system and he is not sure the GOC has gone far enough. It would be beneficial to hear from some people who have tried to get into the system and/or fairer treatment because the GOC needs to have as much information as possible if they are going to move forward with legislation.

Chair Johnson said he has read Dr. Beal's testimony and voicing the frustration with how things had been historically, but wanted to recognize that the SCI was a change in statute in order to address some of those and hopes if the GOC is bringing people before them, it is to talk about how the current system is fulfilling the requirements of existing statute, or is not doing as well as it should be. The GOC can help to try to bring some of the information to light to assist with answering whether there may be room for additional policy changes.

Rep. Cotta wanted to clarify, because he had heard it several times during the meeting, that the SCI and the $200,000 percentage is not a ceiling, that is a base or guarantee. If you reach the $200,000 you have only met the standard at a minimum.

Rep. Cotta referred to the MEIF Task Force Report and said he has concern, given the date of the release of the Report, that it was not available for OPEGA's review and there may have been something in the Task Force's Report that would have been incorporated in OPEGA's Report, or may have changed some of OPEGA's observations. That is why he had some reluctance to accept OPEGA's Maine Economic Improvement Fund Report. Director Ashcroft said OPEGA would be happy to report that information back to the GOC once OPEGA has had an opportunity to review the Task Force's Report.

Rep. Cotta said his concern accepting OPEGA's MEIF Report is because it may be amended by the Task Force's Report and is premature to accept as a final Report.

Director Ashcroft noted that OPEGA's Maine Economic Improvement Fund Report is the final Report. While OPEGA staffs the Government Oversight Committee and reports to them, OPEGA is set up to be able to be a separate entity that provides to the Committee OPEGA's best results of whatever the GOC tasks OPEGA to review. OPEGA reports presented to the GOC are not considered in any way draft, nor does she expect to be amending them. She said if the GOC has issues about the work OPEGA has done and presented to the Committee, then the Director is happy to discuss those and publicly be accountable, but unless there is something in OPEGA's report that is clearly inaccurate and should be rectified in the public document, OPEGA does not anticipate making changes to their reports. Director Ashcroft said this matter has come up a few times during this session and she wanted to clearly make the point that OPEGA reports released are final reports from OPEGA to the GOC. The GOC can choose to do with it as they wish.

Chair Kruger said OPEGA's MEIF Report lays out some problems and the University of Maine staff has appeared before the GOC to explain that they accept the comments in OPEGA's Report. He said that he would like to accept the Report and thinks there is relief for the concerns of GOC members in the next Legislature for members of the LCRED Committee to address the concerns going forward. Chair Kruger thinks OPEGA staff identified issues and the University System is clearly committed to addressing the issues raised in OPEGA's Report and he was not certain what else the GOC could currently do, but there are clear actions the next Legislature can take.

Motion: That the Government Oversight Committee accept OPEGA's Maine Economic Improvement Fund Report. (Motion by Chair Kruger, second by Sen. Craven.)

Discussion: Sen. Katz said he did not have a problem accepting the Report, but did agree with Sen. Burns that there was other information Committee members would like to receive and it may be that the end result will be that the GOC send a letter to the LCRED Committee noting their concerns about the current SCI statute and as a policy matter they might want to consider amending it. He said he could support the Motion to accept the report particularly having been reminded by Director Ashcroft of what that means.

Sen. Burns said he has a concern that if the Report is supposed to be comprehensive and encompassing of all the information the GOC charged OPEGA with obtaining and some of the GOC members feel that some of that information is not included in OPEGA's Report, is his accepting the Report then an admission that the other information is not going to change the contents, or have an implication on what the final results are in the Report. He was not suggesting that OPEGA reported anything inappropriate, but like any other report sometimes there is a need for amendments and feels that the information that the GOC is lacking, and talked about at today's meeting, ought to be part of the Report because OPEGA's final Report is what people go to, now and in the future, to see what the results of the GOC and OPEGA's review was. For that reason he thinks it is important for the issues talked about at Committee meetings and the final analysis to be part of OPEGA's Report because that is where the information is archived.

Chair Johnson said OPEGA identified in their Report that the Task Force's Report had not been completed on time. That does not mean that OPEGA lacked information needed in order to determine whether the management of MEIF and awarding funds to research projects on various campuses was compliant with statute. If OPEGA felt they needed the Task Force's Report in order to make the determination of whether it is compliant, he was certain OPEGA would have said that they were still working on the Report and needed further information before it could be finalized and reported that to the GOC. The additional requested information by GOC members, he considers as follow-up on OPEGA MEIF Report.

Director Ashcroft addressed Sen. Burns' comment on whether OPEGA's MEIF Report had been comprehensive enough, or the work that OPEGA did was comprehensive enough to answer the questions the GOC tasked OPEGA with. She said once OPEGA agrees on a set of questions for the review with the GOC, they design a work plan that they believe will bring answers and conclusions to those questions. OPEGA does the planning of the work to be as efficient as possible and to do not only enough, but to also not do more than necessary to answer the questions. She would like the opportunity to talk with Sen. Burns about where he feels that is lacking, or what additional information should have been presented in OPEGA's Report because that is a statement about the quality of the work that OPEGA is providing to the GOC. Director Ashcroft said she does not believe OPEGA strives to be the final record on every piece of information, but they certainly do look to give enough information on the questions they had been asked to address.

Sen. Burns said he thinks that additional information might have produced a different result. He noted that he has discussed with Director Ashcroft several times what the initial intent of the review was and he does not believe the initial intent has yet been met.

Rep. Cotta was not questioning the value of OPEGA's Report as much as the semantics of the final Report.

Motion: That the GOC table the previous Motion that the Government Oversight Committee accept OPEGA Maine Economic Improvement Fund Report. (Motion by Rep. Cotta, second by Rep. Davis, motion passed unanimous vote, 10-0.)

- **Committee Vote**

Discussed above.

RECESS

The Government Oversight Committee recessed at 11:00 a.m. on the motion of the Chair Johnson.

RECONVENED

Chair Johnson reconvened the meeting at 11:08 a.m.

- **Review of OPEGA Work to Date on Special Project Tax Expenditure Review Proposal (A Subcommittee of the Taxation Committee joined the GOC for this agenda item.)**

  - **Categorization of Expenditures re: Proposed Type of Review**

Chair Johnson introduced Sen. Haskell, Rep. Goode and Rep. Marean, the members of the Taxation Subcommittee.

Sen. Haskell thanked the GOC for inviting the Subcommittee to the meeting because the Tax Expenditure Review Proposal has been in front of the Taxation Committee for many years and that Committee is always attempting to determine which of the expenditures are right and at which level.

Rep. Goode introduced himself and said he Co-chaired the 126th Legislative Taxation Committee with Sen. Haskell. He said that Rep. Marean, Sen. Haskell and he were at the meeting to help the GOC understand the role of the GOC, OPEGA and Taxation Committee. He thinks members of the current and future Legislatures are interested in the policy area. He also noted that Sen. Katz was on the Tax Expenditure Task Force with him, Sen. Haskell and Rep. Marean.

Rep. Marean introduced himself.

Director Ashcroft introduced Maura Pillsbury and Lucia Nixon, the OPEGA Analysts working on the Tax Expenditure Review Proposal Project.

Director Ashcroft noted that this is a special project and came to OPEGA through the 2013 Resolve, C. 115. The Resolve tasks OPEGA with developing a proposal for implementing an ongoing legislative review process for tax expenditures and for delivering that proposal to the Taxation Committee for consideration, as well as to the GOC, by March 1, 2015. She said OPEGA's preliminary results on "1. Classification of tax expenditures" in the Resolve is what is being talked about at this meeting.

Director Ashcroft said the objective was to take each expenditure and put it in a category as to what type of review would be warranted and most appropriate. She talked through the materials provided that described OPEGA's approach of classifying the tax expenditures into the listed categories, and what category they were put in. OPEGA was looking to the GOC and the Taxation Subcommittee for feedback on whether OPEGA was proceeding down a path they had envisioned would be taken, and if not, where they might suggest adjustments. Director Ashcroft said OPEGA was also looking for input on their specific determinations as to whether the review expenditures are falling into the review categories expected.

Director Ashcroft thanked the Taxation Subcommittee members for attending the meeting because OPEGA's goal is to make sure that when the proposal is put forward it is in final form that it already has had legislative input.

Director Ashcroft summarized the Tax Expenditure Classification information prepared by OPEGA. (The documents are attached to the Meeting Summary.)

Rep. Goode said that every year when the Legislature goes through the budget process the Appropriation and Financial Affairs Committee and the Legislature scrutinizes everything in the budget. Over past years he thinks there have been more and more tax credits exemptions and deductions that have gotten passed and once in law they are in the law until somebody repeals it. He noted that it is much easier to pass a tax credit or deduction than have something funded in the budget every year. Rep. Goode said the entire area of taxation policy is not analyzed every single year in the way that traditional State spending is. He said the Taxation Committee is set up to do policy and has worked with OPEGA around prioritizing how they would better understand the actual evaluation of the credits, what they actual do, and whether they are meeting their goals.

Rep. Goode said his experience on the Taxation Committee is that every year they receive bills about different credits or programs, every year legislators put in bills on what they think might work. In the past session he said the Legislature repealed two programs. He thinks there is a difference between this and permanent staff who understands how to evaluate public programs to find out if they are meeting their criteria. In the era of term limits and a citizens' Legislature sometimes that is beyond the Taxation Committee's scope. Rep. Goode said he gets reserved about passing taxation policy based on anecdotes about how it changes behavior, or doesn't change behavior, or based on how many emails are received or how many people show up to the Committee.

Rep. Goode thinks the review process by OPEGA was set up so that the GOC and OPEGA could help the Taxation Committee better evaluate the programs, find out if they are working and get that information to the Taxation Committee who can then decide what the best policy is. Having the GOC/OPEGA involvement is helpful and it will be very helpful to have a clear analysis of whether the programs are working or not working.

Sen. Katz said asked if OPEGA had a total dollar amount of annual revenue loss for all of the tax expenditures listed. Director Ashcroft said they did not have a total and part of the complexity in doing that is the estimated revenue losses for some of expenditures are represented as a range by Maine Revenue Services. Nonetheless she said OPEGA could get a total and will get that information for the GOC.

Sen. Katz said he agreed with Rep. Goode. He believes the dollar amount of the tax expenditures is over two billion dollars and said tax expenditures are not much different than the Legislature taking the money in and then giving it back to whoever is the beneficiary. It is a huge expenditure of money and he thinks that most people would be disappointed to learn that the Legislature does not have a system set up for a regular review of tax expenditure programs to see if they work and are accomplishing their goals, or that other programs that might have more merit are not getting the funding they need because money is being spent on lower priority programs. Sen. Katz said last fall the Tax Expenditure Task Force was charged with finding $40 million of the two billion dollars that could be eliminated as part of helping to solve the last budget and the Task Force could not do it. He said part of the reason they could not do it was because of the time frame they were given, but even more than that, they did not have the data on whether the tax expenditure programs were accomplishing their goals and that highlights the need for the review process. It doesn't matter if it is the GOC, Taxation Committee or how the load is shared with the two Committees, or some other group, the important things for him is to commit that there is going to be a regular and consistent manner of examining the tax expenditures periodically. He thinks it is one of the most important things they can do as a Legislature.

Chair Johnson was pleased that OPEGA was bringing the independent examination and objectivity and agreed with Sen. Katz that it is going to be important to the Legislature to have that information in making decisions.

Sen. Youngblood referred to the "Review Category A – Full Evaluations" in OPEGA's Summary of Preliminary Tax Expenditure Classification and asked if OPEGA was satisfied that they could reasonably come to a quantitative conclusion as opposed to a subjective conclusion that leaves it more open for debate in the future. Director Ashcroft said the goal is to get to something that is as objective as possible and as OPEGA develops the rest of the pieces of the proposal, she said she would be closer to answering his question. She said for a number of the tax programs in order to answer those objectives OPEGA will need data that is probably currently not being collected in a manner that would allow easy access to it. Part of OPEGA's proposal to the Taxation Committee is to talk about those data challenges and what should be done about them. Director Ashcroft said it is possible that in the first go round of reviewing any of the programs OPEGA would be coming back with results and recommendations that say they need to establish some way to collect data that would allow OPEGA to objectively assess the programs and, hopefully, as a result of implementing those recommendations the next time around OPEGA would have something more objective.

Sen. Youngblood asked if OPEGA's report will include some way for the reader to know whether it was quantifiable figures as opposed to subjective information. Director Ashcroft said yes and that OPEGA would be describing whatever it was they were using for the sources of the information.

Sen. Craven supports the initiative because of its importance, but wondered if it was going to make industries skittish and noted the Pine Tree Program which employees approximately 1,000 people in Lewiston/Auburn. She would not like to see changes in that Program and said everyone is going to feel the same way about some of the other tax expenditure programs.

Sen. Haskell thinks there are programs and businesses who are anxious to come before the Legislature with their information about tax expenditures and that is one of the things that the Task Force found. She said, for example, historic tax credits came up and people doing the work on historic tax credits have significant amounts of data that are not being collected in a way that legislators can access. Information is available and the historic tax credit people want to show legislators that information to let them know how well that program is working, what it is leveraging, but there is not a system in place that allows any kind of comparative analysis from one program to the other because it is not written into the statute and information is not being collected in a way that is comparable. Sen. Haskell said obviously businesses are concerned about what the disruption will be, but on the other hand she believes there are many people out there who are going to want to show what their program has done. She said the Legislature needs a more defined and data driven way to compare tax expenditures.

Sen. Burns asked how a business or entity would be in a better position in coming forward with their program information. Sen. Haskell said there were a couple of goals to think about. One is what happens when five of the programs come before the Legislature next session, one-by-one and the Taxation Committee has no way other than what is heard anecdotally to make decisions. She thinks the data is going to help the Committee because when you don't have that information a program is at risk every time a new bill or idea comes up. Sen. Haskell thinks it is also going to help the process over the long term. She said you should be able to define a process when a new tax credit is suggested that ensures there is discussion about who it is, and what is it for, what is the time line, what is the review process. That information would get built into every one of the tax expenditures. It is of great value to have the data and helps legislators to not just respond to a particular incident, or a particular bump in the economic conditions.

Rep. Goode agreed and said there are no guarantees in any legislative session, and with his experience of working with a lot of people who spend a lot of time in the Taxation Committee room, he said there is value in knowing that there is a schedule and a rolling review. If you are advocating for a program and there are certain bills that come up every year or two, it would be helpful to be able to know there is going to be an actual review on this at a certain time in the future and the Committee can put it on hold until the review has been done.

Sen. Katz agreed with Sen. Haskell and Rep. Good. He referred to statements made about having to gather information that is not available now and said some success stories are going to be happy to share their information with the Legislature, but thinks there will be a tension in many cases when businesses are now going to be asked to produce information to OPEGA that they had not previously had to do. They may feel their information is confidential and if it gets out will give an advantage to their competitors, etc. He said they had to keep reminding themselves that it is public dollars being spent to benefit the businesses so to ask how their programs are working out is a perfectly legitimately thing to do, but the right balance has to be found.

Director Ashcroft said there may be a perception and fear that because OPEGA is going to evaluate tax expenditures the end result is going to be a recommendation to get rid of it. She said from an evaluation standpoint there is equal opportunity for improving the implementation or access to the tax credit, or it may be there is too much being spent in administering the program the way it is currently structured, etc. There is a lot of other potential information that would be valuable to the legislative decision making.

Sen. Jackson asked if any work was going to be done on what was originally projected it was going to cost, or what the value was going to be compared to what the State was actually losing for revenue now. Director Ashcroft thought that would be made a consideration in terms of looking at the fiscal impact of the tax expenditure. She said the other thing OPEGA already knows is that in many cases Maine Revenue Services is estimating what the revenue loss is. She said another question is how accurate is the estimate, what is it based on, and can it be made more accurate.

Following Director Ashcroft's overview briefing she said she would welcome any feedback about where the tax expenditures should be put in terms of the assigned review categories. She is also interested to know whether the approach OPEGA has taken to classify programs is in line with what the GOC/Taxation Committees' expectations were from what is in the Resolve. She welcomes that input at this meeting, and future meetings, or any time before January 2015.

Sen. Katz thinks OPEGA's work does exactly what was asked of them to do. He asked if the template OPEGA sent out as the way of approaching the matter was similar to what other states' are doing. Director Ashcroft said OPEGA has been looking to the PEW Center to get the view of what is going on in the other states so from that vantage point she would say the design was similar to, or an expansion of, what other States are doing.

Sen. Katz said it had been discussed at previous GOC meetings that OPEGA could not do the tax expenditure program reviews within its existing resources once they get to the place where reviews are being done. He asked the Director if she had an idea of the additional staff that might be necessary to conduct and manage the reviews on an ongoing basis. Director Ashcroft said a big unknown previously was how many of the programs would end up in the full review category. It is now known that there will be about 41programs. The next input will be on what schedule the reviews will be, how many reviews a year, and what it will take to accomplish the objectives of a full evaluation. She will be able to answer Sen. Katz's question once those pieces of work for this proposal has been done. Originally she thought it might require two additional full time positions, but she is not certain at this time.

Chair Johnson said he thinks the objective of having criteria that will inform and lay out the expectations of any new tax expenditure that gets created in statute will enable the Legislature to be well informed in the future. He said identifying where there are short comings and the necessary data to perform the objective evaluations means that it is setting the stage for the Legislature to make good informed decisions regarding tax expenditures in the future.

Rep. Goode said from his experience he has learned that other states tend to be either sun setting all of their programs, or basically forcing their legislators, over time, to decide what to do with the programs without evaluating them. He thought legislators make decisions based on who comes before the Committee most and what is related to their districts, and consequently decisions are being made without actual information or evaluations. He noted that other states are also doing the evaluation of all the programs and not having that tied to any legislative action. Rep. Goode said this Legislature is trying to do a little bit from both of those tracks so will hopefully have some legislative review and action, but also have it tied to evaluations by people who are kind of experts.

Sen. Haskell referred to the automatic sunset which sounds so easy and said what is forgotten about that is it has a very chilling effect on capital investment for companies. She said the Airplane Parts and Servicing group came to the Taxation Committee because they had a short term pilot for two years with a sunset. They came with significant amounts of information about jobs and investment and she said legislators learned from them that putting short timelines has a chilling effect when the business wants to do capital improvements. When asking a lending institution to give them a 20 year note or a line of credit that extends over some period of time, the short time lines defined stops them in their tracks.

Chair Kruger believed the process of working with the Taxation Committee and adding the muscle provided by OPEGA staff is exactly how the Legislature should be proceeding and he is pleased with the progress that has been made so far.

Director Ashcroft said she would also like to have the Taxation Subcommittee at future GOC meetings when other draft sections of OPEGA's proposal will be discussed. The Subcommittee said they would be willing to join the GOC again.

The GOC thanked Sen. Haskell, Rep. Goode and Rep. Marean for attending the meeting.

RECESS

Chair Johnson recessed the Government Oversight Committee at 12:16 p.m.

RECONVENED

Chair Johnson reconvened the meeting at 12:50 p.m.

- **Request for OPEGA Review of Certain Matters at Riverview Psychiatric Center**

Director Ashcroft said the request for an OPEGA Review of Certain Matters at Riverview Psychiatric Center (RPC) came from a group of current and former RPC employees and is specifically related to one unit within RPC. OPEGA has also received information from a number of other individuals working in different units at RPC. She said it is important to note that the group represents a spectrum of the different kinds of positions at RPC including nurses, mental health workers and social workers. Their initial request had a lot to do with the working environment and culture issues similar in some respects to what OPEGA is exploring in the DHHS Culture Review. However, many of those issues and subsequent issues that came out during OPEGA's discussions with the group were so specific to RPC that it was decided that not everything would get captured by the DHHS review currently in progress.

Director Ashcroft said some of the complaints that came forward from the group are risks of harm to the clients and/or staff due to unprofessional behavior by staff including bulling and harassing employees who raise client care issues and/or concerns about rule infractions, poor supervisory and working relationships with favoritism being a primary concern, lack of clarity regarding roles and responsibilities for the various staff positions and how they are supposed to be engaging and caring for the clients, mistreatment of clients including verbal abuse, withholding of food and drink and sometimes physical abuse. There were also specific allegations. One related to diversion of medication by a staff person and that diversion having been reported to a supervisor who then did not address the situation appropriately, inadequate response to reported incidences of rule violations or concerns that were going on within the working environment and particularly with the clients. Potentially inappropriate coding of services that are provided to clients for billing purposes, inappropriate moving of a client from Forensic to Civil Unit, lack of adequate client treatment plans and personal use of State resources by staff.

Director Ashcroft said OPEGA has taken the time to parse out whether any of the issues are covered either by OPEGA's DHHS Culture review or by other efforts that they know to be underway at RPC, either by the Department, or in some other respect. If issues are not being addressed by another avenue OPEGA is determining whether there is another appropriate avenue, other than an OPEGA review, that they could seek to direct some of the concerns to.

The possible areas OPEGA would focus on with a more systemic perspective would be:

- Assessment of RPC's adherence to Rules, Policies, Procedures and Professional Standards that support the delivery of quality care, treatment and safety of clients and support and maintain an appropriate working environment.

- Reporting and response for incidents and professional concerns of use including available reporting avenues, supervisor and staff reporting obligations and responses to reported incidents and concerns.

- Specific allegations of potential violations of laws and rules.

Director Ashcroft said OPEGA has informed DAFS' Bureau of Human Resources of specific personnel issues that have been raised in the request. The Attorney General's Office has a HealthCare Crimes Unit that is funded federally and responsible for investigating and prosecuting fraud and other illegal conduct of MaineCare providers, and allegations of abuse and neglect of clients in federally funded healthcare facilities. OPEGA has not formally directed anything to the AG's Office but did talk with them about the potential violations of either MaineCare rules or patient abuse. She said a meeting with the Commissioner of DHHS and top management staff for RPC is scheduled for early in September. The Commissioner said she had a number of efforts ongoing at RPC that she would like OPEGA to understand.

Sen. Burns asked for clarification of what the Commissioner meant by there were a number of efforts ongoing at RPC. Director Ashcroft said there has been a number of issues at RPC and they recently changed some administrators, including the Superintendent, so there is some new management on staff. They have also developed a strategic plan, and are attempting to change the culture.

Director Ashcroft said OPEGA already knows that the allegation of diversion of medication complaint was brought to the Board of Nursing and they have been working on it. DHHS's Division of Licensing and Regulatory Services is responsible for inspecting RPC for compliance with the US Department of Health and Human Services Centers for Medicaid and Medicare licensing requirements and they also investigate specific complaints and OPEGA may talk with further.

Director Ashcroft said OPEGA is continuing to seek information regarding some of the issues in the Review request before recommending to the GOC where OPEGA resources would be a duplication of effort, and where it would not be.

Chair Kruger said he knows there are a lot of people looking into Riverview and he didn't want to make it a full scale review at this time, but he would be inclined to support a preliminary inquiry only. That would give the GOC the option of reviewing preliminary information at a future meeting to consider at that time whether the Committee wanted a more complete review.

Sen. Katz asked who was sponsoring the RPC Review request. Director Ashcroft said the GOC Chairs had agreed to sponsor the request.

Sen. Katz said it was his understanding that the initial appeal of the of a denial of certification of RPC was decided against the State, but there is now a new appeal process in place and asked if that was correct, and if so, the time frame of the process. Director Ashcroft said she believes RPC has just applied for recertification, but did not know the time frame of it.

Sen. Burns asked if the GOC decided to proceed with a preliminary inquiry would OPEGA's efforts be able to tell the GOC whether or not the particular issues were covered under some other venue. Director Ashcroft said that would be the primary objective of preliminary inquiry and a secondary objective would be, if not, are there other appropriate avenues that could be tasked or tapped to pursue the issues.

Sen. Jackson asked how many people are involved in the Review request and their credibility. Director Ashcroft said there are four in the group that initially came into OPEGA and since then have heard from another two that were unsolicited. OPEGA also has had at least one legislator indicate that they know of another legislator that has been hearing of issues at RPC. The individuals OPEGA talked with appear credible.

Sen. Youngblood asked if the group requesting the Review came forward before the change in management or after the management changed. Director Ashcroft said after, but the management change has been fairly recent.

Sen. Burns noted that the request for reviews come from different ways to OPEGA and asked if there was requirements for when requestors, although concerned about their identities, need to put something in writing. Director Ashcroft said OPEGA does have the RPC Review request in writing. He said it bothers him that employees feel that their positions might be in jeopardy because of raising their concerns.

Sen. Katz asked what the rules were in respect to the GOC in regard to their ability to see what OPEGA has developed for materials regarding interviews. Director Ashcroft said that information is considered confidential working papers under OPEGA's statute so they are not shared with anyone. If a GOC member is interested in what might have been discussed she can give a summary of the information verbally, but the actual documents are not shared.

Chair Johnson agreed with Sen. Burns that it is troublesome when people don't feel they can come forward. He said some of the allegations are of a serious nature and it would be irresponsible to ignore them. He said Director Ashcroft discussed the issues with him and Chair Kruger and he felt it was his responsibility to not drop something of that serious a nature and agrees with Chair Kruger's suggestion of OPEGA doing a preliminary inquiry to answer what is, or is not, covered by other work going on.

Sen. Youngblood wanted to make sure that the proper chain of command be followed because he does not want the GOC/OPEGA to get the reputation that if you have personnel issues you can go to OPEGA. Director Ashcroft said many of the issues the group described appeared to be a broken system for escalating matters up the chain of command.

Motion: That the Government Oversight Committee direct OPEGA to conduct additional preliminary inquiry as described at Riverview Psychiatric Center and report back at the next meeting. (Motion by Chair Kruger, second by Rep. Cotta, passed unanimous vote, 7-0.)

- **Review of DAFS Report on Investigations of Allegations Regarding the Bureau of General Services Planning, Design and Construction Division**

Director Ashcroft said there was never a request for an official OPEGA review and noted that earlier in the year the GOC talked about a former employee of the Bureau of General Services that had submitted a resignation letter to DAFS Commissioner Millett alleging mistreatment by supervisors and more importantly that the State was not doing all that it could to reduce costs on some State funded projects. The GOC's former Senate Chair, Sen. Cain, introduced that letter for the GOC's awareness and at that time DAFS had already begun two internal reviews at the direction of Commissioner Millett. There was never a formal request for an OPEGA review filed by either a legislator or by Mr. Trodella, the author of the letter, but it was agreed that DAFS would provide the GOC the results of their internal reviews. (A copy of DAFS's Report-Back is on file with OPEGA.)

Chair Johnson said if the GOC were to take no action, and he thinks that would be appropriate, Director Ashcroft will inform Mr. Trodella that the Committee will be taking no action on the matter and inform him of the GOC's process for a review request should he decide to move forward on his concerns in the future. No GOC members suggested doing anything further with the information and report back from DAFS.

UNFINISHED BUSINESS

- **OPEGA's Report on Healthy Maine Partnerships' FY13 Contracts and Funding**

  - **Report Back on Information Requested by GOC at June 26, 2015 Meeting**
  - **Further Consideration of Possible GOC Actions on Issues and Recommendations**

Director Ashcroft said the GOC sent a letter to Attorney General Mills advising her that the Committee had received information in sworn testimony of a situation that might be a violation of FOAA. The GOC also sent a letter to the Attorney General and Secretary of State requesting that those offices convene a working group to develop and make recommendations on record retention issues. Director Ashcroft said she has heard back from both the Secretary of State and Attorney General's Office that they are assigning individuals to the task and look forward to the work ahead.

Director Ashcroft said another issue was a lack of statewide expectations and guidance for situations where agencies were trying to make selection and funding decisions among competing entities without an RFP. The GOC had at its last meeting directed OPEGA to explore with the relevant agencies what might be reasonable options for establishing statewide expectations and guidance. She said OPEGA has had one meeting with DAFS's Purchases, and as a result of that meeting, they are combing through more carefully what already exists for guidance around procurement, and particularly, competitive procurement. She said it is thought that there is sufficient guidance that exists, although it may not be completely clear in what situations it applies. OPEGA is looking to see if there are tweaks to existing language in statute, rules and other procurement policies that could be made that would get to the purpose that the GOC is trying to accomplish. Once OPEGA has identified those they will again meet with DAFS Purchases and make sure there would not be any unforeseen consequences before it is brought to the GOC for suggestion. Director Ashcroft said the GOC parked the issue of the potential lack of effective and confidential avenues for employees to report concerns thinking it may be related to the issue around clear and effective codes of ethics. Director Ashcroft said in 2006 there was legislation to require each component of State government to develop its own code of ethics and conduct. Our understanding of that at the last GOC meeting is that it directed each agency to have its own code and the Committee asked OPEGA to work with the State Controller to find out what existed in the agencies. She said she has since found out that the Statute really relates to component units of State government (i.e. quasi State entities), not State agencies. OPEGA asked the State Controller what else there might be in the State for codes of ethics and the Controller did reach out to State agencies through the DAFS Service Center to determine what existed that was not known about yet. DAFS pointed out that there is a code of ethics in the State's Administrative and Accounting Manual that does apply to every agency in State government. It is specific to a code of ethics for government financial stewards, but is applicable to all Executive Branch agencies. Three agencies, the State Fire Marshall, the Maine Drug Enforcement Unit, and the Commission on Ethics and Governmental Practices responded to the Controller's inquiry and provided the codes of ethics they have that are specific to their agencies. Director Ashcroft's assessment of those codes of ethics is that the language, generally, in them is not what she was envisioning because they do not have a lot of concrete guidance for an employee as to how they should handle particularly situations.

Director Ashcroft noted that OPEGA had gathered information regarding codes of ethics from other States and NCSL's website and that information was included in Committee members' notebooks.

Director Ashcroft said if the GOC were seeking to improve Maine's Code of Ethics she was not sure if it made sense for the GOC or OPEGA to try to design the code of ethics, but what might be appropriate is to have a task force who can prepare a proposal for implementing either the recommendations in the Ethics Commission Report and/or bringing broader consideration to what a State code of ethics should include.

Chair Johnson said he was inclined to think they should figure out how someone can work on trying to design a code of ethics and put it in place. He is not inclined to say that is something the GOC/OPEGA should do, but they may want to think about how to bring about a group to do that.

Sen. Burns asked if any of the information provided to GOC members contained language that directs State agencies to have a code of ethics. Director Ashcroft said it does not appear that they require individual agencies to have individual code of ethics. The language in the State Accounting Manual derives from administrative directive to have a code of conduct, but it is limited to the financial steward perspective. Beyond that as far as she knows there is no directive that each agency has to have its own code of ethics.

Sen. Burns said there are some codes of conduct that should apply to any public entity. He asked what the appropriate venue was for that to come out of. Director Ashcroft said the Report of the Ethics Commission does contain recommendations for compiling all the ethics guidance information in one place, enhancing employee training, etc. and she said there could be legislation that would direct somebody to implement the recommendations of the Ethics Commission's Report. Director Ashcroft said another approach would be to reach out to see if it would be appropriate to task the Commissioner of DAFS with developing a proposal for what it would look like.

Rep. Cotta said the problem is the GOC is a section of the Legislative Branch so if they are going to have something that is going to reach across Judicial and Executive Branches, those Branches should have a seat at the table and equal representation. Director Ashcroft agreed and said there are a lot of professions represented in State government, and by virtue of the profession, have their own professional Codes of Ethics. She said the idea for her is to have something that makes it very clear to every State employee what the expectations are at a minimum by virtue of the fact that they are a State employee regardless of what profession they are in. You need to have something clear to communicate, and to hold somebody accountable to understanding and she thinks that is absent from the current Codes of Ethics.

Sen. Katz said it appears that everyone agrees the State ought to have codes of ethics and said there were a number of ways to get there. You could task somebody to do it; could put a bill in to set up a study group, but that is dangerous because you do not know if there will be funding, or someone may try to convene an informal working group. He asked how you would get there. Director Ashcroft said there are resources, i.e. The Institute of Global Ethics, that might be available to assist whoever takes the work on.

Sen. Katz suggested that the GOC take no action on the matter until Committee members had the opportunity to review the information provided.

Chair Johnson thinks there needs to be different people charged with working on the subject and likes the idea of involving outside organizations like the Institute on Global Ethics who specializes in the topic and has worked with many different groups on ethics in the past. He said the matter can be added to the GOC's next agenda for further discussion.

Sen. Burns asked if Director Ashcroft could ask the Executive and Judicial Branches if they had interest in participating in discussions regarding State Codes of Ethics. Director Ashcroft said she could.

Chair Johnson said it appears there is a consensus from the Committee that OPEGA will gather more information regarding codes of ethics and will report back to the GOC.

- **Vote on GOC Acceptance of OPEGA Report**

Director Ashcroft said at the last GOC meeting the vote on OPEGA's Report was tabled and said it might be helpful for Sen. Burns and her to discuss his concerns.

Sen. Burns referred Committee members to the letter he received from the Wabanaki Public Health regarding changes they would like made in OPEGA's Report and he thinks the issues they have raised have merit.

It was decided that Sen. Burns and Director Ashcroft will meet before the next GOC meeting to discuss the concerns. The matter remains tabled.

REPORT FROM OPEGA DIRECTOR

- **Project Status**

Office of Information Technology Follow-up - OPEGA has asked OIT to report, not only on the status of the actions, but also on what improvements they think they have achieved to date in those areas. OPEGA is looking to have the information for the GOC's September meeting and will use it as a basis for determining whether it is time to hire a consultant with technical expertise in IT to assess OIT's implementation and progress.

Formal Follow-up Review of Healthcare in the Corrections System is in progress and OPEGA is in the fieldwork stage and the goal is to have a final report for the GOC's November meeting.

DHHS Culture and Environment is in preliminary research with the goal of bringing the GOC a Project Direction Recommendation at the September meeting.

Tax Expenditures was discussed previous.

State Lottery is being worked on as staff has time available.

NEXT GOC MEETING DATE

The next Government Oversight Committee meeting was scheduled for September 24, 2014 at 9:00 a.m.

ADJOURNMENT

The Government Oversight Committee was adjourned at 2:05 p.m. (Motion by Rep. Cotta, second by Chair Kruger, unanimous vote, 7-0).

Members of the Government Oversight Committee. my name is Brian Beal and I have worked and taught at the University of Maine at Machias for the past twenty-nine years and where I am a Professor of Marine Ecology.

I would first like to congratulate the Committee for its diligence in collecting information about the Maine Economic Improvement Fund (MEIF), and the Report that was made public back in June of this year. As I understand the charge to the Committee, the review focused on how the University of Maine System allocates MEIF resources, expenses supported by MEIF and metrics used to measure accomplishments attributable to the Fund. In doing so, the Committee reviewed, among other things, the Maine Statute and legislative history of the Fund. annual MEIF reports. and guidelines/criteria for the competitive process at the University of Southern Maine as well as for the Small Campus Initiative (SCI). Surprisingly, however, all interviews that contributed to the Report were conducted with staff and administrators from UMaine and USM. No interviews were conducted with any staff or administrators from any of the smaller campuses.

There are a number of statements from the Report that require further elaboration, and I appreciate the time to do so.

On page 10. the statement in bold reads:

UMS has processes to allocate MEIF consistent with statute.

The statute begins: "The Maine Economic Improvement Fund is established to administer investments in targeted research and development and product innovation and to provide the basic investment necessary to obtain matching funds and competitive grants from private and federal sources." Research and development means "applied scientific research and related commercial development by the University of Maine System, its member institutions and its employees and students in the targeted areas." Let me read part of that back to you...."by the University of Maine System. its member institutions and its employees and students in the targeted areas."

MEIF began in 1998. Through FY 2013, MEIF funds to the University of Maine System totaled $209,350,000. $209 million dollars for research in the seven targeted areas, one of those areas includes Marine Science and Aquaculture. Between 1998 and 2008, the year prior to the establishment of the Small Campus Initiative, MEIF funds totaled $135.850.000. Approximately 80%, or $108.680,000, went to UMaine and 20%, or $27.170.000 went to USM. That is, from 1998 through 2008, not one cent of that $135 million went to any of the smaller campuses even though at least one, UMaine Machias, has been conducting applied research in marine science and aquaculture since the early 1980's, and that research was funded through federal and private sources that were administered through the Business Office at UMM. Some will argue, correctly, that UMM is not a research institution. UMM is an undergraduate institution, and those undergraduates in the marine biology program have participated in applied marine research since the early 1980's. Nowhere in statutes does it say that MEIF monies are designed for "research institutions only." If it had, then USM would not have received any of the funds because when MEIF was established, it was not considered a research institution.

So, my first question to the Committee is two-fold: 1) why did the University of Maine System hand out $135 million to UMaine and USM from 1998 to 2008, and ignore the statute that indicated that MEIF monies were designed for "its member institutions and its employees and students in the target areas," especially when it was public information that UMM was engaged in applied research in at least one of the targeted areas?; 2) why was the OPEGA committee silent on this glaring inequity?

On page 11 of the Report, the Committee wrote that OPEGA considers consistent with statute the manner in which UMS. UMaine, and USM uses MEIF monies. Among the bulleted points on that page. I read that those enterprises used MEIF monies to "pay for facilities that support project-specific work." Here's what I think is fair. UMS. UMaine, and USM should collaborate to provide the University of Maine at Machias the sum of $3.5 million (out of respect for the years that UMM was shut out of any of these monies — that is about $350.000/year) to pay for facilities that support project-specific work. That would go a long way to constructing the marine research laboratory at UMM's Marine Field Station on Great Wass Island that would become the easternmost marine research laboratory and education center in the United States.

On page 11 of the Report, the headline reads:

UMS Allocates MEIF Through Its Annual Budget Process

Isn't it odd that MEIF funds are simply doled out to UMaine and USM, but that the smaller campuses don't receive the same privilege? Instead, the pool of funds for the small campuses is up for grabs each year through a competitive process. This is unequal treatment by the University of Maine System (UMS). Why are the larger campuses given a chance to establish a line item for their MEIF funds? Because they have year-to-year commitments, needs, plans, etc. that allows UMaine and USM to bank on the fact that their money is coming year-after-year. Don't you think the same thing occurs at UMM. for example? Again, we've been conducting applied research since the mid-1980's, and for most of the time when MEIF monies were available to UMS, UMM was shut out. Even today with the Small Campus Initiative, the competitive process does not allow any of the smaller campuses to "set up their line item MEIF budgets" because there's no guarantee from year-to-year that any MEIF monies will be coming to a particular campus. I'm all for the competitive process, as I've been very successful with it, but why should the two larger campuses be guaranteed their annual allotment, and the smaller campuses are not?

On page 12 of the Report, the statement reads: "The competitive process designed for SCI is based on the governing MEIF statute." The "governing MEIF statute" is silent on the competitive process. Statutes state that the work must he applied, and that it must fall into one or more of the seven targeted areas. The smaller campuses are treated to an annual competition because researchers at the smaller campuses. in the opinion of administrators at UMaine who helped the University of Maine System develop guidelines for the SCI RFP, cannot he trusted to conduct applied research in a manner that is commensurate with research at "the research institutions." Faculty at UMM who are conducting applied marine research, however, have been publishing their work in the same peer-reviewed scientific journals that faculty at UMaine and

USM have been publishing their work, so the argument that the quality of research or administration of funds needs oversight and special accommodations compared to the larger institutions holds no water.

On page 13, the Report states that "UMaine uses an internal competitive process to select proposals for specific grants that limit the number of proposals an institution can submit." I have spoken to dozens of UMaine faculty about the competitive process at their institution. Most have never heard of MEIF. For those who have, I've asked them specifically about how they have used it. None had. but they said they thought it was used to fund graduate students and to make "hires of opportunity." My point is that the competitive process that faculty at the smaller campuses must endure is over the top compared with the internal competitive process that a faculty member at UMaine or USM are asked to go through — at least those who know that MEIF exists. UMaine administrators will say that the NSF process involved with EPSCoR is the competitive process that its faculty must go through to use MEIF as match. This is fine. but the EPSCoR process occurs once every five years, and the SCI process occurs every year. (Incidentally, NSF does not require matching funds for most of its solicitations.)

There are other omissions in the Report, including the fact that no one at OPEGA took the time to discuss/collect information about projects or anything else from the smaller campuses. Instead, the focus was primarily on UMaine and USM.

In summary, since its inception. the Maine Economic Improvement Fund has improved the economy of the Orono and USM campus to the tune of $167 million and $41 million, respectively. Since 2009, the smaller campuses have received $692,000. Faculty at Augusta, Fort Kent, Machias, Presque Isle. and Farmington participate in applied research in the targeted sectors, and some have received prestigious grants for their work from NSF and other federal agencies. At UMM, faculty had been conducting applied research specifically in the marine science and aquaculture sector for seventeen years ***prior*** to the establishment of MEIF. No one at the University of Maine, University of Southern Maine, or the University of Maine System office thought that UMM should receive one dime of the millions of dollars from MEIF because UMM was not a research institution, had no research infrastructure, and had no experience administering federal or other research grants. Yet, over the period between 1980 and 2000. ***over $3 million in applied marine research fundinf;*** had gone through UMM's books. For a long while. MEIF was a quiet little secret, an exclusive club for researchers at the two larger institutions, and an incredible boon for administrators at those two institutions who had a pool of funds to create new educational and research opportunities for their campuses. Chancellor Pattenaude created the Small Campus Initiative in 2009 upon hearing that a legislator from Harrington, Rep. Dianne Tilton, was preparing to introduce a bill to provide funding for the smaller campuses. Initially $100.000 annually, this year's MEIF-SCI is around $414.000. This, finally, is a step in the right direction. hut it has taken too long to get here and there is a lot more work to do to ensure that fairness occurs in the process of how SCI funds are disbursed to the smaller campuses compared to how they are disbursed to the larger campuses.

Maine's Public Universities
UNIVERSITY OF MAINE SYSTEM

Senator Johnson, Representative Kruger and distinguished members of the Government Oversight Committee:

My name is James Page, and I am Chancellor of the University of Maine System.

I very much appreciate the opportunity to discuss the findings of the OPEGA review of the MEIF program, and I would like to begin by thanking OPEGA for their collaborative approach to working with the University of Maine System team and the direction their observations has provided to improve the MEIF Program.

It is important to recognize that MEIF R&D is:

- Critical to the Maine economy, with national implications. Since its inception in 1997, MEIF investment has been Maine's most important investment for the establishment of R&D and related economic development.
- Is an integral part of the University of Maine System requiring a collaboration and mix of MEIF, institutional, federal, private funds as well as collaborators and partners — as established in the MEIF Statute.
- MEIF is not a standalone program.

As you are well aware, the University of Maine System is facing critical financial challenges and you have asked the UMS Board of Trustees to manage the System to provide greater impact for Maine while not duplicating and diluting resources.

UMS BOT management of MEIF resources is focused on building critical mass capacity and impact from this investment. The UMS commitment to R&D as an economic development strategy is greater than the State's MEIF investment alone as indicated by our ongoing investment of additional resources both at the System and campus level. For example, at their last meeting, the UMS BOT approved a 5 year commitment of funds realized from system-wide administrative savings to support research and economic development throughout the System in areas tied to Maine businesses and industries.

In our written response we addressed specific "OBSERVATIONS" identified by the OPEGA report. I would like to address some key points and the additional work undertaken since that first response.

Recommendation 1: UMS Should Establish Measurable Goals and Objectives for MEIF and Report on Them as Statutorily Required

Updated Response Number 1.

The University of Maine System and the individual campuses have maintained strategic plans with specific Goals/Outcomes/Metrics. Where applicable, MEIF funded research and development activity must be an integral part of these goals and metrics.

The University of Maine System has annually reported MEIF outcomes in both the Annual ME1F Report and the State of Maine Annual Survey of R&D Programs administered by the Department of Economic Development. OPEGA has correctly identified that we have not adequately articulated outcomes and MEIF specific goals in the Annual MEIF report.

In July the UMS Board of Trustees approved the 2014 STRATEGIC OUTCOMES for the University of Maine System, with specific targets in research, development and economic development.

- UMS Strategic Outcomes,
- individual campus strategic plans,
- the Maine Science and Technology Plan.
- The selected metrics and data required by the State's annual R&D survey.

Updated Response Number 2.

As previously noted, the ME1F report has not adequately articulated MEIF specific goals and metrics nor has it sufficiently addressed OPEGA-identified differences [illegible] ampus data or all aspects of data accuracy.

[illegible] nation of BOT approved MEIF metrics, improvement in University of Maine System's accounting systems and revisions to the MEIF report format will specifically address these points.

Recommendation 3: UMS Should Complete the MEIF Task Force Report and Submit It to the Legislature

Updated Response Number 3.

A near final draft (pending final comments from committee members) of the MEIF Task Force Report has been included in your materials.

Included in the report is a series of recommendations to the University of Maine System for the use of MEIF funds. Specific recommendations address better and more consistent policies concerning the use of MEIF funds across the campuses and individual researchers. Each campus and the Small Campus Initiative have learned through experience how to maximize the benefit gained from utilizing MEIF to:

- Leverage additional grants from external sources
- Build capacity to serve and collaborate with Maine companies and organizations
- Strengthen the opportunities for students and staff engaged in these activities to gain valuable workforce development experience and skills.

The University of Maine System is evaluating the implementation of these recommendations that can be accomplished within the given financial resources while not reducing impact. Perhaps the greatest potential impact will come from greater collaborations and sharing of existing R&D assets across the System without unnecessary duplication. These recommendations will be evaluated and where feasible implemented immediately within the current fiscal year.

Recommendation 4: The University of Maine System Should Ensure that MEIF Expenditures and Commitments at Each Campus Align with Available Resources

Updates to Response number 4

The University of Maine System believes there is a pragmatic, opportunistic and entrepreneurial approach to committing MEIF funds to cost-share while minimizing the risk of over-committing MEIF funds

1. University of Maine System is reviewing accounting protocols to improve methods of tracking cost-share commitments to better manage the opportunities, especially when grant budget-years cross University fiscal years.
2. The University of Maine will use these improved methods to better estimate out-year commitments and reduce the perception of deficit spending. The University of Southern Maine will use these methods to increase commitments, minimize surplus MEIF fund carried-forward and increase grant awards. The System will use these improved methods to manage the Small Campus Initiative funds to increase leverage and opportunities for researchers at the smaller campuses.

5

Recommendation 5: The University of Maine System Should Enhance its Ability to Monitor and Report on MEIF Activities, Expenditures and Match Commitments by Linking Data with Primary Financial Systems.

UPDATE to Response Number 5

The University of Maine System has a comprehensive Enterprise Resource Planning (ERP) business management software system that is used system-wide. While extensive, it does not currently have the full capacity to track MEIF to the degree OPEGA has identified. With the OPEGA recommendations in hand, a University of Maine System committee was formed to review and make adjustments to the current general ledger system in order to improve tracking and reporting of MEIF Expenses.

These changes will directly reflect specific goals and metrics as approved by the UMS BOT for the Maine Economic Improvement Fund. Some changes have already been implemented beginning with FY2015 beginning July 1, 2014.

We appreciate the Committee's review and input to this critically important program. The BOT, Presidents, and indeed the entire System have been working aggressively to improve our operations and our impact for all of Maine. This can only be accomplished through integrated strategic decision making, for which the Trustees 2014 Strategic Outcomes lays the framework. Each campus plays a part in this plan, but not an identical part. Working together, however, we are fully committed to programs and projects that enhance the well-being of the people of Maine through substantial research and economic development.

I welcome your questions and have additional UMS Staff here including:

- President Allyson Handley, University of Maine at Augusta
- Vice President for Research Carol Kim, University of Maine
- Vice President for Research Samantha Langley-Turnbough, University of Southern Maine
- Vice President for Innovation and Economic Development Jake Ward, University of Maine

(Note: Included at the end of this testimony are the original and updated responses for your reference.)

Original Written Response Number 1. - The OPEGA report has identified the need for MEIF specific goals and metrics. The University of Maine System will develop specific MEIF goals and metrics that will be derived from the UMS Goals and Actions and each campuses goals and metrics. These metrics will be established and approved by the UMS BOT by 01 FY15 and be included in the FY14 MEIF Annual Report.

Outcomes reported in the previous MEIF reports vary by campus and activity. It is suitable to report these activities separately for each campus and to develop goals and metrics for each campus. Future MEIF reports will articulate this more clearly. The OPEGA report notes only three metrics reported. In addition the MEIF Annual report typically includes the following outcomes:

- Number of proposals submitted and awarded
- Number of company projects
- Grant funded major equipment purchases
- Grant funded student support
- Number of patents files and awarded
- Number/Names of Companies involved in UMS business incubators

The University of Maine has seen significant growth in its R&D activity since the creation of MEIF. Perhaps most important is since MEIF's inception the University of Maine, using MEIF as match, has leveraged substantial federal funds to create and expand Organized Research Units that are now recognized as leaders in their fields and centers of excellence for working with Maine and National problems, Maine companies, entrepreneurs and students. The centers, which did not exist prior to MEIF include:

- The Advanced Structures and Composites Center
- The Aquaculture Research Institute and the Center for Cooperative Aquaculture Research
- The Forest Bioproducts Research Institute and the Process Development Center
- The Advanced Manufacturing Center
- The Advanced Computing Group (supercomputing)
- Inter Media Research and Commercialization Center
- The Target Technology Incubator
- Foster Innovation Center
- The Graduate School of Biomedical Sciences
- Virtual Environment and Multimodal Interaction (VEMI) Laboratory

In addition the University of Maine has seen significant growth in the School of Marine Sciences which was formed in 1996, growth in the agriculture and forestry sector through the Maine

Agriculture and Forestry Experiment Station (established in 18xx), and growth in the College of Engineering.

This growth results in the increased demand for MEIF resources at the University of Maine. To remain competitive and continue to grow, the University of Maine chooses to fund R&D activities through additional sources.

Original Written Response Number 2. The OPEGA Report points out differences in reports year to year and also inconsistencies in data reporting. The MEIF Annual Report includes data tables and narrative descriptions as well as bullets and highlights. In summarizing data, references are sometimes editorialized as "more than..." or "averaging....". In future reports the UMS will make sure that these reference are clarified and articulated more specifically.

However, the outputs from each campus differ greatly and will vary year-to-year and project-by-project. The report will now pay particular attention to the differences.

Finally as specific metrics are determined as dictated in recommendation 1, the annual report will address both data and narrative to show quantitative and qualitative value as well as multi-year trends.

Original Written **Response** Number 3. - The Maine Economic Improvement Fund Task Force will complete the Task Force Report and submit it to the Legislature Labor Commerce Research and Economic Development Committee by October 1, 2014.

The Taskforce, established by statute, was appointed by the Legislative Leadership late. The Task Force met over the course of January to May of 2013. One critical policy recommendation was the inclusion of Maine Maritime Academy as an MEIF eligible "Small Campus". This resulted in legislation that was approved and amended the MEIF statute to include MMA. MMA was included in the FY14 round of SCI MEIF grants and received their first award in the fall of 2014.

Revised Written Response Number 4. - As noted in the OPEGA report UMaine, USM and UMS-SCI have slightly different, risk based approaches to budgeting and transferring MEIF funds for cost sharing on grants during a given fiscal year and across multiple fiscal years. The approaches used by USM and UMS-SCI have been more conservative, utilizing only currently available MEIF monies. UMaine's entrepreneurial approach of committing funds to pending proposals has generally been successful in leveraging more grants and contracts than would have been awarded without this approach. UMaine's approach is acceptable, but requires balancing an acceptable level of risk with maximizing opportunities to obtain external funding.

As the new Vice President of Research, Dr. Carol Kim is reviewing UMaine's policies and procedures around the budgeting and commitment of MEIF to future expenses and will propose a plan that maximizes the opportunity to commit MEIF funds while minimizing the perception of deficit spending. Changes will be made in concert with the UMS and initial conversations have already occurred with the UMS Accounting Department about a possible alternative accounting methods to track matching funds used as cost sharing on awarded grants.

The University of Southern Maine will also adopt financial system monitoring protocol and tools and will adopt a more aggressive approach to committing MEIF funds on a fiscal year basis.

The demand for the Maine Economic Improvement Fund exceeds the current appropriation. The buying power of the annual amount decreases due to inflation each year. UMaine's commitment of non-MEIF funds ($4.7 million in FY13) to fund R&D is consistent with its land grant mission of teaching, research, and service and is prudent to keep the MEIF activity at its targeted levels, and to meet the R&D goals established by UMaine, UMS and the State of Maine.

Revised Written Response Number 5. - Prior to OPEGA issuing its final report in June 2014, the University of Maine System formed a committee ("the Committee") to review potential adjustments to the current general ledger system in order to improve tracking of and reporting on the use of MEIF monies. The Committee is comprised of staff from UMaine, USM, and the System Office and represents the following functional areas:

- Budget
- Accounting
- Research - Administration of MEIF

The Committee held its first meeting on June 11, 2014 and identified a change that was implemented July 1, 2014. This change involves better utilizing our general ledger system to enable us to more efficiently identify the grant projects for which MEIF dollars have been used for cost sharing.

In its meetings to-date, the Committee has identified other possible changes to the general ledger system and has discussed in detail how those changes could be made. Finalizing any such changes was postponed; however, pending selection of measurable goals and objectives in response to OPEGA's recommendation #1. Now that the goals and objectives have been identified, the Committee will reconvene in the very near future to determine whether the possible changes it previously identified support tracking of the established goals and objectives, or whether other changes need to be identified.

The University of Maine System recognizes the challenge of an integrated grants and contract monitoring module with the PeopleSoft ERP system. The implementation of such a system is estimated to cost in excess of a million dollars. The University of Maine System Information Technology Services will scope a project for this effort and present to the University of Maine System in 01, FY15 with possible prioritization within FY15 depending on budget and schedule.

Office of Program Evaluation and Government Accountability (OPEGA)
Summary of Preliminary Tax Expenditure Classification
August 20, 2014

Overview
The 126th Maine State Legislature tasked OPEGA with developing a proposal for a process that would provide ongoing legislative review of the State's tax expenditures. The proposal is due to the Taxation Committee and the Government Oversight Committee by March 1, 2015 (Resolves 2013, Chapter 115). Tax expenditures are tax laws that allow individuals, businesses, or organizations to reduce their tax burden through credits, exemptions, deductions, or other provisions, resulting in reduced State revenue. The Resolve requires OPEGA to assign each tax expenditure to one of three review categories: (A) Full Evaluation; (B) Expedited Review; or (C) No Review. (See the Resolve for more detailed guidelines.) This document summarizes OPEGA's initial effort to classify Maine's tax expenditures into these three review categories.

General Approach
OPEGA used Maine Revenue Services' (MRS) most recent biannual summary of tax expenditures—the 2014-2015 Maine State Tax Expenditure Report (Red Book)—to identify the population of State tax expenditures to be classified. OPEGA reviewed the guidelines outlined in the Resolve and the relevant sections of Statute for each tax expenditure. As necessary, we conducted additional research to gain an understanding of the tax expenditures, and consulted MRS and tax experts at the Pew Center on the States in order to determine our preliminary classifications.
As part of the preliminary classification process, OPEGA also assigned a "Rationale" to each tax expenditure[1] to allow us to group them according to their similarities for the purpose of discussion and review. As we conduct further research, we may adjust the list of Rationales as well as the Rationale assignments for individual expenditures. Table 1 summarizes OPEGA's current list of Rationales.

Classification
Table 2 summarizes the results of OPEGA's initial classification of tax expenditures into Review Categories: (A) Full Evaluation, (B) Expedited Review, or (C) No Review, along with their Rationales. This is followed by a description of the results. Attached is a detailed spreadsheet showing each tax expenditure, along with its Review Category classification, Rationale, and a brief description ("Preliminary Tax Expenditure Classification Spreadsheet"). As shown in the spreadsheet, State tax expenditures apply to multiple types of taxes (see Appendix A for further details on tax types).

[1] This revised and expanded the OPEGA Rationales used during OPEGA's work with the Tax Expenditure Review Task Force during the 126th Legislature.

Table 1. Tax Expenditure Rationales – Developed & Assigned by OPEGA

Rationale	Description
Administrative Burden	Avoids administrative costs that would be incurred by requiring tax to be collected on a certain item.
Business Incentive	Provides an incentive for business development, business-related investments in certain areas or industries, or job-creation.
Charitable	Exempts charitable organizations from taxes. For purposes of this classification, charitable organizations include government, educational, nonprofit, religious, health care and other organizations that assist particular groups in need.[2]
Conformity with IRC	Conforms with federal income tax law (Internal Revenue Code).
Inputs to Tangible Products	Exempts from tax items that are a component part, or considered integral to, the production of a tangible product.
Interstate or Foreign Commerce	Exempts certain items from tax to create an incentive to purchase them in Maine, or helps align Maine's tax policy with other jurisdictions so Maine is not at a competitive disadvantage.
Necessity of Life	Exempts basic needs from tax, such as food and water.
Non-Business Incentive	Creates an incentive for certain behavior (other than business incentives), including offering certain benefits to employees.
Non-Taxable Services	Exempts services from taxation; Maine does not tax most services.
Specific Policy Goal/ Mandate	Supports a specific public policy goal or action mandated by the State.
Tax Fairness	Prevents double taxation or pyramiding (taxing on taxes); provides similar tax treatment of similar transactions/taxpayer situations; or addresses public perception that it would not be fair to tax the item/transaction.
Tax Relief	Reduces taxes for particular groups or in particular situations, and does not fit into one of the other identified Rationales.

Table 2. Number of Expenditures by Review Category & Rationale

Rationale	Review Category			
	A	B	C	Total
Business Incentive	16		3	19
Non-Business Incentive	11		8	19
Tax Relief	8		2	10
Charitable	2	30	43	75
Conformity with IRC		2		2
Tax Fairness		14	7	21
Necessity of Life		13		13
Interstate or Foreign Commerce		13	2	15
Inputs to Tangible Products		7	3	10
Specific Policy	3		5	8

[2] OPEGA developed this definition based on 26 U.S. Code §501(c)(3).

Goal/Mandate				
Non-Taxable Services		2		2
Administrative Burden	1		3	4
Total	**41**	**81**	**76**	**198**

Review Category A – Full Evaluations

Should the Legislature decide to establish an ongoing process for legislative review of tax expenditures, those expenditures in Review Category A would be subject to a Full Evaluation conducted by OPEGA or another qualified evaluation entity. It is anticipated that Full Evaluations would be conducted on a specified schedule, which OPEGA will also be proposing in accordance with the Resolve. The results and recommendations from each Full Evaluation would ultimately be considered by the Taxation Committee, and other relevant policy committees, for possible legislative action.

The Full Evaluation process is intended for those tax expenditures that provide an incentive for specific behaviors, that provide a benefit to a specific group of beneficiaries, or for which measurable goals can be established. The anticipated objectives of a Full Evaluation are described in the Resolve and also listed in Appendix C.

Based on our preliminary classification process, OPEGA has classified 41 tax expenditures in Review Category A, Full Evaluation. The tax expenditures assigned for Full Evaluation represent the following Rationales:

- Business Incentive
- Non-Business Incentive
- Tax Relief
- Charitable
    - Note: OPEGA assigned most tax expenditures with a Rationale of "Charitable" to Review Category B, Expedited Review (see below). However, we tentatively placed two Charitable expenditures (#50 and #52) in A, Full Evaluation pending further research.
- Specific Policy Goal/ Mandate
- Administrative Burden
    - Note: OPEGA classified only one item with a Rationale of "Administrative Burden" to Review Category A. All others were assigned to C, No Review.

Review Category B – Expedited Review

If the Legislature establishes an ongoing process for legislative review of tax expenditures, those expenditures in Review Category B would be subject to an Expedited Review by the Taxation Committee using information and data gathered by OPEGA or another identified entity. It is anticipated that the Taxation Committee would conduct these reviews during the legislative Interim on a rotating schedule, which OPEGA will also be proposing in accordance with the Resolve.

The Expedited Review process is intended for those expenditures that relate to a general tax policy of the State, particularly where it may be difficult to measure the impacts of the expenditures. In an Expedited Review, the logical discussion would be first about the tax policy itself and then about the specific expenditures that have been established as a result of that policy. The anticipated objectives of an Expedited Review are described in the Resolve and also listed in Appendix C.

The State has historically made broad policy decisions not to tax certain groups or types of purchases, and to generally conform with the federal Internal Revenue Code (IRC). OPEGA classified tax expenditures associated with broad policy decisions in Review Category B for Expedited Review, provided that the estimated annual revenue loss was over $50,000 (those under $50,000 were classified in C, No Review, with one exception noted below). OPEGA has classified 81 tax expenditures in Review Category B, Expedited Review, representing the following Rationales:

- Charitable
    - Note: This includes one with annual revenue loss under $50,000 (#49) because we considered it to benefit a very specific group or organization.
- Conformity with IRC
- Tax Fairness
- Necessity of Life
- Interstate or Foreign Commerce
- Inputs to Tangible Products
- Non-Taxable Services

Review Category C – No Review

As specified in the Resolve, Review Category C, No Review, is intended for tax expenditures that have a State revenue loss of less than $50,000, or that otherwise do not warrant a Full Evaluation or Expedited Review. OPEGA has classified 76 expenditures in Review Category C. Of these, 72 had State revenue loss of under $50,000. The other 4 expenditures were assigned to Review Category C for the following reasons:

- Casual Sales (#197) did not seem associated with a broad tax policy (Review Category B) nor practical or worthwhile to collect the information and data needed for a Full Evaluation (Review Category A).
- The Super Credit for Substantially Increased Research and Development (#17) is not an active tax credit, but will result in continued tax loss over the next 10 years because unused credit amounts from past years may be carried forward.
- Two other expenditures (Forest Management Planning Income Credits (#35) and Adaptive Equipment for Handicapped Vehicles (#101)) had an estimated revenue loss that slightly exceeded $50,000 and did not seem fitting for review category A or B, and therefore were placed in C.

OPEGA made the following observations about the expenditures assigned to Review Category C:

- ***Similarities with expenditures in Review Category A.*** Some expenditures in Review Category C have characteristics similar to those expenditures OPEGA assigned to Review Category A for Full Evaluation. Additionally, some expenditures with low estimated revenue loss raised questions for us, such as whether the tax expenditure was fulfilling its legislative intent, or if further discussion of implementation, awareness, enforcement, and associated administrative costs could be warranted. While it may not be appropriate or worthwhile to subject these expenditures to a Full Evaluation, we will likely suggest the Taxation Committee review these at some point to assess their continued relevance, viability or need for enhancements.

- ***Similarities with expenditures in Review Category B.*** Some expenditures in Review Category C are associated with the same broad tax policies that have been assigned to Review Category B for Expedited Review. These include certain expenditures under the Service Provider tax (see Appendix A for further details on tax types). OPEGA identified 29 Charitable tax expenditures under the Sales & Use tax with parallel provisions under the Service Provider tax. Some of these have estimated annual revenue loss under $50,000 and therefore were placed in Review Category C, while those over $50,000 are in B. The Taxation Committee could choose to include all of these expenditures in Category B in order to include those with the same broad tax policies in the review.

Additional Information of Note

- ***Relevance of Resolve Objectives.*** The expected objectives of a Full Evaluation (Category A) and an Expedited Review (Category B) are detailed in the Resolve and included in Appendix C. In the review classification process, OPEGA considered whether the objectives specified in the Resolve seemed relevant, or worthwhile, for each expenditure. Based on our work to date, we note that not all of the Full Evaluation objectives may make sense for every expenditure in Category A. There may also be additional objectives for A or B that we suggest adding related to efficiency in administering the tax expenditure and/or effectiveness and efficiency of compliance mechanisms.
- ***Tax Expenditure Population.*** There are varying benchmarks that may be used to define what is/is not considered a tax expenditure and therefore included in MRS's Maine State Tax Expenditure Report (Red Book), which OPEGA used to determine the population of expenditures potentially subject to review. MRS told OPEGA that their general approach is to be as inclusive as possible. OPEGA does not plan to evaluate the appropriateness of MRS's approach to determining what constitutes a tax expenditure; nor do we plan to undertake a detailed review of Maine tax law in attempt to confirm MRS has identified all existing tax expenditures. Rather, we will seek to understand and describe the overall approach used by MRS to define the population.
- ***OPEGA List Compared to Red Book.*** OPEGA's list of tax expenditures, as shown in the accompanying document titled "Preliminary Tax Expenditure Classification Spreadsheet," differs slightly from those presented in the Red Book. See Appendix B for detailed information on the differences between the two.

Appendix A. Tax Expenditure Types By Review Category

Tax expenditures can apply to various types of taxes. In Tables A1 and A2 below, we provide a brief description of the types of taxes affected by the State's tax expenditures, and the number of tax expenditures by tax type.

Table A1. Description of Tax Types

Tax Type	Description
Sales & Use	*Sales:* Tax imposed on the value of tangible personal property, products transferred electronically, and services designated as taxable services, sold at retail in this State. *Use:* Tax imposed on the storage, use or other consumption of tangible personal property or a service, at the same rate as the sales tax, that applies when the sales tax has not been charged; purchases made out-of-state are the most common type of transactions subject to use tax.
Service Provider	Tax imposed on the value of certain services sold in this State. The liability for this tax is on the seller of the service.
Income	Tax imposed on the Maine taxable income of individuals, estates and trusts, and business entities (such as corporations, limited liability companies, and partnerships).
Property	Tax imposed on all real estate within the State, all personal property of residents of the State and all personal property within the State of persons not residents of the State.
Other	*Gasoline:* Tax imposed on internal combustion engine fuel used or sold in the State. *Special Fuel:* Tax imposed on all suppliers of distillates sold, on all retailers of low-energy fuel sold, and on all users of special fuel used in this State. *Cigarette:* Tax imposed on all cigarettes imported into or held in this State by any person for sale. *Real Estate Transfer:* Tax imposed on each deed by which any real property in this State is transferred.

Source: OPEGA summary of information from Maine Revised Statutes, Title 36.

Table A2. Review Category by Tax Type

Tax Type	Review Category			
	A	B	C	Total
Sales & Use	10	64	36	110
Service Provider	3	4	24	31
Income	24	5	15	44
Property	3			3
Other	1	8	1	10
Total	**41**	**81**	**76**	**198**

Appendix B. Differences in OPEGA's Tax Expenditure List as Compared to the 2014-2015 Maine Revenue Services State Tax Expenditure Report (Red Book)

OPEGA's list of tax expenditures differs slightly from the list presented in the Red Book. We made the following adjustments to the Red Book items in preparing our list.

- ***Non-taxable Services.*** The Red Book includes separate entries for tax expenditures for non-taxable services by service sector (p. 179-192 and p. 195 in the most recent version of the Red Book). MRS has developed the separate entries based on available data for estimating financial impact. However, these are not enumerated as separate tax expenditures in Statute; rather 36 MRSA §1752.17-B defines a limited number of services as taxable. For this reason, OPEGA presents these as one tax expenditure "Non-taxable Services." (See #193 on OPEGA's Preliminary Tax Expenditure Classification Spreadsheet.)
- ***New tax expenditures.*** Four new tax expenditures were enacted during the 126th Legislature and were included in OPEGA's analysis. These were enacted after publication of the most recent version of the Red Book.
- ***Repealed tax expenditures.*** Three tax expenditures were repealed during the 126th Legislature and are not included in OPEGA's analysis. These include Publications Sold on Short Intervals, Snowmobiles & All-terrain Vehicles Purchased by Nonresidents, and the Maine Residents Property Tax (Circuitbreaker) Program.
- ***Expired tax expenditures.*** OPEGA identified two expenditures that have expired but remain in Statute. We removed these from our list and will likely suggest the Taxation Committee determine whether they should be repealed and removed from statute. These include Sales of Tangible Personal Property to Qualified Wind Power Generators, and Reimbursement of Tax to Certain Qualified Wind Power Generators.
- ***Conformity with Internal Revenue Code.*** For certain income tax deductions, credits and exclusions, Maine law fully conforms with federal tax law (the Internal Revenue Code, or IRC). In the Red Book, MRS breaks some of these out as individual tax expenditures and includes the rest in one item called "Other Conformity" as shown in Appendix A on page 209. OPEGA has collapsed all full conformity tax expenditures into one item "Conformity with IRC". (Note this also includes the Additional standard deduction for the elderly and disabled, and the Deduction for exempt associations, trusts, and organizations, which MRS estimates separately). MRS told OPEGA that in the most recent publication of the Red Book they chose to individually report only those conformity items for which they had data or could reasonably estimate the impact. The "Other conformity" category is a catch all for numerous relatively small conformity provisions that they do not have enough precision to estimate and would be difficult for the State not to conform to. The standard deduction and personal exemption are no longer included in the report; MRS said they mirror the federal government's approach in this aspect.
- ***OPEGA Rationale vs. Red Book Reason for Exemption.*** The Red Book identifies "Reason(s) for exemption" for each tax expenditure. In some instances, the OPEGA identified Rationale for the tax expenditure does not align with the Red Book's specified Reason for Exemption. Such differences may result from how OPEGA interpreted the tax expenditure or from the limited set of Rationales OPEGA used. OPEGA anticipates that the Rationales will primarily be used to assist in grouping tax expenditures with similar characteristics together for scheduling of reviews. OPEGA will be consulting with MRS and conducting further research to refine the Rationale assignments in the next phases of developing our proposal. Legislators or stakeholders are welcome to suggest changes to our preliminary Rationales.

- ***Tax Expenditure Title.*** In some instances, OPEGA adjusted the Red Book's tax expenditure titles for clarification or to make them more descriptive.
- ***FY15 Estimated Tax Loss.*** OPEGA adjusted some of MRS's tax revenue loss estimates based on Office of Fiscal and Program Review (OFPR) data on the fiscal impact of new tax laws from the 126th Legislature.

Appendix C. Evaluation and Review Objectives from Resolves 2013, Chapter 115

Full Evaluations

As outlined in the Resolve (Section 1, subsection 3, paragraph C), objectives of a Full Evaluation (Review Category A) are as follows:

(1) The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries;

(2) The fiscal impact of the tax expenditure, including past and estimated future impacts;

(3) The extent to which the design of the tax expenditure is effective in accomplishing its purposes, intent or goals and is consistent with best practices;

(4) The extent to which the tax expenditure is achieving its identified purposes, intent or goals;

(5) The extent to which the desired behavior might have occurred without the tax expenditure;

(6) The extent to which there are other tax expenditures, state spending or other government programs that have the same purposes, intent or goals as the tax expenditure and whether those additional programs are appropriately coordinated with the tax expenditure and are complementary or duplicative;

(7) Any opportunities to improve the effectiveness of the tax expenditure in meeting its purposes, intent or goals; and

(8) 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.

Expedited Reviews

As outlined in the Resolve (Section 1, subsection 4), Expedited Reviews (Review Category B) have the objectives of identifying:

A. A description of each tax policy basis associated with a tax expenditure and the reasons the State adopted the tax policy;

B. The fiscal impact of each tax policy and each related tax expenditure, including past and estimated future impacts;

C. The extent to which each tax policy is consistent or inconsistent with other state goals;

D. The extent to which the reasons for the adoption of each tax policy still remain or whether the tax policy should be reconsidered;

E. The extent to which the design of each tax expenditure is effective to accomplish its tax policy purpose; and

F. Whether there are reasons to consider discontinuing or amending a specific tax expenditure.

Preliminary Tax Expenditure Classification

8/20/14

Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
1	Business Incentive	A	Income	Credit	High-Technology Investment Tax Credit	Tax credit for costs of eligible equipment used in certain high technology activities, including the design and production of computer software and equipment, and the provision of Internet and telecommunications services, with limitations.	$1,000,000	5219-M
2	Business Incentive	A	Income	Credit	Jobs and Investment Tax Credit	Tax credit for qualified investment of at least $5,000,000 in property within the State and creation of at least 100 new jobs (with a designated level of wages, health and retirement benefits), with limitations.	C	5215
3	Business Incentive	A	Income	Credit	Maine Fishery Infrastructure Investment Tax Credit	Tax credit for up to 50% of investment in eligible fishery infrastructure projects to benefit the public; requires tax credit certificate from the Department of Inland Fisheries and Wildlife.	$135,000	5216-D
4	Business Incentive	A	Income	Credit	New Markets Capital Investment Credit	Tax credit for qualified equity investments in low-income community businesses made via a community development entity, with limitations.	$5,600,000	5219-HH
5	Business Incentive	A	Income	Credit	Pine Tree Development Zone Tax Credit	Tax credit for qualified businesses that expand or begin operations in the State; 100% of Maine income tax liability is waived for the first 5 years, and 50% for years 6 to 10; ends in 2029.	$3,300,000	5219-W
6	Business Incentive	A	Income	Credit	Research Expense Tax Credit	Tax credit for qualified research expenses associated with certain technological and experimental research, with limitations.	$850,000	5219-K
7	Business Incentive	A	Income	Credit	Seed Capital Investment Tax Credit	Tax credit for capital investment in certain types of new business ventures (including manufacturing, export businesses, advanced technology, and visual media production), with limitations. Expected to increase by up to $2 million in future years as a result of recent legislation.	$1,653,000	5216-B
8	Business Incentive	A	Income	Credit	Shipbuilding Facility Credit	Tax credit against withholding taxes for owners of shipbuilding facilities with at least 6,500 employees, who invest at least $200,000,000 related to construction, improvement, modernization or expansion of a 10 acre facility, with limitations.	$2,968,750	Chapter 919
9	Business Incentive	A	Income	Credit	Tax Benefits for Media Production Companies	Tax credit (5% of nonwage production expenses, if >$75,000) and reimbursement (12% of production wages) for certified productions of visual media production companies.	B	5219-Y, 6902

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

Preliminary Tax Expenditure Classification

8/20/14

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#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
20**	Business Incentive **out *of order due to revisions*	A	Income	Credit	Credit for Rehabilitation of Historic Properties	Income tax credit for expenditures in rehabilitation of certified historic properties, with limitations. Fiscal impact is expected to increase $1.4 million in FY17 and perhaps more in future years as a result of recently enacted legislation.	$7,900,000	5219-BB
10	Business Incentive	A	Income	Reimbursement	Employment Tax Increment Financing, including certain Job Increment Financing Programs	Reimbursement to certain businesses of income tax attributed to qualified employees (those receiving a designated level of wages, health and retirement benefits), subject to limitations including unemployment rates in the area; ends in 2028.	$10,599,000	Chapter 917
11	Business Incentive	A	Property	Reimbursement	Reimbursement For Business Equipment Tax Exemption to Municipalities (BETE)	Reimbursement to municipalities of revenue losses, with limitations, due to the property tax exemption for qualified business equipment.	$27,103,362	Chapter 105, subc. 4-C
12	Business Incentive	A	Property	Reimbursement	Reimbursement for Taxes Paid on Certain Business Property (BETR)	Reimbursement of property tax paid on qualified business property, with limitations. FY15 tax loss shows a decrease from prior years resulting from recently enacted legislation.	$31,080,000	Chapter 915
13	Business Incentive	A	Sales & Use	Exemption	New Machinery for Experimental Research	Sales of machinery and equipment for biotechnology research.	B	1760.32
14	Business Incentive	A	Sales & Use	Exemption	Sales of Tangible Personal Property to Qualified Development Zone Businesses	Sales of tangible personal property and transmission and distribution of electricity to qualified Pine Tree Development Zone businesses. Ends in 2028.	C	1760.87
15	Business Incentive	A	Sales & Use	Reimbursement	Pine Tree Development Zone Businesses; Reimbursement of Certain Taxes	Reimbursement of taxes paid on sale or use of tangible personal property that becomes a permanent part of real property owned by or sold to a Pine Tree Development Zone business. Ends in 2028.	C	2016
16	Business Incentive	C	Income	Credit	Biofuel Commercial Production and Commercial Use	Tax credit on income derived from biofuel production; equal to 5 cents per gallon of biofuel.	A	5219-X
17	Business Incentive	C	Income	Credit	Super Credit for Substantially Increased Research & Development	Additional tax credit for taxpayers qualifying for the Research Expense Tax Credit (#6) with expenses beyond what is covered under that credit, with certain limitations. Beginning in tax year 2014, except for carry forward amounts this is no longer an active tax credit. Allowable carry forward period is 10 years.	$2,055,800	5219-L
18	Business Incentive	C	Income	Deduction	Deduction for Contributions to Capital Construction Funds	Deduction for contributions to a capital construction fund for maintenance or replacement of fishing vessels.	A	5122.2.1

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

Preliminary Tax Expenditure Classification

8/20/14

Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
19	Non-Business Incentive	A	Income	Credit	Credit for Educational Opportunity	Tax credit for certain educational loan payments made by participants in the Job Creation Through Educational Opportunity Program and their employers; participants must be residents who remain in Maine after obtaining a degree here.	$5,210,000	5217-D
21	Non-Business Incentive	A	Income	Credit	Credit for Wellness Programs	Tax credit to employers with 20 or fewer employees for expenditures on wellness programs up to $2,000.	$318,000	5219-FE
22	Non-Business Incentive	A	Income	Credit	Dental Care Access Credit	Tax credit (not to exceed $15,000) for a limited number of licensed dentists who agree to practice in underserved areas of the state for at least 5 years and are certified eligible by the State's oral health program; ends in 2020.	$162,000	5219-DD
23	Non-Business Incentive	A	Income	Credit	Earned Income Credit	Tax credit equal to 4% of the federal earned income tax credit (EITC) received that year; EITC is a credit for individuals who have earned income under a certain limit.	$937,000	5219-S
24	Non-Business Incentive	A	Income	Credit	Innovation Finance Credit	Refundable tax credit available to the Maine Public Employees Retirement System for capital losses sustained in the Innovation Finance Program administered by the Finance Authority of Maine, which encourages investment in venture captial funds for innovative Maine businesses. Ends in 2029.	up to $4,000,000	5219-EE
25	Non-Business Incentive	A	Income	Deduction	Deduction for Affordable Housing	Deduction for income resulting from sale of certified multifamily affordable housing properties.	D	5122.2.Z
26	Non-Business Incentive	A	Income	Deduction	Deduction For Contributions To IRC 529 Qualified Tuition Plans	Deduction for contributions to qualified tuition programs under Section 529 of the Internal Revenue Code (529 plans) up to $250 per beneficiary, with income limitations.	$257,000	5122.2.Y
27	Non-Business Incentive	A	Income	Deduction	Deduction for Interest and Dividends on Maine State and Local Securities - Individual Income Tax	Individual income tax deduction for interest or dividends on securities issued by the State and its political subdivisions.	$120,000	5122.2.N
28	Non-Business Incentive	A	Income	Deduction	Deduction for Interest and Dividends on U.S., Maine State and Local Securities	Corporate income tax deduction for interest or dividends on securities issued by the State and its political subdivisions.	$320,000	5200-A.2.A, 5200-A.2.K
29	Non-Business Incentive	A	Income	Deduction	Deduction for Premiums Paid for Long-Term Health Care Insurance	Deduction for premiums spent for qualified long-term care insurance contracts.	$2,001,000	5122.21, 5122.2.T
30	Non-Business Incentive	A	Sales & Use	Exemption	Sales of Certain Qualified Snowmobile Trail Grooming Equipment	Sales of snowmobile trail grooming equipment to incorporated snowmobile clubs.	$81,236	1760.90

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

Preliminary Tax Expenditure Classification

Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review **Category**	Tax Type	Expenditure **Type**	Expenditure Program Name	**Brief Description**	**FY15 Revenue Loss (estimate)***	**Statutory Cite: Title 36**
31	Non-Business Incentive	C	Income	Credit	Credit for Contributions to Family Development Account Reserve Funds	Tax credit for eligible individuals who contribute to family development accounts, with limitations; these are savings accounts for education, job training, home expenses and other basic necessities.	A	5216-C
32	Non-Business Incentive	C	Income	Credit	Credit for Dependent Health Benefits Paid	Tax credit for employers with <5 employees for a portion of dependent health benefits paid for low-income employees under a health benefit plan, with limitations.	A	5219-0
33	Non-Business Incentive	C	Income	Credit	Credit for Employer-Assisted Day Care	Tax credit to employers for a portion of their costs to provide day care services to employees.	A	5217
34	Non-Business Incentive	C	Income	Credit	Credit for Employer-Provided Long-Term Care Benefits	Tax credit to employers for a portion of their costs to provide long-term care insurance to employees.	A	5217-C
35	Non-Business Incentive	C	Income	Credit	Forest Management Planning Income Credits	Tax credit for the cost of developing a forest management and harvest plan for forest land over 10 acres every 10 years; maximum of $200.	$70,000	5219-C
36	Non-Business Incentive	C	Income	Credit	Quality Child Care Investment Credit	Tax credit for individual or corporate investment in providing quality child care services, with limitations.	A	5219-0
37	Non-Business Incentive	C	Income	Credit	Primary Care Access Credit	Tax credit for outstanding student loans available to a limited number of primary care medical professionals who agree to practice in underserved areas of the state for at least 5 years, with limitations.	$22,230	5219-KK
38	Non-Business Incentive	C	Income	Deduction	Deduction for Dentists with Military Pensions	Deduction for military pension benefits received by licensed dentists who work at least 20 hours per week and accept MaineCare patients.	A	5122.2.BB
39	Tax Relief	A	Income	Credit	Income Tax Credit for Child Care Expense	Tax credit for child and dependent care expenses in the amount of 25% of the federal tax credit; the credit doubles for expenses incurred for quality child care services. Maximum of $500.	$3,972,000	5218
40	Tax Relief	A	Income	Deduction	Deduction for Pension Income & IRA Distributions	Deduction for pension benefits received under employee retirement plans and taxable distributions from individual retirement accounts, up to $10,000.	$30,300,000	5122.2.M
41	Tax Relief	A	Income	Deduction	Deduction for Social Security Benefits Taxable at Federal Level	Deduction for social security benefits and railroad retirement benefits.	$57,500,650	5122.2.0

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

Preliminary Tax Expenditure Classification

8/20/14

Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
42	Tax Relief	A	Property	Credit	Property Tax Fairness Credit	Property tax credit for Maine residents based on a formula, not to exceed $600 for those under 65 years of age, or $900 for those over 65, with income limitations.	$34,505,000	5219-KK
43	Tax Relief	A	Sales & Use	Exemption	Railroad Track Materials	Sales of railroad track materials for installation on railroad lines within the State.	$361,000	1760.52
44	Tax Relief	A	Sales & Use	Refund	Refund of Sales Tax on Purchases of Parts and Supplies for Windjammers	Refund of sales tax paid on purchases of parts and supplies for use for operation, repair or maintenance of a windjammer providing commercial cruises.	$79,800	2020
45	Tax Relief	A	Service Provider	Exemption	Basic Cable & Satellite Television Service	Sale of the minimum service that can be purchased from a cable or satellite television supplier.	$4,455,500	2551.2
46	Tax Relief	A	Service Provider	Exemption	Certain Telecommunications Services	Sales of interstate and international telecommunications services.	$10,678,000	2557.33, 2557.34
47	Tax Relief	C	Income	Credit	Retirement and Disability Credit	Partial tax credit (20%) of the allowable federal tax credit for those retired on disability or 65 and older with income below $17,500 (single) or $25,000 (married).	$5,000	5219-A
48	Tax Relief	C	Income	Deduction	Deduction for Holocaust Victim Settlement Payments	Deduction for settlement payments received by Holocaust victims.	A	5122.2.0
50	Charitable	A	Sales & Use	Exemption	Construction Contracts with Exempt Organizations	Sales of tangible personal property to contractors for incorporation in real property for sale to any sales tax exempt organization or government agency.	D	1760.61
52	Charitable	A	Service Provider	Exemption	Construction contracts with exempt organizations	Sales of fabrication services to contractors for incorporation in real property for sale to any sales tax exempt organization or government agency.	C	2557.31
53	Charitable	B	Other	Exemption	State and Local Government Exemption from the Gasoline Tax	Gasoline Tax exemption for sales to the State or any political subdivision of the State. (Highway Fund)	$1,957,126	2903.4.0
54	Charitable	B	Other	Exemption	State & Local Government Exemption from the Special Fuel Tax	Special Fuel Tax exemption for sales to the State or any political subdivision of the State. (Highway Fund)	$2,316,821	3204-A.3
49**	Charitable **out *of order due to revisions*	B	Sales & Use	Exemption	Meals for Residents of Certain Nonprofit Congregate Housing Facilities	Sales of meals to residents of nonprofit church-affiliated congregate housing facilities for the lower-income elderly.	A	1760.6.D
51**	Charitable **out *of order due to revisions*	B	Sales & Use	Exemption	Certain Sales by an Auxiliary Organization of the American Legion	Sales of meals and related items and services by a nonprofit auxiliary organization of the American Legion in connection with a fundraising event, under specified conditions.	B	1760.85

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

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Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
55	Charitable	B	Sales & Use	Exemption	Sales to the State & Political Subdivisions	Sales to the State or federal government or to any political subdivision, agency, or instrumentality of them.	$171,745,988	1760.2
56	Charitable	B	Sales & Use	Exemption	Meals Served by Public or Private Schools	Sales of meals served by schools and school organizations to students and teachers.	$11,331,579	1760.6.A
57	Charitable	B	Sales & Use	Exemption	Providing Meals for the Elderly	Sales of meals to nonprofit area agencies on aging to provide meals to the elderly.	$328,063	1760.6.0
58	Charitable	B	Sales & Use	Exemption	Meals Served by Youth Camps Licensed by DHHS	Sales of meals served by state-licensed youth camps.	C	1760.6.F
59	Charitable	B	Sales & Use	Exemption	Meals Served by a Retirement Facility to its Residents	Sales of meals served by a retirement facility to its residents under specified conditions.	$570,950	1760.6.G
60	Charitable	B	Sales & Use	Exemption	Sales to Hospitals, Research Centers, Churches and Schools	Sales to schools, churches, hospitals, certain nonprofit health and human service organizations, certain research organizations, and educational television and radio stations.	F	1760.16
61	Charitable	B	Sales & Use	Exemption	Sales to Certain Nonprofit Residential Child Caring Institutions	Sales to State-licensed private nonprofit residential child caring institutions.	B	1760.18-A
62	Charitable	B	Sales & Use	Exemption	Rental of Living Quarters at Schools	Rental charges for living quarters required for attendance at a school.	E	1760.19
63	Charitable	B	Sales & Use	Exemption	Sales to Ambulance Services & Fire Departments	Sales to nonprofit fire departments, ambulance services, and air ambulance services.	C	1760.26
64	Charitable	B	Sales & Use	Exemption	Sales to Comm. Mental Health, Substance Abuse & Mental Retardation Facilities	Sales to community mental health, adult developmental services and substance abuse services facilities.	B	1760.28
65	Charitable	B	Sales & Use	Exemption	Sales to Historical Societies & Museums	Sales to certain nonprofit memorial foundations, historical societies, and museums.	B	1760.42
66	Charitable	B	Sales & Use	Exemption	Sales to Day Care Centers & Nursery Schools	Sales to licensed nonprofit nursery schools and day care centers.	B	1760.43
67	Charitable	B	Sales & Use	Exemption	Sales to Emergency Shelters & Feeding Organizations	Sales to nonprofit organizations providing free temporary emergency shelter or food to underprivileged individuals.	B	1760.47-A
68	Charitable	B	Sales & Use	Exemption	Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	Sales to nonprofit child abuse and neglect prevention councils, certain child advocacy organizations and community action agencies.	C	1760.49
69	Charitable	B	Sales & Use	Exemption	Sales to any Nonprofit Free Libraries	Sales to nonprofit government-funded free public lending libraries, and sales by the library or a nonprofit established to support the library.	B	1760.50

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#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
70	Charitable	B	Sales & Use	Exemption	Sales to Nonprofit Youth Althetic & Scouting Organizations	Sales to nonprofit youth organizations whose primary purpose is to provide athletic instruction, and nonprofit scouting organizations.	C	1760.56
71	Charitable	B	Sales & Use	Exemption	Sales by Schools & School-Sponsored Organizations	Sales by schools and school organizations, provided that sales benefit the school, organization, or a charitable purpose.	C	1760.64
72	Charitable	B	Sales & Use	Exemption	Sales to Nonprofit Home Construction Organizations	Sales to nonprofit organizations that construct low-cost housing for low-income people.	B	1760.67
73	Charitable	B	Sales & Use	Exemption	Sales to Nonprofit Housing Development Organizations	Sales to nonprofit organizations whose primary purpose is developing housing for low-income people.	B	1760.72
74	Charitable	B	Sales & Use	Exemption	Returned Merchandise Donated to Charity	Donation of returned merchandise by a retailer to a charitable organization exempt from federal income tax under 501(c)(3).	B	1863
75	Charitable	B	Sales & Use	Exemption	Merchandise Donated from a Retailer's Inventory to Exempt Organizations	Donation of merchandise from inventory by a retailer to an organization exempt from Maine sales tax.	B	1864
76	Charitable	B	Sales & Use	Exemption	Free Publications	Sales of publications purchased for distribution free of charge and sales of printed materials for inclusion in such publications.	$1,797,609	1760(14-A)
77	Charitable	B	Service Provider	Exemption	Sales to the State & Political Subdivisions	Sales to the State or federal government or to any political subdivision, agency, or instrumentality of them.	D	2557.2
78	Charitable	B	Service Provider	Exemption	Sales to Hospitals, Research Centers, Churches and Schools	Sales to schools, churches, hospitals, certain incorporated nonprofit health and human service organizations, certain research organizations, and educational television and radio stations.	C	2557.3
79	Charitable	B	Service Provider	Exemption	Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	Sales to nonprofit child abuse and neglect prevention councils, certain child advocacy organizations and community action agencies.	B	2557.13
80	Charitable	B	Service Provider	Exemption	Sales to Nonprofit Youth & Scouting Organizations	Sales to nonprofit youth organizations whose primary purpose is to provide athletic instruction, and nonprofit scouting organizations.	B	2557.18
81	Charitable	C	Sales & Use	Exemption	Automobiles Used in Driver Education Programs	Automobile sales to automobile dealers to equip and provide them to schools for driver education programs.	A	1760.21
82	Charitable	C	Sales & Use	Exemption	Automobiles Sold to Certain Disabled Veterans	Sales of automobiles to certain amputee and blind veterans.	A	1760.22
83	Charitable	C	Sales & Use	Exemption	Goods & Services for Seeing Eye Dogs	Sales of tangible personal property and taxable services for the care and maintenance of seeing eye dogs to aid any blind person.	A	1760.35

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84	Charitable	C	Sales & Use	Exemption	Sales to Regional Planning Agencies	Sales to regional planning commissions and councils of government.	A	1760.37
85	Charitable	C	Sales & Use	Exemption	Sales to Church Affiliated Residential Homes	Sales to church affiliated nonprofit organizations operating a residential home for adults under charter by the Legislature.	A	1760.44
86	Charitable	C	Sales & Use	Exemption	Sales to Organ. that Provide Residential Facilities for Med. Patients	Sales to nonprofit organizations providing temporary residential accomodations to medical patients and their families.	A	1760.46
87	Charitable	C	Sales & Use	Exemption	Sales to Veterans' Memorial Cemetery Associations	Sales to nonprofit Veterans' Memorial Cemetery Associations.	A	1760.51
88	Charitable	C	Sales & Use	Exemption	Sales to Nonprofit Rescue Operations	Sales to nonprofit volunteer search and rescue organizations.	A	1760.53
89	Charitable	C	Sales & Use	Exemption	Sales to Hospice Organizations	Sales to nonprofit hospice organizations.	A	1760.55
90	Charitable	C	Sales & Use	Exemption	Self-Help Literature on Alcoholism	Sales of self-help literature on alcoholism to alcoholics anonymous groups.	A	1760.57
91	Charitable	C	Sales & Use	Exemption	Portable Classrooms	Sales of tangible personal property to become part of a portable classroom for lease to a school.	A	1760.58
92	Charitable	C	Sales & Use	Exemption	Sales to Certain Nonprofit Educational Orgs.	Sales to State-funded nonprofit educational organizations providing decision making programs about drugs, alcohol and relationships at residential youth camps.	A	1760.59
93	Charitable	C	Sales & Use	Exemption	Sales to Nonprofit Animal Shelters	Sales to nonprofit animal shelters of tangible personal property used in the operation and maintenance of the shelter and animal care.	A	1760.60
94	Charitable	C	Sales & Use	Exemption	Sales to Certain Charitable Suppliers of Medical Equipment	Sales to nonprofit charitable organizations that lend medical supplies and equipment free of charge.	A	1760.62
95	Charitable	C	Sales & Use	Exemption	Sales to Orgs that Fulfill the Wishes of Children with Life-Threatening Diseases	Sales to nonprofit organizations whose sole purpose is to fulfill the wishes of children with life-threatening diseases.	A	1760.63
96	Charitable	C	Sales & Use	Exemption	Sales to Monasteries and Convents	Sales of tangible personal property to nonprofit monasteries and convents for use in their operation and maintenance.	A	1760.65
97	Charitable	C	Sales & Use	Exemption	Sales to Providers of Certain Support Systems for Single-Parent Families	Sales to nonprofit organizations providing support systems for single-parent families.	A	1760.66
98	Charitable	C	Sales & Use	Exemption	Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans	Sales to nonprofit organizations whose sole purpose is to maintain a registry of Vietnam veterans.	A	1760.69

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#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure **Program** Name	Brief **Description**	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
99	Charitable	C	Sales & Use	Exemption	Sales to Orgs that Provide Certain Services for Hearing-Impaired Persons	Sales to nonprofit organizations whose primary purpose is to promote understanding of hearing impairment and assist hearing-impaired persons.	A	1760.70
100	Charitable	C	Sales & Use	Exemption	Sales to Eye Banks	Sales to nonprofit organizations whose primary purpose is to medically evaluate and distribute eyes for transplantation, research, and education.	A	1760.77
101	Charitable	C	Sales & Use	Exemption	Adaptive Equipment for Handicapped Vehicles	Sales of adaptive equipment used to make a motor vehicle operable or accessible by a person with a disability.	$59,337	1760(95)
102	Charitable	C	Service Provider	Exemption	Sales to Certain Nonprofit Residential Child Care Institutions	Sales to State-licensed private nonprofit residential child caring institutions.	A	2557.4
103	Charitable	C	Service Provider	Exemption	Sales to Ambulance Services & Fire Departments	Sales to nonprofit fire departments, ambulance services and air ambulance services.	A	2557.5
104	Charitable	C	Service Provider	Exemption	Sales to Comm. Mental Health, Substance Abuse & Mental Retardation Facilities	Sales to community mental health, adult developmental services and substance abuse services facilities.	A	2557.6
105	Charitable	C	Service Provider	Exemption	Sales to Regional Planning Agencies	Sales to Regional Planning Commissions and Councils of Government.	A	2557.7
106	Charitable	C	Service Provider	Exemption	Sales to Historical Societies & Museums	Sales to certain nonprofit memorial foundations, historical societies, and museums.	A	2557.8
107	Charitable	C	Service Provider	Exemption	Sales to Day Care Centers & Nursery Schools	Sales to licensed nonprofit nursery schools and day care centers.	A	2557.9
108	Charitable	C	Service Provider	Exemption	Sales to Church Affiliated Residential Homes	Sales to church affiliated nonprofit organizations operating a residential home for adults under charter by the Legislature.	A	2557.10
109	Charitable	C	Service Provider	Exemption	Sales to Organ. that Provide Residential Facilities for Med. Patients	Sales to nonprofit organizations providing temporary residential accomodations to medical patients and their families.	A	2557.11
110	Charitable	C	Service Provider	Exemption	Sales to Emergency Shelters & Feeding Organizations	Sales to nonprofit organizations that provide free temporary emergency shelter or food.	A	2557.12
111	Charitable	C	Service Provider	Exemption	Sales to any Nonprofit Free Libraries	Sales to nonprofit government-funded free public lending libraries, and sales by the library or a nonprofit established to support the library.	A	2557.14
112	Charitable	C	Service Provider	Exemption	Sales to Veterans Memorial Cemetery Associations	Sales to nonprofit Veterans' Memorial Cemetery Associations.	A	2557.15

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#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
113	Charitable	C	Service Provider	Exemption	Sales to Nonprofit Rescue Operations	Sales to nonprofit volunteer search and rescue organizations.	A	2557.16
114	Charitable	C	Service Provider	Exemption	Sales to Hospice Organizations	Sales to nonprofit hospice organizations.	A	2557.17
115	Charitable	C	Service Provider	Exemption	Sales to Certain Incorporated Nonprofit Educational Orgs.	Sales to State-funded nonprofit educational organizations providing decision making programs about drugs, alcohol and relationships at residential youth camps.	A	2557.19
116	Charitable	C	Service Provider	Exemption	Sales to Certain Charitable Suppliers of Medical Equipment	Sales to nonprofit charitable organizations that lend medical supplies and equipment free of charge.	A	2557.20
117	Charitable	C	Service Provider	Exemption	Sales to Orgs that Fulfill the Wishes of Children with Life-Threatening Diseases	Sales to nonprofit organizations whose sole purpose is to fulfill the wishes of children with life-threatening diseases.	A	2557.21
118	Charitable	C	Service Provider	Exemption	Sales to Providers of Certain Support Systems for Single-Parent Families	Sales to nonprofit organizations providing support systems for single-parent families.	A	2557.22
119	Charitable	C	Service Provider	Exemption	Sales to Nonprofit Home Construction Organizations	Sales to nonprofit organizations that construct low-cost housing for low-income people.	A	2557.23
120	Charitable	C	Service Provider	Exemption	Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans	Sales to nonprofit organizations whose sole purpose is to maintain a registry of Vietnam veterans.	A	2557.24
121	Charitable	C	Service Provider	Exemption	Sales to Orgs that Provide Certain Services for Hearing-Impaired Persons	Sales to nonprofit organizations whose primary purpose is to promote understanding of hearing impairment and assist hearing-impaired persons.	A	2557.25
122	Charitable	C	Service Provider	Exemption	Sales to Nonprofit Housing Development Organizations	Sales to nonprofit organizations whose primary purpose is developing housing for low-income people.	A	2557.27
123	Charitable	C	Service Provider	Exemption	Sales to Eye Banks	Sales to nonprofit organizations whose primary purpose is to medically evaluate and distribute eyes for transplantation, research, and education.	A	2557.28
124	Conformity with IRC	B	Income	Deduction	Itemized Deductions	Maine generally conforms to itemized deductions allowed by the U.S. Internal Revenue Code with some exceptions.	$140,094,000	5125
125	Conformity with IRC	B	Income	Deduction	Sum of All Other Conformity Provisions	Maine generally conforms to exclusions and deduction provisions in the U.S. Internal Revenue Code used to calculate federal adjusted gross income.	$804 million - $905 million	Various
126	Tax Fairness	B	Income	Credit	Credit for Income Tax Paid to Other Jurisdiction	Tax credit for residents of income tax paid to another state or jurisdiction, with limitations.	$48,480,000	5217-A

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127	Tax Fairness	B	Income	Deduction	Deduction for Active Duty Military Pay Earned Outside of Maine	Deduction for military pay earned for service performed outside the State.	$1,972,000	5122.2.LL
128	Tax Fairness	B	Income	Deduction	Deduction for Dividends Received from Nonunitary Affiliates	Deduction for 50% of dividend income received by a business from an affiliated corporation that is not part of the taxpayer's unitary (i.e. central/integrated) business.	$10,200,000	5200-A.2.G
129	Tax Fairness	B	Other	Exemption	Exemptions of the Real Estate Transfer Tax	Real estate tax exemption for certain types of deeds, including deeds to property transferred to or by governmental entities, and certain transfers of property. (General Fund, HOME. Fund, Housing and Economic Recovery Fund)	C	4641-C
130	Tax Fairness	B	Other	Refund	Refund of the Gasoline Tax for Off-Highway Use and for Certain Bus Companies	Gasoline Tax refund (except one cent per gallon) for taxes paid on gasoline used in certain off-highway vehicles or in buses primarily offering tax-exempt fares. This gasoline is additionally subjected to Use Tax. (Highway Fund)	$960,000	2908, 2909
131	Tax Fairness	B	Other	Refund	Refund of the Special Fuel Tax for Off-Highway Use and for Certain Bus Companies	Special Fuel Tax refund (except one cent per gallon) for taxes paid on gasoline used in certain off-highway vehicles or in buses primarily offering tax-exempt fares. This gasoline is additionally subjected to Use Tax. (Highway Fund)	$4,500,000	3215, 3218
132	Tax Fairness	B	Sales 9t Use	Exemption	Certain Returnable Containers	Sales of returnable containers when sold with contents at retail, or when resold for refilling.	$1,365,839	1760.12
133	Tax Fairness	B	Sales 84 Use	Exemption	Packaging Materials	Sales of packaging materials to businesses engaged in packaging, transporting, shipping, or servicing tangible property.	$10,773,000	1760.12-A
134	Tax Fairness	B	Sales & Use	Exemption	Certain Loaner Vehicles	Use of a loaner vehicle provided by a new vehicle dealer to a service customer pursuant to warranty.	$241,956	1760.21-A
135	Tax Fairness	B	Sales & Use	Exemption	Mobile & Modular Homes	Sales of used manufactured housing and sales of new manufactured housing excluding the cost of materials, up to 50% of the sale price.	$18,271,911	1760.40
136	Tax Fairness	B	Sales & Use	Exemption	Certain Property Purchased Out of State	Sales of certain property purchased and used out of state, including automobiles, snowmobiles, ATVs, aircraft, and property brought into the state for use in a declared state disaster or emergency, subject to certain restrictions.	D	1760.45
137	Tax Fairness	B	Sales & Use	Exemption	Meals & Lodging Provided to Employees	Meals or lodging provided to employees at the place of employment when credited toward the wages of the employees.	$147,250	1760.75

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138	Tax Fairness	B	Sales & Use	Exemption	Trade-In Credits	Trade-in value for property including motor vehicles, watercraft, aircraft, trailers, truck campers, and other equipment, when traded toward the sale price of a similar item.	$26,739,298	1765
139	Tax Fairness	B	Sales & Use	Exemption	Motor Vehicle Fuel	Sales & Use tax exemption for sales of motor fuels on which motor fuel taxes have been paid.	$125,160,584	1760.8.A
140	Tax Fairness	C	Income	Credit	Credit for Income Tax Paid to Other State by an Estate or Trust	Tax credit for residents of income tax paid on an estate or trust to another state or jurisdiction.	A	5165
141	Tax Fairness	C	Income	Credit	Credit to Beneficiary for Accumulation Distribution	Tax credit to a beneficiary of a trust for tax already paid by the trust on the income (when distributed from the trust to the beneficiary).	A	5214-A
142	Tax Fairness	C	Other	Refund	Refund of Excise Tax on Fuel Used in Piston Aircraft	Gasoline Tax refund (except four cents per gallon) for gasoline used in propeling piston engine aircraft. (State Transit, Aviation and Rail Fund)	$23,996	2910
143	Tax Fairness	C	Sales & Use	Exemption	Sales to State-Chartered Credit Unions	Sales to State-chartered credit unions.	A	1760.71
144	Tax Fairness	C	Sales & Use	Exemption	Electricity Used for Net Billing	Sale or delivery of electricity to net energy billing customers for which no money is paid.	A	1760.80
145	Tax Fairness	C	Sales & Use	Exemption	Certain Vehicle Rentals	Rental of an automobile for less than one year when rental is to a service customer pursuant to a warranty and the rental fee is paid by the vehicle dealer or warrantor.	A	1760.92
146	Tax Fairness	C	Service Provider	Exemption	Sales to State-Chartered Credit Unions	Sales to State-chartered credit unions.	A	2557.26
147	Necessity of Life	B	Sales & Use	Exemption	Grocery Staples	Sales of grocery staples, which are defined as food products ordinarily consumed for human nourishment.	$83,410,000	1760.3
148	Necessity of Life	B	Sales & Use	Exemption	Prescription Drugs	Sales of prescription medicines for humans, excluding marijuana.	$16,919,500	1760.5
149	Necessity of Life	B	Sales & Use	Exemption	Prosthetic Devices	Sales of devices to correct or alleviate physical incapacity for a particular individual, including prosthetic aids, hearing aids, eyeglasses, crutches and wheelchairs.	$5,244,000	1760.5-A
150	Necessity of Life	B	Sales & Use	Exemption	Meals Served to Patients in Hospitals & Nursing Homes	Sales of meals to patients of state-licensed hospitals, nursing homes, and certain care facilities.	$4,522,000	1760.6.B
151	Necessity of Life	B	Sales & Use	Exemption	Fuels for Cooking & Heating Homes	Sales of coal, oil, wood and other fuels, except gas and electricity, used for cooking and heating in residential buildings.	$37,135,500	1760.9

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152	Necessity of Life	B	Sales & Use	Exemption	Certain Residential Electricity	Sale and delivery of: A. the first 750 kWh of residential electricity per month; B. off-peak residential electricity used for heating via electric thermal storage.	$26,125,000	1760.9-B
153	Necessity of Life	B	Sales & Use	Exemption	Gas Used for Cooking & Heating in Residences	Sales of gas for use in cooking and heating in residential buildings other than hotels.	$4,740,500	1760.9-C
154	Necessity of Life	B	Sales & Use	Exemption	Rental Charges for Living Quarters in Nursing Homes and Hospitals	Rental charges for living or sleeping quarters in state-licensed nursing homes and hospitals.	C	1760.18
155	Necessity of Life	B	Sales & Use	Exemption	Rental Charges on Continuous Residence for More Than 28 Days	Rental charges for residence for 28 days or more at a hotel, rooming house, or tourist or trailer camp under certain circumstances.	$20,957,000	1760.20
156	Necessity of Life	B	Sales & Use	Exemption	Funeral Services	Sales of funeral services.	$3,885,500	1760.24
157	Necessity of Life	B	Sales & Use	Exemption	Diabetic Supplies	Sales of equipment and supplies used in diabetes diagnosis or treatment.	$1,045,363	1760.33
158	Necessity of Life	B	Sales & Use	Exemption	Water Used in Private Residences	Sales of water used in residential buildings, other than hotels.	$8,331,500	1760.39
159	Necessity of Life	B	Sales & Use	Exemption	Positive Airway Pressure Equipment & Sales	Sale or lease of positive airway pressure equipment and supplies for personal use.	$279,319	1760.94
160	Interstate or Foreign Commerce	B	Other	Exemption	Gasoline Exported from the State	Gasoline Tax exemption for sales wholly for export from the State. (Highway Fund)	$73,330,523	2903.4.A
161	Interstate or Foreign Commerce	B	Other	Exemption	Special Fuel Exported from the State	Special Fuel Tax exemption for sales of distillates and low energy fuel to be exported from the State by a licensed supplier. (Highway Fund)	$17,991,845	3204-A.5
162	Interstate or Foreign Commerce	B	Other	Exemption	Excise Tax Exemption on Jet or Turbo Jet Fuel - International Flights	Gasoline Tax exemption for gasoline used to propel jet engine aircraft on international flights. (State Transit, Aviation and Rail Fund)	$364,971	2903.4.0
163	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Ships' Stores	Sales of supplies and bunkering oil to ships engaged in interstate or foreign commerce.	C	1760.4
164	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Certain Jet Fuel	Sales of fuel to propel jet engine aircraft.	$3,207,848	1760.8.B
165	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Certain Vehicles Purchased or Leased by Nonresidents	Sale or lease of motor vehicles, semitrailers, aircraft, and camper trailers to nonresidents, if the vehicle is intended to be removed from the State immediately.	C	1760.23-C

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166	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Certain Vehicles Purchased or Leased by Qualifying Resident Businesses	Sale or lease of certain motor vehicles to a business if the vehicle is intended to be removed from the State immediately and for use exclusively in out of state business.	$897,251	1760.23-D
167	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Watercraft Purchased by Nonresidents	Sales to or use by a nonresident of watercraft or materials used in watercraft, subject to certain restrictions.	C	1760.25
168	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Property Used in Interstate Commerce	Sales of a vehicle, railroad car, aircraft or watercraft used in interstate or foreign commerce, subject to certain restrictions.	D	1760.41
169	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Sales of Property Delivered Outside this State	Sales of tangible personal property delivered outside the State for use outside the State.	F	1760.82
170	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Sales of Certain Printed Materials	Sales of printed advertising or promotional materials transported outside the State for use outside the State.	C	1760.83
171	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Sales of Certain Aircraft	Sales or leases of aircraft that weight over 6,000 pounds, are propelled by turbine engine, or are in use by certain Federal Aviation Administration (FAA) classified operators.	$904,177	1760.88
172	Interstate or Foreign Commerce	B	Sales & Use	Exemption	Sale, Use or Lease of Aircraft and Sales of Repair and Replacement Parts	Sales, use or leases of aircraft and sales of aircraft repair and replacement parts from July 1, 2011 to June 30, 2021.	$617,942	1760.88-A
173	Interstate or Foreign Commerce	C	Sales & Use	Exemption	Certain Aircraft Parts	Sale or use of aircraft parts used by a commercial airline under Federal Aviation Administration (FAA) regulations.	A	1760.76
174	Interstate or Foreign Commerce	C	Sales & Use	Refund	Refund of Sales Tax on Goods Removed from the State	Refund of sales tax paid on business purchases of supplies and equipment withdrawn from inventory for use at a location in another taxing jurisdiction.	A	2012
175	Inputs to Tangible Products	B	Sales & Use	Exemption	Products Used in Agricultural and Aquacultural Production & Bait	Sales of products used in aquaculture production and bait, commercial agriculture production, and animal agriculture.	$2,926,000	1760.7-A, 1760.7-B,
176	Inputs to Tangible Products	B	Sales & Use	Exemption	Fuel and Electricity Used in Manufacturing	Sales of fuel and electricity (95% of value) purchased for use at a manufacturing facility.	$25,699,424	1760.9-D
177	Inputs to Tangible Products	B	Sales & Use	Exemption	Machinery & Equipment	Sales of machinery and equipment used in production of tangible personal property for consumption, or in generation of radio and television broadcast signals.	$22,778,910	1760.31
178	Inputs to Tangible Products	B	Sales & Use	Exemption	Seedlings for Commercial Forestry Use	Sales of tree seedlings used in commercial forestry.	B	1760.73

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

Preliminary Tax Expenditure Classification

8/20/14

Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
179	Inputs to Tangible Products	B		Exemption	Property Used in Manufacturing Production	Sales of tangible personal property that is used in the manufacturing production of tangible personal property for later sale or lease.	$103,770,590	1760.74
180	Inputs to Tangible Products	B		Exemption	Certain Sales of Electrical Energy	Sale or use of electrical energy, or water stored for generating electricity, to or by a wholly owned subsidiary by or to its parent corporation.	C	1760.91
181	Inputs to Tangible Products	B		Refund	Refund of Sales Tax on Certain Depreciable Machinery and Equipment	Refund of sales tax paid on electricity or depreciable machinery and equipment purchased for use in commercial agricultural or aquaculture production, fishing, or wood harvesting, or purchases of fuel for use in a commercial fishing vessel.	$2,849,532	2013
182	Inputs to Tangible Products	C	Sales & Use	Exemption	Fuel Oil for Burning Blueberry Land	Sales of fuel used to burn blueberry fields.	A	1760.9-A
183	Inputs to Tangible Products	C	Sales & Use	Exemption	Fuel Oil or Coal which becomes an Ingredient or Component Part	Sales of fuel oil or coal which becomes an ingredient or component part of tangible personal property for later sale.	A	1760.9-G
184	Inputs to Tangible Products	C	Sales 8(Use	Exemption	Sales of Certain Farm Animal Bedding & Hay	Sales of organic bedding materials for farm animals and hay.	A	1760.78
185	Specific Policy Goal/Mandate	A	Other	Exemption	Partial Cigarette Stamp Tax Exemption for Licensed Distributors	Allows licensed cigarette distributors to purchase cigarette stamps with a face value of $2 at a discount of 1.15%. (General Fund)	$1,422,163	4366-A.2
186	Specific Policy Goal/Mandate	A	Sales & Use	Exemption	Water Pollution Control Facilities	Sales of certified water pollution control facilities and parts or accessories, construction materials, and chemicals or supplies of these facilities.	C	1760.29
187	Specific Policy Goal/Mandate	A	Sales 8c Use	Exemption	Air Pollution Control Facilities	Sales of certified air pollution control facilities and parts or accessories, construction materials, and chemicals or supplies of these facilities.	C	1760.30
188	Specific Policy Goal/Mandate	C	Sales & Use	Exemption	Animal Waste Storage Facility	Sales of materials used in construction, repair or maintenance of an animal waste storage facility, under specified conditions.	A	1760.81
189	Specific Policy Goal/Mandate	C	Sales 8(Use	Exemption	Sales to Centers for Innovation	Sales to centers for innovation, established by State law, which represent specific industry sectors with significant potential for growth and development.	A	1760.84
190	Specific Policy Goal/Mandate	C	Sales & Use	Exemption	Plastic Bags Sold to Redemption Centers	Sales to a local redemption center of plastic bags used to sort, store or transport returnable beverage containers.	$29,813	1760.93

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.

Preliminary Tax Expenditure Classification

Prepared by the Office of Program Evaluation and Government Accountability

#	Rationale	Review Category	Tax Type	Expenditure Type	Expenditure Program Name	Brief Description	FY15 Revenue Loss (estimate)*	Statutory Cite: Title 36
191	Specific Policy Goal/Mandate	C	Sales & Use	Refund	Fish Passage Facilities	Refund of sales or use tax paid on materials used in construction of fish passage facilities in dams, under specified conditions.	A	2014
192	Specific Policy Goal/Mandate	C	Service Provider	Exemption	Sales to Centers for Innovation	Sales to centers for innovation, established by State law, which represent specific industry sectors with significant potential for growth and development.	A	2557.29
193	Non-Taxable Services	B	Sales & Use	Exemption	Non-Taxable Services	Services, other than specifically defined "Taxable Services," are not subject to Sales and Use Tax.	$1.3 billion	1752.11, 1752.17-B
194	Non-Taxable Services	B	Sales & Use	Exemption	Repair, Maintenance and Other Labor Service Fees	Price of labor or services used in installing, applying or repairing property, if separately charged or stated.	$45,657,000	1752.14.B(4)
195	Administrative Burden	A	Sales & Use	Exemption	Sales Through Coin Operated Vending Machines	Sales of certain products through vending machines by retailers who make the majority of their sales via vending machines.	$442,955	1760.34
196	Administrative Burden	C	Sales & Use	Exemption	Certain Meals Served by Colleges to Employees of the College	Sales of meals served by a college to its employees if purchased with college-issued debit cards.	A	1760.6.E
197	Administrative Burden	C	Sales & Use	Exemption	Casual Sales	Any casual sale, defined as an isolated transaction in which tangible personal property or a taxable service is sold other than in the ordinary course of repeated transactions by the person making the sale; e.g. at a yard sale.	D	1752.11.B(1)
198	Administrative Burden	C	Sales & Use	Exemption	Sales by Executors	Sales by a personal representative in the settlement of an estate.	A	1752.11.B(2)

Sources: FY15 Revenue Loss (estimates): Maine Revenue Services 2014-2015 Red Book and Office of Fiscal & Program Review (OFPR) "Tax and Fee Changes Affecting State and Local Tax Burden, 126th Legislature," 1st Regular Session and 2nd Regular Session. All other information: OPEGA analysis of Maine Revenue Services information and Maine Revised Statutes.

*FY15 Revenue Loss Estimate Coded: A=$0-49,000; B=$50,000-149,000; C=$250,000-999,000; D=$1,000,000-2,999,999; E=$3,000,000-5,999,999; F=$6,000,000 or more.