



OPEGA
REVIEW

FINAL
REPORT

Economic Development Programs in Maine

a report by

the Office of Program Evaluation & Government Accountability

November
2006

About the Review

Purpose

OPEGA Sought to Answer the Questions ...

- 1) Are sufficient program controls in place to assure that Economic Development programs are cost-beneficial and effective?
- 2) Which economic development programs should be considered for a more in-depth review?

OPEGA also assessed the degree of transparency and accountability provided by the overall framework of the State's economic development programs.

Methods

To answer these questions, OPEGA

- researched relevant State statutes, history, and processes related to economic development programs as well as national trends in monitoring their effectiveness;
- tested compliance with certain statutory provisions in 5 MRSA §§13070-J,K & O for the 13 programs of specific interest to AFA;
- created a working definition to identify “similar” programs;
- gathered information on 46 programs meeting the working definition; and
- performed a risk assessment of the 46 programs based on information provided by the managing agencies.

Methods

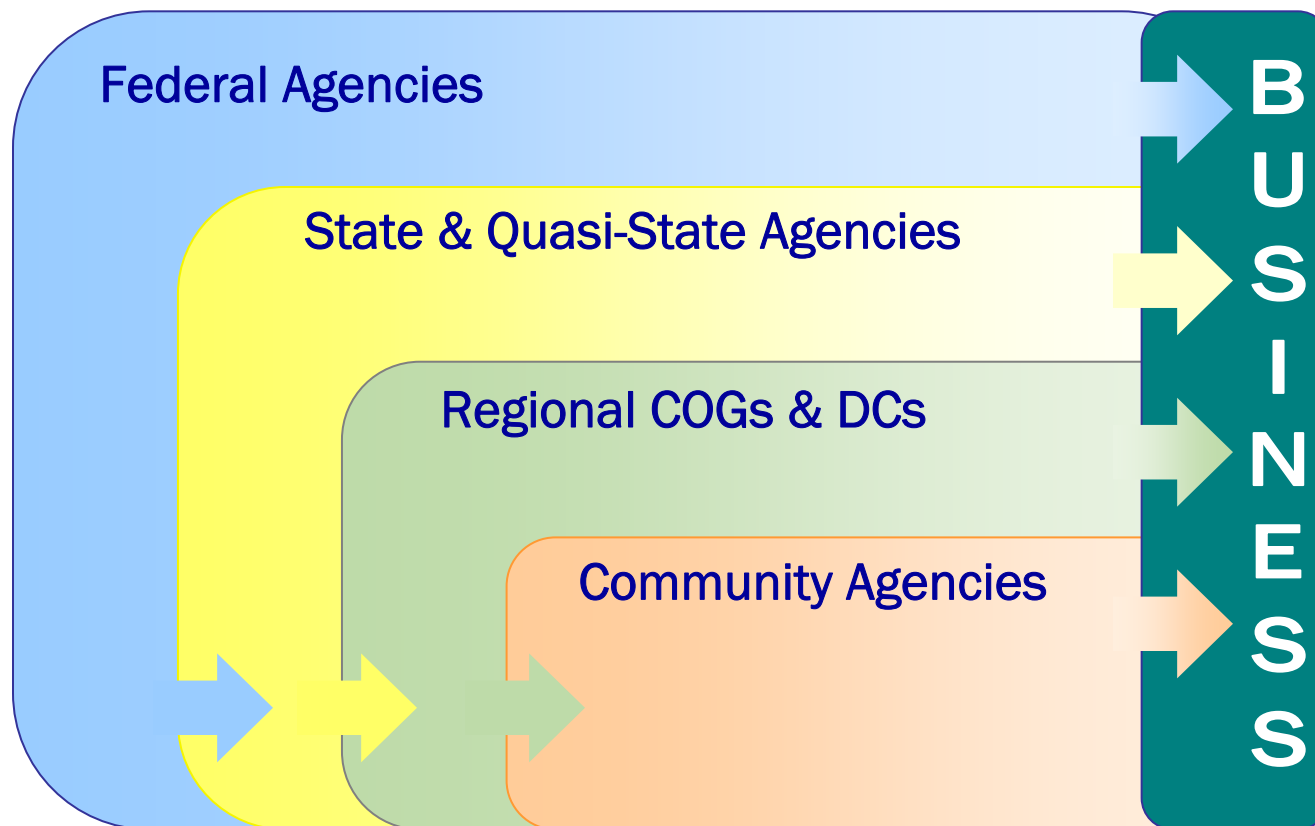
Since there is no one generally accepted definition of Economic Development Programs, OPEGA created the definition below with the help of representatives from the primary State agencies involved in the review.

Activities which distribute, impact or risk State funds, where the primary purpose is to stimulate the economy, expand or maintain employment opportunities, or encourage the establishment and growth of commerce and industry.

Background

Background

High-level Funding Flow for Economic Development Programs



Background

State resources distributed or revenue forgone for the programs reviewed as per the administering agencies

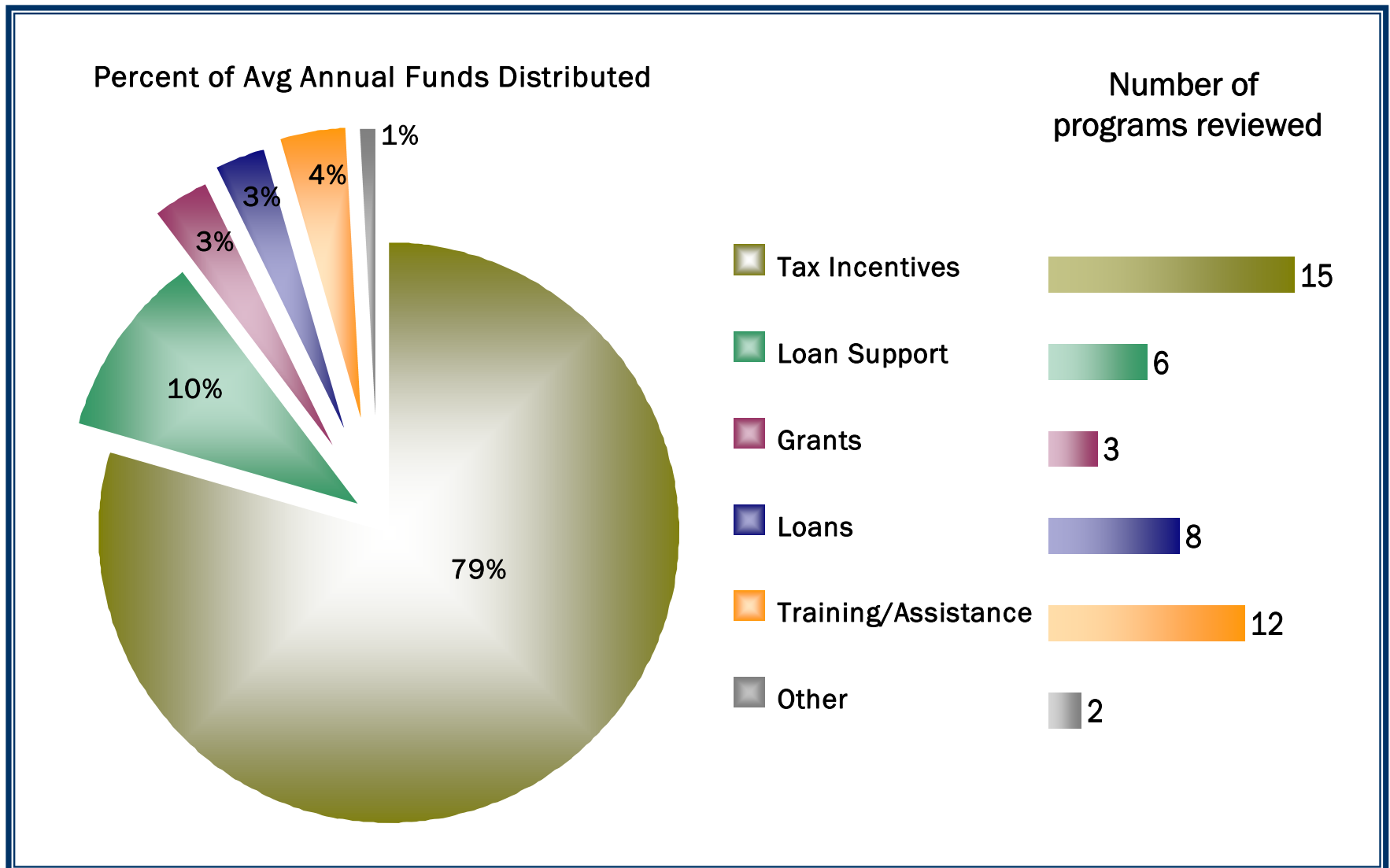
- \$602,181,397 for period 2003 through 2005
- \$200,727,132 annual average

Additional administrative costs reported for 21 of the 46 programs

- \$21,922,486 for period 2003 through 2005
- \$7,307,495 annual average

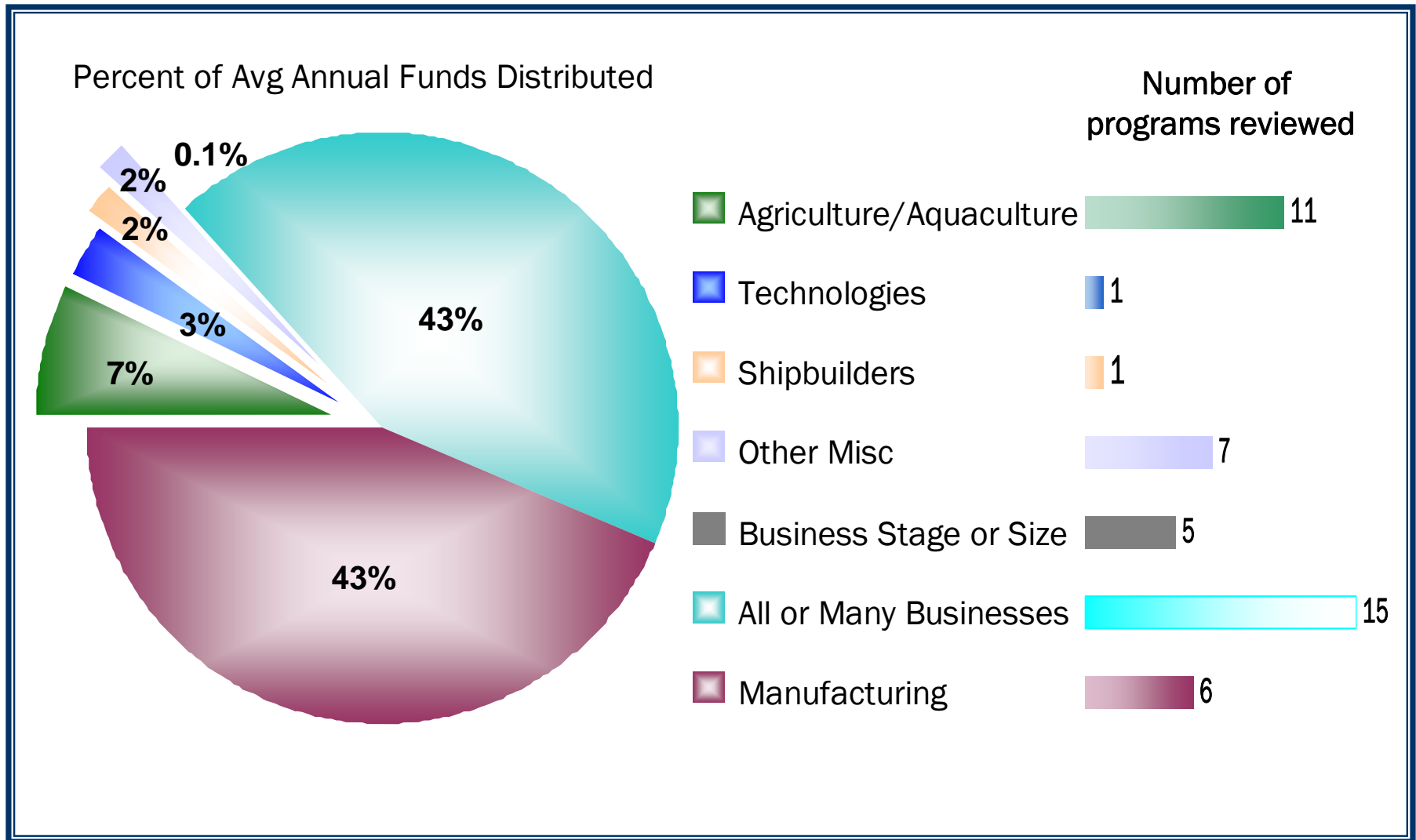
Background

Percent of Funds & Number of Programs by Type of Funding



Background

Percent of Funds & Number of Programs by Market Segment



Background

Primary State and quasi-state agencies managing the programs reviewed

- Department of Labor – 2 programs
- Maine Revenue Services – 12 programs
- Department of Agriculture, Food & Rural Resources – 6 programs
- Finance Authority of Maine – 11 programs
- Department of Economic and Community Development – 2 programs

Background

Current relevant statutes

- Individual enacting statutes and related rules for each program
- 5 MRSA §§13051-13060 (establishes and describes responsibilities of DECD)
- 5 MRSA §§13070-J, K & O (specifies monitoring and reporting requirements for a few specific programs)

Background

Creation and Oversight of Programs

- Any legislative committee may be involved in the creation or oversight of these programs.
- These bills may be referred to any joint standing committee.
- EDPs are proposed in various types of bills, including single topic, larger multi-purpose, or biennial budget bills.
- Reports are not standardized, are given to one of several different joint standing committees, or may not be formally presented to any committee.

Background

Timeline of Key Legislative Activity on Economic Development

2006

AFA Committee requests OPEGA review of economic development programs

2001

EDIC releases final report and sunsets soon after

1999

5 MRSA §13070-0 requires evaluation of new economic development proposals

1997

5 MRSA §13070-J creates the EDIC and reporting requirements for some programs

1987

Joint Select Committee on Economic Development releases report and DECD is created

1985

Joint Standing Committee on State Government releases report on economic development

Best Practices

Best Practices

Evaluation & Monitoring Of Economic Development Programs

OPEGA studied reports from many private, non-profit and government groups. These reports explain the need for many factors required for successful evaluation and monitoring of economic development programs. The following list is a summary from those reports:

- Purpose - what problem is the program meant to address?
- Clear & measurable goals directly supporting the purpose
- Relevant, meaningful and auditable measures
- Collection of accurate and reliable data
- Independent audits

Best Practices

Evaluation & Monitoring Of Economic Development Programs (continued)

- Well defined applicant eligibility criteria
- A fair and objective application process
- Reports on the measures that are:
 - Standardized, clear & understandable
 - Readily & publicly available
 - Used to judge the program's performance relative to strategic goals
- Review of potential overlap with other programs
- Regular review of program costs, benefits, funding & purpose

Best Practices

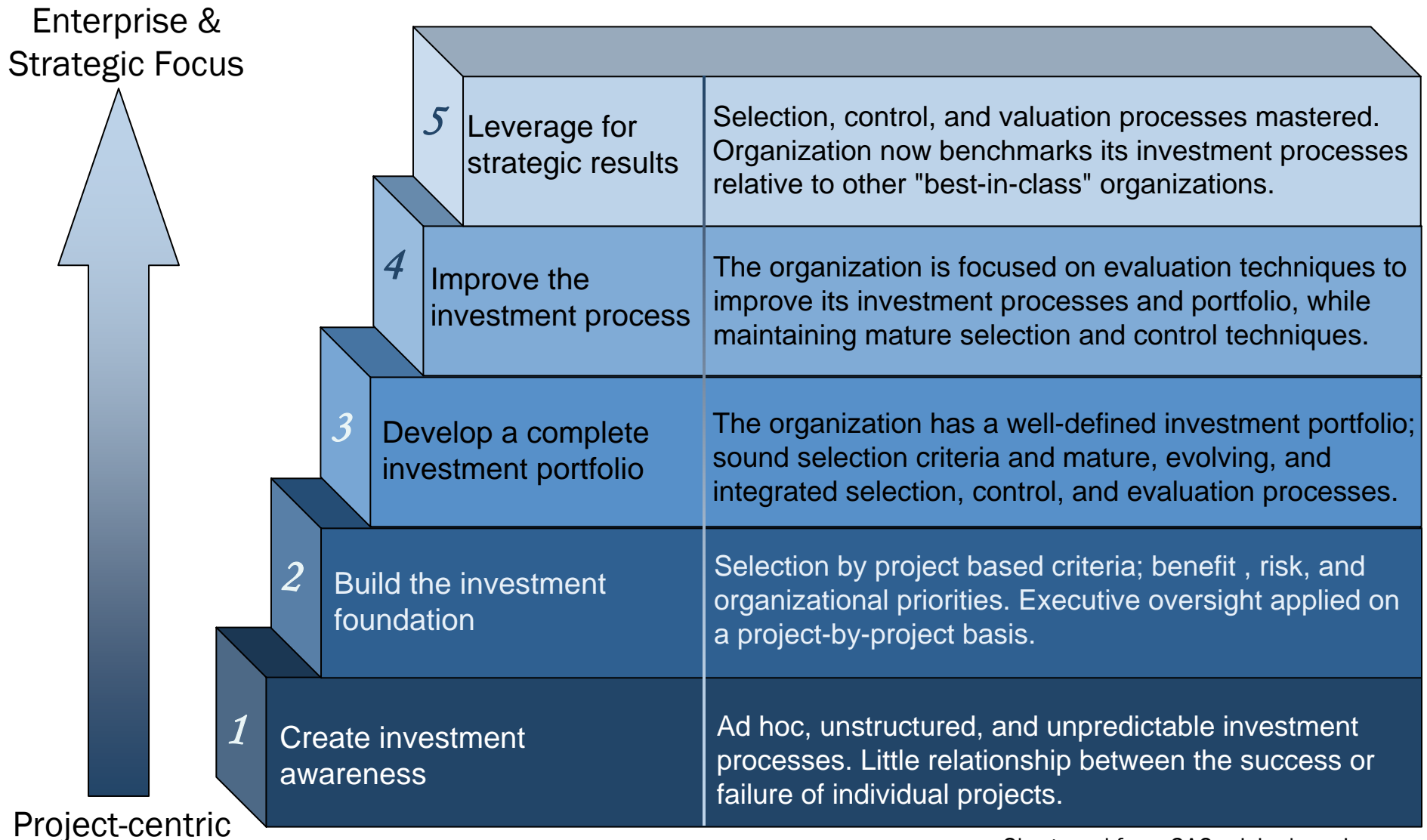
Economic Development Program Management - the Portfolio Model

Application of the investment portfolio management model helps us:

- ✓ Understand what we are trying to achieve, both long & short term,
- ✓ Select individual investments based on historical risk/return,
- ✓ Understand standardized reports of financial performance,
- ✓ Obtain data and reports subject to audit & verification,
- ✓ Weigh the mix of investment choices for a balance of risk/return,
- ✓ Do a periodic review of the entire portfolio to decide whether we need to invest more/less, or change your investment mix, and
- ✓ Make decisions on individual investments: decide what to keep in the portfolio & what to change.

Best Practices

Five Step Investment Management Maturity Model



Shortened from GAO original version

Risk Assessment

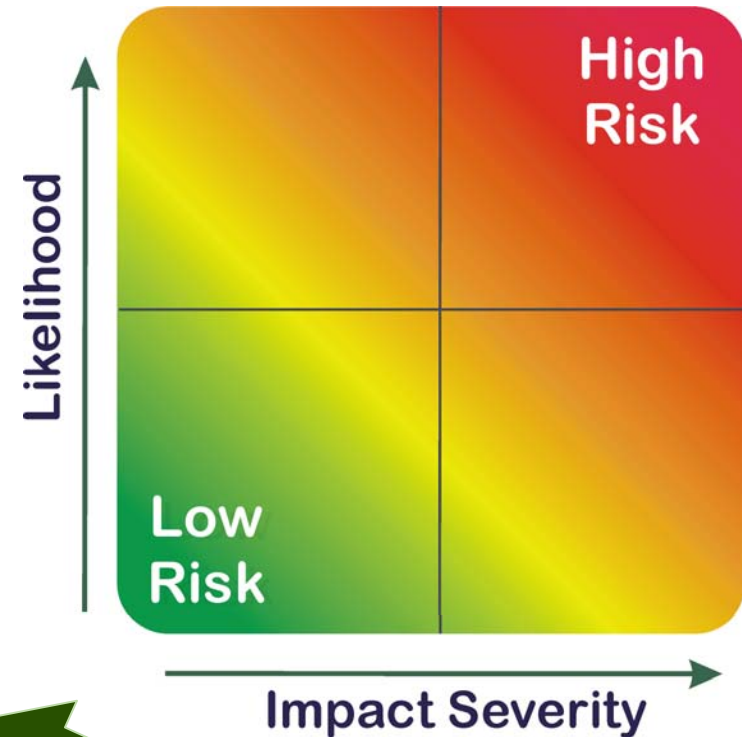
What did the Risk Assessment Ask?——

Can we determine if programs meet Legislative Purpose?

What risks are there that could reduce accountability & transparency?

Are reports available? Is the program reviewed regularly & accounts audited?

How much funding is at risk if the program is not performing to purpose?



Is it Acceptable?

Risk Assessment Results

- ✓ The majority of programs reviewed lack standard program controls necessary for performance evaluation (such as: adequate purpose, goals and objectives, performance measures);
- ✓ there are no meaningful or effective efforts to coordinate all programs at a state level; and
- ✓ the capture and reporting of relevant, verifiable information is inadequate at both the program and portfolio level.

Risk Assessment Results

Of the programs reviewed:

- ✓ 20% have no clearly stated public purpose.
- ✓ 24% lack specific and measurable goals and objectives.
- ✓ 26% do not have adequate performance measures.
- ✓ 33% do not report performance regularly or reports are not easily & readily accessible.
- ✓ 54% did not provide administrative costs, even though encouraged to give estimates.

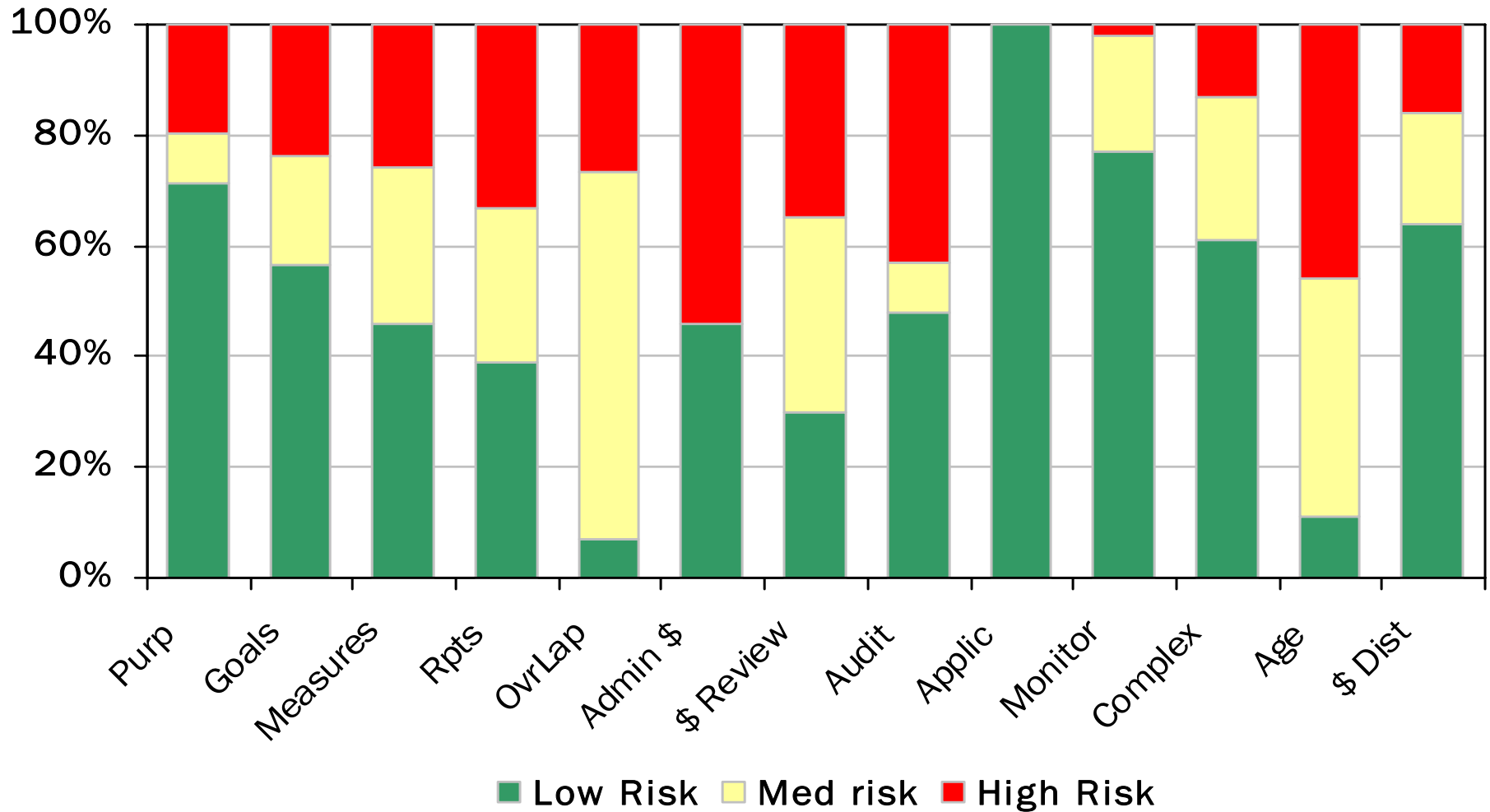
Risk Assessment Results

Of the programs reviewed:

- ✓ 35% do not have their funding reviewed/reconsidered on a regular basis.
- ✓ 43% are not subject to regular independent financial audits.
- ✓ 46% were established 15 or more years ago.
- ✓ 13% are very complex, 26% moderately complex.

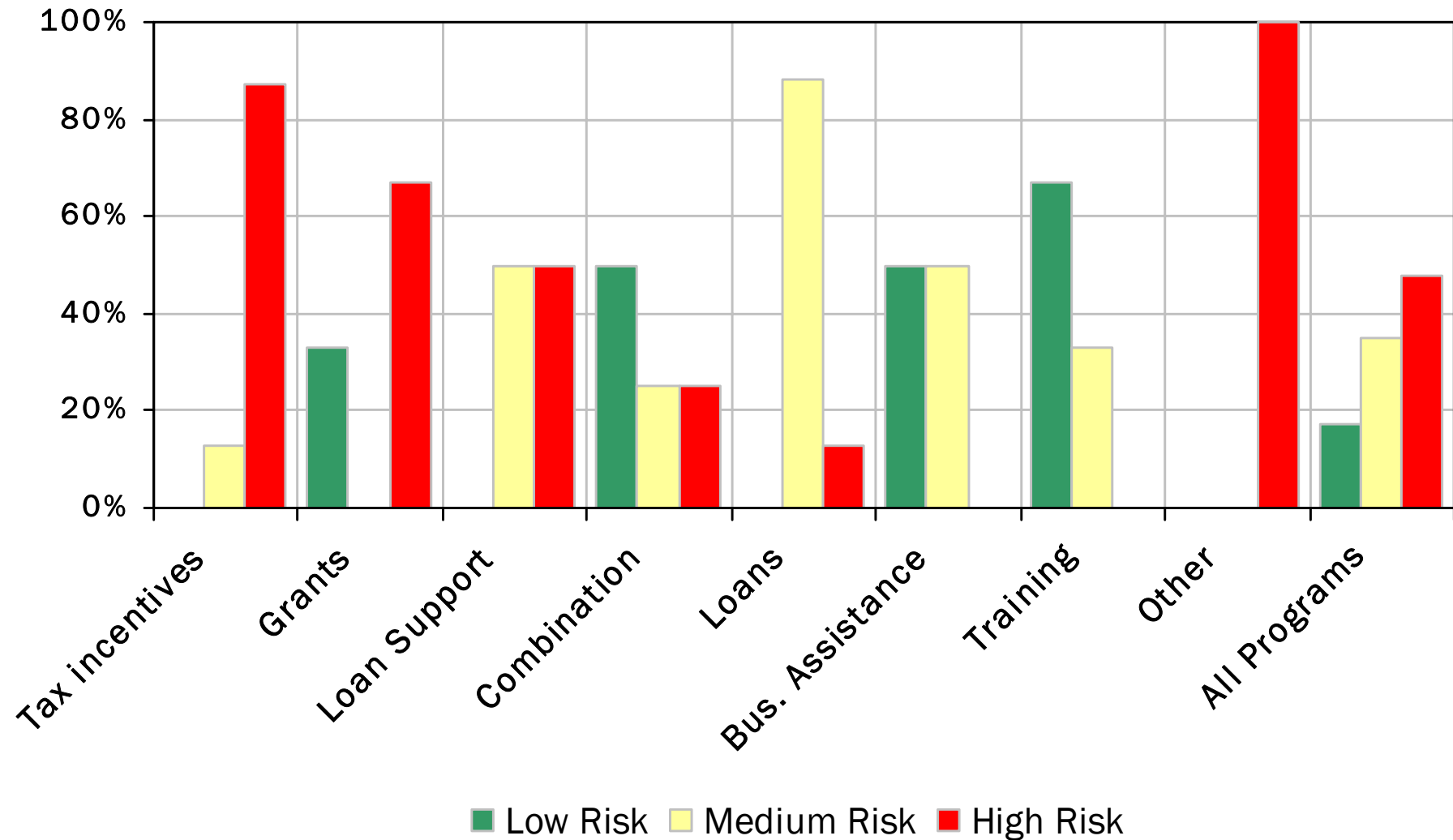
Risk Assessment Results

Economic Development Programs - Risk Assessment
Based on agency-reported survey results from 46 Programs



Risk Assessment Results

Levels of Overall Risk by Type of Program



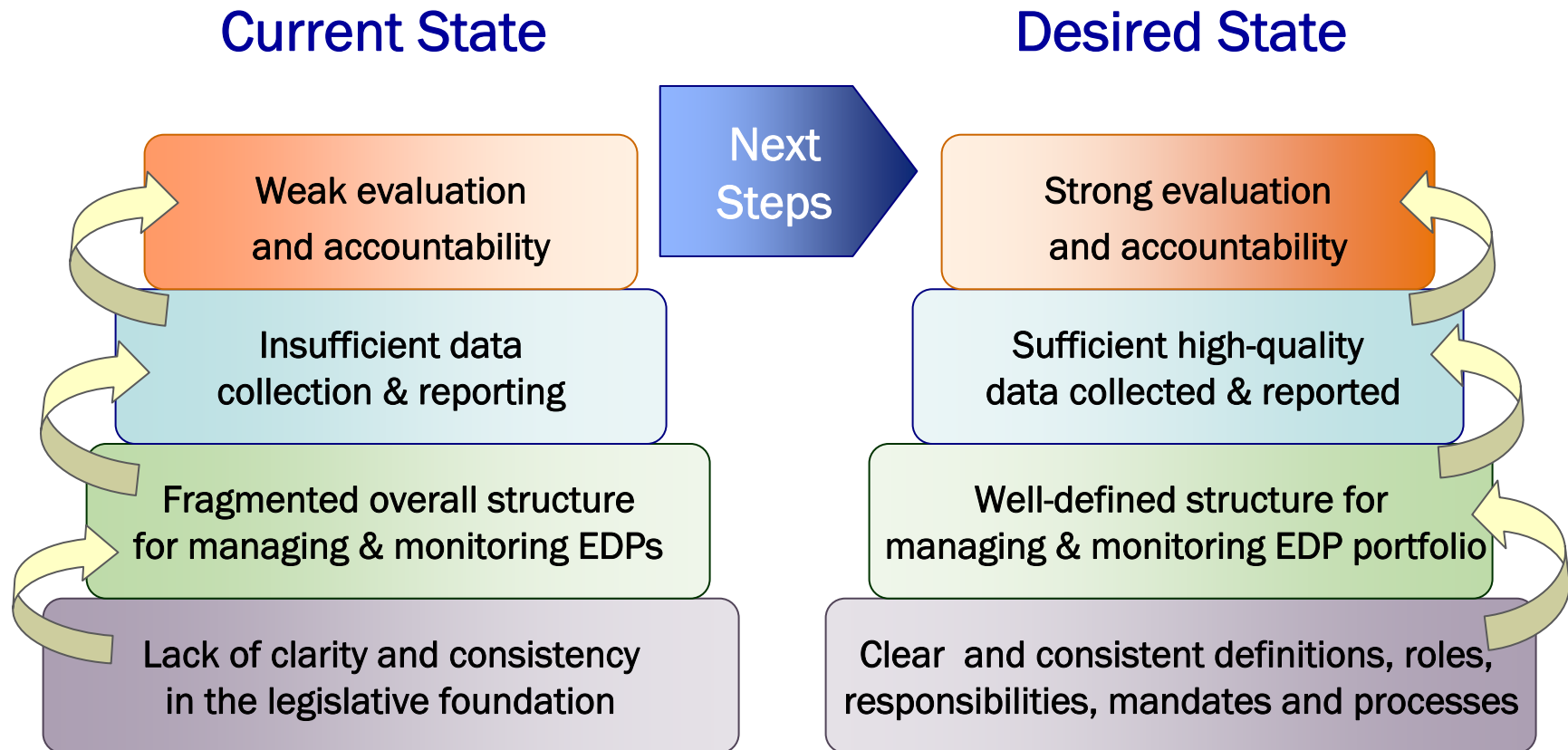
Conclusions

Conclusions

- Maine citizens make substantial investments in economic development programs each year
- Accurate and reliable information about EDPs is needed to facilitate transparency and accountability
- Past attempts to improve accountability and coordination have produced limited results
- Critical elements necessary for performance evaluation are still lacking
- Weaknesses exist within individual programs and State's overall structure for managing them

Conclusions

Key Elements for Sufficient Performance Evaluation and Accountability



Findings, Management Actions & Recommendations for Legislative Action

Finding #1 was Developed from the Risk Assessment

The risk assessment was primarily designed to determine which economic development programs should be considered for a more in-depth review.

Finding 1

Finding

Existing economic development programs may be ineffective or inefficient. OPEGA's risk assessment revealed multiple indicators of concern.

Recommendations

- Initiate an in depth review of highest risk programs.
- Review existing portfolio to identify opportunities for reducing costs or # of programs.
- Establish a review process for new programs.

Finding 1

Programs recommended for more in-depth review:

- All 15 tax incentive programs either individually or as a group
- Revenue Obligations Securities Program (SMART and SMART-E)
- Regional Economic Development Revolving Program
- Agricultural Water Management and Source Development Program
- Potato Marketing Improvement Fund Program
- Maine Manufacturing Extension Partnership
- Agricultural Marketing Loan Fund
- Maine Apprenticeship
- Farms for the Future Program
- Economic Recovery Loan Program
- Governor's Training Initiative
- Commercial Loan Insurance Program
- Milk Commission

Findings 2-6 Relate to Overall Program Management

Findings 2-6 deal with overall oversight and management of the State's economic development portfolio.

Finding 2

Finding

Maine does not have a sufficient definition of what constitutes an economic development program.

Management Action

DECD will draft a definition by 6/15/07 for the Legislature's consideration.

Recommendations

- Replace current statutory definition of EDIs with the new definition. Incorporate new definition in statute as needed to clarify roles & responsibilities.
- Clarify what is meant by “all economic assistance programs” in 5 MRSA 13070-J.3.B.

Finding 3

Finding

There is no meaningful statewide coordination that facilitates understanding or effective management of the State's entire portfolio of economic development programs.

Management Action

DECD will prepare a proposal for expanding its role to include coordination of the State's EDPs.

Recommendations

Consider seeking similar proposals from other existing non-State organizations that may be capable of filling this coordination role.

Finding 4

Finding

Processes for assuring program controls are established for all EDPs are not effective.

Management Action

- DECD will begin reviewing all new EDP proposals as required in statute.
- DECD will assess the Pine Tree Zones program against the criteria in 5 MRSA 13070-0 as required by statute.

Recommendations

- Amend existing statute to strengthen & clarify program control requirements.
- Consider directing all EDP administrators to assess their programs against the criteria in 5 MRSA 13070-J.3.B.
- Create a process to ensure DECD is aware of all new EDP proposals.

Finding 5

Finding

EDP performance data currently being collected does not provide a clear or complete picture of program results.

Management Action

- DECD is streamlining data collection & will recommend additional data to be collected.
- DECD will work with reporting agencies to eliminate, or make transparent, double-counting in data.
- DECD will recommend measures to ensure adequate data collection for all EDPs.

Recommendations

Consider giving data collectors the authority needed to compel businesses to provide data.

Finding 6

Finding

Current EDP reporting does not:

- provide transparency & accountability;
- allow performance & cost comparison; and,
- facilitate understanding the State's entire portfolio of programs.

Management Action

- DECD will design a reporting template for all agencies to use.
- Commissioner of DECD will begin satisfying reporting requirements in 5 MRSA 13058-5 by providing written reports.
- DECD will make EDP reports and data more accessible.

Recommendations

Consider modifying statute to require DECD Commissioner's report to be written.

Questions?