OPEGA PERFORMANCE AUDIT

FINAL REPORT

Economic Development Programs in Maine — EDPs Still Lack Elements Critical for Performance Evaluation and Public Accountability

Report No. SR-ED-05

a report to the
Government Oversight Committee
from the
Office of Program Evaluation & Government Accountability
of the Maine State Legislature

December
2006

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ABOUT OPEGA & THE GOVERNMENT OVERSIGHT COMMITTEE

The Office of Program Evaluation and Government Accountability (OPEGA) was created by statute in 2003 to assist the Legislature in its oversight role by providing independent reviews of the agencies and programs of State Government. The Office began operation in January 2005. Oversight is an essential function because legislators need to know if current laws and appropriations are achieving intended results.

Although the Maine Legislature has always conducted budget reviews and legislative studies, until OPEGA, the Legislature had no independent staff unit with sufficient resources and authority to evaluate the efficiency and effectiveness of Maine government. The joint legislative Government Oversight Committee (GOC) was established as a bipartisan committee to oversee OPEGA's activities.

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EXECUTIVE SUMMARY

Economic Development Programs in Maine — EDPs Still Lack Elements Critical for Performance Evaluation and Public Accountability

Purpose

The AFA Committee requested an OPEGA review of 13 specific EDPs, and other similar programs as appropriate.

The Maine State Legislature's Office of Program Evaluation and Government Accountability (OPEGA) has completed a performance audit of economic development programs in Maine. The impetus for this project was a request from the Joint Standing Committee on Appropriations and Financial Affairs (AFA). AFA requested a review of 13 specific economic development programs and "other similar economic development programs as appropriate." [1] It was not feasible for OPEGA to fully audit so many individual programs in one review. Consequently, this performance audit was structured to determine:

- whether the established system of controls is sufficient to help assure that economic development programs are a cost-beneficial use of public funds and are effectively meeting their intent; [2] and
- which particular economic development programs should be subjected to further evaluation.

OPEGA also assessed whether the overall framework for the State's economic development programs was providing sufficient transparency and accountability.

OPEGA evaluated the sufficiency of the system of controls surrounding EDPs and identified particular programs that warrant further review.

To determine which economic development programs should be included in the review, OPEGA created a working definition for use in identifying economic development programs most "similar" to the thirteen specified by AFA. Based on this definition, OPEGA added 33 "similar" programs to the original 13, resulting in a total of 46 programs supported by State resources included in this study. These programs do not represent all existing programs nor are they intended to be a scientifically representative sample of the whole universe of programs.

All data used to generate statistics in this report is from agency-provided information on individual programs for the period 2003-2005 and has not been independently verified.

[1] See Appendix 2 of the full report for a list of these programs.

[2] System of controls refers to a set of activities, methods, policies, procedures, and other mechanisms that help to assure desired objectives are met. Controls within a system range from clear definition and communication of purpose to strong process oversight.

Conclusions

Maine's policymakers, citizens, and businesses need accurate and reliable information about EDPs to facilitate transparency and accountability.

Maine citizens make substantial investments in economic development programs each year. These programs, taken together, constitute an investment portfolio that ideally should be designed and managed to assure that the State is getting the best return on its investment. There are, however, significant technical and political challenges in adopting a portfolio approach.

Given these challenges, it will likely be some time before Maine is in a position to truly design and manage its economic development programs as an investment portfolio from a cost-benefit (return on investment) perspective. In the meantime, however, Maine's policymakers need accurate and reliable information about these programs to make informed decisions. Maine's citizens and businesses also deserve as much transparency and accountability as possible around these programs. This requires:

- ability to monitor progress toward desired results;
- coordination to minimize overlaps and gaps, and maximize synergies and efficiencies among programs; and
- publicly accessible, understandable information about the programs including relevant, objective and verifiable data on program costs and performance.

Past attempts to improve accountability and coordination of EDPs have produced limited results.

Past Maine Legislatures have recognized these needs and supported serious efforts to address them. Unfortunately, for a variety of reasons, these efforts have produced limited results. OPEGA's risk assessment, based on agency-reported information regarding the 46 programs included in the scope of this review, suggests that the State could be:

- investing in programs that are ineffective or no longer necessary;
- spending more than is necessary on administrative costs; or
- missing opportunities to provide incentives to some businesses while potentially oversubsidizing others.

Critical elements necessary for performance evaluation and accountability are still lacking.

The current level of risk in Maine's economic development portfolio exists in large part because critical elements necessary for evaluating performance and achieving real transparency and accountability have been, and still are, lacking. These weaknesses exist both within the frameworks for individual programs and within the structure for managing and monitoring the State's portfolio as a whole.

In the Findings and Action Plans section of this report, OPEGA elaborates on the risk assessment results and provides recommendations for more in-depth reviews of certain economic development programs (see Finding 1). We also describe root causes of the risks identified that need to be addressed (see Findings 2-6). The agreed upon Management Actions and

Recommended Legislative Actions given are next steps that should be taken to build on past efforts toward improving evaluation capabilities. They will enhance transparency and accountability for economic development programs. These are actions the State can take despite the technical challenges in evaluating the true cost-benefit of such programs, and the politics surrounding them.

Findings and Action Plans

Finding 1: Existing Programs May Be Ineffective or Inefficient

State resources currently being invested in economic development may not be employed as effectively and efficiently as possible. Analysis of OPEGA's risk assessment results revealed multiple indicators of concern.

OPEGA Recommendations for Legislative Action

A. Legislature should consider subjecting the following programs included in this review to more in-depth evaluations of effectiveness, efficiency and economic use of resources:

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

B. Legislature should consider reviewing existing portfolio of programs to identify opportunities for reducing the number of programs and/or administrative costs associated with them.

C. Legislature should consider establishing a process for assuring that future economic development proposals are compared to existing programs to determine if the purpose of the new proposal can be effectively met by modifying or replacing an existing program.

Finding 2: Insufficient Definition of Economic Development

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

Management Action	Recommendations for Legislative Action
Department of Economic and Community Development (DECD) will draft an operational definition of economic development programs. The Commissioner will present this proposed definition to the Joint Standing Committee on Business Research and Economic Development (BRED) by June 15, 2007.	A. Legislature should consider replacing the current definition of "economic development incentive" in 5 MRSA §13070-J.1.D with the definition proposed by DECD and amended as necessary. The Legislature should also consider incorporating this definition into 5 MRSA §§13051-13060 to further define the roles and responsibilities of DECD. B. Legislature should clarify what is meant by "all economic assistance programs" in 5 MRSA §13070-J.3.B.

Finding 3: Lack of Statewide Coordination and Oversight

There are no meaningful statewide coordination efforts that facilitate understanding or effective management of the State's entire portfolio of programs.

Management Action	Recommendation for Legislative Action
Commissioner of DECD will prepare a proposal for expanding the role of the Department to include coordination of the State's portfolio of economic development programs as defined by the Legislature (see Finding 2). Proposal will include an assessment of the benefits and resources necessary to fulfill this role. The Commissioner will submit this written proposal to the BRED Committee by December 31, 2007.	The BRED Committee should consider seeking similar proposals from the Maine Development Foundation and other existing non-State organizations with the capabilities necessary to carry out the responsibilities of a portfolio coordinator. BRED could then assess these proposals in conjunction with the one from DECD and make recommendations to the entire Legislature on whether and how to proceed with designating a specific entity as portfolio coordinator.

Finding 4: Inadequate Mechanisms to Assure Program Controls

Mandates and processes for assuring that adequate program controls are established for all economic development programs are not effective due in part to factors described in Findings 2 and 3.

Management Actions	Recommendations for Legislative Action
1. Effective with the first regular session of the 123rd Legislature, DECD will begin reviewing **all** new economic development proposals as required by 5 MRSA §13070-O, regardless of their source, and will submit written reports of its assessments to the appropriate joint standing committees. 2. Pursuant to other statutory requirements, DECD will be providing an annual report on Pine Tree Development Zones to the Legislature by June 15, 2007. DECD will include in this report an assessment of this program against the criteria specified in 5 MRSA §13070-O.	A. Legislature should consider amending existing statutes in several areas to strengthen and clarify mandates for adequate program controls in economic development programs. See Full Report for details. B. Legislature should consider directing all administering agencies with programs meeting expanded definition of economic development to report to the joint standing committee of jurisdiction on whether each program adequately incorporates the criteria required in 5 MRSA §13070-O. C. Legislature should create a process to ensure that DECD is made aware of all new economic development programs proposed in legislation.

Finding 5: Data Collected Does Not Provide Clear Picture of Results

Performance data currently being collected on economic development programs does not provide a clear or complete picture of program results.

Management Actions	Recommendation for Legislative Action
1. DECD is already seeking to streamline the process of collecting the data from businesses. DECD will also make recommendations to the Legislature on additional public benefit data that should be captured. DECD expects to have an improved process in place by December 31, 2007. 2. DECD will work with reporting agencies to eliminate, or bring transparency to, any double counting of public benefits in current reports required under §13070-J.4 beginning with those due October 1, 2007. 3. In its response to Finding 3, DECD will make recommendations on how DECD might assure that adequate and relevant performance data is collected for all economic development programs.	The Legislature should consider giving data collectors the authority needed to compel businesses to provide data required for measuring performance of economic development programs. Meaningful incentives and/or penalties should be established and should be included in enacting statutes or related rules.

Finding 6: Inadequate Reporting for Accountability

Current reporting on economic development programs is inadequate for providing transparency and accountability; for comparing the performance and costs of individual programs; and, for understanding the State's entire portfolio of programs.

Management Actions	Recommendation for Legislative Action
1. DECD will design a standard reporting template for all agencies reporting on economic development programs to use. By October 1, 2007, DECD will distribute the template to all agencies currently required to report under 5 MRSA §13070-J.4 or that are otherwise required to report to DECD. 2. Effective immediately, the Commissioner of DECD will begin satisfying the reporting requirement in 5 MRSA §13058-5 by preparing and submitting a formal written report to the Governor and the full Legislature. 3. By July 1, 2007, DECD will establish a means to make legislators and the public aware of the reports submitted in accordance with 5 MRSA §13070-J.4 and 5 MRSA §13058-5, or that are otherwise submitted to DECD, and to facilitate access to them. In addition, as part of its proposal in response to Finding 3, DECD will make recommendations on how performance and cost information on **all** economic development programs can be made readily accessible to interested parties.	Legislature should consider modifying 5 MRSA §13058-5 to specify that the Commissioner reports be in writing.

FULL REPORT

Economic Development Programs in Maine — EDPs Still Lack Elements Critical for Performance Evaluation and Public Accountability

Purpose

The Maine State Legislature's Office of Program Evaluation and Government Accountability (OPEGA) has completed a performance audit of economic development programs in Maine. OPEGA conducted the review at the direction of the joint legislative Government Oversight Committee, and generally in accordance with 3 MRSA., Chapter 37, §§991-997 and the Government Auditing Standards set forth by the United States Government Accountability Office (GAO).

The AFA Committee requested an OPEGA review of 13 specific EDPs, and other similar programs as appropriate.

The impetus for this project was a request from the Joint Standing Committee on Appropriations and Financial Affairs (AFA). AFA requested a review of 13 specific economic development programs and "other similar economic development programs as appropriate." [3] AFA was primarily concerned with whether:

- programs had adequate program controls in place to measure success;
- programs were effective in meeting their stated purposes, goals and objectives;
- there was overlap or redundancy among programs; and
- additional methods of accountability were needed.

OPEGA evaluated the sufficiency of the system of controls surrounding EDPs and identified particular programs that warrant further review.

The Government Oversight Committee subsequently directed OPEGA to include a review of economic development programs in its FY06 Annual Plan. It was not feasible for OPEGA to determine the effectiveness of, or the overlap and redundancy among, so many individual programs in one review. Consequently, this performance audit was structured to determine:

- whether the established system of controls is sufficient to help assure that economic development programs are a cost-beneficial use of public funds and are effectively meeting their intent; [4] and
- which particular economic development programs should be subjected to further evaluation.

[3] See Appendix 2 for a list of these programs.

[4] System of controls refers to a set of activities, methods, policies, procedures, and other mechanisms that help to assure desired objectives are met. Controls within a system range from clear definition and communication of purpose to strong process oversight.

OPEGA also assessed whether the overall framework for the State's economic development programs provides sufficient transparency and accountability.

Scope

OPEGA reviewed 46 economic development programs. To determine which other programs should be added to the 13 of interest to AFA, OPEGA searched for a standard, or generally accepted, definition of economic development. Finding none, OPEGA studied the 13 programs and established the following working definition of "economic development" to identify "similar" programs:

OPEGA found no generally accepted or codified definition of economic development programs, so we developed a working definition for this 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."*

Table 1. Examples of Applying OPEGA's Working Definition of Economic Development For This Review

Activities Considered Economic Development by OPEGA	Activities Not Considered Economic Development by OPEGA
Building roads or other infrastructure to support a business park or industrial complex	*Building roads or other infrastructure for the general public good*
Providing education or training to ensure that the workforce is able to support the needs of a particular business or industry	*Providing education or training that aims to develop the parenting skills of new mothers and fathers*
Protecting the state's bee population in order to ensure the continuation of, or assist the start-up of, a honey manufacturer	*Protecting the state's bee population as part of an environmental program that aims to ensure biodiversity*

Appendix 1 details the scope limitations applied to this review. These scope limitations mean that any figures and statistics provided in this report do not represent an analysis of all programs available in Maine's economic development portfolio; rather they are descriptive of the 46 programs for which we collected, analyzed and interpreted detailed data. The data analyzed was for the period 2003-2005. Agencies provided the data to OPEGA and we did not independently verify its reliability.

Methods

To accomplish the objectives of this performance audit, OPEGA combined high-level research and evaluation with a risk assessment of selected economic development programs. In brief, work performed included:

- researching relevant State statutes, history, and processes related to economic development programs, as well as national trends in monitoring their effectiveness;
- testing compliance with certain statutory provisions in 5 MRSA §§13070-J, K & O for the 13 programs of specific interest to AFA;
- gathering basic information on 109 programs (via initial survey of agencies identified as having involvement in economic development programs) and then gathering additional detailed information (via a second survey of responsible agencies) on those programs meeting the working definition; and
- performing a risk assessment of 46 programs based on information provided by the agencies responsible for those programs.

See Appendix 1 for the detailed methodology used in this performance audit.

Background

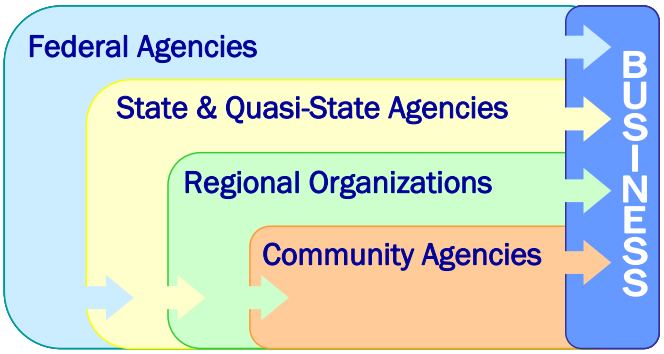
How Much Does the State Invest in Economic Development Programs?

EDPs may be funded by federal or State funds, bonds, or forgone revenue. These funds may flow through several organizational layers before reaching intended recipients.

Economic development programs are funded by a variety of sources including federal funds, the State's General Fund, bonds, fees, and loan repayments from businesses. Tax incentives are essentially "funded" by forgone State revenue. Most programs have multiple funding sources. Many leverage state dollars to qualify for federal funds.

Depending on the program, funding for economic development may flow through several organizational layers in varying combinations before reaching businesses seeking assistance. Federal funds may flow directly from federal agencies to businesses, or may go through State agencies or community-based organizations before being distributed to individual businesses. The same is true of funds derived from State revenues. Figure 1 gives a high level view of funding flows. See Appendix 5 for a flow chart depicting Maine's economic development program delivery system.

Figure 1. High-level Funding Flow for Economic Development Programs



From 2003 through 2005, a total of $602,181,397 in State resources was distributed, or credited through forgone revenue, to the recipients of the 46 EDPs included in this review.

In this review, OPEGA was interested in identifying the amount of Maine State dollars spent on economic development programs. In response to OPEGA's surveys, administering agencies reported that from 2003 through 2005 a total of $602,181,397 in State resources had been distributed or credited in foregone tax revenues on the 46 programs within our scope. This amount, however, represents only a portion of Maine's total investment in economic development programs over this time period. A considerable number of programs did not fall within the scope of this review.

While OPEGA made a conscientious effort to identify all similar programs, we relied on administering agencies to inform us of existing programs that met our working definition.[5] We have since become aware of other programs we would have surveyed had they been brought to our attention. For example, our surveys captured information on one Applied Technology Development Center being administered by River Valley Growth Council. We subsequently learned that there are 6 more being administered through different regional organizations that are part of the same program. This total program has purportedly been receiving between $83,000 and $550,000 in annual funding for operational support.[6] Consequently, while we have effectively captured the program, we have not captured all the associated expenditures.

Administrative costs were reported for 21 out of the 46 EDPs. These costs totaled $21,922,486 for 2003 through 2005.

The level of investment reported here also does not include the administrative costs associated with these programs. Administrative costs include: staff salaries and benefits; other costs associated with reviewing and approving applications and assessing recipients' compliance with program requirements; and general program overhead. OPEGA's survey did solicit information about administrative costs and these costs were provided for 21

[5] See Appendix 1 for OPEGA's methodology.

[6] *In Search of Silver Buckshot: Thirty Years of Economic Development in Maine*; Laurie Lachance, Maine Development Foundation; pg. 28.

of the 46 programs. The administrative costs reported totaled $21,922,486 for the period 2003-2005.

Maine's investment in economic development is theoretically offset by returns of new or retained tax revenues and other benefits associated with employing Mainers in good jobs. It was outside the scope of this review, however, to determine the amount of those financial benefits.

What Are the Types of Economic Development Programs?

The majority of the 46 EDPs OPEGA reviewed are available statewide, and 33% of them are available to all or many types of businesses.

OPEGA categorized the economic development programs included in this review by type of assistance offered, eligible recipients, and targeted geographic region. A number of programs offer similar types of assistance and/or target similar types of businesses. Some are intended to complement each other to support businesses at different stages of development. The majority of the 46 programs in OPEGA's inventory are available on a statewide basis. Appendix 2 contains a description of the individual programs.

Types of Assistance Offered

Most of the programs we reviewed offer assistance through:

Tax Incentives: Tax incentives include exemptions, credits, and reimbursements that provide direct financial benefits to businesses by reducing tax liabilities or returning all or a portion of taxes paid.

The EDPs reviewed offer assistance to businesses through tax incentives, grants, loans, loan support, training, and business assistance.

Grants: Monies that do not need to be repaid as long as the objectives of the program are met.

Loans: Money loaned from the administering agency to businesses with specific repayment requirements in addition to program obligations.

Loan Support: Loan guarantees and other mechanisms, like interest rate reduction agreements, that assist businesses in obtaining more affordable loans from private lending institutions. Loan guarantees represent commitments by administering agencies to repay the principal obtained from banks or other private financial institutions if borrowers default on loan payments.

Training: Training assistance includes the funding of training programs, or the provision of training, directed at increasing employee skills specifically required by a particular business or industry.

Business Assistance: Business assistance includes general consulting and training on business issues like entrepreneurship, business management, and marketing. It also includes technical assistance with permitting and other regulatory requirements and resources, like access to physical space, that are provided to help lower overhead costs.

Figure 2. Percent of Average Annual Funds and Number of Programs by Type

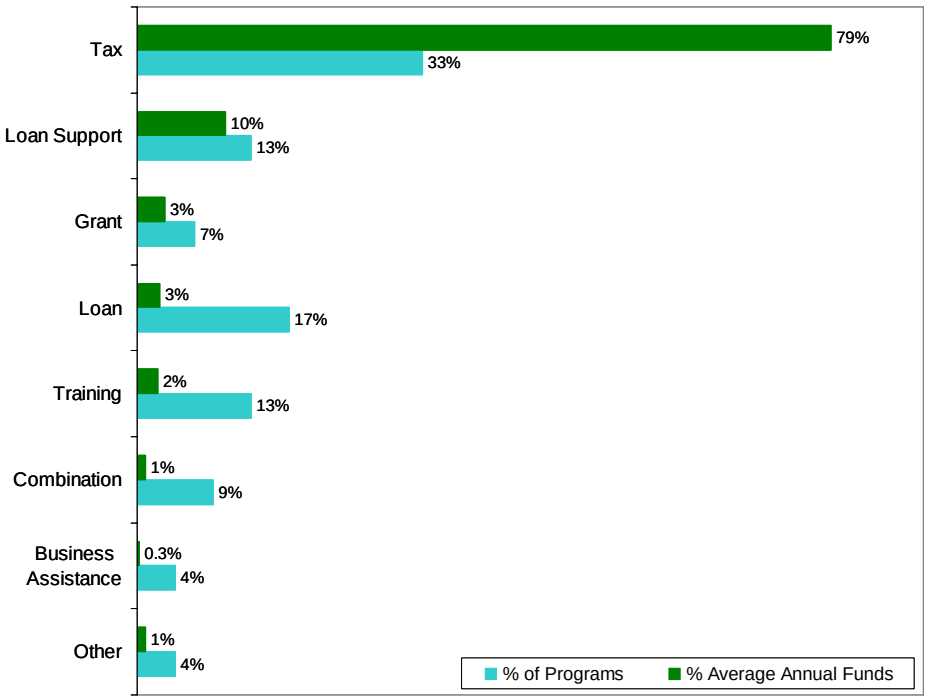


Table 2. Categorization of Programs by Type of Assistance

Type of Assistance	*Average Annual Funds	# of Programs
Tax	$159,541,510	15
Loan Support	$20,378,494	6
Grant	$6,426,267	3
Loan	$5,202,180	8
Training	$4,822,262	6
**Combination	$1,993,400	4
Business Assistance	$534,845	2
Other	$1,828,174	2
Totals	$200,727,132	46

*Average Annual Funds represents State funds or forgone revenue distributed to program recipients each year for the period 2003-2005 for the 46 programs in this review. Figures are as reported by administering agencies and have not been independently verified.

**These programs offer a combination of training and business assistance and could not be in just one category.

Eligible Recipients

OPEGA also categorized programs by recipient eligibility. Programs are sometimes limited or targeted to specific types of businesses, but 33% of the programs OPEGA identified in this review are available to all or many different types of businesses.

Figure 3. Percent of Average Annual Funds and Number of Programs by Recipient

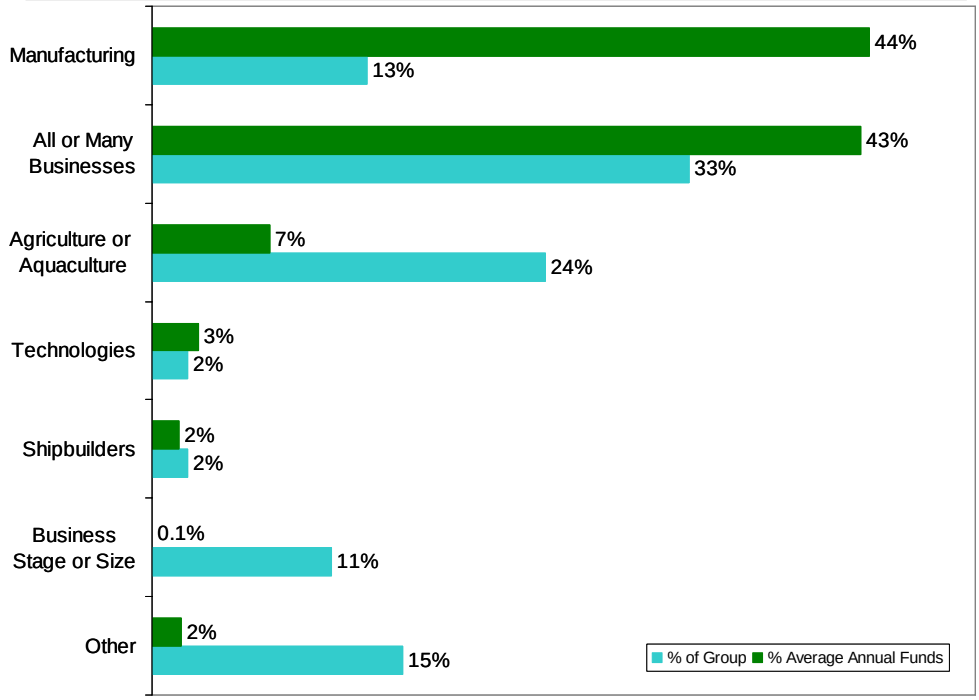


Table 3. Categorization of Programs by Eligible Recipient Groups

Eligible Groups	*Average Annual Funds	# of Groups
Manufacturing	$87,453,532	6
All or Many Businesses	$86,394,984	15
Agriculture or Aquaculture	$14,339,263	11
Technologies	$5,633,333	1
Shipbuilders	$3,232,066	1
Business Stage or Size	$135,720	5
Other	$3,538,235	7
Total	$200,727,132	46

*Average Annual Funds Distributed represents State funds or forgone revenue distributed to program recipients each year for the period 2003-2005 for the 46 programs in this review. Figures are as reported by administering agencies and have not been independently verified.

Targeted Geographic Region

Lastly, OPEGA grouped the 46 economic development programs by geographic region targeted. While some programs limit distribution of funds to recipients in specific geographic areas, nearly 85% of the programs were available to eligible businesses located, or locating, anywhere in the state.

Table 4. Categorization of Programs by Geographic Region				
Geographic Region	*Total Funds Distributed	% of Funds	# of Programs	% of Programs
Statewide	$601,315,646.00	99.86%	39	84.78%
By county	$757,000	0.13%	5	10.87%
Biddeford and Saco	$101,930	0.02%	1	2.17%
Pine Tree Zones[7]	$6,821	0.00%	1	2.17%
Total	**$602,181,397**	**100%**	**46**	**100%**

*Represents total State funds or forgone revenue distributed to program recipients for the entire period 2003-2005 as reported by administering agencies.

What Agencies Are Involved in Economic Development Programs and What Do They Do?

Administration of EDPs in Maine is decentralized, involving many federal, state, regional, and local organizations.

Administration of economic development programs in Maine is decentralized and involves a variety of federal, state, regional, and local organizations.[8] The primary state and quasi-state agencies managing state-funded economic development programs we reviewed are: the Department of Labor (DOL), Maine Revenue Services (MRS), the Department of Agriculture, Food & Rural Resources (DAFRR), the Finance Authority of Maine (FAME) and the Department of Economic and Community Development (DECD). Other organizations that administer economic development programs include the Maine Community College System, various regional Council's of Government and Economic Development Corporations, and municipal development departments.

In a 2006 Background Paper prepared for the Brookings Institute, the Executive Director of the Maine Development Foundation lists the entities that comprise the State's economic development infrastructure. They include:

- Five federal economic development entities with offices in Maine;
- At least five State agencies and four other state-wide entities delivering economic development services in some form;
- Eleven regional organizations (Council of Governments, Regional Planning Commissions or County Development Offices);
- At least 43 municipalities that appear to have economic development staff;
- A State Chamber of Commerce and 66 local Chambers; and
- Other economic development entities such as the Maine Development Foundation, Coastal Enterprises, Inc., Cooperative Extension, and Women, Work and Community to name a few.

~ In Search of Silver Buckshot: Thirty Years of Economic Development in Maine

[7] Nine zones, representing more than 30,000 acres in over 100 municipalities, are currently designated: Aroostook County, Androscoggin Valley, Downeast, Kennebec Valley, Midcoast, Penobscot Valley, PenQuis, Southern Maine and Military Redevelopment. Funds distributed for this program represent consulting type services. The forgone revenue from the tax credits provided under PTDZ has been included in the figures for the relevant tax incentive programs.

[8] See Appendix 5 for a detailed depiction of Maine's economic development program delivery system.

Table 5. Agencies Administering EDPs reviewed

Agencies	# of Programs	Avg. Annual Funds Distributed*
State Agencies		
Maine Department of Agriculture	6	$1,920,314
Maine Department of Community and Economic Development	2	$22,767,802
Maine Department of Labor	2	$2,862,759
Maine Revenue Service	12	$135,923,272
State-Related Agencies		
Finance Authority of Maine	11	$25,742,599
Maine Community College System	1	$1,083,296
Maine Milk Commission	1	$1,828,174
Maine Technology Institute	1	$5,633,333
Regional		
Biddeford-Saco Area Economic Development Corporation	1	$33,977
Penquis Community Action Program	1	$150,000
River Valley Growth Council	1	$69,743
Washington-Hancock Community Agency Community Action Program	3	$62,000
Other		
Maine Highlands Guild	1	$40,333
Maine Procurement Technical Assistance Center	1	$685,874
Maine Small Business Administration	1	$1,923,657
Maine Manufacturing Extension Partnership**	1	$0

*Avg. Annual Funds Distributed represents State funds or forgone revenue distributed to program recipients each year for the period 2003-2005 for the 46 programs in this review. Figures are as reported by administering agencies and have not been independently verified.

**By federal mandate, MMEP may not "distribute" funding.

Administrative responsibility for EDPs is generally specified in statute.

Responsibility for administering a program is usually assigned in the enacting statute and may be detailed in associated procedural rules. Administrative responsibility may also be split between two or more organizations with the detailed division of duties spelled out in statute or procedural rules, or negotiated by those involved.

Organizations managing EDPs monitor them according to the requirements specified in each program's governing statute and rules. This monitoring is primarily focused on verifying that recipients comply with the programs' obligations, but some agencies also collect data to assess achievement of programs' stated purposes, goals or objectives. Reports of their monitoring results, program results, or agency activities, are often made available to the public upon request on an agency-by-agency basis. Some of these reports are presented to the Legislature.

DECD, which may be perceived as the State's lead economic development agency, actually administers only 2 of the 46 programs reviewed by OPEGA. It is not involved in many economic development programs, and acts solely as a "financial pass-through" or data collector for others. DECD does, however, engage in a number of other economic development activities. For example, the Department:

- monitors, creates, facilitates and implements statutory policies surrounding economic development;
- helps connect communities and businesses needing economic development assistance with the economic development programs and administering agencies that can provide that assistance;
- assists those communities and businesses in navigating the bureaucratic maze associated with many of the programs;
- administers tourism programs that were not included in the scope of this review; and
- processes applications and distributes Community Development Block Grant funds received from the federal government.

How Are Economic Development Programs Created and Overseen by the Legislature?

Many legislative committees are involved in creating or overseeing different EDPs.

Any legislative committee may be involved in creating or overseeing specific EDPs. The Joint Standing Committee on Business, Research, and Economic Development has many of the State's economic development programs under its jurisdiction, but certain types of programs generally fall to other committees. Job training programs, for example, are under the jurisdiction of the Labor Committee. Likewise, tax increment financing, tax credits, and tax exemptions generally belong to the Taxation Committee.

Economic development programs may be proposed in various types of bills including single topic, larger multi-purpose, or biennial budget bills. These bills may be referred to any joint standing committee (JSC) depending on their overall nature, and the proposed EDPs may subsequently be assigned to different JSCs for ongoing monitoring and oversight. For example, the Research Expense Tax Credit was proposed as part of the budget bill during the first regular session in 1995. The bill was referred to the Appropriations and Financial Affairs Committee, but the Taxation Committee assumed oversight for the Research Expense Tax Credit once it was signed into law.

Performance reports for specific EDPs are presented to different committees in varied formats and at different times.

In fulfillment of its oversight role, the Legislature receives a number of reports concerning the performance of individual economic development programs or agencies. These reports are provided to several different joint standing committees in varied formats and at different times. Some reports are only provided to legislative leadership for distribution and are not formally presented to any committee. An example of these are the four

annual reports required by 5 MRSA §13070-J.4. This statutory provision requires that MRS, DOL, DECD and the Maine Community College System each report certain information on economic development programs to the Legislature by October 1st of each year.[9] These reports are commonly known as the Economic Development Incentive Reports (EDIRs).

How Are the State's Economic Development Programs Coordinated?

The Maine Legislature has recognized the need to coordinate Maine's EDPs in order to achieve economic development goals.

Coordination of economic development programs is important to ensure that state resources are targeted effectively. The Maine Legislature has recognized the need to coordinate programs to assure achievement of the State's economic development goals. In 1985, the Joint Standing Committee on State Government produced a report entitled *"The Need for an Economic Development Strategy for the State of Maine"* that recommended a number of actions to coordinate the State's economic development efforts around a clear strategy.

1985 - The Joint Standing Committee on State Government reported:

"...there are no comprehensive or over-riding statutory goals and objectives that serve to direct the state's economic development activities or that could be used to measure Maine's progress in economic development;"

"...there is very little coordination of economic development efforts across state, regional, and local organizations."

~ The Need for an Economic Development Strategy for the State of Maine

Two years later, the 1987 Joint Select Committee on Economic Development echoed these concerns. As a result of its findings, this committee recommended establishing a cabinet level committee to develop and oversee a statewide economic development strategy. It also recommended creating the Department of Economic and Community Development "to coordinate and implement state economic development programs."

1987 - The Joint Select Committee on Economic Development reported:

"There is no planned focus to economic development efforts throughout the State and no defined state policy for targeting economic development resources."

"There is no formal mechanism to coordinate economic development policies and programs... The current system is a decentralized one, and coordination of economic development policies and programs depends upon the extent to which each agency is willing and able to cooperate with the several other agencies of state government to develop and implement these types of programs."

~ Final Report of the Joint Select Committee on Economic Development

DECD was created in 1987. The Department's enacting statute, 5 MRSA §§13051-13060, includes statement of purpose and establishment sections. The language in both sections indicates the legislative intent for DECD to serve as the main agency responsible for economic development and

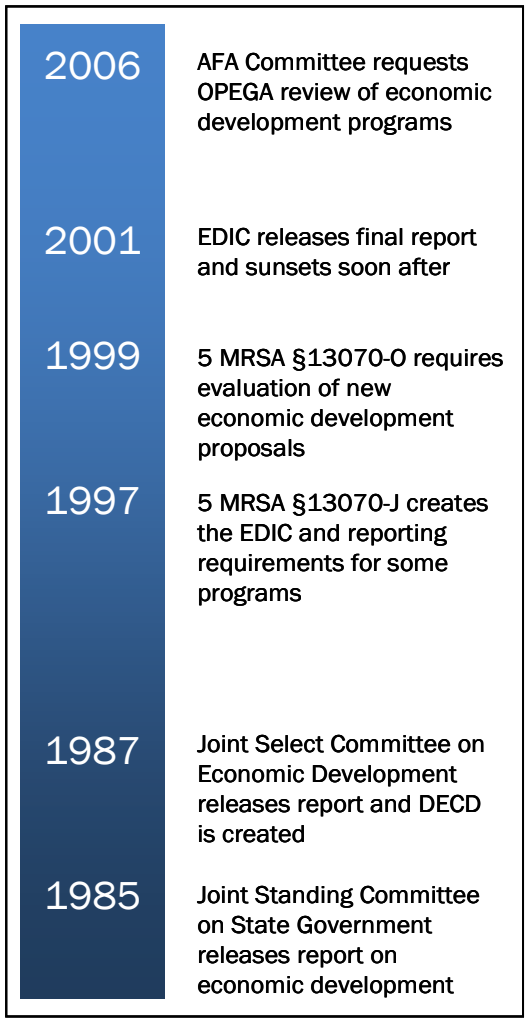
[9] See Appendix 4 for a summary of relevant statutory provisions.

coordination of the State's programs to support an economic development strategy.[10] DECD's statute, however, does not include any reference to coordination activities in the list of specific departmental responsibilities, nor is it clear that DECD has the authority to act in this capacity. The only statutory provision speaking to coordination is found under duties and responsibilities of the Commissioner, §13058. It implies that the responsibility to coordinate is only related to programs and services administered by DECD.

DECD's role in coordinating State economic development activities has varied historically with changes in administration.

While DECD's role has varied historically with changes in administration, and there is a perception that DECD provides broader coordination of programs, in reality, its coordinating role remains limited as does its authority over programs administered by other agencies. Its current coordination activities are at the program implementation level. The Department works with regional and local economic development organizations to assist businesses in accessing the benefits of certain EDPs.

Figure 4. Timeline of Key Legislative Activity on Economic Development



How are the State's Economic Development Programs Evaluated and Held Accountable?

Statutory Requirements

Enacting statutes and related rules inconsistently include monitoring and evaluation requirements for individual economic development programs. Where requirements do exist, they vary in their level of specificity. As previously mentioned, statutes may also call for any resulting performance reports from administering agencies to be submitted to any one of several agencies and/or legislative Joint Standing Committees.

Ten years ago the Maine Legislature passed PL1997, chapter 761 to strengthen oversight of specific EDPs.

Approximately 10 years ago, the Maine Legislature initiated stronger evaluation of EDPs with the passage of PL 1997, chapter 761. This public law enacted 5 MRSA §13070-J which focuses on ensuring that some EDPs

[10] See Appendix 4 for the statutory language.

are subject to regular performance evaluation and reporting to provide accountability.

5 MRSA §13070-J defines economic development incentives as ten specific programs.

Provisions within 5 MRSA §13070-J have been added, repealed and amended over the years.[11] This statute currently defines economic development incentives (EDIs) as ten specific programs and requires that:

- each applicant for five of the specified EDI's identify the public purpose to be served by the business and the goals for job creation or retention stemming from receipt of the EDI;[12]
- businesses receiving benefits >$10,000 in one year from an EDI annually provide DECD data concerning the amount of assistance received and the public benefit derived;
- Maine Revenue Services, the Department of Labor, the Maine Community College System, and the Department of Economic and Community Development report annually to the Legislature on the EDIs under their management; and
- DECD annually notify MRS of businesses that have not provided data as required, allowing that these businesses will forfeit future EDI benefits they might be eligible for under 36 MRSA chapter 915.

5 MRSA §13070-J defines economic development incentives as:

1. Maine Quality Centers
2. The Governor's Training Initiative Program
3. Municipal tax increment
4. The jobs and investment tax credit
5. The research expense tax credit
6. Reimbursement for taxes paid on certain business property
7. Employment tax increment financing
8. The shipbuilding facility credit
9. The credit for seed capital investment
10. The credit for pollution-reducing boilers.

5 MRSA §13058-5 requires the DECD Commissioner to regularly report to the Governor and Legislature on DECD's programs and functions, as well as the operation of the economic development delivery system.

In addition to requirements for individual programs, Title 5 contains some statutory provisions that provide for evaluation and accountability from a broader perspective. 5 MRSA §13058-5 requires the Commissioner of DECD to review and evaluate the programs and functions of the Department and the operation of the economic delivery system. This section also requires the Commissioner to report on the results of this evaluation to the Governor and the Legislature no later than February 1st of each regular session of the Legislature. It goes on to prescribe ten specific topics that the Commissioner's evaluation should include (see Appendix 4). These reporting specifications intend to promote transparency and accountability for the programs managed by DECD. The Commissioner currently satisfies these requirements through an oral report to the Joint Standing Committee on Business, Research and Economic Development.

[11] Appendix 4 includes a summary of the present statutory language.

[12] The five EDI's are Maine Quality Centers, Governor's Training Initiative, Municipal Tax Increment Financing, Jobs and Investment Tax Credit and Employment Tax Increment Financing.

Efforts of the Economic Development Incentive Commission

In 1997, the EDIC was created to review the public benefits derived from certain EDPs.

Public Law 1997, chapter 761 also created the Economic Development Incentive Commission (EDIC) to "review and advise the commissioner and the Legislature on public benefits derived from economic development incentives provided to employers."[13] Among other tasks, the Commission was specifically charged to:

- evaluate the effectiveness of seven economic development incentives defined in 5 MRSA §13070-J relative to alternative public investment opportunities;
- evaluate the effectiveness of economic development programs in general;
- review the aggregate number of jobs created, the cost to taxpayers to create the jobs, and the wages in those jobs;
- report the rate of return on EDIs; and
- recommend to the Governor and the Legislature, improvements in purpose, award criteria, administration, accountability and enforcement of EDI requirements.

The EDIC encountered difficulties carrying out its charge and was sunset in 2002.

The Commission, comprised of state legislators and appointed members of the public, represented a range of perspectives on economic development policy. After meeting from 1998 until 2000, the EDIC released a final report describing the difficulties encountered in carrying out its charge before its sunset in 2002. Reportedly, these difficulties prevented the Commission from completing any program evaluations. However, the Commission did conduct considerable research and ultimately reported that "despite significant philosophical differences regarding EDIs, all members agree on the need for continued research and analysis of data relative to the effectiveness of EDIs."[14]

2000 - The Economic Development Incentive Commission described difficulties in carrying out its charge including:

- inability to agree "on what types of programs ought to be considered 'incentives,' how to define rate of return, how to identify casual relationships between incentives and business activity and how to obtain useful data for analysis";
- complications in comparing seven programs that all had "different statutory purposes, differences in agency reporting requirements with regards to programs, inconsistencies in data collected on the business reports and timing issues that make it difficult to establish casual relationships between incentives and their effects"; and
- lack of sufficient funding to perform the studies required.

~ Report of the Economic Development Incentive Commission

One of the EDIC's most notable accomplishments was the

[13]Report of the Economic Development Incentive Commission; 2000; pg. B-4

[14]Report of the Economic Development Incentive Commission; 2000

Before its sunset, the EDIC developed a standard data collection form for EDPs. DECD currently uses it to collect statutorily required data from businesses.

development of a standard reporting form used to gather data from business recipients of EDIs concerning: number of jobs created or retained, wages and benefits provided through those jobs, and investments in capital and training. This form enabled the Commission to start collecting useful data for evaluating the performance of EDPs.

This form remains in use by DECD to collect annual data that businesses are required to provide under 5 MRSA §13070-J.3 as described above. DECD provides these forms to businesses and then compiles the information submitted. Finally, DECD disperses the compiled information to the agencies that are required by 5 MRSA §13070-J.4 to submit reports to the Legislature by October 1st.[15] These reports are not submitted to any particular Joint Standing Committee but are instead directed to legislative leadership and filed in the Law and Legislative Reference Library.[16]

What Are Best Practices in Evaluating Economic Development Programs?

EDPs are inherently difficult to evaluate due to their complex and politically-charged nature.

The difficulties encountered by the Economic Development Incentive Commission are not unique to Maine. OPEGA's research validates that economic development programs are inherently difficult to evaluate due to their complex and politically-charged nature. There is still little agreement about exactly what types of performance measures EDPs should employ, how to calculate return on investment (ROI), or even what types of programs should be considered economic development. Failure to agree on these points often obstructs evaluation efforts and leaves EDPs without sufficient accountability.

Determining true effectiveness, or cost-benefit, for EDPs could involve significant technical challenges and costs.

There are also significant technical challenges and costs associated with determining the true effectiveness, or cost-benefit, of any particular EDP or groups of EDPs. Arriving at such determinations requires isolating the benefits specifically attributable to the programs by eliminating other external factors that impact business and economic growth or decline. The

According to the National Association of State Development Agencies, there are six key steps to establishing an effective monitoring and evaluation system for EDPs:

1. Articulating the goals of the incentive and the policy problem the incentive addresses;
2. Transforming economic development goals into measurable objectives;
3. Selecting a strategy for assessing progress in achieving the policy goal;
4. Determining what data can be collected and how to collect it;
5. Deciding what analytic methods are most appropriate for analysis; and
6. Determining how the monitoring and evaluation efforts can be managed to be most effective.

~ Report of the Economic Development Incentive Commission

[15] These agencies are MRS, DOL, MCCS and DECD.

[16] See Appendix 4 for the statutory requirements associated with these reports.

models and research necessary to accomplish can become complicated and expensive.

Consensus is emerging around the need to evaluate the performance of EDPs.

Despite these obstacles, a consensus is emerging around the need to evaluate the performance of EDPs as well as what program elements or controls are necessary for doing so. The EDIC conducted substantial research on evaluating economic development programs. In its report, the Commission referenced conclusions reached in work done by other organizations advocating that economic development should be performance-based and that states should actively monitor and evaluate program performance. These organizations further advocate that specific steps or conditions are critical to performance evaluation.

These perspectives continue to represent current thinking. Best practices identified for economic development programs are the same as those appropriate to any program including:

- defining the general purpose to be achieved or specific need to be met;
- developing clear and measurable goals and timelines for assessing how well they were achieved;
- identifying what information needs to be collected, and how it will be collected, before, during and after assistance is provided in order to accurately monitor, track and evaluate program performance;
- establishing eligibility criteria and an appropriate application process for those interested in receiving assistance;
- adopting rules, policies, procedures and other guidance that clearly define all program goals, objectives, requirements, terminology and processes; and
- establishing systematic, objective and independent processes for determining whether recipients are complying with all program requirements.

According to a study conducted for Ohio's Economic Development Study Advisory Committee, there are six conditions for performance-based economic development programs.

1. They are guided by clear, unambiguous, and consistent goals.
2. Their performance is judged in terms of the programs' intended and unintended effects in the short, intermediate and long terms.
3. They consider the industry, geographic, population, labor, market, state and local governmental finance, and natural resource impacts of using the programs.
4. They are budgeted annually and account for their full costs and benefits to state and local governments.
5. They strive at a minimum to achieve break-even financial performance for state and local government, considering their full costs and benefits.
6. They provide adequate legal recourse for state and local government against those companies that do not meet the requirements of their negotiated agreements.

~ Report of the Economic Development Incentive Commission

Effective program evaluation also requires that the goals, objectives and performance measures be specific and relevant to the program being evaluated. *Best Practices in Carrying Out State Economic Development Efforts,* published by the National State Auditors Association and found in

5 MRSA §13070-O is designed to help assure that new EDPs include criteria to facilitate performance evaluation.

Appendix 6, summarizes how these best practices can be applied to economic development programs, and includes examples of appropriate goals, objectives and measures. Other publications with additional examples are listed in the Bibliography of this report.

Maine's statute 5 MRSA §13070-O is designed to help assure that proposals for new economic development programs incorporate elements reflective of these best practices.[17] This statutory provision, which was enacted in 1999, states that all new economic development proposals must include 7 criteria (including specific objectives, measurements, and monitoring procedures). The same law also requires DECD to evaluate the proposals against those criteria and report to the appropriate Joint Standing Committee of jurisdiction on the extent to which the criteria are met.

How Did OPEGA Assess the Risks Related to Economic Development Programs?

OPEGA's primary goal in performing a risk assessment was to identify "risk priorities"— economic development programs or categories of programs, that should be considered for a more detailed review of effectiveness, efficiency, compliance or cost-benefit. Analysis of the risk assessment results, however, also informed our evaluation of the system of controls.

Based on its research, OPEGA identified risks associated with economic development programs and program evaluation in general. We designed a survey to collect data on individual programs, allowing us to assess levels of risk on the 13 different risk factors summarized in Table 6. OPEGA selected these risk factors because they are most relevant to a program's ability to evaluate its performance and provide accountability.

Table 6 also describes the control criteria for each risk factor against which the agency-provided information was compared. OPEGA "scored" each program on each risk factor as a result of this comparison and assigned a rating as follows:

Rating	Description
Low	Substantially meets control criteria
Medium	Minimally meets control criteria
High	Does not meet control criteria

More details on this process are included in Appendix 1.

[17] See Appendix 4 for relevant statutory language.

Table 6. Risk Factors Considered in OPEGA's Risk Assessment

Risk Factor	Associated Risks	Control Criteria
Purpose	Limited understanding of purpose increases likelihood that desired outcomes will not be achieved and decreases ability to evaluate effectiveness.	Purpose provided by agency is clear and specific and matches legislative purpose (where known).
Goals & Objectives	Weak goals may result in lack of focus on desired outcomes and substantially hamper evaluation and oversight.	Goals are clear, specific, and measurable and support the purpose.
Performance Measures	Inadequate performance measurement may allow program mismanagement or failure to meet desired outcomes to go unnoticed.	Adequate and relevant data is being collected to measure achievement of goals.
Reports	Lack of accessible, quality information prevents informed decisions and strong oversight.	Reports are widely available outside the managing agency and are easily accessible.
Overlap	Overlap can result in costly duplications, over-subsidization of businesses, and confusion over similar programs.	The program collects and retains sufficient information to permit determination of overlap with other programs.
Administrative Costs	Insufficient financial data prevents informed decisions and decreases ability to evaluate program efficiency.	Administering agency was able to provide the cost to administer the program.
Funding Review	Infrequent funding review may result in over and under allocation of resources.	Funding is reviewed at regular intervals by an independent group.
External Audit	Lack of independent review may allow mismanagement or fraud to go undetected.	Independent audits are performed regularly.
Application process	Inconsistent processes and criteria may result in bias, favoritism or fraud in selecting program recipients.	Application and selection process is designed to minimize risk of bias, favoritism, or fraud.
Monitor Recipients	Insufficient monitoring may allow recipients to benefit from programs without contributing to desired outcomes.	Recipients are actively monitored and obligated to meet specified goals.
Complexity	Complex systems provide more opportunities for inefficiencies and confusion that can affect program performance.	Straightforward, stable easily understood rules, and a simple organizational structure.
Age (years since origin of program)	Older programs may have evolved away from the original legislative intent or no longer be relevant to overall strategy.	Years since program was created. 15 years = high, between 5 and 15 = medium, less than 5 = low
Funding (average annual funding 2003-2005)	High funding levels present increased financial risk if program is not achieving desired outcomes and increases possibility of fraud.	Level of average annual funding for 2003-2005. >$5 million = high, between $1 million & $4.9 million = medium, less than $1 million = low

After rating each program on each risk factor, OPEGA determined the overall risk profile for individual programs as follows:

Risk Profile	Description
Low Risk	No more than 3 risk factors rated as high or medium risk
Medium Risk	Between 4 and 6 risk factors rated as high or medium risk
High Risk	Seven or more risk factors rated as high or medium risk

See Appendix 3 for detailed results of OPEGA's risk assessment.

Conclusions

Maine citizens make substantial investments in economic development programs each year. These programs, taken together, constitute an investment portfolio that ideally should be designed and managed to assure that the State is getting the best return on its investment. To be sure, there are significant and well-recognized technical challenges to adopting such a portfolio approach. These include:

- evaluating the true effectiveness and cost-benefit of individual programs or types of programs;
- comparing the merits of dissimilar programs; and
- determining what an optimum portfolio mix might be.

These technical challenges are exacerbated by the fact that economic development is a highly politicized subject. Strongly held differing points of view disrupt meaningful discussion and compromise on the topic. Decisions regarding economic development activities can be politically-influenced, and the slant taken on reporting results of economic development efforts is often politically-biased. While the politics surrounding economic development are an accepted reality, they must nonetheless be recognized as a strong inherent risk to assuring that economic development programs are as cost-effective as possible.

Maine's policymakers, citizens, and businesses need accurate and reliable information about EDPs to facilitate transparency and accountability.

Given the technical and political challenges, it will likely be some time before Maine is in a position to truly design and manage its Economic Development programs as an investment portfolio from a cost-benefit (return on investment) perspective. In the meantime, however, Maine's policymakers need accurate and reliable information about these programs to make informed decisions. Maine's citizens and businesses also deserve as much transparency and accountability as possible around these programs. This requires:

- ability to monitor progress toward desired results;

- coordination to minimize overlaps and gaps, and maximize synergies and efficiencies among programs; and
- publicly accessible, understandable information about these programs, including relevant, objective and verifiable data on program costs and performance.

Past attempts to improve accountability and coordination of EDPs have produced limited results.

Past Maine Legislatures have recognized these needs and supported serious efforts to address them. The work of the 1987 Joint Select Committee on Economic Development, the creation of the Department of Economic and Community Development, the enactment of 5 MRSA §13070-J, K & O, and the work of the Economic Development Incentive Commission all represent positive steps toward that end. Unfortunately, for a variety of reasons, these efforts have produced limited results.

Critical elements necessary for performance evaluation and accountability are still lacking.

OPEGA's risk assessment, based on agency-reported information regarding the 46 programs included in the scope of this review, suggests a significant level of financial and/or performance risk in the State's current portfolio of economic development programs. Nearly 48% of these programs had an overall profile of high risk and another 35% were medium risk. Consequently, there is an increased likelihood that the State could be:

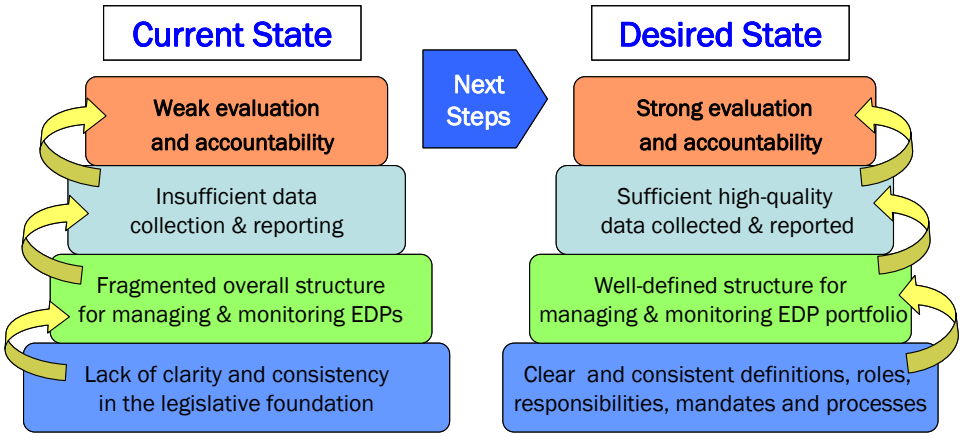
- investing in programs that are ineffective or no longer necessary;
- spending more than is necessary on administrative costs; or
- missing opportunities to provide incentives to some businesses while potentially oversubsidizing others.

Weaknesses exist within individual programs, and within the State's overall structure for managing them.

The current level of risk in Maine's economic development portfolio exists in large part because critical elements necessary for evaluating performance and achieving real transparency and accountability have been, and still are, lacking. These weaknesses exist both within the frameworks for individual programs and within the structure for managing and monitoring the State's portfolio as a whole. Specifically, OPEGA found that:

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

Figure 5. Key Elements for Sufficient Performance Evaluation and Accountability



In the Findings and Action Plans section of this report, OPEGA elaborates on the risk assessment results and provides recommendations for more in-depth reviews of certain economic development programs (see Finding 1). We also describe root causes of the risks identified that need to be addressed (see Findings 2-6). The agreed upon Management Actions and Recommended Legislative Actions given are next steps that should be taken to build on past efforts toward improving evaluation capabilities. They will enhance transparency and accountability for economic development programs. These are actions the State can take despite the technical challenges in evaluating the true cost-benefit of such programs, and the politics surrounding them. Taking these actions will help assure that:

- programs are well-managed to maximize effectiveness and efficiency;
- a fair playing field is maintained for all Maine businesses;
- information is readily available to those seeking to participate in programs;
- citizens and elected officials can determine whether they agree with the State's current economic development priorities, and whether those priorities are in line with the State's strategic direction overall;
- policymakers have accurate and reliable information about costs and effectiveness from which to make informed decisions about economic development programs;
- inherent risk presented by political realities is minimized as much as possible; and
- the State moves closer to being able to design and manage economic development programs as a statewide investment portfolio.

Findings and Action Plans

OPEGA discussed these findings and its recommendations for management action with the Department of Economic and Community Development. OPEGA also considered alternative solutions presented by management. Management actions described in this report were agreed upon as a result of these exchanges and OPEGA is satisfied that they are acceptable and reasonable steps toward improving the current situation. We include any additional details related to our recommendations for management action in the description of relevant findings. We also provide recommendations for possible legislative action that should be referred to the appropriate legislative bodies for consideration.

Finding 1. Existing Programs May be Ineffective or Inefficient

An assessment of agency-reported information on 46 existing programs suggests that State resources currently being invested in economic development may not be employed as effectively and efficiently as possible in achieving desired outcomes for Maine's economy. Specifically, OPEGA's risk assessment showed the following multiple indicators of concern.[18]

1. There is a lack of program controls necessary for evaluating the performance of individual programs. Twenty percent of the programs reviewed have no clearly stated public purpose, 24% lack specific and measurable goals and objectives, 26% do not have adequate performance measures and 33% do not report their performance regularly or in a manner that provides for reasonable legislative and public review. In addition, a significant percentage of programs only had minimally adequate controls in these areas. Consequently, the ability to identify whether these programs are achieving intended results is limited.

2. Any efforts to monitor or oversee these programs as an investment portfolio would be severely undermined by a lack of essential information. Ninety-four percent of the programs do not collect or maintain sufficient data to allow analysis of overlap and gaps between programs and 54% of the programs did not provide OPEGA with their administrative costs, even though we encouraged estimates. Without such data, there may be missed opportunities to streamline programs and reduce administrative costs within and among programs. It is also difficult to determine whether some businesses or business sectors are receiving more assistance than needed while others are not receiving enough.

[18] See Appendix 3 for more detailed results.

3. Some basic financial controls are often inadequate or missing entirely. Funding for 35% of the programs examined is not reviewed and reconsidered on a regular basis. The funding for an additional 35% receives only a minimally adequate review. In addition, 43% of the programs report that they are not subject to regular independent financial audits. As a result, the State's funds may not be getting used as intended or most appropriately.

4. The age of a significant number of programs puts them at increased risk of having evolved away from their original legislative intent, or of having a purpose that is no longer relevant to the State's economic development strategy. Forty-six percent of the 46 programs were established 15 or more years ago. An additional 43% are between 5 and 15 years old.

5. The organizational structure and administrative rules add complexity to some programs increasing the risk of ineffectiveness, inefficiency or funds not being used as intended. Thirteen percent of programs were rated as very complex. Another 26% were rated as moderately complex.

6. There are multiple programs of the same type and multiple programs that serve the same business sector. Twenty-four percent of programs are targeted to agriculture or aquaculture businesses, 13% to manufacturing and 33% to all or many different types of businesses. Consequently, there may be opportunities to combine or modify existing programs to reduce the number of programs, and thus administrative costs, overall.

7. As a category, tax incentives exhibit especially high risk. All but two of the 15 tax incentive programs assessed have a high risk rating for at least four risk factors, and 66% of the tax incentive programs have 7 or more risk factors rated as high risk. Over the three years covered by the surveys these tax incentive programs accounted for $478,624,531.

The level of risk existing in any particular program is not necessarily a reflection of the managing agency's performance, but can be due to factors outside of the agency's control. For example, tax incentives are generally not treated the same as other economic development programs, even though many of them are defined as such in statute. Consequently, though it appears that Maine Revenue Service does a good job of controlling the application process and monitoring the requirements for individual businesses, no one is tasked with establishing overall program goals and objectives or monitoring program performance in terms of intended outcomes. There also appear to be no provisions made for periodic review of the State funding for these programs – which, in this case, is forgone revenue.

The risk assessment also showed some areas of strength in the 46 economic development programs. All of the economic development programs reviewed appear to maintain sound systems for assuring fair and equitable

application processes. In addition, nearly all have some established process for monitoring beneficiaries' requirements and responsibilities.

Recommendations for Legislative Action

Management actions, and other recommendations for legislative action, related to improving this situation are addressed in Findings 2-6. However, OPEGA suggests the following additional legislative actions in relation to the 46 programs we reviewed.

A. The Legislature should consider subjecting the following programs to more in-depth evaluations of effectiveness, efficiency and economical use of resources. While all of the programs we assessed may benefit from more in-depth reviews, OPEGA recommends that these programs be considered a higher priority, based on their overall risk profiles and the dollar amounts involved:

   -- All 15 tax incentive programs either individually or as a group, see Appendix 2 for a listing;

   -- Revenue Obligations Securities Program (SMART and SMART-E);

   -- Economic Recovery Loan Program;

   -- Governor's Training Initiative;

   -- Commercial Loan Insurance Program;

   -- Milk Commission;

   -- Regional Economic Development Revolving Program;

   -- Maine Manufacturing Extension Partnership;

   -- Agricultural Marketing Loan Fund;

   -- Agricultural Water Management and Source Development Program;

   -- Maine Apprenticeship;

   -- Potato Marketing Improvement Fund Program; and

   -- Farms for the Future Program.

B. The Legislature should also consider reviewing the existing portfolio of economic development programs to identify opportunities for reducing the number of programs and/or the administrative costs associated with them.

C. Lastly, the Legislature should consider establishing a process for assuring that future economic development proposals are compared to existing programs to determine if the purpose of new proposals can be effectively met by modifying existing programs or whether new proposals should replace existing programs. The Legislature could make this a task of the entity assigned responsibility for portfolio-level coordination (see Finding

3) that occurs in conjunction with review of proposals for other criteria listed in 5 MRSA §13070-O (see Finding 4).

Finding 2. Insufficient Definition of Economic Development

The State of Maine does not have a sufficient definition of what constitutes an economic development program. 5 MRSA §13070-J.1.D currently defines "economic development incentive" (EDI) narrowly as a list of 10 specific state-funded programs. There is also no consistently applied definition of economic development programs among the primary economic development agencies in Maine or within the Legislature. In fact, the program most recently added to the list of "economic development incentives" in 2005, Tax Credit for Pollution-Reducing Boilers, does not state improvement of the State's economy as a primary purpose.

Without a more comprehensive definition of economic development programs, it is impossible to know exactly which state programs are part of the overall economic development strategy and just how much they cost collectively. OPEGA's survey identified at least 36 other state-funded programs that appear to be intended to develop the economy and there are many more.

In addition, the current narrow statutory definition of "economic development incentives" is not consistent with other statutory requirements. 5 MRSA §13070-J requires that businesses receiving more than $10,000 in one year from any of 8 specified EDIs annually provide information on the total amount they have received "from all economic assistance programs." It is unclear whether this means they must provide the amount they have received from any program that they individually consider economic development or just from the 10 EDIs defined in Section J.

5 MRSA §13070-J.1.E already defines "economic development proposal" as "intended to encourage significant business expansion or retention in the State." This definition of proposals may be a good starting place in developing a more comprehensive definition of economic development programs. Establishing a more comprehensive and commonly understood definition would pave the way for the other requirements currently in, or that may be added to, 5 MRSA §13070-J to be applied to all economic development programs (see Finding 4).[19] It would also provide a foundation for more productive discussions on economic development and better coordination of economic development programs (see Finding 3).

[19] The Legislature would still be able to exempt particular programs from certain requirements if appropriate.

Management Action

The Department of Economic and Community Development will draft an operational definition of economic development programs for use in establishing which programs are to be considered part of the State's economic development investment portfolio. The Commissioner of DECD will present this proposed definition to the JSC on Business, Research and Economic Development by June 15, 2007.

Recommendations for Legislative Action

A. The Legislature should consider replacing the current definition of "economic development incentive" in 5 MRSA §13070-J.1.D with the definition proposed by DECD and amended as necessary. The Legislature should also consider incorporating this definition, where appropriate, into 5 MRSA §§13051-13060 to further define the roles and responsibilities of DECD.

B. The Legislature should clarify what is meant by "all economic assistance programs" in 5 MRSA §13070-J.3.B.

Finding 3. Lack of Statewide Coordination and Oversight

There are currently no meaningful, statewide coordination efforts that facilitate understanding or effective management of the State's entire portfolio of economic development programs. No governmental agency is currently assigned the responsibility and authority to oversee and coordinate **all** of Maine's economic development programs as a portfolio. No inventory of all state-funded economic development programs exists, and data is not comprehensively captured, analyzed, or reported for all EDPs as a group. In addition, there is currently no single legislative body that has complete oversight responsibility for the State's entire portfolio of economic development programs.

Maine's decentralized economic development delivery system is viable, but without effective portfolio-level coordination and oversight policy-makers do not have adequate information to:

- assess the success of the State's overall economic development efforts;
- determine how state economic development funds are best invested; and
- identify gaps, overlaps, or synergies among state-funded programs.

At a minimum, the State should maintain an inventory of state-funded economic development programs available in Maine, based on a definition the Legislature establishes (see Finding 2). The inventory should include

basic information on each program (i.e. type of program, administering agency, target population, enacting statute, year established, public purpose(s), goals and objectives, geographic segment(s) served) with the goal of adding performance type data (number of beneficiaries, total dollars distributed or revenue forgone, total administrative costs and specific performance measures) that could be analyzed for trends over time.

Such an inventory could be established as a database and initially be populated with key information on relevant programs that OPEGA gathered for this review. If well-designed, the resources required to establish and maintain this inventory could be more than offset by reduced costs in other areas. For example:

-- new administrations and legislatures could quickly become familiar with the State's array of economic development programs instead of spending time trying to gather information about them all;

-- administrators and legislators proposing new economic development programs would be able to easily determine whether similar programs already exist that could be modified or replaced, thus potentially avoiding additional administrative costs; and

-- regular analysis of the State's entire portfolio of programs could be more easily performed to determine: a) where administrative efficiencies might be gained; and b) whether available resources could be redirected among programs rather than adding more resources or allowing programs to remain funded at less than optimal levels.

In addition, portfolio-level coordination could also provide:

-- a clearinghouse for information on economic development programs by collecting program performance and cost information from administering agencies, on individual programs exceeding certain established thresholds of State investment, and reporting it on a periodic basis to the Legislature,[20]

-- objective assessment of the program portfolio for: possible overlaps, redundancies or gaps among programs; alignment of the portfolio with the State's economic development strategy; and programs that consistently fail to meet performance targets;

-- periodic reports to the Legislature on the current composition of the program portfolio with recommendations on programs that should be discontinued, consolidated, expanded or have adjustments to their funding level; and

[20] Program performance information should include: purpose, goals & objectives, performance measures and targets; data on achievement of performance targets; administrative costs; and administering agencies' assessment of program performance and challenges.

-- monitoring of whether all programs in the portfolio have adequate program controls in place to allow evaluation of performance and provide accountability.[21]

Management Action

The Commissioner of DECD will prepare a proposal for expanding the role of the Department to include coordination of the State's portfolio of economic development programs as defined by the Legislature (see Finding 2). The proposal will include an assessment of the benefits to be derived from coordination of the portfolio and recommendations regarding the organizational structure, resources, and authority required for the Department to effectively and efficiently carry out the responsibilities of this role as described by OPEGA. The Commissioner will submit this written proposal to the JSC on Business, Research and Development by December 31, 2007.

Recommendations for Legislative Action

The JSC on Business, Research and Economic Development (BRED) should consider seeking similar proposals from the Maine Development Foundation and other existing non-State organizations that have the skills, knowledge and objective perspective necessary to carry out the responsibilities of a portfolio coordinator. BRED could then assess these proposals in conjunction with the one from DECD and make recommendations to the entire Legislature on whether and how to proceed with designating a specific entity as portfolio coordinator.

Finding 4. Inadequate Mechanisms to Assure Program Controls

Mandates and processes for assuring that adequate program controls are established for all EDPs are not effective.[22] This is due in part to factors described in Findings 2 and 3. It is also why statements of purpose, goals and objectives, performance measures and/or reporting requirements are lacking in such a significant percentage of the existing economic development programs identified by OPEGA (see Finding 1).

Even when these elements do exist, they vary in their adequacy and are not consistently documented. They are often scattered between 5 MRSA §13070-J, specific program statutes and program rules. Such a patchwork does not provide transparency or accountability. It is difficult to piece

[21] This includes evaluating whether purpose, goals & objectives, performances measures and performance data being collected are appropriate and relevant for the type of program. See Appendix 6.

[22] See Appendix 6 for best practices in evaluating economic development programs.

together all the requirements for any particular program and assess whether the elements are sufficiently related to promote, and allow monitoring of, program effectiveness.

5 MRSA §13070-O attempts to at least partially address this situation. It states that all new economic development proposals must include 7 criteria (program controls) and requires DECD to report on the extent to which the criteria are met. However, it is currently ineffective for several reasons:

1. 5 MRSA §13070-O only addresses proposals. Even if a proposal includes all of the elements required under that statute, the program may not include any of them by the time it has moved through the Legislature and been enacted in statute.

2. Although Title 5 requires DECD to report on the extent to which each proposal meets the criteria spelled out in §13070-O, it does not specify what action is required if DECD reports that the proposal does not sufficiently meet the criteria.

3. There are no requirements that the specified criteria be documented in program statutes and rules.

4. There appears to be no formalized process to assure that all proposals are funneled to DECD, or get reviewed and reported on as required. The significance of this weakness is heightened by the fact that bills proposing new economic development programs can originate in many forms, from many sources, and get referred to a variety of different Joint Standing Committees.

5. DECD has not been reviewing and reporting on all new economic development proposals. The Department interprets the statute to mean that it is required only to review and report on its own proposals.

6. There is no requirement that DECD's reports be in a written form that becomes a permanent, public record of its proposal assessments. DECD indicates that it often gives its reports orally. Consequently, information provided to the committee of jurisdiction is not readily available to other interested legislators or citizens. An example is the proposal for the Pine Tree Development Zones, a program proposed by DECD. DECD's assessment of its proposal against the criteria was apparently provided in testimony before the BRED Committee and no full record could be easily located. While oral reports may be a common and accepted way for agencies to provide information to JSCs, they do not promote accountability.

Management Actions

4. Effective with the first regular session of the 123rd Legislature, DECD will begin reviewing **all** new economic development proposals as

required by §13070-O, regardless of their source, and submit written reports of its assessments to the appropriate Joint Standing Committees.

5. Pursuant to other statutory requirements, DECD will be providing an annual report on Pine Tree Development Zones to the Legislature by June 15, 2007. DECD will include an assessment of this program against the criteria specified in 5 MRSA §13070-O in this report.

Recommendations for Legislative Action

A. The Legislature should consider amending existing statute as follows:

-- Add the following criteria to those already included in §13070-O:

- Each program should have a clearly defined public purpose.
- Each program should report performance data specific to its goals and objectives, in addition to standard data (total dollars, number of recipients, total administrative costs) annually to the entity that is assigned to coordinate the State's portfolio of economic development programs (see Finding 3).

-- Require that standard program controls, listed in §13070-O as criteria, be included in enacting statute or agency rules for every new economic development program.

-- Move any program specific requirements currently in §13070-J, such as those in subsection 2, into the enacting statutes for those programs as appropriate, or amend the program specific statutes and rules to reference the additional program requirements contained in §13070-J.

B. Once a decision has been made on establishing a broader definition of economic development programs (see Finding 2), the Legislature should consider directing all agencies administering programs that meet the new definition to report to the JSC of jurisdiction (in writing) on whether each program adequately incorporates the criteria required in §13070-O. Each JSC committee would then determine whether program objectives and performance measures are relevant to the program, require changes as necessary, and assure that criteria are incorporated into the program's statute and rules.

C. The Legislature should create a process, with mandates established as necessary, to ensure that DECD is made aware of all new economic development programs proposed in legislation. There is currently a process that provides for the Judiciary Committee to review all bills proposing to designate information as "confidential" under Title 1, Chapter 13. This process may be a model the Legislature could consider in establishing a process for economic development programs.

Finding 5. Data Collected Does Not Provide a Clear Picture of Results

Performance data currently being collected on the economic development programs reviewed by OPEGA does not provide a clear or complete picture of program results. OPEGA observed the following:

- Adequate and relevant data is collected to measure achievement of goals on only 41% of the 46 programs (see Finding 1).

- The questionnaire used by DECD to collect data as required by §13070-J.3 only requires businesses to report the number of jobs created or retained and amount of capital invested. In terms of performance measurement, this data is only relevant for those programs with goals of job creation and retention, or increased capital investment. The questionnaire does not solicit data that is relevant to the performance of programs guided by other types of goals and objectives.

- Each EDP beneficiary providing data under §13070-J(3) only has to complete one questionnaire regardless of how many different economic development programs they benefited from. While the form does require the business to list each of the EDPs and dollars received from each, it does not require them to break out their performance data specific to each one. DECD passes the data gathered on to DOL, Maine Community College System, and MRS, who each report to the Legislature on the programs they are responsible for. This means that several different programs may be reporting the same jobs and capital investment as public benefits derived from the program. Effectively, this would skew perception of the performance of each program and could result in double counting of public benefits if results reported by the separate agencies (as required by 5 MRSA §13070-J.4.A-D) are being added together to determine total public benefits from all economic development programs.

- Not all businesses that receive benefits from the EDI's specified in 5 MRSA §13070-J.1.D are providing performance data to DECD as required by that statute. In 2005, 148 of the 468 businesses (31.6%) did not submit their data by the August 1st deadline. It appears that some businesses may not provide data because DECD does not have a mechanism for compelling them to do so. 5 MRSA §13070-J.4.E only provides for MRS to deny future benefits from the Business Equipment Tax Reimbursement program (BETR) to businesses who do not report their data as required. Consequently, this penalty is only a motivator for those businesses seeking to benefit from BETR in the first place. Recent changes to taxation on business property that will take effect in April 2007 will also eventually render this penalty ineffective. In addition, some

businesses have indicated that reporting on DECD's paper forms is too time-consuming and cumbersome.

OPEGA recognizes that it may be difficult for businesses receiving assistance from multiple programs to determine how many of the jobs created/retained, or how much of the capital invested, is related to any particular program. At the very least, however, legislators and the public should be aware that the public benefit figures being reported for any one program may also be reported for other programs if a business was receiving benefits from more than one. This could be accomplished with a simple explanatory statement in reports where these figures are used. The lack of transparency associated with potential double counting of public benefits among individual programs would also be minimized by sufficient portfolio-level reporting of public benefits derived from all programs (see Finding 3).

In addition, OPEGA believes there would be value in automating and customizing DECD's data collection process to capture all relevant data on public benefits in a way that is as efficient as possible for both DECD and the businesses which must provide data. With a properly designed web-based application, the collection process could be fed from the inventory database (see Finding 3) and bring performance data back into the database with minimal manual intervention. It would also allow the data captured on each program to be customized without requiring multiple paper forms.

Management Actions

1. DECD is already having discussions with the JSC on Business, Research and Economic Development and legislative leadership on ways to streamline the process of collecting the data required by §13070-J(3) from businesses. The Department seeks to make the process less cumbersome and increase the use of technology applications. As part of this process, DECD will also make recommendations on additional data that should be captured on public benefits, especially for those programs whose goals and objectives are not related to job creation, job retention or capital investment. DECD will work with the Office of Information Technology, as appropriate, to assure technology applications are designed to be as efficient and user-friendly as possible for all parties. DECD expects to have an improved process in place by December 31, 2007.

2. DECD will review the reporting of public benefits from economic development programs it collects data on, and determine the extent to which the same jobs and capital investment are being claimed by multiple programs. If such double counting is occurring, DECD will work with reporting agencies to either eliminate double counting or bring transparency to the figures being reported in the current reports required under §13070-J(4), beginning with those due October 1, 2007.

3. As part of its proposal in response to Finding 3, DECD will make further recommendations regarding the role of the portfolio coordination function in assuring that adequate and relevant data for measuring performance is collected for all economic development programs as defined by the Legislature in response to Finding 2.

Recommendation for Legislative Action

The Legislature should consider giving data collectors the authority needed to compel the beneficiaries of economic development programs to provide data required for measuring performance. Meaningful incentives and/or penalties should be established as appropriate, and should be included in enacting statutes or related rules.

Finding 6. Inadequate Reporting for Accountability

Current reporting on economic development programs is inadequate for providing transparency and accountability; for comparing the performance and costs of individual programs; and, for understanding the State's portfolio of EDP's as a whole. OPEGA noted the following concerns:

- The Economic Development Incentive Reports (EDIRs) prepared by DOL, MRS, DECD, and MCCS, as required by 5 MRSA §13070-J.4.A-D, technically meet the statutory requirements but do not appear to provide legislators with standard, objective information in a consistent and accessible format. It is difficult to compare the content of the reports because they are each uniquely formatted with varied data. Also, some reports contain significantly more narrative arguing the value of the EDIs while others present more straightforward data analysis. The inconsistencies in format and data provided make it difficult for policy and decision-makers to use the reports in assessing whether programs are meeting their legislative intent and are an appropriate use of public resources.
- EDIRs are not widely available and readily accessible to both legislators and citizens. Currently the reports are all distributed to legislative leadership, are available from the authoring agencies upon request, and are on file in the Law and Legislative Reference Library. However, interested parties are not necessarily aware that they exist, or how they can be obtained.
- Not all programs are required to report to the Legislature or other State entities on their performance (see Finding 1). Reports that are required by individual program statutes are submitted to a variety of State agencies and/or JSCs.
- There is inadequate reporting to the Legislature on the State's entire portfolio of economic development programs. This is in large part due to

root causes discussed in Findings 2-4. 5 MRSA §13058-5 does require reporting from the Commissioner of DECD but it appears to limit that reporting to the programs and functions of the Department. In addition, no formal written reports related to this statutory requirement have been produced and made available to legislators or citizens in at least the last four years. The current Commissioner presents this report orally to the Joint Standing Committee on Business Research and Economic Development. Thus, there is limited public record available to other legislators and the public.

- The full amount of the State's investment in economic development programs cannot be readily determined. Several root causes for this situation are discussed in Findings 2-4. In addition, OPEGA noted that administering agencies were unable to provide actual or estimated administrative costs for 58% of the economic development programs surveyed (see Finding 1). It seems that some agencies do not distinguish administrative costs from other program costs or do not assign administrative costs to individual programs when they are managing more than one. Although some EDPs may not be required to report administrative costs, without this financial data decision-makers at all levels are severely limited in their ability to judge how efficiently individual programs are operating, or to determine what costs might be saved through program coordination efforts.

Management Actions

1. DECD will design a standard reporting template for all agencies reporting on economic development programs. By October 1, 2007, DECD will distribute the template to all agencies currently required to report under 5 MRSA §13070-J.4, or that are otherwise required to report to DECD. DECD will assure that the template is also provided to any other agencies that acquire reporting requirements as a result of legislative action on Findings 2-4. The template will include sections that require clear description of the program's purpose, eligible recipients, goals and objectives, and performance measurements, as well as an objective analysis of progress toward the goals and objectives. The template will also include fields for required data on the program. Required data will, at a minimum, include:

   -- number of program recipients (with list of recipients and dollar amounts related to each, unless prohibited by statutory confidentiality provisions);

   -- amount of State money risked or distributed (including forgone revenue) through the program; and

   -- cost of administering the program.

2. Effective immediately, the Commissioner of DECD will begin satisfying the reporting requirement in 5 MRSA §13058-5 by preparing and submitting a formal written report to the Governor and the full Legislature.

3. By July 1, 2007, DECD will establish a means to make legislators and the public aware of the reports submitted in accordance with 5 MRSA §13070-J.4 and 5 MRSA §13058-5, or that are otherwise submitted to DECD, and to facilitate access to them. In addition, as part of its proposal on portfolio coordination (see Finding 3), DECD will make recommendations on how performance and cost information on **all** economic development programs can be made readily accessible to interested parties.

Recommendation for Legislative Action

Many of the recommendations for legislative action resulting from this Finding are already incorporated in the recommendations for legislative actions in Findings 2-4. In addition, the Legislature should consider modifying 5 MRSA §13058-5 to specify that the Commissioner's reports be written.

Acknowledgements

OPEGA would like to thank the numerous individuals from the groups listed below, who committed the considerable time and effort required to provide all of the information about their programs that was requested during the review.

Biddeford Saco Area Economic Development Corporation
City of Portland Economic Development Division
Department of Agriculture, Food and Rural Resources
Department of Economic and Community Development
Department of Labor
Finance Authority of Maine
Maine Community Colleges - Maine Quality Centers
Maine Manufacturing Extension Partnership
Maine Milk Commission
Maine Procurement Technical Assistance Center
Maine Revenue Services (Department of Administrative and Financial Services)
Maine Small Business Development Centers
Maine Technology Institute
Penquis Community Action Program

River Valley Growth Council
The Maine Highlands Guild
Washington Hancock Community Agency

We would also like to thank the staff of the Department of Economic and Community Development, the Finance Authority of Maine and Maine Revenue Services who helped develop and debug OPEGA's primary survey for this review.

The responsiveness, cooperation and candidness demonstrated by all of these individuals enabled OPEGA to achieve more beneficial results.

Appendix 1. Methodology

The basic objectives of this performance audit were to evaluate the strength of the system of controls related to economic development programs (EDPs) and to identify programs that warranted more in-depth review.[23] To accomplish these objectives, OPEGA combined high-level research and evaluation with a risk assessment of selected economic development programs. OPEGA generally follows the *Government Auditing Standards* issued by the United States Comptroller and the Government Accountability Office (GAO).[24]

I. Scoping the Audit

OPEGA began this study by defining the term "economic development" for the purposes of this review. The Joint Standing Committee (JSC) on Appropriations and Financial Affairs (AFA) had requested an OPEGA review of 13 specific programs and other "similar" programs.

Defining Economic Development

OPEGA searched government and academic literature for a standard, or generally accepted, definition of economic development. Finding none, OPEGA studied the 13 programs specified by the AFA Committee to establish a working definition of "economic development" that would help us identify similar programs. The main themes of the 13 programs ultimately included in the definition were:

- the State gives funds directly to the program;
- the State risks funds (such as giving guarantees for loans); or
- the State awards or distributes non-State funds, and could be held responsible for errors or incorrect/incomplete documentation.

OPEGA created the following working definition for economic development programs which was reviewed with key agencies involved in these programs:[25]

> *"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."*

[23] System of controls refers to a set of activities, methods, policies, procedures, physical safeguards and other mechanisms that, taken together, help to assure desired objectives are met. Controls within a system range from clear definition and communication of purpose to strong process oversight.

[24] Government Auditing Standards (2003 Revision), GAO-03-673G, June 2003.

[25] OPEGA did not consider programs that affect jobs and the economy indirectly (such as general public education, statewide transportation and communication) unless they directly supported job creation or business expansion projects. OPEGA also excluded broad economic development policy activities, like the State's tourism promotion or agricultural marketing programs that represent the State's efforts to broadly market itself and its businesses in general.

Identifying Programs for Risk Assessment

Through meetings with representatives from several key organizations, an exhaustive Internet search, and review of 2000 Maine Development Foundation Economic Program Directory, OPEGA identified 63 individuals involved with EDPs. We asked these individuals to complete a short questionnaire (survey #1) designed to help us determine which programs met our definition of economic development. We received information on 109 programs, 60 of which warranted additional research.

OPEGA designed a second, more in-depth survey (survey #2) to collect information necessary to perform the risk assessment portion of this audit. The Finance Authority of Maine (FAME), the Department of Economic & Community Development (DECD), and Maine Revenue Services (MRS) helped with design of the survey, and beta tested the survey format. The response rate for survey #2 was 100%. Information solicited via Survey #2 included:

- public purpose, goals and objectives;
- data collection, performance monitoring and reporting;
- administration costs for State fiscal years 2003 - 2005;
- targeted businesses and geographic locations;
- funds distributed or revenues forgone for State fiscal years 2003 - 2005;
- application and selection processes;
- audit requirements; and
- age of the program.

OPEGA reviewed the survey responses and determined, based on our working definition, that only 33 of the programs were sufficiently "similar" to the original 13. The risk assessment, therefore, included a total of 46 programs.

These programs do not represent all of Maine's economic development initiatives, nor are they intended to be a statistically representative sample of the whole universe of economic development programs. In addition, the information used in performing the risk assessment and generating the statistics reported was provided by the organizations responsible for administering the programs. OPEGA did not independently verify the accuracy of the data they furnished, but did give agencies an opportunity to review and comment on OPEGA's interpretation of that information. Some actual program strengths and weaknesses may be different from what is described in this report, but overall OPEGA is confident that the results of this audit, based on data from the 46 programs included, are valid and reliable.

II. Performing the Risk Assessment

OPEGA's primary goal in performing the risk assessment was to identify "risk priorities"—economic development programs or categories of programs, that should be considered for a more detailed review of effectiveness, efficiency, compliance or cost-benefit. A list of programs that merit more in-depth review was developed from the ratings of individual programs (see Finding 1). Analysis of the risk assessment results, however, also informed our evaluation of the system of controls (see next section).

Establishing Risk Factors and Scoring Criteria

OPEGA selected 13 risk factors on which to score individual programs. For each risk factor, OPEGA developed specific scoring criteria against which to evaluate the information provided via the survey. Appendix 3 gives details on risk factors and scoring criteria.

In selecting the risk factors, OPEGA gave consideration to best practices for economic development programs extracted from the following sources:

- reports by national organizations such as the National Association of State Development Agencies (NASDA), the National State Auditors Association (NSAA), and the US Department of Commerce;
- books and articles by experts on methods for managing and monitoring economic development programs;
- reports issued by other states concerning economic development programs;
- information from other states' program evaluation organizations related to their knowledge and perceptions of best practices;
- past reports on the condition of Maine's EDPs and attempts to monitor their effectiveness; and,
- interviews with staff of the state agencies that manage a majority of Maine's EDPs under review.

Scoring and Rating the Programs

The information obtained via Survey #2 was imported into an Access database developed for this audit. The scoring criteria and fields to record the scores were also included in the database to facilitate the risk assessment and subsequent analysis.

Two OPEGA Analysts independently scored each program against the scoring criteria for each risk factor. The scores from both Analysts were then compared and agreement was reached on any differences. The OPEGA Director also reviewed the scores and provided input before a consensus score on each risk factor was determined. The scores were then equated to ratings of high, medium or low risk on each risk factor.

OPEGA then provided survey respondents with summaries of the scoring criteria and our ratings on risk factors for their programs. They were given the opportunity to provide additional information or comment on differences of opinion/interpretation related to the

ratings. The scores and ratings were adjusted as appropriate when any new information was provided.

Finally, OPEGA used the risk ratings on individual risk factors to determine an overall risk profile for each program. Programs were given an overall profile of high, medium or low risk depending on how many individual risk factors had been rated at high and medium risk. See Appendix 3 – Risk Assessment Results for more detail.

III. Evaluation of System of Controls for Economic Development Programs

In addition to the risk assessment, this audit involved an evaluation of the system of internal controls related to assuring that EDPs are a cost-beneficial use of public funds and are effectively meeting their intent. This examination included determining whether sufficient program-specific controls were being established for monitoring and evaluation of individual programs. It also included an assessment of the overall framework and environment for coordinating and overseeing all of the State's economic development programs. To determine the adequacy of the system of controls, we:

- reviewed 5 MRSA §§13051-13060 and §13070 and related legislative history;
- interviewed staff at DECD and other primary agencies involved in economic development programs we identified;
- interviewed past Commissioners of DECD;
- reviewed reports from federal entities and other states that had evaluated economic development programs;
- reviewed government and academic literature for best practices;
- determined compliance with statutory requirements contained in 5 MRSA §13070-J.2, 3&4, §13070-O and §13058-5 (see Appendix 4 for details on the statutory requirements);
- evaluated the degree to which program-specific statutes and related agency rules for the 13 programs specified by AFA contained adequate statements of purpose, performance monitoring requirements and reporting requirements (this required review of current statute, legislative history surrounding enabling legislation, and review of existing agency rules); and
- analyzed the final risk assessment results for patterns of control weaknesses.

Appendix 2. Summary of Programs included in this Audit

The 13 programs of original interest to the Joint Standing Committee on Appropriations and Financial Affairs were:

- Economic Loan Recovery Program
- Employment Tax Increment Financing
- Governor's Training Initiative
- Jobs and Investment Tax Credit
- Maine Seed Capital Tax Credit Program
- Municipal Tax Increment Financing
- Pine Tree Development Zones
- Regional Economic Development Revolving Loan Program
- Reimbursement for Taxes Paid on Certain Business Property (BETR)
- Research Expense Tax Credit
- Shipbuilding Facility Credit
- Small Business Development Centers

Through its scoping process (see Appendix 1), OPEGA ultimately selected an additional 33 programs to include in this review. Table 7 is a summary of all 46 programs in alphabetical order with key information describing the program that was collected through surveying the administering agencies. Appendix 4 also includes a list of programs with their authorizing statutes.

Legend: Type Codes for Table 7	
B	Business Assistance
T/B	Combination Training and Business Assistance
G	Grants
S	Loan Support
L	Loans
O	Other
X	Tax Incentives
T	Training

The Average Annual Funds Distributed shown in Table 7 represents State funds or forgone revenue distributed to program recipients each year for the period 2003-2005 for the 46 programs in this review. Figures are as reported by administering agencies and have not been independently verified.

Table 7. Summary of Programs Included in this Review (* 13 programs specified by AFA Committee)

#	Program Name	Managed by	Type	Description	Avg. Ann Funds Dist
1	Agricultural Development Grant Program	Agriculture	G	Agricultural grants to accelerate new market development, adoption of advantageous technologies and promotion of state agricultural products.	$219,869
2	Agricultural Marketing Loan Fund	FAME/ Agriculture	L	Agricultural loan assistance to help employ new and innovative technologies and processes to improve, expand and enhance the manufacturing, marketability and production of Maine-made products.	$666,282
3	Agricultural Water Management and Source Development Program	Agriculture	G	Agricultural grants designed to assist farmers in getting sustainable water sources to reduce or eliminate risk of drought damage.	$646,355
4	Beef Industry Development Program - Rural Rehabilitation Trust Fund	Agriculture	L	Non-lapsing agricultural loan fund used for the administrative expenditures incurred in the operation of the Rural Rehabilitation Trust Fund and the issuance of scholarships and loans from that trust fund.	$55,302
5	Biofuel Commercial Production Credit	MRS/DECD	X	Tax credit for biofuel commercially produced that is offered for sale and meets state and federal regulatory requirements and is certified by the Commissioner of the Department of Environmental Protection (DEP).	$216
6	Commercial Loan Insurance Program	FAME	S	This loan insurance program helps businesses access commercial credit.	$1,892,935
7	Down East Micro-Enterprise Network	WHCACAP/ DECD	B	Training and business consulting program targeted to low income small businesses, designed to assist rural micro-enterprises to start and grow.	$0
8	Economic Development Match Loan Program	WHCACAP/ FAME	L	Loan funds to growing Maine small businesses (micro enterprises).	$30,000
*9	Economic Recovery Loan Program	FAME	L	Provides loans to businesses that do not have sufficient access to credit but demonstrate the ability to survive, preserve and create jobs, and repay loans.	$2,425,521
*10	Employment Tax Increment Financing	DECD/ MRS	X	Reimburses business for a percentage of state income tax withholdings from net new jobs.	$957,240
11	Farms for the Future Program	Agriculture	T/B	A training and consulting program providing a two-phase business assistance program that helps Maine farmers plan for the future of their agricultural enterprise.	$534,845
12	Fuel and Electricity Sales Tax Exemption	MRS	X	Sales tax exemption for fuel or electricity used at a manufacturing facility (95% of the sale price taxable at a reduced rate).	$37,600,418
*13	Governor's Training Initiative	DOL/DECD	T	Provides grants to partially reimburse training costs of companies hiring new workers or upgrading skills of existing workers. Budgeted funds for this program have been declining for about six years. FY08 budget is $1.74 million.	$2,266,384
14	High-Technology Investment Tax Credit	MRS	X	Tax Relief geared to startup businesses that purchase and use or lease of eligible equipment in a high technology activity.	$918,436
15	Incubator Without Walls	Penquis CAP/ WHCACAP	T	Training and consulting for businesses which continue operating in their present location. Beneficiaries receive training, networking opportunities, and access to many other small business resources.	$150,000

Table 7 (cont). Summary of Programs Included in this Review (* 13 programs specified by AFA Committee)

#	Program Name	Managed by	Type	Description	Avg. Ann Funds Dist
*16	Jobs and Investment Tax Credit	MRS	X	Tax relief program provides an income tax credit of 10% for non-retail businesses that make qualified investments of at least $5 million and 100 jobs or more over a two-year period.	$1,164,468
17	Jobstart	WHCACAP/ FAME	L	Provides loan funds to low income owners of small businesses that cannot access financing elsewhere.	$32,000
18	Linked Investment Program for Agricultural Enterprises	State Treasurer/ FAME	S	Loan assistance program provides low interest loans for agricultural enterprises. State Treasurer makes a deposit of up to $4,000,000 in accounts at responsible lending institutions and accepts interest on the deposit at 2% below current rates and lender passes on the 2% savings to eligible borrowers in lowered interest rate loans.	$0
19	Linked Investment Program for Commercial Enterprises	State Treasurer/ FAME	S	Loan assistance program provides low interest loans for certain small commercial enterprises. State Treasurer makes a deposit of up to $4,000,000 in accounts at responsible lending institutions and accepts interest on the deposit at 2% below current rates and lender passes on the 2% savings to eligible borrowers in lowered interest rate loans.	$0
20	Maine Apprenticeship Program	DOL	T	Provides occupational skills training to individuals with little or no experience, via an employer-sponsored apprenticeship program consisting of a custom designed work experience schedule of occupational tasks to be mastered and specific occupation-related post-secondary classroom education.	$596,375
21	Maine Economic Development Venture Capital Revolving Investment Program	FAME	S	Revolving investment capital program: Investment is placed with professional venture capital funds to be invested by them in eligible recipient companies.	$316,725
22	Maine Manufacturing Extension Partnership (Maine MEP)	ME Man. Extension Partnership	T/B	Training and consulting targeted to manufacturing companies to help them become more efficient, productive and globally competitive. It is a nationwide federal/state/industry partnership funded under a cooperative agreement with the National Institute of Standards and Technology (NIST) under the Dept of Commerce.	$700,000
*23	Maine Quality Centers	ME Community College System	T	Training program targeted to businesses creating net new jobs. Funding is used to provide training through a Community College and is not a direct payment to a business or trainees.	$1,083,296
*24	Maine Seed Capital Tax Credit Program	FAME/ MRS	X	Provides 30% tax credit for private investments of up to $100,000 per investor per eligible company in order to increase the availability of seed capital for small, export-oriented Maine businesses.	$850,436
25	Maine Technology Institute	ME Technology Institute/ DECD	G	Grant program designed to encourage, promote, stimulate and support research and development activity leading to the commercialization of new products and services in the State's technology-intensive industrial sectors.	$5,633,333

Table 7 (cont.). Summary of Programs Included in this Review (* 13 programs specified by AFA Committee)

#	Program Name	Managed by	Type	Description	Avg. Ann Funds Dist
26	Major Business Expansion Bond Program	FAME	S	This program provides long-term, credit-enhanced financing up to $25,000,000 at taxable bond rates for businesses creating or retaining 50 jobs and long-term, tax-exempt bond rates on bonds of up to $10,000,000 that are used to finance manufacturing expansions.	$0
27	Micro Revolving Loan Program	BSAEDC/ DECD	L	Loan program designed to provide financing to assist businesses creating or retaining jobs for people of low to moderate income. A business must create or retain at least 1 job per $15,000, of which 51% must be filled by persons of low to moderate income as defined by HUD.	$33,977
28	Milk Commission	ME Milk Commission	O	This program is used to stabilize the Maine dairy industry. The commission sets the minimum wholesale and retail prices to be paid to producers, dealers and stores for milk received, purchased, stored, manufactured, processed, distributed or otherwise handled within the State.	$1,828,174
*29	Municipal Tax Increment Financing	DECD	X	Tax deferment program allows municipalities to contribute new tax revenues, derived from a qualified investment, toward the financing of economic development projects.	$21,810,562
*30	Pine Tree Development Zones	MRS/DECD	X	This program is targeted to specific geographic zones defined in economically distressed areas of the State. It lowers the requirements for businesses in these areas to take advantage of existing tax relief programs.	$2,274
31	Potato Marketing Improvement Fund Program	Agriculture/ FAME	L	Direct loans to potato growers and packers for construction of modern storage, packing line, and sprout inhibitors facilities.	$555,667
32	Procurement Technical Assistance Program	Maine PTAC	T	Training and consulting program provides specialized and professional assistance to individuals and businesses seeking to learn about contracting and subcontracting opportunities, actively seeking contracting and subcontracting opportunities, and/or performing contracts and subcontracts with Department of Defense, other Federal Agencies, or State and Local governments.	$145,217
*33	Regional Economic Development Revolving Loan Program	FAME	L	Provides loans to eligible small businesses to create and retain jobs.	$1,421,866
*34	Reimbursement for Taxes Paid on Certain Business Property	MRS	X	Reimburses property taxes paid on business machinery and equipment.	$50,890,782
35	Research and Development Tax Credit	MRS	X	Allows businesses a credit of up to 7.5% of basic research payments and 5% of excess qualified research expenses for taxable year.	$866,490
*36	Research Expense Credit	MRS	X	Tax credit for businesses making qualifying research expenditures in Maine, or having qualifying basic research expenses with a qualified university or scientific research organization.	$364,784

Table 7 (cont.). Summary of Programs Included in this Review (* 13 programs specified by AFA Committee)

#	Program Name	Managed by	Type	Description	Avg. Ann Funds Dist
37	Sales Tax Exemption for Production Machinery	MRS	X	Sales tax exemption for production machinery used directly and primarily in production of tangible personal property for sale as tangible personal property.	$31,684,281
38	Sales Tax Exemption for R&D Equipment	MRS	X	Sales tax exemption for machinery and equipment used directly and exclusively in research and development in the experimental and laboratory sense or used directly and primarily in biotechnology applications.	$125,000
39	Sales Tax Exemption/Refund for Commercial Agriculture and Commercial Fishing	MRS	X	Sales tax exemption for machinery and equipment depreciable and used directly and primarily in commercial activity by commercial farmers, commercial fishermen and commercial aquaculturalists.	$9,074,057
40	Seed Certification Program	Agriculture	B	Consulting program conducts field and shipping point inspections of seed potatoes for regulated diseases, conducts post-harvest testing of seed potato samples, and certifies seed oats and barley to reduce the economic losses to agricultural producers caused by insects, diseases and other disorders that require regulatory action.	
*41	Shipbuilding Facility Credit	MRS	X	Income tax credit for a business which: 1) Has employment exceeding 5,000 prior to 2003; 3,500 after 2002. 2) Invests $150,000,000 within 5 years of being certified or $200,000,000 within 10 years.	$3,232,066
*42	Small Business Development Centers	ME SBA	T/B	Business assistance program provides counseling, training, information and resource services. SBDCs assist small businesses in solving business and technical problems.	$1,923,657
43	Small Enterprise Growth Fund (SEGF)	FAME/ SEGB	O	Provides venture capital for certain small business enterprises (fewer than 50 employees and less than $5 million in sales) on flexible terms with potential equity or other rights to be required based on relative risk.	
44	SMART (Sec Mrkt Taxable) and SMART-E (Sec Mrkt Tax-Exempt) Bonds	FAME	S	Loan program for acquisition or construction of a manufacturing asset, commercial or industrial assets or other project as allowed by the federal tax code. Savings attributable to the difference between the market rate and rate available through this program. Funded by tax-exempt bonds.	$18,168,833
45	Tech Center Incubator	River Valley Growth Council/ DECD	T/B	This incubator program provides start up and existing business an affordable space with low overhead costs and shared services in order for them to 'graduate' back out into the community at their own location.	$69,743
46	The Business of Art	The ME Highlands Guild	T	Training program helps artists build their businesses through improved business skills. Targeted to Piscataquis and Penobscot Counties.	$40,333

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Appendix 3. Risk Assessment Results

OPEGA used the information provided by agencies responsible for administering the 46 economic development programs to assess each program's level of risk in relation to 13 risk factors listed in the Table below. These risk factors were selected because they are most relevant to a program's ability to evaluate its performance and provide accountability.

This Table also describes the control criteria for each risk factor against which agency-provided information was compared. The results have been categorized into Low Risk (meets criteria well), Medium risk (minimally meets criteria), and High Risk (does not meet criteria), with the percentage of the 46 programs that fell into each category on each risk factor.

Table 8. Percent of Programs Falling in Each Risk Category by Risk Factor Assessed

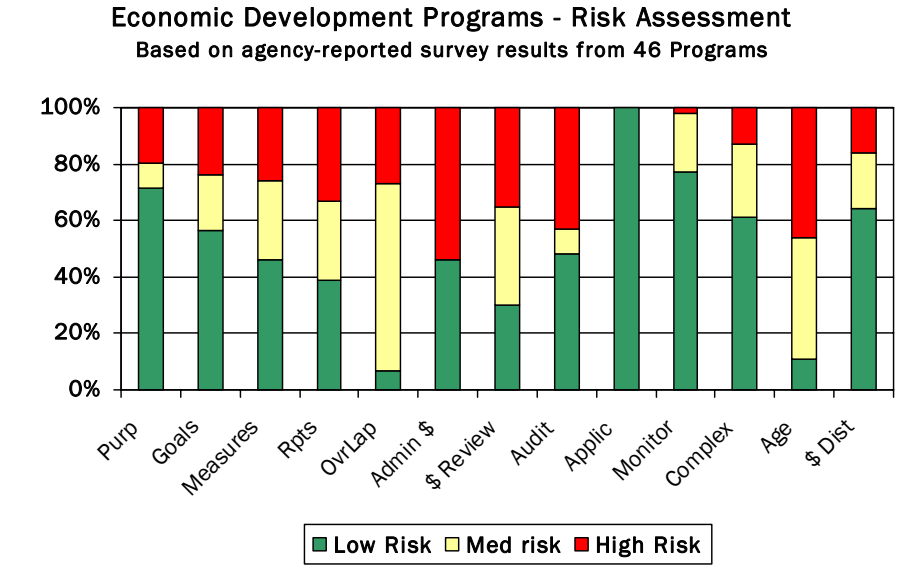
Risk Factor	Associated Risks	Control Criteria	Percent of Programs rated as:		
			Low Risk	Med risk	High Risk
Purpose (Purp)	Limited understanding of purpose increases likelihood that desired outcomes will not be achieved and decreases ability to evaluate effectiveness.	Purpose provided by agency is clear and specific and matches legislative purpose (where known).	71%	9%	20%
Goals & Objectives (Goals)	Weak goals may result in lack of focus on desired outcomes and substantially hamper evaluation and oversight.	Goals are clear, specific, and measurable and support the purpose.	56%	20%	24%
Performance Measures (Measures)	Inadequate performance measurement may allow program mismanagement or failure to meet desired outcomes to go unnoticed.	Adequate and relevant data is being collected to measure achievement of goals.	46%	28%	26%
Reports (Rpts)	Lack of accessible, quality information prevents informed decisions and strong oversight.	Reports are widely available outside the managing agency and are easily accessible.	39%	28%	33%
Overlap (OvrLap)	Overlap can result in costly duplications, over-subsidization of businesses, and confusion over similar programs.	The program collects and retains sufficient information to permit determination of overlap with other programs.	6%	67%	27%
Administrative Costs (Admin $)	Insufficient financial data prevents informed decisions and decreases ability to evaluate program efficiency.	Administering agency was able to provide the cost to administer the program.	46%	*	54%
Funding Review ($ Review)	Infrequent funding review may result in over and under allocation of resources.	Funding is reviewed at regular intervals by an independent group.	30%	35%	35%
External Audit (Audit)	Lack of independent review may allow mismanagement or fraud to go undetected.	Independent audits are performed regularly.	48%	9%	43%

Risk Factor	Associated Risks	Control Criteria	Percent of Programs		
Application Process (Applic)	Inconsistent processes and criteria may result in bias, favoritism or fraud in selecting program recipients.	Application and selection process is designed to minimize risk of bias, favoritism, or fraud.	100%	-	-
Monitor Recipients (Monitor)	Insufficient monitoring may allow recipients to benefit from programs without contributing to desired outcomes.	Recipients are actively monitored and obligated to meet specified goals.	77%	21%	2%
Complexity (Complex)	Complex systems provide more opportunities for inefficiencies and confusion that can affect program performance.	Straightforward, stable easily understood rules, and a simple organizational structure.	61%	26%	13%
Age (years since origin of program) (Age)	Older programs may have evolved away from the original legislative intent or may no longer be relevant to overall strategy.	Years since program was created. 15 years = high, between 5 and 15 = medium, less than 5 = low	11%	43%	46%
Funding (avg. annual funding 2003-2005) ($ Dist)	High funding levels present increased financial risk if program is not achieving desired outcomes and increases possibility of fraud.	Level of average annual funding for 2003-2005 >$5 million = high, between $1 million & $4.9 million = medium, less than $1 million = low	64%	20%	16%

*Administrative costs were either reported (low risk) or were not (high risk); there were no "medium" scores.

After rating each program on each risk factor, OPEGA determined the overall risk profile for individual programs as shown in Table 9. Forty-eight percent of the 46 programs had a high risk profile with another 35% having a medium risk profile. The definitions for the overall risk profile labels are:

Figure 6.



Low Risk: No more than 3 risk factors rated as high or medium risk.

Medium Risk: Between 4 and 6 risk factors rated as high or medium risk.

High Risk: Seven or more risk factors rated as high or medium risk.

Table 9. Risk Ratings for Individual Programs by Risk Factor and Overall

#	Program Name	Purp	Goals	Measures	Rpts	OvrLap	Admin $	$ Review	Audit	Applic	Monitor	Age	$ Dist	Complex	Overall
1	Agricultural Development Grant Program														
3	Agricultural Water Management and Source Development Program														
5	Biofuel Commercial Production Credit														
6	Commercial Loan Insurance Program														
12	Fuel and Electricity Sales Tax Exemption														
14	High-Technology Investment Tax Credit														
16	Jobs and Investment Tax Credit														
17	Jobstart														
18	Linked Investment Program for Agricultural Enterprises														
19	Linked Investment Program for Commercial Enterprises														
24	Maine Seed Capital Tax Credit Program														
28	Milk Commission														
30	Pine Tree Development Zones (Income Tax Credit)														
34	Reimbursement for Taxes Paid on Certain Business Property														
35	Research and Development Tax Credit														
36	Research Expense Credit														
37	Sales Tax Exemption for Production Machinery														
38	Sales Tax Exemption for R&D Equipment														
39	Sales Tax Exemption/Refund for Commercial Agriculture and Com Fishing														
41	Shipbuilding Facility Credit														
43	Small Enterprise Growth Fund (SEGF)														
45	Tech Center Incubator														
2	Agricultural Marketing Loan Fund														
4	Beef Industry Development Program - Rural Rehabilitation Trust Fund														
8	Economic Development Match Loan Program														
9	Economic Recovery Loan Program														
10	Employment Tax Increment Financing														
11	Farms for the Future Program														
13	Governor's Training Initiative														
20	Maine Apprenticeship														
21	Maine Economic Development Venture Capital Revolving Investment Program														
22	Maine Manufacturing Extension Partnership (Maine MEP)														
26	Major Business Expansion Bond Program														
27	Micro Revolving Loan Program														
29	Municipal Tax Increment Financing														
31	Potato Marketing Improvement Fund Program														
33	Regional Economic Development Revolving Loan Program														
44	SMART (Sec Mrkt Taxable) and SMART-E (Sec Mrkt Tax-Exempt) Bonds														
7	Down East Micro-Enterprise Network														
15	Incubator Without Walls														
23	Maine Quality Centers														
25	Maine Technology Institute														
32	Procurement Technical Assistance Program														
40	Seed Certification Program														
42	Small Business Development Centers														
46	The Business of Art														

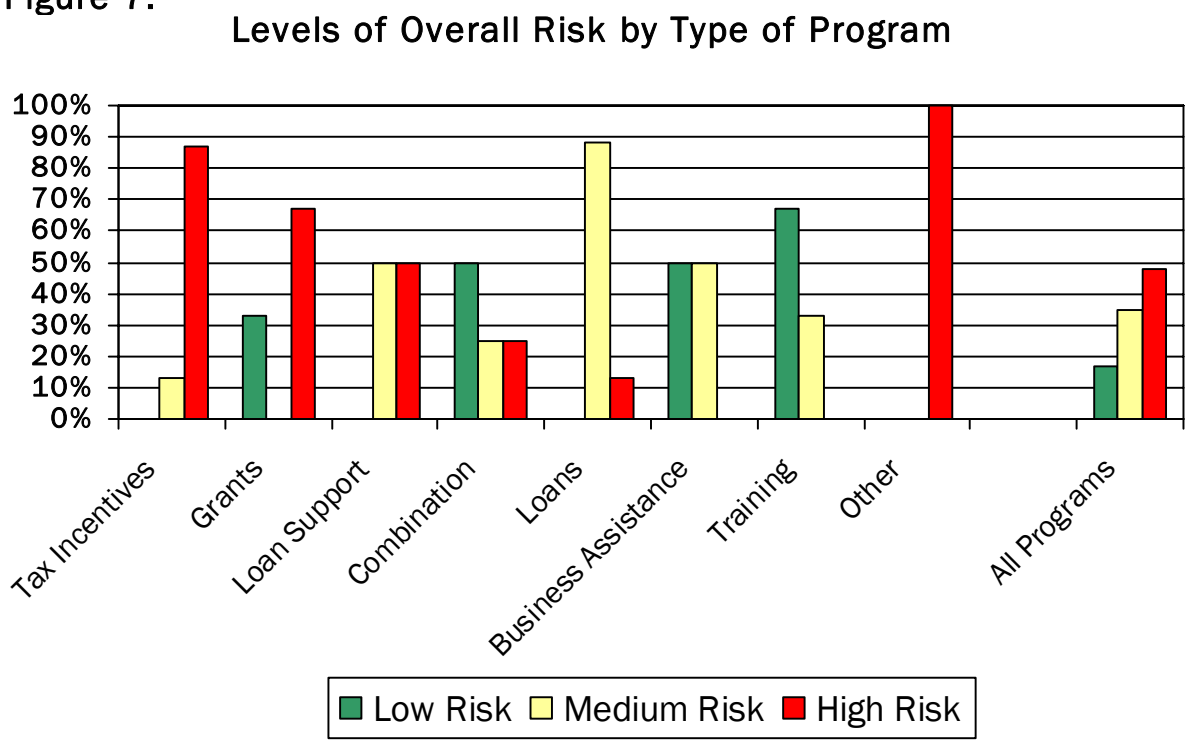
OPEGA also analyzed overall risk profiles by type of program. The results are illustrated in Table 10 and Figure 7. Eighty-seven percent of the tax incentive programs had a high risk profile while the majority of training and consulting programs had a low risk profile. The majority of the remaining types of programs had medium or high risk profiles.

Table 10. Overall Risk Profile by Type of Program

Program Type	High Risk	Medium Risk	Low Risk
Tax Incentives	87%	13%	0%
Grants	67%	0%	33%
Loan Support	50%	50%	0%
Combination*	25%	25%	50%
Loans	13%	88%	0%
Business Assistance	0%	50%	50%
Training	0%	33%	67%
Other	100%	0%	0%
All Programs	48%	35%	

*These programs offer a combination of training and business assistance and could not be in just one category.

Figure 7.



Appendix 4. Summary of Maine Statutes on Economic Development Programs

Maine statute currently includes a number of provisions relating to economic development programs. 5 MRSA §§13051-13060 establishes the Department of Economic and Community Development (DECD) and §13070-J, K & O specify monitoring and reporting requirements for a few specific EDPs. In addition, each of the individual programs has its own enacting statute and sometimes additional rules as well.

DECD's Statute (5 MRSA §§13051-13060)

DECD's statute includes statement of purpose and establishment sections, both enacted in 1987, indicating that the Department is responsible for coordinating the State's economic development programs. 5 MRSA §13052, under the heading of "purpose," states

> "The Legislature finds that the decentralization of economic growth and development programs among several state agencies without any coordination of programs and agencies and without coordination with the State's municipal and regional economic development efforts is not in the best interest of the State… For state economic growth and development policies and programs to realize the greatest possible degree of effectiveness, it is necessary to coordinate these policies and programs on a state level, as well as with local and regional levels."

Under the heading of "establishment" §13053 states that DECD

> "is established to encourage economic and community planning and development policies and programs of the State and to coordinate these programs and policies within the context of a state economic development strategy."

However §13056, which enumerates the duties and responsibilities of the Department, does not specifically list coordination of the State's economic development programs as a responsibility.

Coordination is again mentioned in §13058 under the duties and responsibilities of the commissioner. Subsection 4 states that the

> "commissioner shall coordinate the department's programs and services with those programs and services of other state agencies and regional planning and economic development organizations."

Subsection 5 of §13058 also discusses evaluation of overall economic development programs. This subsection requires that the commissioner

> "review and evaluate the programs and functions of the department and the operation of the economic delivery system,…… and provide a report to the Governor and the Legislature no later than February 1st of each first regular session of the Legislature."

It specifies that the report must evaluate, among other things:

- the extent of the coordination of programs and services as required in subsection 4; and
- the problems and successes in the economic delivery system.

5 MRSA §13070-J & K

5 MRSA sections 13070-J & K were enacted in 1997 under the heading of Article 6: Return on Public Investment From Economic Development Incentives. Section 13070-J specifies reporting requirements for the grouping of programs that it defines as economic development incentives under subsection 1, paragraph D:

1. Maine Quality Centers
2. The Governor's Training Initiative Program
3. Municipal tax increment
4. The jobs and investment tax credit
5. The research expense tax credit
6. Reimbursement for taxes paid on certain business property
7. Employment tax increment financing
8. The shipbuilding facility credit
9. The credit for seed capital investment
10. The credit for pollution-reducing boilers under Title 36, section 5219-Z (added to the list by PL 2005 c. 519 Pt. TTT).

Reporting requirements are spelled out for program applicants and recipients, and for the programs' managing agencies. Subsection 2 requires that each applicant for ME Quality Centers, Governor's Training Initiative, MTIF, Jobs & Inv Tax Credit, or ETIF identify in writing:

A. The public purpose that will be served by the business through use of the economic development incentive and the specific uses to which the benefits will be put; and
B. The goals of the business for the number, type and wage levels of jobs to be created or retained as a result of the economic development incentive received.

Subsection 3 requires that businesses receiving benefits >$10,000 in one year from one of the 1st eight incentives listed in Subsection 1, paragraph D report to DECD, on provided forms, no later than August 1st of the following year:

A. The amount of assistance received by the business in the preceding year from each EDI and the uses to which that assistance has been put;
B. The total amount of assistance received from all economic assistance programs;
C. The number, type and wage level of jobs created or retained as a result of an economic development incentive;
D. Current employment levels for the business for all operations within the State, the number of employees in each job classification and the average wages and benefits for each classification;
E. Any changes in employment levels that have occurred over the preceding year; and

F. An assessment of how the business has performed with respect to the public purpose identified in subsection 2, paragraph A, [the public purpose spelled out by the business at application] if applicable.

Subsection 4 requires DECD to notify MRS annually of businesses that have not met reporting requirements and additionally requires the following reports be made to the Legislature annually by October 1st:

A. ME Revenue Services — must report amount of public funds spent, how much revenue was foregone, and to the extent permitted the amount of benefit each business received from the incentives that are under MRS jurisdiction.

B. Dept. of Labor — must report amount of public funds spent on workforce development and training programs directly benefiting businesses in the state, and the amount of benefit each business received from the incentives that are under DOL jurisdiction and the "public benefit resulting from those economic development incentives."

C. ME Community College System — must report amount of public funds spent on training programs directly benefiting businesses in the state, and also on the amount of benefit each business received from the incentives that are under the jurisdiction of the system and the "public benefit resulting from those economic development incentives."

D. DECD — must (1) report on the amount of public funds spent for MTIF, ETIF, and Governor's Training Initiative, and on the amount of benefit each business received and the "public benefit resulting from those economic development incentives." (2) report concerning the Seed Capital Tax Credit: the amount of credit certificates issued; amount of private investment; total employment; number of jobs created; number of jobs retained; total payroll; total annual sales.

§13070-K, states that if the Commissioner of DECD enters into a contract to provide economic incentives to a business in return for an agreement to locate, expand, or retain its facilities, then the contract must contain a statement of the State's expected public benefit.

5 MRSA §13070-O

5 MRSA §13070-O was enacted in 1999 to ensure that, regardless of which committees are involved in their creation, all new economic development programs will consistently include fundamental program controls. This statute requires DECD to review each economic development proposal (as defined in 5 MRSA §13070-J.1.E) and report to the committee of jurisdiction the extent to which each meets the following criteria:

A. Program name accurately describes program;

B. States specific objectives such as "number of jobs to be created or retained, the wage levels and benefits associated with those jobs";

C. Specifies how to measure whether the objectives are met;

D. Requires each business recipient report on the use of the benefits received; and

E. Requires the committee of jurisdiction review the program at specific and regular intervals.

F. Either withholds incentives until the business meets the objectives or imposes penalties for businesses that receive incentives up front then fail to meet objectives

G. Provides a cost analysis of the program based on 10 or more years.

Individual Program Statutes

Table 11 lists the enacting statutes for the 46 programs considered by OPEGA for this review.

Table 11. Alphabetical Listing of Programs with Authorizing Statutes as reported by agencies`

#	Program Name	Statute
1	Agricultural Development Grant Program	7 MRSA Chapter 10
2	Agricultural Marketing Loan Fund	7 MRSA §12, §435
3	Agricultural Water Management and Source Development Program	By General Fund Appropriation and Bond Issues
4	Beef Industry Development Program - Rural Rehabilitation Trust Fund	7 MRSA Chapter 1 Sec 2-B
5	Biofuel Commercial Production Credit	36 MRSA §5219-X
6	Commercial Loan Insurance Program	10 MRSA §1026-A
7	Down East Micro-Enterprise Network	Maine Department of Economic and Community Development
8	Economic Development Match Loan Program	FAME-REDRLP
9	Economic Recovery Loan Program	10 MRSA §§1023-I and 1026-J
10	Employment Tax Increment Financing	Title 36, c. 917
11	Farms for the Future Program	'An Act to Preserve the State's Farm Economy and Heritage' SP 736; LD 2086, Chapter 763.
12	Fuel and Electricity Sales Tax Exemption	36 MRSA §1760, sub-§9-D
13	Governor's Training Initiative	Chapter 26 MRSA, §2031
14	High-Technology Investment Tax Credit	36 MRSA §5219-M
15	Incubator Without Walls	Not Applicable.
16	Jobs and Investment Tax Credit	36 MRSA §5215
17	Jobstart	FAME
18	Linked Investment Program for Agricultural Enterprises	5 MRSA §135
19	Linked Investment Program for Commercial Enterprises	5 MRSA §135
20	Maine Apprenticeship	Title 26, Chapter 25, Sub-Chapter 1, §2006, Sec. 5-A
21	Maine Economic Development Venture Capital Revolving Investment Program	10 MRSA §1026-N
22	Maine Manufacturing Extension Partnership (Maine MEP)	Title 15 – Commerce and Trade Chapter 7 – National Institute of Standards and Technology [15 USC 278(K)]
23	Maine Quality Centers	20-A MRSA §§12725-12729
24	Maine Seed Capital Tax Credit Program	10 MRSA. §1100-T

Table 11 (cont.). Alphabetical Listing of Programs with Authorizing Statutes (as reported by agencies)		
25	Maine Technology Institute	5 MRSA §15302
26	Major Business Expansion Bond Program	10 MRSA §§1043, 1053
27	Micro Revolving Loan Program	HUD, CDBG pass thru DECD
28	Milk Commission	7 MRSA §2951 et. als. and §3151 et.als.
29	Municipal Tax Increment Financing	Title 30-A. c. 206
30	Pine Tree Development Zones (Income Tax Credit)	36 MRSA §5219-W; 30-A MRSA, c.206, sub-c.
31	Potato Marketing Improvement Fund Program	Title 10 S1023-N
32	Procurement Technical Assistance Program	Title 10, United States Code , chapter 142
33	Regional Economic Development Revolving Loan Program - Daycare	10 MRSA §1026-M(11); P.L. 1999, Ch. 401, Part OOO; P.L. 2002, Chapter 639; P.L. 2003 Chapter 195
34	Reimbursement for Taxes Paid on Certain Business Property	36 MRSA c.915
35	Research and Development Tax Credit	36 MRSA §5219-L
36	Research Expense Credit	36 MRSA §5219-K
37	Sales Tax Exemption for Production Machinery	36 MRSA, §1760, sub-§31
38	Sales Tax Exemption for R&D Equipment	36 MRSA §1760, sub-§32
39	Sales Tax Exemption/Refund for Commercial Agriculture and Com Fishing	36 MRSA §2013
40	Seed Certification Program	Title 7 Chapter 401, Certified Seed
41	Shipbuilding Facility Credit	36 MRSA c.919
42	Small Business Development Centers	Federal: Section 21, SMALL BUSINESS ACT (15 U.S.C. & 648) State of Maine Statute, Chapter 381: MAINE SMALL BUSINESS COMMISSION (HEADING: PL 1989, c. 875, Pt.L, @2 (new))
43	Small Enterprise Growth Fund (SEGF)	10 MRSA §385
44	SMART (Sec Mrkt Taxable) and SMART-E (Sec Mrkt Tax-Exempt) Bonds	10 MRSA §§1041 and 1053.
45	Tech Center Incubator	State of Maine
46	The Business of Art	Maine Micro-enterprise Initiative

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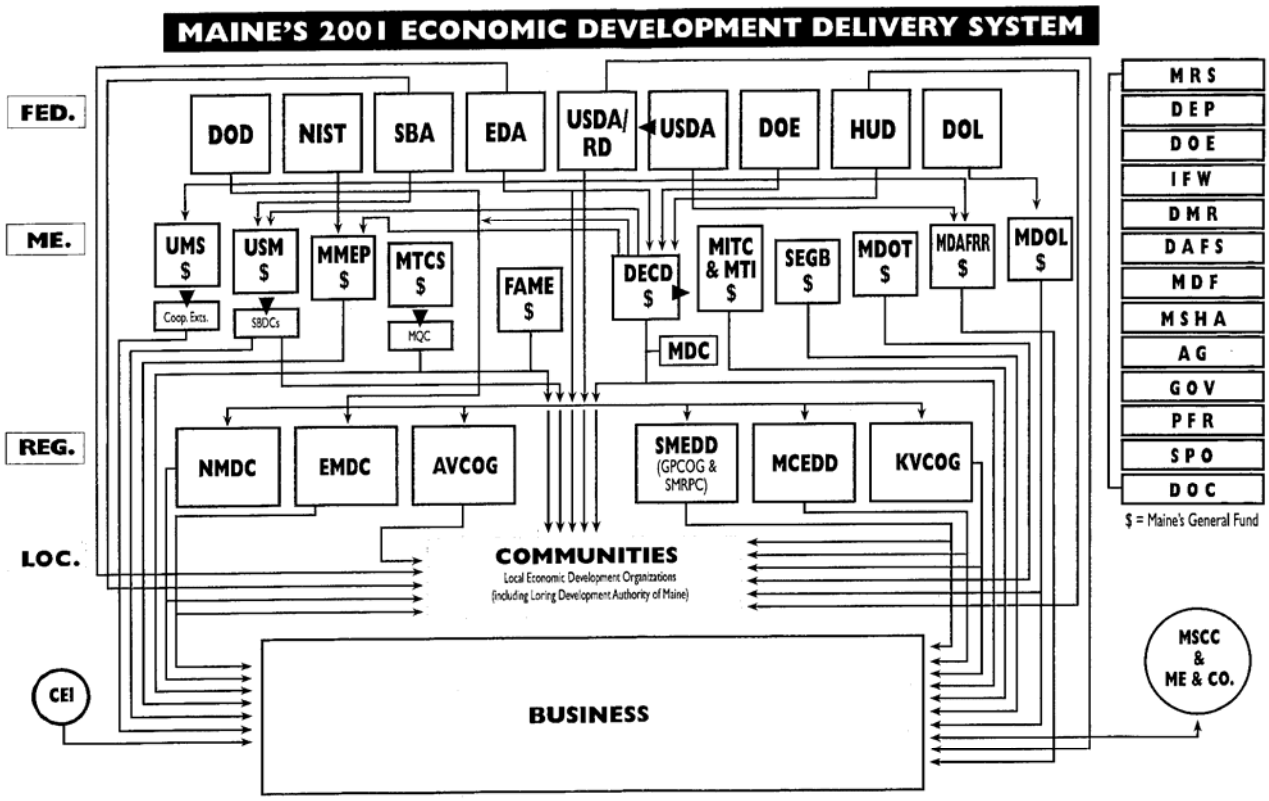
Appendix 5. Chart Depicting Maine's Economic Delivery System as Developed by the Department of Economic and Community Development



See next page for acronym descriptions.

Key for Maine's Economic Development Delivery System Chart

DOD	-	Department of Defense
NIST	-	National Institute of Standards and Technology
SBA	-	Small Business Administration
EDA	-	Economic Development Administration
USDA	-	US Department of Agriculture within USDA – RD – Rural Development
DOE	-	Department of Education
HUD	-	Housing and Urban Development
DOL	-	Department of Labor
UMS	-	University of Maine System
USM	-	University of Southern Maine
MMEP	-	Maine Manufacturing Extension Partnership
MTCS	-	Maine Technical College System
FAME	-	Finance Authority of Maine
DECD	-	Department of Economic and Community Development
MITC	-	Maine International Trade Center
MTI	-	Maine Technology Institute
SEGB	-	Small Enterprise Growth Board
MDAFRR	-	Maine Department of Agriculture, Food and Rural Resources
MDOT	-	Maine Department of Transportation
MDOL	-	Maine Department of Labor
Coop. Exts	-	Cooperative Extensive Service
SBDC	-	Small Business Development Centers
MQC	-	Maine Quality Center
MDC	-	Market Development Center
NMDC	-	Northern Maine Development District
EMDC	-	Eastern Maine Development District
AVCOG	-	Androscoggin Valley Council of Governments
KVCOG	-	Kennebec Valley Council of Governments
SMEDD	-	Southern Maine Economic Development District
GPCOG	-	Greater Portland Council of Governments
SMRPC	-	Southern Maine Regional Planning Commission
MCEDD	-	Midcoast Economic Development District
CEI	-	Coastal Enterprises, Inc.
MSCC	-	Maine State Chamber of Commerce
ME & Co.	-	Maine and Company
MRS	-	Maine Revenue Service
DEP	-	Department of Environmental Protection
DOE	-	Department of Education
IFW	-	Inland Fisheries and Wildlife
DMR	-	Department of Marine Resources
DAFS	-	Department of Administration and Finance
MDF	-	Maine Development Foundation
MSHA	-	Maine State Housing Authority
AG	-	Attorney General
GOV	-	Office of the Governor
PFR	-	Department of Professional & Financial Regulation
SPO	-	State Planning Office
DOC	-	Department of Conservation

Appendix 6. *Best Practices in Carrying Out Economic Development Efforts*, National Association of State Auditors

Best Practices in Carrying Out State Economic Development Efforts

Purpose

The Performance Audit Committee of the National State Auditors Association developed this document as a tool for audit organizations and government agencies to use in identifying and evaluating best practices in carrying out state economic development efforts. Although it was intended to address many of the best practices that could apply in these situations, it should not be considered all-inclusive. Further, the practices listed here may not be applicable in all situations, and other practices may accomplish the same things. However, this document can be extremely helpful as a starting point for both agency managers and auditors in deciding what types of practices are more likely to result in an efficient, effective, and accountable economic development effort.

Background

State economic development programs can have a number of purposes. Some are geared toward "start-up" companies and may offer assistance in developing products, obtaining capital, or helping companies begin operations. Some are intended to attract businesses into the state, spur new business development, or help existing companies train workers, create or retain jobs, or increase sales. Some may focus on reducing a company's cost of doing business through direct cash payments or bond financing, assistance with relocation or expansion costs, and tax reductions, abatements, or credits. One agency seldom provides all these services, but it may offer several of them through different programs or divisions.

Having a well-designed economic development program greatly increases the likelihood that the intended outcomes of the program can be achieved. A well-designed program can also identify strategies that are ineffective, and consequently, provide decision-makers with information needed to make future funding decisions.

Planning

An economic development agency's general purpose may be established by law, but an agency may need to further define its purpose by determining such things as which services it will offer or how those services will be provided and coordinated. As part of a good planning process, the agency would be expected to:

1. If not already spelled out in law, identify what problem or need(s) the program is designed to address, and which activities or services the program will provide to address it. This part of the planning process may involve working with stakeholder groups to identify the economic development needs within the state or the community and to determine whether and how various activities or services will be coordinated with other economic development agencies and organizations.

   Examples of the types of needs to be addressed can include increasing wages, providing more private investment capital, addressing a stagnant or declining job market, improving

labor skills, and increasing growth in a particular sector, such as technology or biomedical.

Examples of the types of services or activities can include technical assistance (such as writing business plans, providing individual counseling, or locating sources of financing) and financial assistance (such as making direct investments, or providing loans or grants for construction, equipment, or staff training).

2. Develop clear and measurable goals for the program and timelines for measuring how well they were achieved.

   Examples of goals can include increasing employment by a certain number of jobs, increasing wages by a certain amount, increasing new investments into a targeted area by a certain amount, reducing unemployment in a given area by a certain percentage, increasing exports of state products, retraining a certain number or percentage of workers, and generating a certain amount of tax revenues.

3. Identify what information the agency will need to collect before, during, and after assistance is provided in order to accurately monitor, track, and evaluate program performance. Develop applicable forms and procedures for collecting, analyzing, using, and reporting that information. Depending on the type of assistance being provided, such information may need to include agency accounting and staff time utilization information and/or information on service recipients.

   *Examples can include **pre-assistance and post-assistance** employment, salary, benefits, or skill levels; sales figures; capitalization; etc. Care will need to be taken to ensure that the number of new jobs created isn't inappropriately double-counted within or across economic development agencies or programs.*

4. Establish and prioritize eligibility criteria for those companies or individuals that might be interested in receiving the services the agency provides, and develop appropriate guidelines and forms for collecting application materials and reviewing and evaluating those who apply.

   Examples can include the likely potential for creating a substantial number of new jobs, the type of product or service a new company is trying to develop or bring to market, the likelihood a company would leave the area without this state-funded assistance, the level of commitment by company management, the number of employees a business has, its location, whether the company's needs cannot be met using other non-public resources, etc.

3. Establish clear guidelines or requirements regarding actual or perceived conflicts of interest for agency staff or for others who provide economic development services or funding on the agency's behalf. Those guidelines should specify which actions or relationships are allowed or prohibited, and any other steps that should be taken take to manage potential conflict-of-interest situations.

Examples of conflicts for the employee, the employee's spouse or other family member, or a contracted entity can include owning any portion of or receiving compensation from companies receiving assistance, using information obtained in the course of work to further personal financial interests, or serving in a management capacity for a company receiving assistance. Examples of actions an agency can take to manage those conflicts include reassigning staff and excluding staff or contractors from decision-making when they have conflicts.

6. Adopt rules, policies, procedures, and other guidance that clearly define all program goals, objectives, requirements, terminology, and processes.

Selecting Recipients and Providing Services

The economic development agency (or other entities acting on its behalf) should develop a systematic and equitable process for informing interested companies or individuals about the program's existence, selecting who receives the economic development assistance, and providing those services. As part of a good process, the agency would be expected to:

1. Develop procedures and/or marketing programs (depending on the nature of the program and the type of assistance being provided) for letting interested companies or individuals know about the goals of the program, the type of assistance that is available, what is required to get it, and what is expected in return.

2. Require interested individuals or companies to complete an application for assistance and provide all information or documentation needed to help the agency determine whether the applicant meets the eligibility requirements. (This step might not be applicable for agencies that provide services to walk-in clients.)

3. Take reasonable and consistent steps to ensure that individuals or companies applying for assistance meet the eligibility criteria and have a reasonable likelihood of achieving the expected results. Depending on the nature of the program, those steps can include comparing application materials to the established criteria, following up with applicants as needed, verifying the critical information provided, analyzing the applicant's financial condition or viability, and the like. Among other issues to be considered:

    a. If the assistance involves a financial investment, the agency may want to take additional steps—such as obtaining input from agency staff, conducting market research on the applicant, and seeking the opinions of independent professional reviewers.

    b. If the assistance involves a start-up or relatively new company, the agency may want to see the business plan and the financial data (such as tax returns) of business owners and guarantors.

4. Sign contracts or agreements with those applicants who are offered assistance and accept the terms. Such contracts or agreements generally would spell out such things as what

services these companies or individuals will receive, the information and reports they will need to provide and the agency's right to verify them, any potential conflicts of interest and what steps will be taken to manage or eliminate them, the results they are expected to achieve and the methods that will be used to measure them, the consequences for not achieving them (such as claw-back provisions), and any applicable legal requirements. How formal this is will depend on the type and level of service being provided. Among other issues to be considered:

a. If the agency provides loans, what steps if any should be taken to secure those loans?

   Examples can include personal guarantees from company officials or liens against buildings or equipment acquired with the loans and may vary depending on the size of the loan.

b. If the agency makes investments, the extent to which potential rewards should be linked to the risk the agency is taking on.

   Examples can include seeking a greater portion of royalties for start-up companies than for established companies.

c. If the agency provides <u>any</u> type of financial assistance, the need to periodically review and evaluate the company's financial condition.

   Examples can include the company's performance in key financial areas, such as current assets to current liabilities and long- and short-term debt ratios.

d. If the agency contracts with <u>another</u> entity to make loan or investment decisions or provide training or other assistance on its behalf, what requirements will be placed on that contracted entity?

   Examples can include limits to the activities the entity will be allowed to perform, conformity with agency conflict-of-interest policies, payment methods and schedules, performance standards and penalties for non-performance, incentives, provisions for inspection, and reporting requirements.

5. Provide services in a timely, informed, helpful, courteous, relevant, and accurate manner.

6. Maintain a record of all applications, supporting documents, agreements or contracts, and major ongoing compliance provisions, as well as the screening process followed, the award decisions made, the number of individuals or companies receiving assistance, the type and/or amount of assistance received, and the like.

Monitoring Performance

The economic development agency should develop and follow systematic, objective, and independent processes for determining whether service recipients are complying with all requirements to ensure that the program is being carried out as intended and to help ensure that tax dollars are being spent wisely and are achieving the desired results. As part of an effective monitoring process, the agency would be expected to:

1. Ensure that service recipients and contractors provide all required reports and information within the established time frames.

2. Review and verify the data submitted for accuracy and reliability, and document the verification work done and its results.

   Examples of items that could be reviewed include company payroll, sales increases, cost savings, capital investments, conflict of interest documentation, key financial performance data, and the current state of the company and its project. Examples of information from third parties that might be reviewed to corroborate the information reported include employment levels and wages reported to a state department of labor. Depending on the nature of the program, some verification work might also be performed through on-site reviews or independent (reviews or) audits.

3. Take additional steps to acquire information useful to management and policy-makers that is not included in the data previously collected, and document those steps.

   Examples can include reviewing financial performance results; using surveys to answer questions about impact and satisfaction, such as a company's satisfaction with employees who have completed a training program; verifying conflict of interest reports; and determining why some businesses have not used program services. Keep in mind that companies often have a vested interest in saying services were helpful.

4. For individual entities that received assistance, compare the results being reported with the requirements, agreements, or expectations established for them. For those entities reporting that they have achieved the desired results, critically assess whether the entity's actions actually caused the improvement, because other agencies, organizations, and miscellaneous factors also may play important roles.

5. Notify an entity when it is not in compliance or has not achieved the intended results, and take appropriate steps to ensure the entity understands what is expected and when. The agency also might provide additional assistance to help the entity meet these goals, when appropriate. As part of this process, the agency should also assess the likelihood that the entity will be able to meet the requirements, goals, and expectations spelled out for it in the future.

6. Take timely and appropriate actions against service recipients and contractors who fail to fulfill their contractual obligations. Among other things, these actions could include:

a. Changing the terms of the agreement or contract.

b. Withholding additional assistance until the entity has met certain requirements or achieved certain goals.

c. Recouping certain grants, loans, or investments that have been distributed, or requiring repayment for other services that were provided.

Management Analysis and Reporting

An economic development agency should establish a systematic process for analyzing program-related information, making appropriate adjustments to improve the effectiveness and efficiency of the program, and reporting relevant summary information to the public and policy-makers about the results of the economic development program. As part of this process, management would be expected to do the following types of things on a periodic basis:

1. Evaluate the extent to which program staff (or contractors acting on the agency's behalf) complied with agency policies and procedures, internal controls, and program requirements in carrying out their responsibilities. Such evaluations could cover the procedures followed in selecting and providing services to applicants, making investment decisions, and avoiding or managing conflict-of-interest situations.

2. Evaluate the reliability of the program data compiled and maintained by program staff (or contractors acting on the agency's behalf).

3. Evaluate how efficiently the agency is carrying out its responsibilities, including a review of any duplication or lack of coordination between economic development programs.

4. Evaluate and periodically report to the public and policy-makers on the agency's activities, the extent to which it has achieved its goals, and the results that were achieved. Among other things, such reports should:

   a. Acknowledge any data limitations and take them into account.

      Examples include clearly identifying the number of new jobs created (i.e., as "planned," "projected," or "actual," and not reporting results for an entire project if assistance was provided to only some part of it).

   b. Count as reportable only those businesses or clients that indicate a contribution to the outcomes achieved.

   c. Compare the amount the agency spends on economic development activities with the benefits attributable to those activities, when feasible.

5. Propose or adopt needed changes in laws, regulations, standards, policies, processes, etc., to help ensure that the economic development program is operating as intended and accomplishing its purpose.

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