

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 |
|---|--|
| <p>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.</p> | <p>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.</p> <p>B. Legislature should clarify what is meant by “all economic assistance programs” in 5 MRSA §13070-J.3.B.</p> |

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 |
|--|---|
| <p>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.</p> | <p>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.</p> |

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 |
|---|---|
| <ol style="list-style-type: none"> 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. | <ol style="list-style-type: none"> 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 |
|---|---|
| <ol style="list-style-type: none"> 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. | <p>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.</p> |

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 |
|---|--|
| <ol style="list-style-type: none"> 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. | <p>Legislature should consider modifying 5 MRSA §13058-5 to specify that the Commissioner reports be in writing.</p> |