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**Testimony of Rep. Jennifer DeChant
Before the Joint Standing Committee on Taxation
In Support of L.D. 1781**

**An Act To An Act To Encourage New Major Investments in Shipbuilding
Facilities and the Preservation of Jobs**

Good afternoon Senator Dow, Representative Tipping and members of the Joint Standing Committee on Taxation. My name is Jennifer DeChant and I am here to present LD 1781, "An Act To Encourage New Major Investments in Shipbuilding Facilities and the Preservation of Jobs."

I have the honor of representing the City of Bath, also known as the City of Ships; home of the Morse High School Shipbuilders and Bath Middle School Destroyers. When you drive south on Route 1 and exit the Sagadahoc Bridge (before driving over our brand new viaduct), you will stop at a stop sign where you will be greeted by a mural that incorporates images of wooden and contemporary steel shipbuilding. If you are driving north on Route 1, you will be greeted by the blinking lights of Crane Number 11, which towers above the cityscape. Every December workers even tie a Christmas tree to the top, and it serves as a beacon of holiday spirit for the entire region.

At least 477 Bath Iron Works (BIW) employees make their home in Bath. These jobs are good paying manufacturing jobs with good benefits. BIW is the city's largest employer by far.

I have included the link (<https://www.southgatefaces.com>) to the documentary entitled "Southgate Faces: Faces and Voices from an American Shipyard." Two people from Bath who were curious about the gritty, hardhat-wearing workers about the shipyard in their own backyard documented the faces and voices of the blue-collar culture there. I realize free time is a premium but a visit to this website

will introduce you to welders, pipe fitters, painters, marine electricians, ship fitters, and insulators.

When BIW approached me to submit this bill, I did so as I would for any constituent. Since then I have done much research, listened to feedback and sought suggestions. There are 1711 BIW employees who live in Sagadahoc County. There are 5,788 BIW employees throughout the state; 4467 of those jobs are within the union structure. I care deeply about the livelihood of these men and women and the families they support. BIW is an employer that has hired multiple generations of Maine families. These employees eat and shop in Bath. These employees pay property taxes in their respective municipalities and income and sales taxes to the state. BIW is an economic driver in our state.

BIW is among large employers such as IDEXX, L.L.Bean and Hannaford that have their headquarters in Maine. These corporations all receive tax incentives. Because of confidentiality restrictions and reporting challenges, we may not be aware to what extent. It is common for states to incentivize large corporations to attract and support businesses. LD1781 is based on the tax incentive titled “**An Act to Promote Major Business Headquarters Expansion in Maine, Promote the Commercialization of Research and Development in Maine and Create Jobs**” that was passed last session to support IDEXX expansion and investment.

BIW makes one product: ships. It has one customer: the United State Navy. Its primary competitor is Ingalls Shipyard in Mississippi. Ingalls has lower energy costs and lower employment costs, and they are also nicely incentivized by Mississippi’s state government. We need something like LD1781 to help BIW remain competitive in the marketplace.

Throughout this experience I have learned a great deal about tax incentives. The depth of my knowledge has further increased through my service on the Joint Standing Committee on Government Oversight. That committee oversees program evaluation and government accountability matters in state government. The committee seeks to ensure that public funds are expended for their intended purposes and that programs and activities are effectively, efficiently and economically managed.

During this term, I have listened closely as the director of the Office of Program Evaluation and Government Accountability presented evaluations of New Market Tax Credits and Pine Tree Zone tax incentive. Quickly it became clear that data collection, information sharing and reporting requirements were fragmented,

making it nearly impossible to get a real read on the effectiveness of these programs. Different entities were conducting different evaluations based on different criteria. And with the confidentiality of financial reports, it was frustrating to even get close to determining a return on investment.

Reporting on tax incentives has not been a coordinated effort. But that is going to change as OPEGA works to determine equitable and reportable measures for reviewing tax incentives. Certainly each tax incentive has its own dynamics, but, going forward, there will be a strategic effort to build in a much more stringent evaluation.

This is true also for LD1781. I have spent many hours meeting with experts to determine language and identify conditions for measurable outcomes. It began with an initial meeting with leadership of Local 6 and Local 7 AFL-CIO and Bath Marine Draftsmen's Association UAW Local 3999, who represent 77 percent of BIW's workforce, to receive their feedback. They suggested criteria that could be incorporated as benchmarks when reviewing the tax credit.

These suggestions are at the core of the committee amendment that I will be offering at the work session, specifically around Sections 5 and 7 of the bill as currently written. I have consulted with OPEGA for recommendations to improve evaluation and reporting. They are utilizing the concepts and best practices described in "*Legislative Auditor's Guidance for Drafting Performance Statements in Tax Preference Legislation*" released in 2014 in Washington State.

To improve the reporting and evaluation components of LD1781, I applied the logic-chain model of that report. As members of the Tax Committee, you will likely hear more about this approach. Tax incentives should have a clear purpose so it is easier to evaluate progress. And in Maine's case, we need to have a streamlined reporting process. This is how the logic model applies to LD1781:

Provide refundable corporate tax credit

in order to

Reduce cost of owner investments in the business

thereby

Incenting the owner to make investments in the business

thus

Keeping business competitive in its market

to achieve

Retaining a large number of quality jobs in the state

The deliverables are: 1) keeping the business competitive in its marketplace; and 2) retaining a large number of quality jobs in the state. My committee amendment will be based on this. Unfortunately it is not quite complete yet but will be ready for your consideration in advance of the work session

The journey of LD1781 has been long, educational and collaborative. When I met with union leadership, I heard loud and clear that training is important to the organized workforce. BIW is facing the effects of the gray tsunami. This means that there are large numbers of employees retiring after decades and decades on the job. With them goes priceless institutional knowledge. It is imperative to keep those positions filled provide new employees with access to training. There is opportunity for improvement on this dynamic. That is why it is listed among the qualified investments in the bill.

Another aspect we have heard loud and clear, whether it is from my seat in committee or as a taxpayer: we need to better evaluate impact on the state budget and realize the indirect economic benefits to match or exceed the cost to state.

As I mentioned, LD1781 is based on a statute passed last session for IDEXX (*An Act to Promote Major Business Headquarters Expansion in Maine, Promote the Commercialization of Research and Development in Maine and Create Jobs*). There was an evaluative component in that bill that I want to bring forward and modify to incorporate better reporting requirements to better track employment impact. For example, in:

- **Section 5.** Instead of reporting only on number of qualified jobs and level of qualified investment; we are can drill down in aspects such as what types of jobs, range of pay, and outsourcing trends.
- Reporting will be streamlined to the Commissioner of Department of Economic and Community Development, who must provide copies of the report to the State Tax Assessor and Joint Standing Committee of jurisdiction over tax matters. This report must include aggregate data and become public record.
- **Section 7.** Will clarify specific public policy objective and performance measures for OPEGA, committee of jurisdiction and Government Oversight Committee. I have language around this that I will propose for your consideration at the work session.

I have dedicated 25 of 28 years of my professional life to working in social services and the public sector. I apply this commitment to my community involvement as well.

I share the interest in BIW diversifying its manufacturing. I am aware of attempts of diversification with ocean energy and bidding for Coast Guard ships. As a member of the Government Oversight Committee, I share the concern over accountability for this tax incentive as well as several tax incentives in our state. That is why I have worked so hard on the committee amendment I will submit to you for the work session.

This process has been an educational experience. I have had valuable exchanges with constituents, some of whom oppose this bill. I appreciate the thought provoking suggestions: such as, requiring BIW to diversify their manufacturing; requiring BIW to establish a more responsive philanthropic program; creating a commission to review and evaluate tax incentives; or dictating that this tax incentive be used for building a new facility to develop different products.

I have done my due diligence to improve LD1781. It is not my role to debate CEO salaries, stockholders or profit caps imposed in naval contracts. BIW representatives can speak to why this credit is a valid incentive for future investment. For me this is about jobs - keeping good manufacturing jobs in our state. Again, I look forward to sharing my committee amendment that adapts LD1781 based on the feedback I have received.

As long as our country needs a defense and as long as that defense includes ships, I want those ships built in Bath. Bath built is best built.

Thank you for your thoughtful consideration of this bill. I would be happy to answer any questions from the committee.