LePage will pick 31 places to get tax breaks

Troy R. Bennett | BDN
Gov. Paul LePage delivers his final State of the State address before a joint session of the Maine Legislature in Augusta in February.

By Darren Fishell, BDN Staff • March 31, 2018 1:00 am

Gov. Paul LePage has an extra month to pick 31 areas of the state to receive federal tax benefits that aim to encourage new investment in economically depressed areas. The tax breaks are part of the Republican federal tax overhaul passed last year.

LePage can't pick just anywhere.

He's limited to picking census tracts defined as low-income areas. In that way, he has a lot of options: 123, to be exact. He could choose communities in the Bangor area, parts of Lewiston and Portland, and depressed rural areas in western, northern and Down East Maine.

He could also pick up to two tracts that are adjacent a low-income area, called “contiguous tracts.” Governors faced a March 21 deadline to designate those areas under the new tax law, but LePage requested a 30-day extension from the federal government, according to a spokesman with the state Department of Economic and Community Development.

That designation will allow investors who put money into projects in those areas, dubbed “opportunity zones,” to avoid taxes on the capital gains returned by their investments. It’s an approach tried by past Democratic and Republican administrations, in efforts to use federal tax policy to lure investment or jobs to an area.

“There are communities across Maine with vacant industrial sites and an available workforce. This program could be the catalyst to really move the needle in areas of our state that need it the most,” said George Gervais, commissioner of the Department of Economic and Community Development.

In fact, the policy came partly in response to economic challenges of towns where paper mills have closed. The New York Times reported that Kevin Hassett, the chairman of President Donald Trump’s Council of Economic Advisers, proposed the policy in hopes of addressing the needs of towns like Turner Falls, Massachusetts, near where he grew up.

Supporters of the proposal say the tax benefits will entice investment, but critics say tax cuts won’t actually spur new economic activity but rather shift economic activity from one area to another.

A review of state policies across the country completed for the Minnesota House of Representatives found “little net benefit” to location-based economic development programs, though “studies and their results vary widely, delivering mixed conclusions.”

A study of Empowerment Zones implemented during Democratic President Bill Clinton’s term found that the location-based tax incentive did increase employment and wages in those areas, but that program provided different incentives than Opportunity Zones. Parts of Aroostook County were designated as rural empowerment zones under the Clinton-era program, which economic development officials have touted as a boon to area businesses.

State-level studies of "enterprise zones" found policies that encouraged capital investment without specific employment goals also led to job decreases in some cases, as in California, according to a 2010 paper in the Journal of Urban Economics.

Adam Looney, a senior fellow at the Brookings Institution, suggested that investors could reap ample returns through the program by investing in rapidly gentrifying areas, where real estate values are increasing, merely accelerating ongoing trends and making cities less affordable.

"That means a state's Opportunity Zones could also serve as a subsidy for displacing local residents in favor of higher-income professionals and the businesses that cater to them — a subsidy for gentrification," Looney wrote.

For Maine, Penobscot County has the most census tracts designated as low-income, at 22. In other words, according to the census, it's Maine's most populous, economically distressed county. Cumberland County followed, with 19 low-income tracts.

The Opportunity Zone program gives broad authority to the governors to pick up to 25 percent of their low-income tracts to receive the tax benefits. Out of 123 low-income tracts, that means LePage will be able to designate 31.

Another 79 tracts are deemed "contiguous" to low-income areas. LePage could pick up to two of those for the tax benefits as part of the 31 total.

It's unclear how the governor and his economic advisers will make that determination. In late February, the DECD solicited comments on the program, asking people to suggest criteria for picking census tracts to designate and for specific suggestions of areas to target.

In the map below, we've provided three measures you can set to narrow down the possible Opportunity Zone districts. Set your own ranges for unemployment, the share of families in poverty and the share of adults with *bachelor's degrees to winnow 202 low-income and contiguous districts down to 31. Under the rules, only two of the 31 can be contiguous tracts.*

Census tracts comprise areas of roughly 2,500 to 8,000 people, and their boundaries don't always correspond with municipal boundaries. Since they're based on population, rural tracts can include dozens of towns, while urban tracts can cover just slivers of neighborhoods.

Viewed by town, the map shows communities that are either a part of or contain low-income census tracts, and tracts that are adjacent to those areas.