Testimony to the Committee on Taxation

in support of
LD 229, An Act To Increase Investment Caps in the Maine Seed Capital Tax Credit Program

in opposition to
LD 950, An Act To Improve Maine's Economic Development Incentives

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Senator Chipman, Representative Terry, and Distinguished Members of the Taxation Committee:

My name is Nathaniel V. Henshaw. I live in Brunswick, Maine, and I am testifying today on behalf of CEI Ventures, Inc. (CVI), in support of LD 229, “An Act To Increase Investment Caps in the Maine Seed Capital Tax Credit Program,” and in opposition to LD 950, “An Act To Improve Maine's Economic Development Incentives.” I am President of CVI, which is a socially responsible venture capital firm and subsidiary of Coastal Enterprises, Inc. (CEI), a not-for-profit Community Development Finance Institution based in Brunswick.

Since forming in 1994, CVI has raised over $60 million to establish five socially responsible venture capital funds. We have invested an average of $600,000 in 64 small businesses, most of which are in Maine. As a direct result of this investment, our portfolio companies have helped to create over 2,700 net new jobs. Nearly 5,000 people in all, work at these companies. We have also assisted employers to create good jobs with competitive wages and benefits, including opportunities/positions that are specifically targeted to people with low-to-moderate incomes.

CVI strongly supports LD 229 and firmly opposes the part of LD 950 that pertains to the seed capital tax credit. Here’s why.

In Favor of LD 229, An Act To Increase Investment Caps in the Maine Seed Capital Tax Credit Program

As stated above, CVI strongly supports LD 229, which raises the cap on companies’ lifetime tax credits from $3.5 million to $6 million. Many companies need much more than $3.5 million in venture capital over the startup and growth phases of their business, enabling them to reach the stage where they can generate sufficient revenues to cover their costs and can access bank financing when needed. Two companies we are working with currently - one is a prospective partner, the other is an existing portfolio company - are nearing the limitations on allowable eligible investments.

Constant.ai, of Falmouth, is a financial technology firm whose easy-to-use, automated digital self-service software platform enables borrowers to access debt relief in minutes, as opposed to days, or even weeks, as with the current (manual) process. This digital strategy is a short-term, up-front cost that will benefit this business and the businesses it assists – in cost savings, operational efficiency, and by generally digitalizing workflow. The company hires software writers, salespeople, and administrators. Its products sell both nationally and internationally through large loan processors and online. To date,
Constant.ai has received approximately $3.2 million in venture capital from a dedicated group of Maine Angel Investors, CEI Ventures, and the Maine Venture Fund. The Seed Capital Tax Credit has been, and will be, instrumental to this company’s continued growth and success.

GoLabs, Inc., of Madison, is seeking $15 million in equity financing to design and manufacture wood-fiber-based insulation products and to re-purpose a closed papermill in Madison. The company has already raised approximately $3 million in venture capital in a seed round, and CVI is considering an investment. While the overall investment needed to convert this plant far exceeds the current $3.5 million cap, interested investors, including Maine timber harvesters who are interested in the mill as a customer, are incentivized, in no small part, by the Maine Seed Capital Tax Credit.

In just a few years, these two companies will continue to create quality jobs and contribute to Maine’s economy. They are just two examples of the Seed Capital Tax Credit program’s ability to foster innovation and grow talent in critical businesses and, specifically, to create quality manufacturing and technology jobs here in Maine. LD 229 will continue to attract job-creating capital to support Maine’s innovative entrepreneurs. CEI Ventures strongly urges your support for LD 229.

Against L.D. 950, An Act To Improve Maine’s Economic Development Incentives

CVI’s first four funds qualified for Maine’s Seed Capital Tax Credit under 10 MRSA §1100-T, sub-§2. The funds’ individual and Maine based bank investors have told us unequivocally that this tax credit is a key factor in their decision to invest in Maine businesses through our funds. Recent changes to the program that have allowed the certification of refundable credits has enabled CVI to raise investment capital from both in and out-of-state investors to capitalize Maine businesses. In our experience, this incentive has been critical to our ability to raise capital, and that has directly fostered job creation throughout the state.

Over the past 10 years, CVI’s two most recent funds have used the Maine Seed Capital Tax Credit as an incentive to invest in 14 companies throughout Maine including: CourseStorm in Bangor, Mingle Health in South Paris, Pika Energy in Westbrook, Dream Local Digital in Thomaston, Junora in Biddeford, and Vetro in Portland. These investments have helped fund growth, catalyze job creation, and more recently, provided stability during a tumultuous time for small business.

The unintended effect of this bill will be to disqualify venture capital funds from using this business development tool. That outcome conflicts with the law’s intent to provide Maine businesses with a mechanism which incentivizes access to capital and management expertise.

Thank you for the opportunity to testify on these bills. It has been a pleasure sharing CEI Ventures’ direct experience working with businesses and investors who use this important incentive to support Maine entrepreneurs during a critical stage in their development. In order to foster business development and job creation in Maine, we urge you to pass LD 229 and vote against the part of LD 950 which pertains to Maine’s Seed Capital Tax Credit Program to encourage more professional venture capital investment in Maine.

Sincerely,

Nathaniel Henshaw
President
CEI Ventures, Inc.