CEI VENTURES, INC.
Socially Responsible Venture Capital

Testimony to the Joint Standing Committee on Taxation

Neither For Nor Against

LD 1941, An Act To Clarify and Update the Maine Seed Capital Tax Credit Program

February 8, 2022

Nat Henshaw, President, CEI Ventures, Inc. (CVI)
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Dear Senator Chipman, Representative Terry, and Members of the joint Standing Committee on Taxation:

My name is Nathaniel Henshaw and I am the President and CEO of CEI Ventures, Inc. (CVI). CVI, is a wholly owned subsidiary of Brunswick-based Coastal Enterprises, Inc. (CEI). I live in Brunswick and am submitting testimony **neither for nor against** LD 1941, *An Act to Clarify and Update the Maine Seed Capital Tax Credit Program*.

CEI is a nonprofit, community development financial institution (CDFI) founded in 1977 with a mission to grow good jobs, environmentally sustainable enterprises and shared prosperity in Maine and rural regions throughout the US. CEI integrates financing, business and industry expertise and policy solutions to build an economy that lifts all people. Its subsidiary CVI manages three socially responsible venture capital funds, with invested capital from community banks, charitable foundations, and individual investors, mostly based here in Maine.

For more than 25 years, CVI has successfully identified and cultivated growth-oriented businesses that create good jobs for people in rural towns and small cities across Maine and the Northeast. We finance and help to grow businesses that pay a living wage, offer basic benefits, and provide a fair and engaging workplace that enables employees to increase their pay as they build their job skills into a career – an approach that demonstrates how a focus on good jobs drives good business strategy, strong investment performance and profitability. Since its inception in 1996, CVI has raised five funds with over $60 million combined, investing in 70 companies, which have created over 2,700 new jobs. We are frequently the first institutional investor in a new Maine company and have a track record of bringing in other investors along the way.

We appreciate this bill's effort to ensure the Seed Capital Tax Credit Program efficiently and effectively achieves its goal to increase investment, jobs, and tax revenues; support small businesses and jobseekers (its intended beneficiaries); and implement Maine's economic development strategy. The Maine Economic Development Strategy (2020-2029) identifies the Seed Capital Tax Credit as a critical tool to foster business growth and innovation. The Office of Program Evaluation and Government Accountability (OPEGA) conducted a thorough review of the credit and submitted a report with its findings. CVI submitted testimony to the Government Oversight Committee as part of this process.

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Maine's Seed Capital Tax Credit provides significant benefits for Maine businesses and workers. From an investment standpoint, this credit is more effective if left at its current threshold of 40% (of the amount of cash invested in an eligible Maine business in any calendar year). While decreasing the threshold may appear to offset the credit's costs or reach more investors with a smaller benefit, this change is more likely to limit the growth of businesses that have established a brand and are scaling – production, workforce, output. In the current unpredictable economic landscape, with supply chain bottlenecks, workforce challenges, heightened inflation, potentially rising interest rates, investors considering investing in early-stage companies can shift their investment into more mature corporate stocks or into bonds. The current sources of venture capital needed to fuel Maine's emerging "gazelle" businesses and sustain their growth and innovation cannot be taken for granted.

In its report, OPEGA noted similar programs in other rural states that adjust the credit according to state economic development goals, including, specifically, to offset the effects of uneven development and inequitable access to capital, to promote ownership by underrepresented populations or to boost growth of businesses in targeted industries. In these examples, the credit is higher than the 40% threshold, to achieve the desired impact. If Maine's credit is reduced, it would likely result in fewer investments and also drive more capital into fewer, and later stage, companies; precisely those companies which OPEGA warned were not the intended beneficiaries of the credit since they are likely to receive investment without any incentive. In addition to retaining the 40% credit eligibility, CVI believes it is important to increase the amount of eligible lifetime investment from its current level of $3.5 million to $6 million, as proposed in the bill. If this is not possible at this time, the committee should, at a minimum, set this aggregate amount at its former level of $5 million.

In summary, CVI neither supports nor opposes LD 1941. Rather, we respectfully ask that in considering the components of this bill discussed above, the committee bear in mind the needs of Maine's growth-oriented businesses and the requirements of our state's economic development strategy. This credit is an important business investment tool. The proposed reduction in the allowable tax credit (from 40% to 30%) will weaken the capital market supporting Maine's next generation employers and undermine implementation of the state's economic development strategy. However, the proposal to increase the cumulative investment limit allowed for any given business is a sound move. Thank you for considering our comments regarding these two changes proposed in this bill. Please don't hesitate to contact me/us if you have any questions or require additional information about CVI, our understanding of the benefit and the effect that the Seed Capital Tax Credit Program has on Maine's investment community and entrepreneurial sector.

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