MAINE DEVELOPMENT FOUNDATION

In Search of Silver Buckshot:
30-years of Economic Development in Maine

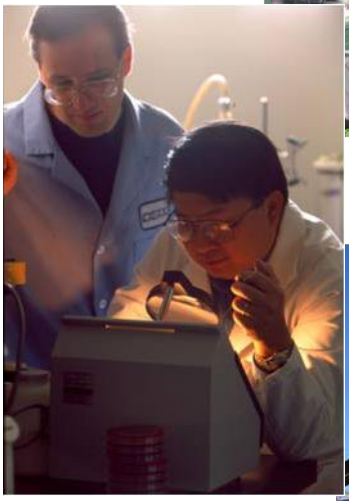

Photo: IDEXX

Photo: Maine DOT

Photo: Maine Community College System

October 2006

Prepared for the Brookings Institution by:

Laurie Lachance
President & CEO
Maine Development Foundation

The Maine Development Foundation (MDF) drives sustainable, long-term economic growth for Maine. MDF stimulates new ideas, develops leaders, and provides common ground for solving problems and advancing issues.

To accomplish its mission, MDF:

- **Empowers leaders** to act through Leadership Maine and Policy Leaders Academy. Leadership is the most important ingredient in the complex process of economic development.

- **Strengthens Maine communities** through the Maine Downtown Center, Capital Riverfront Improvement District, and The Fund for the Efficient Delivery of Local and Regional Services. Maine's downtown communities are vitally important economic assets.

- **Guides public policy** through the Maine Economic Growth Council, Employer Initiative, Workforce Investment System, and REALIZE!Maine. Effective decision making requires objective and reliable information.

MDF is private, non-profit corporation, with an IRS 501 (c) (3) status. MDF was created by the Governor and Legislature in 1978 with a broad mandate to promote the economy. We are funded by fee-for-service, private contributions, and foundations. Less than 10% of our revenue is from state government contracts. We receive no general state appropriation.

MAINE DEVELOPMENT FOUNDATION

45 Memorial Circle, Suite 302
Augusta, Maine 04330
Tel: 207.622.6345
Fax: 207.622.6346
Web: www.mdf.org

ACKNOWLEDGEMENTS

I would like to express my heartfelt thanks to all of the many individuals who gave hours of their time to share their honest assessment of the many economic development policies and programs that have shaped Maine's growth over the past three decades and their insights as to the bold actions we must take in the future to create the "High Quality of Life for All Maine Citizens" that we are seeking. As our history so clearly illustrates, the passion for and commitment to Maine of these and other leaders across this state, will guide us towards a more vibrant future.

Below are the many individuals who provided interviews, critical data and background information, or thoughtful responses to an email survey. In an effort to keep these conversations as open and honest as possible, I committed to summarize the thoughts of the larger group rather than attributing any particular comments to individuals. The findings in this paper are so much richer because of the candor, wisdom and tremendous knowledge of these leaders. If I have inadvertently left someone's name off the list, please accept my apologies and my thanks and let me know so I can rectify my mistake.

Laurie

Interviewees:

Governor John E. Baldacci
Governor Joseph E. Brennan
Governor Kenneth M. Curtis
Governor Angus S. King, Jr.

Stephen Adams, U.S. Small Business Administration
Sandy Blitz, Bangor Target Area Dev. Corp.
Yellow Light Breen, Bangor Savings Bank
Jack Cashman, Dept.of Econ. & Comm. Dev.
Richard Coyle, Maine International Trade Center
Jonathan Daniels, Eastern Maine Development Corp.
Dale Doughty, Dept. of Transportation
David Flanagan, Former CEO, Central Maine Power
Martha Freeman, State Planning Office
Matthew Jacobson, Maine & Company
Judy Knapp, Hannaford Bros. Co.
Steven Levesque, Brunswick Local Redevelopment Authority
Jim McGregor, Maine Merchants Association
Kay Rand, Bernstein Shur Gov. Solutions LLC
Catherine Reilly, State Planning Office
Michael Roy, City of Waterville
Steve Schley, Pingree Associates Inc.
Larry Shaw, Maine Mutual Group
Kathy Vandegrift, Jackson Laboratory
Joseph Wischerath, Former CEO of Maine & Co.
Mark Woodward, Bangor Daily News
Janet Yancey-Wrona, Dept. of Econ. & Comm. Dev.

Provided reports, information, and data:

Dennis Bergeron, Public Utilities Commission
Betsy Biemann, Maine Technology Institute
Jim Breece, University of Maine System
Suzan Cameron, Department of Education
Ed Cormier, Harriman Associates
Peter DelGreco, Maine and Company
Donna Folsom, Dept. of Econ. & Comm. Dev.
Jody Harris, State Planning Office
David Inman, Department of Education
Richard Kelso, Economic Management Services
Tucker Kimball, Maine Technology Institute
Dawna Lopatosky, Bureau of the Budget
Linda Lord, Maine State Library
Sharon Miller, McKernan Administration
Jim Nimon, Dept. of Econ. & Comm. Dev.
Ray Poulin, Former Deputy Commissioner, Department of Education
Jim Rier, Department of Education
Galen Rose, State Planning Office
Peggy Schaffer, Dept. of Econ. & Comm. Dev.
Darlene Tarr, Department of Education
Melissa Winchenbach, Bureau of the Budget
John Witherspoon, Finance Authority of Maine
Maine State Law & Legislative Library

Responded to Email Survey:

Rachel Albert, University of Maine at Fort Kent
Neal Allen, PACTS
Jonathan Ayers, IDEXX
Ronald Barker, Maine School Superintendents Assn.
Nicholas Bayne, Maine Public Service Co.
Rob Bennett, Bangor Hydro-Electric Co.
John Brandt, Maine ASCD
James Brown, Jr., City of Presque Isle
Deborah M. Burd, National Campaign for Sustainable Agriculture
Karl Burgher, University of Maine - Presque Isle
Steve Culver, Hannaford Bros. Co.
Brett Doney, EnterpriseMaine
Leonard Dow, First Park
Walter Elish, Aroostook Partnership for Progress
George "Bud" Finch, Town of Eastport
Carl Flora, Loring Development Authority of Maine
Peter Geiger, Geiger Brothers
Michael Giles, Atlantic Insurance & Benefits Co.
Kevin Hancock, Hancock Lumber Company, Inc.
Robert Hastings, Penobscot Bay Regional Chamber of Commerce
Kevin Healey, Sisters of Charity Health System
Joyce Hedlund, Eastern Maine Community College
Alix Hopkins
Judy Horan, WLBZ 2
Susan Inches, State Planning Office
Thomas Judge, LifeFlight of Maine
Theodora Kalikow, University of Maine at Farmington
David Keeley, The Keeley Group
Michael Kelly, Advanced Management Catalyst Inc.
John Knox, SCORE
Samuel Ladd, III, Maine Bank and Trust
Wendy Laidlaw, R. M. Davis Inc.
Kim Lane, HealthReach Network
Charles Lawton, Planning Decisions
Dana Lee Town of Mechanic Falls
Kimberly Lindlof, Mid-Maine Chamber of Commerce
Ronald Lovaglio, SAPPI Fine Paper North America
Robert MacGregor, Maine Wood Products Assn.
Beth Mahoney, Millinocket Area Growth & Investment Council (MAGIC)
Richard Malaby, Crocker House Country Inn
Mike Marshall, WCSH 6
Lisa Martin, Maine Metal Products
Dale McCormick, Maine State Housing Authority
Bruce McLean, Millinocket Area Growth & Investment Council (MAGIC)
Charles Morris, Margaret Chase Smith Policy Center
John Oliver, LL Bean
Rosaire Pelletier, Fraser Papers Limited
Scott Phair, Capital Area Technical Center
Lisa Pohlmann, Maine Center for Economic Policy
Matt Polstein, New England Outdoor Center
Bonita Pothier, Key Bank
Patrice A. Putman, MaineGeneral Health
Evan Richert, University of Southern Maine
Christopher St. John, Center for Economic Policy
W. Tom Sawyer, Legislator, Business Owner
Steve Schley, Pingree Associates Inc.
Bonnie Sparks, Hancock County Higher Education Center
Dawn Stiles, Spurwink
Matthew Teare, Sea Coast Management Co., Inc.
Steve Thaxton, WCSH 6
Daniel Thompson, Advanced Management Catalyst Inc.
Rod Thompson, Leaders Encouraging Aroostook Development
Dianne Tilton, RHR Smith & Company
Peter Triandafillou, Huber Resources Corporation
David Vail, Bowdoin College
Joan Welsh, Natural Resources Council of Maine
Lloyd Willey Jr., Canteen Service Co.
John Witherspoon, Finance Authority of Maine
Joseph Wood, University of Southern Maine
Michele Woodbury, Pamola Grange Center
Ken Young, Kennebec Valley Council of Governments

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In Search of Silver Buckshot:
30-years of Economic Development in Maine

I. Introduction

The past three decades have been a period of tremendous economic change and transformation at the state, national and global levels. Through this tumultuous period, Maine's economy has slowly evolved to a higher plateau by most general economic measures. The fact that this new level of prosperity is not shared equally across the state's industries or regions, coupled with the ongoing and perhaps even accelerating pace of economic churning, however, has left many confused and uneasy about Maine's current economic condition and future. Even those who concede that Maine's economy has grown and prospered since the early 1970s suggest that there is much room for further improvement if we are to achieve the high quality of life that we are seeking.

A review of the economic development policies and programs put in place since the early 1970s reveals some very interesting insights into both our successes and our challenges for developing Maine's economy.

- Over the past 35 years, Maine has had a number of visionary leaders.
- Maine has made many bold, innovative and successful economic development decisions and investments.
- The failure of some of Maine's economic development policies and programs has far less to do with a lack of bold vision or innovative ideas, but far more to do with ineffective execution and follow-through for the long haul.

Economic development is, by its very nature, a long term endeavor which requires a system and structure that will ensure that we stay the course.

While it is human nature to search for THE answer to our economic challenges, we must transform our thinking away from the search for the silver bullet and instead seek the silver buckshot – that myriad of smaller yet meaningful policies and programs that, when taken together, transform Maine and lift us to that next plateau.

II. Background

The Brookings Institution hired the Maine Development Foundation (MDF) to do a critical review of Maine's economic development efforts over the past three decades. By assessing what policies and programs have moved Maine's economy forward and which efforts have had less of a positive impact, MDF hopes to shed some light on policies, practices and program implementation strategies that will inform decision-makers going forward and enable the investment of Maine's limited economic development resources to yield the very highest returns for the Maine economy.

The background research on this topic included:

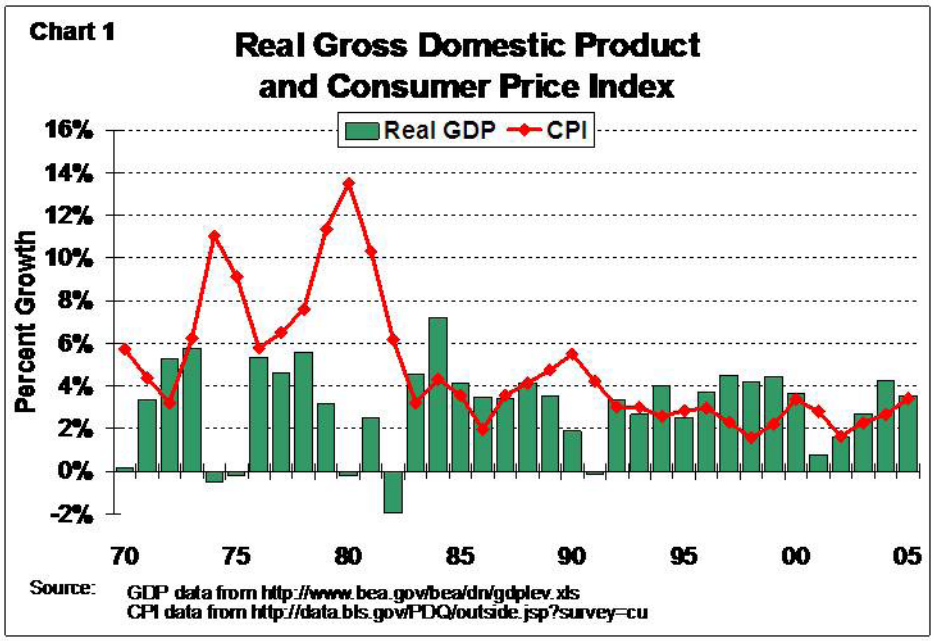
- A review of the formal economic development reports, strategies and inaugural addresses over the period,
- Interviews of Maine's living governors who served over this period of time,
- Interviews with key economic development officials and experts,
- An email survey of over 500 Maine business, non-profit, government and education leaders with 3 open-ended questions:
    - What economic development policies or programs have served Maine well and why have they been successful?
    - What economic development policies or programs have not been as effective in moving Maine forward and why?
    - What opportunities have been missed?

The information that follows reflects the ideas and insights of nearly 100 individuals who care deeply about Maine and its future.

III. The Economic Backdrop

The single greatest driver of Maine's economic performance is national economic activity. To better understand the performance of Maine's economy over the past 3 decades, it is important to have an understanding of national events and trends. As the chart below illustrates, it was a period of fairly strong and consistent growth. There were, however, four recessionary periods. The first three, in the mid-seventies, the early eighties and the early nineties, were all precipitated by oil price shocks which both rocked economic activity and sparked inflation. The most recent recession was in 2001 following a collapse in technology stocks and

the terrorist attacks. With aggressive monetary policies in place over the past 15 years, inflation was kept in check throughout the period and the two most recent recessions were among the very mildest in US history.

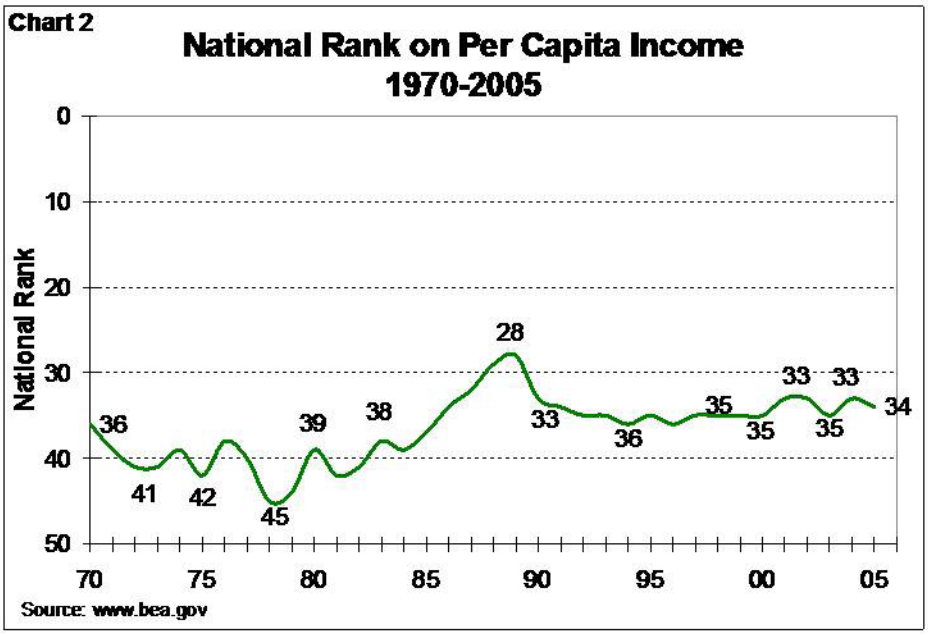


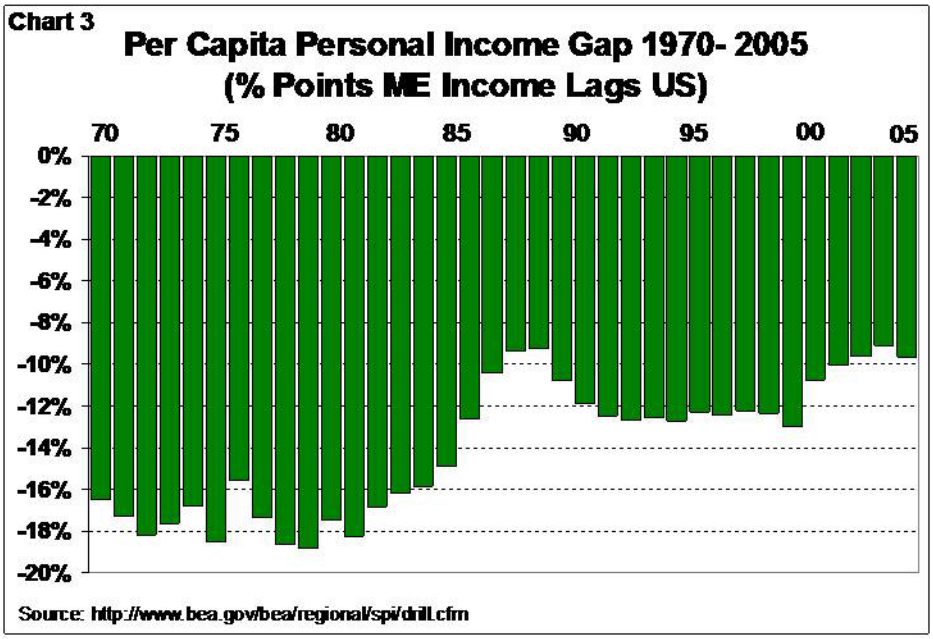
It is also important to note that the US and world economies went through major transformations over the past quarter of a century. We evolved from a manufacturing-based economy to an increasingly globalized service economy to a knowledge-based economy. With the development of new, high-speed telecommunications systems and the World Wide Web, new markets developed and the flow of goods, services, capital and information across borders accelerated. In this time period, we witnessed the fall of the Berlin Wall, the end of the Cold War, the development of new energy sources, the de-regulation of many industries including trucking, banking, and to a certain extent, telecommunications and electricity. Each and every one of these changes shaped Maine's economic fortunes and challenged the traditional economic development approaches.

IV. Maine's Relative Economic Standing - Reaching a New Plateau?

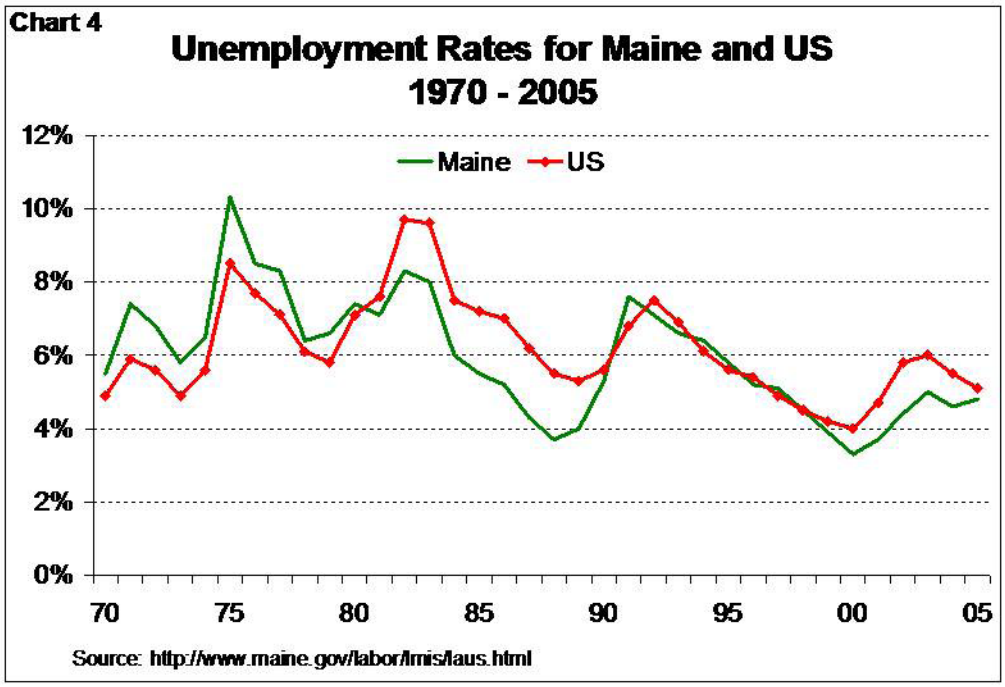
Despite popular belief, Maine's relative economic condition has improved over the past 30 years and we have, by most broad measures, evolved to a new economic plateau. While it is virtually impossible to determine exactly why Maine has improved, it seems plausible that at least some of our economic development policies and programs have positioned us to enjoy some forward movement. Maine's ranking in per capita income remained in the lowest quintile through the

1970s (see Chart 2), bottoming out in 1978 at 45th. Our relative standing improved dramatically through the 1980s, peaking at 28th before settling in at a mid-30s ranking from 1990 to present. Further, as Chart 3 illustrates, the gap that separates Maine from the US in terms of average per capita personal income has narrowed considerably. Whereas Maine's income lagged the Nation's by 16% - 18% through the 70s, the income gap shrunk to 10%-12% over the past 2 decades, most recently improving to 9%.



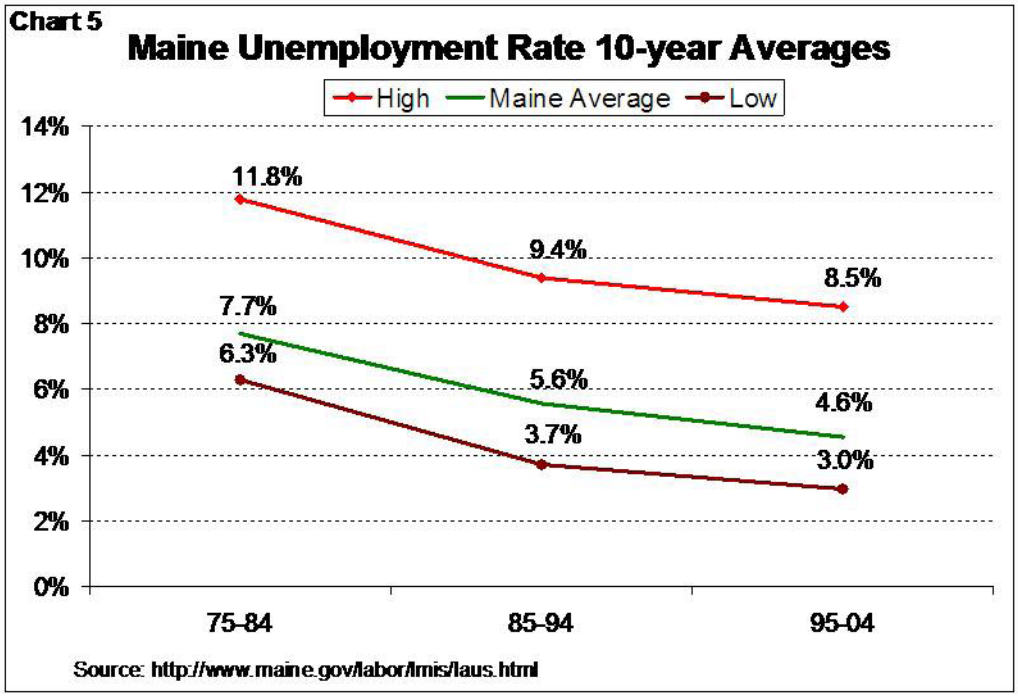


In addition, Maine's historically high unemployment rate which remained above the US average through the entire decade of the 1970s, dropped below the US average as we entered the 1980s and has remained at or well below national rates ever since.



Even with notable improvement in our relative standing in both income and unemployment, Maine is not at the level of economic vibrancy that its citizenry is seeking and thus the public continues to express frustration with economic conditions, policies and leaders. Part of the reason for the general dismay has to do with the fact that the increased prosperity has not been enjoyed equally among Maine's people, regions or industries. Since the Maine Economic Growth Council's vision for Maine is "A High Quality of Life for All Maine Citizens", leaving some significant portion of our population behind in our overall advances is not acceptable and tends to mute the celebration of our advancements.

As the following graph shows, average unemployment rates in each of the past three decades have dropped significantly for all Maine counties. However, the gap that separates the county with the lowest jobless rate from the county with the highest has grown significantly. For the decade of 1975-1984, the highest unemployment rate was 1.9 times higher than the lowest (11.8% compared to 6.3%). During the most recent decade, the gap has widened to 2.8 times.



A similar trend can be seen in county level per capita income figures. Whereas the lowest county income level was 68% of the highest in 1970, the relative standing of the lowest county income in 2003 had diminished to being only 65% of the highest county. Not surprisingly, both the lowest unemployment rates and the highest income levels are enjoyed in the southern coastal and lower I-95 corridor where there has been tremendous economic advancement over this time period. The rural areas of Maine, frequently referred to as the Rim counties (the 4 western mountain counties, Aroostook and Washington), whose economies are based on more traditional manufacturing and natural resources, have not enjoyed the same economic vibrancy. In fact, they have had stagnant population growth and have seen a loss of their young working-age adults. In addition, while poverty rates in Maine have remained below the US average for decades, 2003 average rates of poverty across Maine span from a low of 8.3% in southern Maine (York and Sagadahoc counties) to a high of 16.1% down east (Washington County). These stark disparities have challenged our political leaders throughout the period in question and have dramatically shaped the economic development discussions and policy decisions.

V. Economic Development Record

A. Visionary Leaders, Bold Ideas

Maine has never lacked strong leaders or bold ideas. Over the past 35 years, there have been six Governors and each one of them, in partnership with strong legislative leadership, has made a positive and lasting contribution to Maine's economic development and to the development infrastructure.

The summary that follows is a snapshot of the major initiatives that significantly shaped Maine's economic development. The time periods chosen are the terms of the six administrations. These were selected for ease of reference and are not meant to imply that the Governors, alone, were solely responsible for these initiatives. In all cases, Legislative leadership also played a key role in shaping and embracing critical policy changes.

1. Kenneth M. Curtis (1967-1974)

Governor Ken Curtis is credited with implementing the most major change in Maine's tax structure in recent history and in consolidating and modernizing State government, providing the impetus for restructuring of the Legislature, and creating a University system. The fact that he, as a Democrat, accomplished such landmark changes by working with a Republican House and Senate makes his record even more astounding and is a testament to the type of reform that can take place. He truly set the stage for Maine's development. His most significant contributions include:

- Introduction of the Personal Income Tax – Created balance in Maine's tax structure introducing progressivity (more closely tying taxes to the ability to pay) into a structure that had previously relied upon property and sales taxes, both of which tend to be fairly regressive.
- Restructuring/modernization of State Government – Consolidated over 200 separate State agencies into 15 departments creating efficiencies and improving effectiveness, established a formal nomination and confirmation process for Commissioners and made their terms concurrent with the Governor's, created the Cabinet structure to enhance coordination, accountability and efficiency.

- Restructuring/modernization of Legislature – Strong Legislative leadership at the time developed an entirely new structure of Joint Standing Committees to work more effectively with the newly restructured Executive Branch.
- Creation of the State Planning Office – Created the capacity within the Executive Branch to focus on the longer term economic, energy and natural resource policy and planning issues that are frequently lost in the day-to-day press of business in the line agencies. The State Planning Office was established to identify economic opportunities and threats and to coordinate effective policy responses across the various Departments, particularly in those instances when Departments might have different priorities or objectives.
- Creation of the Maine State Housing Authority – Housing availability and affordability are essential to long-term economic development.
- Creation of the University System – Brought the separate State Colleges together to form a University System with a Chancellor's office to guide coordination and development of state-funded post-secondary education.

2. James B. Longley (1975-1978)

Governor Jim Longley was the State's and the Nation's first Independent governor. He ran on a platform of cutting government waste and spent a great deal of his time and energy working to trim government and make it more business-like in its approach to economic development. He was relentless in his pursuit of increased business activity, playing a pivotal role in attracting Pratt and Whitney in Berwick and Digital to Augusta.

- Creation of the Maine Development Foundation – Created an independent non-profit corporation that was charged, in statute, with creating public-private partnerships (among State Government, the private sector, education and other non-profit entities) to promote long-term, sustainable economic development. MDF was given a broad mandate to promote growth through developing leadership, providing objective economic information and training to guide public policy, and convening diverse interests to work towards finding common ground in critical economic development issues.
- Implementation of the recommendations of the Maine Management and Cost Survey – Citizen James Longley had chaired Governor Ken Curtis's business-led task force charged with bringing cost-saving business practices to state government. Energized by the Legislature's summary rejection

of the task force recommendations, he decided to make it the centerpiece of his candidacy and, ultimately, of his administration. According to Jim McGregor, Longley's Chief of Staff, in a Winter 2005 Maine Policy Review article, Governor Longley's legacy included "slowing the excessive growth in state government" and "for being the only state to boast a net decrease in per capita state tax burden".

- Development of a special tax credit for job creation – In an effort to incentivize a huge capital investment in the paper mill at Hinckley, Governor Longley created a new form of tax credit that provided tax forgiveness to a business that invested in job creation. This landmark investment approach laid the groundwork for an entirely new way of offering economic development incentives in Maine.
- Settlement of the Indian Land Claims – His leadership in finally reaching a settlement in this hotly-contested case provided stability and certainty around the issue of land titles, critical elements in encouraging future investment and development in Maine.
- Introduction of anti-billboard legislation and the bottle bill – Governor Longley was one of the first in the nation to propose the anti-billboard law, setting the stage for enhancing Maine's scenic beauty. While passage of the State's Bottle Bill Law was originally enacted in 1976 to address litter along beaches and roadsides, it also resulted in a tremendous increase in the number of containers recovered for recycling making Maine a national leader.

3. Joseph E. Brennan (1979-1986)

Governor Joe Brennan's greatest contribution to Maine's economic development was his leadership in using government's bonding authority for creating economic development infrastructure. Much of his work laid the foundation for the economic development system we have in place today.

- Creation of the Finance Authority of Maine – Governor Brennan consolidated three separate financing authorities (the Veterans Authority, the Maine Guarantee Authority and the Small Business Authority) into one stronger entity, FAME, and empowered it to actively promote investment in Maine's industries – particularly in the natural resource sectors.
- Creation of the Municipal Bond Bank – Created to provide municipalities with a lower-cost investment vehicle for funding the build-out of critical municipal infrastructure.

- Creation of the Office of Energy Resources – In response to two major oil price shocks that wreaked havoc on the nation's and Maine's economy, an Office of Energy Resources was developed and charged with creating a comprehensive energy plan for the State of Maine. This office led the push for policies that encouraged the development of indigenous, renewable energy sources, energy conservation programming, alternative energy supplies and policies to deal with energy supply shortages.
- Use of State bonding authority to stimulate private infrastructure investment – In a landmark case that ultimately was settled in Maine's Supreme Court, Governor Brennan's use of State bonds to finance private investment in Bath Iron Works' (BIW) dry-dock facility in Portland set the stage for economic development investment policy for years to come. The State's investment in these facilities enabled BIW to successfully compete for the Aegis Destroyer contracts and led to record employment levels at the shipyard for a number of years and tremendous economic spin-off benefits.
- Implementation of the 3-port strategy – Major infrastructure investments were made in Eastport, Searsport and Portland to enhance port infrastructure in an effort to improve trade activity and secure energy supplies and other commodities critical to supporting the natural resource-based industries and to exporting finished product.
- Landmark investment in upgrading the University System – By appointing a highly prestigious Blue Ribbon Commission on education headed by Edmund Muskie, Governor Brennan was able to use the Commission's recommendations to provide an enormous infusion of resources into the University system. This investment enabled the University to attract nationally known faculty and to upgrade programming.
- Elevated the status and governance of the Vocational Technical Institutes (VTIs) – Governance of the VTIs had historically taken place in the Department of Education. In an effort to elevate the status and the effectiveness of the post-secondary trade schools, the VTIs were separated from State control to become a higher educational system controlled by a Board of Directors. This move much more closely aligned post-secondary technical and vocational training with the needs of the business community.

4. John R. McKernan, Jr. (1987-1994)

The McKernan years were marked by a regional economic downturn of historic proportions. The resulting fiscal conditions limited the ability of the State to undertake costly, traditional economic development initiatives. Instead, the McKernan Administration focused on improving the state's long-term economic competitive position by creating state economic development policy infrastructure, improving the business climate, modernizing telecommunications and energy policy, and making education an economic development issue.

- Creation of the Department of Economic and Community Development – Elevated the State's economic development efforts by creating a cabinet level agency, giving economic development a voice in Legislative policy and budget discussions and putting development on equal footing with other policy areas. Within the newly formed DECD, the Maine Film Commission was created, bringing feature films and TV specials to Maine, State support of tourism was increased from $441,000 in 1987 to $3.8 million in 1994, and the Maine Quality Trademark was developed, enhancing the image of Maine-made products.
- Creation of the Maine Economic Growth Council – Created an independent, 19-member council and charged the council with developing a long-term economic development plan for Maine and benchmarks to measure progress towards those goals.
- VTIs re-named Technical Colleges - To further raise the profile of these important post-secondary institutions, the Vocational Technical Institutes were re-named Technical Colleges.
- Tax Reform – The top marginal Personal Income Tax rate of 10% was reduced to 8.5%, giving direct tax relief to two-thirds of Maine's businesses who file under this tax. In addition, low income residents were exempted from the Individual Income Tax altogether.
- Workers' Compensation Insurance Reform – Governor McKernan went to great lengths, including a 13-day shut down of State Government, to put in place a package of major workers compensation reforms that ultimately brought about the first rate reduction in 3 decades. From this effort, Maine Employers Mutual Insurance Company (MEMIC) was founded as an independent insurance company providing workplace safety training services and workers' compensation insurance products.

- Maine Enterprise Option Program – This program allows eligible unemployment recipients to use their unemployment compensation to start small businesses. Over 1,700 people have used the program since its inception to develop a wide-variety of small businesses. Participants are required to attend training and business counseling and provide documentation of their development and progress.
- Creation of the Land for Maine's Future Program – The Land for Maine's Future program was created to respond to growing threats to Maine's natural heritage and traditions through land conservation. The program protects assets of local, regional, and state significance for the people of Maine to use wisely and enjoy forever.
- Expanded Bottle Bill – In 1989, Maine expanded its bottle bill to include wine, liquor, water, and non-alcoholic carbonated or non-carbonated beverage containers. Maine is one of eleven states in the U.S. that has "bottle bill" legislation. A bottle bill is a law that requires distributors of beverages to encourage redemption of containers through a deposit/refund system.
- Waste Management Act – In 1989, the Legislature adopted a publicly-managed solid waste system that includes a solid waste management hierarcy, a statewide goal to recycle 50% of municipal solid waste, State assistance for municipal recycling program, a ban on new commercial solid waste disposal facilities and State responsibility for siting and operating new solid waste disposal facilities.

5. Angus S. King, Jr. (1995-2002)

Governor Angus King's 8-year tenure was marked by tremendous innovation and transformation. A master communicator and visionary, Governor King connected Maine to the global economy through the build-out of telecommunications, transportation and energy networks, and the re-shaping and elevation of international trade infrastructure. Working closely with strong Legislative leadership, King's Administration was able to launch Maine's R&D efforts.

- Creation of the Maine School and Library Network – In 1995, the Maine Public Utilities Commission directed Verizon to use $4 million per year for five years to provide additional services to schools and libraries. Under the plan, schools and libraries were eligible for a free 56 Kbps frame relay connection to the Internet and free Internet service. By June 1997, virtually

all eligible sites were connected, making Maine the first in nation to have all schools and libraries connected to the Internet.

- Maine Learning Technology Initiative – In an effort to equip Maine students with the tools that would enable them to become the most technology literate students in the nation and to prepare them to compete in the knowledge-based economy, a bold proposal was put forward to provide every 7th and 8th grade student in Maine with their own laptop. This unique initiative brought national and international attention, putting Maine on the technology map. In September 2002, the Maine Department of Education distributed over 17,000 laptops to 7th graders statewide. The following year the program was expanded to 8th graders.
- Creation of the Maine Technology Institute (MTI) - MTI was established in 1999 to spur private sector research and development activity, with a particular focus on commercialization. MTI funds Maine technology intensive companies that have a new technology that they would like to bring to the market and provides specialized services to enable them to more effectively compete for federal Small Business Innovation Research awards.
- Creation of the Maine Downtown Center – The Maine Downtown Center was created in statute in 1999 and charged with leading efforts to revitalize Maine's historic downtown areas. Downtown redevelopment is a strategy that has been proven to encourage small business development, more efficient use of existing infrastructure, the creation of community cultural assets, the attraction of young working aged adults and retirees, and the mitigation of the sprawling pattern of development that has emerged in Maine.
- Development of the Business Equipment Tax Reimbursement (BETR) – The BETR program was created in 1995 to incentivize private investment in capital equipment. Qualifying businesses are reimbursed in full by the State for the Personal Property Taxes paid to the municipality in which they are located on qualifying new business equipment.
- Employment Tax Increment Financing (ETIF) – In 1995, the ETIF program was created to serve as an incentive to new and existing Maine businesses to create additional, high-quality jobs. Under this program, companies who add at least 5 new jobs that pay an income above that County's per-capita income and provide health and retirement benefits may qualify to be reimbursed for up to 80% of their new employees' Maine income tax withholding for 10 years.
- Restructured and upgraded international trade infrastructure – The Maine International Trade Center was formed in 1996 to provide technical assistance and trade counseling, import and export leads, coordinated trade missions

and trade shows, and other services to help Maine companies to succeed in international markets.

- Restructuring of the Electric Utility Industry – In the mid-1990s, the Maine State Legislature directed the Public Utilities Commission (PUC) to undertake a very thorough study of the potential for completely restructuring Maine's electric utility system to allow for development of a competitive electricity market. Following a very long, comprehensive, thoughtful process, Maine ultimately passed landmark legislation that directed Maine's electric utilities to divest of their generating capacity, opening the state's electricity markets to competition.
- Build-out of 2 natural gas pipelines – During the mid-late 1990s, the Portland Natural Gas Transmission System was developed to bring western-Canadian natural gas into Maine. Around the same time period, Maritimes and Northeast Pipeline LLC constructed a second natural gas pipeline through eastern Maine to bring Sable Island gas into Maine and southern New England. Ultimately, the Federal Energy Regulatory Commission ordered the two companies to cooperate and jointly finance and construct a single pipeline to transport the gas from both pipelines from Westbrook, Maine to eastern Massachusetts. The build-out of these two pipelines, one of the biggest construction projects in Maine history, opened natural gas markets in Maine and led to the construction of 5 major gas-fueled electric generating facilities in the state.
- Smart Growth: The Competitive Advantage – Over the last 30 years, the vast majority of Maine's population growth has taken place outside of Maine's "cities" in suburban and rural areas. This "sprawling" pattern of development is creating enormous costs: fiscal, social and environmental. In 2000, the State Planning Office created and implemented a smart growth initiative comprised of a five-part package of policy and program initiatives called Smart Growth: The Competitive Advantage.
- Infrastructure investments - in east-west corridor, inter-modal facilities, 3 port strategy with build out of Mack Point and the Port of Eastport and warehousing facilities at the Port of Portland

6. John E. Baldacci (2003 – Present)

In addition to implementing major tax and healthcare reform, one of Governor Baldacci's greatest contributions to Maine's economic development has been having the courage to stay the course on many of the policies put in place by

his predecessors. His continued focus on post secondary education, technology, research and development, and Smart Growth, have enabled those initiatives to continue to build Maine's economic base.

- Developed the Community College System and AdvantageU – Maine's Technical College System was reshaped to become the State's official Community College System. In addition, after years of work, the University System and the Community College System developed an agreement that allowed for the transfer of credits among all of the state higher-education campuses, creating a seamless post-secondary network (AdvantageU).
- Dirigo Health – The landmark Dirigo Health Reform Act is a broad strategy to improve Maine's health care system and includes three inter-related approaches: 1) a new health plan ("DirigoChoice") to achieve universal access to health coverage; 2) new and improved systems to control health care costs; and 3) initiatives to ensure the highest quality of care statewide. In March 2006, the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government – in partnership with the Council for Excellence in Government –named Dirigo Health as one of the Top 50 Government Innovations for 2006.
- Pine Tree Zones Initiative – Created opportunity zones to provide an array of tax incentives to businesses that chose to invest in economically challenged areas of the state.
- Governor's Office of Innovation – An Office was created, and placed in the Department of Economic and Community Development, to develop the State's strategic plan for research and development, to educate and advocate for investments in innovative capacity, and to oversee and coordinate the State's investments in technology, research and development.
- Tax and Spending Reform: LD 1 – LD 1, developed in response to threatened property tax revolt, limits growth of spending at all government levels and establishes a goal to lower Maine's tax burden. It also steps up targeted property tax relief programs for Maine residents and increases the state's share of education funding.
- Phase Out of the Personal Property Tax on Business Equipment - In an effort to encourage capital investment in Maine, the Personal Property Tax on Business Equipment is being phased out. This issue had been the subject of heated debate for years, and its resolution is expected to both remove what

some saw as a major disincentive to investment and the risk associated with the tax reimbursement program (BETR).

B. Bold Ideas – Smart Investments

Over the past 30 years, Maine has made a significant number of economic policy decisions that have, in the opinion of nearly 100 Maine leaders, led to an improvement in Maine's economic condition. The policy, program and investment decisions felt to have had the most positive influence thus far or that hold the greatest promise include:

1. Development of the Maine Community College System:

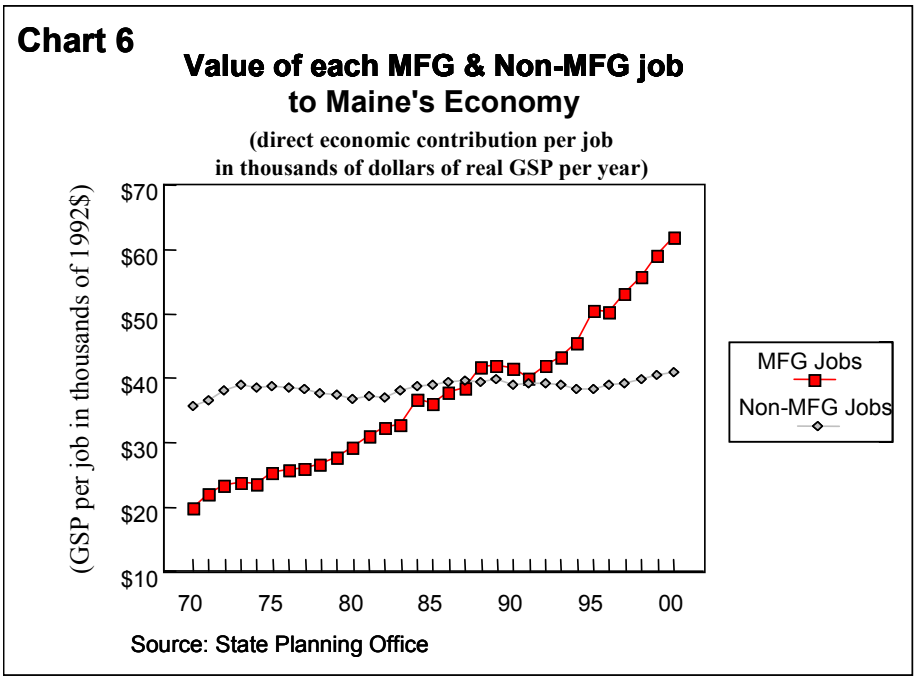
The transformation over the past 30 years of the Vocational Technical Institutes to the Technical College System to the Community College System is the economic development undertaking most frequently mentioned as being both successful and critically important to Maine's future vitality. Not only do the Community Colleges offer an affordable, less-threatening entry into college for individuals of all ages, the Colleges also work directly with Maine companies to provide the skilled and educated workers they need to expand their operations.

- In the three years since the mission was broadened and the Technical Colleges became Community Colleges, enrollment has jumped 42%.
- 95% of the graduates are placed in jobs or continue their education.
- 96% of the employed graduates find work in Maine.
- The percentage of students enrolling directly from High School has increased 50% over the past 3 years.
- At $74 per credit hour, Maine's Community Colleges offer the lowest tuition in Maine, making college financially accessible.
- 92% of Maine's population is within 25 miles of one of the 7 campuses or 8 centers, making college geographically accessible.
- In 2005, Maine's Community Colleges customized training and education to 137 employers and nearly 3,800 employees.
- The Maine Quality Centers, run by the Community Colleges, helped 194 companies expand their operations.

2. Tax Reform:

While being viewed as critically important to Maine's future economic vitality, Tax Reform is the least frequently mentioned as being successful. However, a closer look at some of the major changes put in place shows some movement in the right direction.

- Business Equipment Tax Reimbursement: The BETR program was put in place in the mid-1990s to mitigate the disincentive to capital investment caused by the Personal Property Tax on Business Equipment. From the moment the program was created, capital investment skyrocketed and productivity accelerated. Since it's inception in 1996, over $7 billion in new capital investment has been installed in Maine under this program.



- Spending Cap Legislation (LD 1): Initial results show a marked and measurable slowing in the rate of increase in expenditures and significant property tax savings to individuals and businesses. According to an analysis done by the Margaret Chase Smith Policy Center, property taxes grew at only 1.7%, far below the 5% increase that had been projected. Because of the new caps, individuals are believed to have saved $65 million and businesses $10 million in 2005.

- Introduction of the Individual Income Tax: Created a more balanced tax structure and introduced progressivity to balance the far more regressive Sales and Property Taxes. In the 1980s, the highest marginal rate was reduced from 10% to 8.5%.
- Repeal of the Personal Property Tax for Certain Business Equipment: In 2006, qualifying investment in business equipment became exempt from the personal property tax.

3. Economic Development Infrastructure and Tools:

- Maine International Trade Center: Over the past 5 years, Maine exports grew to $2.3 billion and export activity supported over 25,000 jobs. Export growth since 2001 increased 27.5%, outstripping national growth by 4 percentage points. Exports as a percentage of GSP has been rising towards national rates of export activity, highlighting the fact that Maine is increasing its integration into the global economy and is taking advantage of increasing commercial opportunity abroad.
- Maine and Company: Maine and Company's business attraction efforts have been instrumental in bringing 3,000 new jobs to Maine in such businesses as T-Mobile, the Wal-Mart distribution center, Putnam Investments and Seligman Data Corp. They also co-founded and help to run the Maine Investment Exchange, connecting entrepreneurs with investors, and they field 100-200 inquiries annually from businesses who are considering re-locating or expanding to Maine.
- Maine Technology Institute: Since its inception in 1999, MTI has funded over 800 technology development projects across the state. MTI's investment of over $33 million has leveraged an additional $51 million of co-investment capital. MTI also provides specialized services to enable Maine firms to more effectively compete for Small Business Innovation Research awards and to help the state's innovative businesses move from research and development to commercialization. More recently, MTI has been asked by the Legislature to manage the Maine Marine Research Fund and to administer the Maine Biomedical Research Fund under the direction of the Maine Biomedical Research Board. These Funds have directed $48 million (mostly bond funds) to expand Maine's research infrastructure and leverage external research funding from federal and philanthropic sources.

- Pine Tree Zones: In its 2-year history, the Pine Tree Zone program has certified 8 zones, created a projected 3,200 new jobs in 71 companies across Maine, and spurred over $241 million in new investment.
- Maine Downtown Center: From 2003-2005, the investment in Maine's Main Street Maine communities has led to $23.7 million in public and private re-investment, the creation of 75 new businesses in those downtown areas, and a net gain of 456 jobs.

4. Research and Development Capacity:

Over the past decade, Maine's Legislative and Executive Branches have envisioned, embraced and embarked upon a path of creating from whole cloth an infrastructure to support Research and Development. From the leadership of the original Joint Select Committee of the Legislature on Research and Development to the vision of the authors of *30 and 1000*, R&D has become one of the major economic development strategies for Maine. As Chart 10 illustrates, this focus and investment have already moved Maine forward relative to our peers in both the region and the nation. Some of the major building blocks that have been put in place (and are described in greater detail in other parts of this report) include:

- Appointment of a Joint Select Committee on Research and Development
- Development and adoption of the *30 and 1000* report to guide the implementation of Maine's R&D strategy
- Significant State bonding commitment for R&D
- Creation of the Maine Technology Institute
- Creation and capitalization of funds to support R&D activities, including the Maine Economic Improvement Fund (for University R&D), the Bio-Medical Research Fund, the Marine Research Fund and the Small Enterprise Growth Fund
- Identification of seven targeted technology areas for focusing investment
- Development of the seven Applied Technology Development Centers (Incubators)
- Hiring of national experts to perform a 5-year evaluation of the effectiveness of Maine's R&D Programming
- Creation of the State Office of Innovation
- Development of a State Science and Technology Plan

- Formation of a Joint Select Committee on Research, Economic Development and the Innovation Economy

5. Technology Build-out in the Classroom:

- Maine Schools and Libraries Network and ATM System: Maine was the first state in the nation to have all of its schools and libraries hooked up to the internet. The current Maine School and Library Network provides free Internet service, and a connection to the Internet via a 56 Kbps frame relay or T-1 connection, to approximately 1,100 Maine schools and libraries. Maine also took advantage of the state's advanced telecommunications network and provided free interactive video (ATM) equipment to High Schools.
- Maine Learning Technology Initiative (Laptops Initiative): Maine became a national and world leader in the use of technology in the classroom when it pledged to provide every 7th and 8th grader in the state with his or her own laptop computer. Since the program began, over 36,000 laptops have been deployed. A recent evaluation of the program indicates that a large majority of Maine's middle schools have successfully implemented the laptop program and there is already substantial evidence that student learning has increased and improved.

6. Workers Compensation Reform:

From the major workers' compensation debacle of the early 1990s came the creation of the Maine Employers Mutual Insurance Company (MEMIC). The mission of MEMIC is to improve Maine's economy by providing workplace safety training services and the best workers' compensation insurance products at the lowest possible cost while promoting fair and equitable treatment of all workers.

- Since its inception in 1993, MEMIC has been instrumental in reducing workforce injuries by nearly 30% and cutting Maine's historically high workers' compensation cost by 1/3.
- The company insures more than 21,000 Maine employers and their estimated 170,000 employees.

- Since 1998, MEMIC has returned more than $59 million to its employer customers in the form of dividend and returned capital.

7. Progressive Environmental Laws:

A longstanding tradition of forward-thinking environmental laws and policies has not only cleaned Maine's environment (air, water and land) but has also helped create and maintain the Maine brand and mystique. Maine's brand is one of pristine landscapes, clean lakes and rivers, breathtakingly gorgeous ocean water-frontage, lush forests and quaint villages. Our environmental policies have been nationally acclaimed and the results of those policies have enabled us to attract tourists, retirees, entrepreneurs and creative economic ventures.

- Billboard Legislation: The first in the nation.
- Bottle Bill: Maine is currently one of only 10 states that have a bottle bill law. A U.S. EPA study shows that the ten bottle bill states recycle more tons of containers then the other 40 states combined.
- Waste Management/Recycling: According to the U.S. Environmental Protection Agency, Maine recycles 49% of its waste, making Maine the top recycler in the nation.
- Land for Maine's Future: Maine has protected over 192,000 acres (in fee and easement) in 115 projects.
- Removal of Edward's Dam: The historic removal of this hydro-electric dam on the Kennebec River led to an increase in available spawning and nursery habitat for several native anadromous fish species and opened access to several other wildlife species as well, making this an environmental recovery effort that has been recognized as being of "national significance".

C. Where We've Fallen Short – In Execution and Follow-Through

1. Failed to Articulate a Long-Term Vision

Maine has failed to articulate and adopt a clear, shared, long-term vision and to use that vision to guide all policy development.

There is a saying that goes, "If you don't know where you're going – any road will do". While this certainly is an exaggeration of the situation in Maine, over half of the Maine leaders who participated in this research noted the lack of a clear vision and a long-term strategic plan as major impediments to our economic development. Intuitively, people understand the importance of a clear vision, a thoughtful, strategic plan of action, and a determination to stay the course in successful development.

This is not to say that each Administration has not had an economic development plan. In fact, at a minimum, both the King and Baldacci Administrations have plans that have been clearly displayed and used to shape their policy agendas.

This is also not to say that the most important elements or themes of a strategic plan have not existed through the work of successive administrations. Study after study after study and the policy record of each administration have all recognized the importance of:

- Education
- Infrastructure
- Business climate
- Natural resource-based industries
- Manufacturing
- Efficiency in the delivery of government services
- Small business and entrepreneurial support and development
- Regional disparities and, more recently,
- Technology and
- International Trade

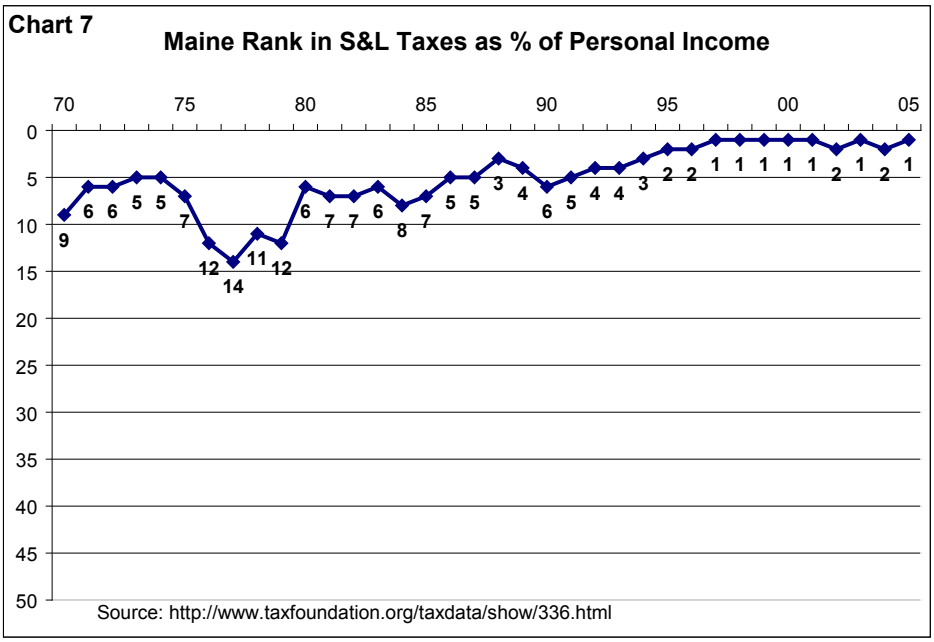
The major issue that is created by a lack of a clearly articulated, long term vision and a set of strategies for moving Maine towards that vision is that it becomes extremely difficult to set priorities and sustain the implementation of programs and policies to ensure those priorities are kept.

2. Costs of Doing Business have Risen

Maine has allowed the costs of doing business to rise, eroding its competitive advantage and undermining business investment in Maine.

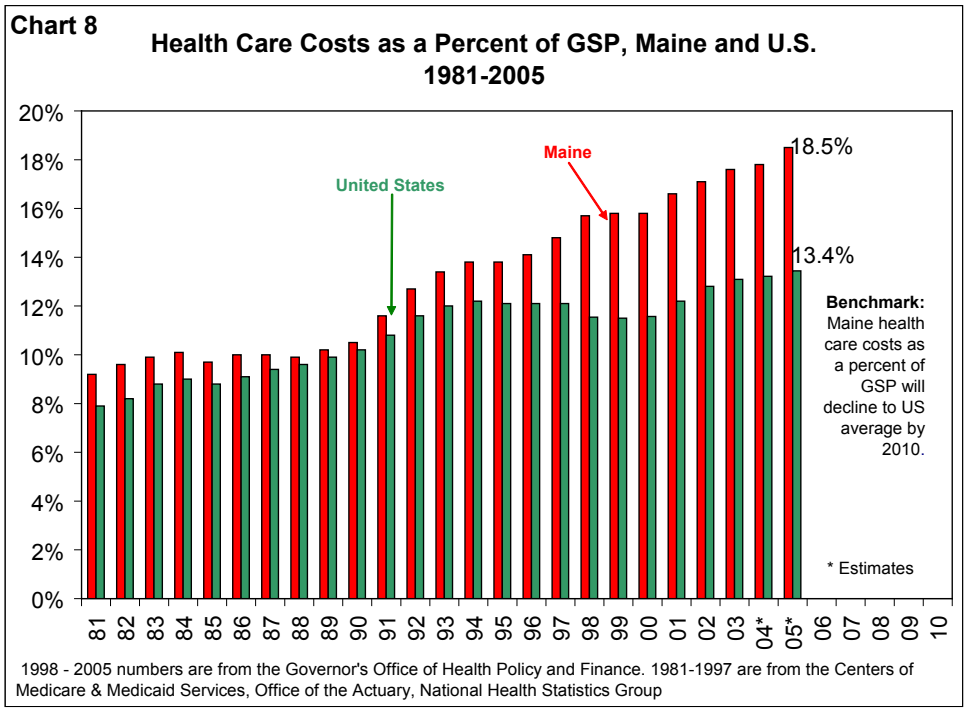
a. State and Local Tax Burden:

Over a period of 25-30 years, Maine's tax burden ranking has gradually risen from the mid-teens to highest in the country. In 2005, Maine's State and Local Tax Burden was 13% while the US average was 10.1%.



b. Health Care:

Health Care costs remained near the national averages through much of the decade of the 80s then rose dramatically, separating from national trends. By 2005, health care costs as a percent of GSP were 18.5%, while the US percentage was only 13.4%.



3. Consistently Under-funded Economic Development Initiatives

Maine has failed to commit and sustain their commitment of resources to development initiatives which has led to efforts that are either not funded, under-funded, or fully funded initially then funding dwindles or disappears through time, undermining the initiative's effectiveness.

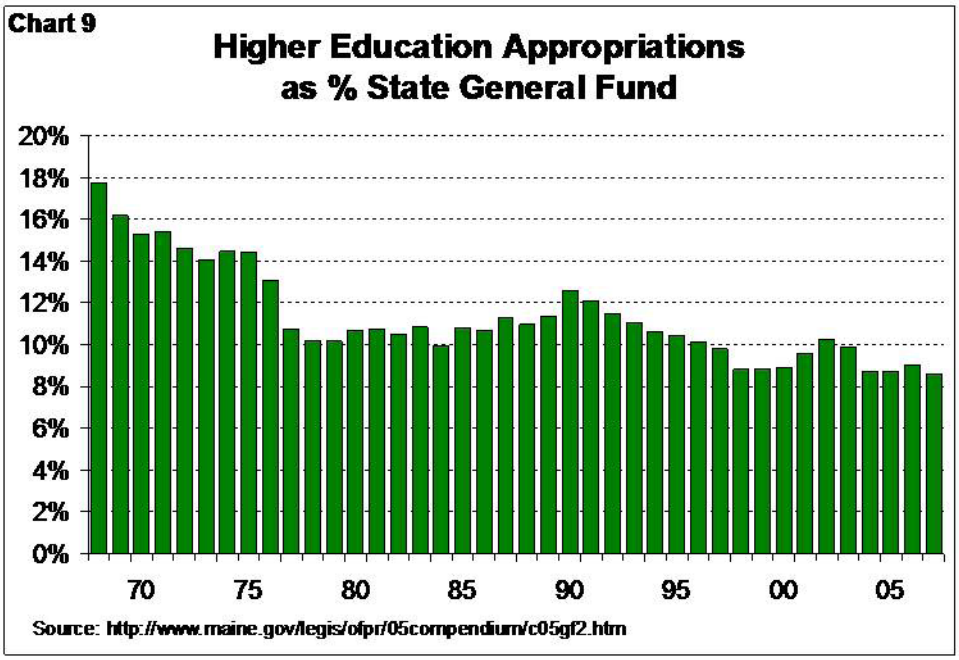
There is a long list of economic development initiatives that have or are currently struggling with lack of sufficient funding to ensure that the program not only succeeds but maximizes the return for Maine on its investment. Some examples include the following:

a. Higher Education:

Throughout the entire period of study, the importance of education has been recognized as absolutely essential in Maine's economic development. Further, as Maine has transitioned towards high-end manufacturing, value-added natural resource-based industries, and knowledge-based economic ventures, the need for post-secondary education has become increasingly critical. During the mid-nineties, State Planning Office Director Evan Richert in his report, *30 and 1,000*,

established a clear correlation between a state's post-secondary degree attainment and investment in R&D and its income levels.

And yet, as the following chart illustrates clearly, State funding of higher education (the University System, the Community College System and Maine Maritime Academy) as a percentage of overall government investment has plummeted from nearly 18% to 8%.



A closer look at funding trends in the University System shows:

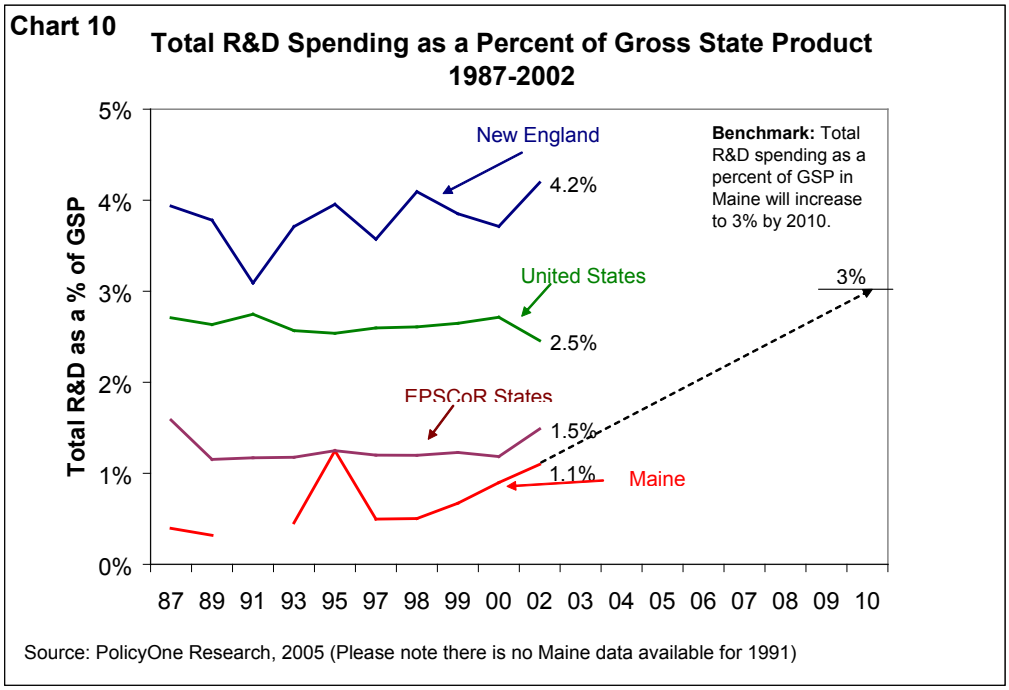
- 2007 marks the first time in the University's history that tuition and fees are equal to state funding. Fifteen years ago, the State covered 72% of the cost of a University education.
- The University of Maine's faculty salaries rank 44th in the nation, making it very hard to attract and retain teaching staff.
- The ratio of UMS tuition and fees to Maine household income has grown from 10.1% in 1996 to an estimated 14.4% in 2006 which means affordability issues are limiting access for Maine students to a college education.
- Inflation adjusted State Appropriations per FTE University student have dropped 37% since 1989.

- Although they have had to raise tuition to replace State funding, Trustees have minimized tuition increases through cost savings measures and kept growth in tuition below the national average.

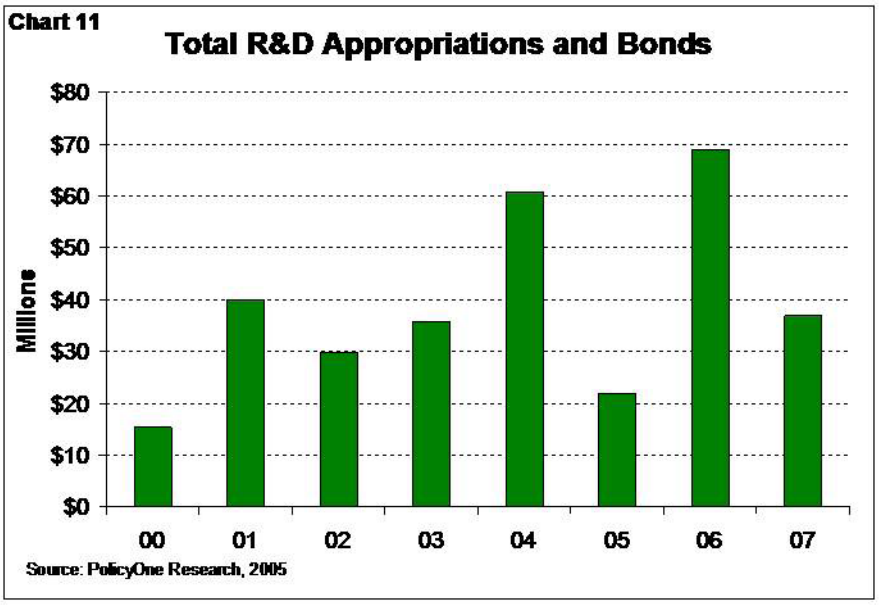
Taken together, these funding trends call into question the State's commitment to higher education and the perceived importance of a quality college education in Maine's growth and development.

b. Research and Development:

Over the past decade, Maine has actively engaged in the development of much stronger and focused R&D sector. Significant progress has been made in networking and, thereby, strengthening Maine's relative standing in this critical area of our economy. We have made great strides and are on a trajectory that would move us to the US average by 2010.



That said if we are to continue to make progress in closing the gap that separates us from the US, it is imperative that Maine's R&D investment outpace US investment for the next several years. Despite progress to date, our investment patterns have been inconsistent. Sustained investment is an essential element of ensuring success and securing the higher-value economic ventures we are seeking.



c. Economic Development Infrastructure:

During virtually every gubernatorial and legislative campaign, economic development, and more specifically jobs, is named as the number one priority. Given the stated importance, it is interesting to note the relative size of the investment in economic development infrastructure and the relative lack of a sustained commitment to maintaining that infrastructure.

i. Department of Economic and Community Development (DECD):

- DECD is the smallest department of State Government.
- Annual General Fund Appropriations to DECD consistently represent only 0.5% of total General Fund expenditures.
- State Government has roughly 15,600 employees, 42 of which are dedicated to economic development.

ii. Maine Development Foundation (MDF):

MDF was created in statute in 1978 to be an active partner with State Government in long-term economic development. It was conceived as an equal partnership between the public sector and the private sector where State government matched every private sector dollar raised up to $250,000.

- Full funding from the state existed through 1990 when MDF received a General Fund appropriation of $248,000.
- From FY91 through FY93, MDF sustained double-digit funding cuts and all funding was eliminated by FY94, thereby eliminating the "public" portion of the statutory "public-private" partnership.

iii. Maine Economic Growth Council (MEGC):

The MEGC was created in statute in the early 90s and charged with developing a vision, a long-term plan and a set of indicators to objectively assess progress towards our benchmarks and vision each year in an effort to guide and inform policy-making. The Growth Council is housed at the Maine Development Foundation to engage private and non-profit sector leaders in the long-term planning and measurement and to ensure that the annual measurement and reporting is conducted in as objective and non-partisan manner as possible.

- State funding for the core responsibilities of the Growth Council over the first two years (FY94 and FY95) was $200,000. State Government support fell through the end of the nineties, settling at $50,000 from FY99 – FY02, one-quarter of the initial level of support.
- Although the costs of developing and publishing the Council's annual report, Measures of Growth, have increased significantly, annual funding has dwindled to $38,000.
- Diminished State support has made it extremely difficult to develop new indicators, to expand measurement to regional levels, and to engage the general public in the long-term planning process that is mandated in statute.
- The Legislature did provide a one-time additional appropriation of $20,000 for FY07 to develop a couple of new indicators and additional programming and outreach.

iv. Office of Innovation:

The Office of Innovation was created to set the strategic focus for all State investments in innovative capacity and to provide a central point of contact for and coordination of the State's varied investments in research and development and technology.

- The Office was developed with no money to fund the execution of its critical mission.

v. Business Attraction – Maine and Company:

- Maine and Company was founded in 1995 by a small group of leading business leaders (utilities, banks and developers, etc.) to serve the economic development function of business attraction.
- Given the highly competitive business attraction arena and the importance of attraction as one element of economic development, many states provide sustained and significant funding to their attraction efforts.
- In 6 of the past 11 years, Maine and Company has received some level of State support. In FY97 and FY98, the State contributed under $30,000 annually. Support jumped to $350,000 in FY99 and dwindled to $250,000 in FY02. From FY03 on, Maine and Company has received little or no State support.
- By comparison, the State recognizes the importance of investing in Tourism attraction, investing $7.5 million annually.
- Lack of State funding puts Maine and Company at a distinct disadvantage as at least some portion of the Director's time must be devoted to fund raising rather than business attraction. In addition, State support of business attraction is perceived by businesses as a sign of "business friendliness". Thus, a lack of State support can send a negative signal to those thinking of investing in Maine.
- Maine and Company currently has only 2.8 positions to conduct this outreach, down one position due to the loss of the marketing director's position.

vi. International Trade – Maine International Trade Center (MITC):

- Maine World Trade Association was created in FY91 and funded at a high of $175,000.
- Maine World Trade sustained annual cuts through FY97, when it was placed in the newly created Maine International Trade Center.
- MITC was established in 1995 and received $380,000 in state funding beginning in FY97.
- $75,000 was added to MITC's appropriation to open a new office in Bangor.

- $75,000 was added to MITC's appropriation to open a new office in Lewiston.
- Base funding to MITC for the main office and operations in Portland has been cut 13% from FY97 funding levels.
- Since 2001, State support has been cut $55,000 while costs have risen $160,000 (healthcare, salaries and rent)

vii. Downtown Revitalization – Maine Downtown Center:

Maine Downtown Center was created in statute in 1999 to partner with DECD and SPO in downtown revitalization.

- The Center was funded through the General Fund at the $100,000 level in 2001, and received another $100,000 in Smart Growth funds from the State Planning Office in 2002.
- In 2003, the General Fund appropriation disappeared but the State Planning Office "passed the hat" to other state agencies which have an interest in small business development and in fighting sprawling patterns of development.
- MDC funding is now at 50% of its original level of state support with no guaranteed state support budgeted for the upcoming year.
- In FY07, a one-time appropriation of $75,000 was provided by the Legislature to partially re-capitalize the Maine Downtown Center.

d. Transportation Infrastructure:

Transportation infrastructure is one of the most critical, foundational elements of economic development. A July 2005 report of the Maine Better Transportation Association entitled "Losing Ground" provides an extremely sobering narrative on years of underinvestment. Some of the major findings in this report include:

- Despite the fact that the number of registered vehicles in Maine has nearly tripled, the vehicle miles traveled has doubled and the percentage of Maine's freight that is now carried over our roads has grown to 87%, State Highway Fund revenues as a percentage of total State revenues declined from 26% in 1975 to 11% in 2003.

- Page 6 of the report notes that "nearly 4,000 miles of state roads have yet to be rehabilitated to modern day standards" and "2,000 miles of road have to be posted each year to restrict weight allowances".
- The report goes on to explain that of the State's "2,741 bridges exclusively under MDOT jurisdiction, 1,048 are older than 50 years". In addition, "the federal government has rated 35% of Maine's bridges as eligible for federal aid for rehabilitation or replacement because of their deteriorated condition".
- Inadequate investment in roads and bridges also creates enormous public safety issues and costs. Page 9 of the report cites "Maine had the second highest percentage of fatalities in the nation on rural, non-interstate routes", suggesting a high price is being paid for our failure to adequately invest in upgrades of our rural roadways.

e. Regionalization:

In 2004, the State established a $1 million grant program for municipalities to explore the potential for regionalizing services. The regionalization fund was supposed to be replenished annually starting in FY06 at the level of 2% of Municipal Revenue Sharing (or roughly $2 million annually).

- No funds were budgeted for FY06 to fulfill the mandate of encouraging the efficient delivery of government services passed into law through the referendum process. $500,000 has been built into the supplemental budget for FY07, one quarter of the level of incentive voted into law two years ago.

f. Pine Tree Zones:

The Pine Tree Zone program provides an array of tax incentives to promote business investment and jobs in Maine's economically challenged areas.

- While this program has certainly been successful in encouraging investment and it provides great potential to spur further investment, there have been absolutely no marketing dollars provided to fund critical outreach. With appropriate marketing and outreach funding, even greater success could be expected.

g. Major Economic Development Initiatives:

Three Major Economic Development Initiatives currently have no state funding:

- Realize!Maine – focused on attraction and retention of young, working aged adults.
- Natural Resource-Based Industries Advisory Council
- Creative Economy Advisory Council

4. Spread Limited Economic Development Resources Too Thin

In an effort to be fair, Maine has spread its limited economic development resources too thin, rendering the investment ineffective. Geographic equity has influenced investment decisions.

a. Applied Technology Development Centers:

The Applied Technology Development Centers (Incubators) were created in 2001 with Stare funding of $5.5 million. The State chose a strategy of investing in bricks and mortar rather than investing sufficiently in the ongoing operations to ensure survival and success.

- Annual funding has vacillated between $83,000 and $550,000 to support the operations of 7 centers.
- Incubator directors have been placed in an untenable situation – expected to provide business counseling, operate the physical space, and raise funds to support their own jobs and develop the incubators.
- This model demands the skills and efforts of 3 well-paid individuals and the state is investing in, at most, one-half to a full position. It is an unsustainable model.
- Rather than targeting this investment strategically by building 2 or 3 centers in areas that promised the greatest results in terms of creating clusters of like business entities who could support each other's work, the State chose to invest in the build out of 7 centers (twice as many as could be reasonably supported) spread across the state.
- An objective 5-year evaluation of the success of these centers is due out this fall. A more subjective review suggests that, despite limited and varying

levels of funding, at least four of the seven centers are experiencing some success in the development of technology-based business ventures. Another two of the centers are successful incubators and very important to regional development but are not truly incubating "technology-based" companies as was originally intended. The seventh center faces great challenges. While its state-of-the-art facilities are located adjacent to a Community College campus, limited operational funding along with the fact that the center is not in close proximity to either a University campus or private entities in this targeted technology sector, makes it extremely challenging to ensure ongoing viability.

b. Economic Development Infrastructure:

For a small state with limited economic development dollars, Maine has a large number of relatively small, autonomous economic development organizations. Some believe that if the resources put towards the many varied efforts were amassed and coordinated and all working together towards the same end, Maine could compete much more effectively and efficiently in the highly competitive development arena.

- There are 5 Federal economic development entities with offices in Maine.
- In addition to the State's Department of Economic and Community Development which has roughly 42 employees, 8 of whom are business development specialists, there are a number of statewide entities that deliver economic development services of some form, including the Departments of Agriculture, Marine Resources, Transportation and Conservation, as well as the Finance Authority of Maine, Maine State Housing Authority, the Maine International Trade Center, and Maine and Company.
- There are 11 regional organizations (Council of Governments, Regional Planning Commissions or County Development Offices).
- There are at least 43 municipalities that appear to have economic development staff.
- There is a State Chamber and 66 local Chambers of Commerce.
- There are other economic development entities such as the Maine Development Foundation, Coastal Enterprises, Inc., Cooperative Extension, and Women, Work and Community just to name a few.

5. Undercapitalized Economic Development Financing Infrastructure

Perhaps as a result of both our lack of vision and strategic focus and our propensity to spread limited resources too thin, Maine has developed a number of extremely promising financing programs to spur development but has under-capitalized each to a degree that their full potential benefit is not achieved.

In the mid 1990s, the Legislative Joint Standing Committee on Research and Development did a tremendous amount of very thoughtful research as to how Maine's R&D efforts should be structured to provide the maximum effect given our relatively small size and limited resources. Their research recommended a two-pronged investment approach that, ultimately, led to the development of the Maine Technology Institute and the Maine Economic Improvement Fund.

a. Maine Technology Institute:

MTI was established in 1999 to spur private sector research and development activity, with a particular focus on commercialization.

- During the planning of MTI in the late 1990s, the AAAS determined that the organization should be funded with approximately $10 million annually to optimally fulfill its mission.
- MTI's budget allocation has leveled out to its current level of $5.48 million, approximately half of the recommended level.
- At a recent meeting of the Joint Select Committee on Research, Economic Development and the Innovation Economy, Evan Richert, a former King Administration official and author of the original *30 and 1000* report, updated his calculations from the 1990s and noted that MTI should be funded at a level of $15 million in FY2007.

b. Maine Economic Improvement Fund (MEIF):

Through the MEIF, State research and development dollars are targeted to the University to support research activities at both the University of Maine and the University of Southern Maine.

- Extensive research with AAAS determined that a $20 million State investment would be appropriate for this fund.
- The MEIF is currently funded at the $10 - $12 million level.

c. Small Enterprise Growth Fund (SEGF):

Because Maine's small businesses have limited access to venture capital, this fund was established through bond monies and originally placed in the Finance Authority of Maine to be administered. The SEGF, which invests in small Maine companies with the potential for high growth and public benefit, is now run by an independent board and has invested in 29 companies since 1998.

- A total of $9 million has been put into this fund over time ($5 million in 1996, $3 million in 1998 and $1 million this year) and it has been successful in spurring business investment and in attracting other venture capital monies to Maine.
- Although this was set up to be self-sustaining, research of similar funds across the nation shows that this fund can not be fully effective for less than $20 million, thus this fund is not fully achieving its potential benefit to Maine's small business.

d. Marine Research Fund:

This fund was established in 2002 to promote research and development of one of Maine's traditional natural resource-based industries.

- The fund appears to be successful in its set-up and operating structure but was not established with sufficient capital to operate at the appropriate scale.
- While experts suggest that a $20 million capitalization level would be needed to make this program run optimally, the fund was started with only $1 million and just recently received an infusion of an additional $4 million.

e. Finance Authority of Maine (FAME):

FAME has 2 major functions to play in supporting the development of Maine businesses:

- Insurance - The first function is to provide insurance to secure loans that are a bit too risky for traditional banking. FAME will insure up to 90% of a bank's potential loss on a risky loan. Given FAME's policy to commit no more than 15% of its capital to any one deal, the fact that FAME currently has only $25 million in capital for this purpose limits both the size and number of businesses that it can support.
- Direct Loans – The second function is to provide direct loans to business ventures. FAME's Economic Recovery Loan Program was originally capitalized with $12-$13 million, but is now at one-half that level. With limited capital available (now roughly $6 million) and a maximum of $1 million per loan, FAME is very limited in the scope of lending it can provide.
- FAME is viewed by some as being too conservative in its investments, however, the fact that it has only $31 million in available resources begs the question of how much risk they can afford to take. If FAME's programs were provided with more capital, they would be able to support more and larger business development and expansion activity.

f. Maine Rural Development Authority:

The Maine Rural Development Authority was created to provide critical infrastructure investment in rural Maine.

- Whereas the original proposal to develop the Authority had recommended that a fund be established with $12 - $15 million, only $6 million was approved.
- The fund has been largely depleted and, with the current proposals under consideration, the fund is down to approximately a half million dollars. This is a fraction of the recommended level and too small to effectively serve the Authority's purpose.

6. Analysis Paralysis

Maine suffers from analysis paralysis, commissioning numerous economic development policy studies that identify similar opportunities and barriers then failing to act on the findings

a. Tax Reform:

As is probably the case in most states, there is no topic that has received more attention in the economic development arena than tax reform. Interestingly, while Maine's tax burden has not always been in the top 5, the issue of tax reform has, topping all economic development issues lists for the past several decades as evidenced by the number of studies commissioned to change our structure. In a list compiled in 2004 by the Maine State Law and Legislative Reference Library, 51 studies have been conducted since 1960 on some element of Maine's tax structure, and this does not include the many more "informal" studies on this topic over the years prepared by chambers of commerce and other economic development organizations.

Despite a tremendous amount of research and energy around the topic of tax reform, the last major change to Maine's tax structure occurred in the early 1970s with the creation of a State Income Tax, which is now a close second to the property tax as a revenue generator. This is not to suggest that no reform has taken place over the past 35 years, in fact a number of programs have been put in place such as the Business Equipment Tax Reimbursement program, the Circuit Breaker program, the Homestead Exemption, spending caps on all layers of government and, most recently, through the phase-out of the Personal Property Tax on Business Equipment. It's just that the changes that have been put in place, while important, have not, for the most part, dramatically altered the underlying structure nor have they fully or permanently addressed the areas of major concern. Concerns about overall tax burden, property tax burden, a volatile tax structure, a narrow sales tax base, inability to assess local option taxes, adequately providing relief to low-income residents, and the like have been discussed at length by virtually every administration and legislature and yet bold reform has been elusive.

b. Business Climate

In addition to the more specific study of tax reform, which is certainly included in business climate concerns, general business climate studies have been done every 3-4 years over the past two decades. A number of nationally known business climate rankings are frequently fuel for the fires of reform as well.

c. Regional Disparities: Development of the Washington County Economy

Maine people and the policymakers they elect have demonstrated time and time again their major concern for addressing the disparity of economic vitality across the state. Equity of opportunity has long driven the way we invest in k-12 education, post-secondary education, economic development incentives, public services and infrastructure investments. Washington County's plight, alone, has been examined in at least a dozen major studies over the period and has been listed by every Administration that served as being a top priority. Most recently (2005), Governor John Baldacci charged David Flanagan with developing a strategy for Washington County's economic advancement.

d. East-West Highway

The potential construction of an East-West Highway to connect and enhance the flow of commerce across Maine to markets to our east, such as St. John, New Brunswick and Halifax, Nova Scotia, and markets to our west such as Montreal, Albany and Detroit, has long been studied. At least a half- dozen studies have been undertaken and another major research effort in currently underway.

VI. Conclusions

A review of Maine's economic condition, policies and leaders over the past 30-35 year period reveals the following:

Maine's economy has slowly evolved to a higher economic plateau by most general economic measures. Employment is at an historic high, per capita income levels in Maine are significantly closer to the national average than they were through the 1970s, both statewide and regional unemployment levels have come down through the decades and have fallen below national levels for much of the past 20 years.

Persistent regional economic disparities and an accelerated pace of economic churning have left Mainers uneasy about Maine's current condition and future prospects and have created discontent with our state's political leaders and policies. Despite the measured improvement in general economic conditions, the disparity in economic vibrancy across the regions of Maine continues to

challenge state leadership. In addition, the ongoing transformation of Maine's economic base creates economic disruption and displacement, particularly in our more rural areas where job opportunities are less robust. In order to attain the vision of "A High Quality of Life for All Maine Citizens", we must continue to work towards creating economic opportunity for young and old, male and female, across the entire state.

Maine has had bold, visionary leaders. Throughout this time period, Maine's political leaders have, individually, articulated a similar vision for the future, one that capitalizes on the state's greatest assets – the entrepreneurial spirit and unparalleled work ethic of our people and our vast natural resources.

Maine has had numerous bold, innovative ideas and development strategies. In both the economic development and the environmental arenas, Maine has implemented a number of cutting-edge, visionary policies that have, ultimately, led to improved economic conditions and have laid a foundation for future growth and prosperity.

Maine has limited its relative success by failing to develop a long-term, broad economic development framework with consistent, sustained strategies. Because economic development efforts have been primarily led by government without the full and sustained engagement of the private sector in guiding and implementing economic development policy, priorities have tended to change every 4-8 years, initiatives have not always transcended Administrations, the focus on has been more on equity rather than cost effectiveness (ROI), and we have been less nimble in responding to economic change.

The very same deeply held values that make Mainer's unique and wonderful have shaped public policy in a manner that has increased public expenses and muted long-term economic investment and growth.

- Our independence and self-reliance have led us to create and sustain many relatively small governmental and quasi-governmental units dispersed across Maine's large geography. While each operates in a frugal and responsible manner, as a system we do not have the opportunities to benefit from a larger scale of operations and, therefore, overall costs tend to be higher.

- Our strongly-held values of equity and fairness have, at times, led to a propensity to spread investments across sectors or geographies rather than focusing our limited development resources on the area, program or sector with the highest economic return or likelihood of success.
- Our frugality has, at times, limited our ability to realize the full potential of our initiatives as we have under-funded and under-capitalized numerous programs.
- Our naturally humble approach and tendency to understate our success and our worth have tended to hold us back from consistently and unashamedly marketing Maine as a great place to live, work and prosper.

A special thanks to our Champion Circle members:

MAINE DEVELOPMENT FOUNDATION
295 Water Street, Suite 5
Augusta, Maine 04330
T: 207-622-6345 F: 207-622-6346
www.mdf.org Email: mdf@mdf.org