

EXECUTIVE SUMMARY

For all its challenges Maine stands within reach of a new prosperity—if it takes bold action and focuses its limited resources on a few critical investments.

The moment is urgent. After decades of industrial restructuring and drift, the pace of transformation is quickening, and the slow replacement of the old order is yielding a new one that may bring better lives for Mainers.

New population growth is bringing new people and new wealth to the state.

The ongoing and still painful shift to a more diversified service-oriented economy means that the state has less to lose in the future and more to gain. And for that matter, population growth is in some cases restoring life to towns and regional centers that have been sagging for decades.

Moreover, the wheel may now be turning in Maine's direction. As the search for quality places grows in importance, Maine possesses a globally known "brand" built on images of livable communities, stunning scenery, and great recreational opportunities. Likewise, as "innovation" drives more of the economy, Maine's reputation for Yankee ingenuity and resourcefulness matters more. On several counts, in short, Maine is surprisingly well-positioned for the future.

And yet, for all that, Maine's future success is by no means assured.

Workers see quality jobs—their own and others'—being replaced with lower-paying ones yet often lack the skills or opportunity to trade back up. Policymakers tout the promise of Maine's traditional and high-tech industry clusters, but meanwhile the hoped-for future of plentiful, good-paying new jobs seems to come too slowly—especially in rural areas. And all the while unplanned, haphazard suburban development rushes along too fast, in many places taking something away—a cherished woodlot or open field, a favorite point of water access for fly-fishing, the way a certain small town felt.

Adding to these complaints are the state's high taxes, ongoing fiscal challenges, and continued partisan bickering over

such issues as the efficiency of state and local government and the direction of state economic policy.

In sum, a state with much promise seems stuck: surprisingly pessimistic about its future, aware that great change is

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upon it, but fearful that it isn't adapting as well as it needs to.

This report takes the measure of this moment. Sponsored by GrowSmart Maine and funded by a wide array of Maine foundations, businesses, conservation groups, and private citizens, "**Charting Maine's Future: An Action Plan for Promoting Sustainable Prosperity and Quality Places,**" assesses the current state of the state and suggests a route forward.

More specifically, the analysis offers the state a unifying view of its situation followed by a focused agenda for state-level policy reform aimed at promoting a new era of "sustainable prosperity" in Maine.

In that vein, the pages that follow draw a number of conclusions about the state:

1. Maine is changing in dramatic, sometimes surprising ways. In this respect, Maine's current demographic, economic, and development trends describe a state in the midst of significant transformation. These dynamics confirm that Maine is neither what it once was nor quite what it thinks it is:

- **Once stagnant, Maine's population is growing again.** In the standard view (which has some truth to it), Maine is an aging state that almost always grows slower than the rest of the country and New England. And it's true that Maine's population virtually stopped growing in the 1990s while the number of 25- to 34-year-olds residing in Maine has continued to decline. However, a closer look reveals that Maine is now experiencing a significant increase in population growth. Since 2000, the state's annualized growth rate has nearly doubled, jumping 20 places from 46th in the 1990s to 26th since 2000—by far the biggest acceleration among the 50 states. Driving this growth, meanwhile, has been the nation's fifth-highest domestic in-migration rate since 2000. Every county in Maine witnessed net gains of transplants from outside the state between 2000 and 2004, and because of that Maine is now growing faster than all other New England states except New Hampshire. Every major region is now participating in the growth. Two positive results of this acceleration include the arrival of newcomers with relatively higher household incomes, and the attraction of more young adults to the state. A more troubling related development has been rapid home-price appreciation, especially along the coast and in Southern Maine
- **Once based on goods production and natural resources industries, Maine is becoming a diverse, innovation-oriented services economy.** On the economy, the conventional wisdom assumes Maine is in crisis because its fortunes revolve around manufacturing and natural resource-based industries that are now collapsing. And it's true enough that manufacturing and natural resources industries continue to shed significant numbers of jobs. However, a closer look confirms that Maine outperformed the nation on job creation during the last economic cycle, and now enjoys a per capita income at a 50-year high compared to the U.S. average. Shaping all of this, meanwhile, is a dramatic and ongoing restructuring of the economy that has seen Maine's goods-production "super sector" shrink to essentially the same size of

the nation's as a share of employment even as its consumer and business-services sectors have grown. Also shaping Maine's fortunes is the increased organization of key industry "clusters"—groups of interrelated or similar firms in "traded" (or export) sectors such as boat-building, forest industries, information technology, biotechnology, tourism, or agriculture whose success or failure at innovation will determine the state's ability to produce greater numbers of higher-quality jobs over the long haul. These shifts have together allowed the state to add jobs even as traditional industries contracted. But they have so far resulted in modest pay increases (especially in rural Maine). The reason: Many high-paying manufacturing and forest jobs have been replaced by lower-paying consumer services positions given that massive job growth has yet to emerge in good-paying "export" clusters or the professional services sector

- **Once mostly rural, Maine is suburbanizing.** Finally, the conventional view of Maine's development status also needs revising. In the conventional wisdom, Maine remains overwhelmingly rural—a "place apart" from the vast waves of development sweeping much of the Atlantic Coast. However, the standard view does not account for the fact that more than 65 percent of the state—more than 860,000 Mainers—now lives in the 164 towns that comprise Maine's more-populated metropolitan and "micropolitan" areas. Within and beyond this populous metropolitan zone, moreover, dispersed, low-density suburban-style development has become the state's dominant settlement pattern. Overall, just 23 percent of Maine's post-2000 population growth has occurred in regional hub towns. By contrast, 77 percent of recent growth has taken place in surrounding towns, newer emerging towns, and rural areas distant from traditional centers. As a result, the state is converting extraordinary quantities of rural fields and woodlots to residential uses. From 1980 to 2000, for example, Mainers altered the character of 869,000 acres, or more than 1,300 square miles, of rural land—a territory roughly the size of Rhode Island. In the 1990s only Virginia lost a greater share of its rural land than Maine as every region consumed rural territory

2. These changes have brought some benefits to the state—but on balance they pose serious challenges.

These challenges represent urgent problems as the state strives to usher in sustainable growth:

- **Demographic change is raising education levels and may be replenishing the workforce . . . However, many workers remain unprepared for tomorrow's jobs.** In this regard, recent gains in in-migration and higher-education attainment do not change the fact that Maine's aging population includes too few young workers and too few highly skilled or educated people. In the near term, these factors are producing both labor shortages in some areas and low pay for many as more of the best jobs require higher skill levels. Going forward, continuing shortcomings in the size and skill levels of Maine's workforce could complicate efforts to upgrade the state's economy and improve the livelihoods it provides to Maine workers

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- **Economic restructuring is producing quality jobs in emerging innovation clusters . . . However, these clusters remain very small.** On this front, too, the continued progress of Maine's traditional and emerging export sectors and clusters cannot obscure the fact that these industries lack critical mass and are not yet generating large volumes of jobs. To be sure, Maine's more traditional export industries—tourism, healthcare, non-store retailing, and finance and insurance—all slightly outperformed their national counterparts between 2000 and 2004 in terms of job creation. Moreover, this growth and growth in other innovation clusters like boat-building, advanced materials, and biotechnology is producing jobs that pay more than the state average. And yet, despite these gains, many of Maine's most important industry sectors and clusters remain modest in size, populated by few companies, and sometimes very loosely organized. This "thinness" across Maine's most promising sources of good-paying future growth limits the state's prospects for economic progress

- **Recent development patterns are beginning to give some cities and towns new life . . . However, suburbanization is increasing government costs and degrading the state's small towns and environment—its true "brand."** The good news here is that the state's overall quickening growth has brought new population to many of the state's traditional regional hubs—many of which were losing population in the 1990s. But for all that, widespread suburbanization and sprawl are driving up costs and may well be damaging the state's top calling card—its scenic beauty, the feel of its towns, its quality of place. On the cost side, the state's sprawling development patterns necessitated the construction of

more than one dozen new schools statewide in the last decade at a cost of \$200 million—more than one-quarter of the state's total school-capital outlay. Additional costs are being imposed on once-rural towns as new growth requires them to provide more expensive suburban-type services and on households forced to drive farther out to find an affordable home. But what matters even more than these costs is the fact that Maine's development patterns are undermining the state's alluring brand, so important to its current and future economy. Crucial to this brand is the integrity of Maine's distinctive towns and villages and the stunning natural areas that lie between them. Unfortunately, far-flung, often-haphazard residential development is more and more blurring those crisp scenes as it impinges on forests, fields, and waterfronts all around the state

Maine is changing in dramatic, unexpected ways, generating both opportunities and anxiety

20	Number of places Maine moved up in its population growth rank since 2000. Maine's jump from 46th to 26th was the biggest turnaround in the nation
5th	Maine's rank on the rate of per-capita net domestic in-migration since 2000. Only Nevada, Arizona, Florida, and Idaho outpaced Maine's growth on this measure
32,000	Net number of migrants who moved to Maine from out-of-state between 1999 and 2004. More than half of the new residents came from Massachusetts and New Hampshire
12 percent	Share of Maine employment in goods production. That share is almost exactly the same as the national share
21 percent	Total share of Maine's employment in consumer services. That share exceeds the U.S. average by 6 percent
\$13,000	Difference in average annual wages between higher-paying business services jobs and the average Maine wage
91 percent	Maine's 2004 per-capita income as a percentage of the U.S. average. This matches the state's 50-year high
\$300,000	Median home sale price exceeded by 17 towns in Maine in 2005. Only one town reached this mark in 2000
77 percent	Percent of population growth between 2000 and 2005 that occurred outside of Maine's regional hubs
869,000	Number of acres converted from rural to suburban use between 1980 and 2000
2nd	Maine's rank among states on the loss in share of rural land in the 1990s. Only Virginia converted a larger share of its rural land
\$200 million	Cost of 13 new schools built between 1995 and 2005 in response to population dispersal
7th	Maine's rank on K–12 expenditure as a share of total personal income
11.1	Number of teachers for every school or district administrator in Maine. The state's administrator-to-teacher ratio is ninth-highest in the country
48 percent	Average property tax rate differential between higher-tax regional hubs and fast-growing emerging communities in 2003

Source: Brookings analysis of data from: U.S. Census Bureau; Internal Revenue Service; Bureau of Labor Statistics; Bureau of Economic Analysis; Maine State Housing Authority; National Center for Education Statistics; David Theobald, Colorado State University; Philip Trostel, Margaret Chase Smith Policy Center, University of Maine; Matthew Murray, University of Tennessee at Knoxville

3. Exacerbating these problems are at least three serious state-level policy challenges. In each case, shortcomings of state policy—accumulated over many years—must be counted either indifferent or negative influences on the state's chances of shaping a new era of “sustainable prosperity.”

- **An inconsistent economic-development stance over many years has weakened the state's efforts to improve its economy.** Maine has had no shortage of thoughtful leaders and bold ideas on economic development over the years. However, the state has frequently failed to stick to and sustain its ideas, with the predictable result that it has undercut the effectiveness of numerous intelligent but under- or un-funded initiatives that might have otherwise made a larger difference. In this respect, numerous state or quasi-public institutions intended to promote economic development remain small or under-funded, while other promising innovation- and development-finance programs and funds have been under-capitalized. This short-funding has limited the

impact of otherwise valid efforts to grow the state's small economy and enlarge “thin” export and innovation clusters

- **Maine's often-high costs of government and the unbalanced revenue system that supports them hinder the state's ability to promote sustainable prosperity.** On the spending side, Maine's unusually high expenditures on a number of state-level administrative functions as well as on K–12 education are likely squeezing out necessary spending in other areas even as they contribute to high taxes. (For its part, local government appears rather frugal by comparison to national and rural-state norms, though this may be because peer states rely more heavily on county governments that have wider responsibilities. In any case, it is noteworthy that municipal spending on services like police and fire goes up sharply in rapidly suburbanizing areas like Southern Maine—an indication that as sprawl forces growing towns to convert from mostly volunteer to mostly paid staffs the costs of redundant small governments goes up.) On the revenue side, meanwhile, Maine's high state-local

tax burdens and how they fall on various taxpayers may well be contributing to negative economic and land-use outcomes. High overall burdens, the second-highest property taxes in the nation, and the state's low thresholds for its very high personal income tax top rate all may well be sending negative signals to workers, entrepreneurs, and retirees about the state as a place in which to live and do business. Likewise, the wide 48-percent differential between the average property tax rates in regional-hub communities and those in outlying emerging communities serves a significant added spur to sprawl

- **Barriers to development in traditional regional hubs combined with weak local and regional growth management are eroding the state's unique character and contributing to sprawl.** On the one hand, Maine's convoluted state and local construction rules combined with the absence of significant catalyzing investment serve to discourage development in older places and discourage the reuse of historic structures. Along these lines, Maine's crazy-quilt of differing local and state building-code regimes, the orientation of most codes toward new construction, and the variable quality of code interpretation virtually guarantee that most development veers away from the state's traditional centers. It does not help that key state programs aimed at spurring redevelopment are grossly under-funded. On the other hand, Maine's ineffective state and local planning system leaves most Maine localities unable to manage growth and vulnerable to region-scaled sprawl. In this respect, the combination of Maine's intensely localistic planning system and the absence of sufficient support and incentives for municipal and regional planning efforts has left most Maine towns and regions susceptible to sprawl that further weakens town centers and degrades rural landscapes

4. Given these challenges, finally, Maine must seize this moment to make urgent investments in its future that will enhance its distinctive strengths. To guide these investments, "Charting Maine's Future" proposes—and suggests how to pay for—the following "Action Plan for Promoting Sustainable Prosperity in Maine." Three major strategies, each encompassing a number of initiatives, are crucial:

Invest in a place-based, innovation-focused economy.

To foster economic growth, Maine should adopt a two-pronged investment strategy focused both on protecting and enhancing the state's quality of place and spurring business innovation by supporting the emergence of new ideas and vibrant industrial clusters.

To that end we recommend that Maine:

- Establish a \$190-million **Maine Quality Places Fund** to promote the revitalization of Maine's towns and cities; augment land and farm conservation; protect traditional uses of and access to Maine forests, farms, and lakes; and promote high-quality tourism and outdoor recreation given their importance to Maine's economic well-being. The fund could be financed as a revenue bond supported by a 3-percent hike in the state's lodging tax, which is primarily paid by Maine visitors
- Support a \$200-million **Maine Innovation Jobs Fund**, \$180 million of which should support job-creating R&D in promising scientific and technical disciplines, while another \$20 million goes to a new **Maine Cluster Development Fund** to foster the business-led partnerships that catalyze cluster-based job creation through collaborative work on key challenges like workforce development and marketing. Both of these funds would be financed by government efficiency savings located by the Maine Government Efficiency Commission (described below). Candidate areas for investment include:
 - forest products
 - agriculture, organic farming, and specialty foods
 - coldwater aquaculture
 - marine research
 - information technology
 - biotech
 - toxicology
 - advanced composite materials
 - outdoor recreation and tourism

Trim government to invest in Maine's economy and finance tax reduction.

To redirect scarce resources toward the investments it needs to make, Maine should seek cost savings in state and local government that can be applied either to financing the Maine Innovation Jobs Fund and the Cluster Development Fund or tax reduction. Here, Maine should adopt a high-level business plan that demands hard-nosed cost-cutting as well as determined investment.

On the spending side we recommend that Maine:

- Establish a **Maine Government Efficiency Commission** to propose specific reforms to produce between \$60 and \$100 million a year in cost savings in state government through the elimination of structural redundancies and excess administrative overhead. The recommendations would be subject to an up-or-down vote by the Maine Legislature within a specified time period. Savings should be applied entirely to investments in future prosperity and tax reductions
- Fully fund and enlarge the **Fund for the Efficient Delivery of Education Services** to promote voluntary collaborations between schools and districts to reduce K–12 costs
- Reduce its **K–12 administrative expenditures** to the vicinity of the national average of \$195 per pupil, and so save about \$25 million a year
- Appoint a high-level **school district reorganization committee** to substantially reduce the number of school administrative units
- Develop the state’s first-ever state **school capital plan** to ensure that the state’s future investments in construction and renovation are made rationally
- Fully fund and enlarge the **Fund for the Efficient Delivery of Local and Regional Services** to promote voluntary collaborations to reduce service costs
- Support one or two major **pilots in regionalized service delivery** to explore and showcase far-reaching efforts at multi-municipal reorganization and cost reduction. The pilots can be funded by \$1 or \$2 million a year gleaned from the Government Efficiency Commission’s work

On the revenue side we recommend that the state:

- Apply to **property and income-tax reductions** any state-government spending savings located by the efficiency commission that exceed the \$27 million needed to support the innovation and cluster funds as well as the local government pilots. Tax reductions might include, in order of priority:
 - reimbursements to towns with large amounts of tax-exempt property
 - extensions of the homestead and circuit-breaker programs
 - increases in the state’s low threshold for its top income-tax rate
 - reductions in the top income-tax rate
- Explore ways to **“export” tax burdens** onto Maine visitors and non-resident second-home owners



Support the revitalization of Maine’s towns and cities while channeling growth. Finally, Maine needs to tend to how its rules and policies shape communities. To accomplish this, the state should support its investments in place-making by making development easier in its traditional towns and cities and fostering improved local and regional planning.

Concerning redevelopment and revitalization, we recommend that Maine:

- Perfect and champion the state’s **new model building and rehabilitation codes**; support their wide adoption with technical assistance, training, and outreach; and campaign over time for code uniformity
- Create and disseminate as a local option a new **model zoning ordinance** specifically designed to complement and enhance the special value of Maine’s historic, densely built, traditional centers
- Better **fund and use existing revitalization and redevelopment-oriented programs and organizations.**

Three programs in need of bolstering are the Municipal Investment Trust Fund (MITF), the Maine Downtown Center (MDC), and the state’s historic preservation tax credit. Most critically, MITF should garner \$90 million from the Maine Quality Places Fund to support matched grants to communities for catalytic investments in downtown-type infrastructure projects—riverfront parks, sidewalks, public reconstruction projects

Concerning local and regional planning we recommend that Maine:

- Provide substantial new **visioning and planning resources** to individual towns to help them reach consensus on how they wish to grow, and then implement their vision with ordinances. Funding for these and other planning activities could come from a new **Maine Community Enhancement Fund**, supported by a reasonable \$20 increase in deed recordation fees
- Foster much more **regional planning** by providing grants from the Community Enhancement Fund to groups of towns that agree to plan together. Even bolder collaboration could be encouraged by offering even stronger incentives for towns to actually implement regional growth-management plans. These incentives might include giving priority in the awarding of key state grants and aid flows to towns engaged in cross-boundary planning, or awarding authority for a local-option sales tax to towns that implement truly regional plans

Maine should make development easier in traditional towns and cities while doing much more to support and stimulate local and regional planning.

In the end, this report affirms Mainers’ abiding intuition that economic success and quality places matter equally and can be fostered by effective, frugal government. Along those lines, “**Charting Maine’s Future**” concludes that a more prosperous, more sustainable, and ultimately more equitable future can be Maine’s if it sets gridlock aside and moves decisively to invest in its economy and quality places, while taking tough steps to trim government and streamline its land-use and development rules.

Move along these lines and Maine people will achieve a good measure of what they so earnestly desire. ■

AN ACTION PLAN FOR PROMOTING SUSTAINABLE PROSPERITY IN MAINE

ACTION

MAINE QUALITY PLACES FUND

This 10-year \$190 million revenue bond fund will support:

- Community revitalization
- Land and farm conservation
- Access to forests and lakes
- Tourism promotion

MAINE INNOVATION JOBS FUND

Some \$180 million of this \$200-million bond fund—financed by savings located by the Government Efficiency Commission—will support research and development in promising areas like:

- Forest bioproducts
- Biotechnology
- Information Technology
- Organic farming/specialty foods
- Advanced composite materials
- Precision manufacturing

A related Maine Cluster Development Fund of \$20 million will support industry-led partnerships that catalyze job growth through workforce development, network-building, and marketing

FUND FOR THE EFFICIENT DELIVERY OF LOCAL AND REGIONAL SERVICES

An annual stream of \$2 million—derived from savings located by the Government Efficiency Commission—will fully fund this existing program which promotes efficiency through inter-governmental cooperation on service delivery

TAX REDUCTIONS

Savings from the Maine Government Efficiency Commission in excess of \$27 million per year should go toward easing tax burdens through:

- Reducing property taxes
- Lowering the top income tax one-half point
- Increasing the income threshold for the top income tax bracket

MAINE COMMUNITY ENHANCEMENT FUND

Grants will support:

- Full implementation of building code reform
- The Maine Downtown Center
- Better visioning assistance and planning tools for towns
- Incentives for multi-municipal and region-scale planning

HOW TO PAY FOR IT

LODGING TAX

Three-point increase
(\$20 million per year)

MAINE GOVERNMENT EFFICIENCY COMMISSION

A bipartisan commission that will:

- Locate program savings of \$60 to \$100 million
- Propose reforms
- Send proposals to the legislature for an up or down vote

Savings will be invested in economic development activities and tax reduction

DEED TRANSACTION FEE

\$20 increase (\$5 to \$8 million per year)