

**Keynote Presentation by Bruce Katz  
GrowSmart Maine Summit III**

**October 20, 2006  
Augusta, Maine**

Thank you Alan Caron for that kind introduction.

I want to thank you and your colleagues at GrowSmart Maine—and the investors in this project—for your consistent support, your guidance and your trust and, most of all, your introduction to this remarkable state.

**I want to start by giving you the key takeaways of the report.**

First, we are bullish about Maine's future despite pervasive pessimism in the state and admittedly hard challenges—high taxes, brain drain, deindustrialization, sprawling development.

In our view, the state is poised for an era of sustainable growth and prosperity.

Broad forces—demographic change, economic restructuring, technological advancement—are placing this state in a positive, even enviable position.

But sustainable prosperity is not inevitable; there are enormous threats that need to be recognized, met, and resolved—and doing that will require some very tough choices.

We propose a blueprint for action that we believe, if pursued in a disciplined, sustained fashion, could deliver sustainable prosperity.

Our blueprint has three main components:

Invest in what matters: quality places and the innovation economy;

Fund these critical investments by streamlining government and shifting more of the tax burden to tourists and people from away; and

Accommodate more growth in existing towns and cities through reducing regulations—deregulate to redevelop—and improving planning.

In the end, we believe this blueprint can be the spur for meaningful legislative and administrative action over the next several years as well as the building of a permanent coalition for sustainable prosperity.

**Let's go through each of these findings one by one.**

## **First, the state is poised for prosperity**

Why are we optimistic?

Well, first, the state has shown strong population growth since the turn of the decade.

The state jumped from the 46<sup>th</sup> fastest growing state in the 90s to the 26<sup>th</sup> fastest growing state in this decade, the largest turnaround of any state in the nation.

The state has the 5<sup>th</sup> highest rate of in-migration—that's ratio of new residents to existing population—grouping it with such fast growing places like Nevada and Arizona.

The state has gained an average of 8,200 net new residents per year, the largest inflow in over 50 years.

Most significantly, every county in Maine witnessed net gains of people from outside the state between 2000 and 2004.

Why is this happening? The state is attracting healthy and wealthy retirees from all over New England and the Mid Atlantic. And it is even beginning to attract young, talented workers.

Why are these people coming? Because they are drawn to your special quality of place: livable, safe, distinctive communities. This is your brand, your calling card, your competitive edge.

The economy is also diversifying in healthy ways.

Your traditional industries are growing leaner and more productive (in some cases, that's why they continue to lose jobs).

Your consumption economy—health care, retirement services, tourism—is alive and well given your aging demographic and the quality of your places.

There is an uptick in professional and business services, reflecting your proximity to the overheated Boston metro area.

And there are a series of emerging, innovative clusters—organic farming, eco tourism, information technology, biotech—that build on your ample base of natural resources and reflect national and global trends in technology, consumer preferences, and the demand for quality.

The net result is that Maine's per capita income was 91 percent of the national average in 2004, the highest in 60 years.

**But sustainable prosperity is not inevitable; there are enormous threats that must be addressed**

First, the evolution of your economy faces multiple hurdles.

Many of your emerging clusters are small, lack critical mass, and have only one or two firms that dominate (like IDEXX in biotech). So the clusters aren't big enough to attract talented workers around the country who are looking for "thick" labor markets that enable them to jump from firm to firm.

Your labor market is not only lean, it is tight. The bulk of your workforce is at least 45 years old. You don't have a sizable group of younger workers who are following and can both replace older workers when they retire and provide the fuel for the next economy. Immigration, at both the high end and low end, is small; another reason the labor market is so tight. And the brain drain is alive and well in Maine, despite the fact that increasing numbers of young talented workers are moving here

And many of your workers—those excised from traditional parts of your economy, many coming out of high school—are ill prepared for jobs in the next economy. You have an enormous re-education, reskilling, and retraining task before you.

Second, suburbanization and dispersed, low density development are altering the rural landscape of Maine. Residential growth is primarily happening at the periphery of your commuting areas, rapidly converting open and green spaces to suburban uses.

The state converted over 869,000 acres of rural land to suburban uses from 1980 to 2000, second only to Virginia in proportional change. That represents a loss of 1,300 square miles of rural land, a territory roughly the size of Rhode Island.

Only 23 percent of the state's population growth since 2000 has taken place in regional hubs, even though those places have 43 percent of the state's total population.

The cost of these development patterns is enormous.

It is leading to unnecessary and costly school construction. We estimate that the state spent \$200 million it didn't have to in the past decade, building new suburban schools to keep pace with population dispersal.

It is leading to added costs for local government, as suburban towns shift from volunteer government to professional government to meet demands of new residents.

It is overwhelming many suburban towns which lack the capacity to plan adequately for growth and keep pace with rapid, chaotic development.

But most importantly it is undermining your brand, your special quality of place that remains at the heart of your current and future economy.

Why is so much suburbanization happening?

We identify and document several driving forces:

There are stark disparities in property taxes between older and newer towns, allowing families to move out and pay less.

And rapidly appreciating prices in many regional hubs are pushing development of modestly priced homes out 5, 10, or 15 miles.

But we also document the buildup over time of state and local rules and regulations—building codes, parking restrictions, zoning ordinances—that make the redevelopment of older places and historic structures cost prohibitive and tilt the playing field to greenfield development.

We have heard from developers around the state that “you do one and you’re done”—the accretion of regulations and rules and guidelines are just too time-consuming and profit-draining to make “the game worth the candle.”

The lack of regional collaboration and the fact that every town in Maine has exclusive control over land use and zoning decisions is also taking its toll.

In an economy that is quintessentially regional in nature—with most residents living in one town, working in another, and recreating in still another—the lack of regional collaboration is driving the chaotic, dispersed, and fiscally inefficient development patterns that I have described.

Finally, government priorities and structure do not seem aligned to the new realities.

A sophisticated new analysis—that compares state and local spending in Maine with spending in 10 rural states as well as New Hampshire and the nation—shows that spending on a host of government programs (ranging from health services to primary and secondary education, from corrections to higher education, from state

administrative functions to state buildings) is relatively high on average, and especially so in several particular areas.

Now, high spending relative to other rural states could be happening for several reasons.

The preferences and values in Maine are clearly different than those in, say, Mississippi. And so you are more generous on social welfare and health care.

Your large territory could also increase the cost of delivering services.

Yet there also appears to be excessive spending, not just on high social benefits or because of high demands, but because of administration, or bureaucracy.

Because of fragmented government, you have enormous duplication of services and bureaucracies, particularly in the K-12 system.

For example, Maine has 99 independent school districts and 165 cities and towns with school payrolls.

The state has one administrator for every 127 students, fourth-highest in the nation.

Maine taxpayers support one school or district administrator for every 11.1 teachers, the country's ninth-highest number of administrators per teacher.

Indeed, your inefficient or too-costly delivery of some services is taking up needed resources that might otherwise go to other uses and so is helping to crowd out your ability to invest in programs and policies that could have a positive, measurable impact on prosperity and quality of life.

Significantly, the bulk of the excess we have found is in state government and the K-12 system. Spending on local government and general municipal services is fairly efficient compared to your peer states. (The exception is in Southern Maine, where the shift to professional services in growing towns is beginning to lead to duplicative services.)

**To meet these challenges head on, we propose a blueprint for action that, if carried out with discipline and focus, will enable the state to achieve sustainable prosperity**

In developing our plan, we've drawn inspiration from states like North Carolina that have moved ahead in the past decades. Their secret, in our view:

Make a few, big investments;

Sustain those investments over time; and

Be yourself, build on your distinctive strengths, do not try to be someplace you are not.

With those principles in mind, we propose that this state do three things:

Invest in what matters: quality places and the innovative economy;

Fund these critical investments by streamlining government and shifting more of the tax burden to tourists and people from away; and

Accommodate more growth in existing towns and cities through reducing regulations and improving planning.

Let us review each of these recommendations in turn.

First, we propose two major investments for the state, a Quality Places Fund and an Innovation Jobs Fund.

It is not surprising that we recommend you focus intently on preserving and enhancing your quality of place and community. That is your brand and calling card and it is threatened today by chaotic, dispersed development.

So we propose a \$190 million Quality Places Fund, with dedicated tax revenues, to give the state the resources it needs to invest primarily in land conservation/open space preservation on one hand and community/downtown revitalization on the other.

The fact is that land conservation and community revitalization are flip sides of each other. The more you invest in smart development and the more you reinvest in your older towns and main streets and downtowns, the less you will have to invest in protecting rural land from suburban development.

Other parts of the Quality Places Fund include improving access to Maine's natural resources (your forests, farms, and lakes) and increasing spending on high quality tourism.

Make no mistake: this investment in quality places is primarily about your economic future. Will the investment protect the environment? Absolutely. Will it save public resources? Sure. But the principal reason to invest in quality places is to preserve and enhance your true calling card in our changing economy: your special, distinctive, livable communities.

We also recommend that you invest resolutely in innovation and business led economic growth.

We propose a \$200 million Innovation Jobs Fund over the next three years to put the state on the right path to sustainable prosperity and quality jobs.

The bulk of those funds—\$180 million—will be dedicated to doubling the state’s annual investment in research and development from \$30 million to \$60 million. The fact is that, during a period of intense global competition, innovation drives the American economy and the Maine economy. To compete, we need as a nation and you need as a state to constantly invent the new tools, the new products, the new processes that maintain our leadership position in the world. Publicly funded research and development is critical for the nation and Maine to maintain our competitive edge.

We dedicate the remaining \$20 million to enable Maine’s traditional and emerging clusters—boat building, precision manufacturing, organic farming, ecotourism, hunting and fishing, creative arts, information technology, biotech, green building—to grow in strength and realize their full economic potential.

As discussed before, Maine’s economy has evolved into a series of clusters—networks of firms that engage in the production of similar products and the provision of similar services. Firms within these clusters don’t really compete individually against each other as compete collectively against others in the nation and the world.

These clusters need several things to grow:

Trained, qualified workers that can keep pace with technological innovation

Strong, sustained marketing that can label the “brand” and cement it in consumer consciousness

Strong networks and associations of firms that can articulate the general needs of multiple firms rather than the special needs of one

Access to patient capital that can invest for the long haul rather than the short run

The state is already starting to give its clusters the tools and resources they need to grow. Your NorthStar Alliance of boatbuilders, the state university, community colleges, and local chambers is becoming a national model for cluster-led workforce development and job training. Your Maine Technology Initiative is nationally recognized for its

recognition of and investment in burgeoning, technologically advanced parts of your economy.

Our Innovation Jobs Fund would build on these successes and allow firms in traditional and emerging clusters to come together and request government support for the fundamentals: job training, marketing, network building, and patient capital.

In this way, Maine's small firms of today can become the medium and large firms of tomorrow.

Second, we recommend that these critical investments be funded by streamlining government and by shifting more of the tax burden to tourists and people from away.

To pay for the Quality Places Fund, we recommend that the state increase the lodging tax by 3 percentage points to bring it more in line with other states that depend on tourism and recreation. The fact is that up to now Maine has been a "cheap date"—you have allowed tens of millions of tourists to come here every year without paying for the pressures their presence puts on your communities and towns and special natural places.

Lets just compare Maine with other states in New England and beyond.

The maximum tax you pay in Maine for lodging is 7 percent.

In New Hampshire, it is 8 percent.

In Massachusetts, the maximum is 9.7 percent.

In Vermont, it's up to 10 percent in some towns.

In both Connecticut and Rhode Island, it is 12 percent everywhere.

And other destinations?

In Honolulu, Hawaii: 11.4 percent.

In Phoenix, Arizona: 12.07 percent.

In Miami, Florida: 13 percent.

And in New York City, you pay a whopping 13.38 percent plus \$3.50 per day.



It is time for tourists to start paying their fair share of taxes in this state ... and to support the preservation of the quality places that bring them here in the first place.

To pay for the Innovation Jobs Fund, we recommend that the state pursue a “streamline to invest” strategy: weed out inefficiencies in government and use those savings to back investments in the innovative economy.

We propose that Maine establish a Maine Government Efficiency Commission. This Commission, modeled on the federal base closing commission, would have the powers and analytic resources to propose specific reforms to realize substantial cost savings in state government. These reforms would then be presented to the state legislature for an up or down vote. We anticipate that savings of \$60 million to \$100 million a year could be realized through this mechanism.

What would these savings from unnecessary government spending be used for?

Well, the first \$27 million or so of the savings would be used to back bonds for the Innovation Jobs Fund.

Any savings above that would be used to make necessary adjustments to your tax code:

An elimination of the property tax disparities between older and newer towns

A reduction in the top income tax rate from 8.5 percent to 8 percent

An increase in the income threshold that triggers the higher income tax rate

The bottom line: you are a small state, with a large land mass, with limited resources, with documented overage in expenditures on administrative and other items. It is time to get focused, get disciplined, and use your scarce resources to invest in what matters.

Finally, we recommend that the state aim to accommodate more growth in existing towns and cities through reducing regulations and improving planning.

We urge the state government to undertake a concerted, multi-year effort to remove the regulatory barriers that now undermine smart, common sense development, including the production of workforce housing, in the state.

What are we hoping for?

Uniform building codes that level the playing field between new construction and rehabilitation

Model zoning ordinances that enable quality planning in town centers and downtowns rather than mandate suburban chaos

A more predictable and uniform enforcement of fire and safety codes to give developers the certainty they need to proceed with the reconstruction of historic properties

In short, common sense rules to give Maine the kind of development it wants

It is time, in short, to deregulate so that you can redevelop in smart and sustainable and inclusive ways.

But changing rules isn't enough. The state must become a better partner with local governments that are trying to do the right thing.

We recommend that the state give towns meaningful incentives (like a local options sales tax) to collaborate on a regional basis and take collective actions that save money and prevent ruinous, traffic congesting development.

We also recommend that the state dramatically increase its support for towns that want to develop and enforce zoning and land use ordinances that better reflect community values and citizen demand.

## **Conclusion**

Our Blueprint for Action is a comprehensive, unified strategy for economic success and sustainable prosperity.

We believe that it contains the disparate kinds of measures that are needed to succeed in today's rapidly changing economy:

Investments on the things that matter for a state like Maine;

Streamlining government and raising taxes on tourists to make these investments happen;

A reduction in taxes that are stifling creative activity and driving suburbanization;

Reforms to crazy rules and regulations that prevent smart, common sense development; and

Support for local governments that want to do the right thing.

This is an ambitious agenda, it spans many issues and crosses conventional partisan and ideological lines.

Over the past several weeks, we have heard many positive reviews of our work ... and for that we are grateful.

Of course, we have heard some pushback. Some don't like our call for new investments. They believe you can cut your way to prosperity. We strongly disagree. Other states have tried it and failed.

Some don't like our analysis of government inefficiency and some have recoiled from our representation of Maine as a "cheap date." Well, let the debate begin and let it be conducted on empirical grounds.

And some don't believe change can happen. They believe that Maine has become a state of gridlock, where disparate constituencies cancel each other out and where enthusiasm and energy and optimism are too often in short supply.

To this last group of doubters and naysayers, I say that I have seen a different Maine.

I have seen Mainers that are resolute and independent, resourceful and resilient, hardworking and opinionated and vocal. And, perhaps most importantly, passionate about this place.

Over the past 18 months, the Brookings team has met hundreds of talented people in this state who share a love of this place and are part of an emerging coalition for change;

Public servants at the state and local level;

Conservationists and environmentalists;

Urban practitioners and activists;

Large, medium, and small employers;

People working in traditional industries and people working in new, emerging clusters;

Bankers, builders, developers;

University leaders;

Health care leaders;

Sportsmen, who understand quality of place;

Residents whose families have been here for generations;

Residents who arrived within the past five years; and

Ordinary citizens who exhibit a love for democracy that is second to nowhere in the United States.

The reality is that all these constituencies, taken together, form a powerful force for change in the State.

But these constituencies are less than the sum of their parts. They too often sit in different organizations, speak different, specialized languages, and operate in isolation from like minded groups and individuals that share common values and principles.

I think it is time to build a permanent, majoritarian coalition in this state to advance the reforms represented in this report, implement the changes, and sustain them for the long haul.

Together you have the power to build a distinctive, innovative economy in this state.

Together you have the power to preserve and enhance your special quality of place.

Together you have the power to leverage your unique and special opportunities.

The potential for change is there. The possibilities for prosperity are present.

Seize this opportunity. I urge you to join a campaign for Maine's future.

Thank you for your inspiration and your guidance and your trust this past year.

I wish you all the best as you embark on this exciting journey.