
**IN SEARCH OF SILVER BUCKSHOT:
THIRTY YEARS OF ECONOMIC DEVELOPMENT IN MAINE**

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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, have 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 the state is to achieve the high quality of life that its people seek.

A review of the economic development policies and programs put in place since the early 1970s provides several insights into both our successes and our challenges for developing Maine's economy:

- During the last 35 years, Maine has had a number of visionary leaders;
- Maine has made many bold, innovative, and successful economic development decisions and investments; and
- 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 than with ineffective execution and follow-through for the long haul.

Economic development is, by its very nature, a long-term endeavor that 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 shift our thinking away from the search for the silver bullet and instead seek the silver buckshot—that collection 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 contracted the Maine Development Foundation (MDF) to provide a critical review of Maine's economic-development efforts during the past three decades. By assessing what policies and programs have moved Maine's economy forward and which efforts have had a less positive impact, MDF hopes to shed some light on policies, practices and program-implementation strategies that will inform decision-makers in the future. This would enable investing Maine's limited economic-development resources to yield the highest returns for the Maine economy.

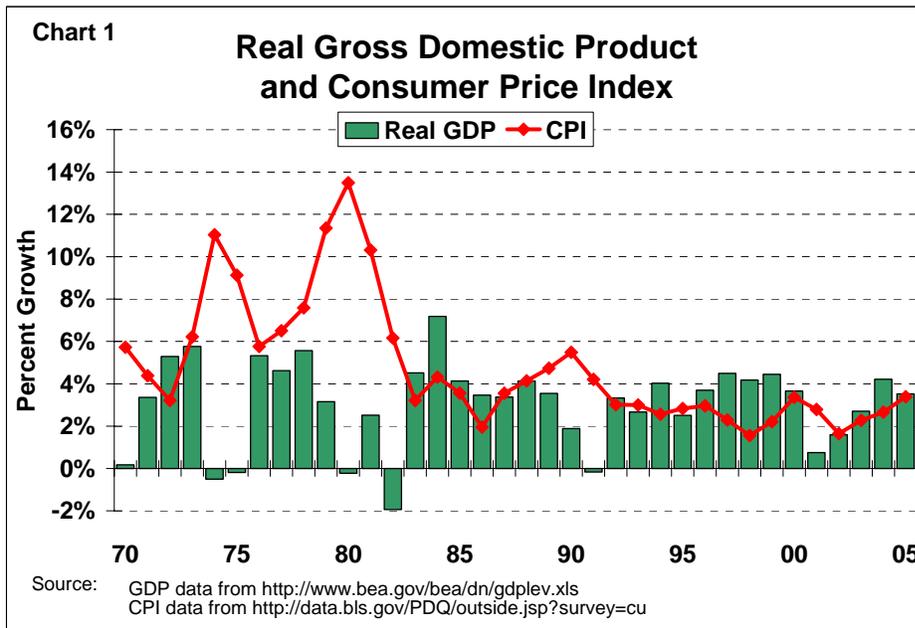
Background research on this topic included:

- 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 e-mail survey of more than 500 Maine business, nonprofit, government, and education leaders, using three 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

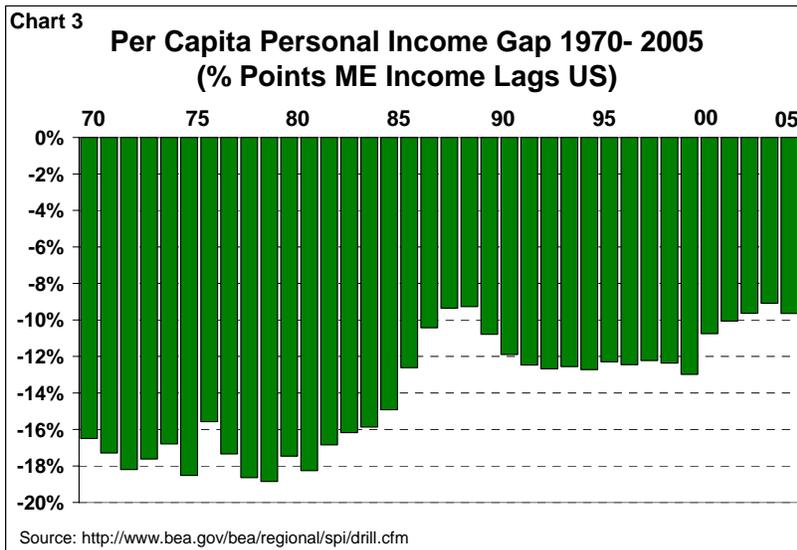
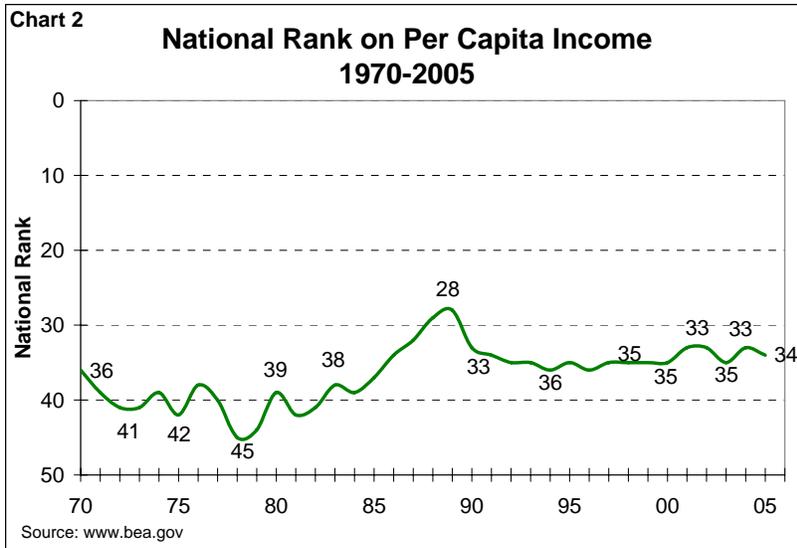
The single greatest driver of Maine's economic performance is national economic activity. To better understand the performance of Maine's economy over the past three decades, it is important to have an understanding of national events and trends. As the chart below illustrates, it was a period of fairly strong and consistent growth. There were, however, four recessionary periods. T NOTE: The 1982 and 1991 recessions were not provoked by oil price shocks, and this is irrelevant-AY With aggressive monetary policies in place for more than 25 years, inflation was kept in check throughout the period and the two most recent recessions were among the mildest in U.S. history.



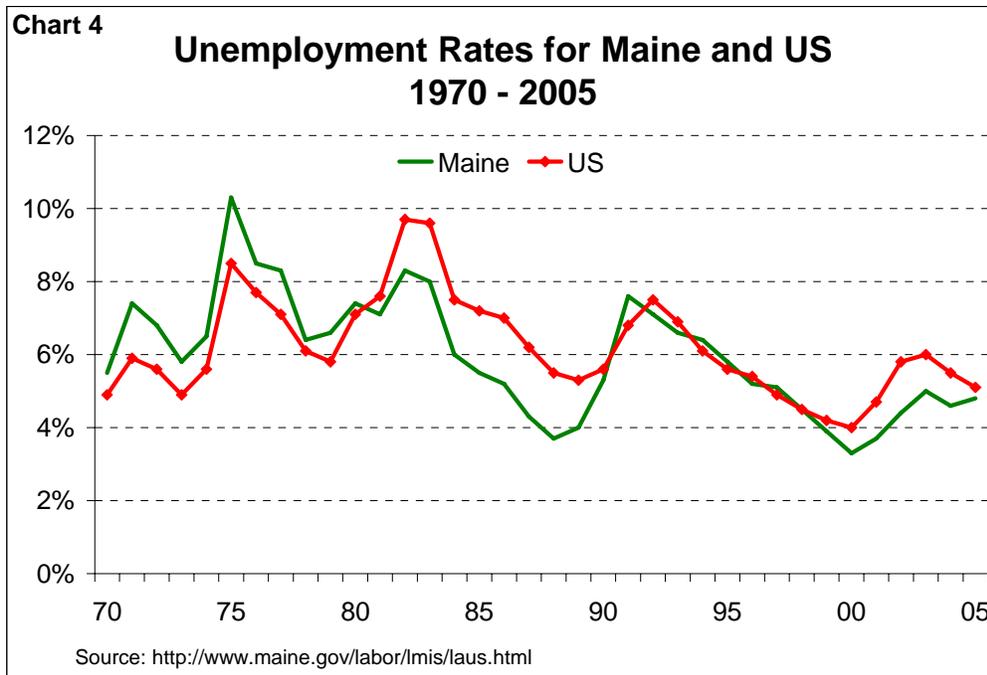
It is also important to note that the U.S. and world economies went through major transformations over the past quarter century. The United States evolved from a manufacturing-based economy to an increasingly globalized service economy and a knowledge-based economy. With the development of new, high-speed telecommunications systems and the World Wide Web, new markets developed, and the flow of goods, services, capital, and information across borders accelerated. This time period also included the fall of the Berlin Wall, the end of the Cold War, some development of new energy sources, the deregulation of many industries, including trucking, banking, and to a certain extent, telecommunications, and electricity. Each 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 the state, by most broad measures, has reached a new economic plateau. While it is impossible to determine exactly why Maine's economic status has improved, it seems plausible that at least some of the state's economic-development policies and programs have positioned it 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. Its relative standing improved dramatically through the 1980s, peaking at 28th, before settling into a mid-30s ranking from 1990 to the present. Further, as Chart 3 illustrates, the gap that separates Maine from the nation in terms of average per capita personal income has narrowed considerably. Whereas Maine's income lagged the nation's by 16-18 percent through the 1970s, the income gap shrunk to 10-12 percent during the last two decades, most recently improving to 9 percent.

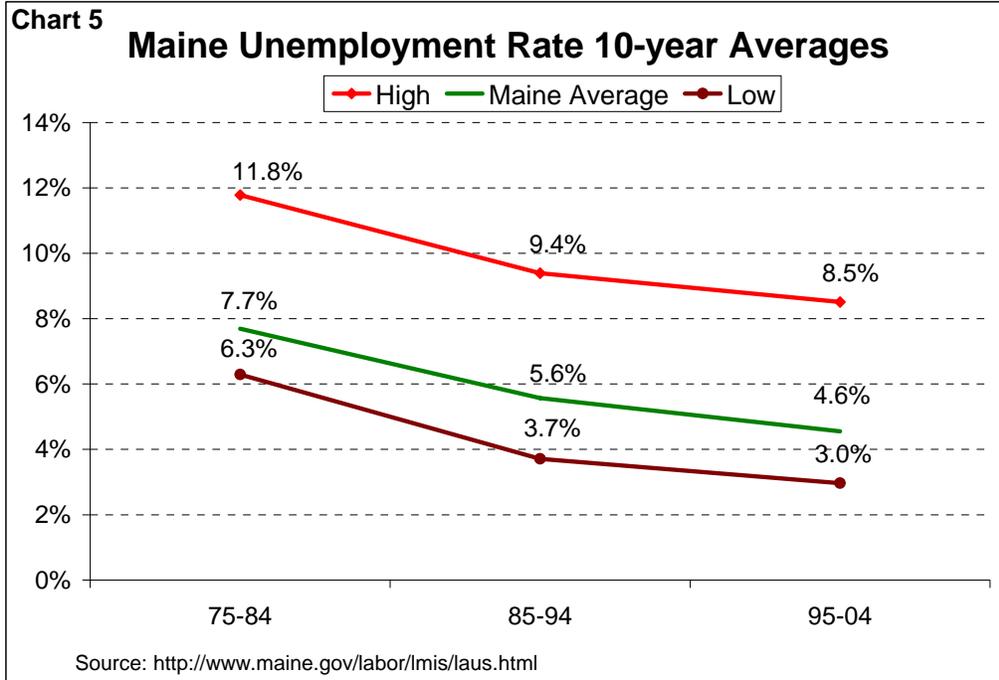


In addition, Maine's historically high unemployment rate, which remained above the U.S. average throughout the 1970s, dropped below the U.S. average in the 1980s, and has remained at, or well below, national rates ever since.



Even with notable improvement in the state's relative standing in both income and unemployment, Maine does not have the economic vibrancy that its residents seek. Thus, the public continues to express frustration with economic conditions, policies, and leaders. Part of the reason 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 the state's overall advances is not acceptable, and tends to mute the celebration of Maine's progress.

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 percent compared to 6.3 percent). During the most recent decade, the unemployment-rate multiple 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 percent of the highest in 1970, the relative standing of the lowest county income in 2003 had diminished to only 65 percent 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 during this period. The rural areas of Maine, frequently referred to as the Rim counties (the four 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 U.S. average for decades, 2003 average rates of poverty across Maine span from a low of 8.3 percent in southern Maine (York and Sagadahoc counties) to a high of 16.1 percent down east (Washington County). These stark disparities have challenged political leaders and dramatically shaped economic-development discussions and policy decisions.

V. MAINE'S ECONOMIC-DEVELOPMENT RECORD

Visionary Leaders, Bold Ideas

Maine has never lacked strong leaders or bold ideas. During the last 35 years, Maine has had six governors and each one, in partnership with strong legislative leadership, has made a positive and lasting contribution to Maine's economic development and to infrastructure development.

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.

Kenneth Curtis (1967-1974)

Gov. Ken Curtis is credited with implementing the most major change in Maine's tax structure in recent history, consolidating and modernizing state government, providing the impetus for restructuring the legislature, and creating a statewide university system. The fact that, as a Democrat, he accomplished such landmark changes 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 modern development. His most significant contributions include:

- *Introduction of the personal income tax.* This created greater balance in Maine's tax structure, introducing progressivity into a system that previously had relied upon property and sales taxes, both of which tend to be fairly regressive.
- *Restructuring/modernization of state government.* His administration consolidated more than 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, and created the Cabinet structure to enhance coordination, accountability, and efficiency.
- *Restructuring/modernization of the 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 (SPO).* His administration 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 SPO was established to identify economic

opportunities and threats, and to coordinate effective policy responses across the various departments, particularly when departments might have different priorities or objectives.

- *Creation of the Maine State Housing Authority.* This recognized that housing availability and affordability are essential to long-term economic development.
- *Creation of the university system.* His administration 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.

James Longley (1975-1978)

Gov. Jim Longley was the state's and the nation's first independent governor. He ran on a platform of cutting government waste, and spent much of his time and energy working to trim government, and make it more businesslike in its approach to economic development. He was relentless in his pursuit of increased business activity, playing a pivotal role in attracting Pratt & Whitney in Berwick and Digital Equipment Corporation to Augusta.

- *Creation of the Maine Development Foundation (MDF).* His administration created an independent nonprofit corporation that was charged, in statute, with creating partnerships among state government, the private sector, education, and other nonprofit 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 find common ground in critical economic-development issues.
- *Implemented the recommendations of the Maine Management and Cost Survey.* Citizen James Longley had chaired Gov. 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, Gov. Longley's legacy included "slowing the excessive growth in state government" and making Maine "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 create incentives for a huge capital investment in the paper mill at Hinckley, Gov. Longley created a new form of tax credit that provided tax forgiveness to businesses 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.* Gov. Longley's leadership in finally reaching a settlement in this hotly contested case provided stability and certainty around the issue of land titles, which are critical to encourage future investment and development in Maine.
- *Introduction of anti-billboard legislation and the bottle bill.* Gov. Longley was one of the first in the nation to propose an anti-billboard law, setting the stage for enhancing Maine's scenic beauty. While passage of the State's Bottle Bill Law was 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.

Joseph Brennan (1979-1986)

Gov. Joe Brennan's greatest contribution to Maine's economic development was his leadership in using government's bonding authority to lay the foundation for the economic-development system that Maine has in place today.

- *Creation of the Finance Authority of Maine (FAME).* Gov. 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.* This was 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 development of indigenous, renewable energy sources, energy-conservation programs, 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, Gov. Brennan used state bonds to finance private investment in the Bath Iron Works' (BIW) dry-dock facility in Portland, setting 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, as well as many beneficial economic spin-offs.
- *Implementation of the three-port strategy.* Major infrastructure investments were made in Eastport, Searsport, and Portland to enhance port infrastructure. This was done to improve trade activity, and secure energy supplies and other commodities critical to supporting the production and exporting by natural resource-based industries.
- *Landmark investment in upgrading the university system.* By appointing a highly prestigious, blue-ribbon commission on education, headed by Sen. Edmund Muskie, Gov. Brennan was able to use the commission's recommendations to provide an enormous infusion of resources into the state university system. This investment enabled the university to attract nationally known faculty and to upgrade its programs.
- *Elevated the status and governance of the Vocational Technical Institutes (VTIs).* Administration of the VTIs historically had taken place in the Department of Education. In an effort to elevate the status and effectiveness of 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.

John McKernan (1987-1994)

The McKernan years were marked by a regional economic downturn of historic proportions. The resulting fiscal conditions limited the state's ability 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 (DECD).* This 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-film and TV production 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.* Gov. McKernan's administration created an independent, 19-member council charged with developing a long-term economic-development plan for Maine and benchmarks to measure progress towards its goals.
- *VTIs renamed Technical Colleges.* To further raise the profile of these important post-secondary institutions, the Vocational Technical Institutes were renamed Technical Colleges.
- *Tax reform.* The top marginal personal income tax rate of 10 percent was reduced to 8.5 percent, giving direct tax relief to two-thirds of Maine's businesses, which file under this tax. In addition, low-income residents were exempted from the individual income tax.
- *Workers' compensation insurance reform.* Gov. McKernan went to great lengths, including a 13-day shutdown of state government to put in place a package of major workers' compensation reforms that ultimately brought about the first rate reduction in three decades. As a result, the 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 was established to enable eligible unemployment recipients to use their unemployment compensation to start small businesses. More than 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.* This 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 11 states 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 hierarchy, a statewide goal of recycling 50 percent of municipal solid waste, state assistance for municipal recycling programs, a ban on new commercial solid-waste disposal facilities, and state responsibility for siting and operating new solid-waste disposal facilities.

Angus King (1995-2002)

Gov. Angus King's 8-year tenure was marked by tremendous innovation and transformation. A master communicator and visionary, Gov. 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 state in nation to have all schools and libraries connected to the Internet.
- *Maine Learning Technology Initiative.* In an effort to enable Maine students to become nation's the most technologically literate students and to prepare them to compete in the knowledge-based economy, a bold proposal was put forward to provide all 7th and 8th grade students 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 more than 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, with a particular focus on commercial product development. MTI funds technology-intensive companies that want to bring a new technology 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 Center was created by statute in 1999 to lead 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, creating community cultural assets, attracting young working-aged adults and retirees, and mitigating the sprawling pattern of development that has emerged in Maine.
- *Development of the Business Equipment Tax Reimbursement (BETR) program.* This reimbursement program was created in 1995 to provide incentives for private investment in capital equipment. Qualifying businesses are reimbursed in full by the state for 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 as an incentive to new and existing businesses to create additional, high-quality jobs. This program enables companies that add at least five new jobs, which pay above their county’s per capita income and provide health and retirement benefits, to qualify for reimbursement for up to 80 percent 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 legislature directed the Public Utilities Commission (PUC) to undertake a thorough study of the potential to completely restructure Maine’s electric utility system to allow development of a competitive electricity market. Following a long, comprehensive process, Maine ultimately passed landmark legislation that directed the state’s electric utilities to divest their generating capacity, opening the electricity markets to competition.
- *Build-out of two natural gas pipelines.* During the mid-to-late 1990s, the Portland Natural Gas Transmission System was developed to bring western-Canadian natural gas into Maine. Around the same time, 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 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’s history, opened natural-gas markets in Maine, and led to the construction of five major gas-fueled electric generating facilities in the state.
- *Smart Growth: The Competitive Advantage.* During 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 SPO (SPO) 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 the east-west corridor, these include inter-modal facilities, and three port strategy with the build-out of Mack Point, Port of Eastport, and warehousing facilities at the Port of Portland.

John Baldacci (2003 – Present)

In addition to implementing major tax and health-care reforms, one of Gov. Baldacci's greatest contributions to Maine's economic development has been having the courage to stay the course on many of policies put in place by his predecessors. His continued focus on post-secondary education, technology, research and development, and smart growth, has 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 state's university system and its community college system developed an agreement allowing the transfer of credits among all 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 interrelated 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.* This created opportunity zones to provide an array of tax incentives to businesses investing in economically challenged areas of the state.
- *Governor's Office of Innovation.* This new office was 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 a 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 had been the subject of heated debate for years, and its resolution is expected to remove what some saw as a major disincentive to investment and the risk associated with the tax reimbursement program (BETR).

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:

Development of the Maine Community College System

The transformation over the past 30 years of the vocational technical institutes into the technical college system, and then into the community college system is the economic-development undertaking most frequently mentioned as successful and critically important to Maine's future vitality. Not only do community colleges offer an affordable, less-threatening entry into college for individuals of all ages, but they also work directly with Maine companies to provide skilled and educated workers needed to expand their operations.

- In the three years since the mission was broadened, and the technical colleges became community colleges, enrollment has jumped 42 percent.
- Ninety-five percent of the graduates are placed in jobs or continue their education.
- Ninety-six percent of the employed graduates find work in Maine.
- The percentage of students enrolling directly from high school has increased 50 percent during the past three years.
- At \$74 per credit hour, Maine's community colleges offer the lowest tuition in Maine, making college financially accessible.
- Ninety-two percent of Maine's population is within 25 miles of one of the seven campuses or eight centers, making college geographically accessible.
- In 2005, Maine's Community Colleges customized training and education for 137 employers and nearly 3,800 employees.
- The Maine Quality Centers, run by the community colleges, helped 194 companies expand their operations.

Tax Reform

While viewed as critically important to Maine's future economic vitality, tax reform is least frequently mentioned as successful. However, a closer look at some recent major changes to the tax system 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. After the program was created, capital investment skyrocketed and productivity accelerated. Since its inception in 1996, more than \$7 billion in new capital has been invested in Maine under this program.

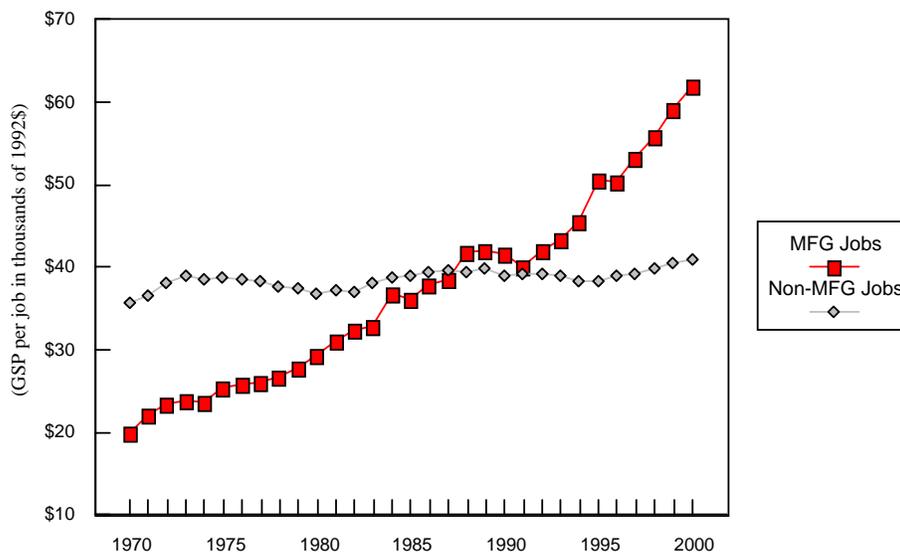
- *Spending cap legislation (LD 1)*. Initial results of this legislation show a marked and measurable slowing in the rate of increase in expenditures, and significant property-tax savings to individuals and businesses. According to an analysis done by the Margaret Chase Smith Policy Center, property taxes grew by only 1.7 percent, far below the 5 percent 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*. This 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 percent to 8.5 percent.
- *Repeal of the personal property tax for certain business equipment*. In 2006, qualifying investment in business equipment became exempt from the personal property tax.

Economic-development Infrastructure and Tools

- *Maine International Trade Center*. During the last five years, Maine’s exports grew to \$2.3 billion, and export activity supported at least 25,000 jobs. Export growth since 2001 has been 27.5 percent, outstripping national export growth by four percentage points. Exports as a percentage of GSP have been rising toward national rates, highlighting the fact that Maine is increasing its integration into the global economy, and is taking advantage of increasing commercial opportunities abroad.

Value of each MFG & Non-MFG job to Maine's Economy

(direct economic contribution per job in thousands of dollars of real GSP per year)



- *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 field 100 to 200 inquiries annually from businesses considering relocating to, or expanding in, Maine.

- *Maine Technology Institute (MTI)*. Since its inception in 1999, MTI has funded more than 800 technology-development projects across the state. MTI's investment of over \$33 million has leveraged an additional \$51 million of 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 commercial product development. 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 two-year history, the Pine Tree Zone program has certified eight zones, created a projected 3,200 new jobs in 71 companies across Maine, and spurred more than \$241 million in new investment.
- *Maine Downtown Center*. From 2003-2005, 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.

Research and Development Capacity

During the past decade, Maine's legislative and executive branches have envisioned, embraced and embarked upon a path of creating from scratch 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 SPO's "30 and 1000" report, R&D has become one of the major economic-development strategies for Maine. As Chart 10 illustrates, this focus and investment already have 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 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);
- Creation of the State Office of Innovation; and

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

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 connected 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 using 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, more than 36,000 laptops have been distributed. A recent evaluation of the program indicates that a large majority of Maine's middle schools successfully have implemented the laptop program, and there is already substantial evidence that student learning has increased and improved.

Workers Compensation Reform

From the major workers' compensation debacle of the early 1990s came the creation of the Maine Employers Mutual Insurance Company (MEMIC). MEMIC's mission 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 percent and cutting Maine's historically high workers' compensation cost by one-third.
- 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.

Progressive Environmental Laws

A longstanding tradition of forward-thinking environmental laws and policies not only has cleaned Maine's air, water and land, but also has helped to 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. Its environmental policies have

been nationally acclaimed, and the results of those policies have enabled Maine to attract tourists, retirees, entrepreneurs, and creative economic ventures. These laws include:

- *Billboard legislation.* This was the first in the nation.
- *Bottle bill.* Maine is currently one of only 10 states that have a bottle bill law. A U.S. Environmental Protection Agency (EPA) study shows that the 10 bottle-bill states recycle more tons of containers than the other 40 states combined.
- *Waste management/recycling.* According to the U.S. EPA, Maine recycles 49 percent of its waste, making the state the top recycler in the nation.
- *Land for Maine's Future.* Maine has protected more than 192,000 acres (in fee and easement) in 115 projects.
- *Removal of Edwards 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 recognized for its "national significance".

VI. WHERE WE'VE FALLEN SHORT

Failure 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 exaggerates the situation in Maine, more than half of Maine leaders who participated in this research noted the lack of a clear vision and a long-term strategic plan as major impediments to the state's economic development. Intuitively, people understand the importance of a clear vision, a thoughtful, strategic plan of action, and a determination to stay the course for 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 had plans that were clearly articulated 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 and the policy record of each administration have 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
- Technology, and
- International Trade

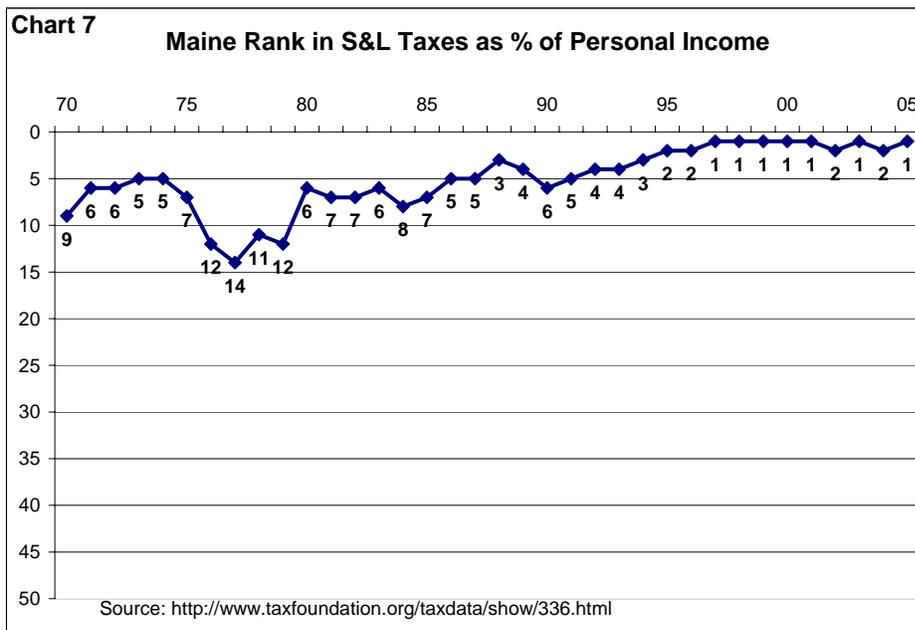
The lack of a clearly articulated, long-term vision and a set of strategies for moving Maine toward that vision makes it extremely difficult to set priorities and sustain implementation of programs and policies to ensure that those priorities are acted upon.

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.

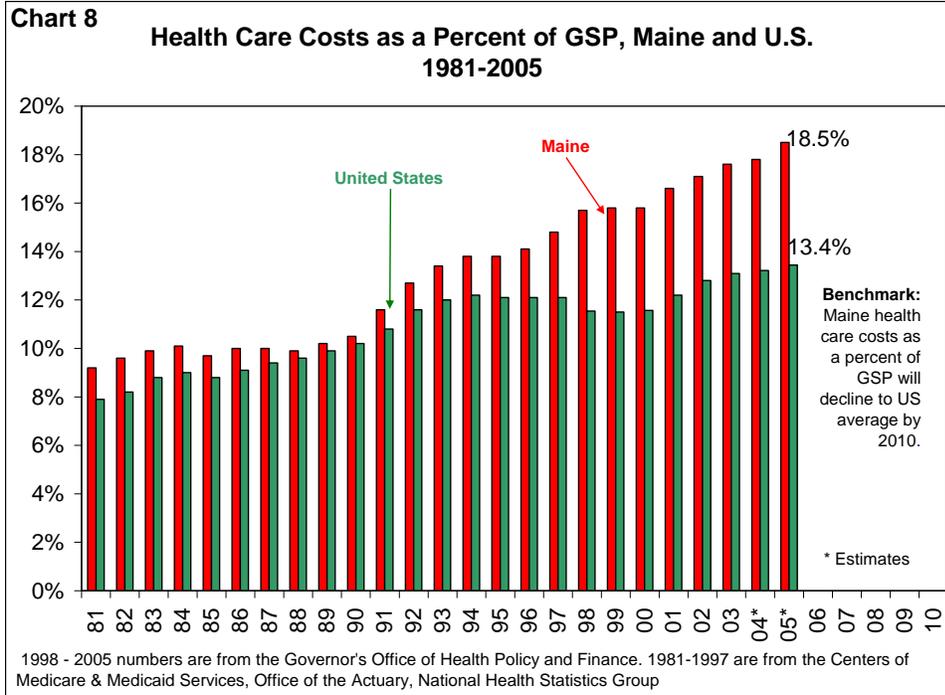
State and Local Tax Burden

Over a period of 25 to 30 years, Maine's tax-burden ranking gradually has risen from the mid-teens to the highest in the country. In 2005, Maine's state and local tax burden was 13 percent, while the U.S. average was 10.1 percent.



Health Care

Health-care costs remained near the national average throughout much of the 1980s, then rose dramatically, above national trends. By 2005, health-care costs as a percent of GSP were 18.5 percent, while the U.S. percentage was about 16 percent.



Consistently Under-Funded Economic-Development Initiatives

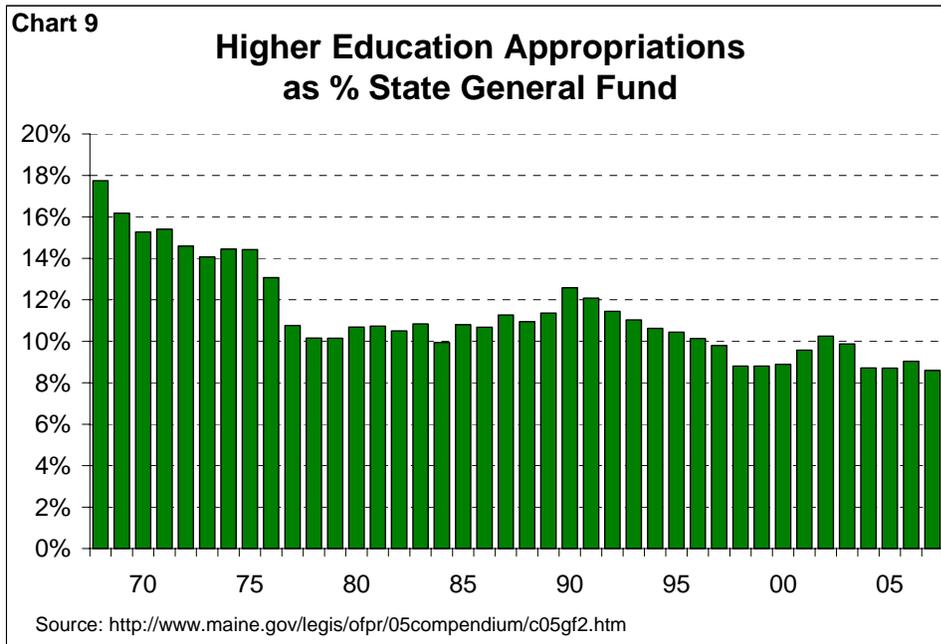
Maine has failed to commit and sustain its commitment of resources to major development initiatives.

There is a long list of economic-development initiatives that lack sufficient funding to ensure that the program not only succeeds but maximizes the return for Maine on its investment. This has led to efforts that are either not funded, under-funded, or fully funded initially, only for funding to dwindle or disappear, undermining the initiatives' effectiveness. Some examples include the following:

Higher Education

Throughout the period of study, the importance of education has been recognized as essential to Maine's economic development. Further, as Maine has transitioned toward 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-1990s, SPO 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.

Yet, as the following chart illustrates, state funding of higher education (the university and community college systems, and the Maine Maritime Academy) as a percentage of overall government investment has plummeted from nearly 18 percent to 8 percent since the late 1960s.



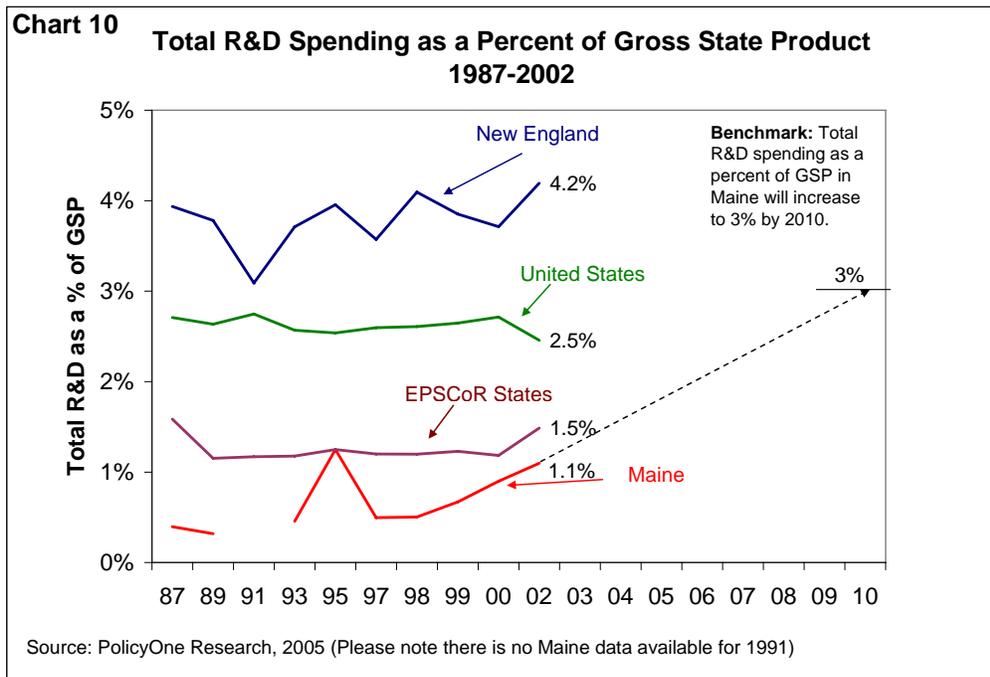
A closer look at university-system funding trends shows that:

- 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 percent 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 percent in 1996 to an estimated 14.4 percent in 2006, which means affordability is limiting Maine students’ access to a college education.
- Inflation-adjusted state appropriations per FTE university student have dropped 37 percent since 1989.
- Although they have had to raise tuition to replace state funding, trustees have minimized tuition increases through cost-savings measures, and kept tuition growth below the national average.

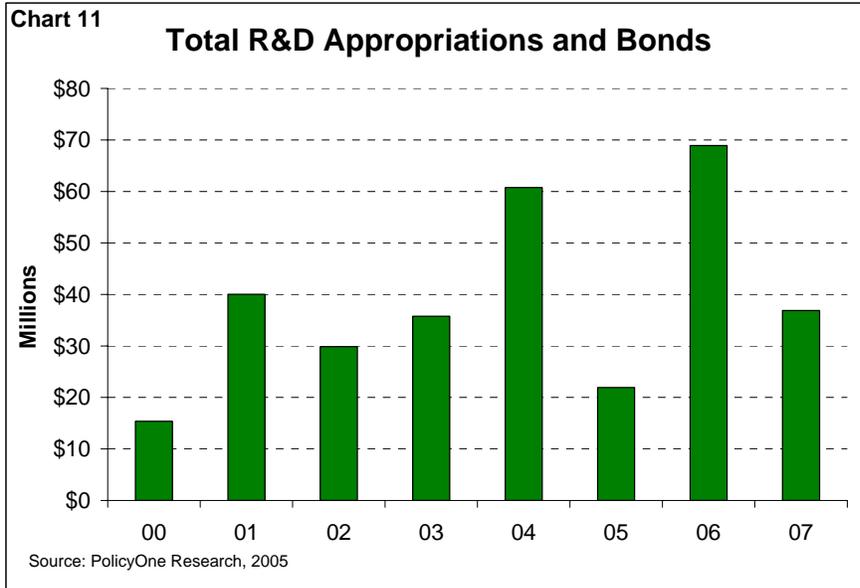
Taken together, these funding trends call into question the state’s commitment to higher education and its perceived importance to Maine’s growth and development.

Research and Development

During the past decade, Maine has actively developed a much stronger and focused R&D sector. Significant progress has been made in networking, thereby, strengthening Maine's relative standing in this critical area. The state has made great strides, and is on a trajectory that would move it up to the U.S. average by 2010.



That said if Maine is to continue to close the gap that separates it from the nation as a whole, it is imperative that Maine's R&D investment outpaces U.S. investment for the next several years. Despite progress to date, its investment patterns have been inconsistent. Sustained investment is an essential element of ensuring success and securing higher-value economic ventures.



Economic-Development Infrastructure

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

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 percent of total general fund expenditures.
- State government has roughly 15,600 employees, but only 42 are dedicated to economic development.

Maine Development Foundation (MDF)

MDF was created in 1978 to be an equal partnership between the public sector and the private sector in long-term economic development, in which the 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 fiscal year (FY) 1991 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.

Maine Economic Growth Council (MEGC)

The MEGC was created by statute in the early 1990s and charged with developing a vision, a long-term plan, and a set of indicators to objectively assess progress each year toward state benchmarks realizing this vision in an effort to inform and guide policy-making. The Growth Council is housed at the Maine Development Foundation to engage private and nonprofit leaders in long-term measurement and planning, and to ensure that the annual measurement and reporting is objectively conducted.

- State funding for the Growth Council’s core responsibilities during its first two years (FY94 and FY95) was \$200,000. State support fell during the late 1990s, 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 several new indicators and additional programming and outreach.

Office of Innovation

This 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. However, the office was developed with no money to fund its mission.

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 attract businesses for economic development.
- Given the competition among states to attract businesses, and its importance as an element of economic development, many states provide sustained and significant funding to these efforts.
- In six of the past 11 years, Maine and Company has received some state support. In FY97 and FY98, the state contributed less than \$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 attracting tourists, investing \$7.5 million annually.
- Lack of state funding puts Maine and Company at a distinct disadvantage, as the director must devote time to fundraising rather than attracting new businesses to the state. In addition, state support for 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.

International Trade—Maine International Trade Center (MITC)

- The Maine World Trade Association was created in FY91, and funded at a high of \$175,000.
- The Maine World Trade Association 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 another new office in Lewiston.
- Base funding to MITC for the main office and operations in Portland has been cut by 13 percent from FY97 funding levels.
- Since 2001, state support has been cut by \$55,000, while costs have risen \$160,000 (e.g., for health care, salaries, and rent).

Downtown Revitalization—Maine Downtown Center (MDC)

Maine Downtown Center was created by statute in 1999 to partner with the Department of Economic and Community Development and the SPO to spur downtown revitalization.

- The Center received \$100,000 in general funds in 2001, and another \$100,000 in smart growth funds from the SPO in 2002.
- In 2003, the general-fund appropriation disappeared, but the SPO “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 percent of its original level, with no guaranteed state support budgeted for the upcoming year.
- In FY07, the legislature provided a one-time appropriation of \$75,000 to partially re-capitalize the Maine Downtown Center.

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 a sobering narrative on years of underinvestment. Some of the report’s major findings include:

- Despite the fact that the number of registered vehicles in Maine has nearly tripled since 1975, the number of vehicle miles traveled has doubled, and the percentage of Maine’s freight carried by road has grown to 87 percent, state highway fund revenues as a percentage of total state revenues declined from 26 percent in 1975 to 11 percent in 2003.
- “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.”
- 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 percent 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. “Maine had the second-highest percentage of fatalities in the nation on rural, non-interstate routes,” suggesting that a high price is being paid for the state’s failure to adequately invest in upgrades of its rural roadways.

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 percent of municipal revenue sharing—or roughly \$2 million per year.

- Although this became law through the referendum process, no funds were budgeted for FY06 to fulfill the mandate of encouraging efficient delivery of government services. The supplemental budget for FY07 has included \$500,000, one quarter of the level voted into law two years ago.

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 been successful in encouraging investment, and provides great potential to spur further investment, there have been no marketing dollars provided to

fund critical outreach. With appropriate marketing and outreach funding, greater success could be expected.

Major Economic-Development Initiatives

Three Major Economic-Development Initiatives currently have no state funding:

- Realize!Maine—focused on attracting and retaining young, working-aged adults;
- Natural Resource-Based Industries Advisory Council; and
- Creative Economy Advisory Council.

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.

Applied Technology Development Centers

The applied technology development centers (incubators) were created in 2001 with \$5.5 million in state funding. Maine chose a strategy of investing in bricks and mortar rather than investing sufficiently in ongoing operations to ensure the initiative's survival and success.

- Annual funding has varied between \$83,000 and \$550,000 to support the operations of seven 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 three well-paid individuals, and the state is investing in, at most, one-half to a full position. This is unsustainable.
- Rather than targeting this investment strategically by building two or three centers in areas with clusters of like business entities that could support each other's work, the state chose to invest in seven centers—twice as many as could be reasonably supported—spread across the state.
- An objective five-year evaluation of the success of these centers is due 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 developing technology-based business ventures. Another two 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 considerable challenges. While its state-of-the-art facilities are located adjacent to a community college campus, limited operational funding, together with the fact that the center is not in

close proximity to either a university campus or private-sector entities in this targeted technology sector, makes it extremely difficult to ensure ongoing viability.

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 going to these many varied efforts were coordinated toward the same end, Maine could be much more effective and efficient in competing for economic development.

- There are five 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, eight 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, the 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 of Commerce and 66 local Chambers.
- 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.

Undercapitalized Economic-Development Financing Infrastructure

Perhaps, as a result of both Maine's lack of vision and strategic focus and its propensity to spread limited resources too thin, the state has created 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 legislature's Joint Standing Committee on Research and Development did much thoughtful research on how Maine's R&D efforts should be structured to be most beneficial, given the state's relatively small size and limited resources. Their research recommended a two-pronged investment approach that, ultimately, led to creating the Maine Technology Institute and the Maine Economic Improvement Fund.

Maine Technology Institute (MTI)

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

- During MTI's planning in the late 1990s, the American Association for the Advancement of Science (AAAS) determined that the organization should receive approximately \$10 million in annual funding to optimally fulfill its mission.
- MTI's budget allocation has leveled out to its current level of \$5.48 million, approximately half 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 FY07.

Maine Economic Improvement Fund (MEIF)

Through the MEIF, state R&D dollars are targeted to the state university system to support research at both the University of Maine and the University of Southern Maine.

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

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 administered by the Finance Authority of Maine. 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 on similar funds across the nation shows that this fund can not be fully effective with less than \$20 million in funding; thus, this fund is not fully achieving its potential benefit to Maine's small business.

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 would be needed for this program to run optimally, the fund was started with only \$1 million, and only recently received an additional \$4 million.

Finance Authority of Maine (FAME)

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

- *Insurance.* The first function is to provide insurance to secure loans that are a too risky for traditional banking. FAME will insure up to 90 percent of a bank's potential loss on such a loan. Given FAME's policy to commit no more than 15 percent of its capital to any one deal, the fact that FAME currently has only \$25 million in capital 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-to-\$13 million, but is now at 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.

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-to-\$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.

Analysis Paralysis

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

Tax Reform

As is probably the case in most states, there is no economic-development topic that has received more attention than tax reform. Interestingly, while Maine's tax burden has not always been among the top five states, the issue of tax reform has, topping all lists of economic-development issues for the past several decades, as evidenced by the number of studies commissioned to reform the state's tax structure. In a 2004 list compiled by the Maine State Law and Legislative Reference Library, 51 studies had been conducted since 1960 on some element of Maine's tax structure, and this does not include the many more "informal" studies 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 during the last 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, the phase-out of the personal property tax on business equipment. The problem is that the changes that have been put in place, while important, generally have not 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, providing adequate relief to low-income residents, among other topics, have been discussed at length by virtually every administration and legislature—yet bold reform has been elusive.

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 three-to-four years during the past two decades. A number of nationally known business-climate rankings also frequently fuel the fires of reform.

Regional Disparities: Development of the Washington County Economy

Mainers and the policy makers whom they elect have demonstrated time and again their major concern with addressing economic disparities across the state. Equality of opportunity has long driven the way the state invests in K-12 education, post-secondary education, economic-development incentives, public services, and infrastructure. 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 as a top priority. Most recently, Gov. John Baldacci charged David Flanagan in 2005 with developing a strategy for Washington County's economic advancement.

East-West Highway

The idea of constructing 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 is currently under way.

VII. CONCLUSION

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 also 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.

However, Maine has limited its relative success because it has failed 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.