

**CRITICAL
INVESTMENTS
FOR THE
MAINE
ECONOMY**

MAKING MAINE WORK



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TO THE READER:

Maine is emerging from one of the worst recessions since the 1930s. And, the economic world we are now entering is very different than the world we left behind.

For the past 30 years, Maine's primary economic drivers have been defense, real estate, and consumer spending. None of these will be present to the same degree in the years ahead. Two of Maine's three military bases have closed (only the Portsmouth Naval Shipyard remains). Housing values have fallen by 15% since 2007 – not as bad as the rest of the country, but still, a loss of wealth to Maine homeowners of \$10 billion.¹ Maine consumers have lost ground in income, home values, and retirement savings, and will not be able to resume spending at their former pace.

Now, Maine must build a new future. We need the intelligence to analyze our position; the insight to create a focused strategy; and, the courage to make the tough decisions and carry it out. We must create the cost incentives and infrastructure to support a new wave of private sector investment.

The challenge is real. But, we are upbeat about Maine's potential. Our analysis and recommendations build upon the collective wisdom of many recent Maine studies, some of which are listed in the bibliography on page 20. It also builds upon the viewpoints and ideas of the thousand-plus Maine business managers who responded to our 2010 survey. Finally, it reflects the ideas of an outstanding advisory committee that includes **Stephen Culver** of Hannaford Supermarkets; **Rich Donaldson** of L.L. Bean, Inc.; **Kevin Gildart** of General Dynamics-Bath Iron Works; **Michelle Hood** of Eastern Maine Healthcare Systems; **John Rohman** of WBRC Architects·Engineers; and **Joan Smith** of Baker Newman Noyes LLC.

There is no time to waste. Maine's future beckons. Join us in facing the economic challenges head on. Let us have the courage and discipline to focus our public sector investments in ways which will make Maine one of the most productive and prosperous states in the nation.

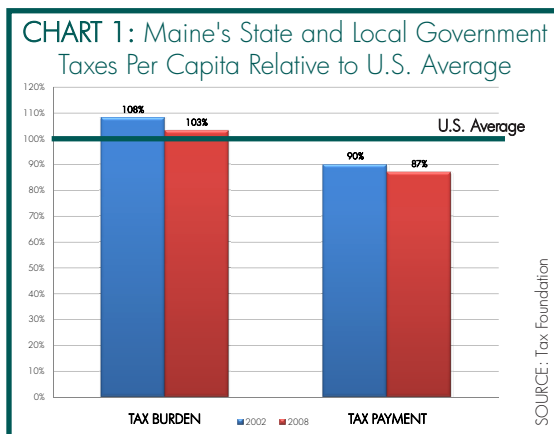
¹Source: Planning Decisions, Inc., using MaineHousing data – 400,000 Maine owners, \$26,900 decline in median sales values.

INTRODUCTION

Maine's heritage is trees, wildlife, and water; but also hard-working people and productive businesses. This report is about renewing our economic heritage.

The recommendations within are not original. They build upon many recent studies, survey responses from more than 1,000 Maine business leaders, and an independent analysis by the Maine Development Foundation (MDF) team led by Laurie Lachance, president of MDF and former Maine State Economist. What is original is that the best analyses and recommendations across all issue areas are pulled together into one comprehensive and coherent picture.

Reports can make a difference. In the last major gubernatorial election (2002), the business community produced a report, entitled “No Place to Hide,” that highlighted the importance of reducing Maine's state and local tax burden¹. The awareness raised by that report contributed to progress in moving Maine closer to the national average on tax burden (see Chart 1).



Now, eight years later, the challenge is even greater – to re-create the engines of growth in Maine's economy. Maine has faced such a challenge before. After the Civil War, the railroads opened up the West. Farms in Maine struggled. Young people left. Meanwhile, the industrial revolution brought steel to shipbuilding, and refrigerators to homes and businesses, threatening traditional boatbuilding and ice industries. In the middle of this crisis, in 1876, Joshua Chamberlain – Maine Civil War hero and former Governor – gave a speech on the topic, “Maine: Her Place in History.” The speech laid out the economic challenges and opportunities facing the state in stark terms.

Today, we again face the challenge of renewal, which is why we have scattered quotes from Chamberlain's speech throughout this report. Maine met the challenge Chamberlain laid out. Within decades, Bath Iron Works modernized shipbuilding; University of Maine research revolutionized forest management and farming; and entrepreneurs created renewable water power to sustain paper, shoe, and textile industries. Now, it's our generation's turn to meet the challenge.



“My hope for Maine lies largely in those many minor industries already referred to, that are pressing into service natural motors and native skill all over the State... So every advantage not only of soil and material resources, but also of native aptitude, tact and skill, the division of labor, and the association of capital and the rapid circulation of wealth, would tend to the stability, the upbuilding, the broad culture and the total well-being of the state.”

Joshua Chamberlain, p. 100

Maine: Her Place in History

¹The tax burden is the percent of income that the average household pays for taxes. Maine state and local governments actually spend less per capita than other states, as the chart shows, but because our incomes are low, the overall burden is higher than average.

“Up to the year 1850, each decade showed an average gain of 80,000 inhabitants. From that time a decided slackening began ... This severe loss, then, must be found in males under the age of 21 years old ... a state of things which demands the serious attention of our public teachers and statesmen – guardians of the commonwealth and weal.”

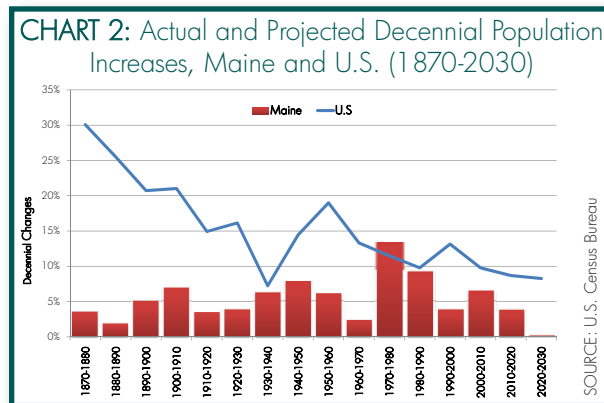
Joshua Chamberlain, pp. 93-94

MAINE PEOPLE:

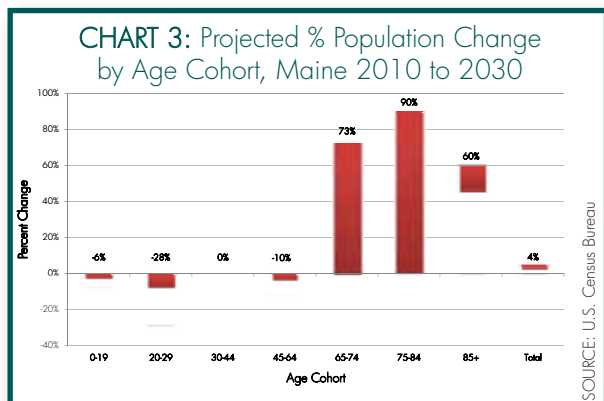
THE CHALLENGE OF AN AGING POPULATION

Maine's population is hardly growing at all. This fundamental fact drives many of our challenges – and opportunities.

Historically, population growth is correlated with economic growth. Maine ranked 45th among states in per capita income in 1978. By 1989, after a period of in-migration, Maine moved up to 28th. Since then, population growth has slowed (see Chart 2), and Maine's per capita income ranking has gotten stuck around 30th.



The fact that population is barely growing does not mean that it is not changing dramatically. *Maine's population is getting older.* Maine has the highest median age of any state (41.2 in 2005). The pace of aging will pick up in the next 15 years (see Chart 3). By 2030, citizens over 65 will comprise more than one-quarter of Maine's population.



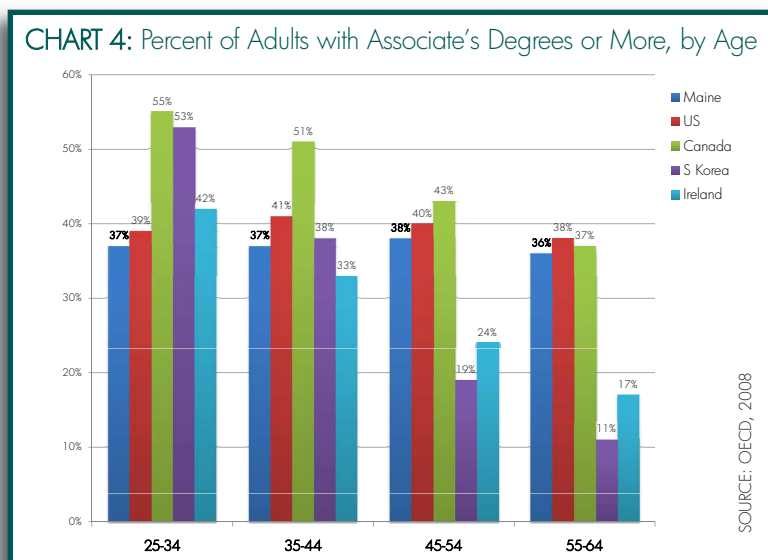
Older populations have fewer births and more deaths. Natural increase in Maine (births over deaths) was 1,400 in 2001, 800 in 2009, and soon will be a net negative number. *This makes in-migration a critical factor for renewing Maine's population and labor force.*

Maine's population is also not staying in the same place. *We are moving south and towards the coast. We are moving out of cities and into the countryside.* This creates severe growth pressures for towns in Cumberland and York counties, and at the same time, it takes away the

critical mass necessary to support stores, services, and job growth in many rural towns to the north.

It also creates pressures on taxes. For example, even though the state's school enrollment declined 16% since 1979, and is expected to continue to go down in the future, the state has had to pay hundreds of millions of dollars for new schools simply to accommodate shifting population. Likewise, new roads and sidewalks and utilities must be built for new development, even as the expenses of maintaining the old aren't reduced. The spreading out of Maine people – commonly called “sprawl” – creates an expanding infrastructure that strains our ability to maintain. To take two examples: Today, a quarter of our road surfaces are in “poor” or “critical” condition due to lack of maintenance and repair; and at the same time, our public university system, spread out over many campuses, has a backlog of \$350 million in unmet capital renewal needs.

The better jobs in Maine's new economy require higher skill levels. *But, Maine is falling behind in providing its workforce with higher education degrees.* Among the over 55 population, Maine people have college education levels comparable to the U.S. and Canada, and well above competitors in Asia and Europe (see Chart 4). But Maine's younger people, like the rest of the country's, are well behind Canada, South Korea, and Ireland. *In fact, the U.S. (including Maine) is in danger of becoming the first industrialized society in history in which children achieve a lower level of education than their parents.*



What are the implications of this demographic challenge? *A slow-growing population* means that we must work smarter to survive – we can't just grow out of our challenges. *An older population* exerts pressure on housing, labor force, health care, transportation, and state budgets. *A spreading population* means we must pay more per capita for virtually all government services, and sprawling roadside development mars the beauty of Maine, our biggest asset.

“La démographie est la destinée,” the French philosopher August Comte once said. But, Maine can change its destiny. We can attract young people; we can take advantage of the assets that retirees can offer our economy; we can live more efficiently. But, it will take courage, and the tenacity to stay the course.



“We need to figure out a way to effectively attract and keep younger workers. They are our future workforce and to discount or overlook what appeals to them will be a huge mistake in the coming years, as the Baby Boomers leave the workforce. Younger workers are great multi-taskers. They understand technology and use it very productively.”

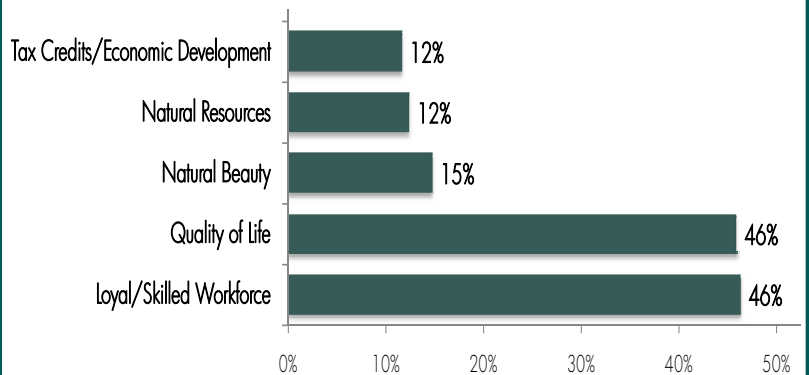
Joan Smith, CPA
Principal
Baker Newman Noyes LLC

MAINE PEOPLE:

THE ASSET OF OUR QUALITY OF LIFE

Maine faces challenges, but so does every other state in America. What Maine has, and many other states don't, are unique assets and resources to help address the challenges. According to the 1,039 business leaders responding to the Maine Development Foundation's survey in February 2010, Maine's two greatest economic development assets are its quality of life and its loyal, hard-working workforce (see Chart 5).

CHART 5: Supports to Economic Growth in Maine
by Percentage of All Responses Provided



SOURCE: Maine Development Foundation / Maine State Chamber of Commerce Web Survey with Business Leaders
February 2010, n=1,039.

“But Maine has many things yet to take hold of human interests, and to stir life and love. Her thousand lakes embosomed in deep forests, her Mount Katahdn, somber and solitary ... and this great and wide sea – this wonderful shore – these beaches and bays and harbors, and bold headlands sun-steeped in loveliness or storm-swept in grandeur; – these things invite the brave, the noble, the cultured ...”

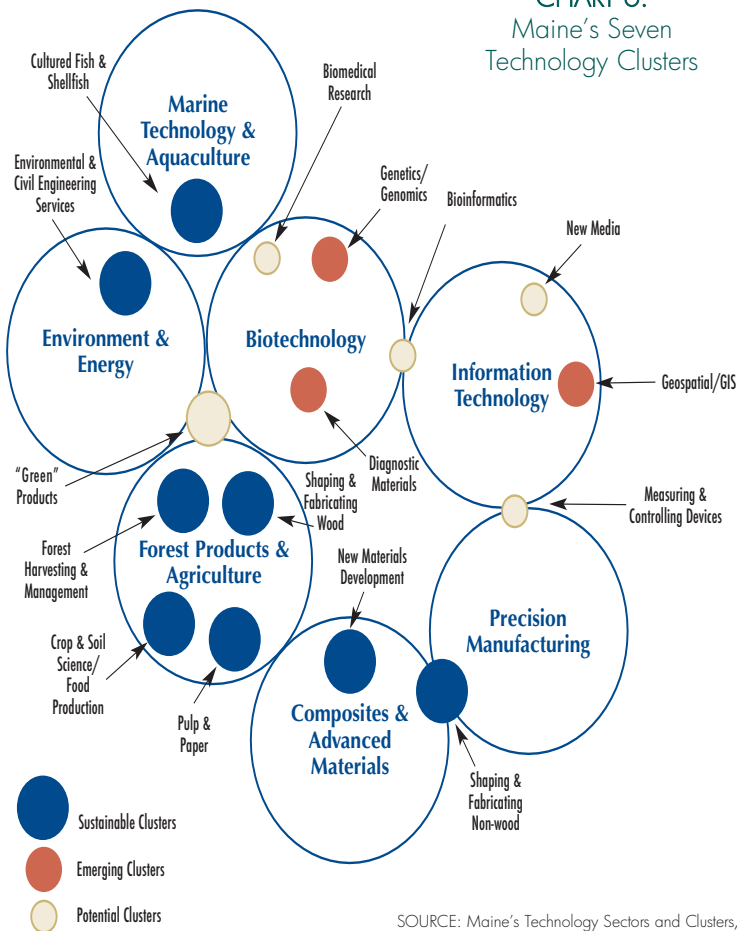
Joshua Chamberlain, p. 108

Mainers have long enjoyed the beauty of our lakes and rivers, forests and mountains, bays and islands, historic town squares and Main Streets, music and art. Now it turns out that there's another reason to love our setting. It is one of our biggest economic development assets. *In the global struggle to attract and retain skilled workers, Maine's quality of place is our chief competitive advantage.*

The other asset ranked at the top by Maine employers is its workforce, its people. We are:

- *Entrepreneurial.* Maine had 19% more entrepreneurs per thousand people than the national average in 2008, according to the Kauffman Foundation. We are a state of tinkerers and craftspeople. We are on the cutting edge of innovation in emerging economic sectors (see Chart 6 on page 5) such as marine technology and aquaculture; environment and energy; biotechnology; information technology; precision manufacturing; forest products and agriculture; and, composites and advanced materials.

CHART 6:
Maine's Seven
Technology Clusters



SOURCE: Maine's Technology Sectors and Clusters, Maine Technology Institute, 2008

This chart maps the clusters against the sectors. It also shows the different stages of clusters and several clusters that overlap one or more sectors. Most of these overlapping clusters are potential clusters, which represent potentially important areas of opportunity.



“We are able to attract qualified out-of-state talent because Maine carries a mystique and a strong sense of place. Many of our architects and their families come to Bangor because of our community’s value-added quality of place. Bangor possesses fabulous cultural offerings: museums, restaurants, theaters, and the Folk Festival – and has diverse environmental and recreational opportunities nearby.”

John Rohman, PE, ASID
Chairman of the Board,
Principal
WBRC Architects+Engineers

- *Civic-minded.* Maine ranked fifth among all states in voter turnout in 2008. Maine has a national reputation for sending people to Washington who are practical problem-solvers, not rigid ideologues.
- *Caring.* Maine averages 45 hours of volunteer time per resident per year, seventh-highest in the country. We take care of each other.

Entrepreneurship, civic-mindedness, and caring are not just the characteristics of good citizens. *They are also the characteristics of good workers.*

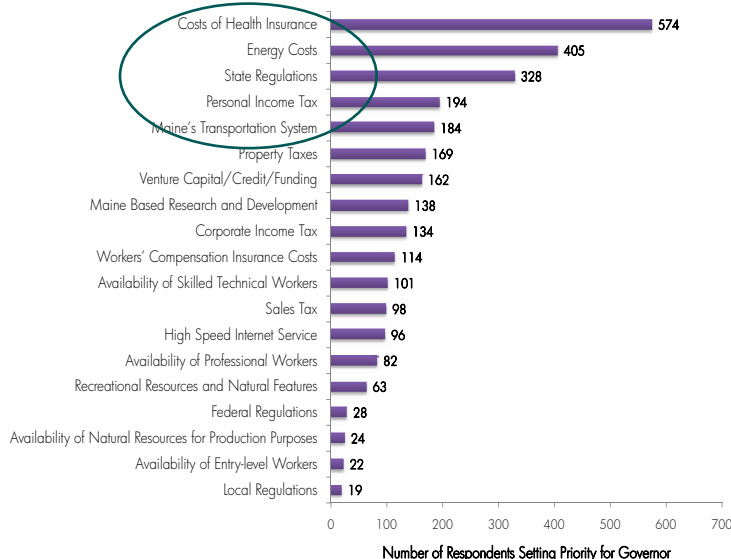
So, while Maine faces a major demographic challenge to attract and retain talent, we enter the competition with assets of place and people that few other states can match.

MAINE COSTS:

THE CHALLENGE OF STAYING COMPETITIVE

When asked to identify the major challenges that the next Maine governor should address, Maine business people went first to cost issues – *health insurance, energy, taxes, regulations, and transportation* (see Chart 7).

CHART 7: Priorities for Maine's Next Governor and Legislature



SOURCE: Maine Development Foundation / Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

“Maine is conservative, self-reliant, calm; slow even, to wrath or novelty.”

Joshua Chamberlain, p. 92

“The fact of the matter is, that in our way of doing business, Maine has become an old and exhausted State ...”

Joshua Chamberlain, p. 97

Keeping Maine affordable for doing business will always be a challenge. We are in a cold climate, sparsely populated, geographically spread out, with relatively old buildings and roads and infrastructure. It will take constant effort.

Right now, we are not doing enough. Maine ranks eighth highest in the country for its cost of doing business, according to Economy.com. We must do better. We must at least achieve a point of neutrality – where our cost of doing business is around the national average.

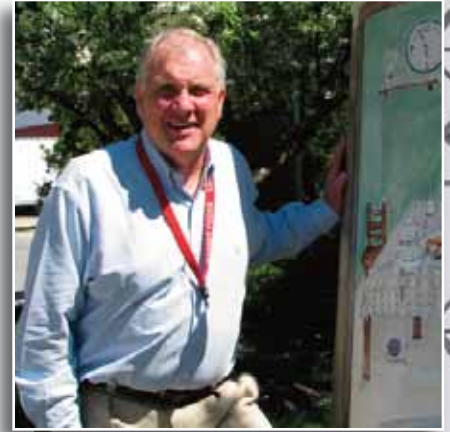
Maine has shown that it can succeed in lowering business costs. In the early 1990s, Maine ranked among the top of all states in workers' compensation costs. Through a series of reforms, including the creation of the Maine Employers' Mutual Insurance Company (MEMIC), Maine reduced lost-time injuries by 30%, and the overall cost of insurance by more than a third. Now we need to apply the same kind of bipartisan creativity to attack unnecessary costs in health care, energy, taxes, and regulations.

Take *health care*. Maine's per capita health care spending is 24% higher than the national average. Maine ranked second among states (third when the District of Columbia is included – see Chart 8) for per capita expenditures in 2004. Our average annual rate of increase from 1991 to 2004 was 8.3% – 24% over the national average. Health care spending consumes 19.3% of our gross state product, compared to 13.3% nationally.

CHART 8: Health Care Expenditures per Capita

	U.S. Average	\$5,283
1	District of Columbia	\$8,295
2	Massachusetts	\$6,683
3	Maine	\$6,540
4	New York	\$6,535
5	Alaska	\$6,450

SOURCE: Kaiser Foundation (2004)



Certainly Maine's population is older than the nation's. But the Advisory Council on Health Systems Development reported to the Legislature in 2009 that *"... high per capita health care spending here (in Maine) is largely due, not to an older or sicker population, but to how we use care and how much care we use."*

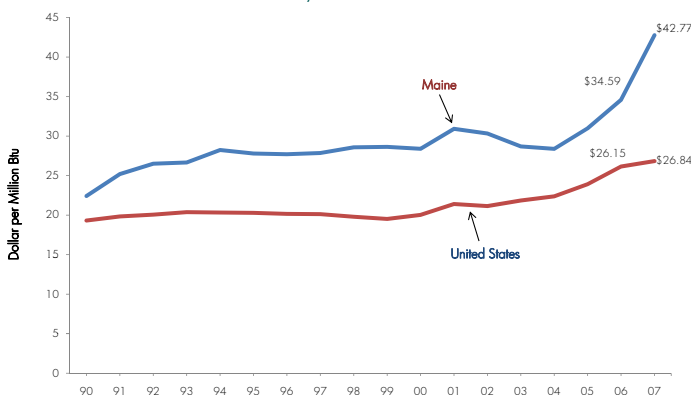
A place to start is the state's MaineCare program, which spends federal Medicaid dollars in Maine. The MaineCare budget was \$2 billion in 2007. On the positive side, MaineCare spending declined between 2004 and 2007, unlike the rest of the nation. On the negative side, one way that MaineCare has controlled costs is by reimbursing hospitals at a level lower than what Medicaid reimburses the state. MaineCare reimburses hospitals at a rate of 75¢ on the dollar – even lower than Medicare, which reimburses hospitals 84¢ on the dollar. This is an illusory source of savings, because ultimately private payers make up the difference in those payments through higher insurance rates. MaineCare needs a top-to-bottom overhaul.

Energy is another difficult issue. Our electric rates are 60% higher than the national average, and the gap is growing (as of 2007; see Chart 9), although Maine's rates are lower than the rest of New England. Maine is aggressively pursuing a "green economy" strategy, which through a combination of wind power, building efficiency, and other strategies will make the state more energy-independent and affordable in the long run. Another energy-related cost is *transportation*. Because of our distance from markets and limited rail and air service, the cost of transportation for Maine businesses is also high. Maine has also long worked to increase freight and passenger rail service in Maine, but progress is too slow. More needs to be

"Compliance isn't good enough at Barber Foods. We need to be leaders, on the cutting edge, promoting safety, and building trust. We need to be faster, more efficient, and more effective. 'Good enough' is not good enough. To compete, we must be the best."

Bruce Wagner
CEO/President,
Barber Foods

CHART 9: Retail Electricity Price Maine and U.S.: 1990-2007



SOURCE: Energy Information Administration

Continued on page 8...



“Research and development is underfunded in Maine, yet it is R&D that will provide the innovative muscle Maine’s workforce needs in terms of job creation and new industry.”

M. Michelle Hood, FACHE
President and CEO
EMHS

“But brighter days are in store for Maine. We see even now the reflux wave. Slowly, as ignorance is dispelled and prejudice overcome, and interest appears, men are turning towards Maine. Labor and capital and mind learn that they can combine here with singular advantage.”

Joshua Chamberlain, p. 106

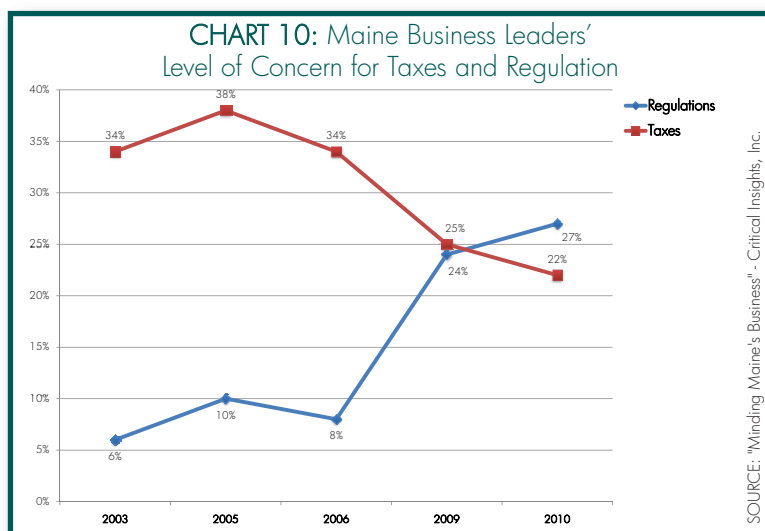
done immediately to reduce the energy cost burden on Maine businesses.

With regard to *taxes*, Maine is still above average in its tax burden. Local property tax rates are among the highest in the nation, due in part to rising K-12 education costs (even as student numbers decline). In addition, state revenues are highly volatile, rising and falling with the economic cycle. This is because sales tax revenues are heavily dependent on the housing and auto sales sectors, and income tax revenues are highly dependent upon employment and stock market performance. This creates a boom-and-bust state budgeting syndrome.

Finally, high personal income tax and estate tax rates discourage businesses and retirees from locating in Maine. The challenge goes beyond just reducing the tax burden; it is also creating a tax system that rewards private investment and provides a relatively stable and predictable revenue flow to state government.

In June 2010, Maine voters defeated a reform that would have reduced top income tax rates, while spreading the sales tax to cover a variety of services. While this reform failed, the results should not be interpreted to mean that Maine voters are happy with the status quo. More efforts at tax reform are needed.

Finally, Maine businesses are increasingly concerned about *government regulatory practices* that unnecessarily raise the cost of doing business. The issue was among the top three on the Maine Development Foundation survey done for this report (see Chart 10). It was a top issue at the Governor’s Jobs Summit in February 2010. In the annual surveys of Maine business leaders conducted by Critical Insights³, the issue has gone from a concern of 6% of respondents in 2003 to 27% in 2010. This is an issue that the next governor and legislature can and must address.



The pace of change is accelerating. Maine’s competition is global. The world economy punishes regions with high cost structures. We must bring Maine’s cost of doing business back to the national average in order to ensure that businesses can afford to invest in Maine.

³ <http://criticalinsights.com/offering.mindingmainesbusiness.asp>

MAINE'S INVESTMENTS:

THE CHALLENGE OF INCREASING PRODUCTIVITY

Maine produced about \$58,000 worth of economic value per worker in 2007. That is 45th among all of the states.⁴ Maine's workers earned an average of \$37,600 in 2007. That is 45th among all of the states. It is no coincidence that Maine is 45th on both measures. Earnings are closely related to the value of product produced.

To raise incomes in Maine, we must increase the economic value of our product per worker – or in economic terms, our “productivity.” As Paul Krugman once put it, “Productivity isn't everything, but in the long run it is almost everything.”⁵

Raising productivity doesn't just mean working “harder.” It means working smarter, with better machines and processes. To raise Maine's productivity, we must raise our performance on many fronts, including investing in ourselves.

It starts with *educated and trained workers*. Maine must improve its educational performance. Although our fourth and eighth graders score relatively well compared to other states on standardized tests, their performance declines as they get into higher grades. Consider this:

- One in five Maine students never graduates from high school;
- Two in five Maine students who attend college fail to attain a bachelor's degree within six years;
- Only one in 25 working-age adults is enrolled in higher education; and,
- Maine gets an “F” for the affordability of its public colleges from the National Center for Public Policy and Higher Education.

The result is that Maine lags the region and the nation in the level of education of its workforce. We must raise our educational performance to compete in the global knowledge economy.

The problem is not a lack of money. It's how we spend it. Maine taxpayers increased their spending for K-12 by 450% in the past 27 years, while enrollment dropped by 16%. Too much is spent on administration, and not enough is being spent for high-priority areas like early childhood development and adult education.

It extends to *innovative and pro-active business managers*. Maine's business and political culture can be resistant to change. The University of Maine's new Innovation Engineering program and the Maine Technology Institute are tools that can transform the ways businesses innovate in the future.

Another critical component of productivity is *access to markets*. Our small businesses, in particular, need connectivity to customers through high speed internet and transportation. These were among the important priorities highlighted in the Maine Development Foundation's survey of business leaders (see Chart 11 on page 10).



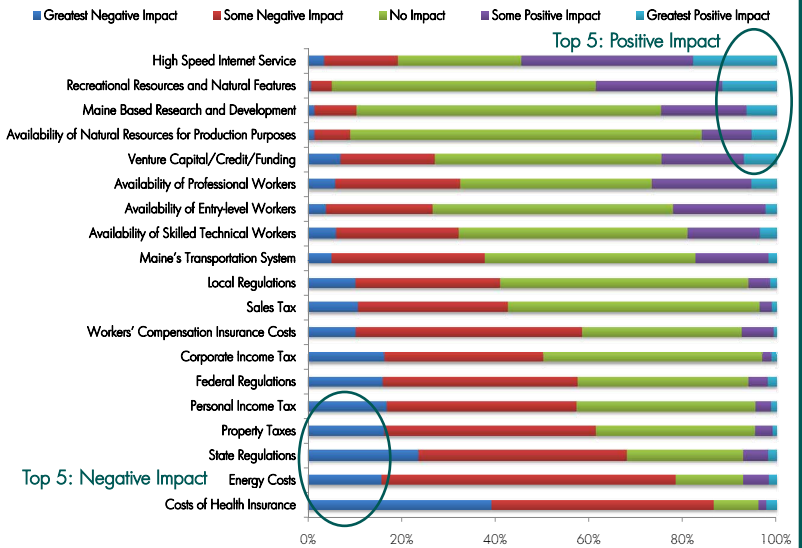
“The best ingredient for Maine's growth is not public programs, but private sector investment. Through the combined effect of decisions they make, Maine leaders should do what they can to encourage, reward, and incent investment consistent with public benefits.”

Jim Conlon
President & CEO
Bangor Savings Bank

⁴http://www.pewcenteronthestates.org/tfw/trends_map_data_table.aspx?trendID=9&assessmentID=100

⁵From *The Age of Diminishing Expectations*, 1994

CHART 11: The Strength of the Influence on an Organization Varies by Issue



SOURCE: Maine Development Foundation / Maine State Chamber of Commerce Web Survey with Business Leaders
February 2010, n=1,039.

In a rural state like Maine, *high-speed internet* can be a great equalizer. It can provide access to markets equal to competitors located in urban areas. Maine does have a robust fiber optic network throughout the state. This will be enhanced in 2011 by federal stimulus dollars, which will fund efforts such as Maine Fiber Company's "Three Ring Binder" and FairPoint's "Vantage Point" network, extending broadband access further into rural areas. FairPoint has also applied for federal broadband stimulus funding to provide direct fiber connections to nearly 600 critical community institutions (hospital, libraries, etc.), as well as residential/business connections in Washington and part of Hancock counties. Even with these ventures, it is still cost-prohibitive to reach all rural areas. Some Maine residents don't have access to broadband at all, not to mention the availability of high-capacity broadband.

Another form of access is *transportation*. Maine spends a lot on roads and bridges – but not enough. The Maine Department of Transportation estimates that the gas tax and federal aid will generate \$3.2 billion in the next 10 years. But, this is only half of the amount needed to complete identified improvements. Our infrastructure is steadily deteriorating – today 25% of roads are rated poor or mediocre, and one-third of bridges are deficient. Rail service only serves a small fraction of our businesses and travelers, and air service is constantly under threat. Maine needs a transportation strategy that is funded, focused, and able to connect businesses to markets.

In sum, productivity is the key to successful, sustainable growth. Productivity requires investment from both the public and private sectors. The public sector must invest in education, business training, innovation, and transportation. The private sector must invest in workforce training, communications, new technologies, innovation, and efficiency. The challenge for Maine government is to find the resources for public investment, while at the same time reducing costs so that businesses can afford to make the needed private investments.

"No one can call our people lazy. They have been industrious; nay, hard workers. But they have acted as if the only law of labor was hard work. They have been slow to see that true labor seeks not simply where it can find obstacles to overcome, but how it can work most advantageously."

Joshua Chamberlain, p. 97

RECOMMENDATIONS

INVEST IN PRODUCTIVITY, MANAGE COST INFLATION

The challenge, then, is to shift spending priorities in the public sector towards those investments that build productivity and the future economy; while at the same time, managing cost inflation in those areas that impede private investment.

These themes run through every sector and issue the state faces: *health care, energy, tax and regulatory policy, education, connectivity, innovation, quality of place, and business financing.*

Below are 12 strategies for achieving success in these areas.



"It's not that we need less stringent regulations; it's that we need more realistic ones."

Charles "Wick" Johnson
President & Owner
Kennebec Technologies

HEALTH CARE

1

Challenge Maine's health care leaders to reduce annual increases in health care spending below the national average every year.

From 1991 to 2004, Maine's health care costs rose at 8.3% a year, while the nation's grew at 6.7%. We need to reverse this historic relationship.

The aging of Maine's population will make our health care providers even more dependent on the Medicare program, at a time when the federal government is likely to reduce its payments for hospital and medical services. Increased "cost shifting" to the private sector is not a solution. The resulting increases in health insurance premiums would impede economic growth.

The next governor must call together major health care providers and stakeholders within the first year of coming into office, and create a public-private strategy to meet the health care cost inflation goal. It will require further consolidation within our health care sector, greater collaboration among health care providers and purchasers, closer alignment of Maine laws with other states, and improved processes of care. Whatever the strategies chosen, it is imperative that we derive greater value from every dollar spent.

2

Use wellness programs, education, and incentives to improve the health status of every Maine person.

Helping more Maine people to protect their health and the health of their families is an essential component of a comprehensive strategy to reduce health care spending. Good health is also essential to the productivity of our workforce. Too many Maine people now suffer from diabetes, heart disease, and other illnesses that can be prevented or ameliorated by healthier lifestyles. More than 18% of our adult population continues to use tobacco products. The smoking rate among young adults exceeds 28% (CDC, 2009). More than 60% of our adult population – and an alarming 28% of our children and adolescents – are obese or overweight (Kaiser Facts, 2007-8).

HEALTH CARE GOALS:

- Every year, Maine's health care costs will move closer to the national average.
- Over the long term, Maine will become the healthiest state in the nation.



HEALTH CARE

Continued

The state must promote this goal by:

- Making healthy foods, healthy living, and exercise an essential component of public education;
- Using the food stamp program to promote healthy eating; and,
- Providing tax and other incentives for employers to provide wellness programs for their workers, and for insurers to provide discounts to such businesses.

Ultimately, personal health is a responsibility of every individual. Government's role is to use education and incentives to help individuals become accountable for their own actions. Together, state government, business, and health care providers need to coordinate and expand their efforts, and enlist people all across Maine in a campaign to make our state one of the healthiest in the nation.

3 Use state government's purchasing power to encourage best health care practices in Maine.

State government is Maine's biggest purchaser of health care – through MaineCare, and through insurance to employees and retirees.

The state should work with Maine's health care providers to design a MaineCare program that rewards efficiencies and value while reimbursing at a rate that mitigates the need for provider cost shifting to the commercial market, including:

- Promoting the use of clinics rather than expensive emergency care;
- Replacing payment-per-service for an approach which rewards prevention and penalizes excessive procedures; and,
- Rewarding wellness programs.

One major issue in MaineCare today is that it doesn't fully reimburse health care providers for their services, so they end up charging private insurers more to make up for the shortfall. It also creates a situation where some health care providers refuse to serve poor people who are insured by MaineCare.

The state should work to raise MaineCare reimbursements to a level close to actual costs.

Federal reforms will also be happening in the early years of the next gubernatorial administration, reforms that offer both great promise and great peril for Maine businesses and families. The promise is more secure coverage. The danger is added costs.

The state should stay on top of federal health care changes, and work collaboratively with private and nonprofit partners to ensure that benefits are maximized, and problems minimized.

ENERGY

4

Limit short-term energy costs, even while creating long-term energy alternatives.

Maine is already moving aggressively to promote energy efficiency, wind power and other alternatives to diversify its energy mix. At this point, we can't know what will be the leading technology 10 years from now, nor is it desirable for government to try and figure this out. Rather, what Maine needs to do is encourage a diverse mix of energy sources, and let the market decide which ones ultimately make the most sense.

The state should promote improved access for Maine businesses to all types of power – from wind to solar to hydro to natural gas to oil to nuclear.

The long term goal is diversity and balance. The short term goal is cost relief.

The state should reduce immediate energy costs by:

- Supporting the goals of the Efficiency Maine Trust to reduce energy consumption through the increased utilization of more energy-efficient lighting, insulation, and industrial processes;
- Supporting time-of-day pricing options as a way to encourage energy users to shift from peak usage to off-peak;
- Promoting a Liquefied Natural Gas (LNG) terminal in Washington County; and,
- Negotiating with Canadian providers for favorable rates for Maine businesses in return for transmission lines through the state.

NOTE: Transportation is also a major contributor to energy use and spending. This issue is addressed further in Recommendation 10 in the Connectivity section on page 17.

ENERGY GOALS:

- In the short run, Maine will act to reduce the burden of high electricity costs on business.
- In the long run, Maine will have a balanced energy portfolio, and not be overly dependent on any one single source.

TAXATION & REGULATORY POLICY GOALS:

- Reform Maine's overall tax structure in a way that:
 - ✓ Reduces the tax burden;
 - ✓ Promotes more private investment;
 - ✓ Preserves existing business incentives, such as the Business Equipment Tax Reimbursement (BETR) program;
 - ✓ Provides adequate revenue for needed public investments; and,
 - ✓ Increases the stability and predictability of revenues.
- Reform Maine's regulatory structure in a way that:
 - ✓ Reduces burden; and,
 - ✓ Increases stability and predictability.

TAXATION & REGULATORY POLICY

5

Don't stop now with tax reform.

Maine voters rejected the latest effort at reforming the tax code in a way that promoted private investment and reduced revenue volatility. This is not a reason to give up. Maine people remain dissatisfied, and the tax system is not working well. Rather, it is a reason to work even harder to create a tax structure that can support Maine's future economy.

The state must continue to monitor and limit state and local spending inflation through the LD 1 process, and to promote government efficiencies through consolidation, technology, and cooperation.

The state must continue the tax reform effort by finding responsible ways to sustain revenues and reduce volatility while at the same time:

- Bringing down the top income tax brackets;
- Providing property tax relief; and,
- Bringing the estate tax into conformance with federal laws.

6

Change the government "culture of regulation."

Regulation is a complicated issue. There are so many kinds of regulations, administered by so many different agencies, for so many different purposes, it is difficult to create a simple legislative solution. And much of the problem is one of attitude, not specific laws.

The first thing that a new governor must do is to change the bureaucratic culture in Augusta, so that regulators see their jobs as helping Maine people and Maine businesses succeed.

Secondly, the state must empower the Regulatory Fairness Board to collect information on state regulatory review times and costs; to set benchmarks for regulatory performance; and to evaluate progress towards meeting the benchmarks.

EDUCATION

7

Create an integrated state approach to education.

In the current legislative process, the budget for pre-kindergarten programs, K-12, the community colleges, the University System, and adult education, are all treated separately. The result is that historic precedent, rather than current need, dictates the relative spending priority of each area. In addition, because these systems operate independently of each other, students fall between the cracks – between high school and college, between community college and university, between university and employer.

The governor must prepare a global budget covering all educational sectors, and submit an annual state of education report, as a start to bringing the pieces together. This global budget should also include explicit student-centered outcomes at all levels of the “system” – from early childhood development through workforce training. Investments should be made and programs evaluated based on achievement of these outcomes. For example, one outcome might be that “by 2020, 95% of freshmen will graduate from high school in four years, and 80% of these graduates will enter post secondary education.” Outcomes should be aimed at achieving the overall goal.

The integrated approach must particularly address the problem of the young people who grow up in poverty, drop out of high school, and end up as adults without the skills to be productive members of society.

As part of the report, the governor must include a “blueprint for independence” that sets forth a strategy for helping young people at risk gain the tools necessary to succeed in life.

8

Support lifelong learning among all age groups.

Even if every student now in high school went on to get a PhD, Maine would still lag behind its competitors in the level of education of its workforce in 2020. The reason is that most of our 2020 workforce is currently already out of school. The University, Community College, and business sectors need to elevate their level of collaboration to bring higher education programs into the workplace and community. The redevelopment of the former base in Brunswick provides the opportunity to create such a model.

The state must make the new Maine Center for Innovation at the redeveloped base in Brunswick a state-of-the-art model for continuing education. It should bring programs in engineering, information technology, and composite materials to businesses and workers at or near to their places of work in Greater Portland and Lewiston-Auburn. This exciting collaboration of high schools, community colleges, university campuses, and private businesses should be replicated throughout Maine.

New models for enhancing life-long learning need our support. One successful approach is the College Transitions program, which is delivered through Maine’s local adult education centers. This three-year-old program prepares adults to transition to college by providing counseling support and development courses at low or no cost. Approximately 1,300 adults are currently enrolled in this comprehensive program, 25% of whom have already transitioned to college. A second program is the Maine Employers’ Initiative, which works with employers to support their employees in furthering their education. After one year, more than 270 Maine workers have gone back to college.

EDUCATION GOAL:

- Meet the Maine Compact for Higher Education’s goal – the proportion of Maine’s working age population that has earned a college degree or post secondary certificate will exceed the New England average by 2020, requiring an additional 40,000 degree holders above current projections.



INNOVATION

9

Increase innovation in large and small businesses in Maine.

According to the Maine Economic Growth Council, Maine needs to triple its level of public and private research and development by 2015 in order for it to compete in the future economy. However, state government is near to the limit that it can reasonably be expected to contribute. Meeting this goal will require additional resources from business and nonprofit partners. State government can play a role in helping Maine institutions identify partners that can help support R&D.

The state should work with regional governors and premiers, and groups such as Maine & Company and the Maine International Trade Center, to connect Maine businesses and research organizations with potential R&D partners beyond Maine's borders.

Innovation is not just for large organizations. Small Maine businesses also need to learn the art of product development, introduction, and marketing. The new Innovation Engineering program at the University of Maine is just one of many resources that are available for this purpose.

The state should work through existing regional small business counseling and economic development organizations to provide innovation training to 10,000 small Maine businesses in the next eight years (i.e., 200 per region per year).

INNOVATION GOALS:

- Expand private investment in research and development;
- Increase business startups and expansions from the R&D effort; and,
- Embrace innovation as a means to expanding Maine's existing businesses.

CONNECTIVITY

10 Create balanced and affordable transportation and communications systems to connect Maine businesses to customers and markets beyond our borders.

Every year, American cars become more fuel-efficient and travel more miles on a gallon of gas. As a consequence, car owners pay less for road maintenance per mile of driving than the year before. If Maine and the nation are effective in reaching its energy goals in the coming decade, cars and trucks will become yet again more fuel-efficient – and thus, pay even less for infrastructure maintenance. The gas tax, as it is presently structured, is not keeping up with actual use and maintenance requirements.

The state must find a better funding mechanism for transportation; explain it well to the public; and, generate the support needed to make the change.

Part of the new thinking must address rail investments and access. Rail is energy efficient. It serves the manufacturing sector, and is particularly important to rural and northern Maine. But, railroads are different than highways in one important respect – they are owned by private companies, not the public. This has led in the past to apparent conflicts between the broader economic development interests of the state and the narrower profit interest of the rail owner.

The state should evaluate all options for making railroad service available on a competitive basis to Maine businesses — including the option of setting up a state rail authority to own key sections of track.

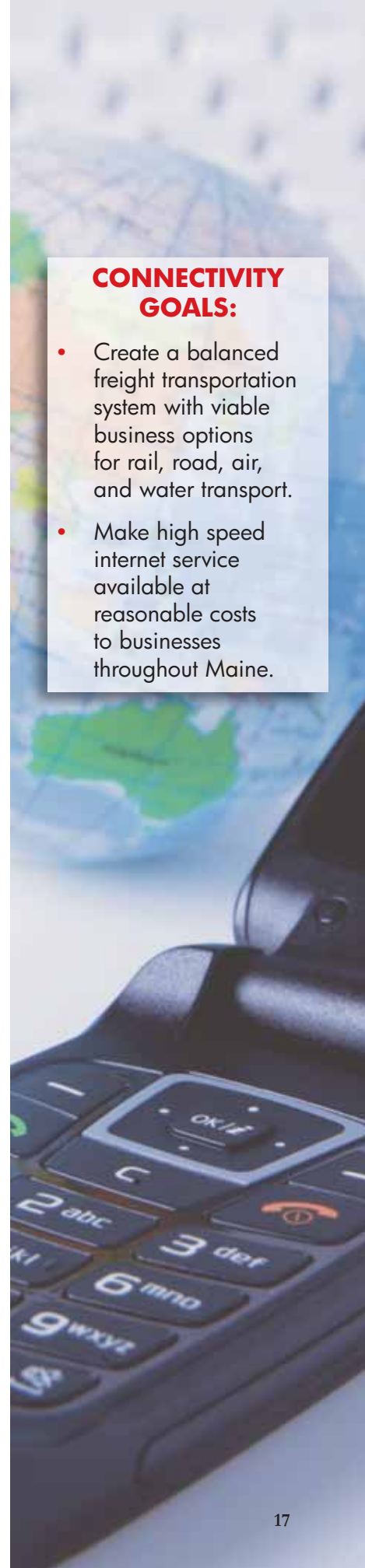
With regard to communications, Maine has a robust fiber optic network, but it still does not reach everyone, nor is it affordable in some rural areas. A high-capacity, high-speed core network is essential to economic development. The demand for bandwidth is growing every day, and if bandwidth isn't increased, "capacity" in our current network will soon run out. Therefore, the state should encourage on-going private investment in communications infrastructure to increase access to and the availability of high-capacity broadband.

The state should also work with communications providers and Maine's Congressional Delegation to modernize federal communications regulations. Created in 1934 and updated by the 1996 federal "Telco Act," the regulatory framework was intended to foster competition within distinct markets. That plan is outdated. Modern state and federal communications policies must keep pace with today's rapidly changing communications marketplace and put all companies on equal footing to encourage investment in innovative products and services.

The state should support ConnectME's efforts to identify and fill gaps in the communications network. Wireless approaches – which still depend on a reliable wired backbone – may prove to be an economically feasible way to provide service for the most rural areas of Maine.

CONNECTIVITY GOALS:

- Create a balanced freight transportation system with viable business options for rail, road, air, and water transport.
- Make high speed internet service available at reasonable costs to businesses throughout Maine.



QUALITY OF PLACE

11 Support Quality of Place efforts to conserve landmark places and views in Maine, and to invest in Main Streets.

Every state claims that its “quality of life” is unique. But how many states have Maine’s assets? How many have the oceanfront, mountains, colonial houses, art colonies, wilderness, islands, ski resorts, historic theaters, and small farms? The time is past for talking in vague generalities about our quality of life. We need to do something more concrete. We need to inventory, to protect, to enhance, and to market our specific and unique assets. We are all here because we love Maine. Now, in the competition for skilled workers that we face in the future, we need to use and protect these assets as tools for economic development. This is a process that needs to be “bottoms up,” involving everyone.

The state must implement the new Quality of Place legislation that requires state, regional, and local organizations to work to identify, protect, invest in, and market our most important assets, both natural and built.

This includes investing in our downtowns and Main Streets, and encouraging businesses and residents to live in existing built-up areas. This pattern of development is less expensive for local governments to serve, and will help reduce pressures on the property tax. It also makes mass transportation, bicycling, and walking more feasible, which helps the state meet its energy goals.

Finally, we shouldn’t keep all of this a secret. We need to promote our assets to workers, tourists, and businesses outside of Maine. The state spends very little to market Maine to the outside world, and to the extent it does, it sends a mixed bag of divergent messages for different purposes such as tourism, business attraction, farm products, and the like.

The state needs to create a public-private effort to aggressively promote Maine as a place not just to visit, but to live and work. Private companies in Maine with experience in marketing the “Maine brand” should be called in not only to help create a compelling message, but also to actively promote the message to existing and potential businesses.

QUALITY OF PLACE GOAL:

- Preserve and enhance our assets, including vibrant community centers; arts, cultural, and historic institutions; and, natural views, refuges, parks, and trails.

BUSINESS FINANCE

12 The state should do all within its power to increase capital access for Maine businesses.

There are good products and ideas among Maine business people today who cannot obtain credit because of two circumstances. First, businesses are not seeking credit for expansion, because a slow recovery has been forecasted, and prudent owners do not want the obligation of additional debt at this time.

Second, in the aftermath of the financial meltdown in 2008, federal and state regulators are tightening lending standards that they impose on banks. As a result, more businesses will not qualify until they have improvements in their sales or cash flow. Maine can't change the national economy, but Maine has its own tools that can help to address the short-term problem.

Recommended actions include:

- Encouraging state and federal banking regulators to allow banks more flexibility in assessing business credit risks;
- Promoting Maine's investment tax credit programs (such as the Maine Investment Tax Credit); and,
- Issuing bonds for FAME and other entities such as the Maine Technology Institute to turn into business loans.

Maine can't afford to let any good private business ideas go to waste.

BUSINESS FINANCE GOAL:

- Restore business credit market so that existing businesses can maintain lines of credit; entrepreneurs can find start-up capital; and investors from beyond the state's borders find Maine an attractive place to invest.

These 12 steps are the strategy.

They require public sector investment and public sector savings, private sector investment and private sector creativity.

They require an ethic of lifelong learning among all Maine people.

Maine has reinvented itself before. Let's do it again.

Let's put this recession behind us.

**It's time, once again,
to make Maine work.**

A close-up photograph of a woman with dark hair and glasses, wearing a white and green striped shirt, looking down at an open book. The image is positioned on the left side of the page, partially overlapping the text.

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SURVEY PARTNERS

Androscoggin County Chamber of Commerce
Bangor Region Chamber of Commerce
Economic Development Council of Maine
Kennebec Valley Chamber of Commerce
Maine Association of Chamber of Commerce Executives
Maine Better Transportation Association
Maine Development Foundation
Maine Farmland Trust
Maine Forest Products Council
Maine Higher Education Council
Maine Hospital Association
Maine Pulp & Paper Association
Maine Renewable Energy Association
Maine State Chamber of Commerce
Maine Tourism Association
Manufacturers Association of Maine
Mid-Maine Chamber of Commerce
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