How to Retain Businesses in Maine

INTERIM REPORT OF THE MATURE AND DOMINANT INDUSTRIES PROJECT

Funded by the Maine Department of Economic and Community Development and the U.S. Economic Development Administration

Prepared by the Maine Economic Development District Association and Planning Decisions, Inc.

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WHY STUDY MATURE AND DOMINANT INDUSTRIES?

Over the past ten years, a procession of major Maine businesses have faced imminent shutdown: Kimberly Clark, Health Tex, Gerber Clothes, Hathaway Shirt, Bass Shoe, Eastland Woolen, Keyes Fiber, Carleton Woolens. In every case the business was a major employer in the community. In every case people turned to regional, state, and federal officials for economic relief. Sometimes the business was saved, as was the case at Hathaway and Gerber. Sometimes it was too late.

The process continues. In recent months the computer services business EnvisioNet leapfrogged from the category of "fast-growing start-up" to the category of "endangered industry." It is such experiences that led the Maine Department of Economic and Community Development to initiate a major study of Maine's mature and dominant industries. This interim summary provides highlights from the study.

By way of definition, a "mature" industry is an economic sector that has been in Maine many years, and that has well-established and slow-growing markets. A "dominant" industry is a company or economic sector which provides a significant share of the jobs or tax base in a region. Often, in rural Maine, the same business – such as a lumber mill or paper mill – can be considered both mature and dominant. "Business retention" is the name of the strategy designed to help mature and dominant industries.

The study was funded jointly by the Department and by the U.S. Economic Development Administration. The objectives of the study are:

1) to understand the community and economic dynamics of business loss;
2) to assess the relative effectiveness of Maine's current economic development policies to deal with mature industries;
3) to study best practices around the country; and
4) to develop recommendations for public policy.

The Department of Economic and Community Development took a unique approach to the study. It entered into a partnership with Maine's front-line economic development professionals who deal every day with the problems of saving companies in trouble and revitalizing traditional industries – the staff of Maine's six economic development districts. Beginning in 1998, district staff identified, surveyed, and personally interviewed business and government officials throughout the state. The full study results are lengthy and extensive; this report is a summary of the major findings.

BACKGROUND – BUSINESS RETENTION IS A DYNAMIC PROCESS

The activity of helping existing businesses to continue and thrive is called "business retention." The expression can lead to certain misunderstandings, which must be cleared up in the beginning.

In the first place, the expression implies a certain stability to businesses and jobs; such stability in fact does not exist. National research shows that roughly 8% of the jobs in a local economy are lost to business failure or contraction every year, and 40% every five years. This is true in every local economy, whether that economy is growing or shrinking. The difference between a growing and shrinking local economy is simply the rate of job increase from new starts and expansions. If the job increase can be kept above 8%, then the net job growth is positive. If the job increase is below 8%, then the net job growth is negative.

Even when businesses remain in the same ownership, even when the signs on the door is the same, even when the customers are the same, businesses are still changing. The jobs inside the buildings are completely different than 20 years ago, requiring different activities and skills. The tools are different. The products are greatly improved. Successful businesses don't "retain" anything. They are constantly shedding old products and technologies and adopting new ones. Thus we come to the following conclusion:

Strategy lesson #1: Business retention is not about keeping things the same. It is about helping existing businesses to change, to shed old activities, and to adopt new ones.

A second fact relevant to this study is that the source of most new jobs in a region is from the companies that are already locally-based. Most new growth comes from the expansion of existing businesses, or from new local business start-ups (many started by employees moving out from existing firms). If you want to test this hypothesis in your own region, visit a local business park and look over the directory of occupants. You will find that the majority of firms in your local park started in a different place in your region, perhaps in a downtown or along a river. At some point they needed room to expand, and they ended up moving to a new low building on a large site near the highway in the business park. This leads to the second lesson.

Strategy lesson #2: A strategy designed to ensure the health of existing local businesses ("business retention") is also a strategy that will lead to new job growth.

A third point key to business retention is that no business exists in isolation. A business exists within a network of suppliers, customers, skilled labor, and natural resources. This network is also known in the economic literature as a "cluster." When a cluster of businesses is dynamic and growing, that sector is characterized by rapid change, by firms appearing and disappearing overnight, by people moving in and out, by new suppliers and sellers getting involved, and so forth. Some of this turbulence can be seen in Maine's biotechnology and aquaculture sectors.

On the other hand, when a cluster is in decline, business start-ups are rare, employment is dropping, and turnover is low. Suppliers and sellers start to get out of the business. After a certain point, the minimum critical mass of people, energy, skills, markets, and support services to support that industry becomes lost. Over the past fifty years, the business support network for dairy farming in central Maine – consisting of feed stores, tractor suppliers, dairies, veterinarians – has declined in some areas to a level which makes it harder for those who are left to thrive (see the excellent study by Vail et al, The Family Farm in the Web of Community, the Maine Humanities Council, 1987). This leads to the third lesson for business retention:

Strategy lesson #3: A strategy designed to ensure the health of existing businesses must address the health of business clusters – in other words, the entire business environment – and not just the health of individual businesses.

With these three lessons in mind, we can now turn to the findings of this project.

MAINE'S EXISTING BUSINESSES STAY OPEN BUT DON'T THRIVE

Maine ranks sixth among the fifty states (and District of Columbia) when it comes to the survival rate of their businesses. A tracking study of 10 million businesses nationwide, including 50,000 in Maine, shows that Maine businesses were better able than most to keep their doors open between 1997 and 2000. However, that same study ranked Maine's businesses in the bottom half of states when it came to job and sales growth (see Figure 1)

In the long run, a successful state business retention strategy must help businesses both stay open and thrive.

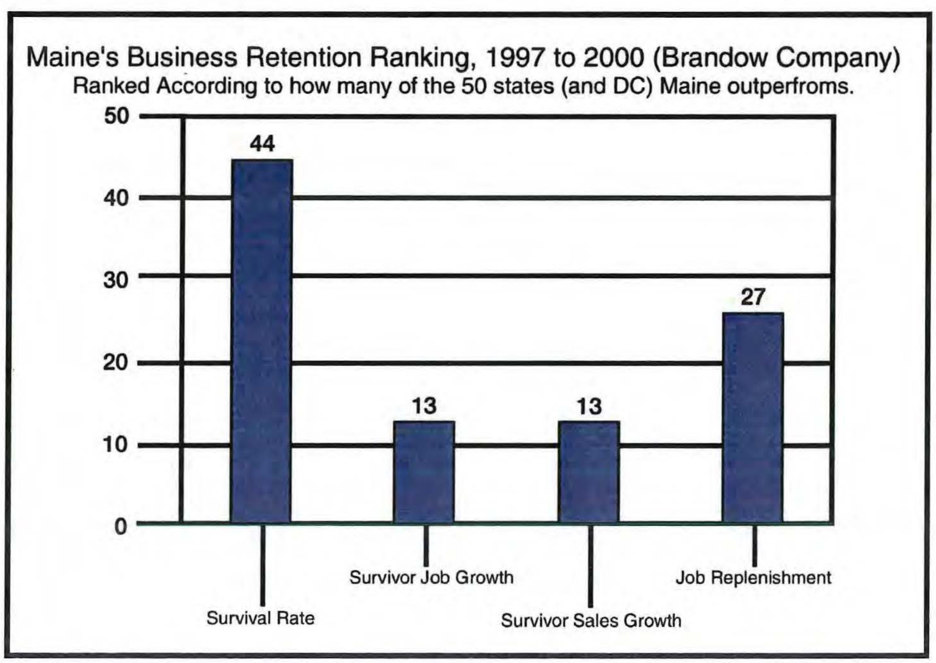

Figure 1

MAINE BUSINESSES NEED DIFFERENT HELP AT DIFFERENT POINTS IN THE GROWTH CYCLE

For this study, Maine's regional economic development districts surveyed 155 Maine companies in 1999. The companies were selected either because their product line was of long-standing ("mature") or because they were a single large employer in a community ("dominant"). Not surprisingly, these companies were disproportionately from natural resource-based industries and traditional manufacturing sectors (see Figure 2).

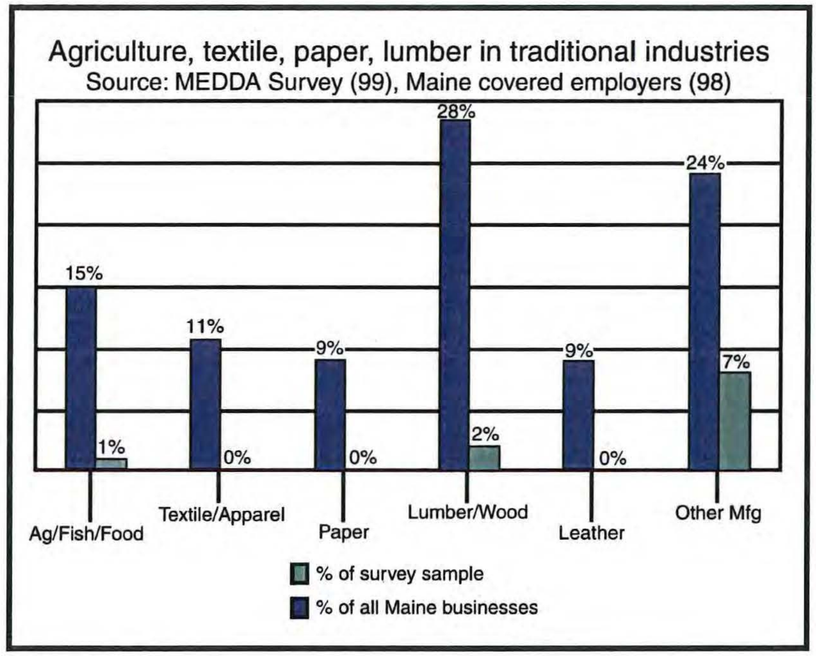

Figure 2

There is considerable diversity among these sectors with regard to national competitiveness. The apparel sector produces $70,000 of product for every worker, only 70% of the national productivity average. Lumber and furniture, on the other hand, produces $150,000 a worker in Maine, 11% better than the national productivity figures.

There is also diversity among individual companies with regard to the market position of their major products. One in 14 respondent companies regarded their product line as "emerging," as just coming into its own. Nearly half considered their major product line to be growing. Only a third considered the product line of their company to be "mature" (slow growth), and 1 in 9 considered their product line to be declining (see Figure 3).

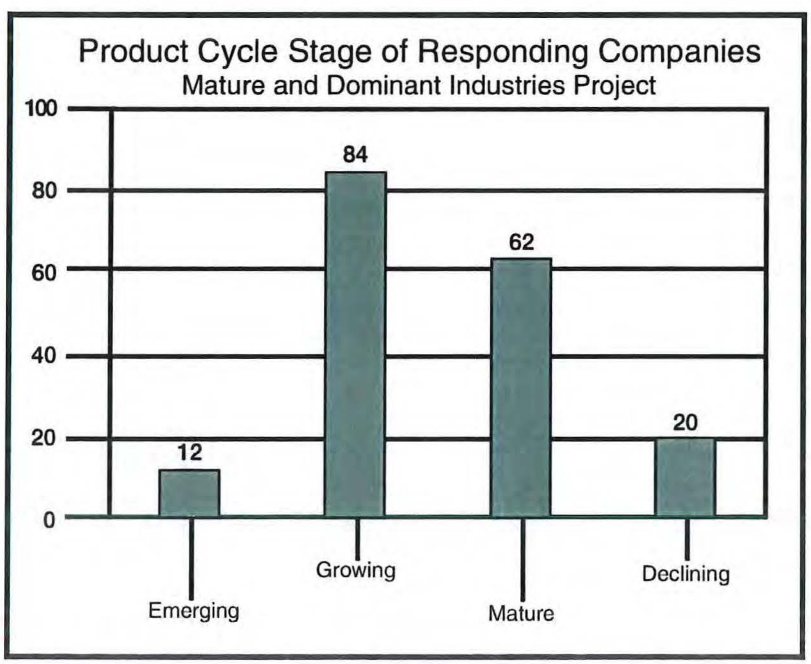

Figure 3

From an analytical point of view, these distinctions are critical. Why does the operator of one company in a traditional Maine business sector believe his product is in an emerging market position, while another in the same sector does not?

The survey respondents who reported emerging or growing product positions also tended to report higher sales, higher research and development budgets, and newer technology. Companies with emerging or growing product market positions were also more likely to be loyal to their communities, and to say that they would consider expanding in their communities. On the other hand, companies with growing product lines are also the most likely to need new or expanded facilities, which means that they are vulnerable to being lured elsewhere.

Strategy lesson #4: A business in a mature and dominant sector may still have a growing and emerging product line. High levels of research and development and technology investment are associated with emerging product lines.

Companies at different points on the life cycle continuum also tend to look to the government for different services and programs (see Figure 4). Notably, the desire for government help is greater for businesses at either end of the product life cycle scale – emerging and declining – than for those in the middle. Those on either end averaged 4 assistance requests per company; those with growing product lines averaged closer to 3 requests.

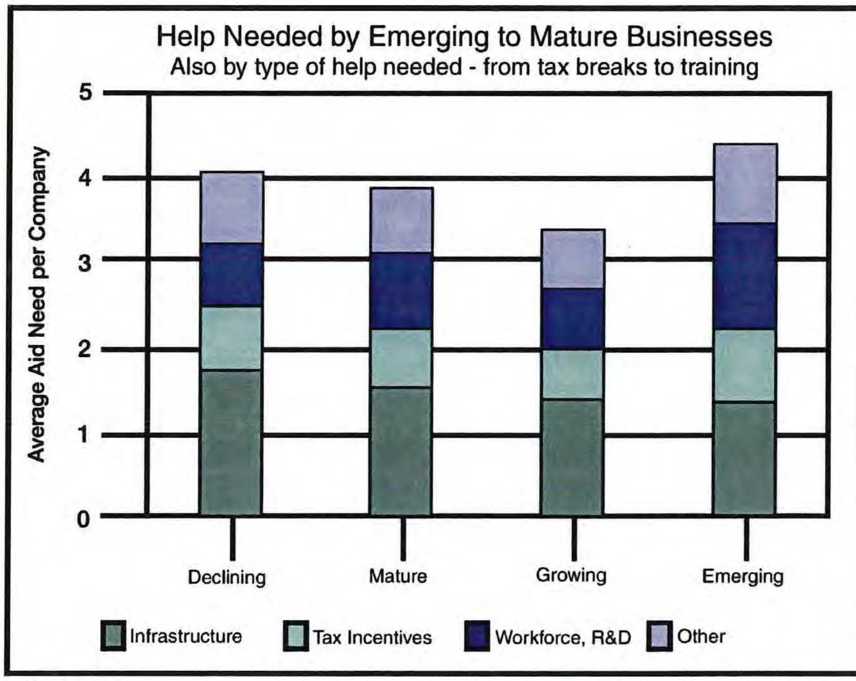

Figure 4

For companies with emerging products, workforce training ranks as the highest need. Tax incentives, transportation, building financing, and research and development help are also strong needs for growing companies. At the other end of the scale, tax incentives, infrastructure, and working capital are higher-than-average needs for companies with declining product positions.

Representatives of manufacturing industries in particular raised the need to lower the costs of operations. Specifically, long-term property tax relief and permanent exemptions for the property tax on equipment, and reductions in electrical cost, were mentioned several times.

Two out of 3 of the respondents had used a government economic development program in the past. Many wanted more information about potential programs they might use – 50% asking about workforce development, and 40% asking about process/production help. Thus the fact that a company knows and has experience with one type of program, does not mean it knows about other programs. Many respondents felt a need for better information. One noted "need to have more information on business programs as very little information gets to small businesses."

The latter point also emerged from a series of interviews conducted with 27 Maine public policy and business leaders. All were concerned that programs are not reaching small business operators who are too busy to find out about what is available. Several recommended expanding funding for the Governor's Training Initiative, Maine Quality Centers, and the Community College initiative. They also confirmed the need reported by business operators for help with technology and workforce development.

In summary, the project found that mature industries are largely in traditional Maine sectors; that within these industries, some companies have found growing niches, and others have not; that the use of more up to date technology and higher levels of R & D spending are associated with higher growth rates of sales and market share; and that assistance needs vary according to a company's position on the product life cycle.

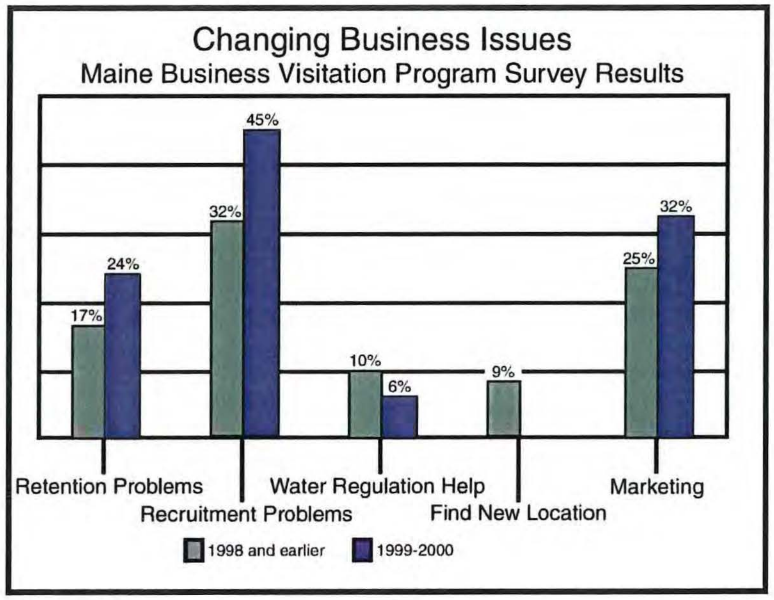

Figure 5

Business assistance needs also change with the economic cycle. Surveys of Maine businesses conducted by a Maine Department of Labor/ Maine Chamber of Commerce cooperative program show a shifting pattern of interests. During the boom years of the current business cycle, the late 1990s, the majority of businesses reported a need for help in finding new locations and for help in dealing with environmental regulations. In 1999 and 2000, at the tail end of the current business cycle, businesses reported more concern about finding skilled employees and keeping their markets strong (see Figure 5).

Strategy lesson #5: Economic development programs need to be flexible and adapt to changing needs as the business cycle changes.

CITIES AND TOWNS ARE VULNERABLE TO BUSINESS CLOSURES

The other side of the coin from vulnerable businesses is vulnerable communities. Staff from the regional development districts identified 76 cities or towns in Maine which are economically vulnerable because they have one dominant local employer or one dominant taxpayer. These are the communities that, like Wilton when Bass Shoe closed, or like Corinna when Eastland Woolen Mill closed, are given a double hit – first in the loss of jobs, then in the loss of tax base.

The 76 vulnerable communities have 225,000 people, about a sixth of the state total. Most of the cities and towns are dependent on wood products (lumber and paper); fishing and agriculture; leather and textiles; defense-related; or utilities. Vulnerable communities come in every location and size. They range in location from Kittery in the south (Portsmouth Naval Shipyard) to Madawaska (Fraser Paper) in the north. The communities range in size from 34 people (the Forks, with Mead Paper) to 23,175 (South Portland, with National Semiconductor).

Thirty-three of the vulnerable municipalities, representing 80% of the population of all vulnerable communities, are what the Maine State Planning Office defines as "service centers." A service center is an older community which is a focus for jobs, shopping, and services for the surrounding countryside. Service centers have already been identified by the State Planning Office as facing difficult property tax and social challenges as a result of the spreading out of Maine's houses and people (known as "sprawl"). Now this study shows that service centers also have an additional problem, a vulnerability to sudden economic dislocation due to a dependence on one or two major employers or property tax payers.

A closer analysis of the data shows that it is not just any kind of service center that is vulnerable to economic disruption from the loss of a major industry. Larger service centers, also known as "primary" service centers, such as Portland, Bangor, and Lewiston, have diversified economies. They can withstand the closure of a single large business. It is the smaller service centers – classified as "small" or "other urban" under the State Planning Office methodology – such as Rumford or Berwick or Guilford, that are the most vulnerable to economic disruption from the downsizing of a major employer (see Figure 6). A typical profile of such a community is a rural mill town, small in population, with a limited range of services available, and at some distance from larger cities.

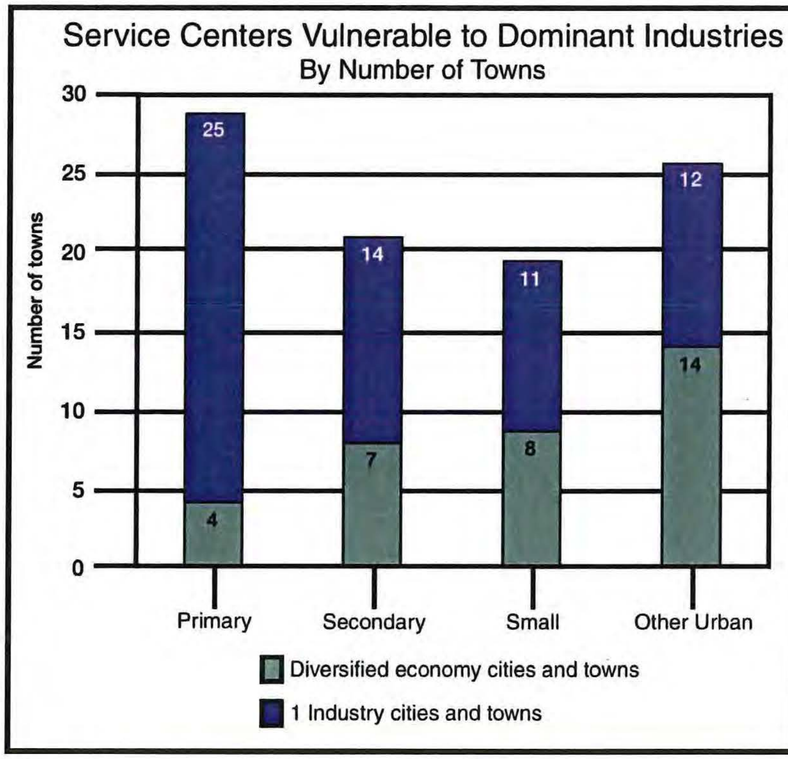

Figure 6

The six economic development districts interviewed municipal officials from these 76 cities and towns. The municipal officials raised a series of common problems:

- distance from I-95 and good roads;
- distance from colleges;
- unreliable and expensive utilities;
- brownfields, old buildings, environmental pollution;
- older population (few young people);
- lower education levels; and
- lack of economic development capacity – staff, marketing.

Strategy lesson #6: Vulnerable communities have special needs for technical assistance; for leadership training; for ongoing adult education and job training to upgrade the skills of existing workers; for flexible grant money to help in a crisis; and for regional cooperation in marketing and promotion.

MAINE HAS IMPROVED ITS BUSINESS RETENTION PROGRAMS

There have been great improvements in the services provided to existing Maine businesses by the Department of Economic and Community Development in recent years. In 1995 Maine had an "ad hoc" approach to business retention, with a 3-person Office of Business Development which responded to crises as they arose. Since then the Department has:

- Introduced a data base system so that all business clients, their issues, their program usage, their needs, can be tracked across state government;
- Introduced major research and development programs for traditional industries through the Maine Technology Institute;
- Added 6 positions which are outstationed in the regional Development District offices, where they each visit at least 10 businesses per month – or in all 720 existing Maine businesses a year – and develop proactive assistance programs; and
- Worked to help the Manufacturing Extension Program develop a similar regional network of contacts and coordination for its technical assistance efforts.

During this same period, Maine has created or greatly expanded programs such as the Governor's Training Initiative, the Maine International Trade Center, the Regional Tourism Fund, Maine Quality Centers, and the Small Business Development Centers.

In short, Maine has created a sound foundation for business retention. There are, however, three problems that any effort to improve the health of Maine's businesses must address.

THE PROBLEM OF THE PROPERTY TAX AND THE BUSINESS EQUIPMENT TAX REFUND (BETR)

Although Maine has a generally competitive tax framework, property taxes in Maine are relatively high. As of 1997, Maine's property tax collection per capita was $1,227, or 50% higher than the national average of $821. When the property tax burden is measured relative to incomes, Maine's property tax take of $56 per $1000 in income was 75% higher than the national average of $32.

In some respects these figures present a distorted picture. Seasonal property owners and out-of-state corporations pay a significant share of property taxes, thus making the actual burden on the individual Maine homeowner or renter less than the national rankings would indicate. Still, by any conceivable measure, Maine's property tax burden is on the high end of the scale.

This fact makes Maine less attractive for business investment from corporate headquarters which are located far away. The Maine Pulp and Paper Association compared the property tax burden per ton of product for mills in Maine and for mills of other states around the country. In mills located in sixteen states across the country – from Alabama to New York to Oregon – property taxes cost less than $10 per ton of product in every case. But among Maine mills, five of the twelve reported property tax burdens in excess of $15 per ton of product, and another five reported costs exceeding $10 per ton. Some of the Maine paper mill expenses were offset by the Business Equipment Tax Refund and by Tax Increment Financing. But even after this help is taken into account, property tax costs per ton of production in Maine remain roughly double the level of other states.

The reason that business property tax payments are high relative to other states is that Maine is one of the few states that tax business equipment as property at the same rate as buildings and land. The Maine Municipal Association surveyed the 50 states in 1998 and found that:

- 14 states applied no property tax at all on equipment used in general manufacturing operations;

- 24 states applied a partial property tax rate to equipment used in general manufacturing operations; and

- 12 states, including Maine, applied the full property tax rate to business equipment.

Among the twelve states applying the full property tax rate, five had exemptions for businesses adding jobs or locating in distressed areas. Maine is one of those five states. Maine's exemption program is called the Business Equipment Tax Reimbursement (BETR) program. The BETR program reimburses businesses for the property taxes they pay to local government for new equipment investments.

BETR reimbursements have grown from $10 million in 1997 to over $50 million in 2001, and if current trends continue, will approach $100 million a year before the end of the decade. Seen in this perspective, BETR is a drain on the state treasury.

Seen in a larger perspective, however, BETR is simply leveling the playing field. It is creating a situation where manufacturers are not penalized for investing in new equipment.

There is a history of Maine municipalities taxing business equipment. However, just because a practice is longstanding does not mean it is fair or that it even makes sense. The addition of a new paper machine at a mill, for example, does not add any new municipal service costs for schools or roads or waste disposal. Yet that machine will probably be taxed by the municipality for several million dollars a year. The revenue is a windfall to those Maine communities that have manufacturing plants, but the windfall is not shared by all municipalities.

In the long run, the best solution both from an equity and from an economic competitiveness standpoint would be for Maine to simply phase out the property tax on business equipment. It would eliminate a disincentive for manufacturing investment in Maine. And it would make the tax system fairer.
The difficulty with this solution is both practical and legal. The practical difficulty is that some Maine municipalities have become dependent upon business equipment tax revenues, and will need economic adjustment assistance during the phase-out. The legal difficulty is that it may take a Constitutional amendment to phase down and /or eliminate property tax rates on an individual class of investments, such as business equipment.

It is precisely because of these difficulties that Maine developed the Business Equipment Tax Reimbursement (BETR) structure. But the BETR solution, in the long run, is problematical. Its cost to the General Fund grows every year, making the program a political lightning rod. It also is a solution which benefits newcomer businesses more than longstanding Maine businesses. The reason is that a new company which moves in and installs new machines gets a 100% business machine reimbursement from the state. A company right next door, in the same business, which has kept an older machine running through diligent maintenance, would not receive the same business machine reimbursement. Most mature Maine businesses, the subject of this paper, are in the latter situation rather than the former.

Strategy lesson #7: Over the long run, Maine should move towards phasing out the property tax on business equipment entirely.

THE ISSUE OF EDUCATING THE PUBLIC THAT MATURE INDUSTRIES CANNOT BE HELD TO THE SHORT TERM TEST OF "CREATING NEW JOBS"

Most economic development programs are designed by Congress or the State Legislature to reward dramatic new job creation. This is obviously the appropriate long-term goal. But every investment a mature industry needs to make does not lead to immediate job creation.

Take an example of a struggling wood mill in rural Maine. It may not have the cash flow to support a major new investment. Its productivity per worker is probably lower than its competitors outside of Maine, which means that it probably needs to lay off workers rather than hire anyone in order to stay competitive. Such a company needs help in marketing, needs money for new machines, and at the same time must plan ahead for downsizing in the future. But what economic development program wants to provide help to a company in the process of downsizing? What program officer wants to read the headline in the newspaper the next day, "Company given a million dollars to buy a machine, lays off 10 workers?" But in the real world, in rural Maine, this is the kind of choice real companies often face. It's a choice between investing in new equipment and downsizing, and closing down entirely. Existing programs can, and do, provide technical assistance to such traditional businesses. But traditional and struggling businesses are often not eligible for, or competitive for, the full range of financial assistance that growing companies can access.

It is time for the State Legislature and the general public to examine the underlying assumption that all economic development programs should create jobs in the short run. This examination is timely not just for traditional industries, but for all businesses in Maine, because of the changing economic landscape. The problem Maine faces today, and is likely to face for the foreseeable future, is not a shortage of jobs, but a shortage of income in the jobs which already exist. Our unemployment rate is at low levels in most parts of the state, but our per capita income is well below the national average. Our public policy goal should be to encourage existing Maine businesses to upgrade their productivity through investments in equipment and training. This, in turn, will lead directly to higher incomes. It may not, in all individual cases, lead to a greater number of jobs.

The Department of Economic and Community Development is ahead of the curve in that it has already adopted this philosophy of upgrading productivity and investments and training. But, as debates in the Legislature and public about the costs and benefits of economic development programs shows, this new philosophy is not always well-understood or supported.

Strategy lesson #8: The Maine Legislature should consider expanding the use of economic development programs beyond adding jobs in the short term to include upgrading existing jobs, and making a business more viable for the long term.

THE PROBLEM OF THE LACK OF FLEXIBLE STATE FUNDS

Maine also has a problem with its reliance on federal funds to deal with emergencies and crises. Since 1996, $5 million per year of the state's Community Development Block Grant allocation has been shifted to economic development purposes. This is better than the situation was before, and Maine has been fortunate to have been able to use this the federal money. Still, the federal dependence creates a whole new set of problems.

As a general rule, Community Development Block Grant funds can only be spent on projects where 51% or more of the beneficiaries are people from families of "low and moderate income," as defined by the federal government. That means that when a building is vacated and becomes available for public purchase, as happened in Winslow with Kimberly Clark, the State cannot use the federal money to help buy it, because there are no defined beneficiaries. It means that when a mill like Lincoln Pulp and Paper runs into difficulties, the Community Development funds can't be used to help, because the workers there make too much money to qualify as low and moderate income.

If the State and a cooperating municipality decide to take the risk, to spend the money in the hope that low and moderate income people will ultimately benefit, the city or town puts itself at risk of having to pay back federal funds if the benefit does not ultimately occur. For rural towns already facing heavy property tax burdens, this risk is one more obstacle discouraging positive action.

Strategy lesson #9: Maine needs its own state-based, flexible funds to meet emergency situations and unexpected opportunities with mature and dominant industries.

SPECIFIC RECOMMENDATIONS FOR BUSINESS RETENTION FOR MAINE

This paper has listed nine strategy lessons for business retention. How do they get translated into an economic development program? There are 4 key program elements needed to implement the strategies. They are:

1) **A service delivery system** which is close to affected businesses and communities, quickly responsive, and staffed by skilled professionals.

2) **Resources** which are at a funding level competitive with other states, which are efficient in the expenditure of taxpayers' dollars, and which are strategic in the promotion of the state economy.

3) **A reconnaissance system** which systematically surveys key businesses and identifies potential problems and potential opportunities at an early stage.

4) A policy orientation which treats all businesses equally, and rewards investment and upgrading for small businesses as well as large.

The following four recommendations show how each of the above elements of a business retention system can be implemented in Maine.

Recommendation #1– Build up Maine's regional delivery system to make it even more responsive and capable.

a) **Recapitalize the existing Regional Economic Development Revolving Loan Program** at FAME through a $10 million bond issue. This has been and continues to be the leading flexible resource available to regional development agencies to provide loans to businesses.

b) Create a **strategic assistance program to help at-risk communities** and regions with economic development planning and grant writing. The program should be focused on the list already created by the regional development agencies as part of this project, with up dates every year. State funding of $500,000 could be made available to match Economic Development Administration (EDA) planning grants. There have already been success stories with this kind of planning help in Wilton (after the GH Bass closing), the Sebago Lake Region (after Malden Mills closing), Loring (after the Base closing), Rumford-Mexico (after Mead layoffs), Millinocket (after Great Northern layoffs), and Piscataquis County (after shoe and textile layoffs).

c) Support the ongoing effort to create a **statewide nonprofit development corporation** to act as an extension of the regional development agencies: i.e., to provide grant writing and grant administration, to maintain the website at Mainebusinessworks.org, to continue the Business Visitation Program, to provide a platform for joint ventures with Central Maine Power and other utilities, to continue the University of Southern Maine workforce study. Models for such a statewide nonprofit are available in New Jersey, and also at the Maine Housing Investment Foundation. The Maine Economic Development Directors Association is the seed for such a group, but it needs to be incorporated and staffed.

d) Develop a **state planning and allocation process for federal economic development funds** (EDA and HUD), complete with re-pooling arrangements, as is already done with Rural Development and Federal Highway Administration grants. Such a process would allow for long range coordination of capital investments.

e) Add **tourism development capacity to regional development groups** on top of the existing regional repertoire (small business counseling, manufacturing extension, business outreach). This builds the regional capacity, and also recognizes that tourism is a traditional and (in some parts of the state) a dominant industry.

f) Create a flexible **Regional Strategy Implementation Fund.** This would provide flexible funds for development districts to fund local projects which are part of their regional economic development strategies. It would fund local capital projects of regional significance and impact. An appropriate funding level would be $2 million per region per year.

Recommendation #2 – Provide resources at a funding level competitive with other states, which are efficient in the expenditure of taxpayers' dollars, and which are strategic in the promotion of the state economy.

a) **Re-capitalize the Mature and Dominant Industries Fund** at the Department of Economic and Community Development. Even if all of the recommendations in this report are implemented, there will still be unexpected crises and emergencies. This fund is the flexible state tool to address such problems.

b) **Evaluate state-wide training programs.** This past year the University of Southern Maine conducted a comprehensive workforce assessment. That assessment identified needs for continuing education and training of the existing workforce. Now the Maine Jobs Council should follow up this study and conduct a comprehensive evaluation of state-wide training programs.

c) **Capitalize a modern industrial building fund** with a $10 million bond issue. This is the next step for growing businesses from the applied technology centers. It is also a particular need for mature sector businesses on the cutting edge of growth, as identified in this project. As part of this, some state entity, perhaps an Industrial Development Authority (see recommendation below), may be needed to buy and hold and sell buildings.

d) Create a state-level **Industrial Development Authority** as is done in New Jersey. This authority would have the power to buy and sell land, to issue bonds, and to do business deals. As the creation of the Maine State Housing Authority by the State Legislature has enabled state government to do housing deals where local housing authorities don't exist, so a statewide industrial development authority would allow state government to do economic development deals where local development groups don't exist. Other possible models for such a public-private entity include the Maine Technology Institute and the Maine International Trade Center.

e) Develop a **flexible community assistance fund** for local governments to use in matching federal grant money in responding to emergencies and opportunities. Currently Community Development Block Grant dollars are used for this purpose, but they are restricted in terms of geography and beneficiaries. A state fund would be more flexible and more timely.

f) **Build up the existing municipal infrastructure trust fund** over time. This fund was authorized years ago and never funded. Roads, sewers, water lines, air service, telecommunications, remain vital infrastructure for rural areas to provide in order to promote economic growth.

g) In the longer term, put forth a **constitutional amendment to eliminate the property tax on business equipment.** This will take time to design and money to implement. The complexity of the considerations of equity and resources make it beyond the scope of this study to identify solutions. If productivity will be the key to success in the future manufacturing economy, then rewarding businesses who make investments is a logical corollary.

h) **Increase funding to key state programs that have shown significant economic impact** such as the Governor's Training Initiative, the Maine Technology Institute, the Maine International Trade Center, the Regional Tourism Fund, the Maine Manufacturing Extension Partnership, Maine Quality Centers, the Small Business Development Centers, and FAME.

Recommendation #3 – Create a reconnaissance system which systematically surveys key businesses and identifies potential problems and potential opportunities at an early stage.

Without a reconnaissance system, Maine will often be reactive in responding to crises and opportunities in traditional industries. A reconnaissance system allows the economic development community to anticipate – and counteract – future problems, and to move early and convincingly on future opportunities.

Maine already has many business surveys. The Maine Development Foundation surveys 400 businesses on a variety of public policy issues. The Maine Department of Labor conducts an annual Census of Manufacturing. Tower Publishing contacts every Maine business to update its directory. The Department of Economic and Community Development contacted 600 businesses through its outreach program last year. The Manufacturing Extension Program has extension agents who call on manufacturers on an ongoing basis..

Maine's economic development community needs to take a comprehensive look at all of the data collection that is currently going on, and to see whether it provides the basis for proactive help for traditional industries. In particular, the survey and outreach process should allow the identification of businesses that are in danger of closing or contracting or moving; and likewise, the identification of businesses that offer the opportunity of expansion.

Recommendation #4 – Educate the public about shifting economic development priorities.

The era when "dollars per job created" was the sole test of how well economic development programs are doing is long past. In an economy with nearly full employment, and low incomes, the focus today must be on upgrading jobs and incomes. The Department of Economic and Community Development has made this shift. But now it is important that the public and the State Legislature be educated about the shift, and buy into the results.