

MAINE STATE LEGISLATURE

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DECD

DISCUSSION: Economic growth in Maine in the 1990's will be much slower than during the 1980's. At the same time, the state will face intensifying competition both from within the U.S. and from abroad. Maine is presently experiencing an economic downturn and increased unemployment. In part, these conditions are due to the national recession, which has influenced New England most heavily. Other factors, over which the state has greater control, have also contributed to our present economic condition.

The state's business climate, which includes the adequacy of economic and infrastructure development, is an important factor influencing the well being of Maine people. Improving the standard of living of Maine's citizens will depend upon improving the competitive position of its industry, and developing a business environment that is conducive to job creation. If the state is going to move forward, it will have to take action in both of these areas.

FINDING 1: DECD's focus for economic development services is unclear, its organization has been changed frequently and its performance is not easily measured.

RECOMMENDATIONS:

- The focus of economic development services must be on job creation and retention both from outside and inside the state with special attention given to existing Maine businesses. The department's mission statement must be refined to indicate this focus.
- Measurable performance goals should be established consistent with the goals of job creation and retention, and the department should be held accountable by the governor and the board for the outcomes attained.
- The Executive and Legislative branches should agree upon and support a unified strategy for economic development in Maine.
- Create one Board of Directors comprised solely of business leaders for DECD; eliminate all other existing boards dealing with business development services. The public/private nature of economic development must be emphasized. This board should be jointly appointed by the Governor and the Legislature and report to them annually.

FINDING 2: The lines of coordination and distribution of economic development service responsibilities need to be clarified.

RECOMMENDATIONS:

- The state should provide specific portions of a chain of economic development services (*refer to appendix A, not yet completed*). Those state services should include:
 - providing a clearinghouse on state regulations, programs and grants for businesses;
 - the ability to work with people through the system including fulfilling the roles of counselor, advocate, facilitator and expediter for businesses in their efforts to comply with state regulations, participate in programs, and apply for grants;
 - advocating responsible business development legislation;
 - assisting regional economic development personnel;
 - subcontracting with the private sector (through performance based contracting) business attraction functions; and
 - providing research and development services.

- Common goals and similar programs should be identified among DECD, FAME and regional economic development organizations should be identified and used in ways that avoid duplication of services and an overlap of effort, cost and accountability. Liaisons should be identified at several levels.

FINDING 3: State economic development services are fragmented; one result is duplicate administrative costs.

RECOMMENDATIONS:

- DECD should be reorganized around the functions it provides.
 - business attraction and promotion;
 - tourism;
 - research and development; and
 - growth management.

- The functions of the Maine World Trade Association should be incorporated into DECD. Administration of those functions should be accomplished by DECD. The MWT advisory board should be disbanded.

- The functions of the Maine Science and Technology Commission should be incorporated into DECD. Administration of those functions should be accomplished by DECD. The MS&TC advisory boards should be disbanded.

- Reallocate the \$600,000 currently budgeted for SBDC to business assistance programs.

TAX AND INSURANCE RATES

DISCUSSION: Tax and insurance rates are primary elements of business climate. They are significant contributors to the cost of doing business and reduce profitability. Maine's tax burden for individuals and businesses is among the highest in the nation. The top marginal rates for individual income tax and corporate income tax are both ranked fifth highest nationally. The rates for Workers' Compensation insurance are the highest per capita in the nation, excluding Alaska.

FINDING 4: High tax rates are a dis-incentive to current business expansion or relocation within Maine.

RECOMMENDATIONS:

- Review tax policy with regard to macro-economic indicators with the objective of making Maine's tax burden competitive with the tax burden of the states with which it competes for jobs. A list of potential indicators is attached in appendix A. (*List not yet available.*)
- Increase the effort to collect all tax revenues owed under the current system by increasing auditing efforts. Presently it is estimated that a fully trained auditor can secure \$350,000 of uncollected taxes annually at a cost of \$60,000. Add 15 auditors/collectors in the Department of Taxation each year until the point of diminishing returns is reached. Assuming that this ratio holds for five years this action could produce \$66,000,000 in revenue at a cost of \$4,500,000.
- The Commission has heard testimony that workers' compensation expenses could be reduced by separating the administrative and adjudicatory functions. Unless the as yet unappointed Special Commission on Workers's Compensation finds compelling reasons to keep these functions together the Special Commission on Restructuring recommends that:
 - The Workers' Compensation Commission be responsible only for adjudicatory proceedings. (*needs statutory cite*).
 - The functions of data collection and system administration be transferred to the Department of Labor. (*needs statutory cite*).
- Permit hearing officers to preside at informal hearings rather than limiting this activity to workers' compensation commissioners. Increase the number of hearing officers and decrease the number of commissioners until the backlog of cases is removed. This will be a revenue neutral change in the short-term, but should increase the rate at which cases are resolved. (*needs statutory cite and budget figures*).

INFRASTRUCTURE

DISCUSSION: A modern and well maintained physical infrastructure is also vital to the development of a strong state economy. By definition physical infrastructure includes highways, roads and bridges; railroads; telecommunications; air and sea transport facilities; and energy supplies. By implication a modern and well maintained physical infrastructure demands policies which promote planning, development and adequate capital investment.

The commission has heard testimony indicating that while Maine's infrastructure is about average in comparison with other states, it is falling behind due to increasing costs, lack of regulatory flexibility, and a lack of capital investment over the past twenty years. The lack of investment is uneven: for example Maine's DOT expenditures are higher than most states. The situation is further compromised by the substantial decrease of federal funds invested in infrastructure in the states and the absence of sinking funds for infrastructure repair and replacement in most communities.

Private Activity Bonds (PABs) are increasingly important as sources of funds for infrastructure investment. While the interest from private activity bonds is normally tax deductible, it is not deductible for those tax payers subject to the Alternative Minimum Tax (AMT). If Maine's tax policy adopts this federal view of PAB interest, it will cause both a decrease in demand for the bonds and require governments to increase the amount of interest paid to bond holders.

FINDING 5: The planning process for capital investment in Maine's transportation system is comprehensive and well established.

RECOMMENDATION:

- Continue the Transportation Investment Program (TIP) with biennial reviews.

FINDING 6: The state, through the University of Maine system, has successfully facilitated the development and use of interactive television for a variety of purposes. This same type of leadership needs to be shown in maintaining and modernizing all public utilities.

- The PUC should enact regulations that promote the development of advanced telecommunications, including a segmentation of the telecommunications market that would permit those customers who require more advanced features to be able to purchase them by paying higher rates than customers who do not want them.
- Policy makers and the PUC should utilize macro-economic indicators, comparing Maine utilities' operating and regulatory costs, in their deliberations.

- Water districts (not water companies), which are already governed by elected boards, should be deregulated.

FINDING 7: Cost savings and improved efficiency can be achieved by eliminating some current activities.

RECOMMENDATIONS:

- The Department of Transportation's maintenance of a large fleet of capital equipment to accomplish the 10% of road maintenance it does not subcontract may not be justified. The Commission recommends further study on this issue.
- Deregulate the Casco Bay Ferry. In testimony to the commission, the PUC indicated that the primary result of regulating this ferry line appeared to be a restriction of competition. It has advocated in for several years that the ferry be deregulated or, if regulation continues to be required, that the City of Portland assume that responsibility.

FINDING 8: Evidence suggests that the Maine Turnpike Authority is more expensive to operate than the Department of Transportation. Elimination of duplicate administrative costs and other savings would be obtained if the Maine Turnpike were operated within the Department of Transportation, provided some changes were made in the department's ability to raise funds.

RECOMMENDATIONS:

- The administration of the Maine Turnpike should be incorporated into the Department of Transportation.
- Statutory changes (*needs statutory cite*) should be made to permit the Department of Transportation to issue revenue bonds to a specified limit based on projected revenues. This change is necessary to offset the loss of the Maine Turnpike Authority issue revenue bonds once it is incorporated into DOT. (*needs estimate of savings*).

FINDING 9: More can be done to help the state and local units of government raise funds for infrastructure investment.

RECOMMENDATIONS:

- The interest from Private Activity Bonds should not be taxable for state income tax purposes. (*needs estimate of savings*).
- The interest from all Maine bonds should remain tax exempt, including the bonds of the Maine State Housing Authority, FAME and general obligation bonds. (This really doesn't fit here unless we modify the discussion section somewhat. What do you think? Does it belong under capital formation? Is affordable housing an infrastructure issue?)

REGULATION

No one would deny the need for regulatory policies whose purpose is to preserve of the quality of Maine life. These regulations come with costs, however, and they can impede economic development in the state. A primary source of excess regulatory cost is the state's current process of administering and enforcing those regulations.

FINDING 10: The current regulatory processes are too unpredictable, too costly and too time consuming.

RECOMMENDATIONS:

- Eliminate the duplication of regulatory requirements on the federal, state and local level. If a project meets federal regulatory standards, it should automatically meet state and local standards and not be required to make any additional applications. (*needs statutory cites*).
- Regulatory policies should be set and administered by the appropriate level of government. Those which cross state lines should be the responsibility of the federal government; those which cross municipal lines should be handled by the state government. All other regulatory issues that the state does not reserve to itself may be handled, if done within the guidelines that the state sets, by local government units if they choose to do so. (*needs statutory cites*).
- The Department of Environmental Protection and the Land Use Regulatory Commission should be merged. The Maine Board of DEP should be eliminated. (*needs statutory cite*).
- The state, in consultation with municipalities, should designate industrial zones for economic development purposes. Minimum environmental standards should be set for those zones and if a business meets those minimum standards, it should be permitted to locate in the zone without further regulatory applications, hearings or rulings. (*needs statutory cite*).

- Within the array of state regulatory issues, the state should identify those which local units of government may administer if they choose to do so. The local units of government should be allowed to select which of the identified regulatory issues they want to administer, but having once selected them, they would be responsible for all aspects of their administration.

CAPITAL FORMATION

DISCUSSION: The availability of capital at reasonable rates is critical to business expansion and job creation. The current economic downturn has limited businesses' expansion capabilities by creating a tight credit market in which the requirements for loans are much stricter than during the 1980's and the amount of available funds has been greatly reduced.

FINDING 11: The state will have to provide incentives to ensure that existing businesses expand and new businesses have the capital to develop in Maine.

RECOMMENDATIONS:

- The state should encourage new capital investment by providing a state tax credit, to be taken over three years, that is triggered only if a specified number of new jobs were created.
- The state should encourage new capital investment by permitting FAME to guarantee financing for used equipment within existing resources. (Cite where law needs to change.)
- All state agencies that have the authority to bond should retain that authority.

STATE GOVERNMENT

DISCUSSION: The costs of operating state government also have a strong impact on the state's business climate and economic condition. The cost of government must be kept in relation to the ability of its citizens to support it and its ranking relative to the other states with which Maine competes. The present growth in Maine state government has been based on the state's rapid economic growth during the 1980's.

The pattern of growth expected through the 1990's will not support current state spending patterns; current costs must be reduced. This can be accomplished in part by eliminating duplicate and unnecessary services; tightening controls on expenditures; and by curtailing state participation in activities that could adequately be performed by the private sector.

FINDING 12: The state is presently performing or funding services which are unnecessary or could be provided by the private sector.

RECOMMENDATIONS:

- The state should divest itself of the retail liquor sales business. It is estimated that the state spends an excess of \$3,000,000 annually to provide this service rather than licensing agency stores to sell liquor. (Refer to appendix B, attached)
- Privatize lottery - *(needs statutory cite and budget figures)*.
- The Department of Labor should cease licensing bedding and stuffed toys. Due to advances in federal regulations, Maine is the only remaining state that license these items. Appropriate personnel cuts should accompany the deletion of this responsibility.
- Eliminate the following Boards and Commissions, which have been nominated for deletion by the department heads to which they report:
 - Job Opportunity Zone Commission
 - Small Business Commission
 - FAME Veteran's Board
 - FAME Natural Resources Board
- Eliminate the Agricultural Extension Service in the University of Maine System. ~~(Needs Flanagan to explain why)~~

FINDING 13: The workers' compensation program for state employees is administered by each individual department. There is inadequate attention to risk management, loss control and claims management in most departments.

RECOMMENDATIONS

- The management of medical claims in the state employees' workers' compensation program should be contracted out.
- The administration of the state employee's worker's compensation program should be centralized.

**OFFICE OF MANAGEMENT AND BUDGET/
MACRO-ECONOMIC INDICATORS**

The effort has begun to cut an additional 125 million dollars, 8% of the available undedicated general fund monies, from the existing budget. Eliminating all funding for Transportation, Natural Resources, Economic Development and that enigmatic category "Other" would still leave the state \$15,000,000 short of its reduction goal for FY 91-92. The two categories of spending which take the largest part of the budget are Education and Human Resources. A single glance at the chart of general fund expenditures reveals a chilling truth: The choices will be hard; the results will be painful.

(Chart A - goes here)
Expenditures by Policy Area - General Fund

Today's economic crisis demands that Maine take a hard and critical look at the state's current policies, the process by which they are developed, the manner in which they are implemented, and the methods which by they are evaluated. The true tragedy of these hard times would be for Maine government to survive the crisis but learn nothing.

The current economic downturn has threatened the state's historically high credit rating. In order to develop a healthier economy the state needs to reduce its costs; borrow wisely and efficiently; manage its revenues judiciously; evaluate the effects of its programs and policies; and make changes where needed.

The state's management of the budget process and debt financing are two areas that require significant change. The fact that the budget process needs improvement is self-evident. Less obvious, perhaps is the need to monitor revenues and expenditures, not only against projections and budgets, but also relative to those states with which we compete economically. This monitoring cannot be piecemeal or ad hoc; it must be a designated responsibility.

FINDING 14: Neither state policy makers nor state departments make sufficient use of macro-economic indicators. The use of such benchmarks is critical in determining Maine's relative standing vis a vis its competition, in evaluating the performance of its agencies and in identifying the effects of its policy decisions.

RECOMMENDATIONS:

- All state departments, agencies and policy making organizations should develop and use macro-economic indicators that permit measurement against national, regional or other appropriate norms.
- A list of potential macro-economic indicators is shown in attachment A.

FINDING 15: The present method of developing and monitoring the state budget is no longer adequate.

RECOMMENDATIONS:

- The preparation of the budget, fiscal analysis and oversight, and evaluation of state government spending must be consolidated into a single office.
 - The Budget Office and the State Planning Office should be consolidated into one Office of Management and Budget.
 - The new Office of Management and Budget should be modeled after the federal office. (*See appendix C for a description of responsibilities and duties.*)
- The Executive branch should continue to remain responsible for the preparation of the total state budget.
- The Legislature should merge the Appropriations and Audit and Program Review Committees into a single Joint Economic Committee whose responsibilities would include budget hearings, reviewing economic forecasts and examining state policies in the light of their economic impact upon the state.
- Economic impact statements should be required on all proposed legislation.

FINDING 16: There is insufficient oversight and coordination of the states' capital planning, leasing and debt financing.

- The Department of Finance should have the authority to determine the mix and level of financing methods for all capital investment (debt, general obligation debt, leases and other financial vehicles such as COPS, etc.) and the responsibility for the management of the debt, so that it can make decisions on refinancing when that is appropriate.

OTHER ISSUES

A number of issues that the Commission deemed worthy of investigation were reluctantly put aside due to time constraints. Those issues are identified here with recommendations regarding an appropriate course of action.

RECOMMENDATIONS:

- The organization structure of government functions needs to be reviewed by an independent consultant with demonstrated expertise in such evaluations. This review should focus on how the state departments could be organized to facilitate the implementation of TQM principles. *Goes to Organization of Services*
- The Maine Development Foundation's mission and goals should be reviewed by a joint panel of business representatives, Legislators and DECD to determine if the foundation, as it exists today, meets the needs of Maine's business community and if it is duplicative of DECD's mission.

- The cost of operating the Public Utilities Commission relative to similar commissions in the New England region should be determined and appropriate changes made if necessary to bring those costs in line.
- The following organizations should be eliminated unless a compelling case can be made for their continued existence.
 - Maine Milk Commission
 - The Agricultural Extension Service
 - Public Safety Commission
 - All boards and commissions except regulatory boards.