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# **REPORT ON AN ECONOMIC DEVELOPMENT STRATEGY FOR WASHINGTON COUNTY**

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# REPORT ON WASHINGTON COUNTY

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## **EXECUTIVE SUMMARY**

Washington County has some extraordinary assets that offer tremendous potential for its economic revitalization. As Colin Wood says in his book, *The Lobster Coast*, Washington County has the last stretch of undeveloped coastline on the Eastern seaboard. And is it compellingly beautiful.

There is much about Washington County that makes it a wonderful place to live, work, and visit –its vast natural resources, its unique historical and cultural resources, its proximity to Canadian Maritimes, and its access to the cold water resources of the Atlantic Ocean. These are the strengths that I draw on in this report.

But assets which are not marshaled, advantages which are not used, and priorities which are not chosen, through an overall strategy, are unlikely to produce material change.

We have all been impressed by the economic resurgence of the Republic of Ireland, turning itself around by squarely facing its public policy shortcomings, and developing a realistic strategy to take advantage of its assets.

Ireland made major changes in its tax policy to encourage investment, major improvements in its education system to increase the practical skills of its workers, and serious choices of priority businesses it competed to attract.

Washington County can make a similar, smaller scale commitment to economic development strategy, but only with the conscious deliberate and generous support of the state, as I will outline in this report.

The report offers over 70 recommendations, the full synopsis appears at the end of the report, but the focus is on four key areas:

1. Attracting visitors and retirees
2. Strengthening our natural resources-based industries
3. Developing needed energy resources
4. Resources and support for local economic development initiatives and leadership at the state level.

Not the first, but surely the most recognizable home owner and summer visitor to the area, Franklin D. Roosevelt, enjoyed the natural surroundings of Campobello Island, New Brunswick off the coast of Lubec. Washington County's natural assets and way of life still today are a draw for tourists, seasonal residents, and retirees. With investments to enhance tourism promotion, protect the resources people want to enjoy, build the infrastructure to support travelers, and develop amenities desired by today's relatively well-off retirees and nature tourists, Washington County can bring new dollars into its economy.

Lobster fishing is a way of life in Washington County. It is a hard life, but it gets into your blood –and the blood of generations of families. The people who earn their living from the state's bountiful resources –fishing, farming, forestry, tourism –are the people that have sustained Washington County's economy for centuries. Maine's natural resources, however, are under threat from unwise development, from over harvesting, and from disease. We must intervene. We should financially support our forest products industry through our tax and business assistance policies. We should invest in research, marketing and regulatory reform to support aquaculture. We must manage our fisheries at a more local level. We must invest in water source development and marketing loans for agriculture. We ought to make our environmental policies stable, balanced and predictable.

Washington County is ideally suited for energy development. From its location, it will benefit from the transmission of energy between the US and Canada, with major investments already planned. It also has the natural resources to generate "green" electricity from biomass, wind, and even tidal power. Energy development is one of the most promising sectors for expand economic opportunities in Washington County. To support this, this state can help explore the technology and financial strategies for making these alternatives viable.

Finally, many state sponsored programs are delivered to Washington County through Bangor, on the theory no local entity is large enough or rich enough to act as a true local umbrella for economic development in Washington County. There is a gap in communications and programming between Augusta and Washington County that arises from lack of understanding, opportunities for leadership, and continual need for coordination of resources. Addressing state and local leadership issues and resources is essential to the future of the County's economy.

Organizational changes in the delivery of economic development services therefore should be considered as part of an overall strategy as well.

In summary, this report proposes to focus on certain priority sectors for state support, revising fiscal policies to encourage investment and relocation, and using our educational institutions and other infrastructure as a catalyst for growth as part of an overall economic development strategy.

The proposals I am making do carry some price tags, but they are well within our means and would constitute an infinitesimal sliver of our overall budget, if we recognize government must reinvent some of its revenue in promoting growth if it is to endure and be able to afford all the other programs that press for funding.

I hope this road map will serve as a constructive step in the process of adopting policies for our time that will truly serve the needs of Washington County and its people.

## REPORT ON WASHINGTON COUNTY

*"Though today may not fulfill all thy hopes, have patience still; for perhaps tomorrow's sun sees thy happier days begun."*<sup>1</sup>

### Section I: Introduction

Washington County split off from Hancock in 1789. It enjoyed increasing prosperity until the 20<sup>th</sup> Century, its population rising from 21,294 in 1850 to 45,232 by 1900. But then began an erratic decline dropping to a low of 29,859 in 1970. Today only about 33,600 people live there.<sup>2</sup>

Not only are there fewer people, but demographically, Washington County residents are older, with 17.3% of its population age 65 or over and 22.9% of its population under 18, compared to statewide averages of 14.4% and 23.6% respectively.<sup>3</sup>

The challenge does not stop there. Washington County tops the charts among Maine counties for unemployment, lowest per capita income, and other common measures of well-being.<sup>4</sup> In fact, in 2003, average employment was just 11,076<sup>5</sup> and of that 2,600 work for various government organizations. Another indicia of the weakness of its economic base is the reality that nearly one-third of its total personal income is derived from transfer payments, rather than domestic economic activity.<sup>6</sup>

All of these figures must be taken with a grain of salt. Because as Washington County citizens are quick to proclaim, their domain is quite unlike the rest of the State. It still has to some appreciable extent, a pre-industrial economy in which work follows the seasons, labor is compensated on a piece-work basis, and workers in some sectors are accountable only to themselves for when and on what terms they show up for work. Another noteworthy characteristic of this unusual economy is that a fair share of economic activity is transacted in cash, or in-kind, resulting in a lack of tax records or official economic measurements.

By its very nature, it is impossible to quantify this "underground" economy, but there is little question it forms a significant part of the economic activity in the region. Nonetheless, the work most likely to be paid in cash is generally relatively low wage anyway and the plight of Washington County citizens is not much alleviated by absence of taxation on these transactions.

Regardless of whether Washington County is dead last, next to last, or third from the bottom in real economic terms, the harsh reality is that while much of Maine is on the upswing,<sup>7</sup> the Downeast region, with its already precariously narrow economic base, has continued to slide.

In just the past four years, Washington County has, among other concerns:

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<sup>1</sup> Trussell, Ann. "Jonesport & Beals – Images of America," *Arcadia*, 1999, p. 13.

<sup>2</sup> U.S. Census Bureau, Population Division; "Annual Estimates of the Population for Counties of Maine: April 1, 2000 to July 1, 2004;" released April 14, 2005, <http://www.census.gov/popest/counties/tables/CO-EST2004-01-23.xls>

<sup>3</sup> U.S. Census Bureau, Census 2000; Summary File 1 (SF 1); generated using American Factfinder; [http://factfinder.census.gov/servlet/DTTable?\\_bm=y&-context=dt&-ds\\_name=DEC\\_2000\\_SF1\\_U&-mt\\_name=DEC\\_2000\\_SF1\\_U\\_P012&-CONTEXT=dt&-tree\\_id=403&-redoLog=true&-all\\_geo\\_types=N&-geo\\_id=05000US23029&-search\\_results=01000US&-format=&-lang=en](http://factfinder.census.gov/servlet/DTTable?_bm=y&-context=dt&-ds_name=DEC_2000_SF1_U&-mt_name=DEC_2000_SF1_U_P012&-CONTEXT=dt&-tree_id=403&-redoLog=true&-all_geo_types=N&-geo_id=05000US23029&-search_results=01000US&-format=&-lang=en) (26 October 2005).

<sup>4</sup> According to the State Planning Office, 2005 Report Card on Poverty, Washington County is the lowest or one of the lowest counties in terms of population loss, unemployment rate, poverty rate, growth in employment, per capita income, percent of population participating in the food stamp program

<sup>5</sup> Maine Department of Labor, Labor Market Information Services 2004, "Maine Employment Statistical Handbook"

<sup>6</sup> State Planning Office, 2005 Report Card on Poverty, April 2005, p32. See Appendices of Graphs, "Share of Personal Income by Source"

<sup>7</sup> Browne, Lynn E., Federal Reserve Bank of Boston, "Economic Conditions in Maine" (FRB, April 2005) pgs. 2 & 5.

- ✓ lost nearly 400 people, about one-fourth of those were people moving out of Washington County;<sup>8</sup>
- ✓ seen the drastic curtailment of the once promising aquaculture business;<sup>9</sup> and
- ✓ even experienced a drop in the ecotourism sector.<sup>10</sup>

Moreover, the Washington County economy remains vulnerable to further significant job losses.

- ✓ For example, while the largest private employer, Domtar in Baileyville, is currently successfully exporting to Asian pulp markets, the mill is old, relatively small, and marginally profitable at best. Its chances of survival will be improved by careful and supportive attention from the State.
- ✓ The once promising aquaculture industry now is dominated by one Canadian firm in an increasingly commodified and competitive business.
- ✓ Blueberries are increasingly being harvested with mechanical equipment, which may benefit competitiveness, but, of course, also limits employment opportunities.
- ✓ Tourism appears flat, and in some sectors, such as guiding in the Grand Lake Stream region, even declining.
- ✓ Finally, an ominous new development threatens the county economy. That is the recent doubling of energy prices, which will reduce disposable income for residents as they pay higher heating bills, and make the region even more remote and expensive for tourists and commerce to access.

All of these issues, and more besides, ought to be consciously addressed if we are to develop policies to help avoid further losses, and rebound to new levels of prosperity.

## 1. The Purpose of This Report

On June 24, 2005, Governor John Elias Baldacci, recognizing the continued struggle of the Washington County economy, issued Executive Order No. 44 FY 04/05, which provides for an analysis of the policies of various state agencies with respect to Washington County, and requests a proposed strategic plan to improve opportunities in the region.

Later, the Governor issued a second Executive Order, No. 02 FY 06/07, establishing a task force of Washington County political and business leaders to develop legislation to assist with improving the economic environment in Washington County.

The purpose of this report is to evaluate the individual and cumulative impact of state policies, to propose a comprehensive development strategy, and to assist the task force in accomplishing its objectives.

Some have decried the initiation of yet another study after so many by committees of the Legislature, by at least the last three Governors, and by various economic development agencies since the collapse of the herring fishery – the core industry that with its fleets and canneries, sustained the Washington County economy from the 1850's until the 1950's.<sup>11</sup>

<sup>8</sup> As opposed to a change in birth rates/deaths

<sup>9</sup> Aquaculture Stats; Department of Marine Resources, Washington County Landings.

<sup>10</sup> Pete (Neil) Borden & Kevin Patrick Anderson, "Economic Opportunities of Downeast Lakes Forestry Partnership Conservation Project," App. B (January 2005) (hereinafter DLFP).

<sup>11</sup> "Washington County Overview," Ellsworth American, pg. 2A, April 8, 1999.

Yet what is the alternative to evaluating current circumstances and preparing a comprehensive approach? To plunge forward making random and arbitrary investments? To revise state policies without a purpose? To ignore the experience of what has happened to past recommendations?

Studies and task forces may be frustrating, and there is no guarantee they will propose the best formula for going forward, but it is certainly my intention to outline a practical course of action, which if adopted, would have a reasonable chance of improving employment opportunities, the economy, and the quality of life in Washington County.

## 2. Why Bother?

The economic problems of Washington County are scarcely unique, either in Maine, across rural America, or even in the advanced OECD<sup>12</sup> countries around the world. All over the rural sectors of the developed world, out migration, aging populations, and economic stagnation are serious problems.

Yet many jurisdictions simply let nature take its course, rather than intervening to try to halt, reverse, and improve downward economic trends.

Historically, Maine has taken a different course, and the State has been actively engaged in economic development efforts at least since Governor Joshua Chamberlain's famous inaugural address calling for state assistance in reviving the post-Civil War economy.<sup>13</sup> Beyond the impulse to fight the further chasm between the "two Maines" and to preserve the unity and cohesion of Maine people, three reasons stand out as justifying the investment of our time, talent, and treasure in Washington County.

First, to the extent that Washington County prospers, the entire state prospers with new fiscal resources. Prosperity will directly reduce the net transfer payments and other subsidies.

Second, Washington County is manageable in its size, with enough real estate and diversity to make it a relevant pilot project, while still small enough to represent a manageable enterprise.

Third, there is reason for hope, despite all the negative trends. Unlike so much of America's rural countryside, Washington County has some extraordinary assets, including:

- ✓ a compellingly beautiful, relatively undeveloped coastline – the last such stretch along the US Atlantic coast;
- ✓ a largely unspoiled forest and freshwater habitat rich in wildlife as well as commercial grade timber;
- ✓ a deep, temperate, nutrient rich ocean current; and
- ✓ proximity to heavy flows of vacation traffic to one of America's most popular national parks and the 8<sup>th</sup> busiest Canadian border crossing, at Calais.

Few rural counties can even come close to such an extraordinary array of assets.

## 3. Getting Started

In order to be successful any modern economy depends upon utilizing its assets to meet the needs of customers in external markets better than its competitors. Its success depends on identifying those areas

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<sup>12</sup> Organization for Economic Cooperation and Development

<sup>13</sup> 1867 Me. Laws 153-158 (State of the State Address of Governor Chamberlain to 46<sup>th</sup> Legislature)



where it can develop a comparative advantage by producing desired goods and services at a time, place, quality, quantity, and price that the customer likes better than the alternatives.

Washington County provided a superb example of a vibrant economy that met these tests when its sardine industry fed the nation. We had huge quantities of high quality, relatively low cost protein in convenient, transportable containers that did not require refrigeration. So long as the shoals of herring persisted, cheaper protein was not otherwise available, and refrigeration was a rarity. The industry could thrive without lots of government assistance programs, subsidies, or tax incentives. This was the case at least within the US because of its natural comparative advantages. Of course, even with this straightforward example, the business did receive an extra boost from the imposition of protective tariffs which further helped American producers.<sup>14</sup>

So now our job is to identify the areas where Washington County might enjoy comparative advantages sufficient to sustain new enterprises employing Maine people. A traditional way to begin this exercise is to undertake a "Strengths, Weaknesses, Opportunities, and Threats" (SWOT) analysis.

The Task Force has been discussing this issue under the heading of "hurdles" to progress, and I have incorporated some of their work in the following analysis. This matrix can be added to infinitely, and may omit some significant factors, but provides a basic framework for where the focus on the future may most profitably be centered.

## **A. Strengths**

### ***i. Natural Resources***

- a. the coast
- b. the ocean
- c. the vistas
- d. the parks, public lands, and private trusts that preserve some of the best of the unspoiled nature of the County's land mass<sup>15</sup>
- e. a well-stocked, working forest
- f. more than 344 lakes and ponds
- g. a robust lobster population
- h. clam, mussel, scallop and urchin populations in commercial quantities
- i. high velocity tidal movements
- j. a commercially useful wind regime
- k. wildlife populations, including a wide variety of birds
- l. available rights-of-way for recreational activities over long stretches, and an elaborate network of snowmobile trails
- m. blueberry barrens
- n. extensive sand and gravel eskers, and
- o. ample clean fresh water

### ***ii. Labor***

- a. an available workforce, much of which has a strong work ethic, an entrepreneurial spirit, and an ability to endure harsh conditions
- b. a well-established system of career centers to match potential employer and employees
- c. a variety of vocational education programs that can be tailored to specific business needs

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<sup>14</sup> Interview with James Wilson, Professor of Fisheries, University of Maine, August, 2005.

<sup>15</sup> Department of Conservation land maps, Natural Resources letter

- d. preferential federal contract programs to benefit Native American enterprises<sup>16</sup>
- iii. *Culture*
  - a. an international interest in Native American culture and crafts
  - b. historic landmarks, such as the Lubec Light, the Ruggles House in Columbia Falls, and the Burnham Tavern in Machias
  - c. other cultural sites of potential interest to visitors including the Downeast Heritage Museum in Calais, the Tides Institute in Eastport, and FDR's home on Campobello, New Brunswick
- iv. *Location*
  - a. proximity to Acadia National Park
  - b. proximity to Maritime Canada
- v. *Infrastructure*
  - a. the upgraded Route 9 and improved access via Route 1A in Ellsworth, with further improvements to Route 1 planned
  - b. the port facilities at Eastport
  - c. state and federal preferences through HUBZone and Pine Tree Zone eligibility<sup>17</sup>
  - d. a well developed banking system and access to capital from a variety of sources
  - e. a branch of the University of Maine System at Machias, of the Maine Community College System at Calais, an outreach center of the University, the Unobskey Center, also at Calais, and a planned vocational high school in Jonesboro
  - f. a full service hospital at Calais and a critical care facility in Machias
  - g. an adequate supply of lodgings, though an upgrade is in order<sup>18</sup>
  - h. also an adequate, but obsolescent, supply of housing<sup>19</sup>

It is readily apparent that the heart of Washington County's economic strengths lies with the natural resources.

## **B. Weaknesses**

- i. *Transportation*
  - a. distance from population centers and markets
  - b. poor condition of Route 1 and the connecting roads to Route 9 and lack of rest areas en route
  - c. lack of jet capable airports
  - d. rising energy costs
- ii. *Labor*
  - a. relatively small number of available workers<sup>20</sup>
  - b. education attainment levels lower than statewide averages<sup>21</sup>
  - c. limited entrepreneurial skills
  - d. in some sectors of the economy, a tradition of sporadic, inconsistent workplace participation<sup>22</sup>

<sup>16</sup> 25 USC § 1544; see also <http://www.acq.osd.mil/sandbar/programs/LIP/legislation/index.htm>

<sup>17</sup> 13 CFR §§ 126, 100-126.900; and 30-A MRSA §§5245-5250-C

<sup>18</sup> Sunrise County Economic Council, study of tourists for the 400<sup>th</sup> anniversary of the St. Croix Island Settlement, 2000.

<sup>19</sup> Maine State Housing Authority, "Washington County Housing Facts," July 20, 2005 indicates that one-third of housing stock in the County was built before 1940.

<sup>20</sup> Selected Labor Market Information for Washington County, prepared by the Maine Department of Labor, July 14, 2005. MDOL provides census data that shows a 56.7% civilian labor force participation rate, compared to 65% statewide.

<sup>21</sup> Maine Dept of Education Student Data, <http://www.maine.gov/education/data/studentdata.htm>. In 2003-04, 83% of Washington County students completed HS, compared to 87% statewide.

<sup>22</sup> State Planning Office, 2005 Report Card on Poverty, April 2005

- e. segments of the potential worker pool who will not participate in the official labor market for fear of losing state-supplied health care benefits.

### *iii. Government Structure*

- a. high tax rates<sup>23</sup>
- b. a remarkably fragmented system of government; that makes cooperation on land use planning, marketing, infrastructure investment, and business recruitment difficult<sup>24</sup>
- c. declining school enrollment, which creates a painful cycle of increased costs<sup>25</sup>
- d. recent escalations in coastal property valuations<sup>26</sup>

### *iv. Infrastructure*

- a. telecommunications includes only spotty broadband and wireless capacity, entirely inadequate for the needs of modern commerce<sup>27</sup>
- b. the electricity distribution system is relatively weak and prone to interruptions
- c. useable, vacant industrial building space is quite rare, with only approximately 111,240 square feet identified by the Department of Economic and Community Development in the entire county<sup>28</sup>
- d. increasingly limited public access to the coast<sup>29</sup>
- e. lack of railroads, especially to service the pier at Eastport
- f. lack of destination resorts, tourist oriented amenities, or entertainment venues

### *v. Marketing*

- a. Washington County is an invisible county
- b. its presence in the State's marketing efforts is minimal
- c. local efforts appear fragmented and to have a low impact

## **C. Threats**

- i. Risk of loss of global markets for pulp and paper products to more modern, efficient mills.
- ii. Risk of loss of competitive position on account of rising energy costs.
- iii. Loss of public access to coast, reducing tourism and fishing opportunities.
- iv. Risk of loss of competitive position based on account of regulatory, healthcare and workers' compensation costs.
- v. Inadequate comprehensive long range planning and zoning to preserve the unique rural character and natural beauty of Washington County.
- vi. Loss of youth to replenish the work force and provide the entrepreneurship and talent the county will need in the future.
- vii. Likewise, the loss of many potentially productive members of society to drug and alcohol abuse.

<sup>23</sup> According to the Maine Revenue Service, for property tax year 2003, the equalized full-value tax rate for Washington County was 15.08 mils, slightly above the statewide rate of 13.90 mils. Washington County has the sixth highest tax rate of all Maine counties. Calais, Cherryfield, and Whitneyville had the highest mil rates at 26.55, 21.37, and 21.23 mils respectively. (Eastport's 2006 mil rate was 35.00 per thousand, but it is not at 100% of market value. State law lets local property values slide to as low as 70% of market value before requiring a town to conduct a revaluation. So, in order to compare different towns at different levels of valuation, we have to use equalized, full-value rates. MRS calculates what every town's mil rate would be if they were all at 100% of market value.)

<sup>24</sup> According to the US Census Bureau in 2004, Washington County had 44 organized towns with a median population of 509.

<sup>25</sup> According to the Department of Education, Washington County supports 40 distinct school systems with 12 superintendents of schools and 1,359 school employees serving 5,059 students. The total cost per student is \$9215 compared to a state-wide average of \$8346. School enrollment has declined by nearly 30% over the past 10 years and is projected to decline by another 30% in the next 10 years.

<sup>26</sup> According to the Maine Department of Education, Washington County is only now being confronted with escalating values of coastal properties. The coastal town of Harrington, for example, saw a 25% increase in property valuations last year and another 30% increase this year – the result of increasing value of coastal property. Increased valuations will lower school funding in those towns.

<sup>27</sup> Washington County Council of Governments, "Washington County Telecommunications Infrastructure Assessment and Plan," p. 7 (May 2005).

<sup>28</sup> Maine Department of Economic and Community Development stats, September 23, 2005.

<sup>29</sup> Coastal Enterprises, Inc. "Preserving Commercial Fishing Access," Prepared for the Maine Coastal Program, December 2002

- viii. The continued listing of Atlantic Salmon as an endangered species, limiting aquaculture and other economic activities.

#### **D. Opportunities**

Although the threats facing Washington County are real, so are the opportunities, which will each be discussed in detail later.

- i. **Tourism** - Perhaps Washington County's best opportunity lies with making use of its natural beauty and wildlife resources to attract more tourists.
- ii. **Retirement and Second Home Development** - For similar reasons, Washington County has promise as a second home community, bringing new talent and new customers into the region, and giving the "creative economy" concept a chance.
- iii. **Greater Utilization of Natural Resources** - Aquaculture, natural fisheries, sand and gravel, water, and forestry operations all have potential for greater utilization to the overall economic benefit of Washington County people.
- iv. **Energy Corridor** - Washington County also has the potential for serving as a valuable energy corridor for electricity and natural gas, with a potential positive impact on both cost and security of supply, and as a generating source for wind, tidal, and biomass electricity.
- v. **Federal Contracts** - Already companies making components for chemical warfare protection suits for the military are hard at work in Eastport. The Passamaquoddy Tribe, working with Maine Manufacturing Extension Partnership (MEP) and the other three federally-recognized Indian Tribes, has established the Native American Manufacturing Initiative. This project is designed to capitalize on the Tribes' unique eligibility for billions of dollars in federal contract set-asides. The Department of Defense, in particular, has a need for numerous parts and commodities that match well with Maine's existing manufacturing and environmental technologies industries. The enormous success of the Maine Military Authority at Loring in rebuilding Humvees and other vehicles could serve as a precedent for another such facility Downeast.

## **Section II: Tourism**

### **1. History and Significance**

Tourism has been an important part of the Washington County economy as early as the 19<sup>th</sup> century, as wealthy "sportsmen" came up from East Coast cities to enjoy the bounty of hunting and fishing opportunities in the Grand Lake Stream region.<sup>30</sup> In our own generation, a 1986 study commissioned by the State calculated that in 1984 tourists created 920 direct FTE jobs and another 318 indirectly working from 67 motels, hotels and resorts with 885 rooms and 15 campgrounds with 839 sites and realizing direct sales to travelers of \$26.61 million.<sup>31</sup>

Interestingly, at that time the out-of-state tourists were predominantly single, fairly young or old, less educated, not working, and less affluent.<sup>32</sup> Forty-four per cent were from the Maritimes, 42% from New York, and 15% from Connecticut.<sup>33</sup> In other words, people with more time than money.

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<sup>30</sup> DFLP Report, *supra*, p. 10 (January 2005).

<sup>31</sup> "The Sunrise Region (Washington County)," Center for Surveys and Market Research, U Wisconsin, Parkview, 1986, p. 1

<sup>32</sup> *Ibid.* p. 26.

Amazingly, 41% were drawn by the recommendations of friends and family, 59% by prior experience and exactly 0% by advertising!<sup>34</sup>

More recently, the Longwoods International tourism study has found that the most popular experiences by visitors on Maine trips were: visiting a small town, the beach, or the ocean; eating a lobster and unique local foods; visiting wilderness areas and lakes and rivers; and shopping for gifts and souvenirs. Trips taken to Maine are much more likely to be outdoors oriented (26%) than the national average (7%).<sup>35</sup>

The Longwoods study also found that while the Downeast/Acadia area received 23% of all tourists, only 5% visited Calais.<sup>36</sup>

## **2. Threats:**

But as important as tourism is for both Maine and Washington County, several disturbing trends are converging to jeopardize the share of tourist business coming here.

### **A. Recent Declines in Nature-based Tourism:**

Despite the growing enthusiasm for the concept of "ecotourism," visitation and camping at Baxter State Park, the Allagash Wilderness Waterway, and the state park system are either flat or down significantly this year.<sup>37</sup>

### **B. Hunting and Fishing:**

Likewise, tourism based on camping, hunting and fishing has been basically stagnant in Maine and in decline nationally over the past 15 years. Statewide, Maine experienced just a 4% increase in the number of anglers, totaling 15,000 between 1990 and 2001. The aggregate number of hunters in the same period was virtually flat, although the number of big game days was up 35% and expenditures per hunter increased by \$1,032.<sup>38</sup>

### **C. Canadian Tourism:**

For a variety of reasons, Canadian tourism, a traditional mainstay of our industry, and particularly important to a county adjacent to the Maritimes, has suffered some setbacks. A number of factors are at work, including:

- ✓ Imposition of the Canadian VAT on US purchases;
- ✓ US merchandisers targeting Canadians by building their own stores in Canada;
- ✓ Tightened border security since the 9/11 attack;
- ✓ Changing attitudes dividing the two countries including Iraq, marijuana, gay marriage, the ban on cattle exports and the softwood timber tariffs;
- ✓ The newly enacted passport requirement to enter the US.<sup>39</sup>

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<sup>33</sup> Ibid. p. 29.

<sup>34</sup> Ibid. p. 31.

<sup>35</sup> DLFP Report, supra, p. 11, citing "Traveler Tourism Maine, The 2002 Visitor Study," Augusta, Maine, Office of Tourism.

<sup>36</sup> Ibid. p. 12.

<sup>37</sup> Interviews with Commissioner Roland Martin, IFW, August 2, 2005 and Parks and Public Lands Director David Soucy, ME Dept of Conservation, August 11, 2005.

<sup>38</sup> DLFP Report, p. 13.

<sup>39</sup> "Canada and United States: The Unfriendly Border," The Economist, August 27, 2005, pg. 31.

#### **D. The gasoline price impact:**

The rapid escalation in gas prices is thought to have cut into discretionary tourist travel to Maine in general,<sup>40</sup> and presumably that effect would hit especially hard in the more distant parts of the State, such as Washington County.

#### **E. The lack of advertising:**

Experts in the field believe Maine's advertising and promotion budget is costing us big time in market share. According to Vaughn Stinson of the Maine Tourism Association, a July study concluded that Maine has continued to lose market share over the last three years. *'The days of people just coming to Maine because they've heard about it are over. The State needs to do a better job on marketing, yet the entire budget for Maine Tourism is \$7.5 million, and only \$3.2 million of that is spent on advertising.'*<sup>41</sup>

The patterns are clear, and "Vacationland" is in no position to rest on its laurels, especially in Washington County, which started out with a disproportionately small share of what appears to be a shrinking market.

### **3. Opportunities**

#### **A. The Role of Government:**

There are many sectors of the economy that will take their own course and grow or shrink, influenced by the general policies of the government that raise or lower the general cost of doing business, or improve or remove general restrictions or requirements, but which are not usually the subject of specific state policies that affect their fortunes.<sup>42</sup>

But there are other industries, which by their nature, are far more likely to prosper and contribute to the overall economy, if the disparate, modest efforts of individual firms can be aggregated into a voice loud enough and a brand powerful enough to really make a difference to the overall industry, creating many more jobs than would otherwise be the case. Governments can help organize, subsidize, and aggregate such collective undertakings for the good of all.

Tourism, with its large number of relatively small participating firms, geographic dispersion, and economic importance to the overall Maine economy clearly belongs in this category.

#### **B. Recent Initiatives**

There have been some recent initiatives to boost the promising tourism industry in Washington County. They include:

- i. ***The "Destiny 2010" Report:***<sup>43</sup> A report by the Washington County Council of Governments, which provides a collection of ideas concerning the development of tourism in the Downeast region for the next five years. It lays out concepts such as

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<sup>40</sup> Greg Dugal of the Maine Innkeepers Association said "studies show the gas prices don't affect plans already made, but they will cut down on spur-of-the-moment trips to Maine. A person who might get into their car and go for a ride, we'll see very few of those in the weeks ahead." "Summer Tourism Season: Bizarre" Victoria Wallack, Brunswick Times Record, September 9, 2005. See Appendices of Graphs, "Net Same Day Travel from Canada to US"

<sup>41</sup> Ibid. In 2001, the State got 3.8% [of regional residents' trips]; 3.5% in 2002; 3.3% in 2003 and 3.2% in 2004. In addition, the number of overnight trips to Maine was down 5%.

<sup>42</sup> For example, a Department of Labor Study provides that the industries projected to increase jobs in Aroostook and Washington Counties included "business services, non-depository credit institutions, auto repair and services, engineering, accounting, research and management, general merchandizing and transportation services." All areas where the State is generally neutral as to growth. "Northern Maine Employment Outlook to 2008," p. 5 (1998).

<sup>43</sup> "Downeast East Sustainable Tourism Initiative Year 2010" (hereinafter referred to as "Destiny 2010").

supporting family farms and cottage industries; improving infrastructure to enable package tours; and employing green marketing to distinguish the uniqueness of the Downeast experience, among others. It will be important to involve the Passamaquoddy tribes in any future development of these tourism ideas.

- ii. *The “Strategic Plan for Implementing the Maine Nature Tourism Initiative:”* FERMATA, Inc.’s September 2005 report, which stresses the attraction of Washington County’s natural resources, and urges the organization of potential tourist itineraries along “trails” such as the proposed “Ice Age Trail” featuring the County’s remarkable geology as a way of giving tourists an idea as to how to enjoyably proceed through our State. Likewise it stresses little appreciated resources such as the enormous variety of bird species that flock to Washington County – and which could attract droves of enthusiasts from all over the country.<sup>44</sup> It provides strong analysis of what needs to be done, and a coherent strategy for achieving these goals.
- iii. *The Downeast Heritage Museum:* A \$4 million plus investment has been made by the state and federal governments in the Downeast Heritage Museum in Calais. Intended as a focal point for tourists entering Washington County to get oriented to the attractions of the county, the Center has so far fallen short of the visitor figures anticipated, thus undermining its informational and promotional missions, despite the State’s help in co-locating its Visitor Center on the premises. Again, the cultural heritage of tribal communities can and should be considered assets. In any event, as will be discussed below, improving the performance of the museum is important to any strategy for tourism growth.

### C. The Invisible County

Washington County is immediately adjacent to Hancock County. The Downeast/Acadia area attracts some 23% of Maine’s visitor days. Yet Calais itself only secures some 5% of the visitor days.<sup>45</sup> Ironically, Mt. Desert Island is so crammed with tourists at peak periods that the diversion of some of that stream further Downeast would serve the interests of both regions. But how to do it?

- i. *Branding*  
We must create a positive, consistent image for Washington County in the minds of potential visitors. It has so much beauty, so much the character of the “Last Frontier” in the East, so much a sense of “Living on the Edge,” that developing a brand, as suggested by the FERMATA consultants, should be relatively easy.<sup>46</sup>
- ii. *Advertising*  
Once a brand and an image are established, they should be consistently communicated to the target markets with the highest potential for attracting actual visitors, so as to maximize the value of the advertising dollars.

I recommend this expenditure on the basis that, given our comparative advantage, tourism is our best chance for a return in dollars and jobs in Washington County. To do nothing will likely lead either to a further deterioration in the tourism numbers or their just limping along, failing to build the Washington County economy as it should.

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<sup>44</sup> In August 2004, the DECD hired FERMATA, Inc., a Texas based experiential tourism consulting group. In September of 2005, FERMATA issued its report detailing a strategic plan for economic development through nature tourism in three pilot regions, including Washington County. “Strategic Plan for Implementing the Maine Nature Tourism Initiative” (hereinafter referred to as the “FERMATA Report”).

<sup>45</sup> DLFP Report, *supra*, p.12.

<sup>46</sup> FERMATA Report, p. 14.

The Maine Department of Economic and Community Development (DECD) and its Office of Tourism should develop an appropriate mechanism for the effective creation and delivering of this advertising. The Downeast Acadia Regional Tourism (DART) group may be a useful organization for carrying out a part of this mission, as close cooperation between Hancock and Washington counties in the promotion and management of tourism is important.

For example, any campaign to direct tourism to explore the wonders East of Ellsworth will necessarily involve Schoodic, Winter Harbor and Corea, the Donnell Pond Public Reserve Land, and the Route 183 scenic byway, as well as the many sites in Washington County. But the organizational structure and representation of Washington County in DART is not currently sufficient to carry out the full job envisioned to develop a strong consumer identity for Washington County.

By the same token, Washington County needs Hancock County's affirmative assistance, for example. If a strong identity campaign is established, the Ellsworth Chamber of Commerce Center on Route 1, in the shopping mall zone, would be an extremely valuable site for distributing information about Washington County.

An idea of the magnitude of the promotion effort and commitment necessary to sustain a successful tourism industry Downeast is provided by our next door neighbor, the Maritime province of New Brunswick, which spends approximately \$20,000,000 Canadian on its comprehensive promotional program annually.<sup>47</sup>

I recommend Maine follow the example of the adjacent province, with similar challenges of distance, infrastructure, and identity, and invest enough money in advertising Downeast Maine to actually have a chance of making a difference.

An amount just 25% of what our neighbors spend, or \$4,000,000 US per year, for the next four years (because a single year program is unlikely to have any lasting impact) could make an enormous difference in the number of people traveling East of Ellsworth into one of the poorest, but loveliest, parts of our State. This investment will only be effective if strategically coordinated with other recommendations elsewhere in this report: improved traveler information, cultural heritage resources, trails, destination resorts, and more. This marketing initiative must also include accountability and oversight by Washington County interests – noting staff and leadership opportunities discussed later in this report.

I recognize, of course, that Maine is constrained by a structural budget deficit and that our State always faces more needs than it can meet. However, if we invest not only in our capital infrastructure, but also in the industries that are the mainstay of our economy, there will be improved opportunities for all Maine people.

In a biennial budget of seven billion dollars<sup>48</sup>, setting aside \$4,000,000 per year as an investment in building the most promising industry in what may be the poorest county seems a truly just and wise allocation of roughly 1/10<sup>th</sup> of 1% of our annual budget. In addition, it is consistent with the 119<sup>th</sup> Legislature's actions whereby it increased the

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<sup>47</sup> Dann Lewis, Maine Department of Economic and Community Development, Interview. October 6, 2005.

<sup>48</sup> This includes all funding sources: general funds, federal funds, revenue funds, and highway funds



sales tax on certain meals and created a Tourism Marketing Promotion Fund, which receives a certain percentage of funds raised by the sales tax on meals and lodging,<sup>49</sup> which was increased by the same Legislature in 2001.

iii. ***Long Term Promotional Fund***

The need for a tourism promotion program will extend indefinitely, and should come to depend on a permanent, reasonably stable source of funds. New projects and new momentum will provide opportunities to develop longer term revenue streams and confidence in investments. For example, a logical source of such a long-term fund could be proceeds from a toll on traffic crossing the new international bridge at Calais, discussed below.

iv. ***Directing Tourists into Washington County***

In addition to long distance advertising, there are three immediate opportunities for attracting visitors to Washington County. The overwhelming majority of travelers to the region will enter either from the East through the International Border between St. Stephens, New Brunswick and Calais, or from the West through Ellsworth or Brewer. The third important point of entry is cyberspace.

a. **Directing tourists from the East**

This is a critical moment in history for Calais. A new hundred million dollar bridge and homeland security complex is slated for construction to hook up the "Airline," Route 9, to the Canadian border near Calais. Once the new bridge is built, making bypass the natural option, Calais must make a concentrated effort to induce tourists to explore Calais.

Enhanced and well marketed attractions such as the Downeast Heritage Museum are key strategies, yet must be supported by signage, promotion, and traffic management strategies.

Simply put, Maine needs to entice potential tourists to get off the high speed truck route and onto the local streets of Calais. The best opportunity to do that (for travelers entering Maine) is before they reach Maine. Calais and St Stephen have a mutual interest in working together.

Several steps are necessary:

1. Negotiate mutual agreements with various Canadian and US interests to jointly publicize the tourist assets along the bypassed route. Parties to the agreements should include the visitor centers, municipalities, departments/ministries of transportation and tourism, chambers of commerce, and more. With the groundbreaking of the new crossing just months away, work toward an explicit and detailed mutual agreement should begin immediately.
2. The mutual agreement should address the relocation of visitor centers, especially in Calais where the current visitor center will be bypassed by the new bridge.

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<sup>49</sup> 36 MRSA § 1811; 5 MRSA § 13090-K.

3. The mutual agreement should address directional signs on both sides of the border to promote businesses, museums, new trail themes, and more *for attractions in either country*. A full inventory of attractive signs with a consistent style should replace today's dreary brown informational signs. The Maine Department of Transportation should submit legislation to acquire statutory permission for logo signs on limited access sections Route 9, similar to those allowed on the interstate system, for businesses on either side of the border, provided that the Canadians reciprocate.
4. A separate dialogue should be started immediately between Maine DOT and the New Brunswick Ministry of Transportation to impose a toll at some point along the new bypass. The toll price should be set so as not to deter commercial trucks, but to encourage tourists to forego the fast track in favor of experiencing Calais and New Brunswick. The proceeds from the tolls should be dedicated to Washington County and St Stephen promotion funds to offset the adverse economic effects of the bypass primarily by promoting tourism in Washington County. My recommendation should not be viewed as a reason to delay the construction of the new bridge, but rather as a challenge to develop a win-win opportunity for both sides of the border, but especially the people in the Calais/St. Stephen area.

**b. Directing tourists from the West**

In the same way that construction of a new bridge in Calais presents challenges and opportunities, major new MaineDOT projects in Hancock and Penobscot Counties present risks and opportunities for Washington County. Traffic patterns for Washington County will change over the next several years due to a number of projects:

1. The extension of I-395 to Eddington will bring much of Washington County closer to the I-95 corridor.
2. New bridges in Bucksport and Augusta, along with other major highway upgrades, will keep Ellsworth a primary gateway for Washington County potential tourists.
3. New or proposed information centers in Ellsworth and Trenton and Acadia National Park will shape the nature of traveler decisions for years to come.

The Commissioner of Transportation and the Office of Tourism should be tasked with developing both a short term plan, and a long term plan for visitor information and signage for Washington County at key gateways in on I-95, I-395, and in Ellsworth. This plan should consider some key observations.

1. One overhead sign at the junction of Routes 1 and 3 in Ellsworth is inadequate and confusing due to congestion and many other commercial signs on that section of highway. The approaches to Ellsworth on Route 1 and Route 1A – as well as Main Street and High Street – present opportunities to educate travelers in advance of that

critical intersection. Better signs would benefit Acadia's Schoodic peninsula and Eastern Hancock County as well as Washington County.

2. The extension of I-395 should be accompanied by conspicuous and strategically planned signage to promote Hancock and Washington Counties, before travelers reach key interchanges or decision points.
3. The intersections of Route 9 and Routes 193 and 192 each will see more traffic in coming years, and present opportunities to educate through traffic on the nearby attractions.
4. Any decision by the State of Maine to invest in a new visitor information center in Trenton should be accompanied by serious consideration of Washington County and Schoodic interests. While site selection is leaning toward a major Acadia National Park welcome and transit center in Trenton, such a site would be a missed opportunity for the entire region except Mount Desert Island. At minimum, the Trenton site might best be supplemented by an expanded public-private visitor center in Ellsworth. MaineDOT's plan to leave its current garage for the time being at the intersection of Routes 1 and 3 at the Ellsworth Triangle presents a travel information opportunity which can not be ignored. The improved intersection of High & Main, along with proposed rail and trail facilities nearby, also present opportunities. At minimum, the state should immediately partner with the Ellsworth Chamber at its existing site to assure that Washington County information is provided to the literally millions of tourists who will pass through Ellsworth next summer.

**c. Directing tourists from Cyberspace**

Most travelers have planned their itinerary before they leave home. Even more have found their destination by searching their interests out on line. The Internet provides an affordable mechanism for informing them of the attractions in Washington County. Maine tourism web pages are extraordinary and award-winning, yet the internet is rapidly advancing and increasingly competitive. Washington County's most magical attractions are still unknown to Google or Jeeves, and instead tourists must seek out paper brochures or word of mouth.

State government must be vigilant – constantly updating and linking sites as bike paths are built, as hiking paths are acquired, as historic inventories are improved.

Yet cyberspace is inherently so much bigger than government. The young and agile cyber minds of Governor Baldacci's youth and creative economy groups – along with Washington County's laptop friendly high school students – should be focused with the task with maximizing Washington County's presence on-line for an audience of potential tourists and residents. The Office of Tourism's webmasters should provide frameworks and support, yet the content can be entirely local, democratically developed, serving and attracting a global and affluent audience.

**D. Specific Initiatives:**

There are several types of tourism that could be promoted within the overall context of branding, advertising, and directing tourists as outlined above.

i. ***The Rail-Trail***

Perhaps the most promising of the current projects is the interim use of the right-of-way from Ellsworth to Ayer's Junction, on the Charlotte/Pembroke town line, for multiple recreational uses. When properly rebuilt and resurfaced by MaineDOT, this extensive trail can be used by runners and walkers, skiers, bicyclists, snowmobiles and ATVs. There is thought to be a huge pent up demand in Southern New England for long, wild stretches of rights-of-way for these purposes, which are simply not available down there. Earlier successes with the snowmobile network building up winter recreation in the Greenville and Fort Kent areas suggest the potential Downeast.<sup>50</sup>

But again, a "secret" trail is of no value at all – advertising is critical. Some of the appropriation recommended in Section II(3)(C)(ii) for advertising should be used to promote the availability of this trail as it comes on line.

Likewise, a trail opened to use years from now fails to address the needs of the Maine economy today, and MaineDOT should be directed to reconstruct at least a part of the trail in time for the 2006-2007 snowmobile season. Maine government should develop a sense of urgency about getting this trail in business, and promoting its availability.

The MaineDOT can also help by promoting the trail in its bicycling guidebooks and maps and on the *Explore Maine* website. Other websites that could promote the trail are those of the Office of Tourism, Department of Conservation, and local chambers of commerce.

ii. ***State Public Parks and Lands***

Over the last generation, the State has purchased and consolidated 41,000 acres of public lands in Washington County through fee acquisition and easements, including Cutler Coast, Shackford Head in Eastport, and Horan Head in Lubec. These special properties set the standard and exemplify the quality of the wildlands and cultural attractions available in Washington County. A map of Maine's public lands in Washington County is attached.<sup>51</sup>

Again, we should advertise the availability of these lands for public enjoyment in connection with the Rail-Trail and set pricing policies so as to both recoup costs and optimize attendance on a case by case basis.

iii. ***Federal and International Parks and Lands***

There are three significant federal and international properties that could potentially serve as very attractive destinations for travelers to Washington County:

- a. The Moosehorn National Wildlife Refuge is a true national resource, particularly for migratory birds. Yet, in contrast to its Western counterparts, it is again a well kept secret; with a colorful brochure available only in the immediate vicinity; discrete signs, easy to miss, identifying the headquarters; and virtually no advertising to attract the millions of Americans who have made birding their outdoor avocation.

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<sup>50</sup> Interview with Commissioner Roland Martin, Dept of Inland Fisheries and Wildlife, August 2, 2005

<sup>51</sup> MDCO/SPO Cons/Rec Lands Update 12/31/04 V2, See Appendices of Graphs, "Principal State and Federal Conservation and Recreation Lands in Washington County"

- b. The St. Croix International Waterway is a joint project of the US and Canadian governments to attract outdoor enthusiasts from Spednic Lake to the Atlantic, utilizing campgrounds on both sides of the border.

Although beautiful, this route is little known and little used. Its brochure is colorless and receives little circulation. Again, featuring this option in advertising could be of benefit to both the State and Province.

- c. Most extraordinarily, the region is also home to the summer retreat of President Franklin D. Roosevelt (FDR) and his family on Campobello Island, New Brunswick. This historic site is under the jurisdiction of an International Joint Commission (IJC), which unfortunately has not done enough to publicize the site – a decision particularly unfortunate in light of the reality that the last generation to know of FDR first hand is dying off and his resonance with younger people is limited.

One possibility, suggested by Calais native son Sidney Unobskey, is to construct an international Franklin D. Roosevelt trail. The trail would extend along both sides of the St. Croix River, from Calais to Eastport, and from St. Stephen to St. Andrews for 26 miles on each side. The walking/hiking trail would be interspersed with bronze sculptures of scenes from the life of FDR by the sculptor who created the memorial to the New Deal President in Washington, D.C. along the route to Campobello. This idea could be a great attraction and a fitting monument to a great leader. Regardless of whether that project is ever realized, the idea of the IJC actually allocating money to bring FDR's legacy to more people deserves urgent attention from both national and state governments.<sup>52</sup>

#### iv. *Cultural Resources*

In addition to the Downeast Heritage Museum, discussed above, Washington County is home to a marvelous range of cultural resources, including the Tides Institute in Eastport, the SIPAYIK Passamaquoddy Reservation at Pleasant Point and Motahkmikuk Passamaquoddy Reservation at Indian Township in Princeton, St. Croix Island and the Burnham Tavern in Machias, the Ruggles House in Columbia Falls, and many other properties and assets that are listed in the National Register of Historic Places. Yet, they are of limited value unless their message is connected to some overall theme.

Washington County's history is reflected in its rich legacy of historic properties, many of which are open to the public. Places like Cherryfield, East Machias, and Calais developed around lumbering and shipbuilding industries, and the surviving historic fabric of their respective village centers reflects the prosperity generated by these pursuits. Likewise, Eastport and Lubec had thriving fishing industries, and complexes such as the McCurdy Smokehouse in Lubec are distinctive, tangible reminders of this history. Many opportunities exist to interpret the county's history using these resources.<sup>53</sup>

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<sup>52</sup> At MDOT Yarmouth Visitor Center this summer, I inquired as to information regarding Campobello, and was treated to a brochure pulled out from a closet out back – the publications were too rare to house on the publicly accessible shelves, it was explained. The IJC needs to do better in making quantities of its advertising materials available for potential visitors, and so does the International Waterway.

<sup>53</sup> Interview with Earle Shettleworth, Maine Historic Preservation Commission, September 2005.

Mary Jeanne Packer of FERMATA has proposed that the Downeast Heritage Museum, in particular, needs a unifying theme that will help guide and attract visitors to the whole county. Others have suggested the Museum has to decide between being a free visitor center site or a paid entrance museum. Still others think the Museum could be better linked with the larger community if commercial exhibits from local businesses were attractively displayed on the premises, as is the case with the New Brunswick Visitor Center just over the International Bridge in St. Stephen. I recommend both working on the FERMATA theme idea and utilizing the space to show off the commercial goods and services available in Downeast Maine as part of its mission.

Washington County's agricultural heritage is as much a part of its culture as its lumbering and fishing traditions. Bangor's folk festival, heritage festivals in Lewiston-Auburn, and fairs in Fryeburg and Unity and elsewhere are major tourism and economy factors. An annual Washington County fair to celebrate the heritage, traditions, work, agriculture, and crafts of its people could be a defining attraction for the county. Tribal heritage and traditions, along with Maritime immigration and recent Latino immigration, all present opportunities that tourists would seek out. It could be annual showcase for artisans and craftsmen, blueberry and cranberry growers, seafood and forestry industries. It would give Downeast residents a chance to promote their heritage and attract visitors as well.

#### **v. Trails**

Nova Scotia and New Brunswick have for decades understood how to organize their touring travelers by establishing "trails" around attractive themes with clearly marked signage so as to direct traffic in ways that will maximize tourist enjoyment and utilization of local resources. Maine has similar opportunities, but a woefully inadequate sense of how to promote its attractions. We would be far better off, as FERMATA proposes, to identify especially attractive routes and market them to potential visitors.

For example, the proposed "Ice Age Trail" would explain and show off a truly unique geologic feature of the State wherein a part of the coast Downeast is actually geologically part of Europe rather than North America. Perhaps not everyone's cup of tea, nonetheless, it's a feature unique to Maine and of interest to a large number of aficionados.

Yet others may be attracted by a special brochure concerning Washington County's museums, as New Brunswick does already. Or bird watching opportunities. Whatever the subject, the organization of opportunities into trails, consistent with their counterparts in New Brunswick, would be well worthwhile. It can't happen soon enough.

#### **vi. Destination Resorts**

The Algonquin Resort in St. Andrews, New Brunswick is a good illustration of the value of destination resorts. To put it simply -visitors needs something to do on rainy days.

What's more, as the FERMATA report describes, there is a new type of "experiential tourist" (one with money to spend). These types of tourists are looking for nature-based experiences, such, wildlife-associated recreation, outdoor activities, as well as historic and cultural resources; but, at the end of the day, they want luxury accommodations, upscale restaurants, spas, and Internet access. FERMATA recommends that if a state or region wants to take advantage of economic opportunities presented by these new kinds of tourists, it needs to develop lodging that meets the quality requirements of many experiential tourists.

High quality lodging or resort type accommodations may present an opportunity for Washington County to grow its tourism sector. Many entrepreneurs will naturally think first of casinos. But the premise of casinos is illusory when the barriers to competition are merely political –as New Brunswick imposed a VAT to counteract Maine mercantile shopping, we could reasonably expect a countermeasure to any border casino. Likewise, any legally created competitive advantage would certainly be challenged by Maine not-for-profit organization looking for gambling opportunities to serve a myriad of worthy causes – all to the ultimate detriment of the social welfare of the people of Maine.

But casinos are not the only alternative to drive destination resorts. Utah, for example, provides striking examples of successful enterprises in wilderness settings that are not dependent on gambling.

(See also section IX (E)).

#### vii. Rest Areas

When the interstate system was built, the federal government funded and supported major interstate rest areas at regular intervals across Maine. They are taken for granted, and heavily used.

Oddly, MaineDOT is trending away from services on rest areas on Route 9, even as Route 9 functions more and more like an interstate highway with access controls and increased volumes. That decision has real consequences for all who travel to Washington County, and turns its back on the successful experience of the interstate program.

The principal pamphlet in circulation extolling Washington County last summer wastes no time in advising potential visitors that *"Washington County is short on rest rooms, but long on trees... for luxury, try a service station."*<sup>54</sup>

Understandably, no DOT on its own wants to be in the rest area business. Yet they must. It's not a local matter on a sparsely populated, heavily traveled highway. MaineDOT should issue a report by April 2006 describing existing and planned rest areas and facilities, and proposing new facilities, and should fund improvements in its upcoming biennial capital plan. A report defending the status quo or re-iterating current thinking within the department simply will not serve the interests of Maine's citizens and visitors.

The Department's idea that it should partner with private businesses, as it recently did at a Kittery truck stop to provide funds for buildings and parking lots, is a good one in some circumstances. Public/private bid or partnership opportunities for rest stops are obvious. The state could provide money for construction in return for the business agreeing to maintain it. The business would benefit from a more valuable building and increased traffic. The state avoids the worries of maintenance and vandalism. But of course, in remote, but strategic corridors like Rte. 9, whatever the difficulties, where private businesses are few and far between, DOT must assume and carry out this serious responsibility. The alternative of doing nothing should be unacceptable to a State interested in attracting return visitors.

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<sup>54</sup> "Maine's Washington County, Just Off the Beaten Path," Summer 2005, Hanson, Calais Press Printing, Co., pg. 4.

### Section III: Tribal Nations

The Tribal communities at Indian Township in Princeton and Pleasant Point in Perry are an important part of the historical and present fabric of Washington County. Unfortunately, as the county itself is too often invisible to the rest of the state when strategic decisions are made, so too are the tribes often left out of discussions regarding Washington County's future development. The Passamaquoddy tribes should be a strategic partner in bringing to future prosperity for Washington County.

Tribal assets and holdings in natural resources, workforce capacity, commitment to the region, and cultural history are important not only to their own success, but to the overall well-being in the County. The real economic incentives available to tribal entities through Federal 8(a) minority enterprise entitlements are significant. The most promising of the 8(a) opportunities for the Passamaquoddys is the Native American Manufacturing Initiative (NAMI). The contracting capacity of this project may amount to hundreds of millions of dollars. Moreover, such development has real potential to engage and help expand Maine's existing manufacturing base.

Where does the NAMI need to move forward in order to be successful? What is critically lacking in the tribal governments of Washington County is the capacity to fully engage the myriad business opportunities before them – which would be facilitated by establishing distinct, operational business structures to manage tribal enterprises.

This is where the State can provide assistance: providing the tribes seed money to establish corporate entities in order to do business. This amounts to bridge money to self-sufficiency. Strategic planning by the tribes themselves is essential to reach the point in which investments in their business structures is prudent. Starting with "8(a)" projects, the Tribes can build on their experience and success and ultimately diversify beyond manufacturing and/or defense; particularly in tribal-based "creative economy" and tourism enterprises.

### Section IV: Second Home Development

Second home development is nothing new Downeast – after all that is exactly the purpose President Franklin D. Roosevelt's cottage at Campobello served nearly a century ago.

The potential for economic activity from this source was recognized in the 1999 survey of Washington County, in which Robert K. Roper of the Margaret Chase Smith Center at the University of Maine noted *"if affluent retirees were attracted, the amount of dividend, interest, and rent income flowing into Washington County would likely increase, consequently stimulating other economic activity. Social Security and Medicare dollars would also increase."*<sup>55</sup>

And the skyrocketing prices for coastal land, as advertised in publications like *Downeast* magazine, are testimony to the values buyers are now willing to attribute to this remote county.

Second home development has both positive and negative effects. On the plus side, construction gives steady work to skilled Washington County tradesmen, some of whom spend nearly all their working time on the seaward side of Route 1.<sup>56</sup>

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<sup>55</sup> "Washington County Overview, Conclusions and Other Possible Economic Development Initiatives," *Ellsworth American*, April 8, 1999, pg. 10A.

<sup>56</sup> Interviews with Kellen Hutchins, Larry Nichols, Pete Omlor, David Weaver, and Mark Wright, September 8, 2005.



As Professor Charles Colgan noted in his analysis of the economic impact of the Plum Creek proposal, peak employment in connection with residential projects comes from the construction phase of the work, but even in subsequent years, purchases by the new residents will have an impact in the immediate vicinity, the local service centers, and more distant major trade and service centers.<sup>57</sup>

Second, affluent new home owners will stimulate a market for the goods, services, and entertainments they want. Such pioneers have led to the development of full-fledged tourist destinations in other parts of the country, such as the now very successful community of Asheville, North Carolina.<sup>58</sup> We are beginning to see the development of dedicated retirement communities in places such as Kennebunk, Camden, and Topsham.

Third, although Mainers talk ardently of developing a "creative economy," which includes handicrafts, arts, furniture, and entertainment, (along with software, research & development and more) many such developments depend on the existence of a customer base.<sup>59</sup> Affluent second home owners are ideal customers, with their discretionary income and sophisticated tastes.

Fourth, new entrants to the communities that have shrunk over the decades can bring new energy and new philanthropic resources to improve the lives of local residents, as exemplified by the EdGE after school program sponsored by the Maine Seacoast Mission in Bar Harbor.

But no change is without its costs, and there are negatives to the influx of newcomers as well.

First, as coastal property prices rise, traditional public access to the shore for both recreational and commercial purposes in some cases is squeezed to the verge of disappearance.

Second, sharp increases in coastal property values reduce eligibility for state schools cost reimbursement, although, presumably, the new valuations for coastal properties can eventually offset this particular loss.

Third, some new devotees of Maine come with different values. These folks often actively resist any kind of industrial economic activity, including aquaculture, in their backyards.

Fourth, presumably new, retired second home owners will impose a cost on local hospitals and other services for the elderly, although most are likely to be able to pay for such services.

Another objection, that out-of-state owners are making the coast unaffordable for Maine people, is simply a reality of the market place that no constitutional public policy can change. On balance, second home development makes productive use of one of our greatest natural resources, the beauty of our State, and provides significant job opportunities for both trades and artisans, as part of its multiplier effect. Our public policies should encourage thoughtful second home development and the advent of retirees to join our communities. They can make a mighty contribution to our economy, while requiring few publicly funded services. Most of the issues concerning attracting and retaining these consumers will be resolved in the workings of the market place and the private sector.

Nonetheless, the State could encourage more retirees to make Maine their home and to invest if we:

1. Eliminated the state income tax on retirement income for people who reside in Washington County. Other states have adopted a conscious policy of attracting retirees as an economic development tool.

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<sup>57</sup> Colgan, Charles, S. Professor, University of Southern Maine, "Estimated Economic Impacts of Implementing the Proposed Plum Creek Rezoning Plan in the Moosehead Lake Area," August 2005.

<sup>58</sup> Interview with President Cynthia Huggins, UMM.

<sup>59</sup> Florida, Richard, "The Rise of the Creative Class," New York: Basic Books, 2002, pg. 45-46.

Maine would risk little, because there would be few “free-riders” who would establish a Washington County residency any way, without such an exemption. At the same time, we would be reasonably likely to attract more people who would pump more money into Washington County’s economy. If this experiment worked in Washington County, perhaps it could be applied more broadly later.

2. At the same time, we could counteract the negative impact of rising land prices on public access to the coast by creating land banks to acquire rights of public access and land on the coast, in addition to pursuing the measures proposed in the report by Coastal Enterprise.<sup>60</sup> Numerous examples of this concept exist, such as the Martha’s Vineyard Land Bank, established in 1986, which is funded by a two percent fee on real estate transactions. The funds there are used for the broader purpose of acquiring land for conservation and recreation.<sup>61</sup> The Massachusetts Community Preservation Act is similar; imposing a 3% real estate surcharge to fund open space, historic preservation, and community housing.<sup>62</sup> But here in Maine, the critical need is coastal access and the tax would need to be narrowly targeted to achieve a limited purpose. Senator Christine Savage (R-District #22) recently proposed similar measures for Maine.<sup>63</sup>
3. Certainly, bond issues to acquire coastal access should also be approved and issued from time to time.<sup>64</sup>
4. The Governor should ask an appropriate official, perhaps Dale McCormick of MSHA, to confer with executives of Del Webb, Minto, or other large real estate development firms as well as other Maine based developers to explore what conditions would need to exist for them to consider investing in developing retirement or second home communities in Washington County.
5. As part of their overall mission of serving as a catalyst for economic development in the region, the University of Maine at Machias (UMM) and the Washington County Community College (WCCC) should develop programs of interest to retirees. In its feature, “Best Places to Retire 2005,” CNN and *Money* magazine noted that many of the most attractive communities to retirees were college towns, including Brunswick, Maine.<sup>65</sup>
6. So far, virtually no planned development has occurred in the interior of Washington County. The state’s Land Use Regulatory Commission (LURC) should anticipate such interest in the future as coastal land prices rise and should begin consciously planning to identify the areas in its jurisdiction where such growth would best be accommodated and facilitated.
7. A promising potential site for a pioneer retirement community could be the housing at the former Cutler Navy base.

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<sup>60</sup> Coastal Enterprises, Inc. “Preserving Commercial Fishing Access” prepared for the Maine Coastal Program (2002), pp. 12-3.

<sup>61</sup> The Martha’s Vineyard Land Bank Commission Website, [www.mvy.com/islandinfo/conservation.html](http://www.mvy.com/islandinfo/conservation.html)

<sup>62</sup> Massachusetts Community Preservation Coalition Website, [www.communitypreservation.org](http://www.communitypreservation.org).

<sup>63</sup> LD 115, First Regular Session of the 122<sup>nd</sup> Legislature

<sup>64</sup> Note that \$10 million of the \$12 million of the land bond issue this November is for this purpose. Its enactment would definitely be a positive action to help Washington County and other coastal counties.

<sup>65</sup> The criteria CNN/*Money* used were: 1) affordable housing, 2) plentiful leisure activities, 3) plentiful cultural options, 4) low pollution, 5) low crime, 6) low auto insurance, and 7) access to quality health care (October 19, 2005). Washington County meets many of these criteria, and a college offering a range of cultural and educational options would shore up one of its major weaknesses.

The Washington County Development Authority (WCDA) should collaborate with and assist the option-holder to make the best use of the property, or resume full ownership in the event of non-performance with a view towards such a development.<sup>66</sup>

## **Section V: Energy**

One of the most promising sectors of the Washington County economy for the near future arises out of the nation's growing energy needs.

No matter how much success we may have with conservation – and rising oil prices will be a far more powerful incentive for conservation than any government subsidy schemes – a growing economy will benefit from a diversification of power supplies, and Washington County will benefit directly from the construction and operating jobs and the tax revenues, and possibly reduced energy costs such new development can bring.

Three proposed LNG import facilities in Passamaquoddy Bay are being actively discussed as this report is being drafted. Such facilities present considerable opportunities and considerable risks that deserve leadership, open discussion and attentive oversight.

### **A. The Northeast Reliability Intertie (NRI):**

The principal new components of the Downeast energy picture include the proposed Bangor-Hydro tie-line that will run in Bangor to Baileyville to hook up with the New Brunswick transmission system.

Already approved by the Maine Public Utilities Commission (MPUC), the Department of Environmental Protection (DEP) is expected to act favorably on the application soon, and the Presidential Review required for international projects is anticipated by the end of 2005.

It is estimated that the construction of the new line over the next two years will cost \$90 million. While some of that will be spent on wire and materials from out of state, it is expected to create a total of 230 jobs. These jobs translate into a direct payroll of \$4.7 million and inject some \$ 7.8 million directly into the Maine economy, with an estimated economic impact in Washington County of \$3.9 million on a one-time basis.<sup>67</sup>

Moreover, the new line will diversify our source of supply and reduce the risk of interruption by following a route independent of the MEPCo (Maine Electric Power Company, Inc.) line on which we are now virtually exclusively dependent for Canadian power.

Finally, the new line creates the possibility that under the New England Independent System Operator rules, the cost of electric power in Eastern Maine could actually be modestly reduced, as the supply available to the region will be increased, while congestion on the grid further South means the increased supply will stay in the region.

### **B. The M&N Natural Gas Pumping Station:**

A second significant project is the proposal by Maritimes & Northeast Pipeline Corporation to increase its carrying capacity on the natural gas pipeline from Nova Scotia to the greater Boston area.

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<sup>66</sup> This facility is discussed further below under Section VII Defense & Homeland Security, subsection (ii) Surplus Facilities

<sup>67</sup> The entire project results in direct payroll of 120 positions and total jobs (including spin-off employment) of 230 jobs. Bangor Hydro Electric Company Import Filing with the U.S. Department of Energy regarding the Northeast Reliability Intertie (NRI).

As currently envisioned this project would entail construction of five new compressor stations in Maine and approximately 146 miles of pipeline loop. These upgrades would allow the line to increase its maximum capacity from the current 440,000MMcf per day to allow it to transport an additional 1.5 Bcf of natural gas to be supplied by two proposed LNG import facilities in Northeast Canada (St. John, New Brunswick and Point Tupper, Nova Scotia).

On September 15, 2005, Maritimes initiated a "Pre-filing Process" with the Federal Energy Regulatory Commission (FERC) to begin the review process and gather input from stakeholders. Maritimes expects to file an application to construct, own, and operate the Phase IV facilities in the first quarter of 2006.

The capacity to pump more gas into New England is certain to be helpful in a region now 40% dependent on natural gas generated electric power, even if there is little or no favorable price impact if the incremental gas must come from Canada.<sup>68</sup> Increased supplies of natural gas should help to stabilize prices, at least in the near and medium terms, all else being equal.

### **C. LNG in Maine:**

Natural gas imported directly into Maine would have one less cost component than gas shipped through New Brunswick because it would avoid the \$0.50 per mmbtu transmission costs imposed by Canadian pipelines. On the other hand, M&N may charge a higher transportation cost to use its pipeline for late comers than its first new customers, which is expected to be the Irving LNG terminal, "CanaPort" St. John, New Brunswick, in 2008. In any event, Maine's LNG policy ought to take into account the following factors:

- (i) National policy urgently favors increasing the capacity of the US to import LNG to offset declines in domestic production which are driving prices sky high;<sup>69</sup>
- (ii) Maine is heavily dependent on natural gas to produce electricity, a choice supported by public policy because gas is relatively benign environmentally as an energy source;<sup>70</sup>
- (iii) Maine enjoys the combination of sparsely populated areas with deep harbors, and proximity to a pipeline which are quite rare along the Atlantic coast. (In other words, this is one business where Washington County has a genuine competitive advantage);

In itself this investment would be an extraordinary boost to the regional economy. But it would also open up the possibility of the development of as much as 500 MW of cogeneration at the Domtar plant, giving that facility a new lease on life.

Down the line, ancillary businesses reliant on natural gas might also be created, as well. Such businesses need not necessarily be close to the LNG terminal.

Finally, one new factor should enter our thinking as we learn from the devastation of Hurricane Katrina. We in Maine quickly seized on that disaster to point out the imprudence of relying on one surface combatant capable shipyard at Pascagoula, Mississippi, and instead the value of diversifying the risk by having a second yard remote from the first at Bath Iron Works.

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<sup>68</sup> Maine Energy Policy, Overview and Opportunities for Improvement, "Electricity Sector in Maine, Capacity Mix – New Natural Gas Units," December 3, 2003, pp. 74-75.

<sup>69</sup> [www.ferc.gov/industries/lng/gen-info/import.asp](http://www.ferc.gov/industries/lng/gen-info/import.asp)

<sup>70</sup> See *Supra*, n.67.

We should also see that not only ships, but American energy supplies and facilities are vulnerable to tropical storm devastation, and that the national interest calls for diversification of this risk into the Northeast as well.

But regardless of all these factors, whether any such terminal is ever built is purely speculative at this point.

The ultimate decision will depend on a combination of the suitability of the site, the willingness of private investors to develop the site, the approval of the Federal Energy Regulatory Commission – the agency with jurisdiction to make the decision<sup>71</sup>

It is a challenge for the State to fulfill this responsibility when the proposals of the various developers who have stepped forward at this point are so far so indefinite, lacking a good deal of the detail and demonstration of financial capacity to carry out commitments that will be necessary to secure the necessary permits.

Nonetheless, there are a number of steps the State ought to take now to fulfill its leadership role on this issue, as follows:

(i) Form an LNG Working Group to coordinate administration policy on this complex issue, led by a senior cabinet official such as the Commissioner of DECD or Director of State Planning. The membership should include a deputy AG, an individual with energy and environmental expertise, an economist, and an expert on safety and navigation issues, at least.

(ii) The purpose of the group should be to advise the Governor, the relevant State departments, the Congressional delegation, FERC, and affected counties and municipalities.

(iii.) The issue on which the group should formulate positions and information include:

- a. the environmental and navigational issues;
- b. the positions of the US and Canadian agencies;
- c. the impact on various state resources; and
- d. issues of concern to regional and local governments

(iv) The working group should also advise the Governor on what positions the State ought to take in intervening in any FERC proceeding concerning LNG, and on the terms and conditions appropriate for the use of any state submerged lands required by a project,<sup>72</sup> which is the issue on which State government might have the most direct influence in the overall decision making process.

(v) The Working Group should also stay informed as to the timetables, resources and intentions of the developers, and concerning their views to the Governor and other decision-makers.

Overall, there are real complexities and lead times on this economic issue, and the Governor should put this group to work immediately, with a view to guiding development, objectively informing constituencies, formulating a unified State government position in local, Congressional, intervener, and international proceedings in a timely and effective way.

#### **D. Green Generation**

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<sup>71</sup> 16 USC, Chapter 12.

<sup>72</sup> 12 MRSA § 1862(2).

In addition to the foregoing opportunities, Washington County also has some natural resources that can be used for "green" electricity generation.

*i. Biomass Plants*

There are currently two stand alone biomass plants in Washington County, utilizing low value wood from regional forests. The Indeck Plant in Jonesboro has a capacity of 27MW and employs 20 people. The Worcester plant in Deblois can produce 22.8MW and can employ 10 to 20 people depending on its operational status.

Although wood-fired plants are more expensive on a KWH basis than many other sources, these operations can be successful because of substantial premiums Connecticut and Massachusetts require their energy suppliers to award to renewable power facilities. While the Jonesboro plant is running full out as a result, the Worcester plant, originally constructed as an ill-conceived peat powered plant, recently filed for bankruptcy. In the fall of 2005, the plant was refinanced and it appears that it will soon be up and running again. The State, through FAME and perhaps the Office of Energy Independence Security or the Public Advocate, should take whatever steps it can to assure future production at the plant.

Unfortunately, while the raw material for further biomass plants in Washington County would appear to be plentiful, the congestion on Southbound bulk electric transmission lines makes it difficult and expensive to export such power to southern New England, where despite its premium cost, such green power commands a premium price.

In the long term, just as Washington County was benefited by the construction of a third lane on the turnpike between Kittery and Portland, shortening overall travel times to Machias and Calais, so too it will benefit from constructing additional electric transmission capacity connecting Southern Maine to Massachusetts. But that is an issue for another day and another task force.

*ii. Wind Power*

Washington County also has some real capacity for developing wind power, both on the aptly named "barrens" and out to sea.

The Passamaquoddy Tribe has already taken the initiative to define this potential, with a \$150,000 study financed by the Bureau of Indian Affairs, the results of which should help inform future wind strategy throughout the county. Ultimate development of any future project might rest on the Tribe's ability to secure financing beyond the study.

The now defunct OTH-B radar site in Township 19, near Columbia Falls appears to be a particularly promising venue for wind developments. So far there are indications the U.S. Air Force may want to develop this site itself. It is imperative that the Governor request the Commissioner of the Department of Defense and Veterans Services and the Director of the Office of Energy Independence and Security to clarify this matter and develop a state strategy for the former radar site.

*iii. Tidal Power*

FDR's dream of a vast tidal power project at Passamaquoddy Bay is well behind us, but the state Office of Energy Independence, in conjunction with EPRI (Electric Power Research Institute), the electric industry's research arm, is in the beginning stages of exploring the possibility of development of an environmentally benign alternative. A

kind of “run of the current” distributed turbines system embedded in the sea bottom at points where there is great velocity from the dramatic rise and fall of the Fundy tides holds some promise, although the aggregate capacity is likely to be modest.

Certainly, this is a technology that should be explored, as another “green” alternative, and we should not be timid about it – it would be far preferable to get a pilot 10 MW site to work, rather than go through all the time, permitting, and paperwork necessary just for a miniscule 500 KW site, and then start all over again for a 10 MW site.

#### **E. Consumer Issues**

While the focus of this section has been on transmission and generation because of their macro-economic impacts, there are some issues on the consumer side as well.

##### ***i. Electricity Reliability***

Because of its sparse population and glacial geology, with long reaches of land down to the sea, Washington County has long stretches of non-redundant circuits, some of which are subject to salt-water corrosion, which tend to be less reliable. Until a greater economic base can be built up, these conditions will continue to exist. We should simply be aware that this fact of life is a constraint on attracting certain types of business that require high levels of service reliability. The one thing the State can do is reward or penalize changes as appropriate in the current level of service quality through the MPUC’s rate-making process.

##### ***ii. Electricity Purchasing Cooperatives***

With deregulation, greater fluctuation in the price of power has been the predictable result. Some stability and even reduction, in price could be realized if consumer purchasing cooperatives were created, taking advantage of low interest federal loans to purchase generating assets, particularly those with high capital and low operating costs, for the benefit of its members.

##### ***iii. Gasoline prices***

As noted above, soaring gasoline prices, a hardship all over Maine, have a particularly intense impact in more rural and distant parts of the State such as Washington County. Even before the recent run up, Calais officials were concerned about the price disparity between the St. Croix Valley and adjacent parts of the State. Our Attorney General is currently evaluating gasoline industry practices on prices in Maine. He should devote particular attention to the St. Croix aspect of this issue.

In conclusion, energy issues are front and center in Washington County. The tie-line and the pumping station could all have an enormously positive impact on the economy and energy security for Washington County, Maine and the nation. Opportunities also exist for LNG and for the further development of renewable power, and attention should be devoted to some painful consumer issues.

### **Section VI: Natural Resources**

Washington County’s greatest potential wealth is its natural resources, and in this section we will review forests, geology, water, marine resources, and blueberries.

#### **A. Forests**

i. **Stocking**

According to Donald Mansius of the Maine Forest Service, the Washington County forests are primarily in small size classes, but are poised to move into merchantable size classes over the next decade. However, forest health issues such as the balsam woolly adelgid pose a significant challenge to forest managers.<sup>73</sup>

ii. **Market**

The market for saw timber in the U.S. is unusually robust with the vigorous housing market and the enormous new needs created by Hurricane Katrina.

iii. **Ownership**

The transformation of traditional ownership patterns, with large contiguous tracts owned by paper companies primarily concerned with vertically integrated operations, to smaller tracts owned by Timber Investment Management Organizations (TIMOs) and Real Estate Investment Trusts (REITs), with much more aggressive financial objectives, is having a major impact on forest policy.<sup>74</sup> Among others, these new firms are more likely to:

- a. realize value by selling off residential subdivisions along shorefronts;
- b. engage in liquidation harvesting to realize short-term returns on timber values;
- c. contract with harvesters on terms on which the owner expects to make a return on every class of timber on the premises, squeezing the historic profit margins of independent contractors; and
- d. consider selling conservation easements to the State or non-profit organizations again to maximize the value of premises.

Among the consequences of these policies are a reduction in employment opportunities and business activity for independent logging contractors, and an increase in the amount of wood land available for development.

The new ownership pattern presents both opportunities and threats for the Maine economy – our only mistake would be to try to do business as usual and to fail to recognize the implications that changes in new forms of ownership are bringing to Maine woodlands.

Among other things, the willingness of the new owners to convey conservation easements and title to particular parcels should be ample impetus to continue and expand the Land for Maine's Future Bond issuances, as the preservation of some strategic woodlands can be of great benefit to tourism.

Likewise, their willingness to open lands to second home development should call for some advance planning by LURC to identify the most appropriate zones for

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<sup>73</sup> The estimated pulpwood volume on timberland acres in Washington County (2003)

Softwood	12.84
Hardwood	4.77
Total	17.61

42% of the timberland acres are classed as being in the Nonstocked or Seedling/Sapling Stand Size Class. Only 23% of the timberland acres are classed as being in the Sawtimber (Mature) Stand Size Class.

Only 47% of the timberland acres are fully (well) stocked. Another 40% of the acres are classed as being less than 60% stocked (Moderately, Poorly, or Nonstocked).

<sup>74</sup> November 4, 2005, p.1, Wall Street Journal.



such development. Realistically, however, LURC undoubtedly recognizes its limited resources can only provide general directions, rather than meticulously detailed plans, if it's to be relevant.

By the same token, the Department of Conservation's plans to provide education and equipment loan programs for loggers should be evaluated in light of the changed economics of the forest harvesting business.

Of course, it would be great to have more Maine workers in the woods, but we have to understand the root causes of the contraction of the forest industry in the last few years as a prerequisite to developing solutions, as fewer crews, with fewer young Maine workers, and ever greater capital costs per harvesting unit, take to the woods.<sup>75</sup>

iv. *Value added – saw timber*

For a generation, Maine leaders have decried the export of raw logs to Canada for value-added processing into saw timber, only to be resold back in the U.S. The recent announcement that Luc Brochu would open a new sawmill in Enfield is almost a “man bites dog” story, and may be a unique case relating to the distance of that “wood basket” from Canadian mills.

But for Washington County, the harsh reality is that with the demise of the Louisiana Pacific OSB mill in Baileyville there are no major wood processing plants left, aside from Domtar.

This phenomenon has been a perennial topic in the press, as exemplified by a recent column claiming the saw mills were all located over the border in Canada because of “log overruns, government subsidies and exchange rates.”<sup>76</sup>

My inquiries among timberland owners and mill operators suggest things aren't quite that simple.

It appears true that New Brunswick benefits from “log overruns,” which turns out to be a rather strange phrase to describe the fact that with more modern, expensive and efficient equipment, an operator can get more marketable board feet out of a given volume of raw timber.

Such equipment is available for sale on both sides of the border.

It also appears that the Canadian government does give businesses help in their startup phases, which may put the Province in the place of the “mezzanine venture capitalists” here, but we also have programs to help out promising businesses through FAME, for example. And what the Canadian government giveth, it certainly taketh back in the form of higher taxes.

As to exchange rates, it is questionable if these have any significant impact in real economic terms as the raw logs have to be purchased with U.S. dollars, and the finished product is paid for in U.S. dollars.

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<sup>75</sup> DLFP, pp. 31-2.

<sup>76</sup> Colbert, Mike, “Last Rites for a Once Thriving Industry,” Lincoln County News, August 11, 2005.

The real answer is elusive. But one major Washington County woodlands owner advised me he would love to see a mill, but did not believe there was enough raw material available on a sustainable basis to support a saw mill with a capacity on the order of 50 million b.f. per year, which he regarded as the modern standard.

Moreover, other landowners advised that given what they regard as Maine's dire business climate, they simply would not consider investing in a major mill on this side of the border.

As to the first problem, I recommend that the Maine Forest Service do a sensitivity study evaluating how actual wood supplies match up against various mill capacity levels, evaluate the economics of various operating levels, and the precedent elsewhere, and circulate that information to landowners and operators.

The Maine Forest Service should also develop a better understanding of the economics of the mills on the other side of the border.

As to the second problem, a better understanding of our actual competitive position may lead decision makers to reevaluate an overall economic strategy, but a good place to start would be the removal of all tax penalties on new investments in manufacturing for export outside the State.

The somewhat surprising bottom line conclusion may be that New Brunswick, in fact, does not have a competitive advantage over Maine in forestry, but rather that Maine has not marketed itself very well and has created its own obstacles to success over the years.

v. *Value Added – Pulp and Paper*

The single largest private employer in all of Washington County is the Domtar paper mill in Baileyville, with approximately 500 employees.

Domtar is a Canadian company, publicly traded on the Toronto Stock Exchange, with the symbol DTC, which owns paper mills in Arkansas, Wisconsin, California, Connecticut, Georgia, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas, as well as Canada.<sup>77</sup>

In recent months, the Baileyville mill has benefited from substantial market pulp sales to Japan, Korea, and China, with the additional benefit of shipping its cargoes through Eastport.<sup>78</sup>

Moreover, Domtar is leading the way in marketing its product as "green certified" wood suitable for progressive commercial customers.<sup>79</sup> Companies like Time, Inc., are buying paper only from certified sources. Such purchasing standards can help drive the demand and price for paper that Domtar and others produce.

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<sup>77</sup> Domtar Website, [www.domtar.com](http://www.domtar.com)

<sup>78</sup> It is worth noting that Domtar management has a very high regard for the quality of service it receives from Federal Maritime Services at the Eastport pier.

<sup>79</sup> Ginn, William, "Investing in Nature" (2005), pp 110-111.

That good news notwithstanding, Maine policy makers must realize that this mill is relatively old, relatively small, short of new capital investment, and isolated in terms of transportation options.<sup>80</sup>

Maine government should not wait until the mill is on the verge of shutdown to step in with meaningful support to keep it operating. Instead, our attitude should be one of considering what steps we can take affirmatively to signal to its owners that the mill is a valued component of our economy.

Three tangible ways the State could signal its interest in the continuation of the mill include:

- a. Adopting and implementing the recommendations of the Governor's Council on the Sustainability of the Forest Products Industry in Maine.<sup>81</sup>
- b. As discussed in the preceding section, restoring the long time full reimbursement policy of the State for personal property taxes imposed on capital investments in new production equipment is imperative. Maine has already jeopardized its credibility with potential investors by compromising this policy, but also diminished its competitive position vis a vis the vast majority of states that don't impose any personal property tax on manufacturing equipment in the first place.
- c. Recognizing the difference in the water quality in the St. Croix River and adopting a long-term policy of establishing standards based on the ambient temperature of the St. Croix and appropriate for the needs of the St. Croix. Moreover, as a matter of principle, the State should adopt long-term predictable environmental policies that allow investment within acceptable risk levels.

No doubt these recommendations will get some noses out of joint, but Maine officials need to adopt not just words, but tangible policies that will demonstrate we care about the 500 jobs in Baileyville, the families they support, and their multiplier effect. Maintaining standards appropriate for the Saint Croix should be a high priority for the Administration.

vi. *Value added – tipping and wreath making*

This seasonal business continues to offer significant economic opportunities to Washington County people. The State should look for opportunities to assist with marketing and otherwise supporting this enterprise. As a seasonal concern, this industry does not currently benefit from many of the state business incentives offered, and although it is an export, resource-based, manufacturing activity, facility expansions do not qualify for Pine Tree Zone benefits. In the interests of encouraging economic expansion in Washington County, I believe PTZ eligibility should be extended to seasonal enterprises.

vii. *Value added – high end wood work*

Many have suggested that Washington County may have a bright future in high end wood work with skilled crafts people, adding economic value to raw wood, ranging from

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<sup>80</sup> DLPF, p. 32, citing "Maine's Competitive Power In the Pulp and Paper industry: A Competitive Assessment" James McNutt, Chair for Paper Business and Industry Studies, 2003.

<sup>81</sup> Governor's Council on the Sustainability of the Forest Products Industry in Maine (Executive Order 9FY 04/05).

traditional canoes to Indian ash baskets.<sup>82</sup> These products are truly part of our creative economy.

Such crafts add considerably to the quality and color of Maine life, and can earn a decent living for the makers.

But policy makers should bear in mind that in the aggregate such personal enterprises can only produce a tiny fraction of the GDP of Washington County, as they weigh the costs and benefits of various options for future development.

Overall, forestry remains a major, critical component of the Washington County economy, as well as its character.

With the fast moving changes in forest ownership patterns, and the continued aging of the Domtar mill, Maine must act affirmatively to realize the potential ongoing benefits of this part of our economy.

## **B. Geology**

### ***i. Sand and Gravel***

The last Ice Age, so influential in Washington County's configuration, left the county well endowed with aggregate. Geological processes in earlier times produced abundant granite bodies that underlie nearly half the county.

Robert Marvinney, the State Geologist, explains that in total Washington County has around 15 billion cubic yards of aggregate, but considering developed areas and other land uses, perhaps 4 billion cubic yards are accessible.

Historically, these deposits have been used for road construction Downeast. But our neighbors in New Brunswick have recently been exporting mostly crushed granite and some sand and gravel from the Port of Bayside to markets in the mid Atlantic states by the ship load from a tide-water granite quarry. New Brunswick's success is the result of a very specialized commodity in that the quarry and crushing operation are on the coast, literally, and the ship handling facilities have been constructed for this one operation. Whether Washington County can replicate this effort from Eastport deserves analysis.

We must evaluate the reasons for New Brunswick's success and see if we can replicate their experience working from Washington County deposits shipped out of Eastport.

DECD ought to take on this analysis, and assign it to an appropriate economic development agency, perhaps the Eastern Maine Development Corporation (EMDC) with the help of the Maine Geological Survey, but the time to act is now, with the rapidly escalating demand for this basic construction material with the continuation of the national building augmented by the new extraordinary demand in the Hurricane Katrina region. But again, this is an analysis that ought to be done now, with a sense of urgency.

### ***ii. Basalt***

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<sup>82</sup> See, e.g. DFLP, p. 34.

Recent attention has focused on another nearby geologic resource, the basalt on Grand Manan Island, New Brunswick.<sup>83</sup> A proposal to process this material into filaments suitable for construction reinforcement or fireproof industrial applications in Baileyville has been offered. Potentially basalt and related rocks in Washington County with suitable chemistry and other physical properties may also contribute to this effort.

The project raises a number of questions which will naturally have to be addressed in any due diligence inquiry before any public bonds are issued.

### **C. Water**

One of Maine's greatest natural resources is a vast quantity of high quality ground water. Washington County is no exception, with mapped sand and gravel aquifers covering 210 square miles of the landscape. Using conservative numbers, these aquifers are recharged at the rate of approximately 20 billion gallons annually.

The overwhelming majority of water withdrawn from the local aquifers in Washington County is used for agricultural purposes, primarily blueberry growing.<sup>84</sup>

This heavy usage is a by-product of the federal decision to place the Atlantic Salmon on the endangered species list, which in turn has limited the amounts of water that had traditionally been withdrawn from salmon-spawning rivers in the vicinity of the blueberry barrens.

Some have suggested that Washington County water could also be used as bottled drinking water which has a very high value, noting the nation's seemingly insatiable demand and the high quality of our water.

Of course, Washington County would have to overcome extra distance and transportation costs, but still it is a matter with respect to which it would be appropriate for the State Geologist to conduct a study.

Needless to say, enactment of a statewide referendum to impose a special tax on drinking water would almost certainly preclude any possibility of the development of such a business.

### **D. Marine Resources**

Overall, marine resources represent only a modest slice of the Maine economy. The value of commercial fishing landings in Maine was \$404 million for 2004. With an economic multiplier of 2.3, the total value of the fishing industry to the State is just under a billion dollars. In Washington County, however, the jobs associated with fisheries and aquaculture loom larger in significance both financially and culturally. Moreover, they have been a subject of state policy since at least 1867 when the first predecessor to the Department of Marine Resources (DMR) was established.

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<sup>83</sup> According to Bob Marvinney, State Geologist, there are significant areas underlain with basalt in southeastern Washington County. The question is whether these basalts have the appropriate chemistry and other properties sought by the manufacturer, and whether these properties are consistent throughout the units. Washington County also has extensive areas of gabbro - sort of the coarser-grained cousin to basalt with similar chemical properties. I do not know whether or not gabbro is suitable for the process, but these are questions that should be explored. Our basalts and gabbros are much older than those on Grand Manan and have been through some very tumultuous geological episodes that certainly have influenced their chemical and physical properties. The abundant 'fresher' basalts on Grand Manan have remarkably consistent chemical and physical properties. Still, our rocks are worth exploring.

<sup>84</sup> 2003-2004 statewide figures for groundwater are as follows: public water supply, 8 billion gallons; bottled water, 450 million gallons; irrigation, 350 million gallons.

The marine resources economy in Washington County is dominated by lobstering, followed by scallops and urchins, aquaculture and ground fishing. There is little marketing or processing activity left in this once thriving sector.

*i. Lobsters*

Lobstering is by far the dominant activity with some 7.6 million pounds landed in Washington County in 2004, with a value of \$31.7 million.<sup>85</sup>

There has been some concern about two successive years of declining catch, in the range of 10-15% each year, although Washington County's Zone A has been the area of the coast least adversely affected.<sup>86</sup> However, the overall future for the lobster industry remains bright as Eastern Maine and New Brunswick are seeing steadily increasing trends of newly settled, small juvenile lobsters.

Lobster conservation is encouraged by the limits on traps, issuance of new licenses, and the high financial barriers to entry into the business. Interestingly, most people involved with this industry would probably contend that the minimum/maximum gauge, v-notching of berried females, trap-only nature of the fishery, among other management measures, are most important to lobster conservation, rather than the de facto economic controls cited above, according to the DMR Commissioner.

Lobstering continues to do well and our main concern should be the lack of diversification in the fisheries sector, so that if some natural catastrophe occurred with respect to the lobster population, fishermen would have no alternative stock to which to turn.

Thus, while the state should remain focused on research and watchful as to the future of lobstering, we should also devote our attention on the development of alternatives.

*ii. Aquaculture*

A decade ago, aquaculture held exciting prospects for Maine. Professor Charles Colgan observed that for the first time since the demise of the sardine industry it looked like Washington County had a "transformational industry" that would bring back a vibrant economy.<sup>87</sup>

And indeed, farmed salmon rose to a high of 36 million pounds by 2000 and the aquaculture business employed approximately 2500 for the raising, processing and distribution of Atlantic salmon.<sup>88</sup>

But in the last five years, the dream of a new base industry for Washington County has collapsed, and the major salmon aquaculture firm operating in the State was anxious to sell out and leave.

Since then, all salmon processing facilities in Maine have shut down, and salmon-related employment has plunged.

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<sup>85</sup> DMR stats.

<sup>86</sup> Interview with Professor James E. Wilson, University of Maine, September 7, 2005.

<sup>87</sup> Interview with Professor Charles S. Colgan, University of Southern Maine, August 15, 2005.

<sup>88</sup> Wilson, James, "Impact of the Atlantic Salmon Industry on the Maine Economy"

This precipitous collapse was especially unfortunate because Eastern Maine had several important competitive advantages favoring development of this industry, including clean water, high tides, and fast currents to flush nutrients and waste, an existing harbor support infrastructure, and people experienced in working at sea. But despite these advantages, several factors converged to undo the industry, including:

- a. increased competition from Canada, Norway and Chile, driving down fish prices;
- b. the spread of health problems including sea lice and infectious salmon anemia that debilitated stocks;
- c. “adversarial proceedings, litigation and a failure for all involved to obtain satisfactory results” in the leasing process;<sup>89</sup>
- d. An order in *U.S. Public Interest Group v. Atlantic Salmon of Maine*, USDC-Me, cv. 00-151-B-C, which decided the Clean Water Act, 33 USCA §§1251 et seq., applied to natural discharges of fish waste and food associated with fish pens into the sea, that non-North American strains of Atlantic salmon were forbidden, that many of the pens were to be shut down for 36 months, and that a fine was to be imposed.
- e. This vote of no confidence in an industry, which already had been unprofitable for two years, was decisive in their determination to quit Maine.
- f. And, if that were not enough, there was a perceived lack of support for the industry by Maine’s government, according to its own consultant.<sup>90</sup>

The DMR argues that, in fact, it did give support to the industry with respect to ISA (Infectious Salmon Anemia virus) and by going forward with leasing despite the objections of some littoral landowners. It also suggests it was willing to be supportive in the federal court proceedings, although, in the end, the Department failed to participate in these crucial court proceedings.

However supportive DMR thought it was, neither its own consultant nor the industry was persuaded.

As a result of this combination of factors, Maine is down to two finfish aquaculture operations. The foreign firms Stolt Seafarms and Cooke, which, along with a few independent producers, hold the leases to some 37 sites, primarily in Cobscook Bay.

Glen Cooke, the principal of the Cooke firm, has expressed an intention to continue operations in Maine, and the DECD is committed to working to rebuild the aquaculture industry in Maine, and to working with Mr. Cooke.

It is unfortunate that the DMR has lost the marketing, promotion and advocacy capability that once characterized its mission, and has been limited to a regulatory role for this industry on top of DEP’s comprehensive regulatory regime. These important promotional responsibilities have now fallen to DECD to undertake.

In my judgment, it would be far preferable for the specialist agency, DMR, to make the case for aquaculture, and to promote the Maine product, than a

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<sup>89</sup> Ginn, William, “Collaborative Aquaculture Siting Initiative Concept Paper”

<sup>90</sup> Gardner Pinfold Consulting Economists Ltd, “Economic Impact and Viability of Marine Aquaculture in Maine,” December 2003.

generalist agency like DECD, and I therefore recommend that this capacity be restored to DMR.

The argument that it is inappropriate for an agency to play both a regulatory and a promotional role with respect to an industry is not self-evident.

The State should evaluate whether there are regulatory responsibilities better carried out by DEP. But both leasing and promotional roles can well be carried out by a single agency.

Above all, somewhere in government there should be an advocate for this troubled but still promising industry.

It is also notable that faced with many of the same natural problems, the New Brunswick aquaculture industry has continued to thrive. It is instructive to evaluate the differences.

Certainly, the New Brunswick industry is larger. But, that may be a result of the difference in our policies, not the cause.

And, of course, the Canadian equivalent of the Endangered Species Act, the Species At Risk Act (SARA), has different provisions.

It has been the case that the Canadian government has been more generous with respect to indemnification and promotion funding than the U.S.<sup>91</sup>

But, instead of disparaging the Canadians, who after all have retained the jobs and the companies, maybe we'd be better off directing our government to analyze what Canada has done to make it happen, and consider the value of adapting similar policies for our circumstances.

Finally, some contend that the stringent Maine regulatory regime is a harbinger of what will apply to aquaculture world-wide, and the veterans of Maine's rules will be stronger competitors when the rest of the world catches up.

The trouble with that theory is that there may be nobody left in Maine to teach these lessons and benefit from the experience. Our credentials as a regulatory pioneer have hurt us terribly in this business without the demonstration of any commensurate benefit.

In any event, both DMR and DECD should study the lessons of how other nations have achieved their competitive edge and how their governments have supported them and apply the relevant lessons to Maine, in hopes of reviving some of this once flourishing industry.

In the meantime, the State should:

- ✓ support technical research into commercial aquaculture;
- ✓ advocate greater federal research at the Franklin, Maine USDA center to try to develop the aquaculture potential of other species;

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<sup>91</sup> According to Kim Lipsett of the New Brunswick Department of Agriculture, Fisheries, and Aquaculture, there are three principal mechanisms for assisting Canadian aquaculture firms: 1) government loan guarantees for aquaculture development; 2) publicly funded research and development programs; and 3) cash payment to the aquaculture companies. Maine DMR officials indicate that the cash payment approximates \$20 million Cdn.



- ✓ develop lease hold terms and fees that differentiate realistically among the economic potential of different kinds of species and methods; recognizing that some forms of aquaculture are more profitable per acre than others, in a way that optimizes revenues and ensure that leases can be terminated or transferred in the event of non-use. Current law requires that lease revocation proceeding begin after one year of non-use of a lease. The Department uses discretion in applying this statute because non-use can be required by court order or be the result of a company's business strategy. The Department should annually review all leases to ensure that leases are not being retained for speculative, anti-competitive, or punitive reasons.
- ✓ explore alternative strategies for removing the Atlantic salmon from the endangered species list. This will be a very difficult undertaking. Maine pursued legal, procedural, and biological arguments to oppose the listing of Atlantic salmon under the Endangered Species Act but was not successful. But it is a matter of strategic importance to the State and worth a continuing effort to develop a long term strategy of ensuring that the protection and restoration of wild salmon is done in a way that does not hamstring Maine industries.
- ✓ communicate an attitude of state interest in the revival of an industry that could provide Maine jobs to help feed the world by designating a cabinet officer to serve as the principal advocate for this industry. Ideally, that would be the Commissioner of DMR, but if he cannot effectively fulfill this role then the Commissioner of DEC or of Agriculture is probably the most logical alternative. But somebody surely must bear this responsibility.

**iii. *Scallops, mussels, clams, urchins and other bottom dwellers***

Washington County's bays and shores are home to a wide variety of shellfish and other creatures with commercial value, each with its own characteristics and management issues.

**a. Clams**

In 2004, 11.6 million pounds of clams were harvested statewide with a landed value of \$16.6 million. With particularly severe red tides this summer, many clamming families faced hardship as the flats were shut down.

Advocates for the clamming industry believe having more qualified water quality and biotoxin samplers available to ascertain when flats could be reopened could increase the number of days of productive clamming. The DMR should examine various means of enhancing its Public Health Division to have enough staff to increase the number of days of safe, productive clamming.

**b. Scallops**

This has been another sector suffering from dramatic setbacks in recent years. Statewide, landings have decreased from 1,000,000 pounds in 1996 to just 130,000 pounds in 2003.

There has been a glimmer of hope in Cobscook Bay where the imposition of daily limits has tended to keep the fishing business more local, to the overall benefit of the fishery. Professor Wilson has characterized such restrictions as limiting the intrusion of what he

calls “roving bandits” – opportunistic fishermen from other areas – who were decimating the stocks, acting out the “tragedy of the commons.”<sup>92</sup>

The success of the de facto local control model for the scallop fishery may be a precedent for regulation to sustain the fishery in other sectors.

#### iv. *Urchins*

Urchins are another story of tragic mismanagement of a significant resource. Once, an utterly unsustainable 38 million lbs were stripped from Maine’s ocean bottom in a single year, but last year just 3.5 million lbs were harvested.<sup>93</sup>

The season in the Eastern Maine zone, east of Penobscot Bay, is limited to 45 days. It may be that allowing more days, but limiting the overall size of the catch and the number of licenses may permit an optimal catch, which a population model has estimated at 7 million pounds statewide, after a period of resource recovery from the current depleted condition, to the benefit of the Maine economy, while more permissible days at sea would ease the pressure to operate in dangerous weather conditions.

The sad story is that early in the management of this fishery, the State and industry determined that laissez faire management would work best, on the theory that the fishermen would be best suited to know what conservation measures were needed in this fishery; while blithely ignoring the economic realities that encouraged drastic over harvesting. A Sea Urchin Zone Council was also established to co-manage the fishery with industry participants.

However, the resulting system was woefully inadequate for the conservation and management of this fishery, which has effectively crashed far below optimal levels.

The State ought to adopt a set of regulatory measures that are reasonably likely to sustain the annual harvest at about 7 million pounds for the foreseeable future following resource recovery.

Local management zones, as with the Cobscook scallop fishery, could be a constructive step in this direction, and the defeat of such measures in the last Legislature should not be taken as the final word on this subject – this fishery is just too valuable for the State to let it go the way of the buffalo.

#### v. *Groundfish*

Eastern Maine had productive groundfish stocks of cod, hake, and halibut for centuries. Indeed, the extraordinary richness of this fishery is what lured Europeans to North America in the first place.<sup>94</sup> But during the 1930s the once great stocks were extirpated, and have not since recovered. Now there are just five full time ground fishermen at work in Eastern Maine.<sup>95</sup>

As counsel in federal fisheries litigation noted, “*Maine ground fishermen face a tough future. They are disadvantaged by being physically distant from the bulk of the ground fish stock, by having fewer marketing channels, and shrinking infrastructure, and because Maine imposes certain restrictions, such as on landing trawl – caught lobsters, other ground fishermen do not*

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<sup>92</sup> Wilson, James, University of Maine, citing *The Tragedy of the Commons* by Garrett Hardin, published in *Science* (162: 1243-1248), 1968.

<sup>93</sup> Interview with Commissioner LaPointe, *supra*.

<sup>94</sup> Woodward, Colin. “The Lobster Coast: Rebels, Rusticators, and the Struggle for a Forgotten Frontier.” 2004

<sup>95</sup> Steneck, *supra*

*face. However, it is very likely a hard core of the industry... will survive these recent troubles for generations to come.*"<sup>96</sup>

If the fishermen, and the fish, are to survive, it appears something more than the New England-wide restrictions imposed by Amendment 13 of the New England Fisheries Management Council Multi-species Fishery Management Plan, as construed by the Federal courts, will be necessary.

Professor Wilson has proposed that the area of the Eastern Maine Current, east of Monhegan, be managed as a separate sub-zone, with limited entry, local quota on various species, and local markets for the sale and distribution of the catch, under the title of the "Downeast Groundfish Initiative."

This imaginative approach would take federal agreement and development through collaboration among the fishing community, scientists, and managers to restore the groundfish in Eastern Maine.

As challenging as that might be, it appears a better alternative than the stark future we are facing otherwise.

The State should work with Professor Wilson and the relevant constituencies in developing this initiative and making the case for special treatment of Eastern Maine before federal councils, agencies, or courts as necessary.

At the same time, the academics involved in the process need to understand that a specific, detailed, practical proposal must be advanced.

Waiting on the development of a multi-year scientific inquiry is not what's needed to get an actionable proposal before the Fisheries Council on a timely basis.

In summary, fisheries ought to be at the heart of the Washington County economy.

But one reverse after another has crippled this sector of the economy.

Just repeating the practices of the past is a sure recipe for failure.

We need a vigorous, pro-active policy to bring back aquaculture; rigorous restrictions and local control mechanisms where appropriate to restore scallops, urchins and groundfish; clean water and sampling help for clammers, and marketing and advocacy services overall to have a hope of bringing back some diversity to our industry beyond the ever resilient lobster.

Such an initiative should be a major priority for Washington County.

#### **vi. Processing**

Since the heyday of the herring fishery, the number of fish processing plants has steadily declined, so that now a handful, at best, survives east of Ellsworth.

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<sup>96</sup> Gehan, Shawn M. "Maine's Groundfishing Industry Survey, Another Challenge - But Forces More," Maine Bar Journal, Summer 2005, pg. 89.

Much of that work, and value added, has moved even further Downeast, to New Brunswick. Again, the State should study how and where New Brunswick has achieved its competitive advantages, and determine whether changes in law, regulation, or policy can assist in restoring some of this business to Maine.

In the meantime, it is interesting to review the success of Look's Gourmet Foods in Whiting and Moosabec Mussels in Jonesport.

Both advise they have benefited from a helpful attitude by the local DEP representative, James Sohns, in achieving environmental compliance on a realistic schedule, as well as by the Army Corps of Engineers.<sup>97</sup>

Both believe the natural food theme has worked for them, the Maine locale has conveyed a sense of quality, and that marketing has been of critical importance.

On the other hand, the Pine Tree Zone eligibility criteria have been cited as too stringent for small manufacturing businesses seeking export markets, and the ASPIRE starting wage requirements appear to create equity and morale issues with more senior, lower paid employees.

We should recognize Washington County needs all the help it can get.

Let's make it as simple and straightforward for entrepreneurs as possible – if you invest in new or expanded goods such as food processing or services such as call centers over the next five years, then you are eligible for Pine Tree Zone status and to access to the ASPIRE program, period.

Let us try clear signals, minimal red tape, and maximum encouragement to new investment, and see if that helps.

We have nothing to lose.

#### **vii. Infrastructure**

All marine-related industries, by definition, require access to the sea. As noted in the "Second Home" and "Tourism" sections of this analysis, public and commercial access to the coast, including Washington County, is becoming increasingly expensive and scarce. The combination of:

- ✓ the use of Land for Maine's Future funds which will be raised by a bond issue approved by the voters in November, 2005;
- ✓ the proposed new dedicated coastal property transfer tax to purchase ocean access points;
- ✓ continuation of MaineDOT's Small Harbor Improvement Program (SHIP);<sup>98</sup> and
- ✓ a Constitutional Amendment to allow current use valuation for "working waterfront" properties, successfully enacted in a November, 2005 referendum.

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<sup>97</sup> Interviews with Cynthia Fisher, Looks Gourmet Foods, August 31, 2005; Ralph Smith and Amr Ismail, Moosabec Mussels, September 1, 2005.

<sup>98</sup> The Small Harbor Improvement Program (SHIP) is a MDOT program whereby MDOT contributes 50% of the cost of small harbor improvements. SHIP is funded through transportation bonds and administered by the Maine Department of Transportation. It is a municipal grant program that has funded a variety of public infrastructure improvement projects along the Maine coast such as piers, floats, boat ramps and shore stabilization projects. In 2002, the Department awarded grants to 21 projects (\$1.5 million) that have resulted in improved public access to coastal areas and enhanced opportunities for commercial fishing activities.

would all help preserve and protect the shoreside facilities necessary to keep this traditional, productive, and appealing lifestyle available as a part of Maine's culture and economy.

#### **E. Blueberries**

The Wild Blueberry, the nutritional value of which was first recognized by Native Americans, was first harvested commercially in Maine in the 1840s. Today, Maine is the largest producer of wild blueberries in the world. In an average year, 60,000 acres Downeast yield 75 million pounds with a value of more than \$75 million.

Wild or lowbush blueberries occur naturally, and for all practical purposes, only in Maine and Eastern Canada. Over the past 30 years farmers began implementing practices designed to increase their yield; such as irrigation, pollination and weed control. Yields have dramatically improved. In 1987, an acre yielded an average of 1,500 pounds a year; 18 years later the yield had nearly doubled to 2,700 pounds per acre.

Recent research and news about the wild blueberry's antioxidant capability and other health benefits have increased demand for the product.

Notwithstanding increased production and the potential link with fighting cancer, growers have been beset by several problems in the last decade. Foremost among them has been regulatory restrictions on water use as noted in the previous section. The rivers Downeast are also home to the remaining wild Atlantic salmon, which have been added to the endangered species list by the federal government. The industry has struggled to comply with state and federal restrictions on water flows.

Another problem confronting the industry is not unique to blueberries or agriculture. It is the high cost of energy. Adding value to the harvest, whether canning, freezing, or processing blueberries is an energy intensive process. Mechanized harvesting and transporting blueberries to distant markets force the industry to keep a sharp eye on fuel costs. Margins have grown ever thinner as the cost of electricity, gasoline, and diesel continues to rise. Electricity costs are substantially less in New Brunswick at this point, for example. As noted in other sections of this report, it is imperative that Maine develop a professional understanding of the relative costs and benefits of doing business in Canada in various sectors.

The solutions include an additional \$5 million bond to fund the Sustainable Water Source Development program. The financial assistance provides farmers the help they need with on-the-ground solutions to the issues of environmental regulations, of endangered species restrictions, and of the demands of the market for a consistent product.

Additionally, to help with the energy costs, the Agricultural Marketing Loan Fund should be recapitalized with an additional \$10 million bond if the Department can demonstrate a favorable cost/benefit ratio. The loan program could partner with the Efficiency Maine program to assist wild blueberry farmers with adoption of energy efficient appropriate technology for food production and processing. In addition, loan proceeds should be used to hire an engineer to assist the industry with adoption of appropriately sized, labor efficient field machinery to reduce production costs.

### **Section VII: Defense & Homeland Security**

While Washington County is a long way from the battlefields of Iraq and Afghanistan, or the cities most vulnerable to terrorism, nonetheless several military and homeland security developments could affect the economy of this region.

Currently, for example, the Mill Complex in Eastport, the renovated Guilford Woolen Mills building, serves as home for two plants fabricating chemical warfare protective clothing for the U.S. military and some domestic first responders –Tex Shield, Inc., and Creative Apparel.<sup>99</sup>

Likewise, the Coast Guard base in Eastport and the increased presence of border security personnel at Calais, the 8<sup>th</sup> busiest U.S./Canadian border crossing, represent a significant employment base for the county. According to the Maine Department of Labor, civilian federal workers in Calais and Eastport total 166, making it one of the largest employers in the area.<sup>100</sup>

In addition, the recently opened Maine Veterans Home in Machias represents \$9.2 million investment, employing 45 people.<sup>101</sup>

Beyond this current presence there are several other opportunities:

**A. Tribal Enterprises**

The chemical warfare suit business is the result of set asides embodied in defense procurement law which give preference to tribal owned enterprises.<sup>102</sup>

As part of the Native American Manufacturing Initiative, the Tribes, along with the Maine Manufacturing Extension Partnership (MEP), are currently actively exploring whether this same set aside can be used as a basis for developing a precision machine-tooled parts manufacturing business, which might be located in the Calais area. The State could be helpful to this possible initiative by assisting them in establishing tribal operations that provide the capacity to assess and develop projects, including business planning, contract consulting and manufacturing capabilities; as well as identifying suitable space and planning for appropriate training courses at Washington County Community College.

**i. Maine Military Authority (MMA)**

The Maine Department of Defense, Veterans, and Emergency Management (DVEM) has been spectacularly successful with its Humvee rehabilitation depot at Loring. Working through a subsidiary known as the Maine Military Authority,<sup>103</sup> the Loring facility is now employing over 600 people and turning out 115 Humvees per month along with dozers and various other pieces of military equipment.<sup>104</sup>

Because of the cost and quality of Maine work compared to the alternatives available to the Pentagon's Tank Automotive Command, there appears to be an opportunity to bring more such

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<sup>99</sup> Eastport Town Office, 10/7/05

<sup>100</sup> Maine Department of Labor, US Bureau of Labor Statistics' Electronic Data Interchange Center, 1<sup>st</sup> Quarter 2005 and 4<sup>th</sup> Quarter 2003

<sup>101</sup> Peter Ogden, Maine Veterans Services, Dept of Defense, Veterans, and Emergency Management

<sup>102</sup> Federal 8(a) Minority Enterprise Entitlements; 13 C.F.R. § 124

<sup>103</sup> Maine Military Authority (MMA) is a public instrumentality of the State of Maine. MMA was established in 1997 to operate the Maine Readiness Sustainment Maintenance Center, (MERSMS) which maintains, rebuilds, repairs and stores military vehicles and equipment for the U. S Department of Defense, National Guard Bureau and for foreign governments in conjunction with the U.S. Department of Defense Foreign Military Sales Program. Services are available to various state and local agencies and other entities. MMA is operated by the Maine Department of Defense, Veterans, and Emergency Management and is located at the site of the former Loring Air Force Base in Limestone, Maine.

<sup>104</sup> Maine Military Authority Web site, <http://www.maine.gov/mma/>

work to Maine if the facilities and labor force can be found,<sup>105</sup> not only for Humvees, but possibly 5 ton trucks and other vehicles.

DECD should assign staff to work with the National Guard unit in Calais, the Maine Department of Labor, and WCCC with respect to appropriate training, and regional development agencies such as EMDC to try to put together a package which would meet the Authority's needs in bidding for such work on a timely basis.

## **ii. *Surplus Facilities***

### **a. *Cutler***

In 2004 the Navy transferred to the Washington County Development Authority (WCDA),<sup>106</sup> the base housing at Cutler. This complex consists of 22 buildings including offices, recreational facilities, shops, warehouses, and storage areas; as well as a chapel, supermarket, and medical center. It also has 65 units of housing.

Because of the maintenance costs, the Authority sold the option to redevelop the property to the Florida-based Sunset Group, LLC, which is currently trying to market the premises. Under the terms of the agreement 128 jobs will be created on the site within three years. If that doesn't happen, the developers will be penalized. WCDA also has a first refusal, and options for reverter and purchase in some instances.<sup>107</sup>

Development is complicated by the fact that financial benefits from many economic programs do not accrue to the developer. Pine Tree Zone benefits, for example, would benefit a business locating in the development, but not to the investor creating the development in the first place.

The State should look at existing economic development incentive programs with an eye towards creating flexibility, particularly in the case of base redevelopment.

### **b. *The OTH-B site***

As noted in the Energy section of this report, the Air Force constructed an over the horizon radar system in the 1980s, with a transmitting unit in Moscow, and a receiving antenna array near Columbia Falls.

Since the end of the Cold War this facility has sat idle on top of a blueberry barren. There are preliminary indications that because of potential superfund liability, the Air Force wants to redevelop the facility itself.

The State should try to ascertain the Air Force's plans and its concerns regarding liability, with a view to transferring the site to the Washington County Development Authority or some other appropriate organization for reuse as an industrial and/or energy production site, working in cooperation with our Congressional delegation.

This area has a very strange configuration and extremely unusual equipment, including a heavy copper mat underground, but its size, location and condition compel a closer look by DECD and EMDC, in consultation with DVEM.

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<sup>105</sup> Interviews with General John W. Libby, Commissioner and Hugh T. Corbett, Deputy Commissioner, Department of Defense, Veterans, and Emergency Management, July 27, 2005

<sup>106</sup> 5 MRSA § 13083-A

<sup>107</sup> "Development Group Seeks to Expand." Bangor Daily News, December 2, 2004. Also, Sunrise County Economic Council

## Section VIII: Manufacturing

As discussed above, there are potential niche markets for manufacturing including processing indigenous natural resources, and military and tribal projects. There is also a growing call center, Superlative Technologies, Inc. (Suprtek) in East Machias, employing 34 people in handling human resources claims for the US Navy. More such ventures are possible, and the proposed reforms recommended in this report may be of help in attracting new businesses of this kind.

But it would be unrealistic to build an overall economic strategy on large scale manufacturing in Washington County. In an undated memo, Maine and Company, the private sector counterpart to DECD, set out a check list of assets a community needs in order to have a serious chance of attracting a big manufacturing or processing facility, including:

- ✓ A qualified workforce;
- ✓ Existing suitable buildings;
- ✓ Competitive costs of doing business;
- ✓ Competitive taxes and incentives;
- ✓ Adequate infrastructure;
- ✓ A good quality of life; and
- ✓ A welcoming, stable legislative climate.

How important each of these factors is to any particular business will vary from industry to industry. But even so, Maine and Company noted that most inquiries they received from potential prospects focused on Southern Maine with its better developed infrastructure, and, increasingly, on the availability of buildings already in existence.

Where a region does have a compelling, competitive business reason for a prospect to give it consideration, the array of assets it offers should be packaged together and marketed. It is no good simply to assert we have a superior labor force, quality of life, or telecommunications system. Lots of other communities around the country claim the same thing. Instead, a specific package with a specific piece of land, complex of transportation and telecommunications, tax incentives, work force training capacity and the like needs to be assembled, in each case, tailored to the specific needs of the potential investor.<sup>108</sup>

Washington County could get good experience at this kind of marketing through developing a package to try to attract a Maine Military Authority vehicle repair facility.

Moreover, if the recommendations concerning infrastructure and government policy are adopted, then Washington County will be in a better position in the future to move on to other possible business attraction options.

## Section IX: Infrastructure

As noted in the "Manufacturing" section, the quality and extent of a region's infrastructure is critical to the options available to it for economic development.

The definition of what constitutes "infrastructure" keeps changing with advances in technology but now includes transportation, telecommunications, utilities, waste and water treatment, industrial parks, public

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<sup>108</sup> Maine and Company, "How to best utilize Maine and Company's Business Attraction Services," undated, pp. 2-4.



buildings and protected lands, and educational facilities. In other words, the basic facilities, equipment, and installations necessary to keep a society operating. Although much of our State's infrastructure is in the private sector, this is an area where the State must play a vital role in initiating, planning, funding incentivizing, and often building the infrastructure necessary to sustain and support economic activity.

In Washington County, the infrastructure assets consist of the following:

## **A. Transportation**

### **i. Highways**

Roads are overwhelmingly the principal mode of transportation, and in Washington County, the State maintains over 565 miles serving an area of 2568 square miles and 43 towns and cities, at an annual cost of approximately \$9 million.<sup>109</sup>

#### **a. The Airline**

In the years 1990-2000, one of the two principal routes through the County, Route 9, the "Airline", was extensively upgraded at a cost of approximately \$80 million, cutting the trip from Calais to Bangor by one-half hour.<sup>110</sup>

This time should be further shortened by the construction of an Interstate 395 bypass around Brewer at an anticipated cost of \$ 55-70 million

#### **b. Route One**

The other major artery serving Washington County, Route 1 from Ellsworth to Calais along the coast, is also in need of substantial upgrading. Currently, the MaineDOT estimates it will cost over \$24 million to complete these improvements; most of which are funded and construction should take place between 2006-2009.<sup>111</sup>

Additional improvements are likewise needed for Route 193, connecting routes 9 & 1A, at a cost of \$6.5 to \$8 million.<sup>112</sup> Route 193 currently is not funded but will be a candidate for MaineDOT's FY08-09 Capital Work Plan.

Maine's congressional delegation through annual appropriations earmarks along with MaineDOT should accelerate the funding and permitting and construction of the I-395 extension and Route 193 – while also keeping focused on those projects already funded.

If these planned improvements are carried out, travel times will be shortened, and distribution of goods to and from the region, a genuine problem for Washington County businesses, should be facilitated.

### **ii. Airports**

Scheduled air service for Washington County is provided by the Bangor International Airport and the Hancock County/Bar Harbor Airport in Trenton. General aviation can access airstrips in Machias, Eastport, Princeton, Deblois, and Calais. However, distance or size and capabilities limit the usefulness of each of these facilities to meet the region's needs. Yet, easy air access is increasingly indispensable to businesses locating in a region, not only for their own executives and

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<sup>109</sup>MaineDOT.

<sup>110</sup>Ibid.

<sup>111</sup> Ibid.

<sup>112</sup> Ibid.

salespeople, but even more for their customers and suppliers. Moreover, modern airport facilities could make location of a first class destination resort more feasible and bankable.

Washington County could truly benefit from construction of a centrally located, business jet capable, all-weather airport. A serious study has been made of developing such a facility near Machias, in Jonesboro.

The Governor and MaineDOT should be fully supportive of any application to the FAA for the approval and funding for the construction of a full service General Aviation Airport to be located within the region. The new airport would replace the current Machias airport providing enhanced capability for air access to the region.

Of course many other towns around the country will be competing for this same funding, but our chances will be better the sooner and more compelling we make our case.

The full build out for this project is estimated to cost \$17 million of which the federal government typically pays 95% through its Airport Improvement Program, while state and local governments would be responsible for sharing the other 5% match.<sup>113</sup>

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<sup>113</sup> US DOT Federal Aviation Administration Order 5100.38C, Airport Improvement Program

### *iii. Rail Lines*

The principal rail line serving Washington County, from Ellsworth to Calais via Ayers Junction, was abandoned by the Maine Central Railroad in the mid 1980s for lack of freight. The track from Ayers Junction down to Eastport was likewise abandoned, and the track removed, leaving the port unserved by rail.

All that remains in service is a tiny spur, from St. Stephen, New Brunswick to the Domtar mill at Baileyville. Although this line is helpful to the mill, there are limitations on its capacity, and complications in the relationship of the coordination of the lines using this track that are frustrating for the mill.<sup>114</sup> The State should take note of this problem and provide for Domtar whatever help it can in improving service. Again, Domtar is a critical component of the economy and the State should give priority to assisting it where possible on issues where the State has some authority.

While many are naturally nostalgic for the return of rail to Washington County, and the recent energy price climb driving up the cost of trucking, still the realities of the poor conditions of the rail bed, the poor quality of railroad service, especially as to timelines of delivery; and above all, the absence of suitable cargoes preclude any early return of traditional rail to Washington County.

The conversion of the “Calais Branch” from Ellsworth to Ayers Junction to a recreational rail trail is far more likely to produce real economic benefit to Washington County in the 21<sup>st</sup> century, with the possibility of reconversion of the right-of-way if economic circumstances warrant a change in the future.

But in the relatively near term, there is more of a chance for economic reconstruction of the line from Calais to Eastport, as the port is unquestionably disadvantaged by the lack of a rail option. DOT should be developing cost/benefit analyses of capital investment in this route.

### *iv. Public Transportation*

Washington County’s distances, remoteness and sparse population have limited the development of an extensive public transportation system. Public transportation, however, can assist economic development through facilitating labor mobility – the movement of workers to job sites.

Currently, some service is provided by the West Transportation Company, which provides buses daily along Route 1 and 1A for trips between Calais and Bangor and once a week between Steuben and Machias and between Beals and Ellsworth, and the Passamaquoddy Tribes whose service is available five days per week from Indian Township and Eastport to Calais for both tribal members and other travelers in the area. The State through its USDOT Federal Transit Administration funding provides subsidies of \$68,307 for the West Service, and \$64,101 for the Tribal Government services. The Tribal Governments add \$60,000 for the tribal service. Additionally, the State of Maine provides \$5,331 in state funding to West Transportation and \$9,479 to the Tribal Governments.<sup>115</sup> Together, they carry some 15,000 passengers a year.

Maintenance of these services should be a priority for the State because access to markets, jobs, and amenities is important to the quality of life of a community.

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<sup>114</sup> Interview with Debbie Feck et al. August 10, 2005.

<sup>115</sup> MaineDOT

## **B. Telecommunications**

For any business engaged in interstate and/or international commerce, a comprehensive network of broadband and wireless interconnection is as necessary as the telephone – as the computer and cell phones have become indispensable to business. Such infrastructure, however, has established only a tentative toehold in Washington County.

A report by Judy East of the Washington County Council of Governments shows current coverage in the region.<sup>116</sup> It also makes several recommendations for improving coverage.

ConnectMaine has just been commissioned by the Governor to examine how best to expand wireless and broadband service to rural areas statewide,<sup>117</sup> and I will defer to their expertise, presuming its recommendations will be applicable to Washington County.

Nonetheless, I will offer the following general recommendations for consideration by the ConnectMaine:

- A. The MPUC maintains a universal service fund for extending telephone service to rural areas of the State.<sup>118</sup> Loans from this fund should be made available to entrepreneurial local companies that want to offer broadband in Washington County.
- B. A large part of the challenge in extending the availability of wireless broadband appears to be the upfront cost of the receiver/antenna units which now are available in the range of \$400-\$500. If loans could be structured so as to allow providers to defer recouping and repaying these costs until a critical mass of subscribers has been reached, they are likely to be more ready to undertake such ventures.
- C. Instead of sending out economic generalists to help start up broadband providers, it might well serve everyone's interests far better for the MPUC to set up a dedicated team of outside contractors who are specifically knowledgeable in the law, accounting, and business practices of the broadband industry to spend a concentrated period of time with qualified applicants to help them get up and running. Such a concentrated approach is likely to be far more productive and cost effective than sporadic visits from government officials lacking the relevant expertise. This is the model for energy efficiency training for small businesses currently used by the MPUC for the Efficiency Maine program.
- D. LURC should adopt policies favorable to the location of cell towers in its jurisdiction to facilitate the construction of networks.
- E. The MPUC should establish objectives concerning a timetable for statewide coverage and its willingness to invest annually to achieve those objectives, so that businesses can get a sense as to what areas are likely to get service when, to assist with their location decisions

## **C. Water Treatment and Solid Waste Disposal**

Water and wastewater infrastructure is important to every community and a part of the infrastructure required for business development. For economic expansion and continuation of traditional industries, such facilities are more than an amenity – they are an absolute necessity for businesses such as shellfishing harvesting and tourism. In fact, any community wishing to attract new businesses or residences must have adequate water and wastewater infrastructure to accommodate the added growth.

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<sup>116</sup> Washington County Council of Governments, "Washington County Telecommunications Infrastructure Assessment and Plan" (May 2005), See Appendices of Graphs, "Cellular Phone Service in Washington County" and "Broadband Capacity in Washington County"

<sup>117</sup> Executive Order # 31 FY 04/05 (February 2, 2005), entitled "An Order To Create the Maine Wireless Telecommunications Infrastructure Board."

<sup>118</sup> 35-A MRSA § 7104

Many Washington County communities, including the Indian Township Reservation in Princeton, currently do not have the necessary facilities to allow for growth.

Between 1991 and 2004, over 1500 acres of shellfish areas have been opened by funding the building of new septic systems to replace failed systems and individual licensed overboard discharges that had closed these areas. According to the Maine Dept of Environmental Protection, the State has made major investments in water treatment and wastewater treatment in Washington County over the last 30 years<sup>119</sup>, as shown on the following table<sup>120</sup>.

	Washington County investment	Percentage of statewide investment
A. Straight discharge pipe and failing septic system replacements:	\$4,456,757	19%
B. Individual overboard discharge removal grants:	306,152	4%
C. Municipal wastewater infrastructure grants:	7,980,659	6%
D. Low interest municipal wastewater infrastructure loans:	9,216,560	2%
E. Low interest municipal water infrastructure loans:	3,206,155	4%

It is worth noting that Washington County has received a substantially greater share of those funds than its relative size would suggest. To put these percentages in some context, Washington County has 2.7% of Maine's total population.

Many of these municipal sewer systems and treatment plants built in the 1970's and 1980's had a design life of 30 years and are now in need of replacement, upgrade or expansion to accommodate further growth. According to a 2005 list of wastewater facility improvement needs, Washington County's municipal wastewater infrastructure improvement needs alone total \$25,520,000 over the next five years, with an additional \$6,885,000 in needs estimated beyond the immediate five year time frame.<sup>121</sup>

One frustration expressed by both municipal and business leaders is the penalty system ordained by state and federal laws for violations of its standards.

Federal law precludes the fines imposed on poor towns and competitive businesses being invested in upgrading the inadequate systems that caused the problem in the first place, if that investment economically benefits the violator.<sup>122</sup>

While there may be some justice in this requirement, it comes at a cost of further eroding the attractiveness of this region for investment and does little to solve the problem.

DEP should evaluate how other states and provinces with which we compete, address this dilemma, and see if a more practical solution than de facto fining taxpayers and driving out businesses can be developed while still upgrading the offending facilities.

<sup>119</sup> with \$2,049,266 of principal forgiven and not required to be paid back due to financial hardship

<sup>120</sup> Source: Steve McLaughlin, Maine DEP

<sup>121</sup> Maine DEP, 2005 List of Wastewater Facility Improvement Needs

<sup>122</sup> U.S. EPA, Clean Water Act Penalty Policy and U.S. EPA, Policy on Supplemental Environmental Projects, available in full through Maine DEP. Federal law does not distinguish private and public facilities. One permissible method under federal law to "keep the money local" is to use up to 80% of settlement monies to benefit the geographic areas involved in the form of Supplemental Enforcement (or Supplemental Environmental) Projects (SEPs). SEPs must be voluntarily agreed to by the violator. In two significant recent cases Downeast, approximately \$240,000 was invested into Salmon restoration as a result of resolution of water license and air license violations.

The State also needs to continue to provide capital, either low-cost or grants, to Downeast municipalities for the maintenance of their infrastructure. Existing wastewater treatment facilities require substantial overhauls in several communities, where failing equipment directly impacts water quality and significant intertidal shellfishing resources. Downeast infrastructure is falling behind its capacity to treat wastewater for existing industries and residents, so any opportunities for increased economic development must include consideration of these needs.

This is not an abstract concern. Actual processing plants have relocated or expanded facilities and jobs in Canada because of the penalties DEP has imposed for these kinds of violations.

#### **D. Public Lands, Trust Lands and Easements, and Historic Buildings**

An important, but overlooked, component of Maine's infrastructure is the patchwork of interests in lands and buildings that have value for logging, docks, and coastal access, and, above all, tourism.

Washington County contains 41,836 acres of public reserved lands, assembled in 16 tracts, including some of the loveliest mountains, hills, and lakes in the region.<sup>123</sup>

It is also the site of five developed state parks and historic sites, including such strategic assets as the Quoddy Head Light in Lubec and Cobscook Bay State Park in Edmunds Township.<sup>124</sup>

But more recently, the total number of acres preserved has expanded dramatically, with the Downeast Lakes Forestry Partnership's purchase of 27,080 acres in fee simple and 312,000 acres of conservation easements in the Grand Lake Stream region, and the acquisition of 18,443 acres of conservation easements along the Machias River by the Maine Atlantic Salmon Commission and The Nature Conservancy.<sup>125</sup> Efforts like these assure that some of the superb vistas and biodiversity that constitutes such a great part of the appeal of Washington County to residents and tourists alike will remain intact for the future.

Likewise, a collection of public and private buildings of historic significance forms a part of the appeal of Washington County and we should recognize and value investments to continue their contribution to our attraction to tourists.<sup>126</sup>

To the extent the diverse public and trust owners will cooperate, the tourist brochures, maps, and information concerning all these resources should be presented in a consistent and attractive manner, as suggested in the FERMATA report.<sup>127</sup>

It is worth noting, one more time; Washington County has far more cultural and natural features to attract a tourist business than the typical, rural county, if the region can access the fiscal resources to market them effectively in a consistent, coordinated, and sustained way under a single brand theme, as recommended hereinbefore.

#### **E. Hotels, Motels and Resorts**

An important part of an area's infrastructure is its capacity to house visitors, whether for business or pleasure.

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<sup>123</sup> Department of Conservation stats.

<sup>124</sup> Ibid.

<sup>125</sup> In addition, there are two important federal properties in the county: Moosehorn and Petit Manan National Wildlife Refuges; and there are also eight state Wildlife Management Areas managed by the Maine Department of Inland Fisheries and Wildlife.

<sup>126</sup> There are 89 public and private buildings of historic significance in Washington County. For a listing of these buildings see Sunrise Research Institute, Sunrise County Architecture (2<sup>nd</sup> edition, 1996).

<sup>127</sup> FERMATA Report, pp. 12-13.

There are serious concerns about the stock of high quality rooms, and the ability of the industry to respond to the demands of increased tourism. Washington County also lacks conference and banquet facilities.

In addition, Washington County is entirely lacking in “high end” destination resorts with accompanying golf courses such as the Algonquin in St. Andrews, New Brunswick or several Mt. Desert sites where tourists come to stay, rather than just pass through.

The resurgence of interest in such destination resorts in rural parts of the State is illustrated by several initiatives currently under consideration. A Millinocket businessman has proposed a high-end destination resort for the Katahdin region combining a 40-room lodge, conference center, spa, function space, and cluster style residential cottages with outdoor and adventure experiences for people coming to the area for its natural beauty.<sup>128</sup> A West Coast developer has a vision of a four-star, 550-room hotel, convention center, golf course and restaurants on 3,500 acres on Norton Pond in Brownville.<sup>129</sup> Finally, the controversial, inchoate plans of Plum Creek Timber Co.’s for a major development in the Moosehead Lake region consisting of a 10,000-acre resort with 975 house lots, two resorts, three recreational-vehicle parks, a golf course, a marina, and rental cabins provide another model.<sup>130</sup>

Such resorts are likely to figure more prominently over the next few years because of the preference of newer generations for comfort after their daytime wilderness expeditions.

These resorts could also help meet the perceived lack of “amenities” for tourists in Washington County which may conveniently be defined as what is available to do on a rainy day, or after 6 p.m.

These are major investments, and other than improve roads and airports, protect the environmental quality of the region, and promote tourism generically there is little the State can do directly to influence the necessary investment decisions, and its own unhappy experience as the owner of the Squaw Mountain Ski Resort in the 1970s is ample testimony to the folly of the State trying to get into this business itself.

However, one bill in the last session of the Legislature, LD 192, sponsored by Representative Stan Moody (D-Manchester), would have at least provided a modest tax incentive to encourage this kind of investment.<sup>131</sup> Enacting such legislation would send the right kind of signals regarding Maine’s interest in new tourism infrastructure.

## **Section X: Education**

For such a small dispersed population, Washington County is home to a surprising variety of educational opportunities.

It is axiomatic that education is critical to economic development. It is also true that Washington County lags behind the State in educational attainment and thus its work force is somewhat disadvantaged. Although that observation must be tempered by the fact that to the extent its natural resources based industries require more advanced training, such training can often be gained at the work place.

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<sup>128</sup> Interview with Matt Polstein, September 30, 2005

<sup>129</sup> “Brownville Resort Pitched,” Portland Press Herald, August 4, 2005.

<sup>130</sup> “Hundreds Attend Last Forum on Plum Creek,” Portland Press Herald, August 25, 2005.

<sup>131</sup> LD 192 “An Act To Establish the Pine Tree Recreation Zone”

#### **A. K-12**

Washington County is suffering not only because of lower educational attainment, but also by the rapid reduction in the number of school age children, which will sooner or later disrupt traditional cultural patterns by dictating some consolidation of the much dispersed school system which has existed historically.

With just 5,059 children aged 5-18, and a steady decline in overall numbers, Washington County still is divided into 40 separate School Administrative Units, or one for every 126 students. The average number of employees per unit is 34, for a ratio of students to staff of 9:1. These high overheads result in a K-12 per student expenditure of \$9,215, compared to a statewide average of \$7,331.<sup>132</sup> Among other problems, this expensive system has driven up Washington County property taxes.

This painful cycle of increased costs and decreased enrollment will inevitably result in changes in the school system, but that is beyond the scope of this report.

#### **B. Vocational High School**

A new vocational high school has been proposed to serve Western Washington County which was partially funded by the passage of the bond issue on the 2005 ballot this November.<sup>133</sup>

This school could help with economic development efforts if the curriculum is designed to cover not only traditional vocational subjects, but courses such as bookkeeping, business planning, sales and marketing, and entrepreneurship.

In fact, a core curriculum of such courses would probably be a good idea for other high schools, WCCC, and UMM, at appropriate levels of complexity, as well.

Continued consultation by the Commissioner of Education with the relevant schools to develop a coordinated curriculum will be helpful to students earning a living in Washington County.

#### **C. University of Maine at Machias**

UMM is the only four year baccalaureate degree granting institution in Washington County.

It currently teaches 700-750 FTE students and provides employment to a total of 160 individuals, of which 46 are faculty.<sup>134</sup>

Thus UMM is a major employer and a major influence in Washington County.

But it has suffered the same drain on its potential student pool as the K-12 system, and has gone into debt to the UMS in recent years. In effect, the overall University system subsidizes each attendee at Machias by funding the difference between UMM's actual cost and the tuition it charges, a difference of approximately \$3,500 per student.<sup>135</sup>

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<sup>132</sup> Maine Dept of Education, 2003-04 Maine Resident Students: Per Pupil Operating Costs, <http://www.maine.gov/education/data/ppcosts/2004/04geninfo.htm>

<sup>133</sup> \$1 million was supported by the voters through ballot Question 4 for the Sunrise Business and Career Center in Jonesboro.

<sup>134</sup> Interview with Cynthia Huggins, October 12, 2005

<sup>135</sup> According to Ms Huggins, the difference between what UMM charges for tuition and its actual cost is \$1,507 for out-of-state students and of \$7,867 for each in-state student. IN FY05 the tuition rates was \$11,827 per year. Ms Huggins also notes that this year, for the first time, the University will receive a larger percentage of its funding through tuition and fees than through state funding.



The cumulative discrepancy now amounts to some \$1.5 million. Chancellor Joseph Westphal<sup>136</sup> proposes to cancel this debt and start afresh. But the question remains, how can UMM support itself?

UMM should be at the heart of the State's strategy to reverse the decline in Washington County's fortunes. It should be offering a set of courses that support business skills; that focus on the economics and trades of tourism, recreation management, and environment; and that relate to the area's natural resources.

There is no better institution available in Washington County around which a true economic development initiative could coalesce and out of which the skills and attractions and leadership Washington County needs could emerge. Just as Washington County will have to "buy" new businesses by offering very attractive terms, UMM should entice an influx of new energy and new students by drastically discounting tuition to a level that will make a difference in college choice decisions for hundreds of new students from both in- and out-of-state for at least a four year period. We need something to "prime the pump" and UMM may be the best tool available to us.

This is an ambitious agenda for such a resource poor school. It would require a multi year budget commitment to attract the necessary professors, and a real commitment to vigorous outreach and intelligent marketing beyond our borders for at least a 4 year period so that an entire class can rely on a new price schedule for this branch of the University.

It is my understanding that UMS recently retained a consultant to advise as to the price/recruiting sensitivity of various levels of tuition.

Whatever conclusions the University is relying on for that study would be a good place to begin the evaluation of what figure will optimize recruiting for UMM.

For Machias it is important not only to discount - a practice common in university admissions management - but to communicate the new rates publicly in advance in our natural markets both in state and out.

UMM had a promising strategy in place under the late President John Joseph to capitalize on its coastal location by providing an interdisciplinary "Center for Coastal Studies", integrating liberal arts, business, marine biology, sociology, etc. This effort lost momentum after Joseph's death, and the strategic plan adopted by the UMS Trustees. However, UMM has recently, through a Partners in Innovation grant through the National Science Foundation, hired a tenure track professor in resource economics, a relevant field of knowledge to have in this area. And it has worked hard to build a program in behavioral sciences in response to the demands for these jobs in the local region.

The answer, it seems to me, is to recognize that its current hand to mouth existence, without continued money for investment in new courses relevant to Washington County's economy or environment, new professors to teach them, or marketing to broaden its potential student base, is sure to end up in an ever poorer, weaker institution.

Such an outcome would be a tragedy for the region, and a missed opportunity for the University system to play the role it should as a catalyst for economic growth, as it currently does to some extent through UM's Cooperative Extension Service small business program out of Whitneyville

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<sup>136</sup> Interview with Chancellor Joseph Westphal, August 15, 2005.

and UMM's affiliation with the Downeast Institute for Applied Marine Research and Education (Beals Island).<sup>137</sup>

Moreover, UMM could be one of the core "amenities" that provides courses for Elderhostel and summer groups and hosts cultural events for tourists and residents alike, and should explore this possibility.

Higher education is the backbone of Maine's future economy, and UMM must be the backbone of the future of Washington County. The Chancellor and President of UMM should be supported in efforts to make UMM a catalyst for growth in the economy of the county.

#### **D. The Unobskey School**

The University of Maine System also operates a modest center in Calais for interactive television and on-line courses from all seven campuses. The school attracts students from eastern Washington County and western Charlotte County, New Brunswick. Given the distances and population distribution, it makes sense to have an outlet in the far eastern corner of Washington County as it is the only means many adults in the northern part of county have for a four-year degree. The Unobskey School is also well-positioned to collaborate with the University of New Brunswick and the Governor should encourage the Chancellor to actively pursue opportunities for mutual support in the development of our university systems.

#### **E. Washington County Community College**

Calais is also the site of Washington County Community College, a part of the two year, associate degree granting Maine Community College System.

It provides courses to 411 students, delivered by 66 individuals. Its principal specialties include heavy vehicle maintenance and construction trades, adventure recreation, marine technology, early childhood education, health care preparation, and boat building.<sup>138</sup>

WCCC has a new and emerging mission for arts and sciences. People still tend to think of Downeast as focused on marine trades, and while that is an important part of their mission, an aging population, retirees moving Downeast, and a growing service sector economy have opened up opportunities for non-marine related programs. In addition, given the growing sophistication of boats today, for students to excel in the field of marine technology, they now need to learn the heating, plumbing, and electrical skills that WCCC offers to bolster their marine technology curriculum.<sup>139</sup>

WCCC also suffers many of the same problems as UMM, with a declining population base, costs per student double the system average, and a need to downsize to stay a going concern.

Again, offering courses that will help the local economy, seeking to market courses relevant to students across the border in New Brunswick, and offering major tuition discounts could be a combination that rejuvenates WCCC and its potential for serving Washington County students and reviving its economy.

Of course, any branch of the University or Maine Community College system could make a claim that for equitable treatment, it, too, should be able to offer the same discounts as the Washington

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<sup>137</sup> Interview with Louis Bassano, August 9, 2005; Interview with Cynthia Huggins

<sup>138</sup> Washington County Community College

<sup>139</sup> Ibid.

County institutions. But to offer such a program everywhere would simply exceed our means and ensure there is no progress anywhere. Further, it would destroy the special attraction it is intended to give to this especially impoverished area.

And third, it should be understood that this policy is an experiment for a limited term, but if it's successful, not only would it help Washington County as a whole, it would provide a serious precedent for trying the same strategy elsewhere.

**F. WCCC's Boat Building School**

This issue could as well have been discussed in the Infrastructure section. In any event, it deserves a section of its own because the issue has been raised to a level of such prominence.

WCCC has offered a small boat building program at Eastport since 1969. With only 10-12 students currently, it has suffered in recent years from a loss of enrollment. This trend has been attributed by some, in part, to a loss of interest by local young people in what they see as an old-fashioned business, but also partly because many of the boat building employers are located in southern Maine and their workers (potential students) do not want to travel Downeast for courses.<sup>140</sup>

Nevertheless, the boat yards and marinas in Maine are flourishing, and there is a need for more young, skilled labor. This need will grow as Maine takes advantage of a growing ecotourism industry and retirement sector, which attracts visitors and residents alike who want to enjoy Maine's coastal waters by boat.<sup>141</sup> During the coming year, the school will have to evaluate whether its location and curriculum are best positioned to meet the needs of the marketplace, and whether it can effectively market its services. In the end, its success in meeting the needs of the marketplace should and will determine its fate.

It is also worth noting that the property providing the location of the program constitutes an extraordinary asset, not only occupying extremely valuable coastal property in Eastport, but also having a 60-ton Travelift, a large granite launching ramp and boat cradle, plus plenty of upland space for boat storage and repair facilities.

DECD, WCCC, and the City of Eastport should confer and collaborate on business planning to realize the highest and best marine use of this valuable space for the benefit of the overall Washington County economy.

**G. Department of Labor Job Training Programs**

Through its Career Centers in Machias and Calais, DOL provides assistance with training for particular job opportunities, and general programs to assist those who have been displaced by a business shutdown.

The Department has been instrumental in cooperating with WCCC, the Small Business Administration and other agencies in providing both specific retraining programs to people laid off by mill closing and general preparation for self employment.

It is an important part of an overall economic development strategy and its services should be included in any package of options provided to potential employers.

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<sup>140</sup> Interview with William Cassidy, President, Washington County Community College, September 30, 2005.

<sup>141</sup> William Cassidy, Interview.

## Section XI: Financial Incentives

In the absence of obvious competitive advantages, getting private investment started in remote areas takes help from the government.

Washington County's distance from markets, lack of infrastructure, high costs of doing business and invisibility to most of the world, all make it a prime candidate for the use of financial incentives to attract pioneer capital.

### A. Tax Policy

A logical way to begin is by reducing or eliminating taxes:

- i. An urgent need is the full restoration of BETR for new investments in production equipment, getting rid of the investment penalty, once and for all. Given the plight of Washington County, we should at least start here now.
- ii. Extension of Pine Tree Zone eligibility to any business in any Washington County town so long as it is providing new or expanded facilities in a business which exports goods or services or upgrades infrastructure.

Currently, Pine Tree Zone eligibility excludes businesses that do not have year-round jobs, wreath companies for example, which only operate two months of the year.

- iii. Specific tax credits for targeted investments, which would be consistent with strategically developed areas for development in Washington County, including tourism, second home development, aquaculture, and telecom and energy infrastructure should also be considered.

It is instructive that as the City of New Orleans attempts to rebuild from the devastation of Hurricane Katrina, its policymakers are targeting several issues similar to those of concern to us as we try to create a policy to develop Washington County.

Those measures include rebuilding the levees, and "bridge" support for universities, hospitals and airports – basic infrastructure.

But, significantly, tax credits to encourage businesses to return or relocate to New Orleans are the principal instrument of their proposed policy. They clearly see credits as the springboard to economic revival in terms of what government can do. In the "Katrina Tax Recovery and Jobs Incentive Zone" there would be a 50% credit on taxable wages, capped at \$50,000 for single tax payers and \$100,000 for joint returns. Employers would also receive a 50% income tax credit based on total payroll for all employees who live and work inside the zone. New Orleans also proposes an income tax free zone for any manufacturing firms creating jobs and adding value to any of the top five raw materials imported through the Port of New Orleans, plus certain high tech industries the City would like to develop.<sup>142</sup>

Again, as Maine and Company's Joe Wischerath observed, Washington County will have to offer financial incentives to attract the attention of potential investors.

The particular formulation proposed for New Orleans would not automatically fit a place as different as Washington County, but the basic idea is relevant.

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<sup>142</sup> Statement of C. Ray Nagin, Mayor, New Orleans House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Building and Emergency Management, October 18, 2005.

We would have to take care to avoid multiple credits for the same income or investment.

And, of course, the value-added jobs we might credit would not be in the target areas New Orleans proposes: coffee beans, steel, metals, plywood and rubber; but rather, products we export all too often unprocessed: wood, fish and blueberries, for example, as well as high tech and tourist-related investments.

#### **B. Industrial Buildings**

As noted earlier, Maine and Company has found that the existence of suitable industrial buildings substantially enhances the possibilities that a community will attract a new employer.

Suprtek in East Machias is demonstrating a business park is possible at a relatively low cost.

The State and Washington County should track the development of this facility for what lessons it may teach, and fund the Washington County Development Authority to begin developing strategic criteria for constructing other facilities supported by public bonds in the future.

#### **C. The State-Mandated Costs of Doing Business**

In developing any strategy to encourage economic development in any part of our State, we cannot fail to take into account the reality that our overall cost of doing business is higher than the national average<sup>143</sup>. The principal cost drivers in Maine that explain that differential include State and local taxes, health care and energy. On the other hand, we still have relatively lower costs for labor and real estate.

Dealing with these costs and their competitive impact is beyond the scope of this report.

However, policy-makers must understand that these external costs, and particularly, the extraordinary rise in health care costs in Maine, are a mortal danger to the creation and sustainability of jobs in the private sector.

The sensitivity of marginal economies like Washington County's, especially with their demographically older populations, to increase in the burden of drastic increases in health care costs should be taken into account by policy-makers in formulating overall economic policy.

This is a pill that cannot be sugar-coated. Unless Maine more effectively contains health care costs to stay at least in parallel with overall American trends, all the positives of other public policies can be seriously compromised or even wiped out by this one cost factor.

### **Section XII: Government Organization**

#### **A. Who's In Charge?**

One of the great problems of dealing with an issue like economic development in Washington County is that addressing it crosses all kinds of jurisdictional lines, not just among state agencies, but quasi-governmental agencies like FAME and Maine State Housing Authority, autonomous organizations like University of Maine System and Maine Community College System, and other levels of government, at the federal, regional, county, and local levels.

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<sup>143</sup> Maine Development Foundation, "Measures of Growth in Focus," 11<sup>th</sup> Report of the Maine Economic Growth Council, 2005, p.2.

Occasionally, a single analyst or a blue ribbon committee will take a look at the issues, but those efforts are necessarily short term.

If a multi-agency approach is decided upon, then the development and management of the effort is typically delegated to a committee of the contributing agencies.

The King Administration tried another tack, establishing a partnership with the Sunrise County Economic Council in hopes that its Executive Director, Dianne Tilton, could provide continuity and clarity of leadership.

Notwithstanding how capable Ms. Tilton surely is, her outside position meant she could not drive state departments with their own agendas, and the precarious finances of her organization has required her to devote much of her time to fundraising.

It seems to me the best chance for sustaining a vision and supporting a multi-agency program, besides the constant attention and advocacy of the Governor, is the creation of a single, state-level, politically accountable position to take responsibility over time for the execution of a multi-agency program to assist, in this case, Washington County.

Such a position would have responsibility for:

- ✓ recommending budget allocations in the various departments relating to Washington County to the Commissioners and the Governor;
- ✓ developing and advocating for programs to benefit Washington County in and among the various departments;
- ✓ communicating with and coordinating the efforts of the plethora of state, federal, regional, university and county programs and agencies with jurisdiction in Washington County; and
- ✓ managing the branding, advertising and tourism promotion activities relating to Washington County.

To establish such a position would be an unusual innovation in state government – a kind of cross-cutting matrix management. Of course there is no guarantee it would work, and success would depend in large part on the relationships between the Governor and the appointed executive. But we have tried many other models without notable success and it may well be time to consider this innovation.

i. *Deputy Commissioner for Washington County*

I would recommend creating the position of Deputy Commissioner of DECD for Downeast Maine and placing the above-described responsibilities in that office.

ii. *Tourism Development Staff*

In its report, FERMATA recommended augmenting the DECD Office of Tourism staff with a new employee “to focus on the Downeast Pilot Program,” including not only management of the branding and messaging, but also developing local leadership to sustain the program from Schoodic on east.<sup>144</sup>

Marketing is such a desperate need for the region, tourism so promising as a source of increased income, and the FERMATA report so realistic in setting out a plan of action, that I support the

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<sup>144</sup> FERMATA Report, p. 5.

creation of such a position, with a cross-reporting responsibility to the Deputy Commissioner described above.

**B. Foreign Competition Analyst**

One of the consistent themes of my inquiries was the amazing dearth of knowledge about New Brunswick, its economy, its competitive advantages, its management practices, and tourism strategy, and where the opportunities for cooperation in education, joint use of infrastructure, tourist attraction or other issues might lie.

We simply cannot afford to be ignorant of our competitive neighbors in this global economy. To put it bluntly, Maine is flying blind.

I recommend establishing a position of foreign trade economist in the DECD, to be filled either by appointment or by contract, to fill this void, with the principal responsibilities of advising the DECD, DMR, DAFRR, DEP, DOC, DOL and other agencies concerned with trade, businesses affected by foreign competition or opportunities, the Maine International Trade Center, the Congressional delegation and the US Trade Representative of Maine's views on foreign commerce issues.

To the extent the government and the University already have Canadian relations or studies programs, one might fairly ask what they cost and what are they doing to promote economic development and understand the dynamics of the economies of our closest neighbor.

**C. Federal Advocate**

While the upheavals of war and storm may transform federal priorities, nonetheless there will still be a lot of federal money for fisheries and aquaculture research around the country.

The State should consider maintaining a specialist in Washington, D.C., to look for opportunities to secure greater federal funding to assist the State and its rural regions to supplement the efforts of the Congressional delegation. I recognize that similar proposals have been left unfunded in the past, perhaps based on memories of weak performances in the 70's and 80's. But the investment/return potential is so great we are truly missing the boat by failing to compete with other states for available federal money using this kind of resource.

**D. Telecommunications Team**

In the "infrastructure" section, the need to assist start-up broadband providers with genuine, relevant expertise was discussed. A kind of broadband "SWAT" team.

Rather than add new employees, this would be an appropriate area for DECD or the MPUC to issue an RFP for a team including a lawyer, accountant, business planner, and telecom engineer to provide sustained expertise to qualified rural start up firms.

**E. The Washington County Development Authority**

This Authority was recently established to hold title to the Cutler facilities pending their private disposition.

At present, it has few operating funds and relies on the Sunrise County Economic Council for its operational support. Certainly, it lacks the expertise to issue bonds or back loans.

But it could serve as a useful legal entity to hold title to other property that may become available for economic development purposes, including military facilities and spec buildings.

It should be regarded as a latent asset for the County for future use.

**F. The Washington County Commissioners**

Some of the County Commissioners have noted the size and resources of the various towns in Washington County are simply too small to undertake or manage any significant economic development project.

With their country-wide jurisdiction the Commissioners are in a better position to marshal resources and develop priorities on large scale projects.

Given the limited resources of local government in this arena, a more active role by the County, acting in cooperation with the State and Sunrise County Economic Council could be a constructive development especially in planning infrastructure and a definitive economic development plan and budget would be a useful first step.

**G. Sunrise County Economic Council**

Since the King Administration initiative, hope for economic development in Washington County has been largely centered on the Sunrise County Economic Council, under the able leadership of Dianne Tilton.

Under any conceivable strategy, a local initiative, coordinating and tracking functions will be necessary, and this organization is best positioned to fill those roles. Above all, it serves as an advocate and a voice for Washington County business before the myriad other federal, state and regional agencies involved in Downeast economic development.

The State should continue to support, resume funding, and value this partnership.

**H. Economic Development Services Organization and Delivery**

It is entirely understandable that after a region has been in poverty for so long, and when it has so many issues, and is served by governments at the federal, state, regional, county and local levels, not to mention by international authorities and quasi-governmental agencies and NGOs, that a complex web of agencies and programs will have arisen with overlapping missions and jurisdictions and competition for funding.

Some observers have noted that this complexity can be counter productive, leading to secretiveness in project development, parochialism in seeking success and lack of accountability for program development.

There is probably not much that can be done about this avalanche of agencies, since adding programs is the visceral reaction of government as a substitute for growth through reducing costs and rewarding private investment in targeted businesses.

But at least the Governor's Office should take an inventory of all the agencies at every level involved with economic development and create a matrix showing their statutory authority, goals and objectives, personnel counts, budgets, and results.

That exercise alone might lead to some renewed or revised mandates, reallocation of funds and reassessment of value.

**Section XII: Why Have Prior Task Forces Failed To Reverse The Decline In the Washington County Economy?**

As noted earlier, every recent Administration has devoted special attention to Washington County.

Typically, they have focused on the same needs for infrastructure and education, and the same sectors of the economy – agriculture, forestry, marine resources and tourism, as this one.



Most recently, Governor King launched a major initiative, "Investing in Washington County" that was the focus of his Cabinet Subcommittee on Economic Development.<sup>145</sup>

It would not be fair to say these initiatives failed – it is probably true that Washington County is better off than it would have been but for the efforts of the Brennan, McKernan and King administrations.

But it is also clear that none of them has had a transformational impact – perhaps that can only come when true, natural competitive advantages emerge, as they did with the sardine industry a century ago, or pulp and paper in the 20<sup>th</sup> century, or perhaps, aquaculture or an energy terminal/corridor in this century.

It is not my intent here to criticize Governor King or his Administration. I know they put their hearts and best efforts into helping Washington County; rather I am trying to learn from the past.

But looking at the comprehensive King program, several problems stand out from which we might learn:

1. Many projects were undertaken, but the individual investment in each was generally very small – for example, seven programs at State Planning Office shared a total of \$176,000 – an average of \$25,000 each. Agriculture put \$5,000 into one project, and MaineDOT offered up \$65,000 for 4 projects. However meritorious a program, numbers like these are unlikely to make a difference. The two major exceptions were the massive investment in upgrading Route 9 and the \$400,000 in rehabilitating the Guilford Woolen Mills building into an industrial complex, and both of these produced good results.
2. In the report there was no discussion of government agencies serving as advocates or assistants to business. DEP, LURC, and DMR were all well known for their strong enforcement policies – but none were charged, apparently, with trying to help businesses through the maze of state regulations.
3. All the initiatives were directed towards spending by state or regional agencies. None actually lowered or simplified the costs of doing business in Washington County.
4. Few of these initiatives appear to have addressed the "hurdles" to economic development which have existed for some time, and were recently categorized by the current Task Force in its first meeting on August 31, 2005.<sup>146</sup>
5. No one had the specific responsibility to follow through on the initiatives and hold departments accountable for their investments and their results.
6. The one major financial investment by the State much earlier was the conversion of the Buck's Harbor naval base to a prison, which did not add to the net productive capacity of Washington County.

So where and how much public money is allocated is clearly important. Leadership through creating a vision, advocating for it, and holding officials accountable for results is likewise vital. Understanding competitive strengths and weaknesses and honestly addressing both is indispensable. And providing potential investors with competitive advantages that make their success more likely is vital as well.

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<sup>145</sup> State Planning Office, "Investing in Washington County," Annual Report to the Governor's Cabinet Subcommittee on Economic Development, May 12, 1998.

<sup>146</sup> Washington County Economic Development Task Force

It is my hope that the recommendations in this report will both reflect and take lessons from Maine's experience in the past, and provide solid, constructive steps that really could make a difference to the economic future of Washington County and its people.

### **Section XIII: A Synopsis of Recommendations**

#### **Tourism Development**

##### **Primary**

- Create a Washington County marketing "brand," (e.g. the Last Frontier, Living on the Edge) (DECD, MOT, FERMATA)
- Invest state funding in tourism product development and marketing
- Establish a tourism promotion fund, with revenues including possible tolls on the Calais/St Stephens bypass.
- Make Ellsworth a gateway to Washington County: locate tourist information signs and visitor center on Route 1 in Ellsworth, before the intersection with Route 3 (while helpful for mass transit, the proposed Trenton Center cannot provide the advance notice of the benefits of visiting further Downeast); improve visitor information (MDOT)
- Do a better job promoting rail-trail, state and federal parks and lands, and cultural resources: specifically: urge the IJC to seek federal appropriations for more money for publicizing FDR's home on Campobello, create a Washington County fair, develop the "Ice Age" trail and other them trails. (DECD, MOT, MDOT)

##### **Secondary**

- Complete the FERMATA inventory and assessment of lodging, dining, and tourism services and infrastructure that was begun for the Washington County nature tourism pilot (DECD, MOT)
- Induce tourists to visit Calais with: mutual publicity with St Stephen, trail-themed signs, tolls imposed on bypass commuters (MDOT)
- Develop an effective delivery mechanism to carry out marketing (DECD, MOT)
- Establish, enhance and maintain rest areas (MDOT)
- Improve and create websites for Washington County tourism (MDOT, MOT)

#### **Tribal Nations**

##### **Primary**

- Assist Native American Tribes with seed money to establish business structures to take advantage of 8(a) preferences, including business planning, contract consulting, and manufacturing capabilities
- Engage tribal leadership in strategic planning and development of tourism and cultural resources

#### **Second Home Development**

##### **Primary**

- Develop state policies that encourage thoughtful second home development while preserving public access to natural resources
- Eliminate state income tax on retirement income for retirees who choose to live in Washington County
- Provide bond funds to acquire conservation recreation lands

##### **Secondary**

- Create land banks to preserve coastal public access funded through a coastal real estate transfer surcharge

- Confer with real estate developers to identify what would entice them to invest in retirement or second home development (MSHA)
- Develop educational programs of interest to retirees (UMM, WCCC)
- Provide LURC the resources to consciously plan for this type of development in unorganized areas of Washington County (LURC)
- Explore the former Cutler Navy Base as a potential site for a retirement community; explore ways to entice nursing home facilities Downeast

## **Energy**

### **Primary**

- Determine US Air Force's plans for OTH-B radar site (DVEM, OESI) and explore State options for its development
- Prepare the State to fully participate in any proceedings relative to the licensing of LNG facilities
- Support establishment of a new tie line across Eastern Maine to Canada

### **Secondary**

- Explore Tidal power opportunities (OESI)
- Reward or penalize changes in the current level of electrical service quality (MPUC)
- Explore and create electricity purchasing cooperatives
- When evaluating industry gasoline practices, pay particular attention to the St Croix aspect (AG)

## **Natural Resources**

### **Primary**

- Evaluate how actual wood supplies match up against mill capacity levels and the economics of various operating levels (MFS)
- Develop a better understanding of economics of Canadian mills (MFS)
- Eliminate personal property tax on business equipment
- Reduce hurdles to Pine Tree Zone eligibility and access to ASPIRE workers
- Adopt long-term, predictable environmental policies on water quality
- Study New Brunswick's success with exporting sand and gravel and its potential to be replicated in Washington County (DECD)
- Reinstate DMR's roles of marketing, promotion, and advocacy Establish local management zones and councils for other fishery sectors (DMR)
- Work with Professor Wilson and relevant constituencies to develop a separate sub-zone for groundfish management in Eastern Maine and make the case for special treatment before federal entities (DMR)

### **Secondary**

- Conduct advance land use planning of potential forest lands that might be converted to second home development (LURC)
- Provide education and equipment loan programs for loggers (DOC)
- Adopt and implement recommendations of the Governor's Council on the Sustainability of the Forest Products Industry
- Assist seasonal wreath-makers with marketing
- Support technical research into commercial aquaculture (DECD, DMR)
- Advocate greater federal research at the Franklin ME USDA center (DECD, DMR)
- Restructure terms and fees for aquaculture lease holders that are more in line with the profitability of different kinds of species and methods (DMR)
- Adopt regulatory measures that will sustain the urchin harvest

- Provide funding to the agricultural water source development program and agricultural marketing loan fund
- Link agricultural marketing loan fund with Efficiency Maine to assist blueberry farmers with lowering their energy costs

## **Defense and Homeland Security**

### **Primary**

- Assist Native American Tribes with seed money to establish business structures to take advantage of 8(a) preferences, including business planning, contract consulting, and manufacturing capabilities
- Develop a package to attract a military vehicle rehabilitation depot like the MMA in Loring (DVEM, DECD, DOL, WCC, EMDC)
- Work with Congressional Delegation to have OTH-B site transferred to an appropriate local Washington County organization for redevelopment

### **Secondary**

- Create flexibility in existing economic development incentive programs to facilitate base redevelopment

## **Infrastructure**

### **Primary**

- Support any application to the FAA for the approval and funding for the construction of a full service, General Aviation Airport in the region (Governor, MDOT)
- Convert the Calais Branch rail line from Ellsworth to Ayers Junction into a recreational rail trail promptly
- Make loans from the MPUC's universal service fund available for extending wireless and broadband service to rural areas (MPUC)
- Explore and evaluate how other states and provinces use enforcement fine revenues to upgrade facilities in violation (DEP)
- Provide low-cost loans or grants to municipalities Downeast to upgrade wastewater treatment facilities
- Provide tax incentives to encourage resort investment/tourism lodging

### **Secondary**

- Make needed road improvements on Route 193, connecting routes 9 and 1A
- Maintain existing public transportation services

## **Education**

### **Primary**

- Attract new students to UMM with strategies designed to substantially increase enrollment
- Offer courses relevant to students across the border (WCCC, Unobskey School) and develop Cooperative agreement with University of New Brunswick
- Collaborate on business planning to make the best use of the Boat Building School (DECD, WCCC, City of Eastport)

### **Secondary**

- Develop a coordinated business-oriented curriculum among WCCC, UMM, high schools, and the new vocational school (DOE)
- Be a catalyst for economic growth, providing extension and small business programs, supporting business skills, and providing courses for Elderhostel and other cultural and tourist groups (UMM)
- Move the Maine Wild Blueberry Commission to Washington County

## **Financial Incentives**

### **Primary**

- Fully restore BETR
- Extend Pine Tree Zone eligibility to any business in Washington County that provides new or expanded facilities in a business which exports goods or services or upgrades infrastructure
- Provide specific tax credits for targeted investments in Washington County

## **Government Organization**

### **Primary**

- Create a deputy commissioner for Downeast Maine within DECD to recommend budget allocations of state departments, develop and advocate for state programs, coordinate the efforts of state, federal, regional, university and county programs, manage the branding and tourism promotion activities related to Washington County
- Create a tourism development staff position in DECD to focus on Washington County
- Establish a foreign trade economist in DECD to advise on foreign commerce issues
- Create a telecommunications team funded by the telecommunications access fund to provide sustained expertise to start-up telecommunications firms (DECD, MPUC)
- Inventory all the agencies at every level involved with economic development and create a matrix showing their statutory authority, goals and objectives, personnel counts, budgets, and results
- assist the Washington County Commissioners in establishing an on-going role in economic development as a county-wide enterprise, rather than relying on the limited resources of individual towns

### **Secondary**

- Maintain a specialist in Washington DC to secure greater federal funding to assist rural regions of the State

I appreciate that this is an ambitious agenda, with many complexities, but as I noted at the onset, it will take a major initiative to really make a difference in allowing Washington County to achieve its true potential. I hope these recommendations help in that process.

# **APPENDICES & GRAPHS**

From

REPORT ON AN ECONOMIC DEVELOPMENT STRATEGY FOR WASHINGTON  
COUNTY

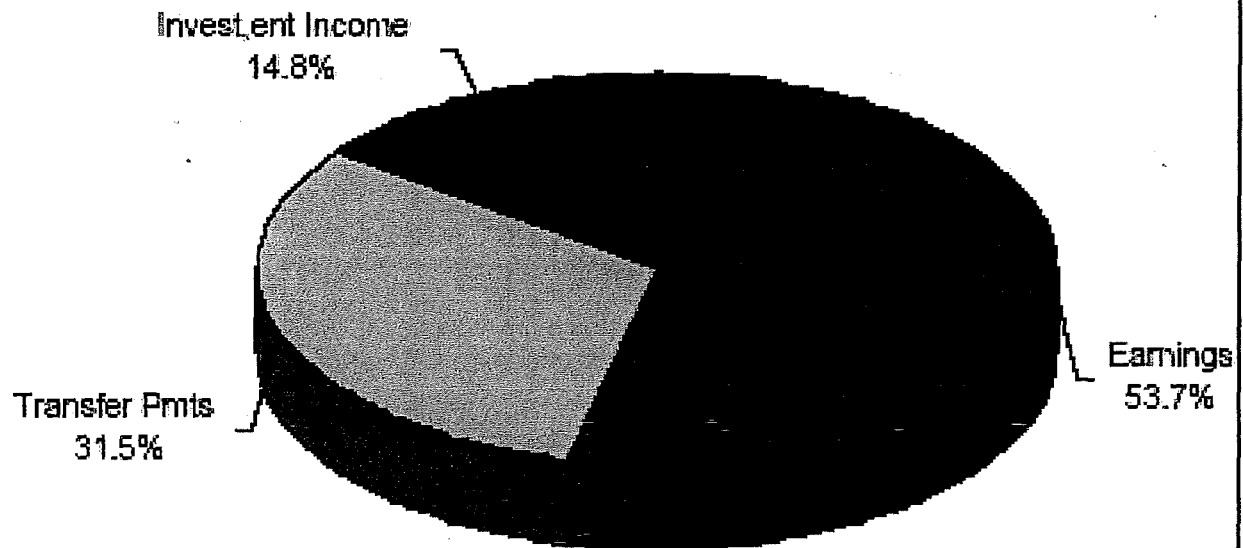
Prepared by:

David Flanagan

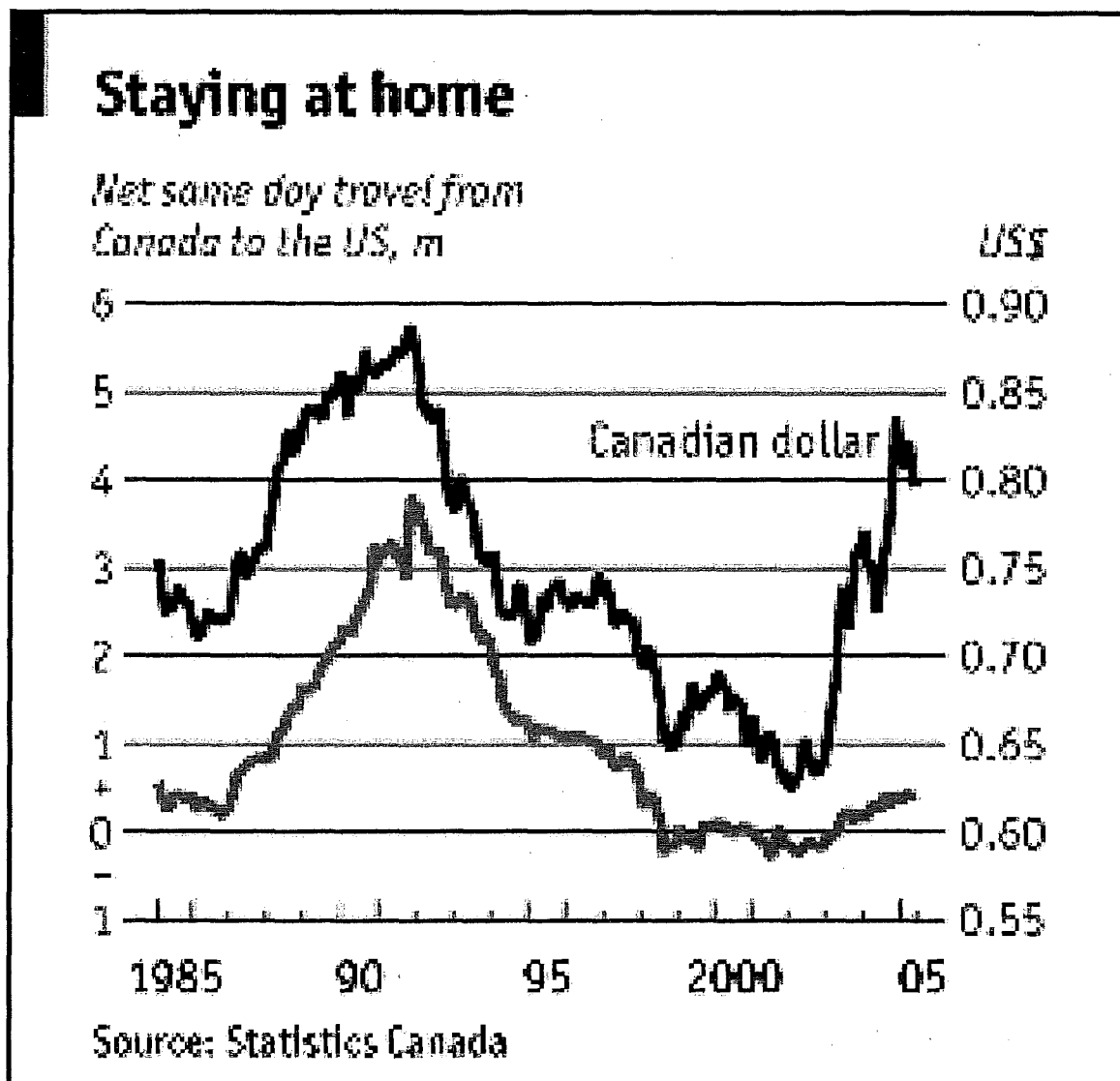
Governor's Special Representative to Washington County

November 17, 2005

## Share of Personal Income by Source, 2002, Washington County

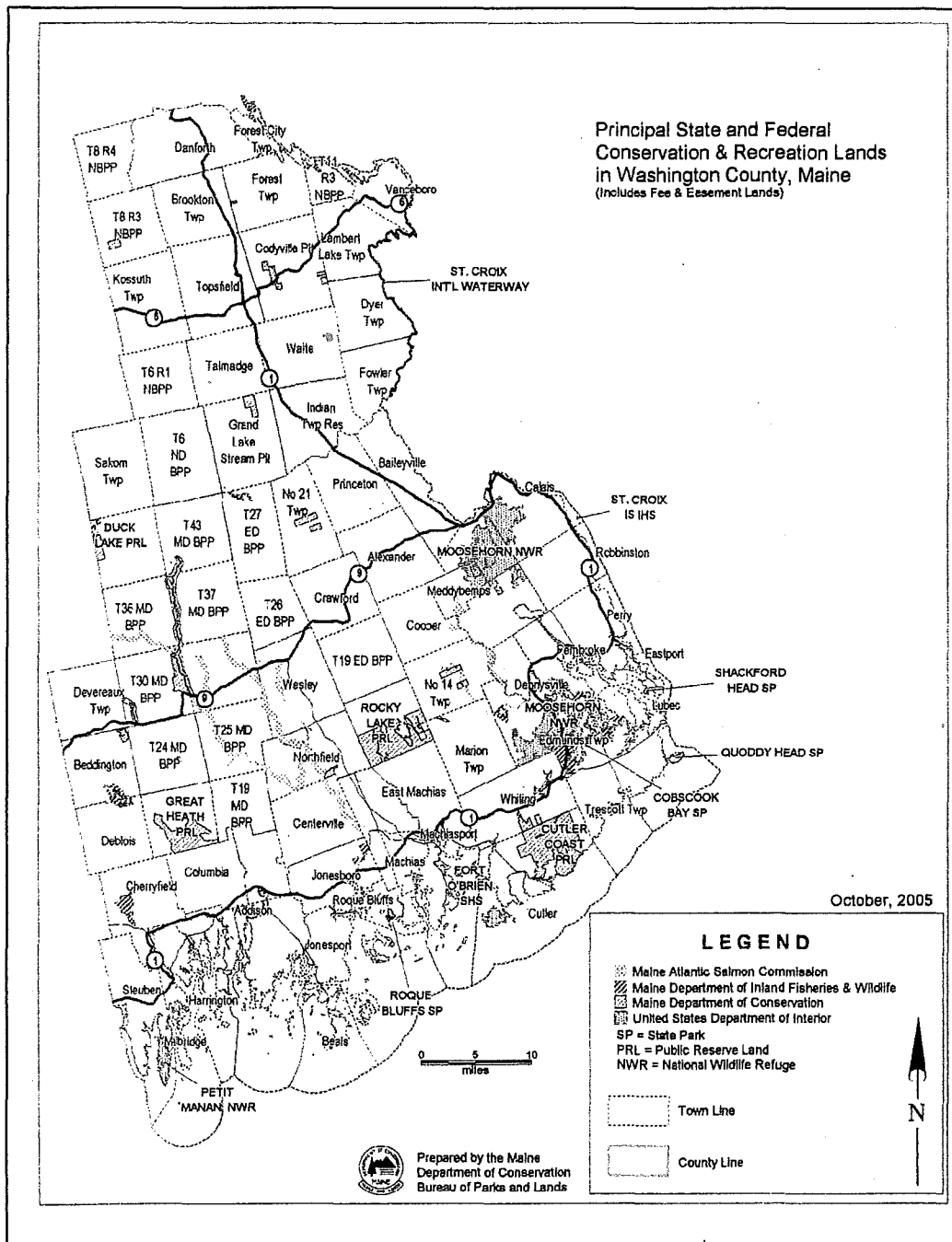


Source: State Planning Office, 2005 Report Card on Poverty, April 2005, p32

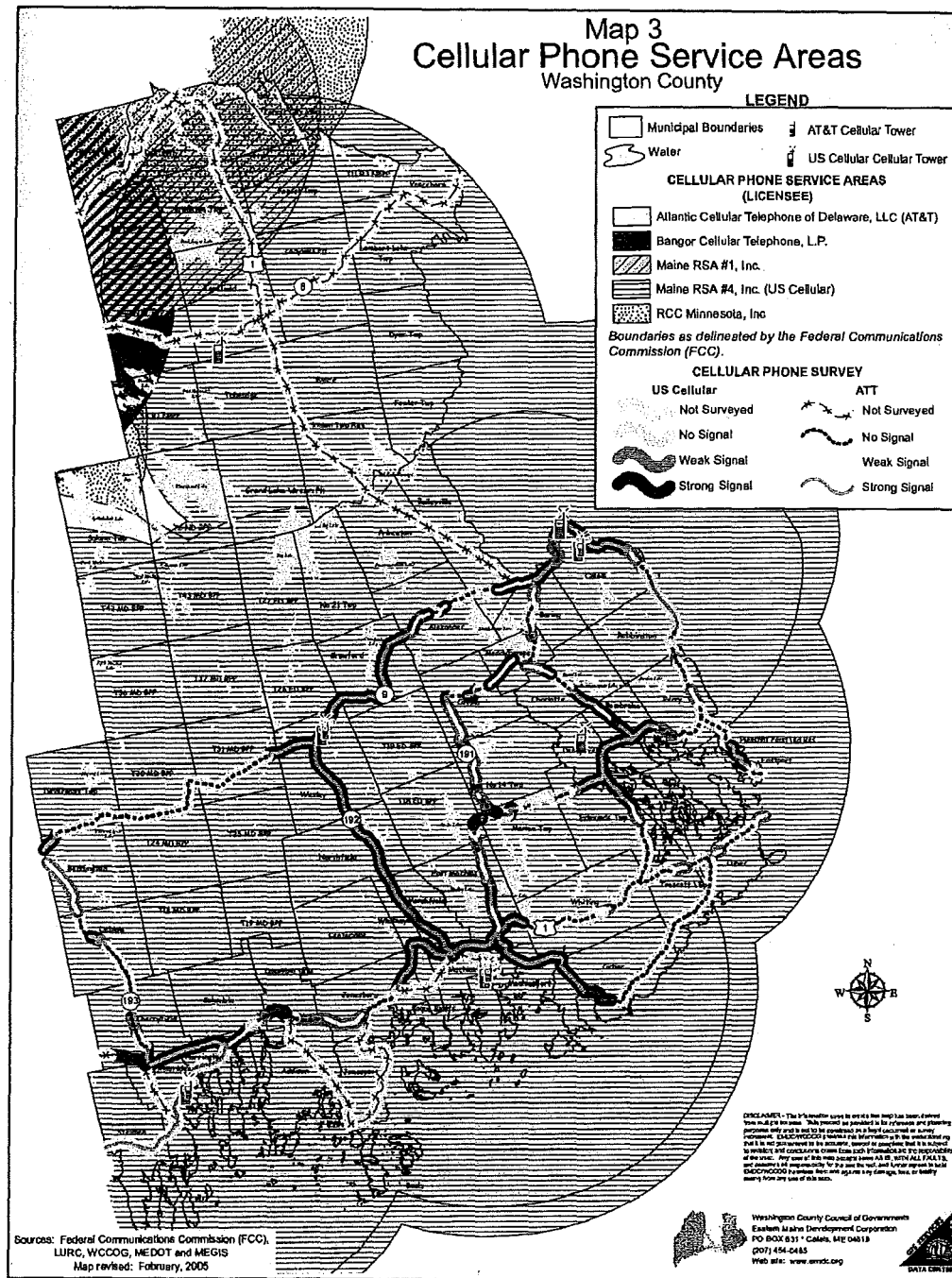


Source: "Summer Tourism Season: Bizarre," Victoria Wallack, Brunswick Times Record, September 9, 2005

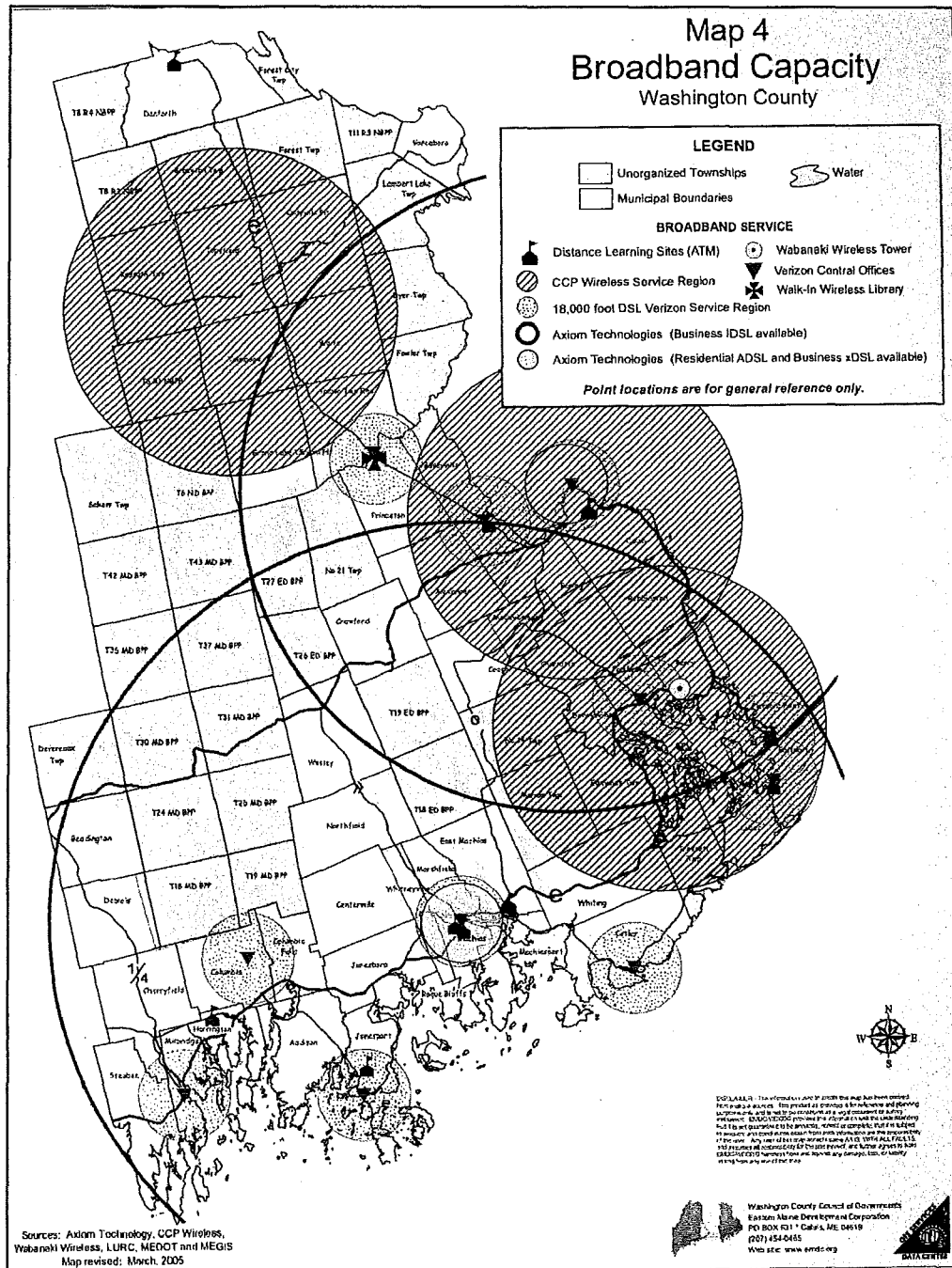




Source: MDCO/SPO Cons/Rec Lands Update 12/31/04 V2



**Source: Washington County Council of Governments, "Washington County Telecommunications Infrastructure Assessment and Plan" (May 2005).**



**Source:** Washington County Council of Governments, "Washington County Telecommunications Infrastructure Assessment and Plan" (May 2005).