

# Chapter Ten:

## The Economy

### State Goal:

To promote an economic climate that increases job opportunities and overall economic well-being.

### Legislative Requirement:

*The Act requires that each comprehensive plan include an inventory and analysis of:*

Economic and demographic data describing the municipality and the region in which it is located.

Comprehensive Planning and Land Use Regulation Act. MRSA Title 30-A, §4312.3.C; §4326.1.A. (2001). Retrieved on October 17, 2005 from <http://janus.state.me.us/legis/statutes/search.asp>

### Sources of information

The most extensive source of regional information is the Maine Department of Labor. It has divided the state into “labor market areas,” areas which are so tied together economically that it would be typically possible to change jobs within the area without having to move one’s place of residence. The labor market area is the same as the “metropolitan statistical area” (Bangor, Portland-South Portland-Biddeford, Lewiston-Auburn, Portsmouth, NH-ME) and the “micropolitan statistical area” (Augusta-Waterville, Rockland, Brunswick) for those parts of the state. For each labor market area in the state, the Department of Labor tracks number of non-farm wage and salary jobs for each industrial sector, total employment, and unemployment rates.

The Department of Labor also estimates, annually, the size of each community’s labor force, the number employed, and the number unemployed.

The decennial U.S. Census contains a good snapshot of each community’s labor force as of the census date. It includes such economic characteristics as labor force make-up by type of occupation and by type of industry, and percentage of adult men and women who are in the labor force. It also provides data on commuter patterns. (Note: Data on economic characteristics usually are not released until two or three years after the census date.)

There are two reasons to understand the local economy. First, it is essential for projecting future population and households. Second, it will point to initiatives the town itself can take to promote jobs, on its own and regionally. Each is discussed below.

The economy drives growth or decline of population. It must be understood to be able to confidently project population and household change. Often the economy is in a state of long-term change—as in the pervasive shift from manufacturing to financial and service sectors in southern Maine, or change in the agricultural economy of Aroostook County. Sometimes there is sudden change in a major economic sector. During the 1990s, for example, the rapid rise of call centers and information technology companies infused economic growth in a number of small towns and surrounding regions. In the early 2000s, there may be major shifts in defense contracting, affecting Maine’s largest employers and a number of small ones. At the same time, the rise of biotechnology, biomedicine, and marine science create new long-term opportunities.

These changes are called “structural.” They involve a fundamental and long-term altering of the economic base. Temporary changes due to the normal economic pendulum of growth and recession are called “cyclical.”

Cyclical changes are less important than structural because they do not involve any fundamental changes in the town. However, cyclical changes greatly affect our moods—during a boom, we tend to think prosperity will last forever, while during a recession we think things will never get better. Sometimes these moods will unduly influence comprehensive plans.

For example, projections prepared during the late 1980s frequently just extrapolated the most recent boom and overestimated growth into the 1990s, when a deep recession hit. Projections made during the mid-1990s may not have anticipated strong in-migration to the state during the next decade. Because of the cyclical nature of the economy, projections should be based on long-term trends, with more attention to the structure of the economy than to its periodic ups and downs.

The second purpose of an inventory of economic conditions is relatively new (within the last 30 years) to comprehensive planning. It is to determine whether the municipality should

take a role, not merely as an observer of the economy and its effects on local growth, but as a shaper of it. Many municipalities in recent years have promoted economic development or redevelopment. They have done so through nonprofit industrial development corporations, creation of industrial parks, and partnerships with private enterprise to renew downtowns or spur new commercial-industrial development. Their purpose is to create jobs and broaden the property tax base. An inventory of economic conditions will help the community to decide whether it can, in fact, influence events and whether a large commitment of time and money is warranted.

### Inventory and Analysis

As complex as any economy is, even a local one, it is possible to identify major trends and forces driving them. Two key points to remember are:

1. The local economy is part of a regional economy. It cannot be understood outside of a regional context. The major trends, therefore, must be reviewed regionally.
2. Economic activity is divided into “export” and “service” activities.
  - Export activities are those that, through sale of goods and services, bring dollars into the area from outside.
  - Service activities are those that provide goods and services locally. They re-circulate money that is already in the area, rather than bring in new money from outside.

Economic growth depends on export activities. But it's not always easy to identify which activities are export and which are service. Most manufacturers are exporters. Most neighborhood retail stores are service activities. But some businesses that appear to be “service” activities—like banks, insurance companies, department stores, and restaurants—may in fact be exporters as well. This is especially true of financial centers (like Portland) that attract investment from outside the region and state; of regional retail centers (like the Maine Mall or Bangor Mall) that attract the trade of tourists and visitors as well as local shoppers; and of resorts or specialty centers (like Freeport, Boothbay Harbor, or Sugarloaf in Carrabassett Valley) whose retail, lodging, and restaurant sales are primarily to visitors.

### Location quotients

A simple way to spot the sectors that are central to the area's economic base is through “location quotients.” A location quotient is a statistic that compares the area's dependence on an industrial sector with the state's or nation's overall dependence on that sector. The theory is that if the area is significantly more dependent on a sector than the state or nation, it must be producing goods and services not only for local consumption, but for export as well.

Simply calculate (from Dept. of Labor data) the percentage of jobs in the labor market area that is in a particular sector: for example, 18% of the area's jobs might be in retail trade. Compare this to the percentage of jobs statewide in that sector. Statewide, the percentage of jobs in the retail sector is 20%. The ratio of labor market area dependence on retail jobs to the statewide dependence is  $18\%/20\%$ , or 0.90.

Any ratio that is significantly greater than 1.00 indicates that the sector is disproportionately important to the area economy. These are central to the regional economic base.

In the example above, the labor market area's dependence on the retail sector is about average; retailing is important in that it provides 18% of the area's jobs, but it may not play a big exporting role. See chart on next page for a few examples of high location quotients in some of Maine's labor market areas for 2000.

**Examples of location quotients, Maine’s labor market areas, 2000**

Bangor, transportation and utilities	1.63
Bath-Brunswick, durables manufacturing	2.91
Boothbay Harbor, eating places	1.49
Millinocket, paper products mfg.	13.73
Portland, finance/insurance	1.72
Kittery-York, apparel & accessory stores	5.92

In any case, the first focus of an inventory of the economy should be on identifying the export industries: those activities that employ more people than would be necessary just to service the local population and that sell goods and services to the outside world. These are the engines that drive the local economy.

**Conducting the inventory and analysis**

**The regional economic base**

The inventory and analysis should begin with a description of the regional economic base. This should include:

- **An historical perspective on how and why the region (and the community) developed:** Due to location near a particular resource, such as good farming soils or prime forest land, or near sources of water power? Due to proximity to transportation arterials, or a harbor, or a coast line that attracted tourists? Due to proximity to a city center within easy commuting distance? Every community and region developed for an economic reason, and it is useful at the outset to put that into perspective, even if the original reason has since faded and been replaced by other forces. This will also give important clues as to why the community and region settled the way they did.

- **Trends in the number of non-farm wage and salary jobs by industrial sector for the labor market area.** Detailed information by industrial sector is available back to 1981. (Be careful, though: occasionally the Dept. of Labor changes the definition of labor market areas, usually because the federal government changes the definition of a metropolitan statistical area. Be sure the definition of the labor market area in the base year is the same as in the current year.) For most areas, this data will give the clearest statistical picture of which industrial sectors are at the heart of the region’s economic base. The exception will be those areas that depend heavily on farming or on activities, such as fishing, that may not involve wage and salary employment. In these cases, information from the U.S. Census, although it is not as up-to-date, is a useful supplement. The statistical review should also include trends in unemployment.
- **A listing of major employers in the region.** This may be available through a chamber of commerce or a directory. It is useful to speak directly with the principal employers in the region to get up-to-date employment figures and an assessment of how they see the future of their industries. These conversations can reveal not only information about the vitality of the area economy, but also whether the principal employers envision a municipal role in economic development.
- **A review of specific sectors.** Good regional information is available from the state on taxable retail sales and the value of manufactured products. Federal information also is

available at the county level for several economic sectors. The Federal government (Dept. of Commerce) conducts “economic censuses” every five years for agriculture, manufacturing, wholesaling, and service industries, among others.

### The local economy

While the local economy is only part of the regional picture, certain effects are felt uniquely at the municipal level: on the property tax base, on general assistance if there is unemployment, and on the sense of identity that arises from whatever activities produce economic well-being. A description of the local economy typically includes:

- **An understanding of where the local population works.** The type and character of the community depends in part on whether people who live in town also work there, or whether they are primarily commuters. The decennial U.S. Census provides detailed information on local commuting patterns.
- **A review of basic economic statistics and trends for the community.** These include size of the civilian labor force and number of employed and unemployed (from the Dept. of Labor) and a breakdown of employment by type of industry (from the U.S. Census).
- **Comparisons between the municipality and region.** Both local and regional information is available, or can be compiled, in a number of areas: growth in the labor force, trends in employment and unemployment, breakdown of employment by type of industry, and taxable retail sales. These comparisons can reveal important distinctions between the region and town that explain and help to project the character and amount of local growth.
- **Review of local strengths and weaknesses and of the community's potential economic role.** An objective review of strengths and weaknesses will help keep later goal-setting realistic. Consider the community's proximity to transportation routes and facilities, to raw materials and resources, the availability and skills of the local labor force, the availability of public utilities, the availability of sites for new business, and similar factors. Consider strengths and weaknesses of nearby business centers, and whether there is in fact a unique role for the community to play.

### Reviving Main Street

Before the car, people traditionally did their major shopping in the center of the community—either in a downtown in a major city, or at the crossroads or center of a small town. These centers provided a value that went beyond jobs and sales. They became the place where people would meet and visit, the place that gave identity to the community.

With the advent of interstate highways, interchanges, shopping centers, and regional malls, Main Streets have lost many stores and much vitality. Still, many towns and cities have been successful in revitalizing their downtowns.

Elements of success include:

- concentration of stores and activities: a downtown should have clear and limited boundaries;
- solidifying two or three roles (government, finance, culture and arts, specialty retail, legal and business services) in which it excels and that attract workers and visitors;
- access to roads and parking;
- visual attractiveness, with historic renovation, consistency of signs, sidewalks and benches;
- unified marketing and image; and
- residences nearby or built into downtown.

The Maine Downtown Center, which is Maine's version of the National Main Street Program, can help downtowns organize for success. Visit its web site at: <http://www.mdf.org/downtown>

If the community has a traditional downtown that plays an important role—commercially, culturally, as a community meeting place, etc.—its economic health also should be reviewed. Taxable retail sales records, trends in occupancies/vacancies, and the outlooks of downtown businesses will provide a basic outline of how downtown is doing.

### Issues and Implications

Some issues and implications commonly raised during the inventory of the economy include:

1. Is the economy experiencing long-term change, and how is this, or might this, affect local population and municipal tax base?
2. Should the municipality be a promoter of economic development, or an observer only? An actual investment of local funds, or should support be mostly moral support? Or is the community primarily a “bedroom” community that is content to continue to rely on a neighboring job center for most of its residents’ jobs?
3. If the community wants to be actively involved in economic development, is there a person or organization assigned this responsibility?
4. Is tourism an important part of the local economy, and, if so, what are tensions between a seasonal economy and the needs of the year-round population?
5. Are there especially suitable locations for industrial or commercial development? Are performance standards necessary to assure that industrial and commercial development is compatible with surrounding land uses and landscape?
6. Is housing affordable for those who work in the community?
7. Is the community satisfied that there is a balance between economic and environmental concerns?
8. What role do/should home occupations play in the community?
9. If there is a traditional downtown in the community, is it deteriorating or thriving, and how is this affecting the town?

### Policies

Policies should flow directly from the answers to the issues raised. The answers need to keep in mind not only the state goal of promoting an economic climate that increases job opportunities, but also the state goals with respect to housing, natural environment, and public services. There is a faith in the state law that these goals can be compatible, even mutually supporting. But don’t be surprised if you find yourself in a balancing act.

Among the areas that policies might address are:

- The type of economic development activity the municipality wants to support, if any: industrial, commercial, tourist, cottage industry, farming and forestry, etc.

## A manual for Maine's communities

- The role of the municipality in supporting economic development, including the level of financial commitment, if any.
- The reality that the economy is regional, and therefore the need to explore approaches to economic development with regional development corporations and area municipalities
- The willingness of the municipality to provide, or to cooperate in providing, support facilities and services needed to foster a climate for economic development (including a transportation network, utilities, appropriate zoning, and a supply of housing).
- The role of affordable, “work force” housing in economic development.

### Implementation Strategies

Depending on the policies adopted, implementation strategies should address:

- Zoning necessary to accommodate locations for economic activity (industrial, commercial, services, home occupations, etc.);
- Responsibility for economic development activities, if appropriate, such as:
  - Membership in a regional development corporation, or a formal agreement with a local chamber of commerce, in which the municipality offers financial support in return for specific economic development activities.
  - An interlocal agreement with other municipalities to pursue opportunities together.
  - Assignment of economic development to a member of the town staff.
  - Establishment of a nonprofit economic development commission and providing it with seed money to carry out its duties.
- Public facilities (including public utilities) needed to support the projected location, type, and amount of economic activity, and organizational or jurisdictional issues involved in providing them;
- If public investments are foreseen, mechanisms to be considered to finance them. These might include (among others):
  - Local tax dollars.
  - Tax increment financing. Under this mechanism, the municipality designates a specific area as a municipal development district. Upon application to and approval by the Dept. of Economic and Community Development, the municipality then can dedicate increases in taxes resulting from new development in the district to pay for eligible public facilities that are installed to serve the district, or to help defray the developer's costs.
  - Community development block grants, which are intended to benefit low- and moderate-income people and are administered by the Dept. of Economic and Community Development.

- Matching private investments.
- Appropriate location for a local or regional industrial park, if one is desired, with necessary market and engineering studies to establish its feasibility.

## **References**

### **Web sites:**

Maine Department of Economic and Community Development, Community Development Block Grant Program, located within the DECD's Office of Community Development: <http://www.meocd.org/>

Maine Department of Labor, Labor Market Information Service, which maintains employment data by labor market area: <http://www.maine.gov/labor/lmis>

Maine Downtown Center: <http://mdf.org/downtown>

State Planning Office, Economics Team, which maintains a variety of data bases on Maine's economy. Many of these data are updated regularly and presented on the web as MaineGraph. See <http://www.maine.gov/spo/economics>