

**“Maine’s Economy: Today and Tomorrow  
Implications for School Leaders”**

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**Slide 1: Introduction**

Good morning. It is truly an honor to be here today to talk about Maine’s Economy: Today and Tomorrow and the Implications for School Leaders. We frequently talk about what’s happening in Maine right now. We focus on cyclical changes and get caught up in recent events. But today, I’d like to step back and focus on structural changes and the challenges that these changes are creating for Maine’s school leaders.

I must start by saying that I am in no way, shape, or form an expert on K-12 school governance or leadership. While I may not be an expert, I do have a hypothesis that you, Maine’s K-12 principals, are under tremendous and mounting pressure. And I believe that, to a certain extent, the strain you are under is due to some slow moving yet unquestionably powerful economic and demographic trends. I would imagine that you are facing more complex physical, social, and emotional issues with the children you serve than any other generation of principals before you.

I understand as an employer that you are facing shortages of trained professionals in areas that are critical to success in today’s economy – math, science, and foreign language. You are facing an aging workforce, many of whom could choose to retire with few to take their place. You are also facing more competition for your clients from private and parochial schools and home schooling. I believe as a leader, you are facing higher expectations from the communities you serve; fewer resources to fulfill those expectations; vastly increased numbers of mandates, many of which have absolutely nothing to do with your core business – educating children.

And just in case you don’t have enough to worry about today, I am going to talk with you about six economic and demographic trends that are driving much of what you are experiencing; that have, ultimately, made the job you are doing today more important than ever before; and that are forcing us to fundamentally rethink the way we deliver K-12 educational services.

## **Slide 2: Ship on Ice**

I want to start with this image. Some of you may recognize this as the ship used by Ernest Shackleton as he sailed to Antarctica, the Endurance. The ship got trapped in these huge icebergs. For a long time, Shackleton and his men tried to wait for the ice to break up – then something started happening.

## **Slide 3: Ship Tipping Over**

While not visible or noticeable on a daily basis, the ice flows were exerting pressure on the ship.

## **Slide 4: Ship Destroyed**

Slowly, silently these forces destroyed the ship; forcing Shackleton and his men to rethink/reengineer their mode of transport, their shelter, and their lifeline. This illustration is a bit extreme, but it shows how pressure applied for a long period of time wreaks havoc and can completely change our world. It can be every bit as challenging as one catastrophic event, yet frequently goes unnoticed.

One last item before I launch into the trends. I first want to share my five core beliefs so you know where I'm coming from. I believe a tidal wave of change is upon us and will touch every aspect of life in Maine; economy, communities, institutions, systems. I believe knowledge is power. If you arm Maine people with knowledge of the bigger situation, they are creative enough to find a path through the changes. I believe in survival of the fittest, but have grown to believe that fittest does not mean strongest, biggest, or most powerful, fittest means most able to adapt to change. I believe education and innovation are critical to Maine's future prosperity. Michael Porter, who wrote *The Competitive Advantage of Nations*, found the single most important determinant of a region's prosperity was its capacity for innovation.

## **Slide 5: Vision**

Last, but not least, I believe we all share a vision for Maine that is "A high quality of life for all Maine people". Granted, high quality of life means different things to different people, but in no instance does it mean living in poverty or struggling for economic survival.

## **Slide 6: National Rank on Per Capita Income 1980-2002**

So with that vision, I'll start with this. Maine currently ranks 33<sup>rd</sup> in per capita income. If our vision for Maine is one of prosperity, we must strive to improve this.

## **Slide 7: Percent of Jobs that Pay a Livable Wage**

Further, prosperity alone is not enough if prosperity is only enjoyed by a few. Right now, only 66% of Maine jobs pay a livable wage. That has to change.

## **Slide 8: Multiple Job Holdings**

Right now 7% of Maine workers have at least two jobs at any given time. Despite above average job creation, the multiple job holding rate in Maine is 20% above the U.S. average. This does not support our vision.

## **Slide 9: Poverty Rates by County**

And the rate of poverty varies widely from 7-8% in southern Maine to 19% in Washington County. We have a lot of work to do.

As we work through these six critical issue areas, I'd ask you to actively think about how these trends affect your school, and what you can do to adapt to the change and move us toward our vision.

## **Slide 10: Decennial Population Increases**

The first critical issue is that Maine's population is growing slowly. For 130 years, we've grown more slowly than the U.S. as a whole. Our growth peaked in the 1970s and 1980s. In the 1990s, we suffered six years of out-migration, a decline in the number of babies born, and an overall growth of 0.4% annually. The forecast is that we will grow 0.6% annually through 2020.

So what does slow population growth mean for Maine? Why is it a critical issue? Slow population growth means that the vast majority of today's workforce will be the workforce next year and 5 and 10 years hence. If the team we're fielding today puts us in 33<sup>rd</sup> place and we're not expecting many new players, then we must fundamentally upgrade the skill level and educational attainment of every workforce "team" member. Our challenge is to bring every Maine worker to his/her highest potential with regards to contribution and earnings. Education K-16 is the key.

## **Slide 11: With Additional Education**

In fact, national data shows clearly that with every additional increment of formal education, unemployment declines and earnings rise.

## **Slide 12: Educational Attainment and Per Capita Income**

And at a statewide level, there is a clear correlation between educational attainment and per capita income. Maine is behind the rest of New England in both. So, whatever long-

term economic development strategy we choose for Maine, the most critical piece is a strong K-16 system.

## **Slide 13: Degree Attainment – Maine & New England**

So, how are we doing? Well, there is definitely some good news. Maine has one of the highest rates of high school graduation in the nation. This is a real testament to your work and you should feel justifiably proud. However, with globalization and the evolution of technology, jobs in the new economy demand higher skill and educational levels. Slow population growth heightens this challenge.

The Maine Economic Growth Council found that the long-term economic competitiveness of Maine is directly linked to skill and educational attainment. The good news is that we are headed in the right direction. The percent of the population with at least a Bachelor's Degree had risen from 19% to 23%, but we are still well below neighboring New England states. There is more work to be done to move Mainers up that educational ladder.

## **Slide 14: Population Pyramid**

The second critical issue is that Maine's population is growing older. Now, there are tidal waves and there are tidal waves...this is a Tsunami! The baby boomers are driving this economy. Look how dramatically they alter our make up as they age. In the year 2000, there were 175,000 seniors – 14% of the population. By 2020, there will be 260,000 seniors – 21% of the population. Put another way, over the next two decades, Maine's population will grow 12% while Maine's senior population will grow 50%.

## **Slide 15: Population Differences – Youth Out-Migration**

Part of the reason Maine's population has been aging is that we've been losing our youth. Over the past two decades, we have experienced out-migration of 20-29 year olds; out-migration accelerated in the 1990s. This takes its toll on colleges, communities, and all industries looking for entry-level workers, such as, schools.

## **Slide 16: Population Differences by Region**

In addition, the degree of youth out-migration varies by region. In the 1990s, for example, coastal Maine (York to Hancock) suffered youth out-migration, but much more severe losses were seen in central Maine (Androscoggin, Kennebec, Penobscot) and the rim counties (which include the western mountain counties, Aroostook, and Washington). So this trend affects areas very differently.

## **Slide 17: Percent of Population Change by Age Cohort**

Even more striking, look at the projected change by age cohort: school age population is in decline; college age is in decline; young working age is in decline; the number of

65-74 year olds will double; and the number of 75-84 year olds will grow by 55%. The implications of this chart alone are phenomenal. Think about the pressure an aging population places on the transportation system, the health care system, housing, labor supply, and buying patterns. How do we reshape/restructure our institutions and companies to serve an older population? What can schools do to prepare?

## **Slide 18: Pie Chart – Age Composition**

As I mentioned before, in 2000 – 14% of the population will be over 65 and by 2005 – 21% will be over 65. At the same time, school age children will drop from being 26% of the population to 22%. How do school systems prepare for the likely budget priority shift that will accompany the population shift when 1 in 5 Mainers is a senior citizen? This is a huge issue for schools to consider now rather than later.

## **Slide 19: Map of Population Change 1990-2000**

The third critical issue is that Maine's population is growing unevenly. From 1990-2000, the population changes in Maine counties ranged from a high of nearly 15% in mid-coast to a 15% decline in Aroostook. The highlights are a red hot coast, a stagnant middle, and a declining north and east. How do you adapt state education policies to effectively serve such vastly differing trends? Our hope is that EPS will address this.

## **Slide 20: Population Forecast by County**

And the forecast shows no end in sight; coastal counties – all growth, inland – stagnant, rim – declining.

## **Slide 21: Population Change 1960-2000 Center/Non-Center**

The fourth critical issue is that Maine's population is growing expensively. In my lifetime, the percent of population living in more rural areas has grown from 36% in 1960 to 56% in 2000. This type of growth – SPRAWL – has cost us dearly. Evan Richert speaks of the three invoices we must pay.

The first is fiscal. From 1970-1995, there was a decrease in school age population, yet  $\frac{3}{4}$  of a billion dollars was spent on new school construction. Construction of new and often redundant infrastructure costs \$50-75 million annually to the General Fund.

The second is environmental. Non-point source pollution has become a huge threat (storm water run off and nutrient loading in ponds). Now, there are much longer bus routes. Maine is now one of the highest commuting populations, vastly increasing auto emissions.

The third invoice is the loss of the rural character of communities. It is impacting farms, wildlife habitat, churches closing and schools closing. It is eroding our civic capital – who will lead? Who will volunteer in schools?

## **Slide 22: Percent of Change in School Enrollment**

No where has the cost of sprawl been more evident than in our school systems. From 1970-1995, enrollment in our service-center communities dropped 28%. Enrollment in suburban communities rose 32%.

## **Slide 23: Percent of Change in School Enrollment – Lewiston Area**

Even more dramatic is to look town by town. In the Lewiston area from 1970-1995, Lewiston, Auburn, and Livermore Falls all saw 25% drops. The surrounding towns of Poland, Minot, Wales, and Leeds saw increases in enrollment of 100%-125%.

## **Slide 24: Persons of Color**

The fifth critical issue is Maine's homogeneity. In the year 2000, Maine was 96.5% Caucasian making us number one in the nation. By comparison, only 69% of the U.S. is non-Hispanic whites. The challenge this creates is that we must dig even deeper to be innovative. And remember, innovative capacity is a critical determinant of prosperity. It's harder to think of new approaches when 96.5% of the population has a similar heritage and similar life experiences. Our racial mix means that schools play an absolutely critical role in introducing our children to different cultures, lifestyles, and approaches.

## **Slide 25: Maine Manufacturing vs. U.S.**

The sixth critical issue is the changing composition of our job base. Last, but certainly not least, there is a huge transformation going on in Maine and the U.S. workplace. As we transition away from manufacturing towards service-based and knowledge-based economic activity; U.S. manufacturing employment dropped 25% and Maine manufacturing fell closer to 50%.

## **Slide 26: Changing Composition of Maine's Employment**

In the 1940s, one out of two employees held manufacturing jobs. In the 1980s, 22% of the job base was in manufacturing, and by 2005, it had further dropped to 11%. Government jobs as a percent of the total also dropped. Now, ¾ of all jobs are in the service sector. Are we providing the appropriate infrastructure? The old economy's infrastructure involved roads, bridges, ports, and airports. The new economy's infrastructure involves telecommunications and education.

## **Slide 27: Quality of U.S. Jobs: MFG vs. NON-MFG**

Transformation has other implications. A typical manufacturing job pays 60% more and, more importantly, has 2-3 times the benefits. As families lose pay and benefits, schools pick up the job of providing food and health care for children.

## **Slide 28: Manufacturing Concentration**

This transformation affects different areas in different ways. Some areas of Maine are much more vulnerable because their concentration of jobs in manufacturing is much higher.

## **Slide 29: Manufacturing Productivity**

With the evolution of global markets, the world economy is much more competitive. While Maine productivity has grown, U.S. productivity has grown faster. Maine is only 70% as productive as the U.S. Why? How can this be? I believe that this is due, in part, to the fact that we have not invested as highly as other states in state of the art equipment or skill training to enable our workers to compete effectively.

## **Slide 30: Cost of Doing Business**

Maine has slowly grown out of line with the U.S. in terms of the cost of doing business. The global economy is very unforgiving of excessive costs.

## **Slide 31: Health Care**

Health care costs (Maine's are 15% of GSP and the U.S. costs are 12% of GDP) are 20% above average.

## **Slide 32: Average Cost of Electricity**

Electricity prices are improving, but are still 28% above average.

## **Slide 33: State & Local Taxes as % of Personal Income**

State and local taxes are 23% above average. We do have some control here, we just need to exercise that control.

## **Slide 34: Rank in S&L Taxes**

Maine has slowly risen to 1<sup>st</sup> or 2<sup>nd</sup> highest in the nation in terms of overall tax burden and has remained there for 10 straight years.

## **Slide 35: General Fund and Income Growth**

Turning to some current issues facing the state, we see that among the top issues is the state budget gap. There was a \$1.1 billion gap in 2004/2005 and a \$730 million gap is projected for 2006/2007, and this is before the passage of Referendum Question 1A which, when fully implemented, will add another \$250 million annually to State expenditures. This has become a real challenge and we can no longer just raise taxes to take care of it.

## **Slide 36: Average Annual Expenditure Growth**

What is becoming crystal clear is that we have a spending problem. Income growth over the past 10 years has averaged less than 5%, while State spending increased 5.3%, local spending increased 5.3%, and county spending increased 6.3%. At all levels - State, local, and county – spending is beyond the long-term capacity of the economy to sustain.

## **Slide 37: Maine State Expenditures (2002)**

Looking within the state budget, K-12 is expected to be 36% of total (the single largest item), with Human Services and Mental Health in second at 31%.

## **Slide 38: K-12 Education Expenditures**

Over the past 25 years K-12 expenditures grew 400%, an average of 7% per year; far outstripping economic growth.

## **Slide 39: Medicaid**

If you recall, the second largest state government cost is Health and Human Services 31% of the budget. Medicaid has quadrupled in 14 years putting enormous pressure on state budgets.

## **Slide 40: Municipal Pie Expenditures**

At the municipal level, K-12 spending is an even larger piece of the budget. Statewide, education averages 61% of municipal expenditures, with Public Works a distant 2<sup>nd</sup> at 11%.

## **Slide 41: Municipal Expenditures by Population Size**

Education expenditures vary by town size. In cities of 20,000+, education expenditures are 47% of the budget; in towns 1,000-3,500 education expenditures are 71%.

## **Slide 42: Real K-12 vs. Enrollment**

The crux of the issue is this: over the past ¼ of a century, real expenditures have grown 80% while enrollment has dropped 14%. This trend is simply unsustainable. It's no one's fault, but must be addressed.

## **Slide 43: Enrollment vs. Staff**

Further, as enrollment has dropped 14%, the number of teachers is up 28%, other instructors by 13%, and administration by 47%. Again, no blame here, the reality is that

sprawl has added to the ranks, and state and federal mandates have added to the ranks, and we are asking much more of our schools - but we're in a bind.

## **Slide 44: Public School Staff**

Shown another way, we see the number of teachers is far less of an issue. Other staff has more than doubled as schools are now expected to provide health services, daycare, counseling services, transportation services, food services, even pesticides management services.

## **Slide 45: Special Education**

The mother of all mandates! - Special Education. Special education costs in Maine have grown 1,336% from 1979-2003. It grew from 5% of the education budgets to 15%. It is absolutely out of control; driving education costs. Everyone's doing the best they can within their own system, but it's simply unsustainable.

## **Slide 46: Resident Pupil Counts**

And, to add insult to injury, the rate of enrollment decline is accelerating. We lost 14% from 1975-2003. An 11% drop is expected in this decade alone. It will hit some rural areas much harder; with some regions experiencing as much as a 25% drop.

## **Slide 47: Longer-term Property Tax Relief**

We all know that the cry for property tax relief has reached a fever pitch. We are so very close to a revolt. We just dodged a major bullet. There are only three ways to reduce the tax burden; cut programs, raise incomes, or find efficiencies through regionalization, consolidation, and efficiencies. The proposal put forward by the Governor last spring was incentive based, completely voluntary, you could choose your own partners, and it rewarded existing efficient schools. But, it was soundly defeated and thrown out. I am not saying this perfect, but it seems likely that something similar to this will re-emerge.

## **Slide 48: Efficient School Units**

The next three slides show the elements of the Governor's proposal submitted last session just to give you a feel for what the elements of an incentive-based school efficiency package might look like.

## **Slide 49: Regional School Cooperatives**

## **Slide 50: Regional School Districts**

## **Slide 51: Per Capita Income Gap**

There are huge changes that are shaping and propelling Maine. We can't control everything, but we can and must take control over those things we can control. We need to keep our eye on the ball, raise incomes for all Mainers, and close this income gap that separates us from the U.S. This will solve many of the challenges we face.

## **In Summary**

Let's go back to the beginning. The vision is a high quality of life – we are not there yet. We have huge economic and demographic forces pressing upon us, forcing all of us; state government, local government, county government, and school systems, to fundamentally rethink and reengineer our systems to adapt to changes and to serve the new economy. Once more, this is nobody's fault; no entity is to blame, but it will require courageous leadership to find a path through this. I for one have no doubts we can do this, particularly given the tremendous record of success Maine's schools have demonstrated for decades.

## **Slide 52: CAT**

Finally, I leave you with one last thought... I only wish that the answers to these challenges were as easy as the answer to this riddle..."Find the missing bird!".

I wish you all the very best!