A REVIEW OF THE 2020-2021 BUDGET PROPOSAL

A PROJECT OF THE MAINE HERITAGE POLICY CENTER

# THE PROPOSED MILLS BUDGET

## IRRESPONSIBLE. UNSUSTAINABLE.


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THE MAINE HERITAGE POLICY CENTER

# THE PROPOSED MILLS BUDGET: IRRESPONSIBLE. UNSUSTAINABLE.

## *A Review of the 2020-2021 Budget Proposal*

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## Introduction

The budget proposal released on February 8, 2019, by Governor Janet Mills reflects the urge among Maine's political left to drastically increase spending on new and existing programs. If enacted as drafted, this budget would swiftly deteriorate Maine's exceptional fiscal standing. It proposes an increase in spending of approximately 11.33 percent, which far exceeds inflation or personal income growth. This includes:

- $146.7 million to expand Medicaid to childless, able-bodied adults earning up to 138 percent of the federal poverty level (FPL)
- An increase of $324 million to the Department of Education over the biennium, including an additional $126 million earmarked for K-12 education
- Incremental increases in revenue sharing to 2.5 percent in fiscal year (FY) 2020 and 3 percent in FY 2021
- Setting the minimum annual salary for teachers at $40,000
- Dedicating $7 million to begin phasing in a voluntary Universal Pre-K program
- Using $124 million in surplus revenues (one-time funding) to cover spending increases
- Spending nearly all projected revenue, leaving just $383,355 to spare

If Mills' budget is passed as proposed, Maine will spend virtually all of its projected revenue over the two-year period, leaving almost no room for error. If Maine sees an unexpected negative economic swing, weak economic growth, the cost of government exceeds estimates, or the revenue projections fail to fully materialize, the state will be forced to raid the Budget Stabilization Fund (i.e., the "rainy day fund") or ask Maine taxpayers to hand over more of their hard-earned money through new or increased taxes and fees.

The Revenue Forecasting Commission has said, "history would suggest that the U.S. economy is closer to the next recession than from the last."[1] Governor Mills shared this sentiment during her inaugural address, stating, "We know that a recession is possible in the next few years."[2] Simply put, the governor's budget proposal is irresponsible and unsustainable.

There are many opportunities to further strengthen Maine's economic standing through the 2020-21 biennial budget. With an adjusted revenue forecast of $7.91 billion to work with, lawmakers have a golden opportunity to enact meaningful tax reductions to ease the burden on Mainers who currently face some of the highest tax rates in the country.[3] However, Mills' budget takes the opposite course, leaving just a $383,355 cushion in surplus funds over the two-year budget period. In this report, we discuss several wasteful and misguided policy initiatives and identify missed opportunities that would actually benefit the people of Maine.

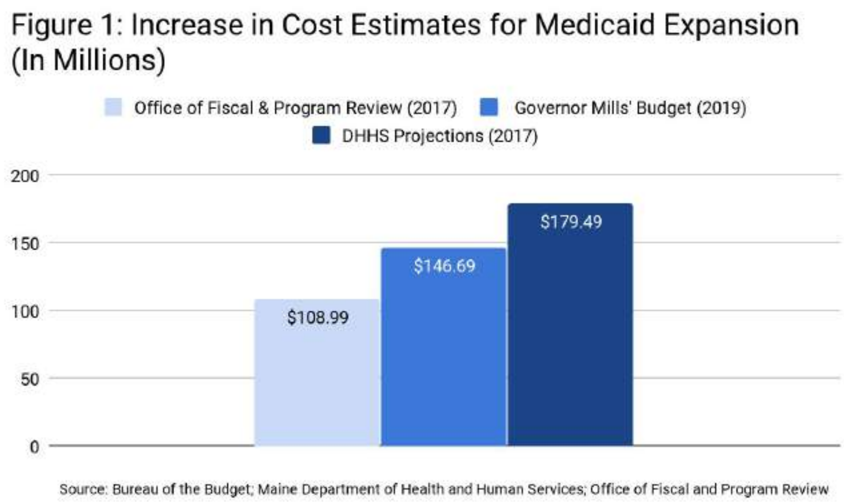
## Medicaid Expansion

The Mills budget dedicates approximately $146.7 million over the biennium to expand Medicaid eligibility to adults with income at or below 138 percent of the federal poverty level by relying on

[1] https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf
[2] https://bangordailynews.com/2019/01/02/politics/read-janet-mills-full-inaugural-address/
[3] https://quickbooks.intuit.com/r/the-most-and-least-taxed-states-in-the-u-s/

one-time funding sources. This level of spending exceeds the $54.5 million annual cost estimate at full implementation that was established by the Office of Fiscal and Program Review in 2017. However it also falls short of the roughly $179.5 million cost projected by the Department of Health and Human Services under Governor Paul LePage for the 2020-21 biennium.[4] Figure 1 demonstrates the difference in estimated costs for Medicaid expansion from 2017 to present. Given the massive enrollment and cost overruns seen in other states that have expanded Medicaid, Governor Mills' proposal may not be sufficient to cover the true costs of the program.

Maine's previous decision to expand Medicaid led to a dramatic increase in Medicaid enrollment. In 2002, Maine was granted a Section 1115(a) demonstration waiver, which allowed adults with income at or below 125 percent of the FPL to enroll in Medicaid. Approximately 11,000 new members were projected to enroll, but within 14 months, nearly 17,000 joined the program. After budget shortfalls tied to the cost of higher-than-expected Medicaid enrollment, the program was capped at 25,000 people to control spending levels.[5]




Nonetheless, total Medicaid spending in Maine grew from $1.4 billion in 2002 to $2.6 billion in 2011, and nearly doubled as a share of the state budget.[6] As a result, the state accrued a massive debt to hospitals. This experience with expansion should be enough to deter the state from expanding Medicaid once again.

Not only does Maine have firsthand experience of the perils of Medicaid expansion, but many other expansion states have had to spend more than anticipated on the program due to higher-than-projected enrollment and per-person costs. For example, four years after Oregon expanded Medicaid to cover able-bodied adults, the state had to come up with $328 million to cover the costs that were not accounted for in the original estimates.[7]

[4] https://mainepolicy.org/mhpc-response-to-fiscal-note-on-medicaid-expansion-referendum/; https://www.maine.gov/sos/cec/elec/upcoming/citizensguide2017.pdf
[5] https://www.maine.gov/dhhs/Alexander/Maine%20Medicaid%20Expansion%20Report.pdf ; https://www.themainewire.com/2017/08/medicaid-expansion-jeopardizes-services-needy/
[6] https://mainepolicy.org/wp-content/uploads/Reject-Medicaid-Expansion.pdf
[7] https://www.theindependent.com/opinion/another_opinion/medicaid-expansion-burdens-taxpayers-takes-resources-from-the-truly-needy/article_c94976b8-8936-11e8-ad80-e7075cc35012.html

Similarly, Ohio's underestimates of Medicaid expansion enrollees resulted in the program absorbing more than 50 percent of the state's general operating fund.[8] Maryland's projected cost for expansion was approximately $1.5 billion, whereas the actual cost was more than $4.7 billion.[9]

According to the Foundation for Government Accountability, every state that had publicly accessible data regarding Medicaid expansion as of 2018 experienced slight to severe cost overruns due to expansion, as seen in Table 1. These states, on average, experienced 92 percent cost overruns, meaning the program's cost burden has almost doubled what was initially projected in these states.

**Table 1: Projected and Actual Medicaid Expansion Costs by State (in millions)[10]**

| State | Projected Cost | Actual Cost | Cost Overruns | Percent Over | Years of Data Available |
|---|---|---|---|---|---|
| Alaska | $320 | $593 | $273 | 85% | 2 years |
| Arizona | $4,652 | $5,350 | $698 | 15% | 2.5 years |
| Arkansas | $1,800 | $3,225 | $1,425 | 79% | 2.5 years |
| California | $11,558 | $43,679 | $32,121 | 278% | 2.5 years |
| Colorado | $2,233 | $3,270 | $1,036 | 46% | 2.5 years |
| Hawaii | $236 | $625 | $389 | 165% | 2 years |
| Illinois | $4,596 | $9,230 | $4,633 | 101% | 3 years |
| Iowa | $1,378 | $1,734 | $356 | 26% | 2.5 years |
| Kentucky | $3,068 | $5,971 | $2,903 | 95% | 2.5 years |
| Louisiana | $1,164 | $2,509 | $1,344 | 115% | 1 year |
| Maryland | $1,475 | $4,707 | $3,232 | 219% | 2.5 years |
| Michigan | $5,458 | $6,664 | $1,206 | 22% | 2.25 years |
| Montana | $473 | $802 | $329 | 70% | 2 years |
| New Hampshire | $899 | $1,066 | $168 | 19% | 2.75 years |
| New Mexico | $2,150 | $2,877 | $727 | 34% | 2.5 years |
| North Dakota | $208 | $547 | $339 | 163% | 2.5 years |
| Ohio | $7,383 | $14,467 | $7,084 | 96% | 3.5 years |
| Oregon | $3,185 | $6,162 | $2,977 | 93% | 2.5 years |
| Pennsylvania | $1,463 | $2,813 | $1,350 | 92% | 1 year |
| Washington | $3,611 | $6,456 | $2,845 | 79% | 2.5 years |
| West Virginia | $1,268 | $1,835 | $567 | 45% | 2.5 years |

Source: Foundation for Government Accountability (FGA)

[8] https://www.theindependent.com/opinion/another_opinion/medicaid-expansion-burdens-taxpayers-takes-resources-from-the-truly-needy/article_c94976b8-8936-11e8-ad80-e7075cc35012.html

[9] https://www.thespectrum.com/story/opinion/2019/02/08/rep-brad-last-utah-cant-afford-prop-3-version-medicaid-expansion/2812537002/

[10] https://thefga.org/research/budget-crisis-three-parts-obamacare-bankrupting-taxpayers/

Based on the average cost overrun in these states, an additional $134 million may need to be redirected to Medicaid in the coming years if cost projections in Maine are similarly inaccurate. Governor Mills proposes to allocate $29 million to a Medicaid Reserve Account, but this would not be nearly enough to cover potential funding shortfalls. In addition, these one-time funds come from the Fund for a Healthy Maine, a fund created in 1999 to receive and disburse tobacco settlement money.[11]

Based on trends in enrollment since Governor Mills signed Executive Order 1 to expand Medicaid, [12] the state is on-track to exceed 70,000 enrollees before April 2020, with an average of 1,119 newly eligible Mainers being added to the rolls weekly as of the publishing of this report.[13] Several states exceeded their enrollment projections within one year. For example, when Pennsylvania expanded Medicaid in January 2015, the state exceeded its enrollment projections within nine months.[14] At the rate Maine's enrollment is going, the state could exceed projections within fourteen months, similar to what the state experienced when the program was previously expanded.

Lastly, this budget prioritizes Medicaid expansion funding but does almost nothing to help individuals on waitlists beyond what is required by current law. As of January 2019, 1,598 people who have intellectual and developmental disabilities such as autism continued to languish on Section 21 waitlists. Overall, there are approximately 2,427 people on waitlists in the state that include other sections of Medicaid and state-funded programs. This budget adds only 300 new slots for Section 21 services. Not only does Medicaid expansion cause fiscal concerns for the state, but it also leads to moral questions about which individuals should be prioritized in government assistance programs. It also undermines the mission of the Medicaid program, which is to care for the neediest Mainers.

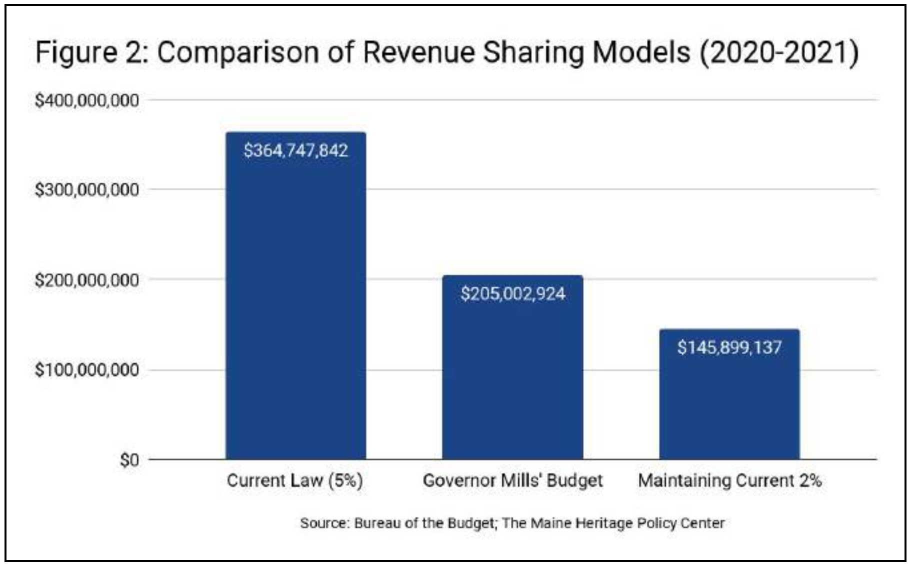
## Revenue Sharing

Revenue Sharing was established to "stabilize the municipal property tax burden and aid in financing all municipal services."[15] This program redistributes state revenue to cities and towns across Maine. The major tax revenue streams that fund the Revenue Sharing program are:[16]

- Individual Income Tax
- Corporate Income Tax
- Sales and Use Tax
- Service Provider Tax (part)
- Franchise Tax on Financial Institutions

[11] https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/General%20Fund%202020%202021%20language%20Final.pdf
[12] https://www.maine.gov/governor/mills/sites/maine.gov.governor.mills/files/inline-files/Executive%20Order%201_0.pdf
[13] https://www.maine.gov/dhhs/expansion.shtml
[14] https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-enrollment-data/enrollment-mbes/index.html
[15] http://legislature.maine.gov/statutes/30-A/title30-Asec5681.html
[16] https://mainepolicy.org/wp-content/uploads/261721109-Revenue-Sharing-Report.pdf

Mills' proposed budget increases municipal revenue sharing from the current levels of 2 percent to 2.5 percent in FY 2020 and 3 percent in FY 2021. It should be noted, however, that revenue sharing was slated to return to 5 percent in FY 2020. Figure 2 shows the amounts that would be dedicated to revenue sharing over the biennium based on current law at 5 percent, Governor Mills' incremental increases over the biennium from 2 to 2.5 and 3 percent, and the amount The Maine Heritage Policy Center estimates the state would dedicate if revenue sharing remained at 2 percent. Governor Mills' increase in revenue sharing represents an additional $60 million in spending on municipal aid over allocations that would be made if the state remained at 2 percent.[17]




While the municipal Revenue Sharing program is intended to help cities and towns reduce property taxes, historical increases in revenue sharing have not correlated with property tax relief for homeowners. Instead, an infusion of state money leads towns to grow their budgets and not reduce property taxes. In fact, an analysis conducted by The Maine Heritage Policy Center in 2015 found that when the amount dedicated to revenue sharing increases, so do property tax collections.[18] In essence, revenue sharing allows funds from state coffers to pay for municipal projects that might not be undertaken if local officials had to justify increasing property taxes to cover the costs.

Handing over an additional $60 million in revenue sharing funds with no strings attached is a mistake. If this budget proposal was serious about giving property tax relief to Mainers in struggling municipalities, it would add a provision to mandate reductions in property tax rates in return for revenue sharing funds. Instead, this proposal would allow municipalities that receive revenue sharing funds to continue taxing residents at or above the rates currently imposed, and to expand spending beyond their means.

Since this budget does not increase revenue sharing to the full 5 percent in statute, $159.7 million will not be dedicated to revenue sharing from the General Fund over the biennium. Governor Mills misses an opportunity to use these additional funds to reduce the income tax burden for Maine taxpayers. Instead, she spends the additional "savings" of $159.7 million on other projects and incrementally increases municipal revenue sharing to reduce property taxes, a theory for which

[17] https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf
[18] https://mainepolicy.org/project/revenue-sharing-a-failed-program/

there is little evidence to suggest these property tax reductions will be realized. When responding to a question about whether an increase in revenue sharing will ensure a decrease in municipal property taxes, Governor Mills said, "with more than 400 municipalities and thousands of different ways that they need to spend their money, I'm not sure that that's practical."[19] This statement shows that Governor Mills is uncertain about whether revenue sharing will decrease property taxes for Mainers. Even if municipalities were motivated to decrease property taxes after receiving enhanced revenue sharing funds, Governor Mills includes mandates in her budget that would likely disincentivize municipalities to decrease their property tax rates. In other words, the priorities outlined in the proposed budget counteract one another.

## Minimum Teacher Salary

The Mills budget raises the minimum salary for public school teachers to $40,000 annually, a 33 percent increase over current levels ($30,000). While Maine should better compensate exceptional teachers, Mills' proposal lacks accountability mechanisms to ensure that low-performing teachers and districts are not rewarded. The budget dedicates $10 million to school districts to implement this increase in FY 2021, which is the annual cost estimated by the Department of Education.[20] These funds will be directed to districts through a verification process as an adjustment to "phase-in local responsibility for teachers' salaries."[21] The average starting salary for teachers in 2017 was $38,617 nationwide and $36,845 in New Hampshire.[22]

It should be noted that since starting salaries would increase by 33 percent, teachers who have been in the profession for several years and earn equal to or just above $40,000 annually will inevitably expect to receive a commensurate boost in pay, further driving up costs for local districts. These salary increases would be negotiated through collective bargaining agreements at the local level and are not calculated in Mills' budget proposal. These increases would inevitably put financial strain on local school districts, in addition to phasing in the $40,000 minimum teacher salary mandate.

Increasing the starting salary for teachers to $40,000 could disproportionately affect areas in the state that already have difficulty funding their school budgets once responsibility is phased in at the local level. While the state would be funding this increase initially, the entire cost will be incurred by school districts in the future. After Maine increased teachers' starting salaries in 2005 to a minimum of $30,000, state funding for the initiative was halted in the 2012-13 biennium, which put the burden on school districts to fund this mandate.[23] Shifting the burden to school districts would counteract Governor Mills' stated goals of decreasing property taxes through increases in revenue sharing and enhanced state funding for education, particularly when municipalities take on this burden.

[19] https://www.facebook.com/michael.shepherd.925/videos/10217051988719308/
[20] https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/GF%202020%202021%20Part%20A.pdf
[21] http://legislature.maine.gov/backend/app/services/getDocument.aspx?doctype=test&documentId=98010
[22] http://www.nea.org/home/2016-2017-average-starting-teacher-salary.html
[23] https://www.pressherald.com/2017/05/03/bill-would-set-maine-teacher-salaries-at-minimum-of-40000/

Whether the cost is incurred by the state, school districts or both, taxpayers in the Maine are still going to be paying for this increase, which is more than the national average. Instead of mandating that teachers be paid more by state law, school districts should be the ones responsible for deciding how much teachers are compensated. After all, if funds were available for a $40,000 minimum salary at the local level, school districts would have set salaries at this level already.

## Universal Pre-K

This budget proposal provides preliminary funding for a voluntary Universal Pre-K program, despite the lack of evidence that such a program would help Maine students. Not only is Universal Pre-K expensive, but it has not proven to increase the long-term cognitive ability or academic performance of children. In fact, it was found that most of the advantages gained from Head Start and similar programs do not persist into the third grade.[24] Another study found that when children gained statistically significant improvements during preschool years, these gains faded when they entered kindergarten and first grade.[25]

In addition to being ineffective, implementing a Universal Pre-K program in the state would be costly. In January 2019, the *Portland Press Herald* reported that a Universal Pre-K program would cost $48 million annually, excluding local matching funds, if all families in the state used the program.[26] This budget dedicates $7 million to school administrative units in FY 2021 to establish a statewide public preschool program that will be available "to all Maine students"[27] and is considered a "first step" in funding a "four-year plan to fund voluntary Universal Pre-K."[28] This initiative does not yet mandate that every school district implement Universal Pre-K. However, the Governor's four year plan to implement this program could result in heightened property taxes for municipalities if it does become mandated in the future. It would be a mistake to implement a program that is not only ineffective, but expensive to taxpayers.

## Wasteful Spending Increases

Governor Mills' budget raises funding, sometimes by massive amounts, for virtually every department and agency in state government. There was clearly little initiative taken by the Mills administration to find efficiencies within state government or to eliminate ineffective programs.

A condensed breakdown of the departments that see the largest spending increases in Governor Mills' budget can be found in Table 2. The largest spending increases in the Mills budget are for the

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[24] https://www.acf.hhs.gov/sites/default/files/opre/hs_quality_report_4_28_14_final.pdf
[25] https://files.eric.ed.gov/fulltext/ED558006.pdf
[26]https://www.pressherald.com/2019/01/14/statewide-pre-kindergarten-programs-in-public-schools-gaining-momentum/
[27]https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/GF%202020%202021%20Part%20A.pdf
[28]https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf;https://www.maine.gov/governor/mills/news/governor-janet-mills-state-budget-address-2019-02-11

Department of Education, the Department of Health and Human Services, and the Office of the State Treasurer, accounting for 81 percent of new spending.[29]

| Table 2: Janet Mills' Budget Broken Down By Department/Agency | | | | |
|---|---|---|---|---|
| **Department/Agency** | **2018-2019** | **2020-2021** | **% Change** | **Difference** |
| Department of Education | $2,601,123,634 | $2,925,080,153 | 12.45% | $323,956,519 |
| Department of Health and Human Services | $2,427,427,007 | $2,718,135,671 | 11.98% | $290,708,664 |
| Office of the State Treasurer | $191,305,719 | $230,568,942 | 20.52% | $39,263,223 |
| Source: Bureau of the Budget | | | | |

## Department of Education Increase

Governor Mills' proposal dramatically increases spending to the Department of Education by 12.45 percent, or by approximately $324 million. The total budgeted amount for the Department of Education is $2.95 billion. Merely throwing money at the department will not improve outcomes in our education system. These funds need to be tied to desired outcomes in order to be effective. In addition, student enrollment counts have declined since 2008. In the 2018-19 school year, 182,496 students attended public school in Maine while 192,181 attended public school in the 2008-09 school year, illustrating that enrollment has declined while spending has substantially increased. [30]

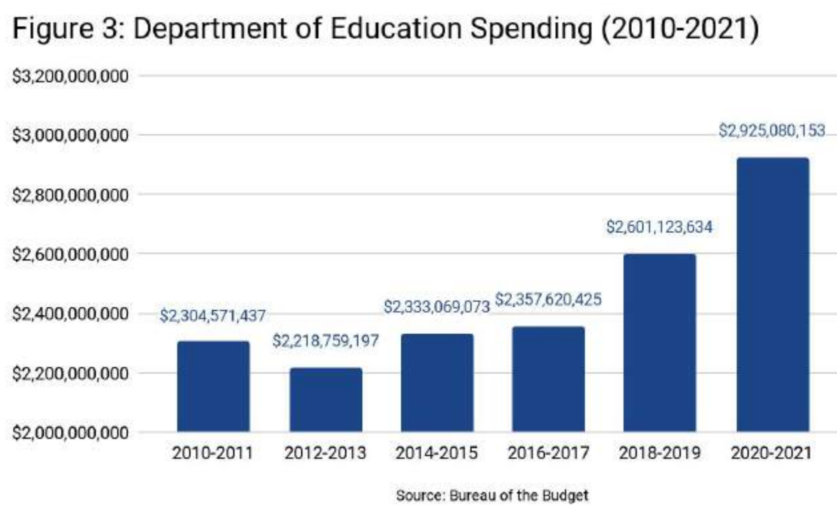



Figure 3 highlights the increase in spending for the Department of Education in Governor Mills' budget proposal. Without adjusting for inflation, this increase is approximately $27.5 million more than all of the budget increases combined since former Governor Baldacci's 2010-2011 biennial budget.

[29] https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf
[30] https://www.maine.gov/doe/data-reporting/reporting/warehouse/student-enrollment-data

Consider this historical trend: The final 2018-19 biennial budget signed by Governor LePage increased funding to the Department of Education by 243.5 million, or 10.33 percent.[31] However, that budget was an outlier over the last decade. The first three biennial budgets Governor LePage signed either decreased funding or increased funding by less than five percent.[32]

Some of the increases to the Department of Education include:

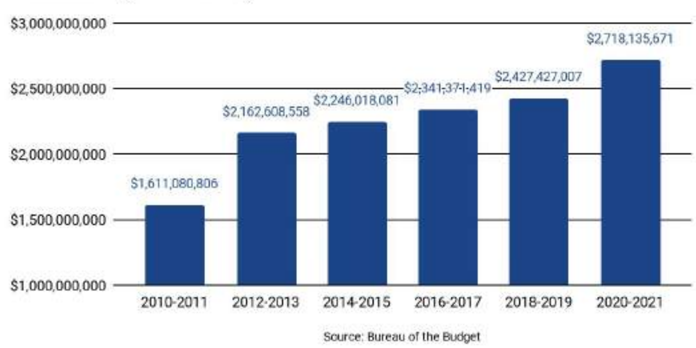
- An additional $87.9 million for teacher retirement costs
- $7 million for the start of a voluntary Universal Pre-K program
- $10 million dedicated to increasing teachers' starting salaries
- Additional $126 million for K-12 education over the biennium

## Department of Health and Human Services Increase

Funding for the Department of Health and Human Services (DHHS) is increased by $290.7 million under this proposal, more than the total increases for the department in the last three biennial budgets combined. Expanding the size of DHHS by this measure is fiscally irresponsible. This increase is primarily due to the $146.7 million dedicated to expand Medicaid to able-bodied, childless adults.

Figure 4 outlines the increases in spending over time in the Department of Health and Human Services. It is evident that former Governor LePage exercised fiscal restraint by only increasing spending by approximately $264 million since his first biennial budget was passed.

Figure 4: Department of Health and Human Services Spending Increases (2010-2021)




Many of the funds Mills dedicates to Medicaid expansion and other DHHS programs would be better spent bolstering Maine's Earned Income Tax Credit (EITC), the most effective anti-poverty initiative of state government. The EITC acts as a wage supplement, rewarding low-income people for participating in the workforce. In 2015, 102,000 households in Maine benefited from the EITC and the average reduced liability was over $2,000. Research from 2015 shows that a $1,000 increase in the EITC resulted in a 7.3 percent increase in employment for families below 100 percent of the federal poverty line. Although the EITC already does much good, benefits are limited for some families and especially single adults. Expanding eligibility and increasing the benefit amount, while enacting compensating cuts in other, less

[31] https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf; https://digitalmaine.com/bob_docs/9/

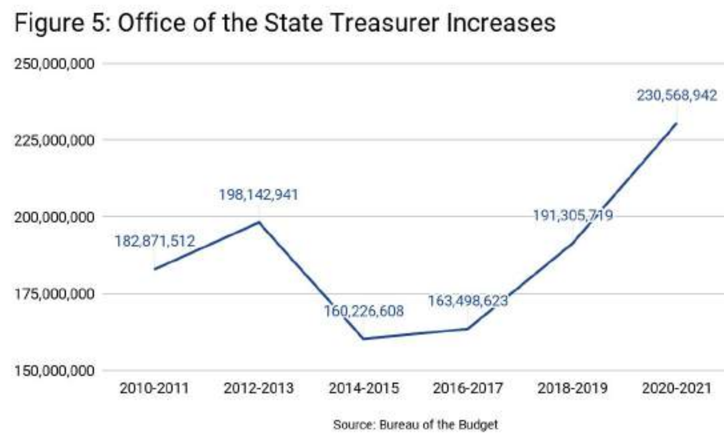
[32] https://www.maine.gov/budget/budget-information/archived-budget-information

effective assistance programs, would make the EITC an even more potent weapon against poverty in Maine while encouraging self-sufficiency.

## Office of the State Treasurer Increase

The Office of the State Treasurer would receive a $39.2 million increase if this budget is passed. Of these funds, $39 million is dedicated to the Debt Service program.

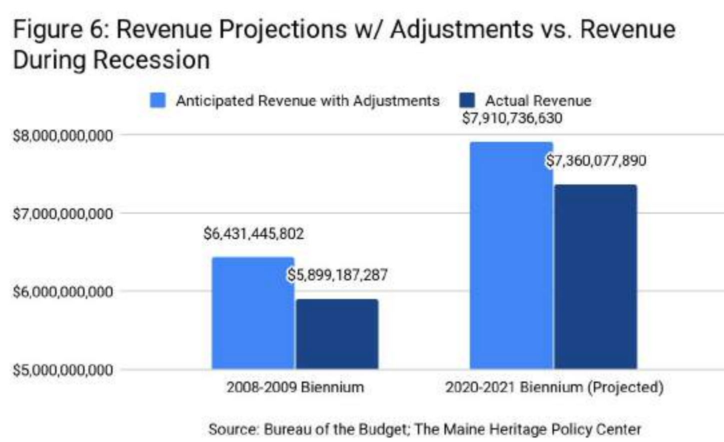
The Debt Service program is administered through the Office of the State Treasurer and is used for legislative and executive branch budgeting efforts to service outstanding bonds in the state.




In addition, the language in this budget allows the State Treasurer to carry over balances remaining in the Debt Service program into the 2020-21 biennium, giving the legislature more leeway to pass new bonds. Figure 5 outlines funding increases to the Office of the State Treasurer from 2010 to the current budget proposal.

## Revenue Projections and Recession Model

This budget proposal leaves little room for error in revenue projections. A slight weakening in economic conditions over the next two years would compel spending reductions, supplemental budgets, and potentially tax increases. The Revenue Forecasting Committee warns that we are closer to the next recession than the last, yet Governor Mills' budget ignores the possibility of an economic downturn, despite mentioning it in her inaugural address. This is not a far-fetched proposition. During the last recession, state revenue projections were inaccurate. Revenue with the governor's adjustments was supposed to be $6.43 billion during the 2008-09 biennium. Instead, the state brought in only $5.89 billion.[33] Figure 6 outlines revenue projections with the governor's recommended adjustments from both the 2008-09 biennial budget and the current budget proposal, and compares them to actual revenue



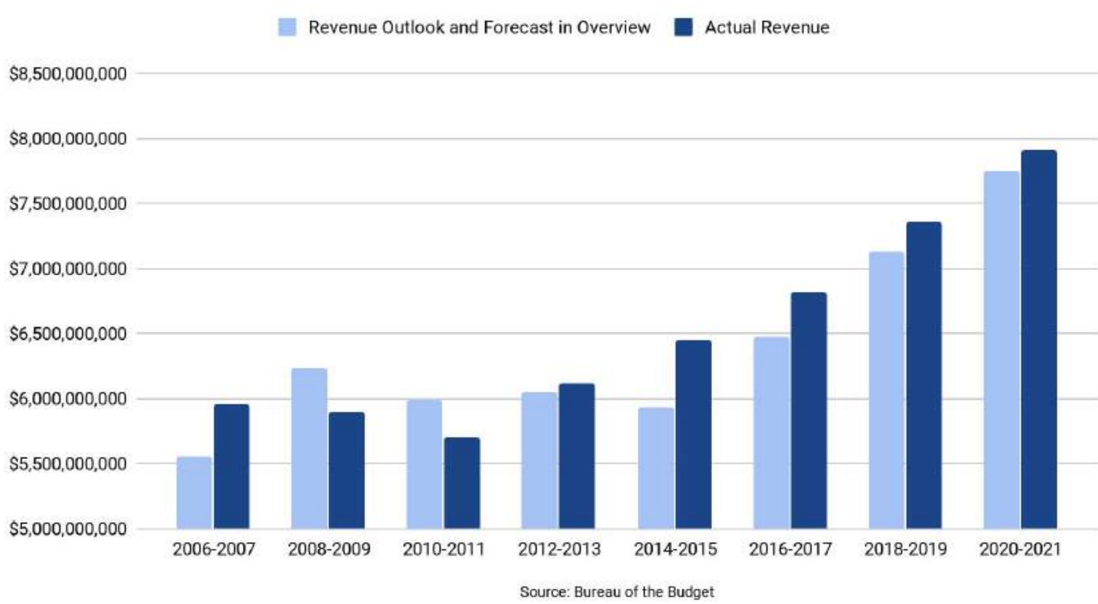

[33] https://www.maine.gov/legis/ofpr/general_fund/rev_exp_history/index.htm

during the last major recession (2008-09 biennial budget) to assess what actual revenue might look like during a similar recession in the upcoming biennium. Though this is an extreme comparison, it provides a point of reference.

If another economic downturn were to strike, Mills' proposed spending levels would be unsustainable. If the current revenue projections are similarly inaccurate, the state would collect approximately $3.85 billion in FY 2020 and $3.51 billion in FY 2021 as opposed to the projected $3.89 billion and $4.02 billion respectively, featured in the Governor's Budget Overview. This would be a difference of approximately $550 million over the biennium, a massive shortfall. Lawmakers would need to raid the Budget Stabilization Fund, which still would not cover the cost of such a harsh economic downturn.

In fact, the Governor's Budget Overview included a "stress-test" that concluded a moderate recession would leave a shortfall of $237 million by 2021 and a severe recession, similar to that experienced in 2008, would leave a $400-525 million shortfall by FY 2023.[34] The governor would then need to find additional funds to cover the difference, most likely by raising taxes or cutting

Figure 7: Revenue Projections vs. Actual Revenue




spending since the Budget Stabilization Fund, containing $272.9 million[35], would be completely emptied. While former Governor LePage was successful in building the Budget Stabilization Fund to its current levels, it still would not be enough to cover the initiatives being proposed in this budget under a moderate or severe recession.

[34]https://www.maine.gov/dafs/economist/sites/maine.gov.dafs.economist/files/inline-files/Stress-Testing_Maine_General_Fund_Revenues_and_Reserves_FY19-FY23.pdf
[35]Ibid.

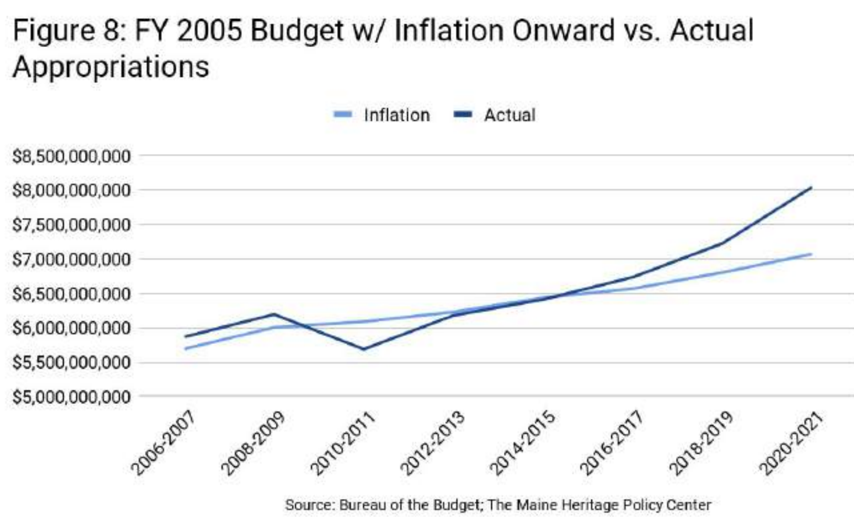
Figure 7 compares actual revenue and projected revenue from the Revenue Forecasting Committee included in the Governor's Budget Overview. To be consistent, only the revenue forecasts from the Governor's Budget Overviews were included in this analysis. While actual revenue typically exceeds projected revenue from the forecasts included within the budget overviews, there are some circumstances where it does not. For example, projected revenue exceeded actual revenue in the 2008-09 and 2010-11 biennial budgets. This occurred during the recession and shows how an economic downturn can cause revenue forecasts to be incorrect, leading to budget shortfalls and supplemental budgets.

Clearly, if a recession just as bad as the last is on the horizon, this level of spending would significantly hurt the state and subsequently put the burden on Maine taxpayers.[36] Governor Mills would be wise to spend less in her first biennial budget and create a larger buffer between projected revenues and her current budget proposal. A cushion of $383,355 and the $272.9 million in the Budget Stabilization Fund would not be nearly enough to cover the costs of this budget proposal in the event of an economic downturn. The total amount of funds that can be in the Budget Stabilization Fund cannot surpass 18 percent of the previous year's General Fund revenues, or $646 million.[37] In sum, total spending levels in this budget are far too high for the state to endure even a moderate recession. Responsible budgeting would include creating a larger buffer between projected revenues and proposed spending.

## Budgets Based on Inflation vs. Actual Budgets

There is a clear trend as to the direction that state spending has gone; it has increased significantly, and the current budget does not change that trend. Had every biennial budget since 2005 increased only by the inflation rate from the previous full year, Maine would be in a much more fiscally sustainable position and Maine taxpayers would keep more of their money.[38]

Figure 8 shows the difference between actual government spending and spending based on inflation from the FY 2005 budget to present. The results show that the current proposal would be approximately $7.06 billion, a difference of




[36] https://www.cbpp.org/research/state-tax-changes-in-response-to-the-recession
[37] https://www.pressherald.com/2018/11/08/state-budget-fortified-against-recession-by-rainy-day-fund/
[38] https://www.thebalance.com/u-s-inflation-rate-history-by-year-and-forecast-3306093

$973 million, if the increases over previous budgets had not exceeded inflation. This would be more than enough to fill the Budget Stabilization Fund to its maximum capacity and still have a surplus available for subsequent budgets. In addition, state government would be able to reduce taxes or implement other significant reforms that could help all Mainers.

Actual appropriations have increased substantially since 2005 and increase much further in this budget proposal. Since the 2012-13 biennial budget, spending has steadily increased relative to the inflation model used in Figure 8. However, Mills' biennial budget deviates from this trend with a gap of about $973 million. To put this in perspective, Governor LePage's last budget deviated from the inflation model by approximately $422 million, or less than half of the current proposal. Massive increases to state government spending, such as what is proposed in Mills' budget, will not withstand the test of time.

## Conclusion and Takeaways

Over the last eight years, Maine has improved its fiscal standing. Not only does the state have $124.3 million in surplus funds, which are proposed to be spent in this budget, we also have a relatively robust Budget Stabilization Fund. But if Maine experiences a moderate to severe economic downturn, the Budget Stabilization Fund would be insufficient to cover the shortfalls caused by Mills' bloated budget. Put simply, spending more than $8 billion over the next biennium is unsustainable, and leaving a $383,355 cushion to protect taxpayers is irresponsible.

In addition to leaving an inadequate cushion of last resort, this proposal also increases revenue sharing while creating expensive new mandates for municipalities. Because increases in revenue sharing do not correlate to reductions in property tax liability, taxpayers will likely see their property tax rates rise over the biennium. Instead of asking hard questions and making tough decisions to control growth, the Mills budget calls for near universal spending increases across state government without setting goals or standards for this spending to achieve meaningful efficiencies within existing programs and departments.

Lastly, the Mills budget misses out on an opportunity to provide tax relief that would help all Mainers. Given the gains Maine's economy has made in recent years and the fiscal restraint employed by the last administration, Maine is uniquely positioned to provide further income tax reductions to taxpayers. Governor Mills could have returned surplus funds from the last budget and a portion of projected revenues over the biennium to provide income tax reductions across the board. Instead, she has proposed using these funds to grow government spending to its highest levels in state history.

The time is now, when it is economically feasible, to enact meaningful tax reforms. Maine competes with other states in the region that impose lower income tax rates, including New Hampshire which does not impose an individual income tax altogether. This begs the question: If not now, when will it be possible to enact tax reform to increase Maine's economic competitiveness and reduce the burden on Maine people?

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