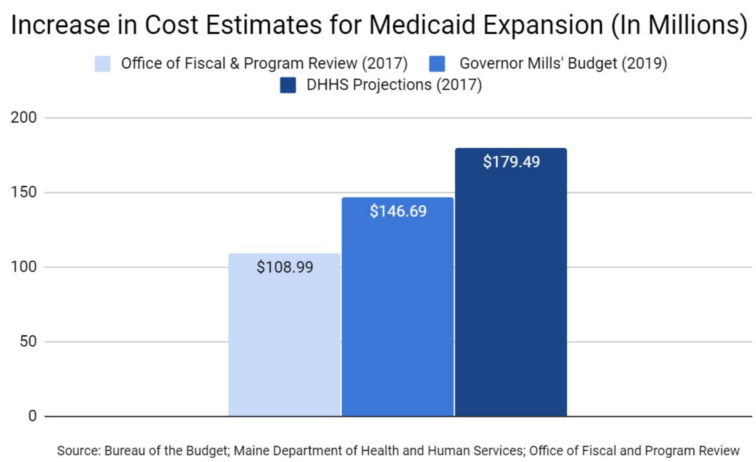
The Proposed Mills Budget: Irresponsible. Unsustainable

A Review of the 2020-2021 Budget Proposal

Overview

In this report, MHPC focuses on spending dedicated to Medicaid expansion, incremental increases to revenue sharing, policy priorities inside the Department of Education, and the impact of spending increases over time. In her inaugural address, Governor Mills said that a recession is possible in the next few years. However, the budget she proposed last month ignores this possibility entirely. The Revenue Forecasting Committee has concluded the $272.9 million in the rainy day fund would not be enough to sustain the state during a moderate to severe recession. With this in mind, it is difficult to understand why Governor Mills would propose to spend $8.041 billion over the biennium while leaving just $383,355 to spare. This is an insufficient cushion to protect taxpayers. With the possibility of a recession on the horizon, it would be unwise to spend the entire budget surplus and almost all projected revenue over the biennium, and doing so would jeopardize the strong fiscal condition of our state.

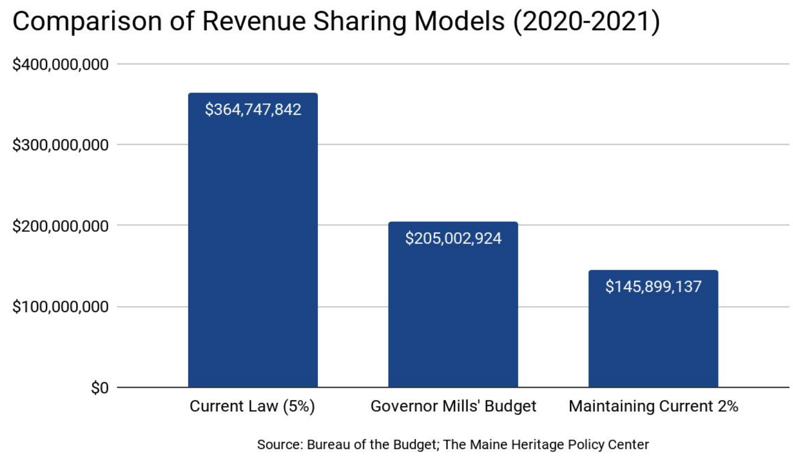
Medicaid Expansion



This budget dedicates $146.7 million to expand Medicaid for 70,000 able-bodied, childless adults. At the rate people are currently enrolling in the program (approximately 1,200 weekly), the state is on pace to exceed enrollment projections before April 2020. Other expansion states have experienced extreme cost overruns due to enrollment over initial projections. On average, expansion states have experienced cost overruns of 92 percent, making the program a significant long-term fiscal concern. Maine could need to dedicate an additional $134 million to the program if Maine experiences similar cost overruns.

In addition to the fiscal concerns, expanding Medicaid poses serious moral questions for our state. While we actively expand Medicaid to able-bodied, childless adults, more than 2,400 individuals continue to languish on waitlists within Medicaid and state-funded programs. This budget adds only 300 slots for Section 21 services as required by current law. Medicaid was originally intended to serve low-income children, pregnant women and the disabled. This budget leaves vulnerable Mainers behind while moving able-bodied adults to the front of the line. In doing so, we have forgotten those who the Medicaid program was originally intended to help.

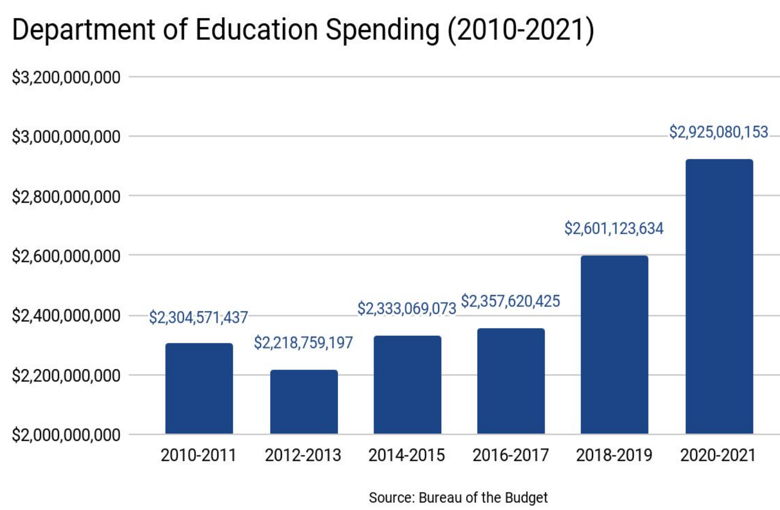
Revenue Sharing



This budget increases revenue sharing from the current 2 percent to 2.5 percent in FY 2020 and 3 percent in FY 2021. Our analysis shows this increase to 3 percent instead of the statutory 5 percent amounts to an additional 60 million dedicated to revenue sharing and economizes approximately $160 million for Governor Mills to spend on other objectives. While this move has been billed as an effort by the administration to lower property taxes, there is little evidence to suggest that revenue sharing actually decreases property taxes.

By taking this approach, Governor Mills misses an opportunity to provide direct income tax relief to Maine citizens, which would be far more effective than simply hoping to achieve property tax reductions through increases in revenue sharing. Municipalities will not use revenue sharing funds to reduce the property tax liability of their residents; these funds will be used to grow local spending beyond its means and respond to ever-increasing school budgets. Property taxpayers will be asked to contribute more as a result.

Universal Pre-K and Minimum Teacher Salary



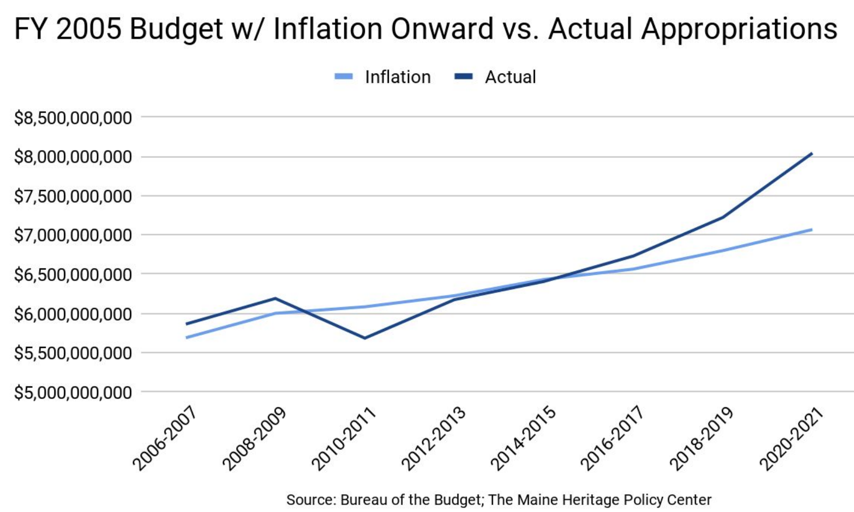
The Department of Education receives a $324 million increase in this budget, with $126 million slated to go to K-12 education. It is imperative to note that student enrollment has declined in Maine, yet spending continually increases every biennium. This is not responsible fiscal policy and it is not sustainable.

The $40,000 minimum annual teacher salary mandate is misguided policy and will counteract any goal of reducing property tax liability for Mainers. This will initially be paid for by the state, but responsibility for funding this initiative is set to be placed on municipalities in the future. In addition, the funding dedicated to this increase in teacher compensation does not include any funding for teachers who currently earn at or just above $40,000 annually and will expect a commensurate boost in pay. This burden will also be borne at the local level.

This budget lays the groundwork for a statewide universal pre-K program by dedicating an initial $7 million to the program, the first step in four-year plan of implementation. Universal pre-K has been shown to be ineffective; the advantages gained by children who go to preschool typically fade within a few years. Not only is it ineffective, but it is costly to taxpayers. A four-year plan to fund Universal Pre-K will require more tax dollars for Maine citizens will not create tangible gains for Maine students.

Inflation Model

The Maine Heritage Policy Center conducted an analysis of what Maine's budget might look like today if all budgets since 2005 had only increased by the rate of inflation from the last full year in the budget cycle. The results show that Maine would be spending just over $7 billion in this budget cycle had spending grown with inflation, much less than Governor Mills' $8 billion plus proposal. This would allow Mainers to enjoy deep tax rate reductions and a full Budget Stabilization Fund.



Conclusion and Takeaways

Over the last eight years, Maine has significantly improved its fiscal standing. Not only does the state have a healthy surplus, 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 the bloated Mills budget. Put simply, spending more than $8 billion over the biennium is unsustainable, and leaving a $383,355 cushion to protect Maine taxpayers is irresponsible. The Mills budget misses out on an opportunity to provide direct tax relief that would help all Mainers, and instead hopes for tax reductions by increasing municipal revenue sharing and state funding for education. 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 relief to taxpayers. If not now, when will it be possible to enact tax reform to improve Maine's economic competitiveness and reduce the burden on every Maine family?