

LEGISLATIVE UPDATE

2018-19 BIENNIAL BUDGET RELEASE

Maine's Proposed Biennial Budget FY 18-19: Overview

Today Governor Paul R. LePage's administration made public his final biennial budget in anticipation of the fiscal years 2018-2019. As expected the budget intends significant changes to revenue streams currently collected by the state and how they are used. In addition, the Governor's fierce criticism of the sweeping policy changes initiated by two referenda in last November's election is present in the document. LePage has vehemently expressed his concern over the increase in the state's minimum wage, as well as a surcharge on upper-income earners to fund education and now seeks to limit their impact. This has been anticipated as the Governor's "legacy budget" and while not profoundly restructuring Maine's economy, it is no surprise it reimagines the role of the state in the areas of income taxation, public education, and social services among others.

Tax Relief & Restructuring

This budget would create no more than two income tax brackets, with much lower rates than the current three. Both brackets will have a 3% surcharge added to them. In effect, this creates a lower income tax rate of 5.75% and an upper bracket taxed at 6.15%. This is the Governor's answer to the passage of Question 2 and its 3% surcharge. Moreover, he will seek to delay implementation of the law for 1 year.

The corporate income tax rate will be cut to 8.33%.

In the past, LePage has attempted to shift the base by bringing more goods and services under the scope of sales taxes. He is now proposing sales tax be levied on recreation and amusement services (ski lift tickets, movie theater tickets, etc.), household services, installation, repair and maintenance, and several other professional services.

The estate tax would be eliminated while the lodging tax would be increased to 10%. Municipalities would now be able to collect service charges from non-profit organizations and land trusts. Much of the revenue loss presented by these items would be absorbed by the permanent elimination of roughly 500 state positions.

Public Education Spending & School Unit Consolidation

An interesting portion of the budget is the administration's desire to see school districts become more regionalized and consolidate. They have made clear that any policy of school unit reorganization would be incentivized rather than mandatory, opting for a "carrot rather than stick" approach. This, of course, differs greatly from the last school consolidation venture the state embarked upon in 2006. Agency bills recently titled by the Department of Education suggest an attempt to bond money that will be used for the consolidation incentive.

Perhaps greater than consolidation in its implications is the budget's pledge to repeal the Essential Programs & Services formula and replace it. The new formula is, in part, intended to incentivize consolidation by removing the

administrative component from EPS and replacing it with an \$11 million fund for “regional education service agencies that school districts can contract with to provide services.”

The cap on charter schools would be lifted at the same time that money is freed up for the state’s three systems of higher public education and zero-interest student loans.

The Governor is also proposing a statewide teacher contract.

Welfare & Social Services

The biennial budget also represents ongoing efforts by the Governor to tackle his criticisms of the social safety net. In all, cuts to the baseline of the Department of Health & Human Services budget will amount to roughly \$140,000,000. Among these will be \$70,000,000 in MaineCare savings based largely on cuts to services for “able-bodied” parents currently making use of the program.

The General Assistance program stands to be eliminated at present.

Among the many Maine small businesses dependent on reimbursements from the DHHS in order to provide services, nursing facilities and private non-medical institutions will not be negatively impacted by the budget.

Marijuana Regulation

Following the success of Question 1 (marijuana legalization) in last November’s election, debate continues as to whether or not marijuana will be responsibly regulated to ensure maximum safety, revenue, and efficacy for patients. The Governor seems to favor more established regulated dispensaries over a highly deregulated model of marijuana production overseen by caregivers (small marijuana providers to up to 5 patients), who number close to 10,000 at this time. The budget does not include funds to implement an adult use program which must be established according to the Question 1 Initiative.

Budget Stabilization

Governor LePage has often cited his success in folding surplus revenue into a Budget Stabilization Fund that now holds more than \$120 million dollars. The proposed budget would add an additional \$40 million to this “rainy day” fund.

Looking Forward: The Legislative Session

There is certain to be a significant amount of political will and public opinion both for and against the Governor’s final budget. Following its review by the 15 joint-standing policy committees it will undergo intense scrutiny from the Appropriations & Financial Affairs Committee based on those recommendations. Appropriations is certain to wrangle with the budget for several months as Democrats and Republicans negotiate which aspects of the administration’s proposals will be sent to the House and Senate and which will be modified if not removed from the document. Ultimately, the budget is sure to incorporate a number of Governor LePage’s priorities while also forgoing others as Democrats maintain control of the House of Representatives and are a slight minority in the Senate.

Public Hearings on the budget will begin in the Appropriations Committee in the coming weeks. We will be there on a daily basis to ensure we provide you with the most up to date information on the budget process.