REGAINING OUR

BALANCE

A critique of the Governor's budget and a discussion of some alternatives

Fiscal Years 92 - 93

Introduction

What is this booklet? This booklet is not a complete alternative to the Governor's budget. That must come, and hopefully will, from the ongoing very hard work of the Appropriations Committee with input from joint standing committees, as well as the party caucuses. Rather, the purpose of this booklet is threefold:

First, to speak out against those parts of the Governor's budget which:

- rely on retirement deferral; and
- shift costs to property taxes.

Second, to provide general tax and budget information, along with examples of more progressive revenue sources. This comes from an unwillingness to support gas tax increases and other highly regressive revenue sources such as removing the sales tax exemption on food (which has been widely discussed though not proposed to date).

Third, to offer alternative cuts and criteria for finding other cuts in lower priority programs than many of those cut in the Governor's budget.

The general fund gap

There is a **gap**, or shortfall, between the amount of general fund dollars needed to fund state government and the amount available from existing revenue sources. The gap amounts to one third of the state's general fund budget. The Governor's latest budget describes the gap as $1.2 billion, the difference between $4 billion requested by his cabinet and the $2.8 available based on revised revenue projections for the next two years. This shortfall is unprecedented in the history of the state, and is among the worst in the nation.

The gap is particularly critical and difficult to resolve because most of the general fund pays for essential, core government services. Fifty percent of general funds go to education and another thirty percent goes to human services, mental health and retardation, and corrections.

Why the gap? The problem stems from the recession, as well as a number of sources over the last ten years: decreased federal funding, prior tax expenditure decisions (tax breaks), increased costs of existing programs and new programs. New programs include educational reforms, FAME, ASPIRE, and the Maine Health Program.

The Governor's budget for closing the gap:

■■ Reduces 13% of the gap by *deferring retirement payments* and refinancing debt;

■■ Eliminates 43% of the gap with *$516 million in cuts* in state programs and services. These cuts are largely accomplished by a combination of hundreds of layoffs and "flat funding." Flat funding is funding based on *revised* fiscal year 1991 funding levels, which have already been cut this year from 5 to 15% and which do not reflect any increased operating costs.

■■ Eliminates the remaining 44% of the gap with new revenues, over half of which are new taxes. New taxes include increases in the gas tax, various sales taxes, and personal and corporate income taxes. Only 16% of these tax revenues are progressive -- based on ability to pay.

What is a fair budget?

A fair budget:

- Prioritizes services and cuts unnecessary spending;
- Does not shift costs either to the property tax or to future generations;
- Raises revenues to meet unfunded needs in the fairest way possible; taxes should be based on the ability to pay.

Is the Governor's budget fair?

No. The Governor's budget does not meet these criteria because:

- priorities for funding and cuts have not been set based on rational criteria, resulting in cuts in critical programs and increased long term costs;
- by cutting general purpose aid to education it shifts costs to the local property tax base; and
- by deferring payments into the retirement system it shifts costs onto future generations.

Deferring 13% of the gap

Thirteen percent of the Governor's budget would be made up through delayed payments into pension funds and postponed repayment of general obligation bond debt.

There isn't much difference between deficit spending and deferrals. Both spend money the state doesn't have hoping that things will be better in the future so that the debts can eventually be paid off. Both shift costs onto future generations. Both dramatically increase the total cost to taxpayers. Both are examples of credit card mentality at its worst. We wouldn't accept this approach in our household finances, how can it be responsible for the state's budget?

What's wrong with this picture?

■■ We could lose our highest-in-the-nation credit rating; a representative of Standard and Poors stated that the 13% deferral "would be a major concern." Reducing the state's bond rating just one step will add from 3 to 5 million dollars in interest to the next statewide bond issue, and will continue to affect interest rates for many years into the future.

■■ Property taxes could go up. If Maine loses its credit rating, the property tax will once again be hit the hardest. Municipal credit ratings are one point below the state rating, so interest rates will be even greater at the local level. Reducing the state's credit rating by one step will increase local bond costs by $50,000 in interest for each million dollars of the bond over the 20 -year life of the bond.

▪▪ The total cost to taxpayers will increase dramatically. The actual cost over the next 27 years of delaying $133.5 million in payments into the retirement system is estimated to be *$2.4 billion.* The cost of additional interest by deferring $24 million in general obligation bond repayments over a 10-year period will be $13 million.

▪▪ The financial health of Maine's retirement system will continue to weaken. Deferring $133.5 million in contributions into the retirement system further weakens an already underfunded system. According to a recent Wilshire Associates study of all 50 states, Maine:

- has the second most seriously underfunded state retirement system in the nation;
- is the only state in the nation in which **both** the state employee and teacher retirement funds do not meet *minimum standards* of financial health;
- is among six state retirement systems across the nation that do not have enough assets to cover costs for *current* employees.

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Governor's budget

Retirement deferrals

The Governor's budget defers $133 million in payments to the retirement system and will cost the state $2.4 billion in increased interest.

These deferrals may:

■■ lose the state's highest-in-the-nation credit rating, adding millions of dollars of additional interest payments to statewide and municipal bond costs;

■■ increase property taxes to pay for higher interest rates on local bonds;

■■ further weaken the financial health of our already underfunded state retirement system; and

■■ depress the economy even more as thousands of present and future retirees cut back on spending due to fears about the security of their pensions.

An alternative

Pay as you go

Rather than borrow from the pension fund at the expense of retirees and future generations, we recommend a pay-as-you-go approach. If tax revenues are needed, we should tax those who can most afford to pay. Sufficient revenue to eliminate the need for retirement deferrals could be raised by:

- applying a 10% surcharge to personal income tax liability for each of the next two years to raise an estimated $123 million for the biennium; and
- restructuring corporate income tax to increase the top rate to 10% for taxable corporate incomes over $150,000 to generate an additional $10 million for the biennium.

Governor's budget

Education cuts

The Governor's budget is based on so-called flat funding of local education. Over the biennium, $200 million of general purpose aid to education would be cut from the amount schools expected (based on the school funding formula). This is 13% less funding statewide than recommended by the state board of education.

■■ These cuts will raise property taxes an average of 25% statewide if municipalities make up the difference.

■■ Most municipalities cannot make up the entire shortfall through cuts or taxes due to existing collective bargaining agreements and already high property taxes.

■■ An estimated 850 layoffs and widespread cuts including music, art and athletic programs are expected as a result of the Governor's proposed funding reductions.

The Governor's budget also flat funds higher education.

An alternative

Repeal tax breaks

Rather than drastically cut education funding, we recommend repealing most existing sales tax exemptions on sales of personal property. This would primarily impact businesses and non-profit organizations.

This would result in the sales tax on personal tangible property applying to everything *except* necessities (food, rent, residential fuel and electricity) and goods and electricity used in manufacturing. If the exemptions are repealed beginning July 1, 1992 and with a six cent sales tax, this would raise $200 million for the biennium.

Governor's budget

Corrections budget worsens crisis

The Governor's budget proposes reducing community correction services by $1.1 million and fails to provide needed funding of $400,000 for probation and parole staff for the intensive supervision program. The budget also does not provide $300,000 needed to fund the in-patient sex offender treatment program.

▪▪ Adequate funding of community corrections services and the intensive supervision program could reduce the prison overcrowding that is currently creating a crisis in our corrections system.

▪▪ These programs provide a safe way of managing the prison population at a much reduced cost. For example, intensive supervision costs about $4,000 per prisoner in contrast to $25,000 at the Maine State Prison.

▪▪ Without in-patient treatment, 80% of sex offenders can be expected to repeat their offenses upon release. With treatment, the rate drops to 50% or lower.

Cut state bureaucracy and operating costs of programs

In order to adequately address the corrections crisis and increase long term savings to the state, we recommend funding corrections by cutting state bureaucracy and operating costs elsewhere.

Specifically, to save $1.6 million for the biennium we recommend:

- cutting three administrative positions in the Division of Community Services and nine positions in the Department of Economic and Community Development; and
- transfering the remaining functions and positions to other agencies.

An additional $200,000 for the biennium could be saved by implementing an optional mail order drug program in the low-cost drug program for the elderly.

Governor's budget

Cuts that hurt the most vulnerable and increase long term costs.

The Governor's budget proposes cutting critical programs that help our most vulnerable citizens. Many of these cuts will actually *increase* costs to the state in the long run. These cuts include:

▪▪ cutting funding for the medically needy program by $1 million and cutting $500,000 from Medicaid to eliminate coverage for dentures;

▪▪ reducing funds for home-based care by $400,000;

▪▪ changes in AFDC regulations, reducing benefits to recipients by $4.2 million and effectively eliminating the work incentive provisions;

▪▪ cutting family planning funds by $156,000; and

▪▪ cutting programs for the elderly by more than $1 million including funding for area agencies, nutrition, transportation, legal services, adult day care and elimination of the Committee on Aging.

Cut lower priority programs and capture lost revenues

Cutting critical services to our most needy and vulnerable citizens will result in higher property taxes, increased health care costs for everyone, and long term costs to the state. Instead, to offset proposed cuts to health and social service programs, we recommend cutting lower priority programs and seeking out lost revenues that should accrue to the state.

▪▪ For example, $2.3 million could be saved for the biennium by suspending the educational assessment tests for two years.

▪▪ An additional $5 million could be raised for the biennium by capturing unclaimed returnable container deposits which currently represent a windfall profit to distributors.

Governor's budget

Stop-gap "solutions" with long term consequences

The Governor's budget:

▪▪ cuts $2.4 million from the highly successful ASPIRE program which helps AFDC recipients get education and jobs so that they can get off welfare;

▪▪ reduces general assistance funding for municipalities by $2.5 million, thereby shifting costs to property taxes;

▪▪ eliminates core funding of $4.2 million for one year for the state housing authority's HOME program, which provides low-interest loans to first-time home buyers;

▪▪ fails to provide $1 million for critically needed legal services for low income people, as recommended by the Muskie Commission on Legal Needs;

▪▪ decreases circuit-breaker funding for property tax relief by $3.2 million for the biennium; and

▪▪ relies on a regressive 4¢ gas tax increase to raise $20 million for the biennium.

An alternative

Tax professional services

Rather than implement ill advised and regressive stop-gap measures that will raise property taxes, keep people dependent on public assistance, and lose the opportunity to stimulate economic activity through home ownership programs, we recommend raising needed revenue through taxes that are based more on ability to pay.

For example, $62 million could be raised for the biennium by taxing all professional services except medical services. Professional services include legal, accounting, architectural and engineering services, and are used to a greater extent by wealthier citizens.

Governor's budget

Across the board cuts with little prioritizing

The Governor's budget includes over $500 million in cuts from current funding levels. No prioritization or rational explanation has been offered to show why these particular cuts make sense or are fair. Overall, the Governor's approach to date has been largely across the board or horizontal cuts.

Prioritized, vertical cuts

We recommend establishing priorities by applying criteria in order to determine which programs are the most important and make the most sense to fund, and which programs are the least essential and most appropriate for cuts. Without this or a similar procedure, we won't have a rational basis for cutting vertically -- that is, cutting whole programs.

Evaluation criteria:

▪▪ **Consequences of not funding.** Is this a life or death matter, or essential for Maine's future?

▪▪ **Urgency.** Is this an immediate need that can't be put off?

▪▪ **Financial impact** Will not funding cost the state dollars, lose federal funding or shift costs to the property tax?

▪▪ **Availability of other resources.** Is the state the only resource which can or will provide this?

▪▪ **Mandatory or not.** Are we required to do this by federal law, the constitution, court order, (or state law)?

▪▪ **Efficiency.** Is this the most efficient way to provide this service?

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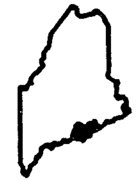
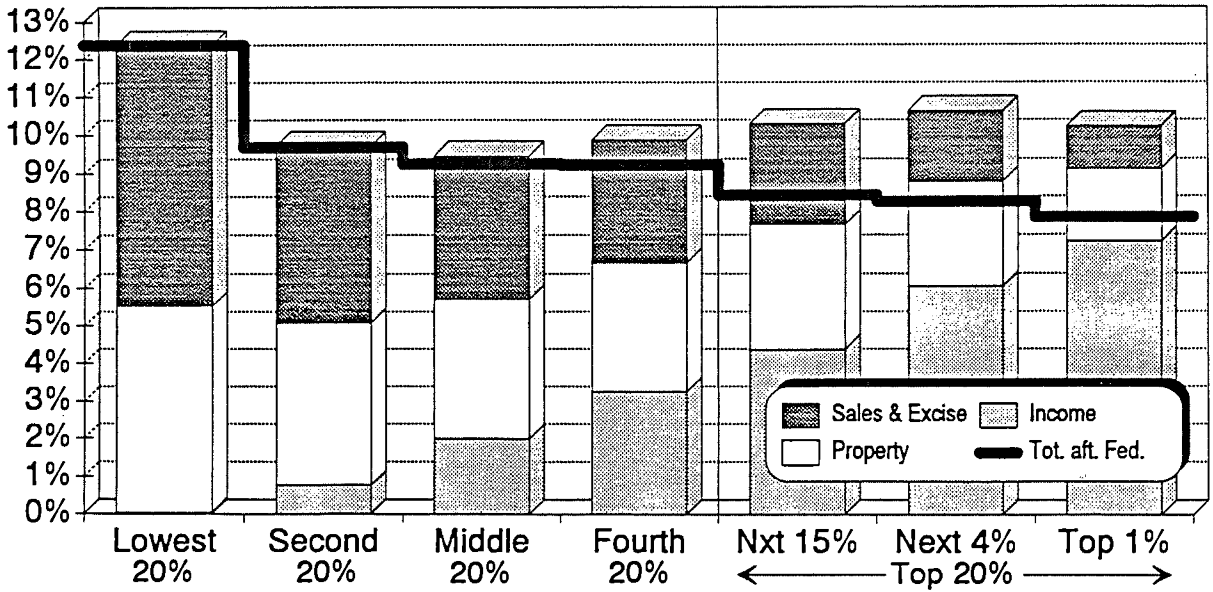


Maine Taxes in 1991
As Shares of Income for Families of Four



Family Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Average Income	$11,200	$23,600	$34,000	$45,700	$67,500	$157,300	$609,700
Personal Income Tax	0.0%	0.7%	1.9%	3.2%	4.3%	5.9%	6.9%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%
Property Taxes	5.5%	4.3%	3.7%	3.4%	3.3%	2.7%	1.9%
Sales Taxes	4.1%	3.0%	2.5%	2.2%	1.9%	1.4%	1.0%
Excise Taxes	2.8%	1.6%	1.2%	1.0%	0.8%	0.4%	0.1%
TOTAL TAXES	**12.4%**	**9.7%**	**9.4%**	**9.9%**	**10.3%**	**10.6%**	**10.2%**
Federal Deduction Offset	0.0%	–0.0%	–0.2%	–0.7%	–1.9%	–2.4%	–2.4%
TOTAL AFTER OFFSET	**12.4%**	**9.7%**	**9.3%**	**9.2%**	**8.4%**	**8.3%**	**7.9%**

From **A Far Cry From Fair**

Citizens for Tax Justice

April 1991

A Joint Project with the Institute on Taxation and Economic Policy

This booklet was written and produced by
Rep. Susan Farnsworth and Rep. Sharon Treat,
with input and ideas contributed by numerous
others, including fellow legislators as well as
members of Taxpayers for a Fair Budget. We note
that revenue estimates and budget proposals have
been changing every few weeks, but we take
full responsibility for any inaccuracies
in the data presented here.

This booklet was not produced or printed
at taxpayer expense.