

MAINE STATE LEGISLATURE

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STATE OF MAINE

STATEMENTS

TO THE

1966 PRE LEGISLATIVE CONFERENCE

AT THE

STATE HOUSE

AUGUSTA

DECEMBER FIRST AND SECOND 1966

BY THE

COMMISSIONER OF FINANCE & ADMINISTRATION

WITH RESPECT TO THE

BUREAUS OF:

ACCOUNTS AND CONTROL

BUDGET

TAXATION

A review of our own state taxes really narrows down to two considerations or questions: first, is our present tax structure sound and equitable? and second, where may we expect to find additional tax revenue if needs require it?

As for the first question, objective standards of soundness and equity are difficult if not impossible to establish. However, we may perhaps use as a measure of soundness, prevailing tax patterns in other states. By this measure, I think you will find Maine to be in line with prevailing thinking. In Mr. Kneeland's compendium you will find tables showing our own taxes (and other sources of state revenue), as well as a comparison of our principal taxes with those in our neighboring New England states.

Looking at the country as a whole, of the 50 states, all but two* rely for a major portion of general fund revenue upon either net income taxes, general sales taxes, or a combination of the two. Maine is allied with 7** other states which rely upon general sales taxes not supplemented by income taxes. Maine is not bedeviled with trivial and expensive "nuisance" taxes. Nor do Maine tax rates fall outside the prevailing range found elsewhere.

Equity is an even more difficult quality to measure, since what constitutes "equity" is more often a matter of individual opinion than a matter of fact. For example, the relative equity of general sales taxes and of net income taxes has been debated at great length but without any clearcut resolution. However, there may be certain factual bases for concluding that a given tax system is equitable or inequitable. Public acceptance or lack of acceptance, as indicated by compliance problems; and the effect of the tax as a deterrent to economic activity, particularly in relation to interstate competition, are reasonably clear tests. If these tests are valid, the present tax structure of Maine will be found to be reasonably equitable.

*Nebraska and New Hampshire

**Florida, Illinois, Nevada, Ohio, Texas, Washington, Wyoming

No unusual compliance problems exist, and there is no reliable evidence that the tax structure of the state operates as an unreasonable deterrent to new enterprise, or that it creates what is sometimes called an "unfavorable business climate."

I believe you can properly find that Maine does have at present a state tax structure that is basically sound and that meets basic requirements of equity.

The second question which we must consider is what choices are possible in the event over-all greater revenues for the support of state government are found to be necessary. Here, we appear to have two broad choices: the scope or rates of present taxes can be extended, or present taxes can be supplemented by new and additional taxes.

As for amending existing tax statutes, two types of amendment are possible: first, broadening the scope of a tax by extending it to areas not now included in the tax base, and second, by increasing the rate of a tax.

The question of broadening the scope of the tax is particularly applicable in the case of the sales tax, since it is only with this tax that a change in scope would result in sizable additional revenues. Maine's sales tax is basically the same as that in many other states. However, the nature of transactions covered, and particularly of exemptions granted, varies from state to state. The scope of the Maine tax might be broadened, possibly by including in the tax base certain services not now taxable. The possibilities here are somewhat limited, since so-called transient rentals were included in the tax base in 1959, and telephone and telegraph service charges in 1965. The scope of the Maine tax could also be broadened by eliminating some of the present exemptions or exclusions: for example, food for home consumption, or the trade-in value of motor vehicles.

The question of increase in rates is, I suppose, to a very great degree limited by what other states do - that is to say, it would be unrealistic to consider that at this time Maine could levy any type of major tax at a rate greatly in excess of that in any other state. Thus, so far as rates are concerned, I would assume for the sake of discussion that our potential is pretty much limited to the maximum rates found elsewhere.

Certain of our taxes are susceptible of ready comparison with like taxes in other states. This is true, for example, of the tax on malt beverages, and the cigarette tax (the latter of which, incidentally, was increased in 1965). So far as the sales tax is concerned, 6 states* including Maine levy the sales tax at the rate of 4%. In addition, three states** have both state and local sales taxes, with a combined state and local rate of 4%. Pennsylvania and New York City have 5% rates. The sales tax rate in Maine was increased from 3% to 4% in 1963. Cigarette taxes range from 2½¢ to 11¢ per pack of 20, with 20 states having an 8¢ rate, as in Maine, and 8 having rates from 9¢ to 11¢.*** The Maine rate, as you know, was increased from 6¢ to 8¢ per pack two years ago.

Turning for a moment to the Highway Fund, our present gasoline tax rate of 7¢ per gallon was established in 1955. Twenty-one states now tax gasoline at that rate; while 5 states**** tax gasoline at rates of from 7½¢ to 11 cents per gallon.

Some taxes of course are not susceptible of ready comparison. State inheritance and estate taxes, for example, vary widely so far as rates and exemptions are concerned. The same is true of various utilities taxes, such as the gross receipts tax on telephone companies. Comparison of such taxes, so far as burden of impact is concerned, necessarily requires study and analysis.

One final word. You may note that my comments have been confined to the state tax structure, since it is my understanding that this is the basis for our discussions here. For this reason, and because of limitations of time, I have not touched upon municipal fiscal problems and the state's relation to them, or upon the local property tax and the very serious questions relating to it. Nor have I considered the question of federal-state fiscal relationships.

*Alabama, Hawaii, Maine, Michigan, Rhode Island, and Washington (4.2%).

**California, Illinois and Mississippi.

***Massachusetts (10¢); Mississippi (9¢); New Jersey (11¢); New York (10¢); Texas (11¢); Vermont (10¢); Washington (11¢); and Wisconsin (10¢).

****Arkansas, Nebraska and Washington (7½¢); Alaska (8¢); Hawaii (8½-11¢).

To summarize, I think you will find our present state tax structure reasonably sound, and reasonably equitable. If, in reviewing necessary state governmental activities, you conclude that additional revenues may be necessary, you will want to investigate the possibility of obtaining such revenues by supplementing our existing tax structure with new taxes, or by broadening the scope of taxes we now have, or by adjusting the rates of existing taxes. If you ultimately determine that additional revenues are necessary, presumably one, or a combination, of these means will have to provide the answer.

BUREAU OF ACCOUNTS AND CONTROL

The Bureau of Accounts and Control is one of five bureaus under the supervision and control of the Commissioner of Finance and Administration. The powers and duties of the bureau are authorized in Title 5 Chapter 143 Section 1541-1548 of the Maine Revised Statutes Annotated, 1964. Among its Powers and Duties are:

- TO maintain an official system of general accounts embracing the financial transactions of the State Government.
- TO examine and approve all contracts, orders and other encumbrance documents that obligate State Government funds; also to make certain that monies have been appropriated or otherwise made available and have been allotted to meet the obligations.
- TO audit and approve all bills, invoices, payrolls and all other claims and charges against the State Government; and determine the legality and correctness of all disbursements.
- TO make monthly reports on all receipts and expenditures to the Governor and the State Auditor; to make monthly reports on allotments, encumbrances, and expenditures to the Governor, the State Auditor and to the department concerned.
- TO prescribe such subsidiary accounts as may be necessary for the various departments to provide financial control.
- TO set up and maintain whatever accounts may be necessary to account for Federal Funds that may be made available to the various departments.
- TO maintain on the books of the state an "Unappropriated Surplus" account. The balances of all revenue and appropriation accounts not otherwise provided by law shall be closed into this account at each fiscal year-end.
- TO prepare as soon as possible after the close of each fiscal year a report of the financial condition of the State together with such supporting figures for the fiscal year as may be necessary to furnish a comprehensive and concise report. This report shall be the official

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annual report of the State Government. The State Controller shall include in his official annual financial report an analysis of the Unappropriated Surplus Account at the close of the fiscal year.

Every disbursement of state funds from the treasury shall be upon the authorization of the State Controller and the Treasurer of State, as evidenced by their facsimile signature.

DATA PROCESSING

In order to perform the duties required by law it has been necessary to employ the most modern tools available. Thirty years ago accounting machines were installed and two years ago these were replaced by an Electronic Computer.

As these changes have taken place a policy of DELIBERATE haste was deemed more desirable than Crash programs. Initial hiring of an experienced Systems Analyst, training a programming staff and conversion to computer operations was done without derailing the train of events. Because of the groundwork accomplished during the past four or five years it is now the time to allow the evolution to continue by establishing a unified information service. We agree with several consultants that fragmented, partial systems, in the various departments will fail to produce the needed results.

The economical answer to the data processing problem is quite simple in concept but a little more complex in detail design and operation.

Capture all detail from each transaction at the very beginning and save it until needed. The primary operations such as check writing, cash receipts, license issue, certification, case reporting, and survey recording can produce a portion of an information file.

Agreement has been reached between the Education Department, the Department of Health and Welfare and the office of the State Controller to cooperate in the utilization of existing and planned for equipment. Responsible people in Mental Health and Corrections, Motor Vehicle Division, State Police, Highway Safety, and several other agencies have expressed a high degree of interest in the possible services of a unified information center.

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It is impossible for the various state departments to provide all the information that is required and most of them are requesting computerized services from this office.

It is not inconceivable that in a few years this could provide direct inquiry capability twenty-four hours a day, seven days a week, with a minimum staff required on off hours. The equipment and techniques are available today and demonstrable.

There are three time schedules for implementing data processing improvements, each has its cost in training, effort and money. The cautious exploratory schedule such as ours has been producing solid groundwork but if continued too long, faces needs and demands which grow more rapidly than can be met.

At the other end of the spectrum lies the visionary "crash" programs which can cause serious dislocations of the orderly processes required by law. The middle course will require sizeable expenditures in time and effort with vigorous recruitment and training of technical personnel to be able to create the required computer programs. Equipment of appropriate size will be needed at various stages to accept the growing work load.

It is indeed true that Maine has only scratched the surface of computer use but at the same time a growing number of conscientious administrators are actively seeking methods to increase their effectiveness by making use of available technology.

The Budget Office is, briefly, required by statute to -

1. Biennially prepare and submit to the Governor-elect or the Governor a state budget document.
2. Examine and recommend for approval the work programs and quarterly allotments of each department.
3. Examine and recommend any changes, during a fiscal year, of any department's work program.
4. Constantly review the administrative activities of all departments; study organization; investigate duplication and to formulate plans for better and more efficient management.
5. Report periodically to the Governor and on request to the Legislature.

Another duty not in the statutes that has been undertaken and has become a rather lengthy and time-consuming one is the examination and evaluation of all financial Orders presented to the Governor and Council for consideration.

The particular item that I suppose you will be most involved with at this Conference is the Budget Document and its contents, so just a few words on that subject.

Budget estimates for the coming biennium must be presented to the Budget Office "on or before September 1st of the even numbered years." The personnel in the office then spends many long hours examining and evaluating all such requests in order that they be in absolutely accurate mechanical form before presentation to the Governor or Governor-elect. The Governor or Governor-elect and the Budget Officer next review the entire budget structure and proceed, in the light of the Governor's policy, to alter, revise or change the figures so that they, when completed, will reflect what he, the Governor, believes to be the most efficient and economical plan.

All reviews, discussions, alterations or revisions of the many schedules required in the preparation of the Document must be compiled and in final form for submission to the printer by the first week in December so that he may have sufficient time to print it and have it available, as required by law, prior to the end of the second week of the Legislative Session.

When you are presented this Document in final form you will find, with reasonable examination, that it is made up in three Parts with various Sections to each Part. For instance, Part I has four Sections and Section 1 is the Budget Message of the Governor. The law specifies that the Document be constructed in this manner and you will find that each part and section contains those schedules as directed in the Statutes.

All of the information that you, as Legislators, really need to become conversant with the overall operation of state finances can be found in the first 100 pages. These are the pages containing the summary schedules of all funds. You will find - Total - Appropriations - Revenues and Expenditures set forth by funds. Here also you will find revenue projections by source, i. e., Sales and Use Tax, Gas Tax, Fish & Game Licenses, Federal Funds, etc. An analysis of the Governor and Council's Contingent Account, a projection relating to Unappropriated Surplus and a schedule on Liquor Commission operations can also be found in this section.

Part 2 contains the detailed data by appropriation account to back up the Summary Schedules previously mentioned, and Part 3 contains exact copies of the Appropriation and Revenue Acts necessary to implement the overall financial plan.

The Budget Officer, I am sure, will make known to you, as far as he is legally empowered, the basic figures with which you will be confronted. These, no doubt, will be somewhat altered prior to your next encounter with them.