

MAINE STATE LEGISLATURE

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STATE OF THE BUDGET ADDRESS

OF

GOVERNOR JOHN R. McKERNAN, JR.

February 6, 1990

Mr. President, Mr. Speaker, Members of the 114th Legislature:

Thank you for attending this evening. Only days ago, I stood here and recounted our many successes together. Tonight, I will be informing you of the challenges that lie ahead.

New England rode the crest of the wave of the longest peacetime expansion in American history. Maine prospered; State Government grew. All of us enjoyed being able to spend more without raising taxes. But we knew it would eventually end. We did not know when, or how abruptly.

I wish we had anticipated the rapid cooling off of the New England economy. Our revenue projections were based on healthy growth, and for that I will take full responsibility. We are fortunate that we acted last spring to reduce our sales tax revenue projections by \$106 million. Had we not taken that action, we would have an even more difficult task today.

As you know, on January 31, we received projected sales and income tax revenue figures for the remainder of the biennium. According to that report from Peat Marwick and our review of all other revenue lines in the budget, the State is facing a \$210 million budget shortfall.

In response to that need, my administration has put together a comprehensive package of spending reductions and programs to generate additional revenue that will balance the biennial budget. This has been a difficult process. Budget cuts are never easy, nor are they popular. But it is my constitutional obligation as the Governor of this State, and my moral obligation as a leader elected by the people of our State, to balance our budget. I have taken the steps necessary to do that.

I believe that earlier today we furnished you with a summary of our final decisions.

I have met with my cabinet repeatedly over the past month to prepare for a revenue imbalance of this magnitude. I would like to publicly thank my commissioners and their staffs for their input, cooperation, and long hours. Sawin Millett, Commissioner of Finance, has worked late into the night for several weeks. It is his diligence and the support of the agencies that has enabled us to meet this challenge.

In round after round of discussions, each cabinet member scrutinized his or her budget in order to maximize savings and minimize impact. We have tried to spare departments such as education, mental health, human services, and corrections that cannot possibly shoulder their share of the savings. In fact, mental health and corrections actually had a net increase in funding over our original budget. It was a painful process, but it was a fair process. And because we are facing difficult economic times, this belt-tightening process will be repeated in local communities and households throughout the State.

We will continue to care for those most in need. But we will all feel the impact of these reductions. There will be layoffs. There will be programs that will not get the level of funding that we would like to be able to give them. That is the reality of the situation.

In some cases we have postponed implementing new programs. We are still committed to them, but we also realize that they were funded at a time when we thought we had more money to spend than we actually did.

These are spending reductions, but it might be more accurate to say that we're trimming the high rate of growth in spending that has been built into the state budget over the last ten years.

To put things in perspective, general fund spending has increased from just under \$1.1 billion in 1987 to almost \$1.7 billion originally budgeted for next year—a 56 percent increase over a four-year period when the cumulative effect of inflation was 20 percent.

After our budget package is implemented, general fund spending will still be 19 percent higher than the last biennium. We are reducing spending to a level that is consistent with both the needs and the means of our State.

All across the country state governments are grappling with situations similar to ours. According to the *Wall Street Journal*, political leaders in 34 state capitals from Sacramento to Augusta are revising their budgets. Every time we prepared a new draft of my State of the State address, we would have to update the projected deficits of the New England states. And every draft the numbers would get worse.

As you may have read in the *Maine Sunday Telegram*, both New Hampshire and Vermont are facing shortfalls proportionately worse than ours here in Maine. That does not make our situation any easier, but it does make it more understandable.

Responsible governments across the country are reassessing their spending priorities. As we undertake that process, you must remember that the best interests of the people of Maine are not necessarily the best interests of every constituency and every interest group in the State. This is a time to look at the big picture. I can assure you that not everybody will be pleased in the coming months. But before you question any cuts, ask yourself one simple question: "Where else is that money going to come from?"

Let me explain my budget package. I am proposing a total of \$165 million in General Fund reductions—\$125 million from within cabinet agencies and approximately \$40 million from non-cabinet agencies. In addition, I am recommending \$63.7 in revenue-related initiatives, which, when combined with the revenue reductions, will alleviate our projected \$210 million shortfall and fund a \$18.6 million package of essential supplemental appropriations.

None of our revenue initiatives involve a new tax.

I would like to highlight the major items in our package. Fifteen million will be salary savings. We are freezing 403 vacant positions in Fiscal Year 1990 and 338 positions in Fiscal Year 1991. In addition, we have found it necessary to lay off 53 state employees on July 1, 1990. We intend to work with them to help find them new jobs. And we are working with major state employee unions to promote voluntary initiatives such as job sharing, leave without pay, sabbatical leaves, and retirement in order to minimize layoffs. If those measures do not produce our targeted savings, we will need to consider further layoffs.

My top-level political appointees will forego step salary increases in 1990. This will save approximately \$250,000, but more importantly, it symbolizes our commitment to the reduction process.

We are recommending that implementation of two property tax relief programs — the Homestead and Elderly Deferral — be delayed until 1992 and that the Low Income Student Adjustment not be given in Fiscal Year 1991. I am also proposing that surpluses in the Maine Residents Property Tax Program be deappropriated for use in the General Fund.

We have also found it necessary to recommend that the increase in the General Purpose Aid equalization formula be limited to 10 percent for Fiscal Year 1991. Despite this difficult decision, we have been able to maintain our commitment to equalization in the funding of education throughout the State.

We are recommending that all components of the Maine Health Plan be delayed for a period of nine months. When we set our budget priorities, we decided that it was important to preserve existing programs that are already helping Maine people rather than implement new ones. The health plan remains intact and will become operative on April 1, 1991.

Whenever possible, we have tried to maximize efforts to match federal funds and to take advantage of other revenues in order to reduce our reliance on General Fund revenues.

We are also proposing a \$63.7 revenue enhancement package, which includes the following components:

A Tax Amnesty Program to encourage voluntary payment of taxes currently due the State;

Increased audit and enforcement capacity within the Bureau of Taxation;

A one-year implementation delay for two recently enacted tax benefits — the Railroad Excise Tax Benefit and the Investment Tax Credit;

And a delay of the final year of the Industrial Energy Tax phaseout until 1991.

Despite our financial shortfall, we realize there are certain supplemental financing needs that cannot go unmet. The supplemental appropriations package I am proposing includes increased funding for:

Vocational rehabilitation;

Additional supervision within our correctional institutions;

Continuation of the Job Opportunity Zones program;

Additional staffing and grants to assure that we continue to assist municipalities in meeting the requirements of our growth management laws;

Local adult education subsidies;

Supporting programs for the homeless begun this year;

And improvement of the quality of services provided by the Department of Mental Health and Mental Retardation.

My proposals do not include any increase in the state sales and income taxes. I firmly believe that the average person in Maine is best served by a state government that can live within its means. And that means holding the line on taxes.

We now have two choices: We can work together or we can point fingers and squabble over every cut, every layoff. I ask for your scrutiny of our recommendations, but I also ask for bipartisan cooperation. The essence of leadership is working to solve tough problems without crying “fire” in a crowded movie house. It means taking a good plan and working constructively to make it better. I call on you as elected leaders to assure your constituents that we will work together to balance our budget. The sky is not falling, and it serves no constructive purpose to say that it is.

There are no happy constituencies when the budget is cut. There are no newspaper articles praising the new legislative initiatives. Rather, there is the satisfaction that you have acted in the best long-term interest of the people of Maine, whether or not that is politically expedient in the short term. As Bill Cosby once noted, “I don’t know the key to success, but the key to failure is trying to please everybody.”

I ask for your support and your continued hard work. Because if we don’t rise to this challenge, the people of this State will suffer long after any of us resides in these chambers.