

MAINE STATE LEGISLATURE

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OF THE
STATE OF MAINE

AS PASSED BY THE

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BUDGET ADDRESS

OF

GOVERNOR JOHN R. McKERNAN, JR.

January 14, 1991

BUDGET ADDRESS
JANUARY 14, 1991

Mr. President, Mr. Speaker, Members of the 115th Legislature, Fellow Citizens of Maine,

On Friday, I presented to you my budget for the State of Maine for the Biennium of July 1, 1991, through June 30, 1993.

I have a constitutional obligation to present a balanced budget to this Legislature, and I have fulfilled that obligation. I want to emphasize, however, that this is a starting point and I am under no illusion that this package will not change in the coming months. But one way or another, our task is to create a state government that Maine people can afford, and I shall not settle for anything less.

Crafting any budget requires setting priorities and making tough, often unpleasant, choices. This Biennium, as Maine and the nation face a recession, our task is especially challenging. Today we begin a discussion over the structure of Maine state government and the services we should provide over the next decade.

Before I go on, I want to thank Bill Buker and his staff in the budget office who have worked around the clock at times to move us closer to a finished product. I also want to thank our Commissioner of Finance, Sawin Millet, who has worked tirelessly over the last two months.

We come here today not with the luxury of funding new programs but with the sobering responsibility of creating a state government Maine people can afford. The tone of this speech, and, in fact, of the whole legislative session, will be one of restraint and discipline.

H.L. Mencken once observed that for every complex problem, there is a simple solution and it is usually wrong. In this case, that simple but wrong solution is raising taxes. The key to solving our budget problems will be reducing spending and streamlining government, not simply raising taxes. The state can no longer be all things to all people, and now is the time to examine exactly what role state government should play in the lives of Maine people.

I have presented a budget to you that lives within our existing revenues, and I will not support a broad-based tax increase unless and until we have exhausted every opportunity for reducing the cost of state government.

Maine people are already among the most heavily taxed in the country and the most generous in providing benefits. Higher taxes will put us at a competitive disadvantage with other states and mean fewer jobs for Maine workers. In this budget, we must strike at some of the fundamental costs of government, not just the bottom line.

We cannot tax our way out of this. If we can learn any single lesson from the experiences of other states, it is that simply raising taxes doesn't work. New York, New Jersey, and Massachusetts -- after raising a combined seven billion dollars in new taxes over the past two years -- are still facing budget deficits totalling more than \$3 billion this year. Connecticut raised over a billion dollars in new taxes two years ago, and yet their budget shortfall this year is one of the largest in the country. These states have learned that raising taxes without cutting spending does not solve budget problems any more than a bigger shot of heroin cures an addiction.

A tax increase is a one-time fix; it does not address the structural factors and the well-intentioned but excessively costly programs that are increasing the cost of government faster than we can pay for it. If we do not address the cost of state government, we will be back here for a tax increase every two years for the rest of the decade.

So far there has been little appetite for spending cuts. But let me make one thing clear -- the people who pay the bill deserve a more affordable state government. If we resorted to a tax increase to fund our current services budget without making any spending reductions, it would cost every Maine man, woman, and child \$625. It would cost a Maine family of four an average of \$2500 in extra taxes for the next Biennium. In my view, Maine people cannot afford that tax bill.

Government has an insatiable appetite, and if we don't change our eating habits, we are going to be back at the table for a tax increase year after year. This graph shows general fund appropriations as a percentage of personal income. It does not include all other special and dedicated funds, nor does it include property taxes and other revenues raised at the local level. This graph shows that without cuts in spending, we would be reaching farther into the pockets of our taxpayers than ever before. Without spending reductions, the share of Maine income that would go to support the General Fund would increase from seven to nine percent, a level I believe would be an excessive burden on the working people of Maine. Our proposed budget would hold this percentage to roughly seven percent, a level that the people of Maine can afford.

I am fully aware that the interest groups affected by our proposals will be out in force. The pressure from those groups will be enormous between now and June. Every program cut or reduced will become a front-page story. But we need to remember that the people paying the bill go to work every day to make ends meet. They can't always show up on the Capitol steps to protest state spending, but that doesn't mean they aren't affected. Unless we make cuts in state government, the built-in growth will inevitably increase expenditures faster than revenues. We have to cut the base of government spending if we are to permanently solve our revenue problems.

I do not advocate going back to the times when we were not collecting enough in taxes to pay for basic investments in our state. But we must also recognize that we cannot continue to spend at the pace of the 1980's. Spending in the last decade was possible because of a booming economy. To keep up that level of increased spending in this decade would require tax increases people cannot afford. From Kittery to Ft. Kent, Maine people are making do with less; it is time for us to change our lifestyle in Augusta, too.

Maine is one of many states with budget problems as a result of the sudden economic downturn -- at last count, 28 states are projecting shortfalls in their 1991 budgets and virtually all states are looking at budget problems during the next year.

The November report by the New England Economic Project has now projected a real decrease of 2.1 percent for the Maine Economy for 1991. What does the projected downward shift in our economy from growth of 2.3 percent to a reduction of 2.1 percent mean? It translates into a loss of \$1.6 billion in income for Maine citizens in 1991. We depend on roughly seven percent of that income in taxes to fund state government; so when income is down, our revenues are down. That is the reason we now face such difficult budget choices.

During the 1992-93 Biennium, we are recommending total expenditures for All Funds to be \$6.99 billion.

Our major concern is the General Fund, which is where we face the most serious challenges. During the 1992-93 Biennium, we expect revenues of \$3.23 billion, which is made up of \$3.08 billion in base revenues and 150.8 million in additional revenues resulting from tax conformity, delaying various tax credits, increased fees, and other revenue enhancements. We are recommending expenditures of \$3.23 billion (\$1.57 billion in FY92 and \$1.66 billion in FY93), leaving a \$300,000 balance at the end of the Biennium.

The recommended appropriations represent a 24.5 percent reduction from the amounts requested for Current Services, New and Expanded Services, and Capital Construction. It is, however, still a 2.5 percent increase over current authorized appropriations for the 1990-91 Biennium.

We face a great challenge these next six months. The decisions we make will redefine government for the 1990's. But, as an official from the National Association of State Budget Officers noted recently on National Public Radio, Governors are choosing radical approaches "that haven't been tested before because this is the sort of environment when radical approaches are not only what's called for but probably a little more widely accepted." In our case, we currently have a state government that, given the economic realities of this decade, is structured in a way that exceeds the taxpayer's ability to pay.

As I have said, our proposed budget does not include any broad-based tax increases. It identifies what services Maine people will and will not receive if we live within our existing tax revenues. Our challenge is to determine exactly which services, if any, need to be restored and whether it is worth raising additional taxes or cutting other programs in order to provide these services to the people of our state. I tell you today that I, personally, have not yet made that determination.

Given the short time we have had to reduce our proposed current services budget so drastically, I am forming a bipartisan Budget Advisory Council to work with me to review the ramifications of our current proposal. By early spring, I intend to report back to your Appropriations Committee any amendments to our budget I believe are necessary, including whether I believe additional revenues are required in order to restore needed services otherwise reduced in this budget.

Living within our currently projected revenues has required us to make decisions that I know will be controversial. On the revenues side, fee increases are being proposed in a number of areas. In addition, several tax decreases are being postponed, including the investment tax credit and the reduction in the sales tax on energy used in manufacturing. In total, these are estimated to generate \$78 million and \$73 million in FY92 and FY93, respectively.

On the spending side, General Purpose Aid to local education has been frozen at FY91 levels for both FY92 and FY93; higher education and all other government agencies have budgets at approximately 91.4 percent of their original FY91 levels in FY92 and grow about six percent in FY93. Human Services, Mental Health and Mental Retardation, and Corrections experience less of a reduction.

Finally, the budget incorporates a number of structural changes and programmatic reforms in the state retirement system which result in savings of \$58 million and \$73 million in FY92 and FY93. Included in these reforms are changes that will improve the long-term fiscal condition of the retirement system and change the amortization schedule of unfunded liability.

Because of our revenue picture, our Part II budget will be slim. We have not included funding for some parts of the AMHI Consent Decree. Funding this decree, however, will be the top priority area when our revenue situation improves.

Likewise, we have found including funding for costs of the third year of our collective bargaining agreement with our employees to be difficult. We are recommending that it be paid for through temporary lay-offs equal to the cost of the increase scheduled to take place this July 1st. In view of the budgetary impact of these additional pay raises, I am eager to join with the unions in any effort to explore alternatives and urge them to be more constructive in meeting the new realities of our budget situation.

We do have some initiatives that are within our means and essential to moving us closer to our goal of making Maine the "Opportunity State." Because I am convinced of the importance of providing an opportunity for all students to succeed in school, I plan to introduce a program that will recognize parents as the first teachers of their children. We will be setting up fifteen sites throughout the state to allow early education professionals to visit those parents of children from birth to age four who want to participate and assist them in the physical, social, and intellectual development of their children.

At the other end of the system, we intend to reduce the drop-out rate by expanding our Jobs for Maine's Graduates program to help many more of our at-risk youth with the critical school-to-work transition.

And to be sure the door to higher education is open to all students regardless of their families' situation, I am proposing, once again, a state-guaranteed "Loan of Last Resort," which will make higher education a possibility for all students, regardless of their family income.

In order to better prepare us for future economic downturns, I am again proposing that the cap on the Rainy Day Fund be increased from its current \$25 million to four percent of the previous year's General Fund revenues, or approximately \$60 million.

And we are proposing that individuals or corporations who contribute to the Government Efficiency Commission we propose to form jointly with the Legislature be allowed to take a tax credit spread over three years in an amount of 60 percent of their contribution.

I believe this commission is our best hope of making structural changes in government in a thoughtful and reasonable way; and I look forward to working with you in the Legislative branch, members of the business community, and the public at large.

Finally, next month we will be submitting legislation which will suggest legislative and regulatory changes which will enhance our state's competitiveness and our ability to create a better environment for job creation in our state. As we have seen from the current economic downturn, the best long term decisions we can make for the people of our state are those that will enhance job opportunities throughout Maine.

In conclusion, I remind you that many states share our fiscal difficulties, but I believe we can distinguish ourselves from the crowd by acting quickly and decisively to balance our budget by restructuring government in a way that Maine people can afford and a way that enhances our state's competitiveness.

Those are daunting challenges, but I pledge to work with you to do what is right for Maine. I am convinced that if you join me in putting aside our partisan differences, we will succeed.

Thank you.