

MAINE STATE LEGISLATURE

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LAWS
OF THE
STATE OF MAINE

AS PASSED BY THE

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November 13, 2002 to November 14, 2002

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**BUDGET ADDRESS
OF
GOVERNOR JOHN ELIAS BALDACCI
FEBRUARY 5, 2003**

Madam President, Mr. Speaker, Madam Chief Justice, Members of the 121st Maine Legislature, distinguished guests,

One month ago when I took the oath of office, I told the people of Maine that the immediate goal of my Administration were to balance the state budget and grow our economy.

That pledge was the basis of my campaign. And when I said I would close the state's billion-dollar revenue gap without a tax increase, some people were skeptical. Easier said than done.

Well, they were right.

It was a **lot** easier to say it than to do it. But do it we must!

Tonight I'm proud to report that I am submitting for your consideration my proposed state budget for the next two years that

- Balances the state's finances
- Eliminates the shortfall
- Maintains essential services while positioning the state for future growth
- Contains no gimmicks, shutdowns or furlough days
- And most important does not raise taxes on the people of Maine.

Before I get to the details, I want to say a few things about how we got into this financial predicament, and the philosophy I used to make the very difficult decisions to get us out of it.

But it's not all bad news. We cannot let a temporary budget problem divert us from the real challenge of growing our economy and building a foundation for future growth and prosperity.

Despite our financial troubles, we must keep our eye on creating good jobs, providing health care coverage for everyone in Maine and giving our young people the best education opportunities in the nation.

The budget I'm presenting tonight will keep us moving toward these goals.

In the simplest terms, we have a serious revenue shortfall because there isn't enough money coming into the state to pay for all the programs and services that we offer.

Almost every other state in the nation is in the same predicament. Decisions that were made when the economy was strong and the state was running a surplus seemed sensible at the time.

But when the economy softened and revenues fell, the cost of many of the programs and services that were put on the books continued to rise, leading to the shortfall.

Along with huge increases in the cost of state provided health care that are beyond our control, and cutbacks in federal support to states, Maine's revenue gap is projected to be over \$1.1 billion over the next two years.

I liken this deficit to facing an economic and financial ice storm—unavoidable and unrelenting. Like the real ice storm of five years ago, it will take all of us pulling together to get us out of it.

There will be difficult days ahead, there will be sacrifices and hardship for all of us...but we **will** get out of it.

We will get out of it because, as during the ice storm, Maine people will pull together. We will help each other weather this financial storm.

By working together, we can solve this problem. Just like the ice storm, there will be a thaw. When this storm ends, I'm confident we'll be stronger and better prepared for the future.

The beginning of the thaw has already happened. I want to thank the leadership and members of the Maine Legislature for today passing the supplemental budget and bringing state finances into balance this year. The people of Maine appreciate your bipartisan approach.

I also appreciate the many e-mails Maine citizens have sent to our web site suggesting ways to tackle our next budget.

In my inaugural address, I asked citizens from around the state to submit their ideas on how best to handle our billion-dollar deficit. The interactive budget balancing tool on my web site was intended to solicit ideas and demonstrate to the public the challenging task at hand.

Over 1000 people have sent me suggestions. The overwhelming consensus is that we can balance the budget without raising taxes.

I have gone through these messages—which I have right here. The ideas on consolidation, restructuring and making cuts were very thoughtful.

Hearing directly from people has made this difficult process more bearable. Reading these messages has further convinced me that the intelligence and capacity of Maine people can turn any challenge into an opportunity.

So what do we do? How do we solve the financial problems we face? There are really only two ways.

We can raise taxes, or we can reduce expenditures.

I choose the latter. Let me tell you why.

Right now, tonight, in Millinocket, more than 1000 workers and their families face an uncertain future. The paper mill that has provided steady work and steady incomes for decades has been shut down since December.

Many of us right here in this room have worked hard to get the Great Northern mill operating once again. Today, we moved closer to a solution when the court approved the new management team and health care benefits for workers and retirees.

This is good news, and a first step toward preserving the jobs of 1000 workers and 5000 related jobs in the economy.

During this past month, I have worked daily with community leaders, workers, management, unions, creditors, local hospitals and potential buyers.

Our congressional delegation—Senator Snowe, Senator Collins, Congressman Allen and Congressman Michaud—have worked closely with me. A solution would not have been possible without their efforts.

We were successful because we worked together and had someone, trusted by all sides, on the ground moving this along. That person, and the key to our success, is Jim Giffune. Jim has done an extraordinary job assessing the condition of the mill so that it is attractive to a long-term buyer. Thank you Jim for working so hard and for turning this situation around.

The plan approved by the court today—developed by Norm Ledwin, president of Eastern Maine Healthcare and Trish Riley of my office—will provide necessary healthcare coverage. This agreement was also made possible through a generous donation by the Libra Foundation.

The teamwork demonstrated in our Great Northern effort can serve as an example of how to do business here in Augusta.

Still, despite our efforts, Great Northern families are making tough choices about balancing household budgets. They're canceling vacations, putting off home improvements, getting by without a new pair of shoes or a new winter coat.

As the reorganization takes place, the workers in Millinocket have only one choice: to pare back. There's no way for them to give themselves a raise and bring more money into their homes. The only thing they can do is tighten their belts and reduce expenditures.

It should be no different for state government.

I know the temptation is to tax our way out of our problem. That's an approach many other states are taking to face their shortfalls.

But here in Maine, I believe raising taxes at this time is the wrong way to go. It sends the wrong message to our citizens and our businesses, who, quite frankly, can't afford more taxes.

Anyone who wants to raise taxes should have to go to Millinocket or to Calais or Wilton or Freeport and look the workers in the eye who have recently lost their jobs, or their employers who are struggling or out of business, and say to them, "Oh yeah, and on top of that, we're raising your taxes too."

Now is not the time to raise taxes. Now is the time for fiscal restraint and discipline. Now is the time to show the people of Maine that we will spend their money responsibly, efficiently and effectively. We **can** do it.

Once the decision is made not to raise taxes, the really difficult decisions begin.

In creating this budget, I was guided by four principles:

First, I tried as hard as I could to take an **objective** look at government services and expenditures. In these tough budget times we must assess honestly whether Maine people are receiving the benefits they deserve from the money we spend.

Second, I applied a test of **fairness**. I wanted to be sure that, to the extent it makes sense, we treat recipients of services, state employees, and government agencies equally.

Third, I tried to develop this budget with **compassion**. Our focus must be on our fellow citizens who need our help the most.

Finally, I want Maine to take advantage of the **opportunity** this financial difficulty presents. Since we're forced to make changes, let's make them in ways that support our future economic growth and prevent recurring cycles of budget shortfalls.

These are the principles I applied to the budget challenge. This challenge is great. Our budget deficit represents \$1000 per man, woman and child in Maine. That would cost \$4000 for an average family of four.

That's a large deficit indeed. So tonight, I am submitting a **balanced** state budget for the next two years **without raising taxes and without payroll pushes or shutdown days**.

I now want to tell you the results of our budget work. Here are the details:

My budget balances the state's finances while keeping the BETR and Circuit Breaker programs untouched. We maintain and restructure the Homestead Exemption. And by delaying federal tax changes we avoid increases in state taxes.

My budget creates a tax amnesty program for a limited period and increases tax enforcement.

It does raise fees in a few areas. I accepted increases where users are not bearing a realistic share of the cost.

And it's time—finally—to get the state out of the liquor business. This budget privatizes wholesale and retail liquor operations. The private sector has proven that it can run Maine's liquor business with the same scrutiny and greater efficiency.

My proposal substantially reduces state agency budgets while maintaining the essential services of government. Unfortunately, this budget does contain some layoffs. But we worked hard to make this impact as minimal as possible.

There will be reductions of nearly 325 positions. However, almost half are currently vacant.

And, we can place over half of the employees affected in other positions, with comparable salaries. I'll work closely with the state employees' union to implement these changes.

The budget also provides money for retraining and other services to those who are laid off.

In addition, we are keeping Maine state government open for business. Again, there are no furlough days in my budget.

My budget also delays new and phased-in initiatives until the next biennium. At that time we can evaluate whether they should go forward. Starting new

initiatives not directly related to improving our financial condition in Maine is unrealistic now.

We obtain other savings from state agencies through reduced expenditures, streamlined administrative operations, program reductions and eliminations. In essence, I am proposing to give each department the same amount of money they received last year.

I know this will not be easy, and contains sacrifices. In the midst of this challenge, I want to say how much I appreciate the hard work of state employees.

They have a unique role to play in protecting our poorest and most vulnerable citizens, and we will continue this commitment. Our goal was to have the least impact on Maine's people in greatest need.

We will not balance the budget by reducing the number of people eligible for Maine Care and Cub Care. To do so would only add to the ranks of the uninsured and that is unacceptable.

Instead, we will ask providers to accept current levels of funding. We'll ask them to do business differently to help us protect citizens in need and bring in every federal dollar available to us.

Sadly, the federal government still denies us our low cost drug program, despite hard work by our congressional delegation and DHS. As a result this budget reflects that loss of federal help. And it includes some targeted service reductions.

We all must pay our way in this budget and we will ask many Maine Care participants to make modest payments toward their care.

Our budget also realizes savings from consolidating the Departments of Human Services and Behavioral and Developmental Services. This is an opportunity to eliminate duplication **and** improve services to citizens.

There will be no retreat from our obligations to provide crisis services. We will ensure that our institutions are strong and that we maintain the services required to address—and resolve—the issues laid out by the courts.

For too long the Department of Behavioral and Developmental Services has been operating under court orders and settlements, spending precious dollars on court masters, lawyers, and days in court. We need to reverse this trend. Dollars must be spent on people in need. Time must be spent in managing our programs more effectively.

We will tighten controls on prescription drug costs, and we will work with you to enact mental health parity. It's the right thing to do and it will end cost shifting and save Maine Care dollars.

Keeping Maine healthy is our goal, and this budget continues Maine's leadership in using funds from the tobacco settlement on our health care needs. While changes in allocations are needed, all of the Fund for Healthy Maine dollars remain invested in health care.

Our proposal creates an affordable and responsible social services and health care budget. And it does so **without** reducing eligibility.

This is also important to me: Even in these difficult budget times we must make investments and provide incentives to move Maine forward.

Unfortunately, given the large portion of the state budget represented by education funding, it must play its part in addressing the shortfall. However, I am pleased to report to you that my budget provides some additional funding to education, over the flat funding required of other agencies. In fact, as a percentage of the overall state budget, education funding will **increase**.

My budget proposes a one percent increase over flat funding—an additional \$7.5 million—in General Purpose Aid in the first year. This will allow schools time to generate efficiencies through resource-sharing that will aid them in the second year. For the second year, I propose an increase in school funding of almost \$5 million.

To confront our school funding problem, we must do more. I challenge education leaders to think and act creatively, to share resources and achieve efficiencies.

In my inaugural address, I promised to create a Task Force to help us devote as much of our education resources as we can to instruction. Tonight, I am signing an Executive Order to create that Task Force.

The Task Force will do the legwork to help schools enhance the education of our children even in tough times. It will bring people together to protect Maine's education excellence while modernizing education administration.

We also must do all we can to invest wisely in higher education. Recently, I attended a dedication of the new Mid Coast Center for Higher Education in Bath. This co-location of higher education offerings by the University and Technical Colleges provides a model for better serving Maine people beyond high school.

At the dedication, Chancellor Westphal of the University of Maine System and President Fitzsimmons of the Maine Technical College System signed an agreement to increase cooperation and efficiency. I want to recognize Chancellor Westphal and President Fitzsimmons here tonight. They are setting an example of thinking and acting outside of traditional boxes. That is what we **all** need to do.

To further encourage our institutions of higher education, my budget provides \$1 million in incentive funding for the University of Maine System, Technical Colleges and Maine Maritime Academy. This money will be distributed based on a demonstration of resource sharing that creates savings.

My budget also offers incentives to municipalities. While it delays the anticipated increase in municipal revenue sharing, it restores one-half of the amount in each of the next two years. All municipalities will benefit in the first year. In the second year, those who demonstrate resource-sharing that creates savings will benefit.

In this way municipal residents will benefit twice: once when local services are streamlined, and again from additional revenue sharing.

In tackling this budget, I have had the help of a dedicated staff. I want to thank Commissioner of Administration and Financial Services Becky Wyke for her tireless work.

Commissioner Wyke was my first Cabinet appointment. I'm pretty proud of that choice, and I know you in the Legislature agree.

And I want to thank Becky and Chief of Staff Jane Lincoln for marshaling the team that put this budget together.

These decisions to close the budget gap were very difficult. Some are sure to be unpopular.

But again, like the ice storm, this is only temporary. And even with these budget restraints, there is plenty we can do to improve opportunities in Maine.

We have a responsibility to look beyond this budget crisis and position Maine for the future. We all share the same goal: to create a strong sustainable economy in which our businesses thrive and our people prosper.

To prosper as many of our traditional jobs move overseas, our workers will need different skills and more advanced education.

For too many of our high school graduates or mid-career workers, post-secondary education is out of reach. The Maine Technical Colleges and Maine Adult Education Association have signed over 60 agreements partnering adult education programs with technical colleges. This is a step in better preparing Maine's next generation of workers.

But, each June, over 6000 students—43% of graduating seniors—leave high school and do not enroll in higher education. Maine must break this cycle.

A top goal of my administration is to bring college within reach of those who have not traditionally gone on. To do so we must offer them an affordable and accessible option.

That is why I will submit legislation **this session** to change our technical colleges into a true community college system for Maine.

In my budget, I have included \$1 million to transition our technical colleges into full community colleges. We will then join 45 other states, including every other state in New England, in having a two-year college system that offers career and transfer programs, low tuition, and a supportive environment. It is time to complete the transformation of the technical colleges and create the Maine Community College System.

Helping Maine families afford the cost of college in other ways is also important. I will submit legislation to use \$50 million in Maine's tax-exempt bond authority to reduce the interest on student loans.

As we work to provide education opportunities for Maine citizens, we must lay the foundation for a strong economy in other ways. To do so, I am submitting a detailed economic development plan that includes:

- Pine Tree Opportunity Zones that reduce taxes and offer pre-permitted construction sites in areas of Maine that need it most;
- An International Trade Zone to take advantage of the business opportunities between Maine, the Maritime Provinces and Quebec;
- A \$70 million economic development bond for research and development and affordable housing;
- A Blaine House Conference on Maine's Natural Resource Based Industries;
- The continuation of BETR, the investment program that has proven itself to be an effective job creator for Maine;
- And a One Step Initiative to better coordinate the state's economic development programs.

Let me talk briefly about all of these.

I will propose the establishment of eight Pine Tree Zones where unemployment levels are high and income levels are low. The zones will take advantage of Federal incentives already available in Maine so that we get the biggest bang for our buck.

We will establish zones in Aroostook, Androscoggin, Penobscot and Washington Counties. Four other zones will be awarded on a competitive basis. Preference will be given to applications that encourage regional cooperation.

Maine will also join with Quebec and the Maritime Provinces to create an International Trade Zone to promote joint efforts in trade, transportation and tourism. I have contacted the Premiers of Nova Scotia, Prince Edward Island, New Brunswick, and Quebec to enlist their support and coordinate our efforts.

These are positive steps we can take now to enhance our economic prospects. There is another bright spot for Maine in these troubled financial times: the state's ability to bond is in great shape. We have the capacity to make more investments in capital projects while interest rates are at an historic low.

In creating my bond package, I have been guided by four principles:

- Bonds must provide regional benefits;
- They must target well-defined projects ready for funding, that will provide a quick delivery of money into our economy;
- There must be a demonstrated and compelling need for funding; and
- Bonds must be used in ways that provide environmental or educational benefits to our state.

Governor King and the Legislature began the process of investing in Research and Development to bring Maine's economy into the 21st Century. That investment has encouraged a partnership between the University System and private research facilities like the Maine Medical Center Research Institution, the Foundation for Blood Research, and Jackson Laboratory.

This shows we **can** build a world-class research collaboration with spin-off development in emerging industries. In recent years, Maine has added jobs that pay an average of \$47,500 in biomedical research.

In Bangor, Engineered Materials of Maine has begun manufacturing wood composite products developed through research at the University of Maine. This will provide up to 100 jobs within the first year. Other research has resulted in small business start-ups like Stillwater Scientific Instruments that opened recently in Orono.

These efforts need to be expanded. Tonight, I am proposing a \$70 million economic development bond issue that includes \$43 million for research and development. The funds will support the joint biomedical research efforts of the University System, Jackson Laboratory, and the other biomedical research organizations around the state. I want to thank Warren Cook of Jackson Lab who has been a strong promoter of this partnership.

Other funds will continue our research in natural resource based industries in the University System.

We also establish a revolving loan fund to assist in equipping new business start-ups that have evolved from the natural resource industries research.

And, as I've said, affordable, accessible higher education is crucial to growing our economy. My economic development bond includes support for equipment needed by the Technical Colleges to move toward their new community college mission.

Housing is another key to economic development. I am proposing bond funds to stimulate development of workforce housing for renters and owners. I want to target these funds to those areas of the state where affordable housing is a major problem.

I have also included match money for municipal projects that are ready to be built, but have been stalled by local budget constraints. This will help ease the pressures on local property taxes while allowing communities to complete needed projects.

As we look to the new economy and jobs of the future, we must not forget the natural resource based industries that have long been the economic backbone of Maine. Fishing, farming, aquaculture, forestry and tourism face serious challenges today that threaten their long-term viability. Yet these industries play an important role in the economy and culture of Maine's rural communities.

I am organizing a Blaine House Conference to focus on Maine's natural resource based industries. We are planning a summit in April and a full Blaine House Conference in the fall. These industries are important to Maine, they always will be and we need to find ways to make them stronger.

Energy use is also important to the Maine economy. I'm pleased to tell you that the State will soon sign an agreement with Maine Natural Gas, the regional supplier for the Augusta area. We will become the anchor customer needed to get gas pipelines brought to the Statehouse complex to help lower our energy bills and reduce air emissions.

Saving energy saves jobs. Another initiative that has generated jobs for Maine people is the BETR program. Maine is one of only a few states in the northeast that imposes a personal property tax on machinery and equipment. This puts us at a serious disadvantage in attracting new businesses or new investment. BETR was designed to level the playing field, and it works.

Fraser Papers, located in Madawaska, is the largest manufacturer of lightweight opaque papers in North America. The Fraser paper mill is Madawaska's largest employer providing over 1000 jobs. Since 1995, BETR has enabled the company to invest \$125 million in job retention.

Because of the BETR program, management of Interface Fabrics Group chose to invest \$30 million in its Guilford plant instead of plants outside of Maine. That investment helped save the jobs of its 500 employees statewide.

At Dingley Press in Lisbon, 70 good paying jobs would have been eliminated if the BETR program hadn't been available. But as a result, in 1998 Dingley Press invested \$30 million in a new web offset press, and has since added 190 new jobs.

At a time when manufacturing jobs are disappearing in Maine and across the nation, we have too few tools to attract or retain good paying jobs. BETR is a program that has proven itself.

I am committed to an overall economic development strategy for Maine that is coordinated and efficient. We need a one-step process that is more user friendly. To that end, I am appointing a seven-member working group, chaired by Dana Connors, president of the Maine State Chamber of Commerce, to review our current system and report back in 90 days with recommendations to meet our objectives.

As you can see, we've set the bar high for ourselves and for our state.

It's been said that budget is policy. If so, the policy we are announcing tonight will rein in spending and invest in the future without raising taxes.

It won't be easy, but we **have** to do it.

I know all of you in this room have your own ideas about the state budget. You have your own priorities about cutting and spending, and they may look a little different than mine.

I look forward to working with you in the days ahead to ensure that the final budget we produce is the absolute best one for Maine.

This **is** a difficult time. It's a challenging time. But it's also a time of great opportunity. Our Yankee background, heritage and ingenuity equip us to meet the challenge and use the opportunity.

Last week we lowered the flag to half-staff in honor of seven astronauts who seized opportunity and took on challenges. Tonight we are raising the flag to full staff. This symbolism speaks of respect for what's lost, and the knowledge that, even in great sadness, we must look to the future.

The citizens of Maine want us to look to the future. They want us to solve our budget problems without partisanship and blame.

Maine people are watching and waiting, and we can't let them down. They are looking to us to bring our state through this financial ice storm.

We can't shrink from this responsibility. We weren't elected to take the easy way out. We were elected to make tough decisions.

With your help, and with the help of everyone in Maine, I know we can do this. Pulling together—as we did in the ice storm—we can balance this budget, put Maine on the road to better times, and create opportunity for all Maine people.

Thank you.