

MAINE STATE LEGISLATURE

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LAWS
OF THE
STATE OF MAINE

AS PASSED BY THE

ONE HUNDRED AND TWENTY-FIFTH LEGISLATURE

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Augusta, Maine
2011

**BUDGET ADDRESS
OF
GOVERNOR PAUL R. LEPAGE
FEBRUARY 10, 2011**

President Raye, Speaker Nutting, members of the 125th Legislature, and citizens of Maine, thank you for the invitation to discuss our budget submission for the 2012 / 2013 Biennium.

It takes a great deal of work to prepare a budget – especially for a newly elected Governor. I would like to begin by commending my transition budget team led by Sawin Millett and Tarren Bragdon for all their hard work. Volunteers all, they gave us great ideas and a great head start. I would also like to offer a special thanks to Ryan Low for temporarily joining our budget team.

Ryan's professionalism and dedication to public service is an example for all.

I must also compliment the 125th Legislature for the professional and bipartisan work that went into enacting the Supplemental Budget. Representative Flood, Senator Rosen and the entire Appropriations Committee have my thanks for a job well done. I also want to thank Speaker Nutting, President Raye, Representative Cain and Senator Hobbins for their leadership. I would welcome the same result with my biennial budget.

INTRODUCTION

Our 2012 / 2013 biennial budget is a jobs bill. It sets us on a path to keeping more money in the private sector and ends the expectation that every available resource should be devoted to funding the operations of state, county and community government.

Our budget includes long-term reforms that will make our state pension system and workforce more affordable. It increases aid to education and allows for transportation investments without adding to our debt burden. And this budget encourages hard work and independence through needed welfare reforms and tax cuts for Maine's small businesses and working families.

REFORM THE BUDGET PROCESS

Our budget was written without consideration for political interests or special favors. It makes tough choices and puts people first.

But it could have been more comprehensive if we had the time to conduct oversight and make informed decisions about the performance of state programs and agencies.

Our budget is being made available on the 37th day of my term. Given the logistics of drafting and printing the document, all of the major decisions were made

before I was in office a month and before most of my commissioners were confirmed.

Fifty members of the House and five Senators have no prior legislative experience. Collectively you represent well over a third of Maine's population and today is the 14th session day since you took office.

Every committee chair, member of leadership and presiding officer is also new to his or her post.

We should ALL be spending our first year on oversight and decision making. Every agency, program and service ought to start at zero and justify their objectives and practices. And before a budget is drafted, suggestions for improvement should be considered.

Because baseline budgeting and assumed increases are the norm, every biennial budget since 1992 but one has started with a deficit.

There is not a business, municipality, hospital or non-profit that would willingly flirt with insolvency every budget cycle the way state government does. We need to change the process.

Representative Ayotte has sponsored legislation, An Act To Establish a New Method of Determining the State Budget, starting the fiscal biennium in the second regular session of the Legislature. The bill is co-sponsored by President Raye, Representatives Cain and Curtis as well as Senators Rosen and Sherman.

Representative Ayotte's proposal would give all of us the time we need to conduct oversight and work with the agencies to set priorities. I strongly support the bill and would sign it right now if we could pass it by a show of hands.

PUBLIC DEBT

State government has been paying many of today's bills with tomorrow's revenues. Our indebtedness creates job-killing demands on our private sector and has to be reformed.

One of the most pressing concerns is the \$4.4 billion unfunded liability in our state pension system. Without reform, the payment for our pension liabilities totals \$449 million in the first year of the upcoming biennium. That is 15% of projected General Fund revenue. Within ten years the total annual cost to taxpayers is more than \$700 million.

If you do not think our pension liabilities are a problem, check with a constituent. Tell one of Maine's 653,000 tax filers in your district that her share of the

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unfunded pension liability, paid today, is \$6,500. Let her know that if she wants to finance her obligation we will need \$15,313 over the next 16 years.

Public sector employees have served our state and our communities. They have planned on a public pension to sustain their retirement and we cannot abandon them. But changes are needed so we can finance today's priorities without robbing the private sector of billions of dollars of potential job-creating investment.

Our budget calls for reasonable changes to the retirement system that saves \$524 million over the current biennium, with most of the savings accruing to the General Fund. This budget asks retirees to forgo cost of living increases in the short term and to accept modest increases in the future. This budget also asks retirees for the same shared sacrifice we are asking of our state employees and increases the retirement age to 65 for new and recent hires.

The two-year savings of over half a billion dollars realized by these modest changes is critical to funding today's priorities and sustaining the pension fund going forward.

Over the longer term, these changes reduce our unfunded pension liabilities by \$2.5 billion and reduce our retiree health liability by almost \$1 billion.

Our changes keep almost \$7 billion in Maine's private sector economy through 2028. All things being equal, the pension reforms in this budget save every Maine tax filer \$10,700 over the next 16 years.

Our proposal funds no new bonds, borrowing or deferred payments of any kind over the next two years. If a MaineCare patient goes to a hospital for critical care, we are going to pay the bill immediately.

Much of the additional savings or resources we identify over the biennium will go to repaying our remaining balances to Maine's health care facilities.

We plan to use savings at the Department of Transportation and General Fund dollars rather than borrowing to ensure we make critical infrastructure investments. And we have no plans to borrow in order to finance land acquisition, facility improvements or anything else. If the question is cash or credit, the answer is always the same.

Our total public debt obligation in Maine is \$12.9 billion – only \$500 million of which was actually approved by the voters as required by the Constitution.

SELECTED ADDRESSES TO THE LEGISLATURE

We owe twice as much in debt as we expect to collect in General Fund revenues over the next two years and our debt as a percentage of state GDP is twice the national average. Our problems will not go away overnight, but sensible reforms, fiscal discipline and time will clean up the state's balance sheet and put more money into the hands of job creators. If we were a private sector company, we would be in bankruptcy.

EDUCATION

Reforms to our pension liabilities make it possible to increase state aid to local education by \$63 million over the biennium from the state aid provided in FY 2011. In 2013 we will contribute \$914 million to General Purpose Aid to Education.

And it will not be enough. Education funding is never enough because too many resources are diverted before they reach the classroom. We are working on reforms that make the student the most important person in the classroom.

Our budget has no cuts for higher education. Our community colleges and universities have to remain affordable options for our high school graduates and for adults who need to upgrade their skills to remain competitive in a changing job market. We also continue to provide strong support for scholarship programs.

We need to consider additional ways to pay for the cost of higher education as well. While not included in our budget submission, I want to start the discussion about creating Maine Higher Education Savings Bonds.

A new initiative in our budget is a new collaboration between the Kennebec Valley Community College and Good Will-Hinckley to expand opportunities for kids who need a stable, alternative learning environment. The program will provide career training and prepare students for Maine's workforce.

Not every kid has the same needs or goals. Not every student is well served by traditional schools. Our resources need to follow the student to make sure his or her unique needs are being met.

TAXES

The cost of citizenship and business ownership in Maine is too high. We tax income, property, gas, sales, and pretty much every other traceable transaction in our economy.

As Ronald Reagan said, “If it moves, we tax it. If it keeps moving, regulate it. And, if it stops moving, subsidize it.”

We assess fees on almost every interaction residents have with their government and create disincentives for success and marriage. Every so often a rumor hits the Internet that the government will start taxing emails. And people fear it.

Our budget proposal cuts taxes by \$203 million over the biennium. We include conformity provisions that align Maine’s income tax code to federal provisions, saving state taxpayers money and aggravation.

Our budget eliminates the marriage penalty and increases the personal exemption for all Mainers. Coupled with a higher standard deduction, our changes completely eliminate state tax liability for an additional 15,000 Mainers at our lowest income levels.

And to help create jobs in Maine, we include bonus depreciation for businesses investing in our economy’s future.

We increase the exemption for the death tax to make it easier to pass a family business to the next generation and to reduce the incentive for moving wealth out of Maine.

And we lower the tax rate on families and business success from 8.5% to 7.95%, the lowest top income tax rate in Maine since 1975.

And we need to be clear. Maine’s top tax rate is not just for the rich. For the 2011 tax year, it will take just \$19,950 in taxable income to hit Maine’s top bracket for single filer and \$39,950 for joint filers; 240,000 families in Maine will see a savings as a result of the tax cut we propose.

Our budget also ends indexing of the gas tax in the second year, a levy that is especially hard on working Maine families and gets passed on to virtually every Maine business.

WELFARE REFORM

Maine was built by immigrants. The energy and aspirations of our immigrant ancestors powered our mills, carved out our farmland and built our shipyards. Maine must always be a welcoming place for those who seek an opportunity to advance through hard work and self-reliance.

Despite our heritage, Maine is one of just a few places in the country that offers “welfare-on-day-one,” for legal non-citizens. Our budget saves \$20 million by

eliminating instant eligibility for welfare benefits and sends the message that work and independence are what is expected of everyone in Maine.

Our budget also includes a true five-year time limit on welfare eligibility and incentives to help move people from dependence to self-sustaining employment. Based on ability to pay, we also ask MaineCare recipients to contribute to the cost of the state-sponsored health care coverage.

Unfortunately, we are limited in the reforms we can offer in MaineCare because of the Affordable Care Act out of Washington. Maine’s generosity is being penalized by the federal government.

There are additional savings to be had in MaineCare, but federal mandates force us to look elsewhere.

Our welfare reform also includes mandatory drug testing of program participants convicted of drug offenses. If we are serious about helping people move to independence and work, we must address the barriers caused by addiction. Otherwise, we are spinning our wheels and squandering state resources.

STATE WORKFORCE

Some say, state government is too big to fail, but does not deliver enough value to taxpayers. Big changes are needed, but we are going to be smart about it.

My budget has no mass layoff, no furlough days, no across-the-board cuts and no gimmicks.

There will be continued shared sacrifices for members of our state workforce. But people who work for Maine can expect to earn more next year than they do today.

We start the process of making state government more affordable by maintaining a real hiring freeze. Truly essential positions will be filled, but we will ask every agency to look for efficiencies first.

Our budget also includes a retirement incentive for state workers. Age-eligible employees who leave the workforce before the end of this calendar year will receive a small cash payment and enter the retirement system before cost saving adjustments are made to the program.

My message to state employees is clear. If you start each work day thinking about serving the public, there is a place for you in state government regardless of age. If you come to work to fill in time until you are age-eligible for retirement, we have built in incentives for you to expedite the process.

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SELECTED ADDRESSES TO THE LEGISLATURE

CONCLUSION

We have offered a budget free of gimmicks and politics. We have made hard choices that put Maine people first, values work and investment, and makes needed reforms to our state workforce, pension and welfare systems.

I look forward to your review of my proposals and working together to enact and implement a spending and reform plan that moves Maine forward. Thank you.