

# MAINE STATE LEGISLATURE

The following document is provided by the  
**LAW AND LEGISLATIVE DIGITAL LIBRARY**  
at the Maine State Law and Legislative Reference Library  
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals  
(text not searchable)

**JOINT STANDING COMMITTEE ON  
TAXATION**

**LD 1614 PART 2 BUDGET BILL**

**FY 04 - 05**

**THIS FILE CONTAINS THE FOLLOWING:**

**Departmental Impact Forms  
Testimony  
Committee Recommendations**

**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Bureau of Revenue Services

**Account Number(s):** 010 18F 0002 **PART A, Taxation** **Page # in Bill:** 2

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>	<u>(\$7,000)</u>	<u>(\$7,200)</u>
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Provides for the deappropriation of All Other funds to help offset the budget shortfall.

**Description of Impact on Program(s) – BE SPECIFIC:**

There is no impact as a result of this initiative. The program will operate within remaining available resources.

**Does this Initiative have an impact on the 2006-2007 Biennium?**

YES

(please explain below)

The savings are considered permanent.

**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Bureau of Revenue Services

**Account Number(s):** 010 18F 0002 **PART C, Taxation** **Page # in Bill:** C-2

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>	<u>(\$4,904)</u>	<u>(\$5,131)</u>
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Provides for the appropriation of Personal Services funds in the amount of \$29,697 in FY04 and \$28,980 in FY05 and the subsequent deappropriation of All Other funds in the same amounts to self-fund the reclassification of one Data Entry Specialist position to an Economist position. Also provides for the deappropriation of All Other funds in the amount of \$4,904 in FY04 and \$5,131 FY05 to support the position upgrade in the Bureau of the Budget.

**Description of Impact on Program(s) – BE SPECIFIC:**

Supplementing the Bureau of Revenue Services with an Economist position will strengthen the statewide financial oversight responsibility of DAFS and allow for improved input into the revenue forecasting process.

**Does this Initiative have an impact on the 2006-2007 Biennium?**

**YES**

(please explain below)

These are permanent reclassifications.

**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Business Equipment Tax Reimbursement

**Account Number(s):** 010 18F 0806 **PART C, Taxation**

**Page # in Bill:** C-4

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>	<u>(\$4,442,635)</u>	<u>(\$4,217,739)</u>
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Provides for the deappropriation of All Other funds from savings achieved by issuing BETR reimbursements in the subsequent year that the tax is due and payable, rather than the same year.

**Description of Impact on Program(s) – BE SPECIFIC:**

There is no impact as a result of this program. The current services budget for FY04 and FY05 was not adjusted to reflect the change that was implemented last session and took effect in fiscal year 2002-03.

**Does this Initiative have an impact on the 2006-2007 Biennium?**

**YES**

(please explain below)

The reimbursement timeframe change is permanent.

**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 **LANGUAGE, Taxation** **Page # in Bill:** Supp-1

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other – Internal Service Fund</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other – Internal Service Fund</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>	<u>(\$43,800)</u>	<u>(\$60,200)</u>
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Sec. E-1. This language repeals that part of law enacted in Public Law 2003, chapter 20 regarding the taxable status of interest on certain types of school construction bonds.

**Description of Impact on Program(s) – BE SPECIFIC:**

This initiative will exempt interest on certain types of school construction bonds which will result in a reduction to undedicated revenue to the General Fund in fiscal year 2003-04 and fiscal year 2004-05.

**Does this Initiative have an impact on the 2006-2007 Biennium?**

**YES**

(please explain below)

**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 **LANGUAGE, Taxation** **Page # in Bill:** Supp-  
1

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other – Internal Service Fund</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other – Internal Service Fund</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>	<u>\$1,900,000</u>	
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Sec. E-3 and Sec. E-4. This language changes the dates of the Amnesty Program enacted in Public Law 2003, chapter 20. It changes the taxpayer liability date from April 16, 2003 to August 31, 2003. It extends the time period during which an amnesty return may be filed by one month to November 30, 2003.

**Description of Impact on Program(s) – BE SPECIFIC:**

These changes are expected to result in increased revenues to the General Fund in fiscal year 2003-04.

**Does this Initiative have an impact on the 2006-2007 Biennium?**

NO  
(please explain below)

**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 **LANGUAGE, Taxation** **Page # in Bill:** Supp-  
1

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other – Internal Service Fund</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other – Internal Service Fund</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>	<u>(\$137,075)</u>	<u>(\$273,733)</u>
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Sec. E-5. This language repeals Public Law 2003, chapter 20, Part X relating to changes in the Maine Seed Capital tax credit.

**Description of Impact on Program(s) – BE SPECIFIC:**

The Maine Seed Capital tax credit is a tax incentive program administered by the Finance Authority of Maine to encourage investment in new and recent business ventures in Maine through private venture capital funds. Public Law 2003, chapter 20, Part X suspended expansion of investments eligible for income tax credits made after June of 2002; Section E-5 in this Part II request repeals that suspension.

The expected costs to the General Fund the result of this repeal are \$137,075 in FY04 and \$273,733 in FY05.

**Does this Initiative have an impact on the 2006-2007 Biennium?**

NO

(please explain below)



**2004-2005 "Part 2" Budget Bill**  
**Departmental Impact Form**  
**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** State Board of Property Tax Review

**Account Number(s):** 010 94K 0357 **PART C, Taxation** **Page # in Bill:** C-30

**FY 2003-04**

**FY 2004-05**

**Position or FTE Increase [i.e. (0.000)] / Decrease [i.e.(-0.000)]:**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Appropriation or Allocation Increase / (Decrease):**

<u>General Fund</u>	<u>\$0</u>	<u>\$0</u>
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Revenue or Balance Transfer Increase / (Decrease):**

<u>General Fund</u>		
<u>Federal Funds</u>		
<u>Other Special Revenue funds</u>		
<u>Other (please specify)</u>		

**Description of Initiative:**

Provides for the transfer of \$12,000 from All Other funds to Personal Services funds.

**Description of Impact on Program(s) – BE SPECIFIC:**

This is necessary to correct a line category entry error in Public Law 2003, chapter 20, Part B. This transfer accurately reflects per diem costs within the Personal Services line category.

**Does this Initiative have an impact on the 2006-2007 Biennium?** NO  
(please explain below)

# TESTIMONY SIGN IN SHEET

COMMITTEE ON Appropriations and Financial Affairs

L.D. # OR CONFIRMATION: \_\_\_\_\_ LD 1614 Part 2 Budget Bill

DATE: \_\_\_\_\_ 8-May-03

**PLEASE PRINT!!**

## Taxation

	NAME	TOWN/AFFILIATION	PROPONENT	OPPONENT	NEITHER FOR NOR AGAINST
1.	Rebecca Wyke	Commissioner of DAFS			
2.	Michael Allen	Maine Revenue Service			
3.	Errol Dearborn	Amnesty Program			
4.	Jerome Gerard	Acting Tax Assessor			
5.					
6.					
7.					
8.					
9.					
10.					
11.					
12.					
13.					
14.					
15.					
16.					



TESTIMONY OF  
REBECCA WYKE, COMMISSIONER  
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

Before the Joint Standing Committee on Appropriations and Financial Affairs  
And the Joint Standing Committee on Taxation

Hearing Date: May 8, 2003

“An Act Making Supplemental Appropriations and Allocations for the Expenditures of State Government and Change Certain Provisions of the Law Necessary to the Proper Operation of State Government for the Fiscal Years Ending June 30, 2004 and June 30, 2005.”

Senators Cathcart and Stanley, Representatives Brannigan and Lemoine, and Members of the Committees on Appropriations and Financial Affairs and Taxation, my name is Rebecca Wyke and I am the Commissioner of Administrative and Financial Services. I am here to present testimony in support of those items presented in the Part II Budget Bill that pertain to the Department, specifically Maine Revenue Services.

**PART A**

Our first request may be found in Part A and provides for the deappropriation of All Other funds to help offset the budget shortfall. The program will absorb this deappropriation and operate within remaining available resources.

**PART C**

Our next request may be found in Part C and provides for the appropriation of Personal Services and the subsequent deappropriation of All Other funds

in the same amounts to self-fund the reclassification of one Data Entry Specialist position to an Economist position. Supplementing Maine Revenue Services with an Economist position will strengthen the statewide financial oversight responsibility of DAFS and allow for improved input into the revenue forecasting and monitoring processes. This request also provides for the deappropriation of some All Other funds to support a position upgrade in the Bureau of Budget.

The next request may also be found in Part C and provides for the deappropriation of All Other funds from savings achieved by issuing Business Equipment Tax reimbursements in the year subsequent to when the tax is due and payable, rather than the same year, pursuant to Public Laws 2001, chapter 714. The Part I Current Services Budget for FY04 and FY05 (Public Laws 2003, chapter 20) did not properly reflect the ongoing effect of the FY '03 BETR push.

## **LANGUAGE**

Section E-1 and Section E-2 repeal those parts of law enacted in Public Law 2003, chapter 20 regarding the taxable status of interest on certain types of school construction bonds. These sections will exempt interest on those types of school construction bonds and will result in a reduction to undedicated revenue to the General Fund in FY04 of \$43,800 and FY05 of \$60,200.

Section E-3 and Section E-4 relate to the Amnesty Program. Section E-3 changes the taxpayer liability eligibility date from April 16, 2003 to August 31, 2003. This change allows more people to take advantage of the amnesty

program. Section E-4 extends the time period during which an amnesty return may be filed by one month to November 30, 2003. This change was a result of evaluating the success of a similar extension program in Massachusetts. By extending the program timeline more eligible taxpayers participated in the program due to increased awareness, eligibility and ability to pay.

The next request may be found in Section E-5. This language repeals Public Law 2003, chapter 20, Part X relating to changes in the Maine Seed Capital tax credit. The Maine Seed Capital tax credit is a tax incentive program administered by the Finance Authority of Maine to encourage investment in new and recent business ventures in Maine through private venture capital funds. Chapter 20, Part X suspended expansion of investments eligible for income tax credits after June 2002; this section repeals that suspension. The expected costs to the General Fund as a result of this repeal are \$137,075 in FY04 and \$273,733 in FY05.

Our final request relating to Maine Revenue Services may be found in Section E-13 and provides for the establishment of a Tax Conformity Reserve as an account within the General Fund to reserve funds to be used to conform the State's tax laws to the United States Internal Revenue Code.

I would be happy to answer any questions you may have at this time.

SENATE

STEPHEN S. STANLEY, DISTRICT 3, CHAIR  
ETHAN STRIMLING, DISTRICT 28  
RICHARD A. NASS, DISTRICT 34

JULIE JONES, LEGISLATIVE ANALYST  
JO-ELLEN STAPLES, COMMITTEE CLERK



STATE OF MAINE

ONE HUNDRED AND TWENTY-FIRST LEGISLATURE

COMMITTEE ON TAXATION

HOUSE

DAVID G. LEMOINE,  
OLD ORCHARD BEACH, CHAIR  
JOSEPH C. PERRY, BANGOR  
BERNARD E. MCGOWAN, PITTSFIELD  
DEBORAH L. SIMPSON, AUBURN  
ARTHUR L. LERMAN, AUGUSTA  
EDWARD J. SUSLOVIC, PORTLAND  
HAROLD A. CLOUGH, SCARBOROUGH  
JONATHAN T.E. COURTNEY, SANFORD  
EARLE L. MCCORMICK, WEST GARDINER  
JOSHUA A. TARDY, NEWPORT

**DATE:** May 9, 2003

**TO:** Sen. Mary Cathcart, Senate Chair  
Rep. Joseph Brannigan, House Chair  
Members, Joint Standing Committee on Appropriations and Financial Affairs

**FROM:** Sen. Stephen Stanley, Senate Chair *SSS*  
Rep. David Lemoine, House Chair *[Signature]*  
Members, Joint Standing Committee on Taxation

**RE:** Committee recommendations with regard to **LD xxxx, An Act To Make Supplemental Appropriations and Allocations for the Expenditures of State Government and to Change Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2004 and June 30, 2005.**

---

The Joint Standing Committee on Taxation has reviewed the taxation-related provisions of the Part 2 budget bill and submits to you the attached chart identifying the Committee's recommendations on the items subject to our review.

In addition to the Committee's review of proposals made by the Governor in the Part 2 budget bill, several Committee members have proposed additional items for inclusion in the bill. These items and the Committee's votes are also identified on an attached chart.

If we can be of assistance as you proceed with your consideration of the Part 2 budget bill, please do not hesitate to contact us.

g:\ofpr\taxcmte\121st\pt2memo.doc

# JOINT STANDING COMMITTEE ON TAXATION

## Taxation-related provisions of LD xxxx, the Part 2 Budget Bill

Item	LD Sec.	draft page	Program/Provision	Fund	Part 2 Budget Proposals		Committee Recommendations	
					FY 04	FY 05	FY 04	FY 05
1	C-1	C-30	<b>Board of Property tax Review</b> Correction of Part 1	GF	PS \$12,000 AO (\$12,000)	PS \$12,000 AO (\$12,000)	Approved 11-0 (Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Simpson, Stanley, Suslovic)	
2	A-1	2	<b>Bureau of Revenue Services</b> Deappropriates funds to help offset the budget shortfall	GF	AO (\$7,000)	AO (\$7,200)	Approved 11-0 (Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Simpson, Stanley, Suslovic)	
3	C-1	C-2	<b>Bureau of Revenue Services</b> Provides for the reclassification of a Data Entry Specialist position to an Economist position; self-funded through deappropriation of All Other. Also provides deappropriation of All Other funds to support the position upgrade in the Bureau of the Budget		PS \$29,697 AO (\$34,601) (\$4,904)	PS \$28,980 AO (\$34,601) (\$5,131)	Approved 11-0 (Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Simpson, Stanley, Suslovic)	
4		C-4	<b>Business Equipment Tax Reimbursement</b> Deappropriates funds from ongoing savings achieved from the change in the beginning of the filing period from April 1 to August 1	GF	AO (\$4,442,635)	AO (\$4,217,739)	<p>Approved 12-0 (Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Simpson, Stanley, Strimling, Suslovic)</p> <p><u>ADDITIONAL RECOMMENDATION:</u> Rep. Lerman, Rep. Simpson and Sen. Strimling also recommend reducing BETR reimbursements to 80% of property taxes paid on eligible property and further recommend that eligibility be eliminated for property placed in service in retail businesses. This recommendation would apply to property currently in the BETR program as well as property entering the program prospectively. The proponents of this recommendation estimate that the savings to the State would be at least \$10 to \$15 million per year.</p>	

Item	LD Sec.	draft page	Program/Provision	Fund	Part 2 Budget Proposals		Committee Recommendations	
					FY 04	FY 05	FY 04	FY 05
5	E-1 E-2	Langu age 1	<b>Tax conformity: Education-related bond:</b> Repeals provisions enacted in the Part 1 budget delaying conformity with federal expansions of deductibility for certain school construction bonds and private activity bonds for educational instruction.	GF	Revenue loss (43,800)	Revenue loss (\$60,200)	Approved 10-1 (YES -- Clough, Courtney, Lemoine, McCormick, McGowan, Nass, Perry, Simpson, Stanley, Suslovic; NO - Lerman)	
6	E-3 E-4	Langu age 1	<b>Tax Amnesty:</b> Delays from 4/16/03 to 8/31/03 the date for tax delinquencies eligible for Tax Amnesty  Extends the end date of the period for applying for Tax Amnesty from 10/31/03 to 11/30/03		Revenue increase \$1,900,000		Approved 11-0 (Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Simpson, Stanley, Suslovic)	
7	E-5	Langu age 1	<b>Seed capital tax credit:</b> Repeals the delay of increases in the seed capital tax credit enacted in the Part 1 budget		Revenue decrease (\$137,075)	Revenue decrease (\$273,733)	Approved 11-1 (YES -- Clough, Courtney, Lemoine, McCormick, McGowan, Nass, Perry, Simpson, Strimling, Stanley, Suslovic; NO -- Lerman)	
8	E-13	Langu age 3	<b>Tax Conformity Reserve</b> Establishes a reserve account for the transfer of FY 2002-03 and FY 2003-04 unappropriated surplus remaining after all other required transfers and deductions to be used to fund conformity of the State's tax laws with the United States Internal Revenue Code				Approved 10-2 (YES -- Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Stanley, Suslovic; NO -- Simpson, Strimling)  The Committee requests that the administration provide the Legislature with a report by January 1, 2004 identifying and prioritizing the intended uses of funds in the reserve.	



# **ADDITIONAL PROPOSALS FROM MEMBERS OF THE TAXATION COMMITTEE:**

Item	LD Sec.	draft page	Program/Provision	Fund	Estimated Fiscal Impact of Proposal		Committee Recommendations	
					FY 04	FY 05	FY 04	FY 05
9			<b>Milk Handling Fee:</b> Three Committee members recommend the inclusion within the Part 2 budget of legislation establishing a Milk Handling Fee as proposed by LD 345. This recommendation includes passage of LD 338 that provides relief to dairy farmers and would free up General Fund money currently appropriated to support the State's dairy farmers and provide additional funds to permit retention of funding that supports the State's most vulnerable populations.	GF	Proponents estimate that the net impact of this proposal would be a General Fund gain of up to \$4.5 million in FY 2003-04.		3 member support this recommendation (Lerman, Simpson, Strimling)  9 members do not support this recommendation (Clough, Courtney, Lemoine, McCormick, McGowan, Nass, Perry, Stanley, Suslovic)	
10			<b>Health Assessment (Alcohol)</b> Four Committee members recommend the inclusion in the Part 2 budget of a Health Assessment fee modeled on LD 198 increasing the excise taxes on spirits, beer and wine by 25%. This recommendation would provide additional funds to permit retention of funding that supports the State's most vulnerable populations.	GF	Revenue increase: \$7,248,116	Revenue increase: \$9,664,154	4 members support this recommendation (Lerman, Simpson, Strimling, Suslovic)  8 members do not support this recommendation (Clough, Courtney, Lemoine, McCormick, McGowan, Nass, Perry, Stanley)	
11			<b>Health Assessment (Tobacco)</b> Two Committee member recommends increasing the tax on cigarettes by 15 cents per pack and the tax on other tobacco products proportionally	GF	Revenue increase: \$12.6+ million per year		2 members support this recommendation. (Suslovic and Strimling)  10 members do not support this recommendation (Clough, Courtney, Lemoine, Lerman, McCormick, McGowan, Nass, Perry, Simpson, Stanley)	
12			<b>Tax conformity: Child and dependent care credit</b> Six members of the committee recommend reversing the reduction in the child and dependent care credit enacted in the Part 1 budget and restoring the State credit to 25% of the federal credit	GF	(\$545,231)	(\$459,052)	6 members support this recommendation (Courtney, Lerman, Nass, Simpson, Strimling, Suslovic)  6 members do not support this recommendation (Clough, Lemoine, McCormick, McGowan, Perry, Stanley)	

13			<b>Tax conformity: Earned income tax credit</b> Six members of the committee recommend reversing the reduction in the earned income tax credit enacted in the Part 1 budget and restoring the State credit to 5% of the federal credit	GF	(\$22,031)	(\$21,030)	6 members support this recommendation (Courtney, Lerman, Nass, Simpson, Strimling, Suslovic)  6 members do not support this recommendation (Clough, Lemoine, McCormick, McGowan, Perry, Stanley)
----	--	--	---	----	------------	------------	--

O.F.P.R.  
2003 MAY 22 AM 9:02

SEVERIN M. BELIVEAU  
sbeliveau@preti.com

May 21, 2003

Hon. Mary Cathcart, Senate Chair  
Hon. Joseph Brannigan, House Chair  
Joint Standing Committee on Appropriations & Financial Affairs  
State House  
Augusta, ME 04333

**Re: Repeal Temporary Legislation Taxing Certain Section 529 Plan Withdrawals**

Dear Senator Cathcart and Representative Brannigan:

Thank you for meeting with me to discuss the concerns raised by my clients, The Investment Company Institute and the Securities Industry Association, regarding the recent legislative decision to tax certain Section 529 Plan Withdrawals. Both of these associations strongly support initiatives that encourage Americans to save more to meet their long-term needs, including the education needs of their families. Section 529 plans, such as the Nextgen College Investing Plan, have proven to be excellent college savings vehicles. A major reason for the attractiveness of these plans is the 2001 federal tax change that excludes from income the earnings portion of any withdrawal that is used for qualified higher education expenses.

We urge the Committee to support a repeal of the recent legislation that "deconformed" Maine's tax laws with respect to withdrawals made during 2003, 2004 and 2005 -- unless the withdrawal is from a Maine-sponsored plan. This recent change will have negative consequences on the efforts of Maine residents to save for the educational needs of their families, including confusion that will arise from the limited, short-term nature of the change. I have spoken with the Senate President, the Speaker of the House and the House Majority Leader, all of whom stated that they would also support the repeal of the deconformity legislation. The vast majority of states have conformed to the federal tax exemption for qualified section 529 plan withdrawals because the states recognized the importance of encouraging saving for college education. Among other things, conformity simplifies tax compliance and eliminates unnecessary confusion for investors (as federal tax conformity is available regardless of the section 529 plan in which the taxpayer invests).

As you are aware, while Maine initially conformed to the federal change, the legislature recently reversed its position in the Part I budget and "deconformed" for withdrawals made during 2003, 2004 and 2005 -- unless the withdrawal is from a Maine-sponsored plan. This recent change will have negative consequences on the efforts of Maine residents to save for the educational needs of their families, including confusion that will arise from the limited, short-term nature of the change.

PRETI FLAHERTY  
Honorable Mary Cathcart, Senate Chair  
Honorable Joseph Brannigan, House Chair  
May 21, 2003  
Page 2

The fiscal challenges that Maine and other states face are significant and the avenues for funding state operations are not always attractive. However, the pro-saving and pro-simplification benefits that federal tax conformity on withdrawals provides to Maine residents significantly exceed the approximately \$14,000 per year that would be saved by the recent legislative change.

Because of the importance of section 529 plans to Maine residents, and your solid commitment to education and to initiatives designed to ensure greater access to higher education, we respectfully request your support to promptly restore federal conformity to Maine law during the supplemental budget process by reversing the changes made by LD 1319.

Sincerely yours,

A handwritten signature in dark ink, appearing to be 'Sev', written over a horizontal line.

Severin M. Beliveau

SMB:ll



STATE OF MAINE  
EXECUTIVE DEPARTMENT  
STATE PLANNING OFFICE  
38 STATE HOUSE STATION AUGUSTA, MAINE 04333

JOHN ELIAS BALDACCI  
GOVERNOR

DAVID H. KEELEY  
ACTING DIRECTOR

May 25, 2003

To: Senator Mary R. Cathcart, Chair  
Representative Joseph C. Brannigan  
Members, Joint Standing Committee on Appropriations

From: Laurie Lachance, State Economist  
Chair – Revenue Forecasting Committee

Re: Budget Stabilization

\*\*\*\*\*

Thank you for the opportunity to discuss budget stabilization. I wanted to follow-up on some of the questions that had been raised and to send you the work that had been done on this topic in 1993-1994.

In reading the "Review of Various Reserve Fund Proposals by the Maine Revenue Forecasting Committee", it is striking how very similar the experience of the mid-eighties and early nineties was to the revenue boom-bust period we have experienced in the past 6 years or so. Had we followed our own advice from that March 1994 report, we would likely have avoided the wild surplus/deficit swings that have caused such pain lately. I would draw your attention to pages 8 and 9 of the report, where the Committee recommended a number of key characteristics that an effective reserve fund should have. Some of the elements include:

- A formula should be developed which directly limits General Fund expenditures
- This formula should be tied to a broad measure of economic health
- A 5-year moving average of nominal personal income growth was suggested
- Any revenues estimated to exceed the ceiling should be deposited into the fund
- Any year-end surpluses, after necessary transfers, should be deposited as well
- Money can be transferred out of the fund to cover any resource shortfall to meet the expenditure limit
- Any other transfer would require a 2/3s vote of the Legislature
- A specified cap on reserve fund size is not necessary

In large part, the Budget Stabilization Fund that you are now considering fits most of the key elements mentioned above. For that reason, I would suggest that the proposal is sound.

A few questions arose over the following pieces:

What is the appropriate economic indicator to use?

I strongly recommend the use of personal income as it is the best overall indicator of Maine's economic health, and it is generally available in a timely manner.

Over what time span should the historic average growth be calculated?

I would recommend somewhere between 5 and 10 years. Five years reflects the most current economic conditions and 10 years means that you would likely capture the whole business cycle's activity. It's really just a judgment call on your part. The 10 year average suggested in the proposal is certainly reasonable.

How big should the fund be allowed to grow?

Given recent experience, it appears that 6% is too small to be effective in a downturn. Our study in 1994 concluded that, if the fund had been established in 1985 and allowed to grow without limit, it would have reached about 33% of the size of the General Fund, there would have been no need for tax hikes, there would have been no crisis, and there would have been money left in the fund after the recession. Obviously, 33% is very high and it is unlikely that Legislators would have chosen to let the fund accumulate to that level. The suggested 20% cap is reasonable, particularly if the Legislature has the ability to make withdrawals with a 2/3s vote.

Isn't there an opportunity cost of the State "banking" that amount of money?

Yes there is, but in my mind, it does not compare to the opportunity costs which occur when huge budget swings prevent us from making long-term investments that are critical to our economic viability. As we have seen in the past, when money gets very tight or cuts have to be made, it is extremely difficult to provide a steady stream of revenues flowing to the foundational pieces of our budgets, like k-12 education, the University and Technical College Systems, Research and Development, and technology. Further, I believe that the public expects us to be prudent and to plan for the inevitable ups and downs, as a household or business would. Financial Advisors recommend that clients keep 6 months of expenses available for any emergency that might arise. A 20% cushion would certainly be helpful, though not extreme by that measure.

Should this mechanism be put in the Constitution?

This would be the way to absolutely impose fiscal discipline, but would completely remove your ability to be flexible and respond to very real needs and unanticipated costs. It may be worth trying the mechanism first and then, if it isn't working, add another layer of discipline.

In summary, past experience suggests that now is the time to put a stabilization plan in place, while the memory of the recent budget cuts is fresh and before the next upturn lures us into potentially spending beyond our means. Thanks for your time and interest in this topic.

Rev. Fin.

March 4, 1994

MEMORANDUM

TO: Michael D. Pearson, Senate Chair  
Lorraine N. Chonko, House Chair  
Joint Standing Committee on Appropriations and Financial Affairs

FROM: Laurie Lachance  
State Economist  
Chair, Revenue Forecasting Committee

RE: Review of Various "Reserve Fund" Legislative Proposals

---

Last May, you had requested that the Maine Revenue Forecasting Committee review the four reserve fund Legislative proposals that were being considered by your Committee and present a recommendation to you during the Second Regular Session. Over the past several weeks, a subcommittee has been meeting regularly to examine the various proposals and to identify the characteristics of an effective budget stabilization mechanism. The full Committee met on Monday to discuss the findings and to formulate a recommendation.

We realize the significance of this issue and appreciate the difficulty in selecting between the four proposals, each of which has distinct merits. However, given that the Revenue Forecasting Committee was established solely for the purpose of projecting General Fund and Highway Fund Revenues, we did not feel it was appropriate for us to delve too deeply into policy issues. Therefore, the Committee has not selected one of the four proposals as being preferable, nor has it drafted a fifth plan to supersede those being considered. What we have done is prepare an analysis that:

- provides a brief description of each reserve fund proposal laid out in such a manner so as to facilitate comparisons
- identifies what the committee sees as the strengths and weaknesses of the various proposals
- recommends a number of key characteristics that we feel should be included in any plan that is adopted

Though the theory behind establishing a mechanism to mitigate the disruption and pain caused by budget deficits is one which the Committee finds attractive and desirable, there is some thought on the Committee that limiting fundamental fiscal decisions may bring about undesirable and unanticipated results. The Committee cautions that any mechanism adopted should allow enough flexibility to deal with these problems as they arise.

Thank you for the opportunity to offer our insights. If you have any questions on our analysis, please do not hesitate to call.

LGL/jmb

cc: Revenue Forecasting Committee Members  
Stephen Adams  
Sawin Millett

A handwritten signature in dark ink, appearing to read "Gary J. Jachm". The signature is fluid and cursive, with a long horizontal stroke at the end.



---

REVIEW OF VARIOUS "RESERVE FUND"  
PROPOSALS BY THE MAINE  
REVENUE FORECASTING COMMITTEE

March 14, 1994

Laurie G. Lachance, State Economist  
Chairperson

Dr. James Breece, Economics  
Department, University of Maine  
Orono

John D. LaFaver, State Tax Assessor

John R. Nicholas, State Budget Officer

---

## TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY	1
II.	BACKGROUND	2
III.	REVIEW OF RESERVE FUND PROPOSALS	2
	A. L.D. NO. 302 - Resolution to Amend the Constituion of Maine Regarding the Rainy Day Fund	3
	B. L.D. NO. 1167- An Act to Create the Maine Budget and Economic Stabilization Fund	4
	C. L.R. NO. 1886- An Act Regarding Budgetary Surplus	6
	D. L.R. NO. 587 - An Act to Create the Maine Budget and Economic Stabilization Fund	7
IV.	SUGGESTED ELEMENTS OF A WORKABLE STABILIZATION PLAN	8

## I. EXECUTIVE SUMMARY

During the First Regular Session of the 116th Legislature, the Appropriations Committee considered four reserve fund proposals which would, either slightly or significantly, change the current law concerning the Maine Rainy Day Fund. At that time, the Committee voted to carry-over the bills and to take them up in the Second Regular Session. The Committee's motion also requested that the Maine Revenue Forecasting Committee review the various proposals and present a recommendation in early 1994.

This report summarizes the findings of the Revenue Forecasting Committee. The following proposals were examined by the group:

LD 302 Resolution to Amend the Constitution of Maine  
Regarding the Rainy Day Fund

LD 1167 An Act Creating the Maine Budget and Economic  
Stabilization Fund

LR 1886 An Act Regarding Budgetary Surplus

LR 587 An Act to Create the Maine Budget and Economic  
Stabilization Fund

The Committee reviewed the bills and identified strengths and weaknesses of each. In addition, the group examined each plan to see how well it would have performed during the economic downturn of 1990 and 1991. Drawing from the strengths of the four proposals and recognizing the relative ability of each plan to actually carry out its intended purpose, the Committee assembled a list of what it felt were the characteristics of a workable budget stabilization plan. Though the Committee neither selected one particular proposal as being preferable, nor created a fifth plan, the group generally agreed that any one of the four bill drafts under consideration could be modified and strengthened by ensuring that the following elements were included:

- The Rainy Day Fund should be eliminated so that there would be only one plan to administer.
- The plan should place direct limitations on expenditure growth. (An example is included on page 8 of this report)
- Funds should be primarily used to balance the budget in years of resource shortfalls.
- Withdrawals from the fund should be used to cover one-time costs.
- A specified cap on reserve fund size is not necessary.
- The plan should allow flexibility to ensure that funds are available to meet the most important needs
- The plan should be fairly easy to administer.
- While a constitutional amendment would be an extreme form of implementation that limits flexibility, it would be a method certain of achieving fiscal restraint.

Though the theory behind establishing a mechanism to mitigate the disruption and pain caused by budget deficits is one which the Committee finds attractive and desirable, there is one thought on the Committee that placing fundamental fiscal decisions on automatic pilot may bring about undesirable and unanticipated results. The Committee cautions that any mechanism adopted should allow enough flexibility to deal with these problems as they arise.

## II. BACKGROUND

The early 1990s was an extremely painful and disruptive period of time for Maine lawmakers. Following a decade of unprecedented economic growth and prosperity, the economic collapse of 1990 led to the first decline in State General Fund Revenues in decades. The resulting budget crisis was neither easily resolved nor easily forgotten.

In an effort to avoid a replay of this nightmare, four reserve fund proposals were offered for consideration during the First Regular Session of the 116th Legislature. The proposals were similar in that each sought to create a reserve fund which could be used in times of economic downturn to mitigate disruption and painful dislocation and, in a sense, stabilize the operation of State Government through cyclical swings. The plans differed considerably, however, in degree of complexity, flexibility and in their ability to carry out the intended purpose.

## III. REVIEW OF RESERVE FUND PROPOSALS

The Revenue Forecast Committee reviewed each of the proposals and identified what we felt were key characteristics necessary for inclusion in any plan that would be adopted. The analysis is laid out in the following manner:

- The five key components of a reserve fund plan were identified as:
  - Purpose
  - Limitations on General Fund expenditures
  - Deposits into reserve fund
  - Withdrawals from reserve fund
  - Limits to reserve fund size
- Within the "five key components" framework, a brief description of each proposal has been prepared
- The strengths and weaknesses of each proposal were identified

The Committee structured its review of the four proposals in such a way as to facilitate the process of comparing and contrasting the alternatives. Finally, on pages 8-10, the Committee used the same framework to identify what it felt should be included or at least considered in each of the five key components.

Resolution to Amend the Constitution of Maine  
Regarding the Rainy Day Fund

L.D. No. 302

BRIEF DESCRIPTION

Purpose:

- Purposes to amend the Constitution of Maine to impose a limit on state spending and create a reserve fund

Limitations on General Fund expenditures:

- The Legislature will develop a formula which will limit General Fund expenditures by State Government

Deposits into reserve fund:

- When General Fund revenues exceed budgeted expenditures, the excess is placed in a reserve fund

Withdrawals from reserve fund:

- Withdrawals can only occur in years of revenue shortfalls
- Expenditures require recommendation of the governor and approval by 2/3 of both Houses of the Legislature

Limits to reserve fund size:

- None

STRENGTHS

- Limits General Fund expenditure growth
- Fairly simple to administer
- Does not limit fund size
- Constitutional amendment forces fiscal restraint
- Allows flexibility in how funds are used

WEAKNESSES

- Spending formula has not been defined or analyzed
- Does not allow any flexibility in regulating fund size (if the reserves grew to 50% of total General Fund, no funds could be utilized until a revenue shortfall occurs)
- Does not mention the future of current Rainy Day Fund

# An Act Creating the Maine Budget and Economic Stabilization Fund

L.D. No. 1167

## BRIEF DESCRIPTION

### Purpose:

- Creates a Stabilization Fund which can be used to stabilize employment and General Fund revenue during periods of dislocation, economic recession and high unemployment

### Limitation on General Fund Expenditures:

- Indirectly, expenditures will be limited when personal income growth triggers a transfer into the Stabilization Fund

### Deposits into reserve fund:

- When real personal income growth exceeds 2%, the percentage in excess of 2% must be multiplied by the estimated General Fund revenue for the fiscal year. The resulting amount is transferred from the General Fund into the Stabilization Fund.

### Withdrawals from reserve fund:

- When real personal income growth is less than 0%, the percentage under 0% must be multiplied by the estimated General Fund revenue for the fiscal year. The resulting amount is transferred from the Stabilization fund into the General Fund.
- When the seasonally adjusted unemployment rate for a quarter exceeds 6.6%, funds may be allocated for specified economic adjustment activities or programs
  - If unemployment rate 6.6%-8.6%, 2.5% of stabilization fund may be allocated
  - If unemployment rate 8.6%-10.3%, 5.0% of stabilization fund may be allocated
  - If unemployment rate greater than 10.4%, up to 25% of stabilization fund may be allocated
- Withdrawals require approval by 2/3 of both Houses of the Legislature
- The Legislature, by 2/3 vote of both Houses, can make emergency allocations from stabilization fund when maximum transfers triggered by personal income and unemployment do not adequately resolve the problem situation

- Stabilization funds can be used to:
  - balance the budget
  - provide for public works or public service employment
  - cover unforeseen needs for training programs through the technical colleges
  - provide training, education and other assistance to persons affected by unforeseen circumstances who are on unemployment insurance or some type of social service program
  - provide assistance for unforeseen business expansion
- Stabilization funds cannot be used to:
  - cover changes in tax laws, sharing formulas, tax rates etc.
  - add regulatory agencies or programs or change regulatory fees
  - create new government agencies, programs, etc.
  - make up for underfunding of government agencies, programs, etc.

Limits to reserve fund size:

- Reserve fund balance may not exceed 25% of total General Fund

STRENGTHS

- Does not allow one-time funds to be used for on-going costs
- Limit on fund size is fairly high
- Allows for emergency allocations in years of poor economic performance

WEAKNESSES

- Fairly complicated to administer
- Less direct in limiting General Fund expenditures
- Unemployment rate bands have not been analyzed to see if they represent appropriate thresholds for measuring Maine's economic pain
- Does not allow for emergency allocations in years during which the trigger mechanisms are not fully utilized
- Would not have worked effectively during the economic downturn of 1990 and 1991
  - Maine Real personal income did not decline until 1991, thus stabilization funds could not have been accessed until 1992
  - Once the personal income trigger was tripped, only 30 million dollars would have been freed-up
  - Since Maine's unemployment rate never surpassed 8.6%, only the smallest allocation, 2.5%, could have been made from that fund
- Does not mention the future of current Rainy Day Fund

# An Act Regarding Budgetary Surplus

L.R. No 1886

## BRIEF DESCRIPTION

### Purpose:

- Increases the limit of Rainy Day Fund balance from 4% to 5%
- Allocates 1/3 of Rainy Day funds to specific purposes:
  - 1/6 goes towards maintenance of State buildings
  - 1/6 goes towards reducing Maine State Retirement System's unfunded liability

### Limitations on General Fund expenditures:

- None

### Deposits into Reserve Fund:

- 1/6 of the unappropriated General fund revenue surplus

### Withdrawals from reserve fund:

- Automatic allocation of 1/6 of fund for State Building Maintenance and 1/6 of fund for MSRS unfunded liabilities

### Limits to Reserve fund size:

- 5%

## STRENGTHS

- Targets money towards specific long-term goals
- Increases maximum size of Rainy Day Fund

## WEAKNESSES

- It is not a true stabilization fund
- Fund size limit is too small to effectively mitigate the disruption of a major economic downturn
- Places restrictions on fund uses



# An Act to Create the Maine Budget and Economic Stabilization Fund

L.R. No 587

## BRIEF DESCRIPTION

- This proposal is virtually identical to L.D. No. 1167 with the exception of the following:
  - This proposal explicitly eliminates the Maine Rainy Day Fund and replaces it with the Maine Budget and Economic Stabilization Fund
  - In addition to transfers into the stabilization fund being triggered by real personal income growth, this proposal transfers 1/2 of surplus General Fund revenues (surplus = the excess of actual revenues over actual expenditures) into the stabilization fund
  - This proposal limits the size of the stabilization fund to 15% of General Fund revenues

## STRENGTHS

- Directly replaces current Rainy Day Fund
- Possesses all of the strengths listed under L.D. No. 1167

## WEAKNESSES

- Possesses all of the weaknesses listed under L.D. No. 1167

## Suggested Elements of a Workable Budget Stabilization Plan

### BRIEF DESCRIPTION

#### Purpose:

- To impose a limit on State spending and create a reserve fund to be used primarily for budget stabilization
- Expenditure limitations during periods of economic prosperity will be necessary to ensure that a reserve fund balance actually accumulates
- Building maintenance, covering unfunded liabilities and other such activities should be funded using some other mechanism
- The primary use of this fund would be to mitigate the disruptive effects of an economic downturn on the State budget
- This Stabilization fund would replace the Maine Rainy Day Fund

#### Limitations on General Fund expenditures:

- A formula should be developed that directly limits General Fund expenditures
- This formula should be tied to a broad measure of economic health
- One formula which could be considered follows:

The Consensus Economic Forecast Commission prepares a forecast of nominal total personal income for Maine through the biennium. A moving five-year (ending in the December of the fiscal year under consideration) average annual growth rate is calculated for personal income. This average becomes the ceiling at which expenditure growth in that fiscal year is allowed to increase.

The formula was tested on actual activity in Maine from 1985 through present. If this expenditure limit had been in place as of 1985 and if the stabilization fund balance had actually been allowed to accumulate without limit, there would have been no budget crisis in the early 1990s. Strict adherence to this plan would have resulted in smooth, though slowing, expenditure growth, no sales tax surcharge, no income tax surcharge, and a stabilization fund balance of \$160 million in FY 95. (see Attachment 1)

A few words of caution are necessary at this point:

- (1) The scenario described above assumes that the Legislature would have allowed the stabilization fund to reach a balance of over \$500 million, or a full one-third of the total General Fund.

- (2) The timing of the creation of such a stabilization fund is crucial to its ultimate success. As the lower portion of Attachment 1 illustrates, when the stabilization plan is put into effect one year later, 1986, funds do not accumulate to the level that they can totally offset the effects of the economic downturn. The plan does, however, help to mitigate the situation.
- (3) There is absolutely no reason to expect that the extremely robust growth of the late 1980s will be repeated in the foreseeable future. Because of this, it is highly unlikely that the balance of the stabilization fund, if created currently, would grow to the extreme levels shown in the example.

#### Deposits into reserve fund:

- Any revenues estimated to exceed the expenditure ceiling must be appropriated to the stabilization fund
- Any balances remaining at the close of the fiscal year, after all statutory transfers, shall be transferred into the stabilization fund
- Under the formula suggested above:

At the beginning of each legislative session, a bill would have to be presented to adjust the transfer to the stabilization fund to reflect the most accurate and recent five-year average for that fiscal year.

#### Withdrawals from reserve fund:

- Transfers from the stabilization fund can only be used as follows:
  - To cover any resource shortfall to meet the expenditure ceiling limit
  - For additional, one-time expenditure needs upon approval of two-thirds of both Houses of the Legislature
  - To reduce the fund balance when Legislators feel that the current spending needs outweigh, in terms of importance, the need to provide some security against fiscal disruption. This decision should be made with a two-thirds approval of both Houses of the Legislature.

#### Limits to reserve fund size:

- A specified cap on reserve fund size is not necessary. By not imposing a limit, each Legislature is empowered to make their own determination of the appropriate fund size for that particular time period.

HYPOTHETICAL STABILIZATION FUND ACTIVITY USING 5-YEAR P.I. GROWTH RATE EXPENDITURE LIMITATION  
EXPENDITURE BASE SET AT FY 1985 LEVELS  
SIMULATED PRESENT LAW INCOME TAX STRUCTURES USED TO ADJUST REVENUES, 5% SALES TAX RATE THROUGHOUT

FISCAL YEAR	ADJUSTED REVENUES	EXPENDITURE LIMITATION	CURRENT YEAR SURPLUS / DEFICIT	TRANSFERS TO STABILIZATION FUND	TRANSFERS FROM STABILIZATION FUND	STABILIZATION FUND BALANCE	EXPENDITURE GROWTH FACTOR
1986	\$901,233,590	\$902,788,798	(\$1,555,208)	\$0	\$0	\$0	8.82%
1987	\$1,059,991,452	\$979,886,962	\$80,104,490	\$80,104,490	\$0	\$80,104,490	8.54%
1988	\$1,212,462,568	\$1,067,880,811	\$144,581,757	\$144,581,757	\$0	\$224,686,247	8.98%
1989	\$1,335,126,260	\$1,165,591,905	\$169,534,355	\$169,534,355	\$0	\$394,220,602	9.15%
1990	\$1,362,972,846	\$1,267,464,637	\$95,508,209	\$95,508,209	\$0	\$489,728,811	8.74%
1991	\$1,387,084,700	\$1,370,636,259	\$16,448,441	\$16,448,441	\$0	\$506,177,252	8.14%
1992	\$1,452,675,663	\$1,461,235,316	(\$8,559,653)	\$0	\$8,559,653	\$497,617,599	6.61%
1993	\$1,470,042,448	\$1,545,840,840	(\$75,798,392)	\$0	\$75,798,392	\$421,819,207	5.79%
1994	\$1,504,600,345	\$1,619,732,033	(\$115,131,688)	\$0	\$115,131,688	\$306,687,519	4.78%
1995	\$1,543,479,944	\$1,689,704,456	(\$146,224,512)	\$0	\$146,224,512	\$160,463,007	4.32%

HYPOTHETICAL STABILIZATION FUND ACTIVITY USING 5-YEAR P.I. GROWTH RATE EXPENDITURE LIMITATION  
EXPENDITURE BASE SET AT FY 1986 LEVELS  
SIMULATED PRESENT LAW INCOME TAX STRUCTURES USED TO ADJUST REVENUES, 5% SALES TAX RATE THROUGHOUT

FISCAL YEAR	ADJUSTED REVENUES	EXPENDITURE LIMITATION	CURRENT YEAR SURPLUS / DEFICIT	TRANSFERS TO STABILIZATION FUND	TRANSFERS FROM STABILIZATION FUND	STABILIZATION FUND BALANCE	UNFUNDED DEFICIT	EXPENDITURE GROWTH FACTOR
1987	\$1,059,991,452	\$1,031,674,861	\$28,316,591	\$28,316,591	\$0	\$28,316,591	\$0	8.54%
1988	\$1,212,462,568	\$1,124,319,264	\$88,143,304	\$88,143,304	\$0	\$116,459,895	\$0	8.98%
1989	\$1,335,126,260	\$1,227,194,476	\$107,931,784	\$107,931,784	\$0	\$224,391,679	\$0	9.15%
1990	\$1,362,972,846	\$1,334,451,273	\$28,521,573	\$28,521,573	\$0	\$252,913,252	\$0	8.74%
1991	\$1,387,084,700	\$1,443,075,607	(\$55,990,907)	\$0	\$55,990,907	\$196,922,345	\$0	8.14%
1992	\$1,452,675,663	\$1,538,462,905	(\$85,787,242)	\$0	\$85,787,242	\$111,135,103	\$0	6.61%
1993	\$1,470,042,448	\$1,627,539,907	(\$157,497,459)	\$0	\$111,135,103	\$0	(\$46,362,356)	5.79%
1994	\$1,504,600,345	\$1,705,336,314	(\$200,735,969)	\$0	\$0	\$0	(\$200,735,969)	4.78%
1995	\$1,543,479,944	\$1,779,006,843	(\$235,526,899)	\$0	\$0	\$0	(\$235,526,899)	4.32%

### Federal Fiscal Relief for States

Both Houses of Congress have passed the Tax Cut/State Fiscal Aid package.

Total for Maine = \$115.6M

Medicaid funds total = \$65.6M; through increase in FMAP rate of 2.95% retroactive to 4/1/03 and available over 5 quarters (note: estimate based on what Maine is reimbursed).

Flexible funds total = \$50M; \$25M available within 45 days of enactment and \$25M available after October 1, 2003. Can be used for any general government purpose or unfunded federal mandate.

	FY '04
Medicaid Funds	\$ 65.6M \
Flexible Funds	<u>\$ 50.0M</u>
<b>Biennial Total</b>	<b>\$ 115.6M</b>

### Tax Cuts and Conformity

Of the tax cuts included in the package, two items appear to have significance for Maine:

Marriage penalty relief = \$22M in FY '04 and \$9.5M in FY '05 (estimate). Penalty is eliminated in calendar year 2003 and 2004, then goes back to phase out.

Small business \$100K write-off of investment = \$3M in FY '04 and \$3M in FY '05 (estimate).

Total cost for conformity = \$37.5M over the next biennium.

Note: The small business \$100K write-off of investment will have an effect in FY '06 of \$1.5M (estimate) and also the bonus depreciation changes will affect FY '06 by about \$1M (estimate).

STEPHEN S. STANLEY, DISTRICT 3, CHAIR  
 ETHAN STRIMLING, DISTRICT 28  
 RICHARD A. NASS, DISTRICT 34

JULIE JONES, LEGISLATIVE ANALYST  
 JO-ELLEN STAPLES, COMMITTEE CLERK



STATE OF MAINE

ONE HUNDRED AND TWENTY-FIRST LEGISLATURE

COMMITTEE ON TAXATION

DAVID G. LEMOINE,  
 OLD ORCHARD BEACH, CHAIR  
 JOSEPH C. PERRY, BANGOR  
 BERNARD E. MCGOWAN, PITTSFIELD  
 DEBORAH L. SIMPSON, AUBURN  
 ARTHUR L. LERMAN, AUGUSTA  
 EDWARD J. SUSLOVIC, PORTLAND  
 HAROLD A. CLOUGH, SCARBOROUGH  
 JONATHAN T.E. COURTNEY, SANFORD  
 EARLE L. MCCORMICK, WEST GARDINER  
 JOSHUA A. TARDY, NEWPORT

**DATE:** May 30, 2003

**TO:** Sen. Mary Cathcart, Senate Chair  
 Rep. Joseph Brannigan, House Chair  
 Members, Joint Standing Committee on Appropriations and Financial Affairs

**FROM:** Sen. Stephen Stanley, Senate Chair  
 Rep. David Lemoine, House Chair  
 Members, Joint Standing Committee on Taxation

**RE:** Taxation Committee priorities for bills on the Special Appropriations Committee

The Joint Standing Committee on Taxation submits the following as it's unanimous priorities for bills on the Special Appropriations.

Priority	LD	TITLE/SPONSOR	FY 04	FY 05
1st priority	1249	An Act to Amend the Laws Governing the Quality Child Care Tax Credit (Simpson)	GF Revenue loss: (\$8,304)	GF Revenue loss: (\$55, 517)
<b>Explanation:</b>		This bill is an important proposal to provide an incentive to increase the availability of funds invested in the development of quality child care facilities		

Priority	LD	TITLE/SPONSOR	FY 04	FY 05
2nd priority	583 (IN PART)	An Act to Amend the Laws Governing the Deduction of Pensions, Retirement Benefits and other Income from State Income Tax (Clough)	(\$338)	(\$493)
<b>Explanation:</b>		The Committee's second priority is the part of LD 538 that repeals and replaces 36 MRSA §1760, sub-§46 to include a sales tax exemption for temporary residential accommodations or food to hospital patients or to the families of hospital patients. This provision slightly expands an existing sales tax exemption to include a facility that provides such assistance to Togus patients and their families. The cost is minimal.		

Priority	LD	TITLE/SPONSOR	FY 04	FY 05
Jointly 3rd priority	138	Resolve, Directing the State Tax Assessor to Adjust the State Valuation for the Town of Ashland (Martin)	\$0	\$0
	542	Resolve, To Reduce the State Valuation for the Town of Hermon (Mitchell)	\$0	\$0
<b>Explanation:</b>		These two bills provide for additional GPA funding for FY 04 for Ashland and Hermon to compensate for the reduced state valuation addressed in each bill. The bills provide that this additional funding will be provided from FY 04 GPA adjustments and will result in decreases in FY 05 only if insufficient funds are available from FY 04 adjustments. The Department of Education has indicated to us that they expect sufficient funds to be available from FY 04 adjustments. These 2 bills provide that funding from FY 04 adjustments must be made dollar for dollar for each municipality.		

Priority	LD	TITLE/SPONSOR	FY 04	FY 05
4th priority	502	An Act to Expand the Education Tax Credit (Colwell)	\$0	\$0
<b>Explanation:</b>		This bill provides an important clarification of qualified scholarship organizations for purposes of the educational attainment tax credit. This clarification incorporates legislative intent when the credit was originally enacted and can be made without fiscal impact.		

Priority	LD	TITLE/SPONSOR	FY 04	FY 05
5th priority	1060	An Act to Allow the State to Claim a Setoff against a Convicted Person's Tax Refund for Purposes of Paying Restitution (Annis)	Reduction in fine revenue collected by the Judicial Department through the tax offset mechanism. Amount cannot be determined at this time	

Priority	LD	TITLE/SPONSOR	FY 04	FY 05
6th priority	583 (IN PART)	An Act to Amend the Laws Governing the Deduction of Pensions, Retirement Benefits and other Income from State Income Tax (Clough)	Revenue loss: (\$12,336,662)  GF Approp: \$28,405	Revenue loss: (\$14,234,507)  GF Approp: \$49,289
<b>Explanation:</b>		The Committee's 6th priority is the part of this bill that expands the types of retirement income eligible for the \$6,000 income tax deduction currently available for pension benefits. While the Committee recognizes that the cost of this recommendation is quite high relative to available resources, the Committee emphasizes the importance of the recommendation as indicated by the unanimous support of the Committee which elevated this bill in importance above all the other bills considered by the Committee this session that proposed highly popular but expensive tax reductions.		