Maine People Before Politics

Analysis of Mills Administration 20–21 Biennial Budget

SUMMARY

The Mills Administration budget returns Maine to the big government, big spending of the 1990s and 2000s. Without really doing any innovative initiative that would move Maine's economy forward, this budget spends all the projected revenue leaving no room for error.

- The Mills proposed FY20–21 biennial budget proposal totals $8.041 billion, an 11.4 percent increase over FY18–19 enacted appropriations.
- The last time Maine saw double-digit growth (biennium to biennium) was in the FY00-01 biennium.
- The proposal relies on three key funding sources: the continued rosy revenue forecast, a reduction in Municipal Revenue Sharing from current law, and the existing General Fund surplus.
- The proposal leaves no margin for error if a real cost exceeds the budgeted amount, revenue does not meet projections, or both. If anything goes wrong with projected spending or revenues, the hole will need to be filled by the Budget Stabilization Fund or higher taxes.
- The budget runs a $62.6 million shortfall in FY21, the budget is only kept in balance by General Fund surpluses built up in the last biennium, **leaving just $383,355 in the General Fund.**
- The budget is full of one-time funding gimmicks, none of which will last into the next biennium; forcing the next Legislature and the Governor into either raising taxes or reversing the massive state spending increases proposed by this budget.
    - The most significant spending increases fall in two key departments: Department of Education: **$324 million (12.5%) increase** over enacted FY18–19 and Department of Health and Human Services (DHHS): **$290.7 million (12%) increase** over enacted FY18–19.
- The budget uses only one-time money to fund Medicaid Expansion—Projected surplus revenue and one-time funds from the Fund for a Healthy Maine. This is not sustainable.
- Missed opportunity: Projected surplus revenue could have been returned to Maine taxpayers by collapsing Maine's income tax brackets from three to two and lowering the rates to 4.75 percent and 6.0 percent, making our tax rates more competitive with neighboring states.

BUDGET OVERVIEW

Revenues

The proposal relies on three key funding sources: the full revenue forecast, a reduction in Municipal Revenue Sharing, and the existing General Fund surplus.

- **Revenue Forecast ($7.745 billion)**
  - The current forecast stands at $3.803 billion for FY20 and $3.943 billion for FY21.
  - The Revenue Forecast was projected higher in December for FY20 and FY21.

MBPB Concern: The forecast is based on projections from the Consensus Economic Forecasting Committee (CEFC). It is important to note that the most recent CEFC projections occurred before the December stock market sell-off and general signs of economic weakness. At its November 2018 meeting, the CEFC revised personal income and wage/salary income higher.

- **One-time sources ($177.6 million)**
  - The proposal draws down surpluses from the General Fund and the Fund for Healthy Maine to provide one-time funding
    - General Fund balance $124.0 million
    - Fund for Healthy Maine balance: $53.6 million

MBPB Concern: Both accounts are left with less than $1 million each at the end of the biennium as a result of the budget. This leaves no cushion for a missed projection, an economic downturn, or an unanticipated cost overrun.

- **Reduction in Revenue Sharing ($159.7 million)**
  - Under current Maine law, Municipal Revenue Sharing is slated to return to 5 percent in FY20. It was held at 2 percent for FY16-19. (30-A MRSA §5681 sub. 5).
  - The Mills budget proposes ratcheting up Revenue Sharing to 2.5 percent in FY20 and 3 percent in FY21.

MBPB Concern: Towns are under no obligation to reduce property taxes in exchange for this increase in revenue. We advise caution if lawmakers call this a proposal that will "decrease property taxes."

Expenditures

- The proposal includes **$8.041 billion** in General Fund appropriations for the next biennium.
  - **FY20: $3.959 billion**
  - **FY21: $4.083 billion**
- The largest spending lines include:
  - **Department of Education:** $2.925 billion; $324.0 million (12.5%) increase over enacted FY18–19
  - **Department of Health and Human Services (DHHS):** $2.718 billion; $290.7 million (12.0%) increase over enacted FY18–19
  - **University of Maine System:** $455.8 million; $32.8 million (7.8%) increase over enacted FY18–19
  - **Department of Corrections:** $397.7 million; $26.0 million (7.0%) increase over enacted FY18–19
  - **Department of Administrative and Financial Services:** $370.7 million; a $16.3 million (4.6%) increase over enacted FY18–19
  - **Office of the Treasurer:** $230.6 million; a $39.2 million (20.5%) increase over enacted FY18–19
  - **Judicial Branch:** $172.8 million; a $20.0 million (13.1%) increase over enacted FY18–19

MPBP Concern: The expenditures grow government, spending practically all the sources of funds identified above—all one-time funds—and create a shortfall of $62.6 million in FY21. If all estimates are correct, the proposed budget would leave a General Fund surplus of only $383,355.

- The projected General Fund surplus is a "buffer" to help withstand changes from initial projections, spending increases from the Legislature, or revenue shortfalls.
- Governor LePage left a projected General Fund surplus of over **$124 million** for the FY18–19 biennium, a buffer of **1.7%** of total General Fund spending in FY18–19. The Mills proposal's $383,355 buffer is only **0.0048%** of the proposed General Fund spending.
- If enacted and any revenue or spending line changes for the worse, the Mills Administration will have three options: increase taxes, raid the BSF, or find more budget gimmicks from a shrinking list.

MPBP Concern: Instead of paying for priorities in cash, Maine will use a credit card, borrowing unnecessarily while the Legislature is already considering more than $1 billion in bonding.

- A series of lease-purchase agreements; including a **$50 million** lease-purchase authorization for "portable learning devices" at up to an 8 percent interest rate.
- A series of borrowing authorizations; including **$55.0 million** for new bonding authority for the construction of state-owned facilities and waste cleanup at state properties, **$46.6 million** for a modernized tax collection system at Maine Revenue Services, and **$14.0 million** for the modernization of the child welfare system.
- Allows the Office of the Treasurer to carry balances into the next biennium despite a nearly $40 million increase in appropriations.

MISSED OPPORTUNITIES AND BAD FINANCIAL CHOICES

Missed Opportunities

- **Taxes**
  - While Governor Mills may not have raised taxes, the tax environment faced by Mainers and Maine businesses still keeps the state from being competitive regionally and nationally.
  - Maine's current top individual income rate bracket of 7.15% (kicking in at $50,750 for individuals) is the highest in New England and is uncompetitive compared to New Hampshire's 0 percent rate and is 40 percent higher than Massachusetts's 5.1 percent flat-tax.
  - The top rate stands in stark contrast to the average marginal tax rate for earners making $60,000 per year (7.15% vs. 4.72%).
  - Governor LePage proposed collapsing Maine's income tax brackets from three to two and lowering the rates to 4.75 percent and 6.0 percent.
- **Carried Balances**
  - During Governor LePage's term, strong fiscal management allowed the growth of balances to be created in a host of Other Special Revenue (OSR) accounts. At present, there is approximately $400 million across the state's balance sheet in these accounts, up from $100 million only a few years ago.
  - There is little need for the funds to be sitting in the accounts. If they are not going to be used, these funds should be returned to the Maine people in the form of eliminated or reduced fees and taxes, fee and/or tax holidays, and rebates.

Bad Financial Choices

- **Example 1: $147million Medicaid Expansion that fails to identity savings or a long-term funding mechanism other than the General Fund.**
  - The Mills budget uses the $146.6 million for the base budget, largely reflecting figures cited by advocates during the referendum campaign. However, it sets aside an additional $29 million in a reserve, using one-time money from the Fund for a Healthy Maine. This give's credence to the LePage Administration's estimate of much higher expansion costs.
  - Medicaid expansion funding in the budget relies on continued revenue growth, competing for funding with other priorities—like waitlists for the people with disabilities and nursing homes. The budget funds free health care for able-bodied adults while leaving vulnerable Mainers with disabilities on waitlists, only committing funds to remove 300 people a year from one particular waitlist with more than 1,200 people on it now.
  - No participant accountability like work requirements or monthly premiums were included in the proposal. Governor Mills has already stated she will not implement the reforms granted by the federal government in the LePage Administration's 1115 wavier request.
  - The proposal fails to provide adequate staff to the agency to manage the increasing caseload.

- **Example 2: $50 million lease-purchase agreement authorization for "portable learning devices" at an 8 percent interest rate for the King-era Maine Learning Technology Initiative.**
    - This is functionally buying more laptops (something Maine doesn't have a great track record with) with a credit card. Eight percent interest would cost Maine taxpayers an extra $8.5 million versus just buying them outright with cash.
    - An 8 percent interest rate is simply exorbitant when Maine can borrow for bonds at less than 2 percent.
- **Example 3: Allowing the Office of the Treasurer to carry excess balances.**
    - Despite providing a nearly $40 million increase in appropriations, the proposal would allow the Office of the Treasurer to carry balances from the current biennium to the FY20–21 biennium.
    - The General Fund appropriations are used to service Maine's outstanding bonds. Traditionally, since market fluctuations mean money could be left over at year's end, any excess has been returned to the General Fund.
    - Providing the Treasurer's Office with more funding (both appropriations and carried balances) simply makes it easier and less painful for the Legislature to approve bond funding packages. This is not good fiscal policy.
- **Example 4: $40,000 minimum wage for teachers without any clear explanation of how cities and towns will pay for the increase.**
    - This represents a more than 33 percent minimum salary increase for teachers; we agree that teachers deserve more pay, but we disagree with creating a mandate on local governments with no administrative savings proposed to help districts offset this mandated increase. This mandate is all-but-unfunded with inadequate that would flow through the EPS formula during the next formula season.
    - This mandated increase will not only raise pay for those currently earning below $40,000, but teachers across the pay scale will rightly expect proportionate raises, making municipalities' budgeting process more difficult and potentially requiring an increase in property taxes to make up the difference.
    - Working with school systems to continue to identify savings by cutting administrative overhead remains the best way to save money and direct funds into the classroom, including teacher pay. This budget does not do that.
- **Example 5: A number of small-dollar accounts seeing large increases—indicating the administration is not making tough budgeting choices.**
    - While smaller accounts do not make up a significant portion of the budget, they do indicate whether or not an administration is "counting its pennies." Throughout the budget, small-dollar accounts such the Maine Human Rights Commission, the State Board of Education, and FAME see significant increases in appropriations. It appears the administration is rubber-stamping agency requests instead of asking hard fiscal questions.

DRILL DOWN ON DEPARTMENT OF HEALTH AND HUMAN SERVICES

Understanding a Double-Digit Increase

The Mills FY20–21 budget proposal increases General Fund spending in the Department of Health and Services **by nearly $300 million, a 12 percent increase over the prior biennium**. New spending can be generally separated into three categories.

1. **Medicaid Expansion:** Mills has proposed **$146.6 million** (General Fund) to fund Medicaid expansion. The proposal fails to identify savings or other long-term funding mechanisms that would mitigate the cost. Instead, it relies on continued revenue growth and will compete for funding with other priorities in the General Fund. Additionally, it fails to provide the necessary administrative supports to ensure the agency has the capacity to handle the increased workload, providing between 20 and 35 percent of the positions the agency has determined will be needed to manage the increased caseload.
2. **Unfunded Legislative Mandates:** The Mills proposal includes **more than $60 million** in initiatives to fund previously approved, ongoing program changes like nursing facility rate increases, limited developmental-disability waitlist reduction, mental health treatment and a variety of other services that were either funded inadequately or with one-time money by prior legislatures. Caution: Since past legislatures have inadequately funded these programs, they are likely targets of legislative cuts in this cycle, with funds used for other legislative pet projects.
3. **Federal Mandates:** A good economy and state fiscal position contributed to a change to the current the Federal Medical Assistance Percentage (FMAP), increasing the state's share of the cost by more than $30 million in this budget. Mandatory adjustments to Medicare Part B and D tack on nearly $10 million more, bringing the total cost of federal mandates to about **$40 million**.

Expanding, Rolling-back and Too-Little-Too-Late

- The Mills proposal expands eligibility to the Medicare Savings and the Drugs for the Elderly Programs, increasing eligibility from 175 to 185 percent of the federal poverty level (FPL). This expansion cost the state about $4.5 million and rolls back a reform from the early years of the LePage Administration. Historically, Maine has been one of only two states that covers this benefit above the Federal minimum, and even at 175 percent Maine is well above that minimum.
- The proposal codifies in statute that 19- and 20-year-olds are eligible for Medicaid up to 156 percent of the FPL, reflecting current regulation in statute. It is a clear effort to ensure a more conservative administration cannot eliminate the benefit based on an interpretation of budgetary language.
- In the Budget Language section, "Part CCC" repeals Maine's drug testing requirements for welfare benefits in the Temporary Assistance for Needy Families program.

Missed Opportunities in DHHS

- While dedicating $146 million to Medicaid for able bodied adults this budget dedicates just $15 million to waitlists, addressing less than 20 percent of the section 21 waitlist and not even acknowledging other existing waitlists for members with brain injuries and other significant disabilities. This budget proposes nearly $300 million in new costs over the prior biennium, yet the administration has chosen not to prioritize our neediest populations.
- Rather than increased spending across the board, the Mills Administration missed opportunities to identify reasonable savings. Possible initiatives include:
    1. Eliminate State funded SNAP, TANF and SSI for non-citizens who are not eligible for the benefit at the federal level. Maine goes above and beyond to provide benefits that even the federal government does not provide. This reform would produce a savings of more than $6 million over the biennium.
    2. Eliminate General Assistance for non-citizens. This reform would produce a savings of $5 million over the biennium.
- Medicaid Expansion was passed by the voters without a specific funding source. The new administration had the opportunity to identify a creative funding approach that would not consume General Fund dollars and compete with other priorities like waitlists and services for our elderly. An increase in the hospital tax for instance, would enable the state to fully fund Medicaid expansion without tapping into the General Fund and risk raising income taxes on hardworking Maine families.
- We know that a job is the best way to increase a person's income and help them gain independence. Medicaid reforms like the 1115 waiver developed by the LePage Administration would encourage work, increase accountability in the Medicaid program and decrease dependence on welfare. The Mills Administration should reopen conversations with CMS regarding the waiver and pursue budget authority needed to implement the waiver fully.