



STATE OF MAINE



2017 SUPPLEMENTAL & 2018-2019 BIENNIAL BUDGET BRIEFING

JANUARY 6, 2017
GOVERNOR PAUL R. LEPAGE

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GOVERNOR LEPAGE'S VISION FOR MAINE

January 6, 2017

Honorable Members of the 128th Legislature and Citizens of Maine:

My priority as governor has always been to tackle our long-term fundamental challenges so we can improve Maine's economic future. I have never created a budget for the next election; I have always constructed a budget for the next generation. My final biennial budget proposal, which I submit today for consideration to the Maine Legislature, seeks to protect our future by mitigating the severe damage to our economy that will be caused by two citizen initiatives approved in November. This budget also protects our state's most vulnerable people, especially our elderly, who are already struggling to make ends meet.

Now more than ever, after well-meaning citizens voted on these initiatives with little or no understanding of how destructive they would be to Maine's fragile economy, we are teetering on the precipice of a financial catastrophe. I cannot in good conscience submit a budget that would exacerbate the damage to our economy and hurl the state over the edge.

I ask the 128th Legislature to join me in protecting our economy, our families, our small businesses and, most importantly, our elderly. I ask them to do no harm. Maine should not step back; we must continue moving forward.

Over the past six years, our administration has worked hard to move the state forward in a fiscally responsible manner, despite enormous challenges and fierce opposition from career politicians, special interest groups and the media. I was sworn into office on the heels of the Great Recession, the most damaging economic downturn in 80 years. Financial markets had collapsed, Mainers from all walks of life were out of work and discretionary consumer spending – a key part of the sales taxes that fund state operations – was virtually frozen.

In the face of these challenges, our administration set out and executed a multi-year strategy of major structural reforms for state budgeting. We have confronted the toughest, most stubborn problems and fixed them for the long term—without using the financially irresponsible budget gimmicks employed by previous administrations. Instead of hiding from our state's challenges, we took them head-on and got to work to begin Maine's turnaround.

This required the ability and the fortitude to fix Maine's political third rail: the deeply entrenched fiscal, budget and balance-sheet problems that threatened our state's future. We tackled Maine's staggering unfunded public pension liability, paid off the long overdue welfare debt to Maine's hospitals and provided Maine families with their first income tax cut in 20 years.

We moved our state back from the edge of financial ruin and started it on the path to prosperity. It took brutal pragmatism and came at the expense of political capital, but it was the right thing to do and our approach worked.

More importantly, when I first took office, Maine's top income tax rate was one of the highest in the nation. Our efforts resulted in two significant tax cuts that lowered Maine's

top rate to 7.15 percent and allowed Mainers to keep more of their hard-earned money. Because of our solid financial management, I was named the nation's most fiscally conservative Governor.

I inherited a Budget Stabilization Fund (BSF) that was zeroed out by the Great Recession. Over the last six years, we have built the balance to \$122.7 million. While progress, this balance still represents an insufficient reserve for state government to rely on during the next economic downturn. It is in the best interest of the state's fiscal health to make deliberate deposits. That is why my budget dedicates \$40 million to bolster this important fund.

Our administration has significantly reduced the structural imbalance between spending and revenues that begins every budget planning cycle from \$1.2 billion, when I first took office, to \$165 million six years later. This marks the single lowest structural gap in the last 16 years, proving that significant, ongoing reforms – not one-time gimmicks – get real results for the Maine people.

The state's financial position has improved, unemployment continues to be low, personal income growth is up, and the state is meeting its financial obligations.

Unfortunately, liberal special-interest groups are trying to reverse all of our fiscally responsible reforms. They poured millions of out-of-state money into Maine and hijacked our citizens' initiative process to usher in a massive tax hike on our state's small businesses and job creators. Thanks to efforts funded by wealthy, out-of-state unions and progressive groups, Maine has gone from moving in the right direction to having the second-highest top marginal tax rate in the country at 10.15 percent.

To counteract the damage that will be caused by this high tax rate, policymakers in Augusta must have a serious conversation about how we can work together to respect the will of the voters, while at the same time protecting our economy. Maine already ranks 44th in the Family Prosperity Index, which measures the strength and prosperity of families by combining the most important social and economic data into a single number. We must work to improve opportunities for Mainers and their families to achieve their American dreams, not shatter them with high taxation and job losses.

California, which is a wealthy state, has the highest tax rate in the nation, but it kicks in at \$1 million of income. Maine is not California. We are not a wealthy state. We do not have the jobs, employers, industry and investment California has. We cannot afford to chase professionals out of our state and watch our small businesses close because of this draconian new tax rate.

That is why my budget begins by delaying the Question 2 tax hike for one year. In 2018, Maine will simplify its tax code by reducing the number of rates from three to two: a 2.75 percent bottom rate and a 3.15 percent top income tax. The new 3 percent surtax imposed by Question 2 will be applied to both rates, resulting in effective rates of 5.75 percent and 6.15 percent. By 2020, Maine will join the ranks of forward-thinking states, such as Massachusetts and North Carolina, in adopting a flat 2.75 percent tax rate on income. With the Question 2 tax hike, Maine's effective statutory rate will be set at 5.75 percent for all Maine families.

My budget sends a message that we are cutting taxes, we welcome professionals and small businesses and we want working people to keep more of what they have earned.

We have fought to completely eliminate the income tax, which would be the biggest pay raise Mainers could get, but the Legislature does not have the political will to enact such bold tax reform. So this budget simplifies the tax code and gradually reduces the top tax rate over the next three years. This will dramatically improve Maine's competitive position in the global economy and prevent our job creators and high-wage professionals from fleeing our state.

By 2020, Maine families and small businesses will have seen a reduction in their income tax burden of more than \$600 million a year because of tax cuts ushered in during my administration. We will achieve this significant reduction, in a fiscally responsible manner, by cutting the size of state government and modestly expanding our sales tax base to reflect the current spending habits of consumers.

Another citizens' initiative that will wreak havoc on the economy is the law to raise the minimum wage. Mainers agreed at the ballot box to raise the minimum wage, but they did not understand the consequences of the law they voted for. It will devastate the restaurant industry, prevent teens and low-skilled workers from getting jobs and push the elderly on fixed incomes deeper into poverty by raising prices on everything they buy.

The minimum wage hike will hurt the 325,000 elderly Mainers and others living on fixed incomes. As the minimum wage increases so high and so fast, businesses will have to raise prices on goods and services to absorb the new labor costs. The elderly will be forced to pay more for everything they buy—but they will not get a pay raise. While the minimum wage will go up \$4 an hour, the average increase in Social Security will be just \$4 a month.

This budget was crafted to assist the elderly and shield them from the sharply rising costs they will be facing because of the minimum wage law. As we continue to reduce the tax burden on working families and retirees, we will ensure our most vulnerable continue to receive the care they need and deserve. My administration has realigned the Medicaid program in a way that allows us to chart a new course and prioritizes the elderly, the disabled and those with intellectual disabilities while advancing common-sense welfare reforms.

In this budget, elderly and disabled Mainers account for more than 40 percent of those served by MaineCare. That is an increase of 35 percent since the beginning of our administration. In fiscal year 2019, it is predicted that the elderly and disabled will make up 45 percent of those served by MaineCare.

The budget includes more than \$30 million to support increased costs for Medicare Part B and Part D. It also provides direct property tax relief to low-income and elderly Maine homeowners through the Property Tax Fairness Credit.

To ensure we have the infrastructure that allows a safe and efficient flow of commerce and citizens, this budget makes significant investments in our public infrastructure. The Highway Fund budget is 11.1 percent higher, which will allow for 1,200 miles of paving during the biennium. Funding for the Maine State Police has been transferred to the General Fund from the Highway Fund, directing more money to road repairs. In addition, this budget will

support \$2.3 billion of infrastructure investments identified in the MaineDOT Work Plan, with state funding supplemented by millions in matching federal and local funds.

This budget also makes important reforms in education funding. Rather than spend money on a bloated administrative structure, we will direct funding to where it is needed most: our students and our underpaid teachers in the classrooms.

With this budget, we are in a position to address the serious demographic challenges that face our state. We need to attract small businesses and successful professionals. We need to keep our families here and attract new families from other states and countries. We need to give our young people the opportunity to stay and work in Maine and raise their own families here.

In addition to resources in the budget for direct property tax relief to help Maine families stay in their homes, I will introduce other stand-alone initiatives to reduce the property tax burden on Mainers. Municipalities will have the authority to collect service charges from large non-profit entities and to require land trusts to contribute to municipal coffers.

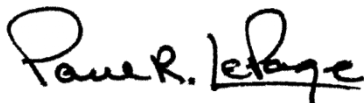
It is important to note that while executive branch agencies are essentially flat funded, the legislative branch and judicial branch have increased their spending. We have worked hard to reduce spending and reduce the growth of government. It has not been easy. The decisions we have made will have impacts across state government. But we were elected to make tough decisions on behalf of the hard-working Maine taxpayers—not legislators seeking the limelight or career bureaucrats actively resisting change—and we have done that.

This budget reflects my vision for an economically viable Maine in which families, businesses and future generations can thrive and succeed. Our state needs bold initiatives to make it a place where people want to live and work and an attractive destination for young families from across the country. This budget should serve as a roadmap not only for this legislature, but for future legislatures and future governors.

Our administration has proven that by responsibly introducing tax cuts and prioritizing state spending, we can allow Maine families to keep more of their money and still deliver the services demanded by the public.

Over the next two years, I hope we can work together to set Maine on the path to future prosperity. More importantly, I hope you pledge to do no harm to Maine's elderly population and to our state economy.

Sincerely,

A handwritten signature in black ink that reads "Paul R. LePage". The signature is written in a cursive, flowing style with a large, prominent "P" and "L".

Paul R. LePage
Governor

BUDGET HIGHLIGHTS

Building a Tax Code for the 21st Century

- Reduce top individual income tax rate from 10.15 percent to a flat tax of 5.75 percent.
- Reduce top corporate income tax rate from 8.93 percent to 8.33 percent.
- Modernize Maine's sales tax base to reflect current consumer habits.
- Repeal Maine's death tax to preserve Maine's family businesses.

Education Reforms That Put Students First

- Repeal the existing state funding formula to redirect state support to direct instruction, accountability, and teachers, enabled by a statewide teacher contract.
- Provide incentives for voluntary regionalization to free up more money for the classroom and improve educational opportunities for all Maine students.
- Lowers the cost of higher education by providing increased funding to the University of Maine System, Community College System, and Maine Maritime academy while proposing funding for zero-interest student loans.
- Remove the cap on Charter Schools to promote innovative approaches to education that meet student needs.

Prioritizing Our Neediest Mainers

- Provides funding to assist hundreds of Mainers currently on waitlists to receive services.
- Prioritizing the elderly and supporting nursing homes with ongoing funding.
- Refuses costly Medicaid expansion under the Affordable Care Act that has proven to be a pitfall in other states.
- Reform Maine's indigent legal defense system to provide for a system that includes proper accountability and management.

Strategic Investments in Public Infrastructure

- Authorizes a new \$50 million GARVEE bond to be used for large projects with a useful life of at least 15 years.
- Creates a new, cabinet-level Department of Technology Services to oversee all executive branch technology assets and services, provide statewide cyber-security leadership and invest in modernizing Maine's information technology infrastructure.
- Ensuring good stewardship by maintaining and updating state-owned facilities and striking the right balance between leasing and owning property.

Creating a Modern, Efficient State Government

- Eliminating approximately 500 positions and establishing a vacancy study to reduce the state government workforce.
- Prioritizing Maine's economy by limiting the growth of spending and government.

- Direct \$40 million to bolster the balance of Maine's Budget Stabilization Fund.
- Reducing headcount and overhead while improving customer delivery.

Providing Property Tax Relief

- Guaranteeing a minimum Property Tax Fairness Credit of \$400 for residents age 65 and older with incomes less than \$20,000.
- Provide municipalities the authority to collect service charges from large tax-exempt entities and requires land trusts to contribute to their host communities.
- Transfer state telecommunications excise tax revenue collections to towns and cities to assist in expanding municipal property tax base.

BUILDING A TAX CODE FOR THE 21ST CENTURY

Since assuming office, Governor LePage has proposed policies that seek to align Maine's tax system with the 21st century economy. Maine must continue to adopt reforms that will make our state more competitive on the national and international scale. Governor LePage believes in a tax code that will grow Maine's economy by attracting businesses to invest in Maine, reducing the burden on our existing small businesses, allowing individuals to work and raise their families in Maine, and allowing our retirees to make Maine their state of residence.

The LePage Administration envisions a tax structure that is fair, provides meaningful tax relief to Maine families by limiting the growth of government and transitioning to a more modern flat income tax, and modernizing our sales tax base to reflect the actual spending patterns of consumers.

Governor LePage has consistently advocated for a lower tax burden for Maine families and small businesses. In his first biennial budget Governor LePage reduced Maine's top marginal individual income tax rate from 8.5 percent to 7.95 percent – **the first income tax rate cut Maine residents had received in more than 20 years**. That rate was further reduced to 7.15 percent as part of the most recent biennial budget.

Even at 7.15 percent, Maine's top income tax rate remained the 10th highest in the country. The consequences of Question 2, effective in January 2017, establish a top marginal income tax rate of 10.15 percent on individuals, families, and small businesses earning taxable income of more than \$200,000 a year.

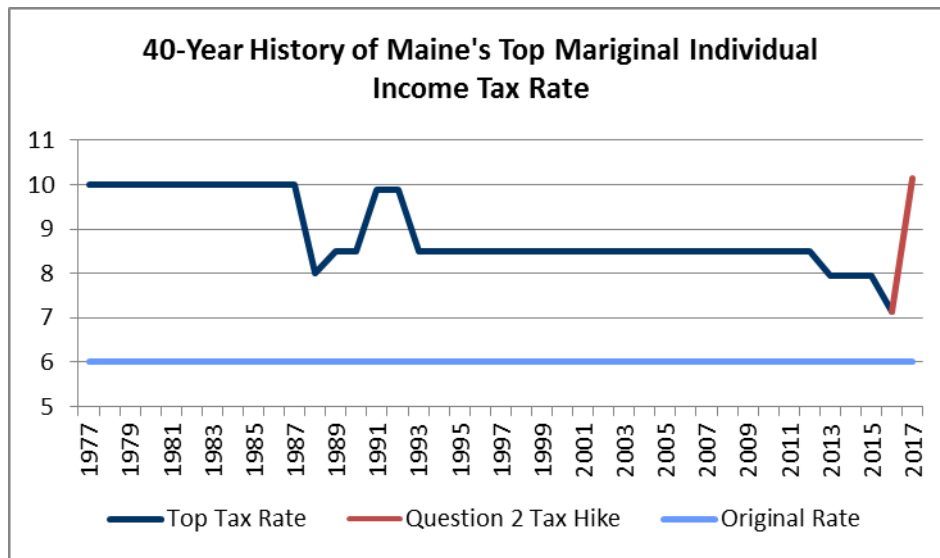
The 10.15 rate is the second highest in the United States, behind only California's top rate of 13.3 percent on income over \$1 million.

Maine's high tax burden is a deterrent to attracting families to Maine and to keeping our best and brightest here after graduation. In a state that is in need of young skilled workers, the current income tax system provides little to no incentive for these people to reside in Maine or for families to raise their children here.

Maine must continue to reform our tax system to ensure we make Maine a more prosperous place to live and raise a family, or grow a business.

Reduce Individual and Corporate Income Tax Rates

Maine's state and local tax system has been essentially unchanged since the introduction of the income tax in 1969. The economic transition over the last 48 years, which was in its early stages at that time, has made the current tax system out of date and uncompetitive with other states.



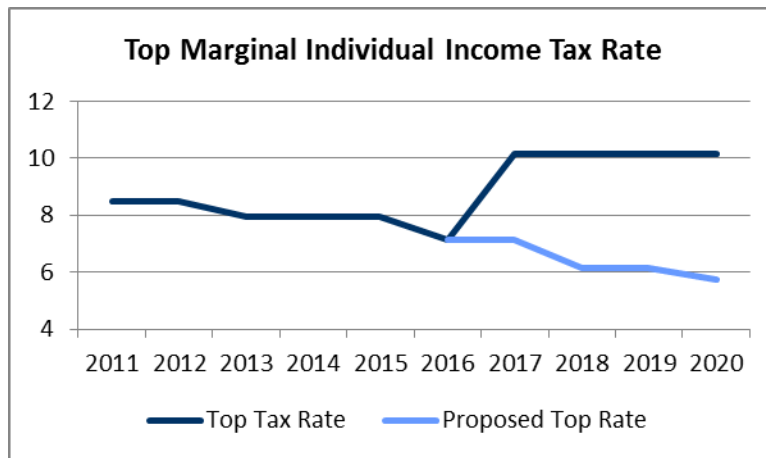
Maine's current top marginal rate is the highest in the state's history.

Maine's current rate structure consists of four taxable income brackets: 5.8 percent, 6.5 percent, 7.15 percent, and 10.15 percent. Under the Governor's budget, the damaging Question 2 tax hike is delayed by one year and our income tax rates are simplified and gradually reduced until 2020, when Maine would adopt a flat tax rate of 5.75 percent.

TAX YEAR	CURRENT RATES	PROPOSED RATES
2017	5.8%, 6.75%, 7.15%, 10.15%	5.8%, 6.75%, 7.15%
2018	5.8%, 6.75%, 7.15%, 10.15%	5.75%, 6.15%
2019	5.8%, 6.75%, 7.15%, 10.15%	5.75%, 6.15%
2020	5.8%, 6.75%, 7.15%, 10.15%	5.75%

Maine's income tax rates are gradually reduced over a three-year period.

Today, Maine's economy is made up of high-tech manufacturing and service-based businesses that tend to be smaller, capital-intensive operations that depend on an educated workforce and can quickly relocate to more business friendly environments. These business leaders not only focus on the corporate income tax rate, but the individual income tax rate for which they and their managers will be subject.



*Governor LePage's budget continues to improve
Maine's tax competitiveness by gradually reducing tax rates.*

An individual and corporate income tax structure that encourages highly skilled workers, families and corporations to locate here begins with lowering the top marginal tax rate. In the case of the individual income tax, a flat tax rate of 5.75 percent will make Maine much more competitive with the rest of the nation. Similarly, a top statutory marginal tax rate for corporate income tax filers of 8.33 percent (currently 8.93 percent) will be very competitive relative to other Northeastern states and competitive with other regions of the country.

Eliminate the Death Tax

Maine's death tax punishes individuals, families, and businesses, particularly the multi-generational job creators in many of our rural areas, such as farming and forestry operations. In some instances, it can cost more – in the form of legal, accounting, and appraisal fees – to comply with the estate tax than the actual tax due. Forward thinking business owners and retirees pay accountants significant fees to minimize their estate's tax obligation or otherwise avoid being subject to tax. The money spent by these individuals complying with or minimizing their estate tax obligations could instead be put to use to benefit their business, community, or family.

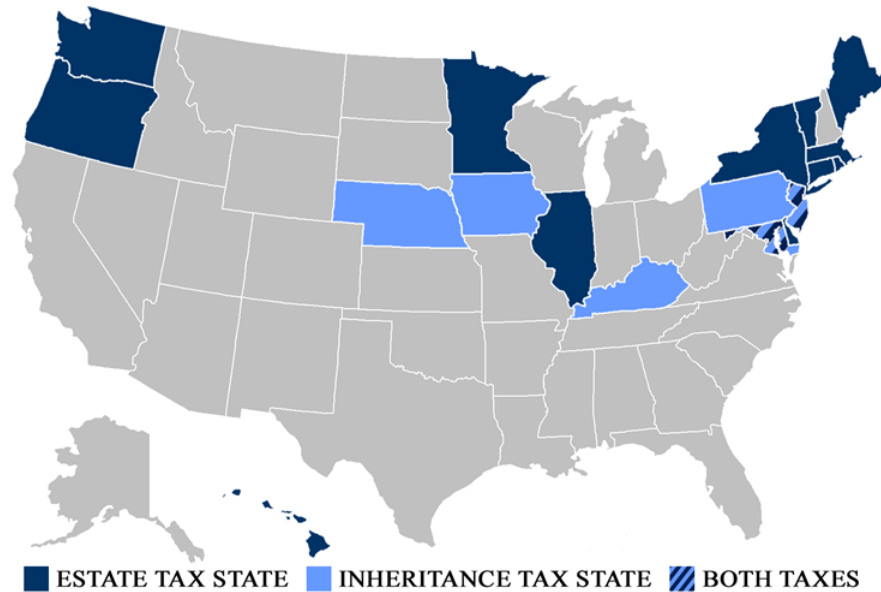
Ultimately, we want those with liquid assets to remain Maine residents rather than changing their domicile of residence. Eliminating Maine's death tax would help keep our retirees in Maine, as residents. These individuals provide benefits in retirement, such as donations to Maine charities and, most importantly, continued civic engagement in Maine's religious, educational and business institutions.

This biennial budget eliminates the Maine death tax for decedents dying on or after January 1, 2018.

Maine is one of only 18 states that currently have a death or inheritance tax. The Governor's proposal eliminates our death tax, joining 32 other states in eliminating their death taxes since 2001.

Over the past six years, Maine's death tax rates have improved and our exemption amount has increased from \$1 million when Governor LePage came into office to the current federal exemption amount of \$5.45 million.

The United States of Death Taxes



Source: Forbes/Wolters Kluwer Tax & Accounting U.S.

Since 2013 North Carolina, Ohio, Indiana, and Tennessee have all eliminated their estate tax. New Jersey is scheduled to eliminate their estate tax in 2018.

The elimination of the death tax will help provide an incentive for current Maine residents to maintain their Maine residency and incentivize non-residents with ties to the state to make Maine their permanent state of residency.

Expansion of Maine's Pension Exemption

Too many Mainers change their residence to other states after retirement due to Maine's high taxes on pension benefits. Governor LePage's biennial budget proposal exempts pension income, up to \$35,000, from the state income tax.

This change, increasing Maine's current exemption from \$10,000 over five years, builds on our success in completely exempting military retired pay from the state income tax beginning in 2016.

Align the Sales Tax Base to Reflect Actual Consumer Spending Habits

Maine has a competitive advantage in our sales tax rate. The current 5.5 percent sales and use tax rate, 6 percent service provider tax rate, 8 percent tax rate on meals, and the 9 percent rate on lodging are very competitive compared to the combined state and local rates in other states.

Modernizing the sales tax base and an increase to 10 percent rate on the lodging tax will keep Maine in a very competitive posture nationally. The proposed expansion focuses on discretionary services and preserves the existing sales tax exemptions for certain non-

discretionary services such as carpentry, plumbing and electrical repair as well as motor vehicle repair services.

	CURRENT RATES	PROPOSED RATES
Sales and Use	5.5%	Unchanged
Service Provider	6%	Unchanged
Meals	8%	Unchanged
Lodging	9%	10%

The categories of services that will fall under the proposed expansion include: amusement and recreation services; household service; installation, repair and maintenance services; personal services; and personal property services.

The expansion for amusement and recreation services includes services such as admission to amusement parks, concerts, and theaters, as well as recreational activities such as skiing and golf. Household services includes services such as interior home decorating, housekeeping and organizing services, snow removal, lawn care and pest control services. Personal services that will now have sales tax applied include, but are not limited to, services provided by barber shops, hair salons, spas, nail salons, and tanning salons.

Admissions to school sporting events and licensed agricultural fairs will continue to be exempt from the sales tax.

“An expansion of the sales tax base and an increase to 10 percent rate on the lodging tax will keep Maine in a very competitive posture nationally.”

A 2007 study by the Federation of Tax Administrators showed that Maine has the 11th narrowest sales tax base in terms of the taxation of services. Modernizing the sales tax base to include both goods and services and updating the rates to be competitive nationwide will export more of the tax burden to non-residents and provide stability to state revenues.

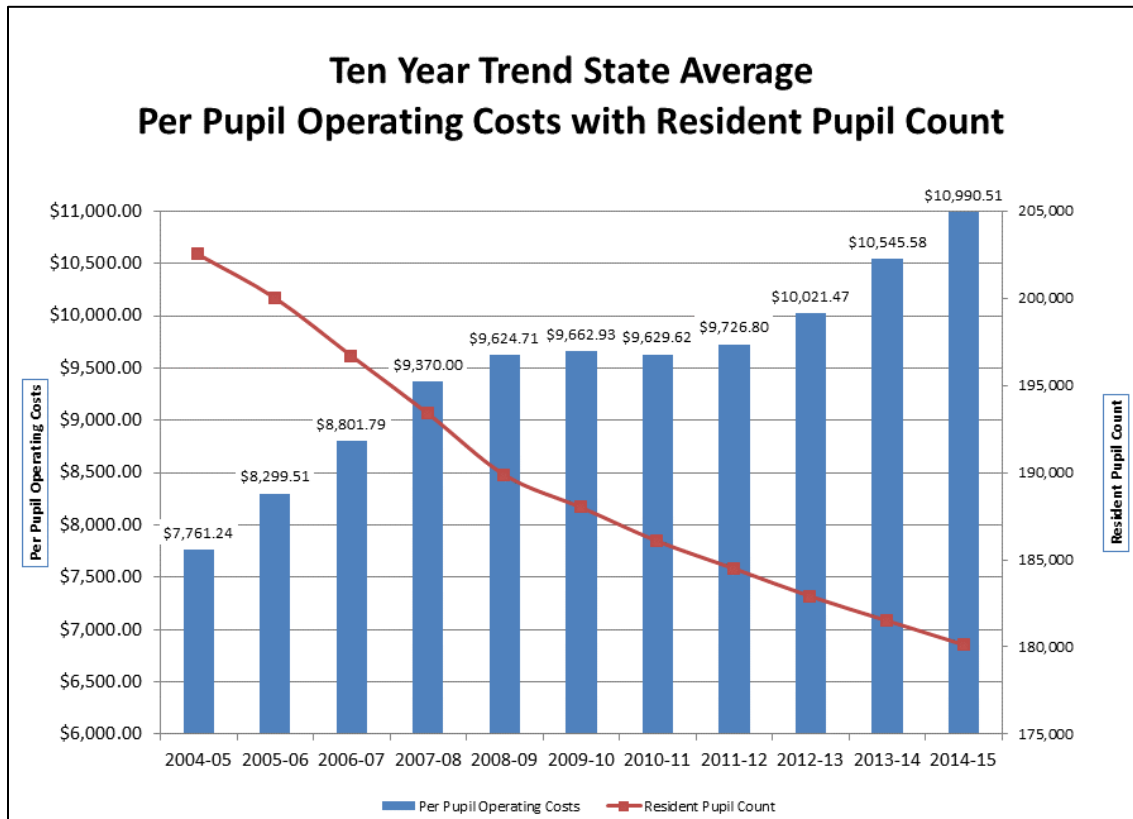
Expand and Simplify Child Care Credit

Governor LePage’s budget increases the income tax credit for allowable child and dependent care expenses to 50 percent of the federal credit for tax years beginning after 2018. Under current law, the Maine credit is 25 percent of the federal credit, with the exception that parents with children in “quality childcare services” may use Maine’s credit to claim 50 percent of the federal credit.

The Governor’s proposal simplifies this section of law to permit all Maine taxpayers claiming child and dependent care expenses to receive 50 percent of the federal credit.

EDUCATION REFORMS THAT PUT STUDENTS FIRST

Governor LePage believes we must support innovative approaches to delivering education in Maine to orient every decision and every dollar to the best interest of the student. There are significant opportunities to make common-sense reforms that will result in efficient, accountable, student-centered schools.



Maine's public school infrastructure does not reflect our declining student population. Education spending has risen by 27 percent over the past 10 years, representing an increase of \$480 million. Meanwhile, student enrollment in our schools has decreased by 11 percent, a loss of over 23,000 students despite the addition of public pre-kindergarten programs. Maine already has one of the lowest student-to-teacher ratios in the country, yet we employ 148 superintendents for only 176,000 students.

Smaller school districts spend much more per student on system administration, dollars that could be reinvested into the classroom.

	NUMBER OF STUDENTS IN THE DISTRICT				
	1 TO 299	300 TO 999	1,000 TO 2,999	3,000 +	TOTAL
Number of School Districts (combines districts that are members of an AOS)	43	37	54	13	147
Total Students Attending	5,277	23,751	98,019	49,076	176,123
Average Students per District	123	642	1,815	3,775	995
Average \$ per Student Spent on System Administration	\$882	\$508	\$347	\$304	\$375

Source: Maine Education Policy Research Institute, University of Southern Maine

Governor LePage's budget provides a number of bold proposals that put Maine students first and modernizes the public education system in Maine. Further, the budget:

Provides Incentives for Voluntary Regionalization Efforts

- **Free up more funds for the classroom, provide property tax relief for local taxpayers and create greater opportunities for Maine students**
- **Create and fund regional education service agencies to reduce administrative costs**

The State will no longer pay for local administrative costs. Instead the state provides \$11 million over the next biennium in the funding formula to regional education service agencies that school districts can contract with to provide services. Local communities can decide and fund their own administrative structures.

In 2015, Maine school districts spent over \$70 million on system administration. Statewide, the average per pupil spend on administration was \$375 per student. However, for Maine's 43 smallest school districts, the average was \$882 per student, compared to \$304 per student in Maine's largest school districts. This suggests that some districts could reinvest as much as \$500 per student in classroom learning, rather than funding bloated, fragmented administrative overhead.

- **Incentivize grassroots, voluntary regional efforts**
Provides \$5 million per year to fund grants for grassroots efforts to reduce costs and regionalize services. A pilot of those grants has already been launched.
- **Supports regional construction for comprehensive projects**
Develops an application and provides funds for comprehensive regional school projects. The selected pilot project may create a new regional high school integrated with a career and technical school, University of Maine System and Maine Community College System.

Redirects State Support to Direct Instruction, Accountability, and Teachers

- **Repeals the current EPS formula in 2019 and replaces it.**
A new funding formula will be developed to provide funding to every district for direct instruction and support for student learning. The plan for a new school funding formula must be based on providing direct instruction and support for

student learning, include a statewide teacher contract and the implementation of a system to measure and ensure that school administrative units are held accountable for the intended use of the State funds. The new funding formula must ensure that direct instructional programs and services are available to all students and be available in all schools on an equitable basis.

- **Statewide teacher contract**

The state's new funding formula will fund a minimum salary for statewide teachers and set equitable student to teacher ratios. The administration will introduce legislation enabling the State of Maine to serve as the collective bargaining agent for all school units to bargain for salary and benefits for all Maine teachers. This will raise the base salary for teachers in rural Maine and attract qualified teachers to the profession. Maine teachers are facing a demographic cliff as baby boomers retire, necessitating a new approach to attracting and compensating Maine teachers.

- **Student teacher ratios; smaller class sizes in early elementary school grades**

Adjusts student-teacher ratios for smaller class size in K-3 and larger class sizes in higher grades. Provides targeted funds for K-2 instruction in 2018 and K-3 in 2019 in order to support the goal of all students reading at grade level by age 8. According to the National Center for Education Statistics, the national average student-to-teacher ratio is 16. In Maine, the average is 12, making it one of the smallest in the country.

Addresses Local Costs for Education

- **Lowers the mil rate from 8.30 in 2017 to 8.29 in 2018**

- **The budget proposal settles the debate over the state's obligation to fund 55 percent of education costs by the 2019-2020 school year**

In 2018, the state share will exceed 50 percent. In 2019, it will exceed 52 percent and in 2020, the state's funding formula and support for direct instruction will surpass 55 percent. Today, if the State funded salary and benefit costs for all teachers and classroom staff, the state share would approach 60 percent. A new state funding formula refocused on student learning and a statewide teacher contract will allow the state to surpass 55 percent and focus education dollars on the best interest of Maine students.

- **Provides a pathway to reduce long-term costs**

Voluntary regionalization efforts will provide local communities with access to educational services at lower costs, enabling long-term savings.

Adjusts EPS to More Accurately Reflect Education Costs

- Increase state subsidy for minimum receivers.
- Removes the adjustment for Title I funds currently received by local districts from the federal government resulting in more resources for some districts.
- Remove adjustment for declining enrollment so that enrollment reflects actuals (most schools in Maine have declining enrollments).
- Phases out the operating adjustment from 97 percent toward 100 percent over time.

Addresses the Rising Cost of Special Education

- Creates a hardship fund to serve as a circuit breaker for communities with a sudden spike caused by an unexpected placement of a student in the special education program that results in a five percent or more increase in costs in the special education program. The State will cover a portion of these student costs.
- Provides funding to train teachers to work with students with autism using a research-based early intervention program.

Reduces Miscellaneous Costs to Direct More Money Into the EPS Formula

- Removes outdated earmarks and moves funding into the EPS formula.
- Adds targeted funds for hands-on STEM pilot projects to be awarded as grants.

Increase Access to Educational Opportunities for Students

- Increases funding for high school students enrolling in college courses at the University System, the Community College System, and the Maine Maritime Academy.
- Eliminates the cap for charter schools.
The addition of charter schools to Maine's public school landscape in 2011, championed by Governor LePage, has unlocked new educational opportunities tailored to the needs of Maine students. Currently the law caps the number of Charter Schools that may be approved at 10 schools until 2021, at which time the cap is repealed. To date, nine charter schools have been approved and it is time to remove the cap. The Charter Commission has been judicious in approving new charter schools. This gives them the authority to continue to exercise discretion in how many new schools can be approved to provide opportunities to Maine students.

Lowers the Cost of Higher Education

- Governor LePage will once again propose a bond to fund zero-interest student loans for college students who live and work in Maine after graduation.
- Continues financial support to the University of Maine System that enabled the University to hold tuition flat for a historic six years. With Governor LePage's support, Maine was the only state in the country to reduce the inflation-adjusted cost of four-year, public higher education over the last five years. Maine has reduced the real cost of public higher education by 2 percent while the national average has increased by 13 percent over the last half decade.
- Provides increased funding to the Maine Community College System to strengthen and expand occupational programming and services and to further the Community Colleges strategic initiatives. At \$92 per credit hour, community college students in Maine pay the lowest tuition in New England.
- Increases the state appropriation for Maine Maritime Academy to move toward greater parity with state support for the University and Community College Systems, supporting upgrades to the school and lower tuition for students. More than 70 percent of Maine Maritime Academy students are Maine residents, more than 80 percent of whom are on some form of financial aid. More than 40 percent are the

first member of their family to attend college. A national leader, 90 percent of Maine Maritime graduates are placed in jobs within 90 days of graduation.

Address School Infrastructure Needs

- Propose a bond to recapitalize the revolving loan fund. The Loan fund allows school districts access to funds to address health, safety, and compliance deficiencies, as well as renovations and capital repairs of public school facilities.
- Propose a bond for CTE equipment.
- Propose a bond to fund regional school construction projects.

PRIORITIZING OUR NEEDIEST MAINERS

MAINE DEPARTMENT OF HEALTH AND HUMAN SERVICES

The FY 2018-2019 DHHS budget proposal aligns with the Governor's goals of maintaining state spending at or below FY 2016-2017 funding levels and significantly reducing state government headcount, an effort that began at the outset of CY 2016. While other states are running Medicaid shortfalls due to ill-considered program expansion, MaineCare funding is under control and sustainable. Through disciplined, financial management and rejection of Medicaid expansion—which would have only benefited able-bodied adults—Maine is able to devote scarce taxpayer resources to our neediest and most vulnerable.

DHHS Spending Stabilized

Over the course of the FY18-19 Biennium, DHHS would reduce funding by nearly \$140 million from the established baseline budget.

This represents a reduction of 5.8 percent from the baseline. It is also a 4.5 percent reduction from FY 2016-2017 spending levels.



The reductions include nearly \$70 million in proposed net savings to the MaineCare program. Among the key initiatives are:

- Elimination of separate facility fees for hospital based physicians **(\$11.4 million)**
- Reimbursement of Critical Access Hospitals at 101 percent of cost **(\$4.5 million)**
- Rebasng of the Hospital Tax Year from 2012 to 2014 **(\$15.1 million)**
- Eliminating eligibility of able-bodied parents with earnings over 40 percent FPL **(\$33 million)**

By proposing net savings to MaineCare, DHHS seeks to maintain level or reduced General Fund baseline funding for the program for five consecutive years, dating back to Fiscal Year 2015. Given the significant pressures on U.S. healthcare costs—and the rapidly increasing Medicaid expenditures seen in other states—the ability by DHHS to rein in MaineCare spending is a significant accomplishment. For each of the past three years,

MaineCare has not had a shortfall, which has been a major contributor to state budget stability.

By instituting key reforms and driving efficiencies in the MaineCare program, DHHS is able to support more than **\$30 million** in new funding requirements driven by federal mandates, including increased Medicare Part B and Part D costs, as well as an increased Medicaid rate for Federally Qualified Health Centers.

Refocus on Critical Priorities

The Department's endeavor to refocus MaineCare spending on Maine's neediest and most vulnerable is highlighted in the most recent budget proposal.

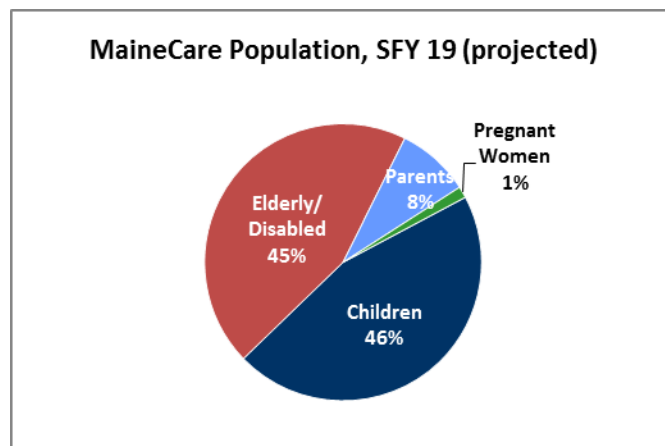
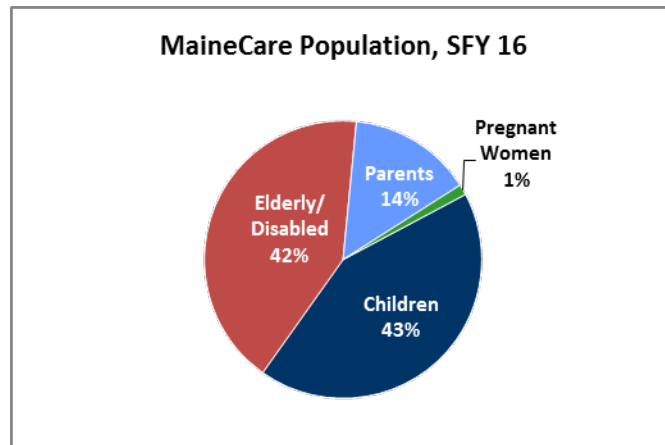
In the current biennium, the elderly and disabled population account for **more than 40 percent** of those served under MaineCare. This is an increase from 35 percent at the beginning of the LePage Administration. Eliminating eligibility of able-bodied parents with earnings of greater than 40 percent FPL would as a result increase the percentages for children and the elderly/disabled.

This focus has allowed the Department to eliminate the waitlist for Section 29 services. Notably, the DHHS budget proposal calls for only **one** MaineCare funding increase—to further expand services under the Section 29 waiver serving the developmentally disabled by \$12.2 million over the course of the biennium.

Continued Welfare Reform

Financial stability within the Department is also attributed to the commonsense reform to the state's welfare system. This Administration is devoted to promoting independence and self-sufficiency to help Mainers back to work. Among the Department's key initiatives:

- Reduce time limits for the state's Temporary Assistance for Needy Families (TANF) program from 60 months to 36 months.
- Align services for legal noncitizens to the federal standards.
- Eliminate General Assistance program (**\$12.1 million**).
- Remove Good Cause Exemptions with the exception of Domestic Violence.



Throughout the LePage Administration, one of the goals has been to end the decades-old cycle of welfare dependency and help individuals become financially independent. By reducing the time limits for individuals receiving TANF and requiring able-bodied adults to work, the state has been able to ensure help is going to those who truly need it.

Within the budget proposal, this goal would further be achieved through the implementation of the “job quit” penalty. An applicant or recipient of TANF who has quit or lost a job without good cause in the last 30 days would be ineligible for benefits for a period of three months. This is not applicable if a person has terminated a self-employment enterprise or if there is good cause.

MAINE COMMISSION FOR INDIGENT LEGAL SERVICES

An Accountable and Transparent Public Defender System

The Governor has made efforts to improve the way government functions; however, he has often met resistance to change from the Legislature who would rather stick to the inefficient status quo. This budget includes the Governor’s second attempt to reform Maine’s indigent legal defense system to provide for a system that includes proper accountability and management.

Since the creation of the Maine Commission for Indigent Legal Services (MCILS) in 2011, the budget for this program increased over 54 percent, with an increase of 35 percent between FY15 and 16. In five of the last seven fiscal years, MCILS has needed supplemental funding to keep its budget balanced.

The right to counsel exists to ensure they receive a fair trial, it is not a “make work” program for lawyers. There are about 500 lawyers on the MCILS roster who are eligible to handle indigent cases, but no mechanism to gage the performance of those attorneys. The American Bar Association has “Ten Principles of a Public Defense Delivery System.” This list includes caseload limits, training, ability and experience that match case complexity, and a defense counsel that is supervised and systematically reviewed for quality and efficiency. Today none of these principles are fully met by MCILS.

Maine should have a system that is respectful of Maine taxpayers and responsive to the needs of indigent defense clients. The current system cannot continue as it has for the last five years: looking for supplemental budgets, no measure of attorney performance, and with little transparency into case outcomes.

MAINE DEPARTMENT OF LABOR

Assisting Maine’s Disabled, Blind, and Visually Impaired

Major requests for General Funds and staffing are in the Department of Labor’s Bureau of Rehabilitation Services, where additional monies and staff will minimize the potential of having to waitlist people with disabilities who want to be employed. Initiatives include:

- Two Rehabilitation Counselors costing approximately \$150,000 in 2018 and 2019 to fund a comprehensive program including such providers like Jobs for Maine’s Graduates to increase employment engagement outreach for youth with disabilities by 33 percent (from 3,000 students to 4,000).

- \$390,000 in 2019 for Vocational Rehabilitation to minimize the potential of creating a waitlist for people with significant disabilities who want to work;
- \$225,000 for Division of the Blind and Visually Impaired for independent living for clients losing their vision. This is necessary to provide the level of service to assist mostly older Mainers losing vision due to age-related conditions keeping them living independently in their homes and out of nursing homes—a less desirable and more costly outcome.

STRATEGIC INVESTMENTS IN PUBLIC INFRASTRUCTURE

TRANSPORTATION INFRASTRUCTURE

The State of Maine's transportation infrastructure matters more today than ever before. Families and businesses depend on transportation infrastructure to get from place to place and to sell and buy goods from both near and far. Smart investment in the maintenance and upgrade of transportation infrastructure is critical to sustaining a vibrant Maine and national economy. We must look beyond our borders regionally, nationally and globally to help Maine businesses with access to markets through transportation networks.

The Governor's Highway Fund budget increases the Highway fund allocation from the last budget, which will allow the Maine Department of Transportation to meet the highway, bridge, and multimodal needs necessary to help drive Maine's economy.

State Police Funding Transfer

Governor LePage's budget includes a provision that transfers the funding responsibility for the Maine State Police from the Highway Fund to the General Fund. Commercial Vehicle Enforcement, Traffic Safety, Motor Vehicle Inspection and Highway Safety programs will remain funded by the Highway Fund. Current funding levels remain unchanged; only the source of funding changes, representing a cost shift estimated at \$50 million. This policy change reflects the Governor's priority that Highway Fund dollars should be invested in transportation infrastructure.

Light Capital Paving

This budget will allow cash returned from the TransCap Trust Fund to be used for capital projects having an estimated useful life of 5 years, instead of the 10 years in current law. This provision will allow funds to be used for Light Capital Paving. With this policy change and budgeted amounts in the Highway and Bridge Light Capital account, MaineDOT expects that it can deliver approximately 600 miles of Light Capital Paving in 2018 and another 600 miles in 2019.

Funding for State and Local Projects

This budget authorizes \$50 million in Grant Anticipation Revenue Vehicles (GARVEE bonds) to be used for large projects with a useful life of at least 15 years. Additionally, the General Fund will support debt service of \$200 million to support new General Obligation bonds. This budget also includes funding for the purchase of heavy equipment in accordance with the long-term equipment purchasing plan, and allows funding from MaineDOT personnel savings and unallocated revenue to be used in capital programs. Additionally, the Local Road Assistance Program will provide \$46.5 million to municipalities over the biennium.

FACILITIES INFRASTRUCTURE

Ensuring Good Stewardship of State-owned Facilities

The State of Maine's East Campus in Augusta has been one of the primary focuses for state agency consolidation and optimization efforts in the capital area in recent years. As part

of Governor LePage's belief in being good stewards of state-owned facilities, many of the buildings on that campus have undergone major renovations and upgrades in recent years. These investments in taxpayer-supported properties have reversed the trend of deferred maintenance that plagued these buildings and forced state agencies into leased properties.

The Governor's budget proposes to make further investments of \$36.1 million in state-owned facilities, creatively re-using and maximizing existing space available to state agencies. This prudent approach allows the state to strike the right balance between owning and leasing state-occupied space, which maximizes State resources and reduces costs to taxpayers.

Projects benefiting from this funding include the renovations of the Deering, Greenlaw, Elkins and CETA Buildings. Additionally, the Governor's budget includes \$6 million for the State of Maine's remaining commitment to the Dolby landfill and Katahdin region.

INFORMATION TECHNOLOGY INFRASTRUCTURE

A Holistic Approach to Information Technology

In 2005, the information technology functions of state government were consolidated from disparate agencies and departments into the Department of Administrative and Financial Services' Office of Information Technology (OIT). In the 12 years since this consolidation, the importance of information technology in the daily lives of all Mainers has grown exponentially. State government is no exception.

In recognition of this fact, Governor LePage's budget creates a stand-alone Department of Technology Services. This proposal continues the evolution that began in 2005 and will position the newly created department to provide guidance and services to agencies on a state-wide level.

The department will provide cyber security, technical strategy, project management, architecture, and application support to State of Maine agencies and citizens, with an eye toward providing technology solutions that serve multiple areas.

NATURAL RESOURCES INFRASTRUCTURE

Investing in Our Natural Resources-based Economy

The Casco Fish Hatchery was constructed in 1955 and supplied with water by a single pipeline from Pleasant Lake in Casco. The facility supplies up to 100,000 Sebago Lake strain of landlocked salmon and is the third-largest producer in the statewide stocking program.

The intake pipe was identified as needing improvements in a 2016 infrastructure study that was conducted on all of the Department of Inland Fisheries and Wildlife's hatcheries. In June 2016 the hatchery experienced an unexpected reduction in water flow, causing the facility to be shutdown. The Department has determined that the pipe should be replaced immediately to bring the facility back into production. To remedy this situation, the Governor's fiscal year 2017 supplemental budget will provide \$1.8 million in funding to replace the Casco Fish Hatchery intake pipe.

Additionally, the same infrastructure study identified the Grand Lake Stream Fish Hatchery, a facility responsible for production of up to 86,000 West Grand Lake strain of

landlocked salmon, as needing to make an extension to its water intake pipe. Current production at the hatchery has not been sustainable due to water temperature increases during low water levels in the summer months. Extension of the pipe would allow for cooler water to sustain fish production levels at the facility. The Governor's fiscal year 2017 supplemental budget will provide \$2.98 million in funding to correct this deficiency.

CREATING A MORE MODERN, EFFICIENT STATE GOVERNMENT

Limiting the Growth of Government Spending

Governor LePage's budget proposal essentially flat-funds executive branch agencies, while the legislative branch and judicial branch have both seen increases in their spending. The LePage Administration has made a conscientious effort to reduce spending and the growth of government.

	2016-2017	2018-2019	PERCENT CHANGE
General Fund Appropriations	\$6,732,165,018	\$6,841,722,477	1.63%

Governor LePage's budget limits the growth of government spending.

Executive branch departments and agencies that were flat funded or saw a decrease in their General Fund appropriations include the: Department of Corrections, Department of Economic and Community Development, Department of Health and Human Services, Department of Inland Fisheries and Wildlife, and the Department of Labor.

The Governor's biennial budget includes additional spending of \$109.6 million more than the 2016-2017 biennium. Of that amount, Governor LePage allowed spending to go forward in a handful of areas, including the following:

	2016-2017	2018-2019	PERCENT CHANGE
Legislative Branch	\$50,849,531	\$53,669,108	5.54%
Judicial Branch	\$137,550,799	\$153,155,998	11.35%
Maine Maritime Academy	\$17,773,608	\$20,308,629	14.26%
Maine Community College System	\$120,328,054	\$129,574,712	7.68%
University of Maine System	\$409,914,984	\$420,959,218	2.69%
Maine State Library	\$6,868,747	\$7,035,927	2.43%
Law and Legislative Reference Library	\$2,949,209	\$3,145,206	6.65%

Ultimately, Governor LePage's biennial budget reinforces his philosophy that state government can be both modern and efficient and continue to service the citizens of Maine.

MAINE DEPARTMENT OF MARINE RESOURCES

Reducing Headcount and Overhead While Improving Customer Delivery

The Department of Marine Resources (DMR) has proposed a biennial budget to bring budgeted allotments in line with actual revenue, to close the Boothbay Harbor lab library, to close the seawater lab for five months, to reduce headcount by 1.75, and to reduce the number of state vehicles used by the department. The budget also proposes to reprogram headcount to priority areas within the department, to self-fund management initiated reorganizations, and to transfer the Coastal Program to DMR.

In order to continue supporting department priorities in research, enforcement, and public health, the department proposes to increase license fees through a surcharge. This

increase, the first in nearly a decade, will be used to address changes in the environment, to increase department efficiency in data collection, to provide funding for life-saving ballistic vests for Marine Patrol personnel, and to continue science and enforcement efforts in underperforming Other Special Revenue funds.

- Efficiencies in data entry resulting from the roll-out of the new on-line licensing system will allow the Department of Marine Resources to eliminate a recently vacated position while continuing to provide excellent customer service to license holders.
- By carefully analyzing the seasonal use of central fleet vehicles, the Department is able to propose a reduction in the number of state vehicles used by the DMR Science Bureau staff which will maintain adequate transportation support while ensuring the efficient use of state resources.
- A surcharge on license fees, the first of such in nearly a decade, is proposed to create an account known as the Coastal Fisheries Research, Management, and Opportunity Fund. The fund will provide a stable revenue stream that will enable the Department to pursue adaptive management approaches and economic opportunities for Maine's valuable marine resources.
- A proposed purchase of technology to enable paperless data entry, supported by the fund mentioned above, will allow a much more efficient and effective use of DMR Science Bureau staff time. Currently, Science Bureau staff spends approximately 28 percent of their time manually entering data gathered by various monitoring programs, such as the lobster sea sampling and in-season scallop monitoring programs. With the new technology, DMR Science Bureau staff will be able to spend much less time on data entry and much more time conducting research and analysis necessary to support management measures that can adapt to the changing ocean environment.

MAINE DEPARTMENT OF LABOR

Utilizing Technology to Streamline Operations

To achieve Maine Department of Labor's goal of creating more efficient and effective services to better provide for the citizens of Maine, the department has focused on several core goals and objectives:

- Challenge all existing programs/processes by embracing change and employing a zero-based budget approach.
- Strive to modernize delivery systems, automating manual processes where possible and replacing antiquated ones.
- Streamline and redefine processes with the goal of improved service delivery, simplification and reduced costs.
- Target collaborative efforts with other agencies and states with the objective of shared expertise, improved service delivery and reduced costs.

To accomplish these objectives, several major initiatives have been implemented by the LePage Administration:

- Continued implementation of the unemployment technology consortium that will provide an improved user experience for claimants and employers, as well as significantly streamline processes, resulting in major headcount and cost savings.
- Successfully replaced Bureau of Employment Services' (BES) fragile and ancient case management and Job Bank systems by joining a 15-state consortium—America's Job Link Alliance—thereby eliminating out-of-control systems' maintenance costs and providing a better user experience for employers and job seekers alike.
- The building and conversion of the Bureau of Labor Standards case management system to a new automated system, resulting in stabilized system maintenance costs and efficiencies.

The State of Maine has already begun to realize some of the positive impacts of these changes. Greater benefits will continue to accrue as we progress further with all of these initiatives. As a result:

- MDOL's currently proposed budget for 2018/2019 is \$279.6 million and \$280.1 million respectively, essentially flat from the 2016/2017 Baseline budget of \$290.0 million and \$290.4 million in 2016 and 2017, with the exception of a \$10 million reduction in the Unemployment Insurance Trust Fund in both 2018 and 2019;
- Projected General Fund expenditures for 2018/2019 (\$10.9 million and \$11.4 million) are \$0.6 million and \$0.2 million below budgeted levels of 2016/2017;
- Projected legislative headcount levels for 2018/2019 are 525 and 500 respectively. Additional non-identified, specific, position reductions in 2018/2019 will lower legislative staff levels to 524 and 496 respectively, a decline of 5 percent in each of the years or 10 percent total.
- Limited Period Positions will be reduced from 46 today to fewer than 12 in 2019.

MAINE'S COUNTY JAIL SYSTEM

Governor LePage has been consistent in his position regarding the funding and operation of county jails. Whoever is responsible for running the jails should be responsible for paying for the jails. The Legislature needs to either lift the county tax cap that prevents counties from paying for their own jails or have the State take over responsibility for running the jails and paying for them. The State of Maine should not keep paying an open tab for the counties to overspend on corrections.

PROVIDING PROPERTY TAX RELIEF

Maine's tax system is heavily reliant on the local property tax. The fact that the state has the highest percentage of second homes in the country and is land rich suggests this approach is not unreasonable.

For many Maine households, however, the property tax places a strain on their ability to pay and therefore to remain in their home. Elderly households on fixed incomes are particularly vulnerable to constantly rising property taxes.

Understanding Local Spending

Municipalities and school districts have continued to increase spending at rates that outpace inflation, adding to the burden property taxpayers already feel. In the most recent analysis completed on adherence to property tax levy limits passed under LD 1, 84 percent of the municipalities increased their tax commitment and the average increase was 6.5 percent. And since 2010, total municipal appropriations increased over 16 percent. Within school districts, nearly 80 percent exceed the Essential Programs and Services (EPS) and those that did exceeded it by almost 30 percent. These local decisions impact the local tax burden. We have a long tradition of valuing local control in Maine, but local control is expensive. This budget provides \$10 million for schools and \$10 million for municipalities to fund voluntary efforts to regionalize and reduce costs to alleviate local property tax burdens.

Direct Property Tax Relief

Governor LePage's budget proposes relief the most effective way possible, directly to the taxpayer. Currently the program that achieves this result best is the Property Tax Fairness Credit, and additional state resources will be directed to this and other municipal property tax relief programs. Residents that pay more than 5 percent of their income towards property taxes will be eligible for a refundable tax credit of up to \$750 if they are under 65 and up to \$1,000 if they are over 65. Governor LePage's budget also simplifies how renters qualify for the credit and ensures that all residents over 65 that have income under \$20,000 receive a minimum benefit of \$400.

Permanently Fund Revenue Sharing at Current Levels

To bring some level of certainty to the municipal budgeting process, this budget sets municipal revenue sharing permanently at the current 2 percent rate. The LePage Administration has developed numerous other programs to increase investments at the local level, including at MaineDOT with the Municipal Partnership Initiative to match local investments in infrastructure.

Tax-exempt Organizations Contributing to Their Host Communities

Having served as mayor of Waterville, Governor LePage recognizes the strain on local services like fire, public safety and winter maintenance that large non-profits can have on communities, shifting the tax burden to local residents. To address this, Governor LePage has introduced stand-alone measures to accompany the budget that will give municipalities the authority to collect service charges from large non-profit entities and requires land trusts to contribute to the municipalities they are located in. Some communities, Bangor and Lewiston, have more than one-third of their municipal valuation exempt from property taxes. In rural communities, there are ever-increasing segments being restricted from

development by land trusts without local approval. It is more than reasonable for these communities to collect a fair share for the services they provide to these property owners..

Specifically, Governor LePage will propose the following reforms to allow municipalities to collect more revenue from property owners that do not pay property tax, alleviating the property tax burden on local families and small businesses and contributing to the cost of local services, such as education.

- Municipalities will be given the authority to collect service fees from the wealthiest non-profit organizations on properties of \$10 million or more.
- Land trusts will no longer be tax-exempt. In order to qualify for a property tax exemption, they must enter the Open Space program, which will be reformed to allow large parcels to enter the program.
- The Tree Growth Tax Program will be reformed, restricting the program to parcels where wood is harvested, consistent with the program's original intent. Maine Forest Service will be authorized to audit plans for compliance with the tree growth program and order municipalities to remove non-compliant parcels from the program and return the property to the tax rolls. In the future, only wood lots 25 acres or larger will be eligible, restricting this tax exemption that now applies to lots over 10 acres.

These initiatives recognize the growth of nonprofit organizations and land trusts in our communities and requires them to contribute to municipal coffers.

Transfer of Telecommunications Excise Tax

Current state telecommunications excise tax revenue collection will be transferred to municipalities to assist them in broadening their property tax base. At present, it generates approximately \$6.5 million per year and all revenue will be transferred to the local level with little or no burden on current taxpayers.