

Consensus Economic Forecasting Commission Summary of Data Gathering Session on October 26, 2018

For the eighth year in a row, leaders of several Maine business and industry groups assembled at the State House to share economic data and industry-specific information with the Consensus Economic Forecasting Commission (CEFC) prior to the fall forecasting meeting. For this meeting, participants were asked to provide a general overview of recent and future trends in their industries as well as comment on potential challenges and opportunities in the near term. Following is a summary of those presentations. Any economic data, observations or forecasts contained in this summary appear as they were heard and interpreted at the meeting, so the CEFC is not responsible for their accuracy. Nothing in this summary necessarily reflects the views of the CEFC. The current official forecast of the CEFC can be found at <https://www.maine.gov/dafs/economist/economic-forecasting>.

Chris Pinkham; Maine Bankers Association

Overall, the banking industry is in a robust position with good earnings and good profitability. A strong economy has led to a 2.9 percent growth in total assets (to \$27.8 billion) and 3.2 percent growth in total loans (to \$20.9 billion) in the first 6 months of 2018. Within loan categories, Commercial Real Estate loans grew by 5.5 percent and C & I loans grew by 8.9 percent in the first six months of 2018. Delinquencies have continued to decline to an 11-year low. Although the Fed raised interest rates, bank deposits have not risen; however, further upward pressures on interest rates may be of concern for some bankers.

Mr. Pinkham noted that banking in Maine, a 29-billion-dollar industry, employs approximately 9,000 Mainers. As the banking sectors moves towards online platforms and interstate banking, employee demand has shifted towards tech jobs. The industry has developed partnerships with several colleges within the state to promote essential college programs based on hiring demands and to provide internships.

Alison Royall; Maine Society of Certified Public Accountants

Ms. Royall, on behalf of Maine Society of Certified Public Accountants, expressed the impact of the changing demographics and the industry on the role of CPAs in the state. The net number of CPAs in the state has been shrinking and will continue to do so because of shifts in the role of CPAs due to advancements in artificial intelligence and other technological shifts. She also mentioned that the baby boomers demand a majority of the CPA services and as demographics change, the demand for CPAs continue to decline. Labor shortage has also been an issue as millennials prefer work-life balance to working 75-hour weeks. In Maine, CPAs provide advisory services along with tax return preparation. Such services are demanded mostly by small business.

Richard Erb; Maine Health Care Association

There are 97 nursing homes and 135 assisted living facilities in Maine. These facilities serve a variety of different payers and operate 6,500 nursing home beds as well as 4,303 assisted living beds. Nursing beds are operated at 88% occupancy with services shared between MaineCare (66 percent), Medicare (9 percent), and private pay (25 percent) payers. Assisted beds operate at 91% occupancy with MaineCare (74 percent) and private-pay (26 percent) payer mix. There are payer-mix differences across geographical regions within Maine where rural areas have a higher mix of MaineCare patients. In the past 12 months, 6 nursing homes have closed. Mr. Erb mentioned a few reasons for closures including: staffing shortages, expensive agency staffing, low MaineCare rates, occupancy rates, and regulatory burden. Due to the challenges with providing care in rural areas, corporations are less motivated to purchase rural facilities. The financial challenges in operating nursing homes are demonstrated by a gap of \$26 million in 2016 (the difference between pay received from MaineCare and real cost) and \$33 million in 2017.

There are several workforce issues in this industry. Mr. Erb shared that wages are increasing faster than reimbursement rates and the increases in minimum wage have had ripple effects on other pay grades. The industry has also faced challenges in hiring nurses. Nursing homes in Maine provide critical care and have an average age of occupants of over 85 years. As such, the nursing homes have not experienced increased demand from the baby boomers yet but anticipate increases in demand in the future.

Lisa Smith; Governor's Energy Office

Ms. Smith presented the prospects of higher heating fuel expenses this winter. Based on current prices, heating oil will be 20 percent more expensive than last year. Since the majority of Maine's home heating is primarily based on fuel oil (64 percent in 2015), any increase in prices will affect household expenses. Average household expenditures during the 2017-2018 heating season were \$1,943 for oil and \$2,430 for propane. Based on heating season price estimates using October 22, 2018 prices, average household expenditures in the upcoming season would be \$2,265 for oil and \$2,574 for propane. In the event of a cold spell, increases in demand could lead to imports from Europe, which is more expensive. Maine will face volatile oil prices which are largely dependent on demand and world politics.

Wade Merritt; Maine International Trade Center

Mr. Merritt provided a snapshot of the role of international trade in Maine's economy. There are 300 companies in 94 communities, the majority of which are small businesses, involved in international trade activity. Maine accesses 176 markets worldwide and 37,000 Mainers work for companies with international ownership. Maine's exports average around \$3 billion, which has more than doubled in recent years. Maine exports are up by 8 percent this year and ranked 23rd nationally in terms of export growth.

Further, Mr. Merritt discussed recent tariffs on China and its potential impact on Maine's economy. Although export data is provided with a two-month lag, retaliatory tariffs by China seems to have impacted just one industry: lobster. However, with caveats of future changes, Mr.

Merritt mentioned that the industry already seems to have adjusted to the tariff by changing export markets to Canada and Europe instead of China. The long-term effects of the aluminum and steel tariffs is hard to quantify but anecdotal evidence suggests that there will be a slow erosion of market position rather than a catastrophic effect.

Looking forward, Mr. Merritt sees Maine growth and competitive advantage in the following industries: life sciences, food producers, lobster, forest products, and defense.

David Heidrich; Department of Administrative and Financial Services

Mr. Heidrich was unable to participate in the meeting but provided the committee with a written presentation on Maine's medical-use and adult-use marijuana programs. Today eight dispensaries and more than 2,500 caregivers serve the state's approximately 45,000 medical marijuana patients. Recent legislative changes include: an act to implement regulatory structure for adult use marijuana (LD 1719); an act to amend the Maine medical use of marijuana act (LD 238); and an act to amend Maine's medical marijuana law (LD 1539).

With these changes, adult-use recreational marijuana will be taxed on a hybrid excise tax/sales tax structure with effective rates set at 21.5 percent excise tax at wholesale and 10 percent sales tax rate at retail. LD 1719 allows an unlimited number of licenses for business types and no cap on the amount of marijuana that may be grown in Maine. Some concerns related to this law change include product diversion to the black market and over-saturation of the market driving down retail prices and lowering tax revenues. LD 238 establishes a framework for marijuana extraction facilities. LD 1539 allows access to medical marijuana at the suggestion of a medical provider, which is comparable to the Canadian medical marijuana program; allows caregivers to employ an unlimited number of assistants; and increases the cap on dispensaries from eight to 14. LD 1539 also permits dispensaries and caregivers to expense their equipment costs on the Maine income tax return, which does not align with the federal internal revenue code.

In the near future, the Department of Administrative and Financial Services has to adopt rules around the licensing of recreational marijuana. The tentative timeline looks at RFP submissions due by November 8, 2018; contracts signed by December 2018; contract beginning on January 1, 2018; and major substantive rules completed by April 30, 2019. Final adoption and licensing timeline is yet to be determined.