Consensus Economic Forecasting Commission (CEFC)
Summary of CEFC Data Gathering Session on October 28, 2016

For the sixth 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 some insights on the potential impacts of three of the referendum questions on the November 8 ballot – Question 1, regarding marijuana legalization; Question 2, implementing a 3% surtax on incomes over $200,000 to increase education funding; and Question 4, raising the minimum wage. 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 http://www.maine.gov/economist/forecasts/index.shtml.

Chris Fogg, Maine Tourism Association
Mr. Fogg began by discussing the potential impacts of the referendum questions. For Question 1, the Maine Tourism Association polled its membership in an e-newsletter and found 23% of respondents felt it would have a positive impact, 35% felt it would have a negative impact, and 42% were unsure. Based on the experiences of Colorado, Maine should not expect a substantial increase in tourism as a result of passage. While there has been some impact on Colorado, it has been fairly limited, and as marijuana legalization becomes more widespread, it will have less of an impact.

Question 2 would affect around 16,000 households with approximately 2/3 being small business owners. The food industry would be particularly hard-hit and many tourism-related businesses are set up as pass-throughs, where income is taxed on the individual income tax forms rather than on the corporate income tax forms. Recent reductions in the individual income taxes have allowed small businesses to expand, while the passage of Question 2 would counteract these reductions. Passage would also discourage high income individuals from moving to the state.

The Maine Tourism Association opposes Question 4. While the Association would support an increase in the minimum wage to $10 per hour, the proposed increase to $12 per hour would be a drastic increase in a short period and the inflation adjustment would be especially harmful. This increase would limit workforce expansion with fewer hours for employees, increased use of technology, and limited opportunities. Restaurants would be particularly hard-hit by the elimination of the tip credit.

This summer was a very strong tourism season; some regions have seen double-digit increases in visitation. The low gas prices and good weather combined with a strong marketing campaign from the Maine Office of Tourism have had a positive impact. The biggest threat going forward is the lack of qualified people and people in general available to fill open positions. In 2015, around 1,200 jobs went unfilled – covering a range of skill levels.

Curtis Picard, Retail Association of Maine
Mr. Picard also began by discussing the potential impacts of the referendum questions. The Retail Association of Maine also looked to the example of Colorado for implications from Question 1. Retail has seen wide variation in prices between recreational marijuana and medicinal marijuana, to the point where some people still choose to go the medicinal route for cost reasons. The statute would allow retail operations in Maine, and the Association does have some experience with existing medicinal operations, although there is some concern about the structure of Question 1 allowing caregivers a leg up on the competition.

The Association agrees with Maine Tourism Association's views on Question 2 – many small businesses would be impacted. The combination of Question 2, Question 4, the federal overtime law, and double-digit health insurance premiums is creating serious concerns for retail businesses of all sizes. There may be an increase in part-time work as a result with cuts in hours and the movement of some employees from salaried to hourly. With the move to part-time employment, there may be some changes in benefits packages. Increases in healthcare costs already eliminate any possible raises that could be offered to employees.

The tip credit elimination is the most important part of Question 4 for the Retail Association as restaurants that operate on small margins would see their costs increase. Additional impacts from Question 4 would income wage compression, where people currently at $13 or $14 per hour would expect wage increases as the floor increases to $12. The Association did advocate for a $10 per hour minimum wage. There are very few retailers currently paying minimum wage. The indexing of wages is incredibly concerning for the Association.

The low gas prices continue to have a beneficial effect. Nationally, holiday sales are expected to rise 3.6% over last year. In Maine, the holiday shopping season is highly dependent on having good weather on Black Friday and the weekend preceding Christmas. Online sales are a larger and larger share of sales and retailers need Congress to act on internet sales taxation to level the playing field tax-wise.

There is a shortage of workers available in the retail sector, especially over the holiday season. The question is whether people will want or need a second job to fill the seasonal need. Companies with lots of openings even at $12 per hour are struggling to find people, especially those who will stay on for an extended time. There are labor shortages through the southern part of the state up through the coastal region and into Bangor. Some statewide retailers are hiring year-round and struggling to find workers. There is an increase in “pop-up” stores and there seems to be an increase in “cooperative retailing” as more millennials become business owners, but there may be generational challenges in the workplace as millennials with different value systems become an increasing share of the workforce.

Greg Dugal and Steve Hewins, Maine Restaurant Association and Maine Innkeepers Association
Mr. Dugal and Mr. Hewins presented information from the Maine Innkeepers Association and Maine Restaurant Associations as well as addressing the referendum questions. Visitation increased 2.9% in 2015, with industry employment up 5.1%. There were 34 million visitors, with 18 million staying one night or longer and 16 million non-resident day trips. Lodging increased 5.4% with Bar Harbor up 12.5% and Portland up 13.3%. 2016 year-to-date lodging for Maine is up 8.8% and will likely reach $900 million for the first time in the state’s history. Part of this is due to increased visitation for the Acadia National Park Centennial; there is also an increased awareness of Maine as a food and drink destination. Restaurants were up 5.9% in 2015 with Bar Harbor up 7.5% and Portland up 13.2%. For 2016 year-to-date, restaurants are up 7.2% and revenues are projected to exceed $2.75 billion.

The Associations are strongly opposed to Question 4. Many places already pay over the minimum wage to attract workers. The elimination of the tip credit is particularly worrisome. A doubling or tripling of the tipped wage might cause some places to close. There are four options for businesses faced with increased labor costs: cut staff/reduce hours, raise menu prices, replace waitstaff with technology such as tablets, or close up shop. Rural areas would be the most affected. Passage would make Maine the only state East of the Mississippi with no tip credit.

Regarding Question 1, a survey done in Colorado found that marijuana legalization played into the visitation plans of 49% of visitors, with 22% stating it was extremely important. As legalization spreads across more states, it may have less of an impact here, especially with Massachusetts considering legalization.

If Question 2 passes, Maine would have the second highest income tax rate for adjusted incomes over $200,000. Many hotels and restaurants operate as LLCs and sub-S corporations, meaning incomes are taxed at the individual tax rate schedule. Income would have to go to pay these increased taxes instead of to capital expenditures and improvements. The combination of Question 2, Question 4, the federal overtime law, and health insurance cost increases could be a major impact to the industry.

Chris Pinkham, Maine Bankers Association
Growth on the medicinal marijuana side has been interesting for banks. It is appealing as businesses have been growing, but due to federal regulations, banks haven't been able to get involved. There was a Department of Justice opinion letter that allows banks some limited involvement, but the reporting and audits involved proved to be too burdensome for banks to continue.

The Association is opposed to Question 2. If it were to pass, banks with operations in other states and those located in southern Maine would be more likely to place future expansions outside of the state. There are substantial ramifications for the industry and for the state if this question were to pass.

Question 4 is troubling because of the number of portfolios banks have related to the hospitality industry. Many operate with very small margins, and if the margins shrink, there may be questions about whether these businesses are able to meet their debt service obligations. Local banks tend to do a better job of building business plans, but online-only lenders are often less concerned about this.

Peter Triandafillou, on behalf of Maine Forest Products Council
The Maine Forest Products Council was unable to send anyone to the meeting but provided a letter with notes on the industry and implications of the referendum questions.

The Council's primary concern over Question 1 is safety. Safety is a key focus and goal for the industry and there is not currently a known threshold for marijuana impairment or an easily administered test. Impaired workers would threaten the improvements in safety that have been made by the industry.

Question 2 sends several negative signals, including acting as a disincentive to attracting executives and senior management to Maine. The proposal itself has drafting flaws and does not distinguish between those filing jointly or singly nor does it index the income threshold for inflation. It is a tax policy that would make Maine unattractive to business development.

While the forest products industry typically provides jobs paying well above the minimum wage, the changes made by Question 4 would likely hurt small, local businesses, some of which provide services to the forest products industry. Indexing the minimum wage has the potential to cause wage inflation across the employment spectrum, making Maine less competitive for business.

The Forest Products Council also recently released an economic analysis indicating that the economic output of the industry increased from $8.5 billion in 2011 to $9.8 billion in 2014. Output for 2016 was estimated at $8.5 billion, representing a decrease of $1.3 billion since 2014 due to the significant changes that have occurred in the industry since then.