



**Recommended State Budget**  
*Key Principles & Framework*

**FY 2020-2021 Biennial Budget**

**Governor Paul R. LePage**  
**State of Maine**  
*October 2018*

## **Recommended State Budget Framework**

### **FY 2020-2021 Biennial Budget**

To the People of Maine:

As I prepare to leave office, I have put a great deal of thought and consideration into the budget recommendation that I will be passing on to my successor. Our state functions on a two-year, or “biennial,” budget. Because the Governor proposes that budget at the beginning of each odd calendar year (e.g., in 2019), an incoming Governor and his or her team have very little time to consider and craft a budget proposal. I don’t like the way the process works—there is simply not enough time from Election Day to the budget due date in February for the new Governor to draft a budget adequately from scratch. Since I cannot change the process, I have taken steps to make it at least more functional.

First, I will be leaving my successor with a narrower structural gap than the one I inherited—\$504 million versus \$1.2 billion—and my budget recommendation will eliminate that gap.

The structural gap represents the amount of money the state projects to receive in revenue over the biennial period less the amount that statute requires it to spend. The bigger the gap, the more difficult it is to craft a balanced budget. Having any gap at all is frustrating because it derives from three policy actions, each of which I have opposed: Medicaid expansion (\$180 million); increasing revenue sharing from 2 percent to 5 percent (\$213 million); and funding 55 percent of total public education costs (\$147 million).

Each of these expenditures would be inadvisable and unaffordable for our state. My recommended budget would reverse them and eliminate the gap.

Second, late last year, I directed my finance team to expedite the budget development process, so that we would complete it two months early—i.e., in November rather than January. That process is in the final stages now, and what it means is that, shortly after Election Day, our Administration will present the Governor-elect with a completed budget proposal. At that point, the Governor-elect can take or leave our proposal, but it will be a completed budget. Having a fully-baked plan to hand off is a matter of good governance. My hope is that, regardless of who is elected, there will be elements of the budget—particularly along the lines of continuing to make state government more efficient, effective and responsive—that any Governor should want to maintain.

Once Mainers have elected their next Governor, and our Administration has presented the biennial budget plan to my successor, I will direct my team to provide whatever level of support is requested for budget development to ensure that the transition is as smooth as possible.

For now, I offer key principles and a framework for the budget recommendation that I will pass on. While this document is not inclusive of each of the recommendations I will leave for my successor—nor of the accomplishments our Administration has achieved—it is representative of the direction that I believe our state should go and the fundamental principles that will get us there. Many of these principles continue advances that our Administration has made over the past eight years. Others would address new challenges for our state. Not only have times changed, the status of our finances has improved dramatically. That provides new opportunities as well as new accountability to act as responsible stewards of Maine taxpayer dollars.

To that end, one recommendation that I feel strongly about is returning all surplus tax dollars to Maine taxpayers. Mainers are over-taxed. Managed responsibly, state government has more than sufficient revenue to fund its operations. My successor should return to taxpayers the surplus funds identified in the December revenue forecast, and taxpayers in our state should expect no less.

Sincerely,

A handwritten signature in black ink that reads "Paul R. LePage". The signature is written in a cursive style with a prominent loop at the end of the last name.

Paul R. LePage

Governor

# **Governor LePage's Recommended Budget Proposal**

## **Key Principles & Budget Framework**

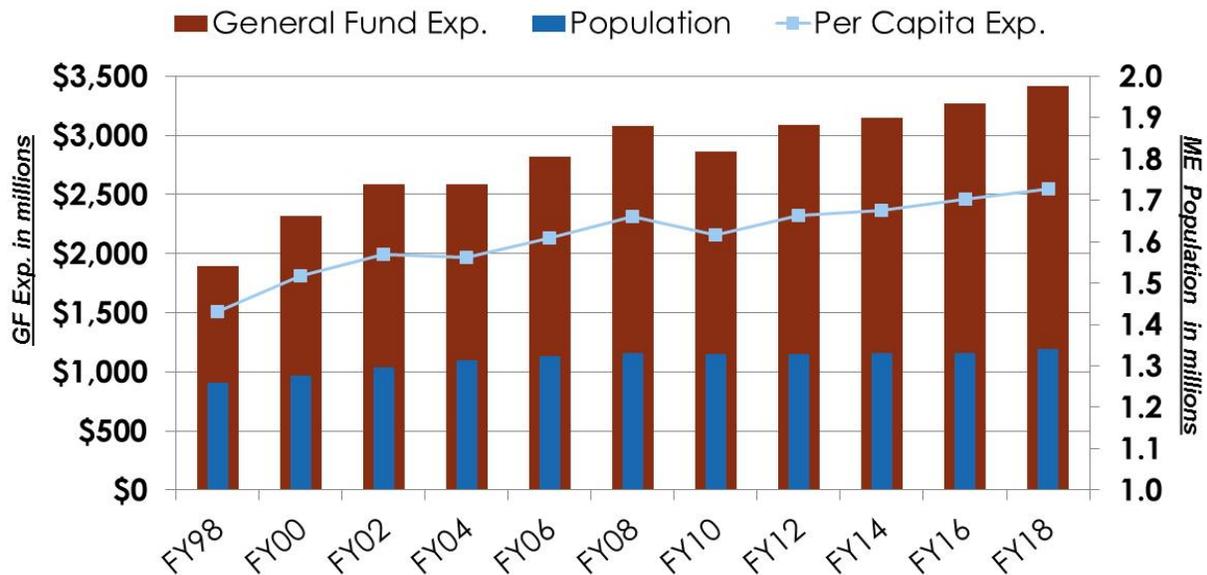
### **Key Principles**

- Promote sustainable expenditure levels that restrain spending increases to no more than the rate of population growth and inflation.
- Eliminate the structural gap by: (1) funding Medicaid expansion with a hospital tax or another permanent funding source *or* repealing expansion; (2) reducing revenue sharing; and (3) funding education at an equitable level, focusing on putting more resources into the classroom and driving administrative consolidation and efficiencies.
- Maintain sustainable funding levels for the MaineCare program; advance key DHHS child welfare and substance abuse treatment initiatives; and continue the Department's focus on moving able-bodied adults from welfare to work.
- Work to eliminate Maine's income tax and continue simplifying the tax code to make our state more competitive in the region and across the nation.
- Drive good financial governance by continuing state balance sheet reforms. Advance efficient operations by further right-sizing state government, by paying state employees competitively, and by revitalizing and enhancing the state campus.
- Improve state government technology services by building on gains in network modernization, transitioning our data and technology infrastructure to the cloud and bolstering cyber security.
- Leverage sound, disciplined financial management to invest in key growth drivers for our state, including adding state troopers; making the state park system free to all Mainers; advancing key upgrades to our natural resources infrastructure; expanding broadband access across our state; and supporting Maine's arts and cultural institutions.
- Maximize Highway Fund resources by moving non-infrastructure expenditures to the General Fund.
- Build the Budget Stabilization Fund to 10% of General Fund expenditures and deposit any additional surpluses into the Tax Relief Fund for Maine Residents.
- Modernize Maine's pension system to provide portability for state employees and public school teachers who leave and/or reenter state service.

## Promote Sustainable Expenditure Levels

**Accomplishment:** During the LePage Administration, General Fund spending has increased at a compound annual growth rate (CAGR) of 2.58% (approximately the rate of population growth and inflation), as compared to 5.50% for the 30-years prior.

**Next Step:** Governor LePage’s recommended budget proposal will include sustainable spending levels that do not exceed projected population growth and inflation, promoting continued fiscal discipline in Augusta.



(Source: U.S. Census Bureau; Office of the State Controller; State of Maine Fiscal Compendium)

## Eliminate the Structural Gap

**Accomplishment:** The FY 2020-2021 structural gap of \$504 million is less than half of the \$1.2 billion gap that Governor LePage inherited when he took office in 2011.

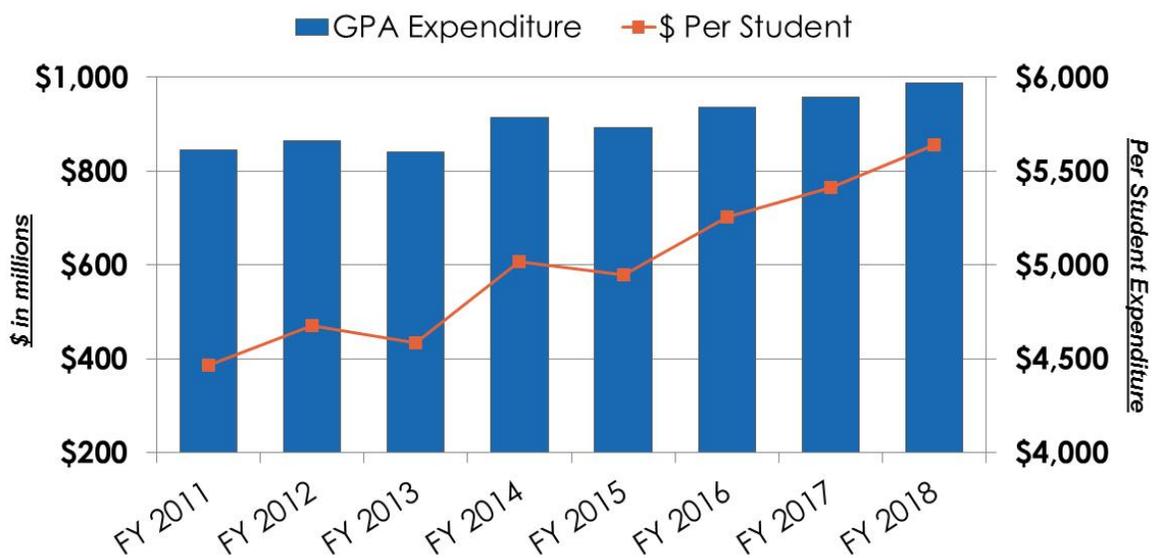
- However, it is considerably larger than the \$165 million FY 2018-2019 gap.
- The inflated structural gap results from three policy measures that Governor LePage opposes: (1) Medicaid expansion; (2) increasing municipal revenue sharing from 2% to 5%; and (3) the 55% state share funding requirement for General Purpose Aid (GPA).

**Next Steps:** Governor LePage’s recommended budget would eliminate the structural gap by taking the following steps:

- **Funding Medicaid expansion with a hospital tax or other permanent funding source or repealing expansion.** At a cost of nearly \$100 million annually, the Legislature has not yet identified a sustainable means to fund this significant new expenditure. Absent legislators identifying another permanent funding source, tax dollars will be required to support expansion. Those can either come from the General Fund (i.e., individual and

business income taxpayers) or from another source, such as the hospitals. Since the hospitals stand to benefit by at least \$100 million from expansion,<sup>1</sup> the new revenue they receive would more than cover any tax expense, and the hospitals would still come out ahead financially.<sup>2</sup>

- **Reducing revenue sharing.** Since FY 2016, revenue sharing has been fixed at 2% in statute. For fiscal years 2014 and 2015—based on legislative funding transfers—the rate was effectively 2%, as well. Current statute calls for revenue sharing to increase to 5% in FY 2020. Increasing revenue sharing to 5% would represent an effective spending increase of more than \$200 million over the biennium.<sup>3</sup> Reversing this undue increase, which is unprecedented over the past decade, would eliminate the revenue sharing component of the structural gap. The Governor’s proposal would also permit municipalities to raise revenues from certain currently untaxed properties.
  
- **Funding education at a sustainable level.** GPA funding has increased by more than \$140 million—nearly 20%—during Governor LePage’s tenure. In addition, due to declining student enrollment, spending per student has increased by more than 25% over that period of time.
  - The problem is not a lack of funding—but rather where the funding goes. In Maine, for every \$1 spent on education, \$0.59 is dedicated to classroom instruction. The average among other New England states is \$0.63, or 7% greater than Maine’s.<sup>4</sup>
  - More education funding needs to go directly into the classroom, and the Governor will recommend a funding approach that meets that goal.



(Source: Maine Department of Education; State of Maine Fiscal Compendium. Note: State funds only)

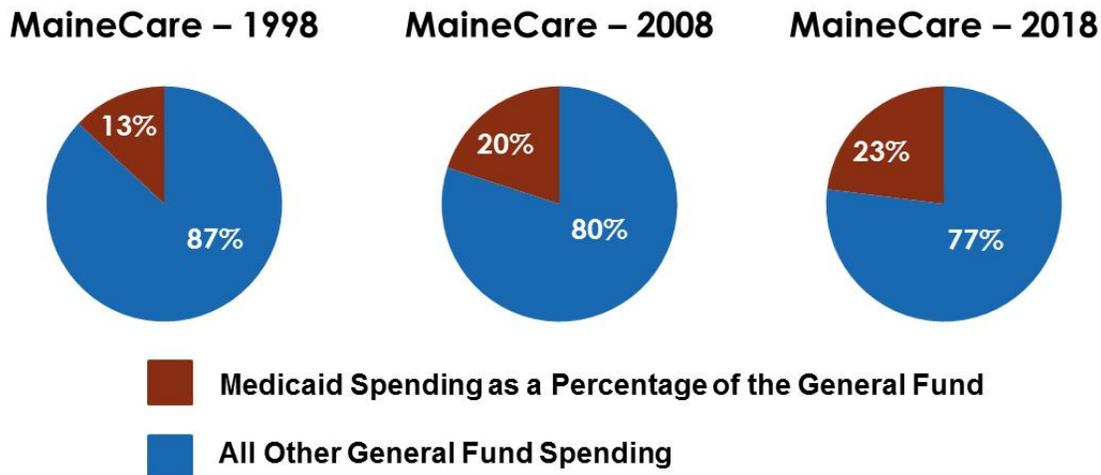
## **Sustainable MaineCare Funding Levels & Advancing Key DHHS Initiatives**

**Accomplishment:** The LePage Administration has refocused healthcare and social services expenditures on our state’s neediest and most vulnerable and has eliminated budget shortfalls in the MaineCare program.

- When Governor LePage took office, MaineCare had a biennial budget deficit of more than \$200 million, and our state owed the hospitals \$750 million.<sup>5</sup> Today, MaineCare is on sustainable financial footing; it has not run a shortfall in years, and the hospitals have been repaid in full—a nearly \$1 billion turnaround.

**Context – MaineCare Spending:** To be clear, our state continues to devote significant resources to healthcare and social services. DHHS funding accounts for 34% of General Fund spending, and MaineCare spending alone accounts for 23% of the General Fund.

- This is down from 24% as recently as FY 2016, but considerably higher than historical MaineCare program norms, having tripled as a percentage of the General Fund budget over 30 years.
- *The current level is one-quarter greater than the national average General Fund Medicaid expenditure of 18%.*

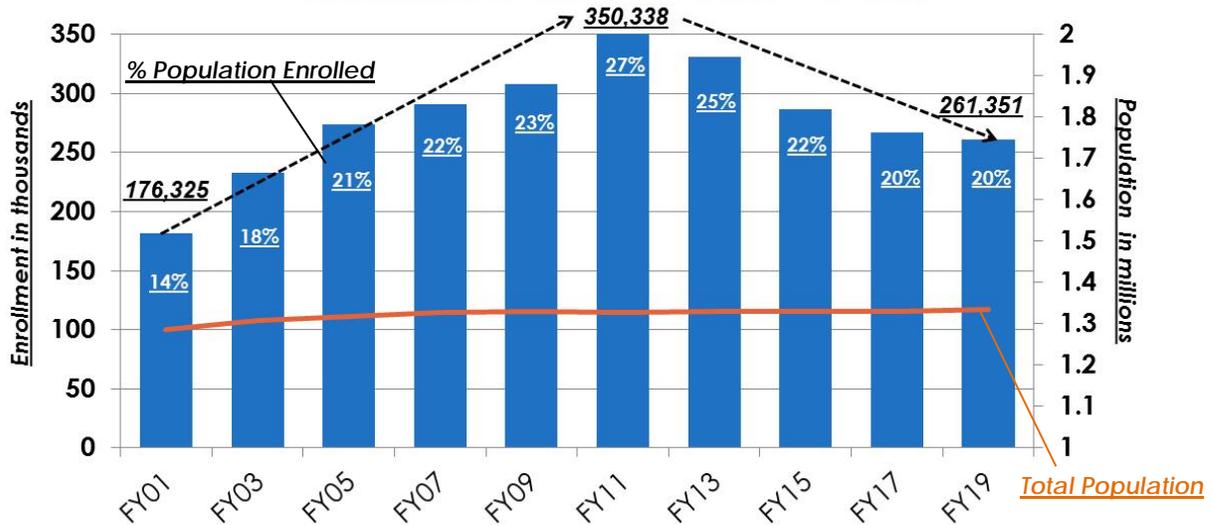


*(Source: Office of the State Controller; Office of Fiscal and Program Review)*

**Context – MaineCare Enrollment:** Although the LePage Administration’s reforms have right-sized the MaineCare program—returning enrollment closer to historical norms—there are 85,000 more individuals in our state receiving Medicaid benefits today than there were in 2001.

- Currently, one-in-five Mainers is enrolled in MaineCare.
- As of September 2018, MaineCare enrollment is 48% greater than it was in 2001.
- Since 2001, Maine’s population has grown by 4%.

## MaineCare Enrollment: FY 2001 – FY 2019



(Sources: U.S. Census Bureau; Office of MaineCare Services)

Context – MaineCare Expansion: If our state were to fund Medicaid expansion using existing General Fund dollars, MaineCare’s share of the General Fund would grow to 25%—or one-in-every-four tax dollars that Mainers send to Augusta. That would begin to cannibalize other General Fund priorities because the pie is always 100%, and healthcare, social services and education expenditures already account for nearly 80% of General Fund expenditures.

**Next Step:** Future policymakers should ensure that MaineCare enrollment and expenditures remain at sustainable, permanently funded levels. They should fund Medicaid expansion with a permanent funding source or repeal expansion. In the same vein, Maine’s next Governor should safeguard against future MaineCare expenditures (1) cannibalizing other critical service funding, (2) resulting in the massive shortfalls of the past or (3) driving taxes even higher.

**Accomplishment:** By prioritizing funding for core services that benefit our state’s neediest and most vulnerable, the LePage Administration restored and increased expenditures for program areas and services that had been neglected in prior years.

- *Nursing Facilities – FY12: \$222 million → FY18: \$285 million (+28%)*
- *Intellectual & Developmental Disabilities – FY12: \$298m → FY18: \$370m (+24%)*
- *Rate increases for child and foster care services; numerous Medicaid services; and home health services.*
- *Invested in innovative new programming for at-risk children and youth.*
- *Repaid Maine hospitals \$750 million in Medicaid debt.*

**Next Step:** Ensure that program resources are directed to our neediest, most vulnerable (and often most costly) beneficiaries rather than being diluted to able-bodied, working-age adults. The Governor’s recommended budget will call for sustainable Medicaid spending levels and continued focus on directing resources to Mainers who need them the most.

**Focus – Child Welfare:** The LePage Administration is in the process of a major upgrade of our state’s child welfare system. This effort has received bipartisan support and will extend into the next Legislature. Key improvements include \$20 million in funding for the following:

- Increased support and reimbursement rates for all types of foster families.
- An improved State Automated Child Welfare Information System.
- Additional child welfare supervisory roles and increased caseworker mentoring.
- Caseworker pay increases to improve their recruitment and retention.

**Next Step:** Governor LePage’s budget recommendation will support continued funding increases and operational reforms to enhance Maine’s child welfare system.

**Focus – Opioids:** The opioid crisis has been a scourge to our state. It has visited tragedy on far too many Maine families. The LePage Administration has worked to address this crisis from multiple angles—from treatment, to law enforcement, to public health. Most recently, the establishment of Opioid Health Homes created an integrated medication assisted treatment, counseling and care management system for MaineCare members and uninsured individuals.

**Next Step:** Maine leads the nation in decline of prescription opioid sales—25% decline from 2016 to 2017—and should continue to utilize a multi-pronged approach to defeat to the opioid crisis. Maine’s next Governor should maintain an integrated service model that continually measures and tests outcomes to ensure that taxpayer resources are directed to effective treatment programs rather than feel-good marketing efforts.

**Accomplishment:** The LePage Administration has succeeded in transitioning Maine from a welfare state to a welfare-to-work state.

**Next Step:** Maine’s next Governor should continue that critical effort. A Medicaid work requirement and maintaining both the 5-year limit for federal welfare benefits and the elimination of the SNAP waiver are essential to it.

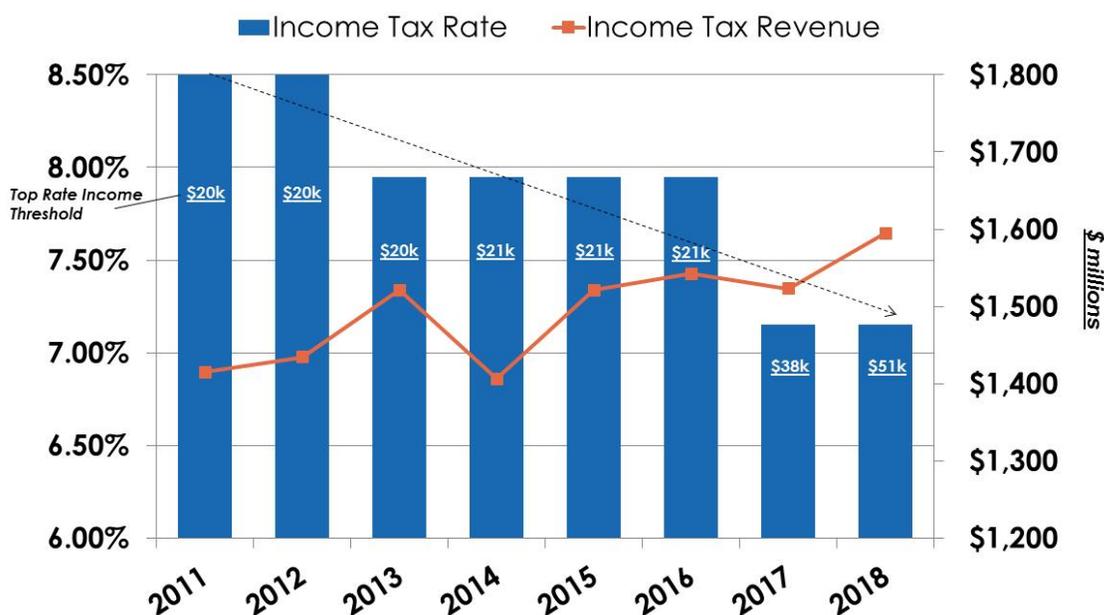
Welfare Reform Accomplishments		
Initiative	Implemented	Proposed
<i>5-year TANF Benefit Limit</i>	✓	
<i>Food Stamp Work Requirement</i>	✓	
<i>Photos on EBT Cards</i>	✓	
<i>\$5,000 Asset Limit for Food Stamps</i>	✓	
<i>Food Stamp Junk Food Ban</i>		✓
<i>Welfare Drug Test for Felons</i>	✓	
<i>Medicaid Work Requirement</i>		✓

(Source: Office for Family Independence)

## Work to Eliminate & Simplify Maine Taxes

**Accomplishment:** Governor LePage has reduced Maine income taxes by 20%, and income tax revenue reached an all-time high of \$1.6 billion in FY 2018.

- *A key change in the LePage tax reforms increased the income threshold at which Mainers pay into each income tax bracket. In 2011, taxpayers entered the highest tax bracket of 8.5% after earning \$20,000 of taxable income; today, the rate is 7.15%, and the threshold is \$50,750.*



(Source: Maine Revenue Services)

- Today, a family of four, with two parents filing jointly, earning \$90,000 per year pays **\$1,311 less in state income tax than they did in 2011—a tax cut of 31%**. The same family earning \$35,000 pays no income taxes at all—\$284 less than 2011.

2017 Married Joint Return, Four Exemptions		
ME Adjusted Gross Income	\$90,000	\$35,000
Itemized Deduction	\$0	\$0
Tax Burden – Old Law	\$4,198	\$284
Tax Burden – Current Law	\$2,887	\$0
<b>Change – \$</b>	<b>(\$1,311)</b>	<b>(\$284)</b>
<b>Change – %</b>	<b>31%</b>	<b>100%</b>

(Source: Maine Revenue Services)

**Status – Competitiveness:** Although improved, Maine’s tax climate remains uncompetitive.

- Not only is our state’s top rate of 7.15% uncompetitive with New Hampshire’s 0%, it is also 40% higher than Massachusetts’ flat rate and one-third greater than the average top rate among states.
- Further, a Maine taxpayer earning \$60,000 pays a marginal rate that is 50% greater than the average rate among taxpayers in New England and across the nation earning the same \$60,000.
- In fact, Maine’s lowest tax bracket of 5.8% is still greater than the average highest tax bracket in New England and among all states.

State	% Top Inc Tax Rate	% Inc Tax Rate @\$60k	\$ Earnings for Top Inc Tax Rate	Progressive / Flat Tax
Vermont	8.95%	6.80%	\$416,650	Progressive
<b>Maine</b>	<b>7.15%</b>	<b>7.15%</b>	<b>\$50,750</b>	<b>Progressive</b>
Connecticut	6.99%	5.50%	\$500,000	Progressive
Rhode Island	5.99%	3.75%	\$149,150	Progressive
Massachusetts	5.10%	5.10%	\$1	Flat
New Hampshire	0%	0%	N/A	N/A
<b>New England Avg.</b>	<b>5.70%</b>	<b>4.72%</b>	<b>\$186,092</b>	<b>N/A</b>
National Avg.	5.30%	4.73%	\$119,909	N/A

(Source: Tax Foundation)

**Next Step:** Governor LePage will propose to continue reducing tax rates, collapsing Maine’s current three income tax brackets to two, and using surplus revenue, tax expenditure reform, available balances and spending discipline to fund significant rate reduction with a goal of marginal individual income tax rates of 4.75% and 6.0%.

- The proposed rate reduction would ensure that most Maine taxpayers do not pay a higher tax rate than that of Massachusetts taxpayers—or one that exceeds the average top rate among states in our region (5.70%) and across the nation (5.30%). Further, the reduction would move Maine’s top tax rate closer to the regional and national averages.
- Throughout calendar year 2018, General Fund revenue has exceeded the Revenue Forecasting Committee’s official projections.<sup>6</sup> The Committee is scheduled to meet again in December to reforecast revenues, and Governor LePage’s budget recommendation will call on Maine’s next Governor to direct all surplus funds from the December forecast to reducing individual income tax marginal rates.

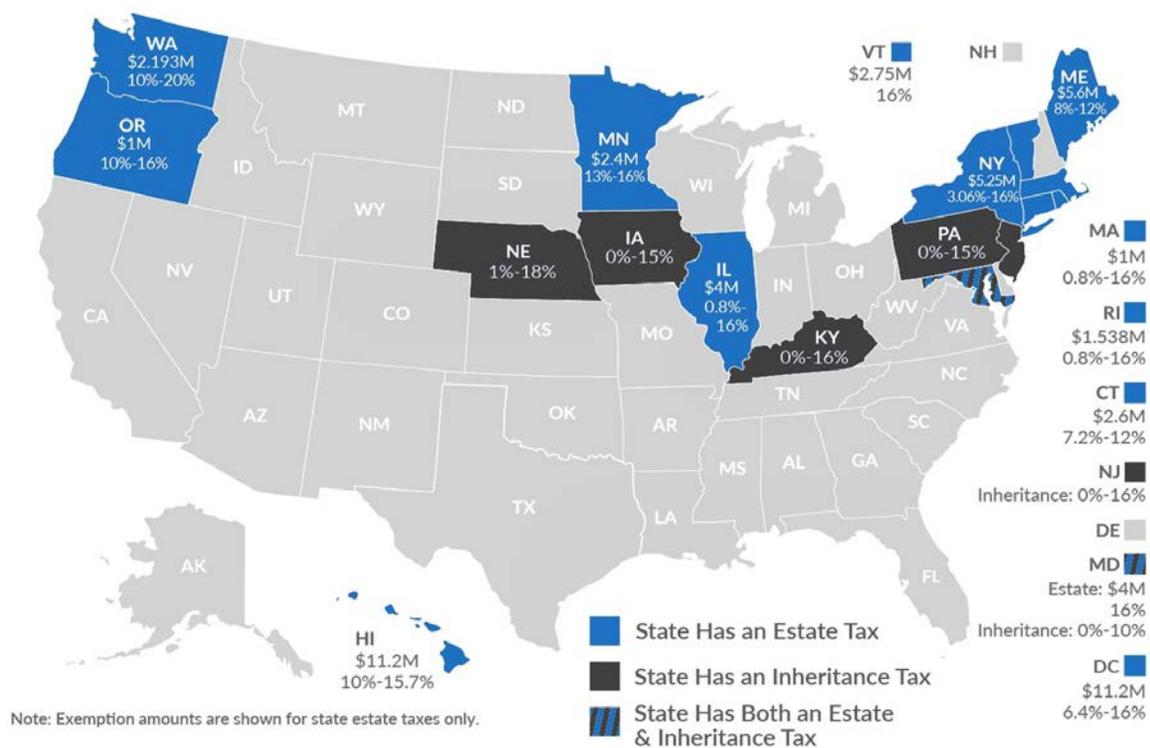
**Accomplishment:** The LePage Administration increased the estate tax exemption from \$1 million to \$5.6 million. At the time, this was in conformity with the federal tax on death.

- Nonetheless, the Legislature failed to conform Maine’s estate tax to new federal levels established in the Tax Cuts and Jobs Act.

**Next Step:** Consistent with prior budget proposals, the Governor will call for eliminating the estate tax, which produces little revenue for our state while deterring the affluent from remaining in, or retiring to, Maine.

- Today, not only does Maine fail to conform to federal estate tax standards, we are one of only 17 states that tax death—an ever-shrinking group. Indiana repealed its inheritance tax in 2013, while Tennessee repealed its estate tax in 2016. New Jersey and Delaware both eliminated their estate taxes in 2018.<sup>7</sup>
- The map below further demonstrates Maine’s status as a significant outlier as it regards taxing death → Maine’s estate tax encourages our retirees to change their residency to more tax friendly states and discourages residents from other states from choosing Maine as their retirement destination.

## Estate and Inheritance Taxes in the United States



(Source: Tax Foundation)

## Drive Good Governance and Efficient Operations

**Accomplishment:** The LePage Administration has reduced the number of state employees from nearly 14,000 to less than 13,000. The Administration achieved these reductions through attrition and has done so in an environment of operational improvement.

- Right-sizing the state workforce has enabled Governor LePage to provide annual pay increases and restore longevity and merit increases, and to eliminate forced, unpaid “furlough days”.<sup>8</sup>
- The latter resulted in state employees taking up to 10 days of unpaid leave per year<sup>9</sup>—meaning the loss of an entire paycheck. State government no longer needs to consider such measures and is focused instead on improving employee experience and recruiting top talent to serve our state.



(Source: Bureau of the Budget)

**Next Steps:** Improvements to state government recruiting efforts—combined with increased compensation, better operations and upgraded workspace—have made the State of Maine a more competitive employer. The next Governor should continue these efforts to ensure that state agencies are able to continue attracting talent and strengthen the state workforce.

**Accomplishment:** The LePage Administration has revitalized numerous East Campus buildings<sup>10</sup> and is in the process of a major upgrade to the Capitol Complex.

- The new DHHS building, scheduled to open early next year, represents the first addition to the Capitol Complex since 1971.<sup>11</sup>

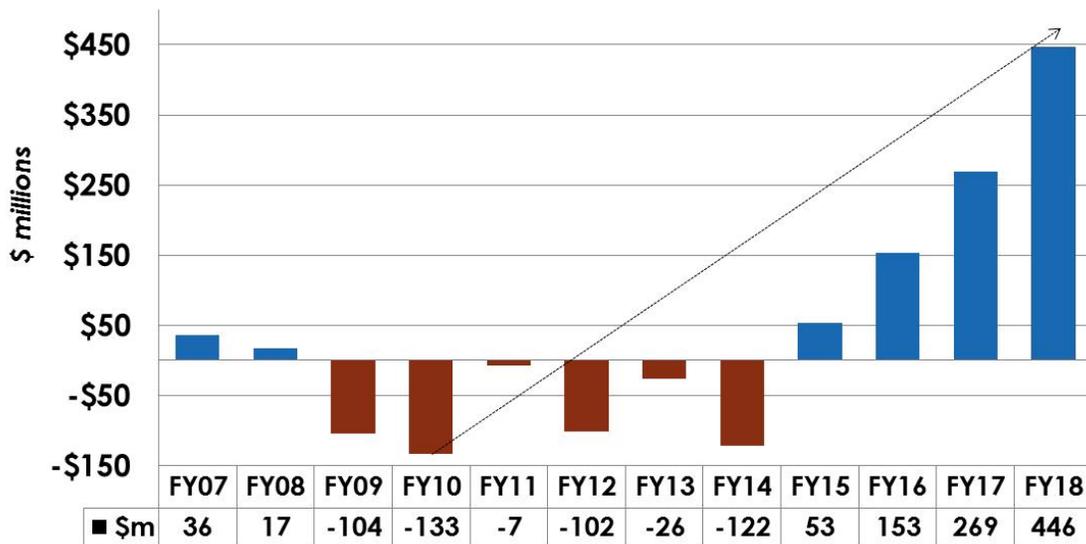
**Next Steps:** The Governor’s recommended budget will prioritize continued redevelopment of the Capitol Complex, replacing aged infrastructure, addressing deferred maintenance and improving employee workspace and energy efficiency for state buildings.

**Accomplishment:** Since 2011, the LePage Administration has worked to restore state government’s balance sheet. Repaying our hospital debt represented a major step in the right direction. Ultimately, it enabled us to eliminate “one-day” borrowing, a hallmark of poor financial management.

- Before state government eliminated the issues that resulted in one-day borrowing, the State Controller’s Office was required to borrow between fiscal years to meet our constitutionally-mandated balanced budget requirement.
  - This was an accounting gimmick, pure and simple, and one the credit-rating agencies routinely criticized Maine for relying on to balance our books.
- In addition, prior to FY 2015, the State Controller’s Office was forced to borrow between state accounts to meet our cash flow needs.
- Today, Maine is well beyond one-day borrowing and borrowing between state accounts; however, Maine’s next Governor will need to be vigilant in resisting the temptations of accounting gimmickry that can offer upfront benefits only to amass significant long-lasting liabilities.

**Next Step:** Good financial governance is not an exciting topic; it does not produce headline-grabbing soundbites; but it is the bread and butter of running a good, efficient government that makes the most of taxpayer resources that hard-working Mainers send to Augusta. Governor LePage’s budget will call for continued good, efficient management of state finances.

### General Fund Year-End Cash Balance



*(Source: Office of the State Controller)*

## Improve State Government Technology Services

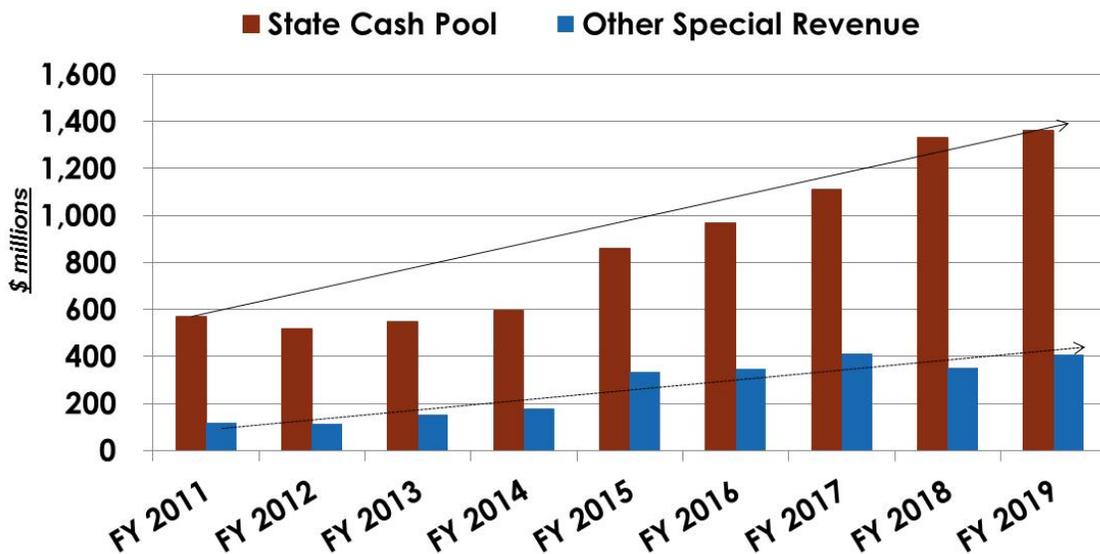
**Accomplishment:** Since 2011, state government technology operations have improved considerably, with key gains in network modernization and progress in transitioning data and technology infrastructure to the cloud. State government continues to make advances in cyber security by utilizing strategic vendor partnerships, industry best practices, training and investing in our workforce.

**Next Step:** Governor LePage’s recommended budget will prioritize continued advancement in cybersecurity, business continuity and disaster recovery planning. The budget recommendation will call for information technology cost management and will provide needed investments for legacy application modernization efforts already underway.

## Leverage Disciplined Financial Management for Key Investments

**Accomplishment:** Due to sound financial management under the LePage Administration, our state is well-positioned to make investments that we could not have afforded in the past, when policymakers frequently scrambled just to close deficits and balance our budget.

- A significantly improved financial position will allow for General Fund investment in key program areas that would not have been possible in the past.
- Growth in the cash pool has resulted from sound financial management; efficiently deploying available, one-time resources is necessary to future good governance of our state.



(Source: Office of the State Controller; Office of the State Treasurer)

**Next Step:** Governor LePage’s recommended budget will propose targeted, affordable investments that will benefit economic growth, public safety and quality of life in Maine.

- **Additional State Troopers:** State troopers, vital to the safety of Mainers throughout our state, would see significant additions to their ranks. Several key factors have resulted in trooper shortages:
  - Increased volume and complexity of casework.
  - Emerging need for specialized response support to other Maine law enforcement.
  - Expanded 24-7 coverage needs in certain Maine law enforcement corridors.
  
- **Free State Parks for Mainers:** The state park fee holiday piloted in August would be extended on a permanent basis. In the simplest terms, Mainers pay more than enough in income and sales tax to state government to provide for certain complementary benefits of residing in our state—enjoying our state parks should be one of them.
  
- **Natural Resources Infrastructure:** Maine’s natural resource assets are part of our state’s proud heritage and critical to our future. Governor LePage will recommend continued upgrades to our natural resource infrastructure in numerous areas, including:
  - Major road repairs for state parks and infrastructure upgrades to ensure ADA compliance and universal accessibility to state parks for all visitors.
  - Capital investment to improve roads and bridges on public-use recreational trails, including improvement and repair projects on the Allagash Wilderness Waterway to ensure safe public recreation.
  - Improvement and maintenance of public boat launch facilities on inland waters throughout Maine.
  - Biosecurity upgrades to the Department of Marine Resources seawater wet lab in Boothbay Harbor, allowing for expanded critical emergent research that supports Maine’s \$2 billion dollar commercial, recreational and aquaculture industries.
  
- **Broadband expansion:** Bolstering connectivity in Maine—especially in more rural parts of our state—is essential to future economic growth. Ensuring that main streets and residential areas in municipalities across our state have access to high-speed internet will help attract more businesses, entrepreneurs and families to Maine. Adding first-rate internet connectivity to the many other compelling assets that our state has to offer provides a key means of boosting population and economic growth in Maine.<sup>12</sup>
  
- **Supporting Maine’s Arts & Cultural Heritage:** Maine’s rich arts and cultural heritage is a distinct part of our state’s proud tradition. For generations, artists have been attracted to live and work in Maine, creating iconic works that can be seen at our state’s arts institutions today. Efficient, targeted investments in the arts and in cultural organizations serve to recognize our heritage, support talented artists living and working in Maine today and benefit the arts and culture as a major attraction and economic development tool for our state.

## Maximize Highway Fund Resources

**Accomplishment:** The LePage Administration has worked to ensure that Highway Fund resources are not utilized for non-infrastructure expenditures.

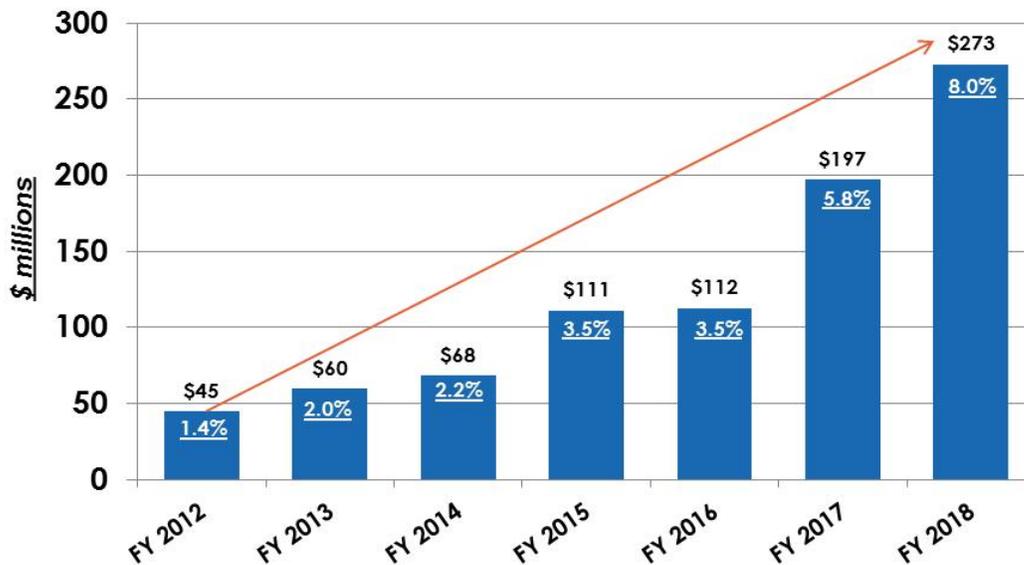
- When Governor LePage took office, Highway Fund resources accounted for 49% of state police expenditures. Today, that figure is 35%, meaning more Highway Fund dollars have gone to support infrastructure rather than to cover General Fund shortfalls.
- As a result, the Maine Department of Transportation has been able to devote more resources to Maine’s roads and bridges, increasing volume and narrowing the timeframe for repaving, bridge repairs and other upgrades.

**Next Step:** Governor LePage will recommend that his successor continue to purify Highway Fund expenditures, moving non-infrastructure expenditures to the General Fund. Within four years, the Highway Fund should not support state police expenditures.

## Build the Budget Stabilization Fund & Contribute to Tax Relief

**Accomplishment:** When Governor LePage took office, the Budget Stabilization Fund (BSF) was nearly empty. Today, it has a record level balance of \$272.9 million<sup>13</sup>—equal to 8% of General Fund expenditures, a ratio better than the average among AAA credit-rated states.

\$ Budget Stabilization Fund / % of GF



(Source: Office of the State Controller)

- Having a sufficient BSF balance is essential to good governance. It ensures that, during a financial downturn, the Legislature would not be forced to cut program funding indiscriminately; but rather would have a cushion to moderate spending reductions if revenues decline.

- By contrast, maintaining too large a BSF balance is not fair to Maine taxpayers and a poor use of scarce capital. The LePage Administration will recommend capping the Budget Stabilization Fund at 10% of General Fund expenditures. Thereafter, any funds that would flow into the BSF would cascade into the Tax Relief Fund for Maine Residents, returning surplus tax dollars directly to Mainers.

**Modernize Maine’s Pension System**

**Accomplishment:** When Governor LePage took office, his Administration made key reforms to Maine’s pension that have resulted in our state’s pension system being one of the better-funded systems in the country—more than 15% better than the average among states.<sup>14</sup>

- In addition, although they have been costly, Governor LePage has supported MainePERS discount rate reductions.
- Reducing the discount rate to match expected returns benefits good governance of the pension system, ensuring that we do not understate the system’s unfunded actuarial liability—or the amount of benefits owed to future state employee and public school teacher retirees.

LePage Administration Pension Reforms		
Key Reform	Enacted	To Do
Restructuring COLA	✓	
Increasing Retirement Age	✓	
Limiting “Double Dipping”	✓	
Portability		✓

**Next Step:** Today, our state is well-positioned to make a major step forward to improve our pension system by adding portability.

- Modernizing Maine’s pension system to reflect the needs of a 21<sup>st</sup> century workplace by adding benefit portability is essential to ensuring state employees and public school teachers have an updated, competitive retirement package.
- Introducing portability to Maine’s public pension system—an initiative that would provide state employees and public school teachers the ability to transfer their retirement savings to a new place of employment—also would improve the recruitment of an increasingly mobile workforce that is accustomed to flexibility in retirement plans.

## Conclusion

Governor LePage’s budget recommendation is not meant to be exhaustive. The LePage Administration has made many other significant advances for Maine, and the Governor has other key priorities that are not addressed in this document. The latter, however, provides Mainers with a framework to understand the reforms and accomplishments in our state over the past eight years, and it offers a clear set of operating principles and policy proposals for Maine’s next Governor.

For the accomplishments and policy proposals contained in this document, Maine’s next Governor should consider two achievements among all others and do everything in his or her power to continue advancing them: (1) the return of population growth and (2) a strong economy, in which Mainers’ personal income has grown at more than 4% in three of the past four years.<sup>15</sup>

Conventional wisdom is often behind the times. When it comes to Maine’s population, the common talking point holds that our state is the oldest in the nation, and that we are losing residents. The first is true, but the second is not and has not been since 2015. In fact, Maine has a record high population,<sup>16</sup> and 12-of-16 Maine counties grew in 2017. Even more, 13-of-16 counties experienced net in-migration last year, and Maine ranked 16<sup>th</sup> for net in-migration among the states.<sup>17</sup> These are important facts; they cut against the common grain; and they tell us that our state’s current direction is working. That direction is attracting more people from all over the country and the world to live, work and raise families in Maine.

In the same vein, Maine’s economy is strong and growing. Under the LePage Administration, Maine’s economy has grown by 20%.<sup>18</sup> Today, net earnings are growing by more than 5%<sup>19</sup>—a rate greater than the regional or national averages; unemployment has been below 4% for a record 33 consecutive months; and revenues continue to exceed forecasted projections.

Maintaining robust economic growth will attract more individuals and families to our state. With greater volume in our economy and more people living and working in Maine, revenues will continue to grow. That dynamic will enable us to continue reducing taxes while still recording robust revenues—just as we have over the past several years—to support critical programs that benefit our neediest and most vulnerable.

Maine’s next Governor should propose a biennial budget that continues along this route. It is the right one for Maine, and the framework contained herein would keep Maine on it.

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<sup>1</sup> *MaineCare Expansion: Summary of Estimated Costs and Savings, SFYs 2019-2021*, Manatt Health (February 2018)

<sup>2</sup> *Hospitals at center stage of Medicaid expansion debate*, Portland Press Herald (Joe Lawlor) (November 5, 2017)

<sup>3</sup> *Medicaid Expansion, Revenue Sharing and Education Funding Drive Structural Gap*, Maine Department of Administrative and Financial Services (October 1, 2018)

<sup>4</sup> *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2014–15 (Fiscal Year 2015)*, U.S. Department of Education (Stephen Cornman, Lei Zhou, Malia Howell, Jumaane Young) (January 2018)

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- <sup>5</sup> *Medicaid Expansion Initiative Would Increase Taxes, Take Money Away From Schools and Jeopardize State's Commitment to Our Disabled and Elderly*, Maine Department of Health and Human Services (February 22, 2017)
- <sup>6</sup> *Monthly Revenue Reports*, Office of the State Controller
- <sup>7</sup> *Does Your State Have an Estate or Inheritance Tax?*, Tax Foundation (Morgan Scarborough) (April 5, 2018)
- <sup>8</sup> *Radio Address: The LePage Administration Has Prioritized Treating Our State Employees Fairly*, Office of the Governor (June 26, 2018)
- <sup>9</sup> *Mainers prepare for shutdown day*, Bangor Daily News (Kevin Miller) (July 2, 2009)
- <sup>10</sup> *Augusta's Marquardt Building gets new life as state offices*, Kennebec Journal (Keith Edwards) (May 11, 2015)
- <sup>11</sup> *LePage leads groundbreaking for Augusta state office building*, Kennebec Journal (Keith Edwards) (December 9, 2018)
- <sup>12</sup> *State of Maine Broadband Action Plan*, Maine Department of Economic and Community Development (ConnectME Authority) (March 2018)
- <sup>13</sup> *State's Cash Position at Record Levels as Maine Begins New Fiscal Year*, Maine Department of Administrative and Financial Services (July 30, 2018)
- <sup>14</sup> *The State Pension Funding Gap: 2016*, The Pew Charitable Trusts (April 2018)
- <sup>15</sup> *State Quarterly Personal Income, 2<sup>nd</sup> quarter 2018*, U.S. Bureau of Economic Analysis (September 2018)
- <sup>16</sup> *Population Estimates Program*, U.S. Census Bureau (December 2017)
- <sup>17</sup> *Population Estimates Program*, U.S. Census Bureau (March 2018)
- <sup>18</sup> *Total Gross Domestic Product for Maine*, Federal Reserve Bank of St. Louis (October 2018)
- <sup>19</sup> *State Quarterly Personal Income, 2<sup>nd</sup> quarter 2018*, U.S. Bureau of Economic Analysis (September 2018)