WATCHDOG

Maine governor seeks to increase state spending by more than 11 percent

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May 13, 2019

Maine legislators are considering Gov. Janet Mills' first state budget proposal, which seeks to increase spending by more than 11 percent.

The governor's two-year, $8 billion budget loosens the tight fiscal rein former Gov. Paul LePage imposed on state spending increases, according to fiscal policy analysts.

Maine's biennial budget has to balance according to state law. As it stands, Mills' spending proposal would result in a projected $5 million shortfall, according to the state's Consensus Economic Forecasting Commission. Budgets need a two-thirds majority in both the state House of Representatives and Senate in order to pass.

Mills' proposed state budget calls for a spending increase of a little more than 11 percent over the next two years.

"That's a big increase. The typical increase across all 50 states is 4 percent or less," Chris Edwards, director of tax policy studies at the Cato Institute in Washington, D.C., said.

Democrats gained control of both branches of Maine's legislature, as well as the governor's office in November's election. They're calling for more spending, more specifically when it comes to meeting unmet statutory targets for education funding, as well as municipal revenue sharing.

That raises the prospect of tax increases, which Mills has said she opposes. Minority Republicans want to see a smaller budget that spends less.

"New Hampshire's household taxes are 7.1 percent of income and Maine's are 11 percent," Edwards said in an interview. "So Maine's government is much larger than New Hampshire's government. Maine residents should ask themselves if they get more from their government than New Hampshire residents do."

Maine's Revenue Forecasting Commission (RFC) in its May 2019 report increased its previous state revenue forecast by $20.7 million for fiscal year 2020-21 and $33.1 million for fiscal year

2022-23. The revised forecast takes this past April's individual income tax final payment into account.

April's final individual income tax payment exceeded budget by more than $53 million, according to the report. The RFC increased its state General Fund revenue forecast for fiscal 2019 by $66.7 million as a result.

Individual and corporate income taxes of $25 million and $35 million, respectively, accounted almost entirely for the revenue increase in RFC's fiscal 2019 forecast.

"In both cases, it's assumed that much of the additional revenue is from one-time income or tax avoidance actions taken by taxpayers because of the enactment of the federal Tax Cuts and Jobs Act of 2017," according to the report.

All things considered, the RFC forecasts state revenue will increase 6.9 percent in fiscal year 2019. That's likely due to one-time actions and income associated with passage and conformity to the Tax Cuts and Jobs Act.

The report's authors said that the effects on state revenue due to ongoing changes to the corporate income tax associated with the act are highly uncertain and won't be completely clear for several years. They forecast a moderation of state revenue growth of 3.5 to 4 percent in the two upcoming two-year budget periods given ongoing national economic growth.

"Maine already has the fourth-highest household income taxes [among states] in the U.S.," Edwards said. The only jurisdictions in which they're higher are Hawaii, New York and the District of Columbia.

Furthermore, 2017's Tax Cuts and Jobs Act makes it more expensive for people living in high-tax states, Edwards continued. The act instituted a cap on federal tax deductions for state and local taxes, he explained. Previously unlimited, the act caps the federal income tax deduction for state and local taxes (SALT) at $10,000.

"So Maine is a high-tax state, which is particularly problematic these days. It's now more painful for residents of New York and California because they can't write off as much of their state and local taxes on their federal income tax returns any more," Edwards said. "It's the wrong time to be increasing state spending growth. They [Maine's government leaders] should be cutting taxes because of the reality of the SALT tax."

Maine's previous governor, Tom LePage, earned 'A' grades on Cato's Fiscal Policy Report Card for America's governors for both his terms in office. State spending actually increased every year during LePage's two terms in office except one, just at lower rates than had previously been the case, Edwards pointed out. State spending was essentially flat in 2013, "which is why he scored so well on the report card," he noted.

Maine's economy has been growing in parallel with the nationwide economic expansion. In boom times, revenues generally pour into state government treasuries, but Gov. Mills and Democrats propose increasing spending rather than saving some of those revenues to be prepared for economic slowdowns or recessions in the future, Edwards said.

"I would suggest they increase the budget by a smaller percentage and save some in a rainy day fund," he said.