

**Maine  
Revenue &  
Spending  
Primer  
2011**



**Dan Coyne**

**IDEAS FOR SHARED PROSPERITY**

**The Maine Center for Economic Policy** was established in 1994 with the mission to promote a sustainable and equitable economy through analyzing and proposing solutions for Maine’s economic and fiscal challenges. By doing so we seek to build an economy that allows all Maine’s people to achieve personal security and the greatest opportunity to reach their full potential.

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**About the Author**

Dan Coyne, MECEP’s fiscal policy analyst, holds a law degree from the University of Maine School of Law and a bachelor’s degree from Bowdoin College. Dan is a Maine native with particular interest in economic development, renewable energy and fiscal policy.

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## Introduction

Maine policymakers must continually make decisions about what public goods and services we want and how much we are willing to pay for them. We face trade-offs for each decision. A desire for quality education for our children may require higher taxes. A desire for lower taxes may result in lost services or fewer public investments which that foregone revenue would support. Understanding these trade-offs is important because Maine people experience the effects of these trade-offs each day.

Fiscal decisions at one level of government may also affect other levels. For example, making state investments in MaineCare yields a two-to-one match of federal dollars. Making state investments in K-12 education may lower property taxes in some communities. State investments in research and development or in infrastructure can generate new business activity and strengthen state and local tax bases.

Our public budgets reflect our collective social and economic values and priorities. In this way they are “moral documents” as well as fiscal ones and deserve careful reflection and informed discussion. It is wishful thinking that we can achieve full consensus on public budgets. But it is reasonable to think that we can achieve budgets with compromises that best reflect our collective priorities. This includes creating a long term

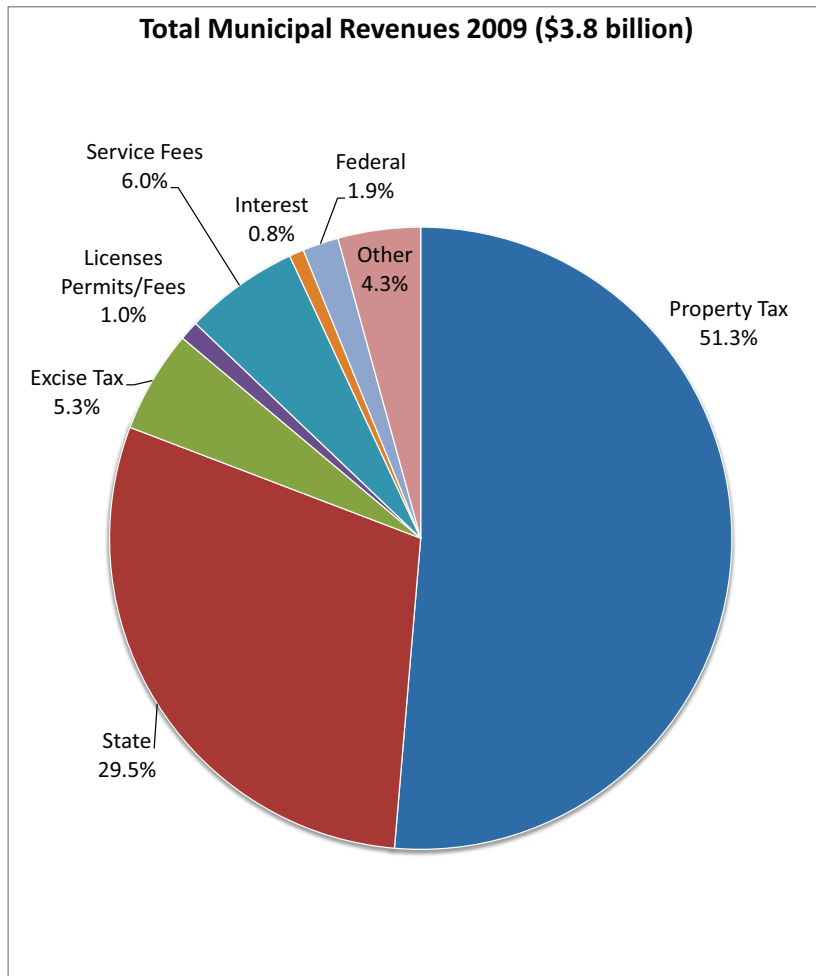
sustainable, predictable revenue system, which provides adequate funds to support Mainer’s priorities and without overburdening taxpayers and businesses.

The purpose of this primer is to provide a simple overview of Maine’s revenue and expenditures at the municipal and state levels to assist policymakers and taxpayers to make decision on tax and budget issues. Accordingly, this primer addresses state and municipal revenues and expenditures, taxes, spending trends, and debt.

### Five principles for improving Maine’s tax system.

- **TARGET RELIEF** to those with the least ability to pay.
- **BENEFIT THE MAJORITY** of Mainers.
- **PROVIDE ADEQUATE REVENUE** for programs.
- **EXPORT** taxes out-of-state when possible.
- **STRIKE A BALANCE** between business and residents.

\*This primer is based on data available to the Maine Center for Economic Policy as of February 1, 2011.



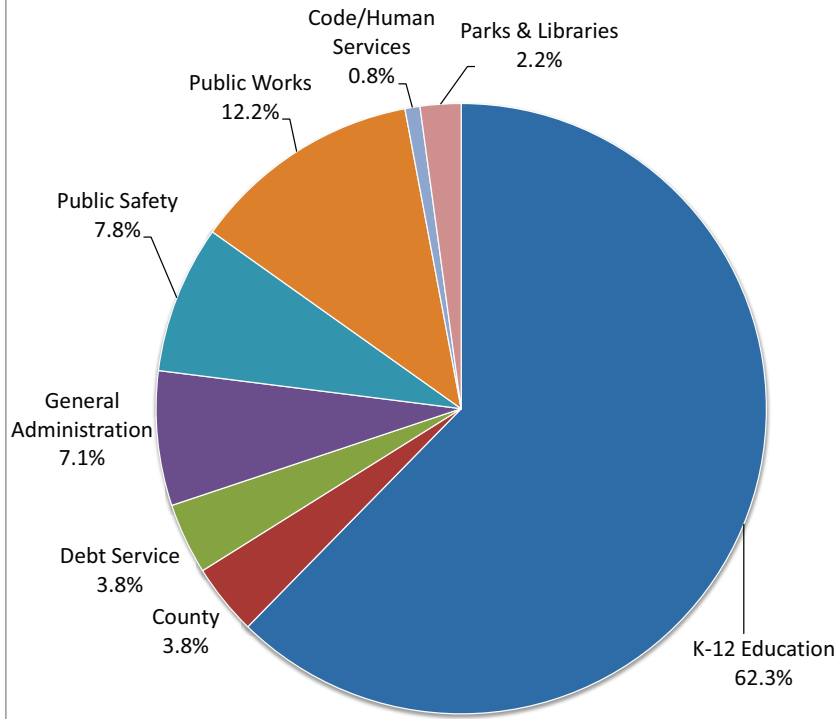
Source: Maine Municipal Association

### Revenues: Municipal Government

Municipalities depend heavily on property taxes for revenue. According to the Maine Municipal Association's 2009 Fiscal Survey Report and Analysis, over \$1.9 billion of the estimated total \$3.8 billion raised by Maine municipalities came from local property taxes.

The state is the next largest source of revenue for municipalities. The state distributes approximately \$1.1 billion (primarily income and sales tax revenue) to municipalities. This is mainly in the form of **General Purpose Aid to Education** (the state is committed to pay for 55% of K-12 education, though it has yet to reach this goal), municipal revenue sharing, and reimbursement that the state pays to municipalities on behalf of eligible resident property owners through the Homestead Exemption.

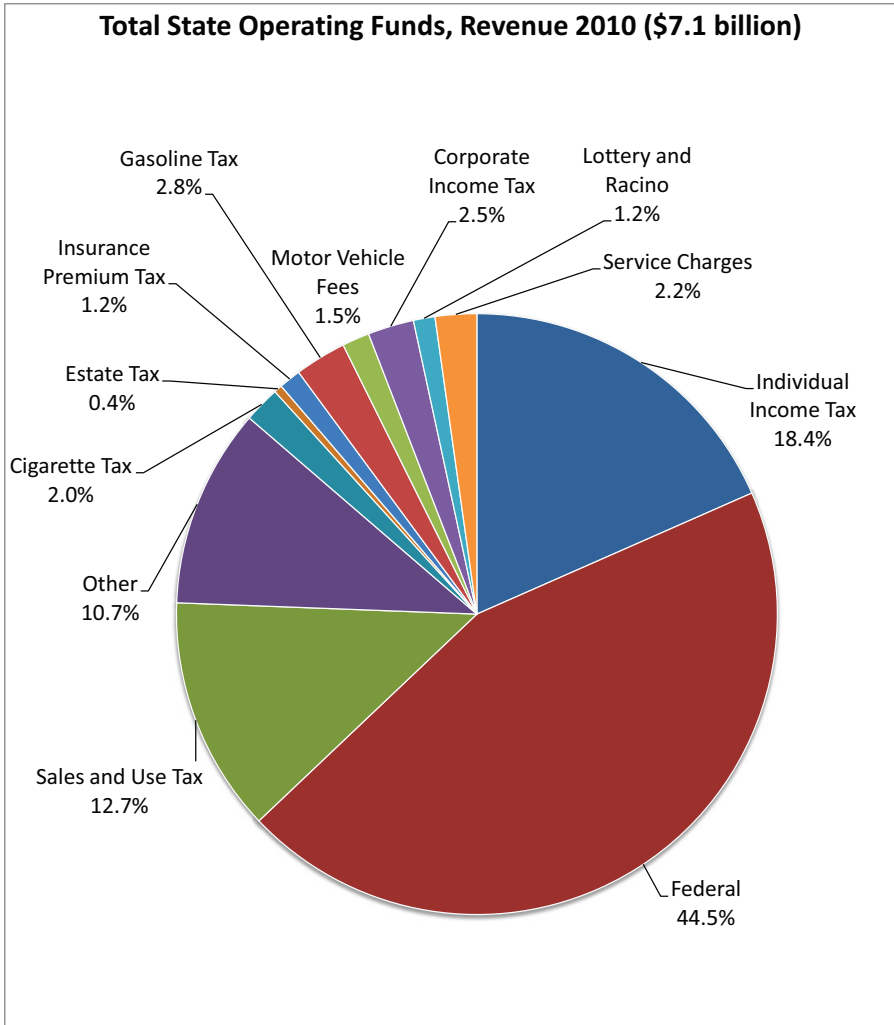
### Total Municipal Expenditures 2009 (\$3.3 billion)



Source: Maine Municipal Association

### Expenditures: Municipalities

Municipalities spent approximately \$2.1 billion in state and local revenue on K-12 education in 2009, accounting for 62% of all municipal revenue. The remaining 38% of municipal revenue must cover all other expenses, including libraries, parks, code enforcement, municipal employees, debt service, public works, public safety, capital expenditures and county taxes. Rising prices of supplies like fuel and the rapidly rising costs associated with the maintenance and replacement of Maine's aging infrastructure (e.g. sewers and roads), coupled with declining revenues resulting from the Great Recession, have increased the burden on municipal budgets in recent years.

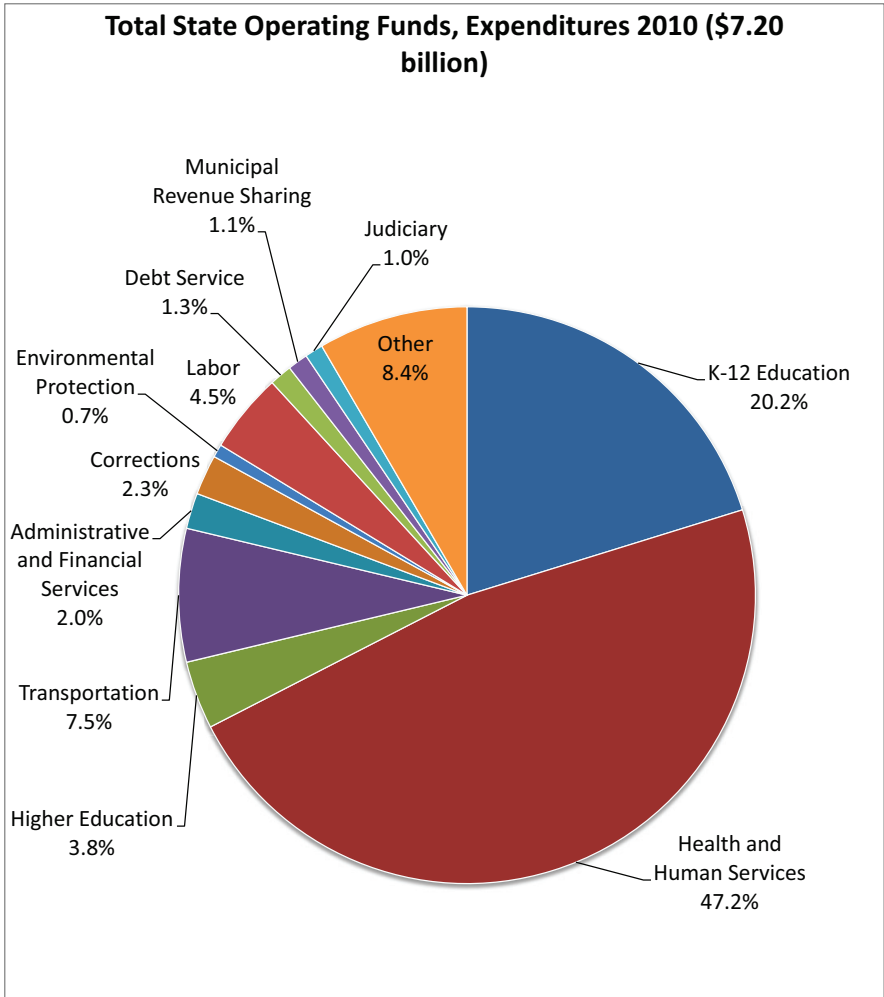


Source: Maine State Office of Fiscal and Program Review

**Revenues: State Government**

State government raises revenue through taxes, fees, and program transfers. Unlike local and county government, property taxes play only a small role in generating state revenues.

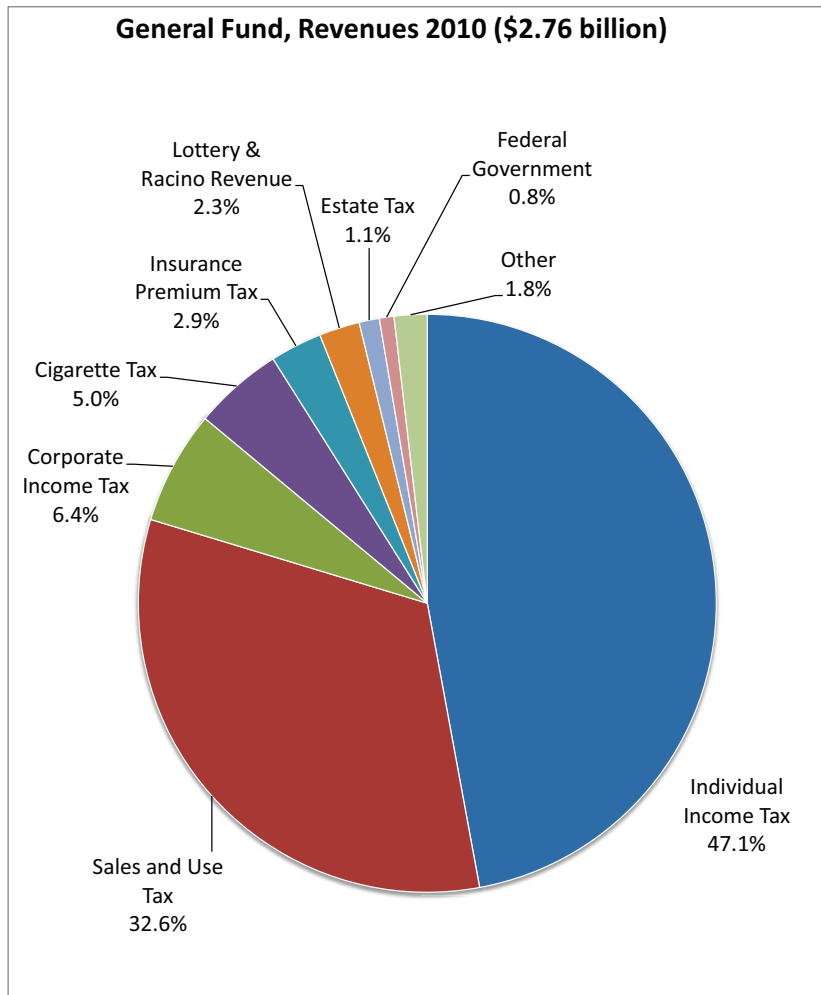
State government's three principal revenue sources are the **individual income tax** (18.4% in 2010), the **sales tax** (12.68%), and allocations from the **federal government** (44.52%). Combined, they account for \$5.35 billion in revenue, or more than three-quarters of the \$7.08 billion in total revenues the state collected in 2010. The remaining revenue comes from a number of taxes and fees that individually account for roughly 1-3% of total revenue. Some of these include the **corporate income tax, gasoline tax, insurance premium tax, cigarette tax, and motor vehicle fees**.



Source: Maine State Office of Fiscal and Program Review

**Expenditures: State Government**

Two key areas account for two-thirds of all state expenditures: K-12 education (20%) and Health and Human Services (largely health and mental health services) (47%). The remaining expenditures include transportation (7%), higher education (4%) and a number of other programs within labor, corrections, and the environment. State revenues and expenditures are broken down into four major operating funds based on the sources of the funds: the **General Fund**, **Highway Fund**, **Other Special Revenue Fund**, and the **Federal Expenditure Fund**.

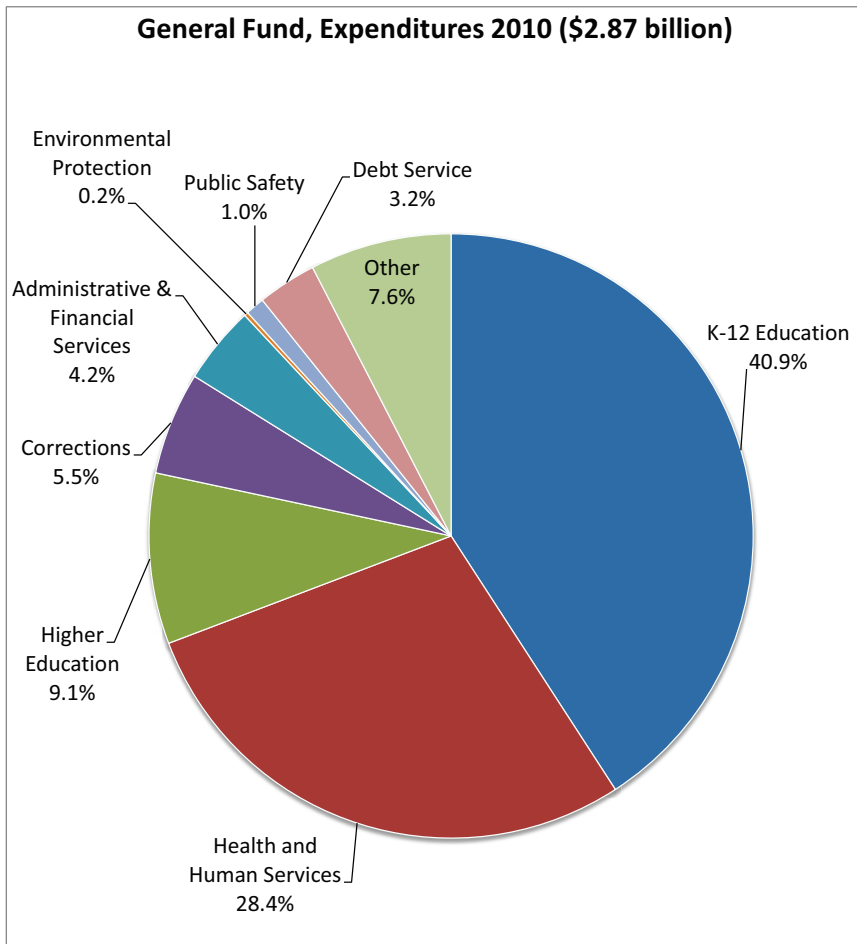


Source: Maine State Office of Fiscal and Program Review

### Revenues: General Fund

The **General Fund** supports the general functions of state government. About 80% of General Fund revenue comes from individual income and sales taxes – approximately \$2.2 billion of the total \$2.76 billion in Fiscal Year 2010. The remaining revenues come from a variety of sources, including the corporate income tax, cigarette tax, and insurance premium tax.





Source: Maine State Office of Fiscal and Program Review

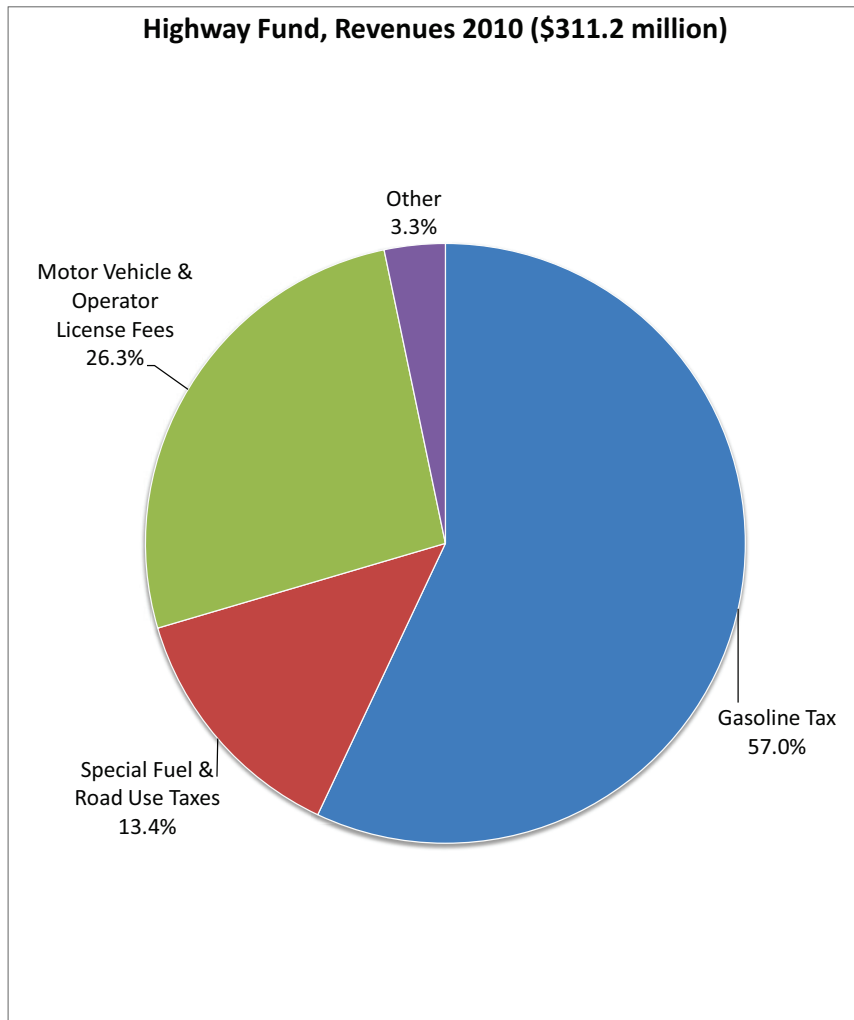
### Expenditures: General Fund

The biggest expenditures from the General Fund are for K-12 education and health care. **General Purpose Aid for Local Schools** (31%) combined with **Teacher Retirement** (7%) make up more than one-third of the General Fund budget. This results in part from the 2004 voter initiative that committed the State to fund 55% of K-12 education.

**Health and Human Services** (28%) comprises more than a quarter of the General Fund budget, and primarily covers Medicaid (also called MaineCare) payments to providers, but also includes TANF and APSIRE (1%).

**Higher Education** accounts for 9% of General Fund expenditures, and **Corrections** for 6%. About 4% of General Fund expenditures cover **Administrative and Financial Service** costs.

**Debt service** accounts for another 3% of expenditures.



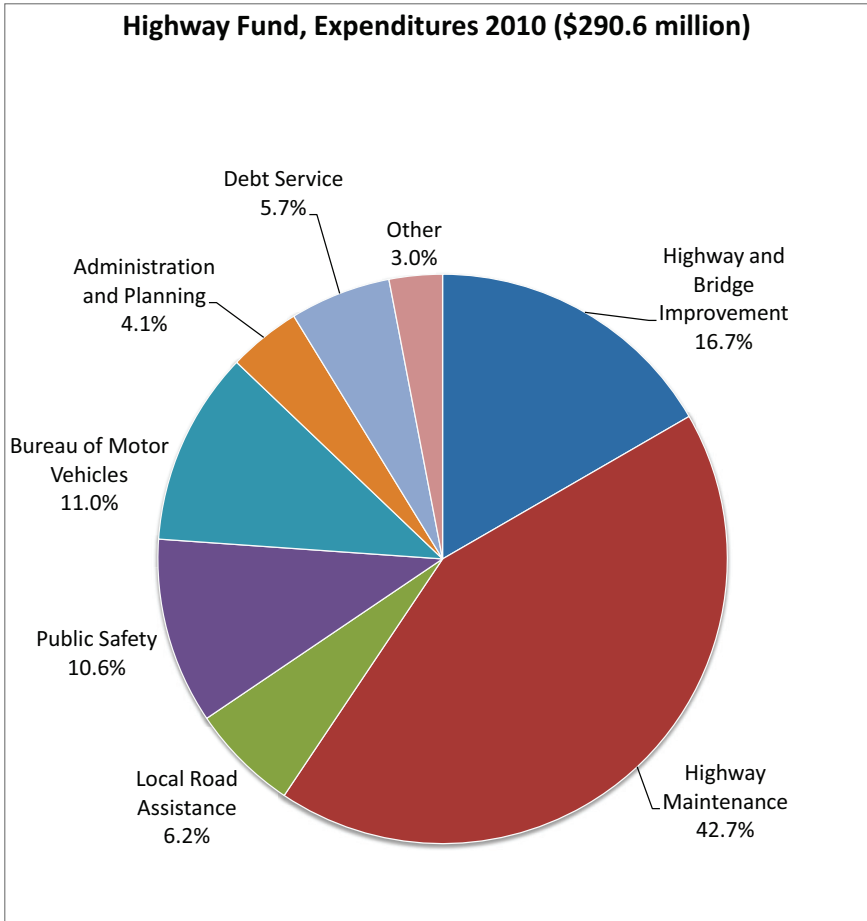
Source: Maine State Office of Program and Fiscal Review

### Revenues: Highway Fund

Fuel taxes primarily support the **Highway Fund**.

The state **Gasoline Tax** supplies the bulk of these funds (57%). This tax was enacted in 1923 and has been increased periodically to keep up with the rising cost of goods and services. In 2003, the Legislature provided for automatic adjustment of the gas tax each year to account for inflation. It is currently at 29.5 cents per gallon. However, as fuel efficiency increases fuel tax revenues no longer keep pace with actual wear and tear on roads and other transportation infrastructure.

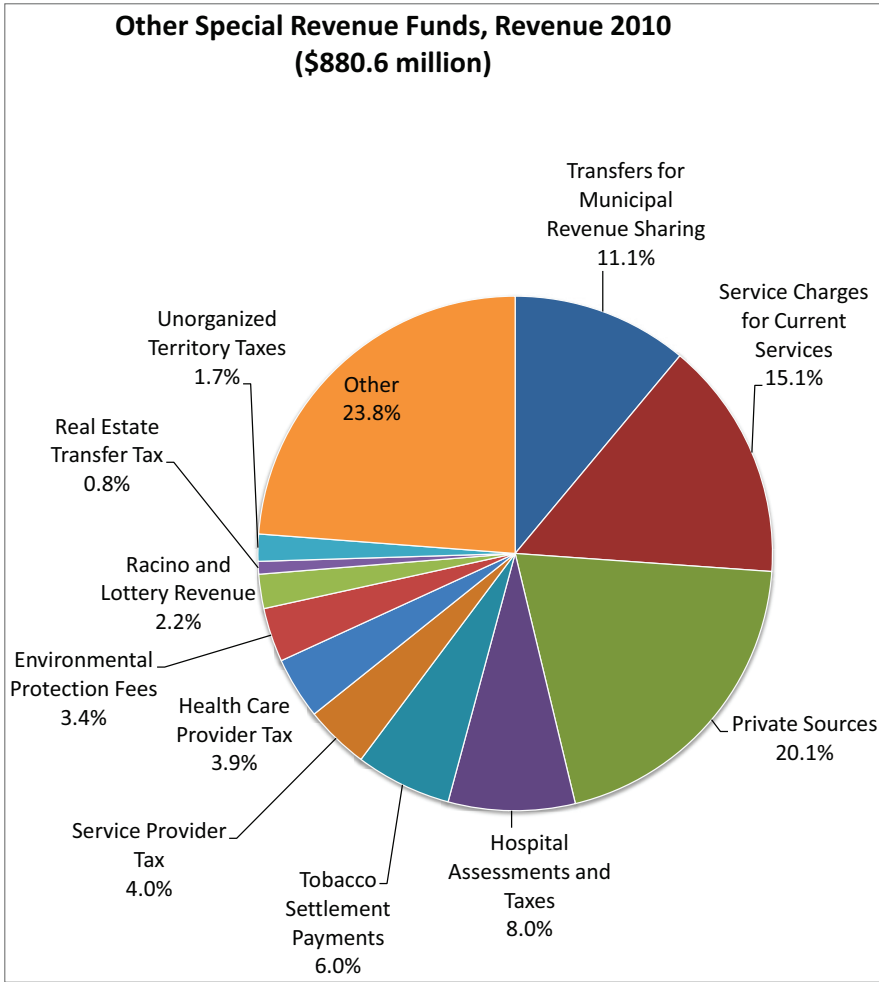
Another 13% of the Highway Fund comes from **Special Fuels and Road Use Taxes**. These fuels include diesel, propane or butane. The remaining revenue comes primarily from **Motor Vehicle License Fees**.



Source: Maine State Office of Fiscal and Program Review

### Expenditures: Highway Fund

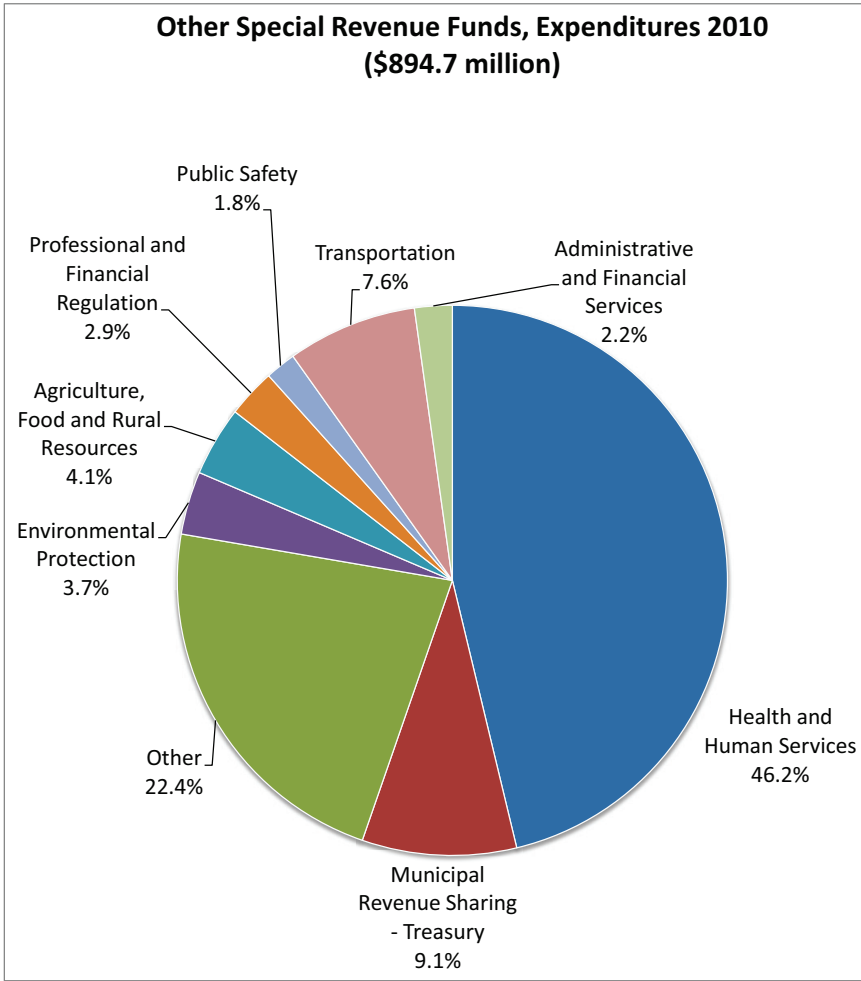
Almost two-thirds of the Highway Fund is spent on **Road Projects** – improvements and maintenance that includes assistance to local governments for transportation projects. The remaining revenue is primarily split between **Administration, Planning, Public Safety, the Bureau of Motor Vehicles, and Debt Service.**



Source: Maine State Office of Fiscal and Program Review

### Revenues: Other Special Revenue Funds

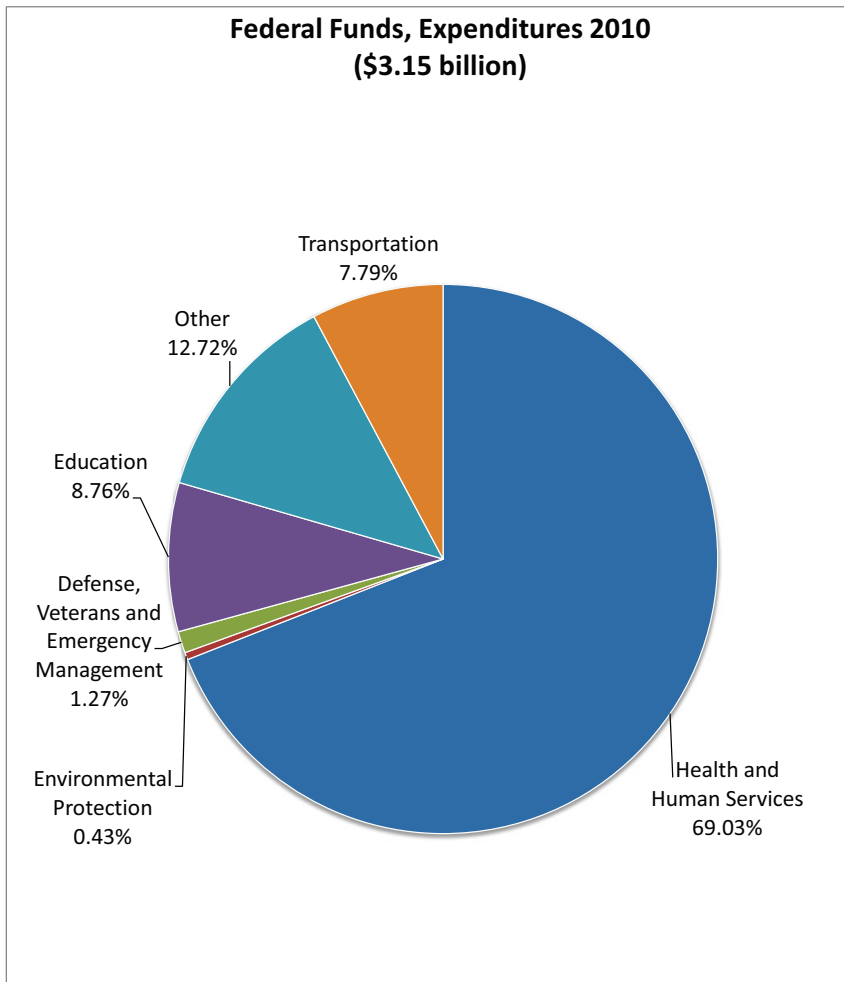
Revenues for this Fund are derived from a wide variety of taxes, assessments, and fees. Major contributors to revenues include: **Transfers for Municipal Revenue Sharing** (11%), which derive from the state’s General Fund; **Service Charges** (15%) for various services provided by government departments or agencies (rent or leases on state property, for example); **Private Sources** (20%), which primarily includes payments for child support; and **Hospital Assessments** (8%), which are used to help fund Medicaid payments to Maine hospitals. The remainder is primarily collected as **Fees from Targeted Industries** for uses in those industries (e.g. real estate transfer tax, agricultural production fees, and oil handling fees).



Source: Maine State Office of Fiscal and Program Review

**Expenditures: Other Special Revenue**

**Other Special Revenue Funds** expended in 2010 totaled \$895 million, constituting more than 10% of the State's total operating budget. Dozens of commissions, departments, and individual programs fall within this catchall fund category. The Public Utilities Commission, for example, is fully funded by assessments on regulated utilities, which flow through this Fund.



Source: Maine State Office of Fiscal and Program Review

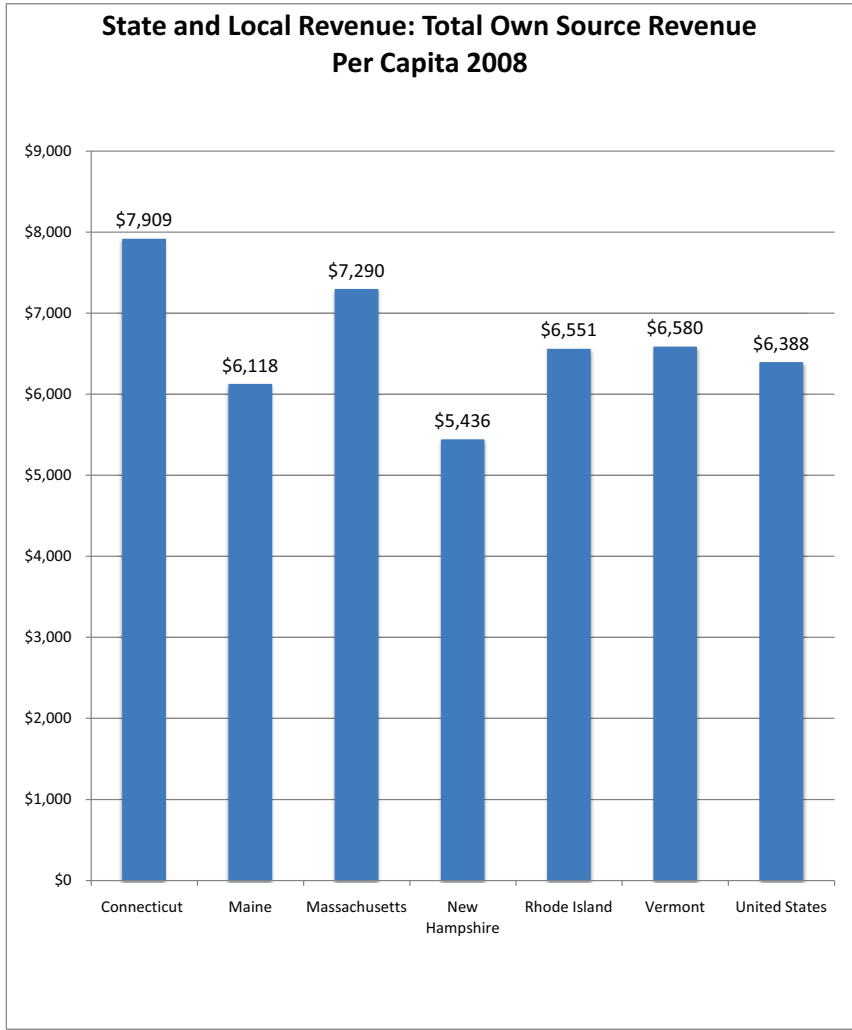
### Federal Funds

Federal funding supported over one third of all state spending in Maine in FY 2010. The overwhelming majority of this money (69%) pays Maine healthcare workers, hospitals, and nursing homes to provide care to Maine’s elderly, disabled, and low-income populations. Most of this federally-funded healthcare spending occurs through the state’s Medicaid program, MaineCare. The remaining 31% supports investments in transportation infrastructure (8%), education (9%), and smaller amounts in many other departments and programs. In 2010, large sums provided under the American Recovery and Reinvestment Act of 2009 were a major factor in bridging shortfalls in state revenue.

Some of the federal dollars Maine receives are dispersed in the form of “block grants.” Block grants typically are distributed as lump sum payments to states, often based on a formula that allocates federal dollars among the states. Each state then must administer the funded programs according to guidelines established at the federal level. Examples include Temporary Aid to Needy Families (or TANF), the State Children’s Health Insurance Program (SCHIP), the Women, Infants and Children program (WIC), and the Interstate Maintenance grant. While the State also may contribute dollars to these programs (or may

be *required* to contribute some specified amount), the size of a block grant does not change based on state spending levels.

In contrast to the static funding structure associated with block grants, federal funding for Medicaid occurs through a “matching grant” structure. Based on a formula using the ratio of the state’s per capita income to the national per capita income, the federal government matches each state’s Medicaid-related outlays at varying rates. Maine has enjoyed one of the highest match rates among the states. For every dollar Maine spends on eligible health care services the federal government matches that outlay with approximately two additional dollars. (Under the American Recovery and Reinvestment Act, the match rate was as high as three-to-one). There is no limit to the amount the federal government will match. Thus, unlike with block grants, Maine can increase the amount of federal dollars entering the state economy through increased state spending on MaineCare services. In a period of slumping demand, this is one strategy for boosting the Maine economy using primarily federal dollars.

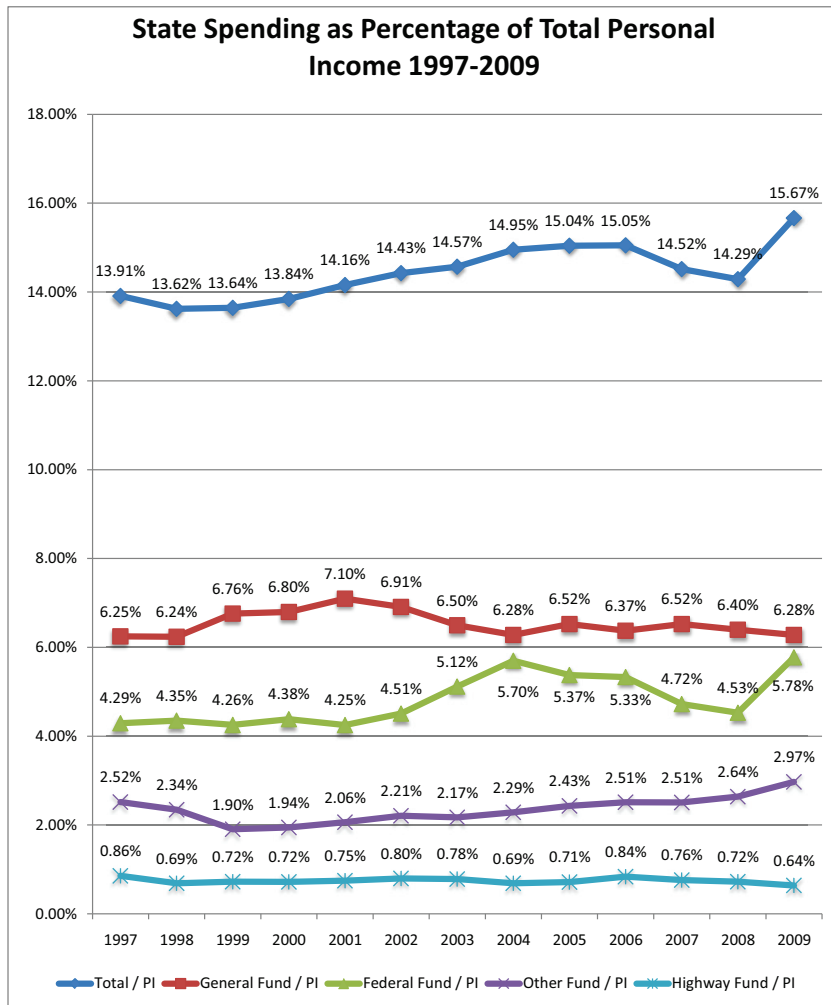


Source: Federation of Tax Administrators

### Taxes

There is much discussion about how Maine’s taxes compare to other states. A better reflection of Maine’s overall revenue comparison is to consider “own source” revenue. Own source revenue includes taxes paid at the state and local level through income, sales and property tax as well as fees and other sources of government revenue. According to the Federation of Tax Administrators, when considering own source revenue per capita, Maine ranks 26, which is in the middle of the pack. Maine’s own source revenue per capita is lower than the other New England states except New Hampshire and is lower than the national average.



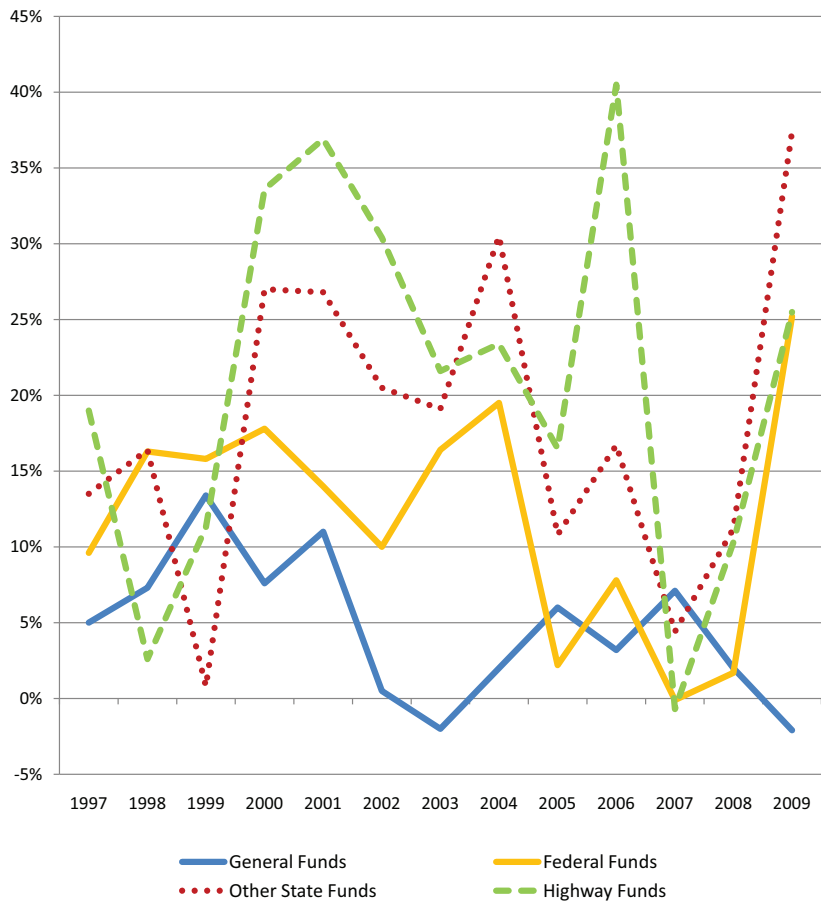


Source: Maine State Office of Fiscal and Program Review and U.S. Bureau of Economic Analysis

### Spending Trends

Policymakers should be concerned with whether the State is spending money at a rate faster than the rate at which taxpayers' income increases. One way to measure this is to compare spending to personal income. From 1997 to 2009, total spending as a percentage of total personal income in Maine increased almost two percentage points. Examining the individual funds, however, reveals that spending growth has occurred within the Federal Funds, due in large part to the American Recovery and Reinvestment Act. Spending from the Highway Fund and the General Fund has remained relatively constant as a percentage of total personal income over this period, and in the General Fund actually **decreased** to 6.18% of personal income – the same as in 2004 and only 0.03% higher than in 1997.

### Percentage Change in Expenditures by Source 1997-2009

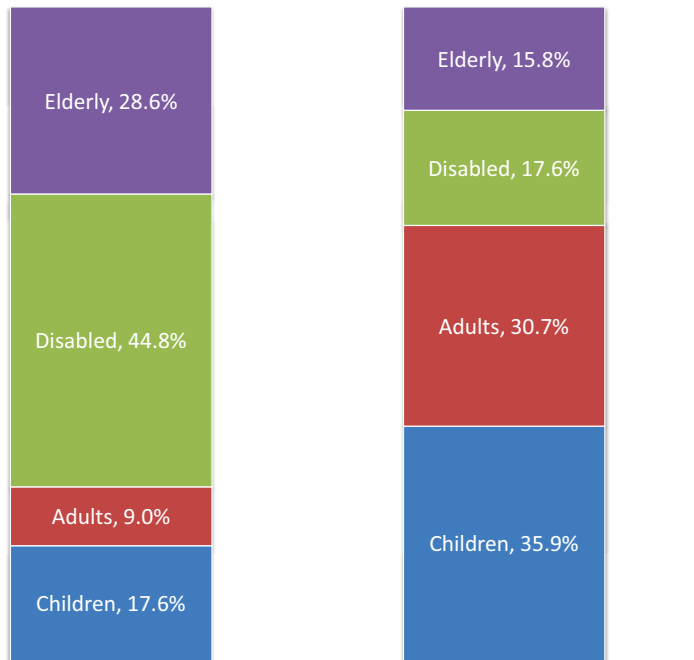


Source: Maine State Office of Fiscal and Program Review

### Spending Trends

Maine’s system of expenditures and revenues are not a model of stability. Heavily dependent upon the income and sales taxes, revenues, and thus expenditures, are subject to major shifts in the national and global economies. General Fund spending over the last twelve years has taken a hit, especially in the two recessions (2001) and (2007-2009). Federal funds have helped maintain critical investments in people, education, health care, and infrastructure.

### MaineCare: Membership and Expenditures FY 2007



Distribution of Medicaid Payments by Enrollment Group    Distribution of Medicaid Enrollees by Enrollment Group

### MaineCare

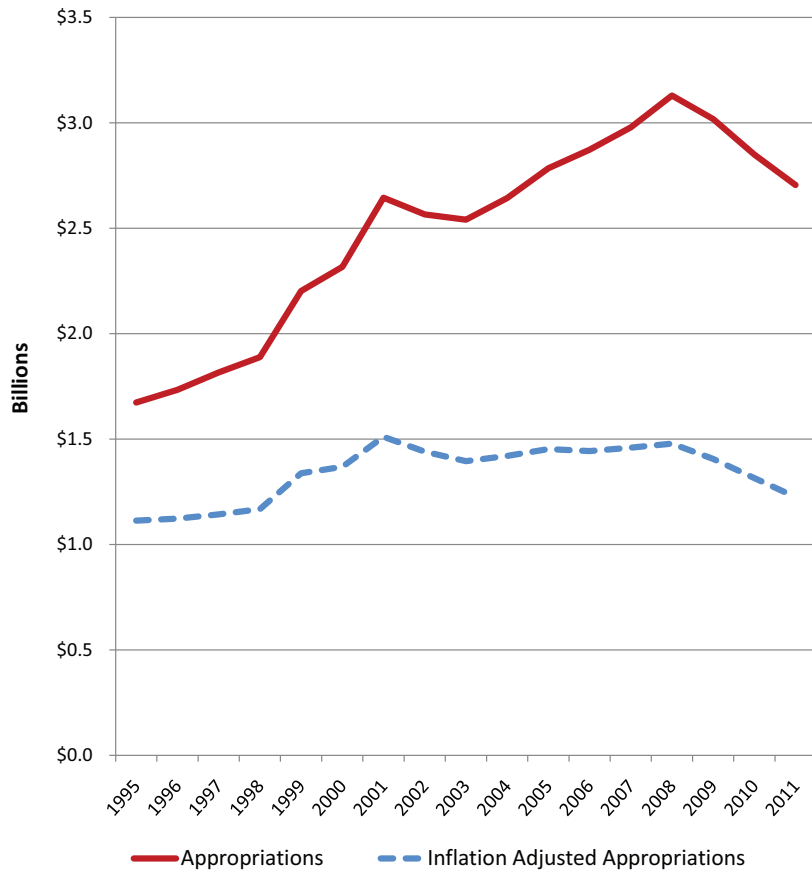
MaineCare is Maine’s Medicaid program and is financed jointly by state and federal dollars. State MaineCare funds act as seed money to attract a federal two-to-one match. For every \$1 Maine spends on health care through MaineCare, the federal government adds an additional roughly \$2, boosting purchasing power and invigorating Maine’s economy. These funds cover the medical expenses of eligible low-income Maine people.

MaineCare dollars have supported creation of many health care-related jobs in recent years. Health care has been one of the major growth sectors of Maine’s economy, particularly in rural areas.

Although elders and people with disabilities comprised only 33.4% of enrollees in Fiscal Year 2007, they accounted for 73.4% of MaineCare costs.

Source: The Kaiser Family Foundation at <http://www.statehealthfacts.org/profileind.jsp?ind=858&cat=4&rgn=21&cmprgn=1>

### General Fund Appropriations: Fiscal Years 1995 - 2011



Source: Maine State Office of Fiscal and Program Review

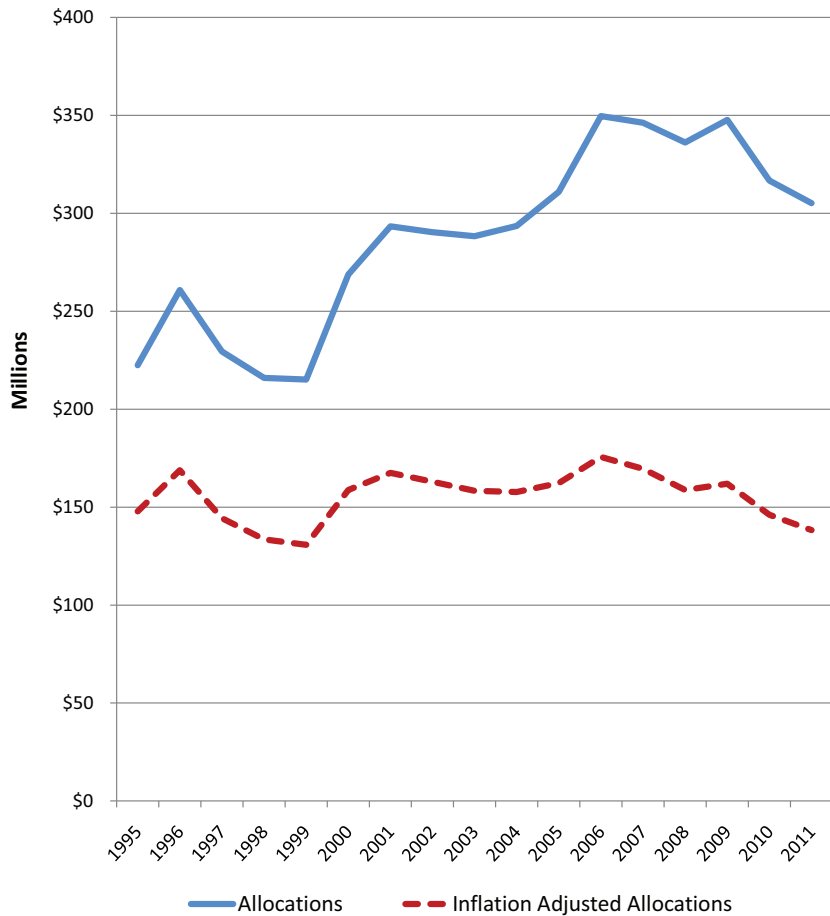
### Spending Trends: General Fund

The decrease in General Fund appropriations is particularly troubling because the General Fund primarily supports the general functions of state government, including K-12 education and health care. Investments in environmental and natural resource protection, public safety, and higher education, for example, are also made through the General Fund.

As the chart indicates, nominal General Fund appropriations (in essence face value) have decreased each year since 2008.

***Adjusted for inflation, appropriations for the current fiscal year (2011) have less buying power than Fiscal Year 1999 appropriations.***

### Highway Fund Allocations: Fiscal Years 1995 - 2011



Source: Maine State Office of Fiscal and Program Review

### Spending Trends: Highway Fund

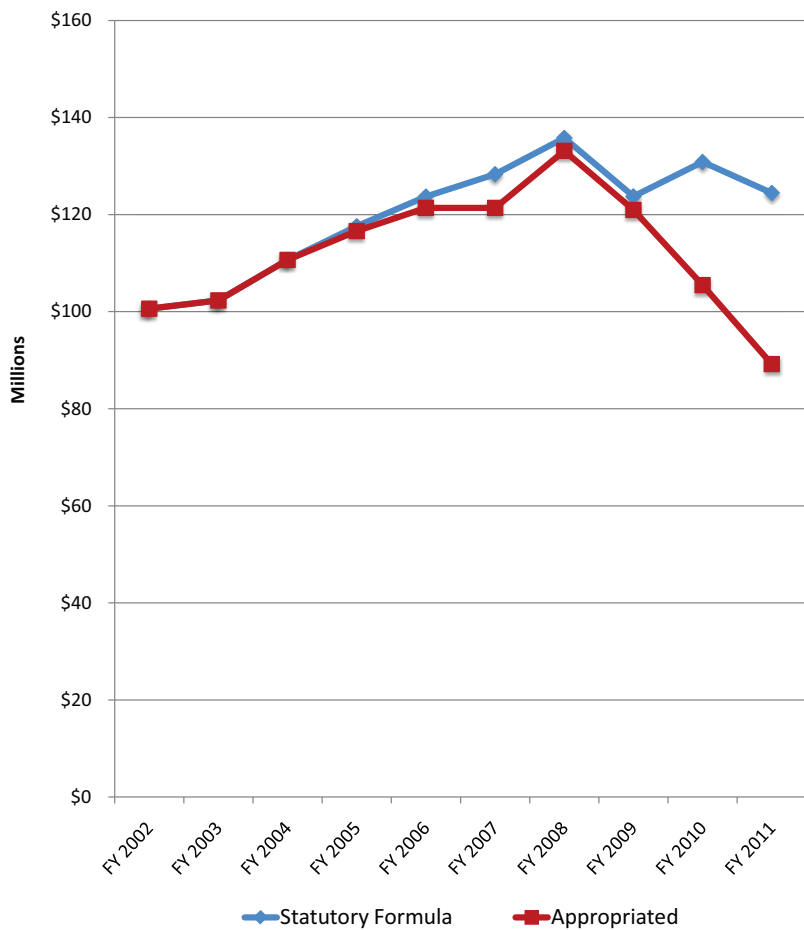
Highway Fund allocations in 2011 are the lowest they have been since 2004. Adjusted for inflation, they are the lowest they have been since 1999.

The American Society of Civil Engineers rates 29% of Maine's major roads in poor or fair condition and the U.S. Department of Transportation rates 33% of Maine bridges as structurally deficient or functionally obsolete.

Maine Department of Transportation has been cutting its budget for five years, including trimming the work force by 10%.

Highway Fund revenues are projected to fall \$720 million short of funding needed to continue currently reduced levels of road work.

### Municipalities Receiving Less Revenue



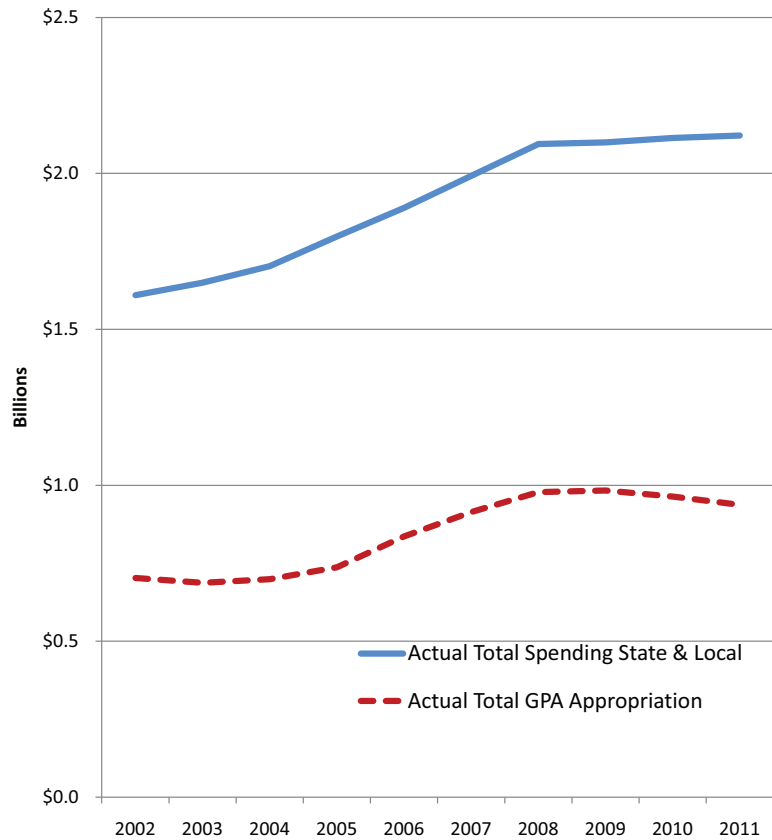
Source: Maine Municipal Association, Maine State Office of Fiscal and Program Review, Maine State Treasurer's Office

### Spending Trends: Municipalities

As the state has cut back on investments in education, health care, transportation, and other critical infrastructure, cities and towns are left to figure out a way to continue to provide these essential services. In fact, municipalities are often forced to raise taxes, cut services and/or jobs, or both raise taxes and cut services and/or jobs. The cost shift to municipalities has large ramifications for the property tax burden on working families.

As the chart indicates, between Fiscal Years 2002 and 2008, municipalities generally witnessed at least a modest increase in revenue sharing funds the State distributes to municipalities to use for any legitimate municipal purpose. After reaching a peak of \$133 million in FY 2008, revenue sharing decreased over the last three years by almost \$44 million in nominal terms. In fact, the \$89 million appropriated in FY 2011 for revenue sharing was \$11.4 million less than funds appropriated in FY 2002. Moreover, the gap between what the law requires should be appropriated and what actually is appropriated is widening.

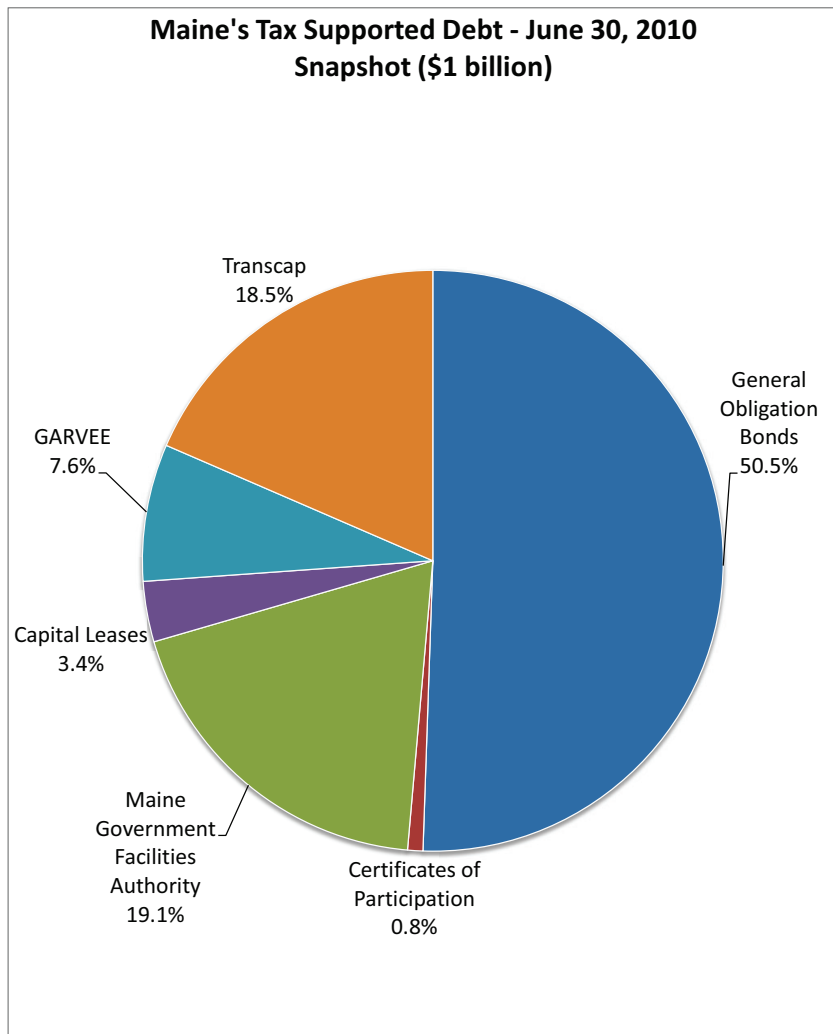
### Aid for Education (K-12) FYs 2002 - 2011



Source: Maine Municipal Association, Department of Education, and Maine State Office of Fiscal and Program Review

### Spending Trends: Education

Not only has revenue sharing decreased over the last few years, but state aid to municipalities for K-12 education (“General Purpose Aid to Schools”) has decreased. Total state and local education spending has generally increased, but state support has decreased. Consequently, municipalities, despite significant federal assistance for education thanks to the American Recovery and Reinvestment Act, continue to bear the largest share of an overall increase in education spending.



Source: Maine State Treasurer's Office

## Debt

Maine's state government borrows money by issuing bonds. This allows the State to invest in, for example, land acquisition, small business investment, and public facility space and equipment. Borrowing allows payments to be spread out over a project's useful lifespan rather than paid upfront. This also ensures that all people benefiting from projects pay some portion of the cost through taxes over time.

The majority of Maine's tax supported debt (51%) consists of **General Obligation Bonds** that the state government backs with its "full faith and credit" to be repaid from General Fund revenue. These bonds must be approved by voters in general elections.

Other types of bonds include **Tax-Supported Certificates of Participation** and **Capital Lease** bonds, both of which are secured with revenues from state-issued leases. **GARVEE (or Grant Anticipation Revenue Vehicle)** bonds are secured with the promise of revenues from future federal transportation grants. **Maine Government Facilities Authority** bonds are secured with revenues from tax supported agency budgets.

Relative to other states Maine manages its "debt burden" very well. In July 2009, nationally respected Moody's Investors Service actually recognized Maine's overall prudent borrowing practice: "Maine continues its conservative approach to debt,



with an aggressive payout structure and capacity to accommodate unforeseen borrowing needs.”

Tax-supported debt in Maine is \$760 per capita versus the national median of \$936. As a percentage of total personal income, Maine’s tax-supported debt is 2.2%, while the national median stands at 2.5%. (Source: Moody’s, May 2010). When Moody’s recently calculated total state debt combined with pension liabilities, Maine’s total per capita debt of \$3,790 ranked 17th among the states.

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Maine Center for Economic Policy  
66 Winthrop Street, P.O. Box 437  
Augusta, ME 04332-0437  
Tel: 207-622-7381 Fax: 207-622-3731  
E-mail: [info@mecep.org](mailto:info@mecep.org)  
[www.mecep.org](http://www.mecep.org)