Maine's Levels of Government Spending
Executive Summary

MECEP Maine Center for Economic Policy

Analysis by the Maine State Planning Office, the Maine Office of Fiscal and Program Review, and the Federal Reserve Bank of Boston all support the conclusion that Maine's overall rates of spending and taxation have actually been falling in relation to personal incomes over the past several budget years.

- Relative to Mainers' incomes, levels of total state expenditure have grown from 14.2% to 15.8% since 1996. However, virtually *all* of that growth is the result of greater *federally funded* spending. It does not result in higher state taxes for Maine's taxpayers.
- Since 1986, combined state and local taxes grew modestly, from 11.3% to a projected 12.3% in 2009 (as a percent of total state personal income). They have declined from 12.9% in 2005, and there is strong reason to believe that downward trend will continue.
- In 2006 and 2007, LD1 growth limits (3.11%) held spending essentially to the rate of inflation, meaning that government purchasing power remained flat while the state's economy and people's incomes gain in purchasing power. The result is that government is becoming steadily less costly.
- State and local governments are meeting and significantly exceeding most goals adopted by the legislature in LD1, with actual rates of growth in taxes falling slightly below set limits, and spending growth falling well below set limits.
- The lone area where LD1 limits have been exceeded is in K-12 municipal spending. In the case of General Fund expenditures, when K-12 cost increases (mandated through a voter referendum) are subtracted, spending actually *declined* by 0.5% in 2006, and 1.2% in 2007.

Maine compares favorably to other states against measures of state spending and taxation, particularly those states with similar geographic challenges and social values.

- "Own source revenues" include both taxes and fees. Comparing US Census Bureau data of "own source revenue" to personal income, Maine ranks 9th among all states, *not* second as the Tax Foundation has erroneously publicized.
- Using a related measure – own source revenue per capita – we see that Maine ranks 15th among all states, or just two slots shy of entering the "middle third" grouping of states.
- With a per capita burden of $5467 annually, Maine exceeds the US average by just $129 per person. While the Maine Spending Research Group suggests total "above

average" state collections in excess of $700 million (based on flawed Tax Foundation data), using US Census Bureau data we see that a more accurate figure would be $170 million.

- Research by the Maine Municipal Association (MMA) has established that the US Census Bureau received incorrect property tax collection totals for Maine. The MMA estimates this error inflated Census Bureau collection totals for Maine by over $200 million. Given this, it is likely Maine's total taxes per capita were actually *lower* than the US average.

- Not all states can "be average". Maine has a higher basic cost structure due to its colder climate, its rural character, and its older and sicker population. Spending at or near the "average" thus necessarily means *below average* levels of government services for Mainers.

- Analysis by the Federal Reserve Bank of Boston shows that relative to New England states and other rural, northern, low-income states, Maine is near or below average in expenditures.

The push to "become average" is likely to have substantial negative effects for Mainers and the Maine economy. Proposed cuts to Medicaid programs would undermine the health care sector and shrink the Gross State Product, reduce workforce productivity, and shift current health costs onto government programs and private insurers that do not enjoy federal funding.

- The Maine Public Spending Research Group suggests immediate cuts in state expenditures of $700 million, fully $470 million coming out of the Medicaid portion of the budget.

- For every state dollar Maine spends on healthcare for Mainers through Medicaid, the federal government puts two additional dollars into Maine's economy.

- A $470 million cut would produce a loss of $315 million in federal "stimulus" to Maine's economy. This would be a 4% decline in the state's health care sector, and somewhat less than a 1% decline in the total Gross State Product. This is not good economic policy.

- Declines in Medicaid enrollment and care would reduce overall health and shift higher resulting medical costs onto programs that do not enjoy federal support.

Conclusion: Maine is reducing government costs more quickly than agreed to in LD1. Further deep cuts run the risk of undermining the state's economic security and potential, and of condemning Maine residents to below-average levels of government services.

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