Maine Center for Economic Policy

Mailing: PO Box 437
Street: 66 Winthrop St., 2nd flr
Augusta, ME 04332
Tel: 207.622.7381
www.mecep.org

TESTIMONY IN ON SUPPLEMENTAL BUDGET PROPOSALS FOR FISCAL YEARS 2014 AND 2015
March 5, 2014

Senator Hill, Representative Rotundo, members of the Joint Standing Committee on Appropriations and Financial Affairs, I am Garrett Martin, executive director at the Maine Center for Economic Policy (MECEP).

Proposed Alternatives

<u>Cuts to K-12 Education, Scholarship Funds, and CSSP - Against</u>

I applaud your efforts to address Maine's current budget challenges and your willingness to put a range of ideas on the table. I am struck by what is in the supplemental budget proposals and what is not. Any budget that reduces K-12 education merely passes the buck to local communities and takes us in the wrong direction when it comes to improving the education and skills of Maine's future workforce. The state continues to fall well-short of meeting the 55% funding threshold for K-12 education set by voters in 2004. A report from the California-based Picus & Associates, commissioned by the Maine Legislature, found a $300 million shortfall in Maine's K-12 education obligations.

Proposed reductions in scholarship funds at Maine universities and the Competitive Skills Scholarship Fund short-change our students. These cuts will make it harder for low-income workers to gain the skills they need to get a better paying job. These proposals are not what Maine needs to encourage economic growth and economic opportunity. I urge you to remove them from consideration.

<u>BETR/BETE Reform - For</u>

With respect to revenue, the proposed changes to the Business Equipment Tax Reimbursement (BETR) and the Business Equipment Tax Exemption (BETE) programs are long overdue. They represent a compromise position from this committee's previous deliberations on these programs. When the legislature created BETR, the intent was to provide incentives for ongoing business equipment investments in capital intensive industries. By eliminating BETR for retail businesses, this budget proposal will help stop the practice of Main Street businesses effectively subsidizing competition from out-of-state multinational corporations. Eliminating unnecessary and costly subsidies for professional service providers like lawyers and accountants, who do not need incentives to buy a computer or phone system, also makes sense. Providing Walmart or ABC law firm with taxpayer-funded subsidies does nothing to promote job creation or investment in the state and only drives up taxes for locally-owned retail businesses and working families.

<u>Elimination of the Super Research and Development Tax Credit – For</u>

I recently served on the Tax Expenditure Review Task Force. During our deliberations we agreed that certain tax incentives like the Super Research and Development Tax Credit are outdated or redundant to other incentives. While I appreciate the need to grow Maine's innovation economy, it does not appear that this credit is the best vehicle to achieve that goal.

<u>Tobacco Tax Equalization and Increased Tax on Cigarettes – For</u>

Tobacco tax equalization would create a more consistent tax code and makes a lot of sense. Admittedly it and the proposed tax increase on cigarettes are regressive taxes. This especially concerns us because

Maine's tax code has become increasingly regressive in recent years. Outweighing these concerns are this proposal's public health benefits and the need to offset revenue losses resulting from the 2011 tax cuts.

Funding for Homestead Exemption – For

MECEP supports efforts to provide targeted property tax relief to Maine residents. The Homestead Exemption program is one way to do this. Current funding levels are inadequate to meet the needs of this program and raise questions about the source of the shortfall. MECEP is concerned that it may be related to the tax shift resulting from recent income tax and funding cuts which transfer more costs for basic services to property taxpayers.

Cap on the Historic Properties Tax Credit – Neither For Nor Against

I worked in community economic development for many years and know well the value of programs like the historic properties tax credit. The proposed cap, if applied to new projects, may be reasonable but for two considerations. First, there are better revenue alternatives available that would make it possible to fund this program and boost programs that help improve our economy and economic security for Maine people. Second, this credit may well help compensate for other traditional forms of investment such as bonds that have been lacking in recent years. A cap applied to existing projects would potentially undermine the current structure and financing of those projects. It should only be considered as a last resort.

Eliminating the Sales Tax Exemption on Purchases by Hospitals and Private Colleges – NEITHER FOR NOR AGAINST

MECEP does not have a position on the proposals to eliminate the sales tax exemption on purchases by hospitals and private colleges. They would broaden our tax base and could potentially be paid for with greater organizational efficiency and/or reductions in operating expenses. However, they may also result in higher health care and tuition costs. At this time, we have not done the analysis necessary to evaluate these impacts and maintain that better options are available.

Other Alternatives

It is important to note that we are here today because revenue and spending are out of balance. The bulk of this problem is on the revenue side of the state's balance sheet: an outdated state and local tax system and a failure to recover from the worst recession since the Great Depression. ***In FY 2013, General Fund revenue as a share of the private sector economy was lower than it was in the late 1980s, a quarter century ago.***

Recent tax cuts have worsened this problem and threaten to make Maine's overall tax system more regressive than it already is. Ill-timed income, pension, and estate tax cuts cost $198 million in Fiscal Year 2014 and $225 million in Fiscal Year 2015. Forecasters project that inflation-adjusted General Fund revenue during the current two-year budget period will be no higher than it was more than fifteen years ago. General Fund revenue as a share of total personal income earned in the state is forecast to be no higher than it was more than three decades ago.

Against this backdrop, I encourage you to consider three additional proposals:

Estate Tax Reform

The 125th Legislature reduced Maine's estate tax by increasing the "exclusion amount"—the portion of the value of an estate exempt from the tax—from $1 million to $2 million. It also flattened the graduated rate and bracket structure. According to Maine Revenue Services, these changes affect approximately 600 estates worth at least $1 million. These estate tax changes reduce General Fund revenue by approximately $51 million over the current biennium and come at significant cost to Maine people and communities.

Pine Tree Zone Development Tax Credit

In a recent review of tax expenditures conducted for Maine Department of Economic and Community Development, the Pine Tree Development Zone program was cited as having a negative return on investment. At a minimum, we urge you to subject this program to greater scrutiny and introduce claw-back provisions. Based on the work of the Tax Expenditure Review Task Force, freezing the program for future entrants could save as much as $3.3 million.

Earned Income Tax Credit

You currently have a proposal to increase Maine's earned income tax credit to 10% of the federal credit and make it refundable. LD 455 is a targeted tax credit for those who most deserve and need it: families who work and have kids but don't make much money. These families paid more state and local taxes per dollar of income than the wealthiest families in Maine in 2009, the latest year for which data are available. In many cases, state and local taxes accounted for 17 cents of every dollar earned, compared to 10 cents of every dollar for the top 1% of income earners in Maine. Meanwhile, nearly 1 in 4 children under the age of five lives in poverty. EITC is a proven effective program for addressing these issues, is well within our means, and deserves your strong support.

Head Start Funding

For minimal costs, we can and should restore Head Start funding. All the latest brain development research makes clear that quality early childhood education delivers some of the highest returns of any public investment. Protecting questionable corporate tax breaks at the expense of early childhood investments that could be had for a fraction of the cost makes little economic sense.

Closing

In summary, we urge you follow two basic principles as you tackle this budget challenge. First, you have an obligation to hard working Maine families to assure that we have the revenues needed to fund the state services they need and that will help grow Maine's economy. Second, when addressing our revenue crisis, you must strive toward greater tax fairness for these same families.

Thank you for your time and service on behalf of Maine people.