Analysis

Legislature must raise revenue to fill shortfalls cause by LePage-era tax cuts

by Sarah Austin, Policy Analyst | February 28, 2019

For years, Maine has fallen short on its commitments to fund public schools and make robust investments in our local communities. This year, legislators can meet both funding targets for the first time ever.

To do so, they must rebuild state revenues lost to income tax cuts enacted under former Governor Paul LePage. Those tax cuts primarily benefit the wealthiest Maine households, and will cost the state more than $860 million this budget cycle. In her budget proposal, Governor Janet Mills keeps those tax cuts, a decision that fuels ongoing shortfalls. Without recouping any of the revenue lost to tax cuts, the proposal is unable to fully fund Maine's schools, towns, and cities.

Continued shortfalls that put our students, teachers, and communities further behind are not inevitable. This budget cycle lawmakers have a choice: They can continue funding wasteful LePage-era tax cuts that benefit the wealthiest or they can fix our tax code so we can invest that money in things that support thriving communities and a strong economy.

STUDENTS, TEACHERS PAY THE PRICE FOR LOST REVENUE

Maine voters have used the referendum three times since 2004 to demand that the state cover 55 percent of the cost of essential programs and services in the state's public K-12 schools. The legislature has never delivered a budget that met the 55 percent threshold.

The state has continually struggled to fully fund this voter mandate because of continued choices to prioritize tax cuts over our schools. Governor Mills' budget proposal falls $178 million short of meeting the 55 percent threshold set by Maine voters. Lawmakers can close this gap by enacting sensible revenue-raising policies.

Funding for Public K-12 Schools

	2020		2021	
	Dollars	State share	Dollars	State share
Governor's budget plan	$1,161	50.7%	$1,204	51.6%
Required for full funding	$1,259	55%	$1,284	55%
Funding gap	$98.1	4.3%	$79.9	3.4%

Note: Figures in millions. The "State Share" of the cost of education, as set by voters, is 55%.

Source: Governor Mills' 2020-2021 Biennial Budget. Part A. Available at: https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/GF%202020-2021%20Part%20A.pdf

Raising revenue would help fill a $178 million gap and fully fund our schools for the first time ever.

Funding for Local Services, Property Tax Relief

	2020		2021	
	$	%	$	%
Governor's budget plan	$89.2	2.5%	$115.8	3%
Required for full funding	$174.4	5%	$190.3	5%
Funding gap	$85.2	2.5%	$74.5	2%

Note: Figures in millions. Percentages represent the share of broad-based state revenues shared with municipalities. The state is require to distribute 5% of those revenues back to communities.

Source: Governor Mills' 2020-2021 Biennial Budget Overview. Table D-2. Available at: https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf

A lack of new revenue forces ongoing cuts to local services like roads and public safety.

ONGOING REVENUE LOSSES SQUEEZE LOCAL COMMUNITIES

Communities and property taxpayers have also suffered under previous budgets that prioritized tax cuts for the wealthiest over critical funding for local services.

The state is supposed to send 5 percent of revenue from the income and sales taxes back to towns and cities to fund valuable local services such as libraries, parks, public safety, and road maintenance. These resources also help limit property tax increases for residents and businesses.

The Legislature has not fully funded Municipal Revenue Sharing for more than a decade. Instead, it has used temporary cuts to revenue sharing to plug holes in the state budget and pay for tax cuts. This year, those temporary cuts were scheduled to expire so that communities would get what they are owed for the first time since 2008. Governor Mills' budget proposal would extend the cuts, reducing funding for Municipal Revenue Sharing by $160 million to fund other parts of the state budget.

FIXING OUR OUT-OF-BALANCE TAX CODE WOULD LET US INVEST IN SCHOOLS AND COMMUNITIES

Today, our tax code is out of balance. On average, the top 1 percent of Maine households pay less of their income in state and local taxes than people who earn less.

By cleaning up our tax code, Maine can secure the revenue necessary to fund key priorities such as education and local services. In *The Prosperity Budget*, MECEP crafted a plan that turns our tax system right-side up again by making sure those who benefit the most from our economy aren't paying the least for investments that build stronger communities in the future — things like education, health care, job training, and roads.

The Prosperity Budget's revenue plan secures more than $500 million over the biennium. This would provide enough resources to fund schools and communities and to increase funding for other key investments to strengthen Maine's economy. Here's how:

Prosperity Budget's three-step plan to fix our tax code

Fixing the tax code to fuel growth, prosperity:

Everyone should pitch in their share to build our brighter future. Increasing the standard deduction and tripling the Earned Income Tax Credit will boost our economy by helping low-income families cover the basics. New tax rates of 9.5 percent and 10.5 percent on high incomes will make sure those with the most aren't paying the least.

Revenue generated: $308.2 million

Close loopholes and modernize our tax code:

Loopholes like the overgrown estate tax exemption and offshore tax havens let multi-millionaire estates and profitable corporations avoid paying taxes, deepening inequality and jeopardizing our future. Closing loopholes and modernizing out-of-date provisions of our tax code will ensure we're all contributing what we should.

Revenue generated: $58 million

Tap our booming tourism industry:

Maine's tourism industry continues to break records as millions of visitors spend billions of dollars in Maine annually. A 1 cent increase to our meals tax and 2 cent increase to the lodging tax will export more of our tax code and enable us to fund investments that make Maine an even better place to visit — or live.

Revenue generated: $140 million

By fixing our out-of-balance tax code, we can fund the core investments that put families and our economy on an upward trajectory. The Prosperity Budget's revenue plan secures the resources necessary to fully fund our public schools and the local services all of us rely upon — with $168.2 million left on the table to fund additional forward-looking investments in our future.

For additional information and a more detailed description of the Prosperity Budget's tax proposal, visit mecep.org/prosperitybudget.