

Revenue Collapse Creates Budget Gap

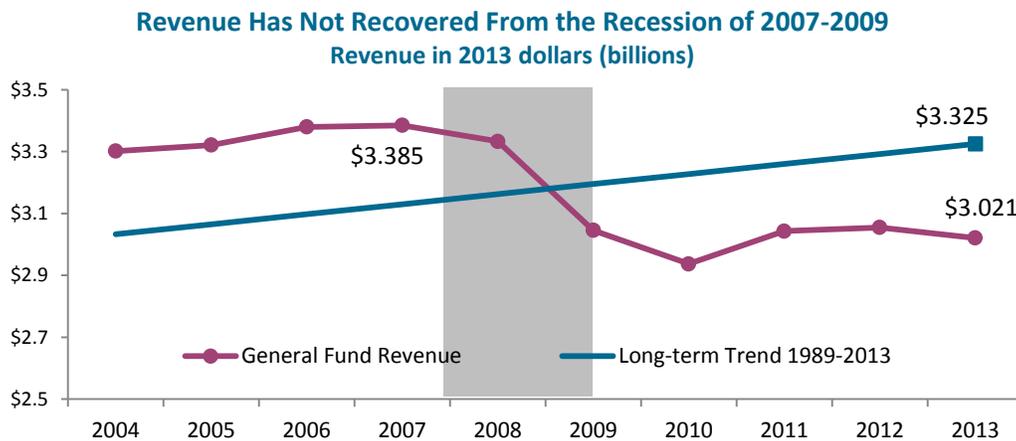
Maine's budget challenges are due to the recession and recent tax cuts

As the new legislature prepares for Governor LePage to release his plans for dealing with an unexpected revenue shortfall this year and an \$881 million structural budget gap over the next two-year budget cycle, it is worth remembering how the state arrived in this situation of seemingly permanent budget crisis.

The recent recession and tax cuts enacted over the past two years are responsible for the \$881 million budget gap over the two-year budget cycle that begins July 1, 2013. As budget negotiations begin, lawmakers should keep this fact in mind. Fiscal responsibility means making sure Maine has the revenue it needs to build the foundations of a strong, resilient economy.

Recession Takes Huge Bite out of Maine Revenue

Maine's budget problems over the past five years are the result of the worst recession since the Great Depression, which stalled the already sputtering engine of our economy—middle-class households and workers—and collapsed state revenue.



Source: Maine Legislature, Office of Fiscal and Program Review

General Fund revenue in 2013 is forecast to be \$364 million below the pre-recession peak and \$304 million below the long-term trend.¹ That means that over \$600 million of the state's anticipated \$881 million structural budget gap over the FY 2014-2015 biennium is attributable to the recession.

Recent Tax Cuts Make Matters Worse

Over the past two years, politicians in Augusta lectured about fiscal responsibility and the dangers of debt while at the same time enacting tax cuts that blew a nine-figure hole in the state's balance sheet, doubled the state's budget gap, and shifted costs to towns, schools, and property taxpayers. These tax cuts are forecast to deepen the state's revenue shortfall by \$433 million over the two-year period beginning in July 2013.

¹ The long-term trend is based on a linear best-fit of inflation-adjusted general fund revenue from 1989-2013. This timeframe represents the full set of the data available on the website of the Legislature's Office of Fiscal and Program Review at the time of writing: http://www.maine.gov/legis/ofpr/general_fund/rev_exp_history/index.htm

Basic Math Shows Maine's Budget Challenge is Revenue

Absent the recession and recent tax cuts, the state would have enough revenue in fiscal years 2014 and 2015 to fulfill its obligations to schools, municipalities, and property taxpayers, and still have funds left over to pay down debt.

Maine's FY 2014-2015 Budget Gap Is Due to the Recession and Recent Tax Cuts



Data sources: Maine Legislature, Office of Fiscal and Program Review; Maine Department of Administrative and Financial Services

Revenues Must Be Part of the Equation that Solves Maine's Budget Challenges

Fiscal responsibility means making sure Maine has enough revenue to meet its pressing needs and addressing the real cause of the state's budget problems. Maine has a revenue problem caused by a devastating recession and a sluggish recovery.

In the short term, lawmakers must focus on rebuilding a middle class hit hard by three decades of tepid income growth culminating in a severe recession. They need to invest in the foundations of strong, enduring economy: workers, technology, research and development, roads and bridges, and schools. To do this, lawmakers must overhaul Maine's outdated tax system by ensuring that everyone pays their fair share, rebuilding the tax base to match the 21st century economy, closing costly loopholes, and ending ineffective tax subsidies.

Maine's Future Economic Success is at Stake

Nothing is more important for our state now than creating good jobs and building a strong economy. Tax cuts that mostly benefit the wealthy and shift costs to communities, schools, and low- and middle-income families get us nowhere. We need a fair tax system based on ability to pay and we need to invest more in Maine people and communities. Only then can we achieve the vision of shared prosperity for all Mainers.

About the Maine Center for Economic Policy

Since 1994, the Maine Center for Economic Policy has conducted research and analysis and collaborated with people and organizations across the state to advance public policies that help all Maine people prosper in a strong, fair, and sustainable economy. MECEP is an independent, nonpartisan organization.