

Governor's Budget Message

February 11, 2011

Honorable Members of the 125th Legislature and Citizens of Maine:

The Maine economy is challenged and projected future job growth is weak. We must change that.

This budget was developed with one top priority – to reform and restructure state government to ensure that state government helps – not hinders – private sector job creation.

As we seek to get Maine people back to work and create new jobs, we are confronted with skyrocketing costs for our unfunded state pension liabilities. These escalating expenses were to increase \$287 million in this two-year budget over the previous one. Additionally, these payments would skyrocket to more than \$900 million a year by 2028. In fiscal year 2012 alone, increased unfunded pension payments would consume all new General Fund Revenue and more.

The choice was clear:

- ignore the unfunded liabilities crisis and cut funding to all core government services impacting school children, teachers, state employees, parents, the poor, the elderly, those with disabilities, drivers on our roads, and every Maine citizen

OR

- make reasonable reforms to the pension system and fund the necessary investments in classrooms, higher education, job-creating tax cuts, the human service safety net, and critical transportation improvements.

This budget makes a series of reasonable reforms to the government employee retirement system saving \$413 million in the General Fund over the biennium. These changes keep our promises to retirees and government employees, while saving \$6.48 billion in reduced unfunded liability payments from 2012 through 2028. These changes also save \$300 million in reduced costs for retiree health from 2012 through 2020.

With those savings, this budget increases biennial funding to local education by \$63 million over the state aid to local education provided in fiscal year 2011. In 2013, Maine taxpayers will support local aid to education at \$914 million, matching pre-recession spending in 2007. This increased funding supports our kids and classrooms while helping to keep local property taxes in check.

The pension savings in this budget allows us to cut taxes by \$203 million over the biennium. These tax cuts mean higher paychecks for Maine families – an average family of four in Maine could see a 14% reduction in their income tax bill and an average elderly couple could see an 18% reduction.

Maine will finally conform to federal tax law for depreciation for business equipment investments and allowed personal exemption deductions for kids and adults. We will eliminate the marriage penalty. We will reduce the death tax by increasing the exemption on estates from \$1 million to \$2 million, still too far below the federal \$5 million exemption. We will lower the top income tax bracket from 8.5% to 7.95%, its lowest level since 1975. This budget provides real tax relief to struggling families and begins the process of making business success more affordable in Maine.

This budget increases Highway Fund spending at Maine Department of Transportation by almost \$48 million or close to 10% over the previous biennium. This will allow us to repair, improve and maintain even more roads and bridges.

Work has to be a way of life in Maine for all who are able. This budget reforms Maine welfare to promote hard work while providing the necessary support and accountability to help families in transition.

In total, this budget makes the hard choices today that put Maine people first and provide the long-term support so that Maine small businesses and entrepreneurs can create jobs and grow our economy for future prosperity.