

*We the people of Maine...*

THE MAINE HERITAGE POLICY CENTER

# The Taxpayer Bill of Rights

# Maine Faces Big Challenges

## ■ High Taxes & Big Spending

- Highest state and local tax burden in US for 12 years
  - Mainers pay \$135 (13.5%) in taxes for every \$1,000 in income
- Highest property taxes in the country
  - *% of personal income, 6<sup>th</sup> highest per capita*
- 7<sup>th</sup> highest state income tax rates in the country (8.5% on anything over \$17,500)
- Downgraded bond rating - *all 3 rating agencies, first ever*

# Maine Faces Big Challenges

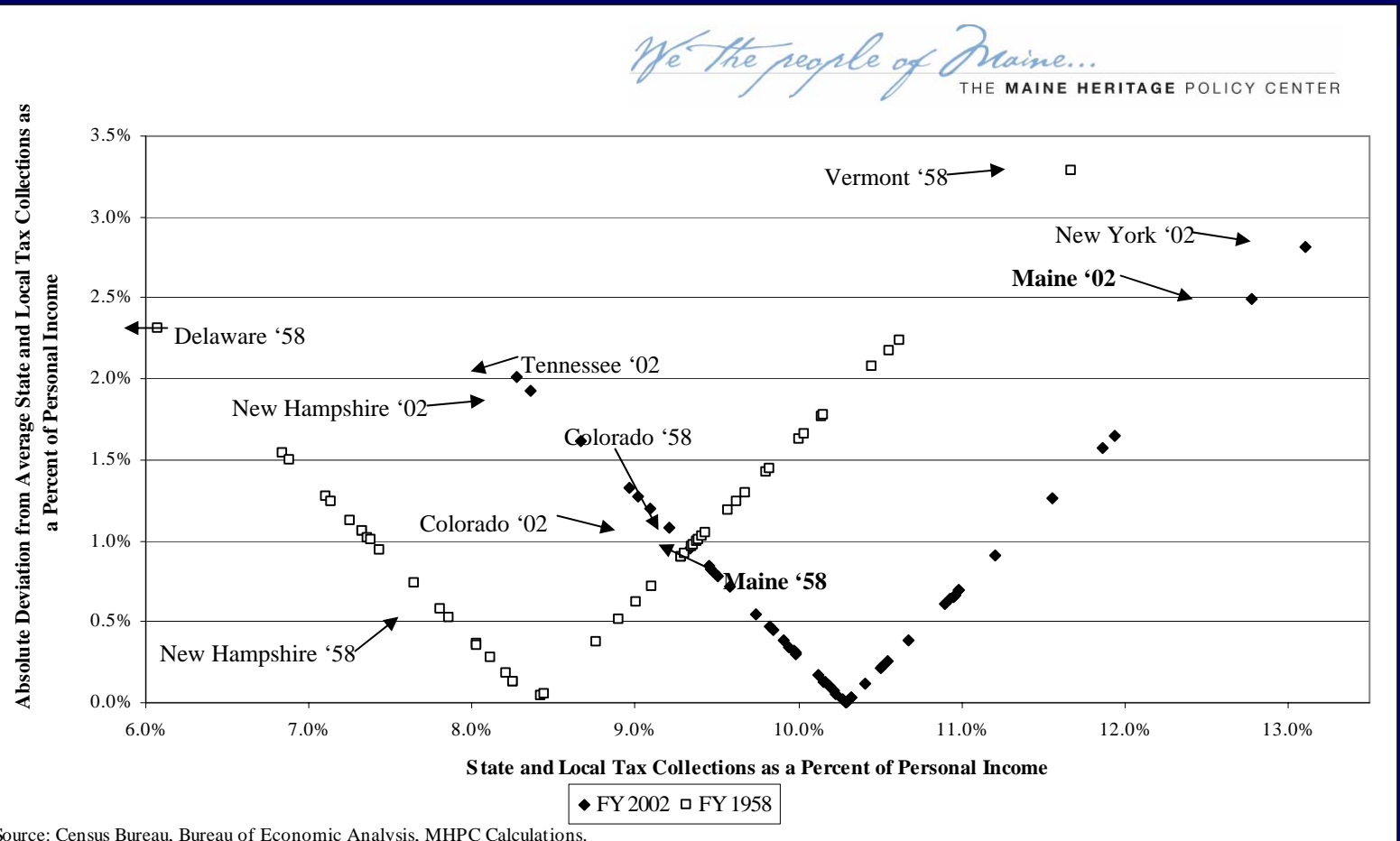
- Low Incomes and Poor Job Climate
  - 39<sup>th</sup> in median household income
  - 5<sup>th</sup> worst business tax climate
  - 3<sup>rd</sup> highest health insurance rates in the nation
- Very low job growth – since Jan 2003
  - 0.7% growth in private sector jobs
  - 1.7% growth in government sector jobs
- Very slow population growth
  - less than 1% annually

# Health Care Reform Needed

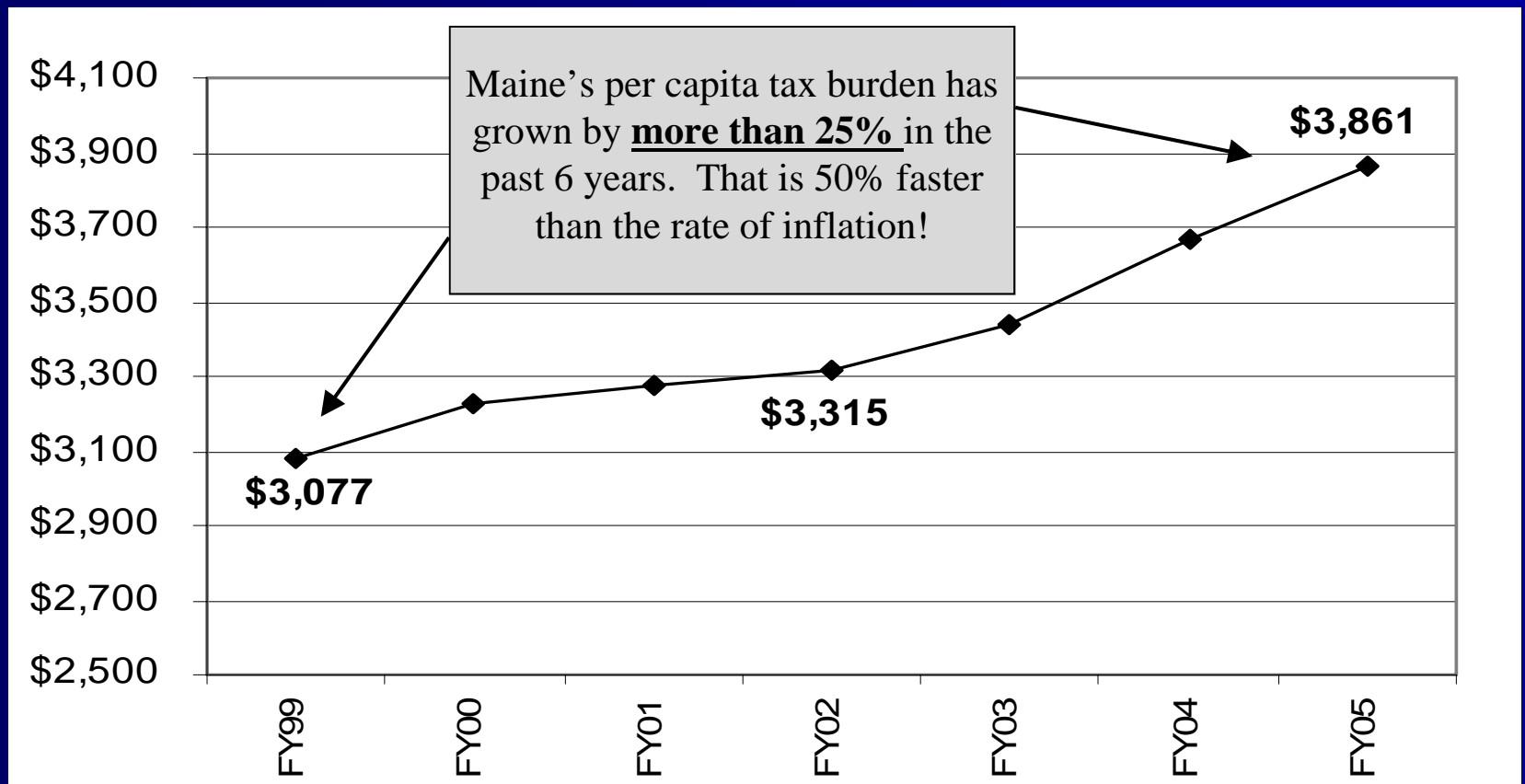
— won't happen without spending reform

- Maine has the highest percentage of its population on Medicaid of any state in the nation. These are people under 65 - totaling app. 260,000 (21%)
- Why? Maine has the 3<sup>rd</sup> Highest Health Insurance rates in the nation

# Absolute Deviation from Average and Total State and Local Tax Collections as Percent of Personal Income State Fiscal Years 1958 and 2002



# Maine's Spending Frenzy



Source: Maine State Legislature. Office of Fiscal and Program Review.

# Recent Reports

- 1<sup>st</sup> Quarter 2006 State Personal Income growth rate for Maine was .9% - 44<sup>th</sup> lowest (*June 22, 2006, Bureau of Economic Analysis*)
- Percent Change in Real Gross State Product from 2004-2005 was 1.4%, lowest in New England and in the lowest quintile in the country (*June 6, 2006, Bureau of Economic Analysis*)
- March, 2006 State Competitive Environment Report from respected economist Dr. Arthur Laffer, ranked Maine 50<sup>th</sup> in the nation.

# From Laffer Report...

- "Maine continues to place last in our rankings. Maine achieves its unfortunate distinction primarily through a combination of high and rising taxes. The state has the fifth worst income incentive rate, a steeply progressive income tax structure, and the highest property tax burden in the nation" *(March 2006 Report)*

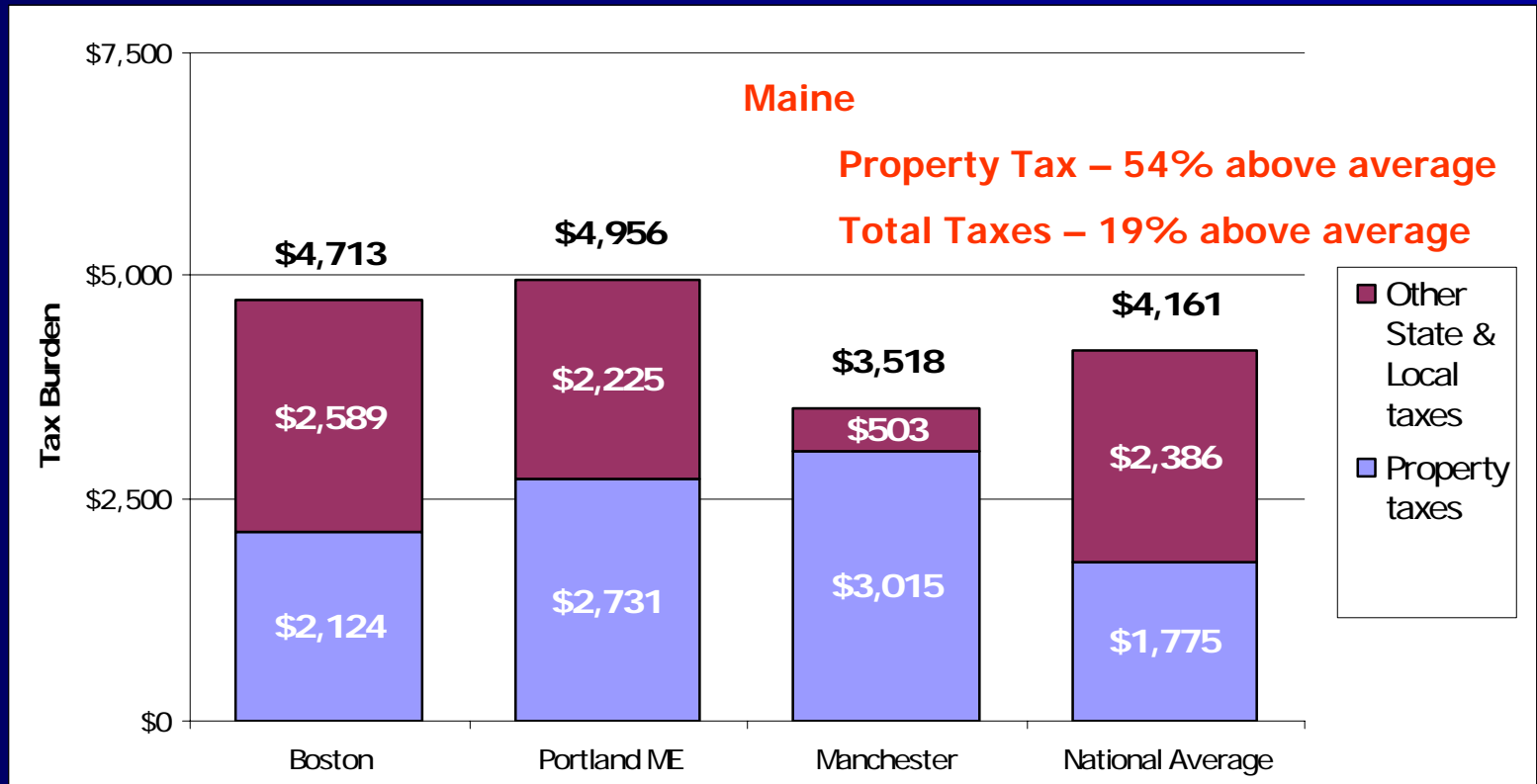


# Federal Reserve Bank of Boston

- “Economic Activity was generally positive for the New England states in 2005. By the end of the year, 5 of 6 states posted gains in the economic activity index from December 2004. Maine was the only New England State – and the only state in the nation except for Hurricane Katrina victim Louisiana – to see economic activity decline. Two states, Connecticut and New Hampshire, recorded boosts that exceeded the national increase.” *(May/June, 2006)*

# Just How High Are Maine's Taxes?

*Family of four earning \$50,000*

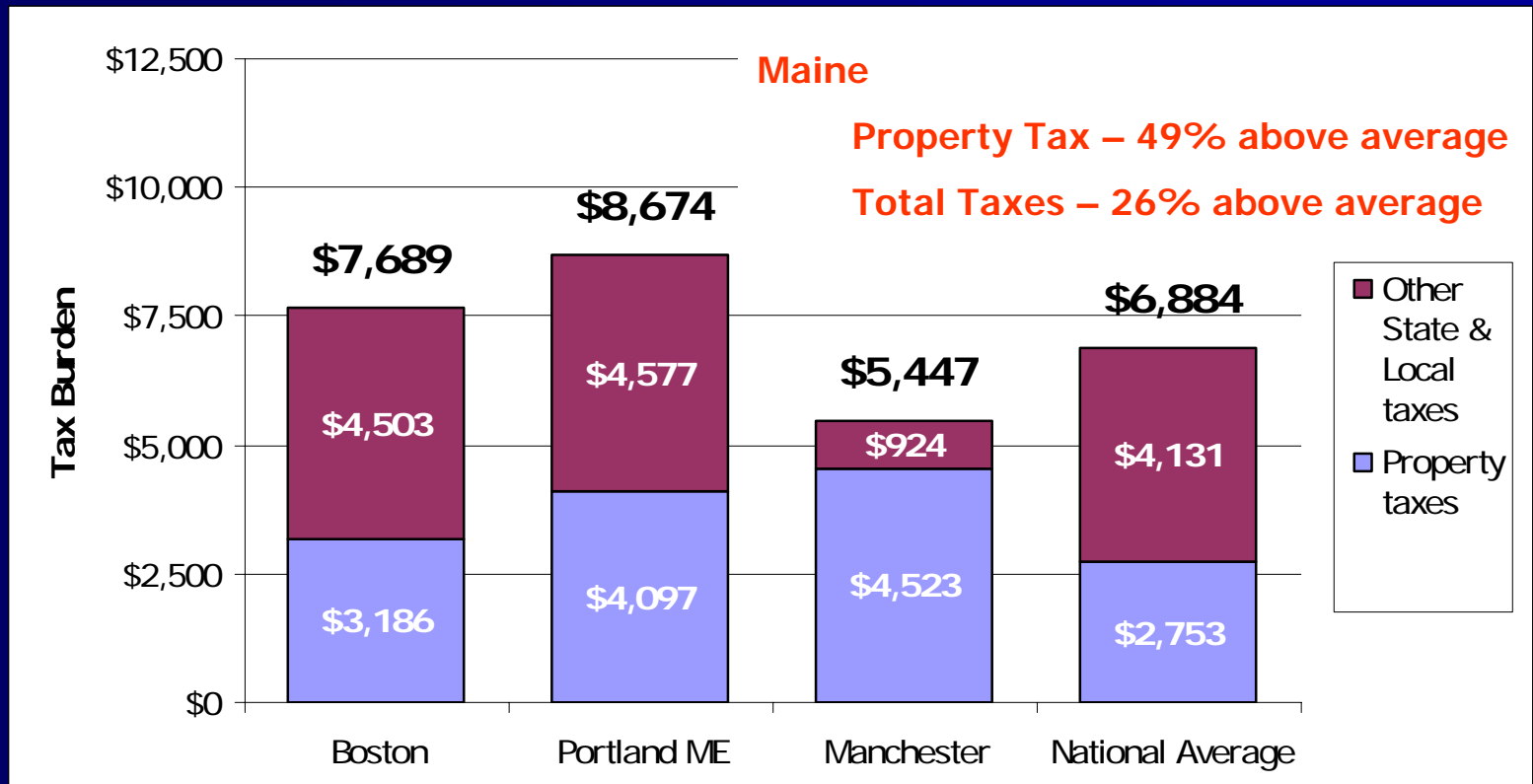


2004, Washington DC, CFO report

July 26, 2006

# Just How High Are Maine's Taxes?

*Family of Four earning \$75,000*



2004, Washington DC, CFO report

July 26, 2006

**For 40 years,  
we have heard that  
Maine could tax and spend  
its way to prosperity.**

**It is time for a change.**

# The Taxpayer Bill of Rights – Reasonable. Effective.

## Reasonable

Provide reasonable growth of government at all levels

- Growth rate- inflation plus population growth

Allow additional spending increases with voter approval

## Effective

Make it tougher to raise taxes

- Require voter approval of all tax and fee increases

Provide a Rainy Day Fund for emergencies

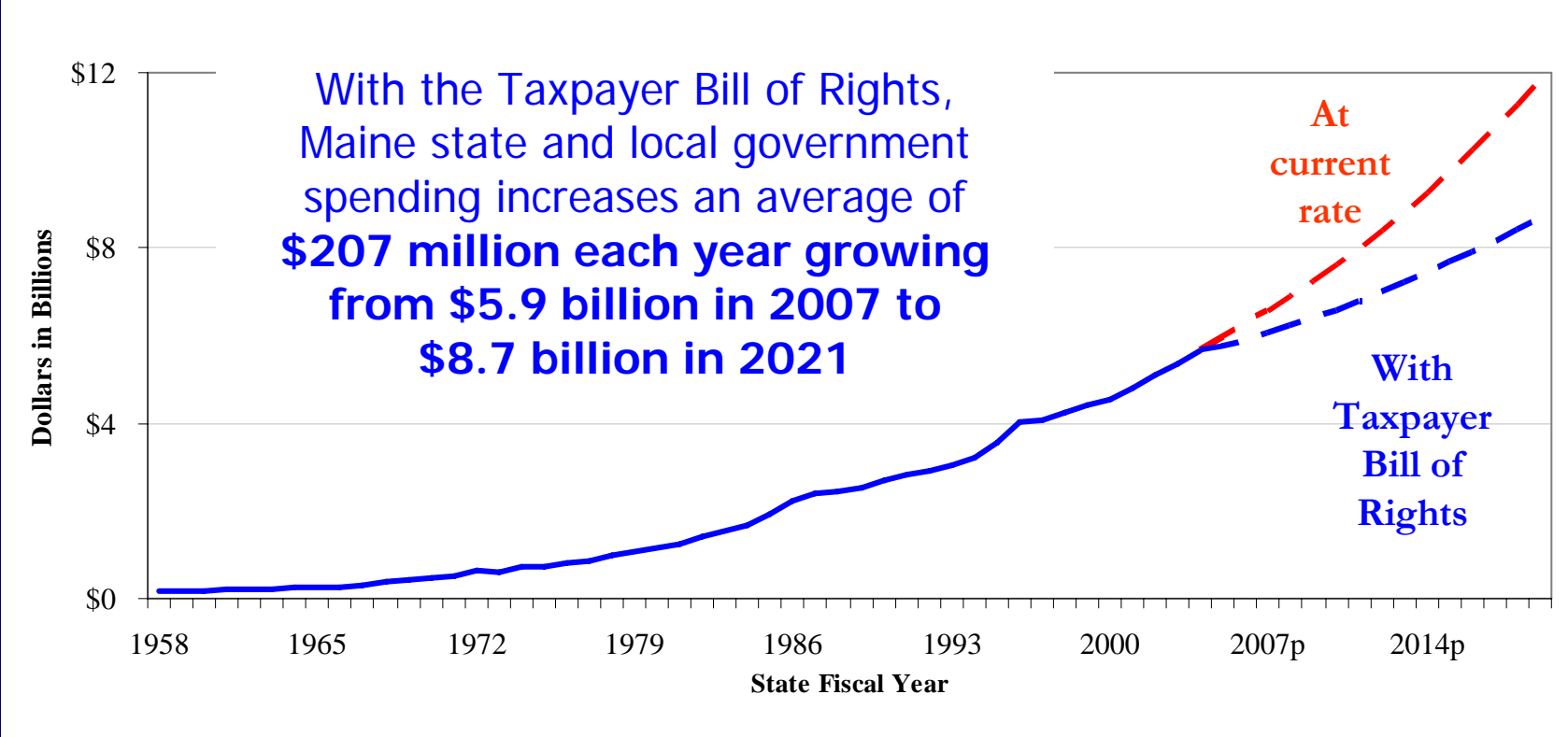
Return surplus taxes to taxpayer

## Needed

Maine is      #1 in tax burden (with highest property tax burden)  
                  #39 in income  
                  #45 in small business climate

# Reasonable Increases in Government Spending

State & Local



# Reasonable Increases in Government Spending

With a Taxpayer Bill of Rights...

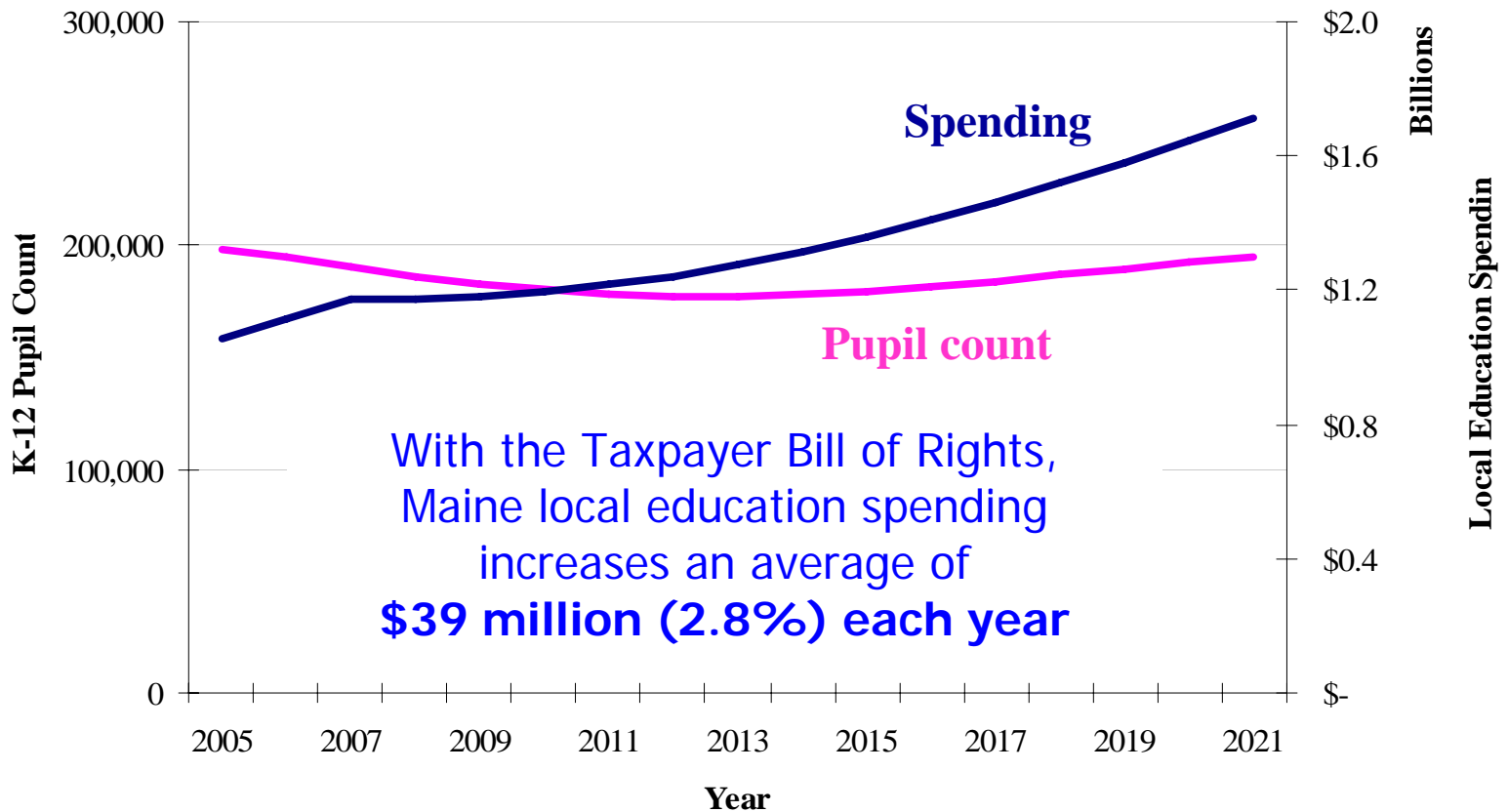
- Local spending grows an average of \$74 million each year
  - Increasing from \$2.4 billion in 2007 to \$3.4 billion in 2021
  - 3.1% average growth each year
- State spending grows an average of \$133 million each year
  - Increasing from \$3.4 billion in 2007 to \$5.2 billion in 2021
  - 3.7% average growth each year

# Government Growth: Social Services – not Education

- Maine now has approximately 200,000 students in the K-12 public school system – that number is shrinking to a projected 180,000 by 2017
- Maine now has approximately 260,000 individuals on Maine Medicaid – that number is projected to continue rising
- Recipe for Economic and Demographic Disaster



# Reasonable Increases in Local Education Spending



# Ten Year Pupil Count Trend by County - Oct. '96-'05

■ Androscoggin	-736	-4.28%
■ Aroostook	-2,257	-16.41%
■ Cumberland	+127	+.33%
■ Franklin	-901	-16.63%
■ Hancock	-1,370	-15.60%
■ Kennebec	-1,665	-8.68%
■ Knox	-201	-4.24%
■ Lincoln	-970	-13.62%
■ Oxford	-619	-5.52%
■ Penobscot	-2,725	-10.31%

# Ten Year Pupil Count Trend by County - Oct. '96-'05

■ Piscataquis	-770	-20.02%
■ Sagadahoc	-854	-12.11%
■ Somerset	-1,025	-9.95%
■ Waldo	-591	-10.55%
■ Washington	-1,325	-21.14%
■ York	-794	-2.4%
■ STATE	-16,676	-7.63%

# Student & Staff Counts

- 1995-96
  - 218,598 students
  - 26,600 Full time professional staff
- 2003-04
  - 201,912 students
  - 31,753 full time professional staff
- Decrease of 16,686 student (8%)
- Increase of 5,153 staff (20%)

# Student Change Projections 2002 through 2017

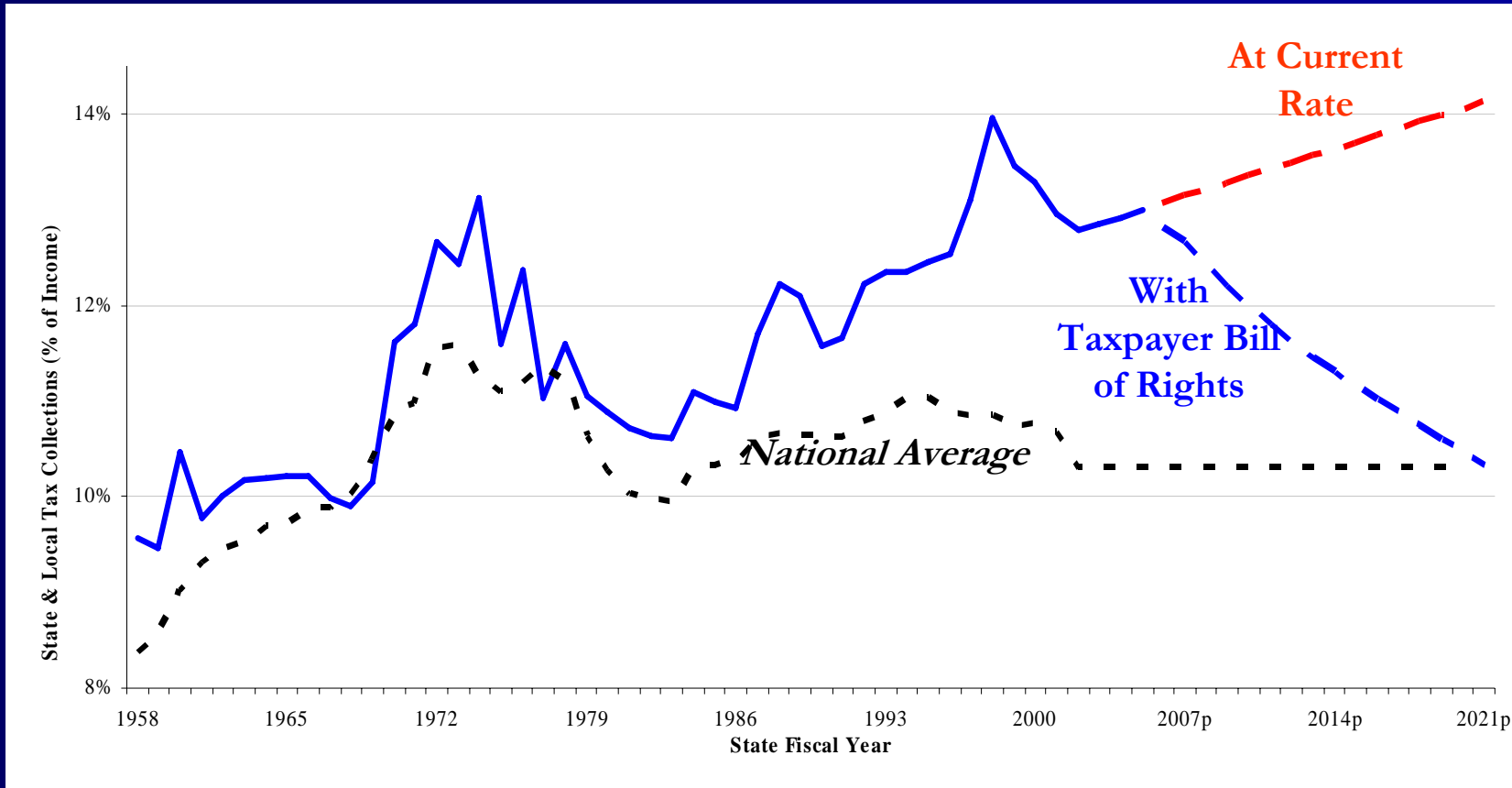
■ Portland	-1,372	-18.16%
■ Augusta	-860	-34.35%
■ Waterville	-804	-42.49%
■ Bangor	-743	-18.22%
■ Millinocket	-526	-62.54%
■ Machias	-217	-80.07%
■ Limestone	-335	-97.38%
■ South Portland	-486	-14.97%

# Local Share of Education – Cape Elizabeth

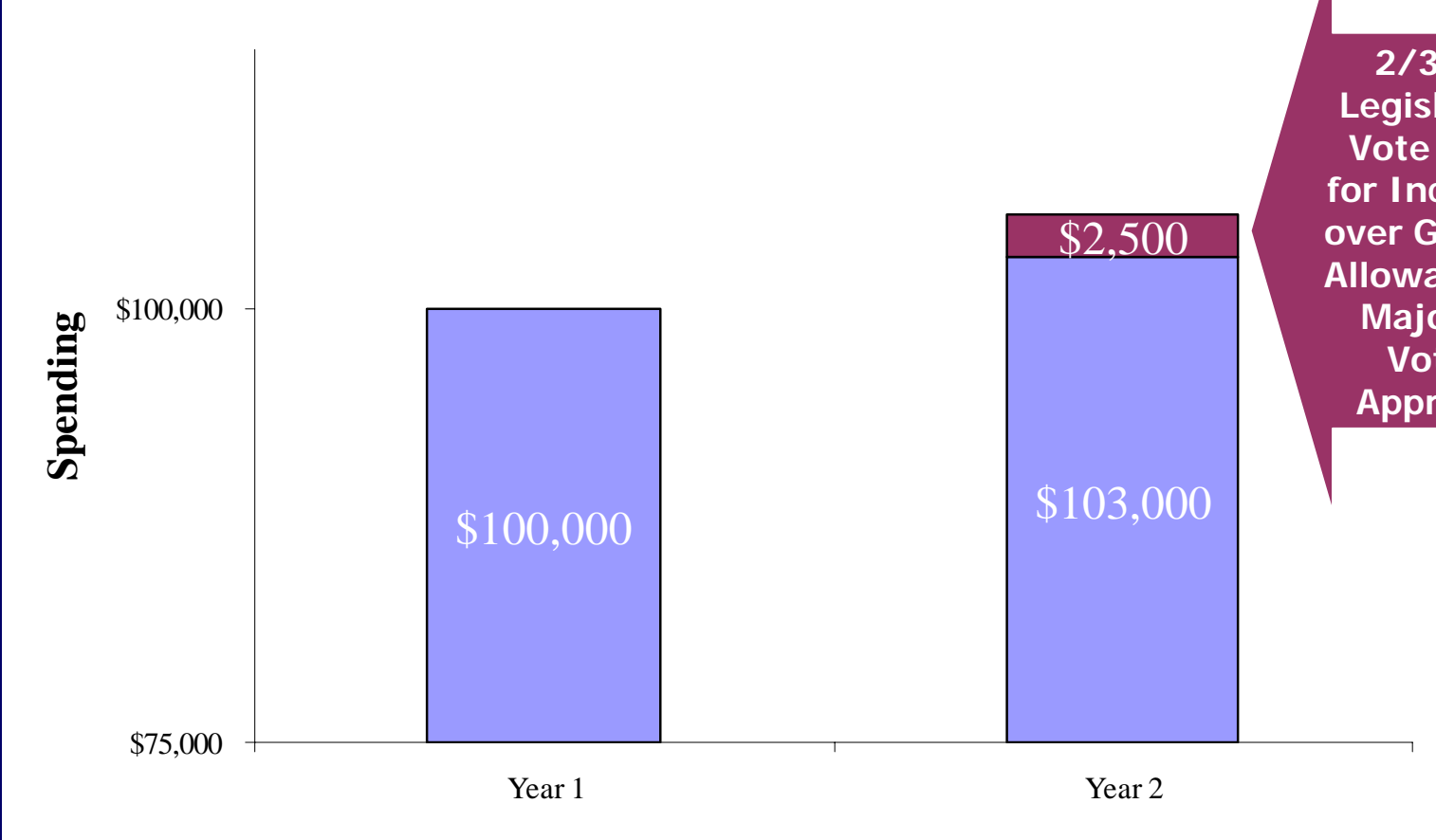
- Between 1996 and 2005
  - School enrollment appears to have risen from app. 1786 to app. 1826 – an increase of 40 students, or just over 2%
  - Local share of education expenses have increased from about \$9.5 million to 14.3 million
  - State share of education expenses have dropped from about \$2.4 million to \$1.8 million
- As communities empty out, the state has to pick up a larger share – meaning less for communities like Cape Elizabeth

# What Would a Taxpayer Bill of Rights Accomplish?

## Tax Burden



# Approval for Spending Increases above Limit



2/3rds  
Legislative  
Vote Only  
for Increase  
over Growth  
Allowance +  
Majority  
Voter  
Approval



# The Goal

- To strengthen Maine's economy and business climate.
- To foster an environment in which jobs will be created and incomes will grow
- To reverse the trend of a declining or stagnant population
- To match Maine's high quality of personal life with a high quality of economic life

# Myths and Mistruths about the Taxpayer Bill of Rights

- Myth: Require 2/3rds vote for local budgets
  - FACT: 2/3rds vote only for line item spending over the limit
- Myth: Require budget cuts
  - FACT: If population drops more than inflation (3%+ a year) then same budget as last year required, no cut ever forced

# Myths and Mistruths about the Taxpayer Bill of Rights

- Myth: Require annual revaluations
  - FACT: Local spending limit is simply inflation plus population growth, unless a comprehensive revaluation – then lesser of that or the change in assessment

# High Taxes – Not Partisan

- Democrat Governors in other states have cut taxes over last 3 years. Examples:
  - NM - Bill Richardson cut top marginal income tax rate from 8.2 in 2003 to 4.8 today, cut state capital gains tax in half
  - AZ – Janet Napolitano agreed to a 10% across the board cut in income tax rates
  - OK – Brad Henry signed a bill that will cut tax rates 20% (from 6.25 to 5.25%), and repealed the state estate tax

# Why do taxes matter?

- Gov. Richardson: "This was our way of declaring to the world that New Mexico is open for business. After all, businesses move to states where taxes are falling, not rising."
- New Mexico now has a half-billion-dollar surplus and has seen tax revenues soar by 27% this year

# Rhode Island

- Just last month, the Democrat-controlled Legislature enacted a new tax plan that allows residents the choice of a flat tax that cuts the top tax rate on high income earners to 5.5% from 9.9% if they voluntarily give up deductions.

# Rhode Island - again

- For good measure, the state also cut property taxes, passed a tax credit of up to \$1 million for businesses to help fund private school tuition, and reformed the health insurance market by allowing small businesses to buy "stripped down" health insurance free of many costly mandates. *(WSJ 7/5/06)*

# Justification?

- "Our high tax rates make us uncompetitive," says Democratic House Speaker William Murphy. "Business leaders with incomes of more than \$250,000 look at Massachusetts and see a 5.3% income tax, Connecticut with a 5% tax, and Rhode Island with a 9.9% tax. They make a choice on where to move and create jobs, and that difference in tax rates is a big factor in where they go."



# An Act to Create a Taxpayer Bill of Rights

- Do you want to limit increases in state and local government spending to the rate of inflation plus population growth and to require voter approval of all tax and fee increases?

*We the people of Maine...*

THE MAINE HERITAGE POLICY CENTER

**For further information:  
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# What Would a Taxpayer Bill of Rights Accomplish?

## Tax Burden

