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Budget Message Address of John H. Reed Governor of Maine to the One Hundredth Legislature State of Maine

John H. Reed

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Budget Message Address

OF

JOHN H. REED

Governor of Maine

TO THE

ONE - HUNDREDTH LEGISLATURE

STATE OF MAINE



JANUARY 12, 1961

A week ago today I presented in my inaugural address a resumé of what I hoped we might accomplish in the coming biennium. It now becomes my duty, in compliance with the provisions of the law, to present to you the fiscal side of my program.

I have stated on a number of occasions that when new and improved services are contemplated we should be certain that the costs of those services are within the financial reach of our people. I am sure you will agree we want to advance as far as possible during the next two years, but only through sound fiscal policies can we make true progress in Maine.

The budget document contains a wealth of information that will prove indispensable to you in understanding and evaluating the financial aspects of state government. I urge you to become familiar with its contents.

You will note I have made specific recommendations in a number of areas. This was done after I had carefully weighed the needs and established what I believe to be fair priority ratings.

It is both your prerogative and your responsibility to ultimately decide the total appropriations. I am certain you will give diligent attention to all requests that come before you and I am equally confident that your final decisions will be based on what is best for the State of Maine.

GENERAL FUND

The General Fund is the account into which undedicated revenues flow from the taxpayers of the State. It is this fund that finances most State government operations. The highway user revenues and the special revenues are the exceptions. The General Fund dollars are collected from sales tax, State tax on wild lands, cigarette tax, inheritance, estate and gift taxes, insurance company taxes, public utility taxes, the net profit from liquor and a few other smaller General Fund revenue sources.

From these revenues we must provide appropriations for: General Administration, Protection of Persons and Property, Development and Conservation of Natural Resources, Health, Welfare and Charity Activities, Mental Health and Corrections, Education, as well as our teachers and State employees retirement contribution. These appropriations constitute the greatest demand upon our General Fund revenue sources.

For the biennium ending June 30, 1961, your predecessors appropriated a sum in excess of \$110,000,000 for the two year financing of the previously mentioned categories.

Department requests for the coming biennium, July 1, 1961 to June 30, 1963, as submitted to the Budget Office totalled more than \$150,-000,000.

Perhaps at this point I should indicate to you that I am discussing the budget in round numbers, so to speak, for ease of understanding. The exact figures will be found in your Budget Document or in the appropriation measures.

The next step in the budgetary process was a review by the Budget Office of the individual department requests. This process was directed at determining the number of dollars necessary to finance existing current services. I can assure you that the Budget Office, in the review of each budget request, adhered very strictly to a current services concept as being those services that were provided for by the 99th Legislature.

After the Budget Office had completed its review of the departmental requests and determined the appropriations required to support current services, these requests exceeded by \$3,250,000 estimated General Fund undedicated revenues for the coming biennium.

In order to provide a balanced budget it was necessary for me to instruct the Budget Officer to reduce by \$3,250,000 the appropriation for a 100% funding of the general purpose education subsidy to the cities and towns. The reduction in this appropriation to effect a balanced budget should in no way indicate to you that we do not have a responsibility in providing the necessary funds to properly finance our educational programs of the cities and towns.

You may wonder why this particular account was used for the purposes of balancing the budget. A review of the tabulations in the Budget Document, I am sure, would indicate that if such a reduction had to be made, this is the one single appropriation of sufficient size to permit such a reduction while doing the least harm to our General Fund operations.

Should it ever become necessary to make this reduction, the municipalities could provide the difference on a dollar for dollar basis with no loss of federal matching funds, as would be the case for example, if the reduction was made in the health and welfare program.

One of my first supplemental recommendations is the complete restoration of full educational subsidy payments for cities and towns.

CURRENT SERVICES BUDGET

After a most rigid screening process the Budget Office established the balanced budget at \$119,334,000 for the biennium.

As I have previously stated, this represents a cut in educational subsidies of \$3,250,000. Therefore, to actually continue current services we will require \$122,584,000.

Some may say that these basic budget recommendations are still too high. It is my opinion, however, unless we wish to reduce currently authorized standards of service by State Government, this figure of \$122,584,000 represents the absolute minimum of General Fund appropriations for the next biennium.

REVENUE ESTIMATES

One of the most important functions of our Bureau of Taxation is to estimate the probable revenue that will accrue to the State.

These estimates are definitely not the result of pure guesswork. Factors such as the state and national economy, purchaser trends and special elements affecting a particular tax source are carefully evaluated to produce estimates as accurate as possible.

While revenues have generally exceeded estimates, I am sure we can see the wisdom of being on the conservative side in this instance. A slight change in the economy could easily produce a deficit that would prove most embarrassing.

For the fiscal years 1961-1963 revenue in the amount of \$119,334,000 is predicted. I was thus limited to this figure as the total of the balanced budget.

SUPPLEMENTAL RECOMMENDATIONS

During my term of service in state government, as a Legislator and as Governor, I have had an opportunity to study the operation of state government and to talk with hundreds of people throughout Maine. I have been impressed with their understanding of our problems and their desire for an improved social and economic climate in our state.

As a result of these studies, and with careful appraisal of our financial resources, I have prescribed a program of measured advancement for your consideration.

Today, in the form of supplemental recommendations, I will outline my specific proposals along with the appropriations required for the new and improved services.

This brief tabulation, department by department, has recommendations drawn from three separate areas. Items totalling about \$500,000 for each of the two years are departmental costs that were not included in the \$119,334,000 basic General Fund appropriation measure be-

cause of the strict interpretation of "current service," but are amounts which should, in my opinion, be added to strengthen the overall appropriation structure.

A second group of expenditure items reflect my acceptance of "new service" requests by the respective department heads.

The third, and by far the most substantial amounts, reflect my own conclusions on such areas as expanded industrial and recreational efforts, the state employees salary adjustment plan, medical care, the relative responsibility repeal, and substantial improvements in our educational efforts. These educational appropriations, you will note, amount to about \$5,200,000 or approximately 40% of the total supplemental budget.

I would also point out that there are increases for educational purposes of \$5,340,000 in the balanced budget. Thus, if my recommendations are approved a total increase of \$10,500,000 would be allocated during the next biennium in this vital area.

The Legislative Documents necessary to give effect to my proposals will be put before you in the usual manner. They represent a supplement to Part III of the Budget Document and are presented in this manner to avoid further increase in the size of the already large Budget Document and to save a duplication of printing costs.

There are several items that will require enabling legislation. I refer, for example, to the relative responsibility recommendation and the medical care program. I would also note that at least a few of my recommendations will require separate resolves and these will be submitted for your consideration.

My descriptions, today, will be in summary form.

Department	Biennium Amount (to the Nearest \$1,000)
ADJUTANT GENERAL	\$ 26,000
The Air National Guard operation at Dow Air Force Base and Armory Operations	
AGRICULTURE	\$ 138,000
Promotion, Laboratory Costs, Disease Control, Marketing and Soil Conservation	
ATTORNEY GENERAL	\$ 42,000
Three additional Assistant Attorneys General	
AUDIT	\$ 20,000
Two Field Examiners	

ECONOMIC DEVELOPMENT	\$ 496,000
Strengthening the activity in Recreation, Industry and Geology	
EDUCATION	\$ 3,880,000
Provides \$3,250,000 to bring the General Purpose Education Subsidy payments to 100%, \$145,000 in operational funds and \$278,000 for an improved salary schedule for the State Teachers Colleges, \$44,000 for the Vocational Institute, \$35,000 for Adult Education grants, \$45,000 in additional Driver Education Funds, \$50,000 in tuition grants related to the New England Higher Education Compact and other essential educational expenditures.	
EMPLOYEES SALARY ADJUSTMENT	\$ 2,200,000
To provide an improved salary schedule for State employees	
EXECUTIVE	\$ 40,000
One additional employee and increased activity of the Panel of Mediators	
FINANCE AND ADMINISTRATION	\$ 213,000
Increased personnel and related expenses, mainly in Public Improvements, Purchases and Taxation	
FORESTRY	\$ 168,000
Forest nursery program, Fire Control in the organized towns, Small Woodland program, and one Entomologist	
HEALTH AND WELFARE	\$ 2,980,000
Additional personnel \$173,000, Child Welfare services \$125,000, \$600,000 to cover repeal of Relative Responsibility Law, \$2,000,000 for Medical Care, increased grants for Municipal Sewerage Disposal plans and additional personnel for Water Improvement Commission	
LABOR AND INDUSTRY	\$ 27,000
Safety Engineer and Field Man	
LIBRARY	\$ 13,000
Part-time help and general expense	
MAINE MARITIME ACADEMY	\$ 50,000
Increased operating funds	

MENTAL HEALTH AND CORRECTIONS	\$ 858,000
\$500,000 for increases in operating appropriations for assistance toward accreditation of the three mental hospitals, \$163,000 for the correctional institutions, a third mental health clinic at \$71,000, increases of \$84,000 for probation and parole and other administrative costs.	
PARK COMMISSION	\$ 58,000
Additional personnel and related costs	
RETIREMENT	\$ 65,000
To meet current costs	
SEA AND SHORE FISHERIES	\$ 99,000
Additional personnel, expense of Quality Control and Cooperative Marketing Program	
UNIVERSITY OF MAINE	\$ 1,250,000
Additional State Grant	
OTHERS	\$ 20,000
Adjustments in Apprenticeship Council, Harness Racing Commission, Industrial Accident Commission, and Personnel Department, Secretary of State and State Treasurer	
TOTAL	<hr/> \$12,643,000

In summary, therefore, I am recommending a basic General Fund appropriation measure calling for \$119,334,000 and supplemental appropriations of \$12,643,000—a total of \$131,977,000 in General Fund appropriations for the next biennium.

CAPITAL IMPROVEMENTS

I will now turn to our Capital Improvement requirements. Maine has an enviable record of consistent dependence upon current revenue and current surplus sources for financing nearly all of our General Fund capital expenditures. Thus, we have seldom found it necessary to issue bonds for this purpose; therefore, thousands of dollars in interest have been saved. I commend this policy to you as being in the best interests of our citizens.

I have, then, limited my capital expenditure recommendations to an amount no greater than I can visualize as being the sum of the estimated unappropriated surplus of the General Fund as of June 30, 1961, together with a modest portion of the current General Fund income for the biennium. I will describe this in more detail in the general summary of revenue sources.

The Bureau of Public Improvements is presently preparing for your information a detailed report of the requests made for Capital Improvements. This study encompasses all of the requests made by the various departments and agencies of the State.

I am sure when you have had an opportunity to review this report you will be high in your praise of the efforts of the bureau to place before you these requests with the priorities they have affixed to the projects.

The bureau has divided these requests into four major alphabetical classifications:

Division A represents the mandatory projects. The total in this division is \$308,000.

Division B is made up of essential projects calling for \$3,439,000 for complete accomplishment.

Division C includes desirable projects. The total amount in Division C is \$24,855,000.

Division D lists those projects that could be deferred. A cost of \$3,910,000 is affixed to this category.

A review of the recommendations in Divisions A and B has convinced me we should definitely adopt these categories in their entirety.

In Division C are many worthy projects which are deserving of your most concentrated consideration. These include projects to improve facilities; to relieve overcrowding and obsolescence by construction of new facilities, all within the scope of current activities; to provide new facilities in anticipation of expansion of current services and for improvements to and expansion of programs.

I have carefully scrutinized this list with the belief in mind that we should build, in the next biennium, only what is definitely needed to adequately serve the people of Maine.

After much thoughtful deliberation I recommend a capital construction program of \$9,272,000.

This amount will provide for construction and major repairs at many of our State facilities.

Your Bureau of Public Improvements report will, of course, include a complete listing of projects. The Capital Improvement Act is a part of your Budget Document. I will summarize it here:

Department	Biennium Amount (to the Nearest \$1,000)
Adjutant General	\$ 340,000

Aeronautics Commission	\$ 150,000
Agriculture	245,000
Civil Defense	135,000
Aroostook State Teachers College	204,000
Farmington State Teachers College	1,012,000
Fort Kent State Normal School	20,000
Gorham State Teachers College	946,000
Washington State Teachers College	496,000
Vocational Training Institute	12,000
Bureau of Public Improvements	165,000
Forestry Department	69,000
Health and Welfare	17,000
Augusta State Hospital	412,000
Bangor State Hospital	513,000
Pineland Hospital	223,000
Reformatory for Men	270,000
Reformatory for Women	15,000
Boys' Training Center	67,000
Maine State Prison	839,000
Maine Port Authority	100,000
Maine Maritime Academy	335,000
State Park Commission	161,000
University of Maine	2,526,000
TOTAL	\$9,272,000

FINANCING THE GENERAL FUND REQUIREMENTS

I will now review, in brief, the General Fund requirements indicated by the recommendations I have made.

OPERATING REVENUES AND APPROPRIATIONS

The basic appropriation measure	\$119,334,000
The supplemental appropriation measure	\$ 12,643,000
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TOTAL	\$131,977,000
Estimated General Fund Undedicated Revenue	\$119,334,000
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DIFFERENCE	\$ 12,643,000
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The capital construction measure	\$ 9,272,000
The estimated General Fund Surplus at June 30, 1961	\$ 8,000,000
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DIFFERENCE	\$ 1,272,000
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These recommendations, if they receive your approval, will require additional General Fund revenue of \$13,915,000 for both the operational recommendations and the capital expenditure program as they relate to the General Fund.

At this point there is another matter of public concern I wish to discuss with you and that is our railroads.

In view of the vital importance of railroads to every segment of Maine's economy, serious consideration should be given to their grave financial situation.

There are three general courses of action available to you.

The first, is to provide no relief.

The second, is to repeal the current excise tax structure.

The third possible solution, is to grant a reasonable measure of relief commencing with this biennium. I recommend this course for your consideration and have made allowance to provide such relief.

TAXATION

Securing additional needed revenue is always one of the most vexing problems to face any Legislature. I am sure this one will be no exception.

If we are to achieve these important and urgent advances we must assume the responsibility of providing the necessary means.

You have, however, one big advantage over a number of previous Legislatures. The three reports by Dr. John F. Sly on Maine's tax structure will be available for your information and guidance. These should prove very valuable to you in your deliberations.

In the preparation of this Budget Message I carefully analyzed all possible sources of additional revenue, studied Dr. Sly's preliminary recommendations and discussed the tax problem with many people.

The conclusion I reached was that except for the sales tax no other single revenue source, now utilized for General Fund purposes, would yield the needed funds.

A one cent increase in the sales tax, with no changes in current exemptions would produce estimated General Fund revenues of \$14,-900,000 if made effective August 1, 1961.

While obviously no tax will be accepted as the perfect revenue source, this possibility deserves your concentrated consideration.

The first decision you must make, of course, is the number and extent of services you wish to provide beyond the regular current service budget. When this point is reached I stand ready to review the tax problem with you; and to consider other alternatives.

I would note at this point, however, that I shall look with little favor on any proposed solution that would use prior years surplus accumulations, the unappropriated surplus of the General Fund, for financing current operating expenses.

I think that we can take pride in the fact that Maine has not, in the past, resorted to this type of unsound financing in solving its fiscal problems.

HIGHWAY FUND

The Highway Fund Budget, financed by revenues dedicated to Highway purposes, has been balanced by using \$2,000,000 of the Unappropriated Surplus Account for debt retirement and allocation of \$6,-100,000 of proceeds from bonds for highway construction purposes. The \$6,100,000 is a part of the \$14,000,000 bond issue authorized during the 99th Legislature. While it was originally anticipated that the entire proceeds of the \$13,000,000 bond issue would be required to balance the budget for the next biennium it is now possible to reserve \$6,900,000 from this bond issue for highway construction for the second biennium, namely that starting July 1, 1963 and ending June 30, 1965. The budget for the next biennium provides for total allocations for the fiscal year beginning July 1, 1961 of \$38,225,000 and for the fiscal year beginning July 1, 1962 of \$40,384,000. Current revenues plus the \$2,000,000 from the Unappropriated Surplus Account and the allocation of \$6,100,000 from proceeds of bonds will be sufficient to finance these allocations.

The Highway Fund Budget for the next biennium provides for continuing all highway activities at the present level including special State Aid to the extent of \$1,000,000 per year, town road improvement funds on the basis of \$1,500,000 per year, and financing the State's share of the joint State Aid construction account to the extent of \$2,000,000 in the first year and \$2,050,000 in the second year. All anticipated federal funds will be matched.

I recommend that a modest allowance be made to notify motor vehicle operators of the date their license expires.

The Budget also contemplates continuing to finance State Police activities on the basis of 50% from the Highway Fund and 50% from the General Fund.

During the past several years the Legislature has recognized the necessity for financing highway activities on a four-year basis. Estimates of highway revenues and expenditures for the next four years indicate that if we are to continue our highway construction and maintenance programs on the same basis for the second biennium, namely that starting July 1, 1963, it will be necessary to find additional revenue to the extent of \$5,800,000. Revenue from current sources plus the proceeds from the \$13,000,000 bond issue will provide for financing all highway activities for the first three years of the next four year period. The \$5,800,000 deficit will occur in the fourth year of the period. Your consideration must be given to either providing the \$5,800,000 or decreasing highway activities. I am convinced that we should continue both construction and maintenance activities at the present level. Certainly we should not think in terms of suspending construction on our main travelled roads and there should be no decrease in the amount of State monies expended for State Aid construction or Town Road Improvements.

There are at least two methods of financing the anticipated deficit in the fourth year of the second biennium. I am sure you will want to carefully weigh these two choices.

The first is to provide additional revenue. In this respect you will want to examine the recommendations of Wilbur Smith and Associates who have conducted a Maine highway-user tax study. This report suggests possible ways of obtaining the needed funds.

The other alternative is to authorize bonds to the extent of \$5,800,000. These would be sold only if needed and would assure continuation of our complete program.

It is my opinion that the latter course would be the wisest solution to the problem.

In reaching this conclusion I am impressed with at least three important facts:

1. Sound highway programming, with the necessarily long intervals between the planning phase, the construction and the ultimate completion, points up the essential requirement of four year planning and four year financing.
2. Actual highway department bond retirements in the 1963-1964 years will be \$6,850,000, more than \$1,000,000 in excess of the suggested bond issue of \$5,800,000 required in the second year of the next biennium.
3. Your approval of a \$5,800,000 highway bond issue should be made on the basis that the bonds cannot be issued before the 1963-1964 biennium and the proceeds can be allocated only by the affirmative action of the next Legislature.

ECONOMY

In facing up to the financial problems before us, it is our responsibility to see that we get full value for every tax dollar spent.

Throughout the budgetary process, it has been my constant objective to strive for maximum efficiency in our State government operations.

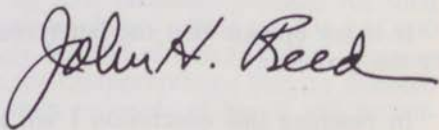
I am certain that you too will keep the important matter of economy constantly in mind.

CONCLUSION

In concluding this budget presentation I wish to acknowledge, with sincere thanks, the helpful assistance given to me by Finance and Administration Commissioner, Mr. Raymond C. Mudge; Budget Officer, Roland M. Berry, and their staff. I am also grateful to the heads of the various departments and agencies for their excellent cooperation.

I am fully aware of the hundreds of hours your several legislative committees will spend in public hearings and in committee deliberations while dealing with fiscal matters.

Finally, I have confidence in the membership of this 100th Maine Legislature, a confidence that leads me to the hopeful conclusion that the solutions you reach will be wise solutions that will point the way to sound progress in our State of Maine.

A handwritten signature in dark ink, reading "John H. Reed". The signature is fluid and cursive, with the first name "John" and last name "Reed" clearly legible.

Governor of Maine