

# Sun Journal

## Obfuscation disguises true state of Maine's finances

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That's the summary description of the state budget and finances.

Before going into the reason for that summary, let me first say, that the blame should not fall on the employees whose job it is to report on their areas of responsibility to Maine citizens.

State employees like Grant Pennoyer, Sandy Matheson, Mike Allen, Glen Mills and Terry Brann, and their staffs, do their jobs accurately, tirelessly and thanklessly. Their concerns for the finances of the state are sincere and well placed.

I'd like to thank them for the time they have spent with me to help me understand what is going on.

The blame for obfuscating the problems comes from the one whose responsibility it is to present a clear and honest picture of the state's entire finances and budget: the chief executive, Gov. Baldacci.

Frankly, the past two governors did a poor job communicating, though they wouldn't think so.

Maine's next governor needs to do a better job.

People prefer gossip to statistics, so here are a few choice tidbits:

The state budget is facing several negative surprises.

The pension system is just part of the problem, but a big part.

The structural deficit of about \$250 million in the general fund isn't going away anytime soon. By Maine Revenue Service forecasts the state is not expected to bridge the deficit gap for four more years.

Living off credit cards doesn't work long for individuals and won't work for the state either. Using short-term financing to fill budget deficits is a "Greece-y" slope.

There is nothing to prevent Maine from becoming Greece, except, the voter.

Despite the claim the state has only about 14,000 employees, the truth is there are about 28,000, according to the keeper of the stats: Maine Department of Labor and the U.S. government.

The state's inability to get a grip on the finances of the Department of Health and Human Services and Education is deadly poison.

Maine's total direct obligations stand at over \$5 billion, not \$600 million. It will stay that way unless one thing is changed.

Ok, that felt bad. Here's the good news:

The bleeding has stopped. Maine's economy seems to have stopped receding.

Though the unemployment rate is below the national average, the percentage of citizens on government assistance is higher than average. This is a double-edged sword.

The national economy has stabilized, and according to most economists, the nation and Maine are to grow slowly.

Given the political move toward fiscal conservatism, the public is receptive to practical solutions, not political palliatives.

To help readers understand these issues, I am going to over-simplify, which is dangerous. I plan to present the picture in this and the next two monthly columns, which I hope will help people see the entire problem and its component parts.

Next month: "The Balkanized Budget and Death by a Thousand Taxes."

Revenues versus expenses: The General Fund

Let me start with the plain fact that expenses (about \$3 billion) are greater than revenues (about \$2.75 billion) generated by the state tax system.

The budget was in deficit for the past two years by \$300 million annually, and will remain in deficit for about four more years, according to the Maine Revenue Service and Revenue Forecasting Committee.

Maine was bailed out by the federal government last year, and deficit financing by issuing tax anticipation notes (TAN's). And hopefully, according to some, the federal government will bail out Maine this fall, too.

The politically hot Maine potato, the emotional issue, is the Maine Public Employees Retirement System (MainePERS).

There are about 71,000 people covered by the state retirement system, and rising.

The Constitutional requirement to fully fund the Maine Public Employees Retirement System was passed under the previous governor in 1995. Angus King's real legacy may be to cause the bankruptcy of the State of Maine.

The largest unknown impacting the budget has become the demand by the MainePERS to fully pay the unfunded actuarial liability (UAL) by July 2028. That liability is about \$4.5 billion.

This problem was exacerbated by not funding the UAL during the King and first Baldacci administrations and by the drop in the market.

It is now too late to ignore the problem.

According to the Executive Director Sandy Matheson, the estimate for 2012 is \$448, \$468 million for FY 2013 million (up from about \$300 million). The dynamics of the pension's portfolio could cause the demand to be as high as about \$900 million in any given year.

Though he probably thought himself remarkably forward-thinking at the time, this massive uncertainty and budget hole, is the "legacy" of Angus King.

Well, until 2028, or he completes his newest "legacy" -- wind turbines -- whichever comes first.

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