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Testimony in Opposition to LD 229
("An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax Brackets and Tax Rates")

J. Andrew Cashman on behalf of the Maine Association of REALTORS®

February 27, 2025

Senator Grohoski, Representative Cloutier and members of the Joint Standing Committee on Taxation, my name is Andy Cashman. I am the Founder of Resolve Government Relations. We represent the Maine Association of REALTORS®, a professional trade association established in 1936 with over 6,500 members statewide. REALTORS® protect private property rights, build Maine communities, and grow our state's economy. Our members represent buyers and sellers involved in both residential and commercial real estate transactions. Our membership also includes industry affiliates, such as lenders, closing agents, title agents, appraisers, building inspectors, surveyors, etc. The Maine Association is chartered by the National Association of REALTORS® (NAR), the largest trade association in the country.

The Maine Association of REALTORS® strongly opposes LD 229 because it would create new income tax brackets by increasing the threshold amount of income subject to the current tax rates. In a recent study of Maine's economic competitiveness conducted by the Porter Development Initiative in collaboration with the Maine Jobs Council, Maine wages are more than 20% below the U.S. benchmark. Yet, at the same time, Maine has the 9th highest state and local tax burden as a share of state income.

Maine's housing industry is compressed both with limited inventory and affordability. If passed, LD 229 would shift Maine's tax burden and push homeownership out of reach even further for Maine residents working hard to obtain the American Dream. According to a new analysis from Bank Rate, the average household income needed to buy a home in Maine is \$102,000. As proposed in LD 229 those making that amount would be subject to a higher tax rate. This proposal would hurt those that it is intended to help. The rising cost of living and everything that folds into that expense currently poses enough of a challenge to those seeking housing, and increasing the tax burden would only add to that. This proposal, if passed, will deter people and businesses from settling and remaining in Maine over the long term and would negatively impact Maine's economic sustainability. This proposal would further contribute to Maine's housing challenges and discourage needed workforce from choosing to call Maine home. Increasing the income tax, at the expense of economic growth is not sustainable for Maine.

Furthermore, the timing of this bill is troubling: Maine residents and businesses are hurting



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financially, and this is not the time to burden our citizens with higher taxes. The fragility of Maine's economy – personal and business finances – is undeniable.

For these reasons, we urge you to vote Ought Not to Pass on LD 229. Thank you for your time and consideration.



Maine Competitiveness Assessment

In the fall of 2024, the Maine Jobs Council retained the Porter Development Initiative (PDI) to conduct an assessment of the competitiveness of Maine’s statewide economy. Although other economic studies and plans have been published in Maine in recent years, they have not analyzed Maine’s competitive position vis-à-vis other states for job creation, investment, and talent attraction—three foundational elements essential for economic development and long-term prosperity. If Maine is not a competitive and productive place for businesses, workers, and families, its economic plans and efforts will falter.

With roots in the Harvard Business School Institute for Strategy and Competitiveness founded by Professor Michael E. Porter, PDI brought to this engagement proprietary models for understanding the central role of competitiveness among locations and applied them to Maine’s statewide economy. These include the “Diamond Model” for measuring the quality of the business environment, an analysis to identify existing and emerging cluster strengths, and recommendations for the role that clusters can play in enhancing regional economic development.

According to PDI, core concepts of competitiveness include:

1. The private sector creates jobs and wealth, not governments.
2. Understanding the way the elements in the business environment fit together and interact is critical for improving productivity.
3. Locations compete to offer the most productive environment for business. Governments and private-public partnerships have important roles to play in improving the business environment.

Applying these concepts, PDI observes that the prosperity of a region can be decomposed to two elements: (1) the long-run productivity of a location as a place for firms and their workers to do business and (2) the high participation of citizens in the workforce. Nations and regions compete to offer a more productive environment for businesses.

Ultimately, a state is competitive to the extent that firms operating there are able to compete successfully in the national and global economy while maintaining and improving wages and living standards for the average citizen.

Successful economic development also requires improving the environment for business to include social conditions such as education, health, and others.

How Competitive is Maine?

Key measures of competitiveness indicate that Maine is not attracting new employment at the same rates as other areas of the U.S. and that existing firms in Maine are not achieving the high levels of productivity that would support increasing wage levels for employees.



1. Maine is among the least productive states in the nation, despite high levels of labor force participation among working-age Mainers.

Productivity measures how much economic output is produced on a per resident or worker. It is determinative of how much wealth private businesses and workers are able to generate from their skills, investment, innovation and operations. At \$53,876 of Gross Domestic Product per capita in 2023, Maine ranks #41 among U.S. states, where the average is \$67,692. When measuring GDP per worker, Maine's ranking falls to #46. Between 2010 and 2023, Maine's rate of growth for GDP per capita has been 1.4% compared to a national growth rate of 1.7%.

Maine's rate of labor force participation is anomalous in that labor participation equals or exceeds national averages when measured at every age bracket and is above the national average among residents aged 16-64. However, in the headline number typically reported for ages 16+, Maine's labor force participation rate is less than 60% and ranks #39, due to the fact that the state has the highest proportion of residents over 65 in the nation. In the context of economic development strategy it is the age-specific numbers that are more relevant; Maine achieves high participation from available workers and in addition has a low unemployment rate among those participating in the labor force. Low productivity in existing activities rather than labor force participation is the primary challenge.

2. Maine creates fewer jobs, attracts less investment and starts fewer businesses than most other states.

Investment, business starts, and job creation are indicators that firms believe that a location offers competitive advantages to success, which can apply to both existing and new companies. For the period between 2010 and 2023, Maine ranks #37 for private job creation (0.94% in Maine versus 1.64% in the U.S.). During approximately this same period, Maine ranked #44 for employment growth driven by foreign direct investment. Maine ranks #50 for new business formation per capita in 2023 (ahead of only West Virginia).

3. Worker wages are low and contrast with higher cost burdens.

Lagging productivity and low economic activity depress wage rates and incomes in Maine. Wage rates are closely tied the degree to which workers can be productively deployed. Although wages have grown more rapidly in Maine than the U.S. average since 2010, the state still ranks #34 for average wages for private employees (\$60,497 in 2023 versus \$72,608 in the U.S.). Even in typically higher-wage "traded cluster" jobs, Maine wage levels are more than 20% below the U.S. benchmark – unfortunately an even stronger measure of lower competitiveness as these are the jobs directly competing with other locations nationally and globally. At the same time, Maine has the 9th highest state and local tax burden as a share of state income and it is losing its historic cost of living advantages.



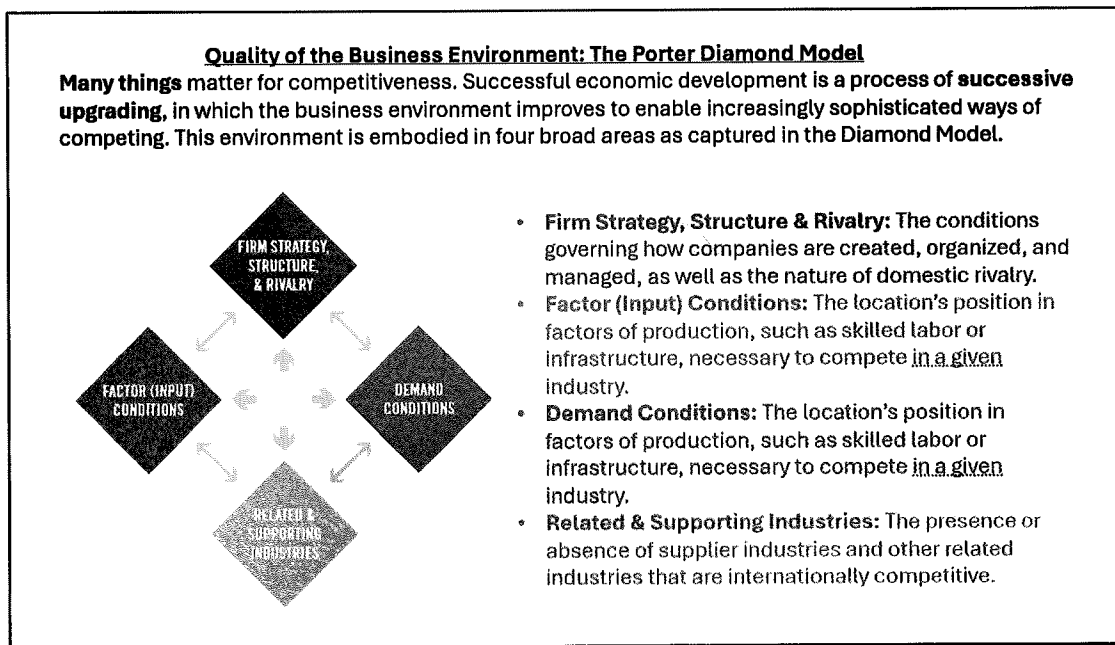
4. Maine lacks many of the hallmarks of a competitive location for business.

Competitiveness can be determined by the quality of a location's business environment, the presence and growth of strong industry clusters, and the sophistication of company operations and strategy.

Maine's low rate of new business formation, low R&D and innovation intensity, rising cost of living and slow growth in jobs related to foreign direct investment all signal weaknesses in the business environment. Maine currently ranks #44 in patenting intensity and #46 for university research and development spending. High industrial electricity costs, state and local tax burdens, also pose challenges.

Positive hallmarks include high rate of labor participation (among working-age Mainers), educational attainment comparable to national averages, a recent trend of positive in-migration (except for a decline of 4,361 among those aged 20-24), high quality of life and abundant natural resources.

PDI applied its Diamond Model for the Business Environment to assess Maine's business environment.



- **Firm Structure & Rivalry:** Maine has few large national or international firms. There is a low rate of new business formation and slow growth in foreign direct investment.
- **Factor (Input) Conditions:** Maine has abundant natural resources and high quality of life attractive to workers, visitors and retirees, but there is a skills mismatch with



employer needs. There is low innovation and R&D intensity, limited access to capital, and rising costs of living relative to incomes.

- **Demand Conditions:** Within Maine there exists low wages and low population density. However, there are high personal consumption expenditures driven by tourists and retirees and a healthy demand for culture, education, and environmentally sustainable services.
- **Related & Supporting Industries:** Maine has shallow clusters, low concentration of employment in strong traded clusters, and is limited in local suppliers and supporting industries. There is low availability of specialized research and training. Maine's historical clusters are undergoing long-term transition.

5. **Maine's lack of strong cluster-based employment poses a challenge.**

Clusters are geographic concentrations of firms, suppliers, and related institutions in particular fields and are observed as drivers of competitiveness and prosperity in all advanced economies. National examples include the technology industry in California, life sciences in Massachusetts, and aerospace in Washington State. In Maine, wood products historically acted as both regional and statewide clusters because of the linkages among timber harvesting, sawmills, lumber yards, papermaking and all of the related supply, maintenance and service businesses that specialized in serving these operations (transportation, equipment sales and maintenance, finance, accounting, legal, etc.)

Clusters can enhance productivity, efficiency and regional performance, enable innovation and commercialization, and lead to new business formation. When a location has strong, active clusters, economic policy can have greater impact because it strengthens multiple firms simultaneously, promotes research, exports and investment, enhances collaboration and raises the sophistication of competition. The PDI methodology distinguishes industries that serve the local market in Maine versus "traded" clusters where goods and services are sold elsewhere or attract tourists and bring new wealth into a location. Traded clusters serve national and global markets and while exposed to an even higher degree of competition, they have the potential to grow well beyond the constraints of the local market and drive growth in the overall state economy.

Maine has a significantly lower proportion of employment in traded clusters: 29.1% versus 34.4% in the U.S. aggregate. Among "strong" traded clusters, Maine's proportion of employment is just 5.5% compared to 14.3% across all regions in the U.S. The low proportion of cluster-based employment has been exacerbated by losses in traditional clusters such as paper and packaging, forestry, and printing services. Maine's job creation in both local and traded clusters lagged national cluster benchmark rates. Maine created 54,000 fewer local cluster jobs and 3,000 fewer traded cluster jobs than national cluster benchmark rates between 2010 and 2023.



In both local and traded clusters, Maine wages are below national benchmarks. In local clusters, average Maine wages are \$52,486 annually compared to \$56,661 nationally. In traded clusters, average Maine wages \$78,300 annually compared to \$101,654 nationally.

Since 2010 Maine has experienced employment growth well above benchmark rates in many traded clusters including Insurance Services, Agriculture, Communications Equipment and Services, Wood Products, Water Transportation, Information Technology and Analytical Instruments, Food Processing and Manufacturing, Construction, Financial Services, and Biopharmaceuticals. Forestry, Hospitality and Tourism, and Business Services remain large employers. Awareness and policy focus around cluster strengths in the state present an opportunity for leveraged competitiveness improvements and economic growth.

6. Maine needs an economic strategy that focuses on creating a more competitive and distinctive position for Maine's businesses competing in the global market, building on current assets and strengths.

PDI reviewed the State of Maine's current economic strategy and observed a very broad set of cross-cutting action steps defined across seven strategies: grow talent; attract new talent; promote innovation; ubiquitous connectivity; provide supporting infrastructure (childcare, public transport, housing); maintain stable business environment (streamline government processes, control energy and healthcare costs); and promote hubs of excellence. These are all valid and directionally correct steps. The challenge is that while there are many potential levers to pull in economic development, good strategy is about setting priorities, coordinating and sequencing initiatives.

And, particularly given the structural transformations underway in both the national and Maine's economies, an effective economic development strategy must build on Maine's current assets and strengths, but it also must create the conditions for Maine to compete successfully in national and global markets. This starts with an assessment of Maine's competitive position in those areas critical for business success and job creation: talent attraction, education and training, investment, the regulatory environment, infrastructure, and costs including taxes, energy, health care, and fees. The current under-performance of Maine's economy derives directly from being uncompetitive across this range of key factors for success. Turning that around requires a comprehensive, integrated, and strategic plan that focuses legislation, regulation, and public policy on talent attraction, investment, and job creation.