Testimony of Kirsten LC Figueroa, Commissioner
Department of Administrative and Financial Services

Before the Joint Standing Committee on
Labor

"An Act to Reinvest in the Pension Funds of the Maine Public Employees Retirement System"

May 13, 2025

Good afternoon, Senator Tipping, Representative Roeder, and members of the Joint Standing Committee on Labor. I am Kirsten Figueroa, the Commissioner of the Department of Administrative and Financial Services (DAFS). I am here today to testify Neither For Nor Against LD 1872, An Act to Reinvest in the Pension Funds of the Maine Public Employees Retirement System.

"This bill requires that, for fiscal years 2028-29, 2029-30, 2030-31 and 2031-32, General Fund revenue be transferred annually to a nonlapsing fund to be used to pay for retirement benefit improvements for retired state employees and teachers and their beneficiaries."

As the Governor stated when the current biennial budget was rolled out, Maine's economy is strong but our revenues are leveling-off, and while current and prior legislatures have made many important investments, we must consider what we can sustain in this and future budget cycles. There is a lot of uncertainty in our revenue forecast, federal funding, federal programs, and consumer purchasing: all impact our ability to pay for our current obligations - such as collective bargaining, 55 percent school funding, voter-approved healthcare, school lunches, ongoing tax relief and 5 percent revenue sharing.

As expected, revenues through FY 2027 remain level with this forecast, but they are reduced in Fiscal Years 2028 and 2029, by $2.9 million and $30 million, respectively. This most recent forecast is amid uncertainty and economic indicators that have elevated concerns about consumer hesitancy, stagnation, and recession. This confirms the need for caution to ensure the fiscal health of our state.

The General Fund impact of liquidating the UAL:

In FY27, the UAL component budgeted in the Budget Financial Management System Baseline Budget is $142 million. The General Fund portion is $58 million or 40.8% of the total. If the projected need in FY29 is a total of $53 million for State Employees, the General Fund portion (40.8%) would be $21.6 million. This would indicate that the baseline budget for FY29 could be $36 million lower than the current budget.

The Teacher Retirement UAL is funded 100% with General Fund dollars. As noted above, assuming no changes, the 28-29 Baseline budget will be $238.6 million. FY28 will likely need an increase; however, in FY29 assuming the distribution between State Employees (37.3% of total UAL) and Teachers (62.7% of UAL) remains the same, the need in the Teacher Retirement account would fall to $89 million. This would be accomplished with a budget initiative, reducing the appropriation by $149.6 million from $238.6 million to $89 million.

This is all General Fund.

So, a total of $185.6 million per year, or $742.4 million over the four fiscal years in this LD. It is very important to note that these figures will change as the actual UAL in each fiscal year, 29, 30, 31 and 32, is calculated by MEPERS.

Existing General Fund Obligations:

- The fiscal impact of collective bargaining efforts during the Mills Administration, with approval of the Legislature, has been more than $1.154 billion, all funds. Specifically, the impact of these collective bargaining efforts to the 26/27 General Fund biennial budget is **$216 million**.

- The FY26/27 budget includes an additional **$156.6 million** to continue meeting the State's obligation to pay 55 percent of local education costs, which the State met for the first time in Maine's history in 2022. Assuming enactment of Public Law 2024, chapter 2, the General Fund appropriation for General Purpose Aid (GPA) in FY27 will be $1.509 billion, an ongoing annual increase of more than $411 million over the FY19 cost of $1.098 billion.

- In the 26/27 biennial budget, we add $6 million to fully fund universal free meals for all students in public schools and for publicly funded students in approved private schools. This program, which the Legislature originally funded with a $27 million appropriation, now costs **$64 million a year**.
- The 26/27 biennial budget invests **$122 million in General Fund per year** to stabilize the MaineCare budget due to federal COVID-era continuous enrollment requirements, as well as from increases in health care costs due to high inflation, increasing patient need, returning to pre-pandemic levels of service utilization, and reimbursement practices that do not control sufficiently for cost growth.

This is $745 million in the 26/27 budget. So, over the 4-year timeframe of this LD, assuming exact dollars as 26/27, which is not likely, these obligations add up to nearly $1.5 billion. In other words, assuming similar investments in Fiscal Years 29-32, those dollars now available as a result of liquidating this old UAL would cover only half of the spending need on this handful of current commitments.

- Additionally, <u>General Fund revenues are reduced in 26/27 by more than $1.7 billion</u> as a result of ongoing tax relief – including many focused on Maine's retirees, the transfer of 40 percent of auto sales tax to the Highway Fund, and Municipal Revenue Sharing. Specifically, the 26/27 biennial includes $561.2 million to continue to meet the State's obligation to Maine municipalities and mitigating property tax increases. In fall 2022, Maine cities and towns began receiving the full statutorily required 5 percent each month of State-Municipal Revenue Sharing, up from 2 percent in FY19. In FY19, Municipal Revenue Sharing transferred $74.1 million to cities and towns.

<u>Retiree Health UAL, aka OPEB</u>:

All the above is in addition to the unfunded liability of the retiree health insurance plans for state government workers, teachers and first responders. This is an obligation of the state of nearly $1.2 billion that is meant to be liquidated by 2037 per statute.

To figure out and liquidate the retiree health UAL means an increased commitment from the General Fund, increased premium costs to the retirees, the need to reduce health insurance benefits, extending the retirement timeline – or a mix of any of the above.

I won't read all the below, but as additional information I've included details, including excerpts directly from the Annual Comprehensive Financial Report (as of June 30, 2024), related to these liabilities. My point is that it is another example of a current obligation.

There are three plans: state government, teachers, and first responders. All impact the General Fund, either through the employer-paid portion of health insurance premiums for state workers or through All Other appropriations for teachers and first responders. Managing the state retiree trust is the responsibility of state government, with the trustees of the plan being the Treasurer and the State Controller. The other two plans do not involve state government employees/retirees nor are the plans' trustees the Treasurer and the State Controller.

The trusts were created to comply with GASB standards regarding OPEB plans a decade ago. Initially, one trust was created to address both State and Teacher Plan, under the standard at that time. Subsequently, GASB issued new guidance, which clarified that the trusts for all three State, Teacher, and First Responder Trusts needed to be separated in our case. (Another case to show that they are not the same.) There are now separate trustees for the State and Teacher OPEB Trusts. The first responder plan has a separately managed investment trust and will eventually have the same trustees as the Teacher OPEB.

All of the plans have large UAL balances that, per statute, must be retired by 2037. (This is different from the Retirement System UAL that is covered by the Constitution.) These balances impact the General Fund, other funds paying state government workers payroll, and the premium costs of the retiree plans.

The UAL balances as of June 30, 2024 are:

- *$292 million – state plan*
- *$857 million – teacher plan*
- *$29 million – first responders plan (offset in part by a $20 million investment trust account)*

In PL2023, C412, Part I, (further clarified in PL2023, C643), the Administration proposed and the Legislature updated statute such that interest earnings when the Budget Stabilization Plan (BSF) is at its statutory maximum be distributed to the State worker retiree plan UAL. This was suggested because current premium levels were not reducing the UAL balances that exist at a fast enough rate and the requirement that they be retired by 2037 is looming. This was an opportunity to address this outstanding balance. This interest transfer did occur for several months, but with the passage of PL2023, C643, Part UUUU, the BSF balance dropped below the statutory maximum and the interest earnings have now reverted to BSF until such time that the BSF reaches its maximum again, which we anticipate will happen at some point in FY2026 assuming no Legislative action and no economic downturn need.

From the Annual Comprehensive Financial Report as of June 30, 2024:

Actuarial assumptions for State Health Insurance plans. All plans use the same basic assumptions including: the entry age normal actuarial cost method, inflation based on 2.75 percent, and a 5-year smoothed market asset valuation; and an investment interest rate and discount rate of 6.5 percent. Salary increases mirror the inflation rate plus a merit component. Plans based their mortality assumptions using the 2010 Public Plan General Benefits-Weighted Healthy Retiree Mortality Table, for males and females, projected generationally using the RPEC_2020 model adjusted for experience. The experience study used is the one from July 1, 2015 to June 30, 2020. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 30-year period on a closed basis.

<u>State Health Insurance</u> The valuation date is June 30, 2024. The participation rate for future retirees is 95 percent of active participants currently enrolled. Experience losses (gains) are amortized over a 10-year fixed period. Assumption changes and plan changes are amortized over a period to June 30, 2037. The unfunded liability will be fully recognized by June 30, 2037. The initial medical trend rate started at 7.09 percent. The ultimate medical trend rate of 4.19 percent is used at 2075. The State actively manages premium increases within the statutory cap, so healthcare cost increases are limited to no more than inflation plus 3 percent in any year.

<u>Teacher Health Insurance</u> The valuation date is 2024 and establishment of a funded Irrevocable OPEB Trust was June 30, 2023. Prior to that date the State funded the plan on a pay-as-you-go basis. 93.33 percent of all Teachers are assumed to be eligible to receive a State contribution at retirement. 75 percent of active participants currently with coverage continue coverage at retirement. One third of active participants who have currently waived coverage elect coverage at retirement. The initial medical trend rate was 7.09 percent. The ultimate medical trend rate of 4.19 percent is used at 2075. Assumption changes and plan changes are amortized over a period to June 30, 2037. The unfunded liability will be fully recognized by June 30, 2037.

To a significant technical issue. It is unclear whether the "calculation of transfer amount" subsection is referring only to the General Fund portion of the FY28 UAL payments or to all fund sources. The source of payments made to MainePERS from the State includes multiple fund sources (e.g., General Fund, Federal Expenditures Fund, Highway Fund, Other Special Revenue (OSR) accounts, Internal Service Funds (ISF), etc.). The Administration has concerns regarding restrictions that exist regarding the use of federal or other funds for the purpose intended by LD 1872, which would impact the amount that the State could transfer to this new account towards future increases in the COLA Base as proposed. Specifically, this would not be an allowable expense for federal funds and, as such, it is highly likely it would not be an allowable expense for our Internal Service Funds or any OSR account that charges through a departmental indirect cost allocation plan.

We also wonder about the Highway Fund given the constitutional requirements of that funding. (The $185.6 million discussed above is just the General Fund component.)

Additionally, as discussed, federal funds as well as our OSR and ISF accounts are getting squeezed with revenues not keeping up with expenses. Not having this expense would be a way to help those accounts avoid increasing fees/rates and/or cutting services and personnel.

It is estimated that it would cost more than $ 1.5 billion to undo the 2011 pension benefit changes by removing the COLA base and increasing the COLA cap from 3 percent to 4 percent. This Legislature should not bind the next Governor or Legislature with this program now, which won't be able to get enough funding to do what is really needed. Especially when those funds would help significantly to fund the above, already existing obligations.

Our retirees are a vital part of our community. However, we do not have the capacity to do all things. If these funds are committed now, given existing obligations and uncertain revenue scenarios, this law could fall prey to a "notwithstanding", as 55 percent education and 5 percent revenue sharing before it, and result in another broken promise to these retirees.

This concludes my testimony. I do recognize this is a lot of information and I hope it's been helpful. Of course, we'll be available at work session if you have questions. Thank you.

Ongoing Tax Relief in 26/27 Budget

Municipal Revenue Sharing

FY19	FY26	FY27
$74.10	$277.20	$284.00

Property Tax Fairness Credit

FY19	FY26	FY27
$27.50	$118.10	$122.20

Earned Income Tax Credit

FY19	FY26	FY27
$10.00	$41.30	$40.90

Pension Deduction

FY19	FY26	FY27
$32.00	$133.20	$141.70

Student Loan Replacement

FY19	FY26	FY27
$25.00	$75.00	$78.00

Maine Dependent Exemption Tax Credit

FY19	FY26	FY27
$60.00	$85.80	$87.90

State Property Tax Deferral

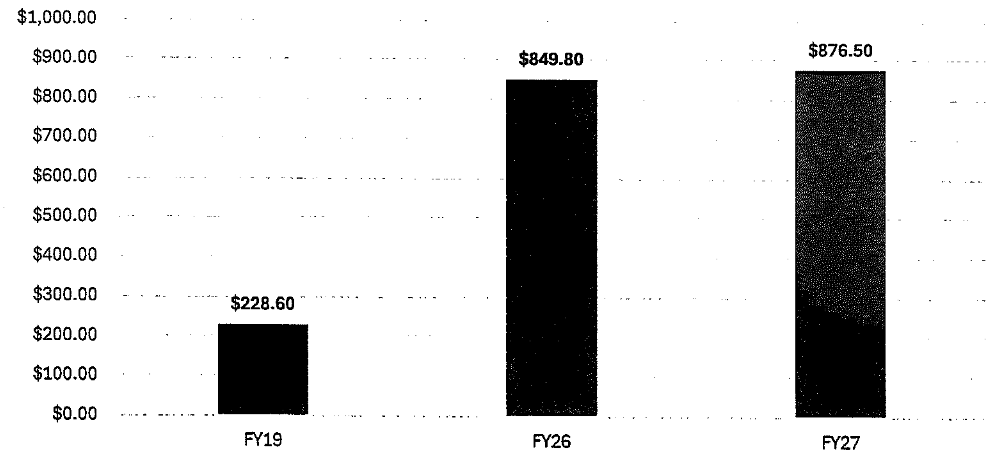
FY19	FY26	FY27
	$1.50	$1.50

GF to HWF

40% Auto Sales Tax to Highway Fund

FY19	FY26	FY27
	$117.70	$120.30

Ongoing Tax Relief / GF to HWF transfer
General Fund Revenue Reductions (in millions)



TOTALS

General Fund Revenue Reductions*

FY19	FY26	FY27
$228.60	$849.80	$876.50

*Does not include programs funded with GF appropriations, such as Homestead

*Does not include new Business Tax Credits, such as Low Income Housing, Dirigo

Estimated GF Impact from Tax Relief Programs document:
https://www.maine.gov/dafs/sites/maine.gov.dafs/files/2025-03/Tax%20Relief%20program%20Impacts%20for%20FY25%20and%20FY26%2027%20biennium.pdf

DAFS *5/13/2025*

Overview of More Than $243 Million in FY25 of Ongoing Annual Bipartisan Tax Relief Provided by Governor Mills and The Legislature

Updated by DAFS February 2025, including estimates from FY26/27 proposed budget.

Since 2019, Governor Mills and the Legislature have worked in a bipartisan manner to provide substantial tax relief to Maine people. In fact, the cumulative tax relief enacted between January 2019 and June 2024 is estimated to reduce General Fund revenue by **$243 million in FY25** and an **estimated $755 million for the FY26-27 biennium**. Below is a summary of the direct and indirect tax relief enacted since 2019:

Direct Property Tax Relief

- **Expanded Property Tax Fairness Credit** (PTFC) provides targeted property tax relief or rent relief to those Maine residents most overburdened by the property tax. In tax year 2019, a taxpayer's property tax bill needed to exceed 6 percent of their income, and the maximum credit allowed was $750 for taxpayers under 65 and $1,200 for taxpayers 65 and older. In addition, property taxes considered for determining eligibility (the benefit base) was $2,050 for single taxpayers, $2,650 for married filers or head of household filers with 1 dependent, and $3,300 for married filers with dependents or head of households with more than 1 dependents. The benefit base amount is adjusted annually for inflation. The cost of PTFC in FY19 was $27.5 million and benefited approximately 53,000 tax filers.

  Over the 2020-23 period the tax-to-income threshold has been reduced to 4 percent, and the maximum credit allowed has increased to $1,000 for taxpayers under 65 and $1,500 for taxpayers 65 and older. For tax years beginning on or after January 1, 2024, the Property Tax Fairness Credit is increased for individuals 65 years of age or older by 1) increasing the maximum benefit base to $4,000, regardless of the individual's filing status and number of qualifying children and other dependents, and 2) increasing the maximum benefit from $1,500 to $2,000. The $4,000 benefit base amount is adjusted annually for inflation for tax years beginning after 2024. All these changes since 2019 are estimated to increase the relief provided by the PTFC to $110.0 million in FY25 and roughly double the number of tax returns benefiting from the credit. The program estimates for FY26 and FY27 are $118.1 million and $122.2 million, respectively.

- **Expanded Benefit for Disabled Veterans** For tax years beginning on or after January 1, 2023, resident individuals who are veterans and 100 percent permanently and totally disabled are allowed an additional income tax credit equal to the amount of the Property Tax Fairness Credit the individual otherwise qualifies for, effectively doubling the Property Tax Fairness Credit. The total credit may not exceed the property taxes paid and rent constituting property taxes paid by the individual and by the State on behalf of the taxpayer pursuant to the property tax deferral program during the tax year.

- **Expanded Homestead Exemption** allows permanent Maine residents who have owned their home for at least 12 months to reduce the value of their home by $25,000 for property tax purposes, an increase from $20,000 in 2019. Fixes the rate of State reimbursement to municipalities for the taxes lost due to homestead exemptions at 76 percent for property tax years beginning on or after April 1, 2023, an increase from 62.5 percent in 2019. In FY19 the General Fund cost of the Homestead Exemption reimbursement to municipalities was $64.5 million. In FY25 the estimated cost is $85.1 million. The program estimates for FY26 and FY27 are $92 million and $95 million, respectively.

- **Expanded eligibility for the State Property Tax Deferral Program.** The State Property Tax Deferral Program was reestablished in 2021 for the property tax years beginning on or after April 1, 2022. For property tax years 2022 and 2023, an individual was eligible for the deferral program if they (1) were at least 65 or unable to work due to a permanent and total disability, (2) had income less than $40,000, and (3) had assets less than $50,000 ($75,000 if multiple owners). The State pays the property taxes on the qualifying homestead to the municipality each year and places a lien on the property. When the participant passes away, moves, or sells the property, the deferred tax plus interest comes due and must be repaid. The original cost of the program was funded using federal revenue received through the American Rescue Plan with the expectation that at some point in the future the deferral program will become self-funding. Until then, this program is funded with a General Fund appropriation. For applications filed after January 1, 2024, the household income limitation increases to $80,000, and the liquid asset limitation increases to $100,000 ($150,000 if multiple owners). A municipal lien is no longer an automatic disqualifier from the program if there are no more than two years of delinquent property taxes at the time of the application for deferral. If eligible, the delinquent property taxes are paid by the State and become part of the outstanding tax debt being deferred by the participant. The expansion of the deferral program required a General Fund appropriation of $0.8 million in FY25. The biennial budget includes $1.5 million in FY26 and $1.5 million in FY27.

Indirect Property Tax Relief

- **Municipal Revenue Sharing** continues at full 5 percent. The State-Municipal Revenue Sharing was established as a way for the state to help finance municipal services instead of a municipality relying solely on their property tax revenue. The revenue sharing pool is funded by a percentage of sales, service provider, personal and corporate income tax receipts. As of fall, 2022, Maine cities and towns began receiving the full statutorily required 5 percent each month of State-Municipal Revenue Sharing, up from 2 percent in FY19. In FY19, Municipal Revenue Sharing transferred $74.1 million to cities and towns. The projection for FY25 is $278.7 million. The estimates for FY26 and FY27 are $277.2 million and $284 million, respectively.
  As a result of the increase from 2 percent to 5 percent in revenue sharing, municipalities will receive approximately $165 million more in revenue sharing in FY25. This is estimated to be $163 million more and $167.6 more in FY26 and FY27, respectively.

- **55 Percent Educational Funding** The Mills Administration continues its commitment to Maine schools, municipalities, and teachers by funding 55 percent of K-12 public education costs as outlined in statute. This additional funding helps to lower the property tax burden to Maine taxpayers. In FY25, the General Fund appropriation for General Purpose Aid (GPA) is $1. 417 billion, an ongoing annual increase of more than $319 million over the FY19 cost of $1.098 billion. As a result of the increase from 49.77 percent in 2019 to 55 percent in funding of K-12 public education costs, the state will pay approximately $135 million more in FY25.

  The biennial budget includes $63.9 million in FY26 and $92.6 million in FY27 to continue meeting the State's obligation to pay 55 percent of local education costs, which the Governor met for the first time in Maine's history in 2022. If approved as proposed, the General Fund appropriation for General Purpose Aid (GPA) in FY27 will be $1.509 billion, an ongoing annual increase of more than $411 million over the FY19 cost of $1.098 billion.

Additional Tax Relief for Low and Middle Income

- **Expanded Refundable Earned Income Tax Credit** (EITC) helps low-to-moderate-income workers and families get a tax break. Since 2019, the Governor and Legislature increased the EITC from 5 percent of the federal credit amount to 25 percent of the federal credit for tax filers with at least one qualifying child and 50 percent for tax filers with no qualifying children. The increase in credit rates, along with expanding eligibility for filers without a qualifying child, has increased the maximum EITC from $32 to $324 for a taxpayer without qualifying children, and from $402 to $2012 for a family with three or more children. About 92,000 Maine households benefit from the EITC. The cost of the refundable EITC has increased from approximately $10 million in FY19 to an estimated $40.4 million in FY25. The program estimates for FY26 and FY27 are $41.3million and $40.9 million, respectively.

- **Expanded Pension Deduction** provides a tax break for Maine retirees by exempting retirement income from income tax. The pension deduction has increased from $10,000 to $30,000 in tax year 2023. For tax years beginning on or after January 1, 2024, the pension income deduction is increased to the maximum annual benefit that an individual eligible to retire at the retirement age, as defined in 42 United States Code, Section 416(1), as of January 1st of the tax year may receive under the federal Social Security Act and amendments to that Act as of June 28, 2023. For the 2024 tax year that amount will be $45,864. Benefits received under a military retirement plan, including survivor benefits, continue to be fully exempt from Maine income tax, in addition to the deduction of non-military retirement income. The cost of the pension deduction has increased from $32 million in FY19 to an estimated $121.3 million in FY25. The program estimates in FY26 and FY27 are $133.2 million and $141.7 million, respectively, assuming no changes to the deduction.

In the proposed 26/27 biennial budget, LD 210, the budget proposes a phase-out that begins with income over $100,000 for single filers, $150,000 for heads of households, and $200,000 for married individuals filing jointly. The program estimates in FY26 and FY27, assuming this change, are $112.3 million and $119.2 million, respectively.

- **Overhauled Student Loan Replacement Tax Credit** replaced the Educational Opportunities Tax Credit beginning in tax year 2022 and provides an annual refundable tax credit of up to $2,500 if you are an eligible Mainer who is repaying student loans, are working at least part time, and live in Maine, with a lifetime cap of $25,000. The deferral of student loan payments during the COVID-19 emergency limited the use of the SLRP credit, and therefore the true cost of the new program is not clear. Having said that, the cost of the SLRP credit was approximately $10 million more than the cost of the EOTC in tax years 2020 and 2021 and is expected to be more beneficial to taxpayers once the repayment of student loans is back to normal. The program estimates for FY26 and FY27 are $75 million and $78 million, respectively.

- **Improved Maine Dependent Exemption Tax Credit** makes the $300 Dependent Exemption Tax Credit refundable for tax years beginning on or after January 1, 2024 and indexes the credit to inflation beginning on January 1, 2025. The program is estimated to cost a total of $79 million in FY25, with making the credit refundable providing an additional $19 million of tax relief in FY25 to low-income Maine residents with dependents. The program estimates for FY26 and FY27 are $85.8 million and $87.9 million, respectively.

Business Tax Credits

- **Low-Income Housing Tax Credit program** is the central financing program for affordable housing development and provides subsidy in the form of a federal tax credit to developers of affordable rental housing. Developers using funding must reserve a portion of the rental units for lower income renters. The tax credits provide approximately $10 million annually in subsidy.

- **Dirigo Business Tax Credit** provides tax credits to businesses to train workers and invest in capital – an approach that will help address Maine's labor shortage and attract new businesses to Maine. Under the new program, which takes effect in 2025, businesses that pay to train three or more workers in an approved employee training program – such as an internship or community college training – could receive a $2,000 tax credit per worker trained. Furthermore, businesses across most of Maine could receive up to a 10 percent credit for a capital investment, or a 5 percent credit for York, Cumberland, and Sagadahoc counties. These credits are specifically targeted towards high-value sectors and industries – including manufacturing, agriculture, fishing, forestry, long-distance freight transportation, software publishing, and certain professional services like scientific research – to attract and expand high growth sectors for Maine. The Dirigo Business Tax Credit is estimated to provide nearly $45 million of tax relief to businesses engaged in qualified business sectors beginning in FY26.

The Department of Economic and Community Development has received 28 applications from qualified businesses, with more than 224 million dollars in capital investments and approximately 1,400 employee trainings planned, with many more applications in the pipeline. With the outdated Pine Tree Zones program phased out, people who want to invest in Maine are counting on these incentives. The program will create good paying jobs across Maine, lift families out of poverty and expand the property tax base.

- **Repeal of Service Provider Tax on Healthcare.** Repealing the Service Provider Tax on healthcare services will resolve a longstanding dispute with the Federal government that dates back to a 2018 warning from the U.S. Centers for Medicare and Medicaid Services that the nearly 20-year-old tax was allegedly in violation of Federal law. This proposal repeals the tax and replaces the lost revenue with General Fund revenue to continue supporting the same level of MaineCare services. The repeal of this tax effective January 1, 2025, will result in an annual savings of $36.8 million to the businesses providing these services and the healthcare consumers receiving the services.

Taken together, the increase in the total anticipated direct tax relief to Maine people provided through the initiatives described above is equal to $242.6 million for Fiscal Year 2025. Broken down by initiative in FY25, this equals: $82.5 million through the expanded the Property Tax Fairness Credit; $20.6 million through the Homestead Exemption; $89.3 million through the expanded Pension Deduction; $30.4 million through the expanded Earned Income Tax Credit; and $19 million through the Dependent Exemption Tax Credit. This tax relief will continue into the FY2026-27 biennium* and be increased by approximately $90 million of biennial tax relief because of the new Dirigo Business Tax Credit, $73.6 million based on the repeal of the Service Provider Tax on healthcare services, and any impact of the Low Income Housing Tax Credit program.

The State Standard Deduction

Additionally, after many years of conforming to the federal standard deduction, the State of Maine created its own in 2016, essentially doubling the federal amount – a move that the Federal government later followed through the 2017 Tax Cuts and Jobs Act. The State then conformed to the Federal tax code, linking the deductions for the sake of consistency and simplicity. The Federal increase in the standard deduction is currently scheduled to expire for tax years beginning after December 31, 2025.

In Public Law 2023, c. 412, Part ZZZ, the Governor and Legislature approved the continued doubling of the Federal Standard Deduction, agreeing to preserve the higher State Standard Deduction to continue delivering tax relief for Maine people.

Maintaining the State Standard Deduction prevented a tax increase that would have resulted in approximately $350 million for Fiscal Years 2026-2027 for many middle-class Mainers.

This means that, when taken with the other initiatives passed, the State of Maine will be providing more than $700 million per year in tax relief by Fiscal Year 2026-27.

This structural tax relief is in addition to Governor Mills and the Legislature returning a total of nearly $1.3 billion to Maine people: $398 million through the Emergency Winter Energy Relief $450 checks, $747 million through the $850 inflation relief checks and $149.8 million through the $285 disaster relief payments.

Also of Note: In addition, in Public Law 2023, Chapter 189, the State has lessened General Fund yearly revenue by dedicating 40 percent of the 5.5 percent sales tax remitted by new and used automobile dealers registered with the Bureau of Motor Vehicles, and 40 percent of sales and use taxes collected by the Bureau of Motor Vehicles, automatically to the Highway Fund. The transfers are estimated at $117.7 million in FY26 and $120.3 in FY27.

Direct Property Tax Relief	FY19	FY25	Increase from 2019 vs 2025	FY26/FY27
Property Tax Fairness Credit	$27.5 million	$110.0 million	$82.5 million	$240.3 million
Benefit for Disabled Veterans				
Homestead Exemption	$64.5 million	$85.1 million	$20.6 million	$187.0 million
State Property Tax Deferral Program		$0.8 million	$0.8 million	$3.0 million
Total Direct Property Tax Relief	**$92.0 million**	**$195.9 million**	**$103.9 million**	**$430.3 million**
Additional Tax Relief for Low and Middle Income				
Earned Income Tax Credit	$10 million	$40.4 million	$30.4 million	$82.2 million
Pension Deduction	$32 million	$121.3 million	$89.3 million	$274.9*million
Student Loan Repayment Tax Credit			TBD	$153.0 million
Maine Dependent Exemption Tax Credit	$60 million	$79 million	$19.0 million	$173.7 million
Additional Tax Relief for Low and Middle Income	**$102 million**	**$240.7 million**	**$138.7 million**	**$683.8 million**
Total Direct Tax Relief	**$194 million**	**$436.6 million**	**$242.6 million**	**$1.114 billion**
Maintain State Standard Deduction (PL23, C412, Part ZZZ)				**$350.0 million**
Indirect Property Tax Relief				
Municipal Revenue Sharing	$74.1 million	$278.7 million	$204.6 million	$561.2 million
Education Funding (55% of K-12)	$1.098 billion	$1.417 billion	$319.0 million	$2.992 billion
Total Indirect Property Tax Relief	**$1.172 billion**	**$1.696 billion**	**$523.6 million**	**$3.553 billion**
Business Tax Credits				
Low Income Housing Tax Credits				$20.0 million
Dirigo Business Tax Credit				$90.0 million
Service Provider Tax on Healthcare				$73.6 million
Total Business Tax Credits				**$183.6million**

* This estimate is current program, not the FY2627 budget proposal (see page 4)

Note: The increase in tax relief between FY19 and FY25 can be attributed to:

1) the policy changes implemented by the Mills Administration and the 130th and 131st Legislatures, and
2) natural growth of the programs.

For example, if the level of Municipal Revenue Sharing percentage stayed at 2 percent, the estimated distribution for FY25 would be $113.9 million. The effort of the Mills Administration and the Legislature to restore Municipal Revenue Sharing to the full

5 percent will mean a total of $278.7 million to cities and towns in FY25, an additional $164.8 million.

Similarly, the growth in Education Funding under by the Mills Administration is attributable to both the increasing cost of education and the increase in state funding to meet the longstanding obligation to fund 55 percent of the Essential Programs and Services for K-12 education. In FY19, the General Fund supported $1.098 billion, or 49.77 percent of the Total Cost of Education as defined in statute. In FY25, General Fund support has grown to $1.417 billion. If the state contribution had stayed at 49.77 percent that number would be $1.283 billion. Increasing the state contribution to 55 percent added $135 million to support the cost of education.