

**Getting to
the Middle:
Policy
prescriptions
for Maine's
working
families**

MECEP

Maine
Center for
Economic
Policy

Kurt Wise



MECEP

The mission of the Maine Center for Economic Policy is to advance public policy solutions to help Maine people prosper in a strong, fair, and sustainable economy. MECEP is an independent, nonpartisan research organization and one of thirty state groups funded through the State Fiscal Analysis Initiative. The SFAI is funded by the Ford, Charles Stewart Mott, Annie E. Casey, Stoneman Family, Public Welfare, and Kellogg Foundations, and the Open Society Institute.

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About the Working Poor Families Project

This report is part of a national multi-state effort called the Working Poor Families Project. The Project is funded by the Annie E. Casey, Charles Stewart Mott, Ford and Joyce Foundations. MECEP is grateful to all of these foundations for their continuing support.

The Project, involving 24 states and the District of Columbia to date, supports local organizations to assess state policies and programs that help low-income families reach economic self-sufficiency. The project is managed on behalf of the funding foundations by Brandon Roberts + Associates. The managing team consists of Brandon Roberts, Deborah Povich and Andrew Reamer. Kelvin Pollard and Jean D'Amico of the Population Reference Bureau conducted the analysis of U.S. Census Data.

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Executive Summary

Overview

Tough economic times are here again and bold government action is required. As our nation's economy falters under a sagging housing market and skyrocketing fuel prices, many Americans are slipping from the middle class dream into the daily struggle against encroaching financial insecurity. Without the proper policies in place to address these economic challenges most families will continue to be squeezed and none more so than America's low-income working families.

In Maine, the challenges for low-income working families are especially difficult. This report, as part of a national effort supported by the Working Poor Families Project (<http://www.workingpoorfamilies.org/>), focuses on current conditions in Maine. It provides a snapshot of our working families with incomes below 200 percent of the federal poverty level.

The report concludes with detailed policy recommendations that will help build a more resilient and prosperous state economy by helping all Mainers achieve economic security and advancement through their labors. As American history has shown, state and federal government have an essential role to play in this effort.

Recommendations

The factors leading to low incomes for Maine's hard working families involve many aspects of our economy and our public policies. Unfortunately, there is no "silver bullet" solution. Instead, a variety of specific policy proposals must be offered in order to level the playing field and provide the support and opportunity that Maine's low-income working families require. We recommend the following specific policy proposals, organized into six categories.

I. Wages and Benefits

Among the best ways to address the challenges outlined in this report is to focus on the root problem: low family incomes. Enhancements to wages and benefits are the most direct means of increasing incomes.

- ✓ **Increase the federal and state minimum wage amounts and index them to inflation.** Not surprisingly, the most direct intervention possible for addressing low-incomes is to increase the wages of working families.
- ✓ **Mandate that all projects and programs funded with state dollars pay a living wage;** people working on state funded contracts should not be among the thousands of Mainers working full-time but still unable to meet basic family expenses
- ✓ **Support Maine families by improving the state and federal Family Medical Leave Act, and by enacting a state paid sick day law.** People should be able to take unpaid leave to care for loved ones or themselves without risking the loss of their jobs, just as all workers should be able to take several days off a year in the event of short-term sickness.

II. Health Care Coverage

With a decades-long absence of effective federal leadership on this issue, states have been forced to seek solutions on their own. Maine has been a leader in crafting these solutions and - barring a timely and sweeping overhaul of health care at the national level - Maine must continue to build on the successes of its MaineCare and Dirigo Health programs.

- ✓ **Maintain eligibility and expand outreach efforts in the MaineCare program** in order to bring more low-income parents, children, and childless adults under the MaineCare umbrella of coverage.
- ✓ **Support adequate funding for programs that provide insurance premium subsidies** (such as the Dirigo program) and that work toward guaranteed coverage for all Maine people.

III. Education

For low-income families, securing adequate education is an indispensable step toward achieving an adequate income and economic security over the long-term.

- ✓ **Increase funding for the Competitive Skills Scholarship Program**, a unique mechanism for providing financial aid to low-income adults who are seeking degrees or credentialing in Maine’s high need/high growth job sectors.
- ✓ **Develop and implement a uniform K-20 data collection and benchmarking system** in order to improve educational and employment outcomes for Mainers.

IV. Taxes

As a percent of total income, Maine’s tax system places the greatest burden on those with the lowest incomes and the least burden on Maine’s highest earners. Several measures would help to level the playing field and increase the economic well-being of low-income Maine families.

- ✓ **Increase participation in the state Property Tax and Rent “Circuit Breaker” Program**, a refundable state credit that provides an average of \$500 to over 100,000 eligible low-income households in Maine.
- ✓ **Increase the value of the state Earned Income Tax Credit (EITC) and make it refundable.** A refundable EITC of reasonable value is among the best known means of delivering tangible support to low-income working families with children.

V. Direct Low-Income Supports

For families living on chronically tight budgets, even a small disruption can lead to a downward economic spiral. Specific supports can help families weather these temporary setbacks. We suggest two important ways to improve current programs.

- ✓ **Expand federal and state childcare subsidies for low-income working families** as an important part of helping these families remain in the workforce.
- ✓ **Increase the Temporary Aid to Needy Families (TANF) benefit**, the purchasing power of which has eroded significantly since its last adjustment in 2001.

VI. Energy and Housing Assistance

Rapidly rising costs for energy and the continued high cost of housing are two of the key features of the current economic landscape. Direct action with regards to these two basic needs must rank high on the list of policy interventions.

- ✓ **Increase federal funding for the Low Income Home Energy Assistance Program (LIHEAP)**, a state -run/federally-funded program that provides emergency energy assistance to low-income households.
- ✓ **Appropriate \$20 million or more for each of the next several years from the state’s “rainy day” fund** in order to augment LIHEAP’s purchasing capacity.
- ✓ **Pass the federal Section 8 Voucher Reform Act (SEVRA)**, in order to better help low-income Maine households bridge the gap between their limited earnings and their monthly rental expenses.
- ✓ **Increase funding for the Housing Opportunities for Maine (HOME) Fund**, a special fund that helps leverage private and federal investments for affordable housing options.

Conclusion

Over the last three decades, America’s middle and working class families have taken an economic beating. Where the public policies of the 1930s through the 1970s produced unprecedented economic growth by rewarding working families for their contributions, that winning approach has given way to policies that return less and less to the bottom 80 percent of earners. One thing is perfectly clear: when we neglect to make critical public investments in infrastructure and human capital, when we prevent state and federal government from regulating markets and enforcing the rules of the game, the nation as a whole is weakened and America’s working families fall farther and farther behind.

Now it is time to move again toward an economy that works for *all* of us, both nationally and at the state level. Thoughtful government policies will play a crucial role in Maine’s future success. Establishing good ground rules and increasing access to opportunity for *all* Maine people will be the key to achieving that success. Good government policies – policies like those outlined in this report – will help grow the economic pie and ensure that we all share in Maine’s future prosperity.

Getting to the Middle: Policy prescriptions for Maine's working families

Introduction

Ask anyone on the street what the *American Dream* means to them and they'll likely mention material things like home ownership and a decent job. They'll also mention less tangible ideals like freedom and opportunity. These aspirations and ideals are at the core of who we, as Americans, believe ourselves to be. They also are the ideals that - whenever we as a society have embraced them - ultimately have rewarded the broad sweep of working and middle class American families, strengthening our national economy and our democracy.

Governmental policies and programs have everything to do with ensuring this success, by providing economic opportunities and establishing the ground rules for a commonly shared prosperity. Good public policy has always looked to level the playing field and to reward the efforts of working families. The fact, however, is that hard work alone is not enough; the rules of the game must be structured to reward that work. Government has an essential role to play in this effort.

A review of recent American history makes this all too clear. Government policies designed to support and reward the hard work of America's low and middle income families set the stage for the economic boom decades that followed WWII. The GI Bill gave millions of Americans the chance to attend college and provided low-interest loans, allowing them to start new businesses, and to buy their own homes. The Social Security Act helped Americans finance their retirements, and later, to manage health care costs in their old age. Laws protecting unions and providing better regulation of markets - along with a progressive tax code - all helped establish rules that gave average American families the opportunity to succeed.

It is no coincidence that the years from 1945 to 1975 were ones of strong growth for the American economy and simultaneously provided consistent income gains for America's lower and middle income families. During these years, growth in productivity closely tracked the growth in median family income; American families were sharing in the fruits of their labor.¹ Beginning in the early 1980s, however, with the arrival of regressive tax policies, market deregulation, and the steady dismantling of the rules protecting and supporting lower and middle income families, productivity

growth and median family income parted ways.² American productivity continued to climb, but the incomes of average Americans did not follow suit. This widening gap stabilized briefly between the early and later 1990s, but after 2000 the gap again began to widen and has done so at an ever accelerating rate.³

As a result, today economic opportunity is not the reality for millions of American families, a fact that has direct negative implications for all of us and for the well-being of American democracy. The evidence shows that, despite years of work, many families cannot gain a toe-hold on the economic ladder. America's working families are putting in ever longer hours and continually producing more in each hour they work, striving to get ahead.⁴ Yet still, many of these families are losing ground, unable to provide themselves with the basics: food, clothing, housing, health care. Understandably, fewer Americans now than at any time in the past half century believe they're making economic progress.⁵

Clearly, government policies matter. Approaches that favor the well-to-do and ignore America's middle and lower-income families have predictable results. For those working families in the lowest end of the income distribution – families with incomes below 200 percent of the federal poverty threshold – the results of lopsided policies are especially dire.

Tough economic times are here again and bold government action is required. As our nation's economy falters under a sagging housing market, skyrocketing gas prices, and a weakened dollar that buys ever less food, many of us are slipping from the middle class dream into the daily struggle against encroaching financial insecurity. Without the proper policies in place to address these economic challenges, most families will continue to be squeezed and none more so than America's low-income working families.

In Maine, the challenges for low-income working families are especially difficult. Maine has low incomes relative to other states⁶ at the same time that average annual outlays for basics such as heating fuel and healthcare cost more than elsewhere.⁷ Now Mainers are bracing for a long cold winter, and many of us are wondering what may lie ahead. As we think about policies that will improve the current conditions and future opportunities for all Maine's working families, it is important that we remain focused on those among us struggling hardest to make ends meet.

This report, as part of a national effort supported by the Working Poor Families Project (<http://www.workingpoorfamilies.org/>), focuses on current conditions in Maine. It provides a snapshot of our

working families with incomes below 200 percent of the federal poverty level. Drawing on the most current information available from the US Census Bureau, we present data across a wide range of measures - from income to health coverage to home ownership - providing a look at how these Maine families are faring and what the recent trends have been.

The report concludes with detailed policy recommendations that will help build a more resilient and prosperous state economy by helping all Mainers achieve economic security and advancement through their labors.

Just as in the past, government now has a crucial role to play in securing Maine's economic future by keeping the doors of opportunity open to all. As American history has shown, we succeed best when we succeed together.

Unless otherwise noted, statistics cited in this report are derived from the analysis of U.S. Census Bureau data conducted by researchers at the Population Reference Bureau on behalf of the Working Poor Families Project.

What is a low-income working family?⁸

People often have an intuitive sense of terms like “working family”, “low income” and “poor” but struggle to define these terms precisely. In this report, the following definitions are used:

Family: A family is a married-couple or single-parent, primary family with at least one child under age 18.

Working Family: A family in which all related members age 15 and over have either a combined work effort of 39 or more weeks in the last 12 months **or** a combined work effort of at least 26 weeks and one unemployed parent actively looking for work within the past four weeks.

Poor Working Family: A working family with an annual income below the threshold for poverty defined by the US Census Bureau. In 2006, the threshold for a four-person family was \$20,444 in pre-tax income.⁹

Low-income Working Family: A family with an annual income less than 200 percent (ie, twice the amount) of the poverty threshold. For a family of four in 2006 the low-income threshold was \$40,888 in pre-tax income. The term “low-income working family” *includes* poor working families, as well as those families with incomes between 100-200% of the federal poverty level.

The Federal Poverty Level

The Federal Poverty Level (FPL) was developed in 1965 by the Social Security Administration as a means of defining an absolute income floor under which a family could not be expected to keep itself housed, clothed, and fed. Based on household spending patterns that were broadly true of Americans over 40 years ago, the FPL has not kept pace with significant changes in the economy and therefore no longer accurately reflects the income needs of the modern household budget.

The formula for determining federal poverty levels is based on estimates of an annual “basic needs” family food budget, adjusted to reflect the number of people in the family and annual Consumer Price Index (CPI) cost increases. The formula assumes that families spend one third of their total income on food - as was broadly the case in the 1960s - and simply multiplies that food budget by three to arrive at a figure for poverty level income. In the 21st century, however, the underlying assumption about food costs as a percentage of family budgets no longer holds true.

Today, Americans spend far more on housing, childcare, healthcare, and energy costs. As a result, the FPL grossly underestimates the true requirements for a basic family budget in today’s economy. The FPL also fails to adjust for the large differences in living costs from region to region, amplifying the shortcomings of the original methodology. Despite longstanding criticism, as well as pending federal legislation, this methodology has not been adjusted in over 40 years.

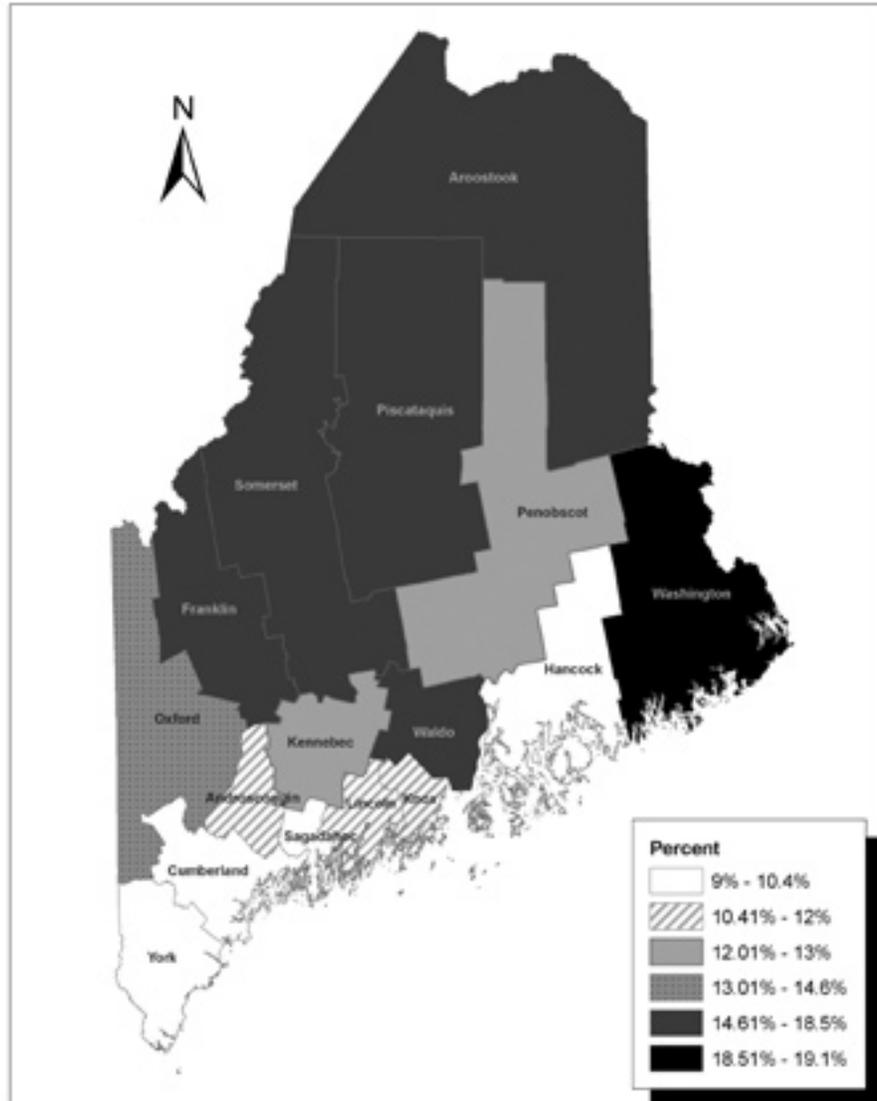
Because of the widely-recognized inability of the FPL to estimate modern American income requirements, many state and federal government agencies along with non-governmental organizations now use 200 percent of FPL as a better estimate of incomes below which families cannot be expected to provide themselves with the basics for a self-sufficient existence. The term “low-income” in this report refers to all families with earnings below 200 percent FPL. The term “poor” refers to a subset of the low-income group and includes families with earnings below 100 percent FPL.

Overview

In Maine there are approximately 142,000 working families. Of these working families - families that rely on salary or wages to meet their household expenses - slightly more than one quarter have incomes below 200 percent of the federal poverty level (FPL). These 39,000 families are defined here as “low-income working families” and include about 9,000 working families that are officially “in poverty”, having incomes below 100 percent of the federal poverty level (*Figure 1*).

Three-quarters of these 39,000 low-income working families earn between 100 and 200 percent of the federal poverty level, or between \$385 and \$770 a week in pre-tax dollars for a family of four. Another quarter

Figure 1. Percent of Maine Residents Living Below the Federal Poverty Level, by County (2005)



Data Source: Small Area Income and Poverty Estimates, US Census Bureau.

live in poverty as defined by the federal government, earning less than \$385 per week in pre-tax dollars for a family of four.¹⁰

These low incomes, however, are not due to limited work effort but instead are due to the prevalence of jobs with low and stagnant wages. On average, these families are working more than 2400 hours a year, or the equivalent of 1.2 full-time jobs.¹¹ But despite significant work effort, low and stagnant wages keep these families below 200 percent of the federal poverty level. Between 2001 and 2007, the period of national economic expansion since the last recession, average hourly wages for the bottom 30 percent of workers actually declined by almost 3 percent after adjusting for inflation.¹² Average hourly wages for this income group dropped from an average of \$9.70/hr to \$9.61/hr, which translates into a loss of about \$13.00 a month for fulltime workers.¹³ Income gains are indeed occurring in the American economy, but they are not trickling down to the working families most in need.

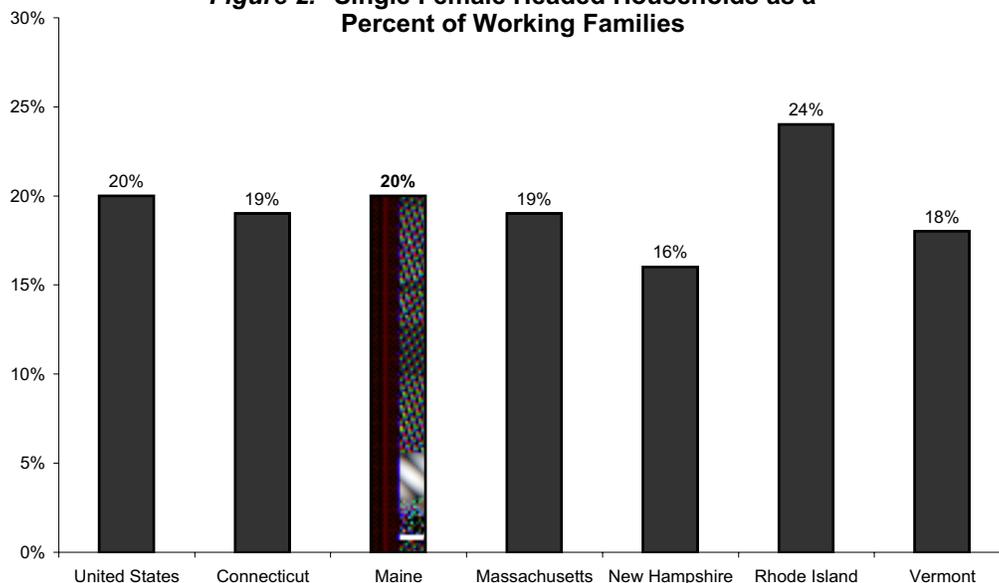
Even while supplying more than full-time hours, low-income working families in Maine cannot afford the basics of a self-sufficient life. The Maine Department of Labor provides estimates of “Living Wage” incomes, based on family size and differences in cost-of-living by county. These estimates are derived from a methodology outlined in a report by the Maine Center for Economic Policy.¹⁴ They attempt to place a dollar figure on the basic, real-world needs of a fully self-sufficient Maine household.

In order to pay for food, housing, healthcare, childcare, clothing, transportation and energy costs, a family of four with two adults working full-time would need to earn close to \$50,000 annually in pre-tax dollars. Stated another way, each adult would need a full-time job paying \$12.46/hour.¹⁵ This state-wide average of a basic needs budget exceeds the federal poverty level by some \$30,000 for the same family and is \$10,000 more than the commonly used “low-income” measure of 200 percent FPL. Thus, despite more than fulltime work effort, some 39,000 Maine families are still earning thousands of dollars less than required to supply themselves with life’s basics.

Women

As a group, families headed by single females represent a significant minority of Maine working families. Twenty percent of all working families (all income brackets included) are headed by single females, as *Figure 2* indicates. Roughly half of these single female-headed families – or more than 12,500 families - have incomes below 200 percent of the federal poverty level.¹⁶

Figure 2. Single Female Headed Households as a Percent of Working Families



Data Source: 2006 American Community Survey Public Use Microdata (PUMS)

Looking specifically at Maine's working families *with low incomes*, approximately 1-in-3 are headed by single females.¹⁷ Single female-headed working families thus are more likely to face the challenges of low incomes than are two-parent or single male-headed families.

Given the strong connection between educational attainment and improved incomes, it is not surprising that education plays a significant role in the economic circumstances of the women heading these low-income working families. Where the mother in these families has not completed high school (nor earned her GED), there is a greater than 80 percent likelihood that the family's income will be below 200 percent of the federal poverty level. With a high school diploma or GED, only half of these families will fall into this low-income category. Further years of education have an added positive effect on incomes for these single mothers. Less than half to as little as one third of single female-headed families in which the mother has some post secondary education will have incomes below 200 percent of the federal poverty level.

Data Collection and Benchmarking

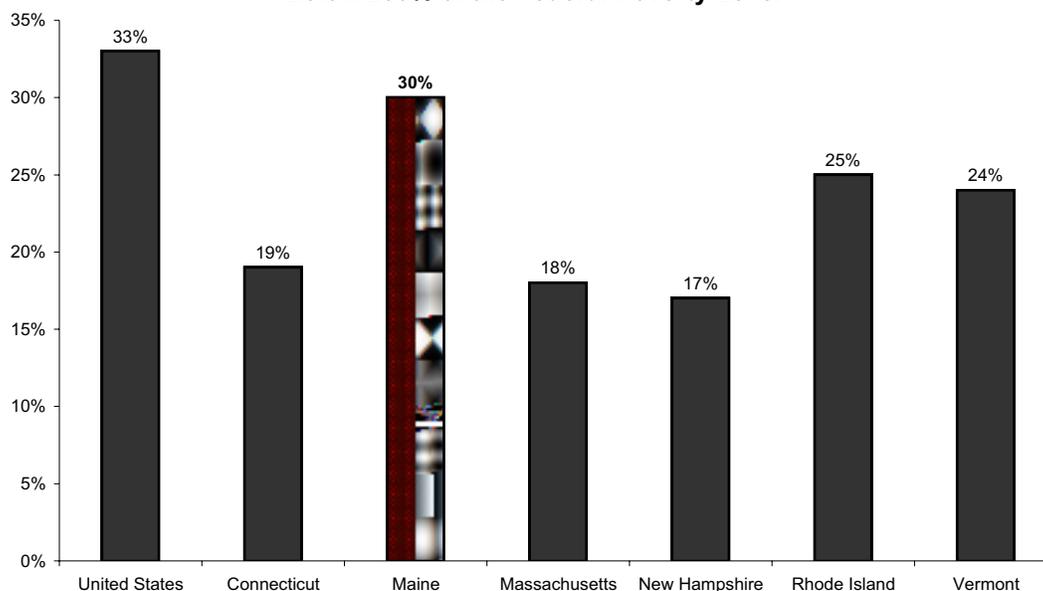
To learn more about the importance of a state-wide system for K-20 data collection and benchmarking, please see: Amy-Ellen Duke, *Strengthening State Adult Education Policies for Low-Skilled Workers*, 2007 at: http://www.workingpoorfamilies.org/reports_and_pubs.html

To learn more about the specifics of designing such a system, please see: Susan Goldberger, *Power Tools*, 2007 at: <http://www.achievingthedream.org/PUBLICPOLICY/POLICYBRIEFSPUBS/default.tp>

Nevertheless, more can be done to maximize the benefit these families receive from the time, effort, and resources they and the state devote to post-secondary education. In order to improve employment outcomes systematically, Maine must devise and implement a data collection and benchmarking system with which to track and analyze post-secondary degree and credentialing programs. To be useful, such a system must be able to follow students from school out into the labor force, thereby providing data on the connection between coursework, jobs, and incomes. The current absence of this data prevents informed decision making by educators, administrators, and students alike.

In seeking to improve the economic opportunities of Maine's low-income working families, it will be necessary to focus on the obstacles faced by Maine's sizable population of single-mother households. Increasing access to education is an important step toward helping these women achieve adequate incomes for themselves and their children. We must find ways to increase high school/GED completion rates among this population. We also must facilitate post-secondary study that leads to degrees and/or credentialing, and ultimately translates into better jobs with higher incomes.

Figure 3. Percent of Children Under Age 18 in Working Families Below 200% of the Federal Poverty Level



Data Source: The Working Poor Families Project Analysis of 2006 American Community Survey Microdata

Children

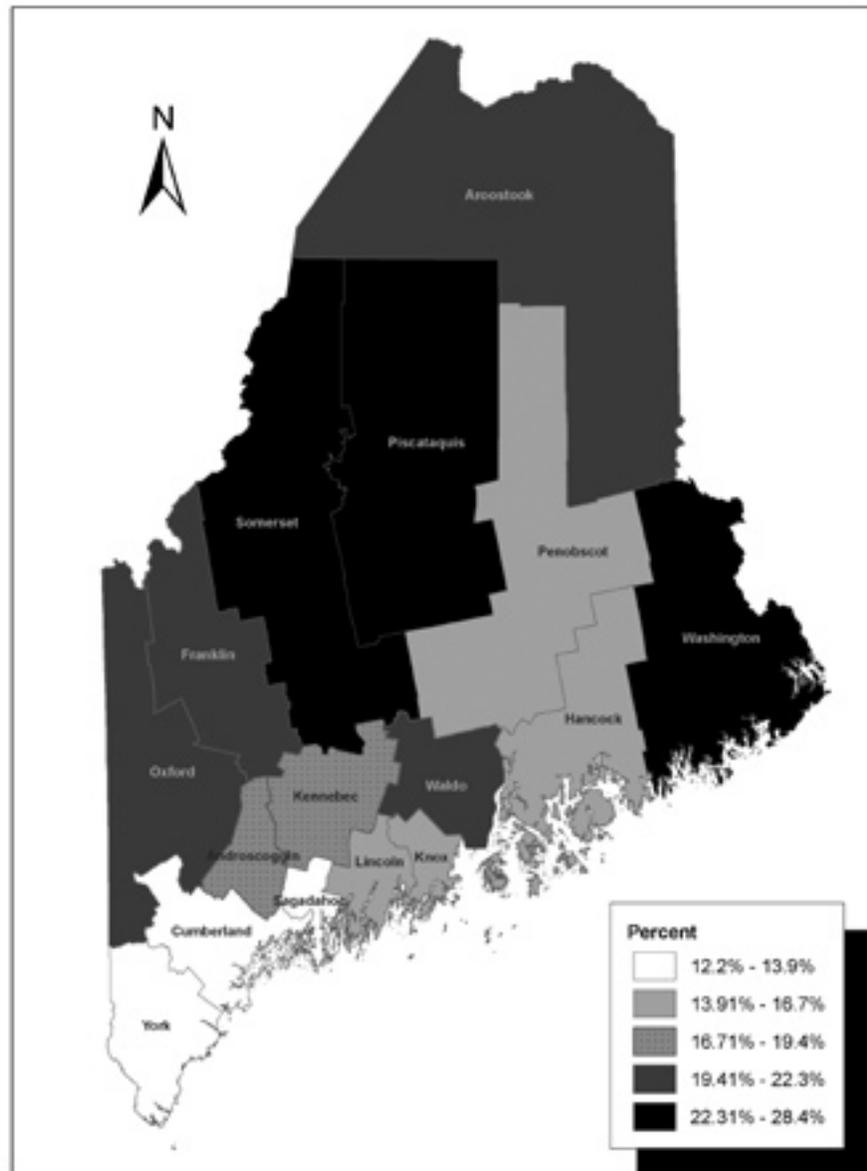
Among the most troubling aspects of low incomes in Maine is the degree to which children are affected. Of Maine's 240,000 children living in working families, 73,000 or about 1-in-3 live in families with incomes below 200 percent FPL.¹⁸ By this measure, Maine is not serving its children as well as it might; other New England states have substantially lower percentages (see *Figure 3*).

Looking at all Mainers under the age of eighteen some 14.4 percent or 1-in-7 lived in poverty in 2007, a percentage that edged up slightly from 2006 levels.¹⁹ These state-wide figures, however,

hide the wide degree of variation in levels of childhood poverty among Maine's counties; some coastal and western "rim counties" are experiencing rates of 25 percent and higher, as shown in *Figure 4*.²⁰

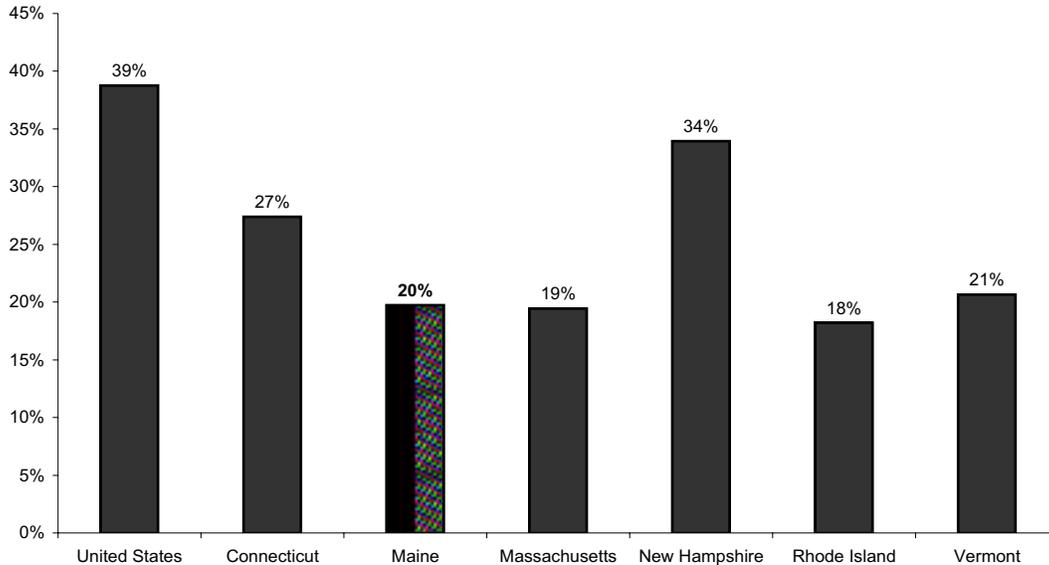
There are substantial, negative long-term implications for Maine arising from such high levels of childhood poverty. Children raised in poverty are at increased risk for poor health outcomes and lower incomes as adults.²¹ Childhood poverty also is associated with detrimental social, emotional, and behavioral outcomes in adulthood.²² All of these negative outcomes impose costs on the individuals themselves and on Maine's communities, public budgets, and state economy.

Figure 4. Percentage of Maine Children Living in Poverty, by County (2005)



Data Source: Maine Children's Alliance. "2008 Maine Kids Count."

Figure 5. Percent of Low Income Working Families With at Least One Parent Without Health Insurance



Data Source: The Working Poor Families Project Analysis of 2006 American Community Survey Microdata

Health Coverage

Maine has performed well relative to other states in terms of providing access to health coverage. With the resourceful use of federal dollars available through the Medicaid program, Maine has achieved among the lowest rates of uninsurance of any state in the nation.²³ This is a great achievement. As with other measures of economic security and well-being, however, for low-income families the health coverage picture is more complex.

Approximately one-in-five (20 percent) low income working families have at least one parent that is not covered by health insurance.²⁴ While these figures place Maine well ahead of the national average of 39 percent, Maine is in the middle of the pack relative to other New England states (see *Figure 5*).

Finding ways to adequately cover all Mainers must continue to be a policy priority. Even with good health coverage, however, everyone occasionally gets sick. For families living on the economic margins, missing a week of work and the pay that goes with it - as many low-wage jobs do not provide paid sick leave - can create real hardship. For the poorest working families, the loss of only a few days pay can have profound consequences. In addition to health coverage – which improves peoples overall health - providing even a modest amount of paid sick leave can reduce greatly the challenges that low-income working families face. Paid sick leave can help families weather brief bouts of illness, and thereby keep Mainers in their homes and avoid the need for temporary public assistance.

Increasing the *economic* security and well-being of low-income families is intimately connected to ensuring the *physical* well-being of both the children and the working parents that head these families. Healthy families and workers are critical for the health of Maine’s communities and the overall state economy. Guaranteed health coverage and paid sick leave are the essential elements needed to achieve this goal.

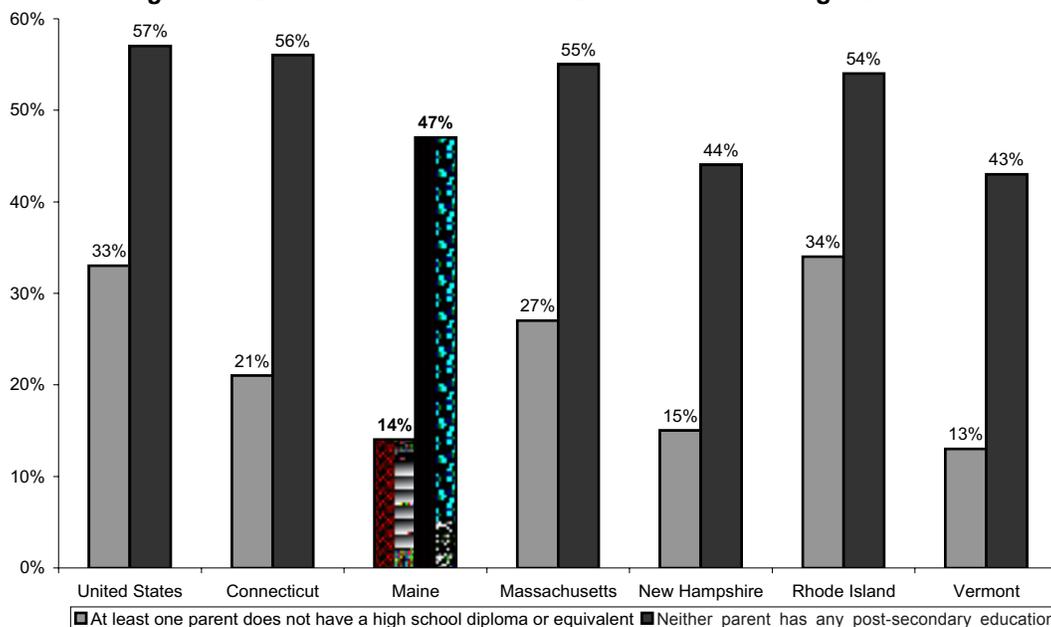
Education

Maine has done well in terms of high school graduation rates. Ranking 5th in the nation, in Maine only 14 percent of low income working families have at least one parent without a high school diploma or GED (US average = 33 percent). Again this is better than some of our New England neighbors (MA, CT, RI), and comparable to others (NH, VT), as seen in *Figure 6*.

However, when we look at figures for low-income working families where *no* parent has *any* post-secondary education the ratio rises to roughly one-in-two (47 percent). This is below the national average of 57 percent, but no better than other states in New England, a disappointing outcome given Maine’s strong showing in high school completion rates.

Ensuring that large numbers of the state’s workforce have the basic skills associated with a high school level education is a notable accomplishment. In the evolving, modern economy in which Mainers must build their collective future, however, a combination of more specific and simultaneously more versatile skill sets will be required in order to succeed. Not everyone needs or is interested in pursuing Associate’s or Bachelor’s degrees, but post-secondary education

Figure 6. Educational Attainment of Low Income Working Families



Data Source: The Working Poor Families Project Analysis of 2006 American Community Survey Microdata

leading to skills credentialing is an important means of ensuring greater opportunity and security for many of Maine’s low-income working families. Advancing new policies and supporting existing systems that provide broad access to post-secondary education and workforce training must remain a focus of workforce and economic development efforts.

Housing

During the last several decades, the cost of housing has grown sharply throughout much of the United States. New England is among the regions that has experienced above average increases in housing costs, with single-family homes rising in price by over 200 percent in the last 10 years.²⁵ Since 1995, the inflation-adjusted price of a single family home in Maine has increased by almost 70 percent, compared to a nationwide increase of 55 percent (see *Figure 7*).²⁶ These kinds of cost increases place additional strains on the household budgets of low-income working families.

Figure 7. Real Growth in Real Single-Family House Prices (1995-2005)

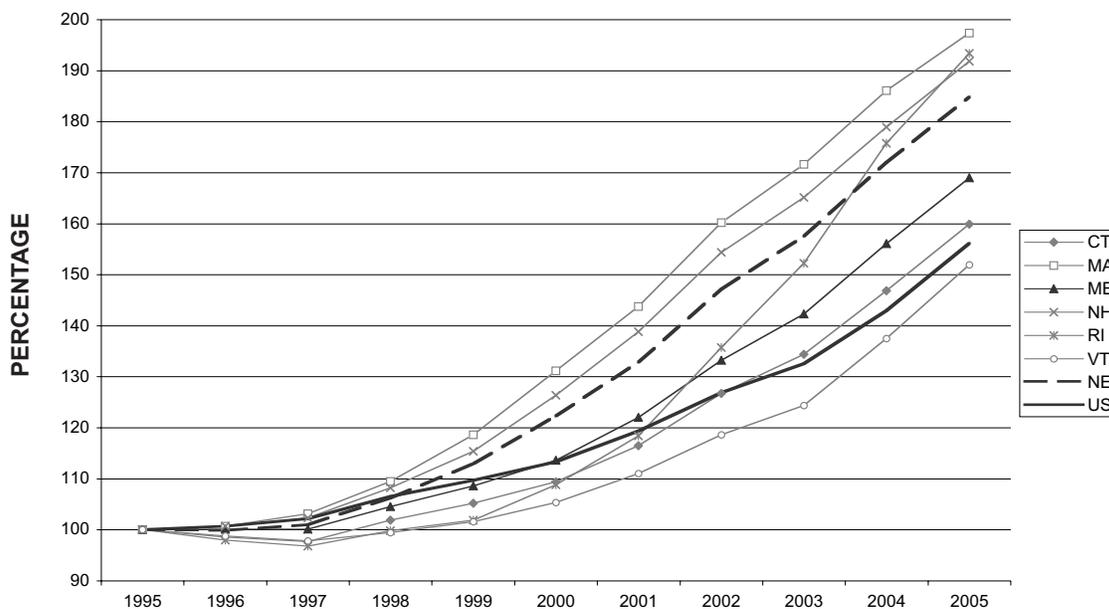
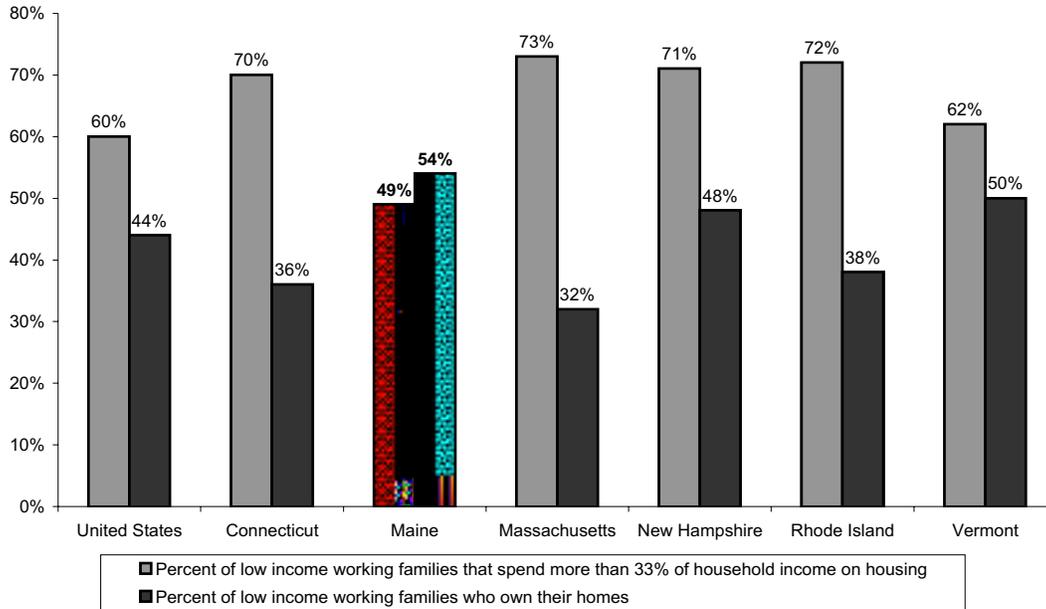


Chart Source: Federal Reserve Bank of Boston, New England Public Policy Center. "The Lack of Affordable Housing in New England: How Big a Problem? Why is it Growing? What Are We Doing About it?" January 2007.

In Maine, 54 percent of low-income working families own their home. Relative to the US average of 44 percent, Maine is doing well by this measure. At the same time, half of all low-income working families in Maine are spending more than 1/3 of their income on housing, a proportion that defines them as “housing burdened” by federal guidelines (see *Figure 8*). Again, this is below the national average (60 percent), but a matter of significant concern. With the recent rise in prices for home heating fuels, low-income families will face higher housing related expenses in the months and years ahead. Promoting policies that will alleviate the increasing burden of housing costs on these working families must be a part of any broad policy prescription.

Figure 8. Housing Ownership and Affordability



Data Source: The Working Poor Families Project Analysis of 2006 American Community Survey Microdata

Income Inequality and Levels of Taxation

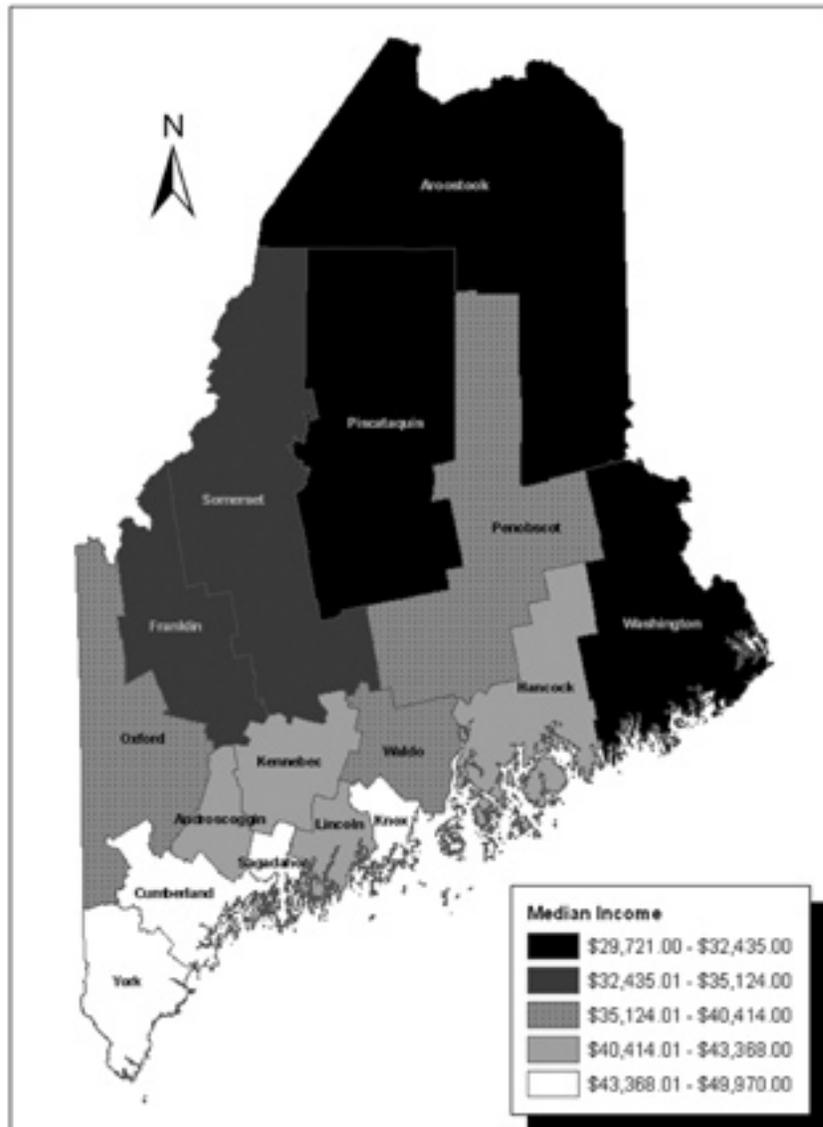
Compared to national averages, the median income in Maine is low, with the result being that a significant proportion of Maine’s working families are failing to make ends meet. The burdens associated with low-incomes, however, do not affect all Mainers. Incomes for the top fifth of Maine’s working families are six times larger than incomes for the bottom fifth of working families. While this ratio is significantly lower than both the US average (nine times) and the ratios of southern New England states (between eight and ten times), it is somewhat higher than is the case in either Vermont or New Hampshire. For those at the very top of Maine’s income distribution, the ratio is even larger. The wealthiest 5 percent of Maine families had annual

incomes 10 times larger than families in the bottom 20 percent.

Disparities in income amongst Mainers vary by county (*Figure 9*) and are growing. During a 15 year period beginning in the late 1980s, the gap between rich and poor widened substantially. Growth in the number of hours worked and in productivity per hour has not translated into comparable income gains for low-income Americans.

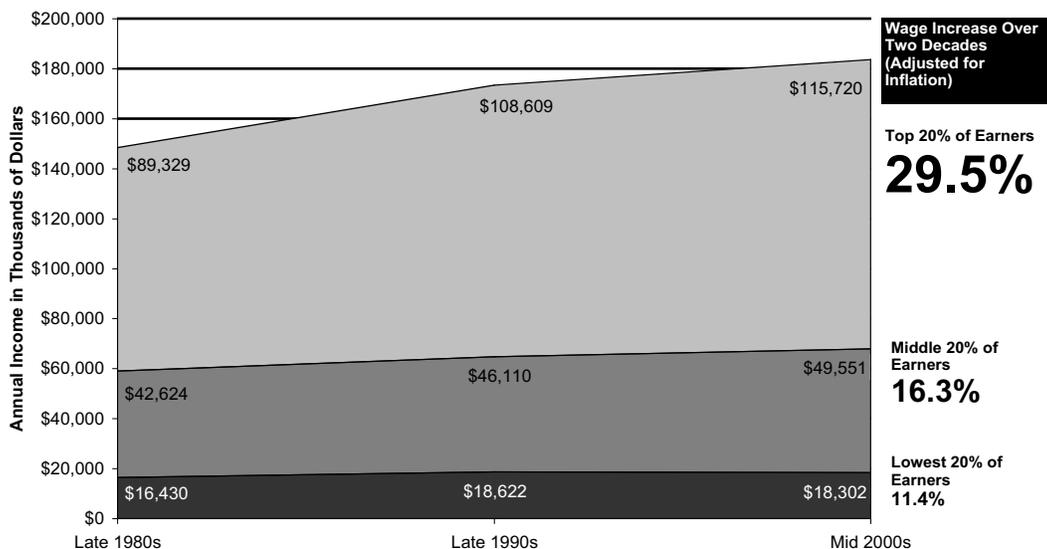
Since the late 1980s, the poorest fifth of Maine families have seen an average increase in income of just \$110 each year. By contrast, the richest fifth of Maine families have seen their incomes increase by over \$1550 each year, a rate 14 times faster than their neighbors at the low end of the income scale.²⁷

Figure 9. Median Household Income in Maine, by County (2005)



Data Source: Small Area Income and Poverty Estimates, US Census Bureau.

Figure 10. Income Inequality in Maine
Average Income in the Late 1980s to the Mid 2000s

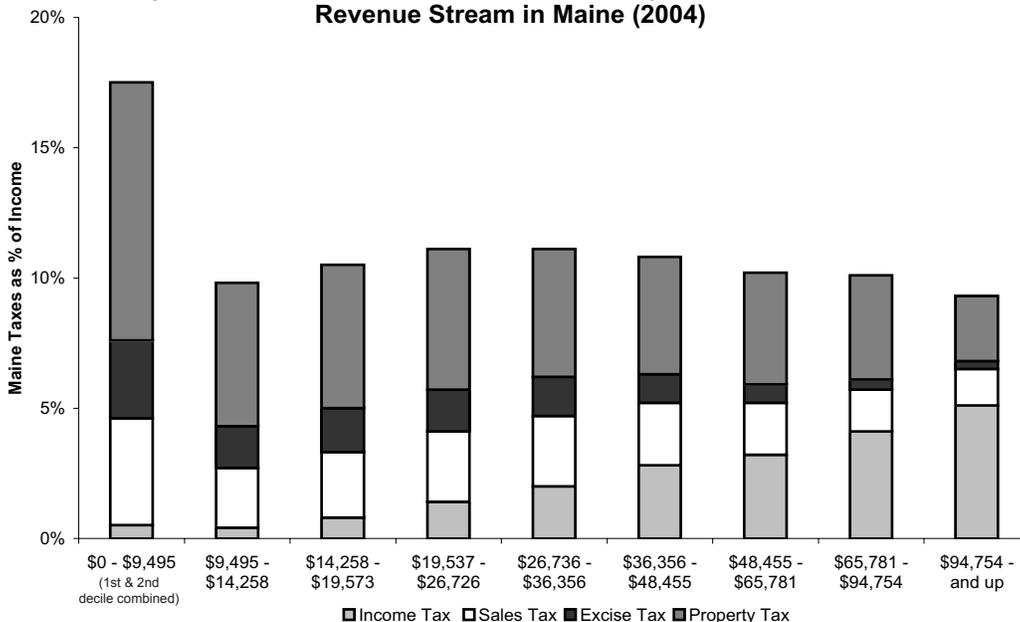


Data Source: Center on Budget and Policy Priorities and the Economic Policy Institute. "Pulling Apart : A State-by-State Analysis of Income Trends." 2008.

As *Figure 10* shows, even when viewed as a *percentage* of income, the inflation-adjusted gains made since the later 1980s by the richest fifth of families (29 percent) are close to three times that of the bottom fifth (11 percent).

Put another way, after a decade and a half of hard work, low-income Maine families are earning less than \$1900 additional dollars a year. The richest fifth of Maine families, however, have seen their cumulative annual purchasing power rise by over \$26,000, an increase in yearly earnings larger than the total yearly wages of thousands of low-income working households. The rising economic tide of the last 15 years clearly has lifted the boats of Maine's wealthy to still more comfortable standards of living. Unfortunately, many of Maine's working families have succeeded only in treading water, realizing little in the way of increased purchasing power. With the ballooning energy costs seen over the last 18 months, much or all of these gains will go, quite literally, up the chimney during the course of the winter heating season.

Figure 11. Individual Effective Tax Rates by Income Decile and Revenue Stream in Maine (2004)



Data Source: Maine Revenue Services

Exacerbating the trends in income disparities and adding to the challenges faced by Maine’s low-income families is the limited progressivity of the Maine state tax structure. A “progressive” tax structure places higher demands on those with higher incomes. While Maine’s state *income* tax structure is modestly progressive, when *sales*, *excise*, and *property* taxes are factored into the calculation, the “effective” state tax rate is far higher for low-income Mainers than for those at the upper end of the income scale. In fact, as a percent of their incomes, those individuals in the top ten percent of all Maine earners pay the lowest taxes, while the poorest 20 percent of earners pay the most (see *Figure 11*).²⁸

The public programs, structures, and institutions that tax dollars support are the building blocks that allow all Mainers and the state as a whole to succeed and to prosper. Everyone benefits from these public investments and from the orderly and productive society they create. Families who have enjoyed the greatest success arguably have reaped the greatest benefit from these shared investments.

If we are not going to ask that these fortunate few contribute in proportion to the great benefits they have enjoyed, we at least must strive to reduce the costs imposed on families at the bottom of the income distribution. It is important to support policies that directly reward the hard work of low-income families and that reduce the inequities of the current state tax structure.

Recommendations

The factors that result in low incomes for Maine’s hard working families – low incomes that, in turn, lead to the very real challenges outlined in this report - involve many aspects of our economy and our public policies. Unfortunately, therefore, there is no simple solution to the problems these families face – there is no “silver bullet” response to recommend. Instead, a variety of specific policies must be implemented in order to level the playing field and provide the support and opportunity that Maine’s low-income working families require. In time, policies like the ones we outline below will help grow Maine’s economy and rebuild a broad and secure middle class, one that can include all of Maine’s working families. Toward that end, we offer 17 policy recommendations that we organize into 6 categories.

I. Wages and Benefits

Among the best ways to address the challenges outlined in this report is to focus on the root problem: low family incomes. Policies that help families increase their earnings and become economically self-sufficient create positive cascading effects, enhancing opportunities and outcomes. Enhancements to wages and benefits are the most direct means of increasing incomes. If acted upon, the following three recommendations would increase the security and well-being of thousands of low-income working families in Maine.

- ✓ **Increase the federal and state minimum wage amounts and index them to inflation.** Not surprisingly, the most direct intervention possible for addressing low-incomes is to increase the wages of working families. Despite arguments to the contrary, empirical studies show that modest increases in the minimum wage - on the order of several dollars an hour - do not alter the hiring or investment decisions of most businesses.²⁹ Furthermore, increases in the minimum wage have been shown to have positive upward ripple effects on the incomes of workers earning only slightly above the minimum wage.

Though the Maine Legislature recently authorized a schedule for increasing the state minimum wage to \$7.50/hour by the fall of 2009, more needs to be done. Maine's Department of Labor estimates that a wage of nearly \$12.50/hour (using 2006 consumer prices for basic household needs) would be required for a family of four to support itself on a basic needs budget, with both parents working full-time.³⁰ Mandating a state or federal minimum wage that makes significant progress toward ensuring all working families earn a living wage is a clear means of improving economic opportunity and security in Maine. Indexing that increased minimum wage to inflation – as ten other states already have done - is equally essential in order to avoid an otherwise inescapable decline in purchasing power through time.

- ✓ **Mandate that all projects and programs funded with state dollars pay a living wage.** While it is unlikely that a minimum wage equivalent to \$12.50/hour can be mandated for the private sector, Maine state government can set a positive example on the projects and programs it funds. People working on state funded contracts should not be among the thousands of Mainers working full-time but still unable to meet basic family expenses. The state should not be seeking to benefit the many by paying poverty wages to the few. Furthermore, empirical studies of municipalities where living wage ordinances have been adopted reveal positive effects on area wages and no negative effects to business investment or levels of employment.³¹

A living wage pay standard should be required of businesses bidding for state contracts or receiving state economic development tax credits. Nationwide, over 100 municipalities and local government entities have adopted living wage ordinances. In 2007, Maryland became the first state to adopt living wage legislation statewide on state-funded contracts.

As part of the same discussion, Maine should increase reimbursement rates to Medicaid funded providers with the stipulation that these new state and federal dollars be passed on to the direct care workers through increased wages and benefits. Currently, many of these workers earn low wages with no benefits, even while the work they do is funded through the state Medicaid program.

- ✓ **Improve the state Family Medical Leave Act (FMLA):** Maine's FMLA guarantees workers up to 10 weeks of unpaid, job-protected leave to care for a new child or a sick family member, or for a serious medical condition of their own. Though the leave is unpaid, it nevertheless provides important job security to families already struggling with illness or provision-of-care issues

at home. Unfortunately, as currently enacted, Maine’s FMLA has significant limitations. For example, it does not cover individuals working in companies with fewer than 15 employees or those workers who have worked less than 12 months consecutively for the same employer.

Recently, Maine lawmakers have expanded the state’s FMLA to include domestic partners, children of domestic partners, siblings and military personnel in certain circumstances. We applaud these expansions, but more can be done to protect Maine workers and their families. Specifically, every worker, no matter what their company’s size, should have access to unpaid, job-protected leave. Maine should align the length of its leave with the federal statute and provide 12 weeks annually, if need be, versus 10 weeks every two years. These changes would help bring more low-income working families under the law’s protection, and in so doing promote the well-being of low-income children and families.

- ✓ **Improve the federal Family Medical Leave Act (FMLA):** Like Maine’s statute, the federal FMLA permits eligible employees to take as much as 12 weeks of unpaid leave to care for a new child or a sick family member, or for a serious medical condition of their own. Unfortunately, the federal FMLA reaches fewer workers, and for many low-wage workers who piece together more than full-time work schedules from multiple part-time jobs – often through smaller employers – this law provides no realizable benefit.

This federal law could be improved by including businesses with fewer employees and by covering employees working fewer hours annually. The federal law should also expand its definition of family to include siblings and grandparents, as well as domestic partners and their children.

- ✓ **Enact a state-level paid sick day law.** While not everyone comes to need the FMLA to provide care for themselves or a family member in cases of long term illness or disability, everyone occasionally gets sick with the cold or flu. Unfortunately, while everyone gets sick, not everyone has the chance to get well, because they lack the ability to take paid sick days off from work. Research shows that employees who go to work while sick are likely to infect other employees, increasing the total overall rate of absenteeism in the workforce.³² Research also indicates that the employer costs related to paid sick days are lower than costs resulting from sick employees attending work.³³ Going to work sick isn’t good for employees, employers or the state economy.

Families with children are doubly-challenged, as parents must figure out how to care for sick children while the parents are meant to be at work. Children aged 5 to 17 miss an average of 3 days of school each year due to illness.³⁴ Often, parents must miss work in order to stay home with a sick child.

In the second session of Maine's 123rd Legislature, a bill was introduced requiring employers with more than 25 employees to provide up to nine paid sick days annually for personal illness or to care for an immediate family member who is ill. While the issue wins broad support from the public (a 2007 poll of likely Maine voters pinned support at 87 percent, including 79 percent support among Republicans) it failed to advance in the state Legislature. However, given the inevitability of illness for individuals and for families, and given the benefits to employees, employers and to Maine's economy, the need to address the health requirements of workers and their families is clear. We recommend that Maine adopt a minimum standard for required sick days. This would help level the economic playing field for those businesses that already provide such benefits, and would greatly increase the economic security and well-being of low-income working families in Maine.

II. Health Care Coverage

Responding to the accelerating crisis of health coverage in America is both a moral and an economic imperative. It also is an enormous political challenge, as well as a design challenge for our health care institutions. With a decades-long absence of effective federal leadership on this issue, states have been forced to seek solutions on their own. Maine has been a leader in crafting solutions and - barring a timely and sweeping overhaul of health care at the national level – Maine must continue to build on the successes of its MaineCare and Dirigo Health programs.

- ✓ **Maintain eligibility and expand outreach efforts in the MaineCare program in order to bring more low-income parents, children, and childless adults under the MaineCare umbrella of coverage.** Providing adequate healthcare to all of Maine's population is not only a matter of basic social justice, it is also the foundation upon which our future shared prosperity will be built. To have a productive workforce and a growing economy Maine must have healthy families and healthy workers.

The MaineCare program is a cost-effective means of providing health coverage to Maine's low-income families and individuals. Access to ongoing preventive care greatly reduces the overall costs associated with otherwise uninsured families and individuals.³⁵ It also alleviates upward pressures on premiums in the private market. Further, supplying these services as part of the MaineCare program means that two-thirds of the expense is shifted off of the state budget and is replaced with federal dollars, minimizing state costs. Meanwhile, state administrators of MaineCare have done a remarkably good job of containing growth in costs, freeing up dollars for other uses in the Maine economy.³⁶ MaineCare is a clear success and should be used to expand coverage and contain state costs.

Some 11 percent of Maine residents currently lack health coverage.³⁷ The Governor's Office of Health Policy and Finance estimates that about one quarter of these people are MaineCare eligible and yet remain outside the program.³⁸ Approximately 19,000 children are among Maine's uninsured, while some 11,000 of these uninsured children are eligible for MaineCare coverage.³⁹ Expanding efforts to connect these children to the program is essential, as is maintaining eligibility for their parents and for Maine's low-income adults who do not have children in the home.

- ✓ **Support adequate funding for programs that provide insurance premium subsidies (such as the Dirigo program) and that work toward guaranteed coverage for all Maine people.** Maine has worked hard to address the problem of America's rising rates of uninsurance, providing early leadership by enacting the Dirigo Health reforms in 2003. The DirigoChoice program was developed as a way to help individuals who earn too much to qualify for MaineCare and yet too little to afford their own coverage. The program is designed to cover individuals with incomes up to 300 percent of poverty, providing subsidies on a sliding scale to help them purchase private health insurance. The DirigoChoice program requires that small businesses adopting the program pay at least 60 percent of an employee's premium, while the state provides a sliding scale subsidy for the remaining, employee share of the premium.

Dirigo has met with significant challenges as well as significant success. Thanks to MaineCare and Dirigo, Maine now has among the lowest rates of uninsurance in the nation. In addition, in 2007 Maine's Superintendent of Insurance estimated that direct cost savings achieved through the Dirigo program over the preceding three years exceeded \$110 million.⁴⁰ Still, an adequate ongoing funding source for this important initiative remains in jeopardy. Establishing a combination of

taxes on health-related consumer goods, such as tobacco or alcohol and soda, and on the hospitals and insurers who benefit from the costs savings generated by the Dirigo program, is a reasonable solution to the funding question.

III. Education

For low-income families, securing adequate education is an indispensable step toward achieving an adequate income and economic security over the long-term. As such, it is essential that we find ways to support Maine families in their efforts to complete high school/GED and post-secondary degree or credentialing programs. There are a number of important steps the state can take to enhance educational opportunities and outcomes for low-income adults.

- ✓ **Increase funding for the Competitive Skills Scholarship Program (CSSP).** One obvious area of focus should be providing increased funding to the newly created Competitive Skills Scholarship Program. The CSSP is a novel new approach to supplying state financial aid to Maine adults with incomes under 200 percent of the federal poverty level. Eligible adults must be enrolled in degree or credentialing programs that will prepare them to work in high need/high growth sectors of Maine's economy.

First opened for applications on April 1, 2008, the CSSP met with an overwhelming response. Program administrators at the Department of Labor received more than 200 applications in the first 10 days and an additional 500 inquiries at career centers around the state. By mid-April, the program was closed to further applications until the backlog of applications already received could be cleared and an assessment of remaining available funds could be made. Enrollment was reopened on July 14th and closed that same day due to the influx of applications. The Department of Labor estimates that there are currently 350 people enrolled in the program and is not expected to open enrollment again until March 30, 2009. Legislators and department heads can help provide access to education and to all the income advantages that go with it by thinking creatively about ways to expand funding for this enormously successful program.

- ✓ **Develop and implement a uniform K-20 data collection and benchmarking system.** Improving access to post-secondary education goes hand-in-hand with ensuring that students are able to realize meaningful economic benefits from their investments of time and money in degree and credentialing programs. In order to assess and then improve the outcomes derived from these

programs - and from the K-12 system that precedes them - it is important that Maine move toward a comprehensive system of data collection and benchmarking.

Developing and implementing a system that can follow students from kindergarten through high school, into post-secondary training, and then out into the labor force is essential. Without such student-specific longitudinal data we are at a loss to understand how we might improve programs, align workforce training to the needs of Maine's economy, or make sure that training programs actually improve the economic circumstances of low-income working families. (For links to more information on this topic, see the sidebar on page 12 of this report.)

IV. Taxes

As a percentage of family income, the cost of Maine's public investments – including schools, transportation and other infrastructure, correctional, regulatory and health systems, and city and state services – falls most heavily on the lowest-income Mainers. There are two specific measures that would improve significantly both the economic prospects of low-income working families and the overall equity of Maine's tax structure. While more fundamental reform of the current structure could increase Maine's long-term economic potential, any proposed reforms ultimately must reduce the disproportional burden carried by low-income Mainers. Most immediately, the state can increase the value of and participation in Maine's low-income tax credit programs.

- ✓ **Increase participation in the Property Tax and Rent “Circuit Breaker” Program.** In 2007, through this program the state of Maine disbursed \$44.4 million in tax relief to low-income property owners and renters.⁴¹ Serving 110,000 to 115,000 households annually, the program provides an average state credit of approximately \$500 per recipient, offsetting a portion of the housing costs faced by low-income Mainers. Both property owners and renters alike are eligible for the credit.

With half of all Maine's low-income working families categorized as “housing burdened”, this program offers an important opportunity for tangible financial support. Currently, however, Maine's Department of Revenue estimates that perhaps 40 percent of eligible households fail to participate in the program. Increased efforts must be made to identify eligible households and help them to access the benefits of the program in order that many more low-income working families in Maine can be connected to this important source of direct income enhancement.

While the Maine State Revenue Service has attempted to advertise the program through outreach to municipalities and community organizations, a professionally designed and implemented public awareness campaign could increase significantly the number of eligible families applying for this credit.

Several steps can be taken. An application process that makes available the property tax and rent credit on state income tax forms and includes the tax and rent credit as part of the eligibility determination for low-income supports such as Food Stamps (administered directly by the Maine Office of Integrated Access and Support) would increase awareness about and access to this valuable resource. There would be modest, one-time costs associated with altering tax forms and the computer system for the Office of Integrated Access and Support (OIAS). Modest additional ongoing expenses resulting from the need for increased administrative involvement at Maine Revenue Services and OIAS can also be expected.

More significantly, there would be a larger one-time cash-flow problem associated with shifting the credit payment schedule to coincide with the income tax year rather than the current reimbursement schedule, which lags a full year after municipal property tax collections. By fully integrating the “circuit breaker” program into the state revenue system it would be necessary for Maine Revenue Services to begin issuing credit payments in the April-June period when the majority of people file income tax returns. Currently, circuit breaker checks go out in the fall months. The result of this shift would be that, in the first year that the switch is made, *two* years of circuit breaker credits would fall due in a *single* state fiscal year, creating a temporary revenue shortfall of roughly \$44 million.

The fiscal impacts associated with the one-time costs and cash-flow issues could be reduced significantly if they were to occur within the context of a larger tax reform effort. In either case, the substantial benefits that would accrue to Maine’s low-income families – both by drawing many more people into the program and by providing them with circuit breaker checks much closer to the time at which property taxes typically fall due - far outweigh the one-time costs and ongoing administrative costs associated with these recommended changes.

- ✓ **Increase the value of the state Earned Income Tax Credit (EITC) and make it refundable.** Any set of proposals aimed at improving the economic opportunities of low-income working families must include discussion of the EITC. Maine is fortunate to be one of 24 states that

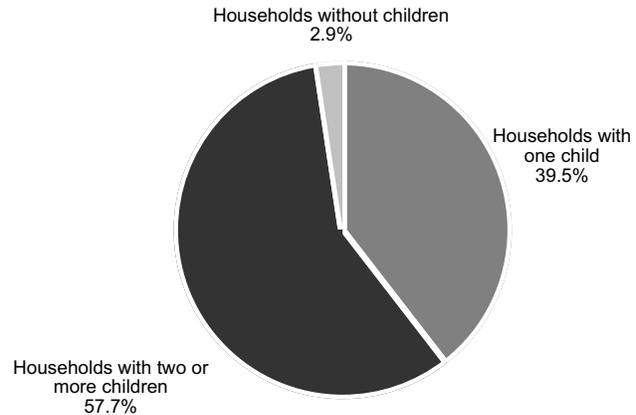
currently have state level EITCs augmenting the much larger federal EITC program.

The EITC is a program that returns tax dollars to low-income families according to the number of hours worked and the number of children in the family. The program's design has been praised widely for directing aid to families with children (as shown in *Figure 12*), and for encouraging work effort (as seen in *Figure 13*), bringing people into the labor market and increasing the number of hours the lowest-income families supply.

The federal program offers a “refundable credit” meaning that should a family be eligible for a credit amount greater than their total tax liability they will be issued a check for the difference by the government. In 2008, the federal credit will be worth as much as \$4800 dollars to a family with two or more children. This is a large amount for a struggling household.

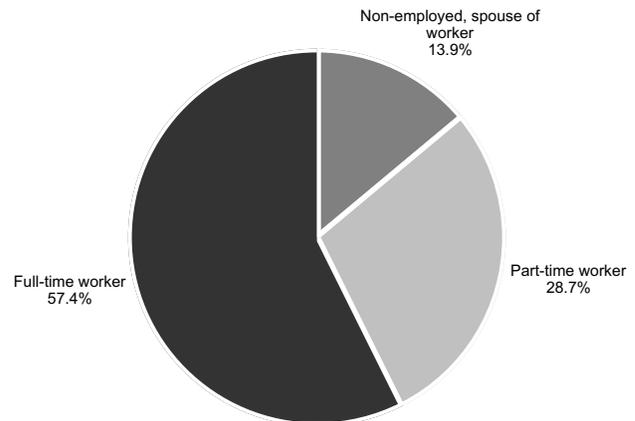
Like many states, Maine's state EITC “piggy backs” on the federal program, offering families that are eligible for the *federal* credit a *state* credit applicable toward their state tax liability. The state credit is equal to a percentage of the family's federal credit amount. Unfortunately, in Maine this percentage is very low - currently set at 5 percent - and the credit is non-refundable. As many poor and low-income families

Figure 12. Earned Income Tax Credit Recipients by Household Type in Maine



Data Source: 2006 American Community Survey Public Use Microdata (PL)

Figure 13. Earned Income Tax Credit Recipients by Work Level in Maine

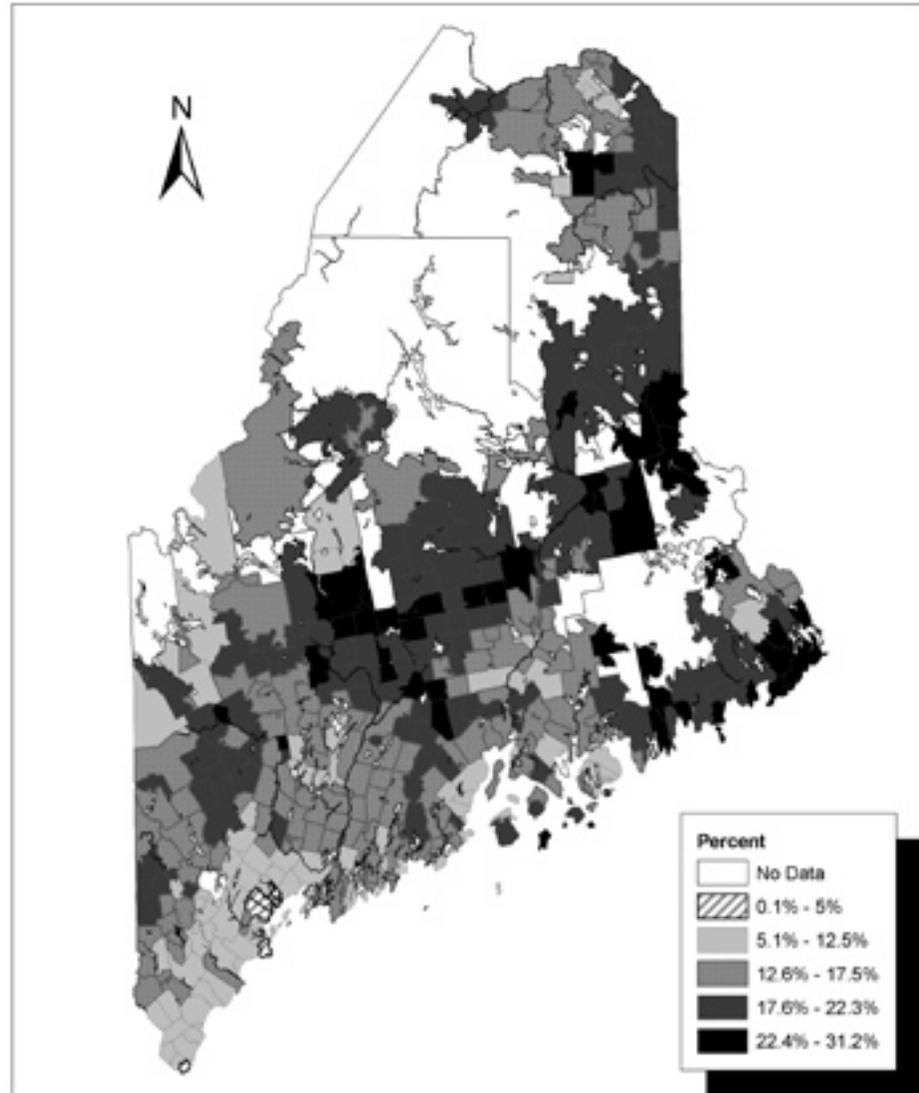


Data Source: 2006 American Community Survey Public Use Microdata (PL)

have limited or no state tax liability, a non-refundable credit may provide little or no economic benefit. The result is that, in Maine, families eligible for the largest possible state credit will receive a maximum reduction in taxes of \$240. If they owe no state taxes the family gains nothing from this program.

In 2007, over 51,000 Maine filers claimed a total of \$4.25 million from the state's EITC program. However, Maine's Department of Revenue disbursed only \$2.4 million to about 36,000 filers.⁴² The difference between these figures largely results from the non-refundability of Maine's credit; though thousands

Figure 14. Earned Income Tax Credit in Maine (2005)
EITC Recipients as a Percent of Total Tax Returns



Data Source: The Brookings Institute.

of people were eligible for credits, because they owed no state taxes these eligible filers received no benefit from the program. *Figure 14* shows that many of Maine's poorest communities have troublingly low percentages of EITC recipients. If the state credit were made fully refundable, as many as 15,000 low-income working families in Maine would have received a total of approximately \$1.85 million.⁴³

Many other states have fully refundable state EITCs set at 15 percent, 20 percent, or still higher percentages of the federal credit. Doubling or tripling Maine's state EITC and making it fully refundable would provide meaningful, tangible help to hard working families. It also would target these funds to households with children, helping to alleviate childhood poverty in Maine. Improving the structure of the state EITC is a simple, highly efficient way to increase the rewards to work for many Maine families.

V. Direct Low-Income Supports

For families living on chronically tight budgets, even a small disruption – a brief illness, a car repair, a reduction in available work hours – can push them into a downward economic spiral. Specific supports can help families weather these temporary setbacks, keeping families in their homes while helping them build toward greater economic security. We suggest two important ways to improve current programs.

- ✓ **Expand federal and state childcare subsidies for low-income working families.** Childcare costs consume 20-25 percent of a basic family needs budget in Maine (depending on family composition), a greater percentage than food, housing, or transportation.⁴⁴ At the same time, as wages have stagnated over the course of the last 30 years – and for some income groups, even declined - families can no longer afford to have one parent remain at home with the children. Providing low-income families with access to affordable childcare is an important part of helping these families remain in the workforce.

Currently, the state is unable to provide subsidies to all working families who qualify and are in need of assistance. According to Maine's Office of Child and Family Services, in state fiscal year 2007 Maine served only 16,421 of the 48,122 children eligible for a child care subsidy.

The majority of child care subsidies are funded with federal dollars received through the Child Care and Development Fund and the TANF block grant. This federal funding for child care subsidies has stayed nearly frozen over the last 6 years (for more information please see: http://www.clasp.org/publications/cc_2009_budget.pdf). Maine's congressional delegation must push for increased federal funding for these grants in order to better provide for Maine families. In addition, the state legislature should seek to augment the federal subsidies with state level grants.

- ✓ **Increase the Temporary Aid to Needy Families (TANF) benefit.** TANF is the outcome of the 1996 overhaul of the US welfare system, previously called Aid to Families with Dependent Children. Delivering cash assistance, education, job training and support services such as child care to families with minor children, the TANF program brings almost \$85 million in federal funds into Maine's economy annually. These funds supply critically needed support to help families overcome barriers to work. The 1996 reforms created requirements for work and/or training in order to qualify for TANF cash assistance, and made each state the administrator of its own TANF system. While some state dollars are required in order to qualify for federal TANF funding, the majority of TANF costs are borne by the federal government.

Though the success of the reforms is debatable, what is clear is that federal allocations to the TANF program have not been increased since 1996. The state investment in the program also has remained mostly steady. The state, which determines benefit levels for recipients, has not increased benefits since 2001. The purchasing power of the assistance provided to eligible families therefore has declined markedly due to inflation. In Maine, monthly TANF assistance to a family of three with no other income is just \$485, or about *one third* of the federal poverty level. This is the lowest benefit level in all of New England. If assistance had kept pace with inflation, however, today's monthly distribution would be \$600. For a family living so far below the poverty level, the difference between \$485/month and \$600/month is profound.

TANF benefits must be increased. Maine's congressional delegation must work to bring federal TANF allocations up to levels more in line with 1996 levels of purchasing power. Both the state and the federal government should invest more money into the program to prevent TANF families from falling deeper into poverty, while they work for self-sufficiency.

VI. Energy and Housing Assistance

Rapidly rising costs for energy and the continued high cost of housing are two of the key features of the current economic landscape. Most family budgets in Maine are affected in important ways by increases in energy and housing costs, but Maine's low-income households face the greatest threat to their basic economic security. Direct action with regards to these two basic needs must rank high on the list of policy interventions.

Energy

In February of 2007, home heating oil in Maine averaged \$2.31 per gallon.⁴⁵ This year, at the height of summer (and hence the bottom of the demand curve) home heating oil in Maine is averaging \$4.71 per gallon, a cost increase of more than 100 percent in just 18 months.⁴⁶ With crude oil prices likely to remain above \$100 per barrel, the coming winter is sure to create very real economic and health concerns for Maine's low-income families. In order to prepare for this, several steps should be taken:

- ✓ **Increase funding for the Low Income Home Energy Assistance Program (LIHEAP).** LIHEAP is a federally funded program that provides emergency energy assistance to low-income households. Maine's federal LIHEAP allocation for 2008 has totaled \$38 million.⁴⁷ This figure is up from \$32.5 million in 2007, but down sharply from the \$43.5 million federal allocation in 2006. At current costs of \$4/gallon for heating fuel (September 2008), the 2008 LIHEAP allocation can provide about 9.5 million gallons of fuel to low-income Mainers compared to the 17.5 million gallons possible in 2006.⁴⁸

Governor Baldacci, state Legislators, and Maine organizations should work with the state's congressional delegation to increase the federal appropriation for LIHEAP. With federal dollars being the principal source of emergency heating assistance in Maine, it is essential that federal LIHEAP funding levels be increased. Maine's delegation should seek, at a minimum, to return LIHEAP's purchasing power capacity to 2006 levels.

- ✓ **As part of an immediate "Energy Emergency Plan", the Maine Legislature should appropriate \$20 million or more for each of the next several years from the state's "rainy day" fund in order to augment LIHEAP's purchasing capacity.** Over the long term, fundamental solutions to the problem of skyrocketing energy costs will need to be found. Many of

these solutions undoubtedly will involve efforts aimed at conservation and efficiency, as well as a shift away from fossil fuels of both foreign and domestic origin.

In the near term, however, as federal programs and the national economy adjust to higher energy costs, increased state-level assistance to low-income households over the next several winters is imperative. A specific and limited set of withdrawals from the state's "rainy day" fund to help Mainers as they adjust to these new realities would be one reasonable approach for the legislature to adopt. As is done with the federal LIHEAP program, targeting an increasing percentage of these additional state funds toward conservation and efficiency upgrades in households receiving LIHEAP funds (through some combination of weatherization and appliance upgrades) would be an important investment of some of these state dollars.

Housing

As noted earlier, home prices have risen more quickly in Maine over the last decade than in the country as a whole. One of every two low-income families in Maine is "housing burdened" according to federal guidelines, spending more than a third of their income on housing. Clearly, housing costs and the vulnerability of middle and lower income families to the current crisis in the housing markets makes this an area of special concern. A number of steps, both at the federal and state level, should be taken to address these issues.

- ✓ **Pass the federal Section 8 Voucher Reform Act (SEVRA).** The Section 8 Voucher Program is a federally funded program that helps low-income households bridge the gap between their limited earnings and their monthly rental expenses. Administered at the state level, this program currently serves close to 12,000 households throughout Maine, and brings over \$68 million in federal funding to the Maine economy yearly. Nevertheless, many of the families served remain housing burdened even with this federal assistance.⁴⁹ Another 11,500 eligible families remain on waiting lists that now are closed temporarily to additional applicants.

If enacted, reforms to the Section 8 program proposed in SEVRA would make more vouchers available. This would move people off of waiting lists and into housing, thereby decreasing homelessness in Maine, and the personal and public costs associated with homelessness. Rule changes would permit larger dollar-value vouchers to be issued, reducing the number of housing burdened families in Maine. A streamlining of federally mandated administrative procedures

would permit more efficient and complete disbursement of Maine's allotted voucher quota. All of these reforms would benefit Maine's low-income families and the overall state economy.

At present, SEVRA has been passed by the US House of Representatives and awaits final passage in the Senate. Maine's federal delegation supports SEVRA passage. To the extent the Maine delegation can encourage their colleagues in Congress to move the bill quickly on to passage, the better able will Mainers be to face the challenges of the coming winter and beyond.

- ✓ **At the state level, legislators should seek to increase funding for the Housing Opportunities for Maine (HOME) Fund, and should protect the HOME Fund from continuing transfers to the General Fund or other programs.** Though Maine should be credited with creating a special fund that helps leverage private and federal investments for affordable housing options, too often the resources of the HOME Fund have been diverted toward other uses. With a large gap between the need for and availability of affordable units in Maine, it is important that the HOME Fund be used for its intended purposes. Moreover, *additional* resources should be directed to the HOME Fund in order to increase affordable housing options for low and moderate income Mainers.

Funded by a tax of less than 1/4 of one percent on real estate transfers, the HOME Fund invested over \$38 million in Maine housing between 2002 and 2006.⁵⁰ The Maine State Housing Authority estimates that, between 2005-2006 alone, the HOME Fund helped stimulate over \$500 million of investment in affordable housing options in Maine.⁵¹

Due to a change enacted by the Maine Legislature, however, during the 2002-2006 period, \$30 million additional dollars originally intended for the HOME Fund were directed instead to the General Fund.⁵² Despite earlier calls by the Governor, during its most recent session both the Legislature and the Governor not only continued the practice of diverting the first \$7.5 million of real estate taxes away from the HOME Fund and into the General Fund, but took additional monies away as well, in order to close the biennial budget gap.

Still more problematically, a 5-year plan was adopted that eventually will use much of the HOME Fund for an important, but only tangentially related program, the State Historic Rehabilitation Tax Credit. From a statewide economic perspective this is particularly unfortunate; HOME Fund dollars are used to leverage federal matching funds at a rate of \$10-

\$25 of federal investment for every state dollar used. The HOME Fund is thus a critical resource for increasing affordable housing options, and has the capacity to stimulate significant activity in the Maine economy.

The legislature should put an end to the practice of systematically diverting dollars from the HOME Fund toward other uses. The full 45% of collected real estate transfer taxes designated for the HOME Fund should be used for this purpose. Moreover, an increased assessment on real estate transfers of homes exceeding \$1 million in value - as was proposed in the last legislative session - should be adopted as a way to increase resources available to the HOME Fund.

In addition, legislators should consider taking further steps to increase and update Maine's aged and inefficient housing stock. Toward that end, legislators should develop a capital financing plan able to build a further pool of seed money with which to leverage much larger investments in housing designed for the 21st century.

Whether through bond measures or other means, a pool of several tens of millions of dollars for each of the coming 4-5 years should be dedicated to the renovation and creation of affordable, "green" housing. This housing must be both energy efficient in its own right, and help to concentrate Maine's population in pre-existing town and city centers. Enacting Smart Growth policies increasingly will be the key to freeing Maine from a detrimental dependence on oil, thereby reducing state costs and building a strong and vibrant economy.

Conclusion

Over the last three decades, America's middle and working class families have taken an economic beating. Where the public policies of the 1930s through the 1970s produced unprecedented economic growth by rewarding working families for their contributions, that winning approach has given way to policies that return less and less to the bottom 80 percent of earners. These newer, "pro-growth" policies in fact steadily have eroded living standards, diminished opportunities, and undermined the economic security of America's families and the nation as a whole. Thirty years of empirical data makes one thing perfectly clear: trickle-down economics doesn't work. When we neglect to make critical public investments in infrastructure and human capital, when we prevent state and federal government from regulating markets and

enforcing the rules of the game, the nation is weakened and America's working families fall farther and farther behind.

Now it is time to move again toward an economy that works for *all* of us, both nationally and at the state level. Thoughtful government policies will play a crucial role in Maine's future success. As was true in earlier eras, establishing good ground rules and increasing access to opportunity for *all* Maine people will be the key to achieving that success. Good government policies – policies like those outlined above - will help grow the economic pie and ensure that we all share in Maine's future prosperity.

Endnotes

¹ Isabel Sawhill (Brookings Institution) and John E. Morton (Pew Charitable Trusts), "Economic Mobility: Is the American Dream Alive and Well?", 2007

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³ Ibid

⁴ Economic Policy Institute, *Running Faster to Stay in Place*, 2004 (see *Economic Snapshots*, July 2004): http://www.epi.org/content.cfm/webfeatures_snapshots_07072004

Economic Policy Institute, *Economic Snapshots*, April 2005: http://www.epi.org/content.cfm/webfeatures_snapshots_20050421

⁵ Pew Research Center, "*Inside the Middle Class: Bad Times Hit the Good Life*", April 2008

⁶ US Census, 2008 Statistical Abstract <http://www.census.gov/compendia/statab/rankings.html>

⁷ Kaiser Family Foundation, State Health Facts and US Census, 2008 Statistical Abstract http://www.census.gov/compendia/statab/cats/income_expenditures_poverty_wealth.html

⁸ Working Poor Families Project, Definition of Terms

⁹ US Census Bureau, *Income, Poverty, and Health Insurance Coverage: 2006*, P60-233, Appendix B

¹⁰ These figures are based on 2006 Federal Poverty Levels, corresponding to the data in this report from the 2006 American Community Survey

¹¹ US Census, 2006 American Community Survey

¹² Economic Policy Institute, analysis of 2007 American Community Survey data

¹³ Ibid (Note: figures are given in constant 2007 dollars)

¹⁴ <http://www.mecep.org/view.asp?news=263>

¹⁵ Maine Department of Labor website: <http://www.maine.gov/labor/lmis/2006LivableWage.htm>

¹⁶ American Community Survey, Public Use Microdata Sample (PUMS), 2006

Note: Due to the small sample size in Maine of ACS PUMS, several measures, including this one, have relatively large 90% confidence intervals. Where this is the case, we have noted it either in the text or in related footnotes.

¹⁷ Ibid

- ¹⁸ 2006 American Community Survey Microdata
- ¹⁹ Economic Policy Institute, analysis of 2007 American Community Survey data
- ²⁰ Maine Children's Alliance, *Maine Kids Count 2008*
- ²¹ National Governor's Association, "State Strategies to Reduce Childhood and Family Poverty", Issue Brief, June 2008
- ²² Ibid
- ²³ Kaiser Family Foundation, <http://www.statehealthfacts.org/>
- ²⁴ Due to the small sample size of the American Community Survey (ACS) the 90% confidence interval for this statistic ranges from 12-27 percent. Twenty percent uninsurance represents the mid-point in this range. This is a larger range than is the case for other ACS measures presented in this report.
- ²⁵ US Office of Federal Housing Enterprise Oversight: http://www.ofheo.gov/hpi_download.aspx
- ²⁶ Federal Reserve Bank of Boston, "The Lack of Affordable Housing in New England", January 2007 (Figure A1)
- ²⁷ Economic Policy Institute, "Pulling Apart: a State-by-State Analysis of Income Trends, 2008"
- ²⁸ MECEP Spending and Revenue Primer 2007
- ²⁹ Economic Policy Institute: http://www.epi.org/content.cfm/issueguides_minwage_minwagefaq
- ³⁰ Using a methodology outlined by the Maine Center for Economic Policy and adopted by statute into the estimates of a Living Wage produced by the Maine Department of Labor.
- ³¹ Economic Policy Institute: http://www.epi.org/content.cfm/issueguides_livingwage_livingwagefaq
- ³² Lisa Pohlman, MECEP *Choices*, "Paid Sick Days are a Workplace Necessity", April 2007
- ³³ Ibid
- ³⁴ Ibid
- ³⁵ MECEP *Choices*, February 2008: <http://www.mecep.org/view.asp?news=340>
- ³⁶ Ibid
- ³⁷ The Governor's Office of Health Policy and Finance, *Maine's 2008-2009 State Health Plan*
- ³⁸ Ibid
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- ⁴⁰ The Governor's Office of Health Policy and Finance, *Maine's 2008-2009 State Health Plan*
- ⁴¹ Maine Office of Fiscal and Program Review, *Compendium, Fiscal 2007: Individual Income Tax - Tax Relief Program Transfers*
- ⁴² Data collection and analysis performed by Maine Dept. of Revenue upon request from MECEP.
- ⁴³ Ibid
- ⁴⁴ Maine Center for Economic Policy, 2006 Basic Needs Budget (See: <http://www.mecep.org/lw.asp>)
- ⁴⁵ Maine Energy Resources Council: <http://www.maineenergyinfo.com/oil/index.html>
- ⁴⁶ Ibid
- ⁴⁷ "The LIHEAP Investment", July 2008, <http://www.liheap.org>
- ⁴⁸ Per gallon cost data from Maine Energy Resources Council: <http://www.maineenergyinfo.com/oil/index.html>
- ⁴⁹ MECEP, *Choices*, April 2008: <http://www.mecep.org/view.asp?news=373>
- ⁵⁰ Maine State Housing Authority, biannual HOME Fund report, April 2007
- ⁵¹ Ibid
- ⁵² Ibid