



STATE OF MAINE
OFFICE OF THE GOVERNOR
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AUGUSTA, MAINE
04333-0001

Paul R. LePage
GOVERNOR

2 July 2018

The 128th Legislature of the State of Maine
State House
Augusta, ME

Dear Honorable Members of the 128th Legislature:

Under the authority vested in me by Article IV, Part Third, Section 2 of the Constitution of the State of Maine, I am hereby vetoing LD 924, “An Act Making Certain Supplemental Appropriations and Allocations and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government,” and LD 925, “An Act Making Certain Appropriations and Allocations and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government.”

Both of these bills provide significant funding to help ensure adequate treatment and services for many of Maine’s most vulnerable. I have no desire to enter into a debate about the details in either of these bills. Truthfully, I largely agree with the Legislature’s assessment that something needs to be done. Our seniors and our people with disabilities need more direct care workers, home health services and nursing facilities. Rate changes are necessary to attract and keep quality workers to provide care. However, although some of the need for higher reimbursement rates is being driven by the tight labor market—especially in Southern Maine, much of the demand is caused by the mandated statewide increase in the minimum wage.

Maine’s labor markets should be able to set wages according to local demand for the skills each worker brings to the table, not the government. The inflexible, statewide, one-size-fits all minimum wage law has taken the flexibility out of the market.

To keep up with the increases set in the minimum wage law, the State will need to increase reimbursements to non-profit healthcare agencies to compensate for rising wages. These two bills attempt to do that, but they do not address the root cause of the problem, as I asked the Legislature to do.

Increasing the reimbursement rates effective July 1 is a short-term compromise that fails to resolve the ongoing pressure to raise wages. Year after year, these non-profits will need more money to keep pace with the raises required by statute, a dollar next year and another the year after, with permanent, unpredictable, ongoing increases each year thereafter tied to the Consumer Price Index. The wage for January 1 of each year starting in 2021 will not be known until October, forcing the Legislature to come into session and pass retroactive increases to reimbursement rates.



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This is no way to budget. It will continue to place these nonprofit healthcare agencies in economic limbo. It will do the same to our businesses.

Not slowing the rise of the minimum wage is having a detrimental effect on our labor shortage. We don't have enough people. Employers need the flexibility to pay market rates to attract workers to Maine and to rural areas. In some cases, because an employer needs a certain specialized skill, that employer may have to pay above-market rates. Having the government dictate what other workers must be paid lessens that employer's flexibility to pay that higher wage.

When employers are forced to provide mandated increases in the minimum wage, this also removes their flexibility to provide other benefits and additional types of compensation. Vacation pay, sick pay and benefits such as health or disability insurance and annual or merit bonuses are additional—and valuable—forms of compensation that employers may offer in lieu of higher hourly wages. Employees at all levels lose out on these benefits when government mandates wages for entry-level workers.

We are beginning to see the impact to our economy. Our economy has been largely able to absorb the increases to \$10 until now because of already rising wages due to our improving economy and tight labor market. But our economy is starting to overheat and the increases to \$11 and \$12 push our labor market into new territory. In 2020, when Maine's minimum wage is \$12, only the states of California, New York, Massachusetts and Washington will have a higher minimum wage than ours, and only Oregon, Arizona and Colorado will be at \$12. Our economy and industry sectors are completely different than those of these states. Maine's businesses will be at a competitive disadvantage on the cost of labor alone, never mind the other detrimental effects of this government mandate.

Wage compression caused by the state's minimum wage increases are putting real pressure on businesses. Workers who've been in jobs for a couple years longer than new hires want raises on par with recent increases in the minimum wage. They rightly believe their experience and loyalty should be reflected in their wages. If an employer cannot keep pace, it has a negative impact on the morale of a workforce.

In this tight labor market, wage compression is making it harder for employers to keep workers. When employers cannot match those pay increases, they adjust their operations to decrease labor costs. By shifting responsibilities, an employer with 10 employees may now get by with eight, or the employer may decrease the number of hours the shop is open or may close one day a week. As a result, workers lose jobs, hours and pay.

A study that came out just a year ago looked at the labor market in Seattle and found that workers' paychecks were more than \$100 smaller on average because of lost hours as the minimum wage increased. Maine does not have the economy of Seattle, so expect the effects to be worse, especially in our rural areas.

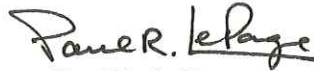
Maine employers have testified to LCRED that they'll cut hours and raise prices if the minimum wage increases. The Legislature ignores this testimony at the peril of our economy.

Maine's overly complicated labor laws also tie the paychecks of salaried overtime-exempt workers to the minimum wage. As of January 1 of this year, any worker classified as salary exempt must be making at least \$30,000; next January that will climb to \$33,000, and January of 2020 it will climb to \$36,000. This will put further pressure on employers because the federal requirement for a salaried overtime-exempt worker is about \$24,000, as it was in Maine until 2017. Although this likely only affects overtime-exempt workers in the lower salary ranges, this is one more governmental requirement that makes Maine a more difficult place to do business and decreases our competitiveness. This tie to the salary range also affects the health care non-profits these bills are intended to help.

The Speaker is insistent on sending our economy into a recession from the compounding headaches caused by the minimum wage. She is more concerned about votes than protecting the jobs and paychecks of the people of Maine.

For this reason, I return LD 924 and 925 unsigned and vetoed. I strongly urge the Legislature to sustain it.

Sincerely,

A handwritten signature in black ink that reads "Paul R. LePage". The signature is written in a cursive style with a large, stylized initial "P".

Paul R. LePage
Governor