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STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
BURTON M. CROSS BUILDING, 3RD FLOOR
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AUGUSTA, MAINE 04333-0078

SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

JANET T. MILLS
GOVERNOR

KIRSTEN LC FIGUEROA
COMMISSIONER

January 8, 2020

To Whom It May Concern:

Enclosed please find the Four Year Revenue and Expenditure Forecast completed per statute every second year by the Department of Administrative and Financial Services' Bureau of the Budget.

This report compares the most recent revenue forecasting against current appropriation and allocation funding requirements in law. This includes, for example, a baseline of 55 percent of total cost of K-12 education, 5 percent spending for Municipal Revenue Sharing, and all other programming and statutory initiatives with compulsory funding obligations – even if that spending is not occurring.

The final result – the so-called structural gap – is the amount of money by which revenues would have to increase, expenses would have to decrease, existing laws would have to be amended, or some combination thereof would have to be achieved in order for revenues to meet expenditures, as identified by law. It is important to note, however, that many of the funding obligations considered in the report are, with Legislative approval, routinely not met and, therefore, this report should not be considered an accurate reflection of an actual budget shortfall facing State government. Instead, this report can offer a starting point for work sessions and conversations throughout the State's biennial budget process as State leaders, including the Legislature, carefully identify the appropriate mix of policies and strategies that ought to be utilized in pursuit of a balanced budget.

As you know, the budget proposals submitted today to the Legislature are balanced and do not contain a gap.

Sincerely,

A handwritten signature in black ink that reads "Kirsten LC Figueroa".

Kirsten LC Figueroa
Commissioner



STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
Bureau of the Budget
State House Station #58
Augusta, Maine 04333

Date: January 8, 2021

To: Honorable Janet T. Mills, Governor
Honorable Troy D. Jackson, President of the Senate
Honorable Ryan M. Fecteau, Speaker of the House
Members, Joint Standing Committee on Appropriations and Financial Affairs

From: Beth L. Ashcroft, State Budget Officer *BLA*

Subject: Four Year Revenue and Expenditure Forecast Report for the General Fund and Highway Fund for the 2020-2021 and 2022-2023 Biennia

The State of Maine Bureau of the Budget presents the state budget forecast for the General Fund and the Highway Fund for the 2020-2021 biennium and the 2022-2023 biennium in accordance with Title 5 §1665, sub-§ 7. As required by statute, the forecast is based on the current structure of state revenues and expenditures and provides a platform for long term financial planning.

Notably, this forecast has been developed during an unprecedented and severe pandemic-induced recession that began to impact Maine in March 2020. Following the March revenue forecast and bills enacted by the Legislature in the Second Regular Session, the projected General Fund adjusted balance was approximately \$113 million for the end of the 2020-2021 biennium. The projected Highway Fund adjusted balance at that time was approximately \$6.7 million for the end of the biennium.

In a special "off-cycle" August 2020 forecast, the Revenue Forecasting Committee projected significant decreases in both General Fund and Highway Fund revenues for fiscal years 2021–2023. While the most recent revenue forecast of December 1, 2020 projects an improvement in the revenue situation when compared to August 2020, it is still a substantial decline when compared to pre-pandemic March 2020.

The General and Highway Fund revenues used in this forecast are from the Revenue Forecasting Committee's December 1, 2020 report and the impacts of the recession are reflected in both the revenue and structural gap projections. The forecasts of revenues, appropriations and allocations contained in this report, as constructed under current law and current trends, result in a projected shortfall for the 2022-2023 biennium of \$661,716,645 in the General Fund and \$488,510,031 in the Highway Fund.

Alternate forecasts for both funds using March 2020 forecasted revenues illustrate the impact of the pandemic on the budget gap currently projected for the 2022–2023 biennium and provide additional perspective on the portion of the gap related to the structure of revenues and expenditures. The projected General Fund budget shortfall for the 2022–2023 biennium using March 2020 forecasted revenues is about \$160.5 million and the projected shortfall for the Highway Fund budget is nearly \$453.9 million. These figures are more indicative of the true structural gap between revenues and expenditures.

The alternate forecasts using March 2020 forecasted revenues are also the most appropriate to use in comparing changes in the projected budget gaps for the upcoming biennium to those projected for the 2020-2021 biennium in the 2018 four-year forecast. The comparison shows a substantial reduction in the structural gap projected for the General Fund between the 2018 and 2020 forecasts, primarily due to consistent revenue growth over recent biennia. Conversely, the comparison shows an increase in the structural gap projected for the Highway Fund, primarily due to relatively modest revenue growth versus increased transportation infrastructure costs over recent biennia. Other factors contributing to these changes are discussed in the report.

The statutory due date for the four- year forecast is September 30th of each even-numbered year. The due date for this year's report was extended to November 16th by Executive Order of the Governor #10-A FY 20/21. Submission of this report was further delayed so as to capture the most recent revenue forecast given the uncertainties associated with forecasting revenues during the pandemic.

cc: Kirsten Figueroa, Commissioner, Department of Administrative and Financial Services
Jeremy Kennedy, Chief of Staff, Office of the Governor
Chris Nolan, Director, Office of Fiscal & Program Review, Maine Legislature
Suzanne Gresser, Executive Director of the Maine Legislature

STATE OF MAINE REVENUE AND EXPENDITURE PROJECTION GENERAL FUND AND HIGHWAY FUND FISCAL YEARS 2020 - 2023

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STATE OF MAINE BUDGET FORECAST 2020-2021 BIENNIUM AND 2022-2023 BIENNIUM

I. INTRODUCTION

Title 5 § 1665, subsection 7 requires submission of a four-year budget forecast for the General Fund and the Highway Fund by September 30th of each even-numbered year to provide a basis for long term budget planning for the State's two undedicated funds. The forecast compares the structure of current revenues and expenditures on a consistent trend basis for both funds. This projection shows the capacity of the State's General Fund and Highway Fund resources to support the current level of State government services projected forward.

This report provides a four-year budget forecast for the 2020-2021 biennium and the 2022-2023 biennium. As required by statute, the projected revenues and expenditures used for the forecast are based on current law and current program trends. The expected outcome is a reasonable and consistent estimation of the General Fund and Highway Fund budgets for fiscal year 2022 and fiscal year 2023 based on currently available financial and program information.

The expenditure information in this forecast reflects all General Fund appropriations and Highway Fund allocations approved through the Second Regular Session of the 129th Legislature. The projection for the 2022-2023 biennium uses approved baseline appropriations for fiscal year 2021 adjusted to reflect estimated changes in normal operational costs, estimated costs associated with critical infrastructure needs and any additional costs anticipated to comply with current law.

It is important to stress that this forecast must be developed using current law as its basis. Therefore, statute obligating the State to pay 55 percent of the cost of K-12 education is the basis for the General Purpose Aid expenditures used in this forecast for fiscal years 2022 and 2023. Similarly, statute requiring a municipal revenue sharing rate of 5% underlies the Municipal Revenue Sharing estimates for fiscal years 2022 and 2023. It is common for subsequent budget proposals to change these underlying statutes, resulting in either one-time or ongoing savings that are necessary to maintain a balanced budget as constitutionally required. For example, a budget initiative that would hold General Purpose Aid at its current state-funded level would immediately reduce the estimated structural gap. The reader is advised to bear this in mind when assessing the *estimated* structural gap and the potential for closing it.

Typically, the four-year revenue and expenditure forecast produced in September uses revenue information from the regularly scheduled March revenue forecast of the current year updated for any actions taken in the remainder of the Legislature's Second Regular and/or Special Sessions. This year, however, the four-year forecast was delayed in order to capture the expenditure information from agencies' 2022-2023 biennial budget submissions, as well more current revenue forecasts reflecting the short and longer-term fiscal impacts associated with the COVID-19 pandemic.

Consequently, the General Fund and Highway Fund revenues used in this forecast report represent the December 2020 projections of the Revenue Forecasting Committee (RFC). The December 2020 revenue forecast reflects all actions through the Second Regular Session of the 129th Legislature. To provide a consistent basis for assessing the structure of revenues and expenditures across biennia, this report also includes a budget gap projection using pre-pandemic revenues as forecasted in March 2020.

II. GENERAL FUND

A. BUDGET STATUS Fiscal Years 2020-2023

GENERAL FUND STATUS						
	Fiscal Years 2020-2021 BUDGET			Fiscal Years 2022-2023 FORECAST		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	139,216,388		139,216,388			
ADJUSTMENTS *	9,465,971	3,415,567	12,881,538			
REVENUE	3,969,343,702	3,815,276,916	7,784,620,618	3,972,767,717	4,123,605,641	8,096,373,358
TOTAL RESOURCES	4,118,026,061	3,818,692,483	7,936,718,544	3,972,767,717	4,123,605,641	8,096,373,358
ADJUSTMENTS						
APPROPRIATIONS	3,933,881,622	4,152,371,423	8,086,253,045	4,346,179,872	4,411,910,131	8,758,090,003
PROJECTED BALANCE (SHORTFALL)	184,144,439	(333,678,940)	(149,534,501)	(373,412,155)	(288,304,490)	(661,716,645)
* Includes transfers and adjustments in budget bills and other enacted laws as well as year-end adjustments for unbudgeted lapsed balances, lapsed encumbrances, statutory transfers and other accounting adjustments.						

Discussion

The budgeted General Fund adjusted fund balance for fiscal year 2020 was \$184,144,439 and a shortfall of \$149,534,502 is projected for the end of 2020-2021 biennium. The projection includes adjustments enacted through the Second Regular Session of the 129th Legislature.

Current projections for the 2022-2023 biennium assume a beginning balance of \$0 and General Fund revenues of \$8,096,373,358. Projected General Fund appropriations for the biennium are \$8,758,090,003 which results in a budget gap for the General Fund of (\$661,716,645).

Revenues projected for fiscal years 2020-2023 are from the RFC's December 2020 forecast. The projection reflects the economic impacts of the COVID-19 pandemic which are forecast to continue through the 2022-2023 biennium. Section IV.A of this report includes an adjusted forecast using pre-pandemic March 2020 forecasted revenues. The adjusted forecast is more indicative of the structural gap between revenues and expenditures.

The expenditure information in this forecast reflects all General Fund appropriations approved through the Second Regular Session of the 129th Legislature. The projection for the 2022-2023 biennium uses the fiscal year 2021 legislatively approved appropriations adjusted for the effect of one-time and phased-in actions with expected fiscal impacts in fiscal years 2022 and 2023. More detailed projections on a department or program basis are made where appropriate to reflect specific trends in those areas.

Statute requires that the four-year forecast presented in this report be based on current law. *Consequently, it is important to stress that the forecasted expenditures, by law, must assume the following:*

- **State share cost of Education at 55%** as per Title 20-A § 15671 sub-§ 1-A which is estimated to cost an additional **\$292.5 million** over the 2022-2023 biennium. The State's 55% share for this forecast was calculated in accordance with Title 20-A § 15671 sub-§ 7 ¶ B

and **does not** include the cost of teacher retirement, retired teacher health insurance and life insurance for which the State also provides funding.¹

- ***State-Municipal Revenue Sharing return to 5% beginning in fiscal year 2022***, from 3% set in fiscal year 2020 and 3.75% in fiscal year 2021. This represents an increase in transfers to the Local Government Fund from the General Fund of ***\$95.3 million*** over the 2022-2023 biennium when compared to the fiscal year 2021 rate of 3.75%. The 5% State-Municipal Revenue Sharing rate is established in Title 30-A § 5681.

As stated in the Introduction, it is common for subsequent budget proposals to change these underlying statutes, resulting in either one-time or ongoing savings that are necessary to maintain a balanced budget as constitutionally required. The reader is advised to bear this in mind when assessing the *estimated* structural gap and the potential for closing it. For example, leaving the State share of the cost of education and State-municipal revenue sharing at the current budgeted levels, would result in a budget shortfall for the 2022-2023 biennium of approximately \$271.9 million rather than \$661.7 million.

The projection of a \$0 beginning balance for the 2022-2023 biennium assumes a supplemental budget that closes the budget gap for the 2020-2021 biennium as constitutionally required. In September 2020, the Governor ordered curtailment of allotments to the General Fund by approximately \$221.8 million in response to the RFC's special "off-cycle" August 2020 revenue forecast.² Assuming this level of de-appropriations is enacted, the ending balance for the 2020-2021 biennium would be about \$72.3 million. This would become the beginning balance for the 2022-2023 biennium which would in turn result in a reduced shortfall for the 2022-2023 biennium of about \$580.4 million.

The biennial budget for 2022-2023 is currently being developed and anticipates the revenue declines in the December 2020 revenue forecast. Given the constitutional requirement for a balanced budget, the Governor's recommended budget for 2022-2023 is expected to include initiatives that close the projected budget gap while minimizing, to the extent possible, programmatic cuts in key policy areas and other priorities.

Sections II.B and II.C of this report provide additional detail, including tables and charts, of the projected General Fund revenues and expenditures used in this forecast.

¹ Recent prior four-year revenue and expenditure forecasts have calculated the State's 55% share of the total cost of education in accordance with Title 20-A § 15671 sub-§ 7 ¶ C. Those calculations **did** include teacher retirement, retired teacher health insurance and life insurance in the total cost of education and the State's appropriations toward the total cost. This calculation method results in a lower total appropriation needed to achieve 55%. The difference in calculation methods is discussed in the text box on page 10 and a comparison of the methods between the 2018 and 2020 four-year forecasts is on page 26.

² Of the nearly \$222 million in FY21 curtailments, approximately \$97 million was a replacement of state spending with one-time federal funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and approximately \$125 million came from adopting departmental cost savings and efficiencies.

B. REVENUE PROJECTION Fiscal Years 2020-2023

GENERAL FUND REVENUE PROJECTION

SOURCE	Fiscal Years 2020-2021 BUDGET				Fiscal Years 2022-2023 PROJECTION				
	FY 2020	FY 2021	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 2022	YR. TO YR. % CHANGE	FY 2023	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	1,555,713,076	1,593,571,678	2.43%	3,149,284,754	1,712,642,422	7.47%	1,791,923,237	4.63%	3,504,565,659
Service Provider Tax	58,012,511	56,562,000	-2.50%	114,574,511	55,997,000	-1.00%	55,437,000	-1.00%	111,434,000
Individual Income Tax	1,835,972,805	1,695,661,250	-7.64%	3,531,634,055	1,753,820,000	3.43%	1,833,704,375	4.55%	3,587,524,375
Corporate Income Tax	216,131,489	202,855,000	-6.14%	418,986,489	220,408,737	8.65%	228,388,199	3.62%	448,796,936
Cigarette & Tobacco Tax	137,331,317	144,401,400	5.15%	281,732,717	148,971,771	3.17%	151,559,736	1.74%	300,531,507
Insurance Company Tax	82,145,116	84,400,000	2.75%	166,545,116	88,250,000	4.56%	88,700,000	0.51%	176,950,000
Inheritance & Estate Tax	21,079,344	18,050,000	-14.37%	39,129,344	14,750,000	-18.28%	16,750,000	13.56%	31,500,000
Fines, Forfeits and Penalties	9,986,146	9,387,746	-5.99%	19,373,892	12,430,166	32.41%	12,434,166	0.03%	24,864,332
Income from Investments	12,121,418	5,383,431	-55.59%	17,504,849	3,326,083	-38.22%	949,998	-71.44%	4,276,081
Transfer from Lottery	64,589,742	60,000,000	-7.11%	124,589,742	60,000,000		60,000,000		120,000,000
Trans for Tax Relief Progs	(74,637,969)	(75,667,000)	1.38%	(150,304,969)	(77,250,000)	2.09%	(80,800,000)	4.60%	(158,050,000)
Trans. to Muni. Rev. Share	(113,613,360)	(137,573,408)	21.09%	(251,186,768)	(190,421,383)	38.41%	(198,700,281)	4.35%	(389,121,664)
Other Taxes and Fees	139,144,510	144,027,645	3.51%	283,172,155	144,145,560	0.08%	146,953,264	1.95%	291,098,824
Other Revenues	25,367,557	14,217,174	-43.96%	39,584,731	25,697,361	80.75%	16,305,947	-36.55%	42,003,308
TOTAL REVENUE	3,969,343,702	3,815,276,916	-3.88%	7,784,620,618	3,972,767,717	4.13%	4,123,605,641	3.80%	8,096,373,358

Fiscal Year 2020 figures reflect actuals as of Year-End

Discussion

The RFC in its December 2019 report re-projected revenues upward by \$74.6 million for the 2020-2021 biennium. The pre-pandemic March 2020 RFC forecast also re-projected revenues upward for the 2020-2021 biennium by another \$74.1 million. Following the March revenue forecast and bills enacted by the Legislature before it adjourned in March 2020, the projected General Fund adjusted balance was approximately \$113 million for the end of the biennium. In the December 2019 and March 2020 forecasts, the RFC also re-projected revenues upward by \$39.2 million and \$65 million respectively for the 2022-2023 biennium. Primary drivers of the increased revenues in both forecasts were the Sales and Use Tax and Individual Income Tax lines.

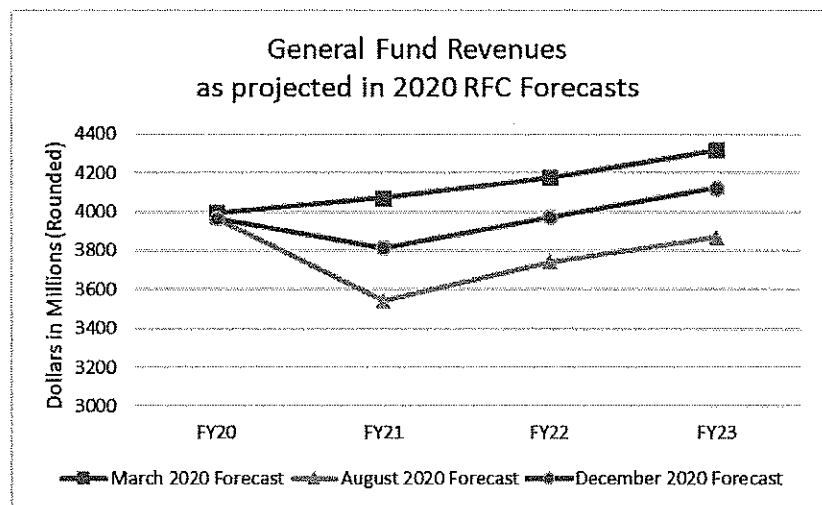
However, in the special “off-cycle” August 2020 revenue forecast, the RFC re-projected revenues downward for fiscal year 2021 by \$527.8 million and downward for the 2022-2023 biennium by \$883.2 million. The projection reflected the economic impacts of the COVID-19 pandemic as best possible at that time. The most severe impacts were expected in fiscal year 2021 with continuing impacts through the 2022-2023 biennium. This projected decrease in revenues was primarily attributable to the impact of the COVID-19 pandemic on Individual Income Tax and Sales and Use Tax lines.

Revenues projected for fiscal years 2020-2023 in this four-year forecast are from the RFC’s recent December 2020 forecast and reflect all actions through the Second Regular Session of the 129th Legislature. The RFC’s revenue forecast reflects a more optimistic economic forecast issued by the Consensus Economic Forecasting Commission in November and the State’s actual revenue performance for the first four months of fiscal year 2021. The RFC projects an improvement in revenue over the August 2020 forecast with an increase in total General Fund revenue of \$272.8 million in fiscal year 2021 and a \$487.4 million increase for the 2022-2023 biennium. The primary drivers of increased revenues are the Sales and Use Tax and Individual Income Tax lines.

Revenues are still forecasted well below what they were in the pre-pandemic March 2020 forecast. General Fund revenues are now projected to be \$255 million lower in fiscal year 2021 and \$395.8 million lower in the 2022-2023 biennium than were forecast in March.

Additionally, as previously discussed, the modest revenue growth rate of 4.13% in fiscal year 2022 includes the impact of State-Municipal Revenue Sharing (30-A M.R.S.A. §5681) returning to 5% beginning in fiscal year 2022 from 3% set in fiscal year 2020 and 3.75% in fiscal year 2021. The impact is an increase in transfers to the Local Government Fund from the General Fund of **\$95.3 million** over the 2022-2023 biennium when compared to the current fiscal year 2021 rate.

The RFC’s December 2020 Revenue Forecast report, which details the factors and assumptions underlying the revenue projection, can be found on the Revenue Forecasting Committee’s website at <http://legislature.maine.gov/ofpr/revenue-forecasting-committee/9609>. The following pie charts depict the percent of General Fund revenue associated with each revenue source.

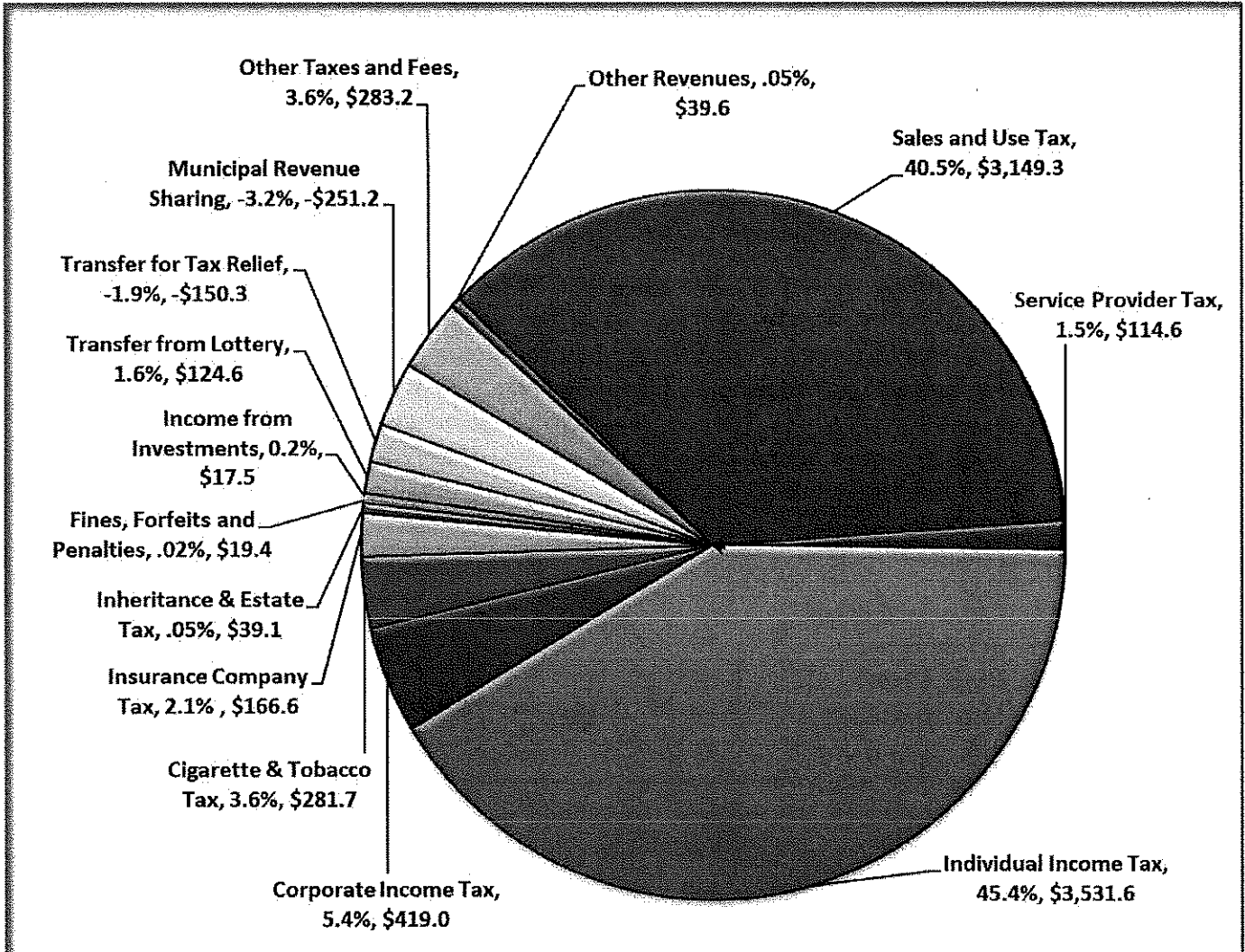


Fiscal Years 2020–2021

General Fund Budgeted Revenues - \$7,784.6

*Includes Transfers for Municipal Revenue Sharing of (\$251.2)
and Transfers to Tax Relief Programs of (\$150.3)*

Dollars in Millions

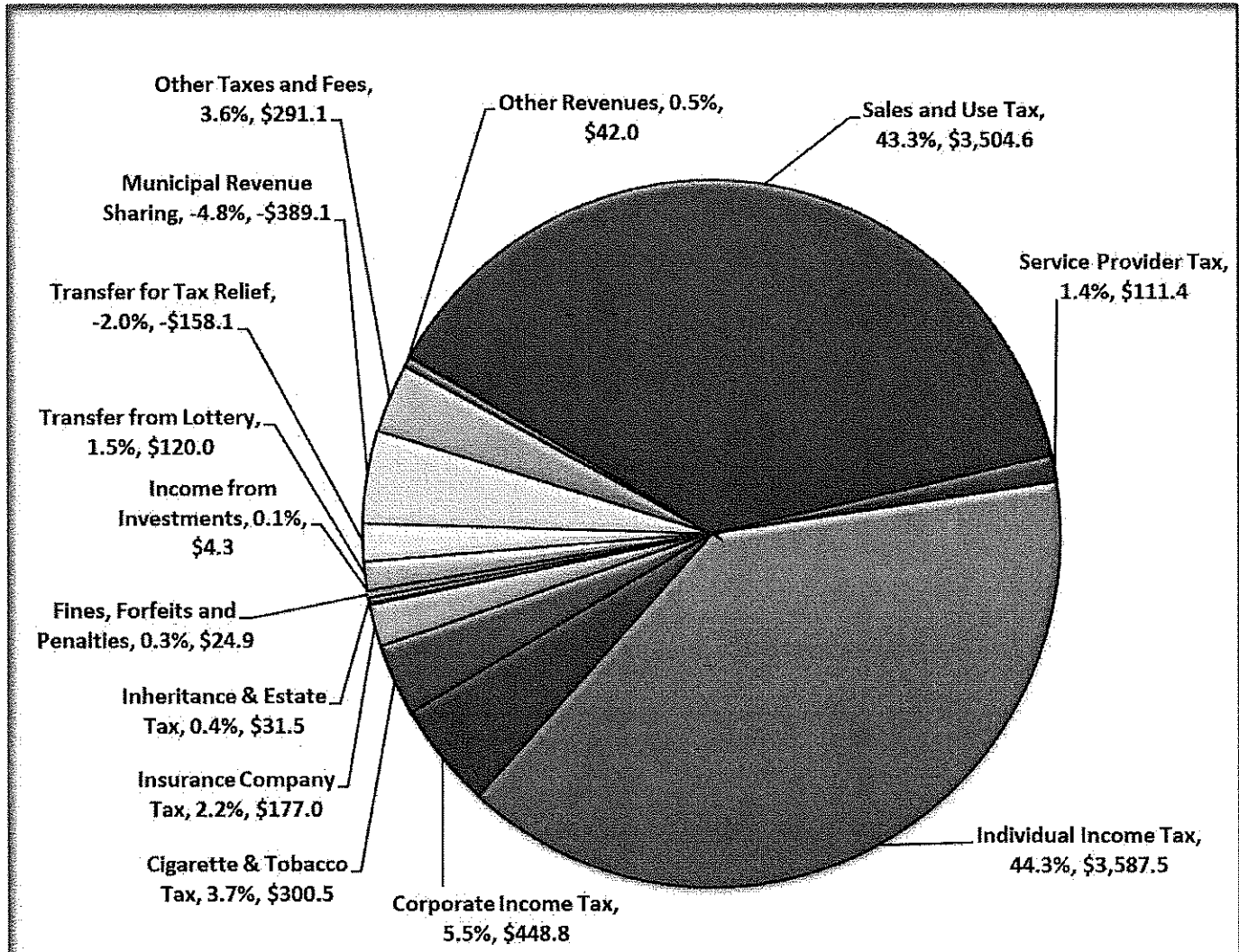


Fiscal Years 2022–2023

General Fund Projected Revenues - \$8,096.4

Includes Transfers for Municipal Revenue Sharing of (\$389.1)
and Transfers to Tax Relief Programs of (\$158.1)*

Dollars in Millions



* Beginning in fiscal year 2022, the transfer from the General Fund for State-municipal revenue sharing (30-A M.R.S.A. §5681) includes the impact of the return to 5% from 3% set in fiscal year 2020 and 3.75% in fiscal year 2021.

C. EXPENDITURE FORECAST Fiscal Years 2020-2023

GENERAL FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	Fiscal Years 2020-2021 BUDGET				Fiscal Years 2022-2023 FORECAST				
	FY 2020	FY 2021	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 2022	YR. TO YR. % CHANGE	FY 2023	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Homestead Property Tax Exemption	68,500,000	89,580,000	30.77%	158,080,000	97,080,000	8.37%	97,780,000	0.72%	194,860,000
Government Facilities Authority	21,955,674	21,955,674		43,911,348	21,955,674		21,955,674		43,911,348
Debt Service - Treasury	96,749,206	113,314,784	17.12%	210,063,990	114,737,875	1.26%	129,230,067	12.63%	243,967,942
Other Agencies And Programs	159,135,721	157,030,333	-1.32%	316,166,054	175,930,102	12.04%	175,829,858	-0.06%	351,759,960
Total Policy Area - Governmental Support & Operations	346,340,601	381,880,791	10.26%	728,221,392	409,703,651	7.29%	424,795,599	3.68%	834,499,250
Total Policy Area - Economic Development & Work Force Training	44,734,671	45,838,964	2.47%	90,573,635	45,864,622	0.06%	45,994,047	0.28%	91,858,669
General Purpose Aid for Local Schools	1,142,663,155	1,205,277,019	5.48%	2,347,940,174	1,333,477,199	10.64%	1,361,816,067	2.13%	2,695,293,266
Teacher Retirement/Retired Teachers' Health Insurance	219,530,365	224,329,950	2.19%	443,860,315	239,654,439	6.83%	245,007,436	2.23%	484,661,875
Child Development Services	38,334,137	39,720,915	3.62%	78,055,052	39,713,221	-0.02%	41,140,918	3.60%	80,854,139
Other Agencies And Programs	343,955,420	350,903,634	2.02%	694,859,054	345,542,662	-1.53%	345,984,146	0.13%	691,526,808
Total Policy Area - Education	1,744,483,077	1,820,231,518	4.34%	3,564,714,595	1,958,387,521	7.59%	1,993,948,567	1.82%	3,952,336,088
Medical Care - Payments To Providers	473,491,277	526,846,797	11.27%	1,000,338,074	519,626,873	-1.37%	518,599,024	-0.20%	1,038,225,897
Nursing Facilities	112,141,109	122,668,265	9.39%	234,809,374	127,036,904	3.56%	135,700,246	6.82%	262,737,150
Foster Care/Adoption Assistance	58,264,591	58,286,340	0.04%	116,550,931	58,318,079	0.05%	58,324,834	0.01%	116,642,913
Community Mental Health	37,511,527	37,996,381	1.29%	75,507,908	38,162,151	0.44%	38,246,847	0.22%	76,408,998
Mental Health Medicaid	40,423,625	40,660,075	0.58%	81,083,700	40,533,714	-0.31%	40,491,594	-0.10%	81,025,308
Community Developmental Services	20,529,240	21,323,167	3.87%	41,852,407	22,642,798	6.19%	22,866,597	0.99%	45,509,395
Developmental Services - Medicaid	192,718,921	201,386,615	4.50%	394,105,536	200,760,759	-0.31%	200,552,140	-0.10%	401,312,899
Mental Health Services - Children	14,342,449	14,445,147	0.72%	28,787,596	14,575,104	0.90%	14,616,343	0.28%	29,191,447
Mental Health Services - Child Medicaid	34,754,726	34,933,811	0.52%	69,688,537	34,825,246	-0.31%	34,789,058	-0.10%	69,614,304
Substance Abuse Services	21,626,644	21,725,990	0.46%	43,352,634	21,773,198	0.22%	21,820,521	0.22%	43,593,719
Substance Abuse Services- Medicaid	5,643,201	5,681,926	0.69%	11,325,127	5,664,268	-0.31%	5,658,382	-0.10%	11,322,650
Other Agencies And Programs	316,037,828	332,295,218	5.14%	648,333,046	342,210,307	2.98%	343,491,415	0.37%	685,701,722
Total Policy Area - Health & Human Services	1,327,485,138	1,418,249,732	6.84%	2,745,734,870	1,426,129,401	0.56%	1,435,157,001	0.63%	2,861,286,402
Total Policy Area - Natural Resources Development & Protection	86,063,675	85,715,440	-0.40%	171,779,115	92,051,060	7.39%	93,256,672	1.31%	185,307,732
Corrections	194,426,759	199,339,070	2.53%	393,765,829	202,292,665	1.48%	204,571,145	1.13%	406,863,810
Judicial Branch	85,051,330	87,777,271	3.21%	172,828,601	91,265,344	3.97%	92,339,891	1.18%	183,605,235
Other Agencies And Programs	86,315,286	104,478,224	21.04%	190,793,510	111,235,104	6.47%	112,551,683	1.18%	223,787,787
Total Policy Area - Justice & Protection	365,793,375	391,594,565	7.05%	757,387,940	404,794,113	3.37%	409,462,719	1.15%	814,256,832
Total Policy Area - Transportation, Safety & Development	10,000,000		-100.00%	10,000,000					
Total Policy Area - Arts, Heritage & Cultural Enrichment	8,981,085	8,860,413	-1.34%	17,841,498	9,249,504	4.39%	9,295,526	0.50%	18,545,030
Total Policy Area - Business Licensing and Regulation									
GRAND TOTAL GENERAL FUND EXPENDITURES	3,933,881,622	4,152,371,423	5.55%	8,086,253,045	4,346,179,872	4.67%	4,411,910,131	1.51%	8,758,090,003

Discussion

The enacted 2020-2021 biennial budget included an additional \$764.3 million in General Fund appropriations over the biennium. Another \$73.3 million in appropriations was approved in the enacted 2020-2021 supplemental budget. Other laws enacted by the 129th Legislature included nearly \$25.9 million in additional appropriations for the 2020-2021 biennium.

The projection for the 2022-2023 biennium uses the fiscal year 2021 legislatively approved appropriations adjusted for the effect of one-time actions and phased-in actions with expected fiscal impacts in fiscal years 2022 and 2023. Salaries and wages projected for the 2022-2023 biennium anticipate growth from merit increases but not from any future salary adjustments related to collective bargaining. The projection for the 2022-2023 biennium also reflects estimated changes in normal operational costs, estimated costs associated with critical infrastructure needs and any additional costs anticipated to comply with current law beyond what is included in the current baseline budget.

Key factors associated with notable year over year changes in projected expenditures for major programs and policy areas include:

- Homestead Property Tax Exemption – Provisions in the enacted biennial budget for fiscal years 2020-2021 increased the Homestead Exemption for Maine residents by \$5,000, to \$25,000 and increased the reimbursement to municipalities from 62.5% to 70% for property tax years beginning April 1, 2020.
- Debt Service – Treasury – The 2022-2023 biennium amounts represent the debt service requirements for those bonds issued through fiscal year 2021. The debt service requirements for the 2022-2023 biennium may be higher than projected either assuming additional bond sales of bonds already authorized and/or the Legislature approves sending additional bond proposals to the voters in calendar year 2021.
- Education – Projected expenditures reflect:
 - General Purpose Aid appropriations enacted in the 2020-2021 biennial and supplemental budgets raised the State share of education funding to 51.78% for fiscal year 2021. This percentage is calculated in accordance with Title 20-A § 15671 sub-§ 7 ¶ B and **does not** include the cost of teacher retirement, retired teacher health insurance and life insurance in the total cost of education. Similarly, the State's appropriation for those items **does not count** toward the State's share.³ This calculation method was also used in determining the General Purpose Aid expenditure projection for the 2022-2023 biennium which assumes a State share at 55% beginning in fiscal year 2022 as required by current law.
 - Projected expenditures for Teacher Retirement/Retired Teacher Health Insurance are based on actuarial valuations provided by the Maine Public Employees Retirement System and the Office of the State Controller. The actuarial valuation projects teacher salary and wage growth of 2.75 percent for the 2022-2023 biennium based upon the actuarial assumption for inflation and general salary increase.

³ Recent prior four-year revenue and expenditure forecasts have calculated the State's 55% share of the total cost of education in accordance with Title 20-A § 15671 sub-§ 7 ¶ C which **does** include teacher retirement, retired teacher health insurance and life insurance in the total cost of education and the State's appropriations toward the total cost. If this methodology was applied to enacted appropriations for fiscal year 2021, the State's contribution would be 56.03%. Further discussion on the difference in calculation methods is in the text box on page 10.

Methods for Calculating the State Share of Education Costs

The State's appropriations for K-12 education include funding for General Purpose Aid, also referred to as Essential Programs and Services. The State also appropriates funding for the unfunded liability (UAL) of teacher retirement costs, and retired teacher health and life insurance costs all of which are actuarially determined. The total cost of education is calculated by the Department of Education based on reports submitted from the various school administrative units.

The original statute setting fiscal year targets for the State to transition to funding 55% of total cost of education did not specify whether teacher retirement UAL costs, and retired teacher health and life insurance should be included in calculating the total cost of education and the State's contribution level (Title 20-A § 15671 sub-§ 7 ¶ B). An additional section was subsequently added to statute that sets fiscal year targets which include these indirect costs in the calculation beginning in fiscal year 2012 (Title 20-A § 15671 sub-§ 7 ¶ C).

When teacher retirement, retired teacher health insurance and life insurance are included in calculating the total cost of education and the State's percentage share, the total State appropriations needed to reach the 55% goal are less. However, it also means that less funding goes toward the direct expenses for K-12 education and municipalities' mill rates likely increase as a result. This is because the State already funds the UAL for teacher retirement, retired teacher health insurance and life insurance costs separately from the General Purpose Aid appropriation.

Conversely, when these particular indirect costs are not included in calculating the total cost of education and the State's percentage share, the total State appropriations needed to reach the 55% goal are greater but more funding goes toward the direct costs of K-12 education and municipalities mill rates likely decrease as a result. This is because the State continues to fund teacher retirement, retired teacher health insurance and life insurance but it is not counted toward what is needed to reach the 55% goal.

The prior administration calculated the State's percentage share of the total cost of K-12 education in accordance with Title 20-A § 15671 sub-§ 7 ¶ C such that the calculation included teacher retirement, retired teacher health insurance and life insurance. The current administration calculates the State's share in accordance with Title 20-A § 15671 sub-§ 7 ¶ B and these indirect costs are NOT included. Below is an example of the State share calculated with both methods.

55% Estimate for General Purpose Aid for Local Schools	20-A §15671 (7-B) FY 21	20-A §15671 (7-C) FY 21
100% K-12 Essential Programs and Services (EPS)	\$2,369,355,442	\$2,369,355,442
Cost of UAL for Teacher Retirement, Health Ins., Life Ins.		\$228,931,183
Total Cost of Education	\$2,369,355,442	\$2,598,286,625
55% of Total Cost	\$1,303,145,493	\$1,429,057,644
Appropriation for UAL for Teacher Retirement, Health Ins., Life Ins.		(\$228,931,183)
State Appropriation Needed for 55% Share General Purpose Aid	\$1,303,145,493	\$1,200,126,461
GPA program Appropriation/ Allocation FY21 Enacted	\$1,226,785,262	\$1,226,785,262
Additional appropriation needed to reach 55%	\$76,360,231	(\$26,658,801)
<i>Actual State Share based on enacted FY21 appropriation/allocation</i>	<i>51.78%</i>	<i>56.03%</i>

- Health and Human Services – The year over year increases from fiscal 2020 to fiscal year 2021 reflect:
 - Medicaid expansion approved by voters in November 2017 was implemented over the 2020–2021 biennium. Approximately \$47.3 million for ramp-up funding was appropriated for fiscal year 2020 and full implementation cost of about \$77.9 million was appropriated for fiscal year 2021. The enacted appropriations for fiscal year 2021 are included in the baseline for the projected expenditures in fiscal years 2022 and 2023.

- Additional funding was approved in the 2020-2021 biennial budget for mandated rate increases, annual inflation adjustments and rebasing of facilities in the Nursing Facilities program. Funding for mandated annual inflation adjustments for certain other services including adult family care services, adult day services, homemaker services, and residential care facilities was also included. These increases are required by Public Law 2017, chapter 460, Part B and Public Law 2013, chapter 594. The total additional appropriations over the biennium were approximately \$47.5 million. Of that, about \$31 million was appropriated for fiscal year 2021 and this amount is included in the baseline appropriation for the 2022-2023 biennium.
- Enacted budget bills for the 2020-2021 biennium included additional funding to: address the MaineCare Section 29 Waiver waitlists; support the Health and Environmental Testing Lab; address recruitment and retention issues within the Public Health Nurse group in the Maine Center for Disease Control and Prevention; and support improvements in the child welfare system. The fiscal year 2021 enacted appropriations are included in the baseline appropriation for the 2022-2023 biennium.
- Residential care facilities and nursing facilities were provided one-time increases for wage supplements in the 2020-2021 biennium as per enacted Public Law 2019 chapter 533. The appropriations for these one-time increases are not carried forward into the baseline appropriation for fiscal year 2022 and 2023.

Projected health and human services appropriations for fiscal years 2022 and 2023 are based on the enacted ongoing appropriations for fiscal year 2021 plus adjustments to reflect estimated annual inflationary increases for nursing facilities and private non-medical institutions as required per statute. An adjustment for an increase in the Federal Medical Assistance Percentage rate for federal fiscal years 2021–2023, which reduces General Fund need, is also included. The relatively flat year over year growth in health and human services overall also reflects historical actual expense trends that indicate there is enough appropriation at the current level to absorb any anticipated increases in expenses for the upcoming biennium.

- Natural Resources Development and Protection – The increase in expenditures in fiscal year 2022 reflects estimated increases in operational costs for relevant agencies.
- Justice and Protection – Other Agencies and Programs – Funding for Indigent Legal Services returned to being provided through a General Fund account in fiscal year 2021 after being provided through an Other Special Revenue account in fiscal years 2019 and 2020.⁴
- Transportation – The State continues to grapple with aging transportation infrastructure and insufficient resources coming into the Highway Fund to support all improvements needed. The 2020-2021 supplemental budget provided a one-time General Fund appropriation of \$10 million in FY20 toward these needs.

The following pie charts depict the percent breakdown of General Fund appropriations by expenditure category for each of the biennia covered in this report.

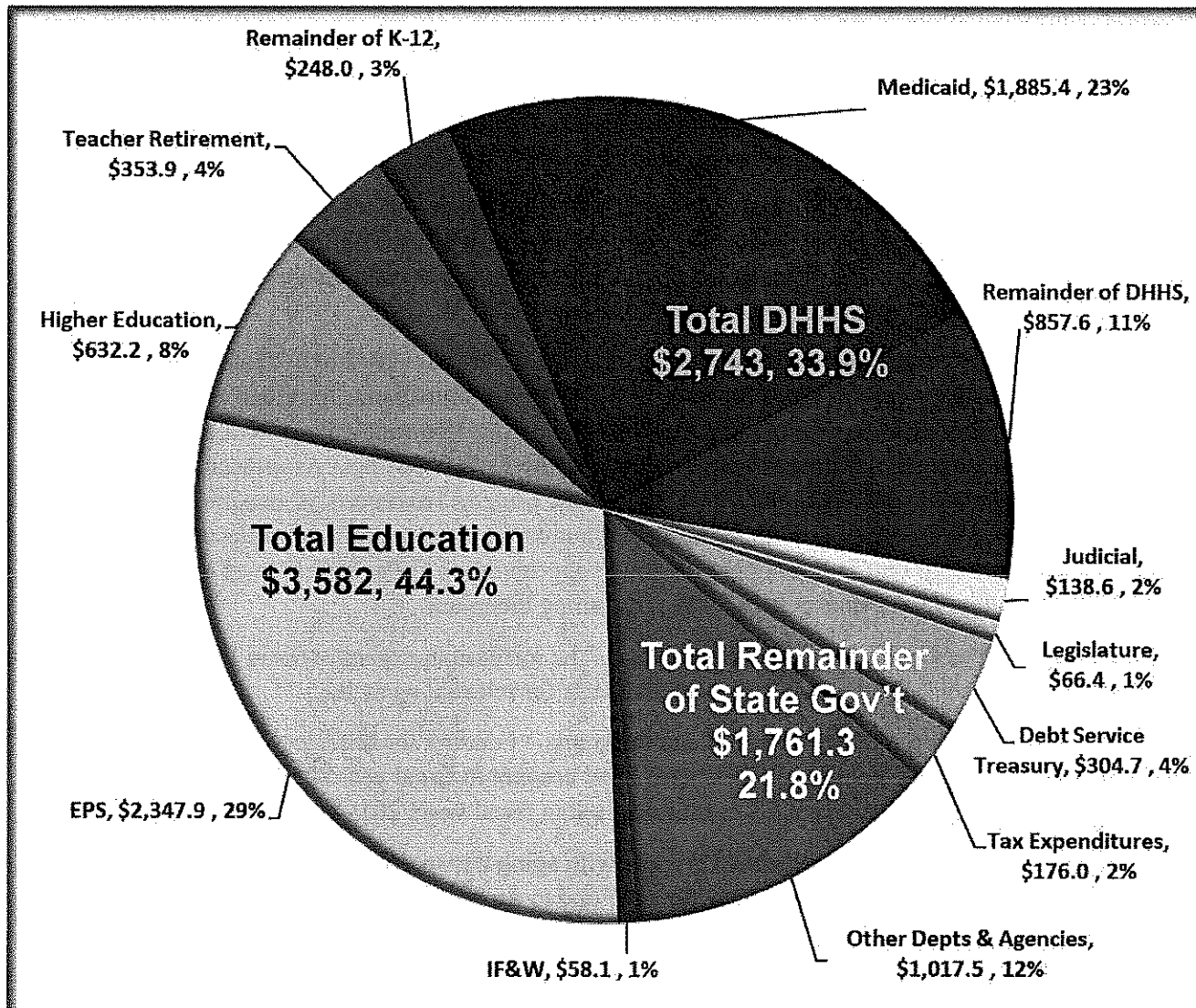
⁴ A transfer from General Fund unappropriated surplus was the primary source of funding for the Other Special Revenue account in these years but the transferred dollars are not captured as General Fund “appropriations”.

Fiscal Years 2020–2021

General Fund Budgeted Appropriations

\$8,086.3

Dollars in Millions

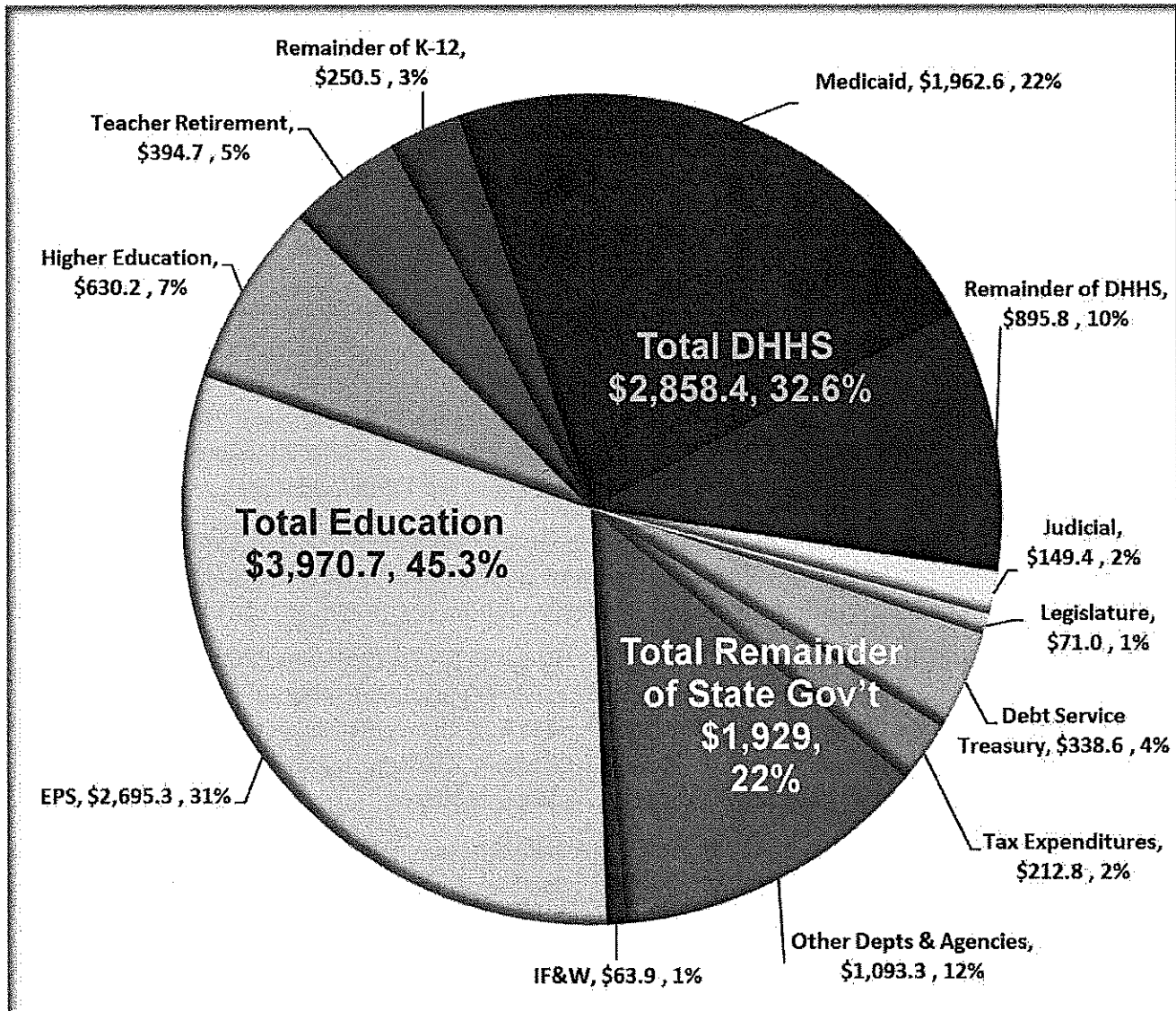


Fiscal Years 2022-2023

General Fund Forecasted Appropriations

\$8,758.1

Dollars in Millions



III. HIGHWAY FUND

A. BUDGET STATUS Fiscal Years 2020-2023

HIGHWAY FUND STATUS						
	Fiscal Years 2020-2021 BUDGET			Fiscal Years 2022-2023 FORECAST		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	14,790,015		14,790,015			
ADJUSTMENTS *	(4,153,722)	(6,404,253)	(10,557,975)			
REVENUE	327,176,570	324,670,407	651,846,977	334,604,105	339,555,602	674,159,707
TOTAL RESOURCES	337,812,863	318,266,154	656,079,017	334,604,105	339,555,602	674,159,707
ADJUSTMENTS **	4,347,010		4,347,010			
ALLOCATIONS	341,935,253	338,390,421	680,325,674	579,461,296	583,208,442	1,162,669,738
PROJECTED BALANCE (SHORTFALL)	(8,469,400)	(20,124,267)	(28,593,667)	(244,857,191)	(243,652,840)	(488,510,031)
* Includes transfers and adjustments in budget bills and other enacted laws as well as year-end adjustments for unbudgeted lapsed balances, lapsed encumbrances, and other accounting adjustments.						
** includes statutory year-end transfers.						

Discussion

The budgeted Highway Fund adjusted fund status for fiscal year 2020 was (\$8,469,400) and is projected to be (\$28,593,667) at the end of 2020-2021 biennium. The projection includes adjustments enacted through the Second Regular Session of the 129th Legislature.

Current projections for the 2022-2023 biennium assume a beginning balance of \$0 and Highway Fund revenues of \$674,159,707. Projected Highway Fund allocations for the biennium are \$1,162,669,738 which result in a projected budget gap for the Highway Fund of (\$488,510,031).

Revenues projected for fiscal years 2020-2023 are from the RFC's December 2020 forecast. The projection reflects the economic impacts of the COVID-19 pandemic which are forecast to continue through the 2022-2023 biennium. Section IV.A of this report includes an adjusted forecast using pre-pandemic March 2020 forecast revenues. The adjusted forecast is more indicative of the structural gap between revenues and expenditures.

The expenditure information in this forecast reflects all Highway Fund allocations approved through the Second Regular Session of the 129th Legislature. The projection for the 2022-2023 biennium uses the fiscal year 2021 legislatively approved allocations adjusted for the effect of one-time and phased-in actions with expected fiscal impacts in fiscal years 2022 and 2023. More detailed projections on a department or program basis are made where appropriate to reflect specific trends in those areas.

Additionally, the allocations projected for the 2022-2023 biennium include *\$400 million* over baseline allocations to meet the State's share of the *Department of Transportation's capital program goals* as established in Title 23 § 73 sub-§ 7. It is important to stress that this four-year forecast, by law, must assume this state share. The reader is advised to bear this in mind when assessing the *estimated* structural gap and the potential for closing it.

The projection of a \$0 beginning balance for the 2022-2023 biennium assumes a supplemental budget that closes the budget gap for the 2020-2021 biennium as constitutionally required. In September 2020, the Governor ordered curtailment of allotments to the Highway Fund by approximately \$23 million in response to the RFC's special "off-cycle" August 2020 revenue forecast.⁵ Assuming a similar level of de-allocations is enacted, the ending shortfall for the 2020-2021 biennium will be about \$5.6 million and additional action will need to be taken to close the gap.

The biennial budget for 2022-2023 is currently being developed and anticipates the revenue declines in the December 2020 revenue forecast. Given the constitutional requirement for a balanced budget, the Governor's recommended budget for 2022-2023 is expected to include initiatives that close the projected budget gap while minimizing, to the extent possible, programmatic cuts in key policy areas and other priorities.

Sections III.B and III.C of this report provide additional detail, including tables and charts, of the projected Highway Fund revenues and expenditures used in this forecast.

⁵ Of the \$23 million in FY21 curtailments, approximately \$9 million was a replacement of state spending with one-time federal funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and approximately \$14 million came from adopting departmental cost savings and efficiencies.

B. REVENUE PROJECTION Fiscal Years 2020-2023

HIGHWAY FUND REVENUE PROJECTION

SOURCE	Fiscal Years 2020-2021 BUDGET				Fiscal Years 2022-2023 FORECAST				
	FY 2020	FY 2021	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 2022	YR. TO YR. % CHANGE	FY 2023	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	218,970,635	214,788,352	-1.91%	433,758,987	228,499,279	6.38%	233,451,857	2.17%	461,951,136
Motor Vehicle Registrations & Fees	90,648,098	92,815,021	2.39%	183,463,119	91,195,146	-1.75%	91,195,146		182,390,292
Inspection Fees	3,120,970	3,092,771	-0.90%	6,213,741	3,202,500	3.55%	3,202,500		6,405,000
Miscellaneous Taxes & Fees	1,280,909	1,267,454	-1.05%	2,548,363	1,267,454		1,267,454		2,534,908
Fines Forfeits & Penalties	899,735	412,286	-54.18%	1,312,021	606,412	47.09%	606,412		1,212,824
Income from Investments	257,790	174,622	-32.26%	432,412	93,993	-46.17%	27,768	-70.46%	121,761
Other Revenues	11,998,433	12,119,901	1.01%	24,118,334	9,739,321	-19.64%	9,804,465	0.67%	19,543,786
TOTAL REVENUE	327,176,570	324,670,407	-0.77%	651,846,977	334,604,105	3.06%	339,555,602	1.48%	674,159,707

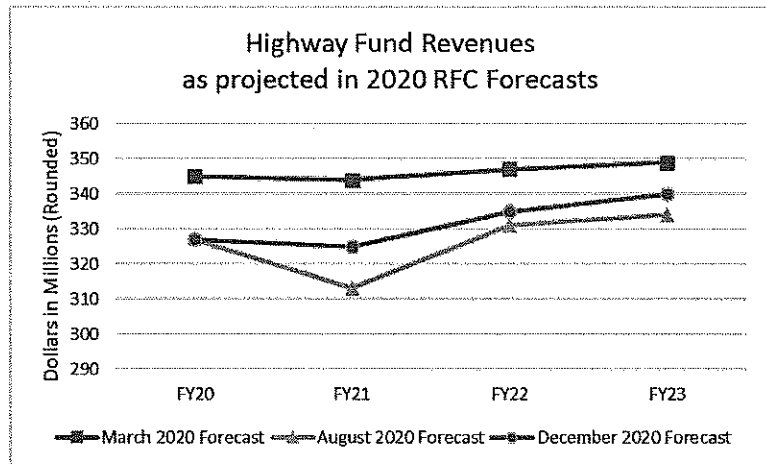
Fiscal Year 2020 figures reflect actuals as of Year-End

Discussion

The RFC in its December 2019 report re-projected revenues upward by \$4 million for the 2020-2021 biennium. The pre-pandemic March 2020 RFC forecast also re-projected revenues upward for the 2020-2021 biennium by another \$812,205. Following the March 2020 revenue forecast and bills enacted in the Second Regular Session of the 129th Legislature⁶, the projected Highway Fund adjusted balance was approximately \$6.7 million for the end of the biennium. In the December 2019 and March 2020 forecasts, the RFC also re-projected revenues *upward* by \$1.8 million and *downward* by \$170,102 respectively for the 2022-2023 biennium. Fuel tax revenues in both forecasts remained unchanged. Increased revenues in the December forecast were the result of projected increases in motor vehicle registrations and fees. Decreased revenues projected in the March forecast were the result of decreased income from investments.

In the special “off-cycle” August 2020 report, the RFC re-projected revenues *downward* for fiscal year 2021 by \$30.8 million and *downward* for the 2022-2023 biennium by \$30.5 million. The projection reflected the economic impacts of the COVID-19 pandemic as best possible at that time. The most severe impacts were expected in fiscal year 2021 with continuing impacts through the 2022-2023 biennium. This projected decrease in revenues is primarily attributable to the impact of the COVID-19 pandemic on the Fuel Tax lines.

Revenues projected for fiscal years 2020-2023 in this four-year forecast are from the RFC’s recent December 2020 report and reflect all actions through the Second Regular Session of the 129th Legislature. The revenue forecast reflects a more optimistic economic forecast issued by the Consensus Economic Forecasting Commission in November and the State’s actual revenue performance for the first four months of fiscal year 2021. The RFC forecasts an improvement in revenue over the August 2020 forecast with an increase in total Highway Fund revenue of \$11.4 million in fiscal year 2021 and a \$9.1 million increase for the 2022-2023 biennium. The increases are primarily attributable to Fuel Tax with Motor Vehicle Registration revenue also contributing in fiscal year 2021.



Revenues are still forecasted well below what they were in the pre-pandemic March 2020 forecast. Highway Fund revenues are now projected to be \$19.3 million lower in fiscal year 2021 and \$21.4 million lower in the 2022-2023 biennium than forecast in March.

The RFC’s December 2020 Revenue Forecast report, which details the factors and assumptions underlying the revenue projection, can be found on the Revenue Forecasting Committee’s website at <http://legislature.maine.gov/ofpr/revenue-forecasting-committee/9609>. The following pie charts depict the percent of Highway Fund revenue associated with each revenue source for each of the biennia covered in this report.

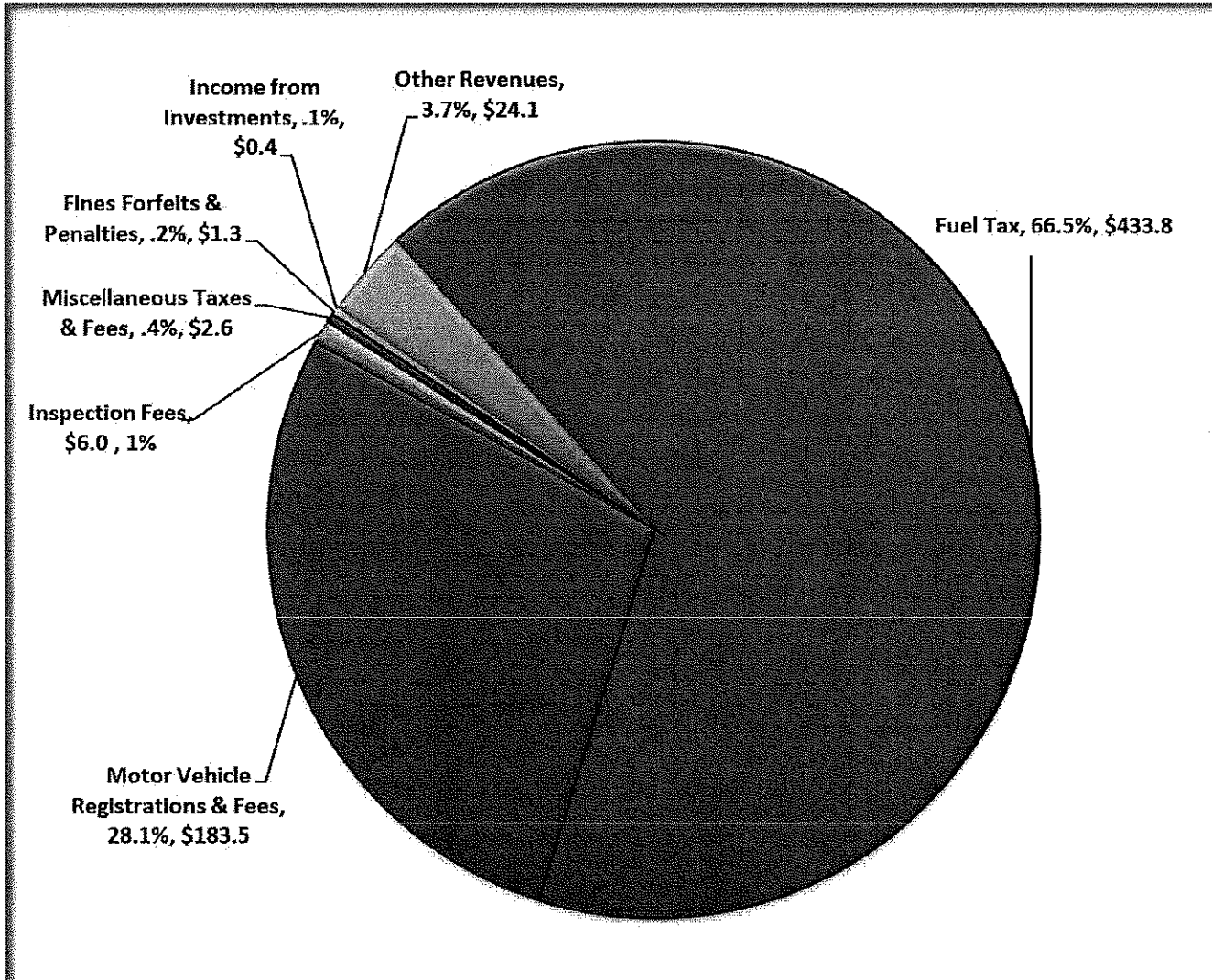
⁶ The Legislature did not enact a supplemental budget for the Highway Fund prior to its early adjournment in March 2020.

Fiscal Years 2020-2021

Highway Fund Budgeted Revenues

\$651.9

Dollars in Millions

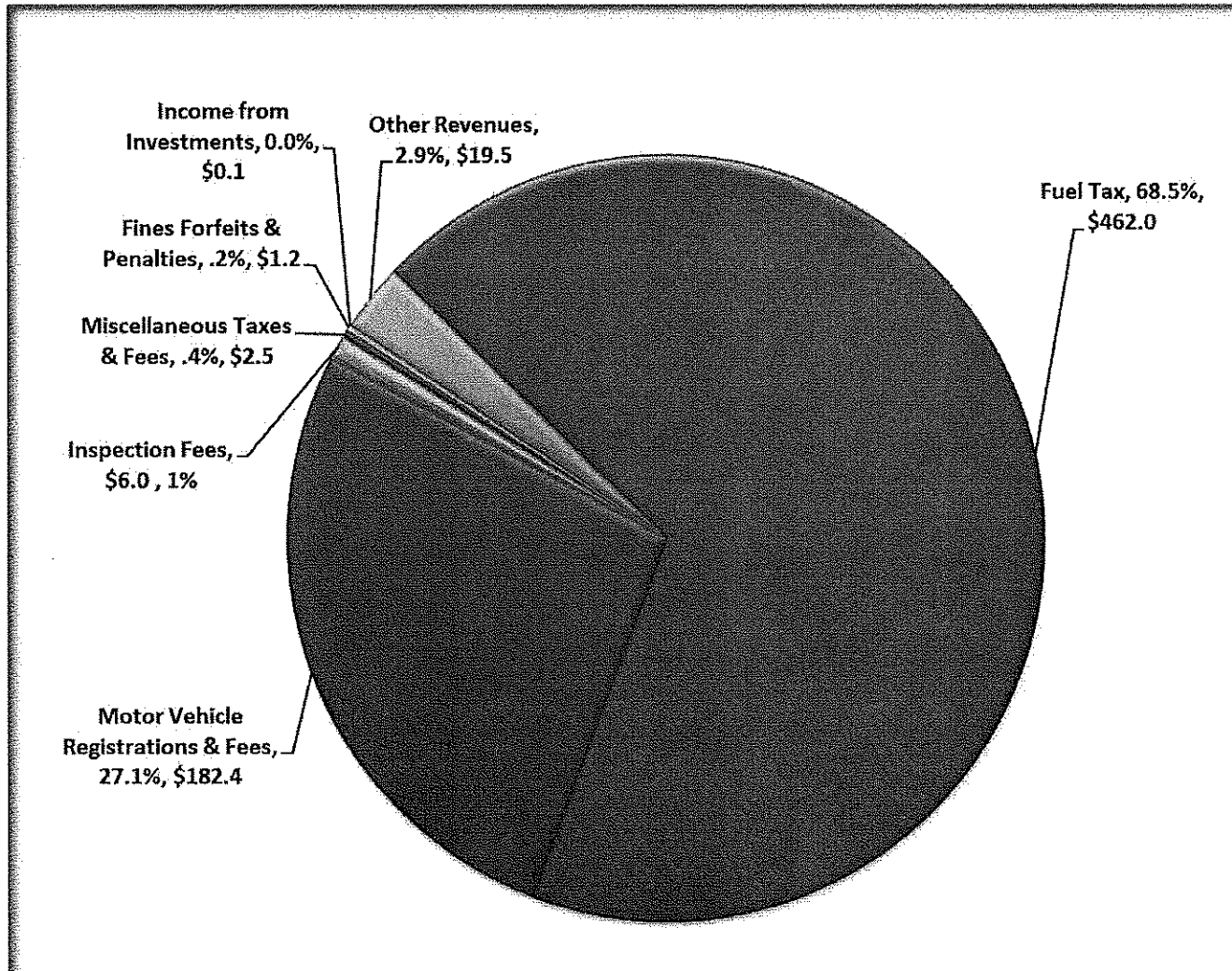


Fiscal Years 2022–2023

Highway Fund Projected Revenues

\$674.2

Dollars in Millions



C. EXPENDITURE FORECAST Fiscal Years 2020-2023

HIGHWAY FUND EXPENDITURE FORECAST CHART									
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	Fiscal Years 2020-2021 BUDGET				Fiscal Years 2022-2023 FORECAST				
	FY 2020	FY 2021	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 2022	YR. TO YR. % CHANGE	FY 2023	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Administration Motor Vehicles	40,906,509	41,110,016	0.50%	82,016,525	44,300,987	7.76%	44,756,409	1.03%	89,057,396
Other Agencies And Programs	2,571,319	2,666,869	3.72%	5,238,188	2,672,214	0.20%	2,688,616	0.61%	5,360,830
Total Policy Area - Governmental Support & Operations	43,477,828	43,776,885	0.69%	87,254,713	46,973,201	7.30%	47,445,025	1.00%	94,418,226
Total Policy Area - Natural Resources Development & Protection	33,054	33,054		66,108	33,054		33,054		66,108
State Police	20,210,117	20,354,936	0.72%	40,565,053	21,698,592	6.60%	21,951,946	1.17%	43,650,538
Other Agencies And Programs	10,828,852	10,696,604	-1.22%	21,525,456	11,064,525	3.44%	11,150,056	0.77%	22,214,581
Total Policy Area - Justice & Protection	31,038,969	31,051,540	0.04%	62,090,509	32,763,117	5.51%	33,102,002	1.03%	65,865,119
Maintenance & Operations	167,324,364	171,776,920	2.66%	339,101,284	185,427,624	7.95%	187,869,375	1.32%	373,296,999
Highway & Bridge Capital	43,794,302	40,489,706	-7.55%	84,284,008	242,353,363	498.56%	242,390,556	0.02%	484,743,919
Highway & Bridge Light Capital	11,226,827	7,269,249	-35.25%	18,496,076	29,000,000	298.94%	29,000,000		58,000,000
Local Road Assistance Program	21,640,113	21,327,646	-1.44%	42,967,759	22,284,638	4.49%	22,527,187	1.09%	44,811,825
Debt Service	7,999,668	2,320,500	-70.99%	10,320,168		-100.00%			
Other Agencies And Programs	19,747,138	20,344,921	3.03%	40,092,059	20,626,299	1.38%	20,841,243	1.04%	41,467,542
Total Policy Area - Transportation Safety & Development	271,732,412	263,528,942	-3.02%	535,261,354	499,691,924	89.62%	502,628,361	0.59%	1,002,320,285
TOTAL HIGHWAY FUND EXPENDITURES	346,282,263	338,390,421	-2.28%	684,672,684	579,461,296	71.24%	583,208,442	0.65%	1,162,669,738

Discussion

The enacted 2020-2021 biennial budget included an additional \$680.2 million in Highway Fund allocations. The Legislature did not enact a Highway Fund supplemental budget prior to adjournment in March 2020. Other laws enacted by the 129th Legislature included approximately \$4.5 million in additional allocations for the 2020-2021 biennium.

The projection for the 2022-2023 biennium uses the fiscal year 2021 legislatively approved allocations adjusted for the effect of one-time actions and phased-in actions with expected fiscal impacts in fiscal years 2022 and 2023. Salaries and wages projected for the 2022-2023 biennium anticipate growth from merit increases but not for any future salary adjustments related to collective bargaining. The projection for the 2022-2023 biennium also reflects estimated changes in normal operational costs and any additional costs anticipated to comply with current law beyond what is included in the current baseline budget.

The Maine Department of Transportation receives its funding from the Highway Fund, the TransCap Trust Fund, federal funds, proceeds from authorized bond sales, and other sources. The State continues to be challenged with insufficient resources coming into the Highway Fund to support all improvements in the State's transportation infrastructure that are expected to be funded by this fund. This is reflected in the pre-pandemic Highway Fund revenue projections discussed in the previous section of this report, as well as the allocations for the Highway and Bridge Capital and Highway and Bridge Light Capital programs in the 2020-2021 biennium.

Other key factors associated with notable year over year changes in projected expenditures for major programs and policy areas include:

- Administration Motor Vehicle – Increased expenditures projected for the 2022-2023 biennium are primarily due to increases in the Secretary of State's required contributions to the State's cost allocation plan (STA-CAP). One-time expenditures for needed replacement of information technology equipment are also included.
- State Police – Increased expenditures for the 2022-2023 biennium reflected increased Personal Services costs associated with collectively bargained items such as stipends, allowances, differentials and premium pay.
- Highway and Bridge Capital – As previously discussed, projections for the 2022-2023 biennium include \$400 million in allocations above baseline to meet current law associated with the Department of Transportation's capital program goals established in Title 23 § 73 sub-§ 7.
- Highway and Bridge Light Capital – The projections for the 2022-2023 biennium include \$53.5 million for 600 miles of light capital paving each year, along with other work.
- Debt Service – Beginning in fiscal year 2022, there is no longer any Highway Fund debt service due. Since the 2009-2010 biennium, debt service for new general obligation bonds issued for transportation has been paid by the General Fund.

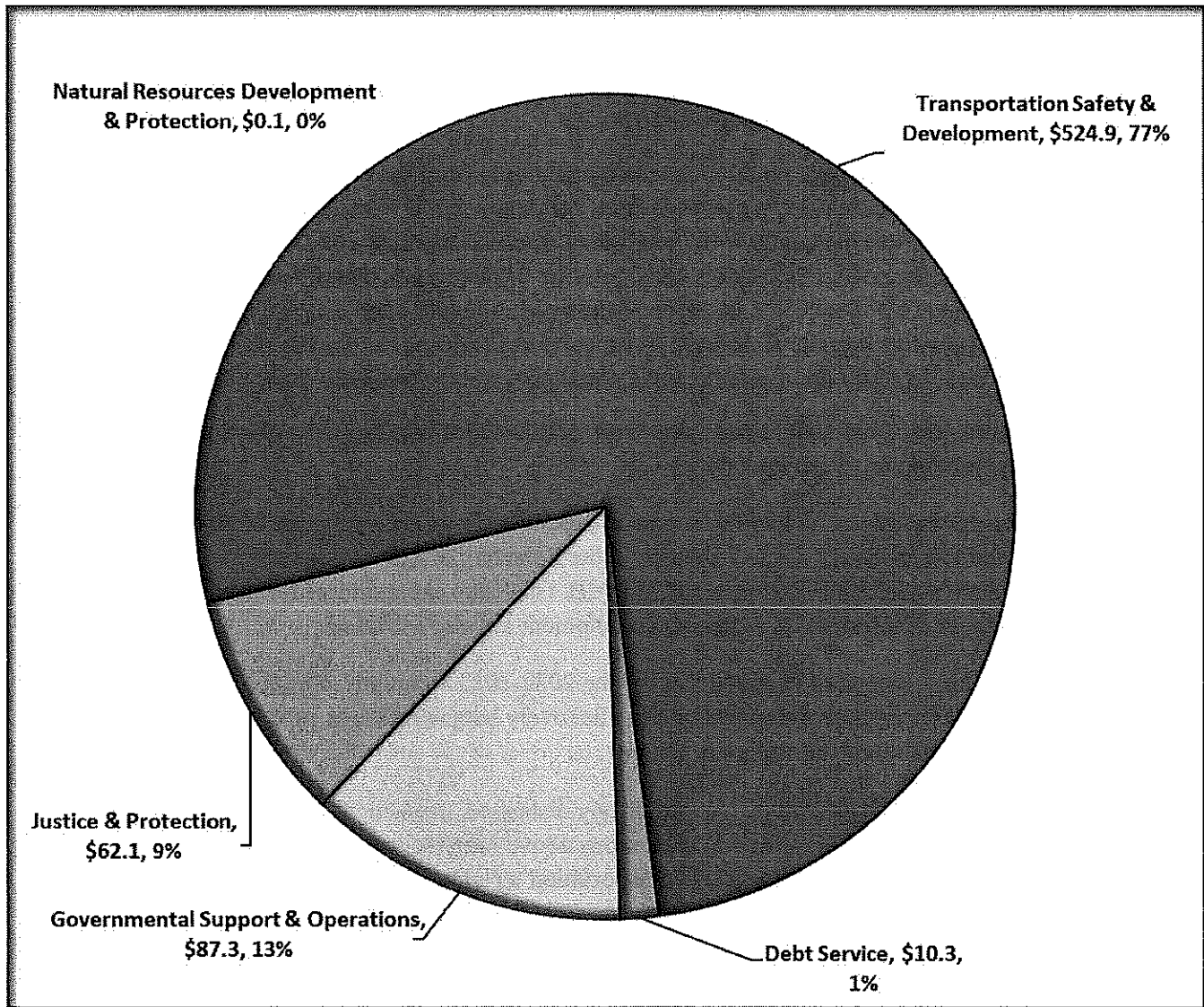
The following pie charts depict the percent breakdown of Highway Fund allocations by expenditure category for each of the biennia covered in this report.

Fiscal Years 2020–2021

Highway Fund Budgeted Allocations

\$684.7

Dollars in Millions

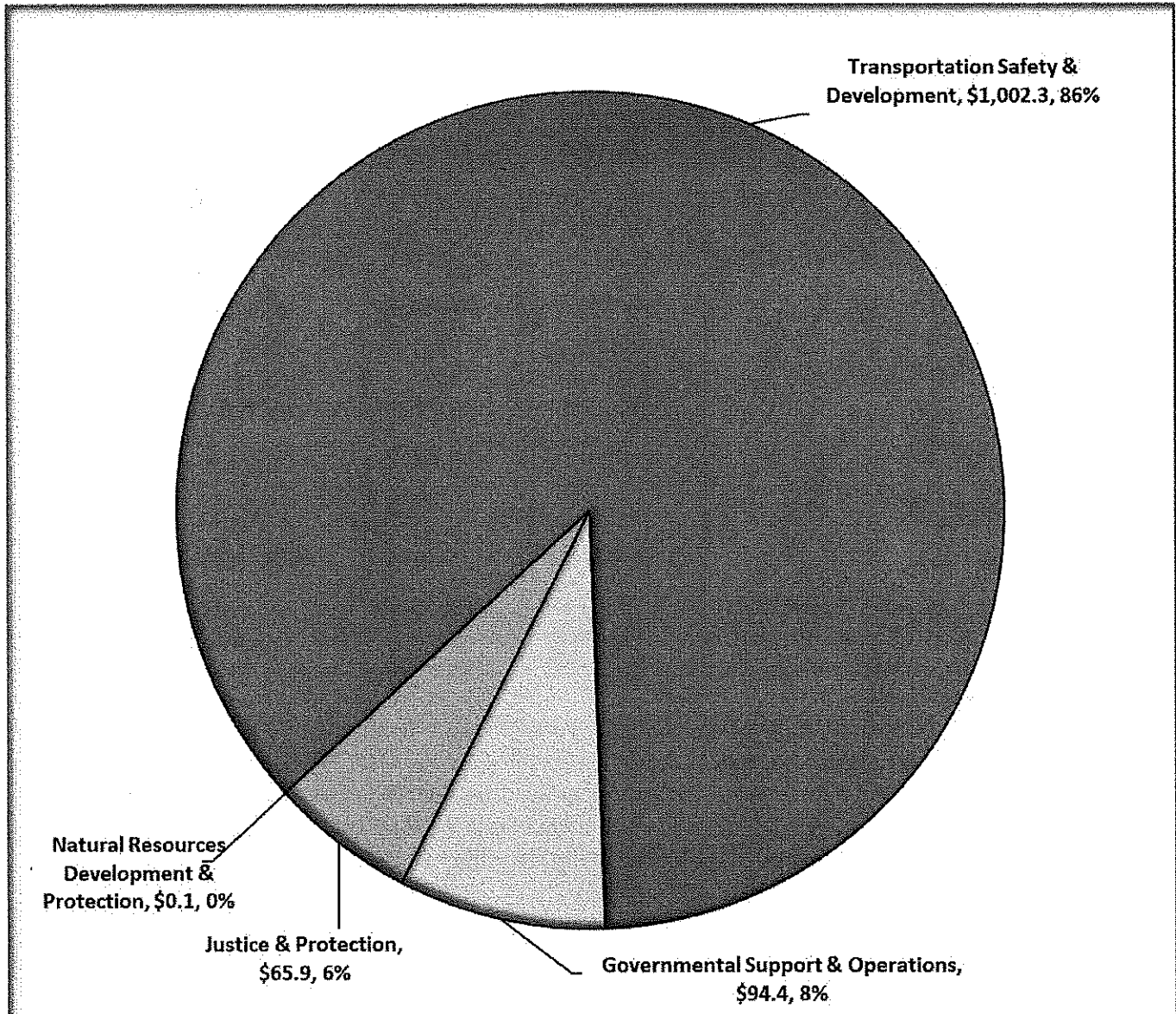


Fiscal Years 2022–2023

Highway Fund Forecasted Allocations

\$1,162.7

Dollars in Millions



IV. BUDGET GAP COMPARISONS

A. CURRENT FORECAST COMPARED TO PRE-PANDEMIC FORECAST

The tables below provide comparisons of the current projected budget status for the General Fund and Highway Fund using the December 2020 revenue forecast to projected statuses using the March 2020 revenue forecast. These comparisons illustrate the impact of the pandemic on the budget gap currently projected for the 2022–2023 biennium and provide additional perspective on the portion of the gap related to the structure of revenues and expenditures.

General Fund

GENERAL FUND STATUS COMPARISON				
March 2020 Forecasted Revenues vs. December 2020 Forecasted Revenues				
	Status with March 2020 Revenues		Status with December 2020 Revenues	
	2020 - 2021 Biennium	2022 - 2023 Biennium	2020 - 2021 Biennium	2022 - 2023 Biennium
BALANCE	139,216,388	105,468,098	139,216,388	
ADJUSTMENTS *	12,881,538		12,881,538	
REVENUE	8,039,623,217	8,492,129,141	7,784,620,618	8,096,373,358
TOTAL RESOURCES	8,191,721,143	8,597,597,239	7,936,718,544	8,096,373,358
ADJUSTMENTS				
APPROPRIATIONS	8,086,253,045	8,758,090,003	8,086,253,045	8,758,090,003
PROJECTED BALANCE (SHORTFALL)	105,468,098	(160,492,764)	(149,534,501)	(661,716,645)
* Includes transfers and adjustments in budget bills and other enacted laws as well as year-end adjustments for unbudgeted lapsed balances, lapsed encumbrances, statutory transfers and other accounting adjustments.				

General Fund revenues from the March 2020 revenue forecast were approximately \$8 billion for the 2020-2021 biennium as compared to about \$7.8 billion for the same biennium projected in the December 2020 revenue forecast. This is a decrease from March to December of about \$255 million. Revenues for the 2022-2023 biennium in the March 2020 revenue forecast were about \$8.5 billion as compared to about \$8.1 billion in the December 2020 forecast – a decrease of roughly \$395.8 million from March to December.

Consequently, the projected General Fund shortfall for the 2022–2023 biennium is much lower when using the March 2020 forecasted revenues. The projected General Fund budget shortfall for the 2022–2023 biennium using March 2020 forecasted revenues is about \$160.5 million as compared to the current shortfall of roughly \$661.7 million projected using the December 2020 forecasted revenues.

Notably, the \$292.5 million of additional appropriation included in the 2022-2023 projections to meet the State's 55% share of education more than offsets the \$160.5 million budget shortfall projected using March 2020 forecasted revenues. If the appropriation for General Purpose Aid was held at the baseline level, then the projected General Fund balance using March 2020 revenues would be a positive \$132 million for the biennium. Similarly, the additional transfers to

the Local Government Fund to meet the 5% target for State-municipal revenue sharing using the March 2020 forecast would be \$101.8 million over the biennium. Holding the revenue sharing rate at fiscal year 2021 3.75% rate would reduce the projected shortfall using the March 2020 revenues to about \$58.7 million. Using March 2020 revenues and holding both State funding for General Purpose Aid and State-municipal revenue sharing at fiscal year 2021 levels would result in a projected positive General Fund balance for the 2022-2023 biennium of \$233.8 million.

Highway Fund

HIGHWAY FUND STATUS COMPARISON				
March 2020 Forecasted Revenues vs. December 2020 Forecasted Revenues				
	Status with March 2020 Revenues		Status with December 2020 Revenues	
	2020 - 2021 Biennium	2022 - 2023 Biennium	2020 - 2021 Biennium	2022 - 2023 Biennium
BALANCE	14,790,015	8,904,780	14,790,015	
ADJUSTMENTS *	(10,557,975)		(10,557,975)	
REVENUE	689,345,424	695,565,976	651,846,977	674,159,707
TOTAL RESOURCES	693,577,464	704,470,756	656,079,017	674,159,707
ADJUSTMENTS	4,347,010		4,347,010	
APPROPRIATIONS	680,325,674	1,162,669,738	680,325,674	1,162,669,738
PROJECTED BALANCE (SHORTFALL)	8,904,780	(458,198,982)	(28,593,667)	(488,510,031)
* Includes transfers and adjustments in budget bills and other enacted laws as well as year-end adjustments for unbudgeted lapsed balances, lapsed encumbrances, statutory transfers and other accounting adjustments.				
** Includes statutory year-end transfers.				

Highway Fund revenues from the March 2020 revenue forecast were about \$689 million for the 2020-2021 biennium as compared to nearly \$651.9 million for the same biennium projected in the December 2020 revenue forecast. This is a decrease from March to December of about \$37.5 million. Revenues for the 2022-2023 biennium in the March 2020 revenue forecast were about \$695.6 million as compared to about \$674.2 million in the December 2020 forecast – a decrease of roughly \$21.4 million from March to December.

Consequently, the projected Highway Fund shortfall for the 2022–2023 biennium is somewhat lower when using the March 2020 forecasted revenues. The projected Highway Fund budget shortfall for the 2022–2023 biennium using March 2020 forecasted revenues is about \$458.2 million as compared to the current shortfall of \$488.5 million projected using the December 2020 forecasted revenues.

Notably, the additional \$400 million in allocation included in the 2022-2023 biennium to meet current law for the State's share of the Department of Transportation's capital program does not fully offset the \$458.2 million shortfall projected using March 2020 forecasted revenues. Even with allocation for that program held at the baseline level, there would still be a shortfall of about \$58.2 million for the biennium. As previously discussed, this reflects the State's ongoing challenge of Highway Fund revenues not keeping pace with the rising costs for transportation infrastructure needs.

B. CURRENT FORECAST COMPARED TO 2018 FORECAST for 2020-2021 Biennium

Comparing the budget gap forecast for the 2022-2023 biennium to the gap forecast in the 2018 four-year forecast for the 2020–2021 biennium provides some perspective on how law changes in the interim have impacted the capacity of the State’s resources to support the current level of State government services.

General Fund

For the comparison of General Fund budget gaps between these two forecasts to be meaningful, some adjustments need to be made to put the budget gap calculations on a consistent basis. These adjustments are:

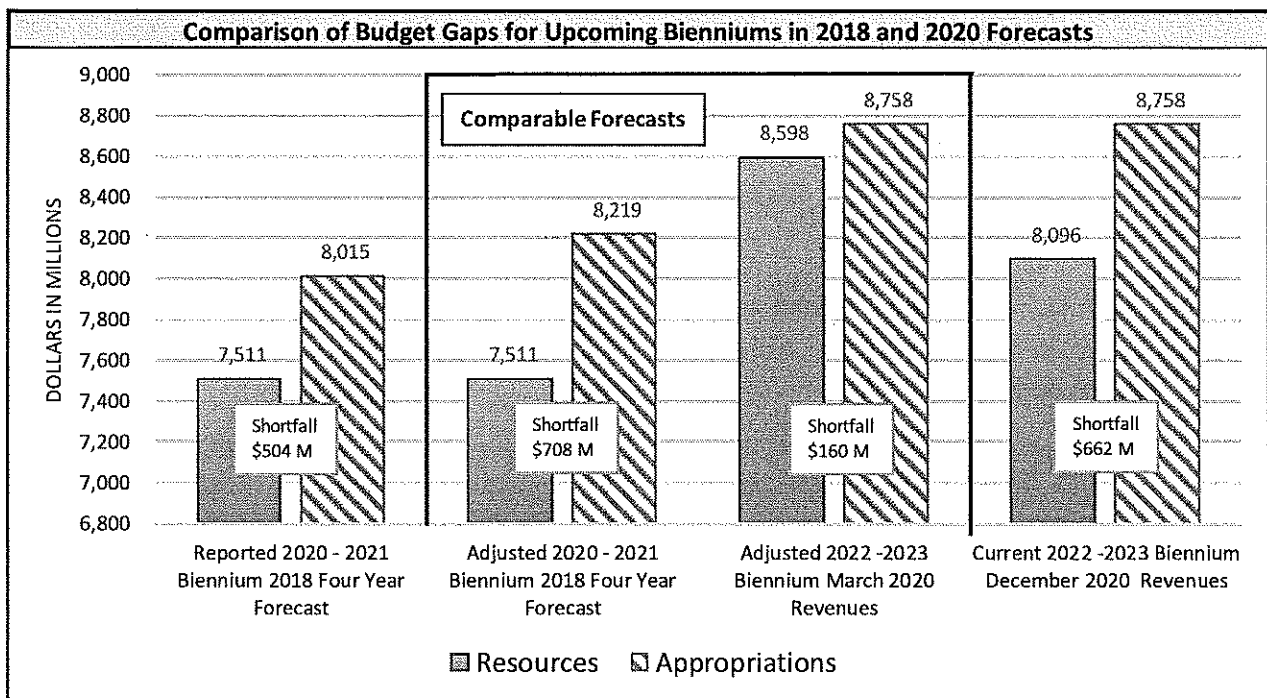
- an increase of about \$395.8 million in the revenues used to project the budget gap for the 2022–2023 biennium in this four-year forecast; and
- an increase of approximately \$203.7 million in the total appropriations used to project the budget gap for the 2020–2021 biennium in the 2018 four-year forecast.

The revenue adjustment made for the 2022-2023 biennium is to set revenues at the level projected in the RFC’s March 2020 forecast. March revenue forecasts are what is typically used in developing the four-year forecast and that was true for the 2018 forecast. Additionally, as previously discussed, using revenues from the March 2020 revenue forecast removes the impact of the unprecedented pandemic and gives a more consistent view of the structure of revenues and expenditures. Revenues in both the March 2018 and March 2020 revenue forecasts reflected State-municipal revenue sharing returning to 5% at the beginning of the respective upcoming biennium.⁷

The appropriation adjustment made for the 2020–2021 biennium in the 2018 forecast is related to calculating the appropriation amount needed to achieve a 55% State share of the total cost of education. At the time of the 2018 four-year forecast, the amount of additional appropriation needed above baseline to meet this statutory target for the 2020-2021 biennium was reported as \$147 million. This amount **cannot be directly compared** to the \$292.5 million shown in this forecast as the additional needed for the 2022-2023 biennium **because these amounts are not calculated on the same basis**. When the calculation method used for the 2022–2023 biennium in this forecast is applied to the relevant figures used in the 2018 four-year forecast, the additional appropriation amount for the 2020–2021 biennium is \$350.7 million rather than the \$147 million. Hence, total appropriations for the 2020–2021 biennium in the 2018 forecast would increase by the difference of approximately \$203.7 million. The difference in calculation methods, both allowable under statute, are explained on pages 9 and 10.

As shown in the table and chart that follow, after these adjustments are made, the General Fund budget gap projected for the 2020–2021 biennium at the time of the 2018 four-year forecast would be a shortfall of about \$707.6 million as compared to the reported shortfall of about \$503.9 million. The shortfall projected for the 2022-2023 biennium in this 2020 four-year forecast would be about \$160.5 million rather than the current shortfall of \$661.7 million.

⁷ In the 2018 four-year forecast, the increased transfer from the General Fund to meet the 5% municipal revenue sharing target beginning in fiscal year 2020 from 2% in 2019 was estimated at \$213 million. The increased transfer needed to meet that target for fiscal year 2022, from 3.75% in fiscal year 2021, using March 2020 forecasted revenues would be \$101.8 million.



General Fund	Reported 2020 - 2021 Total Biennium from 2018 Four Year Forecast	Adjusted 2020 - 2021 Total Biennium from 2018 Four Year Forecast	Adjusted 2022 - 2023 Total Biennium using March 2020 Revenues	Current 2022 - 2023 Total Biennium with December 2020 Revenues
Beginning Balance	27,230,484	27,230,484	105,468,098	-
Revenue	7,483,939,528	7,483,939,528	8,492,129,141	8,096,373,358
Total Resources	7,511,170,012	7,511,170,012	8,597,597,239	8,096,373,358
Appropriations	8,015,100,266	8,218,800,266	8,758,090,003	8,758,090,003
Projected Balance (Shortfall)	(503,930,254)	(707,630,254)	(160,492,764)	(661,716,645)

The adjusted forecasts show the projected budget gap for the 2022-2023 biennium as a shortfall of about \$160.5 million compared to a shortfall of \$707.6 million for the 2020-2021 biennium at the time of the 2018 four-year forecast. Several factors contribute to the lower shortfall projected for the 2022-2023 biennium.

- **Actual revenues for fiscal year 2019 exceeded March 2018 projections resulting in a higher beginning General Fund balance for the 2020-2021 biennium than was projected in the 2018 four-year forecast.** Actual revenues for fiscal year 2019 significantly exceeded what was projected in March 2018 and used in the 2018 four-year forecast. The revenue forecasts in December 2018 and May 2019 projected revenues upward by about \$99.2 million and \$66.7 million respectively. Increases were generally attributed to stronger national and state economies and one-time taxpayer income or tax avoidance actions associated with enactment of the federal Tax Cuts and Jobs Act of 2017. Actual 2019 revenues resulted in a General Fund unappropriated surplus balance of about \$139.2 million for the end of the 2018-2019 biennium which became the actual beginning General Fund balance for the 2020-2021 biennium. At the time of the 2018 four-year forecast, the beginning balance for 2020-2021 was projected to be only about \$27.2 million.

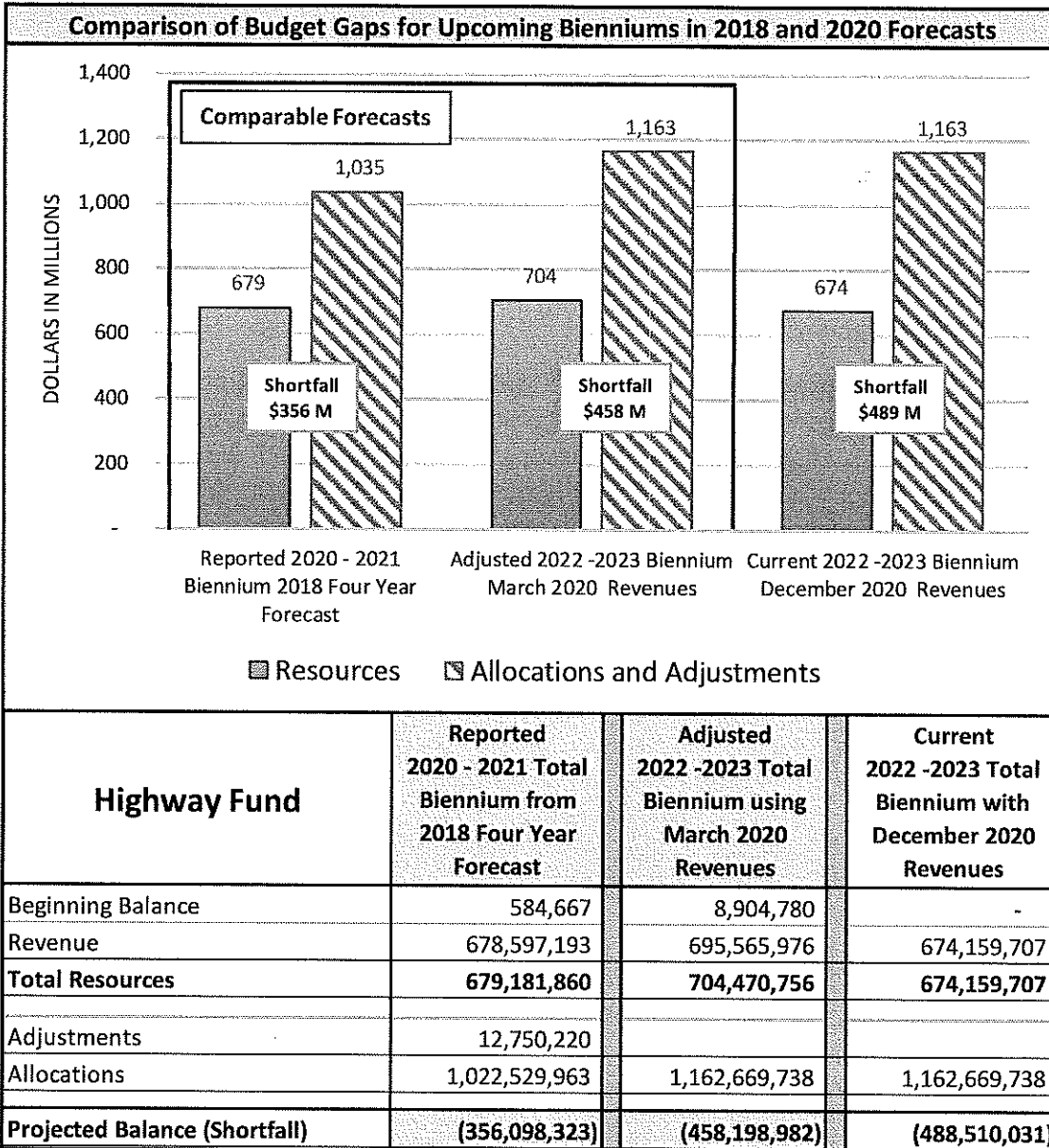
- ***Prior to the pandemic, forecasted revenues for the 2020-2021 and 2022-2023 biennia continued to increase.*** Revenues forecasted for 2020-2021 biennium also continued to increase with each new revenue forecast subsequent to the 2018 four-year forecast. The cumulative increase in revenues for the 2020-2021 biennium across the December 2018, and May and December 2019 revenue forecasts, was \$358.5 million. The March 2020 forecast added another \$74.1 million in revenue for the 2020-2021 biennium. The December 2018 revenue forecast was the first to include revenues for the 2022-2023 biennium at about \$8.35 billion. The May and December 2019 forecasts re-projected revenues upward by a total of \$72.3 million for the 2022-2023 biennium. The RFC also re-projected 2022-2023 revenues upward in the March 2020 forecast by \$65 million. Primary drivers of the increased revenues in all forecasts were the Sales and Use Tax and Individual Income Tax lines.
- ***In the face of the pandemic, the Governor and Legislature acted to limit spending and new General Fund appropriations for the 2020-2021 biennium. These actions resulted in limited growth in baseline appropriations coming into the 2022-2023 biennium and a higher beginning balance for the 2022-2023 biennium.*** Following the March 2020 revenue forecast, the COVID-19 public health crisis and resulting economic impacts began to materialize nationally and in Maine. The Governor submitted a change package to reduce the recommended supplemental budget appropriations being considered by the Legislature, leaving resources unappropriated to offset any potential revenue loss in fiscal year 2020. The enacted 2020-2021 supplemental budget included very limited additional General Fund appropriations, many of which were one-time actions and, therefore, are not included in the base appropriations for the 2022-2023 biennium. The projected General Fund balance for the 2020-2021 biennium after the actions of the Second Regular Session of the 129th Legislature was approximately \$113 million. Additionally, the Governor acted to limit spending in the last quarter of fiscal year 2020 and into fiscal year 2021.⁸ After year-end adjustments for actual fiscal year 2020 results, and prior to the off-cycle August 2020 revenue forecast, there was an ending balance for the biennium of about \$105.5 million. This is the beginning balance for 2022-2023 adjusted forecast. Baseline appropriations coming into 2022-2023 are also lower than they might otherwise be, given the revenue increase forecasted in March 2020 and the historical trend for appropriations to increase commensurately when new revenues are available.
- ***The amount actually appropriated for Medicaid expansion in the 2020-2021 biennium was less than projected in the 2018 four-year forecast.*** In the 2018 forecast, total appropriations for 2020-2021 biennium included a projected \$180 million for Medicaid expansion. The actual appropriation in the enacted 2020-2021 biennial budget for the current biennium was about \$125.1 million. The roughly \$77.9 million appropriated for fiscal year 2021, which assumed full implementation, is now captured in the baseline budget for 2022-2023. This baseline amount is projected to be sufficient for anticipated expenses in 2022-2023 and, therefore, no additional appropriations have been requested to support Medicaid expansion.

⁸ The Governor took swift action to manage fiscal year 2020 General Fund spending in response to the expected economic and fiscal impacts of the pandemic. The expected impacts were regularly communicated to State departments and agencies with emphasis on the need for judicious spending and hiring decisions for the remainder of the fiscal year. Steps were taken to limit department and agency use of unspent fiscal year 2020 quarterly allotments and prior year balances to critical or emergency spending only, thus increasing potential resources available for fiscal year 2021. Additionally, departments and agencies were directed to identify opportunities to reduce or minimize contractual expenses.

Highway Fund

The only adjustment needed to put the budget gap calculations for the Highway Fund on a consistent basis between the 2018 and current four-year forecasts is to use the revenues from the March 2020 forecast for the 2022-2023 biennium. This adjustment increases revenues for the 2022-2023 biennium by about \$21.4 million.

Both the 2018 and current four-year forecast include the additional allocations above baseline needed to meet current law for the State's share of the Department of Transportation's capital improvement plan. In the 2018 forecast, there is an additional allocation of \$300 million for the 2020-2021 biennium. In the current forecast, the additional amount included in the projected allocations for 2022-2023 biennium is \$400 million.



As shown in the table and chart above, the projected budget gap for the 2022-2023 biennium is a shortfall of about \$458.2 million compared to a shortfall of about \$356 million for the 2020-2021 biennium at the time of the 2018 four-year forecast. As previously noted in this report, relatively

modest growth in Fuel Tax and Highway Fund revenues overall has not kept pace with spending needs. The Highway Fund structural gap that continues to challenge the State appears to be widening.

V. SUMMARY

This report provides a summary and detailed projection of revenues, appropriations and allocations for the General Fund and the Highway Fund for the 2020-2021 biennium and the 2022-2023 biennium. The base level projections for the General Fund and Highway Fund include the December 2020 projection of the Revenue Forecasting Committee and reflect all actions through the Second Regular Session of the 129th Legislature.

The forecasts of revenues, appropriations and allocations contained in this report, when constructed under current law and current trends, result in a projected shortfall of \$661,716,645 in the General Fund for the 2022-2023 biennium. The shortfall projected for the Highway Fund for the 2022-2023 biennium is \$488,510,031.

Analysis indicates that approximately \$501.2 million of the General Fund shortfall is attributable to the sudden and unprecedented recession associated with the COVID-19 pandemic. The other \$160.5 million is more indicative of a true structural gap between revenues and expenditures. The structural gap appears to be decreasing when compared with the structural gap calculated in the 2018 four-year forecast, primarily due to consistent growth in revenues over the past two biennia prior to the pandemic.

For the Highway Fund, however, only about \$30.3 million of the shortfall is likely attributable to the pandemic-induced recession. The other \$458.2 million represents a structural gap between revenues and expenditures that appears to be widening when compared with the structural gap calculated in the 2018 four-year forecast, primarily due to relatively modest growth in Highway Fund revenues over the past two biennia.