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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

October 5, 2022

To Whom It May Concern:

Enclosed please find the Four-Year Revenue and Expenditure Forecast completed per statute every other 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.

The final result – often called the 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.

The forecasts of revenues, appropriations and allocations contained in this report, as constructed under current law and current trends, result in General Fund revenues *exceeding* appropriations by \$303,891,443 (no structural gap) for the 2024-2025 biennium and a projected structural gap (revenues less than allocations) for the biennium of \$712,102,877 in the Highway Fund.

Sincerely,

A handwritten signature in blue 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: October 5, 2022

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

Subject: Four Year Revenue and Expenditure Forecast Report for the General Fund and Highway Fund for the 2022-2023 and 2024-2025 Biennia

The State of Maine Bureau of the Budget presents the state budget forecast for the General Fund and the Highway Fund for the 2022-2023 biennium and the 2024-2025 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.

The forecasts of revenues, appropriations and allocations contained in this report, as constructed under current law and current trends, result in General Fund revenues exceeding appropriations by \$303,891,443 for the 2024-2025 biennium and a projected structural gap (revenues less than allocations) for the biennium of \$712,102,877 in the Highway Fund.

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 2022 - 2025**

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STATE OF MAINE BUDGET FORECAST 2022-2023 BIENNIUM AND 2024-2025 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 2022-2023 biennium and the 2024-2025 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 2024 and fiscal year 2025 based on currently available financial and program information.

The General Fund and Highway Fund revenues used in this forecast report represent the March 2022 projections of the Revenue Forecasting Committee (RFC) updated for any actions taken in the remainder of the 130th Legislature's Second Regular Session. Similarly, the expenditure information reflects all General Fund appropriations and Highway Fund allocations approved through the Second Regular Session of the 130th Legislature. The projection for the 2024-2025 biennium uses approved baseline appropriations and allocations for fiscal year 2023 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, projections for expenditures in the next biennium include estimated costs to comply with specific targets existing in statute like the obligation for the State to pay 55 percent of the cost of K-12 education and the statute requiring a municipal revenue sharing rate of 5%. The level of estimated expenditures needed to fully fund existing programs at current service levels is also captured in the projection. For example, expenditures for programs that were being phased in in fiscal year 2023 at less than a full 12 months of funding are projected at 12 months of funding in fiscal years 2024-2025. Historically, it has been common for budget proposals to change the funding targets in underlying statutes or take other actions as necessary to maintain a balanced budget as constitutionally required.

At this time, there is no structural gap projected for the General Fund in the 2024-2025 biennium. The structural gap projected for the Highway Fund totals approximately \$712 million for the 2024-2025 biennium.

II. GENERAL FUND

A. BUDGET STATUS Fiscal Years 2022-2025

GENERAL FUND STATUS						
	Fiscal Years 2022-2023 BUDGET			Fiscal Years 2024-2025 FORECAST		
	FY 2022	FY 2023	TOTAL	FY 2024	FY 2025	TOTAL
BALANCE	155,262,322		155,262,322	34,506,134		34,506,134
ADJUSTMENTS *	(1,439,749,128)	(142,946,384)	(1,582,695,512)			
REVENUE	5,391,613,570	4,758,487,167	10,150,100,737	4,913,788,247	5,095,515,994	10,009,304,240
TOTAL RESOURCES	4,107,126,764	4,615,540,783	8,722,667,547	4,948,294,381	5,095,515,994	10,043,810,374
ADJUSTMENTS						
APPROPRIATIONS	4,073,526,967	4,614,634,446	8,688,161,413	4,843,603,278	4,896,315,653	9,739,918,931
PROJECTED BALANCE (SHORTFALL)	33,599,797	906,337	34,506,134	104,691,103	199,200,341	303,891,443

* 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 2022 was \$33,599,797 and a fund balance of \$34,506,134 is projected for the end of 2022-2023 biennium. Current projections for the 2024-2025 biennium assume a beginning balance of \$34,506,134 and General Fund revenues of \$10,009,304,240. Projected General Fund appropriations for the biennium are \$9,739,918,931 which results in a surplus for the General Fund of \$303,891,443 at the end of the biennium.

Revenues projected for fiscal years 2022-2025 are from the RFC’s March 2022 forecast with adjustments to reflect laws enacted during the remainder of the 130th Legislature’s Second Regular Session. Similarly, the expenditure information in this forecast reflects all General Fund appropriations approved through the Second Regular Session of the 130th Legislature. The projection for the 2024-2025 biennium uses the fiscal year 2023 legislatively approved appropriations adjusted for the effect of one-time and phased-in actions with expected fiscal impacts in fiscal years 2024 and 2025. 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. The State achieved the 55% statutory target for the first time during the 2022-2023 biennium. Maintaining funding at the 55% level is estimated to cost an additional **\$79.3 million** for the 2024-2025 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.

- ***State-Municipal Revenue Sharing at 5%*** as per Title 30-A § 5681. The State achieved this statutory target during the 2022-2023 biennium. Maintaining revenue sharing at this level results in an estimated increase in transfers to the Local Government Fund from the General Fund of ***\$22.5 million*** over the 2024-2025 biennium when compared to transfers in the 2022-2023 biennium as transfers will fluctuate with General Fund revenues the State receives. Revenue sharing is funded by a percentage of sales, service provider, personal and corporate income tax receipts.

Historically, it has been common for budget proposals to change the targets in these underlying statutes, resulting in either one-time or ongoing savings that were necessary to close projected structural gaps and maintain a balanced budget as constitutionally required. There is, however, no General Fund structural gap projected for the coming biennium. Revenues are currently forecasted to be sufficient to meet these statutory requirements.

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.

B. REVENUE PROJECTION Fiscal Years 2022-2025

GENERAL FUND REVENUE PROJECTION									
SOURCE	Fiscal Years 2022-2023 BUDGET				Fiscal Years 2024-2025 PROJECTION				
	FY 2022	FY 2023	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 2024	YR. TO YR. % CHANGE	FY 2025	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	2,078,875,746	2,114,558,587	1.72%	4,193,434,333	2,178,657,000	3.03%	2,243,185,100	2.96%	4,421,842,100
Service Provider Tax	51,328,641	50,000,000	-2.59%	101,328,641	49,500,000	-1.00%	49,000,000	-1.01%	98,500,000
Individual Income Tax	2,580,656,661	2,054,227,867	-20.40%	4,634,884,528	2,128,356,714	3.61%	2,234,903,451	5.01%	4,363,260,165
Corporate Income Tax	415,817,438	335,688,199	-19.27%	751,505,637	368,403,000	9.75%	390,565,000	6.02%	758,968,000
Cigarette & Tobacco Tax	148,517,422	151,740,000	2.17%	300,257,422	152,742,000	0.66%	154,645,000	1.25%	307,387,000
Insurance Company Tax	101,673,456	88,800,000	-12.66%	190,473,456	86,100,000	-3.04%	87,050,000	1.10%	173,150,000
Inheritance & Estate Tax	34,183,165	24,150,000	-29.35%	58,333,165	25,000,000	3.52%	25,950,000	3.80%	50,950,000
Fines, Forfeits and Penalties	4,905,204	11,913,139	142.87%	16,818,343	11,913,139		11,913,139		23,826,278
Income from Investments	9,023,821	8,166,254	-9.50%	17,190,075	10,241,813	25.42%	10,148,903	-0.91%	20,390,716
Transfer from Lottery	71,351,415	60,000,000	-15.91%	131,351,415	60,000,000		60,000,000		120,000,000
Trans for Tax Relief Progs	(78,022,119)	(81,040,000)	3.87%	(159,062,119)	(84,540,000)	4.32%	(88,240,000)	4.38%	(172,780,000)
Trans. to Muni. Rev. Share	(232,362,928)	(233,340,025)	0.42%	(465,702,953)	(239,320,667)	2.56%	(248,903,173)	4.00%	(488,223,840)
Other Taxes and Fees	159,808,374	154,469,485	-3.34%	314,277,859	154,129,881	-0.22%	155,099,722	0.63%	309,229,603
Other Revenues	45,857,274	19,153,661	-58.23%	65,010,935	12,605,367	-34.19%	10,198,852	-19.09%	22,804,218
TOTAL REVENUE	5,391,613,570	4,758,487,167	-11.74%	10,150,100,737	4,913,788,247	3.26%	5,095,515,994	3.70%	10,009,304,240
Fiscal Year 2022 figures reflect actuals as of Year-End									

Discussion

The RFC in its December 2021 report re-projected revenues upward by \$822.2 million for the 2022-2023 biennium. The March 2022 RFC forecast also re-projected revenues upward for the 2022-2023 biennium by another \$411.7 million. Following the March revenue forecast and bills enacted by the Legislature through the remainder of the Second Regular Session, the projected General Fund adjusted balance is approximately \$34.5 million for the end of the biennium. In the December 2021 and March 2022 forecasts, the RFC also re-projected revenues upward by \$821.6 million and \$360.8 million respectively for the 2024-2025 biennium. Primary drivers of the increased revenues in both forecasts were the Sales and Use Tax and Individual Income Tax lines.

Revenues projected for fiscal years 2022-2025 in this four-year forecast are from the RFC's recent March 2022 forecast and reflect all actions through the Second Regular Session of the 130th Legislature. The RFC's revenue forecast reflects the economic forecast issued by the Consensus Economic Forecasting Commission in February 2022 and the State's actual revenue performance for the first seven months of fiscal year 2022.

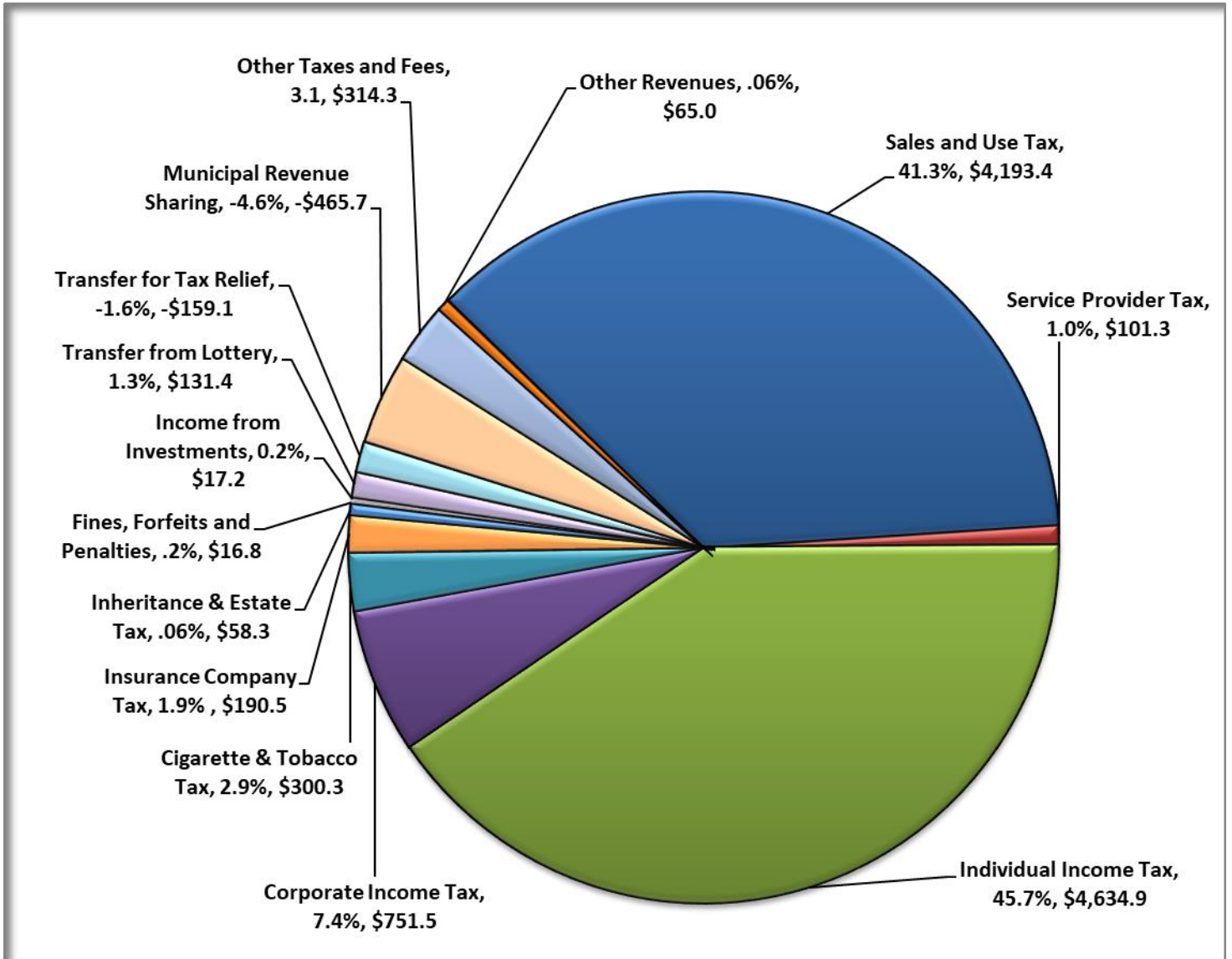
The RFC's March 2022 Revenue Forecast report, which details the factors and assumptions underlying the revenue projection, can be found on the Revenue Forecasting Committee's website at <https://legislature.maine.gov/doc/8382>. The following pie charts depict the percent of General Fund revenue associated with each revenue source.

Fiscal Years 2022–2023

General Fund Budgeted Revenues - \$10,150.1

Includes Transfers for Municipal Revenue Sharing of (\$465.7)
and Transfers to Tax Relief Programs of (\$159.1)*

Dollars in Millions



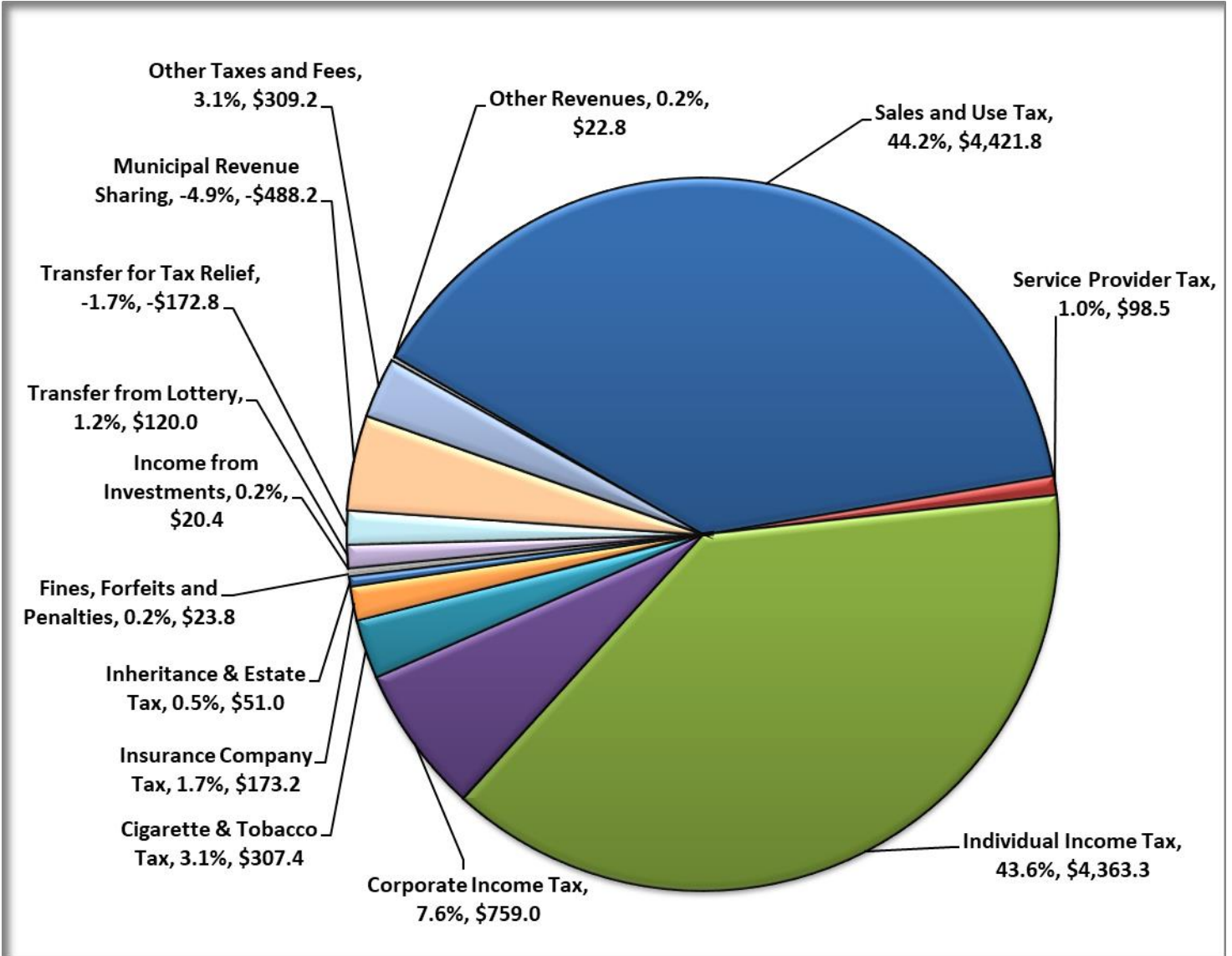
* Beginning in fiscal year 2022, the transfer from the General Fund for State-municipal revenue sharing (30-A M.R.S.A. §5681) includes the impact of the return to 5% from 3% set in fiscal year 2020 and 3.75% in fiscal year 2021.

Fiscal Years 2024–2025

General Fund Projected Revenues - \$10,009.4

*Includes Transfers for Municipal Revenue Sharing of (\$488.2)
and Transfers to Tax Relief Programs of (\$172.8)*

Dollars in Millions



C. EXPENDITURE FORECAST Fiscal Years 2022-2025

GENERAL FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	Fiscal Years 2022-2023 BUDGET				Fiscal Years 2024-2025 FORECAST				
	FY 2022	FY 2023	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 2024	YR. TO YR. % CHANGE	FY 2025	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Homestead Property Tax Exemption					103,500,000		108,500,000	4.83%	212,000,000
Government Facilities Authority	21,955,674	21,955,674		43,911,348	24,955,674	13.66%	24,955,674		49,911,348
Debt Service - Treasury	113,314,784	113,314,784		226,629,568	131,841,313	16.35%	115,955,145	-12.05%	247,796,458
Other Agencies And Programs	181,566,651	193,354,874	6.49%	374,921,525	213,229,502	10.28%	222,344,113	4.27%	435,573,615
Total Policy Area - Governmental Support & Operations	316,837,109	328,625,332	3.72%	645,462,441	473,526,489	44.09%	471,754,932	-0.37%	945,281,421
Total Policy Area - Economic Development & Work Force Training	46,757,856	60,989,562	30.44%	107,747,418	60,983,518	-0.01%	60,874,037	-0.18%	121,857,555
General Purpose Aid for Local Schools	1,299,988,114	1,335,940,626	2.77%	2,635,928,740	1,359,008,495	1.73%	1,389,481,615	2.24%	2,748,490,110
Teacher Retirement/Retired Teachers' Health Insurance	239,654,439	245,007,436	2.23%	484,661,875	259,917,737	6.09%	265,827,975	2.27%	525,745,712
Child Development Services	39,711,000	43,466,194	9.46%	83,177,194	43,468,518	0.01%	43,468,518		86,937,036
Other Agencies And Programs	355,831,144	426,020,414	19.73%	781,851,558	416,584,685	-2.21%	416,988,518	0.10%	833,573,203
Total Policy Area - Education	1,935,184,697	2,050,434,670	5.96%	3,985,619,367	2,078,979,435	1.39%	2,115,766,626	1.77%	4,194,746,061
Medical Care - Payments To Providers	396,090,970	587,482,759	48.32%	983,573,729	603,093,572	2.66%	605,256,381	0.36%	1,208,349,953
Nursing Facilities	106,010,393	140,566,939	32.60%	246,577,332	134,835,968	-4.08%	134,835,968		269,671,936
Foster Care/Adoption Assistance	67,248,237	80,269,459	19.36%	147,517,696	64,951,967	-19.08%	64,965,904	0.02%	129,917,871
Community Mental Health	51,598,916	39,897,788	-22.68%	91,496,704	40,217,163	0.80%	40,376,747	0.40%	80,593,910
Mental Health Medicaid	30,631,055	39,630,398	29.38%	70,261,453	39,825,551	0.49%	39,825,551		79,651,102
Community Developmental Services	22,198,124	22,365,300	0.75%	44,563,424	18,543,159	-17.09%	18,730,734	1.01%	37,273,893
Developmental Services - Medicaid	170,359,589	244,247,997	43.37%	414,607,586	249,241,024	2.04%	251,294,165	0.82%	500,535,189
Mental Health Services - Children	17,099,512	18,524,611	8.33%	35,624,123	19,073,289	2.96%	19,254,424	0.95%	38,327,713
Mental Health Services - Child Medicaid	31,248,418	38,431,163	22.99%	69,679,581	40,323,121	4.92%	40,795,467	1.17%	81,118,588
Substance Abuse Services	20,995,753	22,085,831	5.19%	43,081,584	22,143,143	0.26%	22,209,760	0.30%	44,352,903
Substance Abuse Services- Medicaid	7,294,951	13,098,345	79.55%	20,393,296	13,155,576	0.44%	13,155,576		26,311,152
Other Agencies And Programs	346,255,213	393,396,250	13.61%	739,651,463	411,881,876	4.70%	415,824,394	0.96%	827,706,270
Total Policy Area - Health & Human Services	1,267,031,131	1,639,996,840	29.44%	2,907,027,971	1,657,285,409	1.05%	1,666,525,071	0.56%	3,323,810,480
Total Policy Area - Natural Resources Development & Protection	95,517,162	107,628,657	12.68%	203,145,819	116,199,682	7.96%	117,942,620	1.50%	234,142,302
Corrections	206,733,269	209,789,489	1.48%	416,522,758	230,362,542	9.81%	233,700,017	1.45%	464,062,559
Judicial Branch	90,102,989	94,501,376	4.88%	184,604,365	98,940,185	4.70%	100,281,442	1.36%	199,221,627
Other Agencies And Programs	105,975,188	111,831,023	5.53%	217,806,211	117,198,243	4.80%	119,183,949	1.69%	236,382,192
Total Policy Area - Justice & Protection	402,811,446	416,121,888	3.30%	818,933,334	446,500,970	7.30%	453,165,408	1.49%	899,666,378
Total Policy Area - Transportation, Safety & Development									
Total Policy Area - Arts, Heritage & Cultural Enrichment	9,387,566	10,337,497	10.12%	19,725,063	10,127,775	-2.03%	10,286,959	1.57%	20,414,734
Total Policy Area - Business Licensing and Regulation		500,000		500,000		-100.00%			
GRAND TOTAL GENERAL FUND EXPENDITURES	4,073,526,967	4,614,634,446	13.28%	8,688,161,413	4,843,603,278	4.96%	4,896,315,653	1.09%	9,739,918,931

Discussion

The enacted 2022-2023 biennial budget¹ included an additional \$504.8 million in General Fund appropriations over the biennium when compared to the 2020-2021 biennium. Nearly all of this increase was in the baseline budget. The Legislature enacted another budget bill during its First Special Session¹ which increased appropriations by \$160.6 million and another \$171.9 million in appropriations was approved in the enacted 2022-2023 supplemental budget. Other laws enacted by the 130th Legislature included \$22.4 million in additional appropriations for the 2022-2023 biennium.

The projection for the 2024-2025 biennium uses the fiscal year 2023 legislatively approved appropriations adjusted for the effect of one-time actions and phased-in actions with expected fiscal impacts in fiscal years 2024 and 2025. Salaries and wages projected for the 2024-2025 biennium anticipate growth from merit increases and collective bargaining approved by the 130th legislature but not from any salary adjustments related to future collective bargaining. The projection for the 2024-2025 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.

Overall, policy area trends between fiscal years 2022 and 2025 are at least partially explained by:

- Positions – There was an increase in the number of positions or portions of positions being supported by the General Fund beginning in fiscal year 2023 due to authorized new positions or reallocations of funding for existing positions - particularly in the Health and Human Services, Natural Resources and Government Support & Operations policy areas. The projections for the 2024-2025 biennium do not include any additional positions.
- One-time Actions - One-time funding was provided to various agencies in fiscal year 2023 to address current challenges, some of them related to continuing impacts of the Covid-19 pandemic. Agencies in the Health and Human Services, Education and Economic Development and Workforce Training policy areas were the primary recipients of these one-time funds. Since the funding was one-time, it is not reflected in the projections for fiscal years 2024 and 2025 thus explaining some of the year over year decreases between fiscal year 2023 and 2024.
- Projections for fiscal years 2024 and 2025 reflect increased operating and support costs for current services across state government including costs for information technology, fuel, vehicles, leases, insurance, and legal and finance support.

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

- Homestead Property Tax Exemption – A provision enacted in the biennial budget² for fiscal years 2022-2023 increased the reimbursement to municipalities from 70% to 73% for property tax years beginning April 1, 2022 and by 3% each year thereafter until reimbursement reaches 100%. The Legislature also took a one-time action in that bill to fund the Homestead Property Tax Exemption through a transfer of General Fund unappropriated surplus to an Other Special Revenue account rather than through the typical direct General Fund appropriation. Since this was a one-time action, funding for the Homestead Property Tax Exemption has returned to a

¹ The biennial budget for 2022-2023 was effectively enacted in two bills passed by the 130th Legislature. PL 2021 Chapter 29 was enacted in the First Regular Session of the 130th Legislature and primarily represented the baseline budget for the biennium. PL 2021 Chapter 398 was enacted in the First Special Session of the 130th Legislature and encompassed new initiatives proposed by the Governor or legislators for the 2022-2023 biennium.

² This provision was in PL 2021 Chapter 398.

General Fund appropriation for the 2024-2025 biennium with \$97,580,000 million in the baseline for each fiscal year and the additional amount being for the increased reimbursement to municipalities.

- Debt Service – Treasury – The 2024-2025 biennium amounts represent the debt service requirements for those bonds issued through fiscal year 2023. The debt service requirements for the 2024-2025 biennium may be higher than projected assuming either additional bond sales of bonds already authorized and/or the Legislature approves sending additional bond proposals to the voters in calendar year 2023.
- Economic Development and Workforce Training – Ongoing funding of \$10 million was authorized in fiscal year 2023 for the Maine State Grant program administered by the Finance Authority of Maine to increase the minimum grant award from \$1,000 to \$2,500. Additionally, about \$2.6 million in ongoing funding beginning in fiscal year 2023 was authorized for the Housing Opportunity Fund to provide grants and assistance to municipalities for development of community housing.
- Education –
 - General Purpose Aid appropriations enacted in the 2022-2023 biennial² and supplemental budgets raised the State share of education funding to 55% for fiscal year 2022 and maintained this level of funding in fiscal year 2023. 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 2024-2025 biennium which assumes continuing to fund the State share at 55% 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 2024-2025 biennium based upon the actuarial assumption for inflation and general salary increase.
 - Nearly \$3 million in ongoing funding beginning in fiscal year 2023 was provided for increased Child Development Services staffing costs due to negotiated salary and wage increases.
 - Nearly \$27 million in ongoing funding was provided beginning in fiscal year 2023 for universal free meals in K-12 public schools in accordance with PL 2021, Chapter 398 Part OOOO.
 - One-time funding of \$1.6 million was provided in fiscal year 2023 for increased costs of career and technical education supplies.
 - Ongoing funding of \$3 million per year beginning in fiscal year 2023 was provided to support preschool programs in school administrative units.
 - Funding was provided for a 3% baseline increase to the University of Maine System, the Maine Community College System, and Maine Maritime Academy in fiscal years 2022

³ Some prior four-year revenue and expenditure forecasts have calculated the State’s 55% share of the total cost of education to include teacher retirement, retired teacher health insurance and life insurance in the total cost of education per Title 20-A § 15671 sub-§ 7 ¶ C.

and 2023. The amount for fiscal year 2023 was an increase of 3% over the increased funding level for fiscal year 2022. The University of Maine System also received nearly \$8 million in one-time funds in fiscal year 2023 to maintain in-state tuition at current levels as well as nearly \$6 million in ongoing funding beginning in fiscal year 2023 for operational costs at the University of Maine Law School.

- One-time funding of \$6.8 million for fiscal year 2023 and ongoing funding of nearly \$9.5 million beginning in fiscal year 2023 was provided for higher education institutions to repair, update and renovate campus buildings. The ongoing funding is intended to support debt service for revenue bonds issued by these institutions.
- A total of \$4.5 million in ongoing funding beginning in fiscal year 2023 was provided to higher education institutions to expand licensed-based nursing programs at Maine Community College and university research, development and commercialization activity at the University of Maine System.
- Health and Human Services – Significant one-time adjustments to appropriations over the 2022-2023 biennium make it challenging to discern baseline current law trends in the Health and Human Services policy area. There was a mix of one-time appropriations between fiscal year 2022 and fiscal year 2023, none of which carries over into the baseline for the 2024-2025 biennium. Ignoring these one-time adjustments, the year over year change for the Health and Human Services policy area from fiscal year 2022 to 2023 is approximately 12.4% and from fiscal year 2023 to 2024 is 2.1%. These one-time appropriation adjustments included:
 - Enacted budgets for the 2022-2023 biennium include one-time de-appropriations from Medicaid programs totaling approximately \$230 million in fiscal year 2022 and \$15 million in fiscal year 2023. Just over \$185 million of the fiscal year 2022 de-appropriations were to capture freed up General Fund dollars from the enhanced Federal Medical Assistance Percentage (FMAP) rate the State has been receiving during the COVID-19 public health emergency. The extra 6.2% in federal match reduced the General Fund dollars needed for Medicaid programs to maintain the same level of services.
 - Approximately \$47 million in appropriations was approved for one-time payments to a spectrum of healthcare providers to help address the impacts of the Covid-19 pandemic. About \$32 million of these one-time appropriations were in fiscal year 2022 with the rest in fiscal year 2023.
 - Enacted budgets included a total of approximately \$17.4 million in one-time payments to certain healthcare providers (\$12.8 million) and child care facilities (\$4.6 million) as supplemental support payments or in anticipation of increases resulting from rate studies. About \$16 million of the total appropriations were in fiscal year 2022 with the rest in fiscal year 2023.
 - One-time appropriations of approximately \$4.6 million in fiscal year 2022 and \$15.4 million in fiscal year 2023 were enacted for increases in child welfare payments linked to an increased number of children in foster care.

The following ongoing changes to appropriations in the Health and Human Services policy area are also notable. The fiscal impact of the actions underlying the changes are reflected in the projections for the 2024-2025 biennium:

- Changes in the State’s normal FMAP rate over fiscal years 2022 and 2023 resulted in a net increase of approximately \$11.7 million in General Fund appropriations for fiscal year 2023 over fiscal year 2022. The FMAP rate decreased for federal fiscal year 2023 resulting in this increased need for General Fund dollars to support Medicaid programs. The projections for fiscal year 2024 and 2025 include another expected decrease in the FMAP rate for federal fiscal year 2024 resulting in an increase in General Fund appropriations of approximately \$5 million for each fiscal year of the upcoming biennium.
- Enacted budgets for the 2022-2023 biennium provided additional appropriations of approximately \$2.7 million in fiscal year 2022 and \$37.6 million in fiscal year 2023 to expand coverage and capacity or enhance existing services across several program areas including: benefits and supports for individuals with intellectual disabilities or autism spectrum disorders; adult dental coverage; children’s health insurance; behavioral health and substance abuse; and child and family services. The fiscal year 2023 appropriations carried over into the baseline for fiscal years 2024 and 2025. An additional nearly \$7.8 million is included in the projections for both fiscal year 2024 and 2025 related to these services.
- Additional funding was approved in the 2022-2023 biennium for mandated annual inflation adjustments, rebasing of nursing facilities, and rate increases across a broad spectrum of Medicaid providers and services, including increased wages for direct support workers. The total additional appropriations over the biennium were approximately \$150.4 million. Of that, about \$125.6 million was appropriated for fiscal year 2023 and this amount is included in the baseline appropriation for the 2024-2025 biennium. Projections for the next biennium also include additional appropriations for these purposes currently estimated at \$8.6 million for fiscal year 2024 and \$12.7 million in fiscal year 2025.
- Projections for fiscal year 2024 and 2025 include approximately \$5 million in each year to rebase federally qualified health centers prospective payment system rates pursuant to Public Law 2021, chapter 747.
- The enacted supplemental budget provided \$11.7 million in fiscal year 2023 for nine months of salary supplements awarded to individuals who provide childcare or are early childhood educators. This amount is included in baseline for fiscal years 2024 and 2025. Projections for fiscal year 2024 and 2025 also include an additional \$3.9 million in each year to fund these supplements for a full twelve month period.
- Public Law 2021, chapter 679 enacted approximately \$1.5 million beginning in fiscal year for the Early Childhood Consultation Program with a January 1, 2023 start date. This amount is included in the baseline for fiscal years 2024 and 2025. Projections for the next biennium also include an additional \$1.5 million and \$1.6 million in 2024 and 2025 respectively to provide a full year of funding.

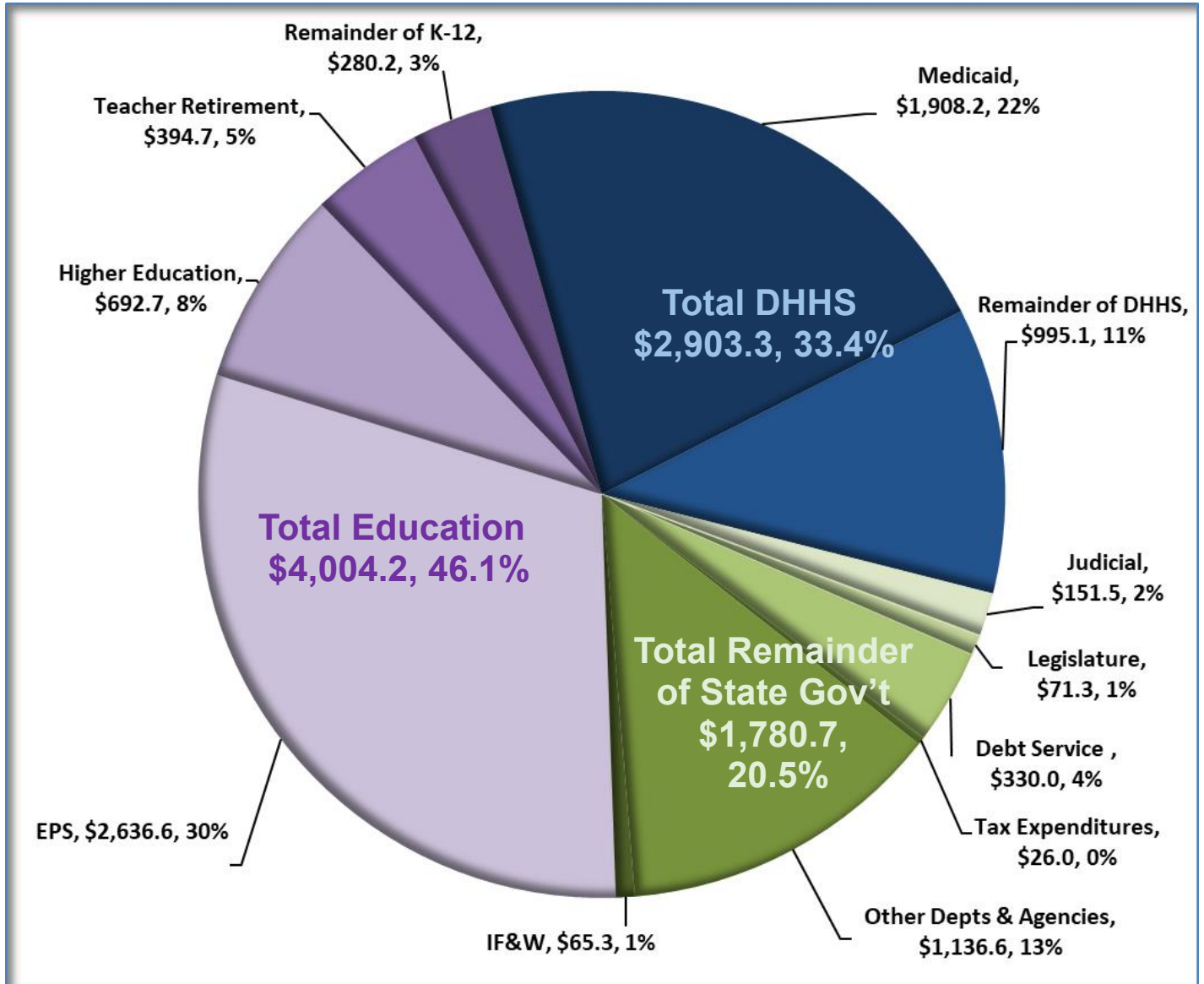
The following pie charts depict the percent breakdown of General Fund appropriations by expenditure category for each of the biennia covered in this report.

Fiscal Years 2022–2023

General Fund Budgeted Appropriations

\$8,688.2

Dollars in Millions

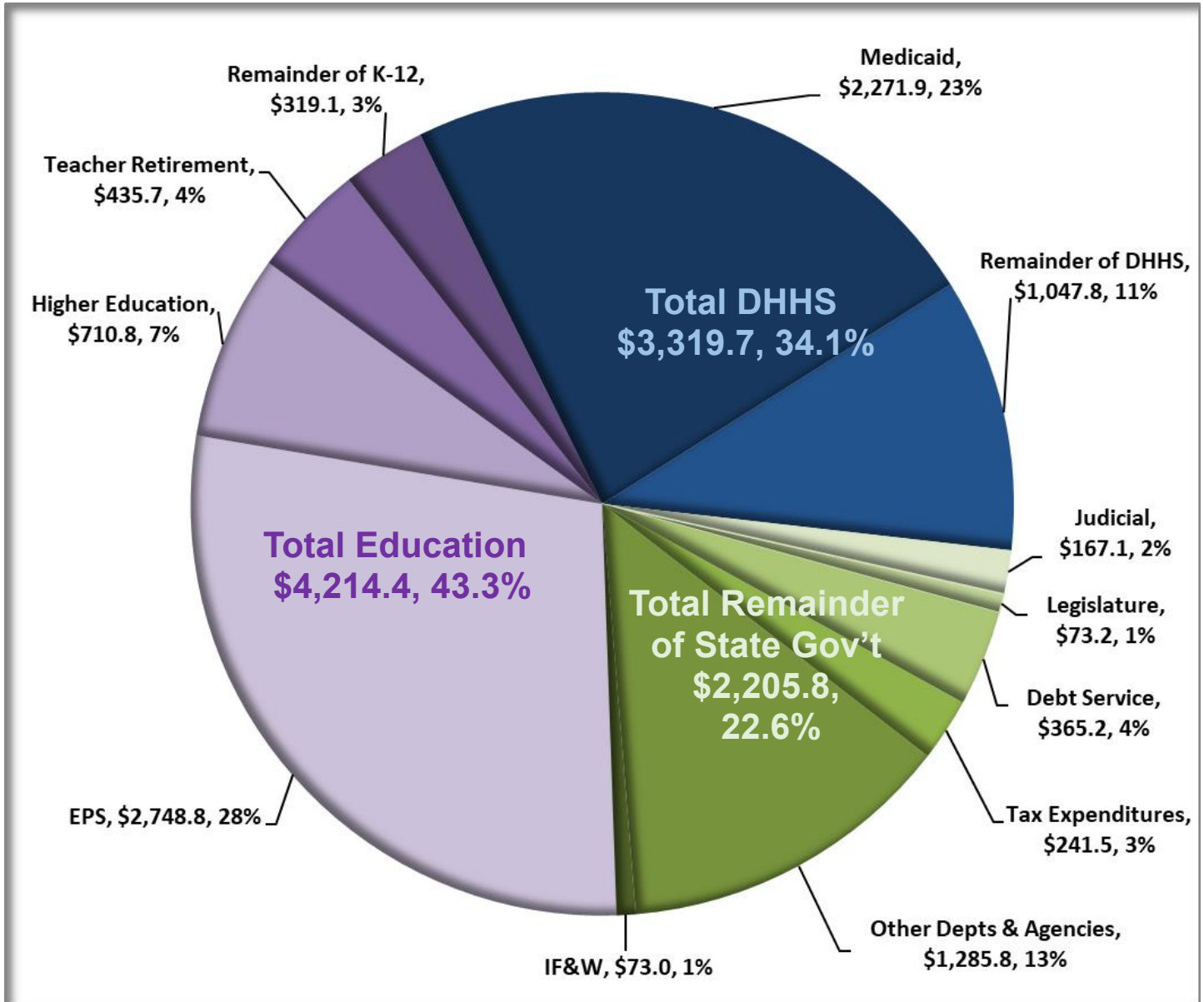


Fiscal Years 2024-2025

General Fund Forecasted Appropriations

\$9,739.9

Dollars in Millions



III. HIGHWAY FUND

A. BUDGET STATUS Fiscal Years 2022-2025

HIGHWAY FUND STATUS						
	Fiscal Years 2022-2023 BUDGET			Fiscal Years 2024-2025 FORECAST		
	FY 2022	FY 2023	TOTAL	FY 2024	FY 2025	TOTAL
BALANCE	27,905,895		27,905,895	1,436,156		1,436,156
ADJUSTMENTS *	(2,441,312)	(6,831,841)	(9,273,153)			
REVENUE	344,855,823	339,173,395	684,029,218	341,660,492	344,081,789	685,742,281
TOTAL RESOURCES	370,320,406	332,341,554	702,661,960	343,096,648	344,081,789	687,178,437
ADJUSTMENTS **	11,842,737	12,875,043	24,717,780			
ALLOCATIONS	337,140,519	339,367,505	676,508,024	696,497,241	702,784,073	1,399,281,314
PROJECTED BALANCE (SHORTFALL)	21,337,150	(19,900,994)	1,436,156	(353,400,593)	(358,702,284)	(712,102,877)
* 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 2022 was \$21,337,150 and is projected to be \$1,436,156 at the end of 2022-2023 biennium. Current projections for the 2024-2025 biennium assume a beginning balance of \$1,436,156 and Highway Fund revenues of \$685,742,281. Projected Highway Fund allocations for the biennium are \$1,399,281,314 which result in a projected budget gap for the Highway Fund of (\$712,102,877).

Revenues projected for fiscal years 2022-2025 are from the RFC's March 2022 forecast with adjustments to reflect laws enacted during the remainder of the 130th Legislature's Second Regular Session. Similarly, the expenditure information in this forecast reflects all Highway Fund allocations approved through the Second Regular Session of the 130th Legislature. The projection for the 2024-2025 biennium uses the fiscal year 2023 legislatively approved allocations adjusted for the effect of one-time and phased-in actions with expected fiscal impacts in fiscal years 2024 and 2025. More detailed projections on a department or program basis are made later in this report where appropriate to reflect specific trends in those areas.

Additionally, the allocations projected for the 2024-2025 biennium include **\$578 million⁴** over baseline allocations to support the achievement of the ***Department of Transportation's capital program goals*** as established in Title 23 § 73 sub-§ 7, including the State match for available federal grants. It is important to stress that this four-year forecast, by law, must assume this state share. Associated with this is another **\$52 million** in allocations projected for the biennium **for**

⁴ The \$578 million includes \$500 million in capital funding for the Highway and Bridge program and \$78 million for light capital paving in the Highway Light Capital program, most of which is also capital funding. In the Four Year Forecast issued for the 2022-2023 biennium, the additional allocations to meet Title 23 § 73 sub-§ 7 goals were reported as \$400 million. This figure, however, did not include the allocations for the Highway Light Capital program which were estimated at another \$53.5 million for the 2022-2023 biennium. Factoring this in, the estimate for funding needed to meet the State's share of transportation goals is \$124.6 million higher in the 2024-2025 biennium than was estimated for the 2022-2023 biennium.

Local Road Assistance in accordance with Title 23, § 1803-B which requires the Local Road Assistance program to be funded at 9% of the Highway Fund allocations to the Department of Transportation. The reader is advised to bear this in mind when assessing the *estimated* structural gap and the potential for closing it.

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 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 2022-2023 biennium.

MaineDOT also traditionally receives funding from the TransCap Trust Fund, federal funds, proceeds from authorized bond sales, and other sources. In recent years, MaineDOT has also received General Funds in recognition of the persistent and growing gap between projected Highway Fund revenues and the funding needed for Maine’s transportation infrastructure.

The enacted biennial and supplement budget bills for the 2022-2023 biennium included measures to direct General Funds to MaineDOT’s highway and bridge projects. One-time transfers of \$50 million from General Fund unappropriated surplus at year end for fiscal years 2021 and 2022 were directed to MaineDOT for use in fiscal years 2022 and 2023. Additionally, the statute dictating the required year-end distributions for any General Fund revenue that exceeds budget in any fiscal year was amended. Beginning with fiscal year 2021, 20% of the excess General Fund remaining after certain other priority transfers is transferred to MaineDOT for highway and bridge projects. A priority transfer of \$35 million from the “cascade” at year-end 2022 was also authorized for MaineDOT. As a result of the “cascade”, MaineDOT received about \$56 million at the end of fiscal year 2021 and about \$135.5 million at the end of fiscal year 2022. All totaled MaineDOT has received roughly \$291.5 million from the General Fund for use in the 2022-2023 biennium.

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.

B. REVENUE PROJECTION Fiscal Years 2022-2025

HIGHWAY FUND REVENUE PROJECTION

SOURCE	Fiscal Years 2022-2023 BUDGET				Fiscal Years 2024-2025 FORECAST				
	FY 2022	FY 2023	YR. TO YR. % CHANGE	BIENNIUM BIENNIUM	FY 2024	YR. TO YR. % CHANGE	FY 2025	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	222,781,777	230,395,483	3.42%	453,177,260	232,776,418	1.03%	235,180,018	1.03%	467,956,436
Motor Vehicle Registrations & Fees	102,460,134	92,175,912	-10.04%	194,636,046	92,177,801	0.00%	92,179,423	0.00%	184,357,224
Inspection Fees	2,920,344	3,202,500	9.66%	6,122,844	3,202,500		3,202,500		6,405,000
Miscellaneous Taxes & Fees	1,693,757	1,267,454	-25.17%	2,961,211	1,267,454		1,267,454		2,534,908
Fines Forfeits & Penalties	1,381,965	606,412	-56.12%	1,988,377	606,412		606,412		1,212,824
Income from Investments	189,723	221,169	16.57%	410,892	325,442	47.15%	341,517	4.94%	666,959
Other Revenues	13,428,123	11,304,465	-15.82%	24,732,588	11,304,465		11,304,465		22,608,930
TOTAL REVENUE	344,855,823	339,173,395	-1.65%	684,029,218	341,660,492	0.73%	344,081,789	0.71%	685,742,281

Fiscal Year 2022 figures reflect actuals as of Year-End

Discussion

The RFC in its December 2021 report re-projected revenues upward by \$5.9 million for the 2022-2023 biennium. The March 2022 RFC forecast also re-projected revenues upward for the 2022-2023 biennium by another \$2.2 million. Following the March 2022 revenue forecast and bills enacted in the Second Regular Session of the 130th Legislature, the projected Highway Fund adjusted balance was approximately \$1.4 million for the end of the biennium. In the December 2021 and March 2022 forecasts, the RFC also re-projected revenues upward by \$4 million and \$1.6 million respectively for the 2024-2025 biennium. Fuel tax revenues in both forecasts remained unchanged. The Highway Fund changes in both forecasts were largely the result of projected increases in motor vehicle registrations and fees and other Highway Fund revenue lines with motor fuel tax lines unchanged.

Revenues projected for fiscal years 2022-2025 in this four-year forecast are from the RFC's March 2022 report and reflect all actions through the Second Regular Session of the 130th Legislature. The revenue forecast reflects the economic forecast issued by the Consensus Economic Forecasting Commission in February 2022 and the State's actual revenue performance for the first seven months of fiscal year 2022.

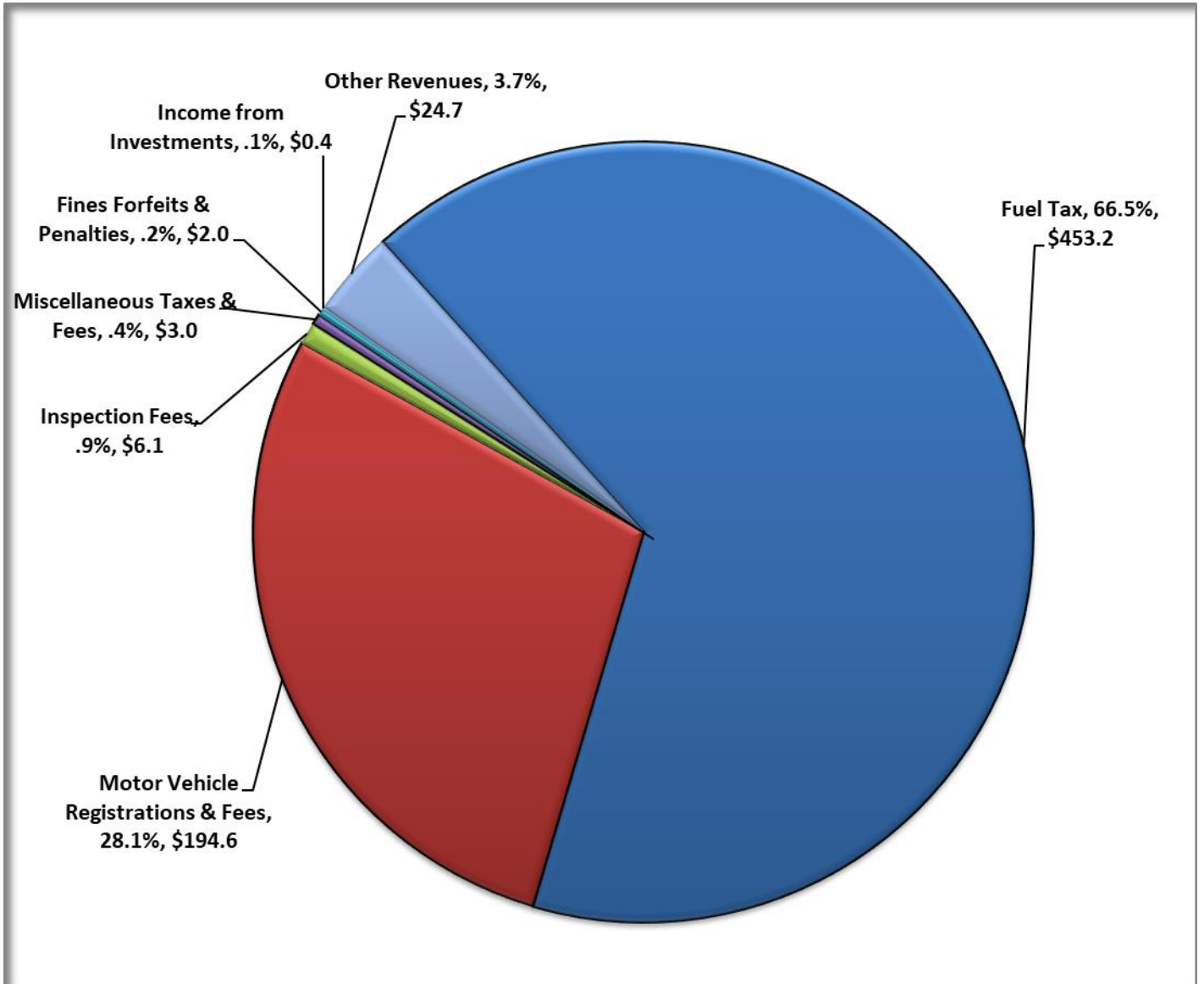
The RFC's March 2022 Revenue Forecast report, which details the factors and assumptions underlying the revenue projection, can be found on the Revenue Forecasting Committee's website at <https://legislature.maine.gov/doc/8382>. The following pie charts depict the percent of Highway Fund revenue associated with each revenue source for each of the biennia covered in this report.

Fiscal Years 2022-2023

Highway Fund Budgeted Revenues

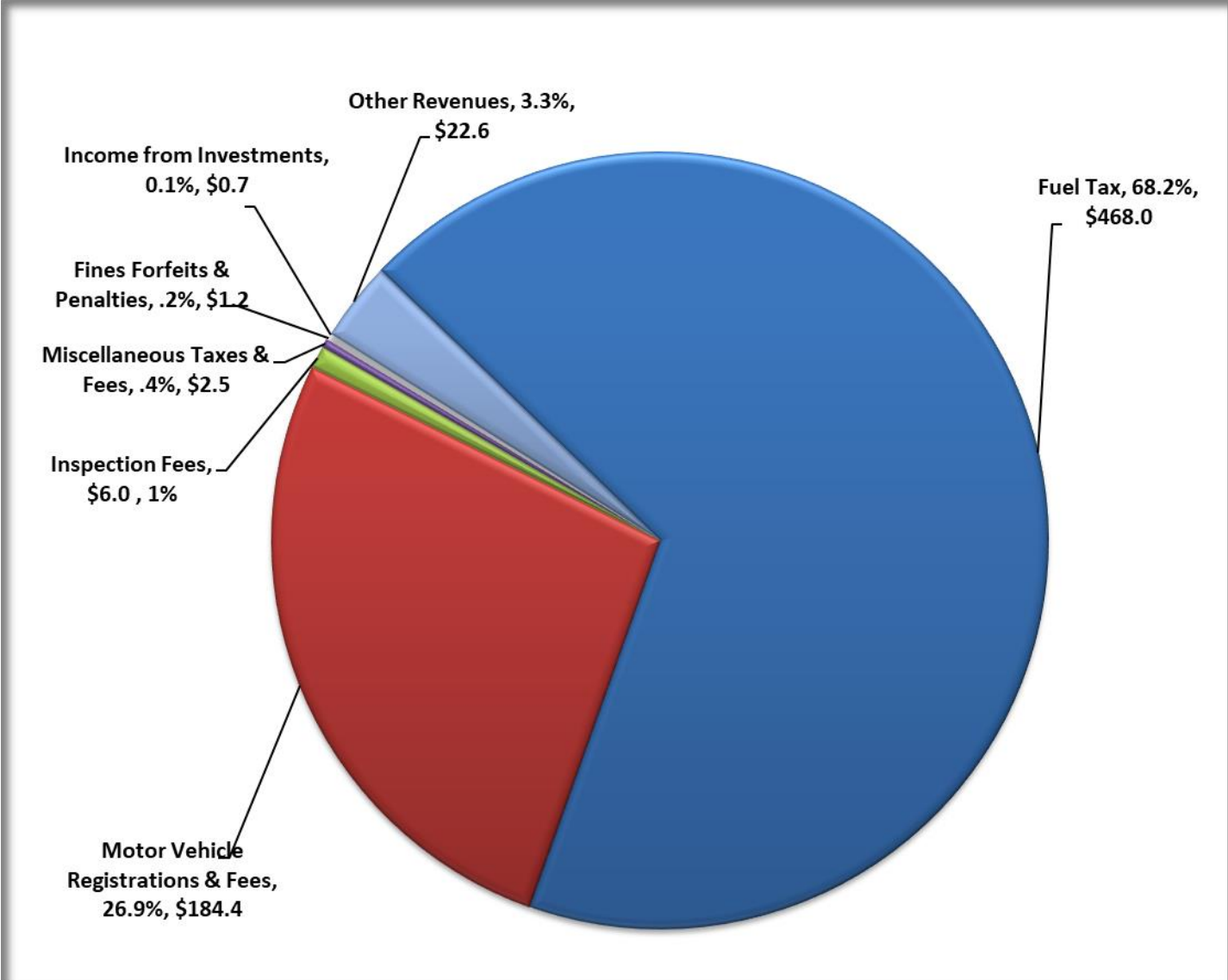
\$684.1

Dollars in Millions



Fiscal Years 2024–2025 Highway Fund Projected Revenues \$685.8

Dollars in Millions



C. EXPENDITURE FORECAST Fiscal Years 2022-2025

HIGHWAY FUND EXPENDITURE FORECAST CHART									
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	Fiscal Years 2022-2023 BUDGET				Fiscal Years 2024-2025 FORECAST				
	FY 2022	FY 2023	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 2024	YR. TO YR. % CHANGE	FY 2025	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Administration Motor Vehicles	44,296,324	46,481,424	4.93%	90,777,748	47,748,901	2.73%	48,822,213	2.25%	96,571,114
Other Agencies And Programs	2,568,980	2,585,093	0.63%	5,154,073	3,051,429	18.04%	3,078,230	0.88%	6,129,659
Total Policy Area - Governmental Support & Operations	46,865,304	49,066,517	4.70%	95,931,821	50,800,330	3.53%	51,900,443	2.17%	102,700,773
Total Policy Area - Natural Resources Development & Protection	31,599	31,599		63,198	33,654	6.50%	33,816	0.48%	67,470
State Police	20,567,065	22,077,161	7.34%	42,644,226	23,229,209	5.22%	23,574,776	1.49%	46,803,985
Other Agencies And Programs	10,841,129	10,926,565	0.79%	21,767,694	11,527,956	5.50%	11,676,957	1.29%	23,204,913
Total Policy Area - Justice & Protection	31,408,194	33,003,726	5.08%	64,411,920	34,757,165	5.31%	35,251,733	1.42%	70,008,898
Maintenance & Operations	173,783,881	176,163,756	1.37%	349,947,637	209,042,810	18.66%	212,298,684	1.56%	421,341,494
Highway & Bridge Capital	41,471,752	37,214,603	-10.27%	78,686,355	291,551,644	683.43%	292,276,005	0.25%	583,827,649
Highway & Bridge Light Capital	2,250,000	2,459,000	9.29%	4,709,000	39,000,000	1486.01%	39,000,000		78,000,000
Local Road Assistance Program	21,644,060	21,519,135	-0.58%	43,163,195	49,947,834	132.11%	50,319,964	0.75%	100,267,798
Debt Service									
Other Agencies And Programs	19,685,729	19,909,169	1.14%	39,594,898	21,363,804	7.31%	21,703,428	1.59%	43,067,232
Total Policy Area - Transportation Safety & Development	258,835,422	257,265,663	-0.61%	516,101,085	610,906,092	137.46%	615,598,081	0.77%	1,226,504,173
TOTAL HIGHWAY FUND EXPENDITURES	337,140,519	339,367,505	0.66%	676,508,024	696,497,241	105.23%	702,784,073	0.90%	1,399,281,314

Discussion

The enacted 2022-2023 biennial budget included an additional \$16.8 million in Highway Fund allocations over the biennium when compared to the 2020-2021 biennium. Another \$6.2 million in allocations was enacted in the 2022-2023 supplemental budget. Other laws enacted by the 130th Legislature included \$783,684 in additional allocations for the 2022-2023 biennium.

The projection for the 2024-2025 biennium uses the fiscal year 2023 legislatively approved allocations adjusted for the effect of one-time actions and phased-in actions with expected fiscal impacts in fiscal years 2024 and 2025. Salaries and wages projected for the 2024-2025 biennium anticipate growth from merit increases and collective bargaining approved by the 130th Legislature but not for any salary adjustments related to future collective bargaining. The projection for the 2024-2025 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 Transportation Safety & Development policy area shown in the preceding table reflects budgeted Highway Fund expenditures for fiscal years 2022 and 2023 associated with the Maine Department of Transportation (MaineDOT) that were enacted in budget bills and other laws. Current law also requires transfer of all but \$100,000 in unallocated Highway Fund balance at the end of each fiscal year to MaineDOT to be used for highway and bridge improvements. Funds transferred to MaineDOT at the end of fiscal years 2021 and 2022 totaled \$11,842,737 and \$12,875,043 respectively. This effectively increases the available Highway Funds directed to highway and bridges for 2022 and 2023 over the budgeted amount shown in the table.

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

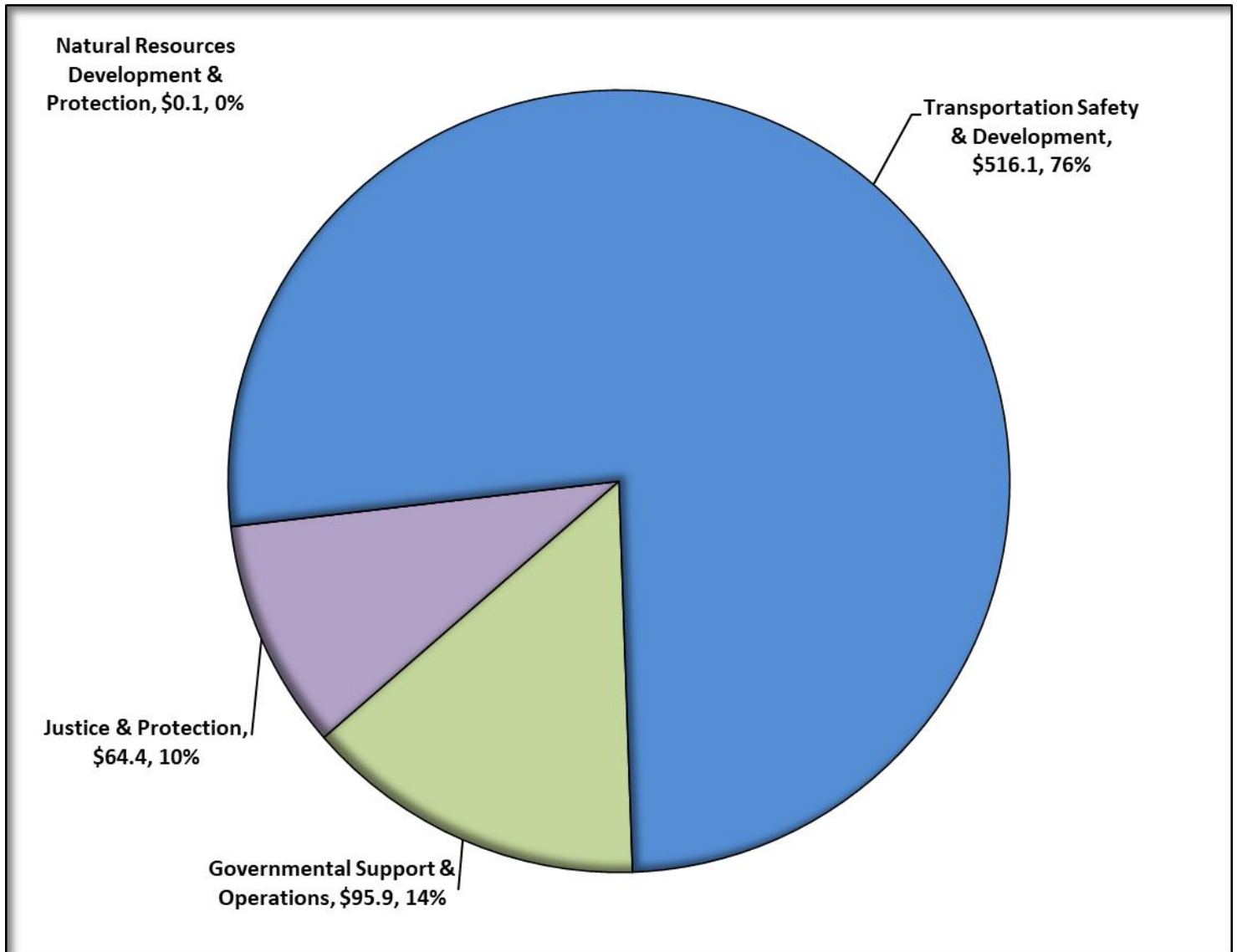
- Administration Motor Vehicles – Approximately 94% of total expenditures in the Government Support & Operations policy area across the two biennia are for the Administration Motor Vehicles program in the Department of the Secretary of State - with nearly all of it in Personal Services. Ten positions were added in this program beginning in 2023 accounting for the year over year change from 2022. The Bureau of Motor Vehicles generates substantial revenue for the Highway Fund with more than \$200.7 million expected for the 2022-2023 biennium and more than \$190.8 million projected for revenues in the 2024-2025 biennium.
- State Police – Year over year increased expenditures across both biennium primarily reflect increased Personal Services costs associated with salaries and wages and collectively bargained items such as stipends, allowances, differentials and premium pay.
- Highway and Bridge Capital – More of the total expenditures for this program in the 2022-2023 biennium were budgeted in fiscal year 2022 rather than fiscal year 2023. Projections for the 2024-2025 biennium include \$250 million in each fiscal year for capital expenditures as the estimated State match necessary for all federal grants that are available to support achieving MaineDOT's capital program goals established in Title 23 § 73 sub-§ 7. The Infrastructure Investment and Jobs Act (IIJA) passed by Congress in November 2021 will provide expanded grant opportunities for Maine in the coming biennium.

- Highway Light Capital – Projections for the 2024-2025 biennium include \$39 million in each fiscal year for 700 miles of light capital paving each year, along with other work. This is 100 miles more each year than was projected for the 2022-2023 biennium. The Highway Light Capital expenditures are associated with MaineDOT’s capital program goals established in Title 23 § 73 sub-§ 7 and the additional 100 miles each year is a result of more highways being classified as Priority 4. Nearly \$32.4 million of the \$39 million projected for each year is for capital expenditures. The projections assume an estimated cost per mile of \$55,000 based on current asphalt prices, expected inflation, and contractor capacity.
- Local Road Assistance – Title 23, § 1803-B requires the Local Road Assistance (LRA) program, which provides funding to municipalities, to be funded at 9% of the Highway Fund allocations to MaineDOT. Consequently, the allocations for LRA fluctuate with the level of allocations provided for MaineDOT. The increase in projected LRA expenditures for 2024-2025 are primarily associated with the increases for the Highway and Bridge Capital and Highway Light Capital programs described in the bullets above. The additional LRA related to the goals in Title 23 § 73 sub-§ 7 are projected at \$26 million in each fiscal year.
- 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 2022–2023 Highway Fund Budgeted Allocations⁵ \$676.5

Dollars in Millions



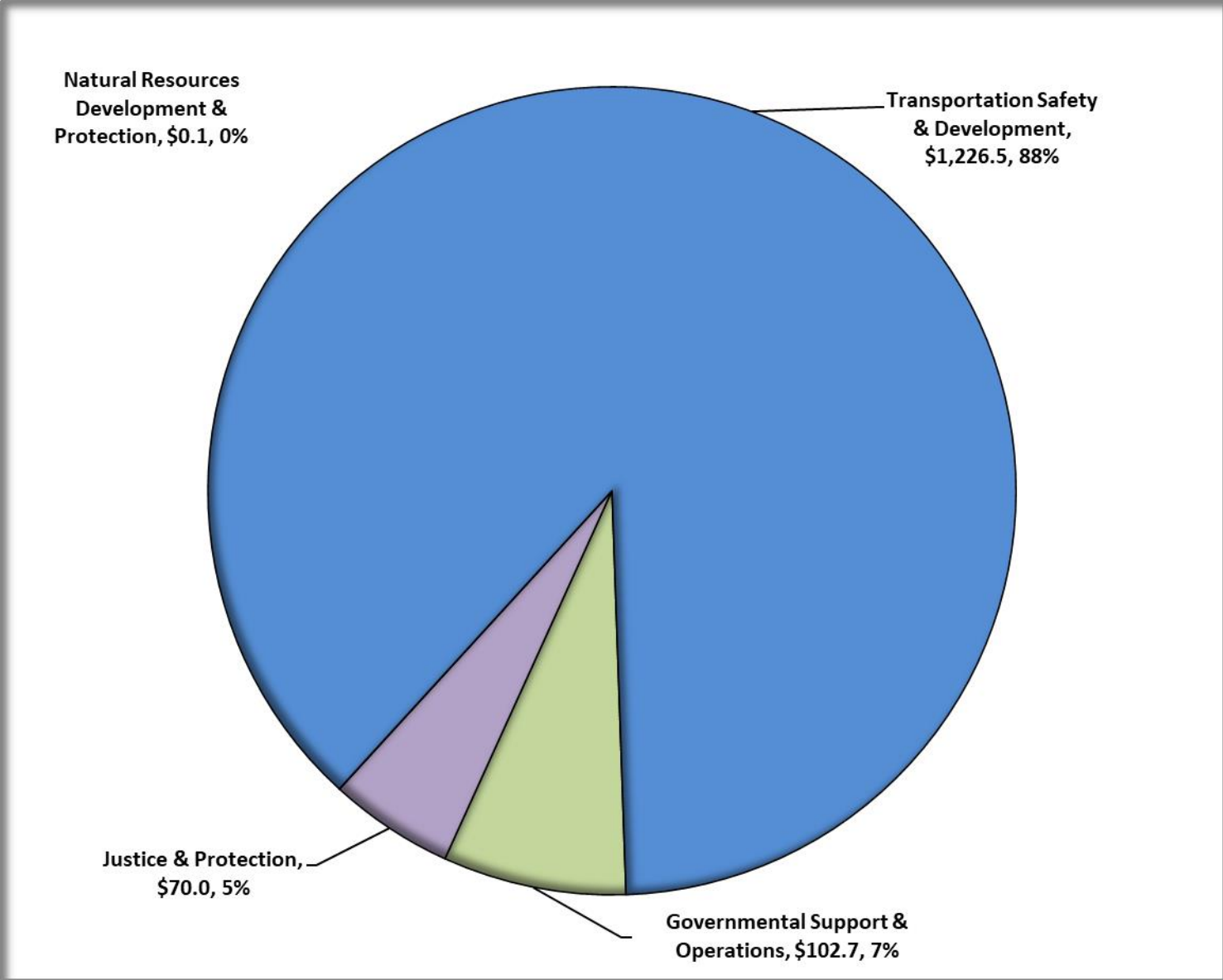
⁵ Nearly \$90.8 million of the \$95.9 million for the Government Support & Operations policy area is for the Administration of Motor Vehicles. The Bureau of Motor Vehicles is expected to generate more than \$200.7 million in Highway Fund revenue for the 2022-2023 biennium.

Fiscal Years 2024–2025

Highway Fund Forecasted Allocations⁶

\$1,399.3

Dollars in Millions



⁶ Nearly \$96.6 million of the \$102.7 million for the Government Support & Operations policy area is for the Administration of Motor Vehicles. The Bureau of Motor Vehicles is projected to generate more than \$190.8 million in Highway Fund revenue for the 2024-2025 biennium.

IV. SUMMARY

This report provides a summary and detailed projection of revenues, appropriations and allocations for the General Fund and the Highway Fund for the 2022-2023 biennium and the 2024-2025 biennium. The base level projections for the General Fund and Highway Fund include the March 2022 projection of the Revenue Forecasting Committee and reflect all actions through the Second Regular Session of the 130th Legislature.

The forecasts of revenues, appropriations and allocations contained in this report, when constructed under current law and current trends, result in a projected surplus of \$303,891,443 in the General Fund for the 2024-2025 biennium indicating there is at this time no structural gap between revenues and expenditures. The shortfall projected for the Highway Fund for the 2024-2025 biennium is \$712,102,877 representing a structural gap between revenues and expenditures that appears to be widening when compared with the structural gap calculated in the past four-year forecasts.

The widening structural gap in the Highway Fund for the 2024-2025 biennium reflects relatively modest growth in Highway Fund revenues combined with MaineDOT's projections for increased expenditures to support achievement of transportation infrastructure goals in Title 23 § 73 sub-§ 7. These expenditures for the 2024-2025 biennium reflect additional available federal grant opportunities that require State match, increased paving costs and activity, and associated funds for the Local Road Assistance program as required by statute.