

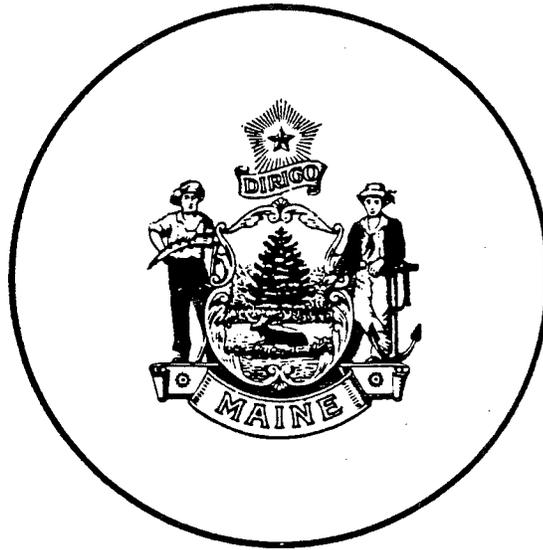
MAINE STATE LEGISLATURE

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**Beginning to Define a Government
Maine People Can Afford**



**Summary of the Budget Proposals
for the Fiscal Years 1992-1993**

Submitted by

Governor John R. McKernan, Jr.

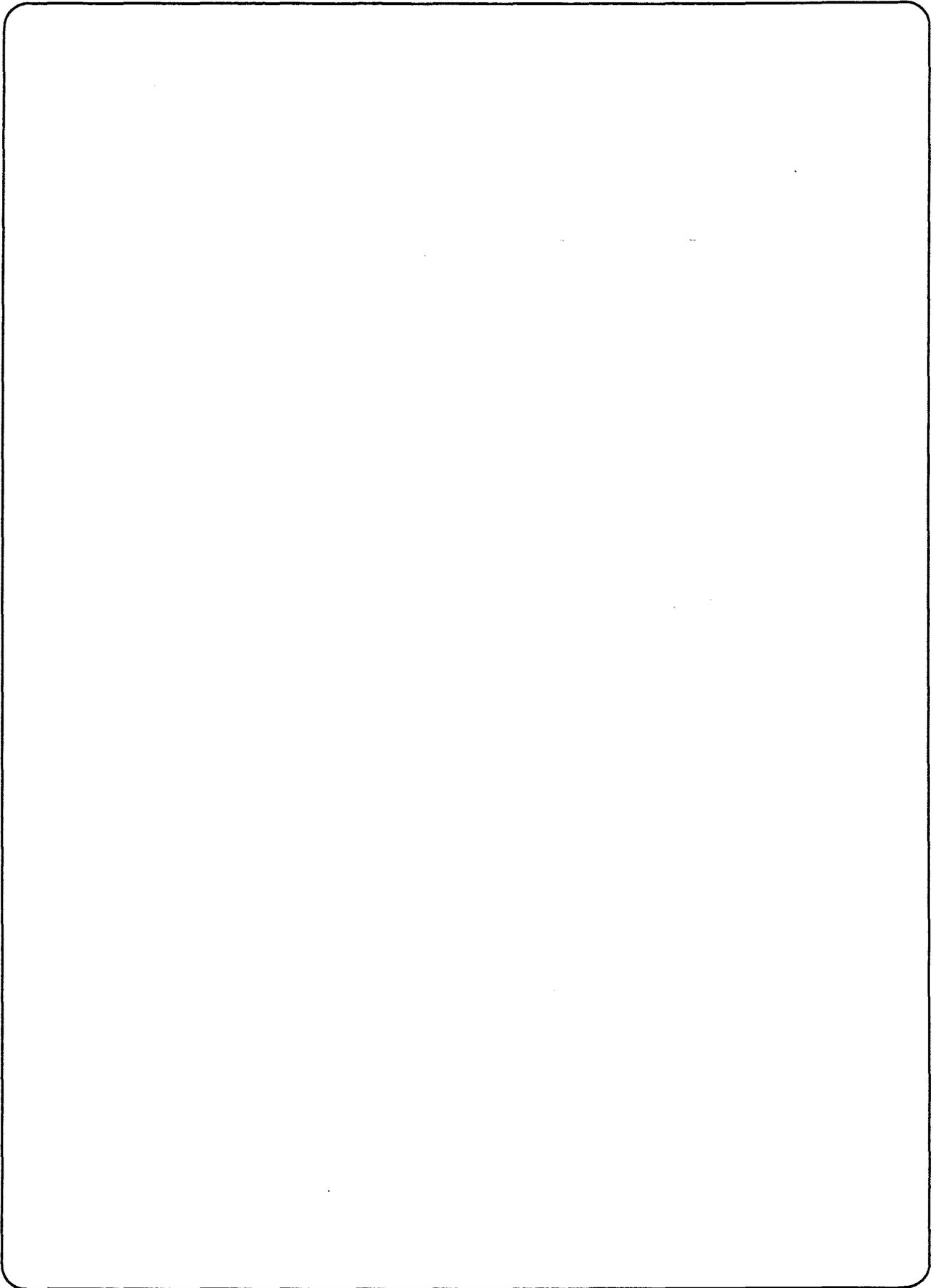
January 1991

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* Policy areas conform to those used in the full Budget Documents.



Message from the Governor

Anyone who has ever picked up Books One and Two of the State's biennial budget knows that they are heavy volumes -- both literally and figuratively. For the reader untrained in the intricacies of the budget, the books are very often difficult to read and understand.

This publication is intended as a summary -- policy area by policy area -- of the General Fund Budget I am proposing to the First Session of the 115th Legislature. The total General Fund budget recommended for the fiscal years 1992 and 1993 is \$3.2 billion.

This budget I am presenting to the Legislature lives within our existing revenues. I believe that this is where we ought to begin our budget discussions. The key to solving our budget problems will be reducing spending and streamlining government, not simply raising taxes. The state can no longer be all things to all people, and now is the time to examine exactly what services state government ought to provide. As I promised in my inaugural address ten days ago, this budget does not include any broad-based tax increase, and I will not support such an increase until I am convinced that every other alternative has been exhausted for reducing the cost of state government.

Crafting any budget requires setting priorities and making tough, often unpleasant, choices. This biennium, as Maine and the nation face a recession, our task is especially challenging. We will not be able to press ahead as aggressively as we have in years past, nor will we have the luxury of funding new programs. Like every family in this state has had to do at one point or another, we will have to set priorities and work together to make ends meet. I am asking the Legislature to work together with me to create a budget that is realistic for the times -- a budget Maine people can afford. I believe this package is an excellent starting point.

John R. McKernan, Jr.
Governor

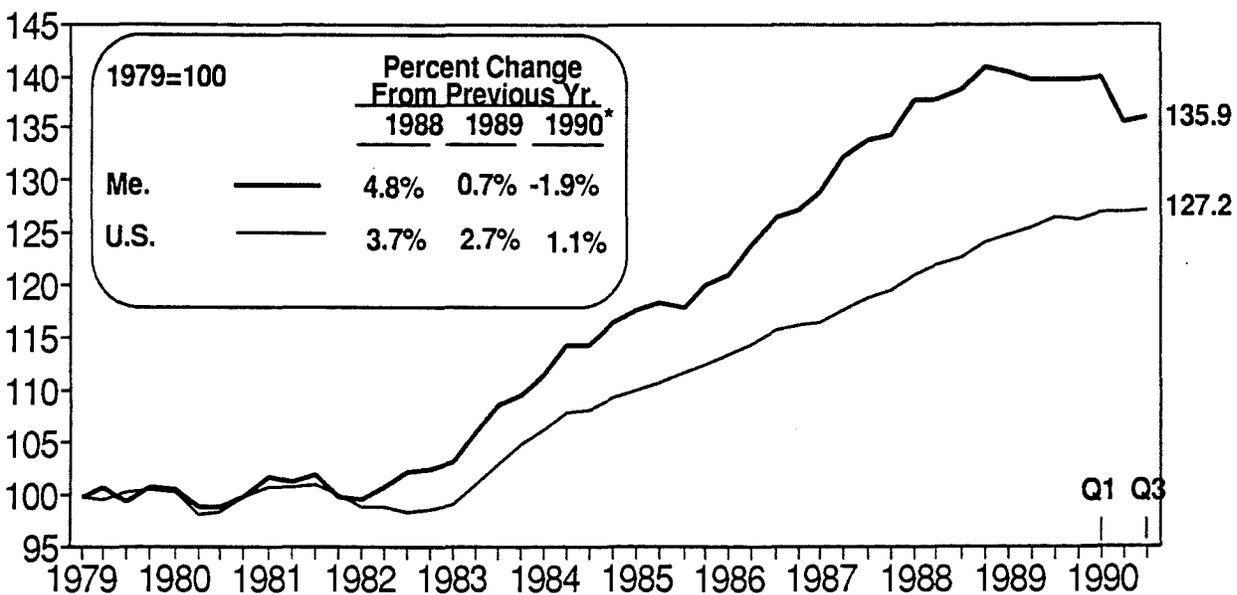
The Maine Economy

The year 1990 was a disappointing one for the Maine economy. For the first ten months of the year, real economic activity was 1.7% less than during the same period of the previous year.

Following a six year period of extraordinary growth spanning 1983 through 1988, the Maine economy flattened in 1989, led largely by a dramatic reversal in the construction and real estate sectors. In turn, Maine consumers and businesses became very cautious, and consumption spending began a moderate decline. Between 1988 and the middle of 1990, consumer retail sales declined from 52% of State personal income to 42%. Although the recession had not begun, Mainers made spending decisions as though it had.

In late summer and fall of 1990, it appeared for a time that the Maine and New England economic sluggishness might have bottomed out. Seasonally-adjusted retail sales rebounded fairly strongly in the third quarter, rising 1.7% over the second quarter level, and the majority of employment sectors showed growth for several consecutive months. But higher oil prices stemming from the Persian Gulf problem were draining about \$30 million a month from the State economy, and during the fourth quarter the national economy succumbed to recessionary pressures. These international and national events simply overpowered the budding expansion in the Maine economy.

Based on preliminary data available as of early January 1991, it appears that State taxable retail sales will finish the year down about 2.5% to 3% from the previous year. Payroll employment will likely be down 1.5% to 2%, and the seasonally adjusted jobless rate might reach 7% by year's end. All this will likely add up to a decline in real economic growth of 2% to 2.5% for the year 1990 as a whole.



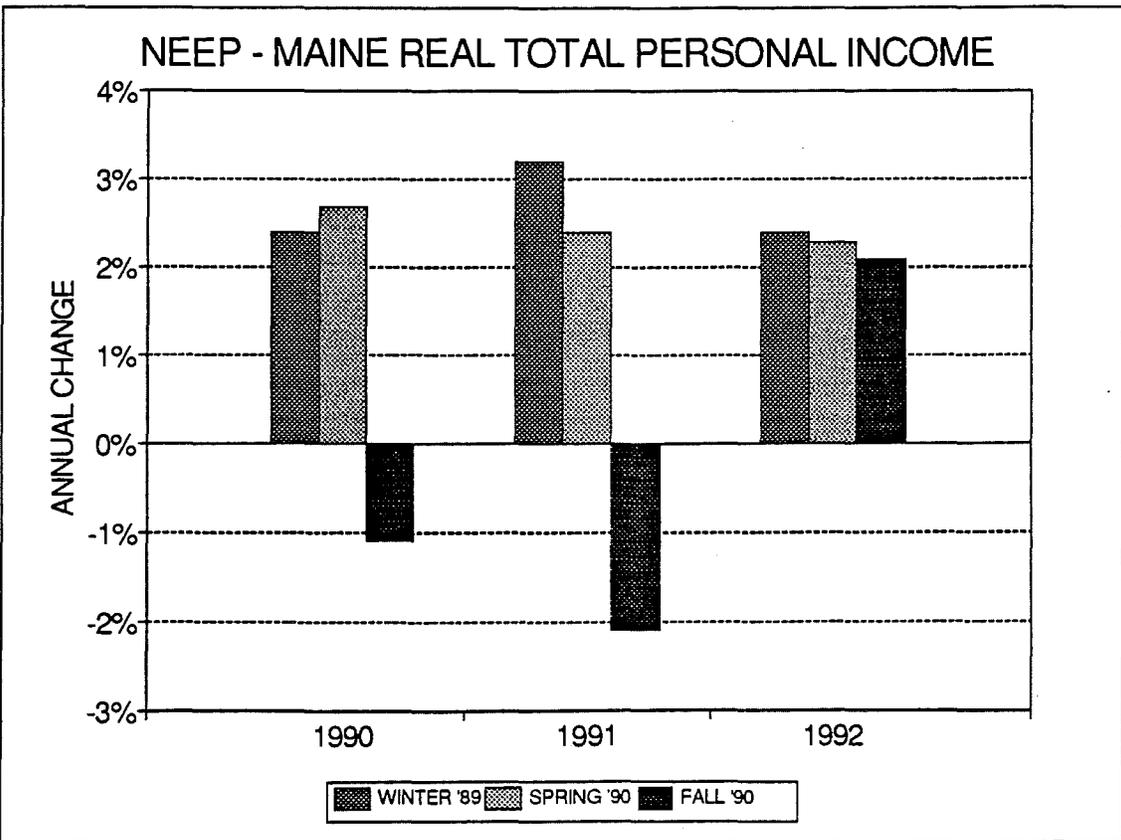
* avg. of first 3 qtrs. 1990 versus avg. of first 3 qtrs. of 1989

The Economic Growth Index is a composite of resident employment, real consumer retail sales, production hours worked in manufacturing, and services employment. All components are seasonally adjusted.

The uncertainties that dominated the economic landscape during the latter half of 1990 remain. Forecasts produced early in 1990 indicated that the U.S. economy would continue to slow during the first half of 1990, but would strengthen in the second half of the year. Observers in Maine and across the nation failed to anticipate that hostilities would erupt in the Middle East and expected a relaxing of interest rates by the Federal Reserve Board that would encourage consumers to return modestly to the housing market and retail spending.

In fact, economic evidence available from August through October indicated that Maine (and New England generally) had actually begun to bottom out after an 18-month slowdown, as had been predicted in the May New England Economic Project (NEEP) forecasts. This evidence included a slowing and then reversal of employment declines in some industries (including a stabilizing of construction employment).

By November, however, the national outlook began to deteriorate significantly. Even though Maine employment data was ambiguous, U.S. employment began to see significant weakening. Federal Reserve Board Chair, Alan Greenspan, noted a "significant downturn" and national observers revised their U.S. forecasts to recession-type outlooks, pushing the national recovery out to late 1991. The figure below illustrates the effect that changing national fortunes had on the Maine outlook. The November NEEP forecast offered additional evidence that Maine's nascent recovery had been snuffed out by national and international events.



The consequences of the revised economic forecasts are presented in the table below. Relative to the spring 1990 forecast, the Fall 1990 forecast calls for a significantly lower level of total personal income in Maine, a reduction of \$669 million for 1990, \$1.647 billion for 1991, and \$1.809 billion for 1992.

While the percentage reduction in personal income growth may appear small, the consequences are profound. Mainers will have \$3.456 billion less income to spend over the next two years than was originally forecasted. And with less money to spend, the level of economic activity will fall. This will have an immediate and direct impact on state revenues, since state revenues derive in most part from taxes levied on various forms of economic transactions including but not limited to wages and salaries, sales, corporate profits, real estate, tobacco and liquor products, and even lottery tickets.

Income Loss Due to Revised Forecasts
(Millions)

	<u>Total Personal Income</u>		
	Based on Spring 1990 <u>Forecast</u>	Based on Fall 1990 <u>Forecast</u>	<u>(Loss)</u>
1990	\$21,303.9	\$20,634.6	(\$ 669.3)
1991	\$22,880.0	\$21,233.0	(\$1,647.0)
1992	\$24,550.2	\$22,740.5	(\$1,809.7)

Unlike the past eight years, Maine's future economic performance will more closely mirror national trends. The short-term outlook depends heavily upon the outcome of the Gulf Crisis and the resulting consequences for oil prices and the health of the national economy. However, barring open hostilities, Maine employment is expected to return to a modest growth path by late 1991, and some leading New England forecasters expect Maine to precede the rest of New England out of the current downturn. The tenuous rebound will be led by retail and service employment in response to the return of Maine consumers to the market place.

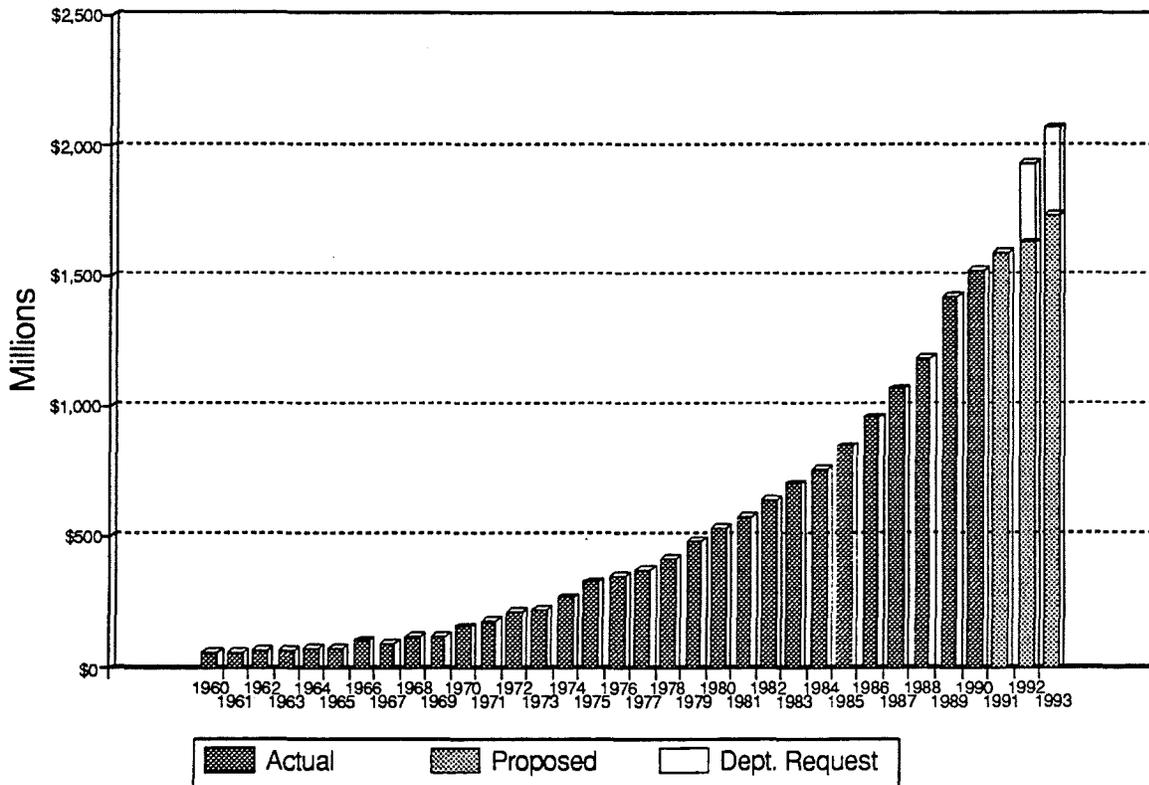
The longer term outlook for Maine remains positive. Over the last decade, Maine has essentially been transformed from a languid, maturing, low-income economy to a more diversified and vigorous one. As we enter the 1990's, we can expect a resumption of these same trends. While many of the forces that drove Maine's economic renaissance have run their course, they have left the State in a better position to participate fully in the economic opportunities presented in the coming decade.

Overview of the General Fund Budget

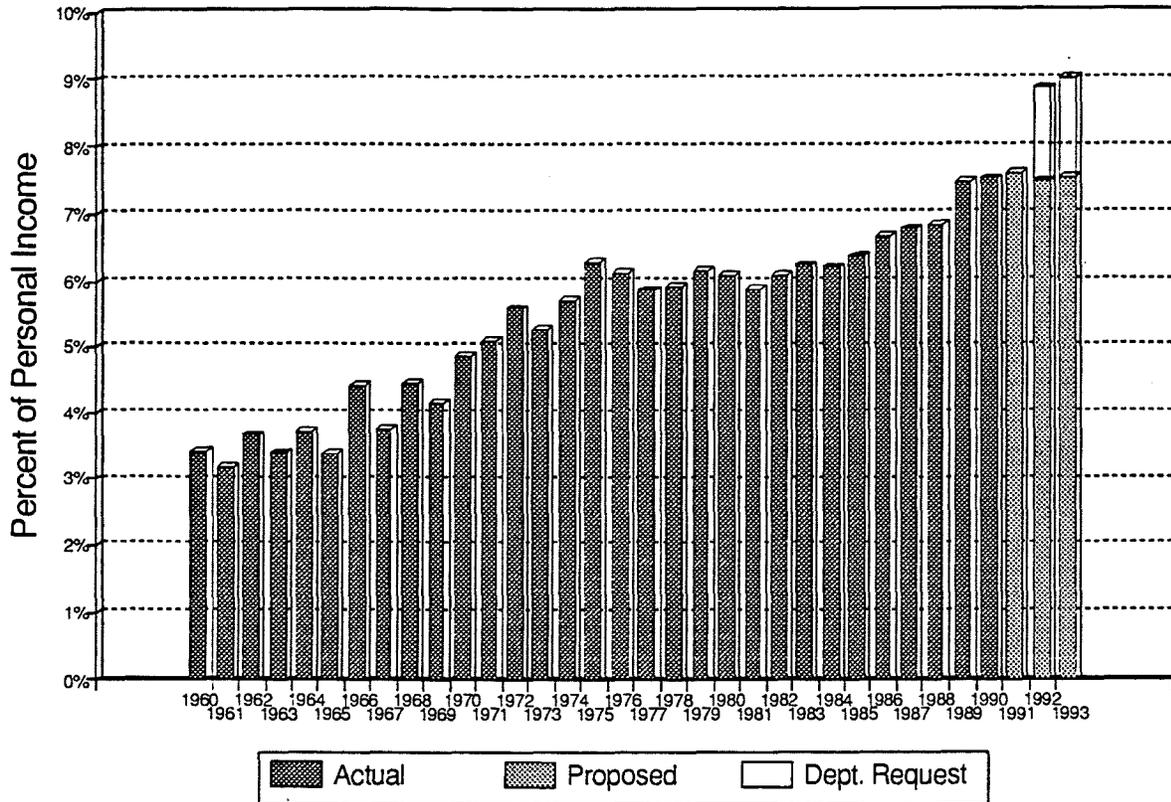
The biennial budget for FY 92-93 is \$3.23 billion or roughly 5.8% more than the General Fund budget for the previous biennium. This budget reflects no increase in any State tax, although it does include increases in selected fees and the delay of several tax reductions. On a yearly basis, FY92 is \$1.57 billion and FY93 is \$1.66 billion, representing increases of 2.6% and 5.6%, respectively over their previous years. As illustrated in the graph below percentage changes are among the lowest experienced in Maine over the past 30 years and are especially difficult coming as they do on the heels of almost a decade of robust spending growth.

Also illustrated in the same graph are the yearly budgets for FY92 and FY93 as originally proposed by the various state agencies. In contrast to the presented budget, these original requests represent increases of 26.3% in FY92 and 7.4% in FY93. These requests are well beyond available revenues. They would result in a significant burden to Maine taxpayers, as shown in the figure on the next page, by increasing the share of Mainers' incomes which go to support the State's General Fund from 7.6% to 9.0%. The budget which I am submitting would hold this percentage to around 7%, a level which the people of Maine can afford.

GENERAL FUND APPROPRIATIONS FY 1960 - 1993



GEN. FUND APPROPRIATIONS AS % OF PERSONAL INCOME (FY1960 - 1993)

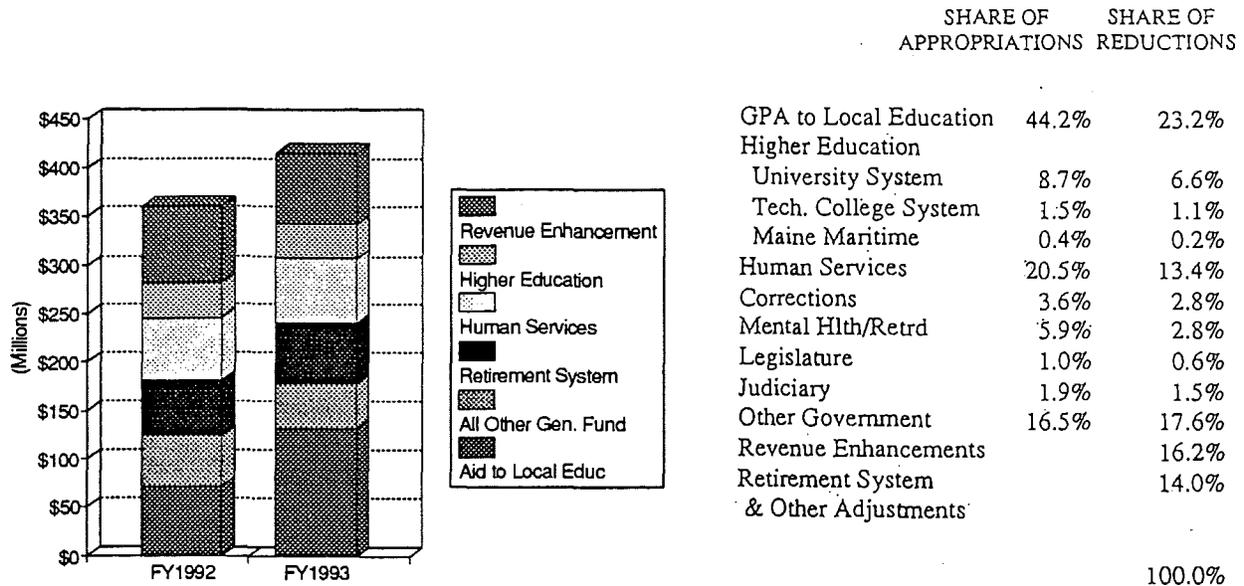


The budget adjustments which close the gap between budget requests and available revenues are summarized in the figure on the next page. On the revenues side, fee increases are being proposed in a number of areas. In addition, several tax decreases are being postponed, including the investment tax credit and the reduction in the sales tax on energy used in manufacturing. In total, these are estimated to generate \$78 million and \$73 million in each of FY92 and FY93, respectively.

On the spending side, General Purpose Aid to local education has been frozen at FY91 levels for both FY92 and FY93; higher education and all other government agencies have budgets at approximately 91.4% of their original FY91 levels in FY92 and grow about 6% in FY93; while the human services departments, Human Services, Mental Health and Mental Retardation, and Corrections, experience less of a reduction.

Finally, the budget incorporates a number of structural changes and programmatic reforms in the state retirement system which result in savings of \$58 million and \$73 million in FY92 and FY93. Included in these reforms are changes which will improve the long-term fiscal condition of the retirement system and which change the amortization schedule of unfunded liability.

ADJUSTMENTS BY SELECTED AREA PROPOSED 1992-1993 BUDGET



These budget adjustments are presented in more detail later in this document. In many instances, they involve the elimination or consolidation of agencies or programs; in other instances, they reflect reductions in the scope or frequency with which services are provided, relative to the levels proposed originally by the agencies. The table below contrasts the spending levels proposed in the biennial budget with those submitted by the agencies. In all functional area categories, spending increases requested were reduced significantly, in some instances from requested levels as high as 26%. When one considers that Maine personal income growth is virtually flat today and is forecasted to increase by only 3% over the next year, it is clear that the requests submitted by the agencies are excessive and that significant reductions are required to ensure a government which is affordable to the taxpayers of our State.

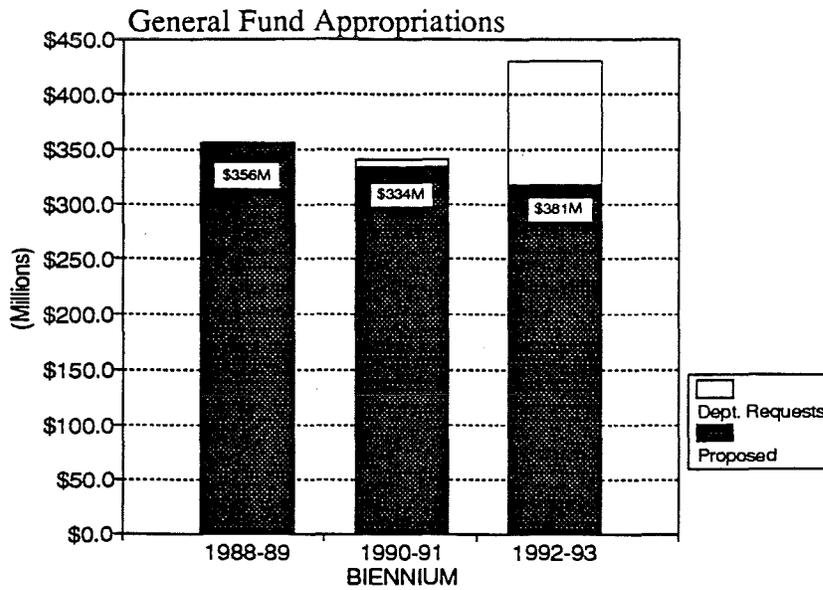
POLICY AREA			REQUESTED	PROPOSED	%CHANGE
	FY1988-89	FY1990-91	FY1992-93	FY1992-93	'90/91-92/93
GENERAL GOVERNMENT	355,989,520	333,837,450	430,921,945	317,915,007	-4.8%
ECONOMIC DEVELOPMENT	43,476,328	67,006,780	93,696,760	70,986,372	5.9%
EDUCATION & CULTURAL AFFAIRS	1,348,772,407	1,662,991,343	2,072,042,697	1,779,550,878	7.0%
HUMAN SERVICES	748,814,064	926,089,912	1,244,312,523	1,059,920,758	14.5%
LABOR	9,084,003	11,370,738	12,457,872	10,960,988	-3.6%
NATURAL RESOURCES	43,620,856	61,241,114	97,064,939	75,864,936	23.9%*
PUBLIC PROTECTION	26,700,537	41,859,198	51,200,407	38,344,697	-8.4%
TRANSPORTATION	24,216,073	6,303,531	7,911,136	5,833,653	-7.5%
RETIREMENT SYSTEM & ADJUSTMENTS		(59,000,000)		(130,491,708)	
TOTAL GENERAL FUND	2,600,673,788	3,051,700,066	4,009,608,279	3,228,885,581	5.8%

* This increase is reduced to 2.2% when the effect of bringing IF&W into the General Fund in FY 1991 is taken into account.

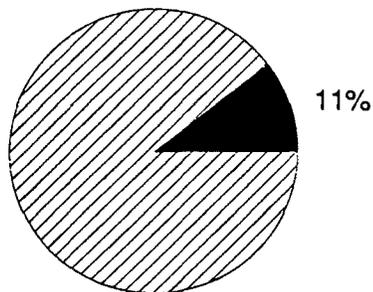
General Government

Departments covered in this category

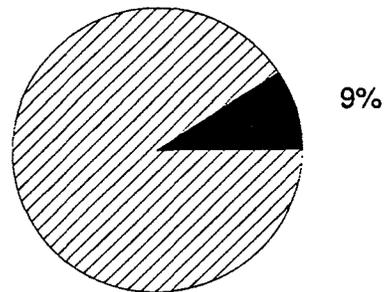
- Executive
- Legislative
- Judiciary
- Attorney General
- Treasury
- Secretary of State
- Audit
- Finance
- Administration



Percent of General Fund Appropriations



FY1990-91



FY1992-93

GENERAL GOVERNMENT

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
FINANCE	114,413,739	74,506,278	125,179,316	90,028,873	20.8%
SECRETARY OF STATE	3,350,650	5,891,192	6,116,470	5,580,488	-5.3%
EXECUTIVE	27,128,090	23,931,392	34,268,864	26,719,303	11.6%
LEGISLATURE	25,730,959	30,767,972	36,469,081	30,935,495	0.5%
JUDICIAL	50,689,164	59,796,659	73,576,912	59,912,519	0.2%
TREASURY	82,710,343	87,392,560	101,493,237	66,668,045	-23.7%
ADMINISTRATION	32,403,938	34,342,893	29,577,754	20,789,772	-39.5%
ATTORNEY GENERAL	11,426,651	13,741,995	19,442,887	13,591,964	-1.1%
AUDIT	2,673,431	2,843,290	4,108,388	3,149,075	10.8%
ALL OTHER	1,656,929	645,953	689,036	539,473	-16.5%
TOTAL	352,183,894	333,860,184	430,921,945	317,915,007	-4.8%

* Includes reductions proposed in L.D.108.

Administration

- administrative functions to state agencies and employees will be maintained, but at reduced levels of staffing, service delivery, and maintenance

Finance

- funding will be continued for the accounting, human resources, and budget preparation components of the MFASIS system
- to build upon the successful Tax Amnesty Program, additional funding will be proposed to strengthen and integrate tax collection and enforcement systems

Judiciary

- essential functions of the Judiciary will be protected; District Courts will be consolidated, and other services will be streamlined or reduced

Retirement System

- payments to and benefits from the state retirement system will be restructured to realize savings
- employee contribution will be increased

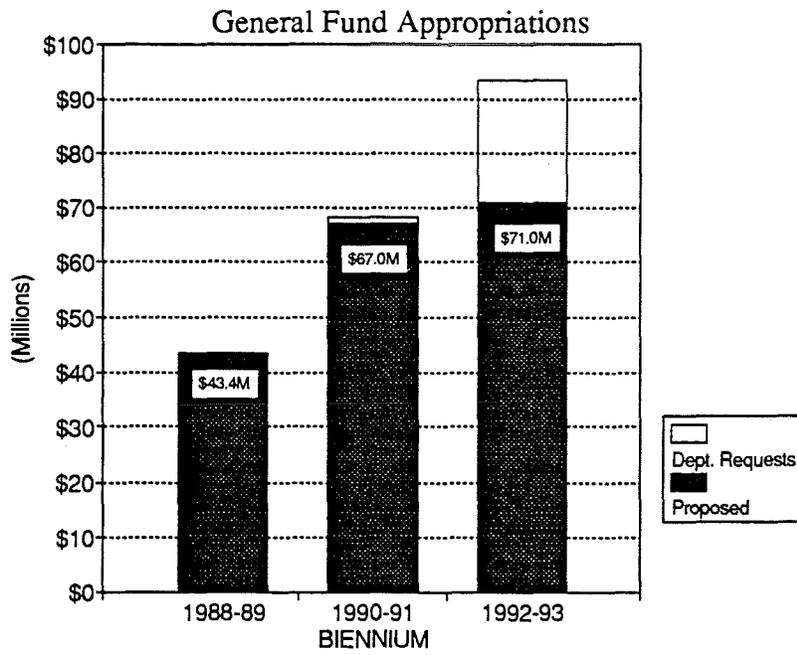
Other

- real estate transfer fees formerly directed to the Maine State Housing Authority will be credited to the General Fund
- authorization for a mechanism to fund a commission on government efficiency and structure will be proposed

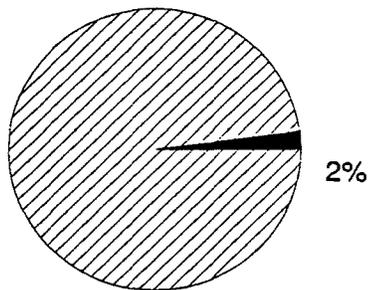
Economic Development

Departments covered in this category

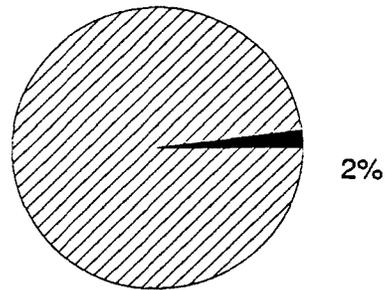
- Economic and Community Development
- Agriculture
- Marine Resources
- Professional and Financial Regulation



Percent of General Fund Appropriations



FY1990-91



FY1992-93

ECONOMIC DEVELOPMENT

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
PROF/ FIN REGULATION	1,213,885	1,339,675	1,486,900	1,249,268	-6.7%
AGRICULTURE	11,119,745	11,711,667	14,544,509	11,183,517	-4.5%
MARINE RESOURCES	12,000,810	12,873,282	17,012,257	12,523,870	-2.7%
ECON & COMM DEVELOP	7,975,944	18,908,506	20,534,738	16,854,209	-10.9%
F.A.M.E.	149,762	9,342,207	24,013,032	16,637,446	78.1%
ALL OTHER	10,727,545	12,931,946	16,105,324	12,538,062	-3.0%
TOTAL	43,187,691	67,107,283	93,696,760	70,986,372	5.8%

* Includes reductions proposed in L.D.108.

Department of Agriculture

- programs that ensure public health and safety through quality control, including food and livestock inspection and agricultural disease control, will be maintained at our near current levels
- research, infrastructure, and marketing programs will be reduced or eliminated

Department of Marine Resources

- with the introduction of a separate bill to restore proposed reductions in the Marine Patrol through increased license fees, testing and paralytic shellfish poisoning, water quality monitoring, and other programs to protect public health and safety will be maintained at or near current levels
- research and marketing programs will be reduced or eliminated

Department of Economic and Community Development

- community development and comprehensive planning programs will be consolidated at reduced funding levels
- deadlines for growth management plans from municipalities and unorganized territories will be extended
- funding for other business development and tourism programs will be reduced

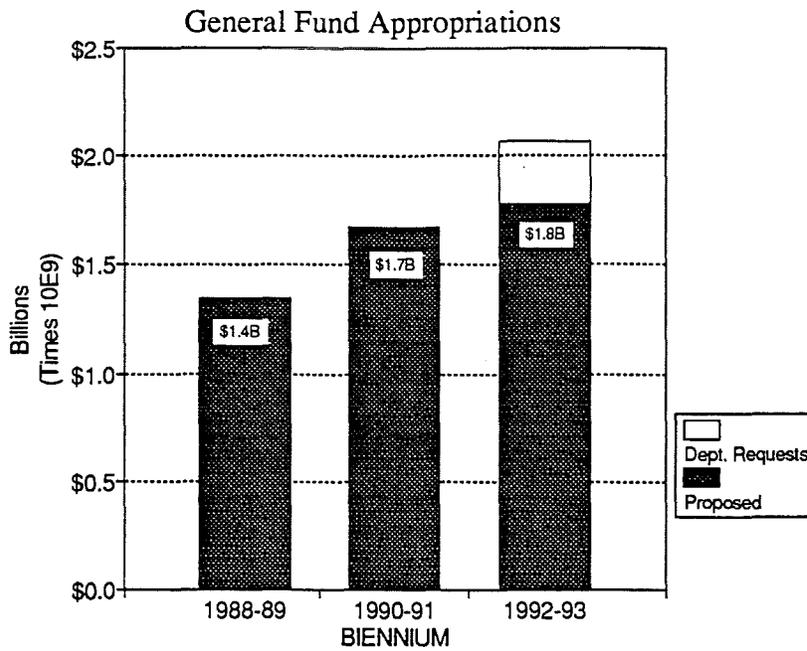
Department of Professional and Financial Regulation

- consumer protection activities will be continued, with particular focus on combatting financial fraud, educating high school students about money management, protecting senior citizens, and obtaining restitution worth millions of dollars for Maine residents
- a program to assist small Maine businesses in accessing capital markets will be eliminated

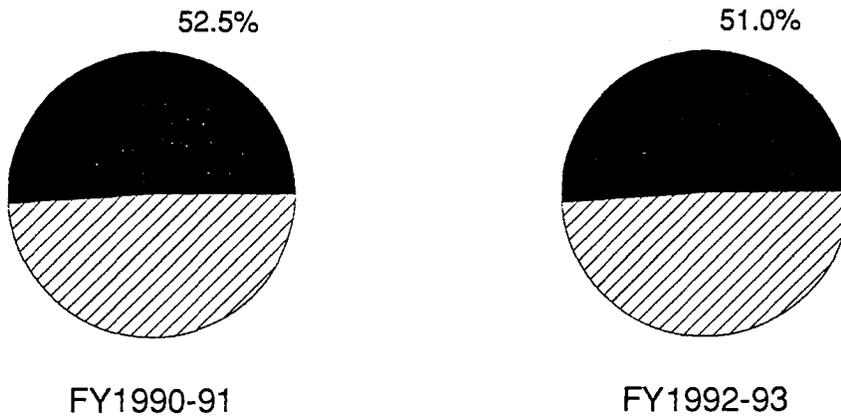
Education and Cultural Affairs

Departments covered in this category

- Education and Cultural Services
- University of Maine
- Technical College System
- Maine Maritime Academy



Percent of General Fund Appropriations



EDUCATION AND CULTURAL AFFAIRS

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
TECH COLLEGE SYSTEM	40,817,767	49,048,688	57,757,898	47,655,209	-2.8%
MAINE MARITIME	9,849,038	13,371,077	15,298,330	13,403,141	0.2%
UNIVERSITY SYSTEM	244,350,115	286,534,354	341,235,993	279,920,161	-2.3%
EDUCATION	1,043,384,444	1,302,517,380	1,643,673,214	1,427,077,963	9.6%
ALL OTHER	10,320,826	11,997,952	14,077,262	11,494,404	-4.2%
TOTAL	1,348,722,190	1,663,469,451	2,072,042,697	1,779,550,878	7.0%

* Includes reductions proposed in L.D.108.

Department of Education

- General Purpose Aid for local primary and secondary education, which has increased by 70.8% in four years and accounts for 40% of the state General Fund budget, will be maintained at current levels
- programs to promote excellence in education, such as the Common Core of Learning and the school restructuring project, will be continued, as will the work of the Task Force on School Funding
- "Parents As Teachers," a new program to improve early childhood development through parent education, will be funded at slightly over \$1 million
- low-income student adjustments, innovative grants to teachers and schools, and the residential program at the Baxter School for the Deaf will be reduced

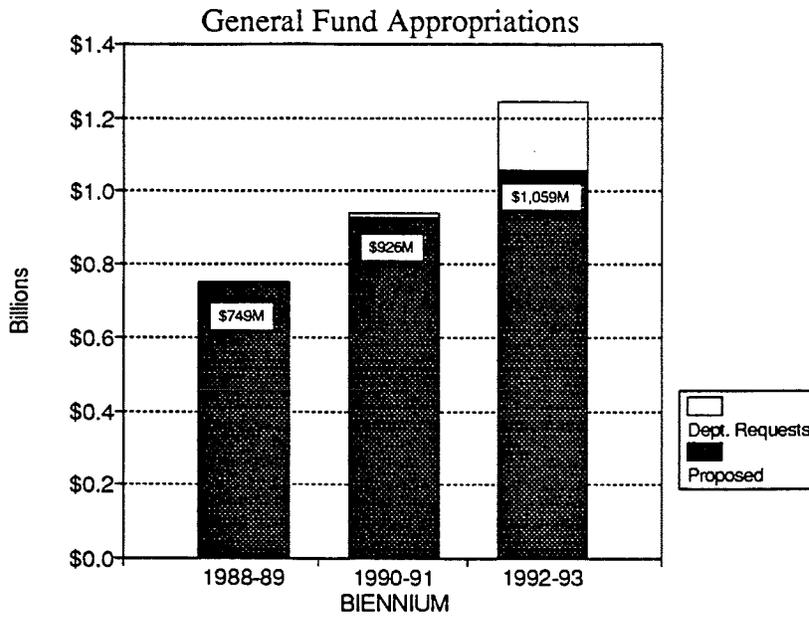
Higher Education

- commitment to access to higher education will be continued through existing and new student grant and loan programs, including the "loan of last resort" program
- funding levels for the University of Maine System, the Maine Technical College System, and Maine Maritime Academy will be reduced

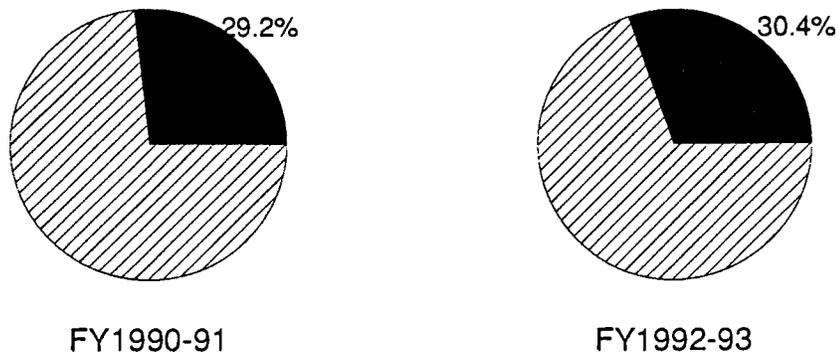
Human Services

Departments covered in this category

- Human Services
- Corrections
- Mental Health and
Mental Retardation



Percent of General Fund Appropriations



HUMAN SERVICES

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
MENTAL HLTH/RETRD	189,325,762	252,065,659	306,349,118	280,121,897	11.1%
CORRECTIONS	92,030,431	109,600,762	142,054,688	115,793,566	5.7%
HUMAN SERVICES	462,036,996	558,499,707	786,161,937	661,585,866	18.5%
ALL OTHER	2,407,949	6,373,419	9,746,780	2,419,429	-62.0%
TOTAL	745,801,138	926,539,547	1,244,312,523	1,059,920,758	14.4%

* Includes reductions proposed in L.D.108.

Human Services

- essential services to protect and care for 16,000 at-risk children will be maintained at current levels
- under Maine Health Care Program, health care for 22,000 more children will be provided; adult component is eliminated
- over \$100 million in state and federal funds each year will be available for over 50,000 AFDC recipients; funding for ASPIRE will be reduced
- almost \$1 billion in state and federal Medicaid funds will be spent to provide health coverage for thousands of low income people and nursing home residents

Department of Mental Health and Mental Retardation

- community mental health services and services for Maine's most vulnerable children will continue at current levels
- community and family support services for the mentally retarded will be continued; staffing levels and programs at state institutions will be reduced

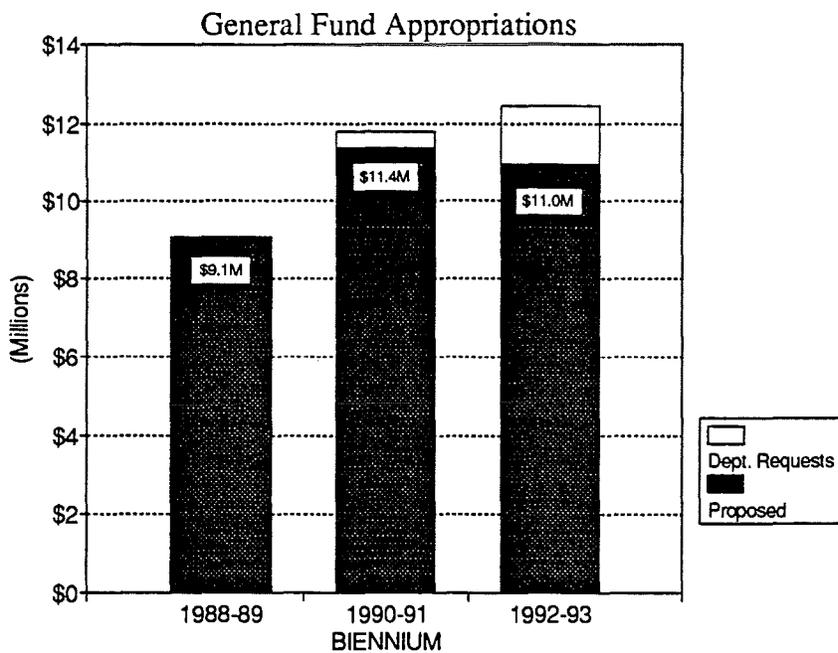
Department of Corrections

- essential positions and programs will be continued at reduced levels; other activities, including education and vocational programs, Probation and Parole, and administration, will be reduced
- Bangor Pre-Release Center will be closed in FY 1992, and the Charleston and Downeast Correctional Facilities will be closed in FY 1993; the Central Maine Pre-Release Center will be closed only for FY 1992 with inmates returning to the remaining institutions

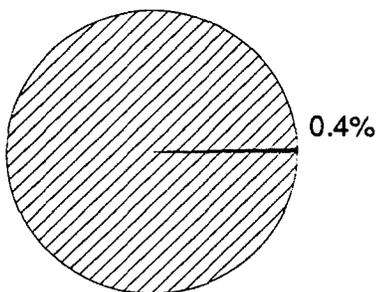
Labor

Departments covered in this category

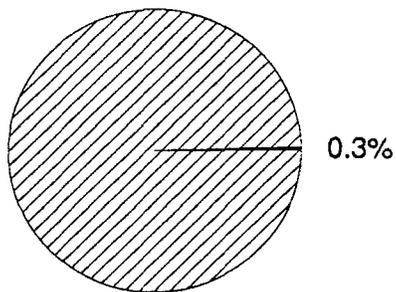
Labor



Percent of General Fund Appropriations



FY1990-91



FY1992-93

LABOR	DEPT.				
	1988-89	1990-91*	REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
LABOR	9,060,727	11,370,738	12,457,872	10,960,988	-3.6%

* Includes reductions proposed in L.D.108.

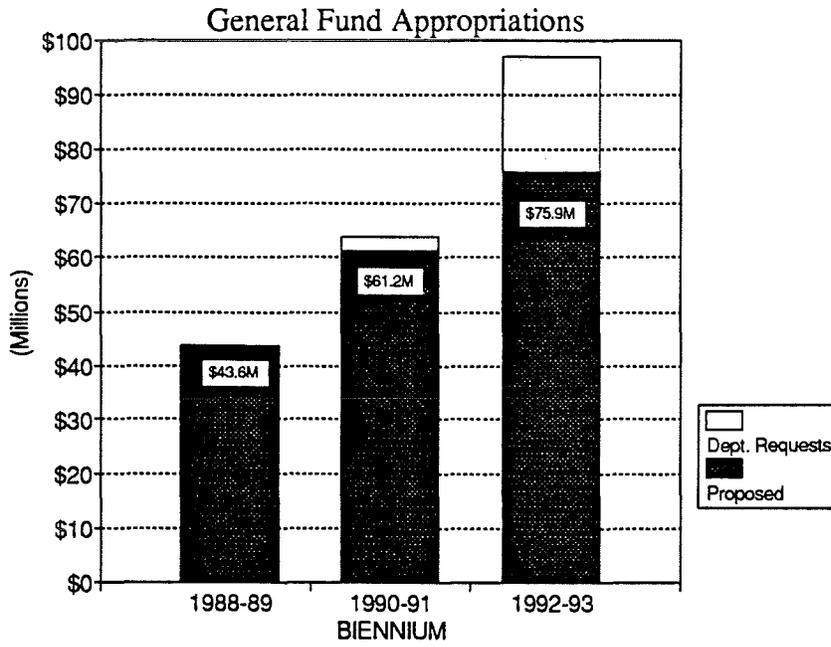
Department of Labor

- Unemployment insurance and the Job Service program will be unaffected by the state budget
- one of the few states to offer state-funded workforce training and retraining programs, Maine will continue these programs at slightly reduced levels
- safety training and consultation, which last year trained 12,000 workers, will continue at current levels
- regulation and enforcement procedures will be streamlined
- most services in the Displaced Homeworker program will be maintained, with some reductions in outreach services
- apprenticeship program will be significantly reduced

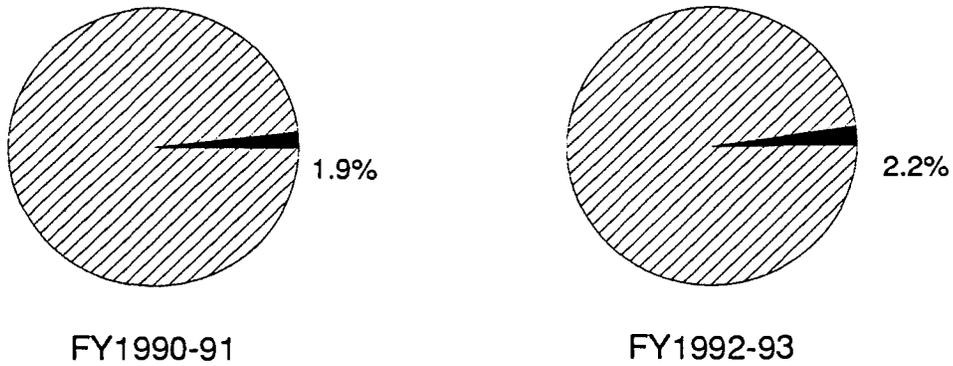
Natural Resources

Departments covered in this category

- Environmental Protection
- Conservation
- Inland Fisheries and Wildlife



Percent of General Fund Appropriations



NATURAL RESOURCES

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
CONSERVATION	29,938,178	33,110,301	42,380,499	33,198,334	0.3%
IF&W	1,347,328	15,110,081	37,330,044	29,942,348	98.2%**
ENV PROTECTION	12,111,538	12,842,541	17,171,716	12,654,250	-1.5%
ALL OTHER	101,592	178,191	182,680	70,004	-60.7%
TOTAL	43,498,636	61,241,114	97,064,939	75,864,936	23.9%

* Includes reductions proposed in L.D.108.

** Increase is due to effect of bringing IF&W into General Fund in FY91.

Department of Conservation

- fire towers will be replaced with aerial surveillance; forestry insect, disease, and survey programs will be continued; programs in geological mapping, the Forest Practices Act, and conservation job training will be reduced or eliminated
- fire control regions and districts will be consolidated; several fire-fighting facilities will be closed
- essential permitting and licensing functions at LURC will continue, with some staff reductions
- all state parks will remain open with reduced staffing and maintenance levels

Department of Environmental Protection

- emergency response services, environmental enforcement, and most licensing programs will be continued at or near current levels; shoreland zoning oversight, dam ownership and registration, and some relicensing functions will be reduced or eliminated

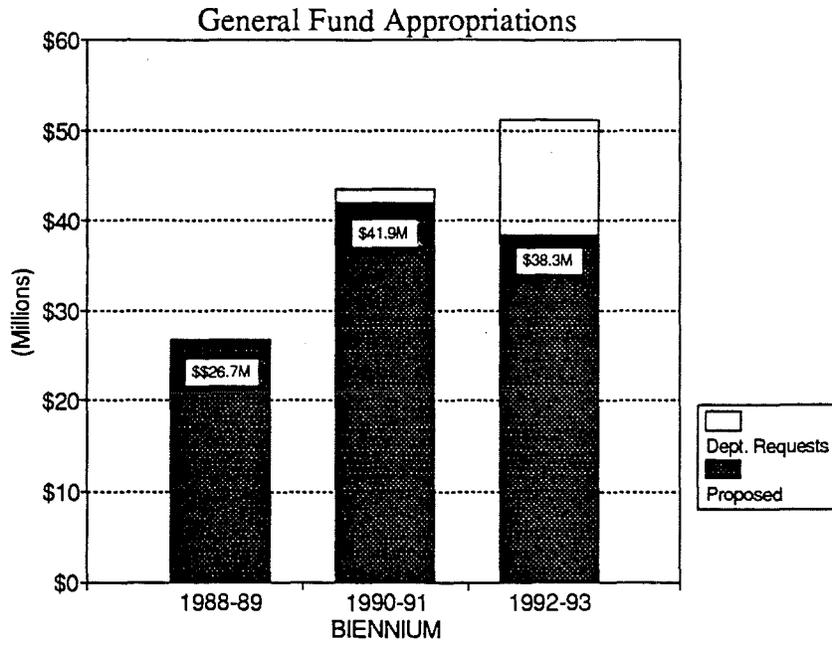
Department of Inland Fisheries and Wildlife

- most programs and services will be maintained, with some reductions in staff and funding; the Visitors Center in Gray and the Swan Island facility will be closed
- the assistant warden program will be eliminated

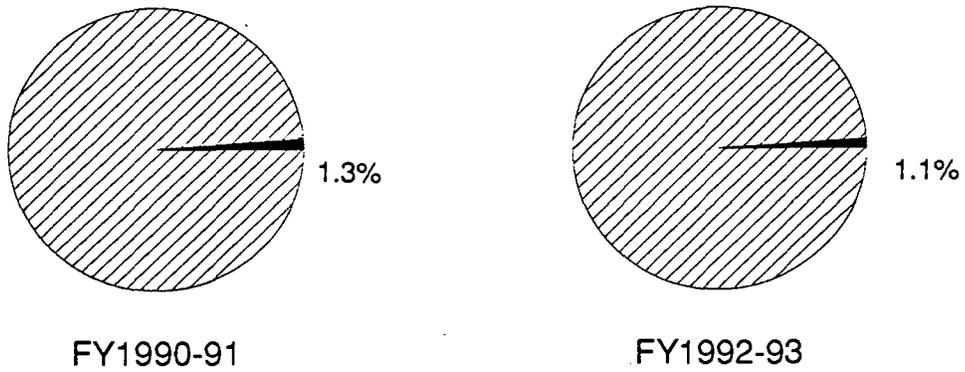
Public Protection

Departments covered in this category

Public Safety
 Defense and Veterans
 Services



Percent of General Fund Appropriations



PUBLIC PROTECTION

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 %Change
PUBLIC SAFETY	16,691,717	30,542,737	38,329,119	28,858,859	-5.5%
DEFENSE	9,411,911	11,116,461	12,871,288	9,485,838	-14.7%
ALL OTHER	200,000	200,000	0	0	N/A
TOTAL	26,303,628	41,859,198	51,200,407	38,344,697	-8.4%

* Includes reductions proposed in L.D.108.

Department of Public Safety

- highway safety, fire and crime prevention, and police training will be continued at existing levels; reductions in the State Police and in drug enforcement may be necessary

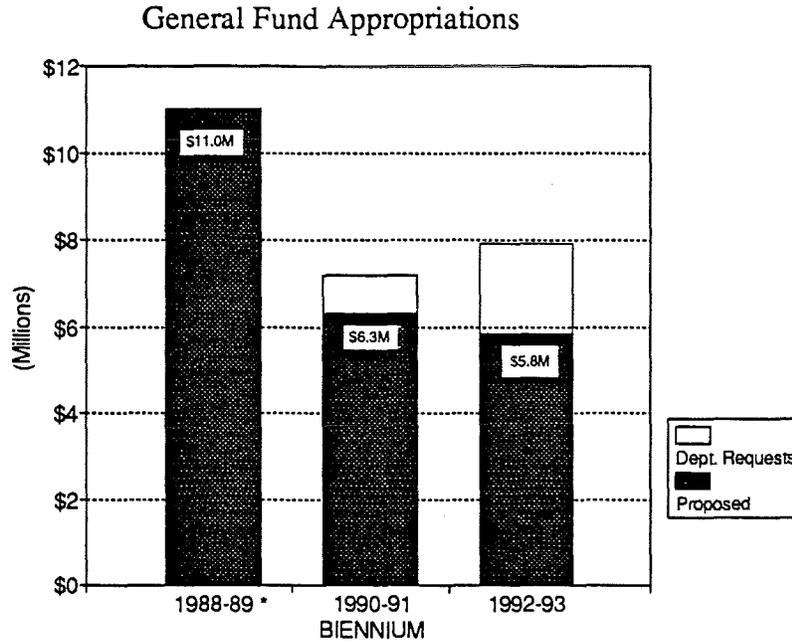
Department of Defense and Veterans Services

- response and planning capability for natural disasters, radiological emergencies, and hazardous materials accidents will be maintained
- financial aid to indigent veterans, dam safety inspection, military training operations, and funding for communication systems improvements will be reduced or eliminated

Transportation

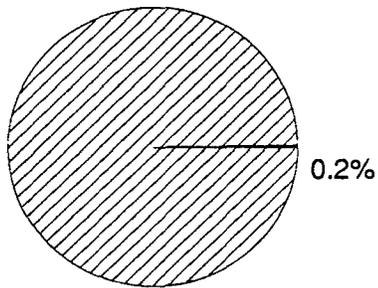
Departments covered in this category

Transportation

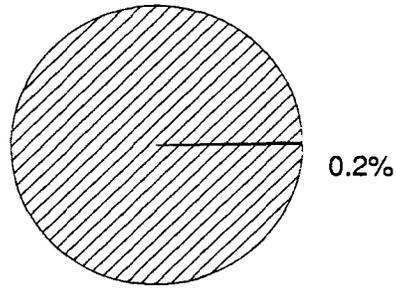


* Does not include \$13.2 million from Rainy Day Fund.

Percent of General Fund Appropriations



FY1990-91



FY1992-93

TRANSPORTATION

	1988-89	1990-91*	DEPT. REQUEST 1992-93	PROPOSED 1992-93	90/91-92/93 % Change
TRANSPORTATION	24,203,073	6,303,531	7,911,136	5,833,653	-7.5%

* Includes reductions proposed in L.D.108.

Department of Transportation

- commitment to corridors of economic significance will be continued through the "Match Federal" program; overall highway program will decrease 10 percent
- State ferry service will be maintained at current levels
- highway mass transportation grants will be restored to previous levels of \$400,000 per year
- grants to local airports for snow removal reimbursements and to municipalities for the local road assistance program will be sustained at FY91 levels
- reimbursement to State agencies for air search and rescue, maintenance of State-owned railroad rights-of-way, and ferry piers will be reduced or eliminated