



# Maine State Budget Primer

## 2021

Published by the  
Maine Development Foundation for  
Policy Leaders Academy



CONNECTING PEOPLE  
& STRATEGIES TO DRIVE  
MAINE'S ECONOMY

## About the Maine Development Foundation and Policy Leaders Academy

The Maine Development Foundation (MDF) is a private, non-partisan membership organization that provides leadership development, trusted research, and creative partnerships to enable Maine business, community and policy leaders to drive Maine’s long-term economic growth.

Policy Leaders Academy (PLA) is a non-partisan educational program for Maine legislators hosted by MDF. Created in 1985, PLA has delivered high quality, objective, and non-partisan experiential training on the Maine economy to Maine legislators for over three decades.

### Policy Leaders Academy Partners

Policy Leaders Academy is made possible with strong financial and personnel support from several prominent Maine foundations and organizations committed to a prosperous and thriving state. The generous support of these organizations allows MDF to leverage expertise from across Maine to provide legislators with rich learning opportunities at no cost for individual legislators. Our partners include:

PLA Funding Partners:



Additional Planning Partners:



### Appreciation

Catherine Reilly deLutio wrote this primer on behalf of the Maine Development Foundation. Special thanks to Christopher Nolan, Director, Office of Fiscal and Program Review, for data from the 2020 *Compendium of State Fiscal Information*.

For more information, visit [www.mdf.org](http://www.mdf.org) or call (207) 622-6345.  
© 2021 Maine Development Foundation

## Table of Contents

Introduction .....	3
Budget Basics .....	4
Biennial Budget Process .....	5
Sources of State Revenue .....	7
State Funds .....	8
General Fund .....	9
Education .....	11
Health & Human Services .....	12
Highway Fund .....	13
Other Special Revenue Funds .....	14
Fund for a Healthy Maine .....	14
Federal Funds .....	15
Transfers to Local Governments .....	16
Revenue Sharing .....	16
Tax Expenditures .....	16
Tax-supported Debt .....	18
Long-term Unfunded Debt .....	19
Reserve Funds .....	20
Stress Test .....	20
Surplus Funds: The “Cascade” .....	21
Endnotes .....	21
Glossary of Budget Terms .....	22

## Introduction

Maine's state government currently spends about \$10 billion each year, from both state and federal sources. Managing that money is a principal responsibility of Maine's Governor and Legislature. The state budget is the document that outlines how that money will be collected and spent.

This primer explains the process by which the Governor and Legislature create the budget, and its various categories of revenue and spending. It is an overview. It draws on information from the [Maine Department of Administrative and Financial Services](#), the [Maine Department of Education](#), the [Maine Public Employees Retirement System](#), the Legislature's [Office of Fiscal and Program Review](#) (OFPR), and the [Maine State Treasurer](#). These offices are invaluable sources of additional information and expertise. Except where noted, the budget statistics presented in this primer are from OFPR's [Compendium of State Fiscal Information](#) released in early 2021.

Maine operates on a July 1-June 30 fiscal year. Throughout this primer, years refer to the year in which the fiscal year ends. For instance, "2020" refers to the fiscal year that started on July 1, 2019 and ended on June 30, 2020.

### Maine by the Numbers (±)

1,344,212 residents<sup>1</sup>

590,000 acres of public reserved land<sup>2</sup>

692,739 people in the workforce<sup>3</sup>

180,336 students in PK-12 public schools<sup>4</sup>

102,246 cases annually filed in state courts<sup>5</sup>

53,538 business establishments<sup>6</sup>

47,301 students in public colleges and universities<sup>7</sup>

28,000 miles of public roads<sup>8</sup>

2,090 adults in the state correctional system<sup>9</sup>

1,791 children in state care<sup>10</sup>

189 legislators<sup>11</sup>

1 state budget

## Budget Basics

**It covers two fiscal years.** The state budget covers one biennium, which is two fiscal years. The budget negotiated during the 2021 legislative session will be for the biennium that begins on July 1, 2021 and lasts for the following 24 months, ending on June 30, 2023.

**It must be balanced.** The Maine Constitution requires that the state budget be balanced. Except for a few narrow situations (such as repelling invasion), the State is not permitted to take on debt for current expenditures.

**It must be within revenue projections.** The revenue side of the State's balanced budget comes from projections by the Revenue Forecasting Committee. Spending proposed in the Governor's budget may not exceed these projections.

**It must fund some items.** The Maine Constitution requires the State to make debt payments and fund the state retirement system. A collection of federal mandates, court orders, and consent decrees impose additional requirements.

**It must be within the state spending cap.** There is a law that limits the growth of most state appropriations. Each year, appropriations may increase by no more than the 10-year average growth of personal income in Maine. (Appropriations that increase the State's share of statewide education spending toward 55% are exempt from the cap. See page 11.)

**It may be revised.** The State's finances must be monitored to ensure that revenues and expenses remain balanced. If expenses exceed revenues, then the Governor or the Legislature may propose changes in a supplemental budget that revises the biennial budget. In the event of a revenue shortfall, the Governor may also reduce spending by Executive Order until the Legislature has an opportunity to make changes.

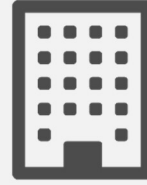
**The Governor proposes the first draft; the Legislature passes the final draft.** The Governor submits a budget to the Legislature prior to the start of each biennium. The Legislature then reviews and revises the Governor's budget and passes its own version, which the Governor then signs, vetoes, or allows to become law without his/her signature.

**It must go into effect July 1** (the first day of the state's fiscal year) for state government to operate. There are two ways this can happen:

- The Legislature can pass the budget as an emergency bill anytime prior to July 1. Emergency bills require a 2/3 vote and become effective immediately.
- Although rare, the Legislature can pass the budget as a regular, non-emergency bill at least 90 days before July 1. Non-emergency bills require a majority vote and go into effect 90 days after the Legislature adjourns. The Legislature can adjourn after passing the budget and call itself back into session to work on other bills.

# Biennial Budget Process

1



State agencies submit budget requests to the Bureau of the Budget by September 1.

2



The Consensus Economic Forecasting Commission (CEFC) projects future economic conditions by November 1.

3



Using the CEFC's projections, the Revenue Forecasting Committee projects state revenues by December 1.



4



The Governor submits a draft budget to the Legislature by the Friday following the 1<sup>st</sup> Monday of January.

5



The Legislature holds public hearings on the budget.



6



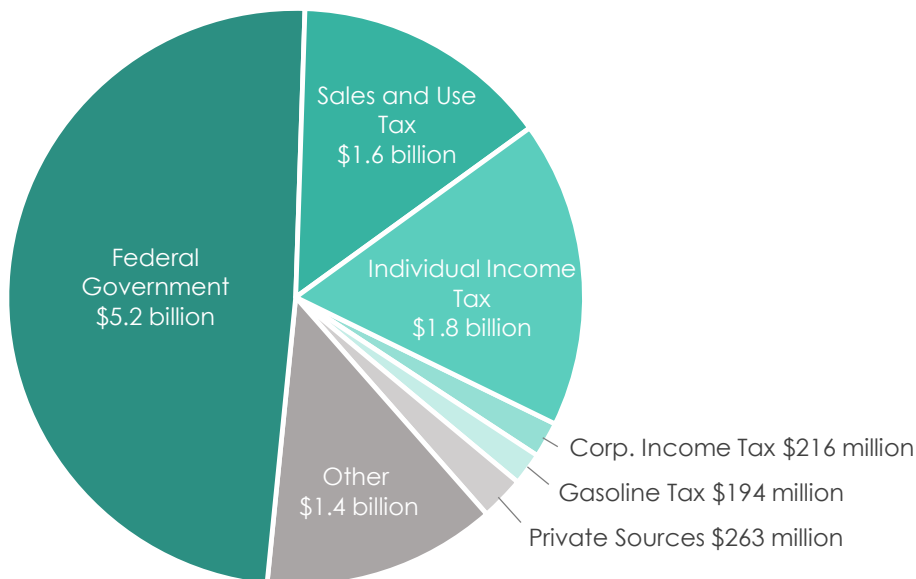
The Legislature's policy committees make recommendations to the Appropriations and Financial Affairs Committee ("Appropriations") on the budgets of the departments and agencies in their oversight.



## Sources of State Revenue

The State of Maine receives revenue from many sources, including individual tax payers, businesses, and the federal government. The chart below shows the largest sources of operating revenue. In 2020, federal funds, mainly for COVID-19 relief (\$2 billion) and Medicaid (“MaineCare”; \$2 billion) but also for education, transportation, workforce training, and other programs account for nearly half (49%) of all state revenues. “Other” includes the cigarette tax, service provider tax, motor vehicle fees, service charges, and numerous smaller categories.

**Maine’s total operating revenues were \$10.7 billion in 2020.\***



Since 1990, state and local government has accounted for about 10% of Maine’s economy on average. This percentage falls when other sectors of the economy are doing well, as in the five years prior to 2020, and rises when other sections are struggling, as during recessions.

### State and local government spending as a percentage of Maine’s economy<sup>12</sup>



\*Operating funds don’t include Enterprise Funds and Trust and Agency Funds.



## State Funds

The State has an extensive bookkeeping system that assigns all revenues to specific funds and accounts. There are four categories of operating funds.

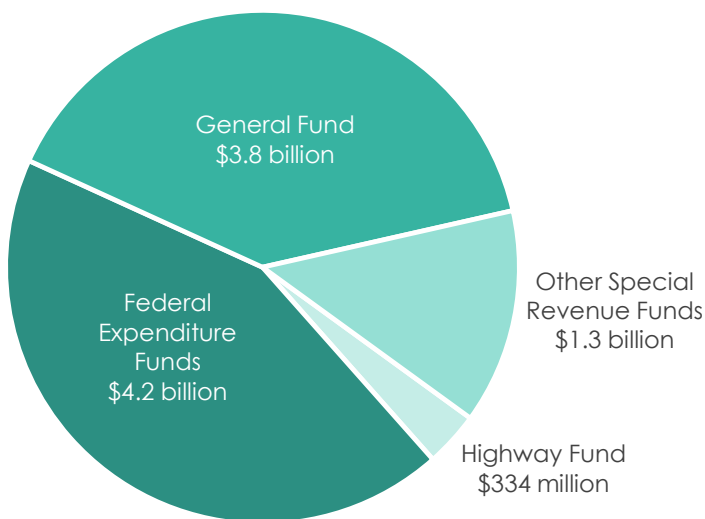
The **General Fund** is the State’s largest discretionary fund. It is the primary funding source for state agencies, the Legislature, and the Judiciary.

The **Highway Fund** was constitutionally established to direct highway-related revenue for highway purposes. It is used to maintain Maine’s transportation infrastructure and for state enforcement of traffic laws.

**“Other Special Revenue” Funds** usually come from a dedicated source and are restricted by law to a specific use; for example, payment for care at the State’s mental health facilities, or fees for professional licenses and exams that pay to administer these programs.

**Federal Expenditure Funds** receive federal funds, which are generally restricted to specific uses. Many flow to Maine residents, communities, and service providers through programs administered by state agencies. Historically, over 70% have been matching Medicaid and transportation funds. In 2020, Maine received an additional \$2 billion in one-time funds related to COVID-19 relief.

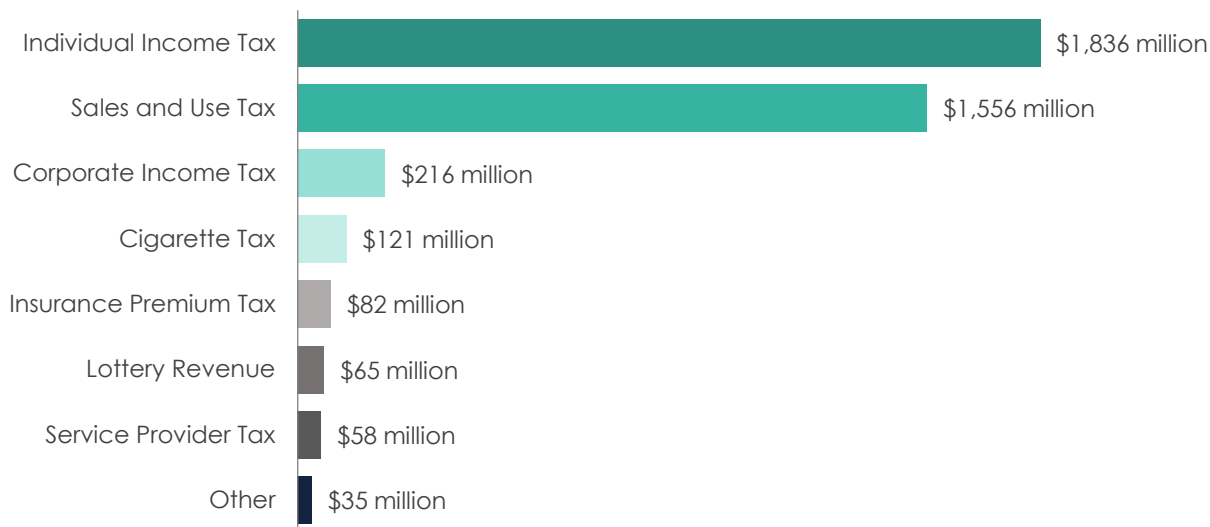
**In 2020, 57% of Maine state government operating expenditures were from state funds; 43% were federal funds.**



## General Fund

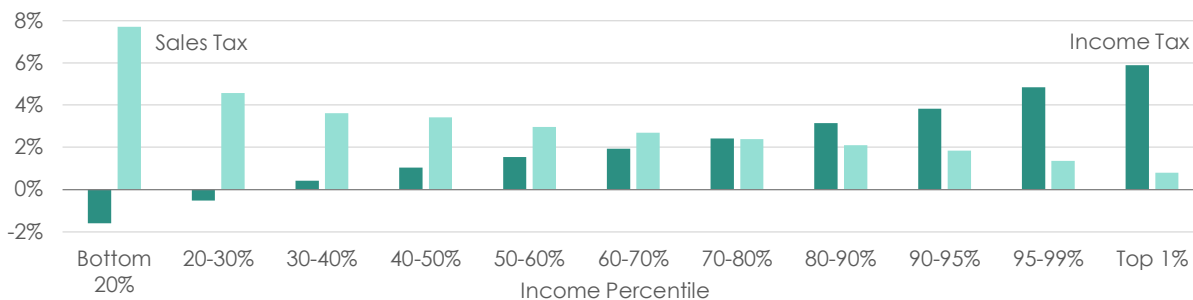
The General Fund is the state’s largest discretionary fund. It is the primary funding source for state agencies, the Legislature, and the Judiciary. It supports everything from education and human services to law enforcement and wildlife management. Income and sales taxes account for over 80% of General Fund revenue. Over time, the share of revenue from income taxes has steadily risen, from an average of 37% in 1986-1990 to 45% in 2016-2020, while the share of revenue from sales taxes has fluctuated between 30% and 40% during the past three decades.

### General Fund revenues totaled \$4.0 billion in 2020.



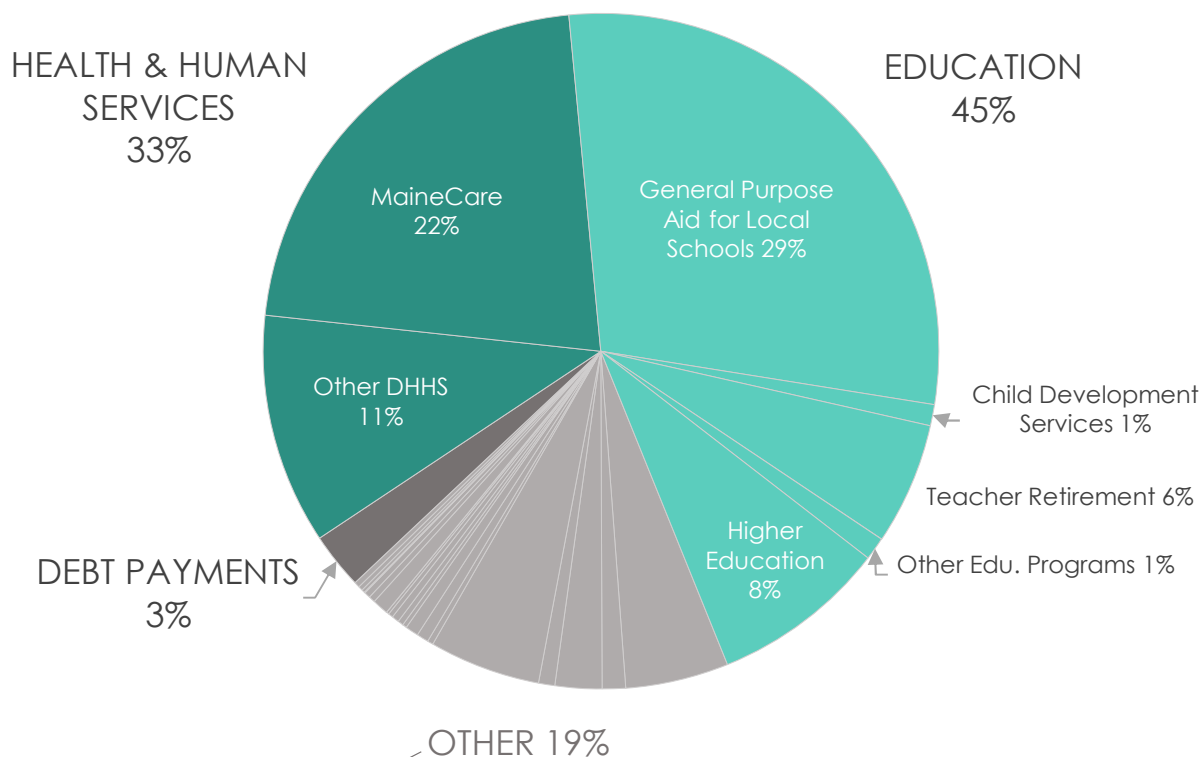
Maine residents pay different amounts of taxes based on their incomes and spending habits. The chart below shows state taxes paid as a percentage of income for families in different income groups. Lower-income families pay a higher percentage of their income in sales taxes while higher-income families pay a higher percentage in income taxes. (Information on property taxes is not included here but is available from Maine Revenue Services.)

### Maine income and sales taxes as a percentage of family income<sup>13</sup>



Education and health and human services together account for nearly 80% of General Fund expenditures. Debt payments are about 3%. The remaining 19% includes all other state agencies, the Legislature, and the Judiciary. Over time, the share of expenditures for Health and Human Services has increased (from an average of 28% in 1996-2000 to 34% in 2016-2020) while share for Education has decreased (from 49% in 1996-2000 to 45% in 2016-2020).

**General Fund expenditures totaled \$3.8 billion in 2020.**



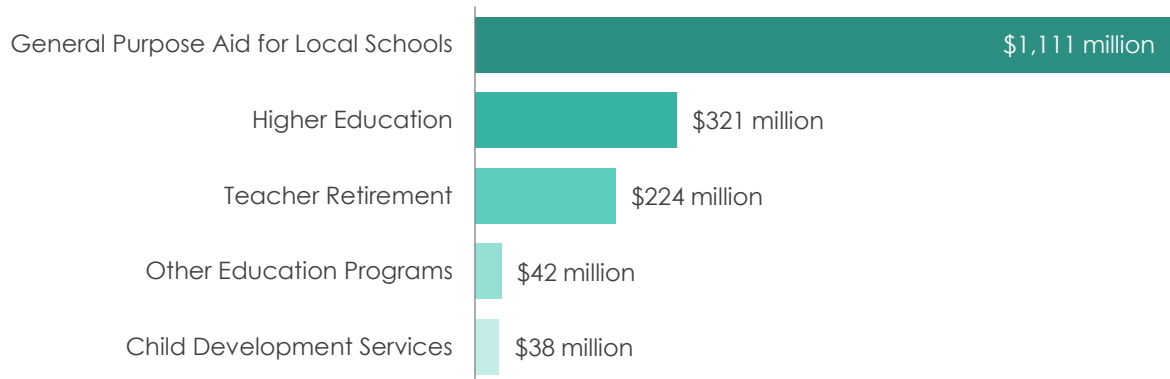
“OTHER” CATEGORIES

Administrative & Financial Services	5.33%	Marine Resources	0.30%
Corrections	4.94%	Agriculture, Food & Rural Resources	0.27%
Judiciary	2.24%	Defense, Veterans & Emergency Mgmt	0.26%
Public Safety	1.11%	Environmental Protection	0.23%
Legislature	0.79%	Transportation	0.21%
Inland Fisheries & Wildlife	0.77%	Cultural Agencies	0.20%
Conservation	0.64%	Secretary of State	0.15%
Attorney General	0.56%	Executive Department	0.13%
Economic & Community Development	0.35%	Treasurer of State	0.04%
Labor	0.31%	Additional “Other” categories	0.26%

## Education

Education is one of the State's largest expenses, totaling 45% of General Fund appropriations in 2020. Almost 2/3 of that is General Purpose Aid for Local Schools (GPA), the pool of state funds given to Maine's over 600 public PK-12 schools. About 1/5 is higher education.

### In 2020, Maine spent \$1.7 billion on PK-12 and higher education.



## Allocating State Education Funds

The State divides GPA among Maine's public PK-12 schools through a complex process that can be loosely summarized in three steps.

- 1. Determine each school's financial need** using the EPS formula (see below).
- 2. Determine the amount to be raised locally.** Municipalities contribute to their schools' needs up to a certain mill rate (estimated to be 8.18 in 2021).<sup>14</sup> The mill rate is based on the expectation that municipalities collectively pay 45% of statewide K-12 education costs and the State pays 55%.
- 3. Whatever is not paid locally is paid by the State.**

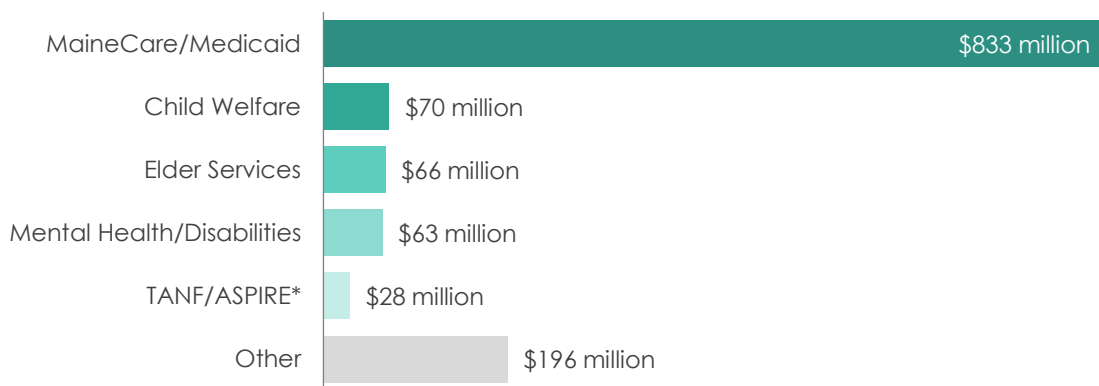
**What is EPS?** Essential Programs and Services (EPS) is the mathematical formula used by the Maine Department of Education to calculate each school's funding needs. EPS uses the size of the student body, the number of special-needs students, and other factors to calculate the funds necessary for those students to achieve the Maine Learning Results. EPS is based on analysis of "high performing cost effective school units."<sup>15</sup>

**Why 55%?** In 2003, Maine voters passed a referendum directing the State to increase its share of public K-12 education costs to 55%. For 2020-2021, the State is expected to fund 56% of these costs when including its annual contributions to teacher retirement, or 52% when excluding teacher retirement.<sup>16</sup>

## Health & Human Services

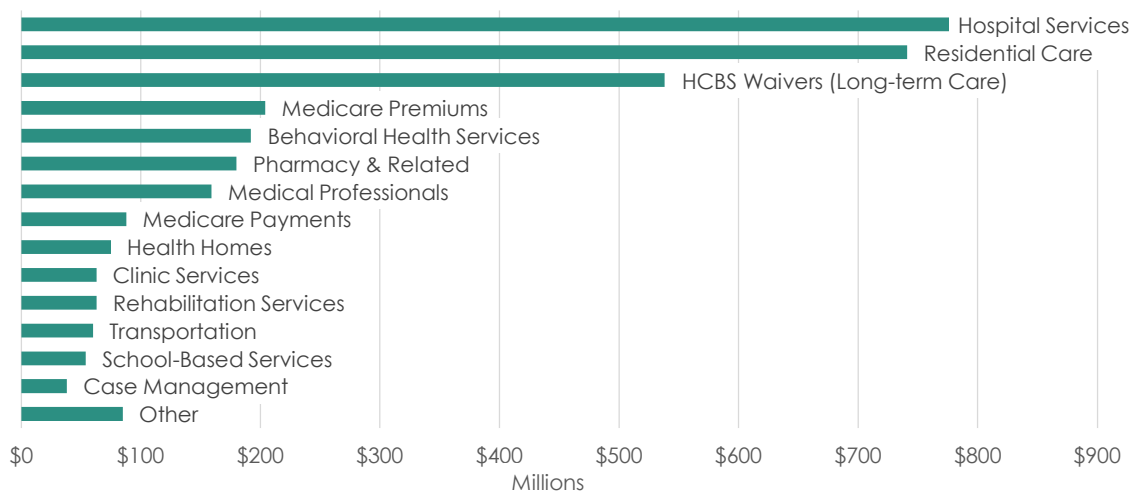
Maine’s Department of Health and Human Services (DHHS) accounted for 33% of General Fund appropriations in 2020. Over 2/3 of DHHS’s budget is MaineCare, Maine’s program for Medicaid and the federal Children’s Health Insurance Program. MaineCare helps pay for medical care of children and adults from low-income households. In 2020, for every \$1.00 the State spent on MaineCare, the federal government contributed \$2.56.

### Maine’s Health & Human Services budget was \$1.3 billion in 2020.



In 2020, about 24% of MaineCare expenditures were for hospital services and 38% were for residential and long-term care.<sup>17</sup> The chart below shows the amount paid in various categories.

### MaineCare 2020 expenditures by service type

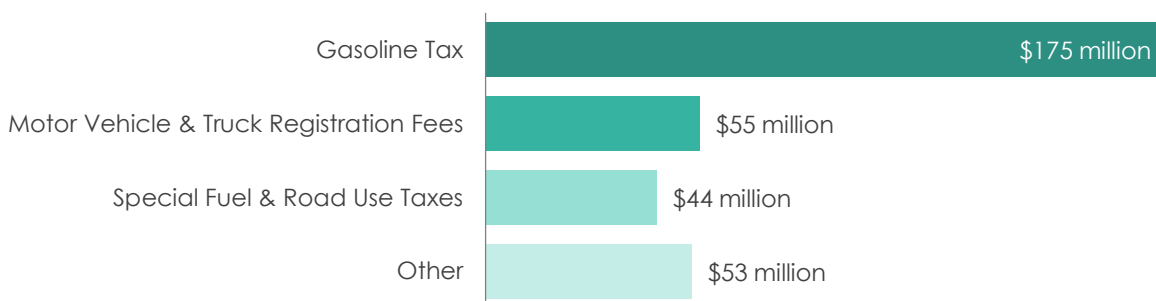


\* Temporary Aid for Needy Families/Additional Support for People in Retraining and Employment

## Highway Fund

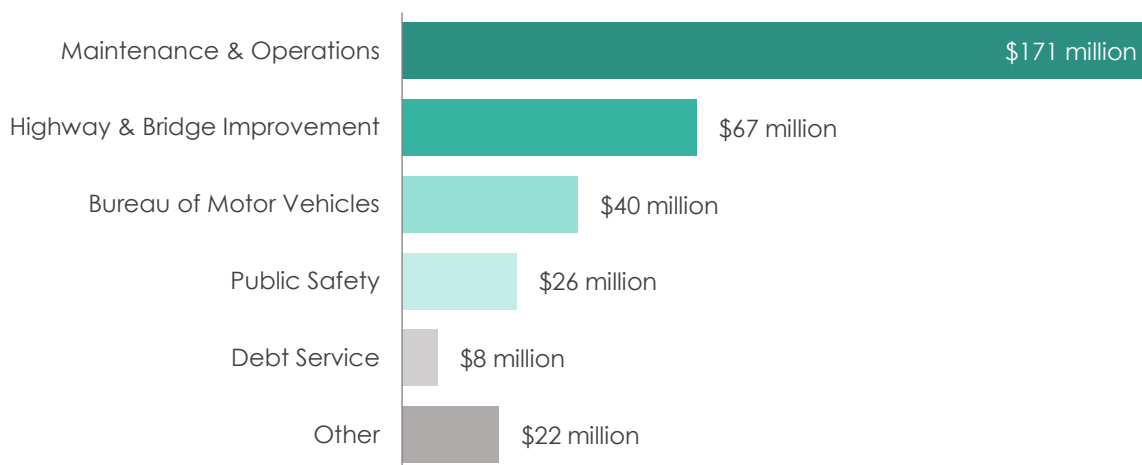
Maine’s state government maintains approximately 8,800 miles of roads. The Highway Fund pays to maintain this infrastructure and enforce traffic laws. It was constitutionally established to direct highway-related revenue for highway purposes. The Highway Fund does not include funding for the Maine Turnpike Authority (MTA). The Legislature approves the MTA’s budget in a process separate from the state budget process.

### Highway Fund revenues totaled \$327 million in 2020.



The gasoline tax accounts for over half of the Highway Fund’s revenue. However, a small portion of gasoline taxes (about 2.5%) goes to the General Fund to support infrastructure and law enforcement for “non-highway” vehicles such as motor boats, snowmobiles, and all-terrain vehicles (ATVs).

### Highway Fund expenditures totaled \$334 million in 2020.



## Other Special Revenue Funds

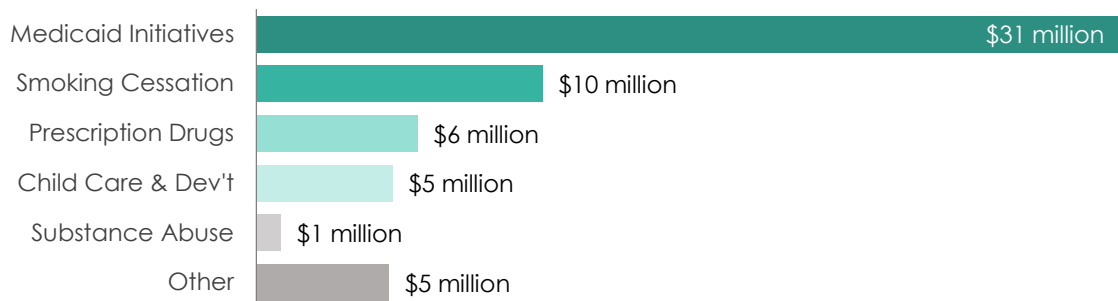
Maine has numerous Other Special Revenue funds for specific uses. For example, payments for care at the State’s mental health facilities support those institutions; payments for services from the State Police go to that department; fees for professional licenses and exams pay to administer those programs; proceeds from the milk handling fee, the blueberry tax, and the potato tax go to programs that support those industries.

### Other Special Revenue expenditures totaled \$1.3 billion in 2020.

Health and Human Services	\$600 million
Transportation	\$126 million
Municipal Revenue Sharing	\$114 million
Environmental Protection	\$45 million
Maine Municipal Bond Bank	\$41 million
Administrative and Financial Services	\$35 million
Education (including Higher Education)	\$35 million
Agricultural, Food, and Rural Resources	\$33 million
Property Tax Relief and Reimb Program	\$33 million
Public Safety	\$30 million
Professional and Financial Regulation	\$26 million
Other	\$189 million

## Fund for a Healthy Maine

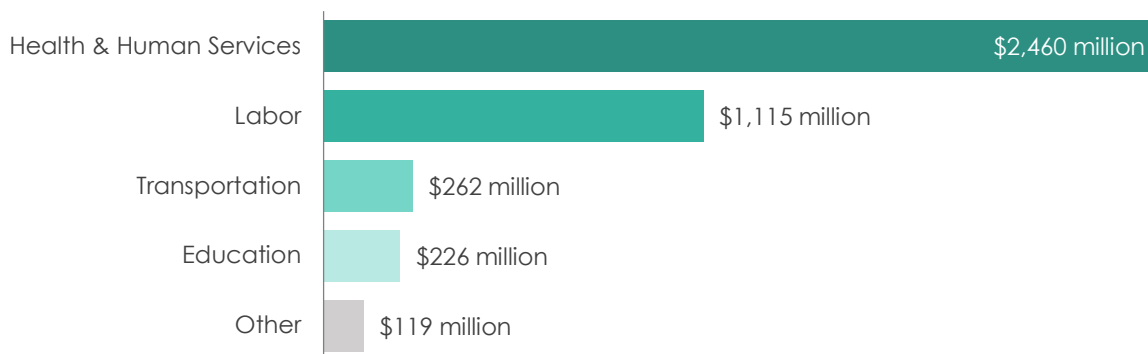
In 1999, the State established the Fund for a Healthy Maine (FHM) to handle payments from tobacco manufacturers stemming from a national lawsuit seeking compensation for smoking-related health care costs. The use of FHM funds is limited to a list of health-related purposes established in law. In 2020, FHM received \$46 million from the tobacco settlement and \$3 million from Maine’s casinos.



## Federal Funds

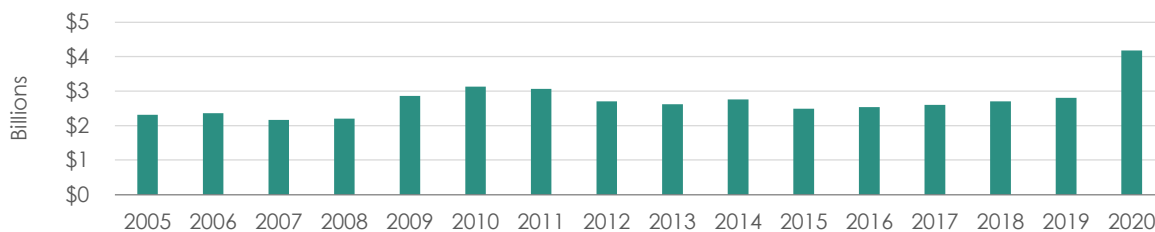
The State of Maine receives several billion dollars in federal funds every year. Most is restricted to specific uses and comes as a federal match of state funds. Much of it flows through state agencies to Maine residents, service providers, and communities. In 2020, the Department of Health and Human Services received about 60% of Maine’s federal funds, mainly for MaineCare (Maine’s program for Medicaid and the federal Children’s Health Insurance Program), and the Department of Labor received about 30%, mainly for unemployment benefits paid to Maine residents.

### Maine’s federal fund expenditures totaled \$4.1 billion in 2020.



From 2009 to 2019, Maine’s federal funds averaged \$2.8 billion annually. In 2020, they jumped 49% to \$4.2 billion, due to the federal government’s COVID-19 pandemic relief funds. The chart below shows a smaller increase in revenue following the 2007-2009 recession, when Maine and other states received funds from the American Recovery and Reinvestment Act (ARRA) of 2009. ARRA temporarily increased Medicaid matching funds.

### Maine’s federal revenues rose 49% in 2020, to \$4.2 billion.





## Transfers to Local Governments

Each year, the State transfers roughly one-third of General Fund revenue to municipal and county governments. Those funds reduce the amount raised through local property taxes. The transfers below do not include federal funds passed through state agencies to local governments.

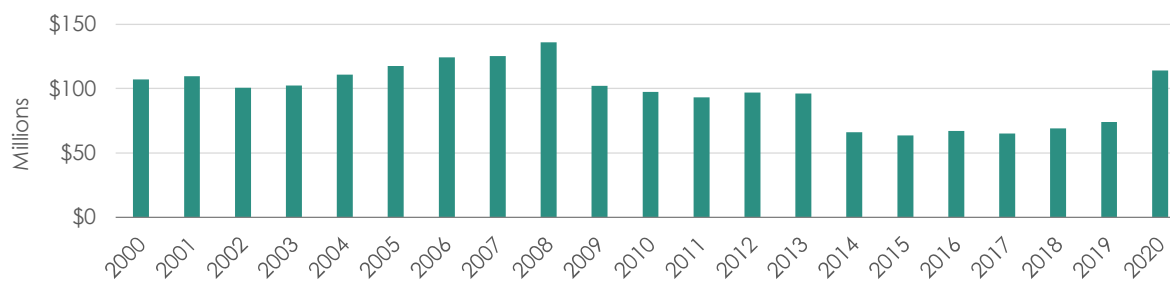
Category <sup>18</sup>	Major Items	2020
<b>Education</b>	K-12 schools and teachers' retirement	\$1,207 million
<b>Property Tax Reimbursement</b>	Homestead and business equipment exemptions	\$127 million
<b>Revenue Sharing</b>	Unrestricted funds given to municipalities	\$114 million
<b>Criminal Justice</b>	Jails and district attorneys	\$31 million
<b>Transportation</b>	Block grants including bond proceeds	\$24 million
<b>Natural Resource Agencies</b>	Off-road vehicle programs and environ'l protection	\$8 million
<b>General Assistance</b>	Basic-needs aid distributed by municipalities	\$7 million
<b>Economic Development</b>	Community development grants	\$552,000
<b>Emergency &amp; Disaster Assistance</b>	Disaster assistance	\$410,000
<b>Total</b>		<b>\$1,519 million</b>
<b>Percentage of General Fund Revenue</b> (including Revenue Sharing)		<b>35.8%</b>

## Revenue Sharing

Each month, the State sends 3.75% of its revenue from income, sales, and some service provider taxes to municipalities. (This percentage was 5% until 2016 and will return to 5% in 2022.)

These "Revenue Sharing" funds are distributed through a two-part formula. The "Revenue Sharing I" formula divides 80% of funds between all municipalities based on their population and property tax burden. The "Revenue Sharing II" formula distributes the remaining 20% to municipalities with disproportionately high property tax burdens.

### In 2020, Maine sent \$114 million to municipalities through Revenue Sharing.



## Tax Expenditures

“Tax expenditures” are provisions in law that reduce tax revenues. They are referred to as expenditures because they function the same as government spending, only through the tax code. They are sometimes called “tax breaks.” They are generally intended to encourage certain activities or provide relief for individuals in certain circumstances. Examples include the sales tax exemption for groceries, credits such as the Earned Income Credit and the Research Expense Tax Credit, and deductions such as the income tax deduction for interest on student loans. By law, the Governor’s budget document must include a list of current tax expenditures and the Legislature must vote on whether to continue them.

### Sales Tax Expenditures Over \$50 Million, 2021<sup>19</sup>

Consumer purchases of medical services	\$670 million
Business purchases of legal, business, administrative and support services	\$615 million
Business purchases of financial services	\$266 million
Rental charges on continuous residence for more than 28 days	\$230 million
Consumer purchases of financial services	\$222 million
Sales to the state and political subdivisions	\$220 million
Property used in manufacturing production	\$213 million
Grocery staples	\$187 million
Prescription drugs	\$106 million
Business purchases of transportation services	\$97 million
Motor vehicle fuel	\$97 million
Consumer purchases of personal, household, and business services	\$91 million
Consumer purchases of education services	\$88 million
Consumer purchases of amusement and recreational services	\$82 million
Gasoline exported from the state	\$68 million
Consumer purchases of social services	\$60 million
Coal, oil, and wood for cooking and heating homes	\$54 million
Machinery and equipment	\$53 million

### Income Tax Expenditures Over \$15 Million, 2021<sup>20</sup>

Items due to conformity with federal tax code	\$800-910 million
Deduction for Social Security benefits taxable at federal level	\$103 million
Reimbursement for Business Equipment Tax Exemption (paid to municipalities)	\$49 million
Credit for Educational Opportunity	\$35 million
Deduction for pension income	\$31 million
Property Tax Fairness Credit	\$25 million
Sales Tax Fairness Credit	\$24 million
Reimbursement for taxes paid on certain business property (BETR)	\$24 million
Maine Capital Investment Credit	\$18 million

## Tax-supported Debt

**Bonds are financial tools that allow the State to borrow money.** When the State sells (“issues”) bonds, the purchasers give the State money to make a desired investment (a road, bridge, building, etc). The State repays the money with interest over a number of years. Bonds allow the State to pay for an investment gradually, over its lifetime, rather than up front. Maine’s state government utilizes a variety of bonds. They differ in their approval process and the source of funds used to repay them.

- **General Obligation** bonds commit the full faith and credit of the State; the Constitution requires the Legislature and State Treasurer to repay them. These bonds require approval by 2/3 of both the House and Senate, and a majority of voters. They are repaid with General Fund or Highway Fund revenue.
- Bonds repaid with specific revenue streams require legislative approval. They include **Liquor Revenue** Bonds (repaid with future revenues from the contract to distribute liquor in Maine), **Transcap** Bonds (future fuel tax revenues and motor vehicle fees), **Maine Energy, Housing & Economic Recovery** (MEHER) Bonds (future real estate transfer tax revenue), **GARVEE** bonds (future federal transportation funds), and **Tax-Supported Certificates of Participation** (future lease payments).
- The **Maine Government Facilities Authority** (MGFA) issues bonds for facilities leased by public entities such as courts, prisons, and state agencies. These bonds require approval by a majority of MGFA’s board and 2/3 of both the House and Senate. The bonds are repaid with future lease payments, which come from the operating budgets of the entities leasing the facilities.

**Maine has no legal debt limit.** Some policymakers refer to an informal “5% Rule,” which suggests that general obligation debt payments should not exceed 5% of operating revenue. Total debt payments for 2020 were 3.98% of General and Highway fund revenue. In 2020, bond-rating agencies Standard & Poor’s and Moody’s ranked Maine’s general obligation debt (i.e., the State of Maine’s credit) as “very strong” and “high quality.”<sup>21</sup>

### Maine's tax-supported debt was \$1.4 billion as of June 30, 2020.<sup>22</sup>

General Obligations Bonds	\$573 million	Liquor Revenue Bonds	\$97 million
Maine Gov't Facilities Authority	\$382 million	Capital Leases	\$54 million
GARVEE Bonds	\$129 million	Certificates of Participation	\$38 million
Transcap Bonds	\$119 million	MEHER Revenue Bonds	\$26 million

## Long-term Unfunded Debt

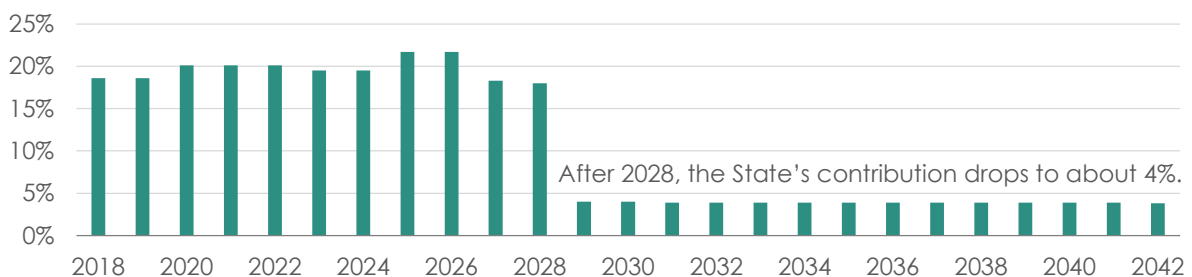
**The State of Maine has long-term unfunded debt** in the form of future retirement benefits that exceed the projected value of funds available to pay them. These benefits have been promised to past and current employees. This debt is called an “unfunded actuarial liability” (UAL).

**The State Employees & Teachers Retirement plan has an unfunded actuarial liability of \$2.6 billion** as of June 30, 2020, and three other plans have smaller UALs.

Plan <sup>23</sup>	Liabilities	Assets	Difference*	Plan Status
State Employees & Teachers Retirement	\$14.9B	\$12.3B	-\$2.6B	Unfunded liability
Participating Local Districts (PLD) Retirement	\$3.4M	\$3.1M	-\$0.3M	Unfunded liability
Judicial Retirement	\$72.2M	\$74.8M	\$2.6M	Funded
Legislative Retirement	\$9.7M	\$13.7M	\$4.0M	Funded
Group Life Insurance for State/Teacher Plans	\$213.3M	\$105.6M	-\$107.7M	Unfunded liability
Group Life Insurance for PLD Plans	\$29.6M	\$16.4M	-\$13.2M	Unfunded liability

**The State is making payments to eliminate the State Employees & Teachers unfunded liability.** In 1995, Maine voters passed a constitutional amendment requiring the State to eliminate the liability by 2028. The payments are in the form of employer payroll contributions that increase slowly over three decades. The State is on track to reach the 2028 goal.\*\* However, the largest contributions are yet to come.

### Maine’s projected contribution to the State Employees & Teachers Retirement plan is over 21% of payroll in 2025 and 2026.<sup>24</sup>



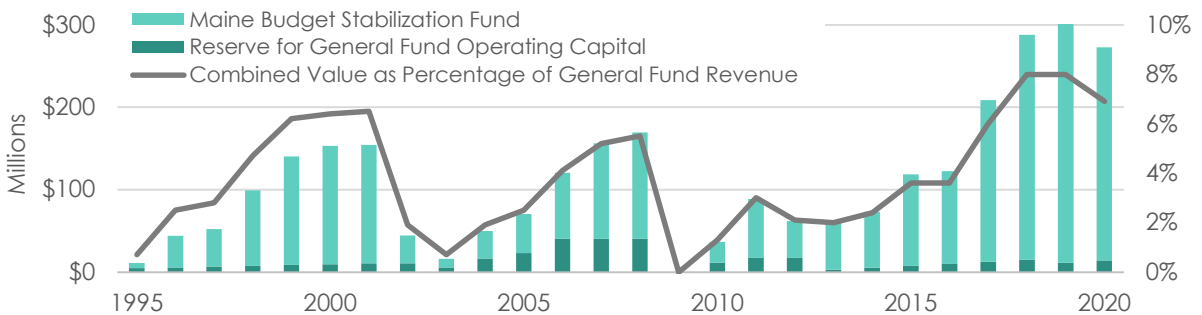
**The State also has unfunded actuarial liabilities related to retirees’ future health insurance costs.** As of June 30, 2020, these were estimated to be \$1.4 billion for teachers and \$889 million for state employees.<sup>25</sup>

\* Numbers may not add up due to rounding.

\*\*The constitutional amendment regarding repayment of market shortfalls, approved by voters in November 2017, did not affect the 1995 law regarding unfunded actuarial liability. See Maine Public Employees Retirement System, “MainePERspective” August 2017.

## Reserve Funds

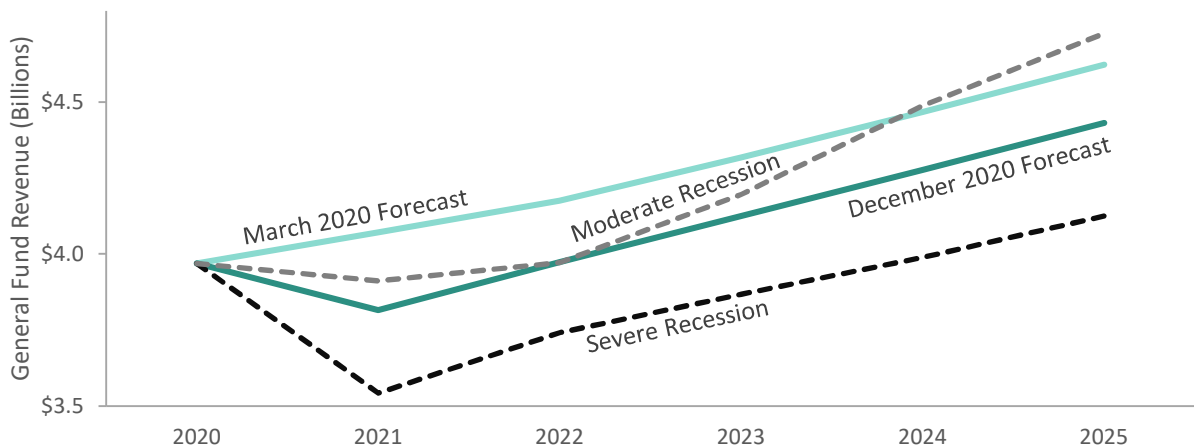
Maine has two major reserve funds. The **Maine Budget Stabilization Fund** may offset General Fund shortfalls or pay death benefits for police and firefighters. Any revenue over the State’s spending cap (page 4) goes to this fund. It may also receive direct appropriations or surplus revenue through the “cascade” (page 21). The **Reserve for General Fund Operating Capital** helps the State manage cash flow. For instance, if an expense arises early in the year before the State has enough revenue to pay it, then the State may use this reserve fund.



## Stress Test

Every two years, the CEFC and RFC estimate the impact of a recession on General Fund revenues.<sup>26</sup> Usually, their estimates are hypothetical. In 2020, COVID-19 caused a real-life recession, which the CEFC and RFC expect to reduce revenues by about \$1 billion from 2021 to 2025 (compared to their March 2020 forecasts).<sup>27</sup>

### General Fund revenue losses vary widely based on the severity of the current recession.



## Surplus Funds: The “Cascade”

Sometimes the State reaches the end of the year with a General Fund surplus. This happens when revenues exceed projections or expenditures fall short of projections. In this case, the State Controller allocates the surplus to six accounts in order of priority established in law. The Governor’s State Contingent Account receives funds first. If there are additional funds remaining, they “cascade” to the second-priority account, FAME’s Loan Insurance Reserve. Lower-priority accounts receive funds only if money remains after filling higher-priority accounts.

**1<sup>st</sup> Priority:** State Contingent Account (up to \$350,000)



**2<sup>nd</sup> Priority:** FAME’s Loan Insurance Reserve (up to \$1,000,000)



**3<sup>rd</sup> Priority:** Reserve for General Fund Operating Capital (\$2,500,000)



**4<sup>th</sup> Priority:** Retiree Health Insurance Fund (up to \$2,000,000)



**5<sup>th</sup> Priority:** Budget Stabilization Fund (80% of remaining funds)\* and Tax Relief Fund for Maine Residents (20% of remaining funds)

\*If the Budget Stabilization Fund reaches 18% of General Fund revenue, then 100% of remaining funds go to the Tax Relief Fund for Maine residents.

### Endnotes

**1** U.S. Census Bureau, July 1, 2019 population estimate. **2** Maine Department of Agriculture, Conservation, and Forestry, Bureau of Parks and Land, “Your Maine Lands.” **3** U.S. Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics, 2019 labor force. **4** Maine Department of Education, October 1, 2020 publicly-funded student count. **5** State of Maine Judicial Branch, FY2019 trail court case filings. **6** BLS, Quarterly Census of Employment and Wages, 2019 establishments. **7** University of Maine System and Maine Community College System, Fall 2019 enrollment. **8** Maine Department of Transportation, “Public Road Mileage by County,” January 2017. **9** Maine Department of Corrections, total in-state and out-of-state population, May 4, 2020. **10** Maine Children’s Alliance, “2019 Maine Kids Count,” children in state care or custody as of December 31, 2018. **11** Maine’s Senate has 35 members. The House of Representatives has 151 members plus three non-voting representatives of the Penobscot Nation, the Passamaquoddy Tribe, and the Houlton Band of Maliseets. **12** State and local government operations as a percentage of Maine’s share of gross domestic product; Sources: U.S. Bureau of Economic Analysis and the National Bureau of Economic Research. **13** Maine Revenue Services, “Maine Tax Incidence Study,” February 2019. MRS will release its next tax incident report in February 2019. **14** Maine State Board of Education, “Education Subsidy Information for Property Tax Bill,” January 30, 2020. **15** Maine Department of Education, “Essential Programs and Services (EPS) Funding” website. **16** Maine Department of Education, “Commissioner’s School Funding Recommendation FY 2020-2021,” January 15, 2020. **17** Maine Office of Fiscal and Program Review **18** Maine Office of Fiscal and Program Review, “Summary of Major State Funding Disbursed to Municipalities and Counties,” November 2020. **19** Maine Revenue Services, “Maine State Tax Expenditure Report 2020-2021,” February 2019. **20** Ibid. **21** Standard & Poor’s Financial Services, “S&P Global Rating Definitions,” August 7, 2020; and Moody’s Investor Services, “Rating Symbols and Definitions,” September 30, 2020. **22** Maine Office of the Treasurer, “Maine Debt Snapshot - 6/30/20.” **23** Cheiron, Inc., Maine Public Employees Retirement System Actuarial Valuation Reports as of June 30, 2020. **24** Ibid. **25** Maine Office of the State Controller, “Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020,” December 2020. **26** CEFC and RFC, “Stress-testing Maine General Fund Revenues and Reserves: FY2021-FY2025,” November 2, 2020. **27** RFC, “Report to the Maine State Revenue Forecasting Committee,” December 2020.

## Glossary of Budget Terms

This glossary explains many of the terms used in this primer. The Maine State Legislature has a longer list of terms at [https://legislature.maine.gov/LawMakerWeb/glossary\\_of\\_terms.asp](https://legislature.maine.gov/LawMakerWeb/glossary_of_terms.asp).

**Appropriation** A budget amount that represents how much the State approves to spend on a particular program or item. It may be different from the amount the State eventually spends, which is called an “expenditure.”

**Biennium** A biennium is two fiscal years. It starts on the first day (July 1) of one fiscal year and ends on the last day (June 30) of the following fiscal year.

**Bond** A financial tool that allows the State to borrow money. The purchaser of the bond gives the State a large sum of money. In return, the State promises to repay the bond with interest over a number of years. See page 18.

**Cascade** The mechanism by which surplus General Fund revenues are allocated at the close of a fiscal year. See page 21.

**Consensus Economic Forecasting Commission (CEFC)** A panel of five professionals that creates the economic forecast on which the RFC’s projections of state revenues are based. See page 5.

**Enact** When there are no further amendments to be made to a bill (and it is ready to become an act), it is passed to be “enacted.”

**Engross** Refers to writing a new version of a bill that incorporates all adopted amendments. An amended bill must be engrossed before the House or Senate can vote to enact it.

**Essential Programs and Services (EPS)** A mathematical formula used by the Maine Department of Education to calculate the funding needs of local PK-12 schools. See page 11.

**Expenditure** An amount the State spends on a particular program or item. It may be different from the budgeted amount, which is called an “appropriation.”

**Finance Authority of Maine (FAME)** A public financial institution established by the State of Maine to improve access to capital for Maine businesses and individuals seeking higher education.

**Fiscal note** A calculation by the Office of Fiscal and Program Review of a proposed piece of legislation’s impact on the State’s finances. It answers the question, “How much will this bill cost the State of Maine if enacted?”

**Fiscal year** A twelve-month period starting on July 1 and ending on June 30. Fiscal years are referred to by the year in which they end. For example, “FY2020” means the fiscal year ending on June 30, 2020.

**General Purpose Aid for Local Schools (GPA)** The pool of state funds used to pay for local PK-12 education. The State divides GPA funds among schools using the EPS school funding formula. See page 11.

**Mill expectation** The maximum property tax mill rate that municipalities are required to raise for local PK-12 schools. See page 11.

**Revenue Sharing** A program that directs a portion of state tax revenue to municipalities for property tax relief. See page 16.

**Revenue Forecasting Commission (RFC)** A panel of state and legislative officials, plus one outside economist, that projects the amount of revenue the State will receive. See page 5.

**Supplemental budget** A budget that adjusts state spending in the current fiscal year in response to changes in revenue, changes in need, new laws, or judicial actions.

**Tax expenditure** A provision in law that reduces tax revenues, such as a tax credit, exemption, or deduction. Sometimes called a “tax break.” See page 17.

**Unfunded actuarial liability** A liability created when future retirement benefits promised to employees exceed the projected value of funds available to pay them. See page 19.

