State of Maine
2022-2023
Governor's Budget
Overview

Submitted by

Janet T. Mills

Governor

January 8, 2021

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Janet T. Mills
GOVERNOR

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Honorable Members of the 130th Legislature:

When I took office in 2018, the State of Maine faced significant challenges that undermined our prospects for success, including a lack of affordable health care coverage for families and small businesses, inadequate resources to improve our education system, a serious workforce shortage, and a devastating opioid epidemic.

Certain state agencies were so inadequately staffed that they were severely limited in their ability to meet their basic responsibilities to protect public health and safety: to ensure quality education and affordable healthcare; to protect children from abuse and neglect, to care for our most vulnerable citizens and to boost our workforce and ensure that hard working families have good paying jobs to put food on their table.

In crafting my first biennial budget in 2019, I sought to use our limited resources responsibly in order to restore the critical services of state government, addressing the barriers to opportunity for Maine families, paying the debts accrued in previous years, saving for a rainy day and jumpstarting long-term economic growth in our state.

After months of conscientious work by Democrats and Republicans to build consensus, the biennial budget was enacted with the bipartisan support of two thirds of the Legislature.

Among the investments of that bipartisan budget, during the first two years of my Administration we:

- Restored Maine's public health infrastructure;
- Fulfilled the will of Maine people by sustainably funding Medicaid Expansion. More than 70,000 people are currently enrolled through MaineCare expansion who can now see a doctor, afford prescription medications and stay healthy, remaining in the workforce and providing for their families;
- Increased the State share of K-12 public education funding (General Purpose Aid or GPA) to more than 50 percent for the first time in a decade;
- Invested in Maine workers, young adults and children by putting Maine on the path to a $40,000 minimum teacher salary for the first time and by funding pre-kindergarten and adult education and training programs;

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- Provided relief for property taxpayers by increasing the Homestead Exemption, expanding eligibility for the Property Tax Fairness Credit, and increasing revenue sharing; and

- Added more than $50 million to the Budget Stabilization, or "Rainy Day" Fund.

The biennial budget was the foundation for Maine's future, but we didn't know at the time how critical those investments would be.

While we were experiencing challenges like any other state, a year ago Maine's economy was moving in the right direction. The number of jobs in Maine was on the rise, unemployment was at a near all-time low and average wages were increasing.

Last February, the non-partisan Revenue Forecasting Committee projected that the State of Maine would have excess revenues, coming in above expenses by more than $40 million for Fiscal Year 2020 and more than $34 million for Fiscal Year 2021.

Maine's economy was getting stronger, but a global pandemic would soon stand in the way of our progress.

In March of 2020, desperate to stop the deadly spread of the novel coronavirus, governors across the country instituted restrictions to protect public health, while businesses of all sizes were grappling with heavy losses and millions of people were finding themselves newly unemployed.

We could foresee the negative economic impact of the pandemic on the State of Maine but did not know the full extent. We did not wait to find out. My Administration responded with fiscal pragmatism to immediately stabilize the state budget and rein in spending.

In March, we worked with the Legislature to enact a bipartisan supplemental budget focused primarily on responding to COVID-19. The Legislature put politics aside and united to quickly protect the health of Maine people in the face of this unexpected emergency.

The supplemental budget of last March reduced spending commitments and left untouched what amounted to $184 million. At the same time, I instructed state agencies to apply an emergency-basis scrutiny to new hiring and we restricted access to unencumbered balances.

Following their meeting in July 2020, the Revenue Forecasting Committee projected that the State of Maine would face a $527.8 million budget shortfall because of the pandemic for Fiscal Year 2021 and $883.2 million for the Fiscal Years 2022-2023 in the General Fund alone.

While we took immediate action at the outset of the pandemic to effect savings across state government, there remained a $422 million gap in the General Fund which we needed to close to balance the budget.

To that end, while minimizing the impact on critical programs, such as GPA for education and critical State government personnel, in September we identified $422 million in strategies to put

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the budget back into balance, including a curtailment order I signed to reduce state spending commitments by $222 million for Fiscal Year 2021.

Last month, thanks in large part to $7.6 billion in federal coronavirus relief funds that poured into Maine, the Revenue Forecasting Committee improved its previous forecast, projecting a $255 million shortfall – instead of $527.8 million – for Fiscal Year 2021. The Revenue Forecasting Committee also improved its revenue forecast for the next biennium, predicting $8.1 billion in revenue and a shortfall of $395.8 million – instead of $883.2 million – for Fiscal Years 2022 and 2023.

Though still below pre-pandemic figures, the revised revenue forecasts spread the initial COVID-related shortfall over three years, reflecting the success of our early fiscal response – and offering us modest breathing room.

This breathing room allows us to fund our remaining commitments for Fiscal Year 2021 and balance the current biennial budget, while also carrying over remaining resources to cover the shortfall in the forthcoming biennium.

Today, some of the challenges we face are greater than ever before.

- As of January 7, 2021, more than 27,625 Maine people have been diagnosed with COVID-19, more than 1,135 have been hospitalized and 385 have died;

- The unemployment rate in Maine has decreased but is still far higher than before the pandemic at 5 percent. Meanwhile, labor force participation during the pandemic is at its lowest level since the late 1970s;

- Thousands of children and families have transitioned to learning and working remotely to stay safe during the raging pandemic, often handicapped by insufficient internet access or none at all; and

- At the same time, we lost 258 people to drug overdose deaths in the first two quarters of 2020, a 27 percent increase over the last two quarters of 2019. There is no question in my mind that the pandemic – and the availability of more deadly illegal drugs – has exacerbated the opioid epidemic. Although we have expanded prevention, treatment and recovery efforts to reach those struggling with substance use disorder during the pandemic, we expect the number of overdose deaths in the remaining quarters of 2020 will be higher than previous years.

My first biennial budget was about HOPE – health, opportunity, prosperity and education for Maine people. Now I am submitting to the Legislature a supplemental budget for Fiscal Year 2021 and a biennial budget for Fiscal Years 2022-2023 which I believe renews the hope for a better and brighter future for all Maine families.

These proposals maintain the critical services we restored in the last biennium and bolsters our response to the still raging pandemic, while tightening our belts and maximizing savings.

These proposals do not change tax rates and do not create new programs. They not only preserve the State's Budget Stabilization Fund, but we bring it to a record high so as to help the State maintain solid financial footing and be prepared for any fiscal crisis.

By tightening our belts wherever possible and maximizing non-General Fund resources such as federal funds, I am proposing in the supplemental and biennial budgets to continue rebuilding public health infrastructure and hold steady critical investments in health care, education and economic development, including:

- $3 million more to the Maine Center for Disease Control and Prevention (Maine CDC) to fund the Health and Environmental Testing Lab, the Health Inspection Program, the Maine Immunization Program and the Public Health Emergency Preparedness Program (biennial);

- $5 million for Maine CDC for COVID-19 testing, vaccines and services for people who need to stay in isolation and quarantine (supplemental);

- To further fulfill the State's commitment to vulnerable Maine people, $6 million to fund Section 29 services for adults with developmental disabilities in their homes and communities by an additional 30 slots per month (biennial); $45 million for MaineCare rate increases for nursing facilities, residential facilities for children and older Mainers, services for adults with intellectual and developmental disabilities and other providers as rates are renewed, per federal requirements (biennial);

- $7.5 million for mental health and substance use disorder services including funds for community mental health and $2 million for the OPTIONS (Overdose Prevention Through Intensive Outreach, Naloxone and Safety) Initiative to dispatch mobile response teams in every Maine county and communities with high rates of drug overdoses (biennial);

- $45 million for General Purpose Aid for K-12 public education, making progress towards a minimum teacher salary of $40,000 and allowing local districts to manage in-person, remote, and hybrid learning options during the pandemic. If approved, the increase in the State's commitment to GPA from 51.78 to 51.83 percent will result in the highest level of state funding for education ever achieved (biennial); and

- $1.8 million to expand broadband into areas with inadequate service (supplemental).

The combined budgets add $61 million to the Budget Stabilization Fund, otherwise known as the Rainy Day Fund, across the three Fiscal Years to help the State weather the pandemic and as a hedge against future fiscal crises. If approved, these budgets would increase the Budget Stabilization Fund to more than $320 million, a record amount of savings.

I also propose adding $25.5 million to the Medicaid Stabilization Fund to budget responsibly for MaineCare.

My biennial budget proposal balances any increases in departmental spending with reductions elsewhere, while avoiding layoffs and ensuring vital services. It carries forward some of the cost savings measures of last year – such as hiring freezes on certain vacant positions – and maintains strict scrutiny of additional expenditures.

In all, my budget proposal for Fiscal Years 2022-2023 would result in a $8.394 billion budget, an increase of less than ¾ of one percent (0.69 percent) – or $57 million – over commitments in the baseline budget which amounts to $8.337 billion. It largely holds spending flat. The slight increase results primarily from statutorily-mandated policies, such as teachers' retirement and retirees health insurance, General Purpose Aid for schools and a $15 million commitment to maintain property tax relief for Maine people through the Homestead Exemption Program.

I have also submitted for your consideration proposals for Highway Fund budgets, including a supplemental proposal for fiscal year 2021 and a biennial proposal for Fiscal Years 2022-2023. The supplemental proposal is balanced and utilizes $21.8 million in balance forward generated in Fiscal Year 2020. The biennial proposal, also balanced, matches spending with current revenue projections from the non-partisan Revenue Forecasting Committee and comes in at $676 million, maintaining essential levels of service when combined with anticipated federal funds and bonding.

Conclusion

State government cannot be all things to all people all the time. Nor can it solve all problems or address all needs of all the people of the state. But during emergencies such as the current pandemic, the people need to depend on us to protect their children, to secure their health care, to safeguard educational and vocational opportunity and to protect the most vulnerable of our citizens. I take seriously my obligation to be a responsible steward of taxpayers' dollars. I am also not going to walk away from, or abandon, Maine families in their time of greatest need.

We have taken smart steps since the outset of the pandemic to maintain critical services while curtailing spending.

Should our economy suffer another downturn we will remain in a strong position. This biennial budget proposal is $300 million less than the Revenue Forecast Committee's $8.7 billion revenue projection for Fiscal Years 2024 and 2025.

While the arrival of COVID-19 vaccines in Maine has brought us hope, it will be many months before all eligible people in our state are vaccinated while public health precautions keep people as safe as possible from this virus.

For almost a year, teachers and school staff have educated our children in hybrid, remote and in-person classrooms while protecting their health and safety; health care clinicians have worked around the clock to test and treat Maine people for a new and deadly disease; long term care providers and direct care workers have risked their own health to take care of older Mainers and those with disabilities in their homes and communities; children have learned and parents have worked remotely to keep themselves and others safe; and families have struggled to survive job losses and loss of income caused by a pandemic through no fault of their own.

With the pandemic still raging, we can't abandon them now. Let's keep the ship of state steady as we weather this storm.

Last March we rose above politics to protect the health and safety of Maine people. Now we must do so again to enact a supplemental and biennial budget that chart our path out of the pandemic.

I pledge that, in my Administration, you will always find an open door, an open mind and an open heart. That door, of course, is virtual for now, but I will always listen those who are willing to do the hard work and offer concrete suggestions for improving the lot of Maine families.

Please stay safe.

Sincerely,

Janet T. Mills
Governor

Economic Outlook and Forecast

Background

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations for state economic assumptions to be used in developing state revenue forecasts. Creation of the commission was in response to a recommendation of the Special Commission on Government Restructuring in 1991 to establish an independent, consensus process for state economic and revenue forecasting. Public Law 1995, chapter 368 enacted in statute the Consensus Economic Forecasting Commission, maintaining both the structure and intent of the original Executive Order.

The commission consists of five members having professional credentials and demonstrated expertise in economic forecasting. Members of the commission are appointed as follows: two members appointed by the Governor; one member recommended for appointment to the Governor by the President of the Senate; one member recommended for appointment to the Governor by the Speaker of the House of Representatives; and one member appointed by the other members of the commission. One member of the commission must be selected by a majority vote of the other commission members to serve as the chair of the commission.

The commission is required to develop two year and four year economic forecasts for the State of Maine. In performing this duty, the commission is required by statute to meet twice each fiscal year. No later than April 1st and November 1st of each odd-numbered year and no later than February 1st and November 1st of each even-numbered year the commission shall submit to the Governor, the Legislative Council, the Revenue Forecasting Committee and the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs a report that presents the commission's findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium. In each report the commission shall fully describe the methodology employed in reaching its recommendations. The Revenue Forecasting Committee is required to use the economic assumptions and forecast of the commission in developing its four-year revenue projections.

Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
November 1, 2020

Commissioners

Ryan Low, Chair
Vice Chancellor for Finance and Administration & Treasurer
University of Maine System

Dr. Chuck Lawton

Dr. Julieta Yung
Assistant Professor of Economics
Bates College

Sarah Austin
Policy Analyst
Maine Center for Economic Policy

Dr. Sheena S. Bunnell
Professor of Business Economics
University of Maine Farmington

Summary

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 23, 2020, to review and revise its forecast through 2025. This meeting follows the off-cycle forecast update of July 1, 2020, resulting from the extraordinary circumstances of the past eight months and recession caused by the onset of COVID-19. Prior to its fall forecasting meeting the CEFC held an information gathering session on October 16, 2020, a summary of which is available online. This report provides a summary of the Commission's findings.

As a critical part of the forecasting process, the Commission reviewed their key assumptions from the July 2020 off-cycle forecast. Overall, the CEFC agrees with the original assessment of the economic and public health conditions made during the summer. Since the last forecast, the CEFC has identified higher uncertainty regarding the timing of further federal stimulus and remains optimistic about Maine's opportunities to see increased immigration in the upcoming years. The Commission reiterates that current conditions are unprecedented, highly uncertain, and changing rapidly. Additionally, the CEFC noted their concern that the exacerbation of inequality as different groups experience uneven paces of economic recovery will hold back the overall recovery of the state and place additional demands on state educational and social service programs while threatening to reduce the tax revenues that fund them.

Record-setting job losses in March and April were followed by sharp but incomplete gains through the summer. Total nonfarm employment is projected to decrease by 8.0% in 2020, with recovery of 4.0% and 2.0% in 2021 and 2022, before slowing to 0.1% in 2023-2025. This forecast anticipates employment will decline from around 636,000 in 2019 to a trough of around 585,200 in 2020, recovering to about 622,600 in 2025. This is a slight improvement over the previous forecast, which saw a peak of 620,700 in 2023 that remained flat through 2025, reflecting upside risks to the labor market recovery as a result of structural changes.

Total personal income was revised up in all years, notably to 5.3% in 2020 compared to 3.9% in the prior forecast. These revisions are driven by data showing a stronger rebound of middle- and high-income jobs. Changes to estimates of non-payroll sources of income resulted in additional upward revisions in 2021 to 2025.

Most components of personal income saw only minor upward revisions, while some others were left altogether unrevised. Growth in wages and salaries, the largest component of personal income, was revised upward to -1.5%, a 3.5 percentage point increase from July. The forecasts for 2021-2025 were each subsequently revised up by 1.0 points, to 3.0% in 2021 and 4.0% in 2022-2025. The forecasts for both supplements to wages and salaries and nonfarm proprietors' income were left entirely unchanged from July. Dividends, interest, and rent was revised for 2020 and 2021 to -1.0% and 0.1%, respectively, compared to 0.1% and -1.0%, respectively, in the July forecast. 2022-2025 were left unchanged. Personal current transfer receipts were left unchanged in all years.

The forecast for inflation (measured by the Consumer Price Index, or CPI) was revised up in all years through 2025, reflecting the Federal Reserve Bank's aim to keep inflation moderately higher in the future to compensate for lower inflation in previous years. The forecast for 2020 was revised up from 0.9% to 1.3% due to prolonged weak demand and low oil and commodity prices. Meanwhile, future inflation projections are 2.2% in 2021 and 2022 and 2.1% in 2023-2025. Additionally, the forecast for corporate profits was revised up substantially, from a decline of 30.0% for 2020 in the July forecast to growth of 0.6% in this forecast. Growth rates for 2021-2025 were left unchanged.

The following table provides the forecast's major indicators.

Calendar Years	2019	2020	2021	2022	2023	2024	2025
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 02/2020	0.9	0.5	0.2	0.1	0.0	0.0	0.0
CEFC Forecast 07/2020	0.9	-8.0	4.0	2.0	0.0	0.0	0.0
CEFC Forecast 11/2020	0.9	-8.0	4.0	2.0	0.1	0.1	0.1
Personal Income (Annual Percentage Change)							
CEFC Forecast 02/2020	4.7	4.1	4.0	3.7	3.5	3.5	3.5
CEFC Forecast 07/2020	4.6	3.9	-1.2	3.7	3.5	3.6	3.6
CEFC Forecast 11/2020	4.2	5.3	-0.5	3.9	3.9	3.9	4.0
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 02/2020	4.5	4.1	3.7	3.4	3.2	3.2	3.2
CEFC Forecast 07/2020	4.6	-5.0	2.0	3.0	3.0	3.0	3.0
CEFC Forecast 11/2020	4.9	-1.5	3.0	4.0	4.0	4.0	4.0
CPI (Annual Percentage Change)							
CEFC Forecast 02/2020	1.8	1.9	2.0	2.0	2.0	2.0	2.0
CEFC Forecast 07/2020	1.8	0.9	1.5	1.7	2.0	2.0	2.0
CEFC Forecast 11/2020	1.8	1.3	2.2	2.2	2.1	2.1	2.1

In deliberations leading to consensus, the CEFC considered information presented by the Maine Department of Labor, Maine Revenue Services, and by the Office of the State Economist in the Department of Administrative and Financial Services. The following sections summarize these reports. Additional background materials are available online.

Office of the State Economist (Department of Administrative and Financial Services)

Total personal income in Maine grew 41.0% in the second quarter of 2020, driven by sharp increases in transfer receipts. Wage and salary income, which is the largest component of total personal income, fell by 28.8%. Gross State Product fell by $5.7 billion, or 34.4% at an annualized rate in the second quarter of 2020 during the worst of the COVID-19 pandemic. The Consumer Price Index was up 1.4% year-over-year in September 2020, while energy prices remain 7.6% below September 2019 and food sits 3.9% over last year.

Nationwide, consumer sentiment plummeted in late March and has faced a rocky recovery. The October 2020 consumer sentiment index remained 15% under October 2019. However, the Small Business Optimism Index was up 2.2% in September compared to last year.

Following a massive drop in the second quarter, the price of crude oil rose by 46.4% from the second quarter to the third quarter of 2020. Gasoline prices averaged $2.19 on October 12, 2020, in New England.

Data for August 2020 show total exports in Maine decreased by 21.9% over August 2019 and by 14.1% for the year through August.

Single family existing-home sales in Maine in August 2020 were up 1.3% compared to August 2019, while the median sales price increased 17.4% from a year prior as the market maintains a tight supply. Maine's House Price Index rose by 8.4% in the first quarter of 2020, higher than both New England and the United States.

The first week of October had a year-over-year decline of 6.4% in vehicle miles traveled, up from a decline of 42% in the last week of March. New data from the U.S. Census Bureau shows that 38% of households in Maine have experienced a loss of employment income since March, while other analysis shows employment recovery has been slowest for low-income jobs. Credit and debit card data indicate that consumer spending has begun to stagnate and now sits 13.4% below January levels.

Full background materials are available at: https://www.maine.gov/dafs/economist/economic-forecasting

Maine Department of Labor

Workforce conditions continued to gradually recover from the sharp downturn caused by the COVID pandemic in the spring. According to the monthly survey of employer payrolls, 52 percent of the 104,500 nonfarm jobs lost in March and April had been regained through September. All industry sectors lost jobs between February and April and most gained jobs back between April and September. Four sectors were within three percent of their February level in September (construction; transportation, warehousing, and utilities; wholesale trade; and retail trade) and three remained down by 15 percent or more (leisure and hospitality, information, and private educational services).

Unemployment estimates from a separate survey of households have understated the magnitude of job displacement that has occurred since the pandemic began to impact the labor market. Between February and April, the estimated number of unemployed increased by less than half as much as the net job loss reported through the payroll survey. In September the number of unemployed was up just 19,300 from February, despite the fact that the number of jobs remained down 50,600. This is because labor force participation declined. Many people who lost employment have not been able to engage in work search because childcare, personal safety, or other factors have kept them from doing so. (Like retired people, jobless people who do not or cannot engage in work search are not counted as unemployed – they are not in the labor force.) If labor force participation was as high as immediately before the pandemic, the September unemployment rate would have been 9.2 percent.

Employers paid a total of $6.95 billion in wages in the second quarter of 2020. Adjusted for inflation, that was down $176 million from the same quarter in 2019 and close to the level of 2018. The average wage increased sharply in the second quarter because job losses were concentrated in low-wage sectors, skewing the average toward jobs in higher-wage sectors. As employment returns in the sectors that have been most impacted, average wages may decrease somewhat for a period of time.

There has long been an inverse relationship between unemployment and job openings rates. When unemployment increases, job openings typically decrease. In data available through June the job openings rate did go down in the second quarter of the year, but not as much as expected given the sharp increase in unemployment. It is too early to draw strong conclusions from this information, but it may be an indication of a gap between employer needs and the qualifications of job seekers.

National surveys of businesses conducted by the Conference Board found an overall perception that remote work does not hurt productivity and that many businesses are planning for a permanent shift to remote work. This may be the biggest legacy of the pandemic on the workforce because it will afford greater geographic flexibility for employers in recruiting and for employees in their choices of places to live. It is possible that Maine could experience an increase in the rate of net in-migration to the state, which could stabilize the size of the labor force in the years ahead as large numbers of baby boomers retire.

In the first two weeks of October, 34 percent of households in Maine reported that some adult in their household had substituted telework for some or all of their typical in-person work because of the coronavirus. The share was higher than average among those with the most educational attainment and those with the highest earnings.

Looking at regions, unemployment is up from a year ago throughout the state. The largest increases have been in the southern part of the state where population density is highest and infection rates have been higher than farther north. Among the 16 counties, Cumberland and York counties are in the upper half of unemployment rates, which has not been the case for decades.

This presentation is available at maine.gov/labor/cwri/publications/pdf/CEFCOctober2020.pdf.

Maine Revenue Services - Office of Tax Policy (OTP)

In its August 2020 update, the Revenue Forecasting Committee (RFC) revised General Fund (GF) revenue estimates downward by $527.8 million for FY21 and by $883.2 million for the FY22/23 biennium. The forecasted rate of year-over-year growth for General Fund revenue in FY21 is currently negative 10.8%, followed by growth of 5.6% in FY22 and 3.4% for FY23. In addition, Highway Fund revenues were reduced by $30.8 million in FY21 and $30.5 million in the FY22/23 biennium.

Almost 95% (-$498.3 million) of the -$527.8 million reprojection in FY21 by the RFC was from sales and use and individual income taxes, and 100% of the FY22 and FY23 net reductions were attributable to these two revenue lines. In both cases, swift and unprecedented stimulus from the federal government and the Federal Reserve System helped to moderate the initial impact on State revenues of the historic COVID-19 recession during the final quarter of FY20.

In the case of the sales and use tax line, approximately 60% of the $238 million reduction in FY21 was attributable to taxable prepared foods and lodging. Lodging sales were assumed to be down year-over-year by 50% during the third quarter of CY20, the height of the summer tourism season. Lodging sales were assumed to improve slowly over the remainder of CY20 and were not expected to generate the same level of tax revenue as CY19 until CY22. Prepared food sales, mostly restaurant sales, were projected to perform better than lodging, but were assumed to be down approximately 30% year-over-year during the third quarter of CY20. Like lodging, prepared food sales were assumed to slowly improve and not get back to the same level of tax revenue as CY19 until CY22. The gradual improvement in both sales categories, representing 25% of total sales tax revenue in a typical year, is the primary reason for the lower decrease in sales tax revenue of $152 million in FY22 and $131.3 million in FY23. One bright note on sales tax was the additional tax revenue the State is collecting because of several recent law changes that require remote sellers to collect and remit sales tax on sales delivered into Maine.

Seventy-five percent of the adjustments to individual income tax revenue were primarily the result of the CEFC's assumption of combined wage and salary and unemployment insurance (UI) benefits growth over the forecast period. The CEFC forecast assumed that the initial enhanced UI benefits that were part of the CARES Act and a continuation of those benefits at some reduced level in the next federal stimulus package would almost offset the reduction in wages and salaries during CY20. After CY20 the

CEFC assumed that UI benefits would fall back to normal levels and growth as unemployment declines, but wage and salary growth would be weaker than their previous forecast. These assumptions resulted in a growing gap between the February and July CEFC forecast for the combined level of wage and salary and UI benefits, which had a significant impact on individual income tax liability. Other key factors impacting the individual income tax forecast were: (1) the reversal of the FY20 accruals for final and estimated payments in FY21, (2) a larger decrease in capital gains realizations than the March forecast, and (3) a reduction in IRA income in tax year 2020 due to federal tax law changes.

With actual revenues through September and less than a week of processing left in October, FY21 GF revenues are running well ahead of budget. Through the first quarter of the fiscal year GF revenues are $68.1 million over budget (7.1%). Most of the year-to-date variance is from sales and use tax ($23.9 million) and individual income tax ($48.0 million). Relative to the same period a year ago, GF revenues are down 3.3%. Adjusting for the increase in revenue sharing, GF revenues are down 2.6% through September.

The strong performance in sales and use tax relative to forecast is primarily because lodging sales have been much better than was expected when the RFC met in late July. The August 1, 2020, forecast assumed an average decline in June-August lodging sales of over 50%, but actual sales for that three-month period were down 39%. In addition, the auto/transportation sector has been much stronger than projected, increasing by 9.2% during the first quarter of the fiscal year. Building supply store sales and remote sales have also been very good during the early months of FY21. Early indications are that October sales tax receipts (September sales) will significantly exceed budget, once again led by lodging not being as bad as projected and auto/transportation sales increasing by double digits. Going forward, the lack of additional fiscal stimulus and the recent rise in COVID-19 cases may limit consumer spending during the important holiday shopping season.

Individual income tax receipts are primarily over budget fiscal year-to-date because withholding is over budget by $31.6 million, up 9.2% compared to the first quarter of FY20. The exceptionally strong growth has been helped by the extra $600 per week unemployment insurance (UI) benefit that was part of the federal CARES Act. The additional UI benefit expired at the end of July, but a Presidential Memorandum added an additional $300 per week benefit for six weeks using funds from FEMA. October withholdings will be the first month since April that will not be impacted by the expanded UI benefits. The third estimated payment for tax year 2020 was due September 15th and was over budget by $13 million, an increase of 15% compared to last September. The first three estimated payments for 2020 are now down 15% year-over-year, with the final estimated payment due January 15th. October individual income tax receipts will likely be over budget, but not by as much as recent months as withholding revenue is expected to be close to budget for the month.

Macroeconomic Assumptions

Two different baseline economic forecasts were examined at the meeting: the Moody’s Analytics baseline scenario for October 2020 and the IHS Markit baseline scenario for October 2020. Each forecast was based on a different set of national macroeconomic assumptions. These forecasts were then compared to the CEFC’s July 2020 off-cycle forecast. In addition, the CEFC reviewed its assumptions for the previous forecast and made minor changes after incorporating new insights. Overall, the commission felt generally comfortable with the assumptions made in the prior forecast. Several preliminary data points, particularly regarding new in-migration and a strong housing market and early signs of a robust winter tourism season, have renewed optimism for the Commission moving forward. The key assumptions made by the CEFC are as follows:

- A protracted and slow recovery from the current recession, highly uneven across sectors and different group
- Although there is some concern that the holidays and winter months combined with "COVID fatigue" may lead to further spread of COVID-19, the State has developed resources that will help mitigate the effects
- The timeline for widespread availability and distribution of a vaccine remains uncertain
- Further federal stimulus will likely follow in 2021 including support for state and local governments, unemployed workers, and lower-income households
- Long-term structural changes are likely to occur as the labor market faces a skills mismatch; additionally, the challenges relating to the availability of childcare and K-12 education are seen as major factors in returning labor force participation rates to normal levels
- The Commission is optimistic that there is an opportunity for Maine to see increased in-migration in the coming years as telework becomes part of the "new normal" and people look for less densely populated places to live; however, this does have implications on the commercial real estate front, particularly for office space
- There is additional uncertainty in this forecast relating to the 2020 presidential election and subsequent policy action as well as the recent federal inflation target changes
- Human behavior underpins several key uncertainties at this time, including participation in testing and contact tracing; continued adherence to social distancing procedures; and winter tourism decisions

Consensus Forecast

Following the rapid declines of March and April 2020, Maine's employment situation has slowly improved over the summer. Total nonfarm employment is projected to decrease by 8.0% in 2020, with recovery of 4.0% and 2.0% in 2021 and 2022, before slowing to 0.1% in 2023-2025. Compared to the July 2020 off-cycle forecast, this is unchanged in 2020-2022, while 2023-2025 were revised up from 0.0% to 0.1% to account for the potential upside risk to the labor market resulting from structural changes in employment. The CEFC continues to look for signs of change in the long-term trajectory of employment, immigration data, and labor force participation trends. The Commission is hopeful that this more optimistic medium-term forecast is confirmed with future data. This revised forecast anticipates employment will decline from 636.0 thousand in 2019 to 585.2 thousand in 2020, reaching a peak of 622.6 thousand in 2025. The July 2020 forecast projected a peak of 620.8 thousand. Still, this is significantly lower than the peak of 639.4 thousand in the February 2020 pre-pandemic forecast, reflecting the pronounced disruptions to employment in the state. Structural changes to the labor market complicate this forecast; the CEFC voiced concerns that retraining those who permanently lost jobs and reintegrating workers back into the labor force may take several years and will likely lead to a protracted recovery.

Total personal income was revised up to 5.3% in 2020, 1.4 percentage points higher than the July 2020 forecast. 2021-2025 were also revised up, from -1.2% to -0.5% in 2021; to 3.9% in 2022-2024, from 3.7%, 3.5%, and 3.6%, respectively; and from 3.6% to 4.0% in 2025.

Growth in wages and salaries, the largest component of personal income, was revised up for 2020 by 3.5 points compared to July's forecast, from -5.0% to -1.5%. 2021-2025 were each revised up by one percentage point, to 3.0% in 2021 and 4.0% in 2022-2025. The CEFC notes that heterogeneity in wage dynamics across industries complicates this forecast for total wage and salary income. While there have been signs of rising wages in some industries, both high unemployment and labor mismatch leaves short-term wage growth less certain. Additionally, the CEFC notes that COVID-19's effect on income inequality presents a major concern.

Growth in supplements to wages and salaries was unchanged for 2020-2025. Nonfarm Proprietors' income was also left unchanged for 2020-2025.

The forecast for dividends, interest, and rent was revised down for 2020, from 0.1% to -1.0%. Meanwhile, 2021 was revised up from -1.0% to 0.1%. Without sufficient evidence of changing conditions in the out-years, the forecasts for 2022-2025 were left unchanged.

Growth in personal current transfer receipts was left unchanged for all years. While negotiations for a new stimulus package are currently underway, the CEFC believes any further federal aid will follow sometime in 2021 and is less likely to take place this year. The commission looks forward to revisiting this forecast as new information may come to light in the coming months.

The CEFC revised its forecast for the Consumer Price Index (CPI) up for all years. The Commission projects inflation will be 1.3% in 2020, up from 0.9% in the previous forecast, though still well below the national inflation target. Forecasts for 2021 and 2022 were revised up to 2.2%, while 2023-2025 were revised up to 2.1%. These changes reflect the stated willingness of the Federal Reserve to exceed a 2.0% target each year in order to achieve 2.0% *average* inflation across years. The CEFC is eager to see how this change materializes in the coming years.

Finally, the forecast for corporate profits was revised up significantly for 2020, to growth of 0.6% compared to a decline of 30.0% in the July 2020 off-cycle forecast. No other years were revised.

Of great concern to the CEFC were the structural changes to Maine's economy that COVID-19 may cause. For example, Commission members voiced concern for the potential long-term impacts of labor mismatch and increasing exits from the labor force, while recognizing that increased migration from out-of-state residents might accelerate the recovery process. The CEFC emphasized that improvements in labor conditions are dependent on policies that provide support for childcare and K-12 education. Additionally, further developments regarding another federal stimulus package have the potential to change these forecasts significantly.

The following page provides the full forecast.

Maine Consensus Economic Forecasting Commission

November 2020 Forecast Update

	History	Forecast					
	2019	2020	2021	2022	2023	2024	2025
CPI-U* (Annual Change)	1.8%	1.3%	2.2%	2.2%	2.1%	2.1%	2.1%
CPI for Energy Prices** (Annual Change)	-2.1%	-9.1%	5.4%	5.9%	2.0%	2.1%	2.9%
CPI for New Vehicles** (Annual Change)	0.4%	0.5%	1.9%	0.2%	0.3%	0.2%	0.1%
New Vehicle Registrations** (Annual Change)	-3.6%	-11.8%	2.2%	-3.0%	-0.1%	0.0%	0.3%
Personal Savings Rate**	7.6%	14.9%	8.1%	4.1%	3.7%	3.5%	3.3%
Maine Unemployment Rate**	3.0%	6.5%	5.3%	4.1%	3.5%	3.1%	2.9%
3-Month Treasury Bill Rate**	2.06%	0.37%	0.10%	0.09%	0.09%	0.11%	0.11%
10-Year Treasury Note Yield**	2.14%	0.85%	0.90%	1.20%	1.44%	1.56%	1.77%
Before-Tax Corporate Profits* (Annual Change)	2.3%	0.6%	10.0%	3.7%	2.7%	2.7%	2.7%
Maine Wage & Salary Employment* (thousands)	636.0	585.2	608.6	620.7	621.3	622.0	622.6
Natural Resources	2.2	2.1	2.2	2.3	2.3	2.3	2.3
Construction	29.8	29.6	29.5	28.2	27.6	27.6	27.8
Manufacturing	53.3	47.6	48.7	50.1	50.2	50.3	50.3
Trade/Trans./Public Utils.	118.7	114.8	118.6	116.2	111.6	108.4	107.5
Information	7.2	6.1	6.6	7.1	6.9	6.9	6.9
Financial Activities	33.0	32.2	32.5	34.2	34.7	34.9	34.9
Prof. & Business Services	69.4	65.2	67.4	72.6	74.9	77.2	79.9
Education & Health Services	129.3	119.7	125.2	126.9	127.7	128.4	128.2
Leisure & Hospitality Services	69.5	49.7	58.7	61.0	63.0	63.0	61.6
Other Services	22.4	20.6	21.0	22.4	22.6	22.6	22.6
Government	101.3	97.7	98.1	99.7	99.8	100.3	100.6
Maine Wage & Salary Employment* (Annual Change)	0.9%	-8.0%	4.0%	2.0%	0.1%	0.1%	0.1%
Natural Resources	-1.5%	-4.0%	6.3%	3.1%	0.7%	0.0%	-0.5%
Construction	1.5%	-0.7%	-0.5%	-4.3%	-2.1%	0.1%	0.5%
Manufacturing	2.3%	-10.8%	2.4%	3.0%	0.2%	0.1%	0.0%
Trade/Trans./Public Utils.	-0.4%	-3.3%	3.3%	-2.0%	-4.0%	-2.8%	-0.8%
Information	-3.1%	-15.8%	9.5%	6.2%	-2.1%	0.0%	0.0%
Financial Activities	2.7%	-2.4%	1.0%	5.2%	1.3%	0.7%	0.1%
Prof. & Business Services	0.0%	-6.1%	3.4%	7.7%	3.2%	3.0%	3.6%
Education & Health Services	1.8%	-7.4%	4.6%	1.4%	0.6%	0.6%	-0.2%
Leisure & Hospitality Services	0.7%	-28.5%	18.1%	4.0%	3.2%	0.0%	-2.2%
Other Services	0.6%	-7.7%	1.8%	6.7%	0.9%	-0.1%	-0.1%
Government	1.0%	-3.6%	0.5%	1.5%	0.2%	0.5%	0.3%
	2019	2020	2021	2022	2023	2024	2025
Personal Income* ($ million)	68,062	71,697	71,328	74,112	76,998	80,013	83,175
Wages & Salaries*	31,483	31,011	31,941	33,219	34,547	35,929	37,366
Supplements to Wages & Salaries*	7,826	7,709	7,987	8,258	8,539	8,829	9,129
Nonfarm Proprietors' Income*	5,078	4,926	5,084	5,251	5,383	5,517	5,655
Farm Proprietors' Income**	123	84	47	62	67	61	57
Dividends, Interest, & Rent*	12,651	12,524	12,537	12,825	13,107	13,396	13,690
Dividends	3,973	3,787	3,938	4,117	4,265	4,367	4,463
Interest	5,785	5,748	5,504	5,395	5,311	5,312	5,357
Rent	2,893	3,024	3,113	3,329	3,550	3,743	3,903
Personal Current Transfer Receipts*	15,069	19,589	18,022	19,014	20,059	21,183	22,390
Less: Contributions for Social Ins.**	5,265	5,232	5,424	5,699	5,927	6,167	6,422
Adjustment for Residence**	1,097	1,086	1,135	1,182	1,223	1,265	1,309
Personal Income* (Annual Change)	4.2%	5.3%	-0.5%	3.9%	3.9%	3.9%	4.0%
Wages & Salaries*	4.9%	-1.5%	3.0%	4.0%	4.0%	4.0%	4.0%
Supplements to Wages & Salaries*	5.0%	-1.5%	3.6%	3.4%	3.4%	3.4%	3.4%
Nonfarm Proprietors' Income*	4.7%	-3.0%	3.2%	3.3%	2.5%	2.5%	2.5%
Farm Proprietors' Income**	53.9%	-31.7%	-44.4%	32.5%	7.1%	-7.8%	-7.3%
Dividends, Interest, & Rent*	0.7%	-1.0%	0.1%	2.3%	2.2%	2.2%	2.2%
Dividends	-1.0%	-4.7%	4.0%	4.5%	3.6%	2.4%	2.2%
Interest	0.5%	-0.6%	-4.2%	-2.0%	-1.6%	0.0%	0.9%
Rent	3.7%	4.5%	2.9%	6.9%	6.6%	5.4%	4.3%
Personal Current Transfer Receipts*	4.9%	30.0%	-8.0%	5.5%	5.5%	5.6%	5.7%
Less: Contributions for Social Ins.**	4.3%	-0.6%	3.7%	5.1%	4.0%	4.0%	4.1%
Adjustment for Residence**	4.5%	-1.1%	4.6%	4.1%	3.5%	3.4%	3.5%

*CEFC Forecast

**From IHS Markit and Moody's Analytics baselines (Oct. 2020)

Remaining lines derived from CEFC forecast by CEFC staff and reviewed by CEFC

Revenue Outlook and Forecast

Background

The Revenue Forecasting Committee was established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the State Budget Officer with analyses and recommendations related to the projection of General Fund and Highway Fund revenues based on the economic assumptions recommended by the Consensus Economic Forecasting Commission (CEFC). Creation of the committee was in response to the recommendation of Special Commission on Government Restructuring to develop independent and consensus based revenue projections. Public Law 1995, chapter 368 enacted in statute the Revenue Forecasting Committee. This law provided that membership on the committee would include the State Budget Officer, the State Tax Assessor, the State Economist, the Director of the Legislative Office of Fiscal and Program Review and an economist on the faculty of the University of Maine System selected by the Chancellor.

Public Law 1997, chapter 655 expanded the membership of the committee to include an analyst from the Legislative Office of Fiscal and Program Review designated by the Director of that office. Public Law 2011, chapter 655 replaced the State Tax Assessor with the Associate Commissioner for Tax Policy as a member of the Committee. The revenue projections of the committee also would no longer be advisory but would become the actual revenue projections used by the Executive Branch in setting budget estimates and recommendations and out-biennium budget forecasts for both the General Fund and the Highway Fund. The State Budget Officer also was empowered to convene a meeting of the committee to review any new data that might become available, affecting the revenue projections for the General Fund and the Highway Fund.

The committee is required to meet at least three times a year or when called by a majority vote of the committee members, or at the request of the State Budget Officer. The committee is required to develop four year revenue forecasts for the General Fund and the Highway Fund, or other funds of the state using the economic assumptions recommended by the CEFC. No later than December 1st and March 1st (May 1st during odd-numbered years) annually the committee must submit to the Governor, the Legislative Council, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the State Budget Officer its findings, analyses and recommendations for General Fund and Highway Fund revenues.

The revenue forecasts are developed using econometric models for Sales and Use Tax, Individual Income Tax, Corporate Income Tax, Fuel Tax and Cigarette Tax. Forecasts for the remaining revenue lines are developed using trend data, national economic assumptions, department subject matter experts and operational analysis (e.g., net profit from liquor sales).

Public Laws of Maine 2017, chapter 284 includes a joint reporting requirement, by the CEFC and the RFC, issued on October 1st of each even-numbered year, of analyses and findings that detail the stress impact such potential economic recession scenarios would have on the current General Fund revenue projections of sales and income tax revenues. In addition, the report must include an analysis of the sufficiency of the current level of the Maine Budget Stabilization Fund and an estimate of the reserves in the Maine Budget Stabilization Fund necessary to offset the declines in revenue as a result of potential economic recessions of varying levels of severity.

Stress Test as of the November 2, 2020 Report, Executive Summary

Since the mid-1990s state revenue bases have become more elastic, magnifying revenue forecasting errors over the course of the business cycle. These forecasting errors have made it difficult for state policymakers, who are required to have balanced budgets, to determine how much incoming revenue during good economic times should be saved to offset the revenue shortfalls that will follow the inevitable onset of the next recession. One best practice is a regular “stress-test” of a state’s revenue system to estimate the magnitude of revenue reductions during recessionary periods and the reserves necessary to achieve the policy goals of policymakers to offset those shortfalls. Public Laws of Maine 2017, chapter 284, required the CEFC and the RFC to perform a biennial stress-test of General Fund revenues assuming hypothetical moderate and severe recessions and evaluating the sufficiency of the Maine Budget Stabilization Fund (MBSF) under each economic scenario.

This year’s report was developed during an unprecedented pandemic-induced recession. During their June off-cycle forecasting meeting the CEFC decided to replace their February 1, 2020 severe recession scenario with their new baseline forecast based on the severe COVID-19 recession that began during the first quarter of CY2020. The baseline and moderate recession scenarios continue to be from the economic and revenue forecasts released by the CEFC in February and the RFC in March, respectively.

In addition, this year’s report analyzes the sufficiency of the MBSF relative to three different spending limitations in order to provide decisionmakers with useful information on the size of the MBSF necessary to maintain desired spending levels during an economic downturn. Two of the spending limitations are defined in Title 5 and are the same as our report from two years ago; the base spending limitation and the LD1 spending limitation. The third spending limitation included in this year’s report falls between the other two and is defined as the FY2021 level of appropriations ($4.152 billion) enacted earlier this calendar year increased by the same Growth Limitation Factor as the base spending limitation. For purposes of this report we call this third spending limitation the “alternative limitation”.

The two forecasting committees estimate that a hypothetical moderate recession beginning in the first quarter of CY2020 would reduce General Fund revenues relative to the March baseline revenue forecast by 3.9 percent in FY2021 and approximately 5.0 percent in FY2022. Under the moderate recession scenario General Fund revenues would return to the same level as the baseline revenue forecast in FY2024. The current MBSF level of $258.8 million and other available resources would be enough to maintain current FY2021 appropriations of $4.152 billion and half of the difference between the alternative spending limitation in FY2022 and forecasted revenues. The current MBSF would be depleted by the start of FY2023, falling short of the FY2023 alternative spending limitation appropriations level by $235.3 million. We estimate a MBSF of 18 percent of FY2020 General Fund revenue ($715 million), the current statutory maximum, would be necessary to fully offset the revenue declines from a moderate recession to essentially maintain the alternative spending limitation level of appropriations for the FY2022-FY2025 period.

The two forecasting committees estimate that the current severe recession beginning in the first quarter of CY2020 will reduce General Fund revenues relative to the March baseline revenue forecast by 14.1 percent in FY2021, 14.7 percent in FY2022, and over 16 percent in each fiscal year between FY2023-2025. The current MBSF level of $258.8 million and other available resources would be enough to offset 60 percent of current FY2021 revenue shortfall. Annual revenue shortfalls relative to the current baseline forecast would range between $435 and $500 million over the FY2022-2025 period. We estimate the MBSF would require a prohibitive level of funding to fully offset the reduction in revenue during the budget window studied. However, a MBSF equal to the current maximum of 18 percent of FY2020 General Fund revenue would be enough to fully offset the revenue shortfall in FY2021 and offset approximately two-thirds of the revenue decline in FY2022. The entire report may be found at: http://legislature.maine.gov/doc/4781.

Table B-1

GENERAL FUND REVENUE FORECAST									
SOURCE	**FY20 ACTUAL**	**FY21 BUDGET**	**YR. TO YR. % CHANGE**	**TOTAL BIENNIUM**	**FY22 BUDGET**	**YR. TO YR. % CHANGE**	**FY23 BUDGET**	**YR. TO YR. % CHANGE**	**TOTAL BIENNIUM**
Sales and Use Tax	1,555,713,076	1,593,571,678	2.43%	3,149,284,754	1,712,642,422	7.47%	1,791,923,237	4.63%	3,504,565,659
Service Provider Tax	58,012,511	56,562,000	-2.50%	114,574,511	55,997,000	-1.00%	55,437,000	-1.00%	111,434,000
Individual Income Tax	1,835,972,805	1,695,661,250	-7.64%	3,531,634,055	1,753,820,000	3.43%	1,833,704,375	4.55%	3,587,524,375
Corporate Income Tax	216,131,489	202,855,000	-6.14%	418,986,489	220,408,737	8.65%	228,388,199	3.62%	448,796,936
Cigarette & Tobacco Tax	137,331,317	144,401,400	5.15%	281,732,717	148,971,771	3.17%	151,559,736	1.74%	300,531,507
Insurance Company Tax	82,145,116	84,400,000	2.75%	166,545,116	88,250,000	4.56%	88,700,000	0.51%	176,950,000
Inheritance & Estate Tax	21,079,344	18,050,000	-14.37%	39,129,344	14,750,000	-18.28%	16,750,000	13.56%	31,500,000
Fines, Forfeits and Penalties	9,986,146	9,387,746	-5.99%	19,373,892	12,430,166	32.41%	12,434,166	0.03%	24,864,332
Income from Investments	12,121,418	5,383,431	-55.59%	17,504,849	3,326,083	-38.22%	949,998	-71.44%	4,276,081
Transfer from Lottery	64,589,742	60,000,000	-7.11%	124,589,742	60,000,000	0.00%	60,000,000	0.00%	120,000,000
Trans for Tax Relief Progs	(74,637,969)	(75,667,000)	1.38%	(150,304,969)	(77,250,000)	2.09%	(80,800,000)	4.60%	(158,050,000)
Trans. to Muni. Rev. Share	(113,613,360)	(137,573,408)	21.09%	(251,186,768)	(190,421,383)	38.41%	(198,700,281)	4.35%	(389,121,664)
Other Taxes and Fees	139,144,510	144,027,645	3.51%	283,172,155	144,145,560	0.08%	146,953,264	1.95%	291,098,824
Other Revenues	25,367,557	14,217,174	-43.96%	39,584,731	25,697,361	80.75%	16,305,947	-36.55%	42,003,308
TOTAL REVENUE	**3,969,343,700**	**3,815,276,916**	**-3.88%**	**7,784,620,618**	**3,972,767,717**	**4.13%**	**4,123,605,641**	**3.80%**	**8,096,373,358**

Table B-2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	**FY20 ACTUAL**	**FY21 BUDGET**	**YR. TO YR. % CHANGE**	**TOTAL BIENNIUM**	**FY22 BUDGET**	**YR. TO YR. % CHANGE**	**FY23 BUDGET**	**YR. TO YR. % CHANGE**	**TOTAL BIENNIUM**
Fuel Tax	218,970,635	214,788,352	-1.91%	433,758,987	228,499,279	6.38%	233,451,857	2.17%	461,951,136
Motor Vehicle Registrations & Fees	90,648,098	92,815,021	2.39%	183,463,119	91,195,146	-1.75%	91,195,146	0.00%	182,390,292
Inspection Fees	3,120,970	3,092,771	-0.90%	6,213,741	3,202,500	3.55%	3,202,500	0.00%	6,405,000
Miscellaneous Taxes & Fees	1,280,909	1,267,454	-1.05%	2,548,363	1,267,454	0.00%	1,267,454	0.00%	2,534,908
Fines Forfeits & Penalties	899,735	412,286	-54.18%	1,312,021	606,412	47.09%	606,412	0.00%	1,212,824
Income from Investments	257,790	174,622	-32.26%	432,412	93,993	-46.17%	27,768	-70.46%	121,761
Other Revenues	11,998,433	12,119,901	1.01%	24,118,334	9,739,321	-19.64%	9,804,465	0.67%	19,543,786
TOTAL REVENUE	**327,176,570**	**324,670,407**	**-0.77%**	**651,846,977**	**334,604,105**	**3.06%**	**339,555,602**	**1.48%**	**674,159,707**

Table B-3

SOURCE	FY20 ACTUAL	FY21 BUDGET	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY22 BUDGET	YR. TO YR. % CHANGE	FY23 BUDGET	YR. TO YR. % CHANGE	TOTAL BIENNIUM
TOBACCO SETTLEMENT REVENUE ESTIMATES									
Base Payments*	46,272,664	41,780,569	-9.71%	88,053,233	39,325,133	-5.88%	37,156,619	-5.51%	76,481,752
Strategic Contribution Payments	0	0	0.00%	0	0	0.00%	-	0.00%	0
Casino Revenue	2,773,875	2,840,909	2.42%	5,614,784	3,116,152	9.69%	3,746,412	20.23%	6,862,564
Income from Investments	496,816	130,441	-73.74%	627,257	63,355	-51.43%	6,833	-89.21%	70,188
Total Tobacco Settlement Revenue	**49,543,356**	**44,751,919**	**-9.67%**	**94,295,274**	**42,504,640**	**-5.02%**	**40,909,864**	**-3.75%**	**83,414,504**

REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2020

Michael Allen, Chair
Associate Commissioner for Tax Policy

James Breece
University of Maine System

Marc Cyr, Principal Analyst
Office of Fiscal & Program Review

Beth Ashcroft
State Budget Officer

Christopher Nolan, Director
Office of Fiscal & Program Review

Amanda Rector
State Economist

STATE OF MAINE
REVENUE FORECASTING COMMITTEE

Members:

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Christopher Nolan, Director, Office of Fiscal and Program Review
Amanda Rector, State Economist

November 25, 2020

TO: Governor Janet T. Mills
Members, 129th Legislature
Members, 130th Legislature

FROM: Michael Allen, Chair
Revenue Forecasting Committee

RE: Revenue Forecast Committee' December 1, 2020 Report

The Revenue Forecasting Committee (RFC) has concluded its statutorily required December 1 update of its most recent revenue forecast (August 1, 2020) in order to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on November 1, 2020 and to provide you with a forecast that reflects revenue performance through the first four months of FY21. Tables showing the changes made to all the funds forecasted by the committee and a detailed presentation that includes the key assumptions made in developing the forecast have been posted to the RFC's web page and are available here. A more complete report will be added to the web page later next week.

General Fund Summary

	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$4,070,279,515	$4,174,531,432	$4,317,597,709		
Annual % Growth	2.5%	2.6%	3.4%		
Net Increase (Decrease)	($527,809,542)	($433,731,150)	($449,465,768)		
August 2020 Forecast	$3,542,469,974	$3,740,800,282	$3,868,131,941		
Annual % Growth	-10.8%	5.6%	3.4%		
Net Increase (Decrease)	$272,806,942	$231,967,435	$255,473,700		
December 2020 Forecast	$3,815,276,916	$3,972,767,717	$4,123,605,641	$4,276,170,128	$4,431,148,462
Annual % Growth	-3.9%	4.1%	3.8%	3.7%	3.6%

In its December 2020 update, the RFC has revised General Fund (GF) revenue estimates upward by $272.8 million for FY21 and by $487.4 million for the FY22/23 biennium. The forecasted rate of year-over-year growth for General Fund revenue in FY21 is now -3.9%, followed by growth of 4.1% in FY22 and 3.8% for FY23. Relative to the RFC's pre-pandemic March 1, 2020 forecast GF revenues are now projected to be $255 million lower in FY21 and $395.8 million lower in the FY22-23 biennium. In addition, Highway Fund (HWF) revenues are being increased by $11.4 million in FY21 and $9.1 million in the FY22/23 biennium. Relative to the RFC's pre-pandemic March 1, 2020 forecast HWF revenues are now projected to be $19.3 million lower in FY21 and $21.4 million lower in the FY22-23 biennium. Also, the December revenue forecast includes the first official estimates of FY24-25 biennial revenues for each of the funds included in the RFC report.

The CEFC convened on October 23, 2020 to review and revise its July 1, 2020 off-cycle economic forecast. The CEFC noted that record-setting job losses in March and April were followed by sharp but incomplete gains through the summer. The new economic forecast assumes total nonfarm employment will decrease by 8.0% in 2020, with recovery of 4.0% and 2.0% in 2021 and 2022, before slowing to 0.1% in 2023-2025. The forecast anticipates employment will decline from around 636,000 in 2019 to a trough of around 585,200 in 2020, recovering to about 622,600 in 2025. This is a slight improvement over the July 1 forecast, which saw a peak of 620,700 in 2023 that remained flat through 2025, reflecting upside risks to the labor market recovery as a result of structural changes.

Total personal income was revised up in all years, notably to 5.3% in 2020 compared to 3.9% in the prior forecast. These revisions were driven by data showing a stronger rebound of middle- and high-income jobs. Changes to estimates of non-payroll sources of income resulted in additional upward revisions in 2021 to 2025.

Overall, the CEFC agreed with their original assessment of the economic and public health conditions made during the summer. Since the last forecast, the CEFC identified higher uncertainty regarding the timing of further federal stimulus and remains optimistic about Maine's opportunities to see increased immigration in the upcoming years. The Commission reiterated that current conditions are unprecedented, highly uncertain, and changing rapidly. Additionally, the CEFC noted their concern that the exacerbation of inequality as different groups experience uneven paces of economic recovery will hold back the overall recovery of the state and place additional demands on state educational and social service programs while threatening to reduce the tax revenues that fund them.

Almost 90% ($243.9 million) of the RFC's $272.8 million reprojection in FY21 is from sales and use and individual income taxes, and 88% of the FY22 and FY23 net increases are attributable to these two revenue lines. In both cases, stimulus from the federal government and the Federal Reserve System has helped to moderate the impact on State revenues of the historic COVID-19 recession during the final quarter of FY20 and the first five months of FY21. While the CEFC now assumes that Congress will provide an additional stimulus in the first quarter of CY21, the severity of the recession leads to smaller, but still significant ongoing reductions in the State's two largest sources of GF revenue relative to the RFC's pre-pandemic March forecast.

The $136.5 million upward adjustment in FY21 to the sales and use tax forecast reflects a positive variance of $53.5 million through October and preliminary November receipts that point to another monthly variance of $20 million or more. The two primary areas fueling the revenue surplus are lodging and automobile sales. Lodging receipts through October exceed budget by $14.4 million and are now expected to be approximately $22 million higher for the fiscal year than projected in August. While lodging sales were down 28.6 percent year-over-year (YOY) during the important July-September quarter, the August revenue forecast assumed a 50 percent YOY decline during the summer tourism season. After declining over 15 percent YOY between March and June, sales and use tax receipts related to automobile sales have rebounded, increasing by 17 percent YOY during the three-month period ending in September. Actual revenue performance through October and a less pessimistic forecast from the CEFC of CY20 new automobile registrations results in a FY21 increase of $42 million in sales and use tax from automobile sales. The RFC has tried to capture the expected decline in taxable services during the coming winter months as the rising rate of rate of COVID-19 impacts consumer purchases of in-person services.

Changes to the individual income tax are primarily the result of the CEFC's more optimistic assumption of wage and salary growth over the forecast period. The November CEFC forecast assumes that wages and salaries combined with taxable enhanced unemployment insurance (UI) benefits that were part of the CARES Act, will more than offset the reduction in wages and salaries during CY20 relative to their February economic forecast. After CY20 the CEFC assumes that UI benefits will fall back to normal levels and growth as unemployment declines, but that wage and salary growth will be stronger than their previous forecast. Wages and salaries represent a significant portion of taxable income and therefore any increase in their forecasted level leads to higher individual income tax liability. Other key factors impacting the individual income tax forecast are: (1) a smaller decrease in capital gains realizations than the August forecast, (2) slightly stronger growth in business income and (3) a reduction in IRA income in tax year 2020 due to federal tax law changes.

In the conclusion to our August 1st report we stated that "there's a high probability that significant changes, positive or negative, may be take place in the next forecasting exercise." While this forecast includes significant positive reprojections for the GF, the uncertainties of the pandemic, the effectiveness and availability of potential vaccines, and additional fiscal stimulus will all influence the accuracy of this forecast as well. The RFC is committed to closely monitoring incoming economic and revenue data, and keeping the Governor and Legislature apprised of any variances that appear to be developing prior to the next economic and revenue forecasting meetings. To that end, the RFC will be reaching out to our CEFC colleagues to have an informal joint meeting in mid-February to discuss how the two recent forecasts are unfolding. By mid-February revenue data on holiday shopping sales and the final tax year 2020 estimated payments for individuals and corporations will be available, providing key information that will help inform policymakers as they develop a FY22-23 biennial budget.

cc: Members, Revenue Forecasting Committee
Members, Consensus Economic Forecasting Commission
Jeremy Kennedy, Chief of Staff, Governor's Office
Kirsten Figueroa, Commissioner, DAFS
Clerk of the House
Secretary of the Senate
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Report of the Maine State Revenue Forecasting Committee
December 2020 Forecast

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Introduction

The Revenue Forecasting Committee (RFC) met on November 23, 2020 to review and update its off-cycle August 1, 2020 revenue forecast, to assess the ongoing impact of the COVID-19 pandemic on State revenues and to incorporate the changes made by the Consensus Economic Forecasting Commission in its November 1, 2020 report. The RFC revised its revenue projections through the fiscal year ending June 30, 2023 and extended the forecast period through the fiscal year ending June 30, 2025 for the General Fund, Highway Fund, Fund for a Healthy Maine and Medicaid/MaineCare Dedicated Revenue Taxes.

Economic Forecast

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 23, 2020, to review and revise its off-cycle July 1, 2020 forecast through 2025.

Overall, the CEFC maintained its original assessment of the economic and public health conditions made during the summer. Since the last forecast, the CEFC identified higher uncertainty regarding the timing of further federal stimulus and remained optimistic about Maine’s opportunities to see increased immigration in the upcoming years. The Commission reiterated that current conditions are unprecedented, highly uncertain, and changing rapidly. Additionally, the CEFC noted their concern that the exacerbation of inequality as different groups experience uneven paces of economic recovery will hold back the overall recovery of the state and place additional demands on state educational and social service programs while threatening to reduce the tax revenues that fund them.

Record-setting job losses in March and April were followed by sharp but incomplete gains through the summer. Total nonfarm employment is projected to decrease by 8.0% in 2020, with recovery of 4.0% and 2.0% in 2021 and 2022, before slowing to 0.1% in 2023-2025. The forecast anticipates employment will decline from around 636,000 in 2019 to a trough of around 585,200 in 2020, recovering to about 622,600 in 2025. This is a slight improvement over the previous forecast, which saw a peak of 620,700 in 2023 that remained flat through 2025, reflecting upside risks to the labor market recovery as a result of structural changes.

Total personal income was revised up in all years, notably to 5.3% in 2020 compared to 3.9% in the prior forecast. These revisions are driven by data showing a stronger rebound of middle- and high-income jobs. Changes to estimates of non-payroll sources of income resulted in additional upward revisions in 2021 to 2025.

Most components of personal income saw only minor upward revisions, while some others were left altogether unrevised. Growth in wages and salaries, the largest component of personal income, was revised upward to -1.5%, a 3.5 percentage point increase from July. The forecasts for 2021-2025 were each subsequently revised up by one point, to 3.0% in 2021 and 4.0% in 2022-2025. The forecasts for both supplements to wages and salaries and nonfarm proprietors’ income were left entirely unchanged from July. Dividends, interest, and rent was revised for 2020 and 2021 to -1.0% and 0.1%, respectively, compared to 0.1% and -1.0%, respectively, in the July forecast while 2022-2025 were left unchanged. Personal current transfer receipts were left unchanged in all years.

The forecast for inflation (measured by the Consumer Price Index, or CPI) was revised up in all years through 2025, reflecting the Federal Reserve Bank’s aim to keep inflation moderately higher in the future to compensate for lower inflation in previous years. The forecast for 2020 was revised up from 0.9% to 1.3% due to prolonged weak demand and low oil and commodity prices. Meanwhile, future inflation projections are 2.2% in 2021 and 2022 and 2.1% in 2023-2025. Additionally, the forecast for corporate profits was revised up substantially, from a decline of 30.0% for 2020 in the July forecast to growth of 0.6% in this forecast. Growth rates for 2021-2025 were left unchanged.

A copy of the November 1, 2020 report of the CEFC and other economic information providing the basis for this revenue forecast is included in Appendix E.

Summary of Revenue Forecast

The economic variables in the CEFC forecast play a prominent role in the revenue forecast. Maine Revenue Services' Office of Tax Policy (MRS/OTP) tax models use the CEFC economic variables to help project revenue from the major taxes. Data related to non-tax revenue lines were provided by a number of different state agencies and reviewed by staff in the Office of Fiscal and Program Review and the Bureau of the Budget to come up with consensus recommendations. The RFC reviewed MRS/OTP and other staff recommendations at its meeting on November 23, 2020 and agreed to those recommendations. The following tables and narratives highlight the final changes to each of the major funds and revenue sources accepted by the RFC as part of its December 2020 update to the revenue forecast. More detail on each of the funds and revenue sources is provided in the various appendices.

General Fund Summary

	FY20 Actual	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$3,969,343,702	$4,070,279,515	$4,174,531,432	$4,317,597,709		
Annual % Growth	3.1%	2.5%	2.6%	3.4%		
Net Increase (Decrease)		($527,809,542)	($433,731,150)	($449,465,768)		
August 2020 Forecast	$3,969,343,702	$3,542,469,974	$3,740,800,282	$3,868,131,941		
Annual % Growth	3.1%	-10.8%	5.6%	3.4%		
Net Increase (Decrease)		$272,806,942	$231,967,435	$255,473,700		
December 2020 Forecast	$3,969,343,702	$3,815,276,916	$3,972,767,717	$4,123,605,641	$4,276,170,128	$4,431,148,462
Annual % Growth	3.1%	-3.9%	4.1%	3.8%	3.7%	3.6%

General Fund revenue estimates are revised upward by $272.8 million for FY21 and by $487.4 million for the 2022-2023 biennium. The forecasted rate of year-over-year growth for General Fund revenue in FY21 is now -3.9%, followed by growth of 4.1% in FY22 and 3.8% for FY23. Relative to the RFC's pre-pandemic March 1, 2020 forecast, General Fund revenues are now projected to be $255.0 million lower in FY21 and $395.8 million lower for the 2022-2023 biennium.

Almost 90% ($243.9 million) of the RFC's $272.8 million reprojection in FY21 is from sales and use and individual income taxes, and 88% of the FY22 and FY23 net increases are attributable to these two revenue lines. In both cases, stimulus from the federal government and the Federal Reserve System has helped to moderate the impact on State revenues of the historic COVID-19 recession during the final quarter of FY20 and the first five months of FY21. While the CEFC now assumes that Congress will provide an additional stimulus in the first quarter of CY21, the severity of the recession leads to smaller, but still significant ongoing reductions in the State's two largest sources of GF revenue relative to the RFC's pre-pandemic March forecast.

The $136.5 million upward adjustment in FY21 to the sales and use tax forecast reflects a positive variance of $53.5 million through October and preliminary November receipts that point to another monthly variance of $20 million or more. The two primary areas fueling the revenue surplus are lodging and automobile sales.

Lodging receipts through October exceed budget by $14.4 million and are now expected to be approximately $22 million higher for the fiscal year than projected in August. While lodging sales were down 28.6 percent year-over-year (YOY) during the important July-September quarter, the August revenue forecast assumed a 50 percent YOY decline during the summer tourism season. After declining over 15 percent YOY between March and June, sales and use tax receipts related to automobile sales have rebounded, increasing by 17 percent YOY during the three-month period ending in September. Actual revenue performance through October and a less pessimistic forecast from the CEFC of CY20 new automobile registrations results in a FY21 increase of $42 million in sales and use tax from automobile sales. The RFC has tried to capture the expected decline in taxable services during the coming winter months as the rising rate of rate of COVID-19 impacts consumer purchases of in-person services.

Changes to the individual income tax are primarily the result of the CEFC's more optimistic assumption of wage and salary growth over the forecast period. The November CEFC forecast assumes that wages and salaries combined with taxable enhanced unemployment insurance (UI) benefits that were part of the CARES Act, will more than offset the reduction in wages and salaries during CY20 relative to their February economic forecast. After CY20 the CEFC assumes that UI benefits will fall back to normal levels and growth as unemployment declines, but that wage and salary growth will be stronger than their previous forecast. Wages and salaries represent a significant portion of taxable income and therefore any increase in their forecasted level leads to higher individual income tax liability. Other key factors impacting the individual income tax forecast are: (1) a smaller decrease in capital gains realizations than the August forecast, (2) slightly stronger growth in business income and (3) a reduction in IRA income in tax year 2020 due to federal tax law changes.

Other notable adjustments to General Fund revenue lines include:

- **Service Provider Tax**. The forecast assumes a negative adjustment to service provider tax revenue of -$0.9 million in FY21, -$1.1 million in FY22 and -$1.2 million in FY23.
- **Corporate Tax.** The December 2020 forecast includes a positive adjustment to corporate revenue of $26.0 million in FY21, $36.5 million in FY22 and $37 million in FY23. This change is the result of a much more optimistic forecast of before-tax corporate profits in CY20.
- **Cigarette Tax and Other Tobacco Taxes**. The forecast makes a relatively modest adjustment to FY21 cigarette and other tobacco taxes revenue but increases the FY22 forecast by $2.1 million and increases FY23 by $2.4 million.
- **Estate Tax**. The forecast for estate taxes assumes a $6.0 million increase for FY21 based on collections to date and more modest increases of $0.5 million for FY22 and $1.3 million for FY23.
- **Insurance Companies Tax**. The forecast assumes an increase of $2.1 million per year for FY21, FY22 and FY23. This change is primarily based on recent tax receipts.
- **Marijuana Sales Tax**. The forecast assumes gross adult use marijuana sales tax revenue of $6.0 million in FY21; $13.85 million in FY22; $19.0 million in FY23; $23 million in FY24 and $28.5 million in FY25. These estimates are gross amounts before transfers to the Local Government Fund and the Adult Use Marijuana Public Health and Safety Fund. Total transfers to the Adult Use Marijuana Public Health and Safety Fund from sales and excise taxes are reflected in "Other Revenue" and are estimated to be $1.3 million in FY21; $3.0 million in FY 22; $4.1 million in FY23; $5.0 million in FY24 and $6.2 million in FY25. Note, these adult use marijuana estimates do not include the estimated $16.5 million per year in GF revenue from the sales tax on medical marijuana sales.
- **Marijuana Excise Tax**. This forecast assumes gross excise tax revenue of $6.7 million in FY21; $13.85 million in FY22; $19.0 million in FY23; $23 million in FY24 and $28.5 million in FY25.

These estimates are gross amounts before transfers to the Adult Use Marijuana Public Health and Safety Fund.

- **Income from Investments** – Income from investments are forecast to increase by $1.6 million in FY21, $0.7 million in FY22 and $0.3 in FY23 as a result of assumed increases in fund balances.
- **Other Taxes and Fees – Real Estate Transfer Tax.** The forecast for real estate transfer tax revenue is increased by $5.2 million in FY21, $4.2 million in FY22 and $3.1 million in FY23. The forecast is based on the recent increase in residential home sales because of the pandemic and a more optimistic forecast from the CEFC going forward.
- **Other Taxes and Fees - Milk Handling Fee/Transfer to Maine Milk Pool**. The forecast for revenue from the milk handling fee is adjusted upward by $0.2 million for FY21 and downward by -$0.8 million for FY22 and by -$1.0 million FY23, assuming declining milk production for FY22 and FY23. The forecast for transfers to the milk pool is adjusted upward (negative impact on the General Fund) by -$1.4 million for FY21 but downward (positive impact on the General Fund) by 0.7 million for FY22 and $1.3 million for FY23. This forecast reflects the limited long term forecasting available and the ongoing volatility in dairy markets due to the COVID-19 pandemic.
- **Other Taxes and Fees – Casino Revenue.** After being closed for the final quarter of FY20 due to the COVID-19 emergency, both the Oxford Casino and Hollywood Casino reopened in early FY21 under limited operational plans. Due to better than anticipated activity and an increase in the number of machines and tables expected to be placed in play in both facilities, the forecast for General Fund revenue from casinos is adjusted upwards by $3.0 million in FY 21, $1.3 million in FY22 and $0.6 million in FY 23.

Highway Fund Summary

	FY20 Actual	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$327,176,570	$344,014,100	$346,566,974	$348,999,002		
Annual % Growth	-5.6%	5.1%	0.7%	0.7%		
Net Increase (Decrease)	$0	($30,776,958)	($15,252,441)	($15,262,000)		
August 2020 Forecast	$327,176,570	$313,237,142	$331,314,533	$333,737,002		
Annual % Growth	-5.6%	-4.3%	5.8%	0.7%		
Net Increase (Decrease)	$0	$11,433,265	$3,289,572	$5,818,600		
December 2020 Forecast	$327,176,570	$324,670,407	$334,604,105	$339,555,602	$341,980,631	$344,441,674
Annual % Growth	-5.6%	-0.8%	3.1%	1.5%	0.7%	0.7%

Highway Fund revenue estimates are revised upward by $11.4 million for FY21 and by $9.1 million for the 2022-2023 biennium. Relative to the RFC's pre-pandemic March 2020 forecast, Highway Fund revenues are now projected to be $19.3 million lower in FY21 and $21.4 million lower for the 2022-2023 biennium. The upward adjustments in the December 2020 forecast are largely the result of positive adjustments in gas tax revenue from August 2020 levels of $8.1 million in FY21 and $10.4 million for the 2022-2023 biennium. These December 2020 adjustments in revenue moderate the negative adjustments made in the August 2020 gas tax forecast of -$28.6 million for FY21 and -$25.0 million for the 2022-2023 biennium. The December 2020 Highway Fund forecast also assumes a one-time FY21 increase of $2.0 million in motor vehicle registrations and fees.

Fund for a Healthy Maine Summary

	FY20 Actual	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$49,543,354	$39,594,439	$39,587,533	$44,288,952		
Annual % Growth	-39.7%	-20.1%	0.0%	11.9%		
Net Increase (Decrease)	$0	$4,032,665	$2,681,291	($3,315,628)		
August 2020 Forecast	$49,543,354	$43,627,104	$42,268,823	$40,973,323		
Annual % Growth	-39.7%	-11.9%	-3.1%	-3.1%		
Net Increase (Decrease)	$0	$1,124,815	$235,817	($63,459)		
December 2020 Forecast	$49,543,354	$44,751,919	$42,504,640	$40,909,864	$41,004,823	$41,017,289
Annual % Growth	-39.7%	-9.7%	-5.0%	-3.8%	0.2%	0.0%

Fund for a Healthy Maine (FHM) revenue estimates are revised upward by $1.1 million for FY21 and by $0.2 million for the 2022-2023 biennium. The revised forecast primarily reflects an increase in the estimate for FHM revenue from the Hollywood Casino Bangor consistent with the larger changes in the forecasts for this revenue source. The FHM forecast also assumes relatively minor negative adjustments in income from investments. There were no changes made to the forecast for Tobacco Settlement Payments in the December 2020 forecast.

Medicaid/MaineCare Dedicated Revenue Taxes Summary

	FY20 Actual	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$214,138,364	$215,621,936	$215,621,936	$215,621,936		
Annual % Growth	12.7%	0.7%	0.0%	0.0%		
Net Increase (Decrease)	$0	($1,512,840)	($1,512,840)	($1,512,840)		
August 2020 Forecast	$214,138,364	$214,109,096	$214,109,096	$214,109,096		
Annual % Growth	12.7%	0.0%	0.0%	0.0%		
Net Increase (Decrease)	$0	$2,390,395	$0	$0		
December 2020 Forecast	$214,138,364	$216,499,491	$214,109,096	$214,109,096	$214,109,096	$214,109,096
Annual % Growth	12.7%	1.1%	-1.1%	0.0%	0.0%	0.0%

Medicaid/MaineCare Dedicated revenue estimates are revised upward by $2.4 million for FY21 but are unchanged for the 2022-2023 biennium. The positive adjustments for FY21 assume an increase in dedicated revenue from the nursing facility and the residential treatment facility taxes offset by a reduction in assumed dedicated revenue from the service provider tax for FY21.

Conclusion

The conclusion to the RFC's August 1st report stated, "there's a high probability that significant changes, positive or negative, may take place in the next forecasting exercise." While this forecast includes significant positive reprojections for the General Fund, the uncertainties of the pandemic, the effectiveness and availability of potential vaccines, and additional fiscal stimulus will all influence the accuracy of this forecast as well. The RFC is committed to closely monitoring incoming economic and revenue data, and keeping the Governor and Legislature apprised of any variances that appear to be developing prior to the next economic and revenue forecasting meetings. To that end, the RFC will be reaching out to our CEFC colleagues to have an informal joint meeting in mid-February to discuss how the two recent forecasts are unfolding. By mid-February revenue data on holiday shopping sales and the final tax year 2020 estimated payments for individuals and corporations will be available, providing key information that will help inform policymakers as they develop a 2022-2023 biennial budget.

Section 1: TAX EXPENDITURES

State law requires Maine Revenue Services-Office of Tax Policy to provide two tax expenditure reports in January of every odd-numbered year. The first report must be included in the state budget document. 5 M.R.S.A. §1664 provides that the document specifically include

> . . . the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress, and the anticipated loss in revenue for each fiscal year of the ensuing biennium, caused by the tax expenditures provided in Maine statutes; the term "tax expenditures" means those State tax revenue losses attributable to provisions of Maine tax laws which allow a special exclusion, exemption or deduction or which provide a specific credit, a preferential rate of tax or a deferral of tax liability.

The second report, required by 36 M.R.S.A. § 199-B, must be submitted to the Joint Standing Committee on Taxation. This report must contain

> "a summary of each tax expenditure, a description of the purpose and background of the tax expenditure and the groups likely to benefit from the tax expenditure, an estimate of the cost of the tax expenditure for the current biennium, any issues regarding tax expenditures that need to be considered by the Legislature, and any recommendation regarding the amendment, repeal or replacement of the tax expenditure."

This report meets the first statutory requirement.

The tax expenditure budget is a concept that was developed to assure a budget review process for tax preferences similar to the review required for direct expenditure programs. The federal government and most state governments engage in a periodic review of tax expenditures. At the federal level a "normal" income tax structure is first determined using the broadest possible definition of income. Tax expenditures are reductions in income caused by a special exclusion, exemption or deduction, or reductions in tax liability which provide a tax credit, preferential tax rate or deferral of tax liability. At the state level this same "normal" tax law reference is used to calculate both sales and income tax expenditures.

Generally, tax expenditures provide tax incentives designed to encourage certain activities by taxpayers or provide relief to taxpayers in special circumstances. Many tax expenditures are the equivalent of a governmental subsidy in which the foregone tax revenue is essentially a direct budget outlay to specific groups of taxpayers. The object of this report is to identify and estimate the fiscal impact of those provisions of the state tax structure which grant benefits analogous to those provided by direct state spending programs.

In developing this report we have excluded from the above definition of tax expenditure those expenditures that are (1) established by federal mandate (e.g., the sales tax exclusion for food stamp purchases), (2) created at the state level to maintain conformity with traditional tax law when the federal government deviates from that law because it creates credits that the state does not adopt (e.g., the subtraction modification associated with federal work opportunity credit), or (3) the result of the state taxing certain activities under a different tax system (e.g., the income of a financial institution that is an S corporation).

In estimating the revenue loss attributed to a particular tax expenditure, it is assumed that the provision of law granting special tax treatment is repealed and that no other changes in tax law, taxpayer behavior or general economic activity occur as a result of its repeal. Consequently, it should not be concluded that the repeal of any of these tax expenditures will necessarily generate the amount of revenue which they are estimated to forego.

Some tax expenditures are estimated rather accurately from available administrative information or the state's micro-simulation tax models. For a much larger number of expenditures, special data must be developed which is less complete and accurate. Estimates for fiscal year 2022 and fiscal year 2023 generally assume modest increases in household and business activity as the economy recovers from the COVID-19 recession, based on the economic forecast provided by the Consensus Economic Forecasting Committee in November 2020.

Finally, there are some expenditures where no information exists, and our limited resources prevent any special survey or other data generation procedures. Estimates for this group are reported as a range in an attempt to place some bounds on the size of these expenditures.

Maine's individual and corporate income tax systems are based upon the federal definitions of adjusted gross income and taxable income. Therefore, certain tax expenditures are authorized by continued acceptance of the provisions of the Internal Revenue Code. Unlike sales and excise tax expenditures or state income tax expenditures related to state tax credits or modifications from Federal Adjusted Gross Income (AGI), these are not subject to a systematic, periodic review by the Legislature. In many cases, the basis for identifying, estimating and forecasting income tax expenditures which are derived from federal conformity is the Joint Committee on Taxation's (JCT) Estimates of Federal Tax Expenditures for Federal Fiscal Years 2020-2024, compiled by the U.S. Joint Standing Committee on Taxation in their November 2020 report.

Tax expenditures resulting from conformity to Federal AGI that do not involve an above-the-line deduction on the Federal Form 1040 are particularly challenging to estimate due to a lack of data. For this reason we isolate these expenditures at the end of the income tax section and provide specific estimates only for the largest expenditures. These estimates, based on the JCT study, are only intended to convey the order of magnitude of the expenditure.

All tax expenditure estimates in this report reflect revenue loss to the General Fund.

General Fund Tax Expenditures – Income Tax (Personal and Corporate) and Property Tax Reimbursement

General Fund Income Tax Expenditures	36 MRSA §	FY'20	FY'21	FY'22	FY'23
Reimbursement For Business Equipment Tax Exemption to Municipalities	Chapter 105, Subchapter 4-c	$49,194,722	$49,755,000	$57,050,000	$61,900,000
Reimbursement for Taxes Paid on Certain Business Property (BETR)	Chapter 915	$25,490,793	$21,600,000	$20,200,000	$18,900,000
Income from depreciation recapture on sale of multi-family affordable housing property	5122(2)(Z)	B	B	B	B
Deduction for Social Security Benefits Taxable at Federal Level	5122(2)(C)	$99,100,000	$102,900,000	$110,200,000	$119,600,000
Deduction for Contributions to Capital Construction Funds	5122(2)(I)	$560,000	$530,000	$520,000	$520,000
Deduction for Pension Income	5122(2)(M)	$31,200,000	$31,100,000	$31,200,000	$31,600,000
Deduction for Interest and Dividends on Maine State and Local Securities - Individual Income Tax	5122(2)(N)	$500,000	$500,000	$500,000	$500,000
Deduction for Holocaust Victim Settlement Payments	5122(2)(O)	A	A	A	A
Deduction for active duty military pay earned outside of Maine	5122(2)(LL)	$900,000	$910,000	$910,000	$930,000
Military annuity payments made to survivor	5122(2)(HH)	$58,000	$58,000	$57,000	$57,000
Family development account proceeds	10 MRSA §1077	A	A	A	A
Municipal property tax benefits for senior citizens	5122(2)(EE)	A	A	A	A
Deduction for gain on sales of eligible timberlands	5122(2)(U)	A	B	C	C
Itemized Deductions	5125	$9,200,000	$9,000,000	$8,700,000	$8,800,000
Additional standard deduction for the elderly and disabled	5124-A	$9,100,000	$9,400,000	$10,400,000	$10,900,000
Deduction for Exempt Associations, Trusts and Organizations	5162(2)	A	A	A	A
Deduction for Interest and Dividends on U.S., Maine State and Local Securities	5200-A(2)(K)	C	C	C	C
Credit to Beneficiary for Accumulation Distribution	5214-A	B	B	B	B
Seed Capital Investment Tax Credit	5216-B	$3,900,000	$5,500,000	$6,900,000	$8,400,000
Credit for Educational Opportunity	5217-D	$28,800,000	$23,000,000	$41,500,000	$47,900,000
Income Tax Credit for Child Care Expense	5218	$4,250,000	$4,200,000	$4,150,000	$4,150,000
Research Expense Tax Credit	5219-K	$3,960,000	$2,530,000	$1,650,000	$2,180,000
Credit for Rehabilitation of Historic Properties	5219-BB	$10,200,000	$9,350,000	$8,950,000	$9,200,000
Earned Income Credit**	5219-S	$8,800,000	$8,720,000	$16,630,000	$16,630,000
Pine Tree Development Zone Tax Credit	5219-W	$2,350,000	$1,640,000	$1,660,000	$1,700,000
Biofuel commercial production and commercial use	5219-XX	$0	$0	A	A
Tax Benefits for Media Production Companies	5219-Y, c. 919-A	$128,590	$50,000	$150,000	$150,000
Dental Care Access Credit	5219-BB	$42,000	$64,000	$111,000	$166,000
New Markets Capital Investment Credit	5219-HH	$12,994,000	$9,026,000	$4,306,000	$3,667,000
Credit for Wellness Programs	5219-FF	$12,000	$12,000	$12,000	$12,000
Maine fishery infrastructure investment tax credit	5216-D	B	B	B	B
Innovation Finance Credit	5219-EE	$0	$0	*	*
Primary Care Access Credit	5219-LL	$159,000	$208,000	$256,000	$319,000
Property Tax Fairness Credit	5219-KK	$26,000,000	$35,650,000	$35,350,000	$35,350,000
Sales Tax Fairness Credit	5213-A	$24,600,000	$23,900,000	$23,800,000	$22,950,000
Maine Capital Investment Credit for tyboa 1/1/20	5219-NN	$0	$2,800,000	$4,250,000	$5,000,000
Credit for certain homestead modifications	5219-PP	$4,365	$5,000	$6,000	$6,000
Credit for disability income protection plans in the workplace	5219-OO	A	B	B	B
Adult dependent care credit	5218-A	$22,000	$24,000	$24,000	$24,000
Credit for major business headquarters expansions	5219-QQ	$0	$0	$0	$760,000
Employer Credit for Family Leave	5219-UU and 2536	$60,000	$20,000	$40,000	$0
Employment Tax Increment Financing	Chapter 917	$12,359,040	$12,657,535	$10,400,000	$10,650,000
Loring Job Increment Financing	Title 5 Ch.383 SubCh. 3 Art. 1-C	$1,130,437	$3,182	$480,000	$480,000

A represents an estimated spread of $0 - $10,000
B represents an estimated spread of $0 - $49,999
C represents an estimated spread of $20,000 - $100,000
D represents an estimated spread of $0 - $760,000
E represents an estimated spread of $500,000 - $2,000,000
F represents an estimated spread of $1,500,00 - $2,500,000
* represents a potential liability
**The General Fund revenue loss from the EITC is net of reimbursements from TANF funds for the EITC. The gross revenue reduction from the EITC is approximately $9.6 million in FY 2020 and $24.6 million in FY 21.

General Fund Income Tax Expenditures	36 MRSA §	FY'20	FY'21	FY'22	FY'23
Brunswick Naval Air Station Job Increment Financing	Title 5 §13083-S-1	$380,454	$428,230	$430,000	$430,000
Shipbuilding Facility Credit	5219-RR	$0	$2,887,500	$2,850,000	$2,850,000
Credit for major food processing and manufacturing facility expansion	5219-VV	$0	$0	$0	$1,111,500
Credit for affordable housing	5219-WW	$0	$0	$8,645,000	$9,500,000
Renewable chemicals tax credit	5219-XX	$0	$0	$47,500	$95,000
CONFORMITY WITH INTERNAL REVENUE CODE DEFINITION OF FEDERAL ADJUSTED GROSS INCOME: ABOVE THE LINE DEDUCTIONS					
Health Savings Accounts	5102(1-D)	$2,300,000	$2,350,000	$2,350,000	$2,450,000
Deduction for Interest of Student Loans	5102(1-D)	$4,800,000	$4,950,000	$4,900,000	$5,150,000
Moving Expenses Deduction	5102(1-D)	$10,000	$10,000	$10,000	$10,000
Pension Contributions -- Individual Retirement Plans	5102(1-D)	$5,350,000	$5,500,000	$5,500,000	$5,750,000
Pension Contributions -- Partners & Sole Proprietors --Self-employed SEP, SIMPLE, and KEOGH Plans	5102(1-D)	$6,250,000	$6,450,000	$6,450,000	$6,700,000
Self-Employed Medical Insurance Premiums	5102(1-D)	$10,100,000	$10,300,000	$10,350,000	$10,900,000
CONFORMITY WITH INTERNAL REVENUE CODE DEFINITION OF FEDERAL ADJUSTED GROSS INCOME: OTHER					
Certain Interest Income Excluded from Federal Adjusted Gross Income	5102(1-D)	$10,100,000	$9,750,000	$9,350,000	$9,200,000
Section 179 Expensing	5102(1-D)	$3,100,000	$2,800,000	$2,450,000	$3,650,000
Deduction for dividends received by domestic corporations from certain foreign corporations	5102(1-D)	E	E	E	E
Deduction for foreign-derived intangible income	5102(1-D)	$7,950,000	$8,760,000	$9,550,000	$10,500,000
Opportunity Zones	5102(1-D)	F	F	F	F
Pension Contributions & Earnings -- Employer-Provided Pension Contributions and Earnings	5102(1-D)	$270,100,000	$303,800,000	$341,700,000	$387,100,000
Employer-Paid Medical Insurance and Expenses	5102(1-D)	$179,000,000	$187,700,000	$196,500,000	$205,500,000
Exclusion of Capital Gains at Death	5102(1-D)	$25,300,000	$25,300,000	$25,600,000	$26,600,000
Exclusion of Capital Gains on Sales of Principal Residences	5102(1-D)	$21,000,000	$22,700,000	$24,000,000	$25,500,000
Social Security and Railroad Retirement Benefits Untaxed at the Federal Level	5102(1-D)	$57,800,000	$59,300,000	$62,400,000	$66,700,000
Federal Conformity Other:					
National Defense and International Affairs	5102(1-D)	$7 - $12 million per year			
Energy	5102(1-D)	$1 - $3 million per year			
Natural Resources, Environment, Agriculture	5102(1-D)	$500k - $3 million per year			
Commerce	5102(1-D)	$30 - $70 million per year			
Education and Training	5102(1-D)	$8 - $12 million per year			
Employment	5102(1-D)	$18 - $28 million per year			
Health and Income Security	5102(1-D)	$60 - $80 million per year			
Miscellaneous	5102(1-D)	$30 - $50 million per year			

A represents an estimated spread of $0 - $10,000
B represents an estimated spread of $0 - $49,999
C represents an estimated spread of $20,000 - $100,000
D represents an estimated spread of $0 - $760,000
E represents an estimated spread of $500,000 - $2,000,000
F represents an estimated spread of $1,500,00 - $2,500,000

General Fund Tax Expenditures – Sales, Motor Fuel and Service Provider Taxes

General Fund Sales & Use Tax Expenditures	36 MRSA §	FY'20	FY'21	FY'22	FY'23
Exempt from Sales Tax the Fee Associated with the Paint	1752.14	$71,000	$73,000	$74,000	$76,000
Sales to the State & Political Subdivisions	1760.2	$204,660,000	$210,190,000	$214,720,000	$222,230,000
Grocery Staples	1760.3	$187,140,000	$191,270,000	$194,450,000	$200,280,000
Ships Stores	1760.4	C	C	C	C
Prescription Drugs	1760.5	$104,760,000	$107,900,000	$110,550,000	$114,750,000
Prosthetic or Orthotic Device	1760.5A	$4,982,000	$5,067,000	$5,126,000	$5,254,000
Meals Served by Public or Private Schools	1760.6A	$7,178,000	$7,265,000	$7,314,000	$7,460,000
Meals Served to Patients in Hospitals & Nursing Homes	1760.6B	$10,150,000	$10,370,000	$10,540,000	$10,860,000
Providing Meals for the Elderly	1760.6C	C	C	C	C
Providing Meals to Residents of Certain Nonprofit Congregate Housing Facilities	1760.6D	A	A	A	A
Certain Meals Served by Colleges to Employees of the College	1760.6E	A	A	A	A
Meals Served by Youth Camps that are Licensed by DHHS	1760.6F	C	C	C	C
Meals Served by a Retirement Facility to its Residents	1760.6G	C	C	C	C
Products Used in Agricultural and Aquacultural Production & Bait	1760.7A-C	$9,130,000	$9,150,000	$9,120,000	$9,210,000
Certain Jet Fuel	1760.8B	$3,610,000	$3,350,000	$3,640,000	$3,680,000
Coal, Oil & Wood for Cooking & Heating Homes	1760.9	$40,070,000	$40,560,000	$40,830,000	$41,650,000
Fuel Oil for Burning Blueberry Land	1760.9A	A	A	A	A
First 750 KW Hours of Residential Electricity Per Month	1760.9B	$27,160,000	$27,490,000	$27,670,000	$28,230,000
Gas When Used for Cooking & Heating in Residences	1760.9C	$11,550,000	$11,690,000	$11,770,000	$12,000,000
Fuel and Electricity Used in Manufacturing	1760.9D	$15,104,000	$16,360,000	$17,100,000	$18,050,000
Fuel Oil or Coal which become an Ingredient or Component Part	1760.9G	A	A	A	A
Certain Returnable Containers	1760.12	D	D	D	D
Packaging Materials	1760.12A	$29,860,000	$30,230,000	$30,430,000	$31,010,000
Free Publications and Components of Publications	1760.14-A	D	D	D	D
Sales to Hospitals, Research Centers, Churches and Schools	1760.16	F	F	F	F
Rental Charges for Living Quarters in Nursing Homes and Hospitals	1760.18	C	C	C	C
Sales to Certain Residential Child Care Facilities	1760.18A	B	B	B	B
Rental of Living Quarters at Schools	1760.19	$8,070,000	$8,000,000	$7,900,000	$7,900,000
Rental Charges on Continuous Residence for More Than 28 Days	1760.20	$92,330,000	$94,370,000	$95,940,000	$98,810,000
Automobiles Used in Driver Education Programs	1760.21	A	A	A	A
Certain Loaner Vehicles	1760.21A	C	C	C	C
Automobiles Sold to Amputee Veterans	1760.22	A	A	A	A
Certain Vehicles Purchased or Leased by Nonresidents	1760.23C	C	C	C	C
Certain Vehicles Purchased or Leased by Qualifying Resident Businesses	1760.23D	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Funeral Services	1760.24	$7,370,000	$7,460,000	$7,510,000	$7,660,000
Watercraft Purchased by Nonresidents	1760.25	C	C	C	C
Certain Sales of Snowmobiles and All terrain Vehicles to Nonresidents	1760.25C	A	A	A	A
Sales to Ambulance Services & Fire Departments	1760.26	C	C	C	C
Sales to Comm. Mental Health, Substance Abuse Facilities & to Facilities for the Developmentally Disabled	1760.28	B	B	B	B
Water Pollution Control Facilities	1760.29	C	C	C	C
Air Pollution Control Facilities	1760.30	C	C	C	C
Machinery & Equipment	1760.31	$33,950,000	$33,690,000	$33,920,000	$34,590,000
New Machinery for Experimental Research	1760.32	B	B	B	B
Diabetic Supplies	1760.33	D	D	D	D
Sales Through Coin Operated Vending Machines	1760.34	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Goods& Services for Seeing Eye Dogs	1760.35	A	A	A	A
Sales to Regional Planning Agencies	1760.37	A	A	A	A
Water Used in Private Residences	1760.39	$12,980,000	$13,200,000	$13,350,000	$13,690,000
Mobile & Modular Homes	1760.40	$4,100,000	$4,150,000	$4,200,000	$4,300,000
Property Used in Interstate Commerce	1760.41	D	D	D	D
Sales to Historical Societies & Museums	1760.42	B	B	B	B
Sales to Child Care Facilities	1760.43	B	B	B	B

A represents an estimated spread of $0 - $49,999
B represents an estimated spread of $50,000 - $249,999
C represents an estimated spread of $250,000 - $999,999
D represents an estimated spread of $1,000,000 – $2,999,999
E represents an estimated spread of $3,000,000 - $5,999,999
F represents an estimated spread of $6,000,000 or more

General Fund Sales & Use Tax Expenditures	36 MRSA §	FY'20	FY'21	FY'22	FY'23
Sales to Emergency Shelters & Feeding Organizations	1760.47A	B	B	B	B
Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	1760.49	C	C	C	C
Sales to Church Affiliated Residential Homes	1760.44	A	A	A	A
Certain Property Purchased Out of State	1760.45	D	D	D	D
Sales to Organ. that Provide Residential Facilities for Med. Patients	1760.46	A	A	A	A
Sales to any Nonprofit Free Libraries	1760.50	B	B	B	B
Sales to Veterans Memorial Cemetery Associations	1760.51	A	A	A	A
Railroad Track Materials	1760.52	$650,000	$660,000	$670,000	$680,000
Sales to Nonprofit Rescue Operations	1760.53	A	A	A	A
Sales to Hospice Organizations	1760.55	A	A	A	A
Sales to Nonprofit Youth & Scouting Organizations	1760.56	C	C	C	C
Self Help Literature on Alcoholism	1760.57	A	A	A	A
Portable Classrooms	1760.58	A	A	A	A
Sales to Certain Incorporated. Nonprofit Educational Orgs.	1760.59	A	A	A	A
Sales to Incorporated Nonprofit Animal Shelters	1760.60	A	A	A	A
Construction Contracts with Exempt Organizations	1760.61	D	D	D	D
Sales to Certain Charitable Suppliers of Medical Equipment	1760.62	A	A	A	A
Sales to Orgs that Fulfill the Wishes of Children with Life-threatening Diseases	1760.63	A	A	A	A
Sales by Schools & School Sponsored Organizations	1760.64	C	C	C	C
Sales to Monasteries and Convents	1760.65	A	A	A	A
Sales to Providers of Certain Support Systems for Single Parent Families	1760.66	A	A	A	A
Sales to Nonprofit Home Construction Organizations	1760.67	B	B	B	B
Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans	1760.69	A	A	A	A
Sales to Orgs that Provide Certain Services for Hearing-impaired Persons	1760.70	A	A	A	A
Sales to State Chartered Credit Unions	1760.71	A	A	A	A
Sales to Nonprofit Housing Development Organizations	1760.72	B	B	B	B
Seedlings for Commercial Forestry Use	1760.73	B	B	B	B
Property Used in Manufacturing Production	1760.74	$201,800,000	$200,200,000	$201,600,000	$205,600,000
Meals& Lodging Provided to Employees	1760.75	B	B	B	B
Certain Aircraft Parts	1760.76	A	A	A	A
Sales to Eye Banks	1760.77	A	A	A	A
Sales of Certain Farm Animal Bedding & Hay	1760.78	A	A	A	A
Electricity Used for Net Billing	1760.80	$850,000	$2,800,000	$6,200,000	$7,300,000
Animal Waste Storage Facility	1760.81	A	A	A	A
Sales of Property Delivered Outside this State	1760.82	F	F	F	F
Sales of Certain Printed Materials	1760.83	C	C	C	C
Sales to Centers for Innovation	1760.84	A	A	A	A
Certain Sales by an Auxiliary Organization of the American Legion	1760.85	B	B	B	B
Pine Tree Development Zone Businesses; Reimbursement of Certain Taxes	2016	$285,650	$220,000	$220,000	$230,000
Sales of Tangible Personal Property to Qualified Development Zone Businesses	1760.87	D	D	D	D
Sales of Certain Aircraft	1760.88	B	B	B	B
Sale, Use or Lease of Aircraft and Sales of Repair and Replacement Parts	1760.88-A	C	C	C	C
Sales of Certain Qualified Snowmobile Trail Grooming Equipment	1760.90	$8,000	$11,500	$12,500	$13,500
Certain Sales of Electrical Energy	1760.91	C	C	C	C
Certain Vehicle Rentals	1760.92	A	A	A	A
Plastic Bags Sold to Redemption Centers	1760.93	$41,000	$42,000	$42,000	$43,000
Positive Airway Pressure Equipment and Supplies	1760.94	C	C	C	C
Sales of Certain Adaptive Equipment	1760.95	$82,000	$82,000	$83,000	$86,000
Sales to Certain Veterans Support Organizations	1760.98	$20,000	$21,000	$22,000	$22,000
Sales to Nonprofit Library Collaboratives	1760.99	A	A	A	A

A represents an estimated spread of $0 - $49,999
B represents an estimated spread of $50,000 - $249,999
C represents an estimated spread of $250,000 - $999,999
D represents an estimated spread of $1,000,000 – $2,999,999
E represents an estimated spread of $3,000,000 - $5,999,999
F represents an estimated spread of $6,000,000 or more

General Fund Sales & Use Tax Expenditures	36 MRSA §	FY'20	FY'21	FY'22	FY'23
Sales to Certain Veterans Service Organizations	1760.100	$99,000	$101,000	$103,000	$106,000
An Act To Provide a Sales Tax Exemption for Nonprofit Heating Assistance Organizations	1760.102	$500	$500	$500	$500
An Act To Exempt from Taxation Sales to Certain Nonprofit Organizations Supporting Veterans	1760.103	$2,500	$2,600	$2,700	$2,800
Sales to Nonprofit Youth Camps	1760.103	$0	$74,100	$76,000	$77,900
Sales to Pet Food Pantries	1760.103	$0	$5,300	$5,400	$5,550
Sales to Certain Nonprofit Charitable Organizations	1760.103	$0	$202,100	$205,500	$211,600
Trade In Credits	1765	$21,970,000	$24,580,000	$23,630,000	$24,440,000
Returned Merchandise Donated to Charity	1863	B	B	B	B
Merchandise Donated from a Retailers Inventory to Exempt Organizations	1864	B	B	B	B
Refund of Sales Tax on Goods Removed from the State	2012	A	A	A	A
Refund of Sales Tax on Certain Depreciable Machinery and Equipment	2013	$14,170,000	$14,090,000	$15,010,000	$15,900,000
Fish Passage Facilities	2014	A	A	A	A
Refund of Sales Tax on Purchases of Parts and Supplies for Windjammers	2020	B	B	B	B
Consumer Purchases of Medical Services	1752.11	$558,900,000	$578,500,000	$595,800,000	$611,300,000
Consumer Purchases of Transportation Services	1752.11	$34,700,000	$36,900,000	$37,800,000	$39,300,000
Consumer Purchases of Amusement and Recreational Services	1752.11	$64,800,000	$67,100,000	$68,200,000	$69,300,000
Consumer Purchases of Financial Services	1752.11	$195,400,000	$201,600,000	$205,800,000	$208,000,000
Consumer Purchases of Information Services Except Telecommunications	1752.11	$21,000,000	$21,000,000	$21,600,000	$22,100,000
Consumer Purchases of Education Services	1752.11	$73,000,000	$73,100,000	$75,200,000	$77,100,000
Consumer Purchases of Personal, Household and Business Services	1752.11	$77,000,000	$77,200,000	$79,400,000	$81,400,000
Consumer Purchases of Social Services	1752.11	$52,900,000	$53,000,000	$54,500,000	$55,900,000
Business Purchases of Transportation Services	1752.11	$66,700,000	$66,100,000	$68,300,000	$68,800,000
Business Purchases of Information Services Except Telecommunications	1752.11	$36,900,000	$36,200,000	$37,300,000	$38,700,000
Business Purchases of Financial Services	1752.11	$273,100,000	$269,600,000	$274,700,000	$283,700,000
Business Purchases of Legal, Business, Administrative and Support Services	1752.11	$496,700,000	$488,700,000	$504,500,000	$520,900,000
Business Purchases of Educational Services	1752.11	$7,600,000	$7,600,000	$7,800,000	$7,900,000
Business Purchases of Medical Services	1752.11	$13,600,000	$13,600,000	$14,000,000	$14,500,000
Business Purchases of Social Services	1752.11	$270,000	$270,000	$270,000	$280,000
Business Purchases of Amusement and Recreational Services	1752.11	$11,900,000	$11,600,000	$12,200,000	$12,700,000
Business Purchases of Repair, Maintenance and Personal Services, Excluding Construction Services	1752.11	$30,400,000	$30,900,000	$31,900,000	$33,600,000
Business Purchases of Construction Services for Maintenance and Repair	1752.11	$44,100,000	$43,600,000	$44,100,000	$45,500,000
Casual Sales	1752.11	D	D	D	D

A represents an estimated spread of $0 - $49,999
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C represents an estimated spread of $250,000 - $999,999
D represents an estimated spread of $1,000,000 – $2,999,999
E represents an estimated spread of $3,000,000 - $5,999,999
F represents an estimated spread of $6,000,000 or more

	36 MRSA §	FY'20	FY'21	FY'22	FY'23
General Fund Service Provider Tax Expenditures					
Sales to the State & Political Subdivisions	2557.2	D	D	D	D
Sales to Hospitals, Research Centers, Churches and Schools	2557.3	C	C	C	C
Sales to Certain Nonprofit Residential Child Care Institutions	2557.4	A	A	A	A
Sales to Ambulance Services & Fire Departments	2557.5	A	A	A	A
Sales to Comm. Mental Health, Substance Abuse & Mental	1760.28	B	B	B	B
Retardation Facilities	2557.6	A	A	A	A
Sales to Regional Planning Agencies	2557.7	A	A	A	A
Sales to Historical Societies & Museums	2557.8	A	A	A	A
Sales to Day Care Centers & Nursery Schools	2557.9	A	A	A	A
Sales to Church Affiliated Residential Homes	2557.1	A	A	A	A
Sales to Organ. that Provide Residential Facilities for Med. Patients	2557.11	A	A	A	A
Sales to Emergency Shelters & Feeding Organizations	2557.12	A	A	A	A
Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	2557.13	B	B	B	B
Sales to any Nonprofit Free Libraries	2557.14	A	A	A	A
Sales to Veterans Memorial Cemetery Associations	2557.15	A	A	A	A
Sales to Nonprofit Rescue Operations	2557.16	A	A	A	A
Sales to Hospice Organizations	2557.17	A	A	A	A
Sales to Nonprofit Youth & Scouting Organizations	2557.18	B	B	B	B
Sales to Certain Incorporated. Nonprofit Educational Orgs.	2557.19	A	A	A	A
Sales to Certain Charitable Suppliers of Medical Equipment	2557.2	A	A	A	A
Life-Threatening Diseases	2557.21	A	A	A	A
Sales to Providers of Certain Support Systems for Single-Parent Families	2557.22	A	A	A	A
Sales to Nonprofit Home Construction Organizations	2557.23	A	A	A	A
Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans	2557.24	A	A	A	A
Sales to Orgs that Provide Certain Services for Hearing-Impaired Persons	2557.25	A	A	A	A
Sales to State-Chartered Credit Unions	2557.26	A	A	A	A
Sales to Nonprofit Housing Development Organizations	2557.27	A	A	A	A
Sales to Eye Banks	2557.28	A	A	A	A
Sales to Centers for Innovation	2557.29	A	A	A	A
Construction contracts with exempt organizations	2557.31	C	C	C	C
Certain Telecommunications Services	2557.33,34	D	D	D	D
Certain Veterans' Support Organizations	2557.37	A	A	A	A
Nonprofit Library Collaboratives	2557.38	A	A	A	A
General Fund Cigarette Tax Expenditure					
Cigarette Stamp Tax Deduction for Licensed Distributors	4366A.2	$1,403,166	$1,375,130	$1,347,621	$1,320,665
Highway Fund Sales & Use Tax Expenditures					
Motor Vehicle Fuel.	1760.8-A	$112,500,000	$89,500,000	$105,500,000	$117,200,000

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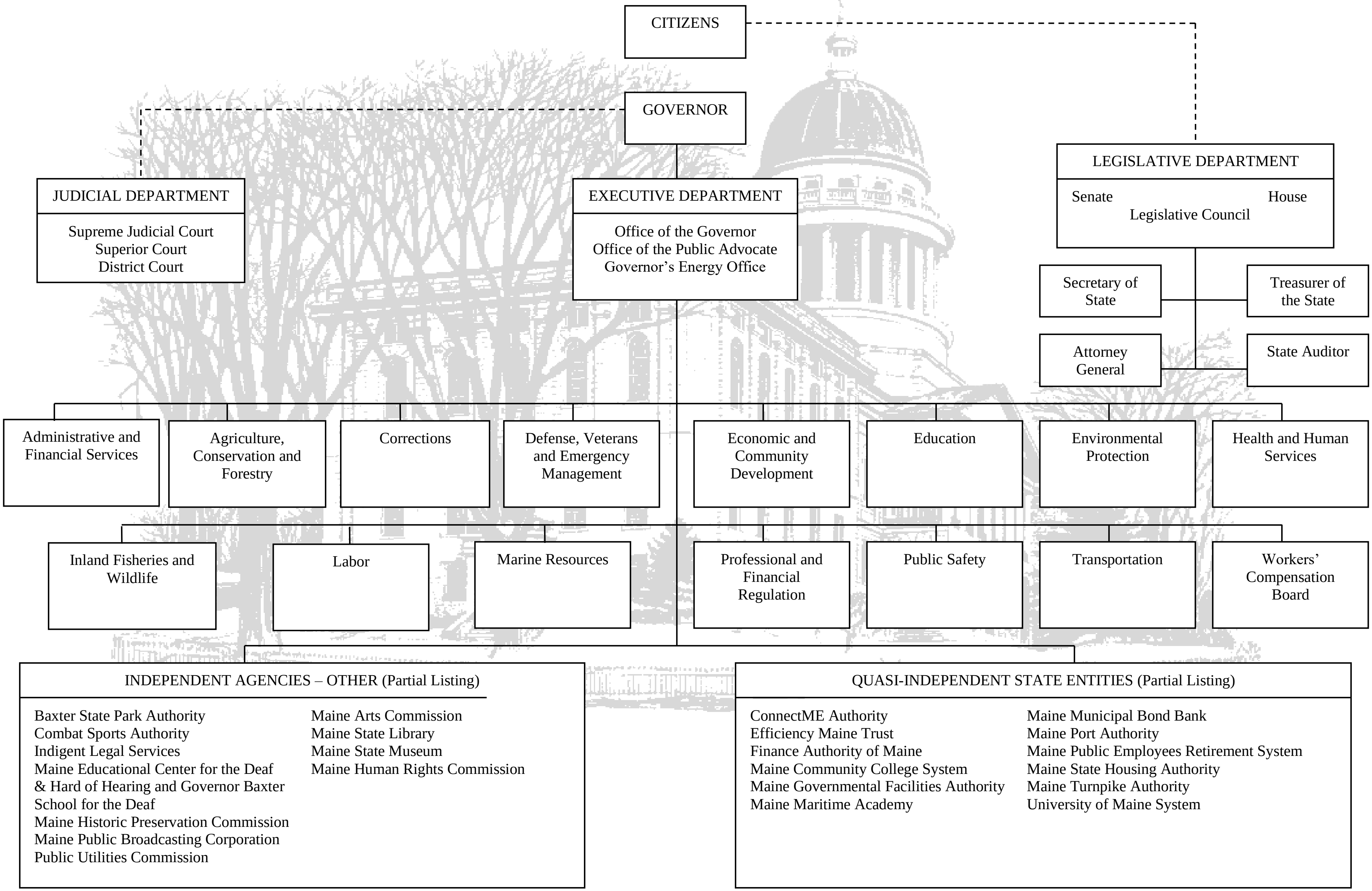
B represents an estimated spread of $50,000 - $249,999
C represents an estimated spread of $250,000 - $999,999
D represents an estimated spread of $1,000,000 – $2,999,999
E represents an estimated spread of $3,000,000 - $5,999,999
F represents an estimated spread of $6,000,000 or more

Other Fund Tax Expenditures – Sales, Motor Fuel and Service Provider Taxes

	36 MRSA §	FY'20	FY'21	FY'22	FY'23
Real Estate Transfer Tax Expenditures					
Exemptions of the Real Estate Transfer Tax, General Fund	4641C	$8,429,807	$9,930,000	$10,230,000	$10,610,000
Exemptions of the Real Estate Transfer Tax, HOME Fund	4641C	$8,422,283	$9,930,000	$10,230,000	$10,610,000
Multimodal Transportation Fund Aeronautical Fuel Tax Expenditures					
Excise Tax Exemption on Jet or Turbo Jet Fuel International Flights	2903	$132,204	$100,000	$139,000	$142,000
Refund of Excise Tax on Fuel Used in Piston Aircraft	2910	$20,000	$20,000	$20,000	$20,000
Highway Fund Gasoline and Special Fuel Tax Expenditures					
State and Local Government Exemption from the Gasoline Tax.	2903	$838,000	$838,000	$838,000	$838,000
Gasoline Exported from the State.	2903	$43,443,000	$42,470,000	$45,627,000	$46,659,000
Refund of the Gasoline Tax for Off-Highway Use and for Certain Bus Companies	2908 and 2909	$227,000	$227,000	$227,000	$227,000
Refund of the Gasoline Tax to Government Agencies and Political Subdivisions	2910-B	$1,205,000	$1,205,000	$1,205,000	$1,205,000
State & Local Government Exemption from the Special Fuel Tax	3204-A	$2,012,000	$2,012,000	$2,012,000	$2,012,000
Special Fuel Exported from the State.	3204-A	$8,594,000	$8,503,000	$8,678,000	$8,808,000
Refund of Special Fuel Tax for Off-Highway Use and for Certain Bus Companies	3215 and 3218	$2,309,000	$2,309,000	$2,309,000	$2,309,000
Refund of the Special Fuels Tax to Government Agencies and Political Subdivisions	3208-A	$500,000	$500,000	$500,000	$500,000

ORGANIZATIONAL CHART OF MAINE STATE GOVERNMENT



Budget Forecast

5 M.R.S.A. §1665, requires the State Budget Officer to prepare a four-year revenue and expenditure forecast for the General Fund and the Highway Fund. In accordance with 5 M.R.S.A. §1665, subsection 7, the forecast assumes the continuation of current laws and includes reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. The Bureau of the Budget has prepared its updated four-year budget forecast for fiscal years 2019-20 through 2022-23.

In order to provide the most accurate expenditure estimate, legislatively approved appropriations and allocations through the end of the Second Session of the 129th Legislature were used as the starting point for the forecast. The authorized budget for fiscal year 2020-21, recalculated to reflect authorized positions and projected rates for personnel services, and adjusted by program for one-time expenditures and the phase-in of new operations, was used to determine the baseline expenditure forecast for fiscal years 2021-22 through 2022-23. This was further adjusted to reflect program-by-program expenditure growth or decline that varied from the baseline growth assumptions, resulting from programmatic factors such as caseload, national trends, etc. The General and Highway Fund revenues used in this forecast are from the Revenue Forecasting Committee's December 1, 2020 report and the impacts of the recession stemming from the COVID-19 pandemic are reflected in both the revenue and structural gap projections.

The forecasts of revenues, appropriations and allocations contained in this report, as constructed under current law and current trends. As reflected in **Table C – 1**, the budgeted General Fund adjusted fund balance for fiscal year 2020 was $184,144,439 and a shortfall of $149,534,502 is projected for the end of 2020-2021 biennium. The projection includes adjustments enacted through the Second Regular Session of the 129th Legislature. Current projections for the 2022-2023 biennium assume a beginning balance of $0 and General Fund revenues of $8,096,373,358. Projected General Fund appropriations for the biennium are $8,758,090,003 which results in a budget gap for the General Fund of ($661,716,645).

As reflected in **Table C – 2**, the budgeted Highway Fund adjusted fund status for fiscal year 2020 was ($8,469,400) and is projected to be ($28,593,667) at the end of 2020-2021 biennium. The projection includes adjustments enacted through the Second Regular Session of the 129th Legislature. Current projections for the 2022-2023 biennium assume a beginning balance of $0 and Highway Fund revenues of $674,159,707. Projected Highway Fund allocations for the biennium are $1,162,669,738 which result in a projected budget gap for the Highway Fund of ($488,510,031).

Table C-1.

Four Year Forecast (MRSA 5, §1665 sub-§7)
Fiscal Years 2020-2023
As of December 15, 2020

GENERAL FUND STATUS

	Fiscal Years 2020-2021 BUDGET			Fiscal Years 2022-2023 FORECAST		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	139,216,388		139,216,388			
ADJUSTMENTS *	9,465,971	3,415,567	12,881,538			
REVENUE	3,969,343,702	3,815,276,916	7,784,620,618	3,972,767,717	4,123,605,641	8,096,373,358
TOTAL RESOURCES	**4,118,026,061**	**3,818,692,483**	**7,936,718,544**	**3,972,767,717**	**4,123,605,641**	**8,096,373,358**
ADJUSTMENTS						
APPROPRIATIONS	3,933,881,622	4,152,371,423	8,086,253,045	4,346,179,872	4,411,910,131	8,758,090,003
PROJECTED BALANCE (SHORTFALL)	**184,144,439**	**(333,678,940)**	**(149,534,501)**	**(373,412,155)**	**(288,304,490)**	**(661,716,645)**

* Includes transfers and adjustments in budget bills and other enacted laws as well as year-end adjustments for unbudgeted lapsed balances, lapsed encumbrances, statutory transfers and other accounting adjustments.

Table C-2.

Four Year Forecast (MRSA 5, §1665 sub-§7)
Fiscal Years 2020-2023
As of December 15, 2020

HIGHWAY FUND STATUS

	Fiscal Years 2020-2021 BUDGET			Fiscal Years 2022-2023 FORECAST		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	14,790,015		14,790,015			
ADJUSTMENTS *	(4,153,722)	(6,404,253)	(10,557,975)			
REVENUE	327,176,570	324,670,407	651,846,977	334,604,105	339,555,602	674,159,707
TOTAL RESOURCES	**337,812,863**	**318,266,154**	**656,079,017**	**334,604,105**	**339,555,602**	**674,159,707**
ADJUSTMENTS **	4,347,010		4,347,010			
ALLOCATIONS	341,935,253	338,390,421	680,325,674	579,461,296	583,208,442	1,162,669,738
PROJECTED BALANCE (SHORTFALL)	**(8,469,400)**	**(20,124,267)**	**(28,593,667)**	**(244,857,191)**	**(243,652,840)**	**(488,510,031)**

* Includes transfers and adjustments in budget bills and other enacted laws as well as year-end adjustments for unbudgeted lapsed balances, lapsed encumbrances, and other accounting adjustments.

** Includes statutory year-end transfers.

Summary of Governor's General Fund Budget Recommendations

The following tables and charts show in summary form the Governor's General Fund budget recommendations for the 2022-2023 biennium. **Table D - 1** shows total General Fund appropriations by department or agency (including one-time appropriations) with percent change for the 2022-2023 biennium compared to the 2020-2021 biennium.

The amount reflected for the Department of Administrative and Financial Services in the 2022-2023 biennium includes a reduction from projected savings associated with various initiatives that will have a statewide impact. The savings will be distributed to the appropriate accounts by financial order during the fiscal year.

Table D – 2 shows the General Fund revenues recommended by the Governor for fiscal year 2021-22 and fiscal year 2022-23. The columns labeled ORIG represent the General Fund revenue forecast of the Revenue Forecasting Committee. The columns labeled ADJ reflect the Governor's recommended adjustments to the base revenues.

Chart D – 1 shows the Governor's recommended General Fund appropriations by major program for the 2022-2023 biennium.

Chart D – 2 shows the Governor's recommended General Fund revenues by revenue source for the 2022-2023 biennium. These revenues include the base revenue projections of the Revenue Forecasting Committee, including Transfers for Tax Relief Programs, and adjustments to the base revenues recommended by the Governor.

TABLE D-1

GENERAL FUND APPROPRIATIONS

DEPARTMENT/AGENCY	GOVERNOR'S BUDGET 2020-2021 Biennium	2022-2023 Biennium	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	418,472,481	456,327,332	9.05%
DEPARTMENT OF AGRICULTURE, CONSERVATION AND FORESTRY	71,526,525	77,798,576	8.77%
MAINE ARTS COMMISSION	1,954,528	2,089,094	6.88%
DEPARTMENT OF THE ATTORNEY GENERAL	47,154,732	49,753,272	5.51%
OFFICE OF THE STATE AUDITOR	3,200,482	3,355,810	4.85%
DEPARTMENT OF CORRECTIONS	393,765,829	404,194,254	2.65%
MAINE STATE CULTURAL AFFAIRS COUNCIL	78,890	78,890	0.00%
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT	19,525,032	18,822,456	-3.60%
MAINE DEVELOPMENT FOUNDATION	116,888	116,888	0.00%
DIRIGO HEALTH	2,344,406	2,455,975	4.76%
DISABILITY RIGHTS MAINE	252,090	252,090	0.00%
DOWNEAST INSTITUTE FOR APPLIED MARINE RESEARCH AND EDUCATION	25,108	25,108	0.00%
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	25,607,437	25,998,948	1.53%
STATE BOARD OF EDUCATION	371,118	324,687	-12.51%
DEPARTMENT OF EDUCATION	2,949,960,960	3,091,356,974	4.79%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	18,116,088	18,922,882	4.45%
COMMISSION ON GOVERNMENTAL ETHICS AND ELECTION PRACTICES	312,341	362,744	16.14%
EXECUTIVE DEPARTMENT	11,205,372	12,280,189	9.59%
FINANCE AUTHORITY OF MAINE	36,387,788	36,587,788	0.55%
MAINE FIRE PROTECTION SERVICES COMMISSION	4,000	4,000	0.00%
MAINE HISTORIC PRESERVATION COMMISSION	726,300	789,235	8.67%
MAINE HISTORICAL SOCIETY	89,728	89,728	0.00%
MAINE HOSPICE COUNCIL	127,012	127,012	0.00%
MAINE STATE HOUSING AUTHORITY	5,100,000	5,000,000	-1.96%
MAINE HUMAN RIGHTS COMMISSION	1,938,091	2,093,942	8.04%
DEPARTMENT OF HEALTH AND HUMAN SERVICES	2,743,011,362	2,809,486,184	2.42%
MAINE HUMANITIES COUNCIL	106,714	106,714	0.00%
MAINE COMMISSION ON INDIGENT LEGAL SERVICES	16,427,968	32,975,589	100.73%
MAINE INDIAN TRIBAL-STATE COMMISSION	223,228	223,228	0.00%
DEPARTMENT OF INLAND FISHERIES AND WILDLIFE	58,124,524	62,529,337	7.58%
CENTERS FOR INNOVATION	236,018	236,018	0.00%
JUDICIAL DEPARTMENT	172,828,601	177,371,469	2.63%
DEPARTMENT OF LABOR	22,803,700	22,984,122	0.79%
LAW AND LEGISLATIVE REFERENCE LIBRARY	3,378,179	3,872,473	14.63%
LEGISLATURE	58,625,203	62,434,120	6.50%
MAINE STATE LIBRARY	7,724,619	7,872,042	1.91%
DEPARTMENT OF MARINE RESOURCES	23,737,050	25,867,977	8.98%
MAINE MARITIME ACADEMY	18,418,329	18,428,270	0.05%
MAINE MUNICIPAL BOND BANK	138,662	138,662	0.00%
MAINE STATE MUSEUM	3,935,719	4,146,869	5.36%
PINE TREE LEGAL ASSISTANCE	1,000,000	1,000,000	0.00%
MAINE POTATO BOARD	321,804	321,804	0.00%
OFFICE OF PROGRAM EVALUATION AND GOVERNMENT ACCOUNTABILITY	2,764,867	3,088,671	11.71%
STATE BOARD OF PROPERTY TAX REVIEW	173,130	173,130	0.00%
MAINE PUBLIC BROADCASTING CORPORATION	3,225,000	3,300,000	2.33%
DEPARTMENT OF PUBLIC SAFETY	104,743,687	108,916,390	3.98%
MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM	522,511	700,481	34.06%
SACO RIVER CORRIDOR COMMISSION	93,920	93,920	0.00%
DEPARTMENT OF THE SECRETARY OF STATE	13,197,676	13,039,029	-1.20%
ST. CROIX INTERNATIONAL WATERWAY COMMISSION	50,000	100,000	100.00%
RESERVE FUND FOR STATE HOUSE PRESERVATION AND MAINTENANCE	1,600,000	1,600,000	0.00%
MAINE COMMUNITY COLLEGE SYSTEM	146,598,212	143,169,916	-2.34%
DEPARTMENT OF TRANSPORTATION	10,000,000	0	-100.00%
(OFFICE OF) TREASURER OF STATE	214,407,260	231,152,810	7.81%
BOARD OF TRUSTEES OF THE UNIVERSITY OF MAINE SYSTEM	449,365,976	449,798,008	0.10%
NEW ENGLAND INTERSTATE WATER POLLUTION CONTROL COMMISSION	105,900	105,900	0.00%
Total General Fund Appropriations	**8,086,253,045**	**8,394,441,007**	**3.81%**

TABLE D-2

GENERAL FUND REVENUE FORECAST									
	FY 2021			FY 2022			FY 2023		
SOURCE	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET
Sales and Use Tax	1,593,571,678		1,593,571,678	1,712,642,422		1,712,642,422	1,791,923,237		1,791,923,237
Service Provider Tax	56,562,000		56,562,000	55,997,000	4,000,000	59,997,000	55,437,000	6,210,000	61,647,000
Individual Income Tax	1,695,661,250		1,695,661,250	1,753,820,000	(2,785,000)	1,751,035,000	1,833,704,375	(3,370,000)	1,830,334,375
Corporate Income Tax	202,855,000		202,855,000	220,408,737	9,820,000	230,228,737	228,388,199	10,319,000	238,707,199
Cigarette & Tobacco Tax	144,401,400		144,401,400	148,971,771		148,971,771	151,559,736		151,559,736
Insurance Company Tax	84,400,000		84,400,000	88,250,000		88,250,000	88,700,000		88,700,000
Inheritance & Estate Tax	18,050,000		18,050,000	14,750,000		14,750,000	16,750,000		16,750,000
Fines, Forfeits and Penalties	9,387,746		9,387,746	12,430,166		12,430,166	12,434,166		12,434,166
Income from Investments	5,383,431		5,383,431	3,326,083		3,326,083	949,998		949,998
Transfer from Lottery	60,000,000		60,000,000	60,000,000		60,000,000	60,000,000		60,000,000
Trans for Tax Relief Progs	(75,667,000)		(75,667,000)	(77,250,000)		(77,250,000)	(80,800,000)		(80,800,000)
Trans. to Muni. Rev. Share	(137,573,408)		(137,573,408)	(190,421,383)	46,103,596	(144,317,787)	(198,700,281)	48,094,745	(150,605,536)
Other Taxes and Fees	144,027,645		144,027,645	144,145,560		144,145,560	146,953,264		146,953,264
Other Revenues	14,217,174		14,217,174	25,697,361		25,697,361	16,305,947		16,305,947
TOTAL REVENUE	**3,815,276,917**	**-**	**3,815,276,917**	**3,972,767,717**	**57,138,596**	**4,029,906,313**	**4,123,605,641**	**61,253,745**	**4,184,859,386**

Chart D-1

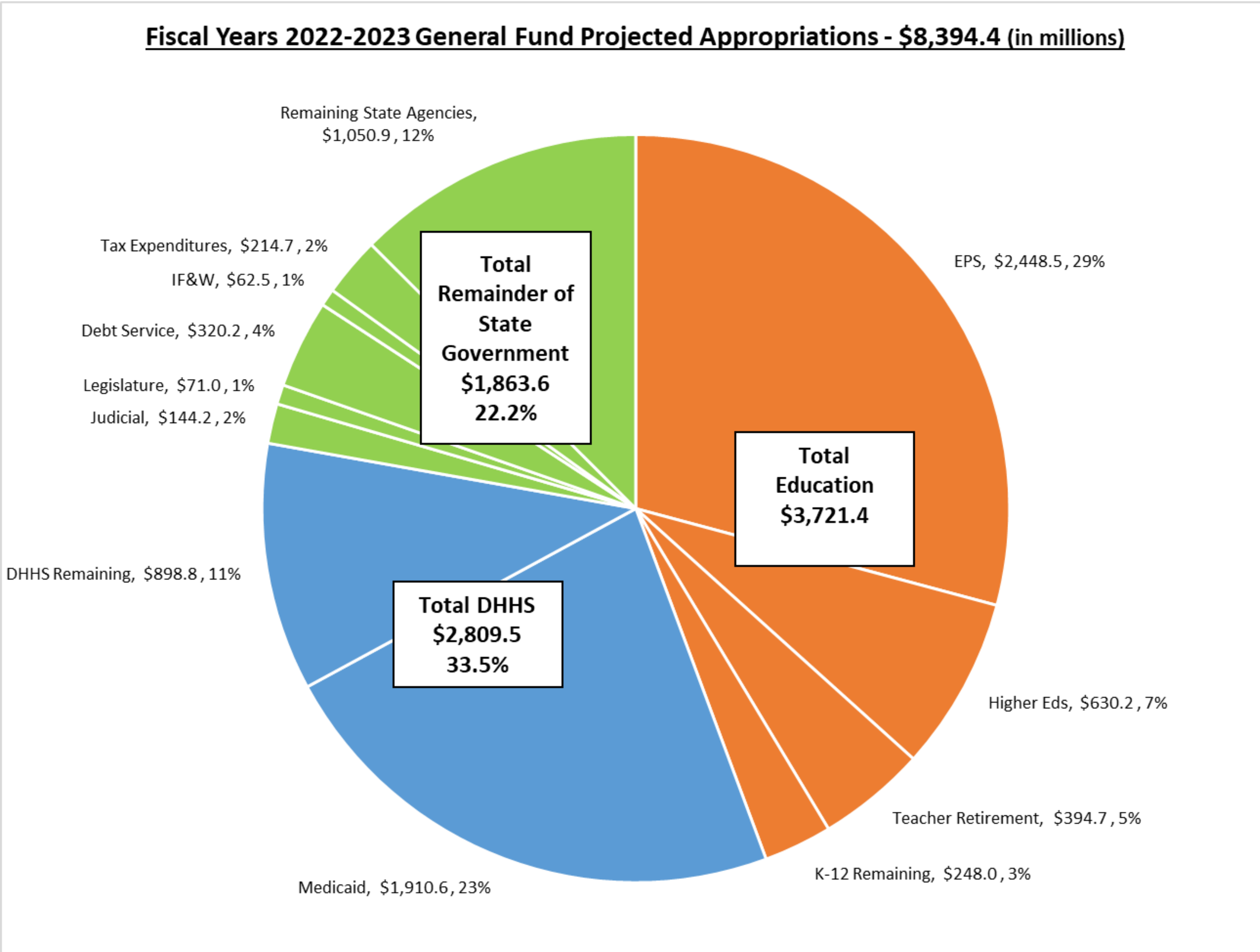
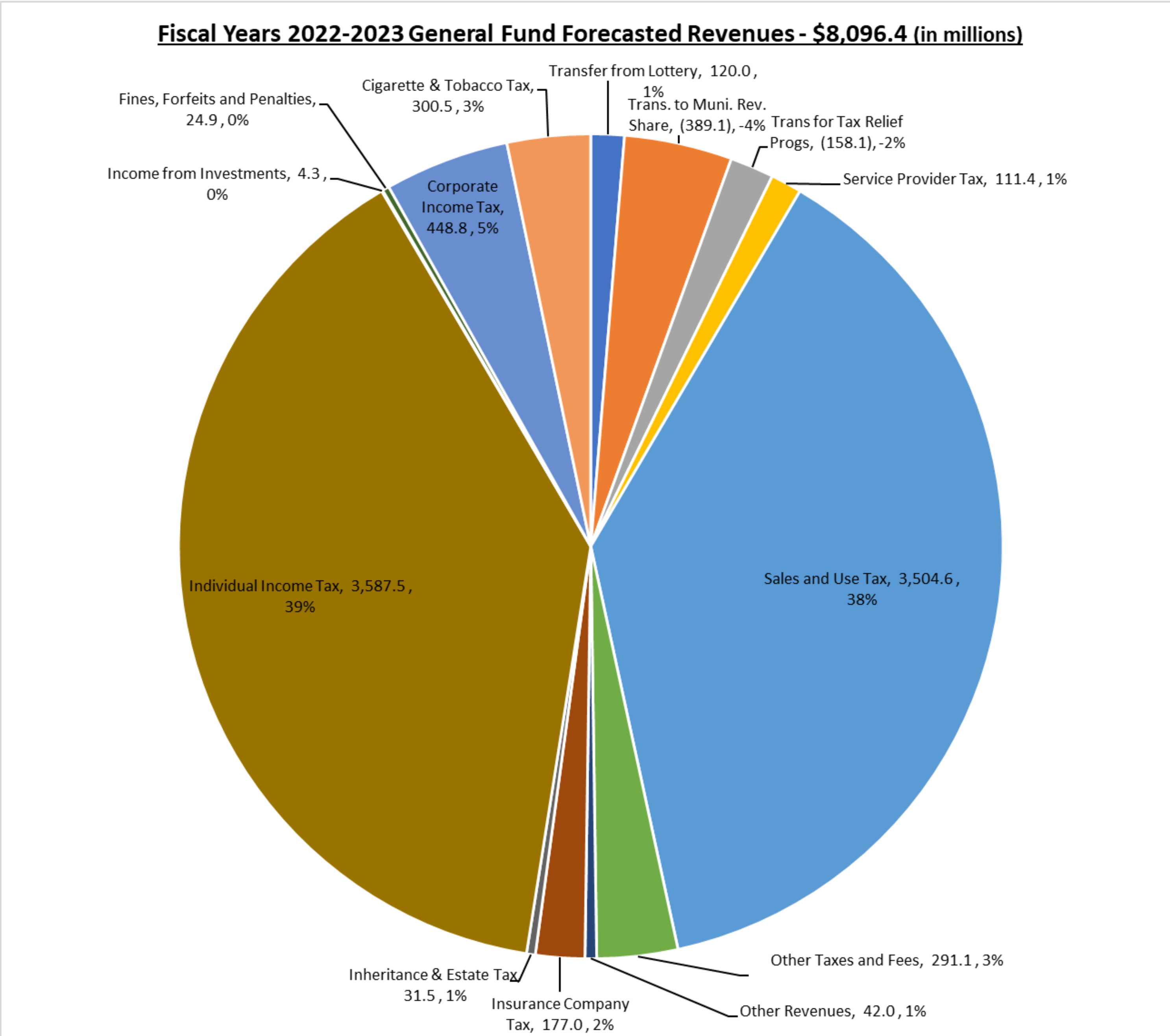

Fiscal Years 2022-2023 General Fund Projected Appropriations - $8,394.4 (in millions)
Remaining State Agencies, $1,050.9 , 12%
Tax Expenditures, $214.7 , 2%
IF&W, $62.5 , 1%
Debt Service, $320.2 , 4%
Legislature, $71.0 , 1%
Judicial, $144.2 , 2%
Total Remainder of State Government $1,863.6 22.2%
EPS, $2,448.5 , 29%
Total Education $3,721.4
Higher Eds, $630.2 , 7%
Teacher Retirement, $394.7 , 5%
K-12 Remaining, $248.0 , 3%
DHHS Remaining, $898.8 , 11%
Total DHHS $2,809.5 33.5%
Medicaid, $1,910.6 , 23%

Chart D-2


Fiscal Years 2022-2023 General Fund Forecasted Revenues - $8,096.4 (in millions)
Transfer from Lottery, 120.0, 1%
Trans. to Muni. Rev. Share, (389.1), -4%
Trans for Tax Relief Progs, (158.1), -2%
Service Provider Tax, 111.4, 1%
Cigarette & Tobacco Tax, 300.5, 3%
Fines, Forfeits and Penalties, 24.9, 0%
Income from Investments, 4.3, 0%
Corporate Income Tax, 448.8, 5%
Individual Income Tax, 3,587.5, 39%
Sales and Use Tax, 3,504.6, 38%
Other Taxes and Fees, 291.1, 3%
Other Revenues, 42.0, 1%
Inheritance & Estate Tax, 31.5, 1%
Insurance Company Tax, 177.0, 2%

Summary of Governor's Highway Fund Budget Recommendations

The following tables and charts show in summary form the Governor's Highway Fund budget recommendations for the 2022-2023 biennium. **Table E - 1** shows total Highway Fund allocations by department or agency (including one-time allocations) with percent change for the 2022-2023 biennium compared to the 2020-2021 biennium.

Table E – 2 shows the Highway Fund revenues recommended by the Governor for fiscal year 2021-22 and fiscal year 2022-23. The columns labeled ORIG represent the Highway Fund revenue forecast of the Revenue Forecasting Committee.

Chart E – 1 shows the Governor's recommended Highway Fund allocations by major program.

Chart E – 2 shows the Governor's recommended Highway Fund revenues by revenue source for the 2022-2023 biennium. These revenues include the base revenue projections of the Revenue Forecasting Committee.

TABLE E-1

HIGHWAY FUND ALLOCATIONS

DEPARTMENT/AGENCY	GOVERNOR'S BUDGET 2020-2021 Biennium	GOVERNOR'S BUDGET 2022-2023 Biennium	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	5,211,353	-4,496,683	-186.29%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	66,108	63,198	-4.40%
LEGISLATURE	26,835	21,125	-21.28%
DEPARTMENT OF PUBLIC SAFETY	62,090,509	64,447,895	3.80%
DEPARTMENT OF THE SECRETARY OF STATE	82,016,525	89,853,621	9.56%
DEPARTMENT OF TRANSPORTATION	535,261,354	525,949,264	-1.74%
TOTAL HIGHWAY FUND ALLOCATIONS	**684,672,684**	**675,838,420**	**-1.29%**

TABLE E-2

HIGHWAY FUND REVENUE FORECAST

	FY 2021			FY 2022			FY 2023		
SOURCE	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET
Fuel Tax	214,788,352		214,788,352	228,499,279		228,499,279	233,451,857		233,451,857
Motor Vehicle Registrations & Fees	92,815,021		92,815,021	91,195,146		91,195,146	91,195,146		91,195,146
Inspection Fees	3,092,771		3,092,771	3,202,500		3,202,500	3,202,500		3,202,500
Miscellaneous Taxes & Fees	1,267,454		1,267,454	1,267,454		1,267,454	1,267,454		1,267,454
Fines Forfeits & Penalties	412,286		412,286	606,412		606,412	606,412		606,412
Income from Investments	174,622		174,622	93,993		93,993	27,768		27,768
Other Revenues	12,119,901		12,119,901	9,739,321		9,739,321	9,804,465		9,804,465
TOTAL REVENUE	324,670,407	-	324,670,407	334,604,105	-	334,604,105	339,555,602	-	339,555,602

Chart E-1

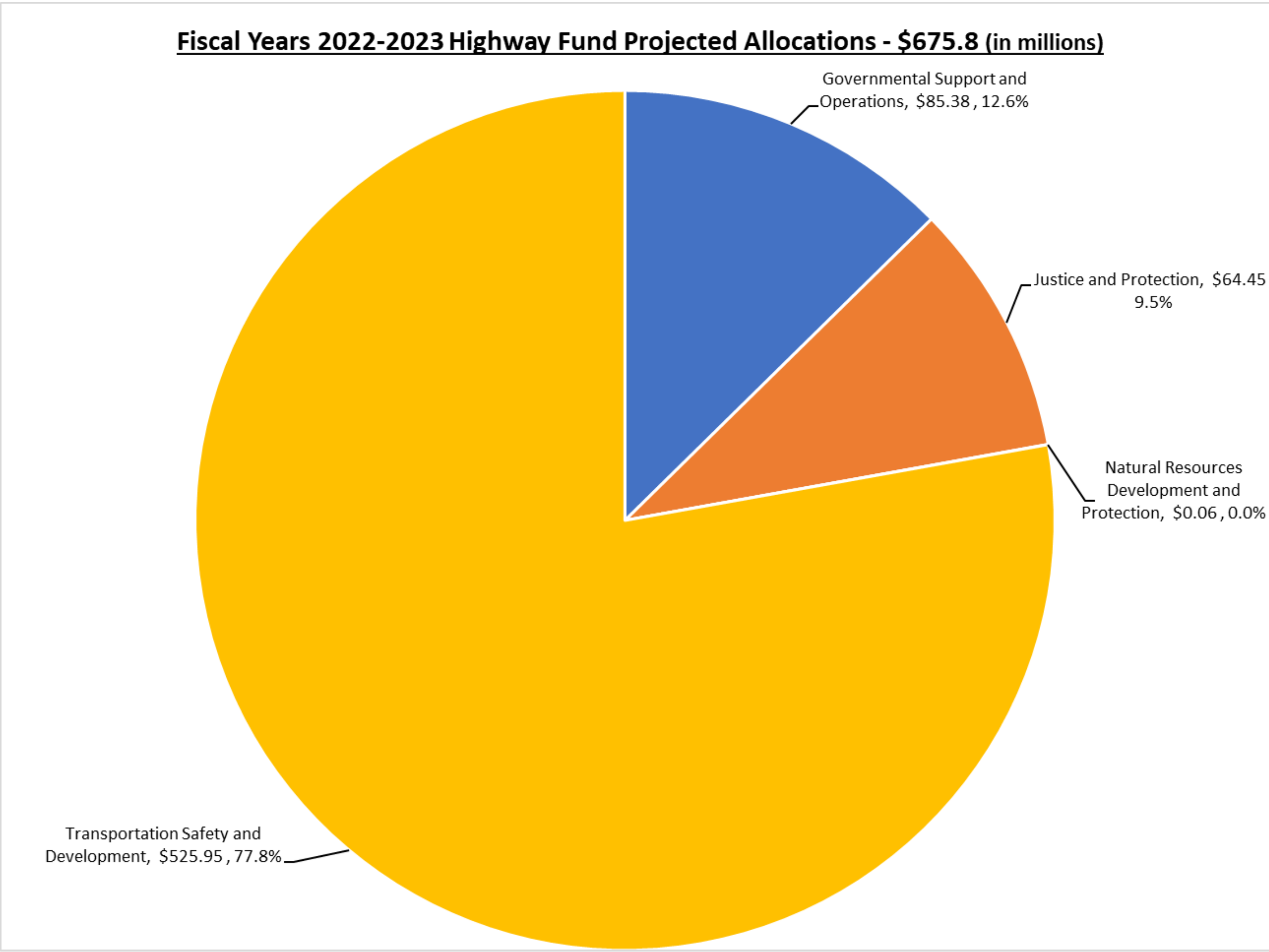
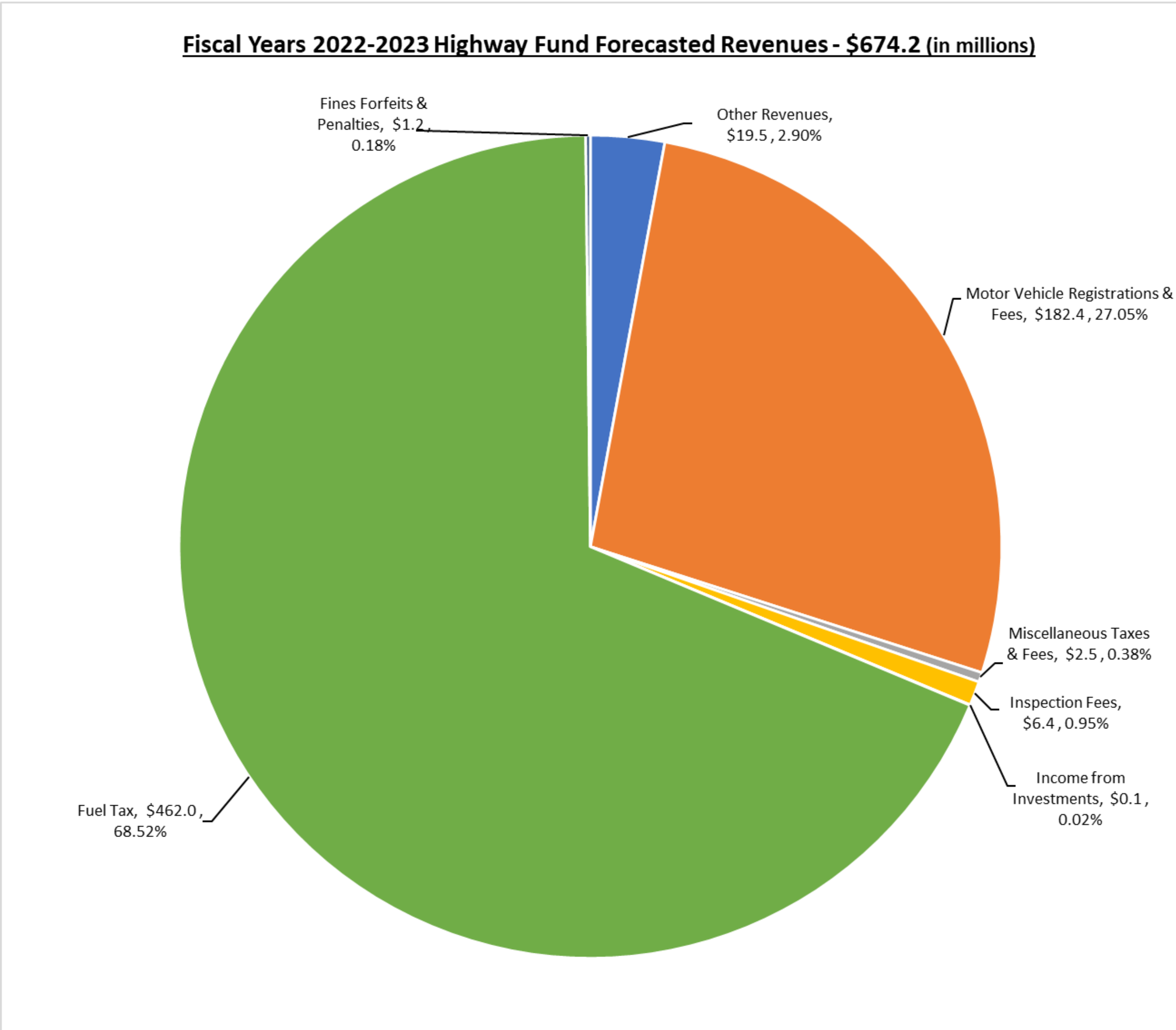

Fiscal Years 2022-2023 Highway Fund Projected Allocations - $675.8 (in millions)
Governmental Support and Operations, $85.38 , 12.6%
Justice and Protection, $64.45 , 9.5%
Natural Resources Development and Protection, $0.06 , 0.0%
Transportation Safety and Development, $525.95 , 77.8%

Chart E-2


Fiscal Years 2022-2023 Highway Fund Forecasted Revenues - $674.2 (in millions)
Fines Forfeits & Penalties, $1.2, 0.18%
Other Revenues, $19.5, 2.90%
Motor Vehicle Registrations & Fees, $182.4, 27.05%
Miscellaneous Taxes & Fees, $2.5, 0.38%
Inspection Fees, $6.4, 0.95%
Income from Investments, $0.1, 0.02%
Fuel Tax, $462.0, 68.52%

GENERAL FUND STATUS

	Fiscal Years 2020-2021 Enacted BUDGET			Fiscal Years 2022-2023 BUDGET		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	139,216,388		139,216,388	47,179,740		47,179,740
			0			
ADJUSTMENTS	9,465,971	3,415,567	12,881,538	134,452,639	21,150,000	155,602,639
			0			
REVENUE	3,969,343,702	3,815,276,916	7,784,620,618	4,029,906,313	4,184,859,386	8,214,765,699
TOTAL RESOURCES	**4,118,026,061**	**3,818,692,483**	**7,936,718,544**	**4,211,538,692**	**4,206,009,386**	**8,417,548,078**
ADJUSTMENTS				10,000,000	10,000,000	20,000,000
APPROPRIATIONS	3,933,881,622	4,152,371,423	8,086,253,045	4,188,607,942	4,205,833,065	8,394,441,007
PROJECTED BALANCE (SHORTFALL)	**184,144,439**	**(333,678,940)**	**(149,534,501)**	**12,930,750**	**(9,823,679)**	**3,107,071**

HIGHWAY FUND STATUS

	Fiscal Years 2020-2021 Enacted BUDGET			Fiscal Years 2022-2023 BUDGET		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	14,790,015		14,790,015	5,716,939		5,716,939
ADJUSTMENTS	(4,153,722)	(6,404,253)	(10,557,975)			-
			-			
REVENUE	327,176,570	324,670,407	651,846,977	334,604,105	339,555,602	674,159,707
TOTAL RESOURCES	**337,812,863**	**318,266,154**	**656,079,017**	**340,321,044**	**339,555,602**	679,876,646
ADJUSTMENTS	4,347,010		4,347,010	2,000,000	2,000,000	4,000,000
ALLOCATIONS	341,935,253	338,390,421	680,325,674	336,025,892	339,812,528	675,838,420
PROJECTED BALANCE (SHORTFALL)	**(8,469,400)**	**(20,124,267)**	**(28,593,667)**	**2,295,152**	**(2,256,926)**	**38,226**

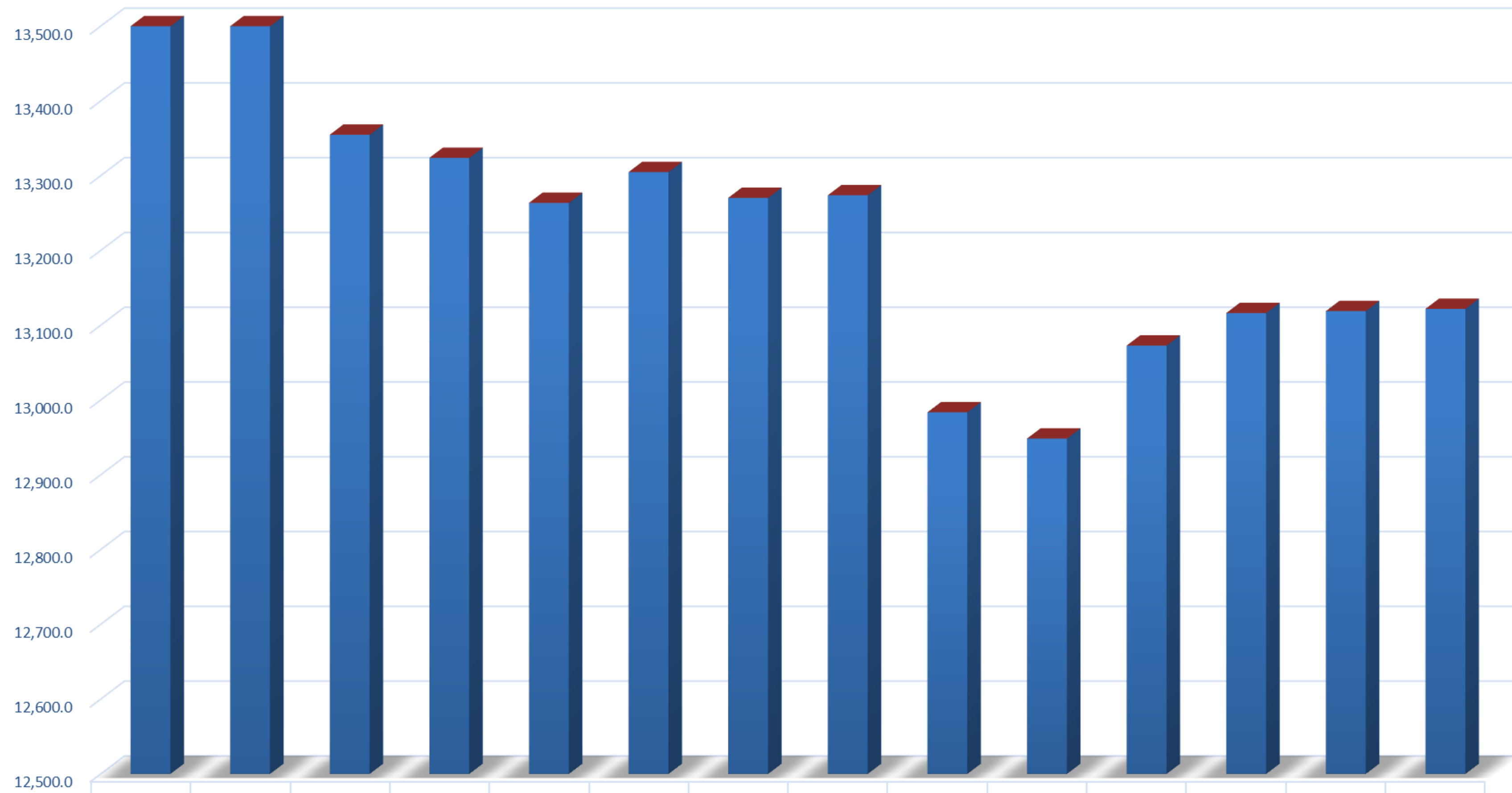
FUND FOR A HEALTHY MAINE

	Fiscal Years 2020-2021 Enacted BUDGET			Fiscal Years 2022-2023 BUDGET		
	FY 2020	FY 2021	TOTAL	FY 2022	FY 2023	TOTAL
BALANCE	49,108,880		49,108,880	34,707,393		34,707,393
ADJUSTMENTS	5,215,523	-	5,215,523	-	-	-
REVENUE	49,543,354	44,751,919	94,295,273	42,504,640	40,909,864	83,414,504
TOTAL RESOURCES	**103,867,757**	**44,751,919**	**148,619,676**	**77,212,033**	**40,909,864**	118,121,897
ADJUSTMENTS		-	-		-	-
ALLOCATIONS	65,153,129	67,342,233	132,495,362	56,458,668	56,422,366	112,881,034
PROJECTED BALANCE (SHORTFALL)	**38,714,628**	**16,124,314**	**16,124,314**	**20,753,365**	**(15,512,502)**	**5,240,863**

FY 2020 figures in the above tables represent actuals and FY 2021 figures represent the enacted budget as of the Second Session of the 129th Legislature and the December 2020 revenue forecast. Figures for FY 2022 and FY 2023 represent the Governor's Recommended Budget which includes the revenues from the December 2020 forecast.

Adjustments in the tables above include 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.

Position trend and attrition savings rate through the Governor's Recommendation FY 2022 - 2023



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Budgeted Attrition Rate	5%	5%	5%	6%	5%	6%	3%	3%	5%	5%	5%	5%	5%	5%
Authorized Position Count	13,835.8	13,737.1	13,354.8	13,323.9	13,263.7	13,304.9	13,270.4	13,273.9	12,983.6	12,948.5	13,072.9	13,116.4	13,119.0	13,122.0

Requested and Recommended Appropriations and Allocations

Judicial Department

Pursuant to 5 MRSA, chapter 149, §1664, sub-§2, the Governor must provide notice when the recommended appropriations and allocations for the Judicial Department differ from the budget request submitted by the Judicial Department, providing an explanation for any differences.

The chart below summarizes the baseline budgets by fund type, for the Judicial Department for each year of the upcoming biennium, for Personal Services, All Other and Capital. It also provides summary information for changes to appropriations and allocations requested by the department and the recommended appropriations and allocations appearing in the Governor's budget.

In all, the department requested an increase in General Fund appropriations of $4.2 million over the course of the biennium. The Governor's budget for the 2022–2023 biennium recommends total adjustments in appropriations of $2.0 million which includes a savings initiative for attrition. Careful consideration was given to the department's requests, taking into consideration the Chief Justice's rationale for the proposed budget and the needs of the department and within the larger context of the range of needs across state government.

The Judicial Department requested an increase in allocations of federal funds totaling approximately $822 thousand; the Governor's budget also recommends an increased allocation of that amount. Lastly, the department requested an increase in Other Special Revenue of approximately $1.8 million; the Governor's budget recommends an increase in allocation of the same amount.

Judicial

	FY 22 Revised Baseline Budget	FY 23 Revised Baseline Budget	Requested Changes FY 22	Requested Changes FY 23	Recommended Changes FY22	Recommended Changes FY23	FY 22 Recommended Budget	FY23 Recommended Budget
GENERAL FUND								
Personal Services*	52,137,289	53,268,349			(1,566,169)	(1,594,453)	50,571,120	51,673,896
All Other	36,988,417	36,988,417	2,139,638	2,065,638	1,097,638	51,981	38,086,055	37,040,398
Capital Expenditures							-	
Unallocated							-	
Total	89,125,706	90,256,766	2,139,638	2,065,638	(468,531)	(1,542,472)	88,657,175	88,714,294
FEDERAL EXPENDITURE FUNDS								
Personal Services	106,075	108,910	404,648	417,925	404,648	417,925	510,723	526,835
All Other	1,088,789	1,088,789					1,088,789	1,088,789
Capital Expenditures							-	
Unallocated							-	
Total	1,194,864	1,197,699	404,648	417,925	404,648	417,925	1,599,512	1,615,624
OTHER SPECIAL REVENUE FUNDS								
Personal Services	4,166,368	4,293,565	882,985	917,620	882,985	917,620	5,049,353	5,211,185
All Other	6,316,667	6,316,667					6,316,667	6,316,667
Capital Expenditures	300,000	300,000					300,000	300,000
Unallocated								
Total	10,783,035	10,910,232	882,985	917,620	882,985	917,620	11,666,020	11,827,852
TOTAL	**101,103,605**	**102,364,697**	**3,427,271**	**3,401,183**	**819,102**	**(206,927)**	**101,922,707**	**102,157,770**

* Recommended changes in the General Fund, Personal Services line category, assumes an savings initiative for attrition, with current law 1.6% going to 5%

Office of Program Evaluation and Government Accountability

Pursuant to 5 MRSA, chapter 149, §1664, sub-§3, the Governor must provide notice when the recommended appropriations and allocations for the legislative Office of Program Evaluation and Government Accountability (OPEGA) differ from those requested by the Legislative Council, providing an explanation for any such difference.

The Legislative Council did not submit additional budget requests for OPEGA. The Baseline Budget is reflected in the Governor's recommended biennial budget.

Office of Program Evaluation and Government Accountability

	FY 22 Revised Baseline Budget	FY 23 Revised Baseline Budget	Requested Changes FY 22	Requested Changes FY 23	Recommended Changes FY22	Recommended Changes FY23	FY 22 Recommended Budget	FY23 Recommended Budget
GENERAL FUND								
Personal Services	1,372,737	1,417,758					1,372,737	1,417,758
All Other	149,088	149,088					149,088	149,088
Capital Expenditures	-						-	
Unallocated							-	
Total	1,521,825	1,566,846	-	-	-	-	1,521,825	1,566,846
TOTAL	**1,521,825**	**1,566,846**	**-**	**-**	**-**	**-**	**1,521,825**	**1,566,846**

Research and Development

5 MRSA, chapter 149, §1664, sub-§3-A, establishes a formula for determining a funding level for research and development. In FY10, that formula set the level at not less than 1% of total actual General Fund revenue in FY09. For each successive year for the following decade, that funding level is to increase by at least two-tenths of 1% until funding for research and development is the equivalent to not less than 3% of total actual General Fund revenue of the previous fiscal year.

The funding level recommended for research and development as recommended in the Governor's budget includes an appropriation of $17.4 million in each year of the biennium to the Maine Economic Improvement Fund, University of Maine System. It also includes a recommended appropriation of just over $7 million in each year for the Office of Innovation, within the Department of Economic and Community Development. Both of these appropriations are for the support of research and development activities.

This funding level falls short of that which would be otherwise calculated using the formula described above. Careful consideration was made in arriving at the recommended funding levels, as investment in research and development is critical to Maine's economy and future.

Research and Development

	FY 22 Revised Baseline Budget	FY 23 Revised Baseline Budget	Requested Changes FY 22	Requested Changes FY 23	Recommended Changes FY22	Recommended Changes FY23	FY 22 Recommended Budget	FY23 Recommended Budget
GENERAL FUND								
Personal Services	304,137	305,512	-	-			304,137	305,512
All Other	24,144,260	24,144,260	(337,060)	(337,088)	-	-	24,144,260	24,144,260
Capital Expenditures							-	
Unallocated							-	
Total	24,448,397	24,449,772	(337,060)	(337,088)	-	-	24,448,397	24,449,772
TOTAL	**24,448,397**	**24,449,772**	**(337,060)**	**(337,088)**	**-**	**-**	**24,448,397**	**24,449,772**

5 MRSA, chapter 149, §1664, sub-§3-A

3-A. Funding for research and development. Beginning in fiscal year 2008-09, the Governor, when submitting the budget document to the Legislature pursuant to section 1666, shall submit a funding level recommendation for research and development. The recommendation must be transmitted to the Legislature within the time schedules set forth in section 1666. It is the intent of the Legislature that beginning in fiscal year 2009-10 the biennial budget submitted by the Governor must set forth appropriations for research and development that are the equivalent of not less than 1% of total actual General Fund revenue of the previous fiscal year. For each successive year for the next 10 fiscal years, the funding level must increase by at least 2/10 of 1% until funding for research and development is the equivalent to not less than 3% of total actual General Fund revenue of the previous fiscal year. If the Governor's budget sets forth recommendations for research and development that differ from the levels described in this subsection, the Governor shall explain the funding difference in the biennial budget document.

[2007, c. 420, §1 (NEW) .]

Maine Indian Tribal-State Commission

5 MRSA, chapter 149, §1664, sub-§3-B states that if the Governor submits legislation setting forth appropriations or allocations for the Maine Indian Tribal-State Commission that differ from the full budget proposal developed under 30 MRSA, §6212, sub-§ 6, the Governor shall simultaneously submit a report to the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the joint standing committee of the Legislature having jurisdiction over judiciary matters explaining why the Governor's budget legislation differs from that proposal.

The Maine Indian Tribal-State Commission requested an increase in General Fund appropriations of $184,000 over the course of the biennium. The Governor's budget for the 2022–2023 biennium does not recommend an increase. Careful consideration was given to the commission's requests, taking into consideration the rationale for the proposed budget and the needs of the commission within the larger context of the range of needs across state government.

Maine Indian Tribal- State Commission

	FY 22 Revised Baseline Budget	FY 23 Revised Baseline Budget	Requested Changes FY 22	Requested Changes FY 23	Recommended Changes FY22	Recommended Changes FY23	FY 22 Recommended Budget	FY23 Recommended Budget
GENERAL FUND								
Personal Services	-						-	-
All Other	111,614	111,614	92,000	92,000	-	-	111,614	111,614
Capital Expenditures							-	
Unallocated							-	
Total	111,614	111,614	92,000	92,000	-	-	111,614	111,614
TOTAL	**111,614**	**111,614**	**92,000**	**92,000**	**-**	**-**	**111,614**	**111,614**

Debt Analysis

Table as of June 30, 2020:

General Obligation Bonds (GOs)	Debt secured by state's full faith, credit, and taxing power.	$572.7 million
Authorized but Unissued GO Bonds	Bonds authorized by voters, but not yet borrowed upon.	$184.6 million

Authorized but Unissued Debt: Debt that has been authorized but has not yet been issued

Debt Service: Principal and interest paid, or estimated to be paid, on outstanding debt

General Obligation Debt: General Fund and/or Highway Fund bonds approved by the voters with the full faith and credit of the State.

Interest: That part of debt service, which does not reduce the outstanding debt balance, as it represents the contract or coupon rate of the face amount of the bond payable on a periodic basis.

Outstanding Debt: Debt that has been issued, or is estimated to be issued, but has not yet been retired.

Principal: That part of the debt service which reduces the outstanding balance as it represents payments of the face amount of the bond on specified maturity dates that retire the debt.

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY June 30, 2020

Fiscal Year	Principal	Interest	Total
2021	77,700,000	26,221,997	103,921,997
2022	83,845,000	23,017,875	106,862,875
2023	79,110,000	19,578,400	98,688,400
2024	79,105,000	15,800,275	94,905,275
2025	67,810,000	12,125,425	79,935,425
2026	57,550,000	9,010,525	66,560,525
2027	47,780,000	6,210,425	53,990,425
2028	37,975,000	3,838,750	41,813,750
2029	26,850,000	1,964,750	28,814,750
2030	12,765,000	638,250	13,403,250
Total	**570,490,000**	**118,406,672**	**688,896,672**

HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY June 30, 2020

Fiscal Year	Principal	Interest	Total
2021	2,210,000	110,500	2,320,500
Total	**2,210,000**	**110,500**	**2,320,500**
GF and HF Total	**572,700,000**	**118,517,172**	**691,217,172**

General Obligation Bonds (GOs)	Debt secured by state's full faith, credit, and taxing power.	$	572,700,000
Authorized but Unissued GO Bonds	Bonds authorized by voters, but not yet borrowed upon.	$	184,630,000

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY June 30, 2020

Fiscal Year	Principal	Interest	Total
2021	77,700,000	26,221,997	103,921,997
2022	83,845,000	23,017,875	106,862,875
2023	79,110,000	19,578,400	98,688,400
2024	79,105,000	15,800,275	94,905,275
2025	67,810,000	12,125,425	79,935,425
2026	57,550,000	9,010,525	66,560,525
2027	47,780,000	6,210,425	53,990,425
2028	37,975,000	3,838,750	41,813,750
2029	26,850,000	1,964,750	28,814,750
2030	12,765,000	638,250	13,403,250
Total	**570,490,000**	**118,406,672**	**688,896,672**

HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY June 30, 2020

Fiscal Year	Principal	Interest	Total
2021	2,210,000	110,500	2,320,500
Total	**2,210,000**	**110,500**	**2,320,500**
GF and HF Total	**572,700,000**	**118,517,172**	**691,217,172**

Budget Process Timeline

The Constitution of Maine requires the Governor and the Legislature to submit, enact and approve a balanced budget that achieves each fiscal year a balance between resources and commitments. The State of Maine develops General Fund and Highway Fund revenue forecasts for the biennial budget within the context of a consensus revenue forecasting model. The Consensus Economic Forecasting Commission first meets to prepare a four year economic forecast for the State of Maine. The six- member Revenue Forecasting Committee (RFC) uses the economic assumptions recommended by the Consensus Economic Forecasting Commission (CEFC) to prepare its four year revenue forecast for the General Fund and the Highway Fund. The committee's recommendations for revenues affecting the upcoming biennium are made in November, and are subsequently used by the Governor in developing the General Fund and Highway Fund budget recommendations for the upcoming biennium.

The State of Maine uses a biennial budget process in which the budget is presented by the Governor and acted upon by the Legislature for two fiscal year periods beginning in even numbered years. Each fiscal year of the biennium encompasses the period of July 1 through June 30. Appropriations and allocations are provided for each fiscal year of the biennium. The biennial budget for each ensuing biennium is presented and acted upon by the first regular session of the Legislature. During the first regular session, the Legislature may also make adjustments to the appropriations and allocations by program for the last fiscal year of the current biennium. The second regular session of the Legislature may make adjustments to both the first and second fiscal years of the current biennium.

Appropriations and allocations by program are further delineated by threeline categories: Personal Services, All Other, and, Capital Expenditures. The Personal Services line category includes the salaries, wages and benefits for all positions authorized by the Legislature reduced by an attrition factor of 1.6% in current law. The All Other line category includes the operational expenditures of a program such as vehicle operations, in state travel, supplies, etc. The Capital Expenditures line category includes funds for the purchase and replacement of equipment assets valued at $5,000 or more with a useful life greater than one year, and for real property purchases and facility improvements and construction.

Each appropriation and allocation to a program also includes the number of positions authorized by the Legislature. Referred to as "headcount", these positions are further classified by the Legislature as "legislative count" or "full-time equivalent". Legislative count represents positions authorized by the Legislature for 52 weeks in a fiscal year. These may include full-time and part-time positions. Full-time equivalent represents positions authorized by the Legislature for less than 52 weeks in a fiscal year. These typically include seasonal and intermittent positions. Positions authorized by the Legislature may not vary from the position titles and detailed funding that support the positions without legislative approval unless permanent funding is identified and approved by the State Budget Officer.

Once the Legislature has enacted the biennial budget, and it has been signed into law, the departments and agencies receiving expenditure authorization are required to develop budgets by program for each fiscal year, requesting allotment by account, line category and quarter. Allotment is established in four quarters and is approved by the Governor. Fiscal year budgets may be adjusted, or funds transferred between line categories and programs within the same fund and department or agency, to meet changing conditions upon approval by the Governor. Limitations on the transferability of funds between line categories and programs in a fiscal year are guided in law.

Basis of Budgeting

Governmental Funds

Expenditures for Governmental Funds are budgeted on an encumbrance and cash basis. Tax revenues, including Sales and Use Tax, Service Provider Tax, Individual Income Tax, Corporate Income Tax, Cigarette and Tobacco Tax, Estate Tax, Real Estate Transfer Tax and Fuel Taxes, are budgeted on a modified accrual basis. These tax revenues are recognized as available for appropriation or allocation in the fiscal year earned, providing they are measurable and available to liquidate liabilities in the current fiscal year period. These tax revenues that are due in the current fiscal year, but which are payable by the taxpayer subsequent to the close of the fiscal year, are accrued as accounts receivable and, therefore, recognized as revenue in the fiscal year benefited. Other revenues are recognized on a cash basis or are accrued as accounts receivable depending upon the circumstance and past practice.

Account Groups

Expenditures for Internal Service Funds and Enterprise Funds are budgeted on an encumbrance and cash basis. All revenues are recognized on an accrual basis. All revenues are recognized as available for allocation in the fiscal year earned. All revenues due in the current fiscal year, but which are payable subsequent to the close of the fiscal year, are accrued as accounts receivable and, therefore, recognized as revenue in the fiscal year benefited.

Biennial Budget Timeline

Biennial budget guidance is provided to departments and agencies in July of the last fiscal year of the current biennium. This guidance includes a description of the required documentation to support each budget request. Alternative funding scenarios from departments and agencies may also be requested to show the program impact if funds by program were limited to 90%, for example, of the base year appropriations or allocations. In addition, the guidelines and instructions may request other detailed budget information from each department and agency as necessary.

Pursuant to 5 M.R.S.A §1665, biennial budget requests are due in the Bureau of the Budget by September 1 of each even numbered year. During the months of September and October, the budget analysts in the Bureau of the Budget prepare budget recommendations for the Governor-elect based on independent analysis and forecasts as well as one-on-one discussions with department and agency staff. Following the election, one-on-one budget meetings are held with key department and agency staff to discuss specific requests, departmental priorities, and impact of reductions from alternative budget scenarios. These meetings may include the Governor-elect, the Commissioner of the Department of Administrative and Financial Services, the State Budget Officer, the Governor-elect's Chief of Staff and the Governor-elect's Senior Policy Advisors, depending upon the department or agency and the issue under consideration.

In late December, all budget decisions are finalized, including the development of the capital budget. 5 M.R.S.A, §1666 requires that the budget bills are transmitted to the Legislature in January or February, dependent on the status of the Governor. Two budget bills may provided to the Legislature. If necessary, one of those is a supplemental budget bill (also referred to as an emergency budget bill) that proposes adjustments to appropriations and allocations for the last fiscal year of the current biennium. The second is referred to as a unified budget bill in that it presents all appropriations and allocations for a program regardless of funding source. Part A of the bill presents the Governor's appropriation and allocation recommendations for the upcoming biennium. Part B of the bill presents adjustments associated with approved reclassifications and range changes that are self-funded by departments and agencies. Other parts of the unified budget bill include proposed statutory and unallocated language required to give legal effect to the Governor's budget proposals.

The budget document must be submitted to the Legislature in early January according to statute, except when there is a Governor-elect. A Governor-elect has one additional month and must submit the budget in early February.

The content of the budget document is prescribed by statute. The budget document presents the budget, financial and operational plan of the Governor for the upcoming biennium. Details are provided in the budget document to show how those plans will be realized and the manner in which the budget has been balanced.

The Legislature conducts separate public hearings for each budget bill type before the Joint Standing Committee of the Legislature having jurisdiction over appropriations and financial affairs. At each public hearing, department and agency heads present and defend each budget request by program for his or her department or agency. Testimony from the public, either for or against the request, is solicited by the committee during the public hearing. Members of the joint standing committee of the Legislature having policy jurisdiction over the department or agency are also included in the public hearing process.

Following each public hearing, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs engages in work sessions for each budget bill type. The initial stage of the work session involves the receipt of recommendations from the legislative policy committees of jurisdiction. The committee next engages each department or agency head, and their staff, in one-on-one discussions in order to elicit additional program information pertinent to the budget decision making process. Such information may include staffing and organization, performance measures, caseload forecasts, etc. The committee takes public votes on each item in the Governor's budget, adjusting each budget bill to reflect the priorities of the Legislature. At the conclusion of the work session, the committee reports out each budget bill type for consideration by the full Legislature followed by referral to the Governor for his or her approval.

Budget bills are submitted as emergency bills that require a 2/3 vote of the members of both legislative bodies in order to take effect when approved by the Governor. Non-emergency budget bills require a majority vote of those legislators present and voting in each legislative body. These budget bills take effect 90 days after the adjournment of the Legislature if signed into law by the Governor.

Glossary of Budget Terms

Allotment: The designation of a department or agency's estimated expenditures in each fiscal year budget (called the annual work program) by quarter and line category. Four equal quarters are used each fiscal year. The approved amounts are recorded in the accounting general ledger by quarter and line category to form the basis on which the State Controller authorizes expenditures, in accordance with statute.

Allocations: The total amount of estimated expenditures authorized by the Legislature from resources legally restricted or otherwise designated for specific operating purposes. These resources typically constitute highway funds, federal funds, other special revenue funds, internal service funds, enterprise funds or any other funds, which may be designated for specific purposes by the Legislature.

Alternative Budget: The biennial budget scenario technique in which departments and agencies are required to present revised budget requests for each fiscal year of a biennium as an alternative to the department or agency's original budget proposal.

Appropriations: The total amount of estimated expenditures authorized by the Legislature from unrestricted or undesignated resources in each fiscal year. These resources typically constitute undedicated General Fund resources which are designated by appropriation account and line category in the estimated authorizations to spend of the Legislature.

Biennial Budget: The two year financial plan of the State of Maine which shows for each fiscal year all proposed expenditures, interest and debt, redemption charges, capital expenditures and estimated revenues in support of expenditures and obligations consistent with the Governor's, or Governor-elect's, program priorities, goals and objectives.

Biennium: The two fiscal years, beginning in even numbered fiscal years, which represent the period covered by the biennial budget financial plan of the State of Maine.

Bond Issue: A financing instrument for major capital purchases, projects, repairs, renovations or other limited projects by which the State incurs debt and retires the principal and interest amounts over time.

Dedicated Revenue: Revenue which accrues to a department or agency for use toward designated or legally restricted operational purposes.

Encumbrance: A commitment against allotment for legally binding purchase orders and contracts representing goods and services which have not yet been received. Encumbrances become expenditures and liabilities only when the goods and services are actually received.

Enterprise Fund: A proprietary fund in which goods and services are provided by a state department or agency to the general public through charges based on consumption. Such fund types may or may not be self-sustaining depending upon the cost structure of the agency whereby cost of goods sold, debt interest and other non-operating expenditures are deducted from gross revenue to determine the entity's net income or loss for the fiscal year.

Fiscal Year: The accounting and budgetary cycle of the Maine State Government. The fiscal year commences on the first day of July and ends on the 30th day of June each year.

Full Time Equivalent: The number of positions of less than 52 weeks in a fiscal year authorized by the Legislature for a specific department or agency and program.

Fund: A fiscal and accounting entity with a self-balancing set of accounts showing cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Internal Service Fund: A self-sustaining, proprietary fund which derives its resources in support of expenditures from service charges to other state departments and agencies and other units of government.

Lapsed Funds: Uncommitted funds remaining in an appropriation account at the close of a fiscal year which are returned to lapsed to the fund from which they were originally appropriated or allocated by the Legislature.

Legislative Count: The number of permanent full time and part time positions authorized by the Legislature for a specific department or agency and program.

Line Category: The expenditure groups represented by the following four classifications to which the Legislature appropriates and allocates funds by department or agency and program: personal services (salaries, wages and benefits); all other (operational support); capital expenditures (capital equipment purchases, real property purchases and facility improvement and construction); and, unallocated (undesignated items with respect to expenditure type).

Program: A grouping of activities and expected results that are directed toward the accomplishment of a set of goals and objectives consistent with statutorily defined missions and represents a department bureau, division or operational entity to which the Legislature appropriates or allocates resources defined by the Legislature.

Undedicated Revenue: Revenue collected by a department or agency but which accrues to a general ledger account for use toward undesignated or unrestricted operational purposes.

Unappropriated Surplus: An account maintained by the State Controller on the books of the State. The balances of all revenue and appropriation accounts not otherwise provided for by law, together with any other necessary adjustments of balances previously closed to the Unappropriated Surplus Account, are closed to this account at the end of each fiscal year.