

Overview of the State Budget

December 3, 2018
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OFPR

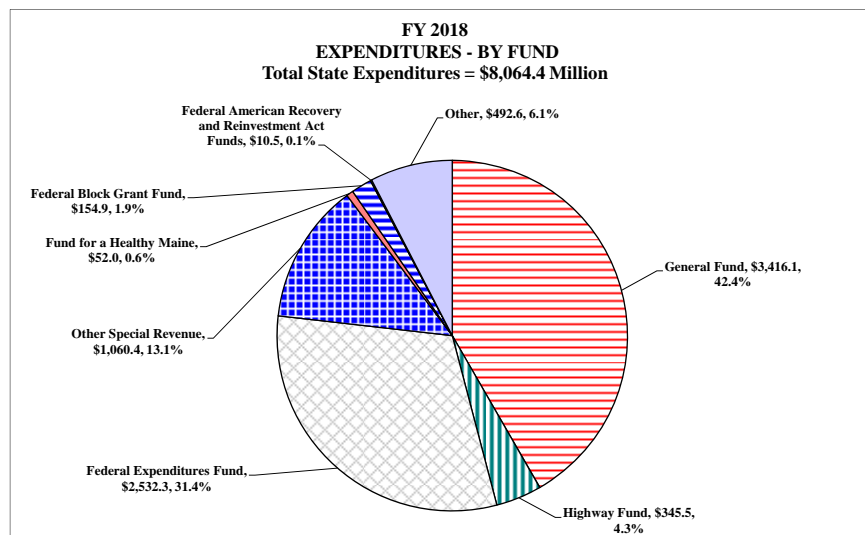
1. What is the OFPR – the Office of Fiscal and Program Review - aka The Fiscal Office?

Office of Fiscal and Program Review

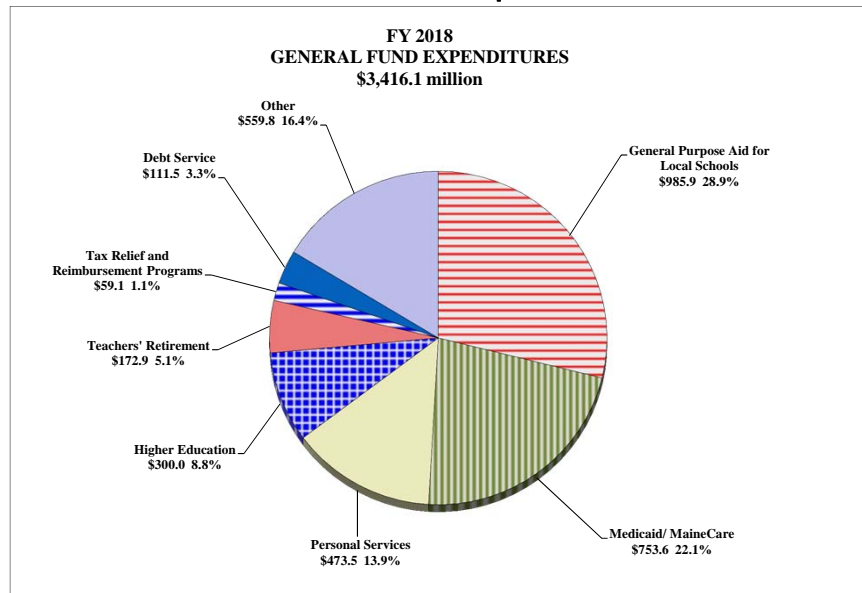
- The Office of Fiscal and Program Review is one of the nonpartisan offices operating under the direction of the Legislative Council and its Executive Director.
- We have a staff of 11 very experienced individuals located next door in Room 226.
- We staff the Appropriations and Taxation Committees; the Transportation and HHS Committees for fiscal matters and provide fiscal analysis and support to all other policy committees.
- In short, we do state budget analysis and preparation and fiscal notes.

2. How Big is Maine's Budget?

Total State Expenditures – All Funds

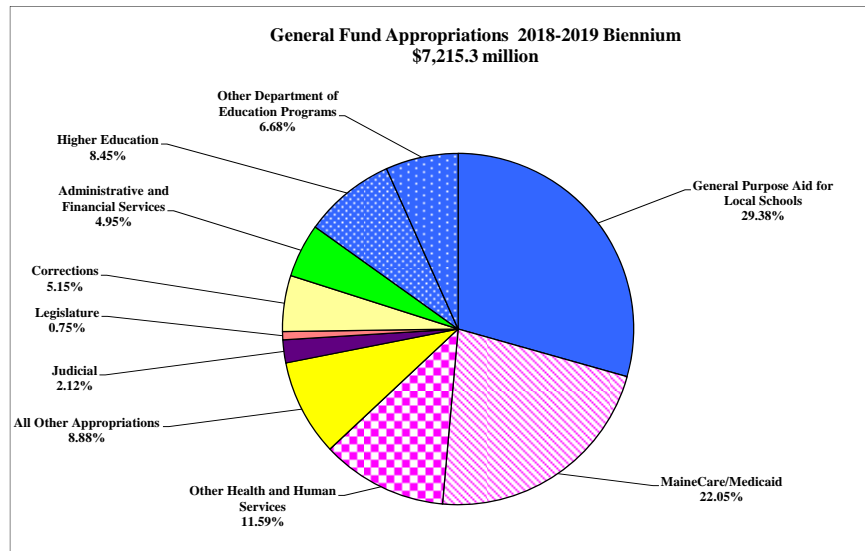


General Fund Expenditures



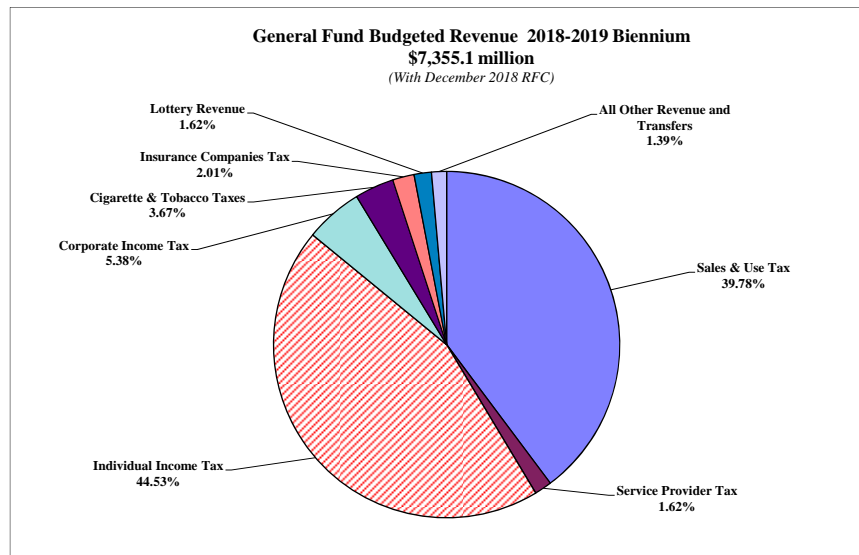
- Two major programs account for half of the General Fund budget – General Purpose Aid for Local Schools (School Subsidies) and MaineCare/Medicaid.
- These areas have been growing faster than the overall budget and as a result their shares have been increasing.
- Retirement costs (8.2% of General Fund expenditures) have also been growing.

General Fund Appropriations



- Traditional presentation of total appropriations by departments for the 2018-2019 biennium:
 - Just under half (44.5%) of the budget goes to education including grants to higher education;
 - Just over one-third (33.6%) is appropriated to Health and Human Services (including MaineCare/Medicaid); and
 - Roughly one-fifth (21.9 %) is appropriated for the other General Fund departments and agencies.

General Fund Revenue



- Individual Income Tax revenue accounts for almost 45% of General Fund revenue.
- Sales Tax revenue is next largest at more than a third (39.8%) of General Fund revenue.
- Consensus Economic Forecasting Commission (CEFC) and Revenue Forecasting Committee (RFC) meet at least twice each year - in spring and fall – to produce and update the revenue forecast. [Latest RFC forecast](#) released today.

- Many ways to present the budget numbers.
- Most often, budget presentations will focus on the General Fund appropriations and present amounts for the biennium – two fiscal years.
- If you have questions or need additional information, ask the Office of Fiscal and Program Review (OFPR).

3. Must Maine balance its budget?

- Various constitutional and statutory provisions interact to require that the budget is balanced.
 - Constitutional Provisions:
 - Restriction on borrowing except within a fiscal year (cash flow borrowing only)
 - Can't borrow to fund current expenditures
 - Statutory Provisions:
 - Governor must present his budget to show balanced relationship between revenue and appropriations; and
 - Governor is given authority to curtail spending if revenue is insufficient to fund appropriations.

- Each fund must be in balance.
- OFPR tracks General Fund, Highway Fund and Fund for a Healthy Maine budgets.
- Other funds are limited to available resources in the fund.
- Each fiscal year of the biennium must be in balance.

4. The Budget Process: What is the Executive's Role? "The Governor Proposes"

- The Executive initiates the Biennial Budget:
 - Agencies submit proposals by September 1st of even numbered years.
 - The Governor must submit the Biennial Budget in early January (one month later if newly elected).
 - Only the Biennial Budget is required by statute, but typically there will be additional supplemental budgets submitted.
 - Separate Transportation/Highway Fund Budget submitted.

- Executive Branch role after submission
 - Agencies usually participate throughout the budget deliberations.
 - “Change Package” process - Governor’s proposed budget amendments after submission.
 - Options for line-item veto and regular veto
 - Line-item veto limited to one day after enactment and only can reduce spending - requires a simple majority to override.
 - Regular veto affects the whole budget and requires a two-thirds override (present and voting standard).

- Executive Branch role after enactment
 - Implement the budget initiatives and manage budget to remain within appropriated/allocated amounts.
 - Make allowable adjustments to the budget by financial orders.
 - Act if revenue is insufficient to fund appropriations (curtailment authority).

5. The Budget Process: What is the Legislature's Role? "The Legislature Disposes"

- Hold joint hearings with the Appropriations Committee and the various policy committees (required by joint rule).
- Put forth recommendations in the form of an amendment from the Appropriations Committee.
- Enact the biennial budget usually by supermajority (two-thirds of each body).
- Consequences of not enacting biennial budget can be a shutdown of state government.
- Oversee budget after enactment (review of financial orders and reports).
- See OFPR's [*The Budget Process*](#) for more information.

6. What about the costs of other bills? (Fiscal Notes)

- Balanced budget requirement is potentially affected by all bills.
- OFPR reviews all bills and amendments for their fiscal impact (the Fiscal Note process).
- OFPR receives input from multiple sources but is responsible for production of the fiscal note.
- Preliminary statements on original bills are completed when possible (roughly half the bills).
- Bills reported favorably out of committee require a Fiscal Note by joint rule.

- Committee controls the content of the bill and/or committee amendment.
- Fiscal Note reacts to the content of the committee report.
- Floor amendments also reviewed for fiscal impact.
- Local government impact and state mandates identified in Fiscal Notes.

- Special Funding Tables in Senate:
 - Bills that impact the General Fund, Highway Fund and Fund for a Healthy Maine are tabled just before final enactment in the Senate.
 - Decisions on final enactment are decided at the end of session after budget bills enacted and resources available are determined.
 - Policy committees may submit priority lists of their bills on the Appropriations Table to the Appropriations Committee.
 - Transportation Committee decides on Highway Table.
- See OFPR [*Fiscal Note Process: An Overview*](#) for more information.

7. Can the State Borrow Money?

- Borrowing that pledges full faith and credit of the State requires 2/3 vote and a referendum.
- Can't borrow for current expenditures.
- Appropriations Committee usually reports out a bond package each session, but not always.
- Bond package can be one bill with multiple parts or separate bills.

- Other Types of borrowing:
 - Various Authorities (MSHA & FAME) established that can issue bonds (moral obligation debt not full faith and credit).
 - Maine Governmental Facilities Authority issues lease appropriation bonds, which require approval by Legislature.
 - Lease-purchase arrangements are also approved by the Legislature.
 - Cash flow borrowing (Tax Anticipation Notes) to meet temporary cash shortages within a fiscal year do not require approval by Legislature.

8. What is the Structural Gap?

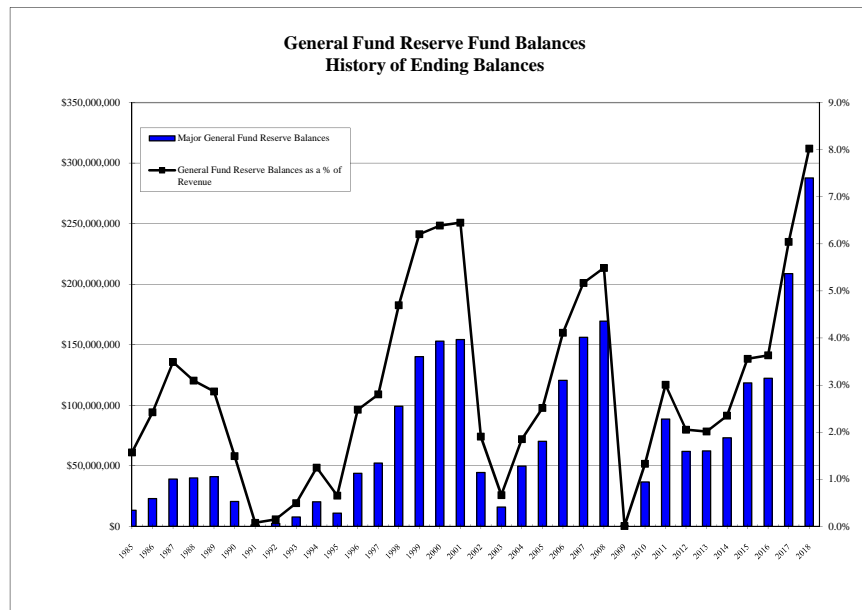
- The Structural Gap is a statutorily required projection of future spending based on current law, cost increases, caseloads etc., compared to the consensus revenue forecast.
- Bureau of the Budget estimate as of September 30, 2018 was \$503.9 million for the 2020-2021 biennium.
- The starting point for consideration of agency appropriations in the Biennial Budget is the Baseline Budget.

- The Baseline Budget is a modified flat-funded budget (exceptions are salaries and benefits and capital expenditures, items costing >\$5,000).
- Current year appropriations adjusted for one-time savings and spending initiatives.
- Intent of the Baseline Budget is to focus attention on the budget initiatives that increase or decrease spending.

9. What efforts have been implemented to address Structural Gaps?

- In 2005, the State enacted an annual appropriation limit.
- Due to a provision to exclude the growth of General Purpose Aid for Local Schools until a 55% state share is achieved, this limit has not been a factor in limiting or controlling spending growth.

- In 2005, along with the appropriations limitation, the Rainy Day Fund was reconstituted as the Maine Budget Stabilization Fund (MBSF).
- Revenue in excess of the appropriations limitation accrues to this Fund.
- However, since 2005 this provision has yet to be triggered.
- Transfers from surplus at the end of each fiscal year have provided the resources to the MBSF.



10. Where can you get more budget information?

- The Office of Fiscal and Program Review (OFPR) has a great staff with many years of experience to help you better understand the budget.
- OFPR's web site also is a tremendous resource for your budget questions.
- Come see us in Room 226 of the State House, right next to the Appropriation Committee room.

<http://www.legislature.maine.gov/ofpr/>