

# STATE OF MAINE

## THE BUDGET PROCESS



*Maine State Legislature  
Office of Fiscal and Program Review  
November 2020*

# THE BUDGET PROCESS

Introduction .....	1
I. Formulation of the Biennial Budget Request.....	2
A. Restrictions and Constraints .....	3
B. Revenue Forecasting.....	6
C. Budget Layout .....	7
II. Legislative Consideration .....	9
III. Budget Monitoring and Adjustments.....	9
A. Other Spending Bills .....	9
B. Revenue Shortfalls.....	10
C. Oversight of Expenditures .....	11
D. Budgeted and Unbudgeted General Fund Balances.....	12
Appendix I - Debt .....	14
Appendix II – How Positions Are Created, Budgeted and Managed .....	17
Appendix III – Financial Order Transactions .....	21
Appendix IV – Sample Budget Proposal .....	22
Appendix V – Fixed and Percentage Transfers of unbudgeted General Fund Surplus.....	25
Appendix VI – Selected Budget Terms and Definitions.....	26

# THE BUDGET PROCESS

## Introduction

The State budget is the aggregate of all enacted bills with a fiscal impact. The formation of the budget involves the Governor, departments and agencies of the State, the Legislature, public-interest groups and the public. The starting point is the Governor's biennial budget document which is transformed into an enacted budget bill through the work of the Joint Standing Committee on Appropriations and Financial Affairs (generally referred to as the "Appropriations Committee")\* after extensive public hearings and input from the various policy committees culminating in the vote of the full Legislature with or without floor amendments. The biennial budget is usually altered via supplemental budgets either because of need (changes in revenue, federal support, economic conditions etc.) or desire (changes in priorities, technology, opportunities etc.). It can be further altered by the numerous other bills put before the Legislature that affect state revenues or expenditures.

\* While each Legislature defines the Committees in their joint rules, historically the committee having jurisdiction over appropriations and financial affairs has been named the Joint Standing Committee on Appropriations and Financial Affairs and will be referred to as "The Appropriations Committee" in this document.

## **I. Formulation of the Biennial Budget Request**

The formulation of a biennial budget proposal is coordinated by the Department of Administrative and Financial Services, Bureau of the Budget. On or before September 1<sup>st</sup> of even-numbered years, the judicial branch, the legislative branch and each executive branch department or agency prepares a budget request for the next two fiscal years. The requests identify individual programs within each department and their respective proposed spending levels for each of the following two fiscal years. The executive branch and judicial branch budget requests are submitted via the Department of Administrative and Financial Services to the Governor for review and possible revision. The requests along with the tentative budget of the legislative branch (which is subject to final review by the Legislative Council) are then compiled into the State budget document. A sitting Governor must submit the budget document to the Legislature by the Friday following the first Monday in January of the first regular legislative session. The deadline for a Governor-elect elected to a first term of office is the Friday following the first Monday in February of the first regular legislative session.

The biennial budget request is contained in the State budget document with a required form and content as outlined in 5 MRSA §1664. At a minimum it must contain: a budget message by the Governor; a budget summary with supporting details and documentation; a financial plan for the biennium which will begin with the next fiscal year; estimated and anticipated revenue losses in the current and following two fiscal years resulting from tax expenditures provided in Maine statutes; statements of bonded indebtedness of the State Government; other statements relative to the financial plan deemed desirable by the Governor or required by the Legislature; and the long-range plan for State Government, which includes the Governor's vision for the upcoming biennium and the one following, and how the proposed budget moves the State Government toward this vision.

Programs with Highway Fund allocations and other non-General Fund programs of the Department of Transportation are addressed in a separate budget bill and referred to the Joint Standing Committee on Transportation for consideration.

## **A. Restrictions and Constraints**

In developing a budget proposal, the Governor is bound by various constitutional and statutory restrictions though statutory changes may be proposed by the Governor. In passing a budget, the Legislature is bound by the constitutional restrictions but may amend the statutes.

### ***The Budget Must Be Balanced***

The most important restriction on the Legislature in enacting a budget is the Maine Constitution's prohibition on deficit financing. This guarantees that the State's expenditures will not exceed available resources in each fiscal year of the biennium. There are two sections in the Maine Constitution that address this issue. Article IX Section 14 prohibits the State from incurring long-term debt of more than \$2,000,000 without the vote of the people, except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made and for certain specified emergencies. In addition, Article V, Part Third, Section 5 prohibits the use of proceeds from the sale of bonds for current expenditures.

The Governor must facilitate the balanced budget requirement by submitting a proposed budget that not only sets forth all proposed expenditures for the administration, departments and agencies of the government but also the anticipated revenues of the State Government and any other additional means of financing the budget (5 MRSA §1663). The required format of the budget document includes a summary that shows "the balanced relationship between the total proposed expenditures and the total anticipated revenues together with the other means of financing the budget for each fiscal year" (5 MRSA §1664). It is the responsibility of the Governor to propose a balanced budget and the responsibility of the Legislature to ensure that the enacted budget bill in conjunction with all other spending bills produces a balanced budget in each fiscal year. The joint responsibility of the Executive and Legislative branches to ensure that actual spending does not exceed actual available resources is covered under Section III: **Budget Monitoring and Adjustments.**

### ***Some Items Must Be Funded***

There are many ways that legislative funding is required for a program or activity. The State Constitution imposes several funding requirements that bind the Legislature and there are statutes derived from citizens' initiatives or referendums that require expenditures. The actions of the voters on referendums weigh heavily in budget proposals, deliberations and implementation. There are also federal mandates, court orders and consent decrees which, though very real and often significant, are not covered in this handbook. Funding requirements include:

- Debt Payments - The State Constitution requires the Legislature to appropriate funds to pay the interest and installments of principal on all bonded debt created on behalf of the State as these payments become due. If sufficient funds are not appropriated, the State Treasurer is required to use the first General Fund revenues to make those payments (Article V, Section 5).
- State Employee Retirement - The State Constitution requires the normal cost of retirement and ancillary benefits to be funded annually on an actuarially sound basis. Unfunded liabilities may only be created by experience losses, which must be retired in 20 years or less. Funds must be appropriated to retire unfunded liabilities in the state employee and teacher retirement plan in existence as of June 30, 1996 by fiscal year 2027-28. (Article IX, Sections 18-A and 18-B).
- Education Spending - A citizens' initiative passed in November 2004 requires the State to pay 55% of public education costs for grades K-12 and 100% of special education costs. The initiative amended "the Essential Programs and Services Funding Act" which set targets to achieve a system of school funding as a State and local partnership. School funding is calculated on a per-pupil basis according to an Essential Programs and Services (EPS) formula that identifies the types and amounts of resources needed in all schools and calculates their cost. The law has been amended several times to change the target date for achieving the 55% goal.

### ***There Is a Cap on State Spending***

Total General Fund appropriations are restricted in the absence of specifically defined, extraordinary circumstances (5 MRSA §1534.) The limitation applies to all appropriations except the additional cost for essential programs and services (EPS) for K-12 education (as defined in 20-A MRSA §15671) until the State's share of that cost reaches 55% of the total State and local cost. The appropriation limitation is established for each year of a given biennium before the start of the biennial budget process and is based on two factors: the biennial base year

appropriation and the growth factor. The biennial base year appropriation for the 2018-2019 biennium was the total General Fund appropriations enacted for fiscal year 2016-17. After that the base year appropriation is the General Fund appropriation limitation for the current year as of December 1<sup>st</sup> of even-numbered years.

The growth limitation factor is established on December 1st of even numbered years, is applied to both fiscal years of the biennium and is not adjusted once established. The growth factor prior to the 2018-2019 biennium depended on the State's ranking of state and local tax burden and factored in personal income growth, average population growth and, under some conditions, forecasted inflation. Starting with the 2018-2019 biennial budget, the applicable growth factor is the average personal income growth with no other factors.

### ***There Are Restrictions on Expenditures within Certain Revenue Sources***

General Fund appropriations have, historically, accounted for less than half of total State expenditures. The remainder is made up of funds for which spending flexibility is more limited. Federal funds and federal block grant funds are restricted by the rules and conditions imposed by the federal government. Most other special revenue funds, internal service funds, and enterprise funds must be expended in accordance with the statutes enacted by the Legislature (5 MRSA §1667-B). In some cases, expenditure restrictions are imposed by the State Constitution:

- Maine Public Employees Retirement System Funds - The State Constitution limits the use of contributions, assets, proceeds and income of the Maine Public Employees Retirement System to the provision of retirement and related benefits. It also prohibits the Legislature or Executive Branch from diverting or deappropriating funds previously appropriated for the Maine State Retirement System. (Article IX, Section 18). This is a rare instance in which the Legislature is prohibited from undoing one of its own actions.
- Highway Fund – The State Constitution limits the expenditure of motor vehicle and motor vehicle fuel revenues (except vehicle excise tax) to bridge and highway construction, reconstruction, repairs, maintenance and related debt payments; administrative costs; and state enforcement of traffic laws. (Article IX, Section 19).
- Inland Fisheries and Wildlife – The State Constitution requires that the General Fund appropriation in any fiscal year to the Department of Inland Fisheries and Wildlife not be less than General Fund revenue collected by that department for fees, fines, property rentals etc. (Article IX, Section 22).

## **B. Revenue Forecasting**

The constitutional requirement for a balanced budget means that the proposed General Fund expenditures cannot normally exceed estimated available funds. The available funds are made up primarily of tax revenue, fees and interest income as documented in the revenue forecast. Because of the importance of revenue forecasting, the process and participants are specifically defined by statute. The process begins with broad input from the Consensus Economic Forecasting Commission and ends with the report of the Revenue Forecasting Committee. The Revenue Forecasting Committee is the entity ultimately responsible for setting the binding revenue forecast and hence, absent any revenue enhancing initiatives or transfers from other funds, the spending ceiling.

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992. Its purpose is 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. The Commission was created in response to a recommendation of the Special Commission on Government Restructuring to establish an independent, consensus process for state economic and revenue forecasting. In 1995 the 117<sup>th</sup> Legislature enacted in statute (5 MRSA chapter 151-B) the Consensus Economic Forecasting Commission and the Revenue Forecasting Committee, maintaining both the structure and intent of the original Executive Order.

The Consensus Economic Forecasting Commission consists of five members having professional credentials and demonstrated expertise in economic forecasting. It is required to develop two-year and four-year economic forecasts for the State. The Commission is required by statute to meet twice each fiscal year and report its findings with regard to the economic assumptions or adjustments to the existing economic assumptions for the State of Maine to the Governor, the Legislative Council, the Revenue Forecasting Committee and the Appropriations Committee. The reports are due by April 1<sup>st</sup> and November 1<sup>st</sup> of each odd-numbered year and February 1<sup>st</sup> and November 1<sup>st</sup> of each even-numbered year.

The Revenue Forecasting Committee is made up of the State Budget Officer; the Associate Commissioner for Tax Policy; the State Economist; an economist on the faculty of the University of Maine System selected by its Chancellor; the Director of the Office of Fiscal and Program Review; and another member of the Legislature's nonpartisan staff familiar with revenue estimating issues and appointed by the Legislative Council. The Committee is required to use the economic assumptions and forecasts of the Consensus Economic Forecasting Commission to develop four-year revenue projections and to provide state revenue projections for the next two fiscal biennia to the Governor, the Legislative Council and the Committee on Appropriations and Financial Affairs. The Committee's reports are due by March 1<sup>st</sup> and December 1<sup>st</sup> of each even-numbered year and May 1<sup>st</sup> and December 1<sup>st</sup> of each odd-numbered year. The projections represent the revenue portion of the balanced budget and not only guide the expenditures, revenue enhancements and transfers spelled out in the State budget document but also the total appropriations of all the bills passed by the Legislature.

### **C. Budget Layout**

In 2006, the Commission to Reform the Budget Process submitted recommendations to the 122<sup>nd</sup> Legislature which included a format for the Governor's budget document. Though the format was not among the Commission's recommendations placed in statute, it has been adhered to in the documents presented to all Legislatures since 2006.

The State budget document consists of two volumes: The Overview and the Draft Budget Bills (General Fund and Highway Fund). The Overview contains the Governor's budget message; economic and revenue outlooks for the budget period and beyond; the budget summary; the financial plan for the following biennium; and debt analysis. Anticipated revenue losses resulting from statutory tax expenditures may be included in the Overview or in a separate document.

The Governor's Budget Document and the resulting budget bill cover each department and program with either the "baseline" budget only or the baseline budget plus initiatives (proposed changes to appropriations or allocations.) The baseline and most initiatives are contained in Part A of the document. Baseline Personal Services appropriations and allocations are for current,

legislatively authorized positions adjusted to reflect existing salary schedules, negotiated cost-of-living adjustments and changes to retirement and insurance rates. Funding for other expense categories reflect the previous year's on-going program cost levels excluding capital expenditures and one-time costs or savings associated with initiatives of the previous biennium. Proposals for changes to these baseline budgets (including inflation adjustments, new programs, statutorily required funding increases, capital expenditures, transfers etc.) are presented as separate initiatives. Totals reflecting the impact of the initiatives are shown for each program. Part B of the document contains "self-funded" appropriations and allocations to Personal Services for approved position reclassifications and range changes. For reclassifications and range changes which affect the General Fund, the Highway Fund and the Fund for a Healthy Maine there is generally an offsetting appropriation or deappropriation in the All Other spending category. Personal Services increases in other funds such as Federal Expenditures or Other Special Revenue are considered "self-funded" if there is enough revenue to cover the increased Personal Services costs. The remaining parts of the budget document (Part C and beyond) include language for changes in statute required to implement certain budget initiatives or to propose other changes recommended by the Governor.

## **II. Legislative Consideration**

Following receipt of the budget request, the Legislature refers the budget legislation to the Appropriations Committee. Historically, the Joint Rules established by the House and Senate require the Appropriations Committee to hold public hearings on each department or agency's proposed budget with the exception of those funded by the Highway Fund (which is heard as a separate bill by the joint standing committee having jurisdiction over transportation matters.) The Appropriations Committee hearings are held in conjunction with the policy committee having jurisdiction over the subject matter unless the policy committee has elected not to participate. The Appropriations Committee sets the budgetary constraints and requests recommendations, within those constraints, from the participating policy committees. Since the 108<sup>th</sup> Legislature, the Joint Rules have required each participating policy committee to appoint a subcommittee to serve as a liaison to the Appropriations Committee. These subcommittees participate in the Appropriations Committee deliberations on relevant portions of the budget. After receiving input from policy committees, the Appropriations Committee votes on the Governor's proposed initiatives and language parts and on amendments and new proposals put forth by individual committee members. The Appropriations Committee's report on the budget bill is submitted to the Legislature and acted upon in the same manner as other bills.

## **III. Budget Monitoring and Adjustments**

Adhering to the constitutional requirement of a balanced budget is both an executive and legislative responsibility. The enactment of a balanced biennial budget is necessary but not sufficient to fulfill the requirement. There are many events and conditions that can "unbalance" the budget including but not limited to: enactment of additional spending bills beyond the biennial budget bill; increases or decreases in revenues collected over revenues projected; changes in need; judicial actions and changes in federal funding levels.

### **A. Other "Spending Bills"**

To avoid the potential of other bills creating an unbalanced General Fund or Highway Fund budget, the Joint Rules have historically established processes in which bills that decrease General Fund revenue or adjust General Fund appropriations ("spending bills"); adjust Highway

Fund or Fund for a Healthy Maine allocations; or have been identified in the fiscal note as containing an unfunded state mandate (defined in Appendix V) are, unless exempted by the Appropriations or Transportation Committee, set aside on the Special Appropriations Table or Special Highway Table. This “tabling” usually takes place after a bill has been enacted by the House and immediately before final enactment in the Senate. The Appropriations or Transportation Committee makes recommendations on the bills on their respective tables based on available funding. Bills may be removed from the table and enacted by the Senate as originally engrossed or amended to address the fiscal impact or change other provisions of the bill. Amending the bill would require another round of voting by both the House and Senate in the same manner as any other floor amendment. Bills the Committee has voted to leave on the table or bills which remain on the table through inaction die when the Legislature adjourns sine die unless both bodies vote to carry a bill into a future session of the current Legislature.

## **B. Revenue Shortfalls**

During the thirty-three or so months between the initial preparation of the biennial budget and the end of the second fiscal year of the biennium, the Revenue Forecasting Committee may change the revenue forecast several times. A reduction in the forecasted General Fund or Highway Fund revenue may create an unbalanced budget. The Commissioner of the Department of Administrative and Financial Services is required to provide written notification to the Governor and Legislative leadership when State General Fund revenue is not expected to meet the expenditures authorized by the Legislature (5 MRSA §1533).

If notification of the impending budget shortfall is provided with sufficient time to take corrective actions during a legislative session, the Governor will likely propose an emergency or supplemental budget to the Legislature. If the Legislature is not in session or there is doubt as to the ability or willingness of the Legislature to act upon an emergency or supplemental budget bill, the Governor may temporarily curtail allotments (5 MRSA §1668). Curtailments must be done equitably and as consistently as practicable within the original intent of the Legislature that authorized the expenditures. If curtailment action is taken, the Governor must immediately notify Legislative leadership.

In addition, if the Legislature has adjourned sine die prior to the close of the fiscal year in which the deficit is projected, the commissioner may declare a budget emergency. In this case, the State Controller may, at the close of the fiscal year, transfer funds from the available balance in the Budget Stabilization Fund to the General Fund Unappropriated Surplus up to the amount required to match General Fund expenditures - even if that would bring the fund's balance below the amount established by statute (5 MRSA §1533). The Governor must immediately inform the Appropriations Committee that such a transfer has been made.

### **C. Oversight of Expenditures**

Appropriations and allocations are made through biennial budget bills, supplemental budgets and other spending bills and are translated into spending authority through the allotment process. Departments and agencies create annual financial plans or "work programs" based on the Legislature's appropriations and allocations and unused balances of prior year allocations and appropriations (when specifically authorized). These work programs map the expenses of each account by quarter using the accounting system structure. They are the basis of allotments by which the State Controller authorizes expenditures. Work programs are submitted by each department and consolidated into a Financial Order which must be approved by the Governor.

Financial Orders, in addition to authorizing the initial work programs, allow the executive and judicial branches a certain level of flexibility in managing the appropriations and allocations efficiently and effectively while allowing the Legislative branch to fulfill its oversight duties.

They are the mechanisms to:

- Increase allotments above legislative authorization to spend increased grant funds or additional Other Special Revenue;
- Allot funds for new federal grants for up to two years (after which legislative authorization is required)
- Increase allotments above legislative authorization using the unencumbered balance forward;
- Increase one quarter's spending by reducing future quarter allotments;
- Transfer funds between accounts within an agency; or

- Transfer funds between line categories within an account.

In some cases, a Financial Order becomes effective upon approval by the Governor. In other cases, the requesting department or agency must wait thirty days prior to implementing the Financial Order and those orders are subject to review by the Appropriations Committee. Orders that would normally require a thirty-day waiting period can, in an emergency, become effective sooner by a majority vote of the Committee (See Appendix III for more information on waiting periods by type of Financial Order and affected fund.) Financial Orders subject to a 30-day waiting period are posted on the Appropriations and Financial Affairs “Committee-related Materials Page” which can be accessed via the Maine State Legislature’s home page.

Review of Financial Orders is one of the key mechanisms available to the Appropriations Committee to monitor the spending plans of the Executive and Judicial branches to ensure that they are in accordance with the budget and other spending bills. Such a review may alert the Legislature, via the Appropriations Committee, to any significant deviations from the original work plans and the intent of the Legislature.

#### **D. Budgeted and Unbudgeted General Fund Balances**

The State budget must be balanced, but that does not mean that the Legislature must appropriate 100% of the forecasted General Fund revenue. Budgeted General Fund balances are the historic norm which means that the Legislatures chose not to appropriate the full amount of available General Fund resources (which include budgeted balance forward, forecasted revenue, net transfers to the General Fund from other sources and other adjustments to balance.) At a minimum, budgeted balances serve as a cushion against revenue shortfalls that may otherwise trigger spending curtailments by the Chief Executive. Budgeted balances carry forward into the following fiscal year and so serve as a funding source for spending bills to be considered in the second session of the current Legislature or first session of the next Legislature.

The budgeted General Fund balance, to the extent that it is not diminished by revenue shortfalls, is a contributory component of what is known as the Unappropriated Surplus. At the end of the fiscal year, the Unappropriated Surplus will reflect the variance between actual and forecasted

General Fund revenue; unspent non-personal services General Fund appropriations that are not specifically allowed to carry over in the budgeted account; a \$2,500,000 transfer to the Reserve for General Fund Operating Capital and other accounting adjustments made by the Controller as necessary to conform to generally accepted accounting principles.

From the calculated end-of-year Unappropriated Surplus of the General Fund, any remaining balance beyond the Budgeted Fund Balance is distributed per statute or per unallocated language in an enacted bill which may override the statute for a specified year. This distribution is often referred to as the “cascade.” The first layer of the cascade contains several fixed transfers which are made in a specified order for specified amounts up to set caps in the receiving funds. The second layer consists of percentage transfers to distribute any remaining surplus funds. Appendix V charts a seven-year history of cascade distributions.

At the end of fiscal year 2019-20, the unappropriated surplus was negative \$8.5 million. This was comprised of a revenue shortfall of roughly \$28.7 million, the \$2.5 million transfer to the Reserve for General Fund Operating Capital and offsets of \$22.7 million in unspent (lapsed) General Fund appropriations and other adjustments. The budgeted fund balance at the adjournment of the 2<sup>nd</sup> Regular Session of 129<sup>th</sup> Legislature was \$192.6 million. It was reduced to \$184.1 by the net shortfall. This \$184.1 million is, along with forecasted revenue, part of the General Fund resources available to the 130<sup>th</sup> Legislature.

# APPENDIX I

## Debt

### *General Obligation Bonds*

General Obligation (G.O.) Bonds are issued by the State and carry the full faith and credit of the State. They are typically issued by the Treasurer of State and pledge the full taxing capability of the State to the payment of principal and interest. G.O. bonds must first be authorized by two-thirds of those present and voting in both the Senate and the House of Representatives, followed by ratification by the voters in a general or special election. An authorization allows bonds to be issued any time within five years of its effective date. Bonds are only issued when expenditures for an authorized project are ready to be made, ensuring that bond proceeds do not reside unspent in accounts for long periods of time in violation of federal arbitrage procedures. G.O. bonds may only provide funding for capital improvements and other projects that promote the general welfare of the citizens of the State such as highway construction, environmental projects, economic development and research projects. They are usually tax-exempt unless there is a private use component of a project that requires the bonds to be issued as taxable bonds. Debt service can be paid by either the General Fund or the Highway Fund as specified in the implementing legislation that sent the bond issue to referendum. Article V, Part Third, Section 5 of the Constitution of Maine requires the Legislature to appropriate sufficient funds to pay the debt service on G.O. bonds and authorizes the Treasurer of State to use General Fund revenues if appropriations are insufficient. That same section of the Constitution prohibits the use of proceeds from the sale of bonds to fund current expenditures. There are no limitations on the amount of G.O. debt that may be issued if ratified by the voters.

Each of Maine's G.O. bond issues are evaluated by at least one of the major credit rating agencies just before pricing of the bonds. The ratings provide an estimate to potential investors and others of the ability of the State to pay back the interest and principal of any bonds being issued. Ratings are a measure of risk which help bidders decide how much they will require in interest to purchase Maine bonds and are, therefore, a factor in determining how much it will cost the State to repay the bonds. To determine ratings, the rating agencies look at the State's

budgeted revenues and expenditures (especially on-going expenditures), the amount of debt already obligated and expectations for the Maine economy.

The Constitution of Maine allows for certain limited borrowings that are not required to be ratified by the voters. These limitations can be found under Article IX, Sections 14-A through 14-D: \$90,000,000 to insure certain commercial loans; \$6,000,000 to insure revenue bonds of the Maine School Building Authority (the statutory authority repealed by P.L. 1993, c. 494); \$1,000,000 to insure mortgage loans on Indian reservations; and \$4,000,000 to insure Maine Veterans' Mortgage Loans. Article VIII, Part First, Section 2 of the Constitution of Maine also allows \$4,000,000 for loans to Maine students in higher education and their parents.

### ***Temporary State Loans***

State law (5 MRSA §150) authorizes the Treasurer of State to enter into certain temporary loan agreements in anticipation of revenues. The Treasurer of State, with the approval of the Governor, may negotiate temporary loans in anticipation of taxes levied for that fiscal year. Each loan must be retired no later than the close of the fiscal year in which the loan was originally made. The annual limit is 10% of total General Fund appropriations and total Highway Fund allocations or 1% of the total valuation of the State of Maine, whichever is less. These loan agreements are known as Tax Anticipation Notes (TAN's).

State law (5 MRSA §150) also authorizes the Treasurer of State, with the approval of the Governor, to enter into certain temporary loan agreements in anticipation of receipt of proceeds from the issuance of bonds authorized but not yet issued (known as Bond Anticipation Notes or "BAN's.") The statute requires the loans to be repaid from the proceeds of bonds within one year from the date of the loan but, in practice, they are repaid within the same fiscal year to avoid conflict with the State Constitution.

### ***Maine Governmental Facilities Authority***

The Maine Governmental Facilities Authority was established in 1997 as a successor to the Maine Court Facilities Authority to issue securities for the construction and equipping of State facilities. Securities issued by the Authority are payable solely from the funds provided for that

payment and do not constitute a liability of the State or a pledge of the faith and credit of the State (4 MRSA §1618.) The Authority is authorized to issue securities not to exceed a statutorily established amount at any one time. The base limit can be found in 4 MRSA §1606. Exceptions and additions to the base limits can be found starting in 4 MRSA §1610-A (see below.)

<b>Maine Governmental Facilities Authority *</b>			
<b>Statutory History of Authorizations Through the 129th Legislature</b>			
<b>MRSA 4</b>	<b>Year</b>	<b>Amount</b>	<b>Description</b>
§1606		189,000,000	Of this amount no less than \$136,000,000 must be specifically allocated to projects relating to the Judicial Branch except for the issuance of revenue refunding securities authorized by §1610 and securities issued under §1610-A.
§1610-A	1997	85,000,000	Correctional Facilities
§1610-B	1999	33,000,000	Psychiatric Facility
§1610-C	2003	7,458,000	Various State Facilities
§1610-D	2005	9,000,000	Various State Facilities
§1610-E	2005	1,000,000	Court Facilities - ADA Compliance
§1610-F	2013	7,350,000	Various State Facilities
§1610-G	2013	15,000,000	Courts Case mgt, data storage, electronic filing system
§1610-H	2015	23,000,000	Capitol Repairs to State-owned facilities and hazardous waste cleanup
§1610-I	2015	95,600,000	Court Facilities Oxford, Waldo and York and planning for others
§1610-J	2015	149,700,000	Maine Correctional Center and DOC facility in Washington Co.
§1610-K	2017	30,000,000	Capitol Repairs to State-owned facilities and hazardous waste cleanup
§1610-L	2019	55,000,000	Capitol Repairs to State-owned facilities and hazardous waste cleanup
<b>* PL 1997 c. 523 changed the Act from Maine Court Facilities Authority to Maine Governmental Facilities Authority</b>			

## **APPENDIX II**

### **How Positions Are Created, Budgeted And Managed**

Issues related to state employees, including their number, compensation, and funding are often in the forefront of budget deliberations. Personal Services (wages, benefits and payroll taxes) amount to over 13% of the General Fund budget and the number of authorized positions is the biggest driver of that category. The State's budget process results in a specific authorized headcount.

#### ***Headcount***

Headcount as it appears in the budget bill and in many other spending bills falls under one of two headings: "Position-Legislative Count" or "Positions -Full-Time-Equivalent" (FTE).

Legislative-Count positions are established without an end-date on a full year basis. These may be full-time or part-time and are assigned a legislative position count of 1.00 or .500 respectively. FTE positions are established without an end date but on a partial-year basis (less than 52 weeks). The FTE positions are assigned a count by dividing the number of hours the employee is expected to work during the year by 2,080 (the number of hours budgeted for full-time employees for a full year).

The Executive Branch may, by financial order, establish limited-period positions (including workers compensation positions), project positions or other temporary positions for a period not to exceed two years. The Legislature must specifically appropriate or allocate funds for continuance of these positions (MRSA 5 § 1583-A). Positions authorized solely by financial order are not included in Legislative-Count or Full-Time Equivalent counts, but the associated expenses are included in the Personal Services category.

### *Personal Services Expenditures*

The amount budgeted for total salaries and wages for all authorized and funded positions is reduced by a predetermined amount to account for attrition. There may be additional salary savings generated from vacant, but funded, positions beyond the assumed attrition rate or for other reasons, such as filling vacant positions at a lower salary grade than that earned by the prior incumbent. Such savings may be used within the same account to pay for nonrecurring Personal Services costs such as:

- Acting capacity appointments
- Emergency overtime for which it is impractical to budget
- Offsetting Personal Services shortfalls in other General Fund accounts that did not achieve projected vacancies
- Retroactive compensation for reclassifications or reallocations
- Retroactive or one-time settlements related to arbitrator or court decisions

Personal Services savings within General Fund accounts may, by financial order, be transferred to other General Fund accounts across agencies to cover shortfalls resulting from lower than anticipated vacancy rates.

Savings in Personal Services resulting from higher than expected vacancy rates that are not used to cover attrition or shortfalls such as those described above, generally (with some specified exceptions) lapse at the end of each fiscal year to the Salary Plan account within the Department of Administrative and Financial Services (5 MRSA §1582). Balances in the Salary Plan account may be used to meet the fixed obligation of the General Fund for the unfunded actuarial liability in the Maine Public Employees Retirement System in each fiscal year; any other use must be authorized by the Legislature (5 MRSA §1676). The Legislature has frequently authorized transfers from the Salary Plan to fund costs associated with collective bargaining agreements for State employees.

### ***Position Classifications***

Permanent positions for which funds are appropriated or allocated must be classified positions (subject to the civil service system) unless specifically designated otherwise by the Legislature. Each classified position has a set of specific characteristics. Jobs that have similar work and responsibilities are grouped and assigned to a common job classification and salary grade. Some position classifications have only a few employees because of the uniqueness of the duties, while others have hundreds of employees because the general duties are very similar from one agency to another. It is the responsibility of the Director of the Bureau of Human Resources within the Department of Administrative and Financial Services to ensure that classified and unclassified positions are assigned to the proper pay grade and the responsibility of the State Budget Officer to ensure that the positions are within authorized headcount and funds.

### ***Reclassifications***

A position reclassification occurs when an employee is performing duties outside of his or her assigned position classification. A reclassification may be initiated by an employee or management via a Functional Job Analysis (FJA) form. The Bureau of Human Resources determines whether a reclassification is warranted and, if so, identifies the appropriate classification. Collective bargaining agreements obligate the State to honor approved reclassifications. If the reclassification was initiated by the employee, the effective date is the date that he or she signed the FJA and funding must be identified for a retroactive adjustment. If the reclassification was initiated by management, it is effective upon funding. In either case the reclassification will not be released by the Bureau of the Budget until funding is achieved.

Funding for the on-going costs of the reclassification may be achieved either through the legislative process or through identified permanent savings within the Personal Services line category in the same account (or accounts) in which the classified position is budgeted. Sources of permanent savings include eliminating a position, exchanging a position for one of a lower classification, or reducing the hours or weeks of a position. If a reclassification results in retroactive costs, funding for that portion may be through one-time Personal Services savings such as salary savings in the same account engendered from vacancies in excess of the assumed attrition rate.

Funding for an approved reclassification requires legislative approval if the offsetting savings can only be identified from another account or if an appropriation or allocation is required because no savings can be identified. The mechanism for requesting self-funded appropriations or allocations for the General Fund and Highway Fund and for all other funds for which additional revenue can be identified is, typically, Part B of the budget bills submitted by the Governor. If the reclassification requires a General Fund appropriation or a Highway Fund allocation because the department cannot self-fund or because revenue for reclassifications affecting other funds cannot be found, the request for reclassification would be included as a Part A initiative in the budget bill.

### ***Reorganizations***

Reorganizations differ from reclassifications in that the department or agency proposes a change in the duties of a position, often in conjunction with a reorganization of one of its units. The duties of the new classification are not assigned to the position until the department or agency receives approval and an effective date from the Bureau of the Budget. The proposed reorganization is not retroactive and is not implemented until funding is identified. If permanent funding cannot be found from the sources described in the above section, a request may be made in the form of an initiative in Part A of the budget bill.

# APPENDIX III

## Financial Order Transactions

(From the Bureau of the Budget)

### FINANCIAL ORDER TRANSACTIONS

Financial Order Transaction	Effective Date of Financial Order FUND			
	General Fund Highway Fund	Federal Funds Enterprise Funds	Other Special Revenue (OSR) Internal Service Funds	Bond Funds
<b>Increase allotment up to legislative authorization</b>				
- current year work program	UA	UA	UA	UA
- unused balance of approp/alloc authorized to carry forward	UA	UA	UA	UA
<b>Increase allotment above legislative authorization</b>				
- new grant/ money **	xxxxxx	UA	30 *	xxxxxx
- unencumbered balance forward	UA	UA	30 *	xxxxxx
<b>Allotment revision</b>				
- increase current quarter by reducing future quarter ***	UA	UA	UA	UA
<b>Intradepartmental transfers</b>				
- transfers between accounts within an agency ****	30	//////////	//////////	xxxxxx
<b>Line category transfer</b>				
- transfers between line categories within an account ****	30	30	30	30
<b>Key:</b>				
<p>UA Upon Approval of the Governor</p> <p>30 Effective 30 days after approved copy is delivered to OF&amp;PR. In extraordinary situations, a waiver of the 30-day wait may be requested.</p> <p>////////// Should the situation arise, please consult with your budget analyst for guidance</p> <p>xxxxxx Transaction not permitted by financial order</p> <p>* Request considered only if failure to allot would have a detrimental impact on the current program</p> <p>** new grant/money: Federal - can allot by financial order for up to one year, after that must receive legislative authorization Other Special Revenue Funds - if there is currently no allocation in applicable program, must receive legislative authorization first</p> <p>*** If there is an appearance of a trend (transfers resulting from trends that will cause financial commitments to exceed current appropriations or allocations), a 30-day wait would apply.</p> <p>**** Requires explanation why funds are no longer needed for intended purpose</p>				
<b><i>These rules apply unless otherwise authorized in statute.</i></b>				

## APPENDIX IV

### Sample Budget Proposal

This sample is taken from the Governor’s “Recommended 2008-2009 Biennial Budget”. The format of the document as it relates to the various parts conforms to recommendations of the Commission to Reform the State Budget Process. The recommendations of the commission relating to the form and content of the State budget document are contained in 5 MRSA §1664. The recommendations on how the “baseline” revenues and expenses, proposed changes to the baseline and approved position classifications should be itemized were not included in statute.

“**Part A**” of the biennial budget document begins with a **Department Summary** listing all sources of funding, by line category, for each department included in the bill (biennial budget documents include all programs and departments, other budget bills include only those with proposed changes). Following the Department Summary is a **Program Summary** sorted alphabetically by program title. Within each program there is a short narrative entitled: **What the Budget Purchases** describing its activities. The Program Summary section lists the final appropriations for the prior fiscal year (including distribution for statewide initiatives) and the appropriations for the current fiscal year and baseline budget for the two fiscal years of the proposed biennial budget. (Note: Prior year revenue and expense columns are removed when the budget document is translated into a bill.). In this part of the budget, positions listed in budgeted years do not deviate from those currently authorized by the Legislature. The amounts for **Personal Services** are adjusted to reflect projected increases for benefits and special payments and the amounts budgeted under **All Other** equal the amount appropriated or allocated for the current fiscal year adjusted for any amount not considered on-going. Proposed reductions or additions to the baseline budget or proposals to create new programs or modify existing programs are listed as **Initiatives**. The **Revised Program Summary** reflects the net effect of all Part A initiatives on the baseline budget for all funding sources and all line categories.

# “Part A” Sample

Historic Preservation Commission, Maine

	<u>Actual</u> 2005-06	<u>Current</u> 2006-07	<u>Budgeted</u> 2007-08	<u>Budgeted</u> 2008-09
<b>Department Summary - All Funds</b>				
Positions - LEGISLATIVE COUNT	12,000	12,000	12,000	12,000
Positions - FTE COUNT	6,731	6,731	6,731	6,731
Personal Services	1,094,004	1,128,847	1,165,576	1,193,387
All Other	499,052	505,842	508,318	508,708
<b>Total</b>	<b>1,593,056</b>	<b>1,634,688</b>	<b>1,673,894</b>	<b>1,702,095</b>
<b>Department Summary - GENERAL FUND</b>				
Positions - LEGISLATIVE COUNT	3,000	3,000	3,000	3,000
Personal Services	252,251	252,381	265,760	271,847
All Other	51,982	44,667	47,143	47,533
<b>Total</b>	<b>304,233</b>	<b>297,048</b>	<b>312,903</b>	<b>319,380</b>

Historic Preservation Commission, Maine

HISTORIC PRESERVATION COMMISSION 0036

What the Budget purchases:

Assist the owners of depreciable historic buildings to qualify for federal Rehabilitation Tax Credit. Assist municipalities in development of growth management plans. Assist municipalities seeking certified local government status from the Department of the Interior. Review construction projects for their effect upon historic and archaeological resources. Nominate buildings, sites and districts to the National Register of Historic Places.

	<u>Actual</u> 2005-06	<u>Current</u> 2006-07	<u>Budgeted</u> 2007-08	<u>Budgeted</u> 2008-09
<b>Program Summary - GENERAL FUND</b>				
Positions - LEGISLATIVE COUNT	3,000	3,000	3,000	3,000
Personal Services	252,251	252,381	265,760	271,847
All Other	51,982	44,667	44,667	44,667
<b>Total</b>	<b>304,233</b>	<b>297,048</b>	<b>310,427</b>	<b>316,514</b>
<b>Program Summary - FEDERAL EXPENDITURES FUND</b>				
Positions - LEGISLATIVE COUNT	5,000	5,000	5,000	5,000
Personal Services	374,859	388,919	384,609	390,994
All Other	326,465	337,555	337,555	337,555
<b>Total</b>	<b>701,324</b>	<b>726,474</b>	<b>722,164</b>	<b>728,549</b>
<b>Program Summary - OTHER SPECIAL REVENUE FUNDS</b>				
Positions - LEGISLATIVE COUNT	4,000	4,000	4,000	4,000
Positions - FTE COUNT	6,731	6,731	6,731	6,731
Personal Services	466,894	487,547	515,207	530,546
All Other	120,605	123,620	123,620	123,620
<b>Total</b>	<b>587,499</b>	<b>611,167</b>	<b>638,827</b>	<b>654,166</b>
			<b>2007-08</b>	<b>2008-09</b>
<b>Initiative:</b>	Adjusts funding for the same level of information technology agency applications services at the fiscal year 2007-08 and 2008-09. O/Bs of Information Technology rates. Categories of service include direct billed personnel services, server support, and shared platforms.			
<b>GENERAL FUND</b>				
All Other			2,476	2,866
		<b>Total</b>	<b>2,476</b>	<b>2,866</b>

	<u>Actual</u> 2005-06	<u>Current</u> 2006-07	<u>Budgeted</u> 2007-08	<u>Budgeted</u> 2008-09
<b>Revised Program Summary - GENERAL FUND</b>				
Positions - LEGISLATIVE COUNT	3,000	3,000	3,000	3,000
Personal Services	252,251	252,381	265,760	271,847
All Other	51,982	44,667	47,143	47,533
<b>Total</b>	<b>304,233</b>	<b>297,048</b>	<b>312,903</b>	<b>319,380</b>
<b>Revised Program Summary - FEDERAL EXPENDITURES FUND</b>				
Positions - LEGISLATIVE COUNT	5,000	5,000	5,000	5,000
Personal Services	374,859	388,919	384,609	390,994
All Other	326,465	337,555	337,555	337,555
<b>Total</b>	<b>701,324</b>	<b>726,474</b>	<b>722,164</b>	<b>728,549</b>
<b>Revised Program Summary - OTHER SPECIAL REVENUE FUNDS</b>				
Positions - LEGISLATIVE COUNT	4,000	4,000	4,000	4,000
Positions - FTE COUNT	6,731	6,731	6,731	6,731

“Part B” of the biennial budget document contains proposed appropriations and allocations listed by department and fund for reclassifications and range changes approved by the Director of Human Resources.

**“Part B” Sample**

Economic and Community Development, Department of		
	2007-08	2008-09
<b>BUSINESS DEVELOPMENT 0585</b>		
GENERAL FUND		
Personal Services	6,298	6,297
All Other	(6,238)	(6,297)
Total	0	0
<b>MAINE STATE FILM OFFICE 0590</b>		
GENERAL FUND		
Personal Services	5,638	5,692
All Other	(5,638)	(5,692)
Total	0	0
Education, Department of		
<b>LEARNING SYSTEMS 0839</b>		
FEDERAL EXPENDITURES FUND		
Personal Services	7,715	8,842
Total	7,715	8,842
Environmental Protection, Department of		
<b>LAND AND WATER QUALITY 0248</b>		
GENERAL FUND		
Personal Services	3,619	3,652
All Other	(3,619)	(3,652)
Total	0	0
<b>MAINE ENVIRONMENTAL PROTECTION FUND 0421</b>		
OTHER SPECIAL REVENUE FUNDS		
Personal Services	25,502	28,617
All Other	530	596
Total	26,032	29,213
<b>PERFORMANCE PARTNERSHIP GRANT 0851</b>		
FEDERAL EXPENDITURES FUND		
Personal Services	21,096	24,995
All Other	438	520
Total	21,474	25,515
<b>REMEDIATION AND WASTE MANAGEMENT 0247</b>		
OTHER SPECIAL REVENUE FUNDS		
Personal Services	10,469	10,821
All Other	218	225
Total	10,687	11,046

**APPENDIX V Fixed and Percentage Transfers of Unbudgeted General Fund Surplus (aka the "Cascade")**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
<b>Fixed Dollar Transfers</b>							
Replenish Contingent Account	\$262,000 [1]	\$230,129 [1]	\$348,000 [1]	\$350,000 [1]	\$350,000 [1]	\$350,000 [1]	
Transfer to Loan Insurance Reserve	\$1,000,000 [2]	\$1,000,000 [2]	\$1,000,000 [2]	\$1,000,000 [2]	\$1,000,000 [2]	\$1,000,000 [2]	
Maine Budget Stabilization Fund (PL 2011, c. 28 I-1)							
Health and Human Services, Bureau of Medical Services (PL 2011, c. 28 I-2)							
Health Insurance Internal Services Fund (PL 2011, c. 28 I-3)							
Retirement Reserve	\$10,250,000 [6]						
Hospital Settlements (PL 2011, c. 380 QQ)							
Reserve for Future Funding Needs DHHS Developmental Svcs Waiver	\$1,300,000 [8]						
Reserve for Future Fundng Needs Undesignated	\$18,700,000 [9]						
General Fund Operating Capital (5 MRSA §1536)		\$2,500,000 [10]	\$2,500,000 [10]	\$2,500,000 [10]	\$2,500,000 [10]	\$2,500,000 [10]	\$2,500,000 [10]
Retiree Health Insurance UAL			\$4,000,000 [11]	\$4,000,000 [11]	\$2,000,000 [11]	\$2,000,000 [11]	
PUC Cost Recovery Fund			\$13,400,000 [12]				
<b>Percentage Transfers [13]</b>							
Budget Stabilization Fund	\$8,453,289 48%	\$23,854,159 80%	\$707,300 80%	\$36,837,024 80%	\$76,247,087 80%	\$18,144,842 80%	
Retirement Allowance Fund							
Reserve for General Fund Operating Capital	\$2,289,433 13%						
Retiree Health Internal Services Fund	\$1,584,992 9%						
Capital Construction & Improvements Reserve Fund	\$1,761,102 10%						
Tax Relief Fund for Maine Residents	\$3,522,204 20%	\$5,963,540 20%	\$176,825 20%	\$9,209,256 20%	\$19,061,772 20%	\$4,536,211 20%	
<b>Total Year-end Transfers</b>	<b>\$49,123,020</b>	<b>\$33,547,828</b>	<b>\$22,132,125</b>	<b>\$53,896,280</b>	<b>\$101,158,859</b>	<b>\$28,531,053</b>	<b>\$2,500,000</b>

Notes:

- [1] 5 MRSA §1507 (Up to \$350,000)
- [2] 5 MRSA §1511 (Up to \$1,000,000)
- [3] PL 2011, c. 28 Part I-1
- [4] PL 2011, c. 28 Part I-2
- [5] PL 2011, c. 28 Part I-3
- [6] 5 MRSA §1522 (Up to \$15,000,000 effective in FY 2011 amended by PL 2013, c. 1 Part E and PL 2013 c. 578 to change limits and authorize use for one-time cola payments)
- [7] PL 2011, c. 380 Part QQ (Up to \$25,000,000)
- [8] PL 2013, c. 595 Part X (Up to \$1,300,000)
- [9] PL 2013, c. 595 Part X (Up to \$18,700,000) Intended for potential repayments to federal government to be transferred to Budget Stabilization if not otherwise used.
- [10] 5 MRSA §1536. Not subject to available balance so was deposited at the close of FY20 despite the negative unbudgeted balance.
- [11] 5 MRSA §1519 PL 2015 c. 267 Pt L (Up to \$4,000,000 in FY16, \$4,000,000 in FY17 and \$2,000,000 in FY18)
- [12] PL 2015, c. 483 (Up to \$13,400,000 in FY16 only)
- [13] 5 MRSA §1536 most recently amended by PL 2015 c. 267 Part L

\* \$9,535,933 transferred from the Tax Relief Fund for Maine Residents to the Unappropriated Surplus of the General Fund on 6/30/16 per PL 2015 chapter 388 (LD 1583 of the 127th Legislature)

## **APPENDIX VI**

### **Selected Budget Terms and Definitions**

**Adjustments to Balances/Transfers** Transactions reflecting the transfer of balances or reserves based on revenue or resources earned in a prior fiscal year. These transactions include the transfer to or from reserve funds, the lapsing of carrying balances and the transfer of balances between funds. Most of these transactions are specific one-time authorizations. Fiscal notes segregate and report these changes to available resources separately from revenue items, which are earned and adjusted or transferred in the current fiscal year. In addition to the budgeted Adjustments to Balance/Transfers, the Office of the State Controller records other prior period adjustments that affect balance throughout the fiscal year as unbudgeted events. These unbudgeted adjustments increase or decrease available fund balances, but do not affect revenue or expenditures.

**All Other** See Line Category

**Allocation** The amount of expenditures authorized by the Legislature from resources legally restricted or otherwise designated for specific operating purposes. All non-General Fund resources are “allocated”. The Legislature allocates to programs (e.g. Bureau of Insurance) and line categories (i.e. Personal Services, All Other, Capital or unallocated). Negative allocations are called deallocations.

**Allotment** The designation of a department or agency’s authorized estimated expenditures in each fiscal year budget (called the annual work program) by quarter and line category. 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.

**Appropriation** The amount of expenditures authorized by the Legislature from unrestricted or undesignated resources for specific operating purposes. All General Fund resources are “appropriated”. The Legislature appropriates to programs (e.g. General Purpose Aid to Local Schools) and line categories (i.e. Personal Services, All Other, Capital or unallocated). Negative appropriations are called deappropriations.

**Appropriations Table, Special** A process by which most bills affecting General Fund revenue or requiring an appropriation from the General Fund are held prior to enactment in the Senate pending review by the Appropriations Committee. In the closing days of the session, the committee recommends passage, amendment or defeat of those bills. Bills on the Special Appropriations Table are listed on the Senate Calendar.

**Arbitrage** The nearly simultaneous purchase and sale of securities or foreign exchange in different markets in order to profit from price discrepancies. In Maine’s debt service context, a violation of IRS federal arbitrage rules is defined as any action that has an effect of enabling the State to exploit the difference between tax-exempt and taxable interest rates to obtain a material financial advantage and overburdening the tax-exempt bond market (e.g. issuing tax-exempt bonds and investing the proceeds as opposed to using them for the authorized purpose).

**Attrition** A factor applied against budgeted state employee salary amounts which reduce budget requests for Personal Services to account for projected personnel turnover.

**Baseline Budget** The starting point for a program’s appropriation or allocation in the upcoming biennium. Personal Services funding is based on the projected salary and fringe benefit costs of authorized positions. All Other funding is based on the current fiscal year appropriation or allocation adjusted for any one-time initiatives. No Capital Expenditures are included in the baseline budget.

**Biennial Budget** The two-year financial plan which shows the estimated expenditures of the various departments and agencies of Maine State Government and the resources available (or proposed to be available) to fund them.

**Biennium** The two fiscal years covered by the State’s biennial budget. It covers the period beginning with a fiscal year whose designation ends with an even-numbered fiscal year and continues through the end of the following fiscal year. For example, the 2012-2013 biennium covered fiscal year 2011-12 and fiscal year 2012-13. The biennium began on July 1, 2011 and ended on June 30, 2013.

**Bond Anticipation Note (BAN)** Short-term notes (12 months or less) used to meet capital project needs that are supported by General Obligation Debt. This short-term borrowing is used to avoid piecemeal debt issues and thus minimize debt issuance costs and reduce the risk of violating federal arbitrage rules. The proceeds from the General Obligation Bond issuance (which usually occurs once a year) are used to pay off the principal due on the BAN.

**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.

**Budget Bills** Legislative documents, almost always submitted by the Governor, that seek appropriations, allocations and/or revenue adjustments to finance Maine State government and other public purposes and may seek statutory or other unallocated language to implement fiscal policy. Included are:

- . “Emergency” – proposals in the First Regular Session to resolve budget issues for the current fiscal year.
- . “Biennial Budget Bill” – proposals in the First Regular Session to resolve budget issues for the upcoming biennium which reflect both the baseline budget (see above), adjustments to existing initiatives, expansion of the scope of an initiative or an initiative of an organizational nature for the upcoming biennium.
- . “Supplemental” – proposals in the Second Regular Session or a Special Session to resolve budget issues for the balance of the current biennium.

**Budgeted Balance** The uncommitted balance of a fund at the close of a fiscal year. This term is commonly used in reference to the General Fund and Highway Fund and is simply stated as follows:

Budgeted Net Transfers and Adjustments *plus* Budgeted Undedicated Revenue *less* Budgeted Authorized Expenditures (i.e. appropriations or allocations) *plus* the beginning balance.

**Budget Initiatives** Proposals to adjust the baseline budget; create new programs; or modify existing programs. Initiatives are usually included in Part A of a budget document and must be accompanied by a description of the intent of the initiative or the specific action to be taken.

**Budget Order** An administrative document prepared by various departments and agencies to transfer allotment reserve (i.e. unspent and unencumbered allotment from a previous fiscal quarter) from the reserve to a current quarter. These transfers must be authorized by the State Budget Officer.

**Budget Stabilization Fund** A General Fund program to reserve funds to offset General Fund revenue shortfalls. The fund is capped at 18% of the General Fund revenue in the immediately preceding fiscal year. This program is a successor to the “Rainy Day Fund” and the two terms are sometimes used interchangeably.

**Capital Expenditures** See Line Category

**Capital Projects Fund** A governmental fund established to receive and disburse money from the sale of general obligation bonds. Separate funds exist to accommodate proceeds from General Fund bonds, Highway Fund bonds and Self-liquidating bonds. Disbursements cannot be made from these funds for current expenditures but must be for buildings, equipment, roads, infrastructure, technology and other purposes considered capital projects.

**Cascade (so-called)** A Legislative authorization transferring amounts, if available, from the Unappropriated Surplus of the General Fund at the close of the fiscal year after all statutory transfers and financial commitments determined necessary by the State Controller have been satisfied. The amounts transferred are generally added to the program’s appropriation in the following year. Typically, a priority is established for the transfers.

**Cash Pool** Conduit through which all checks, cash, wire transfers, electronic funds transfers and bank credits of any kind collected by any and all State of Maine agencies are aggregated, accounted for and disbursed. Any funds in the Cash Pool not needed immediately for disbursements are invested by the Treasurer. Earnings are distributed based on the average daily balance of each account specifically authorized by statute.

**Certificates of Participation (COP)** A lease financing agreement in which the State encumbers some portion of its revenue base over an extended period of time to repay debt for a capital project. Authorization does not require voter approval.

**Contingent Account, State** A General Fund Program established for use by the Governor as he or she deems it necessary for specified purposes up to specific expenditure caps. (see 5 MRSA §1507.)

**Deallocation** A negative Allocation (see “Allocation” definition,) reducing spending authority.

**Deappropriation** A negative Appropriation (see “Appropriation” definition) reducing spending authority.

**Debt Service** Principal and interest paid or estimated to be paid on outstanding borrowed funds.

**Debt Service Earnings** Investment earnings on issued debt not yet paid for authorized projects. These earnings are managed within federal arbitrage rules and are used to reduce the amount that would otherwise be appropriated or allocated each fiscal year for General Obligation Debt Services.

**Dedicated Revenue** Revenue accruing to a department or agency for use toward designated or legally-restricted operational purposes.

**Departmental Indirect Cost Allocation Plan (or DICAP)** A charge to accounts other than general fund appropriation using a percentage assessment against actual expenditures. The percentage applied represents the proportional value of indirect benefits received within the department or agency. It is generally prepared annually by a state agency and approved by the cost negotiating unit to which the State reports for its federal programs. The plan identifies the rates that the agency may assess for certain centrally provided services (e.g. payroll, human resources, office space, accounting, etc.) for which the federal program is not directly paying.

**Encumbered Balance Forward** The balance of funds in an account which is reserved for the future liquidation of encumbered purchase orders and contracts and which carries forward from one fiscal year to the next in accordance with law. Encumbered balances at year-end carry forward only one year unless stated otherwise in law.

**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.

**Federal Medical Assistance Percentage (FMAP)** The percent of total Medicaid costs supported by the federal government. Published annually in the Federal Register, it is computed from a formula that takes into account the average per capita income for each State over a three-

year period relative to the national average. A “blended rate” is often used for budgeting purposes to adjust for the fact that Maine has a different fiscal year than the federal government.

**Federal Financial Participation (FFP)** The amount of money received by a state from the federal government for programs that are supported with both state and federal funds. The amount of FFP available for the Medicaid program is determined to a large extent by the applicable FMAP. FFP is also available for the cost of administering the Medicaid program, generally calculated as 50% of allowable costs.

**Financial Order** A legal document used by a department or agency to establish allotment, revise allotment, increase allotment, transfer funds between accounts within the same department and/or agency and fund type, transfer funds between line categories in the same account, or to accomplish any other related legal action upon the approval of the Governor (for the executive branch) or the Chief Justice (for the judicial branch.)

**Fiscal Note Brief** A description, prepared by the Office of Fiscal and Program Review, of the effect of a bill or amendment on the finances of State Government. In accordance with Joint Rule 312, any bill affecting state revenues, appropriations or allocations or requiring local units of government to expend additional local funds must have a fiscal note attached to a favorable committee report or floor amendment.

**Fiscal Year (Federal)** The legal, accounting and budgetary cycle of the Federal Government covering the period of October 1 through September 30. The fiscal year is commonly referred to by including the calendar year in which the fiscal year ends (e.g. Fiscal Year 2013 began in October of 2012 and ended in September of 2013.)

**Fiscal Year (State)** The legal accounting and budgetary cycle of Maine State Government covering the period of July 1 through June 30 (5 MRSA, §1501). It is usually identified by the years it covers. For example, fiscal year 2013-14 ran from July 1, 2013 through June 30, 2014.

**Full Time Equivalent (FTE)** Used to describe positions of less than 52 weeks in a fiscal year as authorized by the Legislature. FTE positions are assigned a count by dividing the number of hours the employee is authorized to work during the year by 2,080 (the number of hours budgeted for full-time employees for a full year).

**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.

**Fund for a Healthy Maine** A unique fund established for the receipt and expenditure of funds received by the state from tobacco manufacturers under the master settlement agreement (see 22 MRSA §1511)

**General Fund** The primary operating fund of Maine State Government. It receives revenue from general state revenue sources (Individual Income Tax, Sales and Use Tax, Corporate Income Tax and Cigarette Tax).

**General Obligation Bonds (aka GO Bonds or Debt)** A General Fund or Highway Fund bond issue in which the full faith and credit of the State is pledged to repay.

**GPA** Refers to the General Purpose Aid for Local Schools program within the Department of Education and funds the State's share of K-12 public education.

**GARVEE Bonds (Grant Anticipation Revenue Vehicle)** A transportation financing instrument. The principal amount borrowed may not exceed 50% of transportation funds appropriated by the Federal Government in the prior federal fiscal year. The principal and interest are repaid with federal highway funds within 12 months of issuance.

**Highway Table, Special** A process by which most bills affecting Highway Fund revenue or requiring an allocation from the Highway Fund are held prior to enactment in the Senate pending review by the Transportation Committee. In the closing days of the session, the joint standing committee having jurisdiction over transportation recommends passage, amendment or defeat of those bills. Bills on the Special Highway Table are listed on the Senate Calendar.

**Indirect Cost** A cost, such as general administrative (human resources and accounting), maintenance and utility expense, that is incurred but cannot be directly allocated in full to a particular service, cost center or business activity. A cost may be incurred on behalf of a number of cost units or centers to which the cost may be apportioned through an allocation process/indirect cost rate.

**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 the fund from which they were originally appropriated or allocated by the Legislature.

**Legislative Count** See "Position".

**Line Category** Expenditure groups to which the Legislature appropriates and allocates funds:

- . "Personal Services" – includes state employee salaries and benefits, and certain per diem expenditures.
- . "All Other" – includes all non-personal services expenditures such as general operating expenses, grants, travel, etc., excluding items meeting capital expenditures criteria (see below).
- . "Capital Expenditures" – includes expenditures for real property, fixed assets with a unit cost of \$5,000 or more and/or a certain useful life, construction and certain repairs.
- . "Unallocated" – undesignated allocations, which must be transferred to another line category prior to being authorized for expenditure.

**Mandate, State** An action by the State that requires a local unit of government to expand or modify its activities so as to necessitate expenditures of additional local revenues.

**MAP** Refers to the Medical Care - Payments to Providers (medical assistance payments) program within the Department of Health and Human Services and provides the largest portion of the funding for the state-federal Medicaid program (called MaineCare in Maine).

**Moral Obligation Bonds** Bonds issued by an instrumentality of the State (e.g. FAME, University of Maine System, Maine State Housing Authority etc.) for which the State does not pledge its full faith and credit to repay. Statutory authority is required for the instrumentality to issue these bonds.

**NF** Refers to the Nursing Facilities program within the Department of Health and Human Services.

**Personal Services** See Line Category

**Position** A job in a department or agency that has been authorized by the Legislature. Position headcount may be established without an end-date on a full-year basis (Legislative Count) or on a partial-year basis (**F**ull **T**ime **E**quivalent). If the end-date is known, positions are established without headcount on a project, temporary or limited-period basis.

**Position Reclassification** An action taken by a department or agency when it is determined that an individual assigned to a particular position is working out of the classification of that position because of duties assigned. An employee can initiate the steps needed for this action to occur. The effective date of the reclassification is the earliest initiated date of the action.

**Position Reorganization** An action taken by a department or agency when it decides to reorganize the duties of a position to the extent that a change to the classification of the position may be necessary. The reorganization becomes effective when permanent salary savings are identified.

**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.

**Salary Plan** Accounts in the General Fund and Highway Fund to which funds are appropriated or allocated by the Legislature to meet the economic costs of state collective bargaining agreements. Transfers to department or agency General Fund or Highway Fund accounts normally are accomplished in the fourth quarter of a fiscal year after a determination of the actual salary needs of a department or agency and upon the recommendation of the State Budget Officer and the approval of the Governor.

**Sine Die** Without a day specified for a future meeting; indefinitely.

**Statewide Cost Allocation Plan (STA-CAP)** A charge to Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Funds or other fund accounts using a percentage assessment against the aggregate of monthly actual expenditures for each class and object from 3110 through 5999. It is prepared annually by the Office of State Controller and approved by the cost-negotiating unit of the U.S. Department of Health and Human Services. The plan identifies the rates that the State may assess for certain centrally provided services paid for through General Funds (e.g. payroll, human resources, office space, security, etc.). A rate that reflects the specific services utilized is calculated for each department and unit of state government regardless of the funding sources of the departments' and units' programs. The calculated rate is applied against all eligible expenditures (grants and capital expenditures are excluded) of the non-General Fund accounts (e.g. federal funds or other special revenue funds.)

**Structural Surplus (Gap)** The difference between the projected General Fund (or Highway Fund) revenue estimated to be collected in the upcoming biennium based on current law and economic projections and the projected General Fund appropriations (or Highway Fund allocations) that are needed to maintain the current level of legislatively-approved or funded program effort for that same period of time.

**Supplemental Budget Proposals** Bills submitted to resolve budget issues for the balance of the current biennium.

**Tax Supported Debt** Debt obligation of a State agency or the Maine Governmental Facilities Authority (MGFA). The debt service may be paid from General Fund or Highway Fund undedicated revenues.

**Trust Fund** An account established to hold permanent funds received by the State for specific long-term purposes. Trust funds are managed by the Treasurer of State.

**Unallocated** See Line Category

**Unappropriated Surplus** An account maintained by the State Controller to include the balances not otherwise committed by law or designated by the State Controller as required according to Generally Accepted Accounting Principles. (See 5 MRSA §1544).

**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.

**Unencumbered Balance Forward** The balance of funds in an account which is not restricted or reserved with respect to their availability for future use and which carries forward from one fiscal year to the next by line category in accordance with law.

**Unfunded Actuarial Liability (UAL)** The liability the State of Maine has with regard to the State Employee and Teacher retirement plan of the Maine State Retirement System. The unfunded liability is the total of the actuarial liability for all members less the actuarial value of the Retirement System's assets.

**Work Program** The fiscal year financial plan or budget plan of a department or agency showing all revenues or other resources along with estimated expenditures by account, line category, quarter and class and/or object.

**Year-End Statutory Transfers** Transfers from the Unappropriated Surplus of the General Fund authorized by statute. Specific transfers are often added or amended for specified fiscal years or under specified conditions through budget bills or other legislation.