

**Testimony of Elaine Clark, Commissioner
Department of Administrative and Financial Services**

**Before the Joint Standing Committee on
Appropriations and Financial Affairs**

February 12, 2026

Good afternoon, Senator Rotundo, Representative Gattine, and members of the Joint Standing Committee on Appropriations and Financial Affairs. I am Elaine Clark, the Commissioner of the Department of Administrative and Financial Services. Thank you for the opportunity to present an overview of the fiscal years 26-27 supplemental budget. With the Highway Fund 26-27 supplemental, this will be the 26th and final budget of the Mills Administration.

The supplemental builds on the current fiscal year 2026-2027 biennial budget, investing in core commitments to Maine people and proposing Governor Mills's three-part Affordability Agenda, announced during her State of the State Address on January 27.

Recapping our Progress

This supplemental strives to continue the commitments that have been made in a bipartisan fashion during this Administration.

On the expenditures side, over the years, we've enacted multiple initiatives to address the needs of Maine people, including:

- Funding K-12 cost of education at the statutorily required 55 percent, a threshold met for the first time in Maine's history in 2022 under Governor Mills
- Funding revenue sharing at the statutorily required 5 percent, another threshold reached in 2022
- More than \$900 million in all funds for MaineCare and nursing facility provider rates, including salary increases for direct care workers

- School meals - the Legislature, in bipartisan unity, committed to this program, which was expanded to cover breakfast and lunch for all kids and is now budgeted to cost \$64 million per year in the biennial
- Medicaid expansion, per the vote of Maine people, including expanding children's coverage
- Strengthening Maine's public defense system
- Historic childcare investments, including workforce salary supplements, the childcare affordability program, childcare and pre-K infrastructure, headstart, and child development services
- Investments in behavioral health, child and family services, elder issues; and,
- Investments in housing, including short-term emergency shelters and building more long-term housing, among many others.

Tax Relief

Similarly, on the revenues side, there is also a substantial series of enacted measures that will reduce the resources coming to the General Fund. These are primarily tax relief measures.

Since 2019, Governor Mills and the Legislature have worked in a bipartisan manner to provide substantial tax relief to Maine people. In fact, the cumulative direct tax relief enacted between January 2019 and July 2026 is estimated to cost \$1.1 billion in the 2026-2027 biennium.

This includes direct property tax relief through changes to the Property Tax Fairness Credit program, including an expanded benefit for disabled veterans, and expanded Homestead Exemption and State Property Tax Deferral programs. It includes additional tax relief for low and middle-income residents through the expanded Earned Income Tax Credit, expanded pension deduction, and the improved Dependent Exemption Tax Credit, which is now a refundable credit and indexed annually to inflation. We also overhauled our student loan repayment tax credit.

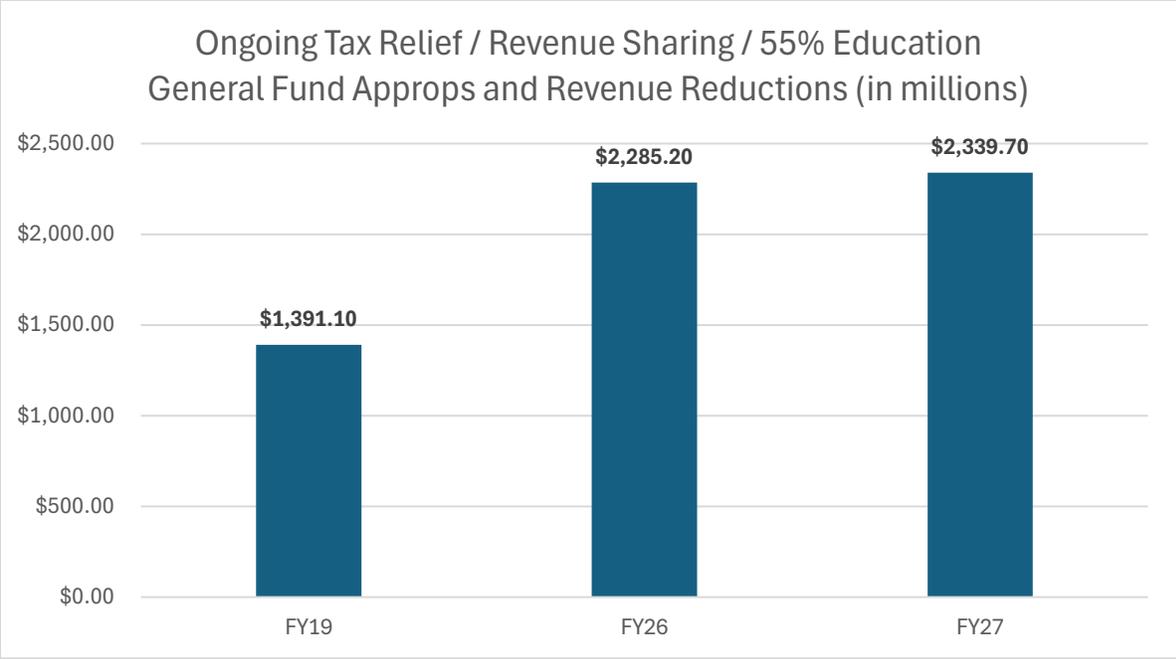
Broken down by initiative, this equals: \$240.3 million through the expanded Property Tax Fairness Credit; \$187 million through the Homestead Exemption; \$3 million through the State Property Tax Deferral Program; \$82.2 million through the expanded Earned Income Tax Credit; \$231.5 million through the expanded Pension

Deduction; \$153 million through the expanded Student Loan Repayment Program; and \$173.7 million through the refundable Dependent Exemption Tax Credit.

Additionally, we enacted business tax relief with our new Dirigo Business Tax Credit, repealed the Service Provider Tax on healthcare, and have the Low-Income Housing Tax Credit program, which provides a subsidy in the form of a federal tax credit to developers of affordable rental housing.

All this is in addition to indirect property tax relief through municipal revenue sharing and education funding. As I mentioned, these are now at statutorily required levels. Municipalities will receive more than one half billion dollars (\$561 million) in revenue sharing in the 26-27 biennial as a result of receiving the full 5 percent each month over the 2 percent that was in place in fiscal year 2019. Similarly, the General Fund appropriation for General Purpose Aid is approximately \$3 billion over the biennial, with another \$46 million in this supplemental to maintain 55 percent. If approved as proposed, the General Fund appropriation for General Purpose Aid (GPA) in fiscal year 2027 will be \$1.557 billion, an ongoing increase of more than \$459 million – per year – over the fiscal year 2019 level.

All the above, direct and indirect tax relief, will cost in General Fund appropriations and revenue reductions an estimated \$4.6 billion in the 2026-2027 biennial. We have included our summary document describing each of these initiatives with this testimony.



Other Efforts

This progress is in addition to the numerous efforts funded with one-time General Funds that continue to be used to fulfill significant needs for Maine people, including capital funds for workforce housing; PFAS remediation; climate resiliency efforts; ensuring state owned buildings are safe for those who work in and visit them; and drinking and wastewater treatment infrastructure, as well as ongoing funds for increased funding to Maine’s higher education systems, including free community college, and investments in our state government employees.

Through December 2025, the Mills Administration has delivered at least a 24.1 percent increase to every state worker’s base pay. More than half the workforce - those eligible for a new, additional step - will have cumulative pay growth of 29.1 percent. For the most recent 26-27 bargaining contracts, the state has successfully negotiated with four out of five unions an additional 2 percent effective January 2026 and another 2 percent on top of that effective July 2026. This is just the Cost-of-Living Adjustments. There have also been stipend increases, special pays, benefit increases, arbitrations/grievances settlements, merit increases, one-time payments, reclass/reorg efforts...of which there have been thousands throughout the Administration. Governor Mills, with approval of the Legislature, has provided more

salary increases for state employees than were provided during the previous 16 years combined.

The value of collective bargaining, all funds, from January 2019 through June 2026 has been nearly \$1.15 billion: the General Fund/Highway Fund impact during that time is more than \$600 million. Since Governor Mills took office, the top three appropriations that have increased in the General Fund budget are: MaineCare, including nursing facilities, provider rates and direct care worker rates; funding to maintain 55 percent; and state employee wage and benefit increases.

We've also strengthened the state's Highway Bridge Capital funding as well as public safety and motor vehicle staffing and technology efforts by permanently transferring certain sales tax revenues previously available to the General Fund, estimated at more than \$118 million per year, to the Highway Fund.

And all of that is on top of the impacts of federal funding strategically distributed throughout the state, including the discretionary Coronavirus Relief Funds and \$1 billion of Maine Jobs and Recovery Plan Funds, as well as direct American Rescue Plan, Bipartisan Infrastructure, and Inflation Reduction Act (IRA) funds delivered through our individual state agencies and entities.

We've said yes to so much, even as we know we haven't fully addressed everything. Together this Administration and the Legislature have fulfilled promises in real and impactful ways.

I appreciate you letting us take the time to walk through that. It took a while because we recognized there were needs in the state and we've said yes to a lot of things. And it is important to do because it can be easy, as we review new documents and consider new legislation, to forget our progress. But so much of what we've done is ongoing and a part of our future budgets.

Economy and the Governor's Affordability Agenda

Since the end of 2019, our Gross Domestic Product has increased by 15 percent — the second highest rate of growth in New England and 19th nationally. From 2020 to 2025, our population grew by 3.8 percent — more than the national rate and about twice the rate of population growth in New England. Since 2019, the personal income of Maine people has grown by 18 percent — the 12th highest rate in the nation and the highest in New England. Since 2017, the productivity of Maine

workers has increased by nearly 17 percent — the third highest increase in the nation. Since 2021, more businesses have filed to begin operations in Maine than in the years prior — on average, 38% more than in 2019. We’ve seen an increase of 16,200 private sector jobs in our state, and our unemployment rate has been below four percent for nearly four years – one of the longest stretches ever – and it is consistently below both the New England and the national rate.

This improvement didn’t happen by accident. With the support of the Legislature, we have been making investments in Maine people that have helped create the conditions for robust economic growth.

Having said that, one of the biggest obstacles is the high cost of living right now. To address this, in addition to the direct and indirect tax relief outlined above, as part of this supplemental, the Governor announced her Affordability Agenda. Her three-part plan will deliver near-term financial relief for Maine people, increase new housing construction to reduce costs, and create new career opportunities for Maine students by making community college free permanently.

Use of the Budget Stabilization Fund

The supplemental proposes one-time language to change the use of the state’s record high Budget Stabilization Fund (BSF) in order to fund certain affordability and emergency initiatives. The proposal transfers a total of \$324.7 million. These include two of the items just discussed as part of the Governor’s Affordability Agenda: \$218.5 million for the \$300 Affordability Relief payments to approximately 725,000 Maine eligible tax filers and \$70 million for housing initiatives that, among other things, will result in 825 new homes all across Maine.

Additional items proposed for transfers from BSF are: \$25.4 million to the Maine Commission on Public Defense Services to cover an anticipated increase in private counsel and non-counsel costs above baseline. This is a one-time infusion, while the Commission continues to evaluate its permanent funding needs, for fiscal years 2026 and 2027 to address increased billable hours and the higher number of felony cases, and while the Commission continues its transition to a mix of private and state attorneys. \$5.9 million to the Department of Education for retrofitting approximately 2,300 Maine school buses with crossing arms and anti-pinch door sensors. And nearly \$5 million to the Department of Health and Human Services for onetime

needs for technology and compliance with the One Big Beautiful Bill Act; this is mostly \$3.8 million for changes to the benefits eligibility system.

Under the leadership of Governor Mills and the Legislature, the Fund has increased to its statutory maximum of \$1.03 billion, an increase of more than \$820 million since 2019. As proposed, the Budget Stabilization Fund balance will stand at more than \$700 million.

Tax Conformity and Other Proposals

The One Big Beautiful Bill Act (OB3) required that we evaluate and consider several tax conformity items. As such there are tax and tax conformity items proposed in the budget. We are phasing in several of the federal items. Unlike the federal government, Maine must balance its budget and phasing in is a way to level out the costs, while moving toward conformity.

DAFS will be testifying in intricate detail on each of these initiatives, and we have prepared a summary of these items that is included with this testimony. As such, I will just touch on the components here.

- Standard deduction to match federal increase. We will phase in half in tax year 2026 (FY27) and full by tax year 2027 (FY28). This is broad, permanent tax relief to an estimated 445,000 full-year resident taxpayers. Standard deduction, at its basic, lowers your taxable income, which means you pay taxes on a smaller amount of money. The amount varies by filing status. OB3 increased the federal standard deduction effective tax year 2025.
- Charitable contributions component will phase in at up to \$500 (for single; up to \$1,000 for joint filers) in tax year 2027 (FY28) and up to full \$1000 (for single; up to \$2,000 for joint filers) by tax year 2028 (FY29). This provision allows a tax filer to take this deduction without having to itemize.
- Research and Development depreciation: large businesses will phase in over 5 years (by FY2031) while smaller businesses (annual gross receipts of \$31 million or less per OB3) will be immediate conformity. This R&D depreciation change keeps Maine competitive.
- The supplemental proposes a Pass-Through Entity Tax (PTET) effective January 1, 2026. This is a federal tax benefit to entity owners and provides revenue to the state.

- The supplemental proposes to eliminate the BETR program by paying 50 percent of the benefit in fiscal year 2027 and then full phase out. These businesses will continue to benefit from the full exemption of BETE eligible property. Furthermore, many of the Governor's conformity proposals, the Dirigo Business Investment Program, and other state tax expenditures will continue to benefit these businesses.
- Clean up veterans' exemptions effective for the April 1, 2027 property tax year by eliminating complicated service period and age/disability requirements that exist currently. The proposal makes the veterans' exemption application part of the Homestead application (but you don't have to reapply). It will bring these exemptions to the same municipal reimbursement as Homestead of 76 percent, which will result in more funds to municipalities. Currently many veterans' exemptions are not reimbursed at all (pre-mandate), and others are at 50 percent. Unlike now, all veterans will be eligible for at least some exemption and veterans already receiving an exemption will remain at their current level or receive more.
- Increases Blind exemption and puts that to 76 percent municipality reimbursement. Currently it is not reimbursed at all as it is pre-mandate.

Total impact of these proposals to the 2026-2027 biennial is a revenue reduction of (\$608 thousand) in fiscal year 2026 and a revenue increase of \$14.4 million in fiscal year 2027. This is mostly the result of adding PTET, which brings revenue in the first year (FY27), but will swing the other way in the second year (FY28), before leveling out at a revenue increase of approximately \$17.4 million per year. For the 2028-2029 biennial, the estimated revenue reduction as a result of the above is (\$78 million) in fiscal year 2028 and (\$55 million) in fiscal year 2029, along with approximately \$5.1 million and \$6 million of appropriations for fiscal year 2028 and fiscal year 2029, respectively, for the veterans' homestead changes.

Other Supplemental Details

This supplemental package includes \$275 million in net appropriations, which would bring the General Fund budget from its current \$11.65 to \$11.93 billion. It includes a handful of other resources including posting interest earnings, a one-time adjustment to the state's debt service appropriation, and the use of some unencumbered balances. It comes after Maine's nonpartisan Revenue Forecasting

Committee in December projected additional revenues of approximately \$165 million in fiscal year 2026 and \$83.3 million in fiscal year 2027, for a total of \$248.4 million over the current biennium.

The \$275 million is distributed to five categories: \$157 million of MaineCare related items; \$50.5 million for Education related items, including \$46 million to maintain the state's obligation to fund 55 percent General Purpose Aid; \$32 million of other items funded through the Department of Health and Human Services, including nearly \$15 million for federal cost shifting and compliance with the OB3 to ensure continued access to health care and food benefits for eligible individuals; \$14 million for Judicial and Maine Commission on Public Defense Services; and approximately \$21 million of other initiatives.

The above includes language and/or funding: to MaineCare to cover increases in health care costs due to inflation, the utilization of services, and the needs of patients; to MaineCare to cover federal share reduction and the costs of prescribed drugs for certain eligible older Mainers; to further support 40 shelters in Maine's statewide homeless shelter network; language to make the free community college program permanent and one-time funds to support current enrollment; to support reproductive health care providers; for increased debt service for three new courthouses; for artificial intelligence initiatives related to recommendations from the Governor's Commission; for one-time funds for University of Maine researchers and graduate students to train workers in emerging areas; for services for individuals in crisis and services for individuals with intellectual and developmental disabilities; to establish, operate, and maintain a tracking system for all completed forensic sexual assault examination kits; to the six Maine Veterans' Homes located across the state; for strengthening the electric grid; for new voter tabulation machines; language proposing a phased-in approach to raise minimum teacher salaries, starting with an increase to \$45,000 in fall 2027, then to \$47,500 in fall 2028, and to \$50,000 in fall 2029; for heating assistance benefits for Supplemental Nutrition Assistance Program participants and to improve the payment error rate; for ongoing support to adult treatment recovery courts in Oxford County and Region 6; to rebase the hospital tax calculation from 2022 to 2024 with companion initiatives to reinvest those funds to cover increased hospital costs and private psychiatric hospital supplemental payments; language to institute a cell phone prohibition in

public schools; for one-time funds to bridge the public lands budget through the biennial in response to a dramatic decline in state and regional timber markets; to add to existing funds to build a youth psychiatric residential treatment facility; to offset the reimbursement of federal income benefits to pay for a child's care and to manage those income benefits for eligible kids; and, to fund maintenance and bus purchases at Education of Unorganized Territories.

The supplemental establishes 178 new positions including those needed: to implement the red flag law approved by voters in November 2025 (11: 5 in Public Safety and 6 in Judicial); to establish a new public defenders office in Cumberland County as well as a parental counsel division (16); to enhance security efforts by the executive protection unit and capitol police (6); to implement and comply with federal changes to Medicaid and SNAP per the OB3 (97); and, to keep courts safe, efficient, and open (21). Seventy of the new positions are established in the General Fund and, while not established in the General Fund, the 97 HHS OB3 positions mentioned are split funded with General Funds and Federal Funds. There are also several initiatives, a net 14 positions, in which we transfer funding for positions from other sources, such as fees or federal, to the General Fund. We also continue 12 limited period positions.

The supplemental also includes language that permits agencies to self-fund approximately \$6.7 million in fiscal year 2026 and \$5.3 million in fiscal year 2027 of emergent operational needs or one-time capital efforts by moving Personal Services to All Other specifically for these efforts. Agencies will testify to the specifics of these needs.

Reclasses and Revenue Forecasting Commission Allocation Changes

In addition, there are certain initiatives you will hear repeated by the various agencies as they deliver their testimony. Specifically, the supplemental includes a number of reclasses and allocation changes.

As we've discussed in the biennial budget, Civil Service Rules require the State's Human Resources Officer to maintain the classification plan and establish the processes and procedures with which to do so. There is a long-standing process in

place to evaluate proper classification of positions and determine through a functional job analysis whether a position meets the requirements for reclassification, including any pay adjustment. The State's collective bargaining unit agreements include negotiated language related to this process. Reclasses may be employee or management initiated. Approved employee-initiated actions include a retroactive pay component back to the date the request was signed.

Also, throughout the document, you will see numerous initiatives related to the Revenue Forecasting Committee. In addition to the undedicated General Fund and Highway Fund revenues updated by the Committee, there are dedicated revenue lines as well. As these revenues increase or decrease, the allocations may also be adjusted. The biennial budget included allocation adjustments to align with the May 2025 report. The supplemental includes revisions to those initiatives based on the December 2025 Revenue Forecasting Committee report. And, depending on their review at the end of this month, it may be necessary for us to propose a change package that aligns with the March 2026 report.

All the above will be presented in detail over the next several weeks as you hear testimony from agencies and conduct work sessions. The Administration will answer questions throughout that process and provide additional information as requested.

Thank you for the opportunity to be here today.