



STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
BURTON M. CROSS BUILDING, 3RD FLOOR
78 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0078

SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

JANET T. MILLS
GOVERNOR

KIRSTEN LC FIGUEROA
COMMISSIONER

February 28, 2023

To: Senator Margaret Rotundo, Chair
Representative Melanie Sachs, Chair
Members of the Joint Standing Committee on Appropriations and Financial Affairs

Senator Ben Chipman, Chair
Representative Lynne Williams, Chair
Members of the Joint Standing Committee on Transportation

From: Kirsten LC Figueroa, Commissioner
Department of Administrative and Financial Services (DAFS)

Re: Highway Fund and Department of Transportation Funding Summary

The Governor's General Fund Budget (LD 258) and Highway Fund Budget (LD 259) both contain significant investments supporting the Highway Fund and the Department of Transportation.

Investments over the biennium:

Governor's General Fund Budget LD 258 - \$336,494,693

- LD 258 Part K - \$106 million new revenue to the Highway Fund
- LD 258 Part K - authorizes the transfer of funds remaining after retirement of the Liquor Operation Revenue Bond to pay towards TransCap debt retirement – estimated \$14,510,476
- LD 258 Part RRR – transfers \$200 million to the DOT for highway and bridge capital, multimodal, and light capital paving
- LD 258 Part SSS - transfers a total of \$15,984,217 to pay towards TransCap debt retirement

Governor's Highway Fund Budget LD 259 - \$200,000,000

- LD 259 Part F authorizes the issuance of \$200,000,000 in TransCap Trust Fund Revenue Bonds

Highway Fund Status

AVAILABLE FUNDS	Dec. 2022 RFC & LD 260		Baseline Budget Only		Dec. 2022 RFC & LD 259	
	FY22	FY23	FY24	FY25	FY24	FY25
Highway Fund Revenue						
December 2020 Base Revenue Estimate	\$ 334,604,105	\$ 339,555,602				
May 2021 Revenue Forecast	(3,895,092)	(3,075,370)				
130th-S1 Other Bills Enacted	9,880	18,454				
December 2021 Revenue Forecast	4,035,421	1,890,604				
March 2022 Revenue Forecast	1,437,360	784,105	341,660,492	344,081,789	341,660,492	344,081,789
December 2022 Revenue Forecast		600,424	(516,784)	(995,065)	(516,784)	(995,065)
Revenue Variance	8,664,149					
Liquor Revenue - amounts in excess of \$7 million					53,000,000	53,000,000
Change MMBB Fuel Tax % to 10.25% (eliminates SP transfer)					(6,848,333)	(6,907,082)
Sub-total - Undedicated Revenue	\$ 344,855,823	\$ 339,773,819	\$ 341,143,708	\$ 343,086,724	\$ 387,295,375	\$ 389,179,642
Transfers/Adjustments to Balance						
2022-2023 Biennial Budget (LD 161, PL 2021, c. 224)	(6,752,206)	(6,831,841)				
Unbudgeted Lapsed Balances	3,994,865					
Other Accounting Adjustments	316,029					
Sub-total - Transfers/Adjustments to Balance	(2,441,312)	(6,831,841)	-	-	-	-
TOTAL PROJECTED RESOURCES	342,414,511	332,941,978	341,143,708	343,086,724	387,295,375	389,179,642
Highway Fund Allocations						
Allocations through 129th /2022-2023 Baseline (LD 161, PL 2021, c. 224)	340,299,762	343,831,438				
2022-2023 Biennial Budget (LD 161, PL 2021, c. 224)	(3,885,590)	(10,759,166)				
Statutory Year-End Transfers	11,842,737	12,875,043				
130th-S1 Other Bills Enacted	5,249	10,827				
2022-2023 Supplemental Budget (LD 1996, PL 2021, c. 597)	721,098	5,516,798				
130th 2nd Regular - Enacted to Date (LD 796, PL 2021, c. 660)	-	767,608				
2023 Emergency Budget		(1,227,615)				
2024-2025 Baseline Budgets			355,732,202	361,083,126	355,732,202	361,083,126
2024 - 2025 Budget Initiatives			-	-	31,384,695	31,445,734
TOTAL Highway Fund Allocations	348,983,256	351,014,933	355,732,202	361,083,126	387,116,897	392,528,860
NET CHANGE (Resources less Allocations)	(6,568,745)	(18,072,955)	(14,588,494)	(17,996,402)	178,478	(3,349,218)
BEGINNING BALANCE	\$ 27,905,895	\$ 21,337,150	\$ 3,264,195	\$ (11,324,299)	\$ 3,264,195	\$ 3,442,673
NET CHANGE (FROM ABOVE)	\$ (6,568,745)	\$ (18,072,955)	\$ (14,588,494)	\$ (17,996,402)	178,478	(3,349,218)
ENDING BALANCE	\$ 21,337,150	\$ 3,264,195	\$ (11,324,299)	\$ (29,320,701)	\$ 3,442,673	\$ 93,455

Highway Fund Status Notes:

December 2022 forecasted Highway Fund revenues for 2024 - 2025 are insufficient to support the Baseline Budget.

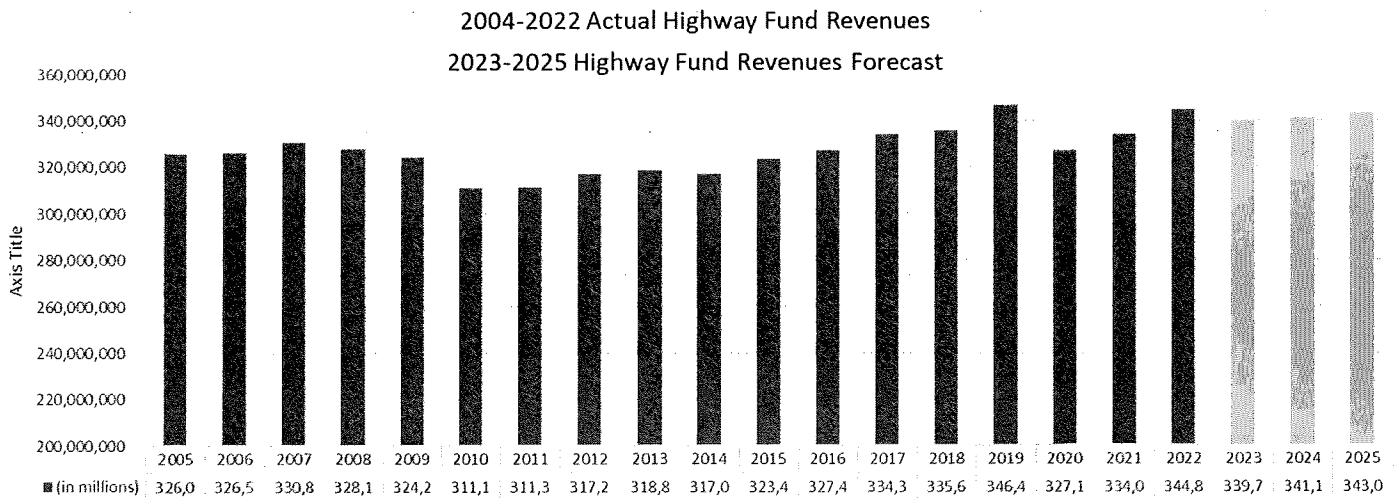
Using only the projected balance from FY23, the forecasted revenues and the Baseline Budget, the Highway Fund would have a \$29,320,701 shortfall for the 2024-2025 biennium.

Dedicating profits from the State's spirits operations to the Highway Fund increases Highway Fund resources by **\$106 million** over the biennium. This increase provides support for the Baseline, which as noted was short by over \$29 million, and allows for sufficient capacity to fund some Department requests:

HWF Budget Initiatives	FY24	FY25
5% Attrition	(5,231,242)	(5,320,362)
Administrative & Financial Services	333,470	334,544
Environmental Protection	600	762
Public Safety	1,795,215	1,140,762
Sec. of State – Bureau of Motor Vehicles	2,871,711	3,266,535
Transportation	31,614,941	32,023,493
Total HWF Budget Initiatives	31,384,695	31,445,734

New Highway Fund Revenue Stream

Highway Fund revenues have been relatively flat since 2005.



LD 258 Part K directs all profits in excess of \$7 million from the State's spirits operation (Title 28-A, section 90) to the Highway Fund as a new revenue stream. Since fiscal year 2015, these profits have been sent to the Maine Municipal Bond Bank to be used for payment of the liquor operation revenue bond, which was the mechanism to pay outstanding hospital debt. The State intends to retire the liquor operation revenue bond by June 30, 2023. The first \$7 million is dedicated to the General Fund to ensure the continuation of existing state match for certain water programs in the Department of Health and Human Services and the Department of Environmental Protection. General Fund appropriations for those programs appear on pages A-281 and A-331 of the budget document.

The Administration is projecting profits from the spirits operation (Title 28-A, section 90) to be \$60 million in each fiscal year, with \$7 million dedicated to the General Fund, this increases Highway Fund resources by **\$106 million** over the biennium.

Funds Dedicated to TransCap Trust Fund

LD 259 Part G updates the percentage of fuel tax revenue dedicated to the TransCap Trust Fund from 7.5% to 10.25%. This is not a change in the tax rate. This changes the amount of the already existing tax that is dedicated to the TransCap Trust Fund.

This plan will replace the long-standing practice of calculating an amount equivalent to 11% of the Highway Fund allocations to the State Police and transferring that amount to the TransCap Trust Fund to support revenue bonds. This practice originated with Public Law 2007, chapter 682, An Act to Expedite the Maintenance and Repair of Maine's Transportation Network. The 2022-2023 budgeted transfers are identified in Public Law 2021, chapter 224, Part F and included in the Transfer section of the Fund Balance illustration.

This increases the funding statutorily dedicated to the TransCap Trust Fund by \$6,848,333 in fiscal year 2024 and \$6,907,062 in fiscal year 2025. This does not equate to a 'gain' for the TransCap Trust Fund but changes the mechanism to a more up-to-date methodology.

Issuing new TransCap Bonds and Paying Off the 2015A and 2021A TransCap Bonds

LD 229 Part F authorizes the issuance of TransCap Trust Fund Revenue Bonds not to exceed \$200 million through fiscal year 2025. The Administration proposes paying off the existing 2015A and 2021A TransCap bonds early. Paying off 2015A and 2021A TransCap bonds early is a critical component in the ability to issue new bonds as we are required to dedicate revenues to support the annual debt payments.

LD 258 Part K-4 directs any accumulated balance remaining after the retirement of the liquor operation revenue bond:

- first to the unappropriated surplus of the General Fund; and,
- then to the TransCap Trust Fund to be used to pay towards the balance of remaining debt service of 2015A and 2021A bonds, which will create capacity for additional funds needed to match historic federal investments in roads, bridges and multimodal infrastructure.
- This is estimated to be nearly \$14.5 million.

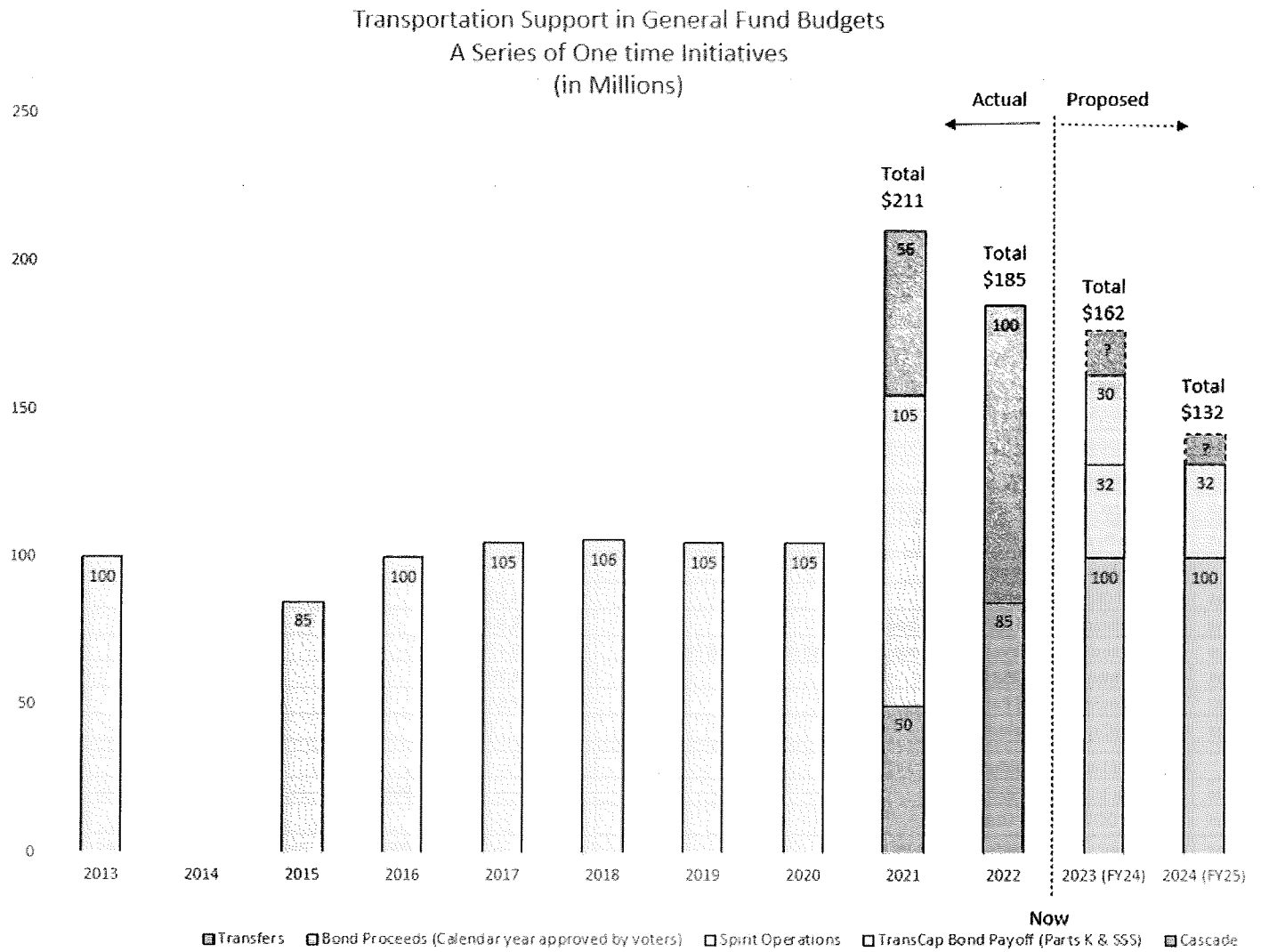
LD 258 Part SSS transfers a total of \$15,984,217 towards the payoff of the 2015A and 2021A TransCap bonds.

2015A and 2021A TransCap Bonds	51,394,500
Use TransCap Residual towards bond payoff	20,899,808
Projected Liquor Revenue Balance after bond ret. (LD 258 Part K)	14,510,476
SLFRF Interest (LD 258 Part SSS)	9,186,703
GF Transfer (LD 258 Part SSS)	6,797,514
2015A and 2021A TransCap Bond Balance	(0)

TransCap Initiative for Needed Capital Funds for BIL Match, Etc.

Ref #	Elements of Revised TransCap Initiative: 2 year solution					
1	Increase % of Fuel Tax					
2	Authorize and Issue 2- New TransCap Revenue Bonds @\$100M-each on Oct 1 of 2024 & 2025					
3	Payoff Old TransCap Bonds on 6/30/24					
4	Sunset State Police %					
5						
	TransCap Revenue Components	FY24	FY25	FY26	FY27	FY28 on
6	Fuel Tax at 10.25% (LD 260 Part G)	25,525,604	25,744,577	25,917,818	26,073,245	26,203,611
7	Portion of BMV Fees	16,518,054	16,518,054	16,518,054	16,518,054	16,518,054
8	State Police Estimate	-	-	-	-	-
9	Total Existing Revenue (sum of 6 thru 8):	42,043,658	42,262,631	42,435,872	42,591,299	42,721,665
10						
11	Total Proposed TransCap Revenue (9 + 10):	42,043,658	42,262,631	42,435,872	42,591,299	42,721,665
12	Debt Service of Existing Bonds (Pay off on 6/30/24)	18,143,850				-
13	PLUS: Debt Service on 2 Proposed Bonds:	3,000,000	13,296,276	20,592,553	20,592,553	20,592,553
14	Total Proposed TransCap Debt Service:	21,143,850	13,296,276	20,592,553	20,592,553	20,592,553
15	Debt coverage calculation	42,287,700	26,592,553	41,185,106	41,185,106	41,185,106
16	New TransCap Bond Proceeds to DOT	100,000,000	100,000,000			
17	Transcap Residual to DOT (11 - 14)	20,899,808	28,966,354	21,843,319	21,998,746	22,129,112
	Proposed Uses of Residual (17)					
18	Payoff Old TransCap Bonds	51,394,500				
19	Use Transcap Residual towards bond payoff	20,899,808	-	-	-	-
20	Projected Liquor Revenue Balance after bond ret. (LD 258 Part K)	14,510,476				
21	SLFRF Interest (LD 258 Part SSS)	9,186,703				
22	GF Transfer (LD 258 Part SSS)	6,797,514				
23	Old TransCap Bond Balance	(0)				
	Proposed Uses of Residual FY25 forward (17)					
24	Annual LCP Need (9075): \$40M	-	28,966,354	21,843,319	21,998,746	22,129,112
25	Other DOT Non-PS Uses	-	-	-	-	-
26	Total: Uses of Residual (sum of 18 thru 20)	-	28,966,354	21,843,319	21,998,746	22,129,112
27	TOTAL DOT Capital Funding From TransCap Initiative:	\$ 100,000,000	\$ 128,966,354	\$ 21,843,319	\$ 21,998,746	\$ 22,129,112
28	TOTAL DOT Highway & Bridge Capital from GF Transfer (LD 260 Part RRR)	\$ 50,000,000	\$ 80,000,000			
29	Total DOT Multimodal from GF Transfer (LD 260 Part RRR)	\$ 20,000,000	\$ 20,000,000			
30	TOTAL DOT Light Capital from GF Transfer (LD 260 Part RRR)	\$ 30,000,000				
31	HWF Allocation for LCP (HWF A-44)	\$ 7,980,000	\$ 7,630,000			
32	Total DOT Capital	\$ 207,980,000	\$ 236,596,354	\$ 21,843,319	\$ 21,998,746	\$ 22,129,112

History of Transportation Support in General Fund Budgets





Janet T. Mills
GOVERNOR

STATE OF MAINE
DEPARTMENT OF TRANSPORTATION
16 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0016

Bruce A. Van Note
COMMISSIONER

**Testimony of
Bruce A. Van Note, Commissioner
Maine Department of Transportation**

In Support of LD 258

“An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2023, June 30, 2024 and June 30, 2025”

to the
Joint Standing Committees on Appropriations and Financial Affairs and Transportation

March 2, 2023

Senators Rotundo and Chipman, Representative Sachs and Williams, and other distinguished members of the Appropriations and Transportation Committees, I am Bruce Van Note, Commissioner of the Department of Transportation (MaineDOT). I appear before you today in support of the portions of the Governor’s proposed General Fund (GF) budget that pertain to MaineDOT.

This budget advances the Governor’s guiding belief that to build a stronger, more prosperous state, we must invest in the infrastructure that supports the people of Maine. That is why this budget proposal strengthens the very things that Maine people rely on every day to succeed, building upon prior budget and fiscal measures. This budget proposal continues the practice over the last four years of governing cautiously and in a fiscally prudent way, making sure we lived within our means even during a pandemic. We look forward to working with you as you work on this budget proposal.

At the outset of my testimony, I want to thank the Governor, each of you, the entire Legislature, and the people of Maine for the support shown to transportation over the years. As you will see, we have some extraordinary challenges and opportunities ahead, and we will have to remain creative and solution-oriented to meet them.

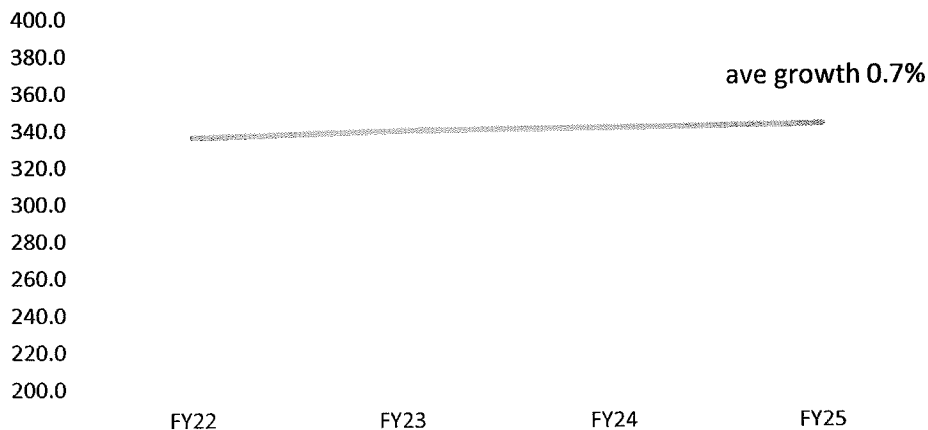
Before outlining the specific initiatives in LD 258 that provide critically-needed capital funding for transportation - the *what* if you will, some important background and contextual information will help describe the *why* behind the initiatives.

Context and Background of Capital Transportation Funding in Maine

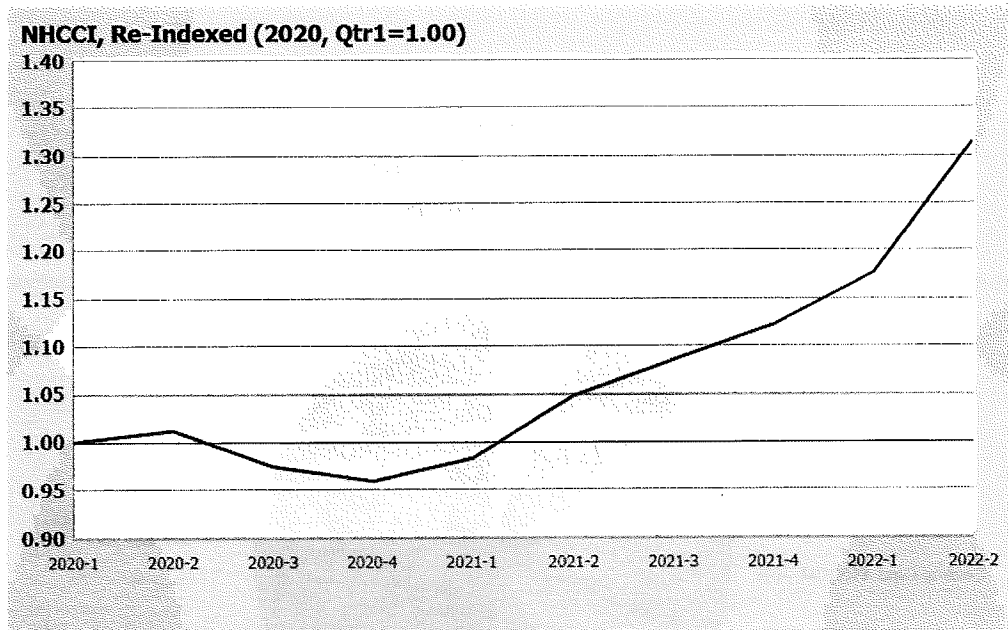
At the most fundamental level, providing a safe and reliable transportation system in Maine is and always will be a big job. Our relatively low population is spread out across a large, mostly rural state with topography, natural features, and weather that – while varied and beautiful – present challenges from an infrastructure perspective. Maine is the least-densely populated state east of the Mississippi. Maine has 3 ½ times the land area and twice the state highway miles as New Hampshire – our neighbor with about the same population. Accordingly, Maine has a vast multimodal transportation system that includes 8,800 miles of state highway, 2,800 bridges, six commercial airports, hundreds of miles of railroad, three major seaports, a state ferry service, multiple public transit systems and miles of active transportation corridors. Simply put, Maine has much more transportation infrastructure per capita than most states do.

In addition to these fundamental geographic and demographic challenges, there are some fiscal trends that set the stage for the transportation funding requests before you. As you can see in the graph below, Highway Fund revenues (largely fuel taxes and vehicle fees) have remained flat in recent years, growing only 0.7% per year.

Predicted Highway Fund Revenues
(in Millions)



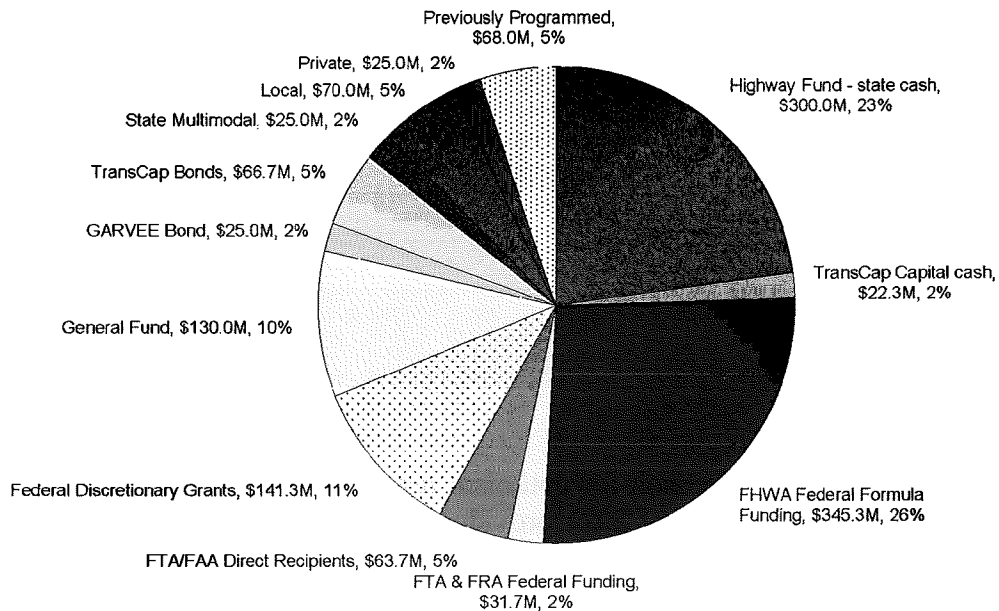
Unfortunately, on the expense side of the transportation ledger, construction costs have increased significantly, largely due to tight labor and materials markets. As you can see from the graph of the National Highway Construction Cost Index below, highway and bridge construction costs have increased over 30% nationwide since the start of 2020. Experience at MaineDOT has been similar, with construction costs increasing 40 to 50% since 2018. Over 70% of MaineDOT's work is capital-related, meaning this had a big impact on the funding necessary to maintain historic levels of capital production.



Despite these challenges, there is reason for optimism regarding transportation in Maine. The federal Bipartisan Infrastructure Law of 2021 provides the opportunity to substantially increase federal transportation funding in Maine – especially in area of competitive USDOT discretionary grant programs and Congressionally Directed Spending (CDS). To access those funds, the state needs additional non-federal funds (usually state, but sometimes local or private) to match the federal funds. These two relatively-recent developments - increased construction costs and the federal BIL – are the primary drivers of the need for increased state funding.

These and other developments are reflected in MaineDOT budgets and plans. The pie chart below shows a breakdown of the average annual amount of sources of all funds anticipated for MaineDOT's current Work Plan, which totals an estimated \$1.31 billion per year. This Work Plan covers the three calendar years 2023, 2024 and 2025 and can be found at <https://www.maine.gov/mdot/projects/workplan/>. (Note that the chart below reflects average *annual* figures, not the *two* state fiscal years used for state budgets or the *three* calendar years used in MaineDOT Work Plans.)

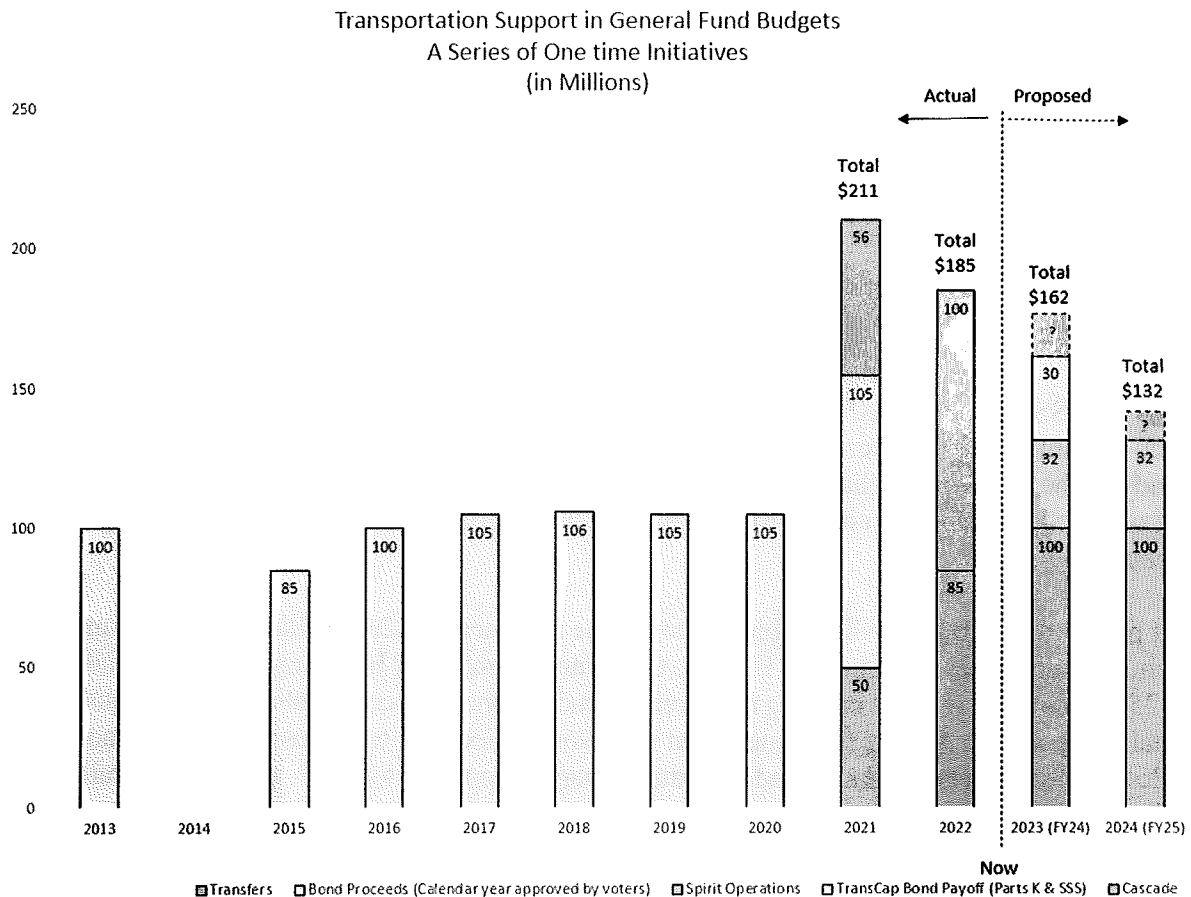
Transportation Sources of Funds 2023 Work Plan Average Annual \$1.31 Billion



January 2023

Of particular note to the proceedings today is funding provided by General Fund budgets. This is shown as the yellow wedge in the pie chart above and represents about 10% of all transportation funding. In a trend consistent with experience at the federal level, as dedicated highway fund revenues have stalled (see graph on page 2 above), general fund support has increased to become a key component of transportation funding. At the federal level, general funds now constitute about 35 to 40% of transportation funding.

Transportation support in General Fund budgets has a long history in Maine and has grown and diversified under the leadership of Governor Mills. A graph showing this support over time is shown below.



As you can see, during the last two years Governor Mills and the 130th Legislature provided historic levels of General Fund support in the form one-time transfers, bond proceeds, and cascade language. (See CY 2021 and 2022 above.) In total, this transportation support in the GF budgets averaged almost \$200 per year.

This support was critical. It allowed us MaineDOT address lagging HF revenues, manage construction cost inflation, perform basic state-funded asset management functions including on roads that are ineligible for federal funding, and seek robust levels of federal funding under the BIL. Simply put, MaineDOT's Work Plan would be a shell of itself without this funding. Thank you!

Specific Initiatives in LD 258

With this background, the two specific initiatives at hand can be described. As you will see, though small in length, these initiatives are huge in impact.

The first initiative is **Part RRR**, which begins on page 53 of the Language section of LD 258, transfers a total of \$200 million to MaineDOT to be used for Highway and Bridge Capital, Light Capital Paving and Multimodal Transportation for the biennium. The first three sections of Part RRR are FY24 transfers in the amounts of \$50M for Highway and Bridge Capital, \$30M for

Light Capital Paving and \$20M for Multimodal Transportation. The final two sections of Part RRR are FY25 transfers in the amounts of \$80M for Highway and Bridge Capital and \$20M for Multimodal Transportation.

The second initiative is **Part SSS**, which begins on page 54 of the Language section. The two components of this section are transfers in FY24 to the TransCap Trust Fund at the Maine Municipal Bond Bank. Said Fund which was established pursuant to 30-A MRS §6006-G. Section 1 of Part SSS provides \$9.2 million from interest earned on the State and Local Fiscal Recovery Funds. Section 2 of Part SSS provides \$6.8 million from the unappropriated General Fund.

When Part SSS is combined with the \$14.5 million from liquor operations provided in Part K on which Commissioner Figueroa testified on February 8, and also with \$20.9 million in funding already at the Bond Bank that originated from HF revenue streams pursuant to existing law, a total of \$51.4 million is available to pay off the outstanding principle of all existing TransCap revenue bonds.

That payoff of old bonds will enable the one-time issuance of \$200 million in new TransCap revenue bonds as set forth in Part F of the Governor's proposed Highway Fund biennial budget, LD 259. TransCap revenue bonding represents a prudent, one-time continuation of an established capital transportation funding mechanism that will allow MaineDOT to address both the extraordinary challenge of construction inflation and the extraordinary opportunity to match available federal BIL funding.

In summary, Parts K, RRR and SSS in the GF budget (LD 258) and Part F in the HF budget (LD 259) will allow a total of \$400 million in state capital transportation funding for the next two years. Because this funding is often used to match federal funding, its actual impact is multiple times its face value. Accordingly, this funding is absolutely critical to MaineDOT's capital program for the next two years.

In closing, I would like to again thank Governor Mills, the Appropriations and Financial Affairs and Transportation committees, and the entire Legislature for your continued support of transportation funding in Maine. Despite significant challenges, Maine has the opportunity to continue the shift from making do to making pragmatic progress on our transportation system. If we set reasonable goals that fit Maine's needs, manage costs with practical ingenuity, and find the state funds needed to match available federal funds, all Maine people can realize the enhanced safety, economic opportunity, and quality of life that comes with a better transportation future.

I would be happy to answer any questions you may have now or at work session.