

Appropriation Limitation

Consensus Economic Forecasting Commission – Revenue Forecasting Committee

Joint Meeting

September 14, 2023

Public Law 2005, chapter 2, “An Act to Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels”, was enacted to implement to the Maine Municipal Association referendum for state government to pay 55 percent of the total cost of education and to strengthen the State’s spending limitation and Budget Stabilization Fund (BSF).

There were three components of the original law:

- Spending limits
 - The law limited the growth of the state’s General Fund appropriations to rates reflective of Maine’s income and population growth (the population growth component has since been removed). Any revenue over the limit is directed to the Budget Stabilization Fund.
 - County assessments and municipal assessments were limited by income and property growth factors.
 - School spending is tied to the level of student enrollment.
 - Governing bodies may surpass the limits, but only through an explicit, public vote.
- Targeted tax relief
 - The law sought to target tax relief directly to Maine residents through specific programs. At initial passage, it increased the amount of property tax relief available through the Maine Residents Property Tax and Rent Relief Program (the “Circuit Breaker”) and increased the Homestead Exemption. The Circuit Breaker program has since been replaced by a refundable Property Tax Fairness Credit that can be claimed on the Maine Individual Income Tax Form.
- Increased school funding
 - The law set the course for increasing state spending on K-12 education to an amount that is 55% of the costs covered under Essential Programs and Services (EPS). This goal had never been met until the passage of PL 2021 Ch. 398 (FY22-23 Part II Budget).

General Fund Appropriation Limit

5 MRSA §1534

- As of December 1st, of each even-numbered year, a General Fund appropriation limit is established for the ensuing two fiscal years.
- The “biennial base year appropriation” multiplied by the Growth Limitation Factor for each year of the biennium.
 - In 2015, the calculation was amended to set the biennial base year as the enacted appropriations for fiscal year 2017 as of December 1, 2016.
 - The Growth Limitation Factor was defined as the means "Average personal income growth" which is defined as the average for the prior 10 calendar years.
- The limit applied to all GF appropriation except certain education costs.
 - Section 1534 provides that the additional cost for certain essential educational programs and services for K-12 education over the FY2005 appropriation for General Purpose Aid for local schools (GPA) is excluded from the General Fund Appropriations Limit until the State share of that cost reaches 55% of the total State and local cost.

2022 Stress Test

Calculation of Preliminary General Fund Appropriation Limit as per 5 M.R.S. § 1534 (Dollars in millions - rounded) - as of 9-23-22							
Fiscal Year	2021	2022	2023	2024	2025	2026	2027
Annual Growth Limitation Factor (FY24 - FY27 estimated)		3.30%	3.30%	4.06%	4.06%	4.55%	4.55%
Base Appropriations Limit	\$3,801	\$3,926	\$4,056	\$4,220	\$4,392	\$4,591	\$4,800
Appropriations Limit Including General Purpose Aid (GPA) **	\$4,358	\$4,492	\$4,640	\$4,828	\$5,024	\$5,253	\$5,492
<p>** Statute provides that the amount of General Purpose Aid for Local Schools (GPA) appropriations exceeding the amount appropriated for this program in FY2005 are excluded from the Base Appropriations Limitation until the State reaches the 55% share of Essential Programs and Services funding level. The State began funding 55% of EPS Costs in fiscal year 2022 (not including unfunded liability for teacher retirement, retired teacher health insurance and life insurance). The statutory language infers that when the 55% level is reached the excess GPA appropriations needed to reach this level would be incorporated into the appropriations limit to which the Growth Factor would be applied in calculating subsequent appropriation limits with no appropriations excluded from those limits going forward. Consistent with this presumed intent, the table shows the calculation of the Base Appropriations Limit, per the statutory definition of such, as well as an Appropriations Limit Including GPA. The Appropriations Limit Including GPA for fiscal year 2022 reflects the Base Appropriation Limit plus the actual GPA appropriations in fiscal year 2022 that exceed the fiscal year 2005 level. This total is the base to which the Growth Factor is applied in calculating the Appropriations Limit Including GPA for fiscal year 2023 and beyond.</p>							

The Stress Test memo reflected our concern that statutory language for the limit and BSF may need to be updated based on the achievement of 55% of funding for the K-12 education and the level of the Budget Stabilization Fund.

December 2022 Revenue Forecast & Winter Energy Relief (PL 23, c.1)

General Fund Summary

	FY22	FY23	FY24	FY25	FY26	FY27
Current Forecast	\$5,391,613,569	\$4,758,487,167	\$4,913,788,247	\$5,095,515,994		
Annual % Growth	19.3%	-11.7%	3.3%	3.7%		
Net Increase (Decrease)	\$0	\$282,766,802	\$266,210,985	\$222,378,456		
Revised Forecast	\$5,391,613,569	\$5,041,253,968	\$5,179,999,232	\$5,317,894,450	\$5,557,257,689	\$6,037,175,196
Annual % Growth	19.3%	-6.5%	2.8%	2.7%	4.5%	8.6%

PART F

Sec. F-1. Suspension of transfers to Maine Budget Stabilization Fund.

Notwithstanding any provision of law to the contrary, the requirement in the Maine Revised Statutes, Title 5, section 1535 that certain baseline General Fund revenue and other available budgeted General Fund resources that exceed the General Fund appropriation limit be transferred to the Maine Budget Stabilization Fund is suspended for the duration of fiscal year 2022-23.

Revisions to 5 MRSA Chapter 142

PL 23, c.412, Part I

- Simplified the definition of Baseline General Fund Revenue
- Rebased the appropriation limit to recognize various achievements, including fully funding at 55 percent the cost of education, Medicaid expansion, Medicaid and provider payment rate reform, increasing the reimbursement for the Homestead Property Tax Exemption program.
- Redirects where monthly interest earnings on BSF are deposited once BSF reaches its statutory maximum of 18% from the Retirement Allowance Fund to the Irrevocable Trust Funds for Other Post-Employment Benefits for the State Employee Plan (OPEB-SEP) established in Title 5 MRSA section 286-B.
- Removes the qualifier of not funding education at 55 percent now that we are funding education at 55 percent.

Revisions to 5 MRSA Chapter 142

PL 23, c.412, Part I

- Upholds that any Baseline General Fund revenue exceeding the General Fund appropriation limit will be deposited into the Budget Stabilization Fund and clarifies the process and timing for such a deposit.
 - Adds that if the BSF is at its statutory maximum of 18 percent then these revenues above the limit will be transferred as follows:
 - Eighty percent to the Highway and Bridge Capital program, Other Special Revenue Funds account;
 - Ten percent to the Maine Municipal Bond Bank, School Revolving Renovation Fund established in the Maine Revised Statutes, Title 30-A, section 6006-F; and,
 - Ten percent to the Irrevocable Trust Funds for Other Post-Employment Benefits for the State Employee Plan established in Title 5 MRSA section 286-B.

Sec. I-8. Suspension of transfers to Maine Budget Stabilization Fund.

Notwithstanding any provision of law to the contrary, the requirement in the Maine Revised Statutes, Title 5, section 1535 that certain baseline General Fund revenue and other available budgeted General Fund resources that exceed the General Fund appropriation limitation be transferred to the Maine Budget Stabilization Fund is suspended for the duration of fiscal year 2023-24 and fiscal year 2024-25.

Appropriation Limit Updated – PL 23, c.412 Part I

Bureau of the Budget											
Appropriation Limitation for the 2024-2025 Biennium as of 10-25-23 (effective date of PL2023, c. 412 Part I) calculated by the State Budget Officer on 8-4-23								State achieves 55% EPS Target	Limit rebased per PL2023 c. 412 Part I eff. 10-25-23		
Calculation of General Fund Appropriation Limit as per 5 M.R.S. § 1534 (Dollars in millions - rounded)											
	Fiscal Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
A	Annual Growth Limitation Factor			2.84%	2.84%	2.77%	2.77%	3.30%	3.30%		4.31%
B	Base Appropriations Limit	\$3,331	\$3,403	\$3,500	\$3,599	\$3,699	\$3,801	\$3,927	\$4,640	\$5,076	\$5,295
C	Appropriations for General Purpose Aid to Schools Needed to Reach 55% State Contribution*						\$1,292	\$1,300			
D	Additional Appropriations for GPA above FY2005 GPA** (Additional above Base Approp that can be appropriated for GPA)						\$557	\$565			
E	Appropriations Limit including GPA						\$4,358	\$4,492			

GENERAL FUND STATUS - FUND BALANCE SUMMARY

Through 131st First Special Session ¹

	FY 23	FY 24	FY 25
<u>AVAILABLE FUNDS</u>			
Undedicated Revenue:			
December 2022 Revenue Forecast	\$5,041,253,969	\$5,179,999,232	\$5,317,894,450
May 2023 Revenue Forecast	\$223,156,604	\$26,215,113	\$44,526,357
2024-2025 Biennial Budget II (LD 258; PL 2023, c. 412)	\$0	(\$540,250)	(\$80,272,340)
HWF Biennial Budget Adjustments (LD 259; PL 2023, c. 189)	0	(\$94,861,600)	(\$97,107,200)
131st 1st Special Session Other Bills Enacted ²	0	(\$633,964)	\$696,363
Subtotal - Undedicated Revenue	\$5,264,410,573	\$5,110,178,531	\$5,185,737,630
Transfers/Adjustments to Balance:			
Through 130th Legislature	(\$142,946,384)	\$0	\$0
EFY 2023 Supplemental Budget (LD 206; PL 2023, c.3)	\$10,288,833	\$0	\$0
2024-2025 Biennial Budget (LD 424; PL 2023, c. 17)	\$14,910,476	(\$48,461,602)	(\$21,785,986)
2024-2025 Biennial Budget II (LD 258; PL 2023, c. 412)	(\$95,050,000)	(\$34,869,541)	\$14,397,019
131st 1st Regular Other Bills Enacted ³	(\$473,433,437)	\$0	\$0
131st 1st Special Session Other Bills Enacted ²	0	(\$456,219)	\$0
Subtotal - Transfers/Adjustments to Balance	(\$686,230,512)	(\$83,787,362)	(\$7,388,967)
TOTAL PROJECTED RESOURCES	\$4,578,180,061	\$5,026,391,169	\$5,178,348,663
<u>APPROPRIATIONS</u>			
Appropriations through 130th Leg. / 2024-2025 Budget Baseline	\$4,614,634,446	\$4,702,568,440	\$4,719,735,472
EFY 2023 Supplemental Budget (LD 206; PL 2023, c.3)	(\$11,140,743)	\$0	\$0
2024-2025 Biennial Budget (LD 424; PL 2023, c. 17)	\$0	\$177,665,812	\$285,907,953
2024-2025 Biennial Budget II (LD 258; PL 2023, c. 412)	\$0	\$195,091,658	\$249,956,226
HWF Biennial Budget Adjustments (LD 259; PL 2023, c. 189)	0	\$20,240	\$0
131st 1st Regular Other Bills Enacted ³	(\$156,752,586)	\$0	\$0
131st 1st Special Session Other Bills Enacted ²	0	\$999,904	\$9,370,954
TOTAL APPROPRIATIONS	\$4,446,741,117	\$5,076,346,054	\$5,264,970,605
<i>Appropriation Limitation estimated pursuant to PL 2023, c. 412, Part 1-6.</i>		<i>\$5,076,399,247</i>	<i>\$5,295,192,055</i>
NET CHANGE (Resources less Appropriations)	\$131,438,944	(\$49,954,885)	(\$86,621,942)
BEGINNING BALANCE	\$33,599,797	\$165,038,741	\$115,083,856
NET CHANGE (FROM ABOVE)	\$131,438,944	(\$49,954,885)	(\$86,621,942)
ENDING BALANCE	\$165,038,741	\$115,083,856	\$28,461,914

Notes: