

**Testimony of Kirsten LC Figueroa, Commissioner
Department of Administrative and Financial Services**

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

**“An Act Making Supplemental 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, 2024 and June 30, 2025”**

February 20, 2024

Good afternoon, Senator Rotundo, Representative Sachs, and members of the Joint Standing Committee on Appropriations and Financial Affairs. I am Kirsten Figueroa, the Commissioner of the Department of Administrative and Financial Services. I am here today to present and testify in support of the fiscal year 2024-2025 supplemental budget bill, LD 2214.

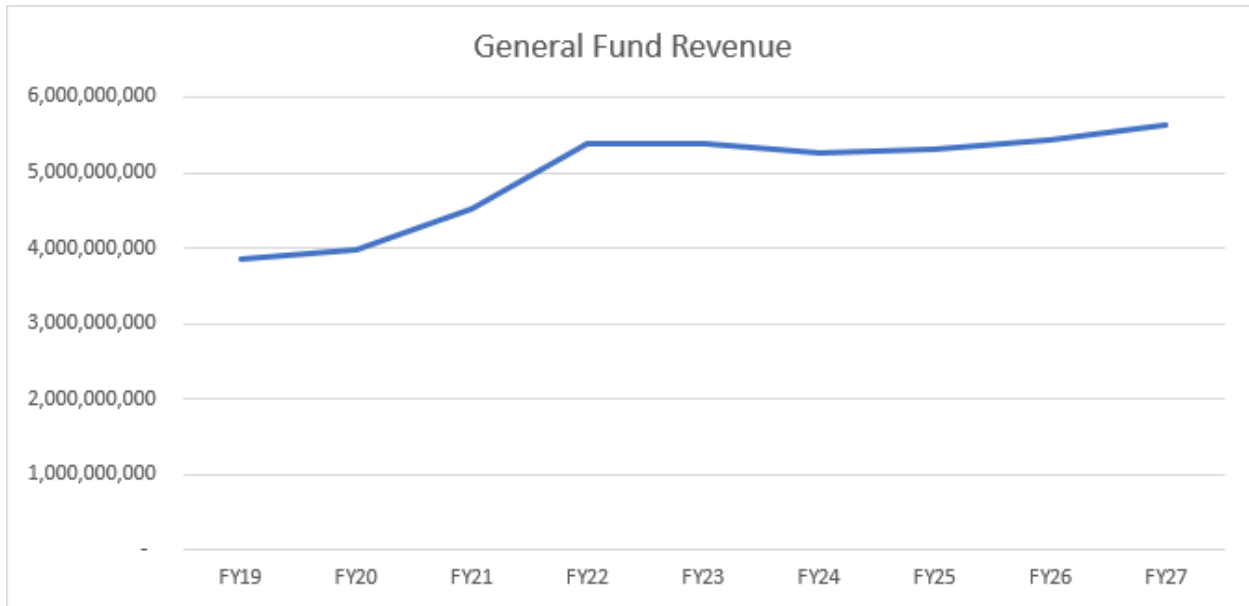
Supplemental Tee Up

The supplemental builds on the current fiscal year 2024-2025 biennial budget, while investing in urgent needs to support Maine people and saving money to preserve the state’s long-term fiscal health. This package includes \$71 million in net appropriations, which would bring the General Fund budget from its current \$10.34 to \$10.41 billion. The supplemental also includes \$117.5 million in one-time transfers and sets aside \$107 million in a reserve account to plan for the bills we know will be due in the months and years ahead.

The current biennial budget funds the commitments that have been made in a bipartisan fashion over the past several years. This supplemental strives to continue those efforts. It also strives to continue the practice of setting appropriations below the level of available resources to ensure the State of Maine remains in the black given that over the next several years revenues are plateauing.

As we’ve mentioned before, actual revenues in fiscal year 2023 and currently projected revenues for fiscal years 2024 and 2025 are below the *actual* revenues of fiscal year 2022. Said more plainly, we have less revenues now than we did before.

In fact, we are not expected to see revenues at the fiscal year 2022 level until at least fiscal year 2026. As the Governor has said, that is not unexpected, nor is it necessarily bad. But it is something that we have to take into account as we approach the supplemental budget this year.



Since the end of 2019, our Gross Domestic Product has increased by 9.2 percent — the best rate of growth in New England and one of the highest in the nation. From 2020 to 2023, our population grew by 2.4 percent — more than twice the national rate and eight times the rate of population growth in New England. Since 2019, the personal income of Maine people has grown by nearly 24 percent — the 11th highest rate in the nation. Since 2017, the productivity of Maine workers has increased by more than 12 percent — the second highest increase in the nation. Through October of last year, more than 15,000 businesses filed to begin operations in Maine — 1,000 more than in all of 2022. And our unemployment rate has remained at or below 3.2 percent — lower than the national rate and on-par with the New England 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.

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

- Funding K-12 cost of education at statutorily required 55 percent;
- Funding revenue sharing at statutorily required 5 percent;
- More than \$800 million all funds for Medicaid and provider rates, including salary increases for direct care workers;
- School meals for all kids;
- Medicaid expansion, including expanding children's coverage;
- Historic child care investments;
- 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.

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.

Tax Relief

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 tax relief enacted between January 2019 and July 2023 is estimated to reduce General Fund revenue by \$285 million in fiscal year 2025 and an estimated \$750 million for 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 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.

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 approximately \$155 million more in revenue sharing in fiscal year 2025 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 \$295 million more per year in fiscal year 2025 compared to 2019, \$112 million of that the result of increasing from 49.77 to the required 55 percent.

We have included our summary document describing each of these initiatives with this testimony.

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, estimated at more than \$100 million per year, to the Highway Fund – money that was previously available to the General Fund.

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; free community college; climate resiliency efforts; ensuring state owned buildings are safe for those who work and visit them; drinking and wastewater treatment infrastructure; and more than \$1.3 billion of pandemic and inflation relief.

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, as well as direct American Rescue Plan, Bipartisan Infrastructure, and IRA funds delivered through our individual state agencies and entities.

Together this Administration and the Legislature have fulfilled promises in real and impactful ways.

In addition to all of the above, there are other factors that we must be mindful of as we consider the supplemental and future budgets:

- In every budget cycle, there is expected growth. We know that maintaining the State's obligations will increase in cost every year. We must be mindful of these expected increasing costs as we budget right now.

- There is growth in our personnel costs. Governor Mills and the Legislature acknowledged the lagging state employee wages. As a result, base wages have increased by at least 24.1 percent from September 2019 through July 2024, the same amount in just under 5 years as was received in the previous 16 years combined. The impact of this is \$511 million all funds ongoing to future biennial budgets.
- There are the so-called “tails” of new laws that the Legislature has passed with strong, bipartisan support that we’ve not yet seen a full year of expense or the programs haven’t settled into their normal annual amount. An example of this is the School Meals program. 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 \$56 million in fiscal year 2025, up from \$37 million when it was first expanded.
- And there are many programs that will start later this fiscal year or in the next that we’ve budgeted for, but don’t yet know the actual impact of.

I appreciate you letting me 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. As a matter of fact, when you consider all of it together, the State’s expenses are expected to very nearly match its revenues in fiscal years 2026-2027.

Reserve for 26/27 Biennial Budget

All of this to make the following simple points: 1) General Fund revenues have been reduced; 2) costs are increasing; and 3) revenues are plateauing.

We need to ensure our future success. We need to remember that protecting that success is an important action. And this leads me to why we’re setting aside \$107 million in a Reserve account for the 2026-2027 biennial.

It’s important to distinguish between the Budget Stabilization Fund and this Reserve. The Budget Stabilization Fund is intended to cover General Fund revenue shortfalls as a result of an economic downturn. It can also be accessed for emergency situations, if approved by the Legislature, such as the Governor’s proposal to use \$50 million of these funds for recovery efforts from the destructive storms of

December and January. The one-time Rainy Day funds should not be used to cover long-term, ongoing funding.

We'll talk more about this when you hear the separate LD for this investment, but I'd like to take a minute to make a point that is also relevant to this discussion. Again, as I mentioned, our revenues projections are lower now than they have been in the past. As you also know, the Budget Stabilization Fund has a statutory maximum of 18 percent that is calculated based on actual revenues. Since 2024 revenues will be lower than 2023, with year-end adjustments and calculations, we expect the Fund's maximum balance of 18 percent will be lower than it currently is, meaning that, even with the \$50 million reduction, we will end at or near the statutory maximum, which is in part why the Governor felt comfortable with the proposal.

Now, back to the Reserve. Rather than draw from a one-time source for ongoing needs, we are setting aside \$107 million of current funding to ensure we can continue the progress made, keep our checkbook balanced, and maintain the State's good fiscal footing.

Like we said, as we were watching revenues increase in previous years and appropriating these funds for important efforts, we knew that both would level out in time. And that we would need to ensure an appropriate runway for that, instead of the fiscal cliff that other states are now running into. That is what the \$107 million is for. To ensure that we budget responsibly and continue to have the resources necessary to meet our obligations.

If we do not budget responsibly now – or, to put a finer point on it, if the Legislature chooses not to save this reserve funding and, instead, appropriates it – then the Legislature will be forced to make painful cuts in the future to programs that Maine people value. We need to look no further than other states facing budget shortfalls now, like New York, Maryland, Massachusetts, Indiana, and California: realizing their runways are too short. We do not want that to happen to us.

With that in mind, as we prepared this supplemental, we had to make some tough decisions. Although we've said yes to so much, we know we haven't addressed everything. And, in some cases, we've had to fund some things one-time while we discuss and adjust programs that have far outgrown their appropriations. Or partially implement an initiative, such as the Medicare Savings Program, maintaining our status as the fifth most generous state in the nation, but not expanding it beyond a

point we feel we cannot maintain in the long run. You've had to make these tough decisions, too, as you amended the efforts of the previous Legislature by freezing the Homestead Reimbursement to municipalities and repealing the Property Tax Stabilization Plan, because you recognized that the ongoing costs of those initiatives were not sustainable.

We will need to be mindful as we finalize our efforts here together. To make the tough decisions to say no to bills that, while we all agree have policy value, add substantial ongoing appropriations without ongoing options for funding. Otherwise, we, as a state, a state that has done right by its people, will be setting ourselves up for even more difficult choices.

Taking into consideration all the factors I just laid out for you, the Governor believes it more appropriate for the State to budget prudently now by focusing on maintaining the commitments it has made to Maine people to the greatest extent possible, rather than jeopardize them – especially given the State's history of failing to meet 55 percent of education funding for so long, or consistently rolling back 5 percent of municipal revenue sharing, for example.

As the Governor stated “We have budgeted prudently and responsibly, and I want to ensure that, in the future, our conversations are about what we can do to address the needs of Maine people, not about what we have to cut. I urge you to please join me in taking this approach — for the long-term fiscal health of Maine.”

With all of this said, we also believe there are urgent needs that the State should and can address in a financially sustainable way. Initiatives and funding: to improve public safety and strengthen Maine's mental health system; to cover the state's share of federally declared disaster recovery; to help communities identify and strengthen infrastructure vulnerable to extreme weather; to repair storm damage to Maine State Parks, historic sites, and public lands; to Maine milk producers in recognition of increased production costs; for final payments to municipalities to close out the Property Tax Stabilization Program for Seniors; for the Maine Commission on Indigent Legal Services to transition unused money to expand the network of public defenders in Maine; to create an Office of Community Affairs; to upgrade the Judiciary's computer systems; to streamline, simplify, and modernize certain provisions of the sales tax to better align it with the practice of other states across the country; for the Maine Department of Education's proposal to improve Child Development Services; and for investments to build housing, improve child safety, and fight the opioid epidemic.

Reclasses, Deappropriations, and RFC 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, deappropriations, and allocation changes.

As we've discussed in the biennial budget, Civil Service Rules require the Director of the Bureau of Human Resources 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.

There are a number of deappropriations in the supplemental. Several are the result of the effective date of Chapter 412 of late October rather than July 1. As a result, we've deappropriated the nearly four months of funding not needed. Some are the result of an initiative that is running late, so we've deappropriated some funds to match up with the new implementation date. A few others are more nuanced and will be described in detail in testimony. I have two of those as part of my testimony today.

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, such as the Harness Racing Commission. As these revenues increase or decrease, the allocations may also be adjusted. The biennial budget included allocation adjustments to align with the May 2023 report. The supplemental includes revisions to those initiatives based on the December 2023 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 2024 report.

Now, to the specific initiatives on the schedule today that kicks off the testimony for the fiscal year 2024-2025 supplemental.

Office of the State Treasurer

Debt Service – Treasury (0021)

The one initiative on the schedule today is in the Office of the State Treasurer on page A-130 of the supplemental document. The Debt Service program within the Office of the State Treasurer works collaboratively with state agencies to provide adequate and timely funding for capital projects while keeping borrowing costs down, produces official statements, manages bond proceeds and pays debt service. There is one initiative making one-time adjustments by increasing the fiscal year 2024 appropriation by \$1,822,000 and decreasing the fiscal year 2025 appropriation by \$13 million.

Debt service costs are higher than projected in fiscal year 2024 because of a larger mix of taxable to tax-exempt debt and a miscalculation of the available carryforward from the prior fiscal year.

In fiscal year 2025, the Office proposes a one-time deappropriation of General Fund and to utilize income realized from the temporary investment of bond proceeds to make the necessary debt service payments. As identified in Title 5, section 151-A, this is the only allowable use of the investment earnings. The accumulated balance in earnings at the close of the last fiscal year was \$13,001,021.

Now to the three language pieces.

Part D on language pages 8 through 10, adjusts actions from Public Law 2021, chapter 483, by making adjustments to align with the allowable spending timeframe of the Maine Jobs and Recovery Plan federal funds.

The Maine Jobs and Recovery Plan is Maine's plan to invest nearly \$1 billion in federal American Rescue Plan funds to improve the lives of Maine people and families, help businesses, create good-paying jobs, and build an economy poised for future prosperity. The Governor's Jobs Plan was approved by the Legislature on July 19, 2021, and went into effect as Public Law 2021, chapter 483, on October 18, 2021. Funds were distributed through 145 business cases that have been reviewed and approved to ensure alignment with federal eligibility. This made Maine one of the first four states in the nation and the first in New England to commit 100 percent of its State Fiscal Recovery Funds. The full amount of funding received was allocated by the Legislature in fiscal years 2022 and 2023 with the understanding that these

funds could and would be obligated through December 2024 and expended through December 2026, in accordance with the US Treasury timeline.

Since the Jobs Plan went into law on October 18, 2021, its initiatives have delivered \$175 million to thousands of Maine businesses, invested more than \$200 million in job training, credentialing, career exploration, and other programs creating workforce opportunities for 25,000 people, and invested in more than 400 infrastructure projects to bolster childcare, broadband, energy efficiency and weatherization, housing, and more.

As one example, we used more than \$100 million in federal funding, including Jobs Plan funds, to create more slots for children at existing child care facilities and open new child care facilities, with a particular emphasis on rural Maine. We gave grants to child care facilities, extra financial help to families, and monthly stipends to about 7,000 child care workers.

Jobs Plan investments are reaching Mainers across 359 communities, with more than half of announced grants going to rural areas and low-income regions of the state.

We have previously shared with you the Jobs Plan two-year report, which profiles many of the businesses, people, and communities who have benefited from these investments. We encourage you and your constituents to review the success and impacts at www.maine.gov/jobsplan (one word).

The most recent Project and Expenditure Report to the US Treasury indicates that cumulative obligations through December 31, 2023, total \$798,423,872 or 80 percent. Well on our way to 100 percent obligation by the end of this calendar year, as required by US Treasury.

Section D-1 authorizes the transfer of allocation within or between departments in order to maximize the use of the State Local Fiscal Recovery Funds. This will allow the redistribution of funds as projects move through their life cycle. The MJRP team is actively monitoring projects to make sure that all funds can and will be obligated by the US Treasury's December 31, 2024 deadline. Overall, the dollars are on track to be obligated by this date. However, even with the best laid plans and intentions, it is important that we have the flexibility to adjust the allocations either within the same department or agency or between departments and agencies to ensure all of the funds are successfully obligated. The plan is that every dollar be spent to support Maine.

Some examples:

1. A project may be completed with a small unspent balance remaining. Those unexpended funds will be added to another initiative in lieu of returning the funds to the US Treasury.
2. Some of the initiatives have amounts that have been distributed to subrecipients. For purposes of the US Treasury, those amounts are considered obligated and expended. If a subrecipient has dollars they are unable to spend they would need to return the remaining balances to us, thereby reducing obligations for US Treasury reporting purposes. In the event this happens after you adjourn or near the December 31, 2024 obligation deadline, we want the opportunity to re-obligate these funds, in lieu of returning the funds to the US Treasury.
3. For construction projects it is common practice to build in a standard contingency amount to cover cost overruns. This can inadvertently leave dollars unspent if there are no overruns. Conversely, there may be a project with a larger than expected contingency need. We want the opportunity to move the funds for the success of both projects, and in lieu of returning funds to the US Treasury.

The intent of Section D-1 is to allow us to move funds between programs in order to maximize all of the funding. As mentioned, our business cases are on track and we don't anticipate a significant volume of transfers. However, we need to be flexible to ensure that the full \$997 million stays in Maine, supporting Maine people.

Section D-2 amends the language from Public Law 2023, chapter 3, Part C and allows limited period positions to be extended by financial order through December 31, 2026. According to the US Treasury guidance, all funds must be obligated prior to December 31, 2024 and expended by December 31, 2026. US Treasury guidance identifies which types of position activities are allowable between December 31, 2024, the required obligation date, and December 31, 2026, the required expenditure date. Most projects will continue to require staffing during this two-year period. You have previously given us authority to extend through the December 2024 obligation date. The language in Section D-2 will enable Departments to continue funding allowable positions as direct expenditures of the State Fiscal Recovery Funds through the December 31, 2026 expenditure date via Financial Order.

However, there are many positions working on and supporting projects that do not meet the strict allowability requirements established by US Treasury for the period

between December 31, 2024 and December 31, 2026. Sections D-3 through D-5 set a plan to address this because appropriate staffing is critical to successful completion of our business cases.

DAFS received an allocation in Part Y of the MJRP bill authorizing almost \$22 million for all aspects of financial and administrative management oversight which has included funding positions to support centralized financial and procurement needs, as well as outside expertise in subrecipient monitoring and federal reporting. Understanding the necessity of continued staff support to projects throughout State Government and the allowability of obligating only certain staff costs by December 31, 2024, the Department is proposing to utilize \$10 million of the Part Y funding in a different, allowable way to achieve the intended outcomes of the MJRP law.

Section D-3 allocates \$10 million (from DAFS' Part Y allocation) to a Federal Expenditures Fund ARP State Fiscal Recovery account in the **Bureau of Revenue Services (0002)**, thereby allowing for the deappropriation of \$10 million in the General Fund of the same program. US Treasury guidance allows for a certain amount of funding to be used for the "Provision of Government Services." MRS All Other expenditures meet the requirements. This increase to allocation and decrease to appropriation will result in no operational change at MRS – we will simply move fiscal year 2024 expenditures from the General Fund account to the Federal Expenditures Fund ARP State Fiscal Recovery account. The expense will be reflected as an expenditure of the State Local Fiscal Recovery Funds for US Treasury.

Section D-3 includes an Other Special Revenue Funds allocation of \$10 million to a Statewide account. These one-time funds – just created with the transfer described above – will be used to support positions necessary to complete projects initially funded with funds received through the American Rescue Plan, including MJRP, and is funded with the transfer of unappropriated surplus included in **Section D-4**. **Section D-5** authorizes the transfer of funds from this account to the various agencies that house the positions required to complete the projects.

In other words, we transfer some of our MJRP administrative funds to an allowable provision of state services and use the corresponding deappropriation to establish a new fund that will cover those positions that are necessary for the successful completion of ARP funded projects, including several within MJRP, but not covered by the strict US Treasury guidance. A perfect example of this is the Maine State

Parks renovations. It will take through December 2026 to spend and finalize the \$50 million for parks renovations and repairs projects allocated through Chapter 483. It will be critical to have construction project managers available that entire time. However, under current guidelines, those positions are not deemed eligible per US Treasury. Therefore, those positions will be funded from this new account.

Transitioning away from MJRP. Language **Part F** begins on **page 11** of the language document. **Section F-1** updates the definition of the biennial base year appropriation – our starting place – for establishing the rebased General Fund appropriation limit. As passed in Part I of the biennial budget, we determined to rebase 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, and fully funding revenue sharing at 5 percent. Everything else stays the same: the reasoning for continuing with a limit, the 98 percent, using the 10 year average of personal income growth as determined by the State Economist as the annual growth factor. **Section F-1** simply updates the Revenue Forecasting Committee report used to calculate the base year appropriation amount to the more recent and more applicable December 1, 2023 report from the 2022 report currently defined in statute.

	FY24	FY25
December 2022 RFC	\$5,179,999,232	\$5,317,894,450
Current Appropriation Limit	\$5,076,399,247	\$5,295,192,055
December 2023 RFC	\$5,249,523,398	\$5,311,008,295
Proposed Appropriation Limit	\$5,144,532,930	\$5,366,262,299
Proposed Appropriations with LD 2214	\$5,065,540,418	\$5,347,087,270
<i>Capacity Under the Proposed Limit including all Supplemental initiatives</i>	\$78,992,512	\$19,175,029

Section F-2 also amends a component of Chapter 412, Part I, specifically Title 5, section 1532, the section stating that when the Budget Stabilization Fund is at its authorized maximum of 18 percent, investment proceeds are directed to the Irrevocable Trust Funds for Other Post-employment Benefits – State Employee Plan established in section 286-B subsection 2. We were clear that the State Employee

Plan was the intended Plan in our testimony, but further inspection of the final language leaves some interpretation. Therefore, the language in **Section F-2** clarifies that of the 3 OPEB trusts (state employee plan, teacher plan, first responder plan) it is the State Employee Plan that is meant to receive the investment earnings when the Budget Stabilization Fund is at its statutory maximum.

Similarly, **Section F-3** amends Title 5, section 1535 to specify the State Employee Plan as the Irrevocable Trust Funds for Other Post-employment Benefits that receives funds when General Fund revenue exceeds the General Fund appropriation limit.

Finally, we will move on to **Part G** on **page 12** of the language document. This Part transfers \$107,000,000 at the close of fiscal year 2025 from the General Fund unappropriated surplus to a General Fund reserve account established by the State Controller to reserve General Fund resources for future funding needs. This Part transfers the funds back to the unappropriated surplus in fiscal year 2026 to make them available as resources for the 2026-2027 biennial budget. As discussed in our tee up, the \$107 million is to ensure that we budget responsibly and continue to have the resources necessary to meet our obligations.

This concludes my testimony. Thank you.