
INTRODUCTORY SECTION



STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
OFFICE OF THE STATE CONTROLLER
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SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

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December 10, 2021

**To the Honorable Janet T. Mills, Governor,
The Honorable Members of the Legislature, and
Citizens of the State of Maine**

We are pleased to present the State of Maine's Fiscal Year 2021 Annual Comprehensive Financial Report (ACFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The annual ACFR, required by Title 5 MRSA § 1547, is compiled and published by the Office of the State Controller (OSC). The report is the primary means of reporting the State's financial activities. The objective of this report is to provide a clear picture of our government as a single, unified entity, as well as providing traditional fund based financial statements.

INTRODUCTION TO THE REPORT

Responsibility

The OSC is responsible for the accuracy, fairness and completeness of the financial statements presented in this report. The statements have been prepared in accordance with GAAP. To the best of our knowledge and belief, the information presented is accurate in all material respects and includes all disclosures necessary to enable the reader to gain a reasonable understanding of Maine's financial position and activities.

Adherence to Generally Accepted Accounting Principles

As required by State statute, we have prepared the ACFR in accordance with GAAP applicable to State and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports.

Format of Report

This ACFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section contains this letter including an overview of current initiatives, the list of principal elected and appointed officials, and the State government organization chart. The Financial Section contains: the Independent Auditor's Report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A), which provides an introduction, overview and analysis of the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds and similar component units, and component units, together with notes to the financial statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules, schedules of pension funding progress, other post-employment benefit plans funding progress, and information about infrastructure assets; and the supplemental financial data, which includes the combining financial statements and schedules.

This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The State's MD&A can be found immediately following the Independent Auditor's Report from the State Auditor. The Statistical Section contains selected trend information and statistical data on financial, economic and demographic measures.

Internal Control Structure

The OSC prepared these financial statements and assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the OSC has established a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State of Maine's financial statements in conformity with GAAP.

Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

As a recipient of federal financial assistance for federal programs, the State is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these federal programs. The internal control structure is subject to periodic evaluation by management and by the Office of the State Auditor as part of the annual Single Audit.

Independent Auditors

Pursuant to Title 5 MRSA § 243, the State Auditor has performed an examination of the Basic Financial Statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. The auditor's opinion is presented in the financial section of this report. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the Basic Financial Statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The State Auditor rendered an unmodified opinion on the Basic Financial Statements for this fiscal year.

Also, pursuant to § 243 the State Auditor has undertaken a Single Audit of the State as a whole, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, as required by federal law. The standards governing Single Audit engagements require the auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements involving the administration of federal awards. This statewide federal Single Audit Report, including the auditor's opinion in accordance with generally accepted government auditing standards, is published separately.

The State Auditor is statutorily mandated to audit all accounts and other financial records of State Government or any department or agency of State Government, including the Judiciary and the Executive Department of the Governor, except the Governor's Expense Account, and to report annually, and at such other times as the Legislature may require.

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The State of Maine was the twenty-third state admitted to the Union on March 15, 1820 under the Missouri Compromise. By this time the population of Maine had reached nearly 300,000. The newly admitted state had nine counties and 236 towns. The city of Portland was the original site of the capital of Maine upon its admission to the Union. The Capital moved to Augusta in 1832 as a more central location from which to govern. The State has an area of 33,215 square miles and 3,500 miles of continuous coastline. Maine boasts 6,000 lakes and approximately 17 million acres of forest land. Geographically, the State includes 16 counties. The most populous county is Cumberland which includes Maine's largest city, Portland.

Reporting Entity

The Governor and Legislature govern all funds and accounts for every executive agency, board, commission, public trust, authority and component unit. The State of Maine financial reporting entity reflected in the ACFR, which is more fully described in Note 1 to the Basic Financial Statements, includes these funds, agencies, organizations, boards, commissions, authorities and major component units in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39 and GASB Statement No. 61. There are 7 major component units, 5 non-major component units, one blended component unit, and one fiduciary component unit included in the ACFR. The major component units are discretely presented in the financial statements, and the blended component unit is included as separate funds in the fund financial statements. The fiduciary component unit is presented in the fiduciary fund and similar component unit financial statements, along with the other fiduciary activities of the State. The fiduciary activities are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs.

The departments of the primary government record their daily financial operations in the State accounting system called AdvantageME operated by the OSC.

Budgetary Control

The Governor presents a biennial budget for the General Fund and the Special Revenue Funds to the Legislature for enactment or revision. The State Constitution provides the Governor a "line item" veto, which allows an Executive dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document.

Once passed and signed, the budget becomes the financial plan for the State for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. In accordance with statute, the State Budget Officer must use the projections of the Revenue Forecasting Committee to prepare the General Fund and Highway Fund budgets.

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 MRSA § 1665, subsection 1. This appropriation

limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits. The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

The State maintains budgetary control at the account and line category levels. The head of each department and agency of State government must submit a work program to the Bureau of the Budget for the ensuing fiscal year. The work program is classified to show allotments requested for specific amounts for personal services, capital expenditures, and all other departmental expenses. These are the levels at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Controller authorizes all expenditures to be made from the amounts available on the basis of these allotments and not otherwise.

Budget revisions during the year, reflecting program changes or intradepartmental administrative transfers, require the approval of the State Budget Officer and the Governor. Except in specific instances, only the Legislature may transfer appropriations between departments. Agency requests for increases in appropriations, allocations, or funding for new programs are presented to the Legislature as a supplemental budget.

The State uses encumbrance accounting as an extension of formal budgetary control. This requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure. Appropriated and allocated balances are available for subsequent expenditure to the extent that there are approved encumbrances at the end of a fiscal year. Unencumbered appropriations in the General Fund and in the Highway Fund are carried forward to a subsequent year only when authorized by law, otherwise the balances lapse at year-end. For financial statement purposes, unless amounts would create deficits, fund balance is classified based on existing resources, if any, which will liquidate the encumbrances outstanding at June 30 (shown as restrictions, commitments or assignments of fund balance).

Maine Budget Stabilization Fund

The Maine Budget Stabilization Fund, established in Title 5 § 1532, to replace the Maine Rainy Day Fund, is a designation of the unassigned General Fund fund balance intended to be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers, firefighters and emergency medical services persons or to supplement school funding in situations where a municipality suffers a sudden and severe change in their property valuation.

Balances in the fund do not lapse; but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. In fiscal year 2021 a net \$233.2 million was transferred into the fund, resulting in an ending balance of \$491.9 million.

MAJOR INITIATIVES AND FUTURE PROJECTS

Fiscal Stability

Maine, like many other states, ultimately avoided the pandemic-induced fiscal distress initially projected for fiscal year 2021 and beyond. The State entered the pandemic on solid fiscal footing and the Governor and Legislature made wise, bipartisan decisions to continue managing State government in a fiscally sound manner, including investing federal COVID-19 funds strategically and appropriately. These actions ensured the solvency of the Unemployment Insurance Trust Fund and the MaineCare Stabilization Fund, maintained tax rates, and enacted or expanded programs primarily designed to tamp down local property tax burdens for lower- and middle-income households all while continuing to respond with nation-leading effectiveness to the COVID-19 pandemic.

The unprecedented federal fiscal and monetary policies significantly impacted Maine's economy, raising the volume and mix of economic activity, which in turn increased revenues to unexpected levels. Currently, Maine's economy, as measured by GDP, has surpassed pre-pandemic levels, our impressive bond ratings have been upheld by Moody's and Standard & Poor's, State government is in the black, and the State's savings have more than doubled with the Budget Stabilization Fund at its highest level ever.

The March 2020 revenue forecast, issued just prior to the pandemic-induced closing of non-essential businesses, revised General Fund revenue estimates upward by \$40 million for FY 2020 and by \$34.1 million for FY 2021. Highway Fund revenues were also increased by \$812,205 for the 2020-2021 biennium. Following the March 1, 2020 revenue forecast, however, the public health crisis around COVID-19 and the resulting economic impacts began to materialize nationally and in Maine.

The enacted 2020-2021 supplemental budget approved additional General Fund resources for infrastructure needs, education, health and welfare, workforce development, and transportation as well as transferring \$17.4 million to the Budget Stabilization Fund, all of which have been priorities for the Governor since taking office. Consistent with the Governor's recommendation, however, the enacted supplemental budget left the increased revenue from the March 2020 forecast unappropriated and the projected General Fund unappropriated fund balance after the actions of the Second Regular Session of the 129th Legislature was approximately \$113 million for the end of the biennium. The Legislature did not enact a Highway Fund supplemental budget and left \$6.7 million in unappropriated surplus for the 2020-2021 biennium.

The Legislature also enacted Public Law 2019, Chapter 618 prior to adjourning, which authorized the transfer of up to \$11 million from the balance available in the Reserve for General Fund Operating Capital to a COVID-19 response fund established by the State Controller to address funding needs related to COVID-19 through January 15, 2021.

These actions made it possible for the State to absorb the substantial GF and HF revenue declines experienced in the last quarter of FY 2020. Additional actions taken by the Governor to minimize expenses in FY 2020 and utilize federal COVID-19 relief funding increased potential resources available for FY 2021. The Budget Stabilization Fund remained untouched and had a balance of \$258.8 million at the beginning of FY 2021.

Given the ongoing impacts of the pandemic, a special "off-cycle" revenue forecast was completed on August 1, 2020. The Revenue Forecasting Committee (RFC) re-projected revenues downward for fiscal year 2021 by \$527.8 million and downward for the 2022-2023 biennium by \$883.2 million. The projection reflected the expected economic impacts of the COVID-19 pandemic as best possible at that time. The most severe impacts were expected in fiscal year 2021 with continuing impacts through the 2022-2023 biennium. This projected decrease in revenues

was primarily attributable to the expected impact of the COVID-19 pandemic on Individual Income Tax and Sales and Use Tax lines. Highway Fund revenues were also reduced by \$30.8 million in FY 2021 and \$30.5 million for the 2022-2023 biennium.

The Governor ordered curtailment of allotments to the State's General Fund by \$221.8 million in September 2020 to partially close the FY 2021 budget gap. Of this amount, approximately \$97 million was covered by one-time Federal funding from the Coronavirus Relief Fund and approximately \$125 million came from adopting departmental cost savings and efficiencies with minimal impact to programs and services. The Governor's order also included curtailment of \$23 million in Highway Fund allotments.

On December 1, 2020, the RFC issued a regularly scheduled update to the forecast. The forecast adjusted General Fund revenues upward for FY 2021 with an increase of \$272.8 million over the August 2020 forecast. The December report also reflected an adjustment upward of General Fund revenues for the 2022-2023 biennium of \$487.4 million. Highway Fund revenue projections were increased by \$11.4 million in FY 2021 and \$9.1 million for the 2022-2023 biennium. Projections for both General Fund and Highway Fund remained lower in all fiscal years than the RFC's pre-pandemic March 2020 forecast.

The Governor's Recommended FY 2021 Emergency Supplemental Budget presented to the Legislature for consideration in January 2021 was based on the December 2020 revenue forecast and included the September 2020 curtailments. The Governor's budget resolved the FY 2021 budget gaps (revenue shortfall) in the General and Highway Funds without making major spending cuts to programs or drawing on the Budget Stabilization Fund. The FY 2021 supplemental budget enacted by the Legislature in March 2021 authorized nearly all of the proposed curtailments put in place to address the revenue shortfall. Additionally, it included tax conformity items, including the treatment of Paycheck Protection Program (PPP) loans provided by the federal government. It also authorized the transfer of \$8 million to the Budget Stabilization Fund in FY 2021, bringing the balance to \$267.9 million.

Actual revenues over the course of FY 2021 consistently exceeded revenue projections and this was reflected in the next regularly scheduled revenue forecast on May 1, 2021. The May forecast increased General Fund revenues by \$479.4 million for FY 2021 and \$460.5 million for the 2022-2023 biennium. Consistent with the Governor's recommendations, PL 2021 Chap 398 enacted late in the legislative session utilized this additional revenue for approximately \$351 million in transfers of year end FY 2021 GF unappropriated revenue to Other Special Revenue accounts in agencies for a variety of one-time purposes intended to address critical needs and other priorities for the Administration. These purposes included COVID-relief payments for Maine workers and investments in: capital construction and repairs for state owned buildings; school renovations; state's forest fire air fleet, National Guard facilities, dams, and culverts; MaineCare Stabilization Fund; Land for Maine's Future; and addressing the agricultural and environmental impact of perfluoroalkyl and polyfluoroalkyl substances (PFAS).

The May 2021 revenue forecast, however, decreased Highway Fund revenues by \$0.2 million for FY 2021 and by \$7.0 million for the 2022-2023 biennium largely due to negative adjustments to the motor fuels tax lines. Highway Fund revenues relative to the RFC's pre-pandemic March 1, 2020 forecast were now projected to be \$19.6 million lower in FY 2021 and \$28.4 million lower for the 2022-2023 biennium. The enacted 2022-2023 biennial budget for the Highway Fund, PL 2021 Chap 224 included reductions in Highway Fund allocations to adjust to the lower revenue projection and provided allocations for additional federal COVID-19 funding available for transportation programs.

By the end of FY 2021, actual General Fund revenues had surpassed even the May 2021 revenue forecast and revenues that exceeded budget were distributed in accordance with statute. Distributions included required transfers

of nearly \$56 million to the Maine Department of Transportation (MaineDOT) Highway and Bridge Capital account, \$50 million to a newly created Highway and Bridge Reserve account, \$2.5 million to the Reserve for Operating Capital and \$223.6 million to the Budget Stabilization Fund. At the end of the fiscal year, there was a General Fund unappropriated surplus balance of about \$155.2 million and the balance in the Budget Stabilization Fund was \$491.9 million. Actual Highway Fund revenues for FY 2021 also exceeded budgeted projections and at the end of the fiscal year the Highway Fund had an unallocated surplus of nearly \$28 million.

The Governor submitted her Recommended Biennial Budget for fiscal years 2022 and 2023 on January 8, 2021. On March 30, 2021, the Legislature passed a ‘back to basics’ 2022-2023 biennial budget for the General Fund and Other Funds by simple majority vote and then adjourned. PL 2021 Chap 29, signed by the Governor on March 31, 2021 and effective June 30, 2021, provided funding for baseline budgets, maintained level support for municipal revenue sharing at 3.75%, increased funding for K-12 education, which included increasing the State contribution to 51.83%, and provided required amounts for teacher retirement costs. The “back to basics” budget also provided funding to continue required rate increases within the Department of Health and Human Services, recognized savings from enhanced federal participation in the Medicaid program, and identified funding for domestic violence and sexual assault prevention and victim services. Additionally, it enacted ongoing savings initiatives that had been identified by departments during the FY 2021 curtailment process and transferred approximately \$84 million into the GF from prior year unspent balances in various carrying accounts and \$20 million that was available from the liquor operations fund.

The Legislature considered the remaining items in the Governor’s Recommended Biennial Budget for the General Fund and Other Funds during a special legislative session, as well as items in the Governor’s Change Package for the biennial budget submitted to the Legislature on May 14, 2021. The Change Package built on and adjusted the biennial budget based on the most up-to-date revenue information from the May 2021 revenue forecast.

The “Part II” budget for the General Fund and Other Funds ultimately enacted as an emergency in PL 2021 Chap 398, effective July 1, 2021, included the \$351 million in transfers of FY 2021 GF unappropriated revenue previously mentioned and the associated allocations for agencies to utilize that funding in fiscal years 2022 and 2023. Additional authorized one-time transfers of GF unappropriated surplus to Other Special Revenue accounts in FY22 and FY23 provided funding for student financial aid through the Finance Authority of Maine and medical payments to providers. A one-time transfer also shifted nearly \$200 million in baseline funding for homestead exemptions from a GF appropriation to Other Special Revenue Fund allocations for FY 2022 and FY 2023. Funding for indigent legal services, approximately \$9.3 million in each fiscal year, was also shifted from a GF appropriation to an Other Special Revenue allocation on an ongoing basis. Additionally, the bill authorized a transfer of the \$50 million in the Highway and Bridge Reserve account to MaineDOT’s Highway and Bridge Capital program.

PL 2021 Chap 398 also authorized a number of one-time tax relief measures to support Maine people and the economy through the COVID-19 pandemic, as well as an ongoing change to the property tax fairness credit which expands eligibility to increase tax relief to Mainers. Additionally, the law includes increased funding for K-12 and higher education, state-municipal revenue sharing, healthcare system supports and expanded dental care coverage for low-income Mainers.

The current projected GF unappropriated balance for the end of the 2022-2023 biennium, after all actions of the 130th Legislature’s First Regular and Special Sessions is approximately \$40.8 million. The projected HF unallocated balance for the end of the 2022-2023 biennium is about \$210,000.

American Rescue Plan Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, provided \$1.25 billion in Coronavirus Relief Funds (CRF) to the State of Maine. Subsequently, the President signed the American Rescue Plan Act of 2021 (ARPA) on March 11, 2021, which provided \$997.5 million in Coronavirus State Fiscal Recovery Funds (SFRF) to the State of Maine. Maine's received its first tranche, \$498.7 million in state fiscal year 2021. The Governor put forward in LD 1733, a proposal for the use of the SFRF.

The enacted bill, referred to as the Maine Jobs and Recovery Act (PL 2021 Chap 483), focuses this federal funding on FY 2022 and 2023 initiatives intended to support the recommendations of the Governor's Economic Recovery Committee and the goals and action plans captured in the 10-year strategic economic development plan for the State released by the Governor in November 2019.

The initiatives in PL 2021 Chap 483 include significant funding for grants, loans and other financial support for industries, businesses, healthcare providers and organizations struggling to recover from economic effects of the pandemic. Other initiatives make substantial workforce investments through education and skills training programs, workforce housing, childcare, worker attraction, and business supports including programs to expand pre-K and childcare infrastructure, and programs targeted directly at addressing pressing workforce needs in health care and clean energy fields. Other investments from the Jobs Plan include critical infrastructure investments, such as expanding broadband, enhancing state parks, accelerating weatherization and energy efficiency projects, and upgrading municipal stormwater and drinking water projects.

Coordination of the Jobs Plan is led by the Maine Department of Administrative and Financial Services and the Governor's Office of Policy Innovation and the Future, through a new Maine Jobs & Recovery Plan Office. This Office will oversee the transparent and accountable implementation of the Jobs Plan, including ensuring that proposed expenditures are permissible under U.S. Treasury eligibility guidance, the final version of which remains pending.

Liquidity and Reserves

The State's cash position has continued to show significant improvement during FY 2021 and into FY 2022, even without consideration of the federal CARES Act and ARPA funding. Again, internal borrowing for cash flow purposes was not needed at any time in the 2021 fiscal year.

During FY 2021, \$223.6 million was transferred into the Budget Stabilization Fund (BSF) from General Fund Unappropriated Surplus. The Governor's supplemental budget, Public Law 2021, Chapter 1 transferred \$8 million into the fund and an additional \$1.8 million of interest earnings was deposited into the fund. The final balance in the BSF on June 30, 2021 was \$491.9 million. The total BSF balance represents 10.9% of the State's 2021 fiscal year General Fund revenue.

Stress-Testing State Revenues

Following adjournment of the 129th Legislature, the Department of Administrative and Financial Services (DAFS) utilized the 2018 report on "Stress-Testing Maine General Fund Revenues & Reserves FY19-FY23" to quickly inform the Governor of the expected revenue shortfall, due to the COVID-19 pandemic, over the final quarter of FY 2020 and the sufficiency of reserves to manage that shortfall.

Using the severe recession scenario from the 2018 report, DAFS estimated that the FY 2020 revenue shortfall could be as much as \$200 million or 5% of the approximately \$4 billion revenue forecast. The supplemental budget, enacted as the Legislature adjourned, left a FY 2020 balance of \$193.2 million in the General Fund. Based on this

initial analysis, it appeared that the State could absorb the estimated revenue shortfall without significant budget adjustments.

The impact of the pandemic-induced recession and fiscal and monetary stimulus on the economy has been unprecedented, resulting in the actual FY 2020 revenue shortfall being half that projected using the 2018 stress-test report. The Maine specific stress-test, however, provided a quick and reasonable assessment of the impact of an unprecedented pandemic-induced recession on state revenues, and proved to be more accurate than many other estimates provided by out-of-state non-government entities.

The stress-test report also includes an analysis of the sufficiency of the current level of the Budget Stabilization Fund (BSF) and an estimate of the reserves in the BSF necessary to offset the declines in General Fund revenue because of potential economic recession scenarios. At the time of the October 1, 2020 stress-test report, the BSF balance of \$258.8 million was not sufficient to fully offset the revenue shortfalls estimated as the result of a moderate and severe recession. However, the BSF was at a level that would provide the Governor and Legislature time during the early stages of a moderate or severe recession to make the changes necessary to bring the budget back into balance. Both the 2018 and 2020 reports concluded that a BSF of 18 percent of the previous fiscal year's General Fund revenue (\$715 million in the 2020 report), the current statutory maximum, would be necessary to fully offset the revenue declines from a moderate recession. The significant increase in FY 2021 revenue resulted in the State increasing the BSF to \$491.9 million, approximately 10.9 percent of FY 2021 revenue.

Education

The curtailment of fiscal year 2021 General Fund allotments ordered by the Governor in September 2020 had little to no impact on programs administered by the Department of Education. Curtailments for the Department totaled \$845,204 and were primarily comprised of administrative and operational efficiencies in reduced travel, training and contract expenses. Total curtailments of approximately \$3 million ordered for the three higher education institutions were to be achieved by managing administrative and operational costs for the remainder of fiscal year 2021.

Appropriation adjustments for these curtailments were included in the FY 2021 Emergency Supplemental Budget enacted as PL 2021 Chap 1. Consistent with the Governor's recommendations, the supplemental budget also authorized additional funding for General Purpose Aid for Local Schools, increasing the State's contribution to the total cost of education to 51.83% in FY 2021. Additionally, the law provided \$2 million for equipment replacements at career and technical education centers throughout the State. The Adult Education program also received a one-time increase to their FY 2021 appropriation in the amount of \$1.2 million to be focused on workforce development and the Maine Community College System received \$2.5 million for short-term training through the Maine Quality Centers.

The 2022-2023 biennial budget, 2021 Chapter 29, increased funding for General Purpose Aid for Local Education by more than \$45 million over the biennium, enabling the State to maintain its contribution at 51.83% for fiscal year 2022. The "Part II" biennial budget for 2022 – 2023 subsequently enacted increased funding to General Purpose Aid for Local Education even more, making a historic investment in Maine public schools and keeping a promise from the Governor to meet the State's obligation to pay 55 percent of the cost of K-12 education for the first time in the State's history beginning in FY 2022. PL 2021 Chap. 398 also provides a 3 percent baseline increase to the University of Maine System, the Maine Community College System, and Maine Maritime Academy, which will help hold down tuition increases.

Although schools re-opened in the fall of 2020, remote learning has continued to be critical to the hybrid learning models being utilized as schools continue to respond to the impacts of the COVID-19 pandemic. Federal funding associated with Covid-19 continues to be used to support schools in a variety of ways, including but not limited to personal protective equipment (PPE), facility reconfigurations, air system upgrades, additional transportation and teacher costs, COVID-19 testing for students and staff, and supporting teacher training and knowledge in remote learning techniques.

Healthcare

In September 2020, the Governor curtailed General Fund allotments to health and human services by approximately \$105 million in areas that had minimal or no programmatic impact. Approximately \$74.3 million of the total curtailment aligned allotment with projected actual expenses given the availability of additional federal funding through enhanced Federal Medicaid Assistance Program (FMAP) and Children's Health Insurance Program rate of an additional 6.2% provided due to the pandemic. Another \$10.3 million of the curtailed allotments were related to existing position vacancies in the Department of Health and Human Service. Administrative and operational efficiencies made up the remainder of the curtailment.

These curtailments were included as appropriation adjustments in the FY 2021 Emergency Supplemental Budget (PL 2021 Chap 1), in addition to a reduction related to the continuation of the enhanced FMAP rate through the 3rd quarter of fiscal year 2021. Additionally, the supplemental budget provided one-time funds for retainer payments to providers of rehabilitation and personal care services – primarily community support and other day services.

The biennial budget for fiscal years 2022 and 2023 (PL 2021 Chap 29) included funding for nursing facility cost of living adjustments and rate increases for a number of Medicaid services already initiated or committed including private non-medical institutions. Numerous savings initiatives identified in 2021 were continued for the 22-23 biennium.

The “Part II” biennial budget for 2022 – 2023 subsequently enacted (PL 2021 Chap 398) included further reductions related to the continuation of the enhanced FMAP rate provided due to the pandemic. It also provided funding for numerous healthcare initiatives that include but are not limited to: one-time support for hospitals, nursing facilities and private non-medical institutions in responding to the pandemic; rate increases for a broad spectrum of Medicaid providers and services; investments in the State’s public health capacity; provision of a full adult dental benefit for low-income Mainers; wage increases for direct care workers; and, healthcare benefits for children who would be eligible for federal benefits but for their immigration status.

In addition to expanding access to MaineCare for more than 85,000 Maine people, Governor Mills’ Made for Maine Health Coverage Act authorized the Department of Health and Human Services to run a State-based Health Insurance Marketplace as part of a larger plan to improve private health insurance for Maine people and small businesses. The State-Based Marketplace is central to the Administration’s work to improve access to affordable health care. Open enrollment in the [CoverME.gov](https://www.coverme.gov) Marketplace began on November 1, 2021 giving Maine people better access to affordable health insurance options.

One of the Governor’s highest priorities continues to be mitigating the public health impacts of the COVID-19 pandemic to ensure the safety of Mainers. Substantial federal funds have supplemented State funds committed to prevention and response efforts, as well as financial supports for healthcare providers intended to address impacts from the pandemic. Compared to other states, Maine has had a strong and effective response to the pandemic and has had a nation-leading vaccination rate.

Combatting the opioid epidemic in Maine has remained another of the Governor’s top health-related priorities and efforts to address this continuing crisis are also supported by both federal and State funds. Recent efforts include increasing reimbursement rates for residential substance use disorder treatment and extending a key employment program for Maine people affected by the opioid crisis. The new reimbursement rates were funded through the 2022 – 2023 “Part II” biennial budget signed into law by the Governor in July and recently approved by the U.S. Centers for Medicare and Medicaid Services. The new rates will take effect Nov. 1, 2021. Additionally, the Maine Department of Labor is extending its Connecting with Opportunities Initiative, a program for Maine people affected by the opioid epidemic to receive education, skills training, and job search assistance through the end of 2022. The Initiative also prepares Maine people for careers in fields that directly treat substance use disorders, such as counseling, addiction treatment, and mental health care. Funded by a federal grant to MDOL in 2020, more than 400 Maine people have entered the program to date.

Additional efforts include DHHS’ work to transform the system of services for people with behavioral health challenges, including more than \$110 million in investments as part of the biennial budget to support prevention, early intervention, harm reduction, all levels of treatment, crisis care, and recovery assistance. The Administration’s OPTIONS program has placed liaisons around the State to connect people who have overdosed to recovery services and treatment, promote drug prevention and harm reduction strategies, and distribute naloxone, the lifesaving overdose medication. From March through July of 2021, OPTIONS liaisons have supported 495 people across the state.

Transportation

The Maine Department of Transportation (MaineDOT) traditionally receives its funding from the State Highway Fund, the TransCap Trust Fund, federal funds, proceeds from authorized bond sales, and other sources. In 2019, MaineDOT released a \$2.44 billion work plan for all MaineDOT work activities for calendar years 2019 through 2021. The work plan consists of \$1.5 billion in capital work over three years, consisting of \$1.2 billion for highway and bridge projects and \$297 million in multi-modal projects.

Despite pandemic-induced reductions of almost \$23 million in Highway Fund allocations for FY 2021, MaineDOT was able to fully move forward with its planned activities using available bond and federal resources for transportation projects in lieu of declining Highway Fund resources. Reductions in Highway Fund FY 2022 and FY 2023 allocations to MaineDOT programs contained in the enacted biennial budget, PL 2021 Chap 224, are primarily associated with adjusting for actual employee benefit costs and managing position vacancies and administrative costs within available resources. MaineDOT has also directed additional federal COVID funding available for FY 2021 and FY 2022 to its Highway and Bridge Capital and Highway Light Capital programs.

Notably, the General Fund “Part II” budget, PL 2021 Chap 398, included measures to direct General Funds to MaineDOT’s highway and bridge projects. The measures are a recognition of the persistent and growing gap between projected Highway Fund revenues and the funds needed for Maine’s transportation infrastructure. Consistent with the Governor’s recommendations, the bill enacted by the Legislature authorized a one-time transfer of \$50 million from FY 2021 General Fund unappropriated surplus to MaineDOT for use in FY 2022. Additionally, the law amended the required statutory year-end distributions of any General Fund revenue that exceeds budget in any fiscal year. Beginning with FY 2021, 20% of the excess General Fund remaining after certain other priority transfers is transferred to MaineDOT for highway and bridge projects. MaineDOT received about \$56 million from the “cascade” at the end of FY 2021. Additionally, the law provides that if the Budget Stabilization Fund is at its statutory limit, then the funds that would normally flow to it are transferred to MaineDOT instead.

Property Tax Relief

The enacted biennial budget for fiscal years 2020-2021 allocated an additional \$75 million in property tax relief for hardworking Mainers, seniors, families and small businesses and increased revenue sharing to local municipalities from 2.5% to 3% in 2020 and to 3.75% in 2021. Additional provisions increased the Homestead Exemption for Maine residents by \$5,000, to \$25,000, and expanded eligibility for the Property Tax Fairness Credit that will allow another 13,000 Mainers to get property tax relief.

Public Law 2019, Chapter 448 amended the Tax Relief Fund for Maine Residents to create the Property Tax Relief Fund for Maine Residents. During FY 2020, more than \$30 million in the fund was used to provide relief payments to each property taxpayer receiving a homestead exemption in the State during the most recent property tax year, to pay for the Treasurer of State's costs in administering the relief payments and to reimburse municipalities for costs related to the relief payments.

The FY 2021 Emergency Supplemental Budget (PL 2021 Chap 1) maintained the State-municipal revenue sharing rate at 3.75% but rates were increased in the “Part II” biennial budget for FY 2022 and FY 2023. PL 2021 Chap 398 raises municipal revenue sharing to 4.5% in FY 2022 and then fully restores revenue sharing to its statutorily required 5% in FY 2023. Chapter 398 also maintains the reimbursement to municipalities for the Homestead Property Tax Exemption at 70% in FY 2022 and increases by 3% each year thereafter until it reaches 100%. The increases in revenue sharing rates and Homestead reimbursement, along with increasing the funding level for the total cost of K-12 education to 55% are intended to help mitigate property tax increases at the local level.

Looking to the Future

Innovation and planning for Maine’s future remain among the Governor’s top priorities. Her recommended budgets consistently allocate funding for Maine’s forward-looking initiatives and for revitalized planning efforts across state government. Additionally, the Governor’s Maine Jobs & Recovery Plan, approved by the Legislature, invests nearly \$1 billion in federal American Rescue Plan funds to achieve three goals: immediate economic recovery from the pandemic; long-term economic growth for Maine; and infrastructure revitalization. As previously described, these investments are intended to address known, systemic challenges that have constrained Maine’s ability to thrive, with priority focus on expanding Maine’s workforce.

The Governor’s Office of Policy Innovation and the Future plays a critical role in efforts to identify Maine's long-term challenges, develop goals and strategies, and then help coordinate between State agencies to achieve them. Areas of focus include climate change, early childhood education, and economic issues like workforce development, broadband and the State’s rural and innovation economies. Notable activities on these fronts include, but are not limited to:

- Maine Won’t Wait, a four-year Climate Action Plan - On December 1, 2020, the Maine Climate Council — an assembly of scientists, industry leaders, bipartisan local and state officials, and engaged citizens established by the Governor in June 2019 — released a four-year Climate Action Plan entitled Maine Won’t Wait. The Plan is intended to put Maine on a trajectory to decrease greenhouse gas emissions by 45% by 2030 and 80% by 2050, and achieve carbon neutrality by 2045. Maine Won’t Wait is the consensus result of painstaking study, dialogue, discussion, and public deliberation involving more than 200 Maine people to determine the steps Maine must take to combat climate change. Significant and sustained investments, well-financed programs, properly-capitalized lending entities, the support and engagement of Maine people and a broad coalition of state, local, regional, and tribal governments, nonprofits, academic institutions, and private interests will be needed to successfully implement the Climate Action Plan. The Plan encompasses

eight strategies supported by 30 objectives and related action steps. Maine Won't Wait also outlines short and long-term funding options and suggested metrics for measuring progress.

- Maine Offshore Wind Initiative - Harnessing the wind resources off the coast of Maine is seen as key for achieving the State's goal of using 100 percent renewable energy by 2050. In 2019, Governor Mills created the Maine Offshore Wind Initiative, a multi-faceted approach to pursue a thoughtful, responsible path for offshore wind. Elements of the initiative include a comprehensive economic plan for an offshore wind industry in Maine, the Maine Offshore Wind Roadmap; the research array for floating offshore wind; a study of port infrastructure to support offshore wind focusing on Searsport; regional collaboration through the Gulf of Maine Task Force; and forging offshore wind research and development partnerships. Recently, the Mills Administration applied to the federal government to lease a 15.2-square-mile area in the Gulf of Maine for the nation's first research site in federal waters for floating offshore wind. On this site, which is nearly 30 miles offshore, the State hopes to deploy a small-scale research array of 12 or fewer wind turbines on innovative floating hulls designed at the University of Maine. This project will advance UMaine's patented technology and will foster leading research into how floating offshore wind interacts with Maine's marine environment, fishing industry, shipping and navigation routes, and more.
- Maine Connectivity Authority - The Maine Connectivity Authority, the new State entity charged with achieving universal availability of high-speed broadband in Maine, was proposed by Governor Mills and enacted through bipartisan legislation in June 2021. The Authority is governed by a seven-member board and the Governor has recently announced her nominee for the first President of the Authority. The Authority is empowered to own physical broadband infrastructure, such as poles and wires, and hold equity in broadband projects. It is also empowered to provide grants and loans and partner with the private sector and local communities to leverage investment and coordinate buildout of infrastructure. In 2020, the Governor secured the approval of a \$15 million bond proposal for broadband, the first new investment in internet expansion in more than a decade. Twenty projects in 11 counties across Maine will receive funding from the bond. The Governor also dedicated \$21 million through the Maine Jobs & Recovery Plan, which, when combined with the \$129 million through the American Rescue Plan, will provide a total of \$150 million to the Maine Connectivity Authority to expand access to affordable broadband.
- Children's Cabinet - The Children's Cabinet's strategic plans lay out two overarching goals that all Maine children enter kindergarten prepared to succeed and all Maine youth enter adulthood healthy, connected to the workforce and/or education. Despite the impacts of the pandemic, the Mills Administration, led by the Children's Cabinet have continued to make significant progress toward those goals including targeting State government resources on several efforts. Among other things, the Children's Cabinet provided funding for childcare for essential workers; created scholarships to train early childhood educators; created free, comprehensive on-line pre-K through grade 12 learning modules and social emotional curricula for teachers across the State; and, trained more than 125 behavioral health clinicians to serve children in need. These efforts and others are highlighted in Maine Children's Cabinet 2020 Annual Report. The Governor also sees quality early childcare and education as critical to the healthy development of young children and to the long-term growth of Maine's economy and supports investments in Maine's childcare infrastructure to increase the availability and quality of childcare, especially in underserved communities in rural Maine.

OTHER INFORMATION

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the State of Maine for its annual comprehensive financial

report for the fiscal year ended June 30, 2020. This is the fourteenth consecutive year that Maine has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program’s requirements and we will be submitting it to the GFOA to determine its eligibility for another certificate.

The Certificate of Achievement is the highest recognition a government may receive for excellence in financial reporting. We thank the finance community and our auditors for their contributions in achieving this award.

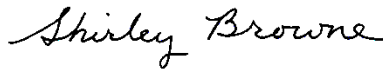
State government continues to have many accomplishments of which it can be proud. Consistent with the vision of Governor Mills to improve and enhance the fiscal administration of governmental operations, the Office of the State Controller continues to improve and refine its skills to meet the challenges of financial management in the 21st century. The Office provides assistance to many State agencies to help ensure the integrity and accountability of the programs they deliver to Maine’s citizens. We partner with financial and program managers to find the best solutions to the State’s financial challenges. In an environment where economic resources are limited and agencies are coping with budget constraints, the challenge of maintaining effective controls is greater than ever. We will continue to partner with each department, at its highest levels, to ensure that the tools are available to help each agency assess its risks and target controls to manage those risks effectively and within its budgetary constraints whenever possible.

Each year the preparation of the ACFR requires the efforts of the finance people throughout the State from virtually all agencies, departments and component units. We sincerely appreciate the dedicated efforts of all of these individuals. We are especially proud of the dedication and contributions of the staff of the Office of the State Controller, who strive to maintain the public’s trust in our financial operations. Their efforts culminate in the ACFR each year.

Sincerely,



Douglas E. Cotnoir, CPA, CIA
State Controller



Shirley A. Browne, CIA
Deputy State Controller



Sandra J. Royce, CPA
Director, Financial Reporting & Analysis





STATE OF MAINE

OFFICIALS OF STATE GOVERNMENT AS OF JUNE 30, 2021

EXECUTIVE

Janet T. Mills, *Governor*

LEGISLATIVE

Troy D. Jackson, *President of the Senate*

Ryan M. Fecteau, *Speaker of the House*

Constitutional/Statutory Officers

Aaron Frey, *Attorney General*

Matthew Dunlap, *State Auditor*

Shenna Bellows, *Secretary of State*

Henry Beck, *State Treasurer*

JUDICIAL

Valerie Stanfill, *Chief Justice of the State Supreme Court*



STATE OF MAINE ORGANIZATION CHART AS OF JUNE 30, 2021

MAINE VOTERS

LEGISLATIVE BRANCH

Senate
House of Representatives
Legislative Council
Office of Fiscal and Program Review
Legislative Information Office
Office of Policy and Legal Analysis
Office of the Revisor of Statutes
Maine-Canadian Legislative Advisory Commission
State House and Capitol Park Commission
Office of Executive Director of the Legislative Council
Commission on Interstate Cooperation
Commission on Uniform State Laws
Office of Program Evaluation and Gov't Accountability

EXECUTIVE BRANCH

Governor
Office of the Governor
Governor's Board on Executive Clemency
Judicial Nominations Advisory Committee
Office of Public Advocate
Land for Maine's Future Board

The Governor
appoints all
Judicial Officers

JUDICIAL BRANCH

Supreme Judicial Court
Superior Court
District Court
Court Alternative Dispute Resolution Service
Administrative Office of the Courts
Committee on Judicial Responsibility and Disability
Board of Bar Examiners
Board of Overseers of the Bar
State Court Library Committee

CONSTITUTIONAL OFFICERS

Secretary of State
State Treasurer
State Attorney General

STATUTORY OFFICER

State Auditor

CABINET LEVEL DEPARTMENTS

Administrative and Financial Services
Agriculture, Conservation and Forestry
Corrections
Defense, Veterans and Emergency Management
Economic and Community Development
Education
Environmental Protection
Governor's Office of Policy and Management
Health and Human Services
Inland Fisheries and Wildlife
Labor
Marine Resources
Professional and Financial Regulation
Public Safety
Transportation

MISCELLANEOUS BOARDS & COMMISSIONS

Human Rights Commission
Maine Arts Commission
Maine Historic Preservation Commission
Public Utilities Commission
State Liquor & Lottery Commission
Workers' Compensation Board

MAJOR COMPONENT UNITS

Finance Authority of Maine
Maine Community College System
Maine Health and Higher Education Facilities Authority
Maine Municipal Bond Bank
Maine Public Employees Retirement System
Maine State Housing Authority
Maine Turnpike Authority
University of Maine System



Government Finance Officers Association

Certificate of
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Presented to

State of Maine

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morrill

Executive Director/CEO

