
INTRODUCTORY SECTION



STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
OFFICE OF THE STATE CONTROLLER
14 STATE HOUSE STATION AUGUSTA, MAINE 04333-0014

SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

KIRSTEN LC FIGUEROA
COMMISSIONER

DOUGLAS E. COTNOIR, CPA, CIA
STATE CONTROLLER

December 13, 2023

**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 2023 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 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.

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 2023 a net \$72.3 million was transferred into the fund, resulting in an ending balance of \$968.3 million.

MAJOR INITIATIVES AND FUTURE PROJECTS

Fiscal Stability

Maine maintained strong fiscal footing throughout fiscal year 2023. Monthly General Fund revenues consistently exceeded projections. The unprecedented federal fiscal and monetary policies and Maine's fiscally prudent efforts significantly impacted Maine's economy, raising the volume and mix of economic activity, which in turn increased revenues to unexpected levels. Under Governor Mills' leadership, Maine's GDP growth remained steady - comparable with the New England average and just below the U.S. average, while the unemployment rate has been trending below 3 percent. Currently, Maine's economy, as measured by GDP, has surpassed pre-pandemic levels, our impressive bond ratings have been upheld by Moody's and S&P, State government is in the black, and the State's Budget Stabilization Fund is at its highest level ever.

The December 2022 and March 2023 revenue forecasts both revised General Fund estimates upward for fiscal year 2023 by substantial margins with all the major revenue lines showing increases. In the December 2022 forecast, projected revenues were increased by \$282.8 million for fiscal year 2023. The March 2023 forecast revised General Fund revenue estimates upward by another \$223.2 million for fiscal year 2023. The December and March reports also reflected a combined adjustment upward of General Fund revenues for the 2024-2025 biennium of \$559.3 million composed of an adjustment upward of \$292.4 million in fiscal year 2024 and an adjustment upward of \$266.9 million in fiscal year 2025. The recently published December 2023 revenue forecast revised estimates upward by \$139.3 million for fiscal year 2024 and by \$125.3 million for fiscal year 2025 for a total increase of \$264.6 million for the 2024-2025 biennium.

Following the release of the December 2022 revenue forecast, the Governor worked with Legislative leadership to develop what became Public Law 2023, Chapter 1, An Act to Establish the Winter Energy Relief Payment Program to Aid Residents with High Heating Costs and to Finalize the COVID Pandemic Relief Payment Program. The Legislature enacted and the Governor signed the law on January 4th, 2023. Using funds available from the recent revenue forecast and continuation of savings from the enhanced Federal Medical Assistance Percentage (FMAP) on Medicaid claims, the law transferred \$398 million to Maine Revenue Services to administer an Energy Relief program providing \$450 relief checks to most Maine people. In addition to providing \$450 relief checks, the measure also supplemented home heating assistance for low-income consumers, provided emergency fuel assistance to prevent homelessness during the winter months, in addition to other measures.

The fiscal year 2022-2023 General Fund supplemental budget enacted in February 2023, Public Law 2021 Chapter 3, included net appropriations of about \$172 million for the biennium with a reduction of about \$90.6 million in fiscal year 2022. The reduction primarily resulted from a one-time deappropriation to capture freed up General Fund dollars from the enhanced FMAP rate States have been receiving during the COVID-19 public health emergency. The enacted appropriations were a mix of one-time and ongoing impacts. One-time appropriations included support for higher education, career and technical education materials and supplies, child welfare, hospitals, nursing homes, long-term care facilities, and emergency housing assistance. Ongoing appropriations supported childcare workers and early childhood educators, universal free meals in public schools, behavioral health, in-home and community services, and increased wages for direct support workers and professionals under the MaineCare program.

On March 30, 2023, the Legislature passed a "current services" biennial budget for fiscal years 2024 and 2025, enacted as Public Law 2023, Chapter 17. It was signed by the Governor on March 31, 2023. Chapter 17 provided funding for baseline budgets, maintained level support for municipal revenue sharing at 5%, increased funding for K-12 Education, provided over \$100 million to maintain the State's contribution to K-12 Education at 55%, and

funded required amounts for teacher retirement costs. The “current services” budget also provided over \$128 million in funding to continue required rate increases within the Department of Health and Human Services (DHHS), recognized savings from enhanced federal participation in the Medicaid program, and funded numerous laws passed during the 130th Legislature such as \$46 million for the Property Tax Stabilization program for certain elderly residents, which was later replaced by the expansion of the Property Tax Fairness Credit, and \$58 million for the State-funded school breakfast and lunch program.

On July 6, 2023, the Legislature passed a “Part II” budget for fiscal years 2024 and 2025, enacted as Public Law 2023, Chapter 412. It was signed by the Governor on July 11, 2023, with an effective date of October 25, 2023. Chapter 412 continued to build on the current services budget and maintained 55 percent of the cost of education, fully restored revenue sharing with municipalities, and provided more than \$200 million in tax relief to Maine people per year. The law established the new paid and family medical leave program; the Dirigo Business Incentive Program; included several historic housing investments; and provided additional investment in Maine’s childcare system by improving the Maine Dependent Exemption Tax Credit, increasing eligibility for the childcare affordability program, and doubling the Child Care Worker Stipend. Additionally, Chapter 412 dedicated funding: to continue the free community college education program for students graduating high school in 2024 and 2025; for a one-time 3% cost of living increase for retired State employees; and, for \$31 million to support the Maine Emergency Medical Services Sustainability and Resiliency Grant Program. The law also increases the annual income tax pension deduction from \$35,000 by tying Maine’s pension deduction amount to the maximum annual Social Security benefit, which builds upon more than \$200 million per year in tax relief initiatives for Maine people.

Actual General Fund revenues over the course of fiscal year 2023 consistently exceeded projections and at year-end revenues that exceeded budget were distributed in accordance with statute. Distributions via the "cascade" included transfers of \$100,000 to the Governor’s Contingent Account, \$1 million to the Finance Authority of Maine, Loan Insurance Reserve, \$2 million to the Retiree Health Insurance, \$65 million to the Maine State Housing Authority, \$2.5 million to the Reserve for Operating Capital, \$18 million to MaineDOT for Highway and Bridge Capital and \$52.4 million to the Budget Stabilization Fund. At the end of the fiscal year, there was a General Fund unappropriated balance of about \$165.0 million and the balance in the Budget Stabilization Fund was nearly \$968.3 million.

Both the December 2022 and March 2023 revenue forecasts also increased Highway Fund revenues by modest margins for a total upward revision of \$5.4 million for fiscal year 2023. The Highway Fund changes in both forecasts were largely the result of projected increases in motor vehicle registrations and fees netted against projected overall decreases in the motor fuel taxes. The enacted 2022-2023 Highway Fund supplemental budget, Public Law 2023, Chapter 50, included net allocation reductions of about \$1.2 million in fiscal year 2023 and about \$6.2 million for the biennium overall. Actual Highway Fund revenues for fiscal year 2023 exceeded budgeted projections and the Highway Fund had a projected unallocated balance of approximately \$16.7 million at the end of fiscal year 2023. The recently published December 2023 revenue forecast revised estimates upward by \$100 thousand for fiscal year 2024 and by \$1.2 million for fiscal year 2025 for a total increase of \$1.3 million for the 2024-2025 biennium.

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.

In June and July of 2021, the Legislature enacted, and the Governor signed into law, Public Law 2021 Chapter 78 and Chapter 483, which allocated \$997 million of the State's discretionary ARPA funding. This effort, known as the Maine Jobs and Recovery Plan (MJRP), includes 114 projects across 23 State entities.

The MJRP draws heavily on recommendations from the Governor's Economic Recovery Committee and the State's 10-Year Economic Development Strategy, transforming them into real action to improve the lives of Maine people and strengthen the economy. Governor Mills has specifically honed-in on strategic investments to relieve the significant toll of the COVID-19 pandemic on Maine's people, communities, and economy, while addressing known, systemic challenges that have constrained the State's ability to grow and thrive, broadly divided into three categories: immediate economic recovery from the pandemic; long-term economic growth for Maine; and infrastructure revitalization. The Governor's Jobs Plan was approved by the Legislature on July 19, 2021, and went into effect on Oct. 18, 2021. This made Maine one of the first four states in the nation and the first in New England to commit 100% of its State Fiscal Recovery Funds from the American Rescue Plan Act.

The MJRP included three initiatives to support the economic recovery of Maine's heritage industries - forestry, fishing and farming - from impacts due to the COVID-19 pandemic. Over \$40 million in economic recovery funds was awarded to 391 businesses in these heritage sectors across all 16 counties in Maine. Through the MJRP funding, in just over one year, the State has provided health insurance premium support to 5,700 small businesses and 27,900 employees covering 44,500 lives, funded 286 PreK student slots and converted 123 existing PreK slots from part day/part week to full day/full week through first round of PreK infrastructure grants, and enabled Maine's community colleges to enroll more than 1,000 students into free and low-cost training programs, with 206 courses planned or underway. The Jobs Plan is providing grant funds to help communities address critical infrastructure with more than \$54 million funding 111 drinking water, sewer, septic system, and infrastructure climate adaptation grants awarded across 75 communities.

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

As of September 30, 2023, of the more than 145 business cases (across 114 initiatives), 143 have been fully approved through a two-part process that confirms federal eligibility, reporting parameters, and metric structure. This represents a total of approximately \$985 million in Federal funds deployed or ready to be deployed into Maine's economy. Through the same timeframe, more than \$771 million of the \$985 million has been expended or obligated.

Maine was highlighted by the non-partisan Center on Budget and Policy Priorities as a national leader in deploying American Rescue Plan recovery funds towards talent, jobs, and innovation. The report ranked Maine in the top three States for share of funds allocated towards workforce development, higher education, and business assistance. The White House has also cited three of Maine's initiatives in describing American Rescue Plan workforce best practices and the US Department of Treasury, the federal agency charged with overseeing the American Rescue Plan Act, recognized Maine as the lead example of a State investing in job training with federal recovery funds.

Liquidity and Reserves

The State's cash position has continued to show significant improvement through fiscal year 2023, 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 2023 fiscal year.

During fiscal year 2023, \$52.7 million was transferred into the Budget Stabilization Fund (BSF) from General Fund Unappropriated Surplus and an additional \$19.6 million of interest earnings was deposited into the fund. The final balance in the BSF on June 30, 2023, was \$968.3 million. The total BSF balance represents the statutory cap of 18% of the State's 2023 fiscal year General Fund revenue.

Stress-Testing State Revenues

The 2022 Stress-Test Report was issued after historic fiscal and monetary stimulus implemented by Congress and the Federal Reserve in the months immediately after the start of the pandemic have led to unprecedented revenue growth in fiscal year 2021 and fiscal year 2022 and a BSF at 16.6% of fiscal year 2022 revenue. The report provides policymakers with the estimated impact of a moderate and severe recession beginning in the first half of fiscal year 2023 on sales and individual income tax revenues, and the sufficiency and needs of the BSF in each of the recession scenarios.

The two forecasting groups concluded that the BSF of \$896 million, the amount in the fund at the time of the issuance of the report, was sufficient to fully offset the revenue shortfalls estimated as the result of a moderate recession assuming certain individual income tax conformity provisions to the 2017 federal Tax Cuts and Jobs Act (TCJA) expire as provided under current law. If those federal provisions were extended beyond 2025 and the State conformed to those extensions, the BSF is sufficient to meet the fiscal year 2023 - fiscal year 2025 spending limits and comes within \$21 million of meeting the fiscal year 2026 spending limit. A BSF at its current maximum of 18% of fiscal year 2022 revenue (\$970.5 million) would provide enough resources to meet the State's spending limit through fiscal year 2026 but continue to leave a revenue shortfall of \$150 million in fiscal year 2027.

Since the release of the report, the Legislature has decoupled from the key TCJA conformity provisions that expire at the end of 2025 thereby continuing the current tax policy, and the BSF has reached its 18% maximum of approximately \$968.3 million at the end of fiscal year 2023. Therefore, the current BSF should be sufficient to meet the State's spending limit through the end of fiscal year 2027, assuming a moderate recession that begins in the second half of fiscal year 2024.

While the BSF at its statutory cap would not be sufficient to fully offset a revenue shortfall because of a severe recession that begins in the second half of fiscal year 2024, it would provide enough resource to maintain spending at the spending limit in fiscal year 2024 and fiscal year 2025, providing approximately 15 months for the Governor and Legislature to bring the budget into balance.

The next stress-test report will be issued on October 1, 2024.

Education

Increased General Fund appropriations to General Purpose Aid for Local Education enacted in the 2022-2023 biennial budget, Public Law 2021, Chapter 29 and Chapter 398, enabled the State to make a historic investment in Maine public schools and keep a promise from the Governor. Beginning in fiscal year 2022, for the first time in the State's history, the State met its statutory obligation to pay 55 percent of the cost of K-12 education. Public Law 2023, Chapter 17, continued to build upon this achievement and increased funding for GPA by over \$101 million over the biennium, enabling the State to maintain its contribution at 55% for the biennium. The budget also provided over \$58 million in General Fund dollars, to fully fund universal free meals in public schools enacted by the previous Legislature. The University of Maine System budget included the continuation of a one-time initiative from 2023 providing \$7.9 million in ongoing funding to offset tuition increases.

Public Law 2023, Chapter 412, included additional items for education. These items included over \$10 million for preschool through Child Development Services with an additional \$15 million in one-time funding for special purpose private schools, nearly \$1.5 million to support cost of Education in the Unorganized Territories, and almost \$55 million for the University System, Community College System, and Maine Maritime Academy. Additionally, the budget included the transfer of \$15 million to the Community College System to continue the free community college program for another two cohorts of high school graduates.

Healthcare

The fiscal year 2022-2023 General Fund supplemental budget enacted in February 2023, Public Law 2021, Chapter 3, adjusted Medicaid accounts to reflect savings from the enhanced FMAP through the 4th quarter of fiscal year 2023, provided funds for a one-time payment of \$25 million to hospitals to support hospitals' recovery from the COVID-19 pandemic and a one-time \$25 million payment to long-term care facilities. Additional items included increased funding for the State's General Assistance program. Funding for the Medicaid program remains sufficient, even with the General Fund reductions based on the enhanced federal medical assistance percentage. The Department has not sought additional funding to support the increased caseload maintained throughout the pandemic; the baseline budget has been sufficient.

On March 30, 2023, the Legislature passed a "current services" biennial budget for fiscal years 2024 and 2025, enacted as Public Law 2023, Chapter 17. It was signed by the Governor on March 31, 2023. Chapter 17 provided over \$128 million in funding to continue required rate increases within the DHHS, recognized savings from enhanced federal participation in the Medicaid program in fiscal year 2024 and provided over \$27 million for a projected reduction to the normal FMAP rate in fiscal year 2025. Additionally, the budget included a \$20 million reduction in each year for the Medicaid program. The Department anticipates some savings as the pandemic related maintenance of effort ends and enrollment declines. The budget provided nearly \$8 million for continued salary supplements to individuals who provide childcare or are early childhood educators.

On July 6, 2023, the Legislature passed a "Part II" budget for fiscal years 2024 and 2025, enacted as Public Law 2023, Chapter 412. It was signed by the Governor on July 11, 2023, with an effective date of October 25, 2023. Chapter 412 included almost \$20 million for rate increases related to Medicaid services, including funds for hospital rates and nursing facility rebasing, \$10.5 million one-time funding for the General Assistance program and nearly \$12 million to reflect the number of children in the foster care system. The budget also included several initiatives focused on strengthening care for older Mainers, including continued support for home-delivered meals, increased funding for programs that reduce abuse, neglect and exploitation, and the elimination of the asset test for eligibility in the elderly low-cost drug program and Medicare savings program, as well as an updated income eligibility for qualified Medicare beneficiaries. The budget updated funding to reflect the elimination of the service provider tax on health care services. Significant investments were made in the childcare area including increasing the availability of head start services, doubling the month wage supplement for all childcare workers, and increasing eligibility for childcare subsidies from 85% to 125% of the State's median income.

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. MaineDOT released a \$3.17 billion work plan for all MaineDOT work activities for calendar years 2022 through 2024. The work plan consists of \$2.2 billion in capital work over three years with \$1.8 billion for highway and bridge projects and \$424 million for multi-modal projects.

In fiscal year 2023, the State continued to experience a persistent and growing gap between projected Highway Fund revenues and the funds needed to adequately support Maine's transportation infrastructure. Allocations to MaineDOT in recent budgets reflect this challenge.

The fiscal year 2024-2025 Highway Fund biennial budget was enacted by the Legislature on June 15, 2023, and was signed by the Governor on June 16, 2023, as Public Law 2023, Chapter 189. To resolve the noted gap, the law included ongoing structural adjustments to the revenue stream supporting the Highway Fund. These ongoing adjustments totaled about \$148.0 million in fiscal year 2024 and \$150.2 million in fiscal year 2025, and were composed of a transfer of liquor revenues of \$53 million per year; a transfer of automobile sales tax in fiscal year 2024 of \$101.8 million and in fiscal year 2025 of \$104.1 million; and, an increase in the fuel tax revenue dedicated to the TransCap Trust Fund from 7.5 percent to 10.25 percent, resulting in a reduction of Highway Fund revenue in fiscal year 2024 of \$6.8 million and in fiscal year 2025 of \$6.9 million.

Beginning with fiscal year 2021, 20% of the excess General Fund remaining after certain other priority transfers is transferred to MaineDOT for the Highway and Bridge Capital program. Additionally, Public Law 2023, Chapter 412 stipulated that 80% of General Fund revenue that exceeds the appropriation limitation, when the stabilization fund is at the statutory limit of 18% of General Fund revenues, should be transferred to support the Highway and Bridge Capital program. MaineDOT received about \$18 million from the “cascade” at the end of fiscal year 2023.

Property Tax Relief

Public Law 2021 Chapter 398 raised municipal revenue sharing to 4.5% in fiscal year 2022 and then fully restored revenue sharing to its statutorily required 5% level in fiscal year 2023. Revenue sharing has increased every year since the Governor took office, improving from 2 percent to 3 percent in fiscal year 2020, to 3.75 percent in fiscal year 2021, to 4.5 percent in fiscal year 2022, and now to the full 5 percent in fiscal year 2023. In fiscal year 2023, revenue sharing distributions totaled \$263.4 million. For comparison, revenue sharing at 2 percent would have delivered only \$103.4 million to municipalities, a difference of more than \$158 million. Chapter 398 also maintained the reimbursement to municipalities for the Homestead Property Tax Exemption at 70% in fiscal year 2022 and increases the reimbursement by 3% each year thereafter until it reaches 100%. Public Law 2023, Chapter 412 caps the Homestead Property Tax reimbursement to municipalities at 76% effective in fiscal year 2025.

The biennial budget and the 2022-2023 supplemental budget also included provisions that increased the amount of the Property Tax Fairness Credit and expanded eligibility for the credit. For tax years beginning on or after January 1, 2022, resident individuals whose benefit base exceeds 4% of their income can receive a credit up to \$1,000 if under 65 years of age, or \$1,500 if 65 years of age or older. The Property Tax Fairness Credit was further expanded in Public Law 2023, Chapter 412 increasing the maximum credit for individuals 65 years or older and indexing the credit for inflation.

The increases in revenue sharing rates, Homestead reimbursement and Property Tax Fairness credit, 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

Forward looking planning and policy for Maine's future remain among the Governor's top priorities. The Governor's recommended budgets consistently allocate funding for Maine's long-term planning and coordination efforts across State government. Additionally, the Governor's Maine Jobs & Recovery Plan, approved by the Legislature and supported by the Governor's Office of Policy Innovation and the Future (GOPIF) and the Department of

Administration and Financial Services, 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 already working to address known, systemic challenges that have constrained Maine's ability to thrive, with priority focus on expanding Maine's workforce. After more than one year of implementation, Maine is among the leading States in the country in successfully deploying these funds to benefit economic recovery, workforce challenges, and infrastructure projects.

The GOPIF, in partnership with the Governor's Energy Office, plays a critical role in efforts to identify Maine's long-term challenges, develop goals and strategies, and then helps coordinate the ongoing work between State agencies to achieve them. Areas of focus include climate change and energy issues, children's policy, housing, and economic issues like federal funds management and workforce development. 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 released a four-year Climate Action Plan entitled Maine Won't Wait. The plans strategies are already underway and supporting Maine's legal requirement to decrease greenhouse gas emissions by 45% by 2030 and 80% by 2050 and achieve carbon neutrality by 2045. The climate plan was recognized in 2022 by the American Planning Association as the among the best State planning efforts in the country. Since its release, significant and sustained investments, capitalized by State funds and new federal programs, are already underway to implement strategies of the State's Climate Action Plan. Targeted programs and efforts have been made to reduce emissions and improve efficiency in buildings including the most successful heat pump deployment program in the country; efforts to reduce emissions in transportation sector through EV charging infrastructure and vehicle incentives and new public transportation programs; and through continued clean energy development and deployment which is proceeding at a record pace. In addition, a new State program, the Community Resilience Partnership, has been launched to support regional, municipal and tribal efforts to reduce emissions, understand community vulnerabilities, and plan for adaptation to climate impacts. Already more than 100 Maine communities are engaged in the program and doing the essential work to plan for and act in response to climate changes.
- Governor's Bipartisan Infrastructure Law Coordinating Committee: Governor Mills signed an executive order on April 25, 2022, to mobilize a cross-agency effort to coordinate federal Bipartisan Infrastructure Law (BIL) funds and opportunities among State agencies, municipalities, tribal governments and other entities. Staff from the Governor's Office and the GOPIF coordinate this work as State agencies pursue opportunities through an Infrastructure Implementation Committee and a Resilience Working Group. While many of the 375 programs outlined in the BIL legislation are continuing to take their final form at the federal level, it is estimated that Maine will receive close to \$2.5 billion in formula funding alone and will have opportunities to compete for extensive additional grants. The Mills Administration is committed to ensuring Maine people and communities receive the greatest possible benefit from the initiatives included in the Bipartisan Infrastructure Law. Members of the Committee include leadership and staff from the Departments of Transportation, Environmental Protection, Economic and Community Development, Health and Human Services, Administrative and Financial Services as well as the Maine Connectivity Authority and the Governor's Energy Office. The Resilience Working Group also includes State natural resource agencies and Maine Emergency Management Agency. GOPIF has engaged additional support to ensure communities and State agencies are aware of upcoming competitive funds and staff are providing targeted grant-writing support for high priority projects.
- Cabinet on Aging: Governor Mills created the Cabinet on Aging in 2022 by executive order. The new Governor's Cabinet comes at a time when Maine's median age makes it the oldest State in the nation, with tens of thousands of people expected to retire in the coming years, removing them from the State's workforce and increasing demand for aging-related services. The Cabinet on Aging will help Maine prepare for and address

these demographic changes by advancing policies that will support Maine people in aging safely, affordably, and in ways and settings that best serve their needs. The Cabinet is bringing together State government agencies to coordinate and advance work on issues such as affordable housing and long-term services and supports; community engagement and planning; financial security and protection against fraud; access to information, broadband, and services; and engagement and employment in Maine's growing economy.

- 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.
- Housing Policy: With a new senior level policy leader, GOPIF is supporting the urgent need to increase the supply of housing across the State for multiple household income levels through policy, coordination, and new funding programs, including MJRP funds. With key partnerships with Maine Housing, a new DECD Housing Opportunity Program, other State government municipal planning efforts, and with State lawmakers, unprecedented State and federal funds are being allocated to address short and long-term housing needs and additional resources and policies will continue to be pursued.
- 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. Governor Mills 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. With significant new funding from the MJRP, State funds, and other ARPA response funds, significant additional resources have been allocated to stabilize the childcare system staff and providers, to support the expansion of childcare infrastructure and Pre-K programs, and additional funds have been invested in career exploration programs for Maine youth.
- Office of New Americans: On Aug. 3, 2023, Governor Janet Mills signed an Executive Order directing her Administration to develop a plan to establish an Office of New Americans in Maine State government. The Executive Order directs GOPIF to work with stakeholders – including other State agencies, municipalities, schools and colleges, employers, community-based organizations, and the immigrant, refugee, and asylum-seeking communities – to create a plan for the establishment of the new office to be delivered to the Governor by January 19, 2024. With unemployment at record lows, and economic growth among the best in the nation, Maine faces a shortage of workers across regions, professions, and skill levels, especially in critical sectors such as health care, education, and construction. New Mainers are important to addressing this shortage of workers, and attracting new workers is a priority for Maine's economic future, with the State's 10-year Economic

Strategy setting a target of attracting 75,000 new workers by 2029. Therefore, the plan will outline the mission and structure of the office, the timing of its establishment, and the scope of its work, with the overarching goal of ensuring that Maine is effectively incorporating immigrants into its workforce and communities to strengthen the economy over the long-term.

- Housing First Program: Creates a Housing First Program, a proven and effective approach to addressing the needs of people experiencing chronic homelessness, many of whom are struggling for stability while suffering from acute mental health and/or substance use disorders.
- Free Community College: \$15 million was appropriated to continue providing up to two years of free community college education for all students from the high school graduating classes of 2024 and 2025 who enroll in a Maine community college.
- Delivery of Legal Services: Provides \$2.6 million in ongoing funding to create six trial court judgeships to address the backlog of cases, along with nearly 40 new positions including deputy marshals and clerks to help facilitate court operations. The budget also provides \$4 million in one-time funding to be distributed through the Civil Legal Defense Fund, which supports civil legal services in 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, 2022. This is the sixteenth 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.

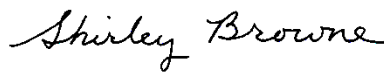
State government continues to have many accomplishments of which it can be proud. Consistent with the vision of Governor Mills to improve and enhance the fiscal administration of governmental operations, the Office of the State Controller continues to improve and refine its skills to meet the challenges 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, 2023

EXECUTIVE

Janet T. Mills, *Governor*

LEGISLATIVE

Troy D. Jackson, *President of the Senate*

Rachel Talbot Ross, *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, 2023

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
Achievement
for Excellence
in Financial
Reporting

Presented to

State of Maine

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO