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Rethinking Maine government: The past, the present, and the future

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The budget difficulties faced by Maine and by most other states have prompted a national search for better ways to deliver government services. In Maine, a conference entitled "Rethinking Maine Government" was held at the University of Maine on January 5-6, 1993 under the auspices of the Margaret Chase Smith Center for Public Policy. MPR has selected three of the presentations at that conference for this issue (and likely will include other selections in future issues). Anthony Cahill challenged the 400 legislators, state government officials and business leaders attending the conference to think in terms of a "revolution" in rethinking Maine's state government. Donald Nicoll was the co-chair, along with Merton Henry, of the Special Commission on Governmental Restructuring. Kenneth Palmer provided a historical view on previous efforts to reorganize Maine government.

Challenges facing Maine's budget process

by Donald Nicoll, Co-chair Special Commission on Governmental Restructuring

Rethinking state government includes rethinking how government makes decisions, implements and evaluates policy goals and objectives, establishes program priorities, and sets budget revenue and expenditure levels. The Special Commission on Governmental Restructuring concluded that moving the boxes of government will not make a significant difference in our budget problems unless major changes are made in the way public policy establishes goals and objectives, sets program priorities, and determines the level and distribution of public funds.

Traditional priority-setting

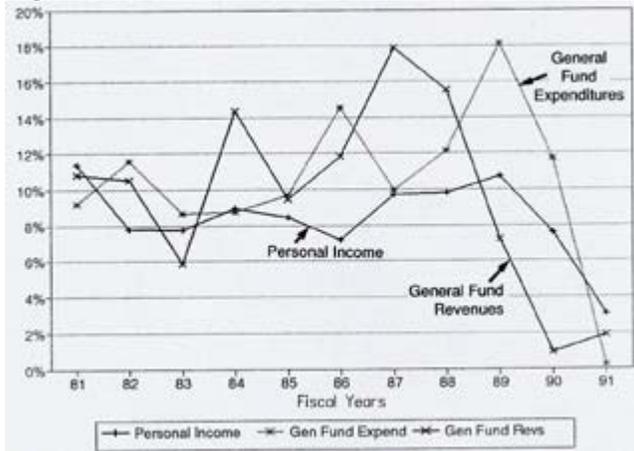
There are four essential problems with the way we have traditionally made decisions about Maine state government priorities and expressed them through revenues and expenditures. First, we have set our goals and objectives in terms of process and units of service, rather than outcomes or results. State departments are accountable for spending within appropriation lines and for carrying out a certain volume of work. The agencies do not have meaningful goals that would determine if they have made a difference in the lives of Maine citizens or the quality of the environment, or the state of Maine's economic and social health. Reasonable measures for executive branch performance are absent.

Second, the process of setting revenue and expenditure estimates is backward-looking. Biennial expenditure decisions are pegged to the last biennium's revenue performance, earlier commitments, and earlier personal income patterns. Increases in program commitments are tied to peaks in personal income growth.

Figure 1 shows revenues and expenditures for Maine's General Fund. Revenues peaked about two years before the height of the expenditure curve. This suggests that the executive and legislative branches were basing their commitments of funds and their estimates of revenues on

what occurred two years before. They were not responding to a forecast of where the economy was likely to be. This is reinforced by comparing the trends in gross personal income and the General Fund. General Fund revenues vary with personal income, but show wider fluctuations. The increase in General Fund revenues in 1987 and the crash in revenues in 1990 and 1991 illustrate these larger fluctuations.

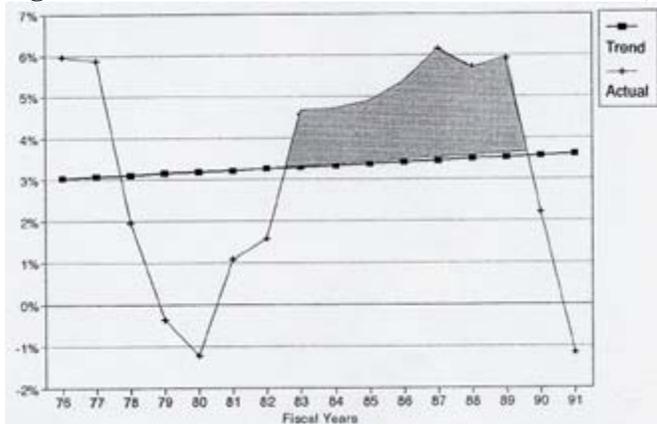
Figure 1: Growth in Personal Income and Gen Fund



Charles S. Colgan, "The Road to Fiscal Hell," paper prepared for Conference on The Fiscal Crisis in the Northeast, April 8, 1992, Federal Reserve Bank of Boston.

The second graph, Figure 2, shows the change in real personal income growth rates from 1976 to 1991. The growth rate of income dipped in the early 1980s, bounced back in the mid-1980s, reaching a peak about 1987-88, and then dropped off. The trend line in the middle of Figure 2 represents the long-term trend in personal income growth. The shaded area represents, in effect, the unusual growth in income in the mid- to late-1980s upon which appropriations were based and new programs were established, without apparent regard for the long-term economic trend.

Figure 2: Real Personal Income Growth Rates (Year to Year)



Charles S. Colgan, "The Road to Fiscal Hell," paper prepared for Conference on The Fiscal Crisis in the Northeast, April 8, 1992, Federal Reserve Bank of Boston.

Third, Maine has accepted the biennium as the real limit on its program and financial planning. Long-term implications of program commitments or expenditure levels have not been calculated. In some arenas, such as education and social welfare commitments, this has resulted in substantial continuing obligations, some of which were not really anticipated.

Fourth, and as a consequence of the first three problems, the spending pattern in Maine state government booms in good times, or actually just after the conclusion of those good times, and crashes in hard times, when the needs are at their peak.

Several budgeting problems exacerbate these patterns. An effective and consistent public capital budget is absent. Tax exemptions that benefit particular groups or constituencies are not identified as expenditures, even though those exemptions are, in effect, public resources applied to specific purposes. We do not keep track of special and dedicated revenue allocations or federal expenditures in any meaningful way. As a result, there is a significant gap in our ability to match public expenditure decisions with program priorities.

What are the general results of those problems? First, Maine's budgeting process, which really drives its priority setting, is retrospective. Revenue and expenditure policies are not managed mid-term or long-term. Tax and expenditure policies are reactive. We have what I call "yo-yo budgeting," played to a delayed beat. Second, as a consequence of flawed budget process and failure to set definable outcome goals and objectives, Maine state government wastes resources, undermines programs, disrupts lives, and increases the level of frustration in relations among branches of government, levels of government, contractors, and constituencies.

Suggestions for doing it differently

What can we do about it? Here are some suggestions gleaned from several sources:

- Change program planning in state government to reflect clear definitions and descriptions of priority issues that are to be addressed and include outcome-oriented goals and objectives. Make executive branch departments and agencies accountable for achieving those outcome-oriented goals and objectives.
- Involve substantive program legislative committees (e.g., the Education Committee on education issues) in the process of setting program, and thus budget priorities. These committees should work with the Appropriations and Finance and Taxation Committees. [Since this suggestion was made by the author, the legislature has to some degree adopted this recommendation.]
- Develop forward-looking, consistent levels of base funding for state programs that are tied to long-term economic trends. The states of Michigan and Indiana have expenditure control plans that are tied to long-term trends in personal income. Identifying the projected levels of spending and related revenue requirements, would, under the proposal, be based on the work of a consensus forecasting commission, as recommended by the restructuring commission, and similar to that set up by Governor McKernan.
- Create a reserve fund for periods of economic downturn by sequestering revenues collected in excess of projected expenditure requirements during periods of stable or increasing economic activity and revenue generation. That fund would have to be much

larger than the rainy day fund, with its 25 million dollar limit. It should be tied to economic growth, not *ad hoc* budgetary decisions. Give the legislature the opportunity to choose how those funds should be applied in times of economic difficulty, whether for infrastructure, tax cuts, or short-term emergency needs.

- Develop a capital plan with a variety of mechanisms to fund long-term investments, which should be identified through cost-benefit analysis as appropriate to state needs.
- Require the budget to include out-year estimates of expenditures that reflect the cumulative fiscal impact of bills passed by the current legislature. Initially, those estimates should at least reach through the next biennium. Require the budget to include expenditure estimates related to tax exemptions, and federal expenditures in the state. Those estimates should identify the beneficiary groups and the priority of those programs in relation to other state-funded programs. A continuing effort should be made to identify and correct unfunded liabilities as part of Maine's strategic planning and budgeting process.
- Finally, program reviews should be conducted regularly by substantive committees in the legislature. The criteria for evaluating programs should start with performance measures in relation to strategic goals and objectives and should include management performance.

These suggestions represent only a few potential changes that could pay dividends for Maine in the years ahead. The report of the Special Commission on Governmental Restructuring, the recommendations of which are summarized below, contains many others. These and other suggestions ought to be given further serious consideration by the Legislature.

Selected highlights of the Report of the Special Commission on Governmental Restructuring of 1991

The Special Commission on Governmental Restructuring began its work in May of 1991 under a mandate to create a plan "to maximize citizen participation in public policy making, to use public resources more effectively and to consolidate and restructure State Government in such a way that efficiency is assured and cost savings result." As the Commission addressed its mandate, it developed five standards by which to judge any restructuring proposal. Such recommendations should be aimed at: (1) increasing public participation in and access to public policy decisions; (2) increasing the public accountability of government officials; (3) improving the effectiveness of government programs; (4) improving the efficiency of government programs; and (5) reducing negative economic or social impact of government programs.

Among the recommendations of the Commission were:

- Building state government budgets from strategic plans that establish expected outcomes and measurable performance objectives and set existing and new program priorities.
- A strict limit on expenditures based on the long-term average growth rate in the real purchasing power of revenues.
- The clear identification in the budget of all expenditures for state programs, including federal funds, State General Fund expenditures for federally-funded programs, and tax exemptions.

- Depositing surplus funds collected into a reserve fund, to be appropriated in years of revenue shortfalls upon the Governor's recommendation and the Legislature's two-thirds vote. Funds would be surplus if they exceeded expenditure limits determined based on the long-term average growth rate in revenues.
- Making capital investments under a plan based on long-term cost/benefit analyses. The state budget document should be divided into an operating budget and a capital budget.
- The formation of a Consensus Forecasting Committee by the Governor and Legislature.
- That the policy committees of the legislature be more fully integrated into the appropriations process and that they assume responsibility for more detailed program reviews.
- That the State Auditor be nominated by the Governor and elected by a two-thirds majority of the legislature for a term of seven years. In addition to financial audits, the Auditor would conduct management performance audits and report to the Governor and Legislature.
- That all three branches begin implementing Total Quality Management by the end of 1992.
- Divestiture of state retail liquor sales to the private sector, and consideration of the following state service areas for private contracting: lottery operations; certain correctional and mental health facilities and services; certain laboratory facilities; buildings and grounds services; and certain bill processing, printing and publishing, and risk management operations.
- The creation by the Governor of a Facilities Consolidation Commission to oversee Bureau of Public Improvement's analysis of state facilities needs, rule on BPI recommendations for sale of state-owned properties, and report annually to the Governor and Legislature.
- That the departments and agencies providing education, health, social, and employment services, and those in natural resources, work with the State Planning Office to plan consolidation of state government regions and co-location of service offices.
- That the number of boards and commissions be reduced wherever possible to one such entity for each department.
- The combination of all advocacy services in a State Office of Advocacy, located as a separate agency within the Executive Department.
- The creation of the Interdepartmental Council as an office of the Executive Department, with a director representing the Governor, an independent budget and staff, and authority to foster collaboration, allocate resources, and settle disputes among health and social service agencies.
- The abolition of the Departments of Human Services and Mental Health and Mental Retardation, and the realignment of their functions into a Department of Children and Families and a Department of Health and Developmental Services.
- The abolition of the Division of Community Services and redistribution of its functions to other agencies.
- The consolidation of services for people who are homeless at the Maine State Housing Authority.
- The placement of some rehabilitation services in the Department of Health and Developmental Services and some in the Department of Labor.

- Study of whether juvenile correctional services should remain within the Department of Corrections or be moved to the Department of Children and Families.
- That the Legislature create a Public Education Strategic Planning Council, with membership from each of the four educational delivery systems, the Department of Education, and the State Board of Education. The council's primary responsibility would be to create a long-term strategic plan for Maine public education.
- That the University of Maine System Board and Maine Maritime Academy Board of Trustees, with advice from the Strategic Planning Council, examine options, including possible addition of the Academy to the campuses of UMS, to accomplish coordination, planning, and savings within and between the System and the Academy.
- That the BEP be abolished and that the Commissioner of DEP assume all of the Board's responsibilities, with the exception of appeals. A three-member appeals board should be established.
- Abolishing the existing DEP bureau structure and reorganizing it along the following functional lines: Licensing, Technical Services, and Enforcement.
- The merger of the Departments of Finance and Administration.
- The appointment of the State Treasurer by the Commissioner of the new Department of Finance and Administration. The Treasurer would serve at the Commissioner's pleasure.
- A reduction in the size of the Legislature to no more than 35 Senate seats and 123 House seats and no less than 33 Senate seats and 99 House seats. The objectives of such a reduction are to strengthen the continuity between Senate and House seats, and to enhance the capacity of House members to work more closely together.

Donald E. Nicoll of Portland is an independent consultant on program and policy planning. He served as chair of Gov. Kenneth M. Curtis' task force on government reorganization in the early 1970s and most recently, he co-chaired, with Merton Henry, the Special Commission on Governmental Restructuring (1991). He has had a long career in politics as a legislative aide and as the chairman of numerous state government commissions.

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