Maine Financial Report 2007 & 2009

Carter Lukes

West Virginia University Department of Public Administration

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Introduction

This is a financial analysis of Maine during the years of 2007 and 2009. The reason for choosing these years was to understand the impact that the 2008 economic recession had on the state. This analysis provides data compiled in the 2007 and 2009 Comprehensive Annual Financial Report (CAFR) as well as state budgets from the same years. This essay will provide information of the economic demographics, analysis of the changes in government spending through various funds and ratios, and recommendations for potential changes the state can make in order to improve financial operations.

Demographic Statistics

First looking at the economic demographics, we will look at four metrics provided in the CAFR; population, unemployment, per capita personal income, and United States per capita personal income. Starting off with population in 2007 it was 1,344,000 and increased to 1,350,000 in 2009. This increase is certainly positive, but an increase this small is also negligible on a state's income and expenditures. As we look at unemployment for this state it should be noted that due to the recession, many Americans had lost their job and there was a sharp increase in unemployment. In 2007 unemployment rate was 4.5% as compared to the United States 4.6%. There was a sharp increase to 8.6% in 2009 but this number was still below the national average of 9.2%. Being that Maine sticks close to the national average for unemployment, it can be surmised that this could be an area of growth for the state but not necessarily a weakness that should be immediately addressed.

Now looking at the per capita personal income of the state we can see the average income per person and see how it compares to the rest of the nation. Looking at the total income we can see if wealth is a factor in the state's total finances, with Maine's progressive tax rate, the state would gain more revenue if this number were to increase. The per capita personal income for the state of Maine, in 2007 it was at $32,917 and increased in 2009 to $35,361. Comparing this to the national average, the state is below in both 2007 and 2009 at $38,315 and $38,980 respectively. Seeing the per capita personal income for the state increase from 2007 to 2009 is important growth, especially after a national recession. Comparing this with the unemployment information provided above, it creates an interesting picture of the state. If a large portion of the state lost a significant, or the entirety, of their personal income, you would expect this number to drop drastically. A potential reason for this interesting data anomaly is, that Maine attempted to address their personal income before the recession and would have seen a larger increase, all things being equal. Even with the uncertainty of these two data points, the state is regularly below the national average for personal income and should address this fact in order to see long term financial success.

MD&A and CAFR Information

Through this section information out of the CAFR from each year will be presented to provide a wholistic overview of the state's financial status. Here the CAFRs from each year including the Management Discussion and Analysis (MD&A), and the various government funds will be compared. These individual funds utilized by the state are different holdings that are tied to specific income and expenditure. Government funds which primarily consist of the state's General Fund for operating costs, Federal Funds which consists of federal block grants or financial assistance, Highway Fund for motor vehicle taxes, and Other Special Revenue Fund for capital projects. The proprietary fund for Maine consists of the Unemployment Compensation Fund, and other revenues sources when the state provides a good to its citizens. Lastly the fiduciary fund is primarily the state Pension/Employee Benefits Fund and a Private Purpose

Trust which consists of various endowments for specific functions. This section will wrap up by providing a ratio analysis of the state's budget.

In the 2007 CAFR, it notes a few major changes that the state wished to highlight. They noted increases to fuel prices, inflation (2.6%), and in personal income from the previous year. Specifically, it was noted that person income is rising faster than inflation, showing that wealth is growing in the state. They also decided to impose massive reforms to their public education system, shrinking their total districts from 240 down to as much as 80. The last part that was noted in the early sections of the CAFR is the state's credit rating, showing how likely the state will be able to pay back its debts in full. The state takes credit ratings from three different organizations, Standards and Poor's, Moody's Investor Services and FitchRanking and shows a ten-year trend. During this stretch of time, Standard and Poor show a slight decrease in their overall credit rating from an AA+ from 1997 to 2003, down to an AA- in 2006 then a small increase in 2007 to an AA rating. Moody's Investor services shows a different picture as they gradually increase their rating from an Aa2 in 1998 to an Aa3 in 2007. Lastly with FitchRanking, we see an AA rating in 1997, a peak at AA+ in 2002 only to drop back down to an AA in 2007. While these ratings seem to fluctuate between years, the overall ratings are not seen as a concern. Each organization provide multiple high-end ratings, if the Standards and Poor's rating were ever to drop lower, it would be a notion of concern as we see a downward trend, yet the state avoids this issue.

Looking specifically now at the information provided in the MD&A, we see how money has flowed both in and out of various government funds and why. The state was able to create 61 million in revenue by issuing state bonds and paid 79.8 million in principal. Additionally, the state was able to jump 8.9 percent in net assets by generating 4.3 billion dollars. The total government fund balance increased by 59.5 million to 272.9 million dollars. These gains are also seen while the general fund is operating in the negatives at -156.3 million dollars. Looking now at the proprietary fund, this also saw large growth compared to the previous year, increasing 89.3 million to 706.1 million dollars. The MD&A notes a few specific funds that led to this overall growth: The Insurance Funds, Employment Security Fund, Alcoholic Beverages Fund, Workers Comp Fund and the creation of a Transportation Facilities Fund. Lastly looking at the fiduciary fund the state Pension has a total asset valuation of 14.1 billion dollars with net liabilities equaling 3.1 billion meaning, net assets at the end of this year total to 11 billion dollars. This net asset also includes the growth of investments, increasing from 9.5 billion dollars at the start of the year to the 11 billion dollars as see above. Similarly, with the Private Purpose Funds this saw 5.3 billion in total assets with only 3.2 million in liabilities to keep net assets at 5.3 billion dollars. The net increase for this private fund was 1.2 billion dollars, up from 4 billion at the start of the year. During 2007 the state was operating well financially, many of the funds were generating money, or working their way towards a positive integer. The state was far from running a deficit in these various funds.

In the 2009 CAFR, it states that while the recession had its negative affect, as seen primarily through employment, Maine also fared better compared to other north east states. Specifically, it mentioned the spike in unemployment but that it was still lower compared to the national average and other “New England States.” They mentioned fuel prices continued to increase and noted an increase in of personal income by 4% as stated earlier. Looking at other successes for the state in this time frame they were able to limit losses in net assets. The state was able to only lose .1%, as they saw an 86.6-million-dollar loss in “business activities” which was countered by roughly gaining another 86.2 million in “government activities.” These losses in “business activities,” is to be expected during a recession, as many citizens will be forced to cut spending in specific areas in order to prioritize various necessities. The state also issued 133.3 million dollars in bonds. The state was able to take advantage of the fact that investors were looking for a safer long term investment as a reaction to the recession. Looking now at credit ratings, over a two-year time span the rating in both the Standard and Poor’s and the Moody Investor Services stayed the same. It should be noted that FitchRankings did not provide a credit rating and it was not specified on why. Seeing the credit ratings for this state, its ability to maintain high rankings as a lender is important especially during a time of uncertainty with other forms of investment.

In the 2009 MD&A, the impacts that the recession had on many of the state’s funds can be noted. To being, the governmental fund was able to gain 14 million dollars this year to increase to 202-million-dollars. The general fund however still operates in the negative in 2009 ending at -237.4-million-dollars. The proprietary fund saw a 31.1-million-dollar loss down to 594.4-million-dollars. The bulk of this loss came from the Employment Security Fund which saw a 109.8-million-dollar loss. The severity of this loss was lessened through the other funds that primarily saw gains during this year. Lastly, looking at the fiduciary fund Pension Trust which starts with a decrease in net assets as compared to 2007 now at 8.4 billion dollars. This is seen through total assets of 9.2 billion with total liabilities 826.7 million. During this year there was a 2.1 billion dollar decrease in the value of their investments. The start of the year saw this fund at 10.6 billion dollars and with this depreciation the end of year balance is $8.4 billion dollars. The Private Purpose Trust operated with 4.2 billion dollars in total assets and their total liabilities equaling 2.8 million dollars. This trust also saw a significant loss in the value of their investments, losing 1.1 billion dollars. This trust started the year at 5.3 billion dollars and ended at 4.2 billion dollars. The state denoted major losses in their proprietary and fiduciary funds while also maintaining the negative balance in their general fund.

Budget and Ratio Analysis

As seen through the information provided in the CAFR the state lost a large amount of money in the various funds post-recession. To gain additional insight on the state's financial each budget from 2007 and 2009 is analyzed along with various ratios to gauge financial success. The ratios used during this section are, a total debt to total cash and securities, short term debt to cash and securities, income to expenditure and a tax to Gross Domestic Product (GDP) ratio. The total debt to total cash and securities, is used to show the states abilities to pay off all of their debt both short term and long term. Short term debt to cash is used to see how easily the state can pay their debts as they become due. The income and expenditures ratio is utilized to see how much of their total income they are using. Lastly tax to GDP ratio is another indicator of economic success, since taxable revenue will increase as GDP increases. Below are the ratios listed.

Ratios	2007	2009
Total Debt to Cash	36%	48%
Short Term Debt to Cash	0.06%	0.16%
Income/Expenditures	1.13	0.79
Tax to GDP	12%	12%

Starting with total debt to cash and securities, in 2007 we see 7.9 billion dollars in outstanding debt with 22.1 billion dollars in cash and securities. The budget does not specify the time frame in which this debt will be paid off, but the state has more than enough ability to pay these debts in full if needed. We see this ratio increase in 2009 as debt stays the same at 7.9 billion but a large drop in available cash and securities from the 22.1 billion now to 16.4 billion dollars. As seen in the CAFRs the state experienced large losses which would account for the loss in cash and securities. Looking now at short term debt we see another small increase between our years. Short term debt in 2007 was 12.5 million dollars, then we see this increase in 2009 to 27 million dollars. This relatively small increase was most likely not caused by the recession as short-term debt would most likely not be increased this quickly. What we do see through these ratios is, the state has ample ability to pay off any debt as it comes due. Next, we look at our income versus expenditures ratio. Starting off in 2007 we see a positive relationship between income and expenditures. Total income is 12.2 billion and the state is only spending 10.8 billion dollars. During this financial year the state was able to operate with a positive budget and not overspend their allotment. However, in 2009 the state did not share the same responsibility and had their expenditures outweigh their income. Income was equal to 9.4 billion dollars while expenditures jumped to 11.9 billion dollars. The largest increase to spending came from "Direct Expenditures" only specified as general or other expenditures. To wrap up our ratio analysis the tax to GDP ratio will be used to understand the state's economic status. GDP data was gathered from the Bureau of Economic Advancement. This ratio gave us a 12% difference between these two points over both years. In 2007 we see a tax revenue at 5.7 billion dollars and GDP at 49.1 billion dollars and in 2009 we see tax revenue at 5.8 billion and GDP to 50 billion dollars. This ratio is found to be the most surprising, in a year where unemployment spiked, and money was lost through various investments, the state was able to maintain GDP. While it should be noted that 12% is not a great percentage for a tax to GDP ratio it is still impressive to see this is maintained through a recession.

From the ratios provided Maine has ample ability to pay off their debt as it comes due throughout the years. The only concern noted is during 2009 where the expenditures were higher than their state income. Ideally, this trend will not continue, especially if the state hopes to maintain its ability to pay off its debt. Lastly, looking at the state's tax to GDP ratio, generally economic success for countries is found at 15%, so for the case of Maine they are below the mark. As noted previously, it is still impressive to see the same ratio maintained even after a recession. It can be deduced that during this selected time period, the state operates relatively well financially, they maintain a positive budget while also maintaining the ability to pay off their debts as they are due.

Recommendations

Seeing as the state operates relatively well financially, there are a few changes that can be made for the state to continually succeed. These recommendations are created based off the information provided in the CAFRs and the ratio analysis above. The possible changes that can be made are, to increase the per capita personal income, continuing to grow cash and securities, and address unemployment. Each recommendation made is discussed here and how it can have a positive imact on the state.

Throughout the CAFRs we see the state regularly had a lower-than-average per capita personal income. It is stated in the CAFR this statistic is being addressed, and the increase from 2007 to 2009 shows that their efforts have been fruitful. From what we have seen with the unemployment rates being better than average, and the low per capita personal income, a possible issue that Maine could be facing is an issue of under employment. This meaning that many of the people are employed but are not making as much as they could be. By addressing per capita personal income, either by bringing in higher paying jobs for citizens or finding additional ways for people to gain more income, the state would see their unemployment decrease while also increase per capita personal income. The state seems to have addressed this partially but will need to continue to see this change have a positive effect.

The second area of growth for the state would be to continue to grow their cash and securities. After looking through the budget it would seem the state managed the affects of the recession by having a high dollar amount in cash and securities. As mentioned earlier in 2007 they have 22.1billion in total cash and securities and 14.3 billion of that is insurance trust funds. In 2009 we see total cash drop to 16.4 billion and the large portion of that loss is seen in insurance trust funds dropping to 8.4-billion-dollars. The fact that the state had this amount of money saved in trusts, allowed the state to still maintain some of their total cash securities for insurance and employment benefits. The state will have to work to recover the 6-billion-dollar loss, and work to continue to grow this amount to cushion further losses due to unforeseen disasters.

Unemployment was mentioned earlier as it relates to per capita personal income, but this is an issue that also can be addressed alone. It is not a major issue for the state as they were at or better than average, but it should be noted that the state can still work to address this. Addressing this issue can be accomplished in various way but the goal should be to attract more businesses to the area or provide more vocational support. As the state works to address this, they will lower their unemployment percentage below the average and strive to keep it there. With this will come more taxable income which can be allocated to various budgetary items as needed. It should be reiterated that this is not the first area to address for the state but one that should be addressed regularly to gain financial success.

Conclusion

Throughout this paper we have seen and gauged the financial success of Maine immediately before and after the 2008 recession. At this point, the state was operating relatively well financially by maintaining positive cash flow through their various funds, keeping a positive state budget, and also saving enough money to cushion losses during a crisis. The state still has areas of growth that it can address to improve economically which will assist with financial success. Overall, through this period of time the state was operating efficiently, and pulled through a difficult recession.

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