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Public Pensions and Debt in the State of Maine

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Introduction

In January 2013, the state of Illinois faced unfunded Public Employee Retirement System (PERS) liabilities approaching $100 billion, due primarily to inadequate funding and inappropriately optimistic projections for returns on invested pension-system assets (Garcia & Long, 2013). Illinois' PERS debt has been explicitly cited as a problem by the three largest domestic credit rating agencies: Fitch, Standard & Poor's and Moody's. The latter firm rates Illinois' credit as the worst among all 50 U.S. states, while Fitch and S&P rank Illinois 49th, ahead of only California (Standard & Poor's, 2012).

Illinois' PERS debt and subsequent budget problems underscore the importance of prudent and conservative pension-system management. A downgrade in a U.S. state's perceived 'credit-worthiness' has practical fiscal ramifications as investors demand higher returns, i.e. increased interest rates, to compensate for the heightened risk that the bond-issuer may default (Koven & Strother, 2006). To reduce Illinois' unfunded pension liabilities and thus stabilize long-term finances and restore the market's faith, the State has already "closed prisons and juvenile detention centers … reduced inspections by the state Department of Agriculture … [and] cuts have been made in state aid to colleges and universities, student scholarships and pre-kindergartens[s]" (Economist, 2013).

The sustainability of U.S. state debt became an even more urgent question during the Great Recession, which began in late 2007 and ended, in the U.S., during the summer of 2009 (Federal Reserve Bank of St. Louis). Many states found themselves on unsure fiscal footing due to decreasing economic activity, low employment levels and shrinking private investments, even as pension system's unfunded actuarial liabilities (UALs) mounted and revenue projections proved to be overly optimistic. By 2011, U.S. states collectively faced unfunded pension-system liabilities estimated to be between $1 trillion and $2.5 trillion (Novy-Marx & Rauh, 2011).

This report, “Public Pensions and Debt in the State of Maine,” examines Maine's state debt with a particular emphasis on pension-system funding. The conclusion is that Maine has taken important steps in recent years to reduce indebtedness and adequately fund their Public Employee Pension System (MainePERS), and is well-positioned relative to other U.S. states. The challenge for the State is to continue financing MainePERS and existing UALs with the same commitment, diligence and prudence. The report considers, in turn:

1) Maine's recent debt trends and current debt levels, with comparisons to U.S. state medians
2) Maine's debt capacity
3) MainePERS funding and Unfunded Actuarial Liabilities (UALs)
4) The market's view of Maine's debt position (as evidenced in credit-rating reports from 1992-2010)

Maine's recent debt trends and current debt levels

Before examining Maine’s pension-system liabilities and credit-worthiness in private markets, we will first consider Maine's current debt levels and recent debt trends. In addition to raw dollar amounts, we must determine the *form* of Maine's outstanding debts, and the form of debt currently being issued (e.g. general obligation bonds, UALs, and moral obligation debt).

According to the Office of the State Treasurer, Maine ended Fiscal Year 2012 outstanding general obligation (GO) bond principal of roughly $472 million, with an additional $1.4 billion in general resolution bonds (Maine Municipal Bond Bank, 2012). General *obligation* bonds are backed by Maine's full powers of revenue collection, while general *resolution* bonds are tax-free bonds sold through the Maine Municipal Bond Bank on behalf of separate entities (cities, agencies, school districts, etc.) and backed by their own revenues or funds. The bank is "not obligated to pay the principal or interest [of issued bonds] and neither the faith and credit nor the taxing power of the State is pledged to the payment ... on the Bonds." It is, rather, an entity designed to provide low-interest capital to smaller "governmental units" which might otherwise be unable to issue a bond sale with sustainable interest rates.

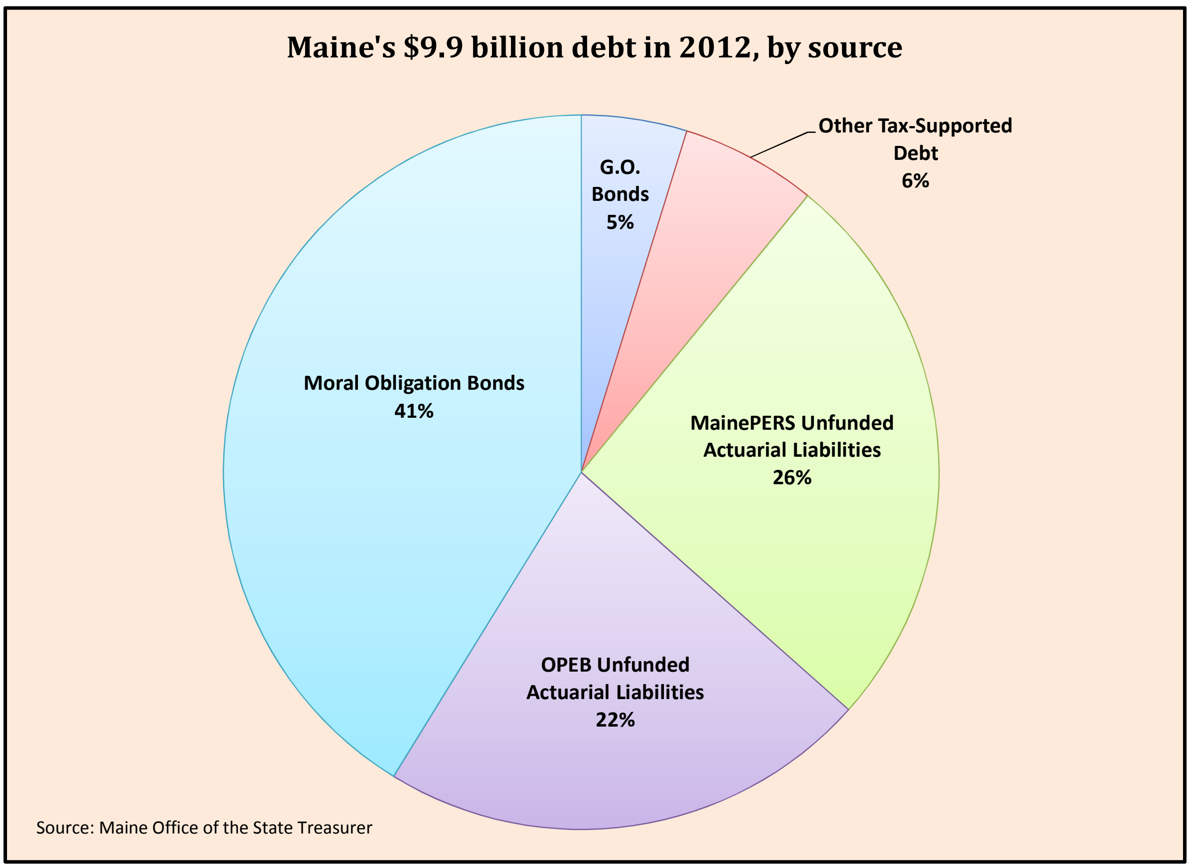

FIGURE 1: (INFORME, 2012)

Maine's Net Tax-Supported Debt

Maine's net tax-supported debt is lower than the mean and median for U.S. states in a variety of significant measures – Maine has lower net debt per capita (Maine $760; state mean $1,297; state median $936), lower net debt as a percentage of personal income (Maine 2.2%; state median 2.5%), and lower net debt as a percentage of gross state domestic product (Maine 2.02%; state mean 2.78%; state median 2.22%). A pattern of relatively modest net tax-supported debt emerges when Maine is compared to U.S. state medians, typically more reliable benchmarks than means.

COMPARING MAINE'S TAX-SUPPORTED DEBT RATIOS TO U.S. STATE MEDIANS (2010)

Category	Maine	U.S. State Median	Maine as % of State Median	Maine's Rank among U.S. States
Net Tax-Supported Debt Per Capita	$760	$936	81.2%	33rd
Net Tax-Supported Debt as % of Personal Income	2.20%	2.50%	88.0%	32nd
Net Tax-Supported Debt as % of Gross State Domestic Product	2.02%	2.22%	91.0%	29th

TABLE 1: (HAMPTON, 2011)

Total net state tax-supported debt increased 10.3% from 2009 to 2010 alone, as states faced fiscal pressure from the recession, in a low interest rate environment, with "unprecedented incentives for municipal debt issuers" due to 2009's 'Build America Bond' and 'Qualified School Construction Bonds'. Maine has not been as swept away as other states, however, and net debt is lower than the U.S. state median in each example. Such fiscal moderation mitigates the state's overall debt burden and ensures a stable or positive credit rating outlook.

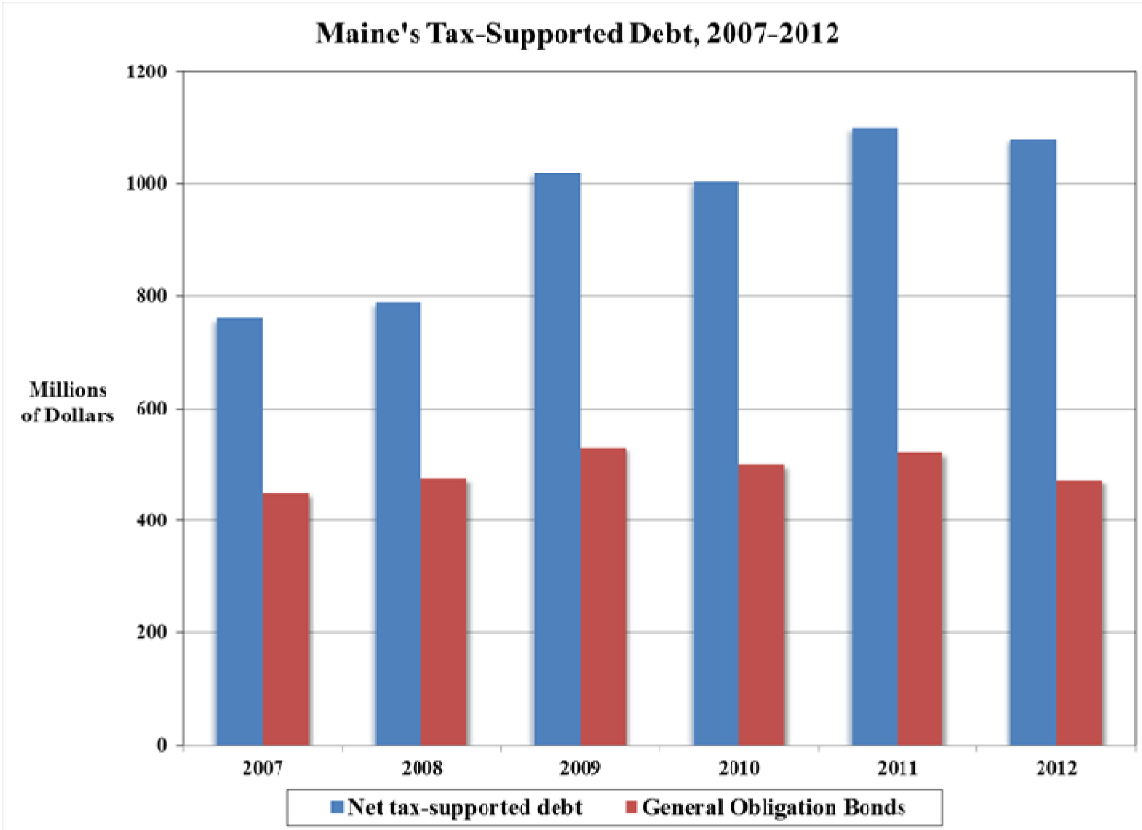

FIGURE 2: (INFORME, 2012)

Maine's Debt Capacity

But how much debt can Maine responsibly incur given its economic indicators (e.g. population, age, education, and infrastructure)? And by what process does Maine determine its debt capacity, and is current and future debt capacity meaningfully influencing state policies, investments, and the issuance of new debt?

In fact, Maine does not have a constitutional or statutory limit to the amount of debt it may issue. The only constitutional safeguard against unsustainable accumulation of debt is that any debt-issue in excess of $2 million must either be retired with tax revenues the year it is issued, or approved by "two-thirds of both Houses ... [and] ratified by a majority of the electors voting thereon at a general or special election." The bond's purpose and full cost must be explicitly described to the voters, and a bond must be issued within five years of voter ratification (unless a majority of the legislature votes to extend the period for another five years) (Me. Const. art. IX).

Rather than a legal limit for the issuance of debt, Maine relies upon the judgment of the Legislature and the Governor, and the ratification of voters, but it *is* constitutionally bound to pay the $2.5 billion in UALs which have accrued in the MainePERS system (Maine Public Employees Retirement System, 2012). It is also statutorily bound to pay another $2.2 billion in UALs for the health care of state employees and teachers, a system known as Other Post-Employment Benefits (OPEBs) (Hall & Poulson, 2011).

Maine cannot abrogate the need to pay off UALs in the MainePERS and OPEB systems, due to constitutional and statutory requirements, but all state debt is not equal. At the conclusion of FY 2012, Maine owed $472 million in outstanding General Obligation (GO) bonds, supported directly by the state's "faith, credit and powers of taxation," i.e. general revenues. Maine owes another $608 million, however, for bonds which are financed either through State agency budgets, state property lease agreements, federal transportation funds, or in some cases "future State revenues" for bonds issued through independent authorities such as the Finance Authority of Maine. Another $4.1 billion is owed for “Moral Obligation Bonds,” issued and repaid by state agencies (e.g. Maine Educational Loan Authority) without any “legally enforceable” claim to repayment (InforME, 2012).

Though Maine has no legal debt ceiling, the State’s debt capacity can be roughly gauged by comparing the State’s total debt service with total expenditures:

- Maine’s estimated total debt service (GO and Highway Fund) for 2012 = $117.2 million (InforME, 2013)
- Maine’s estimated total General Fund revenues for 2012 = $3.02 billion (The National Association of State Budget Officers, 2012)

Total debt service is therefore expected to account for 3.9 percent of Maine’s total General Fund revenues for 2012. That is the third-highest ratio since FY 1998, though it’s slightly lower than in 2010 (4.1 percent) and 2011 (4.0 percent). The 3.9 percent spent on debt service also compares favorably to the U.S. state mean and median, one metric which suggests Maine has sustainable debt relative to other U.S. states.

MainePERS funding and liabilities

At least four U.S. state Governors have dubbed unfunded pension liabilities the ‘ticking time bomb’ of state finances. How is Maine's pension system organized? How is it funded? What percentage of the pension system is 'funded', and how does that ratio compare to the U.S. state median, or a selection of comparable U.S. states?

On the whole, Maine’s ratio of pension system assets to disbursements has improved dramatically in the past 25 years—from 1982-2007, the ratio skyrocketed from 3.7 to 18.4. These gains were made possible by conscious and sustained efforts to contribute more to the state’s pension system, as well as substantial returns on the system’s investments. Maine has been slower to catch up with the U.S. state mean and median, but in 2004 both figures finally equalized (at 100% and 101%, respectively).

Figure 3 (below) shows MainePERS funding levels from 2003-2012, adjusted for actuarial liabilities. The funding ratio fell 9.3 percent between 2008 and 2010, due to poor investment returns, but a rebound in the market and an adjustment in expected system liabilities led to an 80.2 percent funding level in 2011. The 80-percent funding level is considered 'sustainable' by most experts and which is on par with comparable U.S. states (though the American Academy of Actuaries issued a brief in 2012 which described the 80 percent funding level as the “standard myth”) (Pew Center on the States, 2012). The program's funding levels were also improved by reforms introduced in 2010, which froze pensioner cost-of-living increases and increased the retirement age from 62 to 65 for current employees with fewer than five years of experience (Maine Public Employees Retirement System, 2012).

There are more reasons for optimism. From 1996 to 2005, the MainePERS funding ratio leapt from 57% to 76%, and went as high as 80% in 2007 and 2008. By 2010 the ratio had dropped to 70% due to the recession, but the broader trend is apparent—deliberate contributions to the state pension fund have increased cash and asset holdings, increased returns on investments, and as a result increased the overall funding ratio.

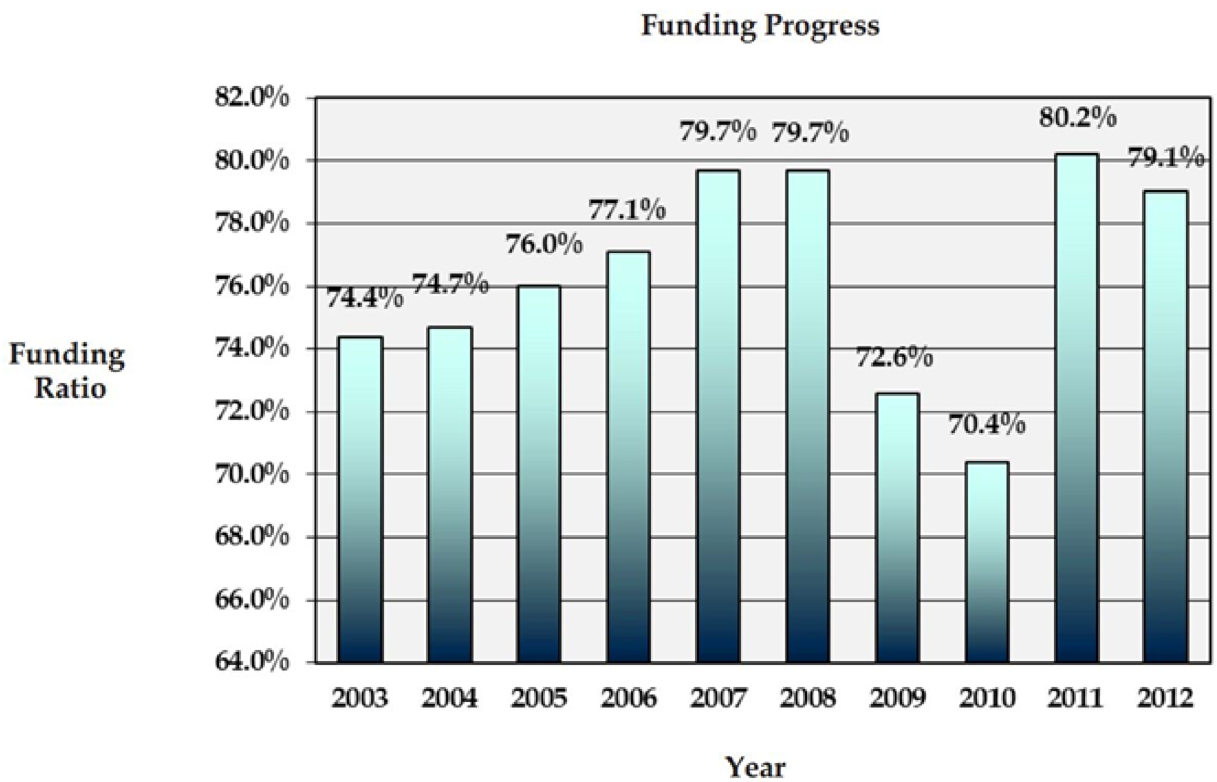

Figure 3: (Maine Public Employees Retirement System, 2012)

MainePERS investment returns are "smoothed" by accounting for the system's assets on an actuarial basis, spread over three years' time, thus reducing the volatility of the market in any given year (Cheiron, 2012). MainePERS funding ratios have stabilized due to increased contributions, actuarial “smoothing,” and the U.S. economy’s rebound in 2011-2012, but agency leaders and policy-makers should not discount the lessons of the recent downturn. The system's UALs in 2010, though temporary, were enough for the ratings agencies Moody’s and Fitch to issue negative outlooks regarding Maine's credit-worthiness (see below).

MainePERS still faces approximately $3.9 billion in UALs, and must continue on a deliberate and well-reasoned path to prosperity. The gains of the past two decades are evident in three common fiscal ratios that give a broader perspective on Maine's pension funding, relative to the U.S. average—ratio of receipts to disbursements, ratio of earnings to disbursement, and ratio of system assets to disbursements.

Ratio of pension system receipts to disbursements

The ratio of receipts to disbursements for Maine’s public employee retirement system improved significantly from the mid-1990s through the mid-2000s. Maine’s ratio, as a percentage of the mean ratio of all U.S. states, was as low as 60% in 1992. However, this ratio improved to 77% in 1994 and 76% in 1996, before jumping to 120% in 1997.

Maine’s relative position continues to fluctuate – the ratio fell from 92% in 2007 to just 59% during the economic downturn in 2008, but the data from 2008 is incomplete. In any case this is likely a cyclical trend, as recessions appear to have a dramatic impact on the ratio, which also plummeted to 66% in 2000. Overall, Maine’s ratio of receipts to disbursements has improved dramatically from historical performance. The next ratio to be considered, ratio of earnings to disbursements, suggests one reason for this improvement.

Ratio of pension system earnings to disbursements

In 1997, Maine's ratio of earnings to disbursements exceeded the national average at 122%. This is noteworthy, since Maine had performed dismally in the same comparison for the previous 15 years. For 1982, 1989, 1992, 1994, and 1996, Maine's ratio as a percentage of the mean of all U.S. states hovered between 35% and 58%.

The increase from 53% in 1996 to 122% in 1997 is attributable partially to a robust 'boom' period for investors. Fortunately, Maine had aggressively increased contributions to the state employees' pension system in the decade prior, in an effort to reduce unfunded liabilities. This ratio also suggests sensitivity to economic recessions, relative to the mean for U.S. states, dropping from 122% in 1997 to 54% in 2000. In 2004 the percentage had recovered to 100%, though it dipped to 89% in 2007 and remained below the mean and median of states in 2008.

Ratio of pension system assets to disbursements

As noted earlier, Maine's ratio of pension system assets to disbursements improved dramatically from 1982-2007, as the ratio skyrocketed from 3.7 to 18.4. Though slower to catch up with the U.S. state mean and median, both figures finally equalized for Maine in 2004, at 100% and 101% respectively. This is a welcome divergence from Maine's historical underfunding of the pension system, and should serve as a catalyst for future investment in the system, and as proof of the efficacy of such contributions.

Conclusion

Unfunded liabilities for Maine's state employee pension program remain a serious concern. Appropriate and timely funding of the pension system will also protect Maine's excellent credit rating -- as early as 1988 the rating agency Standard & Poor's described pension liabilities as "critical ... while all areas of expenditure growth are important indicators, pension fund requirements are particularly noteworthy."

Maine has approximately $3.9 billion in cumulative unfunded pension liabilities, a gap which must be bridged with a fiscal strategy that combines increased contributions from the state, sustained funding during times of economic plenty, and realistic expectations for returns on investment as the U.S. economy recovers from the great recession.

The market's view of Maine's debt position

In February of 1992, Moody's credit rating agency downgraded Maine's credit rating from Aaa to Aa1, citing a "persistent economic downturn." In the 21 years since, Maine has yet to regain its Aaa standing, the best rating available in Moody's rating system. Worse still, Maine's finances have been buffeted in recent years by the loss of federal stimulus funding (particularly matching funds for Medicaid), the denial of federal Medicaid waivers, and unexpectedly poor returns on investment during the recession. As a result, Moody's saw fit to downgrade Maine's bond rating to Aa2 with a 'negative outlook' in May 2012 (Moody's Investor Services, 2013).

In January 2013, Fitch rating agency officially downgraded Maine's $472 million in GO bonds one notch (from 'AA' to 'AA+'). Fitch also downgraded $1.4 billion in General Resolution Bonds issued by the Maine Municipal Bond Bank (from A+ to AA-), and in the same month Moody's warned Maine of another potential downgrade (Fitch Ratings, 2013). In a written statement, Moody's spokesman David Jacobson cited Maine's Medicaid funding problems as being "symptomatic of the mid-year budget gaps the state has endured for the last few fiscal years." (Bouchard, 2013)

Ideally, credit-rating agencies provide objective information about U.S. state credit-worthiness, empowering private investors while reflecting a U.S. state's standing in bond markets. As the above examples show, Maine has room for improvement. By examining Moody's ratings from 1992-2010, patterns emerge which suggest ways Maine can strengthen its appeal to potential investors and existing bondholders. The following is an overview of strengths and weaknesses cited in Maine's credit reports from 1992-2010 (Moody's Investor Services, 2013).

- **1992 Strengths**
    - Manageable debt levels
    - Recurring and one-time fiscal actions. Deappropriations, furloughs, transfers, accelerated tax collections, and a two-day administrative shutdown
- **1992 Weaknesses**
    - Persistent economic downturn
    - Slow personal income growth
    - Sluggish retail sales
- **1992 Result**
    - Conservative fiscal policies were tested by the economic downturn
    - A variety of fiscal actions were taken to manage deficits created by revenue shortfalls
    - Debt levels remain manageable
    - **Maine's credit rating is downgraded from Aaa to Aa1**

- **1994-1995 Strengths**
    - Economic improvement
    - Growth in employment
    - Moderate debt ratios
    - Notable efforts to restore ongoing financial balance
    - Limited growth in state aid to local education
    - Changes in Medicaid fee schedules and reimbursement
    - Income eligibility limits for the residential property tax circuit-breaker
    - Temporarily increased sales tax rate of 6% was allowed to remain in effect
    - Reducing contributions to the Maine State Retirement System by $196 million
        - Altering retirement benefits
        - Requiring greater employee contributions
- **1994-1995 Weaknesses**
    - Persistent cash deficits in the General Fund
    - ***Increasing costs by deferring contributions to the Maine State Retirement System***
        - *S*tretching the unfunded liability amortization schedule from 25 years to 35 years, at an eventual increased cost of some $3.5 billion
        - Increasing the investment earnings assumption
- **1994-1995 Result**
    - **Maine's credit rating is downgraded from Aa1 to Aa**

- **1996 Strengths**
    - Good job growth since the recession, relative to New England, at 1.4% in 1995

- Moderate debt ratios
- Flexible debt structure

- **1996 Weaknesses**
  - Higher-paying manufacturing jobs are being replaced with lower-paying jobs in other sectors
  - Persistent cash deficits in the General Fund
  - Tax reductions and slow growth in high-paying jobs have slashed revenues
  - Bath Iron Works' vulnerability to defense procurement cutbacks
- **1996 Summary**
  - Maine must address slow revenue growth and an increase in low-paying jobs
  - The state must expand its efforts to rein in spending, to accommodate tax reductions

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- **1997 Strengths**
  - Moderate level of borrowing scheduled for rapid retirement
  - Improving finances, reflecting economic gains of recent years
  - A fiscal policy aimed at achieving budgetary balance
    - Steady government cost-cutting
    - Reduced reliance on one-time fiscal measures
  - The Maine State Retirement System funding ratio has improved over the long term
    - System assets as a percentage of pension liabilities was 40% in 1988; the ratio increased to 71% by 1996
  - Improvements in the timeliness and reliability of financial reporting
- **1997 Weaknesses**
  - Lagging recovery from the recession of the early 1990s

- ♦ Continuing, though reduced, exposure to potential defense contracting cutbacks
- ♦ Narrow General Fund position, whether measured on a GAAP or a cash basis
- ♦ Substantial unfunded pension obligation, which is several times the size of its direct debt

❖ **1997-1998 Result**

- ♦ **Maine's credit rating is refined from Aa to Aa3**
- ♦ **In 1998, Maine's credit rating was upgraded to Aa2**, reflecting **"**steady improvement in fund balances and spending control, an increased pace of economic recovery, and moderate debt ratios

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❖ **1999-2001 Strengths**

- ♦ The gap between Maine's slower growth rates and those of the region and nation has narrowed significantly
- ♦ Out-migration has ceased and the population has stabilized
- ♦ Strong economic sectors
    - ▪ Strong telecommunications infrastructure
    - ▪ Major retail outlet center
    - ▪ Home of several financial service companies
- ♦ Strong returns in equity markets
- ♦ Increased funding for state retirement system
- ♦ State investment in technology and transportation infrastructure
- ♦ Substantial unreserved General Fund balance and Rainy Day Fund
- ♦ Innovative cost-controls for Medicaid

❖ **1999-2001 Weaknesses**

- ♦ Slow population growth
- ♦ Substantial unfunded pension liabilities, which far exceed debt obligations

❖ **1999-2001 Result**

- **Maine’s credit rating remains Aa2**
- Maine’s credit outlook was described as “positive” in 2001, but that was amended to “stable” following 9/11 and the economic downturn

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- **2002-2003 Strengths**
  - Debt levels near U.S. state medians
  - Strategies to control Medicaid costs by increasing co-payments, limiting benefits, and maximizing federal Medicaid revenue
- **2002-2003 Weaknesses**
  - Ongoing fixed-costs associated with the state's large unfunded pension liability
  - Reserves depleted by weak revenues that emerged in fiscal 2002
  - By fiscal year-end 2003, Maine will deplete its Rainy Day Fund
  - Medicaid spending pressures, given Maine’s relatively large elderly population
  - Disappointing wage and salary growth rates for fiscal 2003
- **2002-2003 Result**
  - **Maine’s credit retain remains Aa2, and it’s credit outlook remains ‘stable’**

- **2005-2007 Strengths**
  - Below average debt levels and ratios
  - Regained jobs lost during the recession
  - Maine's 2006-2007 biennial budget achieved structural budget balance
  - In February 2006, personal income and sales taxes outpaced the budget projections by almost 2%

- By the same measure, corporate income taxes were up nearly 11%, reflecting improvement in the state's economy

- **2005-2007 Weaknesses**
    - Debt ratios for fixed costs, including debt service and pension funding, exceed national averages
    - Losses in the equity market
    - Persistent weakness in Maine’s financial position
    - Negative unreserved, undesignated General Fund balance
    - Cash flow borrowing due to available reserve levels and resulting limits on liquidity
    - A citizen's initiative requires a permanent increase in state level education funding, adding $250 million in General Fund expenses
    - Modest Budget Stabilization Fund
    - Loss of defense related employment – base closure cost 7,000 jobs
    - Maine must begin accounting for “other post-employment benefits” (OPEB) in their state retirement system, an unfunded actuarial accrued liability of approximately $4.8 billion
- **2005-2007 Result**
    - **Maine's General Obligation bond rating was placed on the “Watchlist” for possible downgrade, then downgraded from Aa2 to Aa3**

- **2008-2010 Strengths**
    - Sustained efforts to rebuild fund balances and control costs
    - Growth in service sector employment
    - Positive job growth in Maine over the past two years
    - Manageable debt ratios, for both per capita and personal income

- Rapid ten-year retirement of principal
- Due to DirigoChoice and health care reforms, Maine saw $111 million in savings in averted costs over three years
- Ongoing cost controls for MaineCare, and sustainable growth in program enrollment

2008-2010 Weaknesses

- Pace of job growth gains continues to trail the nation
- Depleted Budget Stabilization Fund
- Narrow liquidity due to negative fund reserves
- Downward-revised revenue projections
- Need to increase state spending on K-12 education as mandated by a citizens' initiative
- Failure of Savings Offset Payments (SOPs) by commercial insurance companies to offset DirigoChoice subsidies
- Ongoing fixed costs due largely to debt service and pension system liabilities

2008-2010 Results

- **Maine's credit rating remained at Aa3 during 2008 and 2009, but was upgraded to Aa2 in 2010**
- This upgrade reflects conservative fiscal management, unemployment rates below the national average, below-average debt ratios, and a commitment to improving available reserve levels to enhance financial flexibility

Ongoing challenges for Maine

Moody's comments are collected in Table 2 (Appendix, page i), which gives a rough outline of the most frequent 'strengths' and 'weaknesses' of Maine's economy from 1992-2010. In addition to General Fund deficits and stagnant employment, Moody's repeatedly warns of UALs and costs related to MainePERS, MaineCare, and OPEBs.

The MaineCare system, for instance, faces an additional $87 million shortfall in FY 2013, beyond the millions Maine already owes for services rendered. Maine is the oldest state in the U.S. on a per capita basis, a demographic challenge which threatens to deplete Maine's workforce, swell the rolls of MainePERS and social services for the elderly, and continue to drive up healthcare costs.

Maine's partisan approach to budget-making is another concern cited by Moody’s and reiterated by Fitch Ratings, who in 2013 warned of "an increasingly contentious decision-making environment." (Fitch Ratings, 2013) Gov. Paul LePage’s proposed biennial budget for 2014-15 was rejected by state lawmakers, who then passed an amended budget as an emergency measure in mid-June despite Gov. Paul LePage’s threat to veto the budget because it includes tax increases. His proposed budget would have rejected reimbursement rates for certain Medicaid services; eliminated or scaled back numerous preventive health care and mental health care services; reduced eligibility for property-tax expenditures and business-investment tax expenditures; eliminated tax expenditures for newspapers and certain other publications; shifted a portion of public teacher pension expenses from the state to local municipalities; and suspended municipal revenue sharing for the duration of the biennial budget (Office of Gov. Paul R. LePage, 2013).

Even if Maine’s legislators agree on ways to close biennial budget gaps while continuing at least 80% funding for MainePERS actuarial liabilities, thus pacifying credit-rating agencies and bond investors, policy-makers and stakeholders must actively prepare for cyclical economic factors, unforeseen downturns, and ongoing threats to Maine's prosperity.

As a negative example of debt management, Maine decided in 1994-95 to stretch the UAL amortization schedule from 25 years to 35 years, “at an eventual cost of some $3.5 billion,” while simultaneously increasing investment-earnings assumptions. As a result of this deferred funding, Moody’s downgraded Maine’s GO bond credit rating from Aa1 to Aa.

A positive example of debt management comes from the 1970s, after Maine's credit was downgraded due to reduced revenues and a subsequent reliance upon long-term debt. In response, a guideline was established that the State should restrict the issue of new bonds to no more than 90% of the bond principal repaid in the previous year. As the Bangor Daily News noted in 1984, that guideline was violated in five out of its first 10 years, yet it "[had] served its purpose...the state's bond rating improved, and its per capita debt decreased by half in un-inflated dollars since 1970." (Woodward & Reilly, 1984)

There are also less obvious sources of debt-related concern, against which Maine must remain vigilant. Ratings agencies typically apply a discount rate to a state's funding rate for pension system liabilities -- for instance, Maine's reported 79.1% funding of MainePERS in FY 2012 relies upon a generous 8% discount rate, as approved by the Governmental Accounting Standards Board (GASB). Using Moody’s' 7% discount rate for governments, however, drops MainePERS funding to 76.9%.

Ratings agencies also view many "bonds" as debt regardless of their ultimate source of funding. Thus, a GO bond backed by the State's general fund may be counted as equivalent to bonds backed by revenues from separate issuing authorities, even if those bonds are self-liquidating (paying for their own principal and interest with the proceeds of the project financed by the bond, e.g. a new toll road funded by a bond issued from Maine's Transit Authority). Such discrepancies in governmental accounting standards are explicitly cited as concerns in Moody's 2012 report, "Combining Debt and Pension Liabilities of U.S. States Enhances Comparability," along with demographic concerns about Baby Boomers overwhelming pension systems, medical care cost increases which continue to outpace inflation, and the broader fact that Unfunded Accrued Actuarial Liabilities are "highly sensitive to changes in ... assumptions about employee retirement ages, longevity, investment performance, and other factors."

The same Moody's report confirms that Unfunded Accrued Actuarial Liabilities (UAALs) are of particular concern for Maine (Moody's Investors Services, 2011):

- Maine's net tax-supported debt in FY 2010 amounted to 2.02% of State GDP, the 28th-highest ratio of any U.S. State.
- Maine's adjusted-debt ratio for the same year amounted to 10.05% of GDP, 14th in the nation.
- Maine's UAALs amounted to 8.03% of GDP, 9th in the nation.

Appendix

Moody’s Investors Service: Comments about Maine, 1992-2010								
Positive Moody's Comments	**1992**	**1994-1995**	**1996**	**1997**	**1999-2001**	**2002-2003**	**2005-2007**	**2008-2010**
MainePERS funding ratio has improved long-term				X	X			
Reduced MainePERS liabilities via changed benefits, increased employee contributions		X						
Innovative cost-controls for Medicaid/MaineCare		X			X	X		X
Manageable debt levels near U.S. state medians	X	X	X			X	X	X
Steady government cost-cutting/Reduced reliance on one-time fiscal measures				X				X
Moderate borrowing, scheduled for rapid amortization				X				
One-time fiscal actions	X							X
Increasing revenues		X		X	X			
Growth in employment		X	X		X		X	X
Flexible debt structure			X					
Substantial unreserved General Fund balance/Rainy Day fund					X			
Limited growth in state aid to local education		X						
Temporarily increased sales tax rate of 6% was allowed to remain in effect		X						
Improved timeliness and reliability of financial reporting				X				
Population stabilized and out-migration ceased					X			
Strong returns in equity markets					X			
State investment in technology and transportation infrastructure								
Negative Moody's Comments	**1992**	**1994-1995**	**1996**	**1997**	**1999-2001**	**2002-2003**	**2005-2007**	**2008-2010**
Persistent cash deficits in the General Fund		X	X				X	X
Decreasing or downward-revised revenues			X			X		X
Substantial MainePERS unfunded actuarial liabilities				X	X	X		X
Increasing costs by deferring contributions to MainePERS		X					X	
Medicaid spending pressures given aging population						X		
Maine must account for Other Post-Employment Benefits, a UAL of $4.8 billion							X	
Bath Iron Works' vulnerability to defense procurement cutbacks			X	X			X	
Rainy Day funds rapidly being exhausted						X		
Debt-service ratios exceed U.S. state averages							X	
Losses in equity markets							X	
Citizens initiative increased state-level education funding by $250 million							X	X
Persistent economic downturn	X							X
Job growth lags U.S. state averages				X				X
Loss of high-paying manufacturing jobs/Increase in low-paying jobs			X					
Slow population growth					X			
Slow personal income growth	X					X		
Credit-rating outcome:	Downgrade	Downgrade	-	Upgrade	-	-	Downgrade	Upgrade

TABLE 2: (MOODY'S INVESTOR SERVICES, 2013)

Maine's State Bond Process
1. Borrowing proposals are brought to the Legislature.
2. The Legislature selects and the Governor approves projects they believe should be funded from money borrowed through general obligation (G.O.) bonds.
3. A statewide election is held to authorize or reject the bond proposals.
4. The Treasurer solicits and aggregates the requests made by each project manager and issues Bond Anticipation Notes (BANS) to provide the stream of funding needed for each project.
5. The Treasurer will structure and issue bonds, usually in June, to repay the BANS and to consolidate the new debt into a single bond package.
6. The Treasurer tracks the borrowing and spending lines for each project.
7. The Treasurer makes payments from state revenues to bond purchasers until debt is paid.

TABLE 3: (INFORME, 2010)

List of Figures and Tables

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