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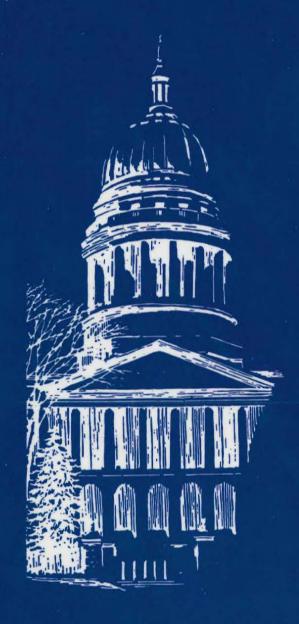
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STATE OF MAINE 2002 – 2003 Governor's Budget



Submitted by Angus S. King, Jr. Governor

Overview

Overview

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How to use these Documents

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How to Use These Documents

The Governor's budget for the FY 02-03 biennium is presented in a new format consisting of two volumes in three major sections as follows:

- The Overview section, described in more detail below, provides the fiscal, economic and policy context within which the Governor's budget for the FY 02-03 biennium was shaped and developed to achieve the budget outcomes and decisions that are shown in summary form. This major section includes the Governor's priorities and initiatives, the economic and revenue outlook, a description of the budget process, the current budget status, the fiscal outlook, the strategic planning and performance budgeting approach used by the State of Maine, the FY 02-03 budget by fund summarized by organizationwide policy areas and goals and a high level summary Governor's of the budget recommendations for the FY 02-03 budget.
- The **Budget and Financial Plan** section begins by describing the basis by which the budget is prepared and acted upon for all funds that are appropriated and allocated by the Legislature. This is the starting point for a more complete understanding of the manner in which the budget is balanced to achieve a complete financial plan for the FY 02-03 biennium. The remaining sections provide summaries and

- explanations of recommended General Fund and Highway Fund revenues and the financing sources and uses for the General Fund and the Highway Fund as well as all fund sources that achieve a balanced budget for the FY 02-03 biennium. This major section further includes the capital budget, tax supported debt within the context of the budget, tax expenditures and the status of contracted social services in the budget.
- The Strategic Operational Plans section begins with the organization chart for Maine Government. Budget requests recommendations for the FY 02-03 biennium are displayed by department and agency within the framework of each organization's strategic program strategy within Each department or agency is shown in a strategic plan format. Each program strategy is connected to a department or agency goal and objective. Performance measures, activity descriptions and explanatory information about the performance measures are included with each program strategy. Position planning is shown by department, agency and fund over a 10 year trend period. Explanations are provided for significant year-to-year changes in positions, and the underlying policy.

<u>Overview</u>

The Governor's Budget Message provides a brief summary of the underlying policy and fiscal challenges that frame the FY 02-03 biennial budget as a prologue to the Governor's Priorities and Initiatives. The Governor's **Priorites** provides **Initiatives** section more detailed explanation in specific areas that the Governor considered important or critical from a short term and long term strategic point of view in shaping the FY 02-03 biennial budget. The Economic Outlook and the Revenue Outlook provide information about the expected condition of the Maine economy and the General Fund and Highway Fund revenues. The Maine economy drives the revenues, and the

revenues form the fence around which the expenditure side of the budget is developed. The preliminary Budget Status for the General Fund and the Highway Fund is presented and described for fiscal years 2001-02 and 2002-03. It is critical in shaping a budget to understand the fiscal challenges one must face. The Fiscal Outlook moves to the next step by isolating and describing specific weak points, trends and challenges for the General Fund budget and the Highway Fund budget. The Strategic Planning and **Performance** Measurement section explains the new budget approach for the State of Maine that focuses on results and outcomes. Strategic planning and

performance budgeting will be implemented in the FY 02-03 biennium for the first time in the State of Maine. Budgets are summarized by fund and department or agency into **Organization-Wide Policy Areas and Goals**. Showing how budgets support broad goals for the State of Maine provides

an overarching dimension for strategic planning and performance budgeting. The sections on the **Summary of Governor's Budget Recommendations** provide a high level view of the Governor's budget plan in table and chart presentations.

Budget and Financial Plan

The Basis of Budgeting for All Funds section explains the underlying accounting practice and treatment that form the budgetary basis for appropriations and allocations. General Fund and Highway Fund revenues are shown for each fiscal year of the FY 02-03 biennium. Columns are shown for base revenues, those forecasted by the Revenue Forecasting Committee, and adjustments recommended by the Governor. The base revenues are explained in the Overview as part of the Revenue Outlook. Explanations are provided for the recommended revenue adjustments. General Fund Unappropriated Fund Balance Status and the Highway Fund Unallocated Fund Balance Status are shown for the FY 02-03 biennium in order to clearly show the balance between resources and expenditures for the two undedicated funds of the State of Maine. The

Appropriations, Allocations, Revenues Other Financing Sources and Uses shows for the FY 02-03 biennium the balance between resources expenditures, in a sources and presentation, for all funds appropriated allocated by the Legislature. The Capital Construction, Repairs and Improvements section presents the complete capital budget plan and priorities for the FY 02-03 biennium. Tax Expenditures are provided as required by statute in order to show the estimated loss in revenue for Government caused Maine State by expenditures provided in statute. The Contracted Social Services section is provided for those programs identified in statute that are recommended to receive cost increases in the current services budget for the FY 02-03 biennium.

Strategic Operational Plans

The Organization Chart for the State of Maine is provided. Strategic Goals, Objectives and Performance Measures Connected to Funding is shown in sections by department or agency and program strategy for each of the following budget elements:

• Current services (Part I).

- Budget adjustments (reductions and additions to Part I).
- New and expanded services (Part II).

Position Planning is shown in the form of a 10 year trend by department or agency and fund. Changes in positions over time by department or agency are explained in detail, along with the underlying policy with regard to position planning

The Governor's Budget Message



Governor's Budget Message

January 5, 2001

Honorable Members of the 120th Legislature and Citizens of Maine:

The exceptional growth which has propelled the Maine economy and the state's revenue growth since 1997 appears to have slowed. Fortunately, this slower rate of growth was forecasted by the Consensus Economic Forecasting Commission and our revenue projections were based on that forecast. While revenues in FY 01 are on budget, the biennial budget I am today presenting was a challenging balancing act involving maintaining the momentum of our recent tax cuts and new investments in education and research and development in an environment of tighter revenues.

Our constituents often call upon me to explain how the State's General Fund can go from huge surpluses to "structural gaps" and budget shortfalls in such a short period of time. Explaining this phenomenon is one of our toughest budgeting challenges.

There are two fundamental explanations. First, for some time we have balanced budgets using surpluses from the first year of the biennium to fund the ongoing expenditures in the second year. While the biennial budget is balanced, the base year that defines current services for the next biennium rests upon carry forward balances. We carry this deficit (multiplied by two for each year of the next biennium) into the next two year budget. That was certainly the case in our last budget. Our expenses in FY 01 were funded by a huge carry forward balance of \$295,297,989 from FY 00. Even though a majority of that carry forward balance was spent on one-time items in FY 01, expenditures still exceeded revenues in FY 01 by \$98.6 million dollars. Multiply that times two and we start our budget planning for the 02/03 biennium \$200 million dollars in the hole just to maintain current services.

The second explanation of the shortfall we had to overcome in preparing this budget is the unexpected growth in Medicaid expenses. Even though Medicaid was forecasted to increase over the last biennium by as much as 8%, the request for Medicaid exceeded even that growth forecast by \$62.1 million.

While other factors contribute to our budget challenge, these two are the largest and created for us some difficult choices. This budget reflects some of those. I am most pleased, however, to present a budget that, for the first time in 6 years, is effectively in balance in the second year of the biennium without carry-forward funds. This is a prudent legacy to leave the next Governor and Legislature.

We also face a daunting deficit in the Highway Fund in order to maintain the current level of services. Revenues are projected to grow at 1% while expenditures are projected to grow at historical trends equivalent to the rate of inflation. In order to sustain the level of investment necessary to our transportation system, this budget proposes to have the General Fund pick up debt costs for a \$41 million dollar bond issue, in order to reduce debt costs in the Highway Fund and reduce the need for future user fee increases.

This is my last official budget submission. I am proud of the work I have done with the 117th, 118th and 119th Legislatures in putting the state on a more stable fiscal footing. The State's Rainy Day fund has been built up to a level that gives us some comfort as we face uncertain economic conditions. We have used surpluses in a responsible way to pay unpaid bills related to our neglected state infrastructure. We have reinvigorated investments in the state's economic future through the Business Equipment Tax Reimbursement Program, higher education, K-12 education, and research and development. We have invested in our people through reduced tax burdens and in improved

services for our neediest citizens. It is a financial record of which we can all be proud.

This document contains detailed information about my 02/03 budget submission including the economic circumstances surrounding its development and the difficult choices it entails. It is also presented in a more clear and understandable format — with, for the first time, performance measures as integral to the budget itself. I hope you

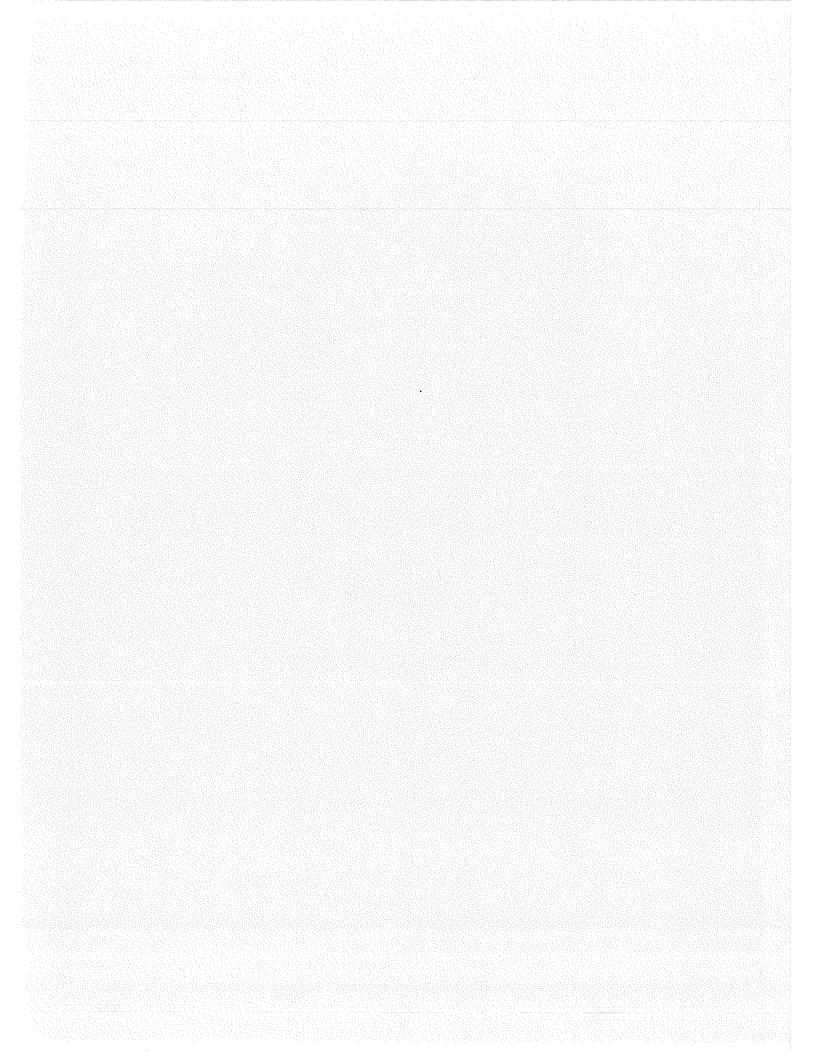
find the new strategic planning/performance budgeting format useful.

As always, I stand ready to work collaboratively with the members of the 120th Legislature to enact a budget that addresses the needs of Maine people for services from their government at a level they can afford.

Augus S. King, f-



Governor's Priorities and Initiatives



Governor's Priorities and Initiatives

Continuing the Commitments

The State of Maine budgetary process concentrates on new and expanded initiatives often overlooking critical funding commitments maintained within the current services budget recommendations. For example, because budget decisions are made incrementally each biennium, we loose sight of the fact that the FY 02-03 biennial budget recommends the continuation of net tax reductions since 1995 that total \$451.2 million each fiscal year based on fiscal year 2001-02 dollars. Likewise, General Purpose Aid for Local Schools (GPA) will increase from \$518,620,500 in fiscal year 1994-95 to \$718,258,591 in fiscal year 2002-03.

Many other examples follow. For example, in the last two years a total of \$70,995,315 has been appropriated from the General Fund for School Renovation with projects ongoing over the course FY 02-03 biennium. This budget the recommendation also continues to fulfill the promise of the 1996 Learning Results legislation by funding teacher professional development. The Preschool Handicapped program, which provides free and appropriate education for developmentally disabled children from birth to five years of age, will increase in General Fund support from \$2,864,812 in fiscal year 1994-95 to \$16,141,320 in fiscal year 2002-03. The Maine Educational Assessment and ATM Distance Learning Network, that are critical to improving student performance in K through 12, are supported and enhanced in the budget recommendations. Increased General Fund investment of \$56.8 million over the original base budget for higher education was accomplished in the FY 00-01 biennium, with the ongoing investments continued in the current services recommendations for the FY 02-03 biennium. Research and Development investments of \$23,750,000 in the FY 00-01 biennium have been continued in the General Fund current services recommendations for FY 02-03 that grow to \$31 million.

In the Department of Human Services, the budget recommendations for the FY02-03 biennium continue the strong commitment toward the elderly with low cost drugs and long term care and home care programs. Children in the care and custody of the State of Maine, and those suffering mental retardation and mental illness, continue to be supported in these budget recommendations. The effort to develop and implement community based resources for children and adults with mental illness, mental retardation and substance abuse continues as a strong commitment under these budget recommendations. In the Department of Corrections, the current services recommendations continue to support the transformation of the correctional system as well as the much-needed investment in treatment and community resource programs for juvenile and adult offenders.

More specific examples are provided in the sections that follow.

Domestic Violence

Domestic abuse and violence has become a very serious and pervasive crime in recent years. Domestic violence involves control by one partner in a relationship through physical force and intimidation, which may be exhibited in many forms of abuse: physical; sexual; emotional; verbal;

and, psychological. Following are some little known facts about domestic violence and abuse:

• A woman is beaten every nine seconds in the United States. Domestic violence is the most under-reported crime in the country, with the actual incidence higher than reported.

- Eighty percent of children who live in homes where domestic violence occurs witness the abuse.
- On average, four women are murdered every day by their male partner in the U.S.
- Women in the U.S. are in nine times more danger in their homes than they are in the street.
- According to the U.S. Department of Justice, 95
 percent of reported spousal assaults are
 committed by men against women. Assaults
 committed by women against men occur in
 approximately 5 to 10 percent of domestic
 violence matters.
- About 17 percent of women reported experiencing physical or sexual assault during pregnancy.
- Battering prior to pregnancy is the primary predictor that battering will occur during pregnancy.

<u>Source:</u> Domestic Violence Information and Referral Handbook, adapted from the handbook "From This Day Forward", published by the Santa Clara County Probation Department.

Domestic violence has a serious negative impact on children. Children may witness an act of violence, and may also be the object of the violence. This exposure to violence in the home at an early age leads to aggressive and disruptive behavior among children in later life, requiring treatment for substance abuse and mental illness. It is well documented that alcohol or drug use is a factor in an estimated 65 to 80 percent of all domestic violence cases. These higher rates of alcohol and/or drug

abuse tend to escalate the harmful effects on children of domestic violence.

The Second Regular Session of the 119th Legislature made the first substantial effort toward dealing with domestic violence and abuse in the State of Maine by appropriating in fiscal year 2000-01 \$426,077 to the Department of the Attorney General to support 8 Assistant District Attorney positions dedicated to the prosecution of crimes of domestic violence.

The FY 02-03 biennial budget recommends an additional \$250,000 each fiscal year from the General Fund to continue the effort to reduce the incidence of domestic violence. These funds will be used in the Commissioner's Office of the Department of Public Safety to support a position of Statewide Domestic Violence Coordinator, including clerical and All Other support. This position will coordinate statewide efforts at preventing the incidence of domestic violence in the State of Maine.

The FY 02-03 biennial budget also recommends from the General Fund \$800,000 in fiscal year 2001-02 and \$2,500,000 in fiscal year 2002-03 to continue investments in technology for the Department of Corrections. The focus will be on an information system that allows the Department of Corrections to contribute to and benefit from a statewide criminal justice information system and to manage and supervise offenders of domestic violence, sexual assault and other violent offenses.

Research and Development

Investment in research and development is the most effective way in which to build a knowledge-based economy in the State of Maine and begin to raise incomes to the national average. This goal can be achieved by continuing the significant investment in research and development that began with the First Regular Session of the 119th Legislature and will help achieve the following outcomes:

- Create, retain and attract "knowledge" workers.
- Conduct world class research.

- Create new products and services.
- Maintain high quality of life.

The FY 02-03 biennial budget for the General Fund recommends investments in research and development of \$35,293,931, consisting of \$30,993,931 continued investments in and \$4,300,000 in expanded investments, as described below:

- Research and development grants and operational support for the Maine Technology Institute in the amount of \$6,399,871 in fiscal year 2001-02 and \$6,401,654 in fiscal year 2002-03.
- Funds for the Applied Technology Center in the amount of \$300,000 in fiscal year 2002-03.
- Funds to support the Department of Education's partnership with the National Aeronautic and Space Administration to provide intensive, high quality training in math and science for educators in the State of Maine in the amount of \$25,000 each fiscal year.
- Support for the Science Works for ME equipment program to provide adequate laboratory equipment in secondary schools in the State of Maine in the amount of \$75,000 each fiscal year.
- Funds for the Governor's Marine Studies Fellowship program in the Department of Marine Resources in the amount of \$50,000 each fiscal year.
- Funds to support the Marine Research Internships for Teachers and Students program to provide internship opportunities in science and mathematics for teachers and students in the amount of \$75,000 each fiscal year.

- Funds for the Maine Economic Improvement Fund at the University of Maine System for applied research and development in the amount of \$5,740,000 in fiscal year 2001-02 and \$7,883,500 in fiscal year 2002-03.
- Funds for the Center for Advanced Law and Management at the University of Southern Maine in the amount of \$376,875 in fiscal year 2001-02 and \$378,797 in fiscal year 2002-03.
- Funds for the purchase of information resources, equipment and staff support for the State Research Library for Business, Science and Technology at the University of Maine System in the amount of \$179,375 in fiscal year 2001-02 and \$183,859 in fiscal year 2002-03.
- Funds to support debt service payments for the University of Maine System that are dedicated to capital improvements and research and development in the amount of \$2,500,000 each fiscal year in the FY 02-03 biennium.
- Increased funding of the Maine Biomedical Research Fund of \$2,000,000 in fiscal year 2002-03.

Education

Increased educational attainment is key to building a knowledge-based economy in Maine. Success and competitive advantage for the State of Maine and Maine citizens in a global economy is directly linked to quality education and increased educational opportunity. The FY 02-03 biennial budget recommends the continuation of General Fund investments in secondary and post secondary education in the State of Maine in the following important areas:

General Purpose Aid for Local Schools is recommended to receive \$129,463,591 more in General Fund resources in the FY 02-03 biennium than it received in the FY 00-01 biennium. This represents an increase of 5% from fiscal year 2000-01 to fiscal year 2001-02 and an increase of 3% from fiscal year 2001-02 to fiscal year 2002-03. This recommendation

supports the effort toward implementing the essential programs and services effort endorsed by the Maine Legislature. Also, it is the intent to increase these amounts if additional funds subsequently become available. For the first time, the GPA recommendations for the FY 02-03 biennium include funds for learning results implementation and cushion as part of the adjustments.

- Adult Education was provided a 5 % total increase over the FY 00-01 biennium for basic adult education subsidy that continues in the FY 02-03 biennium with modest growth.
- Teacher Retirement and Teacher Retiree Health are recommended to be funded in the FY 02-03 biennium at the authorized levels.
- In spite of limited General Fund resources, the FY 02-03 biennium recommends for the General Fund increases that equal or exceed the

consumer price index for the three public higher education systems in the State of Maine: The University of Maine System; the Maine Maritime Academy; and, the Maine Technical College System.

- A Personnel Officer position is recommended for the Department of Education to support the internal human resources efforts of the department and to provide leadership for a more intensive recruitment effort for both the department and the local school districts.
- General Fund resources are recommended at \$660,351 in fiscal year 2001-02 and \$1,226,578

- in fiscal year 2002-03 for maintenance and network management for additional sites in the ATM Distance Learning Network.
- The Maine Mentoring Partnership effort is recommended to receive, through the Department of Education, \$250,000 each fiscal year in the FY 02-03 biennium. This supports State of Maine Learning Results by ensuring children have a viable connection to the community through access to mentors.
- General Fund resources for the Governor Baxter School for the Deaf to obtain school approval are recommended at \$263,172 in fiscal year 2001-02 and \$272,338 in fiscal year 2002-03.

Corrections

The FY 02-03 biennial budget continues the effort toward transforming the State of Maine correctional system from a high cost system dedicated to incarceration to a more viable and cost effective system of incarceration and treatment. This effort has represented the construction and reconstruction of new, more efficient facilities, which has enabled the State of Maine to increase its investment in treatment programs for both juvenile and adult offenders.

Within the current services budget recommendations, the Department of Corrections will complete the construction of three major facilities and will bid, award and complete a new unit for female offenders over the next 2-3 years. These construction projects will add needed bed capacity for the adult prison system in the State of Maine, replace aging and obsolete facilities at the Maine State Prison and the Maine Youth Center and expand and enhance the juvenile corrections system establishing two regionally based, comprehensive correctional facilities. To support the new programming and offender supervision systems, virtually every position with direct care and/or direct contact has been restructured. The department developing also is improved management information systems to support the work of corrections employees in this system.

Funds have been deployed to accomplish this department-wide transformation for the support of

training for staff in the new offender treatment, management and supervision models, overtime for staff to participate in training, salary increases for changes in job expectations and ongoing maintenance of needed information systems. The current service budget recommendations also reflect added investments in community corrections for both juvenile and adult divisions in order to reduce caseloads and to improve community services for offenders under community supervision.

The recommended budget for the General Fund includes the following new investments in the correctional system:

- General Fund resources are recommended to maintain the upgrade of positions in the adult correctional system that have direct contact with inmates. The General Fund is recommended to include \$1,545,628 in fiscal year 2001-02 and \$1,442,905 in fiscal year 2002-03 for this purpose.
- General Fund resources are recommended in the amount of \$884,348 in fiscal year 2001-02 and \$863,995 in fiscal year 2002-03 for the Northern Maine Juvenile Facility to support the All Other line category in that facility's transition to a new role in the correctional system.
- In fiscal year 2001-02, \$350,000 is recommended for the Bureau of General Services to work with the Department of

- Corrections to develop a capital plan for the Downeast Correctional Facility.
- General Fund resources are recommended to support an effort through Probation and Parole to enhance programming, treatment, risk and needs assessment and supervision of high risk sex offenders. Funds recommended for this effort amount to \$382,311 in fiscal year 2001-02 and \$401,666 in fiscal year 2002-03.
- Funds are re-deployed in the Department of Corrections to create an Office of Victims Services in the General Fund.
- Three Juvenile Program Worker positions are recommended at the Northern Maine Juvenile Facility to ensure support for juveniles as a result of a change in the design of the facility.
- General Fund resources are recommended in the amount of \$800,000 in fiscal year 2001-02 and

\$2,500,000 in fiscal year 2002-03 to continue investments in technology. The added investment in management information systems will continue the development implementation of an adult offender data system that includes tracking of sentences, conditions of probation, and victim services; interfaces with the court and the public safety information systems; and the ability to evaluate and assess effective program and treatment interventions. The focus will be on an information system that allows the Department of Corrections to contribute to and benefit from a statewide criminal justice information system and to manage and supervise offenders of domestic violence, sexual assault and other violent offenses.

Compensation Study

The quality of state programs and services largely depends on the quality and commitment of our The changing demographics in the employees. State of Maine and the nation have resulted in stiff competition for quality workers among employers. Today, many workers are no longer looking for a single organization with which they will spend their entire career - they are more than willing to shop around for the best combination of work challenges, work environment, pay, and benefits that meet their needs. They are more apt to change employers frequently in order to progress in their chosen careers. Maine State Government must position itself to attract, develop, and retain the mobile "knowledge-based" worker of today in a

very competitive environment.

For many occupations, competitive compensation with the Maine labor market is a key element in attracting and retaining a committed and qualified workforce. To that end, we have begun discussions with the labor unions to include occupational comparisons to the competing labor market in contract negotiations, and the impact that any disparities might have on our ability to recruit and retain a qualified workforce. Over time, this will serve to better allocate our compensation dollars to meet the needs of our employees and the public that they serve. The budget recommendations for the FY 02-03 reflect a commitment toward this initiative.

Human Services/Mental Health, Mental Retardation and Substance Abuse Services

Protecting and preserving the health and welfare of Maine citizens who do not have the resources, or access to services through their own support mechanisms, is an important role of State Government. These services are provided to children and families, community services, the elderly and those in need of health and medical services. Those children and adults with psychiatric and developmental disabilities also are in need of

state services to help them meet their needs for personal, social, educational, vocational and economic development assistance to enable them to function at maximum levels of potential and to maintain their dignity as human beings. In fiscal year 1996-97, the most recent period for which comparable data is available, the State of Maine ranked 8th among the states and the District of Columbia in mental health expenditures per capita,

according to the National Association of State Mental Health Directors Research Institute, Inc. Any enlightened society must continue to invest in its human resource needs.

The Child Welfare and Foster Care programs in the Department of Human Services, which provide support and services for children in department's care or custody, are recommended to receive increases in current services of 3.0 % in fiscal year 2001-02 and 18.1% in fiscal year 2002-03, for an increase of over \$9.9 million during the FY 02-03 biennium. General Fund appropriations for these programs in fiscal year 1994-95 totaled \$23.5 million, and will increase to \$55.7 million through fiscal year 2002-03. The Long Term Care program funds home based care for personal care, home health and other needed services as an alternative to nursing home placement for elderly adults with disabilities and persons receiving protective services. In fiscal year 1994-95, this program received funding of \$4.7 million. General Fund resources are recommended to nearly quadruple, beginning in FY01, and will be at an annual amount of \$18.4 million through fiscal year 2002-03.

The Department of Mental Health, Mental Retardation and Substance Abuse Services received modest increases in current services for several Mental Health Services - Children Medicaid, which provides care and social services to children with mental illness, retardation, autism, developmental, emotional or behavioral needs is recommended to increase 22.2% in fiscal year 2001-02 and 8% in fiscal year 2002-03. Mental Health Services- Community Medicaid, which availability accessibility provides and of comprehensive community support services to persons with chronic mental illness, recommended to increase 6.4% in fiscal year 2001-02 and 6.0% in fiscal year 2002-03. Medicaid Services - Mental Retardation, which provides mental retardation services to meet the needs of adults with mental retardation, is recommended to increase 11.2% in fiscal year 2001-02 and 12.6% in fiscal year 2002-03.

The FY 02-03 biennial budget for the General Fund also includes the following expanded recommendations for the Department of Human Services and the Department of Mental Health, Mental Retardation and Substance Abuse Services:

- General Fund support to the Department of Human Services, Bureau of Health for breast and cervical cancer screening in the amount of \$350,000 in fiscal year 2001-02 and \$380,000 in fiscal year 2002-03.
- Twenty-two positions for the Department of Mental Health, Mental Retardation and Substance Abuse Services to improve case manager ratios for adults with mental retardation in support of the Community Consent Decree.
- Additional initiatives in critical program areas, as described in more detail below, are recommended for the Department of Mental Health, Mental Retardation and Substance Abuse Services through reallocation of General Fund resources.
 - > Three Nurse positions to perform utilization review for children services.
 - > Three positions to support mental health services in the juvenile corrections facilities.
 - > Short term residential services for children with mental retardation and/or autism.
 - > Specialized crisis services for children with mental retardation and/or autism.
 - > Children's respite services.
 - ➤ Continuation of physician call coverage and contract nurses at the Augusta Mental Health Institute.
 - ➤ Continuation of inpatient and outpatient pharmacy services at the Bangor Mental Health Institute.
 - > Residential treatment program for sexual offenders.
 - Team for medical/psychiatric/behavioral consultation for persons with a variety of disabilities.

Public Safety

The Department of Public Safety, through the Bureau of the State Police, performs a critical role for Maine State Government in providing services and facilities that protect the lives, rights and property of Maine citizens. One of the over-arching goals of Maine State Government is to ensure that; "Maine's citizens will be secure in their homes and communities. Those who commit crimes will be held accountable, while given opportunities to change; and the victim and communities, as much as possible, will be restored to wholeness".

The Bureau of State Police is on the front lines of this goal by enforcing the motor vehicle and criminal laws of Maine. Over the past 25 years, the number of rural patrol troopers has declined due to increased demands for police services in specialized areas. Changes in labor law and contractual provisions affecting shift assignments for troopers has further decreased the availability of troopers in rural patrol to respond to calls for service from the public. This trend has lead to an inability to meet the increasing demands for services in the rural areas and to situations that cause risk to individual troopers.

In order to stem this trend, the General Fund budget recommends funds to provide 24 hour, 7 day a week minimum coverage in rural patrol through overtime resources and All Other support recommended at \$442,000 in fiscal year 2001-02 and \$452,000 in fiscal year 2002-03 from the General Fund and \$663,000 in fiscal year 2001-02 and \$678,000 in fiscal year 2002-03 from the Highway Fund.

Court Security

The courts in the State of Maine address legal matters of a volatile nature every day. The citizens of the State of Maine also need to be assured of a safe environment in which to resolve conflicts brought before the courts. As a result of cultural and social changes, the issues and concerns challenging court security personnel have become varied and differ greatly from those of only a few years ago.

The State Court Administrator has identified a number of characteristics that are required in an effective security program to ensure an adequate level of security in all court facilities in the State of Maine and to ensure that court activities are conducted in a safe and orderly manner. In order to achieve improvement in court security, the Security

Advisory Panel of the Judicial Branch recommended a number of improvements in court security, some of which are included in the budget recommendations for fiscal year 2002-03 for the Judicial Branch.

- Creation of two Regional Security Coordinator positions.
- Conversion of 30 Court Security Officer positions currently provided by contract to 30 authorized Court Security Officer positions. These positions would be the primary court security in Androscoggin, Aroostook, Cumberland, Franklin, Hancock and Sagadahoc counties with overall courthouse security responsibility in the buildings to which they are assigned.

Medicaid

General Fund Medicaid appropriations to the Department of Human Services and the Department of Mental Health, Mental Retardation and Substance Abuse Services represented 17.7% of the General Fund budget in the FY 00-01 biennium. Based on department and agency current services General Fund requests for the FY 02-03 biennium,

the share of the General Fund budget for Medicaid would grow to 19.2%. As a greater share of the General Fund budget is consumed by Medicaid, less General Fund resources are available to other program areas, such as education.

In a recent Municipal Research report released in October 2000, Moody's Investors Service offered the following points with regard to Medicaid spending.

- After years of moderate and well-controlled growth, the last two years have seen state Medicaid spending in excess of budget estimates in many states.
- A moderate re-acceleration of state Medicaid spending is now forecast for the next decade by policy experts.
- Prescription drug costs and rising managed care rates are expected to drive the overall increase in program costs.
- The role of states in funding healthcare for the uninsured is evolving and poses uncertain financial pressure. Success at implementing the federal Children's Health Insurance Program has been uneven. ¹
- The federal government is moving to close "loopholes" used by states to maximize federal matching funds beyond those supported by actual costs.
- While Medicaid already accounts for an average of 20% of state budgets (all funds), most states currently have adequate capacity to accommodate moderately higher costs.²
- A general economic slowdown could magnify the impact on state budgets.

Source: Moody's Investors Service, Medicaid Spending And State Budgets Temperature Rising; Time for a Check-Up October 2000

Increases in Medicaid expenditures beyond expectations in the State of Maine have occurred as a result of the following:

- Increases in pharmaceutical prices and utilization.
- Increases in Nursing Home costs for the elderly due to an aging population.
- Increases in behavioral health services for children and adults.
- Increases in costs associated with Private Non Medical Institutions (PNMIs) in providing services to the elderly and children with mental health and mental retardation.
- Caseload growth.

While it is essential to provide appropriate health and medical care for Maine citizens, it is equally important to balance those needs with other essential services that Maine State Government must perform, and to do so within the ability of Maine taxpayers to afford. The General Fund budget for the FY 02-03 biennium recommends the following minimal General Fund budget reductions in the Medical Care Payments to Providers and Nursing Facilities programs of the Department of Human Services and the Mental Health and Mental Retardation programs in the Department of Mental Health, Mental Retardation and Substance Abuse Services, as shown in **Table A – 1**, necessary to balance competing financial pressures.

Table A - 1									
	FY 02	FY 03							
Pharmacy Prior Authorization	\$3,127,703	\$3,688,086							
Nursing Homes Minimum Staffing (Less Minimums Match and Set Aside									
for Quality Outcome Payments)	\$1,106,954	\$1,159,166							
Pharmacy Medicaid Single Subscriber	\$1,000,000	\$1,000,000							
PNMI 5% Reduction of Indirect Cost	\$2,365,051	\$2,630,110							
Nursing Homes – Eliminate 3% Cost of Living Adjustment	\$2,363,649	\$2,453,017							
Nursing Home Reprojection	\$1,166,577	\$.831,995							
Mental Retardation Growth Limitation	\$1,345,631	\$2,982,224							
Mental Health Growth Limitation	\$ 414,688	\$1,227,685							
Mental Retardation Children to Adult Service Phase In	\$2,622,302	\$ 466,782							
TOTAL	\$15,512,555	\$16,439,065							

¹ The Children's Health Insurance Program in the State of Maine has been an overwhelming success.

² The State of Maine has Tobacco Settlement Funds.

The FY 02-03 biennial budget in total seeks to preserve these critical health and medical services available to qualified Maine citizens, by shifting Medicaid funding to Tobacco Settlement Funds in the amount of \$31,427,036 in fiscal year 2001-02 and \$32,154,739 in fiscal year 2002-03. These funds include a continuation of the use of \$15,000,000 each fiscal year from the Fund for a Healthy Maine, as authorized in Public Law 1999, C.731, Part WW for fiscal year 2000-2001.

Tobacco Settlement Funds, as authorized for use in allocations to the Fund for a Healthy Maine, clearly are to be used primarily for health services arising from tobacco use, the costs of which have greatly impacted the Medicaid budget. The shift of Medicaid expenditures to Tobacco Settlement Funds also includes a recommendation to repeal the Quality Child Care Credit funded from Tobacco Settlement Funds.

Maine Rainy Day Fund

On June 30, 1995, the Maine Rainy Day Fund stood at \$6,422,240, which was only 4/10 of one percent of the fiscal year 1994-95 actual General Fund revenues. Such a balance would have been woefully inadequate as a source of budget stability to ease the impact of budget adjustments during an economic downturn. A recession could easily result in a loss of General Fund revenues of 5 to 10%. The cumulative effect of a major economic downturn, as occurred in 1990, could further exacerbate any General Fund imbalance between revenues and authorized expenditures. It is important, as a matter of fiscal strategy, to have adequate reserves in the Maine Rainy Day Fund at sufficient levels to maintain budget stability for the General Fund during cyclical downturns.

Over the past six years, the Governor and the Legislature have sought to beef up the Maine Rainy Day Fund in order to reach a level sufficient to be a source of budget stability for the General Fund. Currently, the balance in the Maine Rainy Day

Fund is \$143,713,008, which is 6% of the fiscal year 1999-00 actual General Fund revenues.

This remarkable achievement was accomplished through a number of measures jointly and cooperatively undertaken by the Governor and the Legislature, as described in more detail below. The General Fund is now in a position to mitigate or lessen the potential disruption to state programs from an economic downturn.

- Increased the statutory limit of the Maine Rainy Day Fund from 4 to 6 % of actual General Fund revenues in the immediately preceding fiscal year.
- Maintained the transfer to the Maine Rainy Day Fund of ½ of any excess General Fund revenues over estimates at the end of each fiscal year.
- Appropriated \$25,759,657 to the Maine Rainy Day Fund.
- Allowed the required transfer of \$11,418,672 of the General Fund revenue reprojection in fiscal year 1999-00 to the Maine Rainy Day Fund.

Unfunded Liabilities

A number of significant initiatives have been undertaken in the last four years to reduce the unfunded actuarial liability of the Maine State Retirement System for state employees and teachers. The State of Maine has transferred \$60,554,369 of excess General Fund revenues to the Maine State Retirement System between fiscal year years 1995-96 and 1999-00. The term of the amortization period for the unfunded actuarial liability of the Maine State Retirement System for

state employees and teachers also was reduced by the Second Regular Session of the 118th Legislature from 31 years to 25 years effective July 1, 1998.

The Second Regular Session of the 119th Legislature further reduced the amortization period for the unfunded actuarial liability from 23 years to 19 years for state employees and teachers effective July 1, 2001.

While this was an important and noteworthy step toward the continuing efforts of the Governor and the Legislature to reduce the unfunded actuarial liability of the Maine State Retirement System for state employees and teachers, the change at that time could not be fully assessed with regard to its impact on the FY 02-03 biennium. Not until the Maine State Retirement System Board of Trustees completed its actuarial valuation on June 30, 2000 could the full impact of the change on the FY 02-03 biennium be fully determined. At the time of the change, Maine State Government also was unaware of the looming increases in Medicaid costs that were to have a serious impact on the General Fund budget for the FY 02-03 biennial budget. Because of the funding challenges in the General Fund budget for the FY 02-03 biennium, particularly with regard to Medicaid, it was premature for the State of Maine to further reduce the amortization period of the unfunded actuarial liability for state employees and teachers. As a consequence, the budget for the FY 02-03 biennium recommends returning the amortization period back to 22 years retroactive to July 1, 2001 based on the actuarial valuation of June 30, 2000. This action results in savings for the General Fund of \$17,278,982 in fiscal year 2001-02 and \$18,234,610 in fiscal year 2002-03. Savings for the Highway Fund amount to \$788,434 in fiscal year 2001-02 and \$815,881 in fiscal year 2002-03. Even with this reduction, the State of Maine contribution to the unfunded actuarial liability is fully budgeted in the FY 02-03 biennium.

The accrued actuarial liability for retiree health insurance for state employees and teachers continues to increase and could be as much as \$542,397,823 by 2003. This estimate only includes current members, and does not reflect the possibility of sharply rising health insurance costs. The State of Maine has been on a "pay as you go basis" for employer paid health insurance funding. This has resulted in an increased unfunded liability which will be financially problematic from a number of perspectives.

The Second Regular Session of the 119th Legislature established the Retiree Health Insurance Internal Service Fund. Sources of funds to reduce the accrued actuarial liability were authorized to come from excess General fund revenues at the end of each fiscal year that remain available after the Maine Rainy Day Fund reaches it's statutory limit. The FY 02-03 biennial budget recommends General Fund resources of \$2,000,000 in fiscal year 2002-03 to further reduce the accrued actuarial liability for retiree health insurance for state employees and teachers. These funds will be used to increase retiree health insurance rates applied to actual salaries and wages in fiscal year 2002-03 to generate an additional \$2,000,000 for the accrued actuarial liability as part of a five to seven year plan to reach full funding to put the accrued actuarial liability on an actuarially determined rate structure.

Tax Reductions

Table A-2 below shows in detail the impact of tax reductions based on fiscal year 2001-02 dollars.

Table A - 2 Significant Changes to Maine State Tax L	.aws: 1995-2000	
Policy Area	Legislature	FY02 General Fund Impact
Residential Property Tax Relief Maine Residents Property Tax Program Homestead Property Tax Exemption Sub-Total	117th & 118th 118th	(\$9,493,580) <u>(\$41,331,909)</u> (\$50,825,489)
Health Care Repeal Hospital Assessment Tax Repeal Gross Receipts Tax on Nursing Homes Dependent Health Insurance Tax Credit Self-Employed Health Insurance Deduction Cigarette Excise Tax Increase (\$.37 per pack) Repeal Catastrophic Health Expense Credit Sub-Total	117th 117th 118th 118th & 119th 118th <u>117th</u>	(\$161,031,150) (\$29,849,233) (\$912,233) (\$521,741) \$37,652,797 <u>\$2,957,430</u> (\$151,704,129)
Tax Relief to Individual Income Taxpayers Increase Personal Exemption Amount Low Income Tax Credit Earned Income Tax Credit Pension Income Exemption Index Individual Income Tax Brackets for Inflation Conformity with Federal Tax Changes Sub-Total	118th & 119th 118th 119th 119th 119th 119th <u>118th</u>	(\$43,316,246) (\$1,124,992) (\$1,174,631) (\$16,639,632) (\$1,560,441) (\$1,162,350) (\$64,978,292)
Sales Tax Relief to Consumers Lower Sales Tax Rate to 5% <u>Repeal Snack Tax</u> Sub-Total	118th & 119th <u>119th</u>	(\$134,571,301) (\$15,822,930) (\$150,394,231)
Economic Development Business Equipment Tax Reimbursement Program Repeal 80/20 Corporations Phase-Out Investment Tax Credit Shipbuilding Facility Credit High-Technology & Super R&D Tax Credits Sales Tax Exemption for Custom Computer Software Gas & Special Fuels Excise Tax Increase (\$.03 per gallon) Sales Tax Exemption for Maine Printers Sub-Total	117th & 118th 118th 118th 118th 118th 118th 118th 119th <u>119th</u>	(\$60,511,723) \$2,147,464 \$7,776,487 (\$2,847,000) (\$2,275,643) (\$816,678) \$23,458,510 (\$270,400) (\$33,338,983)
Total Enacted Legislation		(\$451,241,125)
Tax Proposals in Governor's FY02/FY03 Budget Cigarette Excise Tax Increase (\$.26 per pack) Sales Tax on Meals & Lodging Increased to 7.5% Sub-Total		\$13,346,740 <u>\$3,520,790</u> \$16,867,530

Business Equipment Tax Reimbursement

The purpose of the Business Equipment Tax Reimbursement (BETR) program is to offset the disincentive created by Maine's local property tax on personal property to making new capital investments in the State of Maine. Eliminating this disincentive in turn supports economic growth and expansion in the State as has been demonstrated by the extraordinary growth in private sector investment since the program's inception in 1995.

The program provides certain business taxpayers the opportunity to request from the State Tax Assessor reimbursement of taxes paid to a taxing jurisdiction on qualified business property placed in service in the State after April 1, 1995. Support for the program currently is provided by General Fund appropriations.

From fiscal year 2000-01 to fiscal year 2001-02, the Business Equipment Tax Reimbursement program is expected to experience expenditure growth of 17.4% based upon anticipated levels of new investment. Expenditure growth from fiscal year 2001-02 to fiscal year 2002-03 is forecasted to be 13.2%. Because of the General Fund fiscal outlook for the FY 02-03 biennium, all programs that have high expenditure growth received serious scrutiny. The Business Equipment Tax Reimbursement program was not an exception.

The FY 02-03 biennial budget recommends the restructuring of the Business Equipment Tax Reimbursement program from a General Fund tax expenditure to an Other Special Revenue allocation that will offset General Fund revenues. Under the businesses will modified program, reimbursement for eligible property only once a year rather than every time they make a payment to This change will bring their municipality. administrative efficiencies to both taxpayers and Maine Revenue Services. Most importantly, these changes will bring some measure of certainty to one of the state's most important economic development programs. Increased confidence by the business . community in BETR's long-term stability will increase the effectiveness of the program. In addition to the administrative changes, retailers and service providers that have less than 50% of their sales outside of the State of Maine are proposed to be removed from the program.

These recommended changes will achieve three budgetary purposes:

- Change the program from an expenditure supported by General Fund appropriations to an other Special Revenue allocation that offsets General Fund revenues.
- Reduce the future growth of the BETR program.
- Save the General Fund \$10,260,982 in fiscal year 2001-02 and \$10,606,541 in fiscal year 2002-03.

Tax Changes to Address Volatility, Fairness and Clarity

Given the volatile nature of the State of Maine's tax system, the budget for the FY 02-03 biennium includes a proposal to eliminate the Net Operating Loss (NOL) Carry Backs for businesses. Under this proposal, businesses in a loss situation would still be able to carry the losses forward to offset future income. The elimination of the NOL carry backs would prevent companies from getting refunds of back taxes previously paid, thus providing better budget certainty for the Governor and the Legislature. The proposal is effective for NOL carry

backs arising in tax years beginning after December 31, 2001. This change would increase General Fund revenues in fiscal year 2002-03 by \$1,596,099.

The Real Estate Transfer Tax is proposed to cover the transfer of controlling interest in entities with an interest in real property. The intention is to treat transfers of real estate by means of transfers on controlling interests in the same manner as transfers of deed. One hundred percent of the revenue from this proposed change would be distributed to the General Fund, increasing General Fund revenues by \$1,237,500 in fiscal year 2001-02 and \$1,350,000 in fiscal year 2002-03.

The budget for the FY 02-03 biennium includes a recommendation that clarifies the High-Technology Investment Tax Credit and narrows its scope. Ambiguous language concerning "communications" is proposed to be repealed, and the credit is proposed to be limited to designers and producers of

computer software and hardware. The proposed changes to the credit would be effective for tax years beginning on or after January 1, 2001. Credit carry forwards from previous tax years would expire for tax years beginning on or after December 31, 2001 for those taxpayers eliminated from the program. These proposed clarifications would increase General Fund revenues by \$1,024,091 in fiscal year 2001-02 and \$1,898,663 in fiscal year 2002-03.

Tax Revenue Compliance

In an effort to insure the receipt of General Fund tax revenues for the State of Maine under current law, Maine Revenue Services will embark on the initiatives described below within the context of the recommendations for the FY 02-03 biennium. These initiatives will be undertaken to generate General Fund resources for the FY 02-03 biennium, under existing law, as a means of otherwise avoiding budget reductions and/or cuts to balance the General Fund budget.

Audit Restructuring: An internal review of the Sales and Use Tax audit function was initiated in June 2000. In addition to reviewing past practice with respect to audit selection criteria, personnel deployment issues, management expectations and performance measures, there was considerable effort to engage revenue agents in exploring more effective ways of accomplishing the mission. It became clear that by modifying "terms of engagement" in working through compliance issues with taxpayers, the quality and effectiveness of taxpayer service could be improved as well as compliance reviews without unnecessarily burdening taxpayers. This revised approach will result in less average time on each audit that will translate into increased audit productivity.

Expansion of Non-filer Program: Performance evaluation of current audit practices indicates tax compliance risk in the area of non-filers requires focused attention. Many entities doing business in the State of Maine do not comply with state tax laws. Corporate audit staff have recommended, based on the experience of other states, including New Hampshire, that a program to target corporate

non-filers who have nexus with the State of Maine can generate additional revenue beyond the compliance activity involving taxpayers who currently file State of Maine returns. The Sale Tax audit plan has also been modified to identify and contact non-filers. These programs will be particularly beneficial because they result in larger average assessments, and they bring new taxpayers onto the tax roles on an ongoing basis.

The Tax Compliance Unit receives about 10,000 "leads" per year from the Internal Revenue Service on individuals who file Federal returns, but who may not be filing State of Maine returns. This unit developed programs to systematically investigate these leads and is now limited in its capacity for additional assessments by human resource and programming requirements. proposal assigns a programmer and 3 examiner positions to this function to achieve program potential. Two positions will work the traditional non-filer program and one will be assigned the recently expanded S-corporation and partnership non-filer program. These types of entities generate State of Maine source taxable income for their shareholders and partners. The income that "flows through" to the partners should be reported on individual income tax returns. Again, this non-filer work will generate new state revenues, and receivables; it also brings new taxpayers onto the tax roles for future years and is not simply one-time revenue.

Federal Offset Program: Maine Revenue Services is participating in a program with the U.S. Treasury to offset the Federal income tax refunds of State of

Maine taxpayers who have unpaid tax debt. This efficient method of receivable collection will accelerate revenue to the State of Maine. It also frees collectors to focus effort on other receivables that do not receive optimum attention at this time. By focusing attention to other receivable types in a more timely fashion, it is expected that revenues will be collected that would not otherwise be collectible. The estimate for increased revenue is conservative and is based on the experience of other participating states.

Receivables Collection: Approximately \$32 million of taxes receivable are currently reserved for collection staff. The Tax Compliance Report submitted to the Legislature last year detailed the status and extent of tax receivables. This proposal is part of a strategy to address one of the root causes of very aged receivables; it is also an important step towards achieving the performance goal set by Maine Revenue Services in its Performance Budget. Current caseloads prohibit effective collection procedures. This liability is associated with active

and inactive business. The success of delinquent tax collection is dependent on timely and effective follow-up with debtors. A thorough review of tax receivable inventory last year resulted in significant charge offs. In order to minimize future charge off activity, it is critical that case management of this debt be aligned with industry standards. Revenue Services does not currently assign this business debt to outside collection agencies. contract Maine Revenue Services has with the company assigned 1040 tax collections allows assignment of this type of debt. The collection fee would be based on 8.9% of collections. allocation of \$400,000 from the collected tax debt is required to cover the contingency fee. Based on their experience in the State of Maine a few years ago, and in other states, this company has assured Maine Revenue Services that they can collect \$4.5 million annually by addressing the receivable load that cannot be effectively managed with current staff. The non-filer activities associated with other elements of this proposal are expected to increase tax receivables in addition to increasing revenue.

Highway Fund

Ongoing expenditure growth in the Highway Fund for the FY 02-03 biennium is expected to follow historical trends of between 2.5 and 3% on an annual basis. This level of growth does not anticipate, or include, major investment in the transportation infrastructure for the State of Maine. More importantly, this growth is unsupported by Highway Fund revenue growth. Revenues in the Highway Fund are projected to grow approximately 1% on an annual basis.

One means of reducing both the short term and long term expenditure burden of the Highway Fund has been to reduce the general obligation debt authorization for the Highway Fund. Up until the FY 00-01 biennium, general obligation bond issues for the Highway Fund have averaged \$41 million each biennium. In the FY 00-01 biennium, the bond authorization for the Highway Fund was limited to \$25 million in order to reduce debt service costs for the Highway Fund and to reduce Highway Fund debt service as a percent of Highway Fund revenue.

The long term fiscal goal was to reduce the debt service burden of the Highway Fund over a 10 year time period while providing Highway Fund resources for other purposes. Transportation infrastructure needs that would have been supported through Highway Fund general obligation debt would be satisfied through General Fund general obligation debt. This shift was possible due to available debt capacity in the General Fund. Total tax supported debt capacity would be unaffected by this shift (General Fund and Highway Fund combined debt).

The budget for the FY 02-03 biennium recommends the continuation of this fiscal policy. General Fund general obligation debt authorization in fiscal year 2002-03 of \$41 million is recommended to support transportation infrastructure projects. Tax supported debt capacity still would be unaffected. Highway Fund debt service costs of \$2,400,000 would be avoided in fiscal year 2002-03 based on the assumption that the Highway Fund would have had to authorize in fiscal year 2001-02 general obligation debt of \$25 million.

The total projected shortfall for the Highway Fund for the FY 02-03 biennium, after reflecting Part I and Part II budget recommendations, stood at \$43.2 million. In order to offset this projected shortfall, most of the recommended budget reductions for the FY 02-03 biennium would have to come from transportation infrastructure. After careful consideration, the following recommended budget plan for the FY 02-03 biennium for the Highway Fund was developed:

Shortfall:

• Balance \$(43.2) million

Revenues:

Increase Vehicle and Trailer
 Titles \$15 to \$23 \$6.7 million
 Increase Commercial Vehicle
 Fines \$2.0 million
 Total Revenues \$8.7 million

Expenditure Reductions:

Local Bridge Program \$1.0 million
 Highway & Bridge Improvement \$23.5 million
 Urban Rural Initiative Program \$2.6 million
 Sub Total \$27.1 million

Debt Service Reduction \$2.4 million
 Attrition Savings \$3.4 million
 Change in Unfunded

Actuarial Liability Term \$1.6 million **Total Expenditure Reductions** \$34.5 million

Total Revenues and Expenditure Reductions\$43.2 million

Ending Budget Status:

 Shortfall Less Total of Revenues and Expenditure Reductions \$0

Effect of General Fund Bond Authorization of \$41 million:

\$41 million less \$25 million
 Originally Planned for the
 Highway Fund Provides a
 Partial Offset to Transportation
 Infrastructure Reductions of \$16.0 million

<u>Unmet Transportation</u> <u>Infrastructure Need:</u>

• \$27.1 minus \$16.0 million <= \$11.1 million

Cigarette Excise Tax

The budget for the FY 02-03 biennium recommends an increase in the cigarette excise tax of \$.26 per pack. The excise tax on cigarettes would increase to \$1.00 per pack. The proposed increase is estimated to generate additional General Fund revenues of \$13,346,740 in fiscal year 2001-02 and \$23,027,050 in fiscal year 2002-03.

Tobacco is Maine's number one cause of preventable disability and death. Seven Maine people die from tobacco every day – one of them a non-smoker who dies from secondhand smoke. Since the excise tax increase in November of 1997, tobacco consumption (packs per capita) has decreased by 17%. While increased taxes of any

kind are difficult to accept as a means of balancing the General Fund budget for the FY 02-03 biennium, the cigarette excise tax increase is recommended primarily for the following reasons:

- To further reduce the use and abuse of tobacco by increasing the economic or price barrier to smoking.
- To avoid more serious reductions in General Fund support for Medicaid, which is estimated to grow in the FY 02-03 biennium by \$122.6 million based on General Fund current services requests compared to the base year (fiscal year 2000-01), including the recommended

supplemental (emergency) budget for fiscal year 2000-01.

A substantial portion of the ongoing health care costs associated with Medicaid is the result of

tobacco use. According to 1993 expenditure data, tobacco costs Maine's Medicaid system at least \$60-\$90 million per year. Cigarette excise tax increases are a proven method for decreasing the incidence of smoking and improving lives.

Meals and Lodging

The budget for the FY 02-03 biennium includes a proposed increase of ½% in the meals and lodging tax, raising the tax to 7 ½%. This increase would generate additional General Fund revenues estimated at \$3,520,791 in fiscal year 2001-02 and \$6,842,290 in fiscal year 2002-03. The increase would provide a predictable, dedicated revenue stream for tourism promotion, funded by visitors, which would allow planning and implementation of

long term, competitive marketing programs. Tourism is a major economic engine for the State of Maine that independent research has shown to return in excess of \$345 million annually to Maine State Government. A predictable, self-funded income stream dedicated to tourism promotion will provide the resources necessary to protect and grow the revenue accruing to the State of Maine.

Privatization of State Retail Liquor Stores

Contained in the budget for the FY 02-03 biennium is a recommendation to remove the State of Maine from running and operating 27 state retail liquor stores. The cost of running these state stores is an expenditure that can be met by transitioning these to the private sector to increase to 191 the existing agency store network. In doing so, the State of Maine maintains its control over wholesale liquor and, subsequently, the important aspects over the control of alcohol embedded in the concept of being a Control State.

By eliminating the state retail operations, 97 state employees will be displaced. The proposal provides funding and an emphasis on training and job placement for each displaced worker. This recommendation to close the state liquor stores also includes funds for increased enforcement and licensing through the Bureau of Liquor Enforcement in the Department of Public Safety in order to ensure a smooth transition.

The net savings to the General Fund over the FY 02-03 biennium are estimated at \$4,989,778.

Economic Outlook and Forecast

Economic Outlook and Forecast

Background

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992 in order to provide the Governor, the Legislature and the Revenue Forecasting Commission analyses, with findings recommendations for state economic assumptions to be used in developing state revenue forecasts. Creation of the commission was in response to a recommendation of the Special Commission on Government Restructuring in 1991 to establish an independent, consensus process for state economic and revenue forecasting. Public Law 1995, chapter 368 enacted in statute the Consensus Economic Forecasting Commission, maintaining both the structure and intent of the original Executive Order.

The commission consists of 5 members having professional credentials and demonstrated expertise in economic forecasting. Members of the commission are appointed as follows: two members appointed by the Governor; one member recommended for appointment to the Governor by the President of the Senate; one member recommended for appointment to the Governor by

the Speaker of the House of Representatives; and one member appointed by the other members of the commission. One member of the commission must be selected by a majority vote of the other commission members to serve as the chair of the commission.

The commission is required to develop 2 year and 4 year economic forecasts for the State of Maine. In performing this duty, the commission is required by statute to meet twice each fiscal year. No later than November 1st and February 1st annually the commission must develop its findings with regard to the economic assumptions or adjustments to the existing economic assumptions for the State of Maine. The commission submits its findings to the Governor, the Legislative Council, the Revenue Forecasting Committee and the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs. The Revenue Forecasting Committee is required to use the economic assumptions and forecast of the commission in developing its four-year revenue projections.

<u>Findings</u>

The Consensus Economic Forecasting Commission met on September 12, 2000 and subsequently reconvened on October 30, 2000 to prepare the economic assumptions that would become the basis for the Revenue Forecasting Committee's revenue projections for fiscal years 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05.

The commission concluded that the State of Maine would experience the same economic slowdown that is occurring nationally following the interest rate hikes by the Federal Reserve. This trend would result in a general economic slowdown and a decline in construction jobs. Personal income growth is expected to be at 5.5% for 2000 and 2001 and dip to 5% over the remaining forecast period of

2002 through 2005. Unemployment, however, is forecast to remain low as a result of the steady pace of job creation, primarily in the southern part of the state. Employment growth is expected to be at 2.5% in 2000, dipping to a range of 1.1 to 1.3% over the remaining forecast period of 2001 through 2005. Job creation is expected to be supported through economic expansion continued while the continuation of minimal restrained by population growth statewide and tight labor market conditions in southern Maine. Consumer Price Index (CPI) growth is expected to follow national forecast trends.

The major economic growth assumptions are summarized below in **Table B - 1**.

TABLE B - 1 MAJOR UNDERLYING GROWTH RATE ECONOMIC ASSUMPTIONS

Calendar Year	2000	2001	2002	2003	2004	2005
Non-Farm Employment	2.5%	1.1%	1.3%	1.3%	1.3%	1.3%
ME Personal Income (Nominal)	5.5%	5.5%	5.0%	5.0%	5.0%	5.0%
U.S. Consumer Price Index	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%

A more detailed list of economic assumptions, which are incorporated into the revenue forecasting

models used by the Revenue Forecasting committee, are shown below in **Table B - 2**.

	TABLE B - 2											
MA	INE CON	CENCI	id Bar	NOM	IC FOR	TPC/AC	TING	·OMM	ICCIAN	r		
MA	INE CON	omnot	19 DCC		Oct. 30, 2000	LLCA3	THIG	OWIND	IODIUN			
			IHOTODI	CAL DATA					EOD	ECAST		
CALENDAR YEAR	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consumer Price Index - (Urban Dwellers)	-	2.8%	3.0%		6 1.6%	2.29	6 3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Annual Growth Rate												
Maine Unemployment Rate	7.4	5.7 5.5%	5.1 5.0%									
Average 3-Month Treasury Bill Rate Average 10-Year Treasury Note Rate	7.4%	6.9%	6.7%									
14 - 14 - 14 - 14 - 14 - 14 - 14 - 14 -		0.270		,	2.71	3.27	Y	Ž		V	V. V.	
Maine Agricultural Employment (Thousands)	14.5	14,4	14.3	13.8	16.1	13.	4 14.0	14.0	14.0	14.0	14.0	14.0
Non-Farm Employment (Thousands)												
Mining	0.1 21.0	0.1 21.7	0.1 23.1	0.1				30.0				
Construction Manufacturing	91.4	91.0	23.1									
Transp/Commun/Publ. Utils.	22.6	22.3	22.6					AMERICAN CONTRACTOR OF THE PERSON NAMED IN		Annual Contract Contract		
Wholesale Trade	23.9	25.1	25.8									
Retail Trade	110.2	111.9	111.4								126,7	128.1
Finance, Insurance & Real Estate	26.3	26.0	27.1	28.4		31.0		30.6				
Services Government	141.4 94.2	146.7 93.3	151.2 92.8					185.0 99.8		194.7 101.0		
Total Non-Farm Employment	531.1	538.1	542.5	553.7				606.6				
Annual Growth Rates for Non-Farm Employment												
Mining		0.0%	0.0%	0.0%								
Construction Manufacturing		3.3% -0.4%	6.7% -3.0%	0.7%				1.9%	3.0%			3.0%
Transp/Commun/Publ. Utils.		-0.4%	1.4%	2.0%				1.0%	0.6%			0.2%
Wholesale Trade		4.7%	2.9%	0.6%				1.2%				1.0%
Retail Trade	-	1.5%	-0.4%	1.8%		2.7%		0.7%	1.5%		1.1%	1.1%
Finance, Insurance & Real Estate		-1.0%	3.9%	5.0%				-0.5%	0.3%			0.2%
Services		3.7%	3.1%	5.0%		4.4%		2.4%	2.4%			2.6% 0.5%
Government Total Non-Farm Employment	-	-0.9% 1.3%	-0.5% 0.8%	0.2%				0.7% 1.1%	0.5%		0.7%	1.3%
Total (von-Pain Employment		1.370	0.070	2.170	2.070	2,37	0 2.370	1,170	1.570	1.570	1.570	1.570
Total Personal Income (Millions)	24,173.8	25,046,3	26,434.0	27,774.5	29,353,5	30,828,3	32,523,8	34,312.6	36,028.2	37,829.7	39,721,1	41,707.2
Wage and salary disbursements	12,408.5	12,923.3	13,456.5	14,315.5	15,253.5	16,259.0	17,270.1	18,357.2	19,419.2	20,503.7	21,648.0	22,855.5
Other labor income	2,121.8	2,064.8	2,104.0	2,033.8	2,047.5	2,104.5	2,146.6	2,230.3	2,305.8	2,383.3	2,462.7	2,544.1
Non-farm Proprietors' income	1,885.5	1,791.8	1,959.0	2,052.0	2,194.8	2,373.0		2,676.4	2,810.2	2,950.7	3,098.2	3,253.2
plus. Dividends, interest, and rent	4,346.8	4,691.0	5,037.0	5,360.3	5,689.8	5,853.8	6,082.0	6,416.5	6,737.3	7,074.1	7,427.9	7,799.2
plus: Transfer payments less: Personal contrb. for social insurance	4,053.0 999.8	4,286.3 1,050.8	4,568.8 1,084.8	4,798.0 1,145.3	4,957.0 1,201.3	5,067.0 1,287.0	5,301.4 1,333.5	5,524.3 1,406.8	5,728.5 1,477.2	5,939.3 1,551.0	6,156.8 1,628.6	6,381.2 1,710.0
plus: Adjustment for residence	140.0	183.3	208.3	240.0	279.3	300.5	325.2	343.1	360.3	378.3	397.2	417.1
Farm Income	145.5	113.8	145.0	95.3	127.3	149.5	130.1	102.9	72.1	75.7	79.4	83.4
Annual Growth Rates Personal income		3.6%	5.5%	5.1%	5.7%	5.0%	5.5%	5.5%	5.0%	5.0%	5.0%	5.0%
Wage and salary disbursements		4.1%	4.1%	6.4%	6.6%		6.2%	6.3%	5.8%	5.6%	5.6%	5.6%
Other labor income		-2.7%	1.9%	-3.3%	0.7%	2.8%		3.9%	3.4%	3.4%	3.3%	3.3%
Non-farm Proprietors' income	-	-5.0%	9.3%	4.7%	7.0%	8.1%	6.9%	5.5%	5.0%	5.0%	5.0%	5.0%
plus: Dividends, interest, and rent	-	7.9%	7.4%	6.4%	6.1%	2.9%		5.5%	5.0%	5.0%	5.0%	5.0%
plus: Transfer payments		5.8%	6.6% 3.2%	5.0%	3.3% 4.9%	2.2%	4.6%	4.2% 5.5%	3.7%	3.7%	3.7% 5.0%	3.6% 5.0%
less: Personal contrb. for social insurance plus: Adjustment for residence	-	5.1% 30.9%	3.2% 13.6%	5.6% 15.2%	4.9% 16.4%	7.1% 7.6%		5.5% 5.5%	5.0% 5.0%	5.0% 5.0%	5.0%	5.0%
Prov. Anagomica DA Tendence		30.370	15.070	15.270	10.478	7.070	0.270	المرار	2.076	5.070	3.078	2.070
Farm Income		-21.8%	27.5%	-34.3%	33.6%	17.5%	-13.0%	-20.9%	-30.0%	5.0%	5.0%	5.0%
	1				1	1	1			1	1	i "1

TABLE B - 2

Source: Report of the Maine State Revenue Forecasting Committee, December 2000

Revenue Outlook and Forecast

Revenue Outlook and Forecast

Background

The Forecasting Committee Revenue established by Executive Order on May 25, 1992 in order to provide the Governor, the Legislature and the State Budget Officer with analyses and recommendations related to the projection of General Fund and Highway Fund revenues. Creation of the committee was in response to the recommendation of Special Commission on Government Restructuring to develop independent and consensus based revenue projections. Public Law 1995, chapter 368 enacted in statute the Revenue Forecasting Committee. This law provided that membership on the committee would include the State Budget Officer, the State Tax Assessor, the State Economist, the Director of the Legislative Office of Fiscal and Program Review and an economist on the faculty of the University of Maine System selected by the Chancellor.

Public Law 1997, chapter 655 expanded membership on the committee to include an analyst from the Legislative Office of Fiscal and Program Review designated by the Director of that office. The revenue projections of the committee also would no longer be advisory but would become the actual revenue projections used by the Executive setting budget estimates Branch in budget recommendations and out-biennium forecasts for both the General Fund and the

Highway Fund. The State Budget Officer also was empowered to convene a meeting of the committee to review any new data that might become available, affecting the revenue projections for the General Fund and the Highway Fund.

The committee is required to meet at least four times a year or when called by a majority vote of the committee members, or at the request of the State Budget Officer. The committee is required to develop four year revenue forecasts for the General Fund and the Highway Fund, or other funds of the state. No later than December 1st and March 1st annually the committee must submit to the Governor, the Legislative Council, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the State Budget Officer its findings, analyses and recommendations for General Fund and Highway Fund revenues. The revenue forecasts are developed using econometric models for Sales and Use Tax, Individual Income Tax, Corporate Income tax, Fuel Tax and Cigarette Tax, making up approximately 87% of the revenue forecast for the General Fund and the Highway Fund. Forecasts for the remaining revenue lines are developed using data, national economic assumptions, department subject matter experts and operational analysis (e.g., net profit from liquor sales).

Findings (Major Revenue Sources)

Overview – Trend - General Fund revenues for fiscal year 2000-01 are projected to decline by 1.42% from the actual revenues in fiscal year 1999-00 due to one time revenues of \$50,250,000 in fiscal year 1999-00 from the Estate Tax and the Corporate Income Tax (sale of power generating assets) and the implementation of the modified accrual method of accounting for revenue for Corporate Income Tax, Cigarette and Tobacco Tax, Estate Tax and Real Estate Transfer Tax and the following enacted tax changes that reduce General Fund revenues in fiscal year 2000-01 by \$97,119,301:

- Repeal of the Snack Tax effective January 1, 2001.
- Reduction of the sales tax from 5 ½ % to 5 % effective July 1, 2000.
- Increase in the personal exemption for income tax to \$2,850 for income tax years beginning on or after January 1, 2000.
- A public and private pension exemption from income tax of \$6,000 effective for the tax years beginning on or after January 1, 2000.

- An earned income tax credit effective for tax years beginning January 1, 2000.
- Conformity in the State of Maine income tax for health insurance deduction for self employed individuals.

Annual General Fund revenue growth of approximately 5 % from fiscal year 2000-01 through fiscal year 2002-03 based on projections follows the underlying trend and strength of the State of Maine economy adjusted for additional tax reduction effects that further reduce General Fund revenues by \$1.5 million in fiscal year 2001-02 and \$6.5 million in fiscal year 2002-03.

- Adjustment in the income tax brackets to offset inflation effective for the tax year beginning January 1, 2002.
- Indexing of the individual income tax brackets for inflation effective January 1, 2003.

Sales and Use Tax - Consumer spending is expected to moderate from the growth in sales in previous years of 7 to 8%. Annual growth of approximately 5.4% is forecast for fiscal years 2001-02 and 2002-03. There is some concern over automobile/transportation sales and building supply sales, which may cause volatility in the Sales and Use Tax line during economic slowdowns. Automobile/transportation and building supply sales make up approximately 33% of Sales and Use Tax revenues. Strong growth in tourism related sectors are expected to offset moderating growth in economic sensitive sectors of the Sales and Use Tax line. Enacted legislation also is reflected in the forecast for fiscal years 2001-02 and 2002-03 as follows:

• Repeal of the Snack Tax effective January 1, 2001.

Individual Income Tax – The estimate for fiscal years 2001-02 and 2002-03 reflects the underlying economic forecast of the Consensus Revenue Forecasting Commission with respect to personal income and wage and salary distribution and an overestimate for tax year 1999 of between \$15 and \$19 million. Growth in the range of 7 to 10%, which had been the experience in previous years, is not expected to continue due to the general

economic slowdown. Annual growth is expected to be in the 6% range for fiscal years 2001-02 and 2002-03. Capital gains are expected to grow at 4 to 5%. Enacted legislation also is reflected in the forecast for fiscal years 2001-02 and 2002-03 as follows:

- Effective for tax year 2002, the individual income tax brackets are adjusted to offset inflation.
- Effective January 1, 2003, the individual income tax brackets will be indexed for inflation using a formula similar to that used at the federal level.
- Effective for tax years beginning on or after January 1, 2000, the first \$6,000 of public and private pension will be exempt from the individual income tax. The \$6,000 exemption will be reduced, but not below zero, by the amount of social security benefits received by a taxpayer.
- Effective with the tax year beginning January 1, 2000, individual income taxpayers that are eligible for earned income tax credit at the federal level will be allowed a nonrefundable state credit equal to 5% of the federal amount.

Corporate Income Tax – The forecast for Corporate Income Tax is essentially unchanged from the committee's February 2000 forecast for fiscal years 2001-02 and 2002-03. National forecasts of declining corporate profits have necessitated a more cautious revenue forecast for this line.

Cigarette and Tobacco Tax – The forecast for fiscal years 2001-02 and 2002-03 reflects increased tax receipts over budget in the base year (fiscal year 1999-00) of \$2.6 million.

Insurance Company Tax – The forecast for Insurance Company Tax for fiscal years 2001-02 and 2002-03 reflects changes in Maine's insurance market that are expected to increase the insurance premium tax by approximately \$5 to \$6 million each fiscal year.

Municipal Revenue Sharing – Sales and Use Tax, Individual Income Tax and Corporate Income Tax are subject to Municipal Revenue Sharing in accordance with Title 30-A, section 5681 of the

Maine Revised Statutes. That section of statute requires that an amount equal to 5.1% of the latter three tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). Municipal Revenue Sharing is a calculation based on the forecasts of the three previously referenced tax revenue lines.

Fuel Tax – The forecast for Fuel Tax for fiscal years 2001-02 and 2002-03 reflects the base year (fiscal year 1999-00) experience in which actual revenues exceeded budget by \$3.4 million. Annual growth is expected to follow historical trends of approximately 1% each year. The forecast for fiscal years 2001-02 and 2002-03 reflects the full effect of an increase in the excise tax on gasoline and special fuels that increased by \$.03 per gallon effective August 1, 1999. The new rate on gasoline is \$.22 and the new rate on special fuels is \$.23.

Motor Vehicle Registration Fees – The forecast for Motor Vehicle Registration Fees for fiscal years 2001-02 and 2003-03 reflects the base year (fiscal year 1999-00) experience in which actual revenues exceeded budget by \$7.6 million.

Other Revenue Lines – Increases in other revenue lines reflect actual experience in the base year (fiscal year 1999-00), showing increases in transfers from unorganized property tax, net profit transfers from liquor sales, fines, licenses and fees.

The Revenue Forecasting Committee forecast for General Fund revenues is shown in **Table C - 1**. **Table C - 2** shows the committee's revenue forecast

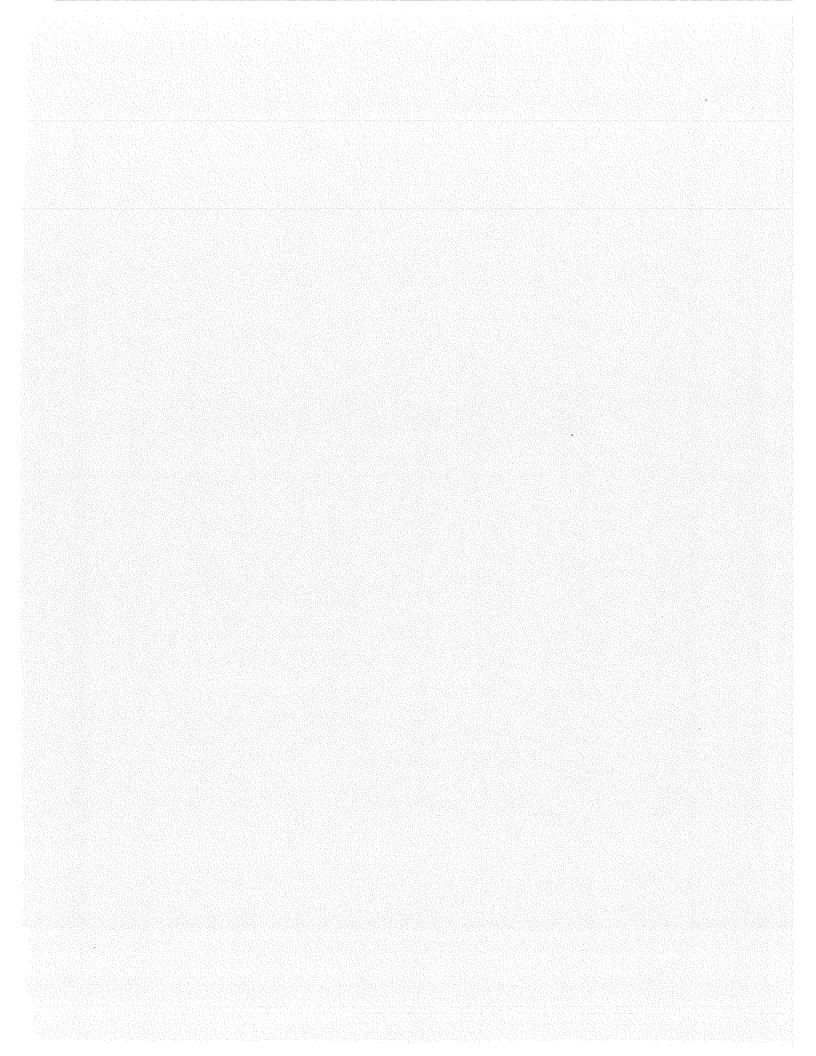
for the Highway Fund. **Table C - 3** shows the adopted revenue forecast of the committee for Tobacco Settlement Funds.

	CENEDAL EUND DEVENUE EODECAST CHADTS										
GENERAL FUND REVENUE FORECAST CHARTS											
SOURCE	FY 00 ACTUAL	FY 01	% CHANGE	BIENNIUM	FY 02	% CHANGE	FY 03	% CHANGE	BIENNIUM		
Sales and Use Tax	847,355,132	833,200,000	-1.67%	1,680,555,132	860,900,000	3.32%	907,330,000	5.39%	1,768,230,000		
Individual Income Tax	1,074,621,614	1,121,314,159	4.35%	2,195,935,773	1,207,921,817	7.72%	1,294,479,861	7.17%	2,502,401,678		
Corporate Income Tax	150,045,645	113,548,431	-24.32%	263,594,076	116,174,886	2.31%	116,711,778	0.46%	232,886,664		
Cigarette & Tobacco Tax	78,343,171	<i>7</i> 7,466,005	-1.12%	155,809,176	76,947,655	-0.67%	76,331,346	-0.80%	153,279,001		
Public Utilities Tax	15,786,931	29,800,000	88.76%	45,586,931	30,100,000	1.01%	29,300,000	-2.66%	59,400,000		
Insurance Company Tax	42,698,686	39,993,634	-6.34%	82,692,320	43,381,856	8.47%	40,924,003	-5.67%	84,305,859		
Inheritance & Estate Tax	58,803,666	32,753,971	-44.30%	91,557,637	34,410,766	5.06%	36,137,472	5.02%	70,548,238		
Property Tax - Unorganized Terr.	9,333,204	9,213,301	-1.28%	18,546,505	9,212,540	-0.01%	9,778,692	6.15%	18,991,232		
Income from Investments	20,312,457	17,000,000	-16.31%	37,312,457	17,000,000		17,000,000		34,000,000		
Municipal Revnue Sharing	(105,673,142)	(105,471,192)	-0.19%	(211,144,334)	(111,434,832)	5.65%	(118,244,604)	6.11%	(229,679,436		
Transfer from Liquor	23,226,758	21,477,758	-7.53%	44,704,516	22,189,864	3.32%	22,613,200	1.91%	44,803,064		
Transfer from Lottery	38,138,174	37,975,384	-0.43%	76,113,558	36,762,402	-3.19%	36,809,911	0.13%	73,572,313		
All Other	142,224,510	133,033,766	-6.46%	275,258,276	134,016,035	0.74%	134,866,177	0.63%	268,882,212		
TOTAL REVENUE	2,395,216,806	2,361,305,217	-1.42%	4,756,522,023	2,477,582,989	4.92%	2,604,037,836	5.10%	5,081,620,825		
			TABL	E C - 2							
E	ПGHWA	Y FUND	REVE	NUE FO	RECAST	CHAR	TS				

SOURCE	FY 00 ACTUAL		% CHANGE	BIENNIUM	FY 02	% CHANGE	FY 03	0% CHANGE	BIENNIUM
Fuel Tax	174,691,007	177,634,606	1.69%	352,325,613	179,876,344	1.26%	182,478,107	1.45%	362,354,451
Motor Vehicle Registrations & Fees	74,079,814	72,356,030	-2.33%	146,435,844	73,301,225	1.31%	74,135,460	1.14%	147,436,685
Inspection Fees	2,625,496	2,421,945	-7.75%	5,047,441	2,465,354	1.79%	2,480,600	0.62%	4,945,954
Income from Investments	3,997,979	3,440,000	-13.96%	7,437,979	3,000,000	-12.79%	3,000,000		6,000,000
Other Revenues	7,524,642	8,003,386	6.36%	15,528,028	8,149,148	1.82%	8,272,508	1.51%	16,421,656
TOTAL REVENUE	262,918,938	263,855,967	0.36%	526,774,905	266,792,071	1.11%	270,366,675	1.34%	537,158,746

		TABLE	C - 3		
	TOBACCO S	ETTLEMENT	REVENUE ES	STIMATES	
FISCAL YEAR	COM	ORECASTING MITTEE ORECAST	REVENUE FORECASTING ANN COMMITTEE REPROJ NOV. 00 FORECAST VARIA		
	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL	100
1999-00	\$63,779,219		\$62,963,739		(\$815,480)
2000-01	\$47,858,671	\$111,637,890	\$47,974,269	\$110,938,008	\$115,598
2001-02	\$57,983,737		\$57,530,718		(\$453,019)
2002-03	\$58,848,418	\$116,832,155	\$58,290,987	\$115,821,705	(\$557,431)
2003-04	\$51,703,870		\$51,043,367		(\$660,503)
2004-05	\$52,475,463	\$104,179,333	\$51,608,274	\$102,651,641	(\$867,189)

Budget Process



Budget Process

Glossary of Terms

Term/Definition

Allotment: The designation of a department or agency's estimated expenditures in each fiscal year budget (called the annual work program) by quarter and line category. Four equal quarters are used each fiscal year. The approved amounts are recorded in the accounting general ledger by quarter and line category to form the basis on which the State Controller authorizes expenditures, in accordance with statute.

Allocations: The total amount of estimated expenditures authorized by the Legislature from resources legally restricted or otherwise designated for specific operating purposes. These resources typically constitute highway funds, federal funds, other special revenue funds, internal service funds, enterprise funds or any other funds, which may be designated for specific purposes by the Legislature.

Alternative Budget: The biennial budget scenario technique in which departments and agencies are required to present revised Part I budgets for each fiscal year of a biennium as an alternative to the department or agency's original Part I budget proposal.

Appropriations: The total amount of estimated expenditures authorized by the Legislature from unrestricted or undesignated resources in each fiscal year. These resources typically constitute undedicated General Fund resources.

Biennial Budget: The two year financial plan of the State of Maine which shows for each fiscal year all proposed expenditures, interest and debt, redemption charges, capital expenditures and estimated revenues in support of expenditures and obligations consistent with the Governor's, or Governor-elect's, program priorities, goals and objectives.

Biennium: The two fiscal years, beginning in even numbered fiscal years, which represent the period

covered by the biennial budget financial plan of the State of Maine.

Encumbrance: A commitment against allotment for legally binding purchase orders and contracts representing goods and services which have not yet been received. Encumbrances become expenditures and liabilities only when the goods and services are actually received.

Full Time Equivalent: The number of positions of less than 52 weeks in a fiscal year authorized by the Legislature for a specific department or agency and program.

Legislative Count: The number of permanent full time and part time positions authorized by the Legislature for a specific department or agency and program.

Line Category: The expenditure groups represented by the following four classifications to which the Legislature appropriates and allocates funds by department or agency and program: personal services (salaries, wages and benefits); all other (operational support); capital expenditures (capital equipment purchases, real property purchases and facility improvement and construction); and, unallocated (undesignated items with respect to expenditure type).

Part I Budget: The two year biennial budget that outlines the anticipated financial resources and estimated expenditures of a department or agency and program that are necessary to continue the current level of legislatively approved program effort.

Part II Budget: The two year biennial budget that outlines the anticipated financial resources and estimated expenditures of a department or agency and program that are necessary to expand existing programs beyond the level authorized by the

Legislature or to undertake new program initiatives, also beyond the scope of existing legislative authorization.

Program (also Program Strategy): A grouping of activities and expected results that are directed

toward the accomplishment of a set of goals and objectives consistent with statutorily defined missions and represents a department bureau, division or operational entity to which the Legislature appropriates or allocates resources defined by the Legislature.

Budget Policy

The Maine Legislature appropriates and allocates Funds for Governmental Funds and Account Groups, as shown in **Table D - 1**

Table D	• 1
Governmental Funds	Account Groups
General Fund	Internal Service Funds
Highway Fund	Enterprise Funds
Federal Expenditures Fund	
Other Special Revenue Funds	
Federal Block Grant Funds	

The Constitution of Maine requires the Governor and the Legislature to submit, enact and approve a balanced budget that achieves each fiscal year a balance between resources and commitments. The State of Maine uses a biennial budget in which the budget is presented by the Governor and acted upon by the Legislature for two fiscal year periods beginning in even numbered years. Each fiscal year of the biennium encompasses the period July 1 through June 30. Appropriations and allocations are provided for each fiscal year of the biennium. The biennial budget for each ensuing biennium is presented and acted upon by the first regular session of the Legislature. During the first regular session, the Legislature may also make adjustments to the appropriations and allocations by program for the last fiscal year of the current biennium. The second regular session of the Legislature may make adjustments to both the first and second fiscal years of the current biennium.

A program oriented biennial budget format has been the method of budget presentation. That presentation format will change to a performance based budget effective with the FY 02-03 biennium. Programs will be referred to as program strategies within each department and agency under performance budgeting. Performance measures will be connected to each program strategy. Each program strategy, in turn, will display its connection to the department or agency goals and objectives. Funding by objective for each department or agency will roll up to a functional statewide policy area.

Appropriations and allocations by program are further delineated by three line categories: Personal Services; All Other; and, Capital Expenditures. The Personal Services line category includes the salaries, wages and benefits for all positions authorized by the Legislature reduced by an attrition factor of .8%. The All Other line category includes the operational expenditures of a program such as vehicle operations, in state travel, supplies, etc. The Capital Expenditures line category includes funds for the purchase and replacement of equipment assets of \$3,000 or more with a useful life greater than one year, and for real property purchases and facility improvements and construction.

Each appropriation and allocation to a program also includes the number of positions authorized by the Legislature. Referred to as "headcount" these positions are further classified by the Legislature as "legislative count" or "full time equivalent". Legislative count represents positions authorized by the Legislature for 52 weeks in a fiscal year. These may include full-time and part-time positions. Full time equivalent represents positions authorized by the Legislature for less than 52 weeks in a fiscal These typically include seasonal intermittent positions. Positions authorized by the Legislature may not vary from the position titles and detailed funding that support the positions without legislative approval unless permanent funding is identified and approved by the State Budget Officer.

The biennial budget is presented separately in the form of an operating budget and a capital budget. Capital facility repairs to maintain asset value are included in the operating budget. The operating budget is further delineated in two parts to reflect content and purpose referred to as Part I and Part II. The Part I budget includes funds that are requested and approved to maintain the current services operation of a program under existing law. The Part II portion of the budget includes funds requested and approved to expand program operations beyond the current level approved by the Legislature, or to create new programs.

Once the Legislature has enacted the biennial budget, and it has been signed into law, the departments and agencies receiving expenditure authorization are required to develop budgets by program for each fiscal year, requesting allotment by line category and quarter. Allotment is established in four quarters approved by the Governor. Fiscal year budgets may be adjusted, or funds transferred between line categories and programs within the same fund and department or agency, to meet changing conditions upon approval by the Governor. Limitations on the transferability of funds between line categories and programs in a fiscal year is guided in law.

Biennial Budget Time Line

Biennial budget policy is provided to departments and agencies in July of the last fiscal year of the current biennium. Policy guidance includes a description of the required documentation to support each budget request and limitations on consumer price index increases for current services. Variance explanations for requests that are over or (under) the consumer price index guideline are required as part of a department or agency submission. Alternative funding scenarios from departments and agencies may also be requested to show the program impact if funds by program were limited to 95%, for example, of the base year appropriations or allocations. Part II requests for new and expanded initiatives are required to be submitted in order of priority. In addition, the guidelines and instructions may also request detailed technology budget information for each department and agency.

Biennial budget requests are due in the Bureau of the Budget by September 1 of each even numbered year. This due date is established in statute. Beginning at the end of September, and continuing through October, one-on-one budget meetings are held with key department and agency staff to discuss specific Part II requests, departmental priorities, performance expectations and impact of reductions from alternative budget scenarios. Key administration staff at these meetings may include the Governor, the Commissioner of the Department of Administrative and Financial Services, the State Budget Officer, the Governor's Chief of Staff and

the Governor's Senior Policy Advisors, depending upon the department or agency and the issue under consideration. At the same time, the budget analysts in the Bureau of the Budget prepare current services budget recommendations for the Governor based on independent analysis and forecasts as well as one-on-one discussions with department and agency staff.

In November and early December, all budget decisions are finalized, including the development of the capital budget. The budget bills are transmitted to the Legislature in late December or early January. Three budget bills are provided to the Legislature. One is a supplemental budget bill (also referred to as an emergency budget bill) that proposes adjustments to appropriations allocations for the last fiscal year of the current biennium. The second is referred to as a unified budget bill in that it presents all appropriations and allocations for a program regardless of funding source. Part A of the bill presents the Governor's current services appropriation and allocation recommendations for the upcoming biennium. Part B of the bill presents the Governor's current services recommendations for adjustments to appropriations and allocations for the upcoming biennium that are required to achieve a balanced budget. Other parts of the unified budget bill include proposed statutory and unallocated language required to give legal effect to the Governor's budget proposals. The third is referred to as a supplemental bill, (also referred to the Part II

budget bill), and contains the Governor's proposals for new and expanded programs and capital improvements and construction.

The budget document must be submitted to the Legislature in early January according to statute. The content of the budget document is prescribed by statute. The budget document presents the budget, financial and operational plan of the Governor for the upcoming biennium. Details are provided in the budget document to show how those plans will be realized and the manner in which the budget has been balanced.

The Legislature conducts separate public hearings for each budget bill type before the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs. At each public hearing, department and agency heads present and defend each budget request by program for his or her department or agency. Testimony from the public, either for or against the request, is solicited by the committee during the public hearing. Members of the joint standing committee of the Legislature having policy jurisdiction over the department or agency also are included in the public hearing process.

Following each public hearing, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs engages in

work sessions for each budget bill type. The initial stage of the work session involves the receipt of recommendations from the legislative policy committees of jurisdiction. The committee next engages each department or agency head, and their staff, in one-on-one discussions in order to elicit additional program information pertinent to the budget decision making process. Such information may include staffing and organization, performance measures, caseload forecasts, etc. The committee takes public votes on each item in the Governor's budget, adjusting each budget bill to reflect the priorities of the Legislature. At the conclusion of the work session, the committee reports out each budget bill type for consideration by the full Legislature followed by referral to the Governor for his or her approval.

Budget bills are submitted as emergency bills that require a 2/3 vote of the members of both legislative bodies in order to take effect when approved by the Governor. Non emergency budget bills require a majority vote of those legislators present and voting in each legislative body. These budget bills take effect 90 days after the adjournment of the Legislature if signed into law by the Governor.

Table D-2 below shows in high level form an approximate time line for the biennial budget process that begins each even numbered year.

Table D - 2	DELTA MARKETI
Issue to departments and agencies the biennial budget	
guidance for Part I, Part II, performance budgeting	
and technology budgets.	July
Receive from departments and agencies the Part I and	
Part II budget requests, the strategic plan and performance	
budget information and the technology budget plans.	September 1
Hold one-on-one budget meetings with departments and agencies	September to October
Receive the General Fund and Highway Fund	
revenue forecasts from the Revenue Forecasting Committee	November
Finalize the Part I, Part II and capital budget	November
Prepare the budget document and budget bills	December
Submit the budget document and budget bills to the Legislature	December & January
Conduct public hearings on budget bills	January & February
Conduct work sessions on budget bills	March to May
Enact budget bills	June

Use of Performance Measures

Performance budgeting is a new element in the biennial budget process for the State of Maine. The Bureau of the Budget and the State Planning Office have met with departments and agencies in order to ensure that their performance measures are relevant for the FY 02-03 biennium. Because of the newness of the process, the performance measures have not

been fully reviewed in relation to the Part I requests from departments and agencies. Part II requests, however, are required to show the incremental increase in performance. These performance measure results have been analyzed in conjunction with the review of new and expanded budget requests for the FY 02-03 biennium.

Revenue Forecasting

The State of Maine develops General Fund and Highway Fund revenue forecasts for the biennial budget within the context of a consensus revenue forecasting model. The Consensus Economic Forecasting Commission first meets to prepare a four year economic forecast for the State of Maine. The six member Revenue Forecasting Committee uses the economic assumptions recommended by the Consensus Economic Forecasting Commission

to prepare its four year revenue forecast for the General Fund and the Highway Fund. The committee's recommendations for revenues affecting the upcoming biennium are made in November, and are subsequently used by the Governor in developing the General Fund and Highway Fund budget recommendations for the upcoming biennium.

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Budget Status

Budget Status

General Fund

The fiscal year 2000-01 budget for the General Fund relies upon a one time projected balance forward from fiscal year 1999-00 of \$295,297,989 to reach a balanced budget. While approximately million of one time General appropriations were enacted in fiscal year 2000-01, ongoing General Fund appropriations exceed ongoing revenue in fiscal year 2000-01 by \$98.7 million. This Structural Imbalance in fiscal year 2000-01, which is defined as the difference between ongoing revenues and ongoing appropriations (expenditures) in a fiscal year, is expected to have a negative impact on the projected status of the General Fund in the FY 02-03 biennium. The fiscal year 2000-01 General Fund status is shown in Table E - 1.

The Bureau of the Budget is required by statute to develop four year budget forecasts for the General Fund. The budget forecast is required by statute to use the General Fund revenue forecasts of the Revenue Forecasting Committee. Expenditure forecasts are required by law to be based on current law and the current structure and operation of General Fund supported programs. For the "outyear" budget forecasts (fiscal years 2001-02 and 2002-03 in **Table E - 1**), the Bureau of the Budget

used weighted average growth for each expenditure category to develop a baseline expenditure forecast. This baseline forecast was adjusted by program for one time expenditures and the phase-in of new operations. The baseline forecast was further adjusted to reflect program-by-program expenditure growth or decline that varied from the baseline growth assumptions, resulting from programmatic factors such as caseload, national trends, etc.

On September 22, 2000, the Bureau of the Budget issued its updated four year budget forecast for fiscal years 1999-00, 2000-01, 2001-02 and 2002-03. This budget forecast for the General Fund for fiscal years 2001-02 and 2002-03 is shown in Table E-1. Based on the assumptions delineated in Table E -1, including the expectation of using \$30 million in Tobacco Settlement Funds (Fund for a Healthy Maine) for growth in Medicaid, the budget forecast results in a Structural Budget Gap in the FY 02-03 biennium of \$197 million. A Structural Budget Gap is defined as the difference between projected revenues and projected expenditures in a biennium under current law. Table E - 1 shows the results in the FY 02-03 biennium of the budget for General Fund. forecast the

TABLE E - 1

GENERAL FUND STATUS

At the Beginning of the FY 02 - 03 Biennial Budget Process

	FY 20	000-2001 BIENI	MUIN	FY 20	002-2003 BIENI	MUIV
	FY 00	FY 01	TOTAL	FY 02	FY 03	TOTAL
Balance	229,220,453		229,220,453	6,392,564		6,392,564
Increase to Balance		5,651,950	5,651,950			
Adjustments To Balance	17,029,105	2,562,907	19,592,012			
Supplemental Adjustments To Balance	15,382,018	(4,058,477)				
TOTAL ADJUSTMENTS TO BALANCE	32,411,123	4,156,380	36,567,503			
Transfer To The Rainy Day Fund	(11,418,672)		(11,418,672)			
Revenue Base	2,313,161,014	2,332,538,529	4,645,699,543	2,449,265,062	2,576,830,405	5,026,095,467
Supplemental Revenue	48,553,269	13,879,080	62,432,349	14,726,006	10,371,210	25,097,216
TOTAL REVENUE	2,361,714,283	2,346,417,609	4,708,131,892	2,463,991,068	2,587,201,615	5,051,192,683
TOTAL RESOURCES	2,611,927,187	2,350,573,989	4,962,501,176	2,470,383,632	2,587,201,615	5,057,585,247
Appropriations Base	2,279,097,949	2,346,982,233	4,626,080,182	2,504,414,831	2,635,747,361	5,140,162,192
Supplemental Appropriations	37,531,249	292,066,643	329,597,892	93,314,491	94,679,559	187,994,050
TOTAL APPROPRIATIONS	2,316,629,198	2,639,048,876	4,955,678,074	2,597,729,322	2,730,426,920	5,328,156,242
Other Adjustments						
Removal Of The Retiree Health Reserve				(7,936,500)	,	
Change CPI Assumption From 3% To 2.5%				(2,466,091)	(4,935,954)	(7,402,045)
MSRS Retirement Rate Valuation 6/30/00		400 500	100 500	(10,347,259)	(9,922,224)	(20,269,483)
Reserve For Two Initiated Bills	407.407.000	430,538		705 505 513	(300 100 557	2007.00 2.22
BALANCE BEFORE HEALTHY ME	295,297,989	(288,905,425)	6,392,564	(106,595,840)	(120,430,627)	(227,026,467)
Fund For A Healthy Maine				(15,000,000)	(15,000,000)	(30,000,000)
PROJECTED BALANCE	295,297,989	(288,905,425)	6,392,564	(91,595,840)	(105,430,627)	(197,026,467)

Note: The FY 02 - 03 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2001.

Source: Revenue & Expenditure Projection General Fund and Highway Fund Fiscal Years 2000-2003, September 22, 2000

Highway Fund

The fiscal year 2000-01 budget for the Highway Fund relies upon a one time balance forward from fiscal year 1999-00 of \$13,504,280 million. The Second Regular Session of the 119th Legislature provided resources to the Department of

Transportation for transportation infrastructure projects of \$4,044,139 from a Transportation Funding Reserve, and a transfer from General Fund Unappropriated Surplus of \$20,650,000. The fiscal

year 2000-01 Highway Fund status is shown in **Table E-2.**

The Bureau of the Budget is required by statute to develop four year budget forecasts for the Highway Fund. The budget forecast is required by statute to use the Highway Fund revenue forecasts of the Revenue Forecasting Committee. Expenditure forecasts are required by law to be based on current law and the current structure and operation of Highway Fund supported programs. For the "outyear" budget forecasts (fiscal years 2001-02 and 2002-03 in Table E - 2), the Bureau of the Budget used weighted average growth for each expenditure category to develop a baseline expenditure forecast. This baseline forecast was adjusted by program for one time expenditures and the phase-in of new operations. The baseline forecast was further adjusted to reflect program-by-program expenditure growth or decline that varied from the baseline growth assumptions, resulting from programmatic factors such as caseload, national trends, etc.

On September 22, 2000, the Bureau of the Budget issued its updated four year budget forecast for

fiscal years 1999-00, 2000-01, 2001-02 and 2002-03. This budget forecast for the Highway Fund for fiscal years 2001-02 and 2002-03 is shown in

Table E - 2. Based on the assumptions delineated in Table E - 2 the forecast results in a Structural Budget Gap in the FY 02-03 biennium of \$45.6 million. A Structural Budget Gap is defined as the difference between projected revenues and projected expenditures in a biennium under current law. Table E - 2 shows the results in the FY 02-03 biennium of the budget forecast for the Highway Fund. The resulting Structural Budget Gap for the Highway Fund is attributable primarily to two factors:

- Ongoing transportation infrastructure needs funded by the General Fund in fiscal year 2000-01 in the amount of \$24.7 million.
- Highway Fund revenue growth of approximately 1% each fiscal year, which is substantially below expenditure growth in the Highway Fund.

TABLE E - 2

HIGHWA	AY FUNI) STATU	S								
At the Beginning of the FY 02 - 03 Biennial Budget Process											
FY 2000-2001 BIENNIUM FY 2002-2003 BIENNIUM											
FY 00	FY 01	TOTAL	FY 02	FY 03	TOTAL						
33,145,667		33,145,667	9,537,809		9,537,809						
	9,476,902	9,476,902									
	4,044,139	4,044,139									
	20,650,000	20,650,000									
249,063,515	255,703,090	504,766,605	258,300,775	260,249,729	518,550,504						
	(37,353)	(37,353)	(50,742)	(51,763)	(102,505						
249,063,515	255,665,737	504,729,252	258,250,033	260,197,966	518,447,999						
282,209,182	289,836,778	572,045,960	267,787,842	260,197,966	527,985,808						
265,332,951	265,866,563	531,199,514	281,522,870	288,735,111	570,257,981						
3,371,951	27,936,686	31,308,637	1,634,472	1,692,102	3,326,574						
268,704,902	293,803,249	562,508,151	283,157,342	290,427,213	573,584,555						
13,504,280	(3,966,471)	9,537,809	(15,369,500)	(30,229,247)	(45,598,747)						
	249,063,515 249,063,515 249,063,515 282,209,182 265,332,951 3,371,951 268,704,902	FY 2000-2001 BIENN FY 00 FY 01 33,145,667 9,476,902 4,044,139 20,650,000 249,063,515 255,703,090 (37,353) 249,063,515 255,665,737 282,209,182 289,836,778 265,332,951 265,866,563 3,371,951 27,936,686 268,704,902 293,803,249	FY 2000-2001 BIENNIUM FY 00 FY 01 TOTAL 33,145,667 9,476,902 9,476,902 4,044,139 20,650,000 249,063,515 255,703,090 504,766,605 (37,353) (37,353) 249,063,515 255,665,737 504,729,252 282,209,182 289,836,778 572,045,960 265,332,951 265,866,563 31,308,637 268,704,902 293,803,249 562,508,151	FY 2000-2001 BIENNIUM FY 20 FY 00 FY 01 TOTAL FY 02 33,145,667 33,145,667 9,537,809 9,476,902 9,476,902 9,476,902 4,044,139 4,044,139 20,650,000 249,063,515 255,703,090 504,766,605 258,300,775 (37,353) (37,353) (50,742) 249,063,515 255,665,737 504,729,252 258,250,033 282,209,182 289,836,778 572,045,960 267,787,842 265,332,951 265,866,563 531,199,514 281,522,870 3,371,951 27,936,686 31,308,637 1,634,472 268,704,902 293,803,249 562,508,151 283,157,342	FY 2000-2001 BIENNIUM FY 2002-2003 BIENN FY 00 FY 01 TOTAL FY 02 FY 03 33,145,667 33,145,667 9,537,809 9,476,902 9,476,902 4,044,139 4,044,139 20,650,000 249,063,515 255,703,090 504,766,605 258,300,775 (51,763) 249,063,515 255,665,737 504,729,252 258,250,033 260,197,966 282,209,182 289,836,778 572,045,960 267,787,842 260,197,966 265,332,951 265,866,563 531,199,514 281,522,870 288,735,111 3,371,951 27,936,686 31,308,637 1,634,472 1,692,102 268,704,902 293,803,249 562,508,151 283,157,342 290,427,213						

Note: The FY 02 - 03 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2001.

Source: Revenue & Expenditure Projection General Fund and Highway Fund Fiscal Years 2000-2003, September 22, 2000

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Fiscal Outlook

Fiscal Outlook

General Fund

Department services and agency current expenditure requests for the FY 02-03 biennium increased the projected Structural Budget Gap in the FY 02-03 biennium to \$298.6 million when compared to the Structural Budget Gap of \$197 million from the September 22, 2000 budget forecast. The increase in biennial expenditure requests for current services that exceeded the September 22, 2000 budget forecast included \$62.1 million for Medicaid. Medicaid represented 61.1% of the \$101.6 million increase in requests over forecast shown in Table F-1.

The University of Maine System made up the bulk of the remaining increase, with current services expenditure requests for the FY 02-03 biennium exceeding the budget forecast by \$33.3 million. Table F-1 shows the change in the General Fund Structural Budget Gap from the original forecast as a result of department and agency expenditure requests for current services. Table F-1 also shows the variances by program between the September 22, 2000 expenditure forecast and the actual department and agency expenditure requests for current services.

GENERAL FUND After Department			
	FY 02	FY 03	BIENNIUM
RUDGETED BALANCE 6-30-01	6,823,102		6,823,10
LESS: LESS RESERVE FOR INMATED BILLS	(430,538)	1	(430,53
VAILABLE BALANCE	6,392,564		6,392,56
PROJECTED REVENUE	2,463,991,068	2,587,201,615	5,051,192,68
OTAL PROJECTED RESOURCES	2,470,383,632	2,587,201,615	5,057,585,24
OTAL PROJECTED EXPENDITURES	2,576,979,472	2,707,632,242	5,284,611,71
LESS: FUND FOR A HEALTHY MAINE	(15,000,000)	(15,000,000)	(30,000,00
PROJECTED BALANCE	(91,595,840)	(105,430,627)	(197,026,46
DEPARTMENT/AGENCY REQUESTS OVER FORECAST	35,643,019	65,953,080	101,596,09
PROJECTED BALANCE	(127,238,859)	(171,383,707)	(298,622,56

	SELECTED EX	PENDITUR	E REQUEST	VFORECAS	${f T}$	and the second	
	VARIANCE	OVER ORIGINAI	.PROJECTED INC	REASES			
PROGRAM	REQUEST	FY 02 FORECAST 9/22/00	DIFFERENCE	REQUEST	FY03 FORECAST 9/22/00	DIFFERENCE	BIENNIUM DIFFERENCE
MEDICAL CARE - PAYMENTS TO PROVIDERS	298.144.172	285.551.235	12.592.937	323,218,141	308,966,436	14,251,705	26,844,642
NURSING FACILITIES	75,652,600	73,268,716	2,383,884	77,915,446	75,450,193	2,465,253	4,849,137
MEDICAID SERVICES - MENTAL RETARDATION	66,639,434	58,049,779	8,589,655	74,043,535	59,618,834	14,424,701	23,014,366
MH SERVICES - CHILD MEDICAID	14,411,617	13,330,033	1,081,584	15,567,184	13,721,218	1,845,966	2,927,550
MH SERVICES - CHILDREN (ALL OTHER ONLY)	17,919,725	17,291,375	628,350	18,363,000	17,793,322	569,678	1,198,028
MH SERVICES - COMMUNITY (ALL OTHER ONLY	32,569,131	32,594,378	(25,247)	33,361,136	33,557,433	(196,297)	(221,544
MH SERVICES - COMMUNITY MEDICAID	29,835,463	28,462,954	1,372,509	32,426,973	29,304,257	3,122,716	4,495,225
VIR SERVICES - COMMUNITY (ALL OTHER ONLY)	11,550,696	10,881,431	669,265	11,811,269	11,215,011	596,258	1,265,523
CAPITAL CONSTRUCTION	9,892,268	5,150,000	4,742,268	10,139,574	5,305,000	4,834,574	9,576,842
MAINE TECHNICAL COLLEGE SYSTEM	40,302,105	40,065,492	236,613	41,712,680	41,266,327	446,353	682,966
JUDICIAL (ALL OTHER ONLY)	24,947,472	23,180,156	1,767,316	25,851,306	23,870,480	1,980,826	3,748,142
EDUCATIONAL & GENERAL ACTIVITIES - UMS	181,660,510	171,735,150	9,925,360	200,310,510	176,958,898	23,351,612	33,276,972
TOTAL	803,525,193	759,560,699	43,964,494	864,720,764	797,027,409	67,693,345	111,657,839

Table F-2 shows the change in the General Fund **Structural Budget Gap** as a result of the November 30, 2000 General Fund revenue projection of the Revenue Forecasting Committee. Unlike previous

years, the committee's General Fund revenue projection did not materially reduce the estimated General Fund **Structural Budget Gap** for the FY 2002-2003 biennium.

TABLE F - 2

GENERAL FUND BALANCE After Department Requests and November 13, 2000 Revenue Reprojection FY 02 FY 03 BIENNIUM BUDGETED BALANCE 6-30-01 6,823,102 6,823,102 REVENUE REPROJECTION - FY 01 14,887,608 14,887,608 AVAILABLE BALANCE 21,710,710 21,710,710 PROJECTED REVENUE 5,051,192,683 2,463,991,068 2,587,201,615 29,959,809 REVENUE REPROJECTION 13,422,058 16,537,751 TOTAL PROJECTED RESOURCES 2,499,123,836 2,603,739,366 5,072,903,393 TOTAL PROJECTED EXPENDITURES 2,576,979,472 2,707,632,242 5,284,611,714 LESS FUND FOR A HEALTHY MAINE (15,000,000) (15,000,000) (000,000,08) PROJECTED BALANCE (151,748,512)(62,855,636)(88,892,876) DEPARTMENT/AGENCY REQUESTS OVER FORECAST 101,596,099 35,643,019 65,953,080 PROJECTED BALANCE (98,498,655) (154,845,956) (253,344,611)

Note: The FY 02 - 03 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2001.

Chart F - 1 shows the percent of General Fund by program area for State of Maine current services expenditure requests for the FY 02-03 biennium compared to all states in fiscal year 1998-99. While all states commit an average of 14.6% of General Fund budgets to Medicaid, the State of Maine would commit 19.2% of its General Fund budget to

Medicaid. In spite of the Medicaid funding squeeze, K through 12 Education funding as a percent of the General Fund would exceed the national commitment. The areas that are impacted the most as a percent of the General Fund due to resource demands from Medicaid are Corrections and Higher Education.

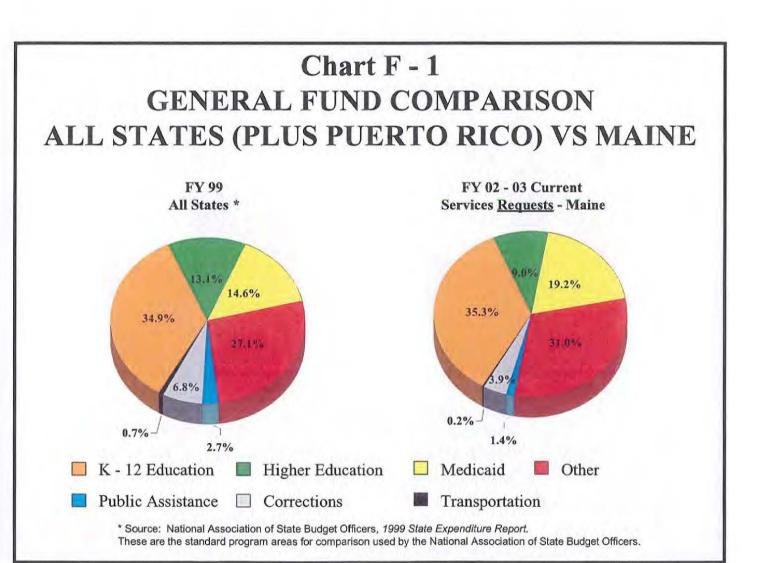


Chart F-2 shows the percent of General Fund program areas in the FY 00-01 biennium compared to the department and agency current services expenditure requests for the FY 02-03 biennium. The General Fund commitment to Medicaid would increase from 17.7% in the FY 00-01 biennium to

19.2% (based on current services requests) in the FY 02-03 biennium. The General Fund expenditure trends for Medicaid present a challenge in balancing the General Fund budget in the FY 02-03 biennium and in meeting other needs such as K through 12 Education, Corrections and Higher Education.

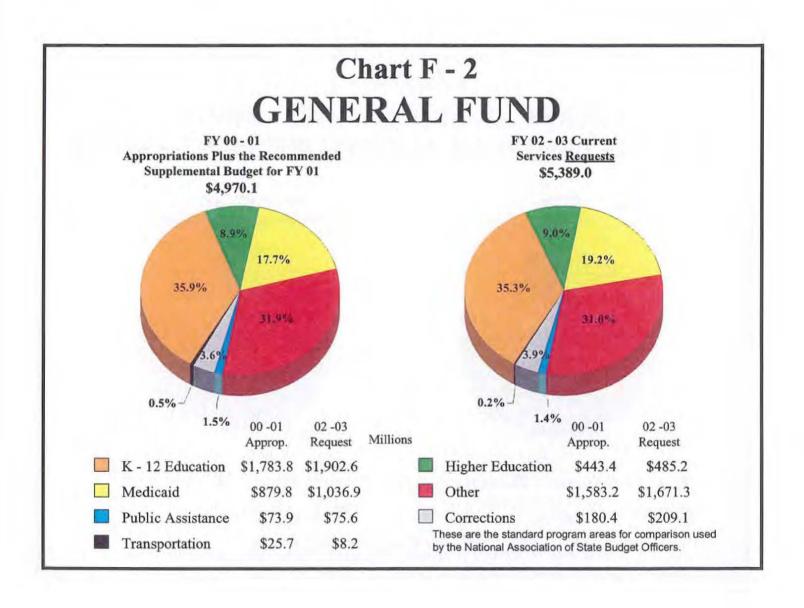


Chart F-3 compares the State of Maine to the U.S. on the basis of per capita income and per capita General Fund expenditures for selected program areas. In calendar year 1999, the State of Maine ranked 38th in terms of per capita income. Since General Fund revenues are highly dependent upon personal income growth, personal income becomes an important measure of the capacity of the General Fund to support program expenditures. In contrast, the State of Maine ranked 9th in per capita General Fund Medicaid expenditures in fiscal year 1997-98. Consistent with Chart F-1 above, Chart F-3 shows that the State of Maine has maintained its resource

commitment to K through 12 Education, achieving a rank of 15th in per capita General Fund expenditures for K through 12 Education in fiscal year 1998-99. The State of Maine ranked 42nd in Corrections per capita General Fund expenditures in fiscal year 1998-99. The State of Maine ranked 44th in Higher Education per capita General Fund expenditures in fiscal year 1998-99. The per capita expenditure outcomes in Chart F-3 for Corrections and Higher Education are likely attributable to the resource demands of Medicaid and correlate with the results shown in Chart F-1 above.

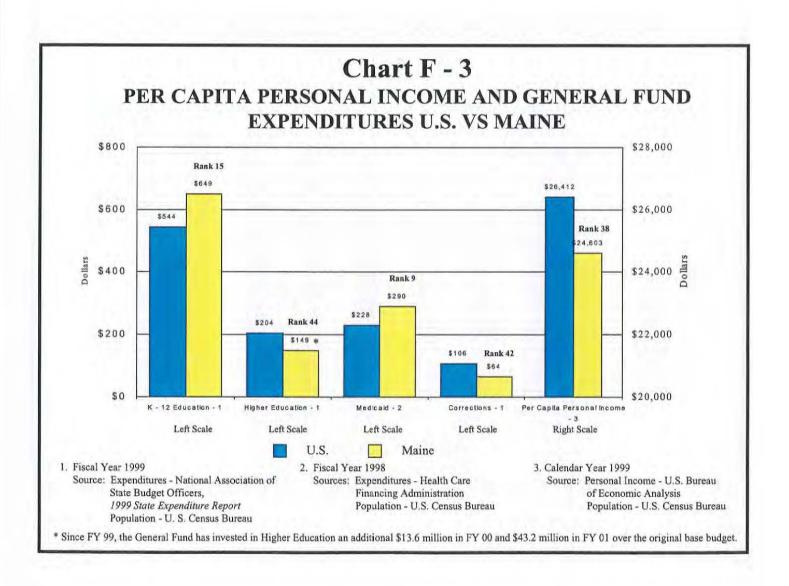
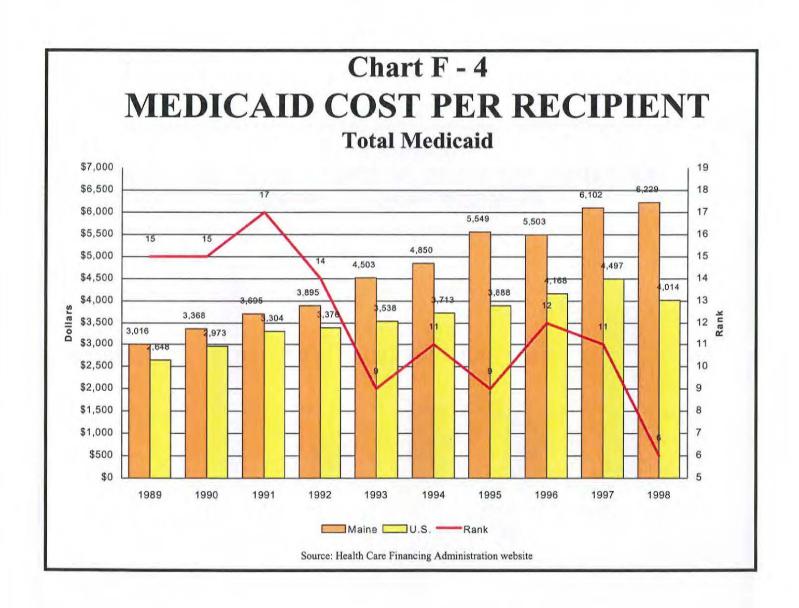


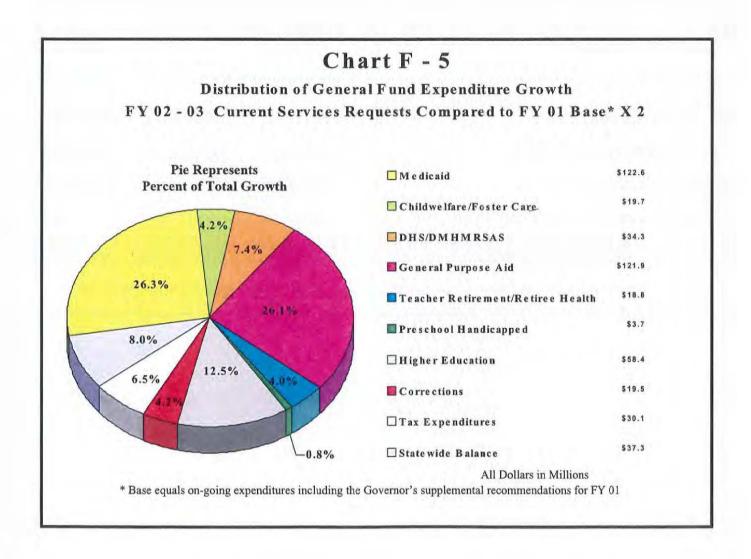
Chart F- 4 compares the State of Maine to the U.S. with respect to Maine's rank nationally on a cost per recipient basis for Medicaid. In 1998, the State of Maine ranked 6th on a cost per recipient basis for

Medicaid. Chart F-4 also presents cost per recipient and rank nationally from 1989 through 1998.



Although Medicaid is a considerable challenge in balancing the General Fund budget for the FY 02-03 biennium, other program areas present General Fund growth challenges as well. Chart F-5 shows that Medicaid and General Purpose Aid to Education make up 52.4% of the growth in department and agency current services requests for the FY 02-03 biennium over the fiscal year 2000-01 base. Other program areas showing considerable growth on a percentage basis are shown in Chart F-

5. These are the program areas that require the most review and analysis in order to close a projected General Fund Structural Budget Gap of between \$197 million and \$298.6 million in the FY 02-03 biennium. The remainder of General Fund programs contribute only 8% to the expenditure growth of department and agency requests for the FY 02-03 biennium compared to the fiscal year 2000-01 base.



Highway Fund

Department and agency current services expenditure requests for the FY 02-03 biennium increased the projected **Structural Budget Gap** in the FY 02-03 biennium to \$62.4 million when compared to the **Structural Budget Gap** of \$45.6 million from the September 22, 2000 budget forecast. The expenditure increase over forecast for current services of \$16.8 million occurs in Highway and Bridge Improvement in the Department of Transportation. This increased request comes from

the inclusion in the current services budget of Highway and Bridge Improvement of approximately \$17 million of expenditure needs that had been funded from the General Fund in fiscal year 2000-01 on a one time basis. **Table F-3** shows the change in the Highway Fund **Structural Budget Gap** from the original forecast as a result of department and agency expenditure requests for current services.

Table F - 3

HIGHWAY FUND BALANCE After Department Requests					
	FY 02	FY 03	BIENNIUM		
BUDGETED BALANCE 6-30-01	9,537,809	7	9,537,809		
PROJECTED REVENUE	258,250,033	260,197,966	518,447,999		
TOTAL PROJECTED RESOURCES	267,787,842	260,197,966	527,985,808		
TOTAL PROJECTED EXPENDITURES	283,157,342	290,427,213	573,584,555		
PROJECTED BALANCE	(15,369,500)	(30,229,247)	(45,598,747)		
DEPARTMENT/AGENCY REQUESTS OVER FORECAST	9,134,610	7,647,954	16,782,564		
PROJECTED BALANCE	(24,504,110)	(37,877,201)	(62,381,311)		

Note: The FY 02 - 03 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2001.

Table F-4 shows the change in the Highway Fund Structural Budget Gap as a result of the November 30, 2000 Highway Fund revenue projection of the Revenue Forecasting Committee. While the Committee's Highway Fund revenue projection had a favorable impact on the estimated Highway Fund Structural Budget Gap for the FY 02-03 biennium, the fiscal challenge for the Highway Fund for the FY 02-03 biennium continues to be:

- Ongoing transportation infrastructure needs funded by the General Fund in fiscal year 2000-01 in the amount of \$24.7 million.
- Highway Fund revenue growth of approximately 1% each fiscal year, which is substantially below expenditure growth in the Highway Fund.

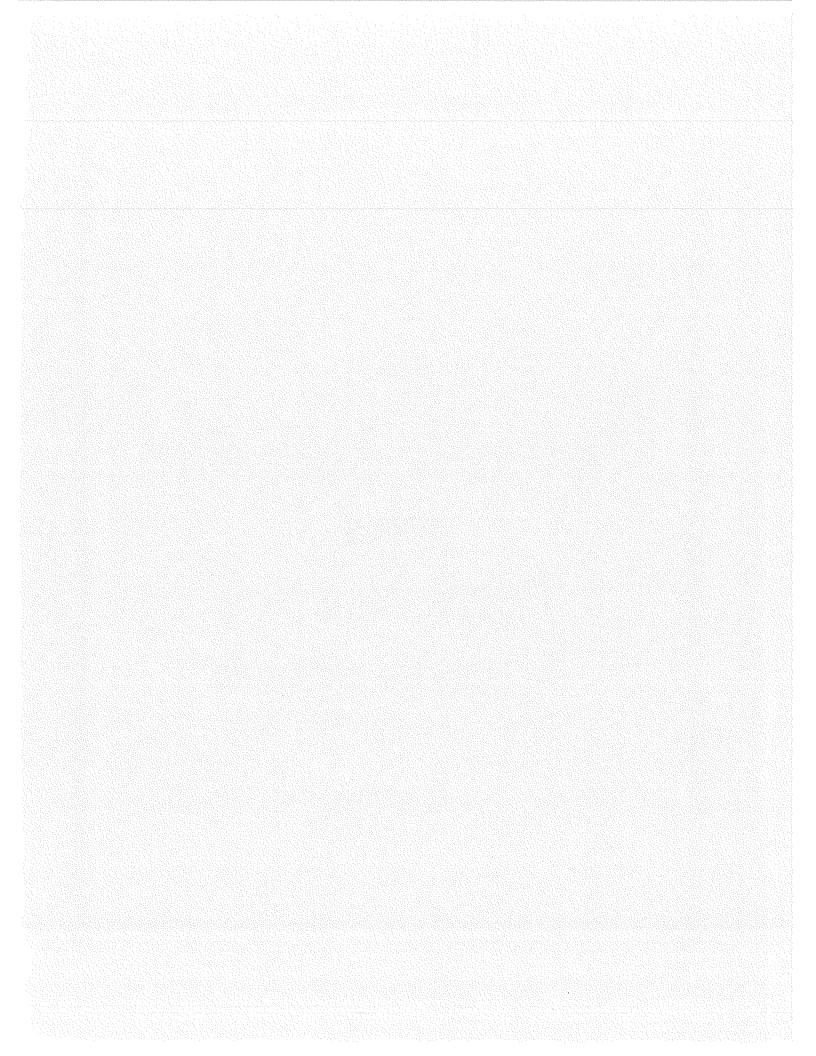
Table F - 4

HIGHWAY FUND BALANCE After Department Requests and November 13, 2000 Revenue Reprojection					
	FY 02	FY 03	BIENNIUM		
BUDGETED BALANCE 6-30-01	9,537,809		9,537,809		
REVENUE REPROJECTION - FY 01	8,190,230		8,190,230		
AVAILABLE BALANCE	17,728,039		17,728,039		
PROJECTED REVENUE	258,250,033	260,197,966	518,447,999		
REVENUE REPROJECTION	8,542,038	10,168,709	18,710,747		
TOTAL PROJECTED RESOURCES	284,520,110	260,197,966	553,904,077		
TOTAL PROJECTED EXPENDITURES	<u>283,157,342</u>	<u>283,157,342</u>	<u>566,314,684</u>		
PROJECTED BALANCE	1,362,768	(22,959,376)	(21,596,608)		
DEPARTMENT/AGENCY REQUESTS OVER FORECAST	9,134,610	7,647,954	16,782,564		
PROJECTED BALANCE	(7,771,842)	(30,607,330)	(38,379,172)		

Note: The FY 02 - 03 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2001.

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Strategic Planning and Performance Measurement



Strategic Planning and Performance Measurement

Glossary of Terms

Term/Definition

Measurable Objective: A specific quantifiable outcome that defines how a department or agency will achieve its goals and that defines the actual impact on the public being served rather than the level of effort expended by the department or agency. The use of a measurable objective is a tool to assess the effectiveness of a department or agency's performance and the public benefit derived.

Performance Budgeting: The method for developing and finalizing a department or agency's request for appropriations or allocations derived from its strategic plan and consistent with a department or agency's statutory responsibilities. Performance budgeting allocates resources based on the achievement of measurable objectives, which in turn are related to the department or agency's mission and goals.

Program: A grouping of activities and expected results that are directed toward the accomplishment of a set of goals and objectives consistent with statutorily defined missions and represents a department, bureau, division or operational entity to which the Legislature appropriates or allocates resources as defined by the Legislature.

State Department or Agency: An executive department, executive agency, independent agency, organization, corporation or association that receives a direct appropriation or allocation from the State.

Strategic Plan: A long range, policy oriented document that maps an explicit path between the present and a vision for the future. A strategic plan is derived from an assessment, goal-setting and decision-making process that relies on careful consideration of a department or agency's capabilities and environment. A strategic plan identifies a state department or agency's statutorily

defined mission, goals, measurable objectives and strategies and leads to priority-based resource allocations and other decisions.

Department or Agency Goals: General ends toward which a department or agency directs its efforts based on issues that have been identified as priorities. They are broad statements of department or agency policy, as derived from the statutorily defined mission, that are ambitious and provide a direction toward which the department or agency intends to head.

Strategy: The methods to achieve department or agency goals and objectives. A strategy may be employed by a department or agency bureau, division, program or organizational entity having identifiable management responsibility and measures of accountability approved by the Legislature.

THE STRATEGIC PLANNING FRAMEWORK

Performance measures need to be tightly aligned to a strategic framework —a framework that lays out an agency's purpose, goals, and the specific outcomes it is charged with accomplishing.

Elements Statutes/Enabling Legislated public purpose, DHS	and amilies
What is our public Legislation legislated activities A statement of the agency's purpose: what maintenance, public health	and amilies
What is our public A statement of the agency's purpose: what To provide social services, maintenance, public health	and amilies
our public agency's purpose: what maintenance, public health	and amilies
	amilies
purpose? does it do, why, and for medical services to Maine f	
whom? so that they achieve their or	
independence, health & safe	
Goals Outcome-based policy To ensure the safety and we	
statements of future ends of Maine's children and fan	
desired by the agency	
Objective Specific, measurable Increase the percent of Main	ne
outcomes to track whether children who are protected to	rom
the agency is making abuse and neglect.	
progress towards its goals.	
How are Program Methods for achieving the 0307 Foster Care: Provide s	
we going to Strategy objectives and services for children in	
accomplish Department's care or custod	
it? permanent placements are b	eing
How do we Performance Quantifiable indicators of percent of foster care ch	:1.d
T	
know if Measures effectiveness and who remain in the departme efficiency care for 36 months or less	nt s
successful? • percent of families wher	Α
intervention has occurred w	
require no further intervention	_
• % of family safety asses	i i
completed within 24 hours	
• percent of children in far	mily
foster care settings as oppos	•
residential or treatment facil	ities
• percent of foster homes	
in compliance with state star	ıdards

TYPES OF PERFORMANCE MEASURES

Performance measures can be categorized into specific types. Each type of measure provides information about some aspect of the program or service.

Input measure: A measurement of the financial and nonfinancial resources that are applied when providing services.

- the amount spent on recycling collection;
- the amount of work time expended on recycling collection

Output measure: A measurement of the activities or work performed by a government unit. It also measures the quantity of services provided that meet a certain quality standard (sometimes referred to as Output Quality). Outputs are typically under the control of government managers.

- tons of recyclables collected
- percentage of curbside recycling containers picked up on time

Efficiency Measure: A measurement of the resources used per unit of output. A subset of efficiency measures is a Productivity Measure, which is a measurement of the staff resources used per unit of output.

- cost of recyclable collection per ton
- cost of recyclable collection per household
- tons of recyclables collected per full-time collection worker

Service Measure: A measurement of the customer satisfaction with the outputs or an assessment of the quality of the service/program by its users (Service Quality).

- residents' satisfaction with recycling collection service
- percent of residents who indicate that the recycling collection service is convenient

Outcome measure: A measurement of the results that occur, at least in part, because of government services provided. This may include initial, intermediate, or long-term outcomes. Outcomes are frequently not fully controlled by government managers.

- percent reduction in waste being landfilled
- percent reduction in mercury air emissions from waste incineration
- percent reduction in mercury contamination of lakes and streams

Cost Effectiveness Measure: A measurement of the resources used per unit of outcome.

- landfill cost avoided per ton
- cost per percent point reduction in mercury air emissions

Explanatory Measure: A measurement of factors related to the service being provided that may affect the reported performance.

- tons of waste imported from other jurisdictions
- avg. per-ton market price for recyclables

Range of Outcomes One Example for an International Trade Office

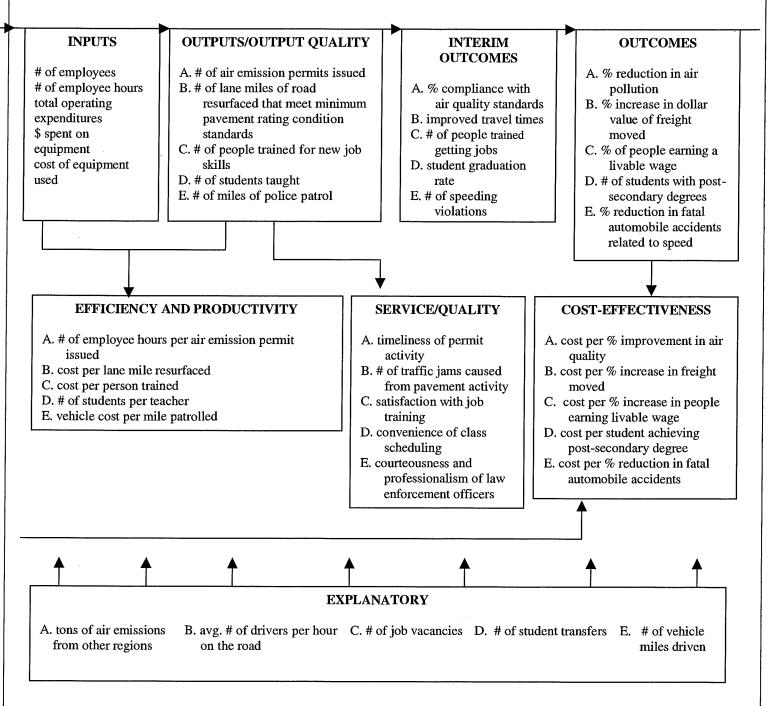
Initial Outcome- number of firms deciding to export products

Intermediate Outcome- number of firms delivering a product to a foreign market

Long-term Outcome-number of firms adding new, export-related jobs

SEQUENCE OF PERFORMANCE MEASURES

Performance measures generally track the sequence of an agency's action: from what it invests to what it produces to the results it achieves. For budget and policy discussions, agencies should focus on output, efficiency, and outcome measures.



Source: Adapted from *Performance Measurement: Getting Results*. Author Harry Hatry. The Urban Institute Press: Washington, D.C., 1999, p. 24

Performance measures provide information to decision-makers to hold public agencies accountable for results, to enhance decision-making, and to improve service delivery.

WHAT PERFORMANCE MEASURES TELL US

 Are we achieving our public purpose as defined by our goals and objectives?
 What policy issues do we face?

- $\sqrt{What are our priorities?}$
- $\sqrt{}$ How efficient and effective are we?
- $\sqrt{}$ What performance improvements are needed?

WHAT PERFORMANCE MEASURES DO NOT TELL US

- √ Why is performance at the level it is?
 √ What factors impact performance?
 √ How can performance be improved?
- $\sqrt{}$ What level of performance can we afford?

QUESTIONS FOR POLICY-MAKERS

- $\sqrt{\ }$ Are the performance measures consistent with statutory direction?
- $\sqrt{\ }$ Are the priorities reflected by the performance measures appropriate?
- $\sqrt{}$ What is an acceptable level of performance?
- $\sqrt{\ }$ Is a shift/change in policy or resources warranted?

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Organization Wide Policy Areas and Goals

Organization-Wide Policy Areas and Goals

Background

The State of Maine uses broadly defined policy areas and goals as a means of showing how state appropriations and allocations for all funds support overarching, organization-wide efforts. Funding by policy area and goal for the FY 02-03 biennium, as shown in **Table H-1**, is reflected by state department and agency for all funds. **Chart H-1** shows all funds by policy area for the FY 02-03 biennium.

The funding for each department and agency for the FY 02-03 biennium was assigned to only one policy

area according to the functional role of the department or agency. In the future, the funding display by organization-wide policy areas and goals will reflect the roll up of funding by objective within each department or agency's strategic plan. Funding for a department or agency, consequently, may appear in more than one policy area and goal in the future based upon the impact each objective has within the context of the department or agency's strategic plan.

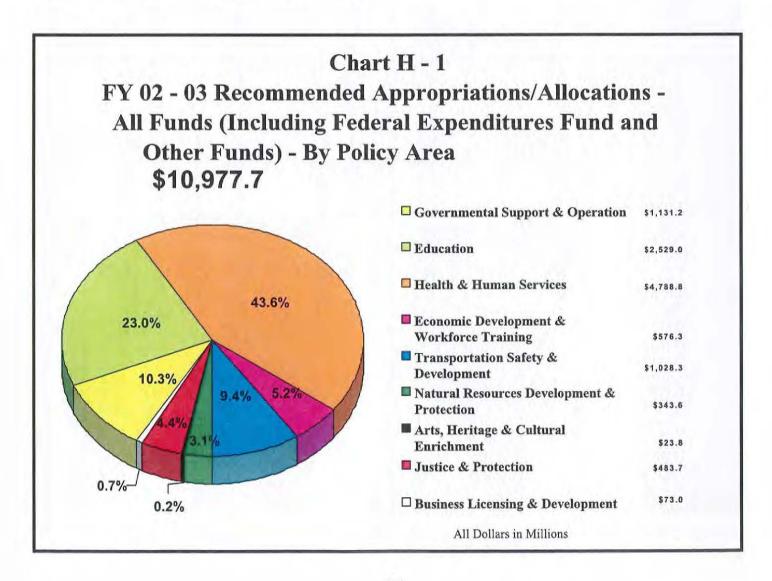


TABLE H - 1 **ORGANIZATION-WIDE POLICY AREAS**

Governmental Support and Operation

Maine's government will be effective and fiscally responsible. All Maine citizens will have access to judicial, legislative, and administrative processes. Recognizing that government's success depends on its employees, it will treat them responsibly and create an environment in which they can excel.

Funding	FY 00 Approp/Alloc	FY 01 Approp/Alloc	FY 02 Dept	FY 03 Dept	FY 02 Budget	FY 03 Budget
GENERAL FUND	\$309,659,649	\$399,262,350	\$313,012,510	\$320,891,677	\$305,963,880	\$303,437,378
HIGHWAY FUND	3,501,067	7,661,932	1,048,447	3,418,744	1,048,447	3,418,744
FEDERAL EXPENDITURES FUND	5,024,003	5,151,004	6,792,100	6,930,153	6,737,902	6,874,205
OTHER SPECIAL REVENUE FUNDS	118,202,703	143,713,356	135,075,478	140,592,533	135,075,478	140,592,533
FBDBRAL BLOCK GRANT FUND	1,692					
INTERNAL SERVICE FUNDS	85,909,656	93,193,808	99,296,444	105,958,890	99,296,444	105,958,890
ENTERPRISE FUNDS	13,592,486	13,572,113	13,148,421	8,979,390	13,148,421	8,979,390
TRUST FUNDS	317,689	11,421,751	334,229	342,584	334,229	342,584
Total	\$536,208,945	\$673,976,314	\$568,707,629	\$587,113,971	\$561,604,801	\$569,603,72

Training

Economic Development and Work Force Maine's economy will offer opportunities for every citizen to have rewarding employment and for businesses to prosper in a responsible manner, now and in the future.

Funding	FY 00 Approp/Alloc	FY 01 Approp/Alloc	FY 02	Dept	FY 03 Dept	FY 02 Budget	FY 03 Budget
GBNER AL FUND	\$44,512,046	\$68,369,511	\$57,	481,616	\$57,258,201	\$47,773,090	\$45,644,353
FEDERAL EXPENDITURES FUND	83,721,800	87,069,959	89,	613,704	91,522,107	89,613,704	91,522,107
OTHER SPECIAL REVENUE FUNDS	17,581,305	19,374,925	19,	623,835	26,887,378	19,623,835	26,887,378
FEDERAL BLOCK GRANT FUND	41,050,600	20,558,445	21,	594,570	23,612,633	21,594,570	23,612,633
TRUST FUNDS	135,700,000	143,900,000	100,	000,000	110,000,000	100,000,000	110,000,000
Total	\$322,565,751	\$339,272,840	\$288	,313,725	\$309,280,319	\$278,605,199	\$297,666,471

Education

Maine's people will be life-long learners and have the knowledge and skills to live productive and satisfying lives. Our children will be prepared for life and work.

Funding	FY 00 Approp/Alloc	FY 01 Approp/Alloc	FY 02 Dept	FY 03 Dept	FY 02 Budget	FY 03 Budget
GBNBR AL FUND	\$1,052,365,755	\$1,175,307,650	\$1,237,771,124	\$1,322,094,711	\$1,142,191,034	\$1,183,795,504
FEDERAL EXPENDITURES FUND	89,396,324	91,619,683	98,477,723	100,984,893	98,477,723	100,984,893
OTHER SPECIAL REVENUE FUNDS	1,690,612	1,873,958	1,870,486	1,911,735	1,595,486	1,586,735
FBDBRAL BLOCK GRANT FUND	3,223,286	3,236,752	180,073	186,492	180,073	186,492
Total	\$1,146,675,977	\$1,272,038,043	\$1,338,299,406	\$1,425,177,831	\$1,242,444,316	\$1,286,553,624

TABLE H - 1 CONTINUED

Arts, Heritage and Cultural Enrichment Maine's citizens will be enriched by the culture and heritage of its peoples.

Funding	FY 00	FY 01	FY 02 Dep	t FY 03 Dept	FY 02 Budget	FY 03 Budget
	Approp/Alloc	Approp/Alloc				
GBNBR AL FUND	\$10,643,348	\$7,565,470	\$14,142,899	\$15,532,942	\$8,286,858	\$8,519,677
FEDERAL EXPENDITURES FUND	2,564,151	2,608,146	4,126,058	4,219,825	2,626,058	2,719,825
OTHER SPECIAL REVENUE FUNDS	703,548	727,052	816,818	849,642	816,818	849,642
Total	\$13,911,047	\$10,900,668	\$19,085,775	\$20,602,409	\$11,729,734	\$12,089,144

Natural Resources Development and Protection

Maine's citizens, businesses and organizations will be stewards of the state's natural resources, so that their responsible use and development will sustain human and ecological life in perpetuity.

Funding	FY 00	FY 01	FY 02 Dept	FY 03 Dept	FY 02 Budget	FY 03 Budget
	Approp/Alloc	Approp/Alloc				
GENBRAL FUND	\$60,804,201	\$75,965,507	\$68,265, <i>5</i> 92	\$70,330,262	\$67,873,287	\$70,120,014
HIGHWAY FUND	34,905	35,851	36,007	3 6,167	3 6,007	36,167
FBDBR AL EXPBNDITURES FUND	21,930,777	23,143,872	25,303,236	25,924,754	25,381,910	26,006,601
OTHER SPECIAL REVENUE FUNDS	67,503,097	71,135,047	74,309,058	75,405,850	74,632,091	75,733, 99 7
BNTBRPRISB FUNDS	1,837,849	1,827,040	1,895,263	1,915,130	1,895,263	1,915,130
Total	\$152,110,829	\$172,107,317	\$169,809,156	\$173,612,163	\$1 6 9,818,558	\$173,811,909

Health and Human Services

Maine's citizens will be healthy, physically and emotionally safe, and as self-sufficient as each is able to be. Our children will have the chance to be children and the support to become healthy, productive adults.

Funding	FY 00	FY 01	FY 02 Dept	FY 03 Dept	FY 02 Budget	FY 03 Budget
	Approp/Alloc	Approp/Alloc				
GBNBR AL FUND	\$712,186,558	\$777,818,374	\$783,895,069	\$838,366,829	\$778,687,332	\$829,544,918
FEDERAL EXPENDITURES FUND	961,967,797	1,099,237,702	1,138,984,606	1,220,012,096	1,138,984,606	1,220,012,096
OTHER SPECIAL REVENUE FUNDS	134,416,557	201,866,971	264,788,657	278,662,172	263,925,888	277,551,230
FBDBRAL BLOCK GRANT FUND	134,710,140	130,945,042	138,782,344	141,334,003	138,782,344	141,334,003
Total	\$1,943,281,052	\$2,209,868,089	\$2,326,450,676	\$2,478,375,100	\$2,320,380,170	\$2,468,442,247

TABLE H - 1 CONTINUED

Justice and Protection

Maine's citizens will be secure in their homes and communities. Those who commit crimes will be be held fully accountable, while given opportunities to change; and the victim and communities, as as much as possible, will be restored to wholeness.

_		<u> </u>			OFFICE OF STREET	CARROLL MARKET CO.
Funding	FY 00	FY 01	FY 02	FY 03 Dept	FY 02 Budget	FY 03 Budget
	Approp/Alloc	Approp/Alloc	Dept			
GENERAL FUND	\$116,965,662	\$133,045,865	\$146,989,554	\$152,064,115	\$146,296,921	\$150,614,831
HIGHWAY FUND	21,249,037	21,169,499	24,501,234	25,284,533	24,501,234	25,284,533
FEDERAL EXPENDITURES FUND	28,216,126	32,621,738	35,991,532	37, <i>5</i> 94,206	35,991,532	37,594,206
OTHER SPECIAL REVENUE FUNDS	23,670,831	26,988,344	27,769,116	28,438,031	27,826,885	28,501,842
FEDER AL BLOCK GRANT FUND	2,606,246	2,537,231	2,477,813	2,528,004	2,477,813	2,528,004
ENTERPRISE FUNDS	671,975	772,841	1,094,351	1,024,878	1,094,351	1,024,878
Total	\$193,379,877	\$217,135,518	\$238,823,600	\$246,933,767	\$238,188,736	\$245,548,294

Business Licensing and Regulation

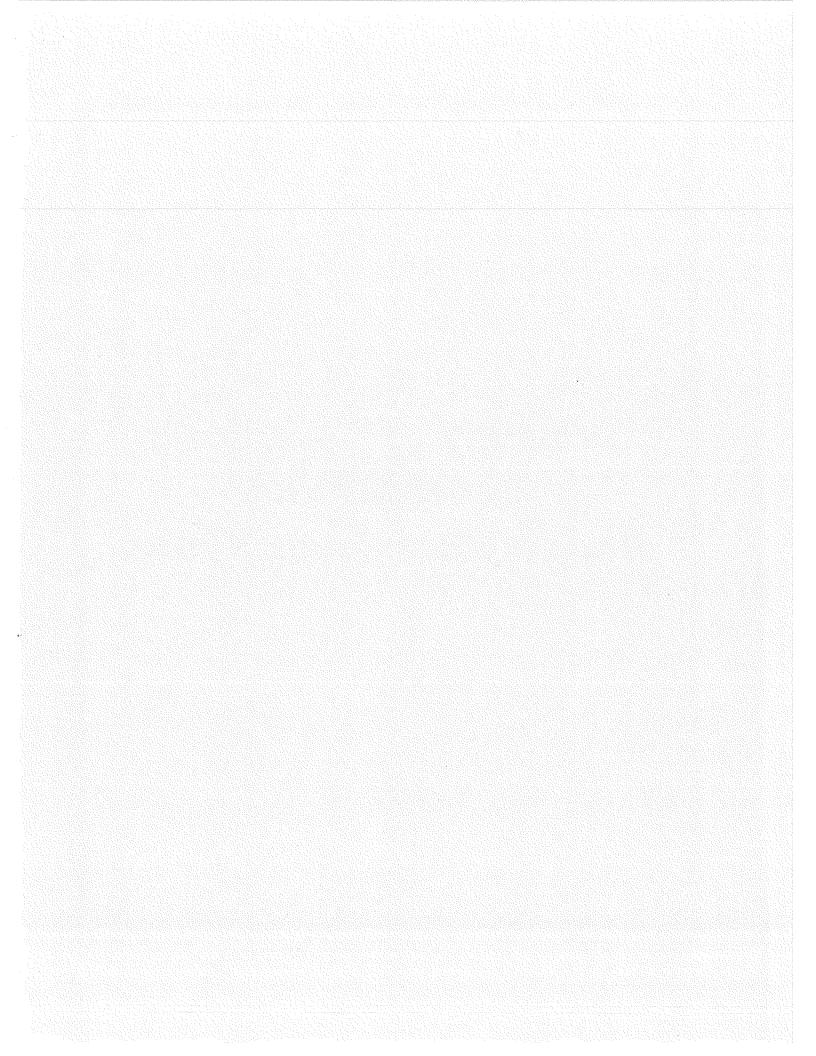
Maine will foster a regulatory environment that protects the public through appropriate, impartial, and efficient regulation of products and services, while encouraging a positive business climate.

Funding	FY 00	FY 01	FY 02	FY 03 Dept	FY 02 Budget	FY 03 Budget
	Approp/Alloc	Approp/Alloc	Dept			
GENERAL FUND			\$18,000	\$10,900	\$18,000	\$10,900
OTHER SPECIAL REVENUE FUNDS	\$31,232,906	\$31,030,489	3 5,559,827	37,443,310	35,575,057	37,443,310
Total	\$31,232,906	\$31,030,489	\$35,559,827	\$37,443,310	\$35,575,057	\$37,443,310

Transportation Safety and Development Maine's infrastructure will move people, goods, information, and energy safely and efficiently shaping healthy communities, a strong economy and a clean, natural environment.

Funding	FY 00	FY 01	FY 02	FY 03 Dept	FY 02 Budget	FY 03 Budget
	Approp/Alloc	Approp/Alloc	Dept			
GBNBRAL FUND	\$9,491,979	\$16,158,443	\$4,037,444 \$4,185,013 \$4,023,826		\$4,157,437	
HIGHWAY FUND	243,919,893	264,935,967	258,739,147	250,568,601	258,703,772	250,533,226
FEDER AL EXPENDITURES FUND	181,462,957	201,436,984	204,561,212	206,797,271	204,561,212	206,797,271
OTHER SPECIAL REVENUE FUNDS	13,809,324	14,312,301	15,930,810	15,935,054	15,930,810	15,935,054
INTERNAL SERVICE FUNDS	25,476,746	26,191,449	27,386,054	28,306,739	27,386,054	28,306,739
BNTBRPRISB FUNDS	5,208,438	5,329,912	5,867,821	6,093,745	5,867,821	6,093,745
Total	\$479,369,337	\$528,365,056	\$516,522,488	\$511,886,423	\$516,473,495	\$511,823,472

Summary of Governor's General Fund Budget Recommendations



Summary of Governor's General Fund Budget Recommendations

Background

The following tables and charts show in summary form the Governor's General Fund budget recommendations for the FY 02-03 biennium. These tables and charts are thus explained:

Table I-1 shows total General Fund appropriations by department or agency (including one time

appropriations) with percent change for the FY 02-03 biennium compared to fiscal year 2000-01. Fiscal year 2000-01 includes the Governor's recommended supplemental appropriations for that fiscal year.

TABLE I - 1 GENERAL FUND APPROPRIATIONS

	_			R'S BUDGET	Inches
DEPARTMENT/AGENCY	* FY 01	FY 02	PERCENT CHANGE	FY 03	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	222,718,791		-37.08%		-8.19%
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES DEPARTMENT OF AGRICULTURE, FOOD AND RURAL RESOURCES	11,316,513		-31.02%		3.37%
MAINE ARTS COMMISSION	797,286		5.27%		1.66%
ATLANTIC SALMON COMMISSION	648,462		18.98%		4.64%
ATLANTIC STATES MARINE FISHERIES COMMISSION	26,156		14.70%		5.00%
DEPARTMENT OF THE ATTORNEY GENERAL	11,633,558		7.87%		5.40%
DEPARTMENT OF AUDIT	1,429,376		9.91%		2.83%
DEPARTMENT OF CONSERVATION	20,931,722	23,257,238	11,11%		3.24%
DEPARTMENT OF CORRECTIONS	97,276,908		9.81%		3.22%
MAINE CRIMINAL JUSTICE COMMISSION	. 20,000		0.00%		0.00%
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT			0.84%		3.44%
DISABILITY RIGHTS CENTER	80,000		0.00%		0.00%
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	34,811,458		-52.04%		-13.54%
STATE BOARD OF EDUCATION	206,956		12.98%	240,584	2.89%
DEPARTMENT OF EDUCATION (WITHOUT GENERAL PURPOSE AID)	265,998,384		-19.09% 5.00%	228,169,479 718,258,591	6.01% 3.00%
GENERAL PURPOSE AID TO LOCAL SCHOOLS DEPARTMENT OF ENVIRONMENTAL PROTECTION	664,131,846 11,847,751	697,338,438 6,656,363	-43.82%	6,831,238	2.63%
COMMISSION ON GOVERNMENTAL ETHICS AND ELECTION PRACTICES	156,642		12.64%	184,884	4.79%
EXECUTIVE DEPARTMENT	6,122,082		-21.55%		4.00%
FINANCE AUTHORITY OF MAINE	16,375,551		-18.32%	13,375,551	0.00%
MAINE FIRE PROTECTION SERVICES COMMISSION	50,000		-65,28%	17,360	0.00%
FOUNDATION FOR BLOOD RESEARCH	75,000		0.00%	75,000	0.00%
GOVERNOR BAXTER SCHOOL FOR THE DEAF	4,909,648		15.89%	5,902,648	3.74%
MAINE HISTORIC PRESERVATION COMMISSION	269,116		0.12%	275,671	2.31%
MAINE HISTORICAL SOCIETY	24,761	24,761	0.00%	24,761	0.00%
MAINE HOSPICE COUNCIL	49,020	49,020	0.00%	49,020	0.00%
MAINE STATE HOUSING AUTHORITY	762,500	762,500	0.00%	762,500	0.00%
MAINE HUMAN RIGHTS COMMISSION	434,720		10.31%	493,375	2.88%
DEPARTMENT OF HUMAN SERVICES	567,653,753	551,980,886	-2.76%	589,889,791	6.87%
MAINE INDIAN TRIBAL-STATE COMMISSION	38,800		0.00%	38,800	0.00%
DEPARTMENT OF INLAND FISHERIES AND WILDLIFE	21,397,110		-7.36%	20,546,542	3.65%
CENTERS FOR INNOVATION	308,000		0.00%	308,000	0.00%
MAINE INTERNATIONAL TRADE CENTER JUDICIAL DEPARTMENT	505,000 44,841,274	505,000 48,567,440	0.00% 8.31%	505,000 52,223,709	0.00% 7.53%
DEPARTMENT OF LABOR	13,716,943		5.57%	14,612,627	0.91%
LAW AND LEGISLATIVE REFERENCE LIBRARY	1,161,415		15.38%	1,373,636	2.51%
LEGISLATURE	29,870,951		-31.55%	22,830,624	11.66%
MAINE STATE LIBRARY	2,961,143		8.55%	3,307,802	2.91%
DEPARTMENT OF MARINE RESOURCES	9,742,793		-2.76%	9,769,396	3.12%
MAINE MARITIME ACADEMY	11,389,677		-33.50%	7,763,779	2.50%
DEPT OF MENTAL HEALTH, MENTAL RETARDATION & SUBSTANCE ABUSE	209,960,601		7.88%	239,451,107	5.72%
MAINE MUNICIPAL BOND BANK	100,637	100,637	0.00%	100,637	0.00%
MAINE STATE MUSEUM	1,183,801	1,551,571	31.07%	1,610,976	3.83%
PINE TREE LEGAL ASSISTANCE	148,050	148,050	0.00%	148,050	0.00%
PROFESSIONAL AND FINANCIAL REGULATION		18,000		10,900	-39.44%
STATE BOARD OF PROPERTY TAX REVIEW	110,893	113,646	2.48%	115,777	1.88%
MAINE PUBLIC BROADCASTING CORPORATION	2,329,363	2,387,597	2.50%	2,447,287	2.50%
DEPARTMENT OF PUBLIC SAFETY	18,175,076	20,910,588	15.05%	20,911,781	0.01%
(BRD OF TRUSTEES OF THE) ME STATE RETIREMENT SYSTEM	2,928,376	190,053	-93.51%	197,655	4.00%
MAINE RURAL DEVELOPMENT COUNCIL	100,000	20,000	-100.00%	20,000	0.000
SACO RIVER CORRIDOR COMMISSION	30,000	30,000	0.00% -8.10%	30,000 1,645,059	0.00% 0.00%
MAINE SCIENCE AND TECHNOLOGY FOUNDATION DEPARTMENT OF THE SECRETARY OF STATE	1,790,059 3,349,715	1,645,059 3,632,387	-8.10% 8.44%	1,645,059 3,691,168	1.62%
ST. CROIX INTERNATIONAL WATERWAY COMMISSION	25,000	25,000	0.44%	ا 25,000 ا 25,000	0,00%
BOARD OF TRUSTEES OF THE MAINE TECHNICAL COLLEGE SYSTEM	41,110,629	25,000 39,783,970	-3.23%	25,000 40,778,568	2.50%
DEPARTMENT OF TRANSPORTATION	16,158,443	4,023,826	-5.25 % -75.10%	40,770,500	3.32%
(OFFICE OF) TREASURER OF STATE	86,433,398	84,842,240	-1.84%	87,401,908	3.02%
BOARD OF TRUSTEES OF THE UNIVERSITY OF MAINE SYSTEM	187,560,510	176,343,272	-5.98%	182,681,855	3.59%
TOTAL				2,595,845,012	3.79%

^{*}Includes \$193 million of one-time appropriations

Chart I-1 shows the Governor's recommended General Fund appropriations for the FY 02-03 bennium by policy area.

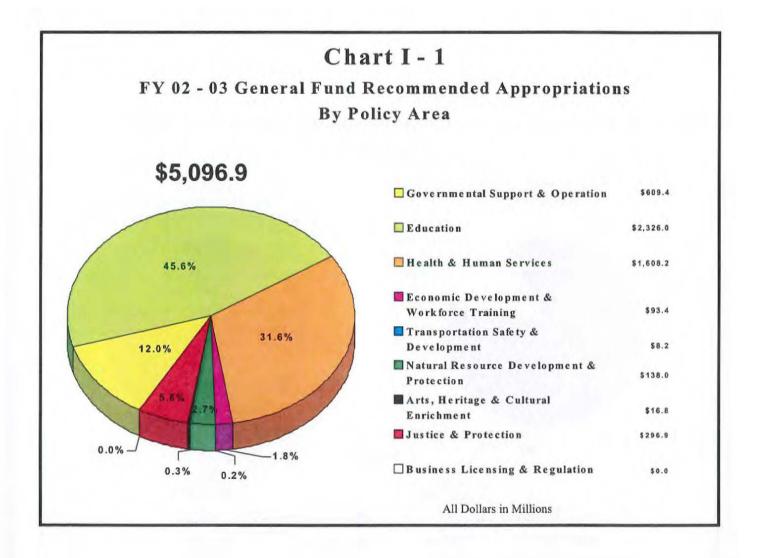


Chart I-2 shows the Governor's recommended General Fund appropriations for the FY 02-03 biennium by selected program area. Medicaid as a percent of the General Fund would be 18.5% compared to all states in FY 99. The percent of the General Fund for K through 12 Education would remain high.

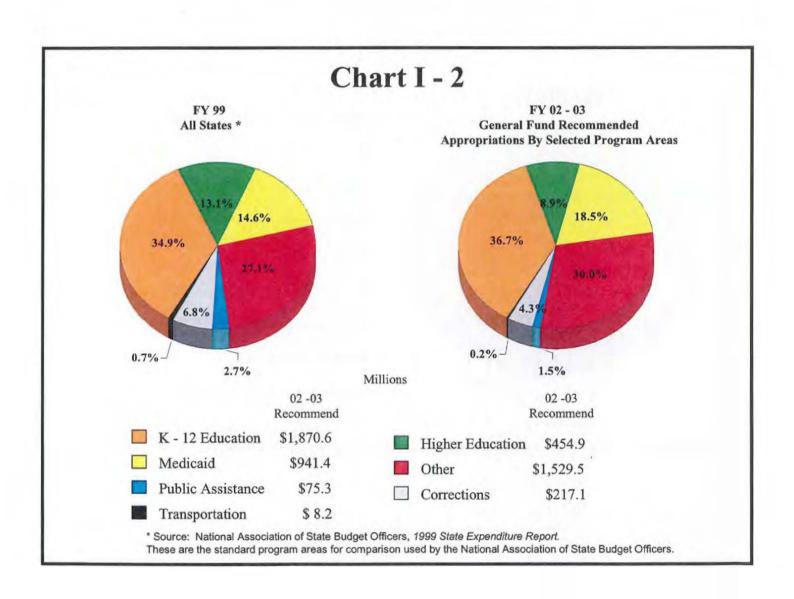


Chart I-3 shows the Governor's recommended General Fund revenues by line for the FY 02-03 biennium. These revenues include the base revenue projections of the Revenue Forecasting Committee and adjustments to those base revenues recommended by the Governor.

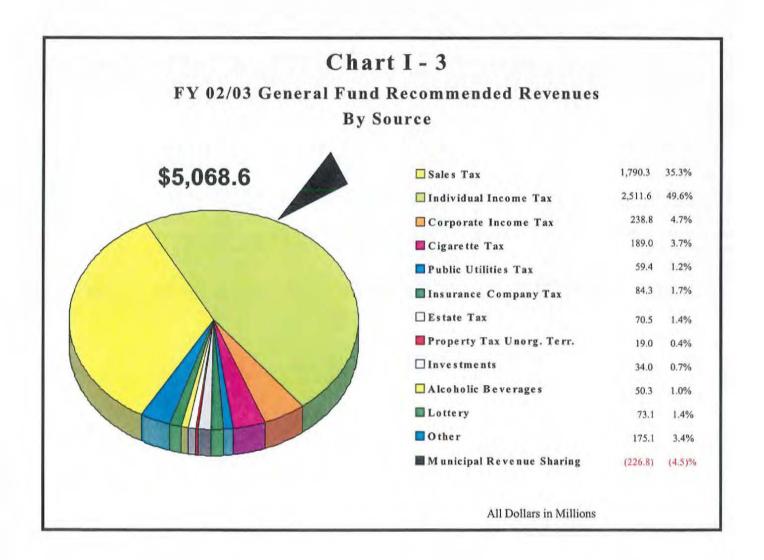


Table I-2 shows the General Fund revenues recommended by the Governor for fiscal year 2001-02 and fiscal year 2002-03. The column labeled base is the General Fund revenue forecast of the

Revenue Forecasting Committee. The column labeled Adj. includes the Governor's recommended adjustments to the base revenues.

TABLE 1-2

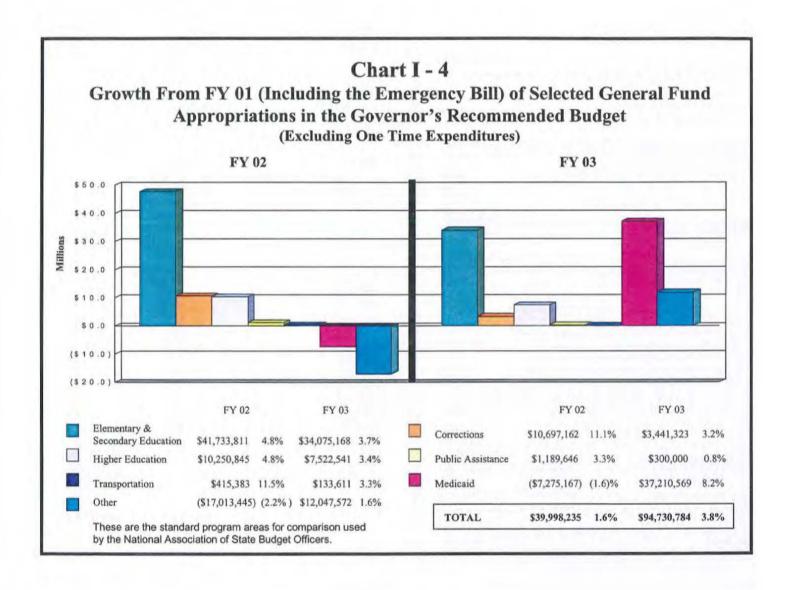
GENERAL FUND REVENUE FORECAST CHARTS **Showing Yearly Adjustments** FISCAL YEAR 01 FISCAL YEAR 02 FISCAL YEAR 03 SOURCE ORIG. ADJ. BUDGET ORIG. BUDGET ORIG. ADJ. BUDGET ADJ. Sales and Use Tax 833,200,000 860,900,000 870,070,000 920,190,000 833,200,000 9,170,000 907,330,000 12,860,000 **Individual Income Tax** 650,000 ,121,964,159 1,212,056,709 5,094,263 ,299,574,124 1,121,314,159 1,207,921,817 4,134,892 1,294,479,861 114,048,431 117,850,507 120,991,042 Corporate Income Tax 113,548,431 500,000 116,174,886 1,675,621 116,711,778 4,279,264 90,047,655 98,931,346 Cigarette & Tobacco Tax 77,466,005 77,466,005 76,947,655 13,100,000 76,331,346 22,600,000 **Public Utilities Tax** 29,800,000 29,800,000 30,100,000 30,100,000 29,300,000 29,300,000 **Insurance Company Tax** 39,993,634 39,993,634 43,381,856 43,381,856 40,924,003 40,924,003 32,753,971 34,410,766 36,137,472 Inheritance & Estate Tax 32,753,971 34,410,766 36,137,472 Property Tax - Unorg. Terr. 9,213,301 9,212,540 9,212,540 9,778,692 9,778,692 9,213,301 **Income from Investments** 17,000,000 17,000,000 17,000,000 17,000,000 17,000,000 17,000,000 Trans. to Muni. Rev. Share (105,471,192) (58,650)(105,529,842) (111,434,832) 903,107 (110,531,725) (118,244,604) 1,977,615 (116,266,989) Transfer from Liquor 21,477,758 22,803,666 22,613,200 4,841,419 27,454,619 22,189,864 613,802 21,477,758 36,762,402 Transfer from Lottery 37,975,384 36,762,402 36,809,911 (468,000)36,341,911 37,975,384 All Other 133,033,766 134,016,035 104,810,860 (64,595,939) 70,270,238 133,033,766 (29,205,175) 134,866,177 2,477,975,236 2,604,037,836 (13,411,378) 2,590,626,458 TOTAL REVENUE 2,361,305,217 1,091,350 2,362,396,567 2,477,582,989 392,247

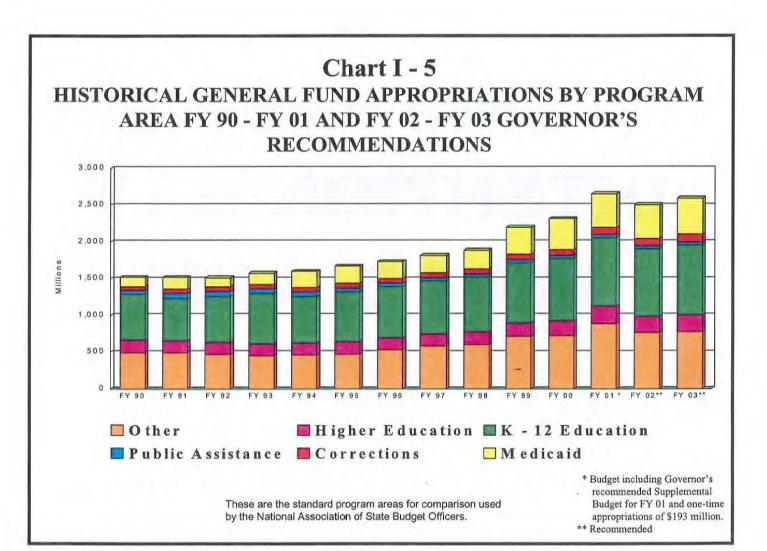
TABLE 1 - 3

General Fund Recommended Revenue Adjustments Detail by Revenue Line for the FY 02-03 Biennium						
			FY 03			
Revenue Line and Source of Adjustment	FYO)2	FY	03		
Sales and Use Tax > Cigarette Tax to \$1/pk. > Meals and Lodging Tax to 7 1/2 % > Audit Restructuring > Expansion of Non Filer Program > Receivable Collection Effort Sub Total	260,000 3,710,000 1,500,000 625,000 3,075,000	9,170,000	450,000 7,210,000 1,500,000 625,000 3,075,000	12,860,000		
Individual Income Tax > Expansion of Non Filer Program > Federal Offset Program > Receivable Collection Effort > Repeal Quality Child Care Credit Sub Total	1,925,000 1,000,000 1,025,000 184,892	4,134,892	2,550,000 1,200,000 1,025,000 319,263	5,094,263		
Corporate Income Tax > Expansion of Non Filer Program > Disallow Net Operating Loss Carry Backs > Limit High Tech Tax Credit > Repeal Quality Child Care Credit	500,000 1,079,126 96,495		500,000 1,681,875 2,000,699 96,690			
Sub Total Cigarette & Tobacco Tax		1,675,621		4,279,264		
> Cigarette Tax to \$1/pk.	13,100,000	13,100,000	22,600,000	22,600,000		
Municipal Revenue Sharing > From Cigarette Tax to \$1/pk. > From Audit Restructuring - Sales > From Expansion of Non Filer Program - Sales > From Receivable Collection Effort - Sales > From Expansion of Non Filer Program - Income > From Expansion of Non Filer Program - Income > From Receivable Collection Effort - Income > From Expansion of Non Filer Program - Corp. > Meals and Lodging Tax to 7 1/2 % > From Disallow Net Operating Loss Carry Backs - Corp. > From Limit High Tech Tax Credit - Corp. > From BETR Restructuring Payment > Repeal Quality Child Care Credit Sub Total Transfer from Liquor	(13,260) (76,500) (31,875) (156,825) (98,175) (51,000) (52,275) (25,500) (189,209) (55,035) 1,667,112 (14,350)	903,107	(22,950) (76,500) (31,875) (156,825) (130,050) (61,200) (52,275) (25,500) (367,711) (85,776) (102,036) 3,111,525 (21,213)	1,977,615		
> Liquor Store Closing	613,802	613,802	4,841,419	4,841,419		
Transfer from Lottery > Removal of Gaming Machines All Other	18.75		(468,000)	(468,000)		
> Transfer to Tourism 1/2 % Increase in Meals and Lodging Tax as Other Special Revenue > Transfer of BETR Payment to Other Special Revenue > Feed, Seed and Fertilizer Inspection Fees > Miscellaneous Fines from Dept of Labor Cases > Mental Retardation Case Management > Mental Health Case Management > Real Estate Transfer Tax @ 100% > Increase in Park User Fees from Extended Season > Increase in Permit to Take an Anterless Deer > Repeal Quality Child Care Credit Sub Total	(32,688,465) 206,958 175,000 1,442,787 110,082 1,237,500 203,000 375,000 (267,037)	(29,205,175)	(6,842,289) (61,010,295) 201,342 175,000 1,227,666 119,377 1,350,000 203,000 375,000 (394,740)	(64,595,939)		
Total Revenue Adjustments		392,247		(13,411,378)		

Chart I-4 shows the annual dollar and percent growth in ongoing General Fund appropriations from fiscal year 2000-01 through fiscal year 2002-03. Fiscal years 2001-02 and 2002-03 use the

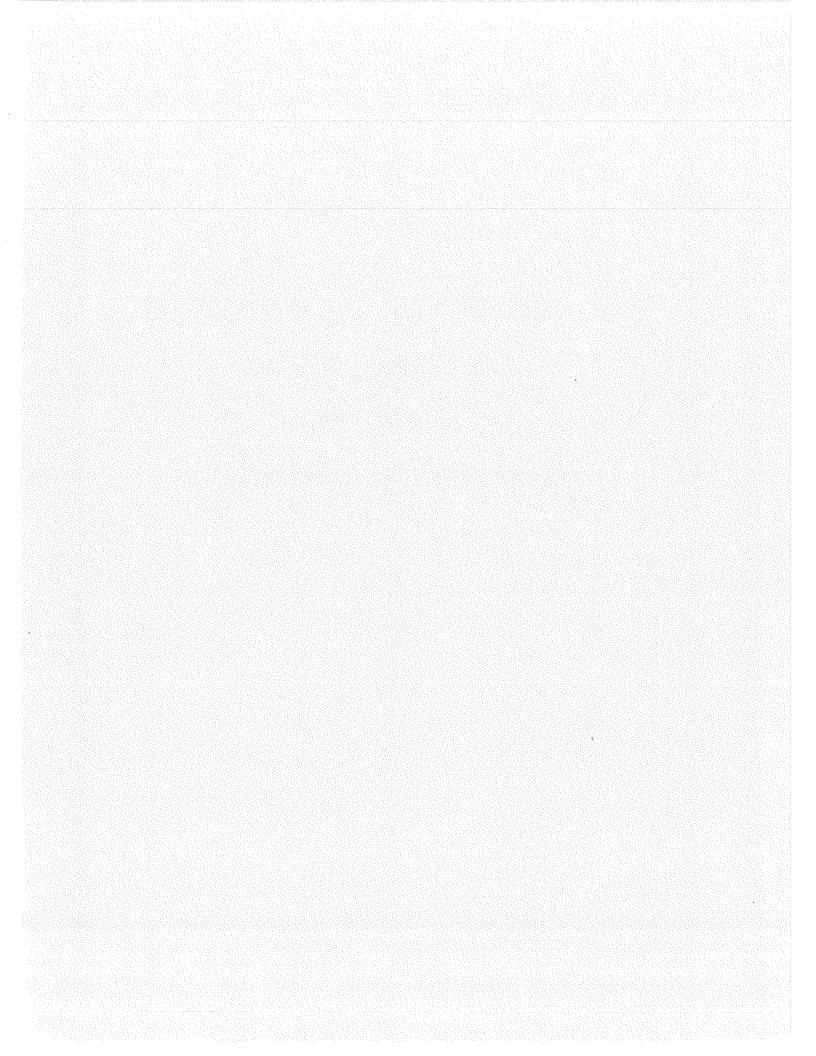
Governor's General Fund recommendations. Fiscal year 2000-01 includes the Governor's recommended supplemental appropriations for that fiscal year.





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Summary of Governor's Highway Fund Budget Recommendations



Summary of Governor's Highway Fund Budget Recommendations

Background

The following tables and charts show in summary form the Governor's Highway Fund budget recommendations for the FY 02-03 biennium. These tables and charts are thus explained:

Table J-1 shows total Highway Fund allocations by department or agency (including one time

allocations) with percent change for the FY 02-03 biennium compared to fiscal year 2000-01. Fiscal year 2000-01 includes the Governor's recommended supplemental allocations for that fiscal year.

TABLE J - 1 HIGHWAY FUND ALLOCATIONS					
The second secon		GOVERNOR'S BUDGET			A Company of the
DEPARTMENT/AGENCY	* FY 01	FY 02	PERCENT CHANGE	FY 03	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	7,661,932	1,048,447	-86.32%	3,418,744	226.08%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	35,851	36,007	0.44%	36,167	0.44%
DEPARTMENT OF PUBLIC SAFETY	21,169,499	24,501,234	15.74%	25,284,533	3.20%
DEPARTMENT OF THE SECRETARY OF STATE	26,298,744	24,219,869	-7.90%	25,104,882	3.65%
DEPARTMENT OF TRANSPORTATION	238,637,223	234,483,903	-1.74%	225,428,344	SUPERIOR SERVICES
TOTAL	293,803,249	284,289,460	-3.24%	279,272,670	-1.76%

^{*}Includes \$26.5 million of one-time allocations

Chart J-1 shows the Governor's recommended Highway Fund allocations for the FY 02-03 biennium by policy area.

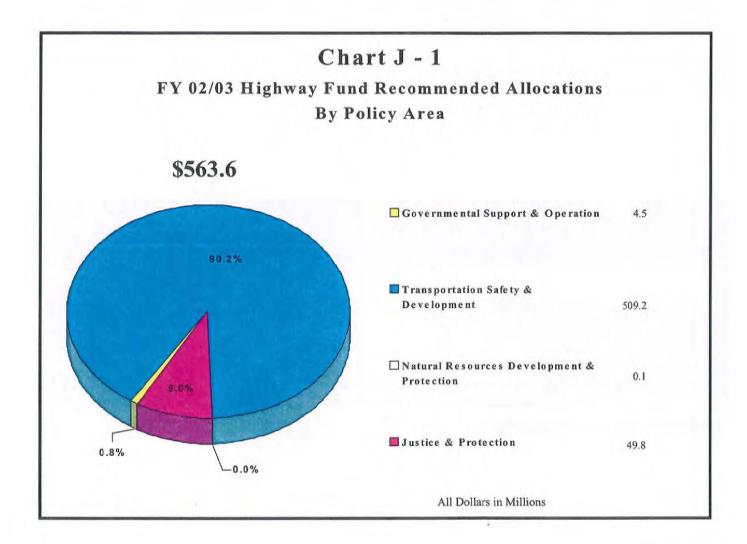


Chart J-2 shows the Governor's recommended Highway Fund revenues by line for the FY 02-03 biennium. These revenues include the base revenue

projections of the Revenue Forecasting Committee and adjustments to those base revenues recommended by the Governor.

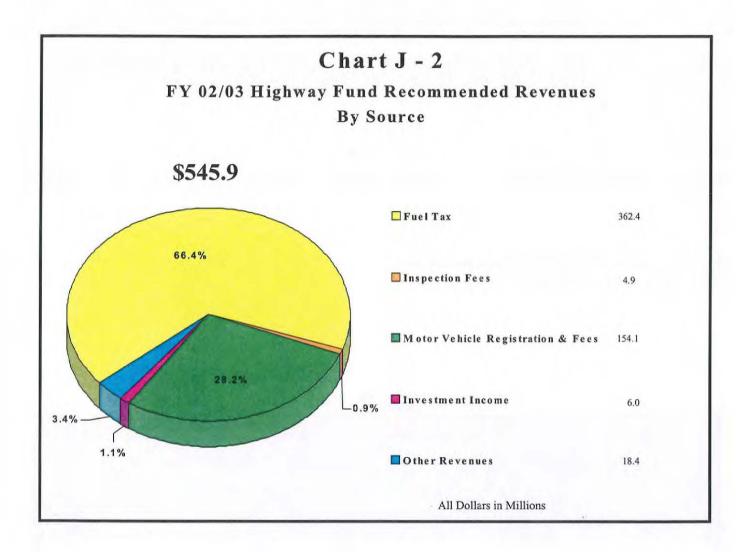


Table J-2 shows the Highway Fund revenues recommended by the Governor for fiscal year 2001-02 and fiscal year 2002-03. The column labeled base is the Highway Fund revenue forecast of the Revenue Forecasting Committee. The

column labeled Adj. includes the Governor's recommended adjustments to the base revenues.

TABLE J - 2

							-2-		
	FISCAL YEAR 01			FISCAL YEAR 02			FISCAL YEAR 03		
SOURCE	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET
Fuel Tax	177,634,606		177,634,606	179,876,344		179,876,344	182,478,107		182,478,10
Motor Vehicle Registrations & Fees	72,356,030		72,356,030	73,301,225	3,350,000	76,651,225	74,135,460	3,350,000	77,485,46
Inspection Fees	2,421,945		2,421,945	2,465,354		2,465,354	2,480,600	- 00 10	2,480,60
Income from Investments	3,440,000		3,440,000	3,000,000		3,000,000	3,000,000		3,000,00
Other Revenues	8,003,386		8,003,386	8,149,148	1,000,000	9,149,148	8,272,508	1,000,000	9,272,50
TOTAL HIGHWAY FUND REVENUES	263,855,967		263,855,967	266,792,071	4,350,000	271,142,071	270,366,675	4,350,000	274,716,67

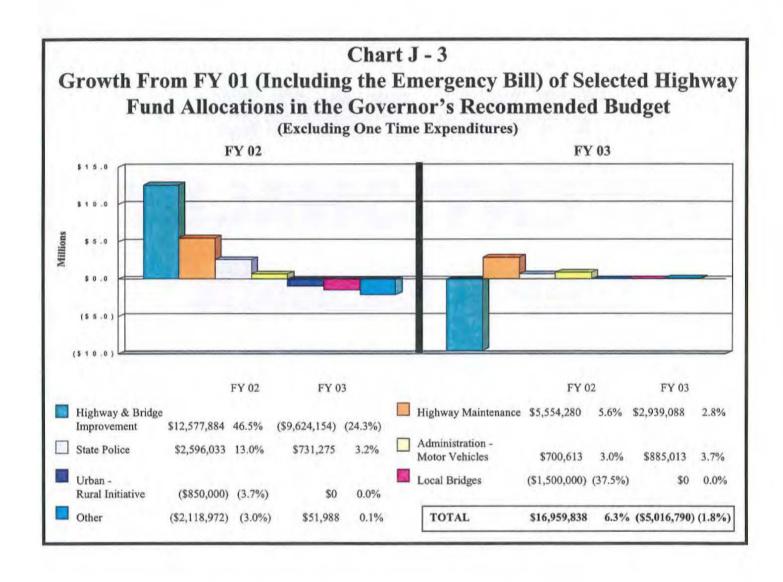
Table J-3 explains the individual adjustments to the base Highway Fund revenues.

TABLE J - 3

Highway Fund Recommended R Detail by Revenue Line for the		
Revenue Line and Source of Adjustment	FY 02	FY 03
Motor Vehicle Registration & Fees > Increase Titles from \$15 to \$23 Per Title	3,350,000	3,350,000
Other Revenues		
> Increase Commercial Vehicle Fines by 20%	1,000,000	1,000,000
Total Revenue Adjustments	4,350,000	4,350,000

Chart J-3 shows the annual dollar and percent growth in ongoing Highway Fund allocations from fiscal year 2000-01 through fiscal year 2002-03. Fiscal years 2001-02 and 2002-03 use the Governor's Highway Fund recommendations.

Fiscal year 2000-01 includes the Governor's recommended supplemental allocations for that fiscal year.

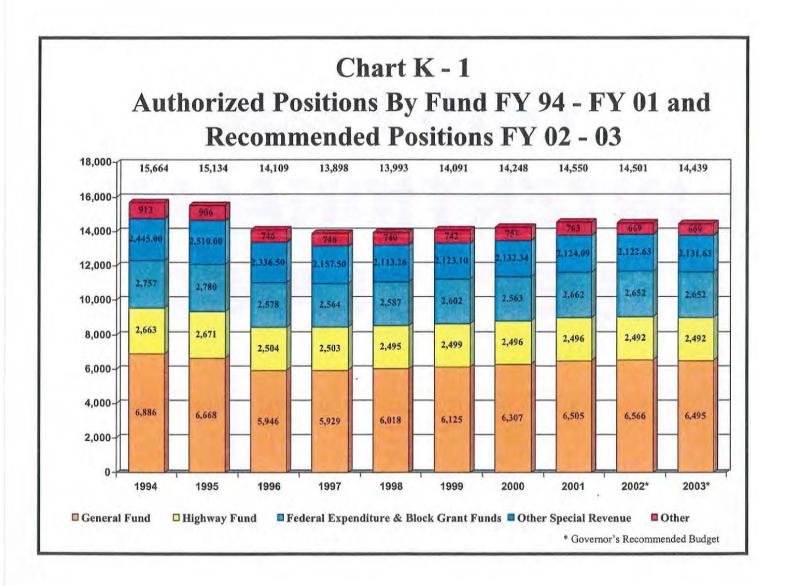


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Summary of Governor's Total Position Recommendations

SUMMARY OF GOVERNOR'S TOTAL POSITION RECOMMENDATIONS

CHART K-1 shows position trend from fiscal year 1993-94 through the fiscal year 2001-02 and fiscal year 2002-03 budget recommendations.



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