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MAINE
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STATE OF MAINE

2004-2005

Governor's Budget



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Submitted by
John Elias Baldacci
Governor

Overview

Overview

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*How to Use These
Documents*

How to Use These Documents

The Governor's budget for the FY 04-05 biennium consists 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 04-05 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 04-05 budget by fund summarized by organization-wide policy areas and goals and a high level summary of the Governor's budget recommendations for the FY 04-05 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 04-05 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 04-05 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 State Government. Budget requests and recommendations for the FY 04-05 biennium are displayed by department and agency within the framework of each organization's strategic plan. Each program strategy within a 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.

Overview

The **Governor's Budget Message** provides a brief summary of the underlying policy and fiscal challenges that frame the FY 04-05 biennial budget as a prologue to the **Governor's Priorities and Initiatives**. The **Governor's Priorities and Initiatives** section provides 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 04-05 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 2003-04 and 2004-05. 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 budget approach

for the State of Maine that focuses on results and outcomes. 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 04-05 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. The **General Fund Unappropriated Fund Balance Status**, **Highway Fund Unallocated Fund Balance Status** and **Fund for a Healthy Maine Fund Unallocated Fund Status** are shown for the FY 04-05 biennium in order to clearly show the balance between resources and expenditures for

these funds. The **Appropriations, Allocations, Revenues and Other Financing Sources and Uses** shows for the FY 04-05 biennium the balance between resources and expenditures, in a sources and uses presentation, for all funds appropriated and allocated by the Legislature. The **Capital Construction, Repairs and Improvements** section presents the complete capital budget plan and priorities for the FY 04-05 biennium. **Tax Expenditures** are provided as required by statute in order to show the estimated loss in revenue for Maine State Government caused by tax expenditures provided in statute. The **Contracted Social Services** section is provided for those programs identified in statute that are not recommended to receive cost increases in the current services budget for the FY 04-05 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.

*Governor's
Budget Message*



Governor's Budget Message

February 7, 2003

Honorable Members of the 121st Legislature and Citizens of Maine:

As you are well aware, Maine faces a daunting budget crisis over the next biennium. The funds needed to continue the current services of our state government outweigh our available revenue resource by over \$1.1 billion. This equates to \$1,000 dollars for every child, woman and man in our state. While the economic outlook remains tentative, together we can resolve this budget crisis in a manner that protects the basic needs and values of Maine citizens. To that end, I am pleased to present to you a budget that is objective, fair, compassionate and seeks to create opportunities to change our government for the better.

Commitment on Taxes and Restructuring Government

This budget reflects my commitment to resolve the budget crisis without raising taxes. I believe this strategy is essential if Maine is to move forward and survive the current economic trends on a stronger footing.

We need to restructure our government in order to both reduce spending and maintain essential services. I have called upon state agencies to work within existing resources and to reengineer their operations. This budget reflects a substantial reduction in agency requests to fund current needs, while maintaining the essential services of government. This budget includes position reductions, reduced expenditures, streamlined administrative operations and program reductions. But it keeps Maine open for business.

I am proposing the merger of the Department of Human Services and the Department of Behavioral and Developmental Services in order to provide improved programs for citizens, while eliminating duplication and creating efficiencies. I am also proposing that we complete the privatization of the

state liquor business by closing the remaining retail stores and outsourcing the wholesale distribution of liquor. The private sector has proven that it can run Maine's liquor business with the same scrutiny and greater efficiency and the state simply no longer needs to engage in this business.

I will continue programs designed to offer needed property tax relief to citizens and businesses. But I have also challenged the many local governments and school districts that rely on the property tax to review their own operations and to generate savings through the creation of efficiencies, regionalization of services, and resource sharing. Over half the state budget finds its way back to our communities through general purpose aid to education, municipal revenue sharing and numerous other programs. The crisis we are in is shared by the layers of government that benefit from state resources and we must all work together to create a government that meets the needs of Maine people at a price they can afford.

Expanding Health Care

This budget reflects my policies on health care by requiring responsibility on the part of the recipient and making access to health care affordable. I am maximizing federal and other public and private funds to extend coverage to include mental health parity without reducing the eligibility of current health care participants.

Investment in Education

I have invested in the transition of our technical colleges into the Maine Community College System to ensure low cost entry level access to higher education critical to economic development in Maine. And I have challenged each of Maine's public higher education institutions to share resources and improve operations through the use of incentive grants. The importance of education is also reflected in my commitment to maintain funding for general purpose aid to education even in times of financial difficulty.

Fiscal Responsibility

The fiscal stability of the state is bolstered through sound financial decisions that ensure the availability of needed revenue in the short term, while protecting the long term interests of the state. I am looking to re-amortize the state's long term liabilities, to fund only current expenditures in certain programs, to raise fees as appropriate to require users to bear the cost of access to service, and to protect the investment in state buildings through the appropriate financing of capital projects. I am also seeking the return of funding provided in past years to stabilize the Highway Fund.

I am prepared to delay new and phased-in initiatives passed by the prior Legislature for two years, at which time they can be re-evaluated as to their desirability and affordability.

I have recommended delaying conformity to the recent tax policies of the federal government, because Maine simply cannot afford to conform at this time. And I am proposing the implementation of a limited period tax amnesty program combined with increased tax enforcement to encourage citizens who have not filed their tax returns to get on the rolls going forward and to pay their fair share in back taxes.

Investment in the Economy

Along with this budget, I will submit an economic development plan that lays the foundation for a strong economy. I will ask our citizens to approve bonding for needed investments in research and development, as well as the improvement of our transportation infrastructure. I will look to take advantage of the many trade and business opportunities between Maine and our Canadian neighbors. And, I will seek incentives for developers to invest in the areas of Maine that need it most.

Many difficult choices weighed in the development of this budget. The challenge of bridging the gap between legitimate needs and the available resources was great. This is a plan that calls for everyone to shoulder a portion of the burden so that we may all move forward together in restructuring our government to reflect our needs and our values. The presentation of this budget represents the first step in resolving the current fiscal crisis. I look forward to working with the citizens of this state and the Legislature in their process to ensure that the best possible resolution is achieved.



John E. Baldacci
Governor of Maine

*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 Committee with analyses, findings and 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 five 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 two year and four 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.

Findings

The Consensus Economic Forecasting Commission met in October, 2002 to prepare the economic assumptions that would become the basis for the Revenue Forecasting Committee's revenue projections for fiscal years 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07.

The commission concluded that the national economic recovery, and by extension the state's economy, was not progressing in the manner they had anticipated in their July forecast. The basis for this conclusion was negligible employment growth, a net loss of 6,000 manufacturing jobs, and the Department of Labor's wage and salary data which

showed little or no growth during the first half of 2002. The commission is now predicting that the economic recovery will begin in earnest during the middle of 2003. As a result, the commission made downward revisions to both employment and income projections. Employment growth projections were revised downward for 2002 (from 0.4% to 0.0%) and 2003 (from 1.0% to 0.7%). The commission's employment forecast in the out years remained at 1.0% as minimal statewide population increases and extremely tight labor market conditions in southern Maine constrain employment growth in the years ahead. More importantly, the commission revised personal income growth

downward by 0.8% for 2002 and 0.5% for 2003 and 2004. This downward revision was primarily reflected in the Wage and Salary component of income, which impacts Maine's income tax collections particularly hard given that wage and

salary income is the biggest component of taxpayer income. 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	2002	2003	2004	2005	2006	2007
Non-Farm Employment	0.0%	0.7%	1.0%	1.0%	1.0%	1.0%
ME Personal Income (Nominal)	3.0%	3.5%	4.0%	4.5%	4.5%	4.5%
U.S. Consumer Price Index	1.7%	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

MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION												
Forecast of Oct. 21, 2002 (As Revised on Nov. 13, 2002)												
CALENDAR YEAR	HISTORICAL DATA						FORECAST					
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Consumer Price Index - (Urban Dwellers)	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.7%	2.5%	2.5%	2.5%	2.5%	2.5%
Annual Growth Rate												
Maine Unemployment Rate	5.1	5.4	4.4	4.1	3.5	4.0	4.0	4.2	4.1	4.0	3.9	3.8
Average 3-Month Treasury Bill Rate	5.0%	5.1%	4.8%	4.6%	5.8%	3.4%	1.7%	2.4%	4.5%	5.0%	4.9%	4.9%
Average 10-Year Treasury Note Rate	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	5.0%	5.7%	5.8%	5.9%	5.8%
Maine Agricultural Employment (Thousands)	14.3	13.8	16.1	13.4	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Non-Farm Employment (Thousands)												
Mining	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	23.2	23.3	25.1	28.0	29.4	29.7	29.8	30.0	30.2	30.4	30.6	30.8
Manufacturing	88.3	87.8	87.1	86.2	85.2	81.2	74.2	72.7	70.7	68.5	66.4	64.3
Transp/Common/ Publ. Util.	22.6	23.1	23.6	24.1	24.5	24.7	24.7	24.8	25.0	25.2	25.4	25.6
Wholesale Trade	25.8	26.0	26.5	27.0	27.1	26.9	26.9	27.0	27.1	27.2	27.3	27.4
Retail Trade	111.4	113.4	115.8	119.0	122.8	124.4	125.8	127.1	128.5	129.9	131.3	132.7
Finance, Insurance & Real Estate	27.0	28.4	29.7	31.4	32.4	33.6	33.7	34.3	35.1	36.0	36.8	37.6
Services	151.1	158.7	166.8	173.9	182.5	187.0	189.0	191.5	196.0	200.5	205.0	209.5
Government	92.8	93.0	94.6	96.7	99.6	101.8	105.2	105.9	106.9	108.1	109.3	110.5
Total Non-Farm Employment	542.5	553.7	569.2	586.3	603.5	609.4	609.4	613.4	619.6	625.9	632.2	638.5
Annual Growth Rates for Non-Farm Employment												
Mining	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction	7.0%	0.5%	7.5%	11.6%	5.1%	1.0%	0.3%	0.7%	0.7%	0.7%	0.7%	0.7%
Manufacturing	-3.0%	-0.6%	-0.8%	-1.1%	-1.2%	-4.6%	-8.6%	-2.0%	-2.8%	-3.1%	-3.1%	-3.2%
Transp/Common/ Publ. Util.	1.5%	2.2%	1.9%	2.2%	1.6%	0.8%	0.0%	0.4%	0.8%	0.8%	0.8%	0.8%
Wholesale Trade	2.9%	0.6%	1.8%	2.2%	0.2%	-0.7%	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%
Retail Trade	-0.4%	1.8%	2.2%	2.7%	3.2%	1.3%	1.1%	1.0%	1.1%	1.1%	1.1%	1.1%
Finance, Insurance & Real Estate	3.8%	5.2%	4.4%	5.6%	3.3%	3.7%	0.3%	1.8%	2.3%	2.6%	2.2%	2.2%
Services	3.0%	5.0%	5.1%	4.2%	5.0%	2.5%	1.1%	1.3%	2.3%	2.3%	2.2%	2.2%
Government	-0.4%	0.2%	1.8%	2.2%	3.0%	2.2%	3.3%	0.7%	0.9%	1.1%	1.1%	1.1%
Total Non-Farm Employment	0.8%	2.1%	2.8%	3.0%	2.9%	1.0%	0.0%	0.7%	1.0%	1.0%	1.0%	1.0%
Total Personal Income (Millions)	26,433.8	27,772.8	29,468.5	30,640.0	32,793.5	34,384.1	35,415.6	36,655.1	38,121.3	39,836.8	41,629.5	43,502.8
Wage and salary disbursements	13,456.4	14,315.5	15,242.5	16,250.8	17,217.2	17,974.6	18,424.0	19,013.5	19,698.0	20,584.4	21,613.7	22,694.3
Other labor income	2,103.9	2,033.6	2,058.5	2,143.1	2,253.9	2,393.4	2,441.3	2,526.7	2,653.1	2,785.7	2,925.0	3,071.3
Non-farm Proprietors' income	1,958.8	2,051.7	2,223.3	2,374.1	2,492.7	2,575.5	2,627.0	2,705.8	2,822.1	2,949.1	3,081.8	3,220.5
plus: Dividends, interest, and rent	5,037.1	5,361.9	5,824.8	5,663.9	6,371.6	6,620.1	6,692.9	6,893.7	7,197.0	7,520.9	7,859.3	8,213.0
plus: Transfer payments	4,686.9	4,903.0	5,010.0	5,136.2	5,416.2	5,875.0	6,345.0	6,694.0	6,995.2	7,310.0	7,529.3	7,755.2
less: Personal contrib. for social insurance	1,084.6	1,144.9	1,210.5	1,288.6	1,339.8	1,419.9	1,490.9	1,565.4	1,643.7	1,725.9	1,812.2	1,902.8
plus: Adjustment for residence	208.5	240.0	274.5	292.1	332.9	342.1	355.8	370.0	384.8	400.2	416.2	432.9
Farm Income	145.0	92.1	125.0	142.6	130.6	111.9	116.4	121.0	125.9	130.9	136.1	141.6
Annual Growth Rates												
Personal income	5.5%	5.1%	6.1%	4.0%	7.0%	4.9%	3.0%	3.5%	4.0%	4.5%	4.5%	4.5%
Wage and salary disbursements	4.1%	6.4%	6.5%	6.6%	5.9%	4.4%	2.5%	3.2%	3.6%	4.5%	5.0%	5.0%
Other labor income	1.9%	-3.3%	1.2%	4.1%	5.2%	6.2%	2.0%	3.5%	5.0%	5.0%	5.0%	5.0%
Non-farm Proprietors' income	9.3%	4.7%	8.4%	6.8%	5.0%	3.3%	2.0%	3.0%	4.3%	4.5%	4.5%	4.5%
plus: Dividends, interest, and rent	7.4%	6.4%	8.6%	-2.8%	12.5%	3.9%	1.1%	3.0%	4.4%	4.5%	4.5%	4.5%
plus: Transfer payments	6.5%	4.6%	2.2%	2.5%	5.5%	8.5%	8.0%	5.5%	4.5%	4.5%	3.0%	3.0%
less: Personal contrib. for social insurance	3.2%	5.6%	5.7%	6.5%	4.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
plus: Adjustment for residence	13.9%	15.1%	14.4%	6.4%	14.0%	2.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Farm Income	27.3%	-36.5%	35.7%	14.1%	-8.5%	-14.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

TABLE B-2

Source: Report of the Maine State Revenue Forecasting Committee, December 2002

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*Revenue Outlook
and
Forecast*

Revenue Outlook and Forecast

Background

The Revenue Forecasting Committee was 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 Branch in setting budget estimates and recommendations and out-biennium budget 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 trend 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 2002-03 are projected to increase by 2.2% from the actual revenues in fiscal year 2001-02. Major contributors to this low growth rate are an economy generating little employment growth, declining capital gains income from the on-going stock market correction and tax reductions associated with conformity with federal tax law changes. It is estimated that the stock market correction alone has reduced General Fund revenues by \$130 million annually.

General Fund revenue growth is forecasted to be 2.5% in fiscal year 2003-04 before increasing to approximately 4% in fiscal years 2004-05 and 2005-06 and 4.5% in fiscal year 2006-07. These projected growth rates follow the underlying trend and strength of the State of Maine economy adjusted for effects from conforming with the 2001 federal tax law changes that phase-in over this time period.

Sales and Use Tax – Consumer spending is expected to grow at a moderate growth rate of 4% in fiscal years 2002-03 and 2003-04, before increasing to 5% for the remainder of the forecast period. Concern remains 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. Growth in tourism related sectors are expected to grow at a rate consistent with overall consumer spending. Sales and Use taxes paid by business on purchases of intermediate and investment goods are projected to grow by only 1.5% in fiscal year 2002-03, before increasing to approximately 3% growth over the remainder of the budget window.

Individual Income Tax – The estimate for fiscal years 2002-03 (no growth) reflects the underlying economic forecast of the Consensus Revenue Forecasting Commission with respect to personal income and wage and salary distribution and the dramatic loss in revenue from capital gains income. Growth in the range of 5 to 6%, which is expected given normal economic conditions, is not projected to return until fiscal year 2003-04. Annual growth is expected to be in the 5.5% range for fiscal years 2003-04, 2004-05, and 2005-06. Estimated growth for fiscal year 2006-07 is 6.1%. Preliminary estimates are that capital gains realizations fell by 69% in tax year 2001, resulting in a revenue loss of over \$130 million annually. Capital gains are expected to decrease again in tax year 2002 by 20%, experience no growth in tax year 2003, and then grow by approximately 10% a year for the remainder of the budget period.

Enacted legislation also is reflected in the forecast for fiscal years 2003-04 and 2004-05 as follows:

- 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.
- Starting with tax years beginning on or after January 1, 2002, Maine tax law conforms with the federal Economic Growth and Tax Relief Reconciliation Act of 2001.

- Effective with the tax year beginning January 1, 2004, individual income taxpayers will be eligible for two new tax credits designed to increase the number of Mainers going to college and retain talented workers.

Corporate Income Tax – The forecast for Corporate Income Tax is essentially unchanged from the committee's July 2002 forecast for fiscal years 2003-04 and 2004-05. Uncertainty regarding the economy continues to impact business investment. While corporate profits have started to rebound, the revenue forecast for this line remains cautious.

Cigarette and Tobacco Tax – The forecast for fiscal years 2003-04 and 2004-05 reflects the continuing decline in cigarette sales. The forecast assumes an annual decline of approximately 1%.

Insurance Company Tax – The forecast for Insurance Company Tax for fiscal years 2003-04 and 2004-05 reflects rising insurance premiums following the terrorist attacks and the stock market correction.

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% (5.2% starting with fiscal year 2003-04) of the sales and income tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). Municipal Revenue Sharing is a calculation based on the forecasts of the sales and income tax lines.

Fuel Tax – The forecast for Fuel Tax for fiscal years 2003-04 and 2004-05 reflects the base year (fiscal year 2001-02) experience in which actual revenues exceeded budget by \$4.9 million. Annual growth is expected to follow historical trends of approximately 1% each year. The forecast for fiscal years 2003-04 and 2004-05 reflects the full effect of Sec. 8. 36 MRSA c. 465 which indexes motor fuels excise taxes for inflation. Indexing will increase the gasoline excise tax from \$.22 per gallon to \$.246 per gallon in fiscal year 2003-04 and the special fuels excise tax from \$.23 per gallon to \$.257 per gallon in fiscal year 2003-04.

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.

TABLE C - 1

GENERAL FUND REVENUE FORECAST									
SOURCE	FY 02 ACTUAL	FY 03	% CHANGE	BIENNIUM	FY 04	% CHANGE	FY 05	% CHANGE	BIENNIUM
Sales and Use Tax	836,134,084	868,208,278	3.84%	1,704,342,362	898,546,411	3.49%	937,631,233	4.35%	1,836,177,644
Individual Income Tax	1,069,834,791	1,070,028,696	0.02%	2,139,863,487	1,129,749,240	5.58%	1,189,445,209	5.28%	2,319,194,449
Corporate Income Tax	77,366,103	93,064,397	20.29%	170,430,500	96,581,934	3.78%	104,126,081	7.81%	200,708,015
Cigarette & Tobacco Tax	97,599,599	105,684,505	8.28%	203,284,104	104,958,014	-0.69%	104,139,047	-0.78%	209,097,061
Public Utilities Tax	30,479,783	30,400,000	-0.26%	60,879,783	29,500,000	-2.96%	28,600,000	-3.05%	58,100,000
Insurance Company Tax	55,244,333	56,646,354	2.54%	111,890,687	57,072,225	0.75%	59,510,321	4.27%	116,582,546
Inheritance & Estate Tax	23,420,240	23,821,692	1.71%	47,241,932	13,600,298	-42.91%	6,268,801	-53.91%	19,869,099
Property Tax - Unorganized Terr.	10,333,984	10,162,545	-1.66%	20,496,529	10,420,000	2.53%	10,634,139	2.06%	21,054,139
Income from Investments	3,829,521	1,889,000	-50.67%	5,718,521	1,652,000	-12.55%	2,418,000	46.37%	4,070,000
Municipal Revenue Sharing	(101,150,084)	(103,596,370)	2.42%	(204,746,454)	(110,493,634)	6.66%	(116,022,530)	5.00%	(226,516,164)
Transfer from Liquor	25,168,524	26,290,223	4.46%	51,458,747	26,157,883	-0.50%	26,848,192	2.64%	53,006,075
Transfer from Lottery	39,317,891	39,335,176	0.04%	78,653,067	39,321,885	-0.03%	40,423,093	2.80%	79,744,978
All Other	164,081,792	160,125,432	-2.41%	324,207,224	145,646,948	-9.04%	147,191,765	1.06%	292,838,713
TOTAL REVENUE	2,331,660,562	2,382,059,928	2.16%	4,713,720,490	2,442,713,204	2.55%	2,541,213,351	4.03%	4,983,926,555

TABLE C - 2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	FY 02 ACTUAL	FY 03	% CHANGE	BIENNIUM	FY 04	% CHANGE	FY 05	% CHANGE	BIENNIUM
Fuel Taxes	184,732,999	187,500,000	1.50%	372,232,999	211,786,463	12.95%	220,565,566	4.15%	432,352,029
Motor Vehicle Registration & Fees	83,285,014	79,432,966	-4.63%	162,717,980	76,519,827	-3.67%	77,111,096	0.77%	153,630,923
Inspection Fees	3,412,662	3,683,907	7.95%	7,096,569	3,461,771	-6.03%	3,470,359	0.25%	6,932,130
Fines, Forfeits and Penalties	1,958,350	3,057,180	56.11%	5,015,530	3,118,323	2.00%	3,180,689	2.00%	6,299,012
Income from Investments	2,857,209	1,418,000	-50.37%	4,275,209	1,128,000	-20.45%	1,655,000	46.72%	2,783,000
Other Revenues	5,737,782	9,064,514	57.98%	14,802,296	9,035,101	-0.32%	9,015,030	-0.22%	18,050,131
TOTAL REVENUE	281,984,017	284,156,567	0.77%	566,140,584	305,049,485	7.35%	314,997,740	3.26%	620,047,225

TABLE C - 3

TOBACCO SETTLEMENT REVENUE ESTIMATES									
SOURCE	FY 02 ACTUAL	FY 03	% CHANGE	BIENNIUM	FY 04	% CHANGE	FY 05	% CHANGE	BIENNIUM
Initial Payments	16,236,644	16,634,010	2.45%	32,870,654		-100.00%			
Base Payments	40,055,643	40,251,240	0.49%	80,306,883	49,654,499	23.36%	50,307,367	1.31%	99,961,866
Attorney General Reimbursements	25,475		-100.00%	25,475					
Income from Investments	1,233,998	517,115	-58.09%	1,751,113	82,601	-84.03%	134,525	62.86%	217,126
Total - Tobacco Settlement Revenue	57,551,760	57,402,365	-0.26%	114,954,125	49,737,100	-13.35%	50,441,892	1.42%	100,178,992

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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**.

Funding by objective for each department or agency will roll up to a functional statewide policy area.

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	

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.

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.

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 year. These typically include seasonal and 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 budget is presented in a performance-based format. Each program has a program strategy with performance measures connected to it. Each program strategy, in turn, will display its connection to the department or agency goals and objectives.

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 are 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. The remainder of the time line that follows is based on an election year when there is a Governor-elect. During the months of September and October, the budget analysts in the Bureau of the Budget prepare current services budget recommendations for the Governor-elect based on independent analysis and forecasts as well as one-on-one discussions with department and agency staff. Following the election, 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. These meetings may include the Governor-elect, the Commissioner of the Department of Administrative and Financial Services, the State Budget Officer, the Governor-elect's Chief of Staff and the Governor-elect's Senior Policy Advisors, depending upon the department or agency and the issue under consideration.

In late December and January, all budget decisions are finalized, including the development of the capital budget. The budget bills are transmitted to the Legislature in January or early February. 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 and 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 as 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, except when there is a Governor-elect. A Governor-elect has one additional month and must submit the budget in early February.

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 FY 04-05 biennial budget process that started in July of 2002.

Table D - 2	
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	December
Receive the General Fund and Highway Fund revenue forecasts from the Revenue Forecasting Committee	December
Finalize the Part I, Part II and capital budget	December & January
Prepare the budget document and budget bills	January
Submit the budget document and budget bills to the Legislature	January & February
Conduct public hearings on budget bills	February
Conduct work sessions on budget bills	March to May
Enact budget bills	June

Use of Performance Measures

This is the second biennium in which performance budgeting has been used in the biennial budget process for the State of Maine. The Bureau of the Budget and the State Planning Office met with departments and agencies in order to ensure that their performance measures are relevant for the FY 04-05 biennium. Because of the newness of the process, the performance measures continue to be

further refined 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 04-05 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

As a result of an unexpected shortfall in General Fund revenue in the 4th quarter of fiscal year 2001-02 and the necessity of using the Maine Rainy Day Fund to balance the budget, the General Fund began fiscal year 2002-03 with no unappropriated fund balance. In August of 2002 the Revenue Forecasting Committee reprojected General Fund Revenue downward by \$148.2 million. With this reprojection and the fact that balancing fiscal year 2002-03 relied on transfers from the Rainy Day Fund, the General Fund faced a shortfall of approximately \$248 million. The Legislature convened in a special session in November of 2002 and enacted Public Law 2001, chapter 714 to resolve the shortfall. Although this law is not effective until February 13, 2003, the impact of the legislation as originally proposed by the Governor is reflected in the General Fund Status information 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 "out-year" budget forecasts (fiscal years 2003-04

and 2004-05 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 30, 2002, the Bureau of the Budget issued its updated four year budget forecast for fiscal years 2001-02, 2002-03, 2003-04 and 2004-05. This budget forecast for the General Fund for fiscal years 2003-04 and 2004-05 is shown in **Table E - 1**. Based on the assumptions delineated in **Table E - 1**, including the Governor's proposed adjustments that were included in LD 2220 (P.L. 2001, c. 714), the budget forecast results in a **Structural Budget Gap** in the FY 04-05 biennium of \$787 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 04-05 biennium of the budget forecast for the General Fund.

TABLE E - 1

GENERAL FUND STATUS						
At the Beginning of the FY 04 - 05 Biennial Budget Process						
	FY 2002-2003 BIENNIUM			FY 2004-2005 BIENNIUM		
	FY 02	FY 03 BUDGETED	TOTAL	FY 04	FY 05	TOTAL
BALANCE	38,818,534		38,818,534			
ADJUSTMENTS TO BALANCE	116,465,818	145,769,877	262,235,695			
REVENUE	2,424,196,674	2,549,769,923	4,973,966,597	2,482,983,967	2,594,104,152	5,077,088,119
TOTAL RESOURCES	2,579,481,026	2,695,539,800	5,275,020,826	2,482,983,967	2,594,104,152	5,077,088,119
APPROPRIATIONS	2,565,345,849	2,709,588,242	5,274,934,091	2,950,496,776	3,090,842,481	6,041,339,257
TOTAL USES	2,565,345,849	2,709,588,242	5,274,934,091	2,950,496,776	3,090,842,481	6,041,339,257
BALANCE AT END OF 2nd REGULAR SESSION - 120th LEGISLATURE	14,135,177	(14,048,442)	86,735			
ORIGINAL BALANCE		84,735	84,735			
PROJECTED ENDING BALANCE	14,133,177	(14,133,177)	(14,133,177)			
GENERAL FUND REVENUE (UNDER) BUDGET	(92,536,012)					
LAPSED BALANCES	14,110,336					
YEAR END TRANSFERS	153,519					
TRANSFER FROM THE MAINE RAINY DAY FUND	66,353,928	(66,353,928)	(66,353,928)			
PRIOR PERIOD AND OTHER ADJUSTMENTS	(1,907,810)		(1,907,810)			
GENERAL FUND REVENUE REPROJECTION		(148,157,149)	(148,157,149)			
ADJUSTED BALANCE		(228,559,519)	(228,559,519)	(467,512,809)	(496,738,329)	(964,251,138)
GOVERNOR'S BUDGET PROPOSALS IN FY 03		228,818,581	228,818,581	92,008,281	85,106,169	177,114,450
ENDING BALANCE (SHORTFALL)	-0-	259,062	259,062	(375,504,528)	(411,632,160)	(787,136,688)

Note: The FY 04 - 05 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2003.

Table E - 1

**Source: Revenue & Expenditure Projection General Fund and Highway Fund Fiscal Years 2002-2005,
September 30, 2002**

Highway Fund

After the Second Regular Session of the 120th Legislature, the Highway Fund had a budgeted balance at the end of fiscal year 2002-03 of \$659,415. With a balance forward from fiscal year 2001-02 of \$21.1 million and the August 2002 revenue reprojected of \$3,972,507, the Highway Fund was estimated to end fiscal year 2002-03 with a balance of \$16.6 million after adjusting for legislatively approved allocations. The Governor's proposal for balancing the General Fund budget in what became PL 2001, chapter 714 included a transfer of \$9.3 million from the Highway Fund in FY 03. This left a projected unallocated surplus of approximately \$7.3 million as 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 "out-year" budget forecasts (fiscal years 2003-04 and 2004-05 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 30, 2002, the Bureau of the Budget issued its updated four year budget forecast for fiscal years 2001-02, 2002-03, 2003-04 and 2004-05. This budget forecast for the Highway Fund for fiscal years 2003-04 and 2004-05 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 04-05 biennium of \$12.6 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 04-05 biennium of the budget forecast for the Highway Fund.

TABLE E - 2

HIGHWAY FUND STATUS						
At the Beginning of the FY 04 - 05 Biennial Budget Process						
	FY 2002-2003 BIENNIUM			FY 2004-2005 BIENNIUM		
	FY 02	FY 03 BUDGETED	TOTAL	FY 04	FY 05	TOTAL
BALANCE	27,686,658		27,686,658			
ADJUSTMENTS TO BALANCE	(500,000)	146,023	(353,977)			
REVENUE	272,347,857	280,140,025	552,487,882	305,914,918	315,302,411	621,217,329
TOTAL RESOURCES	299,534,515	280,286,048	579,820,563	305,914,918	315,302,411	621,217,329
ALLOCATIONS	290,385,517	288,775,631	579,161,148	319,304,570	321,780,423	641,084,993
TOTAL USES	290,385,517	288,775,631	579,161,148	319,304,570	321,780,423	641,084,993
BALANCE AT END OF 2nd REGULAR SESSION - 120th LEGISLATURE	9,148,998	(8,489,583)	659,415			
BALANCE FORWARD		21,088,925	21,088,925	7,271,849		7,271,849
ORIGINAL BALANCE		659,415	659,415			
PROJECTED ENDING BALANCE	9,148,998	(9,148,998)				
HIGHWAY FUND REVENUE OVER BUDGET	9,636,160		9,636,160			
LAPSED BALANCES	585,871		585,871			
PRIOR PERIOD AND OTHER ADJUSTMENTS	1,717,896		1,717,896			
HIGHWAY FUND REVENUE REPROJECTION		3,972,507	3,972,507			
ADJUSTED BALANCE		16,571,849	16,571,849			
GOVERNOR'S PROPOSED TRANSFER TO THE GENERAL FUND IN FY 03		(9,300,000)	(9,300,000)			
ENDING BALANCE (SHORTFALL)	21,088,925	7,271,849	28,360,774	(6,117,803)	(6,478,012)	(12,595,815)

Note: The FY 04 - 05 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2003.

Table E - 2

**Source: Revenue & Expenditure Projection General Fund and Highway Fund Fiscal Years 2002-2005,
September 30, 2002**

Fiscal Outlook

Fiscal Outlook

General Fund

Department and agency current services expenditure requests and the December 2002 downward reprojection of \$119.7 million by the Revenue Forecasting Committee for the FY 04-05 biennium increased the projected **Structural Budget Gap** in the FY 04-05 biennium to \$1.152 billion when compared to the **Structural Budget Gap** of \$787.1 million from the September 30, 2002, budget forecast. The major

factors influencing the increase in biennial expenditure requests were in Medicaid and a substantial increase in the current services request from the University of Maine System. **Table F - 1** shows the change in the General Fund **Structural Budget Gap** as a result of the December 12, 2002, General Fund revenue reprojection of the Revenue Forecasting Committee and the increase in current services requests.

TABLE F - 1

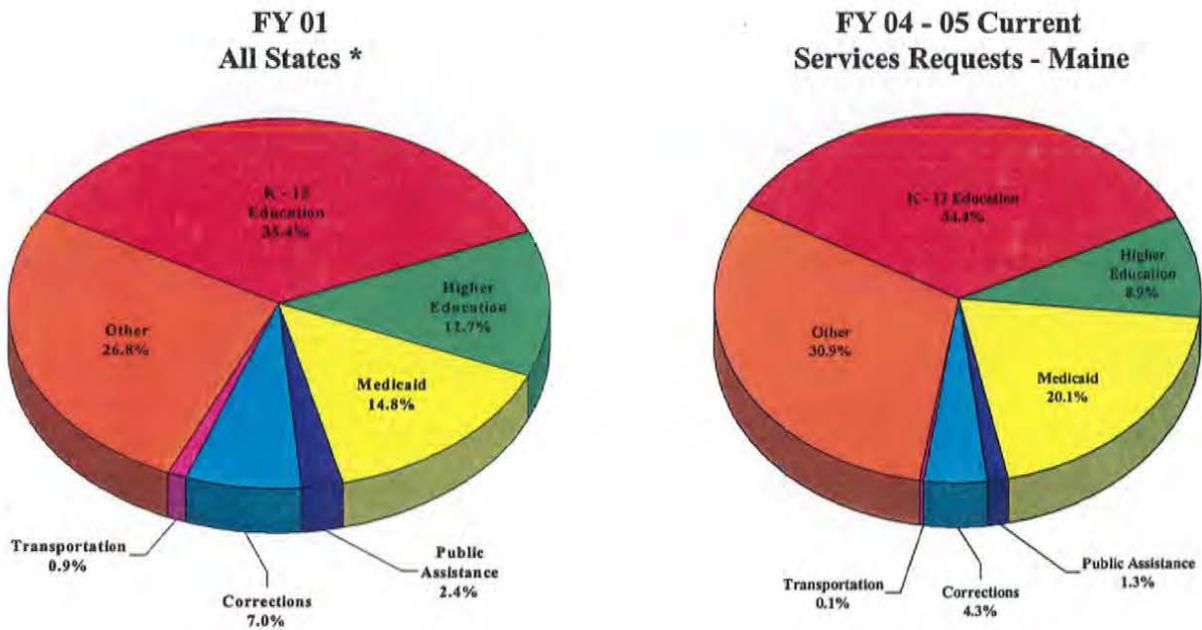
GENERAL FUND BALANCE			
After Department Requests and December 12, 2002 Revenue Reprojection			
	FY 04	FY 05	BIENNIUM
BUDGETED BALANCE 6-30-03	304,862		304,862
PROJECTED REVENUE	2,500,624,130	2,602,958,931	5,103,583,061
12/12/2002 REPROJECTION	(57,910,926)	(61,745,580)	(119,656,506)
TOTAL PROJECTED RESOURCES	2,443,018,066	2,541,213,351	4,984,231,417
PROJECTED EXPENDITURES	2,950,496,776	3,090,842,481	6,041,339,257
PROJECTED BALANCE	(507,478,710)	(549,629,130)	(1,057,107,840)
DEPARTMENT/AGENCY REQUESTS OVER FORECAST	28,427,063	66,361,308	94,788,371
PROJECTED BALANCE	(535,905,773)	(615,990,438)	(1,151,896,211)

Note: The FY 04 - 05 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2003.

Chart F - 1 shows the percent of General Fund by program area for State of Maine current services expenditure requests for the FY 04-05 biennium compared to all states in fiscal year 2000-01. While all states commit an average of 14.8% of General Fund budgets to Medicaid, the State of Maine would commit 20.1% 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 - 1
GENERAL FUND COMPARISON
ALL STATES VS MAINE**



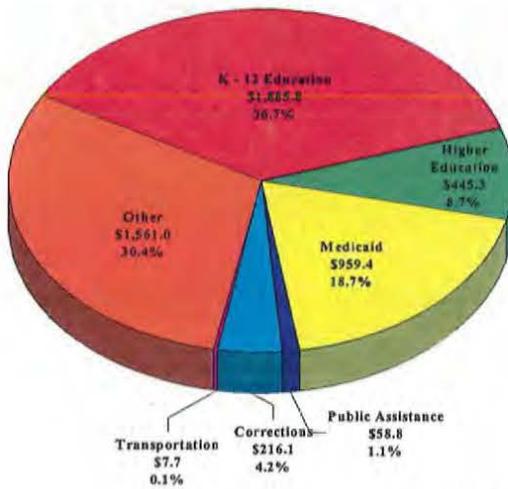
* Source: National Association of State Budget Officers, 2001 *State Expenditure Report*.
These are the standard program areas for comparison used by the National Association of State Budget Officers.

Chart F - 2 shows the percent of General Fund program areas in the FY 02-03 biennium compared to the department and agency current services expenditure requests for the FY 04-05 biennium. The General Fund commitment to Medicaid would increase from 18.7% in the FY 02-03 biennium to

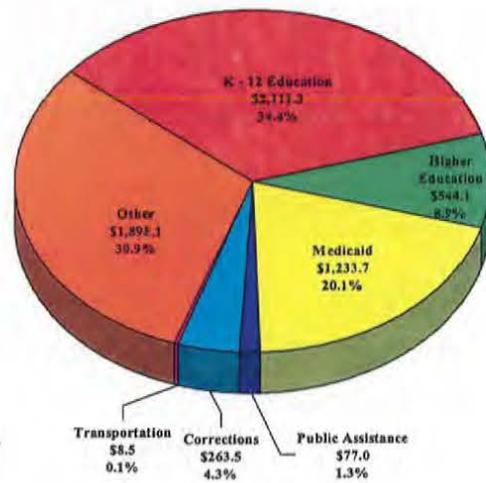
20.1% (based on current services requests) in the FY 04-05 biennium. The General Fund expenditure trends for Medicaid present a challenge in balancing the General Fund budget in the FY 04-05 biennium and in meeting other needs such as K through 12 Education, Corrections and Higher Education.

**Chart F - 2
GENERAL FUND**

**FY 02 - 03
Appropriations**



**FY 04 - 05 Current
Services Requests**



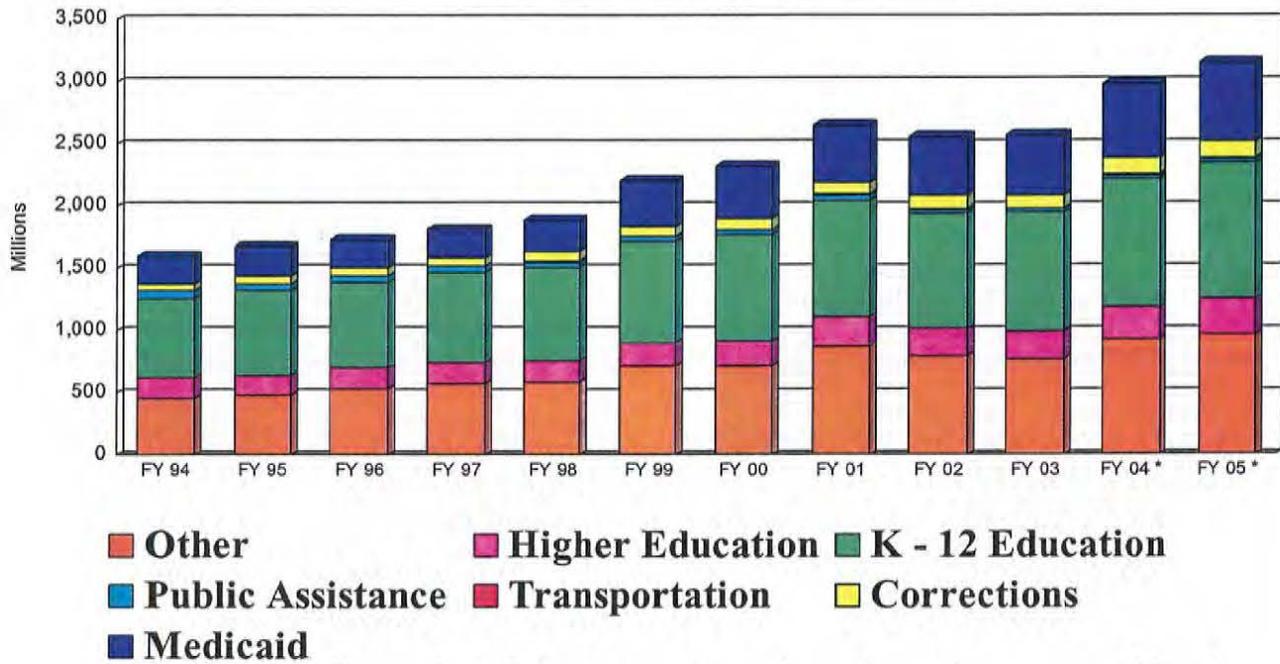
Dollars in Millions

These are the standard program areas for comparison used by the National Association of State Budget Officers.

The data in **Chart F - 3** reflects the trends in General Fund appropriations by program area from

FY 94 through FY 03. The FY 04 and FY 05 columns are based on current services requests.

Chart F - 3
HISTORICAL GENERAL FUND APPROPRIATIONS BY PROGRAM AREA FY 94 - FY 03 AND FY 04 - FY 05 CURRENT SERVICES REQUESTS



- Other**
- Higher Education**
- K - 12 Education**
- Public Assistance**
- Transportation**
- Corrections**
- Medicaid**

These are the standard program areas for comparison used by the National Association of State Budget Officers.

* Requests

Chart F - 4 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 2001, the State of Maine ranked 36th 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 2000-01. Consistent with **Chart F - 1** above, **Chart F - 4** 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 2000-01. The State of Maine ranked 43rd in Corrections per capita General Fund expenditures in fiscal year 2000-01. The State of Maine ranked 41st in Higher Education per capita General Fund expenditures in fiscal year 2000-01. The per capita expenditure outcomes in **Chart F - 4** 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.

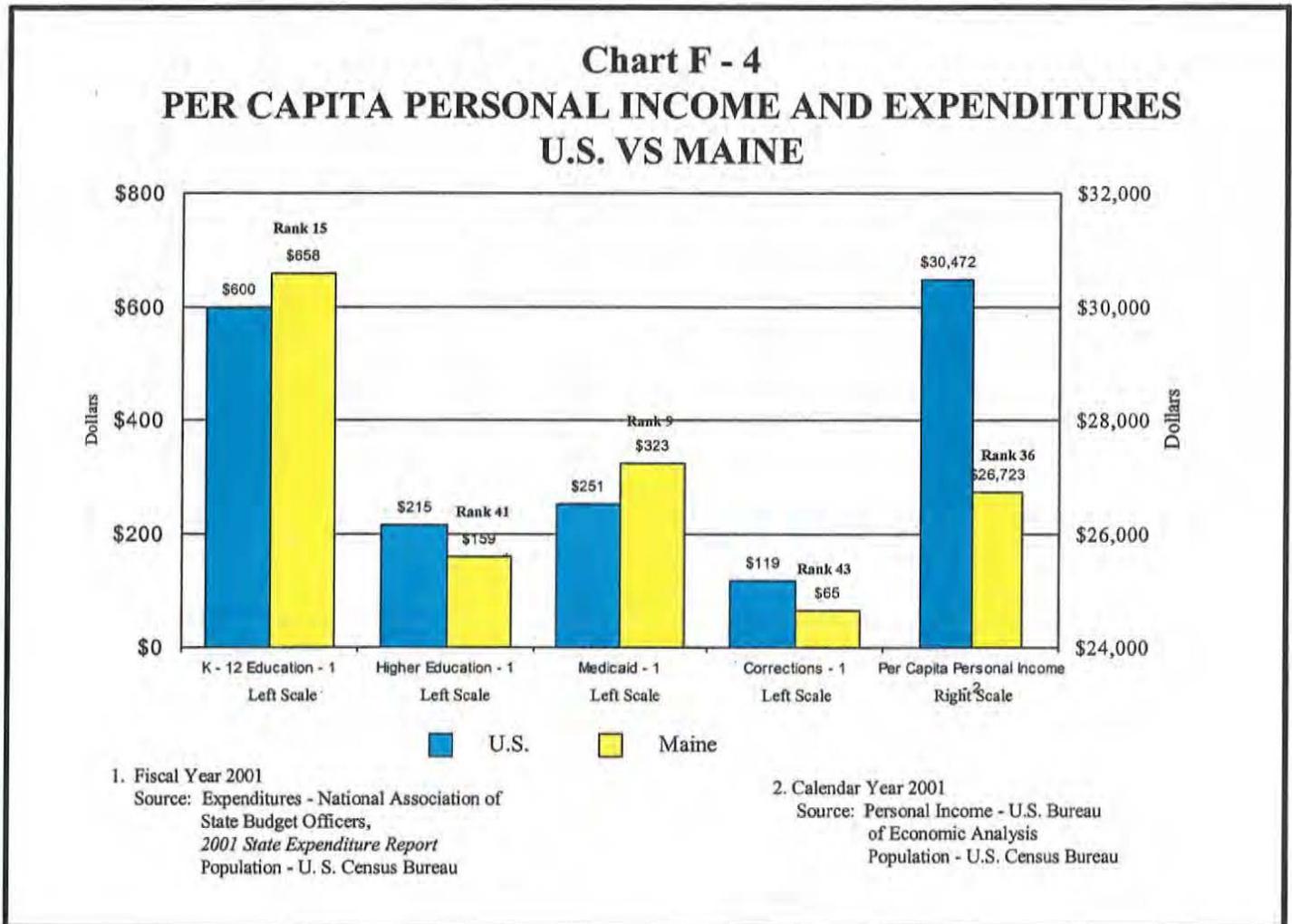
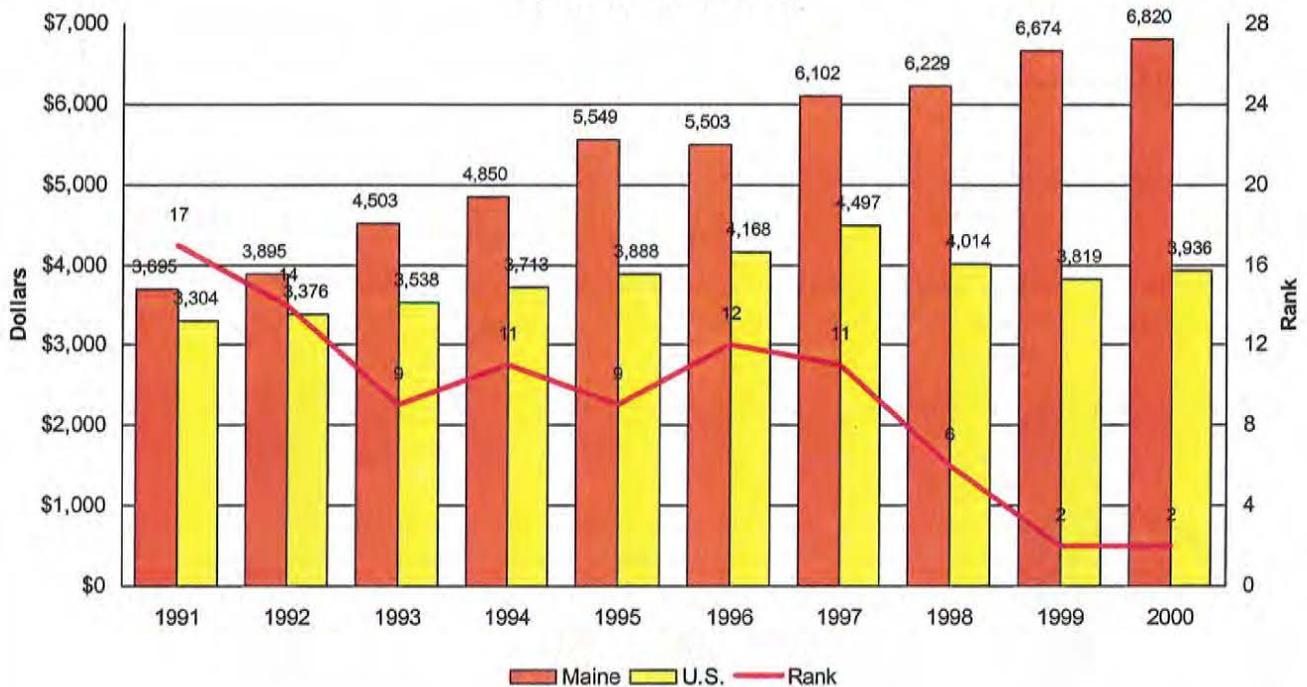


Chart F - 5 compares the State of Maine to the U.S. with respect to Maine's rank nationally on a cost per recipient basis for Medicaid. In 2000, the State of Maine ranked 2nd on a cost per recipient basis

for Medicaid. One of the factors influencing this ranking is Maine's aging population. **Chart F - 5** also presents cost per recipient and rank nationally from 1991 through 2000.

Chart F - 5
MEDICAID COST PER RECIPIENT
Total Medicaid
(Federal Fiscal Year)



Source: 1991 - 1998 Health Care Financing Administration website
 1999 - 2000 Centers for Medicare and Medicaid Services - MSIS Statistical Report for Federal Fiscal Years 1999 and 2000.

Highway Fund

Department and agency current services expenditure requests for the FY 02-03 biennium increased the projected **Structural Budget Gap** in the FY 04-05 biennium to \$43.6 million when compared to the **Structural Budget Gap** of \$12.6 million from the September 30, 2002, budget forecast. The expenditure increase over forecast for current services occurs primarily in Highway and Bridge Improvement in the Department of

Transportation. The current services requests for Highway and Bridge Improvement includes approximately \$22 million of expenditure needs that had previously been met with General Fund bonds in fiscal year 2002-03. **Table F - 2** 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 - 2

HIGHWAY FUND BALANCE			
After Department Requests and December 12, 2002 Revenue Reprojection			
	FY 04	FY 05	BIENNIUM
BUDGETED BALANCE 6-30-03	7,271,849		7,271,849
PROJECTED REVENUE	305,914,918	315,302,411	621,217,329
REVENUE REPROJECTION	(865,433)	(304,671)	(1,170,104)
TOTAL PROJECTED RESOURCES	312,321,334	314,997,740	627,319,074
TOTAL PROJECTED EXPENDITURES	319,304,570	321,780,423	641,084,993
PROJECTED BALANCE	(6,983,236)	(6,782,683)	(13,765,919)
DEPARTMENT/AGENCY REQUESTS OVER FORECAST	13,753,947	16,030,919	29,784,866
PROJECTED BALANCE	(20,737,183)	(22,813,602)	(43,550,785)
Note: The FY 04 - 05 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2003.			

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*Strategic Planning
and
Performance Measurement*

Strategic Planning and Performance Measurement

Glossary of Terms

Term/Definition

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.

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.

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.

Measurable Objective: A specific quantifiable outcome 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. Measurable objectives quantify an agency's long-term outcomes.

Program 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. It corresponds with the program to which the Legislature appropriates/allocates funds.

Performance Measure: Quantifiable indicators of progress towards the agency's goals and objectives. Each program strategy has 3-6 performance measures that document a program's interim outcomes, outputs, efficiencies and service levels. Each performance measure contains a baseline of the current level of performance and a target level of performance to be achieved in each year of the biennium.

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.

	Strategic Plan Elements	Definitions	Examples
<i>What is our public purpose?</i>	Statutes/Enabling Legislation	Legislated public purpose, legislated activities	DHS
	Mission	A statement of the agency’s purpose: what does it do, why, and for whom?	To provide social services, income maintenance, public health and medical services to Maine families so that they achieve their optimum independence, health and safety.
	Goals	Outcome-based policy statements of future ends desired by the agency	To ensure the safety and well being of Maine’s children and families.
<i>How are we going to accomplish it?</i>	Objective	Specific, measurable outcomes to track whether the agency is making progress towards its goals	Increase the percent of Maine children who are protected from abuse and neglect.
	Program Strategy	Methods for achieving the objectives	0307 Foster Care: Provide supports and services for children in the Department’s care or custody while permanent placements are being made.
<i>How do we know if we’re successful?</i>	Performance Measures	Quantifiable indicators of effectiveness and efficiency	<ul style="list-style-type: none"> • percent of foster care children who remain in the department’s care for 36 months or less • percent of families where intervention has occurred which require no further intervention • % of family safety assessments completed within 24 hours • percent of children in family foster care settings as opposed to residential or treatment facilities • percent of foster homes licensed in compliance with state standards

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 non-financial 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
- average per-ton market price for recyclables

Range of Outcomes

One Example for an International Trade Office

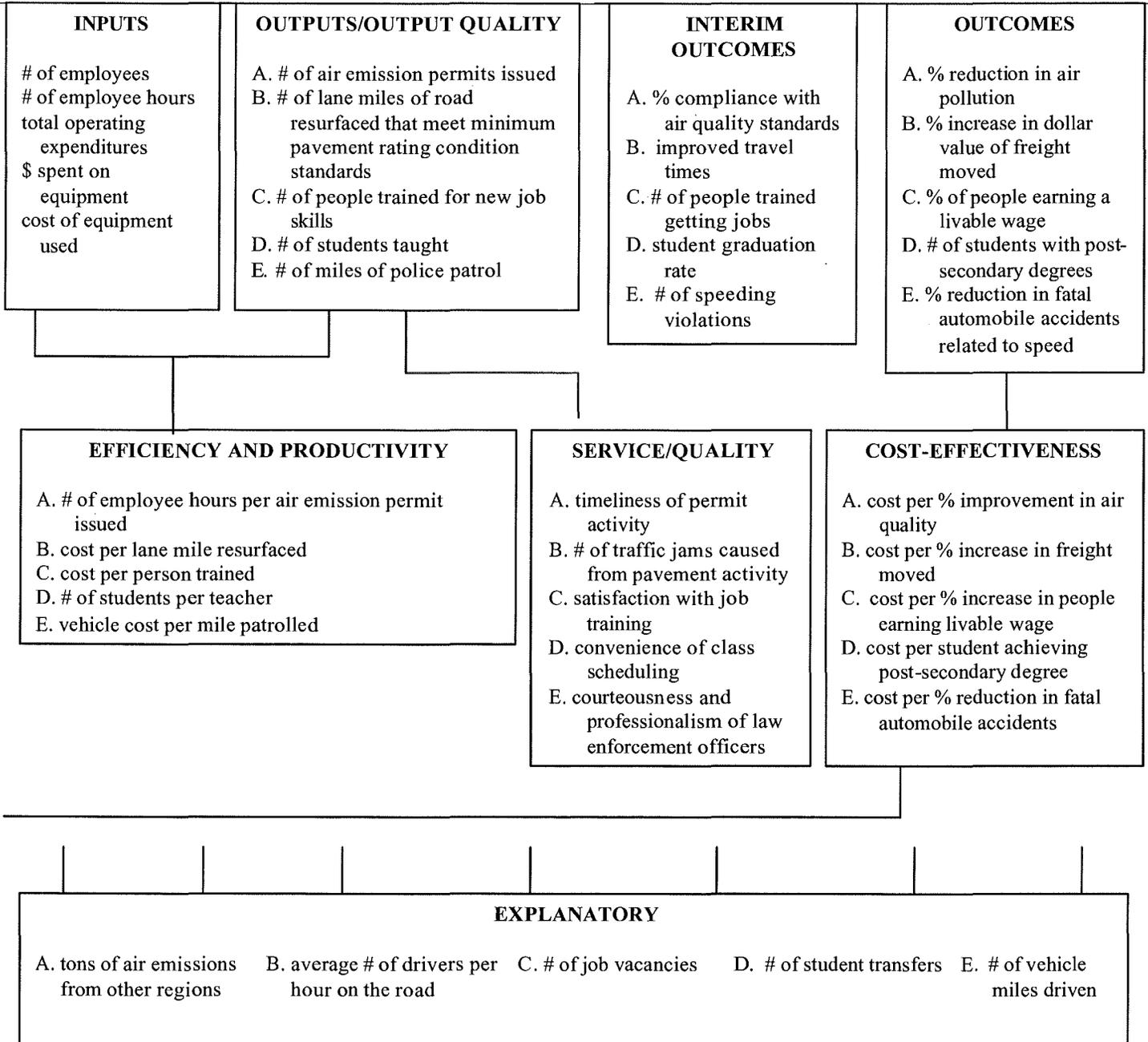
Initial Outcome— number of firms deciding to export products

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?*
- √ *What are our priorities?*
- √ *How efficient and effective are we?*
- √ *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?*
- √ *What level of performance can we afford?*

QUESTIONS FOR POLICY-MAKERS

- √ *Are the performance measures consistent with statutory direction?*
- √ *Are the priorities reflected by the performance measures appropriate?*
- √ *What is an acceptable level of performance?*
- √ *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

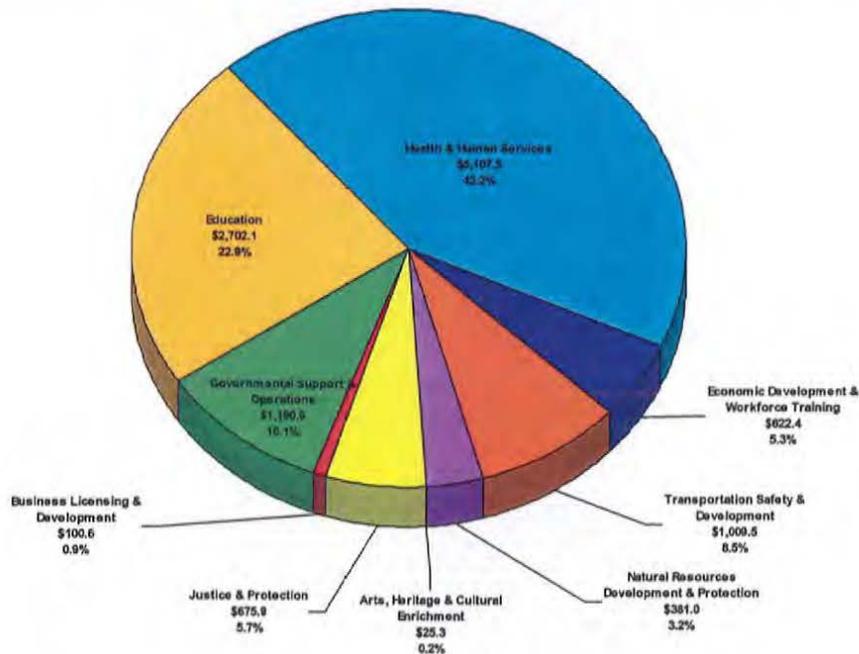
The State of Maine uses broadly defined policy areas and goals as a means of showing how state appropriations and allocations for all funds support overarching, organization-wide efforts. Funding by policy area and goal for the FY 04-05 biennium, as shown in **Table H - 1**, is reflected by state department and agency for all funds. **Chart H - 1** reflects the roll up of funding by objective within

each department or agency's strategic plan for the FY 04-05 biennium. Funding for a department or agency, consequently, may appear in more than one policy area and goal based upon the impact each objective has within the context of the department or agency's strategic plan.

Chart H - 1

**FY 04 - 05 Recommended Appropriations/Allocations – All Funds
(Includes Federal Expenditures Fund and Other Funds By Policy Area)**

\$11,814.9



All Dollars in Millions

**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 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$359,195,703	\$378,136,008	\$292,165,681	\$303,172,322
HIGHWAY FUND	33,168,083	33,685,793	23,939,578	22,415,572
FEDERAL EXPENDITURES FUND	13,187,005	13,435,727	13,255,584	13,505,268
OTHER SPECIAL REVENUE FUNDS	141,274,770	147,538,761	134,839,637	139,287,595
INTERNAL SERVICE FUNDS	122,521,678	128,953,153	122,521,678	128,953,153
ENTERPRISE FUNDS	14,891,452	15,134,411	13,351,277	11,688,153
TRUST FUNDS	284,950	290,781	284,950	290,781
Total	\$684,523,641	\$717,174,634	\$600,358,385	\$619,312,844

Economic Development and Work Force Training 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 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$51,255,861	\$52,169,953	\$46,147,891	\$46,435,879
FEDERAL EXPENDITURES FUND	93,328,305	95,467,727	93,398,788	95,553,199
OTHER SPECIAL REVENUE FUNDS	67,752,040	69,024,082	64,082,598	65,189,849
FEDERAL BLOCK GRANT FUND	24,221,500	24,697,580	24,221,500	24,697,580
INTERNAL SERVICE FUNDS	792,925	810,586	792,925	810,586
ENTERPRISE FUNDS	4,526,265	4,534,012	4,526,265	4,534,012
TRUST FUNDS	112,200,000	114,532,880	112,200,000	114,532,880
Total	\$354,076,896	\$361,236,820	\$345,369,967	\$351,753,985

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 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$1,282,446,951	\$1,376,060,429	\$1,183,919,568	\$1,195,024,432
FEDERAL EXPENDITURES FUND	124,802,006	126,988,332	124,630,933	126,814,416
OTHER SPECIAL REVENUE FUNDS	10,334,603	10,533,590	10,328,294	10,527,274
FEDERAL BLOCK GRANT FUND	203,834	206,863	203,834	206,863
Total	\$1,417,787,394	\$1,513,789,214	\$1,319,082,629	\$1,332,572,985

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

Funding	FY 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$9,648,507	\$9,791,672	\$9,004,454	\$8,999,993
FEDERAL EXPENDITURES FUND	2,667,520	2,724,105	2,667,520	2,724,105
OTHER SPECIAL REVENUE FUNDS	930,164	942,346	952,663	965,409
Total	\$13,246,191	\$13,458,123	\$12,624,637	\$12,689,507

**TABLE H-1
CONTINUED**

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			
Funding	FY 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$69,570,477	\$70,285,300	\$59,934,942	\$60,027,199
HIGHWAY FUND	36,296	36,427	36,296	36,427
FEDERAL EXPENDITURES FUND	24,645,468	25,026,893	24,654,208	25,035,482
OTHER SPECIAL REVENUE FUNDS	72,906,775	74,005,706	73,511,253	74,715,881
Total	\$167,159,016	\$169,354,326	\$158,136,699	\$159,814,989
Health and Human Services	Maine's citizens will be healthy, physically- and emotionally-safe, and as self-			
Funding	FY 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$976,436,622	\$1,030,934,413	\$808,287,748	\$822,055,005
HIGHWAY FUND	836,787	851,343	802,299	814,819
FEDERAL EXPENDITURES FUND	1,386,946,874	1,466,485,274	1,272,227,330	1,328,821,379
OTHER SPECIAL REVENUE FUNDS	153,807,323	155,587,155	156,682,505	158,442,391
FEDERAL BLOCK GRANT FUND	290,784,053	299,473,669	290,535,111	301,283,173
GENERAL BOND FUND-ARBITRAGE	2,000,000	2,400,000	2,000,000	2,400,000
Total	\$2,810,811,659	\$2,955,731,854	\$2,530,534,993	\$2,613,816,766
Justice and Protection	Maine's citizens will be secure in their homes and communities. Those who			
Funding	FY 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$225,633,832	\$234,938,057	\$212,087,040	\$220,300,522
HIGHWAY FUND	35,645,595	35,778,820	36,858,226	37,006,253
FEDERAL EXPENDITURES FUND	12,380,400	12,720,870	12,295,698	12,592,030
OTHER SPECIAL REVENUE FUNDS	35,271,278	35,317,912	35,531,179	35,260,941
FEDERAL BLOCK GRANT FUND	1,926,314	1,970,349	1,926,314	1,970,349
ENTERPRISE FUNDS	1,271,565	1,289,649	1,271,565	1,289,649
Total	\$312,128,984	\$322,015,657	\$299,970,022	\$308,419,744
Business Licensing and Regulation	Maine will foster a regulatory environment that protects the public through			
Funding	FY 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$2,883,756	\$2,909,131	\$2,529,925	\$2,551,310
FEDERAL EXPENDITURES FUND	26,319	26,936	26,319	26,936
OTHER SPECIAL REVENUE FUNDS	13,481,236	13,725,061	13,504,523	13,749,087
Total	\$13,481,236	\$13,725,061	\$13,504,523	\$13,749,087

**TABLE H-1
CONTINUED**

Transportation Safety and Development	Maine's infrastructure will move people, goods, information, and energy safely			
Funding	FY 04 Dept	FY 05 Dept	FY 04 Budget	FY 05 Budget
GENERAL FUND	\$4,214,396	\$4,392,155	\$3,963,022	\$3,961,796
HIGHWAY FUND	263,371,756	267,458,959	227,955,168	242,728,205
FEDERAL EXPENDITURES FUND	209,412,750	211,161,324	209,412,750	211,161,324
OTHER SPECIAL REVENUE FUNDS	14,513,509	14,632,860	14,513,509	14,632,860
INTERNAL SERVICE FUNDS	30,688,308	31,653,111	30,688,308	31,653,111
ENTERPRISE FUNDS	6,136,799	6,389,328	6,136,799	6,389,328
Total	\$528,337,518	\$535,687,737	\$492,669,556	\$510,526,624

***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 04-05 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 04-05 biennium compared to fiscal year 2002-03.

**TABLE I - 1
GENERAL FUND APPROPRIATIONS**

DEPARTMENT/AGENCY	FY 03	GOVERNOR'S BUDGET			
		FY 04	PERCENT CHANGE	FY 05	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	144,858,364	171,215,473	18.20%	167,819,164	-1.98%
DEPARTMENT OF AGRICULTURE, FOOD AND RURAL RESOURCES	7,935,318	7,990,583	0.70%	8,104,737	1.43%
MAINE ARTS COMMISSION	842,005	880,797	4.61%	880,797	
ATLANTIC SALMON COMMISSION	743,073	676,926	-8.90%	695,642	2.76%
ATLANTIC STATES MARINE FISHERIES COMMISSION	31,500	31,500		31,500	
DEPARTMENT OF THE ATTORNEY GENERAL	13,191,403	13,572,760	2.89%	13,805,231	1.71%
DEPARTMENT OF AUDIT	1,591,676	1,588,425	-0.20%	1,589,385	0.06%
DEPARTMENT OF BEHAVIORAL AND DEVELOPMENTAL SERVICES	242,453,737	252,163,652	4.00%	253,056,885	0.35%
DEPARTMENT OF CONSERVATION	22,851,640	23,348,721	2.18%	23,329,941	-0.08%
DEPARTMENT OF CORRECTIONS	108,090,180	124,905,302	15.56%	130,807,744	4.73%
MAINE CRIMINAL JUSTICE COMMISSION	18,136	18,136		18,136	
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT	5,025,672	4,964,851	-1.21%	4,948,407	-0.33%
DISABILITY RIGHTS CENTER	80,000	79,739	-0.33%	79,739	
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	16,770,510	12,425,104	-25.91%	12,421,728	-0.03%
STATE BOARD OF EDUCATION	161,501	161,501		161,501	
DEPARTMENT OF EDUCATION	948,682,374	949,920,047	0.13%	962,104,705	1.28%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	6,825,059	6,821,351	-0.05%	6,821,251	0.00%
COMMISSION ON GOVERNMENTAL ETHICS AND ELECTION PRACTICES	175,714	174,503	-0.69%	175,556	0.60%
EXECUTIVE DEPARTMENT	4,805,075	5,250,187	9.26%	5,127,084	-2.34%
FINANCE AUTHORITY OF MAINE	13,075,049	13,075,049		13,075,049	
MAINE FIRE PROTECTION SERVICES COMMISSION	17,360	14,616	-15.81%	14,616	
FOUNDATION FOR BLOOD RESEARCH	75,000	73,775	-1.63%	73,775	
GOVERNOR BAXTER SCHOOL FOR THE DEAF	5,817,517	5,817,517		5,817,517	
MAINE HISTORIC PRESERVATION COMMISSION	497,625	340,935	-31.49%	340,935	
MAINE HISTORICAL SOCIETY	50,645	61,201	20.84%	61,201	
MAINE HOSPICE COUNCIL	74,020	73,779	-0.33%	73,779	
MAINE STATE HOUSING AUTHORITY	500,000	500,000		500,000	
MAINE HUMAN RIGHTS COMMISSION	488,147	523,644	7.27%	514,136	-1.82%
DEPARTMENT OF HUMAN SERVICES	552,565,789	544,266,769	-1.50%	557,066,864	2.35%
MAINE HUMANITIES COUNCIL	44,664	75,501	69.04%	75,501	
MAINE INDIAN TRIBAL-STATE COMMISSION	38,500	38,384	-0.30%	38,384	
DEPARTMENT OF INLAND FISHERIES AND WILDLIFE	20,377,095	20,443,114	0.32%	20,529,839	0.42%
CENTERS FOR INNOVATION	279,294	274,498	-1.72%	274,498	
JUDICIAL DEPARTMENT	50,856,814	54,803,540	7.76%	56,836,116	3.71%
DEPARTMENT OF LABOR	21,607,612	21,604,112	-0.02%	21,604,012	0.00%
LAW AND LEGISLATIVE REFERENCE LIBRARY	1,346,703	1,512,277	12.29%	1,549,753	2.48%
LEGISLATURE	21,602,872	21,895,408	1.35%	23,927,063	9.28%
MAINE STATE LIBRARY	3,582,822	3,644,762	1.73%	3,644,762	
DEPARTMENT OF MARINE RESOURCES	9,641,834	9,629,466	-0.13%	9,624,592	-0.05%
MAINE MARITIME ACADEMY	7,719,938	7,719,938		7,719,938	
MAINE MUNICIPAL BOND BANK	100,637	98,865	-1.76%	98,865	
MAINE STATE MUSEUM	1,596,115	1,660,635	4.04%	1,656,174	-0.27%
PINE TREE LEGAL ASSISTANCE	148,050	145,459	-1.75%	145,459	
MAINE PORT AUTHORITY	24,500				
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION	10,535		-100.00%		
OFFICE OF PROGRAM EVALUATION AND GOVERNMENTAL ACCOUNTABILITY	86,154		-100.00%		
STATE BOARD OF PROPERTY TAX REVIEW	108,819	98,462	-9.52%	98,691	0.23%
MAINE PUBLIC BROADCASTING CORPORATION	2,367,120	2,340,623	-1.12%	2,340,623	
DEPARTMENT OF PUBLIC SAFETY	18,602,844	19,518,490	4.92%	19,569,796	0.26%
(BRD OF TRUSTEES OF THE) ME STATE RETIREMENT SYSTEM	197,655	207,042	4.75%	233,348	12.71%
SACO RIVER CORRIDOR COMMISSION	54,500	53,537		53,537	
MAINE SCIENCE AND TECHNOLOGY FOUNDATION	1,491,740				
DEPARTMENT OF THE SECRETARY OF STATE	3,720,143	3,826,911	2.87%	3,784,486	-1.11%
ST. CROIX INTERNATIONAL WATERWAY COMMISSION	25,000	24,918	-0.33%	24,918	
RESERVE FUND FOR STATE HOUSE PRESERVATION AND MAINTENANCE	800,000	800,000		800,000	
BOARD OF TRUSTEES OF THE MAINE TECHNICAL COLLEGE SYSTEM	40,949,622	40,789,117	-0.39%	39,695,535	-2.68%
DEPARTMENT OF TRANSPORTATION	3,904,404	3,900,904	-0.09%	3,900,804	0.00%
(OFFICE OF) TREASURER OF STATE	80,961,017	83,146,010	2.70%	99,465,338	19.63%
BOARD OF TRUSTEES OF THE UNIVERSITY OF MAINE SYSTEM	178,186,418	178,186,418		178,186,418	
TOTAL	2,568,727,510	2,617,375,234	1.89%	2,665,395,455	1.83%

Chart I - 1 shows the Governor's recommended General Fund appropriations for the FY 04-05 biennium by policy area.

Chart I - 1

FY 04 - 05 General Fund Recommended Appropriations By Policy Area

\$5,282.8

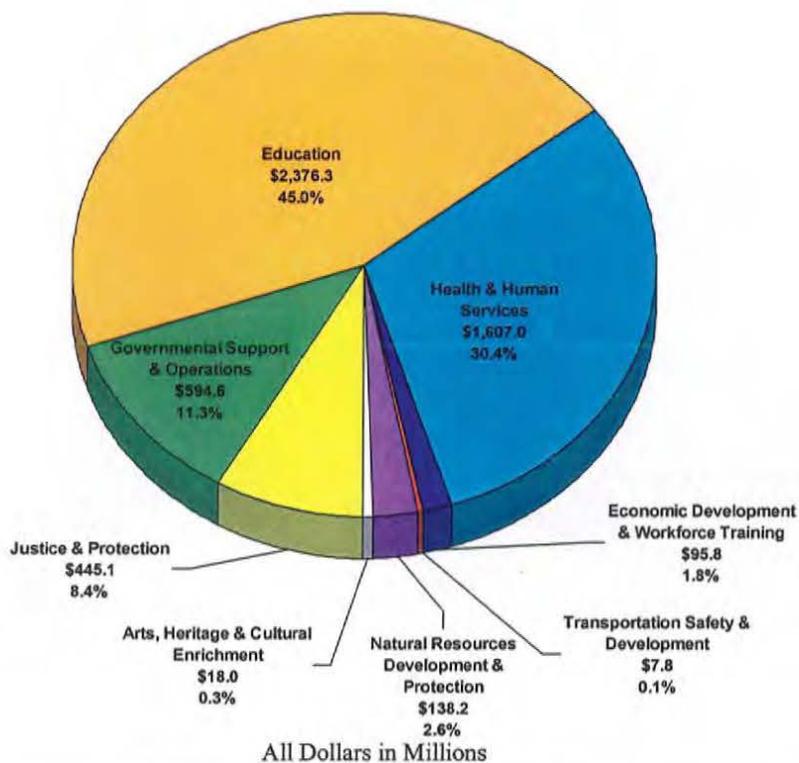
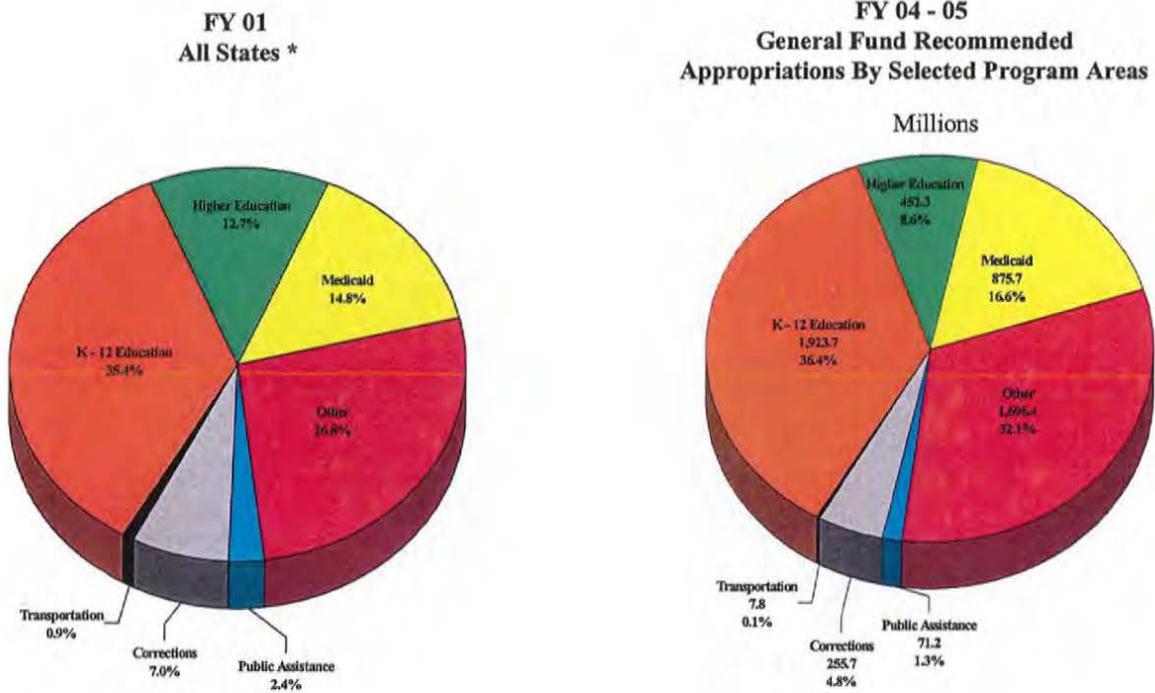


Chart I - 2 shows the Governor's recommended General Fund appropriations for the FY 04-05 biennium by selected program area. Medicaid as a

percent of the General Fund would be 16.6% compared to all states in FY 01.

Chart I - 2

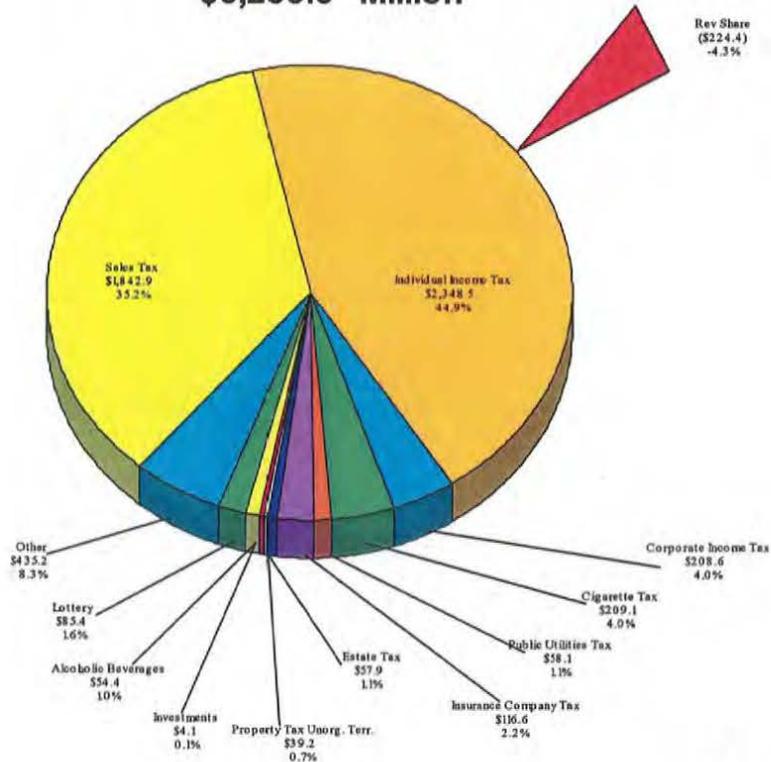


* Source: National Association of State Budget Officers, 2001 State Expenditure Report. These are the standard program areas for comparison used by the National Association of State Budget Officers.

Chart I - 3 shows the Governor's recommended General Fund revenues by line for the FY 04-05 biennium. These revenues include the base revenue projections of the Revenue Forecasting Committee

and adjustments to those base revenues recommended by the Governor.

Chart I - 3
FY 04-05 General Fund Recommended Revenues By Source
\$5,235.6 Million



All Dollars in Millions

Table I - 2 shows the General Fund revenues recommended by the Governor for fiscal year 2003-04 and fiscal year 2004-05. The column labeled Orig. 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 I - 2

GENERAL FUND REVENUE FORECAST CHARTS									
Showing Yearly Adjustments									
SOURCE	FISCAL YEAR 03			FISCAL YEAR 04			FISCAL YEAR 05		
	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET
Sales and Use Tax	868,208,278		868,208,278	898,546,411	5,397,233	903,943,644	937,631,233	1,353,873	938,985,106
Individual Income Tax	1,070,028,696		1,070,028,696	1,129,749,240	14,133,560	1,143,882,800	1,189,445,209	15,175,167	1,204,620,376
Corporate Income Tax	93,064,397		93,064,397	96,581,934	4,797,314	101,379,248	104,126,081	3,127,289	107,253,370
Cigarette & Tobacco Tax	105,684,505		105,684,505	104,958,014		104,958,014	104,139,047		104,139,047
Public Utilities Tax	30,400,000		30,400,000	29,500,000		29,500,000	28,600,000		28,600,000
Insurance Company Tax	56,646,354		56,646,354	57,072,225		57,072,225	59,510,321		59,510,321
Inheritance & Estate Tax	23,821,692		23,821,692	13,600,298	15,613,172	29,213,470	6,268,801	22,414,281	28,683,082
Property Tax - Unorg. Terr.	10,162,545		10,162,545	10,420,000	12,337,750	22,757,750	10,634,139	5,845,595	16,479,734
Income from Investments	1,889,000		1,889,000	1,652,000		1,652,000	2,418,000		2,418,000
Trans. to Muni. Rev. Share	(103,596,370)		(103,596,370)	(110,493,634)	884,145	(109,609,489)	(116,022,530)	1,220,439	(114,802,091)
Transfer from Liquor	26,290,223		26,290,223	26,157,883	137,051	26,294,934	26,848,192	1,231,628	28,079,820
Transfer from Lottery	39,335,176		39,335,176	39,321,885	2,700,000	42,021,885	40,423,093	3,000,000	43,423,093
All Other	160,125,432		160,125,432	145,646,948	97,106,847	242,753,795	147,191,765	45,208,672	192,400,437
TOTAL REVENUE	2,382,059,928		2,382,059,928	2,442,713,204	153,107,072	2,595,820,276	2,541,213,351	98,576,944	2,639,790,295

Table I – 3 explains the individual adjustments to base General Fund revenues.

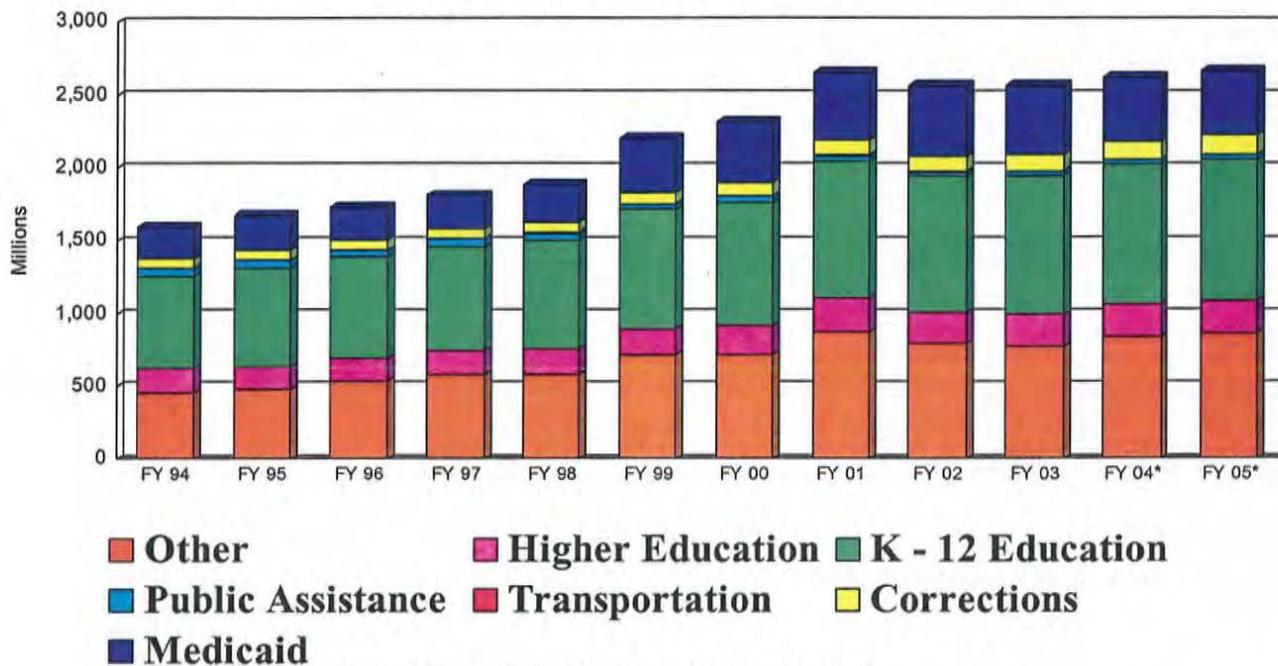
TABLE I - 3

**General Fund Recommended Revenue Adjustments
Detail by Revenue Line for the FY 04-05 Biennium**

Revenue Line and Source of Adjustment	FY 04	FY 05
Sales and Use Tax		
Repeal Broadcaster's Exemption	465,118	738,373
Tax Amnesty, Enforcement and Withholding on Flow Through	4,932,115	615,500
	5,397,233	1,353,873
Individual Income Tax		
Tax Amnesty, Enforcement and Withholding on Flow Through	8,162,400	4,552,000
Decouple from Above-the-Line Deduction for Education Expenses	4,352,922	3,311,796
Delay Education Attainment Credit One-Year	977,682	5,088,759
Reduce Dependent Care Credit Rate to 21.5%/43%	574,532	483,722
Reduce Increase in Seed Capital Tax Credit Rate for 2 Years	144,442	288,444
Repeal Increase in Standard Deduction for Joint Filers		1,463,031
Bonus Depreciation - With Delayed Carryover	32,367	104,615
Reduce Earned Income Tax Credit Rate to 4.92%	23,215	22,160
Impact of Tiered Homestead Exemption on Individual Income Tax	(134,000)	(139,360)
	14,133,560	15,175,167
Corporate Income Tax		
Bonus Depreciation - With Delayed Carryover	82,314	304,789
Tax Amnesty, Enforcement and Withholding on Flow Throughs	4,715,000	2,822,500
	4,797,314	3,127,289
Estate Tax		
Decouple from Estate Tax Repeal	15,613,172	22,414,281
	15,613,172	22,414,281
Insurance Premiums Tax		
Repeal Insurance Premiums Tax Credit Associated with Fire		
Insurance Premium Tax Special Assessment	983,000	
Tax on Premiums and Annuity Considerations	11,354,750	5,845,595
	12,337,750	5,845,595
Municipal Revenue Sharing		
Delay Increase in Revenue Sharing by 2 Years	2,124,878	2,222,913
Reduce Increase in Seed Capital Tax Credit Rate for 2 Years	(7,367)	(14,711)
Delay Education Attainment Credit One-Year	(49,862)	(259,527)
Repeal Broadcaster's Exemption	(23,721)	(37,657)
Bonus Depreciation - With Delayed Carryover	(5,849)	(20,880)
Reduce Dependent Care Credit Rate to 21.5%/43%	(29,301)	(24,670)
Reduce Earned Income Tax Credit Rate to 4.92%	(1,184)	(1,130)
Repeal Increase in Standard Deduction for Joint Filers	-	(74,615)
Decouple from Above-the-Line Deduction for Education Expenses	(221,999)	(168,902)
Tax Amnesty, Enforcement and Withholding on Flow Through	(908,284)	(407,489)
Impact of Tiered Homestead Exemption on Individual Income Tax	6,834	7,107
	884,145	1,220,439
Transfer from Liquor		
Liquor Store Closings	137,051	1,231,628
	137,051	1,231,628
Transfer from Lottery		
Additional \$10 Ticket	2,700,000	3,000,000
	2,700,000	3,000,000
All Other		
Decrease in the Transfer Payments of the Real Estate Tax to the Maine State Housing	7,500,000	7,500,000
Increased Fees for Inland Fisheries & Wildlife	1,850,434	2,404,934
Increased Fines Collected by the Judicial Department	3,800,401	5,699,663
Federal Reimbursement - Agriculture	120,212	123,275
Increased Federal Reimbursements for Housing Federal Inmates	10,800	10,800
Increase in Park and Land Fees	300,000	300,000
Entrance Fees and Miscellaneous Museum Fees	60,000	55,000
Increased Fees for Background Checks for the Bureau of Identification	1,015,000	1,015,000
Miscellaneous Income from the Maine Learning Technology Endowment	150,000	
Divestiture of the Wholesale Liquor Business	75,000,000	25,000,000
Additional Federal Reimbursement for Targeted Case Management	1,300,000	1,100,000
Increase Abandoned Property Credit Through a Change in the Holding Period.	6,000,000	2,000,000
	97,106,847	45,208,672
Total Revenue Adjustments	153,107,072	98,576,944

Chart I - 4 shows the General Fund trend from fiscal year 1993-94 through the fiscal year 2002-03 and fiscal year 2004-05 budget recommendations.

Chart I - 4
HISTORICAL GENERAL FUND APPROPRIATIONS BY PROGRAM
AREA FY 94 - FY 03 AND FY 04 - FY 05 GOVERNOR'S
RECOMMENDATIONS



These are the standard program areas for comparison used by the National Association of State Budget Officers.

* Recommended

*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 04-05 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 04-05 biennium compared to fiscal year 2002-03.

TABLE J - 1

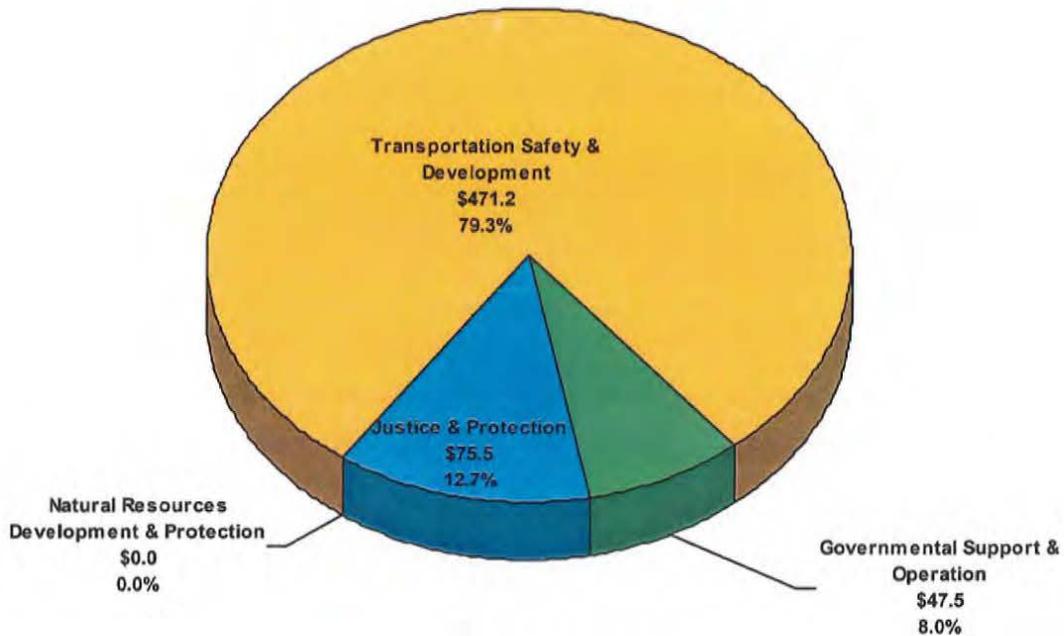
HIGHWAY FUND ALLOCATIONS

DEPARTMENT/AGENCY	FY 03	GOVERNOR'S BUDGET			
		FY 04	PERCENT CHANGE	FY 05	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	6,279,732	(6,676,005)	-206.31%	(8,679,629)	30.01%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	36,167	36,296	0.36%	36,427	0.36%
DEPARTMENT OF PUBLIC SAFETY	29,850,070	37,648,788	26.13%	37,810,555	0.43%
DEPARTMENT OF THE SECRETARY OF STATE	26,267,370	31,170,349	18.67%	31,674,408	1.62%
DEPARTMENT OF TRANSPORTATION	225,714,766	228,156,051	1.08%	243,028,625	6.52%
TOTAL	288,148,105	290,335,479	0.76%	303,870,386	4.66%
Note: The Department of Administrative and Financial Services includes statewide deallocations of \$9,290,053 in FY 04 and \$11,331,809 in FY 05.					

Chart J - 1 shows the Governor's recommended Highway Fund allocations for the FY04-05 biennium by policy area.

Chart J - 1
FY 04/05 Highway Fund Recommended Allocations
By Policy Area

\$594.2



All Dollars in Millions

Chart J - 2 shows the Governor's recommended Highway Fund revenues by line for the FY 04-05 biennium. These revenues include the base revenue

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

Chart J - 2
FY 04/05 Highway Fund Recommended Revenues
By Source

\$619.6

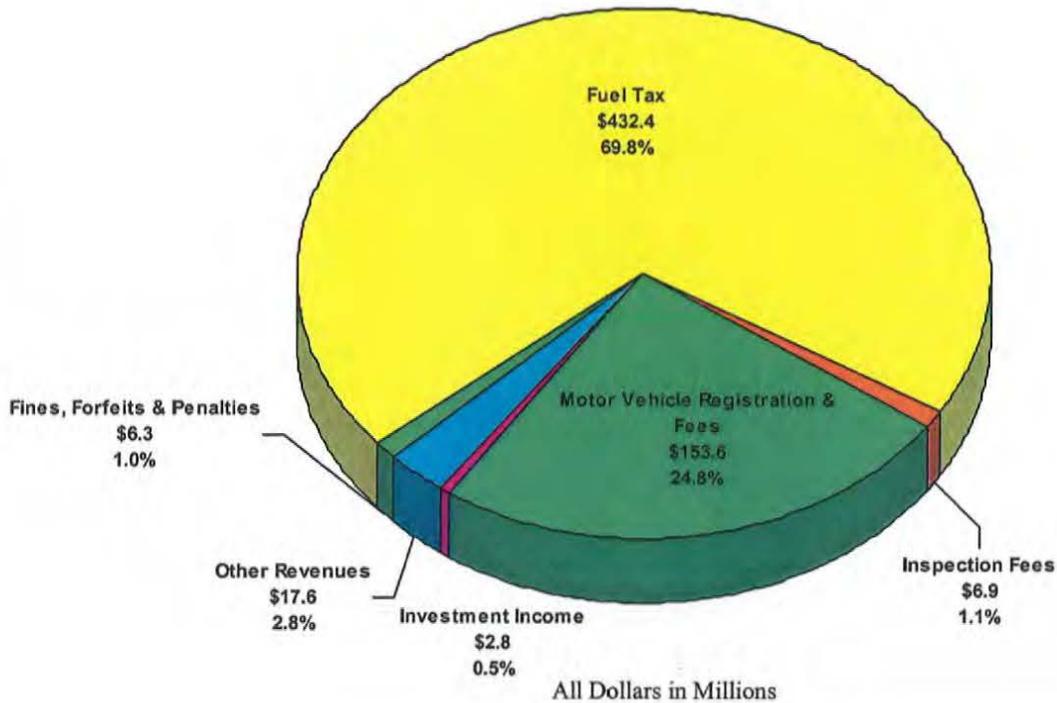


Table J - 2 shows the Highway Fund revenues recommended by the Governor for fiscal year 2003-04 and fiscal year 2004-05. The column labeled Orig. is the Highway Fund revenue forecast

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

TABLE J - 2

HIGHWAY FUND REVENUE FORECAST CHARTS									
SOURCE	FISCAL YEAR 03			FISCAL YEAR 04			FISCAL YEAR 05		
	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET
Fuel Tax	187,500,000		187,500,000	211,786,463		211,786,463	220,565,566		220,565,566
Motor Vehicle Registrations & Fees	81,690,336		81,690,336	79,023,265		79,023,265	79,574,706		79,574,706
Inspection Fees	3,683,907		3,683,907	3,461,771		3,461,771	3,470,359		3,470,359
Fines, Forfeits and Penalties	3,057,180			3,118,323			3,180,689		
Income from Investments	1,418,000		1,418,000	1,128,000		1,128,000	1,655,000		1,655,000
Other Revenues	6,807,144		6,807,144	6,531,663	(114,500)	6,417,163	6,551,420	(114,500)	6,436,920
TOTAL HIGHWAY FUND REVENUES	284,156,567		281,099,387	305,049,485	(114,500)	301,816,662	314,997,740	(114,500)	311,702,551

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

TABLE J - 3

HIGHWAY FUND RECOMMENDED REVENUE ADJUSTMENTS			
Detail by Revenue Line for the FY 04-05 Biennium			
Revenue Line and Source of Adjustment		FY04	FY05
Other Revenues			
>Decrease in Bureau of Identification fees		(114,500)	(114,500)
Total Revenue Adjustments		(114,500)	(114,500)

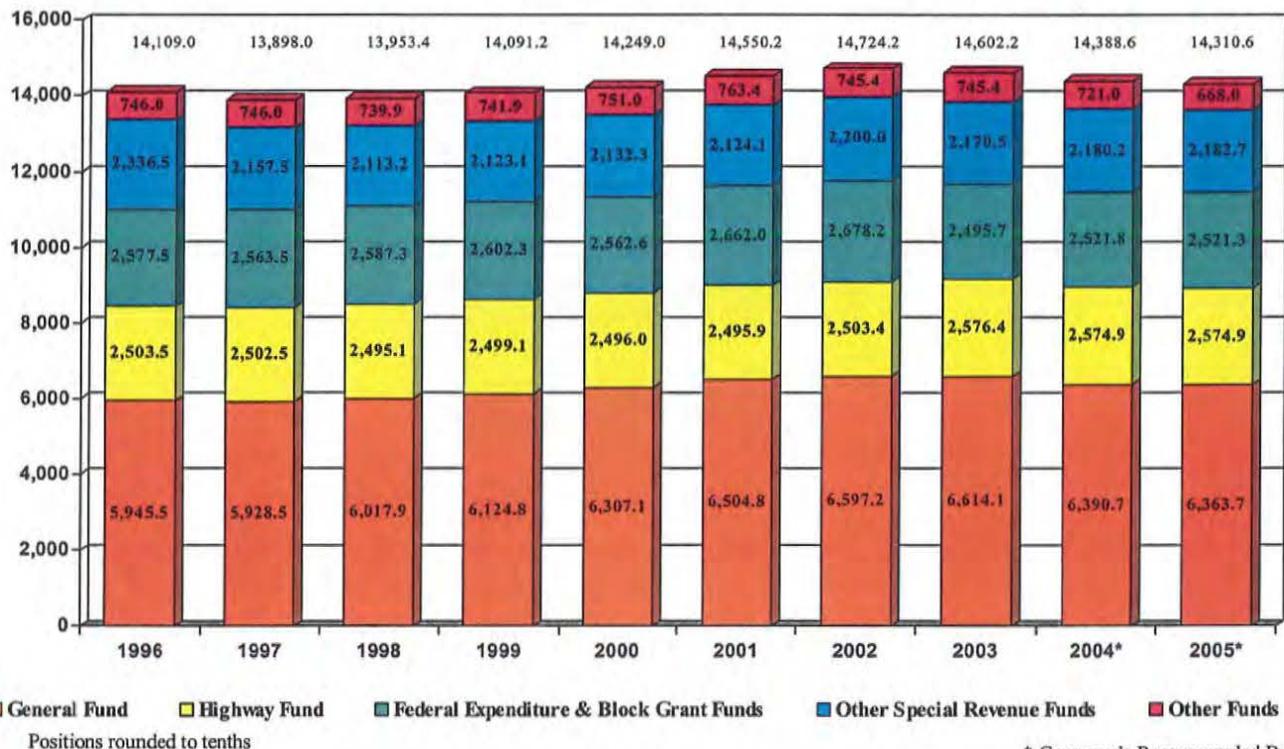
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***Summary of Governor's
Total Position
Recommendations***

SUMMARY OF GOVERNOR'S TOTAL POSITION RECOMMENDATIONS

CHART K - 1 shows position trend from fiscal year 1995-96 through the fiscal year 2002-03 and fiscal year 2004-05 budget recommendations.

Chart K - 1 Authorized Positions By Fund FY 96 - FY 03 and Recommended Positions FY 04 - 05



Positions rounded to tenths

* Governor's Recommended Budget

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