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STATE OF MAINE

DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES

Bureau of the Budget

State House Station #58

Augusta, Maine 04333

Date: September 30, 2016

To: Honorable Paul R. LePage, Governor
Honorable Michael D. Thibodeau, President of the Senate
Honorable Mark W. Eves, Speaker of the House
Honorable James M. Hamper, Appropriations and Financial Affairs, Senate Chair
Honorable Margaret R. Rotundo, Appropriations and Financial Affairs, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs

From: Melissa L. Gott, State Budget Officer

Subject: Report on the projection of revenues and forecasted expenditure requirements for the General Fund and the Highway Fund for the 2016-2017 biennium and the 2018-2019 biennium in accordance with Title 5 § 1665.

The State of Maine, Bureau of the Budget presents the state budget forecast for the General Fund and the Highway Fund for the 2016-2017 biennium and the 2018-2019 biennium in accordance with Title 5 §1665. This effort was initiated and passed into law by the 117th Legislature as fulfillment of one of the recommendations of the Special Commission on Governmental Restructuring to provide a platform for long term financial planning.

This state budget forecast is based on the current structure of state revenues and expenditures for both the General Fund and the Highway Fund as required by Title 5 § 1665, subsection 7. This budget forecast should provide the most consistent view of revenue and expenditure trends over the long term as a basis for financial planning and decision making. The forecasts of revenues, appropriations and allocations contained in this report, as constructed under current law and current trends, result in a projected structural gap for the 2018-2019 biennium in the General Fund of \$165,294,114 and in the Highway Fund of \$358,013,227.

cc: Richard Rosen, Commissioner, Department of Administrative and Financial Services
Kathleen Newman, Deputy Chief of Staff, Office of the Governor
Chris Nolan, Director, Office of Fiscal & Program Review, Maine Legislative
Grant Pennoyer, Executive Director of the Maine Legislature

**STATE OF MAINE REVENUE AND EXPENDITURE PROJECTION
GENERAL FUND AND HIGHWAY FUND
FISCAL YEARS 2016 - 2019**

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STATE OF MAINE BUDGET FORECAST 2016-2017 BIENNIUM AND 2018-2019 BIENNIUM

I. INTRODUCTION

Title 5, §§ 1664 and 1665 require a four year budget projection for the General Fund and the Highway Fund. This initiative is in fulfillment of the recommendations of the Special Commission on Governmental Restructuring for the purpose of providing a basis for long term budget planning for the State's two undedicated funds. This budget approach also provides a means of comparing the structure of current expenditures and current revenues projected forward on a consistent trend basis for both funds. The projection shows the capacity of the State's General Fund and Highway Fund resources to support the level of State government services projected forward based on current law and current program trends.

This report is being issued in accordance with Title 5 § 1665, subsection 7 that requires a four-year budget forecast for the General Fund and the Highway Fund by September 30th of each even-numbered year. As such, this report provides a four-year budget forecast for the 2016-2017 biennium and the 2018-2019 biennium. The expected outcome is a reasonable and consistent portrayal of the General Fund and the Highway Fund budgets for fiscal year 2018 and fiscal year 2019 based on currently available financial and program information. This information, to be useful, needs to include the General Fund appropriations and Highway Fund allocations approved through the Second Regular Session of the 127th Legislature.

The projected revenues and expenditures for the General Fund and the Highway Fund are based on current law and current program trends, as required by Title 5, § 1665, sub-section 7. With respect to revenues, the General Fund and Highway Fund represent the March 2016 projections of the Revenue Forecasting Committee, as required by Public Law 1997, chapter 157 and reflects all actions of the Second Regular Session of the 127th Legislature.

It is important to stress that this forecast must be developed using current law as its basis. Therefore the statute obligating the state to pay 55% of the cost of K-12 education is the basis for expenditures used in this forecast. It is common for subsequent budget proposals to change these underlying statutes, resulting in either one-time or ongoing savings that are necessary to maintain a balanced budget as constitutionally required. For example, a budget initiative that would hold General Purpose Aid to Education at its current state-funded level would immediately reduce the estimated structural gap. There are many other, similar examples. The reader is advised to bear this in mind when assessing the *estimated* structural gap and the potential for closing it.

In order to provide the most accurate expenditure estimate from currently available budget information, the projection uses the fiscal year 2017 legislatively approved appropriations and allocations from the Second Regular Session 127th Legislature. The 2018-2019 biennial estimates are further adjusted for the effect of one-time and phased-in actions expected to occur in fiscal year 2017. More detailed projections on a department or program basis are made where appropriate to reflect specific trends in those areas.

Salaries and wages for the 2018-2019 biennium are based on merit growth from the 2016-2017 biennium. The projection for Personal Services does not anticipate future salary adjustments beyond the 2016-2017 biennium as a result of collective bargaining.

II. GENERAL FUND

A. BUDGET STATUS Fiscal Years 2016-2019

GENERAL FUND STATUS						
	Fiscal Years 2016-2017 BUDGET			Fiscal Years 2018-2019 FORECAST		
	FY 2016	FY 2017	TOTAL	FY 2018	FY 2019	TOTAL
BALANCE	25,567,200		25,567,200	55,564,829		55,564,829
ADJUSTMENTS	22,780,728	25,376,098	48,156,826			
REVENUE	3,356,361,397	3,352,258,350	6,708,619,747	3,473,125,018	3,620,449,008	7,093,574,026
TOTAL RESOURCES	3,404,709,325	3,377,634,448	6,782,343,773	3,528,689,847	3,620,449,008	7,149,138,855
ADJUSTMENTS	2,550,000	19,750,000	22,300,000			
APPROPRIATIONS	3,331,298,722	3,373,180,222	6,704,478,944	3,622,624,069	3,691,808,900	7,314,432,969
PROJECTED BALANCE (SHORTFALL)	70,860,603	(15,295,774)	55,564,829	(93,934,222)	(71,359,892)	(165,294,114)

The budgeted General Fund adjusted fund balance for fiscal year 2016 was \$70,860,603 and is projected to be \$55,564,829 at the end of fiscal year 2017, including adjustments enacted through the Second Regular Session of the 127th Legislature.

The Revenue Forecasting Committee (RFC) in its May 2015 report re-projected revenues upward by \$24.7 million for the 2018-2019 biennium. In December 2015 the RFC increased its revenue projections by \$60.0 million for the 2018-2019 biennium. Finally, in March 2016, the RFC re-projected revenues upward by \$4.4 million, resulting in a net overall revenue increase of \$89.1 million for the 2018-2019 biennium. This projected revenue increase was primarily in the Individual Income Tax, Corporate Income Tax and Sales and Use Tax lines. The revenue projections also include revisions made in miscellaneous laws enacted through the Second Regular Session of the 127th Legislature.

Current projections for the 2018-2019 biennium include a beginning balance of \$55,564,829 and General Fund revenues of \$7,093,574,026. Projected General Fund appropriations for the biennium are \$7,314,432,969 which results in a structural budget gap for the General Fund of \$165,294,114.

B. REVENUE PROJECTION* Fiscal Years 2016-2019

GENERAL FUND REVENUE PROJECTION									
SOURCE	Fiscal Years 2016-2017 BUDGET				Fiscal Years 2018-2019 PROJECTION				
	FY 2016	FY 2017	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 2018	YR. TO YR. % CHANGE	FY 2019	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	1,260,137,966	1,317,511,722	4.55%	2,577,649,688	1,373,448,328	4.25%	1,436,590,057	4.60%	2,810,038,385
Service Provider Tax	55,073,214	66,149,448	20.11%	121,222,662	67,924,469	2.68%	69,675,124	2.58%	137,599,593
Individual Income Tax	1,546,329,595	1,466,148,976	-5.19%	3,012,478,571	1,549,913,294	5.71%	1,629,908,561	5.16%	3,179,821,855
Corporate Income Tax	138,354,603	149,293,471	7.91%	287,648,074	156,753,242	5.00%	166,623,196	6.30%	323,376,438
Cigarette & Tobacco Tax	136,641,000	135,279,000	-1.00%	271,920,000	133,932,000	-1.00%	132,600,000	-0.99%	266,532,000
Insurance Company Tax	82,700,000	82,700,000		165,400,000	82,765,000	0.08%	82,765,000		165,530,000
Inheritance & Estate Tax	26,598,740	18,378,323	-30.91%	44,977,063	14,416,710	-21.56%	14,240,409	-1.22%	28,657,119
Fines, Forfeits and Penalties	22,411,725	22,527,275	0.52%	44,939,000	22,513,017	-0.06%	22,514,017	0.00%	45,027,034
Income from Investments	1,076,328	1,744,002	62.03%	2,820,330	2,476,892	42.02%	2,476,892		4,953,784
Transfer from Lottery	54,900,000	54,900,000		109,800,000	54,900,000		54,900,000		109,800,000
Trans for Tax Relief Progs	(64,771,938)	(65,948,340)	1.82%	(130,720,278)	(67,768,101)	2.76%	(70,888,623)	4.60%	(138,656,724)
Trans. to Muni. Rev. Share	(67,259,423)	(64,326,883)	-4.36%	(131,586,306)	(66,895,419)	3.99%	(69,997,420)	4.64%	(136,892,839)
Other Taxes and Fees	140,329,152	140,091,830	-0.17%	280,420,982	130,533,830	-6.82%	131,378,773	0.65%	261,912,603
Other Revenues	23,840,435	27,809,526	16.65%	51,649,961	18,211,756	-34.51%	17,663,022	-3.01%	35,874,778
TOTAL REVENUE	3,356,361,397	3,352,258,350	-0.12%	6,708,619,747	3,473,125,018	3.61%	3,620,449,008	4.24%	7,093,574,026

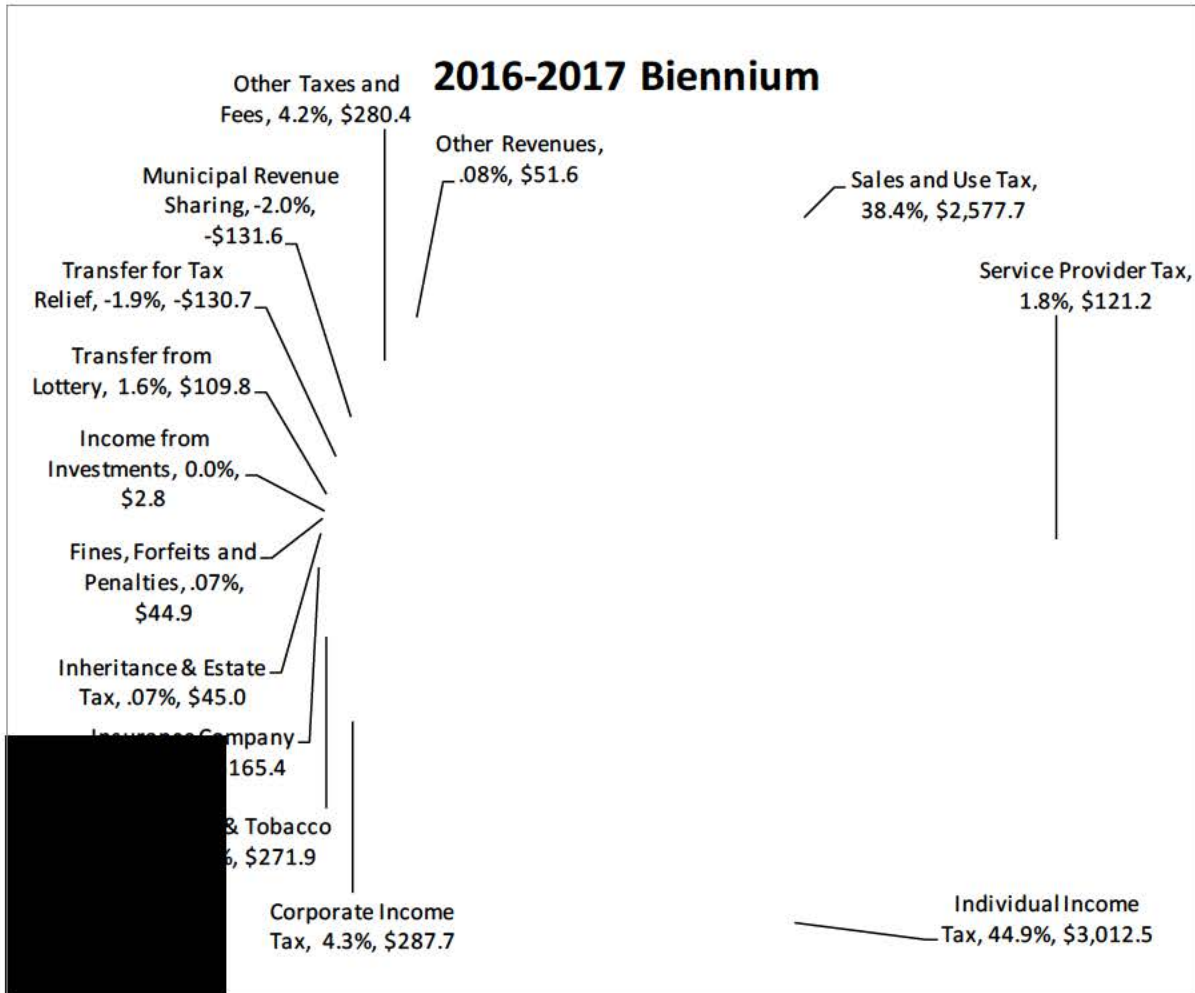
*The revenue projection for fiscal years 2016-2019 includes all actions of the Revenue Forecasting Committee through March 2016 and reflects all actions through the 2nd Regular Session of the 127th Legislature.

Fiscal Years 2016 – 2017

General Fund Budgeted Revenues - \$6,708.6

*Includes Transfers for Municipal Revenue Sharing of (\$131.6)
and Transfers to Tax Relief Programs of (\$130.7)*

Dollars shown in Millions

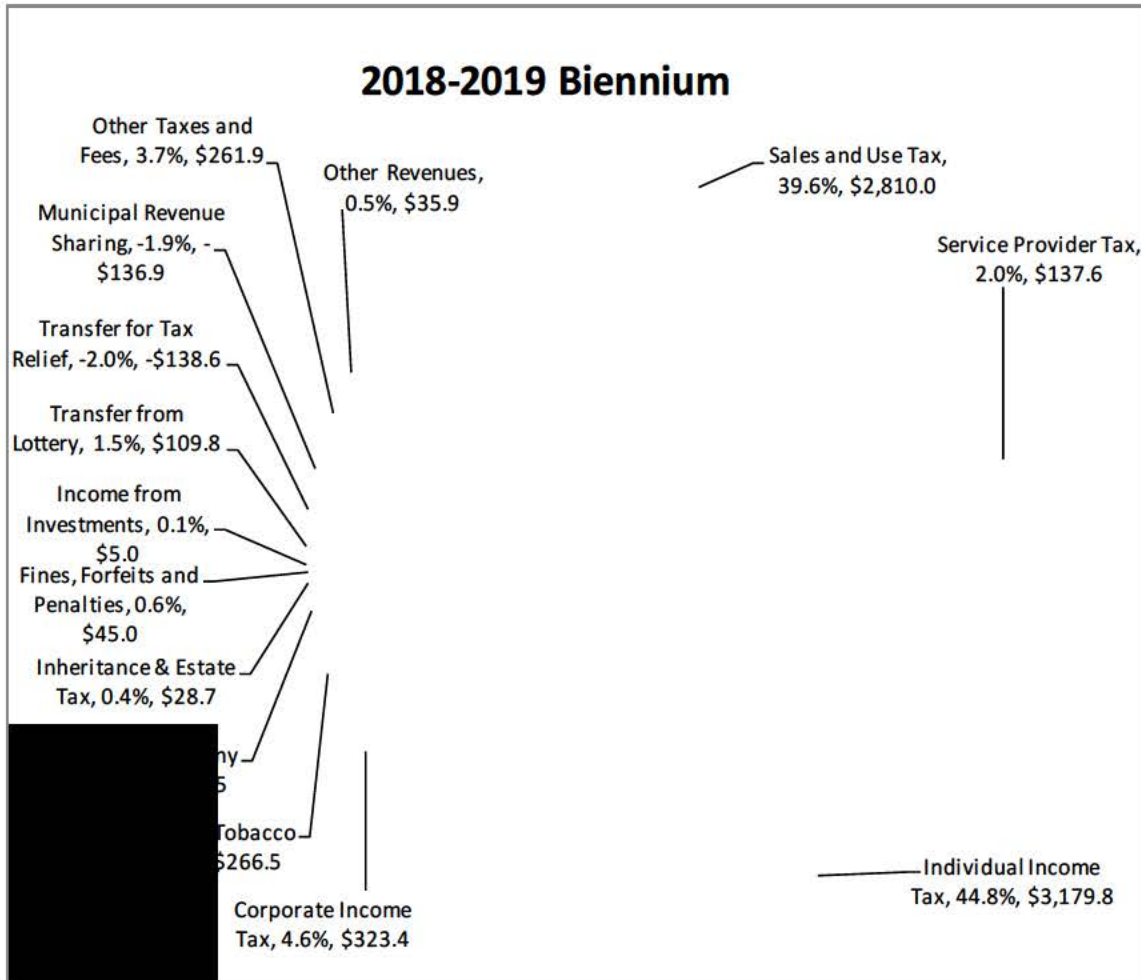


Fiscal Years 2018 – 2019

General Fund Projected Revenues - \$7,093.6

*Includes Transfers for Municipal Revenue Sharing of (\$136.9)
and Transfers to Tax Relief Programs of (\$138.6)*

Dollars shown in Millions



C. GENERAL FUND REVENUE PROJECTION NARRATIVE

SALES AND USE TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
1,260,138	1,317,512	4.55%	2,577,650	1,373,448	4.25%	1,436,590	4.60%	2,810,038

The Sales and Use Tax forecast for fiscal year 2017, fiscal year 2018 and fiscal year 2019 includes all actions of the Revenue Forecasting Committee through March 2016 and reflects all actions through the Second Regular Session of the 127th Legislature. Public Law 2013, c.368, Part M increased the tax on sales of prepared food, lodging and liquor sold in bars and restaurants and similar licensed establishments to 8% and the general sales tax to 5.5% from October 1, 2013 to June 30, 2015. Public Law 2015, chapter 267, Part OOOO made the 5.5% tax permanent, expanded the definition of food products not considered grocery staples, retained the 8% tax on prepared food and liquor and increased the tax on living quarters to 9% beginning January 1, 2016. Sales and Use Tax receipts are projected to grow modestly in the 2018-2019 biennium.

SERVICE PROVIDER TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
55,073	66,149	20.11%	121,223	67,924	2.68%	69,675	2.58%	137,600

Public Law 2003, chapter 673, Part V, reclassified various categories previously included in the Sales and Use Tax as the Service Provider Tax, effective in fiscal year 2004-05. This law reflects the re-categorization of the following services from the Sales and Use Tax to the Service Provider Tax: (a) extended cable television services; (b) fabrication services; (c) rental of video media and video equipment; (d) rental of furniture, audio media and audio equipment pursuant to a rental-purchase agreement; (e) telecommunication services; and (f) installation, maintenance or repair of telecommunications equipment. In addition, (g) private non-medical institution services were included in Public Law 2003, chapter 673, Part V. Subsequent legislation added community support service for persons with (h) mental health diagnoses, (i) intellectual disabilities or autism, (j) home support services, (l) ancillary services and (m) group residential services for persons with brain injuries to those being assessed the tax. Revenue generated from the Service Provider Tax on private non-medical institution services, community support services, home support services and group residential services for persons with brain injuries are credited to various Medicaid related Other Special Revenue Funds accounts in the Department of Health and Human Services. Public Law 2015, chapter 267, Part TTTT included an increase in the Service Provider tax rate effective January 1, 2016 from a rate of 5% to a new rate of 6%, an expansion of the service provider tax on cable and radio services. It is projected that the revenues to the General Fund from the Service Provider Tax will grow by approximately 2.6 % per year through 2018-2019 biennium.

INDIVIDUAL INCOME TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
1,546,330	1,466,149	-5.19%	3,012,479	1,549,913	5.71%	1,629,909	5.16%	3,179,822

The forecast for fiscal year 2017, fiscal year 2018 and fiscal year 2019 for the Individual Income Tax line include all actions of the Revenue Forecasting Committee through March 2016 and reflect all actions of the Second Regular Session of the 127th Legislature. The estimates for fiscal year 2017, fiscal year 2018 and fiscal year 2019 reflect the underlying economic forecast of the Consensus Economic Forecasting Commission with respect to personal income, wage and salary distribution and enactment of the tax changes by the 127th Legislature. Maine's personal income is projected to grow at 4.0 % for calendar year 2017, 3.7 % for calendar year 2018 and 3.3 % for calendar year 2019 with wage and salary growth averaging 3.9 % during the same three-year period. Annual revenue from the individual tax line is projected to decrease by 5.19% from fiscal year 2016 to fiscal year 2017 and to increase by 5.6% over the 2018-2019 biennium. The forecast assumes capital gains realizations as a percentage of personal income will average 2.75% through tax year 2019.

CORPORATE INCOME TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
138,355	149,293	7.91%	287,648	156,753	5.00%	166,623	6.30%	323,376

The forecast for fiscal year 2017, fiscal year 2018 and fiscal year 2019 for the Corporate Income Tax line includes all actions of the Revenue Forecasting Committee through March 2016 and reflects all actions of the Second Regular Session of the 127th Legislature. Revenues from the Corporate Tax line for fiscal year 2017 are projected to be 7.9 % above fiscal year 2016 levels due to a number of unusually high one-time refunds in fiscal year 2015-16. Corporate Income Tax is projected to increase 12.4 % over the 2018-2019 biennium based on current projections of corporate profits.

CIGARETTE AND TOBACCO PRODUCTS TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
136,641	135,279	-1.00%	271,920	133,932	-1.00%	132,600	-0.99%	266,532

The forecast for fiscal year 2017, fiscal year 2018 and fiscal year 2019 for the Cigarette and Tobacco Products Tax lines includes all actions of the Revenue Forecasting Committee through March 2016 and reflects all actions of the Second Regular Session of the 127th Legislature. Cigarette tax revenue is expected to decline approximately 1.0 % per year. The Tobacco Products tax revenue is projected to remain fairly constant over the next biennium.

INSURANCE COMPANY TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
82,700	82,700	0.00%	165,400	82,765	0.08%	82,765	0.00%	165,530

The forecast for fiscal year 2017, fiscal year 2018 and fiscal year 2019 for the Insurance Company Tax line includes all actions of the Revenue Forecasting Committee through March 2016 and reflects all actions of the Second Regular Session of the 127th Legislature. Revenues from insurance companies are associated with the gross value of insurance policies issued. As business within the state grows, the amount of insurance coverage also expands. Although it would be expected that this revenue source would increase at a rate consistent with the overall growth of the economy, the emphasis on lower workers' compensation premium costs and consumer actions in response to rising premiums appears to be moderating the growth in this revenue source. As a consequence, the base level projection of the Revenue Forecasting Committee as of March 2016 assumes no growth during the next biennium.

INHERITANCE AND ESTATE TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
26,599	18,378	-30.91%	44,977	14,417	-21.56%	14,240	-1.22%	28,657

The forecast for fiscal year 2017, fiscal year 2018 and fiscal year 2019 for the Inheritance and Estate Tax line includes all actions of the Revenue Forecasting Committee through March 2016 and reflect all actions through the Second Regular Session of the 127th Legislature. Public Law 2011, chapter 380, Part M increased the exclusions to \$2 million and established a progressive rate structure for estates of decedents dying after December 31, 2012. Public Law 2015, chapter 267, Part I increased the exclusion amount to the federal exclusion amount for deaths occurring after December 31, 2015. Revenue from the Inheritance and Estate tax line is projected to decrease by 30.9 % from fiscal year 2016 to fiscal year 2017 and decrease by approximately 36.3 % over the 2018-2019 biennium.

FINES, FORFEITS AND PENALTIES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
22,412	22,527	0.52%	44,939	22,513	-0.06%	22,514	0.00%	45,027

Effective with fiscal year 2010, the Revenue Forecasting Committee established a new Fines, Forfeits and Penalties revenue category for reporting purposes. Revenues from fines, forfeits and penalties were previously recorded and classified as Other Revenue. Revenues from fines are derived primarily from collections undertaken by the Violations Bureau in the Judicial Department. A decline of 0.52 % in revenues from this category is projected between 2016 and 2017 with no major decreases projected for the 2018-2019 biennium.

TRANSFER FOR TAX RELIEF PROGRAMS

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
(64,772)	(65,948)	1.82%	(130,720)	(67,768)	2.76%	(70,889)	4.60%	(138,657)

Beginning with fiscal year 2010 the Revenue Forecasting Committee adopted the Transfer for Tax Relief category for its revenue report. This category groups the following programs; Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs for revenue reporting purposes; forecasts for each of these programs are presented below. The Maine Residents' Property Tax Program was repealed by the Legislature in the 126th 1st Regular Session and replaced by the Property Tax Fairness credit which is accounted for in the Individual Income Tax line.

BUSINESS EQUIPMENT TAX REIMBURSEMENT (BETR)

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
(34,000)	(30,500)	-10.29%	(64,500)	(26,800)	-12.13%	(23,420)	-12.61%	(50,220)

BUSINESS EQUIPMENT TAX EXEMPTION (BETE)

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
(30,772)	(35,448)	15.20%	(66,220)	(40,968)	15.57%	(47,469)	15.87%	(88,437)

BETR reimbursement is 100 % of the property taxes paid on eligible property, for the first 12 years, 75 % in year 13, 70 % in year 14 and so on until it reaches a minimum of 50 % in years 18 and beyond. Generally, property first placed into service in Maine after April 1, 1995, but on or before April 1, 2007 is eligible. Only certain retail equipment first placed in service after April 1, 2007 will continue to be eligible for BETR reimbursement. BETR reimbursement experience is affected by the new Business Equipment Tax Exemption (BETE) program. Non-retail property first placed into service after April 1, 2008 is eligible for the BETE program. Business property eligible for BETE is 100% exempt from the local property tax and the state will reimburse municipalities for a portion of the lost revenue. The percentage reimbursed to municipalities is generally 50%, but some municipalities with significant personal property receive a higher percentage for reimbursement.

MUNICIPAL REVENUE SHARING

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
(67,259)	(64,327)	-4.36%	(131,586)	(66,895)	3.99%	(69,997)	4.64%	(136,893)

The Sales and Use Tax, Individual Income Tax, Corporate Income Tax and Service Provider Tax lines are subject to Municipal Revenue Sharing in accordance with Title 30-A, § 5681 of the Maine Revised Statutes. That section of statute currently requires that an amount equal to 2 % of the above referenced tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). Municipal Revenue Sharing is a calculation based on the forecasts of the four previously referenced tax revenue lines. The Legislature approved a change in the reimbursement rate from 5.1% to 5.0% effective July 1, 2009.

Public Law 2015, chapter 267, Part K reduced the revenue sharing transfer from 5% to 2% for fiscal years 2016 through 2019. The projected decreases in Municipal Revenue Sharing reflect this change. Funds for revenue sharing are also distributed to the Disproportionate Tax Burden Fund which is used to provide additional support to municipalities experiencing a higher than average property tax burden. Effective with fiscal year 2010, the Legislature approved a change to the distribution of funds for this program resulting in increased funding for the Disproportionate Tax Burden Fund.

OTHER TAXES AND FEES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
140,329	140,092	-0.17%	280,421	130,534	-6.82%	131,379	0.65%	261,913

Effective with fiscal year 2010, the Revenue Forecasting Committee adopted a new revenue category for revenue reporting purposes. Revenues from taxes and fees that were previously included under the Other Revenues category and Property Taxes - Unorganized Territory and Public Utilities Tax, which were previously reported in their own category, are now included in the Other Taxes and Fees category. This forecast reflects a projected 0.17% reduction in revenues from Other Taxes and Fees in fiscal year 2017 with a projected decrease of 6.82% for fiscal year 2018 due to reduced projections for the Real Estate Transfer Tax.

OTHER REVENUES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
23,840	27,810	16.65%	51,650	18,212	-34.51%	17,663	-3.01%	35,875

Effective with fiscal year 2010, the Revenue Forecasting Committee approved the reclassification of revenues for taxes and fees and for fines, forfeits and penalties previously reflected under Other Revenues being recorded in their own category for reporting purposes. The Other Revenues category includes all other General Fund revenue sources collected by the various departments and agencies that are not otherwise classified in the categories listed on the General Fund Summary Table. The changes over the 2016-2017 and the 2018-2019 biennia are primarily attributable to changes in the projected March 2016 Revenue Forecasting Committee forecasted General Fund subsidy for milk.

D. EXPENDITURE FORECAST CHARTS Fiscal Years 2016-2019

GENERAL FUND EXPENDITURE FORECAST CHART

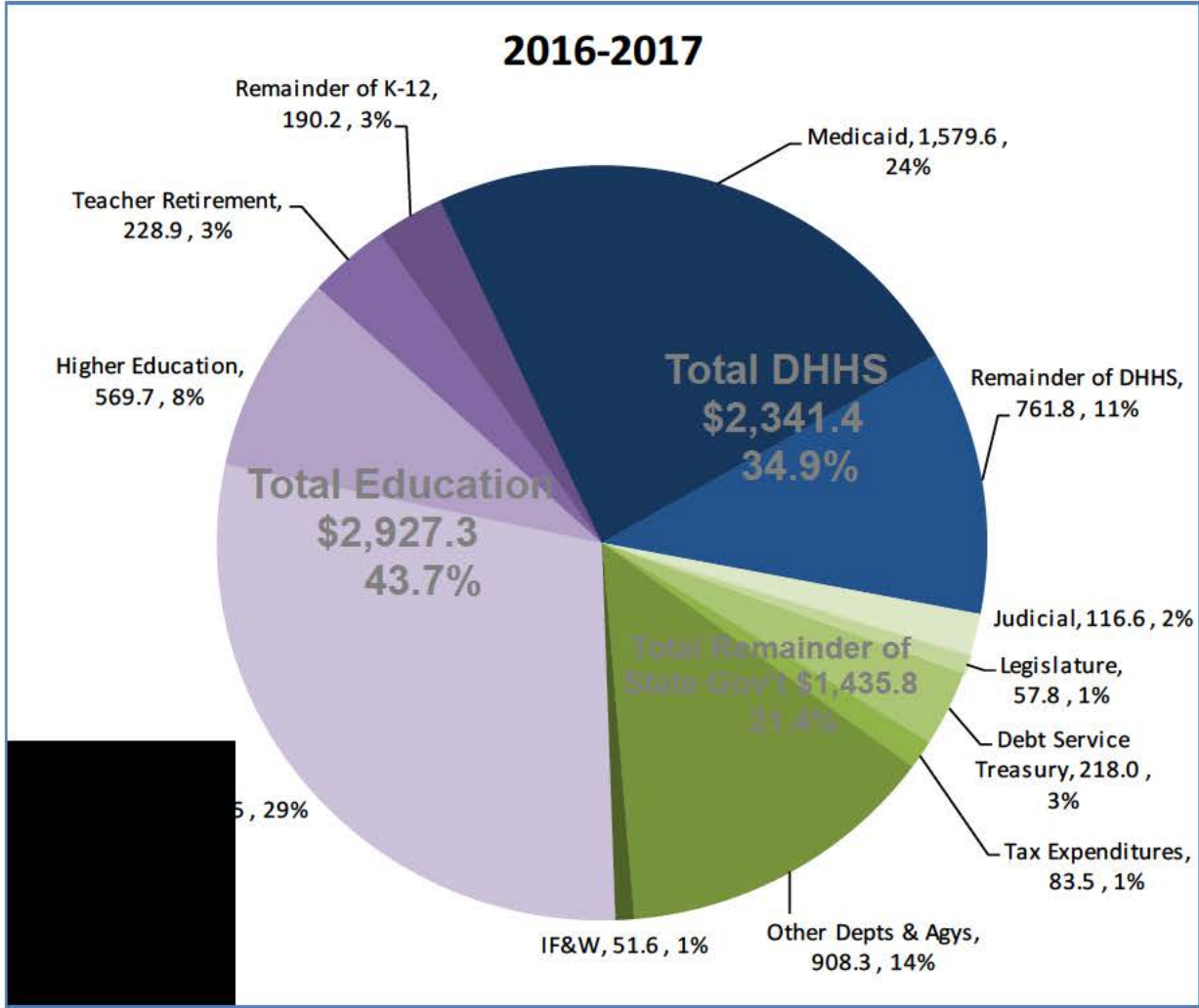
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	Fiscal Years 2016-2017 BUDGET				Fiscal Years 2018-2019 FORECAST				
	FY 2016	FY 2017	YR. TO YR. % CHANGE	TOTAL TOTAL	FY 2018	YR. TO YR. % CHANGE	FY 2019	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Homestead Property Tax Exemption	26,985,000	38,673,000	43.31%	65,658,000	63,884,000	65.19%	72,359,000	13.27%	136,243,000
Government Facilities Authority	16,836,024	16,836,024		33,672,048	16,836,024		16,836,024		33,672,048
Debt Service - Treasury	77,110,355	82,258,192	6.68%	159,368,547	81,626,109	-0.77%	74,621,654	-8.58%	156,247,763
Other Agencies And Programs	134,819,131	137,768,097	2.19%	272,587,228	138,781,556	0.74%	141,589,832	2.02%	280,371,388
Total Policy Area - Governmental Support & Operations	255,750,510	275,535,313	7.74%	531,285,823	301,127,689	9.29%	305,406,510	1.42%	606,534,199
Total Policy Area - Economic Development & Work Force Training	42,417,329	44,632,867	5.22%	87,050,196	41,639,831	-6.71%	41,768,474	0.31%	83,408,305
General Purpose Aid for Local Schools	967,434,886	971,111,733	0.38%	1,938,546,619	1,091,825,267	12.43%	1,106,753,369	1.37%	2,198,578,636
Teacher Retirement/Retired Teachers' Health Insurance	144,677,837	153,714,561	6.25%	298,392,398	169,421,735	10.22%	177,980,833	5.05%	347,402,568
Child Development Services	28,535,282	28,685,282	0.53%	57,220,564	28,685,282		30,060,282	4.79%	58,745,564
Other Agencies And Programs	299,844,007	304,360,179	1.51%	604,204,186	313,867,244	3.12%	318,883,350	1.60%	632,750,594
Total Policy Area - Education	1,440,492,012	1,457,871,755	1.21%	2,898,363,767	1,603,799,528	10.01%	1,633,677,834	1.86%	3,237,477,362
Medical Care - Payments To Providers	424,247,135	421,990,565	-0.53%	846,237,700	449,459,811	6.51%	466,760,638	3.85%	916,220,449
Nursing Facilities	93,965,793	93,313,433	-0.69%	187,279,226	96,735,494	3.67%	96,726,470	-0.01%	193,461,964
Foster Care/Adoption Assistance	51,597,039	51,608,076	0.02%	103,205,115	51,624,901	0.03%	51,635,421	0.02%	103,260,322
Community Mental Health	39,145,060	39,303,427	0.40%	78,448,487	39,440,825	0.35%	39,548,671	0.27%	78,989,496
Mental Health Medicaid	39,593,755	39,547,419	-0.12%	79,141,174	39,547,419		39,547,419		79,094,838
Community Developmental Services	21,648,946	22,047,797	1.84%	43,696,743	22,708,741	3.00%	23,055,912	1.53%	45,764,653
Developmental Services - Medicaid	154,454,141	155,240,229	0.51%	309,694,370	167,899,535	8.15%	171,398,675	2.08%	339,298,210
Mental Health Services - Children	16,472,813	16,147,870	-1.97%	32,620,683	16,143,815	-0.03%	16,248,317	0.65%	32,392,132
Mental Health Services - Child Medicaid	34,450,808	34,262,243	-0.55%	68,713,051	34,262,243		34,262,243		68,524,486
Substance Abuse Services	12,918,970	14,455,068	11.89%	27,374,038	14,730,691	1.91%	14,774,548	0.30%	29,505,239
Substance Abuse Services- Medicaid	4,998,332	4,979,486	-0.38%	9,977,818	4,979,486		4,979,486		9,958,972
Other Agencies And Programs	279,144,590	278,964,507	-0.06%	558,109,097	289,380,520	3.73%	291,968,111	0.89%	581,348,631
Total Policy Area - Health & Human Services	1,172,637,382	1,171,860,120	-0.07%	2,344,497,502	1,226,913,481	4.70%	1,250,905,911	1.96%	2,477,819,392
Total Policy Area - Natural Resources Development & Protection	75,855,077	74,989,745	-1.14%	150,844,822	79,634,675	6.19%	80,795,577	1.46%	160,430,252
Corrections	177,872,019	178,555,069	0.38%	356,427,088	186,429,537	4.41%	190,087,702	1.96%	376,517,239
Other Agencies And Programs	157,958,864	161,777,761	2.42%	319,736,625	174,919,504	8.12%	180,894,677	3.42%	355,814,181
Total Policy Area - Justice & Protection	335,830,883	340,332,830	1.34%	676,163,713	361,349,041	6.18%	370,982,379	2.67%	732,331,420
Total Policy Area - Transportation, Safety & Development									
Total Policy Area - Arts, Heritage & Cultural Enrichment	8,315,529	7,957,592	-4.30%	16,273,121	8,159,824	2.54%	8,272,215	1.38%	16,432,039
Total Policy Area - Business Licensing and Regulation									
GRAND TOTAL GENERAL FUND EXPENDITURES	3,331,298,722	3,373,180,222	1.26%	6,704,478,944	3,622,624,069	7.39%	3,691,808,900	1.91%	7,314,432,969

Fiscal Years 2016 – 2017

General Fund Budgeted Appropriations

\$6,704.5

Dollars in Millions

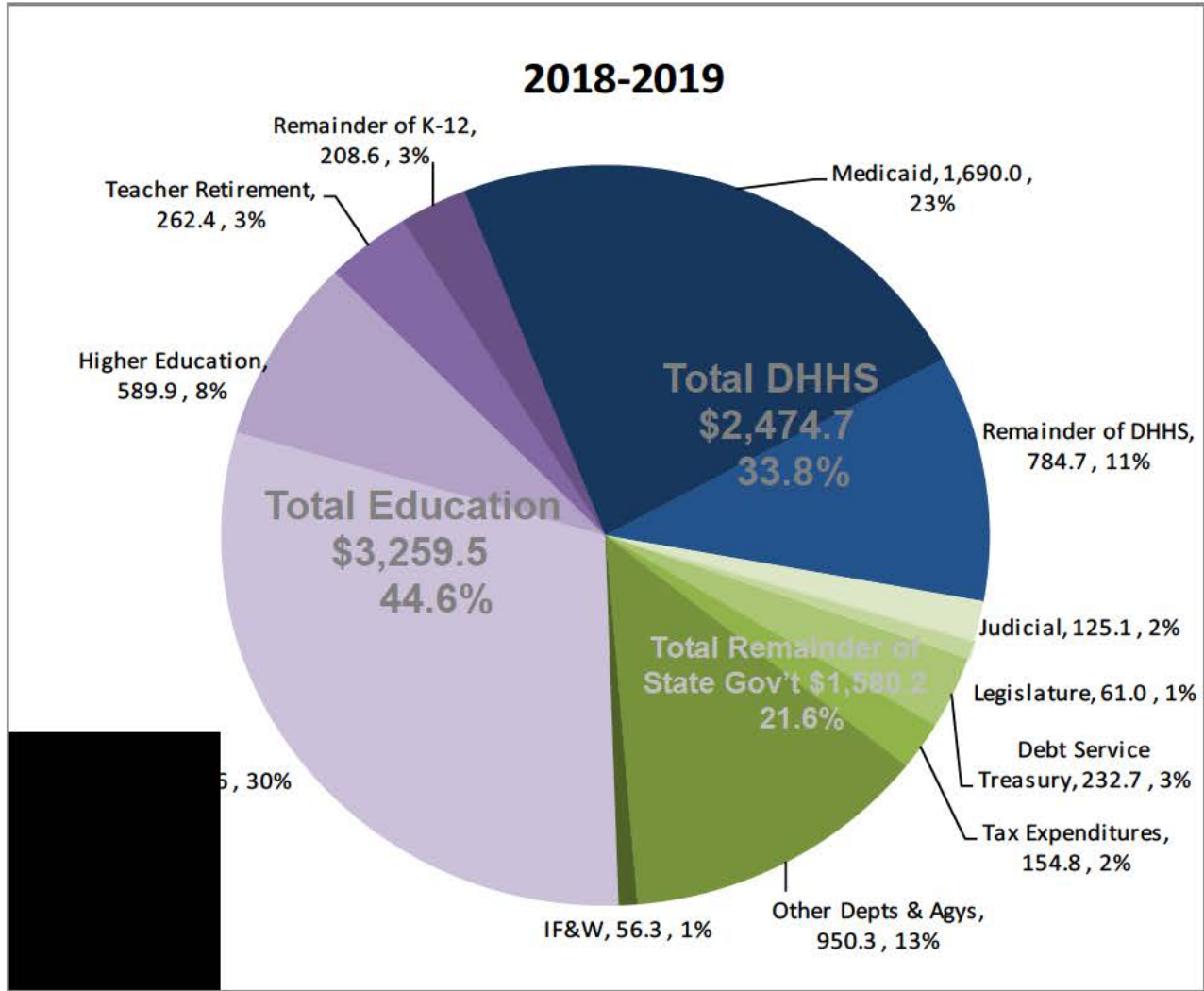


Fiscal Years 2018 - 2019

General Fund Forecasted Appropriations

\$7,314.4

Dollars in Millions



E. GENERAL FUND EXPENDITURE FORECAST NARRATIVE

HOMESTEAD PROPERTY TAX EXEMPTION

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
26,985	38,673	43.31%	65,658	63,884	65.19%	72,359	13.27%	136,243

Public Law 1997, chapter 643, Part HHH established the Homestead Property Tax Exemption Program. This program establishes an exemption for all individuals who have maintained a residence for the 12 months prior to April 1st of each year. Public Law 2005, chapter 2, Part F set the exemption amount at \$13,000 of the individual's homestead valuation and decreased the percentage of the benefit to homeowners that the state is responsible for to the constitutionally required 50 %. Public Law 2009, chapter 213, Part YYY reduced the exemption amount from \$13,000 to \$10,000 beginning with fiscal year 2011. Public Law 2015, chapter 267, Part J increased the exemption amount from \$10,000 to \$15,000 in fiscal year 2017 and increase the exemption amount from \$10,000 to \$20,000 beginning with fiscal year 2018 and Public Law 2015, chapter 390 changed the reimbursement rate from 50% to 62.5% of the exemption effective April 1, 2017.

GOVERNMENTAL FACILITIES AUTHORITY

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
16,836	16,836	0.00%	33,672	16,836	0.00%	16,836	0.00%	33,672

The forecast remains flat for both fiscal years in the 2018-2019 biennium. The Governmental Facilities Authority, created by Public Law 1997, chapter 523, administers a fund that includes principal and interest payments for loans which financed projects approved. These include capital repairs and improvements to state-owned facilities throughout the State as designated by the Commissioner of Administrative and Financial Services. Projects undertaken through the Governmental Facilities Authority for the Judicial Branch are included in the Judicial Department's budget as debt service payments and are not reflected in the estimates shown above.

DEBT SERVICE – TREASURY

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
77,110	82,258	6.68%	159,369	81,626	-0.77%	74,622	-8.58%	156,248

For fiscal year 2017, it is assumed that \$49.9 million of the authorized but currently unissued General Fund bond inventory will be issued during the June 2017 bond sale. General Fund debt service appropriations were \$77.1 million in fiscal year 2016 and are projected at \$82.3 million for fiscal year 2017. The 2018-2019 biennium amounts represent the debt service requirements for those bonds already issued. The debt service requirements for the 2018-2019 biennium will be higher than projected if the Legislature approves sending additional bond proposals to the voters in calendar year 2017.

GENERAL PURPOSE AID FOR LOCAL SCHOOLS

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
967,435	971,112	0.38%	1,938,547	1,091,825	12.43%	1,106,753	1.37%	2,198,579

The preliminary analysis would increase General Purpose Aid for Local Schools funding for the upcoming biennium by \$260 million over the previous biennium and achieve the commitment made in Public Law 2005 chapter 2, as amended by Public Law 2015, chapters 267, 389 and 481, for 55% state share of education costs. In addition, there is a transfer from Department of Education to Department of Health and Human Services of \$15 million in each fiscal year for Medicaid services that are provided in a school setting.

The State contribution to the total cost of funding public education from kindergarten to grade 12 including the cost of the components of essential programs and services, plus the state contributions to teacher retirement, retired teachers' health insurance and retired teachers' life insurance for Fiscal Year 2017 is 50.82%. It is important to stress that the forecast, by law, must assume a state share of GPA equal to 55% of total allowable costs.

TEACHER RETIREMENT/RETIRED TEACHERS' HEALTH INSURANCE

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
144,678	153,715	6.25%	298,392	169,422	10.22%	177,981	5.05%	347,403

The expenditure forecast for the 2018-2019 biennium for Teacher Retirement assumes projected teacher salary and wage growth of 2.75% based upon the actuarial assumption for inflation and general salary increase. The required unfunded actuarial liability (UAL) payment for the 2018-2019 biennium for teacher retirement is established by the actuarial valuation performed by the Maine Public Employees Retirement System's actuary. Public Law 2013, chapter 368 changes the method for funding normal costs of teacher retirement. Beginning in fiscal year 2014, the normal cost of retirement for a teacher must be included in the total allocation for Essential Programs and Services for the school administrative unit that employs the teacher. In addition, the employer retirement normal costs and administrative operating expenses, whose funding is provided from local and state funds must be paid by the local school administrative units or by the private school. The remaining employer retirement cost component is the unfunded actuarial liability, which forms the basis for the forecast for teacher retirement in the 2018-2019 biennial budget.

Public Law 2013, chapter 368, Part H, section 3 limited the premium increase for fiscal years beginning after June 30, 2015 to no more than any percentage increase in the Consumer Price Index plus 3.0 %. In addition, providers of the health insurance benefit plans for retired teachers must also make available their premium costs and any related data as requested by the Executive Director of Health Insurance within the Department of Administrative and Financial Services.

MEDICAL CARE - PAYMENTS TO PROVIDERS

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
424,247	421,991	-0.53%	846,238	449,460	6.51%	466,761	3.85%	916,220

Appropriations in the Medical Care – Payments to Providers program decreased during the 2016-2017 biennium due to a Federal Medical Assistance Percentage net increase. This decrease was offset by an increase in private nonmedical institutions assisted living reimbursement rate and costs of living adjustment. In addition an increase in funding for reimbursement of primary care physicians at the enhanced rate, replacing expiring funds provided through the federal Patient Protection and Affordable Care Act, behavioral health homes and health homes for individuals with one or more chronic conditions and a rate increase for personal care and related services. Finally, funding was increased for the State’s contribution (clawback payments) for prescription drug costs for eligible individuals enrolled in Medicare Part D.

The Medical Care- Payments to Providers program continues to utilize resources consisting of dedicated revenue from the hospital tax, the service provider tax on private nonmedical institutions, drug and durable medical equipment rebates and Fund for a Health Maine that are in excess of \$182 million annually. In addition, the Department of Education transfers \$15 million of school subsidy payments in each fiscal year to support the state-share of Medical Services that are provided in a school setting.

Funding for the 2018-2019 biennium reflects an increase of \$17 million in fiscal year 2018 and \$34 million in fiscal year 2019 attributable to an increase in prescription drug costs for eligible individuals enrolled in the Medicare Part D program, an increase in premium rate for eligible individuals enrolled in Medicare Part B, an increase in rates for Federally Qualified Health Centers and Rural Health Clinics as required by the Centers for Medicare and Medicaid Services and an increase that addresses projected funding for current legislatively authorized costs.

NURSING FACILITIES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
93,966	93,313	-0.69%	187,279	96,735	3.67%	96,726	-0.01%	193,462

The Nursing Facilities program provides funds for MaineCare payments to nursing facilities for professional nursing care or rehabilitative services for injured, disabled or sick persons. The 2016-2017 biennium net increase is due to an ongoing increase in appropriations related to Public Law 2013, chapter 594 based on more current costs and targeted at facilities with the greatest share of Medicaid beds as a percentage of total bed census. Additional funding was also provided for nursing home reimbursements.

This program continues to utilize dedicated revenue from a tax on nursing facilities that generates approximately \$35 million annually. Funding for the 2018-2019 biennium reflects increases in costs related to Public Law 2013, chapter 594 as well.

FOSTER CARE/ADOPTION ASSISTANCE

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
51,597	51,608	0.02%	103,205	51,625	0.03%	51,635	0.02%	103,260

The Title IV-E Foster Care/Adoption Assistance and State-funded Foster Care/Adoption Assistance programs in the Department of Health and Human Services provides foster care, independent living and adoption assistance services to children in the care or custody of the Department of Health and Human Services. Payments made from the IV-E Foster Care/Adoption Assistance program support children who are eligible under Title IV-E of the Federal Social Security Act; payments from the State-funded program support children not eligible under Title IV-E. The General Fund appropriations are projected to increase by .06% over the 2018-2019 biennium.

COMMUNITY MENTAL HEALTH

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
39,145	39,303	0.40%	78,448	39,441	0.35%	39,549	0.27%	78,989

Funds for the Community Mental Health program are provided for services to adults who are not eligible for MaineCare or for services that are not covered by MaineCare. The fiscal year 2016-2017 biennial budget provided funding for the forensic consumers who the courts determine to be not criminally responsible and who may no longer meet the clinical level of care for residential treatment but are in the care and custody of the Commissioner of Health and Human Services. Funds for unmet needs related to the Consent Decree, as segregated into a separate program starting in 2015, included an appropriation of \$5.8 million in each of the 2016-2017 biennium. The Bridging Rental Assistance Program as further segregated from the Consent Decree and Community Mental Health programs during the 2016-2017 biennium, included an appropriation of \$6.6 million in each year. The General Fund appropriations are projected to increase by a marginal amount in fiscal year 2018 and fiscal year 2019.

MENTAL HEALTH MEDICAID

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
39,594	39,547	-0.12%	79,141	39,547	0.00%	39,547	0.00%	79,095

This program provided services to adults with mental illness who are eligible for benefits under the MaineCare program. In the 2016-2017 biennium, Public Law 2015, chapter 267 funding was decreased due to a net increase in the Federal Medical Assistance Percentage. Finally, approximately \$6.5 million each year are realized from dedicated revenue generated by the imposition of a service provider tax on private nonmedical institutions (PNMIs) and community support services. Funding for the program remains relatively flat in fiscal year 2018 and fiscal year 2019.

COMMUNITY DEVELOPMENTAL SERVICES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
21,649	22,048	1.84%	43,697	22,709	3.00%	23,056	1.53%	45,765

The Developmental Services service delivery system provides services and support to a limited number of people with intellectual and developmental disabilities or autism who are not eligible for MaineCare. The programs also assist those in need with financial resources to pay for some services that are not covered by the MaineCare program such as family support, housing and food. There was a decrease in appropriations in the Community Developmental Services program in the 2016-2017 biennial budget due to the transfer and reallocation of positions based upon responsibilities and the duties of those positions. The growth over the 2017-2018 and 2018-2019 biennia reflects the baseline grown in personnel services for the program.

DEVELOPMENTAL SERVICES MEDICAID

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
154,454	155,240	0.51%	309,694	167,900	8.15%	171,399	2.08%	339,298

Funding in the Developmental Services MaineCare and the Developmental Services-MaineCare Waiver programs provide services for persons with developmental disabilities or autistic disorder who are Medicaid eligible or Medicaid reimbursable. Services provided include residential support, day habilitation and transportation. The fiscal years 2016-2017 biennial budget reflects an increase in funding for the Intellectual Disabilities or Autistic Disorder Section 21 waiver of \$14.7 million. Funding for the Medicaid Waiver for Brain Injury program, with funding beginning in fiscal year 2016 at \$6.7 million, reflects an increase in funding for the Home and Community-Based Services for Adults with Brain Injury Section 18 waiver of \$750 thousand in each year of the biennium. Funding for the Medicaid Waiver for Other Related Conditions, with a funding level at \$2.1 million in each year, reflects an increase in funding for Home and Community-Based Services for Adults with Other Related Conditions Section 20 waiver of \$900 thousand in fiscal year 2017. Funding for Traumatic Brain Injury Seed, also included in this reporting category, includes an appropriation of \$243 thousand. In addition, dedicated revenue generated by the Service Provider Tax provides over \$17 million in 2016 and \$21 million in 2017. Funding for the 2018-2019 biennium reflects an increase of \$12.7 million in fiscal year 2018 and \$16.2 million in fiscal year 2019 that addresses the projection of funding for current legislatively authorized costs.

MENTAL HEALTH SERVICES – CHILDREN

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
16,473	16,148	-1.97%	32,621	16,144	-0.03%	16,248	0.65%	32,392

Funds for Children’s Mental Health Services are provided for services to children who are not eligible for MaineCare or for services that are not covered by MaineCare. Public Law 2015, chapter 460 decreased funding in fiscal year 2017 by \$413 thousand to offset the additional court costs of having all pending matters concerning a child and family unit addressed by a single District Court Judge. The General Fund appropriations are projected to decrease in fiscal year 2018 and increase in fiscal year 2019 by marginal amounts.

MENTAL HEALTH SERVICES - CHILD MEDICAID

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
34,451	34,262	-0.55%	68,713	34,262	0.00%	34,262	0.00%	68,524

General Fund Support is used to provide state share for mental health services provided to eligible children and youth under the child Medicaid program. Appropriations in the 2016-2017 biennium reflects a net increase in the Federal Medical Assistance Percentage. Funding for the program remains relatively flat in fiscal year 2018 and fiscal year 2019.

SUBSTANCE ABUSE SERVICES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
12,919	14,455	11.89%	27,374	14,531	0.52%	14,575	0.30%	29,105

General Funds provided for the Office of Substance Abuse and Mental Health Services are used for contracts with prevention and treatment service agencies, and for providing technical assistance and continuing education to health professionals. Public Law 2015, chapter 378 provides \$2.4 million in funding in the 2016-2017 biennium for 1) a substance abuse treatment entity to develop and operate a detoxification center in a northern or eastern area of the State; 2) to an organization with expertise and experience in substance abuse prevention, treatment and peer recovery services to provide substance abuse services statewide; and 3) to increase substance abuse residential treatment and outpatient services for the uninsured, including individual, group and intensive outpatient treatment. \$1.7 million of this funding continues in both fiscal years 2018 and 2019.

In addition, the Office of Substance Abuse and Mental Health Services administers the Driver Education and Evaluation Program, which provides the mandated (5 MRSA, c. 521, Sub-c. V) Operating Under the Influence (OUI) countermeasure programs in the state of Maine. The growth over the 2016-2017 and 2018-2019 biennia reflects the baseline growth in personnel services for the program.

SUBSTANCE ABUSE SERVICES- MEDICAID

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
4,998	4,979	-0.38%	9,978	4,979	0.00%	4,979	0.00%	9,959

General Fund support is used to provide the state share for outpatient substance abuse services provided to eligible members in the Medicaid program. Appropriations decreased during the 2016-2017 biennium due to a Federal Medical Assistance Percentage net increase. Funding for the program remains relatively flat in fiscal year 2018 and fiscal year 2019.

CORRECTIONS

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
177,872	178,555	0.38%	356,427	186,430	4.41%	190,088	1.96%	376,517

The Department of Corrections is responsible for the direction and general administrative supervision, guidance and planning of adult and juvenile correctional facilities and programs within the State. General Fund support provides over 95% of the funding for the Department of Corrections. The growth in the fiscal year 2016-2017 biennium and the anticipated growth in the 2018-2019 biennium reflect baseline growth in personal services and projected increases for contracted medical services as well as increased energy and food costs.

III. HIGHWAY FUND

A. BUDGET STATUS Fiscal Years 2016-2019

HIGHWAY FUND STATUS						
	Fiscal Years 2016-2017 BUDGET			Fiscal Years 2018-2019 FORECAST		
	FY 2016	FY 2017	TOTAL	FY 2018	FY 2019	TOTAL
BALANCE	11,762,818		11,762,818	5,837,346		5,837,346
ADJUSTMENTS						
REVENUE	322,738,380	325,527,481	648,265,861	328,340,881	331,316,712	659,657,593
TOTAL RESOURCES	334,501,198	325,527,481	660,028,679	334,178,227	331,316,712	665,494,939
ADJUSTMENTS	5,710,148	5,696,863	11,407,011	6,253,259	6,328,638	12,581,897
ALLOCATIONS	323,554,282	319,230,040	642,784,322	506,459,944	504,466,325	1,010,926,269
PROJECTED BALANCE (SHORTFALL)	5,236,768	600,578	5,837,346	(178,534,976)	(179,478,251)	(358,013,227)

The Highway Fund adjusted fund balance for fiscal year 2016 was \$5,236,768 and is projected to be \$5,837,346 at the end of fiscal year 2017, including adjustments enacted through the Second Regular Session of the 127th Legislature.

The Revenue Forecasting Committee (RFC) in its May 2015 report re-projected revenues upward by \$989 thousand for the 2018-2019 biennium. The RFC in December 2015 increased its revenue projections by \$288 thousand for the 2018-2019 biennium. The RFC in March 2016 re-projected revenues upward by \$4.0 million resulting in a net overall revenue increase of \$5.2 million for the 2018-2019 biennium. This revenue increase was primarily in the motor vehicle registration and fee lines. The revenue projections also include revisions made in miscellaneous laws enacted through the Second Regular Session of the 127th Legislature.

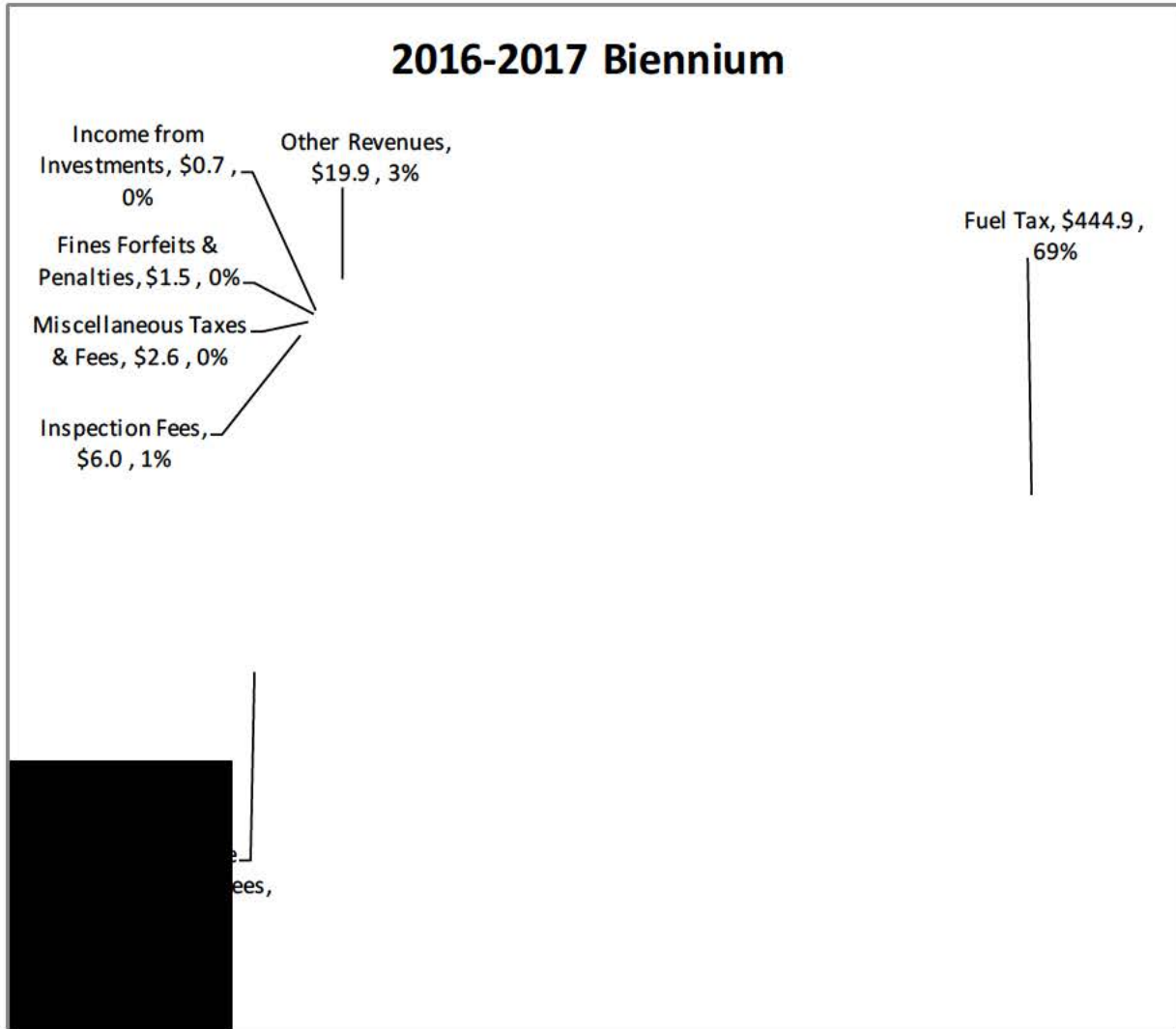
Public Law 2011, chapter 610, An Act to Improve Transportation in the State established provisions relating to the Department of Transportation's capital program goals. It is important to stress that this forecast, by law, must assume the state share which is estimated at \$300 million over the 2016-2017 biennium. The reader is advised to bear this in mind when assessing the *estimated* structural gap and the potential for closing it.

Current projections for the 2018-2019 biennium include a beginning balance of \$5,837,346 and Highway Fund revenues of \$659,657,593. Projected Highway Fund allocations for the biennium are \$1,010,926,269 and adjustments of \$12,581,897 which result in a projected structural budget gap of \$358,013,227.

B. REVENUE PROJECTION Fiscal Years 2016-2019

HIGHWAY FUND REVENUE PROJECTION									
SOURCE	Fiscal Years 2016-2017 BUDGET				Fiscal Years 2018-2019 FORECAST				
	FY 2016	FY 2017	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 2018	YR. TO YR. % CHANGE	FY 2019	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	220,811,525	224,110,357	1.49%	444,921,882	226,821,293	1.21%	229,929,720	1.37%	456,751,013
Motor Vehicle Registrations & Fees	86,695,042	85,984,415	-0.82%	172,679,457	85,504,341	-0.56%	85,385,245	-0.14%	170,889,586
Inspection Fees	2,982,500	2,982,500		5,965,000	2,982,500		2,982,500		5,965,000
Miscellaneous Taxes & Fees	1,293,729	1,280,229	-1.04%	2,573,958	1,293,729	1.05%	1,280,229	-1.04%	2,573,958
Fines Forfeits & Penalties	739,039	739,039		1,478,078	739,039		739,039		1,478,078
Income from Investments	244,945	468,341	91.20%	713,286	679,522	45.09%	679,522		1,359,044
Other Revenues	9,971,600	9,962,600	-0.09%	19,934,200	10,320,457	3.59%	10,320,457		20,640,914
TOTAL REVENUE	322,738,380	325,527,481	0.86%	648,265,861	328,340,881	0.86%	331,316,712	0.91%	659,657,593

Fiscal Years 2016 - 2017
Highway Fund Budgeted Revenues
\$648.3
Dollars in Millions

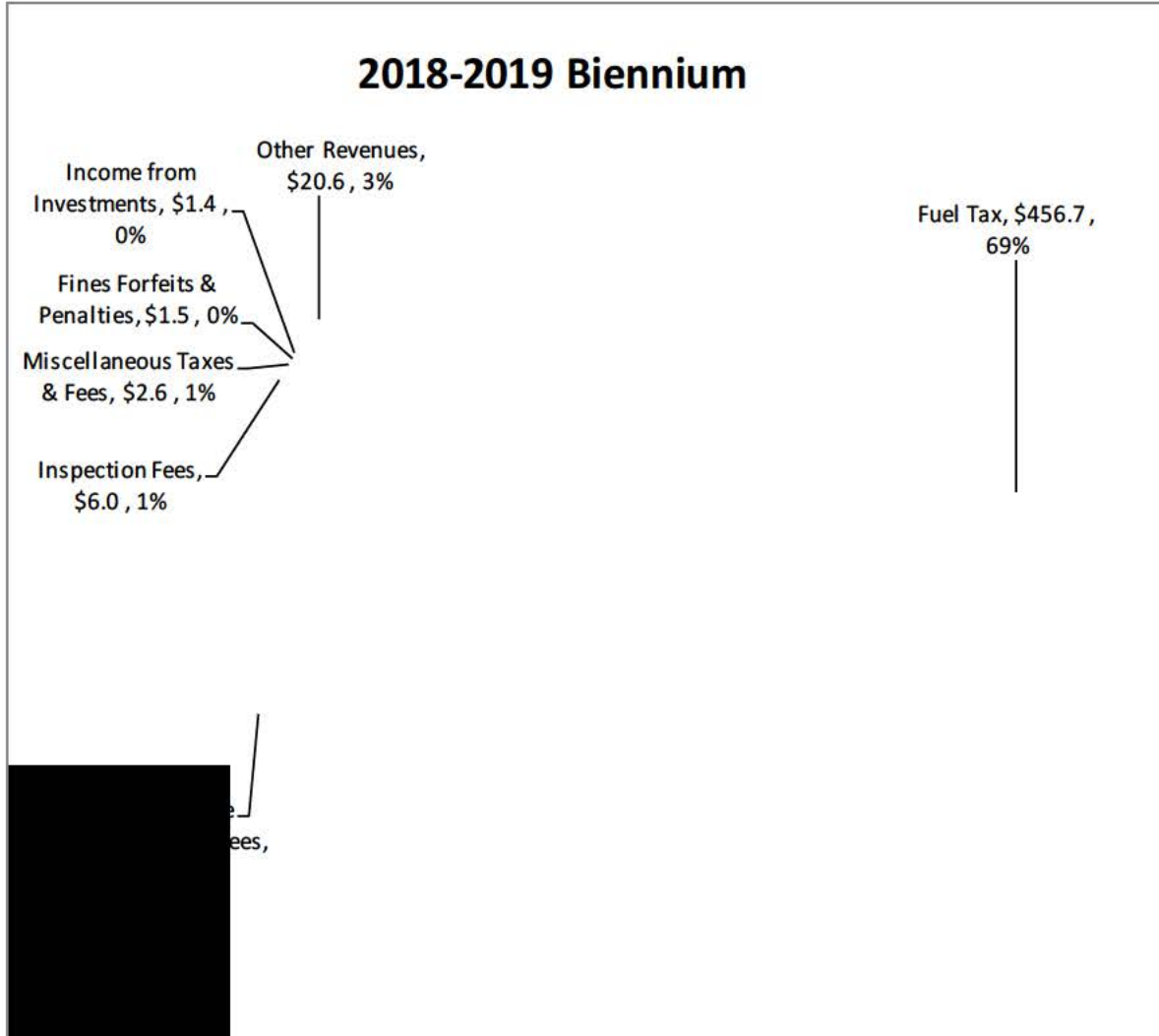


Fiscal Years 2018 – 2019

Highway Fund Projected Revenues

\$659.7

Dollars in Millions



C. HIGHWAY FUND REVENUE PROJECTION NARRATIVE

FUEL TAX

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
220,812	224,110	1.49%	444,922	226,821	1.21%	229,930	1.37%	456,751

The forecast for the Motor Fuel Taxes was reviewed by the Revenue Forecasting Committee in March 2016. The gasoline tax rate on July 1, 2016 is \$0.300 per gallon. The diesel fuel tax rate on July 1, 2016 is \$0.312 per gallon. Public Law 2011, chapter 392, Part C repealed the indexing of motor fuels tax rates on January 1, 2012. Beginning January, 2009, 7.5 % of the gasoline tax and 7.5 % of the special fuel tax is dedicated to the TransCap Trust Fund at the Municipal Bond Bank in accordance with Public Law 2007, chapter 470.

MOTOR VEHICLE REGISTRATIONS AND FEES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
86,695	85,984	-0.82%	172,679	85,504	-0.56%	85,385	-0.14%	170,890

The forecast for fiscal year 2016, fiscal year 2017 and fiscal year 2018 for Motor Vehicle Registration Fees includes all actions of the Revenue Forecasting Committee through March 2016 and all actions of the 2nd Regular Session of the 127th Legislature. The projections for fiscal years 2017, 2018 and 2019 reflect decreases in revenue for each fiscal year primarily associated with fewer drivers licenses during this year of the licensing cycle.

INSPECTION FEES

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
2,983	2,983	0.00%	5,965	2,983	0.00%	2,983	0.00%	5,965

Revenues from Inspection Fees are expected to remain flat for the fiscal year 2018-2019 biennium.

OTHER REVENUES

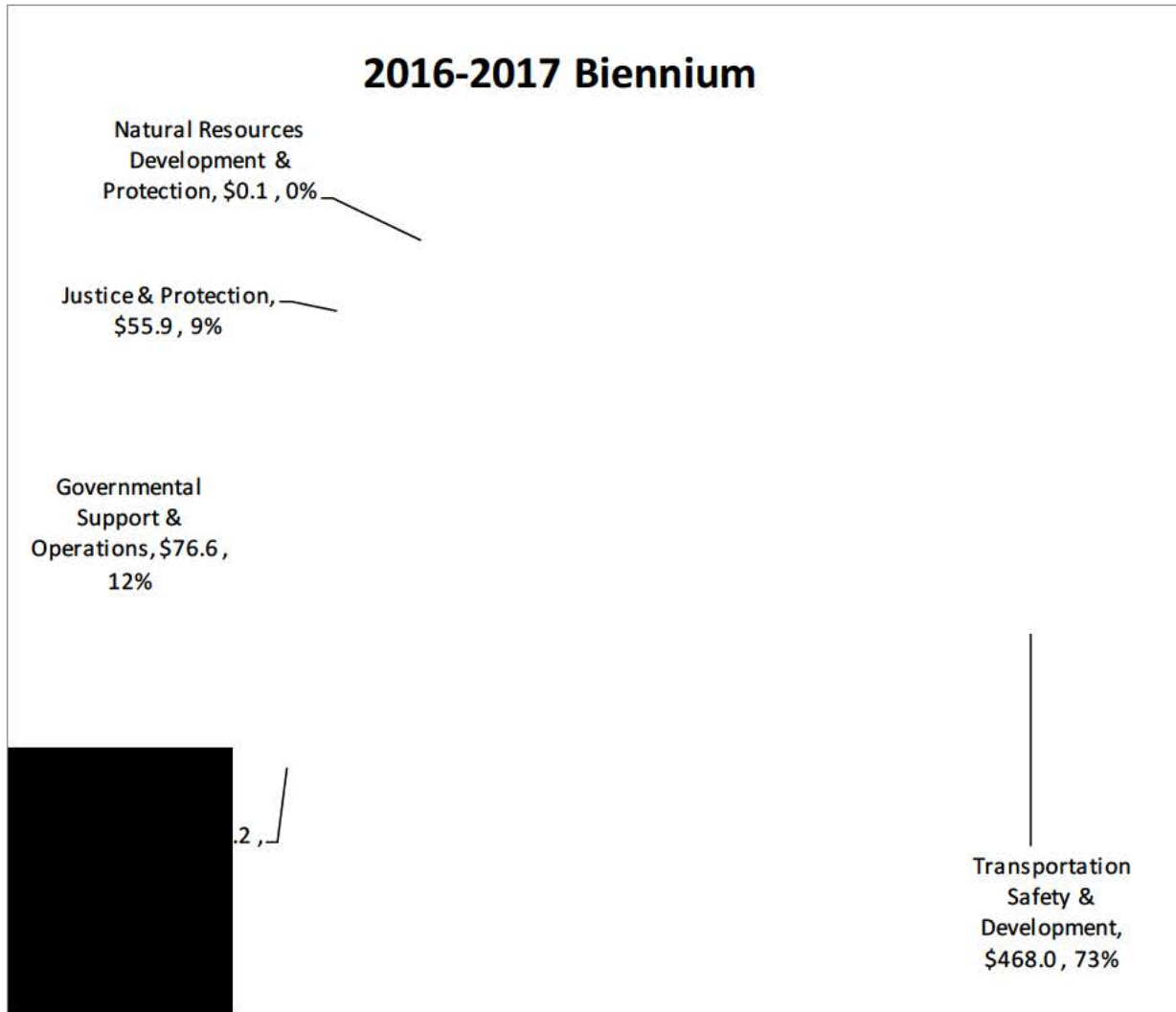
FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
9,972	9,963	-0.09%	19,934	10,320	3.59%	10,320	0.00%	20,641

Other Revenues within the Highway Fund include miscellaneous service fees and charges, net revenue transfers and other contributions. The forecast for the 2018-2019 biennium is expected to increase slightly over fiscal year 2017 then remains flat for the biennium in this revenue category.

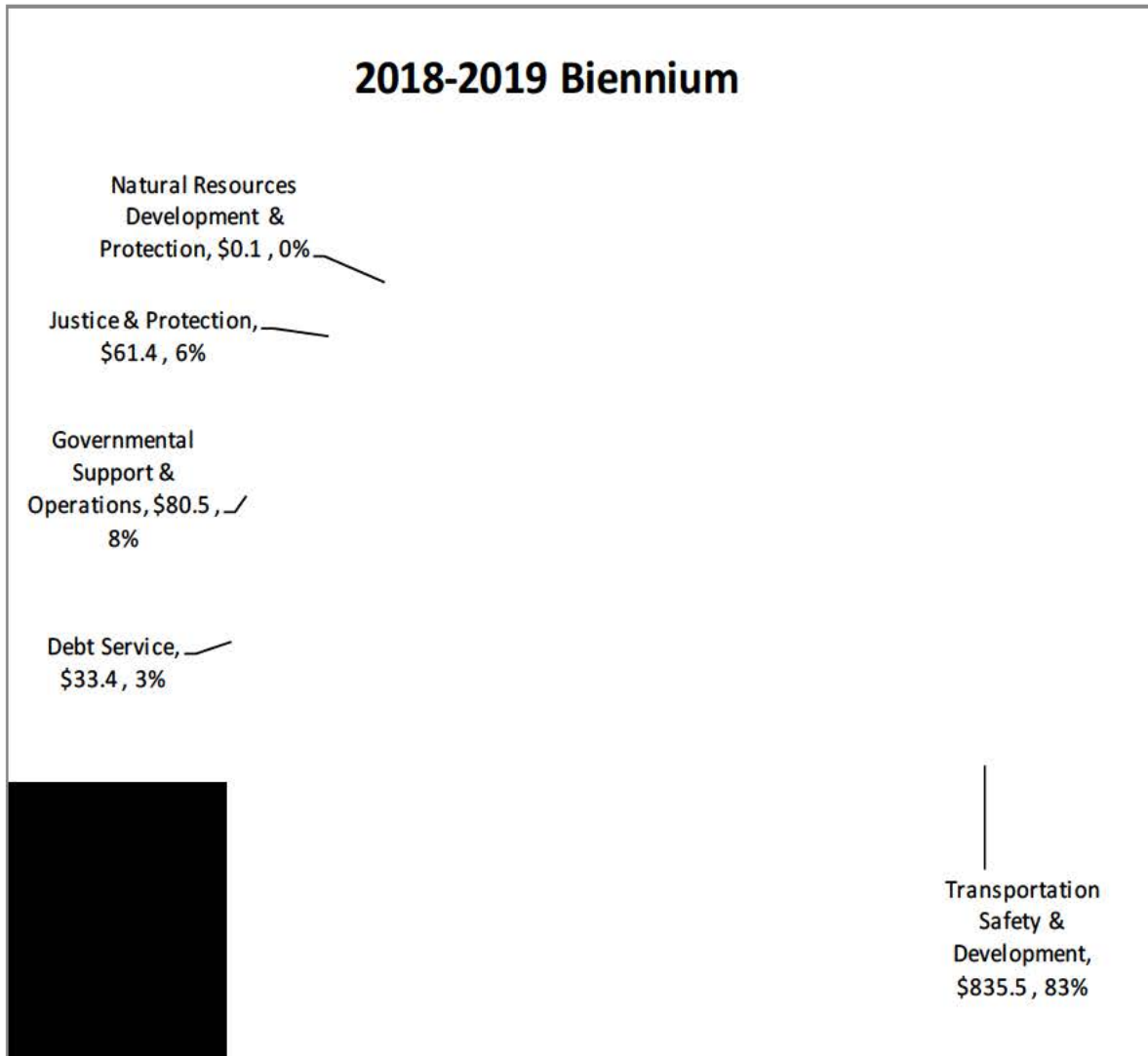
D. EXPENDITURE FORECAST CHARTS Fiscal Years 2016-2019

HIGHWAY FUND EXPENDITURE FORECAST CHART									
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	Fiscal Years 2016-2017 BUDGET				Fiscal Years 2018-2019 FORECAST				
	FY 2016	FY 2017	YR. TO YR. % CHANGE	TOTAL TOTAL	FY 2018	YR. TO YR. % CHANGE	FY 2019	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Capital Construction and Improvement Reserve Fund Other Agencies And Programs	38,346,485	38,253,077	-0.24%	76,599,562	39,951,168	4.44%	40,604,242	1.63%	80,555,410
Total Policy Area - Governmental Support & Operations	38,346,485	38,253,077	-0.24%	76,599,562	39,951,168	4.44%	40,604,242	1.63%	80,555,410
Total Policy Area - Natural Resources Development & Protection	33,054	33,054		66,108	33,054		33,054		66,108
State Police	18,310,271	18,172,931	-0.75%	36,483,202	20,460,120	12.59%	20,614,329	0.75%	41,074,449
Other Agencies And Programs	9,752,327	9,668,800	-0.86%	19,421,127	10,126,614	4.73%	10,237,102	1.09%	20,363,716
Total Policy Area - Justice & Protection	28,062,598	27,841,731	-0.79%	55,904,329	30,586,734	9.86%	30,851,431	0.87%	61,438,165
Maintenance & Operations	144,836,416	147,705,688	1.98%	292,542,104	147,068,023	-0.43%	149,552,371	1.69%	296,620,394
Highway & Bridge Capital	47,823,854	36,580,702	-23.51%	84,404,556	188,565,527	415.48%	188,796,053	0.12%	377,361,580
Highway & Bridge Light Capital	7,651,504	5,986,204	-21.76%	13,637,708	26,250,000	338.51%	27,000,000	2.86%	53,250,000
Local Road Assistance Program	20,363,563	20,936,671	2.81%	41,300,234	34,436,671	64.48%	34,436,671		68,873,342
Debt Service	18,565,079	23,615,579	27.20%	42,180,658	19,976,210	-15.41%	13,405,540	-32.89%	33,381,750
Other Agencies And Programs	17,871,729	18,277,334	2.27%	36,149,063	19,592,557	7.20%	19,786,963	0.99%	39,379,520
Total Policy Area - Transportation Safety & Development	257,112,145	253,102,178	-1.56%	510,214,323	435,888,988	72.22%	432,977,598	-0.67%	868,866,586
TOTAL HIGHWAY FUND EXPENDITURES	323,554,282	319,230,040	-1.34%	642,784,322	506,459,944	58.65%	504,466,325	-0.39%	1,010,926,269

Fiscal Years 2016 – 2017
Highway Fund Budgeted Allocations
\$642.8
Dollars in Millions



Fiscal Years 2018 – 2019
Highway Fund Forecasted Allocations
\$1,010.9
Dollars in Millions



E. HIGHWAY FUND EXPENDITURE FORECAST NARRATIVE

STATE POLICE

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
18,310	18,173	-0.75%	36,483	20,460	12.59%	20,614	0.75%	41,074

The Maine State Police have primary goals of 1) patrolling rural areas of Maine without organized police departments for the purpose of preventing and investigating criminal activity; 2) enforcing traffic safety laws in rural areas, Maine Turnpike and Interstate System; 3) overseeing the Motor Vehicle Inspection Program and enforcing the Commercial Motor Vehicle laws and rules; 4) investigating homicides that occur outside Portland and Bangor; 5) investigating child abuse cases; 6) providing crime laboratory services to all law enforcement agencies; 7) providing a repository for criminal history and records information; and 8) providing specialized administrative and enforcement services.

Public Law 2007, chapter 682, changed the funding ratio of the State Police program from 40% General Fund and 60% Highway Fund to 51% General Fund and 49% Highway Fund for fiscal year 2010 and requires the State Budget Officer to calculate the reduction in Highway Fund allocation to the State Police program resulting from this change and notify the State Controller, who transfers that amount from the Highway Fund to the Trans-Cap Trust Fund. For the 2018-2019 biennium, the transfer to the Trans-Cap Trust Fund is projected to be approximately \$12.6 million. The calculation and the percentage funding ratio assumptions above remain in effect as it pertains to the Trans-Cap Trust Fund.

Public Law 2013, chapter 368 changed the funding ratio for the State Police program from 51 % General Fund and 49% Highway Fund to 65% General Fund and 35% Highway Fund to coincide with the report from the Department of Public Safety, Bureau of State Police on the activities of the Bureau of the State Police to the Legislature for the 2014-2015 biennium. In addition, liquor enforcement was transferred from the State Police program to the Bureau of Alcoholic Beverages in the Department of Administrative and Financial Services.

MAINTENANCE & OPERATIONS

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
144,836	147,706	1.98%	292,542	147,068	-0.43%	149,552	1.69%	296,620

The Maintenance & Operations program maintains the infrastructure of 15,900 lane miles of interlocking state and state aid highways. It is responsible for winter services to the 8,100 lane miles designated as state highway and the maintenance of all appurtenances and facilities associated with and necessary for the proper and safe utilization of the system by the motoring public. This program provides for the installation, maintenance and upgrading of traffic control devices and lighting. It also maintains 2,806 bridges on public highways for public use and inspection of 3,800 bridges as required by the National Bridge Inspection Standards.

HIGHWAY AND BRIDGE CAPITAL

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
47,824	36,581	-23.51%	84,405	188,566	415.48%	188,796	0.12%	377,362

The Highway and Bridge Capital program provides funding for the capital improvement of the Federal-aid and State Highway network in order to maintain a safe, efficient and effective infrastructure for all users of the system. General Obligation bond issues of a total of \$71.2 million funded by the General fund, were authorized for the 2016-2017 biennium to provide continued support for transportation improvement projects. The level of fiscal years 2016, 2017, 2018 and 2019 funding is based on the cost to meet the goals set forth in 23 MRSA §73-7.

Public Law 2011, chapter 610, An Act to Improve Transportation in the State established provisions relating to the Department of Transportation's capital program goals. It is important to stress that this forecast, by law, must assume the state share which is estimated at \$300 million over the 2018-2019 biennium.

HIGHWAY LIGHT CAPITAL

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
7,652	5,986	-21.76%	13,638	26,250	338.51%	27,000	2.86%	53,250

This program was established in fiscal year 2010 for capital work not generally appropriate for bonding at a level to provide approximately 600 miles of light capital (also referred to as maintenance surface treatment) per year, among other work, depending on bid prices and the severity of winter weather.

LOCAL ROAD ASSISTANCE PROGRAM

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
20,364	20,937	2.81%	41,300	34,437	64.48%	34,437	0.00%	68,873

This program provides Municipal Transportation Assistance funding targeted to the capital needs of rural roads and highways and reflective of urban maintenance responsibilities on state and state aid roads. The budget projections for the 2018-2019 biennium are a percentage of the Highway Fund budget for the Maine Department of Transportation calculated in accordance with Title 23§1803-B, sub-§ 1, paragraph D.

DEBT SERVICE

FY 2016 (000)	FY 2017 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 2018 (000)	YR % CHANGE	FY 2019 (000)	YR % CHANGE	TOTAL BIENNIUM
18,565	23,616	27.20%	42,181	19,976	-15.41%	13,406	-32.89%	33,382

This highway fund program funds debt service to support highway and bridge improvements. The outstanding total highway fund debt service as of June 30, 2016 was \$61,620,000. The last Highway Fund bond issuance was in June 2011 which issued the remaining \$25 million of authorized Highway Fund bonds.

SUMMARY

This report provides a summary and detailed projection of revenues, appropriations and allocations for the General Fund and the Highway Fund for the 2016-2017 biennium and the 2018-2019 biennium.

The forecasts of revenues, appropriations and allocations contained in this report, when constructed under current law and current trends, result in a projected structural gap in the General Fund of \$165,294,114 and a projected structural gap in the Highway Fund of \$358,013,227 for the 2018-2019 biennium. The base level projections for the General Fund and Highway Fund include the March 2016 projection of the Revenue Forecasting Committee and reflect all actions of the Second Regular Session of the 127th Legislature.