

MAINE STATE LEGISLATURE

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STATE OF MAINE

2006-2007

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 06-07 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 06-07 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 06-07 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 06-07 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 06-07 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 06-07 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 06-07 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 06-07 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 06-07 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 2005-06 and 2006-07. 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 summarizing the **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 06-07 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 Healthy Maine Fund Unallocated Fund Status** are shown for the FY 06-07 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 06-07 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 06-07 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 06-07 biennium.

Strategic Operational Plan

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

January 7, 2005

Honorable Members of the 122nd Legislature and Citizens of Maine:

In February 2003, I presented a budget to the 121st Legislature that closed a structural budget deficit of nearly \$1.2 billion. Working closely with the Legislature – and across party lines – we were able to reach nearly unanimous consensus on that budget. We proved to the Maine citizens that we can work together as Democrats, Republicans, Greens and Independents to pass a budget that is both responsible and fair.

Our challenge this year is no less difficult. We are facing a structural budget deficit of \$733 million and there are no easy solutions. The budget I present to you today is a sound, balance budget that carries forward on our plan to provide a leaner, more efficient state government for the people of Maine. Sacrifices have been spread across state government. No one agency has been asked to shoulder the burden of balancing this budget.

Though many difficult choices were made in balancing this budget, this spending plan continues my commitment to hold the line on broad based tax increases. The citizens of Maine have spoken loudly and the message is clear. They are demanding immediate property tax relief and this budget presents that relief in two forms: tax reform legislation currently working its way through the Legislature and a substantial increase in K-12 education funding.

Even in these difficult economic times, we must continue to invest in programs that benefit our economy – both present and future. There is no more important purpose of government – all levels of government – than the education of our children.

This budget begins by funding the first 2 years of a 4 year phase-in that brings the State's share of education funding up to 55%. It provides a \$250

million increase over 2004-2005 funding levels – an increase of more than 11% in FY 06 and more than 8% in FY 07 - and provides immediate property tax relief to Maine families.

I've also proposed modest increases in higher education funding across the board – from the University System to the Community Colleges to Maine Maritime Academy. We've built an additional \$2m in research and development funding into the University of Maine's budget. We've provided increased funding to both the University System and Community Colleges to promote tourism in Maine and we've provided inflationary adjustments to reduce tuition increases at Maine Maritime Academy. Despite our fiscal challenges, and more accurately because of them, we need to continue to provide the investments necessary to ensure our children are moving on to higher education.

This budget also includes full funding for the Pine Tree Zone program approved by the Legislature last year. This program has already begun to provide substantial benefits to economically distressed areas of the state and adequately funding the program is vital to Maine's economic growth.

Two years ago, I used my Budget Address to lay out my vision for Dirigo Health. Today, I can report that our health reform effort is alive and well. On January 1st, DirigoChoice began providing employees of small businesses as well as self-employed people from all parts of Maine with comprehensive and affordable health benefits. Along with initiatives to improve the quality of care provided to our citizens and those designed to hold down the costs of care, Dirigo is vital to our goal of making Maine the healthiest state in the nation. It is also a critical component of our state's financial health and key to nurturing the climate for the growth of business in Maine. This budget protects the Dirigo program and safeguards our commitment to Maine's uninsured and to our business community. We have maintained eligibility for public programs and, rather than eliminating

services, have designed ways to improve the efficient operation of those programs.

We have had to make very difficult choices in crafting this budget, but are confident that this document reflects a responsible and compassionate approach to our fiscal challenges.

I look forward to working with the Legislature over the next few months to enact a budget that is fiscally responsible and continues to reflect the priorities of the citizens of this State.

A handwritten signature in black ink that reads "John E. Baldacci". The signature is written in a cursive, flowing style.

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, 2004 to prepare the economic assumptions that would become the basis for the Revenue Forecasting Committee's revenue projections for fiscal years 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09.

The Commission concluded that the Maine and national economies are both growing at slow to moderate rates, with only a few sectors showing strong growth. The basis for this conclusion was employment growth through August of only 0.7% over the same period last year, adding 5,800 jobs since year end (seasonally adjusted), an annual rate of growth through July of 2.7% in the Maine Coincident Economic Index, which approximates

Gross State Product growth, and a seasonally adjusted unemployment rate of 4.5% in August compared to a national rate of 5.4%. Additionally, Maine taxable retail sales for the first seven months were up 6.5% over the same period of last year. The commission revised personal income growth downward by about a half-percentage point below the February forecast, resulting in growth of 4.0% throughout the 2005-2009 period. The primary cause of this slower growth was slower forecast growth for Supplements to Wages and Salaries (formerly termed Other Labor Income) and Transfer Payments. Consumer Price Index (CPI) growth is projected at 2% for each year of the 2005-2009 period.

The major economic growth assumptions are summarized in Table B – 1.

TABLE B – 1						
MAJOR UNDERLYING GROWTH RATE ECONOMIC ASSUMPTIONS						
Calendar Year	2004	2005	2006	2007	2008	2009
Non-Farm Employment	0.9%	1.7%	1.5%	1.1%	1.3%	1.3%
ME Personal Income (Nominal)	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%
U.S. Consumer Price Index	2.8%	2.0%	2.0%	2.0%	2.0%	2.0%

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 October, 2004 (As Revised on Oct. 15, 2004)												
CALENDAR YEAR	HISTORICAL DATA								FORECAST			
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Consumer Price Index - (Urban Dwellers)	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.8%	2.0%	2.0%	2.0%	2.0%	2.0%
Annual Growth Rate												
Maine Unemployment Rate	4.4	4.1	3.4	4.0	4.4	5.0	4.3	4.2	4.1	4.1	4.0	4.0
Average 3-Month Treasury Bill Rate	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	1.2	2.8	4.1	4.7	4.6	4.6
Average 10-Year Treasury Note Rate	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.5	5.0	5.7	5.7	5.5	5.5
Maine Agricultural Employment (Thousands)	16	13.0	16.0	12.0	14.0	16.0	13.0	14.0	14.0	14.0	14	14.0
Non-Farm Employment (Thousands)												
Natural Resources	2.7	2.7	2.7	2.7	2.6	2.5	2.6	2.7	2.6	2.6	2.6	2.6
Construction	25	27.8	29.2	29.8	29.4	30.4	31.5	30.1	29.1	29.2	29.5	29.9
Manufacturing	81.1	80.6	79.5	74.6	68	63.8	61.3	61.1	60.7	60.4	60.1	59.8
Trade/Transp./Publ. Utils.	115.9	119.5	122.7	123.6	123.2	123.0	124.0	125.2	127.1	127.6	128.3	129.0
Information	11.1	11.7	12.1	12.2	11.6	11.2	11.3	11.6	11.8	12.0	12.3	12.5
Financial Activities	31.2	32.8	34.1	35.1	35.1	35.0	35.4	36.3	37.2	38.0	38.6	39.1
Prof. & Business Services	46.6	48.3	51.8	51.8	51.4	50.6	51.0	53.8	55.7	57.0	58.4	59.8
Education & Health Services	90	94.2	97.5	100.7	104.9	106.8	109.0	112.7	115.9	118.4	121.8	125.1
Leisure & Hospitality Services	53.2	54.3	55.9	56.5	57.3	58.3	59.3	61.2	63.2	64.8	66.4	68.2
Other Services	17.7	18	18.3	19.1	19.8	21.0	21.8	22.3	22.6	22.9	23.2	23.6
Government	94.6	96.7	99.6	102	103.1	103.5	104.1	104.5	104.8	105.2	105.5	105.8
Total Non-Farm Employment	569.1	586.3	603.5	608.1	606.5	606.1	611.3	621.4	630.9	638.2	646.7	655.4
Annual Growth Rates for Non-Farm Employment												
Natural Resources	-				-3.7%	-3.8%	5.9%	1.2%	-2.0%	-1.3%	-0.5%	-0.3%
Construction	-	11.2%	5.0%	2.1%	-1.3%	3.4%	-4.6%	-3.2%	0.3%	1.0%	1.4%	1.4%
Manufacturing	-	-0.6%	-1.4%	-6.2%	-8.8%	-6.2%	-3.9%	-0.4%	-0.5%	-0.6%	-0.5%	-0.5%
Trade/Transp./Publ. Utils.	-	3.1%	2.7%	0.7%	-0.3%	-0.2%	0.8%	1.0%	1.5%	0.4%	0.5%	0.5%
Information	-	5.4%	3.4%	0.8%	-4.9%	-3.4%	0.7%	2.8%	1.8%	2.0%	2.0%	1.9%
Financial Activities	-	5.1%	4.0%	2.9%	-0.3%	-1.0%	1.0%	2.7%	2.7%	2.1%	1.5%	1.2%
Prof. & Business Services	-	3.6%	7.2%		-0.8%	-1.6%	0.7%	5.6%	3.5%	2.3%	2.5%	2.4%
Education & Health Services	-	4.7%	3.5%	3.3%	4.2%	1.8%	2.0%	3.4%	2.9%	2.1%	2.9%	2.7%
Leisure & Hospitality Services	-	2.1%	2.9%	1.1%	1.4%	1.7%	1.7%	3.1%	3.3%	2.6%	2.5%	2.8%
Other Services	-	1.7%	1.7%	4.4%	3.7%	6.1%	3.8%	2.2%	1.5%	1.3%	1.4%	1.4%
Government	-	2.2%	3.0%	2.4%	1.1%	0.4%	0.6%	0.4%	0.4%	0.3%	0.3%	0.3%
Total Non-Farm Employment		3.0%	2.9%	0.8%	-0.3%	-0.1%	0.9%	1.7%	1.5%	1.1%	1.3%	1.3%
Total Personal Income (Millions)	29,709.75	31,016.25	33,173.25	35,102.25	36,295.5	37,781.5	39,859.5	41,453.9	43,112.0	44,836.5	46,630.0	48,495.2
Wage and salary disbursements	15,204.0	16,234.0	17,194.8	17,978.3	18,500.0	19,169.3	20,166.1	21,154.2	22,190.7	23,211.5	24,279.2	25,396.1
Supplements to Wages & Salaries	3,359.8	3,554.0	3,772.8	4,066.5	4,451.3	4,731.0	4,977.0	5,136.3	5,295.5	5,454.4	5,596.2	5,741.7
Non-farm Proprietors' income	2,131.0	2,227.5	2,347.0	2,768.0	2,806.5	3,010.8	3,197.4	3,418.0	3,612.9	3,800.7	3,983.2	4,174.4
Farm Proprietors' income	55.5	77.0	57.0	26.8	-3.5	-33.8	39.8	41.4	43.0	44.8	46.6	48.5
plus: Dividends, interest, and rent	5,744.5	5,618.5	6,178.5	6,342.0	6,217.3	6,100.0	6,520.9	6,547.0	6,579.7	6,764.0	6,960.1	7,155.0
plus: Transfer payments	5,121.5	5,279.3	5,588.3	6,017.3	6,464.3	7,003.8	7,396.0	7,710.7	8,005.7	8,338.5	8,674.3	9,005.7
less: Personal contrib. for social insurance	2,417.5	2,554.8	2,665.8	2,812.0	2,848.8	2,926.3	3,089.0	3,203.4	3,358.5	3,522.5	3,688.7	3,852.2
plus: Adjustment for residence	511.3	580.3	700.5	725.5	707.8	726.5	699.7	714.9	737.9	768.5	802.0	836.7
Farm Income	138.0	153.8	145.8	117.0	90.5	80.0	79.7	82.9	86.2	89.7	93.3	97.0
Annual Growth Rates												
Total Personal Income (Millions)	-	4.4%	7.0%	5.8%	3.4%	4.1%	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Wage and salary disbursements	-	6.8%	5.9%	4.6%	2.9%	3.6%	5.2%	4.9%	4.9%	4.6%	4.6%	4.6%
Supplements to Wages & Salaries	-	5.8%	6.2%	7.5%	9.7%	6.3%	5.2%	3.2%	3.1%	3.0%	2.6%	2.6%
Non-farm Proprietors' income	-	4.5%	5.4%	17.9%	1.4%	7.3%	6.2%	6.9%	5.7%	5.2%	4.8%	4.8%
Farm Proprietors' income	-	38.7%	-26.0%	-53.1%	Not Available - negative base values	Not Available - negative base values	4.0%	4.0%	4.2%	4.0%	4.1%	4.1%
plus: Dividends, interest, and rent	-	-2.2%	10.0%	2.6%	-2.0%	-1.9%	6.9%	0.4%	0.5%	2.8%	2.9%	2.8%
plus: Transfer payments	-	3.1%	5.9%	7.7%	7.4%	8.3%	5.6%	4.3%	3.8%	4.2%	4.0%	3.8%
less: Personal contrib. for social insurance	-	5.7%	4.3%	5.5%	1.3%	2.7%	5.6%	3.7%	4.8%	4.9%	4.7%	4.4%
plus: Adjustment for residence	-	13.5%	20.7%	3.6%	-2.4%	2.6%	-3.7%	2.2%	3.2%	4.2%	4.4%	4.3%
Farm Income		11.4%	-5.2%	-19.7%	-22.6%	-11.6%	-0.4%	4.0%	4.0%	4.0%	4.0%	4.0%

Source: Report of the Maine State Revenue Forecasting Committee, December 2004

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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. 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 – The change in the General Fund forecast is driven primarily by the updated economic forecast of the Consensus Economic Forecasting Commission. The modest growth in the General Fund revenue pattern between FY04 and FY05 and the negative growth between FY05 and FY06 reflect the impact of changes to the revenue pattern through the end of the Second Special Session of the 121st Legislature, which included a number of substantial “one-time” revenue increases. These include the upfront payment for the lease of the wholesale liquor operation, some delays in tax

changes to conform to federal tax changes, Highway Fund contributions to revenue sharing, increases in the General Fund share of the Real Estate Transfer Tax and the Tax Amnesty program.

Sales and Use Tax – Legislative changes during the 121st Legislature (2003 and 2004) increased revenue in this line by approximately \$7.1 million in FY05 and slightly above \$7.5 annually during the 2006-2007 biennium. One component of that legislative package was reversed in this forecast reducing the estimated impact of the legislative changes by approximately \$1.5 million annually. Unlike other revenue lines, the legislative changes did not affect the flow of revenue with one-time or unusual revenue patterns.

Individual Income Tax – The forecast for the Individual Income Tax is consistent with the changes in the economic forecast. The Individual Income Tax is forecast with the input of several economic variables: the components of Personal Income, inflation, total employment growth, the unemployment rate, and the 3-month treasury bill and 10-year treasury note rates. In addition to these economic variables, Maine Revenue Services must also input assumptions about net capital gains (see discussion of Capital Gains Forecast above). For the most part the relationship and the effect of these variables on the individual income tax is obvious. Personal Income and the distribution of that variable into its components (salaries and wages; dividends, interest and rent; proprietor's income; and transfer payments) affect the accuracy of the Individual Income Tax forecast. Part of the problem that resulted in the unpleasant "April Surprise" of 2002 was capital gains, but another third was a problem with the distribution of the components of Personal Income. Since that time, the Consensus Economic Forecasting Commission has spent much more time in evaluating the distribution of Personal Income. The forecast of inflation has some offsetting influences on the forecast. On one hand, a higher rate of inflation will result in a higher forecast of nominal salaries and wages and proprietors' income. On the other hand, the tax brackets are indexed for inflation and a higher rate of inflation will increase the brackets and reduce the rates applied to certain income below the highest bracket.

Corporate Income Tax – The Corporate Income Tax model is driven by employment growth and the CPI forecast. The employment growth assumption increases in each year of the forecast and a higher

estimate of inflation in 2004 results in a net increase in the projections for this tax. The increases in the short-term and the negative growth after FY05 are attributable to recent adjustments to the conformity of state tax law with federal tax laws. Revenue estimates were driven upward for FY04 and FY05, in part, due to the improved underlying economic conditions and to the delayed conformity to the Federal code with respect to bonus depreciation. The delay in conformity causes State tax collections to be higher in FY04 and FY05 and to be lower in the years after that.

Cigarette and Tobacco Tax – This revenue source has been declining on a more accelerated basis. The Revenue Forecasting Committee had forecast significant drops in the sale of cigarette stamps due to effective anti-smoking campaigns, increased rolling of cigarettes, and the loss of sales to out-of-state and internet purchases. The forecast is reduced by an additional \$900,000 annually in this forecast as a result of targeting the model to a reduced base, FY04 revenue from this source was approximately \$1.0 million under budget.

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.

Estate Tax – Estate tax estimates are forecast by Maine Revenue Services using a model based on aggregate Personal Income growth. Looking at aggregated data of actual tax returns using a data warehouse enhances the data and the model. Tax year 2003 returns are the most recent available and is the adjusted base year upon which this forecast

derives. An adjustment is also made to account for additional estate tax planning, which is occurring in reaction to Maine's recent decision to not conform with federal tax law. The unusual 7.2% growth in FY08 is related to federal law changes for the estate exemption amount, which is fully phased-in at \$1 million for deaths occurring in 2006. Previous year growth rates were suppressed by the effect of the phase-in of the exemption.

Transfers to Municipal Revenue Sharing - The amounts transferred for municipal revenue sharing are based on a percentage of the Individual Income Tax, Corporate Income Tax, Sales and Use Tax and the General Fund portion of the Service Provider Tax. Consequently, the estimate of these amounts is a simple calculation based on the forecast for those taxes.

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 04 ACTUAL	FY 05	% CHANGE	BIENNIUM	FY 06	% CHANGE	FY 07	% CHANGE	BIENNIUM
Sales and Use Tax	917,243,245	914,710,000	-0.28%	1,831,953,245	954,918,500	4.40%	994,344,829	4.13%	1,949,263,329
Service Provider Tax		46,700,000		46,700,000	48,801,500	4.50%	51,095,171	4.70%	99,896,671
Individual Income Tax	1,156,715,909	1,220,849,053	5.54%	2,377,564,962	1,275,740,000	4.50%	1,334,790,000	4.63%	2,610,530,000
Corporate Income Tax	111,616,051	123,351,604	10.51%	234,967,655	113,105,057	-8.31%	106,783,219	-5.59%	219,888,276
Cigarette & Tobacco Tax	96,604,646	96,019,864	-0.61%	192,624,510	95,225,360	-0.83%	94,533,494	-0.73%	189,758,854
Public Utilities Tax	27,991,188	26,675,000	-4.70%	54,666,188	25,440,000	-4.63%	24,495,000	-3.71%	49,935,000
Insurance Company Tax	72,205,855	78,615,872	8.88%	150,821,727	77,141,931	-1.87%	79,644,425	3.24%	156,786,356
Inheritance & Estate Tax	32,070,750	29,042,767	-9.44%	61,113,517	30,100,403	3.64%	31,620,061	5.05%	61,720,464
Property Tax - Unorganized Terr.	10,709,308	10,580,086	-1.21%	21,289,394	10,690,713	1.05%	10,982,067	2.73%	21,672,780
Income from Investments	2,303,652	4,084,735	77.32%	6,388,387	6,046,546	48.03%	6,046,546		12,093,092
Municipal Revenue Sharing	(111,464,335)	(116,324,258)	4.36%	(227,788,593)	(122,892,334)	5.65%	(127,832,161)	4.02%	(250,724,495)
Transfer from Liquor	27,182,743		-100.00%	27,182,743					
Transfer from Lottery	41,272,645	52,292,750	26.70%	93,565,395	52,834,250	1.04%	52,834,250		105,668,500
All Other	299,087,900	236,959,334	-20.77%	536,047,234	151,975,252	-35.86%	169,293,021	11.40%	321,268,273
TOTAL REVENUE	2,683,539,557	2,723,556,807	1.49%	5,407,096,364	2,719,127,178	-0.16%	2,828,629,922	4.03%	5,547,757,100

TABLE C - 2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	FY 04 ACTUAL	FY 05	% CHANGE	BIENNIUM	FY 06	% CHANGE	FY 07	% CHANGE	BIENNIUM
Fuel Taxes	212,600,961	220,838,729	3.87%	433,439,690	229,661,313	4.00%	237,895,577	3.59%	467,556,890
Motor Vehicle Registration & Fees	82,578,703	78,853,234	-4.51%	161,431,937	83,089,158	5.37%	84,291,317	1.45%	167,380,475
Inspection Fees	4,707,716	4,381,459	-6.93%	9,089,175	4,397,970	0.38%	4,414,756	0.38%	8,812,726
Fines, Forfeits and Penalties	1,917,903	946,385	-50.66%	2,864,288	1,556,478	64.47%	1,556,478		3,112,956
Income from Investments	720,046	2,165,359	200.73%	2,885,405	2,248,666	3.85%	2,293,239	1.98%	4,541,905
Other Revenues	9,502,657	14,200,077	49.43%	23,702,734	9,473,596	-33.28%	9,758,864	3.01%	19,232,460
TOTAL REVENUE	312,027,986	321,385,243	3.00%	633,413,229	330,427,181	2.81%	340,210,231	2.96%	670,637,412

TABLE C - 3

TOBACCO SETTLEMENT REVENUE ESTIMATES									
SOURCE	FY 04 ACTUAL	FY 05	% CHANGE	BIENNIUM	FY 06	% CHANGE	FY 07	% CHANGE	BIENNIUM
Initial Payments									
Base Payments	48,952,964	48,491,906	-0.94%	97,444,870	48,739,525	0.51%	49,485,635	1.53%	98,225,160
Attorney General Reimbursements									
Income from Investments	54,830	45,000	-17.93%	99,830	45,000		45,000		90,000
Total - Tobacco Settlement Revenue	49,007,794	48,536,906	-0.96%	97,544,700	48,784,525	0.51%	49,530,635	1.53%	98,315,160

Budget Process

Budget Process

Glossary of Terms

Term/Definition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Budget Policy

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

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

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

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.

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

Appropriations and allocations by program are further delineated by three line categories: Personal Services; All Other; and, Capital Expenditures. The Personal Services line category includes the salaries, wages and benefits for all positions authorized by the Legislature reduced by an attrition factor of .16%. The All Other line category includes the operational expenditures of a program such as vehicle operations, in state travel, supplies, etc. The Capital Expenditures line category includes funds for the purchase and replacement of equipment assets of \$3,000 or more with a useful life greater than one year, and for real property purchases and facility improvements and construction.

Each appropriation and allocation to a program also includes the number of positions authorized by the Legislature. Referred to as "headcount" these positions are further classified by the Legislature as "legislative count" or "full time equivalent". Legislative count represents positions authorized by the Legislature for 52 weeks in a fiscal year. These may include full-time and part-time positions. Full time equivalent represents positions authorized by the Legislature for less than 52 weeks in a fiscal 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 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 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 06-07 biennial budget process that started during July of 2004.

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	September-October
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

Public Law 1997, c. 764 requires departments and agencies to submit revised strategic plans and performance measures to the joint standing committee of the Legislature having jurisdiction over that agency's matters, the Director of State Planning, the State Budget Officer, the Director of the Office of Fiscal and Program Review, and the Director of the Office of Policy and Legal Analysis

no later than December 1st of each even-numbered year. Departments and agencies revise their strategic plans and performance measures based on legislative feedback. Part II requests are required to show incremental changes in performance. These performance measure results have been analyzed in conjunction with the review of new and expanded budget requests for the FY 06-07 biennium.

Revenue Forecasting

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

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

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Budget Status

Budget Status

General Fund

The 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 2005-06 and 2006-07 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, 2004, the Bureau of the Budget issued its updated four year budget forecast for fiscal years 2003-04, 2004-05, 2005-06 and 2006-07. This budget forecast for the General Fund for fiscal years 2005-06 and 2006-07 is shown in **Table E - 1**. Based on the assumptions delineated in **Table E - 1**, the budget forecast results in a **Structural Budget Gap** in the FY 06-07 biennium of \$733.4 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 06-07 biennium of the budget forecast for the General Fund at the beginning of the budget process.

TABLE E - 1

GENERAL FUND STATUS						
At the Beginning of the FY 06 - 07 Biennial Budget Process						
	FY 2004-2005 BIENNIUM			FY 2006-2007 BIENNIUM		
	FY 04	FY 05 BUDGETED	TOTAL	FY 06	FY 07	TOTAL
BALANCE	28,936,649		28,936,649	10,655,280		10,655,280
ADJUSTMENTS TO BALANCE	8,459,103	54,076,382	62,535,485			
REVENUE	2,620,476,211	2,651,608,498	5,272,084,709	2,669,922,426	2,783,774,750	5,453,697,176
TOTAL SOURCES	2,657,871,963	2,705,684,880	5,363,556,843	2,680,577,706	2,783,774,750	5,464,352,456
APPROPRIATIONS	2,642,999,485	2,709,902,078	5,352,901,563	3,026,769,633	3,170,976,527	6,197,746,160
TOTAL USES	2,642,999,485	2,709,902,078	5,352,901,563	3,026,769,633	3,170,976,527	6,197,746,160
BALANCE AT END OF 2nd SPECIAL SESSION - 121ST LEGISLATURE	14,872,478	(4,217,198)	10,655,280	(346,191,927)	(387,201,777)	(733,393,704)
<p>Source: Revenue and Expenditure Projection General Fund and Highway Fund Fiscal Years 2004-2007 Note: The FY 06 - 07 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2004.</p>						

Highway Fund

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 2005-06 and 2006-07 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 caseloads, national trends, etc.

On September 30, 2004, the Bureau of the Budget issued its updated four year budget forecast for fiscal years 2003-04, 2004-05, 2005-06 and 2006-07. This budget forecast for the Highway Fund for fiscal years 2005-06 and 2006-07 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 06-07 biennium of \$44.6 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 06-07 biennium of the budget forecast for the Highway Fund at the beginning of the budget process.

TABLE E - 2

HIGHWAY FUND STATUS						
At the Beginning of the FY 06 - 07 Biennial Budget Process						
	FY 2004-2005 BIENNIUM			FY 2006-2007 BIENNIUM		
	FY 04	FY 05 BUDGETED	TOTAL	FY 06	FY 07	TOTAL
BALANCE	6,478,244		6,478,244	1,902,773		1,902,773
ADJUSTMENTS TO BALANCE	(15,570,000)	-6,681,440	(22,251,440)			
REVENUE	304,744,317	317,437,872	622,182,189	320,400,705	329,306,886	649,707,591
TOTAL SOURCES	295,652,561	310,756,432	606,408,993	322,303,478	329,306,886	651,610,364
ALLOCATIONS	293,574,323	310,931,897	604,506,220	343,663,658	352,571,688	696,235,346
TOTAL USES	293,574,323	310,931,897	604,506,220	343,663,658	352,571,688	696,235,346
BALANCE AT END OF 2nd REGULAR SESSION - 120th LEGISLATURE	2,078,238	(175,465)	1,902,773	(21,360,180)	(23,264,802)	(44,624,982)
<p>Source: Revenue and Expenditure Projection General Fund and Highway Fund Fiscal Years 2004-2007 Note: The FY 06 - 07 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2004.</p>						

Fiscal Outlook

Fiscal Outlook

General Fund

Department and agency current services expenditure requests and the December, 2004 upward reprojected of \$94.2 million by the Revenue Forecasting Committee for the FY 06-07 biennium decreased the projected **Structural Budget Gap** in the FY 06-07 biennium to \$687.7 million when compared to the **Structural Budget Gap** of \$733.4 million from the September 30, 2004 budget forecast. The major factor influencing the

increase in biennial expenditure requests was related to the return to the accelerated schedule for paying down the unfunded actuarially liability (UAL). **Table F - 1** shows the change in the General Fund **Structural Budget Gap** as a result of the December, 2004, General Fund revenue reprojected of the Revenue Forecasting Committee and the increase in current services requests.

TABLE F - 1

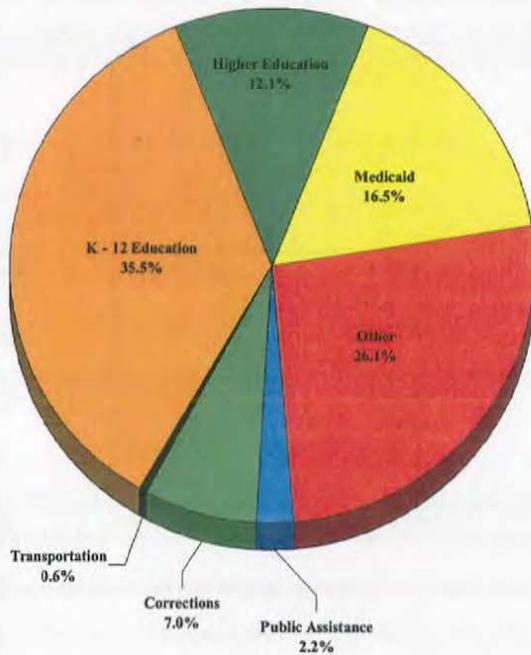
GENERAL FUND BALANCE			
Reflects Department Current Services Requests and December, 2004 Revenue Reprojection			
	FY 06	FY 07	BIENNIUM
BUDGETED BALANCE	14,872,478		14,872,478
BASE REVENUES	2,669,922,426	2,783,654,750	5,453,577,176
12/2004 REPROJECTION	49,204,752	44,975,172	94,179,924
TOTAL PROJECTED RESOURCES	2,733,999,656	2,828,629,922	5,562,629,578
PROJECTED CURRENT SERVICES EXPENDITURES	3,026,769,633	3,170,976,527	6,197,746,160
PROJECTED BALANCE	(292,769,977)	(647,650,668)	(635,116,582)
DEPARTMENT/AGENCY CURRENT SERVICES REQUESTS OVER FORECAST	12,534,086	40,084,672	52,618,758
REVISED PROJECTED BALANCE	(305,304,063)	(687,735,340)	(687,735,340)
<p>Note: The FY 06-07 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2004.</p>			

Chart F - 1 shows the percent of General Fund by program area for State of Maine current services expenditure requests for the FY 06-07 biennium compared to all states in fiscal year 2002-03. While all states commit an average of 16.5% of General Fund budgets to Medicaid, the State of Maine would commit 20.9% of its General Fund budget to

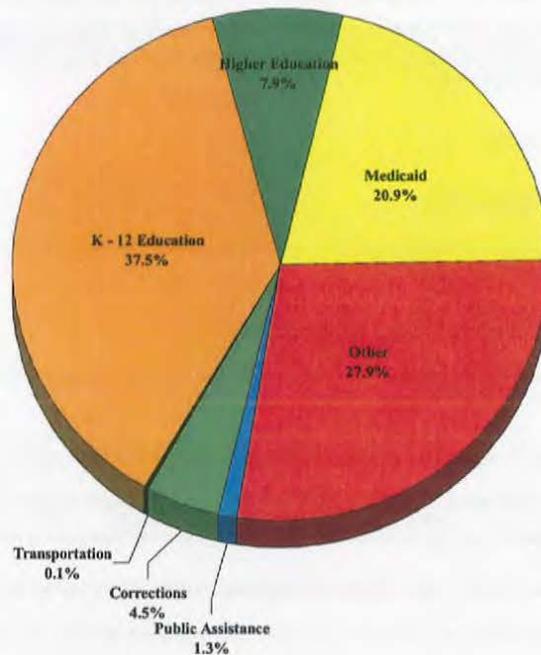
Medicaid based on current services requests. In spite of the Medicaid funding levels, K through 12 Education funding as a percent of the General Fund would exceed the national commitment. The areas in this chart that are impacted the most, as a percent of the General Fund due to resource demands from Medicaid, are Corrections and Higher Education.

Chart F – 1 General Fund Comparison All States vs. Maine

**FY 03
All States ***



**FY 06 - 07
Current Services Requests**

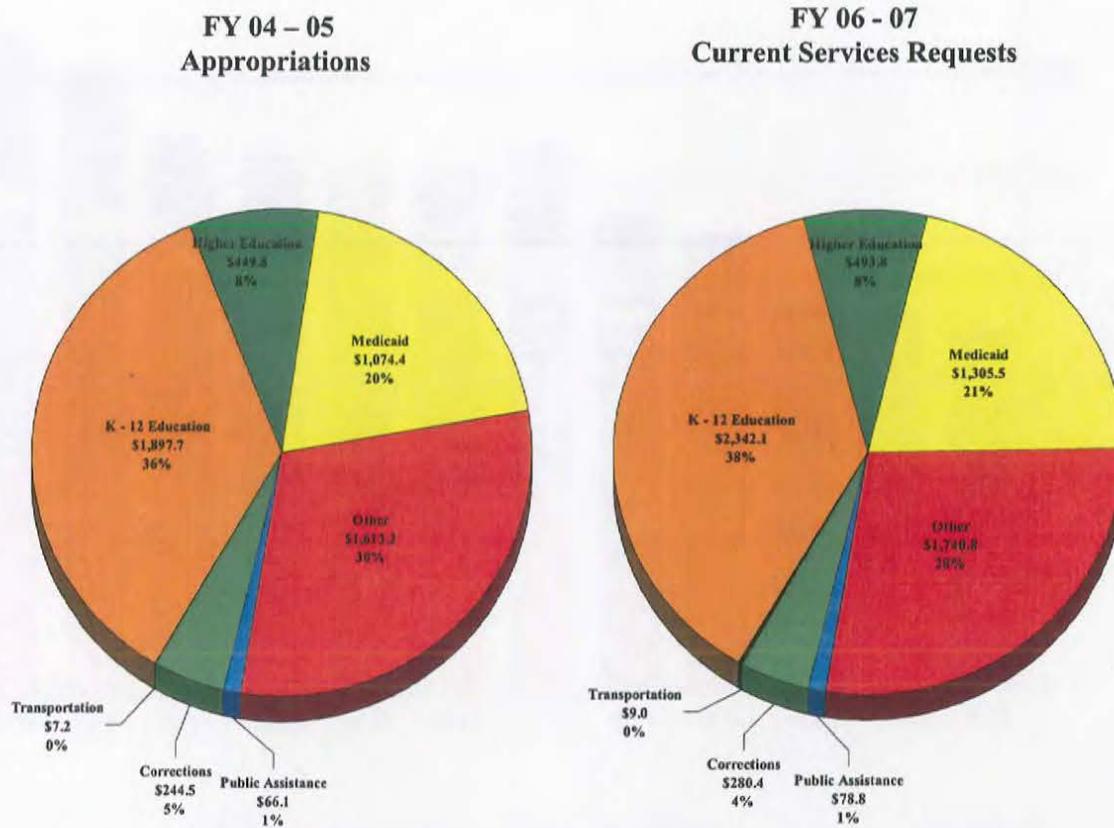


* Source: National Association of State Budget Officers, *2003 State Expenditure Report*.
These are the standard program areas for comparison used by the National Association of State Budget Officers.

Chart F - 2 shows the percent of General Fund program areas in the FY 04-05 biennium compared to the department and agency current services expenditure requests for the FY 06-07 biennium. The General Fund commitment to Medicaid would

increase from 20% in the FY 04-05 biennium to 21% in the FY 06-07. The General Fund expenditure trends for Medicaid continue to present a challenge in balancing the General Fund budget in the FY 06-07 biennium and in meeting other needs.

Chart F - 2
General Fund Comparison
FY 2003-04 through FY 2006-07

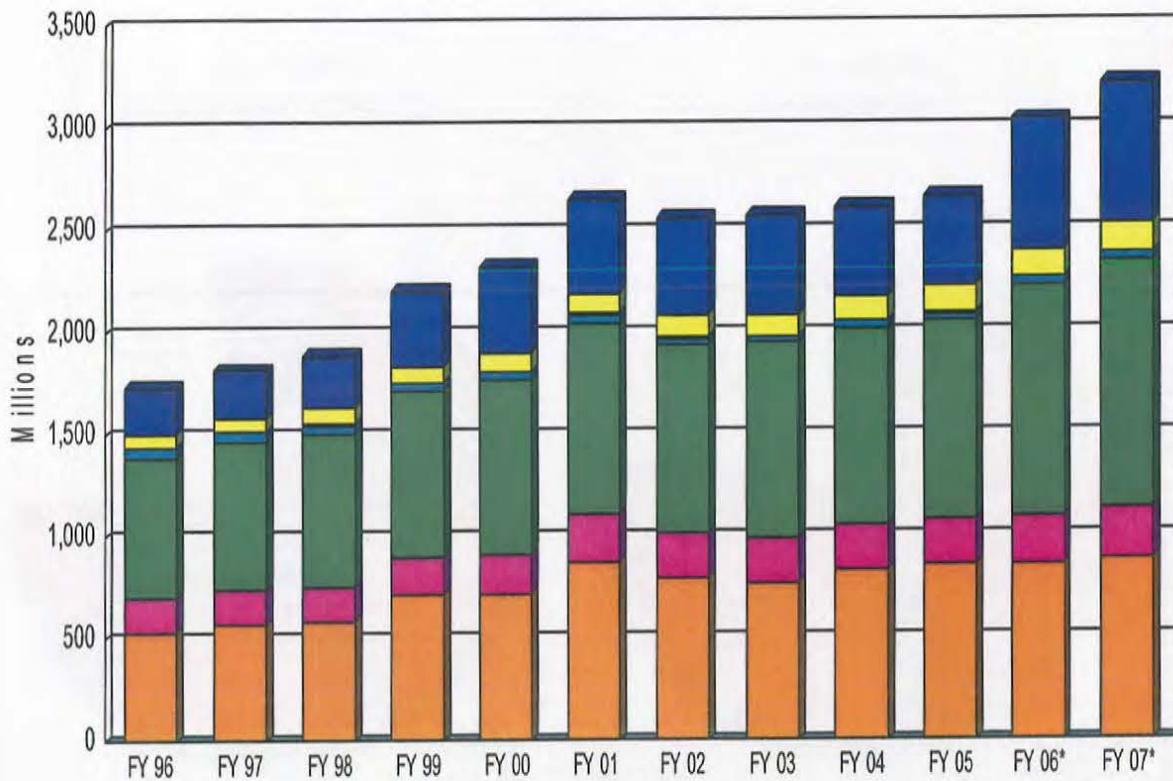


* Source: National Association of State Budget Officers, *2003 State Expenditure Report*.
 These are the standard program areas for comparison used by the National Association of State Budget Officers.

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

FY 96 through FY 95. The FY 06 and FY 07 columns are based on current services requests.

Chart F - 3
Historical General Fund Appropriations by Program Area for FY 96 - FY 05 and
FY 06 - FY 07 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 2003, the State of Maine ranked 30th 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 8th in per capita General Fund Medicaid expenditures in fiscal year 2002-03. 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.

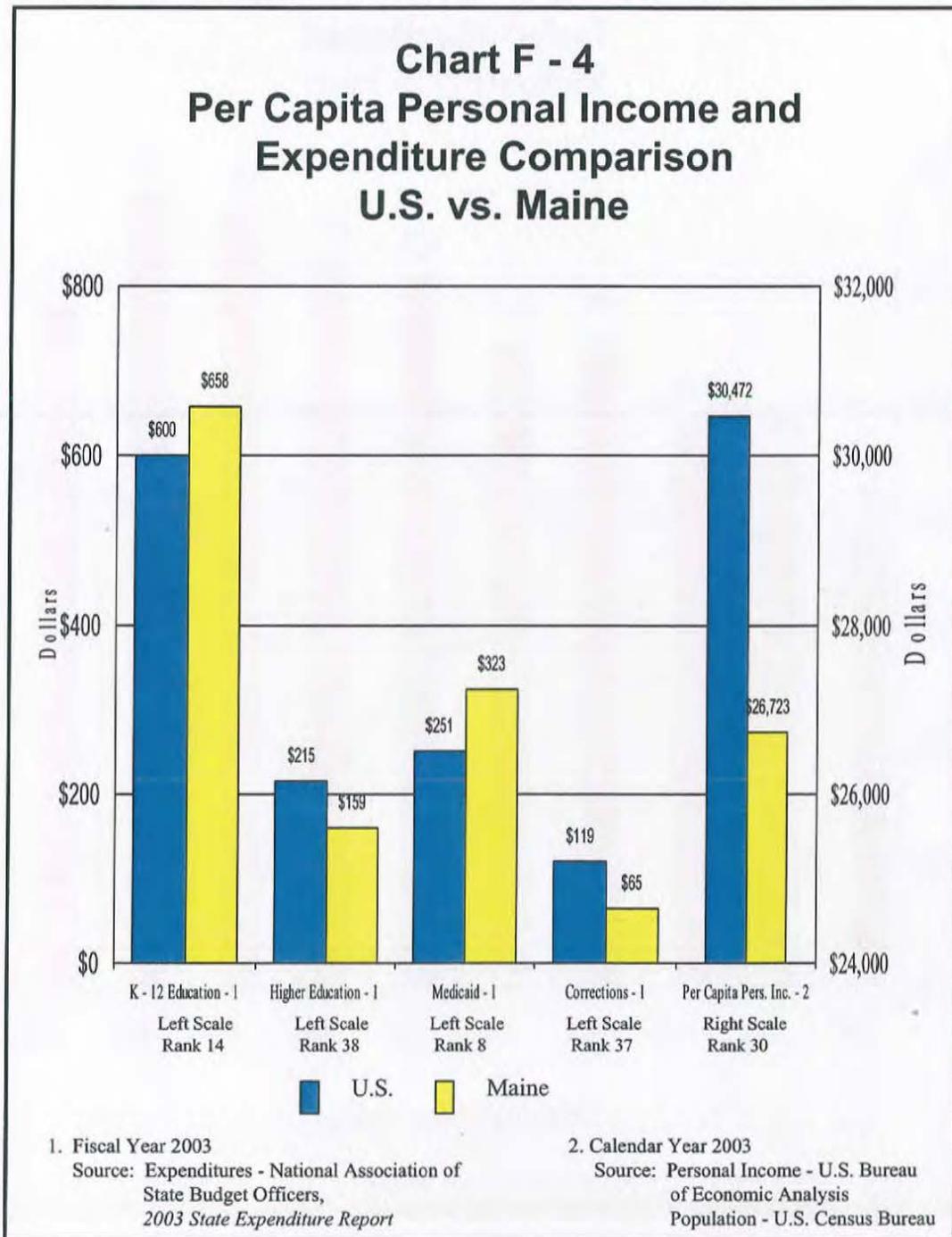
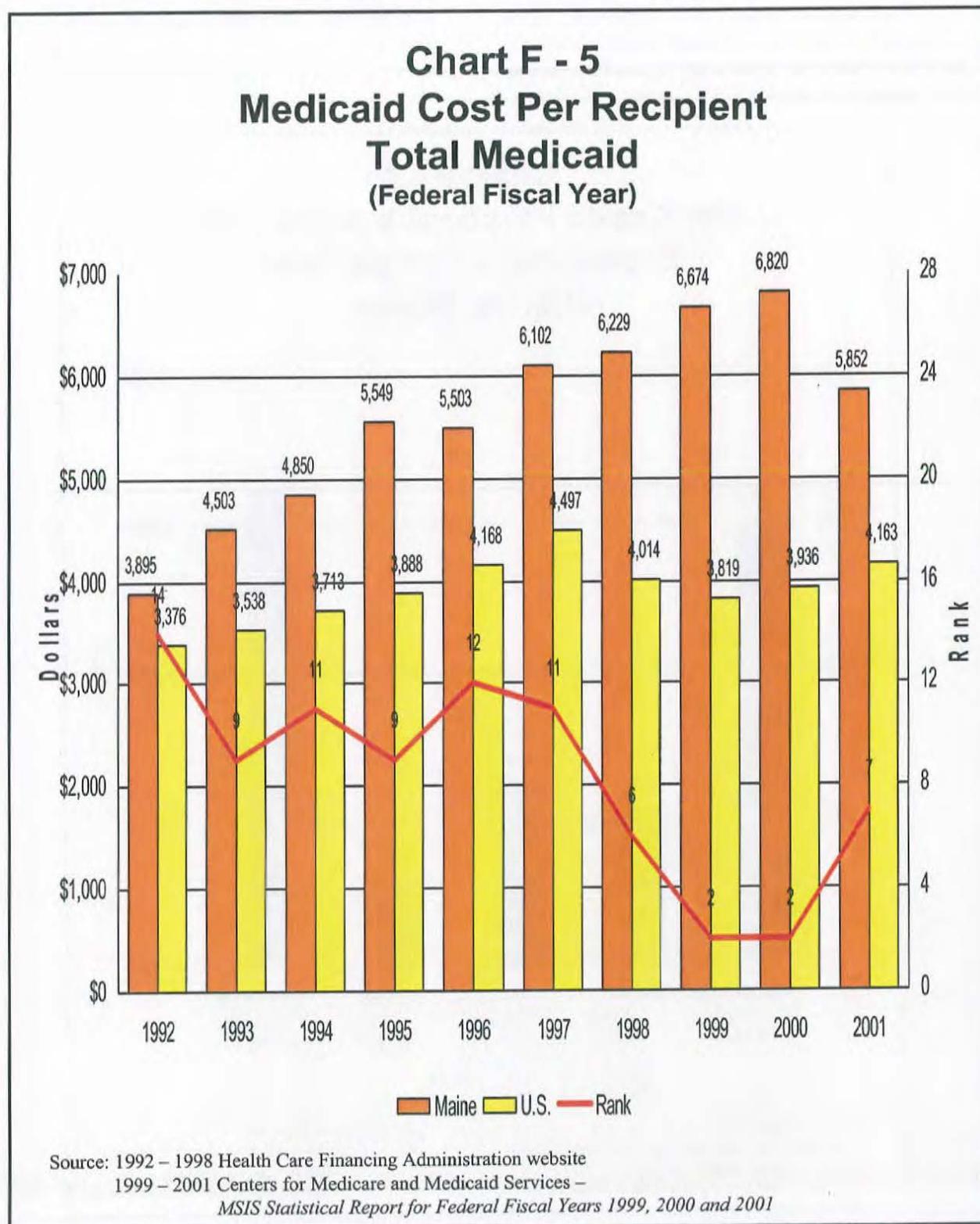


Chart F - 5 compares the State of Maine to the U.S. with respect to Maine's rank nationally on a cost per recipient basis for Medicaid. In 2001, the State of Maine ranked 7th on a cost per recipient basis for

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 1992 through 2001.



Highway Fund

Department and agency current services expenditure requests for the FY 06-07 biennium were consistent with those projected in the September 30, 2004 budget forecast. The decrease in the projected **Structural Budget Gap** from \$44.6 million as reflected in the budget forecast to \$23.5

million is primarily associated with the December, 2004 reprojection of Highway Fund revenues for the FY 06-07 biennium by the Revenue Forecasting Committee. **Table F - 2** shows the change in the Highway Fund **Structural Budget Gap** from the original forecast as a result of the reprojection.

Table F - 2

HIGHWAY FUND BALANCE			
Reflects Department Current Services Requests and December, 2004 Revenue Reprojection			
	FY 06	FY 07	BIENNIUM
BUDGETED BALANCE	2,078,238		2,078,238
BASE REVENUES	320,400,705	329,306,886	649,707,591
12/2004 REPROJECTION	10,026,476	10,903,345	20,929,821
TOTAL PROJECTED RESOURCES	332,505,419	340,210,231	672,715,650
PROJECTED CURRENT SERVICES EXPENDITURES	343,663,658	352,571,688	696,235,346
PROJECTED BALANCE	(11,158,239)	(23,519,696)	(23,519,696)
DEPARTMENT/AGENCY REQUESTS OVER FORECAST	-	-	
PROJECTED BALANCE	(11,158,239)	(23,519,696)	(23,519,696)

Note: The FY 06-07 biennium does not project salary adjustments from future collective bargaining agreements beyond June 30, 2004.

Highway Fund

2004 repositioning of Highway Fund revenues for the FY 06-07 budget is the Revenue Forecasting Committee. Table F - 3 shows the change in the Highway Fund Structural Budget Gap from the original forecast as a result of the repositioning.

Department and agency current revenue expectations for the FY 06-07 budget were consistent with those presented in the 2004 budget forecast. The decrease in the projected Structural Budget Gap from \$44.5 million as reflected in the budget forecast to \$33.2

Table F - 3

HIGHWAY FUND STRUCTURAL BUDGET GAP			
(\$ MILLIONS)			
Category	Original Forecast	Revised Forecast	Change
Operating			
Capital			
Debt Service			
Other			
Total			

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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.

What is our public purpose?

How are we going to accomplish it?

How do we know if we’re successful?

	Strategic Plan Elements	Definitions	Examples
	Statutes/Enabling Legislation	Legislated public purpose, legislated activities	DHHS
	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.
	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.
	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

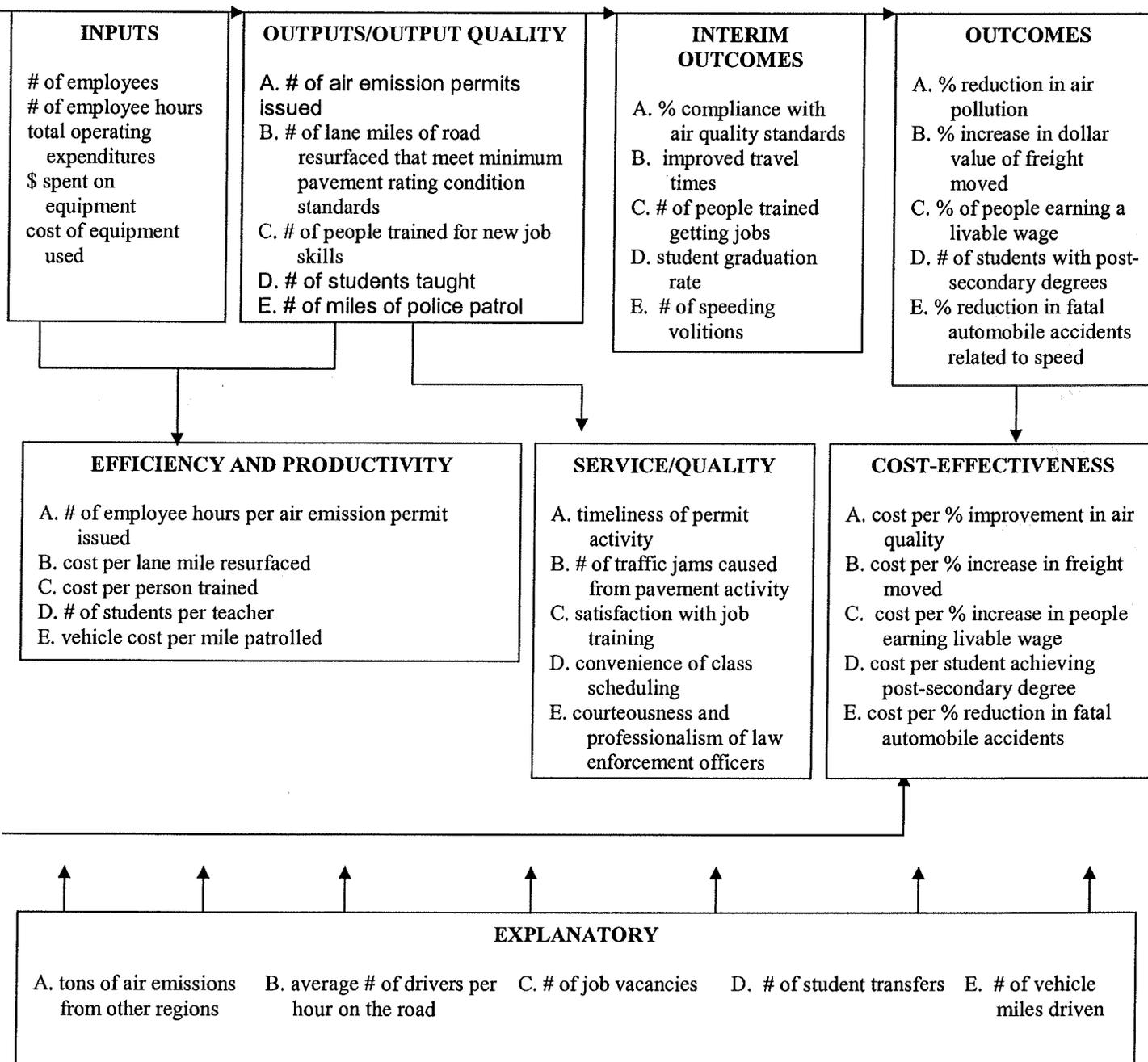
Explanatory Measure: A measurement of factors related to the service being provided that may affect the reported performance.

- 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*

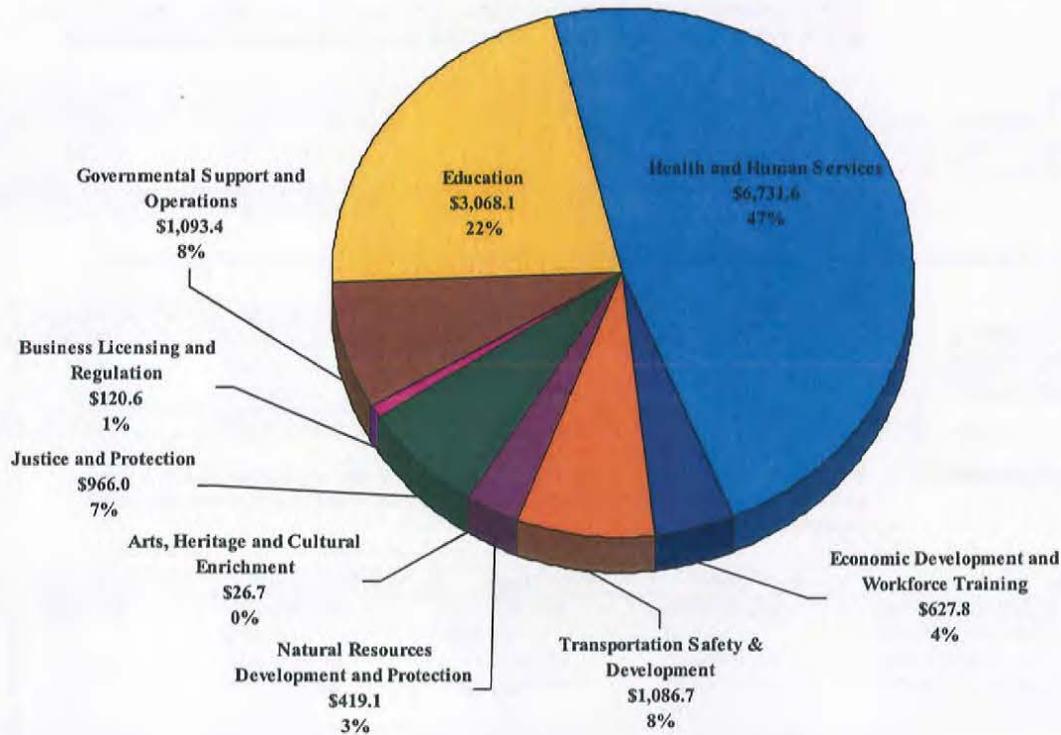
Organization-Wide Policy Areas and Goals

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 06-07 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 06-07 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 06/07 Recommended Appropriations/Allocations by
Policy Area
All Funds
\$14,140.0



All Dollars in Millions

TABLE H - 1 ORGANIZATION-WIDE POLICY AREAS

Governmental Support and Operations 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.

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$216,064,891	\$220,833,440	\$234,303,582	\$231,165,319
HIGHWAY FUND	31,145,353	31,784,788	31,042,353	31,276,788
FEDERAL EXPENDITURES FUND	6,922,508	7,024,982	6,732,008	6,105,482
OTHER SPECIAL REVENUE FUNDS	147,448,056	149,543,523	147,016,556	148,221,023
INTERNAL SERVICE FUNDS	123,522,530	123,077,517	123,522,530	123,077,517
ENTERPRISE FUNDS	5,110,908	5,189,039	5,110,908	5,189,039
TRUST FUNDS	293,402	295,617	293,402	295,617
Total	\$530,507,648	\$537,748,906	\$548,021,339	\$545,330,785

Economic Development and Workforce 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.

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$41,207,635	\$41,331,488	\$41,207,635	\$41,331,488
FEDERAL EXPENDITURES FUND	129,647,499	132,703,373	129,647,499	132,703,373
OTHER SPECIAL REVENUE FUNDS	30,991,284	33,244,038	23,491,284	25,744,038
TRUST FUNDS	116,852,880	116,852,880	116,852,880	116,852,880
Total	\$318,699,298	\$324,131,779	\$311,199,298	\$316,631,779

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.

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$1,237,238,011	\$1,264,475,672	\$1,310,180,990	\$1,382,214,998
FEDERAL EXPENDITURES FUND	178,838,604	187,365,203	178,838,604	187,365,203
OTHER SPECIAL REVENUE FUNDS	4,297,372	5,218,869	4,297,372	5,218,869
Total	\$1,420,373,987	\$1,457,059,744	\$1,493,316,966	\$1,574,799,070

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

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$8,866,289	\$9,001,110	\$8,924,970	\$9,068,100
FEDERAL EXPENDITURES FUND	3,013,187	3,111,713	3,013,187	3,111,713
OTHER SPECIAL REVENUE FUNDS	1,285,151	1,318,011	1,285,151	1,318,011
Total	\$13,164,627	\$13,430,834	\$13,223,308	\$13,497,824

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

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$70,809,486	\$71,484,724	\$70,987,991	\$71,629,421
HIGHWAY FUND	36,578	36,749	36,578	36,749
FEDERAL EXPENDITURES FUND	35,396,600	36,699,785	35,396,600	36,699,785
OTHER SPECIAL REVENUE FUNDS	90,934,473	111,688,599	90,934,473	111,688,599
ENTERPRISE FUNDS	816,628	849,344	816,628	849,344
Total	\$197,993,765	\$220,759,201	\$198,172,270	\$220,903,898

TABLE H - 1 ORGANIZATION-WIDE POLICY AREAS

Health and Human Services

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

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$882,828,125	\$905,599,590	\$899,217,954	\$927,112,323
FEDERAL EXPENDITURES FUND	1,883,355,743	1,962,092,359	1,883,355,743	1,962,092,359
OTHER SPECIAL REVENUE FUNDS	410,743,762	434,547,311	410,743,762	434,547,311
CAPITAL PROJECTS FUND	2,400,000	2,400,000	2,400,000	2,400,000
ENTERPRISE FUNDS	75,883,166	133,874,597	75,883,166	133,874,597
Total	\$3,255,210,796	\$3,438,513,857	\$3,271,600,625	\$3,460,026,590

Justice and Protection

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

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$225,327,666	\$232,152,850	\$236,163,081	\$246,990,789
HIGHWAY FUND	37,827,676	39,496,589	37,827,676	39,496,589
FEDERAL EXPENDITURES FUND	114,266,685	105,452,239	114,266,685	105,452,239
OTHER SPECIAL REVENUE FUNDS	29,487,209	31,689,792	29,487,209	31,689,792
ENTERPRISE FUNDS	61,911,839	62,706,517	61,911,839	62,706,517
Total	\$468,821,075	\$471,497,987	\$479,656,490	\$486,335,926

Business Licensing and Regulation

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

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
FEDERAL EXPENDITURES FUND	\$675,166	\$693,914	\$675,166	\$693,914
OTHER SPECIAL REVENUE FUNDS	58,278,764	60,960,897	58,278,764	60,960,897
Total	\$58,953,930	\$61,654,811	\$58,953,930	\$61,654,811

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

<u>Funding</u>	<u>FY 06 Dept</u>	<u>FY 07 Dept</u>	<u>FY 06 Budget</u>	<u>FY 07 Budget</u>
GENERAL FUND	\$3,680,938	\$3,775,906	\$4,392,557	\$4,585,460
HIGHWAY FUND	267,128,771	268,497,397	267,128,771	268,497,397
FEDERAL EXPENDITURES FUND	194,676,003	204,686,832	194,676,003	204,686,832
OTHER SPECIAL REVENUE FUNDS	34,133,857	29,421,719	34,133,857	29,421,719
INTERNAL SERVICE FUNDS	31,857,619	32,517,911	31,857,619	32,517,911
ENTERPRISE FUNDS	7,315,049	7,528,960	7,315,049	7,528,960
Total	\$538,792,237	\$546,428,725	\$539,503,856	\$547,238,279

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*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 06-07 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 06-07 biennium compared to fiscal year 2004-05.

**TABLE I - 1
GENERAL FUND APPROPRIATIONS**

DEPARTMENT/AGENCY	FY 05	GOVERNOR'S BUDGET			
		FY 06	PERCENT CHANGE	FY 07	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	174,353,091	98,260,512	-43.64%	96,387,805	-1.91%
DEPARTMENT OF AGRICULTURE, FOOD AND RURAL RESOURCES	8,851,432	8,135,894	-8.08%	7,876,103	-3.19%
MAINE ARTS COMMISSION	814,603	814,603		814,603	
ATLANTIC SALMON COMMISSION	636,712	636,712		636,712	
ATLANTIC STATES MARINE FISHERIES COMMISSION	35,500	35,500		35,500	
DEPARTMENT OF THE ATTORNEY GENERAL	13,854,719	15,656,664	13.01%	16,591,869	5.97%
DEPARTMENT OF AUDIT	1,497,172	1,492,172	-0.33%	1,492,172	
BAXTER COMPENSATION AUTHORITY	6,000,000		-100.00%		
DEPARTMENT OF CONSERVATION	22,524,540	23,284,178	3.37%	23,846,496	2.42%
DEPARTMENT OF CORRECTIONS	125,970,365	136,698,404	8.52%	142,463,007	4.22%
MAINE CRIMINAL JUSTICE COMMISSION	17,048	17,048		17,048	
MAINE STATE CULTURAL AFFAIRS COUNCIL	100,000	100,000		100,000	
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT	4,786,903	5,139,792	7.37%	5,328,329	3.67%
DISABILITY RIGHTS CENTER	74,485	74,485		74,485	
DOWNEAST INSTITUTE FOR APPLIED MARINE RESEARCH	15,000		-100.00%		
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	12,026,626	11,912,509	-0.95%	11,912,509	
STATE BOARD OF EDUCATION	156,818	156,818		156,818	
DEPARTMENT OF EDUCATION	974,738,361	1,072,829,590	10.06%	1,143,423,011	6.58%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	6,381,099	6,081,099	-4.70%	6,081,099	
COMMISSION ON GOVERNMENTAL ETHICS AND ELECTION PRACTICES	166,507	159,719	-4.08%	167,621	4.95%
EXECUTIVE DEPARTMENT	5,736,302	5,789,836	0.93%	5,837,043	0.82%
FINANCE AUTHORITY OF MAINE	12,557,705	12,740,955	1.46%	12,740,955	
MAINE FIRE PROTECTION SERVICES COMMISSION	13,739	14,616	6.38%	14,616	
FOUNDATION FOR BLOOD RESEARCH	69,348	69,348		69,348	
GOVERNOR BAXTER SCHOOL FOR THE DEAF	5,757,517	5,906,061	2.58%	6,058,437	2.58%
MAINE HISTORIC PRESERVATION COMMISSION	317,420	317,420		317,420	
MAINE HISTORICAL SOCIETY	57,529	57,529		57,529	
MAINE HOSPICE COUNCIL	69,352	69,352		69,352	
MAINE STATE HOUSING AUTHORITY	460,600	460,600		460,600	
MAINE HUMAN RIGHTS COMMISSION	487,624	496,892	1.90%	554,232	11.54%
DEPARTMENT OF HEALTH AND HUMAN SERVICES (FORMERLY BDS)	263,614,777	264,953,574	0.51%	272,103,578	2.70%
DEPARTMENT OF HEALTH AND HUMAN SERVICES (FORMERLY HUMAN SVCS)	596,801,425	634,051,195	6.24%	654,795,560	3.27%
MAINE HUMANITIES COUNCIL	70,971	70,971		70,971	
MAINE INDIAN TRIBAL-STATE COMMISSION	36,081	36,081		36,081	
DEPARTMENT OF INLAND FISHERIES AND WILDLIFE	23,346,952	22,851,446	-2.12%	22,872,257	0.09%
CENTERS FOR INNOVATION	156,853	156,853		156,853	
JUDICIAL DEPARTMENT	54,019,528	57,096,240	5.70%	59,426,572	4.08%
DEPARTMENT OF LABOR	15,936,718	15,936,718		16,060,571	0.78%
LAW AND LEGISLATIVE REFERENCE LIBRARY	1,476,246	1,558,924	5.60%	1,605,851	3.01%
LEGISLATURE	22,504,145	22,803,810	1.33%	24,954,279	9.43%
MAINE STATE LIBRARY	3,529,241	3,620,295	2.58%	3,713,699	2.58%
DEPARTMENT OF MARINE RESOURCES	9,855,342	9,874,707	0.20%	10,192,799	3.22%
MAINE MARITIME ACADEMY	7,457,281	7,625,070	2.25%	7,815,697	2.50%
MAINE MUNICIPAL BOND BANK	92,463	92,463		92,463	
MAINE STATE MUSEUM	1,564,957	1,664,014	6.33%	1,713,740	2.99%
PINE TREE LEGAL ASSISTANCE	136,261	136,261		136,261	
OFFICE OF PROGRAM EVALUATION AND GOVERNMENTAL ACCOUNTABILITY	286,996	954,429	232.56%	970,762	1.71%
STATE BOARD OF PROPERTY TAX REVIEW	104,856	104,856		104,856	
MAINE PUBLIC BROADCASTING CORPORATION	2,280,138	2,280,138		2,280,138	
DEPARTMENT OF PUBLIC SAFETY	21,398,120	20,907,164	-2.29%	22,458,855	7.42%
(BRD OF TRUSTEES OF THE) ME STATE RETIREMENT SYSTEM	233,348	205,419	-11.97%	213,636	4.00%
SACO RIVER CORRIDOR COMMISSION	53,537	53,537		53,537	
DEPARTMENT OF THE SECRETARY OF STATE	3,534,581	3,688,935	4.37%	3,776,905	2.38%
ST. CROIX INTERNATIONAL WATERWAY COMMISSION	24,918	24,918		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	41,472,054	42,542,033	2.58%	43,639,617	2.58%
DEPARTMENT OF TRANSPORTATION	3,588,358	4,392,557	22.41%	4,585,460	4.39%
(OFFICE OF) TREASURER OF STATE	77,016,396	98,356,426	27.71%	94,725,845	-3.69%
BOARD OF TRUSTEES OF THE UNIVERSITY OF MAINE SYSTEM	179,971,418	181,121,418	0.64%	181,121,418	
NEW ENGLAND INTERSTATE WATER POLLUTION CONTROL COMMISSION	10,000	10,000		10,000	
TOTAL	2,709,802,078	2,805,378,760	3.52%	2,914,097,898	3.88%

Chart I - 1 shows the Governor's recommended General Fund appropriations for the FY 06-07

biennium by policy area.

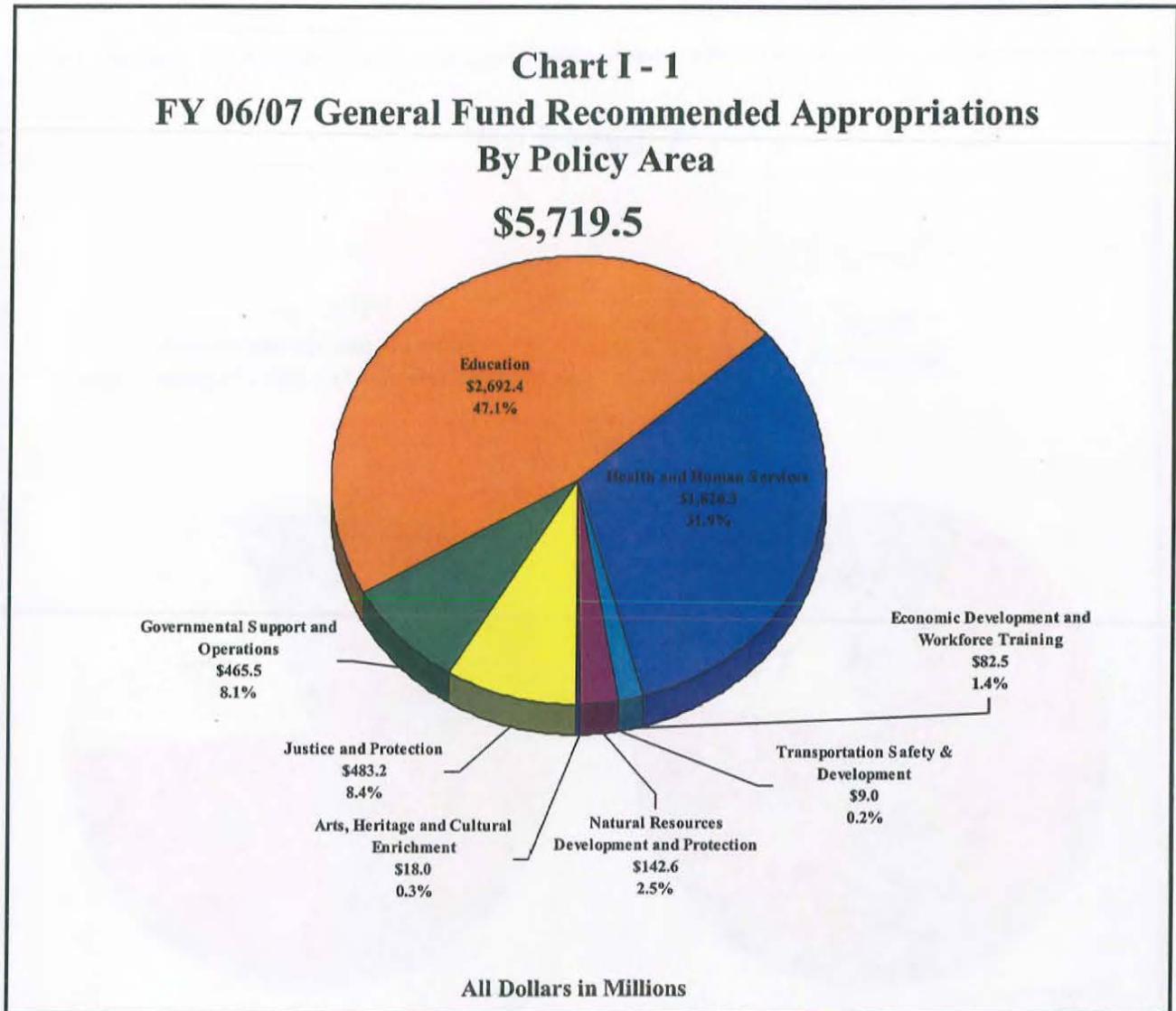
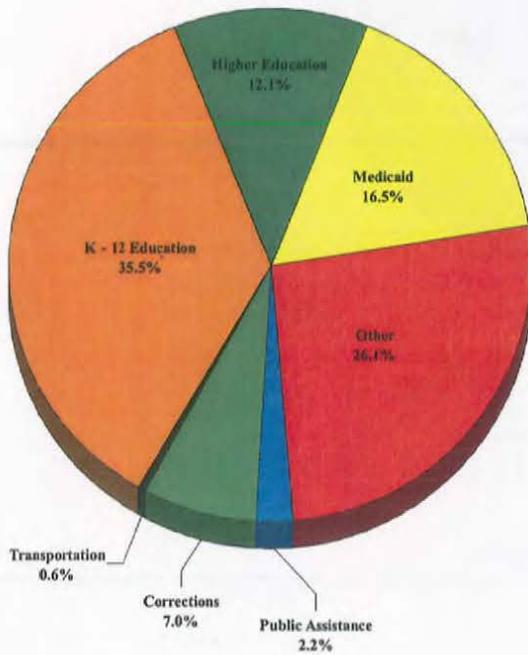


Chart I - 2 shows the Governor's recommended General Fund appropriations for the FY 06-07 biennium by selected program area. Medicaid as a percent of the General Fund would be 21.8%

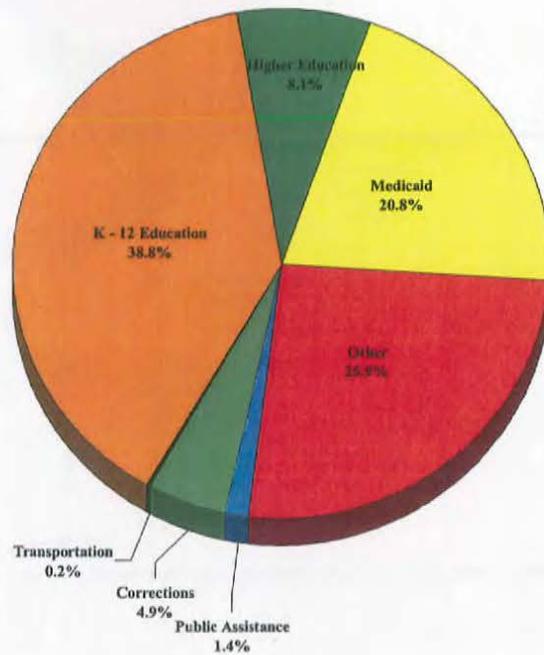
compared to an average of 16.5% for all states in FY 03.

Chart I - 2

**FY 03
All States ***



**FY 06 - 07
General Fund Recommended
Appropriations By Selected Program Areas**

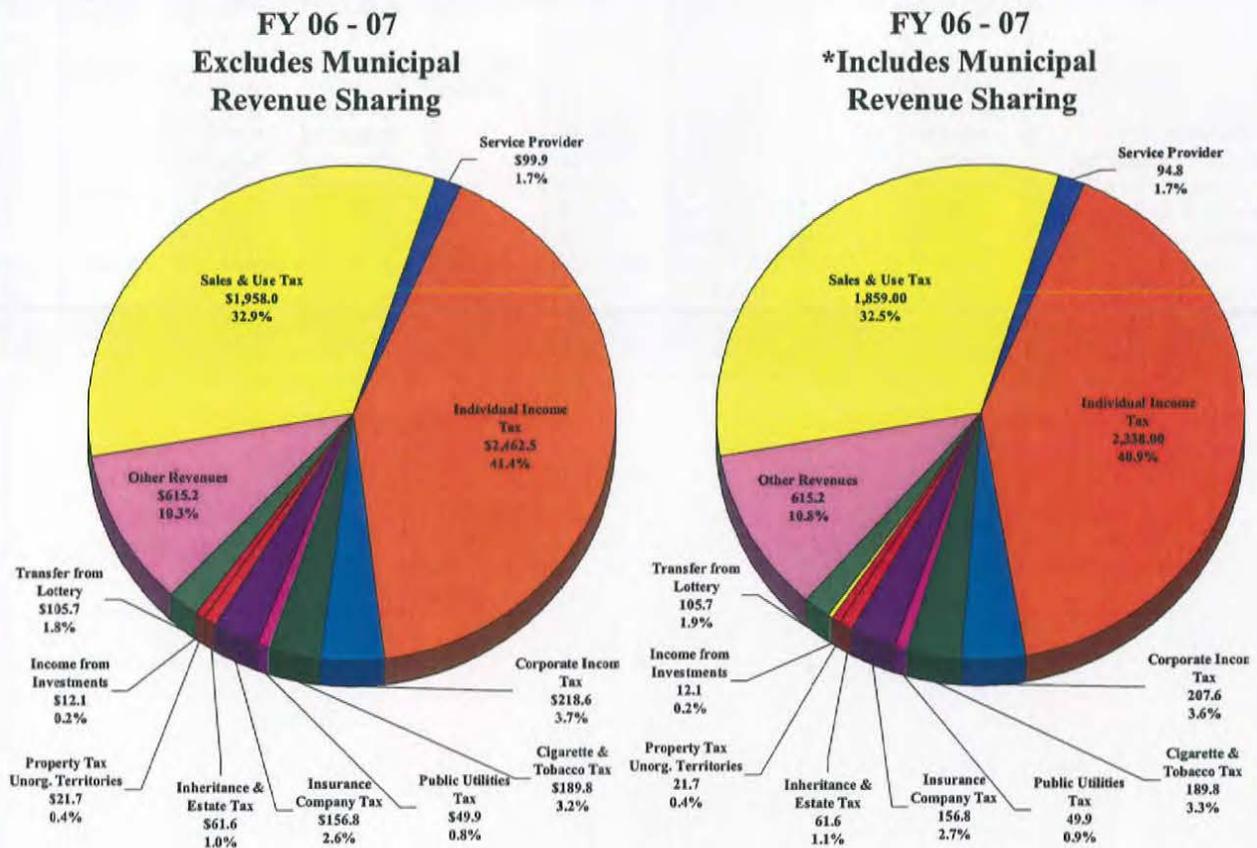


* Source: National Association of State Budget Officers, *2003 State Expenditure Report*.
These are the standard program areas for comparison used by the National Association of State Budget Officers.

Chart I - 3 shows the Governor's recommended General Fund revenues by line for the FY 06-07 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 06/07 General Fund Recommended Revenues By Source



* Sales and Use, Service Provider, Individual Income and Corporate Income tax amounts are net of approximately \$239.2 million in transfers to municipalities as indicated in MRSA Title 30-A, Section 1561.

Table I - 2 shows the General Fund revenues recommended by the Governor for fiscal year 2005-06 and fiscal year 2006-07. 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 - 3 explains the individual adjustments to base General Fund revenues.

TABLE I - 2

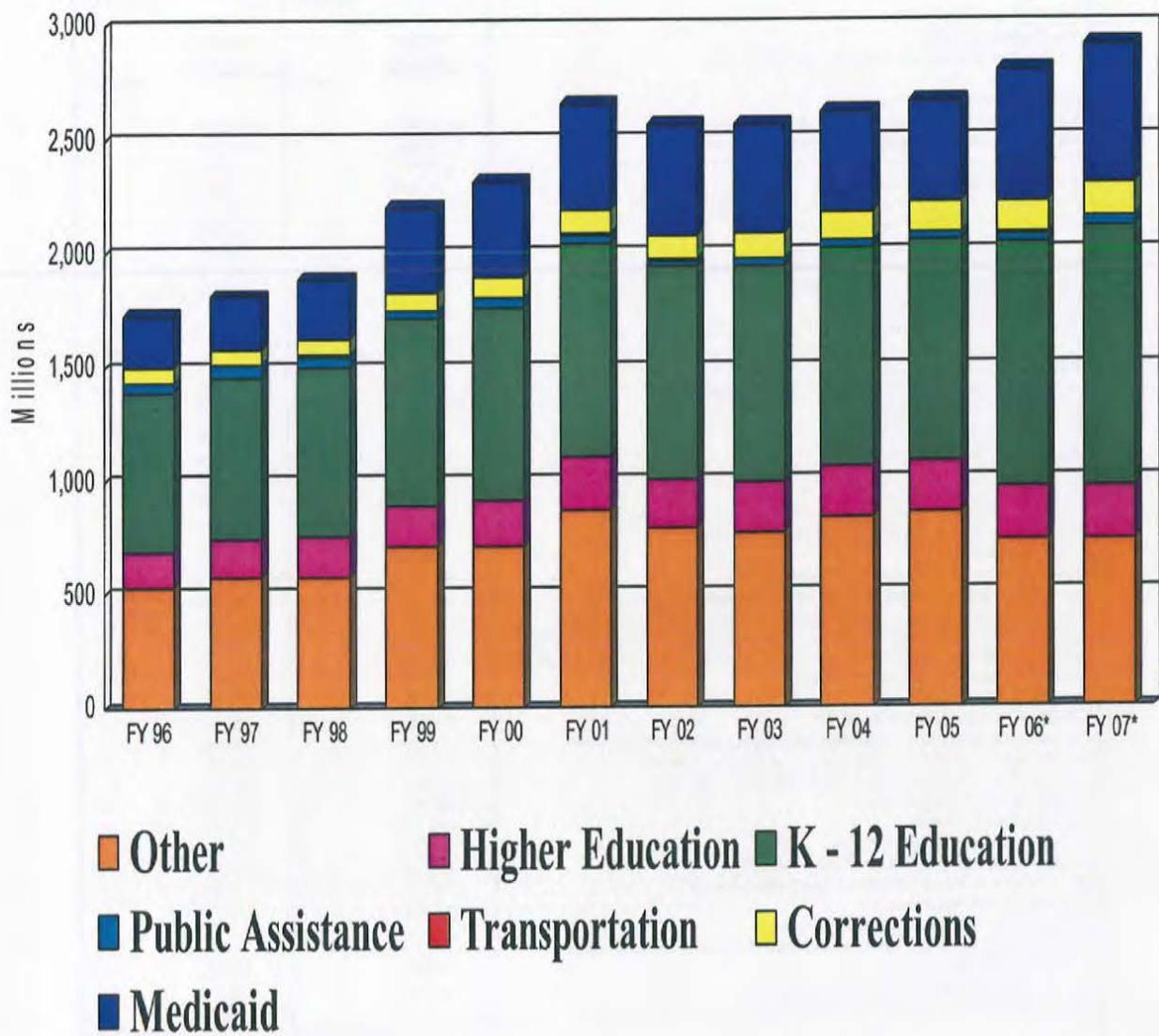
GENERAL FUND REVENUE FORECAST									
Showing Yearly Adjustments									
SOURCE	FISCAL YEAR 05			FISCAL YEAR 06			FISCAL YEAR 07		
	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET
Sales and Use Tax	914,710,000		914,710,000	954,918,500	3,558,198	958,476,698	994,344,829	5,208,350	999,553,179
Service Provider Tax	46,700,000		46,700,000	48,801,500		48,801,500	51,095,171		51,095,171
Individual Income Tax	1,220,849,053		1,220,849,053	1,275,740,000	(77,681,125)	1,198,058,875	1,334,790,000	(70,318,695)	1,264,471,305
Corporate Income Tax	123,351,604		123,351,604	113,105,057	(583,746)	112,521,311	106,783,219	(668,018)	106,115,201
Cigarette & Tobacco Tax	96,019,864		96,019,864	95,225,360		95,225,360	94,533,494		94,533,494
Public Utilities Tax	26,675,000		26,675,000	25,440,000		25,440,000	24,495,000		24,495,000
Insurance Company Tax	78,615,872		78,615,872	77,141,931		77,141,931	79,644,425		79,644,425
Inheritance & Estate Tax	29,042,767		29,042,767	30,100,403	2,800	30,103,203	31,620,061	(93,000)	31,527,061
Property Tax - Unorg. Terr.	10,580,086		10,580,086	10,690,713		10,690,713	10,982,067		10,982,067
Income from Investments	4,084,735		4,084,735	6,046,546		6,046,546	6,046,546		6,046,546
Trans. to Muni. Rev. Share	(116,324,258)		(116,324,258)	(122,892,334)	5,751,565	(117,140,769)	(127,832,161)	5,356,957	(122,475,204)
Transfer from Lottery	52,292,750		52,292,750	52,834,250		52,834,250	52,834,250		52,834,250
All Other	236,959,334	(3,067,253)	233,892,081	151,975,252	152,058,097	304,033,349	169,293,021	141,847,031	311,140,052
TOTAL REVENUE	2,723,556,807	(3,067,253)	2,720,489,554	2,719,127,178	83,105,789	2,802,232,967	2,828,629,922	81,332,625	2,909,962,547

TABLE I - 3

General Fund Recommended Revenue Adjustments Detail by Revenue Line for the FY 06-07 Biennium		
Revenue Line and Source of Adjustment	FY 06	FY 07
Sales and Use Tax		
Sales Tax - Residential Rentals	2,805,058	4,714,763
Delays Broadcasters Exemption	753,140	493,587
	3,558,198	5,208,350
Individual Income Tax		
Expansion of Circuit Breaker program requirements	(8,270,397)	(8,942,149)
Recognizes BETR as offset to Income Tax	(74,286,191)	(79,050,341)
Extends non-conformity provisions of student loan interest payments	202,207	515,627
Extends child care credit rate reduction	145,000	584,350
Extends non-conformity for standard deduction marriage penalty	2,904,000	8,028,000
Repeals extraterritorial income tax provisions	547,497	1,810,775
Delay Education Attainment Credit two years	1,076,759	6,735,043
	(77,681,125)	(70,318,695)
Corporate Income Tax		
Recovery period of leasehold improvement and restaurant property	(237,500)	(250,000)
Conformity to federal ship building provisions	(346,246)	(418,018)
	(583,746)	(668,018)
Inheritance and Estate Tax		
Non-Resident Estates	196,000	205,800
Estates of decedents dying on or after January 1, 2005	(193,200)	(298,800)
	2,800	(93,000)
Municipal Revenue Sharing		
Continuation of 5.1% distribution for municipal revenue sharing	2,363,314	2,458,311
Adjustment associated with BETR as offset to income tax	3,788,596	4,031,567
Extends non-conformity provisions of student loan interest payments	(10,313)	(26,297)
Extends child care credit rate reduction	(7,395)	(29,802)
Extends non-conformity for standard deduction marriage penalty	(148,104)	(409,428)
Repeals extraterritorial income tax provisions	(27,922)	(92,350)
Delay Education Attainment Credit two years	(54,915)	(343,487)
Recovery period of leasehold improvement and restaurant property	12,113	12,750
Conformity to federal ship building provisions	17,659	21,319
Sales Tax - Residential Rentals	(143,058)	(240,453)
Delays Broadcasters Exemption	(38,410)	(25,173)
	5,751,565	5,356,957
Other		
Reduction in real estate tax payments to HOME fund at MSHA	7,500,000	7,500,000
Securitization of lottery revenue	134,000,000	116,000,000
Increased seed label license fees	57,560	57,560
Increased fertilizer registration fees	1,480	1,480
Air Filter project	33,042	34,349
Egg/Poultry inspection program	25,956	26,706
Reduction in revenues associated with elimination of Advocate position	(37,652)	(37,652)
Additional park fees associated with upgrading campsites		70,000
LURC assessment	60,000	60,000
Fees associated with web-based burn permit system	800,000	800,000
Increased revenues associated with enhanced forest management	200,000	300,000
Housing of federal residents at Longcreek and collection of court-ordered fees	949,000	949,000
Housing of federal residents Adult Comm. Corr. and collection of court-ordered fees	290,000	290,000
Increase in licensing fees for home child care, child care centers and nursery schools	106,330	106,330
Increase in license fee for tobacco retailers	92,750	92,750
Increase in license fees	2,361,659	2,861,656
Change in boat registration fees - IF&W	716,762	716,762
Increase in revenue due to an accelerated collection effort of overdue fines	1,100,000	1,900,000
Increase in revenue due to revised estimate of revenues collected	1,500,000	1,500,000
Increase in number of speed details using aircraft by 60 per year	300,000	300,000
Increase fines for seat belt offense	650,704	650,704
Increase fines for assault	593,154	593,154
Increase fines for driving to endanger	43,970	43,970
Change in boat registration fees - Marine Resources	368,237	368,237
Entrance fees associated with being open 7 days per week	41,000	43,000
Increase in notary public fees	102,700	102,700
Increase in late filing penalties for non-profits	27,960	27,960
Increase in fees associated with the resignation of a clerk or registered agent	3,960	3,960
Increase in reinstatement fees	36,975	36,975
Increase in late filing penalties for businesses	132,550	132,550
Unclaimed property associated with discount cards		6,314,880
	152,058,097	141,847,031
Total Revenue Adjustments	83,105,789	81,332,625

Chart I - 4 shows the General Fund trend from fiscal year 1995-96 through the fiscal year 2004-05 and FY 06-07 biennial budget recommendations.

Chart I - 4 HISTORICAL GENERAL FUND APPROPRIATIONS BY PROGRAM AREA FY 96 - FY 05 AND FY 06 - FY 07 GOVERNOR'S RECOMMENDATIONS



*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 06-07 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 06-07 biennium compared to fiscal year 2004-05.

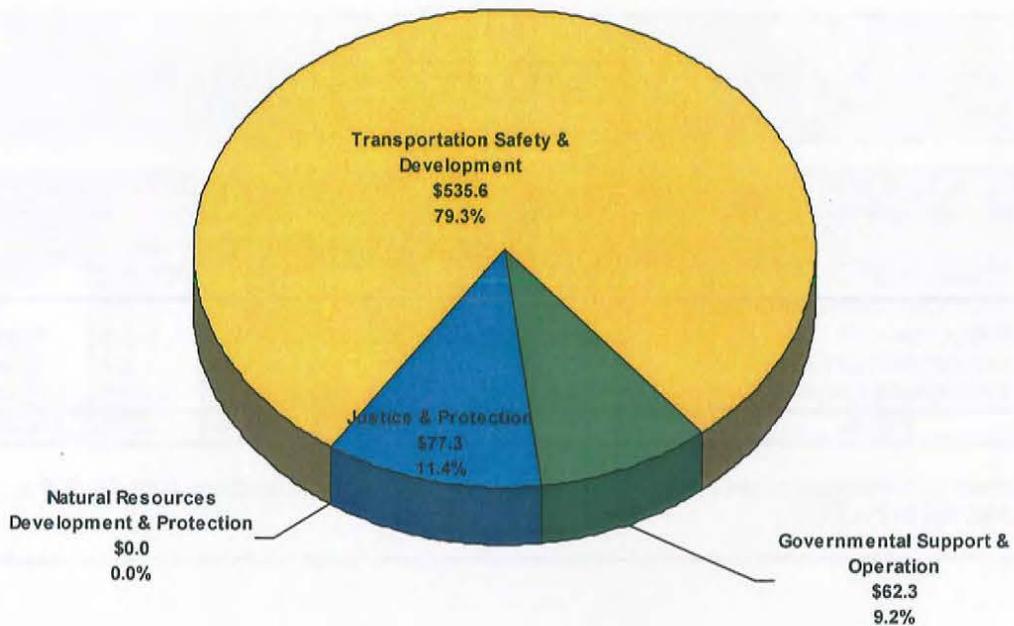
TABLE J - 1

HIGHWAY FUND ALLOCATIONS					
DEPARTMENT/AGENCY	GOVERNOR'S BUDGET				
	FY 05	FY 06	PERCENT CHANGE	FY 07	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	2,612,903	(1,660,619)	-163.55%	(2,233,124)	34.48%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	36,427	36,578	0.41%	36,749	0.47%
DEPARTMENT OF PUBLIC SAFETY	35,808,620	37,827,676	5.64%	39,496,589	4.41%
DEPARTMENT OF THE SECRETARY OF STATE	31,199,831	32,702,972	4.82%	33,509,912	2.47%
DEPARTMENT OF TRANSPORTATION	241,274,116	267,128,771	10.72%	268,497,397	0.51%
TOTAL	310,931,897	336,035,378	8.07%	339,307,523	0.97%
<p>Note: The Department of Administrative and Financial Services includes statewide deallocations of \$4,549,936 in FY 06 and \$5,183,047 in FY 07.</p>					

Chart J - 1 shows the Governor's recommended Highway Fund allocations for the FY 06-07 biennium by policy area.

Chart J - 1
FY 06/07 Highway Fund Recommended Allocations
By Policy Area

\$675.3



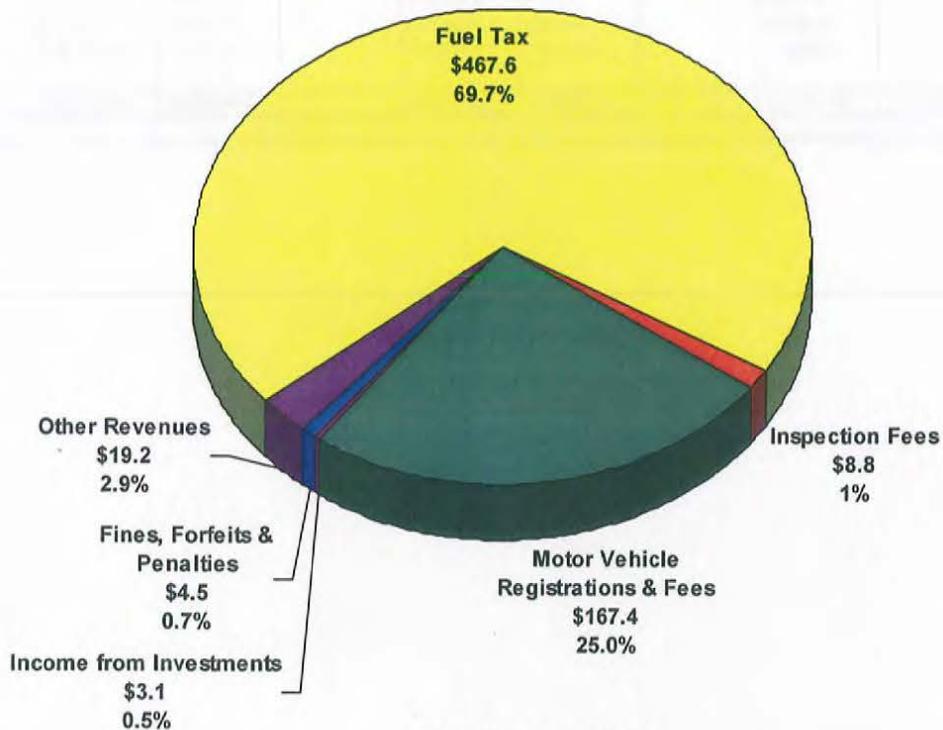
All Dollars in Millions

Chart J - 2 shows the Governor's recommended Highway Fund revenues by line for the FY 06-07 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 06/07 Highway Fund Recommended Revenues
By Source

\$670.6



All Dollars in Millions

Table J - 2 shows the Highway Fund revenues recommended by the Governor for fiscal year 2005-06 and fiscal year 2006-07. 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 05			FISCAL YEAR 06			FISCAL YEAR 07		
	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET
Fuel Tax	220,838,729		220,838,729	229,661,313		229,661,313	237,895,577		237,895,577
Motor Vehicle Registrations & Fees	78,853,234		78,853,234	83,089,158		83,089,158	84,291,317		84,291,317
Inspection Fees	4,381,459		4,381,459	4,397,970		4,397,970	4,414,756		4,414,756
Fines, Forfeits and Penalties	2,165,359		2,165,359	1,556,478		1,556,478	1,556,478		1,556,478
Income from Investments	946,385		946,385	2,248,666		2,248,666	2,293,239		2,293,239
Other Revenues	14,200,077		14,200,077	9,473,596		9,473,596	9,758,864		9,758,864
TOTAL HIGHWAY FUND REVENUES	321,385,243		319,219,884	330,427,181		330,427,181	340,210,231		340,210,231

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 06-07 Biennium		
Revenue Line and Source of Adjustment	FY 06	FY 07
Other Revenues		
>There were no adjustments to base revenues during this period.		
Total Revenue Adjustments	-	-

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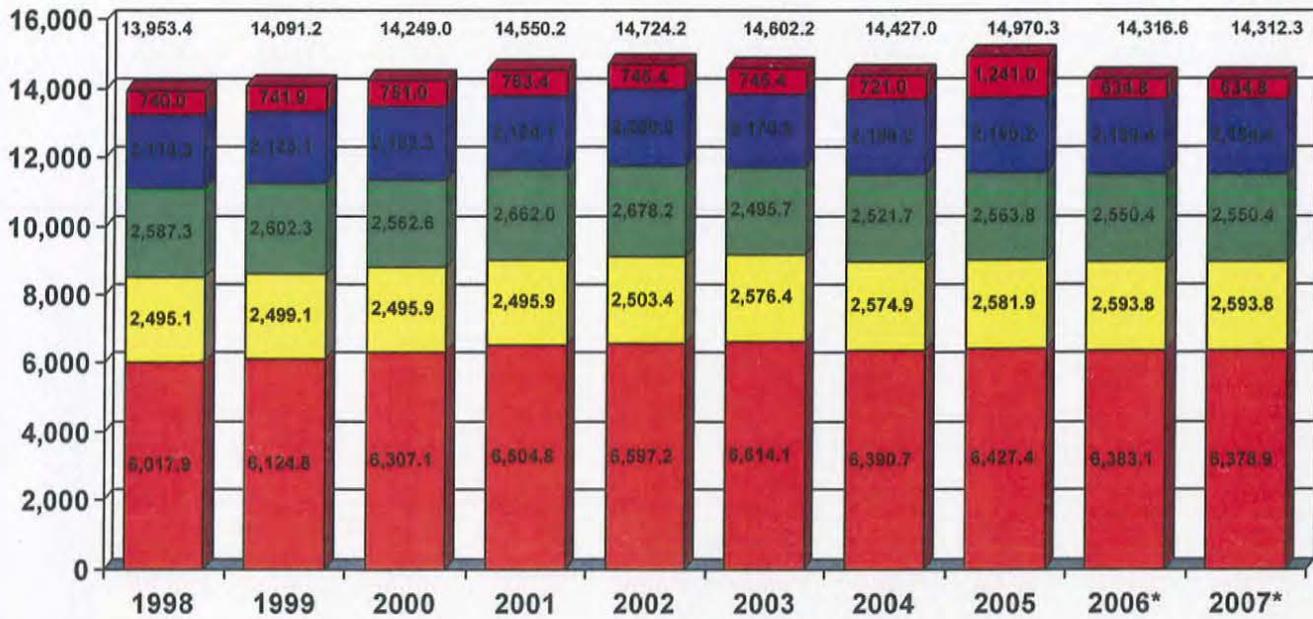
*Summary of
Governor's
Total Position
Recommendations*



SUMMARY OF GOVERNOR'S TOTAL POSITION RECOMMENDATIONS

CHART K - 1 shows position trend from fiscal year 1997-98 through the fiscal year 2004-05 and FY 06-07 biennial budget recommendations.

Chart K - 1 Authorized Positions by Fund FY 98 - FY 05 and Recommended Positions FY 06 - FY 07



■ General Fund
 ■ Highway Fund
 ■ Federal Expenditure & Block Grant Funds
 ■ Other Special Revenue Funds
 ■ Other Funds

Positions rounded to tenths

* Governor's Recommended Budget