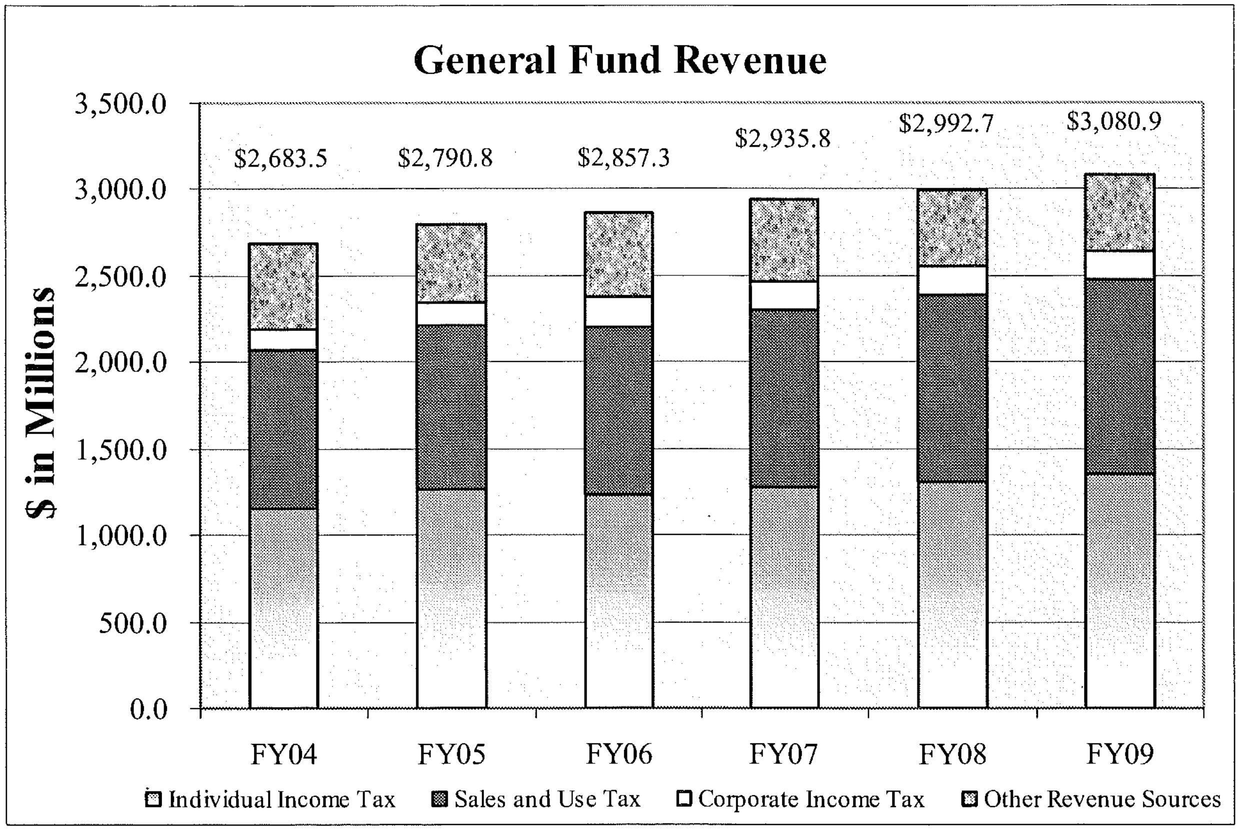
REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

March 2006



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Report of the Maine State Revenue Forecasting Committee
March 2006 Forecast

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I. INTRODUCTION AND BACKGROUND TO REVENUE FORECAST

This report represents the conclusion to the winter forecast update for the March 1st statutory reporting deadline of the Revenue Forecasting Committee (RFC). A description of the revenue forecasting process is provided in Appendix F. This report and appendices provide a description of all the key elements of the General Fund and Highway Fund revenue forecasts. In addition to the statutorily required updates of General Fund and Highway Fund, the RFC has recently included forecasts of revenue accruing to the Fund for a Healthy Maine and the dedicated revenue from the Medicaid/MaineCare provider taxes. This updated forecast revises the forecast that was updated in December 2005 and incorporates all enacted legislative changes affecting revenue during the 122nd Legislature to date. The forecast also incorporates the recently revised economic forecast presented by the Consensus Economic Forecasting Commission (CEFC) for its February 1st reporting deadline. The revenue forecasts in this report provide projections through the fiscal year ending June 30, 2009 (FY09). The RFC met on February 23rd for an all day meeting to deliberate and discuss the recommendations of Maine Revenue Services and other revenue analyses.

A. Economic Forecast Update

The March 2006 revenue update began with the winter economic forecast in January. The Consensus Economic Forecasting Commission (CEFC) met on January 27th to review and update its forecast of November 2005, which revised the previous forecast of a year ago upward substantially after Maine avoided some potentially disastrous federal military base closure recommendations. Table I-A below summarizes the incremental change of the CEFC forecast. The full report of the CEFC is included in Appendix D.

TABLE I-A

Consensus Economic Forecasting Commission

Comparison of November 2005 and February 2006 Economic Forecasts

Calendar Years	2005	2006	2007	2008	2009
• Wage & Salary Employment (Annual Percentage Change)					
> Consensus 11/2005	0.8	0.9	0.7	0.8	0.8
> Consensus 2/2006	0.0	0.5	0.6	0.6	0.7
Difference	-0.8	-0.4	-0.1	-0.2	-0.1
• Personal Income (Annual Percentage Change)					
> Consensus 11/2005	5.5	5.5	5.0	5.0	5.0
> Consensus 2/2006	5.0	5.0	4.5	4.5	4.5
Difference	-0.5	-0.5	-0.5	-0.5	-0.5
• Consumer Price Index (Annual Percentage Change)					
> Consensus 11/2005	3.2	2.8	2.5	2.2	2.2
> Consensus 2/2006	3.4	3.0	2.8	2.8	2.8
Difference	0.2	0.2	0.3	0.6	0.6

On January 27th, the CEFC was faced with recent data releases that pointed to slower economic growth. Employment and personal income growth were both adjusted downward to reflect the latest 2005 employment estimates provided by the Maine Department of Labor, and income data through the first three quarters of 2005 from the U.S. Bureau of Labor Statistics. The CEFC raised its forecast for the U. S. Consumer Price index, citing the unexpected persistence of high oil prices, the federal deficit and employment growth at the national level.

B. Capital Gains Forecast

A major variable that is not included in the economic forecast is a projection of net capital gains. Maine's exceptional capital gains growth during the stock market "bubble" of the late 1990's (in excess of 20% annual increases for 5 consecutive years through tax year 2000) came to an abrupt end in tax year 2001, plummeting 54.3%, resulting in a very unpleasant April surprise in 2002. In tax year 2004, Maine received an opposite surprise in April 2005. It is estimated that net capital gains realizations increased by nearly 50% that year, whereas the RFC had assumed they would grow by only 5.5%.

TABLE I-B
Maine Resident - Net Capital Gains

Tax Year	Capital Gains Realizations ($ Millions)	Capital Gains Realizations Annual % Change	Capital Gains Tax Liability ($ Millions)	Capital Gains Tax Liability Annual % Change	Capital Gains % of Resident Tax Liability
1995	$551.7		$38.3		6.2%
1996	$799.7	45.0%	$57.3	49.6%	8.4%
1997	$1,218.7	52.4%	$104.5	82.4%	13.6%
1998	$1,551.0	27.3%	$120.0	14.8%	13.9%
1999	$1,867.2	20.4%	$141.7	18.1%	15.5%
2000	$2,360.4	26.4%	$179.6	26.7%	17.3%
2001	$1,079.3	-54.3%	$74.1	-58.7%	7.6%
2002	$908.8	-15.8%	$59.1	-20.3%	6.1%
2003	$1,066.2	17.3%	$69.5	17.6%	6.8%
2004*	$1,593.2	49.4%	$110.1	58.4%	9.9%
2005*	$1,593.2	0.0%	$108.4	-1.5%	9.4%
2006*	$1,553.4	-2.5%	$104.7	-3.4%	8.7%
2007*	$1,485.0	-4.4%	$99.5	-5.0%	8.0%
2008*	$1,398.9	-5.8%	$92.4	-7.1%	7.2%
2009*	$1,301.0	-7.0%	$83.8	-9.3%	6.3%

** Represent Projections*

The RFC and Maine Revenue Services, like their counterparts in other states and the federal government, have had much difficulty trying to accurately forecast this variable. Maine data is not captured at the state level and may only be accessed through federal tax data. That information is shared with Maine Revenue Services, but it lags by as much as 2 years. Since November 1999, Maine Revenue Services has been required to provide a report on the net capital gains and losses realized by taxpayers filing Maine individual income tax returns. That report is provided to the Legislature through the RFC and is typically included in the RFC's December report. That report (see Appendix E) is included in this report as a result of a delay in Maine's processing of the federal tax data that prohibited including it in the December 2005 report.

Table I-B on page 2 summarizes the current assumptions. The differences from the assumptions included in the December 2005 report are:

- 2003 data have been updated to actual with the most recent federal data;
- 2004 projections (note they are still projections due to filing extensions that will change the data) have been reduced as a result of preliminary data from the IRS; and
- 2005 projections have been lowered from 5.5% annual growth to no growth as one explanation for the small increase in the final payment.

The effect of these changes of assumptions is to lower the percentage of resident tax liability from capital gains each year from tax year 2005 to 2009 (see far right column in Table I-B). This change brings this percentage much closer to the longer term trend, which was the goal of the Revenue Forecasting Committee in its December 2005 forecast. The approach that the RFC used for the December 2005 forecast and this forecast was to adjust this variable so that over the course of the forecast period, the percentage of resident tax liability returns to a longer-term average, factoring out the recent "tech bubble." With the bursting of the "bubble," the extent of the Maine resident individual income tax liability derived from net capital gains had dropped down from its peak in 2000 of 17.5% to a level more in line with historical patterns before the "bubble," in the range of 6% to 7% of tax liability. This resulted in a decrease in net capital gains realizations each year of the forecast.

It is this variable that introduces the greatest risk in the revenue forecast. The other aspect of capital gains realizations that makes it difficult, particularly in Maine, is the fact that these gains are very discretionary and concentrated in the top 4%, or 25,000, of Maine's individual income tax filers. That top 4% accounts for approximately 40% of total individual income tax liability. The RFC again struggled with this vexing variable in this forecast.

C. Corporate Profits

A major variable of the tax models that drives the corporate income tax forecast is corporate profitability. Again, this forecast is not part of the CEFC economic forecast. The RFC used the forecast used by the federal government of before-tax corporate profits. That national forecast calls for 35% growth in calendar year 2005 and relatively flat growth thereafter. Maine is insulated from significant regional variances in corporate profitability as a result of Maine's method of corporate income taxation. For national companies operating in Maine, the amount of corporate income tax due to Maine is calculated by apportioning total profits earned in the continental United States by the amount of business that they conduct in Maine based on sales, payroll and property.

D. Oil Prices

The recent experience in Maine's sales tax collections seemed to demonstrate a substantial effect from variations in oil prices. Sales tax collections dropped below budgeted projections at about the same time as the heating oil season began in the fall of 2004. With the recent tax model updates, Maine Revenue Services has added this variable to the sales and excise tax model so that the model might better capture the effect that oil and fuel price changes have on taxable sales and fuel purchases. Again, relying on Global Insights' November 2005 US economic forecast, the RFC used the assumption that oil prices, which are currently in the $60 per barrel range would fall to approximately $45 per barrel by calendar year 2008. This is consistent with the assumptions of the CEFC.

E. Legislative Changes

The RFC bases the revenue forecast on current law. The December 2005 forecast included all legislative changes through the 122nd Legislature's 2nd Special Session. This forecast does not include the effect of any legislative changes pending in the 122nd Legislature's 2nd Regular Session.

II. OVERVIEW OF REVENUE PROJECTIONS

This section provides a summary of the revenue projections in this forecast. These summaries are supplemented by additional detail in the 3 appendices, which provide summaries of the major categories in each of the funds that have been modified in this forecast. In addition, Appendix G contains the materials presented by Maine Revenue Services on February 23, 2006 to support the forecast recommendations.

A. General Fund

For the General Fund, this forecast results in a partial reversal of the substantial upward revision of the December 2005 forecast. Over the 2006-2007 biennium, this reversal driven by the downward revision to the economic forecast reduces the General Fund revenue by $14.8 million, approximately 9% of the $164.4 million increase recommended by the December 2005 revenue forecast. The downward impact of the economic forecast change on the Individual Income Tax and Sales Tax revenue lines was dampened in the short term by the recognition of positive variances in several revenue sources not as directly tied to the economic forecast, largely the Corporate Income Tax, Estate Tax and the Cigarette Tax lines. In fact, the revenue forecast for FY06 is actually increased in this forecast by $1.4 million. The impact of the February 2006 economic forecast on the Sales Tax line was lessened by the addition of a fuel price variable in the model for the December 2005 forecast. At that time, the committee reduced the revenue estimate for Sales Tax despite a substantial increase in the Personal Income growth assumptions of the November 2005 economic forecast. The downward economic forecast revision that was more pessimistic for each year of the forecast period had a compounding effect on the revenue forecast in future fiscal years. Without the offsets of the FY06 positive variances, the downward revisions grow worse each year. For the 2008-2009 biennium, the downward revisions total $53.0 million, increasing the 2008-2009 structural gap. Table A below provides a summary of the changes for each of the major revenue categories (additional detail of the General Fund changes is provided in Appendix A).

Table II-A General Fund Summary

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$2,790,845,053	$2,855,420,638	$2,952,015,876	$3,015,653,150	$3,110,929,801
Annual % Growth		2.3%	3.4%	2.2%	3.2%
Net Increase (Decrease)		$1,889,771	($16,173,721)	($22,940,461)	($30,066,929)
Revised Forecast	$2,790,845,053	$2,856,810,409	$2,935,842,155	$2,992,712,689	$3,080,862,872
Annual % Growth		2.4%	2.8%	1.9%	2.9%
Summary of Revenue Revisions by Major Revenue Category					
Sales and Use Tax		($3,060,000)	($5,120,000)	($4,270,000)	($4,940,000)
Individual Income Tax		($10,990,000)	($15,350,000)	($19,530,000)	($27,760,000)
Corporate Income Tax		$9,930,000	$8,850,000	$6,970,000	$8,030,000
Cigarette and Tobacco Tax		$4,500,000	$0	$0	$0
Insurance Companies Tax		($5,000,000)	$0	$0	$0
Estate Tax		$6,019,529	$0	$0	$0
Income from Investments		$2,277,520	$385,512	$1,341,762	$1,341,762
Transfer to Municipal Rev. Sharing		$210,120	$592,620	$875,160	$1,282,840
Other Revenue		($1,997,398)	($5,531,853)	($8,327,383)	($8,021,531)
Total General Fund Revisions		$1,889,771	($16,173,721)	($22,940,461)	($30,066,929)

B. Highway Fund

For the Highway Fund, this forecast decreases the 2006-2007 biennium's budgeted revenue by $5.1 million. In FY06, the committee reversed $3.0 million of a $3.6 million gas tax audit assessment that was recognized in the December 2005 forecast. The forecast also recognizes the effect on the Highway Fund investment earnings of cash balances that have been drained by the budget problems in the Department of Transportation's capital program. Unlike the General Fund, the Highway Fund revenue downward revisions do not worsen over the long run as the higher inflation assumptions of the current economic forecast offset the lower economic growth assumptions as a result of the indexing of fuel tax rates to inflation. The downward revenue revisions for the 2008-2009 biennium total $0.1 million, with the FY09 revenue revision being positive.

Table II-B Highway Fund Summary

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$326,078,155	$335,352,879	$340,999,732	$346,517,898	$353,462,015
Annual % Growth		2.8%	1.7%	1.6%	2.0%
Net Increase (Decrease)		($4,445,720)	($615,999)	($273,751)	$169,747
Revised Forecast	$326,078,155	$330,907,159	$340,383,733	$346,244,147	$353,631,762
Annual % Growth		1.5%	2.9%	1.7%	2.1%
Summary of Revenue Revisions by Major Revenue Category					
Fuel Taxes		($4,145,720)	($165,999)	$176,249	$619,747
Income from Investments		($300,000)	($450,000)	($450,000)	($450,000)
Total Highway Fund Revisions		($4,445,720)	($615,999)	($273,751)	$169,747

C. Fund for a Healthy Maine (FHM)

The Fund for a Healthy Maine (FHM) was revised significantly downward for the 2006-2007 biennium by the December 2005 revenue forecast, based on an assumed delay in the receipt of tobacco settlement payments pending the outcome of "significant factor proceedings" under the Master Settlement Agreement. There has been no change in that assumption in this forecast. This forecast once again adversely affects the FHM as a result of updated assumptions related to the "Racino" in Bangor. With 3 months of actual revenue data, the committee revised a central assumption about the player payback percentage. That percentage was substantially higher than the 89% required by law and assumed as part of the previous forecast. As a result, the FHM revenue forecast for the 2006-2007 biennium is reduced by an additional $1.1 million. With an additional 6-month delay in the assumed opening of the permanent facility compounding the reduction from the change in the payback percentage the downward reduction for the 2008-2009 biennium is $5.2 million, the impact of these assumptions on the General Fund revenue forecast was offset in the short-term by an increased forecast of the General Fund's 1% share of the total adjusted slot machine income ("coin-in").

Table II-C Fund for a Healthy Maine (FHM) Summary

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$49,124,793	$43,353,622	$44,409,679	$76,504,714	$78,434,308
Annual % Growth		-11.7%	2.4%	72.3%	2.5%
Net Increase (Decrease)		($335,591)	($720,395)	($2,643,362)	($2,589,850)
Revised Forecast	$49,124,793	$43,018,031	$43,689,284	$73,861,352	$75,844,458
Annual % Growth		-12.4%	1.6%	69.1%	2.7%
Summary of Revenue Revisions by Major Revenue Category					
Racino Revenue		($335,591)	($720,395)	($2,643,362)	($2,589,850)
Total FHM Revisions		($335,591)	($720,395)	($2,643,362)	($2,589,850)

D. MaineCare Dedicated Revenue Taxes

Because of their significant interrelationship with the General Fund budget, the RFC has recently been including a forecast of revenue from the MaineCare dedicated revenue taxes. Those estimates are not being revised in this report, leaving the December 2005 forecast unchanged.

III. CONCLUSIONS

Revenue Change Not as Substantial as Economic Forecast Normally Would Indicate. The RFC was pleasantly surprised at the modest short-term effect of a substantial downward revision in the economic forecast. Actions taken in last December's forecast to add the additional variable in the models to capture the effect of higher fuel prices on consumer spending depressed the estimates of the Sales Tax line last December despite an economic forecast that would normally have driven the estimate of that line substantially upward. The Corporate Income Tax line, which is insulated from significant regional differences, offset the Individual Income Tax reductions. Estate Tax collections have been a pleasant surprise each month this fiscal year as many unusually large estate tax payments have produced positive variances. With the exception of the December and January estimated tax payments, the major lines had, at least in the short-term, been very close to budget under the more optimistic November 2005 economic forecast.

Reversing Revenue Increases Associated With Legislative Changes

In both the December 2005 revenue forecast and this revenue forecast, the RFC found that it had to reverse many revenue increases that were associated with recent legislative changes. The Office of Fiscal and Program Review (OFPR) scores revenue increases associated with legislative changes through the fiscal note process, which works integrally with the revenue forecasting process. OFPR, which has 2 staff members serving on the RFC, noted the unusually large number of these reversals recently. Judicial Fine Revenue estimates from unpaid fines, Correctional Fee revenue, Conservation revenue from park operations changes and revenue from on-line burn permits are some examples of agency revenue increases that were not realized. OFPR will increase its scrutiny of proposed revenue estimates associated with legislation to minimize the number of reversals.

Capital Gains Still Present Substantial Risk

Although the RFC forecast for net capital gains projects significant improvement over the previous forecast, the RFC remains cautious about the unpredictable nature of income from this revenue source. The significant lag in historical data (Federal tax data is often not finalized until a year or more after the close of a tax year) creates great uncertainty. The RFC is assuming that the positive unexplained variance in April 2005 individual income tax was related to a 49.4% increase in net capital gains income in tax year 2004. We will not be able to verify that until late fall of 2006 when all income tax filing extensions have run their course. In Maine, the decisions of a relatively small number of taxpayers can substantially affect individual income tax revenue. The percentage of income tax liability of this higher income group has been increasing in recent years and as a result can create significant volatility in revenue from the individual income tax. In addition to the volatility related to capital gains, the very uncertain global economic and geo-political environment adds the potential for significant "shocks" to the forecast that could significantly affect revenue.

Although the RFC will be closely monitoring the economic situation, the final payments due in April provide the potential for wide swings that cannot be fully anticipated at this time. The RFC expressed caution regarding these April payments.

Appendix A - General Fund

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GENERAL FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY04 Actual	% Chg.	FY05 Actual	% Chg.	FY05 Budget	FY05 Variance	% Var.
Sales and Use Tax	817,781,460	-3.5%	836,134,084	2.2%	857,486,801	2.6%	917,243,245	7.0%	896,576,322	-2.3%	899,710,000	(3,133,678)	-0.3%
Service Provider Tax	0	N/A	0	N/A	0	N/A	0	N/A	44,645,517	N/A	44,200,000	445,517	1.0%
Individual Income Tax *	1,167,749,567	8.7%	1,069,834,791	-8.4%	1,071,701,694	0.2%	1,156,715,909	7.9%	1,270,225,329	9.8%	1,259,880,674	10,344,655	0.8%
Corporate Income Tax	96,102,796	-36.0%	77,366,103	-19.5%	91,188,393	17.9%	111,616,051	22.4%	135,862,913	21.7%	123,300,647	12,562,266	10.2%
Cigarette and Tobacco Tax	77,501,831	-1.1%	97,599,599	25.9%	98,414,470	0.8%	96,604,646	-1.8%	96,350,704	-0.3%	96,019,864	330,840	0.3%
Public Utilities Tax	29,776,778	88.6%	30,479,783	2.4%	29,285,143	-3.9%	27,991,188	-4.4%	25,403,214	-9.2%	25,300,000	103,214	0.4%
Insurance Companies Tax	43,576,501	2.1%	55,244,333	26.8%	71,078,089	28.7%	72,206,153	1.6%	75,669,053	4.8%	69,615,872	6,053,181	8.7%
Estate Tax	30,616,759	-47.9%	23,420,240	-23.5%	30,520,320	30.3%	32,075,501	5.1%	32,255,727	0.6%	31,542,767	712,960	2.3%
Prop. Tax - Unorganized Territory	9,808,431	5.1%	10,333,984	5.4%	9,930,103	-3.9%	10,709,308	7.8%	10,622,666	-0.8%	10,580,086	42,580	0.4%
Income from Investments	16,365,950	-19.4%	3,829,583	-76.6%	2,345,855	-38.7%	2,310,207	-1.5%	5,854,625	153.4%	4,896,463	958,162	19.6%
Transfer to Municipal Rev. Sharing	(106,163,291)	-0.5%	(101,150,084)	4.7%	(103,039,221)	-1.9%	(111,464,335)	-8.2%	(119,712,814)	-7.4%	(118,681,657)	(1,031,157)	-0.9%
Transfer from Lottery Commission	35,483,595	-7.0%	39,317,891	10.8%	39,442,111	0.3%	41,272,645	4.6%	49,328,102	19.5%	50,292,750	(964,648)	-1.9%
Other Revenues **	172,027,974	4.0%	189,250,254	10.0%	196,336,434	3.7%	326,259,040	66.2%	267,763,694	-17.9%	264,281,977	3,481,717	1.3%
Total - General Fund Revenue	**2,390,628,351**	**-0.2%**	**2,331,660,562**	**-2.5%**	**2,394,690,190**	**2.7%**	**2,683,539,557**	**12.1%**	**2,790,845,053**	**4.0%**	**2,760,939,443**	**29,905,610**	**1.1%**

*** Detail of Property Tax Reimbursement Programs Deducted from Individual Income Tax Revenue**													
- Maine Resident Property Tax Program									(26,030,227)	N/A	(26,127,647)	97,420	0.4%
- Business Equipment Tax Reimbursement (BETR)									0	N/A	0	0	N/A
**** Detail of Other Revenues:**													
- Real Estate Transfer Tax	9,048,762	-2.9%	9,208,923	1.8%	10,770,668	17.0%	22,196,221	106.1%	24,113,439	8.6%	23,306,346	807,093	3.5%
- Commercial Forestry Excise Tax	2,943,380	-4.4%	3,681,764	25.1%	3,172,724	-13.8%	2,907,340	-8.4%	2,890,635	-0.6%	3,005,149	(114,514)	-3.8%
- Liquor Sales and Operations	24,231,271	4.3%	25,168,524	3.9%	26,073,276	3.6%	102,182,743	291.9%	49,845,027	-51.2%	50,000,000	(154,973)	-0.3%
- Liquor Taxes and Fees	15,925,822	-0.5%	16,528,396	3.8%	17,141,878	3.7%	17,485,024	2.0%	17,432,377	-0.3%	17,431,231	1,146	0.0%
- Finance Industry Fees	9,811,430	12.5%	9,356,930	-4.6%	9,293,280	-0.7%	9,572,280	3.0%	18,641,800	94.7%	16,563,440	2,078,360	12.5%
- Corporation Fees & Licenses	3,313,312	5.9%	3,390,039	2.3%	3,482,107	2.7%	3,600,455	3.4%	5,637,743	56.6%	5,451,707	186,036	3.4%
- Hunting and Fishing License Fees	13,681,818	-2.5%	14,857,760	8.6%	13,958,510	-6.1%	16,898,278	21.1%	16,691,165	-1.2%	16,138,609	552,556	3.4%
- Boat, ATV and Snowmobile Fees	2,143,124	-3.6%	2,169,025	1.2%	2,483,836	14.5%	3,974,511	60.0%	4,148,890	4.4%	4,239,724	(90,834)	-2.1%
- Parimutuel and Gaming Revenue	1,094,337	1.2%	1,105,430	1.0%	1,086,936	-1.7%	1,036,539	-4.6%	1,362,611	31.5%	1,214,900	147,711	12.2%
- Fines, Forfeits and Penalties	26,525,142	1.4%	26,588,960	0.2%	26,991,935	1.5%	38,219,275	41.6%	35,506,972	-7.1%	35,415,714	91,258	0.3%
- Targeted Case Management (HHS)	26,098,790	30.4%	34,085,690	30.6%	33,235,104	-2.5%	34,762,095	4.6%	34,518,055	-0.7%	34,009,373	508,682	1.5%
- HHS Services Rendered	4,023,508	-17.8%	4,604,354	14.4%	4,774,087	3.7%	8,892,183	86.3%	7,210,878	-18.9%	7,359,189	(148,311)	-2.0%
- State Cost Allocation Program	6,044,287	-23.4%	10,231,443	69.3%	10,986,971	7.4%	10,438,262	-5.0%	12,891,574	23.5%	10,692,505	2,199,069	20.6%
- Unclaimed Property Transfer	2,550,000	-75.0%	7,841,073	207.5%	8,180,260	4.3%	16,763,948	104.9%	10,000,000	-40.3%	10,000,000	0	0.0%
- Education Efficiency Fund Transfer	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	0	N/A
- Tourism Transfer	0	N/A	0	N/A	0	N/A	(7,213,282)	N/A	(7,554,190)	-4.7%	(7,554,189)	(1)	0.0%
- Clean Elections Fund Transfer	(2,274,557)	9.8%	(2,248,226)	1.2%	(2,302,904)	-2.4%	(2,247,659)	2.4%	(2,232,650)	0.7%	(2,250,000)	17,350	0.8%
- Other Miscellaneous	26,867,549	49.2%	22,680,169	-15.6%	27,007,764	19.1%	46,790,827	73.2%	36,659,370	-21.7%	39,258,279	(2,598,909)	-6.6%
IF&W Total Revenue ***	16,619,119	-3.0%	17,895,675	7.7%	17,595,575	-1.7%	21,902,902	24.5%	21,817,659	-0.4%	21,478,863	338,796	1.6%

*** IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue because it includes Other Revenue classified above.

Updated: 02/28/2006

GENERAL FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Sales and Use Tax	933,701,080	4.1%	(3,060,000)	930,641,080	3.8%	982,251,607	5.2%	(5,120,000)	977,131,607	5.0%
Service Provider Tax	46,494,165	4.1%	0	46,494,165	4.1%	48,911,765	5.2%	0	48,911,765	5.2%
Individual Income Tax *	1,239,297,845	-2.4%	(10,990,000)	1,228,307,845	-3.3%	1,292,127,672	4.3%	(15,350,000)	1,276,777,672	3.9%
Corporate Income Tax	165,220,000	21.6%	9,930,000	175,150,000	28.9%	158,980,000	-3.8%	8,850,000	167,830,000	-4.2%
Cigarette and Tobacco Tax	147,238,325	52.8%	4,500,000	151,738,325	57.5%	165,466,882	12.4%	0	165,466,882	9.0%
Public Utilities Tax	21,440,000	-15.6%	0	21,440,000	-15.6%	20,495,000	-4.4%	0	20,495,000	-4.4%
Insurance Companies Tax	77,141,931	1.9%	(5,000,000)	72,141,931	-4.7%	79,644,425	3.2%	0	79,644,425	10.4%
Estate Tax	64,079,793	98.7%	6,019,529	70,099,322	117.3%	38,152,245	-40.5%	0	38,152,245	-45.6%
Prop. Tax - Unorganized Territory	11,278,476	6.2%	0	11,278,476	6.2%	11,597,312	2.8%	0	11,597,312	2.8%
Income from Investments	4,286,062	-26.8%	2,277,520	6,563,582	12.1%	5,778,070	34.8%	385,512	6,163,582	-6.1%
Transfer to Municipal Rev. Sharing	(121,620,368)	-1.6%	210,120	(121,410,248)	-1.4%	(126,595,823)	-4.1%	592,620	(126,003,203)	-3.8%
Transfer from Lottery Commission	50,334,250	2.0%	0	50,334,250	2.0%	50,334,250	0.0%	0	50,334,250	0.0%
Other Revenues **	216,529,079	-19.1%	(1,997,398)	214,531,681	-19.9%	224,872,471	3.9%	(5,531,853)	219,340,618	2.2%
Total - General Fund Revenue	**2,855,420,638**	**2.3%**	**1,889,771**	**2,857,310,409**	**2.4%**	**2,952,015,876**	**3.4%**	**(16,173,721)**	**2,935,842,155**	**2.7%**
Change in Biennial Totals								**(14,283,950)**		
*** Detail of Property Tax Reimbursement Programs Deducted from Individual Income Tax Revenue**										
- Maine Resident Property Tax Program	(44,720,507)	-71.8%	391,543	(44,328,964)	-70.3%	(46,493,783)	-4.0%	397,963	(46,095,820)	-4.0%
- BETR - Business Equipment Tax Reimb.	(73,463,191)	N/A	2,000,000	(71,463,191)	N/A	(68,146,508)	7.2%	0	(68,146,508)	4.6%
*** Detail of Other Revenues:**										
- Real Estate Transfer Tax	19,504,918	-19.1%	3,000,000	22,504,918	-6.7%	19,314,440	-1.0%	0	19,314,440	-14.2%
- Commercial Forestry Excise Tax	3,000,000	3.8%	0	3,000,000	3.8%	3,450,000	15.0%	0	3,450,000	15.0%
- Liquor Sales and Operations	1,500,000	-97.0%	1,034,391	2,534,391	-94.9%	1,500,000	0.0%	2,000,000	3,500,000	38.1%
- Liquor Taxes and Fees	18,436,397	5.8%	0	18,436,397	5.8%	18,908,202	2.6%	0	18,908,202	2.6%
- Banking Fees/Assessments	19,912,310	6.8%	0	19,912,310	6.8%	19,912,310	0.0%	0	19,912,310	0.0%
- Corporation Fees & Licenses	5,528,707	-1.9%	0	5,528,707	-1.9%	5,530,707	0.0%	0	5,530,707	0.0%
- Hunting and Fishing License Fees	16,144,351	-3.3%	0	16,144,351	-3.3%	16,300,487	1.0%	0	16,300,487	1.0%
- Boat, ATV and Snowmobile Fees	3,870,938	-6.7%	0	3,870,938	-6.7%	3,870,938	0.0%	0	3,870,938	0.0%
- Parimutuel and Gaming Revenue	4,114,814	202.0%	321,336	4,436,150	225.6%	4,682,640	13.8%	(225,330)	4,457,310	0.5%
- Fines, Forfeits and Penalties	43,042,996	21.2%	(2,500,000)	40,542,996	14.2%	44,705,883	3.9%	(2,500,000)	42,205,883	4.1%
- Targeted Case Management (HHS)	34,907,681	1.1%	(3,000,000)	31,907,681	-7.6%	35,271,042	1.0%	(5,000,000)	30,271,042	-5.1%
- HHS Services Rendered	5,645,665	-21.7%	0	5,645,665	-21.7%	4,839,571	-14.3%	0	4,839,571	-14.3%
- State Cost Allocation Program	10,537,222	-18.3%	1,000,000	11,537,222	-10.5%	10,721,512	1.7%	1,000,000	11,721,512	1.6%
- Unclaimed Property Transfer	9,550,000	-4.5%	0	9,550,000	-4.5%	13,678,320	43.2%	0	13,678,320	43.2%
- Education Efficiency Fund Transfer	0	N/A	0	0	N/A	0	N/A	0	0	N/A
- Tourism Transfer	(7,762,689)	-2.8%	0	(7,762,689)	-2.8%	(8,237,761)	-6.1%	135,674	(8,102,087)	-4.4%
- Clean Elections Fund Transfer	(4,250,000)	-90.4%	0	(4,250,000)	-90.4%	(250,000)	94.1%	0	(250,000)	94.1%
- Other Miscellaneous	32,845,769	-10.4%	(1,853,125)	30,992,644	-15.5%	30,674,180	-6.6%	(942,197)	29,731,983	-4.1%
IF&W Total Revenue ***	21,192,191	-2.9%	(4,796)	21,187,395	-2.9%	21,365,107	0.8%	897	21,366,004	0.8%

*** IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue because it includes Other Revenue classified above.

Updated: 02/28/2006

GENERAL FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY08 Projection	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Projection	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Sales and Use Tax	1,027,840,880	4.6%	(4,270,000)	1,023,570,880	4.8%	1,073,444,023	4.4%	(4,940,000)	1,068,504,023	4.4%
Service Provider Tax	51,181,910	4.6%	0	51,181,910	4.6%	53,452,742	4.4%	0	53,452,742	4.4%
Individual Income Tax *	1,334,752,988	3.3%	(19,530,000)	1,315,222,988	3.0%	1,384,613,932	3.7%	(27,760,000)	1,356,853,932	3.2%
Corporate Income Tax	157,970,000	-0.6%	6,970,000	164,940,000	-1.7%	158,000,000	0.0%	8,030,000	166,030,000	0.7%
Cigarette and Tobacco Tax	164,396,738	-0.6%	0	164,396,738	-0.6%	163,198,120	-0.7%	0	163,198,120	-0.7%
Public Utilities Tax	19,320,000	-5.7%	0	19,320,000	-5.7%	18,260,000	-5.5%	0	18,260,000	-5.5%
Insurance Companies Tax	81,149,288	1.9%	0	81,149,288	1.9%	82,684,299	1.9%	0	82,684,299	1.9%
Estate Tax	41,662,371	9.2%	0	41,662,371	9.2%	46,528,951	11.7%	0	46,528,951	11.7%
Prop. Tax - Unorganized Territory	11,958,218	3.1%	0	11,958,218	3.1%	12,332,279	3.1%	0	12,332,279	3.1%
Income from Investments	4,821,820	-16.5%	1,341,762	6,163,582	0.0%	4,821,820	0.0%	1,341,762	6,163,582	0.0%
Transfer to Municipal Rev. Sharing	(133,730,780)	-5.6%	875,160	(132,855,620)	-5.4%	(138,814,556)	-3.8%	1,282,840	(137,531,716)	-3.5%
Transfer from Lottery Commission	49,834,250	-1.0%	0	49,834,250	-1.0%	49,834,250	0.0%	0	49,834,250	0.0%
Other Revenues **	204,495,467	-9.1%	(8,327,383)	196,168,084	-10.6%	202,573,941	-0.9%	(8,021,531)	194,552,410	-0.8%
Total - General Fund Revenue	**3,015,653,150**	**2.2%**	**(22,940,461)**	**2,992,712,689**	**1.9%**	**3,110,929,801**	**3.2%**	**(30,066,929)**	**3,080,862,872**	**2.9%**
Change in Biennial Totals								**(53,007,390)**		
*** Detail of Property Tax Reimbursement Programs Deducted from Individual Income Tax Revenue**										
- Maine Resident Property Tax Program	(48,875,193)	-5.1%	435,180	(48,440,013)	-5.1%	(51,874,912)	-6.1%	485,827	(51,389,085)	-6.1%
- BETR - Business Equipment Tax Reimb.	(77,707,000)	-14.0%	0	(77,707,000)	-14.0%	(79,646,983)	-2.5%	0	(79,646,983)	-2.5%
*** Detail of Other Revenues:**										
- Real Estate Transfer Tax	11,884,726	-38.5%	0	11,884,726	-38.5%	11,955,435	0.6%	0	11,955,435	0.6%
- Commercial Forestry Excise Tax	3,500,000	1.4%	0	3,500,000	1.4%	3,500,000	0.0%	0	3,500,000	0.0%
- Liquor Sales and Operations	1,500,000	0.0%	2,000,000	3,500,000	0.0%	1,500,000	0.0%	2,000,000	3,500,000	0.0%
- Liquor Taxes and Fees	19,260,253	1.9%	0	19,260,253	1.9%	19,625,039	1.9%	0	19,625,039	1.9%
- Banking Fees/Assessments	19,910,910	0.0%	0	19,910,910	0.0%	19,910,910	0.0%	0	19,910,910	0.0%
- Corporation Fees & Licenses	5,530,707	0.0%	0	5,530,707	0.0%	5,530,707	0.0%	0	5,530,707	0.0%
- Hunting and Fishing License Fees	16,300,487	0.0%	0	16,300,487	0.0%	16,300,487	0.0%	0	16,300,487	0.0%
- Boat, ATV and Snowmobile Fees	3,870,938	0.0%	0	3,870,938	0.0%	3,870,938	0.0%	0	3,870,938	0.0%
- Parimutuel and Gaming Revenue	7,281,584	55.5%	(2,669,977)	4,611,607	3.5%	8,605,583	18.2%	(1,977,918)	6,627,665	43.7%
- Fines, Forfeits and Penalties	42,015,208	-6.0%	(1,500,000)	40,515,208	-4.0%	42,020,208	0.0%	(1,500,000)	40,520,208	0.0%
- Targeted Case Management (HHS)	35,786,872	1.5%	(5,000,000)	30,786,872	1.7%	36,262,056	1.3%	(5,000,000)	31,262,056	1.5%
- HHS Services Rendered	4,841,305	0.0%	0	4,841,305	0.0%	4,841,305	0.0%	0	4,841,305	0.0%
- State Cost Allocation Program	10,721,512	0.0%	0	10,721,512	-8.5%	10,721,512	0.0%	0	10,721,512	0.0%
- Unclaimed Property Transfer	22,835,500	66.9%	0	22,835,500	66.9%	25,210,825	10.4%	0	25,210,825	10.4%
- Education Efficiency Fund Transfer	(14,552,541)	N/A	(354,796)	(14,907,337)	N/A	(20,730,626)	-42.5%	(743,291)	(21,473,917)	-44.0%
- Tourism Transfer	(8,675,720)	-5.3%	145,633	(8,530,087)	-5.3%	(9,145,907)	-5.4%	154,127	(8,991,780)	-5.4%
- Clean Elections Fund Transfer	(2,250,000)	-800.0%	0	(2,250,000)	-800.0%	(2,250,000)	0.0%	0	(2,250,000)	0.0%
- Other Miscellaneous	24,733,726	-19.4%	(948,243)	23,785,483	-20.0%	24,845,469	0.5%	(954,449)	23,891,020	0.4%
IF&W Total Revenue ***	21,373,208	0.0%	1,357	21,374,565	0.0%	21,381,157	0.0%	1,751	21,382,908	0.0%

*** IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue because it includes Other Revenue classified above.

Updated: 02/28/2006

General Fund - Sales and Use Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$857,486,801	$917,243,245	$896,576,322	$933,701,080	$982,251,607	$1,027,840,880	$1,073,444,023
Annual % Growth		7.0%	-2.3%	4.1%	5.2%	4.6%	4.4%
Net Increase (Decrease)				($3,060,000)	($5,120,000)	($4,270,000)	($4,940,000)
Revised Forecast	$857,486,801	$917,243,245	$896,576,322	$930,641,080	$977,131,607	$1,023,570,880	$1,068,504,023
Annual % Growth		7.0%	-2.3%	3.8%	5.0%	4.8%	4.4%

Revenue Source Summary:

The sales tax is imposed at the rate of 5% of the sale price on retail sales of tangible personal property and taxable services; at 7% on temporary rentals of living quarters in hotels, rooming houses, tourist and trailer camps, the sale of liquor by the drink and prepared food; and at 10% on the short-term rental of automobiles. The tax is also imposed on casual sales of motor vehicles, camper trailers, truck campers, livestock trailers, special mobile equipment, boats and aircraft. Sales of new manufactured housing (mobile homes and modular homes) are subject to the 5% tax, usually at 50% of the selling price. Many exemptions and exclusions exist, including grocery staples.

The use tax is imposed at the same rate as the sales tax on the sale price of tangible personal property and taxable services purchased at retail sale beyond the collection jurisdiction of the State for use, storage or other consumption in Maine, unless substantial (12 months) use was made of the property elsewhere before it was brought to Maine. An exception is made for motor vehicles registered as automobiles that were purchased and actually used in another state before being brought to Maine, if the purchaser was a resident of the other state at the time of purchase. The use tax does not apply to purchases on which Maine sales tax has been paid, and credit is allowed for sales or use tax paid in another jurisdiction up to the amount of the Maine tax.

Beginning in FY05, certain services previously included in this category were moved to the Service Provider Tax (see next page in Appendix for this revenue category). This change accounts for the negative growth in FY05.

Revenue Source Forecast Factors and Trends:

Sales and Use Tax is one of the major revenue sources tied to economic activity with projections developed using Maine Revenue Services tax models with input from the economic variables forecast by the Concensus Economic Forecasting Commission (CEFC). Sales and Use Tax projections in the tax models are derived primarily from aggregate Personal Income growth assumptions. Total employment growth is used to predict business purchases. Inflation projections are also used for those elements of the sales and excise tax models that are based on units sold in order to produce an inflation adjusted dollar value.

Sales and Use Tax revenue has been under budget consistently since the beginning of the heating season late last fall. The Committee made a late adjustment in June 2005 revising the forecast for this line downward by $15.0 million. Sales and Use Tax revenue was under budget after this revision by $3.1 million (-0.3%). The growth of this revenue line, which had been very strong after the FY02 (4.9% growth in FY03 and 7.0% growth in FY04), dropped to 2.6% in FY05 (after adjusting and adding back in the components that were separated into the Service Provider Tax).

Taxable Sales Trends - For calendar year 2005, taxable sales were up 2% over the previous year. The strongest growth was in the other retail category, up 6%, followed by the business operating, food store and building supplies sectors, all up 5%. The general merchandise sector was down 1%, auto/transportation sales were down 2%, and restaurant and lodging sales were up 3%. See Appendix G for more detail on taxable sales growth.

Forecast Recommended Changes:

The updated tax models allow for additional variables such as energy prices. With that additional variable the models now seem to be closer to actual in the historical data and provide the RFC with a better projection of taxable sales. The inclusion of oil prices (see background section of report) in the model shift household consumption to the purchase of tax exempt fuel and away from other goods and services, both taxable and tax exempt. This change in the mix of consumer purchases results in a reduction of the forecast throughout the forecast period.

The recommended change to this revenue line is a result of the combination of the new economic assumptions, recognition of a one-time large audit payment in FY06, and an assumption of weak auto sales in FY06 and then a slow recovery throughout the forecast window.

General Fund - Individual Income Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$1,071,701,694	$1,156,715,909	$1,270,225,329	$1,239,297,845	$1,292,127,672	$1,334,752,988	$1,384,613,932
Annual % Growth		7.9%	9.8%	-2.4%	4.3%	3.3%	3.7%
Net Increase (Decrease)				($10,990,000)	($15,350,000)	($19,530,000)	($27,760,000)
Revised Forecast	$1,071,701,694	$1,156,715,909	$1,270,225,329	$1,228,307,845	$1,276,777,672	$1,315,222,988	$1,356,853,932
Annual % Growth		7.9%	9.8%	-3.3%	3.9%	3.0%	3.2%

Revenue Source Summary:

This category includes all revenue from individual income tax including penalties and interest associated with the collection of individual income tax. It also includes income tax on fiduciaries and income tax from Partnerships, Limited Liability Corporations and S Corporations that are reported on the owners' individual income tax returns.

Beginning in FY05, Individual Income Tax revenue was reduced by the amount of the payments under the Maine Residents Property Tax Program (Tax and Rent Refund or Circuit Breaker). Amounts necessary for the benefit payments are transferred from Individual Income Tax revenue to a reserve account for payment. Beginning in FY06, a similar arrangement was established for the Business Equipment Tax Reimbursement (BETR) program. Estimates of these transfers and the effect that they have on the forecast of Individual Income are detailed in separate sections. The amounts above reflect net amounts after the transfers for these tax reimbursement programs, but do not reflect the transfer to the Local Government Fund for State-Municipal Revenue Sharing.

Revenue Source Forecast Factors and Trends:

The individual income tax simulation model is the most complicated and involves the input of multiple economic variables. The individual components of Personal Income, which include salaries and wages; dividend interest and rents; proprietor's income; supplements to wages and salaries; and transfer payments are fed into the model. Other factors include: inflation projections that drive statutory indexing provisions (tax brackets and standard deduction amounts); total employment growth and unemployment rate affecting assumed number of tax filings; and the 3-month and 10-year Treasury Rates that drive interest earnings assumptions and the mortgage interest deduction.

A major variable thnot included in the consensus economic forecast is net capital gains realizations. This is variable has produced some significant volitility in the individual income tax collections. A detailed discussion is included in the body of the report.

Current Year Variance - Individual Income Tax collections have dropped below projections in recent months. This category was adjusted upward by $71.8 million in the December 2005 revenue forecast. The current year variance through January is $18.5 million (-2.4% of budget), excluding the variances associated with the BETR and Circuit Breaker programs. Estimated payments were under budget in December and January resulting in a negative variance of $11.8 million (-6.8%) through January. Refunds have surged ahead of projections very early in the processing season, accounting for $6.1 million of the negative variance. Fiscal year-to-date withholding payments were up 4.1% over FY05 amounts and have been tracking very close to revised projections (less than -0.1% variance through January).

Forecast Recommended Changes:

The revised economic variables in the current CEFC forecast all have tended to drive the model projections of the individual income tax lower. Slower wage and salary growth, slower employment growth and higher inflation. The committee had to factor in the recent performance of individual income tax withholding, which was only very modestly below forecast. The reprojection on this line reflects the lower than expected final estimated payment for tax year 2005 received in January. The new economic forecast and a zero growth assumption for capital gains realizations were sufficient to explain the shortfall in the final estimated payment.

The net changes above also reflect the adjustments made to the BETR and Circuit Breaker programs. (See separate summaries for the detail of the changes to those programs.

General Fund - Individual Income Tax (Maine Residents Property Tax Program)
aka "Tax and Rent Refund" or "Circuit Breaker" Program

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$0	$0	($26,030,227)	($44,720,507)	($46,493,783)	($48,875,193)	($51,874,912)
Annual % Growth		N/A	N/A	71.8%	4.0%	5.1%	6.1%
Net Increase (Decrease)				$391,543	$397,963	$435,180	$485,827
Revised Forecast	$0	$0	($26,030,227)	($44,328,964)	($46,095,820)	($48,440,013)	($51,389,085)
Annual % Growth		N/A	N/A	70.3%	4.0%	5.1%	6.1%

Revenue Source Summary:

Beginning with FY05, taxpayer reimbursement under the Maine Residents' Property Tax Reimbursement (Tax and Rent Refund or "Circuit Breaker") program is accounted for as a deduction from the individual income tax line rather than an expenditure from General Fund appropriations for that purpose. The program expansion (PL 2005, c. 2) is reflected beginning in fiscal year 2005-06 and includes: an increase in the maximum payment from $1,000 to $2,000, the elimination of income thresholds, the establishment of maximum property taxes used to calculate benefits ($3,000 single/$4,000 multiple member household) and an increase in the % of rent constituting property taxes from 18% to 20%. It also extended the close of the application period from 12/31/to 5/31. The amounts reflected in the table above represent gross program costs prior to the adjustment for state-municipal revenue sharing.

Revenue Source Forecast Factors and Trends:

This component of individual income tax is forecast using a combination of the income tax and property tax modules within the tax models. It is driven by economic forecast, particularly the income components, and a forecast of residential property values based on recent trends in each municipality.

FY05 program costs were just under budget, resulting in a positive revenue variance. For the 1st 7 months of FY06, the program expenditures been under budget by $5.4 million. The length of the program year was extended until May beginning this fiscal year. This is still thought to be a timing issue that will balance out over the next couple of months. The timing of payments may be affected by the program expansion.

Forecast Recommended Changes:

Despite the positive variance noted above the only change recommended at this time is a correction to correctly reflect a legislative change that should have been included in the estimate for this program in the December 2005 forecast. This change represents no aggregate change to individual income tax only a change in the classification within indvidual income tax. It also corrects this detail table to agree with the summary amounts in the December 2005 report.

General Fund - Individual Income Tax - Business Equipment Tax Reimbursement (BETR)

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$0	$0	$0	($73,463,191)	($68,146,508)	($77,707,000)	($79,646,983)
Annual % Growth		N/A	N/A	N/A	-7.2%	14.0%	2.5%
Net Increase (Decrease)				$2,000,000	$0	$0	$0
Revised Forecast	$0	$0	$0	($71,463,191)	($68,146,508)	($77,707,000)	($79,646,983)
Annual % Growth		N/A	N/A	N/A	-4.6%	14.0%	2.5%

Revenue Source Summary:

Beginning with FY06, taxpayer reimbursement under the Business Equipment Tax Reimbursement (BETR) program is accounted for as a deduction from the individual income tax line rather than an expenditure from General Fund appropriations for that purpose. Certain persons and property such as office furniture, lamps and lighting fixtures and gambling machines or devices are not eligible for reimbursement (see 36 MRSA Chapter 915 for specific exclusions). Retail property will also be excluded for property tax years beginning after April 1, 2006. BETR reimbursement is 100% of the property taxes paid on eligible property, except that for claims filed for the application period that begins on August 1, 2006 the reimbursement is 90% of the taxes. Eligible property is subject to reimbursement for up to 12 property tax years, but the 12 years must be reduced by one year for each year during which a taxpayer included the same property in its investment credit base. The amounts reflected in the table above represent gross program costs prior to the adjustment for state-municipal revenue sharing.

Revenue Source Forecast Factors and Trends:

BETR expenditures are forecast off model. New business investment in equipment is the primary driving force in the expenditures of this program. The program was expected to grow on a compounded basis as new investment was layered on to previously eligible equipment during the first 12 years of the program. After the 12th year, the property eligible in the first year is dropped from the program so that the growth of the program will slow dramatically. FY08 is the first year when business equipment in the program for 12 years will drop out. The increase in FY08 in the table above reflects the one-time reduction in FY07 at 90% reimbursement instead of 100%.

The program's expenditures have been below expectations for the first 7 months of FY06 by $9.9 million, partially offsetting the negative variance in the individual income tax. Still thought to be a timing issue as several large payments are pending payment.

Forecast Recommended Changes:

Revise program expenditures downward in FY06 by $2 million on a one-time basis resulting in an increase to the revenue forecast.

General Fund - Corporate Income Tax

	FY03 Actual	FY05 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$91,188,393	$111,616,051	$135,862,913	$165,220,000	$158,980,000	$157,970,000	$158,000,000
Annual % Growth		22.4%	21.7%	21.6%	-3.8%	-0.6%	0.0%
Net Increase (Decrease)				$9,930,000	$8,850,000	$6,970,000	$8,030,000
Revised Forecast	$91,188,393	$111,616,051	$135,862,913	$175,150,000	$167,830,000	$164,940,000	$166,030,000
Annual % Growth		22.4%	21.7%	28.9%	-4.2%	-1.7%	0.7%

Revenue Source Summary:

This revenue is derived by a corporate income tax imposed on all corporations subject to federal income tax and having nexus with Maine, with the exception of financial institutions subject to the franchise tax and insurance companies subject to the premium tax. The tax is levied on Maine net income which is federal taxable income as modified by Maine law. In the case of a corporation doing business both within and outside of the State, Maine net income is determined by apportioning the modified federal taxable income according to a formula using payroll, property and sales. Tax rates are progressive from 3.5% to 8.93%. The amounts reflected in the table above are prior to the deduction for state-municipal revenue sharing. A small portion of this revenue line includes taxes received from financial institutions through the Franchise Tax.

Revenue Source Forecast Factors and Trends:

Revenue projections are driven by the corporate income tax model with assumptions for inflation (CPI-U), total employment growth and growth by sector. The model also relies on forecasts of corporate profitability. The recommended revisions result from new data, model changes and court cases that were not considered during the prior forecast. Corporate Income Tax revenue was over budget in FY05 by $12.6M, and through January 2006, the FY06 positive year-to-date revenue variance has grown to $11.6 million above the recently increased forecast.

Forecast Recommended Changes:

The sustained increase in corporate income tax receipts combined with independent forecasts that coporate profits will continue to grow, albeit at lower rates, results in a significant increase in the forecast of corporate income revenues. The forecast assumes a higher level of receipts with little or no growth in future years. This is consistent with the national corporate profits forecast and Maine's recent non-conformity with various federal tax provisions (e.g., bonus depreciation).

The Maine Corporate Income Tax has seen a significant transformation over the last ten years. The vast majority tax liability from this tax now comes from large multi-national corporations whose profitability is not related to maine-specific economic factors. This forecast reflects the fact that Maine is benefiting from the current environment of strong national corporate profitability. When the national economy enters the next recession it's likely that corporate profits will fall and so will Maine corporate income tax receipts, regardless of well the Maine economy fares in that next recession. The pattern of corporate receipts in this updated forecast reflects the forecast of corporate profits and the recovery of bonus depreciation by corporations that was denied by the state between 2002 and 2005.

General Fund - Cigarette and Tobacco Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$98,414,470	$96,604,646	$96,350,704	$147,238,325	$165,466,882	$164,396,738	$163,198,120
Annual % Growth		-1.8%	-0.3%	52.8%	12.4%	-0.6%	-0.7%
Net Increase (Decrease)				$4,500,000	$0	$0	$0
Revised Forecast	$98,414,470	$96,604,646	$96,350,704	$151,738,325	$165,466,882	$164,396,738	$163,198,120
Annual % Growth		-1.8%	-0.3%	57.5%	9.0%	-0.6%	-0.7%

Revenue Source Summary:

This revenue category includes revenue from the cigarette tax and tobacco products tax. The cigarette tax is imposed on all cigarettes held in this State for retail sale and a tax on the wholesale price of other tobacco products. The rate of the cigarette tax was 50 mills per cigarette or $1.00 per pack before September 19, 2005. Beginning September 19, 2005 the cigarette tax rate was increased to $2.00 per pack. On October 1, 2005 the rate of tax on smokeless tobacco products was increased from 62% of the wholesale price to 78% and the tax on cigars, pipe tobacco and other tobacco intended for smoking was increased from 16% of the wholesale price to 20%.

Revenue Source Forecast Factors and Trends:

The cigarette tax forecast is developed using Maine Revenue Services Sales and Excise Tax model.

This category was very close to budget in FY05 with a modest positive variance of $330,840 or +0.3%. The significant increase in these taxes during the last legislative session (see amounts below) added a lot of potential uncertainty into the forecast. The assumptions about price elasticity associated with these tax changes and the effect on the volume attempted to factor in behavior related to this tax change. It is still too early in the fiscal year to determine whether the assumptions will hold up. The variances through the first 7 months of FY 06 have been up and down, but over the last 3 months since the last forecast the positive variance has increased to $6,185,190 (+7.6%) for the fiscal year-to-date through January.

Legislative Changes:	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**
Increase cigarette tax by $1	$0	$51,341,668	$69,990,814	$69,613,147	$69,204,859
Increase other tobacco taxes	$0	$671,297	$942,574	$961,427	$980,654
Total Legislative Changes	**$0**	**$52,012,965**	**$70,933,388**	**$70,574,574**	**$70,185,513**

Forecast Recommended Changes:

The RFC is recommending a one-time increase in FY 06 that is related to the floor stock (inventory) tax on cigarettes held by sellers at the time the tax rate was increased. The inventory tax is primarily responsible for the positive variance on this line.

General Fund - Insurance Company Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$71,078,089	$72,206,153	$75,669,053	$77,141,931	$79,644,425	$81,149,288	$82,684,299
Annual % Growth		1.6%	4.8%	1.9%	3.2%	1.9%	1.9%
Net Increase (Decrease)				($5,000,000)	$0	$0	$0
Revised Forecast	$71,078,089	$72,206,153	$75,669,053	$72,141,931	$79,644,425	$81,149,288	$82,684,299
Annual % Growth		1.6%	4.8%	-4.7%	10.4%	1.9%	1.9%

Revenue Source Summary:

This revenue is derived primarily by the state tax on every insurance company or association organized under the laws of this State at the rate of 2% of gross direct premiums, (1% of long-term health care premiums) including annuity considerations, on all policies written in Maine, less allowed deductions. The tax on insurance placed in the surplus lines insurance market is 3%. The tax on qualified group disability plans is 2.55% for large domestic insurers and 1% for all other insurers. Every non-resident insurance company authorized to do business in this State is liable for a tax on all policies written in Maine at the Maine rate or the rate at which a Maine company would be taxed in the state or Canadian province where the non-resident company is domiciled, whichever is greater. Reduced rates are provided for

Revenue Source Forecast Factors and Trends:

This tax is forecast off model. Estimates are made based on historical trends and input from various sources. Since the tax is based on premiums, the RFC must analyze those factors that affects premiums: insurance companies' investment earnings and payments on insured losses. Any significant increases in premiums may also affect demand, as purchasers react by increasing deductibles or dropping coverage

There were no legislative changes during 122nd Legislature that directly affecting this revenue category. FY06 is affected by a change in a $983,000 credit for a surcharge on Fire Insurance Premiums that was delayed until FY06.

The revenue category has been running under budget for the first 7 months of FY06. For the fiscal year-to-date, this category is under budget by $3.1 million (-20.7%). The last estimated payments for calendar year 2005 came in under budget and roughly $1 million dollars that was projected to be collected in FY06 was received in the prior fiscal year.

Forecast Recommended Changes:

The RFC is recommending an adjustment to reflect current year experience. Most of the revenue from the Insurance Companies Tax is collected between March and June. After reviewing final FY06 collections the RFC may need to make adjustments to the FY07 through FY09 forecast at its Fall meeting.

General Fund - Estate Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$30,520,320	$32,075,501	$32,255,727	$64,079,793	$38,152,245	$41,662,371	$46,528,951
Annual % Growth		5.1%	0.6%	98.7%	-40.5%	9.2%	11.7%
Net Increase (Decrease)				$6,019,529	$0	$0	$0
Revised Forecast	$30,520,320	$32,075,501	$32,255,727	$70,099,322	$38,152,245	$41,662,371	$46,528,951
Annual % Growth		5.1%	0.6%	117.3%	-45.6%	9.2%	11.7%

Revenue Source Summary:

This revenue is derived primarily by the state tax imposed upon the transfer of the estate of every person who was a Maine resident at the time of death. For deaths occurring before January 1, 2002 the tax is equal to the amount by which the credit allowed against the federal estate tax for state death taxes exceeds the amount of such taxes actually paid to other states, provided that the allowance for such taxes may not exceed that percentage of the federal tax credit which the other states' portion of the estate is to the total estate. Beginning in 2002, the federal estate tax and the federal credit for state death taxes are being phased out. The federal credit was reduced to 75% in 2002, 50% in 2003, 25% in 2004 and completely eliminated beginning in 2005. For deaths occurring after 2002, the Maine estate tax is equal to the tax that would be owed using the formula for calculating the federal credit for state death taxes in effect on December 31, 2002 (exclusive of any reduction in the maximum credit amount) and based on the unified credit amount as of December A similar tax is imposed on real and tangible personal property having Maine situs passing by reason of the death of a person not a Maine resident, at the same percentage of the federal allowance for state death taxes that the value of the property taxable in Maine

Revenue Source Forecast Factors and Trends:

The estate tax is forecast using Maine Revenue Services tax models. The models are supplemented with a look at actual tax file data through queries of the data base to pick out the unusual large returns. The FY 06 revision includes a one-time upward projection due to a positive year-to-date variance attributable to an unexpected number of moderatly sized estate tax payments.

Forecast Recommended Changes:

This forecast increases the estimate on a one-time basis to reflect an unexpected number of moderatly sized ($2 - $4 million) estate tax payments.

General Fund - Income from Investments

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$2,345,855	$2,310,207	$5,854,625	$4,286,062	$5,778,070	$4,821,820	$4,821,820
Annual % Growth		-1.5%	153.4%	-26.8%	34.8%	-16.5%	0.0%
Net Increase (Decrease)				$2,277,520	$385,512	$1,341,762	$1,341,762
Revised Forecast	$2,345,855	$2,310,207	$5,854,625	$6,563,582	$6,163,582	$6,163,582	$6,163,582
Annual % Growth		-1.5%	153.4%	12.1%	-6.1%	0.0%	0.0%

Revenue Source Summary:

This category represents the Treasurer of State's investment of excess money in the state treasury that is not needed to meet current obligations (see 5 MRSA section 135). The Treasurer of State is authorized to invest these funds in bonds, notes, certificates of indebtedness or other obligations specified in statute. Earnings on these investments are credited to the General Fund unless specifically designated otherwise. Occasionally, there are credits to this revenue category for small miscellaneous items collected by the state. These items are generally insignificant and unpredictable. Therefore, while they are reflected in actual revenue for FY05, nothing is budgeted for them in FY06 or beyond.

Revenue Source Forecast Factors and Trends:

The major factors that affect earnings are the rates of return on investments and the balances of cash available for investment. These factors are heavily influenced by the economy, the budget, the reliance on Tax Anticipation Notes (TAN's) and the Treasurer's investment policies.

Economy - Interest rates have been near historic lows for several years based on Federal Reserve Board monetary policy. As the Feds tightened the money supply, interest rates rose and earnings improved in FY05. Economy.com predicts rates peaking in calendar year 2006.

Budget - Decisions were made to use the Rainy Day Fund and other reserves to fund ongoing programs. This reduced earnings early in this decade. Positive revenue variances and higher earnings rates are contributing to higher than expected earnings in FY 06.

TAN Amounts - See below for assumptions. With the improvement in General Fund cash balances as noted above, the Tax Anticipation Note (TAN) was reduced in the December forecast. The March forecast does not change that reduction.

Investment Policy - The Treasurer's investment policy (type of investment vehicle purchased, liquidity to meet daily needs, selection criteria for specific investments, etc.) affects the rate of return on the pool. No change in policy is expected.

Forecast Recommended Changes:

With the upward revenue revisions from the December 2005 forecast and the new appropriations limitation law, the expectation is that earnings will continue to improve over the course of the 2006-2007 biennium. The full impact of this general improvement on the structural gap beyond the current biennium will not be reflected until subsequent budget decisions are made on the use of the new resources.

Historical Data and Assumptions							
	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
TAN							
Current Forecast	$250,000,000	$275,000,000	$190,000,000	$123,625,000	$125,000,000	$125,000,000	$125,000,000
Revised Forecast				$123,625,000	$125,000,000	$125,000,000	$125,000,000
Pool Earnings Rate							
Current Forecast	2.06%	1.32%	2.39%	4.00%	4.00%	4.00%	4.00%
Revised Forecast				4.33%	4.50%	4.50%	4.50%

General Fund - Transfer to Municipal Revenue Sharing

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	($103,039,221)	($111,464,335)	($119,712,814)	($121,620,368)	($126,595,823)	($133,730,780)	($138,814,556)
Annual % Growth		-8.2%	-7.4%	-1.6%	-4.1%	-5.6%	-3.8%
Net Increase (Decrease)				$210,120	$592,620	$875,160	$1,282,840
Revised Forecast	($103,039,221)	($111,464,335)	($119,712,814)	($121,410,248)	($126,003,203)	($132,855,620)	($137,531,716)
Annual % Growth		-8.2%	-7.4%	-1.4%	-3.8%	-5.4%	-3.5%

Revenue Source Summary:

These amounts above represent transfers made on the last day of each month from the General Fund to the Local Government Fund or the Disproportionate Tax Burden Fund. Amounts equal to 5.1%, increasing to 5.2% on July 1, 2007, of the taxes collected and credited to the General Fund under, the individual income tax, the corporate income tax, the franchise tax on financial institutions, the service provider tax and the sales and use taxes are transferred. The amounts transferred are ultimately distributed to municipalities each month based on a formula.

Revenue Source Forecast Factors and Trends:

See discussion of Indivdiual Income Tax, Sales and Use Tax, Corporate Income Tax and Service Provider Tax for trends. The monthly transfers are determined by these major tax sources. Presented below are the total impact of legislative changes. Unlike the other write-ups revenue sharing is summarized by the 4 major tax sources that determine the revenue sharing amounts. The 122nd Legislature did delay by an additional 2 years, the increase in the percentage of the major taxes that gets transferred each month. This increase was also delayed for 2 years by the 121st Legislature. The percentage is now schedule to increase from 5.1% to 5.2% on July 1, 2007.

Forecast Recommended Changes:

See discussion of Indivdiual Income Tax, Sales and Use Tax, Corporate Income Tax and Service Provider Tax for trends. The monthly transfers are determined by these major tax sources.

General Fund - Real Estate Transfer Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$10,770,668	$22,196,221	$24,113,439	$19,504,918	$19,314,440	$11,884,726	$11,955,435
Annual % Growth		106.1%	8.6%	-19.1%	-1.0%	-38.5%	0.6%
Net Increase (Decrease)				$3,000,000	$0	$0	$0
Revised Forecast	$10,770,668	$22,196,221	$24,113,439	$22,504,918	$19,314,440	$11,884,726	$11,955,435
Annual % Growth		106.1%	8.6%	-6.7%	-14.2%	-38.5%	0.6%

Revenue Source Summary:

A tax is imposed on each deed that transfers title to real property in the state or on the transfer of a controlling interest in an entity with a fee interest in real property in the state at the rate of $2.20 for each $500 or fractional part of the value of the real property. There are certain exemptions. Of the total tax, ½ is imposed on the grantor and ½ is imposed on the grantee. Ninety percent of the tax collected during the previous month is forwarded by each Registrar of Deeds to the State Tax Assessor. The remaining 10% is retained by the county and accounted for as reimbursement for services rendered in collecting the tax. Of the 90% that is forwarded to the State, ½ of the revenue attributable to the transfer of title to real property is credited to the Maine State Housing Authority's Housing Opportunities for Maine (H.O.M.E.) Fund, an Other Special Revenue program established by 30-A M.R.S.A. §4853.

The remainder is credited to the General Fund. In fiscal years 2004, 2005, 2006 and 2007 $7,500,000 of the portion that would ordinarily be credited to the H.O.M.E. Fund is credited to the General Fund. Beginning July 1, 2002, transfers of controlling interests are subject to the same tax. After the deduction of 10% county share, the remaining 90% of proceeds from the tax on the transfers of controlling interests accrues to the General Fund.

Revenue Source Forecast Factors and Trends:

Real estate market was growing very fast throughout most of FY05. In the June 2005 forecast, this line was revised downward by $1,000,000 for FY05 based on 2 months of negative variances. However, the positive variance at the end of FY05 nearly completely reversed that revision, coming in ahead of the revised forecast by $807,093. The trend through the early part of FY06 shows continued growth in this revenue above budgeted estimates. The assumptions in the December 2005 forecast assumed that the market would slow significantly in FY06. The 38.5% decline from FY07 to FY08 reflects the ending of the General Fund retention of $7,500,000 of the H.O.M.E. Fund's share.

Forecast Recommended Changes:

The RFC has recommended a one-time adjustment in FY06 to reflect the variance through the first 7 months of the fiscal year. The forecast assumes a slowing in the real estate market, hence the 6.7% decline from FY05 to FY06 after the one-time adjustment. Early indicators, particularly Massachusetts's recent experience, indicate a market turn around. Interest rates have been rising and prices are high in many areas.

General Fund - Liquor Sales and Operations

	FY03 Actual	FY05 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$26,073,276	$102,182,743	$49,845,027	$1,500,000	$1,500,000	$1,500,000	$1,500,000
Annual % Growth		291.9%	-51.2%	-97.0%	0.0%	0.0%	0.0%
Net Increase (Decrease)				$1,034,391	$2,000,000	$2,000,000	$2,000,000
Revised Forecast	$26,073,276	$102,182,743	$49,845,027	$2,534,391	$3,500,000	$3,500,000	$3,500,000
Annual % Growth				-94.9%	38.1%	0.0%	0.0%

Revenue Source Summary:

In July 2004, the State signed a ten year lease with a private entity for the sale and distribution of spirits subject to price regulation by the Bureau of Alcoholic Beverages and Lottery Operations. Throughout the term the private entity is guaranteed a gross profit baseline percentage of 36.8%. Revenue sharing with the state is determined on a calendar year basis when aggregate sales exceed 36.8% at which time an amount equal to 50% of the gross profit overage is deposited in the General Fund.

Revenue Source Forecast Factors and Trends:

As a result of the aforementioned 10 year lease with the private entity, the State collected one-time payments from the private entity in the amounts of $75,000,000 in FY04 and $50,000,000 in FY05; these payments were budgeted as revenue amounts for the respective fiscal years and were deposited as revenue accordingly. As a result of the lease agreement and the one-time payments, the State had been foregoing budgeted revenue from Liquor Sales and Operations for the duration of the lease which includes FY06 through FY09.

Forecast Recommended Changes:

Most recently, aggregate sales have significantly exceeded the contractual threshold thereby triggering revenue sharing with the State. Accordingly, revenue estimates have been increased by $1,034,391 in FY06 and by $2,000,000 for FY07 and each fiscal year thereafter.

General Fund - Parimutuel and Gaming Revenue

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$1,086,936	$1,036,539	$1,362,611	$4,114,814	$4,682,640	$7,281,584	$8,605,583
Annual % Growth		-4.6%	31.5%	202.0%	13.8%	55.5%	18.2%
Net Increase (Decrease)				$321,336	($225,330)	($2,669,977)	($1,977,918)
Revised Forecast	$1,086,936	$1,036,539	$1,362,611	$4,436,150	$4,457,310	$4,611,607	$6,627,665
Annual % Growth				225.6%	0.5%	3.5%	43.7%

Revenue Source Summary:

For parimutuel revenue, the State collects a commission on live harness racing, race track simulcasting and off-track betting on horse racing. The commission for intrastate pools is 18% on regular wagers and 26% on exotic wagers. The commission on interstate common pools is the amount established by the State where the wager is pooled. Amounts collected as commissions are distributed among the General Fund and several dedicated funds or retained by or returned to race tracks and off-track betting facilities.

Gaming revenue is collected from slot machines which are currently authorized to be located on the premises of one commercial racetrack in Bangor and from various licensing and registration fees that are levied upon the private entities that own and operate the slot machines. Under current law (8 MRSA § 1036), 1% of the total slot income (the amount collected from slot machine players) is distributed to the General Fund as well as 3% of the gross slot income (the amount that is distributed to the owner and various governmental purposes after paybacks to the winning players).

Revenue Source Forecast Factors and Trends:

To a certain extent, the collection of budgeted parimutuel revenue is dependent on favorable weather and overall economic conditions; protracted periods of inclement weather and poor economic trends will adversely effect both the attendence at commercial racetracks and the availability of discretionary resources to make wagers. Recent trends in the collection of parimutuel revenue show a negative variance of approximately $118,000 between budgeted and actual revenue amounts.

The collection of previously budgeted gaming revenue has been significantly hampered by changing timelines in the opening of a slot machine facility in Bangor. Recently, Penn National, the licensed slot machine operator, opened a temporary facility in early November of 2005 with 475 registered slot machines. In addition, the best available information appears to indicate that Penn National will be opening a larger, permanent facility with 1,000 registered slot machines in June of 2008.

For this forecast, the Revenue Forecasting Committee has 3 months of actual data from which the Revenue Forecasting Committee has revised the spreadsheet that calculates the revenue from the racino initiative to provide more detailed assumptions based on actual experience.

Parimutuel Revenue is under budget in the current fiscal year by approximately $118,000 through January. This appears to be related to a general decline in the handle or amount of wagers.

Forecast Recommended Changes:

The attached spreadsheet details the revised assumptions that produce the revised estimate for revenue from the slot machine facility in Bangor. The critical assumption changes were the addition of a payback % factor, which is higher than original assumed and the monthly revenue per machine assumption which was detailed on a monthly basis to reflect seasonality in the expected total slot income and to reflect the novelty of the slot machine facility in the short-term. This estimate for FY08 and FY09 is based on the assumption that the permanent facility will open with 1,000 machine (rather than the 1,500 authorized) in

Parimutuel Revenue is revised downward by $118,000 per year to reflect the current year variance, which appears to be a result of an on-going decline in the handle.

Revenue Forecasting Committee - March 2006 - Racino Revenue - June 2008 Opening

GENERAL FUND REVENUE	2004-05*	2005-06	2006-07	2007-08	2008-09
December 2005 Forecast - General Fund Revenue	$401,115	$2,986,614	$3,554,440	$6,281,584	$7,605,583
Incremental Effect of March 2006 Forecast	$0	$439,336	($107,330)	($2,551,977)	($1,859,918)
March 2006 Forecast - Revised General Fund Revenue	$401,115	$3,425,950	$3,447,110	$3,729,607	$5,745,665

FUND FOR A HEALTHY MAINE REVENUE	2004-05*	2005-06	2006-07	2007-08	2008-09
December 2005 Forecast - Fund for a Healthy Maine Revenue	$0	$1,675,960	$2,619,136	$4,638,093	$5,735,400
Incremental Effect of March 2006 Forecast	$0	($335,591)	($720,395)	($2,643,362)	($2,589,850)
March 2006 Forecast - Fund for a Healthy Maine Revenue	$0	$1,340,369	$1,898,741	$1,994,731	$3,145,550

Detail of Current Revenue Forecast - Distribution of Total Slot Income

		2004-05*	2005-06	2006-07	2007-08	2008-09
Total Slot Income (Coin/Voucher In) (A)		$0	$225,022,311	$271,248,750	$290,318,750	$462,650,000
Player's Share (Payback Value) (B)		$0	$211,618,620	$252,261,338	$270,371,438	$431,194,500
General Fund - Administration	1.0%	$0	$2,250,223	$2,712,488	$2,903,188	$4,626,500
"Gross Slot Machine Income" (A-B)		$0	$13,403,691	$18,987,413	$19,947,313	$31,455,500
Licensees' Share of "Gross Slot Machine Income"	**61.0%**	**$0**	**$8,176,251**	**$11,582,322**	**$12,167,861**	**$19,187,855**
Distribution of State Share of "Gross Slot Machine Income"	**39.0%**					
General Fund (other)	3.0%	$0	$402,111	$569,622	$598,419	$943,665
Fund for Healthy Maine	10.0%	$0	$1,340,369	$1,898,741	$1,994,731	$3,145,550
University of Maine Scholarship Fund (FAME)	2.0%	$0	$268,074	$379,748	$398,946	$629,110
Maine Community College System - Scholarship Funds	1.0%	$0	$134,037	$189,874	$199,473	$314,555
Resident Municipalities	1.0%	$0	$134,037	$189,874	$199,473	$314,555
Purse Supplements	10.0%	$0	$1,340,369	$1,898,741	$1,994,731	$3,145,550
Sire Stakes Fund	3.0%	$0	$402,111	$569,622	$598,419	$943,665
Fund to Encourage Racing at Commercial Tracks	4.0%	$0	$536,148	$759,497	$797,893	$1,258,220
Fund to Stabilize Off- Track betting	2.0%	$0	$268,074	$379,748	$398,946	$629,110
Agricultural Fair Support Fund	3.0%	$0	$402,111	$569,622	$598,419	$943,665

Revenue Summary	2004-05*	2005-06	2006-07	2007-08	2008-09
General Fund					
One-time Reimbursement - Background Checks	$1,475	$161,116	$0	$0	$0
General Fund Administration	$0	$2,250,223	$2,712,488	$2,903,188	$4,626,500
General Fund (Other)	$0	$402,111	$569,622	$598,419	$943,665
Licensing revenue	$399,640	$612,500	$165,000	$228,000	$175,500
Subtotal - General Fund	**$401,115**	**$3,425,950**	**$3,447,110**	**$3,729,607**	**$5,745,665**
Fund for Healthy Maine	**$0**	**$1,340,369**	**$1,898,741**	**$1,994,731**	**$3,145,550**
Other Special Revenue Funds					
Harness Racing Commission	$0	$2,948,813	$4,177,230	$4,388,408	$6,920,210
HRC - Subtotal	$0	$2,948,813	$4,177,230	$4,388,408	$6,920,210
PUS- host municipalities	$0	$25,000	$25,000	$25,000	$25,000
University of Maine Scholarship Fund (FAME)	$0	$268,074	$379,748	$398,946	$629,110
Maine Community College System Scholarships	$0	$134,037	$189,874	$199,473	$314,555
Resident Municipalities	$0	$134,037	$189,874	$199,473	$314,555
Subtotal - Other Special Revenue Funds	**$0**	**$3,509,961**	**$4,961,726**	**$5,211,300**	**$8,203,430**

Details and Assumptions

Calculated Total Slot Machine Income Per Month	# of days	2004-05*	2005-06	2006-07	2007-08	2008-09
Total Total Slot Income - Fiscal Year		**$0**	**$225,022,311**	**$271,248,750**	**$290,318,750**	**$462,650,000**
July	31	$0	$0	$27,977,500	$27,977,500	$46,500,000
August	31	$0	$0	$27,977,500	$27,977,500	$46,500,000
September	30	$0	$0	$27,075,000	$27,075,000	$45,000,000
October	31	$0	$0	$25,768,750	$25,032,500	$43,400,000
November	31	$0	$26,353,665	$18,406,250	$22,087,500	$31,000,000
December	31	$0	$35,196,180	$22,087,500	$22,087,500	$38,750,000
January	31	$0	$32,538,716	$18,406,250	$18,406,250	$31,000,000
February	28	$0	$26,600,000	$16,625,000	$16,625,000	$28,000,000
March	31	$0	$27,977,500	$22,087,500	$22,087,500	$38,750,000
April	30	$0	$25,650,000	$21,375,000	$21,375,000	$37,500,000
May	31	$0	$25,768,750	$22,087,500	$22,087,500	$38,750,000
June	30	$0	$24,937,500	$21,375,000	$37,500,000	$37,500,000

Player's Share of Slot Machine Income Per Month	2004-05*	2005-06	2006-07	2007-08	2008-09
Total Player's Share - Fiscal Year	**$0**	**$211,618,620**	**$252,261,338**	**$270,371,438**	**$431,194,500**
July	$0	$0	$26,019,075	$26,019,075	$43,710,000
August	$0	$0	$26,019,075	$26,019,075	$43,710,000
September	$0	$0	$25,179,750	$25,179,750	$41,850,000
October	$0	$0	$23,964,938	$23,280,225	$40,362,000
November	$0	$24,785,622	$17,117,813	$20,541,375	$28,830,000
December	$0	$33,168,880	$20,541,375	$20,541,375	$36,037,500
January	$0	$30,586,393	$17,117,813	$17,117,813	$28,830,000
February	$0	$25,004,000	$15,461,250	$15,461,250	$26,040,000
March	$0	$26,298,850	$20,541,375	$20,541,375	$36,037,500
April	$0	$24,111,000	$19,878,750	$19,878,750	$34,875,000
May	$0	$24,222,625	$20,541,375	$20,541,375	$36,037,500
June	$0	$23,441,250	$19,878,750	$35,250,000	$34,875,000

Licensing and Application Revenues:	#	Fee	2004-05*	2005-06	2006-07	2007-08	2008-09
Slot Machine Operator- Initial Application Fee	1	$200,000	$200,000	$75,000	$75,000	$75,000	$75,000
Slot Machine Operator- Annual Renewal Fee		$75,000	$0	$75,000	$75,000	$75,000	$75,000
Transfer of Operator Renewal Fee to host municipality			$0	($25,000)	($25,000)	($25,000)	($25,000)
Slot Machine Distributor - Initial Application Fee	3	$200,000	$199,640	$400,000	$0	$0	$0
Slot Machine Distributor - Annual Renewal Fee		TBD	$0	$0	$0	$0	$0
Slot Machines - Initial Registration Fee		$100	$0	$47,500	$0	$52,500	$0
Slot Machines - Annual Renewal Fee		TBD	$0	$0	$0	$0	$0
Gambling Services Vendors	4	$2,000	$0	$8,000	$8,000	$8,000	$8,000
Number of Licensed Employees				128	128	170	170
Application Fees from Licensed Employees		$250	$0	$32,000	$32,000	$42,500	$42,500
Total License Fees			**$399,640**	**$612,500**	**$165,000**	**$228,000**	**$175,500**
Licensee Background Check Cost Reimbursement (one-time)			$1,475	$161,116	$0	$0	$0

Number of Machines	2004-05*	2005-06	2006-07	2007-08	2008-09
July	0	0	475	475	1,000
August	0	0	475	475	1,000
September	0	0	475	475	1,000
October	0	0	475	475	1,000
November	0	475	475	475	1,000
December	0	475	475	475	1,000
January	0	475	475	475	1,000
February	0	475	475	475	1,000
March	0	475	475	475	1,000
April	0	475	475	475	1,000
May	0	475	475	475	1,000
June	0	475	475	1,000	1,000

Payback % Average for Month	2004-05*	2005-06	2006-07	2007-08	2008-09
July	0.00%	0.00%	93.00%	93.00%	94.00%
August	0.00%	0.00%	93.00%	93.00%	94.00%
September	0.00%	0.00%	93.00%	93.00%	93.00%
October	0.00%	0.00%	93.00%	93.00%	93.00%
November	0.00%	94.05%	93.00%	93.00%	93.00%
December	0.00%	94.24%	93.00%	93.00%	93.00%
January	0.00%	94.00%	93.00%	93.00%	93.00%
February	0.00%	94.00%	93.00%	93.00%	93.00%
March	0.00%	94.00%	93.00%	93.00%	93.00%
April	0.00%	94.00%	93.00%	93.00%	93.00%
May	0.00%	94.00%	93.00%	93.00%	93.00%
June	0.00%	94.00%	93.00%	94.00%	93.00%

Average Total Slot Income Per Machine Per Day	2004-05*	2005-06	2006-07	2007-08	2008-09
Average for the Fiscal Year	**$0**	**$1,995**	**$1,558**	**$1,554**	**$1,263**
July	$0	$0	$1,900	$1,900	$1,500
August	$0	$0	$1,900	$1,900	$1,500
September	$0	$0	$1,900	$1,900	$1,500
October	$0	$0	$1,750	$1,700	$1,400
November	$0	$2,134	$1,250	$1,500	$1,000
December	$0	$2,179	$1,500	$1,500	$1,250
January	$0	$2,447	$1,250	$1,250	$1,000
February	$0	$2,000	$1,250	$1,250	$1,000
March	$0	$1,900	$1,500	$1,500	$1,250
April	$0	$1,800	$1,500	$1,500	$1,250
May	$0	$1,750	$1,500	$1,500	$1,250
June	$0	$1,750	$1,500	$1,250	$1,250

Calculation of 39% State Share	2004-05*	2005-06	2006-07	2007-08	2008-09
Total 39% State Share - Fiscal Year	**$0**	**$5,227,441**	**$7,405,095**	**$7,779,455**	**$12,267,645**
July	$0	$0	$763,786	$763,786	$1,088,100
August	$0	$0	$763,786	$763,786	$1,088,100
September	$0	$0	$739,148	$739,148	$1,228,500
October	$0	$0	$703,487	$683,387	$1,184,820
November	$0	$611,537	$502,491	$602,989	$846,300
December	$0	$790,647	$602,989	$602,989	$1,057,875
January	$0	$761,406	$502,491	$502,491	$846,300
February	$0	$622,440	$453,863	$453,863	$764,400
March	$0	$654,674	$602,989	$602,989	$1,057,875
April	$0	$600,210	$583,538	$583,538	$1,023,750
May	$0	$602,989	$602,989	$602,989	$1,057,875
June	$0	$583,538	$583,538	$877,500	$1,023,750

Fund for a Healthy Maine Share of 39% State Share	2004-05*	2005-06	2006-07	2007-08	2008-09
	$0	**$1,340,369**	**$1,898,744**	**$1,994,734**	**$3,145,550**
July	$0	$0	$195,843	$195,843	$279,000
August	$0	$0	$195,843	$195,843	$279,000
September	$0	$0	$189,525	$189,525	$315,000
October	$0	$0	$180,381	$175,227	$303,800
November	$0	$156,804	$128,844	$154,613	$217,000
December	$0	$202,730	$154,613	$154,613	$271,250
January	$0	$195,232	$128,844	$128,844	$217,000
February	$0	$159,600	$116,375	$116,375	$196,000
March	$0	$167,865	$154,613	$154,613	$271,250
April	$0	$153,900	$149,625	$149,625	$262,500
May	$0	$154,613	$154,613	$154,613	$271,250
June	$0	$149,625	$149,625	$225,000	$262,500

General Fund Share of 39% State Share	2004-05*	2005-06	2006-07	2007-08	2008-09
	$0	**$402,112**	**$569,625**	**$598,422**	**$943,665**
July	$0	$0	$58,753	$58,753	$83,700
August	$0	$0	$58,753	$58,753	$83,700
September	$0	$0	$56,858	$56,858	$94,500
October	$0	$0	$54,114	$52,568	$91,140
November	$0	$47,041	$38,653	$46,384	$65,100
December	$0	$60,819	$46,384	$46,384	$81,375
January	$0	$58,570	$38,653	$38,653	$65,100
February	$0	$47,880	$34,913	$34,913	$58,800
March	$0	$50,360	$46,384	$46,384	$81,375
April	$0	$46,170	$44,888	$44,888	$78,750
May	$0	$46,384	$46,384	$46,384	$81,375
June	$0	$44,888	$44,888	$67,500	$78,750

General Fund - Fines, Forfeits and Penalties

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$26,991,935	$38,219,275	$35,506,972	$43,042,996	$44,705,883	$42,015,208	$42,020,208
Annual % Growth		41.6%	-7.1%	21.2%	3.9%	-6.0%	0.0%
Net Increase (Decrease)				($2,500,000)	($2,500,000)	($1,500,000)	($1,500,000)
Revised Forecast	$26,991,935	$38,219,275	$35,506,972	$40,542,996	$42,205,883	$40,515,208	$40,520,208
Annual % Growth		41.6%	-7.1%	14.2%	4.1%	-4.0%	0.0%

Revenue Source Summary:

Revenue derived from fines, forfeitures and penalties is collected primarily through the efforts of the Violations Bureau within the Judicial Department. These funds statutorily accrue to the state's General Fund as undedicated revenue. There are some instances where fines, forfeitures and penalties are credited to other funds, such as fines from certain traffic infractions against motor carriers credited to the Highway Fund. There are other situations where funds are statutorily dedicated for other specific purposes.

Revenue Source Forecast Factors and Trends:

The major factors that affect this revenue source are the number of violators being prosecuted by law enforcement, the ability of violators to pay fines and the collection effort implemented by the judicial system. Historically, this revenue source has relied on beefed-up law enforcement, accelerated fine collections and increased fines as ways to generate additional revenue to the General Fund. PL 2005, chapter 12, chapter 457 and chapter 386 required 60 additional aircraft speed details, accelerated fine collection, seat belt enforcement fines and increased fines for assault, driving to endanger and certain drug offenses, resulting in additional revenues of $5,258,007 in fiscal year 2005-06, $6,239,659 in fiscal year 2006-07 and $3,539,659 in fiscal year 2007-08 and 2008-09. In the first quarter of fiscal year 2005-06, there is a revenue shortfall of $1.9 million. Approximately $1.5 million is attributable to conversion problems in a new computer system; the remaining $400,000 is revenue received during September but accounted for in October.

Forecast Recommended Changes:

The Judicial Branch gross revenue estimate for Fiscal Year '06 is slightly more than $49 million, which is $10 million more than was collected in Fiscal Year '05. Based on the information available at this time we are estimating that revenue will be $2.5 million below estimate in both Fiscal Years '06 and '07. The primary reason for the reduced estimate is our belief that money categorized as unpaid fines is less collectable than originally anticipated. Of the estimated $7.5 million to be collected from overdue fines, beyond the amount normally collected by the court system, we are now estimating that we will collect $2.5 million. The $1.5 million downward revisions reflect the right off of future revenue associated with overdue fines.

General Fund - Targeted Case Management (HHS)

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$33,235,104	$34,762,095	$34,518,055	$34,907,681	$35,271,042	$35,786,872	$36,262,056
Annual % Growth		4.6%	-0.7%	1.1%	1.0%	1.5%	1.3%
Net Increase (Decrease)				($3,500,000)	($3,500,000)	($3,500,000)	($3,500,000)
Revised Forecast	$33,235,104	$34,762,095	$34,518,055	$31,407,681	$31,771,042	$32,286,872	$32,762,056
Annual % Growth		4.6%	-0.7%	-9.0%	1.2%	1.6%	1.5%

Revenue Source Summary:

This revenue source is Medicaid reimbursement for case management services provided by the Bureau of Elder and Adult Services, the Bureau of Child and Family Services, and the Bureau of Health within the Department of Health and Human Services. It also includes reimbursement for services provided by adult mental health caseworkers and case management for persons with mental retardation.

Revenue Source Forecast Factors and Trends:

Major factors include: the volume and timeliness of claims submitted and paid by Medicaid for these services; the rates billed and allowable for these services, and the prevailing federal match rate for these services. Ongoing implementation issues with the new Medicaid claims processing system (MECMS) has resulted in a delay in the payment of all Medicaid claims including these for Targeted Case Management Services (i.e., services provided). Estimates for the forecast period assume these issues will be resolved before the close of FY 06 and that the equivalent of at least 12 months of claims will be paid each fiscal year.

Forecast Recommended Changes:

The forecast assumes revenue from this source will be under budgeted by $3,000,000 in FY 06 and $5,000,000 annually beginning in FY 07. The decline in revenue is primarily attributed to a decline in caseload in the individual revenue line projections for case management services provided by the Bureau of Child and Family Services and case management services provided to persons with mental retardation. The forecast does not reflect any impact that may arise as a result of a TCM audit being conducted by the federal Department of Health and Human Services, Office of the Inspector General (OIG).

General Fund - State Cost Allocation Program (STACAP)

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$10,986,971	$10,438,262	$12,891,574	$10,537,222	$10,721,512	$10,721,512	$10,721,512
Annual % Growth		-5.0%	23.5%	-18.3%	1.7%	0.0%	0.0%
Net Increase (Decrease)				$1,000,000	$1,000,000	$0	$0
Revised Forecast	$10,986,971	$10,438,262	$12,891,574	$11,537,222	$11,721,512	$10,721,512	$10,721,512
Annual % Growth		-5.0%	23.5%	-10.5%	1.6%	-8.5%	0.0%

Revenue Source Summary:

The State Cost Allocation Plan (STACAP) distributes central service overhead costs to all programs within the MFASIS accounting system. Central services are provided by those administrative units that mainly provide services to departments and agencies and not to the general public. Examples of central services include building use and maintainence, equipment use, Capitol Security, accounting, budgeting, accounts payable, payroll, human resources, employee relations, purchasing, auditing, cash management, records storage, etc. The allowable overhead costs are allocated to all applicable agencies and programs and an individual indirect cost rate is calculated for each agency.

The indirect cost rate is assessed against operating expenditures and the assessed amount is transferred monthly to the General Fund. The allocation is based on all fund types but is assessed only on non-General Fund operating expenditures. The assessment is applied to expenditures in most character and object codes. No STACAP charges are applied to expenditures for grants to governments, individuals, private or public agencies, for pensions or workers compensation benefits or for capital equipment or improvements.

Revenue Source Forecast Factors and Trends:

In FY05, the STACAP revenue category had a substantial positive variance of $2,199,069 (+20.6%). This positive variance was the result of an increase of $133 million in the expenditure base with non-general fund expenditures growing by 2%. There has also been no negative effect from the carry-forward calculation.

Within this category is a reimbursment to the Highway Fund for Highway Fund expenditures that qualify for reimbursement as central administrative costs. The budgeted revenue is based on Highway Fund allocations to the Building and Grounds Operations program within the Department of Administrative and Financial Services.

This forecast was revised upward by $1.0 million annually in December. The performance in the current fiscal year continues to exceed the revised forecast.

Forecast Recommended Changes:

Based on the current variance over revised projections, the committee is recommending an additional increase of $1,000,000 each year in the General Fund revenue during 2006-2007 biennium. The committee has delayed recognition of this additional revenue on an on-going basis in the 2008-2009 biennium due to uncertainty about future expenditures and potential carry-forward calculation effects.

General Fund - Education Efficiency Fund Transfer

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$0	$0	$0	$0	$0	($14,552,541)	($20,730,626)
Annual % Growth		N/A	N/A	N/A	N/A	N/A	42.5%
Net Increase (Decrease)				$0	$0	($354,796)	($743,291)
Revised Forecast	$0	$0	$0	$0	$0	($14,907,337)	($21,473,917)
Annual % Growth		N/A	N/A	N/A	N/A	N/A	44.0%

Revenue Source Summary:

The amounts above reflect transfers to the Fund for the Efficient Delivery of Educational Services within the Department of Education established in Public Law 2005, Chapter 2, Part D. Beginning in FY08, the State Controller is to transfer an amount equivalent to 1.5% of the total amount appropriated for general purpose aid for local schools. That amount increases to 2.0% of the total GPA appropriation beginning in FY09 and each fiscal year thereafter.

Revenue Source Forecast Factors and Trends:

This transfer is driven by the amount of funds projected to be needed to fulfill the State's share of the total cost of K-12 public education based on the Essential Programs and Services model. Title 20-A, §15671, sub-§7 requires the State to fund 54.44% of 95% of the total cost of K-12 education in FY08 and 55% of the total EPS cost beginning in FY09. The primary factors in estimating the total cost of funding K-12 education include student enrollment, wages and benefits for school personnel, special education costs, and the rate of inflation (CPI).

Forecast Recommended Changes:

The FY08 and FY09 changes are based on the Commissioner's Recommended Funding Level prepared in December 2005 which reprojected the total cost of funding K-12 public education beginning in FY07. The increase in funding is due to several factors including a slower than anticipated decline in student enrollment, a higher than anticipated rate of inflation and an increase in the years of experience of professional

General Fund - Tourism Transfer

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$0	($7,213,282)	($7,554,190)	($7,762,689)	($8,237,761)	($8,675,720)	($9,145,907)
Annual % Growth		N/A	4.7%	2.8%	6.1%	5.3%	5.4%
Net Increase (Decrease)				$0	$135,674	$145,633	$154,127
Revised Forecast	$0	($7,213,282)	($7,554,190)	($7,762,689)	($8,102,087)	($8,530,087)	($8,991,780)
Annual % Growth		N/A	4.7%	2.8%	4.4%	5.3%	5.4%

Revenue Source Summary:

The amounts above reflect transfers to the Tourism Marketing Promotion Fund within the Department of Economic and Community Development, Office of Tourism. Beginning July 1, 2003 and every July 1st thereafter, the State Controller transfers to the Tourism Marketing Promotion Fund an amount, as certified by the State Tax Assessor, that is equivalent to 5% of the 7% tax imposed on tangible personal property and taxable services pursuant to Title 36, section 1811, for the first 6 months of the prior fiscal year after the reduction for the transfer to the Local Government Fund as described by Title 30-A, section 5681, subsection 5. Beginning on October 1, 2003 and every October 1st thereafter, the State Controller transfers to the Tourism Marketing Promotion Fund an amount, as certified by the State Tax Assessor, that is equivalent to 5% of the 7% tax imposed on tangible personal property and taxable services pursuant to Title 36, section 1811, for the last 6 months of the prior fiscal year after the reduction for the transfer to the Local Government Fund. The tax amount may not consider any accruals.

The amount transferred from General Fund sales and use tax revenues does not affect the calculation for the transfer to the Local Government Fund.

Revenue Source Forecast Factors and Trends:

This transfer is driven by the revenue forecast of the meals and lodging. Given the detail available for the 7% tax portion of the Sales and Use Tax, the Sales Tax model is targeted for this category.

Forecast Recommended Changes:

The FY06 recommended change is based on actual data from FY05 that is transferred in FY06. The remaining upward recommendations reflect the adjustments forecast by the sales tax model.

General Fund - Other Miscellaneous

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$27,007,764	$46,790,827	$36,659,221	$32,845,769	$30,674,180	$27,734,880	$24,846,666
Annual % Growth		73.2%	-21.7%	-10.4%	-6.6%	-9.6%	-10.4%
Net Increase (Decrease)				($1,853,125)	($942,197)	($948,243)	($954,449)
Revised Forecast	$27,007,764	$46,790,827	$36,659,221	$30,992,644	$29,731,983	$26,786,637	$23,892,217
Annual % Growth		73.2%	-21.7%	-15.5%	-4.1%	-9.9%	-10.8%

Revenue Source Summary:

This group reflects all the other General Fund revenue sources collected by the various departments and agencies that are not otherwise classified in the General Fund Summary Table.

Provided below is a summary of the major one-time or temporary revenue adjustments that have affected the revenue growth pattern of this group. This group includes many miscellaneous one-time items that distort trends. The list below summarizes the effect of some of the significant one-time or temporary revenue initiatives.

Unusual-Temporary Revenue	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Highway Fund Revenue Sharing	$0	$13,570,000	$9,600,000	$0	$0	$0	$0
Other Revenue Sharing Trasnfer	$0	$0	$0	$0	$5,000,000	$0	$0
School Construction Recovery	$0	$0	$0	$5,900,000	$0	$0	$0
HHS - Intergovernment Transfers	$1,000,000	$5,844,528	$1,681,272	$0	$0	$0	$0
HHS Audit Settlements	$495,163	$3,490,837	$1,199,437	$50,000	$50,000	$50,000	$50,000
Milk Pool Distribution Transfer	$0	$0	$0	($306,871)	($1,420,000)	($1,420,000)	($1,420,000)
Transfer of Limestone Rental	$0	$0	$0	$855,223	$1,109,723	$0	$0
Total Temporary Revenue	$1,495,163	$22,905,365	$12,480,709	$6,498,352	$4,739,723	($1,370,000)	($1,370,000)
Adjusted Total	**$25,512,601**	**$23,885,462**	**$24,178,512**	**$24,494,292**	**$24,992,260**	**$28,156,637**	**$25,262,217**
Adjusted Annual % Growth		**-6.4%**	**1.2%**	**1.3%**	**2.0%**	**12.7%**	**-10.3%**

Summary of Revenue Adjustments

Presented below are the adjustments made to the various revenue sources in this category with a brief description of the reason for the change.

Conservation - Parks - Recreational Use of Parks (2610)

FY06	FY07	FY08	FY09
($463,629)	$0	$0	$0

This one-time reprojection in FY06 reflects a 5.1% decline in total parks attendence from the previous year; the decline is attributed to poor weather and the spike in gas prices and attendence is expected to recover to previous levels in future years.

Conservation - Division of Forest Protection - Filing Fees (2632)

	FY06	FY07	FY08	FY09
	($704,700)	($617,400)	($617,400)	($617,400)

This revenue item pertains to the new burn permit system which allows users to purchase burn permits from the Department of Conservation on-line at a cost of $6 per permit; use of the new system has been significantly below the original prediction of $792,000 in annual revenue beginning in FY06.

Corrections - Adult Community Corrrections - Miscellaneous Income (2686)

	FY06	FY07	FY08	FY09
	($280,000)	$0	$0	$0

This one-time reprojection in FY06 reflects a downward trend in the collection of revenue from supervision fees as a result of a reduction in probation caseload, higher risk offenders are less likely to afford supervision fees and the Department of Corrections has experienced a delay in the implementation of an automated reporting and collection system designed to enhance the collection process.

Education - Support Systems - Filing Fees (2632)

	FY06	FY07	FY08	FY09
	($400,000)	($325,694)	($332,200)	($338,800)

This revision corrects an estimate of a recent legislative change that added the original budgeted amounts to the incremental change from adding certain certification fees. The FY06 reduction is slightly higher to reflect the certification renewal of several hundred teachers prior to the fee increase taking effect in mid-September.

Inland Fisheries and Wildlife - Gas Tax (0321)

	FY06	FY07	FY08	FY09
	($4,796)	$897	$1,357	$1,751

This change adjusts the General Fund share of gas tax revenue to be consistent with the changes recommended for the Highway Fund.

Appendix B - Highway Fund

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HIGHWAY FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY04 Actual	% Chg.	FY05 Actual	% Chg.	FY05 Budget	FY05 Variance	% Variance
Fuel Taxes	182,502,097	4.5%	184,732,999	1.2%	187,901,008	1.7%	212,600,843	13.1%	220,484,728	3.7%	220,838,729	(354,001)	-0.2%
Motor Vehicle Registration & Fees	76,317,758	3.0%	83,285,014	9.1%	83,032,421	-0.3%	82,577,755	-0.5%	84,645,422	2.5%	81,378,234	3,267,188	4.0%
Inspection Fees	2,491,237	-5.1%	3,412,662	37.0%	4,169,773	22.2%	4,708,196	12.9%	4,260,059	-9.5%	4,281,459	(21,400)	-0.5%
Fines, Forfeits and Penalties	2,097,609	-2.2%	1,958,350	-6.6%	2,531,692	29.3%	1,918,703	-24.2%	1,518,580	-20.9%	1,890,359	(371,779)	-19.7%
Income from Investments	4,241,955	6.1%	2,857,209	-32.6%	1,338,794	-53.1%	720,046	-46.2%	1,440,739	100.1%	1,059,903	380,836	35.9%
Other Revenues	5,467,245	1.6%	5,737,781	4.9%	9,272,396	61.6%	9,502,442	2.5%	13,728,627	44.5%	13,817,473	(88,846)	-0.6%
Total - Highway Fund Revenue	**273,117,902**	**3.9%**	**281,984,017**	**3.2%**	**288,246,084**	**2.2%**	**312,027,986**	**8.3%**	**326,078,155**	**4.5%**	**323,266,157**	**2,811,998**	**0.9%**

Updated: 02/27/2006 5PM

HIGHWAY FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Fuel Taxes	230,922,713	4.7%	(4,145,720)	226,776,993	2.9%	234,955,289	1.7%	(165,999)	234,789,290	3.5%
Motor Vehicle Registration & Fees	87,172,358	3.0%	0	87,172,358	3.0%	88,378,117	1.4%	0	88,378,117	1.4%
Inspection Fees	4,397,970	3.2%	0	4,397,970	3.2%	4,414,756	0.4%	0	4,414,756	0.4%
Fines, Forfeits and Penalties	1,973,665	30.0%	0	1,973,665	30.0%	2,018,239	2.3%	0	2,018,239	2.3%
Income from Investments	1,600,000	11.1%	(300,000)	1,300,000	-9.8%	1,800,000	12.5%	(450,000)	1,350,000	3.8%
Other Revenues	9,286,173	-32.4%	0	9,286,173	-32.4%	9,433,331	1.6%	0	9,433,331	1.6%
Total - Highway Fund Revenue	**335,352,879**	**2.8%**	**(4,445,720)**	**330,907,159**	**1.5%**	**340,999,732**	**1.7%**	**(615,999)**	**340,383,733**	**2.9%**
Change in Biennial Totals								**(5,061,719)**		

Updated: 02/27/2006 5PM

HIGHWAY FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY08 Projection	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Projection	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Fuel Taxes	242,404,759	3.2%	176,249	242,581,008	3.3%	249,095,135	2.8%	619,747	249,714,882	2.9%
Motor Vehicle Registration & Fees	86,205,259	-2.5%	0	86,205,259	-2.5%	86,336,347	0.2%	0	86,336,347	0.2%
Inspection Fees	4,468,458	1.2%	0	4,468,458	1.2%	4,524,821	1.3%	0	4,524,821	1.3%
Fines, Forfeits and Penalties	2,018,239	0.0%	0	2,018,239	0.0%	2,018,239	0.0%	0	2,018,239	0.0%
Income from Investments	1,800,000	0.0%	(450,000)	1,350,000	0.0%	1,800,000	0.0%	(450,000)	1,350,000	0.0%
Other Revenues	9,621,183	2.0%	0	9,621,183	2.0%	9,687,473	0.7%	0	9,687,473	0.7%
Total - Highway Fund Revenue	**346,517,898**	**1.6%**	**(273,751)**	**346,244,147**	**1.7%**	**353,462,015**	**2.0%**	**169,747**	**353,631,762**	**2.1%**
Change in Biennial Totals								**(104,004)**		

Updated: 02/27/2006 5PM

Highway Fund - Fuel Taxes

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$187,901,008	$212,600,843	$220,484,728	$230,922,713	$234,955,289	$242,404,759	$249,095,135
Annual % Growth		13.1%	3.7%	4.7%	1.7%	3.2%	2.8%
Net Increase (Decrease)				($4,145,720)	($165,999)	$176,249	$619,747
Revised Forecast	$187,901,008	$212,600,843	$220,484,728	$226,776,993	$234,789,290	$242,581,008	$249,714,882
Annual % Growth		13.1%	3.7%	2.9%	3.5%	3.3%	2.9%

Revenue Source Summary:

An excise tax is imposed upon internal combustion engine fuel sold or used within this State. Beginning July 1, 2003, the rate is indexed annually for inflation. Refund of the gasoline tax paid (less 1¢ per gallon) is provided for fuel used in commercial motor boats, tractors used for agricultural purposes, vehicles used on rail and tracks or in stationary engines or in mechanical or industrial arts. Fuel used for these purposes is subject to the 5% use tax if the gasoline tax is refunded. Full refund is provided for certain common carrier passenger service vehicles.

Revenue Source Forecast Factors and Trends:

The collection of budgeted fuel taxes is somewhat dependent on a fairly strong economy and reasonable retail prices for gasoline. In recent years, fuel taxes were over budget by $2.1 million in FY 04 and under budget by $0.4 million in FY 05. The impact of the hurricane-related upsurge in gasoline prices during the fall of 2005 has not yet been fully determined. Through January, revenue in this category for FY06 was under budget by $4.9 million. Approximately, $3.0 million of this negative variance is associated with the revenue from an unusually large audit assessment that was included in the December 2005 revenue forecast, but now has been determined to be uncollectible.

Forecast Recommended Changes:

In its February 2006 report, the Consensus Economic Forecasting Commission again increased its CPI estimates. These have affected the projections for tax rates as indicated below. The FY06 model forecast for gasoline tax revenue was adjusted downward by $3.0 million to reverse the unusual audit revenue that will be uncollectable. In the current fiscal year, the revised inflation forecast is not a factor in this forecast and the revised forecast of personal income drives the estimate downward by approximately $1.1 million. The inflation factor change offsets the change in other economic variables in future years, resulting in a minor downward revision in FY07 and then upward revisions in FY08 and FY09.

Actual and Projected Tax Rates							
	7/1/2002 Act.	7/1/2003 Act.	7/1/2004 Act.	7/1/2005 Act.	7/1/2006	7/1/2007	7/1/2008
Gasoline Tax							
Current Forecast	$0.220	$0.246	$0.252	$0.259	$0.267	$0.274	$0.281
Revised Forecast					**$0.268**	**$0.276**	**$0.284**
Special Fuel Tax							
Current Forecast	$0.230	$0.257	$0.263	$0.270	$0.279	$0.287	$0.294
Revised Forecast					**$0.279**	**$0.287**	**$0.295**

Highway Fund - Income From Investments

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$1,338,794	$720,046	$1,440,739	$1,600,000	$1,800,000	$1,800,000	$1,800,000
Annual % Growth		-46.2%	100.1%	11.1%	12.5%	0.0%	0.0%
Net Increase (Decrease)				($300,000)	($450,000)	($450,000)	($450,000)
Revised Forecast	$1,338,794	$720,046	$1,440,739	$1,300,000	$1,350,000	$1,350,000	$1,350,000
Annual % Growth		-46.2%	100.1%	-9.8%	3.8%	0.0%	0.0%

Revenue Source Summary:

Pursuant to 5 MRSA section 135, the Treasurer of State invests excess money in the state treasury that is not needed to meet current obligations. The Treasurer of State is authorized to invest these funds in bonds, notes, certificates of indebtedness or other obligations specified in statute. Earnings on investment of Highway Fund balances are credited back to the Highway Fund.

Revenue Source Forecast Factors and Trends:

The major factors that affect earnings are the rates of return on investments and the balances of cash available for investment. These factors are heavily influenced by the economy, the budget and the Treasurer's investment policies.

Economy - Interest rates have been near historic lows for several years as the Federal Reserve Board has initiated and maintained a loose monetary policy to help foster economic growth and recovery. Slow economic recovery has limited revenue growth. These trends reduced earnings early in this decade. FY 05 saw interest rates rise as the Feds tightened the money supply, helping to improve earnings. Economy.com predicts rates peaking in calendar 2006.

Budget - Highway Fund balances normally carried forward have been partially used to fund expenditures in recent years. The recommended estimates are based on a further erosion of those balances down to an yearly average of $30,000,000 in available balances invested.

Investment Policy - The Treasurer's investment policy (type of investment vehicle purchased, liquidity to meet daily needs, selection criteria for specific investments, etc.) affects the rate of return on the pool. No change in policy is expected.

Forecast Recommended Changes:

Based on assumptions for balances, the estimates for earnings have been revised downward for each year.

Assumptions							
	FY03 Actual	**FY04 Actual**	**FY05 Actual**	**FY06**	**FY07**	**FY08**	**FY09**
Balances							
Current Forecast	$63,307,527	$53,718,303	$57,959,816	$40,000,000	$40,000,000	$40,000,000	$40,000,000
Revised Forecast				$30,000,000	$30,000,000	$30,000,000	$30,000,000
Pool Earnings Rate							
Current Forecast	2.06%	1.32%	2.39%	4.00%	4.00%	4.00%	4.00%
Revised Forecast				4.33%	4.50%	4.50%	4.50%

Appendix C - Fund for a Healthy Maine

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FUND FOR A HEALTHY MAINE REVENUE
(TOBACCO SETTLEMENT REVENUE)
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY00 Actual	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual *	% Chg.	FY04 Actual	% Chg.	FY05 Actual	% Chg.	FY05 Budget	FY05 Variance	% Variance
Initial Payments	35,541,456	16,839,539	-52.6%	16,236,644	-3.6%	16,458,172	1.4%	0	-100.0%	0	N/A	0	0	N/A
Base Payments	27,422,283	30,926,515	12.8%	40,055,643	29.5%	39,348,861	-1.8%	48,952,964	24.4%	49,033,349	0.2%	48,491,906	541,443	1.1%
Attorney General Reimbursements	212,904	53,226	-75.0%	25,475	-52.1%	0	-100.0%	0	N/A	0	N/A	0	0	N/A
Racino Revenue **	0	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	0	N/A
Income from Investments	1,604,300	3,605,927	124.8%	1,233,998	-65.8%	681,756	-44.8%	54,830	-92.0%	91,444	66.8%	45,000	46,444	103.2%
Total - Tobacco Settlement Revenue	**64,780,943**	**51,425,207**	**-20.6%**	**57,551,760**	**11.9%**	**56,488,789**	**-1.8%**	**49,007,794**	**-13.2%**	**49,124,793**	**0.2%**	**48,536,906**	**587,887**	**1.2%**

* FY03 Actual does not include $514,339 received in July 2003 and $480,059 received in October 2003 that were related to payments due prior to FY04.
** Racino Revenue includes a portion of the State's share of proceeds from slot machines at commercial race tracks.

Revised: 02/27/2006 5PM

FUND FOR A HEALTHY MAINE REVENUE
(TOBACCO SETTLEMENT REVENUE)
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Base Payments	41,652,662	-15.1%	0	41,652,662	-15.1%	41,765,543	0.3%	0	41,765,543	0.3%
Attorney General Reimbursements	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Racino Revenue **	1,675,960	N/A	(335,591)	1,340,369	N/A	2,619,136	N/A	(720,395)	1,898,741	N/A
Income from Investments	25,000	-72.7%	0	25,000	-72.7%	25,000	0.0%	0	25,000	0.0%
Total - Tobacco Settlement Revenue	**43,353,622**	**-11.7%**	**(335,591)**	**43,018,031**	**-12.4%**	**44,409,679**	**2.4%**	**(720,395)**	**43,689,284**	**1.6%**
Change in Biennial Totals								**(1,055,986)**		

** Racino Revenue includes a portion of the State's share of proceeds from slot machines at commercial race tracks.

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FUND FOR A HEALTHY MAINE REVENUE
(TOBACCO SETTLEMENT REVENUE)
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY08 Projection	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Projection	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Base Payments	71,821,621	72.0%	0	71,821,621	72.0%	72,653,908	1.2%	0	72,653,908	1.2%
Attorney General Reimbursements	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Racino Revenue **	4,638,093	77.1%	(2,643,362)	1,994,731	5.1%	5,735,400	23.7%	(2,589,850)	3,145,550	57.7%
Income from Investments	45,000	80.0%	0	45,000	80.0%	45,000	0.0%	0	45,000	0.0%
Total - Tobacco Settlement Revenue	**76,504,714**	**72.3%**	**(2,643,362)**	**73,861,352**	**69.1%**	**78,434,308**	**2.5%**	**(2,589,850)**	**75,844,458**	**2.7%**
								(5,233,212)		

** Racino Revenue includes a portion of the State's share of proceeds from slot machines at commercial race tracks.

Revised: 02/27/2006 5PM

Fund for a Healthy Maine - Racino Revenue

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	$0	$0	$0	$1,675,960	$2,619,136	$4,638,093	$5,735,400
Annual % Growth		N/A	N/A	N/A	N/A	77.1%	23.7%
Net Increase (Decrease)				($335,591)	($720,395)	($2,643,362)	($2,589,850)
Revised Forecast	$0	$0	$0	$1,340,369	$1,898,741	$1,994,731	$3,145,550
Annual % Growth		N/A	N/A	N/A	41.7%	5.1%	57.7%

Revenue Source Summary:

This revenue category includes the Fund for a Healthy Maine's share of the gaming revenue from slot machines operated associated with the commercial race track in Bangor. For a more detail description of this source, see the General Fund description under category of "General Fund - Parimutuel and Gaming Revenue." Pursuant to 8 MRSA, §1036, the Fund for a Healthy Maine receives 10% of the "Gross Slot Income."

Revenue Source Forecast Factors and Trends:

See description and detailed spreadsheet under the General Fund - Parimutuel and Gaming Revenue category.

Forecast Recommended Changes:

See description and detailed spreadsheet under the General Fund - Parimutuel and Gaming Revenue category.

Appendix D
Medicaid/MaineCare Dedicated Revenue Taxes

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MEDICAID/MAINECARE DEDICATED REVENUE TAXES

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY03 Actual	FY04 Actual	% Chg.	FY05 Actual **	% Chg.	FY05 Budget**	FY05 Variance	% Variance
Nursing Facility Tax	22,048,469	30,501,448	38.3%	29,241,327	-4.1%	29,705,745	(464,418)	-1.6%
Residential Treatment Facility (ICFs/MR) Tax	1,565,094	1,617,662	3.4%	1,958,739	21.1%	1,808,886	149,853	8.3%
Hospital Tax *	0	16,383,319	N/A	48,907,135	198.5%	48,210,520	696,615	1.4%
Service Provider Tax - Private Non-Medical Institutions (PNMIs)	0	0	N/A	15,430,099	N/A	15,131,785	298,314	2.0%
Total - Health Care Provider Taxes	23,613,563	48,502,429	105.4%	95,537,301	97.0%	94,856,936	680,365	0.7%

* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.
** The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

Revised: 03/01/2006

MEDICAID/MAINECARE DEDICATED REVENUE TAXES
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Nursing Facility Tax	32,400,000	10.8%	0	32,400,000	10.8%	33,210,000	2.5%	0	33,210,000	2.5%
Residential Treatment Facility (ICFs/MR) Tax	2,005,216	2.4%	0	2,005,216	2.4%	2,055,346	2.5%	0	2,055,346	2.5%
Hospital Tax *	53,672,418	9.7%	0	53,672,418	9.7%	55,819,315	4.0%	0	55,819,315	4.0%
Service Provider Tax - Private Non-Medical Institutions (PNMIs)	28,621,455	85.5%	0	28,621,455	85.5%	29,058,241	1.5%	0	29,058,241	1.5%
Total - Health Care Provider Taxes	116,699,089	22.2%	0	116,699,089	22.2%	120,142,902	3.0%	0	120,142,902	3.0%
						Change in Biennial Totals		$0		

* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.
** The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

Revised: 03/01/2006

MEDICAID/MAINECARE DEDICATED REVENUE TAXES
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY08 Forecast	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Forecast	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Nursing Facility Tax	34,040,250	2.5%	0	34,040,250	2.5%	34,891,256	2.5%	0	34,891,256	2.5%
Residential Treatment Facility (ICFs/MR) Tax	2,106,730	2.5%	0	2,106,730	2.5%	2,159,398	2.5%	0	2,159,398	2.5%
Hospital Tax *	55,819,315	0.0%	0	55,819,315	0.0%	55,819,315	0.0%	0	55,819,315	0.0%
Service Provider Tax - Private Non-Medical Institutions (PNMIs)	29,505,947	1.5%	0	29,505,947	1.5%	29,964,846	1.6%	0	29,964,846	1.6%
Total - Health Care Provider Taxes	121,472,242	1.1%	0	121,472,242	1.1%	122,834,815	1.1%	0	122,834,815	1.1%
						Change in Biennial Totals		$0		

* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.

** The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

Revised: 03/01/2006

REVENUE FORECASTING COMMITTEE

Appendix E

Consensus Economic Forecasting Commission Report

Report of the CONSENSUS ECONOMIC FORECASTING COMMISSION February 2006

Commissioners

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University of Southern Maine

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Michael Allen, *Maine Revenue Services*
Dana Evans, *Maine Department of Labor*
John Nyada, *Maine Revenue Services*
Catherine Reilly, *Maine State Planning Office*
Jerome Stanhope, *Maine Revenue Services*

SUMMARY

The Consensus Economic Forecasting Commission (CEFC) held its first meeting of 2006 on January 27 at the State Planning Office. As required by statute, the Commission updated its October 2005 economic forecast for Maine. The table below summarizes the CEFC's new forecast for wage and salary employment growth, personal income growth, and the U.S. Consumer Price Index (CPI; a measure of inflation).

Calendar Years	2005	2006	2007	2008	2009
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 10/2005	0.8	0.9	0.7	0.8	0.8
CEFC Forecast 2/2006	0.0	0.5	0.6	0.6	0.7
Personal Income (Annual Percentage Change)					
CEFC Forecast 10/2005	5.5	5.5	5.0	5.0	5.0
CEFC Forecast 2/2006	5.0	5.0	4.5	4.5	4.5
CPI (Annual Percentage Change)					
CEFC Forecast 10/2005	3.2	2.8	2.5	2.2	2.2
CEFC Forecast 2/2006	3.4	3.0	2.8	2.8	2.8

The Commission based its forecast on newly available state and national economic data and economic forecasts from several sources. The following bullets outline the regional and national context for the forecast.

- On the day of the Commission's meeting, the U.S. Bureau of Economic Analysis (BEA) announced that fourth quarter U.S. gross domestic product (GDP) growth was 1.1%, lower than most analysts were expecting. BEA attributed the slow growth to declines in personal consumption and federal government spending, and increased imports.

- Oil prices have been persistently high. Several forecasts that had projected prices to decline over the next one to five years are now projecting sustained high prices. Energy is particularly expensive in Maine and other northeastern states. The combination of high energy prices and slow income growth has impacted retail sales. Businesses are also feeling the effect of high energy costs.

- The Commission noted the apparently growing number of residents in southern Maine who work in another state. This means that income and retail sales in southern Maine benefit from employment growth in New Hampshire and Massachusetts. It also means that an economic downturn in those states may be felt in Maine as well.

- The Commission noted that the vitality of Maine's economy will depend on the extent to which the state can secure a larger share of growing industries. Since

June 2004, year-over-year employment growth in Maine has been positive (based on unrevised estimates), but not as high as the national growth rate.

- The Commission discussed the impending closure of the Brunswick Naval Air Station. Given the uncertainty of the timeline for closing the facility, the Commission has decided not to make speculative adjustments to its forecast. Once reliable information becomes available, the Commission will incorporate that into a subsequent, scheduled revision.

STATE AGENCY REPORTS

Three state agencies provided the Commission with further insight into current economic conditions in Maine.

Maine Department of Labor

Maine Department of Labor (DOL) reported upcoming revisions of statewide employment figures for 2004 and 2005. These revisions are part of an annual benchmarking process undertaken by all 50 states using methodology provided by the U.S. Bureau of Labor Statistics. The process involves adjusting previous sample-based estimates using more complete data that become available later in the year. DOL reported its preliminary estimates that employment for 2004 will be revised from 613,900 to 611,600 and 2005 will be revised from 618,000 to 611,400. Moody's Economy.com estimates that New Hampshire, Vermont, Rhode Island, Connecticut, and Massachusetts will also have downward job-growth revisions.

Maine's revision could have several causes. The Commission discussed the possibility of more Maine residents commuting and telecommuting to jobs outside Maine. Their jobs would be counted in other state's employment estimates. DOL reported that it has not seen a decrease in the number of business establishments in Maine. Rather, the lack of job growth seems to stem from a lack of new hiring by Maine establishments.

Preliminary estimates show that from 2003 to 2005, employment grew in the industries of health care and social services, retail trade, and leisure and hospitality. Employment declined in the industries of manufacturing, professional and business services, and financial activities.

Maine Revenue Services

Maine Revenue Services reported that state revenues are slightly ahead of the Revenue Forecasting Committee's (RFC) November projections. The difference is mostly in revenues from the corporate income tax, cigarette tax, and estate tax. Individual income tax payments are also 1.5% ahead of projections. The growth of individual income tax withholding is slightly below the RFC's current projections (4.1% for 2005 versus 4.8% respectively). Sales tax revenues are also slightly below projections, with slow growth coming from general merchandise stores and automobile sales. Sales at specialty retail establishments are strong.

State Planning Office

The State Planning Office reported on other indicators of economic activity in Maine in the second half of 2005. Maine's Coincident Economic Index grew respectably in October and November after slow growth in the second quarter. In late summer there was a surge of bankruptcies catalyzed by changes to federal laws. That surge passed in October. Personal income for the first three quarters of 2005 grew at or above the New England rate, although income growth in the rest of the nation has outpaced New England. Maine's real estate market seems to be cooling somewhat; the number of housing unit permits issued has been essentially flat since 2004. Fuel prices continue to be high. Gasoline and heating oil are currently about $.50 per gallon more expensive than one year ago. The Commission noted the adverse impact of this expense on consumer spending, as reflected by sales tax revenue. Businesses are also feeling the impact of this cost.

CONSENSUS FORECAST

The above information and five forecasts formed the basis of the Commission's consensus forecast. The New England Economic Partnership and State Planning Office forecasts were based on a model prepared by Moody's Economy.com. Colby College and Central Maine Power Co. developed their own forecasting models. Global Insight, Inc. developed the fifth forecast.

The models did not incorporate the revised employment estimates reported by DOL. There was discussion about how the Commission would incorporate the new information with projections from models that had utilized unrevised estimates. The Commission concluded that the most reasonable forecast would call for 2005 employment growth reflecting DOL's estimate of revised employment figures. Therefore, the Commission changed its forecast for 2005 employment growth to 0.0%. Estimates for 2006-2009 were also adjusted. Economic models continue to estimate Maine's long-run potential growth somewhere below 1.0% and the gradual increase up to 0.7% in 2009 reflects those projections.

The Commission lowered its past forecast of personal income growth by 0.5 percentage points for 2005-2009. This revision was based on income growth for the first three quarters of 2005 reported by BEA, DOL's estimated employment revisions, and MRS's report on individual income tax withholding. For the most part, all the forecasts estimated income growth at or below the levels projected by the Commission in October. The Commission adjusted projections for several components of personal income (supplements to wages and salaries; non-farm proprietor's income; dividends, interest, and rent; and transfer payments) in accordance with its revision of total personal income.

The Commission raised its forecast for U.S. Consumer Price Index, citing the unexpected persistence of high oil prices, the federal deficit, and employment growth at the national level.

The table on the following page shows the Commission's forecast of the variables they regularly forecast (shaded in blue) and a breakdown of those variables as regularly done by the Commission's staff at the State Planning Office. The table also presents additional economic variables forecasted by Moody's Economy.com.

Maine Economic Forecast
February 2006

	History					Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CPI-U*	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.0%	2.8%	2.8%	2.8%
Maine Unemployment Rate**	3.4%	3.9%	4.4%	5.0%	4.6%	4.9%	4.7%	4.8%	4.7%	4.6%
3-Month Treasury Bill Rate**	6.0%	3.5%	1.6%	1.0%	1.4%	3.3%	4.9%	4.9%	4.8%	4.8%
10-Year Treasury Note Rate**	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	5.2%	5.3%	5.4%	5.6%
	Employment (thousands)									
Maine Wage & Salary Employment*	603.5	608.2	606.5	606.8	611.6	611.4	614.5	618.1	621.9	626.2
Natural Resources	2.7	2.7	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Construction	29.2	29.9	29.4	30.5	30.6	30.4	30.1	30.3	30.5	30.7
Manufacturing	79.5	74.7	68.0	64.1	63.4	62.1	61.2	60.7	60.0	59.2
Trade/Trans./Public Utils.	122.7	123.6	123.3	123.2	124.5	124.6	124.0	123.2	122.4	122.6
Information	12.1	12.1	11.6	11.3	11.3	11.3	11.4	11.4	11.5	11.6
Financial Activities	34.1	35.1	35.1	35.1	35.0	34.7	34.8	34.9	35.2	35.4
Prof. & Business Services	51.8	51.8	51.4	50.3	49.9	50.1	50.8	51.5	52.3	52.8
Education & Heath Services	97.5	100.8	104.9	107.3	110.5	111.6	114.1	116.3	118.7	121.2
Leisure & Hospitality Services	55.9	56.5	57.3	58.5	58.7	58.9	59.9	61.0	62.1	62.8
Other Services	18.3	19.1	19.8	20.3	20.4	20.4	20.7	21.0	21.1	21.3
Government	99.5	102.0	103.1	103.7	104.7	104.7	105.1	105.4	105.7	106.2
Agricultural Employment	19.8	17.1	18.8	16.1	14.0	16.6	17.0	17.0	17.0	17.0
	Annual Growth Rate									
Maine Wage & Salary Employment*	--	0.8%	-0.3%	0.0%	0.8%	0.0%	0.5%	0.6%	0.6%	0.7%
Natural Resources	--	-1.4%	-1.9%	-2.6%	-1.7%	-2.0%	-1.2%	-0.7%	-0.6%	-0.6%
Construction	--	2.1%	-1.4%	3.5%	0.4%	-0.5%	-1.1%	0.5%	0.7%	0.7%
Manufacturing	--	-6.1%	-8.9%	-5.8%	-1.1%	-2.0%	-1.4%	-0.8%	-1.2%	-1.3%
Trade/Trans./Public Utils.	--	0.8%	-0.3%	-0.1%	1.1%	0.1%	-0.5%	-0.6%	-0.6%	0.2%
Information	--	0.2%	-4.7%	-2.0%	-0.2%	0.0%	0.8%	0.2%	0.2%	0.9%
Financial Activities	--	3.0%	0.0%	-0.1%	-0.2%	-1.0%	0.3%	0.4%	1.0%	0.5%
Prof. & Business Services	--	0.0%	-0.9%	-2.1%	-0.7%	0.4%	1.3%	1.3%	1.6%	1.1%
Education & Heath Services	--	3.4%	4.2%	2.3%	3.0%	1.0%	2.2%	2.0%	2.1%	2.1%
Leisure & Hospitality Services		1.0%	1.5%	2.0%	0.4%	0.4%	1.8%	1.8%	1.8%	1.2%
Other Services		4.1%	3.5%	2.5%	0.7%	0.1%	1.5%	1.2%	0.7%	0.7%
Government	--	2.5%	1.0%	0.7%	0.9%	0.0%	0.4%	0.3%	0.3%	0.4%
Agricultural Employment	--	-13.6%	9.9%	-14.4%	-13.0%	18.6%	2.4%	0.0%	0.0%	0.0%

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Seasonally Adjusted (millions)									
Personal Income*	33173.25	35107.0	35964.5	37251.3	39481.8	41455.8	43528.6	45487.4	47534.4	49673.4
Wage & Salary Disbursements*	17194.75	17982.8	18551.8	19249.8	20191.5	21007.2	21890.4	22809.8	23767.8	24766.0
Supplements to Wages & Salaries*	3772.75	4058.5	4422.5	4630.8	5036.0	5368.6	5692.8	6034.4	6336.1	6652.9
Non-Farm Proprietors' Income*	2347	2768.3	2630.8	2773.3	3027.8	3271.2	3468.8	3642.2	3824.3	4015.5
Farm Proprietors' Income	57	27.5	-59.8	-23.3	-26.3	41.4	43.0	44.8	46.6	48.5
Dividends, Interest, & Rent*	6178.5	6338.3	6089.3	5834.0	6078.0	6138.8	6264.0	6389.3	6581.0	6778.4
Transfer Payments*	5588.25	6017.8	6477.3	7021.5	7499.0	8026.9	8608.1	9112.5	9635.6	10183.8
Less: Contributions to Social Insuranc	2665.75	2811.8	2857.5	2941.0	3079.3	3202.4	3297.2	3446.9	3603.4	3765.7
Residence Adjustment	700.5	726.5	710.3	705.8	755.5	804.6	858.5	901.4	946.5	993.8
Farm Income	141	111.5	46.5	68.5	72.0	76.0	80.1	84.5	89.2	94.1
	Annual Growth Rate									
Personal Income*	--	5.8%	2.4%	3.6%	6.0%	5.0%	5.0%	4.5%	4.5%	4.5%
Wage & Salary Disbursements*	--	4.6%	3.2%	3.8%	4.9%	4.0%	4.2%	4.2%	4.2%	4.2%
Supplements to Wages & Salaries*	--	7.6%	9.0%	4.7%	8.8%	6.6%	6.0%	6.0%	5.0%	5.0%
Non-Farm Proprietors' Income*	--	17.9%	-5.0%	5.4%	9.2%	8.0%	6.0%	5.0%	5.0%	5.0%
Farm Proprietors' Income	--	-51.8%	-317.3%	------- *N/A - negative base values* -------			3.9%	4.2%	4.0%	4.1%
Dividends, Interest, & Rent*	--	2.6%	-3.9%	-4.2%	4.2%	1.0%	2.0%	2.0%	3.0%	3.0%
Transfer Payments*	--	7.7%	7.6%	8.4%	6.8%	7.0%	7.2%	5.9%	5.7%	5.7%
Less: Contributions to Social Insuranc	--	5.5%	1.6%	2.9%	4.7%	4.0%	3.0%	4.5%	4.5%	4.5%
Residence Adjustment	--	3.7%	-2.2%	-0.6%	7.0%	6.5%	6.7%	5.0%	5.0%	5.0%
Farm Income	--	-20.9%	-58.3%	47.3%	5.1%	5.5%	5.5%	5.5%	5.5%	5.5%

*CEFC Forecast
**Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - Jan. 2006
Remaining lines extrapolated from the CEFC forecast by the CEFC staff.

REVENUE FORECASTING COMMITTEE

Appendix F

Historical Background and Methodology of Maine's Revenue Forecasting Process

APPENDIX F

Historical Background and Methodology of Maine's Revenue Forecasting Process

History

The Revenue Forecasting Committee was established by Governor John R. McKernan, Jr. on May 25, 1992 by Executive Order 14 FY91/92 in order to provide the Governor, the Legislature, and the State Budget Officer with an analysis and recommendations related to the projection of General Fund and Highway Fund revenue. Its creation was in response to a recommendation by the Special Commission on Government Restructuring. Committee membership originally included the State Budget Officer, the State Tax Assessor, the State Economist, the Director of the Office of Fiscal and Program Review, and an economist on the faculty of the University of Maine System selected by the Chancellor.

The original Executive Order called upon the Revenue Forecasting Committee to submit recommendations for State revenue projections for the upcoming fiscal biennium, as well as adjustments to current biennium General Fund and Highway Fund revenue estimates. In accomplishing its task, the Committee was directed to utilize the economic assumptions developed by the Consensus Economic Forecasting Commission.

In 1995, Public Law 1995, c. 368 enacted in statute the Consensus Economic Forecasting Commission and the Revenue Forecasting Committee, adopting both the structure and the intent of the original Executive Order.

Public Law 1997, chapter 655 enacted a number of changes to Title 5, chapter 151-B. There were three major changes: first, the revenue projections developed by the Committee would no longer be advisory but would be used by the Executive Branch in setting budget estimates and out-biennium forecasts; second, the State Budget Officer was empowered to convene a meeting of the Committee to review any new data that might become available; and third, the Committee was expanded from five to six members, with the sixth member being an analyst from the Office of Fiscal and Program Review designated by the Director of that office.

Public Law 2001, chapter 2, enacted a further change to the appointment process of the sixth member making that appointment less specific by requiring that member to be non-partisan staff appointed by the Legislative Council.

Methodology

Both the General Fund and the Highway Fund revenue projections are actually an aggregation of several individual revenue source forecasts. For the General Fund, many departments and agencies collect revenue under different authority. Highway Fund revenue, although more limited in the number of sources, also has multiple revenue sources. Since each of these individual revenue sources is distinctly different in terms of size (and thus relative importance to total revenue) and factors that influence growth (such as tax law, economic growth, interest rates, size of lottery jackpots, number of patrolmen, etc.), the Committee uses different approaches for evaluating various revenue source forecasts.

In order to ensure that the Committee's review process is as efficient and effective as possible, it divides its revenue line review into three parts:
-Major revenue sources directly tied to economic activity
-Major revenue sources tied to other "non-economic" factors
-Minor revenue sources

Major revenue sources tied to economic forecast

In general, major revenue lines directly tied to economic activity are forecast using econometric equations. These equations define a mathematical relationship between historical revenue growth and relevant economic trends, then project revenue growth based on the defined relationship and expected future performance of the economic variable chosen. For example, revenues derived from the collection of individual income tax are very closely tied to growth in Maine personal income. Thus, an equation is estimated that defines income tax revenue in terms of personal income (and other relevant variables), then the forecast of personal income growth in Maine is used to estimate future income tax collections. The Revenue Forecasting Committee then reviews the equation, the underlying economic assumptions, and the overall revenue forecast level to ensure that they are logical and plausible given our knowledge of current economic conditions and revenue growth. It is the Committee's understanding, and truly the spirit of "consensus forecasting", that model results need not be blindly accepted and should be closely examined.

Maine Revenue Services is instrumental in the development of the forecast for the major taxes, the major revenue sources tied to economic activity. The Research Division maintains the econometric models that are used to develop the forecast. Maine Revenue Services also has access to a tax "data warehouse" in order to query tax data and refine the model outputs and equations. The economic variables forecast by the CEFC are fed into the models.

Major revenue sources tied to "non-economic" factors and Other Minor Revenue Sources

Both the major revenue sources tied to other "non-economic" factors and the other minor revenue sources are generally prepared by the department or agency responsible for collecting the particular revenue stream. Their experience with and expertise in tracking revenue growth is used in place of an equation to project future revenue activity. For example, the level of participation in Maine's lottery is not easily or clearly tied to any particular economic indicator, like income or employment. Revenue derived from lottery ticket sales can, however, be projected based on past lottery sales, the likelihood of a large jackpot occurring within a twelve month period and planned changes in product mix or marketing strategy. Therefore, the Department of Administrative and Financial Services reviews past lottery trends and evaluates any changes in marketing strategy and estimates the lottery's revenue performance over the upcoming biennium. Additional factors reviewed by the Committee include the projected Cost of Goods Sold and Administrative Expense to arrive at an estimated Net Profit to be transferred to the General Fund. The Revenue Forecasting Committee then reviews their forecast to ensure that their logic is sound and to ensure that this particular line forecast is consistent with expectations for other revenue lines.

To further streamline the review of the hundreds of minor revenue sources, the committee has employed a strategy that has the analysts of the Office of Fiscal and Program Review and the Bureau of the Budget work with the "collecting" agencies to develop the forecast for each of the hundreds of minor revenue sources. This review is particularly concentrated in even numbered years before the beginning of the 1st Regular Session of the Legislature when the biennial budget for the upcoming biennium is first considered. Agencies are required to submit their estimates to the Bureau of the Budget as part of the biennial budget development process in the fall of even number years. Every revenue source is reviewed by the Office of Fiscal and Program Review and the Bureau of the Budget with the agencies for consistency with the economic forecast, historic trends and enacted law changes that may affect future revenue rates, bases or flows.

When preparing a formal review of the biennial budget in odd numbered years to decide if revisions are necessary, the Revenue Forecasting Committee uses a similar, though streamlined, process. The major tax models are re-estimated using any updated economic and capital gains assumptions as well as current baseline data. The budget to actual performance of the other revenue lines is examined by a subcommittee of the Budget Office and the Office of Fiscal and Program Review and, when significant variances exist, the subcommittee recommends to the full Committee which agencies should develop and present new projections for the Committee's consideration.

Length of Forecast

By statute, the revenue forecast must project revenue for the upcoming biennium and the subsequent biennium. For the start of a biennium, December of even numbered years, this forecast will encompass a span of 5 fiscal years – the current fiscal year, the next biennial budget to be approved in the upcoming legislative session and a projection of the following biennium. This projection for the following biennium was added as a long-range planning tool to help establish a look at the health of the next biennial budget to be developed 2 years later and adopted by a new Legislature. This projection of revenue is combined with projections of expenditures for the General Fund and Highway Fund to develop estimates of the "structural gap" or "structural surplus" of each fund.

Current Tax Law

The Revenue Forecasting Committee bases all revenue projections on current state tax law and other state laws with future effective dates that affect state revenue sources. The

Committee is careful to watch for sunsets and future effective dates of laws that will affect revenue and build those enacted law changes into the forecast. The Committee does not attempt to second-guess how the law may be changed during the upcoming Legislative session. The Fiscal Note Process overseen by the Office of Fiscal and Program Review establishes and tracks the revenue effects associated with legislative changes. These legislative revenue changes are then included in the base revenue forecast. The Revenue Forecasting Committee at its next meeting then adopts or amends those estimates of the legislative revenue changes.

Forecast Schedule

The Revenue Forecasting Committee has 2 statutory reporting dates each year: December 1st and March 1st. The timing of these reports is based on the schedule of the budget process and the Legislature's session schedule. The Governor is required to submit a biennial budget during the first regular session of each Legislature. That process begins in even numbered years with agencies submitting budget requests by September 1st. That process concludes with when the Governor submits his budget proposals to the Legislature by a statutory deadline, the first Friday after the 1st Monday in January (approximately one month later for a newly elected Governor). The revenue forecasting fall forecast begins with the economic forecast by the Consensus Economic Forecasting Commission that must report by November 1st. The December 1st deadline of the revenue forecast provides the Governor with an update of the revenue forecast that the Governor must use as the basis for submitting balanced General Fund and Highway Fund budgets. That 1st forecast of the biennium updates the current projections for the upcoming budget biennium and it provides the 1st projections of the following biennium.

In December of odd-numbered years, the forecast is updated for the next legislative session (the 2nd Regular Session of the Legislature) that begins in January of even-number years. The annual March 1st reporting deadline is scheduled to provide the Legislature with a "mid-session" update so that they might have the most up-to-date forecast for the conclusion of their budget decisions.

REVENUE FORECASTING COMMITTEE

Appendix G

Maine Revenue Services Materials
Presented to the
Revenue Forecasting Committee

February 23, 2006

Maine Revenue Services
Economic Research Division

STATE OF MAINE

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2006
For the Fiscal Year Ending June 30, 2006
Comparison to Budget

EXHIBIT I

	Month				Year to Date				
	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Total Budgeted Fiscal Year Ending 6-30-2006
Sales and Use Tax	94,741,670	92,732,927	2,008,743	2.2%	513,456,218	513,618,790	(162,572)	(0.0%)	933,701,080
Service Provider Tax	4,399,393	3,067,642	1,331,751	43.4%	23,022,256	21,854,609	1,167,647	5.3%	46,494,165
Individual Income Tax	131,958,647	143,146,864	(11,188,217)	(7.8%)	655,250,268	658,471,207	(3,220,939)	(0.5%)	1,239,297,845
Corporate Income Tax	4,128,062	8,557,631	(4,429,569)	(51.8%)	94,895,605	83,323,776	11,571,829	13.9%	165,220,000
Cigarette and Tobacco Tax	10,765,660	13,080,918	(2,315,258)	(17.7%)	87,587,651	81,402,461	6,185,190	7.6%	147,238,325
Public Utilities Tax	2,264	-	2,264	-	2,264	-	2,264	-	21,440,000
Insurance Companies Tax	5,346	8,016	(2,670)	(33.3%)	11,890,563	14,985,953	(3,095,390)	(20.7%)	77,141,931
Estate Tax	1,665,593	2,961,702	(1,296,109)	(43.8%)	49,367,404	43,772,457	5,594,947	12.8%	64,079,793
Property Tax - Unorg Territory	-	-	-	-	9,560,399	9,522,077	38,322	0.4%	11,278,476
Income from Investments	539,841	244,843	294,998	120.5%	3,458,620	2,750,650	707,970	25.7%	4,286,062
Transfer to Municipal Revenue Sharing	(11,996,616)	(12,775,759)	779,143	6.1%	(65,617,842)	(65,005,187)	(612,655)	(0.9%)	(121,620,368)
Transfer from Liquor Commission	-	-	-	-	11,850	-	11,850	-	-
Transfer from Lottery Commission	3,516,937	3,871,862	(354,925)	(9.2%)	28,970,856	30,006,965	(1,036,109)	(3.5%)	50,334,250
Other Revenues	16,288,135	14,243,355	2,044,780	14.4%	107,308,351	115,946,827	(8,638,476)	(7.5%)	216,529,079
Total Collected	256,014,932	269,140,001	(13,125,069)	(4.9%)	1,519,164,465	1,510,650,585	8,513,880	0.6%	2,855,420,638

NOTES:

(1) Included in the above is $11,996,616 for the month and $65,617,842 year to date, that was set aside for Revenue Sharing with cities and towns.

(2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in November 2005.

(3) This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE
Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2006 and 2005
For the Fiscal Years Ending June 30, 2006 and 2005
Comparison to Prior Year

EXHIBIT II

	Month				Year to Date			
	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)
Sales and Use Tax	94,741,670	89,776,071	4,965,599	5.5%	513,456,218	494,925,790	18,530,428	3.7%
Service Provider Tax	4,399,393	2,784,864	1,614,529	58.0%	23,022,256	21,310,683	1,711,573	8.0%
Individual Income Tax	131,958,647	148,098,576	(16,139,930)	(10.9%)	655,250,268	692,075,467	(36,825,199)	(5.3%)
Corporate Income Tax	4,128,062	7,037,070	(2,909,008)	(41.3%)	94,895,605	67,762,595	27,133,010	40.0%
Cigarette and Tobacco Tax	10,765,660	8,001,015	2,764,645	34.6%	87,587,651	57,997,231	29,590,420	51.0%
Public Utilities Tax	2,264	17,633	(15,369)	(87.2%)	2,264	(150,000)	152,264	101.5%
Insurance Companies Tax	5,346	(118,896)	124,242	104.5%	11,890,563	14,940,592	(3,050,029)	(20.4%)
Estate Tax	1,665,593	1,823,208	(157,616)	(0)	49,367,404	17,459,600	31,907,804	182.8%
Property Tax - Unorg Territory	-	-	- -		9,560,399	9,638,377	(77,978)	(0.8%)
Income from Investments	539,841	402,618	137,224	34.1%	3,458,620	2,310,367	1,148,253	49.7%
Transfer to Municipal Revenue Sharing	(11,996,616)	(12,632,526)	635,909	5.0%	(65,617,842)	(65,079,801)	(538,040)	(0.8%)
Transfer from Liquor Commission	-	435	(435)	(100.0%)	11,850	13,788	(1,938)	(14.1%)
Transfer from Lottery Commission	3,516,937	5,024,262	(1,507,326)	(30.0%)	28,970,856	29,632,073	(661,217)	(2.2%)
Other Revenues	16,288,135	17,022,063	(733,928)	(4.3%)	107,308,351	161,452,586	(54,144,235)	(33.5%)
Total Collected	256,014,932	267,236,394	(11,221,462)	(4.2%)	1,519,164,465	1,504,289,348	14,875,117	1.0%

STATE OF MAINE

EXHIBIT III

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2006
For the Fiscal Year Ending June 30, 2006
Comparison to Budget

Detail of Other Revenues	Month				Year to Date				Total Budgeted Fiscal Year Ending 6-30-2006
	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Actual	Budget	Variance Over/(under)	Percent Over/(under)	
0100's All Others	1,553,480	831,353	722,127	86.9%	17,913,595	15,034,973	2,878,622	19.1%	23,756,844
0300's Aeronautical Gas Tax	27,053	20,000	7,053	35.3%	511,361	443,022	68,339	15.4%	557,816
0400's Alcohol Excise Tax	1,100,778	1,094,475	6,303	0.6%	9,069,502	9,168,977	(99,475)	(1.1%)	15,418,047
0700's Corporation Taxes	117,297	71,097	46,200	65.0%	1,134,713	526,192	608,521	115.6%	5,528,707
1000's Banking Taxes	2,287,090	1,665,307	621,783	37.3%	11,949,520	11,585,786	363,734	3.1%	19,912,310
1100's Alcoholic Beverages	182,570	207,792	(25,222)	(12.1%)	1,603,265	1,622,376	(19,111)	(1.2%)	3,151,590
1200's Amusements Tax	-	-	-	-	2,710	4,000	(1,290)	(32.3%)	4,000
1300's Harness Racing/Parimutuels/Slots	564,444	393,025	171,419	43.6%	1,662,601	1,566,549	96,052	6.1%	3,306,948
1400's Business Taxes	994,609	790,714	203,895	25.8%	4,367,670	4,349,655	18,015	0.4%	7,961,705
1500's Motor Vehicle Licenses	141,505	363,792	(222,287)	(61.1%)	1,793,322	2,045,834	(252,512)	(12.3%)	3,961,713
1700's Inland Fisheries & Wildlife	2,039,941	1,711,525	328,416	19.2%	10,444,896	10,194,070	250,826	2.5%	16,144,351
1900's Hospital Excise & Other	29,239	32,698	(3,459)	(10.6%)	206,143	212,176	(6,033)	(2.8%)	420,036
2000's Fines, Forfeits & Penalties	2,626,529	3,592,786	(966,257)	(26.9%)	19,403,204	23,651,735	(4,248,531)	(18.0%)	43,042,996
2200's Federal Revenues	2,639,534	1,991,088	648,446	32.6%	7,498,057	14,008,895	(6,510,838)	(46.5%)	23,925,471
2300's County Revenues	-	-	-	-	-	-	-	-	-
2400's Revenues from Cities & Towns	(5,889)	-	(5,889)	-	13,236	-	13,236	-	60,000
2500's Revenues from Private Sources	278,534	210,804	67,730	32.1%	1,854,849	1,468,156	386,693	26.3%	4,051,906
2600's Current Service Charges	2,026,811	1,938,439	88,372	4.6%	20,124,301	22,872,731	(2,748,430)	(12.0%)	35,959,154
2700's Transfers from Other Funds	(316,049)	(672,540)	356,491	53.0%	(2,275,358)	(2,814,900)	539,542	19.2%	9,242,885
2800's Sales of Property & Equipment	660	1,000	(340)	(34.0%)	30,764	6,600	24,164	366.1%	122,600
Total Other Revenues	16,288,135	14,243,355	2,044,780	14.4%	107,308,351	115,946,827	(8,638,476)	(7.5%)	216,529,079

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE EXHIBIT IV

Undedicated Revenues - General Fund
For the Seventh Month Ended January 31, 2006 and 2005
For the Fiscal Years Ending June 30, 2006 and 2005
Comparison to Prior Year

	Month				Year to Date			
Detail of Other Revenues	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)
0100's All Others	1,553,480	1,758,760	(205,280)	(11.7%)	17,913,595	17,956,848	(43,253)	(0.2%)
0300's Aeronautical Gas Tax	27,053	65,686	(38,634)	(58.8%)	511,361	856,919	(345,557)	(40.3%)
0400's Alcohol Excise Tax	1,100,778	925,739	175,039	18.9%	9,069,502	7,793,708	1,275,794	16.4%
0700's Corporation Taxes	117,297	99,926	17,372	17.4%	1,134,713	726,347	408,366	56.2%
1000's Banking Taxes	2,287,090	2,030,950	256,140	12.6%	11,949,520	10,694,610	1,254,910	11.7%
1100's Alcoholic Beverages	182,570	162,020	20,550	12.7%	1,603,265	1,511,020	92,245	6.1%
1200's Amusements Tax	-	400	(400)	(100.0%)	2,710	3,000	(290)	(9.7%)
1300's Harness Racing/Parimutuels/Slots	564,444	79,044	485,399	614.1%	1,662,601	533,083	1,129,518	211.9%
1400's Business Taxes	994,609	522,878	471,731	90.2%	4,367,670	2,663,266	1,704,404	64.0%
1500's Motor Vehicle Licenses	141,505	596,500	(454,995)	(76.3%)	1,793,322	2,687,660	(894,338)	(33.3%)
1700's Inland Fisheries & Wildlife	2,039,941	1,996,016	43,924	2.2%	10,444,896	10,840,694	(395,798)	(3.7%)
1900's Amnesty, Hosp Excise & Other	29,239	48,019	(18,780)	(39.1%)	206,143	269,526	(63,383)	(23.5%)
2000's Fines, Forfeits & Penalties	2,626,529	2,657,585	(31,056)	(1.2%)	19,403,204	19,352,167	51,037	0.3%
2200's Federal Revenues	2,639,534	2,082,847	556,687	26.7%	7,498,057	14,016,151	(6,518,094)	(46.5%)
2300's County Revenues	-	-	-	-	-	-	-	-
2400's Revenues from Cities & Towns	(5,889)	2,279	(8,168)	(358.4%)	13,236	25,114	(11,878)	(47.3%)
2500's Revenues from Private Sources	278,534	159,721	118,813	74.4%	1,854,849	1,240,472	614,378	49.5%
2600's Current Service Charges	2,026,811	2,083,933	(57,122)	(2.7%)	20,124,301	66,832,305	(46,708,005)	(69.9%)
2700's Transfers from Other Funds	(316,049)	1,747,328	(2,063,377)	(118.1%)	(2,275,358)	3,357,152	(5,632,511)	(167.8%)
2800's Sales of Property & Equipment	660	2,432	(1,772)	(72.9%)	30,764	92,544	(61,780)	(66.8%)
Total Other Revenues	16,288,135	17,022,063	(733,928)	(4.3%)	107,308,351	161,452,586	(54,144,235)	(33.5%)

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE
Undedicated Revenues - Highway Fund
For the Seventh Month Ended January 31, 2006
For the Fiscal Year Ending June 30, 2006
Comparison to Budget

Exhibit V

	Month				Year to Date				
	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Actual	Budget	Variance Over/(under)	Percent Over/(under)	Total Budgeted Fiscal Year Ending 6-30-2006
Fuel Taxes	18,045,609	22,305,291	(4,259,682)	(19.1%)	114,789,282	119,667,782	(4,878,500)	(4.1%)	230,922,713
Motor Vehicle Registration & Fees	6,514,385	6,816,081	(301,696)	(4.4%)	46,751,990	46,527,380	224,610	0.5%	87,172,358
Inspection Fees	213,621	273,701	(60,081)	(22.0%)	2,673,189	2,738,632	(65,443)	(2.4%)	4,397,970
Fines, Forfeits & Penalties	134,300	164,561	(30,261)	(18.4%)	1,056,699	1,082,681	(25,982)	(2.4%)	1,973,665
Earnings on Investments	90,987	136,217	(45,230)	(33.2%)	956,578	892,434	64,144	7.2%	1,600,000
All Other	634,557	565,944	68,613	12.1%	6,378,016	5,850,494	527,522	9.0%	9,286,173
Total Revenue	25,633,458	30,261,795	(4,628,337)	(15.3%)	172,605,755	176,759,403	(4,153,648)	(2.3%)	335,352,879

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE

Undedicated Revenues - Highway Fund
For the Seventh Month Ended January 31, 2006 and 2005
For the Fiscal Years Ending June 30, 2006 and 2005
Comparison to Prior Year

Exhibit VI

	Month				Year to Date			
	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)	Current Year	Prior Year	Variance Over/(under)	Percent Over/(under)
Fuel Taxes	18,045,609	17,956,263	89,346	0.5%	114,789,282	116,010,601	(1,221,318)	(1.1%)
Motor Vehicle Registration & Fees	6,514,385	6,513,595	789	0.0%	46,751,990	44,018,766	2,733,224	6.2%
Inspection Fees	213,621	172,868	40,752	23.6%	2,673,189	2,553,345	119,845	4.7%
Fines, Forfeits & Penalties	134,300	146,226	(11,926)	(8.2%)	1,056,699	1,033,123	23,576	2.3%
Earnings on Investments	90,987	98,870	(7,884)	(8.0%)	956,578	479,271	477,307	99.6%
All Other	634,557	692,122	(57,565)	(8.3%)	6,378,016	5,751,710	626,306	10.9%
Total Revenue	25,633,458	25,579,945	53,514	0.2%	172,605,755	169,846,816	2,758,940	1.6%

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

Economic Assumptions

Assumptions Used in Sales & Excise Model

(1) Total Personal Income

(2) Inflation (CPI-U)

(3) Total Employment Growth
  (a) Growth by Sector

(4) Forecast of CPI for Energy Prices (Global Insight – Oct. 2005)

Assumptions Used in Individual Income Tax Model

(4) Total Personal Income
  (a) Growth by Component

(5) Inflation (CPI-U)

(6) Total Employment Growth

(7) Unemployment Rate

(8) 3-Month Treasury Bill Rate

(9) 10-Year Treasury Note Rate

Assumptions Used in Corporate Income Tax Model

(10) Inflation (CPI-U)

(11) Total Employment Growth
  (a) Growth by Sector

(12) Forecast of After-Tax Corporate Profits (Global Insight)

U.S. EXECUTIVE SUMMARY

FEBRUARY 2006

A Real Slowdown?

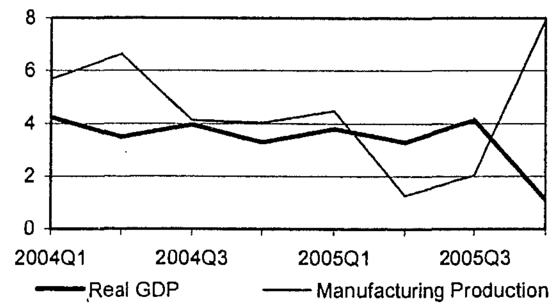
- The anemic 1.1% GDP growth rate in the fourth quarter is not a signal that the expansion is out of steam—we expect a bounce-back to 4.8% growth in the first quarter.
- Beyond the first quarter, economic activity should gradually slow as the housing market cools. We expect GDP growth of 3.5% in 2005 to be followed by 3.3% in 2006 and 2.7% in 2007.
- Inflation risks suggest that the Federal Reserve has not finished raising interest rates. We expect one more hike in the federal funds rate, to 4.75%, at the end of March—followed by an extended pause—although the risk is that the Fed will have to do more rather than less.

The Forecast in Brief

Although we believe that the economy is gradually slowing, the drop in **GDP growth** to 1.1% in the fourth quarter of 2005 greatly overstates the deceleration. We expect a bounce-back to 4.8% growth in the first quarter that will allay fears that the expansion is out of steam. Global Insight still expects growth in 2006 to be solid, at 3.3%, down from 3.5% in 2005. Growth is likely to slow beyond the first quarter, though, as the housing market cools, setting the stage for a below-trend 2.7% growth rate in 2007.

The 1.1% fourth-quarter growth rate was surprisingly low, relative to our January expectation of 3.1%. Timing quirks seem to have depressed government spending, but that was not the whole story. And while consumer spending growth was weak, that was no surprise due to a big payback in car sales following the third-quarter incentives. Spending on other consumer goods and services actually accelerated. But business fixed investment, inventories, and exports all came in weaker than anticipated.

Fourth-Quarter Growth: GDP Slumped, But Manufacturing Surged
(Annualized percent change)



The extent of the slowdown is puzzling, because other indicators of overall activity do not show the same weakness. Production-based indicators like industrial production were up sharply, rebounding after the third-quarter's hurricanes and Boeing strike, even though energy production was down. Manufacturing growth hit a six-year high of 7.9%. It may be that the industrial production data (which come mainly from direct measures of output) better captured the swings in activity caused by the hurricanes than the GDP data (where output is derived from spending data, combined with hard-to-measure inventory fluctuations).

While housing market indicators continue to soften, **recent evidence does not show a broad-based deterioration consistent with a sudden loss of growth momentum.** Manufacturing still looks solid—although the ISM index has eased back a little after post-hurricane bounces. Auto sales and chain-store readings for January were robust. Record-warm weather has meant that the hit from high heating bills has not been as large as feared, and it also encouraged shoppers to go out. And the labor market con-

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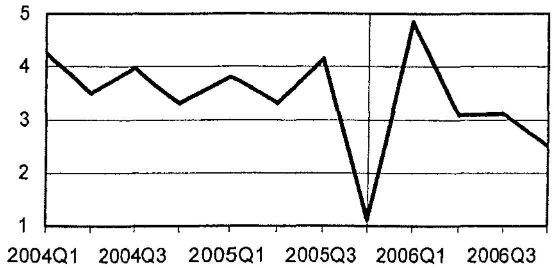
A First-Quarter Rebound Expected
(Real GDP, annualized percent change)



tinues to show improvement, with 193,000 jobs added in January and the unemployment rate dipping to 4.7%. True, abnormally warm weather helped construction jobs, but that was not the whole story.

We expect a **positive payback in the first quarter** for the weak growth rate in the fourth quarter, with GDP growth to hit 4.8%. Consumer spending ended the fourth quarter much more strongly than it began, and with January also looking strong, we anticipate a 5.1% growth rate for the first quarter. Government spending is likely to bounce higher, and we expect exports and business fixed investment to strengthen (the latter helped by hurricane reconstruction).

Beyond the immediate quarterly gyrations, we see the prospect of a gradual slowdown in GDP growth, as the **housing market**—the key driver of the current expansion—cools in the face of overextended prices and higher interest rates. New home sales, existing home sales, and builder confidence have all shifted down, as rapid price gains have made houses less affordable for the average buyer.

The slowdown in the housing market should lead, in turn, to a gradual increase in the **household saving rate,** which slows **consumer spending** growth, as households realize that they cannot rely on house price increases to keep building wealth. The saving rate is now below zero—for only the second time since World War II. This suggests that some rebuilding of savings is likely, especially if the home-equity pump from the housing market loses force, as we assume.

Business fixed investment spending (spurred by higher utilization rates) may dampen the slowdown, but will not prevent it. Corporations had plenty of cash to fuel a double-digit jump in **business equipment spending** during 2005, and we expect nearly the same in 2006. Still lagging behind, **nonresidential construction spending** should finally rebound this year helped by post-hurricane rebuilding. Drilling activity will be boosted by still-high energy prices.

The hurricanes, plus the launch of the unfunded Medicare prescription drug program, will bring to an end, at least temporarily, the improvement in federal government finances. We expect the **federal budget deficit** to widen to $367 billion in fiscal 2006, from $319 billion in fiscal 2005. But we believe that the Bush administration's deficit estimate for 2006 ($423 billion) is overly pessimistic.

Export growth disappointed in the fourth quarter, but we expect a rebound to high single-digit growth in the first half of 2006. There have been encouraging recent signs of economic improvement in the Eurozone and Japan, and growth in the rest of Asia remains rapid, led by China. The dollar appreciated during 2005 based on a rising interest-rate differential in favor of U.S. assets, but we still believe its long-term path is downward, due to the large and still-widening trade gap. The **current-account deficit** is likely to exceed $900 billion (reaching 7.0% of GDP) in 2006.

The **headline CPI** rate has fallen, with gasoline prices well below their peak—but the key question is what will happen to **"core" inflation** (excluding food and energy) over the next few months. Tighter industrial utilization rates and a lower unemployment rate are creating some upside risks for inflation. Thus, we expect to see core CPI inflation creeping up from 2.2% in 2005 to 2.3% in 2006. In combination with an anticipated bounce in GDP growth, this suggests that more Federal Reserve tightening is required.

New **Fed chairman Bernanke** has a free hand to set rates as he wants—the Fed's language now indicates only that further tightening "may" be required. But the Fed is unlikely to stop quite yet. We expect at least one more 25-basis-point hike, taking the **federal funds rate** to 4.75% at the end of March, before an extended pause. The risk is that the Fed will have to do more rather than less. **Ten-year bond yields** have edged back up to 4.5%, and we expect to see a further rise in yields in coming months, approaching 5.0% by year-end.

Oil Prices: Little Near-Term Relief, But Possible Big Drop in the Medium to Long Term

In the wake of hurricanes Katrina and Rita, oil and gasoline prices hit record highs, in nominal terms. Within weeks, however, a combination of factors (a fairly quick recovery of both drilling and refining activity, along with a rise in imports) brought about a sharp drop in both. Unfortunately, the prices of both crude and refined products have risen over the past month, bringing them uncomfortably close to their immediate post-hurricane highs. Even though prices, once again, eased a little in early February, the single most important question regarding the oil price outlook remains: How much of the recent price rise is due to fundamentals and how much is due to special factors, such as the stand-off over Iran's nuclear capabilities and unrest in the oil-producing regions of Nigeria? A related question is: When can we expect to see any significant relief?

The Short-Term Risks Are All on the Upside, Thanks to Strong Fundamentals... Unfortunately, while special factors have played a role in recent price hikes, the tripling of oil prices since early 2002 is almost entirely due to fundamental market forces, including the near elimination of spare capacity in OPEC. Basically, the demand for energy has been growing faster than the supply. While some improvement is expected, these fundamentals are unlikely to change significantly over the next couple of years.

Global GDP is expected to grow a little more rapidly this year than in 2005. Despite (or because of) the 1.1% U.S. growth in the fourth quarter, Global Insight predicts that there will be sharp rebound (4.8%) in the first quarter. For all of 2006, we expect the U.S. economy to expand 3.3% (only a little slower than the 3.5% last year). In the meantime, we have revised upward our growth projections for much of the rest of the world.

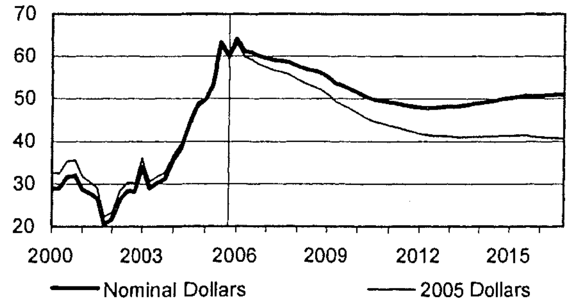
With survey data coming in strong, we now expect that Eurozone GDP will grow 2.1% or 2.2% this year, compared with our previous estimate of 1.9%. The German economy should be able to expand about 2.0% this year, nearly double the pace of the past two years, although some of this stronger growth may be due to temporary factors (a weaker euro in 2005 and pre-buying in anticipation of the rise in value-added taxes scheduled for January 2007). Similarly, we believe that the Japanese economy can expand around 2.5% during 2006, instead of the previous projection of only 1.9% growth.

Perhaps the most dramatic change has been to our China forecasts. The Chinese government recently revised economic growth going back to 1993. The average growth rate from 2003 to 2005 is now estimated to have been 10%. As a result, we have upwardly revised projected 2006 growth from 8.8% to around 9.5%, and 2007 growth from 8.4% to 8.9%. We now believe that trend growth in China (and the world) is higher than previously estimated. Since Chinese energy demand has played a big role in the steady rise in oil prices over the past three years, the stronger-than-previously-expected outlook for China's economic growth means that the demand-side fundamentals in the oil and energy markets could keep prices high.

Meanwhile, despite evidence that the supply side of the energy markets is improving gradually and inventories are rising slowly, the greater volume of oil coming into the market may not be enough to meet the strong growth in demand. OPEC seems to be happy with the current state of affairs (high prices and strong growth) and is in no hurry to boost production by much (assuming it can). New investments in exploration and drilling are occurring, but supply is slow to respond, both for non-OPEC production and for North American natural gas. Global Insight predicts that spare capacity in the petroleum markets will increase from around 1.5% of global demand in the past two years to a little over 2.0% this year. This small increase in oil market slack could be easily eroded by stronger demand and/or weaker supply, and will be insufficient to dampen fears of shortages in the face of actual or perceived shocks.

Based on these market fundamentals, Global Insight believes that oil prices will average at least $64 per barrel in the first quarter and then fall gradually, reaching $60 by year-end, as economic growth in both the United States and China begins to slow a little and rising inventories help to calm market fears. Assuming that tight market conditions continue to ease only gradually over the next few years (in other words, assuming no recession), the earliest prices will get back to $50 will be in 2010.

Oil Price Outlook
(West Texas Intermediate, dollars per barrel)



...And the "Fear Factor." Over the last few years, strong fundamentals and tight market conditions have made oil prices vulnerable to the rare supply disruptions and frequent fears of such disruptions. Unfortunately, there has been no shortage of such events: hurricanes, sabotage in Iraq, strikes in Venezuela, terrorism in Saudi Arabia, rebel activity in Nigeria, and unfriendly actions by the Russian government against energy companies and neighboring countries. At any given time, nervousness in oil markets may have added as much as $5–10/barrel to the price of oil (and occasionally more). In each case, prices have spiked and then fallen—but almost never to their pre-spike levels.

The current market jitters have been triggered by several events, notably the recent confrontation over Iran's nuclear program. This standoff is unlikely to be resolved soon, because Iran's new president, Mahmoud Ahmadinejad, is using it to consolidate his power at home. The longer the crisis continues and the tougher the stand that the United States and the European Union take, the more popular he becomes in Iran. While it is not clear how this situation will resolve itself, or how long it will take, many analysts are worried about possible embargoes by the West and/or curtailment of exports by Iran. Since Iran accounts for about 11% of OPEC output, any disruption of its exports could potentially push prices as high as $100/barrel for a few months.

The Longer Prices Stay High, the Greater the Likelihood That They Will Fall. In many ways, oil is not much different than other commodities when markets are tight. Unlike the mid-1970s and early 1980s, it is economic growth that is driving oil prices in the current business cycle, rather than vice versa. In other words, over the last few years, there has been nothing peculiar to oil, natural gas, or coal that has driven up their prices and maintains them at elevated levels.

What sets oil markets apart from other commodities is the role of the OPEC cartel. When oil markets are tight (as they are now), the cartel can exert maximum power. At other times, though, OPEC has been much less powerful (e.g., the late 1980s and 1990s). While oil markets remain tight and as OPEC's share of production rises—a trend that Global Insight projects for the near-to-medium term—the cartel will remain in the driver's seat. But the longer OPEC succeeds in keeping prices high, the greater the chance that, in time, its power will once again be eroded.

The history of commodity prices suggests that sometime beyond the next few years a combination of supply- and demand-side responses will bring oil and other commodity prices back down to earth again. Nevertheless, market analysts continue to fall into the trap of extrapolating current trends into the distant future. There is a long list of economists and analysts who have made dire predictions about running out of natural resources, including oil. In the early 1800s, Thomas Malthus projected that population growth would outpace food supply. In 1862, Stanley Jevons (a highly respected economist at the time) predicted that Britain would run out of coal by 1890, with very dire consequences. In the 1960s and 1970s, the Club of Rome predicted that a shortage of natural resources would hobble the world economy within a few decades. In 1980, one oil market analyst predicted "$85 in '85," referring to the price of oil in 1985. Today, proponents of "peak oil" are once again predicting that we will run out of oil in the next few decades. Every single one of these predictions has badly missed the role of technological change in bringing about demand changes, improved productivity, and alternative supplies of (and substitutes for) energy and other raw materials

In the longer run, thanks to technology, the constraints that are currently keeping oil prices high will no longer be binding. Over the next 10–20 years, a response of both supply and demand to high prices is guaranteed—it has been large in the past. In fact, the longer prices stay high, the more they are likely to fall, possibly in a spectacular fashion. In the long haul, other sources of energy (e.g., tar sands, oil shale, hydrogen, nuclear, and solar) will become more viable and technological advances will lower the marginal cost of oil and natural gas. Finally, technology will also have a big impact on the demand side (e.g., hybrid cars and other technologies that will improve overall energy efficiency). For example, it is a safe bet that the huge increase in automobile demand over the next two decades in India and China will trigger radical improvements in the energy efficiency of these cars.

It is difficult to predict, with any precision, when the supply and demand responses will be large enough to bring prices down again—Global Insight expects that it could take 10 years or longer. But history shows that market forces always have a powerful effect on commodities—often with a lag, and sometimes with a vengeance.

Key Forecast Assumptions

Oil Price Projection Raised. High oil prices remain a cloud over the global economy, with jangled nerves over Iran's nuclear ambitions sending prices into the high \$60s per barrel. The forecast assumes that the risk premium in the oil market will shrink, allowing prices (West Texas Intermediate) to ease back to an average \$61.50 for 2006 (compared with \$58.20 in the January forecast). Tight demand/supply fundamentals will keep the market vulnerable to actual and feared supply disruptions.

Natural Gas Prices See Warm Weather Relief. The unseasonably warm winter has driven natural gas prices down. We now expect the Henry Hub price for natural gas to average \$8.49 per million Btu in the first quarter, rather than \$12.63, although this is still 33% above a year ago. We assume the price rises to \$10.12 in late 2006.

One More Fed Rate Hike. We assume one more 25-basis-point hike that takes the federal funds rate to 4.75% as of March 28, 2006, followed by an extended pause.

Dollar Decline to Resume. The dollar strengthened against most currencies in 2005, but we believe that the drag from the current-account deficit will reassert itself in 2006, especially after the Fed stops tightening. We expect the dollar to decline about 7% against major currencies during 2006 (fourth quarter-to-fourth quarter basis), reaching rates of \$1.32/euro, 102 yen/dollar, and C\$1.14/dollar at year-end. We anticipate a further 6% decline against major currencies during 2007. China began the process of renminbi revaluation with a small 2.1% move in July; we expect its future moves will be incremental. Over the next 12 months, the Chinese currency should appreciate another 2.5% against the dollar.

Tax Burden to Rise. We do not believe that budget-deficit reduction will be achieved by spending restraint alone. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled. But we are also assuming that Congress will tinker enough to raise federal personal income tax receipts, little by little, back toward their historical average of 8.2% of GDP. For 2006, we assume another temporary "fix" that will prevent the individual Alternative Minimum Tax from raising the tax burden. Thereafter, we assume that the president and Congress will prevent the AMT from kicking in strongly, but that they will gradually broaden the income tax base in order to make up the lost revenues.

Hurricane Destruction. The Bureau of Economic Analysis' estimates of the damage from hurricanes Katrina and Rita imply \$92 billion in damage to the stock of private capital, equivalent to 0.7% of GDP. We assume \$92 billion in federal government spending in response to the storms, spread over several years. This represents \$59 billion in spending by FEMA (including \$23 billion in flood insurance), \$25 billion in funding for infrastructure and equipment spending, and \$8 billion in current spending by other agencies and the military. We assume an extra 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable.

by Nariman Behravesh and Nigel Gault

Risks to the Forecast

Labor productivity in the fourth quarter of 2005 fell for the first time since the first quarter of 2001. The reasons for the drop are puzzling. Did workers suddenly decide to coast at the end of last year? Our view is that measurement problems may have distorted the numbers, and that productivity will bounce back strongly in the first quarter of 2006. Still, the underlying rate of productivity growth has slowed. In the forecast, productivity grows about 2.4% over the next 10 years. This is below the sizzling 3.7% average achieved from 2001 to 2004 (but still above the 2.1% average of the past 50 years).

An argument could be made that our forecast is too low. Many economists in academia believe that the productivity boom may last another decade, if not longer. Their premise is that the contribution that information technologies have made to productivity has yet to run its course. The optimistic scenario incorporates this view. The driving force behind this is a pickup in multi-factor productivity growth. This alternative forecast also focuses on the momentum being created by the investment recovery. As the decade-long expansion of the 1990s showed, once an economy gets up a head of steam, it is difficult to slow it down. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever.

The pessimistic scenario focuses on the upward pressures on global commodity prices—notably for energy—and the downward trend in the dollar, with their negative implications for inflation, bond yields, and domestic demand. The simulation also includes a housing bubble that ends inauspiciously. This alternative forecast resembles the late 1970s, when it seemed the bad times would never end. Indeed, as the 1970s demonstrated, economic malaise is difficult to shake as well.

Growth Surges Higher Again (20% Probability). Six assumptions distinguish the optimistic scenario from the baseline forecast. First, total factor productivity, a concept that roughly measures how innovations augment economic growth, is stronger. Underlying this assumption is the view that the information-driven technology boom, which may have accelerated in recent years, continues. Productivity is a panacea. In the optimistic scenario, it is the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the baseline. It is also one reason why the dollar is stronger. In conjunction with productivity gains, the stronger currency will help contain inflation.

Second, foreign economic growth is stronger. Although it can have a few side effects, such as commodity price inflation, foreign economic growth is also potent medicine. A stronger world economy boosts U.S. exports and strengthens domestic manufacturing. In this scenario, both developing and industrialized economies grow faster than in the baseline. As a result, after 2005, exports grow faster in every year but one during the forecast period despite a stronger dollar.

Third, business investment is stronger. Today's level of business spending is below average by historical standards. In 2005, business fixed investment accounted for 10.6% of GDP, almost a full percentage point below the average over the past 25 years despite strong fundamentals—namely, an economy growing faster than trend and low interest rates. In this scenario, business spending (particularly on equipment and software) is much higher than in the baseline throughout the forecast period. By 2010, for example, it accounts for 12.2% of GDP, compared with 11.2% in the baseline.

Fourth, the federal government budget deficit in the optimistic scenario is lower than in the baseline. As the U.S. economy performs better, tax revenues increase and federal transfer payments decrease, leading to smaller deficits. Also contributing to a smaller deficit are lower interest rates, which result in lower federal interest payments.

Fifth, housing starts are stronger. The main factors driving starts up in the optimistic scenario are better job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run about $7.50/barrel lower than in the baseline, and wellhead natural gas prices about 7.5% lower.

The optimistic scenario assumes a very strong bounce-back to 5.6% growth in the first quarter of 2006, compared with the baseline's 4.8% growth. In 2006, growth averages 4.0%, versus 3.3% in the baseline. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and faster productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline value. Since productivity gains are stronger, potential GDP is higher and remains so throughout the forecast period. Job growth is also stronger, keeping the unemployment rate below its baseline rate over the forecast period.

Stagflation (25% Probability). After a quarter-century of declining inflation, signs of a reacceleration are emerging. A doubling of oil prices, a downtrend in the dollar, two-and-a-half years of accommodative monetary policy, and loose fiscal policy may have produced the conditions for a serious acceleration of inflation. The Federal Reserve is counting on continuing strong productivity gains, together with its "measured" tightening, to keep inflation at bay—but perhaps this is too sanguine a view.

The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

In the pessimistic alternative, core inflation keeps gathering momentum, reaching 3.0% by mid-2006. The Fed responds by accelerating the pace of tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it continues hiking interest rates. The federal funds rate averages 6.11% in the fourth quarter of 2006, compared with 4.75% in the baseline.

This simulation also has a housing price bubble that ends dramatically. The average price of existing single-family homes rises 18% above the baseline average by the second quarter of 2006, but then the bubble bursts. In the second quarter of 2007, the average price tumbles more than 20% below its year-earlier value, and then stays below its baseline value throughout the forecast period. Housing starts tumble to 1.57 million units in 2007, compared with 1.81 million in the baseline forecast.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. Core inflation stabilizes—but fails to retreat sufficiently, worrying the Federal Reserve. At the same time, hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation—and, in fact, inflation eventually tapers off. Debt-laden consumers retrench further. Finally, early in 2008, with the unemployment rate at 6.1% and the federal funds rate at 7.75%, the Fed decides to hold. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

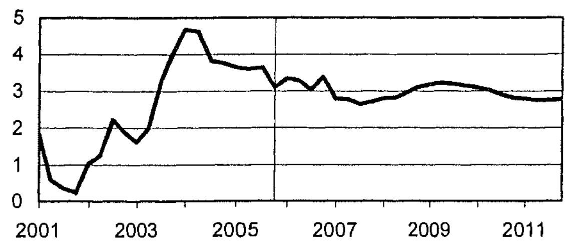
The economy does not sink into recession in the pessimistic alternative, but merely fails to come as close to its potential as in the baseline, with GDP growth coming in 0.7 percentage point below the baseline rate in 2006 and 1.4 percentage points below it in 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is more than 5.0% below its baseline level at the end of 2016.

by Patrick Newport and Marina Hess

Forecast at a Glance

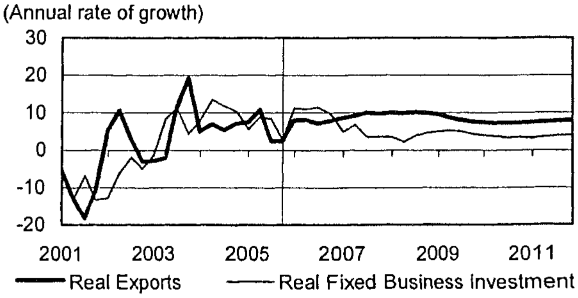
GDP Growth to Gradually Ease

(Percent change from a year earlier)



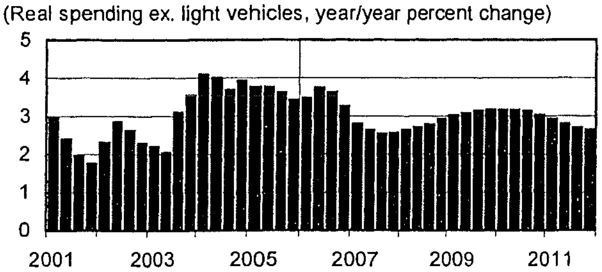
Exports and Business Investment Will Support Growth

(Annual rate of growth)

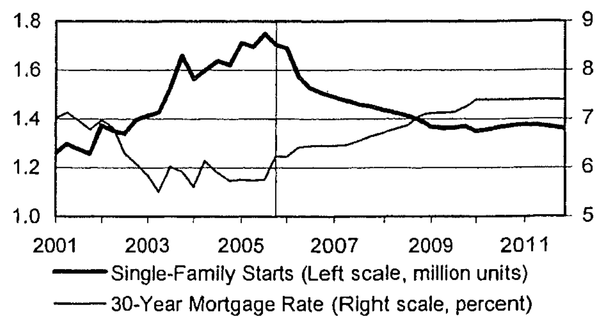


Consumer Spending Growth Will Slow

(Real spending ex. light vehicles, year/year percent change)

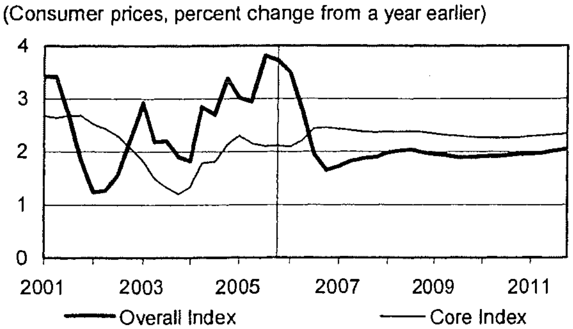


Housing Has Peaked



Core Inflation Will Remain at 2%-Plus

(Consumer prices, percent change from a year earlier)



The Yield Curve Has Flattened

(Percent)

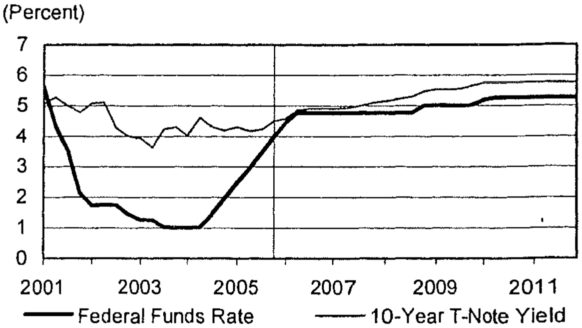


TABLE 1
Monthly Economic Indicators

	Dec. 2004	Jan. 2005	Jun. 2005	Jul. 2005	Aug. 2005	Sep. 2005	Oct. 2005	Nov. 2005	Dec. 2005	Jan. 2006	2003	2004	2005
Industrial Markets													
Industrial Prod. (2002=100.0)	107.5	108.1	109.0	109.1	109.5	108.9	110.9	111.4	111.6		100.5	105.4	109.4
Percent Change	0.5	0.5	0.3	0.1	0.4	-0.5	1.8	0.4	0.2		0.5	4.8	3.8
Percent Change Year Earlier	5.0	5.3	3.9	3.2	2.9	2.8	3.8	4.2	3.8				
Capacity Utilization, Manufacturing (%)	78.3	78.6	78.7	78.6	78.8	78.2	79.5	79.6	79.6		73.7	77.1	78.8
Unemployment Rate (%)	5.4	5.2	5.0	5.0	4.9	5.1	4.9	5.0	4.9	4.7	6.0	5.5	5.1
Payroll Employment (Mil.)	132.395	132.471	133.376	133.617	133.792	133.840	133.877	134.231	134.371	134.564	129.993	131.424	133.458
Change (Mil.)	0.160	0.076	0.166	0.241	0.175	0.048	0.037	0.354	0.140	0.193	-0.349	1.431	2.035
Leading Indicator (1992=1.000)	1.361	1.358	1.371	1.369	1.369	1.359	1.372	1.384	1.385		1.243	1.335	1.366
Percent Change	0.7	-0.2	1.1	-0.1	0.0	-0.7	1.0	0.9	0.1		5.0	7.4	2.4
New Orders, Mfg. (Bil. $)	375.8	372.6	395.3	385.6	396.8	391.2	397.6	410.6	415.1		329.4	360.0	390.3
Percent Change	0.2	-0.8	0.9	-2.5	2.9	-1.4	1.7	3.3	1.1		3.5	9.3	8.4
Inv. Chg., Mfg. & Trade (Bil. $)	2.2	10.9	-0.5	-5.5	4.8	6.1	5.0	6.3			17.6	89.8	
Merchandise Trade Bal. (Bil. $)	-58.4	-61.6	-62.5	-61.5	-62.6	-69.9	-71.9	-67.6			-532.4	-650.9	
Consumer Markets													
Disposable Income (Bil. 2000$)	8393	8087	8133	8149	7922	8111	8144	8209	8242		7742	8004	8115
Percent Change	4.0	-3.6	0.4	0.2	-2.8	2.4	0.4	0.8	0.4		2.4	3.4	1.4
Personal Income (Bil. $)	10291	10025	10232	10275	10059	10360	10419	10464	10505		9169	9713	10238
Percent Change	3.7	-2.6	0.5	0.4	-2.1	3.0	0.6	0.4	0.4		3.2	5.9	5.4
Personal Saving Rate (%)	4.4	0.7	-0.6	-1.4	-3.4	-0.5	-0.1	-0.2	-0.7		2.1	1.7	-0.5
Consumer Expenditures (Bil. $)	8468	8483	8737	8858	8819	8855	8868	8916	8997		7710	8214	8746
Percent Change	0.7	0.2	1.0	1.4	-0.4	0.4	0.1	0.5	0.9		4.9	6.5	6.5
Retail Sales (Bil. $)	336.4	336.8	351.3	357.3	350.7	351.8	352.5	355.4	357.8		3623.8	3888.5	4183.8
Percent Change	1.1	0.1	1.9	1.7	-1.8	0.3	0.2	0.8	0.7		4.3	7.3	7.6
Non-Auto. Retail Sales (Bil. $)	259.9	261.6	271.0	272.4	275.7	279.3	281.3	280.1	280.6		2778.5	3007.2	3266.0
Percent Change	0.6	0.7	1.0	0.5	1.2	1.3	0.7	-0.4	0.2		4.7	8.2	8.6
New Light-Vehicle Sales (Mil.)	17.9	16.3	17.8	20.7	16.8	16.3	14.7	15.7	17.1	17.6	16.6	16.9	16.9
Housing Starts (Mil.)	2.050	2.188	2.065	2.062	2.081	2.160	2.051	2.121	1.933		1.854	1.950	2.066
New Home Sales (Mil.)	1.247	1.194	1.298	1.371	1.274	1.249	1.358	1.233	1.269		1.091	1.200	1.280
Existing Home Sales (Mil.)	6.810	6.820	7.350	7.150	7.280	7.290	7.090	7.000	6.600		6.170	6.723	7.049
Chg. Consumer Install. Credit (Bil. $)	6.2	5.4	10.9	11.3	11.7	5.3	-7.2	0.6	3.3		88.0	89.1	62.5
Prices and Wages													
CPI, All Urban Consumers	1.912	1.913	1.941	1.951	1.961	1.985	1.989	1.978	1.977		1.840	1.889	1.953
Percent Change Year Earlier	3.4	2.9	2.5	3.1	3.6	4.7	4.3	3.5	3.4		2.3	2.7	3.4
Core Cons. Price Defl. (2000=100.0)	108.1	108.4	109.2	109.3	109.4	109.7	109.8	110.1	110.2		105.1	107.2	109.3
Percent Change Year Earlier	2.2	2.2	1.9	1.9	2.0	2.0	1.9	1.9	1.9		1.3	2.0	2.0
PPI, Finished Goods	1.517	1.519	1.537	1.552	1.562	1.589	1.600	1.589	1.603		1.433	1.485	1.558
Percent Change Year Earlier	4.4	4.3	3.7	4.7	5.2	6.7	5.9	4.5	5.7		3.2	3.6	4.9
PPI, Industrial Commodities (NSA)	1.520	1.527	1.566	1.591	1.608	1.655	1.703	1.675	1.666		1.391	1.476	1.602
Percent Change Year Earlier	9.0	7.4	6.3	7.4	7.7	11.0	12.2	9.1	9.6		5.1	6.1	8.5
Avg. Private Hourly Earnings ($)	15.84	15.88	16.07	16.14	16.16	16.19	16.28	16.28	16.34	16.41	15.35	15.67	16.10
Percent Change Year Earlier	2.5	2.6	2.7	2.9	2.7	2.7	3.1	3.0	3.2	3.3	2.7	2.1	2.8
West Texas Int. Crude Oil ($/bbl.)	43.33	46.84	56.31	58.70	64.97	65.57	62.37	58.30	59.43	65.51	31.14	41.45	56.46
Percent Change Year Earlier	37.3	7.6	-4.9	5.0	18.1	9.1	3.8	-2.8	9.8	29.8	19.3	33.1	36.2
Henry Hub Spot Natural Gas ($/mmbtu)	6.61	6.13	7.16	7.64	9.48	11.88	13.42	10.28	13.05	8.67	5.50	5.90	8.81
Percent Change Year Earlier	7.5	0.1	13.7	28.9	74.2	132.7	110.1	66.8	97.4	41.6	64.0	7.4	49.4
Financial Markets													
Federal Funds Rate (%)	2.16	2.28	3.04	3.26	3.50	3.62	3.78	4.00	4.16	4.29	1.13	1.35	3.21
3-Month T-Bill Rate (%)	2.19	2.33	2.97	3.22	3.44	3.42	3.71	3.88	3.97	4.34	1.01	1.37	3.15
Commercial Bank Prime Rate (%)	5.15	5.25	6.01	6.25	6.44	6.59	6.75	7.00	7.15	7.26	4.12	4.34	6.19
Moody's Aaa Corp. Bond Yield (%)	5.47	5.36	4.96	5.06	5.09	5.13	5.35	5.42	5.37	5.30	5.67	5.63	5.24
10-Year Treasury Note Yield (%)	4.23	4.22	4.00	4.18	4.26	4.20	4.46	4.54	4.47	4.42	4.02	4.27	4.29
Conv. Mortgage Rate, FHLMC (%)	5.75	5.71	5.58	5.70	5.82	5.77	6.07	6.33	6.27	6.15	5.82	5.84	5.87
M1 Money Supply (Bil. $)	1372	1367	1370	1363	1370	1367	1369	1370	1369		1274	1345	1369
Percent Change	-0.1	-0.4	-0.1	-0.5	0.6	-0.2	0.1	0.1	-0.1		6.8	5.1	-0.2
M2 Money Supply (Bil. $)	6422	6436	6518	6539	6569	6600	6630	6652	6680		6005	6278	6544
Percent Change	0.3	0.2	0.4	0.3	0.5	0.5	0.4	0.3	0.4		4.7	5.5	4.0
Trade-Weighted US$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	88.4	88.9	91.0	91.5	90.4	90.3	91.5	92.4	91.7		97.5	92.6	90.4
Percent Change	-1.1	0.6	1.1	0.6	-1.3	0.0	1.3	0.9	-0.7		-6.7	-5.0	-2.4
Percent Change Year Earlier	-5.4	-3.0	-3.5	-2.3	-3.7	-3.4	-0.6	3.3	3.8				
Real Morgan Guaranty Index	88.3	89.5	91.2	91.9	90.4	90.0	90.7	91.5	91.0		98.3	92.3	90.3
Percent Change	-0.5	1.3	1.0	0.8	-1.6	-0.4	0.8	0.8	-0.6		-7.4	-6.1	-2.2
Percent Change Year Earlier	-6.4	-3.2	-3.2	-1.4	-3.2	-3.0	-0.5	3.1	3.0				

TABLE 2
Summary of the U.S. Economy

	2005:3	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2007:4	2008:1	2008:2	2008:3
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	4.1	1.1	4.8	3.1	3.1	2.5	2.4	3.1	2.6	2.8	2.8	3.1	3.1
Final Sales of Domestic Product	4.6	-0.3	4.6	3.2	3.1	2.4	2.4	3.1	2.6	2.9	2.8	3.1	3.1
Total Consumption	4.1	1.1	5.1	3.2	3.3	2.7	2.1	2.6	2.5	2.7	2.6	2.9	3.0
Durables	9.3	-17.5	20.4	0.0	6.2	4.4	0.4	3.5	2.5	3.4	2.9	4.5	5.4
Nondurables	3.5	5.1	4.5	3.5	2.8	1.7	1.7	2.5	2.3	2.3	2.1	2.7	2.6
Services	3.3	3.2	2.7	3.7	3.1	2.8	2.6	2.5	2.6	2.8	2.8	2.8	2.8
Nonresidential Fixed Investment	8.4	2.8	11.2	11.0	11.5	9.9	5.0	6.8	3.7	3.8	3.5	2.2	4.0
Equipment & Software	10.6	3.5	11.5	10.2	10.9	9.3	3.3	6.0	6.1	4.9	5.5	4.8	5.4
Information Processing Equipment	11.1	9.1	11.4	15.8	14.4	13.2	8.6	9.2	8.7	8.5	8.4	8.4	8.5
Computers & Peripherals	13.9	35.4	26.3	22.5	23.7	22.9	22.4	22.9	21.5	20.8	20.9	21.5	20.7
Communications Equipment	28.2	-8.2	9.2	15.1	12.9	13.5	7.6	7.6	7.9	8.1	7.9	6.7	6.2
Industrial Equipment	16.7	10.5	8.9	5.1	5.6	6.4	4.3	1.8	1.3	2.9	2.5	2.7	0.7
Transportation equipment	13.9	-17.7	21.1	3.2	10.7	7.0	-11.6	3.2	6.5	-1.6	4.0	-0.9	4.4
Aircraft	-21.8	-65.9	134.3	27.8	22.3	16.9	14.4	20.6	9.2	12.8	14.6	8.1	8.4
Other Equipment	1.3	5.1	5.8	6.7	6.3	3.6	3.1	3.4	2.8	2.4	1.8	2.1	2.0
Structures	2.2	0.7	10.4	13.4	13.3	11.4	9.8	9.2	-2.7	0.7	-2.0	-5.0	-0.2
Commercial & Health Care	1.7	-3.5	6.8	5.3	10.6	8.8	-0.3	8.7	15.1	12.6	-1.4	-3.1	-2.5
Manufacturing	-6.7	4.9	3.6	8.7	17.9	22.0	4.2	4.0	19.6	20.7	18.2	14.6	16.3
Power & Communication	-14.5	-13.6	22.8	22.8	12.9	11.6	26.9	14.4	-1.3	1.5	-0.6	-4.1	-2.6
Mining & Petroleum	17.7	16.1	11.8	26.8	20.7	14.5	16.7	13.6	-28.5	-20.7	-11.9	-21.0	-4.1
Other	-0.9	-4.0	11.5	5.3	4.3	7.0	11.7	1.2	2.0	2.1	1.2	3.5	4.1
Residential Fixed Investment	7.3	3.5	-6.2	-10.6	-7.7	-10.4	-4.3	-3.9	-4.3	-1.6	-2.1	-2.0	-2.8
Exports	2.5	2.4	7.9	8.2	7.1	7.9	8.7	9.1	10.0	9.7	10.0	9.9	10.1
Imports	2.4	9.1	9.0	3.9	7.0	6.7	3.4	3.1	3.5	3.8	3.2	2.9	4.7
Federal Government	7.5	-7.0	9.4	2.1	3.0	1.2	0.3	0.7	0.6	1.1	0.9	1.1	0.2
State & Local Government	0.2	0.4	1.9	0.8	1.9	2.2	2.6	1.5	1.2	1.2	0.5	1.6	2.2
Billions of Dollars													
Real GDP	11202.3	11233.5	11367.1	11453.9	11542.0	11613.7	11683.9	11772.2	11846.8	11928.8	12011.4	12104.2	12197.0
Nominal GDP	12605.7	12735.3	12974.8	13146.6	13315.2	13462.5	13608.8	13767.9	13914.6	14077.3	14256.7	14436.6	14618.6
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	3.3	3.0	2.6	2.2	2.1	1.9	1.9	1.7	1.7	1.9	2.3	2.0	2.0
Consumer Prices	5.1	3.2	1.5	1.4	1.7	2.0	1.8	1.8	1.9	2.1	2.1	1.9	2.0
Producer Prices, Finished Goods	7.6	7.8	-1.4	0.4	1.2	0.9	0.3	0.0	1.0	1.1	0.4	0.7	0.7
Employment Cost Index - Total Comp.	3.2	3.2	4.1	3.7	3.7	3.7	3.4	3.6	3.6	3.8	3.8	3.4	3.5
Other Key Measures													
Oil - WTI ($ per barrel)	63.21	60.06	64.00	61.19	60.83	59.98	59.53	59.06	58.94	58.47	57.70	57.13	56.63
Productivity (%ch., saar)	4.5	-0.6	3.6	2.3	2.4	1.4	1.6	2.2	1.9	2.2	2.0	2.4	2.3
Total Industrial Production (%ch., saar)	1.4	3.8	5.7	2.9	3.3	3.0	2.6	2.5	1.8	1.6	2.4	2.6	2.7
Factory Operating Rate	78.5	79.6	79.9	79.9	79.9	79.8	79.4	79.3	79.1	78.9	78.7	78.8	78.8
Nonfarm Inven. Chg. (Bil. 2000 $)	-8.1	30.6	38.7	33.5	31.8	33.2	33.2	33.3	32.0	29.8	29.1	29.9	31.1
Consumer Sentiment Index	87.5	82.4	91.0	92.6	94.0	94.0	94.0	93.8	92.8	92.2	91.6	91.9	92.2
Light Vehicle Sales (Mil. units, saar)	17.92	15.64	16.70	16.46	16.54	16.68	16.64	16.59	16.70	16.66	16.75	16.75	16.89
Housing Starts (Mil. units, saar)	2.101	2.035	2.038	1.881	1.838	1.835	1.824	1.819	1.809	1.800	1.781	1.762	1.748
Exist. House Sales (Total, Mil. saar)	7.240	6.897	6.570	6.396	6.210	6.181	6.107	6.085	5.909	5.908	5.831	5.826	5.769
Unemployment Rate (%)	5.0	4.9	4.8	4.8	4.7	4.8	4.8	4.8	4.9	4.9	4.9	5.0	5.0
Payroll Employment (%ch., saar)	1.6	1.2	1.6	1.7	1.5	1.5	1.4	1.3	1.1	1.2	1.1	1.2	1.1
Federal Surplus (Unified, nsa, bil. $)	-69.0	-119.3	-126.4	-12.0	-109.4	-82.7	-74.7	-74.2	-77.2	-81.7	-82.2	-79.9	-84.7
Current Account Balance (Bil. $)	-783.3	-898.4	-911.5	-915.9	-936.1	-951.9	-950.0	-943.2	-939.0	-936.0	-922.3	-901.7	-892.5
Financial Markets, NSA													
Federal Funds Rate (%)	3.46	3.98	4.43	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
3-Month Treasury Bill Rate (%)	3.35	3.82	4.36	4.57	4.58	4.58	4.58	4.58	4.58	4.58	4.58	4.58	4.62
10-Year Treasury Note Yield (%)	4.21	4.49	4.57	4.84	4.90	4.90	4.90	4.92	5.00	5.09	5.14	5.21	5.28
30-Year Fixed Mortgage Rate (%)	5.75	6.22	6.22	6.41	6.45	6.45	6.45	6.47	6.55	6.64	6.72	6.80	6.87
S&P 500 Stock Index	1224	1230	1265	1272	1281	1281	1285	1290	1297	1309	1336	1367	1393
(Four-Quarter % change)	10.9	5.9	6.1	7.6	4.7	4.1	1.6	1.4	1.2	2.2	4.0	6.0	7.4
Exchange Rate, Major Trading Partners	0.833	0.845	0.833	0.818	0.801	0.784	0.770	0.757	0.747	0.738	0.728	0.724	0.723
(% change, annual rate)	5.6	5.8	-5.7	-6.8	-8.5	-7.9	-7.0	-6.6	-5.3	-4.8	-5.2	-2.2	-0.7
Incomes													
Personal Income (% ch., saar)	1.8	9.4	6.5	6.4	6.2	5.2	5.1	5.4	5.2	5.3	5.8	5.6	5.4
Real Disposable Income (%ch., saar)	-2.0	7.0	4.8	4.6	4.2	2.9	1.7	3.3	3.1	3.2	3.3	3.7	3.4
Saving Rate (%)	-1.8	-0.3	-0.4	-0.1	0.1	0.1	0.0	0.2	0.3	0.4	0.6	0.8	0.8
After-Tax Profits (Billions of $)	1032	1138	1157	1156	1151	1144	1135	1134	1126	1121	1107	1117	1123
(Four-quarter % change)	36.0	37.0	13.9	11.2	11.5	0.5	-2.0	-1.8	-2.2	-2.0	-2.5	-1.5	-0.3

TABLE 3
Summary of the U.S. Economy

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Composition of Real GDP, Percent Change													
Gross Domestic Product	4.4	3.7	0.8	1.6	2.7	4.2	3.5	3.3	2.7	2.9	3.2	3.0	2.8
Final Sales of Domestic Product	4.5	3.8	1.6	1.2	2.7	3.9	3.8	3.1	2.7	2.9	3.1	3.0	2.8
Total Consumption	5.1	4.7	2.5	2.7	2.9	3.9	3.6	3.4	2.6	2.8	3.1	3.2	2.8
Durables	11.7	7.3	4.3	7.1	6.6	6.0	4.4	3.7	2.8	3.7	5.1	5.2	4.6
Nondurables	4.6	3.8	2.0	2.5	3.2	4.7	4.4	3.9	2.2	2.4	2.8	2.8	2.4
Services	4.0	4.5	2.4	1.9	2.0	3.0	2.9	3.1	2.8	2.8	3.0	3.0	2.7
Nonresidential Fixed Investment	9.2	8.7	-4.2	-9.2	1.3	9.4	8.5	9.0	7.1	3.7	4.7	4.2	3.6
Equipment & Software	12.7	9.4	-4.9	-6.2	3.2	11.9	10.8	9.4	6.7	5.4	5.9	5.2	4.6
Information Processing Equipment	21.2	17.4	-1.8	-4.7	5.1	13.6	13.1	12.4	10.7	8.5	8.8	8.2	7.8
Computers & Peripherals	41.0	21.1	2.0	5.0	12.7	27.6	32.7	25.3	22.5	21.1	20.2	19.0	18.2
Communications Equipment	19.2	30.0	-7.6	-21.1	-0.9	15.8	8.5	9.1	9.8	7.3	5.1	4.6	5.3
Industrial Equipment	-0.2	7.7	-8.5	-7.7	0.3	3.4	6.8	6.8	3.9	2.2	1.6	0.7	0.3
Transportation equipment	15.3	-4.1	-11.2	-11.8	-2.3	12.7	12.8	6.7	0.9	2.4	5.1	3.9	1.9
Aircraft	44.0	2.8	2.8	-28.6	-5.4	-10.2	-21.4	8.2	16.9	11.6	7.7	6.4	5.2
Other Equipment	0.8	3.6	-3.3	-3.1	6.3	14.8	6.5	5.9	3.8	2.3	1.9	1.5	1.3
Structures	-0.4	6.8	-2.3	-17.1	-4.2	2.2	1.9	8.0	8.3	-1.1	1.3	1.1	0.7
Commercial & Health Care	3.2	6.3	-5.3	-15.7	-6.4	2.2	0.0	4.1	7.4	3.2	0.4	1.1	1.2
Manufacturing	-22.5	-6.1	-10.3	-41.6	-7.4	4.8	15.6	5.8	12.2	17.5	18.5	10.1	7.3
Power & Communication	17.4	14.7	3.0	-2.4	-14.1	-11.7	-9.6	4.9	14.1	-0.4	0.5	5.0	0.7
Mining & Petroleum	-8.8	27.8	17.8	-23.3	17.4	16.4	16.5	19.0	7.3	-15.1	-7.2	-11.3	-11.3
Other	0.8	2.9	-4.7	-16.0	-4.1	0.5	-5.4	3.3	5.6	2.5	5.2	4.6	4.4
Residential Fixed Investment	6.0	0.8	0.4	4.8	8.4	10.3	7.2	-3.2	-6.1	-2.4	-1.9	0.6	1.6
Exports	4.3	8.7	-5.4	-2.3	1.8	8.4	6.7	6.3	8.6	9.9	9.3	7.6	7.5
Imports	11.5	13.1	-2.7	3.4	4.6	10.7	6.2	6.2	4.5	3.6	5.4	5.5	4.7
Federal Government	2.2	0.9	3.9	7.0	6.9	5.2	2.0	2.8	1.1	0.9	0.7	1.1	0.5
State & Local Government	4.7	2.7	3.2	3.1	0.6	0.4	1.5	1.3	1.9	1.3	1.9	1.4	1.5
Billions of Dollars													
Real GDP	9470.4	9817.0	9890.7	10048.9	10320.6	10755.7	11131.1	11494.2	11807.9	12153.0	12540.3	12911.2	13268.3
Nominal GDP	9268.4	9817.0	10128.0	10469.6	10971.3	11734.3	12479.5	13224.8	13842.2	14530.5	15303.7	16072.7	16844.2
Prices & Wages, Percent Change													
GDP Deflator	1.4	2.2	2.4	1.7	2.0	2.6	2.8	2.6	1.9	2.0	2.1	2.0	2.0
Consumer Prices	2.2	3.4	2.8	1.6	2.3	2.7	3.4	2.5	1.8	2.0	1.9	1.9	2.0
Producer Prices, Finished Goods	1.8	3.8	1.9	-1.3	3.2	3.6	4.9	2.5	0.6	0.7	0.4	0.4	0.5
Employment Cost Index - Total Comp.	3.2	4.5	4.1	3.8	4.0	3.9	3.0	3.6	3.6	3.6	3.6	3.6	3.5
Other Key Measures													
Oil - WTI ($ per barrel)	19.27	30.35	25.96	26.11	31.12	41.47	56.56	61.50	59.00	56.92	53.55	50.33	48.75
Productivity (%ch.)	2.8	2.6	2.6	4.0	3.8	3.4	2.6	2.3	1.9	2.2	2.4	2.5	2.6
Total Industrial Production (%ch.)	4.5	4.3	-3.5	0.1	0.6	4.1	3.1	3.5	2.6	2.3	3.0	2.7	2.8
Factory Operating Rate	80.8	80.3	74.1	73.3	73.7	77.1	78.8	79.9	79.2	78.8	79.1	78.8	78.7
Nonfarm Inven. Chg. (Bil. 2000 $)	71.5	57.8	-31.8	15.2	15.4	49.9	21.9	34.3	32.1	31.7	45.8	44.8	44.1
Consumer Sentiment Index	105.8	107.6	89.2	89.6	87.6	95.2	88.6	92.9	93.2	92.1	92.4	91.5	90.7
Light Vehicle Sales (Mil. units)	16.89	17.34	17.12	16.82	16.64	16.87	16.82	16.59	16.65	16.84	17.07	17.46	17.74
Housing Starts (Mil. units)	1.647	1.573	1.601	1.710	1.854	1.950	2.066	1.898	1.813	1.755	1.692	1.680	1.683
Exist. House Sales (Total, Mil. units)		5.182	5.319	5.653	6.170	6.723	7.049	6.339	6.002	5.782	5.710	5.901	6.024
Unemployment Rate (%)	4.2	4.0	4.7	5.8	6.0	5.5	5.1	4.8	4.9	4.9	4.9	4.9	5.0
Payroll Employment (%ch.)	2.4	2.2	0.0	-1.1	-0.3	1.1	1.5	1.5	1.4	1.1	1.1	0.8	0.6
Federal Surplus (Unified, FY, bil. $)	124.4	236.9	127.3	-157.8	-377.1	-412.8	-318.5	-367.1	-308.9	-328.4	-317.1	-306.7	-290.9
Current Account Balance (Bil. $)	-300.1	-416.0	-389.5	-475.2	-519.7	-668.1	-816.9	-928.8	-942.0	-902.6	-885.6	-891.7	-884.8
Financial Markets, NSA													
Federal Funds Rate (%)	4.97	6.24	3.89	1.67	1.13	1.35	3.21	4.67	4.75	4.81	5.00	5.23	5.2
3-Month Treasury Bill Rate (%)	4.63	5.81	3.43	1.61	1.01	1.36	3.14	4.53	4.58	4.65	4.86	4.98	4.98
10-Year Treasury Note Yield (%)	5.64	6.03	5.02	4.61	4.02	4.27	4.29	4.80	4.98	5.28	5.55	5.75	5.75
30-Year Fixed Mortgage Rate (%)	7.43	8.06	6.97	6.54	5.82	5.84	5.86	6.38	6.53	6.86	7.15	7.39	7.39
S&P 500 Stock Index	1326	1427	1192	996	964	1131	1207	1275	1295	1378	1463	1562	1683
(Percent change)	22.3	7.6	-16.4	-16.5	-3.2	17.3	6.8	5.6	1.6	6.4	6.1	6.8	7.7
Exchange Rate, Major Trading Partners	0.953	1.000	1.060	1.044	0.916	0.840	0.825	0.809	0.753	0.725	0.742	0.750	0.746
(Percent change)	-1.6	4.9	6.0	-1.5	-12.2	-8.2	-1.8	-2.0	-6.9	-3.7	2.3	1.0	-0.4
Incomes													
Personal Income (% ch.)	5.1	8.0	3.5	1.8	3.2	5.9	5.4	6.2	5.4	5.5	5.8	5.6	5.1
Real Disposable Income (%ch.)	3.0	4.8	1.9	3.1	2.4	3.4	1.4	3.8	3.0	3.4	3.5	3.3	2.7
Saving Rate (%)	2.4	2.4	1.8	2.4	2.1	1.7	-0.5	-0.1	0.3	0.8	1.0	1.1	1.0
After-Tax Profits (Billions of $)	517	508	504	576	705	788	1057	1152	1129	1117	1118	1116	1154
(Percent change)	10.1	-1.7	-0.9	14.3	22.4	11.8	34.0	9.0	-2.0	-1.1	0.1	-0.1	3.4

TABLE 4

Alternative Scenarios of the U.S. Economy

	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1	2005	2006	2007	2008	2009	2010	2011
Growth Surges Higher Again (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	1.1	5.6	4.6	4.4	3.6	3.3	3.5	4.0	3.7	3.5	3.6	3.2	3.0
Total Consumption	1.1	5.5	4.3	4.5	3.7	2.9	3.6	3.9	3.5	3.4	3.6	3.4	3.0
Nonresidential Fixed Investment	2.8	13.2	13.6	14.4	14.8	10.5	8.5	10.7	11.7	6.4	6.3	4.9	4.2
Residential Fixed Investment	3.5	0.7	-0.7	0.3	-5.5	-1.2	7.2	1.9	-2.1	-1.5	-2.4	0.3	1.1
Exports	2.4	7.6	8.5	7.8	7.6	8.2	6.7	6.4	8.5	10.2	9.9	8.3	8.2
Imports	9.1	11.2	7.3	11.2	10.5	6.7	6.2	8.2	7.5	4.8	6.1	5.8	4.9
Federal Government	-7.0	9.4	2.1	3.0	1.2	0.3	2.0	2.8	1.1	0.9	0.7	1.1	0.5
State & Local Government	0.4	2.0	1.0	2.1	2.7	3.2	1.5	1.4	2.4	1.6	2.0	1.5	1.5
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	3.2	0.7	0.1	1.2	1.6	1.4	3.4	1.9	1.4	1.6	1.5	1.5	1.6
Producer Prices, Finished Goods	7.8	-3.4	-1.7	0.2	0.4	-0.1	4.9	1.4	0.0	0.3	0.0	0.0	0.0
Employment Cost Index - Total Comp.	3.2	4.0	3.6	3.5	3.6	3.3	3.0	3.5	3.5	3.7	3.6	3.5	3.4
Other Key Measures													
Oil - WTI ($ per barrel)	60.06	60.27	53.69	53.33	52.48	52.03	56.56	54.94	51.50	49.42	46.05	42.83	41.25
Productivity (%ch., saar)	-0.6	4.5	3.4	2.9	1.7	1.8	2.6	2.8	2.2	2.4	2.8	2.8	3.0
Manufacturing Production (%ch., saar)	3.8	5.8	4.4	4.7	4.0	3.1	3.1	4.1	3.3	2.7	3.2	2.9	3.0
Nonfarm Inven. Chg. (Bil. 2000 $)	30.6	44.9	50.9	55.0	59.5	60.9	21.9	52.6	54.5	42.5	54.8	52.4	50.7
Consumer Sentiment Index	82.4	92.5	96.8	99.1	100.1	100.5	88.6	97.1	99.6	98.5	98.2	96.1	94.3
Light Vehicle Sales (Mil. units, saar)	15.64	16.73	16.71	17.04	17.34	17.39	16.82	16.95	17.46	17.77	18.04	18.33	18.56
Housing Starts (Mil. units, saar)	2.035	2.122	2.036	2.014	2.024	2.024	2.066	2.049	2.017	1.952	1.860	1.828	1.812
Unemployment Rate (%)	4.9	4.7	4.7	4.5	4.4	4.4	5.1	4.6	4.3	4.3	4.2	4.2	4.5
Payroll Employment (%ch., saar)	1.2	1.8	2.3	2.2	2.1	2.0	1.5	1.8	2.0	1.5	1.2	0.8	0.4
Federal Surplus (Unified, FY, bil. $)	-119.3	-123.9	-5.7	-99.6	-70.0	-58.1	-318.5	-348.5	-241.6	-243.0	-224.7	-217.0	-213.8
Financial Markets, NSA													
Federal Funds Rate (%)	3.98	4.42	4.50	4.50	4.50	4.50	3.21	4.48	4.50	4.50	4.50	4.73	4.75
10-Year Treasury Note Yield (%)	4.49	4.56	4.66	4.70	4.67	4.65	4.29	4.65	4.70	4.91	5.06	5.26	5.26
Incomes													
Personal Income (% ch., saar)	9.4	6.7	7.0	6.8	5.8	5.5	5.4	6.5	5.9	5.7	5.6	5.4	4.7
After-Tax Profits (Four-qtr.% change)	37.0	15.0	14.6	16.4	5.2	1.6	34.0	12.6	-1.3	-2.9	-1.2	-1.9	1.9
Stagflation (Prob. = 25%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	1.1	3.6	2.2	2.5	0.9	1.0	3.5	2.6	1.3	1.9	2.6	2.4	2.4
Total Consumption	1.1	3.7	2.4	2.7	0.6	0.4	3.6	2.7	0.9	1.2	2.1	2.5	2.2
Nonresidential Fixed Investment	2.8	8.2	8.4	11.4	9.4	0.8	8.5	7.8	4.3	0.4	3.6	4.4	4.3
Residential Fixed Investment	3.5	-6.9	-14.1	-16.6	-17.8	-12.0	7.2	-5.7	-15.4	-9.5	1.4	2.9	3.5
Exports	2.4	7.1	7.7	6.8	7.3	7.7	6.7	5.9	7.6	8.3	8.3	6.2	6.6
Imports	9.1	6.0	0.5	3.7	2.7	-2.5	6.2	4.2	-1.0	-1.5	5.0	6.0	5.0
Federal Government	-7.0	9.4	2.1	3.0	1.2	0.3	2.0	2.8	1.1	0.9	0.7	1.1	0.5
State & Local Government	0.4	1.9	0.9	1.9	2.1	2.3	1.5	1.3	1.6	0.7	1.7	1.4	1.5
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	3.2	4.0	3.2	2.4	3.2	3.0	3.4	3.6	2.8	2.7	2.9	2.9	2.9
Producer Prices, Finished Goods	7.8	3.3	4.1	2.4	3.1	2.5	4.9	4.7	2.2	1.5	1.7	1.5	1.3
Employment Cost Index - Total Comp.	3.2	4.3	3.9	4.0	4.0	4.0	3.0	3.7	4.0	3.8	3.9	4.0	4.0
Other Key Measures													
Oil - WTI ($ per barrel)	60.06	70.48	75.38	75.05	75.41	76.13	56.56	74.08	71.71	64.42	61.05	57.83	56.25
Productivity (%ch., saar)	-0.6	2.5	1.9	2.3	0.5	1.0	2.6	1.9	1.3	2.0	1.9	1.7	2.0
Manufacturing Production (%ch., saar)	3.8	4.8	0.8	1.9	0.9	0.4	3.1	2.6	0.6	1.2	1.8	1.0	1.7
Nonfarm Inven. Chg. (Bil.2000 $)	30.6	29.6	14.6	10.6	6.9	-1.4	21.9	15.4	-8.6	2.7	38.8	33.7	36.1
Consumer Sentiment Index	82.4	86.6	86.7	88.1	86.0	84.7	88.6	86.8	83.1	82.3	85.6	84.9	84.6
Light Vehicle Sales (Mil. units, saar)	15.64	16.51	15.92	15.76	15.58	15.19	16.82	15.94	14.91	14.88	15.45	15.90	16.21
Housing Starts (Mil. units, saar)	2.035	2.014	1.764	1.683	1.672	1.615	2.066	1.783	1.574	1.568	1.593	1.602	1.604
Unemployment Rate (%)	4.9	4.8	4.9	5.0	5.1	5.3	5.1	5.0	5.6	6.1	6.0	5.9	6.0
Payroll Employment (%ch., saar)	1.2	1.3	1.3	1.1	0.7	0.6	1.5	1.3	0.6	0.3	0.9	0.8	0.6
Federal Surplus (Unified, FY, bil. $)	-119.3	-126.9	-16.6	-119.4	-98.1	-98.8	-318.5	-382.2	-414.9	-525.6	-532.1	-525.7	-523.6
Financial Markets, NSA													
Federal Funds Rate (%)	3.98	4.45	5.54	6.00	6.11	6.50	3.21	5.53	7.05	7.40	6.44	6.19	6.00
10-Year Treasury Note Yield (%)	4.49	5.02	6.25	6.96	7.24	7.06	4.29	6.37	6.53	5.73	6.27	6.47	6.87
Incomes													
Personal Income (% ch., saar)	9.4	6.1	6.6	6.8	5.4	5.4	5.4	6.2	5.6	5.5	6.2	6.3	5.8
After-Tax Profits (Four-qtr.% change)	37.0	14.5	8.1	4.5	-8.2	-12.3	34.0	4.4	-9.6	1.9	5.0	0.9	4.1

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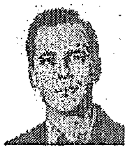
U.S. Macro Outlook



By Mark Zandi in West Chester
February 8, 2006

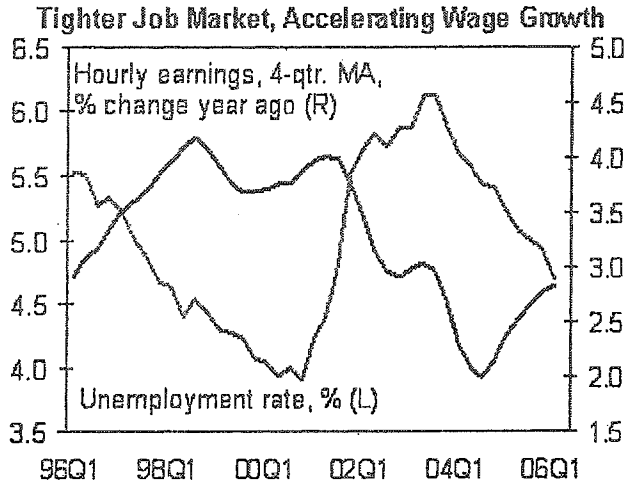
View Moody's Economy.com Macro Forecast here.

- Economic growth remains strong in 2006.
- The tighter labor market will put upward pressure on inflation.
- Housing and consumer spending will fade as sources of growth, trade will gradually become a positive.
- The mortgage-backed securities market presents a risk to the economy as housing slows.

The economy continues to expand strongly. The fourth quarter pause in growth notwithstanding, underlying real GDP is expanding at 3.5% to 4%. This is measurably above the economy's estimated potential growth rate of 3.25%.

This is evident in the job market. Monthly job gains over the past year have averaged 175,000 and during the past three months have accelerated to 225,000. This is well above the no more than 150,000 jobs needed each month to maintain a stable jobless rate. Indeed, the unemployment rate has fallen a half a percentage point over the past year to 4.7%.

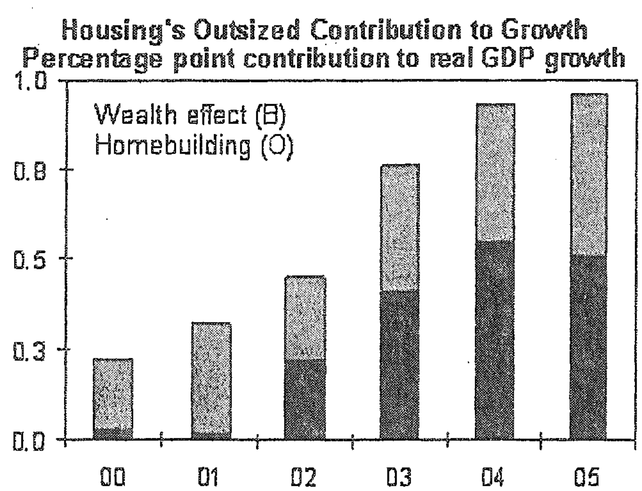
The job market is operating at full capacity. Average hourly earnings, which were expanding at a less than 2% pace when the job market was at its weakest in late 2003, are now advancing at a 3% year-over-year pace. Labor compensation more broadly is still expanding modestly, but growth is no longer decelerating.



Firmer labor compensation growth combined with a seeming slowdown in productivity growth suggests that inflationary pressures are building. Adding to these pressures are prices for energy goods and other commodities that are persistently near record highs. While underlying inflation is still low at near 2%, it appears set to soon move higher.

Policymakers recognize this and continue to tighten monetary policy. Another quarter point hike in the federal funds rate target is widely expected in March, which would bring the rate to 4.75%, and expectations for a further move in May are rising. Just how much more Fed tightening will occur depends in part on whether long-term interest rates rise further. If 10-year Treasury yields remain stuck at their current 4.5%, even more tightening would be needed to slow growth and head off accelerating inflation. The yield curve would fully invert.

Sources of growth. Rising interest rates are prompting a shift in the sources of growth. The housing market is quickly turning from the economy's principal source of growth to a drag. Through new homebuilding and mortgage equity withdrawal-fueled consumer spending, housing added a full percentage point to growth in 2005. Nearly one-third of the economy's growth last year was thus directly or indirectly due to housing.



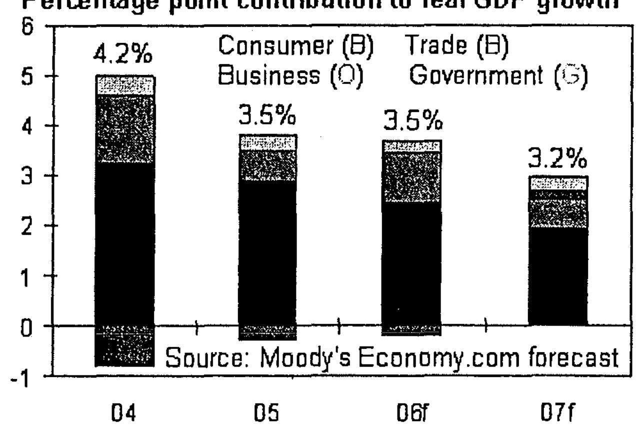
That housing has peaked is clearest in the condominium market. Condo sales are off 10% from last summer's record high and prices have essentially gone flat. The condo market had been the center of much of the speculative activity in housing. Sales of existing homes have also weakened, and inventories of unsold homes have spiked. Unsold inventory was over 2.5 million units in December, compared to closer to two million units a year ago, and 1.75 million units at the start of the decade before activity really got going.

Mortgage equity withdrawal is also rapidly cooling off. Home equity lines outstanding have actually fallen since the summer after soaring more than 40% on a year-ago basis just the year before. Cash-out refinancing activity has also moderated. With weaker gains in cash flow, consumers are turning a bit more cautious in their spending.

To date, a more stable trade balance has made up for softer housing activity and consumer spending. The nation continues to bleed red ink in its trade, but increasingly less so. Indeed, the balance, outside of trade with China and in energy and other commodities, is no longer eroding. This reflects the steady decline in the dollar vis-à-vis the euro, pound, and Canadian dollar earlier in the decade.

Key to further improvements in trade is China's currency policy. The yuan has appreciated nearly 3% since the Chinese adopted a managed float last summer, and by even more on a real basis. Another 5% to 10% real appreciation is anticipated over the coming year. This will also allow other Asian currencies, including the Japanese yen, to appreciate. If the Chinese follow such a script, trade may even become a modest source of growth by 2007.

Shifting Sources of Growth
Percentage point contribution to real GDP growth



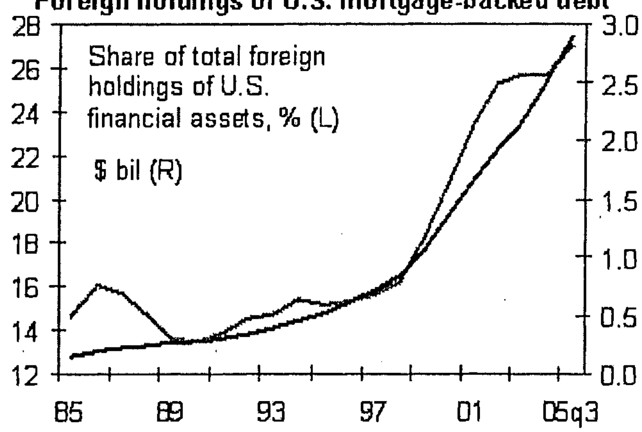
Annualized real GDP growth for the fourth quarter was a disappointing 1.1%, but that number is likely to see a large upward revision, at least one percentage point. The assumptions the BEA used in calculating net exports seem overly pessimistic; the investment numbers also appear weak. Recently released data on construction and factory orders also were put to an upward revision in the fourth quarter.

Growth should bounce back in the first quarter of this year, to above 4.5% annualized. Business investment will see much stronger growth after a weak fourth quarter, and government spending should be a positive, after timing issues made it a negative in the fourth quarter. Consumer spending should also see much stronger growth as vehicle sales rebound from a large decline. Additional inventory building will also add to growth in the first quarter.

Bump or two. Transitions in the sources of growth have historically not occurred without a proverbial bump or two. In the mid-1990s, when the economy was approximately at the same place in the business cycle, it stumbled as rising global interest rates prompted various financial stresses such as the Orange County, California bankruptcy, and the Mexican peso crisis. The expansion continued on, but not without significant hand-wringing.

Today's economic fault line lies in the burgeoning mortgage-backed securities market. Global investors have financed the nation's soaring housing activity via their booming demand for mortgage-backed bonds. MBS outstanding has nearly doubled since the start of the decade, accounting for over one-half of total residential mortgage debt outstanding. Foreign investors now own nearly $3 trillion in MBS, accounting for more than one-fourth of their total financial holdings in the U.S. Higher yields and very good credit performance, at least to date, have attracted investors to MBS.

Foreign Investors Deeply Exposed to U.S. Housing
Foreign holdings of U.S. mortgage-backed debt



Credit quality is sure to weaken as housing activity and house price gains cool. In the nation's heretofore most hyped-up markets—the Northeast, Florida, California, and Mountain West—house prices are very likely to decline. At least some of the recent homeowners who have taken on exotic mortgage loans with little in the way of a down payment to squeeze into a home are at clear risk of having difficulty in making their loan payments. Given that many global investors are new to the U.S. MBS market, they may not be prepared for a weakening in credit quality. A financial market crisis of some form is a distinct possibility.

The economic fallout of this scenario could be debilitating if the free flow of credit, so vital to a well-functioning housing market, is short-circuited. What would be a small disruption to the economy could quickly turn into a major problem.

Chairman Bernanke. While this remains a very unlikely scenario, it should not be completely discounted. Adding to the concern is that it would be a substantial test of the new Federal Reserve Chairman. Arguably Chairman Greenspan's greatest strength was his ability to navigate through such crises, beginning with the 1987 stock market crash and extending through to the 9/11 attacks and the Iraq War. His ability seemed rooted in his wide-ranging experience on Main Street, Wall Street and in government prior to his tenure at the Fed. Chairman Bernanke's experience has been largely in academia and is much more limited.

It is encouraging to note that analysts voiced the same concerns when Greenspan replaced the revered Paul Volcker as Chairman of the Federal Reserve in 1987. He was tested early on in his tenure and succeeded in establishing the credentials that served him well for the next two decades. With a sound economic backdrop providing support, Chairman Bernanke will likely perform as admirably.

This analysis can be found on The Dismal Scientist at:
http://www.economy.com/dismal/pro/article.asp?cid=20808

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Forecast Date: 02/06/2006
An "F" after a date denotes a forecast data point.

	Units	05Q4	06Q1 F	06Q2 F	06Q3 F	06Q4 F		2005	2006 F
Composition of Economic Activity-SAAR									
Gross Domestic Product	bcw$	11233.5	11362.3	11472.7	11576.4	11669.4		11131.1	11520.2
Change	%AR	1.1	4.7	3.9	3.7	3.3		3.5	3.5
Personal Expenditures									
Consumption	bcw$	7930.2	8020.7	8080.4	8141.5	8202.8		7858.1	8111.4
Change	%AR	1.1	4.6	3.0	3.1	3.0		3.6	3.2
Durables	bcw$	1114.7	1153.3	1158.4	1165.3	1167.0		1137.6	1161.0
Change	%AR	-17.5	14.6	1.8	2.4	0.6		4.4	2.1
Motor Vehicles	bcw$	411.3	443.9	445.6	448.8	446.5		451.7	446.2
Change	%AR	-44.9	35.7	1.6	2.9	-2.0		-1.2	-1.2
Nondurables	bcw$	2334.7	2348.0	2361.7	2375.3	2388.9		2298.0	2368.5
Change	%AR	5.1	2.3	2.4	2.3	2.3		4.4	3.1
Services	bcw$	4489.1	4527.8	4568.6	4609.2	4655.3		4438.0	4590.2
Change	%AR	3.2	3.5	3.7	3.6	4.1		2.9	3.4
Investment									
Fixed Investment	bcw$	1935.9	1957.4	1983.1	2006.7	2024.6		1896.1	1993.0
Change	%AR	3.0	4.5	5.4	4.8	3.6		8.0	5.1
Nonresidential	bcw$	1314.2	1335.4	1358.3	1376.8	1398.0		1287.6	1367.1
Change	%AR	2.8	6.6	7.0	5.5	6.3		8.5	6.2
Structures	bcw$	254.5	257.7	263.9	266.5	270.8		253.1	264.7
Change	%AR	0.6	5.2	9.9	4.0	6.6		1.9	4.6
Equipment	bcw$	1076.7	1094.8	1111.6	1127.4	1144.3		1049.8	1119.5
Change	%AR	3.5	6.9	6.3	5.8	6.1		10.8	6.6
Residential	bcw$	615.2	615.5	618.3	623.4	620.1		602.1	619.3
Change	%AR	3.5	0.2	1.8	3.4	-2.1		7.2	2.9
Single Family	bcw$	337.4	335.9	336.7	340.5	338.2		327.5	337.8
Change	%AR	10.6	-1.7	1.0	4.6	-2.7		6.5	3.1
Multifamily	bcw$	39.3	40.6	41.3	41.5	41.1		38.4	41.1
Change	%AR	6.3	13.7	7.8	1.3	-3.4		15.7	7.1
Other	bcw$	237.9	238.4	239.6	240.7	240.1		235.8	239.7
Change	%AR	-6.6	0.9	1.9	1.9	-1.1		6.8	1.7
Inventory Change	bcw$	25.7	36.5	47.7	55.1	58.7		17.2	49.5
NonFarm	bcw$	30.6	35.5	46.7	54.1	57.7		21.9	48.5
Farm	bcw$	-3.8	1.0	1.0	1.0	1.0		-3.7	1.0
Trade									
Net Exports	bcw$	-650.3	-654.6	-653.0	-650.3	-647.6		-631.9	-651.4

Exports	bcw$	1209.8	1234.7	1259.0	1279.8	1300.0		1193.3	1268.4
Change	%AR	2.4	8.5	8.1	6.8	6.5		6.7	6.3
Merchandise	bcw$	855.9	875.8	895.4	911.8	926.6		839.0	902.4
Change	%AR	3.8	9.6	9.3	7.5	6.6		7.1	7.6
Services	bcw$	354.0	358.9	363.6	368.0	373.4		354.3	366.0
Change	%AR	-0.9	5.6	5.3	4.9	6.0		6.0	3.3
Imports	bcw$	1860.1	1889.3	1912.0	1930.1	1947.6		1825.2	1919.8
Change	%AR	9.1	6.4	4.9	3.8	3.7		6.2	5.2
Merchandise	bcw$	1583.3	1607.0	1626.0	1640.6	1654.6		1549.9	1632.1
Change	%AR	10.0	6.1	4.8	3.6	3.5		6.7	5.3
Services	bcw$	278.3	282.3	286.1	289.6	292.9		276.6	287.7
Change	%AR	4.3	5.9	5.4	5.0	4.7		3.5	4.0
Government									
Expenditures and Investment	bcw$	1986.2	1996.4	2008.6	2017.6	2025.0		1985.1	2011.9
Change	%AR	-2.4	2.1	2.5	1.8	1.5		1.7	1.4
Federal Defense	bcw$	486.2	488.1	490.3	492.2	492.4		492.2	490.8
Change	%AR	-13.1	1.6	1.8	1.5	0.2		2.3	-0.3
Federal Nondefense	bcw$	249.7	253.6	256.2	255.6	254.8		245.9	255.1
Change	%AR	6.9	6.5	4.1	-0.9	-1.2		1.6	3.7
Government Balance									
NIPA Basis	b$	-304.8	-271.7	-260.0	-243.8	-221.4		-328.9	-249.2
Unified Budget	b$ FY	-319.7	-244.8	-306.5	-316.7	-268.8		-318.5	-316.7
Consumers									
Personal Saving Rate	%AR	-0.1	-0.5	-0.2	-0.1	-0.0		-0.4	-0.2
Retail Sales & Food Services	b$	4263.1	4348.2	4404.7	4464.7	4511.0		4183.8	4432.1
Change	%AR	2.3	8.2	5.3	5.6	4.2		7.6	5.9
Vehicle Sales	m	15.8	16.3	16.4	16.5	16.4		16.9	16.4
Housing Starts	m	2.03	1.98	1.95	1.92	1.82		2.06	1.92
Producers									
Industrial Production	1992=100	109.0	109.7	110.5	111.3	112.0		108.0	110.9
Change	%AR	3.8	2.4	3.1	3.0	2.6		3.1	2.7
Manufacturing Capacity Utilization	%	79.3	79.4	79.8	80.1	80.2		78.4	79.9
Labor Markets									
Total Employment	m	134.3	134.9	135.5	136.2	136.7		133.6	135.8
Change	%AR	1.0	1.8	1.9	1.9	1.5		1.6	1.6
Unemployment Rate	%	4.9	4.9	4.9	4.9	4.9		5.1	4.9
Prices									
Consumer Price Index	1982=100	198.1	199.9	201.1	202.6	204.0		195.3	201.9
Change	%AR	3.2	3.5	2.5	3.0	2.9		3.4	3.4
Producer Price Index	1982=100	164.2	165.8	166.7	167.6	168.4		157.4	167.1
Change	%AR	14.9	4.0	2.2	2.0	2.1		7.3	6.2
West Texas Intermediate	$/Bbl	60.0	65.1	58.9	55.7	52.2		56.5	58.0

Financial Markets									
Federal Funds	%	3.98	4.41	4.75	4.75	4.75		3.21	4.66
Prime Rate	%	6.97	7.41	7.75	7.75	7.75		6.19	7.66
10-Year Treasury	%	4.49	4.62	5.02	5.39	5.34		4.29	5.09
FRB Broad Index	Jan 97=100	112.0	109.5	109.3	109.0	108.2		110.8	109.0
Change	%AR	3.1	-8.5	-0.8	-1.1	-2.9		-2.5	-1.6

	Units	04Q1	04Q2	04Q3	04Q4	05Q1	05Q2	05Q3	05Q4
Contribution to Real GDP									
Personal Consumption Expenditure	%AR	3.3	1.4	3.1	3.1	2.5	2.4	2.9	0.8
Gross Private Domestic Investment	%AR	1.1	2.3	1.4	1.2	1.2	1.6	1.4	0.5
Inventories	%AR	0.5	0.9	-0.6	-0.0	0.3	-2.3	-0.4	1.4
Net Exports	%AR	-1.3	-1.5	-0.2	-1.1	-0.4	1.2	-0.1	-1.2
Exports	%AR	0.5	0.7	0.6	0.7	0.8	1.1	0.3	0.3
Imports	%AR	1.8	2.2	0.8	1.8	1.2	-0.0	0.4	1.4
Government	%AR	0.6	0.4	0.3	0.2	0.3	0.5	0.5	-0.4
Total	%AR	4.2	3.5	4.0	3.3	3.9	3.3	4.2	1.1

This analysis can be found on The Dismal Scientist at:
http://www.economy.com/dismal/pro/data/outlook.asp?type=

Newsweek

Anxiety Amid The Prosperity

A competitive economy enhances overall stability, even though it may mean job loses and disappointments to many. That's our dilemma.

By Robert J. Samuelson
Newsweek

Feb. 20, 2006 issue - A puzzle of our time is why the economy has become increasingly stable while individual industries have become increasingly unstable. The continuing turmoil at General Motors and Ford simply reflects this more pervasive industrial instability—also in airlines, telecommunications, pharmaceuticals and the mass media, among others. Hardly a week passes without layoffs from some major company, which is "downsizing," "restructuring" or "outsourcing." And yet, the broader economy has undeniably become more stable. Since 1982, we've had only two recessions, lasting a combined year and four months, with peak unemployment of 7.8 percent (June 1992). By contrast, in the previous 13 years, we had four recessions lasting altogether about four years and having unemployment as high as 10.8 percent (November, December 1982).

A cottage industry of economists is now cranking out studies on these questions. One intriguing theory—completely counterintuitive—is that the greater overall stability stems in part from the increased *instability* of individual industries. You would, of course, expect the opposite: as individual industries became less stable, so would the larger economy. But the reality may be more complex. Different industries may go through cycles that are disconnected from each other, argue economists Diego Comin and Thomas Philippon of New York University. All don't rise and fall simultaneously. To simplify slightly: housing, autos and farming might strengthen, while computers, airlines and chemicals weaken.

Assuming there's something to this theory—which seems a good bet—it helps explain the riddle of why there's so much anxiety amid so much prosperity. As Americans stock up on BlackBerrys and flat-screen TVs, it's hard to deny the affluence. But people also look to their employers for a sense of confidence about the future—and here doubts have multiplied, because more companies and industries seem assailed by menacing forces.

We can all identify the usual suspects. Globalization. Deregulation. Greater domestic competition. In a series of papers, Comin, Philippon and various colleagues have shown that—for most businesses sales, profits and employment have all become more volatile in recent decades. They bounce around more from year to year, suggesting greater industry instability. Competitive pressures have dramatically intensified. One telling statistic: in 1980, a firm in the top fifth of its industry had about a one-in-10 chance of losing that position within a five-year period; by 1998, the odds had increased to one in four.

Feeling threatened, corporate managers have altered pay and employment practices. In 1994, economists Peter Gottschalk of Boston College and Robert Moffitt of Johns Hopkins University showed that annual wage gains also had begun to bounce around more in the 1980s (in technical lingo, there was more variation around the average). Now Comin and Erica Groshen of the Federal Reserve Bank of New York and Bess Rabin of Watson Wyatt Worldwide have connected these erratic wage increases to firms' fluctuating fortunes. In good years, companies enlarge the pot for wage and salaries, says Groshen; in bad years, the pot grows less or shrinks. About four fifths of big U.S. firms also resort more to bonuses, personal incentives and stock options, reports Hewitt Associates.

The same sort of cost-conscious behavior also leads to more layoffs, even among career workers. In 1983, 58 percent of men 45 to 49 had been with their current employer 10 years or more, reports the Bureau of Labor Statistics. By 2004, the comparable figure was 48 percent. Little wonder that we have rising job insecurity, despite lower average unemployment.

Not by accident do many of these trends begin, or strengthen, in the 1980s. From 1980 to 1983, the Federal Reserve crushed inflation, which fell from 12.5 percent to 3.8 percent. Inflation dulls competition. Sloppy managers can simply raise prices. Because most companies are rapidly increasing prices, customers have a harder time discriminating. Inflation also comes to dominate the business cycle. It overwhelms other influences. Once inflation declined, competition—based on prices, new products and technologies—intensified. Differences among sectors became more pronounced.

So we return to the original puzzle: why does an economy of greater stability have industries of lesser stability? The answer is competition. An intensely competitive economy enhances overall stability by holding down inflation (which is itself destabilizing) and spreading economic disruptions throughout the business cycle (rather than letting them accumulate for periodic, massive downturns). But the solution to one problem creates other, though smaller, problems. Except during unsustainable booms, say, the late 1990s, even good times are punctuated with insecurities, disappointments, job losses, broken promises and shattered expectations. What may be good for us as a society may hurt many of us as individuals. The unending challenge is to find some system of social protections that help the most vulnerable without frustrating desirable, if sometimes painful, change.

URL: http://www.msnbc.msn.com/id/11298735/site/newsweek/page/2/

Sales & Use Tax

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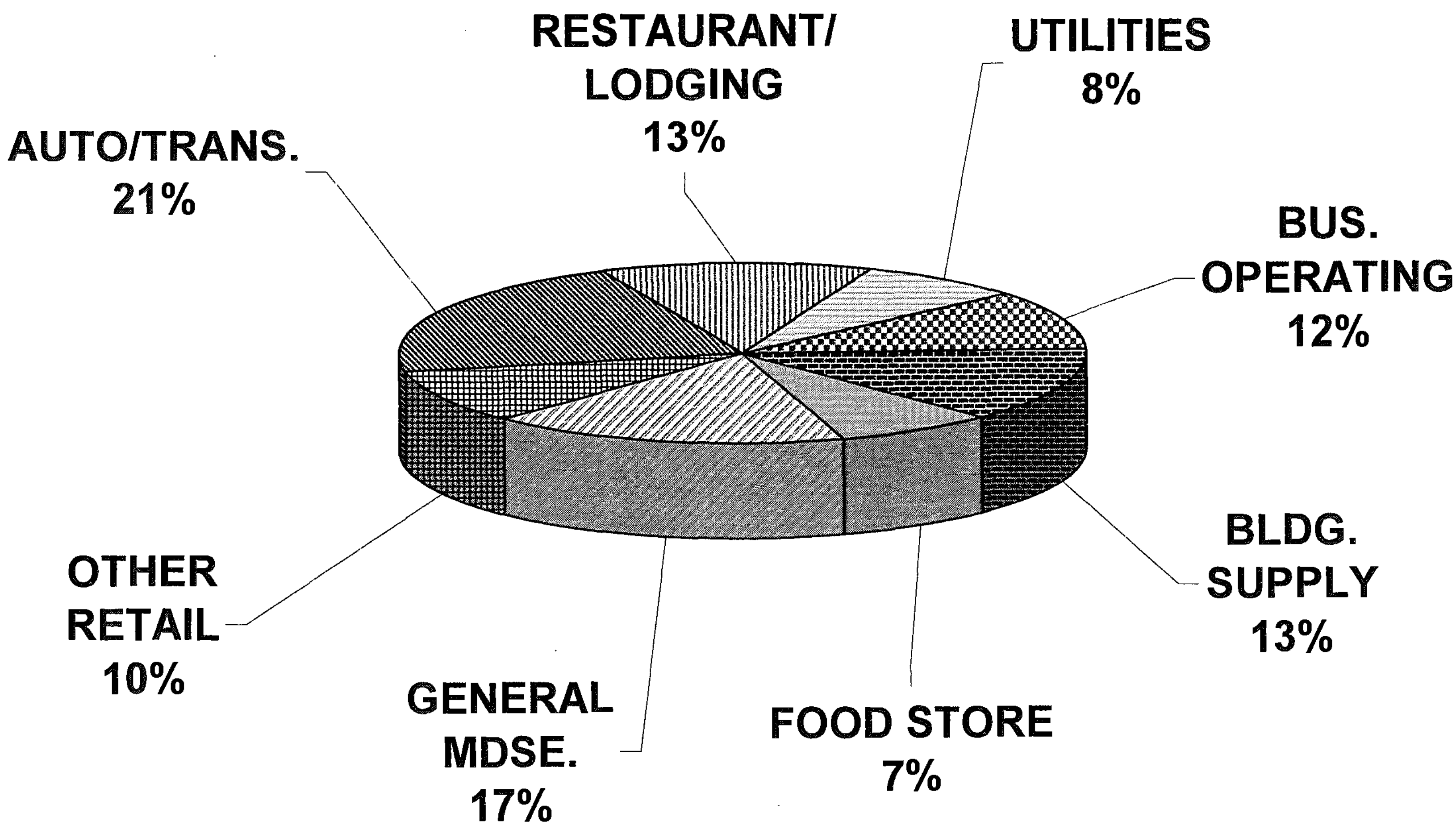
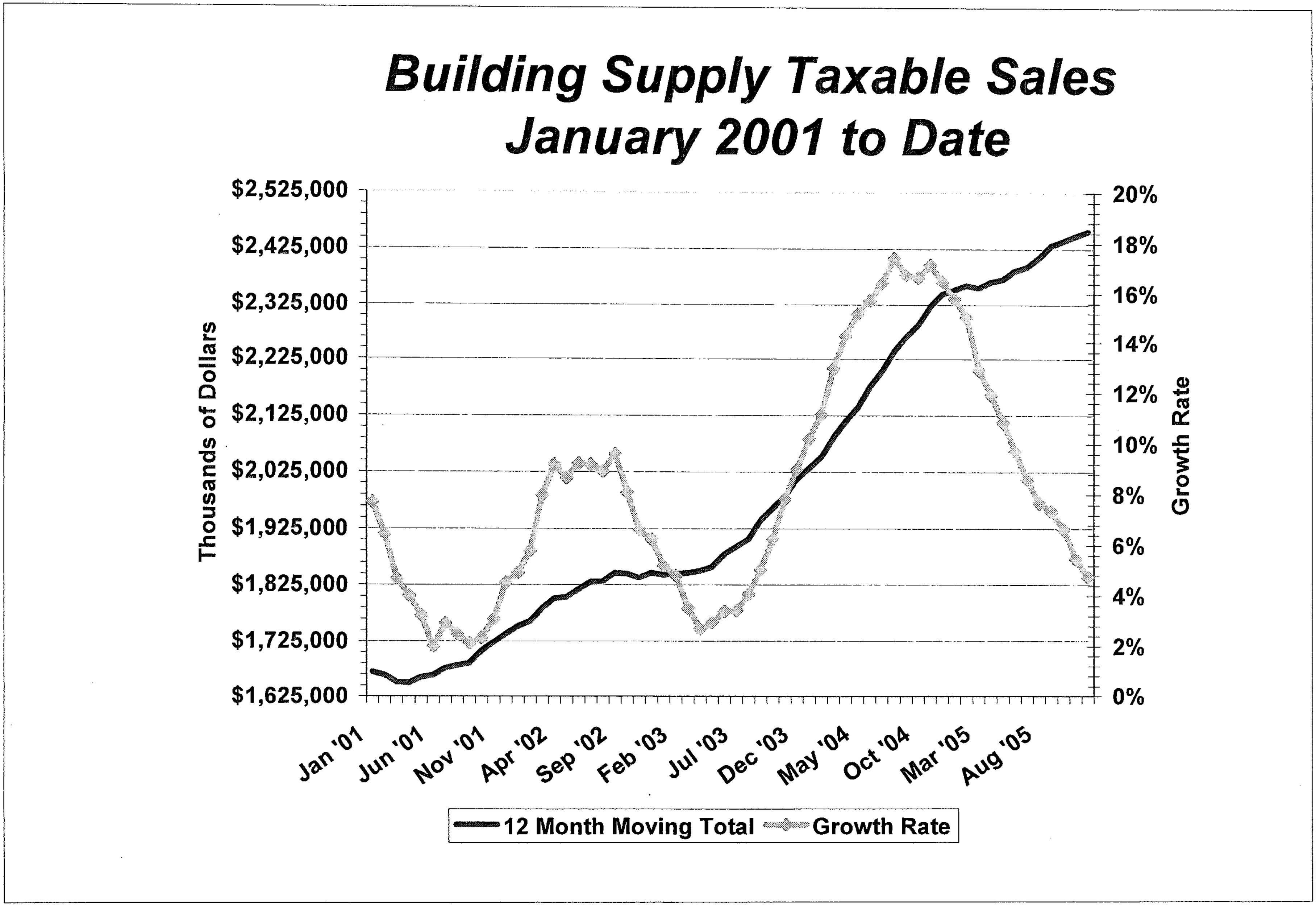
Maine Revenue Services
Taxable Sales by Sector
In Thousands of Dollars

	Dec. '05	% Ch.	Dec. '04	% Ch.	Dec. '03	Average Last 3 Mos. Vs. Last Yr. % Change	Moving Total Last 12 Mos. Vs. Prior % Change	YTD Growth CY'05 vs. '04 Thru. Dec. % Change
Building Supply	$219,765	4%	$212,077	12%	$189,066	4%	5%	5%
Food Store	$123,932	3%	$120,055	-3%	$124,171	5%	5%	5%
General Merchandise	$404,686	3%	$394,733	2%	$386,519	2%	-1%	-1%
Other Retail	$268,358	2%	$263,049	7%	$246,706	6%	6%	6%
Auto/Transportation	$289,983	-5%	$304,708	-4%	$316,439	-7%	-2%	-2%
Restaurant/lodging	$161,547	5%	$153,806	6%	$144,960	2%	3%	3%
Consumer Sales	$1,468,270	1%	$1,448,428	3%	$1,407,862	1%	2%	2%
Business Operating	$253,717	0%	$253,084	14%	$222,648	0%	5%	5%
Total	$1,721,987	1%	$1,701,512	4%	$1,630,509	1%	2%	2%
Utilities	$142,503	18%	$121,200	2%	$119,357			
Total including Utilities	$1,864,490	2%	$1,822,712	4%	$1,749,866			

2005 Maine Taxable Sales by Sector





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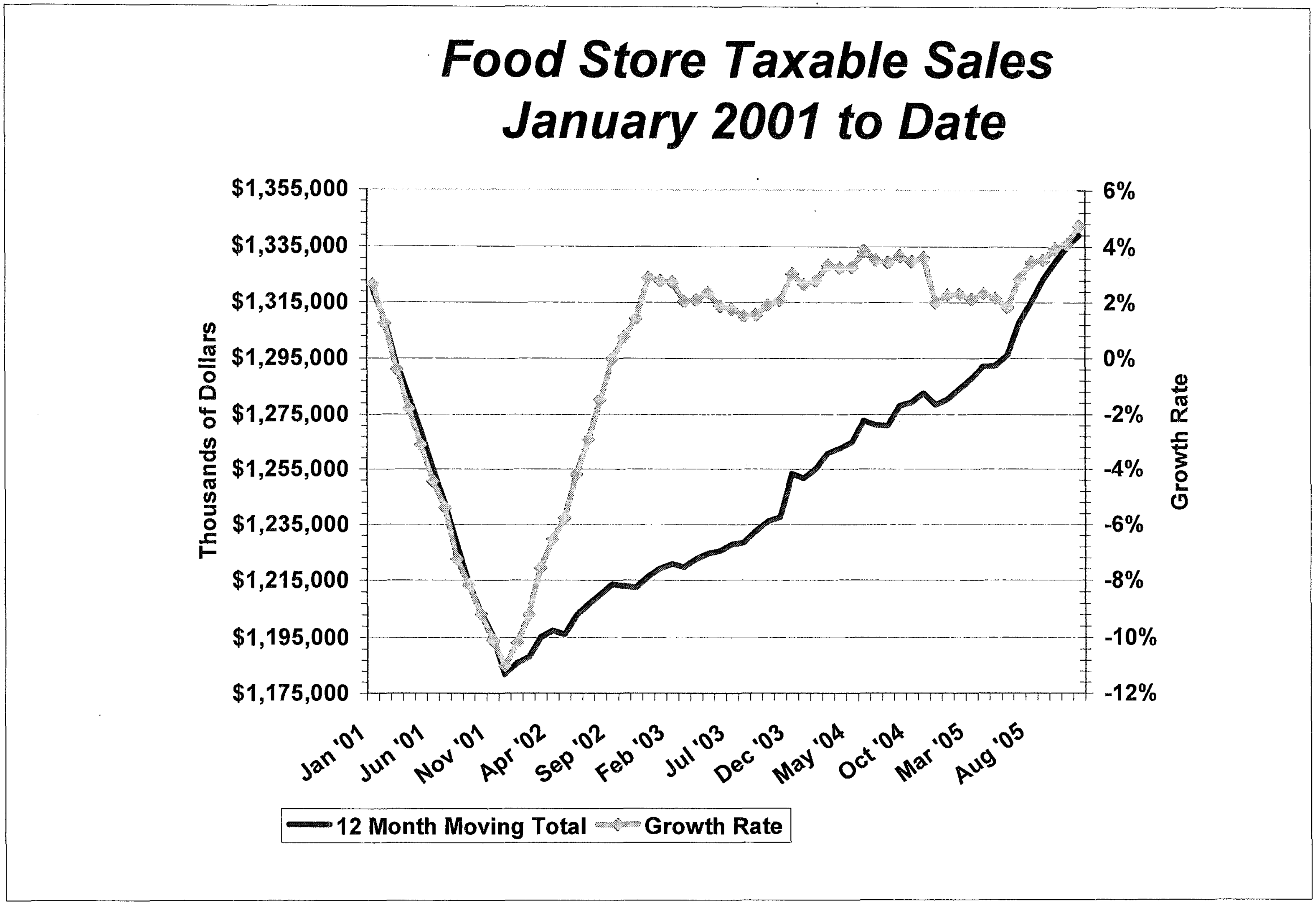

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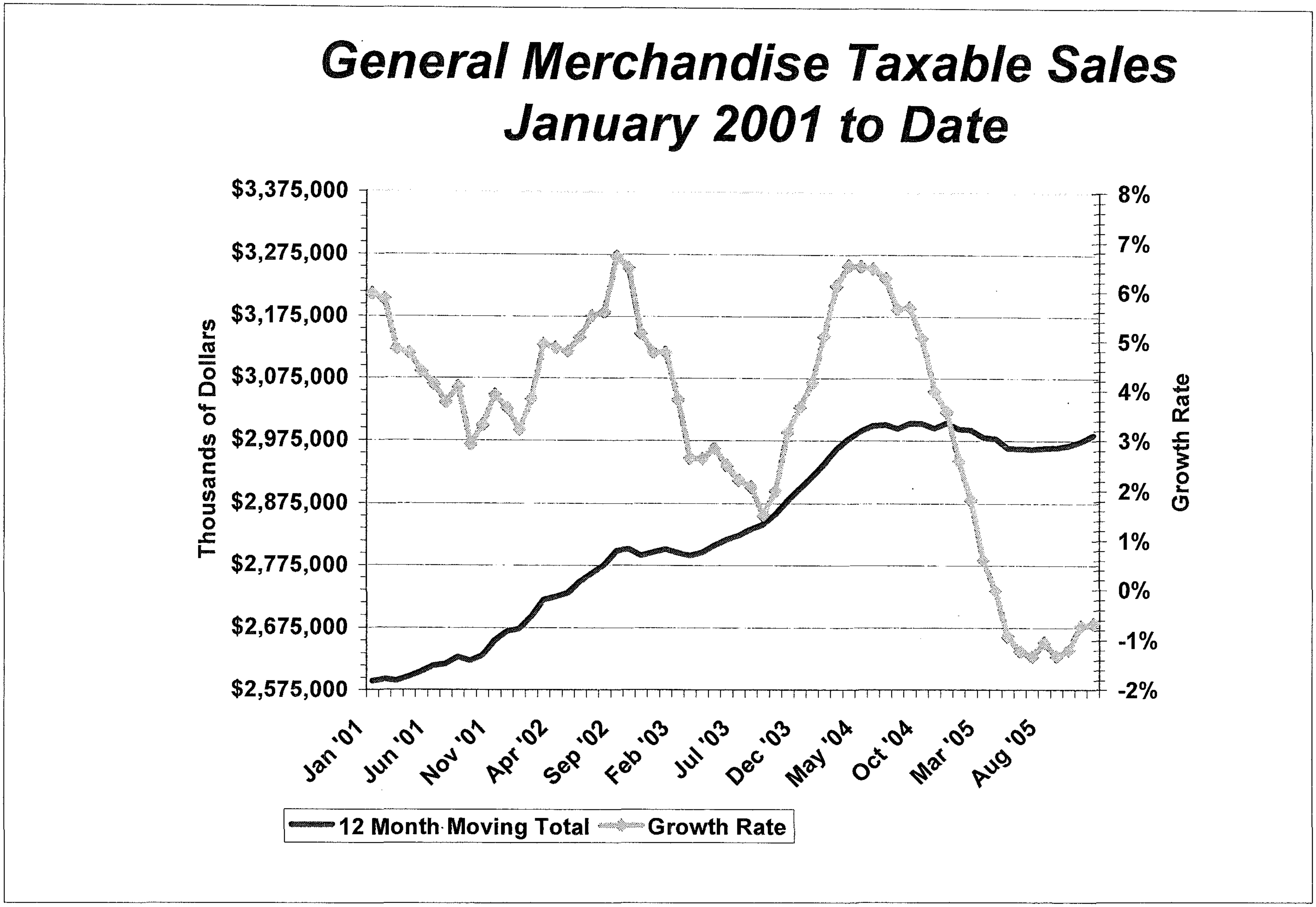

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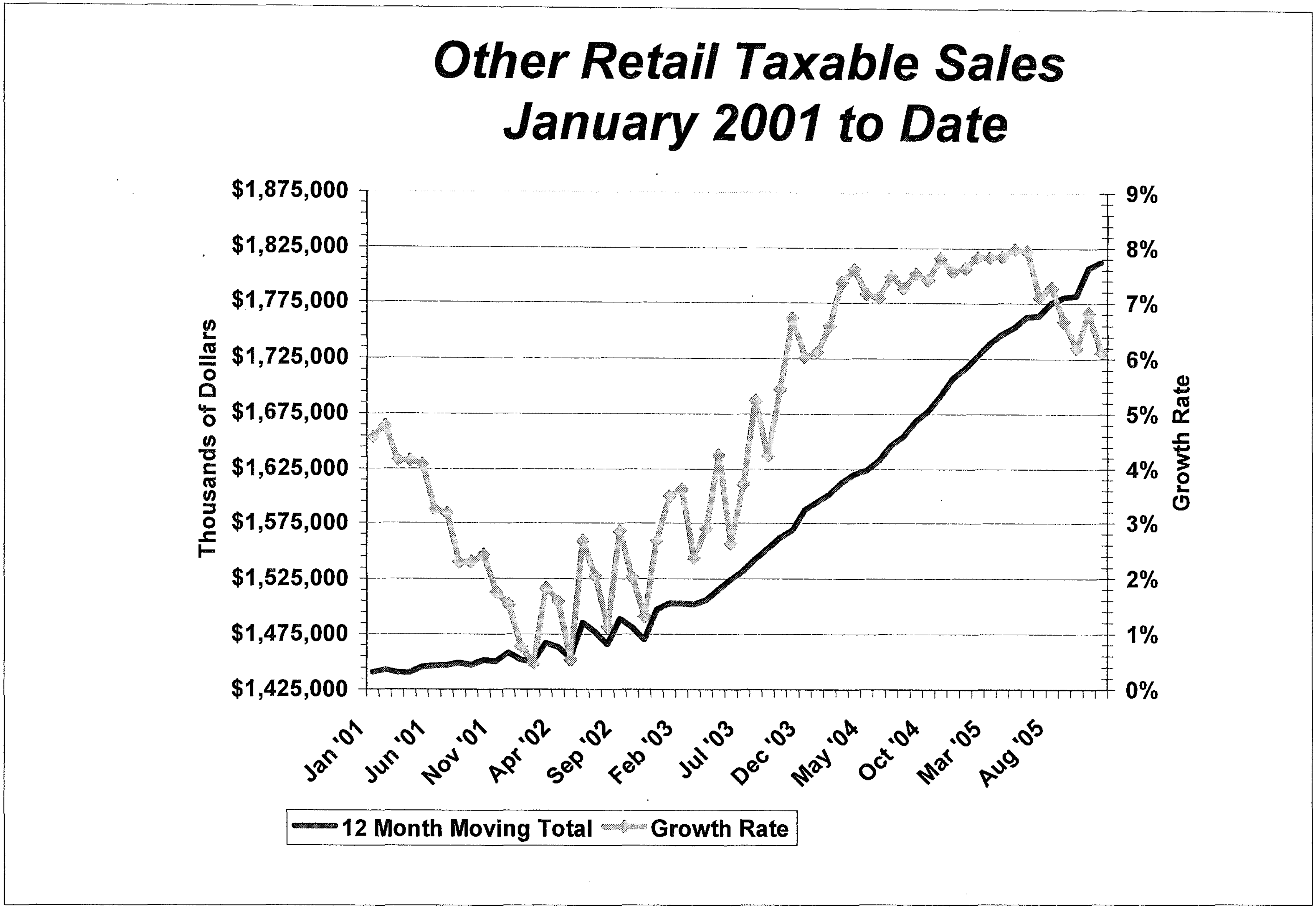

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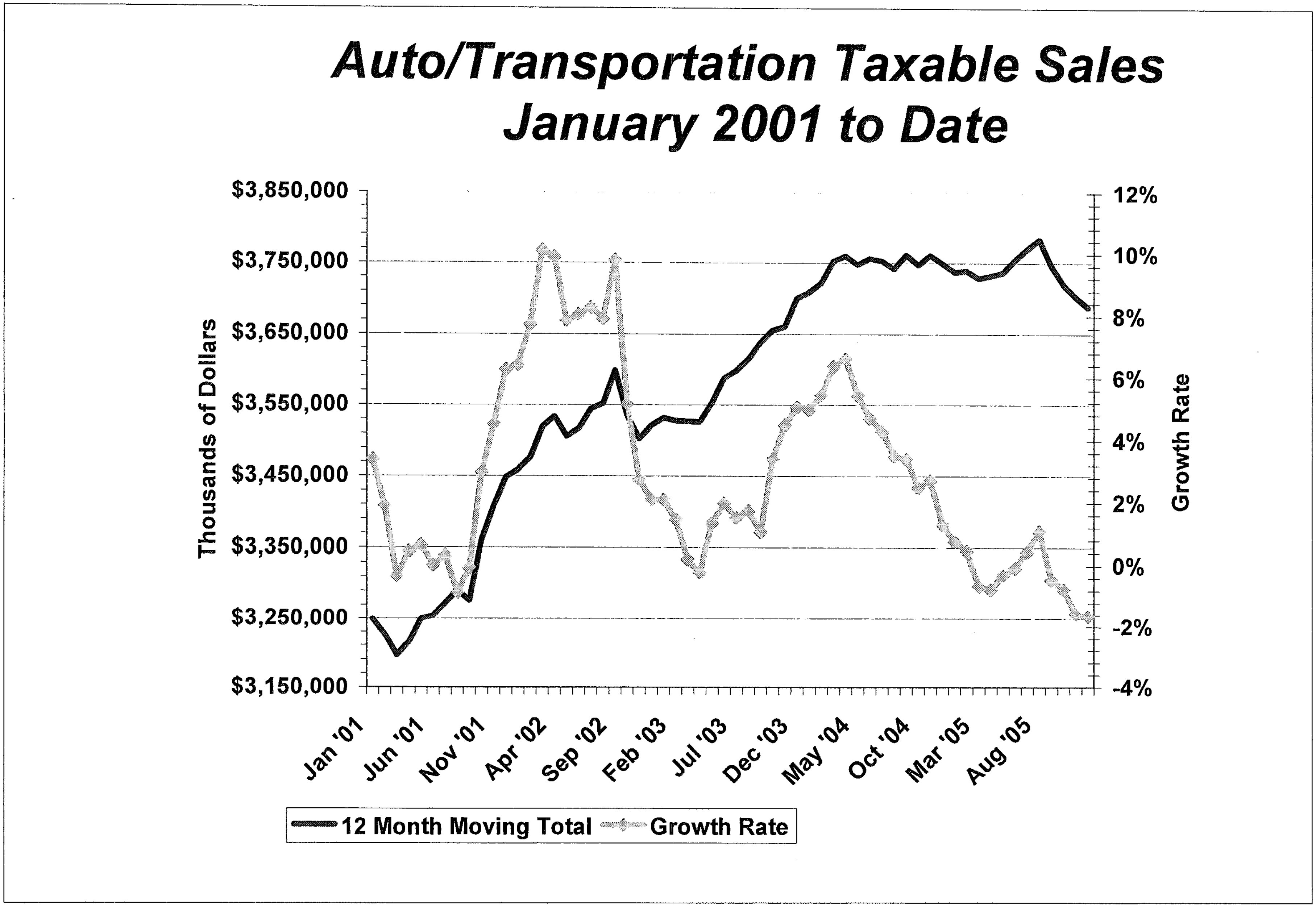

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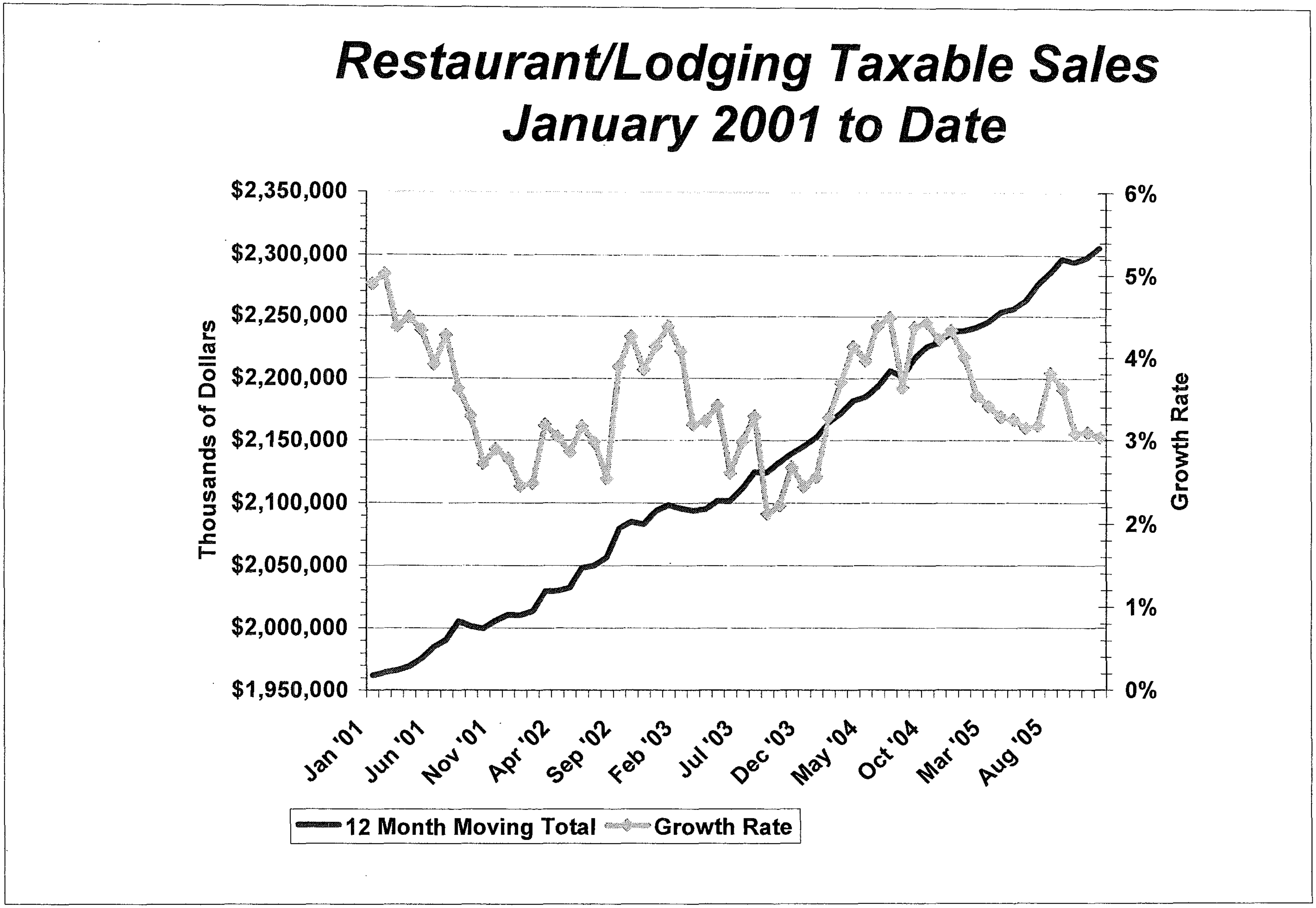

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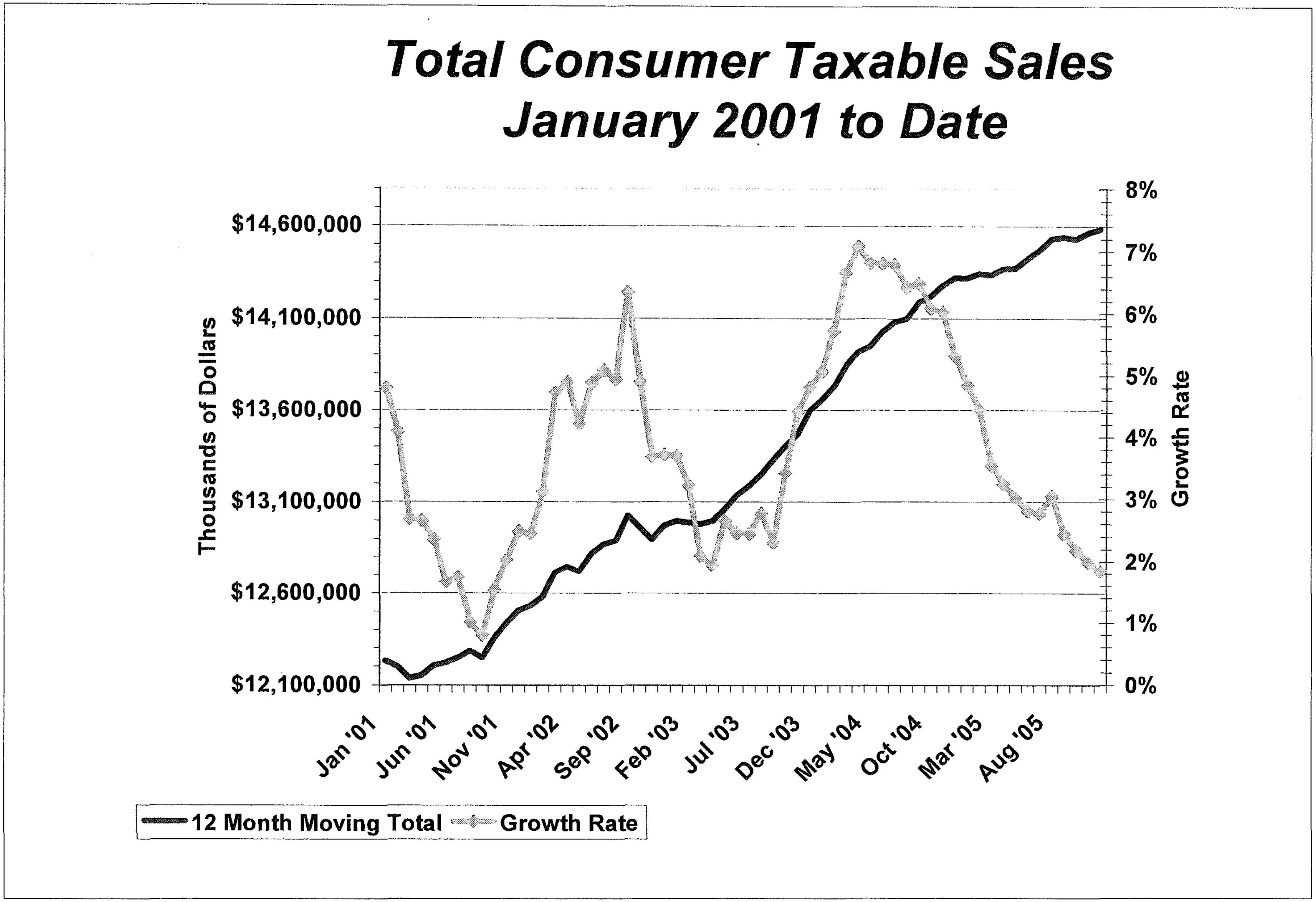

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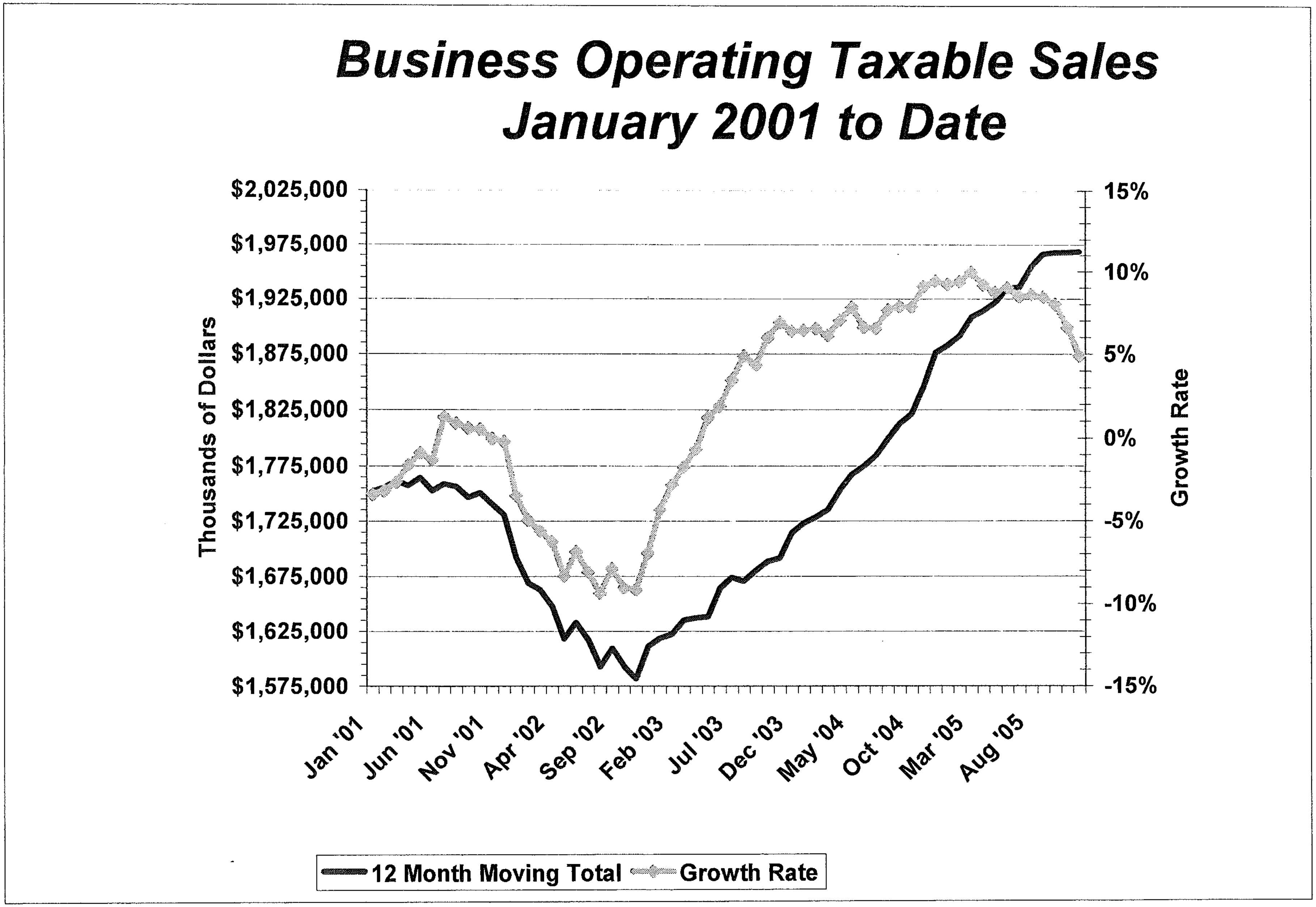

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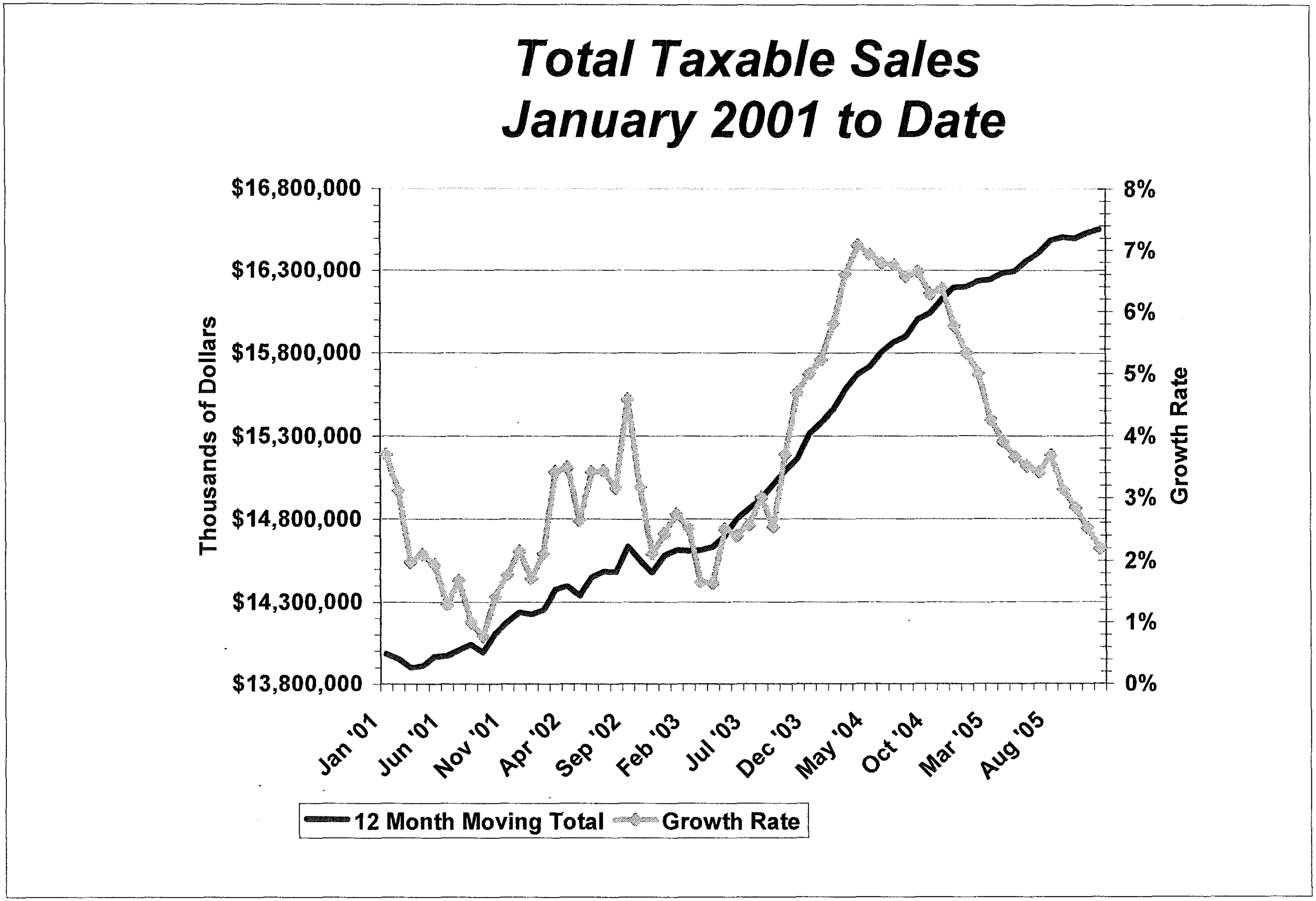

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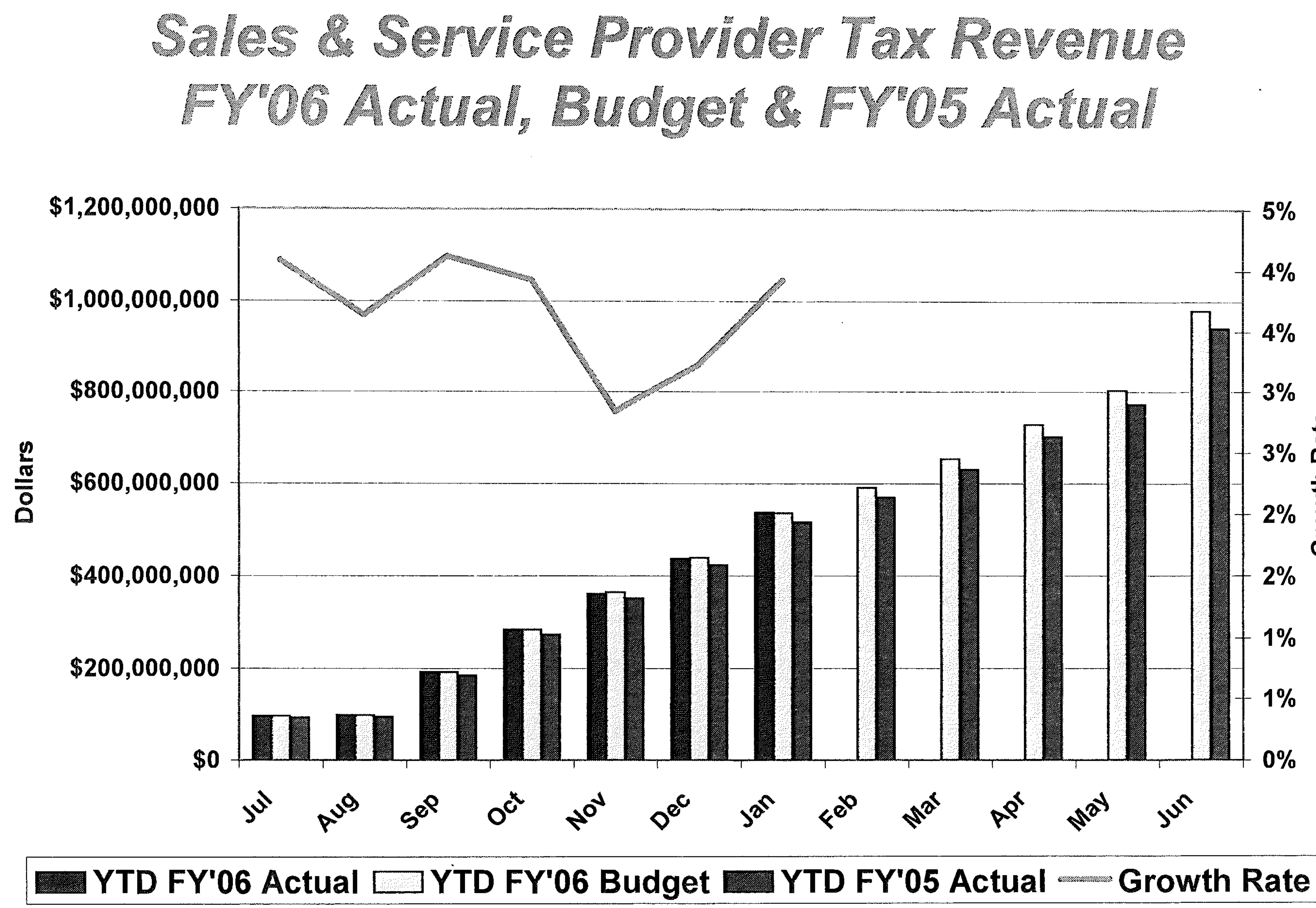

Maine Revenue Services Economic Research Division 2/17/2006

Maine Revenue Services
Sales & Use Tax and General Fund Service Provider Tax Revenue

Month	FY'06 Actual	FY'06 Budget	FY'05 Actual	FY'04 Actual	FY'06 Actual vs. Budget	FY'06 Budget vs. FY'05 Actual	FY'06 Actual vs. FY'05 Actual	FY'05 Actual vs. FY'04 Actual
Jul	$95,563,538	$95,563,538	$91,816,108	$86,508,519	0.0%	4.1%	4.1%	6.1%
Aug	$1,369,702	$1,369,702	$1,718,008	$1,346,518	0.0%	-20.3%	-20.3%	27.6%
Sep	$94,871,741	$94,871,741	$90,688,073	$90,803,534	0.0%	4.6%	4.6%	-0.1%
Oct	$93,595,668	$93,595,667	$90,398,099	$83,820,881	0.0%	3.5%	3.5%	7.8%
Nov	$75,709,519	$79,205,722	$76,527,267	$74,982,218	-4.4%	3.5%	-1.1%	2.1%
Dec	$76,227,244	$75,066,460	$72,527,980	$70,728,225	1.5%	3.5%	5.1%	2.5%
Jan	$99,141,063	$95,800,569	$92,560,936	$89,659,263	3.5%	3.5%	7.1%	3.2%
Feb	$0	$55,157,742	$53,292,504	$57,598,238	-100.0%	3.5%	-100.0%	-7.5%
Mar	$0	$62,498,662	$60,385,181	$59,286,767	-100.0%	3.5%	-100.0%	1.9%
Apr	$0	$74,848,483	$71,238,466	$70,353,678	-100.0%	5.1%	-100.0%	1.3%
May	$0	$74,932,437	$71,318,421	$67,500,062	-100.0%	5.1%	-100.0%	5.7%
Jun	$0	$177,284,522	$168,750,795	$164,655,339	-100.0%	5.1%	-100.0%	2.5%
Total	$536,478,475	$980,195,245	$941,221,838	$917,243,242	-45.3%	4.1%	-43.0%	2.6%
YTD Jan	$536,478,475	$535,473,399	$516,236,471	$497,849,158	0.2%	3.7%	3.9%	3.7%

Sales & Use Tax: Baseline Forecast FY06 - FY09

	FY02	FY03	Biennium	FY04	FY05	Biennium	FY06	FY07	Biennium	FY08	FY09	Biennium
Actuals & November, 2005 Forecast /1	$836,134,084	$857,486,801	$1,693,620,885	$917,243,245	$941,221,839	$1,858,465,084	$980,195,245	$1,031,163,372	$2,011,358,617	$1,079,022,790	$1,126,896,765	$2,205,919,555
Growth Rate		2.6%		7.0%	2.6%	9.7%	4.1%	5.2%	8.2%	4.6%	4.4%	9.7%
Technical Adjustments to Prior Forecast /2	$0	$0	$0	$0	$0	$0	$2,000,000	$0	$2,000,000	$0	$0	$0
Economic Assumptions /3	$0	$0	$0	$0	$0	$0	($5,060,000)	($5,120,000)	($10,180,000)	($4,270,000)	($4,940,000)	($9,210,000)
Total Adjustments to Prior Forecast	$0	$0	$0	$0	$0	$0	($3,060,000)	($5,120,000)	($8,180,000)	($4,270,000)	($4,940,000)	($9,210,000)
New Forecast	$836,134,084	$857,486,801	$1,693,620,885	$917,243,245	$941,221,839	$1,858,465,084	$977,135,245	$1,026,043,372	$2,003,178,617	$1,074,752,790	$1,121,956,765	$2,196,709,555
Growth Rate	2.2%	2.6%	1.7%	7.0%	2.6%	9.7%	3.8%	5.0%	7.8%	4.7%	4.4%	9.7%

1/ November, 2005 forecast with FY02, FY03, FY04 and FY05 actuals.

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

3/ This line shows the incremental change in baseline revenues as a result of the new economic forecast released by the Consensus Economic Forecasting Committee.

2/23/2006

Maine Revenue Services
Model Sales Tax Revenue for Selected Categories from the February 2006 Forecast
(millions of dollars)

Fiscal Years	2005	2006		2007		2008		2009	
Personal Consumption									
Total motor vehicles	$148.1	$147.3	-0.5%	$151.8	3.1%	$158.5	4.4%	$166.2	4.8%
New autos	$65.32	$65.0	-0.5%	$67.0	3.1%	$69.9	4.4%	$73.3	4.8%
Used Autos	$36.96	$36.8	-0.5%	$37.9	3.1%	$39.6	4.4%	$41.5	4.8%
Other motor vehicles	$45.82	$45.6	-0.5%	$47.0	3.1%	$49.1	4.4%	$51.4	4.8%
Restaurants	$118.49	$122.1	3.0%	$127.0	4.1%	$132.5	4.3%	$137.1	3.5%
Lodging	$35.63	$38.9	9.1%	$42.6	9.5%	$46.7	9.8%	$50.9	9.0%
Shoes	$9.93	$9.9	0.1%	$10.3	3.4%	$10.7	3.8%	$11.0	2.9%
Women's clothing	$36.08	$38.4	6.4%	$40.6	5.7%	$42.9	5.8%	$45.1	5.1%
Men's clothing	$21.9	$23.4	6.4%	$24.7	5.7%	$26.1	5.8%	$27.4	5.1%
Jewelry and watches	$11.7	$13.0	11.3%	$14.0	7.3%	$15.0	7.4%	$16.0	6.7%
Toilet articles and preps	$15.8	$18.4	16.2%	$20.0	8.8%	$21.8	9.1%	$23.6	8.2%
Furniture	$15.0	$16.5	10.0%	$17.6	6.8%	$18.8	7.0%	$20.0	6.2%
Drugs	$16.2	$15.6	-3.3%	$16.0	2.3%	$16.4	2.6%	$16.7	1.8%
Personal consumption	$683.3	$708.6	3.7%	$744.6	5.1%	$782.4	5.1%	$818.5	4.6%
Business Intermediate	$183.1	$187.6	2.5%	$195.2	4.1%	$201.1	3.1%	$207.1	2.9%
Business Investment	$74.9	$77.2	3.0%	$80.7	4.5%	$84.1	4.3%	$87.7	4.3%

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Maine Revenue Services
Transfers to the Tourism Marketing Promotion Fund
February 2006 Forecast

5% of the tax on meals and lodging is dedicated to the Tourism Marketing Promotion Fund. Revenue is credited to the fund in July and October of each year based on revenue collected in the prior fiscal year after revenue sharing has been deducted.

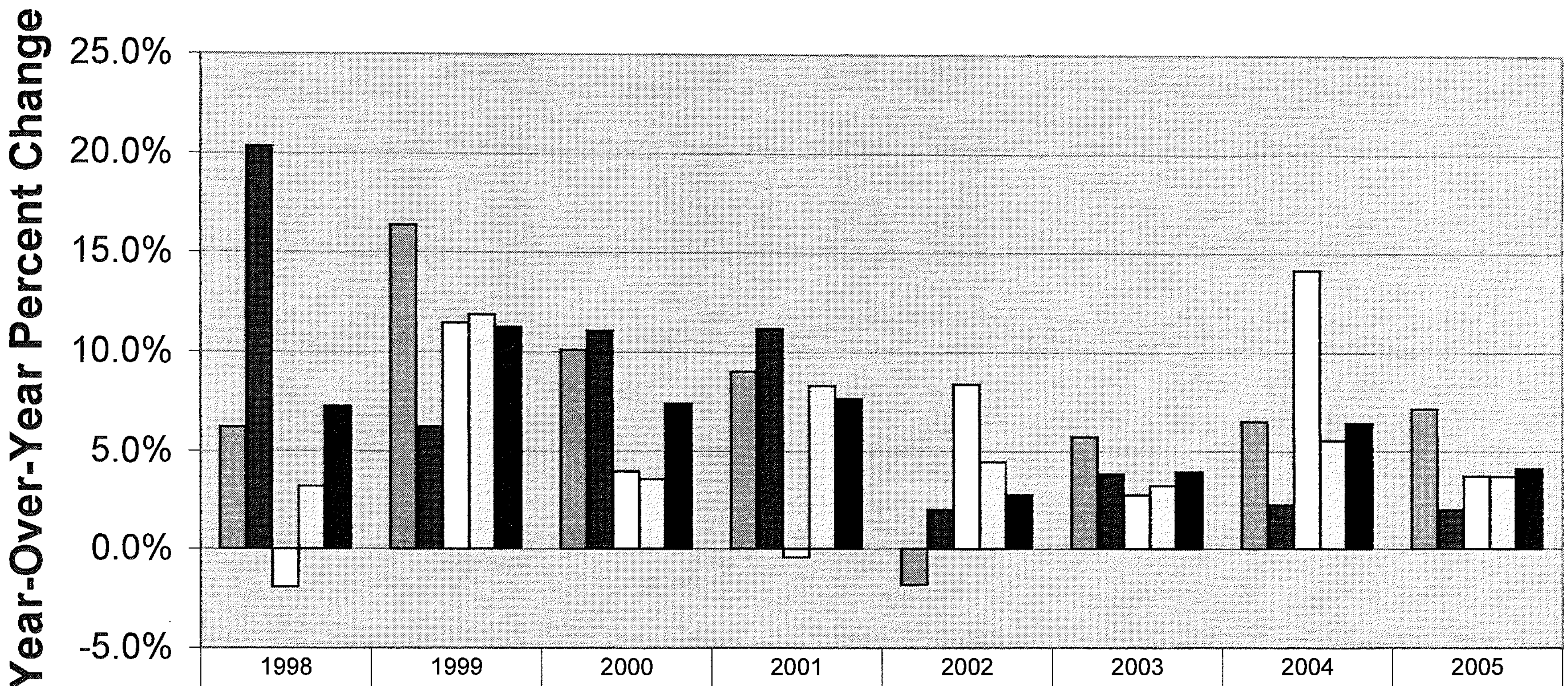
Actual FY'05 meals/lodge tax revenue	$163,597,235	
General Fund portion	$155,253,776	94.9%
FY'06 Transfer to Tourism - budget	$7,936,013	
Actual FY'06 transfer	$7,762,689	5.0%
Variance	($173,324)	

	FY'06	FY'07	FY'08
Meals and lodging revenue forecast	$170,750,000	$179,770,000	$189,700,000
Growth rate	4.4%	5.3%	5.5%
General Fund	$162,041,750	$170,601,730	$179,835,600
General Fund percentage	94.9%	94.9%	94.8%

February 2006 forecast	FY'07	FY'08	FY'09
5% to Tourism Fund	$8,102,088	$8,530,087	$8,991,780
Current budget	$8,237,761	$8,675,720	$9,145,907
Variance	($135,674)	($145,633)	($154,127)

Individual Income Tax

Individual Income Tax Withholding



	1998	1999	2000	2001	2002	2003	2004	2005
Qtr. I	6.2%	16.3%	10.1%	9.0%	-1.9%	5.7%	6.5%	7.1%
Qtr. II	20.3%	6.2%	11.0%	11.1%	2.0%	3.8%	2.2%	2.0%
Qtr. III	-2.0%	11.4%	4.0%	-0.4%	8.4%	2.8%	14.1%	3.7%
Qtr. IV	3.2%	11.8%	3.6%	8.3%	4.5%	3.2%	5.5%	3.7%
Year	7.3%	11.2%	7.4%	7.6%	2.7%	3.9%	6.4%	4.1%

Quarter & Calendar Year

	2000 Preliminary /1		2000 Final /1		
	Returns	Dollars	Returns	Dollars	Change
Wages & Salaries	496,472	$15,907,655,047	514,529	$16,666,346,027	4.77%
Taxable Interest	341,325	$657,989,651	358,462	$740,760,741	12.58%
Dividends	142,394	$521,799,796	152,587	$603,805,789	15.72%
Taxable Pensions	96,851	$1,357,848,444	100,653	$1,417,824,372	4.42%
Net Capital Gains	125,629	$1,860,469,406	135,657	$2,354,760,996	26.57%
Rent, Royalties, Partnerships, S Corps, etc.	59,034	$753,153,852	67,830	$984,096,441	30.66%
Unemployment Compensation	30,845	$70,296,839	31,784	$73,015,668	3.87%
Federal Adjusted Gross Income	578,720	$22,594,617,841	604,456	$24,477,141,373	8.33%
Alternative Minimum Tax	4,999	$26,226,065	5,942	$33,557,749	27.96%

	2001 Preliminary /1			2001 Final /1			
	Returns	Dollars	Change 2000	Returns	Dollars	Change	Change 2000
Wages & Salaries	503,458	$16,696,110,165	4.96%	518,819	$17,338,131,752	3.85%	4.03%
Taxable Interest	341,433	$657,640,734	-0.05%	355,529	$728,316,677	10.75%	-1.68%
Dividends	136,034	$445,592,772	-14.60%	143,881	$497,228,048	11.59%	-17.65%
Taxable Pensions	99,415	$1,401,544,490	3.22%	102,550	$1,450,598,580	3.50%	2.31%
Net Capital Gains	106,145	$892,170,606	-52.05%	113,527	$1,071,519,235	20.10%	-54.50%
Rent, Royalties, Partnerships, S Corps, etc.	60,218	$805,488,714	6.95%	60,218	$988,083,224	22.67%	0.41%
Unemployment Compensation	37,711	$86,257,157	22.70%	38,639	$99,384,658	15.22%	36.11%
Federal Adjusted Gross Income	585,280	$22,493,034,329	-0.45%	607,164	$23,805,345,868	5.83%	-2.74%
Alternative Minimum Tax	4,633	$23,596,077	-10.03%	5,318	$29,524,115	25.12%	-12.02%

	2002 Preliminary /1			2002 Final /1			
	Returns	Dollars	Change 2001	Returns	Dollars	Change	Change 2001
Wages & Salaries	498,708	$16,901,491,633	1.23%		$17,593,251,466	4.09%	1.47%
Taxable Interest	322,828	$485,853,025	-26.12%		$543,273,982	11.82%	-25.41%
Dividends	137,228	$388,677,070	-12.77%		$438,362,316	12.78%	-11.84%
Taxable Pensions	100,578	$1,451,956,220	3.60%		$1,506,879,061	3.78%	3.88%
Net Capital Gains	102,278	$737,665,287	-17.32%		$896,232,487	21.50%	-16.36%
Rent, Royalties, Partnerships, S Corps, etc.	60,603	$835,616,605	3.74%		$1,049,809,892	25.63%	6.25%
Unemployment Compensation	42,593	$145,439,444	68.61%		$151,141,895	3.92%	52.08%
Federal Adjusted Gross Income	580,796	$22,246,559,220	-1.10%		$23,617,364,010	6.16%	-0.79%
Alternative Minimum Tax	7,222	$23,088,615	-2.15%	8,257	$28,226,294	22.25%	-4.40%

	2003 Preliminary /1			2003 Final /1			
	Returns	Dollars	Change 2002	Returns	Dollars	Change	Change 2002
Wages & Salaries		$17,452,582,279	3.26%		$18,185,614,176	4.20%	3.37%
Taxable Interest		$409,067,783	-15.80%		$458,319,801	12.04%	-15.64%
Dividends		$408,182,555	5.02%		$461,404,915	13.04%	5.26%
Taxable Pensions		$1,513,312,936	4.23%		$1,570,062,035	3.75%	4.19%
Net Capital Gains		$810,743,847	9.91%		$1,066,720,335	31.57%	19.02%
Rent, Royalties, Partnerships, S Corps, etc.		$832,084,682	-0.42%		$1,128,959,905	35.68%	7.54%
Unemployment Compensation		$156,046,911	7.29%		$161,917,274	3.76%	7.13%
Federal Adjusted Gross Income		$23,037,272,340	3.55%		$24,625,619,877	6.89%	4.27%
Alternative Minimum Tax		$29,402,344	27.35%		$35,587,899	21.04%	26.08%

	2004 Preliminary /1			2004 Final /2			
	Returns	Dollars	Change 2003	Returns	Dollars	Change	Change 2003
Wages & Salaries		$18,209,599,632	4.34%		*$18,946,382,056*	*4.05%*	*4.18%*
Taxable Interest		$377,690,801	-7.67%		*$421,258,116*	*11.54%*	*-8.09%*
Dividends		$490,836,000	20.25%		*$552,043,294*	*12.47%*	*19.64%*
Taxable Pensions		$1,605,430,237	6.09%		*$1,664,470,856*	*3.68%*	*6.01%*
Net Capital Gains		$1,148,718,111	41.69%		*$1,428,895,683*	*24.39%*	*33.95%*
Rent, Royalties, Partnerships, S Corps, etc.		$919,000,475	10.45%		*$1,176,260,059*	*27.99%*	*4.19%*
Unemployment Compensation		$122,183,166	-21.70%		*$131,510,544*	*7.63%*	*-18.78%*
Federal Adjusted Gross Income		$24,413,760,822	5.98%		*$25,951,084,029*	*6.30%*	*5.38%*
Alternative Minimum Tax		$38,434,394	30.72%		*$47,199,051*	*22.80%*	*32.63%*

1/ IMF & IRTF data for returns with Maine address.

2/ Estimated

Average Liability

	1995	1996		1997		1998		1999		2000		2001		2002		2003		2004	
	$11	$13	16.64%	$16	22.74%	$24	54.33%	$36	47.86%	$22	-37.98%	$25	10.52%	$2	-91.01%	$3	22.09%	$3	17.37%
10th percentile	$22	$24	9.67%	$29	23.21%	$33	10.65%	$34	5.34%	$37	7.89%	$34	-8.35%	$24	-30.34%	$24	0.97%	$26	9.84%
20th percentile	$62	$68	9.51%	$83	20.96%	$88	7.00%	$93	5.48%	$100	7.08%	$96	-3.55%	$97	0.97%	$100	2.96%	$108	7.40%
30th percentile	$156	$169	8.80%	$199	17.23%	$212	6.83%	$220	3.46%	$234	6.64%	$235	0.17%	$262	11.77%	$269	2.78%	$288	6.94%
40th percentile	$321	$345	7.54%	$392	13.62%	$415	5.84%	$434	4.66%	$460	5.94%	$465	1.18%	$510	9.66%	$528	3.40%	$556	5.41%
50th percentile	$544	$587	7.83%	$658	12.12%	$697	5.94%	$725	3.97%	$775	6.93%	$793	2.26%	$855	7.83%	$886	3.67%	$937	5.69%
60th percentile	$863	$928	7.46%	$1,028	10.81%	$1,082	5.29%	$1,122	3.65%	$1,182	5.32%	$1,218	3.12%	$1,297	6.41%	$1,350	4.09%	$1,422	5.33%
70th percentile	$1,320	$1,406	6.51%	$1,547	10.00%	$1,618	4.62%	$1,677	3.61%	$1,761	5.01%	$1,809	2.76%	$1,916	5.90%	$2,004	4.58%	$2,121	5.85%
80th percentile	$2,072	$2,209	6.64%	$2,436	10.26%	$2,560	5.08%	$2,664	4.08%	$2,817	5.75%	$2,856	1.38%	$3,025	5.90%	$3,181	5.17%	$3,393	6.66%
90th percentile	$6,235	$6,841	9.72%	$7,970	16.51%	$9,179	15.17%	$9,394	2.33%	$10,307	9.72%	$9,110	-11.61%	$8,649	-5.06%	$9,122	5.48%	$10,307	12.98%
Returns in Each Decile	56,443	56,684		57,226		58,331		59,591		60,782		61,053		61,348		61,803		62,553	
	$1,161	$1,259	8.48%	$1,438	14.17%	$1,591	10.67%	$1,630	2.48%	$1,769	8.53%	$1,664	-5.95%	$1,664	-0.03%	$1,747	4.99%	$1,895	8.51%
	$2,866	$3,048	6.37%	$3,347	9.80%	$3,548	6.02%	$3,717	4.76%	$3,929	5.70%	$3,945	0.39%	$4,136	4.86%	$4,364	5.51%	$4,641	6.34%
	$3,297	$3,535	7.19%	$3,883	9.84%	$4,115	5.98%	$4,317	4.91%	$4,561	5.66%	$4,527	-0.74%	$4,699	3.79%	$4,983	6.04%	$5,391	8.20%
	$3,940	$4,218	7.05%	$4,667	10.63%	$4,980	6.73%	$5,254	5.49%	$5,590	6.41%	$5,421	-3.03%	$5,664	4.49%	$6,012	6.14%	$6,586	9.56%
	$5,165	$5,602	8.46%	$6,284	12.16%	$6,755	7.51%	$7,278	7.74%	$7,850	7.86%	$7,385	-5.93%	$7,762	5.10%	$8,318	7.18%	$9,274	11.49%
	$15,905	$17,801	11.92%	$21,669	21.73%	$26,499	22.29%	$26,399	-0.38%	$29,600	12.12%	$24,270	-18.00%	$20,981	-13.55%	$21,933	4.54%	$25,639	16.90%
	11,289	11,337		11,446		11,666		11,919		12,157		12,211		12,270		12,361		12,511	
Total Liability	$655,114,868	$201,811,953		$821,644,967		$928,024,238		$977,349,727		$1,075,517,403		$1,016,009,264		$1,020,611,306		$1,079,506,022		$1,198,654,292	
Top 2%	$179,554,786	$713,703,566		$248,017,678		$309,136,222		$314,650,731		$359,841,536		$296,365,902		$257,431,357		$271,116,019		$320,772,772	
	27.41%	28.28%		30.19%		33.31%		32.19%		33.46%		29.17%		25.22%		25.11%		26.76%	

Capital Gains and Losses Reported on Maine Individual Income Tax Returns, Tax Year 2003 /1

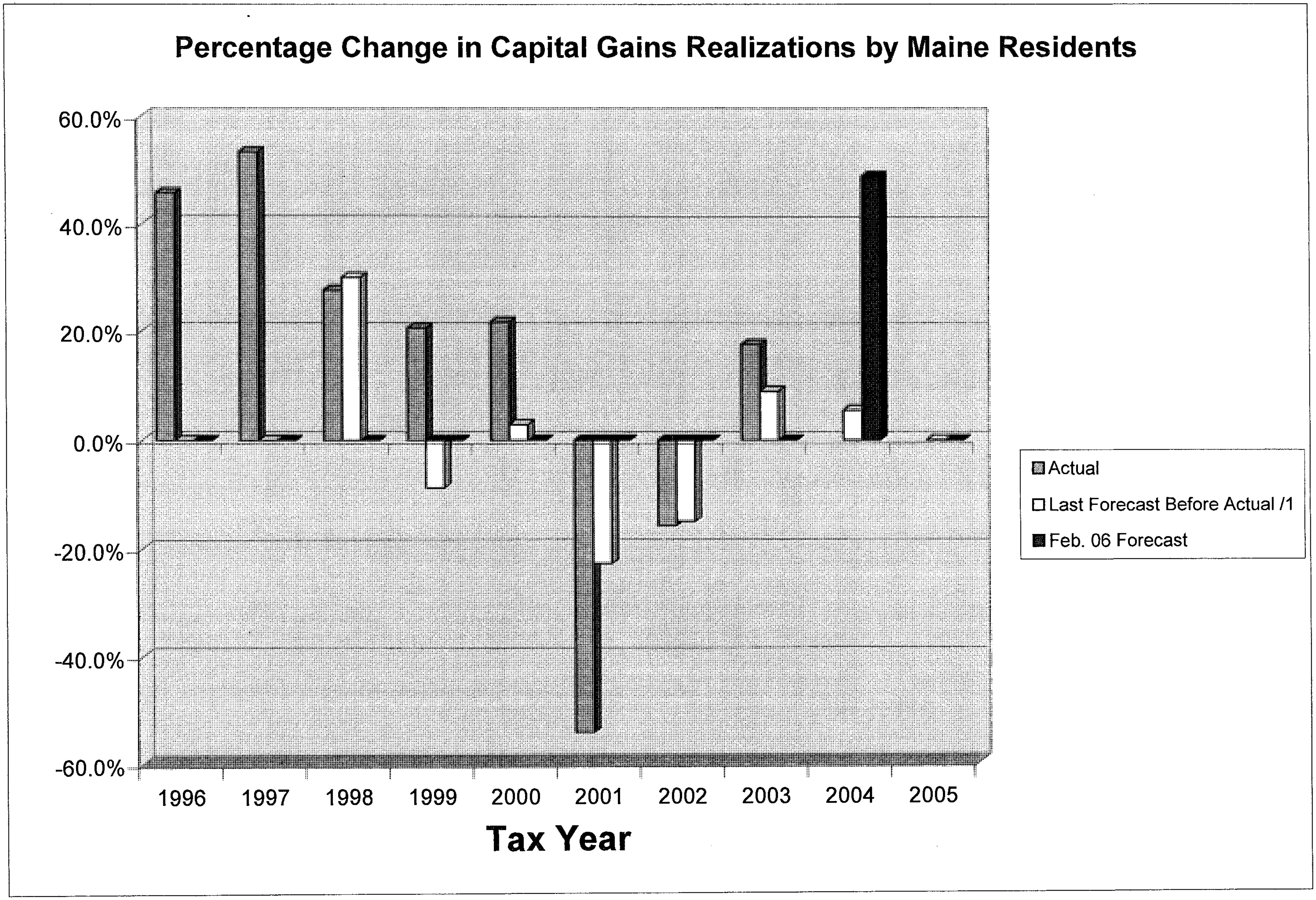
Decile	Expanded Income Range		Returns with Net Capital Gains			Returns with Net Capital Losses			Returns with Capital Gains/Losses		
			Thousands	(Millions of Dollars)		Thousands	(Millions of Dollars)		Thousands	(Millions of Dollars)	
			Returns	Gains	Revenue	Returns	Losses	Revenue	Returns	Gains	Revenue
First & Second	-$ Infinity <=	$8,997	4,563	$38.1	$0.1	8,203	($18.7)	($0.0)	12,766	$19.4	$0.0
Third	$8,998 <=	$13,457	2,446	$16.8	$0.2	2,587	($5.7)	($0.1)	5,033	$11.1	$0.1
Fourth	$13,458 <=	$18,654	2,983	$19.7	$0.4	2,920	($6.4)	($0.2)	5,903	$13.3	$0.2
Fifth	$18,655 <=	$25,400	3,651	$23.9	$0.7	3,372	($7.3)	($0.3)	7,023	$16.6	$0.4
Sixth	$25,401 <=	$34,060	4,256	$29.8	$1.1	3,933	($8.2)	($0.4)	8,189	$21.5	$0.7
Seventh	$34,061 <=	$45,360	5,171	$51.5	$2.6	4,884	($10.3)	($0.7)	10,055	$41.2	$1.9
Eighth	$45,361 <=	$61,420	6,840	$65.2	$3.8	6,029	($12.8)	($0.9)	12,869	$52.4	$2.9
Ninth	$61,421 <=	$88,045	8,615	$139.7	$9.6	7,548	($16.0)	($1.3)	16,163	$123.7	$8.3
Tenth	$88,046 <=	$ Infinity	13,104	$792.1	$57.2	10,753	($25.1)	($2.1)	23,857	$767.0	$55.1
Total			51,629	$1,176.8	$75.6	50,229	($110.6)	($6.0)	101,858	$1,066.2	$69.5

Total Resident Tax Returns filed in Tax Year 2003 = 576,691
Total Resident Tax Liability in Tax Year = $971.7 Million

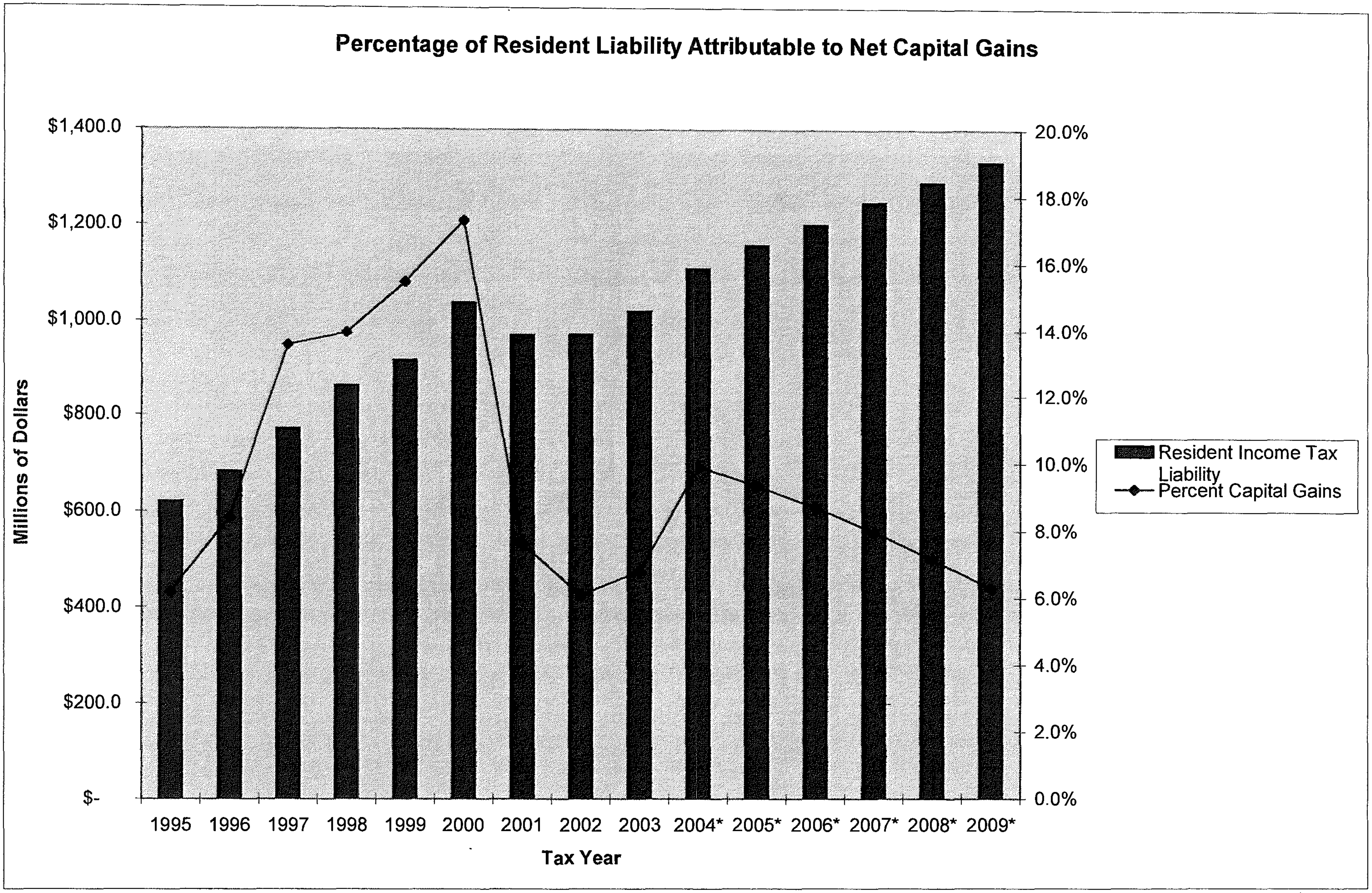
1/ Based on Maine Revenue Services' Individual Income Tax Model. Data is from tax returns filed with the Internal Revenue Service and Maine Revenue Services.

	Resident Net Gains ($ Millions)	% Change
1995	$551.7	
1996	$799.7	45.0%
1997	$1,218.7	52.4%
1998	$1,551.0	27.3%
1999	$1,867.2	20.4%
2000	$2,360.4	26.4%
2001	$1,079.3	-54.3%
2002	$908.8	-15.8%
2003	$1,066.2	17.3%

Maine Revenue Services
Economic Research Division



1/ Represents last forecast prior to receipt of tax year return.



* Signifies a forecasted value.

slightly reducing the growth of receipts relative to growth of GDP over most of the projection period.

Tax Law Changes. Scheduled changes in tax law—principally from legislation enacted in 2001, 2003, and 2004—will alter the pattern of receipts growth, especially in 2011 and 2012. The scheduled changes largely tend to increase receipts. For instance, the tax rates on dividends and capital gains will rise in 2009, returning to the rates that existed before 2003. Most important, taxes are projected to increase sharply in 2011 when, among other things, statutory tax rates rise, the child tax credit declines, and tax brackets and standard deductions for joint filers contract in size to less than twice those for single taxpayers. Only the phaseout of restrictions on itemized deductions and on personal exemptions for high-income taxpayers during tax years 2006 to 2010 will tend to reduce the growth of individual income tax receipts.

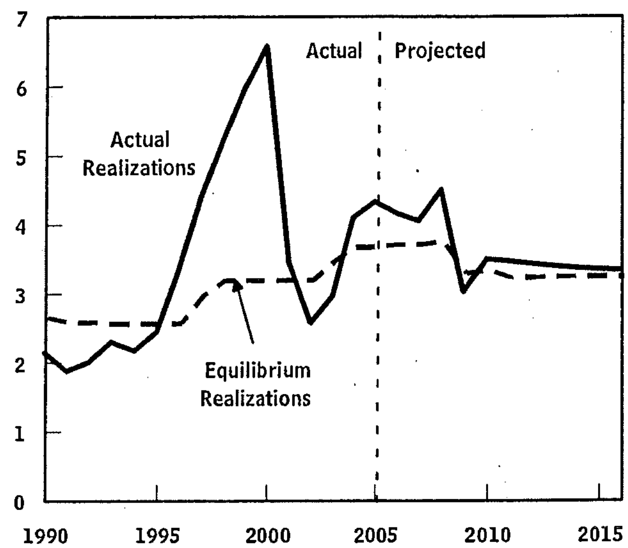
Characteristics of the Tax System. CBO projects that effective tax rates will steadily rise over the next 10 years, thereby increasing the receipts generated by the economy. That rise occurs partly because of real bracket creep and partly because the AMT—which is not indexed for inflation—will be paid by an increasing number of taxpayers and affect growing amounts of income in future years. (For a more detailed description of the increasing significance of the AMT in CBO's revenue projections, see Box 4-3 on page 91.) Also pushing up effective rates are taxable distributions from tax-deferred retirement accounts, such as IRAs and 401(k) plans, which are expected to increase as the population ages. Contributions to those accounts were exempt from taxation when they were initially made, which reduced taxable income reported to the Internal Revenue Service (IRS) in earlier years. As more retirees take distributions from those accounts, the money becomes taxable, thereby increasing tax receipts relative to GDP.

Capital Gains Realizations. CBO projects that realizations of capital gains will grow more slowly than GDP after 2007. Although capital gains plunged between 2000 and 2002, they rebounded strongly in 2003 and 2004. According to early tabulations from 2004 tax returns, capital gains realizations grew by about 50 percent from 2003 levels. Based on recent economic growth and stock market activity, CBO estimates that capital gains increased by a further 13 percent in 2005, boosting them to just about double their 2002 trough (see Table 4-4 on page 92).

Figure 4-4.

Capital Gains Realizations as a Share of Gross Domestic Product, Calendar Years 1990 to 2016

(Percent)

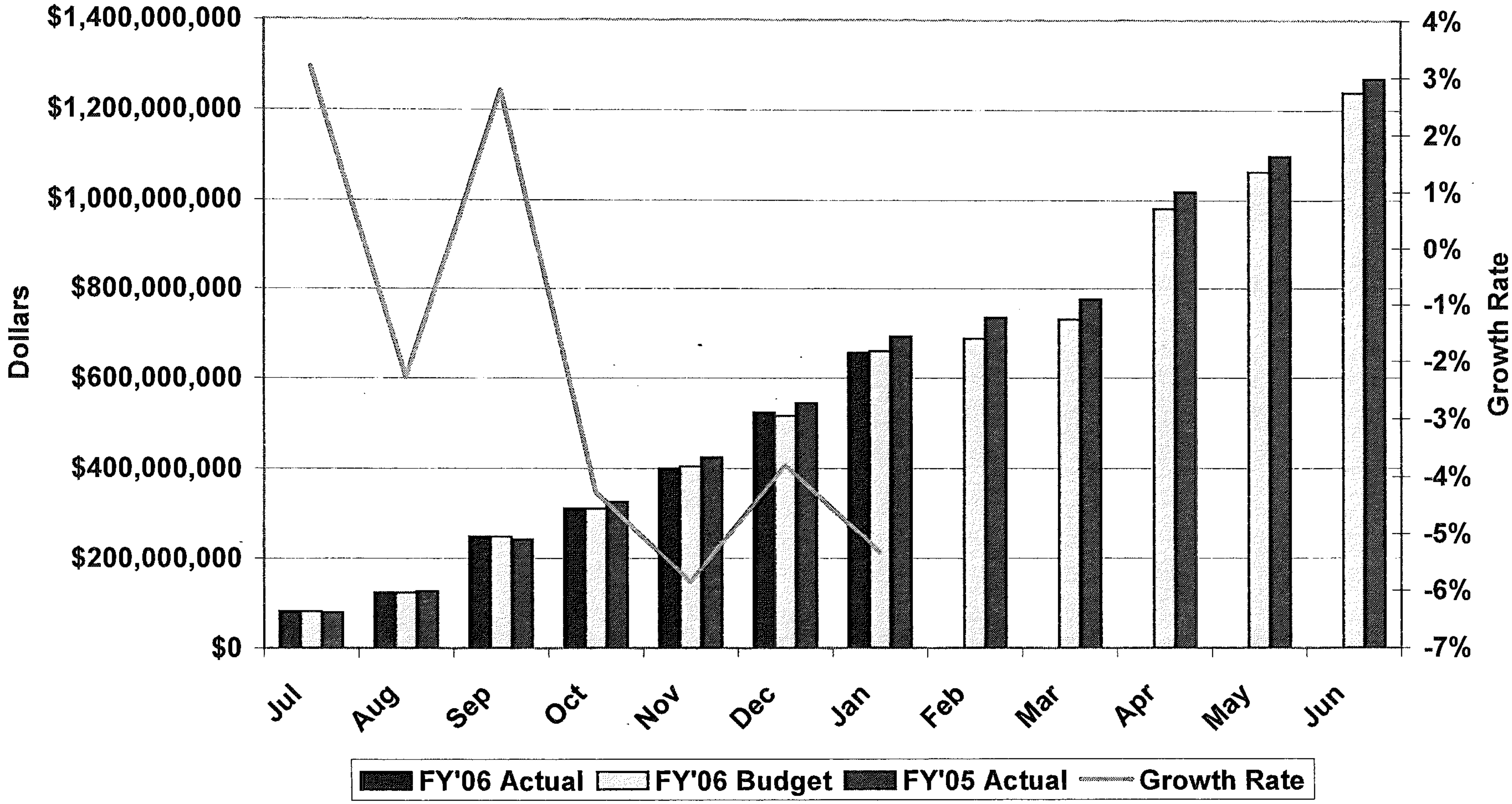


Source: Congressional Budget Office.

Note: The equilibrium level of capital gains realizations to gross domestic product (GDP) is measured as the average ratio of gains to GDP from 1954 to 2002, adjusted for the differences between each year's tax rate on capital gains and the average rate over the period. A lower tax rate on capital gains corresponds to a higher equilibrium relationship.

The strong recovery in capital gains realizations since 2002 has pushed them to a level that, relative to the size of the economy, is above that implied by their past historical relationship (see Figure 4-4). Consequently, CBO projects that, beyond 2005, capital gains will rise a bit more slowly than GDP. As it has tended to do in the past, the ratio of gains realizations to GDP is expected to gradually approach its long-run average level relative to the economy. Between 2007 and 2016, capital gains realizations are projected to grow by an average of 2.5 percent annually, lower than the 4.7 percent growth rate of both GDP and taxable personal income. Receipts from gains are expected to grow in step with gains realizations, except when tax rates increase in 2009.

YTD Individual Income Tax Revenue FY'06 Actual, Budget & FY'05 Actual

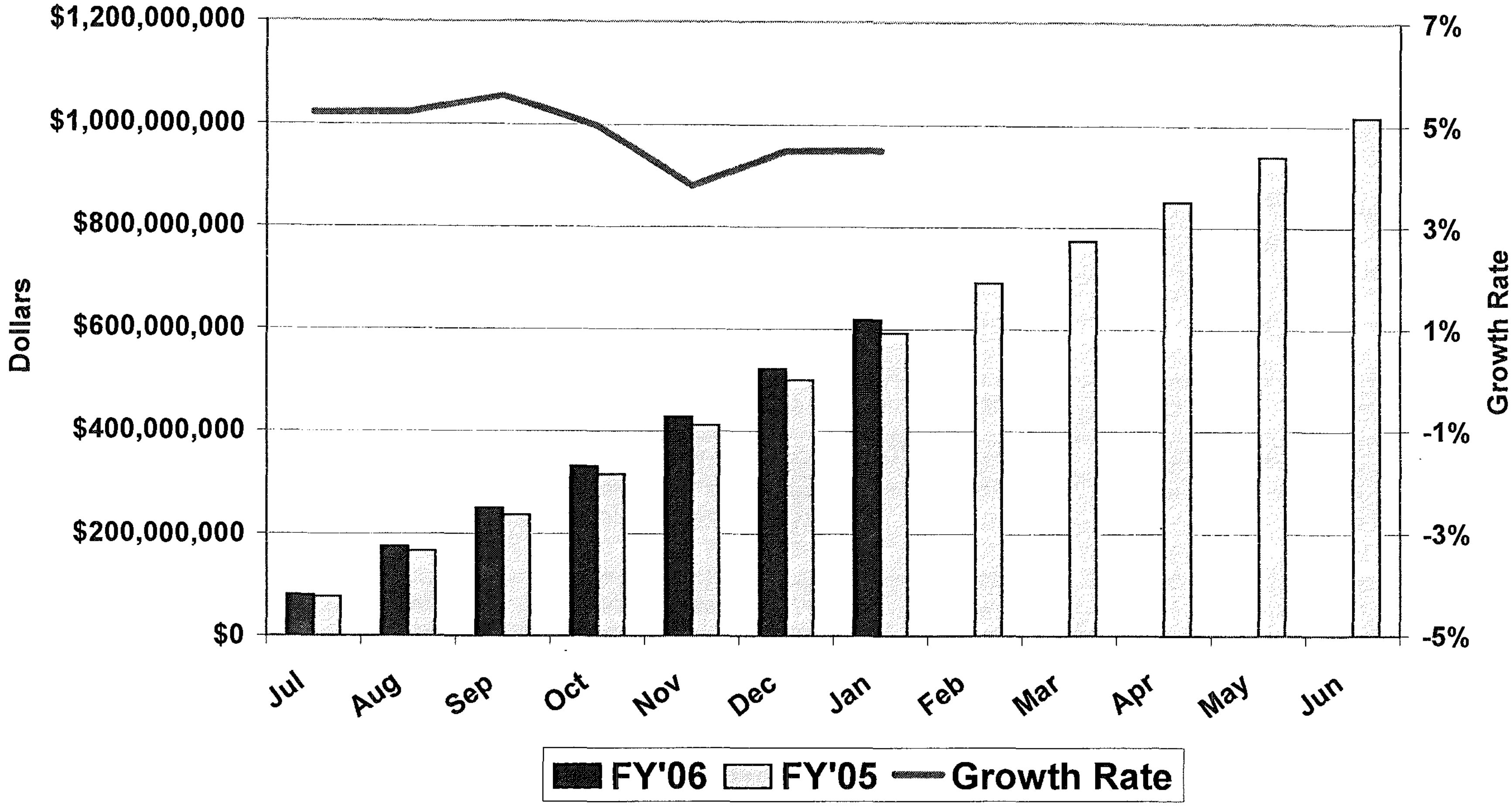


Maine Revenue Services Economic Research Division 2/15/2006

Maine Revenue Services
Individual Income Tax Revenue

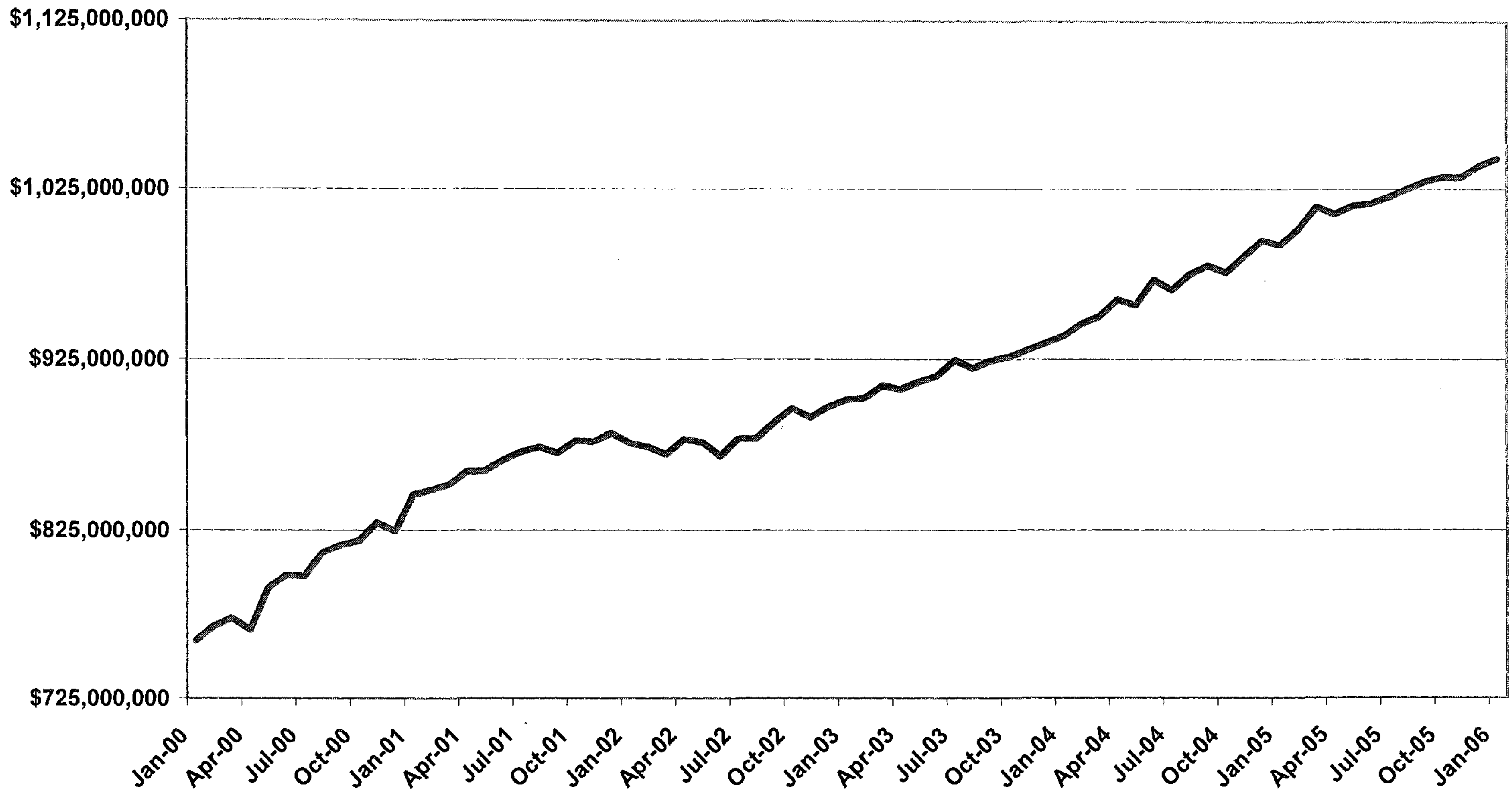
	FY'06 Actual	FY'06 Budget	FY'05 Actual	FY'04 Actual	FY'06 Actual vs. Budget	FY'06 Budget vs. FY'05 Actual	FY'06 Actual vs. FY'05 Actual	FY'05 Actual vs. FY'04 Actual
Jul	$81,512,002	$81,512,002	$79,007,870	$83,052,540	0.0%	3.2%	3.2%	-4.9%
Aug	$41,008,817	$41,008,817	$46,368,424	$25,716,284	0.0%	-11.6%	-11.6%	80.3%
Sep	$125,826,676	$125,826,676	$116,291,674	$112,651,883	0.0%	8.2%	8.2%	3.2%
Oct	$63,159,155	$63,159,155	$83,726,670	$92,060,779	0.0%	-24.6%	-24.6%	-9.1%
Nov	$88,172,229	$92,252,134	$99,127,735	$92,846,672	-4.4%	-6.9%	-11.1%	6.8%
Dec	$123,612,742	$111,565,559	$119,454,517	$118,510,420	10.8%	-6.6%	3.5%	0.8%
Jan	$131,958,647	$143,146,864	$148,098,576	$147,651,743	-7.8%	-3.3%	-10.9%	0.3%
Feb	$0	$28,469,073	$42,476,859	$26,333,492	-100.0%	-33.0%	-100.0%	61.3%
Mar	$0	$43,204,803	$41,279,330	$30,231,259	-100.0%	4.7%	-100.0%	36.5%
Apr	$0	$250,405,671	$242,229,663	$200,394,874	-100.0%	3.4%	-100.0%	20.9%
May	$0	$81,852,960	$79,599,103	$64,521,014	-100.0%	2.8%	-100.0%	23.4%
Jun	$0	$176,894,131	$172,564,907	$162,744,951	-100.0%	2.5%	-100.0%	6.0%
Total	$655,250,268	$1,239,297,845	$1,270,225,328	$1,156,715,911	-47.1%	-2.4%	-48.4%	9.8%
YTD Jan	$655,250,268	$658,471,207	$692,075,466	$672,490,321	-0.5%	-4.9%	-5.3%	2.9%

1040 Withholding
Year-to-Date FY'06 & FY'05



Maine Revenue Services Economic Research Division 2/2/2006

Withholding Tax Revenue
12 Month Moving Total



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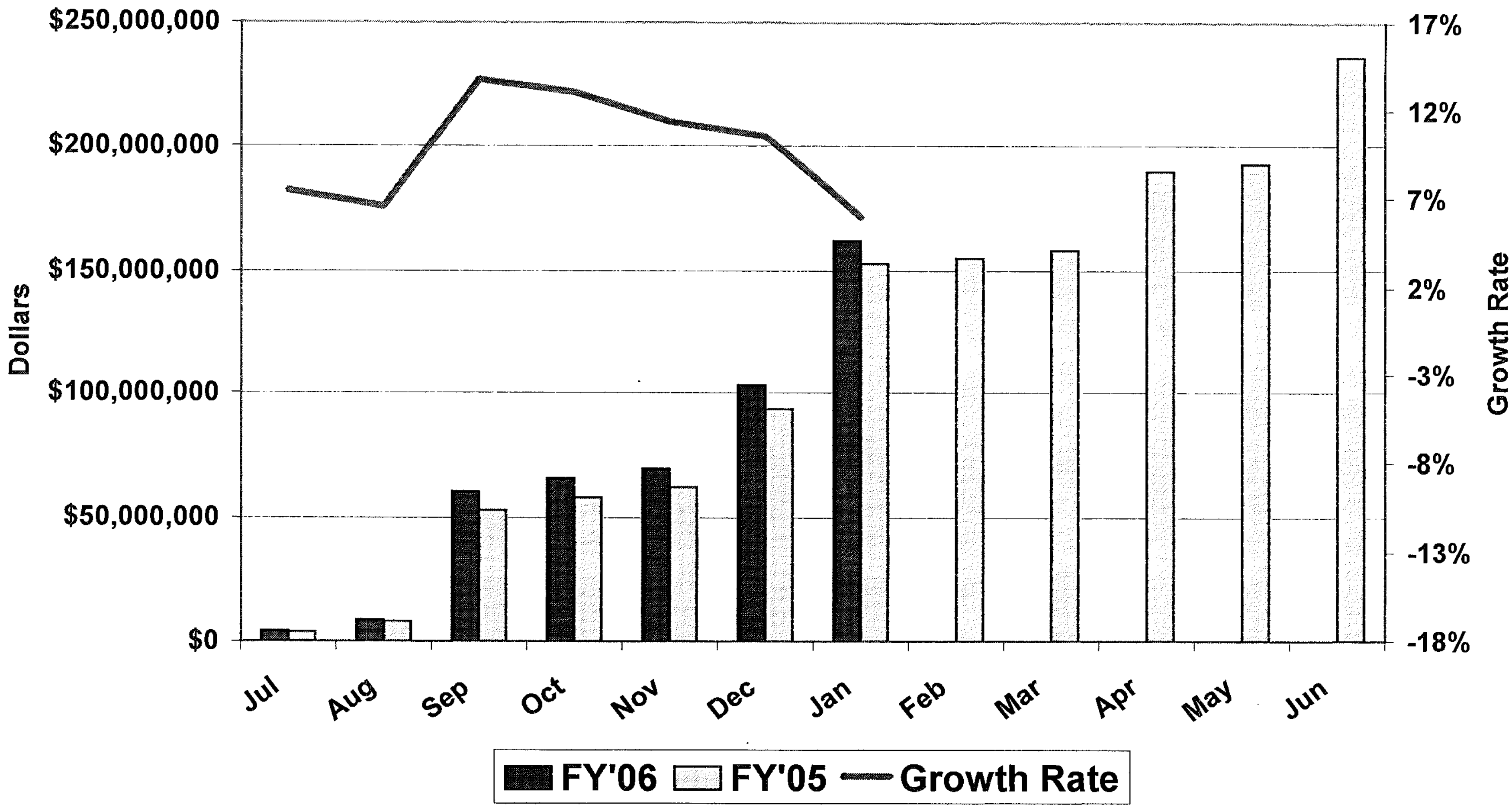
1040 Estimated Payments Year-to-Date FY'06 & FY'05



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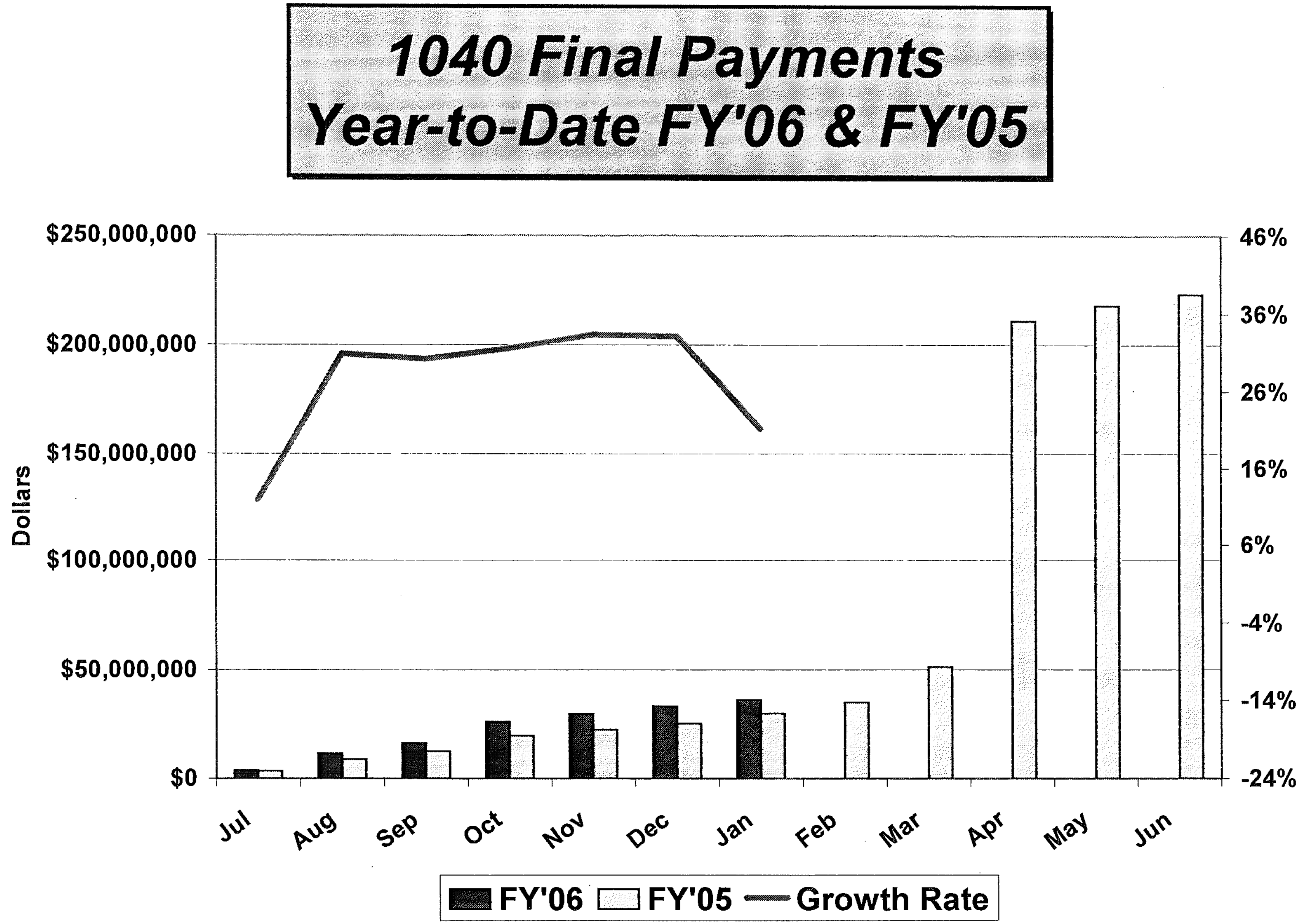


Maine Revenue Services Economic Research Division 2/2/2006

Maine Revenue Services
Individual Income Tax Withholding, Estimated Payments and Final Payments

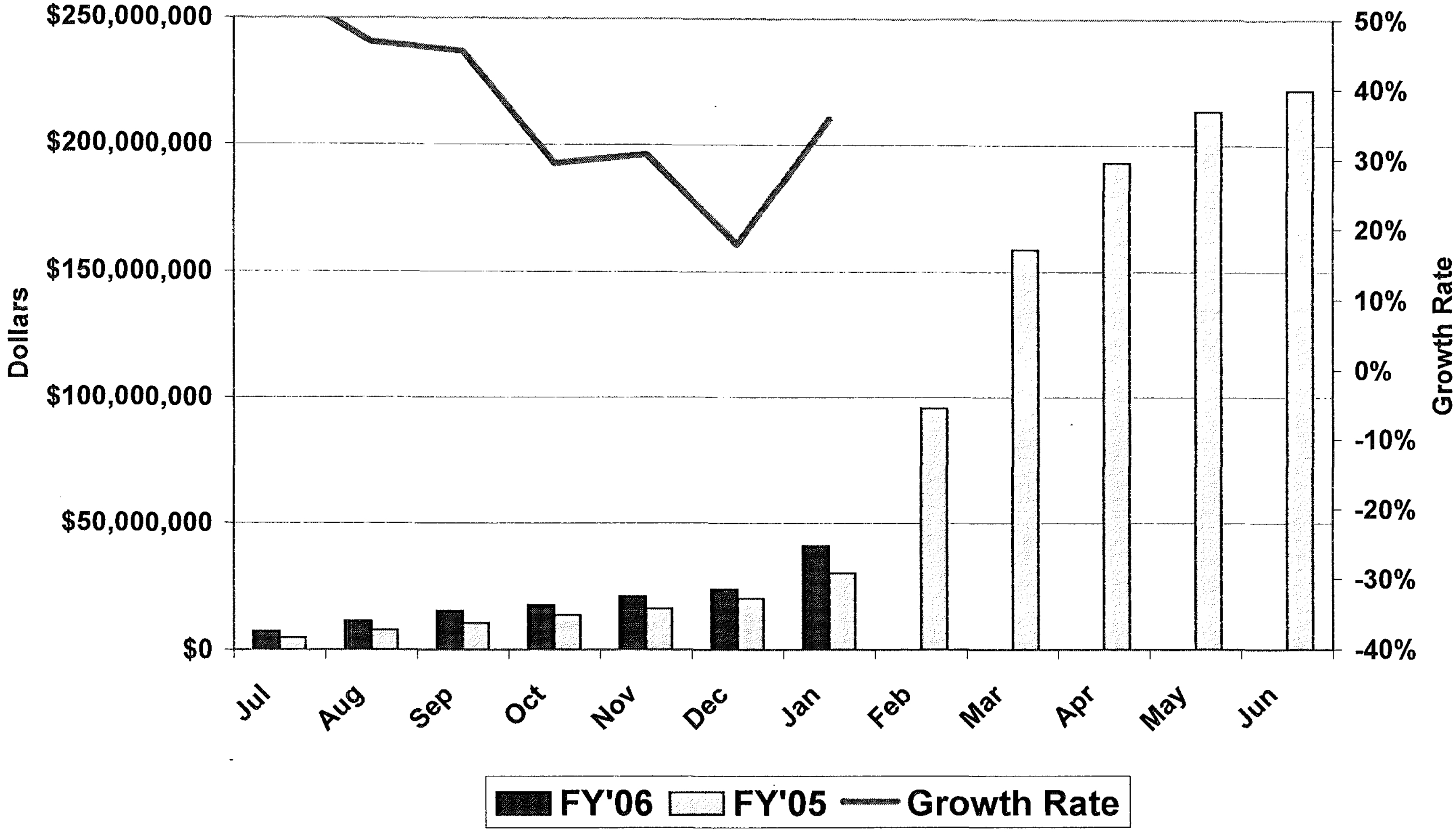
	1040 Withholding			1040 Estimated Payments			1040 Final Payments		
	FY'06	FY'05	Growth Rate	FY'06	FY'05	Growth Rate	FY'06	FY'05	Growth Rate
Jul	$79,823,176	$75,860,067	5.2%	$4,183,949	$3,892,507	7.5%	$3,781,077	$3,378,425	11.9%
Aug	$94,671,384	$89,961,525	5.2%	$4,428,790	$4,187,223	5.8%	$7,488,098	$5,231,286	43.1%
Sep	$76,131,695	$71,592,113	6.3%	$51,617,323	$44,856,260	15.1%	$4,711,283	$3,660,467	28.7%
Oct	$81,701,685	$79,165,680	3.2%	$5,315,815	$5,026,638	5.8%	$9,630,450	$7,193,943	33.9%
Nov	$95,362,806	$95,453,138	-0.1%	$3,647,357	$4,137,825	-11.9%	$3,848,840	$2,617,692	47.0%
Dec	$93,310,382	$86,616,071	7.7%	$33,900,310	$31,113,174	9.0%	$3,541,510	$2,694,751	31.4%
Jan	$96,933,541	$92,690,026	4.6%	$59,056,792	$59,716,018	-1.1%	$2,903,270	$4,823,789	-39.8%
Feb	$0	$99,249,893	-100.0%	$0	$2,097,323	-100.0%	$0	$5,077,327	-100.0%
Mar	$0	$82,786,247	-100.0%	$0	$3,276,025	-100.0%	$0	$16,411,959	-100.0%
Apr	$0	$76,375,753	-100.0%	$0	$31,141,789	-100.0%	$0	$159,938,028	-100.0%
May	$0	$88,215,506	-100.0%	$0	$3,064,178	-100.0%	$0	$7,051,302	-100.0%
Jun	$0	$78,471,043	-100.0%	$0	$43,667,263	-100.0%	$0	$5,240,913	-100.0%

Year-To-Date

	1040 Withholding			1040 Estimated Payments			1040 Final Payments		
	FY'06	FY'05	Growth Rate	FY'06	FY'05	Growth Rate	FY'06	FY'05	Growth Rate
Jul	$79,823,176	$75,860,067	5.2%	$4,183,949	$3,892,507	7.5%	$3,781,077	$3,378,425	11.9%
Aug	$174,494,560	$165,821,592	5.2%	$8,612,739	$8,079,730	6.6%	$11,269,175	$8,609,711	30.9%
Sep	$250,626,255	$237,413,705	5.6%	$60,230,062	$52,935,990	13.8%	$15,980,458	$12,270,178	30.2%
Oct	$332,327,940	$316,579,385	5.0%	$65,545,877	$57,962,628	13.1%	$25,610,908	$19,464,121	31.6%
Nov	$427,690,746	$412,032,523	3.8%	$69,193,234	$62,100,453	11.4%	$29,459,748	$22,081,813	33.4%
Dec	$521,001,128	$498,648,594	4.5%	$103,093,544	$93,213,627	10.6%	$33,001,258	$24,776,564	33.2%
Jan	$617,934,669	$591,338,620	4.5%	$162,150,336	$152,929,645	6.0%	$35,904,528	$29,600,353	21.3%
Feb	$617,934,669	$690,588,513	-10.5%	$162,150,336	$155,026,968	4.6%	$35,904,528	$34,677,680	3.5%
Mar	$617,934,669	$773,374,760	-20.1%	$162,150,336	$158,302,993	2.4%	$35,904,528	$51,089,639	-29.7%
Apr	$617,934,669	$849,750,513	-27.3%	$162,150,336	$189,444,782	-14.4%	$35,904,528	$211,027,667	-83.0%
May	$617,934,669	$937,966,019	-34.1%	$162,150,336	$192,508,960	-15.8%	$35,904,528	$218,078,969	-83.5%
Jun	$617,934,669	$1,016,437,062	-39.2%	$162,150,336	$236,176,223	-31.3%	$35,904,528	$223,319,882	-83.9%

Maine Revenue Services Economic Research Division. 2/2/2006

Individual Income Tax Refunds Year-to-Date FY'06 & FY'05



Maine Revenue Services Economic Research Division 2/10/2006

Maine Revenue Services
Individual Income Tax Refunds

	Month		Year-To-Date		
	FY'06	FY'05	FY'06	FY'05	Growth Rate
Jul	$7,075,872	$4,583,354	$7,075,872	$4,583,354	54%
Aug	$4,041,598	$2,999,037	$11,117,470	$7,582,391	47%
Sep	$3,876,243	$2,737,110	$14,993,713	$10,319,501	45%
Oct	$2,401,833	$3,126,619	$17,395,546	$13,446,120	29%
Nov	$3,595,677	$2,612,597	$20,991,223	$16,058,717	31%
Dec	$2,666,969	$4,020,831	$23,658,192	$20,079,548	18%
Jan	$17,163,808	$10,003,650	$40,822,000	$30,083,198	36%
Feb	$0	$65,483,750	$40,822,000	$95,566,948	-57%
Mar	$0	$63,007,750	$40,822,000	$158,574,698	-74%
Apr	$0	$34,534,428	$40,822,000	$193,109,126	-79%
May	$0	$20,294,585	$40,822,000	$213,403,711	-81%
Jun	$0	$8,385,145	$40,822,000	$221,788,856	-82%

Maine Revenue Services Economic Research Division. 2/10/2006

Individual Income Tax: Baseline Forecast FY05 - FY09

	FY02	FY03	Biennium	FY04	FY05	Biennium	FY06	FY07	Biennium	FY08	FY09	Biennium
Actuals & November, 2005 Forecast /1	**$1,069,834,791**	**$1,071,701,694**	**$2,141,536,485**	**$1,156,715,909**	**$1,270,225,329**	**$2,426,941,238**	**$1,239,297,845**	**$1,292,127,672**	**$2,531,425,517**	**$1,334,752,988**	**$1,384,613,932**	**$2,719,366,920**
Growth Rate		0.2%		7.9%	9.8%	13.3%	-2.4%	4.3%	4.3%	3.3%	3.7%	7.4%
BETR Reimbursement /2	$0	$0	$0	$0	$0	$0	$73,463,191	$68,146,508	$141,609,699	$77,707,000	$79,646,983	$157,353,983
Tax & Rent Claims /2	$0	$0	$0	$0	$26,030,227	$26,030,227	$44,328,964	$46,095,820	$90,424,784	$48,440,013	$51,389,085	$99,829,098
Individual Income Tax Before T&R Claims	$1,069,834,791	$1,071,701,694	$2,141,536,485	$1,156,715,909	$1,296,255,556	$2,452,971,465	$1,357,090,000	$1,406,370,000	$2,763,460,000	$1,460,900,001	$1,515,650,000	$2,976,550,001
Growth Rate		0.2%		7.9%	12.1%	14.5%	4.7%	3.6%	12.7%	3.9%	3.7%	7.7%
Technical Adjustments /3	$0	$0	$0	$0	$0	$0	$2,850,000	$14,870,000	$17,720,000	$15,310,000	$13,210,000	$28,520,000
Economic Assumptions /4							($15,840,000)	($30,220,000)		($34,840,000)	($40,970,000)	($75,810,000)
Total Adjustments to Prior Forecast	$0	$0	$0	$0	$0	$0	($12,990,000)	($15,350,000)	($28,340,000)	($19,530,000)	($27,760,000)	($47,290,000)
New Forecast	**$1,069,834,791**	**$1,071,701,694**	**$2,141,536,485**	**$1,156,715,909**	**$1,296,255,556**	**$2,426,941,238**	**$1,344,100,000**	**$1,391,020,000**	**$2,503,085,517**	**$1,441,370,001**	**$1,487,890,000**	**$2,672,076,920**
Growth Rate	-8.4%	0.2%	-4.5%	7.9%	12.1%	13.3%	3.7%	3.5%	3.1%	3.6%	3.2%	6.8%
Tax & Rent Claims	$0	$0	$0	$0	$26,030,227	26,030,227	($44,328,964)	($46,095,820)	($90,424,784)	($48,440,013)	($51,389,085)	($99,829,098)
BETR Reimbursement	$0	$0	$0	$0	$0	$0	($71,463,191)	($68,146,508)	($139,609,699)	($77,707,000)	($79,646,983)	($157,353,983)
Total Individual Income Tax	**$1,069,834,791**	**$1,071,701,694**	**$2,141,536,485**	**$ 1,156,715,909**	**$1,270,225,329**	**$2,426,941,238**	**$1,228,307,845**	**$1,276,777,672**	**$2,505,085,517**	**$1,315,222,988**	**$1,356,853,932**	**$2,672,076,920**
	-8.4%	0.2%	-4.5%	7.9%	9.8%	13.3%	-3.3%	3.9%	3.2%	3.0%	3.2%	6.7%

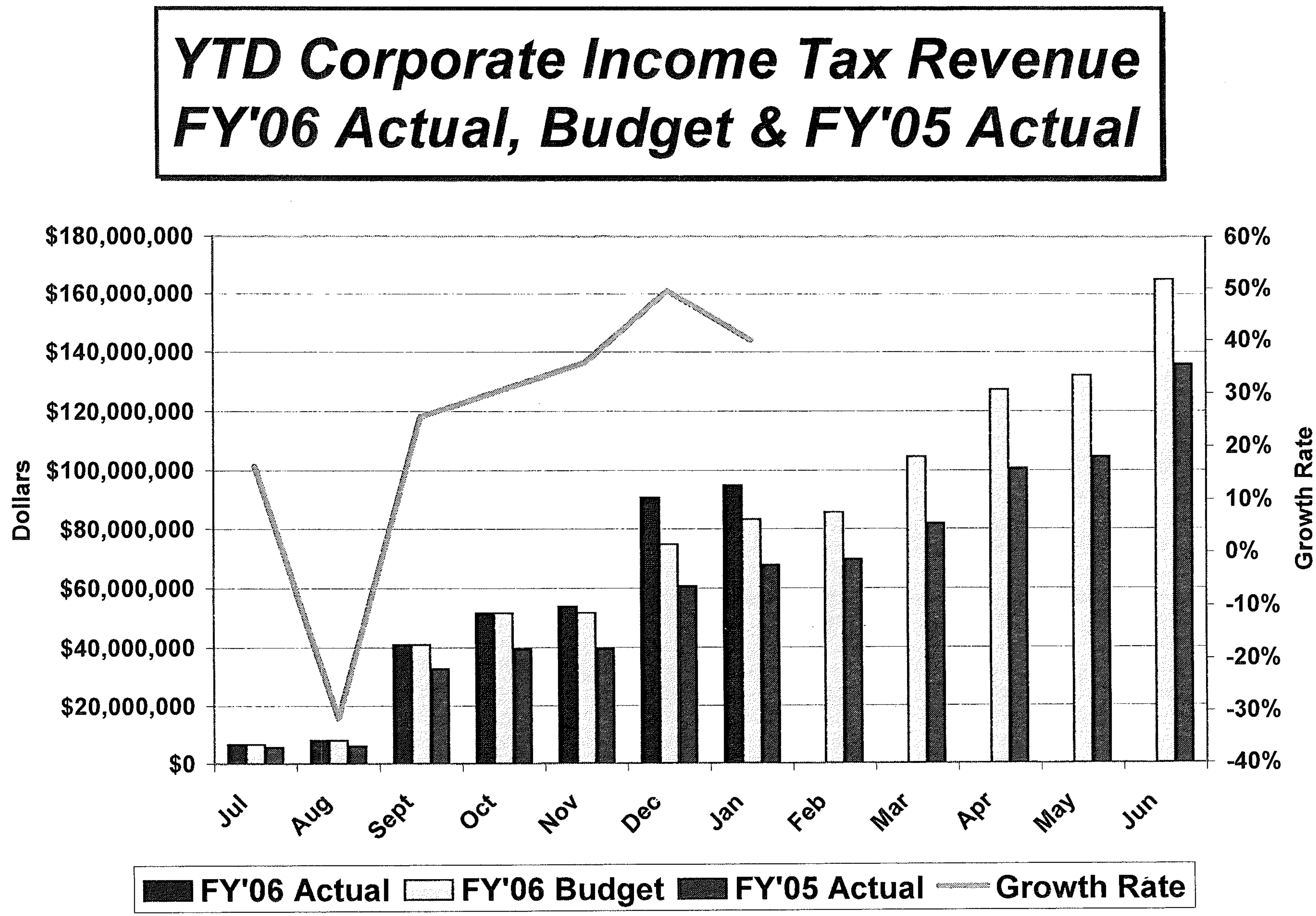
1/ November, 2005 forecast with FY02, FY03, FY04 and FY05 actuals.

2/ Adjusts for Maine Residents Property Tax Relief Program and BETR transfers.

3/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

4/ This line shows the incremental change in baseline revenues as a result of a new economic forecast.

Corporate Income Tax

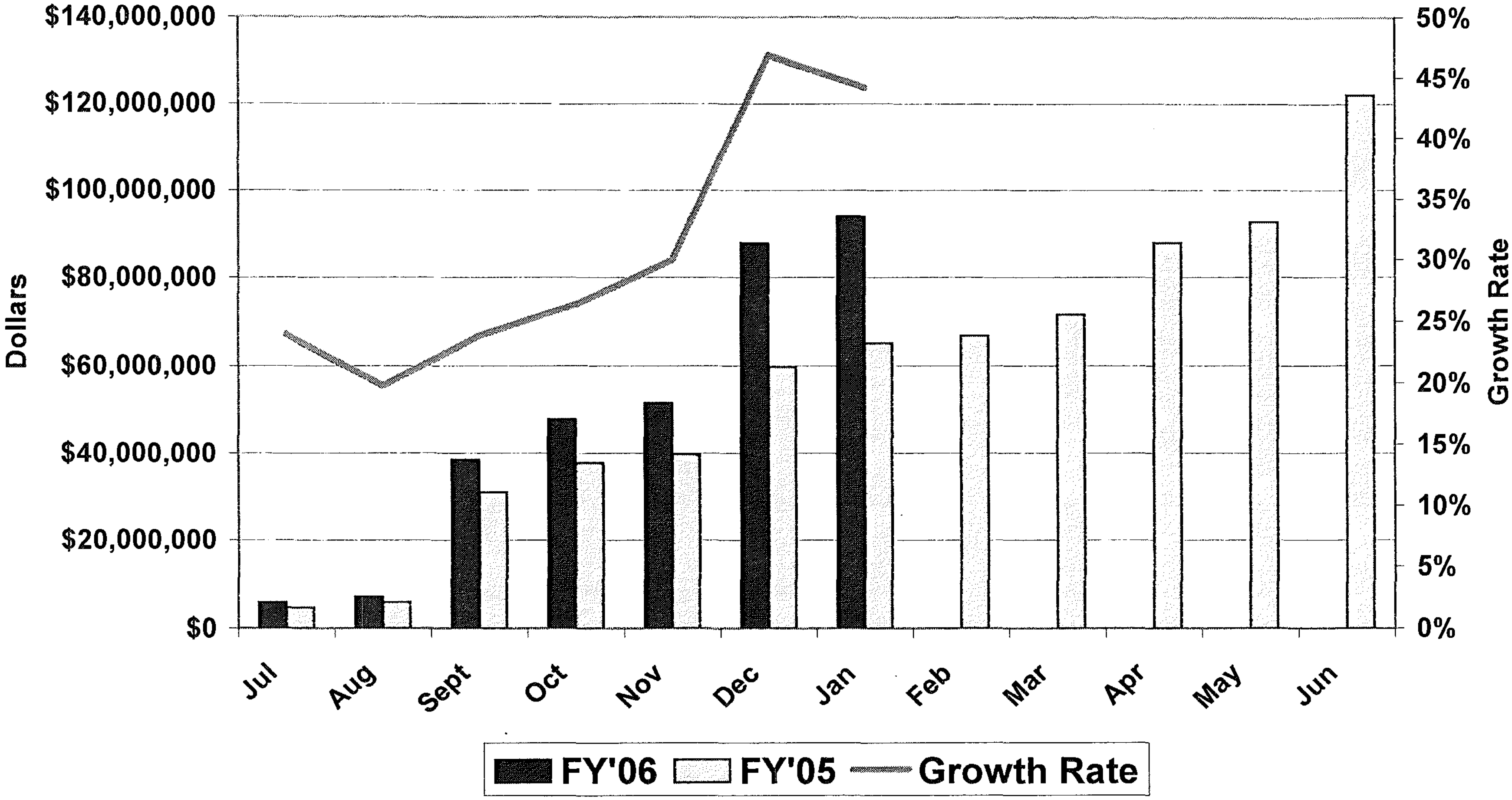


Maine Revenue Services Economic Research Division 2/15/2006

Maine Revenue Services
Corporate Income Tax Revenue

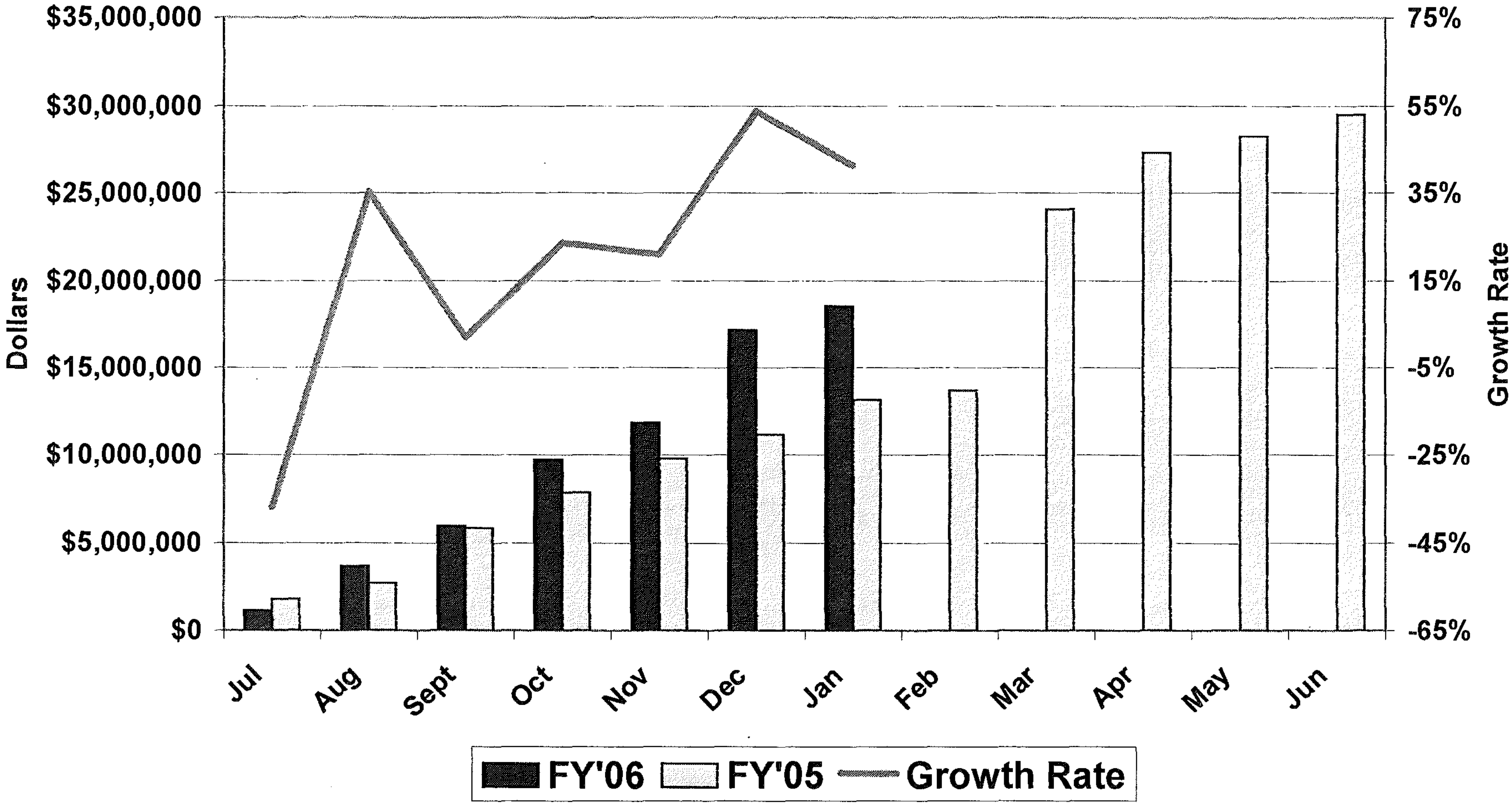
	FY'06 Actual	FY'06 Budget	FY'05 Actual	FY'04 Actual	FY'06 Actual vs. Budget	FY'06 Budget vs. FY'05 Actual	FY'06 Actual vs. FY'05 Actual	FY'05 Actual vs. FY'04 Actual
Jul	$6,572,991	$6,572,991	$5,652,128	$1,844,586	0.0%	16.3%	16.3%	206.4%
Aug	$1,350,981	$1,350,981	$383,290	($1,544,295)	0.0%	-252.5%	-252.5%	-124.8%
Sept	$33,014,931	$33,014,931	$26,575,624	$20,479,613	0.0%	24.2%	24.2%	29.8%
Oct	$10,678,165	$10,678,165	$6,879,835	$6,521,532	0.0%	55.2%	55.2%	5.5%
Nov	$2,120,808	$111,455	$91,650	($2,510,512)	1802.8%	21.6%	2214.0%	-103.7%
Dec	$37,029,667	$23,037,622	$21,142,998	$21,808,955	60.7%	9.0%	75.1%	-3.1%
Jan	$4,128,062	$8,557,631	$7,037,070	$2,774,357	-51.8%	21.6%	-41.3%	153.6%
Feb	$0	$2,307,901	$1,897,822	$2,086,831	-100.0%	21.6%	-100.0%	-9.1%
Mar	$0	$18,872,613	$12,229,975	$14,454,770	-100.0%	54.3%	-100.0%	-15.4%
Apr	$0	$22,797,564	$18,746,782	$17,686,082	-100.0%	21.6%	-100.0%	6.0%
May	$0	$4,759,689	$3,913,964	$5,571,195	-100.0%	21.6%	-100.0%	-29.7%
Jun	$0	$33,158,457	$31,311,776	$22,442,938	-100.0%	5.9%	-100.0%	39.5%
Total	$94,895,605	$165,220,000	$135,862,914	$111,616,052	-42.6%	21.6%	-30.2%	21.7%
YTD Jan	$94,895,605	$83,323,776	$67,762,595	$49,374,236	13.9%	23.0%	40.0%	37.2%

Corporate Estimated Payments Year-to-Date FY'06 & FY'05



Maine Revenue Services Economic Research Division 2/2/2006

Corporate Final Payments Year-to-Date FY'06 & FY'05



Maine Revenue Services Economic Research Division 2/2/2006

Maine Revenue Services

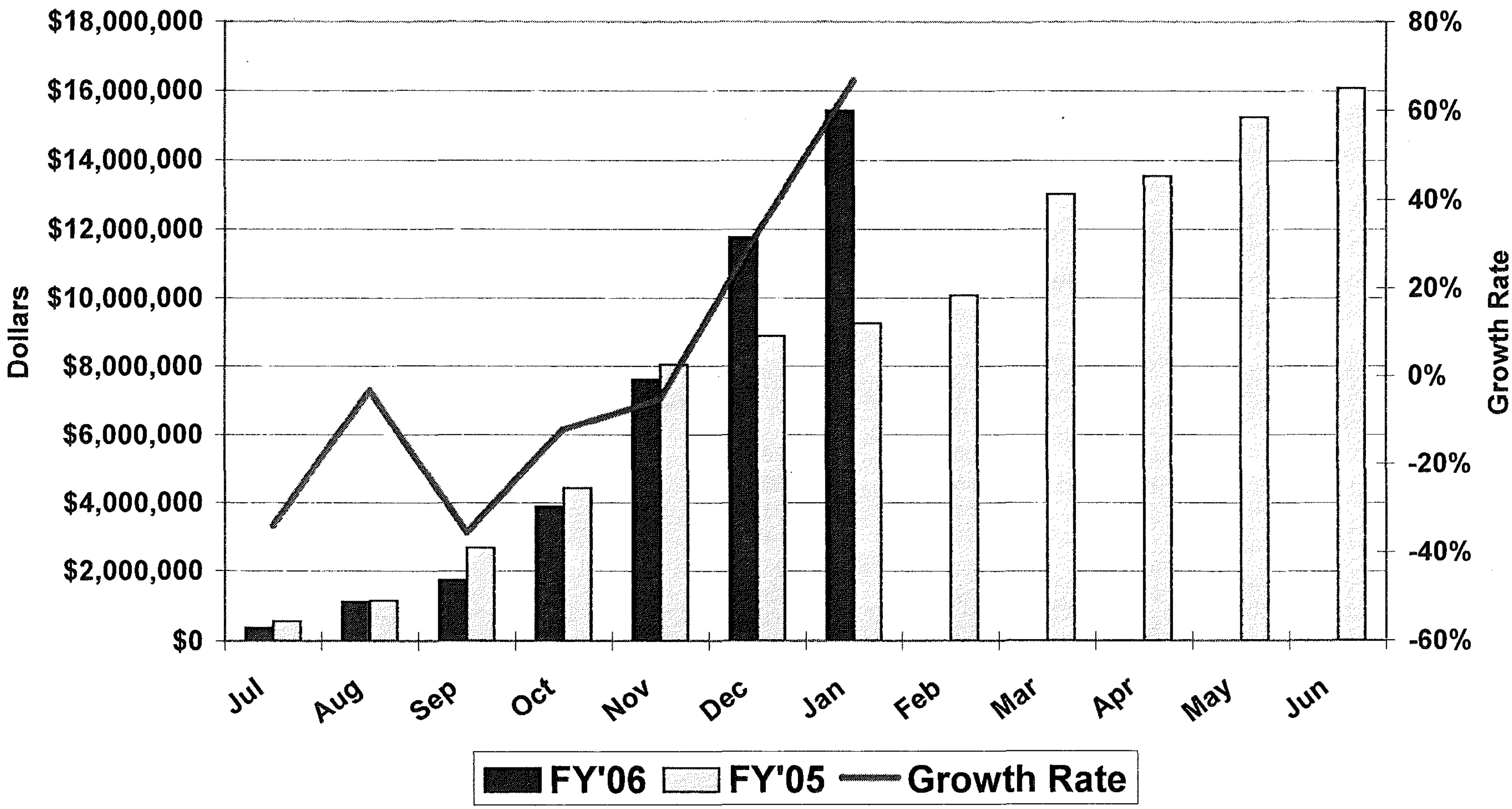
Corporate Income Tax Estimated Payments

	Month FY'06	FY'05	Growth Rate	Year-To-Date FY'06	FY'05	Growth Rate
Jul	$5,871,828	$4,736,328	24.0%	$5,871,828	$4,736,328	24.0%
Aug	$1,309,795	$1,258,467	4.1%	$7,181,623	$5,994,795	19.8%
Sept	$31,230,893	$25,021,543	24.8%	$38,412,516	$31,016,338	23.8%
Oct	$9,293,911	$6,731,932	38.1%	$47,706,427	$37,748,270	26.4%
Nov	$3,798,678	$1,876,569	102.4%	$51,505,105	$39,624,839	30.0%
Dec	$36,190,426	$20,093,667	80.1%	$87,695,531	$59,718,506	46.8%
Jan	$6,266,175	$5,437,253	15.2%	$93,961,706	$65,155,759	44.2%
Feb	$0	$1,573,196	-100.0%	$93,961,706	$66,728,955	40.8%
Mar	$0	$4,736,531	-100.0%	$93,961,706	$71,465,486	31.5%
Apr	$0	$16,338,927	-100.0%	$93,961,706	$87,804,413	7.0%
May	$0	$4,789,059	-100.0%	$93,961,706	$92,593,472	1.5%
Jun	$0	$29,466,862	-100.0%	$93,961,706	$122,060,334	-23.0%

Corporate Income Tax Final Payments and Back Taxes

	Month FY'06	FY'05	Growth Rate	Year-To-Date FY'06	FY'05	Growth Rate
Jul	$1,115,193	$1,764,609	-36.8%	$1,115,193	$1,764,609	-36.8%
Aug	$2,538,795	$936,790	171.0%	$3,653,988	$2,701,399	35.3%
Sept	$2,296,797	$3,135,737	-26.8%	$5,950,785	$5,837,136	1.9%
Oct	$3,755,665	$2,006,164	87.2%	$9,706,450	$7,843,300	23.8%
Nov	$2,128,308	$1,931,876	10.2%	$11,834,758	$9,775,176	21.1%
Dec	$5,328,624	$1,379,519	286.3%	$17,163,382	$11,154,695	53.9%
Jan	$1,394,439	$1,974,888	-29.4%	$18,557,821	$13,129,583	41.3%
Feb	$0	$538,429	-100.0%	$18,557,821	$13,668,012	35.8%
Mar	$0	$10,412,720	-100.0%	$18,557,821	$24,080,732	-22.9%
Apr	$0	$3,211,907	-100.0%	$18,557,821	$27,292,639	-32.0%
May	$0	$972,145	-100.0%	$18,557,821	$28,264,784	-34.3%
Jun	$0	$1,250,566	-100.0%	$18,557,821	$29,515,350	-37.1%

Corporate Income Tax Refunds
Year-to-Date FY'06 & FY'05



Maine Revenue Services Economic Research Division 2/10/2006

Maine Revenue Services
Corporate Income Tax Refunds

	Month		Year-to-Date		
	FY'06	FY'05	FY'06	FY'05	Growth Rate
Jul	$373,068	$565,674	$373,068	$565,674	-34%
Aug	$717,461	$561,408	$1,090,529	$1,127,082	-3%
Sep	$640,530	$1,559,137	$1,731,059	$2,686,219	-36%
Oct	$2,154,964	$1,733,045	$3,886,023	$4,419,264	-12%
Nov	$3,722,588	$3,616,086	$7,608,611	$8,035,350	-5%
Dec	$4,158,121	$845,103	$11,766,732	$8,880,453	33%
Jan	$3,666,874	$371,777	$15,433,606	$9,252,230	67%
Feb	$0	$824,061	$15,433,606	$10,076,291	53%
Mar	$0	$2,944,669	$15,433,606	$13,020,960	19%
Apr	$0	$525,379	$15,433,606	$13,546,339	14%
May	$0	$1,694,068	$15,433,606	$15,240,407	1%
Jun	$0	$835,823	$15,433,606	$16,076,230	-4%

Maine Revenue Services Economic Research Division. 2/10/2006

February, 2006 Corporate Income Tax Baseline Forecast

	2004	2005	2006	2007	2008	2009
Corporate Profits before Tax	1,059	1,425	1,506	1,497	1,516	1,495
(Administration)		35%	6%	-1%	1%	-1%
November Liability Growth	107.72	134.96	134.70	134.70	134.70	132.42
		25%	0%	0%	0%	-2%
February Liability (Technicals)	107.72	146.21	145.44	143.68	144.37	145.03
		36%	-1%	-1%	0%	0%
February Liability (Economic)	107.23	144.89	143.55	141.67	142.73	143.97
		35%	-1%	-1%	1%	1%
CPI-U		195.3	201.2	206.8	212.6	218.5

Corporate Income Tax: General Fund Baseline Forecast FY06 - FY09

	FY02	FY03	Biennium	FY04	FY05	Biennium	FY06	FY07	Biennium	FY08	FY09	Biennium
Actuals & November, 2005 Forecast /1	**$77,366,103**	**$91,188,393**	**$168,554,496**	**$111,616,051**	**$135,862,913**	**$247,478,964**	**$165,220,000**	**$158,980,000**	**$324,200,000**	**$157,970,000**	**$158,000,000**	**$315,970,000**
Growth Rate		17.9%		22.4%	21.7%	46.8%	21.6%	-3.8%	31.0%	-0.6%	0.0%	-2.5%
Technical Adjustments to Prior Forecast /2	$0	$0	$0	$0	$0	$0	$11,250,000	$10,740,000	$21,990,000	$8,980,000	$9,670,000	$18,650,000
Economic Forecast /3	$0	$0	$0	$0	$0	$0	($1,320,000)	($1,890,000)	($3,210,000)	($2,010,000)	($1,640,000)	($3,650,000)
Total Adjustments to Prior Forecast	$0	$0	$0	$0	$0	$0	$9,930,000	$8,850,000	$18,780,000	$6,970,000	$8,030,000	$15,000,000
New Forecast	**$77,366,103**	**$91,188,393**	**$168,554,496**	**$111,616,051**	**$135,862,913**	**$247,478,964**	**$175,150,000**	**$167,830,000**	**$342,980,000**	**$164,940,000**	**$166,030,000**	**$330,970,000**
Growth Rate	-19.5%	17.9%	-31.5%	22.4%	21.7%	46.8%	28.9%	-4.2%	38.6%	-1.7%	0.7%	-3.5%

1/ November, 2005 forecast with FY02, FY03, FY04, FY05 actuals.

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenue

3/ This line shows the incremental change in baseline revenues as a result of a new economic forecast.

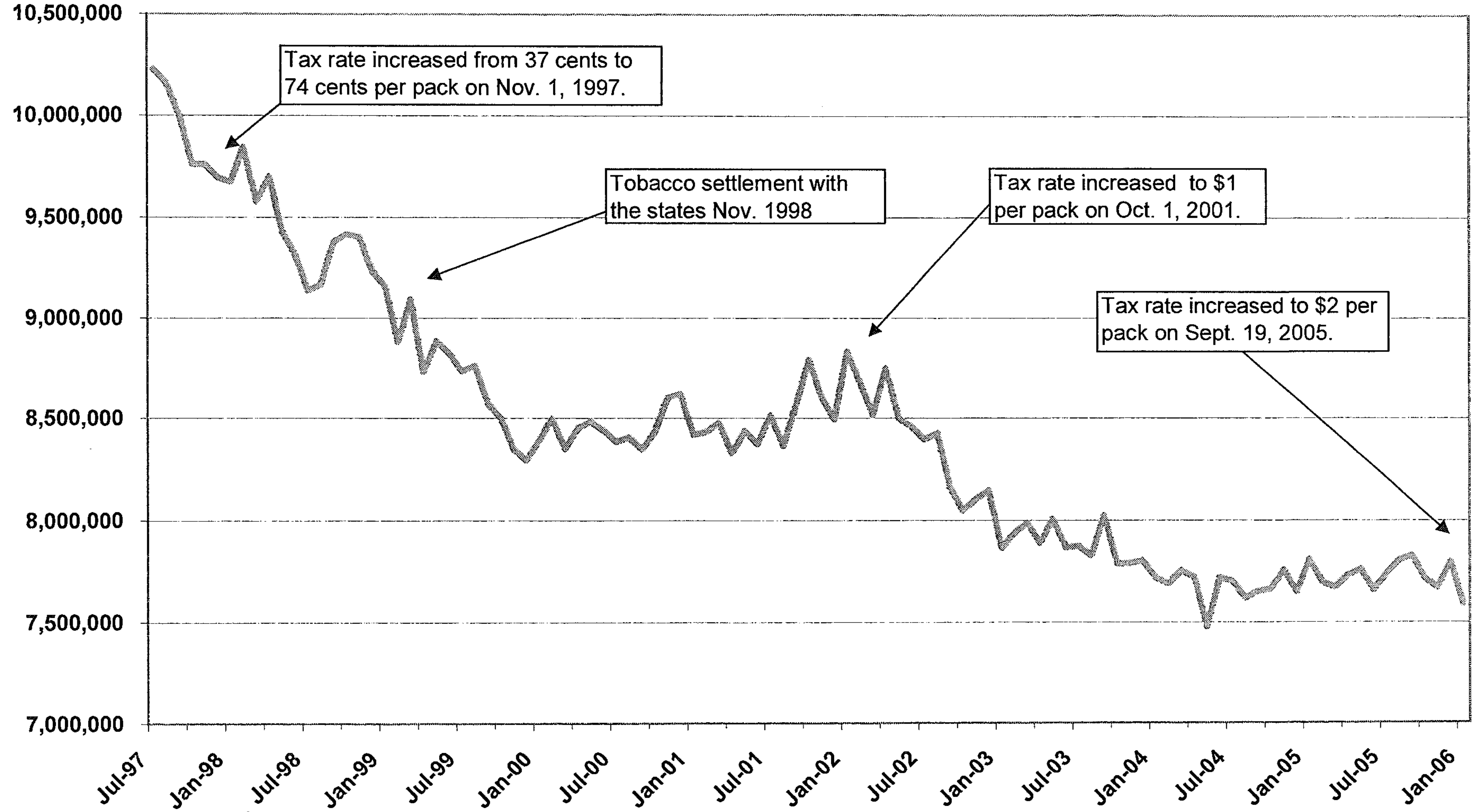
Cigarette & Tobacco Taxes

2/17/2006

Maine Revenue Services
Cigarette and Tobacco Tax
Feb 2006 Forecast

	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09
Cigarette Tax							
Actual '03 - '05 & current budget	$94,397,943	$92,625,638	$91,906,017	$142,241,668	$160,090,814	$158,913,147	$157,604,859
Growth rate		-1.9%	-0.8%	54.8%	12.5%		
Feb 2006 forecast				$146,741,668	$160,090,814	$158,913,147	$157,604,859
Growth rate				59.7%	9.1%	-0.7%	-0.8%
Variance				$4,500,000	$0	$0	$0
Tobacco Products Tax							
Actual '03 - '05 & current budget	$4,016,527	$3,979,008	$4,444,687	$4,996,657	$5,376,068	$5,483,591	$5,593,261
Growth rate		-0.9%	11.7%	12.4%	7.6%		
Feb 2006 forecast				$4,996,657	$5,376,068	$5,483,591	$5,593,261
Growth rate				12.4%	7.6%	2.0%	2.0%
Variance				$0	$0	$0	$0
Total Cigarette & Tobacco Taxes							
Actual '03 - '05 & current budget	$98,414,470	$96,604,646	$96,350,704	$147,238,325	$165,466,882	$164,396,738	$163,198,120
Growth rate		-1.8%	-0.3%	52.8%	12.4%		
Feb 2006 forecast				$151,738,325	$165,466,882	$164,396,738	$163,198,120
Growth rate				57.5%	9.0%	-0.6%	-0.7%
Variance				$4,500,000	$0	$0	$0

Packages of Cigarettes Sold Derived from Revenue
12 Month Moving Average Jul '97 to Date



Maine Revenue Services Economic Research Division 2/17/2006

CIGARETTE TAX RECEIPTS - ACTUAL VS BUDGET FY 2005

Month	Actual	Budget	Difference	Cum Diff
July	$8,145,337	$7,678,040	$467,297	$467,297
August	$8,526,903	$8,857,151	($330,248)	$137,049
September	$9,367,257	$7,516,309	$1,850,948	$1,987,997
October	$7,182,685	$9,111,312	($1,928,627)	$59,370
November	$8,314,259	$7,105,954	$1,208,305	$1,267,675
December	$6,594,302	$7,523,389	($929,087)	$338,588
January	$7,637,724	$7,459,459	$178,265	$516,853
Year-To-Date	$55,768,467	$55,251,614	$516,853	
February	$5,721,442	$6,926,373	($1,204,931)	($688,078)
March	$7,758,299	$7,256,873	$501,426	($186,652)
April	$7,676,609	$7,541,960	$134,649	($52,003)
May	$6,856,908	$7,904,251	($1,047,343)	($1,099,346)
June	$8,124,291	$6,918,929	$1,205,362	$106,016
Total	$91,906,016	$91,800,000	$106,016	

CIGARETTE TAX RECEIPTS - ACTUAL VS BUDGET FY 2006

Month	Actual	Budget	Difference	Cum Diff
July	$9,046,338	$7,524,404	$1,521,934	$1,521,934
August	$9,377,889	$8,679,921	$697,968	$2,219,902
September	$12,819,108	$10,209,968	$2,609,140	$4,829,042
October	$11,735,355	$15,085,885	($3,350,530)	$1,478,512
November	$15,520,765	$12,245,506	$3,275,259	$4,753,771
December	$16,196,603	$12,574,099	$3,622,504	$8,376,275
January	$10,415,267	$12,661,795	($2,246,528)	$6,129,747
Year-To-Date	$85,111,325	$78,981,578	$6,129,747	
February	$0	$11,514,431	($11,514,431)	($5,384,684)
March	$0	$12,375,962	($12,375,962)	($17,760,646)
April	$0	$12,793,767	($12,793,767)	($30,554,413)
May	$0	$13,198,045	($13,198,045)	($43,752,458)
June	$0	$13,377,885	($13,377,885)	($57,130,343)
Total	$85,111,325	$142,241,668	($57,130,343)	

TOBACCO PRODUCTS TAXES - ACTUAL VS BUDGET FY 2005

Month	Actual	Budget	Difference	Cum Diff
July	285,990	303,332	(17,342)	(17,342)
August	268,201	-14,448	282,649	265,307
September	197,705	363,560	(165,855)	99,452
October	513,921	476,301	37,620	137,072
November	229,304	272,165	(42,861)	94,211
December	370,351	392,513	(22,162)	72,049
January	363,291	334,067	29,224	101,273
Year-To-Date	2,228,763	2,127,490	101,273	
February	317,137	357,733	(40,596)	60,677
March	332,001	297,076	34,925	95,602
April	315,933	264,782	51,151	146,753
May	358,885	455,620	(96,735)	50,018
June	891,967	717,163	174,804	224,822
Total	4,444,686	4,219,864	224,822	

TOBACCO PRODUCTS TAXES - ACTUAL VS BUDGET FY 2006

Month	Actual	Budget	Difference	Cum Diff
July	352,020	313,840	38,180	38,180
August	110,912	-14,948	125,860	164,040
September	148,290	376,154	(227,864)	(63,824)
October	519,438	492,801	26,637	(37,187)
November	293,049	341,462	(48,413)	(85,600)
December	702,225	492,451	209,774	124,174
January	350,394	419,123	(68,729)	55,445
Year-To-Date	2,476,328	2,420,883	55,445	
February	0	448,815	(448,815)	(393,370)
March	0	372,714	(372,714)	(766,084)
April	0	332,199	(332,199)	(1,098,283)
May	0	571,626	(571,626)	(1,669,909)
June	0	850,420	(850,420)	(2,520,329)
Total	2,476,328	4,996,657	(2,520,329)	

Estate Tax

Other Taxes

Maine Revenue Services
Insurance Premiums Tax
February 2006 Forecast

	FY'01	FY'02	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09
Actual and budget FY'06 - '09	$42,462,748	$54,263,602	$69,361,339	$70,015,444	$73,798,850	$75,002,338	$77,461,747	$78,921,895	$80,411,245
		27.8%	27.8%	0.9%	5.4%	1.6%	3.3%	1.9%	1.9%
February 2006 forecast						$70,002,338	$77,461,747	$78,921,895	$80,411,245
Variance						($5,000,000)	$0	$0	$0
						-5.1%	10.7%	1.9%	1.9%

Maine Revenue Services
February 2006 Forecast

	FY'02	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09
Real Estate Transfer Tax - General Fund								
Actual and current budget	$9,208,923	$10,770,668	$22,196,221	$24,113,439	$19,504,918	$19,314,440	$11,884,726	$11,955,435
February 2006 forecast					$22,504,918	$19,314,440	$11,884,726	$11,955,435
Variance					$3,000,000	$0	$0	$0
Real Estate Transfer Tax - H.O.M.E. Fund								
Actual and current budget	$9,208,498	$10,758,160	$6,216,471	$8,881,845	$4,304,918	$4,114,440	$11,684,726	$11,755,435
February 2006 forecast					$7,304,918	$4,114,440	$11,684,726	$11,755,435
Variance					$3,000,000	$0	$0	$0
Real Estate Transfer Tax - Total								
Actual and current budget	$18,417,421	$21,528,828	$28,412,693	$32,995,284	$23,809,836	$23,428,879	$23,569,452	$23,710,869
Growth rate		16.9%	32.0%	16.1%	-27.8%	-1.6%	0.6%	0.6%
February 2006 forecast					$29,809,836	$23,428,879	$23,569,452	$23,710,869
Variance					$6,000,000	$0	$0	$0
Growth rate					-9.7%	-21.4%	0.6%	0.6%

Highway Fund

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Maine Revenue Services
February 2006 Highway Fund Motor Fuel Tax Revenue Forecast 2006 - 2009

Gasoline Tax Revenue	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09
Actual & current budget	$151,498,395	$172,209,713	$175,084,215	$184,282,713	$187,065,289	$193,304,759	$199,075,135
Growth rate		13.7%	1.7%	5.3%	1.5%	3.3%	3.0%
Tax rate per gallon	$0.220	$0.246	$0.252	$0.259	$0.267	$0.274	$0.281
Percentage increase in tax rate		11.8%	2.3%	2.8%	3.2%	2.6%	2.6%
February 2006 forecast				$180,216,993	$186,909,290	$193,451,008	$199,474,882
Growth rate				2.9%	3.7%	3.5%	3.1%
Tax rate per gallon			$0.252	$0.259	$0.268	$0.276	$0.284
Percentage increase in tax rate				2.8%	3.5%	3.0%	2.9%
Variance				($4,065,720)	($155,999)	$146,249	$399,747

Special Fuel Tax Revenue	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09
Actual & current budget	$36,402,613	$40,391,248	$45,400,514	$46,640,000	$47,890,000	$49,100,000	$50,020,000
Growth rate		11.0%	12.4%	2.7%	2.7%	2.5%	1.9%
Tax rate per gallon	$0.230	$0.257	$0.263	$0.270	$0.279	$0.287	$0.294
Percentage increase in tax rate		11.7%	2.3%	2.7%	3.3%	2.9%	2.4%
February 2006 forecast				$46,560,000	$47,880,000	$49,130,000	$50,240,000
Growth rate				2.6%	2.8%	2.6%	2.3%
Tax rate per gallon			$0.263	$0.270	$0.279	$0.287	$0.295
Percentage increase in tax rate				2.7%	3.3%	2.9%	2.8%
Variance				($80,000)	($10,000)	$30,000	$220,000

Total Motor Fuel Tax Revenue	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09
Actual & current budget	$187,901,008	$212,600,961	$220,484,728	$230,922,713	$234,955,289	$242,404,759	$249,095,135
Growth rate		13.1%	3.7%	4.7%	1.7%	3.2%	2.8%
February 2006 forecast				$226,776,993	$234,789,290	$242,581,008	$249,714,882
Growth rate				2.9%	3.5%	3.3%	2.9%
Variance				($4,145,720)	($165,999)	$176,249	$619,747
Biennium					($4,311,719)		$795,996

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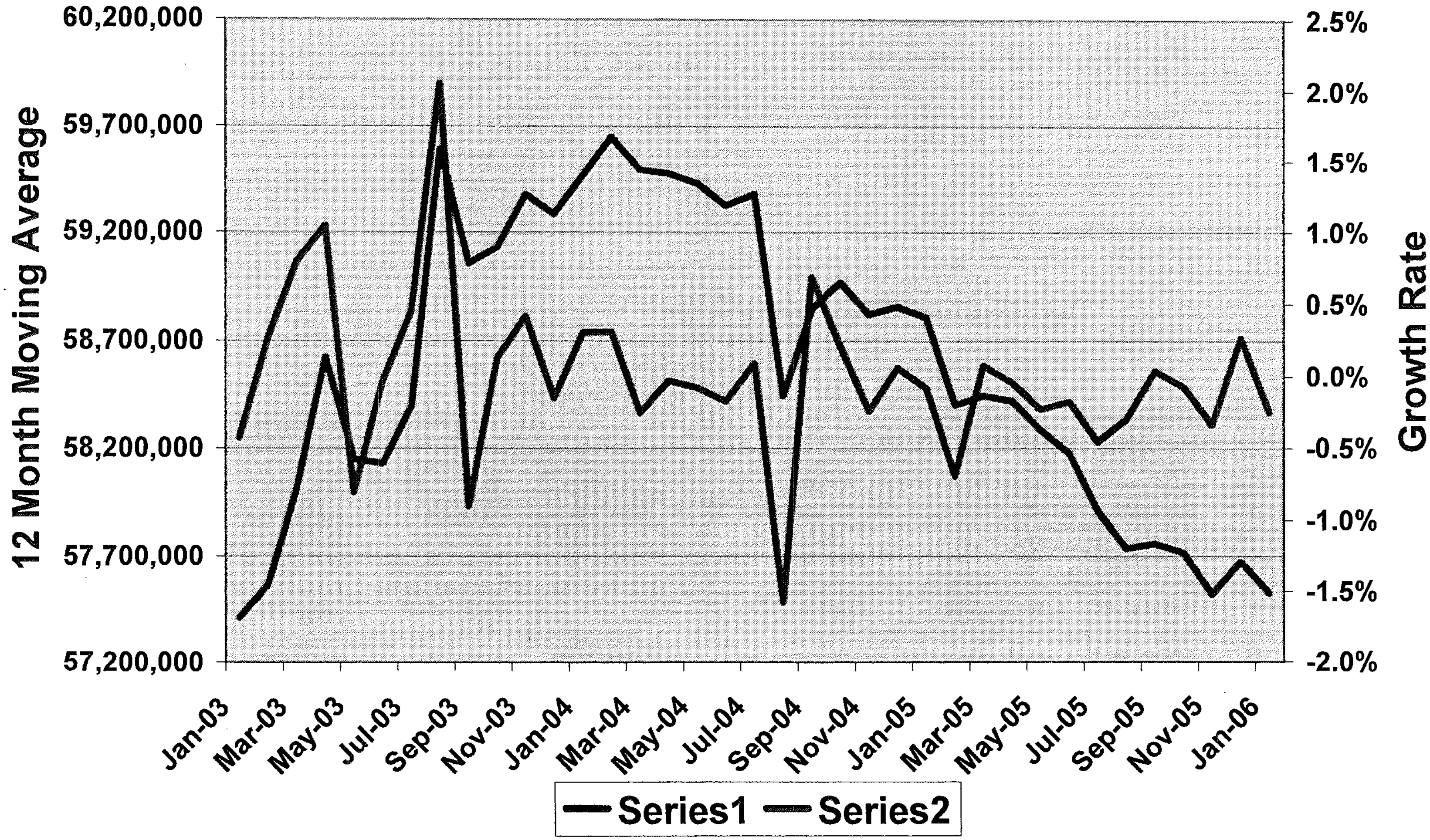
Maine Revenue Services
Gasoline Tax Revenue Forecast FY'06 - FY'09
February 2006

	FY'06	FY'07	FY'08	FY'09
Gas tax forecast - Highway Fund	$180,216,993	$186,909,290	$193,451,008	$199,474,882
Percentage Change		3.7%	3.5%	3.1%
Tax rate in cents per gallon	$0.259	$0.268	$0.276	$0.284
Forecasted inflation adjustment		3.5%	3.0%	2.9%

		FY'06	FY'07	FY'08	FY'09		
Net to the Highway Fund		$180,216,993	$186,909,290	$193,451,008	$199,474,882		
Transfer $100,000 to STAR Fund		($100,000)	($100,000)	($100,000)	($100,000)		
Gross to the Highway Fund		$180,316,993	$187,009,290	$193,551,008	$199,574,882	97.499%	
DIF&W and Snowmobile Fund	0.9045%	$1,672,799	$1,734,883	$1,795,571	$1,851,454	0.9045%	
General Fund - DIF&W - 14.93%		$249,749	$259,018	$268,079	$276,422		14.930%
Snowmobile Trail Fund - 85.07%		$1,423,050	$1,475,865	$1,527,492	$1,575,032		85.070%
All-terrain Vehicles	0.1525%	$282,036	$292,504	$302,736	$312,158	0.1525%	
ATV Enforcement Fund- 50%		$141,018	$146,252	$151,368	$156,079		50.000%
ATV Recreational Fund - 50%		$141,018	$146,252	$151,368	$156,079		50.000%
Motorboats	1.4437%	$2,670,005	$2,769,100	$2,865,965	$2,955,162	1.4437%	
Dept. of Marine Resources - 24.6%		$656,821	$681,199	$705,027	$726,970		24.600%
Boating Facilities Fund - 75.4%		$2,013,184	$2,087,901	$2,160,938	$2,228,192		75.400%
Total revenue		$184,941,833	$191,805,777	$198,515,280	$204,693,656	100.000%	

Gallons of Gasoline Derived from Revenue Before Refunds



Gasoline Tax Revenue Net to Highway Fund - FY 2005

MONTH	ACTUAL	BUDGET	DIFF	Y-T-D DIFF
July	$15,236,711	$15,236,711	$0	$0
August	$2,211,650	$2,211,650	$0	$0
September	$17,514,391	$17,514,391	$0	$0
October	$15,149,654	$15,080,784	$68,870	$68,870
November	$14,779,525	$15,277,023	($497,498)	($428,628)
December	$13,667,695	$13,514,301	$153,394	($275,234)
January	$14,362,931	$14,511,086	($148,155)	($423,389)
Y-T-DATE	$92,922,557	$93,345,946	($423,389)	
February	$13,070,269	$14,322,730	($1,252,461)	($1,675,850)
March	$12,827,628	$12,703,456	$124,172	($1,551,678)
April	$13,257,384	$13,270,014	($12,630)	($1,564,308)
May	$12,439,101	$12,856,037	($416,936)	($1,981,244)
June	$30,567,278	$31,474,579	($907,301)	($2,888,545)
Total	$175,084,217	$177,972,762	($2,888,545)	

Gasoline Tax Revenue Net to Highway Fund - FY 2006

MONTH	ACTUAL	BUDGET	DIFF	Y-T-D DIFF
July	$14,775,489	$14,775,489	($0)	($0)
August	$1,179,227	$1,179,228	($1)	($1)
September	$17,997,604	$17,997,603	$1	($0)
October	$15,433,761	$15,433,761	$0	($0)
November	$14,610,949	$14,610,949	$0	($0)
December	$14,525,883	$14,128,417	$397,466	$397,466
January	$14,271,956	$18,399,906	($4,127,950)	($3,730,484)
Y-T-DATE	$92,794,869	$96,525,353	($3,730,484)	
February	$0	$14,960,777	($14,960,777)	($18,691,261)
March	$0	$13,230,638	($13,230,638)	($31,921,899)
April	$0	$13,836,424	($13,836,424)	($45,758,323)
May	$0	$13,411,442	($13,411,442)	($59,169,765)
June	$0	$32,318,079	($32,318,079)	($91,487,844)
Total	$92,794,869	$184,282,713	($91,487,844)	

Special Fuel Tax - FY 2005

MONTH	ACTUAL	BUDGET	DIFF	Y-T-D DIFF
===========	===========	===========	===========	===========
July	$2,914,100	$2,914,099	$1	$1
August	$183,586	($409,475)	$593,061	$593,062
September	$3,937,046	$3,937,046	$0	$593,062
October	$4,222,365	$4,222,366	($1)	$593,061
November	$3,770,927	$3,043,077	$727,850	$1,320,911
December	$4,466,689	$4,729,184	($262,495)	$1,058,416
January	$3,593,331	$3,382,881	$210,450	$1,268,866
===========	===========	===========	===========	===========
Y-T-DATE	$23,088,044	$21,819,178	$1,268,866	
===========	===========	===========	===========	===========
February	$2,474,027	$2,592,854	($118,827)	$1,150,039
March	$4,458,700	$3,980,637	$478,063	$1,628,102
April	$3,077,678	$3,179,537	($101,859)	$1,526,243
May	$3,612,432	$2,578,610	$1,033,822	$2,560,065
June	$8,689,633	$8,715,151	($25,518)	$2,534,547
===========	===========	===========	===========	===========
Total	$45,400,514	$42,865,967	$2,534,547	

Special Fuel Tax - FY 2006

MONTH	ACTUAL	BUDGET	DIFF	Y-T-D DIFF
===========	===========	===========	===========	===========
July	$2,956,841	$2,956,841	($0)	($0)
August	($382,802)	($382,802)	$0	($0)
September	$3,845,418	$3,845,418	$0	($0)
October	$4,935,281	$4,935,281	$0	($0)
November	$3,204,292	$3,204,292	$0	($0)
December	$3,661,730	$4,678,014	($1,016,284)	($1,016,284)
January	$3,773,653	$3,905,385	($131,732)	($1,148,016)
===========	===========	===========	===========	===========
Y-T-DATE	$21,994,413	$23,142,429	($1,148,016)	
===========	===========	===========	===========	===========
February	$0	$2,894,323	($2,894,323)	($4,042,339)
March	$0	$4,466,798	($4,466,798)	($8,509,137)
April	$0	$3,460,391	($3,460,391)	($11,969,528)
May	$0	$3,031,989	($3,031,989)	($15,001,517)
June	$0	$9,644,070	($9,644,070)	($24,645,587)
===========	===========	===========	===========	===========
Total	$21,994,413	$46,640,000	($24,645,587)	