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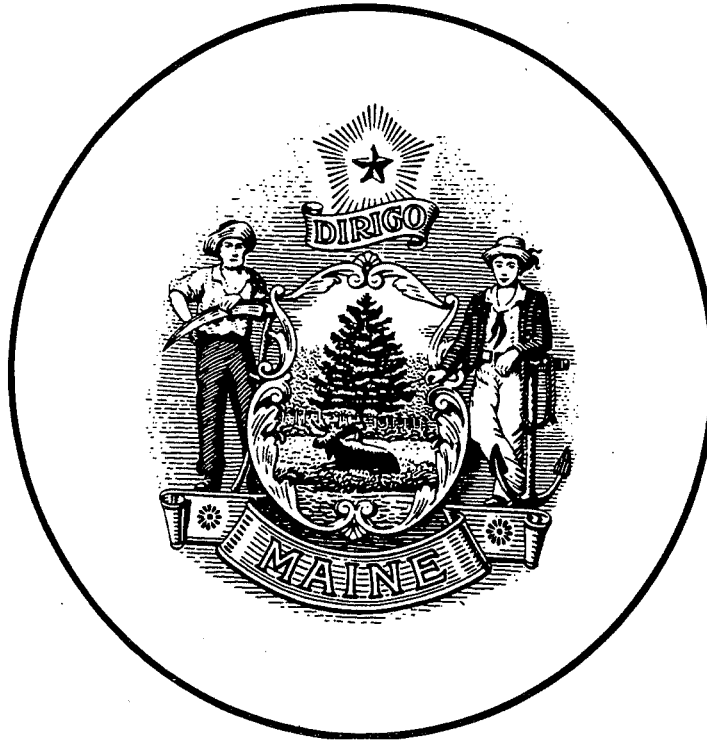
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STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION



GENERAL FUND AND HIGHWAY FUND

FISCAL YEARS 1996 - 1999

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**Submitted by the
Bureau of the Budget
May 31, 1996**



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STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES

Bureau of the Budget
State House Station #58
Augusta, Maine 04333

May 31, 1996

To: Honorable Angus S. King, Jr. Governor
Honorable Dana C. Hanley, Senate Chair
Honorable George J. Kerr, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs
Sarah Tubbesing, Executive Director, Legislative Council

From:  John R. Nicholas, State Budget Officer

Subject: Report on the forecast of revenues and expenditures for the General Fund and the Highway Fund for the FY 96-97 biennium and the FY 98-99 biennium in accordance with Title 5, section 1665, subsection 7.

The Bureau of the Budget is pleased to present its first four year budget forecast for the General Fund and the Highway Fund. This new initiative was included in PL 1995, chapter 665 and satisfies an area of interest of the Special Commission on Governmental Restructuring in which it was suggested that state government develop the capability of preparing four year revenue and expenditure forecasts.

This effort hopefully will provide an objective basis for budget decision making as part of a long term view of budget actions and implications. Although the report includes the projection of a 'Structural Gap' for the FY 98-99 biennium for both the General Fund and the Highway Fund, it is not the intention of this report to predict unbalanced budgets for either fund. Rather, it is expected that the revenue and expenditure detail, along with narrative explanations, will serve as a comprehensive information base for budget policy makers.

If you have any questions or comments, please feel free to contact me at 624-7810. My staff and I will be available to answer any questions or concerns.

cc: Janet Waldron, Commissioner, Department of Administrative and Financial Services

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**STATE OF MAINE REVENUE AND EXPENDITURE PROJECTION
GENERAL FUND AND HIGHWAY FUND
FISCAL YEARS 1996 - 1999**

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MAINE BUDGET FORECAST

FY 96-97 BIENNIUM AND FY 98-99 BIENNIUM

I. INTRODUCTION

Public Law 1995, chapter 665 initiated the first four year budget projection for the General Fund and the Highway Fund. This effort ensures a framework for longer term budget views for the two undedicated funds in Maine State Government. The purpose is to provide a basis for comparing the structure of current expenditures to current revenue trends for both funds. It also shows the capacity of Maine's General Fund and Highway Fund resources to support the current level of government services projected forward.

The legislation requires a projection of the effect of each legislative session on the General Fund and the Highway Fund for the current biennium and the ensuing biennium. It also requires for each biennial budget submission a projection of the effect of current recommendations on the next biennium for the General Fund and the Highway Fund. This projection provides a financial picture of the effect of the First and Second Regular Sessions and the First Special Session of the 117th Legislature.

The projection provides an objective picture of the General Fund and the Highway Fund for the FY 96-97 biennium and the FY 98-99 biennium using currently available financial and program information. The summary fund balances and more detailed revenue and expenditure detail for both funds show the projected status of each fund in the current biennium and the next biennium.

The projected revenues and expenditures for the General Fund and the Highway Fund are based on current law and current program and cost trends, as required by the legislation. In order to provide for the most accurate financial picture from currently available information, the projections use budgeted revenues, appropriations and allocations for FY 97 as the base. These dollars were adjusted for the effect of one-time and phased-in actions in FY 97. The final projection, like any forward looking view, is as accurate as the information available with a range of variance between 2% and 3% based on other states' experience.

Appropriation and allocation projections for the FY 98-99 biennium also are based on net inflationary growth referred to in the report as Consumer Price Index (CPI) trends. The federal government follows the yearly changes in the cost of living through the CPI. The CPI measures the monthly and yearly changes in the prices of selected consumer items in different product, service and commodity areas by expressing the percentage change in terms of a base year.

This report expands and augments the concept of the CPI change by using the projected CPI in composite form, where appropriate, by converting the selected CPI changes to All Other expenditure categories for state government, or by using inflationary trends as CPI changes. Personal Services projections for the FY 98-99 biennium are based on merit growth for salaries and wages and net growth for state employee benefits. These projections result in growth estimates for Personal Services of (.08%) for FY 98 and 2.64% for FY 99. The projection for Personal Services does not anticipate future salary adjustments through collective bargaining. All Other projections for the FY 98-99 biennium reflect a weighted average percentage change for each fiscal

year as a result of applying CPI growth to each expenditure category. These projections produce growth estimates for All Other of 2.62% for FY 98 and 2.69% for FY 99. In the absence of specific growth estimates in certain All Other expenditure areas, the composite CPI change was used: 3.4% for FY 98; and, 3.6% for FY 99.

These projections do not predict unbalanced budgets for the General Fund and the Highway Fund for the FY 98-99 biennium. The Governor and the Legislature must make decisions to maintain a balance between resources and appropriations or allocations for both funds for the FY 98-99 biennium.

II. GENERAL FUND

A. BUDGET STATUS 96-97

	FY 96	FY 97	BIENNIUM
BALANCE	4,416,996		4,416,996
ADJUSTMENTS	7,155,681		7,155,681
REVENUE	1,735,173,575	1,788,964,381	3,524,137,956
TOTAL PROJECTED RESOURCES	1,746,746,252	1,788,964,381	3,535,710,633
APPROPRIATIONS	1,733,842,806	1,797,414,117	3,531,256,923
PROJECTED BALANCE	12,903,446	(8,449,736)	4,453,710

Through the Second Regular Session of the 117th Legislature, which adjourned in April, 1996, the General Fund budget for the FY 96-97 biennium consists of appropriations of \$3.531 billion and projects \$3.524 billion in revenue. When the balance forward from the previous biennium and balance adjustments for the current biennium are included, total estimated General Fund resources for the FY 96-97 biennium are \$3.536 billion. The projected unobligated ending balance for the biennium is \$4.5 million.

One of the significant aspects of the FY 96-97 biennium was the creation of the Productivity Realization Task Force which was charged with identifying \$45.2 million of General Fund savings through improving the productivity of the work force and the efficiency of state services. The \$45.2 million target was reached in March of 1996. Additionally, during the Second Regular Session of the 117th Legislature, \$17.5 million was appropriated to the Rainy Day Fund, primarily due to savings realized in the Medicaid program.

B. REVENUE FORECAST CHART

GENERAL FUND REVENUE FORECAST CHART										
SOURCE	FY 96	FY 97	% CHANGE	BIENNIUM	FY 98	% CHANGE	FY 99	% CHANGE	BIENNIUM	% CHANGE
Sales Tax	630,150,000	682,367,131	8.29%	1,312,517,131	740,073,752	8.46%	771,526,887	4.25%	1,511,600,639	15.17%
Gross Receipts Tax	71,533,600	45,851,380	-35.90%	117,384,980	0	-100.00%	0	0.00%	0	-100.00%
Individual Income Tax	639,819,000	676,732,021	5.77%	1,316,551,021	676,230,000	-0.07%	676,230,000	0.00%	1,352,460,000	2.73%
Corporate Income Tax	57,719,900	63,547,000	10.10%	121,266,900	66,385,789	4.47%	69,373,150	4.50%	135,758,939	11.95%
Cigarette & Tobacco Tax	46,028,837	44,822,299	-2.62%	90,851,136	43,656,919	-2.60%	42,521,839	-2.60%	86,178,758	-5.14%
Insurance Company Tax	37,571,908	38,061,754	1.30%	75,633,662	38,556,557	1.30%	39,057,792	1.30%	77,614,349	2.62%
All Other	252,350,330	237,582,796	-5.85%	489,933,126	216,320,185	-8.95%	213,900,678	-1.12%	430,220,863	-12.19%
TOTAL GENERAL FUND REVENUE	1,735,173,575	1,788,964,381	3.10%	3,524,137,956	1,781,223,202	-0.43%	1,812,610,346	1.76%	3,593,833,548	1.98%

C. REVENUE FORECAST NARRATIVE

SALES AND USE TAXES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
630,150	682,367	8.29	1,312,517	740,074	8.46	771,527	4.25	1,511,601	15.17

Sales and Use Tax revenues within the General Fund have realized very marginal growth over the past biennium. Retail sales have grown slowly; which is consistent with the State's economy. A main concern is automobile sales. Tax revenues generated from automobile and transportation related sales contribute more than 20% of total sales and use tax receipts. Therefore, in the FY 96-97 biennium, there has been very little growth within the automobile sector. Future revenue growth in this sector, along with sales and use tax growth in general, is expected to follow similar patterns to those seen in recent years.

A large increase in the base sales and use tax revenues is due to the elimination of the Gross Receipts Tax which has the effect of increasing the FY 97 base year by \$29 million. Public Law 1995, chapter 665 eliminated the Gross Receipts Tax on private nursing home providers. This tax also contained a 7% tax on all sales in Class A Restaurants and Lounges. This tax is continued and will be part of the sales and use tax beginning on January 1, 1997.

GROSS RECEIPTS TAX

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
71,534	45,851	(35.90)	117,385	0	(100.00)	0	0	0	(100.00)

The Gross Receipts Tax was created to enhance General Fund revenues and offset the severe budget problems facing the state in the FY 94-95 biennium. This tax was created as a 7% tax on all private nursing homes. To prevent the creation of a provider specific tax, the tax paid by Class A Restaurants and Lounges was changed from a 7% Sales and Use Tax to a 7% Gross Receipts Tax.

Public Law 1995, chapter 665 eliminated the Gross Receipts Tax on private nursing home providers on January 1, 1997. Also, the 7% tax paid by Class A Restaurants and Lounges was returned to the Sales and Use Tax line. This allowed the 117th Legislature to phase out the tax and avoid its full impact in the FY 96-97 biennium. Because of this action, there will be an additional net loss of General Fund revenues in the FY 98-99 biennium of approximately \$54.6 million.

INDIVIDUAL INCOME TAX

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
639,819	676,732	5.77	1,316,551	676,230	(0.07)	676,230	0.00	1,352,460	2.73

Individual Income Tax revenues have realized modest growth over the past biennium. Despite strong employment growth, personal income growth within the state has not been as strong. As a result, individual income tax revenues have not grown at a rate consistent with employment growth. The slower income growth is primarily due to growth in employment sectors that historically have lower wage earner base. Most of the job creation has been in the service sector and with seasonal jobs.

The FY 98-99 biennium will be the first years affected by the individual income tax cap created by Public Law 1995, chapter 368. This law capped the individual income tax at the then current fiscal year 1997 revenues estimates of \$676,230,000. This cap will remain in effect until income tax rates within the state are reduced by 20%. This income tax is expected to result in a loss of base General Fund revenues in the amount of approximately \$119 million over the FY 98-99 biennium.

CORPORATE INCOME TAX

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
57,720	63,547	10.00	121,267	66,386	4.47	69,373	4.50	135,759	11.95

The Corporate Income Tax has realized very strong revenue growth in the FY 96-97 biennium. This revenue line has historically been very difficult to accurately predict. Unlike most revenue streams, the Corporate Income Tax does not clearly reflect current economic conditions. The major influence on Corporate Income Tax receipts is the business profits. The cyclical nature of certain industries and the Investment Tax Credit also make accurate revenue projections difficult. The Investment Tax Credit is not only allowed within the tax year of the capital investment, but the credit can be carried forward to future tax years until the entire credit is exhausted.

The FY 96-97 biennium has realized substantial growth in estimated payments filed by corporations. Based upon this significant reported income growth, there is a strong likelihood that revenues derived from corporate profits will grow at least modestly in the FY 98-99 biennium.

CIGARETTE AND TOBACCO TAX

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
46,029	44,822	(2.62)	90,851	43,657	(2.60)	42,522	(2.60)	86,179	(5.14)

Revenues derived from the sale of cigarettes and tobacco products have slowly declined over the past several years. The major contributor to this decline is the change in both society values and government policies regarding the use of cigarettes and other tobacco products. This direction of continued regulation and voluntary enforcement

of no smoking policies should result in the continued decline in revenues from the sales of these products.

The state did realize a short upsurge in this revenue line a few years ago mainly due to significant taxes imposed on Canadian cigarettes. This Canadian policy resulted in a short-term windfall for areas of Maine bordering Canada. The Canadian government has subsequently imposed substantial duties on products transported to Canada from the United States. No significant change in United States or Canadian government policy will likely affect this revenue source in a positive manner.

INSURANCE COMPANIES TAX

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
37,572	38,062	1.30	75,634	38,557	1.30	39,058	1.30	77,615	2.62

The revenue derived from insurance companies is associated with the gross value of insurance policies issued. As business within the state grows, the amount of insurance coverage also expands. Revenue growth in this sector should be consistent with the overall real growth of the Maine economy.

ALL OTHER REVENUES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
252,350	237,583	(5.85)	489,933	216,320	(8.95)	213,901	(1.12)	430,221	(12.19)

The remaining FY 97 base General Fund revenues are not expected to grow in the FY 98-99 biennium. The main feature of these revenue sources is one time revenue in excess of \$20 million in FY 97. Most of these revenues represent adjustments used to fund additional needs within the FY 96-97 biennium. These one-time sources include one-time audit settlements, transfers from various funds to the General Fund and changes in the Real Estate Transfer tax.

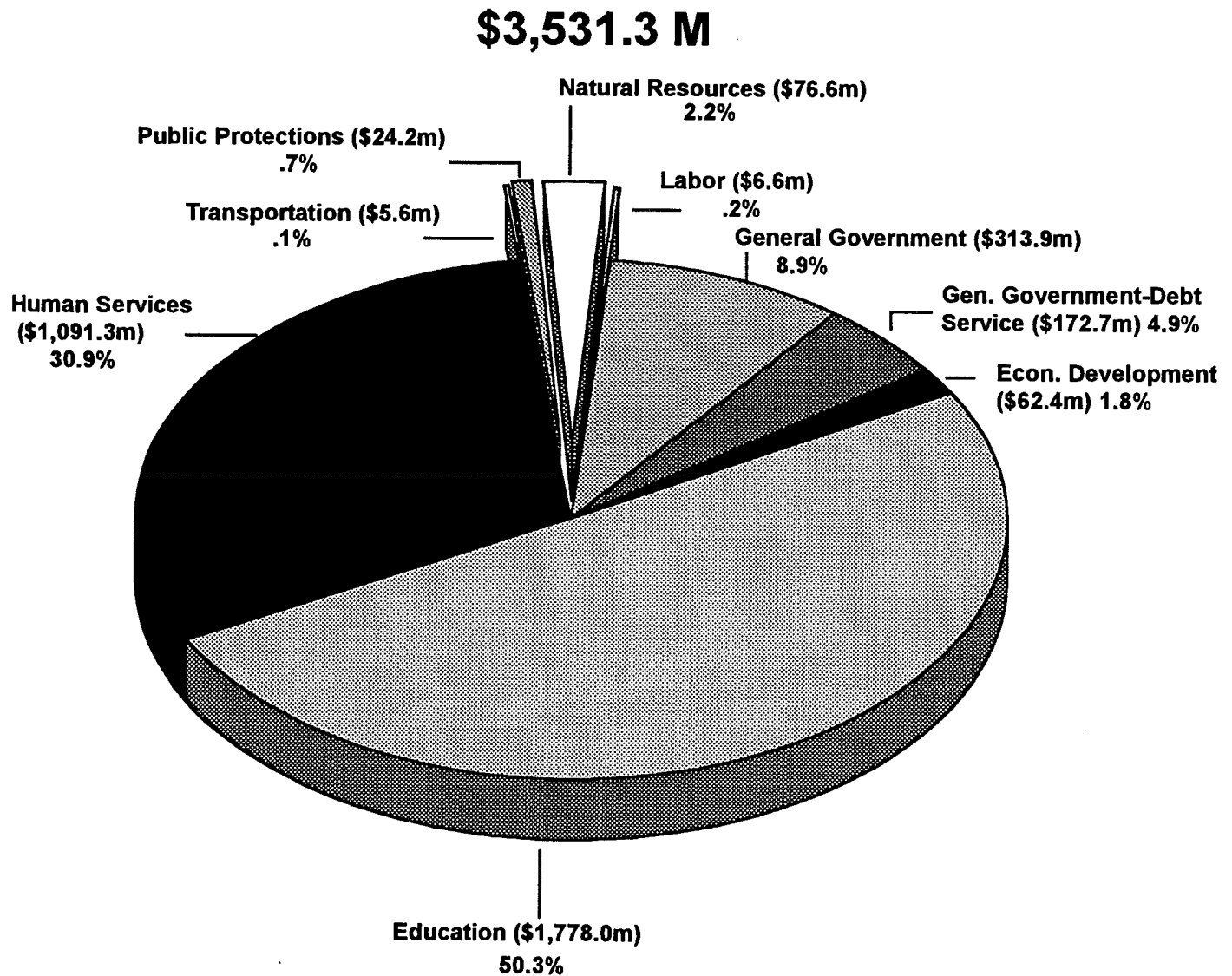
There are additional revenue adjustments that are not likely to be one-time, but will require separate legislation to continue in the FY 98-99 biennium. One is the interest earnings from the sale of a Tax Anticipation Note. In FY 97, the state expects an additional \$8.55 million in interest income, which will be used to offset the additional interest cost associated with the sale of the TAN. Another is the Milk Handling Tax. This tax is assessed by the state and, in turn, granted back to the milk producers of the state. This tax will require separate legislation to continue into the FY 98-99 biennium.

D. EXPENDITURE FORECAST CHART

GENERAL FUND EXPENDITURE FORECAST CHART

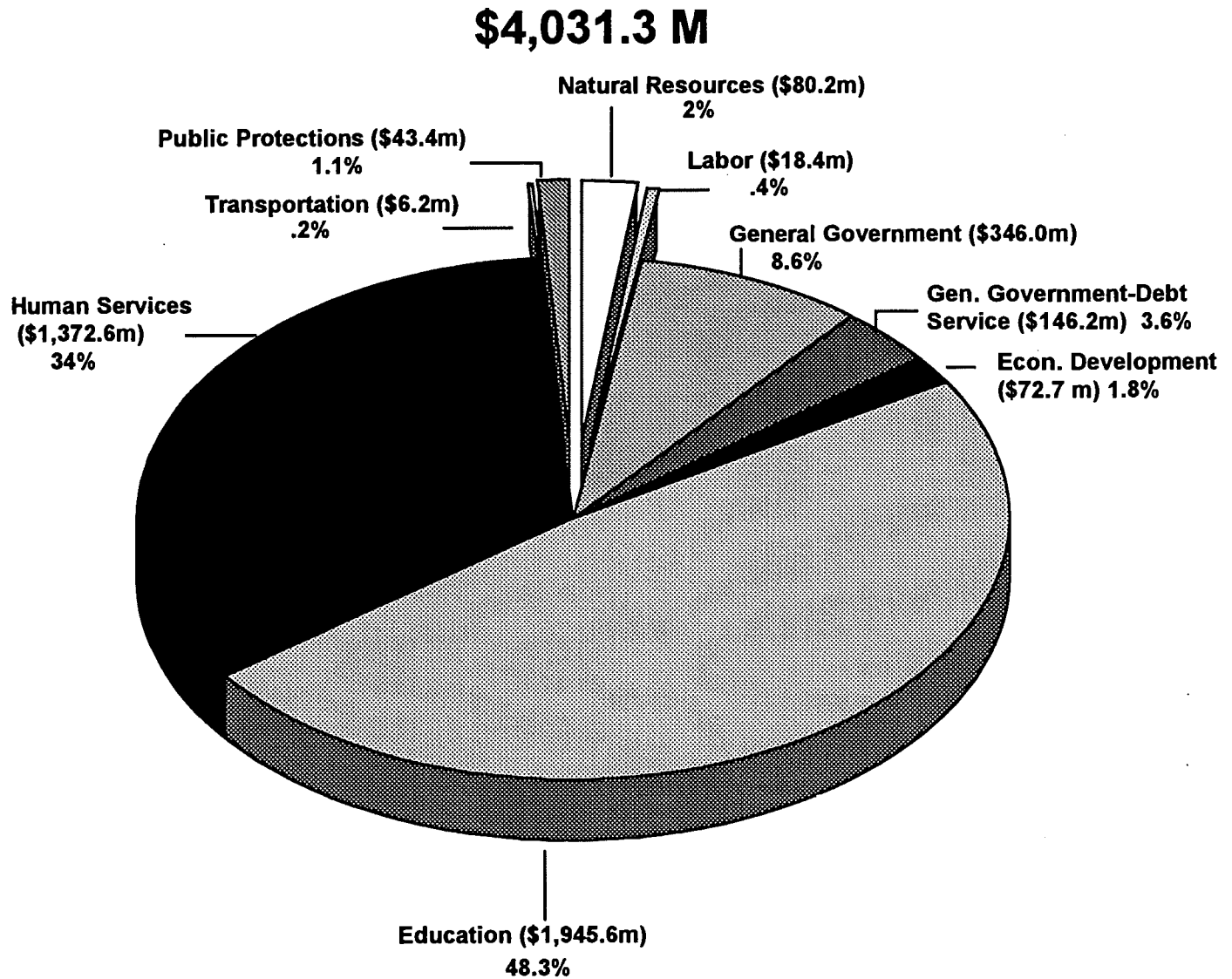
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 96	FY 97	% CHANGE	BIENNIUM	FY 98	% CHANGE	FY 99	% CHANGE	BIENNIUM	% CHANGE
LOW INCOME PROPERTY TAX RELIEF	19,224,638	20,846,852	8.44%	40,071,490	15,896,650	-23.75%	16,568,770	4.23%	32,465,420	-18.98%
CAPITAL CONSTRUCTION - REPAIRS	4,709,258	4,664,495	-0.95%	9,373,753	12,353,700	164.85%	12,353,700	0.00%	24,707,400	163.58%
PERSONAL PROPERTY TAX ON MACHINERY AND EQUIP	0	4,746,068	100.00%	4,746,068	13,931,043	193.53%	22,462,616	61.24%	36,393,659	666.82%
CONTINGENT ACCOUNT	0	0	0.00%	0	2,350,000	100.00%	2,350,000	0.00%	4,700,000	100.00%
JUDICIAL	32,973,821	34,986,473	6.10%	67,960,294	35,375,736	1.11%	37,055,425	4.75%	72,431,161	6.58%
LEGISLATURE	14,573,626	15,873,438	8.92%	30,447,064	15,016,180	-5.40%	16,459,307	9.61%	31,475,487	3.38%
DEBT SERVICE	82,477,765	90,185,613	9.35%	172,663,378	72,812,422	-19.26%	73,337,914	0.72%	146,150,336	-15.36%
OTHER AGENCIES AND PROGRAMS	90,676,112	70,635,103	-22.10%	161,311,215	70,928,643	0.42%	72,938,409	2.83%	143,867,052	-10.81%
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	244,635,220	241,938,042	-1.10%	486,573,262	238,664,374	-1.35%	253,526,141	6.23%	492,190,515	1.15%
PULP AND PAPER ENVIRONMENTAL INVESTMENT FUND	0	0	0.00%	0	6,000,000	100.00%	6,000,000	0.00%	12,000,000	100.00%
TOURISM MARKETING AND DEVELOPMENT FUND	0	500,000	100.00%	500,000	517,000	3.40%	535,612	3.60%	1,052,612	110.52%
OTHER AGENCIES AND PROGRAMS	30,828,481	31,077,913	0.81%	61,906,394	30,400,697	-2.18%	29,234,359	-3.84%	59,635,056	-3.67%
TOTAL POLICY AREA 01 - ECONOMIC DEVELOPMENT	30,828,481	31,577,913	2.43%	62,406,394	36,917,697	16.91%	35,769,971	-3.11%	72,687,668	16.47%
GENERAL PURPOSE AID TO LOCAL SCHOOLS	534,073,396	548,118,848	2.63%	1,082,192,244	577,524,790	5.36%	606,301,030	4.98%	1,183,825,820	9.39%
PRE SCHOOL HANDICAPPED	3,394,465	3,521,629	3.75%	6,916,094	8,617,522	144.70%	10,341,026	20.00%	18,958,548	174.12%
TEACHER RETIREMENT	127,425,266	135,561,969	6.39%	262,987,235	149,234,816	10.09%	158,109,929	5.95%	307,344,745	16.87%
HIGHER EDUCATION	170,148,063	173,578,695	2.02%	343,726,758	178,265,320	2.70%	183,078,484	2.70%	361,343,804	5.13%
OTHER AGENCIES AND PROGRAMS	40,623,702	41,550,004	2.28%	82,173,706	36,576,165	-11.97%	37,548,149	2.66%	74,124,314	-9.80%
TOTAL POLICY AREA 02 - EDUCATION	875,664,892	902,331,145	3.05%	1,777,996,037	950,218,613	5.31%	995,378,618	4.75%	1,945,597,231	9.43%
CORRECTIONS	65,319,909	66,632,588	2.01%	131,952,497	67,489,294	1.29%	71,131,220	5.40%	138,620,514	5.05%
MEDICAL CARE	76,370,532	79,204,081	3.71%	155,574,613	144,289,990	82.17%	207,043,219	43.49%	351,333,209	125.83%
NURSING FACILITIES	84,987,524	79,227,376	-6.78%	164,214,900	79,452,261	0.28%	79,452,261	0.00%	158,904,522	-3.23%
ELDERLY BOARDING HOMES	18,678,298	23,126,283	23.81%	41,804,581	25,215,624	9.03%	26,327,335	4.41%	51,542,959	23.30%
CHILD WELFARE - FOSTER CARE	24,637,694	29,330,868	19.05%	53,968,562	33,960,629	15.78%	37,537,461	10.53%	71,498,090	32.48%
AID TO FAMILIES WITH DEPENDENT CHILDREN	21,783,570	20,377,132	-6.46%	42,160,702	23,088,314	13.31%	20,832,306	-9.77%	43,920,620	4.17%
COMMUNITY MENTAL RETARDATION	14,705,128	18,097,271	23.07%	32,802,399	18,349,835	1.40%	18,839,238	2.67%	37,189,073	13.37%
COMMUNITY MENTAL HEALTH	8,036,974	22,590,767	181.09%	30,627,741	23,840,212	5.53%	24,481,585	2.69%	48,321,797	57.77%
OTHER AGENCIES AND PROGRAMS	213,203,345	225,012,139	5.54%	438,215,484	230,920,088	2.63%	240,395,750	4.10%	471,315,838	7.55%
TOTAL POLICY AREA 03 - HUMAN SERVICES	527,722,974	563,598,505	6.80%	1,091,321,479	646,606,247	14.73%	726,040,375	12.28%	1,372,646,622	25.78%
TOTAL POLICY AREA 04 - LABOR	3,271,077	3,313,920	1.31%	6,584,997	9,073,119	173.79%	9,315,779	2.67%	18,388,898	179.25%
TOTAL POLICY AREA 05 - NATURAL RESOURCES	37,189,549	39,366,606	5.85%	76,556,155	39,595,311	0.58%	40,624,259	2.60%	80,219,570	4.79%
STATE POLICE	4,085,741	5,290,025	29.48%	9,375,766	13,954,293	163.79%	14,034,450	0.57%	27,988,743	198.52%
OTHER AGENCIES AND PROGRAMS	7,618,750	7,214,941	-5.30%	14,833,691	7,476,582	3.63%	7,917,950	5.90%	15,394,532	3.78%
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	11,704,491	12,504,966	6.84%	24,209,457	21,430,875	71.38%	21,952,400	2.43%	43,383,275	79.20%
TOTAL POLICY AREA 07 - TRANSPORTATION	2,826,122	2,783,020	-1.53%	5,609,142	3,068,448	10.26%	3,159,701	2.97%	6,228,149	11.04%
GRAND TOTAL GENERAL FUND EXPENDITURES	1,733,842,806	1,797,414,117	3.67%	3,531,256,923	1,945,574,684	8.24%	2,085,767,244	7.21%	4,031,341,928	14.16%

FY96/97 GENERAL FUND APPROPRIATIONS APPROVED (BY POLICY AREA)



Bureau of the Budget

FY98/99 GENERAL FUND APPROPRIATIONS PROJECTION (BY POLICY AREA)



Bureau of the Budget

E. EXPENDITURE FORECAST NARRATIVE

LOW INCOME PROPERTY TAX RELIEF

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
19,225	20,847	8.44	40,072	15,897	(23.75)	16,569	4.23	32,466	(18.98)

This program extended eligibility for property tax and rent relief in Public Law 1995, chapter 368. This program has realized wide fluctuations due to various changes in eligibility requirements and levels of refunds. Costs for this program will follow personal income levels within the state. Personal income levels within the state are expected to continue to grow at a level consistent to the growth rates realized over the past two years. The Bureau of Taxation projected \$2.2 million in savings in FY 97 from lower participation in the Maine Resident's Property Tax Program. This trend is reflected in the FY 98-99 biennium. From the FY 97 adjusted base, this program should grow at a rate consistent with its baseline growth during the FY 96-97 biennium.

CAPITAL CONSTRUCTION - REPAIRS

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
4,709	4,664	(0.95)	9,373	12,354	164.85	12,354	0.00	24,708	163.58

Funding for capital construction repairs and improvements has managed to address the major infrastructure needs of the state for the FY 96-97 biennium. The anticipated funding level of \$12.4 million in each fiscal year of the FY 98-99 biennium is based on 1.5% of assessed value. This level of funding is expected to maintain repairs and improvements at its existing levels

PERSONAL PROPERTY TAX ON MACHINERY AND EQUIPMENT

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
0	4,746	100.00	4,746	13,931	193.53	22,463	61.24	36,394	666.82

Public Law 1995, chapter 395 authorized the reimbursement of property tax paid on qualified property placed in service after April 1, 1995. This initiative required an initial General Fund appropriation of \$4.8 million in FY 97. The anticipated cost of the program will be \$13.9 million in fiscal year FY 98 and \$22.5 million in FY 99. One of the major contributing factors associated with the increased cost of this program is the increased assessment activity of business equipment by local government. It is anticipated that this growth should stabilize in future years.

CONTINGENT ACCOUNT

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
0	0	0.00	0	2,350	100.00	2,350	0.00	4,700	100.00

The Governor's Contingent Account is established through Title 5, section 1507. This statute was amended by Public Law 1995, chapter 464, which requires the Governor to appropriate the amount required by the contingent account, up to a maximum of \$2,350,000. Previously, the contingent account was funded through the unappropriated surplus within the General Fund at the end of each fiscal year. This amendment will not affect the overall fund balance within the General Fund, but is reflected as an additional budgetary cost.

JUDICIAL

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
32,974	34,987	6.10	67,961	35,376	1.11	37,055	4.75	72,431	6.58

Public Law 1995, chapter 560 deappropriated \$710,906 in FY 97, in accordance with the plan recommended by the Productivity Realization Task Force. Public Law 1995, chapter 665 provided \$631,737 for supplemental needs and appropriated \$356,666 to the Judicial Department to support additional judicial activity in the child protective area. It is anticipated that the Judicial Department budget will grow in the FY 98-99 biennium consistent with the projected increase in the Consumer Price Index (CPI).

LEGISLATURE

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
14,574	15,873	8.92	30,447	15,016	(5.40)	16,459	9.61	31,475	3.38

Public Law 1995, chapter 368, deappropriated \$1,150,268 in FY 97, as part of the productivity initiative, and \$569,437 in FY 97, as a branch-wide reduction. It is anticipated that the Legislative budget will grow in the FY 98-99 biennium consistent with the projected increase in the Consumer Price Index (CPI) adjusted to reflect the length of the two regular sessions.

DEBT SERVICE

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
82,478	90,186	9.35	172,664	72,812	(19.26)	73,338	0.72	146,150	(15.36)

The total estimated General Fund debt service required for FY 97 is \$86,403,261. This is greater than originally expected in large part because of the higher than anticipated May 15, 1996 bond issue. Much of the shortfall will

be covered by additional earnings on bond proceeds from the new issue as well as excess accumulated earnings that will be brought forward from FY 96. The estimated General Fund debt service for FY 98 is \$74,812,422 and for FY 99 is \$75,337,914. These requirements will be supplemented by transfers from debt service earnings estimated at \$2,300,000 in each fiscal year of the FY 98-99 biennium. These amounts are a significant drop from the higher amounts required for FY 97 and should more accurately reflect the debt service trend subsequent to FY 99. However, amounts made available to bonding through the referendum process are uncertain, especially for the fall of 1997, and the requirements for debt service are subject to change.

PULP AND PAPER ENVIRONMENTAL INVESTMENT FUND

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
0	0	0.00	0	6,000	100.00	6,000	0.00	12,000	100.00

Public Law 1993, chapter 671, established the Pulp and Paper Environmental Investment Fund for businesses engaged in the pulp and paper industry undertaking a certified environmental improvement project. This law required the Governor, starting with the fiscal year beginning July 1, 1995, to recommend an appropriation of \$2,000,000 to the Pulp and Paper Environmental Investment Fund in that fiscal year, and \$6,000,000 annually for the fiscal years ending June 30, 1997, June 30, 1998 and June 30, 1999. The \$2,000,000 for FY 96 and the \$6,000,000 for FY 97 were not funded. The Governor is required by Public Law 1993, chapter 671 to recommend \$6,000,000 in FY 98 and \$6,000,000 in FY 99 for this fund as part of the current services budget for the FY 98-99 biennium.

TOURISM MARKETING AND DEVELOPMENT

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
0	500	100.00	500	517	3.40	536	3.60	1,053	110.52

Public Law 1993, chapter 471 established the Tourism, Marketing and Development Fund within the Department of Economic and Community Development and authorized a working capital advance of \$2,200,000 to initiate the program. The working capital advance was partially returned in the amount of \$1.6 million in Public Law 1995, chapter 560. The fund was subsequently repealed in Public Law 1995, chapter 665. Public Law 1995, chapter 665, appropriated \$500,000 to the Office of Tourism in the Department of Economic and Community Development in FY 97 as an alternative funding source. These funds are to be utilized in the implementation of a 5-year tourism marketing and development strategy, which includes marketing and regional tourism development initiatives. This appropriation will be increased to \$517,000 in FY 98 and \$535,612 in FY 99 consistent with the projected Consumer Price Index (CPI) change for the FY 98-99 biennium.

GENERAL PURPOSE AID TO LOCAL SCHOOLS

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
534,073	548,119	2.63	1,082,192	577,525	5.36	606,301	4.98	1,183,826	9.39

General Purpose Aid to Local Schools must be budgeted at the maximum allowable growth percentage of 5%. Under Title 20-A, section 15609. The Commissioner of Education's recommended funded level can not exceed 105% of the funding level in effect for the fiscal year then in progress. However, the FY 98-99 biennium includes \$2 million each fiscal year to support a system of learning results as provided for in Public Law 1995, chapter 649.

PRE-SCHOOL HANDICAPPED

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
3,394	3,522	3.75	6,916	8,618	144.70	10,341	20.00	18,959	174.12

The Department of Education has indicated a need to substantially increase the General Fund portion of this program which was established to provide free and appropriate education for handicapped children from birth to five years of age. The child count has been a factor, which the Department of Education anticipates will grow by 20% in the FY 98-99 biennium. General Fund dollars have been increasing in this program since FY 93 when the program received \$1.70 million. In FY 94, the Pre-School Handicapped Program incurred \$2.03 million of General Fund expenditures. In FY 95 the amount increased to \$2.87 million. The projected expenditures of this program in FY 96 will reach \$4.93 million. Another \$7.18 million in General Fund support will be required in FY 97.

TEACHER RETIREMENT

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
127,425	135,562	6.39	262,987	149,235	10.09	158,110	5.95	307,345	16.87

The General Fund provides for 100% of the local employer cost of membership in the Maine State Retirement System for employees in School Administrative Units who, by statute, are part of the teacher group for retirement purposes.

Teacher Retirement costs in each fiscal year are determined by two factors: the actuarial rate applied to projected salaries and wages; and, the projected growth in salaries and wages. For FY 97 the rate is 20.88%, including retiree health at .4%. Payroll growth for the FY 96-97 biennium was projected at 3% each fiscal year.

Actual payroll growth from FY 94 to FY 95 was approximately 5%. Budgeted salary and wage growth from the Department of Education for FY 96 is 6%. Salary and wage growth for the FY 98-99 biennium is projected at 6% each fiscal year.

Recent demographic trends among employees in the teacher retirement group may indicate greater payroll growth in 98-99. Changes appear to have occurred in recent years toward less costly teacher positions. It is possible this cycle has reached a plateau with a return to historical salary and wage growth. Data from the Department of Education indicates the possibility of salary and wage increases of 7% in FY 98 and 8% in FY 99 using a simple trend line from prior year data. Nevertheless, this projection suggests a return to the historical, actuarial assumption of 6% salary and wage growth using current data.

The projected rate to apply to salaries and wages in the FY 98-99 biennium includes the normal and ancillary costs based on the most recent four year trend, the unfunded actuarial liability requirement from the most recent valuation from the Maine State Retirement System and recent costs and trends for administration and retiree health. The normal, ancillary and unfunded actuarial liability costs may change with updated actuarial assumptions.

HIGHER EDUCATION

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
170,148	173,579	2.02	343,727	178,265	2.70	183,078	2.70	361,343	5.13

Higher Education is funded through grants to the University of Maine System, the Maine Technical College, the Maine Maritime Academy and the Maine Public Broadcasting Corporation. The expected growth in these grants is 2.7% each year of the upcoming biennium.

The funding for the University of Maine System is estimated to be \$138.75 million in FY 98, and \$142.50 million in the following fiscal year. The Maine Technical College System has an estimated need of \$30.48 million in FY 98, and \$31.29 million in FY 99. Maine Maritime Academy funding estimate is \$6.75 million and \$6.93 million, respectively for the FY 98-99 biennium. Maine Public Broadcasting Corporation has experienced level funding since FY 94 of \$2.23 million, and is expected to grow by 2.7% in the FY 98-99 biennium to \$2.29 million in FY 98 and \$2.35 million in FY 99.

CORRECTIONS

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
65,320	66,633	2.01	131,953	67,489	1.29	71,131	5.40	138,620	5.05

The Department of Corrections' spending pattern increased funding in FY 97 to restore the Community Based Corrections Program back to a level necessary to meet statutory requirements. The Department of Corrections must reimburse each county quarterly for time served at that county's correctional facility for persons convicted of certain crimes as outlined in the Title 34A, section 1210. The Commissioner of Corrections annually sets the reimbursement amount for each county based on criteria set forth in the statute.

In FY 96, an appropriation of \$3.21M allowed for reimbursement up to the appropriated amount only. In FY 97, an appropriation of \$4.71 brought the funding level to the current estimate for full reimbursement of

community based corrections under the law. It is anticipated that the Corrections Department budget will grow in the FY 98-99 biennium consistent with the projected increase in the Consumer Price Index (CPI).

MEDICAL CARE

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
76,371	79,204	3.71	155,575	144,290	82.17	207,043	43.49	351,333	125.83

This program provides payments to health providers (excluding long term care) for persons enrolled in the Maine Medicaid Program. Medicaid was established in 1965 to provide public medical insurance for America's low income, elderly, and disabled citizens. The program is a partnership between the state and federal governments with the federal government supplying 63% of the funding and the state matching with 37%.

Reflecting the recent trend toward moderation in the growth of medical spending, the Department of Human Services estimates growth of 6 percent per year for the Medical Assistance Payments (MAP) account in the next biennium. As in the current biennium, this moderation in growth is expected to be driven by reduced utilization of inpatient hospital services. The State's ongoing implementation and expansion of managed care will also help limit unnecessary utilization of acute care services. In addition, the Department of Human Services anticipates system development initiatives such as the Maine Point of Purchase system (MEPOP), the Maine Medicaid Decision Support System (MMDSS), and systems for Third Party Liability (TPL) and Surveillance and Utilization Reviews (SUR) to be fully operational in the FY 98-99 biennium. Such systems will enable the Department of Human Services to better manage and target existing resources.

The Department of Human Service's estimates assume a constant caseload of Medicaid eligible individuals over the forecast period. While this assumption is supported by recent trends, it is susceptible to changes in overall state economic conditions.

While the overall level of spending in the MAP Program is expected to grow by 6% per year in the next biennium, the Program is expected to need a substantial increase in General Fund resources. With the phase-out of the hospital assessment in FY 98, and its elimination in FY 99, the MAP Program faces a shortfall of \$60 million in FY 98 and \$120 million in FY 99.

NURSING FACILITIES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
84,988	79,227	(6.78)	164,215	79,452	0.28	79,452	(0.00)	158,904	(3.23)

This program provides payments for long term health care providers (nursing homes) for persons enrolled in the Maine Medicaid Program.

The Department of Human Services estimates recent spending reductions in the Nursing Facilities (NF) Program will level off in the next biennium. These spending reductions have resulted from the ongoing implementation of the

Department's initiative to develop and offer individuals alternatives to costly nursing home care. As a result, state nursing home spending has dropped from a high of \$88 million in FY 94 (general fund spending) to below \$80 million by FY 97. During the current biennium, the Department of Human Services will continue its efforts to use savings from this initiative to increase the availability of lower cost options to nursing homes -- including increases in the number of residential care beds for Alzheimer patients and adult family care homes. As the Department gets closer to its planning targets for the development of nursing home alternatives, the savings available in the NF Program are expected to diminish. Other factors, such as recent legislative changes in nursing home eligibility standards, combined with demographic factors such as a general aging of the population, could serve to create upward pressure on nursing home spending in the future. It is important to note the Department's assumption of level funding for the NF Program in the FY 98-99 biennium does allow for this possible increase in spending. The FY 97 baseline used for the FY 98-99 biennium includes slightly more than five months of savings from the repeal of the Gross Receipts Tax (approximately \$2.4 million). The full year effect of the NF tax repeal will be realized in the FY 98-99 biennium.

ELDERLY BOARDING HOMES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
18,678	23,126	23.81	41,804	25,216	9.03	26,327	4.41	51,543	23.30

This program consists of two components, Elderly Boarding Home and State Supplement to Federal Supplemental Security Income (SSI). The state program provides additional benefits for elderly blind or disabled individuals over and above those provided by the Federal Supplemental Security Income. SSI represents \$14.1 million in the FY 96-97 biennium and \$16.3 million in the FY 98-99 biennium. The remaining balance provides \$27.7 million in the FY 96-97 biennium for the Elderly Boarding Home program and \$35.2 million in the FY 98-99 biennium.

The Department of Human Services estimates the substantial recent program growth in spending in the boarding home program will moderate during the next biennium. Spending in this program is expected to more than double between FY 95 and FY 97. This growth has resulted from the Department's initiative to increase the availability of lower cost options to nursing homes -- including increases in the number of residential care beds for Alzheimer patients and adult family care homes. As the Department of Human Services gets closer to its planning targets for the development of nursing home alternatives, the annual spending is expected to increase at a more moderate 6% level. The implementation of case-mix reimbursement for residential care facilities in July of 1997 is expected to provide additional cost moderation.

The State Supplement is a benefit paid to an individual who is receiving Federal Supplemental Security Income (SSI) and to some other persons who are aged, blind, or disabled who are not receiving SSI.

Caseload and cost projections for the State Supplement of the Supplemental Security Income (SSI) caseload are based on historical spending trends. The State is required by Federal law to spend at least the same amount of money in its State Supplement program each year as it did in the previous year. Therefore, there will be no decrease in the amount of payments even if the number of recipients drops. Factors which may influence the number of recipients are a contract with Pine Tree Legal Assistance, Inc. to represent individuals initially denied SSI benefits in the appeals process (to reduce the cost of AFDC and General Assistance), and a change in the Federal law denying SSI benefits to individuals for whom drug or alcohol abuse is a contributing factor to their disabling condition.

CHILD WELFARE - FOSTER CARE

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
24,638	29,331	19.05	53,969	33,961	15.78	37,537	10.53	71,498	32.48

Child Welfare and Foster Care provides care to children who have been brought into the care or custody of the State to protect them from abuse and neglect. The children are provided appropriate living arrangements and services until they can be reunited with their families or adopted by another family or have reached maturity. The Bureau of Child and Family Services projects the Child Welfare Program and the Aid to Families with Dependent Children Foster Care Program will undergo a steady increase over the next four years. The Bureau projects All Other Services to increase by \$12,273,689 from FY 96 to FY 99. The causes of this increase include:

Carrying forward of FY 97 Supplemental increases to cover the shortfall in the initial FY 97 Budget;

Carrying forward of the FY 97 10% increase in Board Rates for Foster Homes;

Ongoing increased Board and Care costs will result from the FY 97 new initiative to increase investigations by 2,400 families to reduce the number of unassigned investigations.

The Bureau projects this new initiative will bring additional children into custody of the Department of Human Services: 130 children during FY 97 and FY 98, 160 children during FY 99.

Projected cost increases based on population growth and 3.5% inflation lead to FY 98 increases: 10.3% for Child Welfare, 15.7% for AFDC Foster Care and FY 99 increases: 8.0% for Child Welfare, 13.3% for AFDC Foster Care.

AID TO FAMILIES WITH DEPENDENT CHILDREN

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
21,784	20,377	(6.46)	42,161	23,088	13.31	20,832	(9.77)	43,920	4.17

Aid to Families with Dependent Children (AFDC) is a temporary financial assistance program for children (who are deprived of a parent because of incapacity, underemployment or continued absence) and their families. The money is to help the family meet their basic needs while the Department of Human Services works with the family to become self-supporting.

An improved economy and changes in participation requirements in Maine's ASPIRE-JOBS program in FY 95 were contributing factors in the AFDC caseload reduction for FY 96. This trend is expected to continue for FY 97.

An additional reduction of 400 cases per year is projected for FY 98 & FY 99 because of major welfare reform initiatives which the Department of Human Services began implementing in October, 1995.

Welfare Reform initiatives include:

- requiring AFDC families to sign a Family Contract;
- requiring job ready individuals to participate in up-front job search activities;
- limiting ASPIRE-JOBS exemptions;
- requiring minor parents to receive AFDC benefits in the form of vendor payments;
- providing short-term alternative aid vouchers as an alternative to receiving longer-term AFDC;
- requiring home visits in certain geographic locations;
- providing an employer subsidy work component called ASPIRE-PLUS.

COMMUNITY MENTAL RETARDATION

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
14,705	18,097	23.07	32,802	18,350	1.40	18,839	2.67	37,189	13.37

Community Mental Retardation funds services for persons with mental retardation in Maine who clearly need services and are not Medicaid eligible nor Medicaid reimbursable. Examples of these services are supported living, supported employment, respite care, family support services, and transportation services. General Fund support for this program has remained relatively constant over the past few years. Community contracts have remained virtually flat funded, with the exception of services mandated by the community consent decree. Services mandated by the community consent decree include crisis services, liaison professionals, residential services, day and supported employment services, respite care, family support services, and transportation services. Future funding for community mental retardation services are expected to remain relatively consistent to existing services. Most of these programs need to remain consistent in order to provide security and continuity to the people these programs serve.

COMMUNITY MENTAL HEALTH

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
8,037	22,591	181.09	30,628	23,840	5.53	24,482	2.69	48,322	57.77

Development of community service capacity and individualized service packages for long-term psychiatric patients continue to be priorities for the Department. Current considerations of the Department of Mental Health and Mental Retardation entail the consolidation of crisis intervention services across all Department service populations, and the development of the capacity for involuntary hospitalizations within the community. The Department plan for regional reorganization is anticipated to have a positive impact on management of adult community mental health services, placing management and accountability at a local level rather than the former practice of managing the adult system from Augusta. Development of local service authorities is ongoing to assist system management by incorporating input from local constituents in decision making.

The Augusta Mental Health Institute (AMHI) Consent Decree and the City of Portland Consent Decree continue as a priority for the Department of Mental Health and Mental Retardation. Initial progress is being made to individualize services, with the goal of significant enhancement of opportunities for services and supports to be

packaged around individual needs. Changes in Medicaid rules pertaining to community support services for persons with serious mental illness are underway that would create greater options for services to be based on individual needs. If the Medicaid Program becomes block granted in the future, there will be greater opportunity to design financing for mental health services to facilitate an individualized approach.

STATE POLICE

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
4,086	5,290	29.48	9,376	13,954	163.79	14,034	0.57	27,988	198.52

In accordance with Public Law 1987, chapter 793 the State Police match rate for the General Fund and the Highway Fund must be 50/50. In FY 96, the rate was modified to 16% General Fund, 84% Highway Fund. In FY 97, the rate was changed to 20% General Fund to 80% Highway Fund.

REMAINDER OF POLICY AREAS EXHIBIT NORMAL GROWTH PATTERNS

For those policy areas where programs were not identified as showing abnormal growth patterns and for the remainder of the programs in the other policy areas, expenditure growth over the FY 98-99 biennium is expected to closely follow projected Consumer Price Index (CPI) trends. With the base year (FY 97) adjusted for one-time appropriations, there are not any significant budget changes anticipated.

F. GENERAL FUND STATUS CHART 98-99

	FY 98	FY 99	BIENNIUM
PROJECTED BALANCE	4,453,710		4,453,710
PROJECTED REVENUE	1,781,223,202	1,812,610,346	3,593,833,548
TOTAL PROJECTED RESOURCES	1,785,676,912	1,812,610,346	3,598,287,258
PROJECTED APPROPRIATIONS	1,945,574,684	2,085,767,244	4,031,341,928
PROJECTED BALANCE	(159,897,772)	(273,156,898)	(433,054,670)

III. HIGHWAY FUND

A. BUDGET STATUS 96-97

	FY 96	FY 97	BIENNIUM
BALANCE	12,254,051		12,254,051
ADJUSTMENTS	3,376,543		3,376,543
REVENUE	252,320,460	220,568,872	472,889,332
TOTAL PROJECTED RESOURCES	267,951,054	220,568,872	488,519,926
ALLOCATIONS	260,799,573	227,316,195	488,115,768
PROJECTED BALANCE	7,151,481	(6,747,323)	404,158

Through the Second Regular Session of the 117th Legislature, which adjourned in April, 1996, the Highway Fund budget for the FY 96-97 biennium consists of allocations of \$488.1 million and projects \$472.9 million in revenue. When the balance forward from the previous biennium and balance adjustments for the current biennium are included, total estimated Highway Fund resources for the FY 96-97 biennium are \$488.5 million. The projected unobligated ending balance for the biennium is \$404,158.

The most significant aspect of the FY 96-97 biennium was the authorization of \$34 million of bond proceeds from the Maine Turnpike Authority in Public Law 1995, chapter 504.

B. REVENUE FORECAST CHART

HIGHWAY FUND REVENUE FORECAST CHART										
SOURCE	FY 96	FY 97	% CHANGE	BIENNIUM	FY 98	% CHANGE	FY 99	% CHANGE	BIENNIUM	% CHANGE
Fuel Tax	143,010,827	144,432,478	0.99%	287,443,305	145,876,803	1.00%	147,335,571	1.00%	293,212,374	2.01%
Motor Vehicle Registrations & Fees	60,345,939	61,021,229	1.12%	121,367,168	54,447,332	-10.77%	54,918,597	0.87%	109,365,929	-9.89%
Inspection Fees	1,626,330	1,630,034	0.23%	3,256,364	1,640,000	0.61%	1,660,000	1.22%	3,300,000	1.34%
Other Revenues	47,337,364	13,485,131	-71.51%	60,822,495	9,189,685	-31.85%	9,606,375	4.53%	18,796,060	-69.10%
TOTAL HIGHWAY FUND REVENUES	252,320,460	220,568,872	-12.58%	472,889,332	211,153,820	-4.27%	213,520,543	1.12%	424,674,363	-10.20%

C. REVENUE FORECAST NARRATIVE

FUEL TAX

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
143,011	144,432	0.99	287,443	145,877	1.00	147,336	1.00	293,213	2.01

The Fuel Tax line is based on trends since FY 90. With collaboration from the Bureau of Taxation, the expected Fuel Tax line will be \$145.9 million in FY 98 and \$147.3 million in FY 99 following a 1% per year growth trend.

MOTOR VEHICLE REGISTRATION AND FEES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
60,346	61,021	1.12	121,367	54,447	(10.77)	54,919	0.87	109,366	(9.89)

The Secretary of State projected that Motor Vehicle Registration and Fees will be down in the coming biennium due to Public Law 1993, chapter 297. A temporary revenue windfall was realized in the FY 94-95 biennium by changing the four year renewal on drivers licenses to a six year renewal cycle. The change to a six year renewal cycle is projected to result in driver license revenues down \$10.6 million in the FY 98-99 biennium compared to the estimates for the FY 96-97 biennium. A marginal loss of revenues as compared to the revenue estimate of the FY 96-97 biennium also results from lower than anticipated sales of the University of Maine System plates.

INSPECTION FEES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
1,626	1,630	0.23	3,256	1,640	0.61	1,660	1.22	3,300	1.34

Based on trends since FY 90, inspections should remain fairly constant, with only minimal growth.

OTHER REVENUES

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
47,337	13,485	(71.51)	60,822	9,190	(31.85)	9,606	4.53	18,796	(69.10)

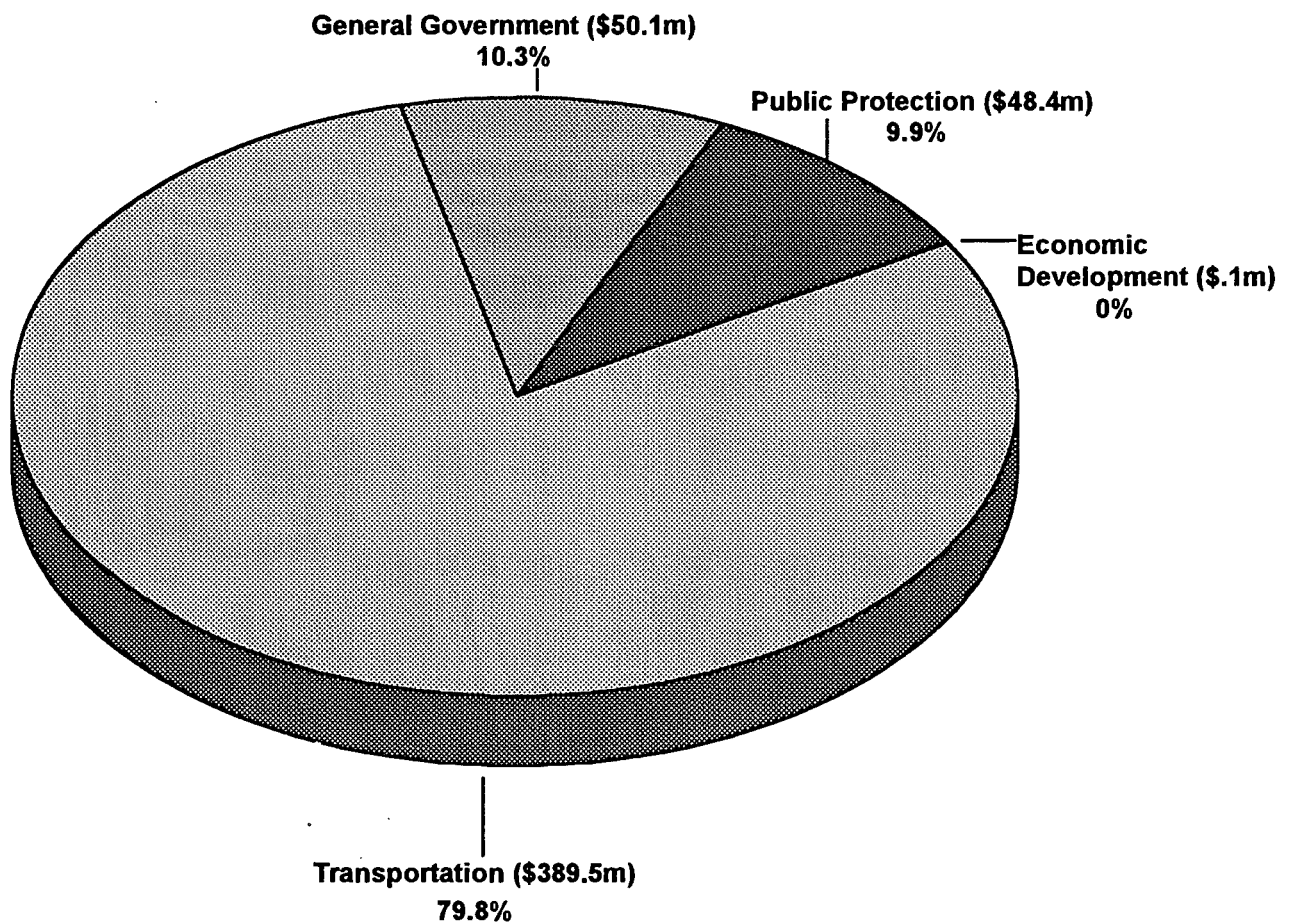
The Other Revenue line increased on a one-time basis in FY 96 due to \$34 million of bond proceeds from the Maine Turnpike Authority, as authorized in Public Law 1995, chapter 504. As a result of that legislation, the Highway Fund will not realize \$4.7 million a year from the Maine Turnpike Authority reimbursement in the Other Revenue line for ten years beginning in the FY 98-99 biennium.

D. EXPENDITURE FORECAST CHART

HIGHWAY FUND EXPENDITURE FORECAST CHART										
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 96	FY 97	% CHANGE	BIENNIUM	FY 98	% CHANGE	FY 99	% CHANGE	BIENNIUM	% CHANGE
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	24,021,925	26,113,912	8.71%	50,135,837	26,368,199	0.97%	27,114,119	2.83%	53,482,318	6.67%
TOTAL POLICY AREA 01 - ECONOMIC DEVELOPMENT	45,790	49,757	8.66%	95,547	49,941	0.37%	51,265	2.65%	101,206	5.92%
STATE POLICE	22,444,822	20,807,120	-7.30%	43,251,942	13,954,293	-32.94%	14,034,450	0.57%	27,988,743	-35.29%
OTHER AGENCIES AND PROGRAMS	2,575,193	2,585,036	0.38%	5,160,229	2,680,235	3.68%	2,747,534	2.51%	5,427,769	5.18%
TOTAL POLICY AREA 06	25,020,015	23,392,156	-6.51%	48,412,171	16,634,528	-28.89%	16,781,984	0.89%	33,416,512	-30.97%
TOTAL POLICY AREA 07 - TRANSPORTATION	211,711,843	177,760,370	-16.04%	389,472,213	182,916,553	2.90%	190,348,660	4.06%	373,265,213	-4.16%
TOTAL HIGHWAY FUND EXPENDITURES	260,799,573	227,316,195	-12.84%	488,115,768	225,969,221	-0.59%	234,296,028	3.68%	460,265,249	-5.71%

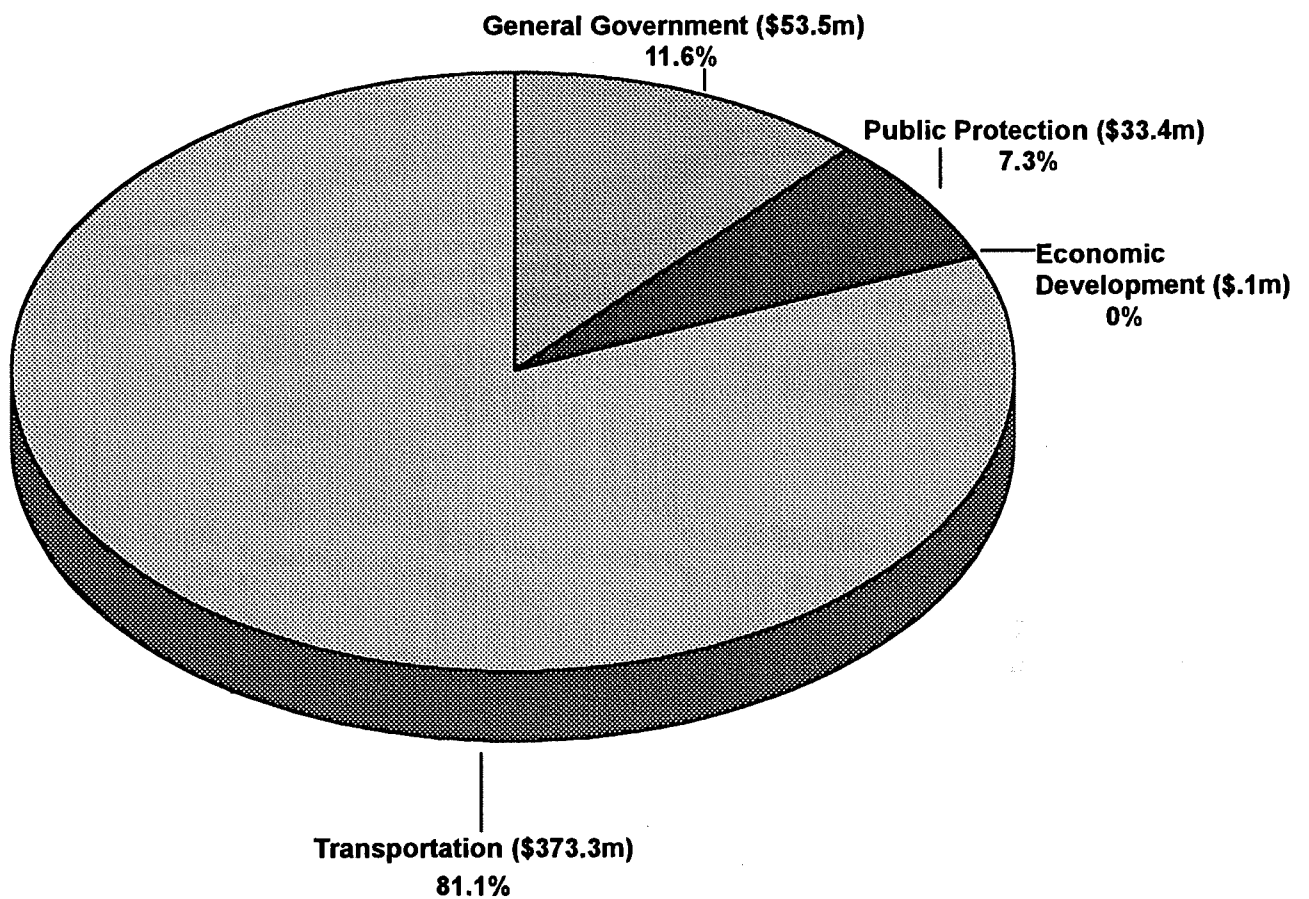
FY96/97 HIGHWAY FUND ALLOCATIONS APPROVED (BY POLICY AREA)

\$488.1M



FY98/99 HIGHWAY FUND ALLOCATIONS PROJECTION (BY POLICY AREA)

\$460.3M



E. EXPENDITURE FORECAST NARRATIVE

TRANSPORTATION

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
211,712	177,760	(16.04)	389,472	182,917	2.90	190,349	4.06	373,266	(4.16)

The Department of Transportation is expected to experience minimal growth in the FY 98-99 biennium. The growth is consistent with the Consumer Price Index (CPI) factors. The largest amount of dollars expended in this department is on the capital programs. The estimated need in capital is based on the average of the FY 96-97 biennium, as confirmed by the Department of Transportation but adjusted to reflect the \$30 million investment in capital in FY 96 for the three demonstration projects funded from the Maine Turnpike Authority bond proceeds.

STATE POLICE

FY 96 (000)	FY 97 (000)	YR % CHG	TOTAL BIENNIUM	FY 98 (000)	YR % CHG	FY 99 (000)	YR % CHG	TOTAL BIENNIUM	BIEN %CHG
22,445	20,807	(7.30)	43,252	13,954	(32.94)	14,034	0.57	27,988	(35.29)

In accordance with Public Law 1987, chapter 793, the State Police match rate for the General Fund and the Highway Fund must be 50/50. In FY 96, the rate was modified to 16% General Fund, 84% Highway Fund. In FY 97, the rate was changed to 20% General Fund, 80% Highway Fund.

REMAINDER OF POLICY AREAS EXHIBIT NORMAL GROWTH PATTERNS

For those policy areas where programs were not identified as showing abnormal growth patterns and for the remainder of the programs in the other policy areas, expenditure growth over the FY 98-99 biennium is expected to closely follow projected Consumer Price Index (CPI) trends. With the base year (FY 97) adjusted for one-time appropriations, there are not any significant budget changes anticipated.

F. HIGHWAY FUND STATUS 98-99

	FY 98	FY 99	BIENNIUM
PROJECTED BALANCE	404,158		404,158
PROJECTED REVENUE	211,153,820	213,520,543	424,674,363
TOTAL PROJECTED RESOURCES	211,557,978	213,520,543	425,078,521
PROJECTED ALLOCATIONS	225,969,221	234,296,028	460,265,249
PROJECTED BALANCE	(14,411,243)	(20,775,485)	(35,186,728)

IV. SUMMARY

This report provides a summary and detailed projection of revenues, appropriations and allocations for the General Fund and the Highway Fund for the FY 96-97 biennium and the FY 98-99 biennium. The purpose is not to predict a shortfall or unbalanced budget in the respective funds for the FY 98-99 biennium.

The forecasts of revenues, appropriations and allocations contained in this report, when constructed under current law and current trends, result in a projected 'Structural Gap' of \$433,054,670 in the General Fund and \$35,186,728 in the Highway Fund for the FY 98-99 biennium.

The Governor and the Legislature must make the decisions necessary to provide for a balanced budget for the General Fund and the Highway Fund in the FY 98-99 biennium. Perhaps this report will serve as an objective source of initial budget and program information, in summary form, to facilitate that decision making process.