

MAINE STATE LEGISLATURE

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STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION



GENERAL FUND AND HIGHWAY FUND FISCAL YEARS 2000 - 2001

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Submitted by the
Bureau of the Budget
January 10, 1997



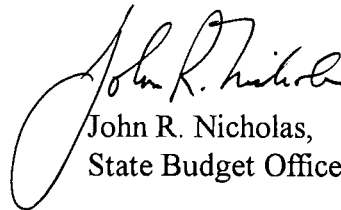
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STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
Bureau of the Budget
State House Station #58
Augusta, Maine 04333

Members of the 118th Legislature and Citizens of the State of Maine:

The Bureau of the Budget is pleased to present its four year budget forecast for the General Fund and the Highway Fund for the FY 98-99 biennium and the FY 2000-2001 biennium in accordance with Title 5, section 1664. This effort was initiated and passed into law by the 117th Legislature as fulfillment of one of the recommendations of the Special Commission on Governmental Restructuring to provide a platform for long term financial planning.

This forecast is based on the current structure of State revenues and expenditures for both the General Fund and the Highway Fund using the Governor's budget proposal for the FY 98-99 biennium as presented on January 10, 1997. As such, this effort should provide an objective view of revenue and expenditure trends over the long term as a basis for fiscal planning and decision making.


John R. Nicholas,
State Budget Officer

APR 28 1997

**STATE OF MAINE REVENUE AND EXPENDITURE PROJECTION
GENERAL FUND AND HIGHWAY FUND
FISCAL YEARS 1998 - 2001**

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MAINE BUDGET FORECAST

FY 98-99 BIENNIUM AND FY 2000-2001 BIENNIUM

I. INTRODUCTION

Title 5, sections 1664 and 1665 require a four year budget projection for the General Fund and the Highway Fund. This relatively new budget initiative is consistent with the recommendations of the Special Commission on Governmental Restructuring as a means of ensuring longer term budget planning for the State's two undedicated funds. This budget approach also provides a basis for comparing the structure of current expenditures and current revenues projected forward on a trend basis for both funds. As such, it reveals the capacity of the State's General Fund and Highway Fund resources to support the current level of State government services projected forward.

The first such report was issued on May 31, 1996 covering fiscal years 1995-96, 1996-97, 1997-98 and 1998-99. This report is being issued as a supplement to the State of Maine Budget Document for 98-99 as required by Title 5, section 1664. It provides a four year budget forecast for fiscal years 1997-98, 1998-99, 1999-2000 and 2000-2001 using the Governor's budget recommendations for the FY 98-99 biennium with respect to both revenues and expenditures. The expected outcome is an objective portrayal of the General Fund and the Highway Fund budgets for FY 2000 and FY 2001 based on financial and program information contained in the Governor's budget recommendations for the FY 98-99 biennium.

The budget projections for the FY 2000-2001 biennium use the recommended revenues, appropriations and allocations for FY 99 as the base year for forecasting purposes. More detailed projections on a department or program basis were made where appropriate to reflect specific trends in those areas. Other projections were 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.

Both General Fund and Highway Fund revenue projections for FY 2000 and FY 2001 use the December 1996 forecast of the Revenue Forecasting Committee. This baseline forecast was adjusted to reflect the revenue changes recommended in the Governor's budget proposal for the FY 98-99 biennium and are shown in more detail in the accompanying revenue charts.

With respect to expenditures, the report uses the CPI forecast of the Consensus Economic Forecasting Commission of 3% for both FY 2000 and FY 2001. This CPI factor was applied to the recommended All Other and Capital Expenditures in the FY 99 base year unless, as explained above, a more specific trend factor was expected to prevail in a particular program, department or agency. Personal Services projections for FY 2000 and FY 2001 use trends reflecting growth in state employee merits and benefits from the recommended FY 99 base year resulting in weighted

average growth of 3% in FY 2000 and 2.91 % in FY 2001. The projection for Personal Services does not anticipate future salary adjustments beyond those recommended by the Governor for FY 98 and FY 99, or expected to occur sometime during the FY 98-99 biennium as a result of current collective bargaining efforts.

This projection does not predict unbalanced budgets for the General Fund or the Highway Fund for the FY 2000-2001 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 2000-2001 biennium.

II. GENERAL FUND

A. BUDGET STATUS FY 98-2001

GENERAL FUND STATUS						
	FY 98	FY 99	BIENNIUM	FY 00	FY 01	BIENNIUM
BALANCE	1,077,000		1,077,000	3,177,710		3,177,710
ADJUSTMENTS						
REVENUE	1,852,614,899	1,926,831,480	3,779,446,379	2,001,628,442	2,078,813,698	4,080,442,140
TOTAL RESOURCES	1,853,691,899	1,926,831,480	3,780,523,379	2,004,806,152	2,078,813,698	4,083,619,850
APPROPRIATIONS	1,819,479,084	1,957,866,585	3,777,345,669	2,055,040,054	2,143,533,599	4,198,573,653
PROJECTED BALANCE	34,212,815	(31,035,105)	3,177,710	(50,233,902)	(64,719,901)	(114,953,803)

With adjustments recommended in the FY 97 Supplemental Budget Bill, the General Fund balance carrying into the FY 98-99 biennium was \$1,077,000. The proposed budget for the FY 98-99 biennium consists of \$3.777 billion in appropriations and projects revenue of \$3.779 billion, which would leave a balance of \$3.2 million going into the FY 2000-2001 biennium.

One of the most significant aspects of the budget for the FY 98-99 biennial on the expenditure side was the increased Medicaid expenditure necessitated by the phase out of the hospital tax. The approximate \$120.0 million impact on FY 99 is the major factor contributing to the negative \$31.0 million balance in that fiscal year.

Projections for the FY 2000-2001 biennium include General Fund revenue of \$4.080 billion that when combined with the projected balance from the FY 98-99 biennium of \$3.2 million, bring total resources to \$4.084 billion. Projected appropriations for the FY 2000-2001 biennium are \$4.199 billion which would result in a projected structural gap of \$115.0 million.

B. REVENUE FORECAST CHARTS

GENERAL FUND REVENUE FORECAST CHARTS

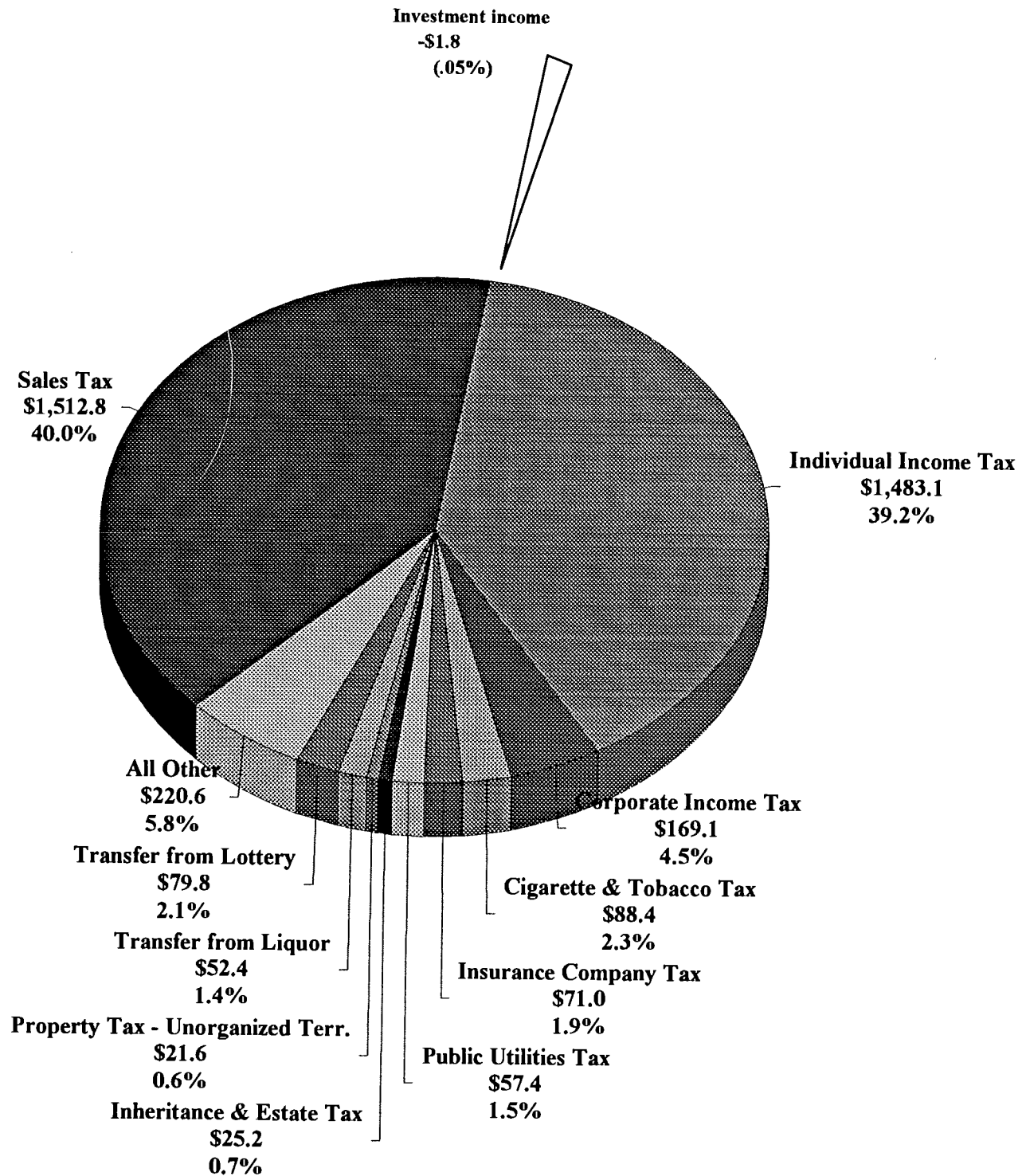
SOURCE	FISCAL YEAR 1997-1998			FISCAL YEAR 1998-1999			FISCAL YEAR 1999-2000			FISCAL YEAR 2000-2001		
	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET	ORIG.	ADJ.	BUDGET
Sales Tax	738,298,995	3,207,162	741,506,157	767,830,955	3,448,001	771,278,956	798,544,193	3,557,424	802,101,617	830,485,961	3,671,251	834,157,212
Individual Income Tax	676,230,000	48,198,622	724,428,622	676,230,000	82,391,653	758,621,653	676,230,000	120,171,011	796,401,011	676,230,000	160,309,622	836,539,622
Corporate Income Tax	74,246,760	8,418,610	82,665,370	77,959,098	8,508,291	86,467,389	81,857,053	8,602,456	90,459,509	85,949,906	8,701,328	94,651,234
Cigarette & Tobacco Tax	44,890,210		44,890,210	43,503,205		43,503,205	42,159,825		42,159,825	40,858,660		40,858,660
Insurance Company Tax	35,663,000		35,663,000	35,312,000		35,312,000	34,964,000		34,964,000	34,619,000		34,619,000
Public Utilities Tax	28,475,000		28,475,000	28,925,000		28,925,000	29,375,000		29,375,000	29,750,000		29,750,000
Inheritance & Estate Tax	12,397,521		12,397,521	12,831,434		12,831,434	13,280,534		13,280,534	13,745,353		13,745,353
Property Tax - Unorg. Terr.	10,290,909	713,464	11,004,373	10,622,772	(74,943)	10,547,829	11,025,325	(96,922)	10,928,403	11,337,655	(98,171)	11,239,484
Income from Investments	(1,000,000)		(1,000,000)	(800,000)		(800,000)	(600,000)		(600,000)	(400,000)		(400,000)
Transfer from Liquor	21,199,678	3,662,882	24,862,560	21,397,879	6,091,489	27,489,368	21,397,879	6,091,489	27,489,368	21,397,879	6,091,489	27,489,368
Transfer from Lottery	37,887,870	750,000	38,637,870	40,362,981	750,000	41,112,981	40,362,981	750,000	41,112,981	40,362,981	750,000	41,112,981
All Other	105,493,238	3,590,978	109,084,216	106,726,089	4,815,576	111,541,665	107,855,028	6,101,166	113,956,194	108,826,021	6,224,763	115,050,784
TOTAL REVENUE	1,784,073,181	68,541,718	1,852,614,899	1,820,901,413	105,930,067	1,926,831,480	1,856,451,818	145,176,624	2,001,628,442	1,893,163,416	185,650,282	2,078,813,698

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SOURCE	FY 98	FY 99	% CHANGE	BIENNIUM	FY 00	% CHANGE	FY 01	% CHANGE	BIENNIUM	% CHANGE
Sales Tax	741,506,157	771,278,956	4.02%	1,512,785,113	802,101,617	4.00%	834,157,212	4.00%	1,636,258,829	8.16%
Individual Income Tax	724,428,622	758,621,653	4.72%	1,483,050,275	796,401,011	4.98%	836,539,622	5.04%	1,632,940,633	10.11%
Corporate Income Tax	82,665,370	86,467,389	4.60%	169,132,759	90,459,509	4.62%	94,651,234	4.63%	185,110,743	9.45%
Cigarette & Tobacco Tax	44,890,210	43,503,205	-3.09%	88,393,415	42,159,825	-3.09%	40,858,660	-3.09%	83,018,485	-6.08%
Insurance Company Tax	35,663,000	35,312,000	-0.98%	70,975,000	34,964,000	-0.99%	34,619,000	-0.99%	69,583,000	-1.96%
Public Utilities Tax	28,475,000	28,925,000	1.58%	57,400,000	29,375,000	1.56%	29,750,000	1.28%	59,125,000	3.01%
Inheritance & Estate Tax	12,397,521	12,831,434	3.50%	25,228,955	13,280,534	3.50%	13,745,353	3.50%	27,025,887	7.12%
Property Tax - Unorg. Terr.	11,004,373	10,547,829	-4.15%	21,552,202	10,928,403	3.61%	11,239,484	2.85%	22,167,887	2.86%
Income from Investments	(1,000,000)	(800,000)	-20.00%	(1,800,000)	(600,000)	-25.00%	(400,000)	-33.33%	(1,000,000)	-44.44%
Transfer from Liquor	24,862,560	27,489,368	10.57%	52,351,928	27,489,368		27,489,368		54,978,736	5.02%
Transfer from Lottery	38,637,870	41,112,981	6.41%	79,750,851	41,112,981		41,112,981		82,225,962	3.10%
All Other	109,084,216	111,541,665	2.25%	220,625,881	113,956,194	2.16%	115,050,784	0.96%	229,006,978	3.80%
TOTAL REVENUE	1,852,614,899	1,926,831,480	4.01%	3,779,446,379	2,001,628,442	3.88%	2,078,813,698	3.86%	4,080,442,140	7.96%

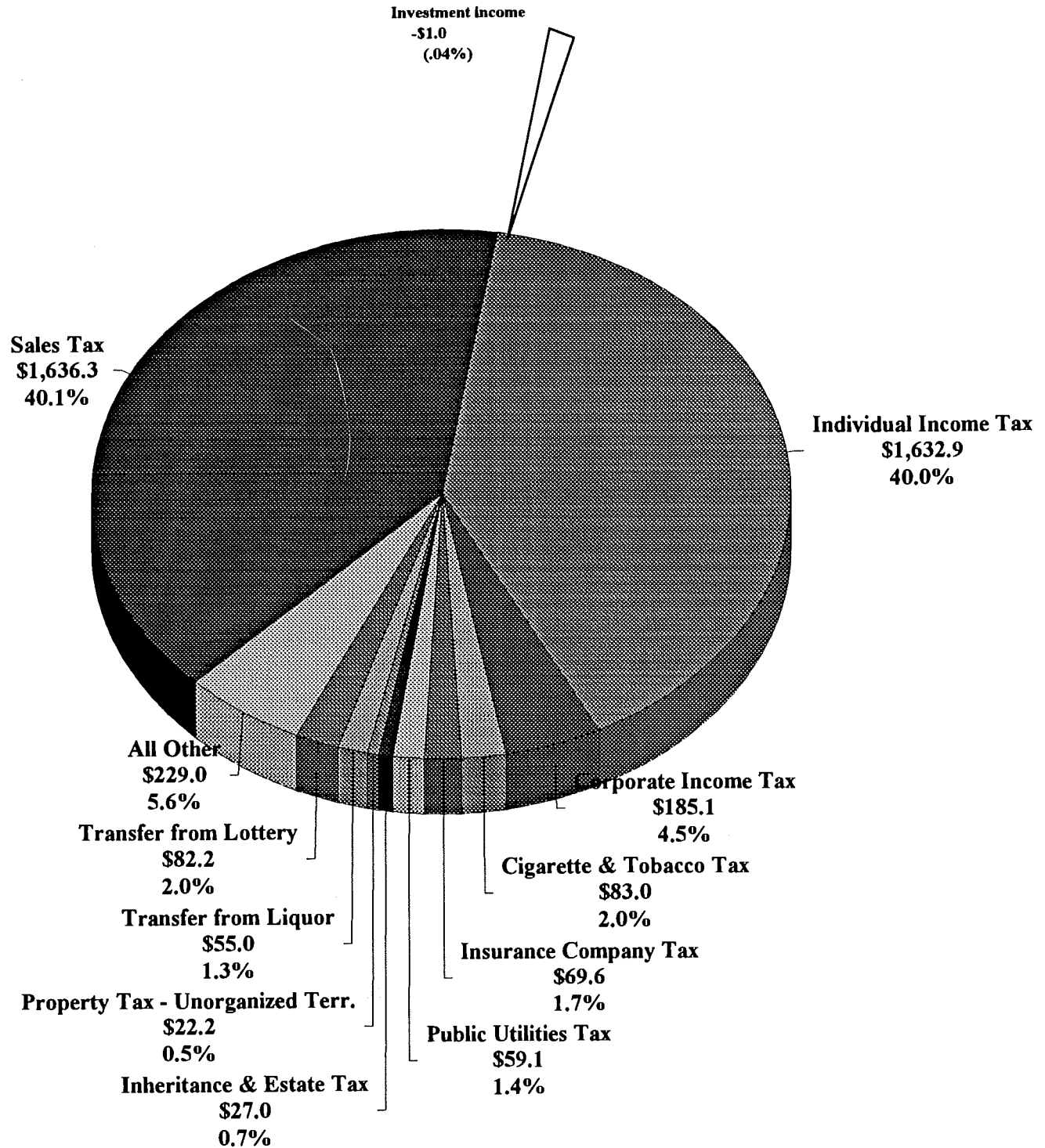
FY98/99 GENERAL FUND REVENUES

RECOMMENDED



Dollars in millions

FY00/01 GENERAL FUND REVENUES PROJECTED



Dollars in millions.

REVENUE FORECAST NARRATIVE

SALES AND USE TAXES

FY98 (000)	FY99 (000)	YR% CHANGE	TOTAL BIENNIUM	FY00 (000)	YR% CHANGE	FY01 (000)	YR% CHANGE	TOTAL BIENNIUM	BIEN% CHANGE
741,506	771,279	4.02%	1,512,785	802,102	4.00%	834,157	4.00%	1,636,259	8.16%

Sales and Use Tax revenues within the General fund have realized very slow, but steady growth over the past biennium. This revenue source is growing at a rate consistent with the overall Maine Economy. It is expected that the New England economy will be one of the slowest regional economies within the United States. As a result, the Maine economy is expected to grow at a very modest rate over the next several years. Tax revenues generated from automobile and transportation related sales contribute more than 20% of total sales and use tax receipts. These sales are not expected to grow significantly over the next several years, which will contribute to the modest sales and use tax revenue growth. The Governor's proposed budget for the FY98-99 biennium reflects an increase over base revenue growth mainly due to the continuation of the exclusion from municipal revenue sharing those tax revenues from sales at restaurants licensed for on-premises consumption of liquor.

INDIVIDUAL INCOME TAX

FY98 (000)	FY99 (000)	YR% CHANGE	TOTAL BIENNIUM	FY00 (000)	YR% CHANGE	FY01 (000)	YR% CHANGE	TOTAL BIENNIUM	BIEN% CHANGE
724,429	758,622	4.72%	1,483,050	796,401	4.98%	836,540	5.04%	1,632,941	10.11%

Individual Income Tax revenues have realized modest growth over the past biennium. Despite strong employment growth (Maine is currently realizing the lowest unemployment rate in 8 years), 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 a lower wage earner base.

The Governor's proposed budget for the FY98-99 biennium reflects the removal of 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 1996-97 revenue estimate of \$676,230,000. This cap would have remained in effect until income tax rates within the state are reduced by 20%. Removal of the individual income tax cap restored over \$130 million to the General Fund. It is expected that the removal of the income tax cap will restore over \$280 million to the General Fund in the FY 2000-2001 biennium.

CORPORATE INCOME TAX

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
82,665	86,467	4.60%	169,133	90,460	4.62%	94,651	4.63%	185,111	9.45%

The corporate Income Tax has realized very strong revenue growth going into the FY 98-99 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 Investment Tax Credit is recommended to be repealed in the FY 98-99 biennium.

The Governor's proposed budget for the FY 98-99 biennium reflects a tax change which will impact so-called "80/20 Corporations." These entities are defined as corporations whose activities consist of at least 80% of sales outside of the United States and no more than 20% of sales within the United States. Previously, these entities were not subject to the Corporate Income Tax in Maine. This statutory change is intended to address an inequity issue.

CIGARETTE AND TOBACCO TAXES

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
44,890	43,503	-3.09%	88,393	42,160	-3.09%	40,859	-3.09%	83,018	-6.08%

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 societal 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 sale of these products.

INSURANCE COMPANIES TAX

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
35,663	35,312	-0.98%	70,975	34,964	-0.99%	34,619	-0.99%	69,583	-1.96%

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. Normally, it would be expected that this revenue source would grow at a rate consistent to the overall growth of the Maine economy. However, due to the push for lower workers' compensation rates and the influx of HMOs, it is expected that this revenue source will realize a slight decline over the next several years.

ALL OTHER REVENUES

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
109,084	111,542	2.25%	220,626	113,956	2.16%	115,051	0.96%	229,007	3.80%

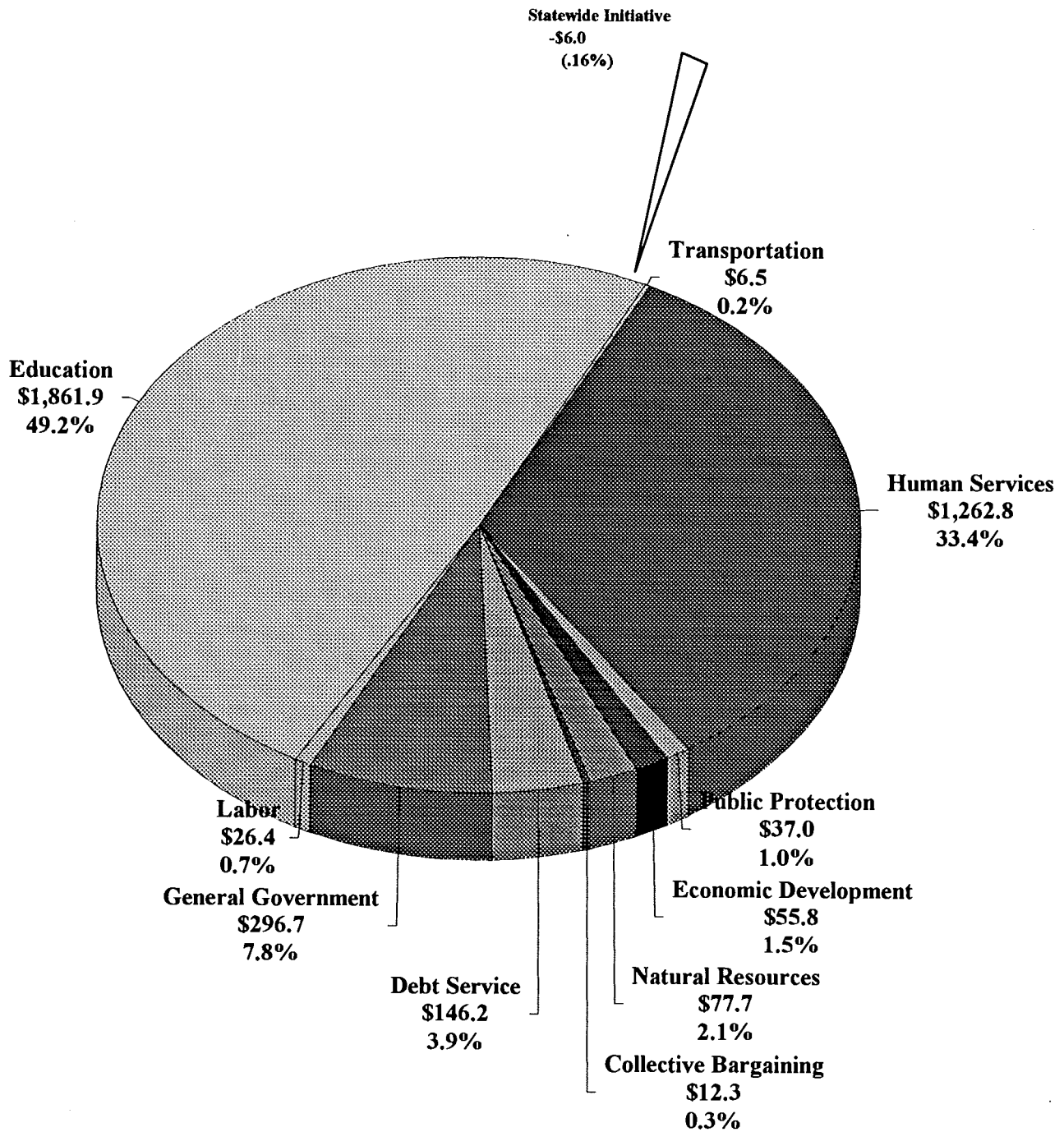
The remaining General Fund revenues are not expected to grow in the FY 2000-2001 biennium. The revenue source with the most significant change is the profits from the operations of the Bureau of Alcoholic Beverages. The Governor has proposed the elimination of all state-run liquor stores effective in fiscal year 1997-98. This action will result in an increase to the net profit of the operation of over \$9.7 million for the biennium. This increased level of net profit is expected to carry into the FY 2000-2001 biennium in an amount in excess of \$12 million. Other revenue changes highlighted in the Governor's proposed budget for the FY 98-99 biennium includes establishing the distribution of the Real Estate Transfer Tax as 75% to the General Fund and 25% to the Maine State Housing Authority instead of the statutorily defined level of 50% to each.

D. EXPENDITURE FORECAST CHART

GENERAL FUND EXPENDITURE FORECAST CHART

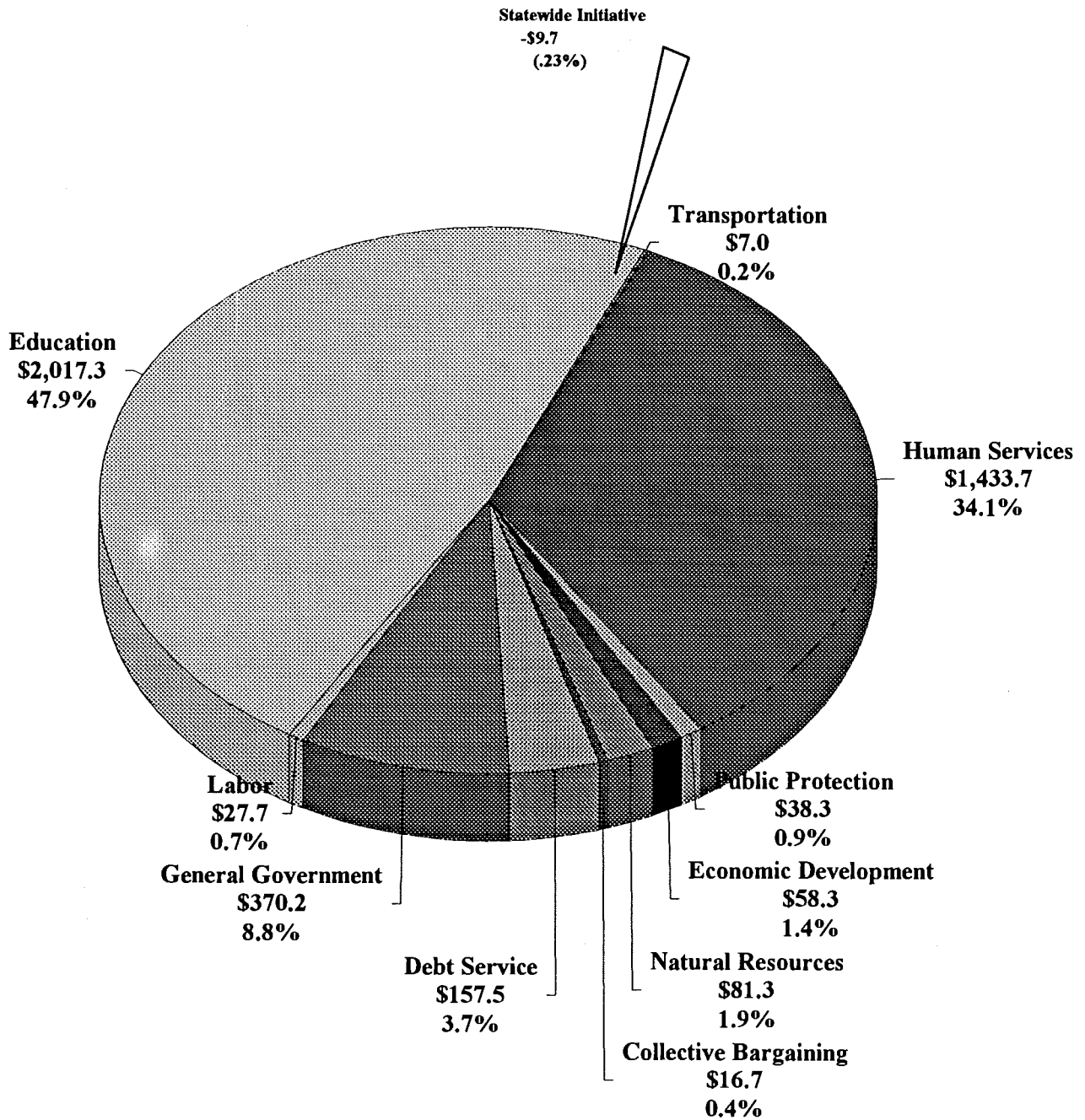
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 98	FY 99	% CHANGE	BIENNIUM	FY 00	% CHANGE	FY 01	% CHANGE	BIENNIUM	% CHANGE
CAPITAL CONSTRUCTION - REPAIRS	5,637,340	4,800,000	-14.85%	10,437,340	14,760,000	207.50%	14,760,000	0.00%	29,520,000	182.83%
PERSONAL PROPERTY TAX ON MACHINERY AND EQUIP	13,502,963	19,890,696	47.31%	33,393,659	30,211,106	51.89%	37,052,788	22.65%	67,263,894	101.43%
DEBT SERVICE	72,812,422	73,337,914	0.72%	146,150,336	77,598,051	5.81%	79,933,527	3.01%	157,531,578	7.79%
OTHER AGENCIES AND PROGRAMS	120,540,213	132,342,245	9.79%	252,882,458	134,406,175	1.56%	139,027,557	3.44%	273,433,732	8.13%
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	212,492,938	230,370,855	8.41%	442,863,793	256,975,332	11.55%	270,773,872	5.37%	527,749,204	19.17%
TOTAL POLICY AREA 01 - ECONOMIC DEVELOPMENT	27,895,378	27,916,179	0.07%	55,811,557	28,742,461	2.96%	29,589,375	2.95%	58,331,836	4.52%
GENERAL PURPOSE AID TO LOCAL SCHOOLS	549,904,671	560,902,764	2.00%	1,110,807,435	588,947,902	5.00%	618,395,297	5.00%	1,207,343,199	8.69%
TEACHER RETIREMENT	152,155,335	156,727,391	3.00%	308,882,726	167,519,835	6.89%	176,495,502	5.36%	344,015,337	11.37%
OTHER AGENCIES AND PROGRAMS	219,395,860	222,860,968	1.58%	442,256,828	229,546,632	3.00%	236,442,693	3.00%	465,989,325	5.37%
TOTAL POLICY AREA 02 - EDUCATION	921,455,866	940,491,123	2.07%	1,861,946,989	986,014,369	4.84%	1,031,333,492	4.60%	2,017,347,861	8.35%
CORRECTIONS	71,781,061	75,740,385	5.52%	147,521,446	76,752,854	1.34%	79,044,270	2.99%	155,797,124	5.61%
MEDICAL CARE	106,460,319	191,597,077	79.97%	298,057,396	200,852,107	4.83%	210,560,145	4.83%	411,412,252	38.03%
NURSING FACILITIES	73,549,539	74,276,699	0.99%	147,826,238	76,505,000	3.00%	78,807,734	3.01%	155,312,734	5.06%
CHILD WELFARE - FOSTER CARE	34,503,239	39,118,530	13.38%	73,621,769	41,751,856	6.73%	45,233,768	8.34%	86,985,624	18.15%
COMMUNITY MENTAL HEALTH	27,512,147	27,965,587	1.65%	55,477,734	28,612,428	2.31%	29,477,204	3.02%	58,089,632	4.71%
COMMUNITY MENTAL RETARDATION	18,369,413	19,089,680	3.92%	37,459,093	19,321,633	1.22%	19,893,988	2.96%	39,215,621	4.69%
OTHER AGENCIES AND PROGRAMS	249,689,339	253,125,781	1.38%	502,815,120	259,652,388	2.58%	267,274,559	2.94%	526,926,947	4.80%
TOTAL POLICY AREA 03 - HUMAN SERVICES	581,865,057	680,913,739	17.02%	1,262,778,796	703,448,266	3.31%	730,291,668	3.82%	1,433,739,934	13.54%
TOTAL POLICY AREA 04 - LABOR	13,138,999	13,244,735	0.80%	26,383,734	13,641,327	2.99%	14,048,438	2.98%	27,689,765	4.95%
TOTAL POLICY AREA 05 - NATURAL RESOURCES	38,122,941	39,608,985	3.90%	77,731,926	40,310,203	1.77%	41,018,027	1.76%	81,328,230	4.63%
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	18,762,434	18,284,479	-2.55%	37,046,913	18,869,538	3.20%	19,454,033	3.10%	38,323,571	3.45%
TOTAL POLICY AREA 07 - TRANSPORTATION	3,164,585	3,355,225	6.02%	6,519,810	3,454,068	2.95%	3,558,093	3.01%	7,012,161	7.55%
STATEWIDE INITIATIVES	(1,666,667)	(4,333,333)	160.00%	(6,000,000)	(4,663,333)	7.62%	(5,021,233)	7.67%	(9,684,566)	61.41%
COLLECTIVE BARGAINING	4,247,553	8,014,598	88.69%	12,262,151	8,247,823	2.91%	8,487,834	2.91%	16,735,657	36.48%
GRAND TOTAL GENERAL FUND EXPENDITURES	1,819,479,084	1,957,866,585	7.61%	3,777,345,669	2,055,040,054	4.96%	2,143,533,599	4.31%	4,198,573,653	11.15%

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



Dollars in millions.
10

FY00/01 GENERAL FUND APPROPRIATIONS PROJECTED (BY POLICY AREA)



Dollars in millions.

CAPITAL CONSTRUCTION AND REPAIRS

FY98 (000)	FY99 (000)	YR% CHANGE	TOTAL BIENNIUM	FY00 (000)	YR% CHANGE	FY01 (000)	YR% CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
5,637	4,800	-14.85%	10,437	14,760	207.50%	14,760	0.00%	29,520	182.83%

Funding for capital construction repairs and improvements has managed to address the major infrastructure needs of the state for the FY 98-99 biennium. The anticipated funding level of \$14.8 million in each fiscal year of the FY 2000-2001 biennium is based on 1.5% of assessed value. This funding level is expected to maintain repairs and improvements at its existing levels.

PERSONAL PROPERTY TAX ON MACHINERY AND EQUIPMENT

FY98 (000)	FY99 (000)	YR% CHANGE	TOTAL BIENNIUM	FY00 (000)	YR% CHANGE	FY01 (000)	YR% CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
13,503	19,891	47.31%	33,394	30,211	51.89%	37,053	22.65%	67,264	101.43%

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 grow from the \$4.8 million level in FY 97 to over \$37 million in FY 2001. This program will continue to grow at a significant pace until the 12th or 13th year of the program, at which time it is expected to be at a level near \$75 million per year. A major change in this program for the FY 98-99 biennium is the exclusion of utilities and retail operations.

DEBT SERVICE

FY98 (000)	FY99 (000)	YR% CHANGE	TOTAL BIENNIUM	FY00 (000)	YR% CHANGE	FY01 (000)	YR% CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
72,812	73,338	0.72%	146,150	77,598	5.81%	79,934	3.01%	157,532	7.79%

The budgeted General Fund debt service for the FY 98-99 biennium is \$146.2 million which is a significant reduction from the previous biennium which was \$172.7 million.

The FY 2000-2001 biennium assumes authorization of \$50 million in borrowing in each of the fiscal years 1997-98, 1998-99 and 1999-2000, and that bonds issued would be \$39.5 million in FY 97, \$46.4 million in FY 98, \$48.4 million in FY 99 and \$49.5 million in FY 2000. These appropriated funds will be supplemented, if needed, by transfers from debt service earnings of up to \$2.0 million each year. For all bonds to be issued in the future, a 5.25% interest rate is assumed. This is higher than the rate at which previous bonds were issued, but is considered prudent.

GENERAL PURPOSE AID TO LOCAL SCHOOLS

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
549,905	560,903	2.00%	1,110,807	588,948	5.00%	618,395	5.00%	1,207,343	8.69%

General Purpose Aid to Local Schools is budgeted at the maximum allowable growth of 5% as provided for in Title 20-A section 15605. According to this section of the statute, the recommended funding level of the Commissioner of Education may not exceed 105% of the funding level in effect for the fiscal year in progress. The expenditure forecast for the FY 2000-2001 biennium assumes 5% growth each fiscal year from the FY 99 base that represents the Governor's recommended funding level in the budget proposal for the FY 98-99 biennium.

TEACHER RETIREMENT

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
152,155	156,727	3.00%	308,883	167,520	6.89%	176,496	5.36%	344,015	11.37%

The budget proposal for the FY 98-99 biennium for Teacher Retirement provides that the General Fund will support the normal cost of Teacher Retirement at the same normal cost rate as state employees covered by the State regular retirement plan. As a consequence, this expenditure projection uses the FY 98-99 biennium budget proposal as a base for forecasting purposes.

In FY 99, the normal cost rate for the teacher retirement group is 7.25%. For state employees covered by the State regular retirement plan, the normal cost rate is 6.65% with trend growth of 3.158% each fiscal year. The expenditure forecast also assumes that salary and wage growth will trend downward from its current annual growth rate of 6%. From FY 99 to FY 2000, this growth is projected at 5%. From FY 2000 to FY 2001, salary growth is projected at 4%.

Under the proposed budget for the FY 98-99 biennium, the General Fund would continue to support 100% of the cost of unfunded liability, Maine State Retirement System administration and retiree health. These expenditures are forecast for the FY 2000-2001 biennium at the same growth trends as exist for the FY 98-99 biennium for Teacher Retirement.

CORRECTIONS

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
71,781	75,740	5.52%	147,521	76,753	1.34%	79,044	2.99%	155,797	5.61%

The Department of Corrections spending pattern increased for several reasons.

Community Based Corrections - 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. While the FY

97 appropriation was consistent with the law, FY 98 and FY 99 provided for funding up to the appropriated amount which level funded the program at the FY 97 level. FY 2000 and FY 2001 estimates are back to full reimbursement under the law.

Several new initiatives beginning in FY 98 will result in increased spending from the FY 97 level. Additional funding is provided for the opening of the Northern Maine Juvenile Detention Center, an alternative to the current system of housing females at the Charleston Correctional Facility, a mental health stabilization unit at the Maine State Prison, community and victim involvement in addressing harm done by offenders, crisis intervention funding, increased security at the Warren Correctional Facility, intensive supervision services for juveniles at high risk for detention or incarceration and a reception and diagnostic unit at the Maine Youth Center.

These proposals are phased in during FY 98 and fully funded in FY 99. Increases from FY 99 to FY 2000 and FY 2001 are consistent with normal CPI increases as is the rest of the department.

MEDICAL CARE									
FY98 (000)	FY99 (000)	YR% CHANGE	TOTAL BIENNIUM	FY00 (000)	YR% CHANGE	FY01 (000)	YR% CHANGE	TOTAL BIENNIUM	BIEN% CHANGE
106,460	191,597	79.97%	298,057	200,852	4.83%	210,560	4.83%	411,412	38.03%

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 66% of the funding and the state matching with 34%.

This program also includes funding for the Elderly Boarding Home program of \$16.7 million in FY 2000 and \$17.2 million in FY 2001.

While the FY 98-99 biennium is projected 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 and Boarding Home programs are estimated to grow at a rate of 5% and 3% per year for the 2000-2001 biennium. The growth in MAP follows historical caseload trends in Maine. This estimate could increase if growth rates follow the national trend which is forecast at 7 to 9%, as projected by the Congressional Budget Office, Federal Budget Office of Management and Budget and the Urban Institute. The growth rate in Boarding Homes is for rate adjustments and inflationary increases.

This moderate 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.

NURSING FACILITIES

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
73,550	74,277	0.99%	147,826	76,505	3.00%	78,808	3.01%	155,313	5.06%

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 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. 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 in the NF program are expected to diminish. Other factors such as legislative changes in nursing home eligibility standards, combined with demographic factors including general aging of the population, could serve to create upward pressure on nursing home spending in the future.

This projection estimates that the movement of the population between the Nursing Facilities program and the Boarding Home Program will stabilize during the FY 2000-2001 biennium. Any increases are the result of inflation adjustments and rate increases.

CHILD WELFARE - FOSTER CARE

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
34,503	39,119	13.38%	73,622	41,752	6.73%	45,234	8.34%	86,986	18.15%

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 costs to increase by \$1.7 million from FY 98 to FY 2001. The causes of this increase include:

- > Increased board and care costs will result from the FY 97 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 98 and 169 during FY 99. The Bureau projects the additional costs associated with this initiative to be \$1,569,405 during FY 98 and \$1,960,556 during FY 99. FY 2000 and FY 2001 projections have these figures averaged in.

> Continued increases in board and care costs associated with the FY 97 10% increase in the base board rates for foster homes.

> Children have been staying longer in care than in the past. The number of children staying in care for two years or more increased from 925 in FY 94 to 1,338 in FY 96, a 45% increase. The total population of children in care increased by 19% during that same period.

Length of Time in Care	1994	1995	% Change	1996	% Change	% Change from 1994
Less Than One Year	595	580	-3%	661	+14%	+11%
One to Two Years	652	544	-17%	578	+6%	-11%
Two Years or More	925	1,188	+28%	1,338	+13%	+45%
TOTAL	2,172	2,312	+6%	2,577	+11%	+19%

COMMUNITY MENTAL HEALTH

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
27,512	27,966	1.65%	55,478	28,612	2.31%	29,477	3.02%	58,090	4.71%

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, Mental Retardation and Substance Abuse Services entail the consolidation of crises intervention services across all Department service populations, and the development of the capacity for involuntary hospitalizations within the community. The Department's 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, Mental Retardation and Substance Abuse Services. 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.

COMMUNITY MENTAL RETARDATION

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
18,369	19,090	3.92%	37,459	19,322	1.22%	19,894	2.96%	39,216	4.69%

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.

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 2000-2001 biennium is expected to closely follow projected Consumer Price Index (CPI) or departmental trends. With the base year (FY 99) adjusted for one-time appropriations, there are not any significant budget changes anticipated.

III. HIGHWAY FUND STATUS FY 98-2001

A. BUDGET STATUS

HIGHWAY FUND STATUS						
	FY 98	FY 99	BIENNIUM	FY 00	FY 01	BIENNIUM
BALANCE	2,716,341		2,716,341	162,039		162,039
ADJUSTMENTS			0			0
REVENUE	214,891,530	218,409,718	433,301,248	225,067,090	227,047,661	452,114,751
TOTAL RESOURCES	217,607,871	218,409,718	436,017,589	225,229,129	227,047,661	452,276,790
ALLOCATIONS	216,922,843	218,932,707	435,855,550	243,266,799	250,966,276	494,233,075
PROJECTED BALANCE	685,028	(522,989)	162,039	(18,037,670)	(23,918,615)	(41,956,285)

The Governor's proposed budget for the FY 98-99 biennium consists of allocations of \$435.9 million and projects \$436.0 million in revenue. At the end of the FY 98-99 biennium, the projected Highway Fund balance is \$162,039. The projected FY 2000-2001 biennium consists of allocations of \$494.2 million and projects \$452.1 million in revenue. Adding in the projected balance from the FY 98-99 biennium, the projected resources for the FY 2000-2001 biennium are \$452.3 million. The projected structural gap for the FY 2000-2001 biennium is \$42.0 million.

The most significant aspect of the budget proposal for the FY 98-99 biennium is the request of General Fund and Highway Fund bonding for the Department of Transportation's local bridge program. The Department is anticipating the continued support for the maintenance and improvements of the State's bridge infrastructure.

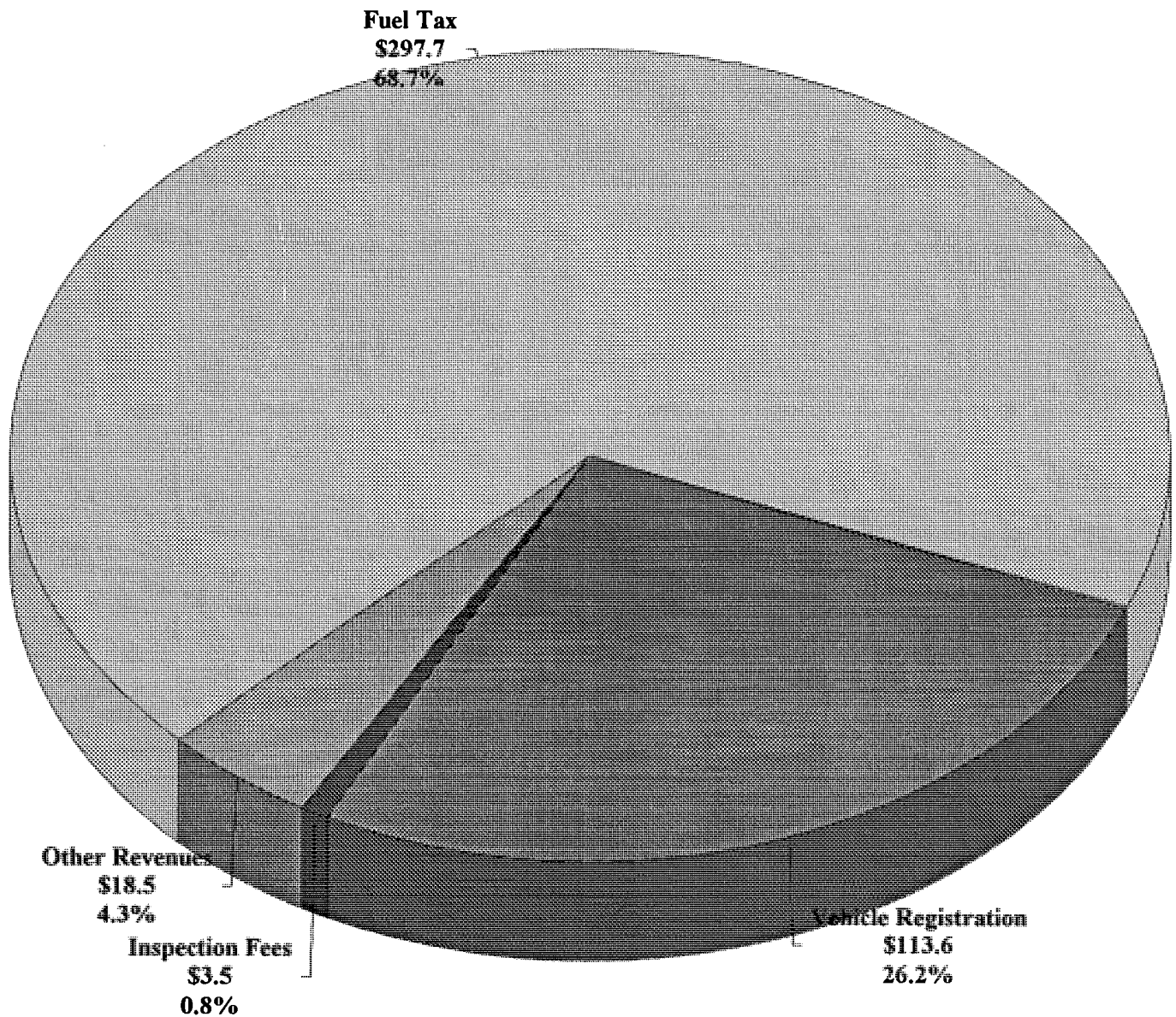
B. REVENUE FORECAST CHARTS

HIGHWAY FUND REVENUE FORECAST CHARTS												
SOURCE	FISCAL YEAR 1997-1998			FISCAL YEAR 1998-1999			FISCAL YEAR 1999-2000			FISCAL YEAR 2000-2001		
	ORG.	ADJ.	BUDGET	ORG.	ADJ.	BUDGET	ORG.	ADJ.	BUDGET	ORG.	ADJ.	BUDGET
Fuel Tax	146,135,554	1,250,000	147,385,554	147,860,834	2,500,000	150,360,834	149,608,646	2,529,550	152,138,196	151,379,318	2,559,449	153,938,767
Motor Vehicle Registrations & Fees	56,556,495		56,556,495	57,028,952		57,028,952	61,908,962		61,908,962	62,088,962		62,088,962
Inspection Fees	1,740,312		1,740,312	1,740,312		1,740,312	1,740,312		1,740,312	1,740,312		1,740,312
Other Revenues	9,209,169		9,209,169	9,279,620		9,279,620	9,279,620		9,279,620	9,279,620		9,279,620
TOTAL REVENUE	213,641,530	1,250,000	214,891,530	215,909,718	2,500,000	218,409,718	222,537,540	2,529,550	225,067,090	224,488,212	2,559,449	227,047,661

SOURCE	FY 98	FY 99	% CHANGE	BIENNIUM	FY 00	% CHANGE	FY 01	% CHANGE	BIENNIUM	% CHANGE
Fuel Tax	147,385,554	150,360,834	2.02%	297,746,388	152,138,196	1.18%	153,938,767	1.18%	306,076,963	2.80%
Motor Vehicle Registrations & Fees	56,556,495	57,028,952	0.84%	113,585,447	61,908,962	8.56%	62,088,962	0.29%	123,997,924	9.17%
Inspection Fees	1,740,312	1,740,312	0.00%	3,480,624	1,740,312	0.00%	1,740,312	0.00%	3,480,624	0.00%
Other Revenues	9,209,169	9,279,620	0.77%	18,488,789	9,279,620	0.00%	9,279,620	0.00%	18,559,240	0.38%
TOTAL HIGHWAY FUND REVENUES	214,891,530	218,409,718	1.64%	433,301,248	225,067,090	3.05%	227,047,661	0.88%	452,114,751	4.34%

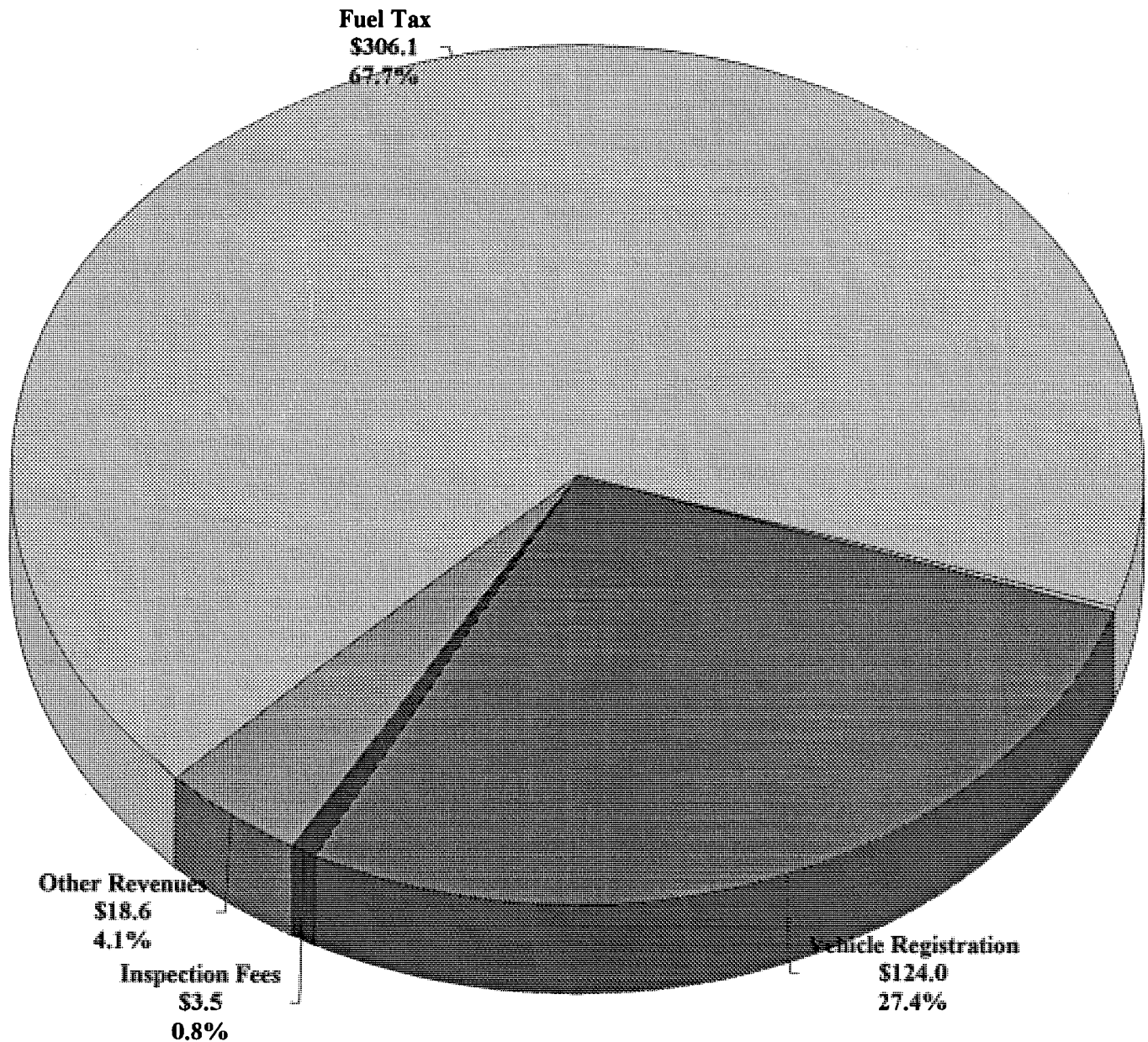
FY98/99 HIGHWAY REVENUES

RECOMMENDED



Dollars in millions.
20

FY00/01 HIGHWAY FUND REVENUES PROJECTED



Dollars in millions.

FUEL TAX

FY98 (000)	FY99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY00 (000)	YR % CHANGE	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
147,386	150,361	2.02%	297,746	152,138	1.18%	153,939	1.18%	306,077	2.80%

Revenues derived from the sale of gasoline and special fuels is expected to continue to grow at a very slow rate. Conservation and increased fuel prices have contributed to the slower rate of consumption. Businesses are also forced to find more efficient methods of manufacturing in order to maintain profitability during a slow economic growth period. The Governor's budget proposal for the FY 98-99 biennium suggests a small increase in this revenue line due to a technical change in how the tax is assessed.

MOTOR VEHICLE REGISTRATION FEES

FY98 (000)	FY99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY00 (000)	YR % CHANGE	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
56,556	57,029	0.84%	113,585	61,909	8.56%	62,089	0.29%	123,998	9.17%

Motor vehicle registration fees have stabilized after the one-time increase in the FY 94-95 biennium due to the change in driver license renewals from 4 years to 6 years. Beginning in FY 2000 individuals who renewed their licenses in 1994 will be renewing their licenses. This revenue line will therefore stabilize and reflect a six year cycle. A positive impact on this revenue source is due to Maine's participation in the International Registration Program. Maine joined the program in late FY 93, and revenues derived from this program have been difficult to anticipate. Revenues from this program are beginning to be realized during FY 97 and will continue in subsequent fiscal years which contributes to the growth in this revenue source in the FY 2000-2001 biennium

INSPECTION FEES

FY98 (000)	FY99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY00 (000)	YR % CHANGE	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
1,740	1,740	0.00%	3,481	1,740	0.00%	1,740	0.00%	3,481	0.00%

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

OTHER REVENUES

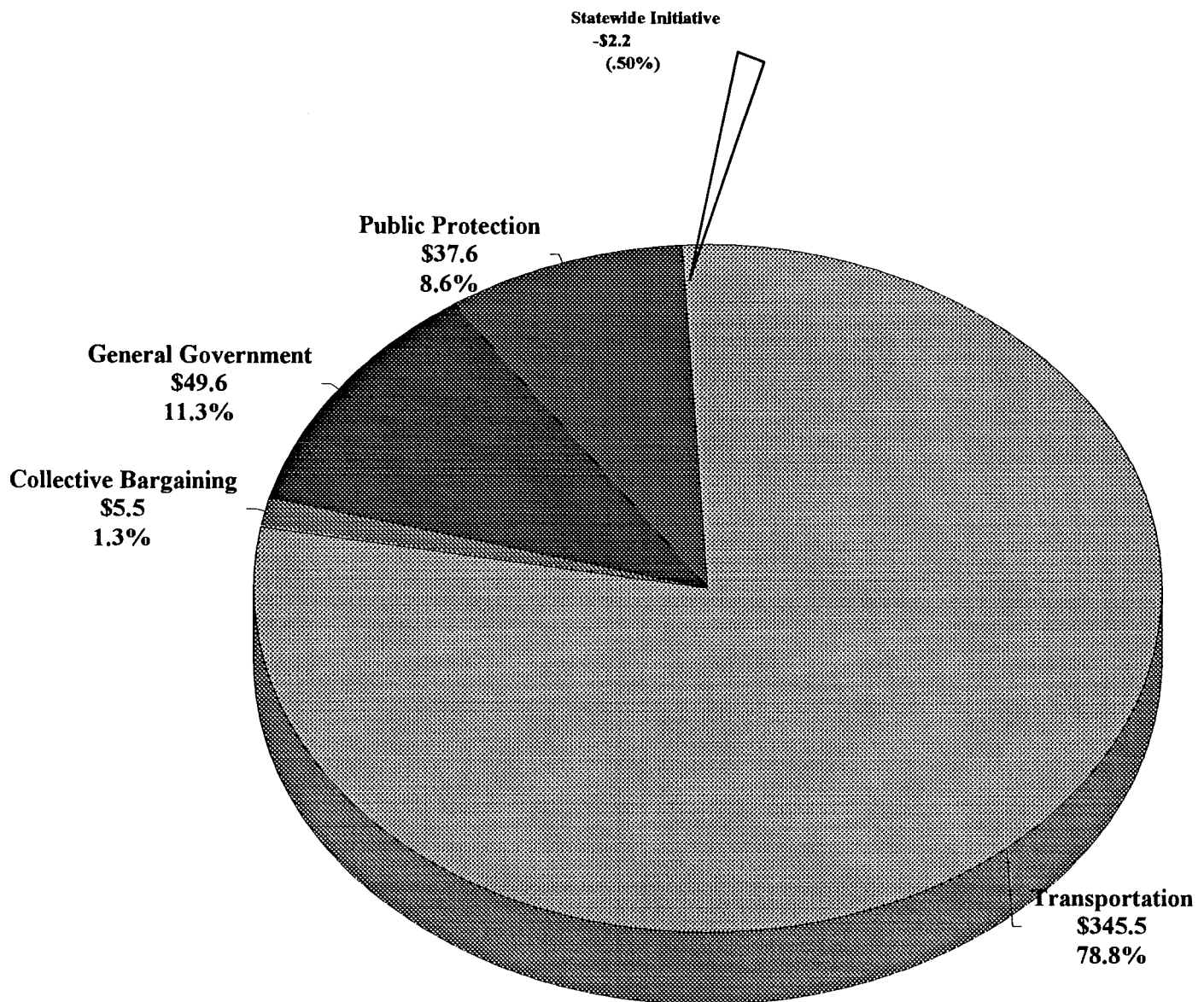
FY98 (000)	FY99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY00 (000)	YR % CHANGE	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
9,209	9,280	0.77%	18,489	9,280	0.00%	9,280	0.00%	18,559	0.38%

Other revenues within the Highway Fund are fairly static by nature and are not expected to grow over the next several years.

D. EXPENDITURE FORECAST CHART

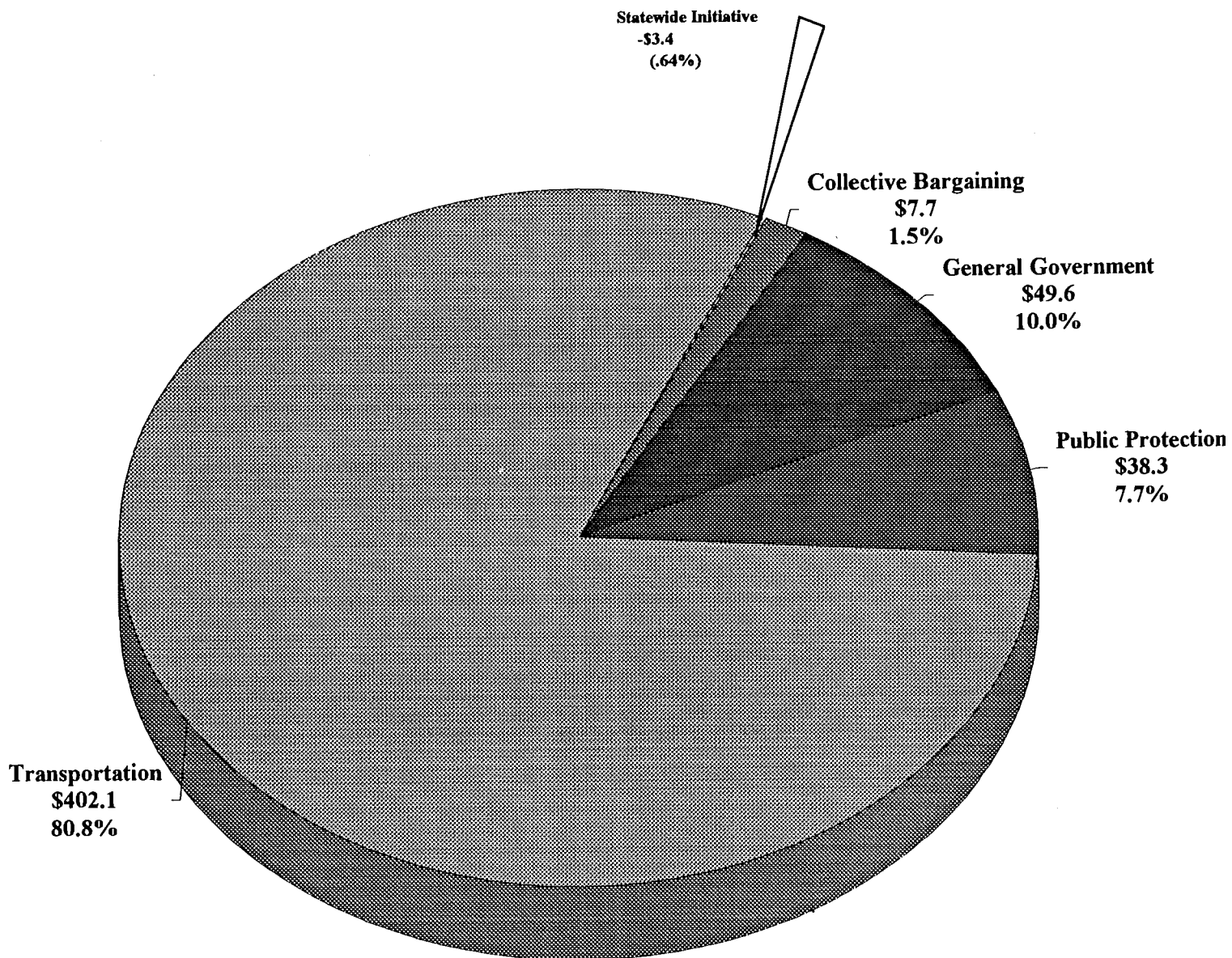
HIGHWAY FUND EXPENDITURE FORECAST CHART										
MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 98	FY 99	% CHANGE	BIENNIUM	FY 00	% CHANGE	FY 01	% CHANGE	BIENNIUM	% CHANGE
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	24,424,660	25,126,402	2.87%	49,551,062	24,428,452	-2.78%	25,168,705	3.03%	49,597,157	0.09%
STATE POLICE	16,635,561	15,711,416	-5.56%	32,346,977	16,215,401	3.21%	16,716,740	3.09%	32,932,141	1.81%
OTHER AGENCIES AND PROGRAMS	2,666,521	2,575,982	-3.40%	5,242,503	2,659,651	3.25%	2,743,058	3.14%	5,402,709	3.06%
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	19,302,082	18,287,398	-5.26%	37,589,480	18,875,052	3.21%	19,459,798	3.10%	38,334,850	1.98%
TOTAL POLICY AREA 07 - TRANSPORTATION	172,105,536	173,353,567	0.73%	345,459,103	197,826,294	14.12%	204,238,156	3.24%	402,064,450	16.39%
STATEWIDE INITIATIVES	(700,000)	(1,500,000)	114.29%	(2,200,000)	(1,635,000)	9.00%	(1,782,150)	9.00%	(3,417,150)	55.33%
COLLECTIVE BARGAINING	1,790,565	3,665,340	104.70%	5,455,905	3,772,001	2.91%	3,881,767	2.91%	7,653,768	40.28%
TOTAL HIGHWAY FUND EXPENDITURES	216,922,843	218,932,707	0.93%	435,855,550	243,266,799	11.11%	250,966,276	3.17%	494,233,075	13.39%

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



Dollars in millions.

FY00/01 HIGHWAY FUND ALLOCATIONS PROJECTED (BY POLICY AREA)



Dollars in millions.

STATE POLICE

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
17	16	-5.56%	32	16	3.21%	17	3.09%	33	1.81%

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. The Governor has proposed to permanently fund the State Police at 60% Highway Fund and 40% General Fund, in order to more accurately reflect program operations.

TRANSPORTATION

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
172	173	0.73%	345	198	14.12%	204	3.24%	402	16.39%

The Department of Transportation is beginning to take an aggressive approach to maintaining the State's infrastructure, with particular emphasis on local bridge construction and local road maintenance. The Governor's proposed budget for the FY 98-99 biennium plans to utilize a combination of General Fund and Highway Fund bonding to upgrade bridges which are in desperate need of repair. This approach of using general obligation bonds for the Department's capital program will put significant pressure on the Highway Fund in the ensuing years. The Department's projected needs in the FY 2000-2001 biennium will increase by \$56.6 million over the Governor's proposed budget for the FY 98-99 biennium.

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 2000-2001 biennium is expected to closely follow projected Consumer Price Index (CPI) or departmental trends. With the base year (FY 99) adjusted for one-time appropriations, there are not any significant budget changes anticipated.

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 98-99 biennium and the FY 2000-2001. The purpose is not to predict a shortfall or unbalanced budget in the respective funds for the FY 2000-2001 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 \$114,953,803 in the General Fund and \$41,956,285 in the Highway Fund for the FY 2000-2001 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 2000-2001 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.

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