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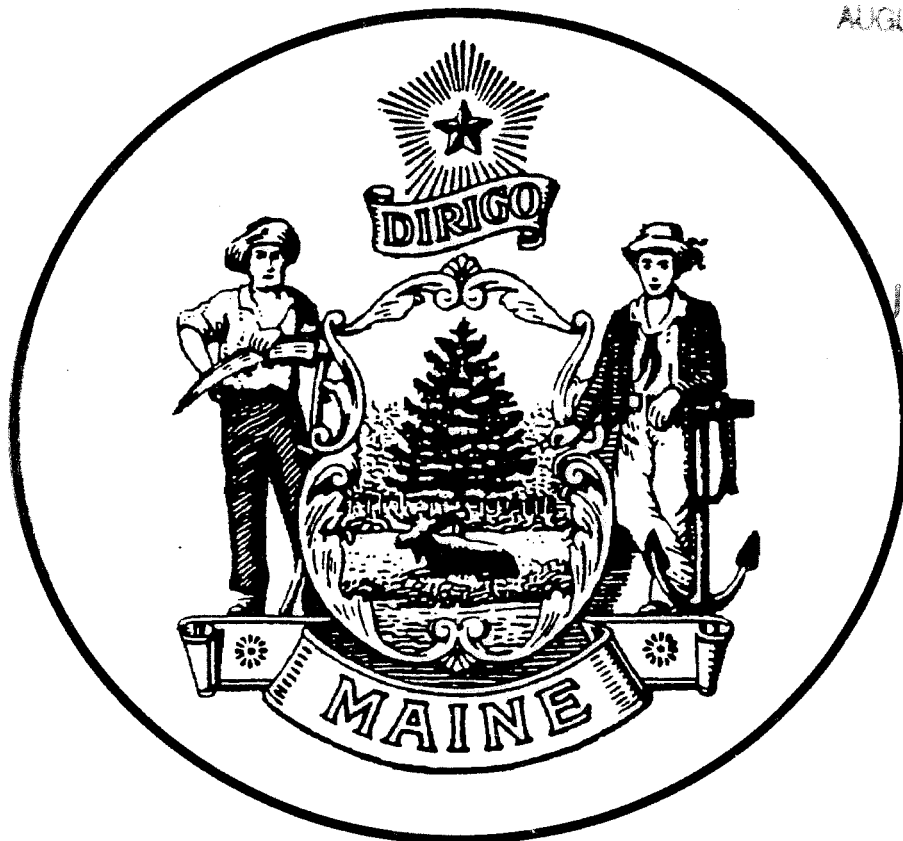


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STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION

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GENERAL FUND AND HIGHWAY FUND FISCAL YEARS 2000 - 2001

Submitted by the
Bureau of the Budget
May 31, 1998



STATE OF MAINE

DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES

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

Date: May 29, 1998

To: Honorable Angus S. King, Jr. Governor
Honorable Mark W. Lawrence, President of the Senate
Honorable Elizabeth H. Mitchell, Speaker of the House
Honorable Michael H. Michaud, Senate Chair
Honorable George J. Kerr, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs

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 98-99 biennium and the FY 2000-2001 biennium in accordance with Title 5, section 1665, subsection 7.

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 1665. This effort was initiated and passed into law by the 117th Legislature as fulfillment of one of the recommendations of the Special Commission on Governmental Restructuring to provide a platform for long term financial planning.

This report is required under current law to be issued on May 31, 1998 to reflect the current structure of State revenues and expenditures for both the General Fund and the Highway Fund using the programmatic and budgetary effects of the Second Regular Session and the Second Special Session of the 118th Legislature and the most current revenue projections.

When Public Law 1997, chapter 643 becomes effective on June 30, 1998, the Bureau of the Budget will be required to issue another four year budget forecast on September 30, 1998. That report should be similar in content to the May 31, 1998 report with respect to the General Fund and the Highway Fund except for the effect of expenditure trends in fiscal year 1997-98, year end balances and department and agency budget requests for the FY 2000-2001 biennium.

In any event, both reports should provide an objective view of revenue and expenditure trends over the long term as a basis for fiscal planning and decision making.

JRN/da

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

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 initiative is in fulfillment of the recommendations of the Special Commission on Governmental Restructuring for the purpose of providing a basis for longer term budget planning for the State's two undedicated funds. This budget approach also provides a means of comparing the structure of current expenditures and current revenues projected forward on a consistent trend basis for both funds. It shows the capacity of the State's General Fund and Highway Fund resources to support the current level of State government services projected forward.

The last such report was issued on December 11, 1997 to reflect the budgetary and programmatic effects in FY 1997-98, FY 1998-99, FY 1999-2000 and FY 2000-2001 resulting from the actions of the First Regular Session and the First Special Session of the 118th Legislature in addition to the December 1, 1997 revenue reprojection of the Revenue Forecasting Committee. This report updates that budget forecast by using the budgetary and programmatic effects from the Second Regular Session and the Second Special Session of the 118th Legislature as a means of recasting the budgetary position of the General Fund and the Highway Fund for the FY 98-99 biennium and the FY 2000-2001 biennium. The expected outcome, as in previous reports, is an objective presentation of the General Fund and the Highway Fund budgets for FY 2000 and FY 2001 based on financial and program information contained in legislation enacted and signed into law for the FY 98-99 biennium.

The projected revenues and expenditures for the General Fund and the Highway Fund are based on current law and current program trends, as required by statute. With respect to revenues, the General Fund and Highway Fund represent the most current projections of the Revenue Forecasting Committee, as required by Public Law 1997, chapter 157. These base level projections from the Revenue Forecasting Committee are reflected in the original columns in the accompanying revenue forecast charts. These base revenue projections have been updated for both the General Fund and the Highway Fund to include revenue adjustments for the FY 98-99 biennium from the Second Regular Session and the Second Special Session of the 118th Legislature, as displayed in the adjustment columns in the revenue forecast charts. Legislatively approved revenues for FY 98 and FY 99 are reflected in the last column in each fiscal year in the revenue forecast charts. The final revenue projections for the FY 2000-2001 biennium, as presented in the last column of each fiscal year in the revenue forecast charts, reflect the current forecast of the Revenue Forecasting Committee plus additional revenue adjustments resulting from approved legislation from the Second Regular Session and the Second Special Session of the 118th Legislature. This revenue data was projected forward from FY 99 using the most recent growth assumptions of the Revenue Forecasting committee adjusted to reflect one-time effects.

In order to provide the most accurate expenditure position from currently available budget

information, the projection used the FY 99 work program by expenditure category, as reflected in approved appropriations and allocations for FY 99. These dollars were adjusted for the effect of one-time and phased-in actions expected to occur in FY 99. More detailed projections on a department or program basis were made where appropriate to reflect specific trends in those areas. Other base level projections were developed using 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 percent change in terms of a base year.

This report uses the CPI for the projected increase in the cost of government services and applies that factor to each All Other expenditure category in the base FY 99 year. Personal Services projections for the FY 2000-2001 biennium are based on merit growth for salaries and wages and net growth for state employee benefits based on historical trends. These projections result in growth estimates applicable to Personal Services of 3.02% for FY 2000 and 2.94 for FY 2001 for the General Fund and 3.11% for FY 2000 and 3.03% for FY 2001 for the Highway Fund. The projection for Personal Services does not anticipate future salary adjustments beyond the June 30, 1999 term of the current collective bargaining agreements. All Other projections for the FY 2000-2001 biennium reflect projected growth of 3% each fiscal year for government services from the FY 99 base year into FY 2000 and FY 2001 for both the General Fund and the Highway Fund.

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 98-99 BIENNIUM			FY 2000-2001 BIENNIUM		
	FY 98	FY 99	TOTAL	FY 00	FY 01	TOTAL
BALANCE	16,965,608		16,965,608	330,706		330,706
ADJUSTMENTS	23,071,373	80,425,100	103,496,473	4,478,437	139,364	4,617,801
REVENUE	1,927,664,314	2,008,449,487	3,936,113,801	2,069,403,803	2,142,717,134	4,212,120,937
TOTAL RESOURCES	1,967,701,295	2,088,874,587	4,056,575,882	2,074,212,946	2,142,856,498	4,217,069,444
APPROPRIATIONS	1,888,812,553	2,167,432,623	4,056,245,176	2,244,863,372	2,358,195,032	4,603,058,404
PROJECTED BALANCE	78,888,742	(78,558,036)	330,706	(170,650,426)	(215,338,534)	(385,988,960)

As a result of budget adjustments made during the Second Regular Session and Second Special Session of the 118th Legislature, appropriations for the FY 98-99 biennium total \$4,056,245,176. With \$4,056,575,882 in resources that includes revenue, balance adjustments and the balance brought forward from the FY 96-97 biennium, the projected balance going into the FY 2000-01 biennium is \$330,706.

The structural imbalance in FY 99, a negative \$78.6 million, is due in part to the phase out of the hospital tax and the resulting increase in appropriations for Medicaid. This gap between appropriations and available resources, even when adjusted for one-time items, is a significant contributor to the projected structural gap for the FY 2000-01 biennium.

Projections for the FY 2000-2001 biennium include General Fund revenue of \$4.212 billion and appropriations of \$4.603 billion. The projected structural gap between resources and appropriations is \$386.0 million.

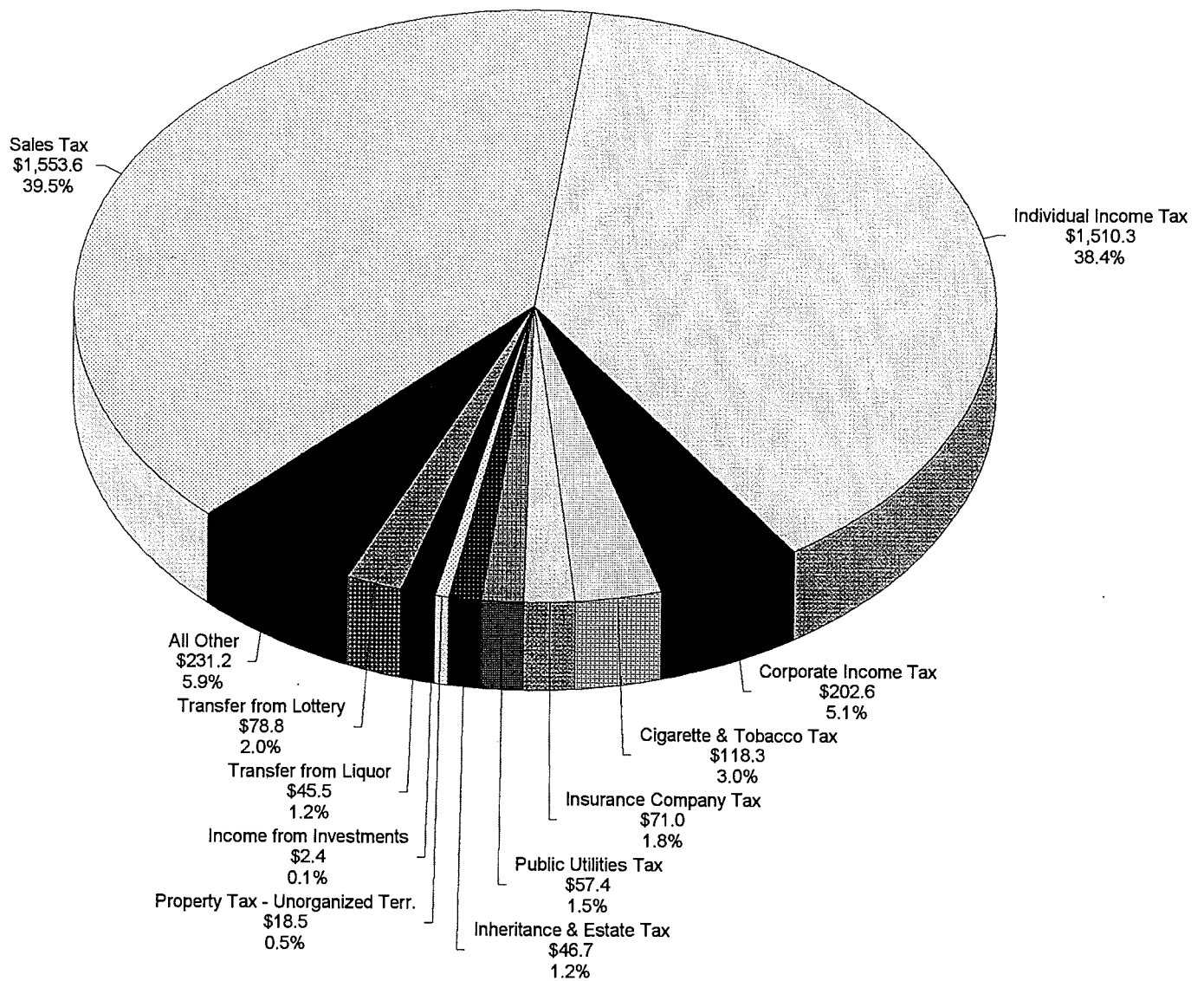
B. REVENUE FORECAST CHARTS

GENERAL FUND REVENUE FORECAST CHARTS

SOURCE	FY 98	FY 99	% CHANGE	BIENNIUM	FY 00	% CHANGE	FY 01	% CHANGE	BIENNIUM	% CHANGE
Sales and Use Tax	776,253,245	777,365,194	0.14%	1,553,618,439	808,175,102	3.96%	840,217,406	3.96%	1,648,392,508	6.10%
Individual Income Tax	724,428,622	785,882,253	8.48%	1,510,310,875	813,109,658	3.46%	851,662,712	4.74%	1,664,772,370	10.23%
Corporate Income Tax	102,264,365	100,314,750	-1.91%	202,579,115	103,283,305	2.96%	107,116,546	3.71%	210,399,851	3.86%
Cigarette & Tobacco Tax	44,890,210	73,368,370	63.44%	118,258,580	72,770,390	-0.82%	69,778,479	-4.11%	142,548,869	20.54%
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	31,299,520	15,356,915	-50.94%	46,656,435	15,711,717	2.31%	16,007,902	1.89%	31,719,619	-32.01%
Property Tax - Unorg. Terr.	8,776,866	9,695,799	10.47%	18,472,665	9,325,325	-3.82%	9,637,655	3.35%	18,962,980	2.65%
Income from Investments	1,776,409	626,240	-64.75%	2,402,649	826,240	31.94%	1,026,240	24.21%	1,852,480	-22.90%
Transfer from Liquor	21,256,837	24,248,824	14.08%	45,505,661	24,248,824		24,248,824		48,497,648	6.57%
Transfer from Lottery	37,637,870	41,112,981	9.23%	78,750,851	41,112,981		41,112,981		82,225,962	4.41%
All Other	114,942,370	116,241,161	1.13%	231,183,531	116,501,261	0.22%	117,539,389	0.89%	234,040,650	1.24%
TOTAL REVENUE	1,927,664,314	2,008,449,487	4.19%	3,936,113,801	2,069,403,803	3.03%	2,142,717,134	3.54%	4,212,120,937	7.01%

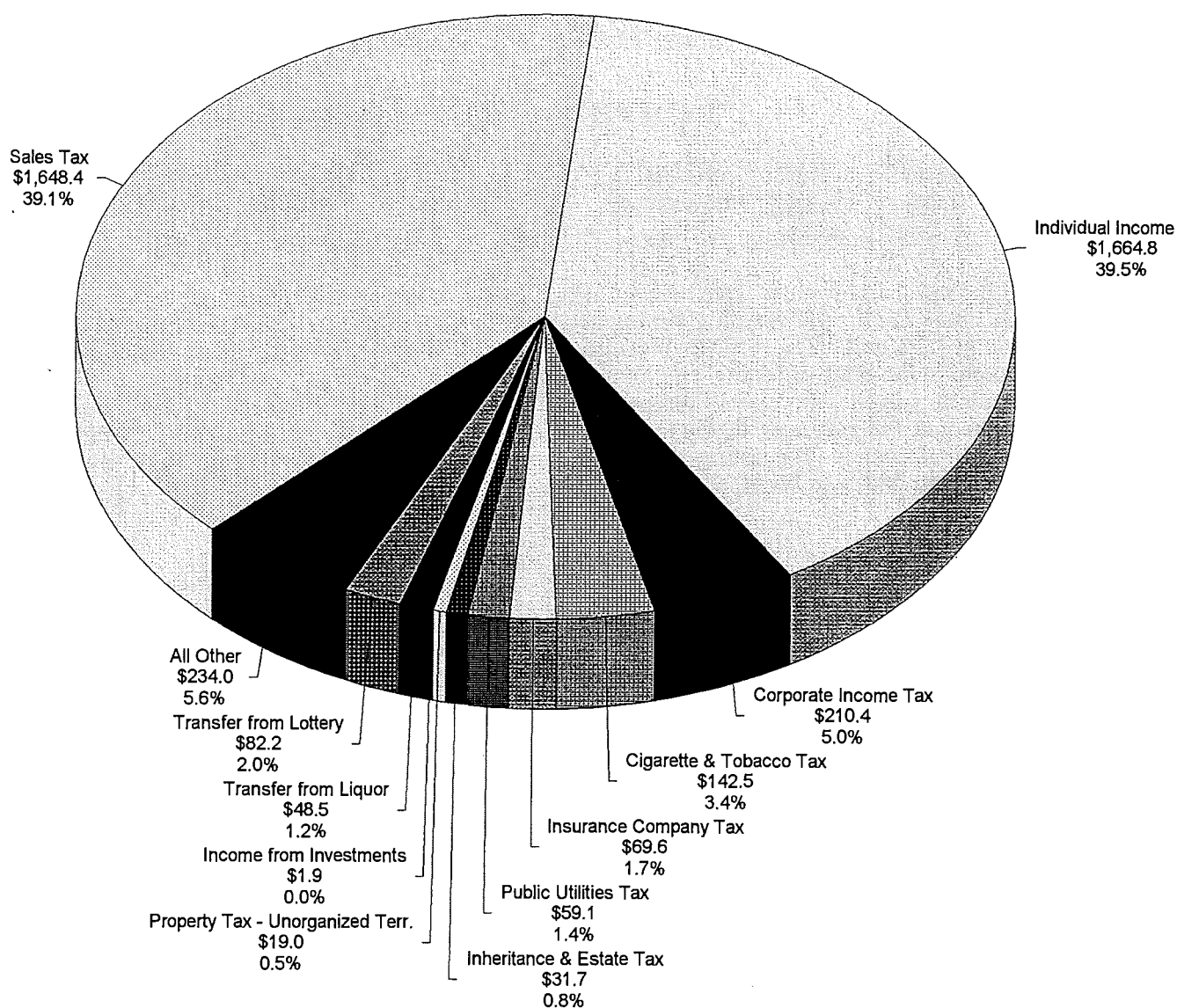
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FY98/99 GENERAL FUND REVENUES APPROVED



Dollars in millions

FY00-01 GENERAL FUND REVENUES PROJECTED



Dollars in millions

C. REVENUE FORECAST NARRATIVE

SALES AND USE 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
776,253	777,365	0.14%	1,553,618	808,175	3.96%	840,217	3.96%	1,648,393	6.10%

Sales and Use Tax revenues for the General Fund continue to show modest growth of 4% per year in line with the overall growth of the Maine economy and growth in personal income consistent with the most recent forecast of the Economic Forecasting Committee. It is expected that the New England economy will be one of the slowest growing regional economies in the United States. As a result, the Maine economy is expected to grow at a very modest rate over the next several years. Sales 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, thus contributing to the modest growth in Sales and Use Tax revenue. The only adjustments to the base level projection of the Revenue Forecasting Committee reflect marginal changes from the following Public Laws enacted by the Second Special Session of the 118th Legislature totaling \$(7,877) in the FY 99 base year: chapter 723; chapter 725; chapter 729; and, chapter 791.

INDIVIDUAL 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
724,429	785,882	8.48%	1,510,311	813,110	3.46%	851,663	4.74%	1,664,772	10.23%

Individual Income Tax revenues have realized strong growth over the past biennium. Employment growth and personal income growth, which strongly influence Individual Income Tax revenues, are expected to increase approximately 1.2% and 5.3%, respectively, during the FY 2000-2001 biennium. Despite continued low unemployment in the State of Maine, employment and personal income growth are expected to follow modest, upward trends consistent with current forecasts. The projections for FY 2000 and FY 2001 assume that all Individual Income Tax revenues accrue to the General Fund. The most significant adjustment to the base level projection of the Revenue Forecasting Committee represents the increase in the personal exemption in Public Law 1997, chapter 643, Part HHH, section 4.

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
102,264	100,315	-1.91%	202,579	103,283	2.96%	107,117	3.71%	210,400	3.86%

The Corporate Income Tax has realized very strong growth over the FY 96-97 biennium. While that growth may likely continue through the FY 99 base year, this revenue line has historically been very difficult to predict with much accuracy. Unlike other revenue lines, 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, the Investment Tax Credit and operating loss carry back have made accurate revenue projections difficult to achieve. Public Law 1997, chapter 596 provided conformity with the United States Internal Revenue Code while Public Law 1997, chapter 729 increases the Corporate Income Tax from enhanced auditing services. These changes in the Corporate Income Tax represent the most significant adjustments in the base level projection of the Revenue Forecasting Committee.

CIGARETTE AND TOBACCO 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
44,890	73,368	63.44%	118,259	72,770	-0.82%	69,778	-4.11%	142,549	20.54%

Revenues derived from the sale of cigarettes and tobacco products have stabilized over the past biennium. The base level forecast for the FY 2000-2001 biennium is based on the assumption that cigarette sales will decline at a rate of 2% per year. The major contributor to this decline is the change in societal values and governmental policy regarding the use and consumption of cigarettes and tobacco products. The policy of promoting the negative health effects of smoking and the encouragement of non smoking habits should result in a continuation in the decline of this revenue source.

The Cigarette and Tobacco Tax revenue forecast for FY 99 includes the Cigarette Tax increase implemented in Public Law 1997, chapter 560. That increase is reflected in the revenue forecast for FY 2000 and FY 2001. Recent discussions at the federal level regarding a potential increase in the cigarette excise tax could significantly erode this revenue source.

INSURANCE COMPANY 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%

Revenue 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. Although it would be expected that this revenue source would increase at a rate consistent to the overall growth of the Maine economy, the emphasis on lower workers' compensation premium costs and the expansion of HMOs appears to be negatively affecting this revenue source. As a consequence, the base level projection assumes a decline of 1% per year into the FY 2000-2001 biennium.

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
114,942	116,241	1.13%	231,184	116,501	0.22%	117,539	0.89%	234,041	1.24%

The remaining General Fund revenues are not expected to grow in the FY 2000-2001 biennium consistent with the base level forecast of the Revenue Forecasting Committee. The only significant adjustments in the base revenue projections reflect net revenue increases as a result of Public Law 1997, chapter 643 and miscellaneous bills enacted by the Second Special Session of the 118th Legislature.

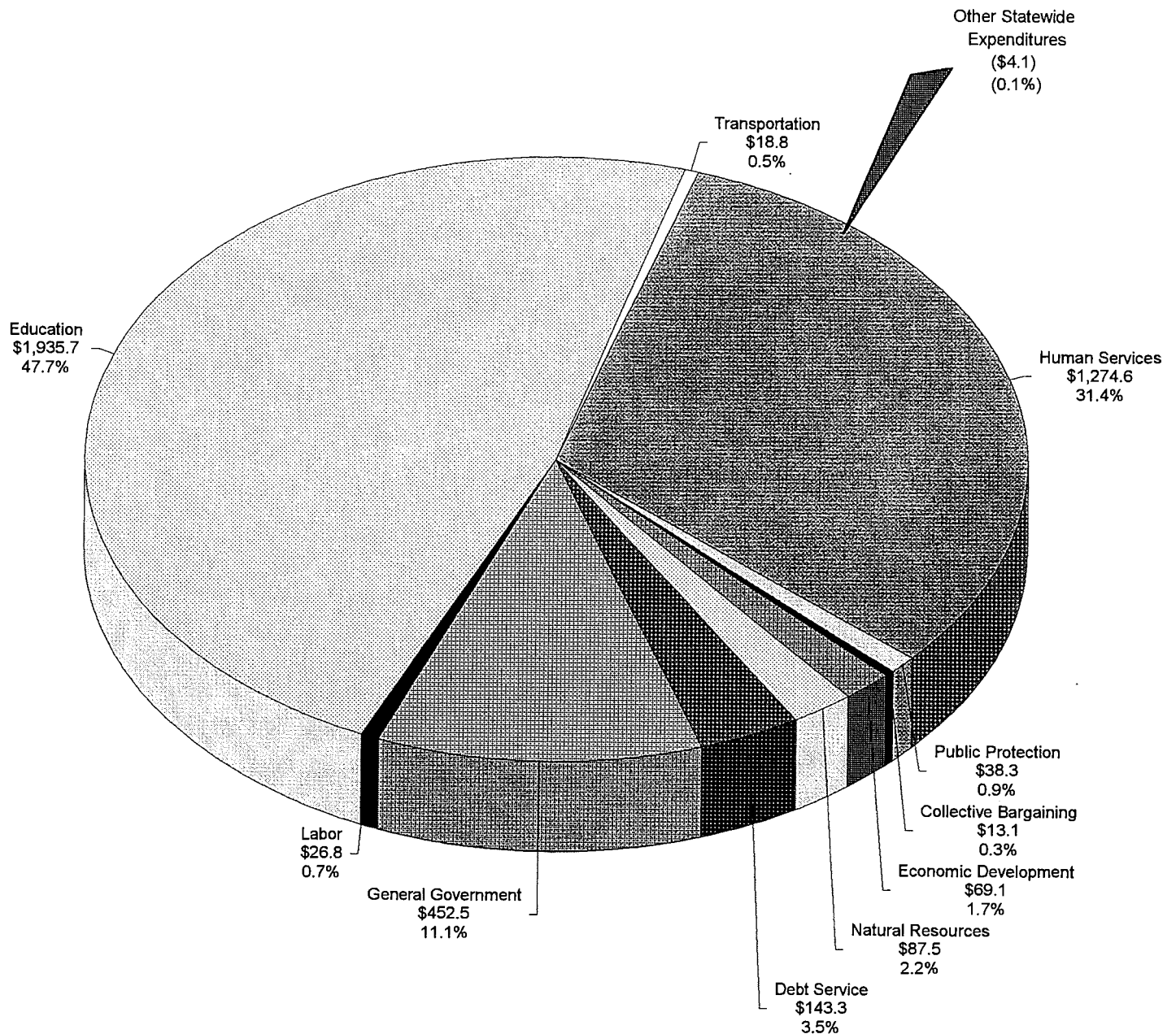
D. EXPENDITURE FORECAST CHART

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	7,772,486	2,204,831	-71.63%	9,977,317	6,264,918	184.15%	6,268,954	0.00%	12,533,872	25.62%
BUILDING OPERATIONS	6,966,522	7,272,579	4.39%	14,239,101	10,230,923	40.68%	10,206,773	-0.24%	20,437,696	43.53%
PERSONAL PROPERTY TAX ON MACHINERY AND EQUIP	19,002,963	20,352,203	7.10%	39,355,166	38,410,000	88.73%	47,964,000	24.87%	86,374,000	119.47%
MAINE RESIDENTS PROPERTY TAX PROGRAM	2,159,292	10,040,063	364.97%	12,199,355	19,200,030	91.23%	19,955,092	3.93%	39,155,122	220.96%
MAINE RESIDENT HOMESTEAD PROPERTY TAX EXEMPTION		46,138,220	100.00%	46,138,220	48,445,131	5.00%	50,867,387	5.00%	99,312,518	115.25%
DEBT SERVICE	71,124,172	72,159,914	1.46%	143,284,086	74,474,104	3.21%	77,306,087	3.80%	151,780,191	5.93%
OTHER AGENCIES AND PROGRAMS	156,126,594	174,465,348	11.75%	330,591,942	171,071,673	-1.95%	177,037,327	3.49%	348,109,000	5.30%
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	263,152,029	332,633,158	26.40%	595,785,187	368,096,779	10.66%	389,605,620	5.84%	757,702,399	27.18%
TOTAL POLICY AREA 01 - ECONOMIC DEVELOPMENT	31,469,308	37,639,119	19.61%	69,108,427	36,148,588	-3.96%	37,307,008	3.20%	73,455,596	6.29%
GENERAL PURPOSE AID TO LOCAL SCHOOLS	556,290,235	591,532,327	6.34%	1,147,822,562	592,770,043	0.21%	611,885,144	3.22%	1,204,655,187	4.95%
TEACHER RETIREMENT	151,539,355	161,328,194	6.46%	312,867,549	174,191,385	7.97%	187,176,792	7.45%	361,368,177	15.50%
PRE-SCHOOL HANDICAPPED	10,057,011	8,458,423	-15.90%	18,515,434	12,710,721	50.27%	14,872,043	17.00%	27,582,764	48.97%
OTHER AGENCIES AND PROGRAMS	211,896,521	244,580,327	15.42%	456,476,848	229,645,073	-6.11%	236,508,441	2.99%	466,153,514	2.12%
TOTAL POLICY AREA 02 - EDUCATION	929,783,122	1,005,899,271	8.19%	1,935,682,393	1,009,317,222	0.34%	1,050,442,420	4.07%	2,059,759,642	6.41%
CORRECTIONS	71,654,237	78,390,904	9.40%	150,045,141	80,936,036	3.25%	86,455,953	6.82%	167,391,989	11.56%
MEDICAL CARE	109,232,291	205,927,809	88.52%	315,160,100	223,304,901	8.44%	240,629,400	7.76%	463,934,301	47.21%
NURSING FACILITIES	60,454,972	62,167,171	2.83%	122,622,143	65,275,530	5.00%	68,539,306	5.00%	133,814,836	9.13%
CHILD WELFARE - FOSTER CARE	33,098,618	38,558,530	16.50%	71,657,148	45,913,797	19.08%	53,587,627	16.71%	99,501,424	38.86%
COMMUNITY MENTAL HEALTH	24,951,434	27,591,364	10.58%	52,542,798	29,844,000	8.16%	30,739,000	3.00%	60,583,000	15.30%
COMMUNITY MENTAL RETARDATION	17,126,467	19,101,811	11.53%	36,228,278	20,172,000	5.60%	20,777,000	3.00%	40,949,000	13.03%
OTHER AGENCIES AND PROGRAMS	254,133,796	272,204,985	7.11%	526,338,781	279,359,778	2.63%	286,477,207	2.55%	565,836,985	7.50%
TOTAL POLICY AREA 03 - HUMAN SERVICES	570,651,815	703,942,574	23.36%	1,274,594,389	744,806,042	5.80%	787,205,493	5.69%	1,532,011,535	20.20%
TOTAL POLICY AREA 04 - LABOR	13,764,675	12,997,986	-5.57%	26,762,661	13,386,944	2.99%	13,784,989	2.97%	27,171,933	1.53%
TOTAL POLICY AREA 05 - NATURAL RESOURCES	41,300,161	46,238,233	11.96%	87,538,394	44,298,368	-4.20%	45,614,596	2.97%	89,912,964	2.71%
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	18,877,303	19,447,059	3.02%	38,324,362	20,380,177	4.80%	21,004,941	3.07%	41,385,118	7.99%
TOTAL POLICY AREA 07 - TRANSPORTATION	15,474,587	3,328,428	-78.49%	18,803,015	3,349,423	0.63%	3,371,000	0.64%	6,720,423	-64.26%
<u>OTHER STATEWIDE INITIATIVES</u>										
COLLECTIVE BARGAINING	4,339,553	8,776,478	102.24%	13,116,031	8,980,970	2.33%	9,176,755	2.18%	18,157,725	38.44%
HEALTH INSURANCE		(2,832,183)		(2,832,183)	(3,087,079)	9.00%	(3,364,916)	9.00%	(6,451,995)	127.81%
WORKERS' COMPENSATION		(250,000)		(250,000)	(255,000)	2.00%	(260,100)	2.00%	(515,100)	106.04%
TECHNOLOGY INITIATIVES		(1,000,000)		(1,000,000)	(1,030,000)	3.00%	(1,060,900)	3.00%	(2,090,900)	109.09%
GOVERNMENTAL FACILITIES AUTHORITY		612,500	100.00%	612,500		-100.00%	4,876,064	100.00%	4,876,064	696.09%
STATE AGENCIES LEASE PAYMENTS TO AUTHORITY					470,938	100.00%	492,062	4.49%	963,000	100.00%
GRAND TOTAL GENERAL FUND EXPENDITURES	1,888,812,553	2,167,432,623	14.75%	4,056,245,176	2,244,863,372	3.57%	2,358,195,032	5.05%	4,603,058,404	13.48%

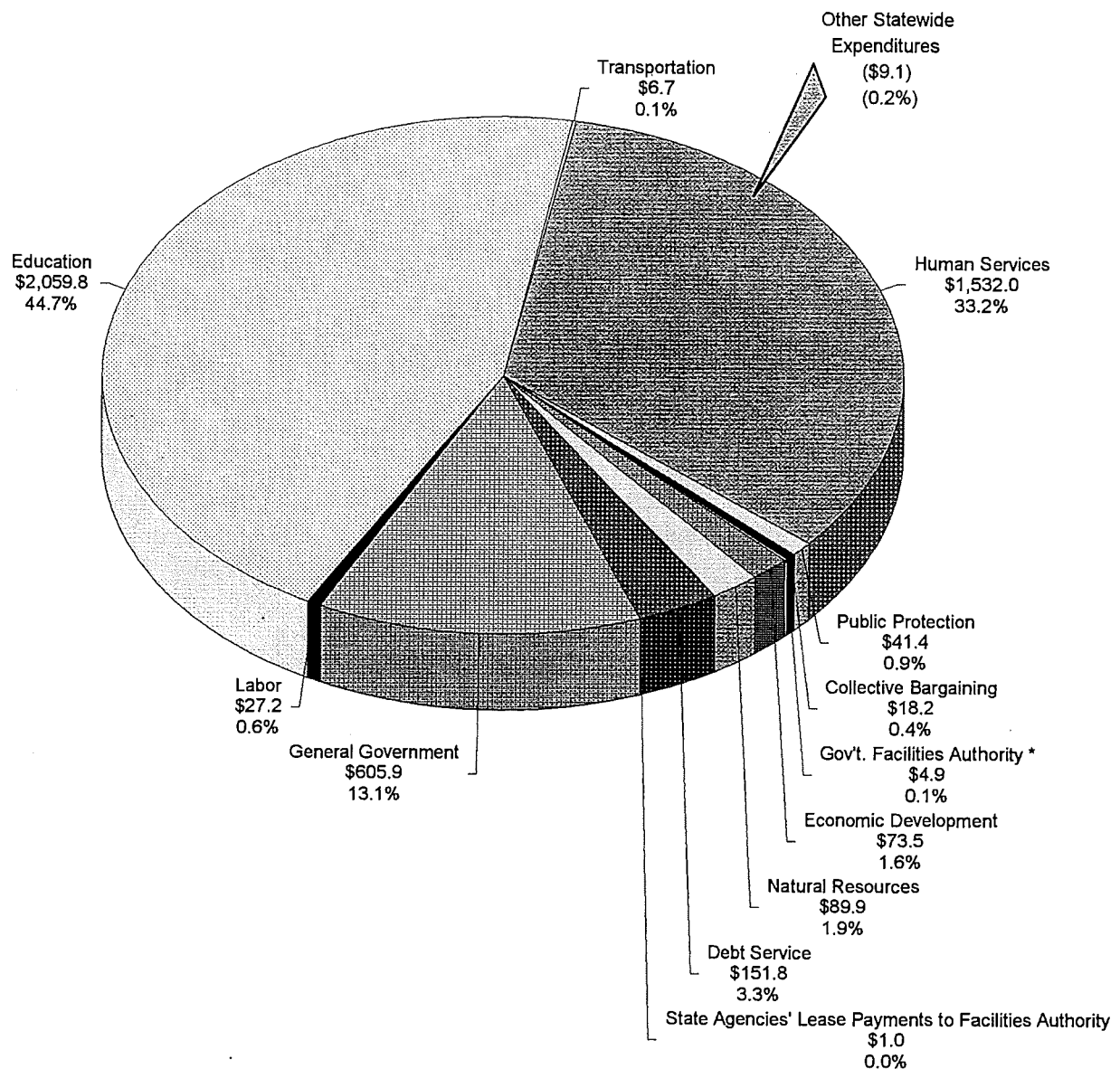
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FY98/99 GENERAL FUND APPROPRIATIONS APPROVED



Dollars in millions

FY00-01 GENERAL FUND APPROPRIATIONS PROJECTED



* Governmental Facilities Authority Debt Service Costs Are Reduced by Rental Payments of \$488,000 in FY 2000 and \$475,000 in FY 2001.

E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION AND REPAIRS

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
7,772	2,205	-71.63%	9,977	6,265	184.15%	6,269	0.00%	12,534	25.62%

Funding for capital construction repairs and improvements has not fully addressed the major infrastructure needs of the state for the FY 98-99 biennium. The level of funding of \$10 million in the FY 98-99 biennium does not completely address the needs of the State. It is estimated that approximately \$12 million will be funded in the FY 2000-2001 biennium. The estimated requirement for the FY 2000-2001 biennium adjusts for the Capital Construction and Capital Improvements program undertaken through the Government Facilities Authority for the correctional facilities; the State Office Building; the State House; the Tyson and Marquardt buildings; the demolition of the Education building; and the closure of the Pineland Center.

BUILDING OPERATIONS

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
6,967	7,273	4.39%	14,239	10,231	40.68%	10,207	-0.24%	20,438	43.53%

Building Operations within the Department of Administrative and Financial Services provides maintenance and operation improvements for State of Maine owned space. Funding for State building maintenance is \$14.2 million for the FY 98-99 biennium and is projected to be \$20.4 million in the FY 2000-2001 biennium. The increase in building operation costs is primarily due to the proposed renovation of the State Office Building. Included in the FY 2000-2001 biennium is \$1.7 million in each fiscal year for agency relocation costs and private lease space costs. By June, 1999 it is anticipated that all agencies currently in the State Office Building will be relocated to the AMHI complex, space on Edison Drive in Augusta or in private lease space. Also projected is an incremental increase in operating costs, in excess of normal inflationary costs, of \$745,000 in FY 2000 and \$771,000 in FY 2001 due to anticipated maintenance at the Tyson and Marquardt buildings at the AMHI campus. The FY 2000-2001 biennium also reflects savings of \$268,000 in maintenance costs each fiscal year associated with the demolition of the Education Building.

PERSONAL PROPERTY TAX ON MACHINERY AND EQUIPMENT

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
19,003	20,352	7.10%	39,355	38,410	88.73%	47,964	24.87%	86,374	119.47%

Public Law 1997, chapter 395 authorized the reimbursement of property tax paid on qualified property placed in service after April 1, 1995. The anticipated cost of the program will grow from the initial funding of \$4.8 million in FY 97 to over \$47 million in FY 2001. Much of this growth was anticipated and reflects increased investment in Maine's productive capacity. The program will grow until the 12th or 13th program year, at which time it is expected to level off at approximately \$90 million annually. The projection for the FY 2000-2001 biennium does not reflect expected program growth resulting from Public Law 1997, chapter 729 which permits reimbursement to certain co-generation facilities. It is difficult to predict the additional expenditures which may result from this legislation. This projection also does not include the anticipated shortfall of \$7.6 million in FY 99.

MAINE RESIDENTS PROPERTY TAX PROGRAM

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
2,159	10,040	364.97%	12,199	19,200	91.23%	19,955	3.93%	39,155	220.96%

The Maine Residents Property Tax Program had two major budget revisions which impacted the expenditure growth rate between each fiscal year and the projected expenditure for the next fiscal year. Public Law 1997, chapter 1, Part E, section 14 permitted the carrying of an unexpended balance at the end of fiscal year 1996-97 to fiscal year 1997-98. This action resulted in a deappropriation in fiscal year 1997-98 in the amount of \$7.4 million. Public Law 1997, chapter 557 also modified the eligibility requirements. These changes included increases in income caps, increases in the maximum payment from \$700 to \$1000 and changes in the benefit calculations. After these changes, the total program costs will be \$15.2 million in FY 98 and \$16.1 million in FY 99. Public Law 1997, chapter 643, Part HHH also proposed changes in the program for renters.

The cost associated with this change is \$2.8 million in FY 99, which is not reflected in the FY 99 appropriations for this program. The FY 2000 and FY 2001 projected costs reflect the benefit increase for renters.

MAINE RESIDENT HOMESTEAD PROPERTY TAX EXEMPTION

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
	46,138	100.00%	46,138	48,445	5.00%	50,867	5.00%	99,313	115.25%

Public Law 1997, chapter 643, Part HHH established the Maine Resident Homestead Property Tax Exemption program. This program established an exemption for all individuals who have maintained a residence for the 12 months prior to April 1st of each year. This exempts up to \$7,000 of the individual's homestead valuation.

DEBT SERVICE

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
71,124	72,160	1.46%	143,284	74,474	3.21%	77,306	3.80%	151,780	5.93%

The budgeted General Fund debt service for the FY 98-99 biennium is \$147.8 million which is a significant reduction from the previous biennium which was \$172.7 million.

As of June 30, 1998, the total voter approved General Fund bonds that remain unissued, including \$10 million on the June ballot, will be \$45.4 million. It is anticipated that the voters will authorize an additional \$50 million of new debt in FY 99 and FY 2000. The appropriated Debt Service will be supplemented, if needed, by transfers from debt service earnings of up to \$3.2 million in FY 99, and \$2.0 million in each year of the FY 2000-2001 biennium. For all bonds 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.

In FY 98, the state will issue \$54.5 million of General Fund bonds and it is estimated that bonds in the amount of \$55 million and \$50 million will be issued in FY 2000 and FY 2001, respectively.

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
556,290	591,532	6.34%	1,147,823	592,770	0.21%	611,885	3.22%	1,204,655	4.95%

The expenditure forecast for the FY 2000-2001 biennium assumes 3% growth in each fiscal year. Public Law 1997, chapter 724 amended Title 20-A, section 15605, which limited increases in the funding level to 105% of the funding level in effect for the current year in progress, to an amount which is at least equal to the appropriation for the prior fiscal year, unless a lesser amount is necessary to ensure compliance with section 15605, subsection 1. The hardship cushion of approximately \$3 million received in each year of the FY 98-99 biennium and an appropriation of approximately \$16 million in FY 99, increasing the subsidy by 3%, are not included in the forecast for the FY 2000-2001 biennium.

The maximum debt service limit for school construction was established at \$69 million for FY 99. Public Law 1997, chapter 469 increased the maximum debt service limit for FY 2000 to \$72 million, established the limit for FY 2001 at \$74 million and specified that the state share of the school construction debt service costs must be supported by General Fund appropriations beginning in FY 2000. This results in a shift of funds from the foundation allocation to debt service of approximately \$1.4 million for FY 99, and additional appropriations over the 3% growth budgeted for GPA for FY 2000 and FY 2001 of approximately \$3.6 million and \$5 million, respectively.

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
151,539	161,328	6.46%	312,868	174,191	7.97%	187,177	7.45%	361,368	15.50%

The expenditure forecast for Teacher Retirement assumes that salary and wage growth will continue at its current annual growth rate of 6% absent sharing of the normal cost proposed for the FY 98-99 biennium. The normal cost rate for the teacher group is 7.25% with trend growth of 3.16% each fiscal year. Unfunded liability continues the current growth trend consistent with the amortization table of 6.16% each fiscal year. Maine State Retirement administration expenditures are forecast for the FY 2000-2001 biennium at 2.7% CPI growth trend.

Public Law 1997, chapter 24 appropriated from the General Fund an amount necessary to support the cost of retiree health separately from Teacher Retirement beginning with the FY 98-99 biennium. Public Law 1997, chapter 643 amended Title 20-A subsection 13451 to change the State's share from 25% to 30% of the retired teacher members' share of the insurance effective January 1, 1999. These expenditures are forecast for the FY 2000-2001 biennium at a 9% CPI growth trend plus a 3% volume growth per Maine State Retirement System trends, and are included in the amounts above.

PRE-SCHOOL HANDICAPPED

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
10,057	8,458	-15.90%	18,515	12,711	50.27%	14,872	17.00%	27,583	48.97%

Public Law 1997, chapter 643 appropriated an additional \$2.8 million for FY 98 and \$1.2 million for FY 99 to the General Fund portion of the Preschool Handicapped program. The Department of Education has identified an additional need to 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 additional requirements for this program are estimated at \$4.0 million for FY 2000 and \$5.9 million for FY 2001. The Department attributes the rising costs to a continued increase in the number of eligible children, often with increasing special needs, and anticipates level funding through the federal IDEA program, and Medicaid cost reimbursement consistent with that of prior years. Any positive changes in the federal IDEA funds, Medicaid reimbursement, cost benefits related to financial efficiencies, or changes in the number of eligible clients being served, would reduce the General Fund commitment.

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
71,654	78,391	9.40%	150,045	80,936	3.25%	86,456	6.82%	167,392	11.56%

New initiatives in FY 98 and FY 99 increased spending from the FY 97 level. The First Regular Session of the 118th Legislature provided additional funding for opening the Northern Maine Juvenile Detention Center and an alternative to the current system of housing females at the Charleston Correctional Facility. In addition, funding was provided for a mental health stabilization unit at the Maine State Prison, crisis intervention, 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.

The Second Regular Session of the 118th Legislature increased funding to Probation and Parole to provide supervised community confinement, support for juvenile and adult probation activities and compliance with DNA testing for offenders convicted of the most serious crimes. The Maine Youth Center was provided additional funds to maintain appropriate staff ratios to meet standard care, custody and security needs of juveniles and support education and library needs at the A. R. Gould School. Additional funding was also provided to program the increased population at the Maine Correctional Center.

A new program, the Bureau of General Services - Capital Construction and Improvements Reserve Fund, was created in the Department of Administration and Financial Services. An appropriation of \$36 million in FY 99 was provided toward the Department of Corrections new juvenile capital plan. The plan is designed to solve the deteriorating physical plant problems at the Maine Youth Center, provide facilities that comply with standard codes, create full service regional juvenile facilities serving both northern and southern Maine, increase programming and treatment services for juveniles and enhance public safety.

The \$36 million is not reflected within the Department of Corrections, as the appropriation is to the Bureau of General Services within the Department of Administrative and Financial Services. There is an increase reflected in Correction's budget in FY 2001 as increased operating costs are anticipated as a result of implementing the juvenile plan.

MEDICAL 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
109,232	205,928	88.52%	315,160	223,305	8.44%	240,629	7.76%	463,934	47.21%

Reflecting the recent trend toward moderation in the growth of medical spending, the Department estimates growth of 7.8 percent per year for the Medical Assistance Program (MAP) account in the next biennium. This growth rate follows the national trend of 7.5% to 8.2% as projected by the Congressional Budget Office, the Federal Office of Management and Budget and the Urban Institute. This estimate reflects the inclusion of the state boarding home account in the MAP account. As in the current biennium, the 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 anticipates system development initiatives such as the Maine Point of Purchase System (MEPOP), the Maine Medicaid Decision Support System (MMDSS), and the remaining upgrades to the Maine Medicaid Information System (MMIS) are expected to be fully operational in the FY 2000-2001 biennium. Such systems will enable the Department to better manage and target existing resources.

As of July 1, 1998, Tax and Match was repealed. As a result, the FY 99 cost of this program increased approximately \$100 million.

Current estimates, supported by recent trends, assume a constant caseload of Medicaid eligible individuals over the forecast period, but are susceptible to changes in overall state economic conditions.

Included in this program for the first time is the Children's Health Insurance Program (CHIPs) which provides expanded eligibility for Medicaid coverage for children as well as the implementation of the Cub Care Program called CHIPS, a health coverage program for low income children who are ineligible for benefits under the existing Medicaid program. The funds budgeted in FY 99 of \$2,934,394 represent start up costs for this program.

The estimated costs for this program in the FY 2000-2001 biennium are \$4,478,000 and \$4,734,000 respectively.

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
60,455	62,167	2.83%	122,622	65,276	5.00%	68,539	5.00%	133,815	9.13%

The Department estimates recent spending reductions in the Nursing Facilities account will level off in the current biennium, with growth in the next biennium slightly under national trends. Previous year 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 1994 (General Fund spending) to \$73 million by 1997. During the current biennium, the Department will continue its efforts to use savings from this initiative to increase the availability of lower cost options to nursing homes. As the Department gets closer to its planning targets for the development of nursing home alternatives, the savings available in the Nursing Facilities account will 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, will serve to create upward pressure on nursing home spending.

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
33,099	38,559	16.50%	71,657	45,914	19.08%	53,588	16.71%	99,501	38.86%

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 and Foster Care Programs will undergo a steady increase through FY 2001.

The Bureau projects costs to increase by \$17 million from FY 98 to FY 2001. The causes for this increase include:

1. Increases in the number of children in custody are projected to increase by approximately 3 1/2% per year because of the Bureau's new initiative to reduce unassigned investigations. The cost of the initiative is projected to be \$1,003,961 in FY 98 and \$1,264,777 in FY 99.

2. Annual increases in the cost of residential living reflect inflationary rate changes of 3%.

3. The increase in client population is projected to increase approximately 7% per year. Most of this increase results from additional children coming into custody. However, 30% of the increase is because children are remaining in custody longer. Those remaining in care for two years or longer has increased from 925 in FY 94 to 1,338 in FY 96, a 45% increase. The total population of children in care increased 19% during the same period.

Length of time in care	1994	1995	Yr. to Yr. % Chg.	1996	Yr. to Yr. % Chg.	% Chg. From 1994
Less Than One Year	595	580	-2.52%	661	13.97%	11.09%
One to Two Years	652	544	-16.56%	578	6.25%	-11.35%
Two Years or More	925	1,188	28.43%	1,338	12.63%	44.65%
TOTAL	2,172	2,312	6.45%	2,577	11%	18.65%

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
24,951	27,591	10.58%	52,543	29,844	8.16%	30,739	3.00%	60,583	15.30%

Development of comprehensive service capacity and linking persons who have been long-term psychiatric inpatients to individualized services continue to be priorities for the Department of Mental Health, Mental Retardation, and Substance Abuse Services. The Department continues to consolidate crisis intervention services across all department service populations, and to develop capacity for involuntary hospitalizations within the community. The Department's plan for regional reorganization has had 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 networks is under way to assist system management. The development of Quality Improvement Councils has created a mechanism to provide input from local constituents in decision making.

The Augusta Mental Health Institute (AMHI) Consent Decree continues as a priority. Significant progress has been made to individualize services, with the goal of 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 have created greater options for services to be based on individual needs. Consideration is under way for developing better ways to manage care, and to fund and administer Medicaid reimbursable services.

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
17,126	19,102	11.53%	36,228	20,172	5.60%	20,777	3.00%	40,949	13.03%

Community Mental Retardation provides 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 which 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.

Public Law 1997, chapter 643, provided additional funding for residential and day services for non-class members on waiting lists.

CHILDRENS MEDICAID ACCOUNT

Public Law 1997, chapter 643 provided an additional \$973,028 in FY 98 and \$3,514,204 in FY 99 to the base of the Children's Medicaid Account for the mental health and mental retardation services and their families on waiting lists.

GOVERNMENTAL FACILITIES AUTHORITY

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
0	613	100.00%	613	0	-100.00%	4,876,064	100.00%	4,876,064	696.09%

Public Law 1997, chapter 788 authorized the Governmental Facilities Authority to issue bonds in the amount of \$52 million for the purpose of preserving and renovating various state buildings and facilities as follows: \$19 million for the renovation and preservation of the State House; \$24 million for the renovation of the State Office Building; \$4 million for the reconstruction of the connector between the State Office Building and the State House; and \$5 million for the renovation of the Tyson and Marquardt buildings on the AMHI campus. In addition, the Government Facilities Authority was authorized to borrow \$85 million for the renovation and construction of facilities of the Department of Corrections.

The amounts shown above reflect the cost for the debt service to be paid on the bonds to be issued less rents to be received from those agencies which will occupy these spaces. Rental payments of \$488,000 in FY 2000 and \$475,000 in FY 2001 for the Marquardt and Tyson buildings are shown as "State agencies' Lease Payments to Facilities Authority". Rental payments of \$250,000 in FY 2000 and \$650,000 in FY 2001 are included in the Judicial Branch budget as a result of the \$5.5 million increase in bond issue authority included in Public Law 1997, chapter 643, Part DD for the Lewiston and Springvale Court Facilities. When the facilities are completed, the entire cost of the debt service will be recovered through rents charged to the occupants of the space. It is not known at this time which agencies will occupy these spaces, nor how much of the rental costs will be paid from the General 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 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.

HIGHWAY FUND STATUS FY 98-2001

A. BUDGET STATUS

HIGHWAY FUND STATUS						
	FY98-99 BIENNIUM			FY00-01 BIENNIUM		
	FY 98	FY 99	BIENNIUM	FY 00	FY 01	BIENNIUM
BALANCE	1,680,818		1,680,818	1,645,888		1,645,888
REVENUE	215,932,305	220,283,900	436,216,205	226,936,549	228,691,254	455,627,803
TOTAL RESOURCES	217,613,123	220,283,900	437,897,023	228,582,437	228,691,254	457,273,691
ALLOCATIONS	215,984,090	220,267,045	436,251,135	245,884,624	267,045,127	512,929,751
PROJECTED BALANCE	1,629,033	16,855	1,645,888	(17,302,187)	(38,353,873)	(55,656,060)

The Highway Fund budget approved by the Second Regular Session of the 118th Legislature for the FY 98-99 biennium consists of allocations of \$436.2 million and projects \$436.2 million in revenue. At the end of the FY 98-99 biennium, the projected Highway Fund balance is \$1.7 million. The projected FY 2000-2001 biennium consists of allocations of \$512.9 million and projects \$455.6 million in revenues. The projected structural gap for the FY 2000-2001 biennium is \$55.7 million. This structural gap does not assume the additional federal matching requirements in the FY 2000-2001 biennium based upon the projected apportionment levels.

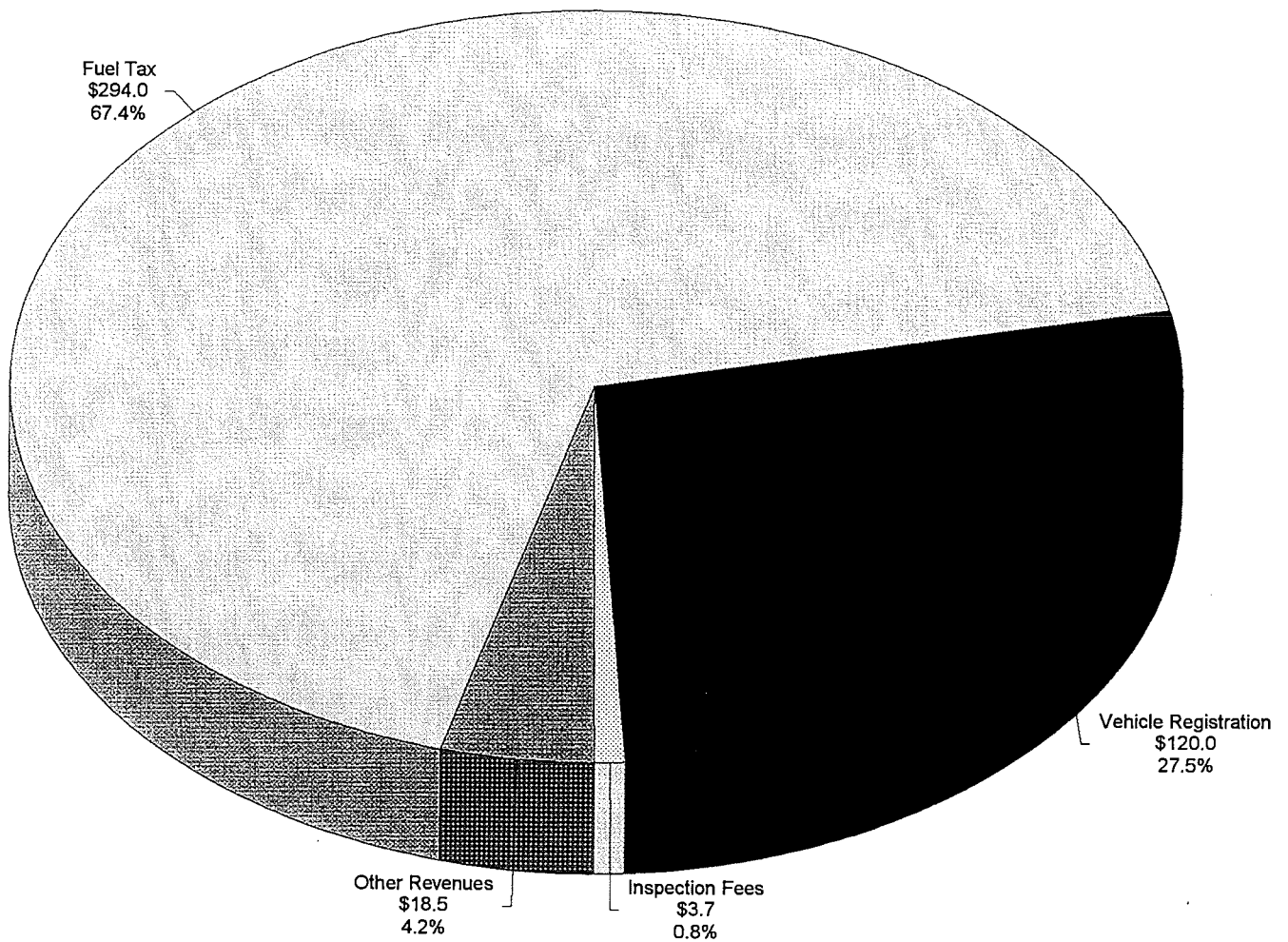
The most significant aspect of the budget proposal for the FY 98-99 biennium is the request of General Fund bonding for bridges and Highway Fund bonding for the highway infrastructure improvements, the Collector Road Development Award Program, and for a portion of the Local Road Assistance program. The Department of Transportation is anticipating the continued support for the maintenance and improvements of the State's bridge and highway infrastructure and the continued funding of the Local Road Assistance program at the statutorily defined funding level.

B. REVENUE FORECAST CHARTS

HIGHWAY FUND REVENUE FORECAST CHARTS										
SOURCE	FY 98	FY 99	% CHANGE	BIENNIUM	FY 00	% CHANGE	FY 01	% CHANGE	BIENNIUM	% CHANGE
Fuel Tax	146,135,554	147,910,834	1.21%	294,046,388	150,385,164	1.67%	152,189,786	1.20%	302,574,950	2.90%
Motor Vehicle Registrations & Fees	58,909,665	61,062,258	3.65%	119,971,923	65,369,153	7.05%	65,341,036	-0.04%	130,710,189	8.95%
Inspection Fees	1,740,312	1,994,312	0.00%	3,734,624	2,248,312	12.74%	2,248,312		4,496,624	20.40%
Other Revenues	9,146,774	9,316,496	1.86%	18,463,270	8,933,920	-4.11%	8,912,120	-0.24%	17,846,040	-3.34%
TOTAL HIGHWAY FUND REVENUES	215,932,305	220,283,900	2.02%	436,216,205	226,936,549	3.02%	228,691,254	0.77%	455,627,803	4.45%

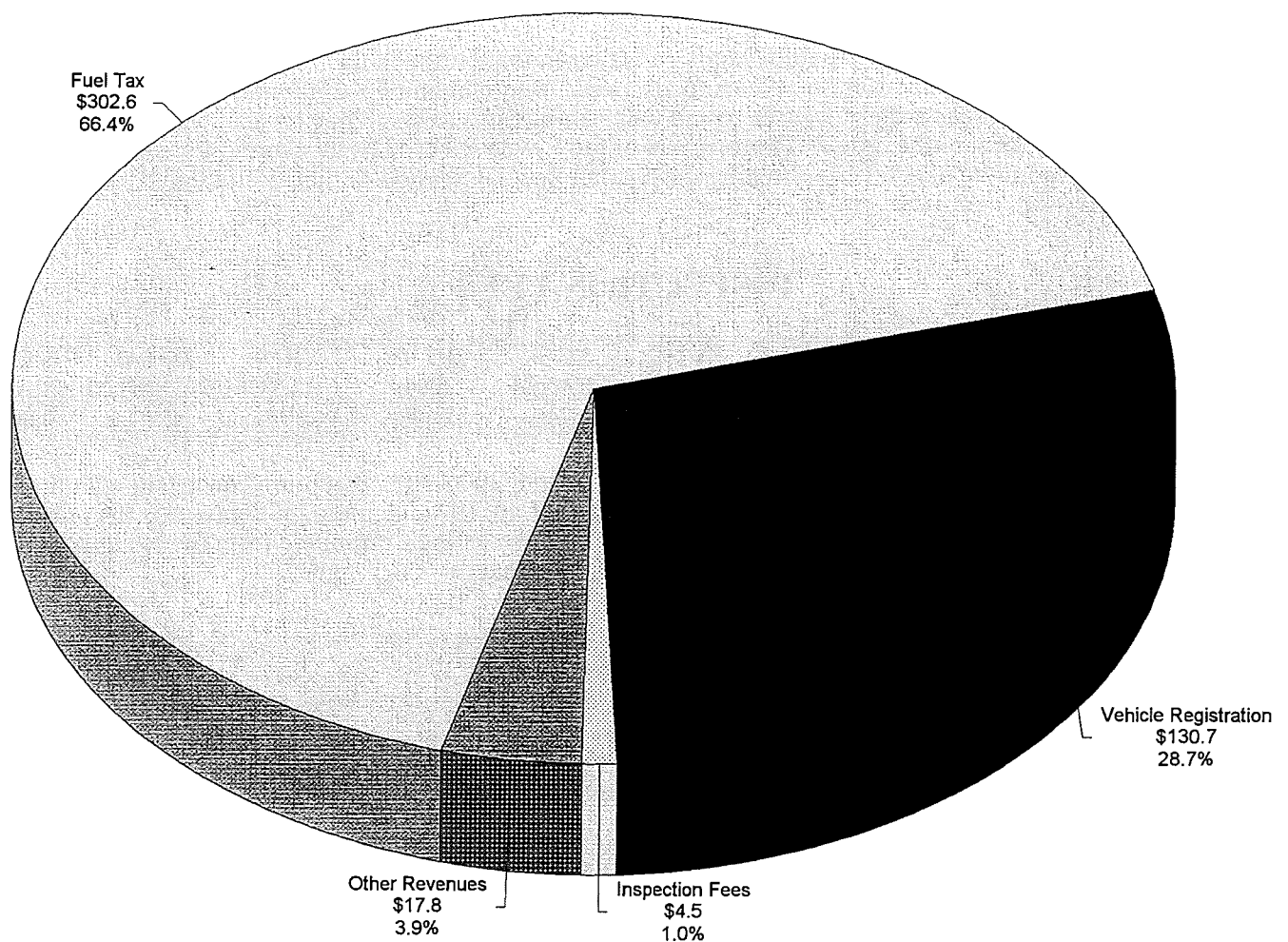
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FY98/99 HIGHWAY FUND REVENUES APPROVED



Dollars in millions

FY00-01 HIGHWAY FUND REVENUES PROJECTED



Dollars in millions

C. REVENUE FORECAST NARRATIVE

FUEL 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
146,136	147,911	1.21%	294,046	150,385	1.67%	152,190	1.20%	302,575	2.90%

Revenues derived from the sale of gasoline and special fuels is expected to grow at an annual rate of approximately 1.2% consistent with historical trends.. Conservation and increased fuel prices have contributed to this slow rate of growth in fuel consumption. Businesses also have had to locate more efficient methods of manufacturing and transportation of goods in order to maintain profitability in the face of slow economic growth and increased competition.

MOTOR VEHICLE REGISTRATION FEES

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
58,910	61,062	3.65%	119,972	65,369	7.05%	65,341	-0.04%	130,710	8.95%

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 four years to six years. Beginning in FY 2000 individuals who renewed their licenses in 1994 will renew their licenses which will stabilize this revenue line on a six year cycle. The most significant adjustment to the base level projection of the Revenue Forecasting Committee reflects amendments to the motor vehicle laws enacted by the Second Special Session of the 118th Legislature in Public Law 1997, chapter 776.

INSPECTION FEES

FY 98 (000)	FY 99 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 00 (000)	YR % CHANGE	FY 01 (000)	YR % CHANGE	TOTAL BIENNIUM	BIEN % CHANGE
1,740	1,994	14.60%	3,735	2,248	12.74%	2,248	0.00%	4,497	0.00%

Revenues from Inspection Fees are not expected to grow in the FY 2000-2001 biennium consistent with the base level projection of the Revenue Forecasting Committee. Public Law 1997, chapter 786 represents the only upward adjustment to the base level projection of the Revenue Forecasting Committee from the enhanced inspection fee required for emission control inspection and maintenance.

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
9,147	9,316	1.86%	18,463	8,934	-4.11%	8,912	-0.24%	17,846	0.00%

Other revenues within the Highway Fund have remained static over time and are not expected to grow in the FY 2000-2001 biennium consistent with the base level projection of the Revenue Forecasting Committee. The only adjustment to these base revenue projections result from the repeal of the transfer from the Collector Road Program in Public Law 1997, chapter 674, Part C.

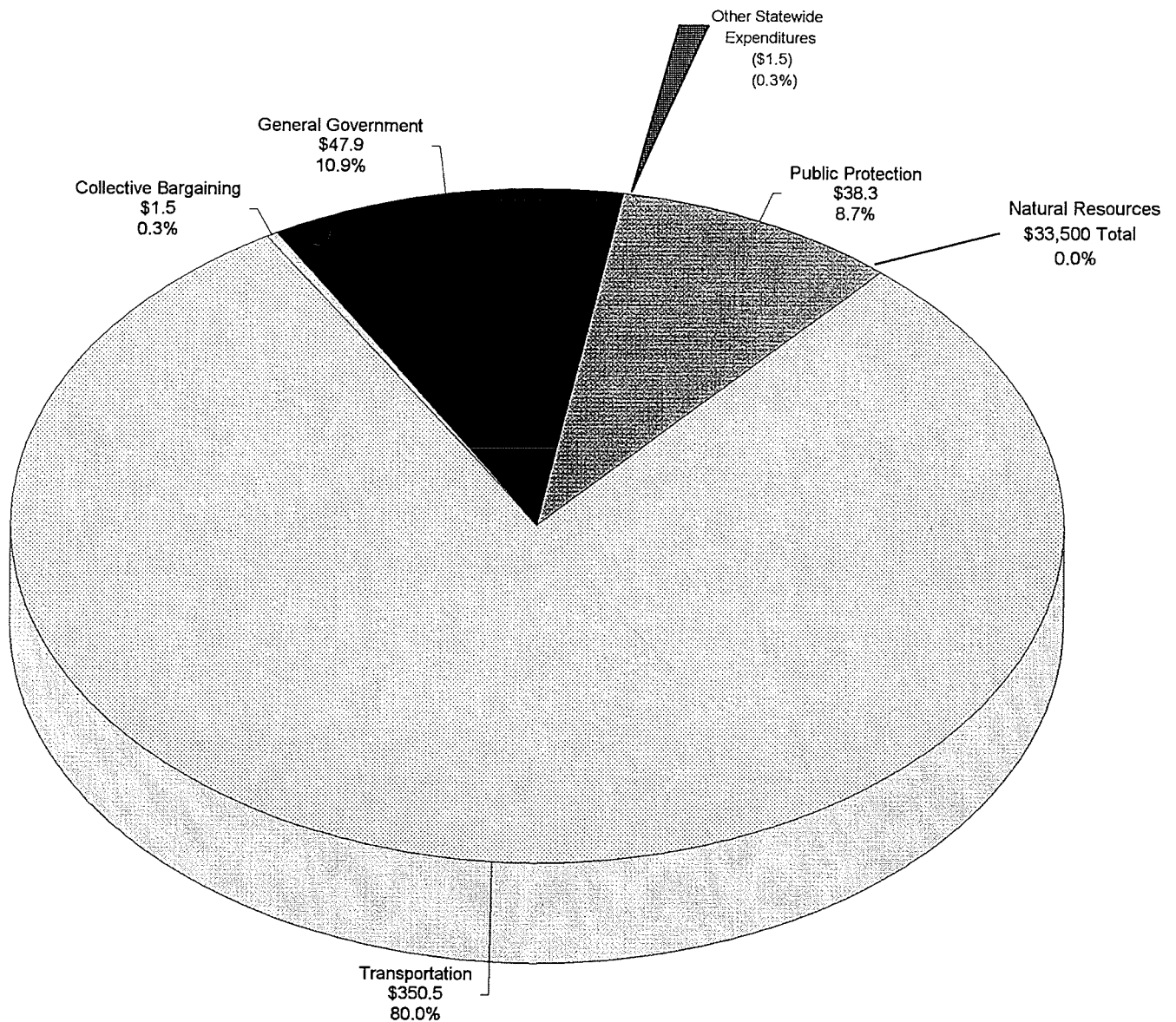
D. EXPENDITURE FORECAST CHART

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	23,457,598	24,406,853	4.05%	47,864,451	25,659,323	5.13%	26,401,618	2.89%	52,060,941	8.77%
TOTAL POLICY AREA 05 - NATURAL RESOURCES		33,500		33,500	34,505	3.00%	35,540	3.00%	70,045	109.09%
STATE POLICE	16,441,437	16,419,559	-0.13%	32,860,996	17,429,898	6.15%	17,971,705	3.11%	35,401,603	7.73%
OTHER AGENCIES AND PROGRAMS	2,638,427	2,761,382	4.66%	5,399,809	2,752,597	-0.32%	2,762,433	0.36%	5,515,030	2.13%
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	19,079,864	19,180,941	0.53%	38,260,805	20,182,495	5.22%	20,734,138	2.73%	40,916,633	6.94%
TOTAL POLICY AREA 07 - TRANSPORTATION	173,446,628	177,022,137	2.06%	350,468,765	198,205,744	11.97%	218,113,740	10.04%	416,319,484	18.79%
<u>OTHER STATEWIDE INITIATIVES</u>										
COLLECTIVE BARGAINING		1,501,105	100.00%	1,501,105	3,822,598	154.65%	3,934,983	2.94%	7,757,581	416.79%
HEALTH INSURANCE		(1,500,000)	100.00%	(1,500,000)	(1,635,000)	9.00%	(1,782,150)	9.00%	(3,417,150)	127.81%
WORKERS' COMPENSATION		(377,491)	100.00%	(377,491)	(385,041)	2.00%	(392,742)	2.00%	(777,783)	106.04%
TOTAL HIGHWAY FUND EXPENDITURES	215,984,090	220,267,045	1.98%	436,217,635	245,884,624	11.63%	267,045,127	8.61%	512,929,751	17.59%

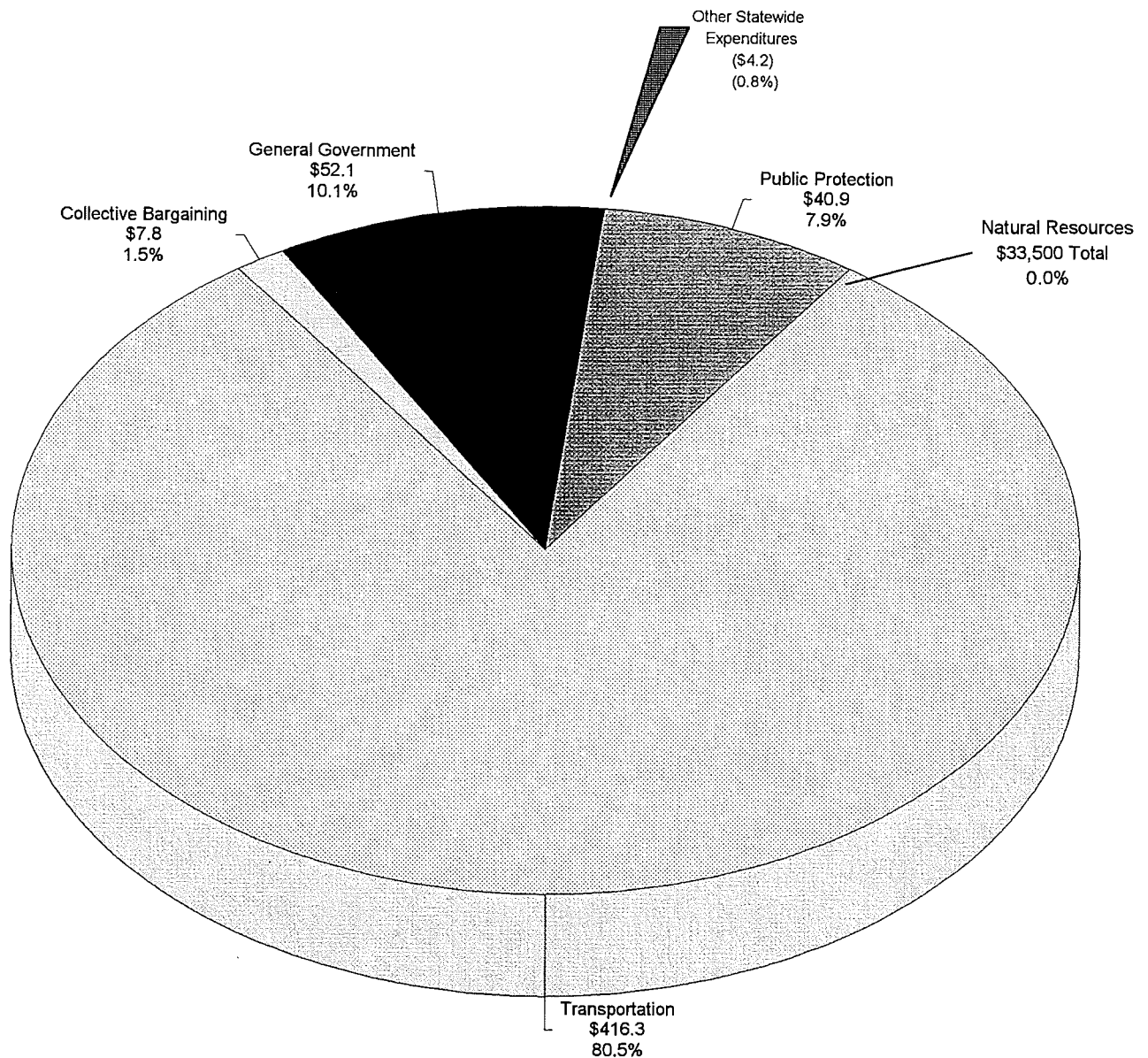
FY98/99 HIGHWAY FUND ALLOCATIONS

APPROVED



Dollars in millions

FY00-01 HIGHWAY FUND ALLOCATIONS PROJECTED



Dollars in millions

E. EXPENDITURE FORECAST NARRATIVE

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
16,441	16,420	-0.13%	32,861	17,430	6.15%	17,972	3.11%	35,402	7.73%

Public Law 1997, chapter 25 eliminated the statutory provision requiring a 50/50 allocation of funds between the General Fund and the Highway Fund for the State Police. Future appropriation and allocation of funds for State Police operations will be consistent to the operations of the State Police as determined by the Commissioner of Public Safety. Fiscal years 1997-98 and 1998-99 allocates resources based upon a 60/40 Highway Fund/General Fund ratio. This ratio is continued for the next biennium. The projection for the FY 2000-2001 biennium assumes a continuation of the capital replacement program for vehicles at the FY 98 level.

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
173,447	177,022	2.06%	350,469	198,206	11.97%	218,114	10.04%	416,319	18.79%

The projection for the FY 2000-2001 biennium assumes the continuation of approximately \$40.5 million in Highway Fund bond issues to meet transportation infrastructure needs. The funding of bridge construction needs, which was supported in the FY 98-99 biennium through a General Fund bond issue of \$23.8 million is not included in the expenditure forecast for the FY 2000-2001 biennium. That funding decision must be made as a supplemental issue outside of the structural operating budget of the Department of Transportation.

A \$12 million appropriation was provided to the Department of Transportation from the General Fund in FY 98 to meet additional federal match requirements anticipated for the reauthorization of Intermodal Surface Transportation Efficiency Act (ISTEA). This amounts to \$14 million each fiscal year in additional match requirement which is not reflected in the FY 2000 and FY 2001 forecast.

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 biennium. 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 \$385,988,960 in the General Fund and \$55,656,060 in the Highway Fund for the FY 2000-2001 biennium. The base level revenue projections for the General Fund and the Highway Fund include the February, 1998 reprojection of the Revenue Forecasting Committee. Revenue adjustments for the General Fund and the Highway Fund reflect actions from the Second Regular Session and the Second Special Session of the 118th Legislature.

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.