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STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION

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GENERAL FUND AND HIGHWAY FUND

FISCAL YEARS 2000 - 2003

**Submitted by the
Bureau of the Budget
January 8, 1999**

APR 6 1999

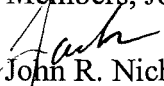


STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES

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

Date: January 8, 1999

To: Honorable Angus S. King, Jr. Governor
Honorable Mark W. Lawrence, President of the Senate
Honorable, Steven Rowe, Speaker of the House
Honorable Michael H. Michaud, Senate Chair
Honorable Elizabeth Townsend, 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 00-01 biennium and the FY 02-03 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 00-01 biennium and the FY 02-03 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 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 proposals for the FY 00-01 biennium as presented on January 8, 1999. As such, this product should provide an objective view of revenue and expenditure trends over the long term as a basis for financial planning and decision making. It is important also to note that the enclosed budget forecast does not reflect any recent change proposals to the original budget submissions for the FY 00-01 biennium nor the assumption of any revenue reprojections from the Revenue Forecasting Committee beyond those presented on December 4, 1998.

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 2000 - 2003**

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MAINE BUDGET FORECAST

FY 00-01 BIENNIUM AND FY 02-03 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 long 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 June 18, 1998 to reflect the budgetary and programmatic effects in FY 98, FY 99, FY 00 and FY 01 resulting from the actions of the Second Regular Session and the Second Special Session of the 118th Legislature. This report is being issued as a supplement to the State of Maine Budget Document for 2000-2001 as required by Title 5, section 1664. It provides a four year budget forecast for fiscal years FY 00, FY 01, FY 02 and FY 03 using the Governor's budget recommendations for the FY 01 biennium with respect to both revenues and expenditures as presented on January 8, 1999. The report does not reflect any recent change proposals to the original budget submissions for the FY 00-01 biennium nor the assumption of any revenue rejections from the Revenue Forecasting Committee beyond those presented on December 4, 1998. The expected outcome, as in previous reports, is an objective portrayal of the General Fund and the Highway Fund budgets for FY 02 and FY 03 based on the financial and program information contained in the Governor's budget recommendations for the FY 00-01 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 as of December 4, 1998 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 recommended in the Governor's budget proposals for the FY 00-01 biennium. The adjustment columns for the FY 02-03 biennium reflect the revenue proposals of the Governor for the FY 00-01 biennium projected forward using the growth assumptions adopted by the Revenue Forecasting Committee on December 4, 1998. The last column for each fiscal year represents the total of the base estimate of the Revenue Forecasting Committee and the adjustment proposals.

In order to provide the most accurate expenditure estimate from currently available budget information, the projection used the FY 01 budget recommendations of the Governor by expenditure category. These estimates were adjusted for the effect of one-time and phased-in actions expected to occur in FY 01. 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 most recent CPI projection of the Consensus Economic Forecasting Commission of 3% in FY 02 and 3% in FY 03 as the expected baseline growth in government services and applies those two growth factors to each All Other expenditure category in the base FY 01 year. Growth in Capital Expenditures was not assumed for FY 02 and FY 03. Personal Services projections for the FY 02-03 biennium are based on merit growth for salaries and wages and net growth for state employee benefits based on the growth trend from FY 00 to FY 01 resulting in weighted average growth of 2.75% for FY 02 and FY 03 for both the General Fund and the Highway Fund. The projection for Personal Services does not anticipate future salary adjustments through collective bargaining beyond June 30, 2001.

This projection does not predict unbalanced budgets for the General Fund or the Highway Fund for the FY 02-03 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 02-03 biennium.

II. GENERAL FUND

A. BUDGET STATUS FY 98-2001

GENERAL FUND STATUS						
	FY 2000-2001 BIENNIUM			FY 2002-2003 BIENNIUM		
	FY 00	FY 01	TOTAL	FY 02	FY 03	TOTAL
BALANCE	139,135,834		139,135,834	21,442,685		21,442,685
ADJUSTMENTS	4,843,282	904,588	5,747,870			
REVENUE	2,150,550,785	2,240,028,568	4,390,579,353	2,327,550,756	2,421,913,641	4,749,464,397
TOTAL RESOURCES	2,294,529,901	2,240,933,156	4,535,463,057	2,348,993,441	2,421,913,641	4,770,907,082
APPROPRIATIONS	2,218,812,365	2,295,208,007	4,514,020,372	2,388,615,582	2,490,356,478	4,878,972,060
PROJECTED BALANCE	75,717,536	(54,274,851)	21,442,685	(39,622,141)	(68,442,837)	(108,064,978)

With adjustments recommended in the FY 99 Supplemental Budget Bill, the General Fund balance carrying into the FY 00-01 biennium is \$139.1 million. The proposed budget for the FY 00-01 biennium consists of \$4,514.0 million in appropriations and projects revenue and other adjustments of \$4,396.3 million, which would leave a balance of \$21.4 million going into the FY 02-03 biennium.

Projections for the FY 02-03 biennium include General Fund revenue of \$4,749.5 million that when combined with the projected balance from the FY 00-01 biennium of \$21.4 million, bring total resources to \$4,770.9 million. Projected appropriations for the FY 02-03 biennium are \$4,879.0 million which would result in a projected structural gap of \$108.1 million.

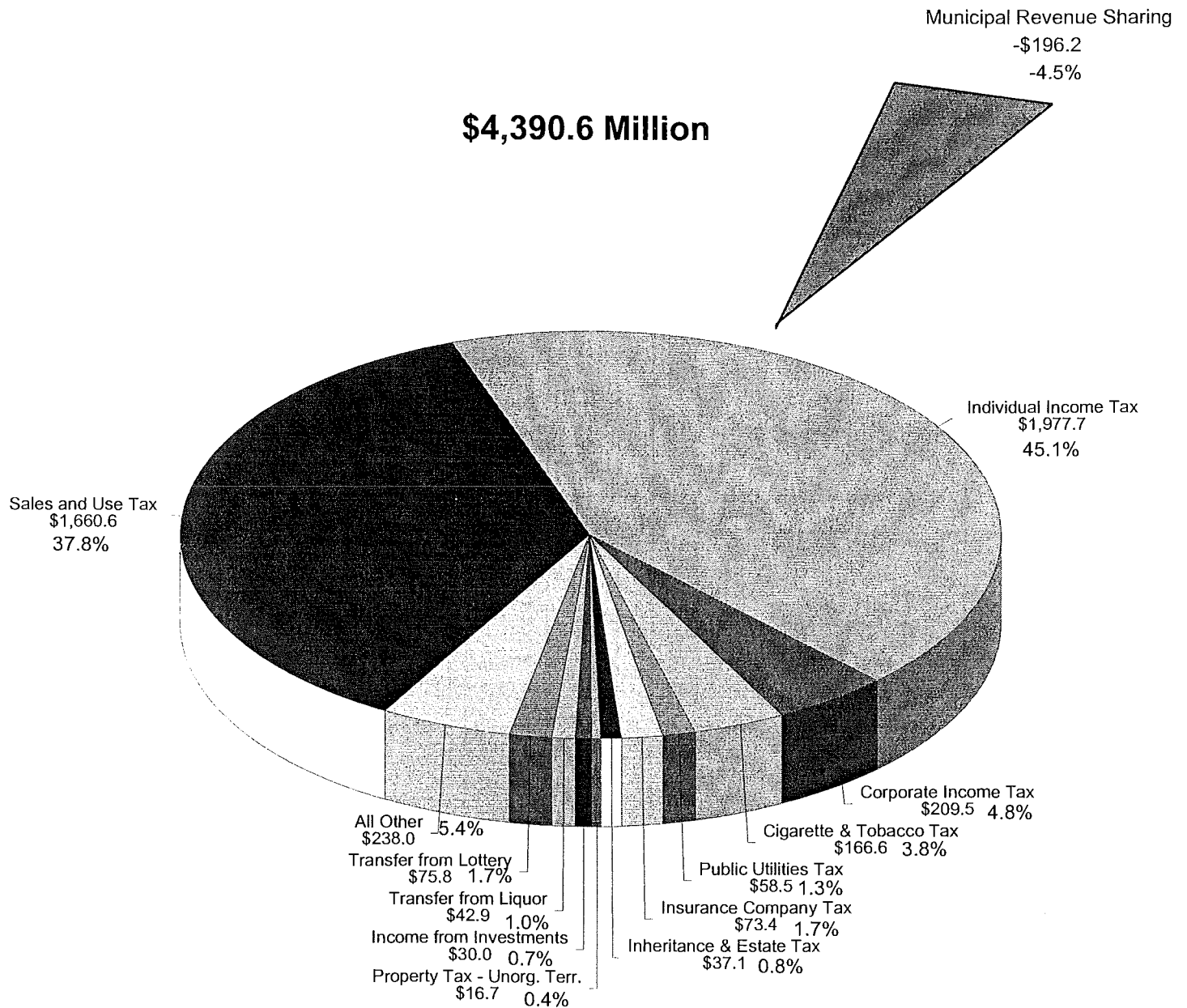
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B. REVENUE FORECAST CHARTS

GENERAL FUND REVENUE FORECAST CHARTS												
SOURCE	FY 99-00			FY 00-01			FY 01-02			FY 02-03		
	ORIG	ADJ CHANGE	TOTAL BUDGET	ORIG	ADJ CHANGE	TOTAL BUDGET	ORIG	ADJ CHANGE	TOTAL BUDGET	ORIG	ADJ CHANGE	TOTAL BUDGET
Sales and Use Tax	814,018,073		814,018,073	846,576,882		846,576,882	880,439,957		880,439,957	915,657,555		915,657,555
Individual Income Tax	959,023,012	1,604,379	960,627,391	1,010,282,056	6,798,706	1,017,080,762	1,066,330,858	7,136,261	1,073,467,119	1,124,374,744	7,496,167	1,131,870,911
Corporate Income Tax	103,401,216		103,401,216	106,123,639		106,123,639	107,445,675		107,445,675	111,656,773		111,656,773
Cigarette & Tobacco Tax	84,113,819		84,113,819	82,511,573		82,511,573	82,212,925		82,212,925	82,470,673		82,470,673
Public Utilities Tax	29,125,000		29,125,000	29,400,000		29,400,000	29,400,000		29,400,000	29,400,000		29,400,000
Insurance Company Tax	36,864,080		36,864,080	36,499,839		36,499,839	36,139,241		36,139,241	35,782,248		35,782,248
Inheritance & Estate Tax	18,347,479		18,347,479	18,735,916		18,735,916	19,327,839		19,327,839	19,692,846		19,692,846
Property Tax - Unorg. Terr.	7,998,205	(5,497)	7,992,708	8,745,365	(9,065)	8,736,300	8,365,539		8,365,539	8,571,072		8,571,072
Income from Investments	15,000,000		15,000,000	15,000,000		15,000,000	15,000,000		15,000,000	15,000,000		15,000,000
Trans. to Municipal Rev. Share	(95,698,558)	(81,823)	(95,780,381)	(100,112,112)	(346,734)	(100,458,846)	(104,765,041)	(363,949)	(105,128,990)	(109,736,143)	(382,305)	(110,118,448)
Transfer from Liquor	20,149,531	431,493	20,581,024	20,378,439	1,923,088	22,301,527	20,378,439	1,923,088	22,301,527	20,378,439	1,923,088	22,301,527
Transfer from Lottery	37,801,819		37,801,819	37,975,384		37,975,384	37,975,384	920,700	38,896,084	37,975,384	941,876	38,917,260
All Other	117,558,557	900,000	118,458,557	118,645,592	900,000	119,545,592	119,683,840		119,683,840	120,711,224		120,711,224
TOTAL REVENUE	2,147,702,233	2,848,552	2,150,550,785	2,230,762,573	9,265,995	2,240,028,568	2,317,934,656	9,616,100	2,327,550,756	2,411,934,815	9,978,826	2,421,913,641

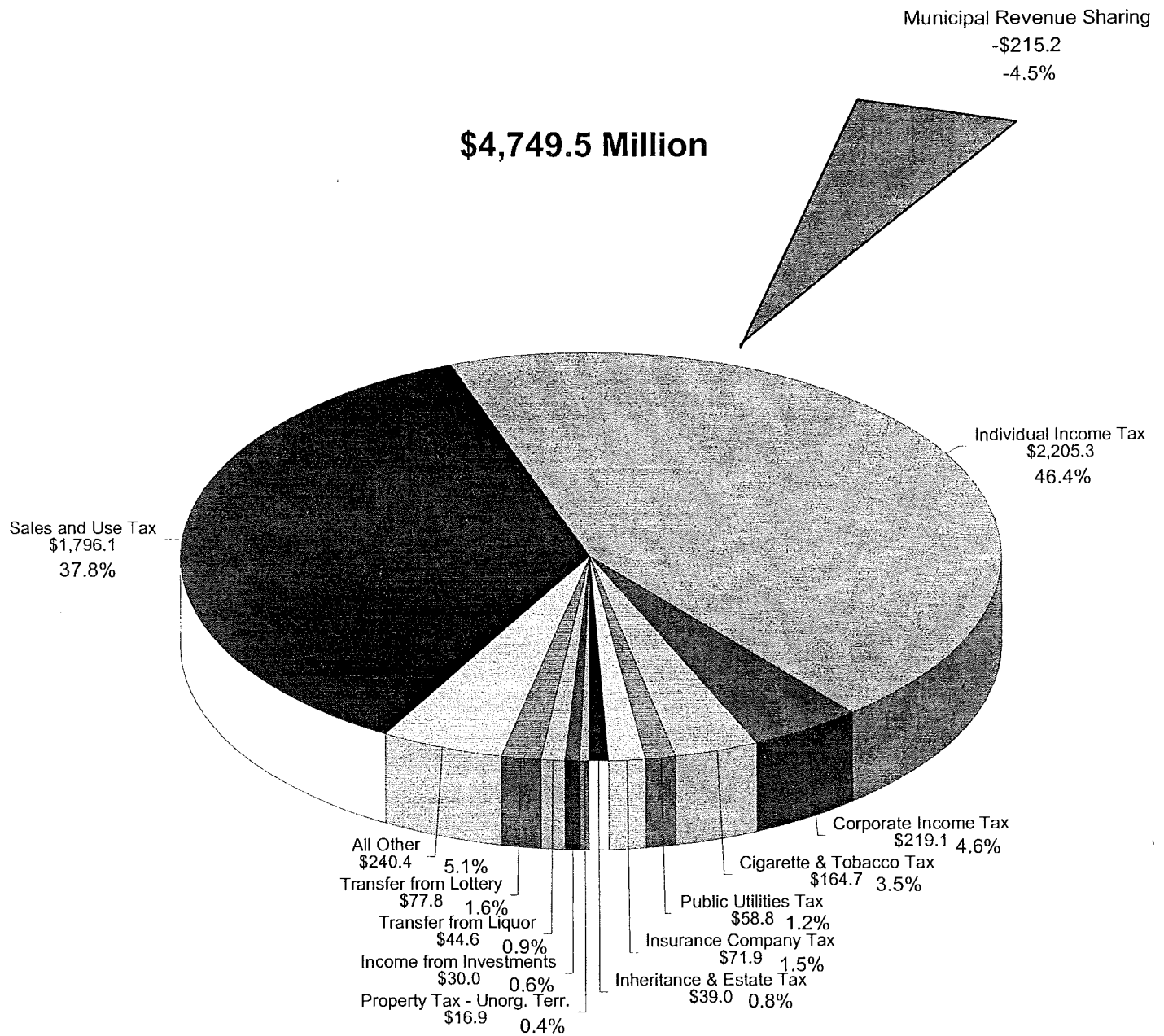
GENERAL FUND REVENUE FORECAST CHARTS									
SOURCE	FY 00	FY 01	% CHANGE	BIENNIUM	FY 02	% CHANGE	FY 03	% CHANGE	BIENNIUM
Sales and Use Tax	814,018,073	846,576,882	4.00%	1,660,594,955	880,439,957	4.00%	915,657,555	4.00%	1,796,097,512
Individual Income Tax	960,627,391	1,017,080,762	5.88%	1,977,708,153	1,073,467,119	5.54%	1,131,870,911	5.44%	2,205,338,030
Corporate Income Tax	103,401,216	106,123,639	2.63%	209,524,855	107,445,675	1.25%	111,656,773	3.92%	219,102,448
Cigarette & Tobacco Tax	84,113,819	82,511,573	-1.90%	166,625,392	82,212,925	-0.36%	82,470,673	0.31%	164,683,598
Public Utilities Tax	29,125,000	29,400,000	0.94%	58,525,000	29,400,000	0.00%	29,400,000	0.00%	58,800,000
Insurance Company Tax	36,864,080	36,499,839	-0.99%	73,363,919	36,139,241	-0.99%	35,782,248	-0.99%	71,921,489
Inheritance & Estate Tax	18,347,479	18,735,916	2.12%	37,083,395	19,327,839	3.16%	19,692,846	1.89%	39,020,685
Property Tax - Unorg. Terr.	7,992,708	8,736,300	9.30%	16,729,008	8,365,539	-4.24%	8,571,072	2.46%	16,936,611
Income from Investments	15,000,000	15,000,000	0.00%	30,000,000	15,000,000	0.00%	15,000,000	0.00%	30,000,000
Trans. to Muni. Rev. Share	(95,780,381)	(100,458,846)	4.88%	(196,239,227)	(105,128,990)	4.65%	(110,118,448)	4.75%	(215,247,438)
Transfer from Liquor	20,581,024	22,301,527	8.36%	42,882,551	22,301,527	0.00%	22,301,527	0.00%	44,603,054
Transfer from Lottery	37,801,819	37,975,384	0.46%	75,777,203	38,896,084	2.42%	38,917,260	0.05%	77,813,344
All Other	118,458,557	119,545,592	0.92%	238,004,149	119,683,840	0.12%	120,711,224	0.86%	240,395,064
TOTAL REVENUE	2,150,550,785	2,240,028,568	4.16%	4,390,579,353	2,327,550,756	3.91%	2,421,913,641	4.05%	4,749,464,397

FY 00/01 GENERAL FUND REVENUES RECOMMENDED



Dollars in Millions

FY 02/03 GENERAL FUND REVENUES PROJECTED



Dollars in Millions

C. REVENUE FORECAST NARRATIVE

SALES AND USE TAX

FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
846,577	4.00%	1,660,595	880,440	4.00%	915,658	4.00%	1,796,098

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 Consensus 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 few 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 few years, thus contributing to the modest growth in Sales and Use Tax revenue. The Sales and Use Tax forecast for FY 02 and FY 03 reflects the base level projection of the Revenue Forecasting Committee as of December 4, 1998 that includes the continuing effect of the 1/2% reduction (from 6% to 5 1/2%) in the Sales Tax effective on October 1, 1998.

INDIVIDUAL INCOME TAX

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
960,627	1,017,081	5.88%	1,977,708	1,073,467	5.54%	1,131,871	5.44%	2,205,338

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 5.4%, respectively, during the FY 02-03 biennium. Despite continued low unemployment in the State of Maine, employment and personal income growth are expected to follow trends consistent with current forecasts. The projections for FY 02 and FY 03 assume that all Individual Income Tax revenues accrue to the General Fund. Two adjustments to the December 4, 1998 base level projection of the Revenue Forecasting Committee are reflected in the Governor's recommended budget for FY 00 and FY 01 that continue into the FY 02-03 biennium. The first change provides that the personal exemption for personal income tax calculation be subject to adjustment only when the rate of inflation is greater than 3.5%. The second change reflects increased individual income tax compliance by the Maine Revenue Service.

CORPORATE INCOME TAX

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
103,401	106,124	2.63%	209,525	107,446	1.25%	111,657	3.92%	219,102

The Corporate Income Tax has realized very strong growth over the FY 98-99 biennium. While that growth is forecasted to continue through the FY 00-01 biennium, 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 and operating loss carry back have made accurate revenue projections difficult to achieve. The Corporate Income Tax forecast for FY 02 and FY 03 reflects the base level forecast of the Revenue forecasting Committee as of December 4, 1998.

CIGARETTE AND TOBACCO TAX

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
84,114	82,512	-1.90%	166,625	82,213	-0.36%	82,471	0.31%	164,684

Revenues derived from the sale of cigarettes and tobacco products have stabilized over the past biennium. The base level forecast of the Revenue Forecasting Committee as of December 4, 1998 for the FY 02-03 biennium is based on the assumption that cigarette sales will decline at a natural 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 02 and FY 03 reflects the effect of the Cigarette Tax increase implemented in Public Law 1997, chapter 560. The base level forecast for FY 02 and FY 03 does not include the effects of the recent Tobacco Settlement with the Tobacco Industry in which the industry increased the price of cigarettes as a means of generating revenue to offset the cost of the settlement.

INSURANCE COMPANY TAX

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
36,864	36,500	-0.99%	73,364	36,139	-0.99%	35,782	-0.99%	71,921

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 of the Revenue Forecasting Committee as of December 4, 1998 assumes a decline of 1% per year into the FY 02-03 biennium.

TRANSFER TO MUNICIPAL REVENUE SHARING

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
(95,780)	(100,459)	8.36%	(196,239)	(105,129)	0.00%	(110,118)	0.00%	(215,247)

The General Fund revenue line entitled "Transfer to Municipal Revenue Sharing" was newly added to the monthly report of General Fund revenue in FY 99. The purpose was to more accurately reflect total revenues accruing to the General Fund from Sales and Use Tax, Individual Income Tax and Corporate Income Tax that are subject to Municipal Revenue Sharing in accordance with Title 30-A, section 5681. That section of statute requires that an amount equal to 5.1% of the latter three tax lines must be transferred to the Local Government Fund (Municipal Revenue Sharing). As a result, this presentation clearly shows the estimated transfers as reductions to General Fund revenue consistent with the forecasts for the top three tax lines. The Transfer to Municipal Revenue Sharing forecast for FY 02 and FY 03 reflects the base level forecast of the Revenue Forecasting Committee as of December 4, 1998.

ALL OTHER REVENUES

The remaining General Fund revenues are expected to grow at a very nominal rate in the FY 02-03 biennium consistent with the base level forecast of the Revenue Forecasting Committee as of December 4, 1998. Two adjustments to the base level forecast of the Revenue Forecasting Committee reflect the Governor's proposal in FY 00 and FY 01 to privatize the retail sector of the State operated liquor business and the continuation of federal revenue recoveries by the Department of Human Services as shown in the Supplemental Budget Bill for the FY 00-01 biennium.

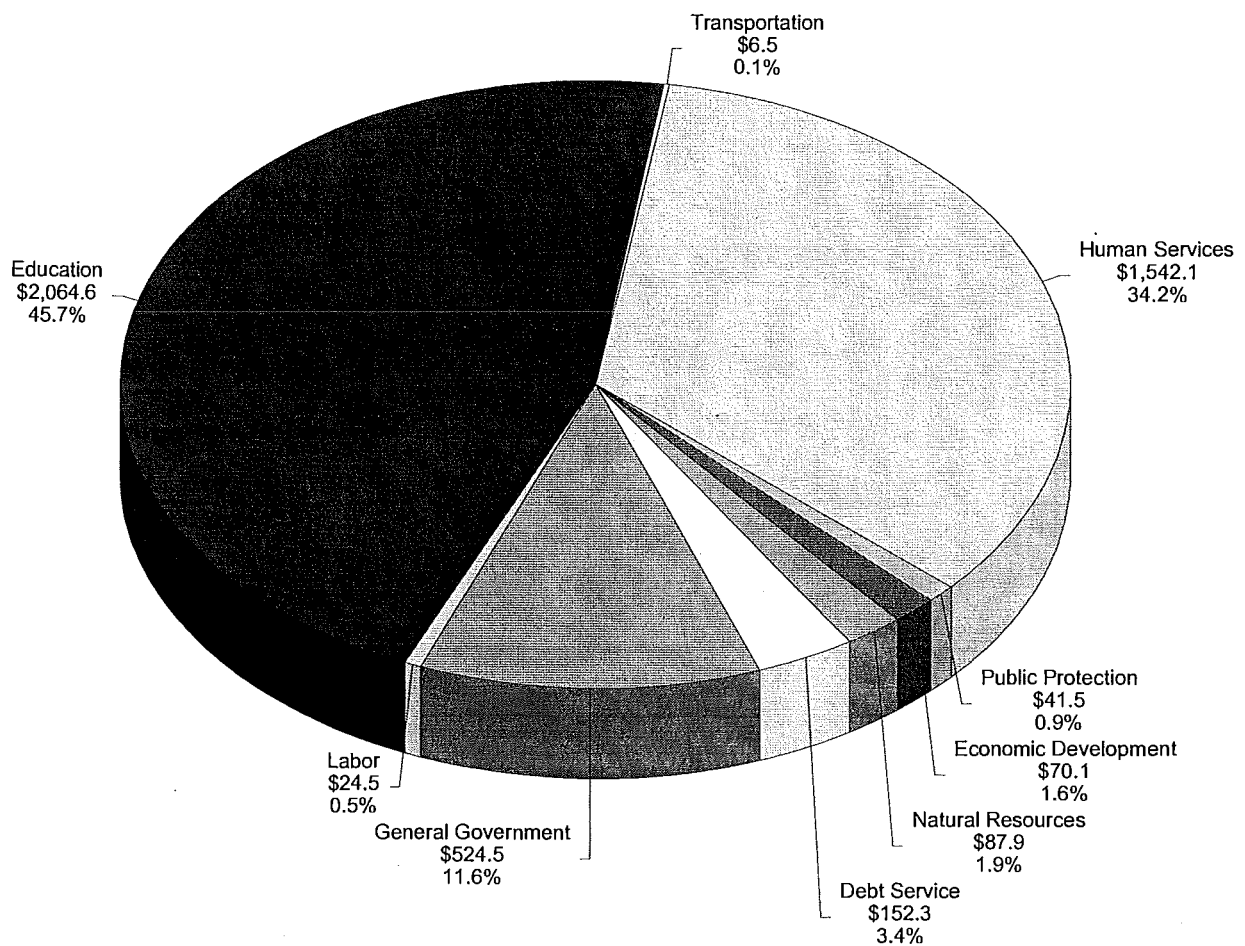
D. EXPENDITURE FORECAST CHART

GENERAL FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 2000 RECOMMEND BUDGET	FY 2001		00-01 BIENNIUM TOTAL	FY 2002		FY 2003		00-01 BIENNIUM TOTAL
		RECOMMEND BUDGET	% CHANGE		PROJECTED	% CHANGE	PROJECTED	% CHANGE	
CAPITAL CONSTRUCTION - REPAIRS	5,878,800	5,826,400	-0.89%	11,705,200	5,150,000	-11.61%	5,304,500	3.00%	10,454,500
BUILDING OPERATIONS	8,399,475	8,625,400	2.69%	17,024,875	8,862,082	2.74%	9,105,662	2.75%	17,967,744
PERSONAL PROPERTY TAX ON MACHINERY AND EQUIP	41,535,747	47,964,096	15.48%	89,499,843	60,511,723	26.16%	68,505,311	13.21%	129,017,034
MAINE RESIDENTS PROPERTY TAX PROGRAM	20,709,980	21,036,560	1.58%	41,746,540	24,585,383	16.87%	25,200,018	2.50%	49,785,401
HOMESTEAD PROPERTY TAX EXEMPTION	42,435,816	44,786,394	5.54%	87,222,210	46,330,841	3.45%	47,911,649	3.41%	94,242,490
GOVERNMENT FACILITIES AUTHORITY		7,271,250		7,271,250	5,538,750	-23.83%	14,062,063	153.89%	19,600,813
DEBT SERVICE	74,334,582	77,942,168	4.85%	152,276,750	79,040,282	1.41%	80,827,052	2.26%	159,867,334
OTHER AGENCIES AND PROGRAMS	132,573,178	137,461,493	3.69%	270,034,671	140,431,421	2.16%	145,565,936	3.66%	285,997,357
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	325,867,578	350,913,761	7.69%	676,781,339	370,450,482	5.57%	396,482,191	7.03%	766,932,673
TOTAL POLICY AREA 01 - ECONOMIC DEVELOPMENT	36,693,585	33,384,220	-9.02%	70,077,805	34,814,994	4.29%	35,812,752	2.87%	70,627,746
GENERAL PURPOSE AID TO LOCAL SCHOOLS	599,920,215	619,249,825	3.22%	1,219,170,040	637,827,320	3.00%	656,962,139	3.00%	1,294,789,459
TEACHER RETIREMENT	152,900,074	161,515,134	5.63%	314,415,208	169,872,263	5.17%	178,838,292	5.28%	348,710,555
PRESCHOOL HANDICAPPED	10,349,479	10,648,547	2.89%	20,998,026	10,967,843	3.00%	11,296,712	3.00%	22,264,555
OTHER AGENCIES AND PROGRAMS	259,333,427	250,728,502	-3.32%	510,061,929	257,718,872	2.79%	265,378,853	2.97%	523,097,725
TOTAL POLICY AREA 02 - EDUCATION	1,022,503,195	1,042,142,008	1.92%	2,064,645,203	1,076,386,298	3.29%	1,112,475,996	3.35%	2,188,862,294
CORRECTIONS	82,321,619	87,577,804	6.38%	169,899,423	92,349,982	5.45%	94,465,792	2.29%	186,815,774
MEDICAL CARE - PAYMENTS TO PROVIDERS	223,399,970	235,326,132	5.34%	458,726,102	251,798,961	7.00%	269,424,889	7.00%	521,223,850
NURSING FACILITIES	64,971,350	67,914,384	4.53%	132,885,734	69,951,816	3.00%	72,050,370	3.00%	142,002,186
CHILD WELFARE - FOSTER CARE	41,891,311	45,796,935	9.32%	87,688,246	50,070,441	9.33%	54,746,803	9.34%	104,817,244
COMMUNITY MENTAL HEALTH	32,740,319	33,615,636	2.67%	66,355,955	34,624,105	3.00%	35,662,828	3.00%	70,286,933
MENTAL HEALTH MEDICAID	23,832,741	25,190,060	5.70%	49,022,801	25,945,762	3.00%	26,724,135	3.00%	52,669,897
COMMUNITY MENTAL RETARDATION	19,645,541	20,551,093	4.61%	40,196,634	21,167,626	3.00%	21,802,655	3.00%	42,970,281
MENTAL RETARDATION MEDICAID	48,723,085	51,394,658	5.48%	100,117,743	52,936,498	3.00%	54,524,593	3.00%	107,461,091
OTHER AGENCIES AND PROGRAMS	216,483,819	220,758,532	1.97%	437,242,351	224,833,976	1.85%	231,136,208	2.80%	455,970,184
TOTAL POLICY AREA 03 - HUMAN SERVICES	754,009,755	788,125,234	4.52%	1,542,134,989	823,679,167	4.51%	860,538,273	4.47%	1,684,217,440
TOTAL POLICY AREA 04 - LABOR	12,223,986	12,318,262	0.77%	24,542,248	12,680,367	2.94%	13,053,145	2.94%	25,733,512
TOTAL POLICY AREA 05 - NATURAL RESOURCES	43,456,437	44,395,161	2.16%	87,851,598	45,616,620	2.75%	46,876,935	2.76%	92,493,555
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	20,884,819	20,615,918	-1.29%	41,500,737	21,652,092	5.03%	21,758,847	0.49%	43,410,939
TOTAL POLICY AREA 07 - TRANSPORTATION	3,173,010	3,313,443	4.43%	6,486,453	3,335,562	0.67%	3,358,339	0.68%	6,693,901
GRAND TOTAL GENERAL FUND EXPENDITURES	2,218,812,365	2,295,208,007	3.44%	4,514,020,372	2,388,615,582	4.07%	2,490,356,478	4.26%	4,878,972,060

FY00/01 GENERAL FUND APPROPRIATIONS RECOMMENDED

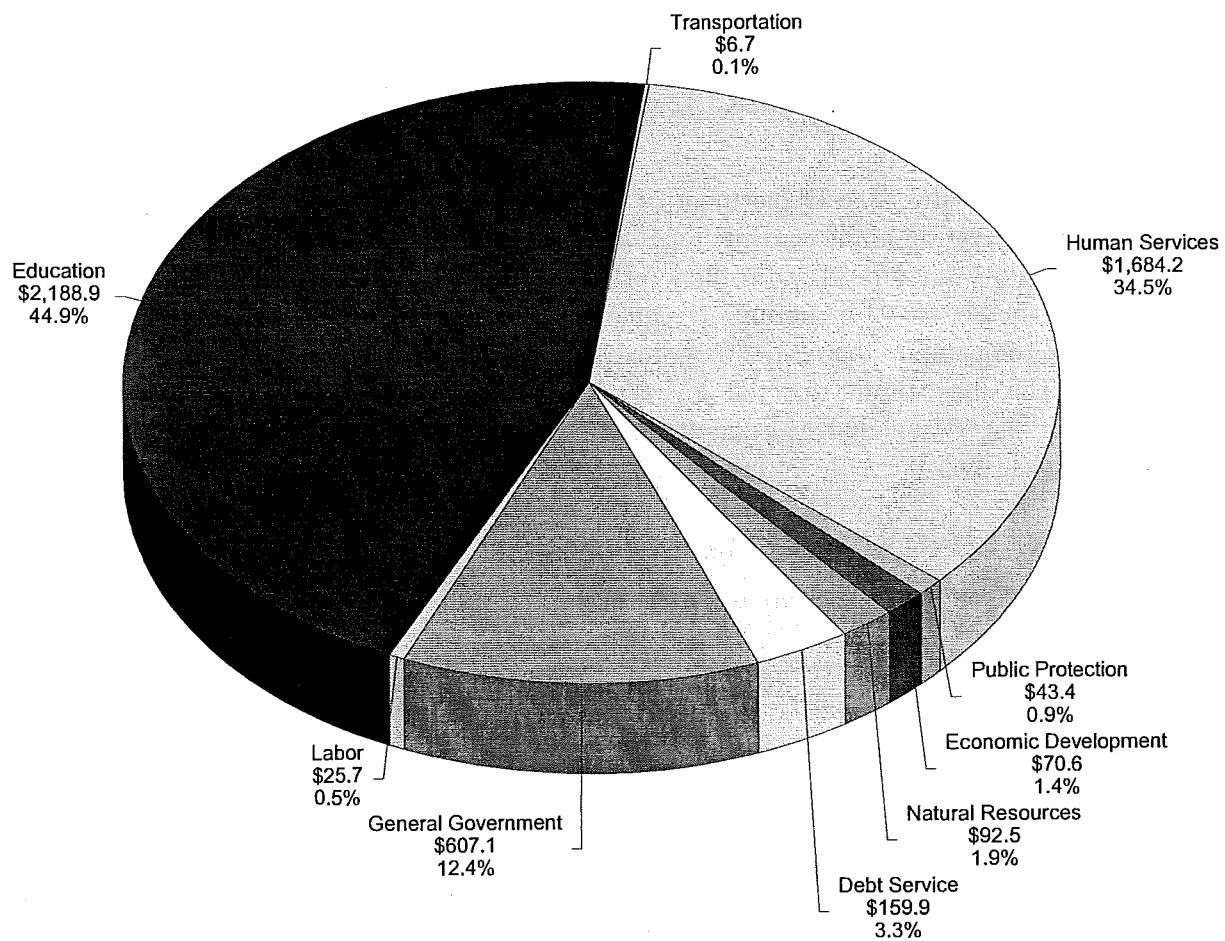
\$4,514.0 Million



Dollars in Millions
12

FY02-03 GENERAL FUND APPROPRIATION PROJECTED

\$4,879.0 Million



Dollars in Millions
13

E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
5,879	5,826	-0.89%	11,705	5,150	-11.61%	5,305	3.00%	10,455

The expenditure forecast for capital construction, repairs and improvements assumes 3% growth from the proposed budget for FY 01. The estimated requirement for the FY 02-03 biennium adjusts for the Capital Construction and Capital Improvements program undertaken through the Governmental Facilities Authority for the correctional facilities; the State Office Building; the State House; the Tyson and Marquardt buildings; and the demolition of the Education building.

BUILDING OPERATIONS

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
8,399	8,625	2.69%	17,025	8,862	2.74%	9,106	2.75%	17,968

Building Operations within the Department of Administrative and Financial Services provides maintenance and operation improvements for State of Maine owned space. Proposed funding for State building maintenance is \$17.0 million for the FY 00-01 biennium and is projected to be \$18.0 million in the FY 02-03 biennium. By June, 1999 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. The projection for the FY 02-03 biennium also reflects a continuation of maintenance for the Tyson and Marquardt buildings at the AMHI campus and assumes 3% growth in each year over the \$771,000 proposed for FY 01.

PERSONAL PROPERTY TAX ON MACHINERY & EQUIPMENT

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
41,536	47,964	15.48%	89,500	60,512	26.16%	68,505	13.21%	129,017

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 approximately \$68.5 million in FY 03. Much of this growth was anticipated and reflects increased investment in Maine's productive capacity. Based on current projections the program will grow until the 12th program year at which time it is expected to level off at a cost of approximately \$100 million annually. The projection for the FY 02-03 biennium reflects the forecast of program requirements as of December, 1998.

MAINE RESIDENTS PROPERTY TAX PROGRAM

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
20,710	21,037	1.58%	41,747	24,585	16.87%	25,200	2.50%	49,785

The Maine Residents Property Tax Program has been recommended to include low income property tax relief and elderly householders refund in the FY 00-01 biennium to more accurately reflect the manner in which these programs are administered. Public Law 1997, chapter 557 modified the eligibility requirements of the program to include increases in income caps, increases in the maximum payment from \$700 to \$1,000 and changes in the benefit calculations. As a result of these changes total program costs are projected to be \$24.6 million in FY 02 and \$25.2 million in FY 03. The projection for the FY 02-03 biennium also reflects the impact on this program of the Governor's recommendation for FY 00 and FY 01 to reduce the benefit base for non elderly rent participants from 18% of gross rent paid during the tax year to 15%. This recommendation would reverse the action taken in the Second Special Session of the 118th Legislature in Public Law 1997, chapter 643, Part HHH.

HOMESTEAD PROPERTY TAX EXEMPTION

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
42,436	44,786	5.54%	87,222	46,331	3.45%	47,912	3.41%	94,242

Public Law 1997, chapter 643, Part HHH established the 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. The projection for the FY 02-03 biennium reflects lower participation levels in FY 99 than originally estimated with participation growth through the forecast period.

GOVERNMENTAL FACILITIES AUTHORITY

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
0	7,271		7,271	5,539	-23.83%	14,062	153.89%	19,601

The FY 02-03 expenditure forecast for the Governmental Facilities Authority, created by Public Law 1997, chapter 523, assumes principal and interest payments of \$5.5 million in FY 02 and \$14.1 million in FY 03 related to the construction of a connector between the State Office Building and the State Capitol Building, the construction of adult correctional facilities in Warren and Windham, and the renovation of the State Office Building, the State Capitol Building, and the Tyson and Marquardt Buildings. Any projects undertaken through the Governmental Facilities Authority for the Judicial Branch are included in Judicial's budget and are not reflected above.

DEBT SERVICE

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
74,335	77,942	4.85%	152,277	79,040	1.41%	80,827	2.26%	159,867

The budgeted General Fund debt service for the FY 00-01 biennium is \$152.3 million which is an increase of \$5.5 million or 3.6% over the last biennium, and a reduction of \$32.1 million when compared to the FY 96-97 biennium.

As of June 30, 1998, the total voter approved General Fund bonds that remain unissued, including \$10 million approved on the June ballot, will be \$45.4 million. It is anticipated that the voters will authorize an additional \$55 million of new debt in FY 99 and FY 00. 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 00-01 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 issued \$54.5 million of General Fund bonds and it is estimated that bonds in the amount of \$110 million will be issued in each of the FY 00-01 and FY 02-03 biennia, respectively.

GENERAL PURPOSE AID TO LOCAL SCHOOLS

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
599,920	619,250	3.22%	1,219,170	637,827	3.00%	656,962	3.00%	1,294,789

The expenditure forecast for the FY 02-03 biennium assumes 3% growth in each fiscal year from the budget proposal for FY 01. The budget proposal for the FY 00-01 biennium provided for incremental increases in General Purpose Aid, from the adjusted base for FY 99, of \$27.9 million in FY 00 and \$19.3 million in FY 01 as a result of a subsidy increase of 4.25% in FY 00 and 3% in FY 01, and an adjustment for the estimated State share of debt service increase as required in Public Law 1997, chapter 469.

Public Law 1997, chapter 469 increased the maximum debt service limit for FY 00 to \$72.0 million, established the limit for FY 01 at \$74.0 million, and specified that the state share of the school construction debt service costs must be supported by General Fund appropriations beginning in FY 00. This results in an additional appropriation of \$3.6 million for FY 00 and \$5 million for FY 01. The forecast for the FY 02-03 biennium does not reflect additional appropriations for the estimated state share of debt service increases as the debt service limits for those years have not been established.

TEACHER RETIREMENT

FY00 (000)	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	FY02 (000)	YR % CHANGE	FY03 (000)	YR % CHANGE	TOTAL BIENNIUM
152,900	161,515	5.63%	314,415	169,872	5.17%	178,838	5.28%	348,711

The expenditure forecast for Teacher Retirement assumes salary and wage growth of approximately 4.5% over FY 01 estimates. The normal cost rate for the teacher group is 6.0%. Unfunded liability assumes growth consistent with the amortization table of approximately 5.5% each fiscal year. Maine State Retirement administration expenditures are forecast for the FY 02-03 biennium at 3.0% CPI growth trend.

Public Law 1997, chapter 643 amended Title 20-A subsection 13451 to change the State's share of Retired Teachers' Health Insurance from 25% to 30% of the retired teacher members' share of the insurance effective January 1, 1999. The current budget proposal recommends restoring the State's share to 25% in FY 00. These expenditures are forecast for the FY 02-03 biennium at a 9% CPI growth trend plus a 3% volume growth, and are included in the amounts above.

PRESCHOOL HANDICAPPED

FY00 (000)	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	FY02 (000)	YR % CHANGE	FY03 (000)	YR % CHANGE	TOTAL BIENNIUM
10,349	10,649	2.89%	20,998	10,968	3.00%	11,297	3.00%	22,265

The expenditure forecast for the Preschool Handicapped program established to provide free and appropriate education for handicapped children from birth to five years of age, assumes 3% growth in each fiscal year from the budget proposal for FY 01. Expenditure growth in this program was limited in the FY 00-01 biennial budget through reductions of \$2.4 million in FY 00 and \$4.2 million in FY 01 to the General Fund portion of the program. The Department of Education has identified that growth in the total number of eligible children entering the program has been minimal, but that there is a continuing increase in the number of children with multiple needs. Any positive change in the federal IDEA funds, Medicaid reimbursement, cost benefits related to financial efficiencies, or changes in the number of eligible children being served, would reduce General Fund commitment.

CORRECTIONS

FY00 (000)	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	FY02 (000)	YR % CHANGE	FY03 (000)	YR % CHANGE	TOTAL BIENNIUM
82,322	87,578	6.38%	169,899	92,350	5.45%	94,466	2.29%	186,816

The Department of Corrections spending pattern increased for several reasons:

The First Regular Session of the 119th Legislature provided initial funding in FY 00 for new initiatives such as the establishment of the Northern Maine Juvenile Facility (NMJF) at Charleston, the Southern Maine Juvenile Facility (SMJF) at South Portland, for the staffing and operations of a new 100 bed female dormitory at the Maine Correctional Center at Windham and to phase-in, over four years, a juvenile community plan. This initial funding provided in part for the addition of 11.5 new positions in FY 00 and the addition of 129.5 positions in FY 01. The

6.38% growth increase between FY 00 and FY 01 is primarily attributable to the personal services costs for these additional 129.5 positions. The 5.45% growth increase between FY 01 and FY 02 is also primarily attributable to an increase in the cost of personal services due to the fact that over 100 of the 129.5 positions added in FY 01 will take effect after March 1, 2001 or nine months into the fiscal year. The full year cost of these 100 plus positions is reflected in the FY 02 figures. The growth increase between FY 02 and FY 03 is less than inflation because FY 03 reflects the full year of savings from the elimination of 19.5 positions at the Maine Youth Center and the elimination of 48 positions from the Charleston Correctional Facility. These were planned position eliminations to produce savings as part of the structuring of the new juvenile facilities at Charleston and South Portland.

MEDICAL CARE - PAYMENTS TO PROVIDERS

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
223,400	235,326	5.34%	458,726	251,799	7.00%	269,425	7.00%	521,224

Reflecting the recent trend toward moderation in the growth of medical spending, the Department estimates growth of 7.0 percent per year for the Medical Care - Payments To Providers account in the next biennium. This growth rate follows the national trend of 7.0% to 8.5% as projected by the Data Research Institute, the Health Care Financing Administration and the Urban Institute. 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 00-01 biennium. Such systems will enable the Department to better manage and target existing resources.

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 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 estimated costs for this program in the FY 00-01 biennium are \$4.5 million. These costs are projected to be \$4.7 million per year in the FY 00-01 biennium.

NURSING FACILITIES

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
64,971	67,914	4.53%	132,886	69,952	3.00%	72,050	3.00%	142,002

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 FY 94 (General Fund spending) to a projected \$62 million in FY 99. 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

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
41,891	45,797	9.32%	87,688	50,070	9.33%	54,747	9.34%	104,817

Child Welfare and Foster Care provides care to children who have been brought into the care and 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 steady increases through FY 03.

The Bureau projects costs to increase by \$12,855,492 from FY 00 to FY 03. The causes for this increase include:

1. Annual increases in the cost of residential living reflect inflationary rate changes of 3%.
2. The client population is projected to increase approximately 7% per year. Most of this increase results from additional children coming into custody. However, approximately 20% of the increase results from children remaining in custody longer. Those children remaining in custody more than one year has increased from approximately 73% of the children in FY 97 to 75% of the children in FY 98.

COMMUNITY MENTAL HEALTH

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
32,740	33,616	2.67%	66,356	34,624	3.00%	35,663	3.00%	70,287

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.

MENTAL HEALTH MEDICAID

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
23,833	25,190	5.70%	49,023	25,946	3.00%	26,724	3.00%	52,670

Conscientious efforts over the last several years with the Bureau of Medical Services in the Department of Human Services have resulted in increased access to Medicaid funds to support the services that have been and are being developed for adults with mental illness, the large majority of whom are Medicaid recipients.

COMMUNITY MENTAL RETARDATION

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
19,646	20,551	4.61%	40,197	21,168	3.00%	21,803	3.00%	42,970

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.

MENTAL RETARDATION MEDICAID

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
48,723	51,395	5.48%	100,118	52,936	3.00%	54,525	3.00%	107,461

Community Mental Retardation provides services for persons with mental retardation in Maine who clearly need services and are Medicaid Eligible or Medicaid Reimbursable. Examples of these services are waiver homes, supported living and supported employment. Community service agreements remained virtually flat funded, with the exception of services mandated by the Community Consent Decree, the movement from Intermediate Care Facilities - Mental Retardation to the waiver program. Future funding for community mental retardation services are expected to remain relatively consistent with 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.

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 00-01 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						
	FY 2000-2001 BIENNium			FY 2002-2003 BIENNium		
	FY 00	FY 01	TOTAL	FY 02	FY 03	TOTAL
BALANCE	10,411,275		10,411,275	481,948		481,948
REVENUE	254,343,362	268,464,142	522,807,504	270,760,388	272,778,151	543,538,539
TOTAL RESOURCES	264,754,637	268,464,142	533,218,779	271,242,336	272,778,151	544,020,487
ALLOCATIONS	264,754,637	267,982,194	532,736,831	273,979,442	278,856,422	552,835,864
PROJECTED BALANCE	0	481,948	481,948	(2,737,106)	(6,078,271)	(8,815,377)

The Governor's proposed budget for the FY 00-01 biennium consists of allocations of \$532.7 million and projects \$522.8 million in revenue. With the FY 98-99 balance of \$10.4 million carrying into the FY 00-01 biennium, the balance available for the FY 02-03 biennium is \$481,948.

The projected FY 02-03 biennium consists of allocations of \$552.8 million and projects \$543.5 million in revenue. Combining the projected revenue with the budgeted balance from the FY 00-01 biennium, total resources for the FY 02-03 biennium are \$544.0 million. This would result in a projected structural gap of \$8.8 million.

The most significant aspect of the budget recommendations for the FY 00-01 biennium is the proposal to increase the gasoline tax and other special fuels tax by \$.05 per gallon. This proposal would provide the Department of Transportation with resources to meet critical highway and bridge maintenance and improvement needs that were partially met through General Fund and Highway fund bonding during the FY 98-99 biennium in addition to a General Fund appropriation of \$12 million in FY 98 for Highway and Bridge Improvement.

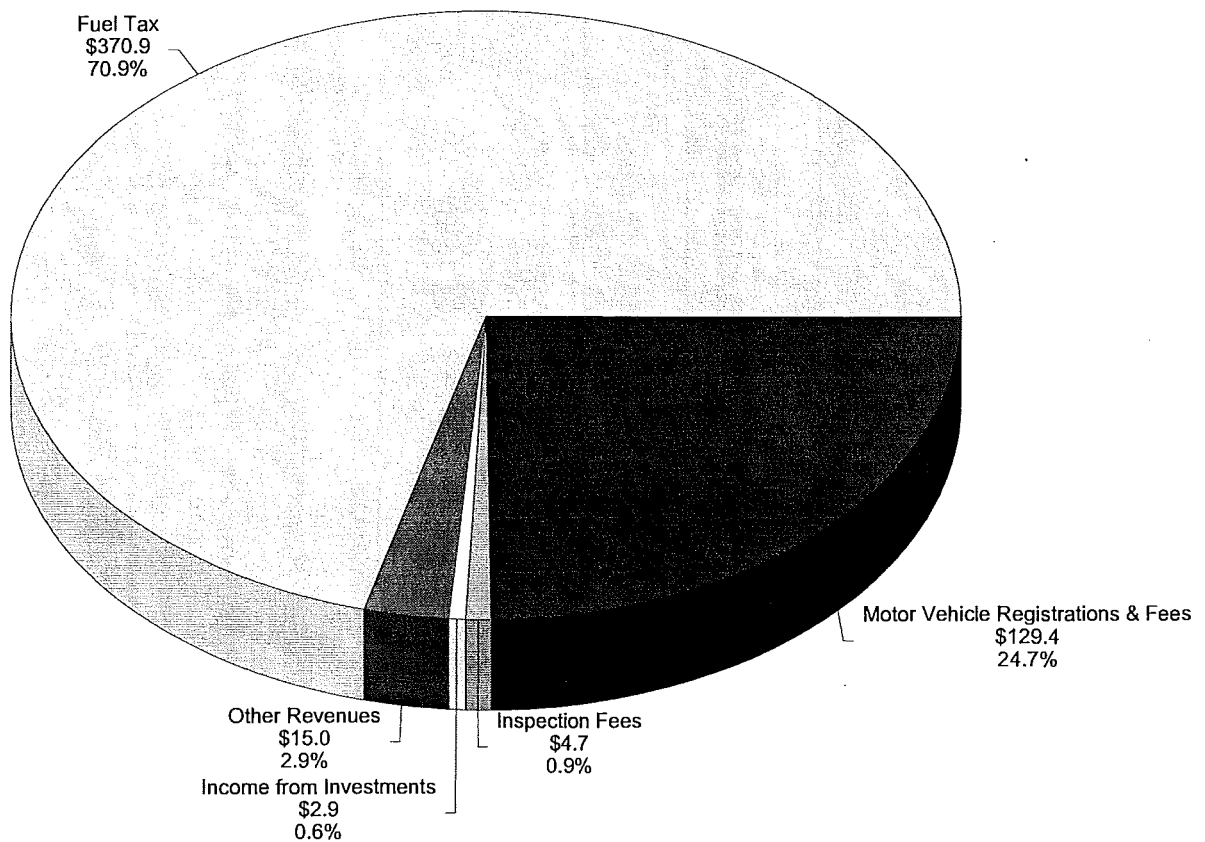
B. REVENUE FORECAST CHARTS

HIGHWAY FUND REVENUE FORECAST CHARTS												
SOURCE	FY 99-00			FY 00-01			FY 01-02			FY 02-03		
	ORIG	ADJ CHANGE	TOTAL BUDGET	ORIG	ADJ CHANGE	TOTAL BUDGET	ORIG	ADJ CHANGE	TOTAL BUDGET	ORIG	ADJ CHANGE	TOTAL BUDGET
Fuel Tax	151,255,648	27,857,712	179,113,360	153,043,302	38,698,551	191,741,853	154,854,335	38,928,157	193,782,492	156,689,090	39,164,548	195,853,638
Motor Vehicle Registrations & Fees	64,007,931		64,007,931	65,419,148		65,419,148	65,573,893		65,573,893	65,417,975		65,417,975
Inspection Fees	2,335,034		2,335,034	2,339,799		2,339,799	2,344,902		2,344,902	2,350,057		2,350,057
Income from Investments	1,440,000		1,440,000	1,440,000		1,440,000	1,440,000		1,440,000	1,440,000		1,440,000
Other Revenues	7,447,037		7,447,037	7,523,342		7,523,342	7,619,101		7,619,101	7,716,481		7,716,481
TOTAL REVENUE	226,485,650	27,857,712	254,343,362	229,765,591	38,698,551	268,464,142	231,832,231	38,928,157	270,760,388	233,613,603	39,164,548	272,778,151

HIGHWAY FUND REVENUE FORECAST CHARTS									
SOURCE	FY 00	FY 01	% CHANGE	BIENNIUM	FY 02	% CHANGE	FY 03	% CHANGE	BIENNIUM
Fuel Tax	179,113,360	191,741,853	7.05%	370,855,213	193,782,492	1.06%	195,853,638	1.07%	389,636,130
Motor Vehicle Registrations & Fees	64,007,931	65,419,148	2.20%	129,427,079	65,573,893	0.24%	65,417,975	-0.24%	130,991,868
Inspection Fees	2,335,034	2,339,799	0.20%	4,674,833	2,344,902	0.22%	2,350,057	0.22%	4,694,959
Income from Investments	1,440,000	1,440,000	0.00%	2,880,000	1,440,000	0.00%	1,440,000	0.00%	2,880,000
Other Revenues	7,447,037	7,523,342	1.02%	14,970,379	7,619,101	1.27%	7,716,481	1.28%	15,335,582
TOTAL HIGHWAY FUND REVENUES	254,343,362	268,464,142	5.55%	522,807,504	270,760,388	0.86%	272,778,151	0.75%	543,538,539

FY00/01 HIGHWAY FUND REVENUES RECOMMENDED

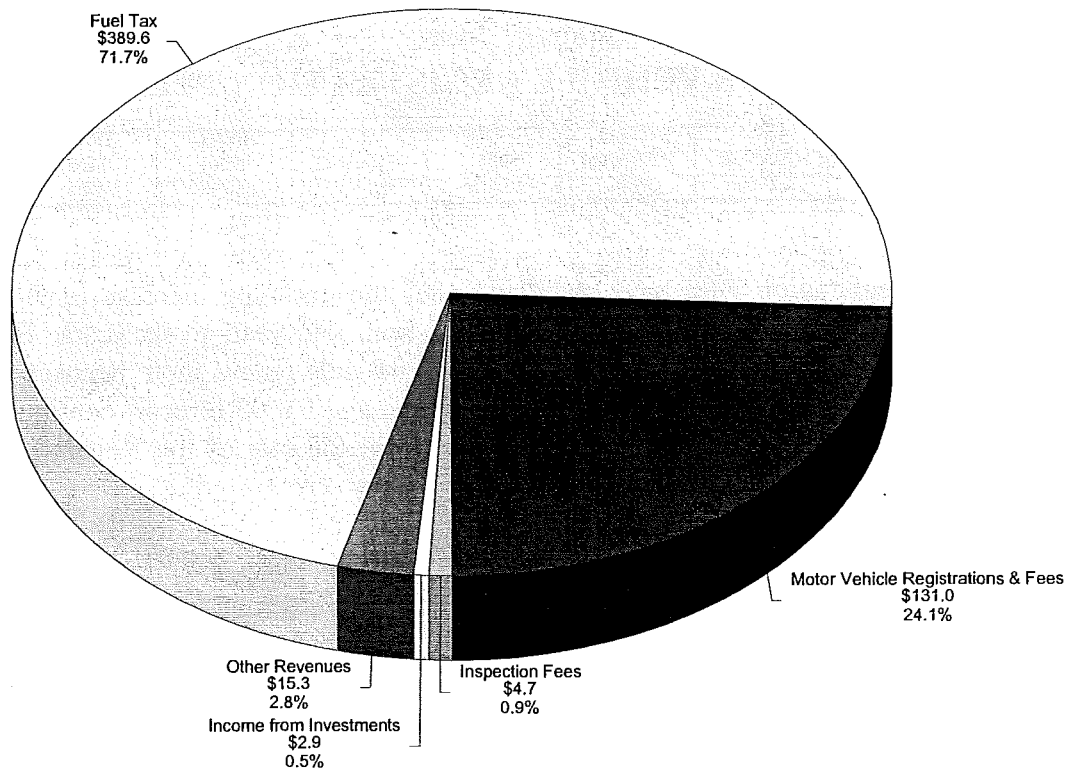
\$522.8 Million



Dollars in Millions
24

FY02/03 HIGHWAY FUND REVENUES PROJECTED

\$543.5 Million



Dollars in Millions
25

C. REVENUE FORECAST

FUEL TAX

FY00 (000)	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	FY02 (000)	YR % CHANGE	FY03 (000)	YR % CHANGE	TOTAL BIENNIUM
179,113	191,742	7.05%	370,855	193,782	1.06%	195,854	1.07%	389,636

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 relatively high 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. Two adjustments to the December 4, 1998 base level forecast of the Revenue Forecasting Committee are included in the Governor's Supplemental Budget Bill for the Highway Fund for the FY 00-01 biennium. These changes reflect a proposed \$.05 increase in the gas tax and the special fuels tax to take effect on September 1, 1999 and to continue into FY 02 and FY 03.

MOTOR VEHICLE REGISTRATION FEES

FY00 (000)	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	FY02 (000)	YR % CHANGE	FY03 (000)	YR % CHANGE	TOTAL BIENNIUM
64,008	65,419	2.20%	129,427	65,574	0.24%	65,418	-0.24%	130,992

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 00 individuals who renewed their licenses in 1994 will renew their licenses which will stabilize this revenue line on a six year cycle. The FY 02 and FY 03 forecast continues to reflect this six year renewal cycle consistent with the base level forecast of the Revenue Forecasting Committee as of December 4, 1998.

INSPECTION FEES

FY00 (000)	FY01 (000)	YR % CHANGE	TOTAL BIENNIUM	FY02 (000)	YR % CHANGE	FY03 (000)	YR % CHANGE	TOTAL BIENNIUM
2,335	2,340	0.20%	4,675	2,345	0.22%	2,350	0.22%	4,695

Revenues from Inspection Fees are expected to grow annually at a marginal rate of only .2% in the FY 02-03 biennium consistent with the base level projection of the Revenue Forecasting Committee as of December 4, 1998.

OTHER REVENUES

Other Revenues within the Highway Fund have remained static over time and are only expected to grow in the FY 02-03 biennium at an annual rate of 1.3% consistent with the base level projection of the Revenue Forecasting Committee as of December 4, 1998.

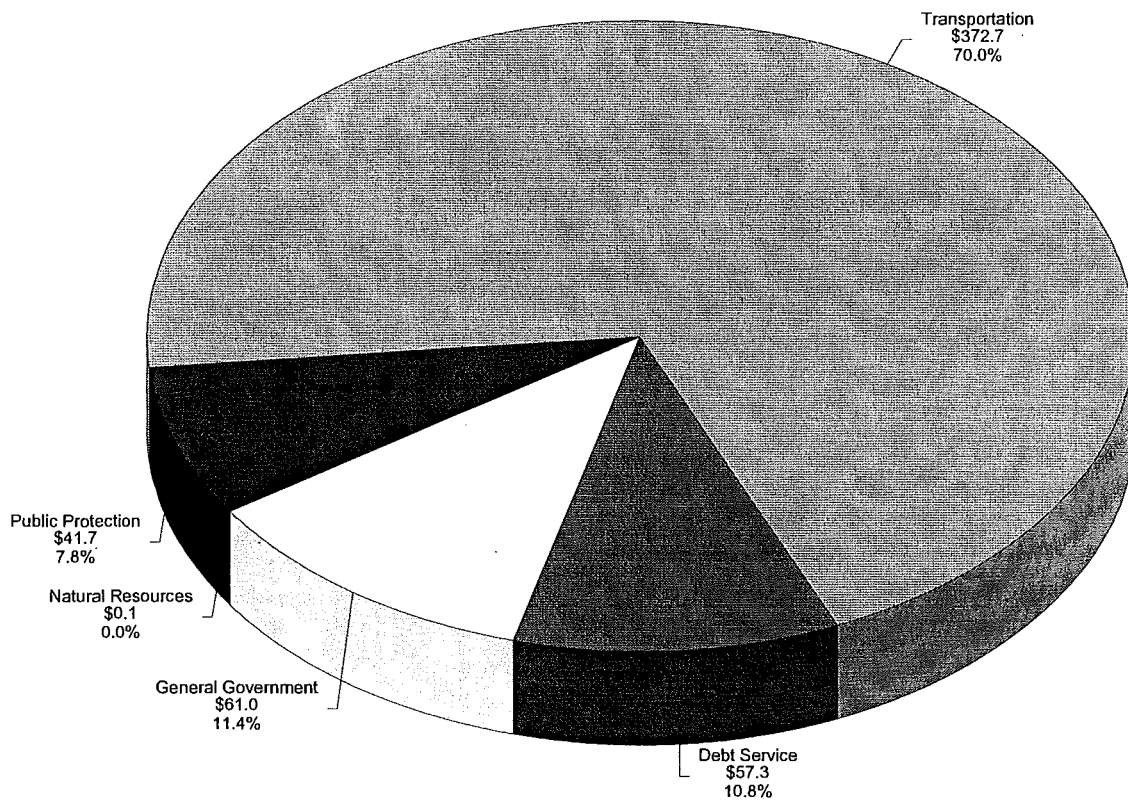
D. EXPENDITURE FORECAST CHART

HIGHWAY FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 2000 RECOMMEND BUDGET	FY 2001		00-01 BIENNIUM TOTAL	FY 2002		FY 2003		00-01 BIENNIUM TOTAL
		RECOMMEND BUDGET	% CHANGE		PROJECTED	% CHANGE	PROJECTED	% CHANGE	
TOTAL POLICY AREA 00 - GENERAL GOVERNMENT	29,283,322	31,702,173	8.26%	60,985,495	29,818,445	-5.94%	30,601,277	2.63%	60,419,722
TOTAL POLICY AREA 05 - NATURAL RESOURCES	34,905	35,851	2.71%	70,756	36,913	2.96%	38,006	2.96%	74,919
STATE POLICE	18,182,774	17,902,606	-1.54%	36,085,380	19,096,075	6.67%	18,885,127	-1.10%	37,981,202
OTHER AGENCIES AND PROGRAMS	2,812,460	2,788,608	-0.85%	5,601,068	2,865,136	2.74%	2,933,000	2.37%	5,798,136
TOTAL POLICY AREA 06 - PUBLIC PROTECTION	20,995,234	20,691,214	-1.45%	41,686,448	21,961,211	6.14%	21,818,127	-0.65%	43,779,338
HIGHWAY MAINTENANCE	94,175,319	97,599,715	3.64%	191,775,034	100,088,460	2.55%	102,648,604	2.56%	202,737,064
BRIDGE MAINTENANCE	12,081,930	12,407,655	2.70%	24,489,585	12,751,271	2.77%	13,104,660	2.77%	25,855,931
HIGHWAY & BRIDGE IMPROVEMENT	31,372,500	29,522,498	-5.90%	60,894,998	29,973,295	1.53%	30,436,798	1.55%	60,410,093
URBAN-RURAL INITIATIVE PROGRAM	22,150,000	23,000,000	3.84%	45,150,000	23,690,000	3.00%	24,400,700	3.00%	48,090,700
DEBT SERVICE	29,574,372	27,685,379	-6.39%	57,259,751	29,665,190	7.15%	29,137,788	-1.78%	58,802,978
OTHER AGENCIES AND PROGRAMS	25,087,055	25,337,709	1.00%	50,424,764	25,994,657	2.59%	26,670,462	2.60%	52,665,119
TOTAL POLICY AREA 07 - TRANSPORTATION	214,441,176	215,552,956	0.52%	429,994,132	222,162,873	3.07%	226,399,012	1.91%	448,561,885
TOTAL HIGHWAY FUND EXPENDITURES	264,754,637	267,982,194	1.22%	532,736,831	273,979,442	2.24%	278,856,422	1.78%	552,835,864

FY00/01 HIGHWAY FUND ALLOCATIONS RECOMMENDED

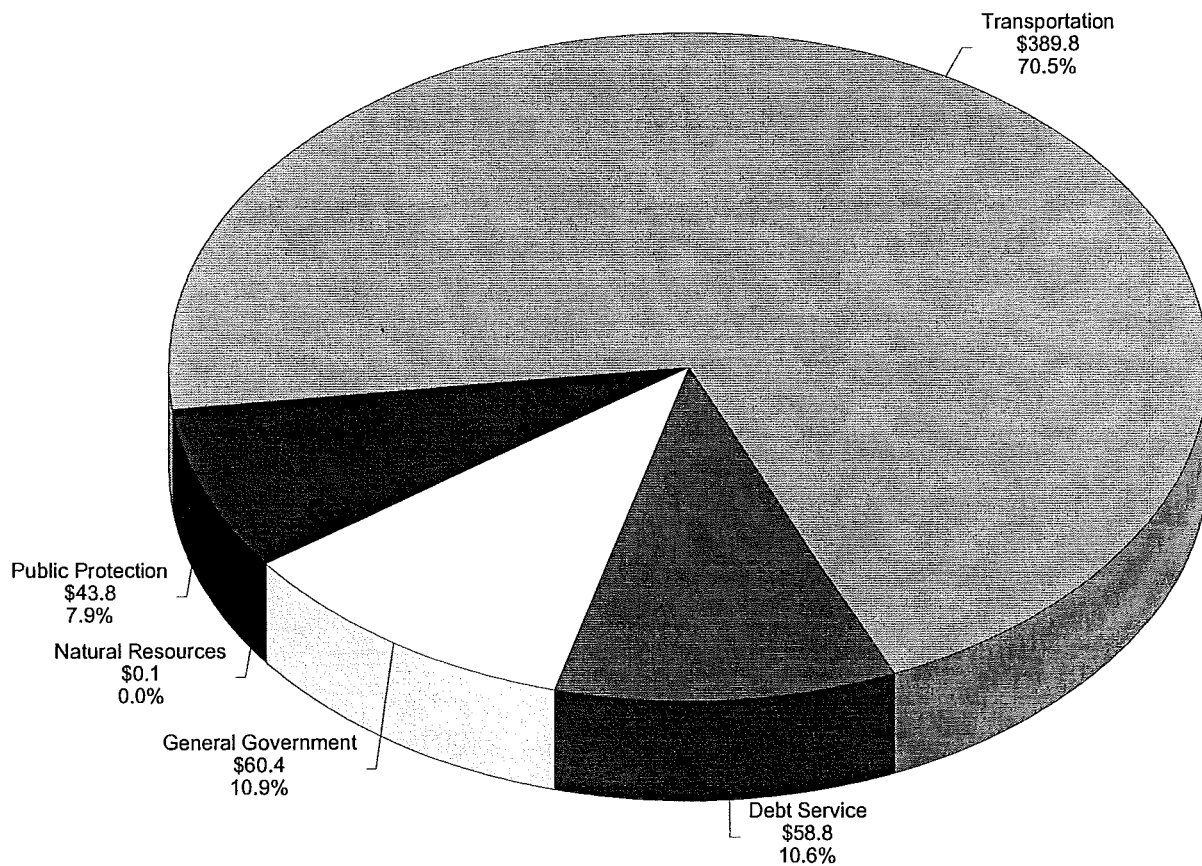
\$532.7 Million



Dollars in Millions
28

FY02/03 HIGHWAY FUND ALLOCATIONS PROJECTED

\$552.8 Million



Dollars in Millions
29

E. EXPENDITURE FORECAST

STATE POLICE

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
18,183	17,903	-1.54%	36,085	19,096	6.67%	18,885	-1.10%	37,981

The replacement program for police cruisers allows for the purchase of approximately 250 cars during each biennium. However, the schedule calls for replacement of 150 vehicles in the first year of each biennium and only 100 in the second year. As a result, there is a slight decrease in each biennium from the first year to the second. Resources to the State Police continue to be allocated based on a 60/40 Highway Fund/General Fund ratio.

HIGHWAY MAINTENANCE

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
94,175	97,600	3.64%	191,775	100,088	2.55%	102,649	2.56%	202,737

The Highway Maintenance Program maintains the infrastructure of 15,900 lane miles of interlocking state and state aid highways. Additional program effort is directed toward winter services to the 8,100 lane miles of the system designated as state highway including the removal of snow and ice from the travel surface, the maintenance of all appurtenances and the maintenance of facilities associated with the proper and safe utilization of the system by the motoring public. The budget projection for the FY 02-03 biennium reflects the current service level for this program using the Governor's recommended budget for FY 01 as the base year.

BRIDGE MAINTENANCE

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
12,082	12,408	2.70%	24,490	12,751	2.77%	13,105	2.77%	25,856

The Bridge Maintenance Program maintains approximately 2,800 bridges on public highways for public use in a serviceable and safe condition. This effort includes the operation of 9 moveable bridges over navigable waters and the structural maintenance of 9 Ferry transfer bridges. Additional program effort is directed at the inspection of approximately 3,800 bridges in accordance with the National Bridge Inspection Standards. The budget projection for the FY 02-03 biennium reflects the current service level for this program using the Governor's recommended budget for FY 01 as the base year.

HIGHWAY AND BRIDGE IMPROVEMENT

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
31,373	29,522	-5.90%	60,895	29,973	1.53%	30,437	1.55%	60,410

The Highway and Bridge Improvement Program provides for the capital improvement effort for the Federal-aid and State Highway network in order to maintain a safe, efficient and effective infrastructure for all users of the system. The budget projection for the FY 02-03 biennium reflects the current service level for this program using the Governor's recommended budget for FY 01 as the base year. This projection for FY 02 and FY 03 does not reflect the expectation that increased Federal funds may result in the supplemental consideration of additional Highway Fund match during the FY 02-03 biennium.

URBAN-RURAL INITIATIVE PROGRAM

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
22,150	23,000	3.84%	45,150	23,690	3.00%	24,401	3.00%	48,091

The Local Road Assistance Program has been proposed in the Governor's budget for the FY 00-01 biennium to be reorganized into the Urban-Rural Initiative Program as a restructured and augmented effort for providing municipalities with financial assistance for their use in maintaining and improving public roads. The budget projection for the FY 02-03 biennium reflects the current service level for this program using the Governor's recommended budget for FY 01 as the base year.

DEBT SERVICE

FY00	FY01	YR %	TOTAL	FY02	YR %	FY03	YR %	TOTAL
(000)	(000)	CHANGE	BIENNIUM	(000)	CHANGE	(000)	CHANGE	BIENNIUM
29,574	27,685	-6.39%	57,260	29,665	7.15%	29,138	-1.78%	58,803

It is projected that Highway Fund bonds issued during each of the FY 00-01 and the FY 02-03 biennia will be \$25 million, a sharp decrease from the \$48.9 million which will be issued during the FY 98-99 biennium. This reduction in bonding is possible because of the anticipated increase in the Fuel Tax. In addition, Debt Service, as a percent of Highway Fund revenues, will drop from the current level of 13.1% in the current biennium to 11.0% and 10.8% in each of the two ensuing biennia.



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 00-01 biennium and the FY 02-03 biennium. The purpose is not to predict a shortfall or unbalanced budget in the respective funds for the FY 02-03 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 \$108,064,978 in the General Fund and \$8,815,377 in the Highway Fund for the FY 02-03 biennium. The base level revenue projections for the General Fund and the Highway Fund include the December 4, 1998 projection of the Revenue Forecasting Committee. Revenue adjustments for the General Fund and the Highway fund reflect recommendations contained in the Governor's budget proposals for the FY 00-01 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 02-03 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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