

MAINE STATE LEGISLATURE

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STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION

OCT 24 2002



GENERAL FUND AND HIGHWAY FUND
FISCAL YEARS 2002 – 2005

Submitted by the
Bureau of the Budget
September 30, 2002

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STATE OF MAINE

DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES

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

Date: October 16, 2002

To: Honorable Angus S. King, Jr. Governor
Honorable Richard A. Bennett, President of the Senate
Honorable Michael H. Michaud, President Pro Tem of the Senate
Honorable Michael V. Saxl, Speaker of the House
Honorable Jill M. Goldthwait, Senate Chair
Honorable Randall L. Berry, 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 02-03 biennium and the FY 04-05 biennium in accordance with Title 5, section 1665, subsection 7.

The Bureau of the Budget is pleased to present its budget forecast for the General Fund and the Highway Fund for the FY 04-05 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 budget forecast is based on the current structure of state revenues and expenditures for both the General Fund and the Highway Fund as required by Title 5, section 1665, subsection 7. However, unlike previous such budget forecasts, this report also estimates the budget impact in FY 04 and FY 05 of the Governor's budget proposals to offset the projected General Fund budget shortfall in FY 03. As a result, this budget forecast should provide the most consistent view of revenue and expenditure trends over the long term as a basis for financial 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 2002 - 2005**

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MAINE BUDGET FORECAST

FY 02-03 BIENNIUM AND FY 04-05 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.

This report is being issued in accordance with Title 5, section 1665, subsection 7 that requires a four year budget forecast for the General Fund and the Highway Fund by September 30th of each even-numbered year. As such, this report provides a four-year budget forecast for the FY 02-03 biennium and the FY 04-05 biennium using, as part of the basis for the budget forecast, the ongoing budget impact of the Governor's budget proposals for bringing the FY 03 General Fund budget into balance. The expected outcome is the most reasonable and consistent portrayal of the General Fund and the Highway Fund budgets for FY 04 and FY 05 based on currently available financial and program information. This information, to be useful, needs to include the General Fund appropriations and Highway Fund allocations approved by the Second Regular Session of the 120th Legislature as well as the budget information contained in the Governor's budget proposals for balancing the FY 03 General Fund budget that may impact the General Fund budget and the Highway Fund budget in the FY 04-05 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 August 2002 projections of the Revenue Forecasting Committee, as required by Public Law 1997, chapter 157.

In order to provide the most accurate expenditure estimate from currently available budget information, the projection used the FY 03 legislatively approved appropriations and allocations from the Second Regular Session of the 120th Legislature. These projections have been supplemented from detailed estimates of the ongoing budget impact of the Governor's budget recommendations to offset the estimated General Fund budget shortfall in FY 03. These estimates were further adjusted for the effect of one-time and phased-in actions expected to occur in FY 03. 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 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 projections included in the FY 04-05 biennial budget instructions for departments and agencies as shown in the chart on page 3 entitled "All Other Growth Factors FY 04-05 Biennium". The only exception was the Higher Education Institutions in which a CPI factor of 2.5% was used to forecast the operational growth of those governmental entities. These CPI factors were applied to each All Other expenditure category in the FY 03 base year after adjustment for one-time appropriations and allocations but prior to adjustments for programmatic reasons and the effect of allotment curtailments in FY 03. Growth in Capital Expenditures from the FY 03 was not assumed for FY 04 and FY 05.

Salaries and wages for the FY 04-05 biennium are based on merit growth and the effect of approved salary and wage adjustments and market wage adjustments from the FY 02-03 biennium. State employee benefits are based on currently approved items and rates, including the actuarially determined rate from the Maine State Retirement System for the FY 04-05 biennium. The Personal Services projections for both the General Fund and the Highway Fund also reflect in FY 04 an additional 27th biweekly payroll for authorized positions on the cycle B payroll.

The unusual increases forecasted for Personal Services are mostly attributable to anticipated growth in employer health insurance for active state employees and retirees of 16% each year based on the most recent information from the State Employees' Health Insurance Program. That portion of the Personal Services projection related to state employee retiree health also includes estimated growth in the retired state employee population of 5% each year based on estimates from the State Employees' Health Insurance Program. The projection for Personal Services does not anticipate future salary adjustments through collective bargaining beyond June 30, 2003.

This projection does not predict unbalanced budgets for the General Fund or the Highway Fund for the FY 04-05 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 04-05 biennium.

ALL OTHER GROWTH FACTORS

FY 04-05 BIENNIUM

EXPENSE DESCRIPTION	EXPENSE CODE	FY 04	FY 05
Professional Services not by State	400000	0.00%	0.00%
Professional Services by State	410000	0.00%	0.00%
Travel Expense in State	420000	0.00%	0.00%
Travel Expense Out of State	430000	0.00%	0.00%
Operation of State Vehicles	440000	0.00%	0.00%
Utility Services	450000	0.00%	0.00%
Rents	460000	2.90%	2.90%
Repairs	470000	0.00%	0.00%
Insurance	480000	13.70%	13.70%
General Operating Expense	490000	0.00%	0.00%
Training	500000	0.00%	0.00%
Food	510000	2.00%	2.00%
Fuel	520000	2.00%	2.00%
Information Technology	530000	2.00%	2.00%
Clothing	540000	0.00%	0.00%
Minor Equipment	550000	0.00%	0.00%
Other Supplies	560000	0.00%	0.00%
Depreciation	570000	0.00%	0.00%
Highway Materials	580000	0.00%	0.00%
Grants to Federal Government	600000	2.00%	2.00%
Grants to Counties	610000	2.00%	2.00%
Grants to Cities and Towns	630000	2.00%	2.00%
Grants to Public and Private Organizations	640000	2.00%	2.00%
Unemployment Compensation Benefits	650000	2.00%	2.00%
Public Assistance Grants	660000	2.00%	2.00%
Assistance and Relief Grants	670000	2.00%	2.00%
Miscellaneous Grants to Individuals	680000	2.00%	2.00%
Pensions	690000	2.00%	2.00%
Land and Land Rights	700000	0.00%	0.00%
Buildings and Improvements	710000	0.00%	0.00%
Equipment	720000	0.00%	0.00%
Structures and Improvements	730000	0.00%	0.00%
Equipment Construction	740000	0.00%	0.00%
Highway Infrastructure	750000	0.00%	0.00%

II. GENERAL FUND

A. BUDGET STATUS FY 02-05

GENERAL FUND STATUS						
	FY 02-03 BIENNIUM			FY 04-05 BIENNIUM FORECAST		
	FY 02	FY 03 BUDGETED	TOTAL	FY 04	FY 05	TOTAL
BALANCE	38,816,534		38,816,534			
ADJUSTMENTS TO BALANCE	116,465,818	145,769,877	262,235,695			
REVENUE	2,424,196,674	2,549,769,923	4,973,966,597	2,482,983,967	2,594,104,152	5,077,088,119
TOTAL RESOURCES	2,579,479,026	2,695,539,800	5,275,018,826	2,482,983,967	2,594,104,152	5,077,088,119
APPROPRIATIONS	2,565,345,849	2,709,588,242	5,274,934,091	2,950,496,776	3,090,842,481	6,041,339,257
TOTAL USES	2,565,345,849	2,709,588,242	5,274,934,091	2,950,496,776	3,090,842,481	6,041,339,257
ORIGINAL BALANCE AT END OF 2nd REGULAR SESSION - 120th LEGISLATURE	14,133,177	(14,048,442)	84,735			
ORIGINAL BALANCE		84,735	84,735			
PROJECTED ENDING BALANCE	14,133,177	(14,133,177)	(14,133,177)			
GENERAL FUND REVENUE (UNDER) BUDGET	(92,536,012)					
LAPSED BALANCES	14,110,336					
YEAR END TRANSFERS	(153,519)					
TRANSFER FROM THE MAINE RAINY DAY FUND	66,353,928	(66,353,928)	(66,353,928)			
PRIOR PERIOD AND OTHER ADJUSTMENTS	(1,907,810)					
GENERAL FUND REVENUE REPROJECTION		(148,157,149)	(148,157,149)			
ADJUSTED BALANCE		(228,559,519)	(228,559,519)	(467,512,809)	(496,738,329)	(964,251,138)
GOVERNOR'S BUDGET PROPOSALS IN FY 03		228,818,581	228,818,581	92,008,281	85,106,169	177,114,450
ENDING BALANCE (SHORTFALL)	-0-	259,062	259,062	(375,504,528)	(411,632,160)	(787,136,688)

With adjustments from the Second Regular Session of the 120th Legislature, the General Fund budget for the FY 02-03 biennium was approved with a balance of \$84,735. Subsequent to the close of the Second Regular Session of the 120th Legislature, however, General Fund revenues in FY 02 declined relative to budget as a result of the underlying economy and decline in capital gains in the Individual Income Tax. As a consequence, actual General Fund revenues were under budget by \$92,536,012 at the close of FY 02.

In response to the dramatic decline in General Fund revenues in the last quarter of FY 02, the Governor issued Executive Order 06 FY 01/02 that curtailed General Fund spending in FY 02. As a result, \$14,110,336 of funds lapsed to General Fund Unappropriated Surplus at the end of FY 02. At the close of FY 02, \$14,133,177 of budgeted General Fund Unappropriated Surplus and \$66,353,928 of Maine Rainy Day Fund balance intended to fund the FY 03 General Fund budget were used to balance FY 02 on an actual basis in compliance with Article IX, section 14 of the Constitution of Maine that requires a balanced General Fund budget.

In August 2002, the Revenue Forecasting Committee reprojected General Fund revenues down in FY 03 by \$148,157,149 to reflect updated economic assumptions from the Consensus Economic Forecasting Commission. The combination of a budget balance in FY 03 of \$84,735, General Fund Unappropriated Surplus balance of \$14,133,177 that was used in FY 02 but was budgeted in FY 03, Maine Rainy Day Fund balance of \$66,353,928 that was used in FY 02 but was budgeted in FY03 and a General Fund revenue reprojection down of \$148,157,149 results in an estimated General Fund budget shortfall of \$228,559,519 in FY 03.

On July 1, 2002, the Governor issued Executive Order 01 FY 02/03 that curtailed General Fund spending in FY 03 by \$55,262,106 in response to the estimated budget shortfall in FY 03. This action was immediately followed by two additional General Fund spending curtailments by the Governor in FY 03 that reduced expenditures by \$200,000 from savings in Maine State Retirement System administration and by \$2,974,032 from three temporary days off for state employees. In August 2002, the Governor presented additional proposals for increased resources and spending reductions in FY 03 to offset the anticipated General Fund budget shortfall in FY 03. These budget balancing proposals will be presented to a special session of the Legislature for official consideration in FY 03. In the meantime, the ongoing General Fund budget impact of these proposals in FY 04 and FY 05 are reflected as a separate line in the General Fund Status chart shown above.

Projections for the FY 04-05 biennium include General Fund revenues of \$5,077,088,119. Projected General Fund appropriations for the FY 04-05 biennium are \$6,041,339,257 which result in a structural budget gap for the General Fund of \$964,251,138 before adjustment for the ongoing effect of the Governor's budget balancing proposals for FY 03. After adjusting for the expected General Fund budget impact of the Governor's budget balancing recommendations for FY 03, the result is an estimated structural budget gap of \$787,136,688 in the FY 04-05 biennium.

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B. REVENUE FORECAST CHARTS FY 02-05

GENERAL FUND REVENUE FORECAST CHARTS										
SOURCE	FY 02	FISCAL YEAR 03 - BUDGETED			FISCAL YEAR 04 - FORECAST			FISCAL YEAR 05 - FORECAST		
	ACTUAL	ORIG.	AUG 28, 2002 REPRO.	TOTAL BUDGET	ORIG.	AUG 28, 2002 REPRO.	TOTAL BUDGET	ORIG.	AUG 28, 2002 REPRO.	TOTAL BUDGET
Sales and Use Tax	836,134,084	895,011,846	(19,827,000)	875,184,846	937,976,411	(28,500,000)	909,476,411	987,561,233	(36,170,000)	951,391,233
Individual Income Tax	1,069,834,791	1,257,663,548	(152,999,722)	1,104,663,826	1,343,591,127	(169,083,148)	1,174,507,979	1,436,008,469	(196,242,171)	1,239,766,298
Corporate Income Tax	77,366,103	85,738,483	(5,248,486)	80,489,997	95,119,329	(12,838,891)	82,280,438	101,620,156	(5,205,589)	96,414,567
Cigarette & Tobacco Tax	97,599,599	102,949,755	2,734,750	105,684,505	102,234,976	2,723,038	104,958,014	101,422,388	2,716,659	104,139,047
Public Utilities Tax	30,479,783	30,400,000		30,400,000	29,500,000		29,500,000	28,600,000		28,600,000
Insurance Company Tax	55,244,333	40,924,003	15,722,351	56,646,354	40,963,028	16,109,197	57,072,225	42,993,604	16,516,717	59,510,321
Inheritance & Estate Tax	23,420,240	23,691,016	326,552	24,017,568	13,873,040	(44,850)	13,828,190	6,527,219	(111,618)	6,415,601
Property Tax - Unorg. Terr.	10,333,984	9,669,807		9,669,807	10,466,939		10,466,939	11,055,885		11,055,885
Income from Investments	3,829,521	10,014,129	(7,723,129)	2,291,000	4,311,400	(1,746,400)	2,565,000	4,316,800	(1,406,800)	2,910,000
Trans. to Muni. Rev. Share	(101,150,084)	(114,654,916)	9,135,900	(105,519,016)	(123,587,717)	10,941,946	(112,645,771)	(131,309,873)	12,356,124	(118,953,749)
Transfer from Liquor	25,168,524	26,290,223		26,290,223	26,934,677		26,934,677	27,288,730		27,288,730
Transfer from Lottery	39,317,891	36,809,911	2,525,265	39,335,176	36,809,911	2,525,265	39,335,176	36,809,911	2,525,265	39,335,176
All Other	164,081,792	145,262,118	7,196,370	152,458,488	137,611,625	7,093,064	144,704,689	139,143,580	7,087,463	146,231,043
TOTAL REVENUE	2,331,660,562	2,549,769,923	(148,157,149)	2,401,612,774	2,655,804,746	(172,820,779)	2,482,983,967	2,792,038,102	(197,933,950)	2,594,104,152

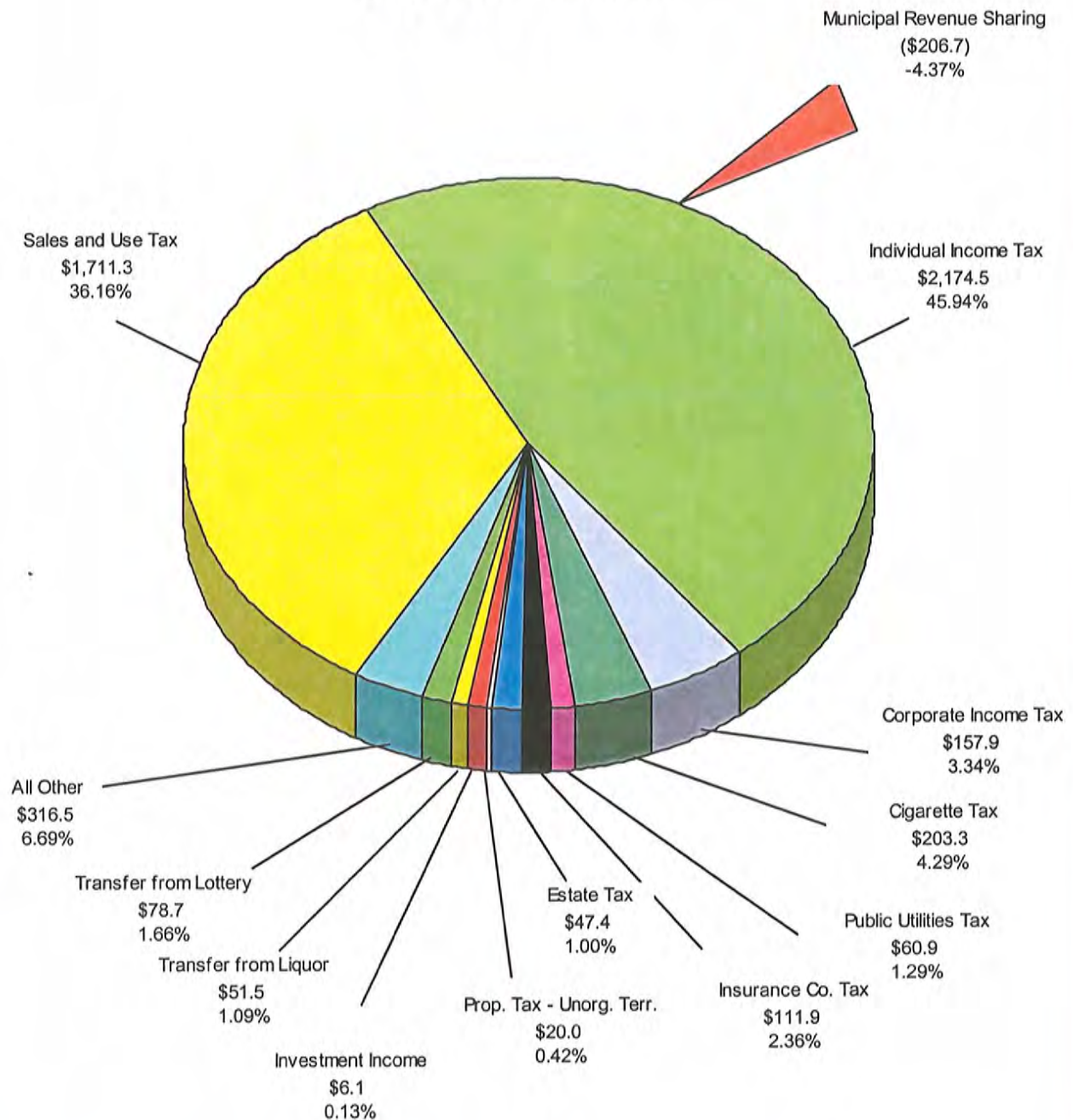
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GENERAL FUND REVENUE FORECAST CHARTS									
Showing Year to Year Percent Changes									
SOURCE	FY 02	FISCAL YEAR 03		BIENNIUM	FISCAL YEAR 04		FISCAL YEAR 05		BIENNIUM
	ACTUAL	BUDGET	PERCENT CHANGE		FORECAST	PERCENT CHANGE	FORECAST	PERCENT CHANGE	
Sales and Use Tax	836,134,084	875,184,846	4.67%	1,711,318,930	909,476,411	3.92%	951,391,233	4.61%	1,860,867,644
Individual Income Tax	1,069,834,791	1,104,663,826	3.26%	2,174,498,617	1,174,507,979	6.32%	1,239,766,298	5.56%	2,414,274,277
Corporate Income Tax	77,366,103	80,489,997	4.04%	157,856,100	82,280,438	2.22%	96,414,567	17.18%	178,695,005
Cigarette & Tobacco Tax	97,599,599	105,684,505	8.28%	203,284,104	104,958,014	-0.69%	104,139,047	-0.78%	209,097,061
Public Utilities Tax	30,479,783	30,400,000	-0.26%	60,879,783	29,500,000	-2.96%	28,600,000	-3.05%	58,100,000
Insurance Company Tax	55,244,333	56,646,354	2.54%	111,890,687	57,072,225	0.75%	59,510,321	4.27%	116,582,546
Inheritance & Estate Tax	23,420,240	24,017,568	2.55%	47,437,808	13,828,190	-42.42%	6,415,601	-53.60%	20,243,791
Property Tax - Unorg. Terr.	10,333,984	9,669,807	-6.43%	20,003,791	10,466,939	8.24%	11,055,885	5.63%	21,522,824
Income from Investments	3,829,521	2,291,000	-40.18%	6,120,521	2,565,000	11.96%	2,910,000	13.45%	5,475,000
Trans. to Muni. Rev. Share	(101,150,084)	(105,519,016)	4.32%	(206,669,100)	(112,645,771)	6.75%	(118,953,749)	5.60%	(231,599,520)
Transfer from Liquor	25,168,524	26,290,223	4.46%	51,458,747	26,934,677	2.45%	27,288,730	1.31%	54,223,407
Transfer from Lottery	39,317,891	39,335,176	0.04%	78,653,067	39,335,176		39,335,176		78,670,352
All Other	164,081,792	152,458,488	-7.08%	316,540,280	144,704,689	-5.09%	146,231,043	1.05%	290,935,732
TOTAL REVENUE	2,331,660,562	2,401,612,774	3.00%	4,733,273,336	2,482,983,967	3.39%	2,594,104,152	4.48%	5,077,088,119

GENERAL FUND REVENUES

FY 02 ACTUAL/FY 03 FORECAST

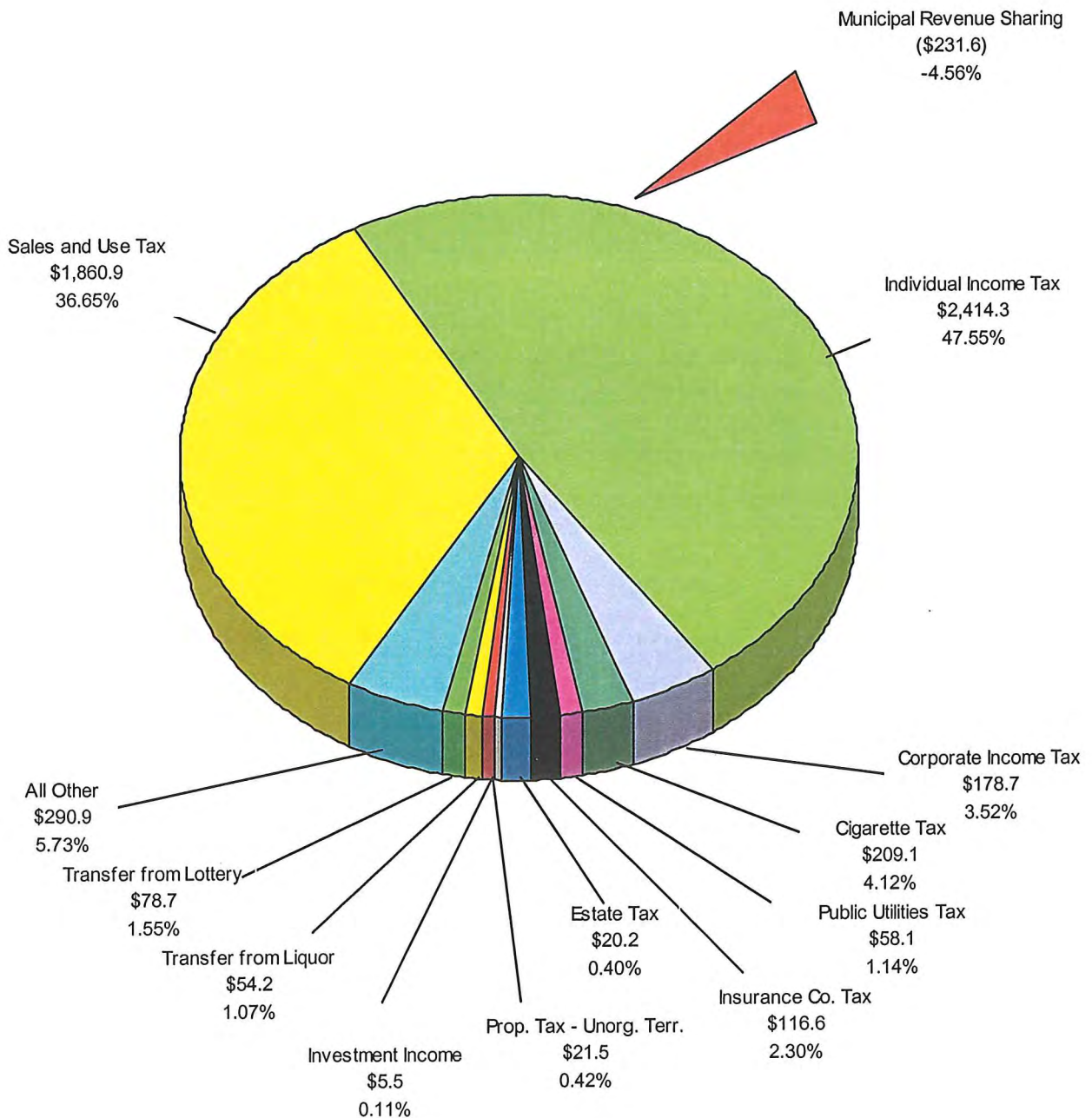
\$4,733.3 Million



GENERAL FUND REVENUES

FY 04/FY 05 FORECAST

\$5,077.1 Million



C. REVENUE FORECAST NARRATIVE

SALES AND USE TAX

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
836,134	875,185	4.67%	1,711,319	909,476	3.92%	951,391	4.61%	1,860,868

The Sales and Use Tax forecast for FY 03, FY 04 and FY 05 was updated by the Revenue Forecasting Committee in August 2002. Consumer spending is expected to moderate from the growth in sales in previous years of 7 to 8%. Annual growth of approximately 4.7% is forecast for FY 03. July 2002 retail sales were strong with auto and building supply sales leading the way; however, business taxable sales are expected to be weak in FY 03 with improvement during the FY 04-05 biennium. It is projected that revenues from Sales and Use Tax will grow by approximately 3.9% for FY 04, and by an additional 4.6% for FY 05.

INDIVIDUAL INCOME TAX

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
1,069,835	1,104,664	3.26%	2,174,499	1,174,508	6.32%	1,239,766	5.56%	2,414,274

The forecast for Individual Income Tax was updated by the Revenue Forecasting Committee in August 2002. The estimate for FY 03, FY 04 and FY 05 reflects the underlying economic forecast of the Consensus Economic Forecasting Commission with respect to personal income and wage and salary distribution. Annual growth for personal income is expected to be approximately 4.0% with wage and salary growth of approximately 3.6% in FY 03. Capital gains are projected to decline by approximately 20% in tax year 2002. Annual growth for personal income is expected to be approximately 5% with wage and salary growth of approximately 4.6% for the FY 04-05 biennium. Capital Gains are projected to be flat during tax year 2003 with a moderate growth of approximately 8% for tax years 2004 and 2005.

CORPORATE INCOME TAX

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
77,366	80,490	4.04%	157,856	82,280	2.22%	96,415	17.18%	178,695

The forecast for Corporate Income Tax was updated by the Revenue Forecasting Committee in August 2002. The forecast reflects the effect of the general economic slowdown and also includes revenue reductions associated with the state's responsibility to conform its tax laws to the United States Internal Revenue Code for tax years beginning on or after January 1, 2002 and before January 1, 2003. National forecasts of declining corporate profits have necessitated a more cautious revenue forecast for this line which is reflected in the baseline forecast for FY 04 and FY 05

CIGARETTE AND TOBACCO TAX

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
97,600	105,685	8.28%	203,284	104,958	-0.69%	104,139	-0.78%	209,097

The forecast for Cigarette and Tobacco Tax was updated by the Revenue Forecasting Committee in August 2002. The FY 03 forecast reflects an 8.28% increase in tax receipts over FY 02 actual receipts. The forecast for FY 04 and FY 05 reflects the change in the base year and the continuation of a decline in the use of tobacco products of between 1 and 2% per year.

INSURANCE COMPANY TAX

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
55,244	56,646	2.54%	111,891	57,072	0.75%	59,510	4.27%	116,583

The forecast for Insurance Company Tax was updated by the Revenue Forecasting Committee in August 2002. The forecast for Insurance Company Tax for FY 03 reflects a 2.54% increase over the FY 02 actual receipts. An increase of .8% is projected for FY 04 with a 4.3% increase projected for FY 05. Insurance Company Tax has been impacted upward as a result of increases in liability risk associated with September 11, 2001.

MUNICIPAL REVENUE SHARING

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
(101,150)	(105,519)	4.32%	(206,669)	(112,646)	6.75%	(118,954)	5.60%	(231,600)

Sales and Use Tax, Individual Income Tax and Corporate Income Tax are subject to Municipal Revenue Sharing in accordance with Title 30-A, section 5681 of the Maine Revised Statutes. That section of statute currently requires that an amount equal to 5.1% of the latter three tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). Municipal Revenue Sharing is a calculation based on the forecasts of the three previously referenced tax revenue lines. The Legislature authorized a change in the reimbursement rate to 5.2% effective May 2003.

OTHER REVENUES

Actual revenues in the other revenue lines totaled \$164.1 million in FY 02. It is projected that revenues will decrease from the base year FY 02 actual by approximately -7.1% to \$152.5 million in FY 03. The reason for the decrease in revenues is to adjust for one time revenues received in FY 02. For the FY 04-05 biennium, it is projected that revenues will decrease by -5.3% to \$144.7 million in FY 04; and, then increase by 1.1% to \$146.2 million in FY 05.

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GENERAL FUND EXPENDITURE FORECAST CHART

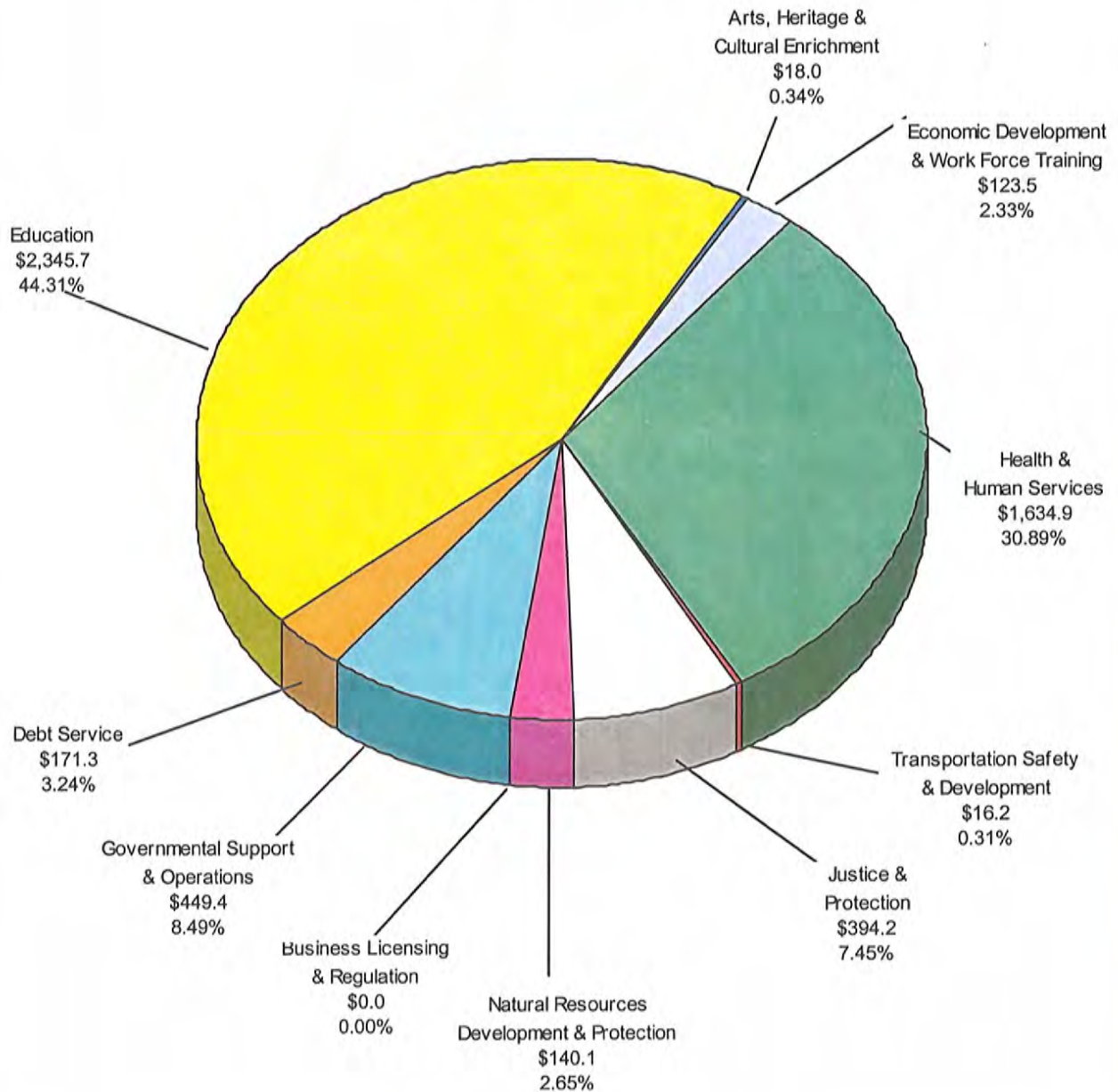
Showing Year to Year Percent Changes

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 02	FY 03		02-03	FY 04		FY 05		04-05
	ACTUAL	BUDGET	% CHANGE	BIENNIUM TOTAL	PROJECTED	% CHANGE	PROJECTED	% CHANGE	BIENNIUM TOTAL
Capital Construction & Repairs	7,202,485	3,947,400	-45.19%	11,149,885	9,800,000	148.26%	10,100,000	3.06%	19,900,000
Business Equipment Tax Reimbursement Program	52,512,867	62,781,575	19.55%	115,294,442	73,716,257	17.42%	79,837,983	8.30%	153,554,240
Maine Residents Property Tax Program (Circuit Breaker)	20,710,061	21,714,392	4.85%	42,424,453	22,524,932	3.73%	23,327,419	3.56%	45,852,351
Homestead Property Tax Exemption	39,415,567	40,183,540	1.95%	79,599,107	40,785,280	1.50%	41,396,269	1.50%	82,181,549
Government Facilities Authority	4,987,268	12,572,902	152.10%	17,560,170	19,500,000	55.10%	18,800,000	-3.59%	38,300,000
Debt Service	79,898,842	91,351,343	14.33%	171,250,185	89,894,993	-1.59%	97,355,721	8.30%	187,250,714
Other Agencies And Programs	90,769,118	92,638,357	2.06%	183,407,475	100,001,792	7.95%	103,029,214	3.03%	203,031,006
Total Policy Area - Governmental Support & Operations	295,496,208	325,189,509	10.05%	620,685,717	356,223,254	9.54%	373,846,606	4.95%	730,069,860
Total Policy Area - Economic Development & Work Force Training	65,670,386	57,844,189	-11.92%	123,514,575	59,298,608	2.51%	60,241,992	1.59%	119,540,600
General Purpose Aid To Local Schools	702,686,340	730,817,941	4.00%	1,433,504,281	764,050,659	4.55%	798,612,685	4.52%	1,562,663,344
Teacher Retirement/Retiree Health	168,214,621	180,283,394	7.17%	348,498,015	214,504,854	18.98%	229,381,879	6.94%	443,886,733
Preschool Handicapped	13,966,442	14,580,024	4.39%	28,546,466	18,018,336	23.58%	191,989,375	965.52%	210,007,711
Other Agencies And Programs	263,705,600	271,414,950	2.92%	535,120,550	280,800,831	3.46%	115,264,238	-58.95%	396,065,069
Total Policy Area - Education	1,148,573,003	1,197,096,309	4.22%	2,345,669,312	1,277,374,680	6.71%	1,335,248,177	4.53%	2,612,622,857
Medical Care - Payments To Providers	285,496,994	305,642,751	7.06%	591,139,745	340,187,851	11.30%	368,437,974	8.30%	708,625,825
Nursing Facilities	63,786,390	69,254,308	8.57%	133,040,698	72,350,775	4.47%	74,159,544	2.50%	146,510,319
Child Welfare - Foster Care	56,399,927	59,415,383	5.35%	115,815,310	70,724,915	19.03%	75,335,874	6.52%	146,060,789
Community Mental Health	40,064,961	39,157,154	-2.27%	79,222,115	40,776,508	4.14%	41,790,574	2.49%	82,567,082
Mental Health Medicaid	27,549,322	31,043,928	12.68%	58,593,250	35,136,658	13.18%	37,764,594	7.48%	72,901,252
Community Mental Retardation	20,240,806	21,815,483	7.78%	42,056,289	23,852,188	9.34%	24,774,231	3.87%	48,626,419
Mental Retardation Medicaid	65,032,062	73,697,339	13.32%	138,729,401	76,377,000	3.64%	81,758,000	7.05%	158,135,000
Mental Health Services - Children	20,739,508	22,202,370	7.05%	42,941,878	22,996,290	3.58%	23,596,477	2.61%	46,592,767
Mental Health Services - Child Medicaid	18,147,280	20,494,043	12.93%	38,641,323	27,200,388	32.72%	29,549,987	8.64%	56,750,375
Other Agencies And Programs	190,678,658	204,003,775	6.99%	394,682,433	229,274,955	12.39%	234,902,475	2.45%	464,177,430
Total Policy Area - Health & Human Services	788,135,908	846,726,534	7.43%	1,634,862,442	938,877,528	10.88%	992,069,730	5.67%	1,930,947,258
Total Policy Area - Natural Resources Development & Protection	70,055,991	70,092,346	0.05%	140,148,337	77,403,234	10.43%	78,335,922	1.20%	155,739,156
Corrections	108,877,473	108,682,325	-0.18%	217,559,798	125,159,870	15.16%	130,828,800	4.53%	255,988,670
Other Agencies And Programs	85,940,847	90,687,316	5.52%	176,628,163	102,618,057	13.16%	106,576,352	3.86%	209,194,409
Total Policy Area - Justice & Protection	194,818,320	199,369,641	2.34%	394,187,961	227,777,927	14.25%	237,405,152	4.23%	465,183,079
Total Policy Area - Transportation Safety and Development	12,281,112	3,939,417	-67.92%	16,220,529	3,787,500	-3.86%	3,804,070	0.44%	7,591,570
Total Policy Area - Business Licensing & Regulation	4,407	10,535	139.05%	14,942		-100.00%			
Total Policy Area - Arts, Heritage & Cultural Enrichment	8,648,901	9,319,762	7.76%	17,968,663	9,754,045	4.66%	9,890,832	1.40%	19,644,877
GRAND TOTAL GENERAL FUND EXPENDITURES	2,583,684,236	2,709,588,242	4.87%	5,293,272,478	2,950,496,776	8.89%	3,090,842,481	4.76%	6,041,339,257

GENERAL FUND APPROPRIATIONS

FY 02 ACTUAL/FY 03 BUDGETED

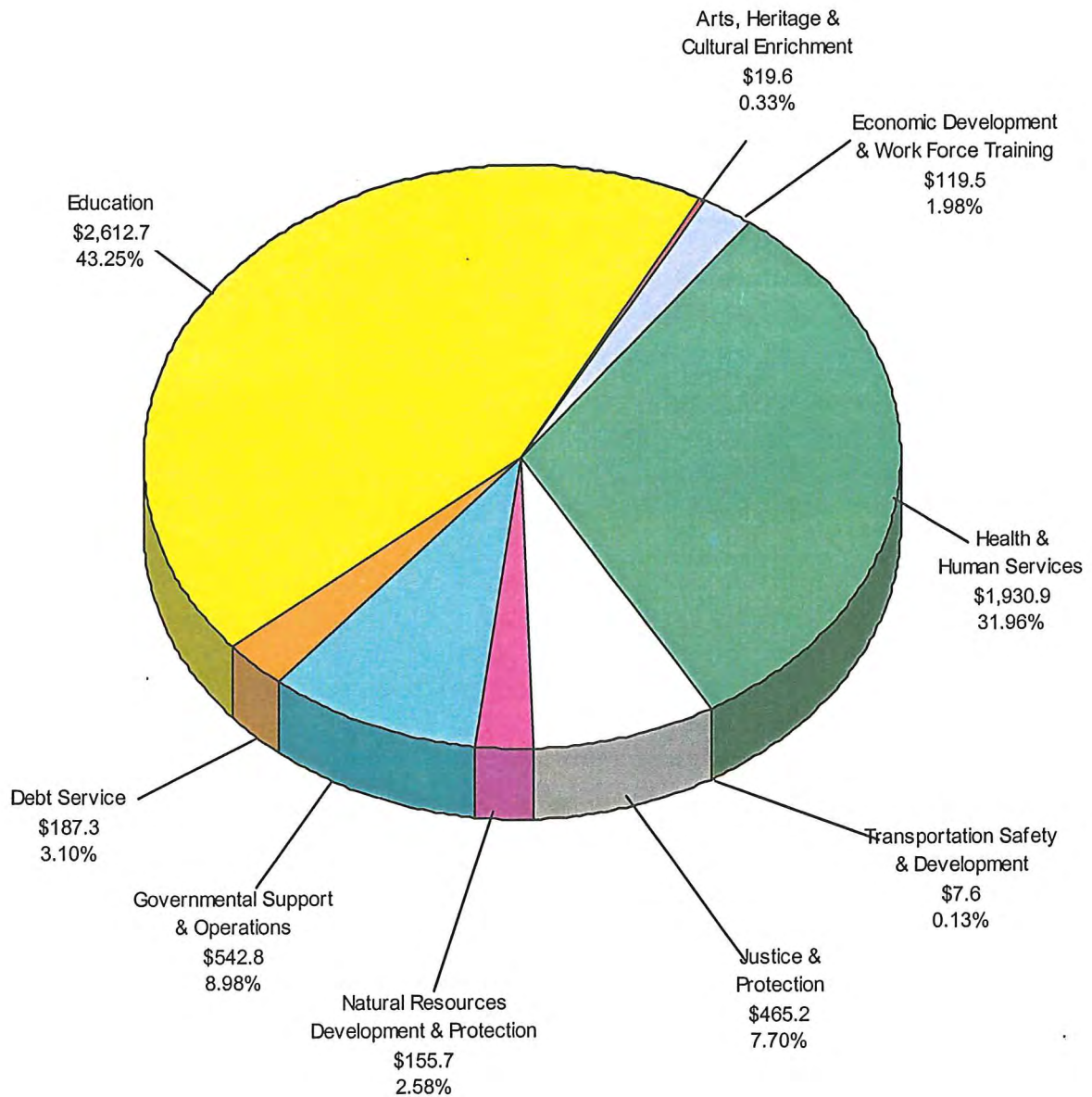
\$5,293.3 Million



GENERAL FUND APPROPRIATIONS

FY 04/FY 05 PROJECTED

\$6,041.3 Million



E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION & REPAIRS

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
7,202	3,947	-45.19%	11,150	9,800	148.26%	10,100	3.06%	19,900

The expenditure forecast for the FY 04-05 biennium for capital construction, repairs and improvements reflects a budget based on the industry standard of 1 ½ % of assessed capital asset value. For the FY 02-03 biennium, the budget request was reduced to the above levels in an effort to provide savings towards the budget shortfall. Funding for the FY 04-05 biennium adjusts for the delay in Capital Construction and Capital Improvements projects undertaken through the Governmental Facilities Authority .

PERSONAL PROPERTY TAX ON MACHINERY AND EQUIPMENT

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
52,513	62,782	19.55%	115,294	73,716	17.42%	79,838	8.30%	153,554

Public Law 1997, chapter 395 authorized the reimbursement of property tax paid on qualified property placed in service after April 1, 1995. The cost of the program has grown from \$4.8 million in FY 97 to an estimated \$62.8 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 to about \$95 million in the 12th program year; and, thereafter the cost is expected to grow by about 3% per year annually. The expenditure forecast for the FY 04-05 biennium assumes the program will grow by an additional 17.42% in FY 04 to \$73.7 million and by 8.3% in FY 05 to \$79.8 million. If the Legislature accepts the Governor's proposal to change the reimbursement date to coincide with an August 1 filing the expenditure forecast will decrease to \$14.8 million in FY 03, \$69.3 million in FY 04 and \$75.6 million in FY 05 for a net projected savings of \$47.9 million in FY 03 and \$8.6 million over the FY 04-05 biennium.

MAINE RESIDENTS PROPERTY TAX PROGRAM

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
20,710	21,714	4.85%	42,424	22,525	3.73%	23,327	3.56%	45,852

Public Law 1997, chapter 557 modified the eligibility requirements of the Maine Residents Property Tax 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 were \$20.7 million in FY 02; and, are estimated at \$21.7 million in FY 03. It is projected that program costs for FY 04 will be approximately \$22.5 million and will increase to approximately \$23.3 million in FY 05. These program estimates exceed inflation because the economic forecast calls for a slowdown in the economy which will increase both eligibility and the amount of a household's refund.

HOMESTEAD PROPERTY TAX EXEMPTION

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
39,416	40,184	1.95%	79,599	40,785	1.50%	41,396	1.50%	82,182

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 program costs were \$39.4 million in FY 02; and, are estimated to be \$40.2 in FY 03. It is projected that the program costs will increase for inflation to approximately \$40.8 million in FY 04 and to \$41.4 million in FY 05.

GOVERNMENTAL FACILITIES AUTHORITY

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
4,987	12,573	152.10%	17,560	19,500	55.10%	18,800	-3.59%	38,300

The forecast for the FY 04-05 biennium for the Governmental Facilities Authority, created by Public Law 1997, chapter 523, includes principal and interest payments for loans which financed projects approved by the 119th Legislature. These include renovations to the Tyson and Marquardt buildings on the Augusta Mental Health Institute campus, renovations to the State House and State Office Building, construction and renovations of various correctional facilities, and the construction of a new psychiatric treatment facility. Additionally, it includes principal and interest for a loan of \$7.6 million approved by the 120th Legislature for repairs to waterlines at Augusta Mental Health Institute, buildings at Governor Baxter School for the Deaf and to begin renovations at the Department of Transportation Building. Projects undertaken through the Governmental Facilities Authority for the Judicial Branch are included in the Judicial Department's budget as rental payments and are not reflected in the estimates shown above.

DEBT SERVICE

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
79,899	91,351	14.33%	171,250	89,895	-1.59%	97,356	8.30%	187,251

During FY 02, the procedure for issuing General Obligation Bonds was changed so that the timing of bond issuance more closely matched the timing of the actual expenditure of the funds. This resulted in more Bond Anticipation Notes being issued throughout the year and, consequently, the delaying of principal payments and the reduction of arbitrage.

Because of the new procedures outlined above, the bond issue for June 2002 included only the amounts of the Bond Anticipation Notes (BAN) issued during FY 02. It is anticipated that bonds issued in June 2003 will be for an amount equal to the BAN's which will be issued during FY 03 plus the cash needed to cover expenditures for the first quarter of FY 04. Likewise, the bonds to be issued in June 2004 will be for the amount of BAN's issued during FY 04 plus cash required for expenditures during the first quarter of FY 05. Because of a substantial decrease in bond retirements from FY 02 to FY 03, the total General Fund General Obligation debt service for the FY 04-05 biennium is anticipated to rise by only \$2.4 million.

As of June 30, 2002, the total authorized General Fund General Obligation bonds that remained unissued was \$275.9 million, an increase of \$188.1 million over the balance at June 30, 2001. Of this amount, \$39.1 million is for the purchase of land, of which a maximum of \$10 million may be issued in any one year, and \$63.5 million is bonds authorized by the voters in June 2002. Additional bond authorizations in the amount of \$49.1 million will appear on the November 2002 ballot. Beginning in November 2003, it is anticipated that the amount of additional General Fund General Obligation bonds presented to the voters will return to the historical level of \$55 million each year. Assuming these bonds are approved, and accounting for existing authorized but unissued bonds, it is expected that bonds will be issued at the rate of \$120.6 million in June 2003, \$106.9 million in June 2004, \$72.9 million in June 2005 and \$55.0 million in June 2006. For all General Fund General Obligation bonds issued in the future, a 5.25% interest rate and a ten-year term is assumed.

In addition to the projected General Fund General Obligation debt service for the FY 04-05 biennium, forecasted debt service in FY 04 and FY 05 includes the assumption that \$275 million of Tax Anticipation Notes (TAN) will be issued each fiscal year at a rate of 2.3125 % in FY 04 and 2.625% in FY 05. This assumption is consistent with the General Fund Income from Investments forecasted for FY 04 and FY 05 by the Office of the Treasurer that was adopted by the Revenue Forecasting Committee in August 2002.

GENERAL PURPOSE AID TO LOCAL SCHOOLS

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
702,686	730,818	4.00%	1,433,504	764,051	4.55%	798,613	4.52%	1,562,663

The budget proposal for the FY 04-05 biennium provides for increases in General Purpose Aid from the adjusted base of FY 03 of \$33.2 million in FY 04 and \$67.8 million in FY05. Public Law 1999, chapter 731 set the debt service limit for FY 04 at \$80.0 million and established the limit for FY 05 at \$84.0 million. FY 04 reflects the succeeding phase-in of the school funding formula based on essential programs and services as opposed to the current expenditure-driven funding approach. The phase-in is expected to be several years in duration. The expenditure forecast for the FY 04-05 biennium assumes a 4.0% increase in FY 04, the first year of the changed school funding formula, plus an additional \$4 million cushion. FY 05 forecast assumes an increase of 4.0% from the calculated FY 04 base, plus \$4 million for a cushion.

TEACHER RETIREMENT/RETIREE HEALTH

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
168,215	180,283	7.17%	348,498	214,505	18.98%	229,382	6.94%	443,887

The expenditure forecast for the FY 04-05 biennium for Teacher Retirement assumes salary and wage growth of 5.5% over FY 03. The normal retirement cost rate for the teacher group is 6.04% for the FY 02-03 biennium, which remains constant over the forecast period of the FY 04-05 biennium. Unfunded actuarial liability is projected at the rates provided on an actuarial basis from Maine State Retirement System for the FY 04-05 biennium.

The Retired Teachers' Health Insurance program cost is projected to increase 17.5% each year during the FY 04-05 biennium based on recent projections from the State Employees' Health Insurance Program. The projections for FY 04 and FY 05 have also been adjusted to reflect growth in the teacher retiree population of 8.0% in FY 04 and 8.0% in FY 05.

PRESCHOOL HANDICAPPED

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
13,966	14,580	4.39%	28,546	18,018	23.58%	191,989	965.52%	210,008

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. Total Program growth (all funding sources) for FY 04 and FY 05 is estimated at 8% each year, reflecting a moderating trend from past years. The Department of Education has identified that growth in the total number of eligible children entering the program is continuing to increase, (7.6% from 2001 to 2002) and that there is a continuing increase in the number of children with multiple service needs. Any positive changes 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 the projected General Fund commitment.

MEDICAL CARE - PAYMENTS TO PROVIDERS

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
285,497	305,643	7.06%	591,140	340,188	11.30%	368,438	8.30%	708,626

Spending in the Medicaid (MaineCare) program is estimated to exhibit growth of 11.3% in FY 04 and 8.3% in FY 05 for the Medical Care - Payments to Providers account. FY 04 is expected to experience the first full year of implementation of Public Law 2001, chapter 450, "An Act to Increase Access to Health Care", that expanded access to health care through Medicaid to non-categorically eligible adults. Additionally, in FY 04, 53 pay cycles are reflected. Without the extra pay cycle in FY 04, the growth rate would be 9.2%. These growth rates are in line with the national projections of 7.9% and 9.1% by the Congressional Budget Office (CBO) and 8.7% and 8.8% by the Centers for Medicare & Medicaid Services (CMS). Significant growth areas include prescription drugs, Private Non-Medical Institutions (PNMI's), mental health clinics and room and board costs for children, which continue to exert considerable pressure on this program.

NURSING FACILITIES

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
63,786	69,254	8.57%	133,041	72,351	4.47%	74,160	2.50%	146,510

The proposed spending in the Nursing Facilities program is projected to experience modest increases of 4.5% in FY 04 and 2.5% in FY 05. The increase in FY 04 reflects 53 pay cycles. Without the extra pay cycle the growth rate would be 2.5%. Previous years' appropriation reductions resulted from the ongoing implementation of the Department of Human Services' 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 to an actual of \$63.8 million in FY 02. This spending trend is reflected in the reduced number of people served in nursing homes, 9,945 in FY 95 to 8,275 in FY 01, while the number of persons served in home or community settings has grown from 9,800 to 17,180.

CHILD WELFARE - FOSTER CARE

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
56,400	59,415	5.35%	115,815	70,725	19.03%	75,336	6.52%	146,061

The Child Welfare and Foster Care programs in the Department of Human Services, which provide support and services for children in the department's care or custody, are projected to increase 19.0 % in FY 04 and 6.5% in FY 05, or over \$27.2 million during the FY 04-05 biennium. General Fund appropriations for these programs in FY 95 totaled \$23.5 million, and will increase to \$75.3 million through FY 05.

Over the past several years, the Department of Human Services has seen a steady increase in the number of treatment level and residential placements which provide specialized services needed by the children entering care. Additionally, over the past 3½ years, 420 beds were developed to enable children to return to Maine and still receive the level of care they need. Because these in-state facilities are smaller, the cost per child is greater. Looking at Group/Residential Facilities as a whole, there has been an increase in number of beds from 588 in 1990 to 1,136 in 2000.

To address not only the increase in more costly placements, but also the length of time that children remain in these placements, the Department of Human Services has taken several steps. The Levels of Care Committee will complete its work to develop a plan to assess all children coming into care to provide the most appropriate placement and to define those appropriate levels of care and the corresponding rates paid for all children in care. The Bureau of Child and Family Services is also doing a review of all children/youth in group homes and residential facilities to determine the continued need for that high level of service. It is possible that some of these youth could transition to less intensive levels of care. Children between the ages of 6-12 are more likely to remain in foster care longer than other age groups. The Bureau is conducting a review of all these children to determine what needs to happen to achieve permanency for this age group.

COMMUNITY MENTAL HEALTH

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
40,065	39,157	-2.27%	79,222	40,777	4.14%	41,791	2.49%	82,567

The Mental Health Services Program for adults has made great strides towards a community based system of care, which has resulted in reductions of the censuses of both the Augusta Mental Health Institute (AMHI) and the Bangor Mental Health Institute (BMHI). In FY 94, the budget of the Department of Behavioral and Developmental Services contained \$37 million for community services and \$54 million for AMHI and BMHI. In FY 02, the proposed budget includes over \$120 million for community services and \$40 million at AMHI and BMHI, reflecting a dramatic shift in the focus of care from state hospitals to community based services. In FY 02, construction began on the new Riverview Psychiatric Center and at the same time new Supported Living Services opened in Regions I and II for consumers currently residing in AMHI.

MENTAL HEALTH MEDICAID

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
27,549	31,044	12.68%	58,593	35,137	13.18%	37,765	7.48%	72,901

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. Future funding for Medicaid eligible recipients is expected to grow at 13.2% for FY 04 and 7.5% for FY 05. In FY 02, new Supported Living Services opened in Regions I and II for consumers residing in AMHI.

COMMUNITY MENTAL RETARDATION

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
20,241	21,815	7.78%	42,056	23,852	9.34%	24,774	3.87%	48,626

The Mental Retardation service delivery system must provide services and support to a limited number of people who are not eligible for MaineCare. It also must be able to assist those in need with financial resources to pay for some services that are not covered by the MaineCare program. Examples of some non-MaineCare costs are family support, housing, food, some professional/clinical services, and supported employment. This program is projected to increase by 9.1% in FY 04 and 3.9% in FY 05. The most significant growth area is in the utilization of community funds in the area of housing supplements. The Community Consent Decree, signed in 1994, covers people who lived at Pineland Center on or after July 3, 1975 and provides services to class members in order for them to successfully live in a community.

MENTAL RETARDATION MEDICAID

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
65,032	73,697	13.32%	138,729	76,377	3.64%	81,758	7.05%	158,135

Medicaid Services - Mental Retardation provides services for persons with mental retardation in Maine who need services and are Medicaid eligible or Medicaid reimbursable. Approximately 94% of people served by the mental retardation service system are MaineCare beneficiaries. The result is that many receive specialized service in areas of residential support, day habilitation services, and supported employment. Major areas of growth in the system are as follows: 1) MaineCare entitlement to day habilitation services, 2) children previously served by this Department transitioning into adult Mental Retardation services, and 3) legislative obligation for the Department of Behavioral and Developmental Services to provide Adult Protective Services. Growth in this program is projected at 3.6% in FY 04 and 7.0% in FY 05.

MENTAL HEALTH SERVICES - CHILDREN

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
20,740	22,202	7.05%	42,942	22,996	3.58%	23,596	2.61%	46,593

Funds for Children's Services Mental Health are appropriated to pay for services that are not MaineCare reimbursable and for services delivered to children who do not qualify for MaineCare programs. In FY 02, these services included case management, outpatient and medication monitoring, crisis services, community support services, respite care, and other family support services. The largest General Fund expenditure (\$3.2 million) for a non-MaineCare service was for room and board (non-treatment) costs of children receiving out of home residential services. The largest General Fund expenditures for children who are not MaineCare eligible were for outpatient services (\$2.1 million) and for case management services (\$1.6 million). This program is projected to grow at 3.6% in FY 04 and 2.6% in FY 05.

MENTAL HEALTH SERVICES - CHILD MEDICAID

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
18,147	20,494	12.93%	38,641	27,200	32.72%	29,550	8.64%	56,750

General Fund support is used to provide state seed for services provided to eligible children and youth under the MaineCare Program. Over the past 3 years, enrollment of children in this program has increased substantially, with an attendant increase in service utilization. Part of the reason for increased participation in MaineCare has been due to litigation that established certain MaineCare services as entitlements for eligible children. Over the last 2 years total expenditures (state seed plus federal match) for case management services rose from \$4.1 million in FY 00 to \$16.7 million in FY 02. Total expenditures for In-Home Supports for children with Mental Retardation and Autism increased from \$4.1 million in FY 00 to \$6.3 million in FY 02. Other major expenditures for MaineCare services in FY 02 include crisis services at \$5.7 million, community support services at \$8.6 million and outpatient services at \$18.4 million. In the last 2 years General Fund dollars expended for MaineCare seed has grown from \$10.6 million in FY 00 to \$18.1 million in FY 02. The number of children eligible for case management and in-home supports is projected to significantly increase in response to settlement of recent lawsuits. This program is expected to experience growth of 32.7% in FY 04 and 8.6% in FY 05.

CORRECTIONS

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
108,877	108,682	-0.18%	217,560	125,160	15.16%	130,829	4.53%	255,989

The Department of Corrections is required to provide adequate medical care to all offenders incarcerated within its facilities. The prison population is extremely challenging regarding health care as many prisoners have not had adequate primary care prior to incarceration, over 80% have some level of substance addiction and many smoked prior to incarceration. Maine's prisoner population compared to other states has a higher incidence of prescription medications including psychotropic medications. As a result, the number of prisoners with chronic conditions has increased, resulting in hospitalization and use of medications and specialists. Additionally, the cost of health care and prescription medications has increased dramatically over the past several years. The Department anticipates a 12% per year increase in the medical contract above the expected level in FY 03.

The department's prisoner population is projected to increase by 9.4% to 1863 prisoners by the year 2010. Given this projected modest growth in prisoners, the department had anticipated a need to moderately increase bed capacity. However, recent increases in the prisoner population have exceeded the projected numbers resulting in a more immediate need for additional bed capacity. During the week of June 3, 2002, the adult prisoner population peaked at 1839. Analysis of the state's prisoner population presents an even greater challenge – meeting the need for special treatment beds and appropriate minimum and community custody beds.

The FY 04 and FY 05 forecast includes budgeted overtime at the historical level.

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 04-05 biennium is expected to closely follow projected Consumer Price Index (CPI) or departmental trends. With the base year (FY 03) adjusted for one-time appropriations, there are not any significant budget changes anticipated.

III. HIGHWAY FUND

A. BUDGET STATUS FY 02-05

HIGHWAY FUND STATUS						
	FY 02-03 BIENNIUM			FY 04-05 BIENNIUM		
	FY 02	FY 03 BUDGETED	TOTAL	FY 04	FY 05	TOTAL
BALANCE	27,686,658		27,686,658			
ADJUSTMENTS TO BALANCE	(500,000)	146,023	(353,977)			
REVENUE	272,347,857	280,140,025	552,487,882	305,914,918	315,302,411	621,217,329
TOTAL RESOURCES	299,534,515	280,286,048	579,820,563	305,914,918	315,302,411	621,217,329
ALLOCATIONS	290,385,517	288,775,631	579,161,148	319,304,570	321,780,423	641,084,993
TOTAL USES	290,385,517	288,775,631	579,161,148	319,304,570	321,780,423	641,084,993
ORIGINAL BALANCE AT END OF 2nd REGULAR SESSION - 120th LEGISLATURE	9,148,998	(8,489,583)	659,415			
BALANCE FORWARD		21,088,925	21,088,925	7,271,849		7,271,849
ORIGINAL BALANCE		659,415	659,415			
PROJECTED ENDING BALANCE	9,148,998	(9,148,998)	(9,148,998)			
HIGHWAY FUND REVENUE OVER BUDGET	9,636,160					
LAPSED BALANCES	585,871					
PRIOR PERIOD AND OTHER ADJUSTMENTS	1,717,896					
HIGHWAY FUND REVENUE PROJECTION		3,972,507	3,972,507			
ADJUSTED BALANCE		16,571,849	16,571,849			
GOVERNOR'S PROPOSED TRANSFER TO THE GENERAL FUND		(9,300,000)	(9,300,000)			
ENDING BALANCE (SHORTFALL)	21,088,925	7,271,849	7,271,849	(6,117,803)	(6,478,012)	(12,595,815)

With adjustments from the Second Regular Session of the 120th Legislature, the Highway Fund budget for the FY 02-03 biennium was approved with a balance of \$659,415. Fiscal year 2001-02 ended with a Highway Fund Unallocated Surplus of \$21,088,925. In August 2002, the Revenue Forecasting Committee reprojected Highway Fund Revenues up in FY 03 by \$3,972,507. As a result, the Highway Fund is estimated to end with a balance of \$16,571,849 in FY 03 after adjustment for legislatively approved allocations in FY 03.

The Governor's proposals for balancing the FY 03 General Fund budget include a transfer of \$9,300,000 from the Highway Fund in FY 03. The proposed transfer is shown in the Highway Fund Status chart above as a reduction in the FY 03 ending balance, which becomes the estimated beginning balance in FY 04 of \$7,271,849.

Projections for the FY 04-05 biennium include Highway Fund revenue of \$621,217,329 that, when combined with the projected balance from the FY 02-03 biennium of \$7,271,849, bring total resources to \$628,489,178. Projected Highway Fund allocations for the FY 04-05 biennium are \$641,084,993 which would result in a projected structural budget gap of \$12,595,815.

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B. REVENUE FORECAST CHARTS FY 02-05

HIGHWAY FUND REVENUE FORECAST CHARTS

SOURCE	FY 02 ACTUAL	FISCAL YEAR 03 - BUDGET			FISCAL YEAR 04 - FORECAST			FISCAL YEAR 05 - FORECAST		
		ORIG.	AUG 28, 2002 REPRO.	TOTAL BUDGET	ORIG.	AUG 28, 2002 REPRO.	TOTAL BUDGET	ORIG.	AUG 28, 2002 REPRO.	TOTAL BUDGET
Fuel Tax	184,732,999	182,478,107	5,021,893	187,500,000	205,852,110	5,934,353	211,786,463	213,148,917	7,416,649	220,565,566
Motor Vehicle Registrations & Fees	83,285,014	79,754,630	1,935,706	81,690,336	77,910,434	962,475	78,872,909	77,822,633	1,353,566	79,176,199
Inspection Fees	3,412,662	3,918,052	(234,145)	3,683,907	3,949,839	(257,468)	3,692,371	3,957,952	(256,993)	3,700,959
Income from Investments	2,857,209	3,000,000	(1,409,000)	1,591,000	1,500,000	348,000	1,848,000	1,500,000	595,000	2,095,000
Other Revenues	7,696,133	10,989,236	(1,341,947)	9,647,289	11,030,648	(1,315,473)	9,715,175	11,106,361	(1,341,674)	9,764,687
TOTAL HIGHWAY FUND REVENUES	281,984,017	280,140,025	3,972,507	284,112,532	300,243,031	5,671,887	305,914,918	307,535,863	7,766,548	315,302,411

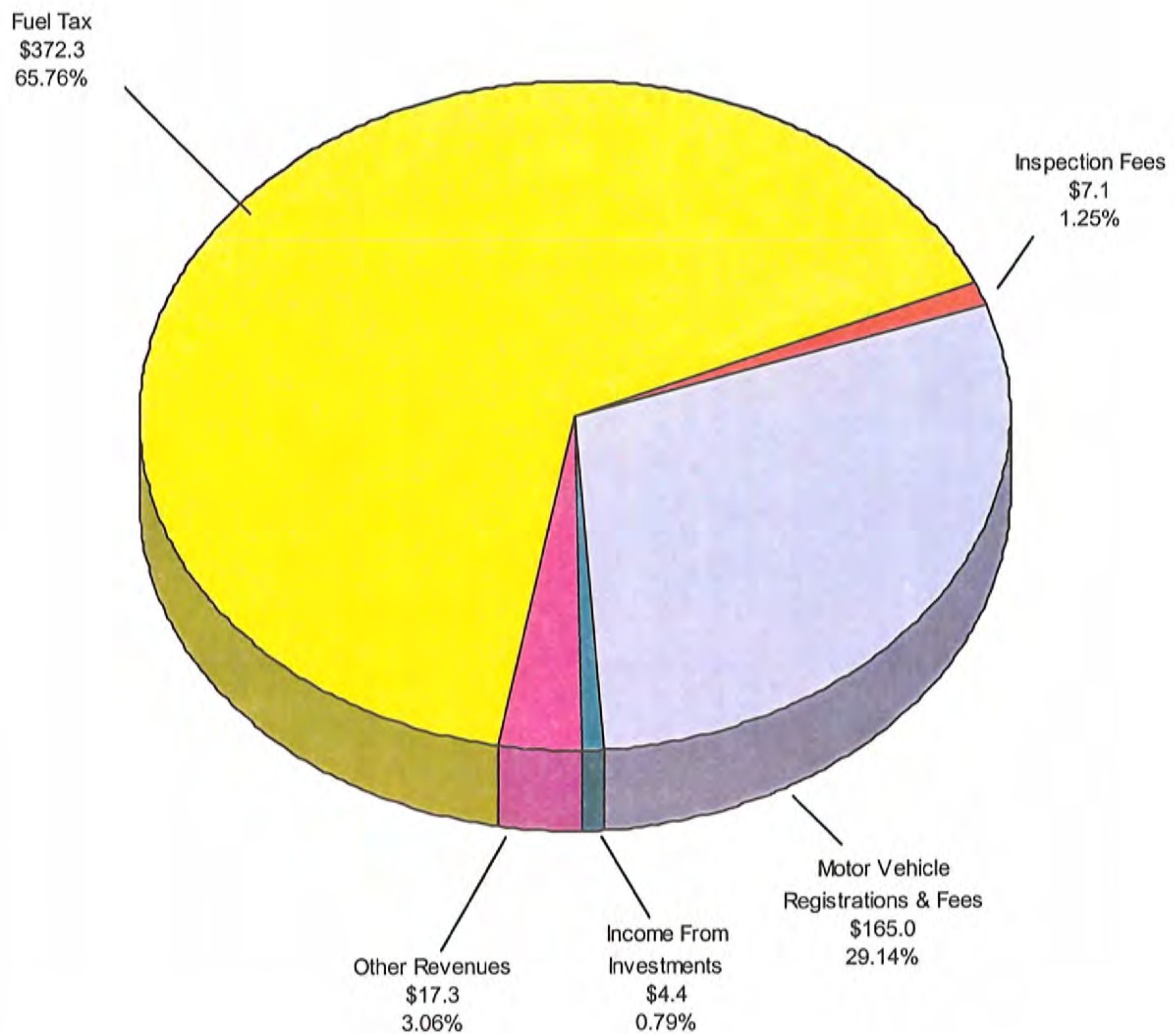
HIGHWAY FUND REVENUE FORECAST CHARTS

Showing Year to Year Percent Changes

SOURCE	FY 02 ACTUAL	FISCAL YEAR 03		BIENNium	FISCAL YEAR 04		FISCAL YEAR 05		BIENNium
		BUDGET	PERCENT CHANGE		FORECAST	CHANGE	FORECAST	CHANGE	
Fuel Tax	184,732,999	187,500,000	1.50%	372,232,999	211,786,463	12.95%	220,565,566	4.15%	432,352,029
Motor Vehicle Registrations & Fees	83,285,014	81,690,336	-1.91%	164,975,350	78,872,909	-3.45%	79,176,199	0.38%	158,049,108
Inspection Fees	3,412,662	3,683,907	7.95%	7,096,569	3,692,371	0.23%	3,700,959	0.23%	7,393,330
Income from Investments	2,857,209	1,591,000	-44.32%	4,448,209	1,848,000	16.15%	2,095,000	13.37%	3,943,000
Other Revenues	7,696,133	9,647,289	25.35%	17,343,422	9,715,175	0.70%	9,764,687	0.51%	19,479,862
TOTAL HIGHWAY FUND REVENUES	281,984,017	284,112,532	0.75%	566,096,549	305,914,918	7.67%	315,302,411	3.07%	621,217,329

HIGHWAY FUND REVENUES FY 02 ACTUAL/FY 03 BUDGETED

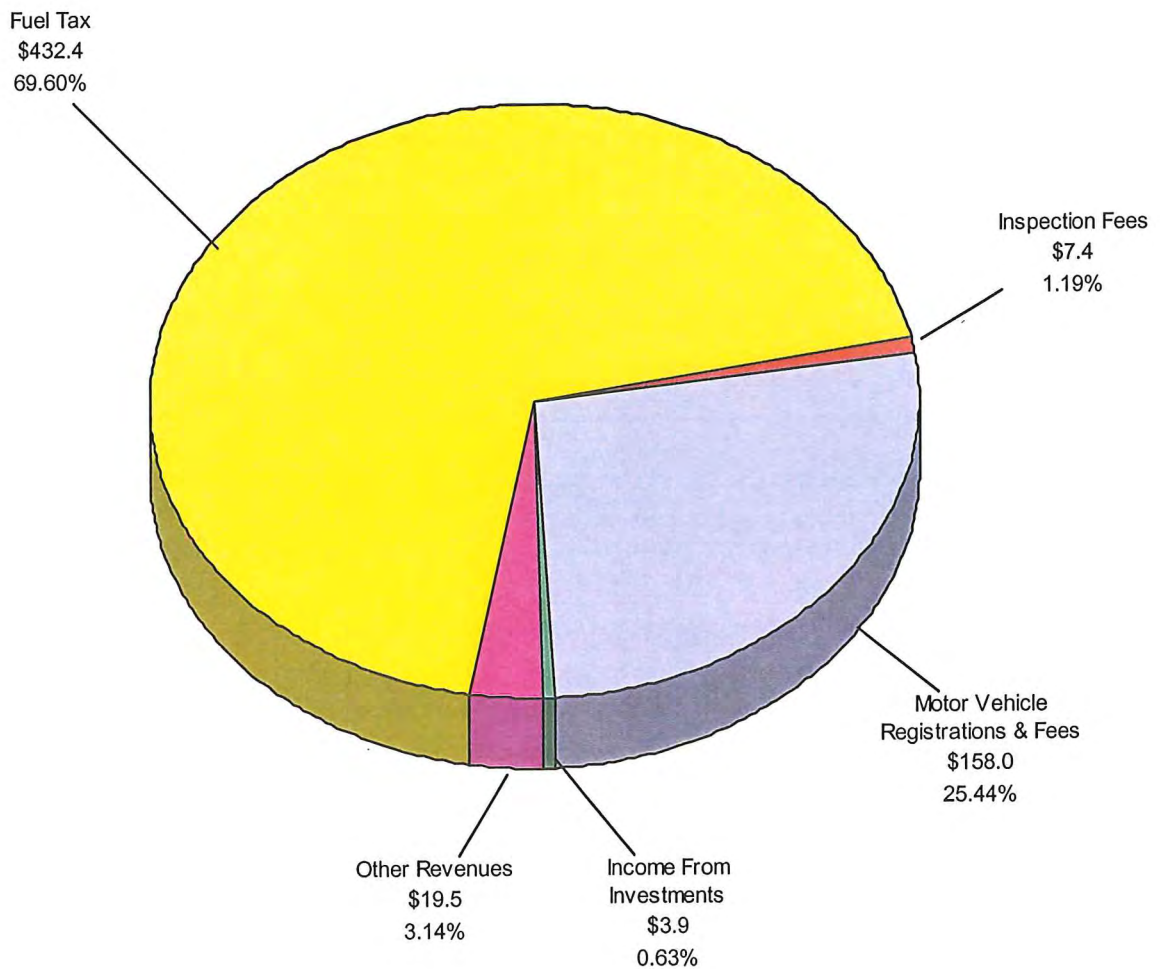
\$566.1 Million



HIGHWAY FUND REVENUES

FY 04/FY 05 FORECAST

\$621.2 Million



C. REVENUE FORECAST NARRATIVE

FUEL TAX

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
184,733	187,500	1.50%	372,233	211,786	12.95%	220,566	4.15%	432,352

The forecast for Fuel Tax was updated by the Revenue Forecasting Committee in August 2002. The forecast for FY 03 reflects the full effect of an increase in the excise tax on gasoline and special fuels that increased by \$.03 per gallon effective August 1, 1999. The new rate on gasoline is \$.22; and, the new rate on special fuels is \$.23. The change in the forecast for the FY 04-05 biennium reflects increased revenue associated with the indexing of motor fuel taxes in accordance with Public Law 2001, chapter 688.

MOTOR VEHICLE REGISTRATIONS AND FEES

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
83,285	81,690	-1.91%	164,975	78,873	-3.45%	79,176	0.38%	158,049

The forecast for Motor Vehicle Registration Fees for FY 03 reflects a change of -1.91 % over FY 02 actual revenues. The FY 04 and FY 05 forecast continues to reflect the six-year renewal cycle consistent with the base level forecast of the Revenue Forecasting Committee as of August 2002.

INSPECTION FEES

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
3,413	3,684	7.95%	7,097	3,692	0.23%	3,701	0.23%	7,393

The forecast for Inspection Fees for FY 03 reflects a change of 7.9% over FY 02 actual revenues. Revenues from Inspection Fees are expected to grow annually at a marginal rate of only .2% in the FY 04-05 biennium consistent with the projection of the Revenue Forecasting Committee as of August 2002.

OTHER REVENUES

Other Revenues within the Highway Fund have remained static over time and are only expected to grow in the FY 04-05 biennium at an annual rate of slightly less than 1% each fiscal year.

D. EXPENDITURE FORECAST CHARTS FY 02-05

HIGHWAY FUND EXPENDITURE FORECAST CHART

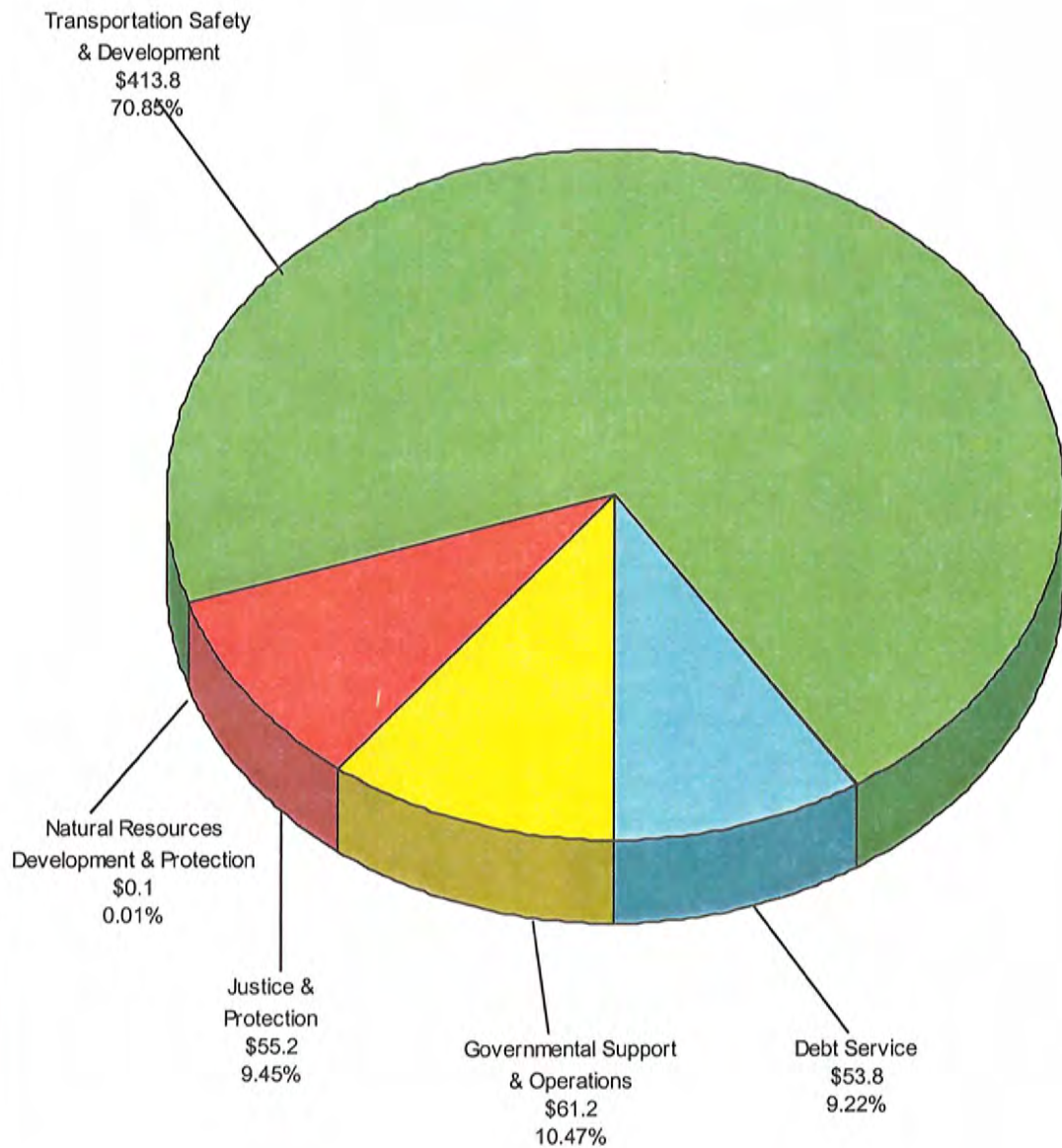
Showing Year to Year Percent Change

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 02	FY 03		02-03 BIENNIUM TOTAL	FY 04		FY 05		04-05 BIENNIUM TOTAL
	ACTUAL	BUDGET	% CHANGE		PROJECTED	% CHANGE	PROJECTED	% CHANGE	
Capital Construction and Improvement Reserve Fund					654,713	100.00%	659,856	0.79%	1,314,569
Other Agencies And Programs	28,460,285	32,692,551	14.87%	61,152,836	30,507,764	-6.68%	31,025,151	1.70%	61,532,915
Total Policy Area - Governmental Support & Operations	28,460,285	32,692,551	14.87%	61,152,836	31,162,477	-4.68%	31,685,007	1.68%	62,847,484
Total Policy Area - Natural Resources Development & Protection	36,007	36,167	0.44%	72,174	36,296	0.36%	36,427	0.36%	72,723
State Police	21,996,297	23,188,331	5.42%	45,184,628	26,663,214	14.99%	27,043,406	1.43%	53,706,620
Other Agencies And Programs	3,296,223	6,692,300	103.03%	9,988,523	8,291,559	23.90%	8,439,222	1.78%	16,730,781
Total Policy Area - Justice & Protection	25,292,520	29,880,631	18.14%	55,173,151	34,954,773	16.98%	35,482,628	1.51%	70,437,401
Highway Maintenance	102,298,543	108,671,816	6.23%	210,970,359	116,850,754	7.53%	120,134,595	2.81%	236,985,349
Bridge Maintenance	14,966,975	15,167,987	1.34%	30,134,962	16,634,623	9.67%	17,153,316	3.12%	33,787,939
Highway & Bridge Improvement	44,460,284	30,478,747	-31.45%	74,939,031	51,706,146	69.65%	52,553,664	1.64%	104,259,810
Urban-Rural Initiative Program	22,776,821	21,794,997	-4.31%	44,571,818	22,507,544	3.27%	22,709,300	0.90%	45,216,844
Debt Service	28,599,529	25,222,422	-11.81%	53,821,951	19,037,015	-24.52%	14,798,506	-22.26%	33,835,521
Other Agencies And Programs	28,439,974	24,830,313	-12.69%	53,270,287	26,414,942	6.38%	27,226,980	3.07%	53,641,922
Total Policy Area - Transportation Safety & Development	241,542,126	226,166,282	-6.37%	467,708,408	253,151,024	11.93%	254,576,361	0.56%	507,727,385
TOTAL HIGHWAY FUND EXPENDITURES	295,330,938	288,775,631	-2.22%	584,106,569	319,304,570	10.57%	321,780,423	0.78%	641,084,993

HIGHWAY FUND ALLOCATIONS

FY 02 ACTUAL/FY 03 BUDGETED

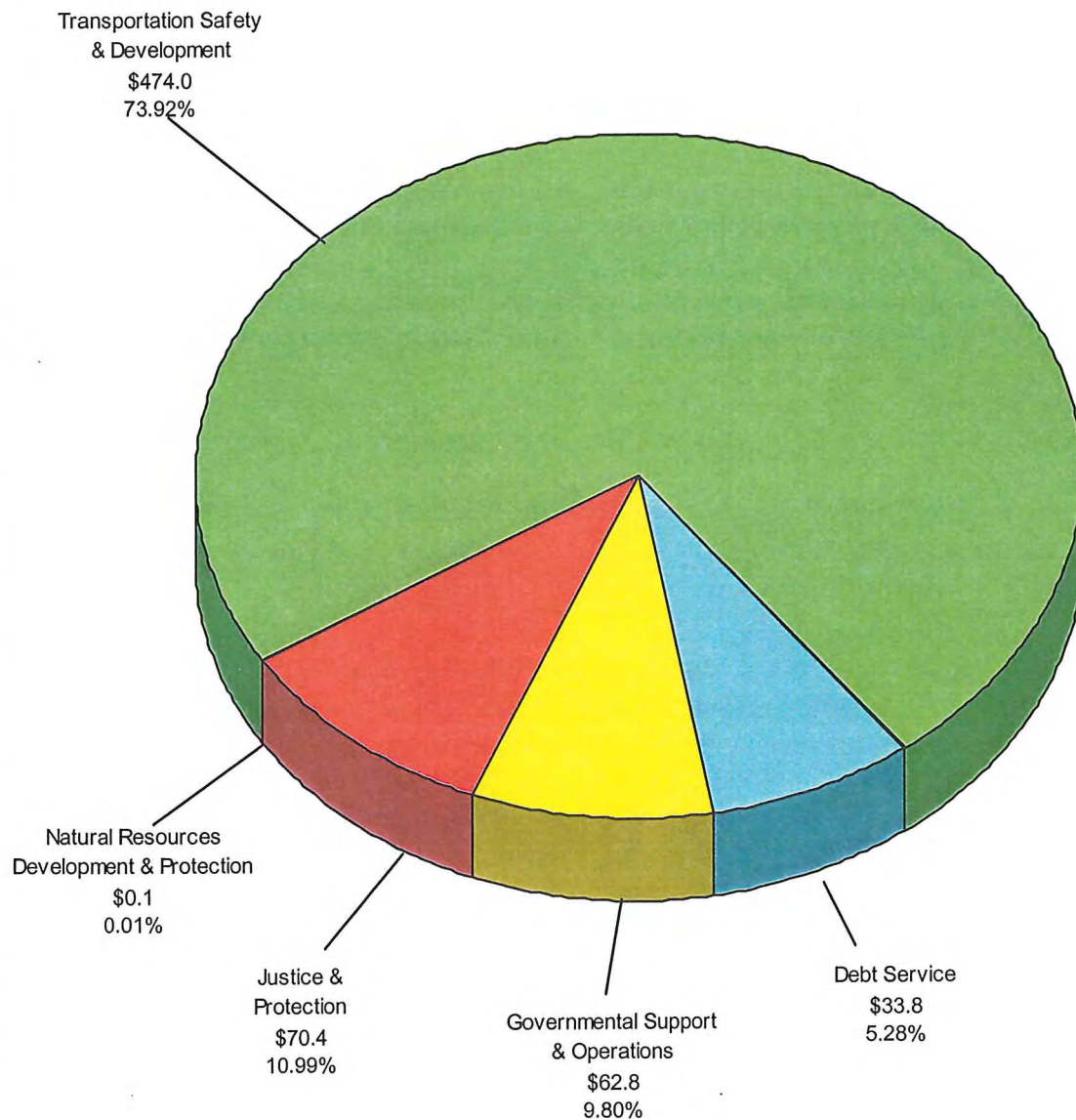
\$584.1 Million



HIGHWAY FUND ALLOCATIONS

FY 04/FY 05 PROJECTED

\$641.1 Million



E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION AND IMPROVEMENT RESERVE FUND

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
0	0	0.00%	0	655	100.00%	660	0.79%	1,314,569

Funds in the FY 04-05 biennium are necessary for payment of debt service costs on a ten year Certificate of Participation for renovations to the Department of Transportation building in Augusta.

STATE POLICE

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
21,996	23,188	5.42%	45,185	26,663	14.99%	27,043	1.43%	53,707

Public Law 2001, chapter 559 included \$1,738,000 in FY 02 to fund reclassifications and range changes for the State Police. The cost of these changes in FY 03 will be transferred from the Salary Plan when the need is determined. These costs are charged 60% to the Highway Fund and 40% to the General Fund. It is proposed that seven trooper positions used exclusively for patrolling I-95 be transferred 100% to the Highway Fund. In addition, it is proposed to transfer one mechanic position from the General Fund to the Highway Fund. This position is utilized to maintain Commercial Vehicle Enforcement vehicles.

HIGHWAY MAINTENANCE

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
102,299	108,672	6.23%	210,970	116,851	7.53%	120,135	2.81%	236,985

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 04-05 biennium reflects the increased costs for fuel to operate vehicle fleet, increased heating costs, for building maintenance and construction and maintenance of sand / salt buildings.

BRIDGE MAINTENANCE

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
14,967	15,168	1.34%	30,135	16,635	9.67%	17,153	3.12%	33,788

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 04-05 biennium reflects the required service level for this program using the FY 03 year.

HIGHWAY AND BRIDGE IMPROVEMENT

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
44,460	30,479	-31.45%	74,939	51,706	69.65%	52,554	1.64%	104,260

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. A General Fund General Obligation bond issue of \$37.4 million was authorized for the FY 02-03 biennium to provide for continued support of transportation infrastructure projects. Twenty million each fiscal year has been added to the base in the FY 04-05 biennium to bring the Highway and Bridge Improvement budget to current levels and to reflect that portion of the program that was supported by General Fund General Obligation bond issue in the FY 02-03 biennium.

URBAN-RURAL INITIATIVE PROGRAM

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
22,777	21,795	-4.31%	44,572	22,508	3.27%	22,709	0.90%	45,217

The Local Road Assistance Program has been 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 projections for the FY 04-05 biennium reflect the requirements of Title 23, section 1803 – B, subsection 1, paragraph D, in which the estimate is derived as 10.658% of the total Department of Transportation budget supported by the Highway Fund and dedicated for highway purposes.

DEBT SERVICE

FY 02 (000)	FY 03 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 04 (000)	YR % CHANGE	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM
28,600	25,222	-11.81%	53,822	19,037	-24.52%	14,799	-22.26%	33,836

In order to bring the Highway Fund General Obligation Debt Service as a percent of Highway Fund Revenues closer to the level of the General Fund, no Highway Fund General Obligation bonds were authorized during the FY 02–03 biennium. Because of the need to maintain the level of highway and bridge improvements, \$37.4 million of General Fund General Obligation bonds were authorized for this purpose for the FY 02-03 biennium. In furtherance of this goal, it is anticipated that no Highway Fund debt will be authorized in the FY 04-05 biennium.

IV. ESTIMATED IMPACT OF THE GOVERNOR'S PROPOSALS TO CLOSE THE GENERAL FUND BUDGET SHORTFALL IN FY 03.

BUDGET SHORTFALL PROJECTION FY 02 - 03 BIENNIUM			
REVENUES:			
GF Revenues - Actual	FY 2002	2,331,660,562	
GF Revenues - Budgeted	FY 2003	2,401,612,774	
TOTAL REVENUES			4,733,273,336
APPROPRIATIONS:			
GF Appropriations	FY 2002	2,565,345,849	
GF Appropriations	FY 2003	2,709,588,242	
TOTAL APPROPRIATIONS			5,274,934,091
BUDGETED BALANCE (Under)			(541,660,755)
BALANCE FORWARD 7/1/01			38,816,534
Adjustments:			
Transfer in from RDF - (A)		138,713,008	
Transfer in from Fund for Healthy Maine		42,872,838	
Transfer in from MLTE		25,000,000	
Transfer in from Revenue Reserve		12,557,435	
Adjustment from prior yr. Unapprop. Surplus		9,100,572	
Transfer from Clean Election Fund		4,000,000	
Lapsed Funds from EUT		3,500,000	
DHS - MAP, NF, TANF Lapsed Balances		9,621,393	
DHS - Other Transfers		1,400,000	
DHS - Transfer from Tobacco Prevention & Control		1,200,000	
DHS - Transfer in from Maximus		2,246,374	
Transfer in from IF & W Carrying account		3,307,393	
Transfer in from P & F R		5,207,138	
Transfer in DAFS - Capital Constr. - Prison & MCJA		1,962,384	
Other Misc. Transfers, PUS, DOE		1,047,160	
Trans. In from Highway Fund		500,000	
TOTAL ADJUSTMENTS			262,235,695
BUDGET SHORTFALL			(240,608,526)
(A) Beginning RDF balance included \$5 million Reserve for Baxter Compensation Authority			
Reconciliation of Budget Shortfall:			
Revenue Shortfall - FY 2002		(92,536,112)	
Revenue Shortfall - FY 2003		(148,157,149)	
Total Revenue Shortfall			(240,693,261)
Add Budgeted Balance			84,735
Budget Shortfall			(240,608,526)

BUDGET SHORTFALL OFFSETS FY 02-03 BIENNIUM

Total Revenue Shortfall	(240,693,261)		
Less: Budgeted Balance	84,735		
TOTAL BUDGET SHORTFALL		(240,608,526)	
OFFSETS:			%
< FY02 Program Reductions (lapsed balances) less transfers and adjustments		12,049,007	5.00%
< FY 03 Program and Balance Reductions, Delays and Reprojections		208,496,287	86.56%
< Additional Revenue in FY 03		3,235,333	1.34%
< Tax Reduction Delays and Changes in FY 03		17,086,961	7.09%
TOTAL OFFSETS		240,867,588	100.00%
ENDING BALANCE - Over (Under)		259,062	

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DETAILED PROPOSALS FOR CLOSING THE FY 03 BUDGET SHORTFALL

ACTION	FY 02	FY 03	TOTAL
FY 02 Expenditure reductions as lapsed balances	14,110,336		12,049,007
FY 02 Transfer to State Contingent Account	(153,519)		
FY 02 Prior Period Adjustments and Other Accounting Adjustments	(1,907,810)		
FY 03 Expenditure Reductions			61,899,010
Original Curtailment Reduction		55,262,106	
Reduction from 3 Temporary Days Off for State Employees		2,974,032	
Reduction from MSRS Admin Savings		200,000	
Land for Maine's Future Adjustment		(59,261)	
Ombudsman Removal from Original Curtailment		(37,562)	
General Fund Salary Plan Adjustment		(2,457,846)	
HIPPA Adjustment for FY 02 Balances		(177,500)	
Additional Debt Service Savings		5,136,799	
DECD MTI Savings		1,000,000	
New Century Savings		58,242	
FY 03 Additional Revenue			3,235,333
FAME Northern Maine Transmission Corporation Fund Transfer		235,333	
Treasury Met Life Abandoned Property Sale		3,000,000	
FY 03 Program and Balance (Reductions), Delays and Reprojections			3,235,333
Program Balances and Reprojections		3,687,285	
Transfer from Clean Election Fund		2,500,000	
Transfer from Operating Capital		10,000,000	
Transfer from the Highway Fund		9,300,000	
Transfer from Highway Fund for 3 Temporary Days Off for State Employees		622,356	
Transfer from Other Special Revenue Fund for 3 Temporary Days Off for State Employees		919,815	
Transfer of Fund for a Healthy Maine Balances to the General Fund		5,000,000	
Transfer of Fund for a Healthy Maine Balances to the General Fund (formerly 3% reduction)		1,462,638	
Transfer of Fund for a Healthy Maine Balances to the General Fund - MaineRx Advance		1,700,000	
Transfer from the Maine Learning Technology Endowment to the General Fund		9,600,000	
		44,792,094	
General Fund Unencumbered Balances from FY 02		6,378,709	
General Fund Salary Plan FY 02 Balances Saved from the Hiring Freeze		6,708,171	
General Fund Unencumbered Balances from FY 03		3,100,680	
Other Special Revenue Fund Balances Transferred to the General Fund		638,464	
Land for Maine's Future General Fund Unencumbered Balance from FY 02		59,261	
		16,885,285	
Eliminate Verona Boat Launch Funding		5,730	
Use of TANF Federal Block Grant Reserve - Purchased Social Services		2,900,000	
		2,905,730	

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BUDGET SHORTFALL OFFSETS FY 03

Transfer From the Maine Rainy Day Fund to Balance FY 02 - Budgeted for FY 03	(66,353,928)	
Budgeted Unappropriated Surplus to Balance FY 02 - Budgeted for FY 03	(14,133,177)	
FY 03 General Fund Revenue Reprojection	(148,157,149)	
FY 03 BUDGET SHORTFALL		(228,644,254)

Offsets:

		<u>%</u>
< Program and Balance Reductions, Delays and Reprojections	208,496,287	91.12%
< Additional Revenue	3,235,333	1.41%
< Tax Reduction Delays and Changes	17,086,961	<u>7.47%</u>
TOTAL OFFSETS	228,818,581	100.00%

Adjusted Balance Over (Under)	174,327
Original Budgeted Balance	84,735
Ending Balance Over (Under)	<u>259,062</u>

ONGOING GENERAL FUND IMPACTS

ACTION	FY 03	FY 04	FY 05
DEPARTMENT OF BEHAVIORAL AND DEVELOPMENTAL SERVICES			
Intermedia Care Facility Mental Retardation License Fee	700,000	700,000	700,000
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES			
Repeal Broadcasters Tax Exemption	74,953	440,932	699,978
Business Equipment Tax Reimbursement - change in filing date	4,442,635	4,442,635	4,217,739
Tax Conformity II	16,570,264	17,640,163	8,854,779
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT			
Forum Francophone - eliminate balance of appropriation	15,000	15,000	15,000
Maine Technology Institute Savings	1,000,000	1,020,000	1,040,400
DEPARTMENT OF HUMAN SERVICES			
Drugs - Co-Pay and Purchasing Strategies (Waiver & Supplemental Rebates)	6,500,000	6,500,000	6,500,000
Eliminate Return on Equity for Non Profit Nursing Facilities	118,380	121,340	124,373
Repeal of law which lowered minimum occupancy % for Nursing Homes	66,142	67,796	69,490
Hospital License Fee	3,500,000	3,500,000	3,500,000
Nursing Facilities licensing fee net reimbursement for direct care	9,500,000	9,500,000	9,500,000
Allowable federal match for personal care costs for Private Non-Medical Institutes.	5,000,000	5,000,000	5,000,000
MAINE STATE HOUSING AUTHORITY			
Eliminate Temporary Housing Assistance Program	52,500	52,500	52,500
STATEWIDE			
Ongoing items included in FY03 Curtailments	40,886,994	43,007,916	44,831,910
TOTAL ESTIMATED GENERAL FUND IMPACT	88,426,868	92,008,281	85,106,169

*Estimated impact in 2004 of changing the BETR filing date to August 1.

ONGOING HIGHWAY FUND IMPACTS

ACTION	FY 03	FY 04	FY 05
DEPARTMENT OF TRANSPORTATION			
Transfer to the General Fund	9,300,000		
TOTAL ESTIMATED HIGHWAY FUND IMPACT	9,300,000	-	-

V. 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 02-03 biennium and the FY 04-05 biennium. The purpose is not to predict a shortfall or unbalanced budget in the respective funds for the FY 04-05 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” in the General Fund of **\$787,136,688** and a projected “Structural Gap” of **\$12,595,815** in the Highway Fund for the FY 04-05 biennium. The base level revenue projections for the General Fund and the Highway Fund include the November 2000 projection of the Revenue Forecasting Committee. Revenue adjustments contained in this report for the General Fund and the Highway Fund reflect recommendations in the Governor’s budget proposals for the FY 02-03 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 04-05 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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