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STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION



**GENERAL FUND AND HIGHWAY FUND
FISCAL YEARS 2004 – 2007**

**Submitted by the
Bureau of the Budget
September 30, 2004**

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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 15, 2004

To: Honorable John Elias Baldacci, Governor
Honorable Beverly C. Daggett, President of the Senate
Honorable Patrick Colwell, Speaker of the House
Honorable Mary R. Cathcart, Senate Chair
Honorable Joseph C. Brannigan, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs

From: Ryan Low, State Budget Officer 

Subject: Report on the forecast of revenues and expenditures for the General Fund and the Highway Fund for the FY 04-05 biennium and the FY 06-07 biennium in accordance with Title 5 § 1665.

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 and the FY 06-07 biennium in accordance with Title 5 §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 § 1665, subsection 7. 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.

RL/bd

cc: Rebecca C. Wyke, Commissioner, Department of Administrative and Financial Services
Grant Pennoyer, Director, Office of Fiscal & Program Review

STATE OF MAINE REVENUE AND EXPENDITURE PROJECTION

GENERAL FUND AND HIGHWAY FUND

FISCAL YEARS 2004 - 2007

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MAINE BUDGET FORECAST

FY 04-05 BIENNIUM AND FY 06-07 BIENNIUM

I. INTRODUCTION

Title 5, §§ 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 § 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 04-05 biennium and the FY 06-07 biennium. The expected outcome is the most reasonable and consistent portrayal of the General Fund and the Highway Fund budgets for FY 06 and FY 07 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 through the 2nd Special Session of the 121st Legislature.

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 March 2004 projections of the Revenue Forecasting Committee, as required by Public Law 1997, c. 157 and reflects all actions of the 2nd Special Session of the 121st Legislature.

In order to provide the most accurate expenditure estimate from currently available budget information, the projection used the FY 05 legislatively approved appropriations and allocations from the 2nd Special Session of the 121st Legislature. These FY 06-07 estimates were further adjusted for the effect of one-time and phased-in actions expected to occur in FY 05. 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 06-07 biennial budget instructions for departments and agencies as shown in the chart on page 2 entitled "All Other Growth Factors FY 06-07 Biennium". These CPI factors were applied to selected All Other expenditure categories in the FY 05 base year after adjustment for one-time appropriations or reductions. Growth in Capital Expenditures from FY 05 was not assumed for FY 06 and FY 07.

Salaries and wages for the FY 06-07 biennium are based on merit growth from the FY 04-05 biennium. The projection for Personal Services does not anticipate future salary adjustments beyond the FY 04-05 recommendations for FY 06 and FY 07, or any adjustments as a result of collective bargaining.

The unusual increases forecasted for Personal Services are mostly attributable to two factors: anticipated growth in employer health insurance for active state employees and retirees of 12% each year, and the return to the accelerated schedule for paying down the unfunded actuarial liability (UAL).

ALL OTHER GROWTH FACTORS

FY 06-07 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	2.25%	2.50%
Repairs	470000	0.00%	0.00%
Insurance (480000 to 485300 only)	480000	2.25%	2.50%
Insurance	480000	0.00%	0.00%
General Operating Expense	490000	0.00%	0.00%
Training	500000	0.00%	0.00%
Food	510000	0.00%	0.00%
Fuel	520000	2.25%	2.50%
Information Technology	530000	2.25%	2.50%
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	2.25%	2.50%
Grants to Counties	610000	2.25%	2.50%
Grants to Cities and Towns	630000	2.25%	2.50%
Grants to Public and Private Organizations	640000	2.25%	2.50%
Unemployment Compensation Benefits	650000	2.25%	2.50%
Public Assistance Grants	660000	2.25%	2.50%
Assistance and Relief Grants	670000	2.25%	2.50%
Miscellaneous Grants to Individuals	680000	2.25%	2.50%
Pensions	690000	2.25%	2.50%
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 04-07

GENERAL FUND STATUS						
	FY 04-05 BIENNium			FY 06-07 BIENNium		
	FY 04	FY 05	TOTAL	FY 06	FY 07	TOTAL
BALANCE	28,936,649		28,936,649	10,655,280		10,655,280
ADJUSTMENTS TO BALANCE	8,459,103	54,076,382	62,535,485			
REVENUE	2,620,476,211	2,651,608,498	5,272,084,709	2,669,922,426	2,783,774,750	5,453,697,176
TOTAL RESOURCES	2,657,871,963	2,705,684,880	5,363,556,843	2,680,577,706	2,783,774,750	5,464,352,456
APPROPRIATIONS	2,642,999,485	2,709,902,078	5,352,901,563	3,026,769,633	3,170,976,527	6,197,746,160
PROJECTED BALANCE (SHORTFALL)	14,872,478	(4,217,198)	10,655,280	(346,191,927)	(387,201,777)	(733,393,704)

The General Fund adjusted fund balance for FY 04 was \$37,395,752 and is projected to be \$10,655,280 at the end of FY 05, after adjustments from the 2nd Special Session of the 121st Legislature.

In December 2003, Corporate Income Taxes were reprojected upward \$8,420,000 in FY 04 and \$4,420,000 in FY 05, while Cigarette Taxes were reprojected downward by (\$7,341,074) in FY 04 and (\$7,219,183) in FY 05. In March 2004, the Revenue Forecasting Committee reprojected General Fund revenues up in Sales & Use Tax by \$6,462,000 in FY 04 and \$4,500,000 in FY 05. Individual Income Taxes were reprojected downward by (\$2,040,322) in FY 04 and (\$10,590,619) in FY 05. Additionally, in March 2004, Other Revenues were revised upward by \$1,463,014 in FY 04 and \$4,175,202 in FY 05.

Projections for the FY 06-07 biennium include General Fund revenues of \$5,453,697,176. Projected General Fund appropriations for the FY 06-07 biennium are \$6,197,746,160 which result in a structural budget gap for the General Fund of \$733,393,704 before adjustment for the effect of the Governor's budget balancing proposals for the FY 06-07 biennium using the growth in spending restrictions passed by the 121st Legislature in Title 5 § 1665, Sub- §1. This statute states "The total General Fund appropriation requests submitted by each department and agency for each fiscal year may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate." For the FY 06-07 biennium, no department and agency may request more than a 2.58% increase over the FY 05 appropriation.

B. REVENUE FORECAST CHARTS FY 04-07

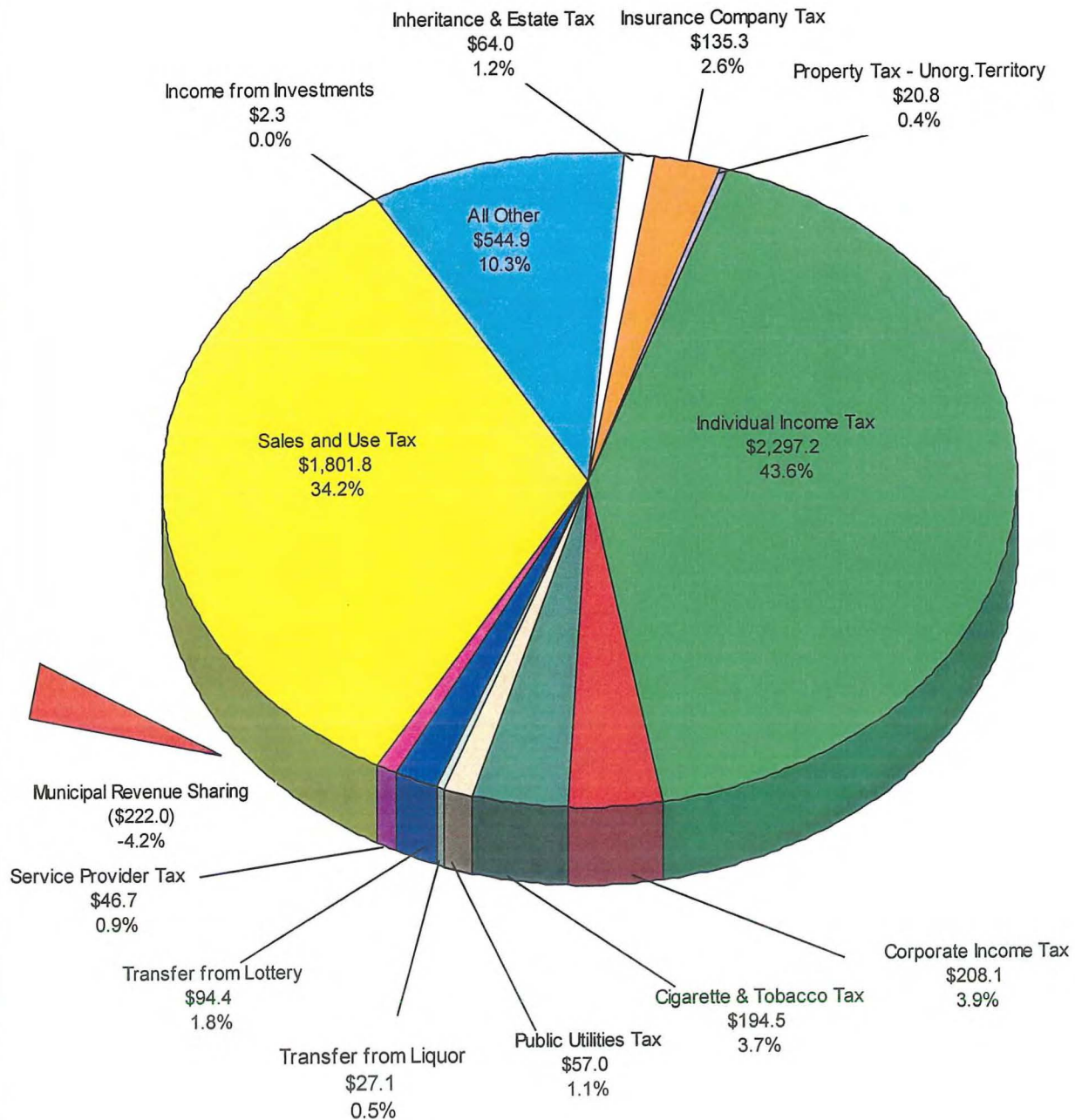
GENERAL FUND REVENUE FORECAST CHARTS

SOURCE	FY 04-05 BUDGET				FY 06-07 FORECAST				
	FY 04	FY 05	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 06	YR. TO YR. % CHANGE	FY 07	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	905,721,382	896,092,063	-1.06%	1,801,813,445	938,017,770	4.68%	982,396,736	4.73%	1,920,414,506
Service Provider Tax		46,700,000		46,700,000	48,801,501	4.50%	51,095,171	4.70%	99,896,672
Individual Income Tax	1,130,761,691	1,166,441,294	3.16%	2,297,202,985	1,234,170,264	5.81%	1,298,609,002	5.22%	2,532,779,266
Corporate Income Tax	103,752,841	104,391,604	0.62%	208,144,445	96,655,057	-7.41%	94,163,219	-2.58%	190,818,276
Cigarette & Tobacco Tax	97,616,940	96,919,864	-0.71%	194,536,804	96,125,360	-0.82%	95,433,494	-0.72%	191,558,854
Public Utilities Tax	28,900,000	28,050,000	-2.94%	56,950,000	26,760,000	-4.60%	25,875,000	-3.31%	52,635,000
Insurance Company Tax	69,415,308	65,848,416	-5.14%	135,263,724	64,416,469	-2.17%	66,969,233	3.96%	131,385,702
Inheritance & Estate Tax	32,103,631	31,941,909	-0.50%	64,045,540	32,646,239	2.21%	34,585,012	5.94%	67,231,251
Property Tax - Unorg. Terr.	10,202,624	10,580,086	3.70%	20,782,710	10,690,713	1.05%	10,982,067	2.73%	21,672,780
Income from Investments	1,287,885	1,020,345	-20.77%	2,308,230	1,607,053	57.50%	1,751,208	8.97%	3,358,261
Trans. to Muni. Rev. Share	(109,152,033)	(112,894,875)	3.43%	(222,046,908)	(120,517,519)	6.75%	(126,165,736)	4.69%	(246,683,255)
Transfer from Liquor	27,056,396		-100.00%	27,056,396					
Transfer from Lottery	42,321,885	52,074,827	23.04%	94,396,712	52,389,690	0.60%	51,700,617	-1.32%	104,090,307
All Other	280,487,661	264,442,965	-5.72%	544,930,626	188,159,829	-28.85%	196,259,727	4.30%	384,419,556
TOTAL REVENUE	2,620,476,211	2,651,608,498	1.19%	5,272,084,709	2,669,922,426	0.69%	2,783,654,750	4.26%	5,453,577,176

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FY 04-05 GENERAL FUND BUDGETED REVENUES

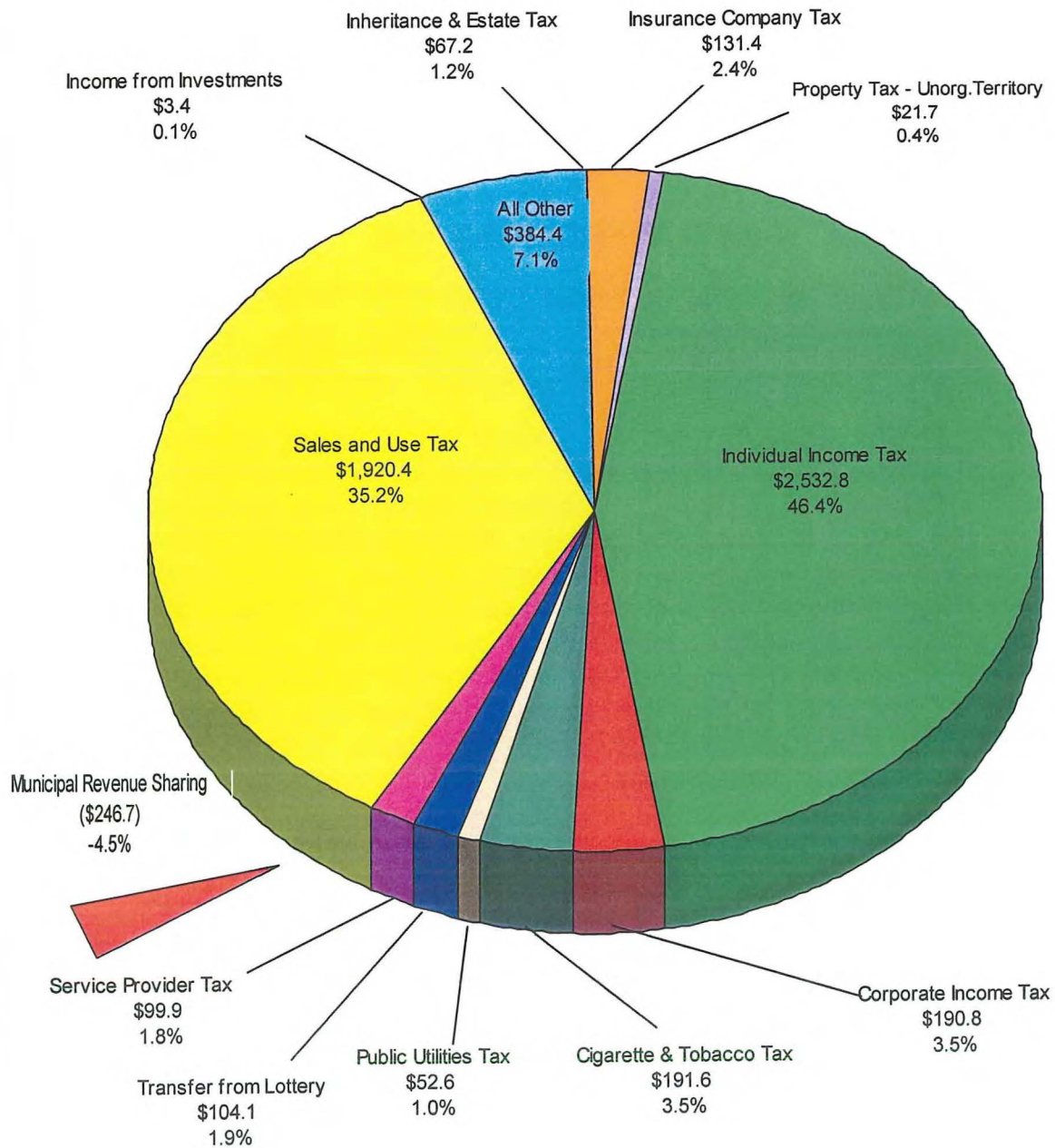
\$5,272.1



All Dollars in Millions

FY 06-07 GENERAL FUND FORECAST REVENUES

\$5,453.6



All Dollars in Millions

C. REVENUE FORECAST NARRATIVE

SALES AND USE TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
905,721	896,092	-1.06%	1,801,813	938,018	4.68%	982,397	4.73%	1,920,415

The Sales and Use Tax forecast for FY 05, FY 06 and FY 07 include all actions of the Revenue Forecasting Committee through March 2004 and reflect all actions of the 121st Legislature through the 2nd Special Session. The reason for the negative growth of -1.06% between FY 04 and FY 05 is directly associated with a re-categorization of certain sales and use tax services that are now classified as a Service Provider Tax. Had the reclassification not been made the growth rate between FY 04 and FY 05 would have been projected at 4.09%. It is projected that revenues from Sales and Use Tax will grow by approximately 4.7 % over the FY 06-07 biennium.

SERVICE PROVIDER TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
0	46,700	0.00%	46,700	48,802	4.50%	51,095	4.70%	99,897

The Legislature in Public Law 2003, c. 673, Part V, reclassified various categories previously included in the Sales and Use Tax as the Service Provider Tax, effective in FY 05. This law reflects the re-categorization of the following services from the Sales and Use Tax to the Service Provider Tax: (a) Extended cable television services; (b) Fabrication services; (c) Rental of video media and video equipment; (d) Rental of furniture, audio media and audio equipment pursuant to a rental-purchase agreement; (e) Telecommunication services; (f) Installation, maintenance or repair of telecommunications equipment. In addition, private non- medical institution services will be included under the provisions of Public Law 2003, c. 673, Part V. Revenue generated from the Service Provider Tax on private non-medical institution services will be credited to the Medical Care Services Other Special Revenue fund account in the Department of Health and Human Services. It is projected that the revenues to the General Fund from the Service Provider Tax will grow between 4.5% and 4.7% over the FY 06-07 biennium.

INDIVIDUAL INCOME TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
1,130,762	1,166,441	3.16%	2,297,203	1,234,170	5.81%	1,298,609	5.22%	2,532,779

The forecast for FY 05, FY 06 and FY 07 for the Individual Income Tax line include all actions of the Revenue Forecasting Committee through March 2004 and reflect all actions of the 121st Legislature through the 2nd Special Session. The estimate for FY 05, FY 06 and FY 07 reflects the underlying economic forecast of the Consensus Economic Forecasting Commission with respect to personal income and wage and salary distribution. Maine's personal income is projected to grow at 4.5% for fiscal years 2005, 2006 and 2007 with wage and salary growth of approximately 4.5% in FY 05 and increasing to 5.0% for FY 06 and FY 07. It is projected that revenue from the Income Tax line will grow by approximately 3.1% between FY 04 and FY 05 and by approximately 5.5% over the FY 06-07 biennium.

CORPORATE INCOME TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
103,753	104,392	0.62%	208,144	96,655	-7.41%	94,163	-2.58%	190,818

The forecast for FY 05, FY 06 and FY 07 for the Corporate Income Tax line include all actions of the Revenue Forecasting Committee through March 2004 and reflect all actions of the 121st Legislature through the 2nd Special Session. Revenues from the Corporate Tax line for FY 04 and 05 were significantly above the original budget levels reflecting improved economic conditions and corporate profit. Nonconformity to the federal code with respect to bonus depreciation caused state tax collections to be higher in FY 04 and 05 and to be lower in the out years of this forecast as illustrated by a projected decline in the Corporate Tax line of -7.4% between FY 05 and FY 06 and by -2.5% between FY 06 and 07.

CIGARETTE AND TOBACCO TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
104,958	104,139	-0.78%	209,097	103,230	-0.87%	102,334	-0.87%	205,564

The forecast for FY 05, FY 06 and FY 07 for the Cigarette and Tobacco Tax line include all actions of the Revenue Forecasting Committee through March 2004 and reflect all actions of the 121st Legislature through the 2nd Special Session. The significant drop in the sale of cigarette stamps due to effective anti-smoking campaigns and the loss of sales to out-of-state and internet purchases and increased rolling of cigarettes is the basis for the downward revenue projections between fiscal years 04 thru 07. Loose tobacco used in the rolling of cigarettes is taxed at a lower level.

INSURANCE COMPANY TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
69,415	65,848	-5.14%	135,264	64,416	-2.17%	66,969	3.96%	131,386

The forecast for FY 05, FY 06 and FY 07 for the Insurance Company Tax line include all actions of the Revenue Forecasting Committee through March 2004 and reflect all actions of the 121st Legislature through the 2nd Special Session. Revenues from insurance companies are 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 with the overall growth of the economy, the emphasis on lower workers' compensation premium costs and the expansion of HMO's appears to be negatively affecting this revenue source. As a consequence, the base level projection of the Revenue Forecasting Committee as of March 2004 assumes a decline of -5.14% between FY 04 and FY 05 and a decline of -2.17% between FY 05 and FY 06.

MUNICIPAL REVENUE SHARING

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
-109,152	-112,895	3.43%	-222,047	-120,518	6.75%	-126,166	4.69%	-246,683

Sales and Use Tax, Individual Income Tax, Corporate Income Tax and Service Provider Tax lines are subject to Municipal Revenue Sharing in accordance with Title 30-A, § 5681 of the Maine Revised Statutes. That section of statute currently requires that an amount equal to 5.1% of the above referenced tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). Municipal Revenue Sharing is a calculation based on the forecasts of the four previously referenced tax revenue lines. The reimbursement rate is scheduled to change to 5.2 % effective July 1, 2005. The projected growth in Municipal Revenue Sharing for the FY 06-07 biennium is based on the projected increase in the four major lines noted above and in the .1% increase in the reimbursement rate. The .1% increase in FY 06 will result in an increased cost to the General Fund of \$2,317,645 in FY 06 and \$2,426,265 in FY 07. Legislative initiatives and revenue growth will result in an additional \$5.3 million in Municipal Revenue Sharing for FY 06.

OTHER REVENUES

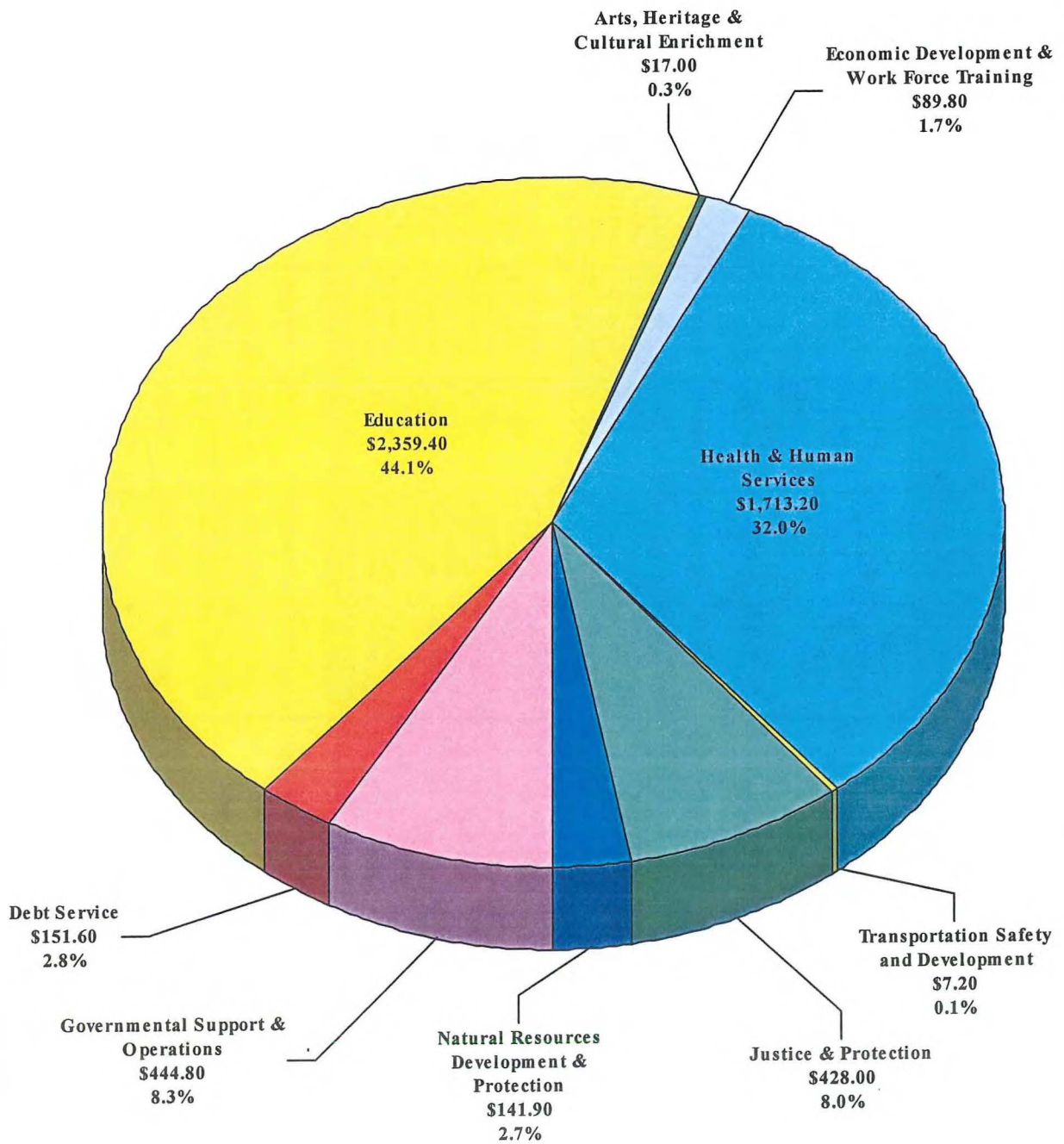
The forecast for FY 05, FY 06 and FY 07 for the lines comprising the All Other Revenues include all actions of the Revenue Forecasting Committee through March 2004 and reflect all actions of the 121st Legislature through the 2nd Regular and Special Sessions. The decline in projected revenues between FY 04 and FY 05 and FY 06 is directly associated with the collection of one time revenues in FY 04 and FY 05 for example, the Sale of the State Wholesale Liquor operation. It is projected that Other Revenues will grow at approximately 4.3% between FY 06 and FY 07.

D. EXPENDITURE FORECAST CHARTS FY 04-07

GENERAL FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 04-05 BUDGET				FY 06-07 FORECAST				
	FY 04	FY 05	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 06	YR. TO YR. % CHANGE	FY 07	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Capital Construction & Repairs	247,788	102,200	-58.76%	349,988	6,523,971	6283.53%	6,523,971		13,047,942
Business Equipment Tax Reimbursement Program	65,082,052	63,757,028	-2.04%	128,839,080	78,132,345	22.55%	82,896,495	6.10%	161,028,840
Maine Residents Property Tax Program (Circuit Breaker)	23,317,230		-100.00%	23,317,230					
Homestead Property Tax Exemption	34,570,304	34,931,664	1.05%	69,501,968	35,384,300	1.30%	36,105,037	2.04%	71,489,337
Government Facilities Authority	16,382,917	16,822,372	2.68%	33,205,289	18,403,517	9.40%	17,908,782	-2.69%	36,312,299
Debt Service	75,679,419	75,960,059	0.37%	151,639,478	97,774,689	28.72%	94,119,100	-3.74%	191,893,789
Other Agencies And Programs	87,249,849	102,264,861	17.21%	189,514,710	102,708,399	0.43%	106,879,570	4.06%	209,587,969
Total Policy Area - Governmental Support & Operations	302,529,559	293,838,184	-2.87%	596,367,743	338,927,221	15.34%	344,432,955	1.62%	683,360,176
Total Policy Area - Economic Development & Work Force Training	48,634,173	41,138,502	-15.41%	89,772,675	42,545,970	3.42%	43,650,187	2.60%	86,196,157
General Purpose Aid To Local Schools	702,236,314	734,536,621	4.60%	1,436,772,935	809,295,336	10.18%	851,119,336	5.17%	1,660,414,672
Teacher Retirement/Retired Teachers' Health Insurance	170,014,497	181,698,128	6.87%	351,712,625	249,910,047	37.54%	264,815,162	5.96%	514,725,209
Preschool Handicapped	16,905,540	18,435,159	9.05%	35,340,699	18,851,148	2.26%	19,322,603	2.50%	38,173,751
Other Agencies And Programs	260,669,189	274,883,541	5.45%	535,552,730	283,617,267	3.18%	296,719,812	4.62%	580,337,079
Total Policy Area - Education	1,149,825,540	1,209,553,449	5.19%	2,359,378,989	1,361,673,798	12.58%	1,431,976,913	5.16%	2,793,650,711
Medical Care - Payments To Providers	307,419,443	335,557,377	9.15%	642,976,820	391,322,189	16.62%	422,896,698	8.07%	814,218,887
Nursing Facilities	46,043,498	62,207,396	35.11%	108,250,894	63,809,999	2.58%	65,400,183	2.49%	129,210,182
Child Welfare - Foster Care	48,347,552	47,061,470	-2.66%	95,409,022	50,675,243	7.68%	52,090,357	2.79%	102,765,600
Community Mental Health	33,605,565	32,579,876	-3.05%	66,185,441	33,684,087	3.39%	35,223,634	4.57%	68,907,721
Mental Health Medicaid	33,735,134	34,683,762	2.81%	68,418,896	37,595,259	8.39%	39,475,022	5.00%	77,070,281
Community Mental Retardation	21,546,940	23,339,443	8.32%	44,886,383	24,023,884	2.93%	25,023,070	4.16%	49,046,954
Mental Retardation Medicaid	14,985,185	15,457,692	3.15%	30,442,877	16,230,577	5.00%	17,042,105	5.00%	33,272,682
Mental Health Services - Children	20,357,493	16,594,326	-18.49%	36,951,819	18,120,204	9.20%	18,910,374	4.36%	37,030,578
Mental Health Services - Child Medicaid	30,291,748	29,766,516	-1.73%	60,058,264	31,254,842	5.00%	32,817,584	5.00%	64,072,426
Other Agencies And Programs	296,272,794	263,381,529	-11.10%	559,654,323	290,727,065	10.38%	302,334,554	3.99%	593,061,619
Total Policy Area - Health & Human Services	852,605,352	860,629,387	0.94%	1,713,234,739	957,443,349	11.25%	1,011,213,581	5.62%	1,968,656,930
Total Policy Area - Natural Resources Development & Protection	70,135,619	71,735,032	2.28%	141,870,651	73,559,939	2.54%	75,707,099	2.92%	149,267,038
Corrections	118,550,283	125,970,365	6.26%	244,520,648	136,863,960	8.65%	143,345,214	4.74%	280,209,174
Other Agencies And Programs	88,812,034	94,713,942	6.65%	183,525,976	102,152,418	7.85%	106,584,110	4.34%	208,736,528
Total Policy Area - Justice & Protection	207,362,317	220,684,307	6.42%	428,046,624	239,016,378	8.31%	249,929,324	4.57%	488,945,702
Total Policy Area - Transportation Safety and Development	3,601,246	3,588,358	-0.36%	7,189,604	4,392,557	22.41%	4,585,460	4.39%	8,978,017
Total Policy Area - Business Licensing & Regulation									
Total Policy Area - Arts, Heritage & Cultural Enrichment	8,305,679	8,734,859	5.17%	17,040,538	9,210,421	5.44%	9,481,008	2.94%	18,691,429
GRAND TOTAL GENERAL FUND EXPENDITURES	2,642,999,485	2,709,902,078	2.53%	5,352,901,563	3,026,769,633	11.69%	3,170,976,527	4.76%	6,197,746,160

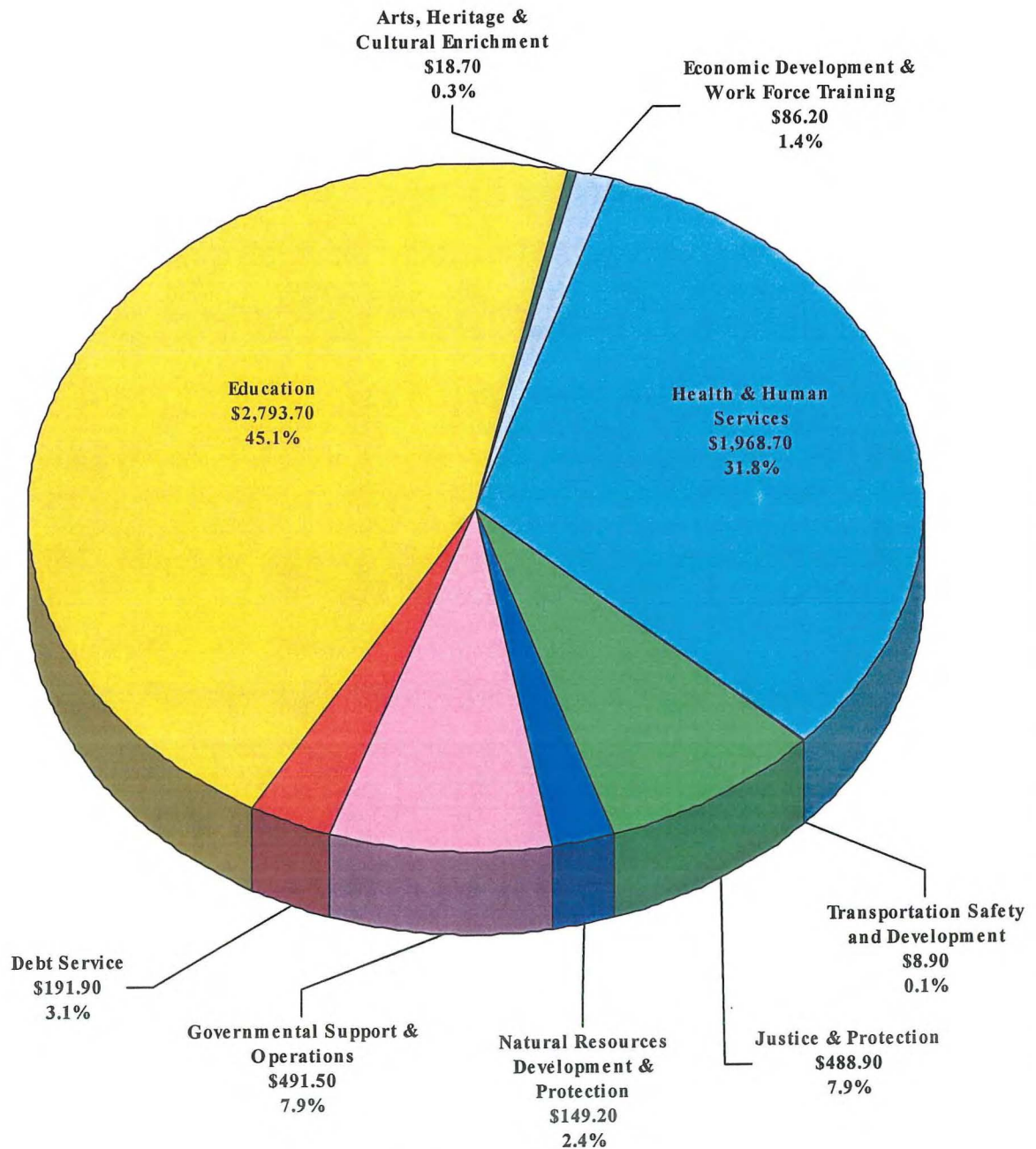
**FY 04-05 GENERAL FUND
BUDGETED APPROPRIATIONS
\$5,352.9 Million**



All Dollars in Millions

FY 06-07 GENERAL FUND PROJECTED APPROPRIATIONS

\$6,197.7 Million



All Dollars in Millions

E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION & REPAIRS

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
248	102	-58.76%	350	6,524	6283.53%	6,524	0.00%	13,048

For the FY 04-05 biennium, the budget request was reduced to the above levels in an effort to provide savings towards the budget shortfall; therefore, funding was limited solely for planning. Funding for Capital Construction, Repairs and Improvement projects were undertaken through the Governmental Facilities Authority. The budget request for Capital Construction, Repairs and Improvements is \$6.5 million and \$6.5 million for the FY 06-07 biennium.

PERSONAL PROPERTY TAX ON MACHINERY AND EQUIPMENT

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
65,082	63,757	-2.04%	128,839	78,132	22.55%	82,896	6.10%	161,029

Public Law 1997, c. 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 \$63.7 million in FY 05. 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 \$92 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 06-07 biennium assumes the program will grow by an additional 22.55% between FY 05 and FY 06 and by approximately 6.10% between FY 06 and FY 07.

MAINE RESIDENTS PROPERTY TAX PROGRAM

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
23,317	0	-100.00%	23,317	0	0.00%	0	0.00%	0

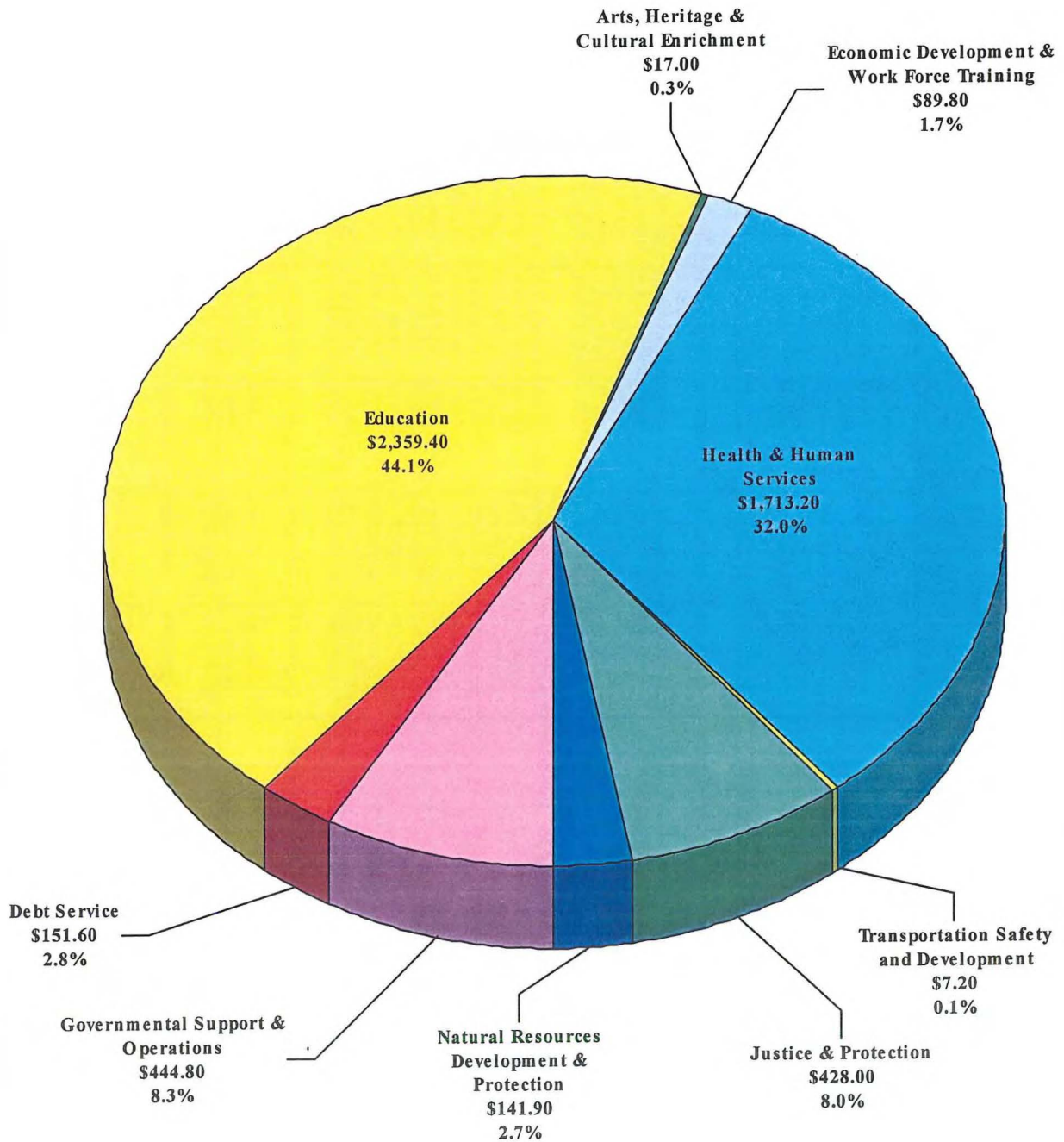
The Maine Residents Property Tax Program, better known as the "Circuit Breaker" program, provides up to \$1,000 of property tax reimbursement to approximately 65,000 households whose property taxes represent over 4% of their household income. Total program costs were \$23.3 million in FY 04; and, are estimated at \$24.7 million in FY 05. It is projected that program costs for FY 06 will be approximately \$25.7 million and will increase to approximately \$27.0 million in FY 07. Public Law, 2003, c. 673, Part BB, effective with fiscal year 2005, changed the payment procedure for this program by establishing a circuit breaker reserve, whereby, payments to approved applicants would be made from the transfer of income tax revenue to the circuit breaker reserve account in lieu of payments being made from a General Fund appropriation to the Maine Residents Property Tax Program. Thus, no appropriation amount is reflected for fiscal years 2005 through 2007.

D. EXPENDITURE FORECAST CHARTS FY 04-07

GENERAL FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 04-05 BUDGET				FY 06-07 FORECAST				
	FY 04	FY 05	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 06	YR. TO YR. % CHANGE	FY 07	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Capital Construction & Repairs	247,788	102,200	-58.76%	349,988	6,523,971	6283.53%	6,523,971		13,047,942
Business Equipment Tax Reimbursement Program	65,082,052	63,757,028	-2.04%	128,839,080	78,132,345	22.55%	82,896,495	6.10%	161,028,840
Maine Residents Property Tax Program (Circuit Breaker)	23,317,230		-100.00%	23,317,230					
Homestead Property Tax Exemption	34,570,304	34,931,664	1.05%	69,501,968	35,384,300	1.30%	36,105,037	2.04%	71,489,337
Government Facilities Authority	16,382,917	16,822,372	2.68%	33,205,289	18,403,517	9.40%	17,908,782	-2.69%	36,312,299
Debt Service	75,679,419	75,960,059	0.37%	151,639,478	97,774,689	28.72%	94,119,100	-3.74%	191,893,789
Other Agencies And Programs	87,249,849	102,264,861	17.21%	189,514,710	102,708,399	0.43%	106,879,570	4.06%	209,587,969
Total Policy Area - Governmental Support & Operations	302,529,559	293,838,184	-2.87%	596,367,743	338,927,221	15.34%	344,432,955	1.62%	683,360,176
Total Policy Area - Economic Development & Work Force Training	48,634,173	41,138,502	-15.41%	89,772,675	42,545,970	3.42%	43,650,187	2.60%	86,196,157
General Purpose Aid To Local Schools	702,236,314	734,536,621	4.60%	1,436,772,935	809,295,336	10.18%	851,119,336	5.17%	1,660,414,672
Teacher Retirement/Retired Teachers' Health Insurance	170,014,497	181,698,128	6.87%	351,712,625	249,910,047	37.54%	264,815,162	5.96%	514,725,209
Preschool Handicapped	16,905,540	18,435,159	9.05%	35,340,699	18,851,148	2.26%	19,322,603	2.50%	38,173,751
Other Agencies And Programs	260,669,189	274,883,541	5.45%	535,552,730	283,617,267	3.18%	296,719,812	4.62%	580,337,079
Total Policy Area - Education	1,149,825,540	1,209,553,449	5.19%	2,359,378,989	1,361,673,798	12.58%	1,431,976,913	5.16%	2,793,650,711
Medical Care - Payments To Providers	307,419,443	335,557,377	9.15%	642,976,820	391,322,189	16.62%	422,896,698	8.07%	814,218,887
Nursing Facilities	46,043,498	62,207,396	35.11%	108,250,894	63,809,999	2.58%	65,400,183	2.49%	129,210,182
Child Welfare - Foster Care	48,347,552	47,061,470	-2.66%	95,409,022	50,675,243	7.68%	52,090,357	2.79%	102,765,600
Community Mental Health	33,605,565	32,579,876	-3.05%	66,185,441	33,684,087	3.39%	35,223,634	4.57%	68,907,721
Mental Health Medicaid	33,735,134	34,683,762	2.81%	68,418,896	37,595,259	8.39%	39,475,022	5.00%	77,070,281
Community Mental Retardation	21,546,940	23,339,443	8.32%	44,886,383	24,023,884	2.93%	25,023,070	4.16%	49,046,954
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Mental Health Services - Children	20,357,493	16,594,326	-18.49%	36,951,819	18,120,204	9.20%	18,910,374	4.36%	37,030,578
Mental Health Services - Child Medicaid	30,291,748	29,766,516	-1.73%	60,058,264	31,254,842	5.00%	32,817,584	5.00%	64,072,426
Other Agencies And Programs	296,272,794	263,381,529	-11.10%	559,654,323	290,727,065	10.38%	302,334,554	3.99%	593,061,619
Total Policy Area - Health & Human Services	852,605,352	860,629,387	0.94%	1,713,234,739	957,443,349	11.25%	1,011,213,581	5.62%	1,968,656,930
Total Policy Area - Natural Resources Development & Protection	70,135,619	71,735,032	2.28%	141,870,651	73,559,939	2.54%	75,707,099	2.92%	149,267,038
Corrections	118,550,283	125,970,365	6.26%	244,520,648	136,863,960	8.65%	143,345,214	4.74%	280,209,174
Other Agencies And Programs	88,812,034	94,713,942	6.65%	183,525,976	102,152,418	7.85%	106,584,110	4.34%	208,736,528
Total Policy Area - Justice & Protection	207,362,317	220,684,307	6.42%	428,046,624	239,016,378	8.31%	249,929,324	4.57%	488,945,702
Total Policy Area - Transportation Safety and Development	3,601,246	3,588,358	-0.36%	7,189,604	4,392,557	22.41%	4,585,460	4.39%	8,978,017
Total Policy Area - Business Licensing & Regulation									
Total Policy Area - Arts, Heritage & Cultural Enrichment	8,305,679	8,734,859	5.17%	17,040,538	9,210,421	5.44%	9,481,008	2.94%	18,691,429
GRAND TOTAL GENERAL FUND EXPENDITURES	2,642,999,485	2,709,902,078	2.53%	5,352,901,563	3,026,769,633	11.69%	3,170,976,527	4.76%	6,197,746,160

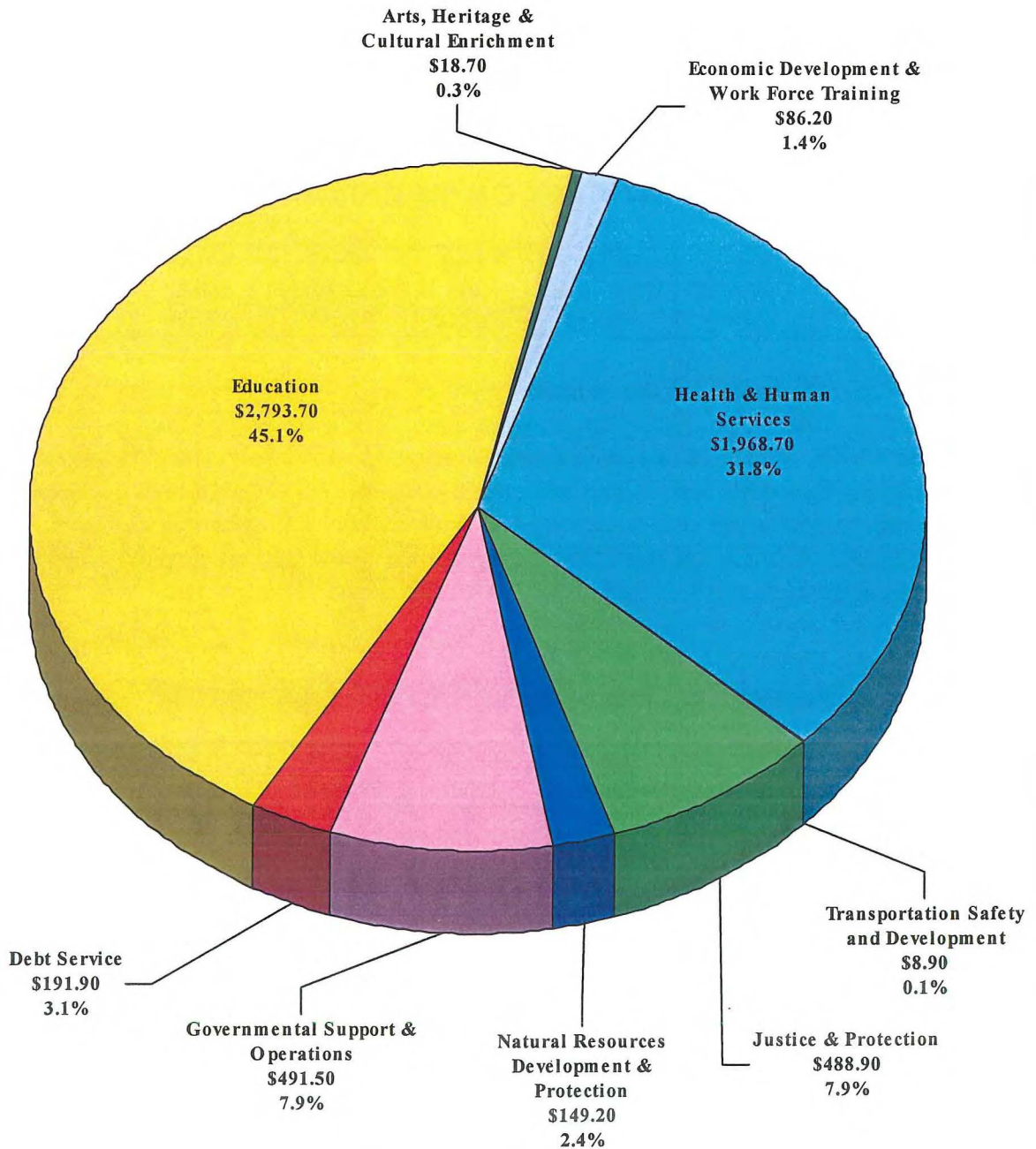
**FY 04-05 GENERAL FUND
BUDGETED APPROPRIATIONS
\$5,352.9 Million**



All Dollars in Millions

FY 06-07 GENERAL FUND PROJECTED APPROPRIATIONS

\$6,197.7 Million



All Dollars in Millions

E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION & REPAIRS

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
248	102	-58.76%	350	6,524	6283.53%	6,524	0.00%	13,048

For the FY 04-05 biennium, the budget request was reduced to the above levels in an effort to provide savings towards the budget shortfall; therefore, funding was limited solely for planning. Funding for Capital Construction, Repairs and Improvement projects were undertaken through the Governmental Facilities Authority. The budget request for Capital Construction, Repairs and Improvements is \$6.5 million and \$6.5 million for the FY 06-07 biennium.

PERSONAL PROPERTY TAX ON MACHINERY AND EQUIPMENT

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
65,082	63,757	-2.04%	128,839	78,132	22.55%	82,896	6.10%	161,029

Public Law 1997, c. 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 \$63.7 million in FY 05. 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 \$92 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 06-07 biennium assumes the program will grow by an additional 22.55% between FY 05 and FY 06 and by approximately 6.10% between FY 06 and FY 07.

MAINE RESIDENTS PROPERTY TAX PROGRAM

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
23,317	0	-100.00%	23,317	0	0.00%	0	0.00%	0

The Maine Residents Property Tax Program, better known as the "Circuit Breaker" program, provides up to \$1,000 of property tax reimbursement to approximately 65,000 households whose property taxes represent over 4% of their household income. Total program costs were \$23.3 million in FY 04; and, are estimated at \$24.7 million in FY 05. It is projected that program costs for FY 06 will be approximately \$25.7 million and will increase to approximately \$27.0 million in FY 07. Public Law, 2003, c. 673, Part BB, effective with fiscal year 2005, changed the payment procedure for this program by establishing a circuit breaker reserve, whereby, payments to approved applicants would be made from the transfer of income tax revenue to the circuit breaker reserve account in lieu of payments being made from a General Fund appropriation to the Maine Residents Property Tax Program. Thus, no appropriation amount is reflected for fiscal years 2005 through 2007.

HOMESTEAD PROPERTY TAX EXEMPTION

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
34,570	34,932	1.05%	69,502	35,384	1.30%	36,105	2.04%	71,489

Public Law 1997, c. 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 \$34.3 million in FY 04; and are estimated to be \$34.9 in FY 05. It is projected that the program costs will increase to approximately \$35.3 million in FY 06 and to \$36.1 million in FY 07.

GOVERNMENTAL FACILITIES AUTHORITY

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
16,383	16,822	2.68%	33,205	18,404	9.40%	17,909	-2.69%	36,312

The forecast for the FY 06-07 biennium for the Governmental Facilities Authority, created by Public Law 1997, c. 523, includes principal and interest payments for loans which financed projects approved by the 121st Legislature. These include capital repairs and improvements to state-owned facilities throughout the State as designated by the Commissioner of Administrative and Financial Services. 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 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
75,679	75,960	0.37%	151,639	97,775	28.72%	94,119	-3.74%	191,894

As of June 30, 2004, the total amount of authorized General Obligation Bonds funded by the General Fund that remained unissued amounted to \$220.4 million. For FY 05 it is projected that \$130 million of the unissued bond inventory will be issued during June. The projection for the FY 06-07 biennium is that bonds issued will amount to approximately \$60 million during June 2006 and \$50 million during June 2007. These amounts are predicated on the assumption that the Legislature will send additional bond proposals to the voters for approval in each year of the ensuing biennium that will result in \$20 million of the approved bonds to be issued over the course of the biennium.

GENERAL PURPOSE AID TO LOCAL SCHOOLS

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
702,236	734,537	4.60%	1,436,773	809,295	10.18%	851,119	5.17%	1,660,415

The budget requests for the FY 06-07 biennium includes increases in General Purpose Aid of \$74.8 million in FY 06 and \$41.8 million in FY 07. Public Law 2003, c. 712 "An Act to Reduce the Cost of Local Government Through Increased State Education Funding and Provide Property Tax Relief" was signed by the Governor on May 12, 2004. The new statutory requirements increase the state share of education funding from approximately 42% in FY05 to 46.5% in FY06, 48.0% in FY07, 50.0% in FY08, 52.5% in FY09 and 55.0% in FY2010. Those increases provide \$340 million in additional state funds over the five-year period. The law strengthens the Essential Programs and Services (EPS) Model of school funding by including special education and transportation in the model. This act establishes the Municipal Budget Analysis Committee which is charged with measuring the progress and success in achieving property tax relief and adequacy and equity in education funding.

TEACHER RETIREMENT/RETIRED TEACHERS' HEALTH INSURANCE

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
170,014	181,698	6.87%	351,713	249,910	37.54%	264,815	5.96%	514,725

Public Law 2003, c. 20, realized savings of \$40,777,556 in FY 04 and \$43,445,517 in FY 05 from extending the amortization schedule for the unfunded actuarial liability of the Maine State Retirement System from 17 years to 25 years. The funding increase in FY 06 is attributable to returning the amortization schedule for the unfunded actuarial liability back to 14 years from 25 years.

The expenditure forecast for the FY 06-07 biennium for Teacher Retirement assumes projected teacher salary and wage growth of 5.5% based upon the actuarial assumption for inflation and general salary increase. The normal retirement cost rate for the teacher group is 6.04% for the FY 04-05 and FY 06-07 biennia. Unfunded actuarial liability (UAL) is projected at the rates provided on an actuarial basis from Maine State Retirement System for the FY 06-07 biennium.

The Retired Teachers' Health Insurance program cost is projected to increase 14% in each year of the FY 06-07 biennium based on projections from the State Employees' Health Insurance Program. This growth is attributable to anticipated premium rate increases and increased retired teacher enrollment. While the number of active employee contracts is projected to remain flat through FY 2006-07, an increase of 11% in the number of pre-Medicare retiree contracts in FY 2005-06 and 10% in FY 2006-07 is projected.

PRESCHOOL HANDICAPPED

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
16,906	18,435	9.05%	35,341	18,851	2.26%	19,323	2.50%	38,174

The Preschool Handicapped Program was established to ensure the provisions of early intervention services to eligible children from birth to under age 3 and free appropriate public education, special education and related services for children ages 3 to under age 6 with disabilities. It is anticipated that additional funding will be necessary for the FY 06-07 biennium. The Department of Education has identified that growth in the total number of eligible children entering the program is continuing to increase, (a four-year average of 5%) 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 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
307,419	335,557	9.15%	642,977	391,322	16.62%	422,897	8.07%	814,219

General Fund appropriations in the MaineCare (Medicaid) program were significantly impacted by the structural budget gap in the FY 04-05 biennium. Cost savings measures enacted by the 121st Legislature and implemented by the Department of Human Services (now Department of Health and Human Services) included strategies for increasing co-pays, limiting benefits and services, scaling back payments to providers and realizing savings from more efficient purchasing practices. Despite the amount of savings expected to carry forward into the FY 06-07 biennium from these initiatives, the MaineCare program is expected to exhibit growth of 16.62% in FY 06 and 8.07% in FY 07. When compared to projections made by the Centers for Medicare and Medicaid Services (CMS), Maine's FY 06 growth exceeds the national projection of 9.2% but falls within the FY 07 growth rate of 9.2%.

NURSING FACILITIES

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
46,043	62,207	35.11%	108,251	63,810	2.58%	65,400	2.49%	129,210

The proposed spending in the Nursing Facilities program is projected to experience modest increases of 2.6% in FY 06 and 2.5% in FY 07. This modest growth results in part from several initiatives enacted by the 121st Legislature including enhanced estate recovery and asset transfer recoupment and pharmacy purchasing initiatives, as well as from relying on dedicated revenue from a tax on nursing facilities that generates between \$28 and \$29 million annually. These growth rates are below projections for nursing home care expenditures of 6.3% and 6.5% in 2006 and 2007, respectively, made by the Centers for Medicare and Medicaid Services.

CHILD WELFARE - FOSTER CARE

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
48,348	47,061	-2.66%	95,409	50,675	7.68%	52,090	2.79%	102,766

The Child Welfare and Foster Care programs in the Department of Health and Human Services provide foster care, independent living and adoption assistance services to children in the care or custody of the Department of Health and Human Services. Payments made from the Foster Care program support children who are eligible under Title IV-E of the federal Social Security Act; payments from the Child Welfare Services program support children not eligible under Title IV-E. Savings in these programs were achieved in the FY 04-05 biennium by reducing the levels of care from restructuring the foster care system and by evaluating children in institutional care or in high-cost settings and transferring them to less restrictive settings. This program is expected to experience growth of 7.68% in FY 06 and 2.79% in FY 07.

COMMUNITY MENTAL HEALTH

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
33,606	32,580	-3.05%	66,185	33,684	3.39%	35,224	4.57%	68,908

Funds for the Community Mental Health program are provided for services to adults who are not eligible for MaineCare or for services that are not covered by MaineCare. The FY 04-05 biennial budget reflected savings from vocational, community support, outpatient services and medication management. Growth in this program is projected at 3.39% in FY 06 and 4.57% in FY 07.

MENTAL HEALTH MEDICAID

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
33,735	34,684	2.81%	68,419	37,595	8.39%	39,475	5.00%	77,070

This program provides services to adults with mental illness who are eligible for benefits under the MaineCare program. Funding in the FY 04-05 biennium was reduced by establishing more restrictive and standardized medical necessity criteria, limiting service levels, implementing centralized enrollment, standardized levels of care and prior authorization and utilization review of services in the plans of care. In addition, savings to the General Fund were realized by relying on dedicated revenue generated by the imposition of a service provider tax on private non-medical institutions (PNMI). Increased utilization contributes to the growth in this program which is projected at 8.39% in FY 06 and 5.00% in FY 07.

COMMUNITY MENTAL RETARDATION

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
21,547	23,339	8.32%	44,886	24,024	2.93%	25,023	4.16%	49,047

The Mental Retardation service delivery system must provide services and support to a limited number of people with mental retardation who are not eligible for MaineCare. The program also assists those in need with financial resources to pay for some services that are not covered by the MaineCare program, such as family support, housing, food and supported employment. During the FY 04-05 biennium, measures were taken to reduce funding in several service areas, including respite care, housing subsidies, recreation and leisure, wraparound/flexible funding and supported employment. Program growth during the FY 06-07 biennium is projected to be 2.93% in FY 06 and 4.16% in FY 07.

MENTAL RETARDATION MEDICAID

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
14,985	15,458	3.15%	30,443	16,231	5.00%	17,042	5.00%	33,273

Funding in the Medicaid Services – Mental Retardation and the Mental Retardation – MaineCare Waiver programs provide services for persons with mental retardation or autism who are Medicaid eligible or Medicaid reimbursable. Approximately 94% of people served by the mental retardation service system are MaineCare beneficiaries. Services provided include residential support, day habilitation and transportation. Savings initiatives adopted in the current biennium include those to redesign day habilitation benefits for adults, standardize rates and implement more cost-effective service delivery models based on standardized functional assessments. In addition, diagnostic assessments and care plan reviews are being performed for all high-cost consumers. Growth in this program is projected at 5% in each of fiscal years 06 and 07.

MENTAL HEALTH SERVICES - CHILDREN

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
20,357	16,594	-18.49%	36,952	18,120	9.20%	18,910	4.36%	37,031

Funds for Children's Mental Health Services are provided for services to children who are not eligible for MaineCare or for services that are not covered by MaineCare. The FY 04-05 biennium resulted in the adoption of cost savings initiatives in several areas, including: social and recreation services; community support services; case management services; outpatient services; information and referral services; and parent support and self-help services. Funding growth in this program is expected to be 9.2% in FY 06 (partially due to one-time funding cuts in FY 05) and 4.36% in FY 07.

MENTAL HEALTH SERVICES - CHILD MEDICAID

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
30,292	29,767	-1.73%	60,058	31,255	5.00%	32,818	5.00%	64,072

General Fund support is used to provide state seed for services provided to eligible children and youth under the MaineCare program. For the FY 04-05 biennium, growth in utilization of services was reduced by establishing standardized medical necessity criteria, implementing centralized enrollment, standardized levels of care and prior authorization and utilization review of services in the plans of care. These steps are expected to limit growth in this program to 5% in FY 06 and FY 07.

CORRECTIONS

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
118,550	125,970	6.26%	244,521	136,864	8.65%	143,345	4.74%	280,209

The Department of Corrections is required to provide adequate medical care to all offenders incarcerated within its facilities. The health care of the prison population is extremely challenging as many prisoners have not had adequate primary care prior to incarceration and 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 the increased 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 level in FY 04.

The department's prisoner population is projected to increase by 14.3% to 2,239 prisoners by the year 2010 from the 2004 baseline. Given this projected 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. The average daily population for adults during FY 04 was 1,959. 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 06 and FY 07 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 06-07 biennium is expected to closely follow projected Consumer Price Index (CPI) or departmental trends. With the base year (FY 05) adjusted for one-time appropriations, there are few significant budget changes anticipated.

III. HIGHWAY FUND

A. BUDGET STATUS FY 04-07

HIGHWAY FUND STATUS						
	FY 04-05 BIENNIUM			FY 06-07 BIENNIUM		
	FY 04	FY 05	TOTAL	FY 06	FY 07	TOTAL
BALANCE	6,478,244		6,478,244	1,902,773		1,902,773
ADJUSTMENTS TO BALANCE	(15,570,000)	(6,681,440)	(22,251,440)			
REVENUE	304,744,317	317,437,872	622,182,189	320,400,705	329,306,886	649,707,591
TOTAL RESOURCES	295,652,561	310,756,432	606,408,993	322,303,478	329,306,886	651,610,364
ALLOCATIONS	293,574,323	310,931,897	604,506,220	343,663,658	352,571,688	696,235,346
PROJECTED BALANCE (SHORTFALL)	2,078,238	(175,465)	1,902,773	(21,360,180)	(23,264,802)	(44,624,982)

The Highway Fund adjusted fund balance for FY 04 was \$6,478,244 and is projected to be \$1,902,773 at the end of FY 05, after adjustments from the 2nd Special Session of the 121st Legislature.

In December 2003, the Revenue Forecasting Committee reprojected Highway Fund Revenues down by (\$1,847,272) in FY 04 and by (\$3,253,880) in FY 05. In March 2004, the Revenue Forecasting Committee reprojected Highway Fund Revenues up by \$1,200,000 in FY 04 and \$639,667 in FY 05.

Projections for the FY 06-07 biennium include Highway Fund revenue of \$649,707,591 that, when combined with the projected balance from the FY 04-05 biennium of \$1,902,773, bring total resources to \$651,610,364. Projected Highway Fund allocations for the FY 06-07 biennium are \$696,235,346, which would result in a projected structural budget gap of \$44,624,982.

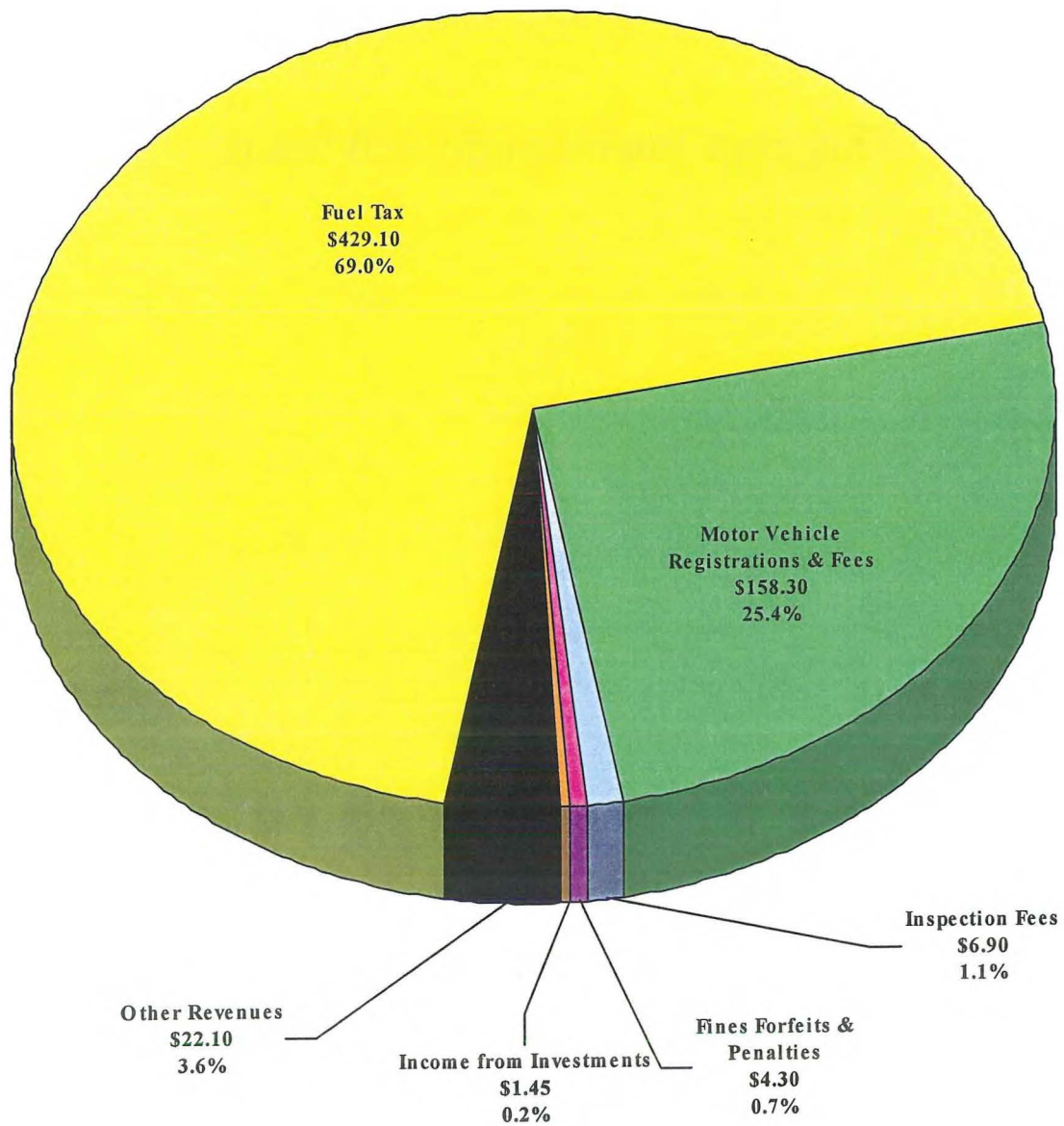
B. REVENUE FORECAST CHARTS FY 04-07

HIGHWAY FUND REVENUE FORECAST CHARTS

SOURCE	FY 04-05 BUDGET				FY 06-07 FORECAST				
	FY 04	FY 05	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 06	YR. TO YR. % CHANGE	FY 07	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	210,496,449	218,638,488	3.87%	429,134,937	225,731,797	3.24%	233,785,781	3.57%	459,517,578
Motor Vehicle Registrations & Fees	79,605,062	78,693,539	-1.15%	158,298,601	79,458,665	0.97%	80,217,409	0.95%	159,676,074
Inspection Fees	3,461,771	3,470,359	0.25%	6,932,130	3,476,649	0.18%	3,483,001	0.18%	6,959,650
Fines Forfeits & Penalties	2,122,901	2,165,359	2.00%	4,288,260	2,228,666	2.92%	2,273,239	2.00%	4,501,905
Income from Investments	425,217	1,026,195	141.33%	1,451,412	1,026,195		1,026,195		2,052,390
Other Revenues	8,632,917	13,443,932	55.73%	22,076,849	8,478,733	-36.93%	8,521,261	0.50%	16,999,994
TOTAL REVENUE	304,744,317	317,437,872	4.17%	622,182,189	320,400,705	0.93%	329,306,886	2.78%	649,707,591

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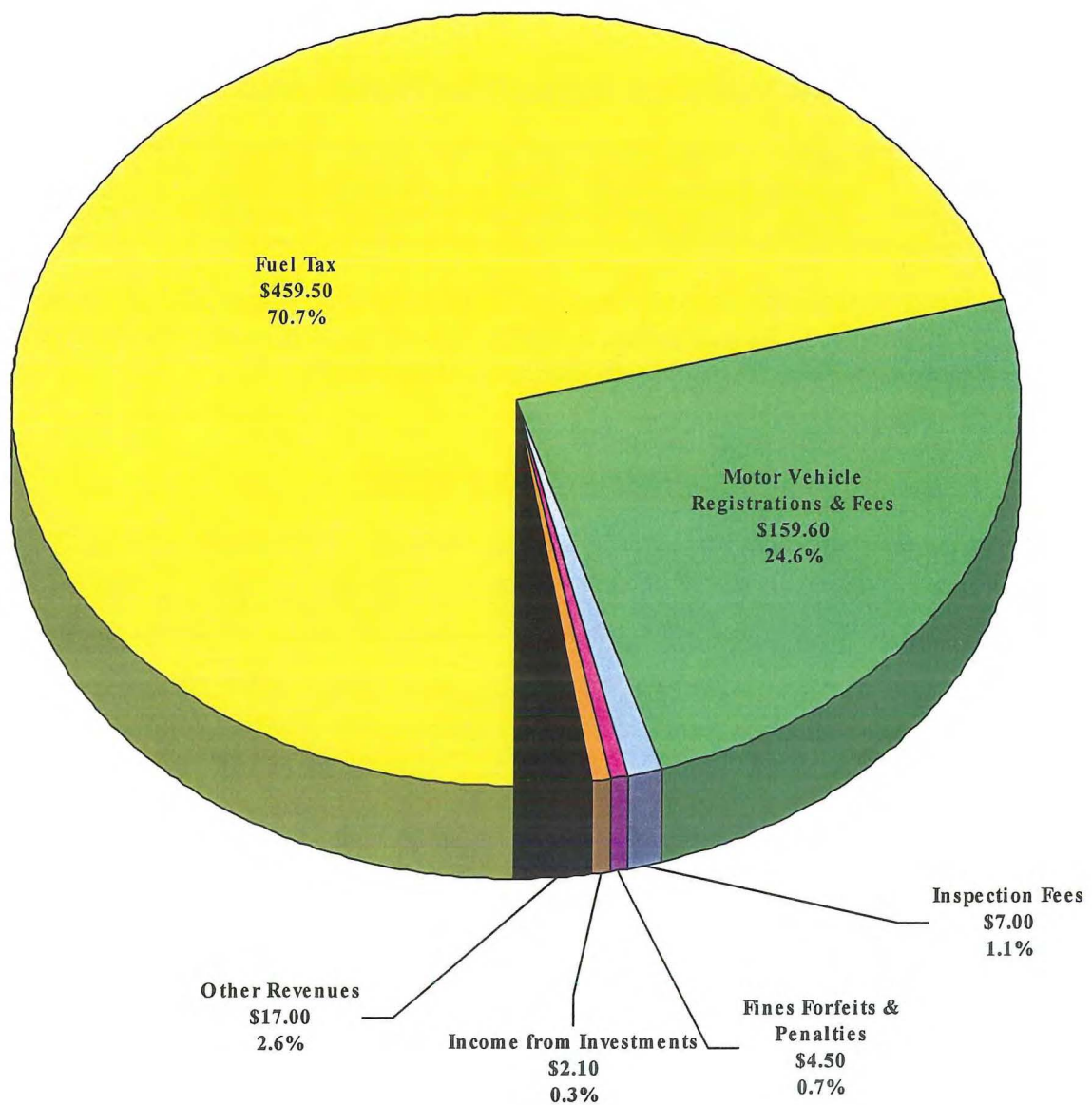
FY 04-05 HIGHWAY FUND BUDGETED REVENUES \$622.2 Million



All Dollars in Millions

FY 06-07 HIGHWAY FUND FORECAST REVENUES

\$649.7 Million



All Dollars in Millions

C. REVENUE FORECAST NARRATIVE

FUEL TAX

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
210,496	218,638	3.87%	429,135	225,732	3.24%	233,786	3.57%	459,518

The forecast for the Motor Fuel Taxes was updated by the Revenue Forecasting Committee in March 2004. The forecast for FY 05 reflects an inflation adjustment to the tax rates that took effect on July 1, 2004. The gasoline tax rate was increased from \$0.246 to \$0.252 per gallon and the tax on diesel fuel was increased from \$0.257 to \$0.263 per gallon. The change in the forecast for the FY 06-07 biennium primarily reflects increased revenue associated with the indexing of motor fuel taxes in accordance with Public Law 2001, c. 688.

MOTOR VEHICLE REGISTRATIONS AND FEES

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
79,605	78,694	-1.15%	158,299	79,459	0.97%	80,217	0.95%	159,676

The forecast for Motor Vehicle Registration Fees for FY 05 reflects a change of -1.15 % over FY 04 actual revenues. The FY 06 and FY 07 forecast reflect a slightly upward trend of nearly 1% consistent with the base level forecast of the Revenue Forecasting Committee as of March 2004.

INSPECTION FEES

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
3,462	3,470	0.25%	6,932	3,477	0.18%	3,483	0.18%	6,960

The forecast for Inspection Fees for FY 05 reflects a change of .25% over FY 04 actual revenues. Revenues from Inspection Fees are expected to grow annually at a minimal rate of only .18% in the FY 06-07 biennium consistent with the projection of the Revenue Forecasting Committee as of March 2004.

OTHER REVENUES

Other Revenues within the Highway Fund have remained static over time and are only expected to grow .5% in the FY 06-07 biennium.

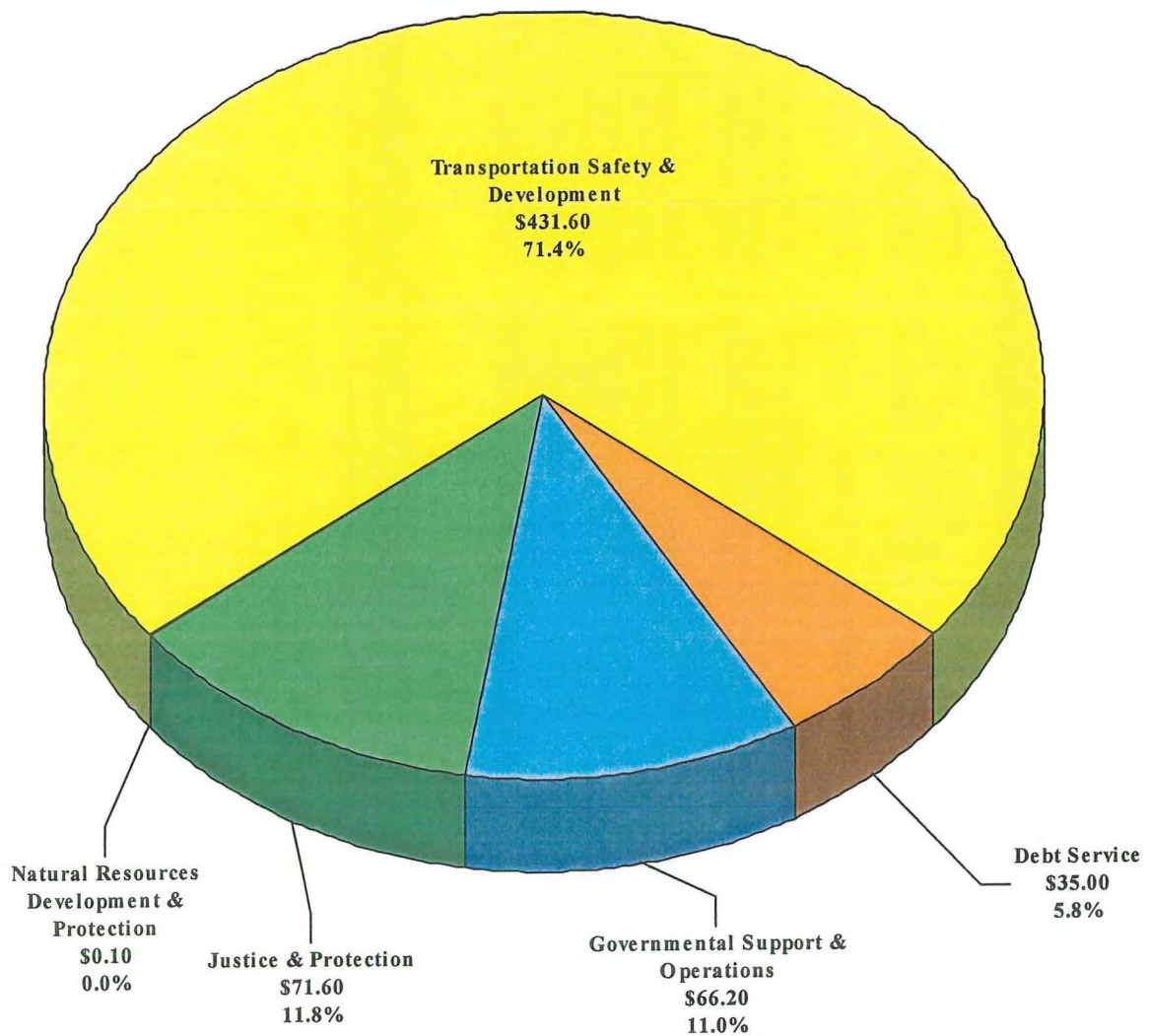
D. EXPENDITURE FORECAST CHARTS FY 04-07

HIGHWAY FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 04-05 BUDGET RECOMMENDATIONS				FY 06-07 FORECAST				
	FY 04	FY 05	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 06	YR. TO YR. % CHANGE	FY 07	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Capital Construction and Improvement Reserve Fund	664,713	669,857	0.77%	1,334,570	669,857		669,857		1,339,714
Other Agencies And Programs	31,680,814	33,142,877	4.61%	64,823,691	34,647,432	4.54%	35,789,978	3.30%	70,437,410
Total Policy Area - Governmental Support & Operations	32,345,527	33,812,734	4.54%	66,158,261	35,317,289	4.45%	36,459,835	3.24%	71,777,124
Total Policy Area - Natural Resources Development & Protection	36,296	36,427	0.36%	72,723	36,578	0.41%	36,749	0.47%	73,327
State Police	27,119,463	27,205,862	0.32%	54,325,325	28,813,937	5.91%	30,070,061	4.36%	58,883,998
Other Agencies And Programs	8,661,849	8,602,758	-0.68%	17,264,607	8,835,108	2.70%	9,235,317	4.53%	18,070,425
Total Policy Area - Justice & Protection	35,781,312	35,808,620	0.08%	71,589,932	37,649,045	5.14%	39,305,378	4.40%	76,954,423
Highway Maintenance	113,417,660	118,485,556	4.47%	231,903,216	120,914,606	2.05%	125,670,062	3.93%	246,584,668
Bridge Maintenance	15,957,607	16,743,019	4.92%	32,700,626	16,960,072	1.30%	17,595,109	3.74%	34,555,181
Highway & Bridge Improvement	35,680,930	44,648,997	25.13%	80,329,927	64,610,202	44.71%	68,084,988	5.38%	132,695,190
Urban-Rural Initiative Program	21,603,028	22,862,638	5.83%	44,465,666	26,244,417	14.79%	26,832,768	2.24%	53,077,185
Debt Service	19,183,265	15,910,728	-17.06%	35,093,993	15,957,307	0.29%	11,802,084	-26.04%	27,759,391
Other Agencies And Programs	19,568,698	22,623,178	15.61%	42,191,876	25,974,142	14.81%	26,784,715	3.12%	52,758,857
Total Policy Area - Transportation Safety & Development	225,411,188	241,274,116	7.04%	466,685,304	270,660,746	12.18%	276,769,726	2.26%	547,430,472
TOTAL HIGHWAY FUND EXPENDITURES	293,574,323	310,931,897	5.91%	604,506,220	343,663,658	10.53%	352,571,688	2.59%	696,235,346

FY 04-05 HIGHWAY FUND BUDGETED ALLOCATIONS

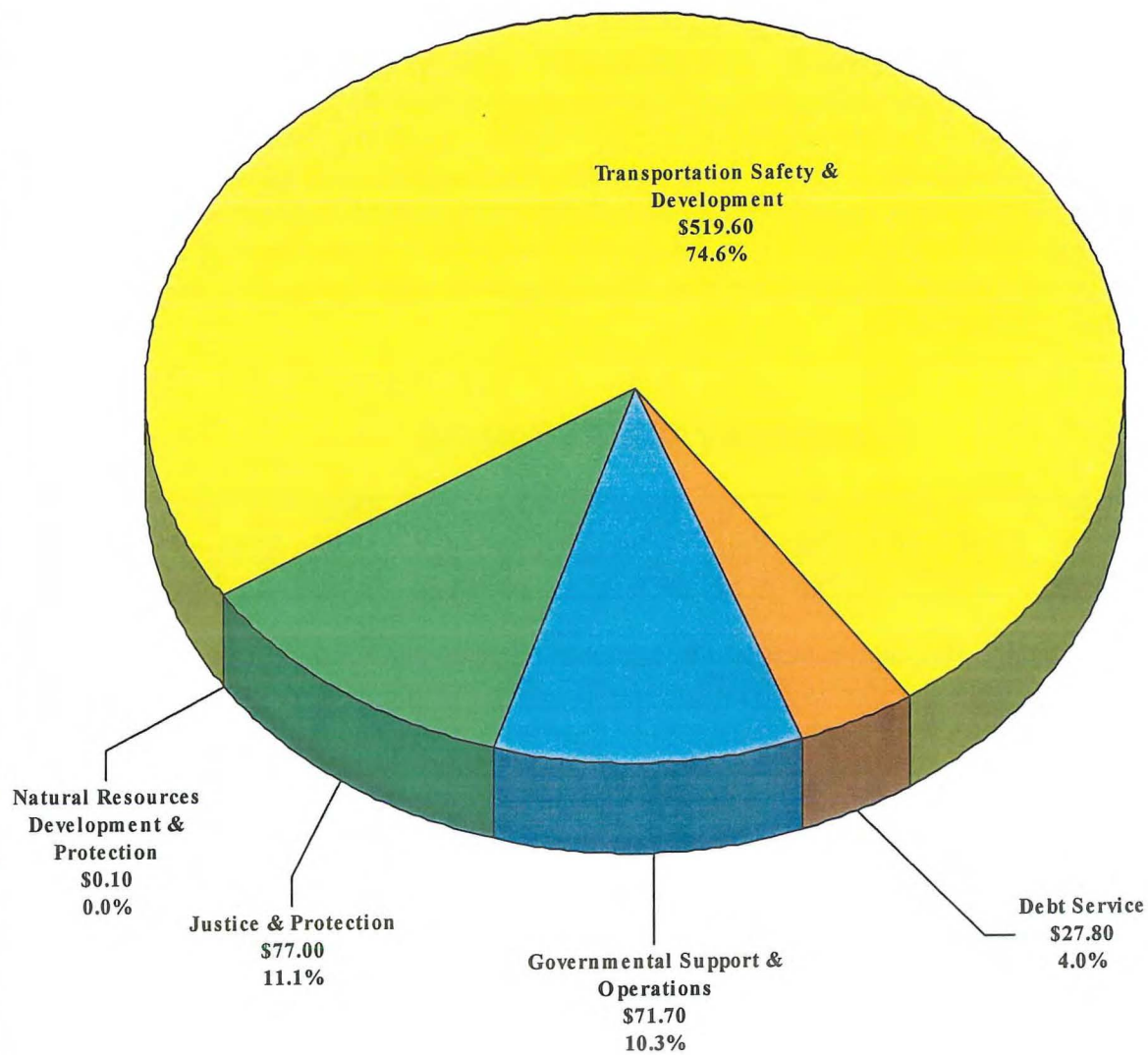
\$604.5 Million



All Dollars in Millions

FY 06-07 HIGHWAY FUND PROJECTED ALLOCATIONS

\$696.2 Million



All Dollars in Millions

E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION AND IMPROVEMENT RESERVE FUND

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
665	670	0.77%	1,335	670	0.00%	670	0.00%	1,340

Funds in the FY 06-07 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 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
27,119	27,206	0.32%	54,325	28,814	5.91%	30,070	4.36%	58,884

The Maine State Police have primary goals of 1) Patrolling rural areas of Maine without organized police departments for the purpose of preventing and investigating criminal activity; 2) Enforcing traffic safety laws in rural areas, Maine Turnpike and Interstate System; 3) Overseeing the Motor Vehicle Inspection Program and enforcing the Commercial Motor Vehicle laws and rules; 4) Investigating homicides that occur outside Portland and Bangor; 5) Investigating child abuse cases; 6) Providing crime laboratory services to all law enforcement agencies; 7) Providing a repository for criminal history and records information; 8) Providing specialized administrative and enforcement services. Funding growth in this program is expected to be 5.91% in FY 06 and 4.36% in FY 07.

HIGHWAY MAINTENANCE

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
113,418	118,486	4.47%	231,903	120,915	2.05%	125,670	3.93%	246,585

The Highway Maintenance Program maintains the infrastructure of 15,977 lane miles of interlocking state and state aid highways. Program effort is directed toward summer and winter services to the 8,300 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 06-07 biennium reflects the increased costs for fuel to operate vehicle fleet, increased heating costs, building maintenance and the maintenance of sand/salt buildings. Highway Summer Maintenance funding for crew payroll costs totaled \$52,575,987 in FY 04 and \$54,689,076 in FY 05.

BRIDGE MAINTENANCE

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
15,958	16,743	4.92%	32,701	16,960	1.30%	17,595	3.74%	34,555

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. Bridge Maintenance funding for crew payroll costs totaled \$9,531,162 in FY 04 and \$9,914,231 in FY 05.

HIGHWAY AND BRIDGE IMPROVEMENT

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
35,681	44,649	25.13%	80,330	64,610	44.71%	68,085	5.38%	132,695

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 \$29.0 million was authorized for the FY 04-05 biennium to provide for continued support of transportation infrastructure projects. Twenty million dollars each fiscal year has been added to the base in the FY 06-07 biennium to bring the Highway and Bridge Improvement budget to current levels and to reflect that portion of the program that was previously bonded.

URBAN-RURAL INITIATIVE PROGRAM

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
21,603	22,863	5.83%	44,466	26,244	14.79%	26,833	2.24%	53,077

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 06-07 biennium reflect the requirements of Title 23, § 1803 – B, sub-§ 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. Included in the FY 06-07 biennium projections is an additional \$500,000 per year for the transit bonus which was authorized by Public Law 2001, c. 681.

DEBT SERVICE

FY 04 (000)	FY 05 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 06 (000)	YR % CHANGE	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM
19,183	15,911	-17.06%	35,094	15,957	0.29%	11,802	-26.04%	27,759

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 04–05 biennium. Because of the need to maintain the level of highway and bridge improvements, \$29 million of General Fund General Obligation bonds were authorized for this purpose for the FY 04-05 biennium.

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 04-05 biennium and the FY 06-07 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 \$733,393,704 and a projected "Structural Gap" of \$44,624,982 in the Highway Fund for the FY 06-07 biennium. The base level revenue projections for the General Fund and the Highway Fund include the March 2004 projection of the Revenue Forecasting Committee and reflect all actions of the 2nd Special Session of the 121st Legislature.

The 2006-2007 Biennial Budget will be the first budget submitted to the Legislature using the growth in spending restrictions proposed by Governor Baldacci. Title 5 § 1665, sub- § 1 states "The total General Fund appropriation requests submitted by each department and agency for each fiscal year may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate." For the FY 06-07 biennium, no department and agency may request more than a 2.58% increase over their FY 05 appropriation. While this forecast is limited to an analysis of budget requests, agencies and departments will be required to prioritize current services requests to meet the statutory requirements of Title 5 § 1665.