

MAINE STATE LEGISLATURE

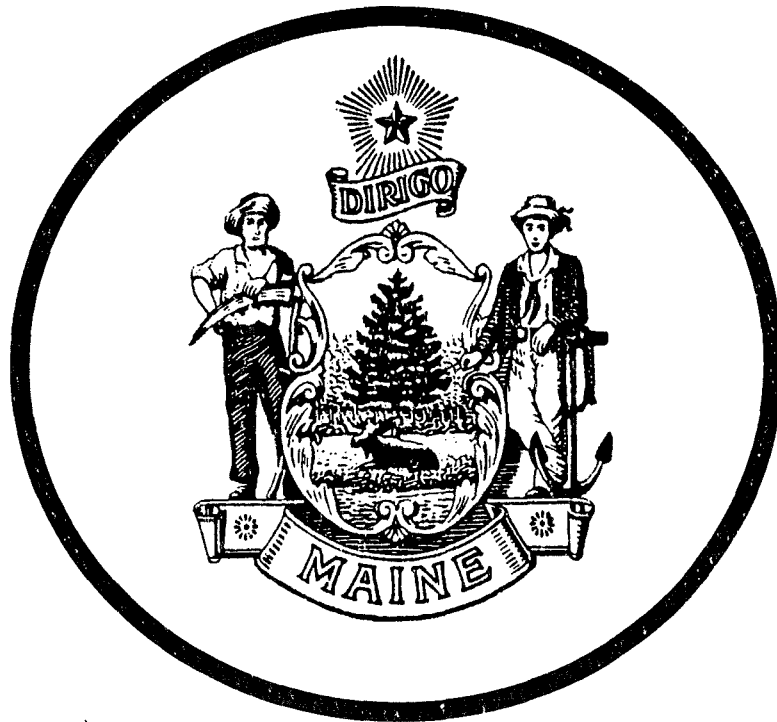
The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)

STATE OF MAINE

REVENUE & EXPENDITURE PROJECTION



**GENERAL FUND AND HIGHWAY FUND
FISCAL YEARS 2006 – 2009**

**Submitted by the
Bureau of the Budget
September 30, 2006**

HJ
476
.S71
2006



STATE OF MAINE

DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES

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

Date: September 30, 2006

To: Honorable John Elias Baldacci, Governor
Honorable Beth Edmonds, President of the Senate
Honorable John Richardson, Speaker of the House
Honorable Margaret Rotundo, 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 06-07 biennium and the FY 08-09 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 06-07 biennium and the FY 08-09 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

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 2006 - 2009**

<u>SECTION</u>	<u>PAGE(S)</u>
I. Introduction	1
II. General Fund	
A. Budget Status FY 06-07 and FY 08-09	2
B. Revenue Forecast Charts FY 06-07 and FY 08-09	3-5
C. Revenue Forecast Narrative	
> Sales and Use Tax	6
> Service Provider Tax	6
> Individual Income Tax	6
> Maine Residents Property Tax Program	7
> Business Equipment Tax Reimbursement (BETR)	7
> Corporate Income Tax	8
> Cigarette and Tobacco Tax	8
> Insurance Company Tax	8
> Municipal Revenue Sharing	9
> Other Revenues	9
D. Expenditure Forecast Charts FY 06-07 and FY 08-09	10-13
E. Expenditure Forecast Narrative FY 06-07 and FY 08-09	
> Capital Construction and Repairs	14
> Homestead Property Tax Exemption	14
> Governmental Facilities Authority	14
> Debt Service	14
> General Purpose Aid to Local Schools	15
> Teacher Retirement/Retired Teachers' Health Insurance	15
> Medical Care – Payments to Providers	15
> Nursing Facilities	16
> Child Welfare - Foster Care	16
> Community Mental Health	16
> Mental Health Medicaid	17
> Community Mental Retardation	17
> Mental Retardation Medicaid	17
> Mental Health Services – Children	18
> Mental Health Services – Child Medicaid	18
> Corrections	18

III. Highway Fund

A. Budget Status FY 06-07 and FY 08-09	19
B. Revenue Forecast Charts FY 06-07 and FY 08-09	20-23
C. Revenue Forecast Narrative	
> Fuel Tax	24
> Motor Vehicle Registrations and Fees	24
> Inspection Fees	24
> Other Revenues	24
D. Expenditure Forecast Charts FY 06-07 and FY 08-09	25-27
E. Expenditure Forecast Narrative FY 06-07 and FY 08-09	
> Capital Construction and Improvement Reserve Fund	28
> State Police	28
> Maintenance & Operations	28
> Highway and Bridge Improvement	29
> Urban-Rural Initiative Program	29
> Debt Service	29
IV. Summary	30

MAINE BUDGET FORECAST

FY 06-07 BIENNIUM AND FY 08-09 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 06-07 biennium and the FY 08-09 biennium. The expected outcome is the most reasonable and consistent portrayal of the General Fund and the Highway Fund budgets for FY 08 and FY 09 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 Regular Session of the 122nd 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 2006 projections of the Revenue Forecasting Committee, as required by Public Law 1997, chapter 157 and reflects all actions of the 2nd Regular Session of the 122nd Legislature.

In order to provide the most accurate expenditure estimate from currently available budget information, the projection used the FY 07 legislatively approved appropriations and allocations from the 2nd Regular Session of the 122nd Legislature. These FY 08-09 estimates were further adjusted for the effect of one-time and phased-in actions expected to occur in FY 07. More detailed projections on a department or program basis were made where appropriate to reflect specific trends in those areas.

Salaries and wages for the FY 08-09 biennium are based on merit growth from the FY 06-07 biennium. The projection for Personal Services does not anticipate future salary adjustments beyond the FY 06-07 biennium as a result of collective bargaining.

II. GENERAL FUND

A. BUDGET STATUS FY 06-09

GENERAL FUND STATUS						
	FY 06-07 BIENNium			FY 08-09 BIENNium		
	FY 06	FY 07	TOTAL	FY 08	FY 09	TOTAL
BALANCE	33,662,644		33,662,644	18,747		18,747
ADJUSTMENTS	92,536,535	126,226,955	218,763,490			
REVENUE	2,857,738,104	2,934,190,370	5,791,928,474	2,994,831,048	3,067,355,224	6,062,186,272
TOTAL RESOURCES	2,983,937,283	3,060,417,325	6,044,354,608	2,994,849,795	3,067,355,224	6,062,205,019
ADJUSTMENTS	97,542,071	157,236,732	254,778,803			
APPROPRIATIONS	2,871,878,613	2,917,678,445	5,789,557,058	3,232,467,824	3,399,880,770	6,632,348,594
PROJECTED BALANCE (SHORTFALL)	14,516,599	(14,497,852)	18,747	(237,618,029)	(332,525,546)	(570,143,575)

The General Fund adjusted fund balance for FY 06 was \$14,516,599 and is projected to be \$18,747 at the end of FY 07, after adjustments from the 122nd Legislature, 2nd Regular Session.

The Revenue Forecasting Committee (RFC) in its December 2005 report reprojected revenues upward by \$98.4 million for the 2008-09 biennium. The RFC in March 2006 decreased its revenue projections by (\$53.0 million) resulting in a net overall revenue increase of \$45.4 million for the 2008-09 biennium. This revenue growth was primarily in the Corporate Income Tax line. The above revenue projections also include revisions made in Public Law 2005, chapter 519 and miscellaneous laws enacted by the 2nd Regular Session of the 122nd Legislature.

Projections for the FY 08-09 biennium include General Fund revenues of \$6,062,186,272. Projected General Fund appropriations for the FY 08-09 biennium are \$6,632,348,594 which result in a structural budget gap for the General Fund of \$570,143,575.

B. REVENUE FORECAST CHARTS FY 06-09

GENERAL FUND REVENUE FORECAST CHARTS

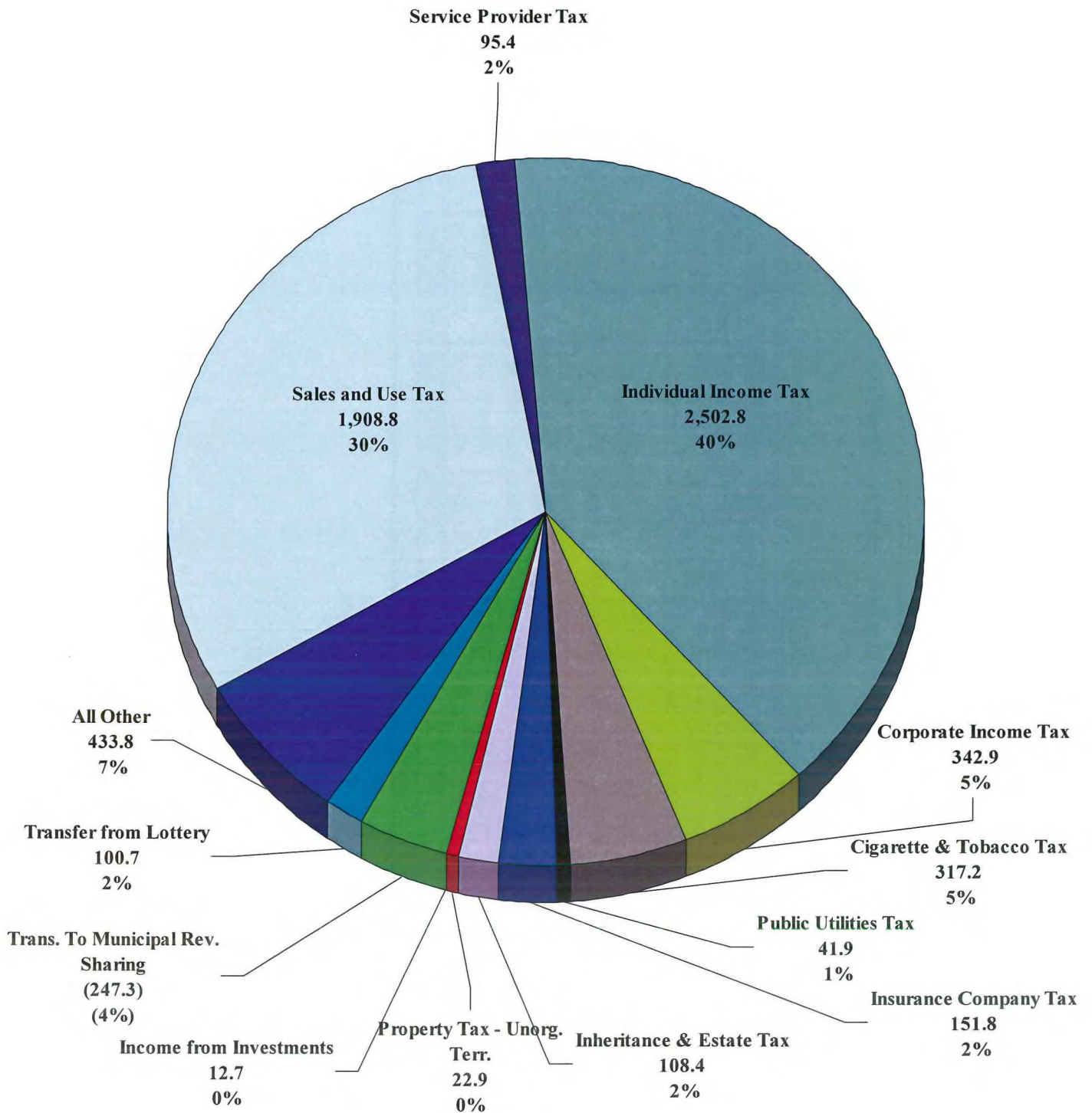
SOURCE	FY 06-07 BUDGET				FY 08-09 FORECAST				
	FY 06	FY 07	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 08	YR. TO YR. % CHANGE	FY 09	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	930,641,080	978,142,183	5.10%	1,908,783,263	1,021,976,075	4.48%	1,066,862,892	4.39%	2,088,838,967
Service Provider Tax	46,494,165	48,911,765		95,405,930	51,181,910	4.64%	53,452,742	4.44%	104,634,652
Individual Income Tax *	1,228,307,845	1,274,529,688	3.76%	2,502,837,533	1,312,272,758	2.96%	1,341,599,725	2.23%	2,653,872,483
Corporate Income Tax	175,150,000	167,718,997	-4.24%	342,868,997	164,793,426	-1.74%	165,828,165	0.63%	330,621,591
Cigarette & Tobacco Tax	151,738,325	165,466,882	9.05%	317,205,207	164,396,738	-0.65%	163,198,120	-0.73%	327,594,858
Public Utilities Tax	21,440,000	20,495,000	-4.41%	41,935,000	19,320,000	-5.73%	18,260,000	-5.49%	37,580,000
Insurance Company Tax	72,141,931	79,644,425	10.40%	151,786,356	81,189,288	1.94%	82,724,299	1.89%	163,913,587
Inheritance & Estate Tax	70,099,322	38,288,045	-45.38%	108,387,367	41,859,092	9.33%	46,807,535	11.82%	88,666,627
Property Tax - Unorg. Terr.	11,278,476	11,597,312	2.83%	22,875,788	11,958,218	3.11%	12,332,279	3.13%	24,290,497
Income from Investments	6,563,582	6,163,582	-6.09%	12,727,164	6,163,582		6,163,582		12,327,164
Trans. to Muni. Rev. Share	(121,410,248)	(125,934,433)	3.73%	(247,344,681)	(132,611,656)	5.30%	(137,234,086)	3.49%	(269,845,742)
Transfer from Lottery	50,334,250	50,334,250		100,668,500	49,904,894	-0.85%	49,904,894		99,809,788
All Other	214,959,376	218,832,674	1.80%	433,792,050	202,426,723	-7.50%	197,455,077	-2.46%	399,881,800
TOTAL REVENUE	2,857,738,104	2,934,190,370	2.68%	5,791,928,474	2,994,831,048	2.07%	3,067,355,224	2.42%	6,062,186,272

FY 06 – 07

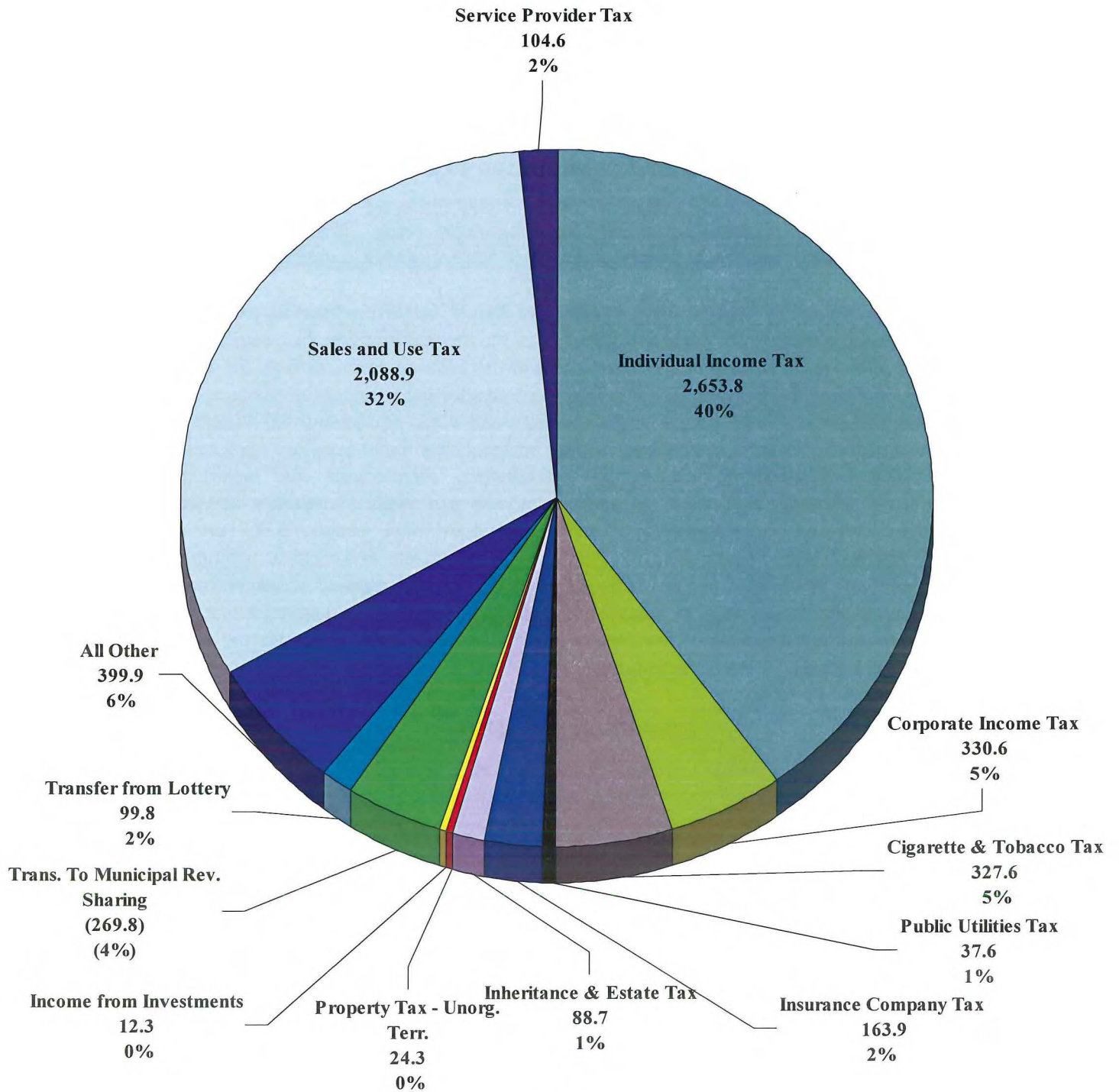
General Fund Budgeted Revenues

\$5,792

Dollars in Millions



FY 08 – 09
General Fund Forecast Revenues
\$6,062.2
Dollars in Millions



C. REVENUE FORECAST NARRATIVE

SALES AND USE TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
930,641	978,142	5.10%	1,908,783	1,021,976	4.48%	1,066,863	4.39%	2,088,839

The Sales and Use Tax forecast for FY 07, FY 08 and FY 09 include all actions of the Revenue Forecasting Committee through March 2006 and reflect all actions of the 122nd Legislature. Sales and use tax receipts have slowed recently as high energy prices and rising interest rates have combined to constrain household consumption of automobiles, building supplies and other housing related sales. A gradual reduction in energy prices and improving automobile sales is forecasted to offset moderating personal income growth during the next biennium. It is projected that revenues from Sales and Use Tax will grow between 4.5% and 4.4% over the FY 08-09 biennium.

SERVICE PROVIDER TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
46,494	48,912	0.00%	95,406	51,182	4.64%	53,453	4.44%	104,635

The Legislature in Public Law 2003, chapter 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, chapter 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 Funds 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 4.6% and 4.4% over the FY 08-09 biennium.

INDIVIDUAL INCOME TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
1,228,308	1,274,530	3.76%	2,502,838	1,312,273	2.96%	1,341,600	2.23%	2,653,872

The forecast for FY 07, FY 08 and FY 09 for the Individual Income Tax line include all actions of the Revenue Forecasting Committee through March 2006 and reflect all actions of the 122nd Legislature. The estimate for FY 07, FY 08 and FY 09 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 FY 07, FY 08 and FY 09 with wage and salary growth of approximately 4.2%. It is projected that revenue from the Income Tax line will grow by

3.8% from FY 06 to FY 07 and between 3% and 2.2% over the FY 08-09 biennium. Beginning in FY 05, Individual Income Tax revenue was reduced by the amount of the payments under the Maine Residents Property Tax Program (Tax and Rent Refund or Circuit Breaker). Amounts necessary for the benefit payments are transferred from Individual Income Tax revenue to a reserve account for payment. Beginning in FY 06, a similar arrangement was established for the Business Equipment Tax Reimbursement (BETR) program.

MAINE RESIDENTS PROPERTY TAX PROGRAM
aka "Tax and Rent Refund" or "Circuit Breaker" Program

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
(44,329)	(46,096)	3.99%	(90,425)	(48,440)	5.09%	(51,389)	6.09%	(99,829)

Beginning with FY 05, taxpayer reimbursement under the Maine Residents' Property Tax Reimbursement (Tax and Rent Refund or "Circuit Breaker") program is accounted for as a deduction from the individual income tax line rather than an expenditure from General Fund appropriations for that purpose. The program expansion (Public Law 2005, chapter 2) is reflected beginning in FY 06 and includes: an increase in the maximum payment from \$1,000 to \$2,000, the elimination of income thresholds, the establishment of maximum property taxes used to calculate benefits (\$3,000 single/\$4,000 multiple member household) and an increase in the percentage of rent constituting property taxes from 18% to 20%. It also extended the close of the application period from 12/31 to 5/31. The amounts reflected in the table above represent gross program costs prior to the adjustment for state-municipal revenue sharing.

BUSINESS EQUIPMENT TAX REIMBURSEMENT (BETR)

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
(71,463)	(68,147)	-4.64%	(139,610)	(77,707)	14.03%	(79,647)	2.50%	(157,354)

Beginning with FY 06, taxpayer reimbursement under the Business Equipment Tax Reimbursement (BETR) program is accounted for as a deduction from the individual income tax line rather than an expenditure from General Fund appropriations for that purpose. BETR reimbursement is 100% of the property taxes paid on eligible property, except that for claims filed for the application period that begins on August 1, 2006 the reimbursement is 90% of the taxes. Eligible property is subject to reimbursement for up to 12 property tax years, but the 12 years must be reduced by one year for each year during which a taxpayer included the same property in its investment credit base. After the 12th year, the property eligible in the first year is dropped from the program so that the growth of the program will slow dramatically. FY 08 is the first year when business equipment in the program for 12 years will drop out. The increase in FY 08 in the table above reflects the one-time reduction in FY 07 at 90% reimbursement instead of 100%. The amounts represent costs prior to the adjustment for state-municipal revenue sharing.

CORPORATE INCOME TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
175,150	167,719	-4.24%	342,869	164,793	-1.74%	165,828	0.63%	330,622

The forecast for FY 07, FY 08 and FY 09 for the Corporate Income Tax line include all actions of the Revenue Forecasting Committee through March 2006 and reflect all actions of the 122nd Legislature. Revenues from the Corporate Tax line for FY 06 was significantly above the original budget levels reflecting improved economic conditions and exceptionally strong corporate profit. Nonconformity to the federal code with respect to bonus depreciation caused state tax collections to be higher in FY 05 and 06 and to be lower in the out years of this forecast as illustrated by a projected decline in the Corporate Tax line of -4.2% between FY 06 and FY 07. Corporate profits are forecasted to flatten in future years and are reflected in the negligible growth in corporate income tax receipts in the FY 08-09 biennium.

CIGARETTE AND TOBACCO TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
151,738	165,467	9.05%	317,205	164,397	-0.65%	163,198	-0.73%	327,595

The forecast for FY 07, FY 08 and FY 09 for the Cigarette and Tobacco Tax line include all actions of the Revenue Forecasting Committee through March 2006 and reflect all actions of the 122nd Legislature. An on-going reduction in stamp sales of approximately 1% 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 negative growth in the FY 08-09 biennium. Loose tobacco used in the rolling of cigarettes is taxed at a lower level.

INSURANCE COMPANY TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
72,142	79,644	10.40%	151,786	81,189	1.94%	82,724	1.89%	163,914

The forecast for FY 07, FY 08 and FY 09 for the Insurance Company Tax line include all actions of the Revenue Forecasting Committee through March 2006. 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 consumer actions in response to rising premiums appears to be moderating the growth in this revenue source. As a consequence, the base level projection of the Revenue Forecasting Committee as of March 2006 assumes an annual increase of nearly 2% during the next biennium.

MUNICIPAL REVENUE SHARING

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
-121,410	-125,934	3.73%	-247,345	-132,612	5.30%	-137,234	3.49%	-269,846

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, 2007. The projected growth in Municipal Revenue Sharing for the FY 08-09 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 08 will result in an increased cost to the General Fund of \$2,499,042 in FY 08 and \$2,574,291 in FY 09. Legislative initiatives and revenue growth will result in an additional \$6.6 million in Municipal Revenue Sharing for FY 08.

OTHER REVENUES

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
214,959	218,833	1.80%	433,792	202,427	-7.50%	197,455	-2.46%	399,882

This group reflects all the other General Fund revenue sources collected by the various departments and agencies that are not otherwise classified in the General Fund Summary Table.

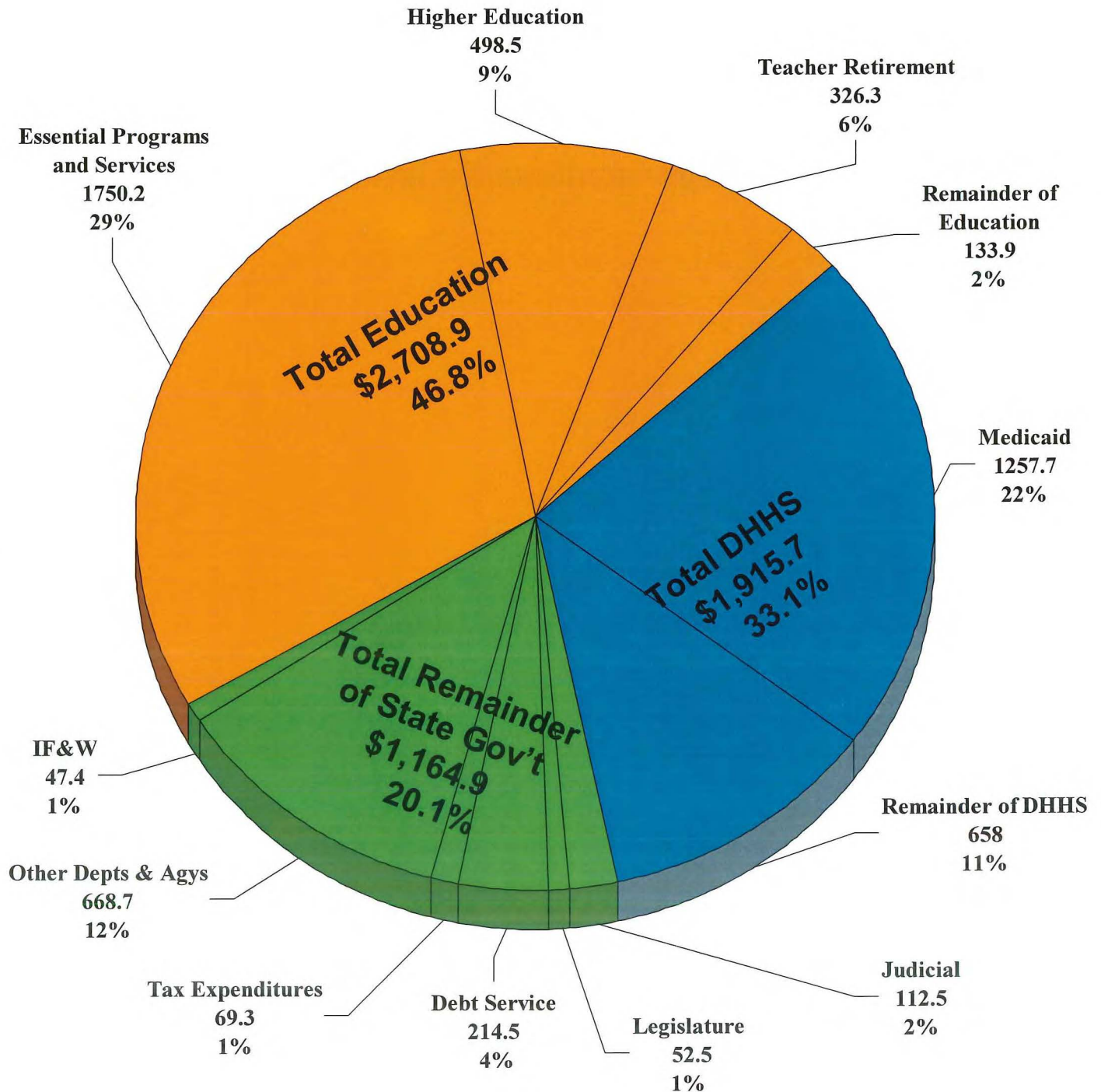
D. EXPENDITURE FORECAST CHARTS FY 06-09

GENERAL FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 06-07 BUDGET				FY 08-09 FORECAST				
	FY 06	FY 07	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 08	YR. TO YR. % CHANGE	FY 09	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Capital Construction & Repairs	95,000	95,000		190,000	95,000		95,000		190,000
Homestead Property Tax Exemption	31,638,172	31,167,826	-1.49%	62,805,998	31,167,826		31,167,826		62,335,652
Government Facilities Authority	17,703,517	19,236,282	8.66%	36,939,799	18,557,652	-3.53%	17,982,748	-3.10%	36,540,400
Debt Service	77,104,032	95,471,430	23.82%	172,575,462	88,701,527	-7.09%	95,973,358	8.20%	184,674,885
Other Agencies And Programs	100,373,329	91,512,819	-8.83%	191,886,148	110,110,108	20.32%	114,979,511	4.42%	225,089,619
Total Policy Area - Governmental Support & Operations	226,914,050	237,483,357	4.66%	464,397,407	248,632,113	4.69%	260,198,443	4.65%	508,830,556
Total Policy Area - Economic Development & Work Force Training	45,224,944	40,959,855	-9.43%	86,184,799	40,885,792	-0.18%	41,049,983	0.40%	81,935,775
General Purpose Aid To Local Schools	836,115,966	914,098,222	9.33%	1,750,214,188	978,915,154	7.09%	1,052,221,949	7.49%	2,031,137,103
Teacher Retirement/Retired Teachers' Health Insurance	152,209,966	205,406,053	34.95%	357,616,019	199,498,726	-2.88%	209,127,712	4.83%	408,626,438
Preschool Handicapped	17,729,816	14,653,085	-17.35%	32,382,901	14,659,348	0.04%	14,660,724	0.01%	29,320,072
Other Agencies And Programs	273,831,540	286,019,878	4.45%	559,851,418	294,991,585	3.14%	295,520,376	0.18%	590,511,961
Total Policy Area - Education	1,279,887,288	1,420,177,238	10.96%	2,700,064,526	1,488,064,813	4.78%	1,571,530,761	5.61%	3,059,595,574
Medical Care - Payments To Providers	443,133,094	327,531,694	-26.09%	770,664,788	473,864,510	44.68%	515,065,744	8.69%	988,930,254
Nursing Facilities	64,799,990	66,579,689	2.75%	131,379,679	71,187,461	6.92%	71,398,820	0.30%	142,586,281
Child Welfare - Foster Care	51,693,027	53,352,149	3.21%	105,045,176	56,150,312	5.24%	56,397,939	0.44%	112,548,251
Community Mental Health	32,198,360	34,797,619	8.07%	66,995,979	35,743,597	2.72%	36,005,292	0.73%	71,748,889
Mental Health Medicaid	36,765,213	37,437,082	1.83%	74,202,295	44,150,817	17.93%	47,304,322	7.14%	91,455,139
Community Mental Retardation	21,995,857	20,411,046	-7.21%	42,406,903	22,945,399	12.42%	23,414,933	2.05%	46,360,332
Mental Retardation Medicaid	16,096,369	17,098,885	6.23%	33,195,254	20,053,726	17.28%	21,482,158	7.12%	41,535,884
Mental Health Services - Children	16,925,477	18,149,116	7.23%	35,074,593	18,994,202	4.66%	19,160,494	0.88%	38,154,696
Mental Health Services - Child Medicaid	30,825,104	28,373,610	-7.95%	59,198,714	33,649,099	18.59%	36,061,519	7.17%	69,710,618
Other Agencies And Programs	299,677,873	297,297,537	-0.79%	596,975,410	330,912,874	11.31%	344,801,664	4.20%	675,714,538
Total Policy Area - Health & Human Services	1,014,110,364	901,028,427	-11.15%	1,915,138,791	1,107,651,997	22.93%	1,171,092,885	5.73%	2,278,744,882
Total Policy Area - Natural Resources Development & Protection	69,533,971	71,043,754	2.17%	140,577,725	75,892,349	6.82%	77,370,067	1.95%	153,262,416
Corrections	132,083,138	134,641,988	1.94%	266,725,126	147,395,619	9.47%	152,445,199	3.43%	299,840,818
Other Agencies And Programs	95,349,623	103,438,980	8.48%	198,788,603	114,706,063	10.89%	116,816,323	1.84%	231,522,386
Total Policy Area - Justice & Protection	227,432,761	238,080,968	4.68%	465,513,729	262,101,682	10.09%	269,261,522	2.73%	531,363,204
Total Policy Area - Transportation Safety and Development	266,363		-100.00%	266,363					
Total Policy Area - Arts, Heritage & Cultural Enrichment	8,508,872	8,904,846	4.65%	17,413,718	9,239,078	3.75%	9,377,109	1.49%	18,616,187
GRAND TOTAL GENERAL FUND EXPENDITURES	2,871,878,613	2,917,678,445	1.59%	5,789,557,058	3,232,467,824	10.79%	3,399,880,770	5.18%	6,632,348,594

This page intentionally left blank.

FY 06 - 07
Total General Fund Appropriations
\$5,789.5
Dollars in Millions

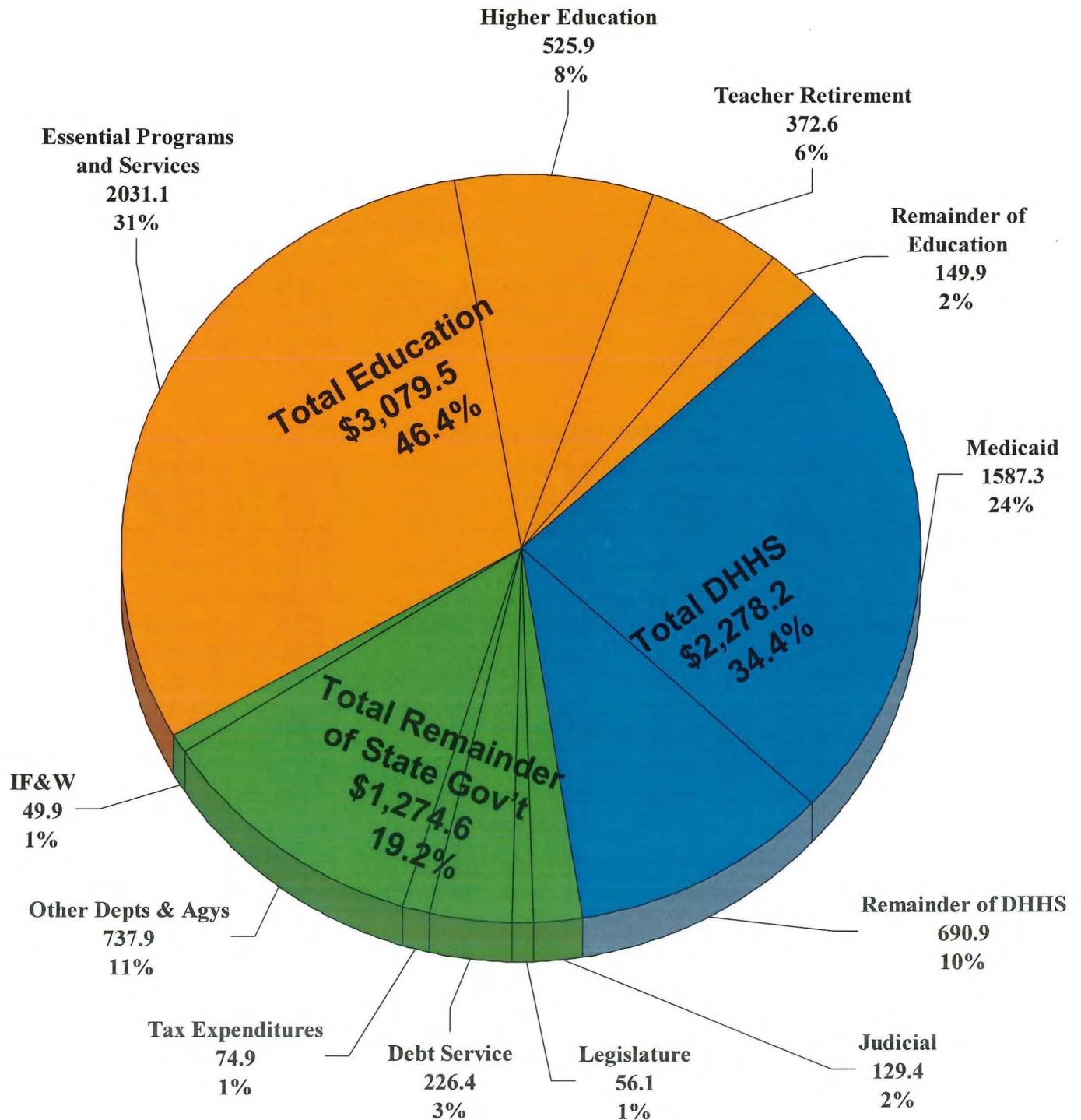


FY 08 – 09

General Fund Projected Appropriations

\$6,632.3

Dollars in Millions



E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION & REPAIRS

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
95	95	0.00%	190	95	0.00%	95	0.00%	190

Funding levels reflect planning costs associated with capital construction and repairs only. Beginning in FY 07, the year end cascade provides that 10% of surplus funds go to a Capital Repair Fund. The current balance in the fund is \$8 million.

HOMESTEAD PROPERTY TAX EXEMPTION

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
31,638	31,168	-1.49%	62,806	31,168	0.00%	31,168	0.00%	62,336

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. L.D. 1 set the exemption amount at \$13,000 of the individual's homestead valuation and decreased the percentage of the benefit to homeowners that the state is responsible for to the constitutionally required to 50%. The program cost the General Fund \$31 million in FY 06. Falling tax rates at the municipal level are expected to keep the cost of this exemption flat in FY 07 and beyond.

GOVERNMENTAL FACILITIES AUTHORITY

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
17,704	19,236	8.66%	36,940	18,558	-3.53%	17,983	-3.10%	36,540

The forecast for the FY 08-09 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 122nd 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 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
77,104	95,471	23.82%	172,575	88,702	-7.09%	95,973	8.20%	184,675

As of June 30, 2006, the total amount of authorized General Obligation Bonds funded by the General Fund that remained unissued amounted to \$70.1 million. For FY 07 it is projected that \$53.1 million of the unissued General Fund bond inventory will be issued during the June 2007 bond sale. General Fund debt service requirements are projected to be \$88.7 million in FY 08 and approximately \$96 million in FY 09. The projection for the FY 08-09 biennium is that new bond issuances will amount to approximately \$94

million during June 2008 and \$103 million during June 2009. 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 \$300 million of the approved bonds to be authorized over the course of the biennium (\$150 million in FY 08 and \$150 million in FY 09).

GENERAL PURPOSE AID TO LOCAL SCHOOLS

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
836,116	914,098	9.33%	1,750,214	978,915	7.09%	1,052,222	7.49%	2,031,137

The budget requests for the FY 08-09 biennium includes increases in General Purpose Aid (GPA) of \$64.8 million in FY 08 and \$73.3 million in FY 09. Statutory requirements enacted in Public Law 2005, chapter 2 increased the state share of education costs from 50% in FY 06 to 52% in FY 08 and 55% in FY 09. Those chapter 2 requirements, and resultant GPA amounts for the FY 08-09 biennium, increase GPA by \$280 million over the previous FY 06-07 biennium. That increase follows an increase from the FY 04-05 biennium to the FY06-07 biennium of \$286 million. The FY 08-09 budget requests achieve the commitment made in chapter 2 to reach 55% state share of education costs.

TEACHER RETIREMENT/RETIRED TEACHERS' HEALTH INSURANCE

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
152,210	205,406	34.95%	357,616	199,499	-2.88%	209,128	4.83%	408,626

The expenditure forecast for the FY 08-09 biennium for Teacher Retirement assumes projected teacher salary and wage growth of 5.25% based upon the actuarial assumption for inflation and general salary increase. Unfunded actuarial liability (UAL) rates are projected at 11.47% in the FY 08-09 biennium based on an actuarial basis from Maine State Retirement System.

The Retired Teachers' Health Insurance program cost is projected to increase 7% in each year of the FY 08-09 biennium based on information from the MEA Benefits Trust renewal and other trend factors. This growth reflects projected increases in premium rates and modest increases in retired teacher enrollment.

MEDICAL CARE - PAYMENTS TO PROVIDERS

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
443,133	327,532	-26.09%	770,665	473,865	44.68%	515,066	8.69%	988,930

General Fund appropriations in the MaineCare (Medicaid) program were significantly impacted by the structural budget gap in the FY 06-07 biennium. Cost savings measures enacted by the 122nd Legislature and implemented by the Department of Health and Human Services included strategies for limiting benefits and services through the redesign of coverage for certain members and from more efficient purchasing practices. The implementation of a new claims processing system required both additional and adjusted appropriation levels between the two fiscal years, including a number of one-time transfers of appropriations from FY 07 to FY 06. The MaineCare program is

expected to exhibit growth of 19.9% in FY 08 and 8.7% in FY 09 from an FY 07 expenditure base adjusted to reflect the one-time resources transferred. When compared to projections made by the Centers for Medicare and Medicaid Services (CMS), Maine's FY 08 growth exceeds the national projection of 10.9% but falls within the FY 09 growth rate of 9.2%.

NURSING FACILITIES

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
64,800	66,580	2.75%	131,380	71,187	6.92%	71,399	0.30%	142,586

The proposed spending in the Nursing Facilities program is projected to experience an increase of 5.2% in FY 08 with little additional growth in FY 09. This modest growth results in part from initiatives enacted by the 122nd Legislature, including enhanced estate recovery and asset transfer recoupment; continued reliance on dedicated revenue from a tax on nursing facilities that generates approximately \$33 million annually; and a projected decline in utilization. These growth rates are below projections for nursing home care expenditures of 7% and 7.3% in 2008 and 2009, respectively, made by the Centers for Medicare and Medicaid Services.

CHILD WELFARE - FOSTER CARE

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
51,693	53,352	3.21%	105,045	56,150	5.24%	56,398	0.44%	112,548

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 2006-2007 biennium by reducing the number of children in state custody and maximizing federal resources in a number of ways, including the development of an alternative rate structure for unlicensed foster care providers. This program is expected to experience growth of 5.2% in FY 08 and less than 1% in FY 09.

COMMUNITY MENTAL HEALTH

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
32,198	34,798	8.07%	66,996	35,744	2.72%	36,005	0.73%	71,749

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 06-07 biennial budget reflected additional funding for community services required by the Augusta Mental Health Institute consent decree. Growth in this program is projected at 2.7% in FY 08 and 1.0% in FY 09.

MENTAL HEALTH MEDICAID

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
36,765	37,437	1.83%	74,202	44,151	17.93%	47,304	7.14%	91,455

This program provides services to adults with mental illness who are eligible for benefits under the MaineCare program. Funding in the FY 06-07 biennium was reduced by implementing evidence-based practices and limiting service eligibility. In addition, savings to the General Fund were realized by continued reliance 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 17.9% in FY 08 and 7.1% in FY 09.

COMMUNITY MENTAL RETARDATION

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
21,996	20,411	-7.21%	42,407	22,945	12.42%	23,415	2.05%	46,360

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 06-07 biennium, savings were achieved in this program through the development of a waiver supports program and in FY 07 only, savings are projected to result from the sale of real estate. After factoring in the one-time FY 07 savings amount, program growth during the FY 08-09 biennium is projected to be 7.2% in FY 08 and 2% in FY 09.

MENTAL RETARDATION MEDICAID

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
16,096	17,099	6.23%	33,195	20,054	17.28%	21,482	7.12%	41,536

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 2006-2007 biennium included the establishment of a new rate setting methodology and converting the living arrangement of approximately 200 individuals. Growth in this program is projected at 17.3% in FY 08 and 7.1 % in FY 09.

MENTAL HEALTH SERVICES - CHILDREN

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
16,925	18,149	7.23%	35,075	18,994	4.66%	19,160	0.88%	38,155

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 06-07 biennium reflected one-time savings that resulted from effective contract management. Funding growth in this program is expected to be 7.7% in FY 08 (partially due to the one-time funding cut in FY 07) and 1% in FY 09.

MENTAL HEALTH SERVICES - CHILD MEDICAID

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
30,825	28,374	-7.95%	59,199	33,649	18.59%	36,062	7.17%	69,711

General Fund support is used to provide state seed for services provided to eligible children and youth under the MaineCare program. For the 2006-2007 biennium, savings were realized in the area of children's outpatient services and home-based care services delivery. Despite the continuation of these initiatives, growth in this program is projected to be 18.6% in FY 08 and 7.2% in FY 09.

CORRECTIONS

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
132,083	134,642	1.94%	266,725	147,396	9.47%	152,445	3.43%	299,841

The Department of Corrections is required to provide adequate medical and mental health services to all offenders housed within its facilities. The health care of the prison population is extremely challenging as many prisoners have not had adequate primary care or healthy lifestyles prior to incarceration. Maine's prisoner population compared to other states has a higher incidence of prescription medications including psychotropic medications and over 80% have some level of substance addiction. The number of prisoners with chronic conditions has also increased resulting in hospitalizations and increased use of medications and specialty services. The department anticipates a 4.5% increase in FY 08 and a 12% increase in FY 09 in medical and treatment related services.

The department's prisoner population continues to increase although at a slower rate since 2004. The department's budgeted capacity to house, supervise and provide programs has not kept pace with the growth in prisoners. The average daily population for adults during FY 06 was 1,985. An in-depth 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 08 and FY 09 forecast includes budgeted overtime at the 4 year historical actual level.

HIGHWAY FUND STATUS

	FY 06-07 BIENNIUM			FY 08-09 BIENNIUM		
	FY 06	FY 07	TOTAL	FY 08	FY 09	TOTAL
BALANCE	8,731,058		8,731,058	1,031,289		1,031,289
ADJUSTMENTS TO BALANCE	10,946,527	15,463,276	26,409,803			
REVENUE	330,907,159	340,392,025	671,299,184	347,014,819	354,304,426	701,319,245
TOTAL RESOURCES	350,584,744	355,855,301	706,440,045	348,046,108	354,304,426	702,350,534
ALLOCATIONS	349,584,284	355,824,472	705,408,756	386,301,962	398,316,158	784,618,120
PROJECTED BALANCE (SHORTFALL)	1,000,460	30,829	1,031,289	(38,255,854)	(44,011,732)	(82,267,586)

The Highway Fund adjusted fund balance for FY 06 was \$1,000,460 and is projected to be \$1,031,289 at the end of FY 07, after adjustments from the 2nd Regular Session of the 122nd Legislature.

The Revenue Forecasting Committee (RFC) in its December 2005 report reprojected revenues downward by (\$4.3 million) for the 2008-09 biennium. The RFC in March 2006 decreased its revenue projections again by (\$ 0.1 million) resulting in a net overall revenue decrease of (\$4.4 million) for the 2008-09 biennium. This revenue decline was primarily in the Fuel Tax line. The above revenue projections also include revisions made in miscellaneous laws enacted by the 2nd Regular Session of the 122nd Legislature.

Projections for the FY 08-09 biennium include Highway Fund revenue of \$701,319,245 that, when combined with the projected balance from the FY 06-07 biennium of \$1,031,289 bring total resources to \$702,350,534. Projected Highway Fund allocations for the FY 08-09 biennium are \$784,618,120 which would result in a projected structural budget gap of \$82,267,586.

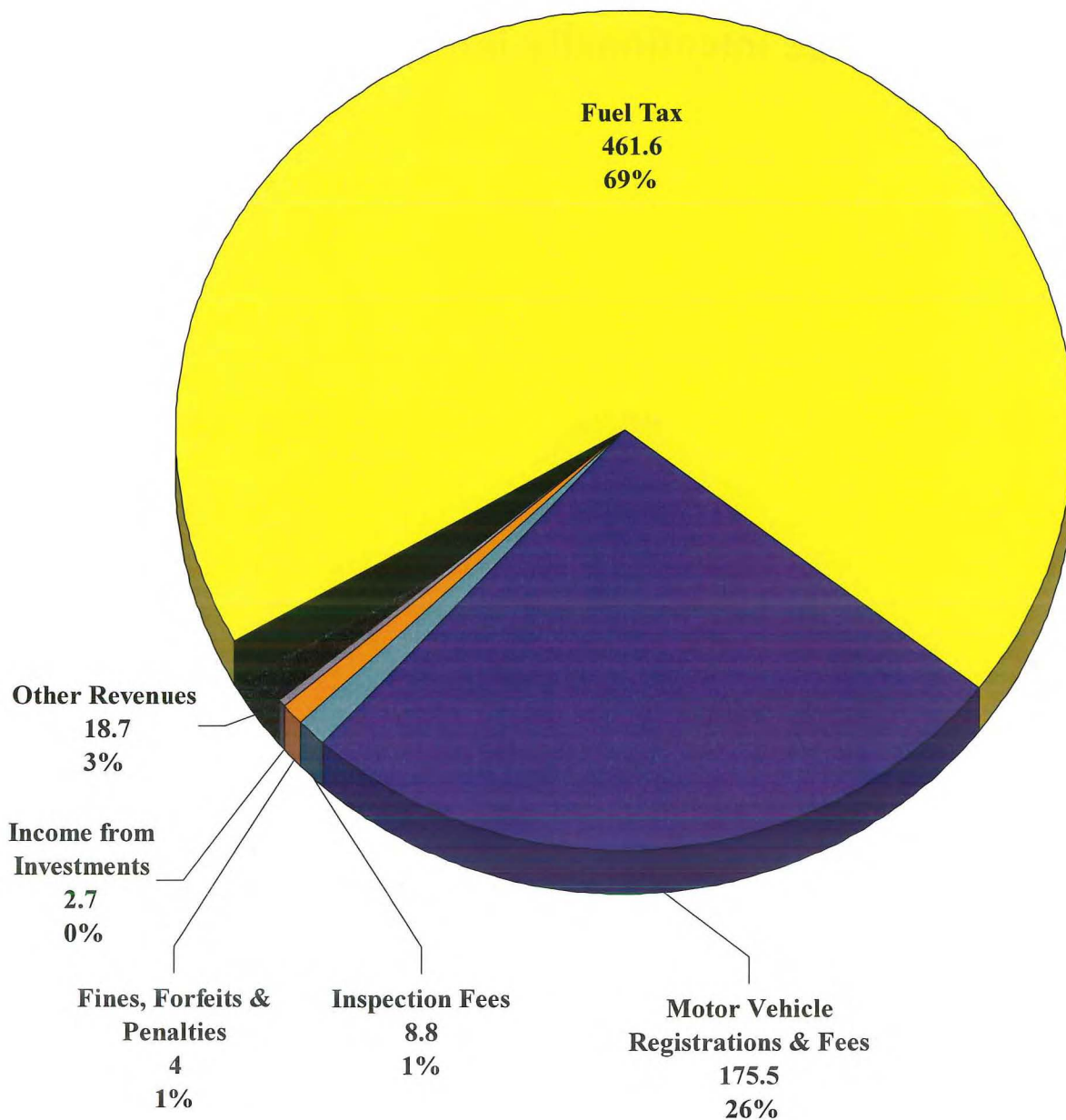
B. REVENUE FORECAST CHARTS FY 06-09

HIGHWAY FUND REVENUE FORECAST CHARTS

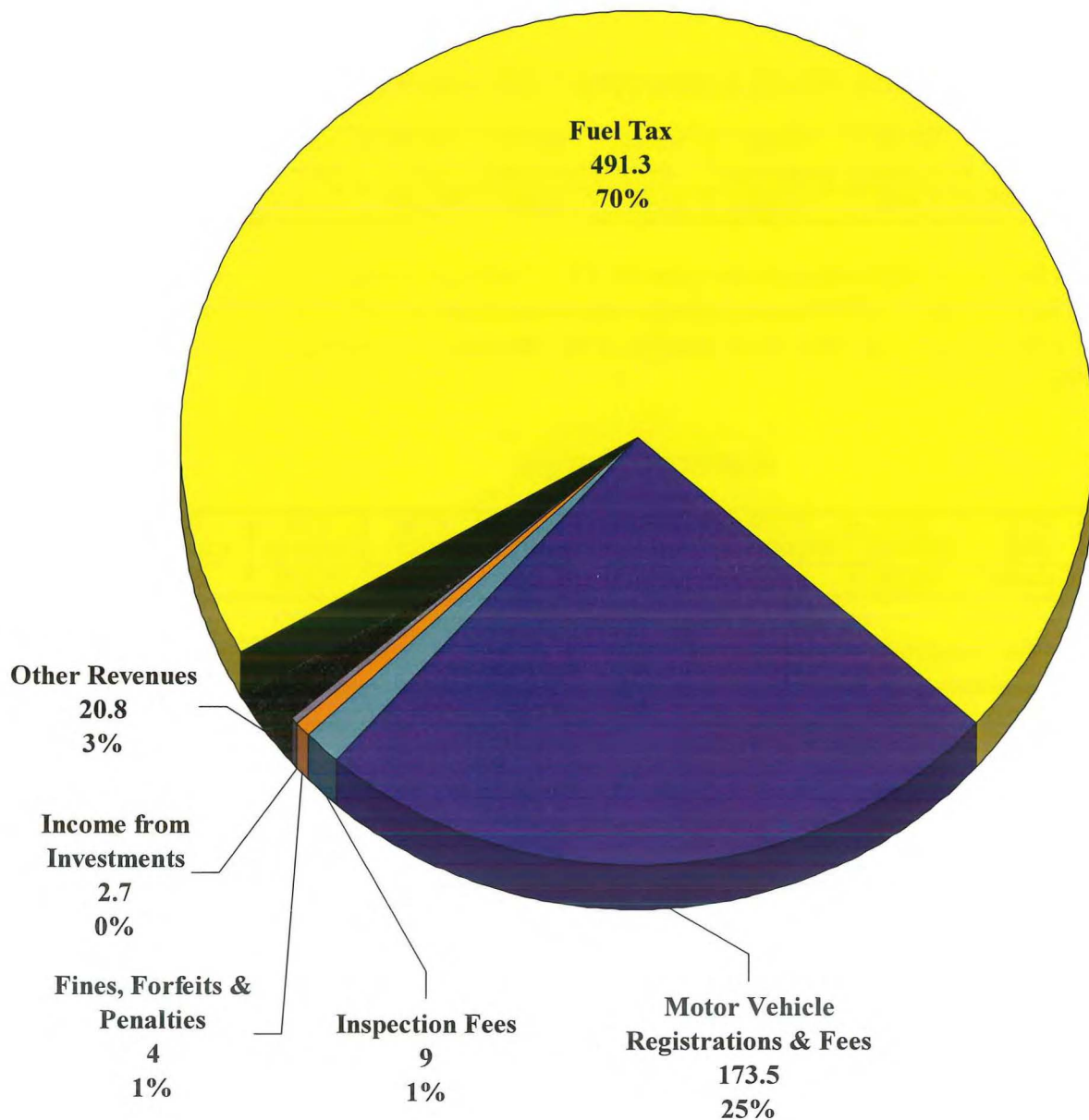
SOURCE	FY 06-07 BUDGET				FY 08-09 FORECAST				
	FY 06	FY 07	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 08	YR. TO YR. % CHANGE	FY 09	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	226,776,993	234,789,290	3.53%	461,566,283	242,072,894	3.10%	249,214,882	2.95%	491,287,776
Motor Vehicle Registrations & Fees	87,172,358	88,378,117	1.38%	175,550,475	86,788,059	-1.80%	86,669,607	-0.14%	173,457,666
Inspection Fees	4,397,970	4,414,756	0.38%	8,812,726	4,468,458	1.22%	4,524,821	1.26%	8,993,279
Fines Forfeits & Penalties	1,973,665	2,018,239	2.26%	3,991,904	2,018,239		2,018,239		4,036,478
Income from Investments	1,300,000	1,350,000	3.85%	2,650,000	1,350,000		1,350,000		2,700,000
Other Revenues	9,286,173	9,441,623	1.67%	18,727,796	10,317,169	9.27%	10,526,877	2.03%	20,844,046
TOTAL REVENUE	330,907,159	340,392,025	2.87%	671,299,184	347,014,819	1.95%	354,304,426	2.10%	701,319,245

This page intentionally left blank.

FY 06 – 07
Highway Fund Budgeted Revenues
\$671.3
Dollars in Millions



FY 08 – 09
Highway Fund Forecast Revenues
\$701.3
Dollars in Millions



C. REVENUE FORECAST NARRATIVE

FUEL TAX

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
226,777	234,789	3.53%	461,566	242,073	3.10%	249,215	2.95%	491,288

The forecast for the Motor Fuel Taxes was updated by the Revenue Forecasting Committee in March 2006. The forecast for FY 07 reflects an inflation adjustment to the tax rates that took effect on July 1, 2006. The gasoline tax rate was increased from \$0.259 to \$0.268 per gallon and the tax on diesel fuel was increased from \$0.270 to \$0.279 per gallon. The change in the forecast for the FY 08-09 biennium primarily reflects increased revenue associated with the indexing of motor fuel taxes in accordance with Public Law 2001, c. 688 and the recent increase in energy prices that have slowed the growth of motor fuel consumption.

MOTOR VEHICLE REGISTRATIONS AND FEES

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
87,172	88,378	1.38%	175,550	86,788	-1.80%	86,670	-0.14%	173,458

The forecast for Motor Vehicle Registration Fees for FY 07 reflects a change of 1.4% over FY 06 revenues. The FY 08 and FY 09 forecast reflects a downward trend of 1.8% for FY 08 and .14% for FY 09 consistent with the base level forecast of the Revenue Forecasting Committee as of March 2006.

INSPECTION FEES

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
4,398	4,415	0.38%	8,813	4,468	1.22%	4,525	1.26%	8,993

The forecast for Inspection Fees for FY 07 reflects a change of .4% over FY 06 revenues. Revenues from Inspection Fees are expected to grow annually at a rate of 1.2% in FY 08 and 1.3% in FY 09 consistent with the projection of the Revenue Forecasting Committee as of March 2006.

OTHER REVENUES

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
9,286	9,442	1.67%	18,728	10,317	9.27%	10,527	2.03%	20,844

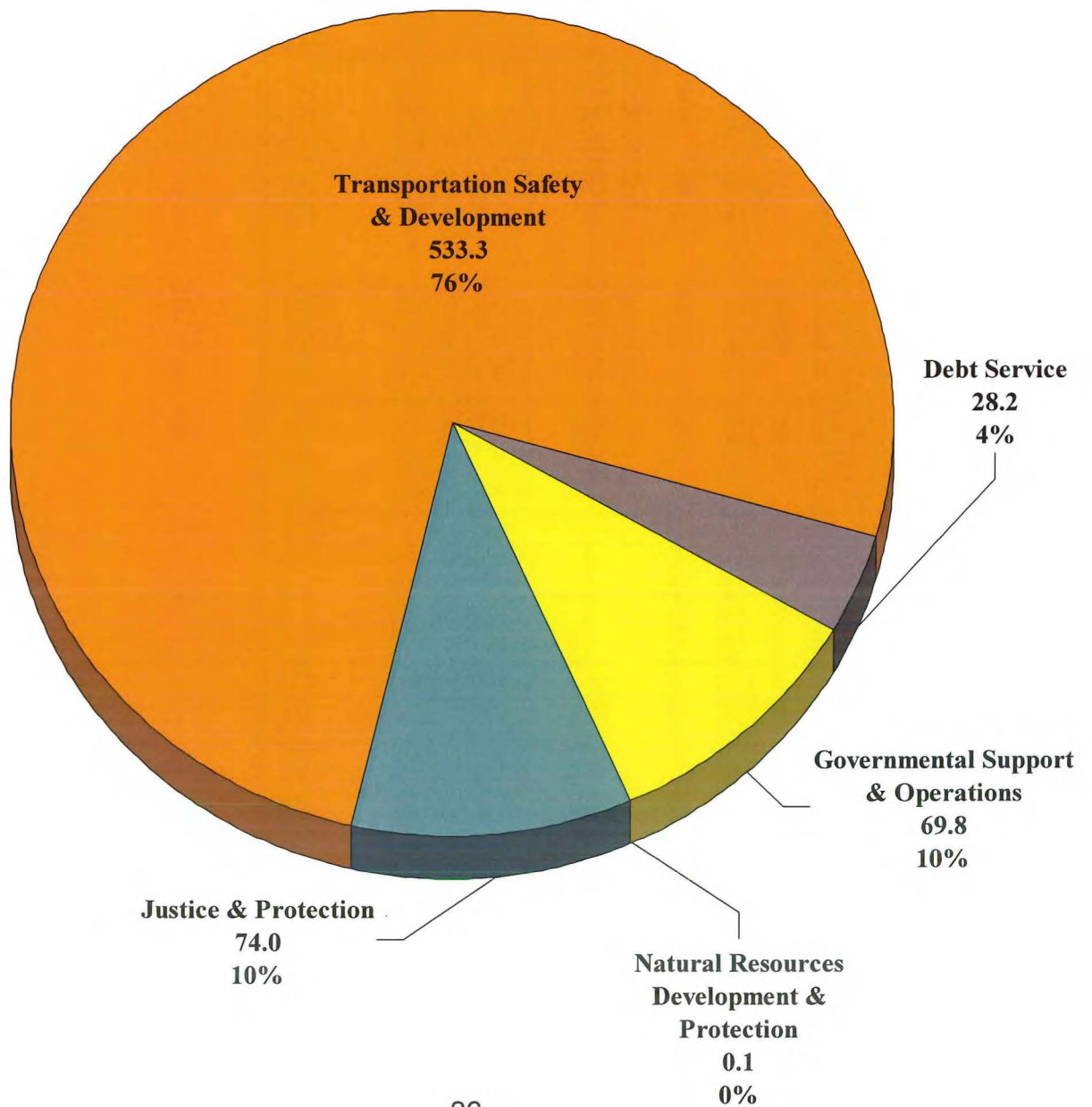
Other Revenues within the Highway Fund are expected to grow 9.2% in FY 08 and 2.0% in FY 09.

D. EXPENDITURE FORECAST CHARTS FY 06-09

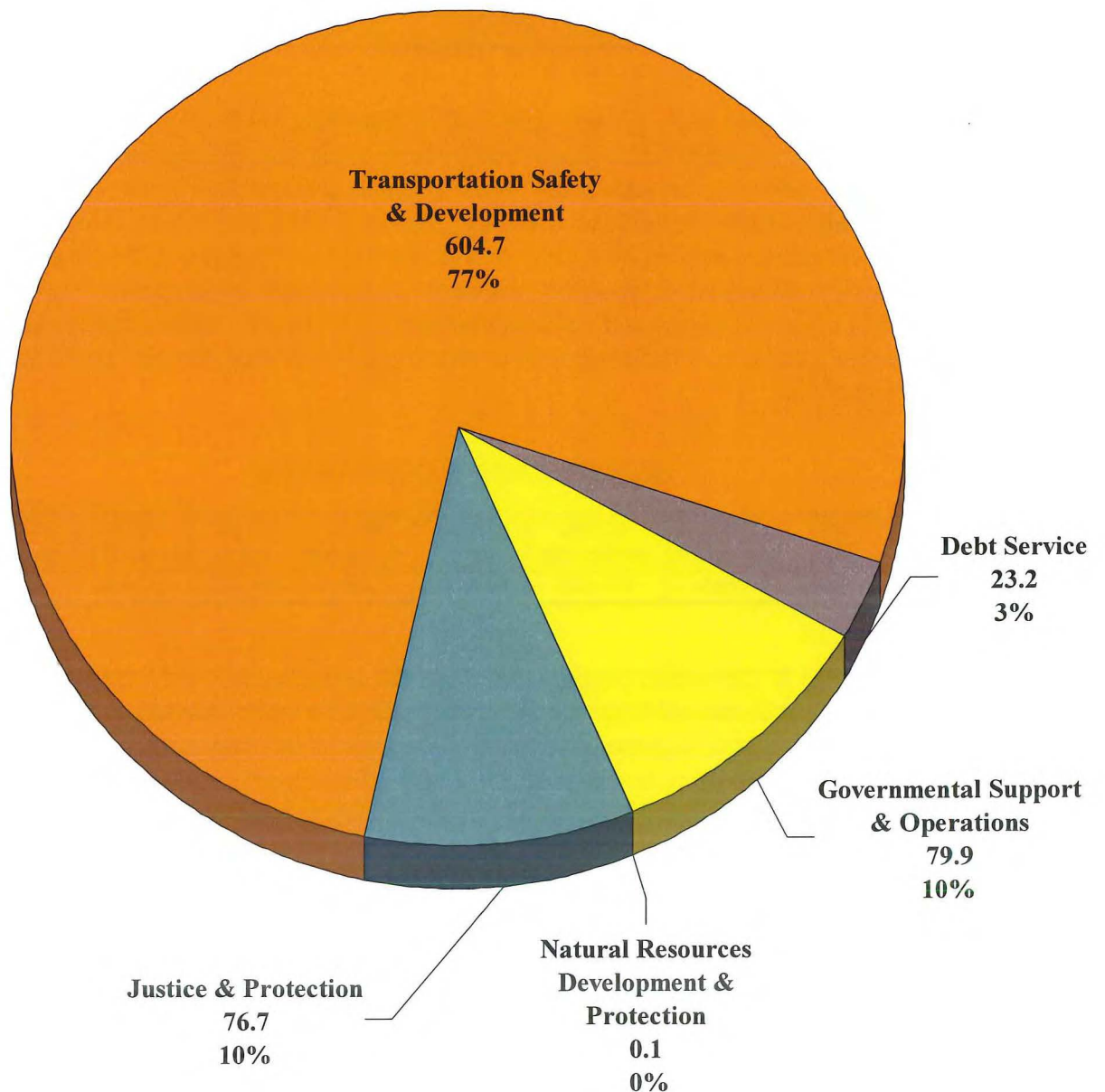
HIGHWAY FUND EXPENDITURE FORECAST CHART

MAJOR PROGRAM CATEGORIES POLICY AREA / AGENCY / PROGRAM	FY 06-07 BUDGET RECOMMENDATIONS				FY 08-09 FORECAST				
	FY 06	FY 07	YR. TO YR. % CHANGE	BIENNIUM TOTAL	FY 08	YR. TO YR. % CHANGE	FY 09	YR. TO YR. % CHANGE	BIENNIUM TOTAL
Capital Construction and Improvement Reserve Fund	669,857	669,857		1,339,714	667,677	-0.33%	669,497	0.27%	1,337,174
Other Agencies And Programs	34,125,945	34,381,352	0.75%	68,507,297	39,700,425	15.47%	38,940,892	-1.91%	78,641,317
Total Policy Area - Governmental Support & Operations	34,795,802	35,051,209	0.73%	69,847,011	40,368,102	15.17%	39,610,389	-1.88%	79,978,491
Total Policy Area - Natural Resources Development & Protection	36,578	36,749	0.47%	73,327	36,749		36,749		73,498
State Police	27,997,330	29,158,439	4.15%	57,155,769	28,621,888	-1.84%	30,070,702	5.06%	58,692,590
Other Agencies And Programs	8,286,988	8,568,280	3.39%	16,855,268	9,087,167	6.06%	8,891,498	-2.15%	17,978,665
Total Policy Area - Justice & Protection	36,284,318	37,726,719	3.98%	74,011,037	37,709,055	-0.05%	38,962,200	3.32%	76,671,255
Maintenance & Operations	124,525,326	126,995,029	1.98%	251,520,355	139,719,318	10.02%	142,845,780	2.24%	282,565,098
Highway & Bridge Improvement	90,199,417	95,773,653	6.18%	185,973,070	105,351,018	10.00%	115,886,120	10.00%	221,237,138
Urban-Rural Initiative Program	26,193,787	26,325,606	0.50%	52,519,393	29,991,925	13.93%	31,115,783	3.75%	61,107,708
Debt Service	15,957,307	12,240,687	-23.29%	28,197,994	13,324,857	8.86%	9,834,767	-26.19%	23,159,624
Other Agencies And Programs	21,591,749	21,674,820	0.38%	43,266,569	19,800,938	-8.65%	20,024,370	1.13%	39,825,308
Total Policy Area - Transportation Safety & Development	278,467,586	283,009,795	1.63%	561,477,381	308,188,056	8.90%	319,706,820	3.74%	627,894,876
TOTAL HIGHWAY FUND EXPENDITURES	349,584,284	355,824,472	1.79%	705,408,756	386,301,962	8.57%	398,316,158	3.11%	784,618,120

FY 06 – 07
Highway Fund Budgeted Allocations
\$705.4
Dollars in Millions



FY 08 – 09
Highway Fund Projected Allocations
\$784.6
Dollars in Millions



E. EXPENDITURE FORECAST NARRATIVE

CAPITAL CONSTRUCTION AND IMPROVEMENT RESERVE FUND

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
670	670	0.00%	1,340	668	-0.33%	669	0.27%	1,337

Funds in the FY 08-09 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 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
27,997	29,158	4.15%	57,156	28,622	-1.84%	30,071	5.06%	58,693

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 -1.84% in FY 08 and 5.06% in FY 09.

MAINTENANCE & OPERATIONS

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
124,525	126,995	1.98%	251,520	139,719	10.02%	142,846	2.24%	282,565

The Maintenance & Operations program maintains the infrastructure of 15,900 lane miles of interlocking state and state aid highways. It is responsible for winter services to the 8,100 lane miles designated as state highway and the maintenance of all appurtenances and facilities associated with and necessary for the proper and safe utilization of the system by the motoring public. This program provides for the installation, maintenance and upgrading of traffic control devices and lighting. It also maintains 2,800 bridges on public highways for public use and inspection of 3,800 bridges as required by the National Bridge Inspection Standards. The budget projection for the FY 08-09 biennium reflects the increased costs for fuel to operate vehicle fleet, increased heating costs, building maintenance and the maintenance of sand/salt buildings.

HIGHWAY AND BRIDGE IMPROVEMENT

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
90,199	95,774	6.18%	185,973	105,351	10.00%	115,886	10.00%	221,237

The Highway and Bridge Improvement program provides for capital improvement of the Federal aid and State Highway network in order to maintain a safe, efficient and effective infrastructure for all users of the system. A Highway Fund bond issue of \$27.0 million was authorized for the FY 06-07 biennium to provide for continued support of transportation infrastructure projects. Fifteen million dollars has been removed from the base in the FY 08-09 biennium. Public Law 2005, chapter 519, Part HHH, provided a one-time transfer from the General Fund unappropriated surplus to the Highway Fund unappropriated surplus for resources to the Highway & Bridge Improvement program. The Highway and Bridge Improvement Program request is based on a 10% inflation increase over the FY 07 budget. This level of funding does not maintain the current level of investment in regards to the number of miles paved, roads reconstructed or bridges repaired. Additional funds would be needed to maintain that level of production for the FY 08-09 biennium.

URBAN-RURAL INITIATIVE PROGRAM

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
26,194	26,326	0.50%	52,519	29,992	13.93%	31,116	3.75%	61,108

This program provides Municipal Transportation Assistance funding targeted to the capital needs of rural roads and highways and reflective of urban maintenance responsibilities on state and state aid roads. The budget projections for the FY 08-09 biennium reflect the requirements of Title 23, chapter 19, §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.

DEBT SERVICE

FY 06 (000)	FY 07 (000)	YR % CHANGE	TOTAL BIENNIUM	FY 08 (000)	YR % CHANGE	FY 09 (000)	YR % CHANGE	TOTAL BIENNIUM
15,957	12,241	-23.29%	28,198	13,325	8.86%	9,835	-26.19%	23,160

To maintain the level of highway and bridge improvements, \$27 million of Highway Fund bonds were authorized in the FY 06-07 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 06-07 biennium and the FY 08-09 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 \$570,143,575 and a projected "Structural Gap" of \$82,267,586 in the Highway Fund for the FY 08-09 biennium. The base level revenue projections for the General Fund and the Highway Fund include the March 2006 projection of the Revenue Forecasting Committee and reflect all actions of the 2nd Regular Session of the 122st Legislature.