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Budget Overview 122nd Legislature 2nd Regular Session

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Prepared By:
Office of Fiscal and Program Review
Maine State Legislature
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Budget Overview 122nd Legislature, 2nd Regular Session

Table of Contents

I.	Introduction	••••••
II.	Summary of General Fund 2006-2007 Budget Adjustments	
	Table II-A Summary of 2006-2007 General Fund Adjustments	
	Table II-B Summary of 2006-2007 Statewide Deappropriations	
	General Fund "Savings" Pie Chart	
	General Fund "Spending" Pie Chart	
III.	General Fund Appropriations Growth and Spending Limits	
	Table III-A General Fund Appropriations Limit Calculations	
IV.	General Fund 2008-2009 Structural Gap Projections	
	Table IV-A General Fund 2008-2009 StructuralGap	8
V.	Summary of Highway Fund 2006-2007 Budget Adjustments	
	Table V-A Summary of 2006-2007 Highway Fund Adjustments	
VI.	Highway Fund 2008-2009 Structural Gap Projections	
	Table VI-A Highway Fund 2008-2009 Structural Gap	10
VII.	Fund for a Healthy Maine	1
	Table VII-A 2006-2007 Fund for a Healthy Maine (FHM) Summary	1
VIII.	General Obligation Bonds	12
	Table VIII-A Summary of Bonds Approved November 2005	12
IX.	Fiscal Policy Decisions Affecting Local Governments	12
	Table IX-A Major Changes Affecting Municipalities and Counties	13
Χ.	Position Count Changes – All Funding Sources	
	Table X-A Position Count Adjustments – By Fund	1
XI.	Summary of Major Fiscal Policy Decisions	
	A. Stabilization Fund Transfers and Repeal of One-Day Borrowing	
	B. Budget Reform Commission Recommendations	
	C. Year-end Statutory Transfer Changes (the "Cascade")	
	D. Highway and Bridge Improvement Program Shortfall	
	E. Business Personal Property Tax Changes	
	F. Law Enforcement Officers and Firefighters Retiree Health Insurance	
	G. Minimum Teachers Salary Changes	
	H. Continuation of Middle School Laptop Program	
	I. Funding Shortfall of Maine Clean Elections Fund	
	J. Taxpayer Bill of Rights (TABOR) Initiated Bill	
	K. Medicaid Funding Issues	13
	ndix A – Appropriations by Major Categories	
	ndix B – Summary of Tax and Fee Changes	
Appei	ndix C – Comparison of Statutory Year-End Transfers (the "Cascade")	

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I. Introduction

At the start of the 122nd Legislature on December 1, 2004, the Legislature faced a General Fund structural gap for the 2006-2007 biennium (current services appropriations in excess of baseline revenue estimates) of \$702.6 million or 11.2% of appropriations. The 122nd Legislature addressed this shortfall during the 1st Regular and 1st Special Sessions in 2005 through various means and several budget bills (see last year's Budget Overview for additional detail) and left a budgeted ending balance at the close of the 2006-2007 biennium of \$5.0 million, which increased to \$11.6 million with the increase to Unappropriated Surplus at the close of FY05. At the beginning of the 2nd Regular Session on January 4, 2006, the budget situation had improved significantly. After the conclusion of the fall military base realignment and closure process, it was clear that Maine had been spared from what could have been some significant negative economic consequences. With this looming threat gone, the Consensus Economic Forecasting Commission (CEFC) and the Revenue Forecasting Committee (RFC) provided more optimistic forecasts. The additional increase in the budgeted revenue provided the opportunity to reverse some of the budget reductions made during the 1st Regular and 1st Special Sessions and to provide funding for some of the numerous funding proposals that had been carried forward from the 1st Special Session. While the fiscal picture had improved for the General Fund, the Highway Fund and the Fund for a Healthy Maine on the other hand, were facing projected budget shortfalls during the 2nd Regular Session. Part of the available General Fund resources during the 2nd Regular Session was used to help address these shortfalls in these other funds.

This document provides an overview of the major budget and fiscal decisions of the 122nd Legislature since the end of the 1st Special Session in June 2005. All amounts are presented in millions of dollars with the exception of Appendix A. As a result of rounding, the detail in the tables may not add to the totals. Throughout the document, fiscal years are abbreviated to FY05, FY06 and FY07, which correspond to the fiscal years ending June 30, 2005, June 30 2006 and June 30, 2007, respectively. Additional detailed analyses of the budget and numerous historical analyses are constantly being updated by the Office of Fiscal and Program Review (OFPR) and are available from OFPR. Many of these analyses including this report are posted to OFPR's web page: http://www.maine.gov/legis/ofpr/.

II. Summary of General Fund 2006-2007 Budget Adjustments

Table II-A summarizes the non-Legislative and Legislative adjustments to General Fund resources since the close of the 1st Special Session. The revenue forecasting adjustments, after netting out the required transfers to the Maine Budget Stabilization Fund pursuant to 5 MRSA §1535, provided additional General Fund resources of \$106.6 million. When combined with the budgeted ending balance at the close of the 1st Special Session of \$11.6 million, the 122nd Legislature had \$118.1 million of total available resources for the 2nd Regular Session. Table II-A also provides a summary of the changes to General Fund resources (transfers and revenue adjustments) and the net changes to appropriations by major category. The 2006-2007 biennium's budgeted ending balance for the General Fund, which had been approximately \$11.6 million prior to the Legislative changes of the 2nd Regular Session, is currently budgeted to be only \$18,747 at the close of the 2nd Regular Session.

Table II-A Summary of General Fund Adjustments - 2nd Regular Session						
Millions of \$'s						
	FY06	FY07	Biennium			
Available Resources Prior to 2nd Regular Session Legislative Changes						
Budgeted Ending Balance with FY05 Adjustments for Actuals		\$11.6	\$11.6			
December 2005 Revenue Forecast Adjustment	\$112.1	\$52.3	\$164.4			
March 2006 Revenue Forecast Adjustment	\$1.9	(\$16.2)	(\$14.3)			
Transfers to Budget Stabilization Fund (5 MRSA§1535)	(\$43.6)	\$0.0	(\$43.6)			
Total Available Resources Prior to Legislative Adjustments	\$70.5	\$47.7	\$118.1			
Legislative Adjustments - 2nd Regular Session						
Transfers and Adjustment to Balance	÷					
Repeal Other Special Revenue One-day Internal Loan	(\$42.5)	\$42.5	\$0.0			
Transfers to Budget Stabilization Fund (5 MRSA§1535)	\$43.6	\$0.0	\$43.6			
Other Transfers to Budget Stabilization Fund	\$0.0	(\$29.0)	(\$29.0)			
Transfers to Highway Fund	\$0.0	(\$15.0)	(\$15.0)			
Transfers to the Fund for a Healthy Maine	(\$2.3)	(\$2.1)	(\$4.5)			
Transfers to Other Special Revenue Funds	(\$1.8)	(\$1.8)	(\$3.5)			
Other Transfers and Adjustments to Balance	(\$6.7)	\$0.9	(\$5.8)			
Subtotal - Transfers and Adjustments to Balance	(\$9.8)	(\$4.4)	(\$14.2)			
Revenue Adjustments						
Tax Enforcement Initiatives	\$0.0	\$2.8	\$2.8			
Tax Conformity Initiatives	\$0.0	(\$1.6)	(\$1.6)			
Other Miscellaneous Tax and Fee Changes	\$0.0	(\$1.9)	(\$1.9)			
Transfer to Maine Clean Election Fund	\$0.0	(\$1.2)	(\$1.2)			
Other Legislative Adjustments to Revenue	\$0.4	\$0.3	\$0.7			
Subtotal - Net Increase (Decrease) of Revenue	\$0.4	(\$1.7)	(\$1.2)			
Total Increase (Decrease) to Resources	(\$9.4)	(\$6.1)	(\$15.5)			
Appropriation Adjustments						
General Purpose Aid for Local Schools Funding	\$0.0	\$41.3	\$41.3			
Medicaid/MaineCare Adjustments	\$70.4	(\$14.2)	\$56.1			
Higher Education Adjustments	\$0.3	\$10.5	\$10.8			
Teachers' Retirement	\$0.0	\$0.0	\$0.0			
Tax Relief and Reimbursement Programs	(\$3.8)	(\$5.1)	(\$8.9)			
Debt Service	(\$16.7)	\$2.0	(\$14.7)			
Personal Services Appropriations	(\$0.9)	(\$2.1)	(\$3.0)			
Other Non-Personal Services Appropriation Adjustments	\$4.9	\$16.1	\$21.0			
Net Appropriations (Deappropriations)	\$54.1	\$48.5	\$102.7			
Total Legislative Increases (Decreases) to Resources	(\$63.5)	(\$54.6)	(\$118.1)			
Budgeted Ending Balance at Close of 2nd Regular Session		\$0.02	\$0.02			

Transfers and Adjustments

At the top of the list of transfers and adjustments is the repeal of the \$42.5 million one-day borrowing from Other Special Revenue Funds that was needed to keep FY06 in balance at the close of the 1st Special Session in June of 2005. While its direct overall effect on the 2006-2007 biennium is minimal, the repeal combined with other legislative reductions of General Fund resources in FY06 reversed an automatic reserving provision enacted during the 1st Regular Session of the 122nd Legislature as part of the appropriations limitations established by LD 1 (PL 2005, c. 2). This reversal unreserved \$43.7 million that would otherwise have been transferred to the Maine Budget Stabilization Fund (MBSF) in FY06. In lieu of this MBSF transfer that was triggered by the Revenue Forecasting Committee increases of FY06 budgeted revenue, the Legislature transferred \$29.0 million to the MBSF in FY07 (also see discussion under Major Fiscal Policy Changes, page 14).

In light of the budget problems facing the Highway Fund and the Fund for a Healthy Maine (FHM), the General Fund transferred funds to each of these funds during the 2nd Regular Session, \$15 million to the Highway Fund in FY07 and \$4.5 million to the FHM.

Legislative Revenue Changes

The 2nd Regular Session changes to budgeted revenue during the 2006-2007 biennium were relatively small with a net change of \$1.2 million for the biennium. Maine Revenue Services proposed 2 major tax enforcement initiatives that are projected to generate \$2.8 million. The Legislature enacted several other tax changes, many of which were held over from the 1st Special Session due to a lack of resources at that time. Appendix B provides a summary of these tax and fee changes that affect Maine's tax burden. While the impact during the 2006-2007 biennium is relatively small, the impact of these changes grows in the next biennium, decreasing revenue by \$19.7 million (see Section IV on page 7 for structural gap discussion).

Adjustments to Appropriations

OFPR has maintained and updated a historical analysis of General Fund appropriations focusing on six major programs or program groups. These groups along with Personal Services expenditures (salaries, wages and fringe benefits) have in recent years accounted for approximately 85% of General Fund expenditures and appropriations. The summary of the changes to Appropriations in Table II-A is based on these major categories. Appendix A provides additional detail of the adjustments to appropriations based on these major categories.

Total increases to the appropriations for the 2006-2007 biennium during the 2nd Regular Session net to \$102.7 million over the biennium with \$97.4 million or approximately 95% of the change to appropriations affecting the General Purpose Aid for Local Schools and MaineCare/Medicaid programs. The growth of these 2 major categories has outpaced other General Fund spending. These 2 categories now account for more than 50% of the General Fund budgeted expenditures. Based on projections for the next biennium and the planned increases in the State's share of school funding, their share of total General Fund expenditures will continue to grow.

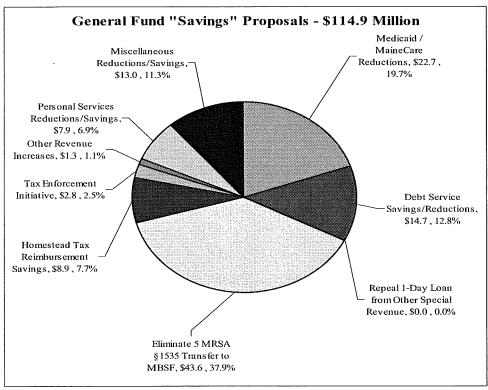
During the 1st Regular and 1st Special Sessions in 2005, the 122nd Legislature enacted many statewide deappropriations to help solve the 2006-2007 General Fund structural gap. During the 2nd Regular Session, the Legislature offset some of these statewide deappropriations that could not be achieved and added one more significant statewide deappropriation related to additional health insurance savings. Table II-B below provides a summary of these statewide deappropriations and the status as of the compilation of this report. At this time, there are still \$12.5 million statewide deappropriations that need to be distributed to individual programs in FY07 and \$4.0 million still has to be distributed in FY06 (ending June 30, 2006). While most of these are related to Personal Services line category savings, some of the distributions of the All Other savings may affect the distribution of funds among the major categories noted above and detailed in Appendix A.

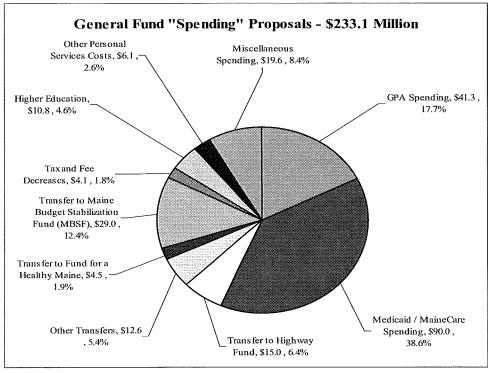
Table II-B Summary of 2006-2007 Statewide Deappropriations						
General Fund Appropriations (Deappropriations) - Millions of \$'s						
	FY06	FY07	Biennium			
Original Statewide Deappropriations						
Health Insurance Savings Initiatives	(\$4.9)	(\$16.2)	(\$21.1)			
Retirement Amortization Change	(\$10.3)	(\$10.8)	(\$21.1)			
5% All Other Reduction	(\$5.3)	(\$5.3)	(\$10.5)			
Technology Review and Efficiencies	(\$1.2)	(\$3.8)	(\$4.9)			
Other Efficiencies	(\$3.1)	(\$4.6)	(\$7.7)			
Total Statewide Appropriations (Deappropriations)	(\$24.7)	(\$40.7)	(\$65.4)			
Distributed to Individual Programs						
Health Insurance Savings Initiatives	\$4.9	\$11.7	\$16.6			
Retirement Amortization Change	\$10.3	\$10.8	\$21.1			
5% All Other Reduction	\$5.3	\$5.3	\$10.5			
Technology Review and Efficiencies	\$0.0	\$0.0	\$0.0			
Other Efficiencies	\$0.3	\$0.4	\$0.6			
Total Statewide Appropriations (Deappropriations)	\$20.7	\$28.2	\$48.9			
Not Distributed to Individual Programs						
Health Insurance Savings Initiatives	\$0.0	(\$4.5)	(\$4.5)			
Retirement Amortization Change	\$0.0	\$0.0	\$0.0			
5% All Other Reduction	\$0.0	\$0.0	\$0.0			
Technology Review and Efficiencies	(\$1.2)	(\$3.8)	(\$4.9)			
Other Efficiencies	(\$2.8)	(\$4.3)	(\$7.1)			
Total Statewide Appropriations (Deappropriations)	(\$4.0)	(\$12.5)	(\$16.5)			

Spending vs. Savings Initiatives

The pie charts that follow provide a different look at how the Legislature allocated the available General Fund resources during the 2nd Regular Session. Initiatives that increased resources, General Fund deappropriations, revenue increases and positive adjustments to balance, are classified as "savings" initiatives and are separated from those that use or "spend" resources

(appropriations, revenue decreases and transfers to other funds). The so-called "savings" proposals added \$114.9 million to the \$118.1 million of available General Fund resources to support additional General Fund uses or "spending" totaling \$233.1 million. The amounts presented for Medicaid/MaineCare "spending" and "savings" differ from the totals in Appendix A and to total appropriations segregated into the major categories. The pie chart amounts include initiatives related to Medicaid/MaineCare administrative costs that are excluded in Appendix A and Table II-A.





III. General Fund Appropriations Growth and Spending Limits

During the 1st Regular Session of the 122nd Legislature, the major new property tax reform plan enacted by LD 1, PL 2005, c. 2 established limits for the growth of appropriations. Table III-A shows the calculations of the appropriation limit and the growth of General Fund appropriations based on this law as amended by some technical corrections during the 2nd Regular Session (see LD 1909, PL 2005, c. 621). Sections 1 and 2 of Table III-A show the method of calculating the appropriation limit amount. The appropriation limit is calculated as of December 1st of even-numbered years, near the beginning of each Legislature. It is not updated during the biennium for changes in average growth of personal income or population. Although the growth of General Purpose Aid for Local Schools (GPA) is excluded from the limit until the State's share reaches the 55% goal, the calculation in the table is simplified by adding the growth of GPA to the base. This accomplishes the same intent as the temporary exclusion. See Maine Revised Statutes, Title 5, Chapter 142 for the implementing language.

	Table III-A General Fund Appropriations Limit Calculations						
	Millions of \$'s	Dago					
1. GR	OWTH LIMITATION PERCENTAGE	<u>Base</u> <u>Amounts</u>	FY 06	FY 07			
Ave	erage Real Personal Income Growth (but no greater than 2.75%)		2.58%	2.58%			
Ave	erage Population Growth		0.53%	0.53%			
G	rowth Limitation Factor when state is in the highest third of tax bu	urden	3.11%	3.11%			
2. AP	PROPRIATIONS LIMITS CALCULATION						
Α.	Total Appropriations with Growth Factor from #1 Above	\$2,709.9	\$2,794.2	\$2,881.1			
В.	General Purpose Aid for Local Schools (GPA) Appropriations	\$734.5	\$836.1	\$914.1			
C.	Growth of GPA Appropriations over FY05 Base Amount		\$101.6	\$179.6			
D.	Appropriations $\$ Limit (D = A + C)		\$2,895.8	\$3,060.6			
3. CO	MPARISON OF APPROPRIATIONS GROWTH TO APPRO	OPRIATION	NS LIMITS	S			
		FY 05	FY 06	FY 07			
A.	Total Actual Appropriations Through 1st Special Session	\$2,784.5	\$2,817.7	\$2,869.2			
	Annual % Change		1.2%	1.8%			
	Amount Over (Below) Appropriations Limitation		(\$78.0)	(\$150.2)			
В.	Total Actual Appropriations Through 2nd Regular Session	\$2,784.5	\$2,871.9	\$2,917.7			
	Annual % Change		3.1%	1.6%			
	Amount Over (Below) Appropriations Limitation		(\$23.9)	(\$143.0)			
C.	Actual Appropriations from B excluding GPA Appropriations	\$2,049.9	\$2,035.8	\$2,003.6			
	Annual % Change		-0.7%	-1.6%			

Section 3 of the Table III-A compares the appropriations limit with total General Fund appropriations before the 2nd Regular Session and afterward. Prior to the 2nd Regular Session, appropriations were substantially below the appropriations limit, \$78.0 million and \$150.2 million in FY06 and FY07, respectively. The net addition to appropriations in FY06 brought total

appropriations within \$23.9 million of the FY06 limit. In FY07, despite a net increase of appropriations of \$48.5 million, total appropriations remained \$143.0 million below the limit. The limitation was increased by \$41.3 million as a result of the additional GPA appropriations. The effect of the growth of GPA appropriations on total appropriations growth is also demonstrated in section 3. Growth of other General Fund appropriations excluding GPA appropriations, which are scheduled to have unusually large increases through FY09 as the State increases funding to 55% of the essential programs and services base, actually reflect negative growth in FY06 and FY07.

A pending consideration in the discussion of spending limits is the pending initiated bill that is going out to referendum in November 2006. During the 2nd Regular Session, the Legislature did not enact an initiated bill that proposed to establish tax and spending limits based on Colorado's Taxpayer Bill of Rights or "TABOR" (see discussion on page 18). If approved by the voters at the November 2006 election, the 123rd Legislature will need to address many conflicts and inconsistencies with the current spending limitation requirements.

IV. General Fund 2008-2009 Structural Gap Projections

Table IV-A below summarizes OFPR's updated analysis of the General Fund structural gap for the 2008-2009 biennium. The projections of appropriations presented in this analysis use the March 2006 estimate and layers on the incremental legislative changes enacted during the 2nd Regular Session. The 2nd Regular Session legislative changes added slightly more than \$75 million of total appropriations to the 2008-2009 biennium and decreased General Fund revenue by \$19.7 million. This combination increases the 2008-2009 General Fund structural gap by a little less than \$100 million bringing the current estimate of the General Fund structural gap to between \$525 million and \$550 million.

Revenue growth through the 2008-2009 biennium is positive, but is well below the growth of appropriations (except FY07, which is distorted by MaineCare/Medicaid funding shifts). On the appropriations side, the table shows significant growth in General Purpose Aid for Local Schools (GPA), Personal Services appropriations, MaineCare/Medicaid and in some of the "Other" appropriations (largely due to the size of FY07 one-time deappropriations). The growth of GPA, implemented as part of property tax reform, is a major contributor to the imbalance. The Personal Services appropriations growth is due primarily to the addition of collective bargaining for which no appropriations were provided in FY06 or FY07. The other significant contributor to the 2008-2009 General Fund structural gap is MaineCare/Medicaid growth, which is projected to increase almost 23.4% between FY07 and FY08. This anomaly in growth reflects a number of factors including the shifting of appropriations between FY07 to FY06 to take advantage of a more favorable federal match rate and the claims processing problems and related delay of collections of interim payments (see discussion on page 18).

In the past OFPR's structural gap estimate was an attempt to measure the difference between the "current services" appropriations recommended by the Governor compared to the General Fund revenue forecast. The incremental budgeting approach of the current services model that Maine has been using for decades is being replaced for the 2008-2009 biennium (see discussion on page 15). While these estimates of future appropriation needs are still indicative of the spending that will be required to maintain the current level of program effort as required by current law, only the Personal

Services line category estimates will match closely with the Personal Services line category submissions under the new budget model. All Other and Capital Expenditures will be adjusted for one-time items and presented in the baseline budget at the same level as the adjusted FY07 baseline. Some of the adjustments to appropriations may not be as explicit under the new budgeting format as with the "current services" incremental approach.

Table IV-A General Fund 2008-2009 Structural Gap						
Millions of \$'s						
Appropriations by Major Categories	FY05	FY06	FY07	FY08	FY09	
General Purpose Aid for Local Schools	\$738.4	\$836.1	\$914.1	\$980.9	\$1,054.2	
Medicaid/MaineCare	\$582.0	\$690.8	\$575.9	\$710.9	\$761.6	
Higher Education	\$241.2	\$246.1	\$257.5	\$263.3	\$270.2	
Teachers' Retirement	\$181.7	\$152.2	\$205.4	\$217.7	\$231.7	
Tax Relief and Reimbursement	\$113.1	\$31.8	\$37.5	\$38.5	\$39.6	
Debt Service	\$89.2	\$94.8	\$114.7	\$113.2	\$105.5	
Personal Services	\$387.7	\$405.6	\$420.6	\$462.3	\$483.6	
Other - Non-Personal Services	\$404.9	\$414.4	\$392.0	\$420.6	\$433.4	
Total General Fund Appropriations	\$2,738.1	\$2,871.9	\$2,917.7	\$3,207.4	\$3,379.6	
Annual % Change		4.9%	1.6%	9.9%	15.8%	
Total Appropriations excluding GPA	\$1,999.8	\$2,035.8	\$2,003.6	\$2,226.5	\$2,325.4	
Annual % Change		1.8%	-1.6%	11.1%	16.1%	
General Fund Revenue						
Forecast Prior to December 2005	\$2,790.8	\$2,743.3	\$2,899.7	\$2,963.9	\$3,064.3	
December 2005 RFC Forecast		\$112.1	\$52.3	\$51.7	\$46.6	
March 2006 RFC Forecast		\$1.9	(\$16.2)	(\$22.9)	(\$30.1)	
Legislative Changes - 2nd Regular Sessi	on	\$0.4	(\$1.7)	(\$3.7)	(\$16.0)	
General Fund Revenue - Total	\$2,790.8	\$2,857.7	\$2,934.2	\$2,989.0	\$3,064.9	
Annual % Change		2.4%	2.7%	1.9%	4.5%	
Approximate Annual Surplus (Shortfall)				(\$218.4)	(\$314.8)	
Approximate 2008-2009 Biennial Total (\$525.0) to (\$550.0)						

V. Summary of Highway Fund 2006-2007 Budget Adjustments

Unlike the General Fund, the Highway Fund did not realize quite the improvement in its funding picture between the end of the 1st Special Session and the beginning of the 2nd Regular Session. While the interim revenue forecasts increased Highway Fund budgeted revenue by a modest \$3.0 million over the biennium, the shortfalls and project deferrals on the spending side outweighed these modest revenue increases. Increases in petroleum prices (affecting asphalt costs) and the increasingly competitive demand for other construction products resulted in a major shortfall of funding for highway bridge and improvement projects and a deferral of approximately \$130 million of projects (also see discussion on page 16). Table V-A below summarizes the major adjustments that were made during the 2nd Regular Session of the 122nd Legislature. Primarily

through a \$15.0 million transfer from the General Fund and the lapsing of carrying balances in the Transportation, Maintenance and Operations Account of \$10.9 million combined with other miscellaneous savings proposals, the Legislature was able to provide \$31.2 million to offset a portion of this deferral. Efforts to enact a borrowing package to address a portion of the remaining deferral were unsuccessful during the 2nd Regular Session.

Table V-A Summary of Highway Fund Adjustments - 2nd Regular Session					
Millions of \$'s	FY06	FY07	Biennium		
Available Resources Prior to 2nd Regular Session Legislative C		,			
Budgeted Ending Balance with FY05 Adjustments for Actuals	0	\$2.0	\$2.0		
December 2005 Revenue Forecast Adjustment	\$6.0	\$2.1	\$8.1		
March 2006 Revenue Forecast Adjustment	(\$4.4)	(\$0.6)	(\$5.1)		
Total Available Resources Prior to Legislative Adjustments	\$1.6	\$3.4	\$5.0		
Legislative Adjustments - 2nd Regular Session					
Transfers and Adjustment to Balance					
Transfers from General Fund	\$0.0	\$15.0	\$15.0		
Lapse from DOT, Maintenance and Operations Account	\$10.9	\$0.0	\$10.9		
Revenue Adjustments					
Other Miscellaneous Revenue Adjustments	\$0.0	\$0.0	\$0.0		
Total Increase (Decrease) to Resources	\$10.9	\$15.0	\$26.0		
Allocation Adjustments					
DOT - Highway and Bridge Improvements; Increased Funding	\$12.8	\$18.4	\$31.2		
DOT - Highway Maintenance; Additional Costs	\$2.4	\$0.0	\$2.4		
DOT - Highway Maintenance; Savings from FEMA Reimb.	(\$1.4)	\$0.0	(\$1.4)		
DOT - Highway Maintenance; Health Fund Divestiture	(\$1.3)	\$0.0	(\$1.3)		
DOT - Marine Highway Transportation; Additional Costs	\$0.4	\$0.0	\$0.4		
BMV; Continuation of 10 Limited Period Positions	\$0.0	\$0.5	\$0.5		
BMV; Capital Improvements for Security	\$0.1	\$0.0	\$0.1		
DAFS - Additional Fuel Costs	\$0.1	\$0.0	\$0.1		
Statewide - Additional Health Insurance Savings	\$0.0	(\$2.2)	(\$2.2)		
Debt Service - Additional Costs of New Bonds Issued	\$0.0	\$0.4	\$0.4		
Net Other Adjustments to Allocations	\$0.0	(\$0.1)	(\$0.1)		
Net Highway Fund Allocations (Deallocations)	\$13.0	\$16.9	\$30.0		
Total Legislative Increases (Decreases) to Resources	(\$2.1)	(\$1.9)	(\$4.0)		
Budgeted Ending Balance at Close of 2nd Regular Session		\$1.03	\$1.03		

At the close of FY06 and FY07, the Highway and Bridge Improvement program within the Department of Transportation is authorized to receive from the uncommitted Unallocated Surplus of the Highway Fund any excess over \$1 million. However, through May of 2006, Highway Fund revenue performance, largely fuel taxes, was below expectations. At the close of FY06, this transfer

is not likely and there is a concern that the Highway Fund actual balance at the close of FY06 may be negative.

VI. Highway Fund 2008-2009 Structural Gap Projections

The Highway Fund 2008-2009 structural gap estimate based on legislative changes of the 2nd Regular Session increased very modestly (less than \$3 million) from the March 2006 estimate. The revised estimated range is now between \$85 and \$95 million. As noted in the discussion of the General Fund structural gap, the adjustments made to funding levels to bring the budget into balance for the 2008-2009 biennium may not be as explicit as a result of the change in the budgeting process.

This revised structural gap estimate for the Highway Fund in the 2008-2009 biennium does not factor in the estimated \$60 million in one-time project deferral costs that remained in the Highway and Bridge Improvements program within the Department of Transportation in FY07 after actions were taken by the Second Regular Session of the 122nd Legislature to reduce the original \$90 million estimate by \$30 million. For the purposes of this analysis it is assumed that, absent any further legislative action, DOT will pass along the deferred projects into the 2008-2009 biennium and will therefore have the continued effect of pushing the deferred project cost into future fiscal years.

Table VI-A Highway Fund 2008-2009 Structural Gap					
Milli	ons of \$'s			Î	
Allocations by Major Categories	FY05	FY06	FY07	FY08	FY09
Personal Services	\$138.1	\$154.0	\$157.7	\$172.4	\$181.8
Capital Expenditures	\$32.3	\$54.0	\$60.8	\$64.9	\$70.9
Debt Service	\$15.8	\$16.0	\$12.2	\$13.3	\$9.8
Urban-Rural Initiative	\$22.8	\$26.2	\$26.3	\$29.6	\$30.8
Other HF Expenditures	\$90.6	\$99.4	\$98.7	\$106.3	\$110.6
Total Highway Fund Allocations	\$299.6	\$349.6	\$355.8	\$386.5	\$404.0
Annual % Change		16.7%	1.8%	8.6%	13.5%
Highway Fund Revenue					
Forecast Prior to December 2005	\$326.1	\$329.3	\$338.9	\$347.5	\$356.8
December 2005 RFC Forecast		\$6.0	\$2.1	(\$1.0)	(\$3.3)
March 2006 RFC Forecast		(\$4.5)	(\$0.6)	(\$0.3)	\$0.2
Legislative Changes - 2nd Regular Ses	sion	\$0.0	\$0.0	\$0.0	\$0.0
Highway Fund Revenue - Total	\$326.1	\$330.9	\$340.4	\$346.3	\$353.7
Annual % Change		1.5%	2.9%	1.7%	3.9%
Approximate Surplus (Shortfall) 2008-	2009 Bien	nium		(\$40.2)	(\$50.3)
Approximate 2008-2009 Biennial Total (\$85.			(\$85.0) to	(\$95.0)	

VII. Fund for a Healthy Maine

The Fund for a Healthy Maine (FHM) receives funding primarily from the tobacco settlement agreement. However, beginning in FY06, the FHM began receiving a portion of the proceeds from slot machines at commercial racetracks (racino revenue). In its December 2005 forecast, the Revenue Forecasting Committee revised revenue estimates for the Fund for a Healthy Maine (FHM) downward by \$5.4 million in FY 06 and \$15.0 million in FY 07 as a result of revised assumptions related to Racino revenue estimates and an assumed delay in the receipt of some tobacco settlement payments as a result of significant factor proceeding under the Master Settlement Agreement. Based on the budgeted uses of the FHM, the fund was facing a total shortfall of \$18.0 million. In its March 2006 forecast, the RFC decreased FHM revenue estimates by an additional \$1.1 million over the 2006-2007 biennium bringing the total shortfall to \$19.1 million (see Table VII-A below).

Table VII-A 2006-2007 Fund for a Healthy Maine (FHM) Summary Millions of \$'s					
Without of \$	FY06	FY07	Biennium		
Available Resources Prior to 2nd Regular Session Legislative C	Changes				
Budgeted Ending Balance with FY05 Adjustments for Actuals		\$2.4	\$2.4		
December 2005 Revenue Forecast Adjustment	(\$5.4)	(\$15.0)	(\$20.4)		
March 2006 Revenue Forecast Adjustment	(\$0.3)	(\$0.7)	(\$1.1)		
Total Available Resources (Shortfall) Prior to Legislative					
Adjustments	(\$5.8)	(\$13.3)	(\$19.1)		
Legislative Adjustments - 2nd Regular Session					
Adjustment to FHM Allocations and Other Uses					
Transfers					
Transfer from General Fund	(\$2.3)	(\$2.1)	(\$4.5)		
FHM Allocation Adjustments					
Allocations for Tobacco Helpline	\$0.3	\$0.1	\$0.4		
FHM-wide Deallocation based on Revenue Revisions	\$0.0	(\$8.4)	(\$8.4)		
FHM-Elderly and Disabled Based on Racino Revenue	(\$0.3)	(\$7.9)	(\$8.3)		
Restoration of PL 2005, c. 457 (Part II) Deallocations	\$0.0	\$1.6	\$1.6		
Other Miscellaneous Adjustments to Allocations	\$0.0	(\$0.0)	\$0.0		
Net Uses (Reductions in Uses)	(\$2.4)	(\$16.7)	(\$19.1)		
Total Legislative Increases (Decreases) to Resources	\$2.4	\$16.7	\$19.1		
Budgeted Ending Balance at Close of 2nd Reg. Session		\$0.06	\$0.06		

During its 2nd Regular Session, the 122nd Legislature addressed this shortfall by reversing \$4.45 million of the \$5.0 million transferred to the General Fund from the FHM in PL 2005, c. 457 (the "Part 3" Budget Bill). While the "Part 3" Budget Bill had transferred \$0.4 million in FY06 and \$4.6 million in FY07 to the General Fund, the 122nd Legislature returned \$2.35 million in FY 06 and \$2.1 million in FY 07 back to the FHM. The Legislature also implemented a statewide FHM

deallocation of \$8.4 million in FY07 to be distributed to individual programs by financial order and deallocated \$0.3 million in FY06 and \$7.9 million in FY07 from the FHM - Drugs for the Elderly and Disabled program. With the additional resources generated by these "savings" initiatives, the 122nd Legislature restored \$1.6 million from programs that had deallocations in the "Part 3" Budget Bill and provided additional allocations.

VIII. General Obligation Bonds

The Joint Standing Committee on Appropriations and Financial Affairs had 22 of the original 38 Bond Bills remaining in committee at the conclusion of the 1st Special Session of the 122nd Legislature. Negotiations between the major parties had not finalized prior to the end of the 1st Special Session and these bills were carried over to the next session of the Legislature. A 2nd Special Session was held in late July, 2005 and the Legislature enacted a bond package for consideration by the voters in the November 2005 general election. A single bill, LD 998, PL 2005, c. 462 (the Governor's Transportation bond bill) was used as the vehicle and was amended to incorporate multiple parts and multiple referendum questions including not only transportation matters but also land acquisition, economic stimulation, agriculture and environmental matters. Table VIII-A below provides a summary of the substance of the bond package approved by the voters.

Table VIII-A Summary of Bonds Approved November 2005 \$ in millions			
Subject	Principal		
Transportation	-		
General Fund	\$6.1		
Highway Fund	\$27.0		
Agricultural & Environmental Improvements	\$8.9		
Economic Stimulation	\$20.0		
Land for Maine's Future	\$12.0		
Total Bond Package Approved by the Voters	\$74.0		

The bond package enacted by the Legislature also proposed \$7,000,000 for building renovations on campuses of the University of Maine System and the Maine Community College System and \$2,000,000 to improve and expand the facilities of the Osher Lifelong Learning Institute at the University of Southern Maine. These proposals were rejected by the voters.

IX. Fiscal Policy Decisions Affecting Local Governments

Each year in the early fall, the Office of Fiscal and Program Review updates a report of the major state funding disbursed to municipalities and counties. This section summarizes the 122nd Legislature's changes implemented during the 2nd Regular Session that affect the amount of funding

disbursed to municipalities and counties. Most of the initiatives affecting local government funding were implemented late in the 1st Special Session in PL 2005, c. 457, the "Part 3" Budget. The major legislative changes affecting local governments during the 2nd Regular Session are listed in Table IX-A below. The largest single item is the increase of General Purpose Aid for Local Schools (GPA), which reflects additional funding for the "ramp-up" of state funding enacted during the 1st Regular Session in the property tax reform initiative. There are many items in the table below that have little or no dollar impact during the 2006-2007 biennium or are funded within GPA appropriations, such as the continuation of the middle school laptop program and funding minimum teachers salaries.

Table IX-A Major Changes Affecting Municipalities and Counties Increase (Decrease) of State Funding to Municipalities and Counties - Millions of \$'s					
	FY06	FY07			
Adjustments to Educational Funding					
Additional Funding for General Purpose Aid for Local Schools (GPA)	\$0.0	\$41.3			
Middle School Laptop Program Continued - Funded within GPA	\$0.0	\$0.0			
Minimum Teachers Salaries Increase - Funded within GPA	\$0.0	\$0.0			
Grants for Maine School Oral Health Program	\$0.0	\$0.0			
Municipal Revenue Sharing					
Net Increase (Decrease) from Tax and Fee Changes	\$0.0	(\$0.1)			
Additional "Revenue Sharing 2" Funding (FY10)	\$0.0	\$0.0			
Tax Reimbursement Programs					
Homestead Tax Reimbursement - Lower Estimated Reimbursements	(\$3.8)	(\$5.1)			
Homestead Tax Exemption for Owners of Cooperative Housing (FY08)	\$0.0	\$0.0			
Personal Property Tax Exemption for Certain Business Equip. (FY09)	\$0.0	\$0.0			
Property Tax Exemption for Trail Grooming Equipment	\$0.0	\$0.0			
Expanded Property Tax Exemption for Veterans (FY08)	\$0.0	\$0.0			
Property Tax Exemption for Veterans' Organizations (FY08)	\$0.0	\$0.0			
Other Effects					
MEMA Assistance to Municipalities for Flood Damage	\$0.0	\$0.9			
Funding for Washington County Development Authority	\$0.0	\$0.1			

X. Position Count Changes – All Funding Sources

In the 2nd Regular Session of the 122nd Legislature, the General Fund realized a net increase of approximately 51 positions. The net increases were mainly in the Department of Health and Human Services (26 positions), the Judicial Department (22 positions) and the Department of Marine Resources (3.5 positions). The net reduction to all funds was approximately 129 positions. This was the result of an elimination of approximately 199 mostly vacant positions; more than 195 of the positions were in the Federal Expenditures Fund. Table X-A that follows lists the total position changes made during the 2nd Regular Session by fund.

Table X-A Position Count Adjustments - By Fund Net Increase (Decrease) in Legislative Count and FTE Count

Fund	Position Count
General Fund	50.622
Highway Fund	12.000
Other Special Revenue Funds	11.971
Federal Expenditures Fund	(195.626)
Federal Block Grant Funds	(5.000)
Other Funds	(3.038)
Net Increase (Decrease) of Position Counts - All Funds	(129.071)

XI. Summary of Major Fiscal Policy Issues

This section presents a narrative summary of some of the major fiscal initiatives or issues dealing with fiscal policy facing the 122nd Legislature during the 2nd Regular Session.

A. Stabilization Fund Transfers and Repeal of One-day Borrowing

In the 1st Special Session of the 122nd Legislature, the Legislature authorized a working capital advance of \$42.5 million from the Other Special Revenue Fund cash pool balance. This advance was budgeted to be repaid with interest on the first day of FY07. This one-day borrowing was necessary as part of the final deliberations on the "Part 3" Budget to keep the General Fund in balance for FY 06. With the December 2005 and March 2006 revenue revisions of the Revenue Forecasting Committee (RFC) increasing budgeted revenue by \$114.0 million in FY06, the Legislature had sufficient resources in FY06 to repeal this one-day borrowing.

The FY06 RFC revisions increased budgeted resources (beginning balance, transfers and revenues) above the appropriations limitation in FY06, thereby triggering the provision of 5 MRSA, §1535 that requires a transfer of budgeted resources in excess of the Appropriations Limitation to the Maine Budget Stabilization Fund (MBSF). Prior to the legislative actions during the 2nd Regular Session, these transfers were budgeted to be \$43.6 million. However, this statutory transfer was not made because the Legislature took action to affect a net reduction to resources in FY06 reducing budgeted resources below the appropriations limitation. In lieu of this transfer and in addition to any statutory year-end transfers, the Legislature implemented a \$29 million transfer from the Unappropriated Surplus to the Maine Budget Stabilization Fund in FY07. This \$29 million transfer, combined with existing balances in the MBSF and the Reserve for General Fund Operating Capital, was designed to increase budgeted reserve fund balances to over \$100 million.

B. Budget Reform Commission Recommendations

During the 2nd Regular Session, the Legislature enacted the recommendations of the Commission to Reform the State Budget Process that was established in PL 2005, c. 386, Part O (see PL 2005, c. 601). The 12-member Commission was responsible for researching and preparing recommendations on a number of budget-related matters, including but not limited to: the establishment of a "zero-based" budget; modifying the "current services" format used by departments and agencies; and proposing adjustments to the current "performance-based" budgeting process.

The Commission reported that a true zero-based budget was unmanageable. Instead, they recommended a format that presents a base budget for each state program by line category (i.e. position count, Personal Services, All Other and Capital Expenditures) with individual initiatives for any adjustments to the base or any new or expanded program initiatives, also by line category. With the exception of self-funded position reclassifications and range changes, the new budget format would reflect, in one section, all initiatives affecting the program. Position reclassifications and range changes would continue to be incorporated in a separate section of the budget document.

The base budget for All Other and Capital Expenditures for the ensuing biennium will be the same level of appropriations as appropriated for on-going initiatives in the 2nd year of the current Position count will be the count authorized for the 2nd year of the current biennium adjusted for any positions authorized to end during that fiscal year plus or minus any adjustments authorized by the Governor or the Bureau of Budget per 5 MRSA, sections 1583-A and 1583-B. Personal Services will be based on the cost of on-going positions. Salary cost will be reflective of known salary progression for current employees (vacant positions will be budgeted at step 3 and 4) plus negotiated collective bargaining agreements. Personnel benefits (e.g. health insurance, retirement, etc.) will be based on known and estimated rates. The Commission further recommended that periodic review of all government programs be conducted in order to determine appropriate funding levels. The Commission recommended that Legislative Leadership consider placing a renewed emphasis on the Government Evaluation Act for that purpose and consider whether top to bottom budget reviews on a periodic basis are an appropriate tool. Lastly, the Commission recommended the elimination of the current performance budgeting system. They agreed that the measurement tools are important but that the current process does not provide the adequate flexibility necessary to produce meaningful results.

C. Year-end Statutory Transfer Changes (the "Cascade")

In the 2nd Regular Session, the Legislature changed the distributions of the unappropriated surplus of the General Fund at the close of each fiscal year, the so-called "Cascade," which had been modified substantially during the 1st Regular Session's property tax reform initiative. Prior to these most recent changes, the transfers to the Retirement Allowance Fund, the Reserve for General Fund Operating Capital (operating capital reserve) and the initial distribution to the Maine Budget Stabilization Fund (MBSF), were calculated as a percentage of any revenue in excess of budgeted revenue. Beginning at the close of FY06, the fixed percent transfers will be calculated as a percentage of the total available unappropriated surplus (i.e. surplus revenue plus unbudgeted lapsed balances plus or minus adjustments authorized by the State Controller).

In addition to the change in the base from which the transfer is calculated, the percent used in the calculation has changed. Prior to these most recent changes, the operating capital reserve received 16% of the available excess revenue and the MBSF received 32% plus any remaining uncommitted balance in the Unappropriated Surplus after all statutory transfers. Effective at the close of FY06, the operating capital reserve will receive 20% and the MBSF will receive 35% of the total uncommitted Unappropriated Surplus after the 2 fixed dollar amounts transfers (up to \$350,000 to the State Contingent Account and up to \$1,000,000 to the Loan Insurance Reserve Fund at the Finance Authority of Maine). The Retirement Allowance Fund transfer is changed from 32% to 20%, but from a broader base. In addition to changing certain priorities and percentages, two new transfers were authorized from the Cascade. The first is a transfer of 15% to the Retiree Health Internal Service Fund and the second is a transfer of 10% to the Capital Construction & Improvements Reserve Fund. Appendix C provides a side-by-side comparison of these changes to the "Cascade" using a hypothetical distribution of unappropriated surplus based on FY05 year-end experience.

D. Highway and Bridge Improvement Program Shortfall

Midway through FY06, the Department of Transportation identified a significant financial problem for the department's Highway and Bridge Improvements program, which is funded primarily through the Highway Fund. Due to a combination of circumstances which included changes in the delivery of federal highway funds, unprecedented increases in construction costs and aggressive DOT project planning, the department was faced with an estimated \$130 million of highway and bridge improvement projects originally planned for completion in the 2006-2007 biennium that would have to be deferred until the 2008-2009 biennium unless additional resources were provided. Through the work of a Capital Transportation Funding Working Group appointed by the Governor in December of 2005, the estimated total of deferred project costs was reduced to \$90 million.

To reduce the impact of these project deferrals, the 2nd Regular Session of the 122nd Legislature took two actions: first, in PL 2005, c. 519, \$15 million was transferred from the unappropriated surplus of the General Fund to the Highway Fund where that amount was allocated to the Highway and Bridge Improvements program; and second, in PL 2005, c. 664, an additional \$15 million in Highway Fund resources were identified and allocated to the Highway and Bridge Improvements program.

E. Business Personal Property Tax Changes

PL 2005, c. 623 (LD 2056 as enacted) provides a new property tax exemption for most business equipment. Beginning with business property first placed in service after April 1, 2007, eligible property (property currently eligible for the BETR program other than "storefront" retail) will be exempt from local property tax. Municipalities will be reimbursed 100% in the first year, declining to at least 50% in 2013. Municipalities with high percentages of exempt property may receive a higher percentage of reimbursement. The Business Equipment Tax Reimbursement (BETR) program continues to apply to nonexempt business equipment. Eligible equipment first placed in service after April 1, 1995 and on or before April 1, 2007 and property not eligible for the new exemption ("storefront" retail property) remains eligible for the BETR program. BETR eligibility is extended beyond the 12th year that it is in service and reimbursement declines 10% per year until reimbursement after the 12th year to 50%. PL 2005, c. 623 also provides additional

funding for distributions to municipalities from the Disproportionate Tax Burden Fund, "Revenue Sharing II" beginning in FY 2010.

F. Law Enforcement Officers and Firefighter Retiree Health Insurance

Under PL 2005, c. 636 (LD 1021), An Act to Implement Task Force Recommendations Relating to Parity and Portability of Benefits for Law Enforcement Officers and Firefighters, beginning July 1, 2007, the State will provide a 45% subsidy toward the cost of health insurance for pre-Medicare, retired law enforcement officers and firefighters who are at least 50 years of age. While the costs of the State's subsidy would be partially offset by contributions made by active duty and current retirees, the State's General Fund costs are estimated to be \$1.3 million in FY08, growing to \$3.1 million in FY09.

G. Minimum Teacher Salary Changes

During the 2nd Regular Session, the Legislature voted to establish a minimum salary of \$27,000 per year for certified teachers for the school year starting after June 30, 2006 and \$30,000 per year for the school year starting after June 30, 2007 and in each subsequent school year. Public Law 2005, c. 635 also provides that it is the intent of the Legislature that the State fund 100% of the additional total ongoing costs of the required minimum salary.

In order to fully fund the cost of this provision in FY07, estimated to be \$661,229, Public Law 2005, c. 635 requires that, for FY07 only, a portion of the General Fund appropriation for the General Purpose Aid for Local Schools program targeted to implement a standards-based system be dedicated to achieving the minimum salary for certified teachers. Beginning in FY08, additional General Fund appropriations will be required to fund 100% of the cost of increasing minimum salaries for certified teachers to \$30,000 per year, estimated to be \$2,118,308 annually.

H. Continuation of Middle School Laptop Program

Included in the \$914.1 million General Fund appropriation for the General Purpose Aid for Local Schools program approved by the Legislature for FY07 is funding of approximately \$8.5 million for the continuation of the middle school laptop program beyond the September 2006 expiration date. Public Law 2005, c. 519, Part J provides the authorization for the Department of Administrative and Financial Services on behalf of the Department of Education to enter into financing arrangements for the acquisition of portable computer systems to support the operations of the Maine Learning Technology Initiative program. This legislation also provides that the lease-purchase agreement may not exceed 4 years in duration and approximately \$39.8 million in principal and interest costs. The Department of Education has selected Apple Computer, Inc. to provide the services and equipment to all participating middle school students and teachers at a cost of approximately \$289 per seat per year.

I. Funding Shortfall of the Maine Clean Elections Fund

Due to earlier budgetary shortfalls, a total of \$6.75 million had been transferred from the Maine Clean Elections Fund (MCEF) for other purposes by previous Legislatures. The growing number of legislative and gubernatorial candidates who chose to use MCEF funding and certain timing issues surrounding the disbursement of funding to candidates created an estimated funding shortfall of \$1.2 million for the 2006 primaries and general election. To remedy this shortfall, in PL 2005, c. 519, the 2nd Regular Session of the 122nd Legislature authorized the transfer of \$1.2 million from undedicated General Fund revenue to the Maine Clean Elections Fund in FY07.

J. Taxpayer Bill of Rights (TABOR) Initiated Bill

LD 2075, "An Act To Create the Taxpayer Bill of Rights," commonly referred to as TABOR, is a citizen-initiated bill pursuant to Article IV, Part 3, Section 18 of the Maine Constitution. Following a dispute over the validity of certain signature petitions, the Maine Supreme Judicial Court affirmed the decision of the Secretary of State that the petition had sufficient signatures to move forward. LD 2075 was referred to the Joint Standing Committee on Taxation, which issued a divided report on the bill (6-ONTP, 5 – OTPA, 2 – absent). The Ought Not to Pass report was accepted by both houses of the Legislature, thereby killing the bill and ensuring its submission to the voters at the November 2006 general election.

TABOR is modeled on similar language in the Colorado Constitution (currently suspended for 5 years). The bill limits spending and revenues at all government levels. State spending and revenue is limited to growth in the consumer price index and population. Local government spending and revenue is limited to the lesser of the change in assessed property value or the growth in the consumer price index and population (or student population for agencies providing education services). Any spending or revenues that exceed the limit must be approved by a 2/3 vote of the legislative body of the government entity and majority approval by the voters. Any tax or fee increase must be approved by the same method. Emergency measures exceeding the limits are authorized without voter approval but must be subsequently approved. The majority of excess revenue, after allowances for savings for budget stabilization, must be returned to the taxpayers.

K. Medicaid Funding Issues

During the 2nd Regular Session, the 122nd Legislature once again made significant adjustments to Medicaid/MaineCare funding, increasing total Medicaid/MaineCare funding by \$56.1 million over the biennium (over 55% of the total increase to appropriations during the 2nd Regular Session). In FY06, the Legislature increased Medicaid/MaineCare funding by \$70.4 million to address short-term funding needs largely the result of the problems surrounding the implementation of the Medicaid claims management system (MECMS). The Legislature also provided an appropriation of \$1 million in FY07 to reimburse MaineCare providers for interest costs incurred as a result of delayed payments resulting from MECMS implementation. Provided below and in Appendix A, Page A-3, is a summary of the funding decisions to address a number of Medicaid/MaineCare issues.

MaineCare Claims Management System (MECMS)

Additional General Fund appropriations of \$19.2 million in FY06 and \$12.8 million in FY07 were provided to help address a shortfall in Medical Care - Payments to Providers (MAP) account funding primarily resulting from interim payments that were made to MaineCare providers to help alleviate claims management system (MECMS) payment delays. A shift of appropriations of \$47 million from FY07 to FY06 was implemented to further address this shortfall and delays in recovering overpayments as a result of these interim payments to providers. It is assumed the \$47 million reduction in FY07 appropriations will be offset by recoveries from providers that will be collected in FY07 instead of FY06. Should these collections not meet anticipated levels, supplemental FY07 appropriations for the MAP account may be needed.

Medicare Part D Implementation

The Legislature also appropriated \$3.1 million in FY06 and \$5.1 million in FY07 and transferred \$2.7 million from the MaineCare Stabilization fund in FY07 for Medicare Part D wrap around services for enrollees to help maintain their prescription drug benefits at pre-Medicare Part D levels. The Legislature also appropriated \$3.1 million in FY 06 and \$16.1 million in FY07 for the amount Medicare Part D "clawback" payments to the federal government exceed the Medicaid savings the State will realize by having its Medicare/Medicaid dual eligibles enrolled in Medicare Part D.

MaineCare Hospital Settlement Payments

Additional appropriations of \$3.2 million in FY06 and \$13.7 million in FY07 were provided to make MaineCare settlement payments to hospitals. These appropriations combined with federal matching funds are intended to pay hospital settlements owed for hospital fiscal years 2003 and most of 2004 (through September 30, 2004).

MaineCare Non-Categorical Adults Waiver

An enrollment cap for the MaineCare "Non-categorical adults" waiver of 12,850 enrollees through June 30, 2006 was implemented to replace the freeze on enrollment that had been in place for the last year. As a result, the Legislature deappropriated \$4.3 million in FY06 and \$9.7 million in FY07. For FY 2007, the cap will be monitored and adjusted to maintain federal neutrality requirements.

Federal Medical Assistance Percentage (FMAP)

During the 2005 sessions, the Legislature was facing significant increases in State's costs as a result of the estimated change in the Federal Medical Assistance Percentage (FMAP). During the 2nd Regular Session, the Legislature was able to deappropriate \$4.3 million in FY07 due to a higher than previously anticipated FMAP.

Nursing Home Expenses

The Legislature allocated additional nursing home tax revenue of \$3.8 million in FY06 and \$4.2 million in FY07 to fund the State share of the nursing home reimbursement rate COLA for FY06

and FY 07 and \$0.7 million in FY06 for nursing facilities and residential care facilities for increased heating costs for the 2005-2006 heating season. The Legislature also deappropriated \$1.4 million in FY06 and \$0.3 million in FY07 based on the net of these proposals and the additional nursing home tax revenue.

MaineCare Transportation Costs

High fuel costs also affected MaineCare service providers. To help offset these costs, additional appropriations of \$0.9 million in FY06 and \$0.6 million in FY07 were provided for MaineCare volunteer drivers. Additional appropriations \$0.1 million in FY07 were provided to increase the reimbursement rates for wheelchair van services under the MaineCare program.

MaineCare Administrative Resources

The Legislature also appropriated \$3.1 million in FY06 and \$4.0 million in FY07 for MaineCare-related consulting contracts including: \$1.8 million in FY06 and \$2.8 million in FY07 for MECMS consulting services; \$1 million in FY06 and \$1.25 million in FY07 for the Office of MaineCare Services transformation project and \$0.25 million for consulting services related to the managed behavioral care initiative. These increases are partially offset by deappropriations of \$0.5 million in FY06 and \$1 million in FY07 from drug formulary contractual services no longer needed.

APPENDIX A

APPROPRIATIONS BY MAJOR CATEGORIES 122nd Legislature, 2nd Regular Session

Major Category	Page
Total Appropriations Summary	A-1
General Purpose Aid for Local Schools	A-2
MaineCare/Medicaid	A-3
Higher Education	A-5
Teachers' Retirement	A-6
Tax Reimbursement Programs	A-7
Debt Service	A-8
Personal Services	A-9
Other Non-Personal Services Appropriations	A-10

General Fund Appropriations - Summary

Presented below are tables summarizing the General Fund appropriations starting with the General Fund appropriations prior to the 122nd Legislature's changes during the 2nd Regular Session and concluding with the actual appropriations approved through the 2nd Regular Session. Additional detail and descriptions are available in the remainder of this Appendix.

General Fund Appropriations - Prior to 122nd Legislature, 2nd Regular Session						
	Expend	ditures	Appropriations			
Major Categories	FY04	FY05	FY06	FY07		
General Purpose Aid for Local Schools	\$699,041,402	\$738,355,049	\$836,115,966	\$872,802,944		
Medicaid/MaineCare	\$505,750,219	\$582,012,779	\$620,454,702	\$590,171,621		
Higher Education	\$233,405,441	\$241,187,901	\$245,802,372	\$246,933,699		
Teachers' Retirement	\$170,014,497	\$181,698,128	\$152,209,966	\$205,384,647		
Tax Relief and Reimbursement	\$128,885,755	\$113,061,240	\$35,584,622	\$42,594,376		
Debt Service	\$91,157,529	\$89,206,568	\$111,556,606	\$112,704,382		
Personal Services	\$362,183,685	\$387,727,063	\$406,518,073	\$422,622,648		
Other - Non-Personal Services	\$393,793,568	\$404,874,408	\$409,495,818	\$375,939,546		
Total General Fund Appropriations	\$2,584,232,096	\$2,738,123,135	\$2,817,738,125	\$2,869,153,863		
Annual % Change		6.0%	2.9%	1.8%		
Total Excluding GPA	\$1,885,190,694	\$1,999,768,087	\$1,981,622,159	\$1,996,350,919		
Annual % Change		6.1%	-0.9%	0.7%		

General Fund Appropriations - Adjustments during 122nd Legislature, 2nd Regular Session				
Major Categories	FY06	FY07		
General Purpose Aid for Local Schools	\$0	\$41,295,278		
Medicaid/MaineCare	\$70,374,703	(\$14,249,914)		
Higher Education	\$280,000	\$10,530,000		
Teachers' Retirement	\$0	\$21,406		
Tax Relief and Reimbursement	(\$3,800,000)	(\$5,081,435)		
Debt Service	(\$16,749,057)	\$2,003,330		
Personal Services	(\$895,786)	(\$2,070,512)		
Other - Non-Personal Services	\$4,930,628	\$16,076,429		
Total General Fund Appropriations	\$54,140,488	\$48,524,582		

General Fund Appropriations - After 2nd Regular Session							
	Expen	ditures	Appropriations				
Major Categories	FY04	FY05	FY06	FY07			
General Purpose Aid for Local Schools	\$699,041,402	\$738,355,049	\$836,115,966	\$914,098,222			
Medicaid/MaineCare	\$505,750,219	\$582,012,779	\$690,829,405	\$575,921,707			
Higher Education	\$233,405,441	\$241,187,901	\$246,082,372	\$257,463,699			
Teachers' Retirement	\$170,014,497	\$181,698,128	\$152,209,966	\$205,406,053			
Tax Relief and Reimbursement	\$128,885,755	\$113,061,240	\$31,784,622	\$37,512,941			
Debt Service	\$91,157,529	\$89,206,568	\$94,807,549	\$114,707,712			
Personal Services	\$362,183,685	\$387,727,063	\$405,622,287	\$420,552,136			
Other - Non-Personal Services	\$393,793,568	\$404,874,408	\$414,426,446	\$392,015,975			
Total General Fund Appropriations	\$2,584,232,096	\$2,738,123,135	\$2,871,878,613	\$2,917,678,445			
Annual % Change		6.0%	4.9%	1.6%			
Total Excluding GPA	\$1,885,190,694	\$1,999,768,087	\$2,035,762,647	\$2,003,580,223			
Annual % Change		6.1%	1.8%	-1.6%			

General Purpose Aid for Local Schools

	FY04	FY05	FY06	FY07
	Expenditures	Expenditures	Appropriations	Appropriations
Appropriations Prior to 2nd Regular Session	\$699,041,403	\$738,355,049	\$836,115,966	\$872,802,944
Annual % Change		5.6%	13.2%	4.4%
2nd Regular Session Changes		\$0	\$0	\$41,295,278
Appropriations After 2nd Regular Session	\$699,041,403	\$738,355,049	\$836,115,966	\$914,098,222
Annual % Change		5.6%	13.2%	9.3%
Major Initiatives During the 2nd Degular Session			EVOC	ENOS

Major Initiatives During the 2nd Regular Session PL 2005, c. 519, Part A (LD 1968)	FY06		FY07
Provides funding for the required state share of Essential Programs and Services. This increase is due to a higher than anticipated inflation rate, increased years of experience of professional educational staff, transition adjustments and less of a decline in student populations than originally anticipated.		\$0	\$42,103,078
PL 2005, c. 519, Part A (LD 1968)			
Deappropriates funds for laptops because costs are expected to be lower than originally budgeted.		\$0	(\$807,900)

Note:

Public Law 2005, c. 635, provides that a portion of the funds allocated as targeted funds to implement a standards-based system within the General Purpose Aid for Local Schools program in fiscal year 2006-07 be dedicated to fund the cost of establishing a minimum salary of \$27,000 per year for certified teachers for the school year starting after June 30, 2006. This cost is estimated to be \$623,556 in fiscal year 2006-07.

Medicaid/MaineCare¹

	FY04	FY05	FY06	FY07		
	Expenditures	Expenditures	Appropriations			
Appropriations Prior to 2nd Regular Session	\$505,750,219	\$582,012,779	\$620,454,702	\$590,171,621		
Annual % Chauge		15.1%	6.6%	-4.9%		
2nd Regular Session Changes	# 505 7 50 0 10	Φ500 010 55 0	\$70,374,703	(\$14,249,914)		
Appropriations After 2nd Regular Session	\$505,750,219	\$582,012,779	\$690,829,405	\$575,921,707		
Annual % Change		15.1%		-16.6%		
Major Initiatives During the 2nd Regular Session			FY06	FY07		
MaineCare Claims Management System (MECMS						
Appropriates funds to help address a shortfall in		-	\$19,165,742	\$12,781,496		
Providers (MAP) account funding primarily res	_					
were made to MaineCare providers to help alle	viate claims mana	igement system				
(MECMS) payment delays.	11 M.:C.	1 6-11 4	£47 000 000	(\$4 7 000 000)		
Transfer funds from FY07 to FY06 to further a			\$47,000,000	(\$47,000,000)		
delays in recovering the interim payments from	-					
million reduction in FY07 appropriations will be providers that will be collected in FY07 instead	-	eries nom				
Provides funding to reimburse providers for ac		for interest	\$0	\$1,000,000		
expense incurred as the result of delayed Maine			ΦΟ	\$1,000,000		
Claims Management System implementation.	ceare payments a	de to maniecare				
Medicare Part D Implementation						
Provides funds for Medicare Part D wrap arour	nd services for en	ollees to help	\$3,114,194	\$5,101,582		
maintain their prescription drug benefits at pre-		-	Ψ5,11,151	\$5,101,50 <u>2</u>		
Appropriates funds for the amount Medicare Pa			\$3,057,195	\$16,126,300		
federal government exceed the Medicaid saving			ψ3,037,193	Ψ10,120,500		
its Medicare/Medicaid dual eligibles enrolled in	="					
MaineCare Hospital Settlement Payments						
Provides funding for MaineCare hospital settle	ments. Funds pro	vided for FY06	\$3,158,562	\$13,723,250		
are intended to make hospital settlements curre	-					
years, and FY07 funds are intended to make se	ttlements current	for hospital				
fiscal years ending on or before June 30, 2004						
MaineCare Non-Categorical Adults Waiver						
Reduces funding to reflect the implementation	-		(\$4,208,274)	(\$9,682,927)		
MaineCare non-categorical adults waiver progr						
at 12,850 through June 30, 2006. For FY07, th	e cap will be mon	itored and				
adjusted to maintain budget neutrality.						
Federal Medical Assistance Percentage (FMAP)		1 10 1	Φ.Ο.	· · · · · · · · · · · · · · · · · · ·		
Reduces state funding needed as a result of the		deral fiscal year	\$0	(\$4,286,442)		
2006-07 Federal Medical Assistance Percentag	e (FMAP).					
MaineCare Provider Rates		. M-:Co	Φ9 <i>6</i> 2 575	Φ 5.75 0.50		
Appropriates funds funding for increased transpolicy volunteer drivers.	portation costs for	iviaineCare	\$862,575	\$575,050		
Provides funding to increase the MaineCare rei	imhursement rate	for nersonal care	\$0	\$1,265,400		
attendants serving persons in the adults with di	•	_		Ψ1,205,400		
directed personal assistance services program t						
2006.	P	J				
Provides one-time funds for residential care fac	cilities for increase	ed heating costs	\$400,000	\$0		
during the 2005-2006 heating season.		2	•	·		
-						

Medicaid/MaineCare¹(Continued)

Major Initiatives During the 2nd Regular Session	FY06	FY07
Nursing Facilities Tax		
Reduces funding no longer required as a result of increased revenue from the nursing facilities tax.	(\$1,443,112)	(\$300,000)
Miscellaneous Transfers and Other Initiatives		
Transfers excess savings in residential services from the Medical Care-Payments to Providers program to the Child Welfare Services program.	\$0	(\$4,000,000)
Transfers funding from the Mental Retardation Waiver Supports program to the Mental Retardation Services-Community program	(\$1,082,584)	\$0
Net Other Medicaid/MaineCare Initiatives	\$350,405	\$446,377

¹ Includes funding for related, non-Medicaid seeded programs formerly included in the Medical Care-Payments to Providers (MAP) account (e.g., the GF appropriation for the Drugs for the Elderly and Disabled program, etc.). PL 2005, c. 386, the Part 2 Budget, moved these non-Medicaid seeded programs out of the MAP account to new stand-alone General Fund accounts. For the purposes of this summary, funding for these programs is still included in the Medicaid/MaineCare totals. This summary does not include Medicaid/MaineCare administrative cost initiatives that are included in the General Fund "Savings" and "Spending" Proposals summary earlier in this Budget Overview.

Higher Education

1118	nei Eaut			
	FY04	FY05	FY06	FY07
	Expenditures	=	Appropriations	
Appropriations Prior to 2nd Regular Session	\$233,405,441	\$241,187,901	\$245,802,372	\$246,933,699
Annual %'Change		3.3%	1.9%	
2nd Regular Session Changes			\$280,000	\$10,530,000
Appropriations After 2nd Regular Session	\$233,405,441	\$241,187,901	\$246,082,372	\$257,463,699
Annual % Change		3.3%	2.0%	4.6%
Major Initiatives During the 2nd Regular Session			FY06	FY07
University of Maine System				
PL 2005, c. 519, Part A (LD 1968) and P&S 2005, c	c. 69 (LD 1785)			
Provides funding to partially offset inflationa	ary increases in g	eneral operating	\$0	\$6,475,000
and energy costs, compensation and benefits	and other goods	and services.		
PL 2005, c. 519, Part A (LD 1968)				
Provides funding to address the shortage of i	nurses in the State	2 .	\$0	\$375,000
PL 2005, c. 519, Part A (LD 1968)				
Provides one-time funding for the commerci			\$0	\$600,000
development activity and for the Gulf of Ma	ine Ocean Observ	ing System.		
RESOLVES 2005, c. 211 (LD 84)		a	*~	
Provides one-time funding to the Maine Cen	-	_	\$0	\$25,000
training and other support to schools and cor	nmunities partici	pating in the		
Sports Done Right program. University of Maine System - Totals			\$0	\$7,475,000
-			Φ0	Φ1, 4 13,000
Maine Community College System	- 40 (J.D. 1505)			
PL 2005, c. 519, Part A (LD 1968) and P&S 2005, c.		an ara l	ቀንየስ ስለስ	¢1 የየሰ ሰ ላለ
Provides funding to partially offset inflations operating/energy costs and for the Maine Tra			\$280,000	\$1,880,000
County Community College.	auc i iogiani at in	c washington		
PL 2005, c. 519, Part A (LD 1968)				
Provides funding to address the shortage of a	nurses in the State	.	\$0	\$375,000
PL 2005, c. 519, Part A (LD 1968)	III the State	••	ΨΟ	Ψ5 / 5,000
Provides funding for the Early College for N	IE student schola	rship initiative.	\$0	\$500,000
Maine Community College System - Totals		F	\$280,000	•
Finance Authority of Maine			Ψ#00,000	Ψω, 1 22,000
PL 2005, c. 519, Part AAAA (LD 1968)				
Provides one-time funds for the Educators for	or Maine Program	for Maine	\$0	\$300,000
residents pursuing careers in education.	or manie i rogian	101 11141110	ΨΟ	Ψ500,000
22524 To Parsame varout in oddouton.				

	FY04	FY05	FY06	FY07
	Expenditures	Expenditures	Appropriations	Appropriations
University of Maine System	\$172,539,931	\$179,903,699	\$183,221,418	\$190,596,418
Annual % Change		4.3%	1.8%	4.0%
Maine Community College System	\$40,614,117	\$41,472,054	\$42,496,033	\$46,068,617
Annual % Change		2.1%	2.5%	8.4%
Maine Maritime Academy	\$7,719,938	\$7,457,281	\$7,548,820	\$7,737,547
Annual % Change		-3.4%	1.2%	2.5%
FAME - Student Financial Assistance	\$12,531,455	\$12,354,867	\$12,816,101	\$13,061,117
Annual % Change		-1.4%	3.7%	1.9%

Teachers' Retirement

(Including Retired Teachers' Health Insurance)

FY04	FY05	FY06	FY07
Expenditures	Expenditures	Appropriations	Appropriations
\$170,014,497	\$181,698,128	\$152,209,966	\$205,384,647
	6.9%	-16.2%	34.9%
	\$0	\$0	\$21,406
\$170,014,497	\$181,698,128	\$152,209,966	\$205,406,053
	6.9%	-16.2%	34.9%
	Expenditures \$170,014,497	Expenditures Expenditures \$170,014,497 \$181,698,128 6.9% \$0 \$170,014,497 \$181,698,128	Expenditures Expenditures Appropriations \$170,014,497 \$181,698,128 \$152,209,966 6.9% -16.2% \$0 \$0 \$170,014,497 \$181,698,128 \$152,209,966

Major Initiatives During the 2nd Regular Session	FY06	FY07
PL 2005, c. 666, Section #2 (LD 2092)		
Provides funds for the State's share of the cost of health insurance premiums	\$0	\$4,373
for 2 former employees of School Administrative District No. 10 that have		ŕ
been identified as being eligible to have a 2nd opportunity to rejoin the teacher		
group health plan after retirement.		

PL 2005, c. 519, Part AAAA (LD 1968)

Appropriates funds for the normal cost component for the additional funds provided to each public school teacher in Maine who has attained certification from the National Board for Professional Teaching Standards as of July 1, 2006 or thereafter for the life of the certification.

\$0 \$17,033

Note:

Public Law 2005, c. 635, section 11 provides that it is the intent of the Legislature that a portion of the funds allocated as targeted funds to implement a standards-based system within the General Purpose Aid for Local Schools program in fiscal year 2006-07 be dedicated to meet the employer's share of teacher retirement costs attributable to establishing a minimum salary of \$27,000 per year for certified teachers for the school year starting after June 30, 2006. This cost is estimated to be \$37,663 in fiscal year 2006-07.

Tax Relief and Reimbursement Programs ¹

				
	FY04	FY05	FY06	FY07
	Expenditures	Expenditures	Appropriations	Appropriations
Appropriations Prior to 2nd Regular Session	\$128,885,755	\$113,061,240	\$35,584,622	\$42,594,376
Annual % Change		-12.3%	-68.5%	19.7%
2nd Regular Session Changes			(\$3,800,000)	(\$5,081,435)
Appropriations After 2nd Regular Session	\$128,885,755	\$113,061,240	\$31,784,622	\$37,512,941
Annual % Change		-12.3%	-71.9%	18.0%

Major Initiatives During the 2nd Regular Session	FY06	FY07
PL 2005, c. 519, Part FFFF (LD 1968) - Homestead Property Tax Exemption		
Deappropriates available funds within the Homestead Property Tax Exemption	(\$3,800,000)	\$0
Program.		
P&S 2005, c. 69 (LD 1785) - Homestead Property Tax Exemption		
Deappropriates available funds within the Homestead Property Tax Exemption	\$0	(\$5,100,000)
Program.		
PL 2005, c. 562 (LD 1799) - New Tax Reimbursement Program		
Provides funds to reimburse municipalities 50% of the property tax revenue loss as		\$18,565
a result of the exemption for snow grooming equipment registered with the		
Department of Inland Fisheries and Wildlife.		

¹ Beginning in FY05, certain tax reimbursement programs were statutorily changed from expenditures paid from appropriations to expenditures recorded as reductions from Individual Income Tax revenue. The table below adjusts for these changes to provide a better depiction of the growth of these programs.

	FY04	FY05	FY06	FY07
Expenditures/Appropriations from Above	\$128,885,755	\$113,061,240	\$31,784,622	\$37,512,941
Expenditures Recorded as Reductions to Individual In	come Tax *			
Maine Residents Property Tax Program	\$0	\$26,030,227	\$44,328,964	\$46,095,820
Business Equipment Tax Reimbursement	\$0	\$0	\$71,463,191	\$68,146,508
Subtotal Revenue Loss	\$0	\$26,030,227	\$115,792,155	\$114,242,328
Totals Revenues and Expenditures through 122nd	Legislature's 2nd Regul	lar Session		
	\$128,885,755	\$139,091,467	\$147,576,777	\$151,755,269
		7.9%	6.1%	2.8%

DEBT SERVICE

	FY04	FY05	FY06	FY07
	Expenditures	Expenditures	Appropriations	Appropriations
Appropriations Prior to 2nd Regular Session	\$91,157,529	\$89,206,568	\$111,556,606	\$112,704,382
Annual % Change		-2.1%	25.1%	1.0%
2nd Regular Session Changes		\$0	(\$16,749,057)	\$2,003,330
Appropriations After 2nd Regular Session	\$91,157,529	\$89,206,568	\$94,807,549	\$114,707,712
Annual % Change		-2.1%	6.3%	21.0%

Major Initiatives During the 2nd Regular Session PL 2005, c. 519, Part A (LD 1968)

The 2006-2007 Supplemental Budget reduced the appropriation for debt service within the Office of the Treasurer of State by \$16 million in FY06 and increased the appropriation by \$2 million in FY07 based on projected program requirements, resulting in overall net savings in the biennium of \$14 million.

(\$16,049,057) \$2,003,330

FY07

FY06

P&S 2005, c. 69 (LD 1785)

P&S 2005, chapter 69 deappopriated excess debt service funds within the Government Facilities Authority program of the Department of Administrative and Financial Services by \$700,000 in FY06.

(\$700,000)

\$0

Personal Services

	FY04	FY05	FY06	FY07
	Expenditures	Expenditures	Appropriations	Appropriations
Appropriations Prior to 2nd Regular Session	\$362,183,685	\$387,727,063	\$406,518,073	\$422,622,648
Annual % Change		7.1%	4.8%	4.0%
2nd Regular Session Changes			(\$895,786)	(\$2,070,512)
Appropriations After 2nd Regular Session	\$362,183,685	\$387,727,063	\$405,622,287	\$420,552,136
Annual % Change		7.1%	4.6%	3.7%
Major Initiatives During the 2nd Regular Session			FY06	FY07
PL 2005, c. 519, Part MM (LD 1968) - DAFS - Statewid				(# 4 4 6 6 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0
Reduces funding to reflect additional savings to	the State for the co	ost of health	\$0	(\$4,466,803)
insurance through negotiated plan savings.	• •			
PL 2005, c. 519, Part A (LD 1968) - DHHS Department		aiaa in tha	(\$2.100.000)	(\$250,000)
Reduces funding from salary savings achieved by Department of Health and Human Services.	y managing vacan	icies in the	(\$3,100,000)	(\$250,000)
PL 2005, c. 519, Part A (LD 1968) - Labor - Employmen	•			
Adjusts the appropriations and allocations to corr		blic Law 2005,	(\$300,000)	(\$300,000)
chapter 457, Part T. Reallocates the funding for p	oositions.			
PL 2005, c. 519, Part A (LD 1968) - DAFS - Salary Plan				
Salary Plan - Provides funding for the costs associated		-	\$2,000,000	\$0
of the arbitration award for the reclassification of	f Human Services	Caseworkers		
from pay grade 21 to pay grade 22.				
PL 2005, c. 519, Part A (LD 1968) - DHHS - Multiple P	_			
Provides funding to implement an arbitration aw		ification of	\$0	\$986,379
Human Services Caseworkers from pay range 21				
PL 2005, c. 519, Part A (LD 1968) - DHHS - Bureau of	_	_	m 0	\$555.40.4
Reinstates funding and 6 full-time Advocate position, and and Chief Advances Mantal Health	-		\$0	\$555,404
position, and one Chief Advocate Mental Health and reduces funding for contracted advocacy ser-		dation position,		
PL 2005, c. 519, Part A (LD 1968) - Attorney General -		Salarios		
Reallocates Personal Services funding for 7 Assi			\$213,322	\$122,625
from 100% Other Special Revenue Funds to 45%			Ψ213,322	Ψ122,023
Special Revenue Funds due to a loss in federal fu				
PL 2005, c. 519, Part B (LD 1968) - All Departments	C			
Reclassifications and Range Changes all departm	nents.		\$137,935	\$210,681
PL 2005, c. 519, Part A (LD 1968) - DEP - Remediation	and Waste Manag	gement		
Provides one time funding to supplement a short	fall in the funds to	the Hazardous	\$100,000	\$380,981
Waste Site Emergency Fund to be used to provid	le for the response	to clean up		
hazardous waste releases.				
PL 2005, c. 519, Parts A & JJJ (LD 1968) - Judicial Dep	partment		\$0	\$1,273,952
Part A establishes 7 Court Security Officer positi				
Court Judge positions, one Superior Court Justice	•	•		
4 Court Security Officer positions, 4 Assistant C	lerk positions and	one Court		
Reporter position.			* -	#400 0c =
PL 2005, c. 519, Part A (LD 1968) - State Prison	aitiona -t th - 3.6."	no State Del - '	\$0	\$189,015
Extends 3 limited period Correctional Officer po Warren and 2 limited period Correctional Officer				
Correctional Center in Windham established in P	_			
These limited period positions shall end no later		_		
r r r r r r r r r r r r r r r r r r r	,,,			

"Other" - Non-Personal Services Appropriations

Other - Non-reis				
	FY04	FY05	FY06	FY07
	Expenditures		-	Appropriations
Appropriations Prior to 2nd Regular Session	\$393,793,568	\$404,874,408	\$409,495,818	\$375,939,546
Annual % Change		2.8%	1.1%	-8.2%
2nd Regular Session Changes	#202 7 02 5 60	Φ404 0 5 4 400	\$4,930,628	\$16,076,429
Appropriations After 2nd Regular Session Annual % Change	\$393,793,568	\$404,874,408	\$414,426,446	\$392,015,975
Major Initiatives During the 2nd Regular Session		2.8%	2.4%	-5.4%
Dept Prog Initiative Description or Summary			FY06	EV07
DEPARTMENT OF ADMINISTRATIVE AND FIN	ANCIAL SERVI	CES	F 1 00	FY07
BUILDINGS AND GROUNDS OPERATIONS		CES		
Provides funding for the increase in fuel ar			\$865,377	\$0
BUREAU OF REVENUE SERVICES	•			,
Provides funding for contractual work to u	pgrade Revenue S	ervices' data	\$125,000	\$0
warehouse. The upgrades will improve the				
and Assessment System. The improved sys				
additional revenue to the General Fund in a expenditure.	FY07 from this on	e time		
Provides funding for advertising, printing,	mailing and comn	uter	\$0	\$240,000
programming costs necessary to implemen			ΦU	\$240,000
Program.				
EXECUTIVE BRANCH DEPARTMENTS AN	ID INDEPENDE	NT AGENCIES -	STATEWIDE	
Provides funding to partially offset the dea			\$498,877	\$498,877
chapter 12, Part XX. The allocated pro-rate				
not be achieved from the following program				
exempted: Office of Innovation, Adult Edu Preservation and Maintenance account.	ication and the Sta	te House		
DEPARTMENT OF AGRICULTURE, FOOD AND HARNESS RACING COMMISSION	RURAL RESOU	RCES		
Provides funds to test for compliance with	etatutee and rulee	prohibiting the	\$100,000	\$134,787
use of certain drugs, stimulants and other s		promotting the	\$100,000	\$134,767
MAINE FARMS FOR THE FUTURE PROGR				
Provides funds to continue the Farms for the		in FV07	\$0	\$250,000
BAXTER COMPENSATION AUTHORITY	ie i uture program	111 107.	Φ0	\$250,000
BAXTER COMPENSATION AUTHORITY				
Deappropriates operational funds that are r	o longer necessary	у.	(\$425,000)	\$0
			,	
DEPARTMENT OF HEALTH AND HUMAN SERV	ICES (formerly l	BDS)		
AUGUSTA MENTAL HEALTH INSTITUTE				
Transfers funds for assertive community tr			\$0	(\$270,000)
Services - Community and Mental Health sprogram.	Services - Commu	nity iviedicaid		
MENTAL HEALTH SERVICES - COMMUN	ITV			
Provides funding for services required by t		l Health Institute	\$0	\$1,000,000
consent decree.	i ragasia iviolita	ouidi mistitute	Ψ	Ψ1,000,000
MENTAL HEALTH SERVICES - CHILDREN	N			
Reduces funding no longer required due to		nent of grant and	(\$500,000)	(\$200,000)
contract funds.	_		,	,

Dept Prog Initiative Description or Summary	FY06	FY07
OFFICE OF ADVOCACY - MHMRSAS Reinstates funding and 6 full-time Advocate positions, one part-time Advocate position, and one Chief Advocate Mental Health and Mental Retardation position, and reduces funding for contracted advocacy services. This request will generate \$166,990 in General Fund undedicated revenue in FY07.	\$0	(\$200,106)
OFFICE OF SUBSTANCE ABUSE Provides funding for a joint contract between the Office of Substance Abuse and the Department of Corrections, per the Memorandum of Agreement, to provide administration of the Maine Juvenile Drug Court Program.	\$197,313	\$255,000
Provides funds for grants to community agencies that are significantly affected by changes to the non-categorical MaineCare program.	\$0	\$1,000,000
DEPARTMENT OF CORRECTIONS		
MAINE STATE PRISON Provides funding for the increased costs of fuel, utilities and the transportation of commodities.	\$347,035	\$0
CORRECTIONAL CENTER Provides funding for the increased costs of fuel, utilities and the transportation of commodities.	\$151,278	\$0
MAINE STATE CULTURAL AFFAIRS COUNCIL NEW CENTURY COMMUNITY PROGRAM Provides one-time funding for the New Century Program Fund.	\$0	\$400,000
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT ADMINISTRATION - MAINE EMERGENCY MANAGEMENT AGENCY Appropriates funds to assist certain municipalities with the State's share of costs resulting from floods that occurred in the spring of 2005.	\$0	\$880,000
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT ADMINISTRATION - ECONOMIC AND COMMUNITY DEVELOPMENT Provides funding to assist the City of Brewer with the redevelopment of the currently vacant Eastern Fine Paper Mill, which is designated as a Pine Tree Zone site. This one-time appropriation will be used for demolition, clean-up and environmental remediation that is the linchpin for the project, called The Mill at Penobscot Landing.	\$400,000	\$0
DEPARTMENT OF EDUCATION		
ADULT EDUCATION Provides additional funds for the college transition program.	\$0	\$200,000
PRE-SCHOOL HANDICAPPED	Ų.	\$200,000
Deappropriates funds in FY06 and appropriates funds in FY07 in order to recognize savings achieved in FY06.	(\$930,000)	\$930,000
Appropriates funds associated with savings in the MaineCare program.	\$0	\$1,136,616
DEPARTMENT OF ENVIRONMENTAL PROTECTION REMEDIATION AND WASTE MANAGEMENT		
Provides one time funding to supplement a shortfall in the funds to the Hazardous Waste Site Emergency Fund to be used to provide for the response to clean up hazardous waste releases.	\$100,000	\$100,000

Dept Prog Initiative Description or Summary MAINE STATE HOUSING AUTHORITY	FY06	FY07
LOW-INCOME HOME ENERGY ASSISTANCE - MSHA		
Provides one-time funds for Low Income Home Energy Assistance Program.	\$5,000,000	\$0
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Formerly DHS) BUREAU OF MEDICAL SERVICES		
Provides funding for consulting services related to the Maine Claims Management System.	\$1,800,000	\$2,762,500
Provides funding for contracted consulting services for an actuary and expert in behavioral health for the managed care initiative.	\$250,077	\$0
Reduces funding originally provided for contractual services to implement a modified drug formulary, including pharmacy claims processing, increased prior authorizations and education for MaineCare members.	(\$500,000)	(\$1,000,000)
Provides funding for consulting services related to the Office of MaineCare Services' transformation project.	\$1,000,000	\$1,250,000
STATE SUPPLEMENT TO FEDERAL SUPPLEMENTAL SECURITY INCOME		
Reduces funding that is no longer required. FOSTER CARE	(\$4,500,000)	(\$2,200,000)
Adjusts funding as a result of the increase in the federal fiscal year 2007 Federal Financial Participation Rate.	\$0	(\$113,290)
CHILD WELFARE SERVICES		
Transfers excess savings in residential services from the Medical Care- Payments to Providers program to the Child Welfare Services program.	\$0	\$4,000,000
BUREAU OF ELDER AND ADULT SERVICES		
Transfers funding from the Congregate Housing program to the Elder and Adult Services program to correct a deappropriation in Public Law 2005, chapter 457, Part HH, section 2.	\$100,000	\$100,000
BUREAU OF HEALTH		
Transfers funding related to hospital specialty clinics from the Maternal and Child Health Block Grant Match program to the Bureau of Health program.	\$212,813	\$213,713
CONGREGATE HOUSING		
Transfers funding from the Congregate Housing program to the Elder and Adult Services program to correct a deappropriation in Public Law 2005, chapter 457, Part HH, section 2.	\$0	(\$100,000)
Reduces funding based on an anticipated balance resulting from the efficient management of contract funds.	(\$400,000)	\$0
PURCHASED SOCIAL SERVICES		
Appropriates funds for grants to build new hospices and to establish new hospice services. These funds must be awarded through a competitive bidding process, the funds being awarded equally among the following 2 areas of the State: Lewiston and Auburn; and Scarborough and South Portland. Grantees must have plans submitted to the Department of Health and Human Services by July 1, 2006 to qualify for these grants.	\$0	\$250,000

Dept Prog Initiative Description or Summary COMMUNITY SERVICES CENTER	FY06	FY07
Provides funding for costs incurred for licensing home child care, child care centers and nursery schools and reduces funding in the Other Special Revenue funds account no longer required for similar purposes. This request will increase General Fund undedicated revenue by \$130,053 in each of FY06 and FY07.	\$130,053	\$130,053
MEDICAL CARE - PAYMENTS TO PROVIDERS - NON MATCH		
Provides funding to pay for the State Bureau of Identification criminal record checks for nursing assistants listed on the Maine Registry of Certified Nursing Assistants, as required by 22 MRSA section 1812-G. This request will generate \$128,695 in General Fund undedicated revenue recognized by the Department of Public Safety in each of FY06 and FY07.	\$128,695	\$128,695
DEPARTMENT OF INLAND FISHERIES AND WILDLIFE ADMINISTRATIVE SERVICES - IF&W		
Provides funds for construction projects related at regional headquarters facilities.	\$0	\$875,000
DEPARTMENT OF LABOR		
REHABILITATION SERVICES - HOME-BASED CARE		
Reduces funding no longer needed in FY06.	(\$500,000)	\$0
DEPARTMENT OF PUBLIC SAFETY		
DRUG ENFORCEMENT AGENCY		
Provides funding for drug enforcement services due to reduced federal grant monies. If the Drug Enforcement Agency receives any federal grant in excess of \$368,386 for this same purpose during FY07, the allotment based on this appropriation must be reduced by the additional amount of the federal grant.	\$0	\$642,695
FINGERPRINT AND BACKGROUND INFORMATION - STATE EXPENSE		
Provides funding to correct a deappropriation in Public Law 2005, chapter 457, Part CC that transferred funding to the Department of Education.	\$103,000	\$103,000
GAMBLING CONTROL BOARD		
Deappropriates operating funds that are no longer needed.	(\$250,000)	\$0

APPENDIX B

TAX AND FEE CHANGES
122nd Legislature, 2nd Regular Session

Appendix B - Summary of Tax and Fee Changes ¹ 122nd Legislature, 2nd Regular Session Revenue Increases (Decreases) - Millions of \$'s

LD# Law Reference		Description		FY07
Indiv	vidual Income Tax ²			
	PL 2005, c. 519, Part A	Computer upgrade to income tax non-filer discovery & assessment	0.000	1.500
1968	PL 2005, c. 519, Part G	Limits domicile concept in the definition of "resident individual" (see LD 325)	0.000	(0.894)
1968	PL 2005, c. 519, Part H	Income tax credit for Kennebec Arsenal District Historic Landmark (see LD 1775)	0.000	(0.500)
1968	PL 2005, c. 519, Part CC	Repeals nonconformity with federal student loan interest deduction	0.000	(0.516)
1968	PL 2005, c. 519, Part DD	Restores the Maine child care credit to 25% of the federal credit	0.000	(0.539)
1968	PL 2005, c. 519, Part GG	Provides reimbursement for 12% or 10% of wages paid by a certified media production company (see LD 1607)	0.000	(0.322)
1968	PL 2005, c. 519, Part LLL	Income tax deduction for contributions to qualified tuition plans under Sec. 529 of the IRC (see LD 1729)	0.000	(0.315)
1968	PL 2005, c. 519, Part NNN	Conform to federal law regarding Health Savings Accounts (see LD 195)	0.000	(0.343)
-	PL 2005, c. 622	Minor Substantive Changes - income tax	0.000	(0.140)
1165	PL 2005, c. 644	Income Tax Credit affordable housing/Real Estate Transfer Tax transfer from the HOME fund to GF	0.000	(0.176)
1968	PL 2005, c. 519, Part PPP	Delays repeal of income tax credit for clean fuel infrastructure (see LD 308)	0.000	(0.002)
1955	PL 2005, c. 650	Tax benefits for military redevelopment zone	0.000	(0.001)
Corp	orate Tax ²			
	PL 2005, c. 519, Part GG	Provides an income tax credit for certain media production company income (see LD 1607)	0.000	(0.105)
1968	PL 2005, c. 519, Part TTT	Income tax credit for certain furnaces that reduce pollutants (see LD 1647)	0.000	(0.004)
1955	PL 2005, c. 650	Tax benefits for military redevelopment zone	0.000	(0.001)
Sales	Tax ²			
1968	PL 2005, c. 519, Part EE	Provides an exemption from sales and use tax for certain aircraft (see LD 1074)	0.000	(0.358)
1968	PL 2005, c. 519, Part TT	Maine Use Tax Compliance Program	0.000	1.500
1968	68 PL 2005, c. 519, Part OOO Changes the threshold for resale certificate from \$10,000 to \$3,000 and extends the duration (see LD 169)			
1968	PL 2005, c. 519, Part QQQ	Expands sales tax exemption for certain agricultural equipment used in the removal and storage of manure (see LD 535)	0.000	(0.021)
1749	PL 2005, c. 675	Sales tax exemption for forfeited room deposits	0.000	(0.010)
	PL 2005, c. 650	Tax benefits for military redevelopment zone	0.000	(0.036)
1064	PL 2005, c. 638	Sales Tax exemption for agricultural composting operations	0.000	(0.016)

LD# Law Reference Description		FY06	FY07
Estate Tax			
1711 PL 2005, c. 622	Minor Substantive Changes - estate tax	0.000	0.136
Fuel Taxes - Highway Fund			
2041 PL 2005, c. 677	Temporarily reduce the special fuel tax rate	0.000	(0.020)
Other Miscellaneous Tax and Fe	e Changes	•	
1968 PL 2005, c. 519, Part QQQ	Exempts grandparents and grandchildren deeds from Real Estate Transfer Tax (see LD 1090)	0.000	(0.007)
1748 PL 2005, c. 663	Establish renewal fees for licensed slot machine distributors and registered slot machines	0.000	0.247
1974 PL 2005, c. 664	Expand pilot program for trucks at Canadian gross weights	0.000	0.029
1975 PL 2005, c. 549	Fee increases for transport and disposal of hazardous waste	0.000	0.395
2065 PL 2005, c. 585	Increase registration fee for pesticides from \$125 to \$150	0.000	0.198
Miscellaneous Tax and Fees Chan	ges	0.002	0.008

Notes:

Property Tax Exemptions:

Total Tax and Fee Changes

791	PL 2005, c. 645	New property tax exemption for property owned by certain veterans' organizations (beginning in FY08)	0.000	0.000
1552	PL 2005, c. 647	Makes owners of cooperative housing eligible for the Homestead Property Tax Exemption (beginning in FY08)	0.000	0.000
1799	PL 2005, c. 652	Exempts trail-grooming equipment from the Personal Property Tax	0.000	0.019
1968	PL 2005, c. 519, Part MMM	Expands exemptions to veterans of certain conflicts not currently eligible (beginning in FY08)	0.000	0.000

0.002

(0.363)

¹ Reflects state taxes and fees matching the definition used by the U.S. Dept. of Commerce, Bureau of Census for comparisons of state and local tax burden. Does not reflect new property tax exemptions that affect the base but do not necessarily affect total tax collections. See listing below of property tax exemptions and state reimbursement amounts.

² Reflects gross impact of tax collections prior to the deduction of 5.1% of total collections for state-municipal revenue sharing.

Appendix C

Comparison of Statutory Year-End Transfers (the "Cascade")

Comparison of Statutory Year-End Transfers (the "Cascade") Before and After 122nd Legislature, 2nd Regular Session Changes

Hypothetical Distribution of Unappropriated Surplus - Using FY05 Actual Amounts

122nd Legislature - PL 2005, c. 2 (LD 1)	122nd Legislature - PL 2005, c. 519 (I	LD 1968)	
Prior to 2nd Regular Session Cha	nges	After 2nd Regular Session Changes		
Unappropriated Surplus Prior Period & Accounting Adjustments Unbudgeted Lapsed Balances Excess/Surplus Revenue Total Unappropriated Surplus Available	\$3,992,986 \$14,228,649 \$29,905,610 \$48,127,246	Unappropriated Surplus Prior Period & Accounting Adjustments Unbudgeted Lapsed Balances Excess/Surplus Revenue Total Unappropriated Surplus Available	\$3,992,986 \$14,228,649 \$29,905,610 \$48,127,246	
Distributions in Order of Priority		Distributions in Order of Priority		
1) Budget Stabilization Fund (32% of excess revenue - 5 MRSA §1536)	\$9,569,795	1) State Contingent Account (Up to \$350,000 to replenish account - 5 MRSA §1507)	\$349,219	
2) Retirement Allowance Fund (32% of excess revenue - 5 MRSA §1536)	\$9,569,795	2) Loan Insurance Reserve Fund (Up to \$1,000,000 when not at limit - 5 MRSA §1511)	\$1,000,000	
3) Reserve for General Fund Operating Capital (16% of excess revenue - 5 MRSA §1536)	\$4,784,898	Budget Stabilization Fund (35% of unappropriated surplus)	\$16,372,309	
4) State Contingent Account (Up to \$350,000 to replenish account - 5 MRSA §1507)	\$349,219	Retirement Allowance Fund (20% of unappropriated surplus)	\$9,355,605	
5) Loan Insurance Reserve Fund (Up to \$1,000,000 when not at limit - 5 MRSA §1511)	\$1,000,000	5) Reserve for General Fund Operating Capital (20% of unappropriated surplus)	\$9,355,605	
6) Budget Stablization Fund (Remaining balance to BSF - 5 MRSA §1535)	\$22,853,539	Retiree Health Internal Service Fund (15% of unappropriated surplus)	\$7,016,704	
		7) Capital Construction & Improvements Reserve Fund (10% of unappropriated surplus)	\$4,677,803	
Unappropriated Surplus after Year-End Transfers	\$0	Unappropriated Surplus after Year-End Transfers	\$0	

Base for Percentage Distributions is Excess/Surplus Revenue

Base for Percentage Distributions is Total Unappropriated Surplus