

# Appendix C - Fund for a Healthy Maine

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**FUND FOR A HEALTHY MAINE REVENUE  
(TOBACCO SETTLEMENT REVENUE)  
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006**

Source	FY00 Actual	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual *	% Chg.	FY04 Actual	% Chg.	FY05 Actual	% Chg.
Initial Payments	35,541,456	16,839,539	-52.6%	16,236,644	-3.6%	16,458,172	1.4%	0	-100.0%	0	N/A
Base Payments	27,422,283	30,926,515	12.8%	40,055,643	29.5%	39,348,861	-1.8%	48,952,964	24.4%	49,033,129	0.2%
Racino Revenue **	0	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A
Income from Investments	1,604,300	3,605,927	124.8%	1,233,998	-65.8%	681,756	-44.8%	54,830	-92.0%	91,444	66.8%
Attorney General Reimbursements and Other Income	212,904	53,226	-75.0%	25,475	-52.1%	0	-100.0%	0	N/A	220	N/A
<b>Total - Tobacco Settlement Revenue</b>	<b>64,780,943</b>	<b>51,425,207</b>	<b>-20.6%</b>	<b>57,551,760</b>	<b>11.9%</b>	<b>56,488,789</b>	<b>-1.8%</b>	<b>49,007,794</b>	<b>-13.2%</b>	<b>49,124,793</b>	<b>0.2%</b>

\* FY03 Actual does not include \$514,339 received in July 2003 and \$480,059 received in October 2003 that were related to payments due prior to FY04.

\*\* Racino Revenue includes a portion of the State's share of proceeds from slot machines at commercial race tracks.

**FUND FOR A HEALTHY MAINE REVENUE  
(TOBACCO SETTLEMENT REVENUE)  
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006**

Source	FY06 Actual	% Chg.	FY06 Budget	FY06 Variance	% Var.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Base Payments	45,011,759	-8.2%	41,652,662	3,359,097	8.1%	41,765,543	-7.2%	1,256,100	43,021,643	-4.4%
Racino Revenue **	1,771,173	N/A	1,340,369	430,804	32.1%	1,898,741	7.2%	1,198,960	3,097,701	74.9%
Income from Investments	124,780	36.5%	25,000	99,780	399.1%	25,000	-80.0%	45,000	70,000	-43.9%
Attorney General Reimbursements and Other Income	39	-82.2%	0	39	N/A	0	N/A	0	0	N/A
<b>Total - Tobacco Settlement Revenue</b>	<b>46,907,751</b>	<b>-4.5%</b>	<b>43,018,031</b>	<b>3,889,720</b>	<b>9.0%</b>	<b>43,689,284</b>	<b>-6.9%</b>	<b>2,500,060</b>	<b>46,189,344</b>	<b>-1.5%</b>
<b>Change in Biennial Totals</b>								<b>2,500,060</b>		

\*\* Racino Revenue includes a portion of the State's share of proceeds from slot machines at commercial race tracks.

**FUND FOR A HEALTHY MAINE REVENUE  
(TOBACCO SETTLEMENT REVENUE)  
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006**

Source	FY08 Budget	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Budget	% Chg.	Recom. Chg.	FY09 Revised	% Chg.	FY10 Projection	% Chg.	FY11 Projection	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A	0	N/A	0	N/A
Base Payments	71,821,621	72.0%	(14,535,116)	57,286,505	33.2%	72,653,908	1.2%	(14,560,946)	58,092,962	1.4%	62,928,997	8.3%	66,659,065	5.9%
Racino Revenue **	1,994,731	5.1%	1,057,714	3,052,445	-1.5%	3,145,550	57.7%	1,507,436	4,652,986	52.4%	4,819,650	3.6%	4,819,650	0.0%
Income from Investments	45,000	80.0%	25,000	70,000	0.0%	45,000	0.0%	25,000	70,000	0.0%	70,000	0.0%	70,000	0.0%
Attorney General Reimbursements and	0	N/A	0	0	N/A	0	N/A	0	0	N/A	0	N/A	0	N/A
<b>Total - Tobacco Settlement Revenue</b>	<b>73,861,352</b>	<b>69.1%</b>	<b>(13,452,402)</b>	<b>60,408,950</b>	<b>30.8%</b>	<b>75,844,458</b>	<b>2.7%</b>	<b>(13,028,510)</b>	<b>62,815,948</b>	<b>4.0%</b>	<b>67,818,647</b>	<b>8.0%</b>	<b>71,548,715</b>	<b>5.5%</b>
								<b>(26,480,912)</b>						

\*\* Racino Revenue includes a portion of the State's share of proceeds from slot machines at commercial race tracks.

## Fund for a Healthy Maine - Base Payments

	FY04 Actual	FY05 Actual	FY06 Actual	FY07	FY08	FY09	FY10	FY11
Current Forecast	\$48,952,964	\$49,033,349	\$45,011,759	\$41,765,543	\$71,821,621	\$72,653,908		
Annual % Growth	24.4%	0.2%	-8.2%	-7.2%	72.0%	1.2%		
Net Increase (Decrease)				\$1,256,100	(\$14,535,116)	(\$14,560,946)		
Revised Forecast	\$48,952,964	\$49,033,349	\$45,011,759	\$43,021,643	\$57,286,505	\$58,092,962	\$62,928,997	\$66,659,065
Annual % Growth	24.4%	0.2%	-8.2%	-4.4%	33.2%	1.4%	8.3%	5.9%

### Revenue Source Summary:

This revenue category within the Fund for a Healthy Maine represents the on-going Tobacco Settlement Payments (TSP) from tobacco manufacturers under the Master Settlement Agreement (MSA). This category does not include the initial payments that were approximately \$16 million per year. Those initial payments were separated out, but are not a factor in the current forecast because they ended in FY03. This category does include the other TSP's including the "Strategic Contribution Payments" that will begin in April, 2008 and continue for 10 years.

### Revenue Source Forecast Factors and Trends:

Under the MSA, there are numerous adjustments that affect the annual payment. These include the inflation adjustment and volume adjustments. These adjustments are national and are forecast by the markets. Global Insights uses econometric models to project the TSP's. The most recent model forecast (August 2006) projects a modest increase over the previous forecast. The amount of the increase declines over the forecast period (see table below).

This year the participating manufacturers have entered into significant factor proceedings under the MSA. Manufacturers withheld payments in April 2006 represented contested 2003 market share shifts from participating manufacturers to non-participating manufacturers (NPM). The amount withheld from the April 2006 payment was less than estimated in the previous forecast. One manufacturer did not withhold payments as a result of the proceedings.

### Forecast Recommended Changes:

The changes to the estimates of the base payments under the MSA for the revenue forecast period result from the changes in the Global Insight's economic modeling as noted above and changes in the estimated pattern of withholding related to the significant factor proceedings (see table below). Based on the uncertainty about the length of the proceedings, the committee is recommending that the length of the withholding period be increased from 2 years to 4 years. This estimate change results in significant reductions in FY08 and FY09 from the previous estimates that we included recoveries of the April 2006 withholding in FY08 and April 2007 withholding in FY09. The forecast still estimates full recovery of the withheld amounts, just the length of time is changed. The revenue estimate for FY07 does not reflect the risk that the one manufacturer that did not withhold payments in April 2006, could withhold an additional amount from the April 2007 payment that it did not withhold in April 2006.

Summary of Recommended Changes	FY07	FY08	FY09	FY10	FY11
Change from Global Insight's Economic Modeling of TSP's	(\$486,389)	(\$659,865)	(\$685,695)	N/A	N/A
Change of Estimated Withholding - Significant Factor Proceedings	\$1,742,489	(\$13,875,251)	(\$13,875,251)	N/A	N/A
Total Recommended Changes	\$1,256,100	(\$14,535,116)	(\$14,560,946)	N/A	N/A

### Fund for a Healthy Maine - Racino Revenue

	FY04 Actual	FY05 Actual	FY06 Actual	FY07	FY08	FY09	FY10	FY11
Current Forecast	\$0	\$0	\$1,771,173	\$1,898,741	\$1,994,731	\$3,145,550		
Annual % Growth	N/A	N/A	N/A	7.2%	5.1%	57.7%		
Net Increase (Decrease)				\$1,198,960	\$1,057,714	\$1,507,436		
Revised Forecast	\$0	\$0	\$1,771,173	\$3,097,701	\$3,052,445	\$4,652,986	\$4,819,650	\$4,819,650
Annual % Growth	N/A	N/A	N/A	74.9%	-1.5%	52.4%	3.6%	0.0%

**Revenue Source Summary:**

This revenue category includes the Fund for a Healthy Maine's share of the gaming revenue from slot machines operated associated with the commercial race track in Bangor. For a more detail description of this source, see the General Fund description under category of "General Fund - Parimutuel and Gaming Revenue." Pursuant to 8 MRSA, §1036, the Fund for a Healthy Maine receives 10% of the "Gross Slot Income."

**Revenue Source Forecast Factors and Trends:**

See description and detailed spreadsheet under the General Fund - Parimutuel and Gaming Revenue category.

**Forecast Recommended Changes:**

See description and detailed spreadsheet under the General Fund - Parimutuel and Gaming Revenue category.

### Fund for a Healthy Maine - Income from Investments

	FY04 Actual	FY05 Actual	FY06 Actual	FY07	FY08	FY09	FY10	FY11
Current Forecast	\$54,830	\$91,444	\$124,780	\$25,000	\$45,000	\$45,000		
Annual % Growth	-92.0%	66.8%	36.5%	-80.0%	80.0%	0.0%		
Net Increase (Decrease)				\$45,000	\$25,000	\$25,000		
Revised Forecast	\$54,830	\$91,444	\$124,780	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000
Annual % Growth	-92.0%	66.8%	36.5%	-43.9%	0.0%	0.0%	0.0%	0.0%

**Revenue Source Summary:**

This revenue category reflects the cash pool earnings on the balances in the Fund for a Healthy Maine (FHM), the Other Special Revenue account in the Department of Administrative and Financial Services, where tobacco settlement payments (TSP's) are deposited along with the Fund for a Healthy Maine's share of revenue from slot machines operated at commercial race tracks, "Racino" revenue. It also includes interest on settlement payments paid by contractors/providers of FHM services. It does not reflect interest earnings on the balances in the accounts to which Fund for a Healthy Maine resources are transferred for expenditure.

**Revenue Source Forecast Factors and Trends:**

With the ending of the initial payments, which came in December, and the reduction of balances in the Fund for a Healthy Maine, FHM programs have been relying on cash advances from the General Fund pursuant to 22 MRSA §1511, sub-§9 to operate until the TSP's are received in April of each year. The FHM balances available to earn interest in the cash pool have significantly decreased, with most of the interest earned in the final quarter of the state fiscal year when the TSP's are received.

**Forecast Recommended Changes:**

The forecast assumes an increase in earnings above budgeted levels for the forecast period based on the level of earnings for FY06 significantly exceeding budgeted levels. With the continued decrease in FHM balances and the timing of the TSP's, it is assumed interest earnings for the forecast period will not achieve the FY06 level.