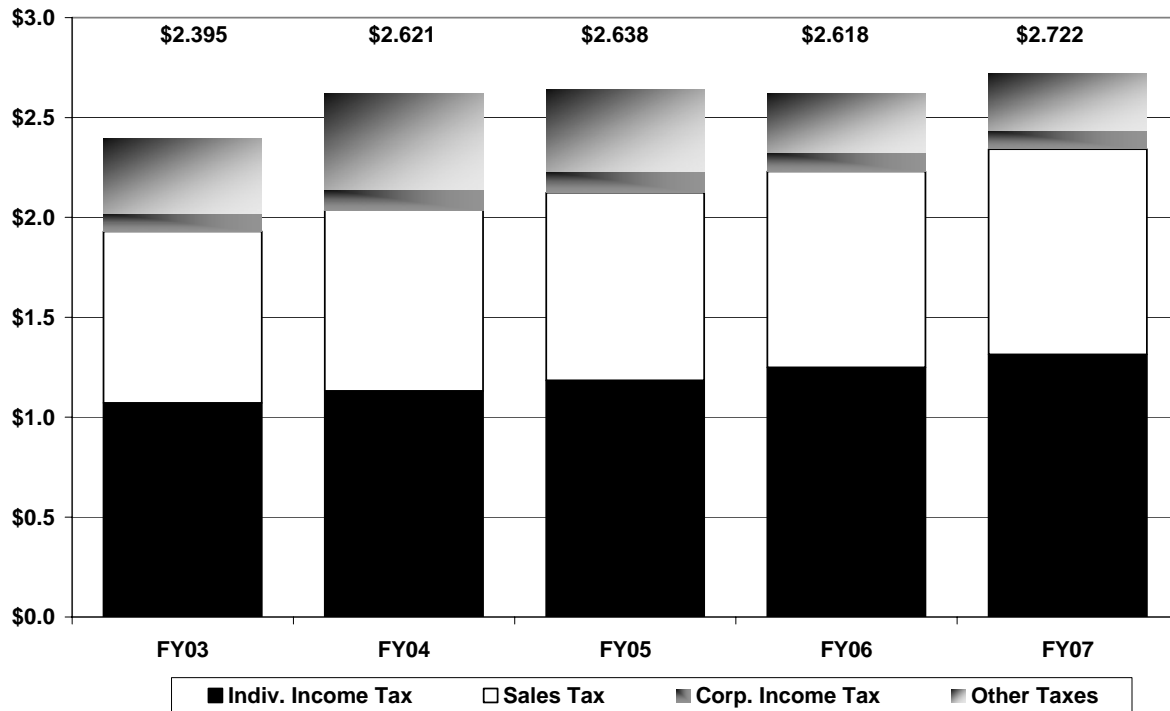


# REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

March 2004

## GENERAL FUND REVENUES (Billions of \$)



**Laurie Lachance, Chair**  
State Economist

**Dr. James Breece**  
University of Maine System

**Marc Cyr**  
Office of Fiscal & Program Review

**Jerome Gerard**  
Acting State Tax Assessor

**Keith Todd**  
State Budget Office

**Grant Pennoyer, Director**  
Office of Fiscal & Program Review



## STATE OF MAINE REVENUE FORECASTING COMMITTEE

### Members:

*Laurie Lachance, State Economist, Chair*  
*James Breece, University of Maine System*  
*Marc Cyr, Principal Analyst, Office of Fiscal and Program Review*  
*Jerome Gerard, Acting State Tax Assessor*  
*Grant Pennoyer, Director, Office of Fiscal and Program Review*  
*Keith Todd, State Budget Officer*

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March 8, 2004

TO: Governor John E. Baldacci  
Members, Legislative Council  
Members, Joint Standing Committee on Appropriations  
Members, Joint Standing Committee on Taxation  
Members, Joint Standing Committee on Transportation

FROM: Revenue Forecasting Committee

RE: **Revenue Reprojections – March 2004 Update Forecast**

In the fall of 2003, the Maine State Revenue Forecasting Committee did a very thorough review of all major General Fund, Highway Fund and Tobacco Settlement Fund revenue lines and prepared a forecast through the 06/07 biennium. That forecast, on which the current general services budget has been set, is described in detail in the December 2003 Report, which also includes a description of the forecasting process. In February of 2004, the Revenue Committee reconvened to review and, if necessary, adjust the December revenue projections in an effort to provide the Governor and Legislature the most current information on which they can set State budgets. The process of review and update is abbreviated and focuses primarily on large revenue lines where either significant budget-to-actual variances have occurred or where new information has been brought to light that demands a re-forecast.

This report, the annual March report of the Committee, is only meant as an update to the larger, more comprehensive December forecast report. At its meeting February 12, 2004, the Revenue Forecasting Committee met to consider the latest Consensus Economic Forecasting Commission's projections and the effect that this new information, as well as other updated assumptions, has on baseline revenue growth. Overall, the Committee is recommending some very minor adjustments at this point. The results are summarized as follows:

**General Fund:** The Committee recommends an extremely small (\$4.8 million or 0.1%) upward revision in the General Fund Revenue projections for the FY04/FY05 biennium, and a small downward revision (\$9.7 million or 0.2%) for the FY06/FY07 period. The upward revision to 04/05 is primarily due to solid Sales Tax collections and a sizable one-time upward reprojected of abandoned property in the "Other Revenue" line. The downward revision for 06/07 is due, entirely, to a downward re-forecast of Individual Income Taxes. Despite the fact that YTD

variances are positive in this revenue category, a Maine Revenue Services analysis shows that Maine residents, like others nationally, are over-withholding. This means that larger refunds and smaller final payments are likely for this year and that withholding will be adjusted downward in the future. This downward adjustment is nearly \$11 million annually.

**Highway Fund:** The Revenue Committee revised Highway Fund projections upward by \$1.8 million (0.3%) for the 04/05 biennium and upward by \$1.3 million (0.2%) for 06/07. These upward revisions are driven by higher than anticipated long-term trailer registrations in FY04 and an upward revision in the inflation assumption developed by the Consensus Economic Forecasting Commission for 2003. Because fuel taxes are indexed to inflation, an upward revision in the rate of inflation for 2003 increased the base and automatically led to an upward revision in fuel tax projections through the forecast years.

**Fund for a Healthy Maine:** Tobacco Settlement Funds were not revised at this time.

**TABLE 1**

**Reprojection for General and Highway Funds**  
(millions of dollars)

	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>
<b>General Fund</b>	6.4	(1.6)	(4.9)	(4.8)
<b>Highway Fund</b>	1.2	0.6	0.6	0.7
<b>Fund for a Healthy Maine</b>	----	----	----	----

**Underlying Assumptions:**

**Economic:** The Consensus Economic Forecasting Commission met on January 27, 2004 to discuss whether their October 2003 forecast (which is the current set of economic assumptions underlying state revenue projections) should be revised. After lengthy discussion, the Committee decided to leave their October projections virtually unchanged, with 2 exceptions. The first change was a small upward revision in the personal income growth rate from 3.5% to 4.0% for 2003 to reflect the US Bureau of Economic Analysis' recent announcement on income growth through the 3<sup>rd</sup> quarter of 2003. The increase in personal income growth for 2003 occurred in the categories of Other Labor Income, Proprietors Income, and Transfer Payments, all of which grew faster through September 2003 than had been forecast. The second change was an upward revision in the rate of inflation for 2003 from 2.0% to 2.3%.

To summarize the economic outlook that underlies this current revenue forecast: Maine's Personal Income is projected to grow at a relatively modest 4.0% rate in 2004 and accelerate slightly to 4.5% for 2005-2007; employment growth, estimated at 0.0% for 2003, is expected to increase to 0.8% in 2004 and 1% annually thereafter, which is about 1/3 the pace of growth that Maine experienced in the late 1990s; and the Consumer Price Index is assumed to remain in the vicinity of 2% for 2004 and 2005 before rising slightly to a 2.5% rate.

The CEFC revision was so small that it had virtually no effect on revenue projections.

Capital Gains: Maine's exceptional capital gain growth (in excess of 20% annual increases for 5 consecutive years) ended abruptly in tax year 2001, plummeting 53%. Updated estimates suggest that capital gains dropped another 17% in 2002, which is significantly better than the 35% drop that had been estimated at the time of our December forecast. This drop-off led to a major decline in Individual Income Tax collections, which represented almost half of all General Fund Revenues. Given the new information that suggests that tax year 2002 was not as hard hit as we had originally anticipated, the Revenue Forecasting Committee has projected that capital gains for tax year 2003 will actually start to grow again in tax year 2004 at an annual 6% rate through the forecast period.

Automobile Sales: The Revenue Forecasting Committee's assumptions for car sales were virtually unchanged from the December forecast. Automobile sales' taxes, which represent about 1/5 of all sales taxes, are projected to grow by 6.2% in FY2004 then accelerate slightly to the 7.2% – 7.6% range through the remainder of the forecast period. By comparison, from 1992-2002 auto sales averaged 10% annual growth.

As with any projection, there is risk that surrounds the forecast. The Committee would like to highlight one area that it feels poses the greatest risk to these projections at this time:

Automobile sales represent nearly 1/5 of all sales taxes and are subject to highly volatile swings. Despite weakened economic conditions, car sales have continued growing through the past few years, driven by extremely low interest rates and special factory and dealer incentives. Our underlying assumption of 6-7% growth in auto sales is slower than recent experience, but the Committee recognizes that any major jolt to consumer confidence or major changes in car-buying incentive programs could cause dramatic shifts in auto sales.

There are three attachments accompanying this memo:

1. The complete set of updated forecast tables for the Revenue Forecasting Committee's March 2004 General Fund, Highway Fund and Fund for a Healthy Maine (Tobacco Settlement Funds) revenue projections.
2. The updated report of the Consensus Economic Forecasting Commission published February 13, 2004.
3. The background materials distributed at the Revenue Forecasting Committee's February 12, 2004 meeting.

If you have any questions regarding this re-forecast or anything to do with the Revenue Forecasting Committee, please feel free to call me at 287-1479, email [laurie.lachance@maine.gov](mailto:laurie.lachance@maine.gov) or contact any other member of the Revenue Forecasting Committee.

cc: Revenue Forecasting Committee  
Consensus Economic Forecasting Commission  
Martha Freeman, Director of SPO  
Rebecca Wyke, Commissioner of DAFS  
Jane Lincoln, Chief of Staff

## GENERAL FUND REVENUE

### REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004

Source	FY99 Actual	FY00 Actual	% Chg.	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY03 Budget	FY03 Variance	% Variance
Sales and Use Tax	\$814,321,914	\$847,355,132	4.1%	\$817,781,460	-3.5%	\$836,134,084	2.2%	\$857,486,801	2.6%	\$861,578,278	(\$4,091,477)	-0.5%
Individual Income Tax	\$1,004,937,795	\$1,074,621,614	6.9%	\$1,167,748,898	8.7%	\$1,069,834,791	-8.4%	\$1,071,701,694	0.2%	\$1,063,483,417	\$8,218,277	0.8%
Corporate Income Tax	\$144,942,751	\$150,045,645	3.5%	\$96,102,796	-36.0%	\$77,366,103	-19.5%	\$91,188,393	17.9%	\$88,170,000	\$3,018,393	3.4%
Cigarette and Tobacco Tax	\$77,750,154	\$78,343,171	0.8%	\$77,501,831	-1.1%	\$97,599,599	25.9%	\$98,414,470	0.8%	\$105,684,505	(\$7,270,035)	-6.9%
Public Utilities Tax	\$29,597,745	\$15,786,931	-46.7%	\$29,777,365	88.6%	\$30,479,783	2.4%	\$29,285,143	-3.9%	\$30,400,000	(\$1,114,857)	-3.7%
Insurance Companies Tax	\$37,730,425	\$42,697,847	13.2%	\$43,576,502	2.1%	\$55,244,333	26.8%	\$71,078,089	28.7%	\$56,646,354	\$14,431,735	25.5%
Estate Tax	\$29,768,114	\$58,803,666	97.5%	\$30,616,759	-47.9%	\$23,420,240	-23.5%	\$30,520,320	30.3%	\$23,821,692	\$6,698,628	28.1%
Property Tax - Unorganized Territory	\$9,372,295	\$9,333,204	-0.4%	\$9,808,431	5.1%	\$10,333,984	5.4%	\$9,930,103	-3.9%	\$10,162,545	(\$232,442)	-2.3%
Income from Investments	\$19,759,308	\$20,312,457	2.8%	\$16,365,950	-19.4%	\$3,829,521	-76.6%	\$2,345,741	-38.7%	\$1,889,000	\$456,741	24.2%
Transfer to Municipal Rev. Sharing	(\$98,997,466)	(\$105,673,142)	6.7%	(\$106,163,291)	0.5%	(\$101,150,084)	-4.7%	(\$103,039,221)	1.9%	(\$102,674,817)	(\$364,404)	0.4%
Transfer from Liquor Commission	\$19,794,778	\$23,226,758	17.3%	\$24,231,271	4.3%	\$25,168,524	3.9%	\$26,073,276	3.6%	\$26,290,223	(\$216,947)	-0.8%
Transfer from Lottery Commission	\$39,600,544	\$38,138,174	-3.7%	\$35,677,299	-6.5%	\$39,317,891	10.2%	\$39,442,111	0.3%	\$39,635,176	(\$193,065)	-0.5%
Other Revenues *	\$131,139,945	\$142,225,349	8.5%	\$147,603,081	3.8%	\$164,081,792	11.2%	\$170,263,271	3.8%	\$167,219,181	\$3,044,090	1.8%
<b>Total - General Fund Revenue</b>	<b>\$2,259,718,302</b>	<b>\$2,395,216,806</b>	<b>6.0%</b>	<b>\$2,390,628,351</b>	<b>-0.2%</b>	<b>\$2,331,660,562</b>	<b>-2.5%</b>	<b>\$2,394,690,190</b>	<b>2.7%</b>	<b>\$2,372,305,554</b>	<b>\$22,384,636</b>	<b>0.9%</b>
<b>Change in Biennial Totals</b>												

\* See Detail of Revisions on separate page: General Fund Revenue - "Other Revenue" Summary

Updated: 2/27/04

# GENERAL FUND REVENUE

## REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004

Source	FY04 Budget	% Chg.	Recom. Chg.	FY04 Revised	% Chg.	FY05 Budget	% Chg.	Recom. Chg.	FY05 Revised	% Chg.
Sales and Use Tax	\$899,259,382	4.9%	\$6,462,000	\$905,721,382	5.6%	\$934,416,607	3.9%	\$4,500,000	\$938,916,607	3.7%
Individual Income Tax	\$1,132,802,013	5.7%	(\$2,040,322)	\$1,130,761,691	5.5%	\$1,195,104,203	5.5%	(\$10,590,619)	\$1,184,513,584	4.8%
Corporate Income Tax	\$103,697,841	13.7%	\$55,000	\$103,752,841	13.8%	\$104,179,101	0.5%	\$0	\$104,179,101	0.4%
Cigarette and Tobacco Tax	\$97,616,940	-0.8%	\$0	\$97,616,940	-0.8%	\$96,919,864	-0.7%	\$0	\$96,919,864	-0.7%
Public Utilities Tax	\$28,900,000	-1.3%	\$0	\$28,900,000	-1.3%	\$28,050,000	-2.9%	\$0	\$28,050,000	-2.9%
Insurance Companies Tax	\$69,415,308	-2.3%	\$0	\$69,415,308	-2.3%	\$65,347,916	-5.9%	\$0	\$65,347,916	-5.9%
Estate Tax	\$32,103,631	5.2%	\$0	\$32,103,631	5.2%	\$31,741,909	-1.1%	\$0	\$31,741,909	-1.1%
Property Tax - Unorg. Territory	\$10,202,624	2.7%	\$0	\$10,202,624	2.7%	\$10,407,086	2.0%	\$0	\$10,407,086	2.0%
Income from Investments	\$1,287,885	-45.1%	\$0	\$1,287,885	-45.1%	\$1,026,195	-20.3%	\$0	\$1,026,195	-20.3%
Transfer to Municipal Rev. Sharing	(\$108,923,722)	5.7%	(\$228,311)	(\$109,152,033)	5.9%	(\$113,918,698)	4.6%	\$310,622	(\$113,608,076)	4.1%
Transfer from Liquor Commission	\$26,356,396	1.1%	\$700,000	\$27,056,396	3.8%	\$0	-100.0%	\$0	\$0	-100.0%
Transfer from Lottery Commission	\$42,321,885	7.3%	\$0	\$42,321,885	7.3%	\$43,090,412	1.8%	\$0	\$43,090,412	1.8%
Other Revenues	\$279,185,763	64.0%	\$1,463,014	\$280,648,777	64.8%	\$242,814,560	-13.0%	\$4,175,202	\$246,989,762	-12.0%
<b>Total - General Fund Revenue</b>	<b>\$2,614,225,946</b>	<b>9.2%</b>	<b>\$6,411,381</b>	<b>\$2,620,637,327</b>	<b>9.4%</b>	<b>\$2,639,179,155</b>	<b>1.0%</b>	<b>(\$1,604,795)</b>	<b>\$2,637,574,360</b>	<b>0.6%</b>
<b>Change in Biennial Totals</b>								<b>\$4,806,586</b>		

\* See Detail of Revisions on separate page: General Fund Revenue - "Other Revenue" Summary

Updated: 2/27/04

# GENERAL FUND REVENUE

## REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Sales and Use Tax	\$976,256,193	4.0%	\$4,680,000	\$980,936,193	4.5%	\$1,022,399,061	4.7%	\$5,131,601	\$1,027,530,662	4.7%
Individual Income Tax	\$1,260,706,243	6.4%	(\$11,044,412)	\$1,249,661,831	5.5%	\$1,326,115,731	5.2%	(\$11,471,485)	\$1,314,644,246	5.2%
Corporate Income Tax	\$94,335,952	-9.4%	\$0	\$94,335,952	-9.4%	\$91,845,086	-2.6%	\$0	\$91,845,086	-2.6%
Cigarette and Tobacco Tax	\$96,125,360	-0.8%	\$0	\$96,125,360	-0.8%	\$95,433,494	-0.7%	\$0	\$95,433,494	-0.7%
Public Utilities Tax	\$26,760,000	-4.6%	\$0	\$26,760,000	-4.6%	\$25,875,000	-3.3%	\$0	\$25,875,000	-3.3%
Insurance Companies Tax	\$63,915,969	-2.2%	\$0	\$63,915,969	-2.2%	\$66,468,733	4.0%	\$0	\$66,468,733	4.0%
Estate Tax	\$2,634,711	-91.7%	\$0	\$2,634,711	-91.7%	\$0	-100.0%	\$0	\$0	-100.0%
Property Tax - Unorganized Territory	\$10,690,713	2.7%	\$0	\$10,690,713	2.7%	\$10,982,067	2.7%	\$0	\$10,982,067	2.7%
Income from Investments	\$1,607,053	56.6%	\$0	\$1,607,053	56.6%	\$1,751,208	9.0%	\$0	\$1,751,208	9.0%
Transfer to Municipal Rev. Sharing	(\$121,227,516)	6.7%	\$330,949	(\$120,896,567)	6.4%	(\$126,898,713)	4.7%	\$329,674	(\$126,569,039)	4.7%
Transfer from Liquor Commission	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Transfer from Lottery Commission	\$43,015,888	-0.2%	\$0	\$43,015,888	-0.2%	\$42,384,718	-1.5%	\$0	\$42,384,718	-1.5%
Other Revenues	\$168,469,126	-31.8%	\$1,175,202	\$169,644,328	-31.3%	\$169,999,197	0.9%	\$1,175,202	\$171,174,399	0.9%
<b>Total - General Fund Revenue</b>	<b>\$2,623,289,692</b>	<b>-0.5%</b>	<b>(\$4,858,261)</b>	<b>\$2,618,431,431</b>	<b>-0.7%</b>	<b>\$2,726,355,582</b>	<b>3.9%</b>	<b>(\$4,835,008)</b>	<b>\$2,721,520,574</b>	<b>3.9%</b>
<b>Change in Biennial Totals</b>								<b>(\$9,693,269)</b>		

\* See Detail of Revisions on separate page: General Fund Revenue - "Other Revenue" Summary

Updated: 2/27/04

**REVENUE FORECASTING COMMITTEE**

**Summary of General Fund "Other Revenue" Changes - March 2004**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	
<b>Other Revenue Variances - Revisions</b>	<b>\$1,463,014</b>	<b>\$4,175,202</b>	<b>\$1,175,202</b>	<b>\$1,175,202</b>	<b>Notes</b>
<b>Detail</b>					
Treasury - Unclaimed Property	\$0	\$4,000,000	\$1,000,000	\$1,000,000	Increased Revenue based on planned liquidation of additional assets
Tourism Transfer	\$416,678	\$0	\$0	\$0	Lower than anticipated tourism transfer based on FY03 Meals & Lodging Tax Rec
Excise Taxes - Beer & Wine	\$287,629	\$287,629	\$287,629	\$287,629	Recognizes growth of beer and wine volume
Professional & Financial Regulation - Misc. Fir	\$72,950				Recognizes one-time unbudgeted fine revenue
Marine Resources - License Fees	(\$114,243)	(\$112,427)	(\$112,427)	(\$112,427)	Adjusts for negative variances that appear to reflect an on-going trend
IF&W Revenue	\$800,000				Recognizes a positive variance, including revenue carried from previous year

Updated: 2/27/04



**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004**

Source	FY99 Actual	FY00 Actual	% Chg.	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY03 Budget	FY03 Variance	% Variance
Fuel Taxes	\$166,759,976	\$174,691,255	4.8%	\$182,502,097	4.5%	\$184,732,999	1.2%	\$187,901,008	1.7%	\$187,500,000	\$401,008	0.2%
Motor Vehicle Registration & Fees	\$64,296,262	\$74,079,566	15.2%	\$76,317,758	3.0%	\$83,285,014	9.1%	\$83,032,421	-0.3%	\$79,432,966	\$3,599,455	4.5%
Inspection Fees	\$2,138,368	\$2,625,496	22.8%	\$2,491,237	-5.1%	\$3,412,662	37.0%	\$4,169,773	22.2%	\$3,683,907	\$485,866	13.2%
Fines, Forfeits and Penalties	\$1,952,025	\$2,145,602	9.9%	\$2,097,609	-2.2%	\$1,958,350	-6.6%	\$2,531,692	29.3%	\$3,057,180	(\$525,488)	-17.2%
Income from Investments	\$3,031,603	\$3,997,979	31.9%	\$4,241,955	6.1%	\$2,857,209	-32.6%	\$1,338,794	-53.1%	\$1,418,000	(\$79,206)	-5.6%
Other Revenues	\$5,985,729	\$5,379,040	-10.1%	\$5,467,245	1.6%	\$5,737,782	4.9%	\$9,272,396	61.6%	\$9,154,514	\$117,882	1.3%
Total - Highway Fund Revenue	\$244,163,962	\$262,918,937	7.7%	\$273,117,902	3.9%	\$281,984,017	3.2%	\$288,246,084	2.2%	\$284,246,567	\$3,999,517	1.4%
Change in Biennial Totals												

Updated: 2/27/04

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004**

Source	FY04 Budget	% Chg.	Recom. Chg.	FY04 Revised	% Chg.	FY05 Budget	% Chg.	Recom. Chg.	FY05 Revised	% Chg.
Fuel Taxes	\$210,496,449	12.0%	\$0	\$210,496,449	12.0%	\$217,998,821	3.6%	\$639,667	\$218,638,488	3.9%
Motor Vehicle Registration & Fees	\$78,405,062	-5.6%	\$1,200,000	\$79,605,062	-4.1%	\$78,672,714	0.3%	\$0	\$78,672,714	-1.2%
Inspection Fees	\$3,461,771	-17.0%	\$0	\$3,461,771	-17.0%	\$3,470,359	0.2%	\$0	\$3,470,359	0.2%
Fines, Forfeits and Penalties	\$2,122,901	-16.1%	\$0	\$2,122,901	-16.1%	\$2,165,359	2.0%	\$0	\$2,165,359	2.0%
Income from Investments	\$425,217	-68.2%	\$0	\$425,217	-68.2%	\$1,026,195	141.3%	\$0	\$1,026,195	141.3%
Other Revenues	\$8,632,917	-6.9%	\$0	\$8,632,917	-6.9%	\$8,443,932	-2.2%	\$0	\$8,443,932	-2.2%
Total - Highway Fund Revenue	\$303,544,317	5.3%	\$1,200,000	\$304,744,317	5.7%	\$311,777,380	2.7%	\$639,667	\$312,417,047	2.5%
Change in Biennial Totals								\$1,839,667		

Updated: 2/27/04

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004**

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Fuel Taxes	\$225,082,800	2.9%	\$648,997	\$225,731,797	3.2%	\$233,113,896	3.6%	\$671,885	\$233,785,781	3.6%
Motor Vehicle Registration & Fees	\$79,428,254	1.0%	\$0	\$79,428,254	1.0%	\$80,196,584	1.0%	\$0	\$80,196,584	1.0%
Inspection Fees	\$3,476,649	0.2%	\$0	\$3,476,649	0.2%	\$3,483,001	0.2%	\$0	\$3,483,001	0.2%
Fines, Forfeits and Penalties	\$2,228,666	2.9%	\$0	\$2,228,666	2.9%	\$2,273,239	2.0%	\$0	\$2,273,239	2.0%
Income from Investments	\$1,026,195	0.0%	\$0	\$1,026,195	0.0%	\$1,026,195	0.0%	\$0	\$1,026,195	0.0%
Other Revenues	\$8,478,733	0.4%	\$0	\$8,478,733	0.4%	\$8,521,261	0.5%	\$0	\$8,521,261	0.5%
Total - Highway Fund Revenue	\$319,721,297	2.3%	\$648,997	\$320,370,294	2.5%	\$328,614,176	2.8%	\$671,885	\$329,286,061	2.8%
Change in Biennial Totals								\$1,320,882		

Updated: 2/27/04

**TOBACCO SETTLEMENT REVENUE (FUND FOR A HEALTHY MAINE)**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004**

Source	FY00 Actual	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual *	% Chg.	FY03 Budget	FY03 Variance	% Variance
Initial Payments	\$35,541,456	\$16,839,539	-52.6%	\$16,236,644	-3.6%	\$16,458,172	1.4%	\$16,634,010	(\$175,838)	-1.1%
Base Payments	\$27,422,283	\$30,926,515	12.8%	\$40,055,643	29.5%	\$39,348,861	-1.8%	\$40,251,240	(\$902,379)	-2.2%
Attorney General Reimbursements	\$212,904	\$53,226	-75.0%	\$25,475	-52.1%	\$0	-100.0%	\$0	\$0	0.0%
Other Sources **	\$0	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Income from Investments	\$1,604,300	\$3,605,927	124.8%	\$1,233,998	-65.8%	\$681,756	-44.8%	\$517,115	\$164,641	31.8%
Total - Tobacco Settlement Revenue	\$64,780,943	\$51,425,207	-20.6%	\$57,551,760	11.9%	\$56,488,789	-1.8%	\$57,402,365	(\$913,576)	-1.6%
<b>Change in Biennial Totals</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.

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

Updated: 2/27/04

**TOBACCO SETTLEMENT REVENUE (FUND FOR A HEALTHY MAINE)**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004**

Source	FY04 Budget	% Chg.	Recom. Chg. **	FY04 Revised	% Chg.	FY05 Budget	% Chg.	Recom. Chg.	FY05 Revised	% Chg.
Initial Payments	\$0	-100.0%	\$0	\$0	-100.0%	\$0	0.0%	\$0	\$0	0.0%
Base Payments	\$49,138,850	24.9%	\$0	\$49,138,850	24.9%	\$48,772,127	-0.7%	\$0	\$48,772,127	-0.7%
Attorney General Reimbursements	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Other Sources **	\$0	0.0%	\$0	\$0	0.0%	\$2,661,450	0.0%	\$0	\$2,661,450	0.0%
Income from Investments	\$25,000	-96.3%	\$0	\$25,000	-96.3%	\$25,000	0.0%	\$0	\$25,000	0.0%
Total - Tobacco Settlement Revenue	\$49,163,850	-13.0%	\$0	\$49,163,850	-13.0%	\$51,458,577	4.7%	\$0	\$51,458,577	4.7%
Change in Biennial Totals								\$0		

Updated: 2/27/04

**TOBACCO SETTLEMENT REVENUE (FUND FOR A HEALTHY MAINE)**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2004**

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Initial Payments	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Base Payments	\$49,569,690	1.6%	\$0	\$49,569,690	1.6%	\$50,328,283	1.5%	\$0	\$50,328,283	1.5%
Attorney General Reimbursements	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Other Sources **	\$3,257,640	22.4%	\$0	\$3,257,640	22.4%	\$8,307,000	155.0%	\$0	\$8,307,000	155.0%
Income from Investments	\$25,000	0.0%	\$0	\$25,000	0.0%	\$25,000	0.0%	\$0	\$25,000	0.0%
Total - Tobacco Settlement Revenue	\$52,852,330	2.7%	\$0	\$52,852,330	2.7%	\$58,660,283	11.0%	\$0	\$58,660,283	11.0%
Change in Biennial Totals								\$0		

Updated: 2/27/04

**Report of the  
MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION  
February 13, 2004**

Commissioners Present:

Charlie Colgan, Muskie School, USM, Chair  
Michael Donihue, Colby College  
John Davulis, CMP  
Alan Day, Banknorth Investment Management Group (via telephone connection)  
John Dorrer, National Center on Education and the Economy

Others present:

Michael Allen, MRS  
Dana Evans, DOL  
Galen Rose, SPO  
Gerry Stanhope, MRS  
Laurie Lachance, SPO  
Marc Cyr, OFPR  
John Nyada, MRS

The Commission met on January 27, 2004 to discuss whether their October 2003 forecast should be revised before the Revenue Forecasting Committee meets on February 12, 2004. The committee made only minor changes to the October forecast; all were related to more current historical data being available.

A small upward revision in the total personal income growth rate from 3.5% to 4.0% for 2003 was made since the growth rate of the first 3 quarters was officially reported to be 4.1% by the US Bureau of Economic Analysis. This increase occurred in the categories of other labor income, proprietors income, and transfer payments, all of which grew faster through September 2003 than forecast.

Also, the US Consumer Price Index (CPIu) forecast for a 2.0% increase in 2003 was changed to 2.3% to conform to full year data just released by the US Dept. of Labor. It should perhaps be noted that all data series studied by the Commission become available anywhere from a month to 4 months after the fact. The table on the following page shows the Commission's expected growth rates for employment, personal income and its components, and inflation.

**Maine Consensus Economic Forecasting Commission**  
**Forecast of January 2004**

	History									Forecast				
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Rate or Annual Growth Rate													
CPI-u	-	2.8%	3.0%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.0%	2.0%	2.5%	2.5%
Me. Unemployment Rate	7.4	5.7	5.1	5.4	4.4	4.1	3.5	4.0	4.4	5.1	5.2	4.9	4.7	4.5
3-Month Treasury Bill Rate	4.2%	5.5%	5.0%	5.1%	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	2.0%	3.9%	5.0%	5.0%
10-Year Treasury Note Rate	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.9%	5.3%	5.8%	5.9%
Maine Agricultural Empl.(1,000's)	14.5	14.4	14.3	13.8	16.1	13.4	16.1	13.1	14.0	17.0	14.0	14.0	14.0	14.0
	Employment Levels (1,000's)													
Maine Wage & Salary Employmen	531.6	538.2	542.5	553.7	569.2	586.3	603.5	608.1	606.1	606.0	611.1	617.5	623.9	630.4
Mining	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	21.0	21.7	23.2	23.3	25.1	28.0	29.4	29.7	29.2	29.2	29.7	30.2	30.7	31.2
Manufacturing	91.4	91.1	88.3	87.8	87.1	86.2	85.2	80.3	73.7	68.5	63.4	61.4	59.6	57.8
Transp/Commun./Publ. Utilis.	22.6	22.3	22.6	23.1	23.6	24.1	24.5	24.7	24.5	24.5	24.7	24.9	25.1	25.3
Wholesale Trade	23.9	25.1	25.8	26.0	26.5	27.0	27.1	26.9	26.8	26.8	27.1	27.4	27.7	28.0
Retail Trade	110.4	111.9	111.4	113.4	115.8	119.0	122.8	124.4	125.9	126.9	127.7	129.2	130.6	132.0
FIRE	26.3	26.0	27.0	28.4	29.7	31.4	32.4	33.6	33.9	34.0	34.4	34.8	35.2	35.6
Services	141.6	146.8	151.1	158.7	166.8	173.9	182.5	186.6	189.1	193.8	201.6	206.5	211.2	216.0
Government	94.1	93.2	92.8	93.0	94.6	96.7	99.6	101.8	102.9	102.2	102.4	102.7	103.1	103.5
	Annual Growth Rates													
Maine Wage & Salary Employmen	-	1.2%	0.8%	2.1%	2.8%	3.0%	2.9%	0.8%	-0.3%	0.0%	0.8%	1.0%	1.0%	1.0%
Mining	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction	-	3.0%	7.0%	0.5%	7.5%	11.6%	5.1%	1.0%	-1.7%	0.0%	1.7%	1.7%	1.7%	1.6%
Manufacturing	-	-0.4%	-3.0%	-0.6%	-0.8%	-1.1%	-1.2%	-5.7%	-8.2%	-7.0%	-7.5%	-3.2%	-2.9%	-3.0%
Transp/Commun./Publ. Utilis.	-	-1.4%	1.5%	2.2%	1.9%	2.2%	1.6%	0.8%	-0.8%	0.0%	0.8%	0.8%	0.8%	0.8%
Wholesale Trade	-	4.8%	2.9%	0.6%	1.8%	2.2%	0.2%	-0.7%	-0.4%	0.0%	1.1%	1.1%	1.1%	1.1%
Retail Trade	-	1.4%	-0.4%	1.8%	2.2%	3.2%	3.2%	1.3%	1.2%	0.8%	0.6%	1.2%	1.1%	1.1%
FIRE	-	-1.1%	3.8%	5.2%	4.4%	5.6%	3.3%	3.7%	0.9%	0.3%	1.2%	1.2%	1.1%	1.1%
Services	-	3.7%	3.0%	5.0%	5.1%	4.2%	5.0%	2.2%	1.3%	2.5%	4.0%	2.4%	2.3%	2.2%
Government	-	-1.0%	-0.4%	0.2%	1.8%	2.2%	3.0%	2.2%	1.1%	-0.7%	0.2%	0.3%	0.4%	0.4%
	Million \$ - at Seas. Adjusted Annual Rates													
Personal income	24173.8	25046.3	26434.0	27772.8	29468.5	30679.8	32866.5	34491.5	35990.8	37444.4	38942.2	40694.5	42525.8	44439.5
Wage and salary disbursements	12408.5	12923.3	13456.5	14315.8	15242.5	16251.0	17217.0	17975.0	18501.0	19048.6	19734.4	20622.4	21653.5	22736.2
Other labor income	2121.8	2064.8	2104.0	2033.5	2058.5	2143.0	2254.0	2393.3	2623.3	2833.1	2985.5	3162.1	3317.1	3493.6
Non-farm Proprietors' income	1885.5	1791.8	1959.0	2052.0	2223.3	2374.0	2492.5	2575.3	2682.5	2886.4	3106.9	3288.9	3457.5	3613.7
plus: Dividends, interest, and rent	4346.8	4691.0	5037.0	5362.0	5824.8	5704.3	6445.3	6723.8	6812.5	6830.2	7106.2	7494.2	7842.2	8240.4
plus: Transfer payments	4190.5	4401.8	4686.8	4903.3	5010.0	5136.3	5416.3	5875.0	6387.0	6898.0	7105.4	7283.1	7465.1	7614.4
less: Personal contrb. for social in	999.8	1050.8	1084.8	1145.0	1210.5	1288.8	1339.8	1420.0	1500.5	1563.0	1632.7	1719.1	1800.6	1879.0
plus: Adjustment for residence	140.0	183.3	208.3	240.3	274.5	291.3	332.5	345.0	482.0	506.1	531.4	558.0	585.9	615.2
Farm Income	145.5	113.8	145.0	92.0	125.0	142.5	130.3	112.0	98.0	101.9	106.0	110.2	114.6	119.2
	Annual Growth Rates													
Personal income	-	3.6%	5.5%	5.1%	6.1%	4.1%	7.1%	4.9%	4.3%	4.0%	4.0%	4.5%	4.5%	4.5%
Wage and salary disbursements	-	4.1%	4.1%	6.4%	6.5%	6.6%	5.9%	4.4%	2.9%	3.0%	3.6%	4.5%	5.0%	5.0%
Other labor income	-	-2.7%	1.9%	-3.4%	1.2%	4.1%	5.2%	6.2%	9.6%	8.0%	5.4%	5.9%	4.9%	5.3%
Non-farm Proprietors' income	-	-5.0%	9.3%	4.7%	8.3%	6.8%	5.0%	3.3%	4.2%	7.6%	7.6%	5.9%	5.1%	4.5%
plus: Dividends, interest, and rent	-	7.9%	7.4%	6.5%	8.6%	-2.1%	13.0%	4.3%	1.3%	0.3%	4.0%	5.5%	4.6%	5.1%
plus: Transfer payments	-	5.0%	6.5%	4.6%	2.2%	2.5%	5.5%	8.5%	8.7%	8.0%	3.0%	2.5%	2.5%	2.0%
less: Personal contrb. for social in	-	5.1%	3.2%	5.6%	5.7%	6.5%	4.0%	6.0%	5.7%	4.2%	4.5%	5.3%	4.7%	4.4%
plus: Adjustment for residence	-	30.9%	13.6%	15.4%	14.3%	6.1%	14.2%	3.8%	39.7%	5.0%	5.0%	5.0%	5.0%	5.0%
Farm Income	-	-21.8%	27.5%	-36.6%	35.9%	14.0%	-8.6%	-14.0%	-12.5%	4.0%	4.0%	4.0%	4.0%	4.0%

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3 month T-bill and 10yr Treas. Note rates are from Economy.com - Dec. 2003



In deliberating its January forecast, the Committee considered the following:

1. The State Planning Office reported that most major indicators of the national economy were showing renewed strength. The positive indicators included very strong real gross domestic product growth in the 3<sup>rd</sup> quarter (8.2% annual rate), improving corporate profits and fixed non-residential investment, continued strength in the major stock market indices and the index of leading economic indicators. Also, and very importantly, interest rates continued to be very low. In Maine, the most recent data show mortgage rates also staying in the historically low 6% range, which has kept mortgage activity very strong, especially refinancings. Maine home sales continued at an annual rate of over 40,000 units through the 3<sup>rd</sup> quarter. Residential construction also continues to be strong. Through October, Maine consumer retail sales were up 4% over the same period of 2002. However, while most Maine indicators are showing at least moderate growth, job markets are not responding.
2. Information from the Maine Department of Labor suggested that, following upcoming revisions, the State annual unemployment rate for 2003 would likely be 5.1%, up from 4.4% the previous year. Wage and salary employment growth for 2003 will be about 0%. However, year-over-year monthly declines in wage and salary employment have been shrinking since summer. While seasonally adjusted US “temporary help” totals have been rising fairly strongly since last spring, in Maine the year-over-year temp help numbers showed continued declines. Over the past few months, both initial and continuing unemployment claims have been declining somewhat.
3. General Fund revenues through December were \$11.9 million over budget. Sales tax revenues were \$4.4 million over budget, personal income tax revenues were \$11 million over budget, but corporate tax revenues were \$1.9 million under budget. Early January data suggested that these trends would continue through the month. For the first 6 months of the fiscal year, withholding was up 2 ½ to 3% over the previous year, but would have to improve to 3 ¼ to 4% for the remainder of the year in order to meet the budget target.
4. Commissioners noted a number of positive trends which may impact the Maine economy going forward. These included:
  - a. The value of the US dollar is still falling, which should benefit exporters and tourism.
  - b. The projected federal deficit has increased dramatically, but is not yet affecting bond markets.
  - c. US monetary and fiscal policies are still quite stimulative, which is helping to maintain strong consumer spending.

5. Several important negative trends were also noted by Commissioners:
  - a. Connecticut and Massachusetts job losses over the past year have been huge, amounting to about 1/4<sup>th</sup> of the nation's losses over that period. Yet, forecasts for those states are calling for reasonably strong job gains this year and next.
  - b. US labor market job openings and turnover rates are still weak, with no positive signs, but temporary help services are seeing some growth. According to recent national surveys, although small businesses are very optimistic about the economy, hiring plans are flat.
  - c. Apparently, structural changes and exceptionally strong productivity growth are mostly to blame for the lack of job growth. These factors may continue to be major influences for many months to come.