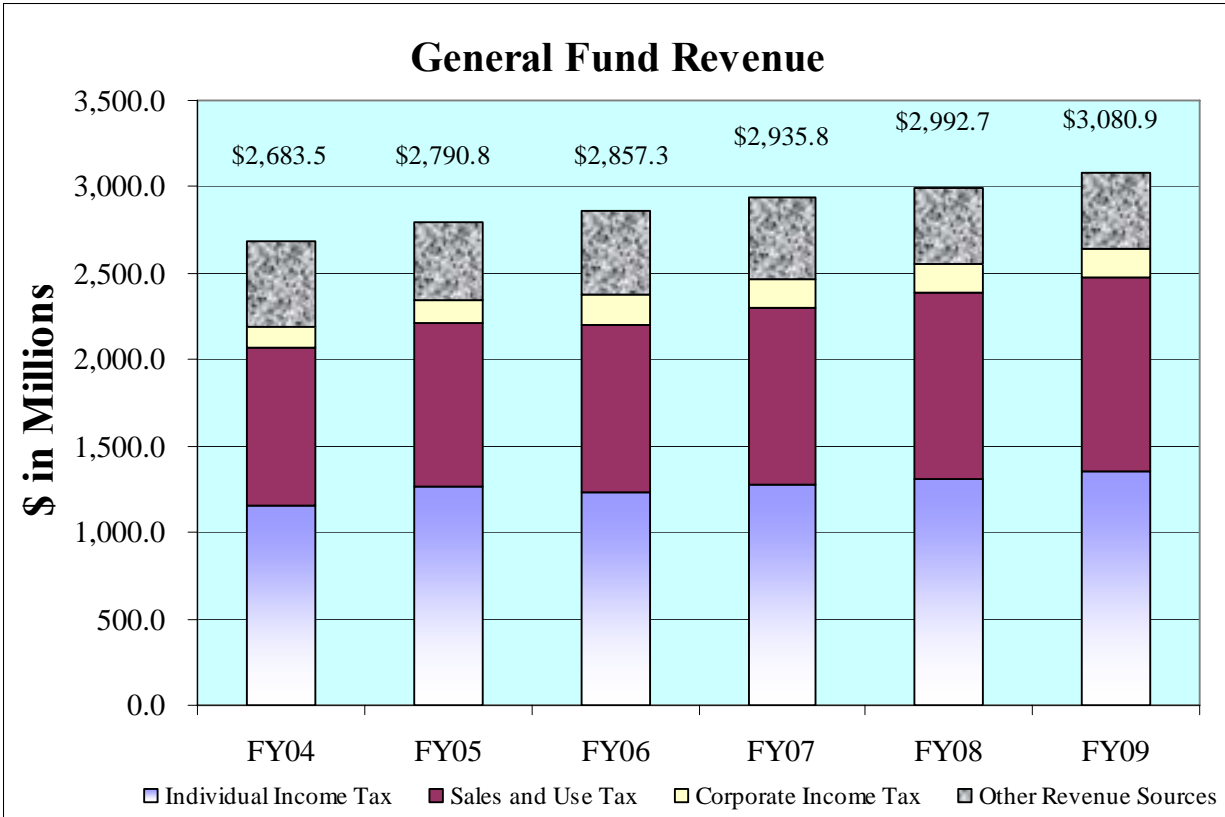


REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

March 2006



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Report of the Maine State Revenue Forecasting Committee March 2006 Forecast

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I. INTRODUCTION AND BACKGROUND TO REVENUE FORECAST

This report represents the conclusion to the winter forecast update for the March 1st statutory reporting deadline of the Revenue Forecasting Committee (RFC). A description of the revenue forecasting process is provided in Appendix F. This report and appendices provide a description of all the key elements of the General Fund and Highway Fund revenue forecasts. In addition to the statutorily required updates of General Fund and Highway Fund, the RFC has recently included forecasts of revenue accruing to the Fund for a Healthy Maine and the dedicated revenue from the Medicaid/MaineCare provider taxes. This updated forecast revises the forecast that was updated in December 2005 and incorporates all enacted legislative changes affecting revenue during the 122nd Legislature to date. The forecast also incorporates the recently revised economic forecast presented by the Consensus Economic Forecasting Commission (CEFC) for its February 1st reporting deadline. The revenue forecasts in this report provide projections through the fiscal year ending June 30, 2009 (FY09). The RFC met on February 23rd for an all day meeting to deliberate and discuss the recommendations of Maine Revenue Services and other revenue analyses.

A. Economic Forecast Update

The March 2006 revenue update began with the winter economic forecast in January. The Consensus Economic Forecasting Commission (CEFC) met on January 27th to review and update its forecast of November 2005, which revised the previous forecast of a year ago upward substantially after Maine avoided some potentially disastrous federal military base closure recommendations. Table I-A below summarizes the incremental change of the CEFC forecast. The full report of the CEFC is included in Appendix D.

TABLE I-A
Consensus Economic Forecasting Commission
Comparison of November 2005 and February 2006 Economic Forecasts

Calendar Years	2005	2006	2007	2008	2009
• Wage & Salary Employment (Annual Percentage Change)					
> Consensus 11/2005	0.8	0.9	0.7	0.8	0.8
> Consensus 2/2006	0.0	0.5	0.6	0.6	0.7
Difference	-0.8	-0.4	-0.1	-0.2	-0.1
• Personal Income (Annual Percentage Change)					
> Consensus 11/2005	5.5	5.5	5.0	5.0	5.0
> Consensus 2/2006	5.0	5.0	4.5	4.5	4.5
Difference	-0.5	-0.5	-0.5	-0.5	-0.5
• Consumer Price Index (Annual Percentage Change)					
> Consensus 11/2005	3.2	2.8	2.5	2.2	2.2
> Consensus 2/2006	3.4	3.0	2.8	2.8	2.8
Difference	0.2	0.2	0.3	0.6	0.6

On January 27th, the CEFC was faced with recent data releases that pointed to slower economic growth. Employment and personal income growth were both adjusted downward to reflect the latest 2005 employment estimates provided by the Maine Department of Labor, and income data through the first three quarters of 2005 from the U.S. Bureau of Labor Statistics. The CEFC raised its forecast for the U. S. Consumer Price index, citing the unexpected persistence of high oil prices, the federal deficit and employment growth at the national level.

B. Capital Gains Forecast

A major variable that is not included in the economic forecast is a projection of net capital gains. Maine's exceptional capital gains growth during the stock market "bubble" of the late 1990's (in excess of 20% annual increases for 5 consecutive years through tax year 2000) came to an abrupt end in tax year 2001, plummeting 54.3%, resulting in a very unpleasant April surprise in 2002. In tax year 2004, Maine received an opposite surprise in April 2005. It is estimated that net capital gains realizations increased by nearly 50% that year, whereas the RFC had assumed they would grow by only 5.5%.

TABLE I-B
Maine Resident - Net Capital Gains

Tax Year	Capital Gains Realizations (\$ Millions)	Capital Gains Realizations Annual % Change	Capital Gains Tax Liability (\$ Millions)	Capital Gains Tax Liability Annual % Change	Capital Gains % of Resident Tax Liability
1995	\$551.7		\$38.3		6.2%
1996	\$799.7	45.0%	\$57.3	49.6%	8.4%
1997	\$1,218.7	52.4%	\$104.5	82.4%	13.6%
1998	\$1,551.0	27.3%	\$120.0	14.8%	13.9%
1999	\$1,867.2	20.4%	\$141.7	18.1%	15.5%
2000	\$2,360.4	26.4%	\$179.6	26.7%	17.3%
2001	\$1,079.3	-54.3%	\$74.1	-58.7%	7.6%
2002	\$908.8	-15.8%	\$59.1	-20.3%	6.1%
2003	\$1,066.2	17.3%	\$69.5	17.6%	6.8%
2004*	\$1,593.2	49.4%	\$110.1	58.4%	9.9%
2005*	\$1,593.2	0.0%	\$108.4	-1.5%	9.4%
2006*	\$1,553.4	-2.5%	\$104.7	-3.4%	8.7%
2007*	\$1,485.0	-4.4%	\$99.5	-5.0%	8.0%
2008*	\$1,398.9	-5.8%	\$92.4	-7.1%	7.2%
2009*	\$1,301.0	-7.0%	\$83.8	-9.3%	6.3%

* *Represent Projections*

The RFC and Maine Revenue Services, like their counterparts in other states and the federal government, have had much difficulty trying to accurately forecast this variable. Maine data is not captured at the state level and may only be accessed through federal tax data. That information is shared with Maine Revenue Services, but it lags by as much as 2 years. Since November 1999, Maine Revenue Services has been required to provide a report on the net capital gains and losses realized by taxpayers filing Maine individual income tax returns. That report is

provided to the Legislature through the RFC and is typically included in the RFC's December report. That report (see Appendix E) is included in this report as a result of a delay in Maine's processing of the federal tax data that prohibited including it in the December 2005 report.

Table I-B on page 2 summarizes the current assumptions. The differences from the assumptions included in the December 2005 report are:

- 2003 data have been updated to actual with the most recent federal data;
- 2004 projections (note they are still projections due to filing extensions that will change the data) have been reduced as a result of preliminary data from the IRS; and
- 2005 projections have been lowered from 5.5% annual growth to no growth as one explanation for the small increase in the final payment.

The effect of these changes of assumptions is to lower the percentage of resident tax liability from capital gains each year from tax year 2005 to 2009 (see far right column in Table I-B). This change brings this percentage much closer to the longer term trend, which was the goal of the Revenue Forecasting Committee in its December 2005 forecast. The approach that the RFC used for the December 2005 forecast and this forecast was to adjust this variable so that over the course of the forecast period, the percentage of resident tax liability returns to a longer-term average, factoring out the recent "tech bubble." With the bursting of the "bubble," the extent of the Maine resident individual income tax liability derived from net capital gains had dropped down from its peak in 2000 of 17.5% to a level more in line with historical patterns before the "bubble," in the range of 6% to 7% of tax liability. This resulted in a decrease in net capital gains realizations each year of the forecast.

It is this variable that introduces the greatest risk in the revenue forecast. The other aspect of capital gains realizations that makes it difficult, particularly in Maine, is the fact that these gains are very discretionary and concentrated in the top 4%, or 25,000, of Maine's individual income tax filers. That top 4% accounts for approximately 40% of total individual income tax liability. The RFC again struggled with this vexing variable in this forecast.

C. Corporate Profits

A major variable of the tax models that drives the corporate income tax forecast is corporate profitability. Again, this forecast is not part of the CEFC economic forecast. The RFC used the forecast used by the federal government of before-tax corporate profits. That national forecast calls for 35% growth in calendar year 2005 and relatively flat growth thereafter. Maine is insulated from significant regional variances in corporate profitability as a result of Maine's method of corporate income taxation. For national companies operating in Maine, the amount of corporate income tax due to Maine is calculated by apportioning total profits earned in the continental United States by the amount of business that they conduct in Maine based on sales, payroll and property.

D. Oil Prices

The recent experience in Maine's sales tax collections seemed to demonstrate a substantial effect from variations in oil prices. Sales tax collections dropped below budgeted projections at about

the same time as the heating oil season began in the fall of 2004. With the recent tax model updates, Maine Revenue Services has added this variable to the sales and excise tax model so that the model might better capture the effect that oil and fuel price changes have on taxable sales and fuel purchases. Again, relying on Global Insights' November 2005 US economic forecast, the RFC used the assumption that oil prices, which are currently in the \$60 per barrel range would fall to approximately \$45 per barrel by calendar year 2008. This is consistent with the assumptions of the CEFC.

E. Legislative Changes

The RFC bases the revenue forecast on current law. The December 2005 forecast included all legislative changes through the 122nd Legislature's 2nd Special Session. This forecast does not include the effect of any legislative changes pending in the 122nd Legislature's 2nd Regular Session.

II. OVERVIEW OF REVENUE PROJECTIONS

This section provides a summary of the revenue projections in this forecast. These summaries are supplemented by additional detail in the 3 appendices, which provide summaries of the major categories in each of the funds that have been modified in this forecast. In addition, Appendix G contains the materials presented by Maine Revenue Services on February 23, 2006 to support the forecast recommendations.

A. General Fund

For the General Fund, this forecast results in a partial reversal of the substantial upward revision of the December 2005 forecast. Over the 2006-2007 biennium, this reversal driven by the downward revision to the economic forecast reduces the General Fund revenue by \$14.8 million, approximately 9% of the \$164.4 million increase recommended by the December 2005 revenue forecast. The downward impact of the economic forecast change on the Individual Income Tax and Sales Tax revenue lines was dampened in the short term by the recognition of positive variances in several revenue sources not as directly tied to the economic forecast, largely the Corporate Income Tax, Estate Tax and the Cigarette Tax lines. In fact, the revenue forecast for FY06 is actually increased in this forecast by \$1.4 million. The impact of the February 2006 economic forecast on the Sales Tax line was lessened by the addition of a fuel price variable in the model for the December 2005 forecast. At that time, the committee reduced the revenue estimate for Sales Tax despite a substantial increase in the Personal Income growth assumptions of the November 2005 economic forecast. The downward economic forecast revision that was more pessimistic for each year of the forecast period had a compounding effect on the revenue forecast in future fiscal years. Without the offsets of the FY06 positive variances, the downward revisions grow worse each year. For the 2008-2009 biennium, the downward revisions total \$53.0 million, increasing the 2008-2009 structural gap. Table A below provides a summary of the changes for each of the major revenue categories (additional detail of the General Fund changes is provided in Appendix A).

Table II-A General Fund Summary

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$2,790,845,053	\$2,855,420,638	\$2,952,015,876	\$3,015,653,150	\$3,110,929,801
Annual % Growth		2.3%	3.4%	2.2%	3.2%
Net Increase (Decrease)		\$1,889,771	(\$16,173,721)	(\$22,940,461)	(\$30,066,929)
Revised Forecast	\$2,790,845,053	\$2,856,810,409	\$2,935,842,155	\$2,992,712,689	\$3,080,862,872
Annual % Growth		2.4%	2.8%	1.9%	2.9%
Summary of Revenue Revisions by Major Revenue Category					
Sales and Use Tax		(\$3,060,000)	(\$5,120,000)	(\$4,270,000)	(\$4,940,000)
Individual Income Tax		(\$10,990,000)	(\$15,350,000)	(\$19,530,000)	(\$27,760,000)
Corporate Income Tax		\$9,930,000	\$8,850,000	\$6,970,000	\$8,030,000
Cigarette and Tobacco Tax		\$4,500,000	\$0	\$0	\$0
Insurance Companies Tax		(\$5,000,000)	\$0	\$0	\$0
Estate Tax		\$6,019,529	\$0	\$0	\$0
Income from Investments		\$2,277,520	\$385,512	\$1,341,762	\$1,341,762
Transfer to Municipal Rev. Sharing		\$210,120	\$592,620	\$875,160	\$1,282,840
Other Revenue		(\$1,997,398)	(\$5,531,853)	(\$8,327,383)	(\$8,021,531)
Total General Fund Revisions		\$1,889,771	(\$16,173,721)	(\$22,940,461)	(\$30,066,929)

B. Highway Fund

For the Highway Fund, this forecast decreases the 2006-2007 biennium's budgeted revenue by \$5.1 million. In FY06, the committee reversed \$3.0 million of a \$3.6 million gas tax audit assessment that was recognized in the December 2005 forecast. The forecast also recognizes the effect on the Highway Fund investment earnings of cash balances that have been drained by the budget problems in the Department of Transportation's capital program. Unlike the General Fund, the Highway Fund revenue downward revisions do not worsen over the long run as the higher inflation assumptions of the current economic forecast offset the lower economic growth assumptions as a result of the indexing of fuel tax rates to inflation. The downward revenue revisions for the 2008-2009 biennium total \$0.1 million, with the FY09 revenue revision being positive.

Table II-B Highway Fund Summary

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$326,078,155	\$335,352,879	\$340,999,732	\$346,517,898	\$353,462,015
Annual % Growth		2.8%	1.7%	1.6%	2.0%
Net Increase (Decrease)		(\$4,445,720)	(\$615,999)	(\$273,751)	\$169,747
Revised Forecast	\$326,078,155	\$330,907,159	\$340,383,733	\$346,244,147	\$353,631,762
Annual % Growth		1.5%	2.9%	1.7%	2.1%
Summary of Revenue Revisions by Major Revenue Category					
Fuel Taxes		(\$4,145,720)	(\$165,999)	\$176,249	\$619,747
Income from Investments		(\$300,000)	(\$450,000)	(\$450,000)	(\$450,000)
Total Highway Fund Revisions		(\$4,445,720)	(\$615,999)	(\$273,751)	\$169,747

C. Fund for a Healthy Maine (FHM)

The Fund for a Healthy Maine (FHM) was revised significantly downward for the 2006-2007 biennium by the December 2005 revenue forecast, based on an assumed delay in the receipt of tobacco settlement payments pending the outcome of “significant factor proceedings” under the Master Settlement Agreement. There has been no change in that assumption in this forecast. This forecast once again adversely affects the FHM as a result of updated assumptions related to the “Racino” in Bangor. With 3 months of actual revenue data, the committee revised a central assumption about the player payback percentage. That percentage was substantially higher than the 89% required by law and assumed as part of the previous forecast. As a result, the FHM revenue forecast for the 2006-2007 biennium is reduced by an additional \$1.1 million. With an additional 6-month delay in the assumed opening of the permanent facility compounding the reduction from the change in the payback percentage the downward reduction for the 2008-2009 biennium is \$5.2 million, the impact of these assumptions on the General Fund revenue forecast was offset in the short-term by an increased forecast of the General Fund’s 1% share of the total adjusted slot machine income (“coin-in”).

Table II-C Fund for a Healthy Maine (FHM) Summary

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$49,124,793	\$43,353,622	\$44,409,679	\$76,504,714	\$78,434,308
Annual % Growth		-11.7%	2.4%	72.3%	2.5%
Net Increase (Decrease)		(\$335,591)	(\$720,395)	(\$2,643,362)	(\$2,589,850)
Revised Forecast	\$49,124,793	\$43,018,031	\$43,689,284	\$73,861,352	\$75,844,458
Annual % Growth		-12.4%	1.6%	69.1%	2.7%
Summary of Revenue Revisions by Major Revenue Category					
Racino Revenue		(\$335,591)	(\$720,395)	(\$2,643,362)	(\$2,589,850)
Total FHM Revisions		(\$335,591)	(\$720,395)	(\$2,643,362)	(\$2,589,850)

D. MaineCare Dedicated Revenue Taxes

Because of their significant interrelationship with the General Fund budget, the RFC has recently been including a forecast of revenue from the MaineCare dedicated revenue taxes. Those estimates are not being revised in this report, leaving the December 2005 forecast unchanged.

III. CONCLUSIONS

Revenue Change Not as Substantial as Economic Forecast Normally Would Indicate. The RFC was pleasantly surprised at the modest short-term effect of a substantial downward revision in the economic forecast. Actions taken in last December’s forecast to add the additional variable in the models to capture the effect of higher fuel prices on consumer spending depressed the estimates of the Sales Tax line last December despite an economic forecast that would normally have driven the estimate of that line substantially upward. The Corporate Income Tax line, which is insulated from significant regional differences, offset the Individual Income Tax reductions. Estate Tax collections have been a pleasant surprise each month this fiscal year as many unusually large estate tax payments have produced positive variances. With the exception of the December and January estimated tax payments, the major lines had, at least in the short-term, been very close to budget under the more optimistic November 2005 economic forecast.

Reversing Revenue Increases Associated With Legislative Changes

In both the December 2005 revenue forecast and this revenue forecast, the RFC found that it had to reverse many revenue increases that were associated with recent legislative changes. The Office of Fiscal and Program Review (OFPR) scores revenue increases associated with legislative changes through the fiscal note process, which works integrally with the revenue forecasting process. OFPR, which has 2 staff members serving on the RFC, noted the unusually large number of these reversals recently. Judicial Fine Revenue estimates from unpaid fines, Correctional Fee revenue, Conservation revenue from park operations changes and revenue from on-line burn permits are some examples of agency revenue increases that were not realized. OFPR will increase its scrutiny of proposed revenue estimates associated with legislation to minimize the number of reversals.

Capital Gains Still Present Substantial Risk

Although the RFC forecast for net capital gains projects significant improvement over the previous forecast, the RFC remains cautious about the unpredictable nature of income from this revenue source. The significant lag in historical data (Federal tax data is often not finalized until a year or more after the close of a tax year) creates great uncertainty. The RFC is assuming that the positive unexplained variance in April 2005 individual income tax was related to a 49.4% increase in net capital gains income in tax year 2004. We will not be able to verify that until late fall of 2006 when all income tax filing extensions have run their course. In Maine, the decisions of a relatively small number of taxpayers can substantially affect individual income tax revenue. The percentage of income tax liability of this higher income group has been increasing in recent years and as a result can create significant volatility in revenue from the individual income tax. In addition to the volatility related to capital gains, the very uncertain global economic and geopolitical environment adds the potential for significant “shocks” to the forecast that could significantly affect revenue.

Although the RFC will be closely monitoring the economic situation, the final payments due in April provide the potential for wide swings that cannot be fully anticipated at this time. The RFC expressed caution regarding these April payments.

Appendix A - General Fund

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GENERAL FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY04 Actual	% Chg.	FY05 Actual	% Chg.	FY05 Budget	FY05 Variance	% Var.
Sales and Use Tax	817,781,460	-3.5%	836,134,084	2.2%	857,486,801	2.6%	917,243,245	7.0%	896,576,322	-2.3%	899,710,000	(3,133,678)	-0.3%
Service Provider Tax	0	N/A	0	N/A	0	N/A	0	N/A	44,645,517	N/A	44,200,000	445,517	1.0%
Individual Income Tax *	1,167,749,567	8.7%	1,069,834,791	-8.4%	1,071,701,694	0.2%	1,156,715,909	7.9%	1,270,225,329	9.8%	1,259,880,674	10,344,655	0.8%
Corporate Income Tax	96,102,796	-36.0%	77,366,103	-19.5%	91,188,393	17.9%	111,616,051	22.4%	135,862,913	21.7%	123,300,647	12,562,266	10.2%
Cigarette and Tobacco Tax	77,501,831	-1.1%	97,599,599	25.9%	98,414,470	0.8%	96,604,646	-1.8%	96,350,704	-0.3%	96,019,864	330,840	0.3%
Public Utilities Tax	29,776,778	88.6%	30,479,783	2.4%	29,285,143	-3.9%	27,991,188	-4.4%	25,403,214	-9.2%	25,300,000	103,214	0.4%
Insurance Companies Tax	43,576,501	2.1%	55,244,333	26.8%	71,078,089	28.7%	72,206,153	1.6%	75,669,053	4.8%	69,615,872	6,053,181	8.7%
Estate Tax	30,616,759	-47.9%	23,420,240	-23.5%	30,520,320	30.3%	32,075,501	5.1%	32,255,727	0.6%	31,542,767	712,960	2.3%
Prop. Tax - Unorganized Territory	9,808,431	5.1%	10,333,984	5.4%	9,930,103	-3.9%	10,709,308	7.8%	10,622,666	-0.8%	10,580,086	42,580	0.4%
Income from Investments	16,365,950	-19.4%	3,829,583	-76.6%	2,345,855	-38.7%	2,310,207	-1.5%	5,854,625	153.4%	4,896,463	958,162	19.6%
Transfer to Municipal Rev. Sharing	(106,163,291)	-0.5%	(101,150,084)	4.7%	(103,039,221)	-1.9%	(111,464,335)	-8.2%	(119,712,814)	-7.4%	(118,681,657)	(1,031,157)	-0.9%
Transfer from Lottery Commission	35,483,595	-7.0%	39,317,891	10.8%	39,442,111	0.3%	41,272,645	4.6%	49,328,102	19.5%	50,292,750	(964,648)	-1.9%
Other Revenues **	172,027,974	4.0%	189,250,254	10.0%	196,336,434	3.7%	326,259,040	66.2%	267,763,694	-17.9%	264,281,977	3,481,717	1.3%
Total - General Fund Revenue	2,390,628,351	-0.2%	2,331,660,562	-2.5%	2,394,690,190	2.7%	2,683,539,557	12.1%	2,790,845,053	4.0%	2,760,939,443	29,905,610	1.1%

* Detail of Property Tax Reimbursement Programs Deducted from Individual Income Tax Revenue

- Maine Resident Property Tax Program													
- Business Equipment Tax Reimbursement (BETR)									(26,030,227)	N/A	(26,127,647)	97,420	0.4%

** Detail of Other Revenues:

- Real Estate Transfer Tax	9,048,762	-2.9%	9,208,923	1.8%	10,770,668	17.0%	22,196,221	106.1%	24,113,439	8.6%	23,306,346	807,093	3.5%
- Commercial Forestry Excise Tax	2,943,380	-4.4%	3,681,764	25.1%	3,172,724	-13.8%	2,907,340	-8.4%	2,890,635	-0.6%	3,005,149	(114,514)	-3.8%
- Liquor Sales and Operations	24,231,271	4.3%	25,168,524	3.9%	26,073,276	3.6%	102,182,743	291.9%	49,845,027	-51.2%	50,000,000	(154,973)	-0.3%
- Liquor Taxes and Fees	15,925,822	-0.5%	16,528,396	3.8%	17,141,878	3.7%	17,485,024	2.0%	17,432,377	-0.3%	17,431,231	1,146	0.0%
- Finance Industry Fees	9,811,430	12.5%	9,356,930	-4.6%	9,293,280	-0.7%	9,572,280	3.0%	18,641,800	94.7%	16,563,440	2,078,360	12.5%
- Corporation Fees & Licenses	3,313,312	5.9%	3,390,039	2.3%	3,482,107	2.7%	3,600,455	3.4%	5,637,743	56.6%	5,451,707	186,036	3.4%
- Hunting and Fishing License Fees	13,681,818	-2.5%	14,857,760	8.6%	13,958,510	-6.1%	16,898,278	21.1%	16,691,165	-1.2%	16,138,609	552,556	3.4%
- Boat, ATV and Snowmobile Fees	2,143,124	-3.6%	2,169,025	1.2%	2,483,836	14.5%	3,974,511	60.0%	4,148,890	4.4%	4,239,724	(90,834)	-2.1%
- Parimutuel and Gaming Revenue	1,094,337	1.2%	1,105,430	1.0%	1,086,936	-1.7%	1,036,539	-4.6%	1,362,611	31.5%	1,214,900	147,711	12.2%
- Fines, Forfeits and Penalties	26,525,142	1.4%	26,588,960	0.2%	26,991,935	1.5%	38,219,275	41.6%	35,506,972	-7.1%	35,415,714	91,258	0.3%
- Targeted Case Management (HHS)	26,098,790	30.4%	34,085,690	30.6%	33,235,104	-2.5%	34,762,095	4.6%	34,518,055	-0.7%	34,009,373	508,682	1.5%
- HHS Services Rendered	4,023,508	-17.8%	4,604,354	14.4%	4,774,087	3.7%	8,892,183	86.3%	7,210,878	-18.9%	7,359,189	(148,311)	-2.0%
- State Cost Allocation Program	6,044,287	-23.4%	10,231,443	69.3%	10,986,971	7.4%	10,438,262	-5.0%	12,891,574	23.5%	10,692,505	2,199,069	20.6%
- Unclaimed Property Transfer	2,550,000	-75.0%	7,841,073	207.5%	8,180,260	4.3%	16,763,948	104.9%	10,000,000	-40.3%	10,000,000	0	0.0%
- Education Efficiency Fund Transfer	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	0	N/A
- Tourism Transfer	0	N/A	0	N/A	0	N/A	(7,213,282)	N/A	(7,554,190)	-4.7%	(7,554,189)	(1)	0.0%
- Clean Elections Fund Transfer	(2,274,557)	9.8%	(2,248,226)	1.2%	(2,302,904)	-2.4%	(2,247,659)	2.4%	(2,232,650)	0.7%	(2,250,000)	17,350	0.8%
- Other Miscellaneous	26,867,549	49.2%	22,680,169	-15.6%	27,007,764	19.1%	46,790,827	73.2%	36,659,370	-21.7%	39,258,279	(2,598,909)	-6.6%
IF&W Total Revenue ***	16,619,119	-3.0%	17,895,675	7.7%	17,595,575	-1.7%	21,902,902	24.5%	21,817,659	-0.4%	21,478,863	338,796	1.6%

*** IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue because it includes Other Revenue classified above.

Updated: 02/28/2006

GENERAL FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Sales and Use Tax	933,701,080	4.1%	(3,060,000)	930,641,080	3.8%	982,251,607	5.2%	(5,120,000)	977,131,607	5.0%
Service Provider Tax	46,494,165	4.1%	0	46,494,165	4.1%	48,911,765	5.2%	0	48,911,765	5.2%
Individual Income Tax *	1,239,297,845	-2.4%	(10,990,000)	1,228,307,845	-3.3%	1,292,127,672	4.3%	(15,350,000)	1,276,777,672	3.9%
Corporate Income Tax	165,220,000	21.6%	9,930,000	175,150,000	28.9%	158,980,000	-3.8%	8,850,000	167,830,000	-4.2%
Cigarette and Tobacco Tax	147,238,325	52.8%	4,500,000	151,738,325	57.5%	165,466,882	12.4%	0	165,466,882	9.0%
Public Utilities Tax	21,440,000	-15.6%	0	21,440,000	-15.6%	20,495,000	-4.4%	0	20,495,000	-4.4%
Insurance Companies Tax	77,141,931	1.9%	(5,000,000)	72,141,931	-4.7%	79,644,425	3.2%	0	79,644,425	10.4%
Estate Tax	64,079,793	98.7%	6,019,529	70,099,322	117.3%	38,152,245	-40.5%	0	38,152,245	-45.6%
Prop. Tax - Unorganized Territory	11,278,476	6.2%	0	11,278,476	6.2%	11,597,312	2.8%	0	11,597,312	2.8%
Income from Investments	4,286,062	-26.8%	2,277,520	6,563,582	12.1%	5,778,070	34.8%	385,512	6,163,582	-6.1%
Transfer to Municipal Rev. Sharing	(121,620,368)	-1.6%	210,120	(121,410,248)	-1.4%	(126,595,823)	-4.1%	592,620	(126,003,203)	-3.8%
Transfer from Lottery Commission	50,334,250	2.0%	0	50,334,250	2.0%	50,334,250	0.0%	0	50,334,250	0.0%
Other Revenues **	216,529,079	-19.1%	(1,997,398)	214,531,681	-19.9%	224,872,471	3.9%	(5,531,853)	219,340,618	2.2%
Total - General Fund Revenue	2,855,420,638	2.3%	1,889,771	2,857,310,409	2.4%	2,952,015,876	3.4%	(16,173,721)	2,935,842,155	2.7%
Change in Biennial Totals								(14,283,950)		

*** Detail of Property Tax Reimbursement Programs Deducted from Individual Income Tax Revenue**

- Maine Resident Property Tax Program	(44,720,507)	-71.8%	391,543	(44,328,964)	-70.3%	(46,493,783)	-4.0%	397,963	(46,095,820)	-4.0%
- BETR - Business Equipment Tax Reimb.	(73,463,191)	N/A	2,000,000	(71,463,191)	N/A	(68,146,508)	7.2%	0	(68,146,508)	4.6%

*** Detail of Other Revenues:**

- Real Estate Transfer Tax	19,504,918	-19.1%	3,000,000	22,504,918	-6.7%	19,314,440	-1.0%	0	19,314,440	-14.2%
- Commercial Forestry Excise Tax	3,000,000	3.8%	0	3,000,000	3.8%	3,450,000	15.0%	0	3,450,000	15.0%
- Liquor Sales and Operations	1,500,000	-97.0%	1,034,391	2,534,391	-94.9%	1,500,000	0.0%	2,000,000	3,500,000	38.1%
- Liquor Taxes and Fees	18,436,397	5.8%	0	18,436,397	5.8%	18,908,202	2.6%	0	18,908,202	2.6%
- Banking Fees/Assessments	19,912,310	6.8%	0	19,912,310	6.8%	19,912,310	0.0%	0	19,912,310	0.0%
- Corporation Fees & Licenses	5,528,707	-1.9%	0	5,528,707	-1.9%	5,530,707	0.0%	0	5,530,707	0.0%
- Hunting and Fishing License Fees	16,144,351	-3.3%	0	16,144,351	-3.3%	16,300,487	1.0%	0	16,300,487	1.0%
- Boat, ATV and Snowmobile Fees	3,870,938	-6.7%	0	3,870,938	-6.7%	3,870,938	0.0%	0	3,870,938	0.0%
- Parimutuel and Gaming Revenue	4,114,814	202.0%	321,336	4,436,150	225.6%	4,682,640	13.8%	(225,330)	4,457,310	0.5%
- Fines, Forfeits and Penalties	43,042,996	21.2%	(2,500,000)	40,542,996	14.2%	44,705,883	3.9%	(2,500,000)	42,205,883	4.1%
- Targeted Case Management (HHS)	34,907,681	1.1%	(3,000,000)	31,907,681	-7.6%	35,271,042	1.0%	(5,000,000)	30,271,042	-5.1%
- HHS Services Rendered	5,645,665	-21.7%	0	5,645,665	-21.7%	4,839,571	-14.3%	0	4,839,571	-14.3%
- State Cost Allocation Program	10,537,222	-18.3%	1,000,000	11,537,222	-10.5%	10,721,512	1.7%	1,000,000	11,721,512	1.6%
- Unclaimed Property Transfer	9,550,000	-4.5%	0	9,550,000	-4.5%	13,678,320	43.2%	0	13,678,320	43.2%
- Education Efficiency Fund Transfer	0	N/A	0	0	N/A	0	N/A	0	0	N/A
- Tourism Transfer	(7,762,689)	-2.8%	0	(7,762,689)	-2.8%	(8,237,761)	-6.1%	135,674	(8,102,087)	-4.4%
- Clean Elections Fund Transfer	(4,250,000)	-90.4%	0	(4,250,000)	-90.4%	(250,000)	94.1%	0	(250,000)	94.1%
- Other Miscellaneous	32,845,769	-10.4%	(1,853,125)	30,992,644	-15.5%	30,674,180	-6.6%	(942,197)	29,731,983	-4.1%
IF&W Total Revenue ***	21,192,191	-2.9%	(4,796)	21,187,395	-2.9%	21,365,107	0.8%	897	21,366,004	0.8%

*** IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue because it includes Other Revenue classified above.

Updated: 02/28/2006

GENERAL FUND REVENUE

REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY08 Projection	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Projection	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Sales and Use Tax	1,027,840,880	4.6%	(4,270,000)	1,023,570,880	4.8%	1,073,444,023	4.4%	(4,940,000)	1,068,504,023	4.4%
Service Provider Tax	51,181,910	4.6%	0	51,181,910	4.6%	53,452,742	4.4%	0	53,452,742	4.4%
Individual Income Tax *	1,334,752,988	3.3%	(19,530,000)	1,315,222,988	3.0%	1,384,613,932	3.7%	(27,760,000)	1,356,853,932	3.2%
Corporate Income Tax	157,970,000	-0.6%	6,970,000	164,940,000	-1.7%	158,000,000	0.0%	8,030,000	166,030,000	0.7%
Cigarette and Tobacco Tax	164,396,738	-0.6%	0	164,396,738	-0.6%	163,198,120	-0.7%	0	163,198,120	-0.7%
Public Utilities Tax	19,320,000	-5.7%	0	19,320,000	-5.7%	18,260,000	-5.5%	0	18,260,000	-5.5%
Insurance Companies Tax	81,149,288	1.9%	0	81,149,288	1.9%	82,684,299	1.9%	0	82,684,299	1.9%
Estate Tax	41,662,371	9.2%	0	41,662,371	9.2%	46,528,951	11.7%	0	46,528,951	11.7%
Prop. Tax - Unorganized Territory	11,958,218	3.1%	0	11,958,218	3.1%	12,332,279	3.1%	0	12,332,279	3.1%
Income from Investments	4,821,820	-16.5%	1,341,762	6,163,582	0.0%	4,821,820	0.0%	1,341,762	6,163,582	0.0%
Transfer to Municipal Rev. Sharing	(133,730,780)	-5.6%	875,160	(132,855,620)	-5.4%	(138,814,556)	-3.8%	1,282,840	(137,531,716)	-3.5%
Transfer from Lottery Commission	49,834,250	-1.0%	0	49,834,250	-1.0%	49,834,250	0.0%	0	49,834,250	0.0%
Other Revenues **	204,495,467	-9.1%	(8,327,383)	196,168,084	-10.6%	202,573,941	-0.9%	(8,021,531)	194,552,410	-0.8%
Total - General Fund Revenue	3,015,653,150	2.2%	(22,940,461)	2,992,712,689	1.9%	3,110,929,801	3.2%	(30,066,929)	3,080,862,872	2.9%
Change in Biennial Totals								(53,007,390)		

* Detail of Property Tax Reimbursement Programs Deducted from Individual Income Tax Revenue

- Maine Resident Property Tax Program	(48,875,193)	-5.1%	435,180	(48,440,013)	-5.1%	(51,874,912)	-6.1%	485,827	(51,389,085)	-6.1%
- BETR - Business Equipment Tax Reimb.	(77,707,000)	-14.0%	0	(77,707,000)	-14.0%	(79,646,983)	-2.5%	0	(79,646,983)	-2.5%

* Detail of Other Revenues:

- Real Estate Transfer Tax	11,884,726	-38.5%	0	11,884,726	-38.5%	11,955,435	0.6%	0	11,955,435	0.6%
- Commercial Forestry Excise Tax	3,500,000	1.4%	0	3,500,000	1.4%	3,500,000	0.0%	0	3,500,000	0.0%
- Liquor Sales and Operations	1,500,000	0.0%	2,000,000	3,500,000	0.0%	1,500,000	0.0%	2,000,000	3,500,000	0.0%
- Liquor Taxes and Fees	19,260,253	1.9%	0	19,260,253	1.9%	19,625,039	1.9%	0	19,625,039	1.9%
- Banking Fees/Assessments	19,910,910	0.0%	0	19,910,910	0.0%	19,910,910	0.0%	0	19,910,910	0.0%
- Corporation Fees & Licenses	5,530,707	0.0%	0	5,530,707	0.0%	5,530,707	0.0%	0	5,530,707	0.0%
- Hunting and Fishing License Fees	16,300,487	0.0%	0	16,300,487	0.0%	16,300,487	0.0%	0	16,300,487	0.0%
- Boat, ATV and Snowmobile Fees	3,870,938	0.0%	0	3,870,938	0.0%	3,870,938	0.0%	0	3,870,938	0.0%
- Parimutuel and Gaming Revenue	7,281,584	55.5%	(2,669,977)	4,611,607	3.5%	8,605,583	18.2%	(1,977,918)	6,627,665	43.7%
- Fines, Forfeits and Penalties	42,015,208	-6.0%	(1,500,000)	40,515,208	-4.0%	42,020,208	0.0%	(1,500,000)	40,520,208	0.0%
- Targeted Case Management (HHS)	35,786,872	1.5%	(5,000,000)	30,786,872	1.7%	36,262,056	1.3%	(5,000,000)	31,262,056	1.5%
- HHS Services Rendered	4,841,305	0.0%	0	4,841,305	0.0%	4,841,305	0.0%	0	4,841,305	0.0%
- State Cost Allocation Program	10,721,512	0.0%	0	10,721,512	-8.5%	10,721,512	0.0%	0	10,721,512	0.0%
- Unclaimed Property Transfer	22,835,500	66.9%	0	22,835,500	66.9%	25,210,825	10.4%	0	25,210,825	10.4%
- Education Efficiency Fund Transfer	(14,552,541)	N/A	(354,796)	(14,907,337)	N/A	(20,730,626)	-42.5%	(743,291)	(21,473,917)	-44.0%
- Tourism Transfer	(8,675,720)	-5.3%	145,633	(8,530,087)	-5.3%	(9,145,907)	-5.4%	154,127	(8,991,780)	-5.4%
- Clean Elections Fund Transfer	(2,250,000)	-800.0%	0	(2,250,000)	-800.0%	(2,250,000)	0.0%	0	(2,250,000)	0.0%
- Other Miscellaneous	24,733,726	-19.4%	(948,243)	23,785,483	-20.0%	24,845,469	0.5%	(954,449)	23,891,020	0.4%
IF&W Total Revenue ***	21,373,208	0.0%	1,357	21,374,565	0.0%	21,381,157	0.0%	1,751	21,382,908	0.0%

*** IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue because it includes Other Revenue classified above.

Updated: 02/28/2006

General Fund - Sales and Use Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$857,486,801	\$917,243,245	\$896,576,322	\$933,701,080	\$982,251,607	\$1,027,840,880	\$1,073,444,023
Annual % Growth		7.0%	-2.3%	4.1%	5.2%	4.6%	4.4%
Net Increase (Decrease)				(\$3,060,000)	(\$5,120,000)	(\$4,270,000)	(\$4,940,000)
Revised Forecast	\$857,486,801	\$917,243,245	\$896,576,322	\$930,641,080	\$977,131,607	\$1,023,570,880	\$1,068,504,023
Annual % Growth		7.0%	-2.3%	3.8%	5.0%	4.8%	4.4%

Revenue Source Summary:

The sales tax is imposed at the rate of 5% of the sale price on retail sales of tangible personal property and taxable services; at 7% on temporary rentals of living quarters in hotels, rooming houses, tourist and trailer camps, the sale of liquor by the drink and prepared food; and at 10% on the short-term rental of automobiles. The tax is also imposed on casual sales of motor vehicles, camper trailers, truck campers, livestock trailers, special mobile equipment, boats and aircraft. Sales of new manufactured housing (mobile homes and modular homes) are subject to the 5% tax, usually at 50% of the selling price. Many exemptions and exclusions exist, including grocery staples.

The use tax is imposed at the same rate as the sales tax on the sale price of tangible personal property and taxable services purchased at retail sale beyond the collection jurisdiction of the State for use, storage or other consumption in Maine, unless substantial (12 months) use was made of the property elsewhere before it was brought to Maine. An exception is made for motor vehicles registered as automobiles that were purchased and actually used in another state before being brought to Maine, if the purchaser was a resident of the other state at the time of purchase. The use tax does not apply to purchases on which Maine sales tax has been paid, and credit is allowed for sales or use tax paid in another jurisdiction up to the amount of the Maine tax.

Beginning in FY05, certain services previously included in this category were moved to the Service Provider Tax (see next page in Appendix for this revenue category). This change accounts for the negative growth in FY05.

Revenue Source Forecast Factors and Trends:

Sales and Use Tax is one of the major revenue sources tied to economic activity with projections developed using Maine Revenue Services tax models with input from the economic variables forecast by the Concensus Economic Forecasting Commission (CEFC). Sales and Use Tax projections in the tax models are derived primarily from aggregate Personal Income growth assumptions. Total employment growth is used to predict business purchases. Inflation projections are also used for those elements of the sales and excise tax models that are based on units sold in order to produce an inflation adjusted dollar value.

Sales and Use Tax revenue has been under budget consistently since the beginning of the heating season late last fall. The Committee made a late adjustment in June 2005 revising the forecast for this line downward by \$15.0 million. Sales and Use Tax revenue was under budget after this revision by \$3.1 million (-0.3%). The growth of this revenue line, which had been very strong after the FY02 (4.9% growth in FY03 and 7.0% growth in FY04), dropped to 2.6% in FY05 (after adjusting and adding back in the components that were separated into the Service Provider Tax).

Taxable Sales Trends - For calendar year 2005, taxable sales were up 2% over the previous year. The strongest growth was in the other retail category, up 6%, followed by the business operating, food store and building supplies sectors, all up 5%. The general merchandise sector was down 1%, auto/transportation sales were down 2%, and restaurant and lodging sales were up 3%. See Appendix G for more detail on taxable sales growth.

Forecast Recommended Changes:

The updated tax models allow for additional variables such as energy prices. With that additional variable the models now seem to be closer to actual in the historical data and provide the RFC with a better projection of taxable sales. The inclusion of oil prices (see background section of report) in the model shift household consumption to the purchase of tax exempt fuel and away from other goods and services, both taxable and tax exempt. This change in the mix of consumer purchases results in a reduction of the forecast throughout the forecast period. The recommended change to this revenue line is a result of the combination of the new economic assumptions, recognition of a one-time large audit payment in FY06, and an assumption of weak auto sales in FY06 and then a slow recovery throughout the forecast window.

General Fund - Individual Income Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$1,071,701,694	\$1,156,715,909	\$1,270,225,329	\$1,239,297,845	\$1,292,127,672	\$1,334,752,988	\$1,384,613,932
Annual % Growth		7.9%	9.8%	-2.4%	4.3%	3.3%	3.7%
Net Increase (Decrease)				(\$10,990,000)	(\$15,350,000)	(\$19,530,000)	(\$27,760,000)
Revised Forecast	\$1,071,701,694	\$1,156,715,909	\$1,270,225,329	\$1,228,307,845	\$1,276,777,672	\$1,315,222,988	\$1,356,853,932
Annual % Growth		7.9%	9.8%	-3.3%	3.9%	3.0%	3.2%

Revenue Source Summary:

This category includes all revenue from individual income tax including penalties and interest associated with the collection of individual income tax. It also includes income tax on fiduciaries and income tax from Partnerships, Limited Liability Corporations and S Corporations that are reported on the owners' individual income tax returns.

Beginning in FY05, Individual Income Tax revenue was reduced by the amount of the payments under the Maine Residents Property Tax Program (Tax and Rent Refund or Circuit Breaker). Amounts necessary for the benefit payments are transferred from Individual Income Tax revenue to a reserve account for payment. Beginning in FY06, a similar arrangement was established for the Business Equipment Tax Reimbursement (BETR) program. Estimates of these transfers and the effect that they have on the forecast of Individual Income are detailed in separate sections. The amounts above reflect net amounts after the transfers for these tax reimbursement programs, but do not reflect the transfer to the Local Government Fund for State-Municipal Revenue Sharing.

Revenue Source Forecast Factors and Trends:

The individual income tax simulation model is the most complicated and involves the input of multiple economic variables. The individual components of Personal Income, which include salaries and wages; dividend interest and rents; proprietor's income; supplements to wages and salaries; and transfer payments are fed into the model. Other factors include: inflation projections that drive statutory indexing provisions (tax brackets and standard deduction amounts); total employment growth and unemployment rate affecting assumed number of tax filings; and the 3-month and 10-year Treasury Rates that drive interest earnings assumptions and the mortgage interest deduction.

A major variable thnot included in the consensus economic forecast is net capital gains realizations. This is variable has produced some significant volatility in the individual income tax collections. A detailed discussion is included in the body of the report.

Current Year Variance - Individual Income Tax collections have dropped below projections in recent months. This category was adjusted upward by \$71.8 million in the December 2005 revenue forecast. The current year variance through January is \$18.5 million (-2.4% of budget), excluding the variances associated with the BETR and Circuit Breaker programs. Estimated payments were under budget in December and January resulting in a negative variance of \$11.8 million (-6.8%) through January. Refunds have surged ahead of projections very early in the processing season, accounting for \$6.1 million of the negative variance. Fiscal year-to-date withholding payments were up 4.1% over FY05 amounts and have been tracking very close to revised projections (less than -0.1% variance through January).

Forecast Recommended Changes:

The revised economic variables in the current CEFC forecast all have tended to drive the model projections of the individual income tax lower. Slower wage and salary growth, slower employment growth and higher inflation. The committee had to factor in the recent performance of individual income tax withholding, which was only very modestly below forecast. The reprojection on this line reflects the lower than expected final estimated payment for tax year 2005 received in January. The new economic forecast and a zero growth assumption for capital gains realizations were sufficient to explain the shortfall in the final estimated payment. The net changes above also reflect the adjustments made to the BETR and Circuit Breaker programs. (See separate summaries for the detail of the changes to those programs.

**General Fund - Individual Income Tax (Maine Residents Property Tax Program)
aka "Tax and Rent Refund" or "Circuit Breaker" Program**

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$0	\$0	(\$26,030,227)	(\$44,720,507)	(\$46,493,783)	(\$48,875,193)	(\$51,874,912)
Annual % Growth		N/A	N/A	71.8%	4.0%	5.1%	6.1%
Net Increase (Decrease)				\$391,543	\$397,963	\$435,180	\$485,827
Revised Forecast	\$0	\$0	(\$26,030,227)	(\$44,328,964)	(\$46,095,820)	(\$48,440,013)	(\$51,389,085)
Annual % Growth		N/A	N/A	70.3%	4.0%	5.1%	6.1%

Revenue Source Summary:

Beginning with FY05, taxpayer reimbursement under the Maine Residents' Property Tax Reimbursement (Tax and Rent Refund or "Circuit Breaker") program is accounted for as a deduction from the individual income tax line rather than an expenditure from General Fund appropriations for that purpose. The program expansion (PL 2005, c. 2) is reflected beginning in fiscal year 2005-06 and includes: an increase in the maximum payment from \$1,000 to \$2,000, the elimination of income thresholds, the establishment of maximum property taxes used to calculate benefits (\$3,000 single/\$4,000 multiple member household) and an increase in the % of rent constituting property taxes from 18% to 20%. It also extended the close of the application period from 12/31 to 5/31. The amounts reflected in the table above represent gross program costs prior to the adjustment for state-municipal revenue sharing.

Revenue Source Forecast Factors and Trends:

This component of individual income tax is forecast using a combination of the income tax and property tax modules within the tax models. It is driven by economic forecast, particularly the income components, and a forecast of residential property values based on recent trends in each municipality.

FY05 program costs were just under budget, resulting in a positive revenue variance. For the 1st 7 months of FY06, the program expenditures been under budget by \$5.4 million. The length of the program year was extended until May beginning this fiscal year. This is still thought to be a timing issue that will balance out over the next couple of months. The timing of payments may be affected by the program expansion.

Forecast Recommended Changes:

Despite the positive variance noted above the only change recommended at this time is a correction to correctly reflect a legislative change that should have been included in the estimate for this program in the December 2005 forecast. This change represents no aggregate change to individual income tax only a change in the classification within individual income tax. It also corrects this detail table to agree with the summary amounts in the December 2005 report.

General Fund - Individual Income Tax - Business Equipment Tax Reimbursement (BETR)

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$0	\$0	\$0	(\$73,463,191)	(\$68,146,508)	(\$77,707,000)	(\$79,646,983)
Annual % Growth		N/A	N/A	N/A	-7.2%	14.0%	2.5%
Net Increase (Decrease)				\$2,000,000	\$0	\$0	\$0
Revised Forecast	\$0	\$0	\$0	(\$71,463,191)	(\$68,146,508)	(\$77,707,000)	(\$79,646,983)
Annual % Growth		N/A	N/A	N/A	-4.6%	14.0%	2.5%

Revenue Source Summary:

Beginning with FY06, taxpayer reimbursement under the Business Equipment Tax Reimbursement (BETR) program is accounted for as a deduction from the individual income tax line rather than an expenditure from General Fund appropriations for that purpose. Certain persons and property such as office furniture, lamps and lighting fixtures and gambling machines or devices are not eligible for reimbursement (see 36 MRSA Chapter 915 for specific exclusions). Retail property will also be excluded for property tax years beginning after April 1, 2006. BETR reimbursement is 100% of the property taxes paid on eligible property, except that for claims filed for the application period that begins on August 1, 2006 the reimbursement is 90% of the taxes. Eligible property is subject to reimbursement for up to 12 property tax years, but the 12 years must be reduced by one year for each year during which a taxpayer included the same property in its investment credit base. The amounts reflected in the table above represent gross program costs prior to the adjustment for state-municipal revenue sharing.

Revenue Source Forecast Factors and Trends:

BETR expenditures are forecast off model. New business investment in equipment is the primary driving force in the expenditures of this program. The program was expected to grow on a compounded basis as new investment was layered on to previously eligible equipment during the first 12 years of the program. After the 12th year, the property eligible in the first year is dropped from the program so that the growth of the program will slow dramatically. FY08 is the first year when business equipment in the program for 12 years will drop out. The increase in FY08 in the table above reflects the one-time reduction in FY07 at 90% reimbursement instead of 100%.

The program's expenditures have been below expectations for the first 7 months of FY06 by \$9.9 million, partially offsetting the negative variance in the individual income tax. Still thought to be a timing issue as several large payments are pending payment.

Forecast Recommended Changes:

Revise program expenditures downward in FY06 by \$2 million on a one-time basis resulting in an increase to the revenue forecast.

General Fund - Corporate Income Tax

	FY03 Actual	FY05 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$91,188,393	\$111,616,051	\$135,862,913	\$165,220,000	\$158,980,000	\$157,970,000	\$158,000,000
Annual % Growth		22.4%	21.7%	21.6%	-3.8%	-0.6%	0.0%
Net Increase (Decrease)				\$9,930,000	\$8,850,000	\$6,970,000	\$8,030,000
Revised Forecast	\$91,188,393	\$111,616,051	\$135,862,913	\$175,150,000	\$167,830,000	\$164,940,000	\$166,030,000
Annual % Growth		22.4%	21.7%	28.9%	-4.2%	-1.7%	0.7%

Revenue Source Summary:

This revenue is derived by a corporate income tax imposed on all corporations subject to federal income tax and having nexus with Maine, with the exception of financial institutions subject to the franchise tax and insurance companies subject to the premium tax. The tax is levied on Maine net income which is federal taxable income as modified by Maine law. In the case of a corporation doing business both within and outside of the State, Maine net income is determined by apportioning the modified federal taxable income according to a formula using payroll, property and sales. Tax rates are progressive from 3.5% to 8.93%. The amounts reflected in the table above are prior to the deduction for state-municipal revenue sharing. A small portion of this revenue line includes taxes received from financial institutions through the Franchise Tax.

Revenue Source Forecast Factors and Trends:

Revenue projections are driven by the corporate income tax model with assumptions for inflation (CPI-U), total employment growth and growth by sector. The model also relies on forecasts of corporate profitability. The recommended revisions result from new data, model changes and court cases that were not considered during the prior forecast. Corporate Income Tax revenue was over budget in FY05 by \$12.6M, and through January 2006, the FY06 positive year-to-date revenue variance has grown to \$11.6 million above the recently increased forecast.

Forecast Recommended Changes:

The sustained increase in corporate income tax receipts combined with independent forecasts that corporate profits will continue to grow, albeit at lower rates, results in a significant increase in the forecast of corporate income revenues. The forecast assumes a higher level of receipts with little or no growth in future years. This is consistent with the national corporate profits forecast and Maine's recent non-conformity with various federal tax provisions (e.g., bonus depreciation).

The Maine Corporate Income Tax has seen a significant transformation over the last ten years. The vast majority tax liability from this tax now comes from large multi-national corporations whose profitability is not related to maine-specific economic factors. This forecast reflects the fact that Maine is benefiting from the current environment of strong national corporate profitability. When the national economy enters the next recession it's likely that corporate profits will fall and so will Maine corporate income tax receipts, regardless of well the Maine economy fares in that next recession. The pattern of corporate receipts in this updated forecast reflects the forecast of corporate profits and the recovery of bonus depreciation by corporations that was denied by the state between 2002 and

2005

General Fund - Cigarette and Tobacco Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$98,414,470	\$96,604,646	\$96,350,704	\$147,238,325	\$165,466,882	\$164,396,738	\$163,198,120
Annual % Growth		-1.8%	-0.3%	52.8%	12.4%	-0.6%	-0.7%
Net Increase (Decrease)				\$4,500,000	\$0	\$0	\$0
Revised Forecast	\$98,414,470	\$96,604,646	\$96,350,704	\$151,738,325	\$165,466,882	\$164,396,738	\$163,198,120
Annual % Growth		-1.8%	-0.3%	57.5%	9.0%	-0.6%	-0.7%

Revenue Source Summary:

This revenue category includes revenue from the cigarette tax and tobacco products tax. The cigarette tax is imposed on all cigarettes held in this State for retail sale and a tax on the wholesale price of other tobacco products. The rate of the cigarette tax was 50 mills per cigarette or \$1.00 per pack before September 19, 2005. Beginning September 19, 2005 the cigarette tax rate was increased to \$2.00 per pack. On October 1, 2005 the rate of tax on smokeless tobacco products was increased from 62% of the wholesale price to 78% and the tax on cigars, pipe tobacco and other tobacco intended for smoking was increased from 16% of the wholesale price to 20%.

Revenue Source Forecast Factors and Trends:

The cigarette tax forecast is developed using Maine Revenue Services Sales and Excise Tax model.

This category was very close to budget in FY05 with a modest positive variance of \$330,840 or +0.3%. The significant increase in these taxes during the last legislative session (see amounts below) added a lot of potential uncertainty into the forecast. The assumptions about price elasticity associated with these tax changes and the effect on the volume attempted to factor in behavior related to this tax change. It is still too early in the fiscal year to determine whether the assumptions will hold up. The variances through the first 7 months of FY 06 have been up and down, but over the last 3 months since the last forecast the positive variance has increased to \$6,185,190 (+7.6%) for the fiscal year-to-date through January.

Legislative Changes:	FY05	FY06	FY07	FY08	FY09
Increase cigarette tax by \$1	\$0	\$51,341,668	\$69,990,814	\$69,613,147	\$69,204,859
Increase other tobacco taxes	\$0	\$671,297	\$942,574	\$961,427	\$980,654
Total Legislative Changes	\$0	\$52,012,965	\$70,933,388	\$70,574,574	\$70,185,513

Forecast Recommended Changes:

The RFC is recommending a one-time increase in FY 06 that is related to the floor stock (inventory) tax on cigarettes held by sellers at the time the tax rate was increased. The inventory tax is primarily responsible for the positive variance on this line.

General Fund - Insurance Company Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$71,078,089	\$72,206,153	\$75,669,053	\$77,141,931	\$79,644,425	\$81,149,288	\$82,684,299
Annual % Growth		1.6%	4.8%	1.9%	3.2%	1.9%	1.9%
Net Increase (Decrease)				(\$5,000,000)	\$0	\$0	\$0
Revised Forecast	\$71,078,089	\$72,206,153	\$75,669,053	\$72,141,931	\$79,644,425	\$81,149,288	\$82,684,299
Annual % Growth		1.6%	4.8%	-4.7%	10.4%	1.9%	1.9%

Revenue Source Summary:

This revenue is derived primarily by the state tax on every insurance company or association organized under the laws of this State at the rate of 2% of gross direct premiums, (1% of long-term health care premiums) including annuity considerations, on all policies written in Maine, less allowed deductions. The tax on insurance placed in the surplus lines insurance market is 3%. The tax on qualified group disability plans is 2.55% for large domestic insurers and 1% for all other insurers. Every non-resident insurance company authorized to do business in this State is liable for a tax on all policies written in Maine at the Maine rate or the rate at which a Maine company would be taxed in the state or Canadian province where the non-resident company is domiciled, whichever is greater. Reduced rates are provided for

Revenue Source Forecast Factors and Trends:

This tax is forecast off model. Estimates are made based on historical trends and input from various sources. Since the tax is based on premiums, the RFC must analyze those factors that affects premiums: insurance companies' investment earnings and payments on insured losses. Any significant increases in premiums may also affect demand, as purchasers react by increasing deductibles or dropping coverage. There were no legislative changes during 122nd Legislature that directly affecting this revenue category. FY06 is affected by a change in a \$983,000 credit for a surcharge on Fire Insurance Premiums that was delayed until FY06.

The revenue category has been running under budget for the first 7 months of FY06. For the fiscal year-to-date, this category is under budget by \$3.1 million (-20.7%). The last estimated payments for calendar year 2005 came in under budget and roughly \$1 million dollars that was projected to be collected in FY06 was received in the prior fiscal year.

Forecast Recommended Changes:

The RFC is recommending an adjustment to reflect current year experience. Most of the revenue from the Insurance Companies Tax is collected between March and June. After reviewing final FY06 collections the RFC may need to make adjustments to the FY07 through FY09 forecast at its Fall meeting.

General Fund - Estate Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$30,520,320	\$32,075,501	\$32,255,727	\$64,079,793	\$38,152,245	\$41,662,371	\$46,528,951
Annual % Growth		5.1%	0.6%	98.7%	-40.5%	9.2%	11.7%
Net Increase (Decrease)				\$6,019,529	\$0	\$0	\$0
Revised Forecast	\$30,520,320	\$32,075,501	\$32,255,727	\$70,099,322	\$38,152,245	\$41,662,371	\$46,528,951
Annual % Growth		5.1%	0.6%	117.3%	-45.6%	9.2%	11.7%

Revenue Source Summary:

This revenue is derived primarily by the state tax imposed upon the transfer of the estate of every person who was a Maine resident at the time of death. For deaths occurring before January 1, 2002 the tax is equal to the amount by which the credit allowed against the federal estate tax for state death taxes exceeds the amount of such taxes actually paid to other states, provided that the allowance for such taxes may not exceed that percentage of the federal tax credit which the other states' portion of the estate is to the total estate. Beginning in 2002, the federal estate tax and the federal credit for state death taxes are being phased out. The federal credit was reduced to 75% in 2002, 50% in 2003, 25% in 2004 and completely eliminated beginning in 2005. For deaths occurring after 2002, the Maine estate tax is equal to the tax that would be owed using the formula for calculating the federal credit for state death taxes in effect on December 31, 2002 (exclusive of any reduction in the maximum credit amount) and based on the unified credit amount as of December 31. A similar tax is imposed on real and tangible personal property having Maine situs passing by reason of the death of a person not a Maine resident, at the same percentage of the federal allowance for state death taxes that the value of the property taxable in Maine.

Revenue Source Forecast Factors and Trends:

The estate tax is forecast using Maine Revenue Services tax models. The models are supplemented with a look at actual tax file data through queries of the data base to pick out the unusual large returns. The FY 06 revision includes a one-time upward projection due to a positive year-to-date variance attributable to an unexpected number of moderately sized estate tax payments.

Forecast Recommended Changes:

This forecast increases the estimate on a one-time basis to reflect an unexpected number of moderately sized (\$2 - \$4 million) estate tax payments.

General Fund - Income from Investments

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$2,345,855	\$2,310,207	\$5,854,625	\$4,286,062	\$5,778,070	\$4,821,820	\$4,821,820
Annual % Growth		-1.5%	153.4%	-26.8%	34.8%	-16.5%	0.0%
Net Increase (Decrease)				\$2,277,520	\$385,512	\$1,341,762	\$1,341,762
Revised Forecast	\$2,345,855	\$2,310,207	\$5,854,625	\$6,563,582	\$6,163,582	\$6,163,582	\$6,163,582
Annual % Growth		-1.5%	153.4%	12.1%	-6.1%	0.0%	0.0%

Revenue Source Summary:

This category represents the Treasurer of State's investment of excess money in the state treasury that is not needed to meet current obligations (see 5 MRSA section 135). The Treasurer of State is authorized to invest these funds in bonds, notes, certificates of indebtedness or other obligations specified in statute. Earnings on these investments are credited to the General Fund unless specifically designated otherwise. Occasionally, there are credits to this revenue category for small miscellaneous items collected by the state. These items are generally insignificant and unpredictable. Therefore, while they are reflected in actual revenue for FY05, nothing is budgeted for them in FY06 or beyond.

Revenue Source Forecast Factors and Trends:

The major factors that affect earnings are the rates of return on investments and the balances of cash available for investment. These factors are heavily influenced by the economy, the budget, the reliance on Tax Anticipation Notes (TAN's) and the Treasurer's investment policies. Economy - Interest rates have been near historic lows for several years based on Federal Reserve Board monetary policy. As the Fed's tightened the money supply, interest rates rose and earnings improved in FY05. Economy.com predicts rates peaking in calendar year 2006.

Budget - Decisions were made to use the Rainy Day Fund and other reserves to fund ongoing programs. This reduced earnings early in this decade. Positive revenue variances and higher earnings rates are contributing to higher than expected earnings in FY 06. TAN Amounts - See below for assumptions. With the improvement in General Fund cash balances as noted above, the Tax Anticipation Note (TAN) was reduced in the December forecast. The March forecast does not change that reduction.

Investment Policy - The Treasurer's investment policy (type of investment vehicle purchased, liquidity to meet daily needs, selection criteria for specific investments, etc.) affects the rate of return on the pool. No change in policy is expected.

Forecast Recommended Changes:

With the upward revenue revisions from the December 2005 forecast and the new appropriations limitation law, the expectation is that earnings will continue to improve over the course of the 2006-2007 biennium. The full impact of this general improvement on the structural gap beyond the current biennium will not be reflected until subsequent budget decisions are made on the use of the new resources.

Historical Data and Assumptions							
	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
TAN							
Current Forecast	\$250,000,000	\$275,000,000	\$190,000,000	\$123,625,000	\$125,000,000	\$125,000,000	\$125,000,000
Revised Forecast				\$123,625,000	\$125,000,000	\$125,000,000	\$125,000,000
Pool Earnings Rate							
Current Forecast	2.06%	1.32%	2.39%	4.00%	4.00%	4.00%	4.00%
Revised Forecast				4.33%	4.50%	4.50%	4.50%

General Fund - Transfer to Municipal Revenue Sharing

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	(\$103,039,221)	(\$111,464,335)	(\$119,712,814)	(\$121,620,368)	(\$126,595,823)	(\$133,730,780)	(\$138,814,556)
Annual % Growth		-8.2%	-7.4%	-1.6%	-4.1%	-5.6%	-3.8%
Net Increase (Decrease)				\$210,120	\$592,620	\$875,160	\$1,282,840
Revised Forecast	(\$103,039,221)	(\$111,464,335)	(\$119,712,814)	(\$121,410,248)	(\$126,003,203)	(\$132,855,620)	(\$137,531,716)
Annual % Growth		-8.2%	-7.4%	-1.4%	-3.8%	-5.4%	-3.5%

Revenue Source Summary:

These amounts above represent transfers made on the last day of each month from the General Fund to the Local Government Fund or the Disproportionate Tax Burden Fund. Amounts equal to 5.1%, increasing to 5.2% on July 1, 2007, of the taxes collected and credited to the General Fund under, the individual income tax, the corporate income tax, the franchise tax on financial institutions, the service provider tax and the sales and use taxes are transferred. The amounts transferred are ultimately distributed to municipalities each month based on a formula.

Revenue Source Forecast Factors and Trends:

See discussion of Individual Income Tax, Sales and Use Tax, Corporate Income Tax and Service Provider Tax for trends. The monthly transfers are determined by these major tax sources. Presented below are the total impact of legislative changes. Unlike the other write-ups revenue sharing is summarized by the 4 major tax sources that determine the revenue sharing amounts. The 122nd Legislature did delay by an additional 2 years, the increase in the percentage of the major taxes that gets transferred each month. This increase was also delayed for 2 years by the 121st Legislature. The percentage is now schedule to increase from 5.1% to 5.2% on July 1, 2007.

Forecast Recommended Changes:

See discussion of Individual Income Tax, Sales and Use Tax, Corporate Income Tax and Service Provider Tax for trends. The monthly transfers are determined by these major tax sources.

General Fund - Real Estate Transfer Tax

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$10,770,668	\$22,196,221	\$24,113,439	\$19,504,918	\$19,314,440	\$11,884,726	\$11,955,435
Annual % Growth		106.1%	8.6%	-19.1%	-1.0%	-38.5%	0.6%
Net Increase (Decrease)				\$3,000,000	\$0	\$0	\$0
Revised Forecast	\$10,770,668	\$22,196,221	\$24,113,439	\$22,504,918	\$19,314,440	\$11,884,726	\$11,955,435
Annual % Growth		106.1%	8.6%	-6.7%	-14.2%	-38.5%	0.6%

Revenue Source Summary:

A tax is imposed on each deed that transfers title to real property in the state or on the transfer of a controlling interest in an entity with a fee interest in real property in the state at the rate of \$2.20 for each \$500 or fractional part of the value of the real property. There are certain exemptions. Of the total tax, ½ is imposed on the grantor and ½ is imposed on the grantee. Ninety percent of the tax collected during the previous month is forwarded by each Registrar of Deeds to the State Tax Assessor. The remaining 10% is retained by the county and accounted for as reimbursement for services rendered in collecting the tax. Of the 90% that is forwarded to the State, ½ of the revenue attributable to the transfer of title to real property is credited to the Maine State Housing Authority's Housing Opportunities for Maine (H.O.M.E.) Fund, an Other Special Revenue program established by 30-A M.R.S.A. §4853.

The remainder is credited to the General Fund. In fiscal years 2004, 2005, 2006 and 2007 \$7,500,000 of the portion that would ordinarily be credited to the H.O.M.E. Fund is credited to the General Fund. Beginning July 1, 2002, transfers of controlling interests are subject to the same tax. After the deduction of 10% county share, the remaining 90% of proceeds from the tax on the transfers of controlling interests accrues to the General Fund.

Revenue Source Forecast Factors and Trends:

Real estate market was growing very fast throughout most of FY05. In the June 2005 forecast, this line was revised downward by \$1,000,000 for FY05 based on 2 months of negative variances. However, the positive variance at the end of FY05 nearly completely reversed that revision, coming in ahead of the revised forecast by \$807,093. The trend through the early part of FY06 shows continued growth in this revenue above budgeted estimates. The assumptions in the December 2005 forecast assumed that the market would slow significantly in FY06. The 38.5% decline from FY07 to FY08 reflects the ending of the General Fund retention of \$7,500,000 of the H.O.M.E. Fund's share.

Forecast Recommended Changes:

The RFC has recommended a one-time adjustment in FY06 to reflect the variance through the first 7 months of the fiscal year. The forecast assumes a slowing in the real estate market, hence the 6.7% decline from FY05 to FY06 after the one-time adjustment. Early indicators, particularly Massachusetts's recent experience, indicate a market turn around. Interest rates have been rising and prices are high in many areas.

General Fund - Liquor Sales and Operations

	FY03 Actual	FY05 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$26,073,276	\$102,182,743	\$49,845,027	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Annual % Growth		291.9%	-51.2%	-97.0%	0.0%	0.0%	0.0%
Net Increase (Decrease)				\$1,034,391	\$2,000,000	\$2,000,000	\$2,000,000
Revised Forecast	\$26,073,276	\$102,182,743	\$49,845,027	\$2,534,391	\$3,500,000	\$3,500,000	\$3,500,000
Annual % Growth				-94.9%	38.1%	0.0%	0.0%

Revenue Source Summary:

In July 2004, the State signed a ten year lease with a private entity for the sale and distribution of spirits subject to price regulation by the Bureau of Alcoholic Beverages and Lottery Operations. Throughout the term the private entity is guaranteed a gross profit baseline percentage of 36.8%. Revenue sharing with the state is determined on a calendar year basis when aggregate sales exceed 36.8% at which time an amount equal to 50% of the gross profit overage is deposited in the General Fund.

Revenue Source Forecast Factors and Trends:

As a result of the aforementioned 10 year lease with the private entity, the State collected one-time payments from the private entity in the amounts of \$75,000,000 in FY04 and \$50,000,000 in FY05; these payments were budgeted as revenue amounts for the respective fiscal years and were deposited as revenue accordingly. As a result of the lease agreement and the one-time payments, the State had been foregoing budgeted revenue from Liquor Sales and Operations for the duration of the lease which includes FY06 through FY09.

Forecast Recommended Changes:

Most recently, aggregate sales have significantly exceeded the contractual threshold thereby triggering revenue sharing with the State. Accordingly, revenue estimates have been increased by \$1,034,391 in FY06 and by \$2,000,000 for FY07 and each fiscal year thereafter.

General Fund - Parimutuel and Gaming Revenue

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$1,086,936	\$1,036,539	\$1,362,611	\$4,114,814	\$4,682,640	\$7,281,584	\$8,605,583
Annual % Growth		-4.6%	31.5%	202.0%	13.8%	55.5%	18.2%
Net Increase (Decrease)				\$321,336	(\$225,330)	(\$2,669,977)	(\$1,977,918)
Revised Forecast	\$1,086,936	\$1,036,539	\$1,362,611	\$4,436,150	\$4,457,310	\$4,611,607	\$6,627,665
Annual % Growth				225.6%	0.5%	3.5%	43.7%

Revenue Source Summary:

For parimutuel revenue, the State collects a commission on live harness racing, race track simulcasting and off-track betting on horse racing. The commission for intrastate pools is 18% on regular wagers and 26% on exotic wagers. The commission on interstate common pools is the amount established by the State where the wager is pooled. Amounts collected as commissions are distributed among the General Fund and several dedicated funds or retained by or returned to race tracks and off-track betting facilities.

Gaming revenue is collected from slot machines which are currently authorized to be located on the premises of one commercial racetrack in Bangor and from various licensing and registration fees that are levied upon the private entities that own and operate the slot machines. Under current law (8 MRSA § 1036), 1% of the total slot income (the amount collected from slot machine players) is distributed to the General Fund as well as 3% of the gross slot income (the amount that is distributed to the owner and various governmental purposes after paybacks to the winning players).

Revenue Source Forecast Factors and Trends:

To a certain extent, the collection of budgeted parimutuel revenue is dependent on favorable weather and overall economic conditions; protracted periods of inclement weather and poor economic trends will adversely effect both the attendance at commercial racetracks and the availability of discretionary resources to make wagers. Recent trends in the collection of parimutuel revenue show a negative variance of approximately \$118,000 between budgeted and actual revenue amounts.

The collection of previously budgeted gaming revenue has been significantly hampered by changing timelines in the opening of a slot machine facility in Bangor. Recently, Penn National, the licensed slot machine operator, opened a temporary facility in early November of 2005 with 475 registered slot machines. In addition, the best available information appears to indicate that Penn National will be opening a larger, permanent facility with 1,000 registered slot machines in June of 2008.

For this forecast, the Revenue Forecasting Committee has 3 months of actual data from which the Revenue Forecasting Committee has revised the spreadsheet that calculates the revenue from the racino initiative to provide more detailed assumptions based on actual experience.

Parimutuel Revenue is under budget in the current fiscal year by approximately \$118,000 through January. This appears to be related to a general decline in the handle or amount of wagers.

Forecast Recommended Changes:

The attached spreadsheet details the revised assumptions that produce the revised estimate for revenue from the slot machine facility in Bangor. The critical assumption changes were the addition of a payback % factor, which is higher than original assumed and the monthly revenue per machine assumption which was detailed on a monthly basis to reflect seasonality in the expected total slot income and to reflect the novelty of the slot machine facility in the short-term. This estimate for FY08 and FY09 is based on the assumption that the permanent facility will open with 1,000 machine (rather than the 1,500 authorized) in Parimutuel Revenue is revised downward by \$118,000 per year to reflect the current year variance, which appears to be a result of an on-going decline in the handle.

Revenue Forecasting Committee - March 2006 - Racino Revenue - June 2008 Opening

GENERAL FUND REVENUE	2004-05*	2005-06	2006-07	2007-08	2008-09
December 2005 Forecast - General Fund Revenue	\$401,115	\$2,986,614	\$3,554,440	\$6,281,584	\$7,605,583
Incremental Effect of March 2006 Forecast	\$0	\$439,336	(\$107,330)	(\$2,551,977)	(\$1,859,918)
March 2006 Forecast - Revised General Fund Revenue	\$401,115	\$3,425,950	\$3,447,110	\$3,729,607	\$5,745,665

FUND FOR A HEALTHY MAINE REVENUE	2004-05*	2005-06	2006-07	2007-08	2008-09
December 2005 Forecast - Fund for a Healthy Maine Revenue	\$0	\$1,675,960	\$2,619,136	\$4,638,093	\$5,735,400
Incremental Effect of March 2006 Forecast	\$0	(\$335,591)	(\$720,395)	(\$2,643,362)	(\$2,589,850)
March 2006 Forecast - Fund for a Healthy Maine Revenue	\$0	\$1,340,369	\$1,898,741	\$1,994,731	\$3,145,550

Detail of Current Revenue Forecast - Distribution of Total Slot Income

	2004-05*	2005-06	2006-07	2007-08	2008-09
Total Slot Income (Coin/Voucher In) (A)	\$0	\$225,022,311	\$271,248,750	\$290,318,750	\$462,650,000
Player's Share (Payback Value) (B)	\$0	\$211,618,620	\$252,261,338	\$270,371,438	\$431,194,500
General Fund - Administration	1.0%	\$2,250,223	\$2,712,488	\$2,903,188	\$4,626,500
"Gross Slot Machine Income" (A-B)	\$0	\$13,403,691	\$18,987,413	\$19,947,313	\$31,455,500
Licenses' Share of "Gross Slot Machine Income"	61.0%	\$8,176,251	\$11,582,322	\$12,167,861	\$19,187,855
Distribution of State Share of "Gross Slot Machine Income"	39.0%				
General Fund (other)	3.0%	\$402,111	\$569,622	\$598,419	\$943,665
Fund for Healthy Maine	10.0%	\$1,340,369	\$1,898,741	\$1,994,731	\$3,145,550
University of Maine Scholarship Fund (FAME)	2.0%	\$268,074	\$379,748	\$398,946	\$629,110
Maine Community College System - Scholarship Funds	1.0%	\$134,037	\$189,874	\$199,473	\$314,555
Resident Municipalities	1.0%	\$134,037	\$189,874	\$199,473	\$314,555
Purse Supplements	10.0%	\$1,340,369	\$1,898,741	\$1,994,731	\$3,145,550
Sire Stakes Fund	3.0%	\$402,111	\$569,622	\$598,419	\$943,665
Fund to Encourage Racing at Commercial Tracks	4.0%	\$536,148	\$759,497	\$797,893	\$1,258,220
Fund to Stabilize Off-Track betting	2.0%	\$268,074	\$379,748	\$398,946	\$629,110
Agricultural Fair Support Fund	3.0%	\$402,111	\$569,622	\$598,419	\$943,665

Revenue Summary

	2004-05*	2005-06	2006-07	2007-08	2008-09
General Fund					
One-time Reimbursement - Background Checks	\$1,475	\$161,116	\$0	\$0	\$0
General Fund Administration	\$0	\$2,250,223	\$2,712,488	\$2,903,188	\$4,626,500
General Fund (Other)	\$0	\$402,111	\$569,622	\$598,419	\$943,665
Licensing revenue	\$399,640	\$612,500	\$165,000	\$228,000	\$175,500
Subtotal - General Fund	\$401,115	\$3,425,950	\$3,447,110	\$3,729,607	\$5,745,665
Fund for Healthy Maine	\$0	\$1,340,369	\$1,898,741	\$1,994,731	\$3,145,550
Other Special Revenue Funds					
Harness Racing Commission	\$0	\$2,948,813	\$4,177,230	\$4,388,408	\$6,920,210
HRC - Subtotal	\$0	\$2,948,813	\$4,177,230	\$4,388,408	\$6,920,210
PUS- host municipalities	\$0	\$25,000	\$25,000	\$25,000	\$25,000
University of Maine Scholarship Fund (FAME)	\$0	\$268,074	\$379,748	\$398,946	\$629,110
Maine Community College System Scholarships	\$0	\$134,037	\$189,874	\$199,473	\$314,555
Resident Municipalities	\$0	\$134,037	\$189,874	\$199,473	\$314,555
Subtotal - Other Special Revenue Funds	\$0	\$3,509,961	\$4,961,726	\$5,211,300	\$8,203,430

Details and Assumptions

Calculated Total Slot Machine Income Per Month	# of days	2004-05*	2005-06	2006-07	2007-08	2008-09
Total Total Slot Machine Income - Fiscal Year		\$0	\$225,022,311	\$271,248,750	\$290,318,750	\$462,650,000
July	31	\$0	\$0	\$27,977,500	\$27,977,500	\$46,500,000
August	31	\$0	\$0	\$27,977,500	\$27,977,500	\$46,500,000
September	30	\$0	\$0	\$27,075,000	\$27,075,000	\$45,000,000
October	31	\$0	\$0	\$25,768,750	\$25,032,500	\$43,400,000
November	31	\$0	\$26,353,665	\$18,406,250	\$22,087,500	\$31,000,000
December	31	\$0	\$35,196,180	\$22,087,500	\$22,087,500	\$38,750,000
January	31	\$0	\$32,538,716	\$18,406,250	\$18,406,250	\$31,000,000
February	28	\$0	\$26,600,000	\$16,625,000	\$16,625,000	\$28,000,000
March	31	\$0	\$27,977,500	\$22,087,500	\$22,087,500	\$38,750,000
April	30	\$0	\$25,650,000	\$21,375,000	\$21,375,000	\$37,500,000
May	31	\$0	\$25,768,750	\$22,087,500	\$22,087,500	\$38,750,000
June	30	\$0	\$24,937,500	\$21,375,000	\$37,500,000	\$37,500,000

Player's Share of Slot Machine Income Per Month		2004-05*	2005-06	2006-07	2007-08	2008-09
Total Player's Share - Fiscal Year		\$0	\$211,618,620	\$252,261,338	\$270,371,438	\$431,194,500
July		\$0	\$0	\$26,019,075	\$26,019,075	\$43,710,000
August		\$0	\$0	\$26,019,075	\$26,019,075	\$43,710,000
September		\$0	\$0	\$25,179,750	\$25,179,750	\$41,850,000
October		\$0	\$0	\$23,964,938	\$23,280,225	\$40,362,000
November		\$0	\$24,785,622	\$17,117,813	\$20,541,375	\$28,830,000
December		\$0	\$33,168,880	\$20,541,375	\$20,541,375	\$36,037,500
January		\$0	\$30,586,393	\$17,117,813	\$17,117,813	\$28,830,000
February		\$0	\$25,004,000	\$15,461,250	\$15,461,250	\$26,040,000
March		\$0	\$26,298,850	\$20,541,375	\$20,541,375	\$36,037,500
April		\$0	\$24,111,000	\$19,878,750	\$19,878,750	\$34,875,000
May		\$0	\$24,222,625	\$20,541,375	\$20,541,375	\$36,037,500
June		\$0	\$23,441,250	\$19,878,750	\$35,250,000	\$34,875,000

Licensing and Application Revenues:	#	Fee	2004-05*	2005-06	2006-07	2007-08	2008-09
Slot Machine Operator- Initial Application Fee	1	\$200,000	\$200,000	\$75,000	\$75,000	\$75,000	\$75,000
Slot Machine Operator- Annual Renewal Fee		\$75,000	\$0	\$75,000	\$75,000	\$75,000	\$75,000
Transfer of Operator Renewal Fee to host municipality			\$0	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)
Slot Machine Distributor - Initial Application Fee	3	\$200,000	\$199,640	\$400,000	\$0	\$0	\$0
Slot Machine Distributor - Annual Renewal Fee		TBD	\$0	\$0	\$0	\$0	\$0
Slot Machines - Initial Registration Fee		\$100	\$0	\$47,500	\$0	\$52,500	\$0
Slot Machines - Annual Renewal Fee		TBD	\$0	\$0	\$0	\$0	\$0
Gambling Services Vendors	4	\$2,000	\$0	\$8,000	\$8,000	\$8,000	\$8,000
Number of Licensed Employees				128	128	170	170
Application Fees from Licensed Employees		\$250	\$0	\$32,000	\$32,000	\$42,500	\$42,500
Total License Fees			\$399,640	\$612,500	\$165,000	\$228,000	\$175,500
Licensee Background Check Cost Reimbursement (one-time)			\$1,475	\$161,116	\$0	\$0	\$0

	2004-05*	2005-06	2006-07	2007-08	2008-09
Number of Machines					
July	0	0	475	475	1,000
August	0	0	475	475	1,000
September	0	0	475	475	1,000
October	0	0	475	475	1,000
November	0	475	475	475	1,000
December	0	475	475	475	1,000
January	0	475	475	475	1,000
February	0	475	475	475	1,000
March	0	475	475	475	1,000
April	0	475	475	475	1,000
May	0	475	475	475	1,000
June	0	475	475	1,000	1,000

	2004-05*	2005-06	2006-07	2007-08	2008-09
Payback % Average for Month					
July	0.00%	0.00%	93.00%	93.00%	94.00%
August	0.00%	0.00%	93.00%	93.00%	94.00%
September	0.00%	0.00%	93.00%	93.00%	93.00%
October	0.00%	0.00%	93.00%	93.00%	93.00%
November	0.00%	94.05%	93.00%	93.00%	93.00%
December	0.00%	94.24%	93.00%	93.00%	93.00%
January	0.00%	94.00%	93.00%	93.00%	93.00%
February	0.00%	94.00%	93.00%	93.00%	93.00%
March	0.00%	94.00%	93.00%	93.00%	93.00%
April	0.00%	94.00%	93.00%	93.00%	93.00%
May	0.00%	94.00%	93.00%	93.00%	93.00%
June	0.00%	94.00%	93.00%	94.00%	93.00%

	2004-05*	2005-06	2006-07	2007-08	2008-09
Average Total Slot Income Per Machine Per Day					
Average for the Fiscal Year					
July	\$0	\$1,995	\$1,558	\$1,554	\$1,263
August	\$0	\$0	\$1,900	\$1,900	\$1,500
September	\$0	\$0	\$1,900	\$1,900	\$1,500
October	\$0	\$0	\$1,750	\$1,700	\$1,400
November	\$0	\$2,134	\$1,250	\$1,500	\$1,000
December	\$0	\$2,179	\$1,500	\$1,500	\$1,250
January	\$0	\$2,447	\$1,250	\$1,250	\$1,000
February	\$0	\$2,000	\$1,250	\$1,250	\$1,000
March	\$0	\$1,900	\$1,500	\$1,500	\$1,250
April	\$0	\$1,800	\$1,500	\$1,500	\$1,250
May	\$0	\$1,750	\$1,500	\$1,500	\$1,250
June	\$0	\$1,750	\$1,500	\$1,250	\$1,250

Calculation of 39% State Share		2004-05*	2005-06	2006-07	2007-08	2008-09
Total 39% State Share - Fiscal Year		\$0	\$5,227,441	\$7,405,095	\$7,779,455	\$12,267,645
	July	\$0	\$0	\$763,786	\$763,786	\$1,088,100
	August	\$0	\$0	\$763,786	\$763,786	\$1,088,100
	September	\$0	\$0	\$739,148	\$739,148	\$1,228,500
	October	\$0	\$0	\$703,487	\$683,387	\$1,184,820
	November	\$0	\$611,537	\$502,491	\$602,989	\$846,300
	December	\$0	\$790,647	\$602,989	\$602,989	\$1,057,875
	January	\$0	\$761,406	\$502,491	\$502,491	\$846,300
	February	\$0	\$622,440	\$453,863	\$453,863	\$764,400
	March	\$0	\$654,674	\$602,989	\$602,989	\$1,057,875
	April	\$0	\$600,210	\$583,538	\$583,538	\$1,023,750
	May	\$0	\$602,989	\$602,989	\$602,989	\$1,057,875
	June	\$0	\$583,538	\$583,538	\$877,500	\$1,023,750

Fund for a Healthy Maine Share of 39% State Share		2004-05*	2005-06	2006-07	2007-08	2008-09
Total 39% State Share		\$0	\$1,340,369	\$1,898,744	\$1,994,734	\$3,145,550
	July	\$0	\$0	\$195,843	\$195,843	\$279,000
	August	\$0	\$0	\$195,843	\$195,843	\$279,000
	September	\$0	\$0	\$189,525	\$189,525	\$315,000
	October	\$0	\$0	\$180,381	\$175,227	\$303,800
	November	\$0	\$156,804	\$128,844	\$154,613	\$217,000
	December	\$0	\$202,730	\$154,613	\$154,613	\$271,250
	January	\$0	\$195,232	\$128,844	\$128,844	\$217,000
	February	\$0	\$159,600	\$116,375	\$116,375	\$196,000
	March	\$0	\$167,865	\$154,613	\$154,613	\$271,250
	April	\$0	\$153,900	\$149,625	\$149,625	\$262,500
	May	\$0	\$154,613	\$154,613	\$154,613	\$271,250
	June	\$0	\$149,625	\$149,625	\$225,000	\$262,500

General Fund Share of 39% State Share		2004-05*	2005-06	2006-07	2007-08	2008-09
Total 39% State Share		\$0	\$402,112	\$569,625	\$598,422	\$943,665
	July	\$0	\$0	\$58,753	\$58,753	\$83,700
	August	\$0	\$0	\$58,753	\$58,753	\$83,700
	September	\$0	\$0	\$56,858	\$56,858	\$94,500
	October	\$0	\$0	\$54,114	\$52,568	\$91,140
	November	\$0	\$47,041	\$38,653	\$46,384	\$65,100
	December	\$0	\$60,819	\$46,384	\$46,384	\$81,375
	January	\$0	\$58,570	\$38,653	\$38,653	\$65,100
	February	\$0	\$47,880	\$34,913	\$34,913	\$58,800
	March	\$0	\$50,360	\$46,384	\$46,384	\$81,375
	April	\$0	\$46,170	\$44,888	\$44,888	\$78,750
	May	\$0	\$46,384	\$46,384	\$46,384	\$81,375
	June	\$0	\$44,888	\$44,888	\$67,500	\$78,750

General Fund - Fines, Forfeits and Penalties

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$26,991,935	\$38,219,275	\$35,506,972	\$43,042,996	\$44,705,883	\$42,015,208	\$42,020,208
Annual % Growth		41.6%	-7.1%	21.2%	3.9%	-6.0%	0.0%
Net Increase (Decrease)				(\$2,500,000)	(\$2,500,000)	(\$1,500,000)	(\$1,500,000)
Revised Forecast	\$26,991,935	\$38,219,275	\$35,506,972	\$40,542,996	\$42,205,883	\$40,515,208	\$40,520,208
Annual % Growth		41.6%	-7.1%	14.2%	4.1%	-4.0%	0.0%

Revenue Source Summary:

Revenue derived from fines, forfeitures and penalties is collected primarily through the efforts of the Violations Bureau within the Judicial Department. These funds statutorily accrue to the state's General Fund as undedicated revenue. There are some instances where fines, forfeitures and penalties are credited to other funds, such as fines from certain traffic infractions against motor carriers credited to the Highway Fund. There are other situations where funds are statutorily dedicated for other specific purposes.

Revenue Source Forecast Factors and Trends:

The major factors that affect this revenue source are the number of violators being prosecuted by law enforcement, the ability of violators to pay fines and the collection effort implemented by the judicial system. Historically, this revenue source has relied on beefed-up law enforcement, accelerated fine collections and increased fines as ways to generate additional revenue to the General Fund. PL 2005, chapter 12, chapter 457 and chapter 386 required 60 additional aircraft speed details, accelerated fine collection, seat belt enforcement fines and increased fines for assault, driving to endanger and certain drug offenses, resulting in additional revenues of \$5,258,007 in fiscal year 2005-06, \$6,239,659 in fiscal year 2006-07 and \$3,539,659 in fiscal year 2007-08 and 2008-09. In the first quarter of fiscal year 2005-06, there is a revenue shortfall of \$1.9 million. Approximately \$1.5 million is attributable to conversion problems in a new computer system; the remaining \$400,000 is revenue received during September but accounted for in October.

Forecast Recommended Changes:

The Judicial Branch gross revenue estimate for Fiscal Year '06 is slightly more than \$49 million, which is \$10 million more than was collected in Fiscal Year '05. Based on the information available at this time we are estimating that revenue will be \$2.5 million below estimate in both Fiscal Years '06 and '07. The primary reason for the reduced estimate is our belief that money categorized as unpaid fines is less collectable than originally anticipated. Of the estimated \$7.5 million to be collected from overdue fines, beyond the amount normally collected by the court system, we are now estimating that we will collect \$2.5 million. The \$1.5 million downward revisions reflect the right off of future revenue associated with overdue fines.

General Fund - Targeted Case Management (HHS)

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$33,235,104	\$34,762,095	\$34,518,055	\$34,907,681	\$35,271,042	\$35,786,872	\$36,262,056
Annual % Growth		4.6%	-0.7%	1.1%	1.0%	1.5%	1.3%
Net Increase (Decrease)				(\$3,500,000)	(\$3,500,000)	(\$3,500,000)	(\$3,500,000)
Revised Forecast	\$33,235,104	\$34,762,095	\$34,518,055	\$31,407,681	\$31,771,042	\$32,286,872	\$32,762,056
Annual % Growth		4.6%	-0.7%	-9.0%	1.2%	1.6%	1.5%

Revenue Source Summary:

This revenue source is Medicaid reimbursement for case management services provided by the Bureau of Elder and Adult Services, the Bureau of Child and Family Services, and the Bureau of Health within the Department of Health and Human Services. It also includes reimbursement for services provided by adult mental health caseworkers and case management for persons with mental retardation.

Revenue Source Forecast Factors and Trends:

Major factors include: the volume and timeliness of claims submitted and paid by Medicaid for these services; the rates billed and allowable for these services, and the prevailing federal match rate for these services. Ongoing implementation issues with the new Medicaid claims processing system (MECMS) has resulted in a delay in the payment of all Medicaid claims including these for Targeted Case Management Services (i.e., services provided). Estimates for the forecast period assume these issues will be resolved before the close of FY 06 and that the equivalent of at least 12 months of claims will be paid each fiscal year.

Forecast Recommended Changes:

The forecast assumes revenue from this source will be under budgeted by \$3,000,000 in FY 06 and \$5,000,000 annually beginning in FY 07. The decline in revenue is primarily attributed to a decline in caseload in the individual revenue line projections for case management services provided by the Bureau of Child and Family Services and case management services provided to persons with mental retardation. The forecast does not reflect any impact that may arise as a result of a TCM audit being conducted by the federal Department of Health and Human Services, Office of the Inspector General (OIG).

General Fund - State Cost Allocation Program (STACAP)

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$10,986,971	\$10,438,262	\$12,891,574	\$10,537,222	\$10,721,512	\$10,721,512	\$10,721,512
Annual % Growth		-5.0%	23.5%	-18.3%	1.7%	0.0%	0.0%
Net Increase (Decrease)				\$1,000,000	\$1,000,000	\$0	\$0
Revised Forecast	\$10,986,971	\$10,438,262	\$12,891,574	\$11,537,222	\$11,721,512	\$10,721,512	\$10,721,512
Annual % Growth		-5.0%	23.5%	-10.5%	1.6%	-8.5%	0.0%

Revenue Source Summary:

The State Cost Allocation Plan (STACAP) distributes central service overhead costs to all programs within the MFASIS accounting system. Central services are provided by those administrative units that mainly provide services to departments and agencies and not to the general public. Examples of central services include building use and maintenance, equipment use, Capitol Security, accounting, budgeting, accounts payable, payroll, human resources, employee relations, purchasing, auditing, cash management, records storage, etc. The allowable overhead costs are allocated to all applicable agencies and programs and an individual indirect cost rate is calculated for each agency.

The indirect cost rate is assessed against operating expenditures and the assessed amount is transferred monthly to the General Fund. The allocation is based on all fund types but is assessed only on non-General Fund operating expenditures. The assessment is applied to expenditures in most character and object codes. No STACAP charges are applied to expenditures for grants to governments, individuals, private or public agencies, for pensions or workers compensation benefits or for capital equipment or improvements.

Revenue Source Forecast Factors and Trends:

In FY05, the STACAP revenue category had a substantial positive variance of \$2,199,069 (+20.6%). This positive variance was the result of an increase of \$133 million in the expenditure base with non-general fund expenditures growing by 2%. There has also been no negative effect from the carry-forward calculation.

Within this category is a reimbursement to the Highway Fund for Highway Fund expenditures that qualify for reimbursement as central administrative costs. The budgeted revenue is based on Highway Fund allocations to the Building and Grounds Operations program within the Department of Administrative and Financial Services.

This forecast was revised upward by \$1.0 million annually in December. The performance in the current fiscal year continues to exceed the revised forecast.

Forecast Recommended Changes:

Based on the current variance over revised projections, the committee is recommending an additional increase of \$1,000,000 each year in the General Fund revenue during 2006-2007 biennium. The committee has delayed recognition of this additional revenue on an on-going basis in the 2008-2009 biennium due to uncertainty about future expenditures and potential carry-forward calculation effects.

General Fund - Education Efficiency Fund Transfer

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$0	\$0	\$0	\$0	\$0	(\$14,552,541)	(\$20,730,626)
Annual % Growth		N/A	N/A	N/A	N/A	N/A	42.5%
Net Increase (Decrease)				\$0	\$0	(\$354,796)	(\$743,291)
Revised Forecast	\$0	\$0	\$0	\$0	\$0	(\$14,907,337)	(\$21,473,917)
Annual % Growth		N/A	N/A	N/A	N/A	N/A	44.0%

Revenue Source Summary:

The amounts above reflect transfers to the Fund for the Efficient Delivery of Educational Services within the Department of Education established in Public Law 2005, Chapter 2, Part D. Beginning in FY08, the State Controller is to transfer an amount equivalent to 1.5% of the total amount appropriated for general purpose aid for local schools. That amount increases to 2.0% of the total GPA appropriation beginning in FY09 and each fiscal year thereafter.

Revenue Source Forecast Factors and Trends:

This transfer is driven by the amount of funds projected to be needed to fulfill the State's share of the total cost of K-12 public education based on the Essential Programs and Services model. Title 20-A, §15671, sub-§7 requires the State to fund 54.44% of 95% of the total cost of K-12 education in FY08 and 55% of the total EPS cost beginning in FY09. The primary factors in estimating the total cost of funding K-12 education include student enrollment, wages and benefits for school personnel, special education costs, and the rate of inflation (CPI).

Forecast Recommended Changes:

The FY08 and FY09 changes are based on the Commissioner's Recommended Funding Level prepared in December 2005 which reprojected the total cost of funding K-12 public education beginning in FY07. The increase in funding is due to several factors including a slower than anticipated decline in student enrollment, a higher than anticipated rate of inflation and an increase in the years of experience of professional

General Fund - Tourism Transfer

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$0	(\$7,213,282)	(\$7,554,190)	(\$7,762,689)	(\$8,237,761)	(\$8,675,720)	(\$9,145,907)
Annual % Growth		N/A	4.7%	2.8%	6.1%	5.3%	5.4%
Net Increase (Decrease)				\$0	\$135,674	\$145,633	\$154,127
Revised Forecast	\$0	(\$7,213,282)	(\$7,554,190)	(\$7,762,689)	(\$8,102,087)	(\$8,530,087)	(\$8,991,780)
Annual % Growth		N/A	4.7%	2.8%	4.4%	5.3%	5.4%

Revenue Source Summary:

The amounts above reflect transfers to the Tourism Marketing Promotion Fund within the Department of Economic and Community Development, Office of Tourism. Beginning July 1, 2003 and every July 1st thereafter, the State Controller transfers to the Tourism Marketing Promotion Fund an amount, as certified by the State Tax Assessor, that is equivalent to 5% of the 7% tax imposed on tangible personal property and taxable services pursuant to Title 36, section 1811, for the first 6 months of the prior fiscal year after the reduction for the transfer to the Local Government Fund as described by Title 30-A, section 5681, subsection 5. Beginning on October 1, 2003 and every October 1st thereafter, the State Controller transfers to the Tourism Marketing Promotion Fund an amount, as certified by the State Tax Assessor, that is equivalent to 5% of the 7% tax imposed on tangible personal property and taxable services pursuant to Title 36, section 1811, for the last 6 months of the prior fiscal year after the reduction for the transfer to the Local Government Fund. The tax amount may not consider any accruals.

The amount transferred from General Fund sales and use tax revenues does not affect the calculation for the transfer to the Local Government Fund.

Revenue Source Forecast Factors and Trends:

This transfer is driven by the revenue forecast of the meals and lodging. Given the detail available for the 7% tax portion of the Sales and Use Tax, the Sales Tax model is targeted for this category.

Forecast Recommended Changes:

The FY06 recommended change is based on actual data from FY05 that is transferred in FY06. The remaining upward recommendations reflect the adjustments forecast by the sales tax model.

General Fund - Other Miscellaneous

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$27,007,764	\$46,790,827	\$36,659,221	\$32,845,769	\$30,674,180	\$27,734,880	\$24,846,666
Annual % Growth		73.2%	-21.7%	-10.4%	-6.6%	-9.6%	-10.4%
Net Increase (Decrease)				(\$1,853,125)	(\$942,197)	(\$948,243)	(\$954,449)
Revised Forecast	\$27,007,764	\$46,790,827	\$36,659,221	\$30,992,644	\$29,731,983	\$26,786,637	\$23,892,217
Annual % Growth		73.2%	-21.7%	-15.5%	-4.1%	-9.9%	-10.8%

Revenue Source Summary:

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

Provided below is a summary of the major one-time or temporary revenue adjustments that have affected the revenue growth pattern of this group. This group includes many miscellaneous one-time items that distort trends. The list below summarizes the effect of some of the significant one-time or temporary revenue initiatives.

Unusual-Temporary Revenue	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Highway Fund Revenue Sharing	\$0	\$13,570,000	\$9,600,000	\$0	\$0	\$0	\$0
Other Revenue Sharing Transfer	\$0	\$0	\$0	\$0	\$5,000,000	\$0	\$0
School Construction Recovery	\$0	\$0	\$0	\$5,900,000	\$0	\$0	\$0
HHS - Intergovernment Transfers	\$1,000,000	\$5,844,528	\$1,681,272	\$0	\$0	\$0	\$0
HHS Audit Settlements	\$495,163	\$3,490,837	\$1,199,437	\$50,000	\$50,000	\$50,000	\$50,000
Milk Pool Distribution Transfer	\$0	\$0	\$0	(\$306,871)	(\$1,420,000)	(\$1,420,000)	(\$1,420,000)
Transfer of Limestone Rental	\$0	\$0	\$0	\$855,223	\$1,109,723	\$0	\$0
Total Temporary Revenue	\$1,495,163	\$22,905,365	\$12,480,709	\$6,498,352	\$4,739,723	(\$1,370,000)	(\$1,370,000)
Adjusted Total	\$25,512,601	\$23,885,462	\$24,178,512	\$24,494,292	\$24,992,260	\$28,156,637	\$25,262,217
Adjusted Annual % Growth		-6.4%	1.2%	1.3%	2.0%	12.7%	-10.3%

Summary of Revenue Adjustments

Presented below are the adjustments made to the various revenue sources in this category with a brief description of the reason for the change.

Conservation - Parks - Recreational Use of Parks (2610)

	FY06	FY07	FY08	FY09
	(\$463,629)	\$0	\$0	\$0
This one-time reprojected in FY06 reflects a 5.1% decline in total parks attendance from the previous year; the decline is attributed to poor weather and the spike in gas prices and attendance is expected to recover to previous levels in future years.				

Conservation - Division of Forest Protection - Filing Fees (2632)

FY06	FY07	FY08	FY09
(\$704,700)	(\$617,400)	(\$617,400)	(\$617,400)

This revenue item pertains to the new burn permit system which allows users to purchase burn permits from the Department of Conservation on-line at a cost of \$6 per permit; use of the new system has been significantly below the original prediction of \$792,000 in annual revenue beginning in FY06.

Corrections - Adult Community Corrections - Miscellaneous Income (2686)

FY06	FY07	FY08	FY09
(\$280,000)	\$0	\$0	\$0

This one-time reprojection in FY06 reflects a downward trend in the collection of revenue from supervision fees as a result of a reduction in probation caseload, higher risk offenders are less likely to afford supervision fees and the Department of Corrections has experienced a delay in the implementation of an automated reporting and collection system designed to enhance the collection process.

Education - Support Systems - Filing Fees (2632)

FY06	FY07	FY08	FY09
(\$400,000)	(\$325,694)	(\$332,200)	(\$338,800)

This revision corrects an estimate of a recent legislative change that added the original budgeted amounts to the incremental change from adding certain certification fees. The FY06 reduction is slightly higher to reflect the certification renewal of several hundred teachers prior to the fee increase taking effect in mid-September.

Inland Fisheries and Wildlife - Gas Tax (0321)

FY06	FY07	FY08	FY09
(\$4,796)	\$897	\$1,357	\$1,751

This change adjusts the General Fund share of gas tax revenue to be consistent with the changes recommended for the Highway Fund.

Appendix B - Highway Fund

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HIGHWAY FUND REVENUE
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY04 Actual	% Chg.	FY05 Actual	% Chg.	FY05 Budget	FY05 Variance	% Variance
Fuel Taxes	182,502,097	4.5%	184,732,999	1.2%	187,901,008	1.7%	212,600,843	13.1%	220,484,728	3.7%	220,838,729	(354,001)	-0.2%
Motor Vehicle Registration & Fees	76,317,758	3.0%	83,285,014	9.1%	83,032,421	-0.3%	82,577,755	-0.5%	84,645,422	2.5%	81,378,234	3,267,188	4.0%
Inspection Fees	2,491,237	-5.1%	3,412,662	37.0%	4,169,773	22.2%	4,708,196	12.9%	4,260,059	-9.5%	4,281,459	(21,400)	-0.5%
Fines, Forfeits and Penalties	2,097,609	-2.2%	1,958,350	-6.6%	2,531,692	29.3%	1,918,703	-24.2%	1,518,580	-20.9%	1,890,359	(371,779)	-19.7%
Income from Investments	4,241,955	6.1%	2,857,209	-32.6%	1,338,794	-53.1%	720,046	-46.2%	1,440,739	100.1%	1,059,903	380,836	35.9%
Other Revenues	5,467,245	1.6%	5,737,781	4.9%	9,272,396	61.6%	9,502,442	2.5%	13,728,627	44.5%	13,817,473	(88,846)	-0.6%
Total - Highway Fund Revenue	273,117,902	3.9%	281,984,017	3.2%	288,246,084	2.2%	312,027,986	8.3%	326,078,155	4.5%	323,266,157	2,811,998	0.9%

Updated: 02/27/2006 5PM

HIGHWAY FUND REVENUE
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Fuel Taxes	230,922,713	4.7%	(4,145,720)	226,776,993	2.9%	234,955,289	1.7%	(165,999)	234,789,290	3.5%
Motor Vehicle Registration & Fees	87,172,358	3.0%	0	87,172,358	3.0%	88,378,117	1.4%	0	88,378,117	1.4%
Inspection Fees	4,397,970	3.2%	0	4,397,970	3.2%	4,414,756	0.4%	0	4,414,756	0.4%
Fines, Forfeits and Penalties	1,973,665	30.0%	0	1,973,665	30.0%	2,018,239	2.3%	0	2,018,239	2.3%
Income from Investments	1,600,000	11.1%	(300,000)	1,300,000	-9.8%	1,800,000	12.5%	(450,000)	1,350,000	3.8%
Other Revenues	9,286,173	-32.4%	0	9,286,173	-32.4%	9,433,331	1.6%	0	9,433,331	1.6%
Total - Highway Fund Revenue	335,352,879	2.8%	(4,445,720)	330,907,159	1.5%	340,999,732	1.7%	(615,999)	340,383,733	2.9%
Change in Biennial Totals								(5,061,719)		

Updated: 02/27/2006 5PM

HIGHWAY FUND REVENUE
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

Source	FY08 Projection	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Projection	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Fuel Taxes	242,404,759	3.2%	176,249	242,581,008	3.3%	249,095,135	2.8%	619,747	249,714,882	2.9%
Motor Vehicle Registration & Fees	86,205,259	-2.5%	0	86,205,259	-2.5%	86,336,347	0.2%	0	86,336,347	0.2%
Inspection Fees	4,468,458	1.2%	0	4,468,458	1.2%	4,524,821	1.3%	0	4,524,821	1.3%
Fines, Forfeits and Penalties	2,018,239	0.0%	0	2,018,239	0.0%	2,018,239	0.0%	0	2,018,239	0.0%
Income from Investments	1,800,000	0.0%	(450,000)	1,350,000	0.0%	1,800,000	0.0%	(450,000)	1,350,000	0.0%
Other Revenues	9,621,183	2.0%	0	9,621,183	2.0%	9,687,473	0.7%	0	9,687,473	0.7%
Total - Highway Fund Revenue	346,517,898	1.6%	(273,751)	346,244,147	1.7%	353,462,015	2.0%	169,747	353,631,762	2.1%
Change in Biennial Totals								(104,004)		

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Highway Fund - Fuel Taxes

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$187,901,008	\$212,600,843	\$220,484,728	\$230,922,713	\$234,955,289	\$242,404,759	\$249,095,135
Annual % Growth		13.1%	3.7%	4.7%	1.7%	3.2%	2.8%
Net Increase (Decrease)				(\$4,145,720)	(\$165,999)	\$176,249	\$619,747
Revised Forecast	\$187,901,008	\$212,600,843	\$220,484,728	\$226,776,993	\$234,789,290	\$242,581,008	\$249,714,882
Annual % Growth		13.1%	3.7%	2.9%	3.5%	3.3%	2.9%

Revenue Source Summary:

An excise tax is imposed upon internal combustion engine fuel sold or used within this State. Beginning July 1, 2003, the rate is indexed annually for inflation. Refund of the gasoline tax paid (less 1¢ per gallon) is provided for fuel used in commercial motor boats, tractors used for agricultural purposes, vehicles used on rail and tracks or in stationary engines or in mechanical or industrial arts. Fuel used for these purposes is subject to the 5% use tax if the gasoline tax is refunded. Full refund is provided for certain common carrier passenger service vehicles.

Revenue Source Forecast Factors and Trends:

The collection of budgeted fuel taxes is somewhat dependent on a fairly strong economy and reasonable retail prices for gasoline. In recent years, fuel taxes were over budget by \$2.1 million in FY 04 and under budget by \$0.4 million in FY 05. The impact of the hurricane-related upsurge in gasoline prices during the fall of 2005 has not yet been fully determined. Through January, revenue in this category for FY06 was under budget by \$4.9 million. Approximately, \$3.0 million of this negative variance is associated with the revenue from an unusually large audit assessment that was included in the December 2005 revenue forecast, but now has been determined to be uncollectible.

Forecast Recommended Changes:

In its February 2006 report, the Consensus Economic Forecasting Commission again increased its CPI estimates. These have affected the projections for tax rates as indicated below. The FY06 model forecast for gasoline tax revenue was adjusted downward by \$3.0 million to reverse the unusual audit revenue that will be uncollectable. In the current fiscal year, the revised inflation forecast is not a factor in this forecast and the revised forecast of personal income drives the estimate downward by approximately \$1.1 million. The inflation factor change offsets the change in other economic variables in future years, resulting in a minor downward revision in FY07 and then upward revisions in FY08 and FY09.

Actual and Projected Tax Rates							
	7/1/2002 Act.	7/1/2003 Act.	7/1/2004 Act.	7/1/2005 Act.	7/1/2006	7/1/2007	7/1/2008
Gasoline Tax							
Current Forecast	\$0.220	\$0.246	\$0.252	\$0.259	\$0.267	\$0.274	\$0.281
Revised Forecast					\$0.268	\$0.276	\$0.284
Special Fuel Tax							
Current Forecast	\$0.230	\$0.257	\$0.263	\$0.270	\$0.279	\$0.287	\$0.294
Revised Forecast					\$0.279	\$0.287	\$0.295

Highway Fund - Income From Investments

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$1,338,794	\$720,046	\$1,440,739	\$1,600,000	\$1,800,000	\$1,800,000	\$1,800,000
Annual % Growth		-46.2%	100.1%	11.1%	12.5%	0.0%	0.0%
Net Increase (Decrease)				(\$300,000)	(\$450,000)	(\$450,000)	(\$450,000)
Revised Forecast	\$1,338,794	\$720,046	\$1,440,739	\$1,300,000	\$1,350,000	\$1,350,000	\$1,350,000
Annual % Growth		-46.2%	100.1%	-9.8%	3.8%	0.0%	0.0%

Revenue Source Summary:

Pursuant to 5 MRSA section 135, the Treasurer of State invests excess money in the state treasury that is not needed to meet current obligations. The Treasurer of State is authorized to invest these funds in bonds, notes, certificates of indebtedness or other obligations specified in statute. Earnings on investment of Highway Fund balances are credited back to the Highway Fund.

Revenue Source Forecast Factors and Trends:

The major factors that affect earnings are the rates of return on investments and the balances of cash available for investment. These factors are heavily influenced by the economy, the budget and the Treasurer's investment policies.

Economy - Interest rates have been near historic lows for several years as the Federal Reserve Board has initiated and maintained a loose monetary policy to help foster economic growth and recovery. Slow economic recovery has limited revenue growth. These trends reduced earnings early in this decade. FY 05 saw interest rates rise as the Fed's tightened the money supply, helping to improve earnings. Economy.com predicts rates peaking in calendar 2006.

Budget - Highway Fund balances normally carried forward have been partially used to fund expenditures in recent years. The recommended estimates are based on a further erosion of those balances down to an yearly average of \$30,000,000 in available balances invested.

Investment Policy - The Treasurer's investment policy (type of investment vehicle purchased, liquidity to meet daily needs, selection criteria for specific investments, etc.) affects the rate of return on the pool. No change in policy is expected.

Forecast Recommended Changes:

Based on assumptions for balances, the estimates for earnings have been revised downward for each year.

Assumptions							
	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Balances							
Current Forecast	\$63,307,527	\$53,718,303	\$57,959,816	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Revised Forecast				\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Pool Earnings Rate							
Current Forecast	2.06%	1.32%	2.39%	4.00%	4.00%	4.00%	4.00%
Revised Forecast				4.33%	4.50%	4.50%	4.50%

Appendix C - Fund for a Healthy Maine

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

Source	FY00 Actual	FY01 Actual	% Chg. FY02	FY02 Actual	% Chg. FY03 Actual	* % Chg. FY04 Actual	% Chg. FY05 Actual	FY05 Budget	FY05 Variance	% Variance				
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	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%	49,033,349	0.2%	48,491,906	541,443	1.1%
Attorney General Reimbursements	212,904	53,226	-75.0%	25,475	-52.1%	0	-100.0%	0	N/A	0	N/A	0	0	N/A
Racino Revenue **	0	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	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%	45,000	46,444	103.2%
Total - Tobacco Settlement Revenue	64,780,943	51,425,207	-20.6%	57,551,760	11.9%	56,488,789	-1.8%	49,007,794	-13.2%	49,124,793	0.2%	48,536,906	587,887	1.2%

* 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.

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

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	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	41,652,662	-15.1%	0	41,652,662	-15.1%	41,765,543	0.3%	0	41,765,543	0.3%
Attorney General Reimbursements	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Racino Revenue **	1,675,960	N/A	(335,591)	1,340,369	N/A	2,619,136	N/A	(720,395)	1,898,741	N/A
Income from Investments	25,000	-72.7%	0	25,000	-72.7%	25,000	0.0%	0	25,000	0.0%
Total - Tobacco Settlement Revenue	43,353,622	-11.7%	(335,591)	43,018,031	-12.4%	44,409,679	2.4%	(720,395)	43,689,284	1.6%
Change in Biennial Totals								(1,055,986)		

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

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

Source	FY08 Projection	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Projection	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Base Payments	71,821,621	72.0%	0	71,821,621	72.0%	72,653,908	1.2%	0	72,653,908	1.2%
Attorney General Reimbursements	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Racino Revenue **	4,638,093	77.1%	(2,643,362)	1,994,731	5.1%	5,735,400	23.7%	(2,589,850)	3,145,550	57.7%
Income from Investments	45,000	80.0%	0	45,000	80.0%	45,000	0.0%	0	45,000	0.0%
Total - Tobacco Settlement Revenue	76,504,714	72.3%	(2,643,362)	73,861,352	69.1%	78,434,308	2.5%	(2,589,850)	75,844,458	2.7%
										(5,233,212)

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

Revised: 02/27/2006 5PM

Fund for a Healthy Maine - Racino Revenue

	FY03 Actual	FY04 Actual	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$0	\$0	\$0	\$1,675,960	\$2,619,136	\$4,638,093	\$5,735,400
Annual % Growth		N/A	N/A	N/A	N/A	77.1%	23.7%
Net Increase (Decrease)				(\$335,591)	(\$720,395)	(\$2,643,362)	(\$2,589,850)
Revised Forecast	\$0	\$0	\$0	\$1,340,369	\$1,898,741	\$1,994,731	\$3,145,550
Annual % Growth		N/A	N/A	N/A	41.7%	5.1%	57.7%

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.

Appendix D

Medicaid/MaineCare Dedicated Revenue Taxes

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**MEDICAID/MAINECARE DEDICATED REVENUE TAXES
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006**

Source	FY03 Actual	FY04 Actual	FY05 Actual **	% Chg.	FY05 Budget**	FY05 Variance	% Variance
Nursing Facility Tax	22,048,469	30,501,448	29,241,327	38.3%	29,705,745	(464,418)	-1.6%
Residential Treatment Facility (ICFs/MR) Tax	1,565,094	1,617,662	1,958,739	3.4%	1,808,886	149,853	8.3%
Hospital Tax *	0	16,383,319	48,907,135	N/A	48,210,520	696,615	1.4%
Service Provider Tax - Private Non-Medical Institutions (PNMIs)	0	0	15,430,099	N/A	15,131,785	298,314	2.0%
Total - Health Care Provider Taxes	23,613,563	48,502,429	95,537,301	105.4%	94,856,936	680,365	0.7%

* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.
 ** The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

Revised: 03/01/2006

**MEDICAID/MAINECARE DEDICATED REVENUE TAXES
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006**

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Nursing Facility Tax	32,400,000	10.8%	0	32,400,000	10.8%	33,210,000	2.5%	0	33,210,000	2.5%
Residential Treatment Facility (ICFs/MR) Tax	2,005,216	2.4%	0	2,005,216	2.4%	2,055,346	2.5%	0	2,055,346	2.5%
Hospital Tax *	53,672,418	9.7%	0	53,672,418	9.7%	55,819,315	4.0%	0	55,819,315	4.0%
Service Provider Tax - Private Non-Medical Institutions (PNMIs)	28,621,455	85.5%	0	28,621,455	85.5%	29,058,241	1.5%	0	29,058,241	1.5%
Total - Health Care Provider Taxes	116,699,089	22.2%	0	116,699,089	22.2%	120,142,902	3.0%	0	120,142,902	3.0%
Change in Biennial Totals										\$0

* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.
 ** The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

Revised: 03/01/2006

**MEDICAID/MAINECARE DEDICATED REVENUE TAXES
REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006**

Source	FY08 Forecast	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Forecast	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Nursing Facility Tax	34,040,250	2.5%	0	34,040,250	2.5%	34,891,256	2.5%	0	34,891,256	2.5%
Residential Treatment Facility (ICFs/MR) Tax	2,106,730	2.5%	0	2,106,730	2.5%	2,159,398	2.5%	0	2,159,398	2.5%
Hospital Tax *	55,819,315	0.0%	0	55,819,315	0.0%	55,819,315	0.0%	0	55,819,315	0.0%
Service Provider Tax - Private Non-Medical Institutions (PNMIs)	29,505,947	1.5%	0	29,505,947	1.5%	29,964,846	1.6%	0	29,964,846	1.6%
Total - Health Care Provider Taxes	121,472,242	1.1%	0	121,472,242	1.1%	122,834,815	1.1%	0	122,834,815	1.1%
Change in Biennial Totals										
									\$0	

* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.
 ** The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

Revised: 03/01/2006



REVENUE FORECASTING COMMITTEE

Appendix E

Consensus Economic Forecasting Commission Report

**Report of the
CONSENSUS ECONOMIC FORECASTING COMMISSION
February 2006**

Commissioners

Charles Colgan, Chair
*Professor of Public Policy and Management
University of Southern Maine*

Eleanor Baker
*Managing Principal
Baker Newman Noyes, LLC*

John Davulis
*Chief Economist
Central Maine Power Co.*

Michael Donihue
*Associate Professor of Economics
Colby College*

Charles Lawton
*Senior Economist
Planning Decisions, Inc.*

Support Staff

Michael Allen, *Maine Revenue Services*
Dana Evans, *Maine Department of Labor*
John Nyada, *Maine Revenue Services*
Catherine Reilly, *Maine State Planning Office*
Jerome Stanhope, *Maine Revenue Services*

SUMMARY

The Consensus Economic Forecasting Commission (CEFC) held its first meeting of 2006 on January 27 at the State Planning Office. As required by statute, the Commission updated its October 2005 economic forecast for Maine. The table below summarizes the CEFC's new forecast for wage and salary employment growth, personal income growth, and the U.S. Consumer Price Index (CPI; a measure of inflation).

Calendar Years	2005	2006	2007	2008	2009
Wage & Salary Employment (Annual Percentage Change)					
CEFC Forecast 10/2005	0.8	0.9	0.7	0.8	0.8
CEFC Forecast 2/2006	0.0	0.5	0.6	0.6	0.7
Personal Income (Annual Percentage Change)					
CEFC Forecast 10/2005	5.5	5.5	5.0	5.0	5.0
CEFC Forecast 2/2006	5.0	5.0	4.5	4.5	4.5
CPI (Annual Percentage Change)					
CEFC Forecast 10/2005	3.2	2.8	2.5	2.2	2.2
CEFC Forecast 2/2006	3.4	3.0	2.8	2.8	2.8

The Commission based its forecast on newly available state and national economic data and economic forecasts from several sources. The following bullets outline the regional and national context for the forecast.

- On the day of the Commission's meeting, the U.S. Bureau of Economic Analysis (BEA) announced that fourth quarter U.S. gross domestic product (GDP) growth was 1.1%, lower than most analysts were expecting. BEA attributed the slow growth to declines in personal consumption and federal government spending, and increased imports.
- Oil prices have been persistently high. Several forecasts that had projected prices to decline over the next one to five years are now projecting sustained high prices. Energy is particularly expensive in Maine and other northeastern states. The combination of high energy prices and slow income growth has impacted retail sales. Businesses are also feeling the effect of high energy costs.
- The Commission noted the apparently growing number of residents in southern Maine who work in another state. This means that income and retail sales in southern Maine benefit from employment growth in New Hampshire and Massachusetts. It also means that an economic downturn in those states may be felt in Maine as well.
- The Commission noted that the vitality of Maine's economy will depend on the extent to which the state can secure a larger share of growing industries. Since

June 2004, year-over-year employment growth in Maine has been positive (based on unrevised estimates), but not as high as the national growth rate.

- The Commission discussed the impending closure of the Brunswick Naval Air Station. Given the uncertainty of the timeline for closing the facility, the Commission has decided not to make speculative adjustments to its forecast. Once reliable information becomes available, the Commission will incorporate that into a subsequent, scheduled revision.

STATE AGENCY REPORTS

Three state agencies provided the Commission with further insight into current economic conditions in Maine.

Maine Department of Labor

Maine Department of Labor (DOL) reported upcoming revisions of statewide employment figures for 2004 and 2005. These revisions are part of an annual benchmarking process undertaken by all 50 states using methodology provided by the U.S. Bureau of Labor Statistics. The process involves adjusting previous sample-based estimates using more complete data that become available later in the year. DOL reported its preliminary estimates that employment for 2004 will be revised from 613,900 to 611,600 and 2005 will be revised from 618,000 to 611,400. Moody's Economy.com estimates that New Hampshire, Vermont, Rhode Island, Connecticut, and Massachusetts will also have downward job-growth revisions.

Maine's revision could have several causes. The Commission discussed the possibility of more Maine residents commuting and telecommuting to jobs outside Maine. Their jobs would be counted in other state's employment estimates. DOL reported that it has not seen a decrease in the number of business establishments in Maine. Rather, the lack of job growth seems to stem from a lack of new hiring by Maine establishments.

Preliminary estimates show that from 2003 to 2005, employment grew in the industries of health care and social services, retail trade, and leisure and hospitality. Employment declined in the industries of manufacturing, professional and business services, and financial activities.

Maine Revenue Services

Maine Revenue Services reported that state revenues are slightly ahead of the Revenue Forecasting Committee's (RFC) November projections. The difference is mostly in revenues from the corporate income tax, cigarette tax, and estate tax. Individual income tax payments are also 1.5% ahead of projections. The growth of individual income tax withholding is slightly below the RFC's current projections (4.1% for 2005 versus 4.8% respectively). Sales tax revenues are also slightly below projections, with slow growth

coming from general merchandise stores and automobile sales. Sales at specialty retail establishments are strong.

State Planning Office

The State Planning Office reported on other indicators of economic activity in Maine in the second half of 2005. Maine's Coincident Economic Index grew respectably in October and November after slow growth in the second quarter. In late summer there was a surge of bankruptcies catalyzed by changes to federal laws. That surge passed in October. Personal income for the first three quarters of 2005 grew at or above the New England rate, although income growth in the rest of the nation has outpaced New England. Maine's real estate market seems to be cooling somewhat; the number of housing unit permits issued has been essentially flat since 2004. Fuel prices continue to be high. Gasoline and heating oil are currently about \$.50 per gallon more expensive than one year ago. The Commission noted the adverse impact of this expense on consumer spending, as reflected by sales tax revenue. Businesses are also feeling the impact of this cost.

CONSENSUS FORECAST

The above information and five forecasts formed the basis of the Commission's consensus forecast. The New England Economic Partnership and State Planning Office forecasts were based on a model prepared by Moody's Economy.com. Colby College and Central Maine Power Co. developed their own forecasting models. Global Insight, Inc. developed the fifth forecast.

The models did not incorporate the revised employment estimates reported by DOL. There was discussion about how the Commission would incorporate the new information with projections from models that had utilized unrevised estimates. The Commission concluded that the most reasonable forecast would call for 2005 employment growth reflecting DOL's estimate of revised employment figures. Therefore, the Commission changed its forecast for 2005 employment growth to 0.0%. Estimates for 2006-2009 were also adjusted. Economic models continue to estimate Maine's long-run potential growth somewhere below 1.0% and the gradual increase up to 0.7% in 2009 reflects those projections.

The Commission lowered its past forecast of personal income growth by 0.5 percentage points for 2005-2009. This revision was based on income growth for the first three quarters of 2005 reported by BEA, DOL's estimated employment revisions, and MRS's report on individual income tax withholding. For the most part, all the forecasts estimated income growth at or below the levels projected by the Commission in October. The Commission adjusted projections for several components of personal income (supplements to wages and salaries; non-farm proprietor's income; dividends, interest, and rent; and transfer payments) in accordance with its revision of total personal income.

The Commission raised its forecast for U.S. Consumer Price Index, citing the unexpected persistence of high oil prices, the federal deficit, and employment growth at the national level.

The table on the following page shows the Commission's forecast of the variables they regularly forecast (shaded in blue) and a breakdown of those variables as regularly done by the Commission's staff at the State Planning Office. The table also presents additional economic variables forecasted by Moody's Economy.com.

Maine Economic Forecast
February 2006

	History					Forecast				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CPI-U*	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.0%	2.8%	2.8%	2.8%
Maine Unemployment Rate**	3.4%	3.9%	4.4%	5.0%	4.6%	4.9%	4.7%	4.8%	4.7%	4.6%
3-Month Treasury Bill Rate**	6.0%	3.5%	1.6%	1.0%	1.4%	3.3%	4.9%	4.9%	4.8%	4.8%
10-Year Treasury Note Rate**	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	5.2%	5.3%	5.4%	5.6%
Employment (thousands)										
Maine Wage & Salary Employment*	603.5	608.2	606.5	606.8	611.6	611.4	614.5	618.1	621.9	626.2
Natural Resources	2.7	2.7	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Construction	29.2	29.9	29.4	30.5	30.6	30.4	30.1	30.3	30.5	30.7
Manufacturing	79.5	74.7	68.0	64.1	63.4	62.1	61.2	60.7	60.0	59.2
Trade/Trans./Public Utils.	122.7	123.6	123.3	123.2	124.5	124.6	124.0	123.2	122.4	122.6
Information	12.1	12.1	11.6	11.3	11.3	11.3	11.4	11.4	11.5	11.6
Financial Activities	34.1	35.1	35.1	35.1	35.0	34.7	34.8	34.9	35.2	35.4
Prof. & Business Services	51.8	51.8	51.4	50.3	49.9	50.1	50.8	51.5	52.3	52.8
Education & Health Services	97.5	100.8	104.9	107.3	110.5	111.6	114.1	116.3	118.7	121.2
Leisure & Hospitality Services	55.9	56.5	57.3	58.5	58.7	58.9	59.9	61.0	62.1	62.8
Other Services	18.3	19.1	19.8	20.3	20.4	20.4	20.7	21.0	21.1	21.3
Government	99.5	102.0	103.1	103.7	104.7	104.7	105.1	105.4	105.7	106.2
Agricultural Employment	19.8	17.1	18.8	16.1	14.0	16.6	17.0	17.0	17.0	17.0
Annual Growth Rate										
Maine Wage & Salary Employment*	--	0.8%	-0.3%	0.0%	0.8%	0.0%	0.5%	0.6%	0.6%	0.7%
Natural Resources	--	-1.4%	-1.9%	-2.6%	-1.7%	-2.0%	-1.2%	-0.7%	-0.6%	-0.6%
Construction	--	2.1%	-1.4%	3.5%	0.4%	-0.5%	-1.1%	0.5%	0.7%	0.7%
Manufacturing	--	-6.1%	-8.9%	-5.8%	-1.1%	-2.0%	-1.4%	-0.8%	-1.2%	-1.3%
Trade/Trans./Public Utils.	--	0.8%	-0.3%	-0.1%	1.1%	0.1%	-0.5%	-0.6%	-0.6%	0.2%
Information	--	0.2%	-4.7%	-2.0%	-0.2%	0.0%	0.8%	0.2%	0.2%	0.9%
Financial Activities	--	3.0%	0.0%	-0.1%	-0.2%	-1.0%	0.3%	0.4%	1.0%	0.5%
Prof. & Business Services	--	0.0%	-0.9%	-2.1%	-0.7%	0.4%	1.3%	1.3%	1.6%	1.1%
Education & Health Services	--	3.4%	4.2%	2.3%	3.0%	1.0%	2.2%	2.0%	2.1%	2.1%
Leisure & Hospitality Services	--	1.0%	1.5%	2.0%	0.4%	0.4%	1.8%	1.8%	1.8%	1.2%
Other Services	--	4.1%	3.5%	2.5%	0.7%	0.1%	1.5%	1.2%	0.7%	0.7%
Government	--	2.5%	1.0%	0.7%	0.9%	0.0%	0.4%	0.3%	0.3%	0.4%
Agricultural Employment	--	-13.6%	9.9%	-14.4%	-13.0%	18.6%	2.4%	0.0%	0.0%	0.0%
Seasonally Adjusted (millions)										
Personal Income*	33173.25	35107.0	35964.5	37251.3	39481.8	41455.8	43528.6	45487.4	47534.4	49673.4
Wage & Salary Disbursements*	17194.75	17982.8	18551.8	19249.8	20191.5	21007.2	21890.4	22809.8	23767.8	24766.0
Supplements to Wages & Salaries*	3772.75	4058.5	4422.5	4630.8	5036.0	5368.6	5692.8	6034.4	6336.1	6652.9
Non-Farm Proprietors' Income*	2347	2768.3	2630.8	2773.3	3027.8	3271.2	3468.8	3642.2	3824.3	4015.5
Farm Proprietors' Income	57	27.5	-59.8	-23.3	-26.3	41.4	43.0	44.8	46.6	48.5
Dividends, Interest, & Rent*	6178.5	6338.3	6089.3	5834.0	6078.0	6138.8	6264.0	6389.3	6581.0	6778.4
Transfer Payments*	5588.25	6017.8	6477.3	7021.5	7499.0	8026.9	8608.1	9112.5	9635.6	10183.8
Less: Contributions to Social Insurance	2665.75	2811.8	2857.5	2941.0	3079.3	3202.4	3297.2	3446.9	3603.4	3765.7
Residence Adjustment	700.5	726.5	710.3	705.8	755.5	804.6	858.5	901.4	946.5	993.8
Farm Income	141	111.5	46.5	68.5	72.0	76.0	80.1	84.5	89.2	94.1
Annual Growth Rate										
Personal Income*	--	5.8%	2.4%	3.6%	6.0%	5.0%	5.0%	4.5%	4.5%	4.5%
Wage & Salary Disbursements*	--	4.6%	3.2%	3.8%	4.9%	4.0%	4.2%	4.2%	4.2%	4.2%
Supplements to Wages & Salaries*	--	7.6%	9.0%	4.7%	8.8%	6.6%	6.0%	6.0%	5.0%	5.0%
Non-Farm Proprietors' Income*	--	17.9%	-5.0%	5.4%	9.2%	8.0%	6.0%	5.0%	5.0%	5.0%
Farm Proprietors' Income	--	-51.8%	-317.3%	----- N/A - negative base values -----			3.9%	4.2%	4.0%	4.1%
Dividends, Interest, & Rent*	--	2.6%	-3.9%	-4.2%	4.2%	1.0%	2.0%	2.0%	3.0%	3.0%
Transfer Payments*	--	7.7%	7.6%	8.4%	6.8%	7.0%	7.2%	5.9%	5.7%	5.7%
Less: Contributions to Social Insurance	--	5.5%	1.6%	2.9%	4.7%	4.0%	3.0%	4.5%	4.5%	4.5%
Residence Adjustment	--	3.7%	-2.2%	-0.6%	7.0%	6.5%	6.7%	5.0%	5.0%	5.0%
Farm Income	--	-20.9%	-58.3%	47.3%	5.1%	5.5%	5.5%	5.5%	5.5%	5.5%

*CEFC Forecast

**Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - Jan. 2006
Remaining lines extrapolated from the CEFC forecast by the CEFC staff.



REVENUE FORECASTING COMMITTEE

Appendix F

Historical Background and Methodology of Maine's Revenue Forecasting Process

APPENDIX F

Historical Background and Methodology of Maine's Revenue Forecasting Process

History

The Revenue Forecasting Committee was established by Governor John R. McKernan, Jr. on May 25, 1992 by Executive Order 14 FY91/92 in order to provide the Governor, the Legislature, and the State Budget Officer with an analysis and recommendations related to the projection of General Fund and Highway Fund revenue. Its creation was in response to a recommendation by the Special Commission on Government Restructuring. Committee membership originally included the State Budget Officer, the State Tax Assessor, the State Economist, the Director of the Office of Fiscal and Program Review, and an economist on the faculty of the University of Maine System selected by the Chancellor.

The original Executive Order called upon the Revenue Forecasting Committee to submit recommendations for State revenue projections for the upcoming fiscal biennium, as well as adjustments to current biennium General Fund and Highway Fund revenue estimates. In accomplishing its task, the Committee was directed to utilize the economic assumptions developed by the Consensus Economic Forecasting Commission.

In 1995, Public Law 1995, c. 368 enacted in statute the Consensus Economic Forecasting Commission and the Revenue Forecasting Committee, adopting both the structure and the intent of the original Executive Order.

Public Law 1997, chapter 655 enacted a number of changes to Title 5, chapter 151-B. There were three major changes: first, the revenue projections developed by the Committee would no longer be advisory but would be used by the Executive Branch in setting budget estimates and out-biennium forecasts; second, the State Budget Officer was empowered to convene a meeting of the Committee to review any new data that might become available; and third, the Committee was expanded from five to six members, with the sixth member being an analyst from the Office of Fiscal and Program Review designated by the Director of that office.

Public Law 2001, chapter 2, enacted a further change to the appointment process of the sixth member making that appointment less specific by requiring that member to be non-partisan staff appointed by the Legislative Council.

Methodology

Both the General Fund and the Highway Fund revenue projections are actually an aggregation of several individual revenue source forecasts. For the General Fund, many departments and agencies collect revenue under different authority. Highway Fund revenue, although more limited in the number of sources, also has multiple revenue sources. Since each of these individual revenue sources is distinctly different in terms of

size (and thus relative importance to total revenue) and factors that influence growth (such as tax law, economic growth, interest rates, size of lottery jackpots, number of patrolmen, etc.), the Committee uses different approaches for evaluating various revenue source forecasts.

In order to ensure that the Committee's review process is as efficient and effective as possible, it divides its revenue line review into three parts:

- Major revenue sources directly tied to economic activity
- Major revenue sources tied to other "non-economic" factors
- Minor revenue sources

Major revenue sources tied to economic forecast

In general, major revenue lines directly tied to economic activity are forecast using econometric equations. These equations define a mathematical relationship between historical revenue growth and relevant economic trends, then project revenue growth based on the defined relationship and expected future performance of the economic variable chosen. For example, revenues derived from the collection of individual income tax are very closely tied to growth in Maine personal income. Thus, an equation is estimated that defines income tax revenue in terms of personal income (and other relevant variables), then the forecast of personal income growth in Maine is used to estimate future income tax collections. The Revenue Forecasting Committee then reviews the equation, the underlying economic assumptions, and the overall revenue forecast level to ensure that they are logical and plausible given our knowledge of current economic conditions and revenue growth. It is the Committee's understanding, and truly the spirit of "consensus forecasting", that model results need not be blindly accepted and should be closely examined.

Maine Revenue Services is instrumental in the development of the forecast for the major taxes, the major revenue sources tied to economic activity. The Research Division maintains the econometric models that are used to develop the forecast. Maine Revenue Services also has access to a tax "data warehouse" in order to query tax data and refine the model outputs and equations. The economic variables forecast by the CEFC are fed into the models.

Major revenue sources tied to "non-economic" factors and Other Minor Revenue Sources

Both the major revenue sources tied to other "non-economic" factors and the other minor revenue sources are generally prepared by the department or agency responsible for collecting the particular revenue stream. Their experience with and expertise in tracking revenue growth is used in place of an equation to project future revenue activity. For example, the level of participation in Maine's lottery is not easily or clearly tied to any particular economic indicator, like income or employment. Revenue derived from lottery ticket sales can, however, be projected based on past lottery sales, the likelihood of a large jackpot occurring within a twelve month period and planned changes in product

mix or marketing strategy. Therefore, the Department of Administrative and Financial Services reviews past lottery trends and evaluates any changes in marketing strategy and estimates the lottery's revenue performance over the upcoming biennium. Additional factors reviewed by the Committee include the projected Cost of Goods Sold and Administrative Expense to arrive at an estimated Net Profit to be transferred to the General Fund. The Revenue Forecasting Committee then reviews their forecast to ensure that their logic is sound and to ensure that this particular line forecast is consistent with expectations for other revenue lines.

To further streamline the review of the hundreds of minor revenue sources, the committee has employed a strategy that has the analysts of the Office of Fiscal and Program Review and the Bureau of the Budget work with the “collecting” agencies to develop the forecast for each of the hundreds of minor revenue sources. This review is particularly concentrated in even numbered years before the beginning of the 1st Regular Session of the Legislature when the biennial budget for the upcoming biennium is first considered. Agencies are required to submit their estimates to the Bureau of the Budget as part of the biennial budget development process in the fall of even number years. Every revenue source is reviewed by the Office of Fiscal and Program Review and the Bureau of the Budget with the agencies for consistency with the economic forecast, historic trends and enacted law changes that may affect future revenue rates, bases or flows.

When preparing a formal review of the biennial budget in odd numbered years to decide if revisions are necessary, the Revenue Forecasting Committee uses a similar, though streamlined, process. The major tax models are re-estimated using any updated economic and capital gains assumptions as well as current baseline data. The budget to actual performance of the other revenue lines is examined by a subcommittee of the Budget Office and the Office of Fiscal and Program Review and, when significant variances exist, the subcommittee recommends to the full Committee which agencies should develop and present new projections for the Committee’s consideration.

Length of Forecast

By statute, the revenue forecast must project revenue for the upcoming biennium and the subsequent biennium. For the start of a biennium, December of even numbered years, this forecast will encompass a span of 5 fiscal years – the current fiscal year, the next biennial budget to be approved in the upcoming legislative session and a projection of the following biennium. This projection for the following biennium was added as a long-range planning tool to help establish a look at the health of the next biennial budget to be developed 2 years later and adopted by a new Legislature. This projection of revenue is combined with projections of expenditures for the General Fund and Highway Fund to develop estimates of the “structural gap” or “structural surplus” of each fund.

Current Tax Law

The Revenue Forecasting Committee bases all revenue projections on current state tax law and other state laws with future effective dates that affect state revenue sources. The

Committee is careful to watch for sunsets and future effective dates of laws that will affect revenue and build those enacted law changes into the forecast. The Committee does not attempt to second-guess how the law may be changed during the upcoming Legislative session. The Fiscal Note Process overseen by the Office of Fiscal and Program Review establishes and tracks the revenue effects associated with legislative changes. These legislative revenue changes are then included in the base revenue forecast. The Revenue Forecasting Committee at its next meeting then adopts or amends those estimates of the legislative revenue changes.

Forecast Schedule

The Revenue Forecasting Committee has 2 statutory reporting dates each year: December 1st and March 1st. The timing of these reports is based on the schedule of the budget process and the Legislature's session schedule. The Governor is required to submit a biennial budget during the first regular session of each Legislature. That process begins in even numbered years with agencies submitting budget requests by September 1st. That process concludes with when the Governor submits his budget proposals to the Legislature by a statutory deadline, the first Friday after the 1st Monday in January (approximately one month later for a newly elected Governor). The revenue forecasting fall forecast begins with the economic forecast by the Consensus Economic Forecasting Commission that must report by November 1st. The December 1st deadline of the revenue forecast provides the Governor with an update of the revenue forecast that the Governor must use as the basis for submitting balanced General Fund and Highway Fund budgets. That 1st forecast of the biennium updates the current projections for the upcoming budget biennium and it provides the 1st projections of the following biennium.

In December of odd-numbered years, the forecast is updated for the next legislative session (the 2nd Regular Session of the Legislature) that begins in January of even-number years. The annual March 1st reporting deadline is scheduled to provide the Legislature with a "mid-session" update so that they might have the most up-to-date forecast for the conclusion of their budget decisions.

