

Appendix C - Fund for a Healthy Maine

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

Source	FY04 Actual	% Chg.	FY05 Actual	% Chg.	FY06 Actual	% Chg.	FY07 Actual	% Chg.	FY07 Budget	FY07 Variance	% Chg.
Initial Payments	0	-100.0%	0	N/A	0	N/A	0	N/A	0	0	N/A
Base Payments	48,952,964	24.4%	49,033,129	0.2%	45,011,759	-8.2%	47,113,687	4.7%	46,749,694	363,993	0.8%
Racino Revenue **	0	N/A	0	N/A	1,771,173	N/A	3,538,805	99.8%	3,570,300	(31,495)	-0.9%
Income from Investments	54,830	-92.0%	91,444	66.8%	124,780	36.5%	297,803	138.7%	90,000	207,803	230.9%
Attorney General Reimbursements and Other Income	0	N/A	220	N/A	39	-82.2%	217	453.5%	0	217	N/A
Total - Tobacco Settlement Revenue	49,007,794	-13.2%	49,124,793	0.2%	46,907,751	-4.5%	50,950,512	8.6%	50,409,994	540,518	1.1%
Change in Biennial Totals											

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

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

Source	FY08 Budget	% Chg.	Recom. Chg.	FY08 Revised	% Chg.	FY09 Budget	% Chg.	Recom. Chg.	FY09 Revised	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Base Payments	57,286,505	33.2%	152,776	57,439,281	22.9%	58,092,962	1.4%	1,016,647	59,109,609	2.9%
Racino Revenue **	3,817,151	23.2%	16,639	3,833,790	7.4%	5,977,215	56.6%	459,754	6,436,969	67.9%
Income from Investments	90,000	28.6%	(10,000)	80,000	-11.1%	90,000	0.0%	(10,000)	80,000	0.0%
Attorney General Reimbursements and Other Income	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Total - Tobacco Settlement Revenue	61,193,656	32.5%	159,415	61,353,071	21.7%	64,160,177	4.8%	1,466,401	65,626,578	7.0%
Change in Biennial Totals								1,625,816		

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

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

Source	FY10 Projection	% Chg.	Recom. Chg.	FY10 Revised	% Chg.	FY11 Projection	% Chg.	Recom. Chg.	FY11 Revised	% Chg.
Initial Payments	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Base Payments	62,928,997	8.3%	947,895	63,876,892	8.1%	66,659,065	5.9%	(3,866,136)	62,792,929	-1.7%
Racino Revenue **	6,365,775	6.5%	244,838	6,610,613	2.7%	6,543,225	2.8%	251,663	6,794,888	2.8%
Income from Investments	90,000	0.0%	(10,000)	80,000	0.0%	90,000	0.0%	(10,000)	80,000	0.0%
Attorney General Reimbursements and Other Income	0	N/A	0	0	N/A	0	N/A	0	0	N/A
Total - Tobacco Settlement Revenue	69,384,772	8.1%	1,182,733	70,567,505	7.5%	73,292,290	5.6%	(3,624,473)	69,667,817	-1.3%
Change in Biennial Totals								(2,441,740)		

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

Fund for a Healthy Maine - Base Payments

	FY05 Actual	FY06 Actual	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$49,033,349	\$45,011,759	\$46,629,371	\$57,286,505	\$58,092,962	\$62,928,997	\$66,659,065
Annual % Growth	0.2%	-8.2%	3.6%	22.9%	1.4%		
Net Increase (Decrease)				\$152,776	\$1,016,647	\$947,895	(\$3,866,136)
Revised Forecast	\$49,033,349	\$45,011,759	\$46,629,371	\$57,439,281	\$59,109,609	\$63,876,892	\$62,792,929
Annual % Growth	0.2%	-8.2%	3.6%	23.2%	2.9%	8.1%	-1.7%

Revenue Source Summary:

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

Revenue Source Forecast Factors and Trends:

Because some states have securitized their TSPs, financial markets are interested in forecasting future payments. Global Insights has forecast these future TSPs using econometric models. The most recent model forecast from Global Insights (August 2007) projects a modest increase over the previous forecast (see table below). Under the MSA, there are numerous adjustments that affect the annual TSPs. These include the inflation adjustment and the volume adjustment. These adjustments are made at the national level.

Another adjustment, the NPM Adjustment, if applicable, reduces payments by participating manufacturers (PMs) for a given sales year related to market share losses by PMs to non-participating manufacturers (NPMs). Under the MSA, if a state has diligently enforced its Qualifying Statute the NPM adjustment is not applied to that state's payment. Beginning in 2006, the PMs asserted they were entitled to have the NPM adjustment applied to specified MSA payments. Certain PMs placed in a disputed payments account the amounts they argue they are entitled to according to the NPM adjustment. This disputed amount was held back from payments received by the State in April 2006 and in April 2007. The amount placed in the disputed payments account from the April 2006 payment was less than estimated in the previous forecast, in part because one PM paid in full without placing any money in the disputed payments account. The same manufacturer made its full MSA payment in April 2007. Whether the PMs are entitled to the NPM adjustment is disputed by the States and is in the complex process of being resolved for each contested year.

Forecast Recommended Changes:

Based on Global Insights' latest modeling and changes in the estimated pattern of withholding related to the NPM adjustment proceedings, the net effect is an increase in the forecast for tobacco settlement payments in each year of the forecast period with the exception of FY11 (see table below). The projections of the amount of net withholding is increased in FY08, but are decreased in FY 09 and beyond. The increased projections of net withholding in FY11 reflect the payment of the disputed amount by one PM in April 2007, thus reducing the projections of the recovery in FY11. The revenue estimates for FY08 do not reflect the risk that the PM that did not withhold its disputed payments in April 2006 and April 2007 could withhold additional amounts from future

Summary of Recommended Changes	FY07	FY08	FY09	FY10	FY11
Change from Global Insight's Economic Modeling of TSP's	\$0	\$368,670	\$373,105	\$377,084	\$381,289
Change of Estimated Net Withholding from Legal Proceedin	\$0	(\$215,894)	\$643,542	\$570,811	(\$4,247,425)
Total Recommended Changes	\$0	\$152,776	\$1,016,647	\$947,895	(\$3,866,136)

Fund for a Healthy Maine - Racino Revenue

	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$0	\$0	\$1,771,173	\$3,538,805	\$3,817,151	\$5,977,215	\$6,365,775	\$6,543,225
Annual % Growth	N/A	N/A	N/A	99.8%	7.9%	56.6%	6.5%	2.8%
Net Increase (Decrease)					\$16,639	\$459,754	\$244,838	\$251,663
Revised Forecast	\$0	\$0	\$1,771,173	\$3,538,805	\$3,833,790	\$6,436,969	\$6,610,613	\$6,794,888
Annual % Growth	N/A	N/A	N/A	99.8%	8.3%	67.9%	2.7%	2.8%

Revenue Source Summary:

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

Revenue Source Forecast Factors and Trends:

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

Forecast Recommended Changes:

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

Fund for a Healthy Maine - Income from Investments

	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$54,830	\$91,444	\$124,780	\$297,803	\$90,000	\$90,000	\$90,000	\$90,000
Annual % Growth	-92.0%	66.8%	36.5%	138.7%	-69.8%	0.0%	0.0%	0.0%
Net Increase (Decrease)					(\$10,000)	(\$10,000)	(\$10,000)	(\$10,000)
Revised Forecast	\$54,830	\$91,444	\$124,780	\$297,803	\$80,000	\$80,000	\$80,000	\$80,000
Annual % Growth	-92.0%	66.8%	36.5%	138.7%	-73.1%	0.0%	0.0%	0.0%

Revenue Source Summary:

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

Revenue Source Forecast Factors and Trends:

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

Forecast Recommended Changes:

Lower interest rates on short-term investments will reduce earnings to the Fund for a Healthy Maine. The Revenue Forecasting Committee has lowered earnings by \$10,000 beginning in FY 08 and running through the forecast period.