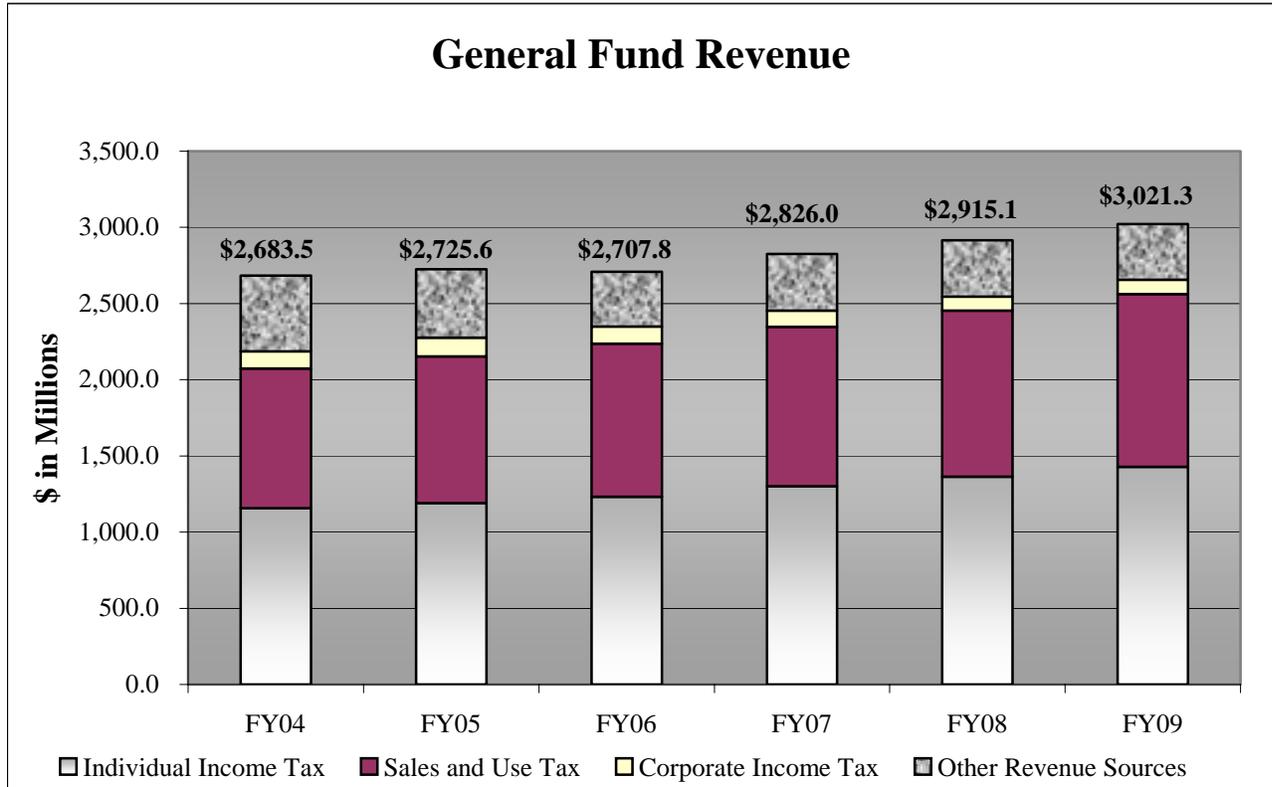


# REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

March 2005



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## EXECUTIVE SUMMARY

This report summarizes the Maine State Revenue Forecasting Committee's review and revisions of the current revenue estimates of General Fund, Highway Fund, Fund for a Healthy Maine (Tobacco Settlement revenue) and the Medicaid/MaineCare Dedicated Revenue Taxes for the fiscal years ending June 30, 2005 (FY05) through June 30, 2009 (FY09). This forecast updates the base revenue forecast established as part of the committee's December 2004 report. With no change in the economic forecast of the Consensus Economic Forecasting Commission in its February 2005 update, this forecasts includes some technical changes and some updates based on more recent data affecting a relatively small number of revenue sources.

### SUMMARY TABLE OF MARCH 2005 FORECAST

#### General Fund (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$2,723.6	\$2,719.1	\$2,828.6	\$2,918.0	\$3,022.8
Legislative Changes (PL 2005, c. 2)	\$0.0	(\$15.9)	(\$16.2)	(\$17.7)	(\$19.9)
Budgeted Amount	\$2,723.6	\$2,703.3	\$2,812.5	\$2,900.3	\$3,002.9
Net Change – March Forecast	\$2.0	\$4.5	\$13.6	\$14.8	\$18.3
Revised Amount	\$2,725.6	\$2,707.8	\$2,826.0	\$2,915.1	\$3,021.3
Annual % Growth	1.6%	-0.7%	4.4%	3.2%	3.6%

#### Highway Fund (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$321.4	\$330.4	\$340.2	\$348.8	\$358.1
Net Change – March Forecast	\$1.9	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)
Revised Amount	\$323.3	\$330.0	\$339.8	\$348.4	\$357.8
Annual % Growth	3.6%	2.1%	3.0%	2.5%	2.7%

#### Fund for a Healthy Maine (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$48.5	\$48.8	\$59.4	\$72.0	\$73.1
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$48.5	\$48.8	\$59.4	\$72.0	\$73.1
Annual % Growth	-0.7%	0.5%	21.8%	21.2%	1.6%

#### Medicaid/MaineCare Dedicated Revenue Taxes (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$97.2	\$100.2	\$103.5	\$106.9	\$110.4
Net Change – March Forecast	(\$2.3)	(\$1.6)	(\$3.7)	(\$5.8)	(\$8.1)
Revised Amount	\$94.9	\$98.6	\$99.8	\$101.1	\$102.4
Annual % Growth	95.6%	4.0%	1.2%	1.3%	1.3%

*Note: FY05 equals the fiscal year ending June 30, 2005; FY06 equals fiscal year ending June 30, 2006; etc. Amounts may not add due to rounding.*

General Fund: General Fund revenue was reduced by the recent enactment of PL 2005, c. 2, the property tax reform bill. The reduction of General Fund revenue from this legislative change is budgeted to be \$15.9 million in FY06, growing to a \$19.9 million revenue loss in FY09. The table above reflects that legislative change and then shows the adjustments from that revised budgeted amount. The major change in this forecast involves an oversight in the December 2004 forecast that excluded fiduciary income from the Individual Income Tax in tax years 2006 and thereafter. This forecast corrects that oversight and adds that revenue back into the forecast. A review of some of the other revenue sources with variances greater than +5% or -5% through January 2005 resulted in some additional changes that primarily added to the General Fund revenue forecast. The largest changes are a one-time revision in FY05 related to the Real Estate Transfer Tax (this tax continues to outperform expectations, but it is not expected to continue) and an on-going change in the amount of revenue from registration fees for securities. In FY05, this forecast recognizes some other unexpected audit recoveries and legal settlements and also recognizes a recovery of aeronautical gas tax.

The committee was concerned about the recent below-budget performance of the Sales Tax, but did not feel an adjustment was warranted at this time. While auto sales have been lagging in recent months, sales of building supply materials have been very strong. The hope is that this negative variance is temporary and that after the winter, the drag effect of higher heating oil prices will go away and spring sales will recover. The committee will watch the Sales Tax carefully over the next 2 months and may decide to revisit this line, if it does not recover and the overall General Fund revenue performance is below expectations after April's income tax filings.

Highway Fund: Highway Fund revenue is projected upward on a net basis in FY05, primarily a result of a \$2.5 million increase in the current year only within the Motor Vehicles Registration and Fees revenue line. That amount more than offsets the other FY05 downward adjustments and the on-going downward revisions of Highway Fund revenue from Judicial Department fine revenue and revenue from the sale of autos.

Fund for a Healthy Maine: The Fund for a Healthy Maine was not revised in this forecast, although the committee did discuss possibly revising the assumptions about the start-up of the Racino initiative. There is some uncertainty regarding the start date for this assumption. There is a potential downside risk to Fund for a Healthy Maine revenue derived from the Racino (currently \$9.9 million in FY07). Note: the General Fund is also subject to this downside risk from the Racino (currently \$12.9 million in FY07 for the General Fund).

Medicaid/MaineCare Dedicated Revenue Taxes: The forecast for these taxes has been revised downward overall for each year of the forecast, FY05 through FY09. An increase of the FY05 base for the Nursing Facilities Tax bumped up the revenue throughout the forecast and a one-time increase of the estimate of the Residential Treatment Facility Provider Tax in FY05 based on updated data were more than offset by negative adjustments to the Hospital Tax and the Private Non-Medical Institutions (PNMI) Service Provider Tax. The adjustments to the Hospital Tax and the PNMI Service Provider Tax are technical corrections to the assumptions in the previous forecast.

## I. INTRODUCTION AND BACKGROUND TO REVENUE FORECAST

This report represents an update of the base revenue forecast developed for the December 2004 Report. This forecast provides an update during the legislative session to provide budget decision makers with a revenue forecast based on the most recent data available, but timely enough to be considered during this legislative session. This forecast considers the updated economic forecast of the Consensus Economic Forecasting Commission (CEFC), an additional quarter of revenue data and any other new information that may have become available after the closing of the December 2004 Revenue Forecast. Presented in this report are the updates to forecasts for the General Fund, Highway Fund, Fund for a Healthy Maine and Medicaid/ MaineCare Dedicated Revenue Taxes (included for the first time in December 2004 forecast).

### A. Economic Forecast

The Consensus Economic Forecasting Commission (CEFC) met January 26, 2005 to review its November 2004 forecast and make any necessary changes to that forecast. These economic assumptions become the basis of the Revenue Forecasting Committee's revenue projections, particularly for the projections of the major tax lines that use Maine Revenue Services' tax models. At that meeting, the CEFC made no adjustments to the economic variables that were revised in the late fall. The major economic growth assumptions underlying the December 2004 and the March 2005 revenue projections are as follows (also see Appendix B):

<b>Summary of Consensus Economic Forecasting Commission Economic Forecast</b>						
<b><u>Calendar Years</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
• <b>W&amp;S Employment (Annual Percentage Change)</b>						
> <b>Consensus 2/2005</b>	<b>0.9</b>	<b>1.7</b>	<b>1.5</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>
• <b>Personal Income (Annual Percentage Change)</b>						
> <b>Consensus 2/2005</b>	<b>5.5</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
• <b>CPI (Annual Percentage Change)</b>						
> <b>Consensus 2/2005</b>	<b>2.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

### B. Legislative Changes

The Revenue Forecasting Committee bases the revenue forecast on current law. This forecast does not include any of the Governor's proposed revenue adjustments that are included in the various budget bills submitted to the Legislature. However, this forecast is revised from the December 2004 forecast to reflect the recent enactment of the Property Tax Reform initiatives in Public Law 2005, c. 2. The reductions of Individual Income Tax revenue and the increase of the budgeted transfers for municipal revenue sharing are included in the current budget columns in the General Fund summary tables. The effect of the Property Tax Reform initiatives is included in the General Fund narratives in Section III.

## II. OVERVIEW OF REVENUE PROJECTIONS

This section provides narrative descriptions of each of the updates/revisions to the forecasts of the major revenue sources of the General Fund, Highway Fund, Fund for a Healthy Maine and the Medicaid/MaineCare Dedicated Revenue Taxes. The Tables in Appendix A provide some recent historical data of actual revenue collections for each of these funds, a comparison by major revenue source of actual FY04 revenue compared to final budgeted amounts, and a comparison of current projections to revised projections for FY05 through FY09. In these tables, the General Fund “Other Revenue” component, which had become a substantial and largely unexplained piece, has been again broken out into some additional categories for the first time to help explain the forecast of “Other Revenue” in the General Fund. The amounts in the tables in the narratives that follow may not add due to rounding.

### A. General Fund

	General Fund (\$'s in millions)				
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$2,723.6	\$2,719.1	\$2,828.6	\$2,918.0	\$3,022.8
Legislative Changes (PL 2005, c. 2)	\$0.0	(\$15.9)	(\$16.2)	(\$17.7)	(\$19.9)
Budgeted Amount	\$2,723.6	\$2,703.3	\$2,812.5	\$2,900.3	\$3,002.9
Net Change – March Forecast	\$2.0	\$4.5	\$13.6	\$14.8	\$18.3
Revised Amount	\$2,725.6	\$2,707.8	\$2,826.0	\$2,915.1	\$3,021.3
Annual % Growth	1.6%	-0.7%	4.4%	3.2%	3.6%

The March 2005 revisions to the major sources of General Fund revenue are summarized in the following as narrative descriptions of the major assumptions. Recent legislative changes (PL 2005, c. 2 - the Property Tax Reform initiative) are also summarized in the following narratives. Given that the Consensus Economic Forecasting Commission did not revise the economic forecast, the changes made in the major tax lines are technical corrections. Some current year data is updated to recognize unforeseen events based on 3 months of additional data. Some of these have resulted in on-going revisions throughout the forecast period.

The committee was concerned about the recent performance of the Sales Tax (see discussion below) and will be carefully watching the overall performance of General Fund revenue over the next 2 months through April’s Individual Income Tax filings. At that point, if Sales Tax and overall performance are below expectations, the committee will likely revisit the General Fund forecast.

## Sales and Use Tax

### Sales and Use Tax (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$914.7	\$954.9	\$994.3	\$1,035.6	\$1,079.8
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$914.7	\$954.9	\$994.3	\$1,035.6	\$1,079.8
Annual % Growth	-0.3%	4.4%	4.1%	4.1%	4.3%

The Sales and Use Tax line is extremely close to the revised forecast through January 2005, consequently, it is not revised in this forecast, despite some discouraging performances in the last 2 months. The committee was concerned about this recent below-budget performance, but did not feel an adjustment was warranted at this time. While auto sales have been lagging in recent months, sales of building supply materials have been very strong. The hope is that this negative variance is temporary and that after the winter, the drag effect of higher heating oil prices will go away and spring sales will recover.

## Service Provider Tax

### Service Provider Tax (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$46.7	\$48.8	\$51.1	\$53.2	\$55.3
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$46.7	\$48.8	\$51.1	\$53.2	\$55.3
Annual % Growth	0.0%	4.5%	4.7%	4.1%	3.9%

This revenue source was segregated from the Sales and Use Tax in order to combine it with a dedicated revenue tax on Private Non-medical Institutions (PNMI's), a portion of which is eligible for Medicaid match. The committee and Maine Revenue Services still do not have sufficient data or historical experience to provide a refinement of the segregation of these services that were previously taxed as taxable sales during the December forecast. This forecast, when combined with the Sales and Use Tax line in aggregate, is very close to budget.

## Individual Income Tax

### Individual Income Tax (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$1,196.1	\$1,246.5	\$1,306.1	\$1,369.7	\$1,431.4
Legislative Changes (PL 2005, c. 2)	\$0.0	-\$15.9	-\$16.2	-\$17.7	-\$19.9
Budgeted Amount	\$1,196.1	\$1,229.7	\$1,289.0	\$1,351.0	\$1,410.4
Net Change – March Forecast	(\$4.8)	\$2.9	\$12.4	\$13.7	\$17.5
Revised Amount	\$1,191.3	\$1,232.6	\$1,301.4	\$1,364.7	\$1,427.9
Annual % Growth	3.0%	3.5%	5.6%	4.9%	4.6%

Since the December 2004 forecast, the Legislature enacted a property tax reform package (PL 2005, c. 2) that provided an enhanced Tax and Rent Refund or Circuit Breaker benefit. The additional cost of that benefit, approximately \$17.5 million in FY05 and growing to \$21.7 million in FY09, is reflected as a reduction of Individual Income Tax revenue and is included in the original budgeted amount. The table below shows the gross cost of the program and the recent expansion. Its gross cost on Individual Income Tax revenue is reduced by the increase of Individual Income Tax revenue that results from reductions in itemized deductions associated with lower property taxes paid (roughly \$750,000 per year). The net General Fund revenue “cost” is also lessened by a reduction of municipal revenue sharing transfers. The Committee did not revise the estimates of the Circuit Breaker program in this forecast.

**Tax and Rent Refund (Circuit Breaker) Program Reimbursements**  
**(\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	-\$24.7	-\$29.3	-\$28.7	-\$29.4	-\$30.2
PL 2003, c. 2 (Property Tax Reform)	\$0.0	-\$17.5	-\$17.8	-\$19.4	-\$21.7
Budgeted Amount	-\$24.7	-\$46.8	-\$46.5	-\$48.9	-\$51.9
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	-\$24.7	-\$46.8	-\$46.5	-\$48.9	-\$51.9
Annual % Growth	2.4%	89.5%	-0.6%	5.2%	6.1%

Individual Income Tax revenue performance through January is under budget by a minor amount \$0.2 million or 0.02%. Withholding revenue has been under budget recently and as a result the forecast is revised to assume that this revenue will be adjusted with final payments and refunds, pushing revenue out of the current fiscal year (FY05) and into FY06. FY06 and thereafter are also increased to reflect the omission in the December 2004 forecast of fiduciary income for tax year 2006 and beyond.

**Corporate Income Tax:**

**Corporate Income Tax (\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$123.4	\$113.1	\$106.8	\$93.0	\$93.0
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$123.4	\$113.1	\$106.8	\$93.0	\$93.0
Annual % Growth	10.5%	-8.3%	-5.6%	-12.9%	0.0%

The Corporate Income Tax is running ahead of budget through January 2005, \$1.4 million or 2.1% as a result of lower than anticipated refunds associated with the 2003 tax year. The Committee decided not to revise this line at this time.

**Cigarette and Tobacco Tax**

**Cigarette and Tobacco Tax (\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$96.0	\$95.2	\$94.5	\$93.8	\$93.0
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$96.0	\$95.2	\$94.5	\$93.8	\$93.0
Annual % Growth	-0.6%	-0.8%	-0.7%	-0.8%	-0.9%

Cigarette Tax has been running slightly ahead of budget through January 2005, \$0.6 million or +1.0%.

**Public Utilities Tax**

**Public Utilities Tax (\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$26.7	\$25.4	\$24.5	\$23.3	\$22.3
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$26.7	\$25.4	\$24.5	\$23.3	\$22.3
Annual % Growth	-4.7%	-4.6%	-3.7%	-4.8%	-4.5%

There is insufficient data to update this revenue source at this time. The primary source of revenue for this category is the Telecommunications Personal Property Tax, which is assessed in May.

**Insurance Companies Tax**

**Insurance Companies Tax (\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$78.6	\$77.1	\$79.6	\$81.1	\$82.7
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$78.6	\$77.1	\$79.6	\$81.1	\$82.7
Annual % Growth	8.9%	-1.9%	3.2%	1.9%	1.9%

Insurance Company Tax is running ahead of budget through January 2005, \$0.4 million or +2.8%. The Committee did not revise this revenue estimate at this time. There is insufficient information to support a revision.

## Estate Tax

	<b>Estate Tax (\$'s in millions)</b>				
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$29.0	\$30.1	\$31.6	\$33.9	\$35.4
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$29.0	\$30.1	\$31.6	\$33.9	\$35.4
Annual % Growth	-9.5%	3.6%	5.0%	7.2%	4.3%

The Estate Tax revenue line is performing well, primarily based on very strong December 2004 collections. Revenue from this source is running \$5.1 million or +41.1% over budget. A review of the detail of the estates that have been filed indicated that the size and number was roughly consistent with the December 2004 forecast and that this positive variance was largely a timing issue and the variance would erode as the fiscal year progressed.

## Property Tax - Unorganized Territory

	<b>Property Tax - Unorganized Territory (\$'s in millions)</b>				
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$10.6	\$10.7	\$11.0	\$11.3	\$11.7
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$10.6	\$10.7	\$11.0	\$11.3	\$11.7
Annual % Growth	-1.2%	1.0%	2.7%	3.0%	3.0%

Insufficient updated information is available at this time to revise this forecast.

## Income from Investments

	<b>Income from Investments (\$'s in millions)</b>				
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$4.1	\$6.0	\$6.0	\$6.0	\$6.0
Net Change – March Forecast	\$0.8	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$4.1	\$6.0	\$6.0	\$6.0	\$6.0
Annual % Growth	111.9%	23.5%	0.0%	0.0%	0.0%

Income from Investments has been consistently ahead of budget through January 2005. This revenue source is \$0.2 million or +9.5% ahead of budgeted amounts. This is due to both rates of return on the cash pool exceeding expectations and balances in the cash pool, in particular that portion on which the General Fund earns interest income, are also ahead of expectations. Due to these factors, General Fund revenue in this line is increased by \$811.728 in FY05.

## Transfers to Municipal Revenue Sharing

### Transfers to Municipal Revenue Sharing (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	-\$116.3	-\$122.9	-\$127.8	-\$132.7	-\$138.3
PL 2003, c. 2 (Property Tax Reform)	\$0.0	\$0.9	\$0.9	\$1.0	\$1.1
Budgeted Amount	-\$116.3	-\$122.0	-\$126.9	-\$131.7	-\$137.2
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	-\$116.3	-\$122.9	-\$127.8	-\$132.7	-\$138.3
Annual % Growth	4.4%	5.6%	4.0%	3.8%	4.2%

The amounts transferred for municipal revenue sharing are based on a percentage of the Individual Income Tax, Corporate Income Tax, Sales and Use Tax and the General Fund portion of the Service Provider Tax. Consequently, the estimate of these amounts is a simple calculation based on the forecast for those taxes. The only unusual change related to these transfers is a planned increase from 5.1% to 5.2% of these taxes beginning in FY06. The impact of the Property Tax Reform package (PL 2005, c. 2) is reflected in the table above.

## Transfer from Lottery Commission

### Transfer from Lottery Commission (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$52.3	\$52.8	\$52.8	\$52.8	\$52.8
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$52.3	\$52.8	\$52.8	\$52.8	\$52.8
Annual % Growth	26.7%	1.0%	0.0%	0.0%	0.0%

Lottery Transfers to the General Fund is budget through January 2005 by \$0.7 million or –2.2%, although a strong January revenue performance lessened the negative variance in Lottery Transfers. Much of this variance appears to be related to timing issues. Noting the recovery in January, the committee did not revise the forecast of Lottery Transfers.

## Other Revenues

### Other Revenues (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$261.7	\$181.2	\$198.0	\$196.9	\$197.8
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$261.7	\$181.2	\$198.0	\$196.9	\$197.8
Annual % Growth	-19.8%	-30.8%	9.3%	-0.6%	0.4%

This category of revenue actually represents many different individual revenue sources that are forecast by several different agencies. As mentioned earlier, this year's report provides additional descriptions of the many sources included in this line. See Appendix B for the detail

of the changes in this forecast of this line. Presented in the following paragraphs are descriptions of the major changes that represent substantial revisions to this forecast.

**Real Estate Transfer Tax** – Despite an upward projection in January of 2004 of \$1.1 million, and a \$3.2 million upward revision in December 2004, this tax still has been running ahead of expectations in the current fiscal year through January 2005, \$1.4 million or +8.9%. This forecast increases the FY05 General Fund revenue from this tax by an additional \$2,500,000. This growth is very unusual and the committee is not comfortable assuming that future performance will continue at these outlier levels in FY05. The dedicated revenue to the Housing Opportunities for Maine (HOME) Fund is also projected to increase by the same amount.

**Liquor Sales and Operations** – While the committee revisited this revenue source as part of its March 2005 forecast, no revisions were made at this time. This revenue category is in transition based on the recent leasing of the State’s wholesale liquor business to a private entity and the discontinuance of state-owned liquor stores. Revenues will now be generated on the basis of profit sharing arrangement. At this point, no revenue is estimated from the profit sharing arrangement as a result of the provisions of the contract guaranteeing a minimum profit to the contractor.

**Liquor Taxes and Fees** – The major variance through January is related to the alcohol premium tax on spirits, which was not revised in the December forecast until the committee determined whether the FY04 increase was unusual. Based on some limited updated data of sales, the committee is revising this forecast upward to approximately the amount of revenue generated in FY04, resulting in an increase of \$70,664 in each year of the forecast period (FY05 to FY09).

**Banking Fees/Assessments** – This category reflects a significant increase in securities registration fee income budgeted for FY05 and future years, the result of the increase in the filing fee from \$500 to \$1,000 authorized under PL 2003, c. 673, Part RRR, and effective August 1, 2004. As has been the history of projections of these fees, the budgeted revenue has understated performance. FY05 revenue performance for these fees is running significantly ahead of budget and this forecast adjusts these fees upward by \$1,125,000 in FY05. The forecast is also increased by \$1,500,000 annually beginning in FY06 to attempt to address this chronic underestimation of the revenue from these fees.

**Pari-mutuel and Gaming Revenue** – The committee discussed possible changes to the assumed start date of the Racino initiative, the operation of video slot machines at a commercial track in Bangor. The assumptions of the start date of the “Racino” initiative was revised in the December forecast and it now appears that Penn National, the tentative licensee, may change those plans again. There is some uncertainty related to this initiative. One element of uncertainty is the “requirement” by the tentative licensee that a confidentiality provision be added to the licensing process. A bill is working its way through the Legislature to address this concern. The committee evaluated the different scenarios, and due to the relatively minor differences in the revenue under the scenarios, decided not to revise the forecast at this time. A review in the fall after regulatory hurdles have passed will provide a more accurate forecast of this revenue source.

**Fines, Forfeits and Penalties** – General Fund fine revenue was not revised despite being slightly under budget through January 2005. Highway Fund fine revenue was reduced (see Highway Fund section).

**Targeted Case Management Revenue (HHS)** – This revenue source is running substantially behind, but this is only a timing issue based on some delays in intradepartmental billings. No adjustment is made at this time.

**HHS Services Rendered** – This revenue source is also running behind, primarily as a result of the lack of revenue received from the 1<sup>st</sup> quarter of FY05 of Administration/Cost Allocation revenue. This negative variance should be eliminated by the end of FY05.

**Transfers to Maine Clean Election Fund** - 21 MRSA §1124 authorizes early transfers to the Maine Clean Elections Fund in the event that the Commission on Governmental Ethics and Election Practices determines that it will not have sufficient funds. The December 2004 forecast assumed that only the January 1, 2007 transfer would be advanced early to address a shortfall. There is a risk that an additional “advance” of the January 1, 2008 transfer may be requested by the commission, depending on the number of gubernatorial candidates that run as Clean Elections Fund candidates. This risk may be reduced if the Emergency FY05 Supplemental Budget Bill, LD 508, provides \$2,400,000 to the Fund as proposed by the Governor.

**Other Miscellaneous** – Provided below are some of the “other miscellaneous” General Fund revenue changes, which are typically identified by a Revenue Source Code number (RSC).

- **Aeronautical Gas Tax (0331)** – This revenue line based on recent performance and information on air traffic data appears to have begun a recovery after the 9-11 disaster. This revenue source is increased by \$150,000 in each year of the forecast.
- **Audit Recovery (2680)** – This source is increased on a one-time basis in FY05 to reflect an unbudgeted recovery of \$235,890 representing the final settlement of FY02 payments from an institute for mental disease.
- **Misc Income (2686)** – An additional \$1,276,356 collected by the Department of Health and Human Services is increased on a one-time basis in FY05 to reflect this unanticipated revenue collection representing legal settlements from pharmaceutical companies.
- **Recovered Costs (2690)** – The Office of Attorney General has received an unusually large number of settlements in FY05 as a result General Fund revenue estimates for this category are increased by \$331,121 in FY05 only.
- **Sale of Autos (2821)** – The projections of the revenue from the sale of autos Department of Public Safety, State Police was overstated in aggregate by approximately \$50,000 per year. In addition, the appropriate “split” of this revenue between the General Fund and the Highway Fund was not calculated correctly. These corrections increase General Fund revenue by \$61,000 annually for each year of the forecast and decrease Highway Fund revenue by \$111,000 annually for each year.

## **B. Highway Fund**

**Highway Fund (\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$321.4	\$330.4	\$340.2	\$348.8	\$358.1
Net Change – March Forecast	\$1.9	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)
Revised Amount	\$323.3	\$330.0	\$339.8	\$348.4	\$357.8
Annual % Growth	3.6%	2.1%	3.0%	2.5%	2.7%

Highway Fund revenue is being revised in 2 revenue sources. The Motor Vehicle Registration and Fees collected by the Secretary of State, Bureau of Motor Vehicle and Fine Revenue collected by the Judicial Department. The net forecast is increased by \$1.9 million on a one-time basis for FY05 and is decreased by \$386,000 annually for FY06 thru FY09.

**Fuel Taxes**

**Fuel Taxes (\$'s in millions)**

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$220.8	\$229.7	\$237.9	\$246.6	\$255.6
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$220.8	\$229.7	\$237.9	\$246.6	\$255.6
Annual % Growth	3.9%	4.0%	3.6%	3.7%	3.7%

This major revenue line (composed of both the gasoline tax and special fuel taxes) is the only Highway Fund revenue source that is forecast using Maine Revenue Services models. The recent data on actual CPI change was close enough to the forecasted amount (only 0.1% lower) that no change from the forecasted rate resulted. With no other change to the economic forecast, this revenue estimate remains unchanged from the December 2004 forecast. Current forecasted rates are presented in the table below.

**Projected Tax Rates**

	Gasoline Tax		Special Fuel Tax	
	Current	Revised	Current	Revised
7/1/2004 Act.	\$0.252		\$0.263	
7/1/2005	\$0.257	\$0.259	\$0.268	\$0.270
7/1/2006	\$0.262	\$0.264	\$0.274	\$0.276
7/1/2007	\$0.269	\$0.269	\$0.281	\$0.281
7/1/2008	\$0.275	\$0.275	\$0.281	\$0.281

## Motor Vehicle Registration & Fees

### Motor Vehicle Registration & Fees (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$78.9	\$83.1	\$84.3	\$84.1	\$84.2
Net Change – March Forecast	\$2.5	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$81.4	\$83.1	\$84.3	\$84.1	\$84.2
Annual % Growth	(1.4%)	2.1%	1.4%	-0.2%	0.2%

This revenue category was revised upward on a one-time basis by approximately \$2.5 million in FY05 largely based on the most current trends in actual revenue collections in these lines. In December, the committee only made modest changes in this line as a result of the uncertainty surrounding many of the major components in this line, long-term trailer fee revenue in particular. This modest change was in spite of a positive variance of over \$2.6 million (+11.2% variance) through the first 4 months of FY05. That positive variance has continued to grow and through the end of January is over \$4.7 million, a +12.1% variance. This forecast makes adjustments to motor vehicle registrations and initial plate fees for a total increase of \$2,525,000 in FY 05. The remainder of the positive variance through the end of January is expected to erode based on an inaccurate monthly distribution.

## Inspection Fees

### Inspection Fees (\$'s in millions)

	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$4.4	\$4.4	\$4.4	\$4.5	\$4.5
Net Change – March Forecast	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$4.3	\$4.4	\$4.4	\$4.5	\$4.5
Annual % Growth	(9.1%)	2.7%	0.4%	1.2%	1.3%

This revenue category has been under budget through the end of January by \$358,276 or – 12.3%. Fees from motor vehicle inspection stickers collected by the Department of Public Safety are running under budget for FY05 by more than \$275,000 or –12.6% through January 2005. This variance is largely a timing issue and does not need to be adjusted at the present time. The Bureau of Motor Vehicle revenue from Permits to Use Highways is also in this category. Based on performance for FY05 through January (below budget by more than \$50,000 or –9.4%), this revenue source is being revised downward by \$100,000 on a one-time basis in FY05.

## Fines, Forfeits and Penalties

<b>Fines, Forfeits and Penalties (\$'s in millions)</b>					
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$2.2	\$2.2	\$2.3	\$2.3	\$2.3
Net Change – March Forecast	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)
Revised Amount	\$1.9	\$2.0	\$2.0	\$2.0	\$2.0
Annual % Growth	(1.5%)	4.4%	2.3%	0.0%	0.0%

The negative variance of \$204,198 in actual revenues collected in FY04, while originally thought to be a timing issue, now appears to be an on-going reduction in the amount of Highway Fund fine revenue. This line is revised downward by \$275,000 for each year of the forecast.

## Income from Investments

<b>Income from Investments (\$'s in millions)</b>					
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$0.9	\$1.6	\$1.6	\$1.6	\$1.6
Net Change – March Forecast	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$1.1	\$1.6	\$1.6	\$1.6	\$1.6
Annual % Growth	47.2%	46.9%	0.0%	0.0%	0.0%

Income from Investments is based on projected cash balances of the Highway Fund and projected rates of earnings of the cash pool. Cash pool earnings have been running ahead of budget due to higher than anticipated returns. Growth in investment rates of return was projected, but it now appears to have shown up in the earnings sooner than was previously budgeted, longer-term projections remain the same.

## Highway Fund - Other Revenues

<b>Highway Fund - Other Revenues (\$'s in millions)</b>					
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$14.2	\$9.5	\$9.8	\$9.8	\$9.9
Net Change – March Forecast	(\$0.4)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
Revised Amount	\$13.8	\$9.4	\$9.7	\$9.7	\$9.8
Annual % Growth	45.4%	-33.2%	3.0%	0.7%	0.7%

This revenue category includes various miscellaneous revenues collected for the Highway Fund by the different agencies. Revenue from the sale of State Police vehicles has been adjusted downwards by \$0.1 million to achieve the proper revenue split between the General Fund and the Highway Fund and to reflect a reduced level of projected sales. In addition, a one-time downwards adjustment of \$0.3 million has been forecast in two miscellaneous revenue lines collected by the Bureau of Motor Vehicles.

### **C. Fund for a Healthy Maine**

	<b>Fund for a Healthy Maine (\$'s in millions)</b>				
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$48.5	\$48.8	\$59.4	\$72.0	\$73.1
Net Change – March Forecast	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revised Amount	\$48.5	\$48.8	\$59.4	\$72.0	\$73.1
Annual % Growth	-0.7%	0.5%	21.8%	21.2%	1.6%

The Fund for a Healthy Maine was not revised as part of this forecast. No additional information regarding tobacco settlement payments became available since the December 2004 forecast. The committee did discuss a possible revision based on potential changes to the start-up of the Racino initiative (see discussion above under General Fund section). Ultimately the committee decided to defer any decision relate to the Racino initiative.

### **D. Medicaid/MaineCare Dedicated Revenue Taxes**

	<b>Medicaid/MaineCare Dedicated Revenue Taxes (\$'s in millions)</b>				
	FY05	FY06	FY07	FY08	FY09
Dec. 2004 Budgeted Amount	\$97.2	\$100.2	\$103.5	\$106.9	\$110.4
Net Change – March Forecast	(\$2.3)	(\$1.6)	(\$3.7)	(\$5.8)	(\$8.1)
Revised Amount	\$94.9	\$98.6	\$99.8	\$101.1	\$102.4
Annual % Growth	95.6%	4.0%	1.2%	1.3%	1.3%

In the last few years, the Department of Health and Humans Services (the State) has dramatically increased the use of dedicated revenue from health care provider taxes to fund Medicaid/MaineCare programs resulting in General Fund savings used to offset budget shortfalls. The forecast for these taxes has been revised downward overall for each year of the forecast, FY05 through FY09. An increase of the FY05 base for the Nursing Facilities Tax bumped up the revenue throughout the forecast and a one-time increase of the estimate of the Residential Treatment Facility Provider Tax in FY05 based on updated data were more than offset by negative adjustments to the Hospital Tax and the Private Non-Medical Institutions (PNMI) Service Provider Tax. The adjustments to the Hospital Tax and the PNMI Service Provider Tax are technical corrections to the assumptions in the previous forecast.

**Nursing Facility Provider Tax** – The revenue estimates for each year of the forecast period has been increased to reflect actual experience in this the third year of the tax. FY06 and beyond are increased to reflect the increased FY05 estimate, but growth rate assumptions have not changed.

**Residential Treatment Facility (ICFs/MR) Provider Tax** - FY05 revenue estimate has been increased to reflect actual experience. Budget and forecast period revenue estimates have not been increased accordingly because the number of ICFs/MR beds is still expected to decrease.

**Hospital Provider Tax** - FY05 revenue estimate has been decreased to reflect actual experience to date in the first year of the expanded tax. FY06 and beyond have been corrected (decreased) to reflect the current law, which establishes a fixed base year. The December 2004 forecast incorrectly assumed growth in the base year. The Governor's budget proposal to allow the base year to "roll forward" is not reflected here.

**PNMI Service Provider Tax** – FY05 revenue estimate has been decreased to reflect actual experience to date and assumes 11 months of collections for this new tax. The assumptions for FY06 and beyond have been changed to reflect the first year's actual experience adjusted to reflect 12 months of collections per year but retain the original growth rate assumptions.