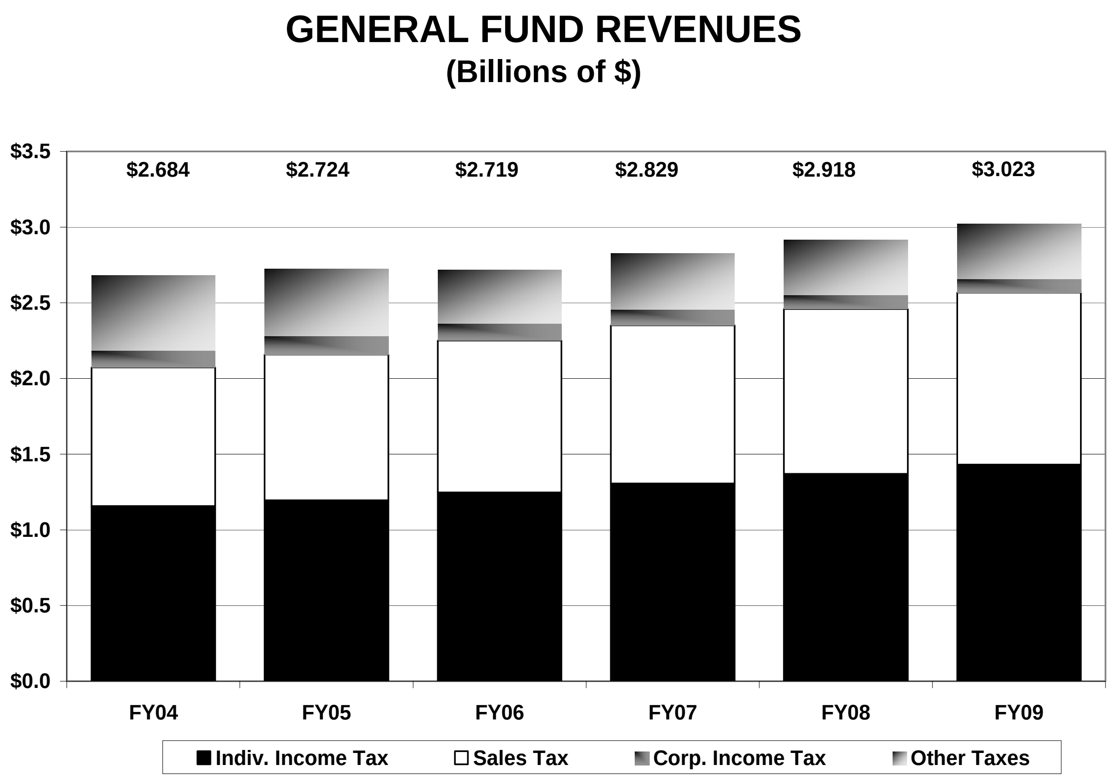
REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2004



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EXECUTIVE SUMMARY

This report summarizes the Maine State Revenue Forecasting Committee's review and revisions of the estimates of General Fund, Highway Fund, and Fund for a Healthy Maine (Tobacco Settlement Fund) revenues for the fiscal years ending June 30, 2005 (FY05) through June 30, 2009 (FY09). This forecast establishes the base revenues that must be used by the Governor in submitting the 2006-2007 biennial budgets for the General Fund and the Highway Fund. This forecast represents an increase for the General Fund and the Highway Fund over the March 2004 forecast as adjusted by legislative changes. The primary driver of the increase of revenue in this forecast is the improvement of the economic projections for the current calendar year, which more than offset slightly lower projections of growth through the remainder of the forecast period.

SUMMARY TABLE OF DECEMBER 2004 FORECAST

General Fund ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$2,651.6	$2,669.9	$2,783.7		
Net Change from Current Forecast	$72.0	$49.2	$45.0		
Revised Amount	$2,723.6	$2,719.1	$2,828.6	$2,918.0	$3,022.8
Annual % Growth	1.5%	-0.2%	4.0%	3.2%	3.6%

Highway Fund ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$317.4	$320.4	$329.3		
Net Change from Current Forecast	$3.9	$10.0	$10.9		
Revised Amount	$321.4	$330.4	$340.2	$348.8	$358.1
Annual % Growth	3.0%	2.8%	3.0%	2.5%	2.7%

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

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$50.4	$52.8	$58.6		
Net Change from Current Forecast	($1.8)	($4.0)	$0.8		
Revised Amount	$48.5	$48.8	$59.4	$72.0	$73.1
Annual % Growth	-0.7%	0.5%	21.8%	21.2%	1.6%

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: The change in the General Fund forecast presented here is driven primarily by the updated economic forecast of the Consensus Economic Forecasting Commission (see Appendix C). The Commission's November projections are more optimistic about employment growth than its previous forecast. Its forecast of personal income growth is more optimistic as well compared to the previous forecast. That increase is primarily driven by a substantial increase in the calendar year 2004 projection (the growth rate increased from 4.0% to 5.5%), but the longer term projections for growth are less optimistic compared to the previous forecast (calendar years

2005, 2006 and 2007 growth rates were revised downward from 4.5% growth to 4.0%). The 2004 calendar year increase more than offsets the longer-term slower growth and was the primary driver of the increase in the revenue forecast. The Commission also revised its inflation estimate for the 2004 calendar year – increasing it from 2.0% to 2.8%. The longer-term projections for inflation were lowered, resulting in a 2% inflation assumption for calendar year 2005 through calendar year 2009.

The modest growth in the General Fund revenue pattern between FY04 and FY05 and the negative growth between FY05 and FY06 reflect the impact of the 121st Legislature's changes to the revenue pattern, which included a number of substantial "one-time" revenue increases. These include the upfront payment for the lease of the wholesale liquor operation, some delays in tax changes to conform to federal tax changes, Highway Fund contributions to revenue sharing, increases in the General Fund share of the Real Estate Transfer Tax and the Tax Amnesty program.

Highway Fund: Highway Fund revenue is projected upward for all major lines based on strong historic performances. The major increases in the Highway Fund revenue forecast are in the Fuel Taxes line and the Motor Vehicle Registrations and Fees line. The increase in the Fuel Taxes line is driven by the increase in the Personal Income economic variable. Like the General Fund major tax lines, the short-term increase in that variable more than offset the longer-term slower growth assumptions. The increase in the assumed inflation rate in calendar year 2004 in the economic forecast (2.8% instead of 2.0%) resulted in a higher assumed tax rate as a result of the automatic indexing of the fuel taxes that began in FY04. Motor vehicle registration and fees increased based on strong historic performances.

Fund for a Healthy Maine: The Fund for a Healthy Maine is revised downward as a result of new estimates of the tobacco settlement payments, which indicate that the adjustments that are part of the settlement (particularly the volume adjustment that is based on national cigarette sales) will reduce the payments below previous estimates. In addition, further downward revisions for the short-term (FY05 and FY06) result from a revised start date assumption for the "Racino" (video slot machines facility) at the Bangor Raceway. An unexpected payment received in August 2004 from a new participating manufacturer lessened the downward reduction in FY05. The additional increase in the revenue flow to this fund stems from a new series of payments (Strategic Contribution Payments) that begin in FY08 that have been part of the Master Settlement Agreement from the beginning. (Note: the estimates in this final report include additional adjustments to the estimates of tobacco settlement payments that did not get included into the December 1st memo.)

I. INTRODUCTION AND BACKGROUND TO REVENUE FORECAST

This report represents the major update of the revenue forecast and provides the estimates of the revenue available for the Governor's biennial budget submissions due by January 7, 2005. This report and appendices provide a description of all of the key elements to the revenue forecast for the General Fund, Highway Fund and the Fund for a Healthy Maine. In addition, this year's report includes a projection of the estimated revenue throughout the forecast period of certain taxes on service providers dedicated to the Medicaid/MaineCare program that, while dedicated, represent a substantial shift of resources from the General Fund.

A. Economic Forecast

As directed by the originating Executive Order and the subsequent statute, the Committee closely examined the economic assumptions developed by the Consensus Economic Forecasting Commission (CEFC). (See Appendices A and C for background and report). First, projected employment, income, interest rates and inflation changes were used directly in the tax revenue estimating models maintained and operated by Maine Revenue Services. Second, Committee members assessed revenue trends predicted by models and by other agencies against economic expectations offered by the CEFC.

The CEFC met October 7, 2004 to prepare the economic assumptions that would become the basis of the Revenue Forecasting Committee's revenue projections. Given that Maine's economic health is highly dependent on national economic activity, the Commission examined national economic trends and projections. It concluded that growth in the current calendar year based on data through 3 quarters would be significantly higher than previously projected. The Commission was less optimistic for the subsequent 4 years and projected slightly slower growth.

The CEFC has been asked to expand the number of economic variables that it forecasts and provides to Maine Revenue Services to incorporate in their tax models. A detailed list of these assumptions can be found in Appendix A. The Revenue Forecasting Committee directly adopted the Economic Commission's forecast and incorporated these assumptions into its revenue forecasting models. The major economic growth assumptions underlying the December 2004 revenue projections are as follows:

Summary of Consensus Economic Forecasting Commission Economic Forecast

Calendar Years	2004	2005	2006	2007	2008	2009
• W&S Employment (Annual Percentage Change)						
> Consensus 2/2004	**0.8**	**1.0**	**1.0**	**1.0**		
> Consensus 11/2004	**0.9**	**1.7**	**1.5**	**1.1**	**1.3**	**1.3**
> Incremental Change	**0.1**	**0.7**	**0.5**	**0.1**		

Summary of Consensus Economic Forecasting Commission Economic Forecast (continued)

Calendar Years	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
• Personal Income (Annual Percentage Change)						
> Consensus 2/2004	**4.0**	**4.5**	**4.5**	**4.5**		
> Consensus 11/2004	**5.5**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
> Incremental Change	**1.5**	**-0.5**	**-0.5**	**-0.5**		
• CPI (Annual Percentage Change)						
> Consensus 2/2004	**2.0**	**2.0**	**2.5**	**2.5**		
> Consensus 11/2004	**2.8**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
> Incremental Change	**0.8**	**0.0**	**-0.5**	**-0.5**		

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 53.1%, resulting in a very unpleasant April surprise in 2002. Capital Gains during the "bubble" were overly conservative with respect to this variable, resulting in sizeable positive variances in the Individual Income Tax line. While Maine did have the direction right in 2001, the Committee did not anticipate the extent of the reduction that was more than twice what the Committee had forecast. The extent of the appreciation in the stock market and the amount of income derived from capital gains significantly increased the volatility of Maine's already volatile General Fund revenue stream.

The Revenue Forecasting Committee and Maine Revenue Services, like their counterparts in other states, 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 was initially reported to the Joint Standing Committee on Appropriations and Financial Affairs and the Joint Standing Committee on Taxation. Now, the report is provided just to the Revenue Forecasting Committee, which includes this information in its annual December report. (Appendix D provides a copy of that report).

With the bursting of the "bubble", the extent of the individual income tax liability derived from net capital gains has dropped down from its peak in 2000 of 17.5% to a level more in line with historical patterns before the "bubble." The committee is now forecasting that taxes on net capital gains will be in the 6.5% range for the foreseeable future. The Table below presents some history and the current projections of net capital gains that are factored into the forecast for the Individual Income Tax line.

Maine Resident - Net Capital Gains

Tax Year	$ Millions	Annual Change
1996	$799.7	45.0%
1997	$1,218.7	52.4%
1998	$1,551.0	27.3%
1999	$1,867.2	20.4%
2000	$2,360.3	26.4%
2001	$1,108.0	-53.1%
2002	$916.6	-17.3%
December 2004 Projections		
2003	$1,001.7	9.3%
2004	$1,056.8	5.5%
2005	$1,099.0	4.0%
2006	$1,143.0	4.0%
2007	$1,188.7	4.0%
2008	$1,236.3	4.0%
2009	$1,285.7	4.0%

C. Legislative Changes

The Revenue Forecasting Committee bases the revenue forecast on current law. The Committee does review the revenue derived from legislative changes. While the Committee did make some small adjustments to the amounts budgeted for General Fund revenue from enacted legislative changes, this forecast is particularly affected by the shift of budgeted revenue from enacted legislative changes. The table below shows that the 121st Legislature enacted net budgeted increases for the 2004-2005 biennium totaling $319.1 million in order to address the General Fund structural gap and to address subsequent Medicaid/MaineCare shortfalls. The one-time nature of many of those proposals is evident in that the budgeted revenue from those same legislative changes that carry over to the 2006-2007 biennium total only $146.4 million, a drop in revenue between the biennia of $172.7 million.

Legislative Changes Enacted by 121st Legislature
2003 and 2004 Legislative Sessions
Budgeted Revenue ($'s in millions)

	FY04	FY05	FY06	FY07
Net General Fund Revenue from 121st Legislative Changes	$183.5	$135.7	$73.3	$73.1
Biennial Totals		$319.1		$146.4
Change from 2004-2005 to 2006-2007 Biennium				($172.7)

III. OVERVIEW OF REVENUE PROJECTIONS

This section provides narrative descriptions of each of the forecasts of the major revenue sources of the General Fund and Highway Fund and a summary of the outlook for the Fund for a Healthy Maine. This report also includes a projection of certain new taxes on health care providers that are set aside as dedicated revenue for the Medicaid program. The Tables in Appendix B 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 has become a substantial and largely unexplained piece, has been broken out into some 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
Previous Budgeted Amount	$2,651.6	$2,669.9	$2,783.7		
Net Change from Current Forecast	$72.0	$49.2	$45.0		
Revised Amount	$2,723.6	$2,719.1	$2,828.6	$2,918.0	$3,022.8
Annual % Growth	1.5%	-0.2%	4.0%	3.2%	3.6%

The projections of major sources of General Fund revenue are summarized in the following as narrative descriptions of the major assumptions and unusual legislative changes that affected the revenue stream.

Sales and Use Tax

Sales and Use Tax ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$896.1	$938.0	$982.4		
Net Change from Current Forecast	$18.6	$16.9	$11.9		
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%

This revenue source is projected using econometric models. The primary variables used to forecast this revenue line are the aggregate forecast of Personal Income, inflation and total employment growth. With the exception of the lower inflation forecast in calendar years 2006 and 2007, all of these variables produce an increase of the forecast for this line. The growth pattern in the forecast mirrors that of aggregate Personal Income. The decline in FY05 results from the splitting out of certain taxable sales of services into their own revenue line (see below). In FY05, the amount estimated to be associated with those service taxes broken out into the "Service Provider Tax" revenue source is $46.7 million. Absent the separation of those amounts, the committee accepted the model runs without any additional "targeting." Although the Committee in the past has tried to target certain aspects of the model, such as automobile sales, in the end, that additional targeting did not seem to improve the forecast of the sales tax line.

Legislative changes during the 121st Legislature (2003 and 2004) increased revenue in this line by approximately $7.1 million in FY05 and slightly above $7.5 annually during the 2006-2007 biennium. One component of that legislative package was reversed in this forecast reducing the estimated impact of the legislative changes by approximately $1.5 million annually. Unlike other revenue lines, the legislative changes did not affect the flow of revenue with one-time or unusual revenue patterns.

Service Provider Tax

Service Provider Tax ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$46.7	$48.8	$51.1		
Net Change from Current Forecast	$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 did not have sufficient data or historical experience to provide a refinement of the segregation of these services that were previously taxed as taxable sales. With a few more months of data, the Committee and Maine Revenue Services will revisit these estimates and revise them as needed.

Individual Income Tax

Individual Income Tax ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$1,166.4	$1,234.2	$1,298.6		
Net Change from Current Forecast	$29.7	$12.3	$7.5		
Revised Amount	$1,196.1	$1,246.5	$1,306.1	$1,369.7	$1,431.4
Annual % Growth	3.4%	4.2%	4.8%	4.9%	4.5%

The forecast for the Individual Income Tax is consistent with the changes in the economic forecast. The Individual Income Tax is forecast with the input of several economic variables: the components of Personal Income, inflation, total employment growth, the unemployment rate, and the 3-month treasury bill and 10-year treasury note rates. In addition to these economic variables, Maine Revenue Services must also input assumptions about net capital gains (see discussion of Capital Gains Forecast above). For the most part the relationship and the effect of these variables on the individual income tax is obvious. Personal Income and the distribution of that variable into its components (salaries and wages; dividends, interest and rent; proprietor's income; and transfer payments) affect the accuracy of the Individual Income Tax forecast. Part of the problem that resulted in the unpleasant "April Surprise" of 2002 was capital gains, but another third was a problem with the distribution of the components of Personal Income. Since that time, the Consensus Economic Forecasting Commission has spent much more time in evaluating the distribution of Personal Income. The forecast of inflation has some offsetting influences on the forecast. On one hand, a higher rate of inflation will result in a higher forecast of nominal salaries and wages and proprietors' income. On the other hand, the tax brackets are indexed for inflation and a higher rate of inflation will increase the brackets and reduce the rates applied to certain income below the highest bracket.

The modest growth from FY04 to FY05 is influenced somewhat by this factor, but the largest changes result from the unusual increase of revenue in FY04 due to the Tax Amnesty program and other enforcement initiatives that enhanced revenue by more than $4 million and from the deduction of the distributions for the Maine Residents Property Tax and Rent Refund or "circuit breaker" program from individual income tax revenue. FY05 was the first year that this large program is deducted from the revenue side. Provided below is a summary of the gross amounts that will be deducted from Individual Income Tax as a result of the "circuit breaker" program:

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

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	-$24.7	-$25.8	-$27.0		
Net Change from Current Forecast	$0.0	-$3.5	-$1.7		
Revised Amount	-$24.7	-$29.3	-$28.7	-$29.4	-$30.2
Annual % Growth	2.4%	18.2%	-1.9%	2.5%	2.5%

The transfers for the "circuit breaker" program were capped in FY05 by statute, resulting in a sizeable shortfall in FY05 that must be paid from the FY06 transfer amount, which is the cause of the substantial growth in FY06 of 18.2% and the decline in FY07. The shortfall, which totals $2,034,790, results from a delay of $903,000 of FY04 program expenditures paid in FY05 and a higher revised estimate of FY05 program expenditures.

Corporate Income Tax:

Corporate Income Tax ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$104.4	$96.7	$94.2		
Net Change from Current Forecast	$19.0	$16.5	$12.6		
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 model is driven by employment growth and the CPI forecast. The employment growth assumption increases in each year of the forecast and a higher estimate of inflation in 2004 results in a net increase in the projections for this tax. The increases in the short-term and the negative growth after FY05 are attributable to recent adjustments to the conformity of state tax law with federal tax laws. Revenue estimates were driven upward for FY04 and FY05, in part, due to the improved underlying economic conditions and to the delayed conformity to the Federal code with respect to bonus depreciation. The delay in conformity causes State tax collections to be higher in FY04 and FY05 and to be lower in the years after that.

Cigarette and Tobacco Tax

Cigarette and Tobacco Tax ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$96.9	$96.1	$95.4		
Net Change from Current Forecast	-$0.9	-$0.9	-$0.9		
Revised Amount	$96.0	$95.2	$94.5	$93.8	$93.0
Annual % Growth	-0.6%	-0.8%	-0.7%	-0.8%	-0.9%

This revenue source has been declining on a more accelerated basis. The Committee had forecast significant drops in the sale of cigarette stamps due to effective anti-smoking campaigns, increased rolling of cigarettes, and the loss of sales to out-of-state and internet purchases. The forecast is reduced by an additional $900,000 annually in this forecast as a result of targeting the model to a reduced base, FY04 revenue from this source was approximately $1.0 million under budget.

Public Utilities Tax

Public Utilities Tax ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$28.1	$26.8	$25.9		
Net Change from Current Forecast	-$1.4	-$1.3	-$1.4		
Revised Amount	$26.7	$25.4	$24.5	$23.3	$22.3
Annual % Growth	-4.7%	-4.6%	-3.7%	-4.8%	-4.5%

This revenue source includes a small amount of revenue that is related to the Railroad Company Tax (approximately $400,000 net General Fund revenue), 100% of which is being dedicated beginning in FY06. The largest piece of this major revenue line is the Telecommunications Personal Property Tax. That tax is projected to decline for 2 reasons: 1) the mill rate on that property is statutorily scheduled to decline through tax year 2010 and 2) the technological changes in this industry have accelerated the depreciation of this personal property.

Insurance Companies Tax

Insurance Companies Tax ($'s in millions)	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$65.8	$64.4	$67.0		
Net Change from Current Forecast	$12.8	$12.7	$12.7		
Revised Amount	$78.6	$77.1	$79.6	$81.1	$82.7
Annual % Growth	8.9%	-1.9%	3.2%	1.9%	1.9%

This revenue source has shown significant growth in recent years since the bursting of the stock market "bubble". The insurance companies tax, based on premiums, has grown as premiums growth has adjusted to make up for the losses in insurance company portfolios. This forecast assumes that the growth of this revenue line will revert back to the normal growth patterns prior to the recent increases. FY05 growth is related to a legislative change that applied the insurance premium tax to contracts for future annuities. That revenue was originally budgeted for receipt in FY04, but was delayed until Maine Revenue Services and the affected taxpayers reached offers in compromise. It is interesting to note that despite this delay from FY04 to FY05 of approximately $11.4 million of budgeted revenue (the majority of that budgeted revenue was related to retroactive assessments), the insurance companies tax exceeded the FY04 expectations by $2.8 million. While the growth assumptions have been slowed, the enhanced base off which the growth is projected produces a substantial upward revision for this revenue line.

Estate Tax

Estate Tax ($'s in millions)	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$31.9	$32.6	$34.6		
Net Change from Current Forecast	-$2.9	-$2.5	-$3.0		
Revised Amount	$29.0	$30.1	$31.6	$33.9	$35.4
Annual % Growth	-9.5%	3.6%	5.0%	7.2%	4.3%

Estate tax estimates are forecast by Maine Revenue Services using a model based on aggregate Personal Income growth. Looking at aggregated data of actual tax returns using a data warehouse enhances the data and the model. Tax year 2003 returns are the most recent available and is the adjusted base year upon which this forecast derives. An adjustment is also made to account for additional estate tax planning, which is occurring in reaction to Maine's recent decision to not conform with federal tax law. The unusual 7.2% growth in FY08 is related to federal law changes for the estate exemption amount, which is fully phased-in at $1 million for deaths occurring in 2006. Previous year growth rates were suppressed by the effect of the phase-in of the exemption.

Property Tax - Unorganized Territory

Property Tax - Unorganized Territory ($'s in millions)	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$10.6	$10.7	$11.0		
Net Change from Current Forecast	$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%

Property Tax - Unorganized Territory – The annual General Fund transfers for the General Fund expenditures of the municipal cost component of the Unorganized Territory have not been revised in this forecast despite a positive revenue variance of $506,684 in FY04. That variance is the result of an accounting adjustment from a prior period and should not affect current projections of expenditures and the related transfers to the General Fund.

Income from Investments

Income from Investments ($'s in millions)	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$1.0	$1.6	$1.8		
Net Change from Current Forecast	$3.1	$4.4	$4.3		
Revised Amount	$4.1	$6.0	$6.0	$6.0	$6.0
Annual % Growth	76.8%	48.0%	0.0%	0.0%	0.0%

General Fund Income from Investments is expected to increase by $3,064,390 in FY05, $4,439,493 in FY06 and $4,295,338 in FY07. These recommended adjustments are due to a projected increase in interest rates as well as the impact of increased balances in the Cash Pool for which the General Fund accumulates interest.

Transfers to Municipal Revenue Sharing

Transfers to Municipal Revenue Sharing ($'s in millions)	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	-$112.9	-$120.5	-$126.2		
Net Change from Current Forecast	-$3.4	-$2.4	-$1.7		
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.

Transfer from Lottery Commission

Transfer from Lottery Commission ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$52.1	$52.4	$51.7		
Net Change from Current Forecast	$0.2	$0.4	$1.1		
Revised Amount	$52.3	$52.8	$52.8	$52.8	$52.8
Annual % Growth	26.7%	1.0%	0.0%	0.0%	0.0%

The Lottery began participation in Powerball, a multistate lottery beginning in FY05, hence the 26.7% growth rate over FY04. This forecast does not include any changes in the base forecast. The only change in this revenue source from the prior forecast is the elimination of an offset against lottery revenue from sales diverted to the new "Racino" in Bangor (see discussion of Pari-mutuel and Gaming Revenue below) that was assumed in the fiscal note for that legislation. The Committee thought that given the limited geographical competition from the Bangor "Racino" that the revenue offset would not be appreciable.

Other Revenues

Other Revenues ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$264.4	$188.2	$196.3		
Net Change from Current Forecast	-$2.7	-$6.9	$1.7		
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, this tax still exceeded budgeted revenue with a $1,875,519 positive variance in FY04. The real estate market has been quite active and property values have been growing in the double-digit range. This is expected to continue for the short-term through FY05 with an upward revision of $3,184,214 recommended for that year. Smaller upward revisions are expected in FY06 and beyond. There is also an adjustment in this revenue source in FY06 as the H.O.M.E. Fund share returns to 45% of the total tax (excluding those amounts derived by the transfer of controlling interests). In FY04 and FY05 only, the General Fund retained an additional $7,500,000 each year that would otherwise have gone to the H.O.M.E. fund.

Liquor Sales and Operations – This revenue category reflects 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 and it is anticipated that these will be reported in a new revenue source code labeled Liquor Profit Sharing (RSC 2575). In FY03 and prior fiscal years, the revenue amounts were recorded as transfers from the State Liquor Commission; for FY04, the revenue amounts reflect a split between revenues transferred by the Liquor Commission and a $75,000,000 payment received as a result of the leasing of the wholesaling operation; in FY05, the projected revenues will also reflect a split between another $50,000,000 lease payment and the beginning of the aforementioned profit sharing; and in FY06 and thereafter, the revenue stream in this category will reflect the proceeds of profit sharing. At this point, it is too early to estimate the amount of profit sharing from this venture.

Liquor Taxes and Fees – The Department of Public Safety collects most liquor taxes and fees. The adjustments to these revenue projections reflect an increase of almost $865,000 in annual revenues collected from liquor taxes from increased sales of different types of wine, beer and malt beverages. This increase is partially offset by an annual decrease of slightly more than $11,000 collected from the licensure of establishments that either sell or serve liquor. This decrease in licensing revenue appears to be the net effect of owner decisions to change licensure type in response to new smoking regulations.

Banking Fees/Assessments – The FY04 positive variance of $724,280 is primarily the result of increased registration and licensing fee income in the Office of Securities, which the Department explains has been aided by greater than anticipated strength in the financial markets. While some continued growth in securities licensing fee revenue is assumed, a continued positive variance in this category of the magnitude of the FY04 variance is not expected. Also of note, 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.

Corporation Fees & Licenses – Corporation fees and licenses are administered and collected by the Secretary of State. Beginning in FY05, approximately $2,500,000 in annual increases to budgeted revenue is attributable to a large number of fee increases authorized by the 121st Maine State Legislature.

Hunting and Fishing License Fees – The Department of Inland Fisheries and Wildlife collects all hunting and fishing license fees. According to the provisions of Article IX, § 22 of the Maine Constitution, undedicated revenues collected by the department for deposit into the General Fund are “protected” and the Legislature is required to appropriate an amount of funds to the department that is at least equal to the amount of undedicated revenues collected by the department in a particular fiscal year. Due to the expiration of a temporary surcharge that added to most fees collected by the department, budgeted annual revenues decline by almost $3,000,000 in FY06 and beyond.

Boat, ATV and Snowmobile Fees – These revenues are also collected by the Department of Inland Fisheries and Wildlife and were subject to the temporary surcharge.

Pari-mutuel and Gaming Revenue - Pari-mutuel revenue is derived from the “handle” or amount that is wagered on harness racing and is collected for the General Fund by the State Harness Racing Commission. Gaming revenue is collected by the Gambling Control Board and consists of proceeds that will be collected from the video slot machine revenue at a commercial track in Bangor. Changes in the projections of gaming revenue are attributable to the delayed opening of the “Racino” at the Bangor commercial racetrack. Originally forecast to begin in January of 2005 with 500 video gaming machines in a temporary facility, the provisional operating licensee, Penn National, has canceled plans for the temporary facility and is now projecting the opening of a brand new facility with a full compliment of 2,000 video gaming machines in July of 2006. As a consequence of these changes, the only gaming revenue that will be collected in FY05 will be the initial operator’s licensing fee of $200,000. In FY06, gaming revenue will be limited to reimbursements for background checks and additional licensing revenue; all of which will total an estimated $635,366. In FY07, which will be the “Racino’s” first full operating year, it is estimated that gaming revenues will total $12,936,139 with estimated revenues of $13,243,305 and $13,455,619 in FY08 and FY09, respectively.

Fines, Forfeits and Penalties – Despite a positive variance of $1.2 million in FY04, Judicial Fines are not revised upward for this forecast. Some recent fine increases have created some uncertainty in the continuation of this positive variance into future years. Fines collected by other agencies, the Office of the Attorney General, the Department of Professional and Financial Regulation and the Department of Environmental Protection (DEP) are adjusted in this forecast. DEP fine revenue is reduced by ($215,000) annually beginning in FY05 (based on improved historical data), while the fines collected by the Attorney General, Professional and Financial Regulation and the Treasurer of State (Bad Check Charges) offset that reduction in FY05 resulting in a minor net increase in fine revenue. The reductions exceed the increases in FY06 and FY07.

Targeted Case Mgmt Revenue (HHS) – Revenue derived from billing Medicaid for targeted case management services provided to eligible individuals by employees of the State. The variances above budgeted amounts for FY04 and the forecast period reflect an increase in estimated billing for child welfare case management services (and one-time FY04 increases in adult protective and mental retardation billings) offset by decreases in billings for mental health and public health nursing case management services. The mental health decrease is due to a recent decrease in the average number of MaineCare eligible individuals who are receiving services. Estimates for FY06 and beyond also reflect an anticipated reduction in the federal medical assistance percentage (FMAP), the percentage upon which reimbursement is based.

HHS Services Rendered – Revenue derived from billing Medicaid, Medicare, and private payers for medical services provided to eligible residents in state-run facilities and programs and from administrative cost allocation reimbursement for certain BDS functions. Estimates reflect an increase in cost allocation reimbursement in FY 2004 (an additional quarter’s worth of revenue was recorded in FY04) and a decrease beginning in FY05 (position changes and vacancies associated with the merger into the Department of Health and Human Services are expected to result in reduced levels of reimbursable expenditures). Estimates for FY06 and beyond also reflect an anticipated reduction in the federal medical assistance percentage (FMAP), the percentage upon which the majority of this reimbursement is based.

Unclaimed Property Transfer – Pursuant to 33 MRSA §1964, the Office of the Treasurer of State is authorized to transfer money in the Unclaimed Property Fund to the General Fund. In FY04 there was a $6,216,948 positive variance in the Unclaimed Property transfer to the General Fund. Part of this difference was the result of a timing issue with the processing of certain claims by the Office of the Treasurer and no adjustment to subsequent years is needed. Revenue in FY06 and beyond assumes a flat base transfer amount of $7,000,000 annually.

Tourism Transfer – This revenue line represents the amount the State Controller is required to transfer to the Tourism Marketing Promotion Fund (5 MRSA §13090-K). The amount transferred is certified by the State Tax Assessor and is equal to 5% of the 7% meals and lodging tax collected in the prior fiscal year. The transfer must be based on actual sales for that fiscal year and may not consider any accruals that may be required by law. The amount transferred from General Fund sales and use tax revenue to the Tourism Marketing Promotion Fund does not affect the calculation for the transfer to the Local Government Fund (municipal revenue sharing). The December 2004 forecast proposes to reduce the amount transferred from the General Fund by $322,511 in FY05, $311,588 in FY06 and by $368,772 in FY07. This reduction is based on more recent actual data, which indicates a reduction in the base upon which the percentage is applied.

Transfers to Maine Clean Election Fund - 21 MRSA §1124 authorizes early transfers to the Maine Clean Elections Fund in the event that the Commission determines that it will not have sufficient funds. The Commission on Governmental Ethics and Election Practices can request that the State Controller transfer funds early. The Maine Clean Elections Fund is expected to have a shortfall for the 2006 election and consequently the Commission will likely request early transfers from funds that would have been received in FY07 and FY08. FY06 General Fund revenue is decreased by $2,000,000 and FY07 revenue is increased by $2,000,000 each year. This early transfer provision may result in an additional transfer in January 2006 that would represent an advance of the January 2008 transfer, if gubernatorial candidates participate. The transfers from the Income Tax Check off to the Maine Clean Elections Fund are reduced from $300,000 annually during the forecast period to $250,000. This reduction is based on more recent actual data, which indicates a reduction in the amounts transferred.

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

Commercial Forestry Excise Tax (RSC 0175) – This tax is assessed at a fixed amount per acre against owners of more than 500 acres of forested land in the State. The tax funds 40% of the costs of the State’s forest fire suppression activities. The tax is determined by the State Tax Assessor from information provided and certified by the Commissioner of the State Department of Conservation. The December 2004 update proposes to reduce the budgeted amount by $101,254 in FY05, $103,023 in FY06 and $105,568 in FY07 due to recent trends and updated projections.

Hospital Assessment (RSC 1913) - This revenue represents on-going payments from hospitals that continue to have outstanding tax liabilities from prior fiscal years, before this hospital assessment (36 MRSA §2801-A) was repealed in 1998. The December 2004 update proposes to reduce the budgeted amount by $241,080 in FY07 to bring the budgeted amount to $0 since the final liability terminates at that time.

Contribution from the Highway Fund (RSC 2717) - This revenue transfer is related to Maine Revenue Services employees who administer and collect gasoline and other Highway Fund related taxes. The December 2004 update proposes to reduce the budgeted amount by $126,600 annually in FY05, FY06 and FY07 due to recent trends and updated projections utilizing the new Budget Financial Management System. That system allows for a different, more accurate method of estimating personnel costs.

Contribution from Other Revenue (RSC 2719) - This revenue source is increased by $608,391 annually in FY05, FY06 and FY07 to bring the budgeted amount to $0. This portion of the budgeted transfers was inadvertently not eliminated with the repeal of the transfer related to childcare tax credits originally intended to be funded by the Fund for a Healthy Maine (enacted by PL 1991, c. 401, Part NNN: repealed PL 2001, c. 358, Part D). This change corrects that oversight.

Container Fee (RSC 1195) - Bottle deposit originators are exempt from this fee if they enter into co-mingling arrangements with other bottle deposit originators. This amount is reduced by $100,000 in FY05 because some major deposit originators are expected to enter into co-mingling arrangements.

Recovered Costs (RSC 2690) - The Department of the Attorney General received an increase in General Fund revenue from the unexpected collection of fines and settlements of $695,116 in FY05. Due to the unpredictable nature of these collections, this increase is not projected beyond FY05.

Driver Rehabilitation Course Fees (RSC 1515) – Based on a negative variance in FY04, this revenue source is projected downward for each year of the forecast period. The downward projection is due to revised estimates of the number of individuals served and the actual fees charged for these programs.

Child Support Collections (RSC 2520) – Revenue derived from child support collections from absent parents of children in state custody. The positive variance for FY04 and the forecast period is based on recent trends of increased collections above budgeted amounts.

Barron Center Transfer (RSC 2451) – Revenue derived from payments from the City of Portland to the state (i.e. intergovernmental transfer) related to increased Medicaid payments to the city-owned Barron Center. Budgeted revenue from this intergovernmental transfer is eliminated beginning in FY06 due to the federal government's disallowance of the increased Medicaid payments.

Registration of Feeding Stuffs (RSC 1406) – Despite a positive variance in FY04, this revenue source is projected downward for each year of the forecast period. The downward projections for this revenue line bring budgeted revenues into line with actual revenues collected in FY04. The reduced revenue projections are due to less than favorable economic conditions that have caused a number of smaller companies to either cease selling their products in Maine or to consolidate, resulting in a smaller number of products that require registration.

B. Highway Fund

Highway Fund ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$317.4	$320.4	$329.3		
Net Change from Current Forecast	$3.9	$10.0	$10.9		
Revised Amount	$321.4	$330.4	$340.2	$348.8	$358.1
Annual % Growth	3.0%	2.8%	3.0%	2.5%	2.7%

Highway Fund revenue is projected upward for all major lines based on strong historic performances. Provides below are narrative descriptions of these major Highway Fund revenue lines and the underlying assumptions for the adjustments and projections.

Fuel Taxes

Fuel Taxes ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$218.6	$225.7	$233.8		
Net Change from Current Forecast	$2.2	$3.9	$4.1		
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 model's fuel tax forecast uses the following economic variables: aggregated Personal Income, inflation (the annual indexing of the fuel tax is determined by the prior years inflation rate), and employment (as a measure of business activity and consequently fuel usage). The 2 primary reasons for the increase in the fuel tax line are the short-term increases in the Personal Income and Inflation economic variables. The fuel tax line had been running consistently ahead of budget in FY04. The change in the Personal Income projections for calendar year 2004 explains why we were experiencing these positive variances. It also results in a higher base from which future year growth rates build, resulting in higher projected revenues.

The Inflation estimate, which was increased from 2.0% to 2.8% in calendar year 2004, will result in a larger increase in the tax rate when it is adjusted effective July 1, 2005. Provided below is a table comparing the current projections of fuel tax rates with the newly revised rates.

Projected Tax Rates

	Gasoline Tax		Special Fuel Tax	
	Current	Revised	Current	Revised
7/1/2004	$0.252	$0.252	$0.263	$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		$0.281
7/1/2008		$0.275		$0.281

Motor Vehicle Registration & Fees

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

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$78.7	$79.5	$80.2		
Net Change from Current Forecast	$0.2	$3.6	$4.1		
Revised Amount	$78.9	$83.1	$84.3	$84.1	$84.2
Annual % Growth	-4.4%	5.4%	1.4%	-0.2%	0.2%

The various fees associated with motor vehicle registrations and licenses are collected for the Highway Fund by the Bureau of Motor Vehicles within the Department of the Secretary of State. The reprojections for this revenue category, which are increases of approximately $160,000, $3.6 million and $4.1 million in FY05, FY06 and FY07, respectively, are largely based on the most current trends in actual revenue collections in these lines. In particular, the majority of the significant increases for FY06 and FY07 are attributable to the projected annual revenues collected from driver’s license fees, which have been increased by slightly more than $3.6 million and $3.9 million in FY06 and FY07, respectively, to properly reflect the number of licenses which will be renewed on a cyclical basis.

Inspection Fees

Inspection Fees ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$3.5	$3.5	$3.5		
Net Change from Current Forecast	$0.9	$0.9	$0.9		
Revised Amount	$4.4	$4.4	$4.4	$4.5	$4.5
Annual % Growth	-6.9%	0.4%	0.4%	1.2%	1.3%

The Department of Public Safety is responsible for administering and collecting the fees associated with motor vehicle inspections. The annual increase of approximately $500,000 collected from permits to use highways corresponds to the increased number of permits sold for the transportation of over-sized truck loads and the revised annual revenue increases of $437,400 from motor vehicle inspection fees are attributable to recent trends in the collection of actual revenues from these fees.

Fines, Forfeits and Penalties

Fines, Forfeits and Penalties ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$2.2	$2.2	$2.3		
Net Change from Current Forecast	$0.0	$0.0	$0.0		
Revised Amount	$2.2	$2.2	$2.3	$2.3	$2.3
Annual % Growth	12.9%	3.8%	2.0%	0.0%	0.0%

The Judicial Department is responsible for collecting fines for the Highway Fund pertaining to motor vehicle violations. The negative variance of $204,198 in actual revenues collected in FY04 appears to be based in an over-estimation of fine revenues that would be collected by the Judicial Department. The department is currently reexamining the basis by which the current revenue projections for FY05 and beyond were made. Projected revenues for FY06 and FY07 were increased by $20,000 in each year to accurately reflect the amounts of projected fine revenue that will be transferred from the General Fund to the Highway Fund.

Income from Investments

Income from Investments ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$1.0	$1.0	$1.0		
Net Change from Current Forecast	-$0.1	$0.5	$0.5		
Revised Amount	$0.9	$1.6	$1.6	$1.6	$1.6
Annual % Growth	31.4%	64.5%	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. Transfers to the General Fund in FY 05 that reduce

Highway Fund balances available for investment are only partially offset by an increase in the assumed rate of return of the cash pool. The upward annual adjustments of $.5 million for FY06 and FY07 represent an assumed increase in the earnings rate of the pool. The projected earnings for FY08 and FY09 assume a rate of earnings consistent with the 2006-2007 biennium.

Highway Fund - Other Revenues

Highway Fund - Other Revenues ($'s in millions)

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$13.4	$8.5	$8.5		
Net Change from Current Forecast	$0.8	$1.0	$1.2		
Revised Amount	$14.2	$9.5	$9.8	$9.8	$9.9
Annual % Growth	49.4%	-33.3%	3.0%	0.7%	0.7%

This revenue category includes various miscellaneous revenues collected for the Highway Fund by the different agencies that are charged with that task. The total projected revenue of $14.2 million for FY05 includes one-time revenue proceeds of $5 million from the sale of the Payne Road Bridge to the Maine Turnpike Authority. Most of the net increased projections in this revenue category, which include $.8 million in FY05, $1 million in FY06 and $1.2 million in FY07 are attributable to an annual increase of more than $.7 million from a realignment of authorized fees charged by the Bureau of Motor Vehicles for information purchased through the Internet service provided by InforME and from increases in revenues realized from the sale of autos by the Department of Public Safety. The annual increase of $225,000 in revenue realized from the sale of autos is due to the transition from purchasing State Police cruisers to a leasing arrangement.

C. Fund for a Healthy Maine

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

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$50.4	$52.8	$58.6		
Net Change from Current Forecast	($1.8)	($4.0)	$0.8		
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 is revised downward as a result of new estimates of the tobacco settlement payments, which indicate that the adjustments that are part of the settlement (particularly the volume adjustment that is based on national cigarette sales) will reduce the payments below previous estimates. In addition, additional downward revisions for the short-term (FY05 and FY06) result from a revised start date assumption for the "Racino" (video slot machines facility) at the Bangor Raceway. (A more detailed description of the causes for this change is included in the section on pari-mutuel revenues on page 14.) An unexpected payment received in August 2004 from a new participating manufacturer lessened the downward reduction in FY05. The additional increase in the revenue flow to this fund stems from a new series of payments (Strategic Contribution Payments) that begin in FY08 that have been part of the Master Settlement Agreement from the beginning. (Note: the estimates in this final report include additional adjustments to the estimates of tobacco settlement payments that did not get included into the December 1st memo.)

D. Medicaid/MaineCare Dedicated Revenue Taxes

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

	FY05	FY06	FY07	FY08	FY09
Previous Budgeted Amount	$97.2	$98.0	$98.8		
Net Change from Current Forecast	$0.0	$2.2	$4.7		
Revised Amount	$97.2	$100.2	$103.5	$106.9	$110.4
Annual % Growth	100.4%	3.1%	3.3%	3.3%	3.3%

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 MaineCare/ Medicaid programs resulting in general fund savings used to offset budget shortfalls. Provider taxes were first enacted in the early 1990's but repealed by the end of the decade. Beginning in 2003 with the nursing facility tax and the residential treatment facility tax; the hospital tax added in 2004; and the Private Non-Medical Institution (PNMI) component of the service provider tax added in 2005; the State enacted taxes that will generate more than $100 million per year in dedicated revenue during the forecast period.

The forecast assumes an overall annual growth rate of 3.3%, with revenue from the hospital tax assumed to grow at 4% per year and revenue from the other health care provider taxes assumed to grow at 2.5% per year. While overall health care inflation is expected to be higher than these growth rates, the growth assumption is based on the State's ability to control nursing facility, residential treatment facility and PNMI revenue growth because of the significant share of this revenue resulting from MaineCare\Medicaid and other State payments. The slightly higher forecast growth assumption for hospital tax revenue reflects the relatively smaller overall share of hospital revenue attributable to MaineCare/Medicaid payments. At the same time, under the recently enacted Dirigo Health legislation (PL 2003, c. 469), the State has initiated efforts to control the overall growth in hospital spending.

III. CONCLUSION

The increases of revenue for the General Fund and the Highway Fund (fuel taxes) in this forecast are primarily driven by the economic forecast of the Consensus Economic Forecasting Commission. That forecast was adjusted upward significantly for calendar year 2004 based on more up-to-date actual economic data, but was less optimistic for future growth in the long-term. That short-term increase in the key economic variables that affect the tax models outweighed the longer-term slower growth and produced upward revisions for those revenue sources projected by the economic models. The Committee generally felt that the slower growth in the longer-term in this revised economic forecast added a degree of conservatism to this forecast and that the risk for future revenue was an up-side risk, absent any major unforeseen shocks to the economy.

As noted earlier in this report, the revenue pattern of the General Fund has been affected significantly by recent legislative changes that enhanced revenue in the 2004-2005 biennium by significantly more than the effect on the 2006-2007 biennium, resulting in negative growth between FY05 and FY06. While the Committee revised the amounts forecast as a result of some of these change, those changes were relatively minor. The revenue estimate from a sales and use tax enforcement initiative was lowered by $1.5 million, a new insurance premium tax initiative related to contracts for future annuities was delayed by a year from FY04 to FY05 and the start-up of the “Racino” in Bangor was delayed by nearly 2 years.

The Committee also provided a forecast of recently enacted health care provider taxes that are recorded as dedicated revenue, but were included in this report because of their importance to the General Fund budget. The expenditures supported by those dedicated revenue taxes are related to the Medicaid/MaineCare program that realized net General Fund expenditure savings from the implementation of these taxes.

The Highway Fund revenue forecast was increased over and above the economic forecast changes that affect the fuel tax line in nearly all revenue sources as a result of strong historic performances across the board.

Finally, the Fund for a Healthy Maine received downward aggregate revisions as a result of this forecast. This fund was budgeted to receive a substantial amount of revenue from the “Racino” initiative. The delay dropped projections for the fund. The Committee also again adjusted downward the anticipated Tobacco Settlement payments. The forecast, based on national econometric forecasts, has in recent years failed to adequately capture the trend of declining national cigarette sales.