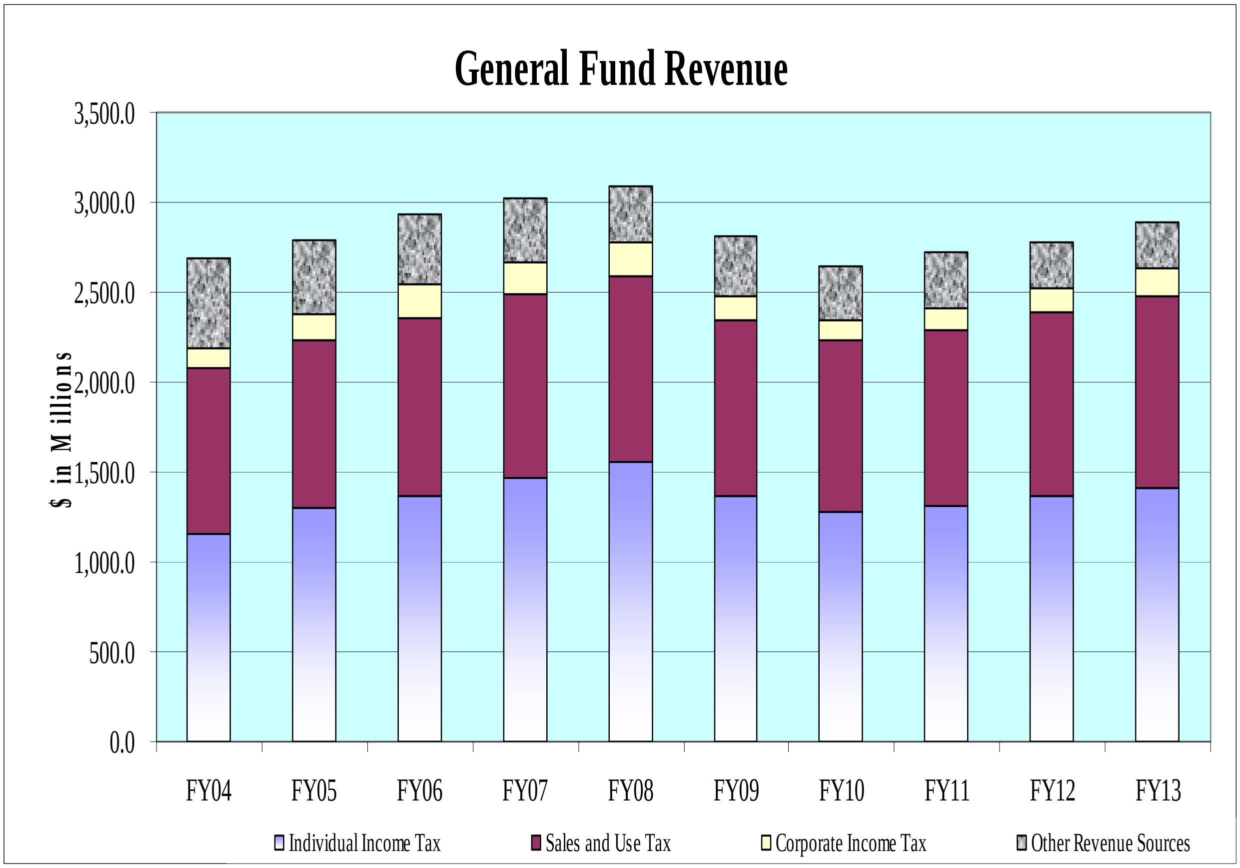
REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2009



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Report of the Maine State Revenue Forecasting Committee
December 2009 Forecast

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND TO REVENUE FORECAST

This report represents the conclusion to the fall forecast for the December 1st statutory reporting deadline of the Revenue Forecasting Committee (RFC). A description of the revenue forecasting process is provided in Appendix F. This report and appendices provide a description of all the key elements of the General Fund and Highway Fund revenue forecasts. In addition to the statutorily required updates of General Fund and Highway Fund, the RFC also includes forecasts of revenue accruing to the Fund for a Healthy Maine and the dedicated revenue from the Medicaid/MaineCare provider taxes. This forecast updates the current revenue forecasts through the fiscal year ending June 30, 2013. This forecast also reflects all legislative changes through the 1st Regular Session of the 124th Legislature and the effect of a People's Veto petition with a sufficient number of valid signatures to require a vote on the June 2010 referendum to decide the outcome of the Tax Reform Package, PL 2009, c. 382 enacted during the 1st Regular Session. The RFC met on November 20th to deliberate and discuss the recommendations of the Maine Revenue Services and the results of staff reviews of the other revenue categories not covered by Maine Revenue Services.

This forecast represents yet another significant downward revision in a series that has ratcheted down economic and revenue forecasts based on successively more pessimistic views of the national economy. The last 3 economic and revenue forecasts, including this December 2009 forecast, have been so significant that they have lowered General Fund revenue projections for the 2010-2011 biennium by a total of $1.15 billion, more than 18%. It now appears that the uncertainty and variability in the economic forecasts have lessened significantly. The hope is that this forecast is the last in the series of downward revisions. While the economic outlook has stabilized, the RFC remains concerned about the potential for a minor economic shock to cause the consumer to overreact and drive the economy lower.

A. Economic Forecast Update

The December 2009 revenue update began with the fall economic forecast due on November 1st. The Consensus Economic Forecasting Commission (CEFC) met on October 26th to review and update its April 2009 forecast. Based on the findings at that meeting, the CEFC released a summary report by the November 1st deadline, but needed another meeting on November 2nd to review and complete the detailed forecast of the components of Personal Income. After that meeting, the CEFC released its full report, which is included in Appendix E. Table I-A on the next page provides a summary of the changes to the major components compared to the previous forecast. The table also includes the changes in some of the major components of the Personal Income.

This CEFC forecast projects continued declines in employment levels through the middle of 2010 before employment growth begins again. This forecast actually shows some improvement in the employment picture compared with the April 2009 forecast. The declines in calendar years 2009 and 2010 are less severe. The rebound beginning in the 2nd half of 2010 and 2011 is less than previously forecast. The number of jobs lost over the course of this recession from the peak in January 2008 to the projected low point in the middle of 2010 will be roughly 31,000, almost 8,000 less than previously projected in the April 2009 forecast.

The estimate for the annual change in the Consumer Price Index was modified for 2009 showing less of a decline or deflation, a 0.5% decline compared with the 1.4% decline projected in the April 2009 forecast. The only other change in the inflation forecast is a slightly lower increase in consumer prices during 2011.

Table I-A
Consensus Economic Forecasting Commission
Comparison of April 2009 and November 2009 Economic Forecasts

Calendar Years	2008	2009	2010	2011	2012	2013
• Wage & Salary Employment (Annual Percentage Change)						
> Consensus 4/2009	**-0.3%**	**-3.8%**	**-1.6%**	**1.4%**	**2.2%**	**2.0%**
> Consensus 11/2009	**-0.3%**	**-2.9%**	**-1.2%**	**1.2%**	**2.2%**	**2.0%**
Difference	**0.0%**	**0.9%**	**0.4%**	**-0.2%**	**0.0%**	**0.0%**
• Personal Income (Annual Percentage Change)						
> Consensus 4/2009	**4.2%**	**1.0%**	**1.2%**	**2.8%**	**4.0%**	**4.7%**
> Consensus 11/2009	**4.0%**	**-0.6%**	**1.2%**	**3.2%**	**4.4%**	**4.8%**
Difference	**-0.2%**	**-1.6%**	**0.0%**	**0.4%**	**0.4%**	**0.1%**
Major Components of Personal Income:						
Wage and Salary Disbursements						
> Consensus 4/2009	3.6%	-1.3%	-0.4%	2.1%	4.3%	4.9%
> Consensus 11/2009	3.2%	-4.7%	-0.4%	2.5%	3.9%	4.9%
Difference	-0.4%	-3.4%	0.0%	0.4%	-0.4%	0.0%
Supplements to Wages and Salaries						
> Consensus 4/2009	3.7%	1.9%	1.3%	2.7%	4.0%	5.4%
> Consensus 11/2009	3.1%	0.5%	3.1%	3.3%	4.0%	5.2%
Difference	-0.6%	-1.4%	1.8%	0.6%	0.0%	-0.2%
Non-Farm Proprietors' Income						
> Consensus 4/2009	-1.4%	-2.2%	1.6%	4.6%	4.8%	4.2%
> Consensus 11/2009	-2.8%	-6.1%	0.9%	4.6%	5.0%	4.5%
Difference	-1.4%	-3.9%	-0.7%	0.0%	0.2%	0.3%
Dividends, Interest and Rent						
> Consensus 4/2009	4.3%	-1.0%	1.0%	3.0%	3.0%	4.0%
> Consensus 11/2009	1.9%	-3.5%	1.5%	3.9%	6.0%	7.0%
Difference	-2.4%	-2.5%	0.5%	0.9%	3.0%	3.0%
Transfer Payments						
> Consensus 4/2009	8.0%	8.7%	4.7%	4.0%	4.5%	5.4%
> Consensus 11/2009	11.8%	13.5%	3.6%	4.0%	4.7%	3.7%
Difference	3.8%	4.8%	-1.1%	0.0%	0.2%	-1.7%
• Consumer Price Index (Annual Percentage Change)						
> Consensus 4/2009	**3.8**	**-1.4**	**1.7**	**2.3**	**2.1**	**2.0**
> Consensus 11/2009	**3.8**	**-0.5**	**1.7**	**2.0**	**2.1**	**2.0**
Difference	**0.0**	**0.9**	**0.0**	**-0.3**	**0.0**	**0.0**

The most significant story in this forecast, because of its significant and direct effect on the revenue forecast, is the short-term adjustment to Personal Income. The Bureau of Economic Analysis, U.S. Department of Commerce released a significant revision to Personal Income estimates in mid-October. That revision (typically revised once a year) significantly reduced growth in Personal Income in 2009 with the largest decline in the Wage and Salary Disbursements component. That component is now projected to decline by 4.7% in 2009 compared to only a 1.3% decline in the April 2009 forecast. The October revision by the Bureau of Economic Analysis also first recognizes the extent of the decline in wages and salaries in the first quarter of 2009. Wages and salaries were previously estimated to have declined at an annual rate of 1.7% in that quarter, but the new estimate pegged the decline at 16%. Although future year's growth rates were not significantly adjusted, it was the size of the 2009 adjustments that lowered the forecast for each year of the forecast period.

B. Capital Gains Forecast

A major variable that is not included in the economic forecast of the CEFC is a projection of net capital gains. This variable introduced significant volatility into the forecast of individual income tax collections, particularly during and since Maine's exceptional capital gains growth during the stock market "bubble" of the late 1990's. Maine data is not captured at the state level and may only be accessed through federal tax data and may lag 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, which is included in Appendix G. Table I-B below summarizes some recent history and the current projections.

Table I-B

Maine Resident - Net Capital Gains

Tax Year	Capital Gains Realizations ($ Millions)	Capital Gains Realizations Annual % Change	Capital Gains Tax Liability ($ Millions)	Capital Gains Tax Liability Annual % Change	Capital Gains % of Resident Tax Liability	Resident Income Tax Liability
1995	$551.7		$38.3		6.2%	$620.1
1996	$799.7	45.0%	$57.3	49.6%	8.4%	$682.2
1997	$1,218.7	52.4%	$104.5	82.4%	13.6%	$771.1
1998	$1,551.0	27.3%	$120.0	14.8%	13.9%	$861.4
1999	$1,867.2	20.4%	$141.7	18.1%	15.5%	$916.7
2000	$2,360.4	26.4%	$179.6	26.7%	17.3%	$1,038.8
2001	$1,079.3	-54.3%	$74.1	-58.7%	7.6%	$970.9
2002	$908.8	-15.8%	$59.1	-20.3%	6.1%	$971.7
2003	$1,069.4	17.7%	$69.4	17.4%	6.8%	$1,020.8
2004	$1,526.9	42.8%	$104.9	51.2%	9.2%	$1,146.0
2005	$1,960.3	28.4%	$137.0	30.6%	11.3%	$1,208.7
2006	$2,280.2	16.3%	$162.5	18.6%	12.6%	$1,289.1
2007	$2,470.3	8.3%	$177.9	9.5%	13.0%	$1,369.6
2008*	$1,010.3	-59.1%	$64.1	-64.0%	5.0%	$1,268.8
2009*	$959.8	-5.0%	$60.6	-5.5%	5.3%	$1,148.6
2010*	$1,027.0	7.0%	$65.2	7.7%	5.6%	$1,168.5
2011*	$1,098.9	7.0%	$69.7	7.0%	5.8%	$1,211.5
2012*	$1,176.0	7.0%	$75.5	8.2%	6.1%	$1,245.8
2013*	$1,258.2	7.0%	$81.8	8.4%	6.2%	$1,309.5

* Represents Projections

The major differences from the assumptions included in the May 2009 forecast are:

- The actual capital gains realizations in tax year 2007 turned out to be $153.4 million less than projections based on updated final tax return information;

- 2008 projections of net capital gain realizations are now assumed to decline by 59.1% compared with the 70% reduction assumed in the May 2009 based on a portion of federal tax returns filed with the IRS for the 2008 tax year;

- Projections for 2010 through 2013 assume 7% annual growth in order to return the percentage of tax liability from capital gains to its long-term average at around 6% of total tax liability.

C. Corporate Profits

Corporate profitability is a major variable of the tax models that drives the corporate income tax forecast. As with capital gains, this variable is not part of the CEFC economic forecast. The RFC used Economy.com's October 2009 forecast of pre-tax corporate profits. The dominant taxpayers in Maine's corporate income tax liability mix have shifted to national retailers and energy companies. As a result, Maine is insulated from significant regional variances in corporate profitability as a result of Maine's method of corporate income taxation. For national companies operating in Maine, the amount of corporate income tax due to Maine is calculated by apportioning total profits earned in the continental United States by the amount of business that they conduct in Maine based on sales.

Table I-C below presents a comparison of the last forecasts used in the May 2009 forecast and the current national forecast. Based on updated information, corporate profitability declined much more significantly in 2008 then previously estimated. Projections for 2009 are similar to the May 2009 forecast, but 2010 projections now assume a recovery in profitability of around 3% instead of a continued decline of 3%. Limited information on actual state tax filings for the 2008 tax year also influenced this forecast.

Table I-C
Corporate Profit Growth (Percentage Annual Change)

	2008	**2009**	**2010**	**2011**	**2012**	**2013**
May 2009 Forecast - Economy.com	-9.2%	-10.2%	-3.0%	7.4%	12.7%	11.4%
Dec 2009 Forecast - Economy.com	-17.6%	-9.4%	3.1%	7.8%	12.6%	6.7%

D. Oil Prices

Recent experience in Maine's sales tax collections seems to demonstrate a substantial effect from variations in oil prices, which is most noticeable during the winter months. Sales tax collections dropped below budgeted projections at about the same time as energy prices began their steep ascent in the spring of 2005 and summer of 2008. Maine Revenue Services has added an energy price index to the sales and excise tax model so that the model might better capture the effect that oil and fuel price changes have on taxable sales and fuel purchases. The price of oil is the most dominant of these indices and is discussed more fully here. Other indices are detailed in Appendix G.

Relying on Economy.com's October 2009 US economic forecast, the RFC used the assumption that oil prices, which are currently in the $70 per barrel range, will steadily increase to approximately $90 per barrel by calendar year 2013. The spike in the summer and early fall of 2008 above the $140 per barrel mark averaged out to $100.85 for calendar year 2008. For 2009 on, the forecast reflects higher oil prices for each year of the forecast period.

Table I-D
Oil Price Assumptions
(West Texas Intermediate - Price per barrel - Calendar Year Average)

	2008	**2009**	**2010**	**2011**	**2012**	**2013**
May 2009 Forecast - Economy.com	$100.85	$49.00	$65.75	$81.83	$82.35	$74.62
Dec 2009 Forecast - Economy.com	$100.85	$61.00	$75.90	$87.50	$89.40	$90.20

E. Legislative Changes

The RFC bases the revenue forecast on current law. Therefore, this forecast incorporates all revenue adjustments recognized through the fiscal note process enacted into law through the 1st Regular Session of the 124th Legislature. The table on the next page summarizes the revenue adjustments by enacted legislation, segregating them into those adjustments enacted in advance of the May 2009 forecast that were already factored into the baseline before the May 2009 forecast changes and those enacted afterwards. The table also details the effect of the Tax Reform Package that was enacted as PL 2009, c. 382 during the 1st Regular Session, but was suspended pending the outcome of a People's Veto referendum in June 2010. The significant tax changes and revenue effects of that Tax Reform Package are not included in the revenue estimates of this forecast because they are contingent on the June 2010 referendum outcome.

The 124th Legislature also enacted a law expanding Pine Tree Development Zone (PTDZ) benefits. This law, PL 2009, c. 461, includes a provision that directs revenue projections to identify and exclude from General Fund projections any net positive revenues that accrue to the State that would not have been collected but for the availability of the PTDZ benefits. The RFC and the CEFC discussed the implementation of this provision at a joint meeting in July 2009 and determined that the CEFC would need to establish 2 separate economic forecasts with one establishing a level of economic activity assuming no PTDZ benefits were available. At the time of the update of the economic forecast on November 1st the CEFC was unable to establish a separate forecast. While historical data was available about the PTDZ law, the CEFC was unable to extrapolate that historical data into a separate projection (Appendix H includes the memo from the CEFC on this issue). Without the separate economic forecast to set aside the PTDZ-related revenue, it is uncertain how Maine Revenue Services will be able to implement the requirements of the new law.

Table I-E

Summary of Legislative Changes

124th Legislature, 1st Regular Session Included in May 2009 Forecast

General Fund	FY09	FY10	FY11	FY12	FY13
Individual Income	$5,905,000	$216,200	($275,152)	($266,158)	($256,804)
Public Utilities Tax	$795,030	$0	$0	$0	$0
Investment Earnings	$338,393	$0	$0	$0	$0
Revenue Sharing	($301,155)	($11,242)	$14,308	$13,840	$13,354
Other Revenue	$50,000	$0	$0	$0	$0
Totals	**$6,787,268**	**$204,958**	**($260,844)**	**($252,318)**	**($243,450)**

124th Legislature, 1st Regular Session Included after the May 2009 Forecast

General Fund	FY09	FY10	FY11	FY12	FY13
Sales and Use Tax	$0	$5,390,904	$3,122,508	$1,549,847	$116,243
Individual Income Tax	$0	$23,377,296	$27,494,915	$21,713,305	$17,722,524
Corporate Income Tax	$0	$10,117,500	$7,861,665	$5,989,201	$2,333,152
Cigarette and Tobacco Tax	$0	$1,573,684	$1,835,413	$1,896,975	$1,885,780
Estate Tax	$0	$1,702,888	$29,623,160	$37,328,353	$42,374,930
Other Taxes and Fees	$0	$5,696,271	$4,857,372	$1,037,722	$291,839
Fines, Forfeits and Penalties	$0	$16,902	$120,666	$136,054	$154,554
Investment Earnings	$0	$899,000	$899,000	$899,000	$899,000
Tax Relief Programs	$0	$15,102,001	$14,881,650	($1,045,747)	($1,075,138)
Revenue Sharing	$20,127,230	$16,248,647	$22,858,611	($907,334)	($63,507)
Other Revenue	$2,102,535	$2,953,633	$12,556,089	($647,464)	($738,145)
Totals	**$22,229,765**	**$83,078,726**	**$126,111,049**	**$67,949,912**	**$63,901,232**
Highway Fund	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
Fuel Taxes	$0	$6,024,482	$8,699,798	$8,684,536	$8,702,574
Motor Vehicle Reg. & Fees	$0	$447,500	$455,000	$454,125	$454,125
Other Revenue	$0	($400,000)	($400,000)	($400,000)	($400,000)
Totals	**$0**	**$6,071,982**	**$8,754,798**	**$8,738,661**	**$8,756,699**

124th Legislature, 1st Regular Session Enacted Revenue Excluded from Forecast *

General Fund	FY09	FY10	FY11	FY12	FY13
Sales and Use Tax	$0	$42,812,462	$86,671,532	$90,077,867	$94,426,433
Individual Income Tax	$0	($34,486,519)	($88,945,520)	($92,166,864)	($84,842,105)
Tax Relief Programs	$0	$0	($808,753)	$0	$0
Revenue Sharing	$0	($416,297)	$113,700	$104,451	($479,215)
Other Revenue	$0	$0	($2,861,732)	($4,312,287)	($4,346,929)
Totals	**$0**	**$7,909,646**	**($5,830,773)**	**($6,296,833)**	**$4,758,184**

* Excludes PL 2009, c. 382, the Tax Reform Package, that is subject to a People's Veto referendum in June 2010.

II. OVERVIEW OF REVENUE PROJECTIONS

This section provides a summary of the revenue projections in this forecast. These summaries are supplemented by additional detail in 4 corresponding appendices, which provide descriptions of the adjustments made to the major revenue categories. Appendix G contains the materials presented by Maine Revenue Services on November 20th to support the forecast recommendations for the major tax categories.

A. General Fund

The RFC revised the General Fund revenue forecast downward for FY10 by $209.4 million and downward for FY11 by $174.3 million, a total reduction of $383.7 million over the 2010-2011 biennium. The reduction to FY10 results in a decline in revenue of $164.1 million compared to the actual revenues received in the prior year. Although modest growth year-over-year is projected after FY10, that growth is now coming off a much lower revenue base in FY10 such that General Fund revenue will not recover to its former peak in FY08 within the forecast period. Although Personal Income growth rates in the revised economic forecast actually are higher than in the April economic forecast for calendar year 2010 and thereafter, the drop in calendar year 2009 produces significant enough reductions in the base to drive the forecast downward by $164.8 million in FY12 and $147.0 million in FY13. ***With these changes General Fund revenue in FY13 is now projected to be almost $200 million below its peak in FY08 and almost $43 million below what was received in FY06.***

After netting out the offsetting General Fund revenue effect of reduced Transfers for Municipal Revenue Sharing, net downward revisions from Sales and Use Tax, Individual Income Tax and Corporate Income Tax still represent nearly 107% of the total 2010-2011 biennium revisions in this forecast. Revenue sharing was reduced by $21.3 million during the 2010-2011 biennium and by $11.2 million (10%) in FY10.

The other components of this General Fund revenue forecast produce a net upward revision totaling $26.2 million during the 2010-2011 biennium. Within the other revenue sources, some elements were revised downward, such as Judicial Branch revenue, Corporation Fees and Licenses, Income from Investments and Unclaimed Property Transfer. However, the significant changes in MaineCare Targeted Case Management revenue, Transfers to Tax Relief Program, Tobacco Products Tax revenue, Milk Handling Fee and Racino Revenue more than offset these relatively small adjustments in this “other” group. Targeted Case Management (DHHS) revenue alone was increased by $15.1 million for the biennium largely due to the rescission of certain federal rules that had limited billing for these services. The other significant upward revision was in Transfers to Tax Relief Programs, revised upward by $11.3 million for the current biennium.

Appendix A provides additional explanations and detail of the General Fund revenue changes recommended in this forecast.

General Fund Summary

	FY09 Actual	FY10	FY11	FY12	FY13
Current Forecast	$2,811,368,295	$2,856,672,022	$2,897,906,844	$2,939,347,762	$3,035,880,679
Annual % Growth	-9.0%	1.6%	1.4%	1.4%	3.3%
Net Increase (Decrease)		($209,427,300)	($174,192,413)	($164,752,815)	($146,876,612)
Revised Forecast	$2,811,368,295	$2,647,244,722	$2,723,714,431	$2,774,594,947	$2,889,004,067
Annual % Growth	-9.0%	-5.8%	2.9%	1.9%	4.1%
Summary of Revenue Revisions by Major Revenue Category					
Sales and Use Tax		($41,299,662)	($37,565,833)	($30,155,311)	($19,060,080)
Individual Income Tax		($166,824,369)	($134,262,023)	($133,555,147)	($126,200,720)
Corporate Income Tax		($26,651,578)	($24,548,643)	($25,203,429)	($26,818,783)
Cigarette and Tobacco Tax		$2,258,197	$2,039,384	$1,542,892	$1,588,486
Estate Tax		($531,543)	($206,299)	($850,026)	($1,142,098)
Other Taxes and Fees		$3,761,155	($1,317,879)	($1,020,112)	($700,777)
Fines, Forfeits and Penalties		($11,358,009)	($13,137,358)	($13,137,358)	($13,137,358)
Income from Investments		($1,140,326)	($169,053)	($169,053)	($169,053)
Transfer to Tax Relief Programs		$4,893,636	$6,415,208	$9,076,107	$10,838,630
Transfer to Municipal Rev. Sharing		$11,204,406	$10,092,712	$9,493,987	$8,741,870
Other Revenues		$16,260,793	$18,467,371	$19,224,635	$19,183,271
Total Revisions - Increase (Decrease)		**($209,427,300)**	**($174,192,413)**	**($164,752,815)**	**($146,876,612)**

Other Taxes and Fees Detail:				
- Corporation Fees & Licenses	($1,508,672)	($2,080,672)	($2,080,672)	($2,080,672)
- Milk Handling Fee	$4,446,976	($365,632)	($319,928)	($319,928)
- Parimutuel and Gaming Revenue	$996,605	$1,237,119	$1,491,364	$1,810,699
- Other Miscellaneous Taxes and Fees	($173,754)	($108,694)	($110,876)	($110,876)
Other Revenue Detail:				
- Targeted Case Management (HHS)	$6,633,983	$8,457,415	$7,892,788	$7,892,788
- Unclaimed Property Transfer	($2,150,000)	($2,150,000)	($2,150,000)	($2,150,000)
- Tourism Transfer	$168,568	$266,039	$166,590	$106,414
- Transfer to Maine Milk Pool	$0	$0	$1,695,144	$1,695,144
- Transfer to STAR Transportation Fund	($80,342)	$114,934	$108,820	$127,632
- Other Miscellaneous Revenue	$11,688,584	$11,778,983	$11,511,293	$11,511,293

B. Highway Fund

Highway Fund revenue estimates were revised downward by $14.3 million for the 2010-2011 biennium, $7.3 million in FY10 and $7.1 million in FY11. The forecast for the 2012-2013 biennium was lowered by $16.4 million. While there was generally weak performance across the board resulting in downward revisions in all major categories, the largest downward revision was in the Fuel Taxes category. The significant changes to the calendar year 2009 Personal Income growth in the economic forecast resulted in a tax model forecast that would have revised revenue downward in the Fuel Taxes category alone by $16.6 million for the current biennium.

The changes to the Consumer Price Index were not a significant factor in this forecast with no changes to fuel tax rates until FY13 and even then only a $0.001 change. However, the RFC chose not to revise Fuel Taxes to this extent based on recent performance. While special fuel (primarily diesel fuel) consumption has been declining consistent with the forecast, gasoline consumption has been increasing. As a result, the RFC left the gasoline tax projections unchanged and only revised the estimates for special fuels. Even so, the changes to special fuel revised the 2010-2011 biennium estimates for the Fuel Tax category downward by $9.8 million.

While the other revenue categories are not projected using the tax models and the economic forecast, the economy has affected all of the categories from motor vehicle fees to requests for motor vehicle and driver records. The "cash for clunkers" program provided a temporary boost to automobile sales early in the current fiscal year, but it was only able to keep collections close to the May 2009 forecast. Without that stimulus, future projections are expected to be below projections. The largest downward revision, other than fuel taxes, was the adjustment made to revenue from the long-term trailer program. This program has had significant volatility over the years and appears to be very susceptible to economic downturns. The revenue from this program was revised downward by $1.2 million annually in each year of the forecast.

Highway Fund Summary

	FY09 Actual	FY10	FY11	FY12	FY13
Current Forecast	$324,242,149	$312,741,439	$308,694,108	$314,447,011	$320,266,617
Annual % Growth	-1.2%	-3.5%	-1.3%	1.9%	1.9%
Net Increase (Decrease)		($7,253,264)	($7,067,777)	($7,590,576)	($8,811,576)
Revised Forecast	$324,242,149	$305,488,175	$301,626,331	$306,856,435	$311,455,041
Annual % Growth	-1.2%	-5.8%	-1.3%	1.7%	1.5%
Summary of Revenue Revisions by Major Revenue Category					
Fuel Taxes		($5,013,500)	($4,819,250)	($5,540,750)	($6,761,750)
Motor Vehicle Registration & Fees		($1,630,701)	($1,544,383)	($1,264,107)	($1,264,107)
Inspection Fees		($110,887)	($110,887)	($165,887)	($165,887)
Fines, Forfeits and Penalties		($50,000)	($50,000)	($50,000)	($50,000)
Income from Investments		($58,615)	($153,696)	($153,696)	($153,696)
Other Revenues		($389,561)	($389,561)	($416,136)	($416,136)
Total Revisions - Increase (Decrease)		**($7,253,264)**	**($7,067,777)**	**($7,590,576)**	**($8,811,576)**

See Appendix B for additional detail of the Highway Fund revenue changes recommended in the table on the previous page.

C. Fund for a Healthy Maine (FHM)

Fund for a Healthy Maine (FHM) revenue was revised upward in each year of the forecast. The current biennium is revised upward by $0.7 million. Net downward reductions for tobacco settlement payments were more than offset by sizeable increases in the former, very conservative projections of revenue from slot machine revenue from Hollywood Slots in Bangor, referred to as Racino Revenue.

Estimates for payments under the Master Settlement Agreement (MSA) were revised downward largely due to the underlying assumptions for the volume adjustment under the agreement that adjusts the amount of payments based on a comparison of the total volume of cigarettes sold in a given payment year versus the volume sold in 1997 by the Original Participating Manufacturers to the MSA. The volume adjustment was revised significantly downward in the May 2009 forecast due to the federal cigarette tax increase. The split between Base Payments and the Strategic Contribution payments that began in FY08 is being adjusted to reflect better estimates of their respective shares of the total.

Beginning in FY06, total payments under the MSA have been affected by legal proceedings under the MSA regarding certain disputed payments by the participating manufacturers. At that time, some participating manufacturers chose to withhold, or place into an escrow account, the portion of their payment amounts that was the subject of these disputes. The estimated amount of withholding has been reduced producing an increase to the revenue estimates in FY10 that partially offsets the effect of the other forecast adjustments. This forecast still assumes that Altria/Philip Morris, consistent with past practice, still makes its full payments under the MSA and will not withhold or place into escrow disputed payments as other participating manufacturers have done. While there have been no indications of any change in policy, this key assumption introduces substantial risk to the forecast as a decision by Altria/Philip Morris to withhold this coming April would result in a reduction in total payments of an estimated $1.7 million.

See Appendix C for the additional explanations of the changes summarized below.

Fund for a Healthy Maine Summary

	FY09 Actual	FY10	FY11	FY12	FY13
Current Forecast	$68,409,736	$59,654,050	$57,094,004	$62,802,729	$62,590,944
Annual % Growth	10.3%	-12.8%	-4.3%	10.0%	-0.3%
Net Increase (Decrease)		$521,643	$222,282	$1,156,892	$864,774
Revised Forecast	$68,409,736	$60,175,693	$57,316,286	$63,959,621	$63,455,718
Annual % Growth	10.3%	-12.0%	-4.8%	11.6%	-0.8%
Summary of Revenue Revisions by Major Revenue Category					
Tobacco Settlement Payments:					
- Base Payments		($540,163)	($867,377)	($111,090)	($469,991)
- Strategic Contribution Payments		$383,708	$316,672	$340,096	$216,940
Racino Revenue		$685,860	$791,908	$941,504	$1,129,067
Income from Investments		($7,762)	($18,921)	($13,618)	($11,242)
Total Revisions - Increase (Decrease)		**$521,643**	**$222,282**	**$1,156,892**	**$864,774**

D. MaineCare Dedicated Revenue Taxes

Medicaid/MaineCare Dedicated Revenue Taxes are revised downward by $2.4 million in FY10 and by $3.3 million in FY 11. The revised estimates include a negative adjustment in hospital tax revenue to reflect actual and expected billings through FY10 for November and May. Future year hospital tax revenue estimates are revised based on the FY10 changes and the continued "no growth" assumption based on the statutorily fixed hospital tax base year. The negative adjustment in this revenue category also reflects PL 2009, c. 213 changes to MaineCare private non-medical institution (PNMI) policy that are intended to produce General Fund savings but are also assumed to decrease service provider tax (PNMI) dedicated revenue during the forecast period.

See Appendix D for more information on the changes summarized below.

Medicaid/MaineCare Dedicated Revenue Taxes Summary

	FY09 Actual	FY10	FY11	FY12	FY13
Current Forecast	$138,029,363	$140,725,802	$140,821,696	$140,919,988	$141,020,738
	6.0%	2.0%	0.1%	0.1%	0.1%
Net Increase (Decrease)		($2,398,548)	($3,265,891)	($3,364,183)	($3,464,933)
Revised Forecast	$138,029,363	$138,327,254	$137,555,805	$137,555,805	$137,555,805
Annual % Growth	6.0%	0.2%	-0.6%	0.0%	0.0%
Summary of Revenue Revisions by Major Revenue Category					
Hospital Tax		($862,348)	($862,348)	($862,348)	($862,348)
Service Provider Tax (PNMIs)		($1,536,200)	($2,403,543)	($2,501,835)	($2,602,585)
Total Revisions - Increase (Decrease)		**($2,398,548)**	**($3,265,891)**	**($3,364,183)**	**($3,464,933)**

III. CONCLUSIONS

As with prior revenue forecasts in this recession, the RFC feels the need to express concern regarding the difficulty forecasting economic variables in this extremely volatile economic environment. While the national economic forecasts have stabilized, underlying these forecasts is an assumption that the federal government will implement a new federal stimulus, although not necessarily in the same form as the last package, that will contain continued support for state and local governments. Without that additional stimulus, there would be greater negative effects on employment and incomes. Also, the dramatic effect of the current recession on the consumer has produced the only period of substantial and sustained declines in taxable sales on record. We are in uncharted waters with regard to consumers' reactions to this recession and have concerns that the tax models may still not be capable of adequately capturing consumer behavior. While there is some hope that the economic picture has stabilized and a bottom to the current recession is in sight, this economy and the consumer psyche seem very susceptible to turning minor economic disappointments into major factors.