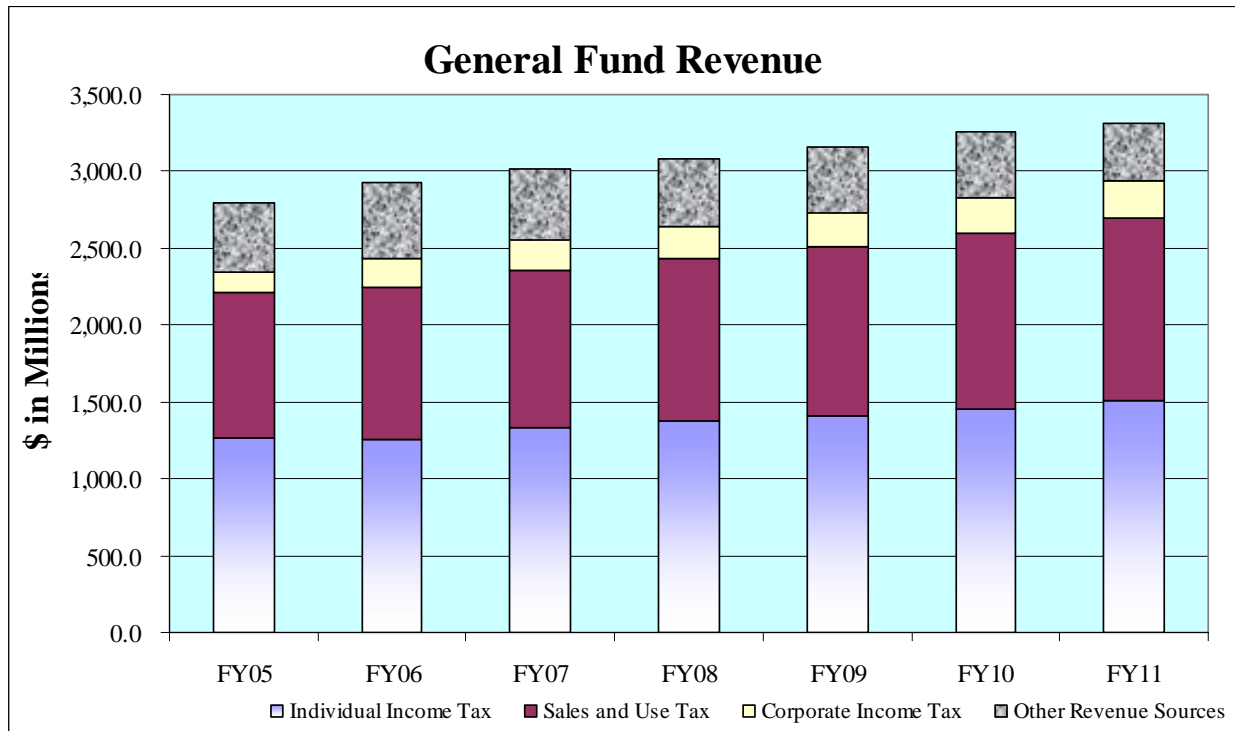


# REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2006



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# Report of the Maine State Revenue Forecasting Committee December 2006 Forecast

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## 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 has recently included forecasts of revenue accruing to the Fund for a Healthy Maine and the dedicated revenue from the Medicaid/MaineCare provider taxes. This forecast establishes the 2008-2009 biennial revenue forecasts for the General Fund and Highway Fund that will be used to determine the biennial budget. This forecast also extends the forecast through the subsequent 2010-2011 biennium to June 30, 2011. This forecast also reflects all legislative changes through the 122<sup>nd</sup> Legislature and incorporates the revised economic forecast presented by the Consensus Economic Forecasting Commission (CEFC) for its November 1<sup>st</sup> reporting deadline. The RFC met on October 24<sup>th</sup> and November 28<sup>th</sup> to deliberate and discuss the recommendations of Maine Revenue Services and other revenue analyses.

### A. Economic Forecast Update

The December 2006 revenue update began with the fall economic forecast in October. The Consensus Economic Forecasting Commission (CEFC) met on October 3<sup>rd</sup> to review and update its February 2006 forecast. The commission extended its forecast horizon by two years to encompass the 2010-2011 biennium, and, for the first time, incorporated the economic impact of closing Brunswick Naval Air Station (BNAS). Based on economic data available through the first nine months of 2006, the commission made slight adjustments to its previous forecast. Table I-A below summarizes the incremental change of the CEFC forecast. The full report of the CEFC is included in Appendix E.

**TABLE I-A**

**Consensus Economic Forecasting Commission**

**Comparison of February 2006 and November 2006 Economic Forecasts**

| <b>Calendar Years</b>                                            | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>• Wage &amp; Salary Employment (Annual Percentage Change)</b> |             |             |             |             |             |             |
| > Consensus 2/2006                                               | 0.5         | 0.6         | 0.6         | 0.7         |             |             |
| > Consensus 11/2006                                              | 0.5         | 0.4         | 0.6         | 0.8         | 0.7         | 0.7         |
| <b>Difference</b>                                                | <b>0.0</b>  | <b>-0.2</b> | <b>0.0</b>  | <b>0.1</b>  |             |             |
| <b>• Personal Income (Annual Percentage Change)</b>              |             |             |             |             |             |             |
| > Consensus 2/2006                                               | 5.0         | 4.5         | 4.5         | 4.5         |             |             |
| > Consensus 11/2006                                              | 5.2         | 4.3         | 4.5         | 4.5         | 4.3         | 4.2         |
| <b>Difference</b>                                                | <b>0.2</b>  | <b>-0.2</b> | <b>0.0</b>  | <b>0.0</b>  |             |             |
| <b>• Consumer Price Index (Annual Percentage Change)</b>         |             |             |             |             |             |             |
| > Consensus 2/2006                                               | 2.8         | 2.5         | 2.2         | 2.2         |             |             |
| > Consensus 11/2006                                              | 3.5         | 2.5         | 2.2         | 2.2         | 2.8         | 2.8         |
| <b>Difference</b>                                                | <b>0.7</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  |             |             |

The commission maintained its projection of 0.5% employment growth in 2006 and reduced its forecast for 2007 based on evidence that the national housing slowdown is reaching Maine. The forecast shows employment growth returning to 0.8% by 2009, and then moderating somewhat in response to the closing of BNAS in 2010-2011. The commission increased its 2006 income growth forecast from 5.0% to 5.2% based on data from the first half of 2006 from the U.S. Bureau of Labor Statistics. It lowered its 2007 income growth forecast, again based on signs of a weakened housing market. Income growth should increase to 4.5% in 2008-2009 before moderating in 2010-2011, again reflecting the closure of BNAS. The CEFC raised its 2006 forecast for the U. S. Consumer Price Index (CPI) based on actual CPI data for the first eight months of 2006. Those data continue to reflect high oil prices.

New to the November 2006 CEFC report were individual growth projections for the three personal income components of dividends, interest, and rent, which were previously aggregated. In particular, dividend income has increased faster than the other two components. The CEFC was requested to provide the additional breakdown to improve income tax revenue forecasts.

## **B. Capital Gains Forecast**

A major variable that is not included in the economic forecast is a projection of net capital gains. Maine's exceptional capital gains growth during the stock market "bubble" of the late 1990's (in excess of 20% annual increases for 5 consecutive years through tax year 2000) came to an abrupt end in tax year 2001, plummeting 54.3%, resulting in a very unpleasant April surprise in 2002. Based on realizations in tax year 2004, Maine received an opposite surprise in April 2005. It is estimated that net capital gains realizations increased by nearly 43% that year, whereas the RFC had assumed they would grow by only 5.5%.

The RFC and Maine Revenue Services, like their counterparts in other states and the federal government, have had much difficulty trying to accurately forecast this variable. Maine data is not captured at the state level and may only be accessed through federal tax data. That information is shared with Maine Revenue Services, but it lags by as much as 2 years. Since November 1999, Maine Revenue Services has been required to provide a report on the net capital gains and losses realized by taxpayers filing Maine individual income tax returns. That report is provided to the Legislature through the RFC and is included in Appendix G of this report. Table I-B on page 3 summarizes the current assumptions. The differences from the assumptions included in the March 2006 report are:

- 2004 data have been updated to actual with the most recent federal data;
- 2005 projections (note they are still projections due to filing extensions that will change the data) have been increased from no growth to 10.6% growth as a result of preliminary data from the IRS;
- 2006 projections have been increased from negative growth to 10% growth based on the strong performance of the stock market during 2006; and
- The negative annual growth in capital gains realizations is now assumed to start in 2008, rather than 2006.

**Table I-B  
Maine Resident - Net Capital Gains**

| <b><u>Tax Year</u></b> | <b><u>Capital Gains Realizations (\$ Millions)</u></b> | <b><u>Capital Gains Realizations Annual % Change</u></b> | <b><u>Capital Gains Tax Liability (\$ Millions)</u></b> | <b><u>Capital Gains Tax Liability Annual % Change</u></b> | <b><u>Capital Gains % of Resident Tax Liability</u></b> |
|------------------------|--------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|
| 1995                   | \$551.7                                                |                                                          | \$38.3                                                  |                                                           | 6.2%                                                    |
| 1996                   | \$799.7                                                | 45.0%                                                    | \$57.3                                                  | 49.6%                                                     | 8.4%                                                    |
| 1997                   | \$1,218.7                                              | 52.4%                                                    | \$104.5                                                 | 82.4%                                                     | 13.6%                                                   |
| 1998                   | \$1,551.0                                              | 27.3%                                                    | \$120.0                                                 | 14.8%                                                     | 13.9%                                                   |
| 1999                   | \$1,867.2                                              | 20.4%                                                    | \$141.7                                                 | 18.1%                                                     | 15.5%                                                   |
| 2000                   | \$2,360.4                                              | 26.4%                                                    | \$179.6                                                 | 26.7%                                                     | 17.3%                                                   |
| 2001                   | \$1,079.3                                              | -54.3%                                                   | \$74.1                                                  | -58.7%                                                    | 7.6%                                                    |
| 2002                   | \$908.8                                                | -15.8%                                                   | \$59.1                                                  | -20.3%                                                    | 6.1%                                                    |
| 2003                   | \$1,069.4                                              | 17.7%                                                    | \$69.4                                                  | 17.4%                                                     | 6.8%                                                    |
| 2004                   | \$1,526.9                                              | 42.8%                                                    | \$104.9                                                 | 51.2%                                                     | 9.2%                                                    |
| 2005*                  | \$1,688.5                                              | 10.6%                                                    | \$117.0                                                 | 11.5%                                                     | 9.8%                                                    |
| 2006*                  | \$1,856.4                                              | 9.9%                                                     | \$127.6                                                 | 9.1%                                                      | 10.1%                                                   |
| 2007*                  | \$1,856.8                                              | 0.0%                                                     | \$127.8                                                 | 0.2%                                                      | 9.8%                                                    |
| 2008*                  | \$1,732.1                                              | -6.7%                                                    | \$116.8                                                 | -8.6%                                                     | 8.7%                                                    |
| 2009*                  | \$1,600.9                                              | -7.6%                                                    | \$107.3                                                 | -8.2%                                                     | 7.7%                                                    |
| 2010*                  | \$1,486.0                                              | -7.2%                                                    | \$95.5                                                  | -11.0%                                                    | 6.6%                                                    |
| 2011*                  | \$1,309.4                                              | -11.9%                                                   | \$85.9                                                  | -10.1%                                                    | 5.7%                                                    |

*\* Represent Projections*

With the bursting of the stock market “bubble,” in 2001 the extent of the Maine resident individual income tax liability derived from net capital gains had dropped down from its peak in 2000 of 17.3% to a level more in line with historical patterns before the “bubble,” in the range of 6% to 7% of tax liability. The recent double-digit growth in capital gains realizations is estimated to have returned that ratio back to over 10%. Starting with the March 2006 forecast, the RFC has assumed capital gains liability will return to its historical average of approximately 6% of total liability for Maine residents by the end of the forecast period (see far right column in Table I-B).

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

### **C. Corporate Profits**

A major variable of the tax models that drives the corporate income tax forecast is corporate profitability. Again, this forecast is not part of the CEFC economic forecast. The RFC used Global Insight's November 2006 forecast of pre-tax corporate profits. That national forecast calls for 35% growth in calendar year 2005, 16% growth in calendar year 2006 and relatively flat growth thereafter. Maine is insulated from significant regional variances in corporate profitability as a result of Maine's method of corporate income taxation. For national companies operating in Maine, the amount of corporate income tax due to Maine is calculated by apportioning total profits earned in the continental United States by the amount of business that they conduct in Maine based on sales, payroll and property.

### **D. Oil Prices**

The recent experience in Maine's sales tax collections seemed to demonstrate a substantial effect from variations in oil prices. Sales tax collections dropped below budgeted projections at about the same time as energy prices began their steep ascent in the spring of 2005. With the recent tax model updates, Maine Revenue Services has added this variable to the sales and excise tax model so that the model might better capture the effect that oil and fuel price changes have on taxable sales and fuel purchases. Again, relying on Global Insights' November 2006 US economic forecast, the RFC used the assumption that oil prices, which are currently in the \$60 per barrel range, will increase to \$64 a barrel on average in 2007 then gradually decline just under \$62 a barrel in 2011. This is consistent with the assumptions of the CEFC.

### **E. Legislative Changes**

The RFC bases the revenue forecast on current law. This forecast includes all legislative changes through the 122<sup>nd</sup> Legislature. Table I-E below summarizes the adjustments to budgeted revenue from legislative changes during the 2<sup>nd</sup> Regular Session, providing total annual changes in each of the major revenue categories. With the exception of the implementation of a new municipal tax reimbursement program for the personal property tax exemption for business equipment beginning in FY09, the legislative changes to revenue were not significant in this forecast. Appendix A provides a summary of this new tax reimbursement program.

**Table I-E**  
**Summary of 122nd Legislature's Changes - 2nd Regular Session**

**General Fund**

|                                    | <b>FY06</b>      | <b>FY07</b>          | <b>FY08</b>          | <b>FY09</b>           |
|------------------------------------|------------------|----------------------|----------------------|-----------------------|
| <b>Sales Tax</b>                   | \$0              | \$1,010,576          | (\$1,594,805)        | (\$1,641,131)         |
| <b>Individual Income</b>           | \$0              | (\$2,247,984)        | (\$2,950,230)        | (\$15,254,207)        |
| <b>Corporate Income</b>            | \$0              | (\$111,003)          | (\$146,574)          | (\$201,835)           |
| <b>Estate Tax</b>                  | \$0              | \$135,800            | \$196,721            | \$278,584             |
| <b>Revenue Sharing</b>             | \$0              | \$68,770             | \$243,964            | \$297,629             |
| <b>Other Revenue</b>               | \$427,695        | (\$507,944)          | \$535,647            | \$522,638             |
| <b>Total – Legislative Changes</b> | <b>\$427,695</b> | <b>(\$1,651,785)</b> | <b>(\$3,715,277)</b> | <b>(\$15,998,322)</b> |

**Highway Fund**

|                                      | <b>FY06</b> | <b>FY07</b>    | <b>FY08</b>     | <b>FY09</b>     |
|--------------------------------------|-------------|----------------|-----------------|-----------------|
| <b>Fuel Taxes</b>                    | \$0         | (\$19,908)     | (\$8,114)       | \$0             |
| <b>Motor Vehicle Reg. &amp; Fees</b> | \$0         | \$28,200       | \$32,800        | \$33,260        |
| <b>Totals – Legislative Changes</b>  | <b>\$0</b>  | <b>\$8,292</b> | <b>\$24,686</b> | <b>\$33,260</b> |

**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 major revenue categories. Appendix G contains the materials presented by Maine Revenue Services on November 28, 2006 to support the forecast recommendations for the major tax categories.

**A. General Fund**

For the **General Fund**, this forecast increases the previous forecast primarily as a result of the recent positive variances in FY06 in the Corporate and Individual Income Tax categories. It was the view of the committee that strong income gains among upper income earners, a continuation of solid corporate profits growth and double-digit stock market gains in 2006 will not only sustain the level of income tax receipts in FY06, but result in modest growth during the upcoming biennium. Positive variances in the current fiscal year led to a substantial revision upward in the Estate Tax in the current year and smaller upward revisions in future years.

Unlike income and estate taxes, the Sales and Use Tax was adjusted down in this forecast. While the recent decline in energy prices has certainly helped household budgets, the on-going correction in the housing market, high consumer debt and a weak market for automobile sales are projected to keep the growth in sales tax receipts well below the growth in household income during the next 12 to 18 months. Insurance Companies Tax was also revised downward.

Other changes worth noting include upward revisions to the Real Estate Transfer Tax, Parimutuel and Gaming Revenue and the State Cost Allocation Program. Notable reductions include revenue from Targeted Case Management at the Department of Health and Human Services and the recently enacted Transfer to the Maine Milk Pool.

**Table II-A - General Fund Summary**

|                                                               | <b>FY06 Actual</b> | <b>FY07</b>         | <b>FY08</b>         | <b>FY09</b>         | <b>FY10</b>     | <b>FY11</b>     |
|---------------------------------------------------------------|--------------------|---------------------|---------------------|---------------------|-----------------|-----------------|
| Current Forecast                                              | \$2,931,825,687    | \$2,934,190,370     | \$2,988,997,412     | \$3,064,864,549     |                 |                 |
| Annual % Growth                                               | 5.1%               | 0.1%                | 1.9%                | 2.5%                |                 |                 |
| Net Increase (Decrease)                                       |                    | \$86,417,340        | \$87,483,151        | \$93,405,601        |                 |                 |
| Revised Forecast                                              | \$2,931,825,687    | \$3,020,607,710     | \$3,076,480,563     | \$3,158,270,150     | \$3,262,017,710 | \$3,318,238,572 |
| Annual % Growth                                               | 5.1%               | 3.0%                | 1.8%                | 2.7%                | 3.3%            | 1.7%            |
| <b>Summary of Revenue Revisions by Major Revenue Category</b> |                    |                     |                     |                     |                 |                 |
| Sales and Use Tax                                             |                    | (\$3,401,816)       | (\$16,907,151)      | (\$20,448,344)      | N/A             | N/A             |
| Service Provider Tax                                          |                    | \$0                 | \$0                 | \$0                 | N/A             | N/A             |
| Individual Income Tax                                         |                    | \$59,042,583        | \$66,172,650        | \$63,284,176        | N/A             | N/A             |
| Corporate Income Tax                                          |                    | \$31,491,003        | \$46,876,574        | \$55,561,835        | N/A             | N/A             |
| Cigarette and Tobacco Tax                                     |                    | (\$963,901)         | (\$622,497)         | (\$700,395)         | N/A             | N/A             |
| Public Utilities Tax                                          |                    | (\$800,000)         | (\$800,000)         | (\$800,000)         | N/A             | N/A             |
| Insurance Companies Tax                                       |                    | (\$3,308,036)       | (\$4,397,615)       | (\$5,514,545)       | N/A             | N/A             |
| Estate Tax                                                    |                    | \$14,177,453        | \$3,114,077         | \$5,047,439         | N/A             | N/A             |
| Prop. Tax - Unorganized Territory                             |                    | \$0                 | \$0                 | \$0                 | N/A             | N/A             |
| Income from Investments                                       |                    | (\$1,598,582)       | (\$1,663,582)       | (\$1,663,582)       | N/A             | N/A             |
| Transfer to Municipal Rev. Sharing                            |                    | (\$4,443,720)       | (\$4,999,388)       | (\$5,116,678)       | N/A             | N/A             |
| Transfer from Lottery Commission                              |                    | \$0                 | \$0                 | \$0                 | N/A             | N/A             |
| Other Revenues                                                |                    | (\$3,777,644)       | \$710,083           | \$3,755,695         | N/A             | N/A             |
| <b>Total Revisions - Increase (Decrease)</b>                  |                    | <b>\$86,417,340</b> | <b>\$87,483,151</b> | <b>\$93,405,601</b> | N/A             | N/A             |

## **B. Highway Fund**

For the **Highway Fund**, this forecast decreases FY07 budgeted revenue by \$9.6 million and decreases the previous projections for the 2008-2009 biennium by \$11.7 million. The downward revisions to Fuel Taxes are the major driver of the Highway Fund changes. Higher fuel prices have decreased demand for gasoline and diesel fuel. The tax models have added fuel prices as an additional variable to help better capture the effect on fuel tax revenue. The forecast also recognizes the effect on the Highway Fund investment earnings of cash balances that have been drained by budget problems in the Department of Transportation's capital program.



**Table II-B - Highway Fund Summary**

|                                                               | <b>FY06 Actual</b> | <b>FY07</b>          | <b>FY08</b>          | <b>FY09</b>          | <b>FY10</b>   | <b>FY11</b>   |
|---------------------------------------------------------------|--------------------|----------------------|----------------------|----------------------|---------------|---------------|
| Current Forecast                                              | \$326,546,157      | \$340,392,025        | \$346,268,833        | \$353,665,022        |               |               |
| Annual % Growth                                               | 0.1%               | 4.2%                 | 1.7%                 | 2.1%                 |               |               |
| Net Increase (Decrease)                                       | \$0                | (\$9,634,696)        | (\$5,272,534)        | (\$6,468,502)        |               |               |
| Revised Forecast                                              | \$326,546,157      | \$330,757,329        | \$340,996,299        | \$347,196,520        | \$350,245,413 | \$356,494,765 |
| Annual % Growth                                               | 0.1%               | 1.3%                 | 3.1%                 | 1.8%                 | 0.9%          | 1.8%          |
| <b>Summary of Revenue Revisions by Major Revenue Category</b> |                    |                      |                      |                      |               |               |
| Fuel Taxes                                                    |                    | (\$7,284,441)        | (\$5,922,257)        | (\$7,016,782)        | N/A           | N/A           |
| Motor Vehicle Registration & Fees                             |                    | (\$1,930,000)        | \$670,000            | \$420,000            | N/A           | N/A           |
| Inspection Fees                                               |                    | (\$35,000)           | (\$35,000)           | (\$35,000)           | N/A           | N/A           |
| Fines, Forfeits and Penalties                                 |                    | \$0                  | \$0                  | \$0                  | N/A           | N/A           |
| Income from Investments                                       |                    | (\$555,000)          | (\$555,000)          | (\$555,000)          | N/A           | N/A           |
| Other Revenues                                                |                    | \$169,745            | \$569,723            | \$718,280            | N/A           | N/A           |
| <b>Total Revisions - Increase (Decrease)</b>                  |                    | <b>(\$9,634,696)</b> | <b>(\$5,272,534)</b> | <b>(\$6,468,502)</b> | N/A           | N/A           |

**C. Fund for a Healthy Maine (FHM)**

The **Fund for a Healthy Maine (FHM)** revenue forecast was revised downward for the 2008-2009 biennium primarily based on an assumed continued delay in the receipt of tobacco settlement payments pending the outcome of litigation concerning the Master Settlement Agreement. The FHM revenue forecast also reflects a negative adjustment resulting from changes in Global Insight's economic modeling for the forecast period. These negative adjustments are partially offset by assumed increases resulting from the FHM's share of the projected increase in gaming revenue from slot machines operated in association with the commercial race track in Bangor, and from assumed income from investments. The net result for the 2008-2009 biennium revenue forecast for the Fund for a Healthy Maine is a downward revision of \$26.5 million (\$13.5 million in FY08 and \$13.0 million in FY09). The projections for the 2010-2011 biennium are for growth of 8.0% and 5.5%, respectively, and assume for projection purposes that the State will prevail in the legal proceedings.

*Note: The growth expected in the 2008-2009 biennium in tobacco settlement payments from the addition of the 10 annual "Strategic Contributions Payments" that begin in FY08 was already reflected in the base forecast.*

**Table II-C - Fund for a Healthy Maine Summary**

|                                                               | <b>FY06 Actual</b> | <b>FY07</b>        | <b>FY08</b>           | <b>FY09</b>           | <b>FY10</b>  | <b>FY11</b>  |
|---------------------------------------------------------------|--------------------|--------------------|-----------------------|-----------------------|--------------|--------------|
| Current Forecast                                              | \$46,907,751       | \$43,689,284       | \$73,861,352          | \$75,844,458          |              |              |
| Annual % Growth                                               | -4.5%              | -6.9%              | 69.1%                 | 2.7%                  |              |              |
| Net Increase (Decrease)                                       | \$0                | \$2,500,060        | (\$13,452,402)        | (\$13,028,510)        |              |              |
| Revised Forecast                                              | \$46,907,751       | \$46,189,344       | \$60,408,950          | \$62,815,948          | \$67,818,647 | \$71,548,715 |
| Annual % Growth                                               | -4.5%              | -1.5%              | 30.8%                 | 4.0%                  | 8.0%         | 5.5%         |
| <b>Summary of Revenue Revisions by Major Revenue Category</b> |                    |                    |                       |                       |              |              |
| Base Payments                                                 |                    | \$1,256,100        | (\$14,535,116)        | (\$14,560,946)        | N/A          | N/A          |
| Racino Revenue                                                |                    | \$1,198,960        | \$1,057,714           | \$1,507,436           | N/A          | N/A          |
| Income from Investments                                       |                    | \$45,000           | \$25,000              | \$25,000              | N/A          | N/A          |
| <b>Total Revisions - Increase (Decrease)</b>                  |                    | <b>\$2,500,060</b> | <b>(\$13,452,402)</b> | <b>(\$13,028,510)</b> | N/A          | N/A          |

## D. MaineCare Dedicated Revenue Taxes

In aggregate, the forecast for **Medicaid/MaineCare Dedicated Revenue Taxes** was revised upward for the forecast period. This revision was driven primarily by an upward adjustment in service provider tax dedicated revenue (i.e., that portion of the tax applied to private non-medical institutions (PNMI's), community support, day habilitation, personal support and residential training services) based on actual FY06 revenue and FY07 collections to date. The revised forecast also assumes a slight upward adjustment in hospital tax revenue. These positive adjustments in the MaineCare tax forecast are partially offset by downward revisions in nursing facility and residential treatment facility tax revenue based on actual experience.

**Table II-D - Medicaid/MaineCare Dedicated Revenue Taxes Summary**

|                                                               | <b>FY06 Actual</b> | <b>FY07</b>        | <b>FY08</b>        | <b>FY09</b>        | <b>FY10</b>   | <b>FY11</b>   |
|---------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|---------------|---------------|
| Current Forecast                                              | \$118,096,040      | \$120,142,902      | \$121,472,242      | \$122,834,815      |               |               |
| Annual % Growth                                               | 23.6%              | 1.7%               | 1.1%               | 1.1%               |               |               |
| Net Increase (Decrease)                                       | \$0                | \$1,383,102        | \$1,353,391        | \$1,322,937        |               |               |
| Revised Forecast                                              | \$118,096,040      | \$121,526,004      | \$122,825,633      | \$124,157,752      | \$125,523,174 | \$126,922,732 |
| Annual % Growth                                               | 23.6%              | 2.9%               | 1.1%               | 1.1%               | 1.1%          | 1.1%          |
| <b>Summary of Revenue Revisions by Major Revenue Category</b> |                    |                    |                    |                    |               |               |
| Nursing Facility Tax                                          |                    | (\$1,027,690)      | (\$1,053,382)      | (\$1,079,716)      | N/A           | N/A           |
| Residential Treatment Facilities Tax                          |                    | (\$140,100)        | (\$143,602)        | (\$147,192)        | N/A           | N/A           |
| Hospital Tax                                                  |                    | \$393,609          | \$393,609          | \$393,609          | N/A           | N/A           |
| Service Provider Tax (PNMIs)                                  |                    | \$2,157,283        | \$2,156,766        | \$2,156,236        | N/A           | N/A           |
| <b>Total Revisions - Net Increases (Dec.)</b>                 |                    | <b>\$1,383,102</b> | <b>\$1,353,391</b> | <b>\$1,322,937</b> | N/A           | N/A           |

## III. CONCLUSIONS

### Modest Growth from a Higher Base

While the level of adjustments made to the General Fund in this forecast may be surprising to many observers, it is important to remember that the General Fund ended FY06 with a revenue surplus of \$74.1 million. Furthermore, the economic forecast combined with other key assumptions results in a General Fund revenue forecast that is projected to grow at very modest levels during upcoming biennia.

### Fuel Prices

Energy prices have become an important issue during the last few RFC meetings. While high volatile energy prices have the greatest effect on fuel taxes, which primarily accrue to the Highway Fund, they are also affecting other taxable sales. Maine's dependence on oil for home heating and fueling vehicles for travel in a rural state makes Maine's economy vulnerable to events in unstable areas throughout the world. These higher fuel prices are diverting disposable income from what otherwise would be available for other purchases.

## **Greatest Risks**

Although the RFC forecast for net capital gains projects significant improvement over the previous forecast, the RFC remains cautious about the unpredictable nature of income from this revenue source. In Maine, the decisions of a relatively small number of taxpayers can substantially affect individual income tax revenue through capital gains realizations. The percentage of income tax liability of this higher income group has been increasing in recent years and as a result can create significant volatility in revenue from the individual income tax. The latest data from state and federal income tax returns show that the vast majority of recent taxable income gains have gone to households with incomes greater than \$100,000 a year. The source of these gains has been from bonus income, capital gains, dividend, and business income that traditionally go to upper-income taxpayers. In addition, recent increases in corporate income tax receipts are unprecedented.

Any shock to the U.S. economy, either internally or externally, could result in a reversal of these revenues that is disproportionate to the underlying impact on traditional economic measures. It is with this understanding that the committee once again wants to convey to the Administration and the Legislature that there is a high level of risk that surrounds this forecast. In addition to the volatility related to capital gains, the very uncertain global economic and geo-political environment adds the potential for significant “shocks” to the forecast that could significantly affect revenue.

# Appendix A - General Fund

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# GENERAL FUND REVENUE

## REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006

| Source                              | FY99 Actual          | FY00 Actual          | % Chg.      | FY01 Actual          | % Chg.       | FY02 Actual          | % Chg.       | FY03 Actual          | % Chg.      | FY04 Actual          | % Chg.       | FY05 Actual          | % Chg.      |
|-------------------------------------|----------------------|----------------------|-------------|----------------------|--------------|----------------------|--------------|----------------------|-------------|----------------------|--------------|----------------------|-------------|
| Sales and Use Tax                   | 814,321,914          | 847,355,132          | 4.1%        | 817,781,460          | -3.5%        | 836,134,084          | 2.2%         | 857,486,801          | 2.6%        | 917,243,245          | 7.0%         | 896,576,322          | -2.3%       |
| Service Provider Tax                | 0                    | 0                    | N/A         | 0                    | N/A          | 0                    | N/A          | 0                    | N/A         | 0                    | N/A          | 44,645,517           | N/A         |
| Individual Income Tax *             | 1,004,937,795        | 1,074,622,161        | 6.9%        | 1,167,749,567        | 8.7%         | 1,069,834,791        | -8.4%        | 1,071,701,694        | 0.2%        | 1,156,715,909        | 7.9%         | 1,270,225,329        | 9.8%        |
| Corporate Income Tax                | 144,942,751          | 150,045,645          | 3.5%        | 96,102,796           | -36.0%       | 77,366,103           | -19.5%       | 91,188,393           | 17.9%       | 111,616,051          | 22.4%        | 135,862,913          | 21.7%       |
| Cigarette and Tobacco Tax           | 77,750,154           | 78,343,171           | 0.8%        | 77,501,831           | -1.1%        | 97,599,599           | 25.9%        | 98,414,470           | 0.8%        | 96,604,646           | -1.8%        | 96,350,704           | -0.3%       |
| Public Utilities Tax                | 29,670,868           | 15,786,931           | -46.8%      | 29,776,778           | 88.6%        | 30,479,783           | 2.4%         | 29,285,143           | -3.9%       | 27,991,188           | -4.4%        | 25,403,214           | -9.2%       |
| Insurance Companies Tax             | 37,730,425           | 42,697,847           | 13.2%       | 43,576,501           | 2.1%         | 55,244,333           | 26.8%        | 71,078,089           | 28.7%       | 72,206,153           | 1.6%         | 75,669,053           | 4.8%        |
| Estate Tax                          | 29,768,114           | 58,803,666           | 97.5%       | 30,616,759           | -47.9%       | 23,420,240           | -23.5%       | 30,520,320           | 30.3%       | 32,075,501           | 5.1%         | 32,255,727           | 0.6%        |
| Prop. Tax - Unorganized Territory   | 9,372,295            | 9,333,204            | -0.4%       | 9,808,431            | 5.1%         | 10,333,984           | 5.4%         | 9,930,103            | -3.9%       | 10,709,308           | 7.8%         | 10,622,666           | -0.8%       |
| Income from Investments             | 19,760,828           | 20,312,457           | 2.8%        | 16,365,950           | -19.4%       | 3,829,583            | -76.6%       | 2,345,855            | -38.7%      | 2,310,207            | -1.5%        | 5,854,625            | 153.4%      |
| Transfer to Municipal Rev. Sharing  | (98,997,466)         | (105,673,142)        | -6.7%       | (106,163,291)        | -0.5%        | (101,150,084)        | 4.7%         | (103,039,221)        | -1.9%       | (111,464,335)        | -8.2%        | (119,712,814)        | -7.4%       |
| Transfer from Lottery Commission    | 39,600,544           | 38,138,174           | -3.7%       | 35,483,595           | -7.0%        | 39,317,891           | 10.8%        | 39,442,111           | 0.3%        | 41,272,645           | 4.6%         | 49,328,102           | 19.5%       |
| Other Revenues **                   | 150,860,081          | 165,451,560          | 9.7%        | 172,027,974          | 4.0%         | 189,250,254          | 10.0%        | 196,336,434          | 3.7%        | 326,259,040          | 66.2%        | 267,763,694          | -17.9%      |
| <b>Total - General Fund Revenue</b> | <b>2,259,718,302</b> | <b>2,395,216,806</b> | <b>6.0%</b> | <b>2,390,628,351</b> | <b>-0.2%</b> | <b>2,331,660,562</b> | <b>-2.5%</b> | <b>2,394,690,190</b> | <b>2.7%</b> | <b>2,683,539,557</b> | <b>12.1%</b> | <b>2,790,845,053</b> | <b>4.0%</b> |

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

|                                                  |  |  |  |  |  |  |  |  |  |  |  |              |     |
|--------------------------------------------------|--|--|--|--|--|--|--|--|--|--|--|--------------|-----|
| - Maine Resident Property Tax Program            |  |  |  |  |  |  |  |  |  |  |  | (26,030,227) | N/A |
| - Business Equipment Tax Reimbursement (BETR)    |  |  |  |  |  |  |  |  |  |  |  | 0            | N/A |
| - Municipal Business Equipment Tax Reimbursement |  |  |  |  |  |  |  |  |  |  |  | 0            | N/A |

**\*\* Detail of Other Revenues:**

|                                      |            |            |        |            |        |            |        |            |       |             |        |             |        |
|--------------------------------------|------------|------------|--------|------------|--------|------------|--------|------------|-------|-------------|--------|-------------|--------|
| - Real Estate Transfer Tax           | 12,022,820 | 9,320,476  | -22.5% | 9,048,762  | -2.9%  | 9,208,923  | 1.8%   | 10,770,668 | 17.0% | 22,196,221  | 106.1% | 24,113,439  | 8.6%   |
| - Milk Handling Fee                  | 0          | 0          | N/A    | 0          | N/A    | 0          | N/A    | 0          | N/A   | 0           | N/A    | 0           | N/A    |
| - Liquor Sales and Operations        | 19,794,778 | 23,226,758 | 17.3%  | 24,231,271 | 4.3%   | 25,168,524 | 3.9%   | 26,073,276 | 3.6%  | 102,182,743 | 291.9% | 49,845,027  | -51.2% |
| - Liquor Taxes and Fees              | 15,202,482 | 16,004,965 | 5.3%   | 15,925,822 | -0.5%  | 16,528,396 | 3.8%   | 17,141,878 | 3.7%  | 17,485,024  | 2.0%   | 17,432,377  | -0.3%  |
| - Finance Industry Fees              | 7,691,753  | 8,724,430  | 13.4%  | 9,811,430  | 12.5%  | 9,356,930  | -4.6%  | 9,293,280  | -0.7% | 9,572,280   | 3.0%   | 18,641,800  | 94.7%  |
| - Corporation Fees & Licenses        | 3,113,991  | 3,128,892  | 0.5%   | 3,313,312  | 5.9%   | 3,390,039  | 2.3%   | 3,482,107  | 2.7%  | 3,600,455   | 3.4%   | 5,637,743   | 56.6%  |
| - Hunting and Fishing License Fees   | 13,873,219 | 14,028,485 | 1.1%   | 13,681,818 | -2.5%  | 14,857,760 | 8.6%   | 13,958,510 | -6.1% | 16,898,278  | 21.1%  | 16,691,165  | -1.2%  |
| - Boat, ATV and Snowmobile Fees      | 2,052,897  | 2,223,168  | 8.3%   | 2,143,124  | -3.6%  | 2,169,025  | 1.2%   | 2,483,836  | 14.5% | 3,974,511   | 60.0%  | 4,148,890   | 4.4%   |
| - Parimutuel and Gaming Revenue      | 1,149,511  | 1,081,230  | -5.9%  | 1,094,337  | 1.2%   | 1,105,430  | 1.0%   | 1,086,936  | -1.7% | 1,036,539   | -4.6%  | 1,362,611   | 31.5%  |
| - Fines, Forfeits and Penalties      | 25,621,009 | 26,154,983 | 2.1%   | 26,525,142 | 1.4%   | 26,588,960 | 0.2%   | 26,991,935 | 1.5%  | 38,219,275  | 41.6%  | 35,506,972  | -7.1%  |
| - Targeted Case Management (HHS)     | 13,480,692 | 20,016,381 | 48.5%  | 26,098,790 | 30.4%  | 34,085,690 | 30.6%  | 33,235,104 | -2.5% | 34,762,095  | 4.6%   | 34,518,055  | -0.7%  |
| - HHS Services Rendered              | 4,713,768  | 5,161,768  | 9.5%   | 4,489,121  | -13.0% | 5,045,757  | 12.4%  | 5,012,333  | -0.7% | 9,481,895   | 89.2%  | 7,966,194   | -16.0% |
| - State Cost Allocation Program      | 6,976,288  | 7,889,111  | 13.1%  | 6,044,287  | -23.4% | 10,231,443 | 69.3%  | 10,986,971 | 7.4%  | 10,438,262  | -5.0%  | 12,891,574  | 23.5%  |
| - Unclaimed Property Transfer        | 4,400,000  | 10,200,000 | 131.8% | 2,550,000  | -75.0% | 7,841,073  | 207.5% | 8,180,260  | 4.3%  | 16,763,948  | 104.9% | 10,000,000  | -40.3% |
| - Education Efficiency Fund Transfer | 0          | 0          | N/A    | 0          | N/A    | 0          | N/A    | 0          | N/A   | 0           | N/A    | 0           | N/A    |
| - Tourism Transfer                   | 0          | 0          | N/A    | 0          | N/A    | 0          | N/A    | 0          | N/A   | (7,213,282) | N/A    | (7,554,190) | -4.7%  |
| - Transfer to Maine Milk Pool        | 0          | 0          | N/A    | 0          | N/A    | 0          | N/A    | 0          | N/A   | 0           | N/A    | 0           | N/A    |
| - Other Miscellaneous                | 20,766,874 | 18,290,913 | -11.9% | 27,070,758 | 48.0%  | 23,672,304 | -12.6% | 27,639,339 | 16.8% | 46,860,796  | 69.5%  | 36,562,039  | -22.0% |
| IF&W Total Revenue ***               | 16,848,540 | 17,129,376 | 1.7%   | 16,619,119 | -3.0%  | 17,895,675 | 7.7%   | 17,595,575 | -1.7% | 21,902,902  | 24.5%  | 21,817,659  | -0.4%  |

\*\*\* IF&W Revenue is a component of the Other Revenue line but is not included in the Detail of Other Revenue as a separate category because it is buried within the Other Revenue detail categories classified above.

# GENERAL FUND REVENUE

## REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006

| Source                              | FY06 Actual          | % Chg.      | FY06 Budget          | FY06 Variance     | % Var.      | FY07 Budget          | % Chg.      | Recom. Chg.       | FY07 Revised         | % Chg.      |
|-------------------------------------|----------------------|-------------|----------------------|-------------------|-------------|----------------------|-------------|-------------------|----------------------|-------------|
| Sales and Use Tax                   | 946,174,276          | 5.5%        | 930,641,080          | 15,533,196        | 1.7%        | 978,142,183          | 3.4%        | (3,401,816)       | 974,740,367          | 3.0%        |
| Service Provider Tax                | 47,028,430           | 5.3%        | 46,494,165           | 534,265           | 1.1%        | 48,911,765           | 4.0%        | 0                 | 48,911,765           | 4.0%        |
| Individual Income Tax *             | 1,254,506,663        | -1.2%       | 1,228,307,845        | 26,198,818        | 2.1%        | 1,274,529,688        | 1.6%        | 59,042,583        | 1,333,572,271        | 6.3%        |
| Corporate Income Tax                | 188,015,558          | 38.4%       | 175,150,000          | 12,865,558        | 7.3%        | 167,718,997          | -10.8%      | 31,491,003        | 199,210,000          | 6.0%        |
| Cigarette and Tobacco Tax           | 156,951,370          | 62.9%       | 151,738,325          | 5,213,045         | 3.4%        | 165,466,882          | 5.4%        | (963,901)         | 164,502,981          | 4.8%        |
| Public Utilities Tax                | 20,627,030           | -18.8%      | 21,440,000           | (812,970)         | -3.8%       | 20,495,000           | -0.6%       | (800,000)         | 19,695,000           | -4.5%       |
| Insurance Companies Tax             | 76,065,864           | 0.5%        | 72,141,931           | 3,923,933         | 5.4%        | 79,644,425           | 4.7%        | (3,308,036)       | 76,336,389           | 0.4%        |
| Estate Tax                          | 75,330,514           | 133.5%      | 70,099,322           | 5,231,192         | 7.5%        | 38,288,045           | -49.2%      | 14,177,453        | 52,465,498           | -30.4%      |
| Prop. Tax - Unorganized Territory   | 11,559,305           | 8.8%        | 11,278,476           | 280,829           | 2.5%        | 11,597,312           | 0.3%        | 0                 | 11,597,312           | 0.3%        |
| Income from Investments             | 8,271,869            | 41.3%       | 6,563,582            | 1,708,287         | 26.0%       | 6,163,582            | -25.5%      | (1,598,582)       | 4,565,000            | -44.8%      |
| Transfer to Municipal Rev. Sharing  | (124,222,180)        | -3.8%       | (121,410,248)        | (2,811,932)       | 2.3%        | (125,934,433)        | -1.4%       | (4,443,720)       | (130,378,153)        | -5.0%       |
| Transfer from Lottery Commission    | 50,879,647           | 3.1%        | 50,334,250           | 545,397           | 1.1%        | 50,334,250           | -1.1%       | 0                 | 50,334,250           | -1.1%       |
| Other Revenues **                   | 220,637,339          | -17.6%      | 214,104,153          | 6,533,186         | 3.1%        | 218,832,674          | -0.8%       | (3,777,644)       | 215,055,030          | -2.5%       |
| <b>Total - General Fund Revenue</b> | <b>2,931,825,687</b> | <b>5.1%</b> | <b>2,856,882,881</b> | <b>74,942,806</b> | <b>2.6%</b> | <b>2,934,190,370</b> | <b>0.1%</b> | <b>86,417,340</b> | <b>3,020,607,710</b> | <b>3.0%</b> |
| <b>Change in Biennial Totals</b>    |                      |             |                      |                   |             |                      |             | <b>86,417,340</b> |                      |             |

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

|                                        |              |        |              |           |       |              |       |           |              |       |
|----------------------------------------|--------------|--------|--------------|-----------|-------|--------------|-------|-----------|--------------|-------|
| - Maine Resident Property Tax Program  | (42,796,070) | -64.4% | (44,328,964) | 1,532,894 | -3.5% | (46,095,820) | -7.7% | 1,138,799 | (44,957,021) | -5.0% |
| - BETR - Business Equipment Tax Reimb. | (67,065,810) | N/A    | (71,463,191) | 4,397,381 | -6.2% | (68,146,508) | -1.6% | 6,145,800 | (62,000,708) | 7.6%  |
| - Municipal Business Equip. Tax Reimb. | 0            | N/A    | 0            | 0         | N/A   | 0            | N/A   | 0         | 0            | N/A   |

**\* Detail of Other Revenues:**

|                                      |                   |              |                   |                |             |                   |              |                  |                   |              |
|--------------------------------------|-------------------|--------------|-------------------|----------------|-------------|-------------------|--------------|------------------|-------------------|--------------|
| - Real Estate Transfer Tax           | 24,595,580        | 2.0%         | 22,504,918        | 2,090,662      | 9.3%        | 19,498,121        | -20.7%       | 2,810,953        | 22,309,074        | -9.3%        |
| - Milk Handling Fee                  | 1,867,527         | N/A          | 1,200,000         | 667,527        | 55.6%       | 1,300,000         | -30.4%       | 2,185,207        | 3,485,207         | 86.6%        |
| - Liquor Sales and Operations        | 2,560,044         | -94.9%       | 2,534,391         | 25,653         | 1.0%        | 3,500,000         | 36.7%        | 250,000          | 3,750,000         | 46.5%        |
| - Liquor Taxes and Fees              | 18,814,733        | 7.9%         | 18,436,397        | 378,336        | 2.1%        | 18,908,202        | 0.5%         | 119,287          | 19,027,489        | 1.1%         |
| - Finance Industry Fees              | 20,471,110        | 9.8%         | 19,912,310        | 558,800        | 2.8%        | 19,912,310        | -2.7%        | 655,070          | 20,567,380        | 0.5%         |
| - Corporation Fees & Licenses        | 6,385,451         | 13.3%        | 5,528,707         | 856,744        | 15.5%       | 5,530,767         | -13.4%       | 284,245          | 5,815,012         | -8.9%        |
| - Hunting and Fishing License Fees   | 16,840,079        | 0.9%         | 16,144,351        | 695,728        | 4.3%        | 16,300,487        | -3.2%        | (594,914)        | 15,705,573        | -6.7%        |
| - Boat, ATV and Snowmobile Fees      | 3,476,885         | -16.2%       | 3,870,938         | (394,053)      | -10.2%      | 3,870,938         | 11.3%        | 0                | 3,870,938         | 11.3%        |
| - Parimutuel and Gaming Revenue      | 5,262,230         | 286.2%       | 4,436,150         | 826,080        | 18.6%       | 4,703,935         | -10.6%       | 2,862,117        | 7,566,052         | 43.8%        |
| - Fines, Forfeits and Penalties      | 37,781,055        | 6.4%         | 40,542,996        | (2,761,941)    | -6.8%       | 42,205,883        | 11.7%        | 247,600          | 42,453,483        | 12.4%        |
| - Targeted Case Management (HHS)     | 25,687,188        | -25.6%       | 31,907,681        | (6,220,493)    | -19.5%      | 30,271,042        | 17.8%        | (7,293,172)      | 22,977,870        | -10.5%       |
| - HHS Services Rendered              | 9,613,394         | 20.7%        | 6,375,675         | 3,237,719      | 50.8%       | 5,103,343         | -46.9%       | 4,786,885        | 9,890,228         | 2.9%         |
| - State Cost Allocation Program      | 13,281,561        | 3.0%         | 11,537,222        | 1,744,339      | 15.1%       | 11,721,512        | -11.7%       | 2,871,414        | 14,592,926        | 9.9%         |
| - Unclaimed Property Transfer        | 14,880,517        | 48.8%        | 9,550,000         | 5,330,517      | 55.8%       | 13,678,320        | -8.1%        | 0                | 13,678,320        | -8.1%        |
| - Education Efficiency Fund Transfer | 0                 | N/A          | 0                 | 0              | N/A         | 0                 | N/A          | 0                | 0                 | N/A          |
| - Tourism Transfer                   | (7,762,689)       | -2.8%        | (7,762,689)       | 0              | 0.0%        | (8,102,087)       | -4.4%        | (119,251)        | (8,221,338)       | -5.9%        |
| - Transfer to Maine Milk Pool        | (2,616,160)       | N/A          | (306,871)         | (2,309,289)    | 752.5%      | (1,300,000)       | 50.3%        | (11,274,554)     | (12,574,554)      | -380.6%      |
| - Other Miscellaneous                | 29,498,834        | -19.3%       | 27,691,977        | 1,806,857      | 6.5%        | 31,729,901        | 7.6%         | (1,568,531)      | 30,161,370        | 2.2%         |
| <b>IF&amp;W Total Revenue ***</b>    | <b>21,530,955</b> | <b>-1.3%</b> | <b>21,187,395</b> | <b>343,560</b> | <b>1.6%</b> | <b>21,366,004</b> | <b>-0.8%</b> | <b>(601,471)</b> | <b>20,764,533</b> | <b>-3.6%</b> |

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

# GENERAL FUND REVENUE

## REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006

| Source                              | FY08 Budget          | % Chg.      | Recom. Chg.       | FY08 Revised         | % Chg.      | FY09 Budget          | % Chg.      | Recom. Chg.        | FY09 Revised         | % Chg.      | FY10 Projection      | % Chg.      | FY11 Projection      | % Chg.      |
|-------------------------------------|----------------------|-------------|-------------------|----------------------|-------------|----------------------|-------------|--------------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|
| Sales and Use Tax                   | 1,021,976,075        | 4.5%        | (16,907,151)      | 1,005,068,924        | 3.1%        | 1,066,862,892        | 4.4%        | (20,448,344)       | 1,046,414,548        | 4.1%        | 1,087,398,354        | 3.9%        | 1,132,180,055        | 4.1%        |
| Service Provider Tax                | 51,181,910           | 4.6%        | 0                 | 51,181,910           | 4.6%        | 53,452,742           | 4.4%        | 0                  | 53,452,742           | 4.4%        | 55,590,852           | 4.0%        | 57,814,486           | 4.0%        |
| Individual Income Tax *             | 1,312,272,758        | 3.0%        | 66,172,650        | 1,378,445,408        | 3.4%        | 1,341,599,725        | 2.2%        | 63,284,176         | 1,404,883,901        | 1.9%        | 1,458,034,297        | 3.8%        | 1,511,832,971        | 3.7%        |
| Corporate Income Tax                | 164,793,426          | -1.7%       | 46,876,574        | 211,670,000          | 6.3%        | 165,828,165          | 0.6%        | 55,561,835         | 221,390,000          | 4.6%        | 229,610,000          | 3.7%        | 240,240,000          | 4.6%        |
| Cigarette and Tobacco Tax           | 164,396,738          | -0.6%       | (622,497)         | 163,774,241          | -0.4%       | 163,198,120          | -0.7%       | (700,395)          | 162,497,725          | -0.8%       | 161,043,480          | -0.9%       | 159,641,550          | -0.9%       |
| Public Utilities Tax                | 19,320,000           | -5.7%       | (800,000)         | 18,520,000           | -6.0%       | 18,260,000           | -5.5%       | (800,000)          | 17,460,000           | -5.7%       | 16,400,000           | -6.1%       | 16,200,000           | -1.2%       |
| Insurance Companies Tax             | 81,149,288           | 1.9%        | (4,397,615)       | 76,751,673           | 0.5%        | 82,684,299           | 1.9%        | (5,514,545)        | 77,169,754           | 0.5%        | 77,594,734           | 0.6%        | 78,021,464           | 0.5%        |
| Estate Tax                          | 41,859,092           | 9.3%        | 3,114,077         | 44,973,169           | -14.3%      | 46,807,535           | 11.8%       | 5,047,439          | 51,854,974           | 15.3%       | 56,852,600           | 9.6%        | 4,771,020            | -91.6%      |
| Prop. Tax - Unorganized Territory   | 11,958,218           | 3.1%        | 0                 | 11,958,218           | 3.1%        | 12,332,279           | 3.1%        | 0                  | 12,332,279           | 3.1%        | 12,702,247           | 3.0%        | 13,083,315           | 3.0%        |
| Income from Investments             | 6,163,582            | 0.0%        | (1,663,582)       | 4,500,000            | -1.4%       | 6,163,582            | 0.0%        | (1,663,582)        | 4,500,000            | 0.0%        | 4,500,000            | 0.0%        | 4,500,000            | 0.0%        |
| Transfer to Municipal Rev. Sharing  | (132,611,656)        | -5.3%       | (4,999,388)       | (137,611,044)        | -5.5%       | (137,234,088)        | -3.5%       | (5,116,678)        | (142,350,766)        | -3.4%       | (148,312,939)        | -4.2%       | (154,416,786)        | -4.1%       |
| Transfer from Lottery Commission    | 49,834,250           | -1.0%       | 0                 | 49,834,250           | -1.0%       | 49,834,250           | 0.0%        | 0                  | 49,834,250           | 0.0%        | 49,834,250           | 0.0%        | 49,834,250           | 0.0%        |
| Other Revenues **                   | 196,703,731          | -10.1%      | 710,083           | 197,413,814          | -8.2%       | 195,075,048          | -0.8%       | 3,755,695          | 198,830,743          | 0.7%        | 200,769,835          | 1.0%        | 204,536,247          | 1.9%        |
| <b>Total - General Fund Revenue</b> | <b>2,988,997,412</b> | <b>1.9%</b> | <b>87,483,151</b> | <b>3,076,480,563</b> | <b>1.8%</b> | <b>3,064,864,549</b> | <b>2.5%</b> | <b>93,405,601</b>  | <b>3,158,270,150</b> | <b>2.7%</b> | <b>3,262,017,710</b> | <b>3.3%</b> | <b>3,318,238,572</b> | <b>1.7%</b> |
| <b>Change in Biennial Totals</b>    |                      |             |                   |                      |             |                      |             | <b>180,888,752</b> |                      |             |                      |             |                      |             |

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

|                                        |              |        |           |              |        |              |       |            |              |       |              |        |              |        |
|----------------------------------------|--------------|--------|-----------|--------------|--------|--------------|-------|------------|--------------|-------|--------------|--------|--------------|--------|
| - Maine Resident Property Tax Program  | (48,440,013) | -5.1%  | 2,186,247 | (46,253,766) | -2.9%  | (51,389,085) | -6.1% | 3,815,836  | (47,573,249) | -2.9% | (48,073,804) | -1.1%  | (50,473,026) | -5.0%  |
| - BETR - Business Equipment Tax Reimb. | (77,707,000) | -14.0% | 9,216,174 | (68,490,826) | -10.5% | (79,646,983) | -2.5% | 10,587,649 | (69,059,334) | -0.8% | (65,653,487) | 4.9%   | (60,047,934) | 8.5%   |
| - Municipal Business Equip. Tax Reimb. | 0            | N/A    | 0         | 0            | N/A    | (11,373,516) | N/A   | 0          | (11,373,516) | N/A   | (21,538,412) | -89.4% | (27,486,069) | -27.6% |

**\* Detail of Other Revenues:**

|                                      |              |        |             |              |        |              |        |             |              |        |              |       |              |       |
|--------------------------------------|--------------|--------|-------------|--------------|--------|--------------|--------|-------------|--------------|--------|--------------|-------|--------------|-------|
| - Real Estate Transfer Tax           | 11,880,718   | -39.1% | 2,684,557   | 14,565,275   | -34.7% | 11,951,403   | 0.6%   | 3,363,466   | 15,314,869   | 5.1%   | 16,907,180   | 10.4% | 18,867,770   | 11.6% |
| - Milk Handling Fee                  | 1,300,000    | 0.0%   | 1,722,775   | 3,022,775    | -13.3% | 1,300,000    | 0.0%   | 2,090,107   | 3,390,107    | 12.2%  | 3,340,145    | -1.5% | 3,390,107    | 1.5%  |
| - Liquor Sales and Operations        | 3,500,000    | 0.0%   | 750,000     | 4,250,000    | 13.3%  | 3,500,000    | 0.0%   | 750,000     | 4,250,000    | 0.0%   | 4,500,000    | 5.9%  | 4,500,000    | 0.0%  |
| - Liquor Taxes and Fees              | 19,260,253   | 1.9%   | (154,865)   | 19,105,388   | 0.4%   | 19,625,039   | 1.9%   | (439,853)   | 19,185,186   | 0.4%   | 19,266,104   | 0.4%  | 19,348,758   | 0.4%  |
| - Finance Industry Fees              | 19,910,910   | 0.0%   | 655,070     | 20,565,980   | 0.0%   | 19,910,910   | 0.0%   | 655,070     | 20,565,980   | 0.0%   | 20,565,980   | 0.0%  | 20,565,980   | 0.0%  |
| - Corporation Fees & Licenses        | 5,530,772    | 0.0%   | 548,240     | 6,079,012    | 4.5%   | 5,530,772    | 0.0%   | 812,240     | 6,343,012    | 4.3%   | 6,343,012    | 0.0%  | 6,343,012    | 0.0%  |
| - Hunting and Fishing License Fees   | 16,300,487   | 0.0%   | 0           | 16,300,487   | 3.8%   | 16,300,487   | 0.0%   | 0           | 16,300,487   | 0.0%   | 16,300,487   | 0.0%  | 16,300,487   | 0.0%  |
| - Boat, ATV and Snowmobile Fees      | 3,870,938    | 0.0%   | 0           | 3,870,938    | 0.0%   | 3,870,938    | 0.0%   | 0           | 3,870,938    | 0.0%   | 3,870,938    | 0.0%  | 3,870,938    | 0.0%  |
| - Parimutuel and Gaming Revenue      | 4,910,732    | 4.4%   | 2,537,102   | 7,447,834    | -1.6%  | 6,918,240    | 40.9%  | 3,854,776   | 10,773,016   | 44.6%  | 11,425,598   | 6.1%  | 11,604,610   | 1.6%  |
| - Fines, Forfeits and Penalties      | 40,515,208   | -4.0%  | 106,600     | 40,621,808   | -4.3%  | 40,520,208   | 0.0%   | 176,600     | 40,696,808   | 0.2%   | 40,710,808   | 0.0%  | 40,715,808   | 0.0%  |
| - Targeted Case Management (HHS)     | 30,786,872   | 1.7%   | (7,542,215) | 23,244,657   | 1.2%   | 31,262,056   | 1.5%   | (7,745,573) | 23,516,483   | 1.2%   | 23,793,745   | 1.2%  | 24,076,553   | 1.2%  |
| - HHS Services Rendered              | 5,100,696    | -0.1%  | 4,789,532   | 9,890,228    | 0.0%   | 5,100,696    | 0.0%   | 4,789,532   | 9,890,228    | 0.0%   | 9,890,228    | 0.0%  | 9,890,228    | 0.0%  |
| - State Cost Allocation Program      | 10,721,512   | -8.5%  | 4,919,428   | 15,640,940   | 7.2%   | 10,721,512   | 0.0%   | 6,845,096   | 17,566,608   | 12.3%  | 16,442,672   | -6.4% | 17,447,328   | 6.1%  |
| - Unclaimed Property Transfer        | 22,835,500   | 66.9%  | 0           | 22,835,500   | 66.9%  | 25,210,825   | 10.4%  | 0           | 25,210,825   | 10.4%  | 26,471,366   | 5.0%  | 27,794,935   | 5.0%  |
| - Education Efficiency Fund Transfer | (14,907,337) | N/A    | 0           | (14,907,337) | N/A    | (21,473,917) | -44.0% | 0           | (21,473,917) | -44.0% | (21,960,963) | -2.3% | (22,716,399) | -3.4% |
| - Tourism Transfer                   | (8,530,087)  | -5.3%  | (77,818)    | (8,607,905)  | -4.7%  | (8,991,780)  | -5.4%  | (7,584)     | (8,999,364)  | -4.5%  | (9,418,380)  | -4.7% | (9,847,824)  | -4.6% |
| - Transfer to Maine Milk Pool        | (1,300,000)  | 0.0%   | (8,304,800) | (9,604,800)  | 23.6%  | (1,300,000)  | 0.0%   | (9,510,000) | (10,810,000) | -12.5% | (10,810,000) | 0.0%  | (10,810,000) | 0.0%  |
| - Other Miscellaneous                | 25,016,557   | -21.2% | (1,923,523) | 23,093,034   | -23.4% | 25,117,659   | 0.4%   | (1,878,182) | 23,239,477   | 0.6%   | 23,130,915   | -0.5% | 23,193,956   | 0.3%  |
| IF&W Total Revenue ***               | 21,374,565   | 0.0%   | (5,126)     | 21,369,439   | 2.9%   | 21,382,908   | 0.0%   | (6,311)     | 21,376,597   | 0.0%   | 21,382,802   | 0.0%  | 21,389,885   | 0.0%  |

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

## General Fund - Sales and Use Tax

|                         | FY04 Actual   | FY05 Actual   | FY06 Actual   | FY07          | FY08            | FY09            | FY10            | FY11            |
|-------------------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Current Forecast        | \$917,243,245 | \$896,576,322 | \$946,174,276 | \$978,142,183 | \$1,021,976,075 | \$1,066,862,892 |                 |                 |
| Annual % Growth         | 7.0%          | -2.3%         | 5.5%          | 3.4%          | 4.5%            | 4.4%            |                 |                 |
| Net Increase (Decrease) |               |               |               | (\$3,401,816) | (\$16,907,151)  | (\$20,448,344)  |                 |                 |
| Revised Forecast        | \$917,243,245 | \$896,576,322 | \$946,174,276 | \$974,740,367 | \$1,005,068,924 | \$1,046,414,548 | \$1,087,398,354 | \$1,132,180,055 |
| Annual % Growth         | 7.0%          | -2.3%         | 5.5%          | 3.0%          | 3.1%            | 4.1%            | 3.9%            | 4.1%            |

### Revenue Source Summary:

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

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

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

### Revenue Source Forecast Factors and Trends:

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

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

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

### Forecast Recommended Changes:

The forecast was updated with the sales tax micro-simulation model which incorporates the October 2006 economic forecast from the Consensus Economic Forecasting Commission.



### General Fund - Service Provider Tax

|                         | FY04 Actual | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$0         | \$44,645,517 | \$47,028,430 | \$48,911,765 | \$51,181,910 | \$53,452,742 |              |              |
| Annual % Growth         | N/A         | N/A          | 5.3%         | 4.0%         | 4.6%         | 4.4%         |              |              |
| Net Increase (Decrease) |             |              |              | \$0          | \$0          | \$0          |              |              |
| Revised Forecast        | \$0         | \$44,645,517 | \$47,028,430 | \$48,911,765 | \$51,181,910 | \$53,452,742 | \$55,590,852 | \$57,814,486 |
| Annual % Growth         | N/A         | N/A          | 5.3%         | 4.0%         | 4.6%         | 4.4%         | 4.0%         | 4.0%         |

**Revenue Source Summary:**

Description of Revenue Source: The Service Provider tax is imposed on a number of services and the revenue generated is either credited to the General Fund or to dedicated accounts within the Department of Health and Human Services. Revenue derived by the 5% Service Provider Tax on the value of extended cable and satellite television services, fabrication services, the rental of video media and video equipment, the rental of furniture, audio media and audio equipment pursuant to a rental-purchase agreement as defined in Title 9-A, section 11-105, telecommunications services and the installation, maintenance or repair of telecommunications equipment accrues to the General Fund. See separate discussion of dedicated revenue pieces that accrue to the Department of Health and Human Services.

**Revenue Source Forecast Factors and Trends:**

This revenue category was previously included within Sales and Use Tax category. Beginning in FY05, the taxable services were separated from the Sales and Use Tax.

This major revenue source is tied to economic factors and is projected using Maine Revenue Services tax models. This tax was recently separated out of the Sales and Use Tax line and has only a short history with which to generate a trend. After the June 2005 RFC adjustment downward of \$2,500,000 in FY05, this revenue line was very close to budget in FY05 with a positive \$0.5 million variance (+1.0%). The forecasting of this line uses the sales and excise tax model with the same variables as the Sales and Use Tax.

**Forecast Recommended Changes:**

There are no changes to the current budget amounts. Projections for FY10 and FY11 have been added.

## General Fund - Individual Income Tax

|                         | FY04 Actual     | FY05 Actual     | FY06 Actual     | FY07            | FY08            | FY09            | FY10            | FY11            |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Current Forecast        | \$1,156,715,909 | \$1,270,225,329 | \$1,254,210,746 | \$1,274,529,688 | \$1,312,272,758 | \$1,341,599,725 |                 |                 |
| Annual % Growth         | 7.9%            | 9.8%            | -1.3%           | 1.6%            | 3.0%            | 2.2%            |                 |                 |
| Net Increase (Decrease) |                 |                 |                 | \$59,042,583    | \$66,172,650    | \$63,284,176    |                 |                 |
| Revised Forecast        | \$1,156,715,909 | \$1,270,225,329 | \$1,254,210,746 | \$1,333,572,271 | \$1,378,445,408 | \$1,404,883,901 | \$1,458,034,297 | \$1,511,832,971 |
| Annual % Growth         | 7.9%            | 9.8%            | -1.3%           | 6.3%            | 3.4%            | 1.9%            | 3.8%            | 3.7%            |

### Revenue Source Summary:

This category includes all revenue from individual income tax including penalties and interest associated with the collection of individual income tax. It also includes income tax on fiduciaries and income tax from Partnerships, Limited Liability Corporations and S Corporations that are reported on the owners' individual income tax. Beginning in FY05, Individual Income Tax revenue was reduced by the amount of the payments under the Maine Residents Property Tax Program (Tax and Rent Refund or Circuit Breaker). Amounts necessary for the benefit payments are transferred from Individual Income Tax revenue to a reserve account for payment. Beginning in FY06, a similar arrangement was established for the Business Equipment Tax Reimbursement (BETR) program. Estimates of these transfers and the effect that they have on the forecast of Individual Income are detailed in separate sections. The amounts above reflect net amounts after the transfers for these tax reimbursement programs, but do not reflect the transfer to the Local Government Fund for State-Municipal Revenue Sharing.

### Revenue Source Forecast Factors and Trends:

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

A major variable that is not included in the consensus economic forecast is net capital gains realizations. This variable has produced some significant volatility in the individual income tax collections. A detailed discussion is included in the body of the report.

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

### Forecast Recommended Changes:

Stronger than anticipated FY06 receipts, a more optimistic economic forecast for calendar year 2006 and a solid year for the stock market in 2006 are the primary reasons for the recommended upward adjustment in individual income tax forecast. Year-to-year growth is projected to average only 3.5% because of a slowing economy as a result of the phased closing of Brunswick Naval Air Station, the impact of the recapture of bonus depreciation and Section 179 expensing on flow-through income, the assumed reduction in capital gains realizations over the budget window and the start of the municipal reimbursement in FY09 because of the personal property exemption.

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

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06 Actual</b> | <b>FY07</b>    | <b>FY08</b>    | <b>FY09</b>    | <b>FY10</b>    | <b>FY11</b>    |
|-------------------------|--------------------|--------------------|--------------------|----------------|----------------|----------------|----------------|----------------|
| Current Forecast        | \$0                | (\$26,030,227)     | (\$42,796,070)     | (\$46,095,820) | (\$48,440,013) | (\$51,389,085) |                |                |
| Annual % Growth         | N/A                | N/A                | 64.4%              | 7.7%           | 5.1%           | 6.1%           |                |                |
| Net Increase (Decrease) |                    |                    |                    | \$1,138,799    | \$2,186,247    | \$3,815,836    |                |                |
| Revised Forecast        | \$0                | (\$26,030,227)     | (\$42,796,070)     | (\$44,957,021) | (\$46,253,766) | (\$47,573,249) | (\$48,073,804) | (\$50,473,026) |
| Annual % Growth         | N/A                | N/A                | 64.4%              | 5.0%           | 2.9%           | 2.9%           | 1.1%           | 5.0%           |

**Revenue Source Summary:**

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

**Revenue Source Forecast Factors and Trends:**

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

FY06 program costs were just under budget, resulting in a positive revenue variance. The positive variance was attributable to a large number of late filers that did not get reimbursed until the first few months of FY07. The total cost of the 2005 program was very close to budget.

**Forecast Recommended Changes:**

The reduced cost of the program reflects updated property tax information that takes into account the first year impact of LD1 and assumptions about residential property values as the recent run-up in housing prices adjusts over the next 12 to 18 months.

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

|                         | FY04 Actual | FY05 Actual | FY06 Actual    | FY07           | FY08           | FY09           | FY10           | FY11           |
|-------------------------|-------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Current Forecast        | \$0         | \$0         | (\$67,065,810) | (\$68,146,508) | (\$77,707,000) | (\$79,646,983) |                |                |
| Annual % Growth         | N/A         | N/A         | N/A            | 1.6%           | 14.0%          | 2.5%           |                |                |
| Net Increase (Decrease) |             |             |                | \$6,145,800    | \$9,216,174    | \$10,587,649   |                |                |
| Revised Forecast        | \$0         | \$0         | (\$67,065,810) | (\$62,000,708) | (\$68,490,826) | (\$69,059,334) | (\$65,653,487) | (\$60,047,934) |
| Annual % Growth         | N/A         | N/A         | N/A            | -7.6%          | 10.5%          | 0.8%           | -4.9%          | -8.5%          |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

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

The program's expenditures were below expectations in FY06 by \$4.4 million.

### Forecast Recommended Changes:

The cost of the BETR program is reduced to account for a continuing switch from a manufacturing based economy to a service based economy and a shift in the property tax burden from business to residential property as municipalities recognize the run-up in housing values through revaluations. The negative growth rates in FY10 and FY11 reflect the impact of the new personal property exemption on the BETR program.

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

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07 | FY08 | FY09           | FY10           | FY11           |
|-------------------------|-------------|-------------|-------------|------|------|----------------|----------------|----------------|
| Current Forecast        |             |             |             |      |      | (\$11,373,516) |                |                |
| Annual % Growth         |             |             |             |      |      |                |                |                |
| Net Increase (Decrease) |             |             |             |      |      | \$0            |                |                |
| Revised Forecast        |             |             |             |      |      | (\$11,373,516) | (\$21,538,412) | (\$27,486,069) |
| Annual % Growth         |             |             |             |      |      | n/a            | 89.4%          | 27.6%          |

### Revenue Source Summary:

This category represents municipal reimbursement for a new property tax exemption for business equipment. PL 2005, c. 623 provides that beginning with business property first placed in service after April 1, 2007, eligible property (property currently eligible for the BETR program other than “storefront” retail) will be exempt from local property tax. The generally applicable rate of reimbursement to municipalities for revenue losses from the new exemption are 100% in the first year of the exemption and are reduced by 10% each year until they reach 50%. Municipalities with more than 5% of their valuation in exempt property may choose alternative reimbursement. Alternative reimbursement is 50% plus 1/2 of the percentage that business personal property represents of the total taxable value plus exempt business personal property value in the municipality. This category also includes the following General Fund revenue reductions for additional municipal compensation through transfers to the Disproportionate Tax Burden Fund (Rev II):

FY10 (\$2,000,000)  
 FY11 (\$2,500,000)  
 FY12 (\$3,000,000)  
 FY13 (\$3,500,000)  
 FY14 and later (\$4,000,000)

Both forms of municipal reimbursement are funded from Individual Income Tax collections after the deduction for state-municipal revenue sharing.

### Revenue Source Forecast Factors and Trends:

Municipal reimbursement related to the new property tax exemption for business equipment is forecast off model.

**Forecast Recommended Changes:** Projections for FY10 and FY11 have been added. It is anticipated that a number of technical changes and clarifications will need to be made to this program during the upcoming legislative session. Adjustments to the projected costs are expected once those changes are made by the Legislature.

## General Fund - Corporate Income Tax

|                         | FY04 Actual   | FY05 Actual   | FY06 Actual   | FY07          | FY08          | FY09          | FY10          | FY11          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Forecast        | \$111,616,051 | \$135,862,913 | \$188,015,558 | \$167,718,997 | \$164,793,426 | \$165,828,165 |               |               |
| Annual % Growth         | 22.4%         | 21.7%         | 38.4%         | -10.8%        | -1.7%         | 0.6%          |               |               |
| Net Increase (Decrease) |               |               |               | \$31,491,003  | \$46,876,574  | \$55,561,835  |               |               |
| Revised Forecast        | \$111,616,051 | \$135,862,913 | \$188,015,558 | \$199,210,000 | \$211,670,000 | \$221,390,000 | \$229,610,000 | \$240,240,000 |
| Annual % Growth         | 22.4%         | 21.7%         | 38.4%         | 6.0%          | 6.3%          | 4.6%          | 3.7%          | 4.6%          |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

Revenue projections are driven by the corporate income tax model with assumptions for inflation (CPI-U), total employment growth and growth by sector. The model also relies on a forecast of corporate pre-tax profits from Global Insight.

### Forecast Recommended Changes:

The recommended changes reflect updated information on tax year 2004 liability and new forecast of pre-tax corporate profits from Global Insight. Tax year 2004 corporate income tax liability is \$10 million higher than estimated last February. The new forecast for corporate profits is more optimistic than the February forecast, particularly in tax year 2006. Global Insight now estimates that corporate profits will increase by 16% in 2006, compared to a decline of 3.8% in their February forecast. The current forecast of corporate profits assumes slow to flat growth during the 2007-2011 period.

## General Fund - Cigarette and Tobacco Tax

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual   | FY07          | FY08          | FY09          | FY10          | FY11          |
|-------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Forecast        | \$96,604,646 | \$96,350,704 | \$156,951,370 | \$165,466,882 | \$164,396,738 | \$163,198,120 |               |               |
| Annual % Growth         | -1.8%        | -0.3%        | 62.9%         | 5.4%          | -0.6%         | -0.7%         |               |               |
| Net Increase (Decrease) |              |              | \$0           | (\$963,901)   | (\$622,497)   | (\$700,395)   | \$161,043,480 | \$159,641,550 |
| Revised Forecast        | \$96,604,646 | \$96,350,704 | \$156,951,370 | \$164,502,981 | \$163,774,241 | \$162,497,725 | \$161,043,480 | \$159,641,550 |
| Annual % Growth         | -1.8%        | -0.3%        | 62.9%         | 4.8%          | -0.4%         | -0.8%         | -0.9%         | -0.9%         |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

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

This category was very close to budget in FY05 with a modest positive variance of \$330,840 or +0.3%. The FY06 positive variance was \$5.2M or +3.4%. The significant increase in these taxes beginning in FY06 is due to tax rate increases enacted during the 1st Special Session of the 122nd Legislature (see amounts below).

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

### Forecast Recommended Changes:

Projected cigarette tax revenue has been lowered based on a new forecast generated with the sales and excise tax micro-simulation model. The tobacco products tax has been increased based on FY06 receipts. Projections for FY10 and FY11 reflect a 0.9% annual decrease in this revenue category.

### General Fund - Public Utilities Tax

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$27,779,775 | \$25,004,898 | \$20,627,030 | \$20,495,000 | \$19,320,000 | \$18,260,000 |              |              |
| Annual % Growth         | -4.6%        | -10.0%       | -17.5%       | -0.6%        | -5.7%        | -5.5%        |              |              |
| Net Increase (Decrease) |              |              |              | (\$800,000)  | (\$800,000)  | (\$800,000)  | \$16,400,000 | \$16,200,000 |
| Revised Forecast        | \$27,779,775 | \$25,004,898 | \$20,627,030 | \$19,695,000 | \$18,520,000 | \$17,460,000 | \$16,400,000 | \$16,200,000 |
| Annual % Growth         | -4.6%        | -10.0%       | -17.5%       | -4.5%        | -6.0%        | -5.7%        | -6.1%        | -1.2%        |

**Revenue Source Summary:**

This revenue is derived by the state tax on Telecommunications Personal Property. This property is exempt from ordinary local property taxation. The tax is assessed on May 30th of each year and must be paid by August 15th of that year. The tax rate decreased to 26 mills for taxes assessed in 2004 and will decrease one additional mill each year until 2010 when it reaches 20 mills pursuant to 36 MRSA §457. Prior to FY 06 excise tax on railroad companies accrued to the General Fund and was also included in this category. Effective October 1, 2005 railroad company taxes accrue to the State Transit, Aviation and Rail Transportation Fund, an enterprise fund established by the Department of Administrative and Financial Services.

**Revenue Source Forecast Factors and Trends:**

The Telecommunications Personal Property Tax base is eroding due to changes in the competitive nature of the market for telecommunications services. This coupled with the annual one mill reduction in the tax rate through tax year 2010 results in a declining revenue source.

**Forecast Recommended Changes:**

The projections were adjusted downward by \$800,000 per year based on actual receipts in FY06 and projections for FY10 and FY11 have been added.



## General Fund - Insurance Company Tax

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07          | FY08          | FY09          | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|
| Current Forecast        | \$72,206,153 | \$75,669,053 | \$76,065,864 | \$79,644,425  | \$81,149,288  | \$82,684,299  |              |              |
| Annual % Growth         | 4.1%         | 4.8%         | 0.5%         | 4.7%          | 1.9%          | 1.9%          |              |              |
| Net Increase (Decrease) |              |              |              | (\$3,308,036) | (\$4,397,615) | (\$5,514,545) |              |              |
| Revised Forecast        | \$72,206,153 | \$75,669,053 | \$76,065,864 | \$76,336,389  | \$76,751,673  | \$77,169,754  | \$77,594,734 | \$78,021,464 |
| Annual % Growth         | 4.1%         | 4.8%         | 0.5%         | 0.4%          | 0.5%          | 0.5%          | 0.6%         | 0.5%         |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

This tax is forecast off model. Estimates are made based on historical trends and input from various sources. Since the tax is based on premiums, the RFC must analyze those factors that affects premiums: insurance companies' investment earnings and payments on insured losses. Any significant increases in premiums may also affect demand, as purchasers react by increasing deductibles or dropping coverage for certain property.

There were no legislative changes during 122nd Legislature that directly affect this revenue category. FY06 is affected by a change in a \$983,000 credit for a surcharge on Fire Insurance Premiums that was delayed until FY06.

The revenue category has been running under budget for the first 3 months of FY07. For the fiscal year-to-date, this category is under budget by \$101,318 (-15.5%).

### Forecast Recommended Changes:

The revised projections were adjusted down to account for FY06 actual receipts and then assume net annual growth of roughly 0.5% over the forecast period.

## General Fund - Estate Tax

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11        |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Current Forecast        | \$32,075,501 | \$32,255,727 | \$75,330,514 | \$38,288,045 | \$41,859,092 | \$46,807,535 |              |             |
| Annual % Growth         | 5.1%         | 0.6%         | 133.5%       | -49.2%       | 9.3%         | 11.8%        |              |             |
| Net Increase (Decrease) |              |              |              | \$14,177,453 | \$3,114,077  | \$5,047,439  |              |             |
| Revised Forecast        | \$32,075,501 | \$32,255,727 | \$75,330,514 | \$52,465,498 | \$44,973,169 | \$51,854,974 | \$56,852,600 | \$4,771,020 |
| Annual % Growth         | 5.1%         | 0.6%         | 133.5%       | -30.4%       | -14.3%       | 15.3%        | 9.6%         | -91.6%      |

### Revenue Source Summary:

This revenue is derived primarily by the state tax imposed upon the transfer of the estate of every person who was a Maine resident at the time of death. For deaths occurring before January 1, 2002 the tax is equal to the amount by which the credit allowed against the federal estate tax for state death taxes exceeds the amount of such taxes actually paid to other states, provided that the allowance for such taxes may not exceed that percentage of the federal tax credit which the other states' portion of the estate is to the total estate. Beginning in 2002, the federal estate tax and the federal credit for state death taxes are being phased out. The federal credit was reduced to 75% in 2002, 50% in 2003, 25% in 2004 and completely eliminated beginning in 2005. For deaths occurring after 2002, the Maine estate tax is equal to the tax that would be owed using the formula for calculating the federal credit for state death taxes in effect on December 31, 2002 (exclusive of any reduction in the maximum credit amount) and based on the unified credit amount as of December 31, 2000.

A similar tax is imposed on real and tangible personal property having Maine situs passing by reason of the death of a person not a Maine resident, at the same percentage of the federal allowance for state death taxes that the value of the property taxable in Maine bears to the total estate.

### Revenue Source Forecast Factors and Trends:

The estate tax is forecast using Maine Revenue Services tax models. The models are supplemented with a look at actual tax file data through queries of the data base to pick out the unusual large returns. Actual FY 06 revenue was over budget by \$5.2M and significantly over FY 05 amounts. This significant growth is due to an unexpected increase in the number moderately sized estate tax payments.

**Forecast Recommended Changes:** The recommended change for FY07 reflects the receipt of 2 large estate payments during the first quarter of the fiscal year. The forecast for the 20008-2009 and 2010-2011 biennia are based on a forecast of the growth in household net worth from Global Insight. The forecast for FY11 is based on current state law that conforms the state estate tax to the federal estate tax rate schedule. Since the federal estate tax rate schedule does not exist for deaths during calendar year 2010, the state effectively has no estate tax during that time period. Federal estate tax law will revert back to pre-2001 law effective for deaths occurring on or after January 1, 2011.

### General Fund - Property Tax - Unorganized Territory

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$10,709,308 | \$10,622,666 | \$11,559,305 | \$11,597,312 | \$11,958,218 | \$12,332,279 |              |              |
| Annual % Growth         | 7.8%         | -0.8%        | 8.8%         | 0.3%         | 3.1%         | 3.1%         |              |              |
| Net Increase (Decrease) |              |              |              | \$0          | \$0          | \$0          |              |              |
| Revised Forecast        | \$10,709,308 | \$10,622,666 | \$11,559,305 | \$11,597,312 | \$11,958,218 | \$12,332,279 | \$12,702,247 | \$13,083,315 |
| Annual % Growth         | 7.8%         | -0.8%        | 8.8%         | 0.3%         | 3.1%         | 3.1%         | 3.0%         | 3.0%         |

**Revenue Source Summary:**

Pursuant to 36 MRSA, chapter 115, unorganized territory taxes are transferred to the General Fund each year as reimbursement for the General Fund costs of the municipal cost component. The municipal cost component is the cost of funding services in the Unorganized Territory Tax District that would not be borne by the state if it were a municipality. Examples of services funded from the General Fund are land use regulation, property tax assessment, education, forest fire protection and general assistance. The transfer is based on actual qualifying General Fund expenditures with the exception of the Land Use Regulation Commission, the transfer for which is based on a percentage of General Fund appropriations to the commission. The General Fund transfers occur twice per year. The first transfer occurs on October 31st and is based on 90% of the total transfer of the prior fiscal year. The final transfer occurs at the close of the fiscal year and transfers the net amount required to equal the General Fund share of the municipal cost component for that fiscal year.

**Revenue Source Forecast Factors and Trends:**

From FY05 to FY06, actual expenditures increased by 8.8% as a result of an unexpected increase in fuel costs for schools and buses in the unorganized territory. The projected estimates for FY08 and beyond represent an annual increase of approximately 3% based on projected tuition increases for students attending other district schools outside of the unorganized territory.

**Forecast Recommended Changes:**

No recommended changes are necessary at this time.

## General Fund - Income from Investments

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07          | FY08          | FY09          | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|---------------|---------------|---------------|-------------|-------------|
| Current Forecast        | \$2,310,207 | \$5,854,625 | \$8,271,869 | \$6,163,582   | \$6,163,582   | \$6,163,582   |             |             |
| Annual % Growth         | -1.5%       | 153.4%      | 41.3%       | -25.5%        | 0.0%          | 0.0%          |             |             |
| Net Increase (Decrease) |             |             |             | (\$1,663,582) | (\$1,663,582) | (\$1,663,582) |             |             |
| Revised Forecast        | \$2,310,207 | \$5,854,625 | \$8,271,869 | \$4,500,000   | \$4,500,000   | \$4,500,000   | \$4,500,000 | \$4,500,000 |
| Annual % Growth         | -1.5%       | 153.4%      | 41.3%       | -45.6%        | 0.0%          | 0.0%          | 0.0%        | 0.0%        |

### Revenue Source Summary:

This category represents the Treasurer of State's investment of excess money in the state treasury that is not needed to meet current obligations (see 5 MRSA section 135). The Treasurer of State is authorized to invest these funds in bonds, notes, certificates of indebtedness or other obligations specified in statute. Earnings on these investments are credited to the General Fund unless specifically designated otherwise. Occasionally, there are credits to this revenue category for small miscellaneous items collected by the state. These items are generally insignificant and unpredictable.

### Revenue Source Forecast Factors and Trends:

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

**Economy** - Interest rates had been near historic lows for several years based on Federal Reserve Board monetary policy. As the Fed's tightened the money supply, interest rates rose and helped improve earnings in FY05 and FY06. Economy.com predicts 3-month Treasury Bill rates peaking in fiscal year 2007.

**Budget** - Decisions were made to use the Rainy Day Fund and other reserves to fund ongoing programs. This reduced earnings early in this decade. Positive revenue variances and higher earnings rates contributed to higher than expected earnings in FY 06 and will impact subsequent years as well.

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

**TAN Amounts** - See below for assumptions. With continued improvement in General Fund cash balances, no Tax Anticipation Note (TAN) is expected to be issued in FY 07 or beyond. This will reduce balances available for investment.

| Historical Data and Assumptions |               |               |               |               |               |               |       |       |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-------|-------|
|                                 | FY04 Actual   | FY05 Actual   | FY06 Actual   | FY07          | FY08          | FY09          | FY10  | FY11  |
| <b>TAN</b>                      |               |               |               |               |               |               |       |       |
| Current Forecast                | \$275,000,000 | \$190,000,000 | \$123,625,000 | \$125,000,000 | \$125,000,000 | \$125,000,000 |       |       |
| Revised Forecast                |               |               |               | \$0           | \$0           | \$0           | \$0   | \$0   |
| <b>Pool Earnings Rate</b>       |               |               |               |               |               |               |       |       |
| Current Forecast                | 1.32%         | 2.39%         | 4.51%         | 4.50%         | 4.50%         | 4.50%         |       |       |
| Revised Forecast                |               |               |               | 5.50%         | 5.50%         | 5.50%         | 5.50% | 5.50% |

### Forecast Recommended Changes:

An improving cash position has allowed the state to now assume no TANs will need to be issued in the next few years. The previous estimate of investment earnings had taken into account some of the improved cash position but had continued to assume sizable TAN issues. This revised estimate now assumes that, despite higher interest rates than last year, earnings will level off at \$4,500,000 without the TAN balances available to invest. A reduction of \$1,663,582 from the current baseline is therefore recommended.

## General Fund - Transfer to Municipal Revenue Sharing

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06</b>     | <b>FY07</b>     | <b>FY08</b>     | <b>FY09</b>     | <b>FY10</b>     | <b>FY11</b>     |
|-------------------------|--------------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Current Forecast        | (\$111,464,335)    | (\$119,712,814)    | (\$124,222,180) | (\$125,934,433) | (\$132,611,656) | (\$137,234,088) |                 |                 |
| Annual % Growth         | -8.2%              | -7.4%              | -3.8%           | -1.4%           | -5.3%           | -3.5%           |                 |                 |
| Net Increase (Decrease) |                    |                    |                 | (\$4,443,720)   | (\$4,999,388)   | (\$5,116,678)   |                 |                 |
| Revised Forecast        | (\$111,464,335)    | (\$119,712,814)    | (\$124,222,180) | (\$130,378,153) | (\$137,611,044) | (\$142,350,766) | (\$148,312,939) | (\$154,416,786) |
| Annual % Growth         | -8.2%              | -7.4%              | -3.8%           | -5.0%           | -5.5%           | -3.4%           | -4.2%           | -4.1%           |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

See discussion of Individual Income Tax, Sales and Use Tax, Corporate Income Tax and Service Provider Tax for trends. The monthly transfers are determined by these major tax sources. The 122nd Legislature did delay by an additional 2 years, the increase in the percentage of the major taxes that gets transferred each month. This increase was also delayed for 2 years by the 121st Legislature. The percentage is now schedule to increase from 5.1% to 5.2% on July 1, 2007.

### Forecast Recommended Changes:

Recommended changes are calculated based on the individual revisions to the Individual Income tax, Corporate Income Tax, Sales and Use Tax and the General Fund portion of the Service Provider Tax.

## General Fund - Transfer from Lottery Commission

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$41,272,645 | \$49,328,102 | \$50,879,647 | \$50,334,250 | \$49,834,250 | \$49,834,250 |              |              |
| Annual % Growth         | 4.6%         | 19.5%        | 3.1%         | -1.1%        | -1.0%        | 0.0%         |              |              |
| Net Increase (Decrease) |              |              |              | \$0          | \$0          | \$0          |              |              |
| Revised Forecast        | \$41,272,645 | \$49,328,102 | \$50,879,647 | \$50,334,250 | \$49,834,250 | \$49,834,250 | \$49,834,250 | \$49,834,250 |
| Annual % Growth         | 4.6%         | 19.5%        | 3.1%         | -1.1%        | -1.0%        | 0.0%         | 0.0%         | 0.0%         |

### Revenue Source Summary:

Description of Revenue Source: Revenue from the sales of lottery tickets, net of the costs of administering the lottery and the set aside of funds for prizes, is transferred to the State as General Fund revenue. In addition to its own instant ticket games, the Maine Lottery participates with the New Hampshire and Vermont lotteries as a member of the Tri-State Lottery to offer Tri-State Pick 3 and Pick 4, Triple Play and Megabucks. Maine is also one of 29 jurisdictions participating in Powerball. Pursuant to Title 12 M.R.S.A, Chapter 714, the Maine Lottery also administers a wildlife lottery game to raise funds for the Maine Outdoor Heritage Fund. Maine Law (Title 8 M.R.S.A., §387) requires that at least 45% of sales must be returned to the players in the form of prizes.

### Revenue Source Forecast Factors and Trends:

Description of Factors Affecting Revenue Source: Lottery revenues are considered to be the result of discretionary spending by Maine's citizens; this type of discretionary spending tends to be fairly predictable. Most recently, in the early fall of 2004, Powerball was added as an additional game offered by the Maine State Lottery. Initial revenue projections for Powerball estimated approximately \$12,000,000 in additional annual General Fund revenue; however, current annual projected revenue from the Powerball game is now estimated to be \$10,400,000.

### Forecast Recommended Changes:

The Bureau of Alcoholic Beverages and Lottery Operations currently believes that annual revenue from instant and on-line games has plateaued and that absent the introduction of any significant new games or lottery formats that lottery revenue is likely to remain flat through FY11.

## General Fund - Real Estate Transfer Tax

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$22,196,221 | \$24,113,439 | \$24,595,580 | \$19,498,121 | \$11,880,718 | \$11,951,403 |              |              |
| Annual % Growth         | 106.1%       | 8.6%         | 2.0%         | -20.7%       | -39.1%       | 0.6%         |              |              |
| Net Increase (Decrease) |              |              |              | \$2,810,953  | \$2,684,557  | \$3,363,466  |              |              |
| Revised Forecast        | \$22,196,221 | \$24,113,439 | \$24,595,580 | \$22,309,074 | \$14,565,275 | \$15,314,869 | \$16,907,180 | \$18,867,770 |
| Annual % Growth         | 106.1%       | 8.6%         | 2.0%         | -9.3%        | -34.7%       | 5.1%         | 10.4%        | 11.6%        |

### Revenue Source Summary:

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

In fiscal years 2004, 2005 and 2006 \$7,500,000 of the portion that would ordinarily be credited to the H.O.M.E. Fund is credited to the General Fund. In fiscal year 2007 \$7,687,067 of the portion ordinarily credited to the H.O.M.E. Fund is credited to the General Fund. Beginning July 1, 2002, transfers of controlling interests are subject to the same tax. After the deduction of 10% county share, the remaining 90% of proceeds from the tax on the transfers of controlling interests accrues to the General Fund.

### Revenue Source Forecast Factors and Trends:

Real estate market was growing very fast throughout most of FY05. In the June 2005 forecast, this line was revised downward by \$1,000,000 for FY05 based on 2 months of negative variances. However, the positive variance at the end of FY05 nearly completely reversed that revision, coming in ahead of the revised forecast by \$807,093. The FY06 positive variance was \$2.1M.

### Forecast Recommended Changes:

The revenue forecast for the real estate transfer tax is based on the latest forecasts from Global Insights of existing home sales and median selling prices in Maine. The FY07 amount includes a one-time downward adjustment of \$1.1M to account for revenue that should have been transferred to the H.O.M.E. Fund during FY06.

### General Fund - Milk Handling Fee

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$0         | \$0         | \$1,867,527 | \$1,300,000 | \$1,300,000 | \$1,300,000 |             |             |
| Annual % Growth         | N/A         | N/A         | N/A         | -30.4%      | 0.0%        | 0.0%        |             |             |
| Net Increase (Decrease) |             |             |             | \$2,185,207 | \$1,722,775 | \$2,090,107 |             |             |
| Revised Forecast        | \$0         | \$0         | \$1,867,527 | \$3,485,207 | \$3,022,775 | \$3,390,107 | \$3,340,145 | \$3,390,107 |
| Annual % Growth         | N/A         | N/A         | N/A         | 86.6%       | -13.3%      | 12.2%       | -1.5%       | 1.5%        |

**Revenue Source Summary:**

PL 2005, c. 396 imposed a fee on the handling of packaged milk for retail sale in the State. The fee rate is determined monthly in relation to the price of milk. The fee ranges from \$0.00 per gallon when the price of milk is \$18.50 per hundredweight or more to \$0.12 per gallon when the price of milk is below \$16.00 per hundredweight. There is no fee on the handling in this state of packaged milk for sale in containers that were less than one quart or 20 or more quarts in volume, or packaged milk that is sold to an institution that is owned or operated by the State or Federal Government.

**Revenue Source Forecast Factors and Trends:**

The price of milk is relatively volatile and is difficult to accurately predict on a long-term basis. Since the amount of the Milk Handling Fee at any one time is based on the price of milk, long term revenue forecasts will be subject to frequent change.

**Forecast Recommended Changes:**

The significant increase in projected revenue the Milk Handling Fee represents a more targeted approach to predicting revenue from this source and is based on the projected Class I price per gallon of milk as forecast by Robert Wellington, Agriculture Economist with the Agri-Mark Cooperative. Revenue projections from the Milk Handling Fee are subject to frequent change and will likely need to be adjusted for each scheduled report of the Revenue Forecasting Committee.



## General Fund - Liquor Sales and Operations

|                         | FY04 Actual   | FY05 Actual  | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|---------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$102,182,743 | \$49,845,027 | \$2,560,044 | \$3,500,000 | \$3,500,000 | \$3,500,000 |             |             |
| Annual % Growth         | 291.9%        | -51.2%       | -94.9%      | 36.7%       | 0.0%        | 0.0%        |             |             |
| Net Increase (Decrease) |               |              |             | \$250,000   | \$750,000   | \$750,000   |             |             |
| Revised Forecast        | \$102,182,743 | \$49,845,027 | \$2,560,044 | \$3,750,000 | \$4,250,000 | \$4,250,000 | \$4,500,000 | \$4,500,000 |
| Annual % Growth         |               |              | -94.9%      | 46.5%       | 13.3%       | 0.0%        | 5.9%        | 0.0%        |

**Revenue Source Summary:**

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

**Revenue Source Forecast Factors and Trends:**

As a result of the aforementioned 10 year lease with the private entity, the State collected one-time payments from the private entity in the amounts of \$75,000,000 in FY04 and \$50,000,000 in FY05; these payments were budgeted as revenue amounts for the respective fiscal years and were deposited as revenue accordingly. As a result of the lease agreement and the one-time payments, the State had been foregoing budgeted revenue from Liquor Sales and Operations for the duration of the lease which includes FY06 through FY11.

**Forecast Recommended Changes:**

Most recently, aggregate sales have continued to significantly exceed the contractual threshold thereby triggering revenue sharing with the State. Accordingly, revenue estimates have been increased by \$250,000 in FY07 and by \$750,000 for each of FY08 and FY09. The current profit-sharing agreement is expected to generate an estimated \$4,500,000 in revenue for each of FY10 and FY11.

## General Fund - Liquor Taxes and Fees

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$17,485,024 | \$17,432,377 | \$18,814,733 | \$18,908,202 | \$19,260,253 | \$19,625,039 |              |              |
| Annual % Growth         | 2.0%         | -0.3%        | 7.9%         | 0.5%         | 1.9%         | 1.9%         |              |              |
| Net Increase (Decrease) |              |              |              | \$119,287    | (\$154,865)  | (\$439,853)  |              |              |
| Revised Forecast        | \$17,485,024 | \$17,432,377 | \$18,814,733 | \$19,027,489 | \$19,105,388 | \$19,185,186 | \$19,266,104 | \$19,348,758 |
| Annual % Growth         |              |              | 7.9%         | 1.1%         | 0.4%         | 0.4%         | 0.4%         | 0.4%         |

### Revenue Source Summary:

Description of Revenue Source: This revenue category is comprised of two principal revenue sources: taxes on alcoholic beverages and fees levied entities that are involved in the production, retailing and wholesaling of alcoholic beverages. The overwhelming majority of taxation and licensing revenue is collected by for the General Fund by the Liquor Enforcement program within the Department of Public Safety.

### Revenue Source Forecast Factors and Trends:

The collection of revenue derived from the various taxes on alcoholic beverages is based on trends of the consumption of alcoholic beverages; variations in this trend are generally tied to shifts in public taste for certain types of alcoholic beverages and tend to take place gradually over a number of years. Revenue that is collected from the wide variety of licensing fees appears to be fairly stable and is somewhat limited by various statutory requirements. Most recently, PL 2005, c. 457, Part XX established that, as of October 1, 2005, flavored malt beverages would be no longer be taxed as malt beverages and instead would be taxed at the higher rate established for low-alcohol spirits.

### Forecast Recommended Changes:

Projections provided by the Department of Public Safety are based on actual revenue collections in FY06. The net effect of these adjustments for non-liquor alcohol taxes and fees result in a one-time increase of \$264,787 in FY07, a decrease of \$42,365 in FY08, a decrease of \$361,353 in FY09 and net revenue of \$17,210,104 in FY10 and \$17,257,758 in FY11.

The Department of Administrative and Financial Services is responsible for administering the collection of the Liquor Premium Tax; that department estimates a volume growth rate of 1.7% which is slightly lower than previous assumptions resulting in projected decreases of \$145,500 in FY07, \$112,500 in FY08, \$78,500 in FY09 and total revenue of \$2,056,000 and \$2,091,000 in FY10 and FY11, respectively.

## General Fund - Finance Industry Fees

|                         | FY04 Actual | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$9,572,280 | \$18,641,800 | \$20,471,110 | \$19,912,310 | \$19,910,910 | \$19,910,910 |              |              |
| Annual % Growth         | 3.0%        | 94.7%        | 9.8%         | -2.7%        | 0.0%         | 0.0%         |              |              |
| Net Increase (Decrease) |             |              |              | \$655,070    | \$655,070    | \$655,070    |              |              |
| Revised Forecast        | \$9,572,280 | \$18,641,800 | \$20,471,110 | \$20,567,380 | \$20,565,980 | \$20,565,980 | \$20,565,980 | \$20,565,980 |
| Annual % Growth         | 3.0%        | 94.7%        | 9.8%         | 0.5%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |

### Revenue Source Summary:

Securities Act Fees - 32 M.R.S.A. c. 135 (§16302, 16305 & §16410) The Maine Office of Securities within the Department of Professional and Financial Regulation oversees the registration of securities and the licensing of broker-dealers, sales representatives and investment advisers. The \$30 annual renewal fee for sales representatives and investment adviser representatives accrues as dedicated revenue to fund the operations of the Maine Office of Securities. The remainder of the fees collected by the Office - sales representative initial license fees, broker-dealer fees, investment adviser fees, investment adviser representative initial fees, securities registration fees, and Federal covered securities notice filing fees - accrue to the General Fund, with revenue collected from the filing fee for the registration of securities offered now accounting for more than 90% of this revenue source.

### Revenue Source Forecast Factors and Trends:

PL 2003, c. 673, Part RRR, increased the filing fee for registration statements for securities offered for sale from \$500 to \$1,000 effective August 1, 2004.

PL 2005, c. 12, Part KKKK increased initial licensing fees for broker dealers from \$200 to \$250, sales representatives from \$40 to \$50, and investment adviser representatives from \$40 to \$50; and renewal fees for broker dealers from \$200 to \$250, and investment advisers from \$100 to \$200. PL 2005, c.65, repealed the Revised Maine Securities Act (32 MRSA, c.105) replacing it with the Maine Uniform Securities Act (32 MRSA, c.135) and replaced these statutorily defined fees with upper limits within which the Office will establish the fees. The forecast assumes the Office will establish fees consistent with the PL 2005, c. 12 determined amounts.

### Forecast Recommended Changes:

The forecast has been updated to reflect FY 06 actual revenue, which reflected a 2.8 % increase over the FY06 budgeted level and a 9.8 % increase over FY05 revenue, and FY07 1st quarter collections. The forecast assumes an increase in FY07 collections over previously budgeted amounts, with the FY07 level essentially maintained throughout the forecast period.

## General Fund - Corporation Fees and Licenses

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$3,600,455 | \$5,637,743 | \$6,385,451 | \$5,530,767 | \$5,530,772 | \$5,530,772 |             |             |
| Annual % Growth         | 3.4%        | 56.6%       | 13.3%       | -13.4%      | 0.0%        | 0.0%        |             |             |
| Net Increase (Decrease) |             |             |             | \$284,245   | \$548,240   | \$812,240   |             |             |
| Revised Forecast        | \$3,600,455 | \$5,637,743 | \$6,385,451 | \$5,815,012 | \$6,079,012 | \$6,343,012 | \$6,343,012 | \$6,343,012 |
| Annual % Growth         |             |             | 13.3%       | -8.9%       | 4.5%        | 4.3%        | 0.0%        | 0.0%        |

### Revenue Source Summary:

The Bureau of Corporations, Elections and Commissions within the Department of the Secretary of State collects filing fees from business corporations, non-profit corporations, limited partnerships, limited liability companies and limited liability partnerships.

### Revenue Source Forecast Factors and Trends:

Revenue from corporation licenses and fees is usually dependent on healthy economic trends and the perception that it is advantageous to a corporation to be licensed in the State of Maine. If the filing requirements are perceived to be unfavorable or that the established license fee is viewed as excessive, it could be that a significant number of corporations would chose not to be licensed in Maine. However, at the present time, revenue in this category generally corresponds to budgeted amounts. Most recently, the relatively large amount of revenue collected in this category for FY06 seems to have been the end result of timing issues emanating from significant fee increases that took effect in FY05; it is expected that significant timing issues will be largely absent in future revenue collections.

### Forecast Recommended Changes:

In response to recent trends in the Registration of Foreign Corporations line (RSC # 0737), Annual License Fees Foreign Corporations (RSC #0737), Assumed Name (RSC # 0740) and Resumed (RSC #0744), it is recommended that net increases of \$284,245, \$548,240 and \$812,240 for FY07, FY08 and FY09, respectively, be adopted. In addition, projected revenues of \$6,343,012 for each of FY10 and FY 11 are recommended for approval.

## General Fund - Hunting and Fishing License Fees

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$16,898,278 | \$16,691,165 | \$16,840,079 | \$16,300,487 | \$16,300,487 | \$16,300,487 |              |              |
| Annual % Growth         | 21.1%        | -1.2%        | 0.9%         | -3.2%        | 0.0%         | 0.0%         |              |              |
| Net Increase (Decrease) |              |              |              | (\$594,914)  | \$0          | \$0          |              |              |
| Revised Forecast        | \$16,898,278 | \$16,691,165 | \$16,840,079 | \$15,705,573 | \$16,300,487 | \$16,300,487 | \$16,300,487 | \$16,300,487 |
| Annual % Growth         |              |              | 0.9%         | -6.7%        | 3.8%         | 0.0%         | 0.0%         | 0.0%         |

**Revenue Source Summary:**

The Department of Inland Fisheries and Wildlife collects a wide variety of hunting and fishing related licensing fees. Revenue collected by the department from fishing and hunting licenses is deposited into the General Fund. Article IX, section 21 of the Maine Constitution requires that the amount of funds appropriated to the department in any fiscal year may not be less than the total amount of revenues collected by the department in that same fiscal year.

**Revenue Source Forecast Factors and Trends:**

Description of Factors Affecting Revenue Source: Occasional natural phenomena such as adverse weather trends will negatively affect the timely collection of budgeted revenues. In addition, in recent years, the timely distribution of recorded fishing and hunting license fee revenue to the appropriate revenue source code has often been delayed by the implementation of the department's new automated licensing system. Aside from customary start-up difficulties, full and effective implementation of the system has been delayed by the gradual increase in the number of municipalities which have decided to become part of the automated system in their role as licensing agents for the department. Most recently, PL 2005, c. 12, Part III increased most fishing and hunting license fees to produce revenue increases of \$1,085,801 in FY06 and \$1,741,937 for each of FY07, FY08 and FY09.

**Forecast Recommended Changes:**

In FY06, the Department of Inland Fisheries and Wildlife recorded \$1,913,337 in RSC 1726, Undistributed Fisheries and Wildlife Revenue. When combined with the effects of the fee increases authorized by PL 2005, c. 12, Part III, this large amount of undistributed revenue makes it difficult to use recent revenue history to accurately project Hunting and Fishing License Fee revenue at the detail level. On a one-time basis, the department is requesting a reduction of \$594,914 for RSC 1726 in FY07 to reflect required transfers to other departments that should have occurred in FY06. The department has projected annual revenue of \$16,300,487 from hunting and fishing licenses for FY08 through FY11; these projections do not reflect any changes, either by detail or by aggregate total. Despite the current lack of accurate revenue detail at the RSC level, the Revenue Forecast Committee notes that aggregate revenue totals for this category have been very close to budgeted levels in recent years and that the Department of Inland Fisheries and Wildlife is currently working on significant revisions to the manner in which revenue is reported and categorized.

## General Fund - Boat, ATV and Snowmobile Fees

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$3,974,511 | \$4,148,890 | \$3,476,885 | \$3,870,938 | \$3,870,938 | \$3,870,938 |             |             |
| Annual % Growth         | 60.0%       | 4.4%        | -16.2%      | 11.3%       | 0.0%        | 0.0%        |             |             |
| Net Increase (Decrease) |             |             |             | \$0         | \$0         | \$0         |             |             |
| Revised Forecast        | \$3,974,511 | \$4,148,890 | \$3,476,885 | \$3,870,938 | \$3,870,938 | \$3,870,938 | \$3,870,938 | \$3,870,938 |
| Annual % Growth         |             |             | -16.2%      | 11.3%       | 0.0%        | 0.0%        | 0.0%        | 0.0%        |

### Revenue Source Summary:

The Department of Inland Fisheries and Wildlife collects a large number of registration fees pertaining to boats, ATVs and snowmobiles. Revenue collected by the department from boat, ATV and snowmobile registration is deposited into the General Fund. Article IX, section 21 of the Maine Constitution requires that the amount of funds appropriated to the department in any fiscal year may not be less than the total amount of revenues collected by the department in that same fiscal year.

### Revenue Source Forecast Factors and Trends:

Occasional natural phenomena such as adverse weather trends will negatively affect the timely collection of budgeted revenues. In addition, in recent years, the timely distribution of recorded boat, ATV and snowmobile registration fee revenue to the appropriate revenue source code has often been delayed by the implementation of the department's new automated licensing system. Aside from customary start-up difficulties, full and effective implementation of the system has been delayed by the gradual increase in the number of municipalities which have decided to become part of the automated system in their role as licensing agents for the department. Most recently, PL 2005, c. 12, Part III increased most boat, ATV and snowmobile registration fees to produce revenue increases of \$1,052,569 for each of FY06 through FY09.

### Forecast Recommended Changes:

In FY06, the Department of Inland Fisheries and Wildlife recorded \$1,913,337 in RSC 1726, Undistributed Fisheries and Wildlife Revenue. When combined with the effects of the fee increases authorized by PL 2005, c. 12, Part III, this large amount of undistributed revenue makes it difficult to use recent revenue history to accurately project Boat, ATV and Snowmobile Fees revenue at the detail level. The department has projected annual revenue of \$ 3,870,938 from boat, ATV and snowmobile fees for FY07 through FY11; these projections do not reflect any changes, either by detail or by aggregate total. Despite the current lack of accurate revenue detail at the RSC level, the Revenue Forecast Committee notes that aggregate revenue totals for this category have been very close to budgeted levels in recent years and that the Department of Inland Fisheries and Wildlife is currently working on significant revisions to the manner in which revenue is reported and categorized.

## General Fund - Pari-mutuel and Gaming Revenue

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09         | FY10         | FY11         |
|-------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Current Forecast        | \$1,036,539 | \$1,362,611 | \$5,262,230 | \$4,703,935 | \$4,910,732 | \$6,918,240  |              |              |
| Annual % Growth         | -4.6%       | 31.5%       | 286.2%      | -10.6%      | 4.4%        | 40.9%        |              |              |
| Net Increase (Decrease) |             |             |             | \$2,862,117 | \$2,537,102 | \$3,854,776  |              |              |
| Revised Forecast        | \$1,036,539 | \$1,362,611 | \$5,262,230 | \$7,566,052 | \$7,447,834 | \$10,773,016 | \$11,425,598 | \$11,604,610 |
| Annual % Growth         | -4.6%       | 31.5%       | 286.2%      | 43.8%       | -1.6%       | 44.6%        | 6.1%         | 1.6%         |

### Revenue Source Summary:

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

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

### Revenue Source Forecast Factors and Trends:

To a certain extent, the collection of budgeted pari-mutuel revenue is dependent on favorable weather and overall economic conditions; protracted periods of inclement weather and poor economic trends will adversely effect both the attendance at commercial racetracks and the availability of discretionary resources to make wagers. Recent trends in the collection of pari-mutuel revenue show a negative variance of approximately \$95,000 between budgeted and actual revenue amounts.

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

For this forecast, the Revenue Forecasting Committee has 12 months of actual data from which the Revenue Forecasting Committee has revised the spreadsheet that calculates the revenue from the racino initiative to provide more detailed assumptions based on actual experience.

### Forecast Recommended Changes:

The attached spreadsheet details the revised assumptions that produce the revised estimate for revenue from the slot machine facility in Bangor. In general, the increased revenue projections reflect the significantly higher amounts of money wagered at each slot machine over the amounts that had been most recently forecast. The estimates for FY08, FY09, FY10 and FY11 are based on the assumptions that the permanent facility will open with 1,000 machines (rather than the 1,500 authorized) and in August 2008 rather than June 2008.

Pari-mutuel Revenue is revised downward by \$128,200 in FY 07 to reflect a decrease in the wagers made in licensed facilities and to be consistent with current projections for FY 08 and following fiscal years.

## Revenue Forecasting Committee - December 2006 - Racino Revenue

| <b>GENERAL FUND REVENUE</b>                           | <b>2005-06 Actual</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> |
|-------------------------------------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|
| March 2006 Forecast - General Fund Revenue            |                       | \$3,447,110    | \$3,729,607    | \$5,745,665    |                |                |
| Incremental Effect of December 2006 Forecast          |                       | \$3,236,942    | \$2,836,227    | \$4,145,351    |                |                |
| December 2006 Forecast - Revised General Fund Revenue | \$4,346,680           | \$6,684,052    | \$6,565,834    | \$9,891,016    | \$10,525,598   | \$10,704,610   |

| <b>FUND FOR A HEALTHY MAINE REVENUE</b>                   | <b>2005-06 Actual</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> |
|-----------------------------------------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|
| March 2006 Forecast - Fund for a Healthy Maine Revenue    | \$1,771,173           | \$1,898,741    | \$1,994,731    | \$3,145,550    |                |                |
| Incremental Effect of December 2006 Forecast              |                       | \$1,198,960    | \$1,057,714    | \$1,507,436    |                |                |
| December 2006 Forecast - Fund for a Healthy Maine Revenue | \$1,771,173           | \$3,097,701    | \$3,052,445    | \$4,652,986    | \$4,819,650    | \$4,819,650    |

### Detail of Current Revenue Forecast - Distribution of Total Slot Income

|                                                      |              | <b>2005-06 Actual</b> | <b>2006-07</b>      | <b>2007-08</b>      | <b>2008-09</b>      | <b>2009-10</b>      | <b>2010-11</b>      |
|------------------------------------------------------|--------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Gross Slot Income (Coin/Voucher In)                  | A            | \$309,840,487         | \$541,324,215       | \$530,860,000       | \$809,215,000       | \$838,200,000       | \$838,200,000       |
| Player's Share (Payback Value)                       | B            | \$289,030,355         | \$504,933,968       | \$495,026,950       | \$754,592,988       | \$781,621,500       | \$781,621,500       |
| General Fund - Administration                        | C 1.0%       | \$3,098,405           | \$5,413,242         | \$5,308,600         | \$8,092,150         | \$8,382,000         | \$8,382,000         |
| "Net Slot Machine Income" (=A-B-C)                   |              | \$17,711,727          | \$30,977,005        | \$30,524,450        | \$46,529,863        | \$48,196,500        | \$48,196,500        |
| <b>Licensees' Share of "Net Slot Machine Income"</b> | <b>61.0%</b> | <b>\$10,804,153</b>   | <b>\$18,895,973</b> | <b>\$18,619,915</b> | <b>\$28,383,216</b> | <b>\$29,399,865</b> | <b>\$29,399,865</b> |

| <b>Distribution of State Share of "Net Slot Machine Income"</b>   |       | <b>2005-06 Actual</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> |
|-------------------------------------------------------------------|-------|-----------------------|----------------|----------------|----------------|----------------|----------------|
| General Fund (other)                                              | 3.0%  | \$531,352             | \$929,310      | \$915,734      | \$1,395,896    | \$1,445,895    | \$1,445,895    |
| General Fund (After 48 months - November 2009)                    | 1.0%  | \$0                   | \$0            | \$0            | \$0            | \$302,953      | \$481,965      |
| Fund for Healthy Maine                                            | 10.0% | \$1,771,173           | \$3,097,701    | \$3,052,445    | \$4,652,986    | \$4,819,650    | \$4,819,650    |
| University of Maine Scholarship Fund (FAME)                       | 2.0%  | \$354,235             | \$619,540      | \$610,489      | \$930,597      | \$963,930      | \$963,930      |
| Maine Community College System - Scholarship Funds                | 1.0%  | \$177,117             | \$309,770      | \$305,245      | \$465,299      | \$481,965      | \$481,965      |
| Resident Municipalities                                           | 1.0%  | \$177,117             | \$309,770      | \$305,245      | \$465,299      | \$481,965      | \$481,965      |
| Purse Supplements                                                 | 10.0% | \$1,771,173           | \$3,097,701    | \$3,052,445    | \$4,652,986    | \$4,819,650    | \$4,819,650    |
| Sire Stakes Fund                                                  | 3.0%  | \$531,352             | \$929,310      | \$915,734      | \$1,395,896    | \$1,445,895    | \$1,445,895    |
| Fund to Encourage Racing at Commercial Tracks                     | 4.0%  | \$708,469             | \$1,239,080    | \$1,220,978    | \$1,861,195    | \$1,927,860    | \$1,927,860    |
| Fund to Stabilize Off- Track betting (48 months - until Oct 2009) | 2.0%  | \$354,235             | \$619,540      | \$610,489      | \$930,597      | \$358,024      | \$0            |
| Fund to Stabilize Off- Track betting (after 48 months - Nov 2009) | 1.0%  | \$0                   | \$0            | \$0            | \$0            | \$302,953      | \$481,965      |
| Agricultural Fair Support Fund                                    | 3.0%  | \$531,352             | \$929,310      | \$915,734      | \$1,395,896    | \$1,445,895    | \$1,445,895    |

| <b>Revenue Summary</b>                        | <b>2005-06 Actual</b> | <b>2006-07</b>     | <b>2007-08</b>     | <b>2008-09</b>      | <b>2009-10</b>      | <b>2010-11</b>      |
|-----------------------------------------------|-----------------------|--------------------|--------------------|---------------------|---------------------|---------------------|
| <b>General Fund</b>                           |                       |                    |                    |                     |                     |                     |
| General Fund Administration                   | \$3,098,405           | \$5,413,242        | \$5,308,600        | \$8,092,150         | \$8,382,000         | \$8,382,000         |
| General Fund (Other)                          | \$531,352             | \$929,310          | \$915,734          | \$1,395,896         | \$1,748,848         | \$1,927,860         |
| Licensing revenue                             | \$585,985             | \$329,500          | \$329,500          | \$389,500           | \$382,750           | \$382,750           |
| Reimbursement - Background Checks             | \$130,938             | \$12,000           | \$12,000           | \$13,470            | \$12,000            | \$12,000            |
| <b>Subtotal - General Fund</b>                | <b>\$4,346,680</b>    | <b>\$6,684,052</b> | <b>\$6,565,834</b> | <b>\$9,891,016</b>  | <b>\$10,525,598</b> | <b>\$10,704,610</b> |
| <b>Fund for Healthy Maine</b>                 | <b>\$1,771,173</b>    | <b>\$3,097,701</b> | <b>\$3,052,445</b> | <b>\$4,652,986</b>  | <b>\$4,819,650</b>  | <b>\$4,819,650</b>  |
| <b>Other Special Revenue Funds</b>            |                       |                    |                    |                     |                     |                     |
| Harness Racing Commission                     | \$3,896,580           | \$6,814,941        | \$6,715,380        | \$10,236,570        | \$10,300,277        | \$10,121,265        |
| HRC - Subtotal                                | \$3,896,580           | \$6,814,941        | \$6,715,380        | \$10,236,570        | \$10,300,277        | \$10,121,265        |
| PUS- host municipalities                      | \$25,000              | \$25,000           | \$25,000           | \$25,000            | \$25,000            | \$25,000            |
| University of Maine Scholarship Fund (FAME)   | \$354,235             | \$619,540          | \$610,489          | \$930,597           | \$963,930           | \$963,930           |
| Maine Community College System Scholarships   | \$177,117             | \$309,770          | \$305,245          | \$465,299           | \$481,965           | \$481,965           |
| Resident Municipalities                       | \$177,117             | \$309,770          | \$305,245          | \$465,299           | \$481,965           | \$481,965           |
| <b>Subtotal - Other Special Revenue Funds</b> | <b>\$4,630,049</b>    | <b>\$8,079,021</b> | <b>\$7,961,359</b> | <b>\$12,122,765</b> | <b>\$12,253,137</b> | <b>\$12,074,125</b> |



**Details and Assumptions**

| Calculated Gross Slot Machine Income Per Month | # of days | 2005-06 Actual       | 2006-07              | 2007-08              | 2008-09              | 2009-10              | 2010-11              |
|------------------------------------------------|-----------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Total Gross Slot Income - Fiscal Year</b>   |           | <b>\$309,840,487</b> | <b>\$541,324,215</b> | <b>\$530,860,000</b> | <b>\$809,215,000</b> | <b>\$838,200,000</b> | <b>\$838,200,000</b> |
| July                                           | 31        | \$0                  | \$58,000,282         | \$50,065,000         | \$50,065,000         | \$79,050,000         | \$79,050,000         |
| August                                         | 31        | \$0                  | \$45,683,294         | \$50,065,000         | \$79,050,000         | \$79,050,000         | \$79,050,000         |
| September                                      | 30        | \$0                  | \$49,496,760         | \$48,450,000         | \$76,500,000         | \$76,500,000         | \$76,500,000         |
| October                                        | 31        | \$0                  | \$54,456,379         | \$48,592,500         | \$76,725,000         | \$76,725,000         | \$76,725,000         |
| November                                       | 31        | \$26,353,621         | \$44,175,000         | \$44,175,000         | \$69,750,000         | \$69,750,000         | \$69,750,000         |
| December                                       | 30        | \$25,680,177         | \$42,750,000         | \$42,750,000         | \$67,500,000         | \$67,500,000         | \$67,500,000         |
| January                                        | 31        | \$42,054,745         | \$39,757,500         | \$39,757,500         | \$62,775,000         | \$62,775,000         | \$62,775,000         |
| February                                       | 28        | \$38,052,564         | \$35,910,000         | \$35,910,000         | \$56,700,000         | \$56,700,000         | \$56,700,000         |
| March                                          | 31        | \$41,217,878         | \$39,757,500         | \$39,757,500         | \$62,775,000         | \$62,775,000         | \$62,775,000         |
| April                                          | 29        | \$40,340,452         | \$37,192,500         | \$37,192,500         | \$58,725,000         | \$58,725,000         | \$58,725,000         |
| May                                            | 31        | \$52,463,113         | \$47,120,000         | \$47,120,000         | \$74,400,000         | \$74,400,000         | \$74,400,000         |
| June                                           | 30        | \$43,677,937         | \$47,025,000         | \$47,025,000         | \$74,250,000         | \$74,250,000         | \$74,250,000         |

| Player's Share of Slot Machine Income Per Month | 2005-06 Actual       | 2006-07              | 2007-08              | 2008-09              | 2009-10              | 2010-11              |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Total Player's Share - Fiscal Year</b>       | <b>\$289,030,355</b> | <b>\$504,933,968</b> | <b>\$495,026,950</b> | <b>\$754,592,988</b> | <b>\$781,621,500</b> | <b>\$781,621,500</b> |
| July                                            | \$0                  | \$54,067,349         | \$46,685,613         | \$46,685,613         | \$73,714,125         | \$73,714,125         |
| August                                          | \$0                  | \$42,633,685         | \$46,685,613         | \$73,714,125         | \$73,714,125         | \$73,714,125         |
| September                                       | \$0                  | \$46,146,894         | \$45,179,625         | \$71,336,250         | \$71,336,250         | \$71,336,250         |
| October                                         | \$0                  | \$50,922,446         | \$45,312,506         | \$71,546,063         | \$71,546,063         | \$71,546,063         |
| November                                        | \$24,521,586         | \$41,193,188         | \$41,193,188         | \$65,041,875         | \$65,041,875         | \$65,041,875         |
| December                                        | \$23,932,523         | \$39,864,375         | \$39,864,375         | \$62,943,750         | \$62,943,750         | \$62,943,750         |
| January                                         | \$39,145,785         | \$37,073,869         | \$37,073,869         | \$58,537,688         | \$58,537,688         | \$58,537,688         |
| February                                        | \$35,487,203         | \$33,486,075         | \$33,486,075         | \$52,872,750         | \$52,872,750         | \$52,872,750         |
| March                                           | \$38,440,827         | \$37,073,869         | \$37,073,869         | \$58,537,688         | \$58,537,688         | \$58,537,688         |
| April                                           | \$37,632,335         | \$34,682,006         | \$34,682,006         | \$54,761,063         | \$54,761,063         | \$54,761,063         |
| May                                             | \$49,023,676         | \$43,939,400         | \$43,939,400         | \$69,378,000         | \$69,378,000         | \$69,378,000         |
| June                                            | \$40,846,420         | \$43,850,813         | \$43,850,813         | \$69,238,125         | \$69,238,125         | \$69,238,125         |

| Licensing and Application Revenues:                   | # | Fee       | 2005-06 Actual   | 2006-07          | 2007-08          | 2008-09          | 2009-10          | 2010-11          |
|-------------------------------------------------------|---|-----------|------------------|------------------|------------------|------------------|------------------|------------------|
| Slot Machine Operator- Initial Application Fee        | 1 | \$200,000 | \$0              | \$0              | \$0              | \$0              | \$0              | \$0              |
| Slot Machine Operator- Annual Renewal Fee             |   | \$75,000  | \$150,000        | \$75,000         | \$75,000         | \$75,000         | \$75,000         | \$75,000         |
| Transfer of Operator Renewal Fee to host municipality |   |           | (\$25,000)       | (\$25,000)       | (\$25,000)       | (\$25,000)       | (\$25,000)       | (\$25,000)       |
| Slot Machine Distributor - Initial Application Fee    | 3 | \$200,000 | \$400,000        | \$0              | \$0              | \$0              | \$0              | \$0              |
| Slot Machine Distributor - Annual Renewal Fee         | 3 | \$75,000  | \$0              | \$225,000        | \$225,000        | \$225,000        | \$225,000        | \$225,000        |
| Slot Machines - Initial Registration Fee              |   | \$100     | \$32,700         | \$0              | \$0              | \$52,500         | \$0              | \$0              |
| Slot Machines - Annual Renewal Fee                    |   | \$100     | \$0              | \$47,500         | \$47,500         | \$47,500         | \$100,000        | \$100,000        |
| Gambling Services Vendors                             | 2 | \$2,000   | \$10,000         | \$4,000          | \$4,000          | \$4,000          | \$4,000          | \$4,000          |
| Number of Licensed Employees                          |   |           | 128              | 120              | 120              | 120              | 150              | 150              |
| Application Fees from Licensed Employees              |   | \$250     | \$6,050          | \$0              | \$0              | \$7,500          | \$0              | \$0              |
| Licensed Employees - Annual Renewal Fees              |   | \$25      | \$0              | \$3,000          | \$3,000          | \$3,000          | \$3,750          | \$3,750          |
| Other Revenue deposited as Licensing Revenue          |   |           | \$12,235         | \$0              | \$0              | \$0              | \$0              | \$0              |
| <b>Total License Fees</b>                             |   |           | <b>\$585,985</b> | <b>\$329,500</b> | <b>\$329,500</b> | <b>\$389,500</b> | <b>\$382,750</b> | <b>\$382,750</b> |
| Licensee Background Check Cost Reimbursement          |   |           | \$130,938        | \$12,000         | \$12,000         | \$13,470         | \$12,000         | \$12,000         |

| <b>Number of Machines</b> | <b>2005-06 Actual</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> |
|---------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|
| July                      | 0                     | 475            | 475            | 475            | 1,000          | 1,000          |
| August                    | 0                     | 475            | 475            | 1,000          | 1,000          | 1,000          |
| September                 | 0                     | 475            | 475            | 1,000          | 1,000          | 1,000          |
| October                   | 0                     | 475            | 475            | 1,000          | 1,000          | 1,000          |
| November                  | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| December                  | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| January                   | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| February                  | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| March                     | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| April                     | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| May                       | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |
| June                      | 475                   | 475            | 475            | 1,000          | 1,000          | 1,000          |

| <b>Payback % Average for Month</b> | <b>2005-06 Actual</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> |
|------------------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|
| July                               | 0.00%                 | 93.22%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| August                             | 0.00%                 | 93.32%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| September                          | 0.00%                 | 93.23%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| October                            | 0.00%                 | 93.51%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| November                           | 93.05%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| December                           | 93.19%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| January                            | 93.08%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| February                           | 93.26%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| March                              | 93.26%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| April                              | 93.29%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| May                                | 93.44%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |
| June                               | 93.52%                | 93.25%         | 93.25%         | 93.25%         | 93.25%         | 93.25%         |

| <b>Average Total Slot Income Per Machine Per Day</b> | <b>2005-06 Actual</b> | <b>2006-07</b> | <b>2007-08</b> | <b>2008-09</b> | <b>2009-10</b> | <b>2010-11</b> |
|------------------------------------------------------|-----------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Average for the Fiscal Year</b>                   | <b>\$2,875.02</b>     | <b>\$3,116</b> | <b>\$3,067</b> | <b>\$2,371</b> | <b>\$2,300</b> | <b>\$2,300</b> |
| July                                                 | \$0.00                | 3,488.74       | \$3,400        | \$3,400        | \$2,550        | \$2,550        |
| August                                               | \$0.00                | 3,434.83       | \$3,400        | \$2,550        | \$2,550        | \$2,550        |
| September                                            | \$0.00                | 3,473.46       | \$3,400        | \$2,550        | \$2,550        | \$2,550        |
| October                                              | \$0.00                | 3,698.23       | \$3,300        | \$2,475        | \$2,475        | \$2,475        |
| November                                             | \$2,133.90            | \$3,000        | \$3,000        | \$2,250        | \$2,250        | \$2,250        |
| December                                             | \$2,002.35            | \$3,000        | \$3,000        | \$2,250        | \$2,250        | \$2,250        |
| January                                              | \$2,529.61            | \$2,700        | \$2,700        | \$2,025        | \$2,025        | \$2,025        |
| February                                             | \$2,861.10            | \$2,700        | \$2,700        | \$2,025        | \$2,025        | \$2,025        |
| March                                                | \$3,099.09            | \$2,700        | \$2,700        | \$2,025        | \$2,025        | \$2,025        |
| April                                                | \$3,145.45            | \$2,700        | \$2,700        | \$2,025        | \$2,025        | \$2,025        |
| May                                                  | \$3,944.59            | \$3,200        | \$3,200        | \$2,400        | \$2,400        | \$2,400        |
| June                                                 | \$3,284.06            | \$3,300        | \$3,300        | \$2,475        | \$2,475        | \$2,475        |

| Calculation of 39% State Share             | 2005-06 Actual        | 2006-07             | 2007-08             | 2008-09             | 2009-10             | 2010-11             |
|--------------------------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Total 39% State Share - Fiscal Year</b> | <b>\$6,907,573.44</b> | <b>\$12,081,032</b> | <b>\$11,904,536</b> | <b>\$18,146,646</b> | <b>\$18,796,635</b> | <b>\$18,796,635</b> |
| July                                       | \$0                   | \$1,307,642.81      | \$1,122,708         | \$1,122,708         | \$1,772,696         | \$1,772,696         |
| August                                     | \$0                   | \$1,011,182.51      | \$1,122,708         | \$1,772,696         | \$1,772,696         | \$1,772,696         |
| September                                  | \$0                   | \$1,113,410.57      | \$1,086,491         | \$1,715,513         | \$1,715,513         | \$1,715,513         |
| October                                    | \$0                   | \$1,165,853.98      | \$1,089,687         | \$1,720,558         | \$1,720,558         | \$1,720,558         |
| November                                   | \$611,714.50          | \$990,624           | \$990,624           | \$1,564,144         | \$1,564,144         | \$1,564,144         |
| December                                   | \$581,432.56          | \$958,669           | \$958,669           | \$1,513,688         | \$1,513,688         | \$1,513,688         |
| January                                    | \$970,480.74          | \$891,562           | \$891,562           | \$1,407,729         | \$1,407,729         | \$1,407,729         |
| February                                   | \$852,085.97          | \$805,282           | \$805,282           | \$1,271,498         | \$1,271,498         | \$1,271,498         |
| March                                      | \$922,300.03          | \$891,562           | \$891,562           | \$1,407,729         | \$1,407,729         | \$1,407,729         |
| April                                      | \$898,837.86          | \$834,042           | \$834,042           | \$1,316,908         | \$1,316,908         | \$1,316,908         |
| May                                        | \$1,136,774.11        | \$1,056,666         | \$1,056,666         | \$1,668,420         | \$1,668,420         | \$1,668,420         |
| June                                       | \$933,947.67          | \$1,054,536         | \$1,054,536         | \$1,665,056         | \$1,665,056         | \$1,665,056         |

| Fund for a Healthy Maine Share of 39% State Share | 2005-06 Actual     | 2006-07            | 2007-08            | 2008-09            | 2009-10            | 2010-11            |
|---------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                   | <b>\$1,771,173</b> | <b>\$3,097,702</b> | <b>\$3,052,448</b> | <b>\$4,652,988</b> | <b>\$4,819,652</b> | <b>\$4,819,652</b> |
| July                                              | \$0.00             | \$335,293.03       | \$287,874          | \$287,874          | \$454,538          | \$454,538          |
| August                                            | \$0.00             | \$259,277.57       | \$287,874          | \$454,538          | \$454,538          | \$454,538          |
| September                                         | \$0.00             | \$285,489.89       | \$278,588          | \$439,875          | \$439,875          | \$439,875          |
| October                                           | \$0.00             | \$298,936.92       | \$279,407          | \$441,169          | \$441,169          | \$441,169          |
| November                                          | \$156,849.87       | \$254,006          | \$254,006          | \$401,063          | \$401,063          | \$401,063          |
| December                                          | \$149,085.27       | \$245,813          | \$245,813          | \$388,125          | \$388,125          | \$388,125          |
| January                                           | \$248,841.22       | \$228,606          | \$228,606          | \$360,956          | \$360,956          | \$360,956          |
| February                                          | \$218,483.58       | \$206,483          | \$206,483          | \$326,025          | \$326,025          | \$326,025          |
| March                                             | \$236,487.19       | \$228,606          | \$228,606          | \$360,956          | \$360,956          | \$360,956          |
| April                                             | \$230,471.25       | \$213,857          | \$213,857          | \$337,669          | \$337,669          | \$337,669          |
| May                                               | \$291,480.54       | \$270,940          | \$270,940          | \$427,800          | \$427,800          | \$427,800          |
| June                                              | \$239,473.76       | \$270,394          | \$270,394          | \$426,938          | \$426,938          | \$426,938          |

| General Fund Share of 39% State Share | 2005-06 Actual   | 2006-07          | 2007-08          | 2008-09            | 2009-10            | 2010-11            |
|---------------------------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|
|                                       | <b>\$531,352</b> | <b>\$929,311</b> | <b>\$915,734</b> | <b>\$1,395,898</b> | <b>\$1,445,897</b> | <b>\$1,445,897</b> |
| July                                  | \$0.00           | \$100,587.91     | \$86,362         | \$86,362           | \$136,361          | \$136,361          |
| August                                | \$0.00           | \$77,783.27      | \$86,362         | \$136,361          | \$136,361          | \$136,361          |
| September                             | \$0.00           | \$85,646.97      | \$83,576         | \$131,963          | \$131,963          | \$131,963          |
| October                               | \$0.00           | \$89,681.08      | \$83,822         | \$132,351          | \$132,351          | \$132,351          |
| November                              | \$47,054.96      | \$76,202         | \$76,202         | \$120,319          | \$120,319          | \$120,319          |
| December                              | \$44,725.58      | \$73,744         | \$73,744         | \$116,438          | \$116,438          | \$116,438          |
| January                               | \$74,652.36      | \$68,582         | \$68,582         | \$108,287          | \$108,287          | \$108,287          |
| February                              | \$65,545.07      | \$61,945         | \$61,945         | \$97,808           | \$97,808           | \$97,808           |
| March                                 | \$70,946.16      | \$68,582         | \$68,582         | \$108,287          | \$108,287          | \$108,287          |
| April                                 | \$69,141.37      | \$64,157         | \$64,157         | \$101,301          | \$101,301          | \$101,301          |
| May                                   | \$87,444.16      | \$81,282         | \$81,282         | \$128,340          | \$128,340          | \$128,340          |
| June                                  | \$71,842.13      | \$81,118         | \$81,118         | \$128,081          | \$128,081          | \$128,081          |

## General Fund - Fines, Forfeits and Penalties

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$38,219,275 | \$35,506,972 | \$37,781,055 | \$42,205,883 | \$40,515,208 | \$40,520,208 |              |              |
| Annual % Growth         |              | -7.1%        | 6.4%         | 11.7%        | -4.0%        | 0.0%         |              |              |
| Net Increase (Decrease) |              |              |              | \$247,600    | \$101,600    | \$176,600    |              |              |
| Revised Forecast        | \$38,219,275 | \$35,506,972 | \$37,781,055 | \$42,453,483 | \$40,616,808 | \$40,696,808 | \$40,710,808 | \$40,715,808 |
| Annual % Growth         |              | -7.1%        | 6.4%         | 12.4%        | -4.3%        | 0.2%         | 0.0%         | 0.0%         |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

The major factors that affect this revenue source are the number of violators being prosecuted by law enforcement, the ability of violators to pay fines and the collection effort implemented by the judicial system. Historically, this revenue source has relied on beefed-up law enforcement, accelerated fine collections and increased fines as ways to generate additional revenue to the General Fund. PL 2005, chapter 12, chapter 457 and chapter 386 required 60 additional aircraft speed details, accelerated fine collection, seat belt enforcement fines and increased fines for assault, driving to endanger and certain drug offenses, resulting in additional revenues of \$5,258,007 in FY06, \$6,239,659 in FY07 and \$3,539,659 in FY08 and FY09.

In FY06, computer conversion problems and slowed collection efforts by the Judicial Department resulted in a revenue shortfall of (\$2,761,941) for fines, forfeits and penalties. Given that revenue collections have continued to be lower than budgeted and it is anticipated that these computer conversion problems will be resolved at some point, no revenue adjustments for the Judicial Department are recommended at this time. However, revenue estimates for fines collected by other state agencies other than the Judicial Department are being adjusted by \$247,600 in FY07, \$101,600 in FY08 and \$176,600 in FY09.

### Forecast Recommended Changes:

The projected revenue estimates for fines, forfeits and penalties collected by the Judicial Department are as follows:

| JUDICIAL DEPT.          | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$31,067,886 | \$31,924,868 | \$34,742,819 | \$40,023,485 | \$38,323,485 | \$38,323,485 | \$38,323,485 | \$38,323,485 |
| Annual % Growth         |              | 2.8%         | 8.8%         | 15.2%        | -4.2%        | 0.0%         | 0.0%         | 0.0%         |
| Net Increase (Decrease) |              |              |              | \$0          | \$0          | \$0          | \$0          | \$0          |
| Revised Forecast        | \$31,067,886 | \$31,924,868 | \$34,742,819 | \$40,023,485 | \$38,323,485 | \$38,323,485 | \$38,323,485 | \$38,323,485 |
| Annual % Growth         |              | 2.8%         | 8.8%         | 15.2%        | -4.2%        | 0.0%         | 0.0%         | 0.0%         |

The projected revenue estimates for fines collected by other state agencies other than the Judicial Department are as follows:

| OTHER DEPT'S.           | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$7,151,389 | \$3,582,103 | \$3,038,236 | \$2,182,398 | \$2,191,723 | \$2,196,723 | \$2,387,323 | \$2,392,323 |
| Annual % Growth         |             | -49.9%      | -15.2%      | -28.2%      | 0.4%        | 0.2%        | 8.7%        | 0.2%        |
| Net Increase (Decrease) |             |             |             | \$247,600   | \$101,600   | \$176,600   | \$0         | \$0         |
| Revised Forecast        | \$7,151,389 | \$3,582,103 | \$3,038,236 | \$2,429,998 | \$2,293,323 | \$2,373,323 | \$2,387,323 | \$2,392,323 |
| Annual % Growth         |             | -49.9%      | -15.2%      | -20.0%      | -5.6%       | 3.5%        | 0.6%        | 0.2%        |

### General Fund - Targeted Case Management (HHS)

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07          | FY08          | FY09          | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|
| Current Forecast        | \$34,762,095 | \$34,518,055 | \$25,687,188 | \$30,271,042  | \$30,786,872  | \$31,262,056  |              |              |
| Annual % Growth         | 4.6%         | -0.7%        | -25.6%       | 17.8%         | 1.7%          | 1.5%          |              |              |
| Net Increase (Decrease) |              |              |              | (\$7,293,172) | (\$7,542,215) | (\$7,745,573) |              |              |
| Revised Forecast        | \$34,762,095 | \$34,518,055 | \$25,687,188 | \$22,977,870  | \$23,244,657  | \$23,516,483  | \$23,793,745 | \$24,076,553 |
| Annual % Growth         | 4.6%         | -0.7%        | -25.6%       | -10.5%        | 1.2%          | 1.2%          | 1.2%         | 1.2%         |

**Revenue Source Summary:**

This revenue source reflects Medicaid reimbursement for case management services provided by the Department of Health and Human Services' Office of Elder Services, Office of Children and Family Services, and the Maine Center for Disease Control and Prevention, as well as reimbursement for services provided by adult mental health caseworkers and case management for persons with mental retardation.

**Revenue Source Forecast Factors and Trends:**

Major factors include: the volume and timeliness of claims submitted and paid by Medicaid for these services; the rates billed and allowable for these services, and the prevailing federal match rate for these services. Ongoing implementation issues with the new Medicaid claims processing system (MECMS) has resulted in a disruption in the payment of all Medicaid claims including these for Targeted Case Management Services (i.e., services provided).

**Forecast Recommended Changes:**

Estimates are updated to reflect FY06 actuals and FY07 1st quarter activity. The forecast assumes revenue from this source will be below budgeted levels by more than \$7 million annually beginning in FY07. The decline in revenue is primarily attributed to a decline in caseload in the individual revenue line projections for case management services provided by the Office of Children and Family Services and in case management provided by adult mental health caseworkers and case management for persons with mental retardation.. The forecast does not reflect any impact that may arise as a result of a TCM audit being conducted by the federal Department of Health and Human Services, Office of the Inspector General (OIG).

## General Fund - HHS Services Rendered

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$9,481,895 | \$7,966,194 | \$9,613,394 | \$5,103,343 | \$5,100,696 | \$5,100,696 |             |             |
| Annual % Growth         | 89.2%       | -16.0%      | 20.7%       | -46.9%      | -0.1%       | 0.0%        |             |             |
| Net Increase (Decrease) |             |             |             | \$4,786,885 | \$4,789,532 | \$4,789,532 |             |             |
| Revised Forecast        | \$9,481,895 | \$7,966,194 | \$9,613,394 | \$9,890,228 | \$9,890,228 | \$9,890,228 | \$9,890,228 | \$9,890,228 |
| Annual % Growth         | 89.2%       | -16.0%      | 20.7%       | 2.9%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        |

### Revenue Source Summary:

This revenue category includes reimbursement for services provided within several DHHS programs, the vast majority of these revenue comes from Medicaid billings. These revenues have historically included reimbursement for room and board at the Aroostook Residential Center, an ICF/MR facility in Presque Isle, reimbursement for residents' day programming at the Center, reimbursement for room and board at Freeport Towne Square and the Pineland Center. These revenues also include reimbursement for day habilitation provided at FTS for residents of FTS and Medicaid reimbursement for day habilitation services provided by Freeport Towne Square to people who do not reside there, revenue generated by the Elizabeth Levinson Center from the School Nutrition Program through the Department of Education and reimbursement for room and board at the Elizabeth Levinson Center, an ICF/MR facility in Bangor.

This revenue category also reflects Medicaid reimbursement for the administrative costs associated with the portion of the department's operations that involve the Medicaid program. The vast majority of this revenue is based on the 50% administrative match rate and represents the federal Medicaid program's "share" of these costs, based on an approved cost allocation plan.

Beginning with this update, this revenue source now includes funding (\$350,647 for FY 07) for the MaineCare Advocates program that was previously classified as "Miscellaneous Revenue". This program is funded by the department's cost allocation plan with the revenue resulting from the federal Medicaid match.

### Revenue Source Forecast Factors and Trends:

Major factors include: the volume and timeliness of claims submitted and paid by Medicaid for these services; the rates billed and allowable for these services, and the prevailing federal match rate for these services. Ongoing implementation issues with the new Medicaid claims processing system has resulted in a delay in the payment of all Medicaid claims including these services. Consistent with the enacted closure and sale of the Freeport Towne Square facility (PL 2005, c.457, Pt. NN), the estimates for the forecast period assumes revenue from the Freeport Towne Square source (2629) will be reduced and then eliminated for 2007 and beyond.

### Forecast Recommended Changes:

The forecast has been updated to reflect FY06 actuals and FY07 1st quarter activity. The forecast assumes an increase in revenue from this source above budgeted levels of more than \$4.8 million annually beginning in FY 07. This increase is primarily the result of an assumed increase federal reimbursement under the department's cost allocation plan.

## General Fund - State Cost Allocation Program (STA-CAP)

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$10,438,262 | \$12,891,574 | \$13,281,561 | \$11,721,512 | \$10,721,512 | \$10,721,512 |              |              |
| Annual % Growth         | -5.0%        | 23.5%        | 3.0%         | -11.7%       | -8.5%        | 0.0%         |              |              |
| Net Increase (Decrease) |              |              | \$0          | \$2,871,414  | \$4,919,428  | \$6,845,096  |              |              |
| Revised Forecast        | \$10,438,262 | \$12,891,574 | \$13,281,561 | \$14,592,926 | \$15,640,940 | \$17,566,608 | \$16,442,672 | \$17,447,328 |
| Annual % Growth         | -5.0%        | 23.5%        | 3.0%         | 9.9%         | 7.2%         | 12.3%        | -6.4%        | 6.1%         |

### Revenue Source Summary:

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

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

### Revenue Source Forecast Factors and Trends:

In FY06, the STA-CAP revenue category had a net positive variance of \$1,744,339 (+15.1%). The actual variance was \$2,244,339 because the State Controller transferred \$500,000 from the GF STA-CAP account to the Office of Information Services account to pay for certain services associated with the upgrade to the MFASIS accounting system. This positive variance appears to be the result of not taking into consideration the actual FY05 revenue amount and a slight decrease in the ratio of GF to Non-GF expenditures.

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

The performance in the 1st quarter of the current fiscal year of non-General Fund expenditures assessed STA-CAP charges is slightly ahead of FY06 expenditures; therefore, STA-CAP revenue is expected to exceed the current forecast.

### Forecast Recommended Changes:

The FY07-FY11 forecast takes into consideration the actual STA-CAP revenue collections from FY05 and FY06. In addition to the normal inflationary increases in central services costs, new costs have been added for distribution. Specifically, in FY06, the State began including 1/14<sup>th</sup> of the amount transferred at the close of the previous fiscal year from GF unappropriated surplus to the Retirement Allowance Fund and the Retire Health Internal Service Fund on behalf of state employees. Lastly, the State has added an amount to central service costs reflecting the cost of the upgrade to the MFASIS accounting system.

### General Fund - Unclaimed Property Transfer

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$16,763,948 | \$10,000,000 | \$14,880,517 | \$13,678,320 | \$22,835,500 | \$25,210,825 |              |              |
| Annual % Growth         |              | -40.3%       | 48.8%        | -8.1%        | 66.9%        | 10.4%        |              |              |
| Net Increase (Decrease) |              |              | \$0          | \$0          | \$0          | \$0          |              |              |
| Revised Forecast        | \$16,763,948 | \$10,000,000 | \$14,880,517 | \$13,678,320 | \$22,835,500 | \$25,210,825 | \$26,471,366 | \$27,794,935 |
| Annual % Growth         |              | -40.3%       | 48.8%        | -8.1%        | 66.9%        | 10.4%        | 5.0%         | 5.0%         |

**Revenue Source Summary:**

This revenue source reflects an annual transfer to the General Fund from the Unclaimed Property Fund pursuant to 33 MRSA section 1964. The Office of the Treasurer of State must transfer any funds in excess of \$500,000 to the General Fund from the Unclaimed Property Fund at the end of each year . The Unclaimed Property Fund receives money and other assets under the Uniform Unclaimed Property Act from entities who cannot locate the owners. After distributing proceeds to found owners through the Treasurer's search and outreach efforts, remaining unclaimed property, including proceeds from any sale of assets, becomes available for transfer to the General Fund.

**Revenue Source Forecast Factors and Trends:**

The core amount of unclaimed property transferred to the General Fund annually continues to be approximately \$7,000,000 with legislative initiatives adding to that core amount. The 122nd Legislature, based on the Treasurer of State's recommendations, changed the period of abandonment and liquidating assets as ways to generate additional revenue to the General Fund. PL 2005, chapter 12, Part GG reduced the period for the presumption of abandonment of gift obligations from 3 to 2 years, added store value cards to the unclaimed property laws and authorized the sale of unclaimed shares of stock. The effect of these changes are increases in Geneal Fund revenue of \$6,678,320 in FY07, \$15,835,500 in FY08 and \$18,210,825 in FY09.

In FY06, the Unclaimed Property revenue category had a positive variance of \$5,330,517 with budgeted revenue of \$9,550,000 and actual revenue collections of \$14,880,517. This positive revenue variance appears to be the result of the above mentioned legislative changes to the unclaimed property laws pursuant to PL 2005, chapter 12. Part GG. It is also expected that future revenue collections are suppose to ratchet up in FY07, FY08 and FY09.

**Forecast Recommended Changes:**

Since there is no current historical experience to accurately gauge the effect of the legislative changes pursuant to PL 2005, chapter 12, Part GG, the Committee sees no reason to change the projections for this annual transfer at this time.



**General Fund - Education Efficiency Fund Transfer**

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06</b> | <b>FY07</b> | <b>FY08</b>    | <b>FY09</b>    | <b>FY10</b>    | <b>FY11</b>    |
|-------------------------|--------------------|--------------------|-------------|-------------|----------------|----------------|----------------|----------------|
| Current Forecast        | \$0                | \$0                | \$0         | \$0         | (\$14,907,337) | (\$21,473,917) |                |                |
| Annual % Growth         | N/A                | N/A                | N/A         | N/A         | N/A            | 44.0%          |                |                |
| Net Increase (Decrease) |                    |                    | \$0         | \$0         | \$0            | \$0            |                |                |
| Revised Forecast        | \$0                | \$0                | \$0         | \$0         | (\$14,907,337) | (\$21,473,917) | (\$21,960,963) | (\$22,716,399) |
| Annual % Growth         | N/A                | N/A                | N/A         | N/A         | N/A            | 44.0%          | 2.3%           | 3.4%           |

**Revenue Source Summary:**

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

**Revenue Source Forecast Factors and Trends:**

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

**Forecast Recommended Changes:**

The estimates are based on the Commissioner's Recommended Funding Level prepared in December 2005 which projected the total cost of funding K-12 public education beginning in FY07.

### General Fund - Tourism Transfer

|                         | FY04 Actual   | FY05 Actual   | FY06 Actual   | FY07          | FY08          | FY09          | FY10          | FY11          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Forecast        | (\$7,213,282) | (\$7,554,190) | (\$7,762,689) | (\$8,102,087) | (\$8,530,087) | (\$8,991,780) |               |               |
| Annual % Growth         | N/A           | 4.7%          | 2.8%          | 4.4%          | 5.3%          | 5.4%          |               |               |
| Net Increase (Decrease) |               |               |               | (\$119,251)   | (\$77,818)    | (\$7,584)     |               |               |
| Revised Forecast        | (\$7,213,282) | (\$7,554,190) | (\$7,762,689) | (\$8,221,338) | (\$8,607,905) | (\$8,999,364) | (\$9,418,380) | (\$9,847,824) |
| Annual % Growth         | N/A           | 4.7%          | 2.8%          | 5.9%          | 4.7%          | 4.5%          | 4.7%          | 4.6%          |

**Revenue Source Summary:**

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

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

**Revenue Source Forecast Factors and Trends:**

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

**Forecast Recommended Changes:**

The forecast was updated with the sales tax micro-simulation model which incorporates the latest economic forecast. Growth in this category is projected to rebound in FY07 and then grow at slightly above 4.5% for the forecast period, which is stronger growth than total Sales and Use Tax projections.

**General Fund - Transfers to Maine Milk Pool**

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06 Actual</b> | <b>FY07</b>    | <b>FY08</b>   | <b>FY09</b>    | <b>FY10</b>    | <b>FY11</b>    |
|-------------------------|--------------------|--------------------|--------------------|----------------|---------------|----------------|----------------|----------------|
| Current Forecast        | \$0                | \$0                | (\$2,616,160)      | (\$1,300,000)  | (\$1,300,000) | (\$1,300,000)  |                |                |
| Annual % Growth         | N/A                | N/A                | N/A                | -50.3%         | 0.0%          | 0.0%           |                |                |
| Net Increase (Decrease) |                    |                    |                    | (\$11,274,554) | (\$8,304,800) | (\$9,510,000)  |                |                |
| Revised Forecast        | \$0                | \$0                | (\$2,616,160)      | (\$12,574,554) | (\$9,604,800) | (\$10,810,000) | (\$10,810,000) | (\$10,810,000) |
| Annual % Growth         | N/A                | N/A                | N/A                | 380.6%         | -23.6%        | 12.5%          | 0.0%           | 0.0%           |

**Revenue Source Summary:**

Current law (7 MRSA §3153-D) requires the Administrator of the Maine Milk Pool to certify monthly amounts of General Fund undedicated revenue that must be transferred to the Maine Milk Pool. The certified amounts are based on a complicated series of factors which include milk production rates and milk prices. Milk prices are generally determined by the availability of milk supply which in turn is affected by weather conditions and the level of federal support programs. There is an inverse relationship between milk prices and the amounts transferred to the Maine Milk Pool for redistribution to milk producers (Maine's dairy farmers). As milk prices fall, the amount of the transfers certified by the Administrator of the Maine Milk Pool will increase. Current law requires the Administrator of the Maine Milk Pool to establish the level of support payments to milk producers from the Maine Milk Pool through a determination of the most recent milk production ranges and milk costs. The establishment of the amount of support payments from the Maine Milk Pool dictates the amounts of undedicated revenue that must be transferred from the General Fund to the Maine Milk Pool.

**Revenue Source Forecast Factors and Trends:**

Previous forecasts for these transfers to the Maine Milk Pool have not made adequate use of updated forecasts regarding milk price and production levels that determine the amounts to be transferred from the General Fund to the Maine Milk Pool. The decisions of the Maine Milk Commission have also increased the amounts to be transferred and distributed.

**Forecast Recommended Changes:**

The significant increases in the projected amounts of General Fund revenue that will need to be transferred to the Maine Milk Pool are based on current forecasts which will be updated for each future meeting of the Revenue Forecasting Committee.

**General Fund - Other Miscellaneous**

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06 Actual</b> | <b>FY07</b>   | <b>FY08</b>   | <b>FY09</b>   | <b>FY10</b>  | <b>FY11</b>  |
|-------------------------|--------------------|--------------------|--------------------|---------------|---------------|---------------|--------------|--------------|
| Current Forecast        | \$46,860,796       | \$36,562,039       | \$29,498,834       | \$31,729,901  | \$25,016,557  | \$25,117,659  |              |              |
| Annual % Growth         | 69.5%              | -22.0%             | -19.3%             | 7.6%          | -21.2%        | 0.4%          |              |              |
| Net Increase (Decrease) |                    |                    |                    | (\$1,568,531) | (\$1,923,523) | (\$1,878,182) |              |              |
| Revised Forecast        | \$46,860,796       | \$36,562,039       | \$29,498,834       | \$30,161,370  | \$23,093,034  | \$23,239,477  | \$23,130,915 | \$23,193,956 |
| Annual % Growth         | 69.5%              | -22.0%             | -19.3%             | 2.2%          | -23.4%        | 0.6%          | -0.5%        | 0.3%         |

**Revenue Source Summary:**

This group reflects all the other General Fund revenue sources collected by the various departments and agencies that are not otherwise classified in the General Fund Summary Table. Provided below is a summary of the major one-time or temporary revenue adjustments that have affected the revenue growth pattern of this group. This group includes many miscellaneous one-time items that distort trends. The list below summarizes the effect of some of the significant one-time or temporary revenue

| <b>Unusual/Temporary Revenue</b>   | <b>FY04 Actual</b>  | <b>FY05 Actual</b>  | <b>FY06 Actual</b>  | <b>FY07</b>         | <b>FY08</b>         | <b>FY09</b>         | <b>FY10</b>         | <b>FY11</b>         |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenue Sharing Adjustments        | \$13,570,000        | \$9,600,000         | \$0                 | \$5,000,000         | \$0                 | \$0                 | \$0                 | \$0                 |
| School Construction Recovery       | \$0                 | \$0                 | \$5,900,000         | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 |
| HHS - Intergovernmental Transfers  | \$6,847,242         | \$1,681,272         | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 |
| HHS Audit Settlements              | \$3,490,837         | \$1,199,437         | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 |
| Transfer of Limestone Rental       | \$0                 | \$0                 | \$855,223           | \$1,109,723         | \$0                 | \$0                 | \$0                 | \$0                 |
| Adjustments to Clean Election Fund | \$0                 | \$0                 | (\$2,000,000)       | \$800,000           | \$0                 | \$0                 | \$0                 | \$0                 |
| <b>Total Unusual/Temp. Revenue</b> | <b>\$23,908,079</b> | <b>\$12,480,709</b> | <b>\$4,755,223</b>  | <b>\$6,909,723</b>  | <b>\$0</b>          | <b>\$0</b>          | <b>\$0</b>          | <b>\$0</b>          |
| <b>Adjusted Total</b>              | <b>\$22,952,717</b> | <b>\$24,081,330</b> | <b>\$24,743,611</b> | <b>\$23,251,647</b> | <b>\$23,093,034</b> | <b>\$23,239,477</b> | <b>\$23,130,915</b> | <b>\$23,193,956</b> |
| <b>Adjusted Annual % Growth</b>    | <b>8.2%</b>         | <b>4.9%</b>         | <b>2.8%</b>         | <b>-6.0%</b>        | <b>-0.7%</b>        | <b>0.6%</b>         | <b>-0.5%</b>        | <b>0.3%</b>         |

**Summary of Revenue Adjustments to March 2006 Forecast as modified by Legislative Changes:**

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

|                                                                                                                                                                                                                                                                                                                                                                                                            |             |             |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| <b>Administrative and Financial Services - Commercial Forestry Excise Tax (0175)</b>                                                                                                                                                                                                                                                                                                                       |             |             |             |
|                                                                                                                                                                                                                                                                                                                                                                                                            | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                                                                                                                                                                                            | (\$550,000) | (\$500,000) | (\$500,000) |
| Based on the most recent trends, the Department of Conservation has estimated that the budgeted amount of revenue collected from the Commercial Forestry Excise Tax for FY07 will be lower than currently budgeted by \$550,000. The department is also estimating reductions of \$500,000 from the budgeted revenue amounts for each of FY08 and FY09 for net revenue totals of \$3,000,000 in each year. |             |             |             |
| <b>Administrative and Financial Services - Rent/Offices - (2603) &amp; Services and Fees Charged Other Depts. - (2691)</b>                                                                                                                                                                                                                                                                                 |             |             |             |
|                                                                                                                                                                                                                                                                                                                                                                                                            | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                                                                                                                                                                                            | \$30,000    | \$30,000    | \$30,000    |
| This revision reflects the additional projected revenue of \$10,000 for RSC 2603 - Rent Offices Room and \$20,000 for RSC 2691 - Services and Fees Charged Other Departments as a result of the additional collection of prior year revenues.                                                                                                                                                              |             |             |             |

| <b>Administrative and Financial Services - Transfer to the Maine Clean Election Fund (2710)</b>                                                                                                                                 |             |             |             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                                                                                                 | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                 | \$34,357    | \$34,357    | \$34,357    |
| This revision reflects reductions in the amounts of tax-checkoff amounts that will be transferred from the General Fund to the Maine Clean Election Fund; these reductions are based on actual transfers that occurred in FY06. |             |             |             |

| <b>Agriculture, Food and Rural Resources - Net Changes</b>                                                                                                                                                                                                                                                               |             |             |             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                                                                                                                                                                                          | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                                                                                                          | \$41,775    | \$43,000    | \$43,000    |
| Changes to Miscellaneous Revenue collected by the Department of Agriculture, Food and Rural Resources include relatively minor adjustments to RSC 1221(Licenses Harness Horse Racing), RSC 1448 (Special Licenses & Leases), RSC 2719 (Contributions From Other Special Revenue) and RSC 1414 (Garbage Feeding License). |             |             |             |

| <b>Conservation - Division of Forest Protection - Sale of Forest Products (2666)</b>                                                                                                                                                               |             |             |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                                                                                                                    | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                                    | \$0         | (\$300,000) | (\$300,000) |
| The projected decreases in budgeted revenue collected by the Division of Forest Protection for RSC 2666 (Sale of Forest Products) reflects the end of demonstration forestry activities as specified by the provisions of PL 2005, c.12, Part U-5. |             |             |             |

| <b>Conservation - Land Use Regulation Commission - Filing Fees (2632)</b>                                                                                                                                                           |             |             |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                                                                                                     | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                     | (\$149,600) | (\$149,600) | (\$149,600) |
| The projected decreases in budgeted revenue collected by the Land Use Regulation Commission for RSC 2632 (Filing Fees) reflect a significant decrease in actual amounts of filing fees collected by the commission in recent years. |             |             |             |

| <b>Conservation - Parks; General Operations - Recreational Use of Parks (2610)</b>                                                                                                              |             |             |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                                                                 | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                 | (\$380,490) | (\$380,490) | (\$380,490) |
| The projected decreases in budgeted revenue collected by the Bureau of Parks and Lands for RSC 2610 (Recreational Use of Parks) is tied to declining attendance at state parks in recent years. |             |             |             |

| <b>Corrections - Adult Community Corrections - Miscellaneous Income (2686)</b>                                                                                                                                                                                                             |             |             |             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                                                                                                                                                            | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|                                                                                                                                                                                                                                                                                            | (\$290,000) | (\$290,000) | (\$290,000) |
| The negative adjustments in the revenue estimates for RSC 2686 (Adult Community Corrections - Miscellaneous Income) reflects a downward trend in the collection of supervision fees from reduced probation caseloads and higher risk offenders are less likely to afford supervision fees. |             |             |             |

**Education - General Purpose Aid for Local Schools - Miscellaneous Income (2686)**

| FY07      | FY08 | FY09 |
|-----------|------|------|
| \$100,000 | \$0  | \$0  |

This revision reflects the additional revenue to the Department of Education as a result of the provision in PL 2005, c. 519, Pt. WW which allows for the disposal of computers and peripheral equipment purchased for the Maine Learning Technology Initiative through the Department of Administrative and Financial Services' surplus property program. The net proceeds are to be deposited into the GPA account for the continued support of the Maine Learning Technology Initiative.

**Health and Human Services (Formerly BDS) - Audit Settlements**

| FY07       | FY08       | FY09       |
|------------|------------|------------|
| (\$50,000) | (\$50,000) | (\$50,000) |

Reflects a change in accounting practices for audit settlements beginning in FY06.

**Health and Human Services (Formerly DHS) - Child Support Collections (2520)**

| FY07        | FY08        | FY09        |
|-------------|-------------|-------------|
| (\$259,510) | (\$297,241) | (\$325,309) |

This revenue sources reflects payments from non-custodial parents toward the care of foster care (Title IV E) eligible (0137) and ineligible (0139) children in state custody. The negative adjustment in the revenue estimate reflects a reduction in the number of children in custody with open child support cases.

**Health and Human Services (Formerly DHS) - Other Net Changes**

| FY07     | FY08     | FY09     |
|----------|----------|----------|
| \$19,010 | \$19,010 | \$19,010 |

Reflects upward adjustments to the Tobacco Products License (RSC 1415) revenue of \$68,450 annually and downward adjustments to Miscellaneous Services and Fees (RSC 2637) of \$49,440 annually.

**Marine Resources - Net Changes**

| FY07       | FY08       | FY09       |
|------------|------------|------------|
| (\$37,543) | (\$44,843) | (\$51,413) |

Changes to Miscellaneous Revenue collected by the Department of Marine Resources include relatively minor adjustments to RSC 1420 (Resident Commercial Fishing Licenses), RSC 1445 (Retail Seafood Dealers License), RSC 1449 (Sea Urchins), RSC 1455 (Wholesale Seafood Dealers), RSC 1462 (Resident Interstate Shellfish) and RSC 1478 (Commercial Shellfish License).

**Public Safety - Criminal History Background Checks - Miscellaneous Services & Fees (2637)**

| FY07      | FY08      | FY09      |
|-----------|-----------|-----------|
| \$507,194 | \$542,451 | \$567,580 |

This revision reflects the additional revenue projected to be collected by the Department of Public Safety based on actual collections of criminal history background check fees in FY06 and an assumed annual growth rate of 1.5% from the base established by FY06 revenue.

**Public Safety - Other Net Changes**

| <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|-------------|-------------|-------------|
| \$114,000   | \$36,000    | \$36,000    |

Other than the previously mentioned increase in projected revenue for RSC 2637, changes to Miscellaneous Revenue collected by the Department of Public Safety include a one-time increase of \$78,000 in FY07 for RSC 2821 (Sale of Autos) to reflect the department's plans to maintain the current State Police vehicle replacement schedule and relatively minor adjustments to RSC 2632 (Filing Fees), RSC 1431 (Renewal of Occupational/Professional Licenses 5) and RSC 2631 (Registration Fees).

**Secretary of State - Domestic Filing Entities - Receiving Filing Record Deeds (2630)**

| <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|-------------|-------------|-------------|
| \$50,000    | \$99,925    | \$149,925   |

This revision reflects the additional revenue projected to be collected by the Secretary of State from fees for all originating and amendments to domestic filing entities based on estimated annual growth.

**Secretary of State - Excise Tax Non-resident Motor Vehicle (0186)**

| <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|-------------|-------------|-------------|
| (\$700,000) | (\$700,000) | (\$700,000) |

This reprojection of decreased revenue from RSC 0186 (Excise Tax Non-resident Motor Vehicle) reflects the level of anticipated revenue based on FY06 actual revenue collection for this line. A recent determination by the Bureau of Motor Vehicles ascertained the possibility of previous large-scale inappropriate non-resident motor vehicle registration prior to FY06; having addressed the situation, the bureau feels that the FY06 revenue level for RSC 0186 is the appropriate base by which to forecast future revenue collections.

**Secretary of State - Other Net Changes**

| <b>FY07</b> | <b>FY08</b> | <b>FY09</b> |
|-------------|-------------|-------------|
| (\$16,302)  | (\$7,421)   | (\$10,407)  |

Other than the previously mentioned adjustments of projected revenue, changes to Miscellaneous Revenue collected by the Secretary of State include relatively minor adjustments to RSC 2642 (Certified Document Fees), RSC 2632 (Filing Fees), RSC 2622 (Lab Services Rendered) and RSC 2691 (Services & Fees Charged to Other Departments).

# Appendix B - Highway Fund

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**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006**

| Source                              | FY99 Actual        | FY00 Actual        | % Chg.      | FY01 Actual        | % Chg.      | FY02 Actual        | % Chg.      | FY03 Actual        | % Chg.      | FY04 Actual        | % Chg.      | FY05 Actual        | % Chg.      |
|-------------------------------------|--------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| Fuel Taxes                          | 166,759,976        | 174,691,255        | 4.8%        | 182,502,097        | 4.5%        | 184,732,999        | 1.2%        | 187,901,008        | 1.7%        | 212,600,843        | 13.1%       | 220,484,728        | 3.7%        |
| Motor Vehicle Registration & Fees   | 64,296,262         | 74,079,566         | 15.2%       | 76,317,758         | 3.0%        | 83,285,014         | 9.1%        | 83,032,421         | -0.3%       | 82,577,755         | -0.5%       | 84,645,422         | 2.5%        |
| Inspection Fees                     | 2,138,368          | 2,625,496          | 22.8%       | 2,491,237          | -5.1%       | 3,412,662          | 37.0%       | 4,169,773          | 22.2%       | 4,708,196          | 12.9%       | 4,260,059          | -9.5%       |
| Fines, Forfeits and Penalties       | 1,952,025          | 2,145,602          | 9.9%        | 2,097,609          | -2.2%       | 1,958,350          | -6.6%       | 2,531,692          | 29.3%       | 1,918,703          | -24.2%      | 1,518,580          | -20.9%      |
| Income from Investments             | 3,031,603          | 3,997,979          | 31.9%       | 4,241,955          | 6.1%        | 2,857,209          | -32.6%      | 1,338,794          | -53.1%      | 720,046            | -46.2%      | 1,440,739          | 100.1%      |
| Other Revenues                      | 5,985,729          | 5,379,040          | -10.1%      | 5,467,245          | 1.6%        | 5,737,781          | 4.9%        | 9,272,396          | 61.6%       | 9,502,442          | 2.5%        | 13,728,627         | 44.5%       |
| <b>Total - Highway Fund Revenue</b> | <b>244,163,962</b> | <b>262,918,938</b> | <b>7.7%</b> | <b>273,117,902</b> | <b>3.9%</b> | <b>281,984,017</b> | <b>3.2%</b> | <b>288,246,084</b> | <b>2.2%</b> | <b>312,027,986</b> | <b>8.3%</b> | <b>326,078,155</b> | <b>4.5%</b> |

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006**

| Source                              | FY06 Actual        | % Chg.      | FY06 Budget        | FY06 Variance      | % Var.       | FY07 Budget        | % Chg.      | Recom. Chg.        | FY07 Revised       | % Chg.      |
|-------------------------------------|--------------------|-------------|--------------------|--------------------|--------------|--------------------|-------------|--------------------|--------------------|-------------|
| Fuel Taxes                          | 221,575,309        | 0.5%        | 226,776,993        | (5,201,684)        | -2.3%        | 234,769,382        | 6.0%        | (7,284,441)        | 227,484,941        | 2.7%        |
| Motor Vehicle Registration & Fees   | 87,658,962         | 3.6%        | 87,172,358         | 486,604            | 0.6%         | 88,406,317         | 0.9%        | (1,930,000)        | 86,476,317         | -1.3%       |
| Inspection Fees                     | 4,373,692          | 2.7%        | 4,397,970          | (24,278)           | -0.6%        | 4,414,756          | 0.9%        | (35,000)           | 4,379,756          | 0.1%        |
| Fines, Forfeits and Penalties       | 1,809,813          | 19.2%       | 1,973,665          | (163,852)          | -8.3%        | 2,018,239          | 11.5%       | 0                  | 2,018,239          | 11.5%       |
| Income from Investments             | 1,833,806          | 27.3%       | 1,300,000          | 533,806            | 41.1%        | 1,350,000          | -26.4%      | (555,000)          | 795,000            | -56.6%      |
| Other Revenues                      | 9,294,574          | -32.3%      | 9,286,173          | 8,401              | 0.1%         | 9,433,331          | 1.5%        | 169,745            | 9,603,076          | 3.3%        |
| <b>Total - Highway Fund Revenue</b> | <b>326,546,157</b> | <b>0.1%</b> | <b>330,907,159</b> | <b>(4,361,002)</b> | <b>-1.3%</b> | <b>340,392,025</b> | <b>4.2%</b> | <b>(9,634,696)</b> | <b>330,757,329</b> | <b>1.3%</b> |
| <b>Change in Biennial Totals</b>    |                    |             |                    |                    |              |                    |             | <b>(9,634,696)</b> |                    |             |

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2006**

| Source                              | FY08 Budget        | % Chg.      | Recom. Chg.        | FY08 Revised       | % Chg.      | FY09 Budget        | % Chg.      | Recom. Chg.         | FY09 Revised       | % Chg.      | FY10<br>Projection | % Chg.      | FY11<br>Projection | % Chg.      |
|-------------------------------------|--------------------|-------------|--------------------|--------------------|-------------|--------------------|-------------|---------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| Fuel Taxes                          | 242,572,894        | 3.3%        | (5,922,257)        | 236,650,637        | 4.0%        | 249,714,882        | 2.9%        | (7,016,782)         | 242,698,100        | 2.6%        | 248,058,193        | 2.2%        | 253,922,031        | 2.4%        |
| Motor Vehicle Registration & Fees   | 86,238,059         | -2.5%       | 670,000            | 86,908,059         | 0.5%        | 86,369,607         | 0.2%        | 420,000             | 86,789,607         | -0.1%       | 84,433,980         | -2.7%       | 84,774,764         | 0.4%        |
| Inspection Fees                     | 4,468,458          | 1.2%        | (35,000)           | 4,433,458          | 1.2%        | 4,524,821          | 1.3%        | (35,000)            | 4,489,821          | 1.3%        | 4,496,057          | 0.1%        | 4,502,326          | 0.1%        |
| Fines, Forfeits and Penalties       | 2,018,239          | 0.0%        | 0                  | 2,018,239          | 0.0%        | 2,018,239          | 0.0%        | 0                   | 2,018,239          | 0.0%        | 2,018,239          | 0.0%        | 2,018,239          | 0.0%        |
| Income from Investments             | 1,350,000          | 0.0%        | (555,000)          | 795,000            | 0.0%        | 1,350,000          | 0.0%        | (555,000)           | 795,000            | 0.0%        | 795,000            | 0.0%        | 795,000            | 0.0%        |
| Other Revenues                      | 9,621,183          | 2.0%        | 569,723            | 10,190,906         | 6.1%        | 9,687,473          | 0.7%        | 718,280             | 10,405,753         | 2.1%        | 10,443,944         | 0.4%        | 10,482,405         | 0.4%        |
| <b>Total - Highway Fund Revenue</b> | <b>346,268,833</b> | <b>1.7%</b> | <b>(5,272,534)</b> | <b>340,996,299</b> | <b>3.1%</b> | <b>353,665,022</b> | <b>2.1%</b> | <b>(6,468,502)</b>  | <b>347,196,520</b> | <b>1.8%</b> | <b>350,245,413</b> | <b>0.9%</b> | <b>356,494,765</b> | <b>1.8%</b> |
| <b>Change in Biennial Totals</b>    |                    |             |                    |                    |             |                    |             | <b>(11,741,036)</b> |                    |             |                    |             |                    |             |

## Highway Fund - Fuel Taxes

|                         | FY04 Actual   | FY05 Actual   | FY06 Actual   | FY07          | FY08          | FY09          | FY10          | FY11          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Forecast        | \$212,600,843 | \$220,484,728 | \$221,575,309 | \$234,769,382 | \$242,572,894 | \$249,714,882 |               |               |
| Annual % Growth         | 13.1%         | 3.7%          | 0.5%          | 6.0%          | 3.3%          | 2.9%          |               |               |
| Net Increase (Decrease) |               |               |               | (\$7,284,441) | (\$5,922,257) | (\$7,016,782) |               |               |
| Revised Forecast        | \$212,600,843 | \$220,484,728 | \$221,575,309 | \$227,484,941 | \$236,650,637 | \$242,698,100 | \$248,058,193 | \$253,922,031 |
| Annual % Growth         | 13.1%         | 3.7%          | 0.5%          | 2.7%          | 4.0%          | 2.6%          | 2.2%          | 2.4%          |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

The collection of budgeted fuel taxes is somewhat dependent on a fairly strong economy and reasonable retail prices for gasoline. In FY06 with fuel prices at very high levels, fuel taxes were under budget by \$5.2 million, a -2.3% variance. Through the first quarter of FY07, fuel taxes continued to run under budget and were \$2.9 million under (a -6.6% variance) despite an improvement in gasoline prices.

### Forecast Recommended Changes:

In its November 2006 report, the Consensus Economic Forecasting Commission (CEFC) increased its Consumer Price Index estimates for calendar year 2006 from 2.8% to 3.5%, with all other years remaining unchanged from the previous forecast. While this increase in inflation estimates for the one year increased the assumed tax rates for both FY08 and FY09, the effect of the increase of the tax rates was more than offset by the effect of targeting the tax model to reflect actual experience through FY06. The effect of the CEFC adjustments of the February 2006 forecast of the Personal Income economic variable were very modest. However, this model run incorporated fuel prices as another economic variable. The targeting of the model to past experience and the fuel price variable produced a much lower estimate of the amount of gallons sold, and in the short-term through FY07, volume is assumed to decline.

### Actual and Projected Tax Rates

|                         | 7/1/2003 Act. | 7/1/2004 Act. | 7/1/2005 Act. | 7/1/2006 Act. | 7/1/2007       | 7/1/2008       | 7/1/2009       | 7/1/2010       |
|-------------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| <b>Gasoline Tax</b>     |               |               |               |               |                |                |                |                |
| Current Forecast        | \$0.246       | \$0.252       | \$0.259       | \$0.268       | \$0.276        | \$0.284        |                |                |
| Revised Forecast        |               |               |               |               | <b>\$0.277</b> | <b>\$0.284</b> | <b>\$0.290</b> | <b>\$0.297</b> |
| <b>Special Fuel Tax</b> |               |               |               |               |                |                |                |                |
| Current Forecast        | \$0.257       | \$0.263       | \$0.270       | \$0.279       | \$0.287        | \$0.295        |                |                |
| Revised Forecast        |               |               |               |               | <b>\$0.289</b> | <b>\$0.296</b> | <b>\$0.303</b> | <b>\$0.309</b> |

## Highway Fund - Motor Vehicle Registration and Fees

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06 Actual</b> | <b>FY07</b>   | <b>FY08</b>  | <b>FY09</b>  | <b>FY10</b>  | <b>FY11</b>  |
|-------------------------|--------------------|--------------------|--------------------|---------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$82,577,755       | \$84,645,422       | \$87,658,962       | \$88,406,317  | \$86,238,059 | \$86,369,607 |              |              |
| Annual % Growth         | -0.5%              | 2.5%               | 3.6%               | 0.9%          | -2.5%        | 0.2%         |              |              |
| Net Increase (Decrease) |                    |                    |                    | (\$1,930,000) | \$670,000    | \$420,000    |              |              |
| Revised Forecast        | \$82,577,755       | \$84,645,422       | \$87,658,962       | \$86,476,317  | \$86,908,059 | \$86,789,607 | \$84,433,980 | \$84,774,764 |
| Annual % Growth         | -0.5%              | 2.5%               | 3.6%               | -1.3%         | 0.5%         | -0.1%        | -2.7%        | 0.4%         |

### Revenue Source Summary:

The Secretary of State oversees the administration of the various motor vehicle registrations and operator's licenses. All fees collected by the Secretary of State from motor vehicle registration and operator's license accrue to the Highway Fund, except that a portion of the fees and contributions collected for Conservation plates, lobster plates, Black Bear plates and University of Maine System plates accrue as dedicated revenue to be used for special purposes and a portion of excise taxes on nonresident fees accrues to the General Fund.

### Revenue Source Forecast Factors and Trends:

The collection of budgeted motor vehicle registrations and fee revenue assumes a relatively predictable pattern of the applicable sales and use of the revenue sources in this category. The largest element within this revenue category is Registration - Motor Vehicles (RSC # 1501) which is comprised of registrations for commercial vehicles, long-term trailers, passenger vehicles, trailers and decal stamps.

Most recently, in FY06, actual revenue from Motor Vehicle Registration and Fees exceeded budgeted amount by \$486,604 which is much less of a variance than the previous two fiscal years.

### Forecast Recommended Changes:

The following projections are recommended for the current forecast period:

-Motor Vehicle Registrations (RSC 1501) - (\$1,800,000) in FY07, \$800,000 in FY08 and \$550,000 in FY09. \$300,000 of the reduction in FY07 is intended to bring that fiscal year into line with current trends; the remaining one-time reduction of \$1,500,000 represents the expected loss of revenue if Congress does not renew the state's authority to collect certain revenue from for-hire motor carriers under the Single State Registration System. The increases in FY08 and FY09 reflect the net effect of the increasing number of most motor vehicle registrations and the decline in long term trailer registrations;

-Title Law (RSC 1504) -(\$250,000) in each of FY07, FY08 and FY09; these decreases further reflect the decline in the decline in long term trailer registration and title issuances;

-Duplicate Certificates (RSC 1511) - \$60,000 in each of FY07, FY08 and FY09; these recommended increases are based on actual revenue trends for the past 3 fiscal years;

-Registration Plate Equipment & Production (RSC 1520) - \$100,000 in each of FY07, FY08 and FY09; these recommended increases are based on actual revenue trends for the past 3 fiscal years;

-Transfer Fee (RSC 1533) - (\$40,000) in each of FY07, FY08 and FY09; these recommended decreases are based on actual revenue trends for the past 3 fiscal years;

The reduction of total projected revenue in this category for both FY10 and FY11 represents the cyclical nature of the issuance of driver's licenses; Auto Drivers Licenses (RSC 1502).

## Highway Fund - Inspection Fees

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$4,708,196 | \$4,260,059 | \$4,373,691 | \$4,414,756 | \$4,468,458 | \$4,524,821 |             |             |
| Annual % Growth         | 12.9%       | -9.5%       | 2.7%        | 0.9%        | 1.2%        | 1.3%        |             |             |
| Net Increase (Decrease) |             |             |             | (\$35,000)  | (\$35,000)  | (\$35,000)  |             |             |
| Revised Forecast        | \$4,708,196 | \$4,260,059 | \$4,373,691 | \$4,379,756 | \$4,433,458 | \$4,489,821 | \$4,496,057 | \$4,502,326 |
| Annual % Growth         | 12.9%       | -9.5%       | 2.7%        | 0.1%        | 1.2%        | 1.3%        | 0.1%        | 0.1%        |

**Revenue Source Summary:**

Motor Vehicle Inspection fees are collected for the Highway Fund by the Department of Public Safety and are comprised primarily of the State's share of the various inspection and licensing fees that are charged for the motor vehicle inspection process. The Department of Transportation and the Bureau of Motor Vehicles within the Department of the Secretary of State also collect relatively smaller amounts of motor vehicle inspection related fees.

**Revenue Source Forecast Factors and Trends:**

Variances in the collection of budgeted revenue from motor vehicle inspection fees are usually tied to timing issues relating to the collection and recording of this revenue. The delay in the timely collection and recording of motor vehicle inspection revenue frequently occurs on a monthly basis and can thus extend from the end of one fiscal year to the beginning of the next.

Most recently, the collection of motor vehicle inspection fee revenue has often reflected the adverse effects of the timing issue:

|            | Budgeted    | Actual      | Variance    |
|------------|-------------|-------------|-------------|
| FY 2002-03 | \$3,683,907 | \$4,169,773 | \$485,866   |
| FY 2003-04 | \$3,461,771 | \$4,708,196 | \$1,246,425 |
| FY 2004-05 | \$4,281,459 | \$4,260,059 | (\$21,400)  |
| FY 2005-06 | \$4,397,970 | \$4,373,691 | (\$24,278)  |

**Forecast Recommended Changes:**

Based on recent trends of actual revenue collections, the Department of Transportation is recommending an annual increase of \$25,000 in Traffic Movement Permits and an annual decrease of \$60,000 in Permits to Use Open Highways.

## Highway Fund - Fines, Forfeits and Penalties

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$1,918,703 | \$1,518,620 | \$1,809,833 | \$2,018,239 | \$2,018,239 | \$2,018,239 |             |             |
| Annual % Growth         | -24.2%      | -20.9%      | 19.2%       | 11.5%       | 0.0%        | 0.0%        |             |             |
| Net Increase (Decrease) |             |             | \$0         | \$0         | \$0         | \$0         |             |             |
| Revised Forecast        | \$1,918,703 | \$1,518,620 | \$1,809,833 | \$2,018,239 | \$2,018,239 | \$2,018,239 | \$2,018,239 | \$2,018,239 |
| Annual % Growth         | -24.2%      | -20.9%      | 19.2%       | 11.5%       | 0.0%        | 0.0%        | 0.0%        | 0.0%        |

### Revenue Source Summary:

This revenue category includes revenue, collected primarily by the Judicial System for the Highway Fund, related to fines and penalties emanating from certain traffic infractions.

### Revenue Source Forecast Factors and Trends:

The negative variance in revenue collections in FY06 and FY07 is mainly attributable to computer programming difficulties in electronically transmitting motor vehicle license suspensions for non payment of fines between the Judicial Branch Violations Bureau and the Bureau of Motor Vehicles. It is anticipated that the transmitting of data will begin occurring in late October resulting in an increase in revenue collections for FY07.

|                   | Budgeted    | Actual      | Variance    |
|-------------------|-------------|-------------|-------------|
| FY 2003-04        | \$2,122,901 | \$1,917,903 | (\$204,998) |
| FY 2004-05        | \$1,890,359 | \$1,518,620 | (\$371,739) |
| FY 2005-06        | \$1,973,665 | \$1,809,833 | (\$163,832) |
| FY 2006-07 1st Qt | \$514,319   | \$453,474   | (\$60,845)  |

### Forecast Recommended Changes:

No changes are recommended for this revenue category. Although last year's fine collections experienced a negative variance of (\$163,832) for FY06 and the first quarter of FY07 also experienced a (\$60,845) negative variance, the Judicial Department expects an increase in revenue from the ability to issue motor vehicle license suspensions as detailed above.

## Highway Fund - Income From Investments

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10      | FY11      |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------|-----------|
| Current Forecast        | \$720,046   | \$1,440,739 | \$1,833,806 | \$1,350,000 | \$1,350,000 | \$1,350,000 |           |           |
| Annual % Growth         | -46.2%      | 100.1%      | 27.3%       | -26.4%      | 0.0%        | 0.0%        |           |           |
| Net Increase (Decrease) |             |             |             | (\$555,000) | (\$555,000) | (\$555,000) |           |           |
| Revised Forecast        | \$720,046   | \$1,440,739 | \$1,833,806 | \$795,000   | \$795,000   | \$795,000   | \$795,000 | \$795,000 |
| Annual % Growth         | -46.2%      | 100.1%      | 27.3%       | -56.6%      | 0.0%        | 0.0%        | 0.0%      | 0.0%      |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

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

Economy - Interest rates have been near historic lows for several years as the Federal Reserve Board has initiated and maintained a loose monetary policy to help foster economic growth and recovery. Slow economic recovery has limited revenue growth. These trends reduced earnings early in this decade. FY05 and FY06 saw interest rates rise as the Fed's tightened the money supply, helping to improve earnings. Economy.com predicts 3-month Treasury Bill rates peaking in FY07.

Budget - Highway Fund balances normally carried forward have been partially used to fund expenditures in recent years. The recommended estimates are based on a further erosion of those balances down to an yearly average of \$14,454,550 in available balances invested.

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

| Assumptions               |              |              |              |              |              |              |              |              |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                           | FY04 Actual  | FY05 Actual  | FY06         | FY07         | FY08         | FY09         | FY10         | FY11         |
| <b>Balances</b>           |              |              |              |              |              |              |              |              |
| Current Forecast          | \$53,718,303 | \$57,959,816 | \$30,000,000 | \$30,000,000 | \$30,000,000 | \$30,000,000 |              |              |
| Revised Forecast          |              |              |              | \$14,454,550 | \$14,454,550 | \$14,454,550 | \$14,454,550 | \$14,454,550 |
| <b>Pool Earnings Rate</b> |              |              |              |              |              |              |              |              |
| Current Forecast          | 1.32%        | 2.39%        | 4.51%        | 4.50%        | 4.50%        | 4.50%        |              |              |
| Revised Forecast          |              |              |              | 5.50%        | 5.50%        | 5.50%        | 5.50%        | 5.50%        |

### Forecast Recommended Changes:

Based on the continued expectation of low Highway Fund balances, the estimates for earnings have been revised downward by (\$555,000) in FY07, FY08 and FY09.



## Highway Fund - Other Revenue

|                         | FY04 Actual | FY05 Actual  | FY06 Actual | FY07        | FY08         | FY09         | FY10         | FY11         |
|-------------------------|-------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$9,502,442 | \$13,817,473 | \$9,294,574 | \$9,433,331 | \$9,621,183  | \$9,687,473  |              |              |
| Annual % Growth         | 2.5%        | 45.4%        | -32.7%      | 1.5%        | 2.0%         | 0.7%         |              |              |
| Net Increase (Decrease) |             |              |             | \$169,745   | \$569,723    | \$718,280    |              |              |
| Revised Forecast        | \$9,502,442 | \$13,817,473 | \$9,294,574 | \$9,603,076 | \$10,190,906 | \$10,405,753 | \$10,443,944 | \$10,482,405 |
| Annual % Growth         | 2.5%        | 45.4%        | -32.7%      | 3.3%        | 6.1%         | 2.1%         | 0.4%         | 0.4%         |

### Revenue Source Summary:

The Other Revenue category is comprised of miscellaneous revenue collected by the Departments of Transportation, Secretary of State, Public Safety and Administrative and Financial Services. Major revenue sources within this category are shown in the table below:

| <u>Revenue Source</u>                            | <u>Department</u> | <u>Revenue Source Code</u> |
|--------------------------------------------------|-------------------|----------------------------|
| Reimbursements from the Maine Turnpike Authority | Public Safety     | 2693                       |
| Sale of Autos                                    | Public Safety     | 2821                       |
| Recovered Cost                                   | Public Safety     | 2690                       |
| Highway Fund StaCap Reimbursement                | DAFS              | 2737                       |
| Miscellaneous Services & Fees                    | Sec of State      | 2637                       |
| Services and Fees Charged to Other Departments   | Sec of State      | 2691                       |
| Contributions From Other Special Revenue         | Sec of State      | 2719                       |

### Revenue Source Forecast Factors and Trends:

For the most part, revenue trends in this category are based simply on previous experience and are not tied to overall economic factors. The comparatively large amount of revenue collected in this category for FY05 is due to the one-time payment of \$5,000,000 from the Maine Turnpike Authority to the Highway Fund for the purchase of the Payne River Bridge.

### Summary of Revenue Adjustments to December 2006 Forecast

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

| <b>Administrative and Financial Services - Highway Fund STA-CAP Reimbursement (2637)</b>                                                                 |           |           |           |      |      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|------|------|
|                                                                                                                                                          | FY07      | FY08      | FY09      | FY10 | FY11 |
|                                                                                                                                                          | \$179,068 | \$695,596 | \$853,894 | \$0  | \$0  |
| The increase to the amount of Highway Fund STA-CAP reimbursement reflects changes in Highway Fund allocations upon which budgeted allocations are based. |           |           |           |      |      |

**Public Safety - State Police - Sale of Autos (2821)**

| FY07      | FY08 | FY09 | FY10 | FY11 |
|-----------|------|------|------|------|
| \$122,000 | \$0  | \$0  | \$0  | \$0  |

The one-time increase of \$122,000 in RSC 2821 (Sale of Autos) for FY07 reflects the department's plans to maintain the current State Police vehicle replacement schedule.

**Public Safety - Traffic Safety; Commercial Vehicle Enforcement - Recovered Cost (2690)**

| FY07     | FY08      | FY09      | FY10 | FY11 |
|----------|-----------|-----------|------|------|
| \$83,158 | \$100,000 | \$100,000 | \$0  | \$0  |

The increases to RSC 2690 (Recovered Cost) for the Traffic Safety - Commercial Vehicle Enforcement program largely reflect an adjustment to FY06 actual revenue collection levels and are based on reimbursements from the federal government for 12 Motor Carrier Inspector positions.

**Public Safety - Other Net Changes**

| FY07     | FY08     | FY09     | FY10 | FY11 |
|----------|----------|----------|------|------|
| \$85,519 | \$80,676 | \$85,815 | \$0  | \$0  |

Other than the previously mentioned adjustments in projected revenue, changes to Miscellaneous Revenue collected by the Department of Public Safety include relatively minor adjustments to RSC 2632 (Filing Fees), RSC 2693 (Maine Turnpike Reimbursement) and RSC 2637 (Misc Services & Fees).

**Secretary of State - Bureau of Motor Vehicles - Misc Services & Fees (2637)**

| FY07        | FY08        | FY09        | FY10 | FY11 |
|-------------|-------------|-------------|------|------|
| (\$400,000) | (\$400,000) | (\$400,000) | \$0  | \$0  |

The \$400,000 annual decrease to RSC 2637 (Misc Services & Fees) for the Bureau of Motor Vehicles program reflects a decline in the number of requests for information that are received by the bureau.

**Secretary of State - Bureau of Motor Vehicles - Contributions From Other Special Revenue (2719)**

| FY07      | FY08      | FY09      | FY10 | FY11 |
|-----------|-----------|-----------|------|------|
| \$225,000 | \$218,451 | \$203,571 | \$0  | \$0  |

The projected increases to RSC 2719 (Contributions From Other Special Revenue) for the Bureau of Motor Vehicles program reflects an increase in the collections for truck excise tax received from other public jurisdictions.

**Transportation - Other Net Changes**

| FY07        | FY08        | FY09        | FY10 | FY11 |
|-------------|-------------|-------------|------|------|
| (\$125,000) | (\$125,000) | (\$125,000) | \$0  | \$0  |

Changes to Miscellaneous Revenue collected by the Department of Transportation include relatively minor adjustments to RSC 2656 (Sale of Plans and Specifications), RSC 2685 (Sale of Publications/Copies/Certificates), RSC 2686 (Misc - Income), RSC 2802 (Sale of Land), RSC 2806 (Sale of Equipment), RSC 2830 (Other Settlements) and RSC 2637 (Misc Services & Fees).

# Appendix C - Fund for a Healthy Maine

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

| Source                                           | FY00 Actual       | FY01 Actual       | % Chg.        | FY02 Actual       | % Chg.       | FY03 Actual *     | % Chg.       | FY04 Actual       | % Chg.        | FY05 Actual       | % Chg.      |
|--------------------------------------------------|-------------------|-------------------|---------------|-------------------|--------------|-------------------|--------------|-------------------|---------------|-------------------|-------------|
| Initial Payments                                 | 35,541,456        | 16,839,539        | -52.6%        | 16,236,644        | -3.6%        | 16,458,172        | 1.4%         | 0                 | -100.0%       | 0                 | N/A         |
| Base Payments                                    | 27,422,283        | 30,926,515        | 12.8%         | 40,055,643        | 29.5%        | 39,348,861        | -1.8%        | 48,952,964        | 24.4%         | 49,033,129        | 0.2%        |
| Racino Revenue **                                | 0                 | 0                 | N/A           | 0                 | N/A          | 0                 | N/A          | 0                 | N/A           | 0                 | N/A         |
| Income from Investments                          | 1,604,300         | 3,605,927         | 124.8%        | 1,233,998         | -65.8%       | 681,756           | -44.8%       | 54,830            | -92.0%        | 91,444            | 66.8%       |
| Attorney General Reimbursements and Other Income | 212,904           | 53,226            | -75.0%        | 25,475            | -52.1%       | 0                 | -100.0%      | 0                 | N/A           | 220               | N/A         |
| <b>Total - Tobacco Settlement Revenue</b>        | <b>64,780,943</b> | <b>51,425,207</b> | <b>-20.6%</b> | <b>57,551,760</b> | <b>11.9%</b> | <b>56,488,789</b> | <b>-1.8%</b> | <b>49,007,794</b> | <b>-13.2%</b> | <b>49,124,793</b> | <b>0.2%</b> |

\* FY03 Actual does not include \$514,339 received in July 2003 and \$480,059 received in October 2003 that were related to payments due prior to FY04.

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

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

| Source                                              | FY06 Actual       | % Chg.       | FY06 Budget       | FY06 Variance    | % Var.      | FY07 Budget       | % Chg.       | Recom. Chg.      | FY07 Revised      | % Chg.       |
|-----------------------------------------------------|-------------------|--------------|-------------------|------------------|-------------|-------------------|--------------|------------------|-------------------|--------------|
| Initial Payments                                    | 0                 | N/A          | 0                 | 0                | N/A         | 0                 | N/A          | 0                | 0                 | N/A          |
| Base Payments                                       | 45,011,759        | -8.2%        | 41,652,662        | 3,359,097        | 8.1%        | 41,765,543        | -7.2%        | 1,256,100        | 43,021,643        | -4.4%        |
| Racino Revenue **                                   | 1,771,173         | N/A          | 1,340,369         | 430,804          | 32.1%       | 1,898,741         | 7.2%         | 1,198,960        | 3,097,701         | 74.9%        |
| Income from Investments                             | 124,780           | 36.5%        | 25,000            | 99,780           | 399.1%      | 25,000            | -80.0%       | 45,000           | 70,000            | -43.9%       |
| Attorney General Reimbursements and Other<br>Income | 39                | -82.2%       | 0                 | 39               | N/A         | 0                 | N/A          | 0                | 0                 | N/A          |
| <b>Total - Tobacco Settlement Revenue</b>           | <b>46,907,751</b> | <b>-4.5%</b> | <b>43,018,031</b> | <b>3,889,720</b> | <b>9.0%</b> | <b>43,689,284</b> | <b>-6.9%</b> | <b>2,500,060</b> | <b>46,189,344</b> | <b>-1.5%</b> |
| <b>Change in Biennial Totals</b>                    |                   |              |                   |                  |             |                   |              | <b>2,500,060</b> |                   |              |

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

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

| Source                                    | FY08 Budget       | % Chg.       | Recom. Chg.         | FY08 Revised      | % Chg.       | FY09 Budget       | % Chg.      | Recom. Chg.         | FY09 Revised      | % Chg.      | FY10 Projection   | % Chg.      | FY11 Projection   | % Chg.      |
|-------------------------------------------|-------------------|--------------|---------------------|-------------------|--------------|-------------------|-------------|---------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| Initial Payments                          | 0                 | N/A          | 0                   | 0                 | N/A          | 0                 | N/A         | 0                   | 0                 | N/A         | 0                 | N/A         | 0                 | N/A         |
| Base Payments                             | 71,821,621        | 72.0%        | (14,535,116)        | 57,286,505        | 33.2%        | 72,653,908        | 1.2%        | (14,560,946)        | 58,092,962        | 1.4%        | 62,928,997        | 8.3%        | 66,659,065        | 5.9%        |
| Racino Revenue **                         | 1,994,731         | 5.1%         | 1,057,714           | 3,052,445         | -1.5%        | 3,145,550         | 57.7%       | 1,507,436           | 4,652,986         | 52.4%       | 4,819,650         | 3.6%        | 4,819,650         | 0.0%        |
| Income from Investments                   | 45,000            | 80.0%        | 25,000              | 70,000            | 0.0%         | 45,000            | 0.0%        | 25,000              | 70,000            | 0.0%        | 70,000            | 0.0%        | 70,000            | 0.0%        |
| Attorney General Reimbursements and       | 0                 | N/A          | 0                   | 0                 | N/A          | 0                 | N/A         | 0                   | 0                 | N/A         | 0                 | N/A         | 0                 | N/A         |
| <b>Total - Tobacco Settlement Revenue</b> | <b>73,861,352</b> | <b>69.1%</b> | <b>(13,452,402)</b> | <b>60,408,950</b> | <b>30.8%</b> | <b>75,844,458</b> | <b>2.7%</b> | <b>(13,028,510)</b> | <b>62,815,948</b> | <b>4.0%</b> | <b>67,818,647</b> | <b>8.0%</b> | <b>71,548,715</b> | <b>5.5%</b> |
|                                           |                   |              |                     |                   |              |                   |             | <b>(26,480,912)</b> |                   |             |                   |             |                   |             |

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

## Fund for a Healthy Maine - Base Payments

|                         | FY04 Actual  | FY05 Actual  | FY06 Actual  | FY07         | FY08           | FY09           | FY10         | FY11         |
|-------------------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|--------------|
| Current Forecast        | \$48,952,964 | \$49,033,349 | \$45,011,759 | \$41,765,543 | \$71,821,621   | \$72,653,908   |              |              |
| Annual % Growth         | 24.4%        | 0.2%         | -8.2%        | -7.2%        | 72.0%          | 1.2%           |              |              |
| Net Increase (Decrease) |              |              |              | \$1,256,100  | (\$14,535,116) | (\$14,560,946) |              |              |
| Revised Forecast        | \$48,952,964 | \$49,033,349 | \$45,011,759 | \$43,021,643 | \$57,286,505   | \$58,092,962   | \$62,928,997 | \$66,659,065 |
| Annual % Growth         | 24.4%        | 0.2%         | -8.2%        | -4.4%        | 33.2%          | 1.4%           | 8.3%         | 5.9%         |

### Revenue Source Summary:

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

### Revenue Source Forecast Factors and Trends:

Under the MSA, there are numerous adjustments that affect the annual payment. These include the inflation adjustment and volume adjustments. These adjustments are national and are forecast by the markets. Global Insights uses econometric models to project the TSP's. The most recent model forecast (August 2006) projects a modest increase over the previous forecast. The amount of the increase declines over the forecast period (see table below).

This year the participating manufacturers have entered into significant factor proceedings under the MSA. Manufacturers withheld payments in April 2006 represented contested 2003 market share shifts from participating manufacturers to non-participating manufacturers (NPM). The amount withheld from the April 2006 payment was less than estimated in the previous forecast. One manufacturer did not withhold payments as a result of the proceedings.

### Forecast Recommended Changes:

The changes to the estimates of the base payments under the MSA for the revenue forecast period result from the changes in the Global Insight's economic modeling as noted above and changes in the estimated pattern of withholding related to the significant factor proceedings (see table below). Based on the uncertainty about the length of the proceedings, the committee is recommending that the length of the withholding period be increased from 2 years to 4 years. This estimate change results in significant reductions in FY08 and FY09 from the previous estimates that we included recoveries of the April 2006 withholding in FY08 and April 2007 withholding in FY09. The forecast still estimates full recovery of the withheld amounts, just the length of time is changed. The revenue estimate for FY07 does not reflect the risk that the one manufacturer that did not withhold payments in April 2006, could withhold an additional amount from the April 2007 payment that it did not withhold in April 2006.

| Summary of Recommended Changes                                   | FY07        | FY08           | FY09           | FY10 | FY11 |
|------------------------------------------------------------------|-------------|----------------|----------------|------|------|
| Change from Global Insight's Economic Modeling of TSP's          | (\$486,389) | (\$659,865)    | (\$685,695)    | N/A  | N/A  |
| Change of Estimated Withholding - Significant Factor Proceedings | \$1,742,489 | (\$13,875,251) | (\$13,875,251) | N/A  | N/A  |
| Total Recommended Changes                                        | \$1,256,100 | (\$14,535,116) | (\$14,560,946) | N/A  | N/A  |

### Fund for a Healthy Maine - Racino Revenue

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$0         | \$0         | \$1,771,173 | \$1,898,741 | \$1,994,731 | \$3,145,550 |             |             |
| Annual % Growth         | N/A         | N/A         | N/A         | 7.2%        | 5.1%        | 57.7%       |             |             |
| Net Increase (Decrease) |             |             |             | \$1,198,960 | \$1,057,714 | \$1,507,436 |             |             |
| Revised Forecast        | \$0         | \$0         | \$1,771,173 | \$3,097,701 | \$3,052,445 | \$4,652,986 | \$4,819,650 | \$4,819,650 |
| Annual % Growth         | N/A         | N/A         | N/A         | 74.9%       | -1.5%       | 52.4%       | 3.6%        | 0.0%        |

**Revenue Source Summary:**

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

**Revenue Source Forecast Factors and Trends:**

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

**Forecast Recommended Changes:**

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



### Fund for a Healthy Maine - Income from Investments

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07     | FY08     | FY09     | FY10     | FY11     |
|-------------------------|-------------|-------------|-------------|----------|----------|----------|----------|----------|
| Current Forecast        | \$54,830    | \$91,444    | \$124,780   | \$25,000 | \$45,000 | \$45,000 |          |          |
| Annual % Growth         | -92.0%      | 66.8%       | 36.5%       | -80.0%   | 80.0%    | 0.0%     |          |          |
| Net Increase (Decrease) |             |             |             | \$45,000 | \$25,000 | \$25,000 |          |          |
| Revised Forecast        | \$54,830    | \$91,444    | \$124,780   | \$70,000 | \$70,000 | \$70,000 | \$70,000 | \$70,000 |
| Annual % Growth         | -92.0%      | 66.8%       | 36.5%       | -43.9%   | 0.0%     | 0.0%     | 0.0%     | 0.0%     |

**Revenue Source Summary:**

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

**Revenue Source Forecast Factors and Trends:**

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

**Forecast Recommended Changes:**

The forecast assumes an increase in earnings above budgeted levels for the forecast period based on the level of earnings for FY06 significantly exceeding budgeted levels. With the continued decrease in FHM balances and the timing of the TSP's, it is assumed interest earnings for the forecast period will not achieve the FY06 level.

# **Appendix D**

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

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

| Source                                                          | FY03 Actual       | FY04 Actual       | % Chg.        | FY05 Actual **    | % Chg.       |
|-----------------------------------------------------------------|-------------------|-------------------|---------------|-------------------|--------------|
| Nursing Facility Tax                                            | 22,048,469        | 30,501,448        | 38.3%         | 29,241,327        | -4.1%        |
| Residential Treatment Facility (ICFs/MR) Tax                    | 1,565,094         | 1,617,662         | 3.4%          | 1,958,739         | 21.1%        |
| Hospital Tax *                                                  | 0                 | 16,383,319        | N/A           | 48,907,135        | 198.5%       |
| Service Provider Tax - Private Non-Medical Institutions (PNMIs) | 0                 | 0                 | N/A           | 15,430,099        | N/A          |
| <b>Total - Health Care Provider Taxes</b>                       | <b>23,613,563</b> | <b>48,502,429</b> | <b>105.4%</b> | <b>95,537,301</b> | <b>97.0%</b> |

\* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.

\*\* The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

\*\*\*The MaineCare service provider tax was expanded in FY06 to include: community support services (effective 6/29/05), day habilitation services (effective 7/1/05), personal support services (effective 7/1/05) and residential training services (effective 7/1/05).

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

| Source                                                          | FY06 Actual ***    | % Chg.       | FY06 Budget ***    | FY06 Variance    | % Chg.      | FY07 Budget        | % Chg.      | Recom. Chg.        | FY07 Revised       | % Chg.      |
|-----------------------------------------------------------------|--------------------|--------------|--------------------|------------------|-------------|--------------------|-------------|--------------------|--------------------|-------------|
| Nursing Facility Tax                                            | 31,397,376         | 7.4%         | 32,400,000         | (1,002,624)      | -3.1%       | 33,210,000         | 5.8%        | (1,027,690)        | 32,182,310         | 2.5%        |
| Residential Treatment Facility (ICFs/MR) Tax                    | 1,868,534          | -4.6%        | 2,005,216          | (136,682)        | -6.8%       | 2,055,346          | 10.0%       | (140,100)          | 1,915,246          | 2.5%        |
| Hospital Tax *                                                  | 54,050,888         | 10.5%        | 53,672,418         | 378,470          | 0.7%        | 55,819,315         | 3.3%        | 393,609            | 56,212,924         | 4.0%        |
| Service Provider Tax - Private Non-Medical Institutions (PNMIs) | 30,779,242         | 99.5%        | 28,621,455         | 2,157,787        | 7.5%        | 29,058,241         | -5.6%       | 2,157,283          | 31,215,524         | 1.4%        |
| <b>Total - Health Care Provider Taxes</b>                       | <b>118,096,040</b> | <b>23.6%</b> | <b>116,699,089</b> | <b>1,396,951</b> | <b>1.2%</b> | <b>120,142,902</b> | <b>1.7%</b> | <b>1,383,102</b>   | <b>121,526,004</b> | <b>2.9%</b> |
| <b>Change in Biennial Totals</b>                                |                    |              |                    |                  |             |                    |             | <b>\$1,383,102</b> |                    |             |

\* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.

\*\* The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

\*\*\*The MaineCare service provider tax was expanded in FY06 to include: community support services (effective 6/29/05), day habilitation services (effective 7/1/05), personal support services (effective 7/1/05) and residential training services (effective 7/1/05).

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

| Source                                                          | FY08 Budget        | % Chg.      | Recom. Chg.      | FY08 Revised       | % Chg.      | FY09 Budget        | % Chg.      | Recom. Chg.        | FY09 Revised       | % Chg.      | FY10 Forecast      | % Chg.      | FY11 Forecast      | % Chg.      |
|-----------------------------------------------------------------|--------------------|-------------|------------------|--------------------|-------------|--------------------|-------------|--------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| Nursing Facility Tax                                            | 34,040,250         | 2.5%        | (1,053,382)      | 32,986,868         | 2.5%        | 34,891,256         | 2.5%        | (1,079,716)        | 33,811,540         | 2.5%        | 34,656,828         | 2.5%        | 35,523,249         | 2.5%        |
| Residential Treatment Facility (ICFs/MR) Tax                    | 2,106,730          | 2.5%        | (143,602)        | 1,963,128          | 2.5%        | 2,159,398          | 2.5%        | (147,192)          | 2,012,206          | 2.5%        | 2,062,511          | 2.5%        | 2,114,074          | 2.5%        |
| Hospital Tax *                                                  | 55,819,315         | 0.0%        | 393,609          | 56,212,924         | 0.0%        | 55,819,315         | 0.0%        | 393,609            | 56,212,924         | 0.0%        | 56,212,924         | 0.0%        | 56,212,924         | 0.0%        |
| Service Provider Tax - Private Non-Medical Institutions (PNMIs) | 29,505,947         | 1.5%        | 2,156,766        | 31,662,713         | 1.4%        | 29,964,846         | 1.6%        | 2,156,236          | 32,121,082         | 1.4%        | 32,590,911         | 1.5%        | 33,072,485         | 1.5%        |
| <b>Total - Health Care Provider Taxes</b>                       | <b>121,472,242</b> | <b>1.1%</b> | <b>1,353,391</b> | <b>122,825,633</b> | <b>1.1%</b> | <b>122,834,815</b> | <b>1.1%</b> | <b>1,322,937</b>   | <b>124,157,752</b> | <b>1.1%</b> | <b>125,523,174</b> | <b>1.1%</b> | <b>126,922,732</b> | <b>1.1%</b> |
| <b>Change in Biennial Totals</b>                                |                    |             |                  |                    |             |                    |             | <b>\$2,676,328</b> |                    |             |                    |             |                    |             |

\* Reflects revenue from the hospital tax first enacted under PL 2003, c. 513 and amended under PL 2003, c. 673, but does not include revenue from previous hospital taxes and assessments.

\*\* The hospital tax rate increased from 0.74% of net operating revenue in FY 04 to 2.23% in FY 05.

\*\*\*The MaineCare service provider tax was expanded in FY06 to include: community support services (effective 6/29/05), day habilitation services (effective 7/1/05), personal support services (effective 7/1/05) and residential training services (effective 7/1/05).

## Nursing Facility Tax

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06 Actual</b> | <b>FY07</b>   | <b>FY08</b>   | <b>FY09</b>   | <b>FY10</b>  | <b>FY11</b>  |
|-------------------------|--------------------|--------------------|--------------------|---------------|---------------|---------------|--------------|--------------|
| Current Forecast        | \$30,501,448       | \$29,241,327       | \$31,397,376       | \$33,210,000  | \$34,040,250  | \$34,891,256  | \$34,656,828 | \$35,523,249 |
| Annual % Growth         | 38.3%              | -4.1%              | 7.4%               | 5.8%          | 2.5%          | 2.5%          | -0.7%        | 2.5%         |
| Net Increase (Decrease) |                    |                    |                    | (\$1,027,690) | (\$1,053,382) | (\$1,079,717) | \$0          | \$0          |
| Revised Forecast        | \$30,501,448       | \$29,241,327       | \$31,397,376       | \$32,182,310  | \$32,986,868  | \$33,811,539  | \$34,656,828 | \$35,523,249 |
| Annual % Growth         | 38.3%              | -4.1%              | 7.4%               | 2.5%          | 2.5%          | 2.5%          | 2.5%         | 2.5%         |

### Revenue Source Summary:

Effective July 1, 2001, PL 2001, c. 714, established a new tax on nursing homes equal to 6% of each facility's annual net operating revenue. Nursing home tax revenue accrues to Other Special Revenue funds. The nursing home tax is dedicated to support nursing home and other long-term care programs, with a part of the proceeds of the tax used to replace reductions in General Fund appropriations for these purposes.

### Revenue Source Forecast Factors and Trends:

Given this tax is based on nursing home net operating revenue, the amount of the tax collected is driven primarily by reimbursements from Medicaid, the largest payer for nursing home services, with reimbursements from other payers (i.e., Medicare, private insurance, and self payers) accounting for the remaining revenue. Medicaid reimbursements to these facilities are driven by Medicaid reimbursement rates and the volume of services.

### Forecast Recommended Changes:

The forecast has been updated to reflect actual 2006 revenue and 2007 1st quarter collections.

### Residential Treatment Facility (ICF's/MR) Tax

|                         | FY04 Actual | FY05 Actual | FY06 Actual | FY07        | FY08        | FY09        | FY10        | FY11        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$1,617,662 | \$1,958,739 | \$1,868,534 | \$2,055,346 | \$2,106,730 | \$2,159,398 | \$2,062,511 | \$2,114,074 |
| Annual % Growth         | 3.4%        | 21.1%       | -4.6%       | 10.0%       | 2.5%        | 2.5%        | -4.5%       | 2.5%        |
| Net Increase (Decrease) |             |             |             | (\$140,100) | (\$143,603) | (\$147,193) | \$0         | \$0         |
| Revised Forecast        | \$1,617,662 | \$1,958,739 | \$1,868,534 | \$1,915,246 | \$1,963,128 | \$2,012,206 | \$2,062,511 | \$2,114,074 |
| Annual % Growth         | 3.4%        | 21.1%       | -4.6%       | 2.5%        | 2.5%        | 2.5%        | 2.5%        | 2.5%        |

**Revenue Source Summary:**

Effective July 1, 2001, PL 2001, c. 714, established a new tax on residential treatment facilities (also known as intermediate care facilities for the mentally retarded or ICF's/MR) equal to 6% of each facility's annual gross patient services revenue. Residential treatment facility tax revenue accrues to Other Special Revenue funds and is dedicated for behavioral and developmental services, with a part of the proceeds of the tax used to replace reductions in General Fund appropriations for these services.

**Revenue Source Forecast Factors and Trends:**

Given this tax is based on residential treatment facility gross patient services revenue, the amount of the tax collected is driven by reimbursements from Medicaid, which accounts for almost all of the revenue for these facilities. Medicaid reimbursements to these facilities are driven by Medicaid reimbursement rates and the volume of services.

**Forecast Recommended Changes:**

The forecast has been updated to reflect actual 2006 revenue and 2007 1st quarter collections.

## Hospital Tax

|                         | <b>FY04 Actual</b> | <b>FY05 Actual</b> | <b>FY06 Actual</b> | <b>FY07</b>  | <b>FY08</b>  | <b>FY09</b>  | <b>FY10</b>  | <b>FY11</b>  |
|-------------------------|--------------------|--------------------|--------------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$16,383,319       | \$48,907,135       | \$54,050,888       | \$55,819,315 | \$55,819,315 | \$55,819,315 | \$56,212,924 | \$56,212,924 |
| Annual % Growth         | N/A                | 198.5%             | 10.5%              | 3.3%         | 0.0%         | 0.0%         | 0.7%         | 0.0%         |
| Net Increase (Decrease) |                    |                    |                    | \$393,609    | \$393,609    | \$393,609    | \$0          | \$0          |
| Revised Forecast        | \$16,383,319       | \$48,907,135       | \$54,050,888       | \$56,212,924 | \$56,212,924 | \$56,212,924 | \$56,212,924 | \$56,212,924 |
| Annual % Growth         | N/A                | 198.5%             | 10.5%              | 4.0%         | 0.0%         | 0.0%         | 0.0%         | 0.0%         |

### Revenue Source Summary:

For fiscal years beginning on or after July 1, 2003, a hospital tax was imposed equal to .74% of each hospital's annual net operating revenue. For fiscal years beginning on or after July 1, 2004, the hospital tax imposed was increased to 2.23% of each hospital's net operating revenue. While the hospital tax is dedicated to support hospital and other MaineCare programs, a portion of the proceeds replaces reductions in General Fund appropriations for these purposes. This hospital tax was added in PL 2003, c. 513 and amended in PL 2003, c. 673, and is distinct from the hospital assessment repealed in 1998 and the one-time hospital assessment in effect for 2003.

### Revenue Source Forecast Factors and Trends:

The hospital tax rate was increased to 2.23 % for 2005. The tax base was originally fixed after 2005, but PL 2005, c. 12, allowed for growth in the tax base through 2007. The tax base and rate is then fixed thereafter.

### Forecast Recommended Changes:

The forecast has been updated to reflect actual 2006 revenue.



### Service Provider Tax (Dedicated Revenue)

|                         | FY04 Actual | FY05 Actual  | FY06 Actual  | FY07         | FY08         | FY09         | FY10         | FY11         |
|-------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current Forecast        | \$0         | \$15,430,099 | \$30,779,242 | \$29,058,241 | \$29,505,948 | \$29,964,846 | \$32,590,911 | \$33,072,485 |
| Annual % Growth         | N/A         | N/A          | 99.5%        | -5.6%        | 1.5%         | 1.6%         | 8.8%         | 1.5%         |
| Net Increase (Decrease) |             |              |              | \$2,157,283  | \$2,156,766  | \$2,156,236  | \$0          | \$0          |
| Revised Forecast        | \$0         | \$15,430,099 | \$30,779,242 | \$31,215,524 | \$31,662,714 | \$32,121,082 | \$32,590,911 | \$33,072,485 |
| Annual % Growth         | N/A         | N/A          | 99.5%        | 1.4%         | 1.4%         | 1.4%         | 1.5%         | 1.5%         |

**Revenue Source Summary:**

Enacted in PL 2003, c. 673, Part V, effective July 1, 2004, revenue from this tax on private non-medical institution (PNMI) services accrues to Other Special Revenue fund accounts in the Department of Health and Human Services and is used to fund MaineCare services, with a part of the proceeds of the tax used to replace General Fund appropriations for these purposes. (Note: revenue from services subject to this tax that were formerly taxed under the sales and use tax, accrue to the general fund - see general fund description). MaineCare-related services subject to this tax have been expanded to include: community support services (effective 6/29/05), day habilitation services (effective 7/1/05), personal support services (effective 7/1/05) and residential training services (effective 7/1/05).

**Revenue Source Forecast Factors and Trends:**

Revenue from this tax is dependent on the volume of payments in a given year for the services (mostly MaineCare) subject to the tax. The PNMI portion of the tax was first in effect for state fiscal year 2005, with actual revenue reflecting approx. 11 months of collections. The forecast for the PNMI tax is based on a full 12 months of services for state fiscal year 2006 trended forward for future years at 2.5%. The forecast for the other MaineCare-related services added for 2006 is based on enacted amounts that were based on estimated MaineCare service volume.

**Forecast Recommended Changes:**

The forecast has been updated to reflect actual 2006 revenue and 2007 1st quarter collections.



## **APPENDIX E**

### **Consensus Economic Forecasting Commission** **Report**

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

**Commissioners**

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

Eleanor Baker  
*Managing Principal  
Baker Newman Noyes, LLC*

John Davulis  
*Chief Economist  
Central Maine Power Co.*

Michael Donihue  
*Associate Professor of Economics  
Colby College*

Charles Lawton  
*Senior Economist  
Planning Decisions, Inc.*

**Support Staff**

Michael Allen, *Maine Revenue Services*  
John Dorrer, *Maine Department of Labor*  
David Douglass, *Maine State Planning Office*  
John Nyada, *Maine Revenue Services*  
Catherine Reilly, *Maine State Planning Office*  
Jerome Stanhope, *Maine Revenue Services*

## Summary

The Maine Consensus Economic Forecasting Commission (CEFC) met on October 3, 2006. As required by statute, the CEFC updated its February 2006 economic forecast for Maine. The Commission also extended the forecast to 2011 to encompass the next fiscal biennium. This is the Commission's first forecast that takes into consideration the approaching closure of Naval Air Station Brunswick.

For 2006-2009, the Commission made minor adjustments to its February forecast based on updated information reported by the Maine Department of Labor (DOL), Maine Revenue Services (MRS), and the Maine State Planning Office (SPO); recent national and state economic indicators; and current forecast models. The table below summarizes their revised forecast for wage and salary employment growth, personal income growth, and the U.S. Consumer Price Index (a measure of inflation). The CEFC forecasts growth for wage and salary employment in the range of 0.4% to 0.8% annually. This employment growth will be accompanied by growth in personal income, which should grow 5.2% in 2006 and sustain annual growth at or above 4.2% through 2011. The Commission increased its 2006 inflation forecast to 3.5%. However, inflation is projected to return to 2.2% in later years.

| Calendar Years                                        | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------------------------------|------|------|------|------|------|------|
| <b>Wage &amp; Salary Employment (Annual % Change)</b> |      |      |      |      |      |      |
| CEFC Forecast 2/2006                                  | 0.5  | 0.6  | 0.6  | 0.7  |      |      |
| CEFC Forecast 11/2006                                 | 0.5  | 0.4  | 0.6  | 0.8  | 0.7  | 0.6  |
| <b>Personal Income (Annual % Change)</b>              |      |      |      |      |      |      |
| CEFC Forecast 2/2006                                  | 5.0  | 4.5  | 4.5  | 4.5  |      |      |
| CEFC Forecast 11/2006                                 | 5.2  | 4.3  | 4.5  | 4.5  | 4.3  | 4.2  |
| <b>CPI (Annual % Change)</b>                          |      |      |      |      |      |      |
| CEFC Forecast 2/2006                                  | 2.8  | 2.5  | 2.2  | 2.2  |      |      |
| CEFC Forecast 11/2006                                 | 3.5  | 2.5  | 2.2  | 2.2  | 2.2  | 2.2  |

In making these adjustments, the CEFC drew upon information presented by several state agencies. The following sections summarize their reports.

### Maine Department of Labor

In the first eight months of 2006, the Maine labor market has sustained increases in both the number of non-farm wage and salary jobs and the number of employed residents. Compared to the first eight months of 2005, the seasonally-adjusted average job count increased by 1,200, or 0.2%, to 608,900. During the same time, the number of employed Maine residents grew by 1.2%. The seasonally-adjusted unemployment rate was 4.5%,

below the national rate of 4.7%. In the more recent period of June, July, and August, both Maine and the nation averaged 4.7% unemployment.

In August 2006, year-over-year job gains were strongest in business and professional services, up 2.9%; construction, up 1.8%; health and social services, up 1.5%; wholesale trade, up 1.4%; and transportation, warehousing and utilities, up 1.2%.

All of the above estimates are from the Current Employment Survey (CES) of approximately 2,000 Maine employers. These preliminary numbers are always revised based on data from the Quarterly Census of Employment and Wages (QCEW). The QCEW covers nearly all Maine employers. Because of the volume of data it provides, it has a longer time lag than the CES. The latest QCEW figures, released after the October 3<sup>rd</sup> meeting, but reviewed by Commission members, show year-over-year employment increases in all months through June. In each month the increase is greater than the estimates from the CES. These early QCEW data suggest stronger growth than currently reflected by CES estimates.

DOL also noted shorter average duration of unemployment and reductions in the number of individuals exhausting unemployment benefits compared to one year ago.

Regarding the closing of Naval Air Station Brunswick (NASB), DOL indicated that approximately 580 federal civilian positions will be eliminated between 2007 and 2011. These employees will likely have access to federal support for retraining, relocation, or early retirement. The greater impact on the Maine economy is likely to come from the spillover effects of reduced regional demand because of the outmigration of military personnel and their families from the base. Since the timeframe for closing NASB is contingent on the development of capacity in Jacksonville, Florida specific annual job loss estimates are not currently possible. The CEFC forecast is based on the Department of Defense's announced intentions to begin transferring personnel from Brunswick to Jacksonville in 2009, continuing into 2010. This schedule and the impacts of NASB on the economy may be delayed if required improvements to NAS Jacksonville are delayed.

### **Maine Revenue Services**

Maine Revenue Services reported that total taxable sales in the first quarter of 2006 were 7.0% higher than the first quarter of 2005. Second-quarter sales rose 1.0%. Given these initial results, the state is currently on track to exceed the 2.0% taxable sales increase seen in 2005. Two areas to watch are automotive sales and building supply sales. The total value of vehicle sales has fallen as consumer demand has shifted away from large vehicles and toward smaller, more fuel-efficient vehicles. Furthermore, numerous sales incentives over the last few years have likely saturated the market. In particular, many U.S. automakers introduced employee-price incentives in 2005.

Building supply sales, an area that historically has been strong, has also shown signs of slowing. This likely reflects developments in the housing market which both nationally and in Maine is showing signs of significant slowing.

Individual income tax withholdings continue to grow at a rate similar to 2005. The first three quarters of 2006 showed year-over-year growth of 4.2%. Corporate income tax revenues continue to exceed projections, but have recently shown signs of slowing. All other revenue sources are in line with current projections.

### **Maine State Planning Office**

Early indicators for 2006 show expansion in the Maine economy. Unemployment has remained at or below the national level, employment has risen, and personal income increased by 5.2% in the first three quarters. The housing market remained stable in the first half of 2006. The first quarter saw seasonally-adjusted annual sales of 36,400; the highest recorded. However, there is indication that the slow down in the national housing market is reaching Maine. January-August new housing permits dropped 13% compared to the same period in 2005. (At the same time, permits fell 12% in New England. Growth varied from an increase of 3% in Rhode Island to a decrease of 23% in New Hampshire.) The Maine Real Estate Information System reported August existing home sales were down 17.8% compared to August 2005.

The CEFC expects these trends in the housing market to affect the Maine economy over the next 3-4 quarters, but the effects of the national trends are expected to be somewhat less in Maine because of continuing demand for “high amenity” real estate, such as on the coast.

In the first half of 2006, Maine contended with increasing energy prices and rising inflation. The price of a barrel of oil exceeded \$74 in August and the Consumer Price Index grew at a compound annual rate of 3.6% in June, July, and August. Maine has historically had a relatively high energy intensity economy. The amount of energy used per dollar of Gross State Product has increased from 8.9% in 2002 to an estimated 11.0% in 2005. The 2002 energy intensity was 28% higher than the national average. John Davulis noted that much of this difference is due to the paper industry. Independent of paper, Maine is more in line with national averages.

SPO provided an update on plans to redevelop Naval Air Station Brunswick. In advance of the base closure, a redevelopment process is being led by the Local Redevelopment Authorities (LRAs) for the towns of Brunswick and Topsham. The LRAs have hired a consulting firm specializing in base redevelopment. In addition, they have initiated base tours and public workshops for community input on reuse scenarios. They intend to finalize reuse plans over the next 15 months.

SPO also presented historical data on the components of personal income. Since 1970, earnings' share of income has steadily declined in both Maine and the U.S. Meanwhile, the share of income from transfer payments and dividends, interest, and rent has risen. SPO presented further information on the breakdown of the latter income source. In 2005, “dividends, interest, and rent” income in Maine was comprised of 61.4% interest,

31.9% dividends, and 6.7% rent. These proportions have changed over time. Recently, dividend income has appeared to grow faster than income from interest and rent.

### **Consensus Forecast**

The above information and four forecasts formed the basis of the Commission's consensus forecast. The New England Economic Partnership and State Planning Office forecasts were based on a model prepared by Moody's/Economy.com. John Davulis presented a forecast for personal income that he developed. Global Insight, Inc. generated the fourth forecast.

In general, the forecasts presented similar trends for wage and salary employment, personal income, and the Consumer Price Index, but showed differences in magnitude.

Taking into consideration the information presented at the meeting, the Commission concluded that Maine's job market has strengthened since 2005 and should sustain growth through 2011. Using the latest employment estimates from the Department of Labor, the Commission maintained its February projection of 0.5% non-farm wage and salary employment growth in 2006. Employment growth in 2007 was lowered to 0.4% based on evidence of a weakening housing market.

The discussion of 2008-2011 employment growth focused on the impact of closing Naval Air Station Brunswick. The impact is assumed to be somewhere between the worst case scenario (no redevelopment of the base property and facilities) and the best case scenario (quick redevelopment accompanied by ample new job opportunities). Currently there is no definitive information about how the base will be reused. Although the timing for pullout has not been finalized by the Navy, most personnel will probably leave in 2009-2011. This will result in indirect job losses throughout the region. Estimates for wage and salary job growth in 2009, 2010, and 2011 were reduced below the model estimates to reflect this impact.

The CEFC raised its forecast for 2006 personal income growth from 5.0% to 5.2%. The Commission noted that growth in the job market and recent reports of strong dividend earnings will support income growth. However, growth is expected to be 4.3% in 2007, again based on evidence of a softening housing market. The Commission discussed the wealth effect of home values. In Maine and nationwide, falling home prices could reduce household consumption as homeowners feel less wealthy. The Commission left unchanged its forecast for 4.5% income growth in 2008 and 2009, and projected slightly lower growth in the following two years in response to NASB's closure.

The Commission increased its forecast of income growth from wages and salaries and dividends, interest, and rent based on stronger than expected year-to-date growth. The Commission revised its forecast for 2006 wage and salary growth from 4.2% to 4.8%, and held its forecast of 4.2% annual growth in the following three years. In 2010 and 2011, the Commission projects slightly lower growth in response to NASB's closure. Projected growth in dividends, interest, and rent was increased to 5.5% for 2006 and

5.0% for the following years. The Commission also provided individual growth rates for the three components of dividends, interest, and rent.

The forecast for the Consumer Price Index was revised upward by 0.5 percentage points to 3.5%. The Commission made the increase based on year-to-date inflation data. The Commission lowered inflation estimates for 2007 to 2.5% and for 2008-2011 to 2.2%. In making this change they noted the limited likelihood of further oil price spikes and interest rate increases by the Federal Reserve that should reduce inflationary pressure.



Maine Consensus Economic Forecasting Commission

November 2006 Forecast

|                                             | 2001    | 2002    | 2003    | 2004    | History<br>2005 | Forecast<br>2006 | 2007    | 2008    | 2009    | 2010    | 2011    |
|---------------------------------------------|---------|---------|---------|---------|-----------------|------------------|---------|---------|---------|---------|---------|
| <b>CPI-U* (Annual Change)</b>               | 2.8%    | 1.6%    | 2.3%    | 2.7%    | 3.4%            | 3.5%             | 2.5%    | 2.2%    | 2.2%    | 2.2%    | 2.2%    |
| <b>Maine Unemployment Rate**</b>            | 3.8%    | 4.4%    | 5.0%    | 4.6%    | 4.8%            | 4.5%             | 4.7%    | 4.7%    | 4.5%    | 4.5%    | 4.5%    |
| <b>3-Month Treasury Bill Rate**</b>         | 3.4%    | 1.6%    | 1.0%    | 1.4%    | 3.1%            | 4.7%             | 4.7%    | 4.6%    | 4.6%    | 4.4%    | 4.4%    |
| <b>10-Year Treasury Note Rate**</b>         | 5.0%    | 4.6%    | 4.0%    | 4.3%    | 4.3%            | 5.1%             | 5.1%    | 5.3%    | 5.5%    | 5.6%    | 5.6%    |
| Employment (thousands)                      |         |         |         |         |                 |                  |         |         |         |         |         |
| <b>Maine Wage &amp; Salary Employment*</b>  | 608.1   | 606.4   | 606.7   | 611.7   | 611.6           | 614.6            | 617.1   | 620.8   | 625.7   | 630.1   | 633.9   |
| <b>Natural Resources</b>                    | 2.7     | 2.6     | 2.5     | 2.6     | 2.7             | 2.7              | 2.7     | 2.7     | 2.7     | 2.7     | 2.6     |
| <b>Construction</b>                         | 29.8    | 29.4    | 30.5    | 30.7    | 30.6            | 30.6             | 29.6    | 29.5    | 29.4    | 29.6    | 29.8    |
| <b>Manufacturing</b>                        | 74.6    | 68.0    | 64.1    | 63.0    | 61.2            | 60.0             | 59.6    | 59.4    | 59.3    | 59.1    | 59.0    |
| <b>Trade/Trans./Public Utils.</b>           | 123.7   | 123.3   | 123.2   | 125.2   | 125.4           | 125.4            | 126.4   | 126.3   | 127.0   | 127.4   | 127.8   |
| <b>Information</b>                          | 12.1    | 11.6    | 11.3    | 11.2    | 11.2            | 11.2             | 11.4    | 11.5    | 11.7    | 11.7    | 11.8    |
| <b>Financial Activities</b>                 | 35.1    | 35.1    | 35.1    | 34.9    | 34.1            | 34.1             | 34.3    | 34.7    | 35.1    | 35.3    | 35.9    |
| <b>Prof. &amp; Business Services</b>        | 51.8    | 51.4    | 50.3    | 49.6    | 50.1            | 51.4             | 52.5    | 53.6    | 54.7    | 55.7    | 56.7    |
| <b>Education &amp; Health Services</b>      | 100.8   | 104.9   | 107.3   | 110.9   | 112.2           | 113.8            | 114.8   | 116.6   | 118.9   | 121.7   | 123.0   |
| <b>Leisure &amp; Hospitality Services</b>   | 56.4    | 57.3    | 58.4    | 58.8    | 59.0            | 59.3             | 60.1    | 61.5    | 62.7    | 63.3    | 63.7    |
| <b>Other Services</b>                       | 19.1    | 19.8    | 20.3    | 20.0    | 20.0            | 20.2             | 20.4    | 20.4    | 20.6    | 20.8    | 21.1    |
| <b>Government</b>                           | 102.0   | 103.1   | 103.7   | 104.7   | 105.1           | 105.9            | 105.2   | 104.4   | 103.7   | 102.7   | 102.6   |
| <b>Agricultural Employment</b>              | 17.7    | 18.0    | 17.8    | 17.1    | 16.8            | 17.1             | 17.1    | 17.1    | 17.1    | 17.1    | 17.1    |
| Annual Growth Rate                          |         |         |         |         |                 |                  |         |         |         |         |         |
| <b>Maine Wage &amp; Salary Employment*</b>  | -       | -0.3%   | 0.1%    | 0.8%    | 0.0%            | 0.5%             | 0.4%    | 0.6%    | 0.8%    | 0.7%    | 0.6%    |
| <b>Natural Resources</b>                    | -       | -2.5%   | -2.6%   | 2.6%    | 4.0%            | 0.2%             | -0.6%   | -0.5%   | -0.5%   | -0.5%   | -0.5%   |
| <b>Construction</b>                         | -       | -1.3%   | 3.6%    | 0.8%    | -0.6%           | 0.1%             | -3.4%   | -0.3%   | -0.1%   | 0.7%    | 0.5%    |
| <b>Manufacturing</b>                        | -       | -8.8%   | -5.8%   | -1.7%   | -2.8%           | -2.0%            | -0.7%   | -0.4%   | -0.2%   | -0.2%   | -0.3%   |
| <b>Trade/Trans./Public Utils.</b>           | -       | -0.3%   | -0.1%   | 1.7%    | 0.1%            | 0.0%             | 0.7%    | -0.1%   | 0.5%    | 0.3%    | 0.2%    |
| <b>Information</b>                          | -       | -4.7%   | -2.0%   | -1.2%   | 0.0%            | 0.3%             | 1.2%    | 1.1%    | 1.2%    | 0.1%    | 0.9%    |
| <b>Financial Activities</b>                 | -       | 0.0%    | 0.0%    | -0.5%   | -2.3%           | -0.1%            | 0.8%    | 1.1%    | 0.9%    | 0.7%    | 1.7%    |
| <b>Prof. &amp; Business Services</b>        | -       | -0.9%   | -2.1%   | -1.5%   | 1.1%            | 2.6%             | 2.1%    | 2.0%    | 2.0%    | 1.9%    | 1.8%    |
| <b>Education &amp; Health Services</b>      | -       | 4.2%    | 2.3%    | 3.4%    | 1.2%            | 1.4%             | 0.9%    | 1.5%    | 1.9%    | 2.3%    | 1.1%    |
| <b>Leisure &amp; Hospitality Services</b>   | -       | 1.5%    | 2.0%    | 0.6%    | 0.4%            | 0.5%             | 1.3%    | 2.4%    | 1.8%    | 0.9%    | 0.8%    |
| <b>Other Services</b>                       | -       | 3.5%    | 2.5%    | -1.1%   | 0.1%            | 0.7%             | 0.8%    | 0.3%    | 0.9%    | 0.9%    | 1.2%    |
| <b>Government</b>                           | -       | 1.0%    | 0.7%    | 1.0%    | 0.4%            | 0.8%             | -0.7%   | -0.8%   | -0.8%   | -1.0%   | -0.1%   |
| <b>Agricultural Employment</b>              | -       | 1.3%    | -1.0%   | -4.2%   | -1.5%           | 2.0%             | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Seasonally Adjusted (millions)              |         |         |         |         |                 |                  |         |         |         |         |         |
| <b>Personal Income*</b>                     | 35107.1 | 35998.5 | 37588.0 | 39313.7 | 40713.6         | 42830.7          | 44672.4 | 46682.6 | 48783.4 | 50881.0 | 53018.1 |
| <b>Wage &amp; Salary Disbursements*</b>     | 17982.9 | 18551.6 | 19277.0 | 20213.1 | 20612.9         | 21610.5          | 22518.2 | 23475.0 | 24472.4 | 25487.8 | 26519.8 |
| <b>Supplements to Wages &amp; Salaries*</b> | 4058.4  | 4422.4  | 4710.2  | 5004.5  | 5255.5          | 5494.1           | 5741.3  | 6002.5  | 6275.6  | 6529.7  | 6790.9  |
| <b>Non-Farm Proprietors' Income*</b>        | 2768.0  | 2630.7  | 2704.2  | 3031.7  | 3239.4          | 3402.6           | 3555.8  | 3717.5  | 3886.6  | 4055.7  | 4230.1  |
| <b>Farm Proprietors' Income</b>             | 27.3    | -35.8   | 0.9     | 32.5    | 29.9            | 31.2             | 32.4    | 33.8    | 35.2    | 36.6    | 38.1    |
| <b>Dividends, Interest, &amp; Rent*</b>     | 6338.2  | 6089.3  | 6048.0  | 5796.3  | 5772.0          | 6091.8           | 6396.4  | 6719.3  | 7058.7  | 7415.0  | 7785.8  |
| <b>Dividends</b>                            | 1538.3  | 1673.7  | 1878.2  | 1916.4  | 1841.4          | 1977.7           | 2122.0  | 2274.8  | 2438.6  | 2611.8  | 2797.2  |
| <b>Interest</b>                             | 4078.3  | 3797.6  | 3623.3  | 3352.8  | 3543.5          | 3731.3           | 3899.2  | 4074.7  | 4254.0  | 4441.2  | 4632.1  |
| <b>Rent</b>                                 | 721.6   | 618.0   | 546.5   | 527.1   | 387.1           | 379.3            | 371.8   | 364.3   | 357.0   | 349.9   | 342.9   |
| <b>Transfer Payments*</b>                   | 6017.5  | 6477.5  | 7033.3  | 7486.8  | 8155.7          | 8607.5           | 9012.1  | 9422.0  | 9841.2  | 10279.1 | 10736.5 |
| <b>Less: Contributions to Social Ins.</b>   | 2811.7  | 2846.9  | 2891.6  | 3001.1  | 3140.4          | 3317.6           | 3475.2  | 3654.2  | 3842.3  | 4036.3  | 4235.4  |
| <b>Residence Adjustment</b>                 | 726.5   | 709.6   | 706.0   | 749.9   | 788.6           | 834.7            | 875.1   | 918.5   | 964.5   | 1012.2  | 1062.3  |
| <b>Farm Income</b>                          | 111.4   | 70.7    | 92.5    | 127.8   | 114.7           | 120.6            | 125.8   | 131.5   | 137.4   | 143.3   | 149.3   |
| Annual Growth Rate                          |         |         |         |         |                 |                  |         |         |         |         |         |
| <b>Personal Income*</b>                     | -       | 2.5%    | 4.4%    | 4.6%    | 3.6%            | 5.2%             | 4.3%    | 4.5%    | 4.5%    | 4.3%    | 4.2%    |
| <b>Wage &amp; Salary Disbursements*</b>     | -       | 3.2%    | 3.9%    | 4.9%    | 2.0%            | 4.8%             | 4.2%    | 4.2%    | 4.2%    | 4.1%    | 4.0%    |
| <b>Supplements to Wages &amp; Salaries*</b> | -       | 9.0%    | 6.5%    | 6.2%    | 5.0%            | 4.5%             | 4.5%    | 4.5%    | 4.5%    | 4.0%    | 4.0%    |
| <b>Non-Farm Proprietors' Income*</b>        | -       | -5.0%   | 2.8%    | 12.1%   | 6.9%            | 5.0%             | 4.5%    | 4.5%    | 4.5%    | 4.3%    | 4.3%    |
| <b>Farm Proprietors' Income</b>             | -       | NA      | NA      | 3584.5% | -8.0%           | 4.2%             | 4.0%    | 4.1%    | 4.1%    | 4.1%    | 4.1%    |
| <b>Dividends, Interest, &amp; Rent*</b>     | -       | -3.9%   | -0.7%   | -4.2%   | -0.4%           | 5.5%             | 5.0%    | 5.0%    | 5.0%    | 5.0%    | 5.0%    |
| <b>Dividends</b>                            | -       | 8.8%    | 12.2%   | 2.0%    | -3.9%           | 7.4%             | 7.3%    | 7.2%    | 7.2%    | 7.1%    | 7.1%    |
| <b>Interest</b>                             | -       | -6.9%   | -4.6%   | -7.5%   | 5.7%            | 5.3%             | 4.5%    | 4.5%    | 4.4%    | 4.4%    | 4.3%    |
| <b>Rent</b>                                 | -       | -14.4%  | -11.6%  | -3.5%   | -26.6%          | -2.0%            | -2.0%   | -2.0%   | -2.0%   | -2.0%   | -2.0%   |
| <b>Transfer Payments*</b>                   | -       | 7.6%    | 8.6%    | 6.4%    | 8.9%            | 5.5%             | 4.7%    | 4.5%    | 4.4%    | 4.4%    | 4.4%    |
| <b>Less: Contributions to Social Ins.</b>   | -       | 1.3%    | 1.6%    | 3.8%    | 4.6%            | 5.6%             | 4.8%    | 5.1%    | 5.1%    | 5.0%    | 4.9%    |
| <b>Residence Adjustment</b>                 | -       | -2.3%   | -0.5%   | 6.2%    | 5.2%            | 5.8%             | 4.9%    | 4.9%    | 5.0%    | 4.9%    | 4.9%    |
| <b>Farm Income</b>                          | -       | -36.6%  | 30.9%   | 38.2%   | -10.3%          | 5.2%             | 4.3%    | 4.5%    | 4.5%    | 4.3%    | 4.2%    |

\*CEFC Forecast

\*\*Maine Unemployment Rate, and 3-month Treasury Bill and 10-year Treasury Bond rates from Moody's Economy.com - Sept. 2006

Remaining lines derived from the CEFC forecast by CEFC staff and reviewed by the CEFC.



## **REVENUE FORECASTING COMMITTEE**

### **Appendix F**

# **Historical Background and Methodology of Maine's Revenue Forecasting Process**

## **APPENDIX F**

### **Historical Background and Methodology of Maine's Revenue Forecasting Process**

#### **History**

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

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

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

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

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

#### **Methodology**

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

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

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

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

### **Major revenue sources tied to economic forecast**

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

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

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

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

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

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

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

### **Length of Forecast**

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

### **Current Tax Law**

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

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

### **Forecast Schedule**

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

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



## APPENDIX G

### Materials Distributed by Maine Revenue Services on November 28, 2006

Maine Revenue Services  
Economic Research Division

**STATE OF MAINE**  
 Undedicated Revenues - General Fund  
 For the Twelfth Month Ended June 30, 2006  
 For the Fiscal Year Ending June 30, 2006  
 Comparison to Budget

EXHIBIT I

|                                       | Month              |                    |                       | Year to Date         |                      |                      | Total Budgeted Fiscal Year Ending 6-30-2006 |                       |                      |
|---------------------------------------|--------------------|--------------------|-----------------------|----------------------|----------------------|----------------------|---------------------------------------------|-----------------------|----------------------|
|                                       | Actual             | Budget             | Variance Over/(under) | Percent Over/(under) | Actual               | Budget               |                                             | Variance Over/(under) | Percent Over/(under) |
| Sales and Use Tax                     | 169,478,364        | 167,591,405        | 1,886,959             | 1.1%                 | 946,174,276          | 930,641,080          | 15,533,196                                  | 1.7%                  | 930,641,080          |
| Service Provider Tax                  | 8,005,372          | 7,862,581          | 142,791               | 1.8%                 | 47,028,431           | 46,494,165           | 534,266                                     | 1.1%                  | 46,494,165           |
| Individual Income Tax                 | 175,599,236        | 178,959,232        | (3,359,996)           | (1.9%)               | 1,254,510,746        | 1,228,307,845        | 26,202,901                                  | 2.1%                  | 1,228,307,845        |
| Corporate Income Tax                  | 26,686,857         | 36,891,743         | (10,204,886)          | (27.7%)              | 188,015,557          | 175,150,000          | 12,865,557                                  | 7.3%                  | 175,150,000          |
| Cigarette and Tobacco Tax             | 17,003,760         | 14,228,305         | 2,775,455             | 19.5%                | 156,951,370          | 151,738,325          | 5,213,045                                   | 3.4%                  | 151,738,325          |
| Public Utilities Tax                  | (6)                | -                  | (6)                   | -                    | 20,627,030           | 21,440,000           | (812,970)                                   | (3.8%)                | 21,440,000           |
| Insurance Companies Tax               | 24,148,378         | 22,789,005         | 1,359,373             | 6.0%                 | 76,065,864           | 72,141,931           | 3,923,933                                   | 5.4%                  | 72,141,931           |
| Estate Tax                            | 9,260,089          | 8,042,298          | 1,217,791             | 15.1%                | 75,330,514           | 70,099,322           | 5,231,192                                   | 7.5%                  | 70,099,322           |
| Property Tax - Unorg Territory        | 1,998,906          | 175,163            | 1,823,743             | 1041.2%              | 11,559,305           | 11,278,476           | 280,829                                     | 2.5%                  | 11,278,476           |
| Income from Investments               | 2,795,797          | 1,301,825          | 1,493,972             | 114.8%               | 8,271,870            | 6,563,582            | 1,708,288                                   | 26.0%                 | 6,563,582            |
| Transfer to Municipal Revenue Sharing | (19,368,261)       | (19,949,409)       | 581,148               | 2.9%                 | (124,222,180)        | (121,410,248)        | (2,811,932)                                 | (2.3%)                | (121,410,248)        |
| Transfer from Liquor Commission       | 2,600              | -                  | 2,600                 | -                    | 25,653               | -                    | 25,653                                      | -                     | -                    |
| Transfer from Lottery Commission      | 3,484,556          | 3,871,860          | (387,304)             | (10.0%)              | 50,879,646           | 50,334,250           | 545,396                                     | 1.1%                  | 50,334,250           |
| Other Revenues                        | 36,154,120         | 28,674,440         | 7,479,680             | 26.1%                | 220,607,603          | 214,959,376          | 5,648,227                                   | 2.6%                  | 214,959,376          |
| <b>Total Collected</b>                | <b>455,249,768</b> | <b>450,438,448</b> | <b>4,811,320</b>      | <b>1.1%</b>          | <b>2,931,825,685</b> | <b>2,857,738,104</b> | <b>74,087,581</b>                           | <b>2.6%</b>           | <b>2,857,738,104</b> |

- NOTES: (1) Included in the above is \$19,368,261 for the month and \$124,222,180 year to date, that was set aside for Revenue Sharing with cities and towns. Of this, \$23,737,736 was transferred to the Disproportionate Tax Burden Fund.
- (2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in March 2006.
- (3) This report has been prepared from preliminary month end figures and is subject to change.



STATE OF MAINE  
 Undedicated Revenues - General Fund  
 For the Twelfth Month Ended June 30, 2006 and 2005  
 For the Fiscal Years Ending June 30, 2006 and 2005  
 Comparison to Prior Year

EXHIBIT II

|                                       | Month              |                    |                       | Year to Date         |                      |                      |                       |                      |
|---------------------------------------|--------------------|--------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|
|                                       | Current Year       | Prior Year         | Variance Over/(under) | Percent Over/(under) | Current Year         | Prior Year           | Variance Over/(under) | Percent Over/(under) |
| Sales and Use Tax                     | 169,478,364        | 160,791,481        | 8,686,883             | 5.4%                 | 946,174,276          | 896,576,322          | 49,597,954            | 5.5%                 |
| Service Provider Tax                  | 8,005,372          | 7,959,314          | 46,057                | 0.6%                 | 47,028,431           | 44,645,517           | 2,382,914             | 5.3%                 |
| Individual Income Tax                 | 175,599,236        | 172,564,907        | 3,034,329             | 1.8%                 | 1,254,510,746        | 1,270,225,329        | (15,714,583)          | (1.2%)               |
| Corporate Income Tax                  | 25,686,857         | 31,311,776         | (4,624,919)           | (14.8%)              | 188,015,557          | 135,862,913          | 52,152,644            | 38.4%                |
| Cigarette and Tobacco Tax             | 17,003,760         | 9,016,258          | 7,987,502             | 88.6%                | 156,951,370          | 96,350,704           | 60,600,667            | 62.9%                |
| Public Utilities Tax                  | (6)                | (10,914)           | 10,908                | 99.9%                | 20,627,030           | 25,403,214           | (4,776,184)           | (18.8%)              |
| Insurance Companies Tax               | 24,148,378         | 25,644,701         | (1,496,323)           | (5.8%)               | 76,065,864           | 75,669,053           | 396,811               | 0.5%                 |
| Estate Tax                            | 9,260,089          | 6,925,114          | 2,334,975             | 33.7%                | 75,330,514           | 32,255,727           | 43,074,787            | 133.5%               |
| Property Tax - Unorg Territory        | 1,998,906          | 984,289            | 1,014,617             | 103.1%               | 11,559,305           | 10,622,666           | 936,639               | 8.8%                 |
| Income from Investments               | 2,795,797          | 1,632,752          | 1,163,045             | 71.2%                | 8,271,870            | 5,854,625            | 2,417,245             | 41.3%                |
| Transfer to Municipal Revenue Sharing | (19,368,261)       | (19,004,001)       | (364,260)             | (1.9%)               | (124,222,180)        | (119,712,814)        | (4,509,366)           | (3.8%)               |
| Transfer from Liquor Commission       | 2,600              | (1,756)            | 4,356                 | 248.1%               | 25,653               | 21,467               | 4,185                 | 19.5%                |
| Transfer from Lottery Commission      | 3,484,556          | 3,631,568          | (147,013)             | (4.0%)               | 50,879,646           | 49,328,102           | 1,551,544             | 3.1%                 |
| Other Revenues                        | 36,154,120         | 40,794,893         | (4,640,773)           | (11.4%)              | 220,607,603          | 267,742,227          | (47,134,624)          | (17.6%)              |
| <b>Total Collected</b>                | <b>455,249,768</b> | <b>442,240,382</b> | <b>13,009,386</b>     | <b>2.9%</b>          | <b>2,931,825,685</b> | <b>2,790,845,053</b> | <b>140,980,632</b>    | <b>5.1%</b>          |

**STATE OF MAINE**  
 Undedicated Revenues - General Fund  
 For the Twelfth Month Ending June 30, 2006  
 For the Fiscal Year Ending June 30, 2006  
 Comparison to Budget

EXHIBIT III

| Detail of Other Revenues                | Month      |            |                       | Year to Date         |             |             | Total Budgeted Fiscal Year Ending 6-30-2006 |                       |                      |
|-----------------------------------------|------------|------------|-----------------------|----------------------|-------------|-------------|---------------------------------------------|-----------------------|----------------------|
|                                         | Actual     | Budget     | Variance Over/(under) | Percent Over/(under) | Actual      | Budget      |                                             | Variance Over/(under) | Percent Over/(under) |
|                                         |            |            |                       |                      |             |             |                                             |                       |                      |
| 0100's All Others                       | 2,844,500  | 2,025,371  | 819,129               | 40.4%                | 28,055,172  | 26,756,844  | 1,298,328                                   | 4.9%                  | 26,756,844           |
| 0300's Aeronautical Gas Tax             | 20,299     | 23,198     | (2,899)               | (12.5%)              | 605,890     | 553,020     | 52,870                                      | 9.6%                  | 553,020              |
| 0400's Alcohol Excise Tax               | 1,769,690  | 1,473,923  | 295,767               | 20.1%                | 15,691,844  | 15,437,047  | 254,797                                     | 1.7%                  | 15,437,047           |
| 0700's Corporation Taxes                | 1,452,507  | 985,491    | 467,016               | 47.4%                | 6,385,452   | 5,528,707   | 856,745                                     | 15.5%                 | 5,528,707            |
| 1000's Banking Taxes                    | 1,620,490  | 1,665,296  | (44,806)              | (2.7%)               | 20,471,110  | 19,912,310  | 558,800                                     | 2.8%                  | 19,912,310           |
| 1100's Alcoholic Beverages              | 596,661    | 291,663    | 304,998               | 104.6%               | 3,743,166   | 3,118,590   | 624,576                                     | 20.0%                 | 3,118,590            |
| 1200's Amusements Tax                   | -          | -          | -                     | -                    | 2,710       | 4,000       | (1,290)                                     | (32.3%)               | 4,000                |
| 1300's Harness Racing/Parimutuels/Slots | 509,107    | 367,282    | 141,825               | 38.6%                | 4,482,192   | 3,662,534   | 819,658                                     | 22.4%                 | 3,662,534            |
| 1400's Business Taxes                   | 1,558,185  | 790,511    | 767,674               | 97.1%                | 8,777,212   | 7,929,455   | 847,757                                     | 10.7%                 | 7,929,455            |
| 1500's Motor Vehicle Licenses           | 274,727    | 265,586    | 9,141                 | 3.4%                 | 3,454,543   | 3,961,713   | (507,170)                                   | (12.8%)               | 3,961,713            |
| 1700's Inland Fisheries & Wildlife      | 382,485    | 1,446,543  | (1,064,058)           | (73.6%)              | 16,840,080  | 16,144,351  | 695,729                                     | 4.3%                  | 16,144,351           |
| 1900's Hospital Excise & Other          | 40,696     | 58,021     | (17,325)              | (29.9%)              | 383,582     | 420,036     | (36,454)                                    | (8.7%)                | 420,036              |
| 2000's Fines, Forfeits & Penalties      | 4,498,530  | 4,029,808  | 468,722               | 11.6%                | 37,781,055  | 40,542,996  | (2,761,941)                                 | (6.8%)                | 40,542,996           |
| 2200's Federal Revenues                 | 2,461,238  | 1,280,061  | 1,181,177             | 92.3%                | 17,987,029  | 20,925,471  | (2,938,442)                                 | (14.0%)               | 20,925,471           |
| 2300's County Revenues                  | -          | -          | -                     | -                    | -           | -           | -                                           | -                     | -                    |
| 2400's Revenues from Cities & Towns     | 17,858     | 16,500     | 1,358                 | 8.2%                 | 56,981      | 60,000      | (3,019)                                     | (5.0%)                | 60,000               |
| 2500's Revenues from Private Sources    | (55,158)   | 211,180    | (266,338)             | (126.1%)             | 5,379,357   | 5,086,297   | 293,060                                     | 5.8%                  | 5,086,297            |
| 2600's Current Service Charges          | 3,289,233  | 3,351,581  | (62,348)              | (1.9%)               | 35,196,089  | 34,550,520  | 645,569                                     | 1.9%                  | 34,550,520           |
| 2700's Transfers from Other Funds       | 14,788,227 | 10,390,425 | 4,397,802             | 42.3%                | 15,089,996  | 10,242,885  | 4,847,111                                   | 47.3%                 | 10,242,885           |
| 2800's Sales of Property & Equipment    | 84,847     | 2,000      | 82,847                | 4142.3%              | 224,145     | 122,600     | 101,545                                     | 82.8%                 | 122,600              |
| Total Other Revenues                    | 36,154,122 | 28,674,440 | 7,479,682             | 26.1%                | 220,607,605 | 214,959,376 | 5,648,229                                   | 2.6%                  | 214,959,376          |

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE**  
 Undedicated Revenues - General Fund  
 For the Twelfth Month Ending June 30, 2006 and 2005  
 For the Fiscal Years Ending June 30, 2006 and 2005  
 Comparison to Prior Year

EXHIBIT IV

| Detail of Other Revenues                | Month             |                   |                       | Year to Date         |                    |                    | Total Budgeted Fiscal Year Ending 6-30-2006 |                       |                      |
|-----------------------------------------|-------------------|-------------------|-----------------------|----------------------|--------------------|--------------------|---------------------------------------------|-----------------------|----------------------|
|                                         | Current Year      | Prior Year        | Variance Over/(under) | Percent Over/(under) | Current Year       | Prior Year         |                                             | Variance Over/(under) | Percent Over/(under) |
| 0100's All Others                       | 2,844,500         | 1,703,811         | 1,140,690             | 66.9%                | 28,055,172         | 28,395,257         | (340,084)                                   | (1.2%)                | 26,756,844           |
| 0300's Aeronautical Gas Tax             | 20,299            | 110,439           | (90,140)              | (81.6%)              | 605,890            | 1,307,830          | (701,940)                                   | (53.7%)               | 553,020              |
| 0400's Alcohol Excise Tax               | 1,769,690         | 1,197,668         | 572,022               | 47.8%                | 15,691,844         | 12,741,754         | 2,950,090                                   | 23.2%                 | 15,437,047           |
| 0700's Corporation Taxes                | 1,452,507         | 1,410,924         | 41,583                | 2.9%                 | 6,385,452          | 5,637,743          | 747,709                                     | 13.3%                 | 5,528,707            |
| 1000's Banking Taxes                    | 1,620,490         | 1,601,930         | 18,560                | 1.2%                 | 20,471,110         | 18,641,800         | 1,829,310                                   | 9.8%                  | 19,912,310           |
| 1100's Alcoholic Beverages              | 596,661           | 350,120           | 246,541               | 70.4%                | 3,743,166          | 2,998,891          | 744,275                                     | 24.8%                 | 3,118,590            |
| 1200's Amusements Tax                   | -                 | -                 | -                     | -                    | 2,710              | 6,000              | (3,290)                                     | (54.8%)               | 4,000                |
| 1300's Harness Racing/Parimutuels/Slots | 509,107           | 119,297           | 389,809               | 326.8%               | 4,482,192          | 961,495            | 3,520,697                                   | 366.2%                | 3,662,534            |
| 1400's Business Taxes                   | 1,558,185         | 624,326           | 933,860               | 149.6%               | 8,777,212          | 5,595,306          | 3,181,906                                   | 56.9%                 | 7,929,455            |
| 1500's Motor Vehicle Licenses           | 274,727           | 418,936           | (144,209)             | (34.4%)              | 3,454,543          | 4,578,252          | (1,123,709)                                 | (24.5%)               | 3,961,713            |
| 1700's Inland Fisheries & Wildlife      | 382,485           | 858,936           | (476,451)             | (55.5%)              | 16,840,080         | 16,691,165         | 148,914                                     | 0.9%                  | 16,144,351           |
| 1900's Amnesty, Hosp Excise & Other     | 40,696            | 52,816            | (12,120)              | (22.9%)              | 383,582            | 525,565            | (141,983)                                   | (27.0%)               | 420,036              |
| 2000's Fines, Forfeits & Penalties      | 4,498,530         | 3,495,249         | 1,003,281             | 28.7%                | 37,781,055         | 35,506,972         | 2,274,083                                   | 6.4%                  | 40,542,996           |
| 2200's Federal Revenues                 | 2,461,238         | 7,853,089         | (5,391,852)           | (68.7%)              | 17,987,029         | 24,307,990         | (6,320,961)                                 | (26.0%)               | 20,925,471           |
| 2300's County Revenues                  | -                 | -                 | -                     | -                    | -                  | -                  | -                                           | -                     | -                    |
| 2400's Revenues from Cities & Towns     | 17,858            | 1,693,378         | (1,675,520)           | (98.9%)              | 56,981             | 1,768,145          | (1,711,164)                                 | (96.8%)               | 60,000               |
| 2500's Revenues from Private Sources    | (55,158)          | 288,906           | (324,064)             | (120.5%)             | 5,379,357          | 2,663,763          | 2,715,595                                   | 101.9%                | 5,086,297            |
| 2600's Current Service Charges          | 3,289,233         | 6,683,107         | (3,393,874)           | (50.8%)              | 35,196,089         | 81,126,025         | (45,929,936)                                | (56.6%)               | 34,550,520           |
| 2700's Transfers from Other Funds       | 14,788,227        | 12,315,661        | 2,472,566             | 20.1%                | 15,089,996         | 24,056,326         | (8,966,331)                                 | (37.3%)               | 10,242,885           |
| 2800's Sales of Property & Equipment    | 84,847            | 36,300            | 48,546                | 133.7%               | 224,145            | 231,947            | (7,803)                                     | (3.4%)                | 122,600              |
| <b>Total Other Revenues</b>             | <b>36,154,122</b> | <b>40,794,893</b> | <b>(4,640,770)</b>    | <b>(11.4%)</b>       | <b>220,607,605</b> | <b>267,742,227</b> | <b>(47,134,622)</b>                         | <b>(17.6%)</b>        | <b>214,959,376</b>   |

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE**  
 Undedicated Revenues - Highway Fund  
 For the Twelfth Month Ending June 30, 2006  
 For the Fiscal Year Ending June 30, 2006  
 Comparison to Budget

Exhibit V

|                                   | Month      |            |                                            | Year to Date |             |                                            | Total Budgeted Fiscal Year Ending 6-30-2006 |
|-----------------------------------|------------|------------|--------------------------------------------|--------------|-------------|--------------------------------------------|---------------------------------------------|
|                                   | Actual     | Budget     | Variance Over/(under) Percent Over/(under) | Actual       | Budget      | Variance Over/(under) Percent Over/(under) |                                             |
| Fuel Taxes                        | 39,690,501 | 41,962,149 | (2,271,648) (5.4%)                         | 221,575,309  | 226,776,993 | (5,201,684) (2.3%)                         | 226,776,993                                 |
| Motor Vehicle Registration & Fees | 8,858,626  | 9,191,044  | (332,418) (3.6%)                           | 87,658,962   | 87,172,358  | 486,604 0.6%                               | 87,172,358                                  |
| Inspection Fees                   | 437,239    | 434,194    | 3,045 0.7%                                 | 4,373,692    | 4,397,970   | (24,278) (0.6%)                            | 4,397,970                                   |
| Fines, Forfeits & Penalties       | 158,555    | 184,044    | (25,489) (13.8%)                           | 1,809,813    | 1,973,665   | (163,852) (8.3%)                           | 1,973,665                                   |
| Earnings on Investments           | 393,313    | 72,698     | 320,615 441.0%                             | 1,833,807    | 1,300,000   | 533,807 41.1%                              | 1,300,000                                   |
| All Other                         | 621,130    | 913,234    | (292,104) (32.0%)                          | 9,294,574    | 9,286,173   | 8,401 0.1%                                 | 9,286,173                                   |
| Total Revenue                     | 50,159,364 | 52,757,363 | (2,597,999) (4.9%)                         | 326,546,157  | 330,907,159 | (4,361,002) (1.3%)                         | 330,907,159                                 |

**NOTE:** This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE**  
 Undedicated Revenues - Highway Fund  
 For the Twelfth Month Ending June 30, 2006 and 2005  
 For the Fiscal Years Ending June 30, 2006 and 2005  
 Comparison to Prior Year

|                                   | Month             |                   |                       | Year to Date         |                    |                    |                       |                      |
|-----------------------------------|-------------------|-------------------|-----------------------|----------------------|--------------------|--------------------|-----------------------|----------------------|
|                                   | Current Year      | Prior Year        | Variance Over/(under) | Percent Over/(under) | Current Year       | Prior Year         | Variance Over/(under) | Percent Over/(under) |
| Fuel Taxes                        | 39,690,501        | 39,256,910        | 433,591               | 1.1%                 | 221,575,309        | 220,484,728        | 1,090,581             | 0.5%                 |
| Motor Vehicle Registration & Fees | 8,858,626         | 9,437,708         | (579,082)             | (6.1%)               | 87,658,962         | 84,645,422         | 3,013,540             | 3.6%                 |
| Inspection Fees                   | 437,239           | 440,496           | (3,258)               | (0.7%)               | 4,373,692          | 4,260,059          | 113,633               | 2.7%                 |
| Fines, Forfeits & Penalties       | 158,555           | 145,516           | 13,039                | c                    | 1,809,813          | 1,518,580          | 291,233               | 19.2%                |
| Earnings on Investments           | 393,313           | 347,464           | 45,849                | 13.2%                | 1,833,807          | 1,440,739          | 393,068               | 27.3%                |
| All Other                         | 621,130           | 5,619,299         | (4,998,169)           | (88.9%)              | 9,294,574          | 13,728,627         | (4,434,053)           | (32.3%)              |
| <b>Total Revenue</b>              | <b>50,159,364</b> | <b>55,247,393</b> | <b>(5,088,029)</b>    | <b>(9.2%)</b>        | <b>326,546,157</b> | <b>326,078,155</b> | <b>468,001</b>        | <b>0.1%</b>          |

**NOTE:** This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE

Dedicated Revenues - General Fund  
for the Fourth Month Ended October 31, 2006  
for the Fiscal Year Ending June 30, 2007  
Comparison to Budget

EXHIBIT I

|                                       | Month       |             |                                            | Year to Date |              |                                            | Total Budgeted Fiscal Year Ending 6-30-2007 |
|---------------------------------------|-------------|-------------|--------------------------------------------|--------------|--------------|--------------------------------------------|---------------------------------------------|
|                                       | Actual      | Budget      | Variance Over/(under) Percent Over/(under) | Actual       | Budget       | Variance Over/(under) Percent Over/(under) |                                             |
| Sales and Use Tax                     | 92,591,083  | 92,455,278  | 135,805 0.1%                               | 282,648,871  | 284,563,969  | (1,915,098) (0.7%)                         | 978,142,183                                 |
| Service Provider Tax                  | 4,246,679   | 4,531,714   | (285,035) (6.3%)                           | 12,429,394   | 11,184,325   | 1,245,069 11.1%                            | 48,911,765                                  |
| Individual Income Tax                 | 84,923,088  | 68,392,041  | 16,531,047 24.2%                           | 334,376,933  | 319,760,225  | 14,616,708 4.6%                            | 1,274,529,688                               |
| Corporate Income Tax                  | 5,870,974   | 10,999,863  | (5,128,889) (46.6%)                        | 55,643,960   | 52,349,726   | 3,294,234 6.3%                             | 167,718,997                                 |
| Cigarette and Tobacco Tax             | 12,885,675  | 14,484,607  | (1,598,932) (11.0%)                        | 57,919,919   | 59,975,711   | (2,055,792) (3.4%)                         | 165,466,882                                 |
| Public Utilities Tax                  | (116,564)   | -           | (116,564) -                                | (116,564)    | -            | (116,564) -                                | 20,495,000                                  |
| Insurance Companies Tax               | 5,650,709   | 6,409,064   | (758,355) (11.8%)                          | 6,201,248    | 7,060,921    | (859,673) (12.2%)                          | 79,644,425                                  |
| State Tax                             | 3,663,543   | 3,212,720   | 450,823 14.0%                              | 17,410,928   | 6,188,002    | 11,222,926 181.4%                          | 38,288,045                                  |
| Property Tax - Unorg Territory        | 10,403,375  | 10,150,628  | 252,747 2.5%                               | 10,403,375   | 10,150,628   | 252,747 2.5%                               | 11,597,312                                  |
| Income from Investments               | 441,788     | 603,374     | (161,586) (26.8%)                          | 1,683,273    | 1,898,469    | (215,196) (11.3%)                          | 6,163,582                                   |
| Transfer to Municipal Revenue Sharing | (9,569,223) | (8,995,323) | (573,900) (6.4%)                           | (34,940,057) | (34,060,770) | (879,287) (2.6%)                           | (125,934,433)                               |
| Transfer from Liquor Commission       | -           | -           | -                                          | 8,821        | -            | 8,821 0                                    | 0                                           |
| Transfer from Lottery Commission      | 4,259,312   | 3,798,827   | 460,485 12.1%                              | 17,908,342   | 17,094,720   | 813,622 4.8%                               | 50,334,250                                  |
| Other Revenues                        | 11,645,600  | 14,957,953  | (3,312,353) (22.1%)                        | 64,439,856   | 62,700,848   | 1,739,008 2.8%                             | 218,832,674                                 |
| Total Collected                       | 226,896,039 | 221,000,746 | 5,895,293 2.7%                             | 826,018,299  | 798,866,774  | 27,151,525 3.4%                            | 2,934,190,370                               |

NOTES: (1) Included in the above is \$9,569,223 for the month and \$34,940,057 year to date, that was set aside for Revenue Sharing with cities and towns.

(2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in May 2005, as adjusted for laws passed by the 122nd Legislature, 1st Session.

(3) This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE

Indicated Revenues - General Fund  
for the Fourth Month Ended October 31, 2006 and 2005  
or the Fiscal Years Ending June 30, 2007 and 2006  
Comparison to Prior Year

EXHIBIT II

|                                       | Month        |             |                       | Year to Date         |              |              |                       |                      |
|---------------------------------------|--------------|-------------|-----------------------|----------------------|--------------|--------------|-----------------------|----------------------|
|                                       | Current Year | Prior Year  | Variance Over/(under) | Percent Over/(under) | Current Year | Prior Year   | Variance Over/(under) | Percent Over/(under) |
| Gas and Use Tax                       | 92,591,083   | 89,222,693  | 3,368,390             | 3.8%                 | 282,648,871  | 274,608,095  | 8,040,775             | 2.9%                 |
| Service Provider Tax                  | 4,246,679    | 4,372,975   | (126,296)             | (2.9%)               | 12,429,394   | 10,792,553   | 1,636,841             | 15.2%                |
| Individual Income Tax                 | 84,923,088   | 63,159,155  | 21,763,934            | 34.5%                | 334,376,933  | 311,506,650  | 22,870,283            | 7.3%                 |
| Corporate Income Tax                  | 5,870,974    | 10,678,165  | (4,807,192)           | (45.0%)              | 55,643,960   | 51,617,069   | 4,026,891             | 7.8%                 |
| Cigarette and Tobacco Tax             | 12,885,675   | 12,254,792  | 630,883               | 5.1%                 | 57,919,919   | 44,109,349   | 13,810,570            | 31.3%                |
| Public Utilities Tax                  | (116,564)    | -           | (116,564)             | -                    | (116,564)    | -            | (116,564)             | -                    |
| Insurance Companies Tax               | 5,650,709    | 6,191,506   | (540,797)             | (8.7%)               | 6,201,248    | 7,274,839    | (1,073,590)           | (14.8%)              |
| State Tax                             | 3,663,543    | 20,576,304  | (16,912,761)          | (82.2%)              | 17,410,928   | 34,887,347   | (17,476,419)          | (50.1%)              |
| Property Tax - Unorg Territory        | 10,403,375   | 9,560,399   | 842,976               | 8.8%                 | 10,403,375   | 9,560,399    | 842,976               | 8.8%                 |
| Income from Investments               | 441,788      | 603,940     | (162,152)             | (26.8%)              | 1,683,273    | 1,903,497    | (220,223)             | (11.6%)              |
| Transfer to Municipal Revenue Sharing | (9,569,223)  | (8,539,082) | (1,030,141)           | (12.1%)              | (34,940,057) | (33,074,743) | (1,865,314)           | (5.6%)               |
| Transfer from Liquor Commission       | -            | 2,700       | (2,700)               | (100.0%)             | 8,821        | 3,450        | 5,371                 | 155.7%               |
| Transfer from Lottery Commission      | 4,259,312    | 5,144,772   | (885,460)             | (17.2%)              | 17,908,342   | 16,808,624   | 1,099,718             | 6.5%                 |
| Other Revenues                        | 11,645,600   | 19,010,274  | (7,364,674)           | (38.7%)              | 64,439,856   | 61,517,005   | 2,922,851             | 4.8%                 |
| Total Collected                       | 226,896,039  | 232,238,592 | (5,342,553)           | (2.3%)               | 826,018,299  | 791,514,133  | 34,504,166            | 4.4%                 |

**STATE OF MAINE**  
 Undedicated Revenues - General Fund  
 For the Fourth Month Ended October 31, 2006  
 For the Fiscal Year Ending June 30, 2007  
 Comparison to Budget

EXHIBIT III

| Detail of Other Revenues                | Month             |                   |                       | Year to Date         |                   |                   | Total Budgeted Fiscal Year Ending 6-30-2007 |                       |                      |
|-----------------------------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|-------------------|---------------------------------------------|-----------------------|----------------------|
|                                         | Actual            | Budget            | Variance Over/(under) | Percent Over/(under) | Actual            | Budget            |                                             | Variance Over/(under) | Percent Over/(under) |
| 0100's All Others                       | 2,548,774         | 2,239,584         | 309,190               | 13.8%                | 10,140,422        | 8,254,657         | 1,885,765                                   | 22.8%                 | 24,225,085           |
| 0300's Aeronautical Gas Tax             | 21,157            | 16,000            | 5,157                 | 32.2%                | 92,692            | 86,501            | 6,191                                       | 7.2%                  | 259,018              |
| 0400's Alcohol Excise Tax               | 1,281,233         | 1,413,743         | (132,510)             | (9.4%)               | 6,664,557         | 6,346,487         | 318,070                                     | 5.0%                  | 15,908,852           |
| 0700's Corporation Taxes                | 91,218            | 74,263            | 16,955                | 22.8%                | 855,293           | 364,061           | 491,232                                     | 134.9%                | 5,531,012            |
| 1000's Banking Taxes                    | 1,625,450         | 1,532,948         | 92,502                | 6.0%                 | 6,741,650         | 6,272,292         | 469,358                                     | 7.5%                  | 19,912,310           |
| 1100's Alcoholic Beverages              | 433,039           | 205,938           | 227,101               | 110.3%               | 1,131,275         | 941,490           | 189,785                                     | 20.2%                 | 3,121,343            |
| 1200's Amusements Tax                   | 2,300             | 4,000             | (1,700)               | (42.5%)              | 2,300             | 4,000             | (1,700)                                     | (42.5%)               | 4,000                |
| 1300's Harness Racing/Parimutuels/Slots | 651,599           | 371,229           | 280,370               | 75.5%                | 2,718,874         | 1,514,103         | 1,204,771                                   | 79.6%                 | 4,292,310            |
| 1400's Business Taxes                   | 580,193           | 432,721           | 147,472               | 34.1%                | 2,762,775         | 2,269,875         | 492,900                                     | 21.7%                 | 7,837,580            |
| 1500's Motor Vehicle Licenses           | 274,029           | 278,357           | (4,328)               | (1.6%)               | 1,149,994         | 1,236,188         | (86,194)                                    | (7.0%)                | 3,999,840            |
| 1700's Inland Fisheries & Wildlife      | 699,520           | 1,023,131         | (323,611)             | (31.6%)              | 6,875,963         | 4,645,972         | 2,229,991                                   | 48.0%                 | 16,300,487           |
| 1900's Hospital Excise & Other          | 31,478            | 29,933            | 1,545                 | 5.2%                 | 95,078            | 119,732           | (24,654)                                    | (20.6%)               | 418,037              |
| 2000's Fines, Forfeits & Penalties      | 3,272,522         | 3,330,149         | (57,627)              | (1.7%)               | 13,187,225        | 14,206,306        | (1,019,081)                                 | (7.2%)                | 42,205,883           |
| 2200's Federal Revenues                 | 1,219,636         | 1,585,205         | (365,569)             | (23.1%)              | 4,631,487         | 6,632,344         | (2,000,857)                                 | (30.2%)               | 19,410,893           |
| 2300's County Revenues                  | -                 | -                 | -                     | -                    | -                 | -                 | -                                           | -                     | -                    |
| 2400's Revenues from Cities & Towns     | 13,853            | -                 | 13,853                | -                    | 35,604            | 15,000            | 20,604                                      | 137.4%                | 60,000               |
| 2500's Revenues from Private Sources    | 168,206           | 217,819           | (49,613)              | (22.8%)              | 723,977           | 871,274           | (147,297)                                   | (16.9%)               | 6,113,819            |
| 2600's Current Service Charges          | 2,104,380         | 4,104,485         | (2,000,105)           | (48.7%)              | 10,954,147        | 9,322,411         | 1,631,736                                   | 17.5%                 | 28,055,137           |
| 2700's Transfers from Other Funds       | (3,377,584)       | (1,909,348)       | (1,468,236)           | (76.9%)              | (4,340,385)       | (424,584)         | (3,915,801)                                 | (922.3%)              | 21,132,468           |
| 2800's Sales of Property & Equipment    | 4,598             | 7,796             | (3,198)               | (41.0%)              | 16,929            | 22,739            | (5,810)                                     | (25.6%)               | 44,600               |
| <b>Total Other Revenues</b>             | <b>11,645,600</b> | <b>14,957,953</b> | <b>(3,312,353)</b>    | <b>(22.1%)</b>       | <b>64,439,856</b> | <b>62,700,848</b> | <b>1,739,008</b>                            | <b>2.8%</b>           | <b>218,832,674</b>   |

**NOTE:** This report has been prepared from preliminary month end figures and is subject to change.

Office of the State Controller



**STATE OF MAINE**

Undedicated Revenues - General Fund  
For the Fourth Month Ended October 31, 2006 and 2005  
For the Fiscal Years Ending June 30, 2007 and 2006  
Comparison to Prior Year

EXHIBIT IV

| Detail of Other Revenues                | Month        |             |                      | Year to Date |             |                       |                      |
|-----------------------------------------|--------------|-------------|----------------------|--------------|-------------|-----------------------|----------------------|
|                                         | Current Year | Prior Year  | Percent Over/(under) | Current Year | Prior Year  | Variance Over/(under) | Percent Over/(under) |
| 0100's All Others                       | 2,548,774    | 3,541,418   | (28.0%)              | 10,140,422   | 12,214,890  | (2,074,468)           | (17.0%)              |
| 0300's Aeronautical Gas Tax             | 21,157       | 21,673      | (2.4%)               | 92,692       | 451,546     | (358,854)             | (79.5%)              |
| 0400's Alcohol Excise Tax               | 1,281,233    | 1,267,327   | 1.1%                 | 6,664,557    | 5,758,359   | 906,198               | 15.7%                |
| 0700's Corporation Taxes                | 91,218       | 146,151     | (37.6%)              | 855,293      | 821,378     | 33,916                | 4.1%                 |
| 1000's Banking Taxes                    | 1,625,450    | 1,542,010   | 5.4%                 | 6,741,650    | 6,316,610   | 425,040               | 6.7%                 |
| 1100's Alcoholic Beverages              | 433,039      | 201,750     | 114.6%               | 1,131,275    | 952,590     | 178,685               | 18.8%                |
| 1200's Amusements Tax                   | 2,300        | 2,670       | (13.9%)              | 2,300        | 2,670       | (370)                 | (13.9%)              |
| 1300's Harness Racing/Parimutuels/Slots | 651,599      | 77,692      | 738.7%               | 2,718,874    | 345,790     | 2,373,085             | 686.3%               |
| 1400's Business Taxes                   | 580,193      | 733,087     | (20.9%)              | 2,762,775    | 2,343,752   | 419,023               | 17.9%                |
| 1500's Motor Vehicle Licenses           | 274,029      | 540,600     | (49.3%)              | 1,149,994    | 1,281,396   | (131,402)             | (10.3%)              |
| 1700's Inland Fisheries & Wildlife      | 699,520      | (828,967)   | 184.4%               | 6,875,963    | 5,661,918   | 1,214,045             | 21.4%                |
| 1900's Amnesty, Hosp Excise & Other     | 31,478       | 24,790      | 27.0%                | 95,078       | 88,915      | 6,163                 | 6.9%                 |
| 2000's Fines, Forfeits & Penalties      | 3,272,522    | 2,662,750   | 22.9%                | 13,187,225   | 10,746,767  | 2,440,458             | 22.7%                |
| 2200's Federal Revenues                 | 1,219,636    | 1,201,547   | 1.5%                 | 4,631,487    | 2,841,307   | 1,790,180             | 63.0%                |
| 2300's County Revenues                  | -            | -           | -                    | -            | -           | -                     | -                    |
| 2400's Revenues from Cities & Towns     | 13,853       | 6,796       | 103.8%               | 35,604       | 15,222      | 20,382                | 133.9%               |
| 2500's Revenues from Private Sources    | 168,206      | 376,819     | (55.4%)              | 723,977      | 933,672     | (209,695)             | (22.5%)              |
| 2600's Current Service Charges          | 2,104,380    | 9,304,290   | (77.4%)              | 10,954,147   | 13,985,304  | (3,031,157)           | (21.7%)              |
| 2700's Transfers from Other Funds       | (3,377,584)  | (1,828,586) | (84.7%)              | (4,340,385)  | (3,263,645) | (1,076,740)           | (33.0%)              |
| 2800's Sales of Property & Equipment    | 4,598        | 16,457      | (72.1%)              | 16,929       | 18,565      | (1,636)               | (8.8%)               |
| Total Other Revenues                    | 11,645,600   | 19,010,274  | (38.7%)              | 64,439,856   | 61,517,005  | 2,922,851             | 4.8%                 |

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE**  
 Undesignated Revenues - Highway Fund  
 For the Fourth Month Ended October 31, 2006  
 For the Fiscal Year Ending June 30, 2007  
 Comparison to Budget

Exhibit V

|                                   | Month             |                   |                       | Year to Date         |                   |                   | Total Budgeted Fiscal Year Ending 6-30-2007 |                       |                      |
|-----------------------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|-------------------|---------------------------------------------|-----------------------|----------------------|
|                                   | Actual            | Budget            | Variance Over/(under) | Percent Over/(under) | Actual            | Budget            |                                             | Variance Over/(under) | Percent Over/(under) |
| Fuel Taxes                        | 19,502,611        | 20,930,926        | (1,428,315)           | (6.8%)               | 60,588,921        | 64,936,276        | (4,347,355)                                 | (6.7%)                | 234,769,382          |
| Motor Vehicle Registration & Fees | 7,525,644         | 6,792,335         | 733,309               | 10.8%                | 27,830,481        | 28,440,594        | (610,113)                                   | (2.1%)                | 88,377,517           |
| Inspection Fees                   | 313,911           | 334,757           | (20,846)              | (6.2%)               | 1,470,739         | 1,520,873         | (50,134)                                    | (3.3%)                | 4,443,556            |
| Fines, Forfeits & Penalties       | 163,597           | 161,147           | 2,450                 | 1.5%                 | 617,071           | 675,466           | (58,395)                                    | (8.6%)                | 2,018,239            |
| Earnings on Investments           | 80,106            | 100,000           | (19,894)              | (19.9%)              | 291,312           | 400,000           | (108,688)                                   | (27.2%)               | 1,350,000            |
| All Other                         | 500,451           | 642,847           | (142,396)             | (22.2%)              | 2,561,205         | 2,545,361         | 15,844                                      | 0.6%                  | 9,433,331            |
| <b>Total Revenue</b>              | <b>28,086,320</b> | <b>28,962,012</b> | <b>(875,692)</b>      | <b>(3.0%)</b>        | <b>93,359,728</b> | <b>98,518,570</b> | <b>(5,158,842)</b>                          | <b>(5.2%)</b>         | <b>340,392,025</b>   |

NOTE: This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE**  
 Undedicated Revenues - Highway Fund  
 For the Fourth Month Ended October 31, 2006 and 2005  
 For the Fiscal Years Ending June 30, 2007 and 2006  
 Comparison to Prior Year

|                                   | Month             |                   |                       | Year to Date         |                   |                   |                       |                      |
|-----------------------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|-------------------|-----------------------|----------------------|
|                                   | Current Year      | Prior Year        | Variance Over/(under) | Percent Over/(under) | Current Year      | Prior Year        | Variance Over/(under) | Percent Over/(under) |
| Fuel Taxes                        | 19,502,611        | 20,369,042        | (866,431)             | (4.3%)               | 60,588,921        | 60,740,819        | (151,898)             | (0.3%)               |
| Motor Vehicle Registration & Fees | 7,525,644         | 6,686,047         | 839,597               | 12.6%                | 27,830,481        | 28,086,927        | (256,446)             | (0.9%)               |
| Inspection Fees                   | 313,911           | 320,879           | (6,968)               | (2.2%)               | 1,470,739         | 1,477,440         | (6,701)               | (0.5%)               |
| Fines, Forfeits & Penalties       | 163,597           | 130,347           | 33,250                | 25.5%                | 617,071           | 635,117           | (18,047)              | (2.8%)               |
| Earnings on Investments           | 80,106            | 177,248           | (97,142)              | (54.8%)              | 291,312           | 593,315           | (302,003)             | (50.9%)              |
| All Other                         | 500,451           | 304,746           | 195,705               | 64.2%                | 2,561,205         | 2,458,127         | 103,077               | 4.2%                 |
| <b>Total Revenue</b>              | <b>28,086,320</b> | <b>27,988,308</b> | <b>98,012</b>         | <b>0.4%</b>          | <b>93,359,728</b> | <b>93,991,745</b> | <b>(632,018)</b>      | <b>(0.7%)</b>        |

**NOTE:** This report has been prepared from preliminary month end figures and is subject to change.

# **Economic Assumptions**

# Assumptions Used in Sales & Excise Model

- (1) Total Personal Income
- (2) Inflation (CPI-U)
- (3) Total Employment Growth
  - (a) Growth by Sector
- (4) Forecast of CPI for Energy Prices (Global Insight – Nov. 2006)
- (5) Forecast of new passenger car & light truck registrations in Maine (Global Insight – Fall 06)
- (6) Forecast of average price of new vehicle (Global Insight – Nov. 2006)

# Assumptions Used in Individual Income Tax Model

- (7) Total Personal Income
  - (a) Growth by Component
- (8) Inflation (CPI-U)
- (9) Total Employment Growth
- (10) Unemployment Rate
- (11) 3-Month Treasury Bill Rate
- (12) 10-Year Treasury Note Rate

# Assumptions Used in Corporate Income Tax Model

- (13) Inflation (CPI-U)
- (11) Total Employment Growth
  - (a) Growth by Sector
- (12) Forecast of Before-Tax Corporate Book Profits (Global Insight – Nov. 2006)



## Moody's Economy.com U.S. Macro Outlook



By Mark Zandi in West Chester  
 November 8, 2006

View Moody's Economy.com Macro Forecast [here](#).

- Growth during the second half of the year is coming in close to 2%, well below the economy's 3% potential.
- Fallout from the ongoing housing correction is showing up more clearly, particularly in weakening mortgage credit quality.
- At the same time the economy is struggling to maintain growth near its potential, its potential appears to be slipping.
- The risks to the expansion remain skewed to the downside, with an estimated one-in-four probability of recession in the coming year.

U.S. economic growth has weakened appreciably during the second half of the year. Real GDP posted a gain of only 1.6% in the third quarter and is on track to expand by no more than 2.5% during the current quarter. This is well below the economy's estimated 3% growth potential.

The slowdown is evident in falling [home sales](#) and [home construction](#), slipping [vehicle sales](#) and [industrial production](#), and softer [chain-store sales](#) and [durable goods orders](#).

The job market also reflects the increasingly wan economy. Payroll [job gains](#) have slowed from an average of 175,000 per month in 2004, to 165,000 in 2005, to below 150,000 so far this year. The slowdown will appear even more pronounced after the BLS incorporates the [benchmark revisions](#) into the job numbers with the January 2007 employment report. Based on complete unemployment insurance tax records, the BLS says that the payroll survey missed over 800,000 jobs as of March 2006. This suggests that job growth was closer to 200,000 per month last year.

Businesses are also expected to turn even more cautious in their hiring in the coming months; while [GDP growth](#) has weakened to below potential, job growth has yet to, resulting in a sharp slowing in productivity growth. Nonfarm business [productivity](#) growth came to a standstill in the third quarter and on a year-ago basis is at its weakest in a decade. This will soon crimp profit margins, something businesses will work very hard to defend.

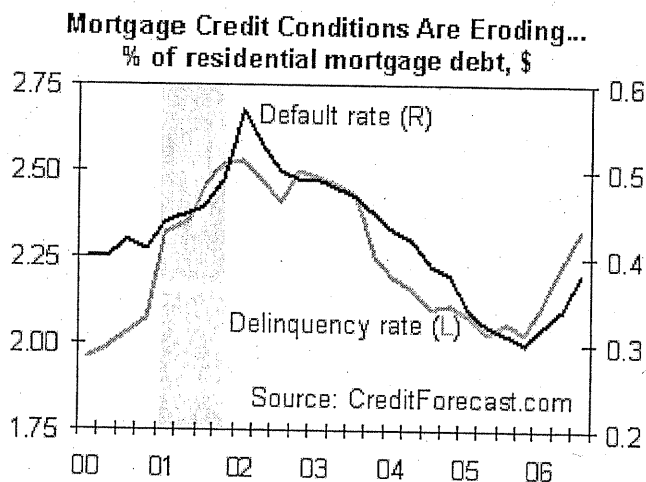
The unemployment rate has yet to move higher in response to the slower growth;

indeed it fell again to a new cyclical low of 4.4% in October, but this will soon change. Factory utilization rates are already slipping, however, falling close to the 80% threshold consistent with full capacity in the nation's manufacturing base.

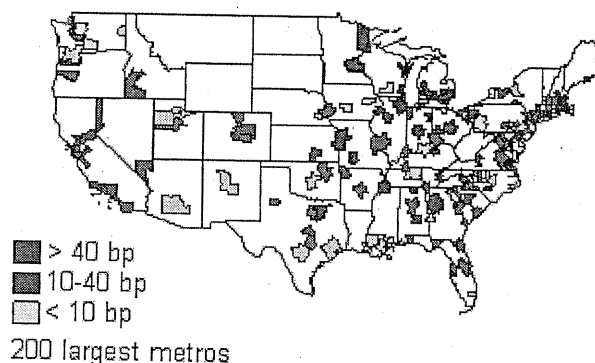
**Housing correction**

Fallout from the ongoing housing correction is showing up more clearly. Jobs in housing-related industries, broadly defined to include everything from construction to mortgage finance, are down by almost 100,000 since they peaked early in the year. The pace of decline is intensifying, with average monthly housing-related job losses recently closer to 20,000. At the peak of the housing boom late last year, housing was adding as many as 50,000 to payrolls every month.

Mortgage credit quality is fast eroding. According to data derived from credit files collected by the credit bureau Equifax, the dollar delinquency rate for first and second mortgages has increased by 30 basis points since hitting bottom in the fourth quarter of 2005. The delinquency problem isn't quite as bad as it was in the wake of the 2001 recession, but it soon will be. While greater credit problems are widespread across the country, they are most severe in areas where subprime lending has been most substantial, mortgage equity withdrawal most significant, and house prices are now weakening. Metro areas are suffering more than a 100 basis point jump in the delinquency rate range from Stockton and Merced in California's Central Valley to Las Vegas to Ann Arbor, MI.



**...In an Increasing Number of Metro Areas  
Change in mortgage delinquency rate, 06Q2-05Q4**



Lenders, under the strong behest of regulators, also finally appear to be tightening mortgage underwriting standards. According to the Federal Reserve's most recent quarterly senior loan officer survey, there was a jump in the share of lenders saying they had become more cautious in extending credit. While ultimately therapeutic, the initial impact will be to further crimp housing demand and increase credit problems. These effects could be especially pronounced as new regulatory guidelines make it measurably more difficult for lenders to originate widely popular interest-only and option adjustable-rate mortgages.

The much-anticipated negative housing wealth effect has yet to clearly materialize, but it is premature to conclude that it won't. Housing values have only recently begun to decline and active mortgage equity withdrawal, which includes home equity borrowing and cash-out refinancing, has yet to weaken. That discount retailers, such as Wal-Mart, are having so much trouble maintaining sales growth despite the recent plunge in energy prices may suggest that some wealth effects are already taking shape.

### **Potential growth**

At the same time the economy is struggling to maintain growth near its potential, that potential appears to be slipping. An economy's potential is the rate of growth consistent with stable unemployment and factory utilization rates. It is equal to the sum of underlying productivity and labor force growth.

There is a general consensus that the economy's potential has slowed since the beginning of the decade due to somewhat slower growth in both productivity and the labor force. To what degree is of increasing debate. Moody's Economy.com estimates the U.S. economy's potential growth rate at 3%, equal to 2% underlying productivity growth and 1% labor force growth. This is down from 3.25% during the first half of this decade. Potential is expected to fall further to near 2.5% over the next decade.

Pushing potential lower is weaker growth in both productivity and the labor force. Less investment in the wake of the tech bust, a seemingly slower pace of technological change, and the productivity-sapping diversions created by the



heightened need to invest in energy-saving equipment and security are weighing on productivity gains. A slower rate of foreign immigration due to the stronger global economy and tighter U.S. security measures and a flat labor force participation rate are weighing on labor force growth. The female participation rate is no longer rising and the teenage participation rate continues to decline.

Knowing the economy's potential is vital for the appropriate conduct of monetary policy. If central bankers overestimate potential, then they risk a too accommodative monetary policy, ultimately resulting in undesirably high inflation. This is what happened in the 1970s when the Federal Reserve failed to recognize the sharp slowing in potential from its fast pace during the 1960s. It took nearly two decades to rein in the inflation engendered, in substantial part, by this mistake.

The current Federal Reserve has recently stated that it too has lowered its estimate of potential, although it did not state to what. This bears close watching as it will help determine whether the FOMC's next move will be to ease or tighten monetary policy.

### **Outlook**

Moody's Economy.com expects growth to remain below the economy's 3% real GDP growth potential through next spring. Growth for all of 2007 is projected to be 2.6%, down from last month's forecast of 2.8%. This largely reflects weaker growth during the second half of this year, giving the economy a lower starting point as it moves into next.

The unemployment rate will edge higher through the middle of next year, rising to near 5%. This higher unemployment rate, along with continued low energy prices and tethered inflation expectations, will be sufficient to ensure that underlying inflation peaks in early 2007. Core CPI inflation is expected to top out at 3%. While this is above policymakers' inflation target, below-potential economic growth will forestall further monetary tightening, and indeed the odds are that some modest easing will be necessary early next year.

The risks to the expansion remain skewed to the downside, with an estimated one-in-four probability of recession in the coming year; this is well above the one-in-ten probability at the start of 2006. Recession risks will remain elevated as long as the housing correction continues to unfold. The severity of the correction and its secondary effects remain highly uncertain.

The potential for some type of global financial event is also significant. Global investors must adjust in coming months as their mountain of U.S. mortgage-backed debt performs increasingly poorly and most central banks around the world further tighten monetary policy. Such adjustments are rarely smooth.

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## Moody's Economy.com U.S. Macro Outlook

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|                                        |       | U.S. Macro Outlook |          |          |          |          |          |          |          |          |          |          |
|----------------------------------------|-------|--------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Units                                  |       | 06Q1               | 06Q2     | 06Q3     | 06Q4E    | 07Q1E    | 07Q2F    | 07Q3F    | 07Q4F    | 08Q1F    | 2005     | 20       |
| Composition of Economic Activity, SAAR |       |                    |          |          |          |          |          |          |          |          |          |          |
| Gross Domestic Product                 | bcw\$ | 11,316.4           | 11,388.1 | 11,432.9 | 11,497.3 | 11,576.3 | 11,663.9 | 11,751.5 | 11,843.5 | 11,936.8 | 11,048.6 | 11,400.0 |
| Change                                 | %AR   | 5.6                | 2.6      | 1.6      | 2.3      | 2.8      | 3.1      | 3.0      | 3.2      | 3.2      | 3.2      |          |
| Personal Expenditures                  |       |                    |          |          |          |          |          |          |          |          |          |          |
| Consumption                            | bcw\$ | 8,003.8            | 8,055.0  | 8,116.2  | 8,166.5  | 8,223.5  | 8,278.1  | 8,330.2  | 8,382.0  | 8,433.6  | 7,841.2  | 8,000.0  |
| Change                                 | %AR   | 4.8                | 2.6      | 3.1      | 2.5      | 2.8      | 2.7      | 2.5      | 2.5      | 2.5      | 3.5      |          |
| Durables                               | bcw\$ | 1,190.5            | 1,190.3  | 1,214.5  | 1,210.9  | 1,213.7  | 1,213.9  | 1,210.0  | 1,210.1  | 1,211.1  | 1,145.4  | 1,200.0  |
| Change                                 | %AR   | 19.8               | -0.1     | 8.4      | -1.2     | 0.9      | 0.1      | -1.3     | 0.0      | 0.3      | 5.5      |          |
| Motor Vehicles                         | bcw\$ | 445.1              | 443.7    | 457.3    | 446.2    | 446.0    | 445.9    | 441.3    | 440.2    | 439.5    | 452.9    | 440.0    |
| Change                                 | %AR   | 18.8               | -1.3     | 12.8     | -9.3     | -0.2     | -0.1     | -4.0     | -1.0     | -0.6     | 0.6      |          |
| Nondurables                            | bcw\$ | 2,342.4            | 2,350.7  | 2,360.1  | 2,372.2  | 2,383.4  | 2,394.4  | 2,409.3  | 2,423.4  | 2,435.1  | 2,276.4  | 2,300.0  |
| Change                                 | %AR   | 5.9                | 1.4      | 1.6      | 2.1      | 1.9      | 1.9      | 2.5      | 2.4      | 1.9      | 4.5      |          |
| Services                               | bcw\$ | 4,494.5            | 4,535.5  | 4,566.8  | 4,609.1  | 4,652.2  | 4,695.5  | 4,736.5  | 4,774.1  | 4,813.1  | 4,436.6  | 4,500.0  |
| Change                                 | %AR   | 1.6                | 3.7      | 2.8      | 3.7      | 3.8      | 3.8      | 3.5      | 3.2      | 3.3      | 2.6      |          |
| Investment                             |       |                    |          |          |          |          |          |          |          |          |          |          |
| Fixed Investment                       | bcw\$ | 1,914.6            | 1,906.8  | 1,899.9  | 1,913.5  | 1,935.8  | 1,955.7  | 1,977.8  | 2,004.0  | 2,028.4  | 1,842.0  | 1,900.0  |
| Change                                 | %AR   | 8.2                | -1.6     | -1.4     | 2.9      | 4.7      | 4.2      | 4.6      | 5.4      | 5.0      | 7.5      |          |
| Nonresidential                         | bcw\$ | 1,288.8            | 1,302.8  | 1,330.1  | 1,357.2  | 1,383.4  | 1,406.7  | 1,428.6  | 1,450.9  | 1,470.6  | 1,223.8  | 1,300.0  |
| Change                                 | %AR   | 13.7               | 4.4      | 8.6      | 8.4      | 7.9      | 6.9      | 6.4      | 6.4      | 5.5      | 6.8      |          |
| Structures                             | bcw\$ | 259.6              | 271.9    | 280.9    | 290.5    | 300.0    | 308.5    | 316.7    | 324.6    | 331.2    | 251.5    | 250.0    |
| Change                                 | %AR   | 8.7                | 20.3     | 14.0     | 14.4     | 13.7     | 11.8     | 11.1     | 10.4     | 8.3      | 1.1      |          |
| Equipment                              | bcw\$ | 1,044.9            | 1,041.2  | 1,057.6  | 1,076.7  | 1,093.4  | 1,108.2  | 1,121.9  | 1,136.3  | 1,149.4  | 984.9    | 1,050.0  |
| Change                                 | %AR   | 15.6               | -1.4     | 6.4      | 7.4      | 6.3      | 5.5      | 5.1      | 5.2      | 4.7      | 8.9      |          |
| Residential                            | bcw\$ | 618.5              | 600.5    | 572.4    | 558.8    | 555.0    | 551.7    | 551.8    | 555.7    | 560.4    | 608.0    | 550.0    |
| Change                                 | %AR   | -0.3               | -11.1    | -17.4    | -9.2     | -2.7     | -2.4     | 0.1      | 2.8      | 3.4      | 8.6      |          |
| Single Family                          | bcw\$ | 345.1              | 327.1    | 302.9    | 291.6    | 289.0    | 286.3    | 285.6    | 286.3    | 288.1    | 336.3    | 300.0    |
| Change                                 | %AR   | -1.7               | -19.3    | -26.5    | -14.1    | -3.5     | -3.7     | -1.1     | 1.1      | 2.5      | 10.3     |          |
| Multifamily                            | bcw\$ | 43.5               | 43.3     | 43.4     | 42.8     | 42.4     | 42.1     | 42.5     | 43.5     | 44.5     | 39.2     | 40.0     |
| Change                                 | %AR   | 25.5               | -1.8     | 0.9      | -5.8     | -3.6     | -2.8     | 4.4      | 9.9      | 9.5      | 14.1     | 1.0      |
| Other                                  | bcw\$ | 229.4              | 229.9    | 226.3    | 224.6    | 223.7    | 223.4    | 223.8    | 225.8    | 227.7    | 232.0    | 250.0    |
| Change                                 | %AR   | -2.1               | 0.9      | -6.1     | -3.0     | -1.6     | -0.6     | 0.7      | 3.7      | 3.4      | 5.3      |          |
| Inventory Change                       | bcw\$ | 41.2               | 53.7     | 50.7     | 38.2     | 33.5     | 40.7     | 46.0     | 48.2     | 51.7     | 19.6     | 0.0      |
| NonFarm                                | bcw\$ | 36.8               | 52.2     | 49.5     | 37.2     | 32.5     | 39.7     | 45.0     | 47.2     | 50.7     | 19.6     | 0.0      |
| Farm                                   | bcw\$ | 4.3                | 1.9      | 1.6      | 1.0      | 1.0      | 1.0      | 1.0      | 1.0      | 1.0      | 0.2      | 0.0      |

| Trade                              |          |         |         |         |         |         |         |         |         |         |          |          |
|------------------------------------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Net Exports                        | bcw\$    | -636.6  | -624.2  | -639.9  | -635.0  | -636.0  | -635.4  | -634.7  | -633.0  | -630.8  | -619.2   | -610.0   |
| Exports                            | bcw\$    | 1,269.3 | 1,288.5 | 1,309.0 | 1,333.4 | 1,355.1 | 1,376.2 | 1,399.9 | 1,424.7 | 1,451.8 | 1,196.1  | 1,300.0  |
| Change                             | %AR      | 14.0    | 6.2     | 6.5     | 7.7     | 6.7     | 6.4     | 7.0     | 7.3     | 7.8     | 6.8      | 6.8      |
| Merchandise                        | bcw\$    | 906.2   | 919.5   | 941.7   | 959.6   | 975.3   | 990.4   | 1,006.6 | 1,024.6 | 1,044.5 | 843.2    | 900.0    |
| Change                             | %AR      | 17.2    | 6.0     | 10.0    | 7.8     | 6.7     | 6.3     | 6.7     | 7.4     | 8.0     | 7.5      | 9.0      |
| Services                           | bcw\$    | 363.6   | 369.6   | 368.1   | 373.8   | 379.7   | 385.9   | 393.3   | 400.1   | 407.3   | 352.9    | 300.0    |
| Change                             | %AR      | 6.7     | 6.7     | -1.5    | 6.3     | 6.6     | 6.6     | 7.9     | 7.1     | 7.4     | 5.1      | 3.0      |
| Imports                            | bcw\$    | 1,905.9 | 1,912.7 | 1,948.9 | 1,968.4 | 1,991.1 | 2,011.7 | 2,034.6 | 2,057.7 | 2,082.6 | 1,815.3  | 1,900.0  |
| Change                             | %AR      | 9.1     | 1.4     | 7.8     | 4.1     | 4.7     | 4.2     | 4.6     | 4.6     | 4.9     | 6.1      | 6.0      |
| Merchandise                        | bcw\$    | 1,631.9 | 1,631.6 | 1,669.1 | 1,682.9 | 1,702.6 | 1,720.2 | 1,740.1 | 1,759.8 | 1,781.3 | 1,549.9  | 1,600.0  |
| Change                             | %AR      | 9.4     | -0.1    | 9.5     | 3.4     | 4.8     | 4.2     | 4.7     | 4.6     | 5.0     | 6.7      | 6.0      |
| Services                           | bcw\$    | 276.6   | 283.1   | 282.4   | 285.5   | 288.5   | 291.5   | 294.5   | 297.9   | 301.4   | 267.5    | 200.0    |
| Change                             | %AR      | 7.4     | 9.8     | -1.0    | 4.5     | 4.3     | 4.2     | 4.3     | 4.6     | 4.8     | 2.8      | 2.0      |
| Government                         |          |         |         |         |         |         |         |         |         |         |          |          |
| Expenditures and Investment        | bcw\$    | 1,987.1 | 1,991.2 | 2,000.8 | 2,008.9 | 2,014.3 | 2,019.7 | 2,027.1 | 2,037.2 | 2,048.8 | 1,958.0  | 1,900.0  |
| Change                             | %AR      | 4.9     | 0.8     | 1.9     | 1.6     | 1.1     | 1.1     | 1.5     | 2.0     | 2.3     | 0.9      | 0.0      |
| Federal Defense                    | bcw\$    | 491.8   | 489.3   | 488.4   | 489.0   | 488.8   | 489.2   | 490.0   | 490.6   | 491.3   | 483.6    | 400.0    |
| Change                             | %AR      | 8.9     | -2.0    | -0.7    | 0.5     | -0.2    | 0.3     | 0.6     | 0.5     | 0.6     | 1.7      | 0.0      |
| Federal Nondefense                 | bcw\$    | 253.1   | 247.0   | 251.2   | 250.5   | 249.2   | 247.9   | 246.7   | 247.6   | 249.8   | 243.7    | 200.0    |
| Change                             | %AR      | 8.4     | -9.2    | 6.8     | -1.0    | -2.0    | -2.1    | -1.9    | 1.4     | 3.6     | 1.1      | 0.0      |
| Government Balance                 |          |         |         |         |         |         |         |         |         |         |          |          |
| NIPA Basis                         | b\$      | -147.0  | -131.5  | -134.2  | -182.6  | -205.9  | -230.3  | -248.7  | -253.8  | -271.2  | -309.2   | -1,000.0 |
| Unified Budget                     | b\$ FY   | -328.0  | -274.9  | -247.7  | -169.6  | -108.6  | -177.9  | -319.8  | -422.7  | -353.1  | -1,348.0 | -1,200.0 |
| Consumers                          |          |         |         |         |         |         |         |         |         |         |          |          |
| Personal Saving Rate               | %AR      | -0.3    | -0.6    | -0.5    | -0.3    | -0.1    | 0.2     | 0.4     | 0.6     | 0.8     | -0.4     | 0.0      |
| Retail Sales & Food Services       | b\$      | 4,326.4 | 4,361.6 | 4,405.3 | 4,441.7 | 4,491.5 | 4,546.4 | 4,591.4 | 4,637.2 | 4,676.8 | 4,112.9  | 4,300.0  |
| Change                             | %AR      | 13.4    | 3.3     | 4.1     | 3.3     | 4.6     | 5.0     | 4.0     | 4.1     | 3.5     | 7.2      | 0.0      |
| Vehicle Sales                      | m        | 16.9    | 16.3    | 16.6    | 16.4    | 16.3    | 16.2    | 16.0    | 15.9    | 15.9    | 16.9     | 16.0     |
| Housing Starts                     | m        | 2.1     | 1.9     | 1.7     | 1.7     | 1.6     | 1.6     | 1.6     | 1.6     | 1.6     | 2.1      | 2.0      |
| Producers                          |          |         |         |         |         |         |         |         |         |         |          |          |
| Industrial Production              | 1992=100 | 110.8   | 112.6   | 113.6   | 114.3   | 114.9   | 115.6   | 116.2   | 116.9   | 117.6   | 108.1    | 100.0    |
| Change                             | %AR      | 5.1     | 6.6     | 3.6     | 2.5     | 2.2     | 2.4     | 2.2     | 2.4     | 2.5     | 3.2      | 0.0      |
| Manufacturing Capacity Utilization | %        | 80.1    | 80.5    | 80.8    | 81.0    | 81.0    | 81.0    | 81.0    | 81.1    | 81.1    | 78.5     | 80.0     |
| Labor Markets                      |          |         |         |         |         |         |         |         |         |         |          |          |
| Total Employment                   | m        | 134.7   | 135.1   | 135.5   | 135.9   | 136.2   | 136.5   | 136.9   | 137.2   | 137.5   | 133.5    | 130.0    |
| Change                             | %AR      | 1.7     | 1.2     | 1.2     | 1.0     | 1.0     | 1.0     | 1.0     | 1.0     | 1.0     | 1.5      | 0.0      |
| Unemployment Rate                  | %        | 4.7     | 4.6     | 4.7     | 4.8     | 4.9     | 4.9     | 5.0     | 5.0     | 4.9     | 5.1      | 5.0      |
| Prices                             |          |         |         |         |         |         |         |         |         |         |          |          |

|                          |            |       |       |       |       |       |       |       |       |       |       |    |
|--------------------------|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----|
| Consumer Price Index     | 1982=100   | 199.3 | 201.7 | 203.2 | 204.0 | 205.2 | 206.6 | 207.7 | 208.7 | 209.7 | 195.3 | 20 |
| Change                   | %AR        | 2.2   | 5.0   | 2.9   | 1.6   | 2.3   | 2.8   | 2.1   | 2.0   | 1.9   | 3.4   |    |
| Producer Price Index     | 1982=100   | 162.8 | 165.3 | 166.8 | 167.7 | 168.7 | 170.0 | 170.9 | 171.6 | 172.2 | 157.4 | 10 |
| Change                   | %AR        | -3.7  | 6.5   | 3.6   | 2.1   | 2.6   | 2.9   | 2.2   | 1.5   | 1.4   | 7.3   |    |
| West Texas Intermediate  | \$/Bbl     | 63.3  | 70.5  | 70.5  | 62.2  | 61.3  | 59.7  | 56.9  | 54.3  | 52.1  | 56.5  |    |
| <b>Financial Markets</b> |            |       |       |       |       |       |       |       |       |       |       |    |
| Federal Funds            | %          | 4.5   | 4.9   | 5.2   | 5.3   | 5.1   | 4.8   | 4.8   | 4.8   | 4.8   | 3.2   |    |
| Prime Rate               | %          | 7.4   | 7.9   | 8.3   | 8.3   | 8.1   | 7.8   | 7.8   | 7.8   | 7.8   | 6.2   |    |
| 10-Year Treasury         | %          | 4.6   | 5.1   | 4.9   | 4.8   | 4.9   | 5.0   | 5.0   | 5.1   | 5.2   | 4.3   |    |
| FRB Broad Index          | Jan 97=100 | 110.4 | 108.7 | 108.1 | 107.5 | 106.6 | 106.1 | 105.5 | 105.3 | 105.0 | 110.8 | 10 |
| Change                   | %AR        | -5.5  | -6.2  | -2.0  | -2.4  | -3.1  | -2.1  | -2.3  | -0.7  | -0.9  | -2.5  |    |

**Contribution to Real GDP**


|                                   | Units | 06Q1  | 06Q2  | 06Q3  | 06Q4E | 07Q1E | 07Q2F | 07Q3F | 07Q4F | 08Q1F |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Personal Consumption Expenditure  | %AR   | 3.45  | 1.83  | 2.16  | 1.78  | 2.01  | 1.92  | 1.81  | 1.79  | 1.77  |
| Gross Private Domestic Investment | %AR   | 1.39  | -0.28 | -0.24 | 0.48  | 0.79  | 0.70  | 0.77  | 0.91  | 0.84  |
| Inventories                       | %AR   | -0.09 | 0.45  | -0.11 | -0.44 | -0.17 | 0.25  | 0.19  | 0.08  | 0.12  |
| Net Exports                       | %AR   | 0.00  | 0.45  | -0.56 | 0.17  | -0.04 | 0.02  | 0.03  | 0.06  | 0.07  |
| Exports                           | %AR   | 1.52  | 0.69  | 0.73  | 0.87  | 0.77  | 0.75  | 0.83  | 0.86  | 0.93  |
| Imports                           | %AR   | 1.52  | 0.24  | 1.28  | 0.69  | 0.80  | 0.73  | 0.80  | 0.80  | 0.86  |
| Government                        | %AR   | 0.88  | 0.15  | 0.34  | 0.29  | 0.19  | 0.19  | 0.26  | 0.35  | 0.40  |
| Total                             | %AR   | 5.58  | 2.56  | 1.58  | 2.27  | 2.78  | 3.06  | 3.04  | 3.17  | 3.19  |

This analysis can be found on The Dismal Scientist at:  
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## Moody's Economy.com U.S. Regional Outlook



By Marisa DiNatale in West Chester.  
November 15, 2006

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- Rapidly slowing housing markets are driving the recent slowdowns in the South and West, although both regions continue to outperform the Midwest and Northeast.
- The largest risks to the outlook surround quickly cooling housing markets in the West, Florida and the Northeast. Should the contraction in house prices be more severe than expected, the negative impacts on consumer spending and credit quality could send some economies into a tailspin.
- Credit quality is also a concern in the Midwest, although the weakness there is from the beleaguered domestic auto industry. States like Michigan and Ohio could experience a prolonged contraction in their manufacturing sectors that would weigh on consumer spending and overall growth.

Regional economies are following along their usual patterns of growth, with the South and West outperforming the U.S., and the Northeast and Midwest posting slower but steady gains. Over the past three months, the South and West have actually seen job growth accelerate a bit, while the Northeast and Midwest have slowed. On a year-ago basis, however, employment growth is slowing most quickly in the South and West, after peaking earlier this year.

The upcoming benchmark revisions to the monthly nonfarm payroll employment data will likely exacerbate the regional differences in growth. While job growth in all regions will be revised up, the West and South will see the largest revisions. In the first quarter of this year, for example, the difference between the Quarterly Census of Employment and Wages and the Current Employment Statistics survey portends an upward revision to job growth in the West of 3.5 percentage points. The difference between the two surveys is 2.5 percentage points for the South and 1.1 percentage points for both the Midwest and the Northeast.

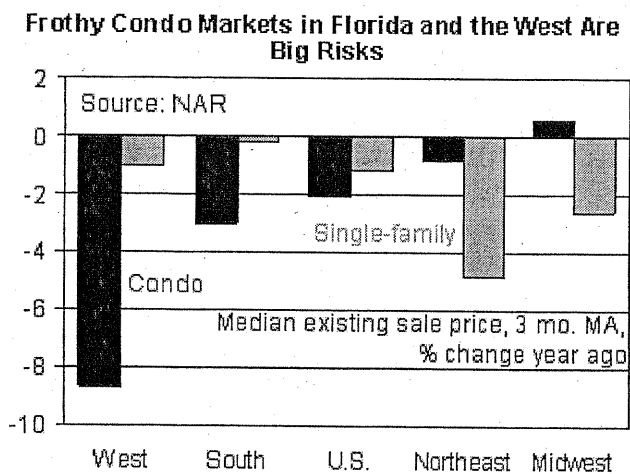
The regional distribution of the huge upward revision, a total of 810,000 for the U.S., also jibes with the industrial breakout. The largest upward revisions on an industry basis will come from construction, which has been strongest in the South and West, and in mining, also with the heaviest concentrations in the South and West.

The housing market is driving much of the slowdown in the South and West, as plentiful developable land spurred homebuilding and, thus, surging construction

hiring over the past two years. The other region with a housing boom, the Northeast, saw much slower growth in construction employment due to the lack of available land; sales of existing homes were the primary housing market driver in the Northeast.

Data from the National Association of Realtors show that the median sale price of an existing single-family home declined over the year in all four regions in September, with the largest drop in the Northeast. In California, data from the California Association of Realtors (CAR) show that at the metro area level, year-ago price declines have been limited to ex-urban areas such as Sacramento and San Luis Obispo. House prices continue to increase on a year-ago basis in the state's larger metro areas, including Los Angeles and San Francisco, although they are down quarter to quarter in Los Angeles.

Nationwide, condo prices have dropped more quickly than those of single-family homes. This is most evident in the West, where condo prices fell 13% in September on a year-ago basis, compared to a 3% drop for single-family homes. The disparity between the condo and single-family markets is most stark in Florida, where condo development is driving the overheated housing market.



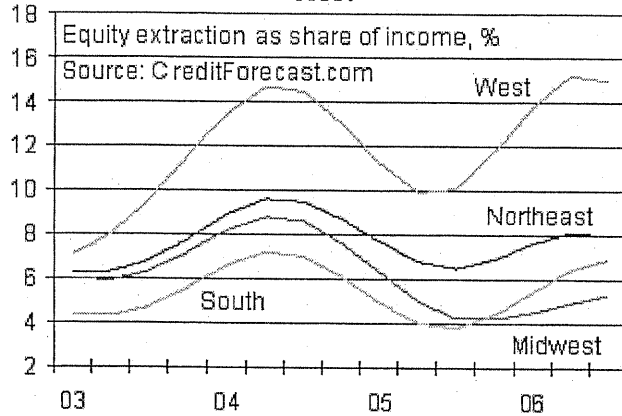
The quickly slowing housing market is fast translating into eroding credit quality in most regions, although for the most part, delinquency rates remain near historic lows. Data from CreditForecast.com show that delinquency rates on first mortgages rose an average of about 20 basis points across the four regions between the trough late last year and the third quarter of this year. Despite the recent uptick, most delinquency rates are still well below their historic averages.

The deterioration in credit quality is expected to worsen through mid to late 2008 across most of the U.S., although the West will experience the biggest deterioration relative to the other regions. Housing is least affordable in the West, based on prices and incomes, and evidence suggests that many homebuyers in the West used adjustable-rate mortgages to afford their homes. Credit quality will further erode as rates reset on ARMs over the next two years.

The West has also seen the most rapid increase in its debt service burden, the

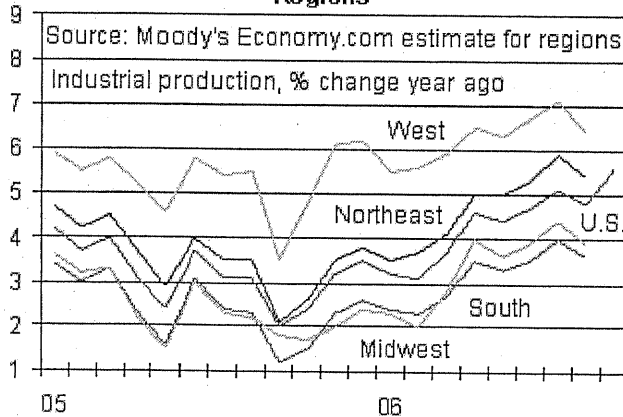
share of disposable income required to make minimum payments on mortgages and other loans. The region also has the highest debt service burden by a considerable margin. While these metrics point to serious credit problems down the road for the West, the rapid house-price appreciation in the region means that households there still have a lot of equity available that they can tap to pay off other types of debt. This will insulate the West to some extent, although this cushion would diminish rapidly if house prices see a big decline.

**Mortgage Equity Extraction Fueling Spending in the West**



Although the factory sector has been a drag on growth at the national level, manufacturing has been a growth driver over the past year for some areas. Conditions are mixed across the regions; the West's aerospace/defense and tech manufacturing industries are expanding, in stark contrast to the contracting domestic auto industry that is plaguing the Great Lakes' economies.

**Growth in Production Has Peaked Across All Regions**



In contrast to the other three regions, manufacturing employment in the West has been soaring since the end of last year, as hiring in aerospace and semiconductor manufacturing has picked up steam. To be fair, the share of employment in manufacturing in the West is below the national average; however, manufacturing wages and salaries are disproportionately high in the West, so the industry's impact is significant.

Factory conditions have deteriorated in the Great Lakes states as the Big Three auto manufacturers further cut production, and voluntary and involuntary layoffs continue at both auto makers and their suppliers. In contrast to the Great Lakes states, the Midwestern Plains states are enjoying expansionary manufacturing conditions thanks to strong demand for capital goods, including machinery.

## Outlook

The outlook favors the West, despite the potential for serious house-price corrections in and around some of the region's largest metro areas. In the West, aerospace and defense-related industries will support growth, as will international trade and related financial and logistical services. Further, global demand for technology products will support R&D activity in the region, even as tech-producing manufacturing continues to head offshore.

The Midwest faces the weakest outlook as the auto cutbacks weigh on areas such as Detroit, Lansing and Dayton. Similarly, moderating commodity prices and a falloff in demand for capital goods will weigh on the Plains states.

The South will face the most severe slowdown from its recent rapid growth. This will be concentrated in Florida and in the Washington, D.C. suburbs as their housing markets slow further; outside of these areas, the weakness will be more moderate.

The Northeast will benefit from the strong performance of financial services in and around the greater New York City metro area, although growth in the industry is set to slow. Wall Street bonuses are poised to post another record this year and this will help prop up consumer-driven industries and the New York City housing market through the second half of next year. The perennial stalwarts in the Northeast, education and healthcare, will provide stability to the region even as these income effects subside.

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## US Regional Forecast - State Employment Growth

Printer-friendly Format | Latest Forecast Analysis

Last updated on: 11/15/2006

### US Regional Forecast - State Employment Growth

|                           | Annualized % Change |      |       |       |       |       |       | % Change |       |       |
|---------------------------|---------------------|------|-------|-------|-------|-------|-------|----------|-------|-------|
|                           | 06Q2                | 06Q3 | 06Q4E | 07Q1F | 07Q2F | 07Q3F | 07Q4F | 2005     | 2006E | 2007F |
| <b>New England</b>        | 1.0                 | 0.5  | 0.4   | 0.4   | 0.5   | 0.8   | 0.7   | 0.6      | 0.6   | 0.6   |
| Connecticut               | 0.5                 | 0.3  | 0.5   | 0.7   | 0.7   | 1.3   | 1.1   | 0.8      | 0.5   | 0.7   |
| Maine                     | 1.5                 | 0.6  | 0.1   | 0.0   | -0.1  | 0.0   | -0.3  | 0.0      | 0.3   | 0.1   |
| Massachusetts             | 1.4                 | 0.6  | 0.4   | 0.4   | 0.5   | 0.6   | 0.6   | 0.4      | 0.8   | 0.6   |
| New Hampshire             | 0.5                 | -0.6 | 0.8   | 0.7   | 1.4   | 0.9   | 0.9   | 1.3      | 0.9   | 0.7   |
| Rhode Island              | 1.7                 | -0.5 | 0.1   | -0.3  | -0.1  | 1.3   | 1.3   | 0.7      | 0.4   | 0.2   |
| Vermont                   | 1.8                 | 0.7  | 0.3   | 0.6   | 0.3   | 0.6   | 0.5   | 0.8      | 0.7   | 0.6   |
| <b>Middle Atlantic</b>    | 0.8                 | 1.0  | 0.4   | 0.5   | 0.5   | 0.6   | 0.5   | 1.0      | 0.8   | 0.6   |
| New Jersey                | 1.4                 | 0.0  | 0.5   | 0.6   | 0.6   | 0.8   | 0.5   | 1.2      | 0.8   | 0.6   |
| New York                  | 1.0                 | 1.5  | 0.3   | 0.6   | 0.5   | 0.8   | 0.6   | 0.9      | 0.8   | 0.7   |
| Pennsylvania              | 0.3                 | 0.8  | 0.5   | 0.3   | 0.4   | 0.4   | 0.4   | 1.1      | 0.9   | 0.4   |
| <b>South Atlantic</b>     | 2.3                 | 1.6  | 0.8   | 1.2   | 1.3   | 1.3   | 1.3   | 2.6      | 2.2   | 1.3   |
| Delaware                  | 0.8                 | 0.3  | 0.9   | 0.6   | 1.3   | 1.1   | 1.5   | 1.6      | 1.4   | 0.9   |
| District of Columbia      | 0.2                 | 1.3  | -0.6  | 0.1   | 0.3   | 0.3   | 0.2   | 1.1      | 1.5   | 0.2   |
| Florida                   | 3.0                 | 2.7  | 1.7   | 2.1   | 1.9   | 1.9   | 2.0   | 3.9      | 3.3   | 2.1   |
| Georgia                   | 2.2                 | 2.3  | 0.7   | 0.9   | 1.1   | 1.2   | 1.1   | 2.5      | 2.1   | 1.2   |
| Maryland                  | 1.0                 | 0.3  | 0.6   | 0.7   | 0.8   | 0.9   | 1.0   | 1.4      | 1.1   | 0.7   |
| North Carolina            | 1.9                 | 1.3  | 0.5   | 1.0   | 0.9   | 1.1   | 1.2   | 1.9      | 1.8   | 1.0   |
| South Carolina            | 3.4                 | 1.3  | 0.9   | 1.3   | 1.2   | 1.0   | 1.1   | 1.4      | 2.5   | 1.3   |
| Virginia                  | 1.5                 | 1.2  | -0.1  | 0.6   | 1.2   | 1.0   | 1.0   | 2.4      | 1.6   | 0.8   |
| West Virginia             | 1.4                 | 0.6  | 0.2   | 0.3   | 0.3   | 0.4   | 0.2   | 1.3      | 0.9   | 0.4   |
| <b>East North Central</b> | 1.2                 | 0.6  | -0.1  | 0.6   | 0.5   | 0.4   | 0.4   | 0.6      | 0.5   | 0.4   |
| Illinois                  | 2.1                 | 2.4  | 0.6   | 0.6   | 0.5   | 0.5   | 0.4   | 0.9      | 1.1   | 0.9   |
| Indiana                   | 1.4                 | 0.3  | 0.7   | 0.7   | 0.7   | 0.4   | 0.8   | 1.0      | 0.6   | 0.7   |
| Michigan                  | 0.7                 | -1.2 | -1.8  | -0.2  | 0.1   | 0.1   | 0.2   | -0.2     | -0.6  | -0.5  |
| Ohio                      | 1.8                 | -0.4 | 0.2   | 0.2   | 0.3   | 0.3   | 0.3   | 0.4      | 0.5   | 0.3   |
| Wisconsin                 | 1.2                 | -0.4 | -0.5  | 1.0   | 0.8   | 0.8   | 0.6   | 1.2      | 0.9   | 0.5   |
| <b>West North Central</b> | 1.6                 | 1.8  | 0.8   | 0.7   | 0.9   | 0.8   | 0.8   | 1.3      | 1.5   | 1.0   |
| Iowa                      | 2.2                 | 1.2  | 1.2   | 1.0   | 1.0   | 0.8   | 0.6   | 1.6      | 1.7   | 1.1   |
| Kansas                    | 1.7                 | -0.5 | 0.9   | 0.9   | 1.0   | 0.7   | 0.6   | 0.7      | 0.6   | 0.7   |
| Minnesota                 | 4.1                 | 2.6  | 0.4   | 0.6   | 0.7   | 0.8   | 0.8   | 1.1      | 2.0   | 1.1   |
| Missouri                  | 0.2                 | 1.3  | 0.9   | 0.6   | 0.9   | 1.0   | 0.8   | 1.3      | 1.1   | 0.8   |
| Nebraska                  | 1.5                 | 0.1  | 0.7   | 0.0   | 0.4   | 0.5   | 0.6   | 1.4      | 1.7   | 0.4   |
| North Dakota              | 1.4                 | 1.6  | 0.6   | 0.3   | 2.0   | 1.0   | 1.0   | 2.2      | 1.7   | 1.0   |
| South Dakota              | 3.2                 | 1.7  | 0.2   | 1.7   | 2.0   | 1.5   | 1.3   | 1.7      | 2.4   | 1.5   |

|                           |      |      |      |      |     |     |     |      |      |     |
|---------------------------|------|------|------|------|-----|-----|-----|------|------|-----|
| <b>East South Central</b> | 1.9  | 0.4  | 0.9  | 1.2  | 1.2 | 1.0 | 1.0 | 1.5  | 1.3  | 1.0 |
| Alabama                   | 2.0  | -0.1 | 1.4  | 1.2  | 1.3 | 1.1 | 1.2 | 2.2  | 1.8  | 1.1 |
| Kentucky                  | 1.7  | 1.4  | 0.3  | 1.1  | 1.2 | 1.0 | 0.9 | 1.5  | 1.2  | 1.0 |
| Mississippi               | -0.4 | 1.7  | 1.4  | 2.2  | 1.9 | 0.8 | 0.4 | 0.4  | 0.8  | 1.5 |
| Tennessee                 | 2.7  | -0.1 | 0.8  | 0.9  | 0.8 | 1.0 | 1.0 | 1.4  | 1.2  | 0.9 |
| <b>West South Central</b> | 1.7  | 1.9  | 1.8  | 1.6  | 1.7 | 1.6 | 1.5 | 1.8  | 1.3  | 1.7 |
| Arkansas                  | 1.5  | 1.5  | 1.4  | 1.4  | 1.4 | 1.3 | 1.1 | 1.7  | 1.3  | 1.4 |
| Louisiana                 | 2.0  | 4.2  | 2.9  | 1.9  | 2.4 | 1.8 | 1.2 | -2.5 | -5.0 | 2.4 |
| Oklahoma                  | 0.5  | -0.7 | 0.9  | 0.8  | 0.7 | 0.7 | 0.6 | 2.5  | 1.6  | 0.6 |
| Texas                     | 1.9  | 1.9  | 1.8  | 1.7  | 1.7 | 1.8 | 1.7 | 2.5  | 2.4  | 1.8 |
| <b>Mountain</b>           | 3.5  | 4.3  | 1.8  | 1.6  | 1.8 | 1.7 | 2.0 | 3.9  | 3.7  | 2.1 |
| Arizona                   | 5.0  | 4.3  | 2.1  | 2.1  | 2.5 | 2.4 | 2.4 | 5.3  | 4.7  | 2.7 |
| Colorado                  | 1.6  | 2.9  | 1.5  | 0.9  | 1.1 | 0.7 | 2.0 | 2.1  | 2.2  | 1.4 |
| Idaho                     | 3.6  | 2.0  | 1.4  | 1.4  | 1.4 | 1.4 | 1.7 | 4.2  | 4.4  | 1.6 |
| Montana                   | 3.6  | 6.0  | 1.7  | 0.3  | 0.5 | 0.8 | 0.9 | 2.2  | 2.7  | 1.6 |
| Nevada                    | 6.3  | 4.0  | 2.3  | 2.6  | 2.6 | 2.6 | 2.4 | 6.2  | 5.1  | 2.9 |
| New Mexico                | 1.3  | 4.5  | 1.8  | 1.7  | 1.8 | 1.7 | 1.6 | 2.4  | 2.7  | 2.0 |
| Utah                      | 5.9  | 4.3  | 1.0  | 1.3  | 1.4 | 1.5 | 1.3 | 4.1  | 4.1  | 1.9 |
| Wyoming                   | 4.2  | 4.0  | 2.2  | 1.5  | 1.8 | 1.8 | 1.6 | 3.0  | 4.0  | 2.2 |
| <b>Pacific</b>            | 0.9  | 1.6  | 0.2  | 0.2  | 1.1 | 1.3 | 1.5 | 2.1  | 1.8  | 0.8 |
| Alaska                    | 3.4  | 1.5  | 0.8  | 0.7  | 0.7 | 0.8 | 0.9 | 1.8  | 1.7  | 1.0 |
| California                | 0.4  | 1.6  | 0.1  | -0.1 | 0.9 | 1.2 | 1.5 | 1.8  | 1.4  | 0.6 |
| Hawaii                    | 1.7  | 1.1  | -0.4 | 1.3  | 0.2 | 0.8 | 1.2 | 3.2  | 2.4  | 0.7 |
| Oregon                    | 2.2  | 2.5  | 1.1  | 1.0  | 1.4 | 1.4 | 1.3 | 3.2  | 3.2  | 1.4 |
| Washington                | 3.0  | 1.5  | 0.1  | 1.2  | 2.1 | 2.1 | 1.9 | 2.9  | 2.9  | 1.5 |
| <b>United States</b>      | 1.2  | 1.2  | 1.0  | 1.0  | 1.0 | 1.0 | 1.0 | 1.5  | 1.4  | 1.0 |

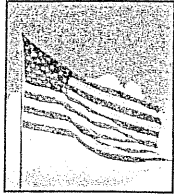
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# U.S. EXECUTIVE SUMMARY

NOVEMBER 2006

## Down But Not Out

### Highlights

- The U.S. economy has slowed. We see GDP growth averaging just 2.2% from mid-2006 to mid-2007. On an annual basis, growth averages 3.3% this year, but only 2.4% in 2007.
- The key to the slowdown is a downturn in the housing market and a more cautious consumer.
- Oil prices have eased to \$60/barrel, good news for consumers, and providing a welcome cushion for growth.
- We also expect business capital spending and exports to support growth, but they will not fully offset the consumer and housing slowdowns.
- The Fed has probably finished raising interest rates, although it is watching labor costs closely; there is a risk that it may decide to take out more insurance against inflation. Our forecast assumes three 25-basis-point cuts in the federal funds rate in 2007, beginning in May.

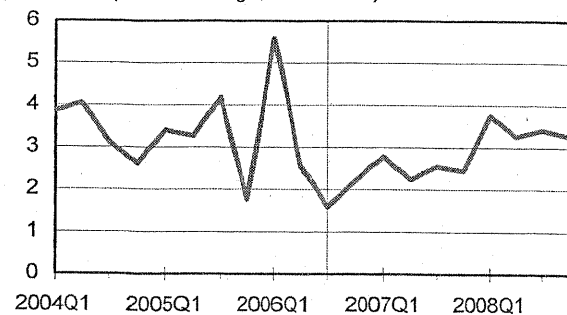
### The Forecast in Brief

GDP growth has slowed, as revealed by the 1.6% advance in the third quarter. The question is whether that signals the beginning of a downward spiral, or whether the economy will prove more resilient. Our view remains that the fallout from the housing and autos downturns is too limited to support recession scenarios, and we view a **soft landing** for the U.S. economy as the safest bet. We see the third quarter as the low point for growth, but do expect growth to remain sub-par (by which we mean below 3%) for an extended period.

In the fourth quarter, we anticipate real GDP growth of 2.2%. Downside risks come from the auto sector. It seems likely that the contribution of motor vehicles to third-quarter

### Was the Third Quarter the Trough?

(Real GDP, percent change, annual rate)



ter growth was overstated, so there is a risk that the well-publicized fourth-quarter production cuts will drag growth down more than we have assumed. A stronger rebound—even if delayed beyond the fourth quarter—remains a plausible alternative, as we discuss in more detail later.

The latest indicators have been giving **mixed messages**, making it hard to assess the underlying picture. Growth in the manufacturing sector is slowing, as revealed in October's ISM survey, led by housing- and auto-sensitive sectors. Meanwhile, store sales indications for October were unimpressive. Yet, the employment report for October showed a resilient economy, strong enough to generate 157,000 jobs on average over the last three months in the payroll survey and to drive the unemployment rate down to 4.4% in the household survey. Although the negative imprints of the housing and auto slowdowns were clear in the details of the jobs data, the rest of the economy appears to be holding up well.

Even with help from recent oil price declines, we expect the housing downturn to drag the U.S. economy into an **extended period of below-trend growth** (we project seven successive quarters below 3%). The steep **housing**

#### Contacts:

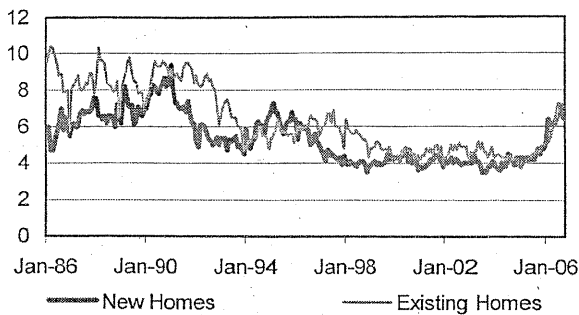
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**Home Inventory Has Risen Sharply**

(Months' supply at current selling rate, single-family homes)



**downturn** chopped 1.1 percentage points off GDP growth in the third quarter, through its direct effects on construction alone, and we expect a similar drag in the fourth quarter. **Rising unsold inventories of new homes** are producing a sharp response from builders, whose confidence has dropped to its lowest level in 15 years. Some housing indicators (new home sales, in particular) have shown a recent bounce, but we still anticipate that activity has further to fall as builders try to get control of inventories. We expect housing starts to drop 11% this year and 4% in 2007, hitting 1.59 million units next year. We also assume an unprecedented, but small, decline in national nominal home prices in 2007.

As house prices decline, that will remove the fuel that has allowed consumer spending growth to outpace real income gains in recent years, producing a **saving rate** that has been negative for more than a year. And lower levels of home sales will mean that spending on items like carpets and furnishings will diminish. The effects on the rest of the economy appear—so far—to be limited, but we do expect to see slower consumer spending growth in 2007, as consumers realize that they can no longer build wealth just by watching the value of their homes rise.

**Consumers feel stressed**, for good reason. Pay gains as measured by the employment cost index (which excludes items like stock options benefiting higher-income earners), although edging higher, have for some time fallen short of energy-driven consumer price inflation. Even with energy prices below their peaks—meaning that pay gains are now outstripping inflation again—some readjustment of spending relative to income will still be required. In real terms,

we expect consumer spending growth to downshift from 3.2% in 2006 to 2.8% in 2007.

The recent **oil price retreat** is providing welcome support to growth. Fears of major supply disruptions have all but disappeared, sharply reducing the risk premium in the oil market. The roughly 80-cent/gallon decline in gasoline prices over the last two months has operated like a tax cut for households worth \$96 billion, or 1.0% of disposable income. Not all of this will be spent, and consumer spending does seem to have begun the fourth quarter on a soft note. But we believe that the support from rising incomes and falling gasoline prices will help spending recover to a 3.2% growth pace, just above its third-quarter rate.

Higher utilization rates and the need to remain competitive are spurring business fixed investment. The picture was clouded by a dip in **business equipment spending** during the second quarter, but spending revived in the third quarter. What's more, orders for nondefense capital goods excluding aircraft are outstripping shipments, signaling rising order backlogs and solid spending growth ahead. But equipment spending will need to be watched carefully: corporations may be awash in cash, but that does not mean they have to spend it. And, as we look into 2007, profits growth will fall sharply as the economy slows.

The biggest positive difference this year for investment is that **nonresidential construction** has finally joined the expansion, helped by post-hurricane rebuilding, rising utilization rates, and falling office vacancy rates. However, the decline in home-building will begin to weigh on commercial construction in 2007.

Growth in the economy has had a very beneficial impact on the **federal budget deficit**. Despite hurricane-related spending and the launch of the unfunded Medicare prescription drug program, revenues have improved so sharply that the fiscal 2006 deficit came in below \$250 billion, much lower than the \$319 billion deficit in fiscal 2005. This does not change our view that higher taxes will be needed eventually to keep the deficit under control, but it does make the issue less immediate.

Improving economic growth around the world, plus a declining dollar, mean that **exports** will be an important source of strength going forward. Export gains should aver-

age in the high single-digits for both 2006 and 2007, and will be a key driver of growth.

We retain our long-held view that **the dollar** will fall further, given the large current-account deficit, now that financial markets perceive that U.S. interest rates may have peaked. The **current-account deficit** is likely to peak at \$882 billion (6.7% of GDP) this year, and thereafter improve gradually as exports gain on imports, in both real and nominal terms. A declining oil bill will hasten the improvement.

**Inflation** has probably topped out, but is still too high for the Fed's comfort. Headline CPI inflation, recently above 4% year-on year (y/y), will slide well below 2% in October, as lower gasoline prices lead to another month-on-month CPI decline. This should help to dampen inflation expectations. But core inflation remains well outside the Federal Reserve's 1-2% comfort zone (the core PCE price index is running at 2.4% year-over-year). The Fed is hoping that slower growth and diminished oil price "pass-through" will bring core inflation down, but accelerating unit labor costs are trying its nerves. The more-than-5% advance in **unit labor costs** over the past year probably exaggerates the pressure, because the data are inflated by surges in compensation such as stock options that are related to profits, and are not part of firms' underlying cost base. But resilience in hiring points to a **tightening labor market** and upward pressure on wages. It also suggests—given that growth has slowed—employers are finding it harder to achieve robust productivity gains. Even if 5% exaggerates the climb, unit labor costs are accelerating. The question then is whether these higher costs are passed on into prices, or whether competitive pressures mean that they will squeeze profit margins (which are presently high). We expect profit margins to take the strain, but if we're wrong, the Federal Reserve may have to hike interest rates again, even in the face of sub-par growth.

The prospects of a prolonged period of below-trend growth and lower inflation ahead mean that the Fed can hold **interest rates** steady for now, and they should fall over the course of 2007. There is a risk that the Fed may decide to take out a little more insurance against labor cost inflation by hiking rates early in 2007, but we think it more likely that the next move will be a rate cut. We assume three 25-

basis-point cuts next year, beginning in May, taking the federal funds rate down to 4.50% by year-end.

### Are the Upside Risks to the Outlook Being Underestimated?

In last month's *U.S. Executive Summary*, we spelled out the case for a soft landing. While a lot of ink continues to be spilled regarding all the downside risks facing the U.S. economy, the recent data not only bolster the case for a soft landing, but also suggest that the upside risks may actually be increasing.

While gloomy assessments about the outlook may appeal to people's subliminal anxiety about the future, the actual performance of the U.S. economy in recent years has provided mostly positive surprises. In fact, the dynamism of this economy has been consistently underestimated for the last couple of decades.

The Global Insight forecast already incorporates a modest rebound. We expect that the 1.6% growth in the third quarter will be the low point of this "mid-cycle correction." So far, the fourth-quarter data suggest that growth will recover to 2.2%. We also expect the economy to perform below trend next year—with growth at 2.4%—before a return to trend growth in 2008. Could the return to trend growth occur sooner? It all depends on the answers to the following questions.

**Is Housing Stabilizing?** There is little doubt that the housing market is going through a hard landing (aka, a recession), but there are some early signs that the worst may be over. In a recent speech, former Fed chairman Alan Greenspan pointed to the leveling-off of mortgage applications (for home purchases) as an "early sign of stabilization." Others have pointed to the recent rebound in home sales and drop in the inventory of unsold homes. However, looking beyond monthly data variations, Global Insight believes that housing will remain a drag on economic growth through next year. Nevertheless, many of the market fundamentals (interest rates, jobs and income growth) remain quite positive and will cushion the fall in the construction, sales, and prices of homes. So, it may be a little premature to call an end to the housing crunch, but we may be close to the bottom of the market.

**Has the Pessimism About the Consumer Been Overdone?** Like the Eveready rabbit, the U.S. consumer keeps on going, through thick and thin. Much the same as the overall economy, the resilience of the U.S. consumer has been consistently (and mistakenly) underestimated. The good news is that, other than housing, most of the recent trends in the economy—lower gasoline prices, rising wages, decent jobs growth, and a robust stock market—will keep consumers spending at a respectable pace; recent data on spending and confidence confirm this upbeat view. Depending on where gasoline prices settle down, U.S. households will get a \$70-100 billion boost to their disposable income. They are bound to spend some of this money. Moreover, even as house price appreciation has cooled (and reversed in some markets), stock prices have been rising, thus offsetting the potential negative wealth effect. Finally, although home-equity withdrawals have been falling, there is no clear consensus about how much of these funds, in the past, have been used for consumer spending (versus home improvements, debt repayments, etc.). Global Insight expects consumer spending growth to decelerate modestly, from 3.2% this year to 2.8% next year, but there is certainly potential for upside surprises.

**Could Business Spending Come in Stronger?** We expect capital spending to be one of the pillars of economic growth for the rest of this year and next. Not only will there be continuing strength in equipment and software spending, but the recent rebound in nonresidential construction can be expected to continue a little longer. Growth in both categories of business spending could be even stronger. Corporate cash flow is the highest in decades. Inventories are lean and the order backlog is strong.

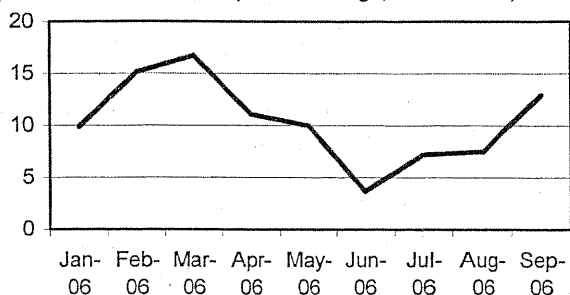
Capacity utilization is at historically high rates and the pressure for productivity improvements is unrelenting. Outside of housing and the troubled auto sector (admittedly very important markets for manufacturing companies), sustained growth in the rest of the economy will provide ample justification for companies looking for reasons to expand capacity.

**Will Exports Surprise?** Global Insight is already optimistic about export growth. But a recent pickup in GDP growth outside the United States (especially in Europe) and a weaker dollar mean that export volumes could increase at an even faster clip than the 8-9% per year we are currently predicting. There is also more downside on the dollar. Growth and interest rate differentials are moving against the greenback, while the current-account deficit remains huge, both in absolute terms and as a share of GDP. Thus, we are in for a period when the United States will—finally—enjoy export-led growth. The only question is how strong will this growth be.

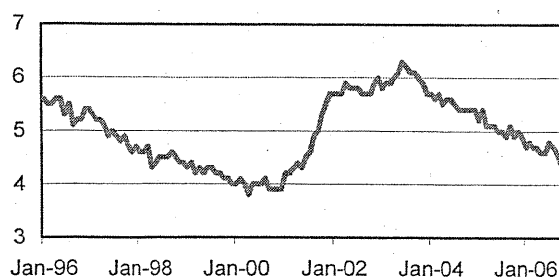
**What Does October's Strong Jobs Report Mean?** The October employment report showed solid job creation in the payroll survey (averaging 157,000 over the past three months), even stronger job creation when measured by the household survey (averaging 319,000 over the same period), and the unemployment rate hitting a new low for this cycle, at 4.4%. Does this mean that the economy is far more robust than the recent output growth figures are suggesting? Or is this a "late-cycle" phenomenon, where output growth has slowed but employers are finding it very difficult to sustain rapid productivity growth—so that employment growth has yet to slow? Our forecast tilts towards the

**Nondefense Capital Goods Orders Have Revived After a Midyear Slowdown**

(Three-month annualized percent change, excl. aircraft)



**Unemployment at a New Low for This Cycle**  
(Percent)



latter explanation—but the optimism evident in the stock market makes the alternative plausible. In any case, a tightening labor market and faster increases in unit labor costs imply a risk that the Federal Reserve might have to raise interest rates again, even if growth does not rebound strongly.

**Bottom Line: “Touch and Go” Instead of Soft Landing?** A number of analysts have made the point that soft landings are a rare event—having occurred only in the mid-1960s and mid-1990s (some have argued that there was a soft landing in the mid-1980s as well). However, in an era of low inflation and interest rates, as well as very mild business cycles, modest decelerations of growth (rather than more pronounced downturns) are becoming the norm. The last two recessions (1990-91 and 2001) were much shallower than the postwar average, and for many parts of the economy, the 2001 downturn was a soft landing. Even more important, real interest rates (both short and long term) are considerably below their levels of the prior soft landings. So, in the end, while we continue to believe that a soft landing is the most likely scenario for the U.S. economy next year, it could well be that there is no landing—hard or soft.

### Key Forecast Assumptions

**Oil Price Projection Eased Slightly Lower.** Oil prices have retreated to around \$60 per barrel. We still expect to see some firming in prices as we move into the winter heating season, but much of the “risk premium” has been taken out of the price. We have edged our near-term projections slightly lower this month. We now expect the oil price (WTI) to average \$60.33 in the fourth quarter and \$64.44 in 2007, compared with \$63.67 and \$65.62, respectively, in our October forecast.

**Natural Gas Prices Expected to Rise over the Winter.** We have long anticipated that weak production and rising seasonal demand would tighten the market and push natural gas prices sharply higher this winter. Prices have now begun to rise, climbing from around \$4 per million Btu (Henry Hub cash price) at the beginning of October to around \$7 at the beginning of November. We expect the Henry Hub price for natural gas to reach \$9.43 per million Btu by the first quarter of 2007.

**Fed On Hold for Now.** We assume that the Federal Reserve will hold the federal funds rate steady at 5.25% for the rest of the year. The next move, in the second quarter of 2007, will be a rate cut to counter the slowdown in real growth and recognize the stabilization of inflation. We assume three 25-basis-point rate cuts next year, with the first in May, taking the funds rate to 4.50% by year-end.

**Dollar Decline to Continue.** The drag on the dollar from the current-account deficit should continue to pull the currency down, although we have scaled back our projections of a dollar decline over the next year. Global Insight expects the dollar to drop about 5% (rather than 7%) against major currencies during 2006 (fourth quarter-to-fourth quarter basis), reaching rates of \$1.30/euro, 110 yen/dollar, and C\$1.13/dollar at year-end. We anticipate a further 5% decline (rather than 7%) against major currencies during 2007. China began the process of renminbi revaluation with a small 2.1% move in July 2005; the currency has climbed another 3.0% since then. We expect future moves to remain gradual, with the renminbi appreciating another 4.3% against the dollar over the next 12 months.

**Foreign GDP Growth Improves.** Global Insight expects growth in major-currency trading partners to accelerate to 2.7% in 2006, from 2.4% in 2005, before easing back to 2.3% in 2007. Real goods exports are projected to see double-digit gains during 2006 and close to that in 2007.

**Tax Burden to Rise.** We do not believe that budget-deficit reduction will be achieved by spending restraint alone. The forecast assumes that Congress will not allow all of the Bush administration’s personal tax reductions to expire as scheduled (the rate cuts for capital gains and dividends have already been extended to 2010, matching the expiration date of the earlier, broader cuts). But we expect some increase in the income-tax burden, whether through the capricious impact of the alternative minimum tax or some kind of tax reform that raises a similar amount of revenues. We do not anticipate any major tax initiatives before the 2008 presidential elections, though, regardless of which party controls Congress.

*by Nariman Behraves and Nigel Gault*

## Risks to the Forecast

The latest readings on productivity were sobering. The Bureau of Labor Statistics (BLS) reported that productivity was unchanged in the third quarter of 2006. This was the third time in the past four quarters that it has risen 1.2% or less. Productivity growth over the past 50 years has averaged 2.1% per year. In the pessimistic alternative, it slumps to 1.8% (compared with the baseline's 2.3%).

Despite the latest BLS report, one can make a case for strong productivity growth. First, the current slowdown is probably cyclical. In an economic slowdown, companies are reluctant to shed workers because training new ones is very expensive. As a result, output slows more than hours and productivity growth falls. This is probably what is happening today. Second, firms are continuing to invest in research and development, which plays a big roll in innovations, which in turn drives the productivity numbers. Third, it is easy to identify industries that have not taken advantage of current technologies. The U.S. healthcare system, for example, is notoriously inefficient.

The optimistic scenario incorporates the view that productivity growth will recover and stay strong many, many years into the future. This alternative forecast also focuses on the momentum being created by the investment recovery. As the decade-long expansion of the 1990s showed, once an economy gets up a head of steam, it is difficult to slow it down. Indeed, the optimistic scenario resembles the late 1990s, when it seemed that the good times would last forever.

The pessimistic scenario focuses on the upward pressures on global commodity prices—notably for energy—and the downward trend in the dollar, with their negative implications for inflation, bond yields, and domestic demand. The simulation also includes a deeper housing downturn than in the baseline. This alternative forecast resembles the late 1970s, when it seemed the bad times would never end. Indeed, as the 1970s demonstrated, economic malaise is difficult to shake as well.

**Only a Brief Slowdown (20% Probability).** Seven assumptions distinguish the optimistic scenario from the baseline forecast. First, total factor productivity, a concept that roughly measures how innovations augment economic growth, is stronger. Underlying this assumption is the view that the information-driven technology boom, which may

have accelerated in recent years, continues. In the optimistic scenario, rapid productivity growth is the main reason why economic growth and employment gains are higher and inflation and budget deficits are lower than in the baseline. It is also one reason why the dollar is stronger. In conjunction with productivity gains, the stronger currency will help contain inflation.

Second, foreign economic growth is stronger, which boosts U.S. exports and strengthens domestic manufacturing. In this scenario, both developing and industrialized economies grow faster than in the baseline. As a result, real exports exhibit faster growth throughout the forecast period.

Third, the optimistic alternative assumes a stronger dollar, resulting in expansion of U.S. demand for foreign goods and services. In the near term, stronger economic growth compounds the effect of the stronger dollar, resulting in lower net exports and a larger current-account deficit than in the baseline. As productivity gains improve U.S. competitiveness, however, both the trade and current-account deficits begin to narrow, gradually reducing the gap with the baseline forecast.

Fourth, business investment is stronger. Today's level of business spending is below average by historical standards. In 2005, business fixed investment accounted for 10.2% of GDP, more than a full percentage point below the average over the previous 25 years despite strong fundamentals—namely, an economy growing faster than trend and low interest rates. In this scenario, business spending (particularly on equipment and software) is much higher than in the baseline throughout the forecast period. By 2010, for example, it accounts for 11.4% of GDP, compared with 10.7% in the baseline.

Fifth, the federal government budget deficit in the optimistic scenario is lower than in the baseline. As the U.S. economy performs better, tax revenues increase, and federal transfer payments decrease, leading to smaller deficits. Also contributing are lower interest rates, which result in lower federal interest payments.

Sixth, housing starts are stronger. The main factors driving starts up in the optimistic scenario are better job growth, lower interest rates, higher consumer confidence, and lower long-term mortgage rates.



Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run 15% lower (or roughly \$8.50 per barrel lower in the near term) and well-head natural gas prices run 7.5% lower.

These assumptions produce a rosier outlook. A slowdown in growth to less than 2% in the third quarter proves temporary. Real GDP growth picks up to 2.6% in the fourth quarter, compared with only 2.2% in the baseline; growth in 2007 averages 3.4%, versus 2.5% in the baseline. Although economic growth and labor markets are stronger, inflation is lower, due mainly to the strong productivity growth. As measured by the personal consumption expenditures deflator, excluding food and energy prices, core inflation registers only 1.5% in 2007 (fourth quarter-to-fourth quarter basis) and remains safely within the Federal Reserve's 1-2% tolerance band throughout the forecast period. The lower inflation rate allows the Fed to keep the federal funds rate below the baseline value.

**Inflation Won't Go Away (20% Probability).** After a quarter-century of declining inflation, signs of reacceleration are emerging. Soaring oil prices, a downtrend in the dollar, a long period of accommodative monetary policy, and loose fiscal policy may have produced the conditions for a serious acceleration of inflation. The Federal Reserve is counting on continuing strong productivity gains, together with its measured tightening, to keep inflation at bay—but perhaps this is too sanguine a view. Indeed, unit labor costs rose 5.3% y/y in the third quarter, the fastest rate of increase since the fourth quarter of 1990.

The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that theoretically remains on the books. It assumes that the dollar weakens quickly as foreign investors take fright at the spiraling U.S. trade deficit. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation.

In the pessimistic scenario, core inflation keeps gathering momentum. The Fed responds by accelerating the pace of

tightening. Despite the more aggressive stance, both the stock and bond markets slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so it continues hiking interest rates. The federal funds rate averages 6.81% in the second quarter of 2007, compared with 5.1% in the baseline.

This simulation also has a deeper housing downturn than the baseline. Housing starts drop to 1.41 million in 2007 (compared with 1.59 million in the baseline). The average price of an existing home drops nearly 8% below the baseline in late 2007, and remains below it over the forecast period.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in their discretionary spending and the U.S. economy slows. Core inflation stabilizes—but fails to retreat sufficiently, worrying the Federal Reserve. At the same time, hiring falters, causing the unemployment rate to climb. The Fed, forced to choose between fighting inflation and encouraging economic and employment growth, focuses on the long-term consequences of its policy and chooses to battle inflation—and, in fact, inflation eventually tapers off. Debt-laden consumers retrench further. Finally, early in 2008, with the unemployment rate approaching 6.0% and the federal funds rate at 7.75%, the Fed decides to hold. With the weaker dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment activity picks up, potential output increases relative to actual output, easing the upward pressure on prices.

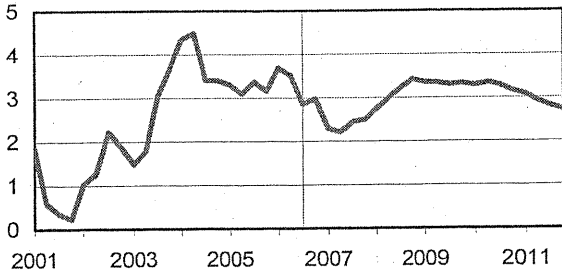
The economy nearly sinks into recession in the pessimistic alternative and falls well below its potential, with GDP growth at just 1.1% for all of 2007. Production shifts from satisfying domestic demand to serving foreign demand, which responds strongly to the weaker dollar. The ground lost relative to the baseline is never made up, though, and real GDP is more than 5.0% below its baseline level at the end of 2016.

*by Patrick Newport and Kenneth Beauchemin*

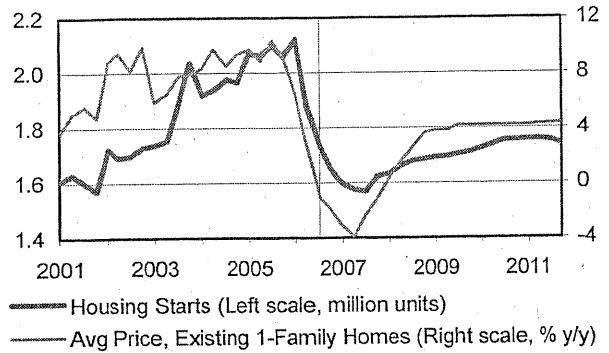
## Forecast at a Glance

### GDP Growth to Ease Through 2007

(Percent change from a year earlier)

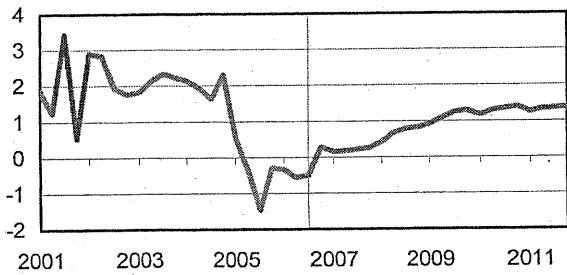


### Housing Has Further to Fall



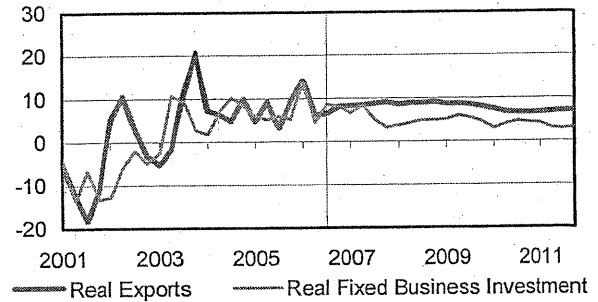
### Saving Rate Expected to Rise Gradually

(Household saving as a percent of disposable income)



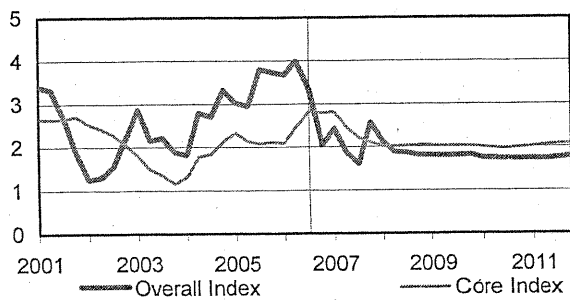
### Exports and Business Investment Will Support Growth

(Annual percent change)



### Inflation Peaking

(Consumer prices, percent change from a year earlier)



### Fed to Cut Interest Rates in 2007

(Percent)

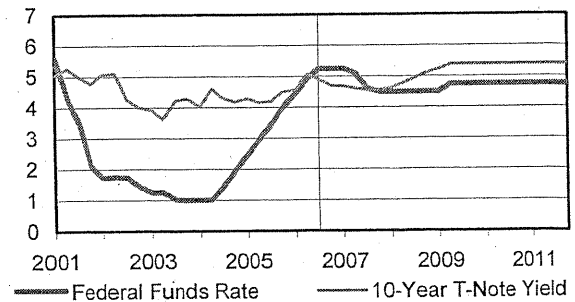


TABLE 1  
Monthly Economic Indicators

|                                         | Sep.<br>2005 | Oct.<br>2005 | Mar.<br>2006 | Apr.<br>2006 | May.<br>2006 | Jun.<br>2006 | Jul.<br>2006 | Aug.<br>2006 | Sep.<br>2006 | Oct.<br>2006 | 2003    | 2004    | 2005    |
|-----------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------|---------|---------|
| <b>Industrial Markets</b>               |              |              |              |              |              |              |              |              |              |              |         |         |         |
| Industrial Prod. Total (2002=100.0)     | 107.2        | 108.4        | 111.2        | 112.1        | 112.2        | 113.4        | 113.8        | 113.8        | 113.1        |              | 100.6   | 104.7   | 108.1   |
| Percent Change                          | -1.3         | 1.1          | 0.5          | 0.8          | 0.1          | 1.1          | 0.3          | 0.0          | -0.6         |              | 0.6     | 4.1     | 3.2     |
| Percent Change Year Earlier             | 2.0          | 2.4          | 3.7          | 4.6          | 4.4          | 4.7          | 5.1          | 4.8          | 5.6          |              |         |         |         |
| Capacity Utilization, Manufacturing (%) | 78.2         | 79.4         | 80.3         | 80.9         | 80.5         | 81.1         | 81.2         | 81.2         | 80.8         |              | 73.7    | 77.1    | 78.9    |
| Unemployment Rate (%)                   | 5.1          | 4.9          | 4.7          | 4.7          | 4.6          | 4.6          | 4.8          | 4.7          | 4.6          | 4.4          | 6.0     | 5.5     | 5.1     |
| Payroll Employment (Mil.)               | 133.840      | 133.877      | 134.905      | 135.017      | 135.117      | 135.251      | 135.374      | 135.604      | 135.752      | 135.844      | 129.993 | 131.424 | 133.459 |
| Change (Mil.)                           | 0.048        | 0.037        | 0.175        | 0.112        | 0.100        | 0.134        | 0.123        | 0.230        | 0.148        | 0.092        | -0.349  | 1.431   | 2.035   |
| Leading Indicator (1992=1.000)          | 1.358        | 1.369        | 1.389        | 1.386        | 1.380        | 1.382        | 1.378        | 1.375        | 1.377        |              | 1.243   | 1.335   | 1.366   |
| Percent Change                          | -0.9         | 0.8          | 0.4          | -0.2         | -0.4         | 0.1          | -0.3         | -0.2         | 0.1          |              | 5.0     | 7.4     | 2.3     |
| New Orders, Mfg. (Bil. \$)              | 381.7        | 387.9        | 405.4        | 397.2        | 401.4        | 407.5        | 403.6        | 402.6        | 411.2        |              | 325.2   | 349.6   | 379.2   |
| Percent Change                          | -1.1         | 1.6          | 4.0          | -2.0         | 1.0          | 1.5          | -1.0         | -0.3         | 2.1          |              | 0.9     | 7.5     | 8.5     |
| Inv. Chg., Mfg. & Trade (Bil. \$)       | 7.3          | 5.5          | 9.6          | 8.7          | 14.5         | 11.6         | 8.7          | 8.7          |              |              | -11.3   | 87.2    | 53.7    |
| Merchandise Trade Bal. (Bil. \$)        | -69.4        | -71.3        | -66.4        | -68.3        | -69.6        | -68.7        | -72.0        | -73.9        |              |              | -532.4  | -650.9  | -767.5  |
| <b>Consumer Markets</b>                 |              |              |              |              |              |              |              |              |              |              |         |         |         |
| Disposable Income (Bil. 2000\$)         | 8124         | 8145         | 8293         | 8300         | 8302         | 8334         | 8353         | 8371         | 8440         |              | 7730    | 8011    | 8105    |
| Percent Change                          | 2.2          | 0.3          | 0.1          | 0.1          | 0.0          | 0.4          | 0.2          | 0.2          | 0.8          |              | 2.2     | 3.6     | 1.2     |
| Personal Income (Bil. \$)               | 10396        | 10453        | 10777        | 10852        | 10894        | 10956        | 11003        | 11051        | 11104        |              | 9164    | 9731    | 10239   |
| Percent Change                          | 2.9          | 0.5          | 0.5          | 0.7          | 0.4          | 0.6          | 0.4          | 0.4          | 0.5          |              | 3.2     | 6.2     | 5.2     |
| Personal Saving Rate (%)                | -0.5         | -0.3         | -0.4         | -0.4         | -0.7         | -0.6         | -0.8         | -0.5         | -0.2         |              | 2.1     | 2.0     | -0.4    |
| Consumer Expenditures (Bil. \$)         | 8883         | 8912         | 9124         | 9175         | 9239         | 9271         | 9341         | 9357         | 9368         |              | 7704    | 8212    | 8742    |
| Percent Change                          | 0.6          | 0.3          | 0.5          | 0.6          | 0.7          | 0.3          | 0.8          | 0.2          | 0.1          |              | 4.8     | 6.6     | 6.5     |
| Retail Sales (Bil. \$)                  | 347.0        | 347.4        | 361.2        | 363.6        | 364.3        | 362.4        | 367.4        | 367.7        | 366.2        |              | 3614.3  | 3837.0  | 4112.9  |
| Percent Change                          | 0.4          | 0.1          | 0.7          | 0.7          | 0.2          | -0.5         | 1.4          | 0.1          | -0.4         |              | 4.2     | 6.2     | 7.2     |
| Non-Auto. Retail Sales (Bil. \$)        | 275.3        | 277.4        | 285.1        | 287.2        | 289.6        | 289.5        | 291.4        | 292.0        | 290.4        |              | 2773.2  | 2974.1  | 3218.5  |
| Percent Change                          | 1.3          | 0.8          | 0.6          | 0.7          | 0.8          | 0.0          | 0.7          | 0.2          | -0.5         |              | 4.7     | 7.2     | 8.2     |
| New Light-Vehicle Sales (Mil.)          | 16.5         | 14.8         | 16.5         | 16.6         | 16.1         | 16.1         | 17.1         | 16.0         | 16.6         | 16.1         | 16.6    | 16.9    | 16.9    |
| Housing Starts (Mil.)                   | 2.158        | 2.046        | 1.972        | 1.832        | 1.953        | 1.833        | 1.760        | 1.674        | 1.772        |              | 1.854   | 1.950   | 2.073   |
| New Home Sales (Mil.)                   | 1.253        | 1.346        | 1.121        | 1.121        | 1.101        | 1.078        | 0.984        | 1.021        | 1.075        |              | 1.091   | 1.201   | 1.280   |
| Existing Home Sales (Mil.)              | 7.200        | 7.050        | 6.900        | 6.750        | 6.710        | 6.600        | 6.330        | 6.300        | 6.180        |              | 6.176   | 6.722   | 7.064   |
| Chg. Consumer Install. Credit (Bil. \$) | 3.7          | -0.6         | -1.2         | 8.0          | 15.2         | 11.5         | 8.4          | 5.0          |              |              | 105.6   | 110.9   | 90.0    |
| <b>Prices and Wages</b>                 |              |              |              |              |              |              |              |              |              |              |         |         |         |
| CPI, All Urban Consumers                | 1.986        | 1.991        | 1.998        | 2.010        | 2.019        | 2.023        | 2.032        | 2.037        | 2.027        |              | 1.840   | 1.889   | 1.953   |
| Percent Change Year Earlier             | 4.7          | 4.4          | 3.4          | 3.6          | 4.1          | 4.3          | 4.2          | 3.8          | 2.1          |              | 2.3     | 2.7     | 3.4     |
| Core Cons. Price Defl. (2000=100.0)     | 110.0        | 110.2        | 111.3        | 111.5        | 111.7        | 112.0        | 112.1        | 112.4        | 112.6        |              | 105.2   | 107.3   | 109.6   |
| Percent Change Year Earlier             | 2.1          | 2.1          | 2.0          | 2.2          | 2.2          | 2.3          | 2.3          | 2.5          | 2.4          |              | 1.4     | 2.0     | 2.1     |
| PPI, Finished Goods                     | 1.584        | 1.596        | 1.591        | 1.606        | 1.608        | 1.616        | 1.618        | 1.619        | 1.598        |              | 1.433   | 1.485   | 1.557   |
| Percent Change Year Earlier             | 6.6          | 5.8          | 3.6          | 4.0          | 4.3          | 4.8          | 4.1          | 3.6          | 0.9          |              | 3.2     | 3.6     | 4.9     |
| PPI, Industrial Commodities (NSA)       | 1.660        | 1.706        | 1.663        | 1.688        | 1.706        | 1.703        | 1.716        | 1.724        | 1.693        |              | 1.391   | 1.476   | 1.602   |
| Percent Change Year Earlier             | 11.3         | 12.4         | 6.9          | 7.4          | 9.1          | 8.7          | 7.9          | 7.2          | 2.0          |              | 5.1     | 6.1     | 8.6     |
| Avg. Private Hourly Earnings (\$)       | 16.19        | 16.28        | 16.51        | 16.61        | 16.62        | 16.69        | 16.76        | 16.81        | 16.85        | 16.91        | 15.35   | 15.67   | 16.10   |
| Percent Change Year Earlier             | 2.7          | 3.1          | 3.5          | 3.8          | 3.7          | 3.9          | 3.8          | 4.0          | 4.1          | 3.9          | 2.7     | 2.1     | 2.8     |
| West Texas Int. Crude Oil (\$/bbl.)     | 65.57        | 62.37        | 62.90        | 69.69        | 70.94        | 70.96        | 74.41        | 73.05        | 63.87        | 58.88        | 31.14   | 41.45   | 56.46   |
| Percent Change Year Earlier             | 37.3         | 7.6          | -4.9         | 5.0          | 18.1         | 9.1          | 3.8          | -2.8         | 9.8          | 29.8         | 19.3    | 33.1    | 36.2    |
| Henry Hub Spot Natural Gas (\$/mmbtu)   | 11.88        | 13.42        | 6.89         | 7.16         | 6.24         | 6.20         | 6.20         | 7.16         | 4.90         | 5.77         | 5.50    | 5.90    | 8.81    |
| Percent Change Year Earlier             | 132.7        | 110.1        | -0.5         | -0.6         | -3.8         | -13.3        | -18.8        | -24.5        | -58.7        | -57.0        | 64.0    | 7.4     | 49.4    |
| <b>Financial Markets</b>                |              |              |              |              |              |              |              |              |              |              |         |         |         |
| Federal Funds Rate (%)                  | 3.62         | 3.78         | 4.59         | 4.79         | 4.94         | 4.99         | 5.24         | 5.25         | 5.25         | 5.25         | 1.13    | 1.35    | 3.21    |
| 3-Month T-Bill Rate (%)                 | 3.42         | 3.71         | 4.51         | 4.60         | 4.72         | 4.79         | 4.95         | 4.96         | 4.81         | 4.92         | 1.01    | 1.37    | 3.15    |
| Commercial Bank Prime Rate (%)          | 6.59         | 6.75         | 7.53         | 7.75         | 7.93         | 8.02         | 8.25         | 8.25         | 8.25         | 8.25         | 4.12    | 4.34    | 6.19    |
| Moody's Aaa Corp. Bond Yield (%)        | 5.13         | 5.35         | 5.53         | 5.84         | 5.95         | 5.89         | 5.85         | 5.68         | 5.51         | 5.51         | 5.67    | 5.63    | 5.24    |
| 10-Year Treasury Note Yield (%)         | 4.20         | 4.46         | 4.72         | 4.99         | 5.11         | 5.11         | 5.09         | 4.88         | 4.72         | 4.73         | 4.02    | 4.27    | 4.29    |
| Conv. Mortgage Rate, FHLMC (%)          | 5.77         | 6.07         | 6.32         | 6.51         | 6.60         | 6.68         | 6.76         | 6.52         | 6.40         | 6.36         | 5.82    | 5.84    | 5.87    |
| M1 Money Supply (Bil. \$)               | 1372         | 1374         | 1385         | 1387         | 1393         | 1370         | 1373         | 1370         | 1358         |              | 1273    | 1344    | 1371    |
| Percent Change                          | -0.3         | 0.1          | 0.7          | 0.2          | 0.5          | -1.6         | 0.2          | -0.2         | -0.9         |              | 6.8     | 5.1     | -0.3    |
| M2 Money Supply (Bil. \$)               | 6589         | 6619         | 6764         | 6782         | 6788         | 6817         | 6839         | 6862         | 6879         |              | 5981    | 6260    | 6532    |
| Percent Change                          | 0.5          | 0.5          | 0.2          | 0.3          | 0.1          | 0.4          | 0.3          | 0.3          | 0.2          |              | 4.9     | 5.6     | 3.9     |
| Trade-Weighted US\$, 18 Countries       |              |              |              |              |              |              |              |              |              |              |         |         |         |
| Morgan Guaranty Index (1990=100.0)      | 90.3         | 91.5         | 91.0         | 90.4         | 88.0         | 89.2         | 89.1         | 88.5         | 88.9         | 89.3         | 97.5    | 92.6    | 90.4    |
| Percent Change                          | 0.0          | 1.3          | 0.3          | -0.6         | -2.6         | 1.3          | -0.1         | -0.6         | 0.4          | 0.5          | -6.7    | -5.0    | -2.4    |
| Percent Change Year Earlier             | -3.4         | -0.6         | 2.7          | 0.9          | -2.2         | -2.0         | -2.7         | -2.1         | -1.6         | -2.4         |         |         |         |
| Real Morgan Guaranty Index              | 90.0         | 90.7         | 90.3         | 89.3         | 86.9         | 88.2         | 87.5         | 86.5         | 86.9         | 87.0         | 98.3    | 92.3    | 90.3    |
| Percent Change                          | -0.5         | 0.7          | 0.0          | -1.1         | -2.7         | 1.5          | -0.8         | -1.1         | 0.5          | 0.1          | -7.5    | -6.1    | -2.2    |
| Percent Change Year Earlier             | -2.9         | -0.6         | 2.2          | 0.0          | -3.7         | -3.3         | -4.7         | -4.3         | -3.4         | -4.0         |         |         |         |

TABLE 2

## Summary of the U.S. Economy

|                                                             | 2006:2  | 2006:3  | 2006:4  | 2007:1  | 2007:2  | 2007:3  | 2007:4  | 2008:1  | 2008:2  | 2008:3  | 2008:4  | 2009:1  | 2009:2  |
|-------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Composition of Real GDP, Percent Change, Annual Rate</b> |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Gross Domestic Product                                      | 2.6     | 1.6     | 2.2     | 2.8     | 2.2     | 2.6     | 2.4     | 3.7     | 3.3     | 3.4     | 3.3     | 3.5     | 3.2     |
| Final Sales of Domestic Product                             | 2.1     | 1.7     | 2.9     | 3.0     | 2.2     | 2.8     | 2.5     | 3.7     | 3.0     | 3.3     | 3.1     | 3.3     | 3.3     |
| Total Consumption                                           | 2.6     | 3.1     | 3.2     | 3.0     | 2.2     | 2.5     | 2.4     | 3.3     | 2.8     | 3.2     | 3.2     | 3.5     | 3.3     |
| Durables                                                    | -0.1    | 8.4     | 1.0     | -1.6    | -1.6    | 0.4     | 2.0     | 5.8     | 2.7     | 5.6     | 5.3     | 4.5     | 6.5     |
| Nondurables                                                 | 1.4     | 1.6     | 3.9     | 3.7     | 2.4     | 2.9     | 2.4     | 2.9     | 2.8     | 2.7     | 2.8     | 3.3     | 2.9     |
| Services                                                    | 3.7     | 2.8     | 3.3     | 3.5     | 2.9     | 2.7     | 2.5     | 3.1     | 2.9     | 2.9     | 3.1     | 3.3     | 3.0     |
| Nonresidential Fixed Investment                             | 4.4     | 8.6     | 8.1     | 6.6     | 8.5     | 5.0     | 3.2     | 3.8     | 4.3     | 4.9     | 4.9     | 5.1     | 6.0     |
| Equipment & Software                                        | -1.4    | 6.4     | 7.8     | 6.0     | 7.4     | 6.3     | 5.4     | 5.8     | 6.0     | 5.5     | 6.9     | 7.5     | 7.8     |
| Information Processing Equipment                            | -1.1    | 7.6     | 9.9     | 11.3    | 9.3     | 9.0     | 9.2     | 8.5     | 7.9     | 7.2     | 7.1     | 7.1     | 7.3     |
| Computers & Peripherals                                     | 4.7     | 24.6    | 26.1    | 27.5    | 22.6    | 20.6    | 20.0    | 18.3    | 19.2    | 19.3    | 19.3    | 18.5    | 18.3    |
| Communications Equipment                                    | -25.8   | 0.3     | 19.7    | 4.0     | 4.7     | 4.0     | 5.5     | 4.2     | 4.2     | 3.2     | 3.2     | 4.4     | 4.8     |
| Industrial Equipment                                        | 13.6    | 2.9     | 5.4     | 4.8     | 1.3     | 0.0     | -1.3    | -0.7    | 1.0     | -0.5    | 2.7     | 3.0     | 3.3     |
| Transportation equipment                                    | -22.8   | 9.9     | 13.6    | -5.6    | 12.5    | 7.4     | 3.3     | 5.3     | 6.8     | 7.0     | 12.9    | 16.1    | 16.3    |
| Aircraft                                                    | -67.7   | -27.3   | 351.7   | 2.3     | 24.1    | 10.1    | 12.8    | 21.2    | 8.6     | 8.3     | 8.9     | 5.6     | 6.8     |
| Other Equipment                                             | 7.5     | 3.6     | -0.5    | 3.7     | 3.7     | 4.2     | 3.9     | 4.9     | 4.6     | 5.3     | 5.1     | 5.1     | 5.6     |
| Structures                                                  | 20.3    | 14.0    | 9.0     | 8.2     | 11.2    | 1.9     | -1.8    | -1.0    | 0.3     | 3.4     | -0.1    | -0.9    | 1.2     |
| Commercial & Health Care                                    | 11.7    | 23.6    | 12.4    | 4.1     | 2.5     | -3.5    | -5.0    | -2.5    | -2.4    | 0.0     | 3.3     | 5.2     | 3.0     |
| Manufacturing                                               | 28.0    | 26.4    | 11.0    | 7.5     | 11.0    | 10.5    | 6.3     | 3.2     | 2.2     | 5.2     | 11.1    | 2.1     | 7.4     |
| Power & Communication                                       | 4.9     | 11.8    | -15.5   | 11.9    | 15.5    | 8.0     | 7.4     | 3.3     | 2.8     | 7.4     | -4.0    | -0.7    | 3.2     |
| Mining & Petroleum                                          | 28.1    | 9.1     | 15.1    | 15.5    | 27.9    | 5.0     | -5.3    | -2.6    | 0.6     | 6.1     | -10.2   | -16.1   | -7.9    |
| Other                                                       | 35.1    | 0.8     | 8.7     | 4.8     | 4.7     | 2.1     | 1.1     | -0.2    | 3.1     | 3.7     | 4.0     | 4.4     | 3.6     |
| Residential Fixed Investment                                | -11.1   | -17.4   | -18.6   | -17.2   | -12.6   | -4.4    | -0.6    | 3.9     | 2.9     | 3.4     | 1.3     | 1.8     | 1.2     |
| Exports                                                     | 6.2     | 6.5     | 8.2     | 8.3     | 8.5     | 8.9     | 9.2     | 8.6     | 8.9     | 8.9     | 9.2     | 8.6     | 8.8     |
| Imports                                                     | 1.4     | 7.8     | 1.9     | 3.0     | 4.1     | 2.4     | 4.9     | 4.3     | 4.4     | 5.7     | 6.5     | 5.8     | 6.1     |
| Federal Government                                          | -4.5    | 1.7     | 1.4     | 6.4     | -1.8    | 0.4     | 1.0     | 4.8     | -2.0    | -0.4    | -0.3    | 0.2     | -0.3    |
| State & Local Government                                    | 4.1     | 2.1     | 2.0     | 2.3     | 2.0     | 1.2     | 1.6     | 1.7     | 2.1     | 2.4     | 2.2     | 1.6     | 1.8     |
| <b>Billions of Dollars</b>                                  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Real GDP                                                    | 11388.1 | 11432.9 | 11496.2 | 11575.4 | 11639.6 | 11713.2 | 11784.3 | 11893.0 | 11988.7 | 12089.9 | 12187.6 | 12292.8 | 12390.6 |
| Nominal GDP                                                 | 13197.3 | 13308.3 | 13430.0 | 13634.7 | 13779.2 | 13922.1 | 14064.8 | 14269.4 | 14456.8 | 14648.5 | 14830.0 | 15035.4 | 15225.7 |
| <b>Prices &amp; Wages, Percent Change, Annual Rate</b>      |         |         |         |         |         |         |         |         |         |         |         |         |         |
| GDP Deflator                                                | 3.3     | 1.8     | 1.4     | 3.4     | 2.0     | 1.6     | 1.7     | 2.1     | 2.0     | 1.9     | 1.7     | 2.1     | 1.9     |
| Consumer Prices                                             | 5.0     | 2.9     | -1.9    | 3.8     | 2.6     | 1.9     | 1.9     | 2.0     | 1.7     | 1.8     | 1.7     | 2.0     | 1.7     |
| Producer Prices, Finished Goods                             | 4.4     | 0.4     | -1.1    | 7.9     | 3.8     | 1.9     | 2.2     | 1.7     | 1.2     | 0.8     | 0.3     | 1.4     | 0.4     |
| Employment Cost Index - Total Comp.                         | 3.2     | 3.6     | 2.9     | 3.1     | 3.0     | 2.9     | 3.1     | 3.5     | 3.2     | 3.2     | 3.2     | 3.6     | 3.4     |
| <b>Other Key Measures</b>                                   |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Oil - WTI (\$ per barrel)                                   | 70.57   | 70.50   | 60.33   | 63.25   | 64.00   | 65.00   | 65.50   | 66.33   | 64.33   | 64.33   | 64.00   | 65.00   | 63.33   |
| Productivity (%ch., saar)                                   | 1.2     | 0.0     | 1.2     | 2.3     | 2.1     | 2.3     | 2.0     | 2.8     | 2.1     | 2.2     | 2.0     | 2.2     | 2.0     |
| Total Industrial Production (%ch., saar)                    | 6.6     | 3.6     | 0.6     | 2.2     | 2.3     | 2.6     | 2.0     | 2.2     | 2.3     | 2.4     | 2.4     | 2.4     | 2.5     |
| Factory Operating Rate                                      | 80.8    | 81.1    | 80.8    | 80.6    | 80.4    | 80.1    | 79.8    | 79.9    | 79.8    | 79.5    | 79.3    | 79.3    | 79.0    |
| Nonfarm Inven. Chg. (Bil. 2000 \$)                          | 52.2    | 49.5    | 32.5    | 28.0    | 30.9    | 23.3    | 21.4    | 22.1    | 29.5    | 34.1    | 39.5    | 44.8    | 43.9    |
| Consumer Sentiment Index                                    | 83.8    | 84.0    | 91.5    | 87.6    | 88.2    | 89.1    | 87.8    | 89.3    | 90.5    | 90.8    | 91.6    | 91.6    | 92.0    |
| Light Vehicle Sales (Mil. units, saar)                      | 16.29   | 16.58   | 16.23   | 16.25   | 16.24   | 16.38   | 16.40   | 16.51   | 16.49   | 16.57   | 16.61   | 16.63   | 16.70   |
| Housing Starts (Mil. units, saar)                           | 1.873   | 1.735   | 1.648   | 1.595   | 1.574   | 1.569   | 1.623   | 1.635   | 1.661   | 1.680   | 1.685   | 1.693   | 1.696   |
| Exist. House Sales (Total, Mil. saar)                       | 6.687   | 6.270   | 6.001   | 5.690   | 5.518   | 5.397   | 5.449   | 5.485   | 5.454   | 5.368   | 5.342   | 5.383   | 5.413   |
| Unemployment Rate (%)                                       | 4.6     | 4.7     | 4.5     | 4.7     | 4.8     | 4.9     | 4.9     | 4.9     | 4.9     | 4.9     | 4.8     | 4.7     | 4.7     |
| Payroll Employment (%ch., saar)                             | 1.2     | 1.3     | 1.1     | 1.2     | 0.8     | 0.9     | 1.1     | 1.4     | 1.5     | 1.6     | 1.5     | 1.5     | 1.4     |
| Federal Surplus (Unified, nsa, bil. \$)                     | 97.4    | -42.0   | -86.7   | -150.9  | 36.4    | -65.8   | -86.1   | -143.2  | 7.2     | -59.2   | -78.6   | -145.6  | 17.4    |
| Current Account Balance (Bil. \$)                           | -873.6  | -927.9  | -873.4  | -854.1  | -853.7  | -844.7  | -842.7  | -841.3  | -828.1  | -830.7  | -839.7  | -853.9  | -861.2  |
| <b>Financial Markets, NSA</b>                               |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Federal Funds Rate (%)                                      | 4.91    | 5.25    | 5.25    | 5.25    | 5.11    | 4.60    | 4.50    | 4.50    | 4.50    | 4.50    | 4.50    | 4.50    | 4.75    |
| 3-Month Treasury Bill Rate (%)                              | 4.68    | 4.92    | 4.98    | 4.96    | 4.78    | 4.50    | 4.36    | 4.37    | 4.39    | 4.41    | 4.41    | 4.44    | 4.59    |
| 10-Year Treasury Note Yield (%)                             | 5.07    | 4.90    | 4.70    | 4.68    | 4.62    | 4.55    | 4.55    | 4.63    | 4.77    | 4.93    | 5.10    | 5.22    | 5.38    |
| 30-Year Fixed Mortgage Rate (%)                             | 6.60    | 6.57    | 6.36    | 6.33    | 6.24    | 6.17    | 6.17    | 6.25    | 6.39    | 6.54    | 6.70    | 6.82    | 6.98    |
| S&P 500 Stock Index                                         | 1282    | 1288    | 1340    | 1324    | 1328    | 1339    | 1354    | 1381    | 1412    | 1438    | 1463    | 1485    | 1498    |
| (Four-Quarter % change)                                     | 8.5     | 5.2     | 8.9     | 3.2     | 3.6     | 3.9     | 1.0     | 4.3     | 6.3     | 7.4     | 8.1     | 7.5     | 6.0     |
| Exchange Rate, Major Trading Partners                       | 0.809   | 0.805   | 0.799   | 0.788   | 0.779   | 0.769   | 0.760   | 0.751   | 0.744   | 0.737   | 0.731   | 0.723   | 0.719   |
| (% change, annual rate)                                     | -12.4   | -2.1    | -2.8    | -5.6    | -4.2    | -5.3    | -4.6    | -4.3    | -3.9    | -3.6    | -3.2    | -4.6    | -1.8    |
| <b>Incomes</b>                                              |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Personal Income (% ch., saar)                               | 6.9     | 5.7     | 6.2     | 5.6     | 4.7     | 4.4     | 4.6     | 5.7     | 6.1     | 5.7     | 5.8     | 6.1     | 6.0     |
| Real Disposable Income (%ch., saar)                         | 1.7     | 3.7     | 6.6     | 2.5     | 2.4     | 2.7     | 2.7     | 4.0     | 4.0     | 3.7     | 3.5     | 3.9     | 4.1     |
| Saving Rate (%)                                             | -0.6    | -0.5    | 0.3     | 0.2     | 0.2     | 0.2     | 0.3     | 0.4     | 0.7     | 0.8     | 0.8     | 0.9     | 1.1     |
| After-Tax Profits (Billions of \$)                          | 1335    | 1317    | 1260    | 1312    | 1321    | 1326    | 1335    | 1351    | 1363    | 1374    | 1372    | 1368    | 1355    |
| (Four-quarter % change)                                     | 19.7    | 20.1    | 7.3     | 2.2     | -1.1    | 0.7     | 6.0     | 3.0     | 3.2     | 3.6     | 2.7     | 1.2     | -0.6    |

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TABLE 3  
 Summary of the U.S. Economy

|                                                | 1999   | 2000   | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    |
|------------------------------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Composition of Real GDP, Percent Change</b> |        |        |         |         |         |         |         |         |         |         |         |         |         |
| Gross Domestic Product                         | 4.4    | 3.7    | 0.8     | 1.6     | 2.5     | 3.9     | 3.2     | 3.3     | 2.4     | 3.1     | 3.3     | 3.3     | 2.9     |
| Final Sales of Domestic Product                | 4.5    | 3.8    | 1.6     | 1.2     | 2.5     | 3.5     | 3.5     | 3.0     | 2.5     | 3.1     | 3.2     | 3.2     | 2.9     |
| Total Consumption                              | 5.1    | 4.7    | 2.5     | 2.7     | 2.8     | 3.9     | 3.5     | 3.2     | 2.8     | 2.9     | 3.3     | 3.5     | 3.2     |
| Durables                                       | 11.7   | 7.3    | 4.3     | 7.1     | 5.8     | 6.4     | 5.5     | 5.0     | 0.7     | 3.3     | 5.2     | 6.9     | 6.3     |
| Nondurables                                    | 4.6    | 3.8    | 2.0     | 2.5     | 3.2     | 3.6     | 4.5     | 3.6     | 2.9     | 2.7     | 3.0     | 3.1     | 2.8     |
| Services                                       | 4.0    | 4.5    | 2.4     | 1.9     | 1.9     | 3.5     | 2.6     | 2.6     | 3.1     | 2.8     | 3.1     | 3.1     | 2.9     |
| Nonresidential Fixed Investment                | 9.2    | 8.7    | -4.2    | -9.2    | 1.0     | 5.9     | 6.8     | 7.8     | 6.9     | 4.4     | 5.2     | 4.2     | 3.8     |
| Equipment & Software                           | 12.7   | 9.4    | -4.9    | -6.2    | 2.8     | 7.3     | 8.9     | 7.2     | 6.2     | 5.9     | 6.8     | 4.9     | 5.0     |
| Information Processing Equipment               | 21.2   | 17.4   | -1.8    | -4.7    | 5.8     | 10.1    | 8.5     | 9.3     | 9.0     | 8.4     | 7.2     | 6.7     | 7.0     |
| Computers & Peripherals                        | 41.0   | 21.1   | 2.0     | 5.0     | 13.1    | 14.2    | 17.9    | 18.6    | 23.1    | 19.5    | 18.8    | 18.6    | 18.3    |
| Communications Equipment                       | 19.2   | 30.0   | -7.6    | -21.1   | 1.0     | 10.2    | 12.4    | 12.1    | 4.2     | 4.2     | 4.1     | 4.5     | 5.8     |
| Industrial Equipment                           | -0.2   | 7.7    | -8.5    | -7.7    | 2.9     | -4.1    | 8.2     | 7.1     | 3.5     | -0.1    | 2.6     | 4.2     | 1.2     |
| Transportation equipment                       | 15.3   | -4.1   | -11.2   | -11.8   | -9.7    | 13.2    | 12.9    | 1.8     | 3.9     | 6.6     | 11.3    | 0.8     | 4.3     |
| Aircraft                                       | 44.0   | 2.8    | 2.8     | -28.6   | -25.4   | -6.4    | -23.9   | -10.4   | 25.2    | 13.5    | 6.9     | 6.8     | 3.8     |
| Other Equipment                                | 0.8    | 3.6    | -3.3    | -3.1    | 6.0     | 5.6     | 7.0     | 6.6     | 3.2     | 4.6     | 5.2     | 4.7     | 3.7     |
| Structures                                     | -0.4   | 6.8    | -2.3    | -17.1   | -4.1    | 2.2     | 1.1     | 9.3     | 8.8     | 0.8     | 1.1     | 2.6     | 0.8     |
| Commercial & Health Care                       | 3.2    | 6.3    | -5.3    | -15.7   | -6.6    | 2.6     | -0.8    | 7.5     | 6.3     | -2.1    | 3.4     | 7.0     | 4.8     |
| Manufacturing                                  | -22.5  | -6.1   | -10.3   | -41.6   | -7.3    | 5.1     | 21.1    | 15.8    | 12.4    | 5.7     | 8.3     | 13.7    | 6.1     |
| Power & Communication                          | 17.4   | 14.7   | 3.0     | -2.4    | -12.9   | -12.6   | -6.6    | 2.0     | 5.6     | 5.3     | 1.4     | 3.1     | 1.0     |
| Mining & Petroleum                             | -8.8   | 27.8   | 17.8    | -23.3   | 18.1    | 13.2    | 11.0    | 11.7    | 14.7    | 0.6     | -7.9    | -11.2   | -14.3   |
| Other                                          | 0.8    | 2.9    | -4.7    | -16.0   | -4.5    | 3.1     | -5.2    | 12.3    | 6.0     | 2.0     | 3.8     | 2.4     | 2.2     |
| Residential Fixed Investment                   | 6.0    | 0.8    | 0.4     | 4.8     | 8.4     | 9.9     | 8.6     | -4.0    | -13.9   | 0.5     | 2.0     | 3.8     | 3.1     |
| Exports                                        | 4.3    | 8.7    | -5.4    | -2.3    | 1.3     | 9.2     | 6.8     | 8.7     | 8.1     | 8.9     | 8.7     | 7.5     | 6.7     |
| Imports                                        | 11.5   | 13.1   | -2.7    | 3.4     | 4.1     | 10.8    | 6.1     | 6.4     | 3.5     | 4.5     | 5.9     | 6.1     | 5.8     |
| Federal Government                             | 2.2    | 0.9    | 3.9     | 7.0     | 6.8     | 4.3     | 1.5     | 1.8     | 1.5     | 0.8     | -0.1    | 0.8     | 0.2     |
| State & Local Government                       | 4.7    | 2.7    | 3.2     | 3.1     | 0.2     | 0.5     | 0.5     | 2.1     | 2.1     | 1.8     | 2.0     | 1.7     | 1.4     |
| <b>Billions of Dollars</b>                     |        |        |         |         |         |         |         |         |         |         |         |         |         |
| Real GDP                                       | 9470.4 | 9817.0 | 9890.7  | 10048.9 | 10301.1 | 10703.5 | 11048.6 | 11408.4 | 11678.1 | 12039.8 | 12441.3 | 12848.1 | 13217.7 |
| Nominal GDP                                    | 9268.4 | 9817.0 | 10128.0 | 10469.6 | 10960.8 | 11712.5 | 12455.8 | 13236.0 | 13850.2 | 14551.2 | 15323.5 | 16131.2 | 16932.5 |
| <b>Prices &amp; Wages, Percent Change</b>      |        |        |         |         |         |         |         |         |         |         |         |         |         |
| GDP Deflator                                   | 1.4    | 2.2    | 2.4     | 1.7     | 2.1     | 2.8     | 3.0     | 2.9     | 2.2     | 1.9     | 1.9     | 1.9     | 2.0     |
| Consumer Prices                                | 2.2    | 3.4    | 2.8     | 1.6     | 2.3     | 2.7     | 3.4     | 3.3     | 2.1     | 1.9     | 1.8     | 1.7     | 1.7     |
| Producer Prices, Finished Goods                | 1.8    | 3.8    | 1.9     | -1.3    | 3.2     | 3.6     | 4.9     | 3.1     | 3.1     | 1.7     | 0.8     | 0.4     | 0.2     |
| Employment Cost Index - Total Comp.            | 3.2    | 4.5    | 4.1     | 3.5     | 3.8     | 3.8     | 3.1     | 2.9     | 3.1     | 3.2     | 3.4     | 3.5     | 3.5     |
| <b>Other Key Measures</b>                      |        |        |         |         |         |         |         |         |         |         |         |         |         |
| Oil - WTI (\$ per barrel)                      | 19.27  | 30.35  | 25.96   | 26.11   | 31.12   | 41.47   | 56.56   | 66.19   | 64.44   | 64.75   | 63.88   | 63.39   | 61.78   |
| Productivity (%ch.)                            | 2.9    | 2.8    | 2.6     | 4.1     | 3.7     | 3.0     | 2.3     | 2.0     | 1.7     | 2.3     | 2.1     | 2.2     | 2.2     |
| Total Industrial Production (%ch.)             | 4.5    | 4.3    | -3.5    | 0.1     | 0.6     | 4.1     | 3.2     | 4.3     | 2.4     | 2.3     | 2.5     | 2.8     | 2.7     |
| Factory Operating Rate                         | 80.8   | 80.3   | 74.1    | 73.3    | 73.7    | 77.1    | 78.9    | 80.7    | 80.2    | 79.6    | 79.0    | 78.9    | 78.6    |
| Nonfarm Inven. Chg. (Bil. 2000 \$)             | 71.5   | 57.8   | -31.8   | 15.2    | 14.0    | 47.0    | 19.6    | 42.7    | 25.9    | 31.3    | 43.7    | 48.8    | 49.4    |
| Consumer Sentiment Index                       | 105.8  | 107.6  | 89.2    | 89.6    | 87.6    | 95.2    | 88.6    | 87.1    | 88.2    | 90.5    | 92.2    | 93.5    | 92.8    |
| Light Vehicle Sales (Mil. units)               | 16.89  | 17.34  | 17.12   | 16.82   | 16.64   | 16.87   | 16.95   | 16.49   | 16.32   | 16.55   | 16.71   | 17.21   | 17.71   |
| Housing Starts (Mil. units)                    | 1.647  | 1.573  | 1.601   | 1.710   | 1.854   | 1.950   | 2.073   | 1.845   | 1.590   | 1.665   | 1.702   | 1.745   | 1.753   |
| Exist. House Sales (Total, Mil. units)         |        | 5.188  | 5.327   | 5.657   | 6.176   | 6.722   | 7.064   | 6.437   | 5.514   | 5.412   | 5.450   | 5.860   | 6.124   |
| Unemployment Rate (%)                          | 4.2    | 4.0    | 4.7     | 5.8     | 6.0     | 5.5     | 5.1     | 4.6     | 4.8     | 4.9     | 4.7     | 4.5     | 4.4     |
| Payroll Employment (%ch.)                      | 2.4    | 2.2    | 0.0     | -1.1    | -0.3    | 1.1     | 1.5     | 1.4     | 1.1     | 1.3     | 1.5     | 1.4     | 1.0     |
| Federal Surplus (Unified, FY, bil. \$)         | 124.4  | 236.9  | 127.3   | -157.8  | -377.1  | -412.8  | -318.7  | -247.7  | -267.0  | -281.2  | -261.6  | -251.4  | -208.5  |
| Current Account Balance (Bil. \$)              | -299.8 | -415.2 | -389.0  | -472.4  | -527.5  | -665.3  | -791.5  | -881.9  | -848.8  | -835.0  | -863.6  | -883.5  | -897.3  |
| <b>Financial Markets, NSA</b>                  |        |        |         |         |         |         |         |         |         |         |         |         |         |
| Federal Funds Rate (%)                         | 4.97   | 6.24   | 3.89    | 1.67    | 1.13    | 1.35    | 3.21    | 4.96    | 4.86    | 4.50    | 4.69    | 4.75    | 4.8     |
| 3-Month Treasury Bill Rate (%)                 | 4.63   | 5.81   | 3.43    | 1.61    | 1.01    | 1.36    | 3.14    | 4.75    | 4.65    | 4.39    | 4.59    | 4.67    | 4.67    |
| 10-Year Treasury Note Yield (%)                | 5.64   | 6.03   | 5.02    | 4.61    | 4.02    | 4.27    | 4.29    | 4.81    | 4.60    | 4.86    | 5.34    | 5.38    | 5.38    |
| 30-Year Fixed Mortgage Rate (%)                | 7.43   | 8.06   | 6.97    | 6.54    | 5.82    | 5.84    | 5.86    | 6.44    | 6.23    | 6.47    | 6.99    | 7.07    | 7.07    |
| S&P 500 Stock Index                            | 1326   | 1427   | 1192    | 996     | 964     | 1131    | 1207    | 1298    | 1336    | 1424    | 1507    | 1605    | 1725    |
| (Percent change)                               | 22.3   | 7.6    | -16.4   | -16.5   | -3.2    | 17.3    | 6.8     | 7.6     | 2.9     | 6.5     | 5.8     | 6.5     | 7.5     |
| Exchange Rate, Major Trading Partners          | 0.953  | 1.000  | 1.060   | 1.044   | 0.916   | 0.840   | 0.825   | 0.812   | 0.774   | 0.741   | 0.720   | 0.731   | 0.741   |
| (Percent change)                               | -1.6   | 4.9    | 6.0     | -1.5    | -12.3   | -8.2    | -1.8    | -1.5    | -4.7    | -4.3    | -2.9    | 1.5     | 1.3     |
| <b>Incomes</b>                                 |        |        |         |         |         |         |         |         |         |         |         |         |         |
| Personal Income (% ch.)                        | 5.1    | 8.0    | 3.5     | 1.8     | 3.2     | 6.2     | 5.2     | 7.2     | 5.4     | 5.3     | 5.9     | 5.9     | 5.6     |
| Real Disposable Income (%ch.)                  | 3.0    | 4.8    | 1.9     | 3.1     | 2.2     | 3.6     | 1.2     | 3.3     | 3.4     | 3.4     | 3.8     | 3.7     | 3.3     |
| Saving Rate (%)                                | 2.4    | 2.4    | 1.8     | 2.4     | 2.1     | 2.0     | -0.4    | -0.3    | 0.2     | 0.7     | 1.1     | 1.3     | 1.3     |
| After-Tax Profits (Billions of \$)             | 517    | 508    | 504     | 576     | 665     | 844     | 1119    | 1299    | 1323    | 1365    | 1355    | 1354    | 1360    |
| (Percent change)                               | 10.1   | -1.7   | -0.9    | 14.3    | 15.4    | 27.0    | 32.6    | 16.1    | 1.9     | 3.1     | -0.7    | -0.1    | 0.5     |

TABLE 4

## Alternative Scenarios of the U.S. Economy

|                                                             | 2006:2 | 2006:3 | 2006:4 | 2007:1 | 2007:2 | 2007:3 | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   |
|-------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Only A Brief Slowdown (Prob. = 20%)</b>                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| <b>Composition of Real GDP, Percent Change, Annual Rate</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Gross Domestic Product                                      | 2.6    | 1.6    | 2.6    | 3.6    | 3.1    | 3.3    | 3.2    | 3.3    | 2.9    | 3.9    | 4.0    | 3.7    | 3.2    |
| Total Consumption                                           | 2.6    | 3.1    | 3.5    | 3.9    | 3.1    | 3.2    | 3.5    | 3.2    | 3.3    | 3.5    | 3.9    | 3.9    | 3.6    |
| Nonresidential Fixed Investment                             | 4.4    | 8.6    | 9.7    | 7.5    | 10.2   | 7.8    | 6.8    | 7.9    | 8.4    | 8.1    | 8.0    | 5.6    | 4.4    |
| Residential Fixed Investment                                | -11.1  | -17.4  | -17.4  | -14.8  | -8.9   | 2.6    | 8.6    | -3.9   | -11.2  | 5.2    | 3.2    | 4.4    | 3.1    |
| Exports                                                     | 6.2    | 6.5    | 8.1    | 9.1    | 9.6    | 8.7    | 6.8    | 8.7    | 8.4    | 8.9    | 9.3    | 8.2    | 7.5    |
| Imports                                                     | 1.4    | 7.8    | 3.5    | 5.2    | 6.8    | 5.2    | 6.1    | 6.5    | 5.4    | 6.5    | 7.2    | 6.9    | 6.2    |
| Federal Government                                          | -4.5   | 1.7    | 1.4    | 6.4    | -1.7   | 0.4    | 1.5    | 1.8    | 1.5    | 0.8    | -0.1   | 0.8    | 0.2    |
| State & Local Government                                    | 4.1    | 2.1    | 2.0    | 2.5    | 2.1    | 1.5    | 0.5    | 2.1    | 2.2    | 2.2    | 2.3    | 1.9    | 1.5    |
| <b>Prices &amp; Wages, Percent Change, Annual Rate</b>      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Consumer Prices                                             | 5.0    | 2.9    | -2.7   | 2.4    | 1.8    | 1.3    | 3.4    | 3.2    | 1.3    | 1.4    | -1.4   | 1.3    | 1.3    |
| Producer Prices, Finished Goods                             | 4.4    | 0.4    | -3.1   | 4.9    | 2.5    | 1.1    | 4.9    | 3.0    | 1.7    | 1.1    | 0.3    | -0.1   | -0.3   |
| Employment Cost Index - Total Comp.                         | 3.2    | 3.6    | 2.8    | 2.9    | 2.7    | 2.6    | 3.1    | 2.9    | 2.9    | 3.0    | 3.2    | 3.4    | 3.4    |
| <b>Other Key Measures</b>                                   |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Oil - WTI (\$ per barrel)                                   | 70.57  | 70.50  | 56.01  | 54.75  | 55.40  | 56.26  | 56.56  | 65.11  | 55.77  | 56.06  | 55.32  | 54.86  | 53.49  |
| Productivity (%ch., saar)                                   | 1.2    | 0.0    | 1.9    | 2.9    | 2.6    | 2.7    | 2.3    | 2.1    | 2.2    | 2.7    | 2.4    | 2.5    | 2.5    |
| Manufacturing Production (%ch., saar)                       | 6.6    | 3.6    | 0.5    | 2.8    | 3.4    | 3.2    | 3.2    | 4.2    | 2.9    | 3.0    | 3.0    | 3.3    | 3.1    |
| Nonfarm Inven. Chg. (Bil. 2000 \$)                          | 52.2   | 49.5   | 36.3   | 38.0   | 45.5   | 40.4   | 19.6   | 43.7   | 41.1   | 48.8   | 57.3   | 60.9   | 57.7   |
| Consumer Sentiment Index                                    | 83.8   | 84.0   | 92.8   | 90.9   | 91.7   | 92.7   | 88.6   | 87.4   | 91.8   | 95.4   | 98.0   | 99.6   | 98.2   |
| Light Vehicle Sales (Mil. units, saar)                      | 16.29  | 16.58  | 16.26  | 16.41  | 16.56  | 16.83  | 16.95  | 16.50  | 16.69  | 17.28  | 17.61  | 18.16  | 18.61  |
| Housing Starts (Mil. units, saar)                           | 1.873  | 1.735  | 1.660  | 1.627  | 1.636  | 1.675  | 2.073  | 1.848  | 1.674  | 1.827  | 1.878  | 1.925  | 1.922  |
| Unemployment Rate (%)                                       | 4.6    | 4.7    | 4.5    | 4.7    | 4.7    | 4.8    | 5.1    | 4.7    | 4.7    | 4.5    | 4.1    | 3.8    | 3.8    |
| Payroll Employment (%ch., saar)                             | 1.2    | 1.3    | 1.2    | 1.5    | 1.1    | 1.3    | 1.5    | 1.4    | 1.3    | 1.7    | 1.9    | 1.6    | 1.0    |
| Federal Surplus (Unified, FY, bil. \$)                      | 97.4   | -42.0  | -85.7  | -147.3 | 42.9   | -57.2  | -318.7 | -247.7 | -247.4 | -221.8 | -173.1 | -149.0 | -113.3 |
| <b>Financial Markets, NSA</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Federal Funds Rate (%)                                      | 4.91   | 5.25   | 5.25   | 5.09   | 4.85   | 4.50   | 3.21   | 4.96   | 4.72   | 4.25   | 4.50   | 4.50   | 4.50   |
| 10-Year Treasury Note Yield (%)                             | 5.07   | 4.90   | 4.68   | 4.52   | 4.38   | 4.38   | 4.29   | 4.80   | 4.41   | 4.53   | 5.02   | 4.99   | 4.98   |
| <b>Incomes</b>                                              |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Personal Income (% ch., saar)                               | 6.9    | 5.7    | 6.4    | 5.8    | 4.7    | 4.5    | 5.2    | 7.2    | 5.5    | 5.5    | 6.0    | 5.8    | 5.3    |
| After-Tax Profits (Four-qr.% change)                        | 19.7   | 20.1   | 7.3    | 2.6    | 0.6    | 2.9    | 32.6   | 16.1   | 3.6    | 4.0    | -1.8   | -1.0   | -0.5   |
| <b>Inflation Won't Go Away (Prob. = 20%)</b>                |        |        |        |        |        |        |        |        |        |        |        |        |        |
| <b>Composition of Real GDP, Percent Change, Annual Rate</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Gross Domestic Product                                      | 2.6    | 1.6    | 1.4    | 1.2    | 0.2    | 0.6    | 3.2    | 3.2    | 1.1    | 1.7    | 3.2    | 2.8    | 2.5    |
| Total Consumption                                           | 2.6    | 3.1    | 2.7    | 1.6    | 0.3    | 0.4    | 3.5    | 3.1    | 1.6    | 1.1    | 2.6    | 3.1    | 2.8    |
| Nonresidential Fixed Investment                             | 4.4    | 8.6    | 6.7    | 6.1    | 5.7    | 0.6    | 6.8    | 7.7    | 5.0    | -0.4   | 4.6    | 3.8    | 4.2    |
| Residential Fixed Investment                                | -11.1  | -17.4  | -19.9  | -21.4  | -21.2  | -22.5  | 8.6    | -4.1   | -20.1  | -11.4  | 6.7    | 8.3    | 5.8    |
| Exports                                                     | 6.2    | 6.5    | 6.1    | 5.8    | 6.8    | 7.7    | 6.8    | 8.6    | 6.6    | 7.1    | 8.0    | 6.3    | 5.6    |
| Imports                                                     | 1.4    | 7.8    | -0.2   | 0.4    | -0.7   | -6.4   | 6.1    | 6.3    | -0.2   | -2.4   | 6.0    | 6.8    | 5.9    |
| Federal Government                                          | -4.5   | 1.7    | 1.4    | 6.4    | -1.8   | 0.4    | 1.5    | 1.8    | 1.5    | 0.8    | -0.1   | 0.8    | 0.2    |
| State & Local Government                                    | 4.1    | 2.1    | 1.0    | 2.4    | 1.3    | 0.6    | 0.5    | 2.0    | 1.7    | 1.0    | 1.4    | 1.5    | 1.2    |
| <b>Prices &amp; Wages, Percent Change, Annual Rate</b>      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Consumer Prices                                             | 5.0    | 2.9    | -0.7   | 5.4    | 3.9    | 2.7    | 3.4    | 3.3    | 3.1    | 2.8    | 3.0    | 3.0    | 2.9    |
| Producer Prices, Finished Goods                             | 4.4    | 0.4    | 1.1    | 11.0   | 6.1    | 3.1    | 4.9    | 3.2    | 5.0    | 2.9    | 2.2    | 1.8    | 1.3    |
| Employment Cost Index - Total Comp.                         | 3.2    | 3.6    | 3.1    | 3.4    | 3.3    | 3.2    | 3.1    | 2.9    | 3.3    | 3.4    | 3.6    | 4.0    | 4.2    |
| <b>Other Key Measures</b>                                   |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Oil - WTI (\$ per barrel)                                   | 70.57  | 70.50  | 65.76  | 72.85  | 74.11  | 73.71  | 56.56  | 67.55  | 73.65  | 72.25  | 71.38  | 70.90  | 69.29  |
| Productivity (%ch., saar)                                   | 1.2    | 0.0    | 0.4    | 1.2    | 0.9    | 1.5    | 2.3    | 2.0    | 0.9    | 1.9    | 1.9    | 1.3    | 1.6    |
| Manufacturing Production (%ch., saar)                       | 6.6    | 3.6    | -0.2   | -0.3   | -0.8   | 0.7    | 3.2    | 4.2    | 0.7    | 0.6    | 1.4    | 1.6    | 1.8    |
| Nonfarm Inven. Chg. (Bil. 2000 \$)                          | 52.2   | 49.5   | 25.5   | 7.7    | -1.2   | -19.9  | 19.6   | 41.0   | -11.0  | -11.5  | 50.2   | 42.9   | 41.3   |
| Consumer Sentiment Index                                    | 83.8   | 84.0   | 89.2   | 82.6   | 80.0   | 78.1   | 88.6   | 86.5   | 79.0   | 80.5   | 87.3   | 89.3   | 88.8   |
| Light Vehicle Sales (Mil. units, saar)                      | 16.29  | 16.58  | 15.97  | 15.88  | 15.29  | 14.85  | 16.95  | 16.42  | 15.12  | 14.36  | 15.20  | 15.82  | 16.42  |
| Housing Starts (Mil. units, saar)                           | 1.873  | 1.735  | 1.647  | 1.551  | 1.462  | 1.339  | 2.073  | 1.844  | 1.413  | 1.372  | 1.537  | 1.641  | 1.678  |
| Unemployment Rate (%)                                       | 4.6    | 4.7    | 4.6    | 4.8    | 5.1    | 5.4    | 5.1    | 4.7    | 5.2    | 5.9    | 5.5    | 5.1    | 5.0    |
| Payroll Employment (%ch., saar)                             | 1.2    | 1.3    | 0.8    | 0.6    | -0.2   | -0.2   | 1.5    | 1.4    | 0.5    | 0.4    | 1.4    | 1.6    | 1.2    |
| Federal Surplus (Unified, FY, bil. \$)                      | 97.4   | -42.0  | -88.0  | -155.8 | 24.9   | -85.9  | -318.7 | -247.7 | -304.9 | -446.1 | -463.0 | -456.7 | -420.3 |
| <b>Financial Markets, NSA</b>                               |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Federal Funds Rate (%)                                      | 4.91   | 5.25   | 5.30   | 5.89   | 6.81   | 7.65   | 3.21   | 4.98   | 7.03   | 7.06   | 6.13   | 5.69   | 5.50   |
| 10-Year Treasury Note Yield (%)                             | 5.07   | 4.90   | 4.74   | 5.14   | 5.77   | 6.56   | 4.29   | 4.82   | 6.01   | 6.37   | 6.39   | 6.34   | 6.33   |
| <b>Incomes</b>                                              |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Personal Income (% ch., saar)                               | 6.9    | 5.7    | 6.9    | 5.5    | 4.4    | 4.3    | 5.2    | 7.2    | 5.4    | 4.9    | 6.7    | 7.1    | 6.5    |
| After-Tax Profits (Four-qr.% change)                        | 19.7   | 20.1   | 4.3    | -2.6   | -9.0   | -11.2  | 32.6   | 15.3   | -7.4   | 0.5    | 5.5    | 0.1    | 1.7    |

Global Insight, Inc. - Regional Services Group

## Short-Term Outlook for Maine

Fall 2006 Long-Term Forecast

|                                                            | 2005:4 | 2006:1 | 2006:2 | 2006:3 | 2006:4 | 2007:1 | 2007:2 | 2004  | 2005  | 2006  | 2007  | 2008  |
|------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|
| <b>Establishment Employment (Place of Work, Thousands)</b> |        |        |        |        |        |        |        |       |       |       |       |       |
| Total Non-Agricultural                                     | 611.8  | 611.2  | 613.5  | 614.2  | 615.2  | 616.0  | 616.9  | 611.7 | 611.6 | 613.5 | 617.7 | 623.4 |
| Pct. Ch. Ann. Rate                                         | 0.1    | -0.4   | 1.5    | 0.4    | 0.7    | 0.6    | 0.6    | 0.8   | 0.0   | 0.3   | 0.7   | 0.9   |
| Manufacturing                                              | 59.8   | 59.6   | 59.3   | 58.7   | 58.2   | 57.9   | 57.5   | 63.0  | 61.2  | 59.0  | 57.4  | 55.4  |
| Pct. Ch. Ann. Rate                                         | -7.2   | -1.2   | -1.6   | -4.4   | -3.1   | -1.8   | -3.2   | -1.7  | -2.8  | -3.7  | -2.6  | -3.5  |
| Durables                                                   | 31.7   | 31.5   | 31.6   | 31.4   | 31.0   | 30.8   | 30.4   | 33.7  | 32.6  | 31.4  | 30.4  | 28.8  |
| Wood Products                                              | 6.4    | 6.4    | 6.4    | 6.4    | 6.3    | 6.2    | 6.1    | 6.8   | 6.6   | 6.4   | 6.1   | 6.0   |
| Machinery                                                  |        |        |        |        |        |        |        |       |       |       |       |       |
| Comp. & Elec. Prod.                                        | 3.4    | 3.3    | 3.3    | 3.3    | 3.3    | 3.3    | 3.1    | 3.7   | 3.5   | 3.3   | 3.1   | 2.9   |
| Transportation Equip.                                      | 9.2    | 9.1    | 9.2    | 9.2    | 8.9    | 8.7    | 8.5    | 10.0  | 9.3   | 9.1   | 8.5   | 7.3   |
| Nondurables                                                | 28.0   | 28.1   | 27.7   | 27.2   | 27.2   | 27.2   | 27.1   | 29.2  | 28.7  | 27.6  | 27.1  | 26.6  |
| <b>Food Manufacturing</b>                                  |        |        |        |        |        |        |        |       |       |       |       |       |
| Non-Manufacturing                                          | 552.0  | 551.6  | 554.2  | 555.5  | 556.9  | 558.1  | 559.4  | 548.7 | 550.3 | 554.6 | 560.2 | 567.9 |
| Pct. Ch. Ann. Rate                                         | 1.0    | -0.3   | 1.9    | 0.9    | 1.1    | 0.8    | 1.0    | 1.1   | 0.3   | 0.8   | 1.0   | 1.4   |
| Construction & Mining                                      | 33.6   | 33.3   | 33.8   | 34.0   | 33.9   | 33.6   | 33.4   | 33.4  | 33.3  | 33.8  | 33.3  | 33.2  |
| Pct. Ch. Ann. Rate                                         | 3.1    | -4.1   | 6.5    | 2.9    | -1.2   | -3.6   | -2.9   | 1.0   | -0.2  | 1.4   | -1.3  | -0.2  |
| Trade, Trans., & Utilities                                 | 125.6  | 125.8  | 125.2  | 124.8  | 125.0  | 125.2  | 125.6  | 125.2 | 125.3 | 125.2 | 125.9 | 128.2 |
| Pct. Ch. Ann. Rate                                         | 2.2    | 0.7    | -2.1   | -1.3   | 0.8    | 0.7    | 1.4    | 1.7   | 0.1   | -0.1  | 0.6   | 1.8   |
| Wholesale Trade                                            | 21.5   | 21.7   | 21.7   | 21.6   | 21.7   | 21.7   | 21.8   | 21.4  | 21.4  | 21.7  | 21.8  | 22.0  |
| Retail Trade                                               | 87.3   | 87.2   | 86.6   | 86.3   | 86.4   | 86.6   | 87.0   | 87.2  | 87.2  | 86.6  | 87.3  | 89.3  |
| Trans. & Warehousing                                       | 14.9   | 15.1   | 15.0   | 15.0   | 15.0   | 15.0   | 15.1   | 14.7  | 14.8  | 15.0  | 15.1  | 15.2  |
| Utilities                                                  | 1.9    | 1.9    | 1.9    | 1.9    | 1.9    | 1.8    | 1.8    | 1.9   | 1.9   | 1.9   | 1.8   | 1.7   |
| Information                                                | 11.2   | 11.2   | 11.2   | 11.3   | 11.3   | 11.3   | 11.3   | 11.2  | 11.2  | 11.2  | 11.3  | 11.4  |
| Pct. Ch. Ann. Rate                                         | -1.1   | -2.0   | 1.1    | 3.1    | -0.7   | 1.8    | 0.6    | -1.2  | 0.0   | 0.3   | 0.5   | 0.4   |
| Financial Activities                                       | 33.8   | 33.9   | 34.1   | 34.2   | 34.2   | 34.1   | 34.2   | 34.9  | 34.1  | 34.1  | 34.1  | 34.3  |
| Pct. Ch. Ann. Rate                                         | -3.3   | 1.0    | 1.5    | 1.3    | 0.4    | -0.9   | 0.3    | -0.5  | -2.3  | 0.0   | 0.1   | 0.6   |
| Finance & Insurance                                        | 26.7   | 26.7   | 26.8   | 26.9   | 26.9   | 26.8   | 26.9   | 27.8  | 26.9  | 26.8  | 26.8  | 26.9  |
| Real Estate & Rental                                       | 7.2    | 7.2    | 7.3    | 7.3    | 7.3    | 7.3    | 7.3    | 7.1   | 7.2   | 7.3   | 7.3   | 7.4   |
| Prof. & Business Svcs.                                     | 50.5   | 50.6   | 51.5   | 52.0   | 52.2   | 52.4   | 52.8   | 49.6  | 50.1  | 51.6  | 53.0  | 55.0  |
| Pct. Ch. Ann. Rate                                         | 0.6    | 1.4    | 7.0    | 4.1    | 1.7    | 1.4    | 3.0    | -1.4  | 1.1   | 3.0   | 2.7   | 3.8   |
| Prof, Scientific, & Tech Management                        | 23.3   | 23.5   | 23.8   | 24.1   | 24.3   | 24.4   | 24.6   | 22.5  | 23.0  | 23.9  | 24.8  | 25.8  |
| Admin & Waste Svcs                                         | 5.5    | 5.5    | 5.5    | 5.6    | 5.6    | 5.6    | 5.6    | 5.7   | 5.6   | 5.6   | 5.6   | 5.6   |
| Educ & Health Services                                     | 21.7   | 21.7   | 22.2   | 22.3   | 22.4   | 22.4   | 22.5   | 21.3  | 21.6  | 22.2  | 22.6  | 23.6  |
| Pct. Ch. Ann. Rate                                         | 1.0    | -0.9   | 3.6    | 1.0    | 2.8    | 2.5    | 0.5    | 3.4   | 1.2   | 1.2   | 1.8   | 1.5   |
| Educational Services                                       | 18.1   | 18.0   | 18.1   | 18.1   | 18.1   | 18.1   | 18.1   | 18.2  | 18.2  | 18.1  | 18.1  | 18.2  |
| Health Care                                                | 94.6   | 94.5   | 95.4   | 95.7   | 96.4   | 97.1   | 97.2   | 92.8  | 94.1  | 95.5  | 97.5  | 99.1  |
| Leisure & Hospitality                                      | 58.9   | 58.7   | 59.1   | 59.1   | 59.3   | 59.6   | 60.0   | 58.8  | 59.0  | 59.0  | 60.1  | 60.9  |
| Pct. Ch. Ann. Rate                                         | -0.6   | -1.0   | 2.5    | 0.3    | 1.3    | 1.8    | 2.9    | 0.6   | 0.3   | 0.1   | 1.8   | 1.4   |
| Arts, Entertainmt, & Rec                                   | 8.0    | 7.8    | 8.0    | 7.9    | 8.0    | 8.0    | 8.1    | 7.9   | 8.0   | 7.9   | 8.1   | 8.3   |
| Accom & Food Svcs                                          | 50.9   | 50.9   | 51.0   | 51.2   | 51.3   | 51.5   | 51.9   | 50.9  | 51.0  | 51.1  | 52.0  | 52.7  |
| Other Services                                             | 20.2   | 20.0   | 20.1   | 20.0   | 20.1   | 20.1   | 20.1   | 20.0  | 20.0  | 20.1  | 20.1  | 20.1  |
| Pct. Ch. Ann. Rate                                         | 3.0    | -2.4   | 0.5    | -0.5   | 0.7    | 0.1    | 0.8    | -1.1  | 0.0   | 0.1   | 0.3   | 0.0   |
| Government                                                 | 105.5  | 105.6  | 105.9  | 106.3  | 106.4  | 106.5  | 106.7  | 104.7 | 105.1 | 106.1 | 106.7 | 107.3 |
| Pct. Ch. Ann. Rate                                         | 1.1    | 0.2    | 1.2    | 1.6    | 0.3    | 0.3    | 0.6    | 1.0   | 0.3   | 0.9   | 0.6   | 0.6   |
| Federal                                                    | 14.2   | 14.1   | 14.1   | 14.1   | 14.1   | 14.0   | 14.0   | 14.3  | 14.2  | 14.1  | 14.0  | 13.8  |
| State & Local                                              | 91.3   | 91.5   | 91.8   | 92.2   | 92.3   | 92.5   | 92.7   | 90.4  | 90.9  | 92.0  | 92.7  | 93.5  |
| <b>Resident Employment &amp; Unemployment (Thousands)</b>  |        |        |        |        |        |        |        |       |       |       |       |       |
| Total Employment                                           | 682.9  | 684.2  | 683.5  | 682.8  | 683.9  | 685.5  | 686.6  | 667.2 | 677.4 | 683.6 | 687.2 | 693.2 |
| Pct. Ch. Ann. Rate                                         | 2.1    | 0.8    | -0.4   | -0.4   | 0.7    | 0.9    | 0.7    | 1.0   | 1.5   | 0.9   | 0.5   | 0.9   |
| Labor Force                                                | 717.1  | 715.7  | 715.1  | 716.9  | 718.7  | 720.7  | 722.2  | 699.5 | 711.9 | 716.6 | 722.9 | 728.8 |
| Labor Force Partic Rate                                    | 66.1   | 65.8   | 65.6   | 65.7   | 65.8   | 65.8   | 65.9   | 65.3  | 65.8  | 65.7  | 65.9  | 66.1  |
| Number Unemployed                                          | 34.3   | 31.5   | 31.6   | 34.1   | 34.8   | 35.2   | 35.6   | 32.3  | 34.5  | 33.0  | 35.7  | 35.7  |
| Unemployment Rate                                          | 4.8    | 4.4    | 4.4    | 4.8    | 4.8    | 4.9    | 4.9    | 4.6   | 4.8   | 4.6   | 4.9   | 4.9   |
| <b>Other Economic Indicators</b>                           |        |        |        |        |        |        |        |       |       |       |       |       |
| CPI (Ann. Pct. Ch.)                                        | 2.5    | 4.0    | 6.0    | 3.2    | -1.5   | 4.3    | 2.7    | 3.4   | 3.7   | 4.1   | 2.5   | 2.3   |
| Retail Sales (Bil \$)                                      | 19.3   | 19.9   | 20.0   | 20.4   | 20.6   | 20.6   | 20.8   | 18.1  | 19.1  | 20.2  | 20.9  | 21.9  |
| New Car Regis. (Ths.)                                      | 44.3   | 59.6   | 54.6   | 51.8   | 50.6   | 50.6   | 50.6   | 62.7  | 59.2  | 54.1  | 50.9  | 51.7  |
| Mfg. Ship. (Bil \$2\$)                                     | 8.4    | 8.6    | 8.6    | 8.6    | 8.6    | 8.6    | 8.6    | 9.3   | 8.7   | 8.6   | 8.6   | 8.7   |

Global Insight, Inc. - Regional Services Group  
**Long-Term Outlook for Maine**  
Fall 2006 Long-Term Forecast

|                                                            | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | Average Annual Growth |           |           |           |           |           |
|------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-----------------------|-----------|-----------|-----------|-----------|-----------|
|                                                            |       |       |       |       |       |       | 2001-2006             | 2006-2011 | 2011-2016 | 2016-2021 | 2021-2026 | 2026-2036 |
| <b>Establishment Employment (Place of Work, Thousands)</b> |       |       |       |       |       |       |                       |           |           |           |           |           |
| Total Non-Agricultural                                     | 626.6 | 629.3 | 632.2 | 634.5 | 636.7 | 639.4 | 0.2                   | 0.6       | 0.4       | 0.7       | 0.8       | 0.7       |
| Pct. Ch. Ann. Rate                                         | 0.5   | 0.4   | 0.5   | 0.4   | 0.4   | 0.4   |                       |           |           |           |           |           |
| Manufacturing                                              | 51.7  | 49.0  | 48.1  | 47.6  | 47.3  | 47.2  | -4.6                  | -4.0      | -0.3      | -0.4      | -0.1      | 0.2       |
| Pct. Ch. Ann. Rate                                         | -6.7  | -5.2  | -2.0  | -1.0  | -0.5  | -0.2  |                       |           |           |           |           |           |
| Durables                                                   | 25.7  | 23.5  | 23.0  | 22.8  | 22.7  | 22.8  | -4.3                  | -6.1      | 0.2       | 0.0       | 0.2       | 0.6       |
| Wood Products                                              | 6.0   | 6.1   | 6.2   | 6.2   | 6.1   | 6.1   | -2.3                  | -0.5      | 0.1       | -0.7      | -0.1      | -0.2      |
| Machinery                                                  |       |       |       |       |       |       |                       |           |           |           |           |           |
| Comp. & Elec. Prod.                                        | 2.7   | 2.7   | 2.6   | 2.5   | 2.4   | 2.4   | -10.4                 | -5.1      | -2.0      | -1.0      | 0.1       | 0.9       |
| Transportation Equip.                                      | 4.3   | 2.2   | 1.7   | 1.6   | 1.6   | 1.6   | -2.8                  | -28.6     | 0.4       | 1.3       | 2.1       | 3.3       |
| Nondurables                                                | 26.1  | 25.5  | 25.1  | 24.8  | 24.6  | 24.5  | -5.0                  | -1.9      | -0.7      | -0.7      | -0.4      | -0.3      |
| Food Manufacturing                                         |       |       |       |       |       |       |                       |           |           |           |           |           |
| Non-Manufacturing                                          | 574.9 | 580.2 | 584.1 | 586.9 | 589.4 | 592.1 | 0.8                   | 1.0       | 0.5       | 0.8       | 0.9       | 0.7       |
| Pct. Ch. Ann. Rate                                         | 1.2   | 0.9   | 0.7   | 0.5   | 0.4   | 0.5   |                       |           |           |           |           |           |
| Construction & Mining                                      | 33.0  | 34.0  | 34.0  | 34.0  | 34.0  | 34.0  | 0.8                   | 0.1       | 0.6       | 0.8       | 1.0       | 1.9       |
| Pct. Ch. Ann. Rate                                         | 0.7   | 0.8   | 0.6   | -0.1  | -0.3  | 0.6   |                       |           |           |           |           |           |
| Trade, Trans., & Utilities                                 | 129.3 | 129.7 | 129.9 | 129.5 | 129.2 | 128.8 | 0.2                   | 0.7       | -0.4      | 0.0       | 0.2       | 0.1       |
| Pct. Ch. Ann. Rate                                         | 0.8   | 0.3   | 0.2   | -0.3  | -0.2  | -0.4  |                       |           |           |           |           |           |
| Wholesale Trade                                            | 22.2  | 22.4  | 22.6  | 22.7  | 22.8  | 22.9  | 1.4                   | 0.8       | 0.6       | 0.7       | 0.5       | 0.4       |
| Retail Trade                                               | 90.0  | 90.2  | 90.2  | 89.6  | 89.2  | 88.6  | 0.1                   | 0.8       | -0.8      | -0.2      | 0.1       | 0.1       |
| Trans. & Warehousing                                       | 15.4  | 15.5  | 15.6  | 15.7  | 15.8  | 15.9  | 0.1                   | 0.8       | 0.7       | 0.4       | 0.4       | 0.4       |
| Utilities                                                  | 1.7   | 1.6   | 1.5   | 1.5   | 1.4   | 1.3   | -3.3                  | -4.3      | -4.7      | -4.5      | -4.4      | -4.7      |
| Information                                                | 11.4  | 11.4  | 11.5  | 11.6  | 11.7  | 11.8  | -1.5                  | 0.4       | 0.7       | 0.8       | 1.1       | 1.1       |
| Pct. Ch. Ann. Rate                                         | 0.6   | 0.0   | 0.5   | 0.9   | 0.8   | 0.6   |                       |           |           |           |           |           |
| Fire & Activities                                          | 34.7  | 35.3  | 35.5  | 35.4  | 35.2  | 35.1  | -0.6                  | 0.8       | -0.4      | 0.1       | 0.3       | 0.3       |
| Pct. Ch. Ann. Rate                                         | 1.1   | 1.6   | 0.7   | -0.3  | -0.6  | -0.4  |                       |           |           |           |           |           |
| Finance & Insurance                                        | 27.2  | 27.7  | 27.9  | 27.8  | 27.7  | 27.6  | -1.3                  | 0.8       | -0.4      | 0.1       | 0.2       | 0.3       |
| Real Estate & Rental                                       | 7.5   | 7.6   | 7.6   | 7.6   | 7.6   | 7.5   | 2.2                   | 1.1       | -0.5      | 0.1       | 0.5       | 0.4       |
| Prof. & Business Svcs.                                     | 57.0  | 58.5  | 59.7  | 60.5  | 61.6  | 63.0  | -0.1                  | 3.0       | 1.9       | 2.3       | 2.1       | 1.6       |
| Pct. Ch. Ann. Rate                                         | 3.6   | 2.6   | 2.2   | 1.3   | 1.8   | 2.2   |                       |           |           |           |           |           |
| Prof. Scientific, & Tech Management                        | 26.6  | 27.1  | 27.5  | 27.9  | 28.4  | 29.0  | 0.7                   | 2.9       | 2.1       | 3.1       | 3.0       | 2.7       |
| Pct. Ch. Ann. Rate                                         | 5.6   | 5.4   | 5.3   | 5.2   | 5.1   | 5.1   |                       |           |           |           |           |           |
| Admin & Waste Svcs                                         | 24.8  | 25.9  | 26.9  | 27.4  | 28.1  | 28.9  | -1.8                  | -1.0      | -1.4      | -0.8      | -0.2      | -0.4      |
| Educ & Health Services                                     | 119.2 | 120.3 | 121.4 | 122.9 | 124.2 | 125.4 | 2.4                   | 1.3       | 1.0       | 1.7       | 1.6       | 0.9       |
| Pct. Ch. Ann. Rate                                         | 1.6   | 0.9   | 0.9   | 1.2   | 1.1   | 1.0   |                       |           |           |           |           |           |
| Educational Services                                       | 18.3  | 18.2  | 18.1  | 17.7  | 17.4  | 17.1  | 1.5                   | 0.0       | -1.6      | 0.5       | 0.6       | 0.1       |
| Health Care                                                | 100.9 | 102.1 | 103.3 | 105.1 | 106.8 | 108.3 | 2.6                   | 1.6       | 1.5       | 1.8       | 1.8       | 1.0       |
| Leisure & Hospitality                                      | 61.7  | 62.5  | 63.1  | 63.5  | 63.6  | 63.6  | 0.9                   | 1.3       | 0.2       | 0.6       | 0.5       | 0.4       |
| Pct. Ch. Ann. Rate                                         | 1.3   | 1.2   | 0.9   | 0.6   | 0.2   | 0.1   |                       |           |           |           |           |           |
| Arts, Entertainmt, & Rec                                   | 8.5   | 8.6   | 8.7   | 8.8   | 8.8   | 8.7   | 1.8                   | 1.9       | 0.1       | 1.3       | 1.0       | -0.1      |
| Accom & Food Svcs                                          | 53.3  | 53.9  | 54.4  | 54.7  | 54.8  | 54.9  | 0.8                   | 1.2       | 0.2       | 0.4       | 0.5       | 0.5       |
| Other Services                                             | 20.1  | 20.0  | 20.1  | 20.1  | 20.0  | 20.0  | 1.0                   | 0.0       | -0.1      | 0.2       | 0.4       | 0.3       |
| Pct. Ch. Ann. Rate                                         | -0.2  | -0.1  | 0.0   | 0.0   | -0.2  | -0.2  |                       |           |           |           |           |           |
| Government                                                 | 108.0 | 108.8 | 109.0 | 109.5 | 110.0 | 110.4 | 0.8                   | 0.6       | 0.4       | 0.4       | 0.4       | 0.4       |
| Pct. Ch. Ann. Rate                                         | 0.6   | 0.8   | 0.2   | 0.4   | 0.4   | 0.4   |                       |           |           |           |           |           |
| Federal                                                    | 13.7  | 13.8  | 13.2  | 13.0  | 12.8  | 12.6  | 0.3                   | -1.3      | -1.8      | -2.0      | -2.1      | -2.4      |
| State & Local                                              | 94.3  | 95.0  | 95.8  | 96.5  | 97.2  | 97.9  | 0.9                   | 0.8       | 0.7       | 0.7       | 0.6       | 0.6       |
| <b>Resident Employment &amp; Unemployment (Thousands)</b>  |       |       |       |       |       |       |                       |           |           |           |           |           |
| Total Employment                                           | 700.5 | 707.2 | 713.0 | 716.8 | 719.7 | 722.6 | 1.0                   | 0.8       | 0.4       | 0.4       | 0.4       | 0.5       |
| Pct. Ch. Ann. Rate                                         | 1.1   | 1.0   | 0.8   | 0.5   | 0.4   | 0.4   |                       |           |           |           |           |           |
| Labor Force                                                | 734.8 | 740.8 | 746.7 | 751.6 | 755.7 | 759.2 | 1.2                   | 0.8       | 0.5       | 0.3       | 0.3       | 0.4       |
| Labor Force Partic Rate                                    | 66.3  | 66.6  | 66.9  | 67.1  | 67.3  | 67.4  | 0.1                   | 0.3       | 0.2       | 0.2       | 0.2       | 0.5       |
| Number Unemployed                                          | 34.3  | 33.6  | 33.7  | 34.8  | 36.0  | 36.6  | 5.5                   | 0.4       | 1.7       | -0.8      | -0.3      | -0.5      |
| Unemployment Rate                                          | 4.7   | 4.5   | 4.5   | 4.6   | 4.8   | 4.8   | 4.3                   | -0.4      | 1.2       | -1.1      | -0.7      | -0.9      |
| <b>Other Economic Indicators</b>                           |       |       |       |       |       |       |                       |           |           |           |           |           |
| CPI (Ann. Pct. Ch.)                                        | 2.1   | 2.0   | 2.1   | 2.2   | 2.3   | 2.2   | 3.4                   | 2.2       | 2.2       | 2.2       | 2.3       | 2.4       |
| Retail Sales (Bil \$)                                      | 22.9  | 23.9  | 24.8  | 25.7  | 26.7  | 27.7  | 4.8                   | 4.2       | 4.0       | 4.5       | 5.0       | 5.2       |
| New Car Regis. (Ths.)                                      | 52.2  | 54.0  | 55.7  | 56.0  | 56.5  | 56.9  | -2.2                  | 0.6       | 0.5       | 0.8       | 1.1       | 1.0       |
| Mfg. Ship. (Bil \$2\$)                                     | 8.5   | 8.4   | 8.5   | 8.7   | 8.9   | 9.2   | -4.9                  | -0.3      | 3.0       | 3.1       | 3.6       | 3.7       |



Global Insight, Inc. - Regional Services Group

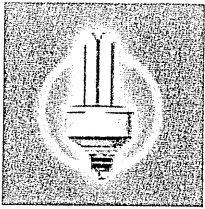
## Short-Term Outlook for Maine

Fall 2006 Long-Term Forecast

|                                                                | 2005:4 | 2006:1 | 2006:2 | 2006:3 | 2006:4 | 2007:1 | 2007:2 | 2004   | 2005   | 2006   | 2007   | 2008   |
|----------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Personal Income (Billions \$)</b>                           |        |        |        |        |        |        |        |        |        |        |        |        |
| Total Personal Income                                          | 41.3   | 42.1   | 42.8   | 43.3   | 43.8   | 44.2   | 44.6   | 39.3   | 40.7   | 43.0   | 44.9   | 46.9   |
| Pct. Ch. Ann. Rate                                             | 4.0    | 8.4    | 6.8    | 4.8    | 4.2    | 4.1    | 3.9    | 4.6    | 3.6    | 5.6    | 4.3    | 4.5    |
| Real Personal Income                                           | 36.6   | 37.1   | 37.4   | 37.6   | 38.1   | 38.2   | 38.3   | 36.3   | 36.5   | 37.5   | 38.4   | 39.4   |
| Pct. Ch. Ann. Rate                                             | 1.1    | 6.2    | 2.7    | 2.5    | 4.9    | 1.2    | 1.8    | 1.9    | 0.7    | 2.8    | 2.4    | 2.5    |
| Real Disposable Income                                         | 32.7   | 32.9   | 33.1   | 33.3   | 33.7   | 33.8   | 34.0   | 32.7   | 32.6   | 33.3   | 34.1   | 35.0   |
| Real Per Capita Income (Ths)                                   | 27.6   | 28.0   | 28.2   | 28.3   | 28.6   | 28.7   | 28.8   | 27.6   | 27.6   | 28.3   | 28.8   | 29.4   |
| Avg. Household Income (Ths)                                    | 75.8   | 77.2   | 78.3   | 79.1   | 79.8   | 80.5   | 81.1   | 73.4   | 75.1   | 78.6   | 81.5   | 84.6   |
| Avg. Annual Wage (Ths)                                         | 33.0   | 33.9   | 34.4   | 34.7   | 34.9   | 35.1   | 35.3   | 32.1   | 32.7   | 34.5   | 35.4   | 36.3   |
| <b>By Place of Work</b>                                        |        |        |        |        |        |        |        |        |        |        |        |        |
| Wages and Salaries                                             | 20.8   | 21.3   | 21.7   | 21.9   | 22.1   | 22.3   | 22.4   | 20.2   | 20.6   | 21.8   | 22.5   | 23.3   |
| Manufacturing                                                  | 2.6    | 2.7    | 2.7    | 2.7    | 2.7    | 2.7    | 2.7    | 2.6    | 2.6    | 2.7    | 2.7    | 2.7    |
| Construction & Mining                                          | 1.2    | 1.2    | 1.2    | 1.3    | 1.3    | 1.3    | 1.2    | 1.1    | 1.1    | 1.2    | 1.2    | 1.3    |
| Trade, Trans., & Utilities                                     | 3.6    | 3.7    | 3.8    | 3.8    | 3.8    | 3.8    | 3.9    | 3.5    | 3.6    | 3.8    | 3.9    | 4.1    |
| Information                                                    | 0.5    | 0.5    | 0.5    | 0.5    | 0.5    | 0.5    | 0.5    | 0.4    | 0.5    | 0.5    | 0.5    | 0.5    |
| Financial Activities                                           | 1.5    | 1.5    | 1.6    | 1.6    | 1.6    | 1.6    | 1.7    | 1.5    | 1.5    | 1.6    | 1.7    | 1.7    |
| Prof & Business Svcs.                                          | 2.0    | 2.1    | 2.1    | 2.2    | 2.2    | 2.2    | 2.2    | 2.0    | 2.0    | 2.1    | 2.2    | 2.4    |
| Educ & Health Services                                         | 3.7    | 3.8    | 3.9    | 4.0    | 4.0    | 4.1    | 4.1    | 3.5    | 3.6    | 3.9    | 4.1    | 4.3    |
| Leisure & Hospitality                                          | 0.9    | 1.0    | 1.0    | 1.0    | 1.0    | 1.0    | 1.1    | 0.9    | 0.9    | 1.0    | 1.1    | 1.1    |
| Other Services                                                 | 0.6    | 0.6    | 0.6    | 0.6    | 0.6    | 0.6    | 0.6    | 0.5    | 0.6    | 0.6    | 0.6    | 0.6    |
| Government                                                     | 3.6    | 3.6    | 3.7    | 3.7    | 3.7    | 3.7    | 3.8    | 3.5    | 3.6    | 3.7    | 3.8    | 3.9    |
| Other Labor Income                                             | 5.3    | 5.4    | 5.5    | 5.6    | 5.7    | 5.7    | 5.8    | 5.0    | 5.3    | 5.5    | 5.8    | 6.0    |
| Less: Social Insurance                                         | 3.2    | 3.3    | 3.4    | 3.4    | 3.5    | 3.5    | 3.6    | 3.0    | 3.1    | 3.4    | 3.6    | 3.8    |
| <b>By Place of Residence</b>                                   |        |        |        |        |        |        |        |        |        |        |        |        |
| Residence Adjustment                                           | 0.8    | 0.8    | 0.9    | 0.9    | 0.9    | 0.9    | 0.9    | 0.7    | 0.8    | 0.9    | 0.9    | 1.0    |
| Property Income                                                | 5.9    | 6.0    | 6.1    | 6.2    | 6.3    | 6.4    | 6.6    | 5.8    | 5.8    | 6.2    | 6.6    | 7.1    |
| Proprietor's Income                                            | 3.4    | 3.4    | 3.4    | 3.4    | 3.4    | 3.5    | 3.5    | 3.1    | 3.3    | 3.4    | 3.5    | 3.7    |
| Farm Proprietor                                                | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Business Proprietor                                            | 3.3    | 3.4    | 3.4    | 3.4    | 3.4    | 3.5    | 3.5    | 3.0    | 3.2    | 3.4    | 3.5    | 3.7    |
| Transfer Payments                                              | 8.3    | 8.5    | 8.6    | 8.7    | 8.9    | 9.0    | 9.1    | 7.5    | 8.2    | 8.7    | 9.1    | 9.7    |
| <b>Real Gross State Product, NAICS Based (Billions 2000\$)</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| Total GSP                                                      | 39.8   | 40.1   | 40.3   | 40.3   | 40.6   | 40.8   | 41.0   | 39.2   | 39.7   | 40.3   | 41.1   | 42.3   |
| Pct. Ch. Ann. Rate                                             | -0.2   | 3.3    | 1.4    | 0.7    | 2.4    | 2.1    | 2.1    | 4.7    | 1.2    | 1.7    | 2.0    | 3.0    |
| Agriculture                                                    | 0.6    | 0.6    | 0.6    | 0.6    | 0.6    | 0.7    | 0.7    | 0.6    | 0.6    | 0.6    | 0.7    | 0.7    |
| Manufacturing                                                  | 4.9    | 5.0    | 5.0    | 5.0    | 5.0    | 5.0    | 5.0    | 4.9    | 4.9    | 5.0    | 5.0    | 5.1    |
| Mining                                                         | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Construction                                                   | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.9    |
| Trade, Trans., & Util.                                         | 8.0    | 8.1    | 8.1    | 8.1    | 8.2    | 8.2    | 8.3    | 8.0    | 8.0    | 8.1    | 8.3    | 8.6    |
| Information                                                    | 1.5    | 1.5    | 1.5    | 1.5    | 1.5    | 1.5    | 1.5    | 1.3    | 1.4    | 1.5    | 1.5    | 1.5    |
| Financial Activities                                           | 7.9    | 7.9    | 8.0    | 8.0    | 8.0    | 8.1    | 8.1    | 7.8    | 7.9    | 8.0    | 8.2    | 8.5    |
| Prof. & Business Svcs.                                         | 3.1    | 3.2    | 3.2    | 3.2    | 3.2    | 3.2    | 3.2    | 3.1    | 3.1    | 3.2    | 3.2    | 3.3    |
| Educ & Health Services                                         | 4.4    | 4.4    | 4.5    | 4.5    | 4.5    | 4.6    | 4.6    | 4.2    | 4.3    | 4.5    | 4.6    | 4.8    |
| Leisure & Hospitality                                          | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    | 1.5    | 1.6    | 1.6    | 1.6    | 1.7    |
| Other Services                                                 | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.8    | 0.9    |
| State & Local Govt.                                            | 4.0    | 4.0    | 4.0    | 4.0    | 4.0    | 4.0    | 4.0    | 3.6    | 3.6    | 3.6    | 3.7    | 3.8    |
| Federal Govt.                                                  | 1.2    | 1.2    | 1.2    | 1.2    | 1.2    | 1.2    | 1.2    | 1.1    | 1.2    | 1.2    | 1.2    | 1.2    |
| <b>Housing</b>                                                 |        |        |        |        |        |        |        |        |        |        |        |        |
| Total Housing Starts (Ths.)                                    | 7.3    | 7.7    | 6.3    | 5.6    | 5.6    | 5.4    | 5.3    | 8.4    | 8.0    | 6.3    | 5.3    | 5.2    |
| Single-Family (Ths.)                                           | 6.7    | 7.2    | 5.7    | 5.2    | 5.0    | 4.9    | 4.8    | 8.0    | 7.4    | 5.8    | 4.8    | 4.8    |
| Multi-Family (Ths.)                                            | 0.5    | 0.5    | 0.6    | 0.4    | 0.5    | 0.5    | 0.5    | 0.4    | 0.6    | 0.5    | 0.5    | 0.5    |
| New Median Price (\$)                                          | 198975 | 201493 | 199388 | 192050 | 194100 | 199190 | 195797 | 185324 | 196694 | 196758 | 196069 | 202984 |
| Unit Sales, Existing (Ths.)                                    | 30.8   | 36.4   | 34.1   | 30.0   | 28.2   | 27.5   | 26.7   | 33.3   | 33.3   | 32.2   | 26.7   | 26.2   |
| Existing Median Price (\$)                                     | 172137 | 172917 | 174376 | 174173 | 173056 | 174070 | 174425 | 141347 | 163731 | 173631 | 175277 | 183699 |
| <b>Resident Population (Thousands, July 1)</b>                 |        |        |        |        |        |        |        |        |        |        |        |        |
| Total Population                                               | 1324.5 | 1325.9 | 1327.2 | 1328.5 | 1329.7 | 1331.0 | 1332.2 | 1315.0 | 1321.5 | 1327.2 | 1332.2 | 1336.6 |
| Pct. Ch. Ann. Rate                                             | 0.4    | 0.4    | 0.4    | 0.4    | 0.4    | 0.4    | 0.4    | 0.5    | 0.5    | 0.4    | 0.4    | 0.3    |
| Under 14 years                                                 | 220.4  | 220.0  | 219.6  | 219.3  | 218.9  | 218.6  | 218.3  | 226.1  | 221.2  | 219.6  | 218.3  | 217.1  |
| 15 to 24 years                                                 | 182.6  | 182.8  | 182.9  | 182.8  | 182.7  | 182.6  | 182.4  | 180.0  | 182.0  | 182.9  | 182.4  | 181.0  |
| 25 to 44 years                                                 | 343.3  | 342.8  | 342.4  | 342.1  | 341.8  | 341.6  | 341.5  | 349.3  | 344.5  | 342.4  | 341.5  | 341.5  |
| 45 to 64 years                                                 | 383.2  | 384.1  | 384.9  | 385.7  | 386.4  | 387.0  | 387.5  | 369.4  | 381.1  | 384.9  | 387.5  | 389.0  |
| 65 years and over                                              | 195.0  | 196.2  | 197.4  | 198.6  | 199.9  | 201.2  | 202.5  | 190.2  | 192.7  | 197.4  | 202.5  | 207.9  |
| Net Migration                                                  | 1.1    | 1.1    | 1.1    | 1.0    | 1.0    | 1.0    | 1.0    | 5.1    | 4.9    | 4.2    | 3.9    | 3.6    |
| Households                                                     | 544.3  | 545.6  | 547.0  | 547.6  | 548.7  | 549.4  | 550.2  | 534.4  | 542.2  | 547.0  | 550.2  | 553.5  |

Global Insight, Inc. - Regional Services Group  
**Long-Term Outlook for Maine**  
Fall 2006 Long-Term Forecast

|                                                                | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | Average Annual Growth |           |           |           |           |           |
|----------------------------------------------------------------|--------|--------|--------|--------|--------|--------|-----------------------|-----------|-----------|-----------|-----------|-----------|
|                                                                |        |        |        |        |        |        | 2001-2006             | 2006-2011 | 2011-2016 | 2016-2021 | 2021-2026 | 2026-2036 |
| <b>Personal Income (Billions \$)</b>                           |        |        |        |        |        |        |                       |           |           |           |           |           |
| Total Personal Income                                          | 49.0   | 51.0   | 53.3   | 55.6   | 58.1   | 60.5   | 4.1                   | 4.4       | 4.4       | 4.8       | 4.7       | 5.0       |
| Pct. Ch. Ann. Rate                                             | 4.5    | 4.3    | 4.3    | 4.4    | 4.5    | 4.1    |                       |           |           |           |           |           |
| Real Personal Income                                           | 40.4   | 41.4   | 42.3   | 43.3   | 44.4   | 45.3   | 1.8                   | 2.4       | 2.4       | 2.8       | 2.6       | 2.8       |
| Pct. Ch. Ann. Rate                                             | 2.6    | 2.4    | 2.3    | 2.3    | 2.5    | 2.2    |                       |           |           |           |           |           |
| Real Disposable Income                                         | 35.8   | 36.6   | 37.4   | 38.2   | 39.2   | 40.0   | 2.1                   | 2.4       | 2.3       | 2.8       | 2.6       | 2.8       |
| Real Per Capita Income (Ths)                                   | 30.1   | 30.8   | 31.4   | 32.1   | 32.9   | 33.5   | 1.1                   | 2.1       | 2.2       | 2.8       | 2.6       | 2.9       |
| Avg. Household Income (Ths)                                    | 87.9   | 91.2   | 94.7   | 98.6   | 102.8  | 106.8  | 3.5                   | 3.8       | 4.1       | 4.7       | 4.6       | 5.1       |
| Avg. Annual Wage (Ths)                                         | 37.4   | 38.4   | 39.6   | 40.7   | 41.9   | 43.0   | 3.6                   | 2.8       | 2.8       | 2.8       | 3.0       | 2.9       |
| <b>By Place of Work</b>                                        |        |        |        |        |        |        |                       |           |           |           |           |           |
| Wages and Salaries                                             | 24.0   | 24.8   | 25.7   | 26.5   | 27.3   | 28.2   | 3.9                   | 3.4       | 3.2       | 3.6       | 3.8       | 3.5       |
| Manufacturing                                                  | 2.6    | 2.6    | 2.6    | 2.7    | 2.7    | 2.8    | -0.2                  | -0.8      | 2.7       | 2.6       | 3.0       | 3.1       |
| Construction & Mining                                          | 1.3    | 1.4    | 1.4    | 1.4    | 1.5    | 1.5    | 4.1                   | 2.6       | 2.7       | 3.0       | 3.2       | 4.1       |
| Trade, Trans., & Utilities                                     | 4.2    | 4.4    | 4.5    | 4.7    | 4.8    | 4.9    | 3.7                   | 3.8       | 2.7       | 3.1       | 3.4       | 3.2       |
| Information                                                    | 0.6    | 0.6    | 0.6    | 0.6    | 0.6    | 0.6    | 3.0                   | 2.7       | 2.8       | 3.3       | 3.7       | 3.6       |
| Financial Activities                                           | 1.8    | 1.9    | 1.9    | 2.0    | 2.0    | 2.1    | 3.9                   | 4.0       | 2.3       | 2.8       | 3.0       | 2.9       |
| Prof & Business Svcs.                                          | 2.6    | 2.7    | 2.9    | 3.0    | 3.2    | 3.3    | 3.2                   | 6.2       | 5.0       | 5.4       | 5.3       | 4.7       |
| Educ & Health Services                                         | 4.5    | 4.7    | 5.0    | 5.2    | 5.4    | 5.6    | 6.8                   | 4.7       | 4.2       | 4.9       | 5.0       | 4.1       |
| Leisure & Hospitality                                          | 1.1    | 1.2    | 1.2    | 1.3    | 1.3    | 1.3    | 5.0                   | 4.0       | 2.6       | 3.0       | 3.1       | 2.8       |
| Other Services                                                 | 0.6    | 0.6    | 0.7    | 0.7    | 0.7    | 0.7    | 4.8                   | 2.7       | 2.3       | 2.6       | 2.9       | 2.7       |
| Government                                                     | 4.0    | 4.1    | 4.2    | 4.3    | 4.4    | 4.5    | 4.1                   | 2.8       | 2.5       | 2.5       | 2.6       | 2.6       |
| Other Labor Income                                             | 6.0    | 6.0    | 7.0    | 7.0    | 7.0    | 7.0    | 6.4                   | 3.6       | 4.0       | 3.7       | 4.2       | 4.4       |
| Less: Social Insurance                                         | 4.0    | 4.2    | 4.4    | 4.5    | 4.7    | 4.9    | 3.8                   | 5.3       | 3.7       | 6.2       | 3.9       | 5.9       |
| <b>By Place of Residence</b>                                   |        |        |        |        |        |        |                       |           |           |           |           |           |
| Residence Adjustment                                           | 1.0    | 1.0    | 0.9    | 0.9    | 1.0    | 1.1    | 3.3                   | 1.5       | 8.3       | 8.1       | 8.7       | 3.0       |
| Property Income                                                | 7.6    | 8.1    | 8.5    | 9.0    | 9.5    | 9.7    | -0.6                  | 6.6       | 4.3       | 6.1       | 4.2       | 6.7       |
| Proprietor's Income                                            | 3.9    | 4.2    | 4.5    | 4.7    | 5.0    | 5.3    | 4.0                   | 5.5       | 6.0       | 5.6       | 5.3       | 5.0       |
| Farm Proprietor                                                | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | -28.4                 | -39.5     | -1.1      | -12.0     | -16.9     | 8.9       |
| Business Proprietor                                            | 3.9    | 4.2    | 4.5    | 4.7    | 5.0    | 5.3    | 4.2                   | 5.5       | 6.0       | 5.6       | 5.3       | 5.0       |
| Transfer Payments                                              | 10.2   | 10.8   | 11.5   | 12.1   | 12.8   | 13.6   | 7.6                   | 5.7       | 6.0       | 6.7       | 6.0       | 6.6       |
| <b>Real Gross State Product, NAICS Based (Billions 2000\$)</b> |        |        |        |        |        |        |                       |           |           |           |           |           |
| Total GSP                                                      | 43.5   | 44.7   | 45.8   | 46.9   | 48.1   | 49.4   | 2.2                   | 2.6       | 2.6       | 2.7       | 2.6       | 2.5       |
| Pct. Ch. Ann. Rate                                             | 2.8    | 2.7    | 2.6    | 2.3    | 2.5    | 2.7    |                       |           |           |           |           |           |
| Agriculture                                                    | 0.7    | 0.7    | 0.7    | 0.7    | 0.7    | 0.7    | 3.7                   | 1.6       | 1.3       | 1.4       | 1.3       | 1.1       |
| Manufacturing                                                  | 5.1    | 5.1    | 5.2    | 5.2    | 5.3    | 5.4    | 1.7                   | 0.7       | 1.5       | 1.3       | 1.4       | 1.3       |
| Mining                                                         | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 4.0                   | 4.7       | 3.5       | 4.1       | 4.5       | 4.2       |
| Construction                                                   | 1.9    | 2.0    | 2.1    | 2.2    | 2.2    | 2.3    | 0.0                   | 2.8       | 3.5       | 3.4       | 3.2       | 3.9       |
| Trade, Trans., & Util.                                         | 8.9    | 9.1    | 9.4    | 9.7    | 9.9    | 10.2   | 2.9                   | 3.0       | 2.8       | 2.8       | 2.8       | 2.5       |
| Information                                                    | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    | 1.7    | 6.9                   | 1.4       | 1.2       | 1.3       | 1.2       | 1.0       |
| Financial Activities                                           | 8.8    | 9.0    | 9.3    | 9.6    | 9.9    | 10.2   | 1.7                   | 3.1       | 3.0       | 3.1       | 3.0       | 2.7       |
| Prof. & Business Svcs.                                         | 3.4    | 3.5    | 3.6    | 3.7    | 3.8    | 3.9    | 2.3                   | 2.6       | 2.5       | 2.6       | 2.5       | 2.3       |
| Educ & Health Services                                         | 5.0    | 5.2    | 5.4    | 5.6    | 5.8    | 6.1    | 3.4                   | 3.9       | 3.7       | 3.9       | 3.7       | 3.1       |
| Leisure & Hospitality                                          | 1.8    | 1.8    | 1.9    | 2.0    | 2.0    | 2.1    | 3.0                   | 3.6       | 3.5       | 3.7       | 3.8       | 3.6       |
| Other Services                                                 | 0.9    | 0.9    | 0.9    | 0.9    | 0.9    | 0.9    | 1.4                   | 1.5       | 1.4       | 1.5       | 1.4       | 1.1       |
| State & Local Govt.                                            | 4.0    | 4.0    | 4.0    | 4.0    | 4.0    | 4.0    | 0.5                   | 1.8       | 1.7       | 1.6       | 1.5       | 1.3       |
| Federal Govt.                                                  | 1.2    | 1.2    | 1.3    | 1.3    | 1.3    | 1.3    | 1.4                   | 1.3       | 1.1       | 1.1       | 1.0       | 0.7       |
| <b>Housing</b>                                                 |        |        |        |        |        |        |                       |           |           |           |           |           |
| Total Housing Starts (Ths.)                                    | 5.2    | 5.2    | 5.3    | 5.3    | 5.0    | 4.7    | 1.8                   | -3.4      | -2.8      | -1.0      | 0.2       | -1.4      |
| Single-Family (Ths.)                                           | 4.7    | 4.8    | 4.9    | 4.8    | 4.5    | 4.2    | 1.5                   | -3.4      | -3.4      | -1.7      | -0.7      | -2.8      |
| Multi-Family (Ths.)                                            | 0.5    | 0.4    | 0.4    | 0.5    | 0.5    | 0.5    | 5.3                   | -3.1      | 3.0       | 3.5       | 5.1       | 3.6       |
| New Median Price (\$)                                          | 210911 | 219839 | 229599 | 239517 | 249413 | 259322 | 7.5                   | 3.1       | 4.0       | UN        | UN        | UN        |
| Unit Sales, Existing (Ths.)                                    | 26.5   | 28.1   | 29.3   | 29.2   | 29.0   | 29.2   | 3.1                   | -1.9      | 0.5       | UN        | UN        | UN        |
| Existing Median Price (\$)                                     | 195189 | 208468 | 220683 | 230954 | 241754 | 254120 | 10.3                  | 4.9       | 5.1       | UN        | UN        | UN        |
| <b>Resident Population (Thousands, July 1)</b>                 |        |        |        |        |        |        |                       |           |           |           |           |           |
| Total Population                                               | 1340.4 | 1343.6 | 1346.1 | 1348.3 | 1350.1 | 1351.6 | 0.6                   | 0.3       | 0.1       | 0.1       | 0.0       | -0.1      |
| Pct. Ch. Ann. Rate                                             | 0.3    | 0.2    | 0.2    | 0.2    | 0.1    | 0.1    |                       |           |           |           |           |           |
| Under 14 years                                                 | 216.1  | 215.1  | 214.1  | 213.2  | 212.2  | 211.2  | -1.6                  | -0.5      | -0.5      | -0.4      | -0.4      | -0.4      |
| 15 to 24 years                                                 | 179.0  | 176.5  | 173.7  | 170.9  | 168.2  | 165.5  | 1.8                   | -1.0      | -1.5      | -1.0      | -0.6      | -0.4      |
| 25 to 44 years                                                 | 342.1  | 343.0  | 344.1  | 345.2  | 346.3  | 347.3  | -1.3                  | 0.1       | 0.3       | 0.1       | -0.1      | -0.2      |
| 45 to 64 years                                                 | 389.5  | 389.3  | 388.4  | 386.8  | 384.8  | 382.4  | 3.0                   | 0.2       | -0.6      | -0.9      | -0.7      | -0.4      |
| 65 years and over                                              | 214.0  | 220.0  | 226.0  | 232.0  | 239.0  | 245.0  | 1.3                   | 2.7       | 2.7       | 2.3       | 1.7       | 0.8       |
| Net Migration                                                  | 3.0    | 3.0    | 3.0    | 2.0    | 2.0    | 2.0    | -13.2                 | -9.6      | -5.3      | 5.0       | 2.9       | 2.8       |
| Households                                                     | 557.0  | 560.0  | 562.0  | 564.0  | 565.0  | 566.0  | 0.7                   | 0.5       | 0.2       | 0.2       | 0.1       | -0.1      |



# Heating Fuel Prices

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**For Immediate Release**

**Contact: Beth Nagusky 287-4315**

**November 20, 2006**

[November 13, 2006](#)

[November 6, 2006](#)

## Most Heating Fuel Prices Stable

Augusta--- The Office of Energy Independence and Security (OEIS) survey of home heating oil prices today found the current statewide average cash price for No. 2 heating oil to be unchanged since last week at \$2.19 per gallon and \$0.12 lower than last year at this time. It is important to note that this price is a statewide average and that prices in a given geographic region of the state may be considerably higher or lower than the statewide average. Once again, the price for bio-heat is comparable to the statewide average price for #2. Within the OEIS sample, the lowest actual heating oil price of \$1.86 per gallon was found in the southwestern region while the high-end price of \$2.35 per gallon was found in the central region. As of November 10th, New England heating oil inventories stood at 10,851 million barrels or 11 million barrels less than last year at this time. The table below provides current Maine cash prices in dollars rounded to the nearest penny.

[October 30, 2006](#)

[October 23, 2006](#)

[October 16, 2006](#)

[October 10, 2006](#)

[October 2, 2006](#)

[Sept 5, 2006](#)

[August 1, 2006](#)

As of November 20, 2006

| HEATING OIL  | Statewide | Southwest | Central | Eastern | Western | Northern |
|--------------|-----------|-----------|---------|---------|---------|----------|
| Average      | 2.19      | 2.15      | 2.29    | 2.28    | 2.15    | 2.06     |
| High         | 2.35      | 2.30      | 2.35    | 2.32    | 2.30    | 2.10     |
| Low          | 1.86      | 1.86      | 2.21    | 2.20    | 2.08    | 2.00     |
| KEROSENE     | 2.62      | 2.61      | 2.72    | 2.68    | 2.61    | 2.41     |
| PROPANE      | 2.36      |           |         |         |         |          |
| B-5 Bio-heat | 2.199     |           |         |         |         |          |

[March 27, 2006](#)

[March 20, 2006](#)

[March 14, 2006](#)

The statewide kerosene price average is \$2.62 per gallon, also

[March 6,](#)

unchanged since last week and \$0.09 less than last year at this time. The central region had the highest price average for kerosene at \$2.72 per gallon. Today's propane price survey found the statewide average to be \$2.36 per gallon, which is up \$0.07 since last week and \$0.14 higher than last year at this time. This average price for propane represents the price per gallon for a 600-800 gallon domestic heating application. East Coast propane inventories are in the average range.

2006

March 1,  
2006

February  
21, 2006

Crude oil prices closed on Friday at \$56.24/barrel, comparable to last year at this time when crude traded at \$56.20/barrel. Maine's energy information website at [www.maineenergyinfo.com](http://www.maineenergyinfo.com) provides energy saving tips for homeowners, including expected costs and paybacks. Simple energy conservation steps can save hundreds of dollars this year in energy bills. For more information about the Maine Home Performance with Energy Star whole house energy efficiency program, visit [www.mainehomeperformance.org](http://www.mainehomeperformance.org).

February  
13, 2006

February  
6, 2006

January  
30, 2006

January  
23, 2006

January  
17, 2006

January 9,  
2006

January 3,  
2006

**Archived**  
**oil prices**

2005

2004

[Maine.gov](http://www.maine.gov) | [Maine Energy Resources Council](#) | [Contact Us](#)



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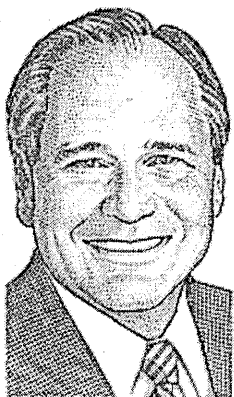
November 15, 2006

## Home Depot Posts 3.1% Profit Drop, Lowers Its Full-Year Forecast

By ANN ZIMMERMAN  
November 15, 2006; Page A3

**Home Depot Inc.**, the country's largest home-improvement chain, yesterday blamed the rapid slowdown in the housing sector for its dismal third-quarter results and gloomy forecast.

"Housing-related issues came faster and deeper than we thought," Chief Executive Robert Nardelli said during a conference call with analysts yesterday. "They will pressure throughout all of '07, and we think there is deeper to go."



**Bob Nardelli**

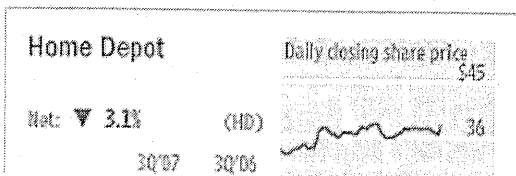
The cooling housing market has made it harder for Americans to extract equity from their homes, much of which was being spent on remodeling. Home Depot, which sees sales of building supplies soar after natural disasters, also has been affected by the milder hurricane season this year.

Analysts said some of Home Depot's woes were self-inflicted, citing the recent loss of several important executives in operations and merchandising whom Mr. Nardelli has chosen not to replace, ostensibly to reduce

bureaucracy and speed up decisions.

Others were critical that the company invested in sprucing up its stores and adding hourly workers only when the slowdown in the housing market had already begun.

"Home Depot is in a very challenging position," Gary Balter, a retail analyst at Credit Suisse, wrote yesterday in a research note. "The company appears to have underinvested in service and infrastructure through the better times," and now, although on the right track, has a tough task of wooing customers who have been turned off by poor service, he said.



Home Depot executives disagreed with those assessments. Carol Tomé, the chain's chief financial officer, said the company is doing "absolutely the right thing for our business."

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### MORE

2 • Read a transcript<sup>3</sup> of Home Depot's earnings conference call, provided by Thomson StreetEvents ([www.StreetEvents.com](http://www.StreetEvents.com)<sup>4</sup>).



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5 Get alerts for breaking news -- such as Fed moves, major world events and big mergers -- delivered straight to your desktop. Alerts will appear in a small window on your screen, much like an instant-messaging window. See a sample and get more information.<sup>6</sup>



"We have a strong balance sheet that we'll use to continue to invest in retail, so when the climate does turn, we will emerge even stronger," Ms. Tomé said in an interview.

Sales rose 11% to \$23.09 billion as the Atlanta company opened 26 stores and added results of several acquisitions. But sales at stores open at least a year dropped 5.1% from a year earlier, when they were helped by the rebuilding of properties devastated by hurricanes along the Gulf of Mexico. Analysts had expected same-store sales to dip 1.5%.

Home Depot now sees full-year per-share earnings increasing 4% to 5% compared with a prior outlook for 10% to 14%. The company also cut its sales outlook to a 12% increase compared with an estimate in early September that sales growth would be at the low end of 14% to 17%. The retailer also predicted same-store sales to be negative in the mid-single digits.

Home Depot shares rose \$1.56, or 4.3%, to \$37.96 as of 4 p.m. New York Stock Exchange composite trading, after trading lower earlier in the day. News that wholesale inflation is easing, raising hopes that the Federal Reserve will cut interest rates in early 2007, lifted the overall market, particularly housing-related stocks.

--Mary Ellen Lloyd contributed to this article.

Write to Ann Zimmerman at [ann.zimmerman@wsj.com](mailto:ann.zimmerman@wsj.com)<sup>1</sup>

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<http://online.wsj.com/article/SB116350278859622621.html>

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- (3) <http://wsj.com/documents/transcript-HD-20061114.pdf>
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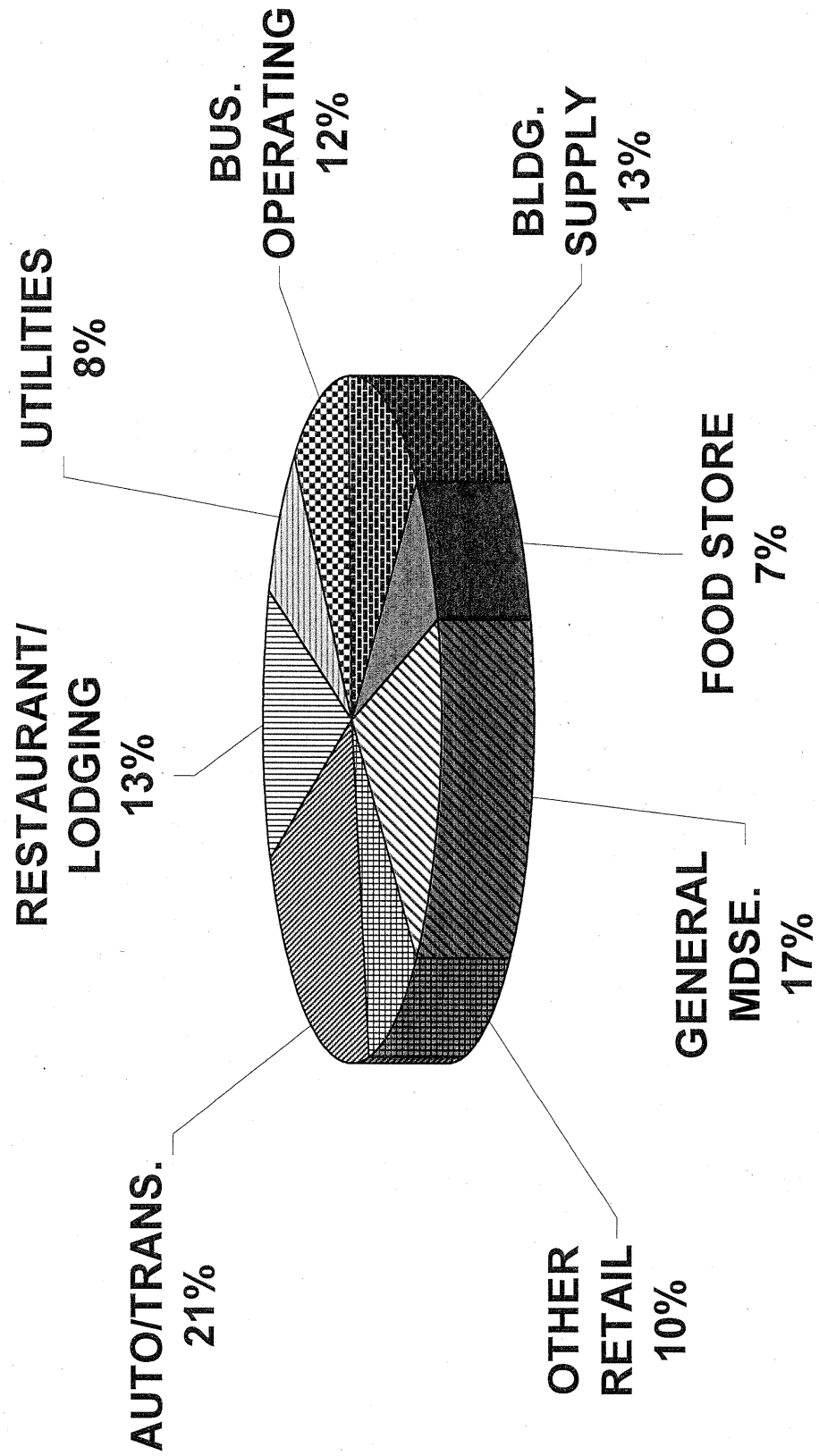
## **Sales & Use Tax**

Maine Revenue Services  
Taxable Sales by Sector  
In Thousands of Dollars

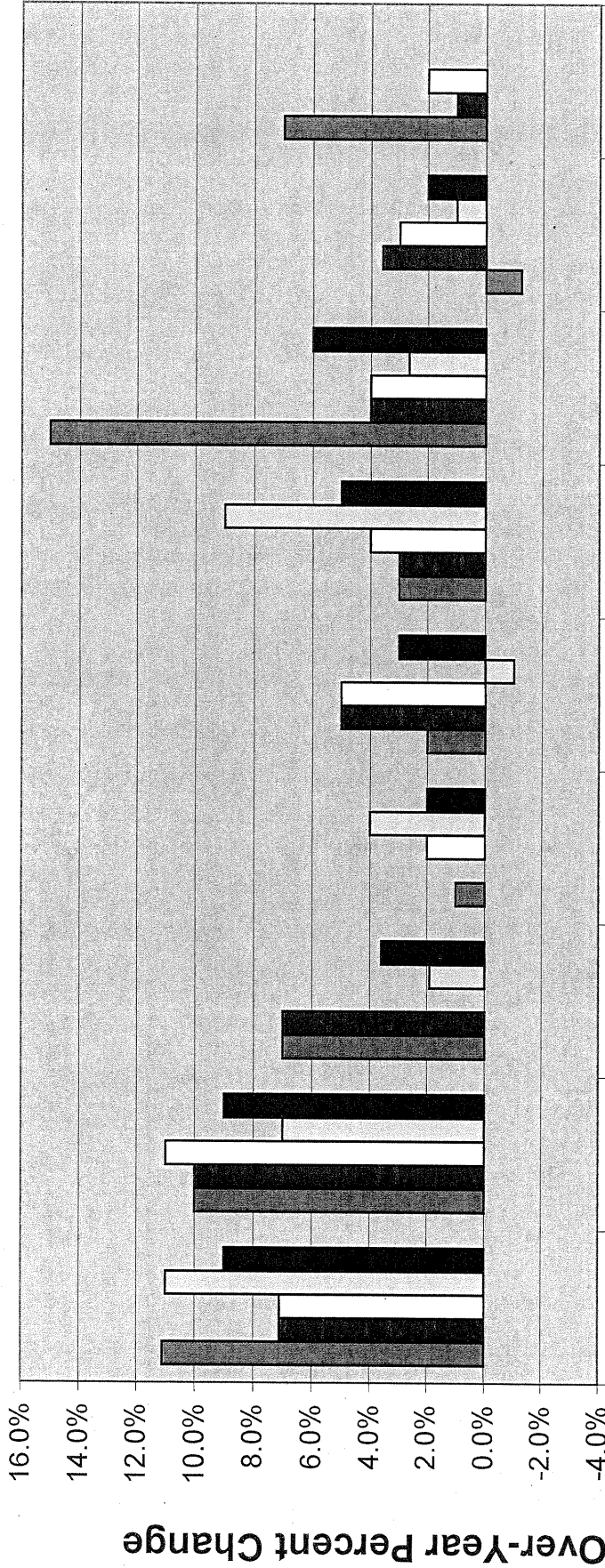
|                     | Sept. '06   | % Ch. | Sept. '05   | % Ch. | Sept. '04   | Average<br>Last 3 Mos.<br>Vs. Last Yr.<br>% Change | Moving Total<br>Last 12 Mos.<br>Vs. Prior<br>% Change | YTD Growth<br>CY'06 vs. '05<br>Thru. Sept.<br>% Change |
|---------------------|-------------|-------|-------------|-------|-------------|----------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------|
| Building Supply     | \$245,643   | -6%   | \$260,373   | 9%    | \$237,986   | -2%                                                | 5%                                                    | 5%                                                     |
| Food Store          | \$128,985   | -1%   | \$130,297   | 7%    | \$121,638   | 3%                                                 | 5%                                                    | 5%                                                     |
| General Merchandise | \$264,163   | 2%    | \$258,253   | 0%    | \$257,461   | 3%                                                 | 3%                                                    | 4%                                                     |
| Other Retail        | \$185,760   | 3%    | \$180,765   | 3%    | \$174,696   | 10%                                                | 9%                                                    | 10%                                                    |
| Auto/Transportation | \$320,628   | 0%    | \$319,521   | -9%   | \$352,164   | -6%                                                | -5%                                                   | -4%                                                    |
| Restaurant/Lodging  | \$267,885   | 4%    | \$256,776   | 6%    | \$243,262   | 5%                                                 | 5%                                                    | 5%                                                     |
| Consumer Sales      | \$1,413,065 | 1%    | \$1,405,984 | 1%    | \$1,387,207 | 1%                                                 | 3%                                                    | 3%                                                     |
| Business Operating  | \$183,073   | -5%   | \$192,222   | 7%    | \$180,081   | 4%                                                 | 5%                                                    | 7%                                                     |
| Total               | \$1,596,138 | 0%    | \$1,598,206 | 2%    | \$1,567,289 | 2%                                                 | 3%                                                    | 3%                                                     |



# 2005 Maine Taxable Sales by Sector



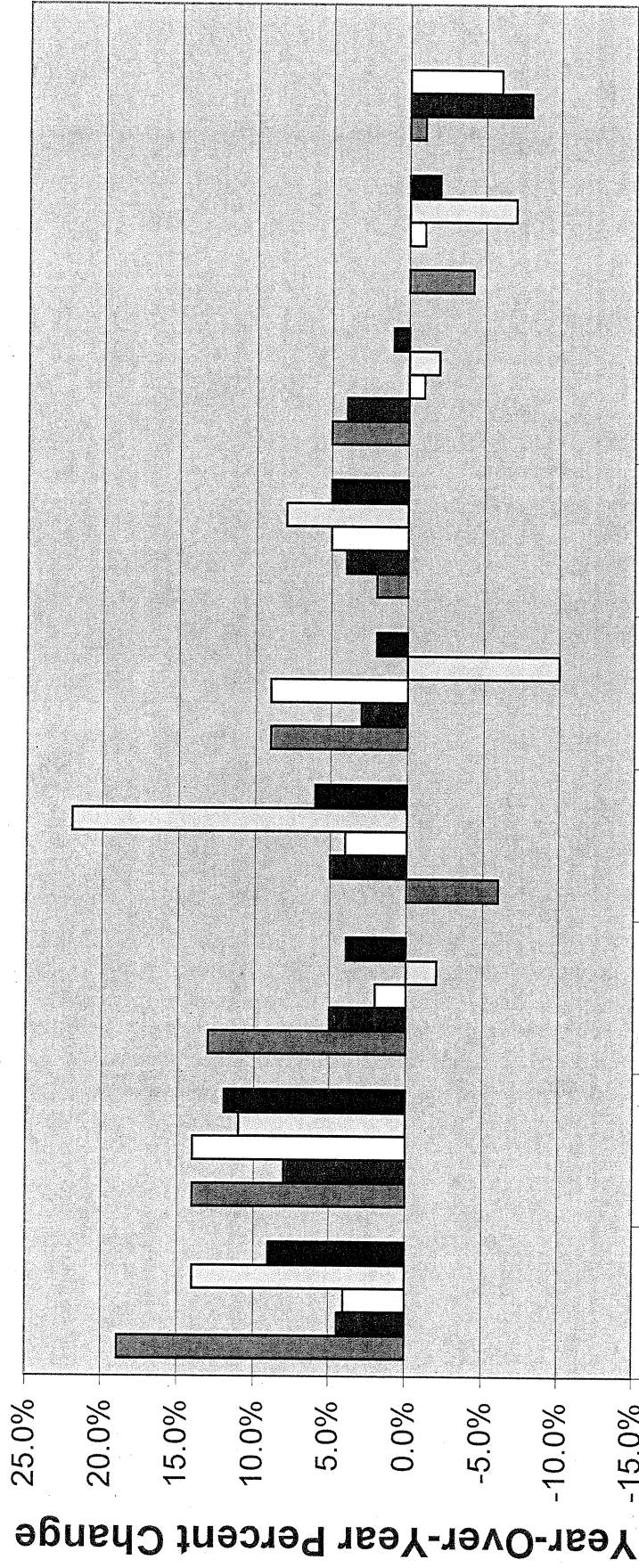
# Total Taxable Sales



|            | 1998  | 1999  | 2000 | 2001 | 2002  | 2003 | 2004  | 2005  | 2006 |
|------------|-------|-------|------|------|-------|------|-------|-------|------|
| ■ Qtr. I   | 11.1% | 10.0% | 7.0% | 1.0% | 2.0%  | 3.0% | 15.0% | -1.2% | 7.0% |
| ■ Qtr. II  | 7.1%  | 10.0% | 7.0% | 0.0% | 5.0%  | 3.0% | 4.0%  | 3.6%  | 1.0% |
| □ Qtr. III | 7.1%  | 11.0% | 0.0% | 2.0% | 5.0%  | 4.0% | 4.0%  | 3.0%  | 2.0% |
| □ Qtr. IV  | 11.0% | 7.0%  | 1.9% | 4.0% | -1.0% | 9.0% | 2.7%  | 1.0%  |      |
| ■ Year     | 9.0%  | 9.0%  | 3.6% | 2.0% | 3.0%  | 5.0% | 6.0%  | 2.0%  |      |

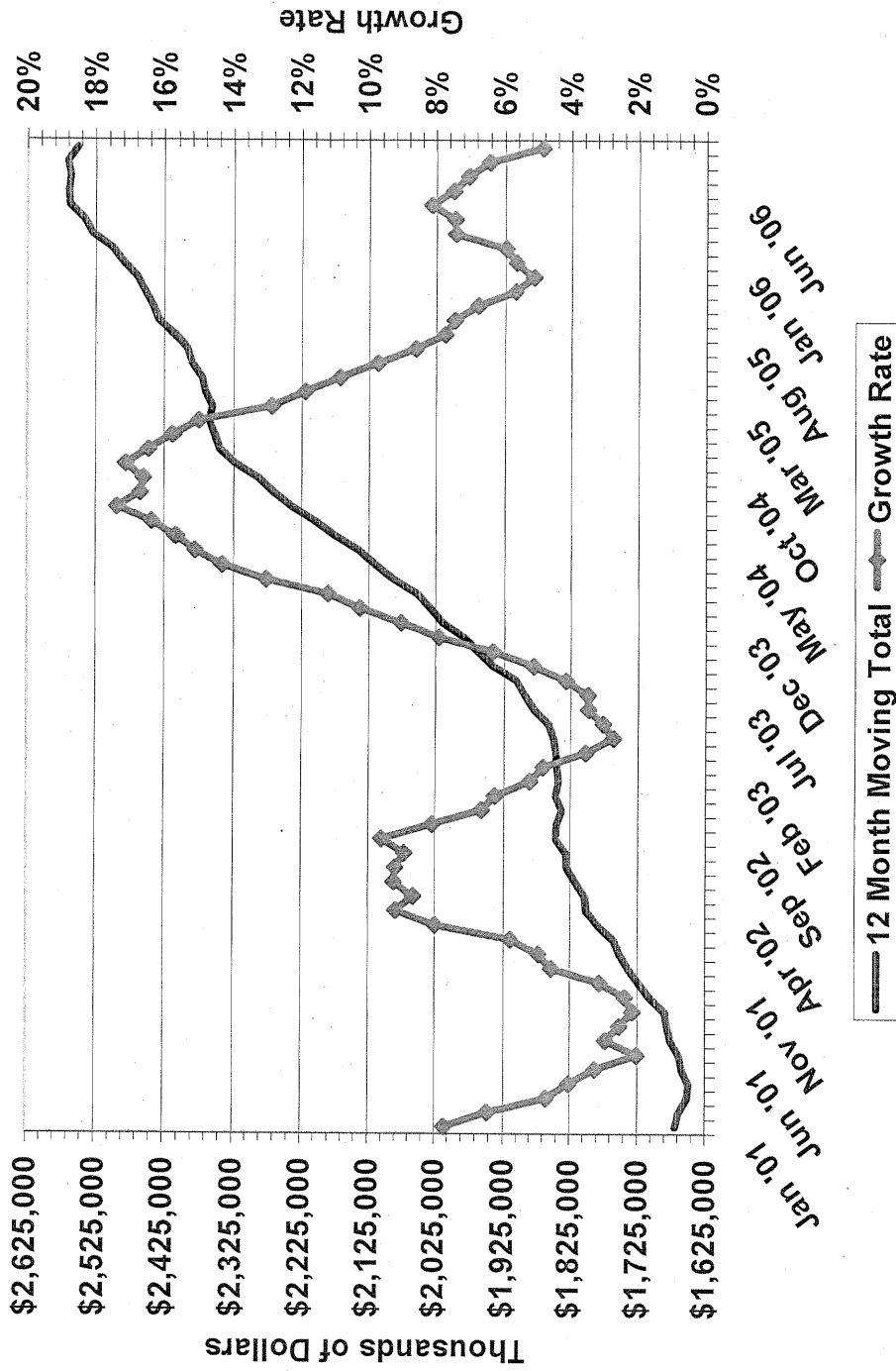
Quarter & Calendar Year

# Auto/Transportation Taxable Sales

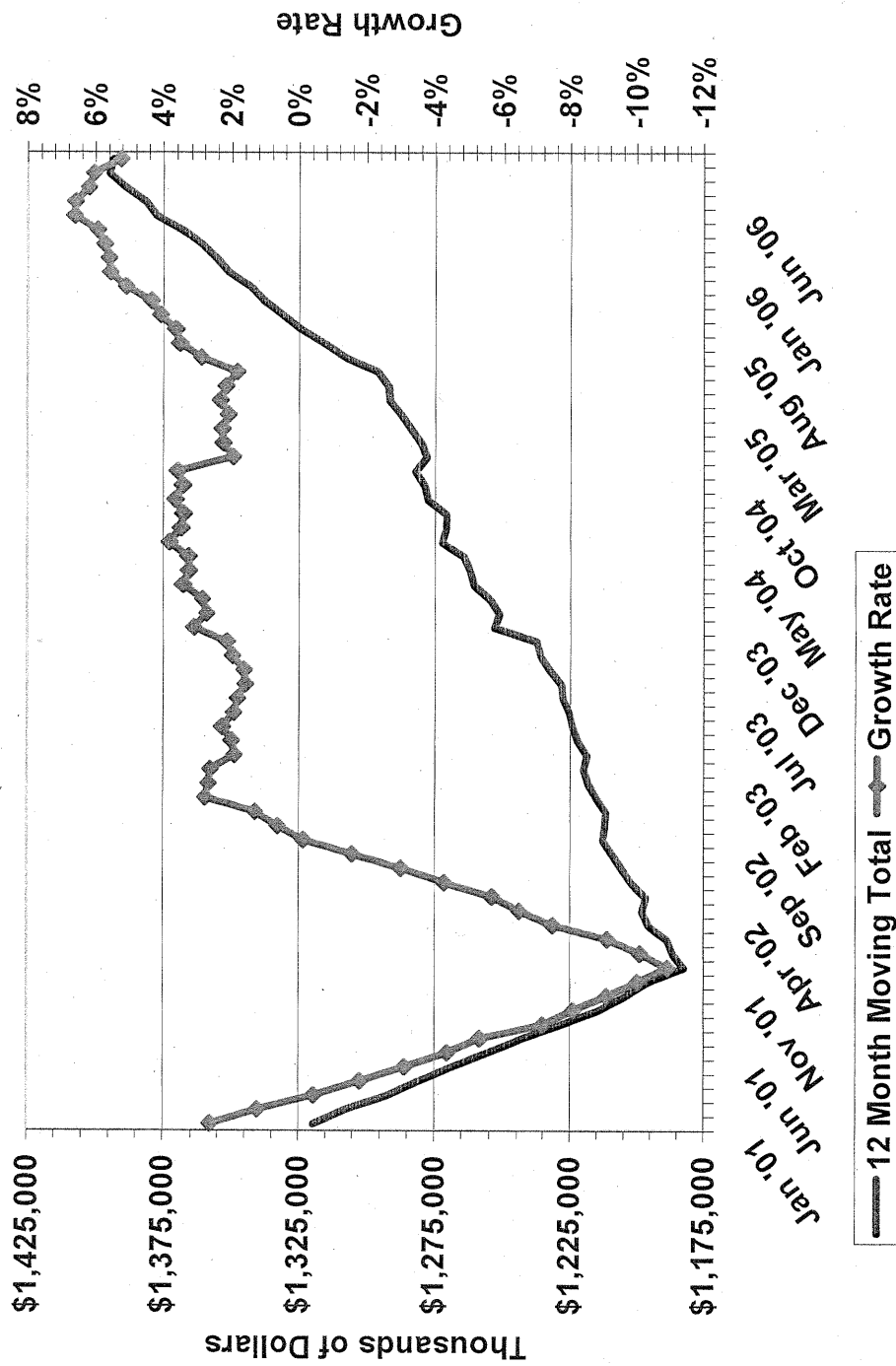


Quarter & Calendar Year

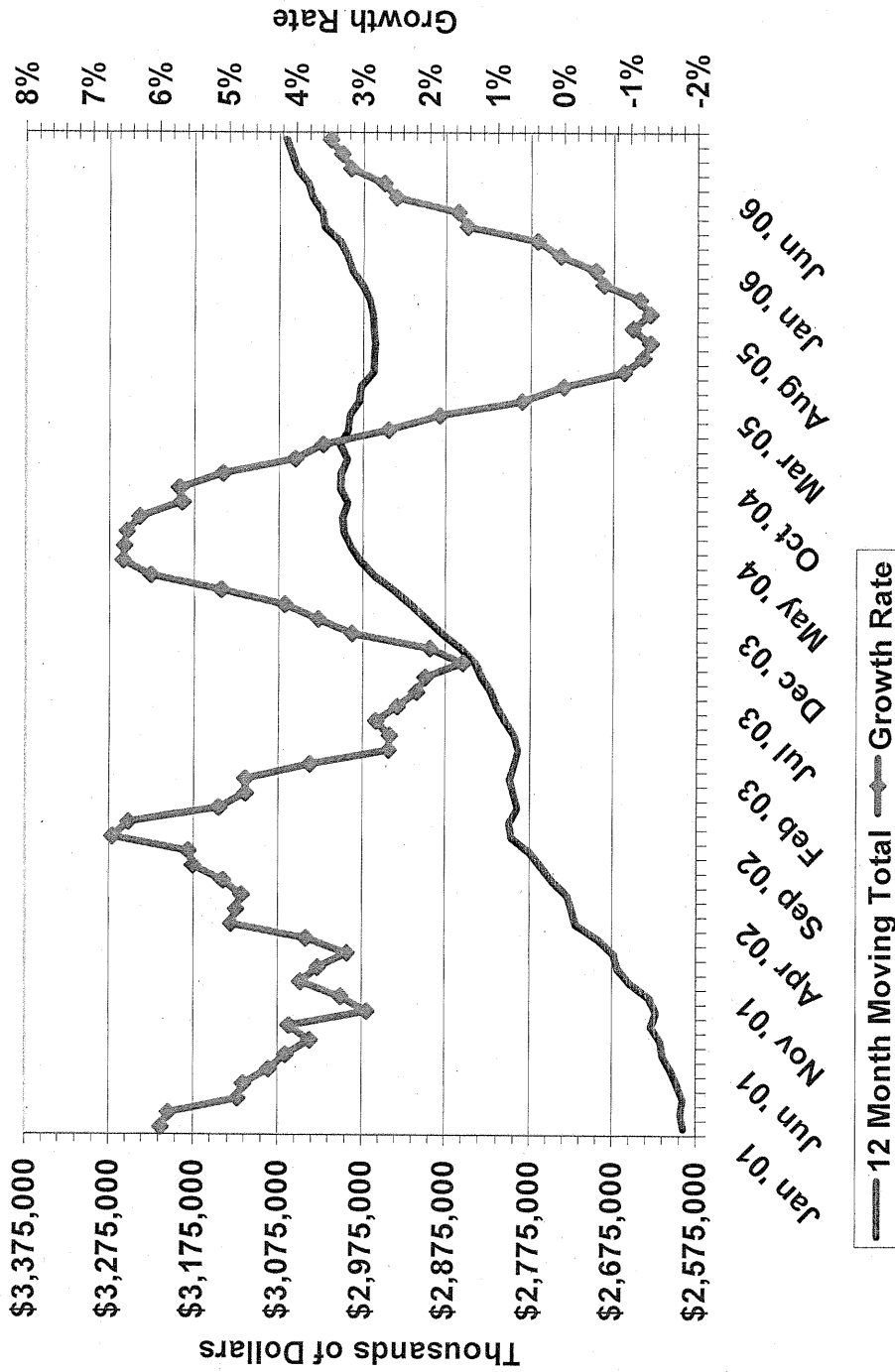
# Building Supply Taxable Sales January 2001 to Date



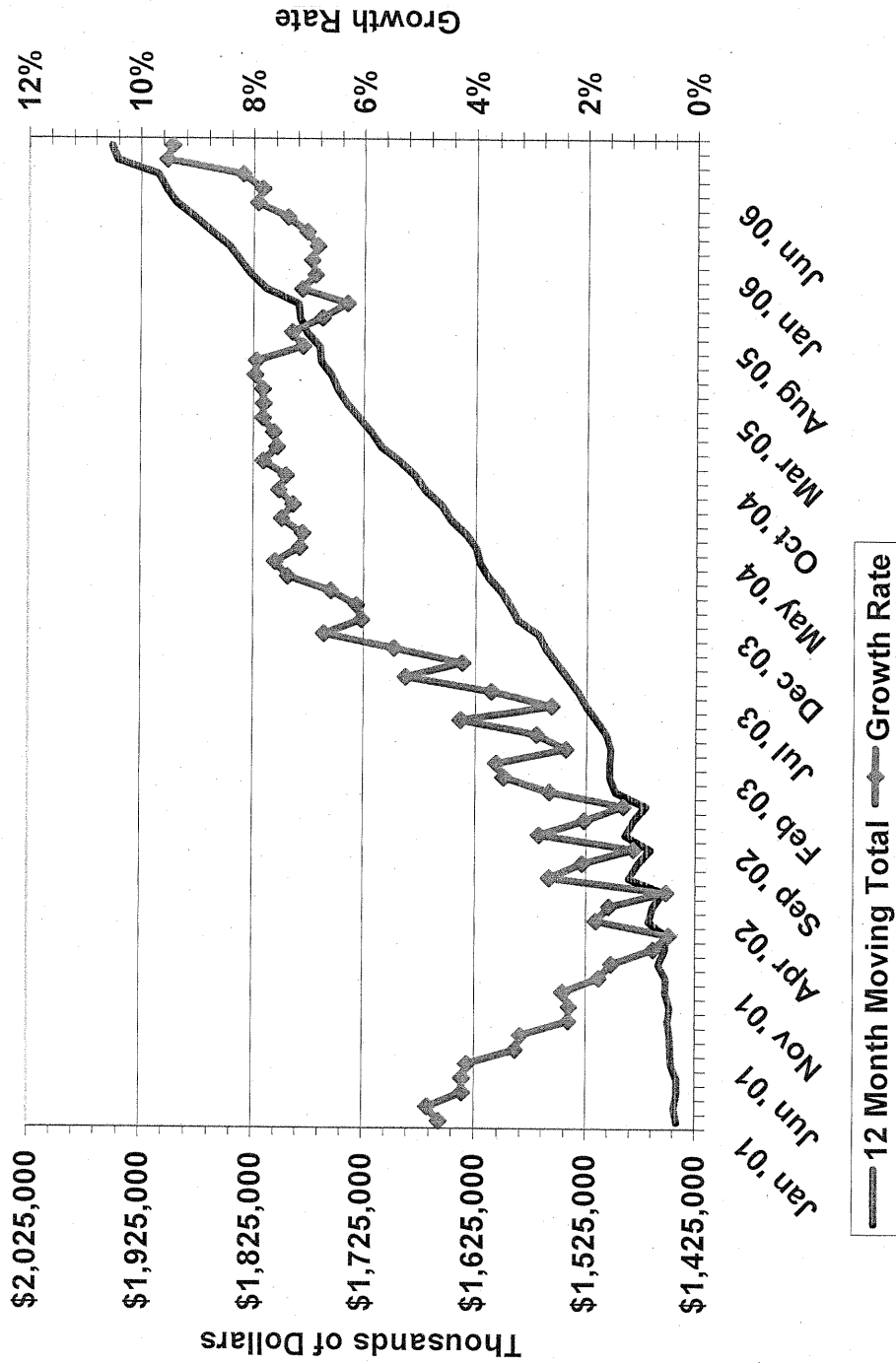
# Food Store Taxable Sales January 2001 to Date



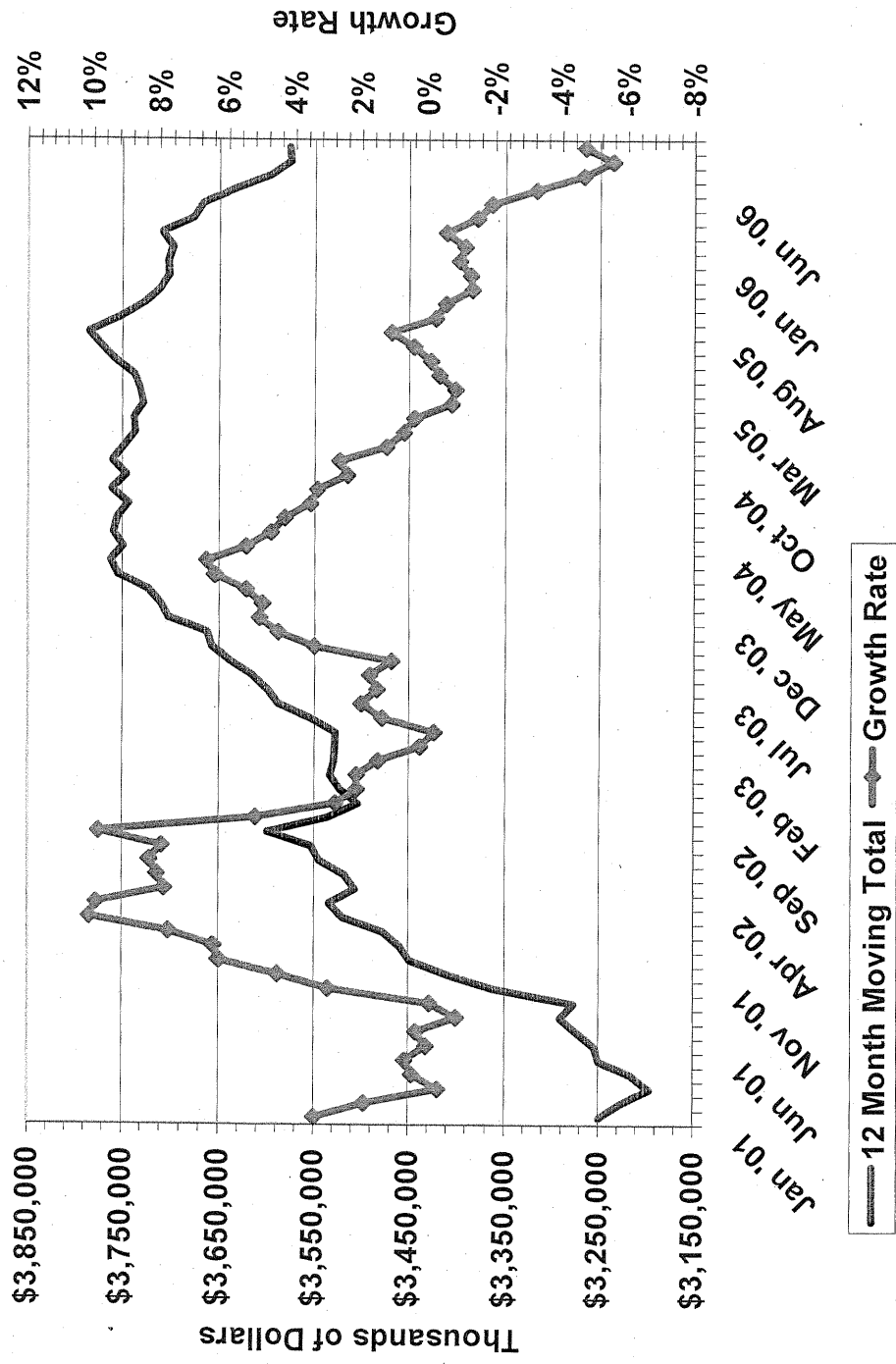
# General Merchandise Taxable Sales January 2001 to Date



# Other Retail Taxable Sales January 2001 to Date

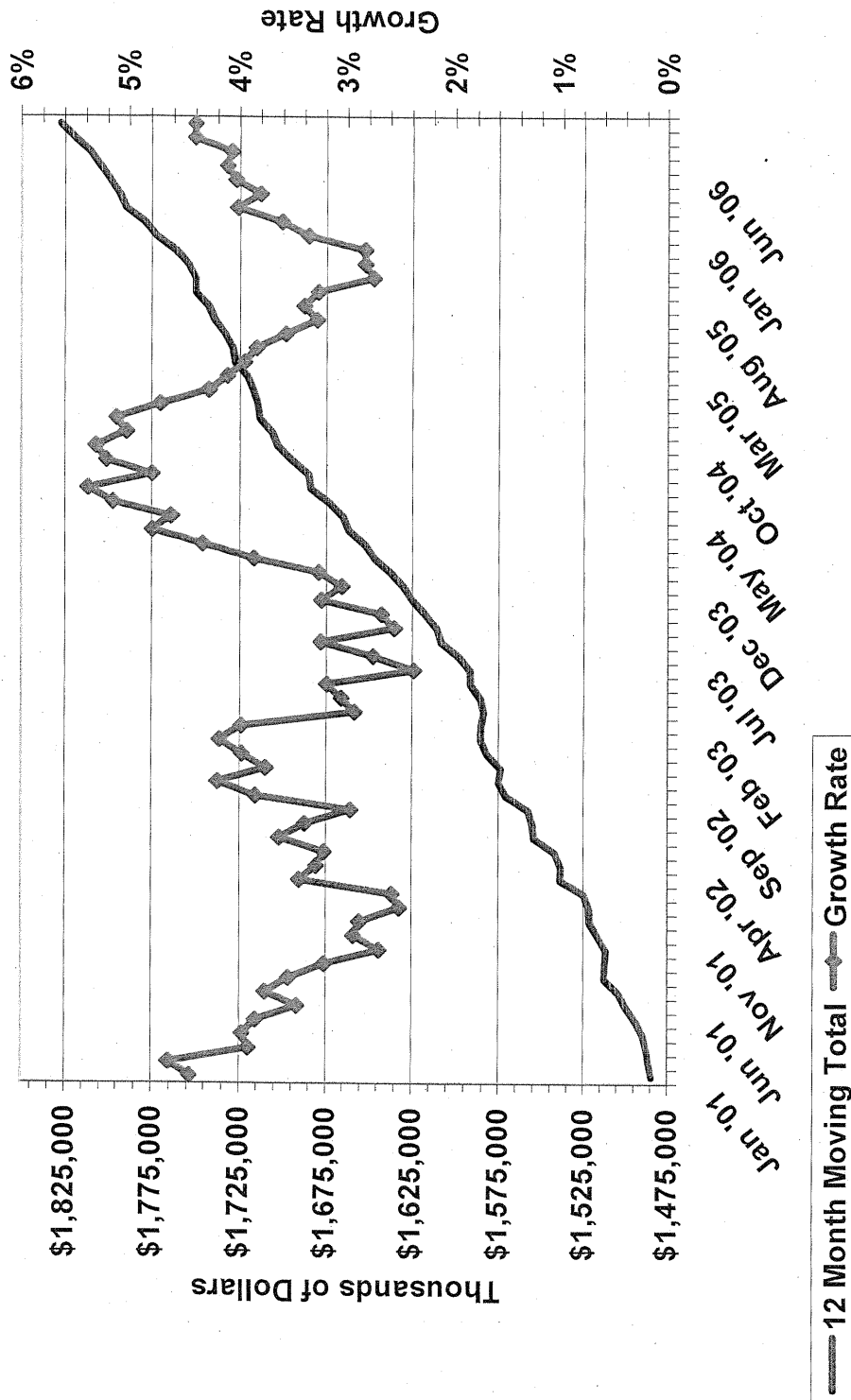


# Auto/Transportation Taxable Sales January 2001 to Date

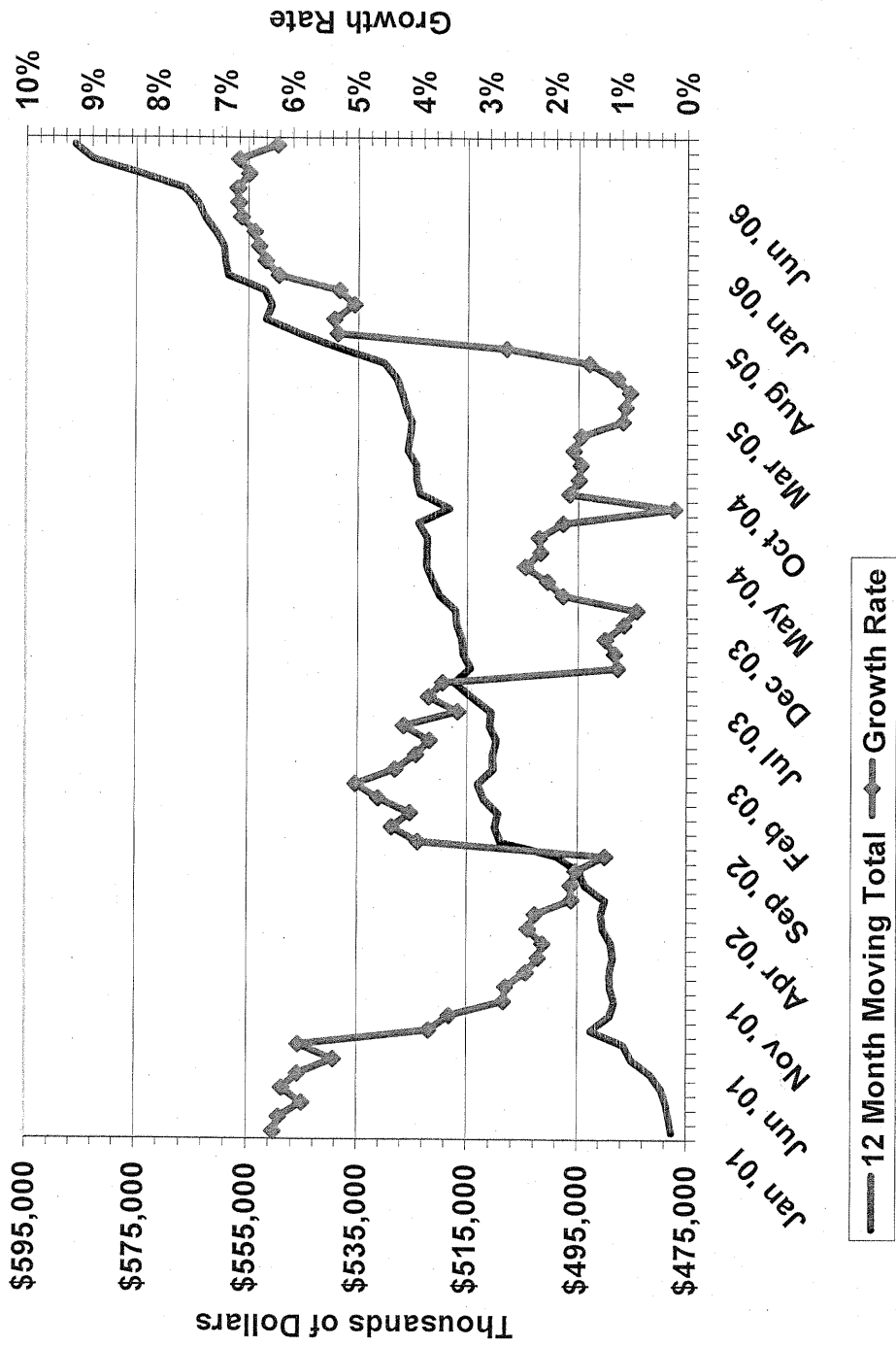




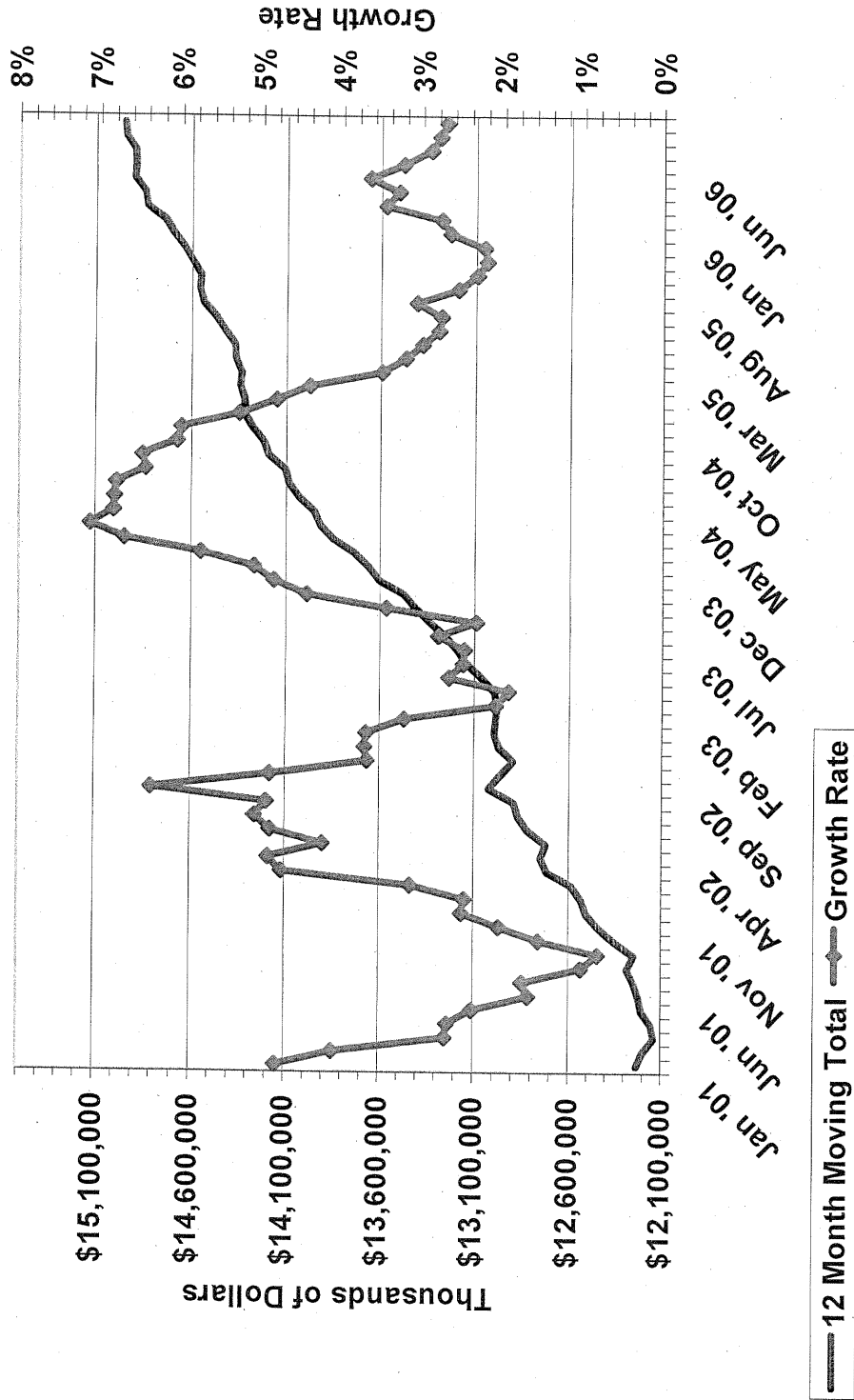
# Restaurant Taxable Sales January 2001 to Date



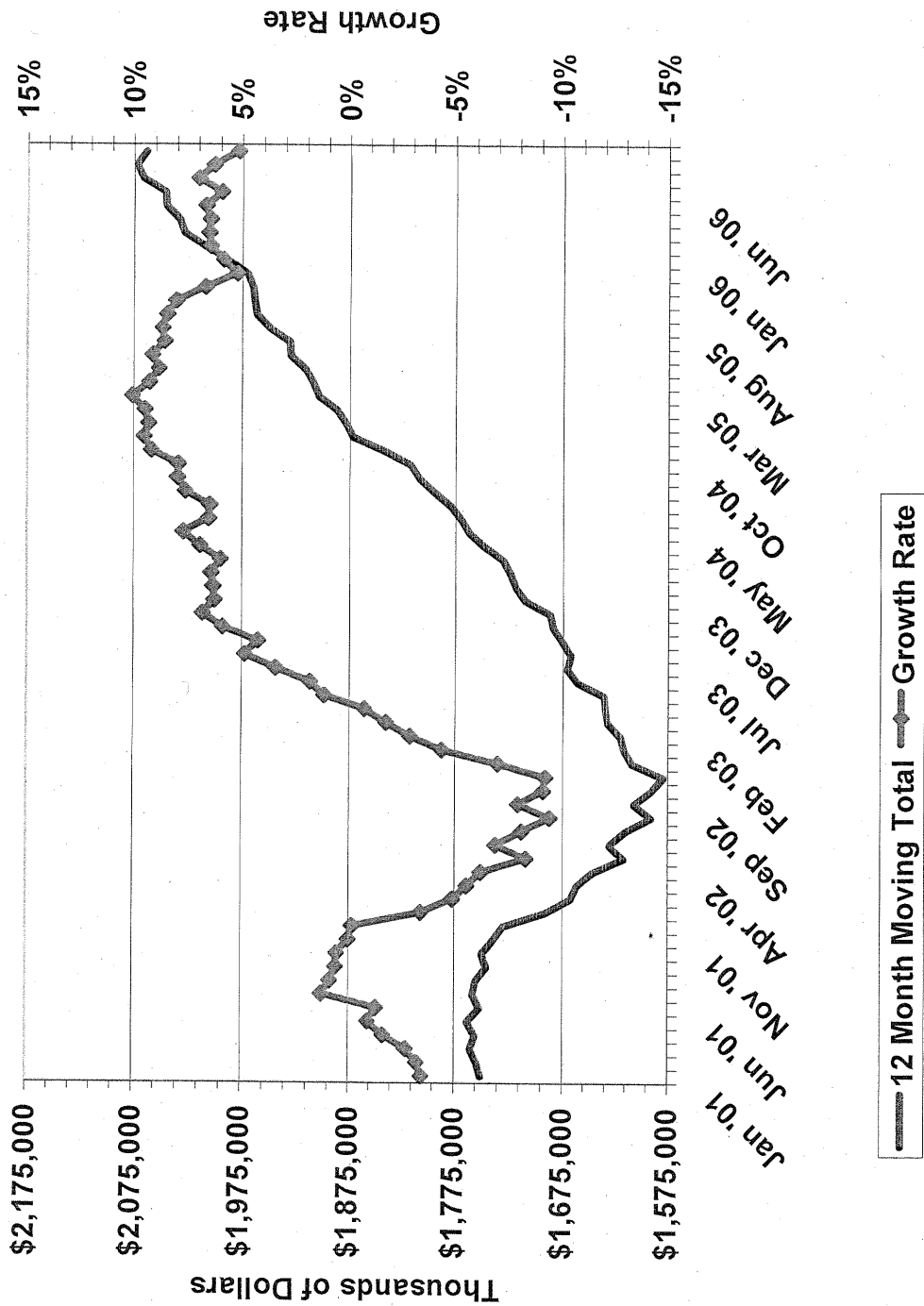
# Lodging Taxable Sales January 2001 to Date



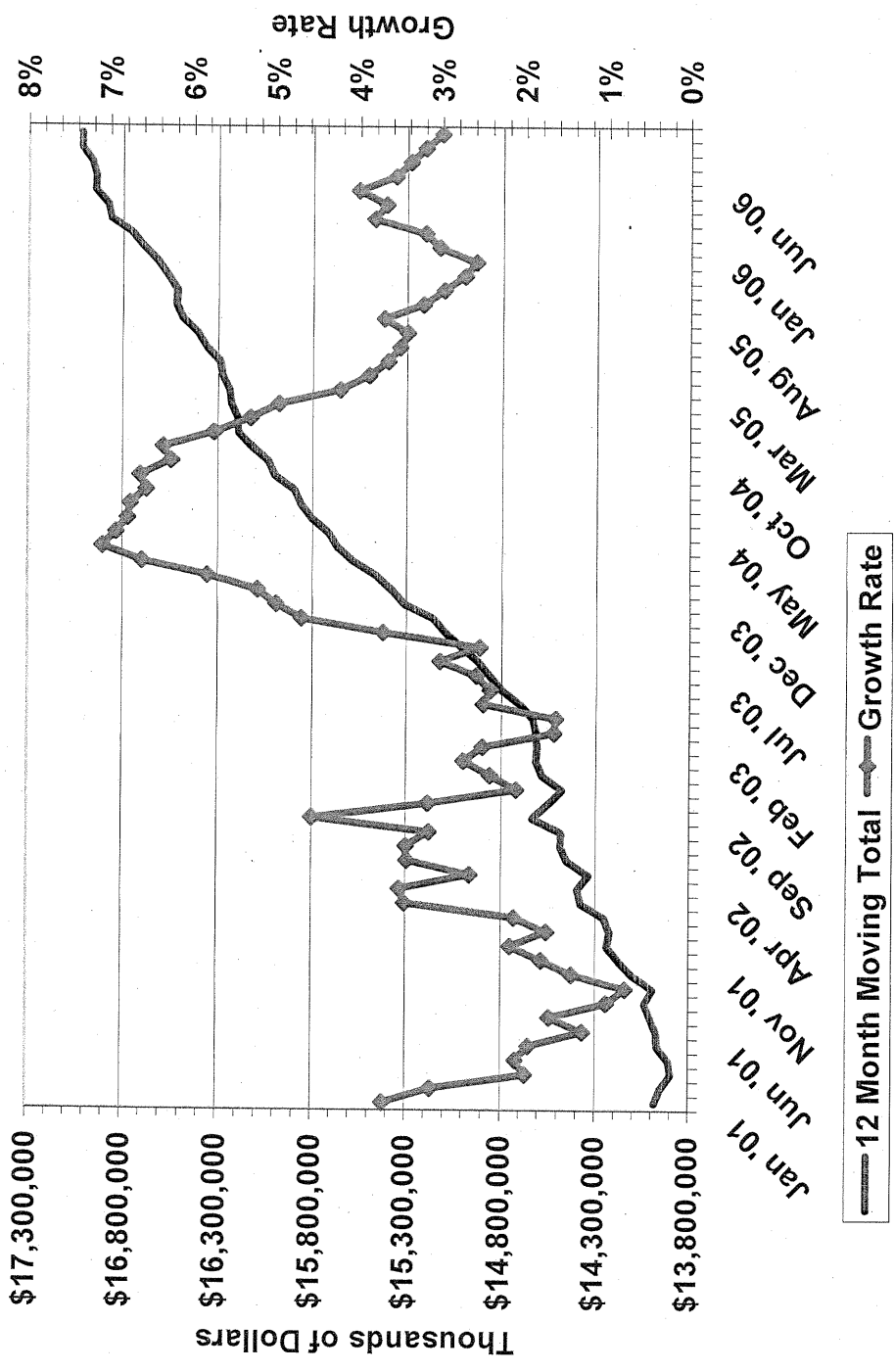
# Total Consumer Taxable Sales January 2001 to Date



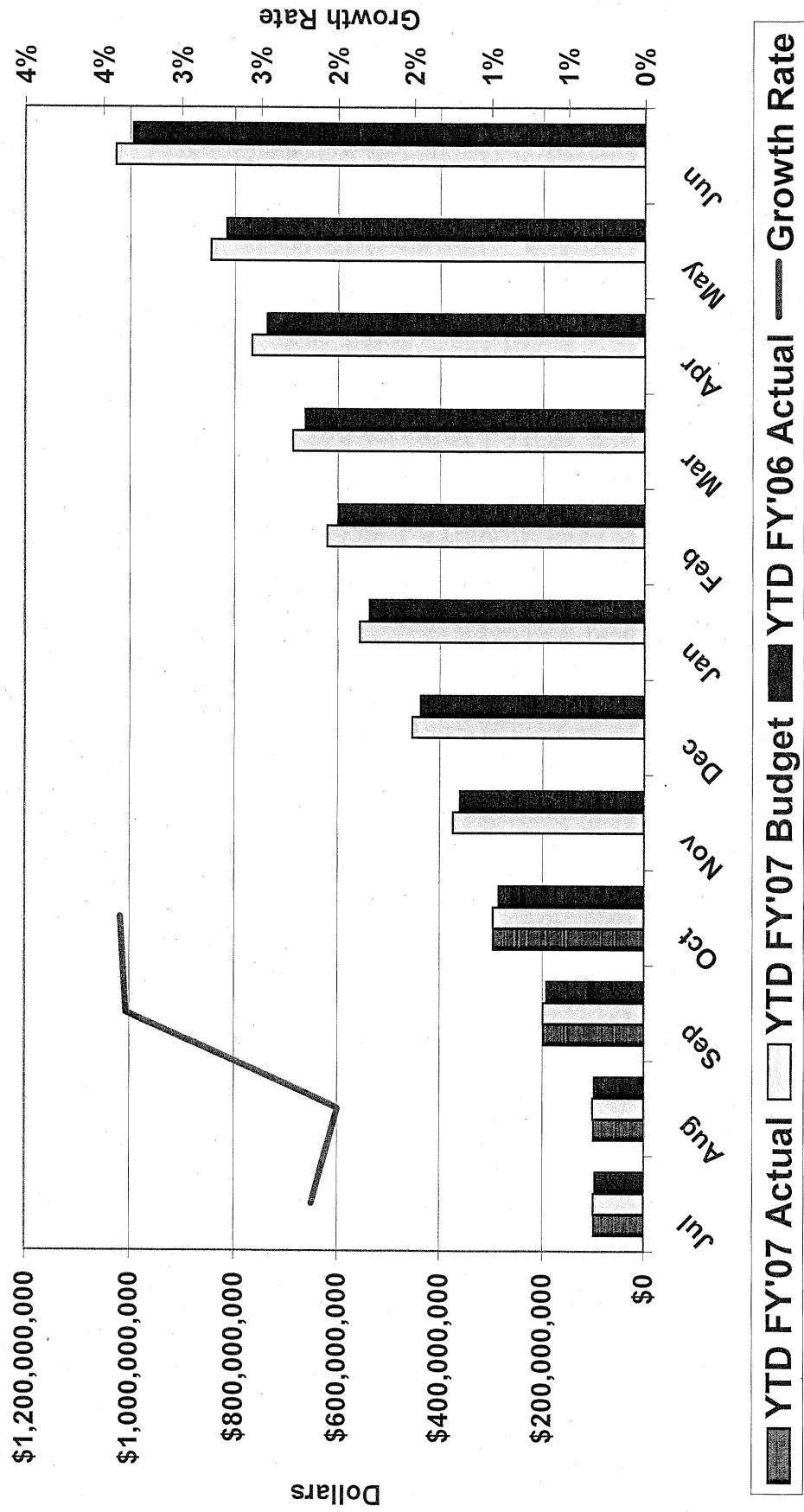
# Business Operating Taxable Sales January 2001 to Date



# Total Taxable Sales January 2001 to Date



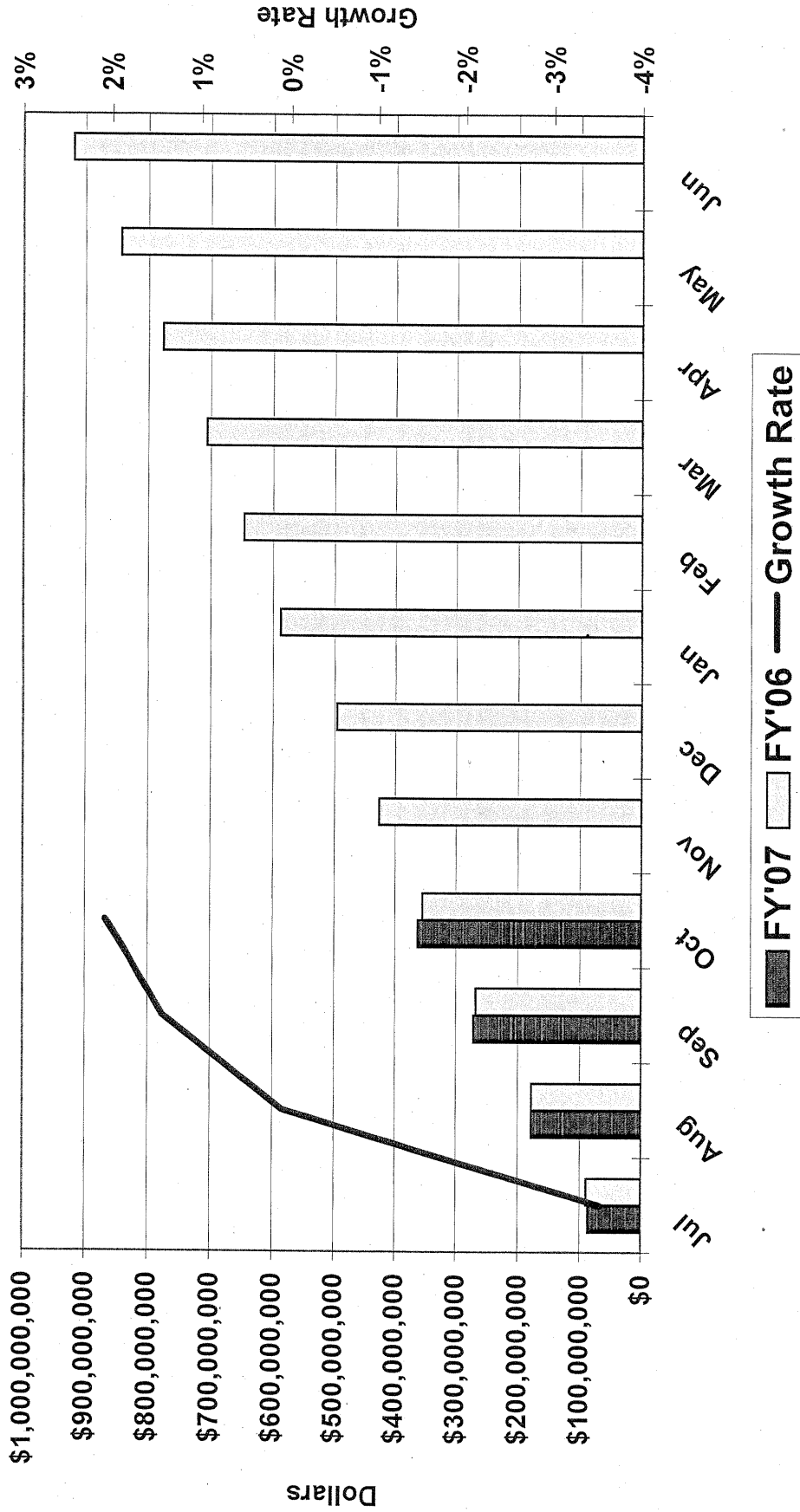
# Sales & Service Provider Tax Revenue FY'07 Actual, Budget & FY'06 Actual



Maine Revenue Services  
Sales & Use Tax and General Fund Service Provider Tax Revenue

| Month   | FY'07 Actual  | FY'07 Budget    | FY'06 Actual  | FY'05 Actual  | FY'07 Actual vs. Budget | FY'07 Budget vs. FY'06 Actual | FY'07 Actual vs. FY'06 Actual | FY'06 Actual vs. FY'05 Actual |
|---------|---------------|-----------------|---------------|---------------|-------------------------|-------------------------------|-------------------------------|-------------------------------|
| Jul     | \$97,636,332  | \$99,032,492    | \$95,563,538  | \$91,816,108  | -1.4%                   | 3.6%                          | 2.2%                          | 4.1%                          |
| Aug     | \$1,233,000   | \$1,419,423     | \$1,369,702   | \$1,718,008   | -13.1%                  | 3.6%                          | -10.0%                        | -20.3%                        |
| Sep     | \$99,371,172  | \$98,309,387    | \$94,871,741  | \$90,688,073  | 1.1%                    | 3.6%                          | 4.7%                          | 4.6%                          |
| Oct     | \$96,837,762  | \$96,986,992    | \$93,595,668  | \$90,398,099  | -0.2%                   | 3.6%                          | 3.5%                          | 3.5%                          |
| Nov     | \$0           | \$78,451,576    | \$75,709,519  | \$76,527,267  | -100.0%                 | 3.6%                          | -100.0%                       | -1.1%                         |
| Dec     | \$0           | \$78,988,094    | \$76,227,244  | \$72,527,980  | -100.0%                 | 3.6%                          | -100.0%                       | 5.1%                          |
| Jan     | \$0           | \$102,733,685   | \$99,141,063  | \$92,560,936  | -100.0%                 | 3.6%                          | -100.0%                       | 7.1%                          |
| Feb     | \$0           | \$64,784,875    | \$62,521,542  | \$53,292,504  | -100.0%                 | 3.6%                          | -100.0%                       | 17.3%                         |
| Mar     | \$0           | \$67,637,469    | \$65,274,214  | \$60,385,181  | -100.0%                 | 3.6%                          | -100.0%                       | 8.1%                          |
| Apr     | \$0           | \$79,116,451    | \$73,697,434  | \$71,238,466  | -100.0%                 | 7.4%                          | -100.0%                       | 3.5%                          |
| May     | \$0           | \$77,813,334    | \$77,747,307  | \$71,318,421  | -100.0%                 | 0.1%                          | -100.0%                       | 9.0%                          |
| Jun     | \$0           | \$181,780,170   | \$177,483,736 | \$168,750,795 | -100.0%                 | 2.4%                          | -100.0%                       | 5.2%                          |
| Total   | \$295,078,266 | \$1,027,053,948 | \$993,202,708 | \$941,221,838 | -71.3%                  | 3.4%                          | -70.3%                        | 5.5%                          |
| YTD Oct | \$295,078,266 | \$295,748,294   | \$285,400,649 | \$274,620,288 | -0.2%                   | 3.6%                          | 3.4%                          | 3.9%                          |

# Sales Tax Cash Receipts Year-to-Date FY'07 & FY'06





Maine Revenue Services  
Sales Tax Cash Receipts

|     | FY'07        | FY'06        | YTD FY'07     | YTD FY'06     | Growth Rate | YTD Growth Rate |
|-----|--------------|--------------|---------------|---------------|-------------|-----------------|
| Jul | \$86,034,835 | \$89,179,635 | \$86,034,835  | \$89,179,635  | -3.5%       | -3.5%           |
| Aug | \$91,832,520 | \$88,529,634 | \$177,867,355 | \$177,709,269 | 3.7%        | 0.1%            |
| Sep | \$93,495,551 | \$89,811,678 | \$271,362,906 | \$267,520,947 | 4.1%        | 1.4%            |
| Oct | \$90,134,771 | \$86,662,301 | \$361,497,677 | \$354,183,248 | 4.0%        | 2.1%            |
| Nov | \$0          | \$71,555,977 | \$361,497,677 | \$425,739,225 | -100.0%     | -15.1%          |
| Dec | \$0          | \$70,206,514 | \$361,497,677 | \$495,945,739 | -100.0%     | -27.1%          |
| Jan | \$0          | \$91,912,517 | \$361,497,677 | \$587,858,256 | -100.0%     | -38.5%          |
| Feb | \$0          | \$58,251,775 | \$361,497,677 | \$646,110,031 | -100.0%     | -44.1%          |
| Mar | \$0          | \$59,314,068 | \$361,497,677 | \$705,424,099 | -100.0%     | -48.8%          |
| Apr | \$0          | \$71,081,648 | \$361,497,677 | \$776,505,747 | -100.0%     | -53.4%          |
| May | \$0          | \$67,719,529 | \$361,497,677 | \$844,225,276 | -100.0%     | -57.2%          |
| Jun | \$0          | \$74,477,133 | \$361,497,677 | \$918,702,409 | -100.0%     | -60.7%          |

Global Insights - U.S. Economic Outlook

~~October~~ 2006

*Nov.*

| Fiscal Year | Motor Fuels | Driver Value |
|-------------|-------------|--------------|
| 2005        | 150.80      |              |
| 2006        | 171.10      | 0.135        |
| 2007        | 162.90      | 0.080        |
| 2008        | 162.00      | 0.074        |
| 2009        | 161.00      | 0.068        |
| 2010        | 160.70      | 0.066        |
| 2011        | 159.80      | 0.060        |

| Fiscal Year | Fuel Oil |        |
|-------------|----------|--------|
| 2005        | 159.50   |        |
| 2006        | 178.00   | 0.116  |
| 2007        | 165.70   | 0.039  |
| 2008        | 161.00   | 0.009  |
| 2009        | 160.20   | 0.004  |
| 2010        | 159.70   | 0.001  |
| 2011        | 158.60   | -0.006 |

| Fiscal Year | Natural Gas |       |
|-------------|-------------|-------|
| 2005        | 160.30      |       |
| 2006        | 162.90      | 0.016 |
| 2007        | 191.20      | 0.193 |
| 2008        | 201.50      | 0.257 |
| 2009        | 198.60      | 0.239 |
| 2010        | 191.40      | 0.194 |
| 2011        | 177.40      | 0.107 |

| Electricity |        |       |
|-------------|--------|-------|
| 2005        | 118.30 |       |
| 2006        | 132.50 | 0.120 |
| 2007        | 133.60 | 0.129 |
| 2008        | 134.40 | 0.136 |
| 2009        | 136.60 | 0.155 |
| 2010        | 139.00 | 0.175 |
| 2011        | 142.00 | 0.200 |

Target motor vehicle sales  
 Forecasted Maine sales x average price

Growth Rate

|       |       |
|-------|-------|
| FY'07 | -6.2% |
| FY'08 | 0.2%  |
| FY'09 | 5.0%  |
| FY'10 | 5.8%  |
| FY'11 | 6.0%  |

Sales & Use and Service Provider Taxes: Baseline Forecast FY07 - FY11

|                                            | FY04          | FY05          | Biennium        | FY06          | FY07            | Biennium        | FY08            | FY09            | Biennium        | FY10            | FY11            | Biennium        |
|--------------------------------------------|---------------|---------------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actuals & February, 2006 Forecast /1       | \$917,243,245 | \$941,221,839 | \$1,858,465,084 | \$993,202,707 | \$1,027,053,948 | \$2,020,256,655 | \$1,073,157,985 | \$1,120,315,634 | \$2,193,473,619 | \$0             | \$0             | \$0             |
| Growth Rate                                | 7.0%          | 2.6%          | 9.7%            | 5.5%          | 3.4%            | 8.7%            | 4.5%            | 4.4%            | 8.6%            |                 |                 |                 |
| Technical Adjustments to Prior Forecast /2 | \$0           | \$0           | \$0             | \$0           | \$16,802,097    | \$16,802,097    | \$17,556,336    | \$18,327,812    | \$35,884,149    | \$0             | \$0             | \$0             |
| Economic Assumptions /3                    | \$0           | \$0           | \$0             | \$0           | (\$20,203,913)  | (\$20,203,913)  | (\$34,463,487)  | (\$38,776,156)  | (\$73,239,644)  | \$1,142,989,206 | \$1,189,994,541 | \$2,332,983,747 |
| Total Adjustments to Prior Forecast        | \$0           | \$0           | \$0             | \$0           | (\$3,401,816)   | (\$3,401,816)   | (\$16,907,151)  | (\$20,448,344)  | (\$37,355,495)  | \$1,142,989,206 | \$1,189,994,541 | \$2,332,983,747 |
| New Forecast                               | \$917,243,245 | \$941,221,839 | \$1,858,465,084 | \$993,202,707 | \$1,023,652,132 | \$2,016,854,839 | \$1,056,250,834 | \$1,099,867,290 | \$2,156,118,124 | \$1,142,989,206 | \$1,189,994,541 | \$2,332,983,747 |
| Growth Rate                                | 7.0%          | 2.6%          | 9.7%            | 5.5%          | 3.1%            | 8.5%            | 3.2%            | 4.1%            | 6.9%            | 3.9%            | 4.1%            | 8.2%            |

1/ February, 2006 forecast with FY04, FY05 and FY06 actuals.

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

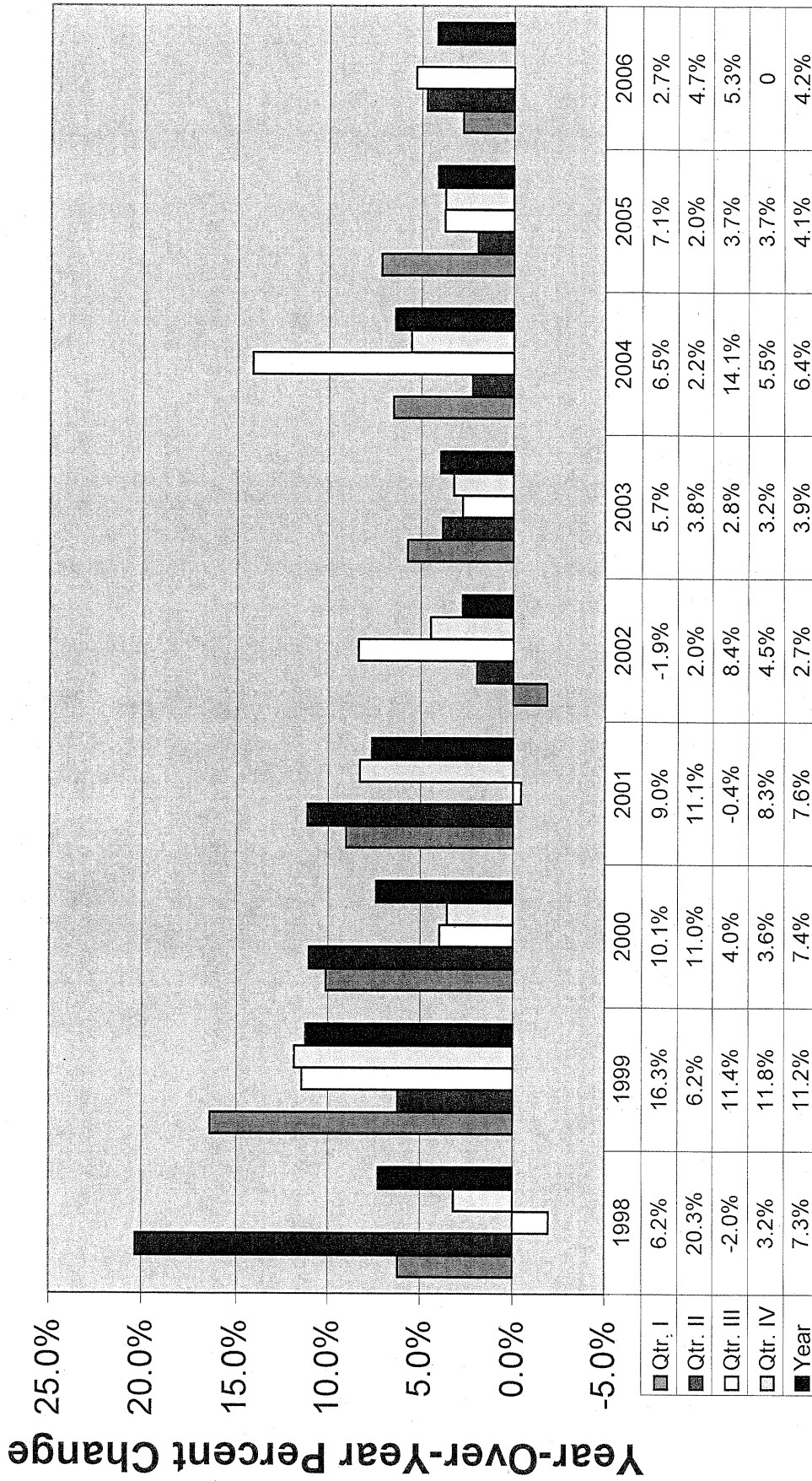
3/ This line shows the incremental change in baseline revenues as a result of the new economic forecast released by the Consensus Economic Forecasting Committee. In addition, Global Insight's November 2006 forecast is used to estimate the impact of energy prices on sales tax receipts and to target automobile sales growth.





# **Individual Income Tax**

# Individual Income Tax Withholding



Quarter & Calendar Year

|                                              | 2000 Preliminary /1 | 2000 Final /1    | Change      |
|----------------------------------------------|---------------------|------------------|-------------|
|                                              | Returns Dollars     | Returns Dollars  | Change 2000 |
| Wages & Salaries                             | 496,472             | \$15,907,656,047 | 4.77%       |
| Taxable Interest                             | 341,325             | \$657,989,051    | 12.56%      |
| Dividends                                    | 142,394             | \$21,799,796     | 15.72%      |
| Taxable Pensions                             | 96,851              | \$1,357,848,444  | 4.42%       |
| Net Capital Gains                            | 125,629             | \$1,860,469,406  | 26.57%      |
| Rent, Royalties, Partnerships, S Corps, etc. | 59,034              | \$753,153,852    | 30.66%      |
| Unemployment Compensation                    | 30,845              | \$70,296,839     | 3.87%       |
| Federal Adjusted Gross Income                | 578,720             | \$22,594,617,841 | 8.33%       |
| Alternative Minimum Tax                      | 4,999               | \$33,557,749     | 27.96%      |

|                                              | 2001 Preliminary /1 | 2001 Final /1    | Change      |
|----------------------------------------------|---------------------|------------------|-------------|
|                                              | Returns Dollars     | Returns Dollars  | Change 2000 |
| Wages & Salaries                             | 503,458             | \$16,696,110,165 | 4.96%       |
| Taxable Interest                             | 341,433             | \$657,640,734    | -0.05%      |
| Dividends                                    | 136,034             | \$445,592,772    | -14.60%     |
| Taxable Pensions                             | 99,415              | \$1,401,544,480  | 3.22%       |
| Net Capital Gains                            | 106,145             | \$892,170,609    | -52.05%     |
| Rent, Royalties, Partnerships, S Corps, etc. | 60,218              | \$988,083,224    | 6.95%       |
| Unemployment Compensation                    | 37,711              | \$66,257,157     | 22.70%      |
| Federal Adjusted Gross Income                | 585,280             | \$22,493,034,329 | -0.45%      |
| Alternative Minimum Tax                      | 4,633               | \$23,596,077     | -10.03%     |

|                                              | 2002 Preliminary /1 | 2002 Final /1    | Change      |
|----------------------------------------------|---------------------|------------------|-------------|
|                                              | Returns Dollars     | Returns Dollars  | Change 2001 |
| Wages & Salaries                             | 498,708             | \$16,901,491,633 | 1.23%       |
| Taxable Interest                             | 322,828             | \$485,853,025    | -26.12%     |
| Dividends                                    | 137,228             | \$388,877,070    | -12.77%     |
| Taxable Pensions                             | 100,578             | \$1,451,956,220  | 3.60%       |
| Net Capital Gains                            | 102,278             | \$737,665,287    | -17.32%     |
| Rent, Royalties, Partnerships, S Corps, etc. | 60,603              | \$935,616,605    | 3.74%       |
| Unemployment Compensation                    | 42,593              | \$145,439,444    | 68.61%      |
| Federal Adjusted Gross Income                | 580,796             | \$22,246,559,220 | -1.10%      |
| Alternative Minimum Tax                      | 7,222               | \$23,088,615     | -2.15%      |

|                                              | 2003 Preliminary /1 | 2003 Final /1    | Change      |
|----------------------------------------------|---------------------|------------------|-------------|
|                                              | Returns Dollars     | Returns Dollars  | Change 2002 |
| Wages & Salaries                             | \$17,452,582,279    | \$18,185,614,176 | 3.26%       |
| Taxable Interest                             | \$409,067,783       | \$458,319,801    | 12.04%      |
| Dividends                                    | \$408,182,555       | \$461,404,915    | 13.04%      |
| Taxable Pensions                             | \$1,513,312,936     | \$1,570,062,035  | 3.75%       |
| Net Capital Gains                            | \$810,743,847       | \$1,066,720,335  | 31.57%      |
| Rent, Royalties, Partnerships, S Corps, etc. | \$832,084,682       | \$1,128,959,905  | 35.66%      |
| Unemployment Compensation                    | \$156,046,911       | \$161,917,274    | 3.76%       |
| Federal Adjusted Gross Income                | \$23,037,272,340    | \$24,625,619,877 | 6.89%       |
| Alternative Minimum Tax                      | \$29,402,344        | \$35,687,899     | 21.04%      |

|                                              | 2004 Preliminary /1 | 2004 Final /1    | Change      |
|----------------------------------------------|---------------------|------------------|-------------|
|                                              | Returns Dollars     | Returns Dollars  | Change 2003 |
| Wages & Salaries                             | \$18,022,106,736    | \$18,961,101,709 | 5.21%       |
| Taxable Interest                             | \$371,650,478       | \$432,854,086    | 16.47%      |
| Dividends                                    | \$481,814,374       | \$562,160,683    | 16.66%      |
| Taxable Pensions                             | \$1,589,872,871     | \$1,665,060,945  | 4.73%       |
| Net Capital Gains                            | \$1,115,911,619     | \$1,511,573,356  | 35.46%      |
| Rent, Royalties, Partnerships, S Corps, etc. | \$803,190,139       | \$1,191,355,551  | 33.38%      |
| Unemployment Compensation                    | \$121,298,411       | \$126,705,612    | 4.46%       |
| Federal Adjusted Gross Income                | \$24,106,998,081    | \$26,139,470,931 | 8.43%       |
| Alternative Minimum Tax                      | \$37,343,931        | \$46,721,188     | 25.11%      |

|                                              | 2005 Preliminary /1 | 2005 Final /2    | Change      |
|----------------------------------------------|---------------------|------------------|-------------|
|                                              | Returns Dollars     | Returns Dollars  | Change 2004 |
| Wages & Salaries                             | \$18,558,232,627    | \$19,379,172,667 | 4.42%       |
| Taxable Interest                             | \$453,514,246       | \$511,249,320    | 12.73%      |
| Dividends                                    | \$532,576,555       | \$606,928,155    | 13.96%      |
| Taxable Pensions                             | \$1,708,629,440     | \$1,777,585,769  | 4.04%       |
| Net Capital Gains                            | \$1,233,542,271     | \$1,646,960,322  | 33.51%      |
| Rent, Royalties, Partnerships, S Corps, etc. | \$1,039,888,483     | \$1,398,972,667  | 34.63%      |
| Unemployment Compensation                    | \$108,505,424       | \$112,847,858    | 4.00%       |
| Federal Adjusted Gross Income                | \$25,619,938,411    | \$27,446,826,761 | 7.13%       |
| Alternative Minimum Tax                      | \$51,102,283        | \$63,517,976     | 24.30%      |

1/ IMF & IRTF data for returns with Maine address.

2/ Estimated



**Capital Gains and Losses Reported on Maine Individual Income Tax Returns, Tax Year 2004 /1**

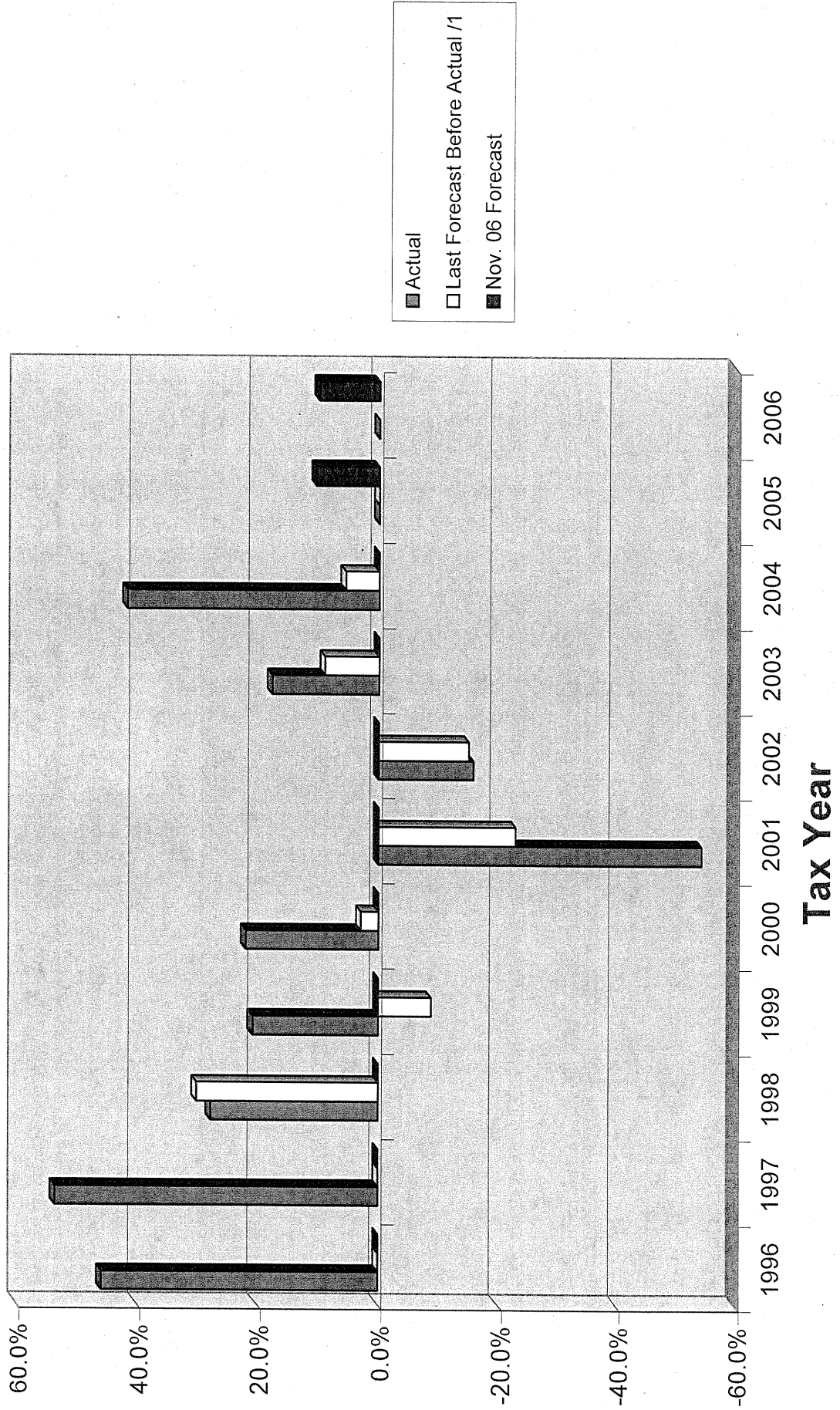
| Federal<br>Adjusted Gross Income | Returns with Net Capital Gains<br>(Millions of Dollars) |                  | Returns with Net Capital Losses<br>(Millions of Dollars) |                   | Returns with Capital Gains/Losses<br>(Millions of Dollars) |                      |
|----------------------------------|---------------------------------------------------------|------------------|----------------------------------------------------------|-------------------|------------------------------------------------------------|----------------------|
|                                  | Thousands<br>Returns                                    | Gains<br>Revenue | Thousands<br>Returns                                     | Losses<br>Revenue | Thousands<br>Returns                                       | Net Gains<br>Revenue |
| Less than or Equal to \$0        | 721                                                     | \$16.8           | 2,543                                                    | (\$6.4)           | 3,264                                                      | \$10.4               |
| \$0 <=                           | 5,866                                                   | \$11.1           | 5,068                                                    | (\$9.8)           | 10,934                                                     | \$1.3                |
| \$10,000 <=                      | 7,347                                                   | \$22.7           | 4,818                                                    | (\$9.4)           | 12,165                                                     | \$13.3               |
| \$20,000 <=                      | 6,643                                                   | \$27.9           | 4,053                                                    | (\$8.4)           | 10,696                                                     | \$19.5               |
| \$30,000 <=                      | 12,335                                                  | \$64.5           | 7,306                                                    | (\$14.2)          | 19,641                                                     | \$50.3               |
| \$50,000 <=                      | 13,192                                                  | \$99.3           | 7,489                                                    | (\$14.5)          | 20,681                                                     | \$84.8               |
| \$75,000 <=                      | 8,868                                                   | \$104.7          | 4,645                                                    | (\$9.8)           | 13,513                                                     | \$94.9               |
| \$100,000 <=                     | 10,466                                                  | \$285.5          | 5,593                                                    | (\$11.2)          | 16,059                                                     | \$274.3              |
| <u>Greater than \$200,000</u>    | <u>4,820</u>                                            | <u>\$984.5</u>   | <u>2,461</u>                                             | <u>(\$6.4)</u>    | <u>7,281</u>                                               | <u>\$978.1</u>       |
|                                  | 70,258                                                  | \$1,617.0        | 43,976                                                   | (\$90.1)          | 114,234                                                    | \$1,526.9            |

Total Resident Tax Returns filed in Tax Year 2004 = 584,922  
 Total Resident Tax Liability in Tax Year = \$1,146.0 Million

1/ Based on Maine Revenue Services' Individual Income Tax Model. Data is from tax returns filed with the Internal Revenue Service and Maine Revenue Services.

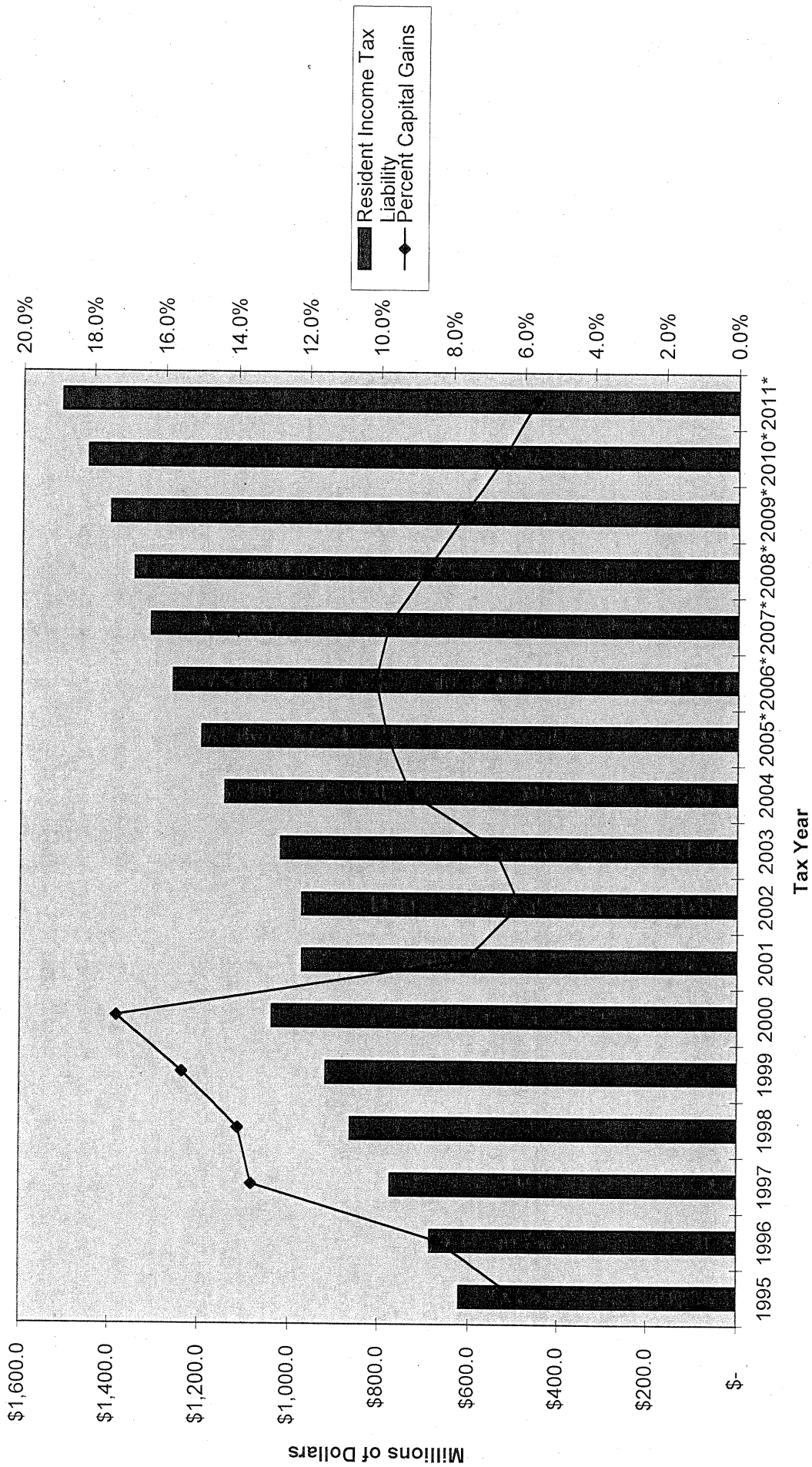
| Resident<br>Net Gains<br>(\$ Millions) | % Change |
|----------------------------------------|----------|
| 1995                                   |          |
| 1996                                   | 45.0%    |
| 1997                                   | 52.4%    |
| 1998                                   | 27.3%    |
| 1999                                   | 20.4%    |
| 2000                                   | 26.4%    |
| 2001                                   | -54.3%   |
| 2002                                   | -15.8%   |
| 2003                                   | 17.7%    |
| 2004                                   | 42.7%    |

# Percentage Change in Capital Gains Realizations by Maine Residents



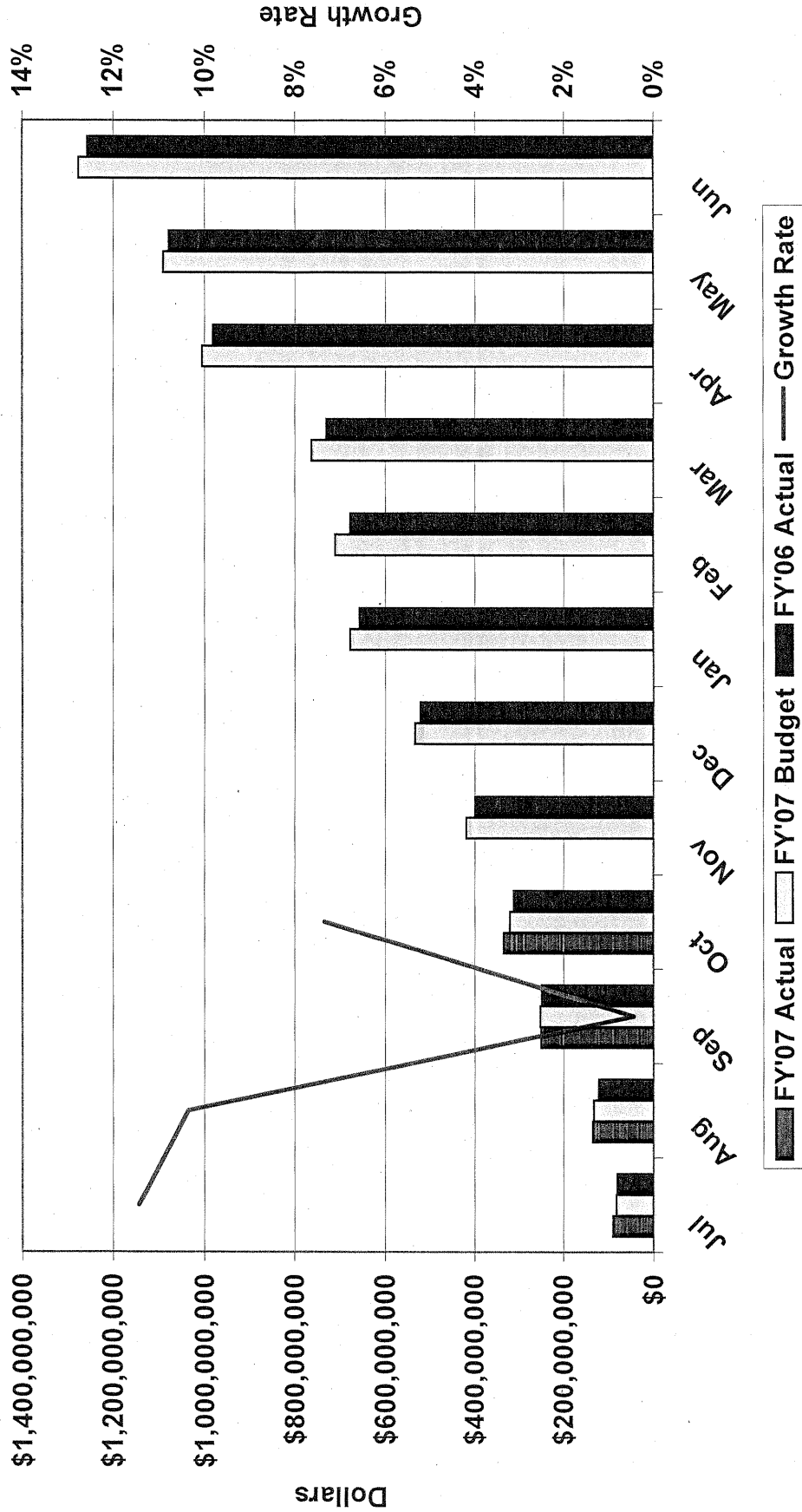
1/ Represents last forecast prior to receipt of tax year return.

### Percentage of Resident Liability Attributable to Net Capital Gains



\* Signifies a forecasted value.

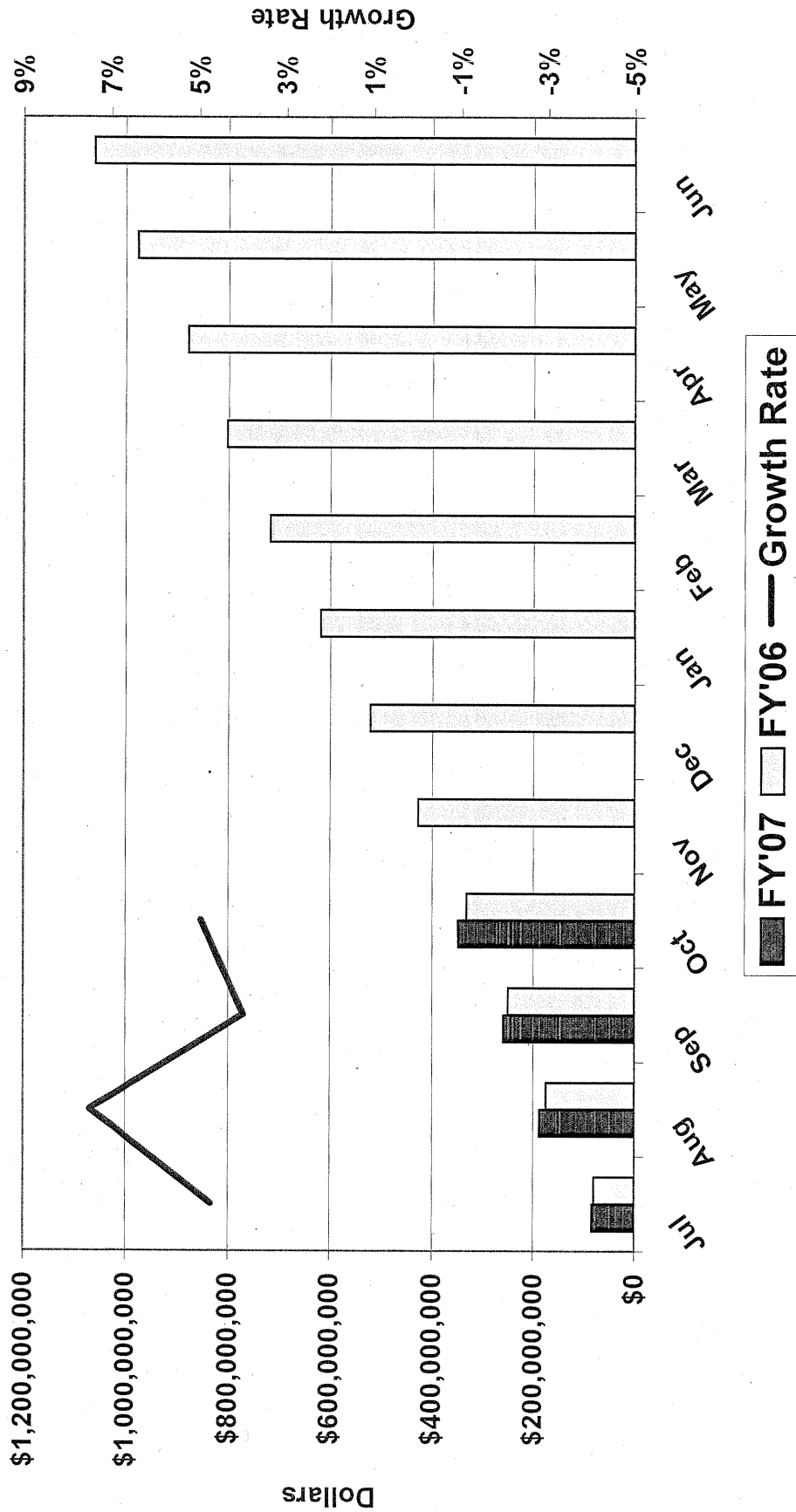
# YTD Individual Income Tax Revenue FY'07 Actual, Budget & FY'06 Actual



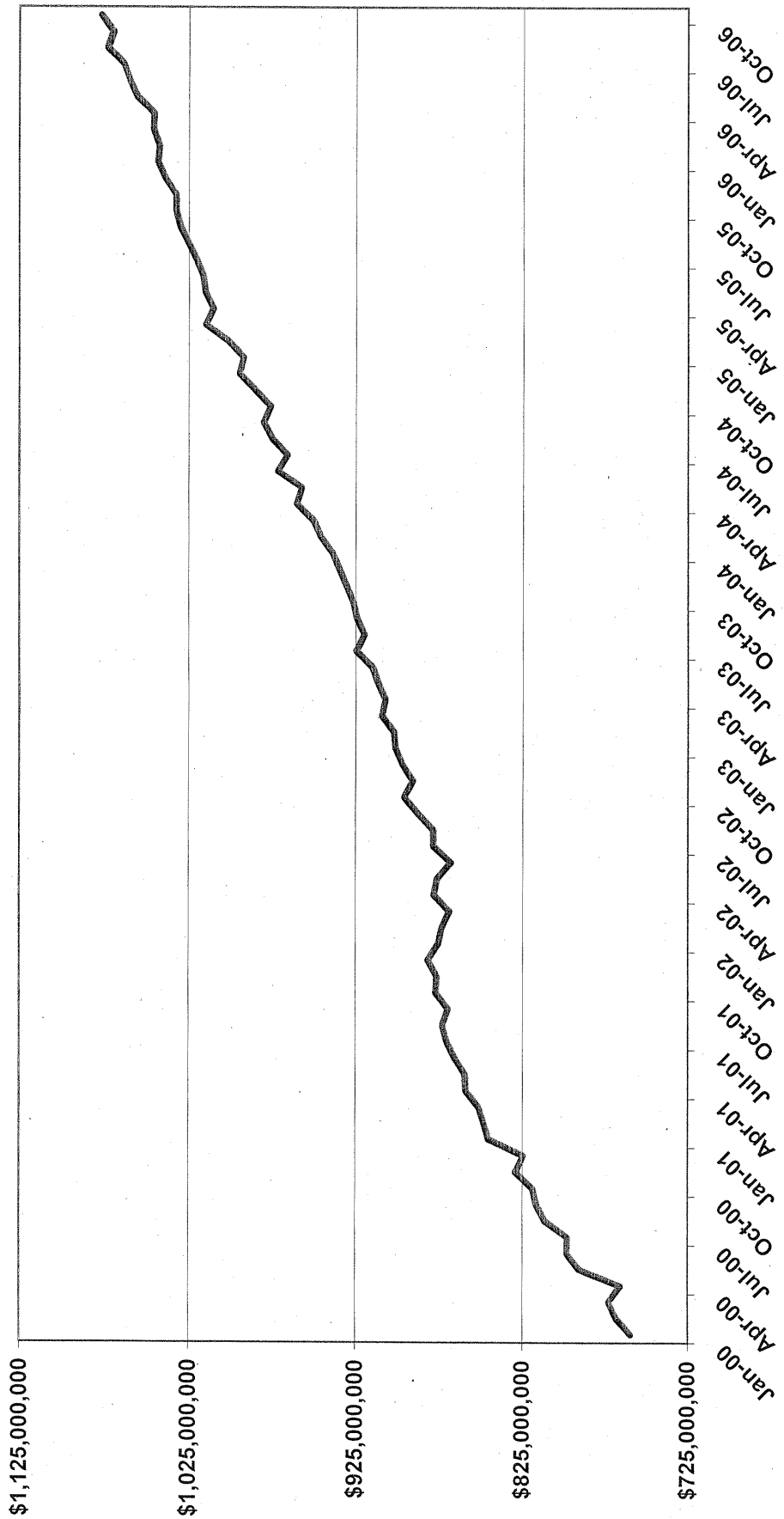
Maine Revenue Services  
Individual Income Tax Revenue

|         | FY'07 Actual  | FY'07 Budget    | FY'06 Actual    | FY'05 Actual    | FY'07 Actual vs. Budget | FY'07 Budget vs. FY'06 Actual | FY'07 Actual vs. FY'06 Actual | FY'06 Actual vs. FY'05 Actual |
|---------|---------------|-----------------|-----------------|-----------------|-------------------------|-------------------------------|-------------------------------|-------------------------------|
| Jul     | \$90,829,254  | \$83,010,715    | \$81,512,002    | \$79,007,870    | 9.4%                    | 1.8%                          | 11.4%                         | 3.2%                          |
| Aug     | \$44,386,435  | \$49,992,318    | \$41,008,817    | \$46,368,424    | -11.2%                  | 21.9%                         | 8.2%                          | -11.6%                        |
| Sep     | \$114,238,155 | \$118,365,151   | \$125,826,676   | \$116,291,674   | -3.5%                   | -5.9%                         | -9.2%                         | 8.2%                          |
| Oct     | \$84,923,088  | \$68,392,041    | \$63,159,155    | \$83,726,670    | 24.2%                   | 8.3%                          | 34.5%                         | -24.6%                        |
| Nov     | \$0           | \$99,060,439    | \$88,172,229    | \$99,127,735    | -100.0%                 | 12.3%                         | -100.0%                       | -11.1%                        |
| Dec     | \$0           | \$115,584,050   | \$123,612,742   | \$119,454,517   | -100.0%                 | -6.5%                         | -100.0%                       | 3.5%                          |
| Jan     | \$0           | \$142,268,912   | \$131,958,647   | \$148,098,576   | -100.0%                 | 7.8%                          | -100.0%                       | -10.9%                        |
| Feb     | \$0           | \$33,248,143    | \$21,631,009    | \$42,476,859    | -100.0%                 | 53.7%                         | -100.0%                       | -49.1%                        |
| Mar     | \$0           | \$52,208,436    | \$53,241,988    | \$41,279,330    | -100.0%                 | -1.9%                         | -100.0%                       | 29.0%                         |
| Apr     | \$0           | \$243,498,289   | \$251,414,316   | \$242,229,663   | -100.0%                 | -3.1%                         | -100.0%                       | 3.8%                          |
| May     | \$0           | \$85,328,289    | \$97,373,930    | \$79,599,103    | -100.0%                 | -12.4%                        | -100.0%                       | 22.3%                         |
| Jun     | \$0           | \$183,572,905   | \$175,595,152   | \$172,564,907   | -100.0%                 | 4.5%                          | -100.0%                       | 1.8%                          |
| Total   | \$334,376,932 | \$1,274,529,688 | \$1,254,506,663 | \$1,270,225,328 | -73.8%                  | 1.6%                          | -73.3%                        | -1.2%                         |
| YTD Oct | \$334,376,932 | \$319,760,225   | \$311,506,650   | \$325,394,638   | 4.6%                    | 2.6%                          | 7.3%                          | -4.3%                         |

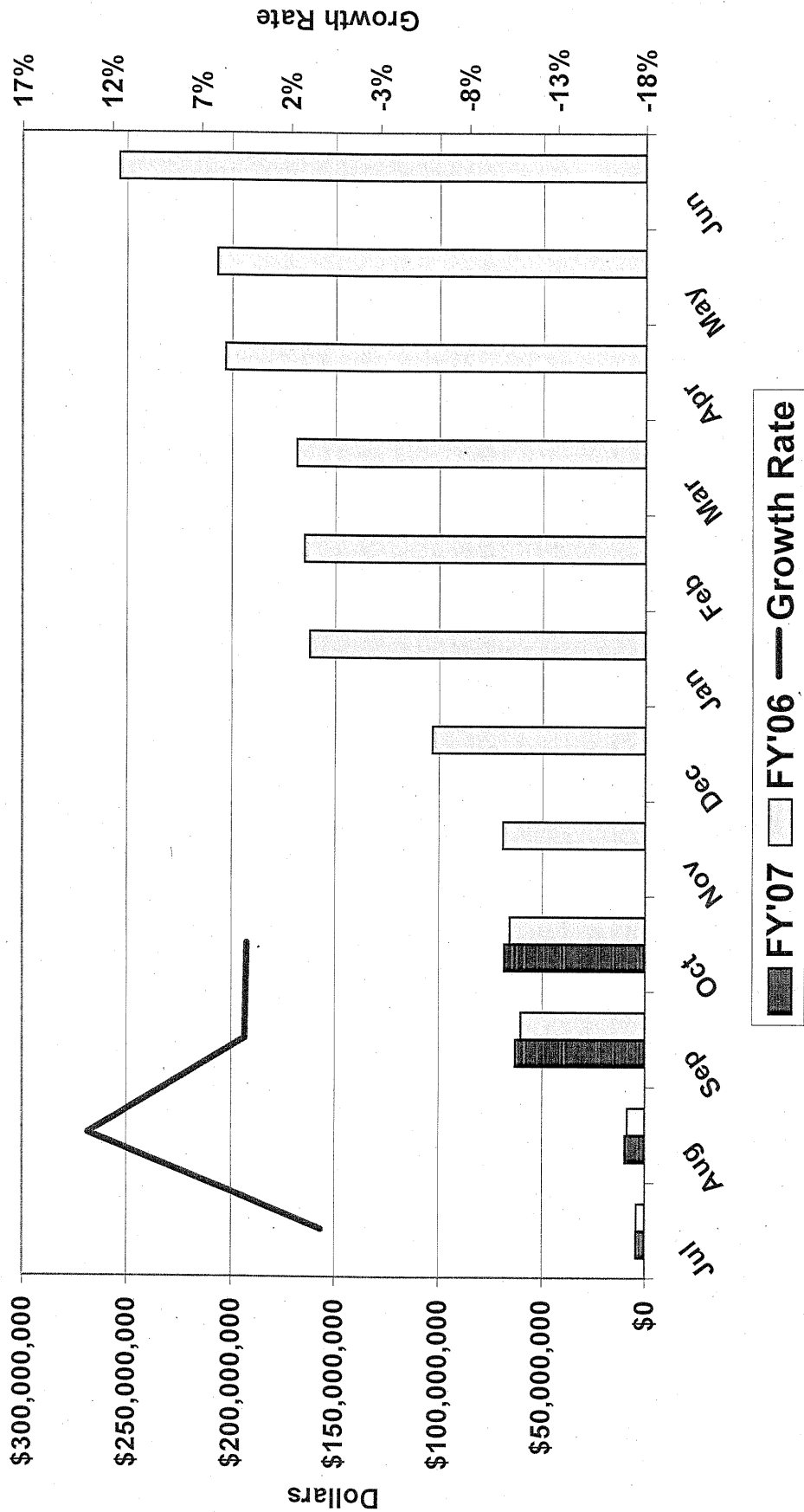
# 1040 Withholding Year-to-Date FY'07 & FY'06



# Withholding Tax Revenue 12 Month Moving Total

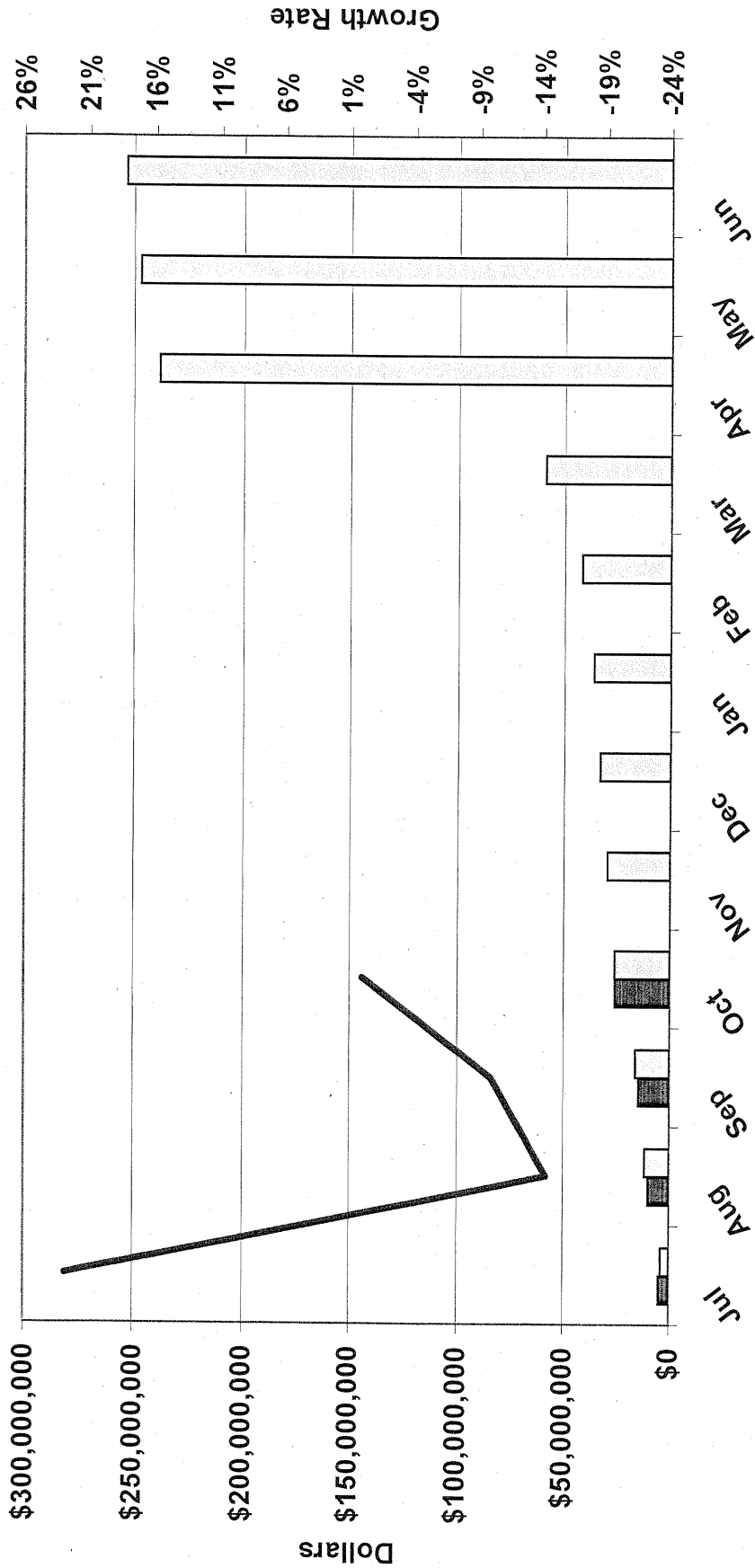


# 1040 Estimated Payments Year-to-Date FY'07 & FY'06





# 1040 Final Payments Year-to-Date FY'07 & FY'06



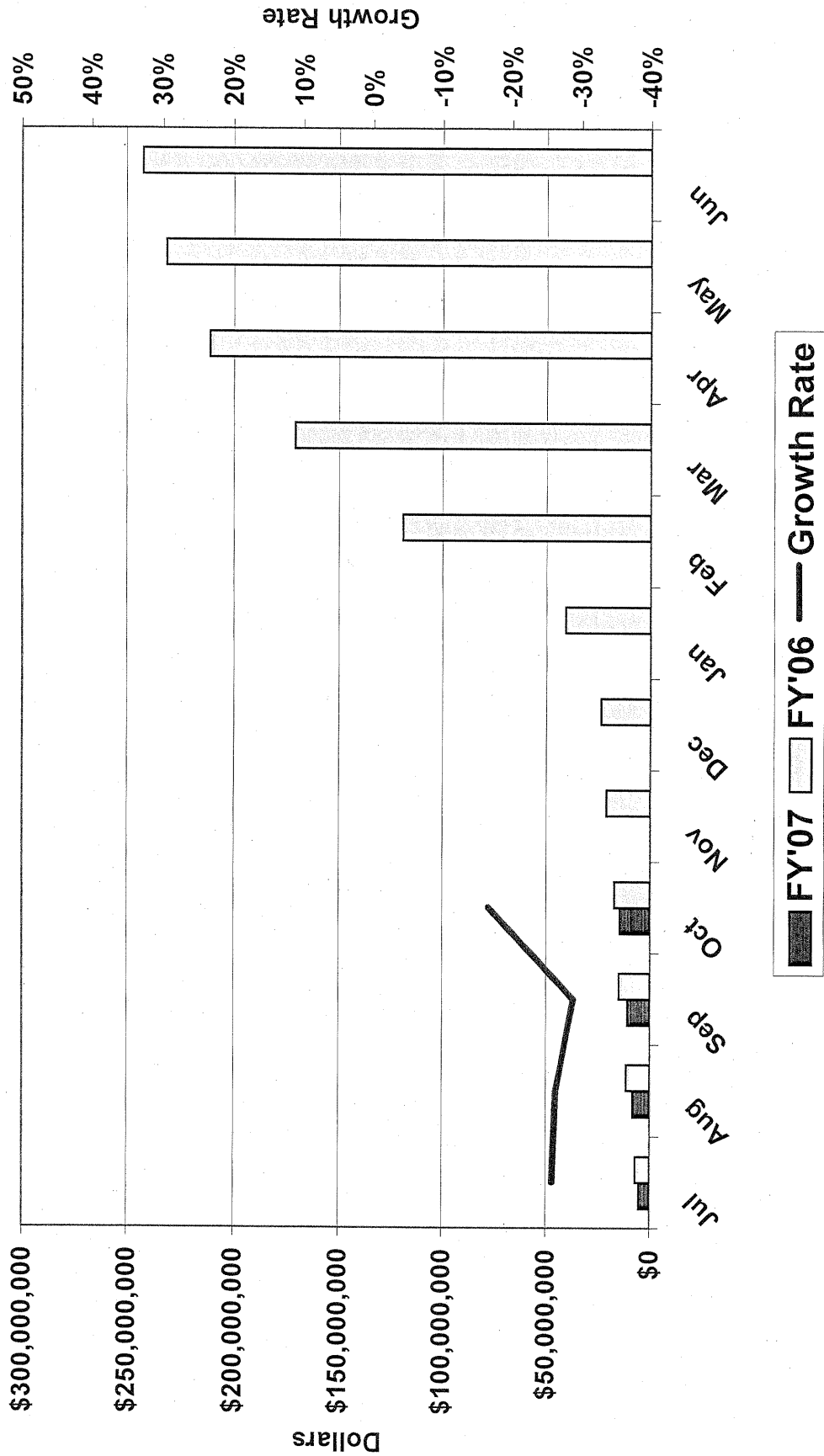
Maine Revenue Services  
Individual Income Tax Withholding, Estimated Payments and Final Payments

| Year-To-Date | 1040 Withholding |              |             |              | 1040 Estimated Payments |             |              |               | 1040 Final Payments |              |               |             |
|--------------|------------------|--------------|-------------|--------------|-------------------------|-------------|--------------|---------------|---------------------|--------------|---------------|-------------|
|              | FY'07            | FY'06        | Growth Rate | FY'07        | FY'06                   | Growth Rate | FY'07        | FY'06         | Growth Rate         | FY'07        | FY'06         | Growth Rate |
| Jul          | \$83,598,836     | \$79,823,176 | 4.7%        | \$4,195,018  | \$4,183,949             | 0.3%        | \$4,644,833  | \$3,781,077   | 22.8%               | \$4,644,833  | \$3,781,077   | 22.8%       |
| Aug          | \$103,918,897    | \$94,671,384 | 9.8%        | \$5,563,522  | \$4,428,790             | 25.6%       | \$5,011,255  | \$7,488,098   | -33.1%              | \$5,011,255  | \$7,488,098   | -33.1%      |
| Sep          | \$73,091,168     | \$76,131,695 | -4.0%       | \$53,220,634 | \$51,617,323            | 3.1%        | \$4,739,993  | \$4,711,283   | 0.6%                | \$4,739,993  | \$4,711,283   | 0.6%        |
| Oct          | \$88,194,143     | \$81,701,685 | 7.9%        | \$5,486,161  | \$5,315,815             | 3.2%        | \$11,206,338 | \$9,630,450   | 16.4%               | \$11,206,338 | \$9,630,450   | 16.4%       |
| Nov          | \$0              | \$95,362,806 | -100.0%     | \$0          | \$3,647,357             | -100.0%     | \$0          | \$3,848,840   | -100.0%             | \$0          | \$3,848,840   | -100.0%     |
| Dec          | \$0              | \$93,310,382 | -100.0%     | \$0          | \$33,900,310            | -100.0%     | \$0          | \$3,541,510   | -100.0%             | \$0          | \$3,541,510   | -100.0%     |
| Jan          | \$0              | \$96,933,541 | -100.0%     | \$0          | \$59,056,792            | -100.0%     | \$0          | \$2,903,270   | -100.0%             | \$0          | \$2,903,270   | -100.0%     |
| Feb          | \$0              | \$98,536,395 | -100.0%     | \$0          | \$2,489,625             | -100.0%     | \$0          | \$5,690,580   | -100.0%             | \$0          | \$5,690,580   | -100.0%     |
| Mar          | \$0              | \$86,111,371 | -100.0%     | \$0          | \$3,950,937             | -100.0%     | \$0          | \$17,337,511  | -100.0%             | \$0          | \$17,337,511  | -100.0%     |
| Apr          | \$0              | \$76,239,663 | -100.0%     | \$0          | \$34,589,899            | -100.0%     | \$0          | \$179,623,327 | -100.0%             | \$0          | \$179,623,327 | -100.0%     |
| May          | \$0              | \$97,786,016 | -100.0%     | \$0          | \$3,710,211             | -100.0%     | \$0          | \$8,322,120   | -100.0%             | \$0          | \$8,322,120   | -100.0%     |
| Jun          | \$0              | \$82,812,477 | -100.0%     | \$0          | \$46,767,575            | -100.0%     | \$0          | \$6,712,408   | -100.0%             | \$0          | \$6,712,408   | -100.0%     |

| Year-To-Date | 1040 Withholding |                 |             |              | 1040 Estimated Payments |             |              |               | 1040 Final Payments |              |               |             |
|--------------|------------------|-----------------|-------------|--------------|-------------------------|-------------|--------------|---------------|---------------------|--------------|---------------|-------------|
|              | FY'07            | FY'06           | Growth Rate | FY'07        | FY'06                   | Growth Rate | FY'07        | FY'06         | Growth Rate         | FY'07        | FY'06         | Growth Rate |
| Jul          | \$83,598,836     | \$79,823,176    | 4.7%        | \$4,195,018  | \$4,183,949             | 0.3%        | \$4,644,833  | \$3,781,077   | 22.8%               | \$4,644,833  | \$3,781,077   | 22.8%       |
| Aug          | \$187,517,733    | \$174,494,560   | 7.5%        | \$9,758,540  | \$8,612,739             | 13.3%       | \$9,656,088  | \$11,269,175  | -14.3%              | \$9,656,088  | \$11,269,175  | -14.3%      |
| Sep          | \$260,608,901    | \$250,626,255   | 4.0%        | \$62,979,174 | \$60,230,062            | 4.6%        | \$14,396,081 | \$15,980,458  | -9.9%               | \$14,396,081 | \$15,980,458  | -9.9%       |
| Oct          | \$348,803,044    | \$332,327,940   | 5.0%        | \$68,465,335 | \$65,545,877            | 4.5%        | \$25,602,419 | \$25,610,908  | 0.0%                | \$25,602,419 | \$25,610,908  | 0.0%        |
| Nov          | \$348,803,044    | \$427,690,746   | -18.4%      | \$68,465,335 | \$69,193,234            | -1.1%       | \$25,602,419 | \$29,459,748  | -13.1%              | \$25,602,419 | \$29,459,748  | -13.1%      |
| Dec          | \$348,803,044    | \$521,001,128   | -33.1%      | \$68,465,335 | \$103,093,544           | -33.6%      | \$25,602,419 | \$33,001,258  | -22.4%              | \$25,602,419 | \$33,001,258  | -22.4%      |
| Jan          | \$348,803,044    | \$617,934,669   | -43.6%      | \$68,465,335 | \$162,150,336           | -57.8%      | \$25,602,419 | \$35,904,528  | -28.7%              | \$25,602,419 | \$35,904,528  | -28.7%      |
| Feb          | \$348,803,044    | \$716,471,064   | -51.3%      | \$68,465,335 | \$164,639,961           | -58.4%      | \$25,602,419 | \$41,595,108  | -38.4%              | \$25,602,419 | \$41,595,108  | -38.4%      |
| Mar          | \$348,803,044    | \$802,582,435   | -56.5%      | \$68,465,335 | \$168,590,898           | -59.4%      | \$25,602,419 | \$58,932,619  | -56.6%              | \$25,602,419 | \$58,932,619  | -56.6%      |
| Apr          | \$348,803,044    | \$878,822,098   | -60.3%      | \$68,465,335 | \$203,180,797           | -66.3%      | \$25,602,419 | \$238,555,946 | -89.3%              | \$25,602,419 | \$238,555,946 | -89.3%      |
| May          | \$348,803,044    | \$976,608,114   | -64.3%      | \$68,465,335 | \$206,891,008           | -66.9%      | \$25,602,419 | \$246,878,066 | -89.6%              | \$25,602,419 | \$246,878,066 | -89.6%      |
| Jun          | \$348,803,044    | \$1,059,420,591 | -67.1%      | \$68,465,335 | \$253,658,583           | -73.0%      | \$25,602,419 | \$253,590,474 | -89.9%              | \$25,602,419 | \$253,590,474 | -89.9%      |

# Individual Income Tax Refunds

## Year-to-Date FY'07 & FY'06



Maine Revenue Services  
Individual Income Tax Refunds

|     | Year-To-Date |              |              |               | Growth Rate |
|-----|--------------|--------------|--------------|---------------|-------------|
|     | Month        | FY'06        | FY'07        | FY'06         |             |
| Jul | \$5,243,096  | \$7,075,872  | \$5,243,096  | \$7,075,872   | -26%        |
| Aug | \$2,938,773  | \$4,041,598  | \$8,181,869  | \$11,117,470  | -26%        |
| Sep | \$2,475,143  | \$3,876,243  | \$10,657,012 | \$14,993,713  | -29%        |
| Oct | \$3,842,940  | \$2,401,833  | \$14,499,952 | \$17,395,546  | -17%        |
| Nov | \$0          | \$3,595,677  | \$14,499,952 | \$20,991,223  | -31%        |
| Dec | \$0          | \$2,666,969  | \$14,499,952 | \$23,658,192  | -39%        |
| Jan | \$0          | \$17,163,808 | \$14,499,952 | \$40,822,000  | -64%        |
| Feb | \$0          | \$78,069,523 | \$14,499,952 | \$118,891,523 | -88%        |
| Mar | \$0          | \$52,057,514 | \$14,499,952 | \$170,949,037 | -92%        |
| Apr | \$0          | \$40,143,163 | \$14,499,952 | \$211,092,200 | -93%        |
| May | \$0          | \$20,666,882 | \$14,499,952 | \$231,759,082 | -94%        |
| Jun | \$0          | \$10,409,059 | \$14,499,952 | \$242,168,141 | -94%        |

Individual Income Tax: Baseline Forecast FY07 - FY11

|                                         | FY04            | FY05            | Biennium        | FY06            | FY07            | Biennium        | FY08            | FY09            | Biennium        | FY10            | FY11            | Biennium        |
|-----------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actuals & February, 2006 Forecast /1    | \$1,156,715,909 | \$1,270,225,329 | \$2,426,941,238 | \$1,254,510,746 | \$1,274,529,688 | \$2,529,040,434 | \$1,312,272,758 | \$1,341,599,725 | \$2,653,872,483 | \$0             | \$0             | \$0             |
| Growth Rate                             | 7.9%            | 9.8%            | 13.3%           | -1.2%           | 1.6%            | 4.2%            | 3.0%            | 2.2%            | 4.9%            |                 |                 |                 |
| Personal Property Tax Exemption /2      | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$11,373,516    | \$11,373,516    | \$0             | \$0             | \$0             |
| BETR Reimbursement /2                   | \$0             | \$0             | \$0             | \$67,065,810    | \$68,146,508    | \$135,212,318   | \$71,707,000    | \$79,646,983    | \$157,353,983   | \$0             | \$0             | \$0             |
| Tax & Rent Claims /2                    | \$0             | \$26,030,227    | \$26,030,227    | \$42,796,070    | \$46,095,820    | \$88,891,990    | \$48,440,013    | \$51,389,085    | \$99,829,098    | \$0             | \$0             | \$0             |
| Individual Income Tax Before T&R Claims | \$1,156,715,909 | \$1,296,255,556 | \$2,452,971,465 | \$1,364,372,626 | \$1,388,772,016 | \$2,753,144,842 | \$1,438,419,771 | \$1,484,009,309 | \$2,922,429,080 | \$0             | \$0             | \$0             |
| Growth Rate                             | 7.9%            | 12.1%           | 14.5%           | 5.3%            | 1.8%            | 12.2%           | 3.6%            | 3.2%            | 6.1%            |                 |                 |                 |
| Technical Adjustments /3                | \$0             | \$0             | \$0             | \$0             | \$24,120,000    | \$24,120,000    | \$29,450,000    | \$18,540,000    | \$47,990,000    | \$0             | \$0             | \$0             |
| Economic Assumptions /4                 | \$0             | \$0             | \$0             | \$0             | \$27,637,984    | \$27,637,984    | \$25,320,229    | \$30,340,691    | \$55,660,920    | \$1,593,300,000 | \$1,651,200,000 | \$3,244,500,000 |
| Total Adjustments to Prior Forecast     | \$0             | \$0             | \$0             | \$0             | \$51,757,984    | \$51,757,984    | \$54,770,229    | \$48,880,691    | \$103,650,920   | \$1,593,300,000 | \$1,649,840,000 | \$3,243,140,000 |
| New Forecast                            | \$1,156,715,909 | \$1,296,255,556 | \$2,426,941,238 | \$1,364,372,626 | \$1,440,530,000 | \$2,580,798,418 | \$1,493,190,000 | \$1,532,890,000 | \$2,757,523,403 | \$1,593,300,000 | \$1,649,840,000 | \$3,243,140,000 |
| Growth Rate                             | 7.9%            | 9.8%            | 13.3%           | 5.3%            | 5.6%            | 6.3%            | 3.7%            | 2.7%            | 6.8%            | 3.9%            | 3.5%            | 17.6%           |
| Personal Property Tax Exemption         | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | (\$11,373,516)  | (\$11,373,516)  | (\$21,538,412)  | (\$27,486,069)  | (\$49,024,481)  |
| Tax & Rent Claims                       | \$0             | \$26,030,227    | 26,030,227      | (\$42,796,070)  | (\$44,957,021)  | (\$87,753,091)  | (\$46,253,766)  | (\$47,573,249)  | (\$93,827,015)  | (\$48,073,804)  | (\$50,473,026)  | (\$98,546,830)  |
| BETR Reimbursement                      | \$0             | \$0             | \$0             | (\$67,065,810)  | (\$62,000,708)  | (\$129,066,516) | (\$88,490,826)  | (\$69,059,334)  | (\$137,550,160) | (\$65,653,487)  | (\$60,047,934)  | (\$125,701,421) |
| Total Individual Income Tax             | \$1,156,715,909 | \$1,270,225,329 | \$2,426,941,238 | \$1,254,510,746 | \$1,333,572,271 | \$2,588,083,017 | \$1,378,445,408 | \$1,404,883,901 | \$2,783,329,309 | \$1,458,034,297 | \$1,511,832,971 | \$2,969,867,266 |
|                                         |                 |                 |                 | -1.2%           | 6.3%            | 6.6%            | 3.4%            | 1.9%            | 7.5%            | 3.8%            | 3.7%            | 6.7%            |

1/ February, 2006 forecast with FY04, FY05, and FY06 actuals.

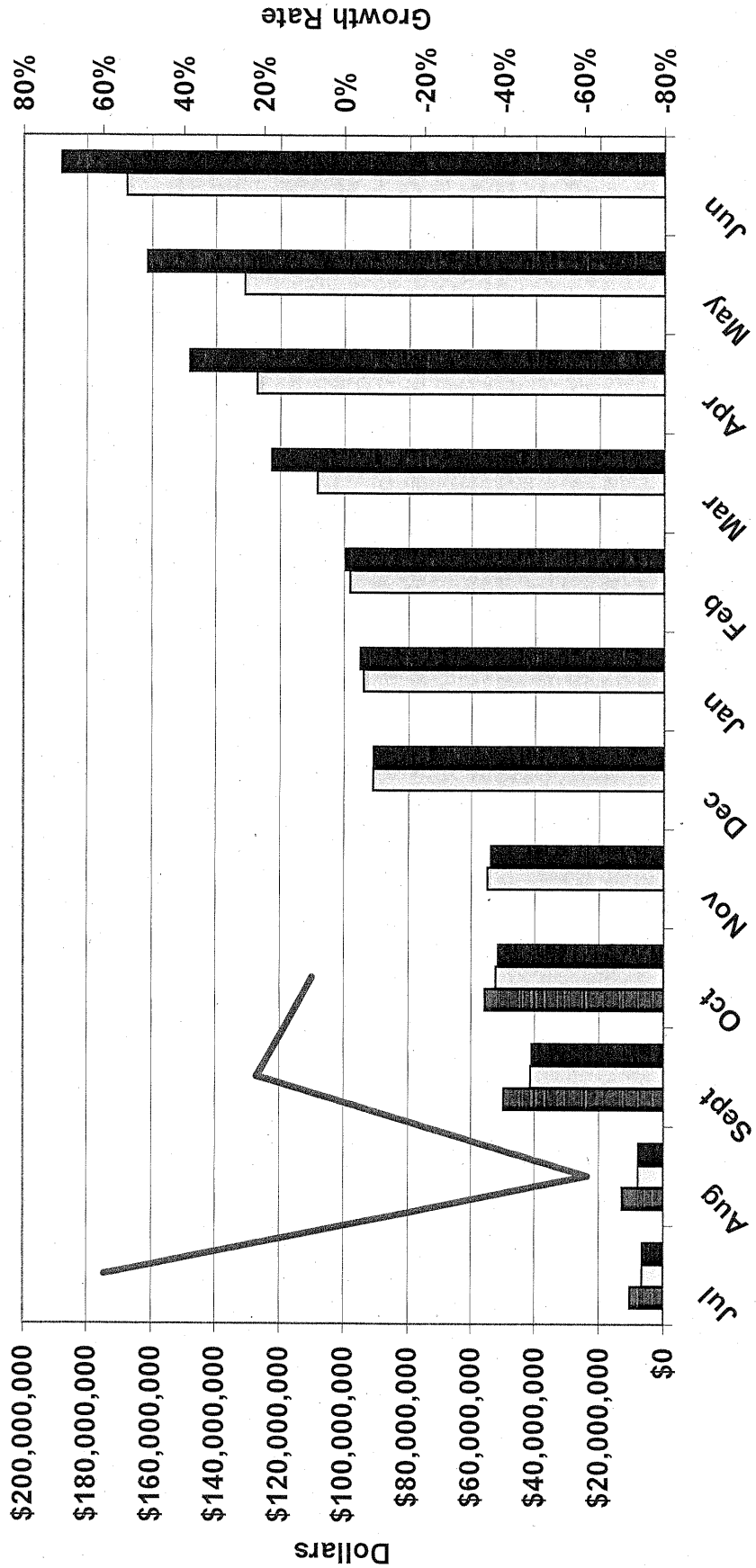
2/ Adjusts for Maine Residents Property Tax Relief Program, BETR transfers and reimbursement to municipalities for Business Equipment Property Tax Exemption.

3/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

4/ This line shows the incremental change in baseline revenues as a result of a new economic forecast.

# **Corporate Income Tax**

# YTD Corporate Income Tax Revenue FY'07 Actual, Budget & FY'06 Actual



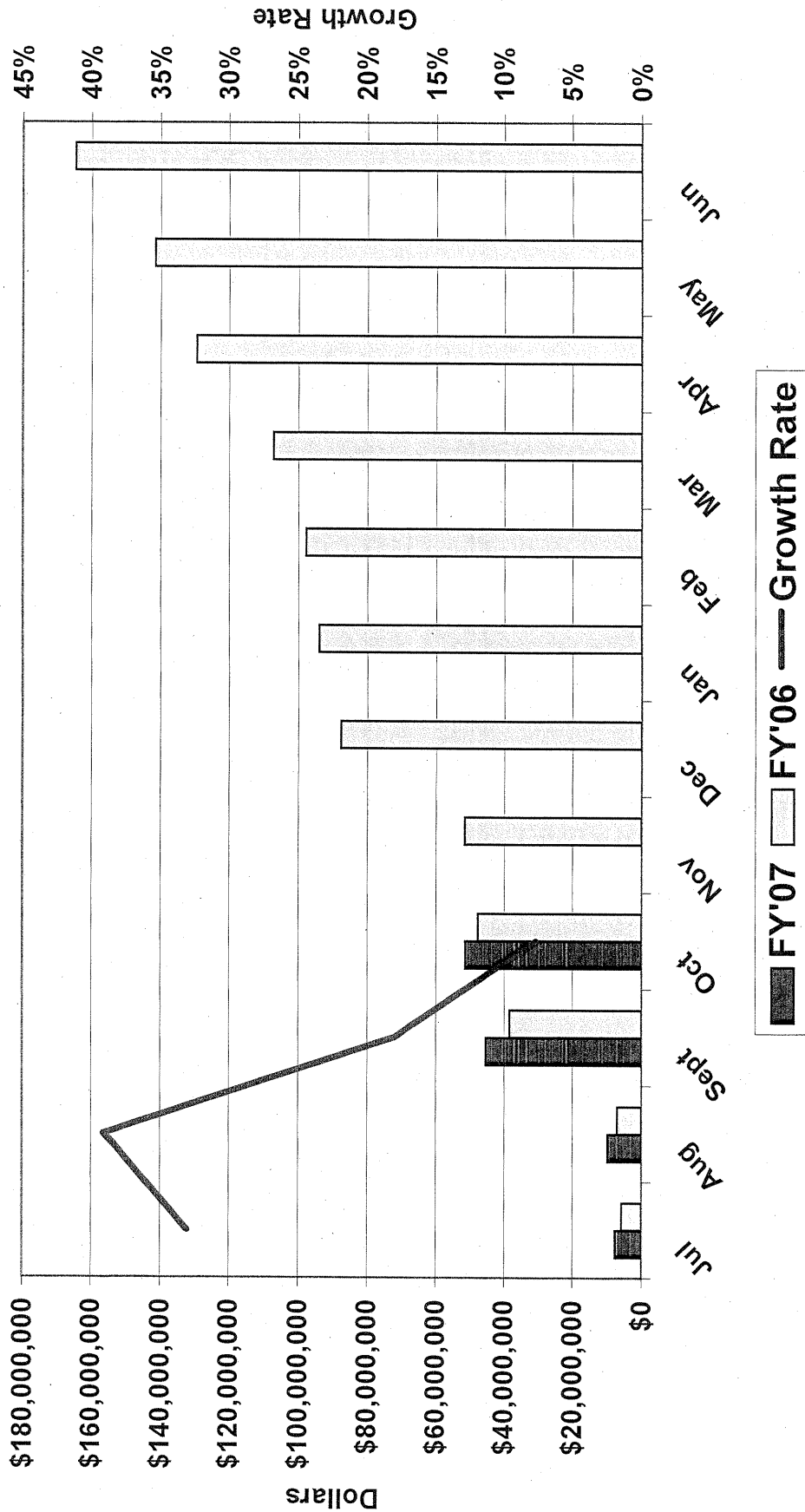
■ FY'07 Actual □ FY'07 Budget ■ FY'06 Actual — Growth Rate

Maine Revenue Services  
Corporate Income Tax Revenue

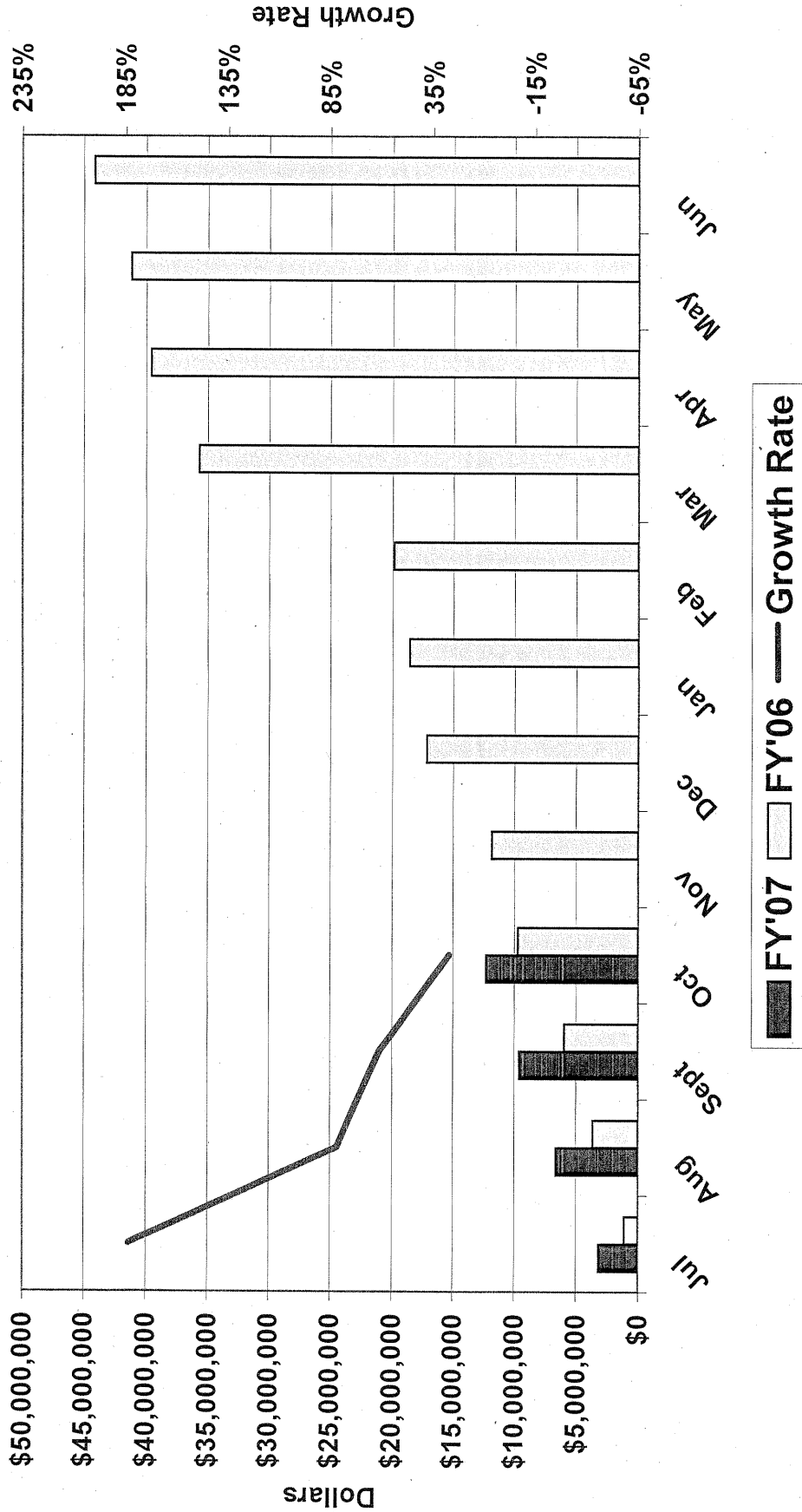
|         | FY'07 Actual | FY'07 Budget  | FY'06 Actual  | FY'05 Actual  | FY'07 Actual vs. Budget | FY'06 Actual vs. FY'06 Budget | FY'07 Actual vs. FY'06 Actual | FY'06 Actual vs. FY'05 Actual |
|---------|--------------|---------------|---------------|---------------|-------------------------|-------------------------------|-------------------------------|-------------------------------|
| Jul     | \$10,487,769 | \$6,600,000   | \$6,572,991   | \$5,652,128   | 58.9%                   | 0.4%                          | 59.6%                         | 16.3%                         |
| Aug     | \$2,275,148  | \$1,400,000   | \$1,350,981   | \$383,290     | 62.5%                   | -3.6%                         | -68.4%                        | 252.5%                        |
| Sept    | \$37,010,069 | \$33,349,863  | \$33,014,931  | \$26,575,624  | 11.0%                   | 1.0%                          | 12.1%                         | 24.2%                         |
| Oct     | \$5,870,974  | \$10,999,863  | \$10,678,165  | \$6,879,835   | -46.6%                  | 3.0%                          | -45.0%                        | 55.2%                         |
| Nov     | \$0          | \$2,499,863   | \$2,120,808   | \$91,650      | -100.0%                 | 17.9%                         | -100.0%                       | 2214.0%                       |
| Dec     | \$0          | \$35,999,863  | \$37,029,667  | \$21,142,998  | -100.0%                 | -2.8%                         | -100.0%                       | 75.1%                         |
| Jan     | \$0          | \$2,999,863   | \$4,128,062   | \$7,037,070   | -100.0%                 | -27.3%                        | -100.0%                       | -41.3%                        |
| Feb     | \$0          | \$4,399,863   | \$4,578,212   | \$1,897,822   | -100.0%                 | -3.9%                         | -100.0%                       | 141.2%                        |
| Mar     | \$0          | \$9,999,862   | \$23,021,793  | \$12,229,975  | -100.0%                 | -56.6%                        | -100.0%                       | 88.2%                         |
| Apr     | \$0          | \$18,799,862  | \$25,605,958  | \$18,746,782  | -100.0%                 | -26.6%                        | -100.0%                       | 36.6%                         |
| May     | \$0          | \$3,999,862   | \$13,227,133  | \$3,913,964   | -100.0%                 | -69.8%                        | -100.0%                       | 237.9%                        |
| Jun     | \$0          | \$36,670,233  | \$26,686,857  | \$31,311,776  | -100.0%                 | 37.4%                         | -100.0%                       | -14.8%                        |
| Total   | \$55,643,960 | \$167,718,997 | \$188,015,558 | \$135,862,914 | -66.8%                  | -10.8%                        | -70.4%                        | 38.4%                         |
| YTD Oct | \$55,643,960 | \$52,349,726  | \$51,617,068  | \$39,490,877  | 6.3%                    | 1.4%                          | 7.8%                          | 30.7%                         |



# Corporate Estimated Payments Year-to-Date FY'07 & FY'06



# Corporate Final Payments Year-to-Date FY'07 & FY'06



## Maine Revenue Services

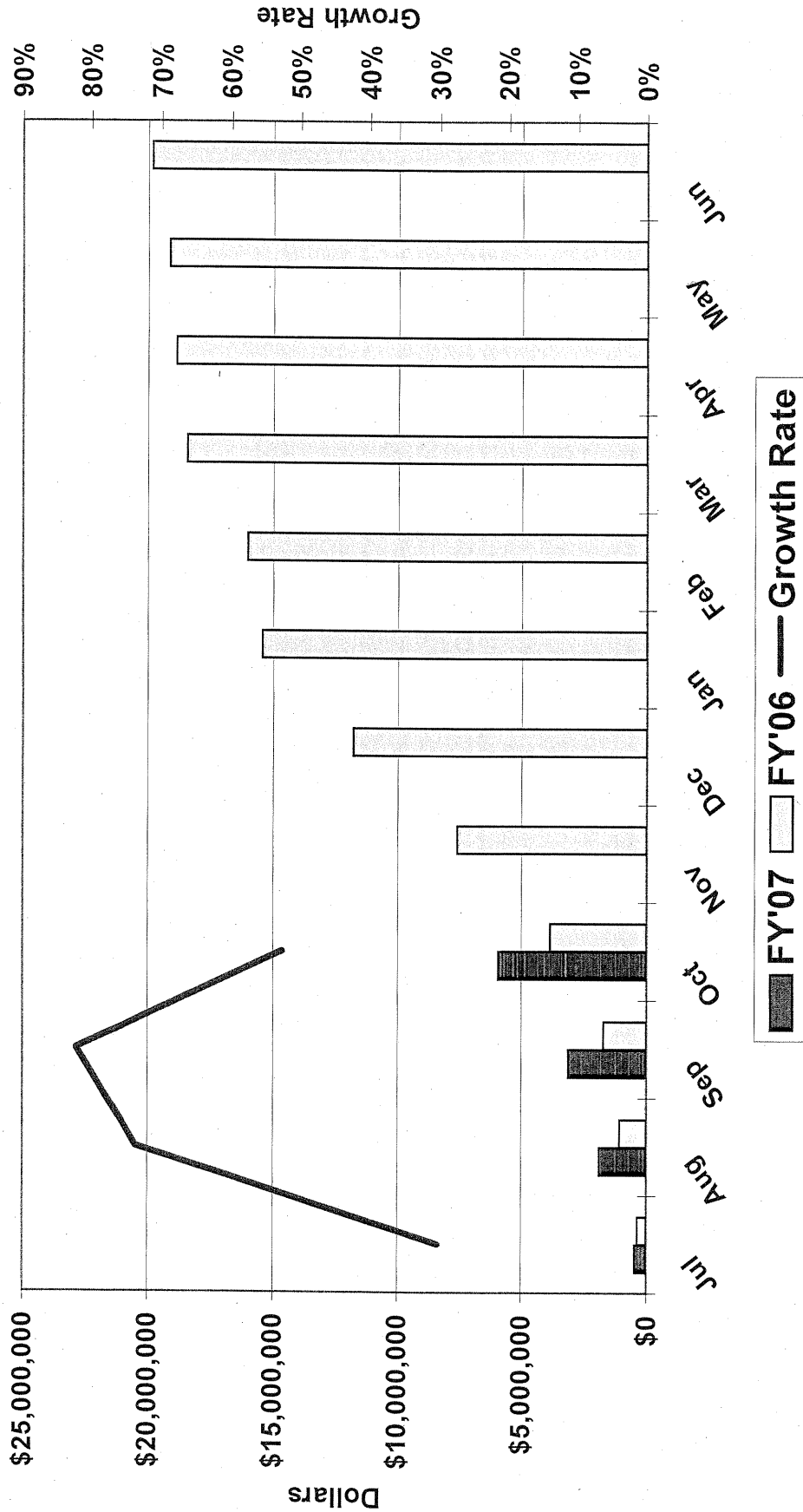
### Corporate Income Tax Estimated Payments

| Month | Year-To-Date |              | Growth Rate | FY'06        | FY'07        | Growth Rate | FY'06         | Growth Rate |
|-------|--------------|--------------|-------------|--------------|--------------|-------------|---------------|-------------|
|       | Month        | Year-To-Date |             |              |              |             |               |             |
| Jul   | FY'07        | \$7,811,556  | 33.0%       | \$5,871,828  | \$7,811,556  | 33.0%       | \$5,871,828   | 33.0%       |
| Aug   |              | \$2,177,546  | 66.3%       | \$1,309,795  | \$9,989,102  | 66.3%       | \$7,181,623   | 39.1%       |
| Sept  |              | \$35,371,060 | 13.3%       | \$31,230,893 | \$45,360,162 | 13.3%       | \$38,412,516  | 18.1%       |
| Oct   |              | \$5,995,458  | -35.5%      | \$9,293,911  | \$51,355,620 | -35.5%      | \$47,706,427  | 7.6%        |
| Nov   | \$0          | \$3,798,678  | -100.0%     | \$3,798,678  | \$51,355,620 | -100.0%     | \$51,505,105  | -0.3%       |
| Dec   | \$0          | \$36,190,426 | -100.0%     | \$36,190,426 | \$51,355,620 | -100.0%     | \$87,695,531  | -41.4%      |
| Jan   | \$0          | \$6,266,175  | -100.0%     | \$6,266,175  | \$51,355,620 | -100.0%     | \$93,961,706  | -45.3%      |
| Feb   | \$0          | \$3,739,568  | -100.0%     | \$3,739,568  | \$51,355,620 | -100.0%     | \$97,701,274  | -47.4%      |
| Mar   | \$0          | \$9,448,871  | -100.0%     | \$9,448,871  | \$51,355,620 | -100.0%     | \$107,150,145 | -52.1%      |
| Apr   | \$0          | \$22,249,905 | -100.0%     | \$22,249,905 | \$51,355,620 | -100.0%     | \$129,400,050 | -60.3%      |
| May   | \$0          | \$12,124,764 | -100.0%     | \$12,124,764 | \$51,355,620 | -100.0%     | \$141,524,814 | -63.7%      |
| Jun   | \$0          | \$23,090,301 | -100.0%     | \$23,090,301 | \$51,355,620 | -100.0%     | \$164,615,115 | -68.8%      |

### Corporate Income Tax Final Payments and Back Taxes

| Month | Year-To-Date |              | Growth Rate | FY'06        | FY'07        | Growth Rate | FY'06        | Growth Rate |
|-------|--------------|--------------|-------------|--------------|--------------|-------------|--------------|-------------|
|       | Month        | Year-To-Date |             |              |              |             |              |             |
| Jul   | FY'07        | \$3,161,870  | 183.5%      | \$1,115,193  | \$3,161,870  | 183.5%      | \$1,115,193  | 183.5%      |
| Aug   |              | \$3,481,527  | 37.1%       | \$2,538,795  | \$6,643,397  | 37.1%       | \$3,653,988  | 81.8%       |
| Sept  |              | \$2,952,262  | 28.5%       | \$2,296,797  | \$9,595,659  | 28.5%       | \$5,950,785  | 61.3%       |
| Oct   |              | \$2,711,038  | -27.8%      | \$3,755,665  | \$12,306,697 | -27.8%      | \$9,706,450  | 26.8%       |
| Nov   | \$0          | \$2,128,308  | -100.0%     | \$2,128,308  | \$12,306,697 | -100.0%     | \$11,834,758 | 4.0%        |
| Dec   | \$0          | \$5,328,624  | -100.0%     | \$5,328,624  | \$12,306,697 | -100.0%     | \$17,163,382 | -28.3%      |
| Jan   | \$0          | \$1,394,439  | -100.0%     | \$1,394,439  | \$12,306,697 | -100.0%     | \$18,557,821 | -33.7%      |
| Feb   | \$0          | \$1,297,545  | -100.0%     | \$1,297,545  | \$12,306,697 | -100.0%     | \$19,855,366 | -38.0%      |
| Mar   | \$0          | \$15,848,178 | -100.0%     | \$15,848,178 | \$12,306,697 | -100.0%     | \$35,703,544 | -65.5%      |
| Apr   | \$0          | \$3,898,820  | -100.0%     | \$3,898,820  | \$12,306,697 | -100.0%     | \$39,602,364 | -68.9%      |
| May   | \$0          | \$1,616,022  | -100.0%     | \$1,616,022  | \$12,306,697 | -100.0%     | \$41,218,386 | -70.1%      |
| Jun   | \$0          | \$2,887,254  | -100.0%     | \$2,887,254  | \$12,306,697 | -100.0%     | \$44,105,640 | -72.1%      |

# Corporate Income Tax Refunds Year-to-Date FY'07 & FY'06



Maine Revenue Services  
Corporate Income Tax Refunds

|     | Year-to-Date |             |             |              | Growth Rate |
|-----|--------------|-------------|-------------|--------------|-------------|
|     | Month        | FY'06       | FY'07       | FY'06        |             |
| Jul | \$485,759    | \$373,068   | \$485,759   | \$373,068    | 30%         |
| Aug | \$1,408,865  | \$717,461   | \$1,894,624 | \$1,090,529  | 74%         |
| Sep | \$1,259,661  | \$640,530   | \$3,154,285 | \$1,731,059  | 82%         |
| Oct | \$2,778,200  | \$2,154,964 | \$5,932,485 | \$3,886,023  | 53%         |
| Nov | \$0          | \$3,722,588 | \$5,932,485 | \$7,608,611  | -22%        |
| Dec | \$0          | \$4,158,121 | \$5,932,485 | \$11,766,732 | -50%        |
| Jan | \$0          | \$3,666,874 | \$5,932,485 | \$15,433,606 | -62%        |
| Feb | \$0          | \$582,061   | \$5,932,485 | \$16,015,667 | -63%        |
| Mar | \$0          | \$2,410,454 | \$5,932,485 | \$18,426,121 | -68%        |
| Apr | \$0          | \$439,322   | \$5,932,485 | \$18,865,443 | -69%        |
| May | \$0          | \$289,385   | \$5,932,485 | \$19,154,828 | -69%        |
| Jun | \$0          | \$666,555   | \$5,932,485 | \$19,821,383 | -70%        |

**Corporate Income Tax: General Fund Baseline Forecast FY07 - FY11**

|                                            | FY04          | FY05          | Biennium      | FY06          | FY07           | Biennium       | FY08          | FY09          | Biennium      | FY10          | FY11          | Biennium      |
|--------------------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Actuals & February, 2006 Forecast /1       | \$111,616,051 | \$135,862,913 | \$247,478,964 | \$188,015,557 | \$167,718,997  | \$355,734,554  | \$164,793,426 | \$165,828,165 | \$330,621,591 | \$0           | \$0           | \$0           |
| Growth Rate                                | 22.4%         | 21.7%         | 46.8%         | 38.4%         | -10.8%         | 43.7%          | -1.7%         | 0.6%          | -7.1%         |               |               |               |
| Technical Adjustments to Prior Forecast /2 | \$0           | \$0           | \$0           | \$0           | (\$14,198,997) | (\$14,198,997) | (\$1,973,426) | (\$1,698,165) | (\$3,671,591) | \$0           | \$0           | \$0           |
| Economic Forecast /3                       | \$0           | \$0           | \$0           | \$0           | \$45,690,000   | \$45,690,000   | \$48,850,000  | \$57,260,000  | \$106,110,000 | \$229,610,000 | \$240,240,000 | \$469,850,000 |
| Total Adjustments to Prior Forecast        | \$0           | \$0           | \$0           | \$0           | \$31,491,003   | \$31,491,003   | \$46,876,574  | \$55,561,835  | \$102,438,409 | \$229,610,000 | \$240,240,000 | \$469,850,000 |
| New Forecast                               | \$111,616,051 | \$135,862,913 | \$247,478,964 | \$188,015,557 | \$199,210,000  | \$387,225,557  | \$211,670,000 | \$221,390,000 | \$433,060,000 | \$229,610,000 | \$240,240,000 | \$469,850,000 |
| Growth Rate                                | 22.4%         | 21.7%         | 46.8%         | 38.4%         | 6.0%           | 56.5%          | 6.3%          | 4.6%          | 11.8%         | 3.7%          | 4.6%          | 8.5%          |

1/ February, 2006 forecast with FY04, FY05, FY06 actuals.

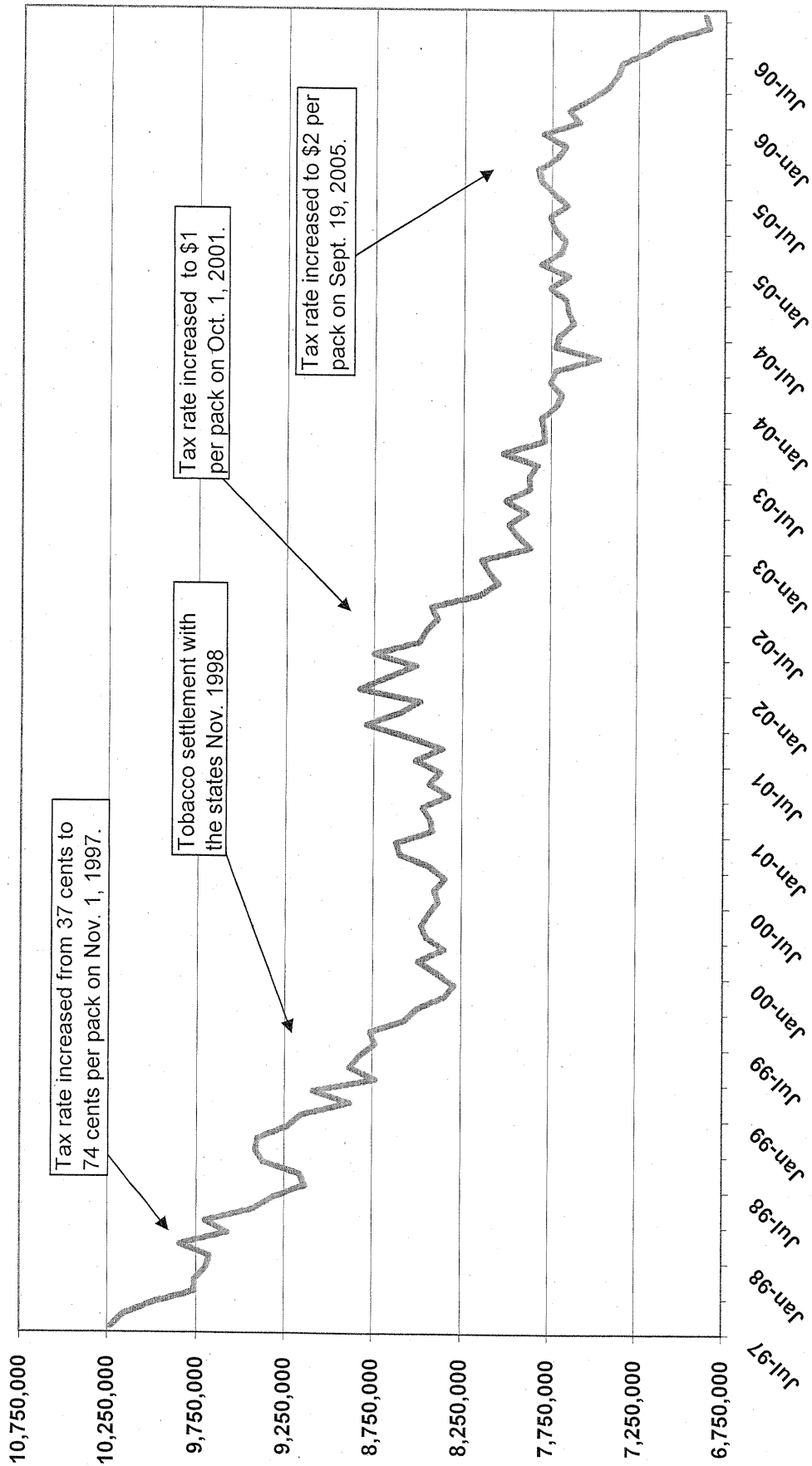
2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

3/ This line shows the incremental change in baseline revenues as a result of a new economic forecast. The new economic forecast is a combination of the CEFC forecast and Global Insight's November 2006 forecast of Corporate pre-tax profits.

# **Cigarette & Tobacco Taxes**

# Packages of Cigarettes Sold Derived from Revenue

## 12 Month Moving Average Jul '97 to Date





Maine Revenue Services  
Cigarette and Tobacco Tax  
Fall 2006 Forecast

|                                            | FY'05        | FY'06         | FY'07         | FY'08         | FY'09         | FY'10         | FY'11         |
|--------------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Cigarette Tax</b>                       |              |               |               |               |               |               |               |
| Actual '05 - '06 & current budget          | \$91,906,017 | \$151,497,467 | \$160,090,814 | \$158,913,147 | \$157,604,859 | \$155,140,000 | \$153,620,000 |
| Growth rate                                |              | 64.8%         | 5.7%          | -0.7%         | -0.8%         | -1.0%         | -1.0%         |
| Fall 2006 forecast                         |              |               | \$158,940,000 | \$158,100,000 | \$156,710,000 | \$155,140,000 | \$153,620,000 |
| Growth rate                                |              |               | 4.9%          | -0.5%         | -0.9%         | -1.0%         | -1.0%         |
| Variance                                   |              |               | (\$1,150,814) | (\$813,147)   | (\$894,859)   |               |               |
| <b>Tobacco Products Tax</b>                |              |               |               |               |               |               |               |
| Actual '05 - '06 & current budget          | \$4,444,687  | \$5,453,903   | \$5,376,068   | \$5,483,591   | \$5,593,261   | \$5,903,480   | \$6,021,550   |
| Growth rate                                |              | 22.7%         | -1.4%         | 2.0%          | 2.0%          | 2.0%          | 2.0%          |
| Fall 2006 forecast                         |              |               | \$5,562,981   | \$5,674,241   | \$5,787,725   | \$5,903,480   | \$6,021,550   |
| Growth rate                                |              |               | 2.0%          | 2.0%          | 2.0%          | 2.0%          | 2.0%          |
| Variance                                   |              |               | \$186,913     | \$190,650     | \$194,464     |               |               |
| <b>Total Cigarette &amp; Tobacco Taxes</b> |              |               |               |               |               |               |               |
| Actual '05 - '06 & current budget          | \$96,350,704 | \$156,951,370 | \$165,466,882 | \$164,396,738 | \$163,198,120 | \$161,043,480 | \$159,641,550 |
| Growth rate                                |              | 62.9%         | 5.4%          | -0.4%         | -0.8%         | -0.9%         | -0.9%         |
| Fall 2006 forecast                         |              |               | \$164,502,981 | \$163,774,241 | \$162,497,725 | \$161,043,480 | \$159,641,550 |
| Growth rate                                |              |               | 4.8%          | -0.4%         | -0.8%         | -0.9%         | -0.9%         |
| Variance                                   |              |               | (\$963,901)   | (\$622,497)   | (\$700,395)   |               |               |

# **Estate Tax**

Estate Tax: General Fund Baseline Forecast FY07 - FY11

|                                            | FY04         | FY05         | Biennium     | FY06         | FY07         | Biennium      | FY08         | FY09         | Biennium     | FY10         | FY11        | Biennium     |
|--------------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|-------------|--------------|
| Actuals & February, 2006 Forecast /1       | \$32,075,501 | \$32,255,727 | \$64,331,228 | \$75,330,514 | \$38,288,045 | \$113,618,559 | \$41,859,092 | \$46,807,535 | \$88,666,627 | \$0          | \$0         | \$0          |
| Growth Rate                                | 5.1%         | 0.6%         | 19.3%        | 133.5%       | -49.2%       | 76.6%         | 9.3%         | 11.8%        | -22.0%       |              |             |              |
| Technical Adjustments to Prior Forecast /2 | \$0          | \$0          | \$0          | \$0          | \$14,177,453 | \$14,177,453  | \$0          | \$0          | \$0          | \$0          | \$0         | \$0          |
| Economic Assumptions /3                    | \$0          | \$0          | \$0          | \$0          | \$0          | \$0           | \$3,114,077  | \$5,047,439  | \$8,161,516  | \$56,852,600 | \$4,771,020 | \$61,623,620 |
| Total Adjustments to Prior Forecast        | \$0          | \$0          | \$0          | \$0          | \$14,177,453 | \$14,177,453  | \$3,114,077  | \$5,047,439  | \$8,161,516  | \$56,852,600 | \$4,771,020 | \$61,623,620 |
| New Forecast                               | \$32,075,501 | \$32,255,727 | \$64,331,228 | \$75,330,514 | \$52,465,498 | \$127,796,012 | \$44,973,169 | \$51,854,974 | \$96,828,143 | \$56,852,600 | \$4,771,020 | \$61,623,620 |
| Growth Rate                                | 5.1%         | 0.6%         | 19.3%        | 133.5%       | -30.4%       | 98.7%         | -14.3%       | 15.3%        | -24.2%       | 9.6%         | -91.6%      | -36.4%       |

1/ February, 2006 forecast with FY04, FY05 and FY06 actuals.

2/ Technical adjustments refer to all changes in the forecast that are not related to changes from new economic assumptions. Examples of technical changes may be new data, model updates and changes, and court cases that affect revenues.

3/ This line shows the incremental change in baseline revenues as a result of a new economic forecast. The new economic forecast is Global Insight's November, 2006 forecast of Household Net Worth.

## **Other Taxes**

Maine Revenue Services  
Fall 2006 Forecast

|                                                 | FY'05        | FY'06        | FY'07         | FY'08        | FY'09        | FY'10        | FY'11        |
|-------------------------------------------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| <b>Real Estate Transfer Tax - General Fund</b>  |              |              |               |              |              |              |              |
| Actual and current budget                       | \$24,113,439 | \$24,595,580 | \$19,498,121  | \$11,880,718 | \$11,951,403 | \$16,907,180 | \$18,867,770 |
| Fall 2006 forecast                              |              |              | \$23,438,014  | \$14,565,275 | \$15,314,869 |              |              |
| Additional General Fund revenue                 |              |              | \$3,939,893   | \$2,684,557  | \$3,363,466  |              |              |
| Debit to FY'07 GF revenue*                      |              |              | (\$1,128,940) |              |              |              |              |
| Net FY'07 revenue change                        |              |              | \$2,810,953   |              |              |              |              |
| <b>Real Estate Transfer Tax - H.O.M.E. Fund</b> |              |              |               |              |              |              |              |
| Actual and current budget                       | \$8,881,845  | \$9,356,426  | \$3,923,987   | \$11,680,718 | \$11,751,403 | \$16,607,180 | \$18,567,770 |
| Fall 2006 forecast                              |              |              | \$7,763,880   | \$14,265,275 | \$15,014,869 |              |              |
| Additional HOME Fund revenue                    |              |              | \$3,839,893   | \$2,584,557  | \$3,263,467  |              |              |
| <b>Real Estate Transfer Tax - Total</b>         |              |              |               |              |              |              |              |
| Actual and current budget                       | \$32,995,284 | \$33,952,006 | \$23,422,108  | \$23,561,436 | \$23,702,806 | \$33,514,361 | \$37,435,541 |
| Growth rate                                     |              | 2.9%         | -31.0%        | 0.6%         | 0.6%         | 10.5%        | 11.7%        |
| Fall 2006 forecast                              |              |              | \$31,201,893  | \$28,830,550 | \$30,329,738 |              |              |
| Variance                                        |              |              | \$7,779,786   | \$5,269,113  | \$6,626,933  |              |              |
| Growth rate                                     |              |              | -8.1%         | -7.6%        | 5.2%         |              |              |

\*General Fund revenue was debited \$1,128,940 in September 2007 to account for revenue that should have been transferred to the HOME Fund in the prior fiscal year. The transfer did not result in a credit to the HOME Fund real estate transfer tax revenue account.

Maine Revenue Services  
Telecommunications Property Tax

|                  | FY'07         | FY'08         | FY'09         | FY'10         | FY'11         |
|------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue          | \$19,695,000  | \$18,520,000  | \$17,460,000  | \$16,400,000  | \$16,200,000  |
| Tax Rate         | 0.023         | 0.022         | 0.021         | 0.020         | 0.020         |
| Revenue Base     | \$856,304,348 | \$841,818,182 | \$831,428,571 | \$820,000,000 | \$810,000,000 |
| Base growth rate |               | -1.69%        | -1.23%        | -1.37%        | -1.22%        |

# Highway Fund

Maine Revenue Services  
Fall 2006 Highway Fund Motor Fuel Tax Revenue Forecast 2007 - 2011

| Gasoline Tax Revenue            | FY'05         | FY'06         | FY'07         | FY'08         | FY'09         | FY'10         | FY'11 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-------|
| Actual & current budget         | \$175,084,215 | \$176,769,409 | \$186,909,290 | \$193,451,008 | \$199,474,882 |               |       |
| Growth rate                     |               | 1.0%          | 5.7%          | 3.5%          | 3.1%          |               |       |
| Tax rate per gallon             | \$0.252       | \$0.259       | \$0.268       | \$0.276       | \$0.284       |               |       |
| Percentage increase in tax rate |               | 2.8%          | 3.5%          | 3.0%          | 2.9%          |               |       |
| Fall 2006 forecast              |               | \$182,174,941 | \$189,750,637 | \$194,918,100 | \$199,398,193 | \$204,512,031 |       |
| Growth rate                     |               | 3.1%          | 4.2%          | 2.7%          |               |               |       |
| Tax rate per gallon             |               | \$0.268       | \$0.277       | \$0.284       | \$0.290       | \$0.297       |       |
| Percentage increase in tax rate |               | 3.5%          | 3.4%          | 2.5%          | 2.1%          | 2.4%          |       |
| Variance                        |               | (\$4,734,349) | (\$3,700,371) | (\$4,556,782) |               |               |       |

| Special Fuel Tax Revenue        | FY'05        | FY'06         | FY'07         | FY'08         | FY'09        | FY'10        | FY'11 |
|---------------------------------|--------------|---------------|---------------|---------------|--------------|--------------|-------|
| Actual & current budget         | \$45,400,514 | \$44,805,900  | \$47,860,092  | \$49,121,886  | \$50,240,000 |              |       |
| Growth rate                     |              | -1.3%         | 6.8%          | 2.6%          | 2.3%         |              |       |
| Tax rate per gallon             | \$0.263      | \$0.270       | \$0.279       | \$0.287       | \$0.295      |              |       |
| Percentage increase in tax rate |              |               | 3.3%          | 2.9%          | 2.8%         |              |       |
| Fall 2006 forecast              |              | \$45,310,000  | \$46,900,000  | \$47,780,000  | \$48,660,000 | \$49,410,000 |       |
| Growth rate                     |              | 1.1%          | 3.5%          | 1.9%          |              |              |       |
| Tax rate per gallon             |              | \$0.279       | \$0.289       | \$0.296       | \$0.303      | \$0.309      |       |
| Percentage increase in tax rate |              | 3.3%          | 3.6%          | 2.4%          | 2.4%         | 2.0%         |       |
| Variance                        |              | (\$2,550,092) | (\$2,221,886) | (\$2,460,000) |              |              |       |

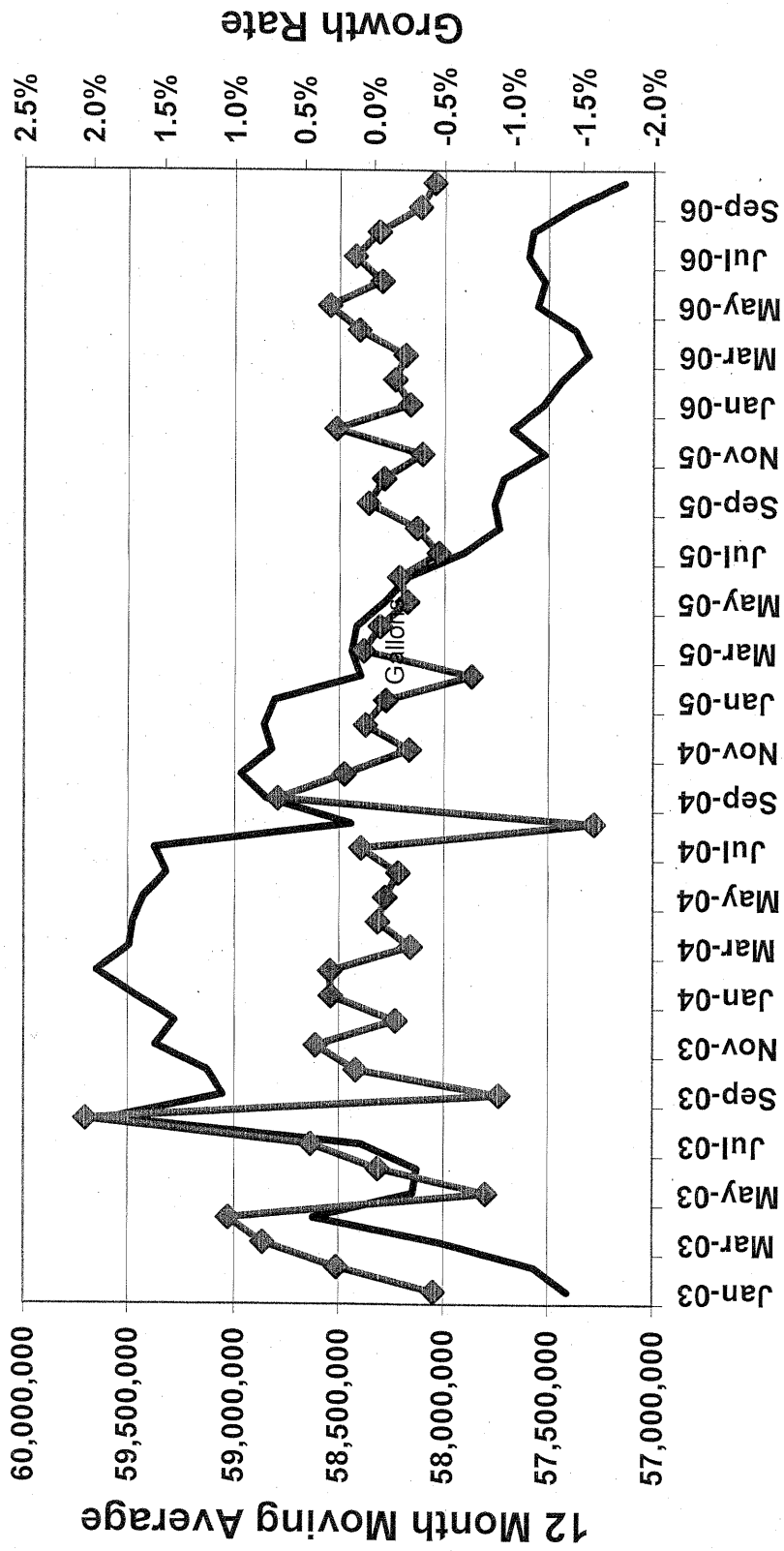
| Total Motor Fuel Tax Revenue | FY'05         | FY'06         | FY'07          | FY'08         | FY'09         | FY'10         | FY'11 |
|------------------------------|---------------|---------------|----------------|---------------|---------------|---------------|-------|
| Actual & current budget      | \$220,484,728 | \$221,575,309 | \$234,769,382  | \$242,572,894 | \$249,714,882 |               |       |
| Growth rate                  |               | 0.5%          | 6.0%           | 3.3%          | 2.9%          |               |       |
| Fall 2006 forecast           |               | \$227,484,941 | \$236,650,637  | \$242,698,100 | \$248,058,193 | \$253,922,031 |       |
| Growth rate                  |               | 2.7%          | 4.0%           | 2.6%          | 2.2%          | 2.4%          |       |
| Variance                     |               | (\$7,284,441) | (\$5,922,257)  | (\$7,016,782) |               |               |       |
| Biennium                     |               | (\$7,284,441) | (\$12,939,039) |               |               |               |       |



Maine Revenue Services  
 Gasoline Tax Revenue Forecast FY'07 - FY'11  
 Fall 2006

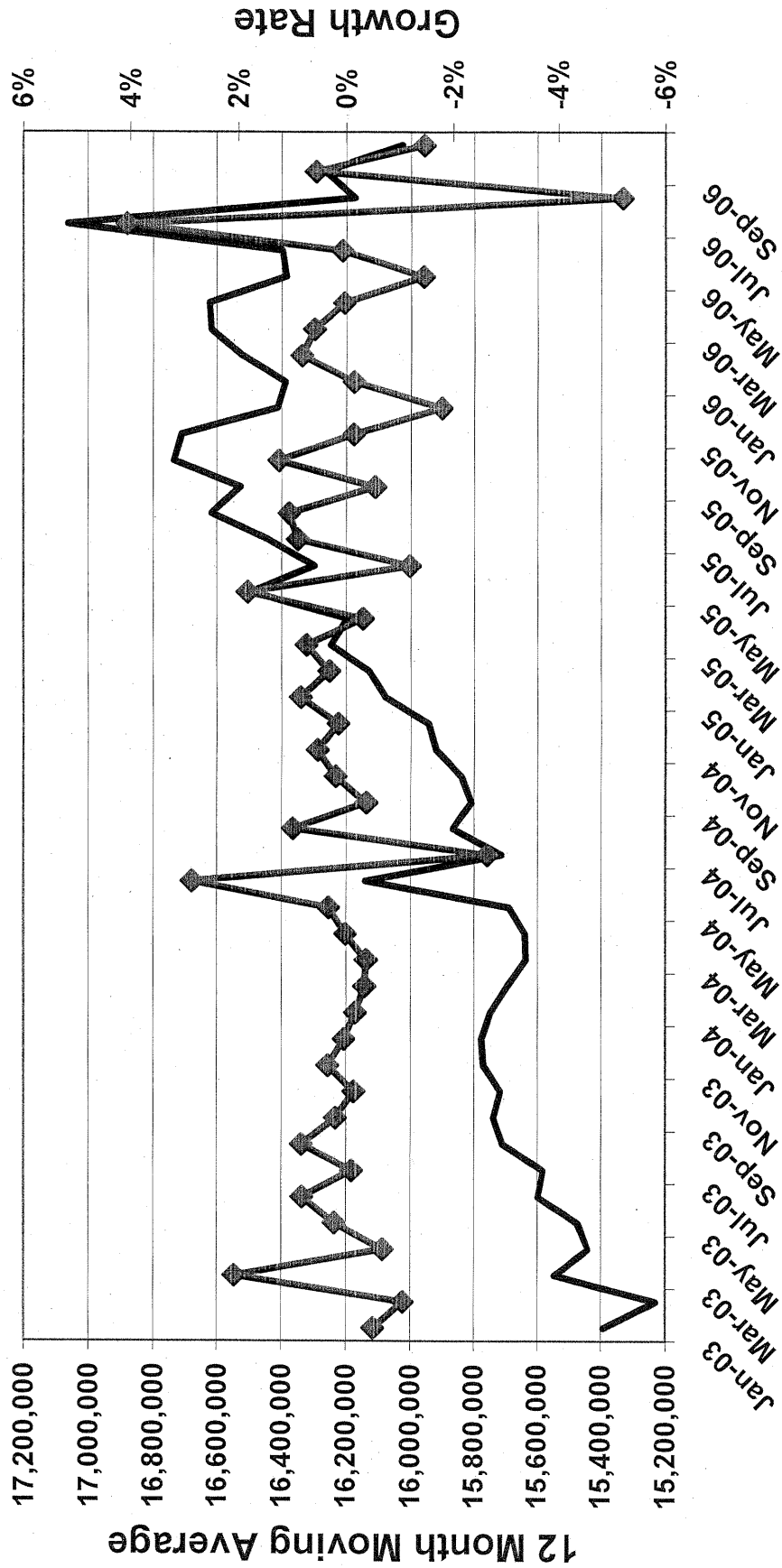
|                                   | FY'07         | FY'08         | FY'09         | FY'10         | FY'11         |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Gas tax forecast - Highway Fund   | \$182,174,941 | \$189,750,637 | \$194,918,100 | \$199,398,193 | \$204,512,031 |
| Percentage Change                 |               | 4.2%          | 2.7%          | 2.3%          | 2.6%          |
| Tax rate in cents per gallon      | \$0.268       | \$0.277       | \$0.284       | \$0.290       | \$0.297       |
| Forecasted inflation adjustment   |               | 3.4%          | 2.5%          | 2.1%          | 2.4%          |
|                                   |               |               |               |               |               |
| Net to the Highway Fund           | \$182,174,941 | \$189,750,637 | \$194,918,100 | \$199,398,193 | \$204,512,031 |
| Transfer \$100,000 to STAR Fund   | (\$100,000)   | (\$100,000)   | (\$100,000)   | (\$100,000)   | (\$100,000)   |
| Gross to the Highway Fund         | \$182,274,941 | \$189,850,637 | \$195,018,100 | \$199,498,193 | \$204,612,031 |
| DIF&W and Snowmobile Fund         | \$1,690,963   | \$1,761,242   | \$1,809,181   | \$1,850,743   | \$1,898,184   |
| General Fund - DIF&W - 14.93%     | \$252,461     | \$262,953     | \$270,111     | \$276,316     | \$283,399     |
| Snowmobile Trail Fund - 85.07%    | \$1,438,502   | \$1,498,289   | \$1,539,070   | \$1,574,427   | \$1,614,785   |
| All-terrain Vehicles              | \$285,099     | \$296,948     | \$305,031     | \$312,038     | \$320,037     |
| ATV Enforcement Fund- 50%         | \$142,549     | \$148,474     | \$152,515     | \$156,019     | \$160,018     |
| ATV Recreational Fund - 50%       | \$142,549     | \$148,474     | \$152,515     | \$156,019     | \$160,018     |
| Motorboats                        | \$2,698,997   | \$2,811,173   | \$2,887,689   | \$2,954,027   | \$3,029,749   |
| Dept. of Marine Resources - 24.6% | \$663,953     | \$691,548     | \$710,371     | \$726,691     | \$745,318     |
| Boating Facilities Fund - 75.4%   | \$2,035,044   | \$2,119,624   | \$2,177,317   | \$2,227,336   | \$2,284,431   |
| Total revenue                     | \$186,950,000 | \$194,720,000 | \$200,020,000 | \$204,615,000 | \$209,860,000 |
|                                   | 0.9045%       |               |               |               | 97.499%       |
|                                   |               |               |               |               | 0.9045%       |
|                                   | 0.1525%       |               |               |               | 0.1525%       |
|                                   | 1.4437%       |               |               |               | 1.4437%       |
|                                   |               |               |               |               | 50.000%       |
|                                   |               |               |               |               | 50.000%       |
|                                   |               |               |               |               | 24.600%       |
|                                   |               |               |               |               | 75.400%       |

# Gallons of Gasoline Derived from Revenue Before Refunds



— Gallons of Gasoline ◆ Growth Rate

# Gallons of Special Fuel Derived from Revenue Before Refunds



— Gallons of Fuel ◆ Growth Rate

# **Property Tax Reimbursement Programs**

**Municipal Valuation Data & Commitment Growth Rate Forecast Assumptions - November 2006**

|                                                             | 2005_Actual | 2006_Prel. | 2007   | 2008   | 2009   | 2010   | 2011   |
|-------------------------------------------------------------|-------------|------------|--------|--------|--------|--------|--------|
| <b>Residential Land &amp; Building Growth Rate Analysis</b> |             |            |        |        |        |        |        |
| Existing Median Price (\$) Maine                            | 13.5%       | 15.1%      | 6.0%   | 0.9%   | 4.8%   | 6.3%   | 6.8%   |
| <b>Commercial Land &amp; Building Growth Rate Analysis</b>  |             |            |        |        |        |        |        |
| Commercial Structures Investment                            | 7.8%        | 11.7%      | 9.3%   | 8.8%   | 0.8%   | 1.1%   | 2.6%   |
| <b>Personal Property Growth Rate Analysis</b>               |             |            |        |        |        |        |        |
| Nonresident Fixed Investment                                | 1.2%        | 6.2%       | 7.8%   | 6.9%   | 4.4%   | 5.2%   | 4.2%   |
| <b>Commitment Growth Rate Analysis</b>                      |             |            |        |        |        |        |        |
| As of 11/15/06 - State average growth rate                  | 1.7%        | 3.8%       | 3.8%   | 3.8%   | 3.8%   | 3.8%   | 3.8%   |
| <b>Full Vall Mill Rate _ State Level</b>                    |             |            |        |        |        |        |        |
|                                                             | 0.0116      | 0.0106     | 0.0103 | 0.0104 | 0.0104 | 0.0102 | 0.0100 |
|                                                             |             | -9.2%      | -2.7%  | 1.2%   | -0.3%  | -1.5%  | -2.1%  |

**NOTES**

**Municipal Valuation Data Forecast**

**Assumptions - Forecast Year 2006**

**Commercial Land & Building**

- Used the average of the growth rates in Commercial land & building between 2004 vs 2003 and 2005 vs 2004.

**Residential Land & Building**

- Used the growth rate in residential building & land between 2005 vs 2004

**Personal Property (office equipment and machinery equipment)**

- Used the growth rate in personal property between 2005 vs 2004

**Assumptions - Forecast Year 2007 through 2011**

**Commercial Land & Building**

- Used the growth rates in Commercial Structure Investment in the U.S  
Global Insight: Economic Outlook - U.S Executive Summary - November 6th, 2006

**Residential Land & Building**

- Used the growth in Existing Median Price (\$) Maine  
Global Insight: Short Term Outlook for Maine - November 10th, 2006

**Personal Property (office equipment and machinery equipment)**

- Used the growth rates in Nonresidential Fixed Investment in the U.S  
Global Insight: Economic Outlook - U.S Executive Summary - November 6th, 2006

**Municipal Commitment Forecast**

**Assumptions - Forecast Year 2006**

- For about 80% of the towns, used actuals off the Municipal Valuation Return Statistics Summary. Missing towns were developed by adjusting the 2005 value by 2006 county growth rate.

**Assumptions - Forecast Year 2007 through 2011**

- Used a growth rate of 3.8% - which is the state level change between 2006 and 2005 for the 80% of the municipalities.

**Municipal Full Value Mill Rates Forecast**

- We have incorporated in developing the full value mill rates, the fact that the State reimburses only half of the homestead exemption.

Summary \_ Tax Revenue \_ By Class \_ November 2006

|      | <u>Tax on Residential</u> | <u>Tax on Business</u> | <u>Total Tax</u> |
|------|---------------------------|------------------------|------------------|
| 2002 | \$1,087,024,000           | \$482,085,024          | \$1,569,109,024  |
| 2003 | \$1,166,198,528           | \$486,896,800          | \$1,653,095,328  |
| 2004 | \$1,260,737,536           | \$478,190,976          | \$1,738,928,512  |
| 2005 | \$1,291,962,880           | \$477,155,712          | \$1,769,118,592  |
| 2006 | \$1,351,896,576           | \$480,373,472          | \$1,832,270,048  |
| 2007 | \$1,395,055,744           | \$506,593,152          | \$1,901,648,896  |
| 2008 | \$1,425,677,824           | \$547,971,648          | \$1,973,649,472  |
| 2009 | \$1,489,718,272           | \$558,658,432          | \$2,048,376,704  |
| 2010 | \$1,559,541,888           | \$566,391,104          | \$2,125,932,992  |
| 2011 | \$1,631,092,352           | \$575,324,032          | \$2,206,416,384  |

|      |      |       |      |
|------|------|-------|------|
| 2003 | 7.3% | 1.0%  | 5.4% |
| 2004 | 8.1% | -1.8% | 5.2% |
| 2005 | 2.5% | -0.2% | 1.7% |
| 2006 | 4.6% | 0.7%  | 3.6% |
| 2007 | 3.2% | 5.5%  | 3.8% |
| 2008 | 2.2% | 8.2%  | 3.8% |
| 2009 | 4.5% | 2.0%  | 3.8% |
| 2010 | 4.7% | 1.4%  | 3.8% |
| 2011 | 4.6% | 1.6%  | 3.8% |

Full Value Mill Rate \_ Off Model

|      | <u>Residential</u> | <u>Business</u> | <u>Total</u> |
|------|--------------------|-----------------|--------------|
| 2002 | 0.01401            | 0.01682         | 0.01477      |
| 2003 | 0.01302            | 0.01593         | 0.01376      |
| 2004 | 0.01216            | 0.01491         | 0.01281      |
| 2005 | 0.01096            | 0.01402         | 0.01165      |
| 2006 | 0.00996            | 0.01280         | 0.01058      |
| 2007 | 0.00970            | 0.01239         | 0.01029      |
| 2008 | 0.00981            | 0.01237         | 0.01041      |
| 2009 | 0.00979            | 0.01240         | 0.01038      |
| 2010 | 0.00964            | 0.01231         | 0.01023      |
| 2011 | 0.00944            | 0.01213         | 0.01002      |

|      |       |       |       |
|------|-------|-------|-------|
| 2003 | -7.1% | -5.3% | -6.9% |
| 2004 | -6.6% | -6.4% | -6.9% |
| 2005 | -9.9% | -6.0% | -9.1% |
| 2006 | -9.1% | -8.7% | -9.2% |
| 2007 | -2.7% | -3.2% | -2.7% |
| 2008 | 1.2%  | -0.2% | 1.2%  |
| 2009 | -0.3% | 0.2%  | -0.3% |
| 2010 | -1.5% | -0.8% | -1.5% |
| 2011 | -2.1% | -1.4% | -2.1% |

Property Tax Reimbursement Programs: General Fund Baseline Forecast FY07 - FY11

|                                                     | FY04  | FY05           | Biennium       | FY06            | FY07            | Biennium        | FY08            | FY09            | Biennium        | FY08            | FY09            | Biennium        |
|-----------------------------------------------------|-------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actuals & February, 2006 Forecast / 1               | \$0   | -\$26,030,227  | -\$26,030,227  | -\$109,861,880  | -\$114,242,328  | -\$224,104,208  | -\$126,147,013  | -\$142,409,384  | -\$268,556,397  | -\$21,538,412   | -\$27,486,069   | -\$49,024,481   |
| Maine Residents Property Tax Program                | \$0   | -\$26,030,227  | -\$26,030,227  | -\$42,796,070   | -\$45,095,820   | -\$88,891,890   | -\$48,440,013   | -\$51,389,085   | -\$99,829,098   | \$0             | \$0             | \$0             |
| Business Equipment Tax Reimbursement Program (BETR) | \$0   | \$0            | \$0            | -\$67,065,810   | -\$68,146,508   | -\$135,212,318  | -\$77,707,000   | -\$79,646,983   | -\$157,353,983  | \$0             | \$0             | \$0             |
| Municipal Personal Property Exemption               | \$0   | \$0            | \$0            | \$0             | \$0             | \$0             | \$0             | -\$11,373,316   | -\$11,373,316   | -\$21,538,412   | -\$27,486,069   | -\$49,024,481   |
| Adjustments to Prior Forecast                       | \$0   | \$0            | \$0            | \$0             | \$7,284,599     | \$7,284,599     | \$11,402,421    | \$13,875,170    | \$25,277,591    | -\$113,727,291  | -\$110,520,960  | -\$224,248,251  |
| Maine Residents Property Tax Program                | \$0   | \$0            | \$0            | \$0             | \$1,138,799     | \$1,138,799     | \$2,186,247     | \$3,815,836     | \$6,002,083     | -\$48,073,804   | -\$50,473,026   | -\$98,546,830   |
| Business Equipment Tax Reimbursement Program (BETR) | \$0   | \$0            | \$0            | \$0             | \$6,145,800     | \$6,145,800     | \$9,216,174     | \$10,059,334    | \$19,275,508    | -\$65,653,487   | -\$60,047,934   | -\$125,701,421  |
| Municipal Personal Property Exemption               | \$0   | \$0            | \$0            | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             | \$0             |
| New Forecast                                        | \$0   | (\$26,030,227) | (\$26,030,227) | (\$109,861,880) | (\$106,957,729) | (\$216,819,609) | (\$114,744,592) | (\$128,534,214) | (\$243,278,806) | (\$135,265,703) | (\$138,007,029) | (\$273,272,732) |
| Growth Rate                                         | -1.8% | -0.3%          | -1.6%          | 322.1%          | -2.6%           | 733.0%          | 7.3%            | 12.0%           | 12.2%           | 5.2%            | 2.0%            | 12.3%           |

1/ February, 2006 forecast with FY04, FY05 and FY06 actuals.

Maine Revenue Services  
Research Division

28-Nov-06