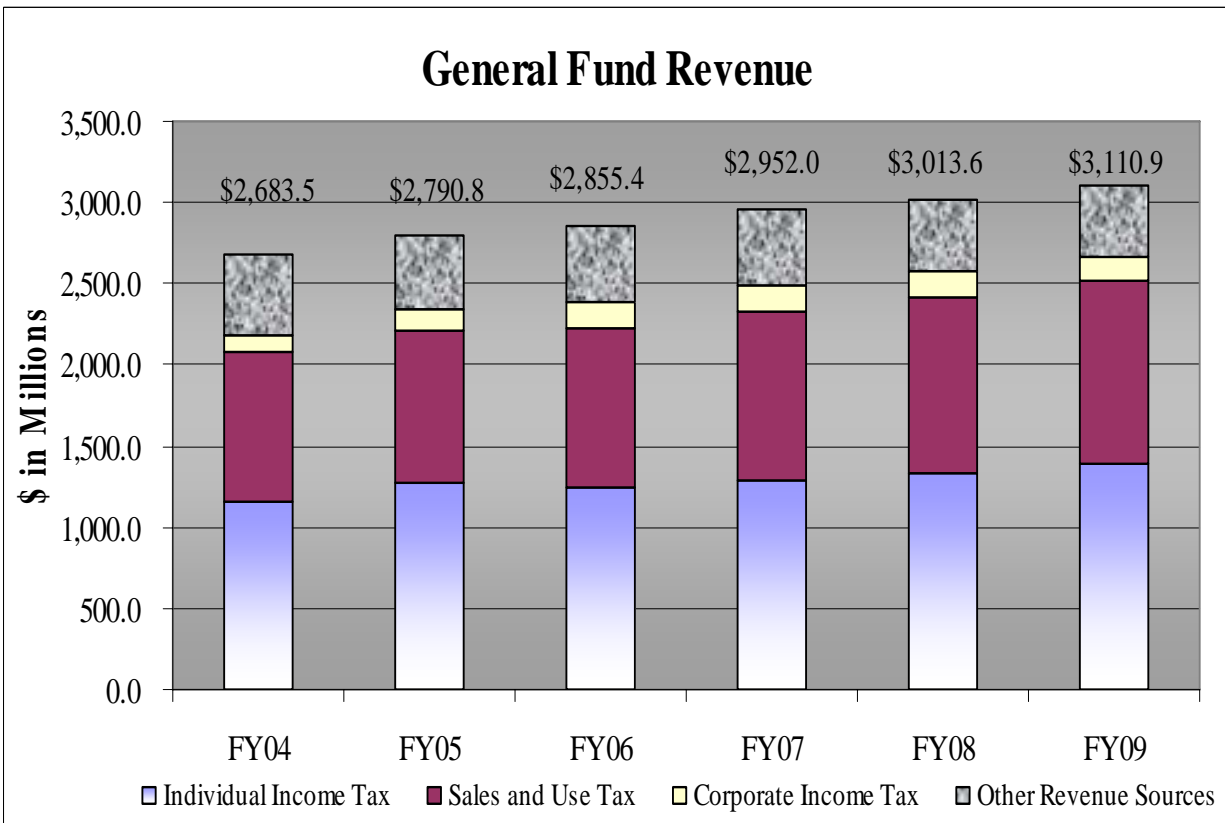


# REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2005



**Jerome Gerard, Chair**  
Acting State Tax Assessor

**Dr. James Breece**  
University of Maine System

**Marc Cyr**  
Office of Fiscal & Program Review

**Ryan Low**  
State Budget Officer

**Grant Pennoyer, Director**  
Office of Fiscal & Program Review

**Catherine Reilly**  
State Economist



**STATE OF MAINE  
REVENUE FORECASTING COMMITTEE**

**Members:**

Jerome Gerard, Chair, Acting State Tax Assessor  
James Breece, University of Maine System  
Marc Cyr, Principal Analyst, Office of Fiscal and Program Review  
Ryan Low, State Budget Officer  
Grant Pennoyer, Director, Office of Fiscal and Program Review  
Catherine Reilly, State Economist

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December 15, 2005

**TO:** Governor John Baldacci  
Members, Joint Standing Committee on Appropriations and Financial Affairs  
Members, Joint Standing Committee on Taxation  
Members, Joint Standing Committee on Transportation

**FROM:** Jerome Gerard, Chair, Revenue Forecasting Committee

**RE: Final Report of the December 2005 Revenue Forecast**

Enclosed is the Revenue Forecasting Committee's Final Report of the December 2005 Revenue Forecast. This report contains substantial detail about the forecast process and the component elements of the forecast. The Revenue Forecasting Committee continues to work on improvements to the information presented with its forecasts. For this forecast, in particular, this detail is available so that policy makers can better understand the updated forecast and the risks associated with it.

As noted in our summary letter of November 30, 2005, *the committee wants to emphasize that capital gains income is highly discretionary and therefore volatile. Combined with a very uncertain global economic and geo-political environment there is a risk that individual income tax revenues can plummet quickly and deeply as they did in April of 2002. The committee will closely monitor the final individual income tax estimated payment due January 15<sup>th</sup> to determine if this key assumption needs to be revised as soon as this coming March.*

The General Fund forecast amounts in this report differ slightly from the tables that accompanied the November 30<sup>th</sup> summary letter. The General Fund total is \$2,100,500 higher in FY08 due to an inadvertent omission of a recommended change. The corrected General Fund tables are included in this report.

We hope that you find this report useful. Please feel free to contact me or any other member of the committee should you have any questions.

Attachment

cc: Members, Revenue Forecasting Committee  
Members, Consensus Economic Forecasting Commission  
Jane Lincoln, Governor's Office  
Rebecca Wyke, Commissioner - DAFS  
Millie MacFarland, Clerk of the House  
Joy O'Brien, Secretary of the Senate  
David Boulter, Executive Director, Legislative Council  
Legislative Staff Office Directors

# **Report of the Maine State Revenue Forecasting Committee December 2005 Forecast**

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## **I. INTRODUCTION AND BACKGROUND TO REVENUE FORECAST**

This report represents the conclusion to the fall forecast for the December 1<sup>st</sup> 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 included forecasts of revenue accruing to the Fund for a Healthy Maine and the dedicated revenue from the Medicaid/MaineCare provider taxes. This updated forecast revises the forecast that was updated in March 2005 and incorporates all enacted legislative changes affecting revenue during the 122<sup>nd</sup> Legislature to date. The revenue forecasts in this report provide projections through the fiscal year ending June 30, 2009 (FY09).

The RFC met on November 21<sup>st</sup> for an all day meeting to deliberate and discuss the recommendations of Maine Revenue Services and other revenue analyses. Of note for this fall update is the recent upgrade to the econometric tax models. This forecast is the first after an upgrade to Maine Revenue Services' tax models, which allowed the Maine Revenue Services and the RFC the opportunity to add additional economic and demographic variables to improve the models ability to capture recent events, such as the rise in oil prices. This forecast is based on the first upgrade to Maine Revenue Services' models since their original implementation in 1999. This upgrade provided the opportunity to add variables to better capture the effect of assumed changes in certain demographic and economic variables. This update delayed the fall forecast and tightened some time frames for the analysis, but the addition of variables such as oil prices should improve the accuracy of the forecast by helping to explain the dampening effect of higher oil prices on consumer spending in Maine. Another improvement for this forecast was the addition of analyses and written summaries of the major revenue categories of all revenue forecast by the RFC.

### **A. Economic Forecast Update**

The December 2005 revenue update began with the fall economic forecast in October. The Consensus Economic Forecasting Commission (CEFC) met to review and update its forecast of February 2005. In the intervening period, the Base Realignment and Closure (BRAC) Commission deliberations added a great deal of uncertainty to the economic forecast. Maine was at risk for some substantial closures and realignments that would have had a significant economic disruption. By mid-September, it was clear that Maine had dodged a major "economic bullet." The CEFC's updated forecast increases estimates of many of the non-wage components of Personal Income for each year of the forecast, but reduces the assumptions of employment growth and increases the estimates of inflation. The table that follows summarizes the incremental changes of the major economic variables forecast by the CEFC. The full report of the CEFC is included in Appendix E. This forecast was then used by Maine Revenue Services to project the major tax lines driven by economic factors.

**TABLE I-A**  
**Consensus Economic Forecasting Commission**  
**Comparison of February and November Economic Forecasts**

<u>Calendar Years</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>• Wage &amp; Salary Employment (Annual Percentage Change)</b>					
> Consensus 2/2005	1.7	1.5	1.1	1.3	1.3
> Consensus 11/2005	0.8	0.9	0.7	0.8	0.8
<b>Difference</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-0.5</b>
<b>• Personal Income (Annual Percentage Change)</b>					
> Consensus 2/2005	4.0	4.0	4.0	4.0	4.0
> Consensus 11/2005	5.5	5.5	5.0	5.0	5.0
<b>Difference</b>	<b>1.5</b>	<b>1.5</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>• Consumer Price Index (Annual Percentage Change)</b>					
> Consensus 2/2005	2.0	2.0	2.0	2.0	2.0
> Consensus 11/2005	3.2	2.8	2.5	2.2	2.2
<b>Difference</b>	<b>1.2</b>	<b>0.8</b>	<b>0.5</b>	<b>0.2</b>	<b>0.2</b>

## **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. In tax year 2004, Maine received an opposite surprise in April 2005. It is estimated that net capital gains realizations increased by 60% that year, whereas the RFC had assumed that 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 typically included in the RFC's December report. This year, due to a delay in Maine's processing of the federal tax data, that report is not available for this report. The RFC will include that report in its March 2006 report. The other aspect of capital gains realizations that makes it so 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 struggled once again with this vexing variable in this forecast. The approach that the RFC used for this forecast was to adjust this variable so that over the course of the forecast period, the percentage of resident tax liability returns to a longer term average, factoring out the

recent “tech bubble.” With the bursting of the “bubble,” the extent of the Maine resident individual income tax liability derived from net capital gains had dropped down from its peak in 2000 of 17.5% to a level more in line with historical patterns before the “bubble,” in the range of 6% to 7% of tax liability. The table below shows the recent history and the assumptions in this forecast which reduce resident capital gains realizations by modest amounts each year, dropping the percentage of tax liability from net capital gains from 10.9% in tax year 2005 to 7.4% in tax year 2009. This results in a decrease in net capital gains realizations each year of the forecast.

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

<b>Tax Year</b>	<b>Capital Gains Realizations (\$ Millions)</b>	<b>Capital Gains Realizations Annual % Change</b>	<b>Capital Gains Tax Liability (\$ Millions)</b>	<b>Capital Gains Tax Liability Annual % Change</b>	<b>Capital Gains % of Resident Tax Liability</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*	\$1,079.0	18.7%	\$70.9	19.9%	7.0%
2004*	\$1,726.4	60.0%	\$120.7	70.4%	10.8%
2005*	\$1,821.8	5.5%	\$128.4	6.4%	10.9%
2006*	\$1,776.2	-2.5%	\$122.8	-4.3%	10.0%
2007*	\$1,698.1	-4.4%	\$116.9	-4.8%	9.2%
2008*	\$1,599.6	-5.8%	\$111.0	-5.1%	8.4%
2009*	\$1,487.6	-7.0%	\$100.7	-9.2%	7.4%

\* Represent Projections

### **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 Insights’ November 2005 forecast of after-tax corporate profits. That national forecast calls for 33% growth in calendar year 2005 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.

## **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 the heating oil season began in the fall of 2004. 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 2005 US economic forecast, the RFC used the assumption that oil prices, which are currently in the \$60 per barrel range would fall to approximately \$45 per barrel by calendar year 2008. This is consistent with the assumptions of the CEFC.

## **E. Legislative Changes**

The RFC bases the revenue forecast on current law. The current forecast prior to revisions includes all legislative changes to date. The 122<sup>nd</sup> Legislature during its 1<sup>st</sup> Regular and 1<sup>st</sup> Special Session enacted many changes to General Fund and Highway Fund revenue. The table below summarizes these legislative changes to revenue. The RFC as part of its analysis of the various categories of revenue implicitly reviews the revenue derived from these legislative changes. The Committee did make some small adjustments to the amounts budgeted for General Fund revenue from enacted legislative changes. Some of the changes, the increase in the cigarette tax in particular, have just recently become effective and have no historical track record to evaluate the accuracy of the changes scored through the fiscal note process.

The major reductions to General Fund revenue were related to the Circuit Breaker (Tax and Rent Refund) program and the Business Equipment Tax Reimbursement (BETR) program. The Circuit Breaker program was shifted to a reduction of individual income tax revenue in FY05 by the 121<sup>st</sup> Legislature and the BETR program was shifted from appropriations to individual income tax revenue reductions by the 122<sup>nd</sup> Legislature effective for FY06. The shift of the BETR program decreased individual income tax revenue by more than \$70 million annually. The other major reduction to individual income tax revenue, which is reflect in the table below and was incorporated into the March 2005 forecast, was the expansion of the Circuit Breaker program during the 122<sup>nd</sup> Legislature's property tax reform effort that concluded in January 2005. That expansion reduced individual income tax revenue by \$17 million to \$20 million annually.

**TABLE I-E**  
**Summary of 122nd Legislature's Changes Through 2nd Special Session**  
**General Fund**

	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
<b>Sales Tax</b>	\$0	\$6,539,385	\$7,649,983	\$8,669,458	\$10,261,295
<b>Service Provider</b>	\$0	\$485,667	\$721,562	\$750,425	\$780,442
<b>Individual Income</b>	(\$1,428,540)	(\$81,871,833)	(\$67,130,918)	(\$70,856,896)	(\$76,934,094)
<b>Corporate Income</b>	(\$50,957)	\$5,772,501	\$5,847,756	\$7,000,993	\$7,487,440
<b>Cigarette Tax</b>	\$0	\$52,012,965	\$70,933,388	\$70,574,574	\$70,185,513
<b>Estate Tax</b>	\$0	\$502,800	\$407,000	\$417,290	\$428,095
<b>Prop. Tax - UT</b>	\$0	\$412,600	\$437,356	\$463,597	\$491,413
<b>Revenue Sharing</b>	\$75,454	\$5,888,989	\$5,169,227	\$2,820,539	\$3,036,087
<b>Lottery Transfer</b>	\$0	\$500,000	\$500,000	\$0	\$0
<b>Other Revenue</b>	\$9,033,928	\$29,405,972	\$32,995,263	\$11,273,950	\$7,431,079
<b>Totals</b>	<b>\$7,629,885</b>	<b>\$19,649,046</b>	<b>\$57,530,617</b>	<b>\$31,113,930</b>	<b>\$23,167,270</b>

**Highway Fund**

	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
<b>Fuel Taxes</b>	\$0	(\$702,708)	(\$903,612)	(\$933,346)	(\$964,179)
<b>Other Revenue</b>	\$0	\$1,200	\$4,800	\$4,800	\$4,800
<b>Totals</b>	<b>\$0</b>	<b>(\$701,508)</b>	<b>(\$898,812)</b>	<b>(\$928,546)</b>	<b>(\$959,379)</b>

**F. Historical Setting – Some Uncertainty Cleared But Still Future Risks**

For some, the revisions to the General Fund revenue in this forecast may seem substantial. However, it is important to remember that both the CEFC and the RFC were facing a great deal of uncertainty during the intervening period after the March 2005 forecast, the potential effects of the BRAC recommendations were the most substantial. Despite the positive variances that were obvious from the April 2005 pleasant surprise, the RFC, which met in June 2005 to update its forecast at the call of the State Budget Officer, was only comfortable updating its forecast of FY05 with just one month remaining. The major outstanding questions in June included: (1) the outcome of the BRAC Commission's recommendations which raised some serious concerns about future revenues, which were stressed in the June 2005 Report, (2) uncertainty about income tax collections which were surging ahead of estimates, and (3) a sales tax line that was showing some significant weakening, which seemed to coincide with the rise of oil and gas prices. After September 2005 with the BRAC uncertainty gone and a better, albeit still incomplete, understanding of the surge in individual income tax receipts, the CEFC and RFC are now projecting an improved economic and revenue picture.

However, the RFC cautions that there are still some areas of high risk in this forecast, particularly surrounding the positive forecasts of Individual Income and Corporate Income Taxes.



## **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 the 4 appendices, which provide summaries of the major categories in each of the funds. In addition, Appendix G contains the materials presented by Maine Revenue Services on November 21, 2005 to support the forecast recommendations.

### **A. General Fund**

For the General Fund, this forecast results in a substantial upward revision of \$164.4 million for the 2006-2007 biennium (\$112.1 million in FY06 and \$52.3 million in FY07). The upward revision for the 2008-2009 biennium is \$96.3 million, decreasing the 2008-2009 structural gap. Table A below provides a summary of the changes for each of the major revenue categories (additional detail of the General Fund changes is provided in Appendix A). Positive variances that were recognized only for FY05 in the June 2005 Revision, the increased Personal Income forecast by the CEFC, improved forecasts for corporate profitability and changes in assumptions related to capital gains outweighed the decrease in the taxable sales projections that were constrained by higher fuel and energy prices. The recent Estate Tax experience has also increased budgeted revenue in the short-term as the forecast recognizes some very substantial one-time estate tax payments, one in excess of \$17 million. The much smaller revision for the 2008-2009 biennium reflects the committee's view that the estimated level of capital gains realizations in 2004 is not sustainable and therefore is "one-time" revenue. The new forecast assumes that capital gains realizations will decrease steadily between 2006 and 2009 so that by 2009 capital gains will be at a level consistent with history.

Table II-A shows that the previous forecast had reflected negative growth between FY05 and FY06, largely the result of some substantial one-time revenue increases enacted by the 121<sup>st</sup> Legislature. The short-term increases from the Estate Tax and the other net positive adjustments reverse that negative growth. The revised forecast for General Fund revenue projects modest growth throughout the forecast period.

**Table II-A  
General Fund Summary**

	<b>FY05 Actual</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
Current Forecast	\$2,790,845,053	\$2,743,294,742	\$2,899,720,412	\$2,963,928,357	\$3,064,285,562
Annual % Growth		-1.7%	5.7%	2.2%	3.4%
Net Increase (Decrease)		\$112,125,896	\$52,295,464	\$51,724,793	\$46,644,239
Revised Forecast	\$2,790,845,053	\$2,855,420,638	\$2,952,015,876	\$3,015,653,150	\$3,110,929,801
Annual % Growth		2.3%	3.4%	2.2%	3.2%
<b>Summary of Revenue Revisions by Major Revenue Category</b>					
Sales and Use Tax		(\$27,756,805)	(\$19,743,205)	(\$16,388,578)	(\$16,597,272)
Service Provider Tax		(\$2,793,002)	(\$2,904,968)	(\$2,768,515)	(\$2,627,700)
Individual Income Tax		\$71,793,623	\$40,746,720	\$22,235,382	\$12,703,998
Corporate Income Tax		\$46,342,442	\$46,349,025	\$57,959,007	\$57,502,560
Cigarette and Tobacco Tax		\$0	\$0	\$0	\$0
Public Utilities Tax		(\$4,000,000)	(\$4,000,000)	(\$4,000,000)	(\$4,000,000)
Insurance Companies Tax		\$0	\$0	\$0	\$0
Estate Tax		\$33,476,590	\$6,125,184	\$7,333,247	\$10,739,190
Prop. Tax - Unorganized Territory		\$175,163	\$177,889	\$183,092	\$189,992
Income from Investments		(\$1,760,484)	(\$268,476)	(\$1,224,726)	(\$1,224,726)
Transfer to Municipal Rev. Sharing		(\$4,466,900)	(\$3,286,825)	(\$3,173,939)	(\$2,651,042)
Transfer from Lottery Commission		(\$3,000,000)	(\$3,000,000)	(\$3,000,000)	(\$3,000,000)

**B. Highway Fund**

For the Highway Fund, this forecast increases 2006-2007 budgeted revenue by \$8.3 million (\$6.1 million in FY06 and \$2.2 million in FY07). However, the projections for the 2008-2009 biennium decrease revenue by \$4.2 million, thereby increasing the Highway Fund 2008-2009 structural gap. Some unusual gas tax audits and an increase in the estimates for certain motor vehicle registration and fee revenues offset the dampening effect of higher fuel prices. Table II-B below provides a summary of the changes for the major categories of Highway Fund revenue (see Appendix B for additional detail of the Highway Fund revenue revisions).

**Table II-B  
Highway Fund Summary**

	<b>FY05 Actual</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
Current Forecast	\$326,078,155	\$329,339,672	\$338,925,419	\$347,529,520	\$356,799,825
Annual % Growth		1.0%	2.9%	2.5%	2.7%
Net Increase (Decrease)		\$6,013,207	\$2,074,313	(\$1,011,622)	(\$3,337,810)
Revised Forecast	\$326,078,155	\$335,352,879	\$340,999,732	\$346,517,898	\$353,462,015
Annual % Growth		2.8%	1.7%	1.6%	2.0%
<b>Summary of Revenue Revisions by Major Revenue Category</b>					
Fuel Taxes		\$1,964,108	(\$2,036,676)	(\$3,244,611)	(\$5,570,799)
Motor Vehicle Registration & Fees		\$4,082,000	\$4,082,000	\$2,082,000	\$2,082,000

Income from Investments	\$43,522	\$243,522	\$243,522	\$243,522
Other Revenues	(\$76,423)	(\$214,533)	(\$92,533)	(\$92,533)

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

The Fund for a Healthy Maine (FHM) was revised downward for the 2006-2007 biennium, based on an assumed delay in the receipt of tobacco settlement payments pending the outcome of “significant factor proceedings” under the Master Settlement Agreement. The FHM is also adversely affected by the delay of assumed start-up of the permanent slot machine facility in Bangor. The net result for the 2006-2007 biennium revenue forecast for the Fund for a Healthy Maine is a downward revision of \$20.4 million (\$5.4 million in FY06 and \$15.0 million in FY07). The projections for the 2008-2009 biennium are revised upward and assume that the State will prevail in the significant factor proceedings. Growth is also expected in the 2008-2009 biennium in tobacco settlement payments from the addition of the 10 annual “Strategic Contributions Payments” that begin in FY08.

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

	<b>FY05 Actual</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
Current Forecast	\$49,124,793	\$48,784,525	\$59,424,155	\$72,014,299	\$73,141,825
Annual % Growth		-0.7%	21.8%	21.2%	1.6%
Net Increase (Decrease)		(\$5,430,903)	(\$15,014,476)	\$4,490,415	\$5,292,483
Revised Forecast	\$49,124,793	\$43,353,622	\$44,409,679	\$76,504,714	\$78,434,308
Annual % Growth		-11.7%	2.4%	72.3%	2.5%
<b>Summary of Revenue Revisions by Major Revenue Category</b>					
Base Payments		(\$7,086,863)	(\$7,720,092)	\$9,943,662	\$9,850,203
Racino Revenue		\$1,675,960	(\$7,274,384)	(\$5,453,247)	(\$4,557,720)
Income from Investments		(\$20,000)	(\$20,000)	\$0	\$0

### D. MaineCare Dedicated Revenue Taxes

In aggregate, the forecast for MaineCare dedicated revenue taxes was revised upward for the forecast period. This revision was driven primarily by an upward adjustment in nursing facility tax revenue based on actual FY05 revenue and FY06 collections to date. The revised forecast also assumes upward adjustments in residential treatment facility tax revenue and in the dedicated revenue portion of the service provider tax (i.e., that portion of the tax applied to private non-medical institution (PNMI), community support, day habilitation, personal support and residential training services). The positive aggregate adjustment in the MaineCare tax forecast is offset slightly by a downward revision in hospital tax revenue based on actual experience.

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

	<b>FY05 Actual</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
Current Forecast	\$95,537,301	\$114,168,542	\$117,015,487	\$118,542,747	\$120,108,188
Annual % Growth		19.5%	2.5%	1.3%	1.3%
Net Increase (Decrease)		\$2,530,547	\$3,127,415	\$2,929,495	\$2,726,627
Revised Forecast	\$95,537,301	\$116,699,089	\$120,142,902	\$121,472,242	\$122,834,815
Annual % Growth		22.2%	3.0%	1.1%	1.1%
<b>Summary of Revenue Revisions by Major Revenue Category</b>					
Nursing Facility Tax		\$2,025,876	\$2,076,523	\$2,128,436	\$2,181,647
Residential Treatment Facilities Tax		\$535,816	\$549,211	\$562,942	\$577,015
Hospital Tax		(\$623,782)	(\$105,771)	(\$105,771)	(\$105,771)
Service Provider Tax (PNMIs)		\$592,637	\$607,452	\$343,889	\$73,736

### III. CONCLUSIONS

Armed with the new models and a better understanding of the causes of the FY05 revenue variances and cleared of the economic fog that surrounded the outcome of the BRAC recommendations, the RFC now projects general improvement in the revenue forecast. The only exception in the short-term is the Fund for a Healthy Maine. Tobacco Settlement Payments (TSP's) are subject to significant factor proceedings, which are assumed to delay a substantial portion of the TSP's reduction until after the 2006-2007 biennium. The Highway Fund revenue forecast calls for a reduction in the 2008-2009 biennium primarily the effect of the new models and oil prices.

Although the RFC forecast for the General Fund projects significant improvement over the previous forecast, the RFC remains cautious about the unpredictable nature of income from net capital gains. The significant lag in historical data (Federal tax data is often not finalized until a year or more after the close of a tax year) creates great uncertainty. The RFC is assuming that the positive unexplained variance in April individual income tax was related to a 60% increase in net capital gains income in tax year 2004. We will not be able to verify that until late fall of 2006 when all income tax filing extensions have run their course. In Maine, the decisions of a relatively small number of taxpayers can substantially affect individual income tax revenue. 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 the individual income tax. 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.

The RFC will be closely monitoring the economic situation and the final estimated income tax payments due January 15<sup>th</sup> to determine if the RFC's key assumptions about capital gains growth are consistent with taxpayer expectations in these final payments. While these estimate payments will provide some guidance as to the accuracy of the capital gains forecast, there is still

the potential for some wide swings in the final payments due in April, after the RFC March update.