

**Budget Overview**  
**122nd Legislature**  
**2<sup>nd</sup> Regular Session**

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Office of Fiscal and Program Review  
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# Budget Overview

## 122<sup>nd</sup> Legislature, 2nd Regular Session

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## **I. Introduction**

At the start of the 122<sup>nd</sup> Legislature on December 1, 2004, the Legislature faced a General Fund structural gap for the 2006-2007 biennium (current services appropriations in excess of baseline revenue estimates) of \$702.6 million or 11.2% of appropriations. The 122<sup>nd</sup> Legislature addressed this shortfall during the 1<sup>st</sup> Regular and 1<sup>st</sup> Special Sessions in 2005 through various means and several budget bills (see last year's Budget Overview for additional detail) and left a budgeted ending balance at the close of the 2006-2007 biennium of \$5.0 million, which increased to \$11.6 million with the increase to Unappropriated Surplus at the close of FY05. At the beginning of the 2<sup>nd</sup> Regular Session on January 4, 2006, the budget situation had improved significantly. After the conclusion of the fall military base realignment and closure process, it was clear that Maine had been spared from what could have been some significant negative economic consequences. With this looming threat gone, the Consensus Economic Forecasting Commission (CEFC) and the Revenue Forecasting Committee (RFC) provided more optimistic forecasts. The additional increase in the budgeted revenue provided the opportunity to reverse some of the budget reductions made during the 1<sup>st</sup> Regular and 1<sup>st</sup> Special Sessions and to provide funding for some of the numerous funding proposals that had been carried forward from the 1<sup>st</sup> Special Session. While the fiscal picture had improved for the General Fund, the Highway Fund and the Fund for a Healthy Maine on the other hand, were facing projected budget shortfalls during the 2<sup>nd</sup> Regular Session. Part of the available General Fund resources during the 2<sup>nd</sup> Regular Session was used to help address these shortfalls in these other funds.

This document provides an overview of the major budget and fiscal decisions of the 122<sup>nd</sup> Legislature since the end of the 1<sup>st</sup> Special Session in June 2005. All amounts are presented in millions of dollars with the exception of Appendix A. As a result of rounding, the detail in the tables may not add to the totals. Throughout the document, fiscal years are abbreviated to FY05, FY06 and FY07, which correspond to the fiscal years ending June 30, 2005, June 30 2006 and June 30, 2007, respectively. Additional detailed analyses of the budget and numerous historical analyses are constantly being updated by the Office of Fiscal and Program Review (OFPR) and are available from OFPR. Many of these analyses including this report are posted to OFPR's web page: <http://www.maine.gov/legis/ofpr/>.

## **II. Summary of General Fund 2006-2007 Budget Adjustments**

Table II-A summarizes the non-Legislative and Legislative adjustments to General Fund resources since the close of the 1<sup>st</sup> Special Session. The revenue forecasting adjustments, after netting out the required transfers to the Maine Budget Stabilization Fund pursuant to 5 MRSA §1535, provided additional General Fund resources of \$106.6 million. When combined with the budgeted ending balance at the close of the 1<sup>st</sup> Special Session of \$11.6 million, the 122<sup>nd</sup> Legislature had \$118.1 million of total available resources for the 2<sup>nd</sup> Regular Session. Table II-A also provides a summary of the changes to General Fund resources (transfers and revenue adjustments) and the net changes to appropriations by major category. The 2006-2007 biennium's budgeted ending balance for the General Fund, which had been approximately \$11.6 million prior to the Legislative changes of the 2<sup>nd</sup> Regular Session, is currently budgeted to be only \$18,747 at the close of the 2<sup>nd</sup> Regular Session.

**Table II-A Summary of General Fund Adjustments - 2nd Regular Session**

Millions of \$'s

	FY06	FY07	Biennium
<b>Available Resources Prior to 2nd Regular Session Legislative Changes</b>			
Budgeted Ending Balance with FY05 Adjustments for Actuals		\$11.6	\$11.6
December 2005 Revenue Forecast Adjustment	\$112.1	\$52.3	\$164.4
March 2006 Revenue Forecast Adjustment	\$1.9	(\$16.2)	(\$14.3)
Transfers to Budget Stabilization Fund (5 MRSA§1535)	(\$43.6)	\$0.0	(\$43.6)
<b>Total Available Resources Prior to Legislative Adjustments</b>	<b>\$70.5</b>	<b>\$47.7</b>	<b>\$118.1</b>
<b>Legislative Adjustments - 2nd Regular Session</b>			
<b>Transfers and Adjustment to Balance</b>			
Repeal Other Special Revenue One-day Internal Loan	(\$42.5)	\$42.5	\$0.0
Transfers to Budget Stabilization Fund (5 MRSA§1535)	\$43.6	\$0.0	\$43.6
Other Transfers to Budget Stabilization Fund	\$0.0	(\$29.0)	(\$29.0)
Transfers to Highway Fund	\$0.0	(\$15.0)	(\$15.0)
Transfers to the Fund for a Healthy Maine	(\$2.3)	(\$2.1)	(\$4.5)
Transfers to Other Special Revenue Funds	(\$1.8)	(\$1.8)	(\$3.5)
Other Transfers and Adjustments to Balance	(\$6.7)	\$0.9	(\$5.8)
<b>Subtotal - Transfers and Adjustments to Balance</b>	<b>(\$9.8)</b>	<b>(\$4.4)</b>	<b>(\$14.2)</b>
<b>Revenue Adjustments</b>			
Tax Enforcement Initiatives	\$0.0	\$2.8	\$2.8
Tax Conformity Initiatives	\$0.0	(\$1.6)	(\$1.6)
Other Miscellaneous Tax and Fee Changes	\$0.0	(\$1.9)	(\$1.9)
Transfer to Maine Clean Election Fund	\$0.0	(\$1.2)	(\$1.2)
Other Legislative Adjustments to Revenue	\$0.4	\$0.3	\$0.7
<b>Subtotal - Net Increase (Decrease) of Revenue</b>	<b>\$0.4</b>	<b>(\$1.7)</b>	<b>(\$1.2)</b>
<b>Total Increase (Decrease) to Resources</b>	<b>(\$9.4)</b>	<b>(\$6.1)</b>	<b>(\$15.5)</b>
<b>Appropriation Adjustments</b>			
General Purpose Aid for Local Schools Funding	\$0.0	\$41.3	\$41.3
Medicaid/MaineCare Adjustments	\$70.4	(\$14.2)	\$56.1
Higher Education Adjustments	\$0.3	\$10.5	\$10.8
Teachers' Retirement	\$0.0	\$0.0	\$0.0
Tax Relief and Reimbursement Programs	(\$3.8)	(\$5.1)	(\$8.9)
Debt Service	(\$16.7)	\$2.0	(\$14.7)
Personal Services Appropriations	(\$0.9)	(\$2.1)	(\$3.0)
Other Non-Personal Services Appropriation Adjustments	\$4.9	\$16.1	\$21.0
<b>Net Appropriations (Deappropriations)</b>	<b>\$54.1</b>	<b>\$48.5</b>	<b>\$102.7</b>
<b>Total Legislative Increases (Decreases) to Resources</b>	<b>(\$63.5)</b>	<b>(\$54.6)</b>	<b>(\$118.1)</b>
<b>Budgeted Ending Balance at Close of 2nd Regular Session</b>		<b>\$0.02</b>	<b>\$0.02</b>

## **Transfers and Adjustments**

At the top of the list of transfers and adjustments is the repeal of the \$42.5 million one-day borrowing from Other Special Revenue Funds that was needed to keep FY06 in balance at the close of the 1<sup>st</sup> Special Session in June of 2005. While its direct overall effect on the 2006-2007 biennium is minimal, the repeal combined with other legislative reductions of General Fund resources in FY06 reversed an automatic reserving provision enacted during the 1<sup>st</sup> Regular Session of the 122<sup>nd</sup> Legislature as part of the appropriations limitations established by LD 1 (PL 2005, c. 2). This reversal unreserved \$43.7 million that would otherwise have been transferred to the Maine Budget Stabilization Fund (MBSF) in FY06. In lieu of this MBSF transfer that was triggered by the Revenue Forecasting Committee increases of FY06 budgeted revenue, the Legislature transferred \$29.0 million to the MBSF in FY07 (also see discussion under Major Fiscal Policy Changes, page 14).

In light of the budget problems facing the Highway Fund and the Fund for a Healthy Maine (FHM), the General Fund transferred funds to each of these funds during the 2<sup>nd</sup> Regular Session, \$15 million to the Highway Fund in FY07 and \$4.5 million to the FHM.

## **Legislative Revenue Changes**

The 2<sup>nd</sup> Regular Session changes to budgeted revenue during the 2006-2007 biennium were relatively small with a net change of \$1.2 million for the biennium. Maine Revenue Services proposed 2 major tax enforcement initiatives that are projected to generate \$2.8 million. The Legislature enacted several other tax changes, many of which were held over from the 1<sup>st</sup> Special Session due to a lack of resources at that time. Appendix B provides a summary of these tax and fee changes that affect Maine's tax burden. While the impact during the 2006-2007 biennium is relatively small, the impact of these changes grows in the next biennium, decreasing revenue by \$19.7 million (see Section IV on page 7 for structural gap discussion).

## **Adjustments to Appropriations**

OFPR has maintained and updated a historical analysis of General Fund appropriations focusing on six major programs or program groups. These groups along with Personal Services expenditures (salaries, wages and fringe benefits) have in recent years accounted for approximately 85% of General Fund expenditures and appropriations. The summary of the changes to Appropriations in Table II-A is based on these major categories. Appendix A provides additional detail of the adjustments to appropriations based on these major categories.

Total increases to the appropriations for the 2006-2007 biennium during the 2<sup>nd</sup> Regular Session net to \$102.7 million over the biennium with \$97.4 million or approximately 95% of the change to appropriations affecting the General Purpose Aid for Local Schools and MaineCare/Medicaid programs. The growth of these 2 major categories has outpaced other General Fund spending. These 2 categories now account for more than 50% of the General Fund budgeted expenditures. Based on projections for the next biennium and the planned increases in the State's share of school funding, their share of total General Fund expenditures will continue to grow.

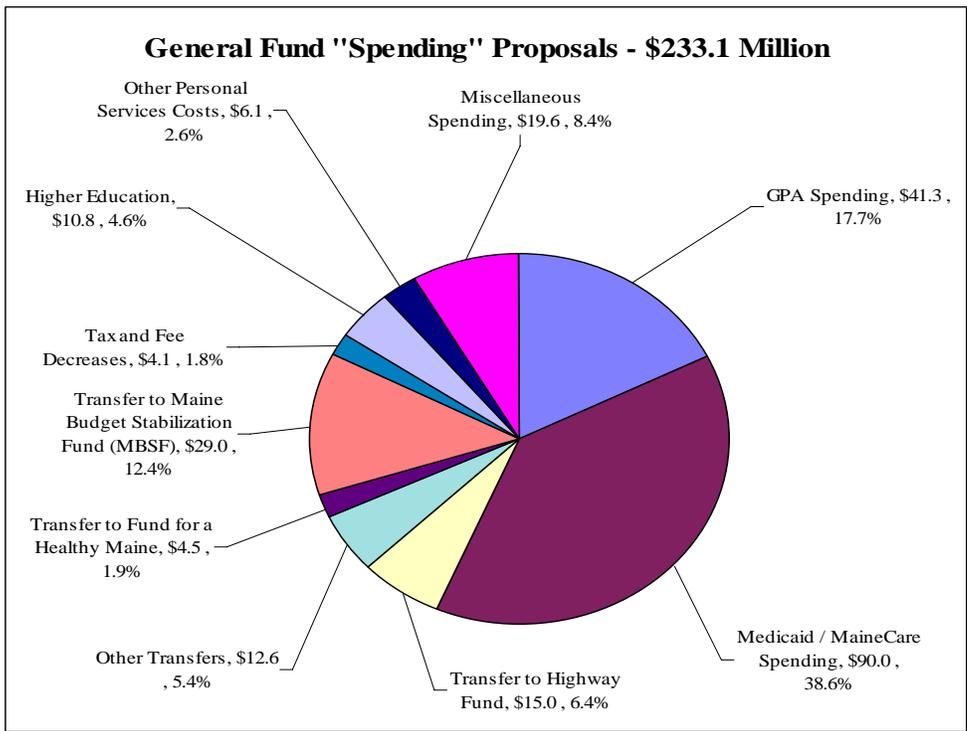
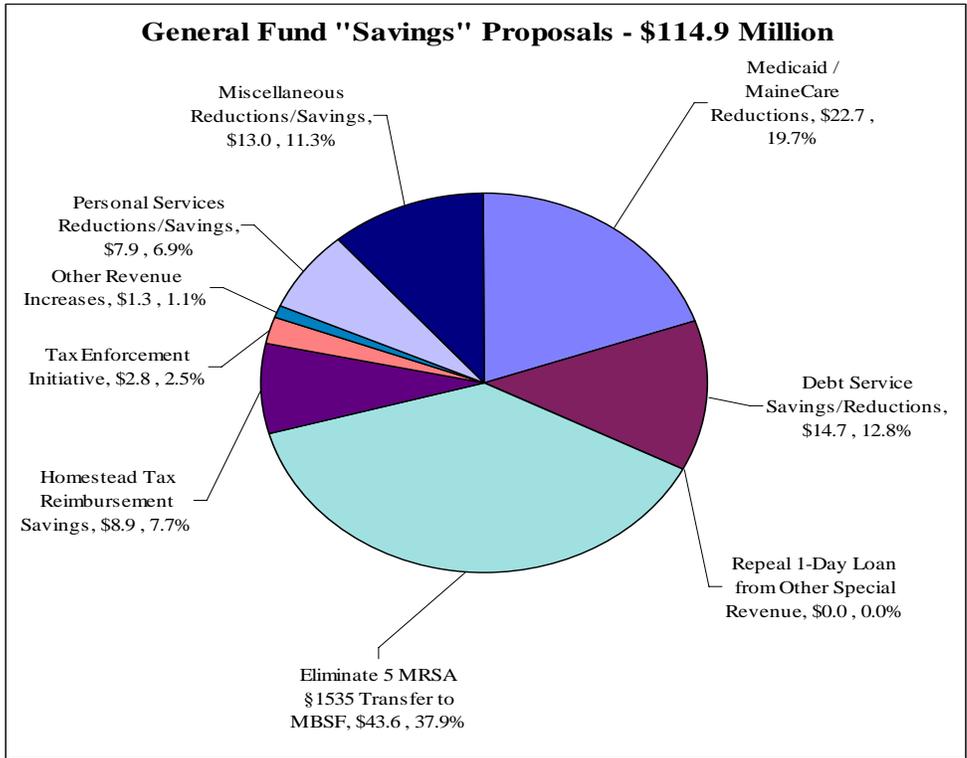
During the 1st Regular and 1st Special Sessions in 2005, the 122nd Legislature enacted many statewide deappropriations to help solve the 2006-2007 General Fund structural gap. During the 2<sup>nd</sup> Regular Session, the Legislature offset some of these statewide deappropriations that could not be achieved and added one more significant statewide deappropriation related to additional health insurance savings. Table II-B below provides a summary of these statewide deappropriations and the status as of the compilation of this report. At this time, there are still \$12.5 million statewide deappropriations that need to be distributed to individual programs in FY07 and \$4.0 million still has to be distributed in FY06 (ending June 30, 2006). While most of these are related to Personal Services line category savings, some of the distributions of the All Other savings may affect the distribution of funds among the major categories noted above and detailed in Appendix A.

<b>Table II-B Summary of 2006-2007 Statewide Deappropriations</b>			
<b>General Fund Appropriations (Deappropriations) - Millions of \$'s</b>			
	<b>FY06</b>	<b>FY07</b>	<b>Biennium</b>
<b>Original Statewide Deappropriations</b>			
Health Insurance Savings Initiatives	(\$4.9)	(\$16.2)	(\$21.1)
Retirement Amortization Change	(\$10.3)	(\$10.8)	(\$21.1)
5% All Other Reduction	(\$5.3)	(\$5.3)	(\$10.5)
Technology Review and Efficiencies	(\$1.2)	(\$3.8)	(\$4.9)
Other Efficiencies	(\$3.1)	(\$4.6)	(\$7.7)
<b>Total Statewide Appropriations (Deappropriations)</b>	<b>(\$24.7)</b>	<b>(\$40.7)</b>	<b>(\$65.4)</b>
<b>Distributed to Individual Programs</b>			
Health Insurance Savings Initiatives	\$4.9	\$11.7	\$16.6
Retirement Amortization Change	\$10.3	\$10.8	\$21.1
5% All Other Reduction	\$5.3	\$5.3	\$10.5
Technology Review and Efficiencies	\$0.0	\$0.0	\$0.0
Other Efficiencies	\$0.3	\$0.4	\$0.6
<b>Total Statewide Appropriations (Deappropriations)</b>	<b>\$20.7</b>	<b>\$28.2</b>	<b>\$48.9</b>
<b>Not Distributed to Individual Programs</b>			
Health Insurance Savings Initiatives	\$0.0	(\$4.5)	(\$4.5)
Retirement Amortization Change	\$0.0	\$0.0	\$0.0
5% All Other Reduction	\$0.0	\$0.0	\$0.0
Technology Review and Efficiencies	(\$1.2)	(\$3.8)	(\$4.9)
Other Efficiencies	(\$2.8)	(\$4.3)	(\$7.1)
<b>Total Statewide Appropriations (Deappropriations)</b>	<b>(\$4.0)</b>	<b>(\$12.5)</b>	<b>(\$16.5)</b>

### **Spending vs. Savings Initiatives**

The pie charts that follow provide a different look at how the Legislature allocated the available General Fund resources during the 2<sup>nd</sup> Regular Session. Initiatives that increased resources, General Fund deappropriations, revenue increases and positive adjustments to balance, are classified as “savings” initiatives and are separated from those that use or “spend” resources

(appropriations, revenue decreases and transfers to other funds). The so-called “savings” proposals added \$114.9 million to the \$118.1 million of available General Fund resources to support additional General Fund uses or “spending” totaling \$233.1 million. The amounts presented for Medicaid/MaineCare “spending” and “savings” differ from the totals in Appendix A and to total appropriations segregated into the major categories. The pie chart amounts include initiatives related to Medicaid/MaineCare administrative costs that are excluded in Appendix A and Table II-A.



### III. General Fund Appropriations Growth and Spending Limits

During the 1st Regular Session of the 122nd Legislature, the major new property tax reform plan enacted by LD 1, PL 2005, c. 2 established limits for the growth of appropriations. Table III-A shows the calculations of the appropriation limit and the growth of General Fund appropriations based on this law as amended by some technical corrections during the 2nd Regular Session (see LD 1909, PL 2005, c. 621). Sections 1 and 2 of Table III-A show the method of calculating the appropriation limit amount. The appropriation limit is calculated as of December 1st of even-numbered years, near the beginning of each Legislature. It is not updated during the biennium for changes in average growth of personal income or population. Although the growth of General Purpose Aid for Local Schools (GPA) is excluded from the limit until the State's share reaches the 55% goal, the calculation in the table is simplified by adding the growth of GPA to the base. This accomplishes the same intent as the temporary exclusion. See Maine Revised Statutes, Title 5, Chapter 142 for the implementing language.

	<u>Base</u> <u>Amounts</u>	<b>FY 06</b>	<b>FY 07</b>
<b>1. GROWTH LIMITATION PERCENTAGE</b>			
Average Real Personal Income Growth (but no greater than 2.75%)		2.58%	2.58%
Average Population Growth		0.53%	0.53%
Growth Limitation Factor when state is in the highest third of tax burden		<b>3.11%</b>	<b>3.11%</b>
<b>2. APPROPRIATIONS LIMITS CALCULATION</b>			
A. Total Appropriations with Growth Factor from #1 Above	\$2,709.9	\$2,794.2	\$2,881.1
B. General Purpose Aid for Local Schools (GPA) Appropriations	\$734.5	\$836.1	\$914.1
C. Growth of GPA Appropriations over FY05 Base Amount		\$101.6	\$179.6
D. Appropriations \$ Limit (D = A + C)		\$2,895.8	\$3,060.6
<b>3. COMPARISON OF APPROPRIATIONS GROWTH TO APPROPRIATIONS LIMITS</b>			
	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>
A. Total Actual Appropriations Through 1st Special Session	\$2,784.5	\$2,817.7	\$2,869.2
Annual % Change		1.2%	1.8%
Amount Over (Below) Appropriations Limitation		(\$78.0)	(\$150.2)
B. Total Actual Appropriations Through 2nd Regular Session	\$2,784.5	\$2,871.9	\$2,917.7
Annual % Change		3.1%	1.6%
Amount Over (Below) Appropriations Limitation		(\$23.9)	(\$143.0)
C. Actual Appropriations from B excluding GPA Appropriations	\$2,049.9	\$2,035.8	\$2,003.6
Annual % Change		-0.7%	-1.6%

Section 3 of the Table III-A compares the appropriations limit with total General Fund appropriations before the 2<sup>nd</sup> Regular Session and afterward. Prior to the 2<sup>nd</sup> Regular Session, appropriations were substantially below the appropriations limit, \$78.0 million and \$150.2 million in FY06 and FY07, respectively. The net addition to appropriations in FY06 brought total

appropriations within \$23.9 million of the FY06 limit. In FY07, despite a net increase of appropriations of \$48.5 million, total appropriations remained \$143.0 million below the limit. The limitation was increased by \$41.3 million as a result of the additional GPA appropriations. The effect of the growth of GPA appropriations on total appropriations growth is also demonstrated in section 3. Growth of other General Fund appropriations excluding GPA appropriations, which are scheduled to have unusually large increases through FY09 as the State increases funding to 55% of the essential programs and services base, actually reflect negative growth in FY06 and FY07.

A pending consideration in the discussion of spending limits is the pending initiated bill that is going out to referendum in November 2006. During the 2<sup>nd</sup> Regular Session, the Legislature did not enact an initiated bill that proposed to establish tax and spending limits based on Colorado's Taxpayer Bill of Rights or "TABOR" (see discussion on page 18). If approved by the voters at the November 2006 election, the 123<sup>rd</sup> Legislature will need to address many conflicts and inconsistencies with the current spending limitation requirements.

#### **IV. General Fund 2008-2009 Structural Gap Projections**

Table IV-A below summarizes OFPR's updated analysis of the General Fund structural gap for the 2008-2009 biennium. The projections of appropriations presented in this analysis use the March 2006 estimate and layers on the incremental legislative changes enacted during the 2<sup>nd</sup> Regular Session. The 2<sup>nd</sup> Regular Session legislative changes added slightly more than \$75 million of total appropriations to the 2008-2009 biennium and decreased General Fund revenue by \$19.7 million. This combination increases the 2008-2009 General Fund structural gap by a little less than \$100 million bringing the current estimate of the General Fund structural gap to between \$525 million and \$550 million.

Revenue growth through the 2008-2009 biennium is positive, but is well below the growth of appropriations (except FY07, which is distorted by MaineCare/Medicaid funding shifts). On the appropriations side, the table shows significant growth in General Purpose Aid for Local Schools (GPA), Personal Services appropriations, MaineCare/Medicaid and in some of the "Other" appropriations (largely due to the size of FY07 one-time deappropriations). The growth of GPA, implemented as part of property tax reform, is a major contributor to the imbalance. The Personal Services appropriations growth is due primarily to the addition of collective bargaining for which no appropriations were provided in FY06 or FY07. The other significant contributor to the 2008-2009 General Fund structural gap is MaineCare/Medicaid growth, which is projected to increase almost 23.4% between FY07 and FY08. This anomaly in growth reflects a number of factors including the shifting of appropriations between FY07 to FY06 to take advantage of a more favorable federal match rate and the claims processing problems and related delay of collections of interim payments (see discussion on page 18).

In the past OFPR's structural gap estimate was an attempt to measure the difference between the "current services" appropriations recommended by the Governor compared to the General Fund revenue forecast. The incremental budgeting approach of the current services model that Maine has been using for decades is being replaced for the 2008-2009 biennium (see discussion on page 15). While these estimates of future appropriation needs are still indicative of the spending that will be required to maintain the current level of program effort as required by current law, only the Personal

Services line category estimates will match closely with the Personal Services line category submissions under the new budget model. All Other and Capital Expenditures will be adjusted for one-time items and presented in the baseline budget at the same level as the adjusted FY07 baseline. Some of the adjustments to appropriations may not be as explicit under the new budgeting format as with the “current services” incremental approach.

Millions of \$'s					
<b>Appropriations by Major Categories</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
General Purpose Aid for Local Schools	\$738.4	\$836.1	\$914.1	\$980.9	\$1,054.2
Medicaid/MaineCare	\$582.0	\$690.8	\$575.9	\$710.9	\$761.6
Higher Education	\$241.2	\$246.1	\$257.5	\$263.3	\$270.2
Teachers' Retirement	\$181.7	\$152.2	\$205.4	\$217.7	\$231.7
Tax Relief and Reimbursement	\$113.1	\$31.8	\$37.5	\$38.5	\$39.6
Debt Service	\$89.2	\$94.8	\$114.7	\$113.2	\$105.5
Personal Services	\$387.7	\$405.6	\$420.6	\$462.3	\$483.6
Other - Non-Personal Services	\$404.9	\$414.4	\$392.0	\$420.6	\$433.4
<b>Total General Fund Appropriations</b>	<b>\$2,738.1</b>	<b>\$2,871.9</b>	<b>\$2,917.7</b>	<b>\$3,207.4</b>	<b>\$3,379.6</b>
<b>Annual % Change</b>		<b>4.9%</b>	<b>1.6%</b>	<b>9.9%</b>	<b>15.8%</b>
<b>Total Appropriations excluding GPA</b>	<b>\$1,999.8</b>	<b>\$2,035.8</b>	<b>\$2,003.6</b>	<b>\$2,226.5</b>	<b>\$2,325.4</b>
<b>Annual % Change</b>		<b>1.8%</b>	<b>-1.6%</b>	<b>11.1%</b>	<b>16.1%</b>
<b>General Fund Revenue</b>					
Forecast Prior to December 2005	\$2,790.8	\$2,743.3	\$2,899.7	\$2,963.9	\$3,064.3
December 2005 RFC Forecast		\$112.1	\$52.3	\$51.7	\$46.6
March 2006 RFC Forecast		\$1.9	(\$16.2)	(\$22.9)	(\$30.1)
Legislative Changes - 2nd Regular Session		\$0.4	(\$1.7)	(\$3.7)	(\$16.0)
<b>General Fund Revenue - Total</b>	<b>\$2,790.8</b>	<b>\$2,857.7</b>	<b>\$2,934.2</b>	<b>\$2,989.0</b>	<b>\$3,064.9</b>
<b>Annual % Change</b>		<b>2.4%</b>	<b>2.7%</b>	<b>1.9%</b>	<b>4.5%</b>
<b>Approximate Annual Surplus (Shortfall)</b>				<b>(\$218.4)</b>	<b>(\$314.8)</b>
<b>Approximate 2008-2009 Biennial Total</b>				<b>(\$525.0) to (\$550.0)</b>	

## V. Summary of Highway Fund 2006-2007 Budget Adjustments

Unlike the General Fund, the Highway Fund did not realize quite the improvement in its funding picture between the end of the 1<sup>st</sup> Special Session and the beginning of the 2<sup>nd</sup> Regular Session. While the interim revenue forecasts increased Highway Fund budgeted revenue by a modest \$3.0 million over the biennium, the shortfalls and project deferrals on the spending side outweighed these modest revenue increases. Increases in petroleum prices (affecting asphalt costs) and the increasingly competitive demand for other construction products resulted in a major shortfall of funding for highway bridge and improvement projects and a deferral of approximately \$130 million of projects (also see discussion on page 16). Table V-A below summarizes the major adjustments that were made during the 2nd Regular Session of the 122<sup>nd</sup> Legislature. Primarily

through a \$15.0 million transfer from the General Fund and the lapsing of carrying balances in the Transportation, Maintenance and Operations Account of \$10.9 million combined with other miscellaneous savings proposals, the Legislature was able to provide \$31.2 million to offset a portion of this deferral. Efforts to enact a borrowing package to address a portion of the remaining deferral were unsuccessful during the 2<sup>nd</sup> Regular Session.

<b>Table V-A Summary of Highway Fund Adjustments - 2nd Regular Session</b>			
<b>Millions of \$'s</b>			
	<b>FY06</b>	<b>FY07</b>	<b>Biennium</b>
<b>Available Resources Prior to 2nd Regular Session Legislative Changes</b>			
Budgeted Ending Balance with FY05 Adjustments for Actuals		\$2.0	\$2.0
December 2005 Revenue Forecast Adjustment	\$6.0	\$2.1	\$8.1
March 2006 Revenue Forecast Adjustment	(\$4.4)	(\$0.6)	(\$5.1)
<b>Total Available Resources Prior to Legislative Adjustments</b>	<b>\$1.6</b>	<b>\$3.4</b>	<b>\$5.0</b>
<b>Legislative Adjustments - 2nd Regular Session</b>			
<b>Transfers and Adjustment to Balance</b>			
Transfers from General Fund	\$0.0	\$15.0	\$15.0
Lapse from DOT, Maintenance and Operations Account	\$10.9	\$0.0	\$10.9
<b>Revenue Adjustments</b>			
Other Miscellaneous Revenue Adjustments	\$0.0	\$0.0	\$0.0
<b>Total Increase (Decrease) to Resources</b>	<b>\$10.9</b>	<b>\$15.0</b>	<b>\$26.0</b>
<b>Allocation Adjustments</b>			
DOT - Highway and Bridge Improvements; Increased Funding	\$12.8	\$18.4	\$31.2
DOT - Highway Maintenance; Additional Costs	\$2.4	\$0.0	\$2.4
DOT - Highway Maintenance; Savings from FEMA Reimb.	(\$1.4)	\$0.0	(\$1.4)
DOT - Highway Maintenance; Health Fund Divestiture	(\$1.3)	\$0.0	(\$1.3)
DOT - Marine Highway Transportation; Additional Costs	\$0.4	\$0.0	\$0.4
BMV; Continuation of 10 Limited Period Positions	\$0.0	\$0.5	\$0.5
BMV; Capital Improvements for Security	\$0.1	\$0.0	\$0.1
DAFS - Additional Fuel Costs	\$0.1	\$0.0	\$0.1
Statewide - Additional Health Insurance Savings	\$0.0	(\$2.2)	(\$2.2)
Debt Service - Additional Costs of New Bonds Issued	\$0.0	\$0.4	\$0.4
Net Other Adjustments to Allocations	\$0.0	(\$0.1)	(\$0.1)
<b>Net Highway Fund Allocations (Deallocations)</b>	<b>\$13.0</b>	<b>\$16.9</b>	<b>\$30.0</b>
<b>Total Legislative Increases (Decreases) to Resources</b>	<b>(\$2.1)</b>	<b>(\$1.9)</b>	<b>(\$4.0)</b>
<b>Budgeted Ending Balance at Close of 2nd Regular Session</b>		<b>\$1.03</b>	<b>\$1.03</b>

At the close of FY06 and FY07, the Highway and Bridge Improvement program within the Department of Transportation is authorized to receive from the uncommitted Unallocated Surplus of the Highway Fund any excess over \$1 million. However, through May of 2006, Highway Fund revenue performance, largely fuel taxes, was below expectations. At the close of FY06, this transfer

is not likely and there is a concern that the Highway Fund actual balance at the close of FY06 may be negative.

## VI. Highway Fund 2008-2009 Structural Gap Projections

The Highway Fund 2008-2009 structural gap estimate based on legislative changes of the 2nd Regular Session increased very modestly (less than \$3 million) from the March 2006 estimate. The revised estimated range is now between \$85 and \$95 million. As noted in the discussion of the General Fund structural gap, the adjustments made to funding levels to bring the budget into balance for the 2008-2009 biennium may not be as explicit as a result of the change in the budgeting process.

This revised structural gap estimate for the Highway Fund in the 2008-2009 biennium does not factor in the estimated \$60 million in one-time project deferral costs that remained in the Highway and Bridge Improvements program within the Department of Transportation in FY07 after actions were taken by the Second Regular Session of the 122nd Legislature to reduce the original \$90 million estimate by \$30 million. For the purposes of this analysis it is assumed that, absent any further legislative action, DOT will pass along the deferred projects into the 2008-2009 biennium and will therefore have the continued effect of pushing the deferred project cost into future fiscal years.

<b>Millions of \$'s</b>					
<b>Allocations by Major Categories</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
Personal Services	\$138.1	\$154.0	\$157.7	\$172.4	\$181.8
Capital Expenditures	\$32.3	\$54.0	\$60.8	\$64.9	\$70.9
Debt Service	\$15.8	\$16.0	\$12.2	\$13.3	\$9.8
Urban-Rural Initiative	\$22.8	\$26.2	\$26.3	\$29.6	\$30.8
Other HF Expenditures	\$90.6	\$99.4	\$98.7	\$106.3	\$110.6
<b>Total Highway Fund Allocations</b>	<b>\$299.6</b>	<b>\$349.6</b>	<b>\$355.8</b>	<b>\$386.5</b>	<b>\$404.0</b>
<b>Annual % Change</b>		<b>16.7%</b>	<b>1.8%</b>	<b>8.6%</b>	<b>13.5%</b>
<b>Highway Fund Revenue</b>					
Forecast Prior to December 2005	\$326.1	\$329.3	\$338.9	\$347.5	\$356.8
December 2005 RFC Forecast		\$6.0	\$2.1	(\$1.0)	(\$3.3)
March 2006 RFC Forecast		(\$4.5)	(\$0.6)	(\$0.3)	\$0.2
Legislative Changes - 2nd Regular Session		\$0.0	\$0.0	\$0.0	\$0.0
<b>Highway Fund Revenue - Total</b>	<b>\$326.1</b>	<b>\$330.9</b>	<b>\$340.4</b>	<b>\$346.3</b>	<b>\$353.7</b>
<b>Annual % Change</b>		<b>1.5%</b>	<b>2.9%</b>	<b>1.7%</b>	<b>3.9%</b>
<b>Approximate Surplus (Shortfall) 2008-2009 Biennium</b>				<b>(\$40.2)</b>	<b>(\$50.3)</b>
<b>Approximate 2008-2009 Biennial Total</b>				<b>(\$85.0) to (\$95.0)</b>	

## VII. Fund for a Healthy Maine

The Fund for a Healthy Maine (FHM) receives funding primarily from the tobacco settlement agreement. However, beginning in FY06, the FHM began receiving a portion of the proceeds from slot machines at commercial racetracks (racino revenue). In its December 2005 forecast, the Revenue Forecasting Committee revised revenue estimates for the Fund for a Healthy Maine (FHM) downward by \$5.4 million in FY 06 and \$15.0 million in FY 07 as a result of revised assumptions related to Racino revenue estimates and an assumed delay in the receipt of some tobacco settlement payments as a result of significant factor proceeding under the Master Settlement Agreement. Based on the budgeted uses of the FHM, the fund was facing a total shortfall of \$18.0 million. In its March 2006 forecast, the RFC decreased FHM revenue estimates by an additional \$1.1 million over the 2006-2007 biennium bringing the total shortfall to \$19.1 million (see Table VII-A below).

	FY06	FY07	Biennium
<b>Available Resources Prior to 2nd Regular Session Legislative Changes</b>			
Budgeted Ending Balance with FY05 Adjustments for Actuals		\$2.4	\$2.4
December 2005 Revenue Forecast Adjustment	(\$5.4)	(\$15.0)	(\$20.4)
March 2006 Revenue Forecast Adjustment	(\$0.3)	(\$0.7)	(\$1.1)
<b>Total Available Resources (Shortfall) Prior to Legislative Adjustments</b>	<b>(\$5.8)</b>	<b>(\$13.3)</b>	<b>(\$19.1)</b>
<b>Legislative Adjustments - 2nd Regular Session Adjustment to FHM Allocations and Other Uses Transfers</b>			
Transfer from General Fund	(\$2.3)	(\$2.1)	(\$4.5)
<b>FHM Allocation Adjustments</b>			
Allocations for Tobacco Helpline	\$0.3	\$0.1	\$0.4
FHM-wide Deallocation based on Revenue Revisions	\$0.0	(\$8.4)	(\$8.4)
FHM-Elderly and Disabled Based on Racino Revenue	(\$0.3)	(\$7.9)	(\$8.3)
Restoration of PL 2005, c. 457 (Part II) Deallocations	\$0.0	\$1.6	\$1.6
Other Miscellaneous Adjustments to Allocations	\$0.0	(\$0.0)	\$0.0
<b>Net Uses (Reductions in Uses)</b>	<b>(\$2.4)</b>	<b>(\$16.7)</b>	<b>(\$19.1)</b>
<b>Total Legislative Increases (Decreases) to Resources</b>	<b>\$2.4</b>	<b>\$16.7</b>	<b>\$19.1</b>
<b>Budgeted Ending Balance at Close of 2nd Reg. Session</b>		<b>\$0.06</b>	<b>\$0.06</b>

During its 2nd Regular Session, the 122nd Legislature addressed this shortfall by reversing \$4.45 million of the \$5.0 million transferred to the General Fund from the FHM in PL 2005, c. 457 (the "Part 3" Budget Bill). While the "Part 3" Budget Bill had transferred \$0.4 million in FY06 and \$4.6 million in FY07 to the General Fund, the 122<sup>nd</sup> Legislature returned \$2.35 million in FY 06 and \$2.1 million in FY 07 back to the FHM. The Legislature also implemented a statewide FHM

deallocation of \$8.4 million in FY07 to be distributed to individual programs by financial order and deallocated \$0.3 million in FY06 and \$7.9 million in FY07 from the FHM - Drugs for the Elderly and Disabled program. With the additional resources generated by these “savings” initiatives, the 122<sup>nd</sup> Legislature restored \$1.6 million from programs that had deallocations in the “Part 3” Budget Bill and provided additional allocations.

## VIII. General Obligation Bonds

The Joint Standing Committee on Appropriations and Financial Affairs had 22 of the original 38 Bond Bills remaining in committee at the conclusion of the 1st Special Session of the 122<sup>nd</sup> Legislature. Negotiations between the major parties had not finalized prior to the end of the 1st Special Session and these bills were carried over to the next session of the Legislature. A 2nd Special Session was held in late July, 2005 and the Legislature enacted a bond package for consideration by the voters in the November 2005 general election. A single bill, LD 998, PL 2005, c. 462 (the Governor’s Transportation bond bill) was used as the vehicle and was amended to incorporate multiple parts and multiple referendum questions including not only transportation matters but also land acquisition, economic stimulation, agriculture and environmental matters. Table VIII-A below provides a summary of the substance of the bond package approved by the voters.

<b>Subject</b>	<b>Principal</b>
Transportation	
General Fund	\$6.1
Highway Fund	\$27.0
Agricultural & Environmental Improvements	\$8.9
Economic Stimulation	\$20.0
Land for Maine's Future	\$12.0
<b>Total Bond Package Approved by the Voters</b>	<b>\$74.0</b>

The bond package enacted by the Legislature also proposed \$7,000,000 for building renovations on campuses of the University of Maine System and the Maine Community College System and \$2,000,000 to improve and expand the facilities of the Osher Lifelong Learning Institute at the University of Southern Maine. These proposals were rejected by the voters.

## IX. Fiscal Policy Decisions Affecting Local Governments

Each year in the early fall, the Office of Fiscal and Program Review updates a report of the major state funding disbursed to municipalities and counties. This section summarizes the 122<sup>nd</sup> Legislature’s changes implemented during the 2<sup>nd</sup> Regular Session that affect the amount of funding

disbursed to municipalities and counties. Most of the initiatives affecting local government funding were implemented late in the 1<sup>st</sup> Special Session in PL 2005, c. 457, the “Part 3” Budget. The major legislative changes affecting local governments during the 2<sup>nd</sup> Regular Session are listed in Table IX-A below. The largest single item is the increase of General Purpose Aid for Local Schools (GPA), which reflects additional funding for the “ramp-up” of state funding enacted during the 1<sup>st</sup> Regular Session in the property tax reform initiative. There are many items in the table below that have little or no dollar impact during the 2006-2007 biennium or are funded within GPA appropriations, such as the continuation of the middle school laptop program and funding minimum teachers salaries.

<b>Table IX-A Major Changes Affecting Municipalities and Counties</b>		
<b>Increase (Decrease) of State Funding to Municipalities and Counties - Millions of \$'s</b>		
	<b>FY06</b>	<b>FY07</b>
<b>Adjustments to Educational Funding</b>		
Additional Funding for General Purpose Aid for Local Schools (GPA)	\$0.0	\$41.3
Middle School Laptop Program Continued - Funded within GPA	\$0.0	\$0.0
Minimum Teachers Salaries Increase - Funded within GPA	\$0.0	\$0.0
Grants for Maine School Oral Health Program	\$0.0	\$0.0
<b>Municipal Revenue Sharing</b>		
Net Increase (Decrease) from Tax and Fee Changes	\$0.0	(\$0.1)
Additional "Revenue Sharing 2" Funding (FY10)	\$0.0	\$0.0
<b>Tax Reimbursement Programs</b>		
Homestead Tax Reimbursement - Lower Estimated Reimbursements	(\$3.8)	(\$5.1)
Homestead Tax Exemption for Owners of Cooperative Housing (FY08)	\$0.0	\$0.0
Personal Property Tax Exemption for Certain Business Equip. (FY09)	\$0.0	\$0.0
Property Tax Exemption for Trail Grooming Equipment	\$0.0	\$0.0
Expanded Property Tax Exemption for Veterans (FY08)	\$0.0	\$0.0
Property Tax Exemption for Veterans' Organizations (FY08)	\$0.0	\$0.0
<b>Other Effects</b>		
MEMA Assistance to Municipalities for Flood Damage	\$0.0	\$0.9
Funding for Washington County Development Authority	\$0.0	\$0.1

## **X. Position Count Changes – All Funding Sources**

In the 2<sup>nd</sup> Regular Session of the 122<sup>nd</sup> Legislature, the General Fund realized a net increase of approximately 51 positions. The net increases were mainly in the Department of Health and Human Services (26 positions), the Judicial Department (22 positions) and the Department of Marine Resources (3.5 positions). The net reduction to all funds was approximately 129 positions. This was the result of an elimination of approximately 199 mostly vacant positions; more than 195 of the positions were in the Federal Expenditures Fund. Table X-A that follows lists the total position changes made during the 2<sup>nd</sup> Regular Session by fund.

**Table X-A Position Count Adjustments - By Fund**  
**Net Increase (Decrease) in Legislative Count and FTE Count**

<b>Fund</b>	<b>Position Count</b>
General Fund	50.622
Highway Fund	12.000
Other Special Revenue Funds	11.971
Federal Expenditures Fund	(195.626)
Federal Block Grant Funds	(5.000)
Other Funds	(3.038)
Net Increase (Decrease) of Position Counts - All Funds	<u>(129.071)</u>

## **XI. Summary of Major Fiscal Policy Issues**

This section presents a narrative summary of some of the major fiscal initiatives or issues dealing with fiscal policy facing the 122<sup>nd</sup> Legislature during the 2<sup>nd</sup> Regular Session.

### **A. Stabilization Fund Transfers and Repeal of One-day Borrowing**

In the 1<sup>st</sup> Special Session of the 122<sup>nd</sup> Legislature, the Legislature authorized a working capital advance of \$42.5 million from the Other Special Revenue Fund cash pool balance. This advance was budgeted to be repaid with interest on the first day of FY07. This one-day borrowing was necessary as part of the final deliberations on the “Part 3” Budget to keep the General Fund in balance for FY 06. With the December 2005 and March 2006 revenue revisions of the Revenue Forecasting Committee (RFC) increasing budgeted revenue by \$114.0 million in FY06, the Legislature had sufficient resources in FY06 to repeal this one-day borrowing.

The FY06 RFC revisions increased budgeted resources (beginning balance, transfers and revenues) above the appropriations limitation in FY06, thereby triggering the provision of 5 MRSA, §1535 that requires a transfer of budgeted resources in excess of the Appropriations Limitation to the Maine Budget Stabilization Fund (MBSF). Prior to the legislative actions during the 2<sup>nd</sup> Regular Session, these transfers were budgeted to be \$43.6 million. However, this statutory transfer was not made because the Legislature took action to affect a net reduction to resources in FY06 reducing budgeted resources below the appropriations limitation. In lieu of this transfer and in addition to any statutory year-end transfers, the Legislature implemented a \$29 million transfer from the Unappropriated Surplus to the Maine Budget Stabilization Fund in FY07. This \$29 million transfer, combined with existing balances in the MBSF and the Reserve for General Fund Operating Capital, was designed to increase budgeted reserve fund balances to over \$100 million.

## **B. Budget Reform Commission Recommendations**

During the 2<sup>nd</sup> Regular Session, the Legislature enacted the recommendations of the Commission to Reform the State Budget Process that was established in PL 2005, c. 386, Part O (see PL 2005, c. 601). The 12-member Commission was responsible for researching and preparing recommendations on a number of budget-related matters, including but not limited to: the establishment of a “zero-based” budget; modifying the “current services” format used by departments and agencies; and proposing adjustments to the current “performance-based” budgeting process.

The Commission reported that a true zero-based budget was unmanageable. Instead, they recommended a format that presents a base budget for each state program by line category (i.e. position count, Personal Services, All Other and Capital Expenditures) with individual initiatives for any adjustments to the base or any new or expanded program initiatives, also by line category. With the exception of self-funded position reclassifications and range changes, the new budget format would reflect, in one section, all initiatives affecting the program. Position reclassifications and range changes would continue to be incorporated in a separate section of the budget document.

The base budget for All Other and Capital Expenditures for the ensuing biennium will be the same level of appropriations as appropriated for on-going initiatives in the 2<sup>nd</sup> year of the current biennium. Position count will be the count authorized for the 2<sup>nd</sup> year of the current biennium adjusted for any positions authorized to end during that fiscal year plus or minus any adjustments authorized by the Governor or the Bureau of Budget per 5 MRSA, sections 1583-A and 1583-B. Personal Services will be based on the cost of on-going positions. Salary cost will be reflective of known salary progression for current employees (vacant positions will be budgeted at step 3 and 4) plus negotiated collective bargaining agreements. Personnel benefits (e.g. health insurance, retirement, etc.) will be based on known and estimated rates. The Commission further recommended that periodic review of all government programs be conducted in order to determine appropriate funding levels. The Commission recommended that Legislative Leadership consider placing a renewed emphasis on the Government Evaluation Act for that purpose and consider whether top to bottom budget reviews on a periodic basis are an appropriate tool. Lastly, the Commission recommended the elimination of the current performance budgeting system. They agreed that the measurement tools are important but that the current process does not provide the adequate flexibility necessary to produce meaningful results.

## **C. Year-end Statutory Transfer Changes (the “Cascade”)**

In the 2<sup>nd</sup> Regular Session, the Legislature changed the distributions of the unappropriated surplus of the General Fund at the close of each fiscal year, the so-called “Cascade,” which had been modified substantially during the 1<sup>st</sup> Regular Session’s property tax reform initiative. Prior to these most recent changes, the transfers to the Retirement Allowance Fund, the Reserve for General Fund Operating Capital (operating capital reserve) and the initial distribution to the Maine Budget Stabilization Fund (MBSF), were calculated as a percentage of any revenue in excess of budgeted revenue. Beginning at the close of FY06, the fixed percent transfers will be calculated as a percentage of the total available unappropriated surplus (i.e. surplus revenue plus unbudgeted lapsed balances plus or minus adjustments authorized by the State Controller).

In addition to the change in the base from which the transfer is calculated, the percent used in the calculation has changed. Prior to these most recent changes, the operating capital reserve received 16% of the available excess revenue and the MBSF received 32% plus any remaining uncommitted balance in the Unappropriated Surplus after all statutory transfers. Effective at the close of FY06, the operating capital reserve will receive 20% and the MBSF will receive 35% of the total uncommitted Unappropriated Surplus after the 2 fixed dollar amounts transfers (up to \$350,000 to the State Contingent Account and up to \$1,000,000 to the Loan Insurance Reserve Fund at the Finance Authority of Maine). The Retirement Allowance Fund transfer is changed from 32% to 20%, but from a broader base. In addition to changing certain priorities and percentages, two new transfers were authorized from the Cascade. The first is a transfer of 15% to the Retiree Health Internal Service Fund and the second is a transfer of 10% to the Capital Construction & Improvements Reserve Fund. Appendix C provides a side-by-side comparison of these changes to the “Cascade” using a hypothetical distribution of unappropriated surplus based on FY05 year-end experience.

#### **D. Highway and Bridge Improvement Program Shortfall**

Midway through FY06, the Department of Transportation identified a significant financial problem for the department’s Highway and Bridge Improvements program, which is funded primarily through the Highway Fund. Due to a combination of circumstances which included changes in the delivery of federal highway funds, unprecedented increases in construction costs and aggressive DOT project planning, the department was faced with an estimated \$130 million of highway and bridge improvement projects originally planned for completion in the 2006-2007 biennium that would have to be deferred until the 2008-2009 biennium unless additional resources were provided. Through the work of a Capital Transportation Funding Working Group appointed by the Governor in December of 2005, the estimated total of deferred project costs was reduced to \$90 million.

To reduce the impact of these project deferrals, the 2nd Regular Session of the 122nd Legislature took two actions: first, in PL 2005, c. 519, \$15 million was transferred from the unappropriated surplus of the General Fund to the Highway Fund where that amount was allocated to the Highway and Bridge Improvements program; and second, in PL 2005, c. 664, an additional \$15 million in Highway Fund resources were identified and allocated to the Highway and Bridge Improvements program.

#### **E. Business Personal Property Tax Changes**

PL 2005, c. 623 (LD 2056 as enacted) provides a new property tax exemption for most business equipment. 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. Municipalities will be reimbursed 100% in the first year, declining to at least 50% in 2013. Municipalities with high percentages of exempt property may receive a higher percentage of reimbursement. The Business Equipment Tax Reimbursement (BETR) program continues to apply to nonexempt business equipment. Eligible equipment first placed in service after April 1, 1995 and on or before April 1, 2007 and property not eligible for the new exemption (“storefront” retail property) remains eligible for the BETR program. BETR eligibility is extended beyond the 12th year that it is in service and reimbursement declines 10% per year until reimbursement after the 12th year to 50%. PL 2005, c. 623 also provides additional

funding for distributions to municipalities from the Disproportionate Tax Burden Fund, “Revenue Sharing II” beginning in FY 2010.

#### **F. Law Enforcement Officers and Firefighter Retiree Health Insurance**

Under PL 2005, c. 636 (LD 1021), An Act to Implement Task Force Recommendations Relating to Parity and Portability of Benefits for Law Enforcement Officers and Firefighters, beginning July 1, 2007, the State will provide a 45% subsidy toward the cost of health insurance for pre-Medicare, retired law enforcement officers and firefighters who are at least 50 years of age. While the costs of the State’s subsidy would be partially offset by contributions made by active duty and current retirees, the State’s General Fund costs are estimated to be \$1.3 million in FY08, growing to \$3.1 million in FY09.

#### **G. Minimum Teacher Salary Changes**

During the 2nd Regular Session, the Legislature voted to establish a minimum salary of \$27,000 per year for certified teachers for the school year starting after June 30, 2006 and \$30,000 per year for the school year starting after June 30, 2007 and in each subsequent school year. Public Law 2005, c. 635 also provides that it is the intent of the Legislature that the State fund 100% of the additional total ongoing costs of the required minimum salary.

In order to fully fund the cost of this provision in FY07, estimated to be \$661,229, Public Law 2005, c. 635 requires that, for FY07 only, a portion of the General Fund appropriation for the General Purpose Aid for Local Schools program targeted to implement a standards-based system be dedicated to achieving the minimum salary for certified teachers. Beginning in FY08, additional General Fund appropriations will be required to fund 100% of the cost of increasing minimum salaries for certified teachers to \$30,000 per year, estimated to be \$2,118,308 annually.

#### **H. Continuation of Middle School Laptop Program**

Included in the \$914.1 million General Fund appropriation for the General Purpose Aid for Local Schools program approved by the Legislature for FY07 is funding of approximately \$8.5 million for the continuation of the middle school laptop program beyond the September 2006 expiration date. Public Law 2005, c. 519, Part J provides the authorization for the Department of Administrative and Financial Services on behalf of the Department of Education to enter into financing arrangements for the acquisition of portable computer systems to support the operations of the Maine Learning Technology Initiative program. This legislation also provides that the lease-purchase agreement may not exceed 4 years in duration and approximately \$39.8 million in principal and interest costs. The Department of Education has selected Apple Computer, Inc. to provide the services and equipment to all participating middle school students and teachers at a cost of approximately \$289 per seat per year.

## **I. Funding Shortfall of the Maine Clean Elections Fund**

Due to earlier budgetary shortfalls, a total of \$6.75 million had been transferred from the Maine Clean Elections Fund (MCEF) for other purposes by previous Legislatures. The growing number of legislative and gubernatorial candidates who chose to use MCEF funding and certain timing issues surrounding the disbursement of funding to candidates created an estimated funding shortfall of \$1.2 million for the 2006 primaries and general election. To remedy this shortfall, in PL 2005, c. 519, the 2nd Regular Session of the 122nd Legislature authorized the transfer of \$1.2 million from undedicated General Fund revenue to the Maine Clean Elections Fund in FY07.

## **J. Taxpayer Bill of Rights (TABOR) Initiated Bill**

LD 2075, “An Act To Create the Taxpayer Bill of Rights,” commonly referred to as TABOR, is a citizen-initiated bill pursuant to Article IV, Part 3, Section 18 of the Maine Constitution. Following a dispute over the validity of certain signature petitions, the Maine Supreme Judicial Court affirmed the decision of the Secretary of State that the petition had sufficient signatures to move forward. LD 2075 was referred to the Joint Standing Committee on Taxation, which issued a divided report on the bill (6-ONTP, 5 – OTPA, 2 – absent). The Ought Not to Pass report was accepted by both houses of the Legislature, thereby killing the bill and ensuring its submission to the voters at the November 2006 general election.

TABOR is modeled on similar language in the Colorado Constitution (currently suspended for 5 years). The bill limits spending and revenues at all government levels. State spending and revenue is limited to growth in the consumer price index and population. Local government spending and revenue is limited to the lesser of the change in assessed property value or the growth in the consumer price index and population (or student population for agencies providing education services). Any spending or revenues that exceed the limit must be approved by a 2/3 vote of the legislative body of the government entity and majority approval by the voters. Any tax or fee increase must be approved by the same method. Emergency measures exceeding the limits are authorized without voter approval but must be subsequently approved. The majority of excess revenue, after allowances for savings for budget stabilization, must be returned to the taxpayers.

## **K. Medicaid Funding Issues**

During the 2<sup>nd</sup> Regular Session, the 122<sup>nd</sup> Legislature once again made significant adjustments to Medicaid/MaineCare funding, increasing total Medicaid/MaineCare funding by \$56.1 million over the biennium (over 55% of the total increase to appropriations during the 2<sup>nd</sup> Regular Session). In FY06, the Legislature increased Medicaid/MaineCare funding by \$70.4 million to address short-term funding needs largely the result of the problems surrounding the implementation of the Medicaid claims management system (MECMS). The Legislature also provided an appropriation of \$1 million in FY07 to reimburse MaineCare providers for interest costs incurred as a result of delayed payments resulting from MECMS implementation. Provided below and in Appendix A, Page A-3, is a summary of the funding decisions to address a number of Medicaid/MaineCare issues.

## MaineCare Claims Management System (MECMS)

Additional General Fund appropriations of \$19.2 million in FY06 and \$12.8 million in FY07 were provided to help address a shortfall in Medical Care - Payments to Providers (MAP) account funding primarily resulting from interim payments that were made to MaineCare providers to help alleviate claims management system (MECMS) payment delays. A shift of appropriations of \$47 million from FY07 to FY06 was implemented to further address this shortfall and delays in recovering overpayments as a result of these interim payments to providers. It is assumed the \$47 million reduction in FY07 appropriations will be offset by recoveries from providers that will be collected in FY07 instead of FY06. Should these collections not meet anticipated levels, supplemental FY07 appropriations for the MAP account may be needed.

## Medicare Part D Implementation

The Legislature also appropriated \$3.1 million in FY06 and \$5.1 million in FY07 and transferred \$2.7 million from the MaineCare Stabilization fund in FY07 for Medicare Part D wrap around services for enrollees to help maintain their prescription drug benefits at pre-Medicare Part D levels. The Legislature also appropriated \$3.1 million in FY 06 and \$16.1 million in FY07 for the amount Medicare Part D "clawback" payments to the federal government exceed the Medicaid savings the State will realize by having its Medicare/Medicaid dual eligibles enrolled in Medicare Part D.

## MaineCare Hospital Settlement Payments

Additional appropriations of \$3.2 million in FY06 and \$13.7 million in FY07 were provided to make MaineCare settlement payments to hospitals. These appropriations combined with federal matching funds are intended to pay hospital settlements owed for hospital fiscal years 2003 and most of 2004 (through September 30, 2004).

## MaineCare Non-Categorical Adults Waiver

An enrollment cap for the MaineCare "Non-categorical adults" waiver of 12,850 enrollees through June 30, 2006 was implemented to replace the freeze on enrollment that had been in place for the last year. As a result, the Legislature deappropriated \$4.3 million in FY06 and \$9.7 million in FY07. For FY 2007, the cap will be monitored and adjusted to maintain federal neutrality requirements.

## Federal Medical Assistance Percentage (FMAP)

During the 2005 sessions, the Legislature was facing significant increases in State's costs as a result of the estimated change in the Federal Medical Assistance Percentage (FMAP). During the 2<sup>nd</sup> Regular Session, the Legislature was able to deappropriate \$4.3 million in FY07 due to a higher than previously anticipated FMAP.

## Nursing Home Expenses

The Legislature allocated additional nursing home tax revenue of \$3.8 million in FY06 and \$4.2 million in FY07 to fund the State share of the nursing home reimbursement rate COLA for FY06

and FY 07 and \$0.7 million in FY06 for nursing facilities and residential care facilities for increased heating costs for the 2005-2006 heating season. The Legislature also deappropriated \$1.4 million in FY06 and \$0.3 million in FY07 based on the net of these proposals and the additional nursing home tax revenue.

#### MaineCare Transportation Costs

High fuel costs also affected MaineCare service providers. To help offset these costs, additional appropriations of \$0.9 million in FY06 and \$0.6 million in FY07 were provided for MaineCare volunteer drivers. Additional appropriations \$0.1 million in FY07 were provided to increase the reimbursement rates for wheelchair van services under the MaineCare program.

#### MaineCare Administrative Resources

The Legislature also appropriated \$3.1 million in FY06 and \$4.0 million in FY07 for MaineCare-related consulting contracts including: \$1.8 million in FY06 and \$2.8 million in FY07 for MECMS consulting services; \$1 million in FY06 and \$1.25 million in FY07 for the Office of MaineCare Services transformation project and \$0.25 million for consulting services related to the managed behavioral care initiative. These increases are partially offset by deappropriations of \$0.5 million in FY06 and \$1 million in FY07 from drug formulary contractual services no longer needed.