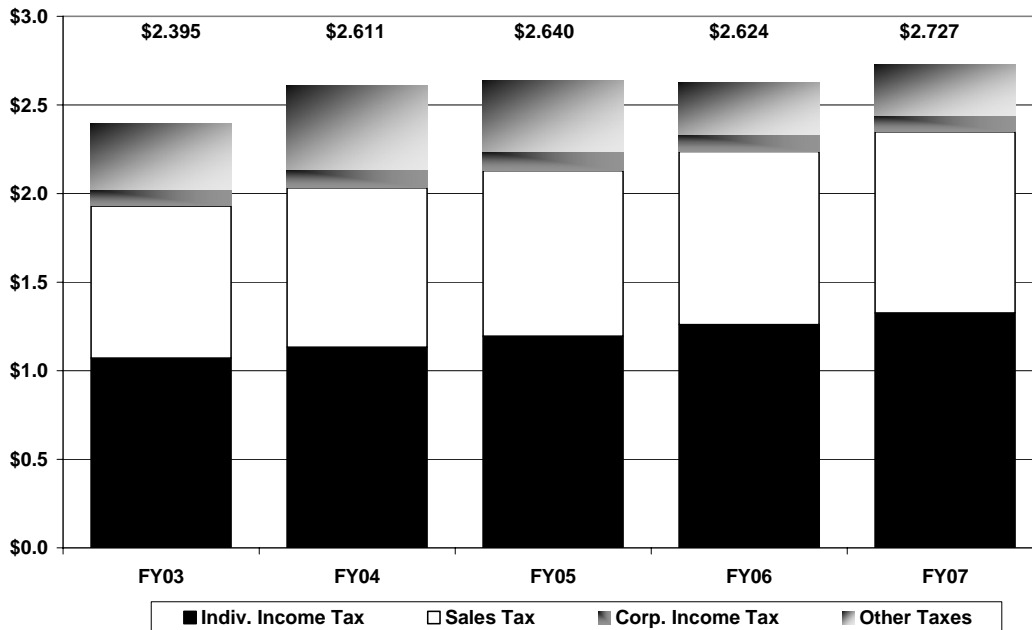


# REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2003

## GENERAL FUND REVENUES (Billions of \$)



**Laurie Lachance, Chair**  
State Economist

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

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

**Jerome Gerard**  
Acting State Tax Assessor

**Keith Todd**  
State Budget Officer

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



**STATE OF MAINE  
REVENUE FORECASTING COMMITTEE**

**Members:**

*Laurie Lachance, State Economist, Chair  
James Breece, University of Maine System  
Marc Cyr, Principal Analyst, Office of Fiscal and Program Review  
Jerome Gerard, Acting State Tax Assessor  
Grant Pennoyer, Director, Office of Fiscal and Program Review  
Keith Todd, State Budget Officer*

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December 2, 2003

**TO:** Governor John E. Baldacci  
Members, Legislative Council  
Members, Joint Standing Committee on Appropriations  
Members, Joint Standing Committee on Taxation  
Members, Joint Standing Committee on Transportation

**FROM:** Revenue Forecasting Committee

**RE: Revenue Reprojections – December 2003**

The Revenue Forecasting Committee is required, in statute, to prepare projections of General Fund, Highway Fund, and Tobacco Settlement Fund revenues on December 1 each year and to review and, if necessary, revise those revenue estimates by March 1. The Committee has concluded the required December 1 review and, through this memo, is notifying you that revisions have been made to all 3 funds. As the table below highlights, General Fund Revenues have been reprojected upward for FY04 and FY05 and downward for both FY06 and FY07. Unlike previous forecast reviews, economic conditions, capital gains assumptions and car sales have had virtually no effect on these projections, as the assumptions underlying this forecast have changed very little from our March 2003 forecast. Instead, changes are driven by the timing of the State's conformity with Federal tax law changes, lower interest rates, and staffing changes at Maine Revenue Services.

Highway Fund Revenues have been reprojected downward in each of the four fiscal years 04-07, due primarily to the weakened demand for diesel and other special fuels as well as lower interest earnings on investments.

Tobacco Settlement Fund projections have also been revised downward to reflect lower national cigarette sales and lower interest earnings.

**Revenue Reprojections**

(millions of dollars)

	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>
<b>General Fund</b>	6.7	0.2	(15.0)	(19.7)
<b>Highway Fund</b>	(1.8)	(3.3)	(4.0)	(5.3)
<b>Fund for a Healthy Maine</b>	(0.6)	(1.6)	(1.7)	(1.9)

Attached for your review is a full report of both the Revenue Forecasting Committee and the Consensus Economic Forecasting Commission (Appendix A).

As with any projection, there is risk that surrounds the forecast. The Committee would like to highlight the 2 areas that it feels pose the greatest risk to these projections at this time:

1. When the sales tax model and the income tax model were updated with current data and re-estimated, both models suggested a downward revision in FY04 and FY05. At the time this forecast was prepared, however, the State's Tax Amnesty program was showing great promise but had not yet concluded, and the holiday shopping season, the state's second-largest sales tax season, had not yet begun. Given the fact that year-to-date revenues were running ahead of budget in both tax lines and that the conclusion of the amnesty program and the holiday season would provide us with much better information, the Committee decided NOT to lower the sales and income tax projections at this time. The Committee will review these lines closely in February as we prepare our March 1 report.
2. Automobile sales represent nearly 1/5 of all sales taxes and are subject to highly volatile swings. Despite weakened economic conditions, car sales have continued growing through the past few years, driven by extremely low interest rates and special factory and dealer incentives. Our underlying assumption of 6-7% growth in auto sales is slower than recent experience, but the Committee recognizes that any major jolt to consumer confidence or major changes in car-buying incentive programs could cause dramatic shifts in auto sales.

If you have any questions or concerns, please feel free to call me at 287-1479 or any of the other Committee members.

#### Attachments

cc: Members, Revenue Forecasting Committee  
Members, Consensus Economic Forecasting Commission  
Jane Lincoln, Governor's Office  
Rebecca Wyke, Commissioner - DAFS

# REPORT OF THE MAINE STATE REVENUE FORECASTING COMMITTEE

December 2003

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## I. EXECUTIVE SUMMARY

This report summarizes the Maine State Revenue Forecasting Committee’s review and reprojection of General Fund, Highway Fund, and Fund for a Healthy Maine (Tobacco Settlement Fund) revenues for FY 2004 through FY 2007.

**General Fund:** At this time, the Revenue Committee recommends an extremely small (\$6.9 million or 0.1%) upward revision in the biennial General Fund Revenue projections for the FY04/FY05 biennium, and a small downward revision (\$34.7 million or 0.6%) for the FY06/FY07 period. The upward revision to 04/05 is primarily due to a rebound in Corporate Income Taxes, supported by increases in Estate Taxes and “Other Revenue” sources. The downward revision for 06/07 is due, in large part, to the timing of the State’s conformity with Federal tax law changes in the Corporate and Estate Tax areas and the sun-setting of funding for additional auditing staff in FY06 which is increasing projected revenue collections through the end of FY05.

**Highway Fund:** The Revenue Committee revised Highway Fund projections downward by \$5.1 million (0.9%) for the 04/05 biennium and downward by \$9.3 million (1.4%) for 06/07. These downward revisions are due, in large part, to weakness in special fuel sales (diesel) because of tepid economic conditions and a lower inflation forecast which reduces the projected increases in the fuel excise taxes from indexing.

**Fund for a Healthy Maine:** Tobacco Settlement Funds were revised downward by \$2.2 million (2.2%) over the 04/05 biennium and downward by \$3.6 million (3.5%) for 06/07 due to a decline in national cigarette sales and sustained low interest earnings (lowering Income on Investments for this fund).

**TABLE 1**

**Reprojection for General and Highway Funds**  
(millions of dollars)

	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>
<b>General Fund</b>	6.7	0.2	(15.0)	(19.7)
<b>Highway Fund</b>	(1.8)	(3.3)	(4.0)	(5.3)
<b>Fund for a Healthy Maine</b>	(0.6)	(1.6)	(1.7)	(1.9)

**Underlying Assumptions:**

**Economic:** The Consensus Economic Forecasting Commission met on October 3, 2003 to discuss whether their February 2003 forecast (which is the current set of economic assumptions underlying state revenue projections) should be revised. After lengthy discussion, the Committee decided to leave their February projections virtually unchanged. A small upward revision in the personal income growth rate from 3.2% to 3.5% for 2003 was made, but the

growth is forecast to primarily affect transfer payments and thus minimally affect revenues. To summarize the economic outlook that underlies this current revenue forecast: Maine's Personal Income is projected to grow at a relatively modest 4.0% rate in 2004 and accelerate slightly to 4.5% for 2005-2007; employment growth, estimated at 0.0% for 2003, is expected to increase to 0.8% in 2004 and 1% annually thereafter, which is about 1/3 the pace of growth that Maine experienced in the late 1990s; and the Consumer Price Index is assumed to remain in the vicinity of 2% through 2005 before rising slightly to a 2.5% rate. The CEFC revision was so small that it had virtually no effect on revenue projections.

Capital Gains: Maine's exceptional capital gain growth (in excess of 20% annual increases for 5 consecutive years) ended abruptly in tax year 2001, plummeting 53%, and is estimated to have dropped an additional 35% in tax year 2002. This drop-off decimated Individual Income Tax collections, which represented almost half of all General Fund Revenues. The Revenue Forecasting Committee has projected that capital gains for tax year 2003 will stabilize (0.0%) before resuming a moderate growth path in 2004 of 8% annual increases through 2007.

Automobile Sales: Automobile sales' taxes, which represent about 1/5 of all sales taxes, are projected to grow by 6.2% in FY2004 then accelerate slightly to the 7.2% – 7.6% range through the remainder of the forecast period. By comparison, from 1992-2002 auto sales averaged 10% annual growth.

As with any projection, there is risk that surrounds the forecast. The Committee would like to highlight the 2 areas that it feels pose the greatest risk to these projections at this time:

1. When the sales tax model and the income tax model were updated with current data and re-estimated, both models suggested a downward revision in FY04 and FY05. At the time this forecast was prepared, however, the State's Tax Amnesty program was showing great promise but had not yet concluded, and the holiday shopping season, the state's second-largest sales tax season, had not yet begun. Given the fact that year-to-date revenues were running ahead of budget in both tax lines and that the conclusion of the amnesty program and the holiday season would provide us with much better information, the Committee decided NOT to lower the sales and income tax projections at this time. The Committee will review these lines closely in February as we prepare our March 1 report.
2. Automobile sales represent nearly 1/5 of all sales taxes and are subject to highly volatile swings. Despite weakened economic conditions, car sales have continued growing through the past few years, driven by extremely low interest rates and special factory and dealer incentives. Our underlying assumption of 6-7% growth in auto sales is slower than recent experience, but the Committee recognizes that any major jolt to consumer confidence or major changes in car-buying incentive programs could cause dramatic shifts in auto sales.

## II. OVERVIEW

### A. Background of the Revenue Forecasting Committee

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 calls 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 is directed to utilize the economic assumptions developed by the Consensus Economic Forecasting Commission.

In 1995, PL 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 Laws of 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 will no longer be advisory but the actual revenue projections to 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 Laws of 2001, chapter 2, enacted a further change to the appointment process of the sixth member making that an appointment of a member of non-partisan staff appointed by the Legislative Council.

### B. Methodology

Both the General Fund and the Highway Fund revenue projections are actually an aggregation of several individual revenue line forecasts. There are over two dozen revenue lines which comprise total General Fund revenue and a half dozen components which sum to total Highway Fund revenues. Since each of these individual revenue lines 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 jackpot, number of patrolmen, etc.), the Committee uses different approaches for evaluating various revenue line 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 lines directly tied to economic activity
- Major revenue lines tied to other "non-economic" factors
- Minor revenue lines

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.

Both the major revenue lines tied to other "non-economic" factors and the minor revenue lines 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 and the likelihood of a large jackpot occurring within a twelve month period. Therefore, the Department of Administrative and Financial Services reviews past lottery trends and estimates the lottery's revenue performance over the upcoming biennium. Additional factors which are 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.

When preparing a formal review of the biennial budget (in odd numbered years such as 2003) 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 are 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 our consideration.

### C. Underlying Assumptions

#### 1. Current Tax Law

The Revenue Forecasting Committee bases all revenue projections on current tax law. The Committee does not attempt to second-guess how the law may be changed during the upcoming Legislative session.

Since the last time that the Revenue Forecasting Committee prepared a forecast in February 2003, two major tax changes were enacted that significantly alter our original revenue estimates:

**Delay in Federal Conformity** – The Legislature’s decision to delay conformity with the Federal code in the area of bonus depreciation has altered the forecast for Corporate Income Tax, Individual Income Tax and Estate Tax collections. By delaying conformity with accelerated depreciation of bonus income, Maine is projected to see greater revenues in the FY04/FY05 timeframe and larger losses in FY06/FY07 as greater depreciation is allowed.

**Sun-setting of Funding for Maine Revenue Service positions** – When the Committee’s original forecast was developed in February 2003, Maine Revenue Services was given 11 new positions with the expectation that these employees would bring in more revenue. The Legislature shortened the timeframe that these positions would be funded, sun-setting the funding in FY2006. This new forecast recognizes the fact that once these positions are eliminated, an estimated  $\frac{3}{4}$  of the revenue that they are expected to produce will also disappear.

#### 2. Consensus Economic Forecasting Commission

As directed by the originating Executive Order and the subsequent statute, the Committee closely examined the economic assumptions developed by the Consensus Economic Forecasting Commission. Economic assumptions were used by the Committee in two ways. First, projected employment, income, interest rates and inflation changes were used directly in the sales and income tax revenue estimating models maintained and operated by the Maine Revenue Service. Second, Committee members assessed revenue trends predicted by models and by other agencies against

economic expectations offered by the Consensus Economic Forecasting Commission.

The Consensus Economic Forecasting Commission met October 3, 2003 to prepare the economic assumptions that would become the basis of the Revenue Committee’s revenue reprojections. Given that Maine’s economic well being is so highly dependent on national economic activity, the Commission examined national economic trends and projections. They concluded that growth over the upcoming 4 years would be modest, at best, but a recession was unlikely. The Commission also concluded that inflation would be kept in check over the foreseeable future and would likely be even lower than they had originally forecast last January.

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

**TABLE 2**

**MAJOR UNDERLYING ECONOMIC ASSUMPTIONS**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>ME Wage &amp; Salary Employment</b>	0.0%	0.8%	1.0%	1.0%	1.0%
<b>ME Personal Income (Nominal)</b>	3.5%	4.0%	4.5%	4.5%	4.5%
<b>U.S. Consumer Price Index</b>	2.0%	2.0%	2.0%	2.5%	2.5%

The members of the Consensus Economic Forecast Commission are listed below:

- Charles Colgan, Chair - Muskie Institute
- Alan Day - Banknorth
- Michael Donihue – Colby College
- John Dorrer – National Center on Education and the Economy
- John Davulis – Central Maine Power Company

3. Capital Gains:

Maine's exceptional capital gain growth (in excess of 20% annual increases for 5 consecutive years) ended abruptly in tax year 2001, plummeting 53%, and is estimated to have dropped an additional 35% in tax year 2002. This drop-off decimated Individual Income Tax collections, which represented almost half of all General Fund Revenues. The Revenue Forecasting Committee has projected that capital gains for tax year 2003 will stabilize (0.0%) before resuming a moderate growth path in 2004 of 8% annual increases through 2007.

4. Automobile Sales:

Automobile sales' taxes, which represent about 1/5 of all sales taxes, are projected to grow by 6.2% in FY2004 then accelerate slightly to the 7.2% – 7.6% range through the remainder of the forecast period. By comparison, from 1992-2002 auto sales averaged 10% annual growth.

III. FY2004 THROUGH FY2007 REVENUE REPROJECTIONS

The Tables that follow include the complete detail of the Revenue Forecasting Committee's Reprojection of General Fund, Highway Fund, and Tobacco Settlement Fund revenues for FY04-FY07. Table 3 (pages 12-15) contains the General Fund projections, Table 4 (pages 16-18) provides the Highway Fund estimates, and Table 5 (pages 19-21) is the Tobacco Settlement projections. The paragraphs below explain the Committee's decision to reproject various revenue lines.

A. General Fund (net of Revenue Sharing)

REPROJECTION	FY04	+\$ 6.7 million
	FY05	+\$ 0.2 million
	FY06	-\$15.0 million
	FY07	-\$19.7 million

The Committee recommends that General Fund revenues be reprojected upward in each of the fiscal years FY04-FY05, and downward for FY06 and FY07. As TABLE 3 shows, five of the individual revenue lines were revised by over a million dollars. Highlights of the Committee's discussions follow:

**Sales and Use Tax :**

REPROJECTION	FY04	+\$0.0 million
	FY05	+\$0.0 million
	FY06	-\$0.6 million
	FY07	-\$0.6 million

When the sales tax model was updated with current data, it suggested a downward revision in FY04 and FY05 was necessary. At the time this forecast was prepared, however, the State's Tax Amnesty program was showing great promise but had not yet concluded, and the holiday shopping season, the state's second-largest sales tax season, had not yet begun. Given the fact that year-to-date revenues were running ahead of budget and that the conclusion of the amnesty program and the holiday season would provide us with much better information, the Committee decided NOT to lower the sales tax projections at this time. The Committee will review this line closely in February as we prepare our March 1 report. The small downward revision in FY06 and FY07 recognizes the anticipated loss in sales tax revenues that will result from the elimination of 11 audit/enforcement positions in the Maine Revenue Services.

**Individual Income Tax:**

REPROJECTION	FY04	+\$ 0.0 million
	FY05	+\$ 0.0 million
	FY06	- \$ 3.1 million
	FY07	- \$ 3.1 million

When the income tax model was updated with current data, it suggested a downward revision in FY04 and FY05 was necessary. At the time this forecast was prepared, however, the State's Tax Amnesty program was showing great promise but had not yet concluded. Given the fact that year-to-date revenues were running ahead of budget and that the conclusion of the amnesty program would provide us with much better information, the Committee decided NOT to lower the income tax projections at this time. The Committee will review this line closely in February as we prepare our March 1 report. The small downward revision in FY06 and FY07 recognizes the anticipated loss in income tax revenues that will result the delayed conformity with the Federal code in the area of accelerated bonus depreciation as well as minor losses expected from the elimination of 11 audit/enforcement positions in the Maine Revenue Services.

**Corporate Income Tax:**

REPROJECTION	FY04	+\$ 8.4 million
	FY05	+\$ 4.4 million
	FY06	- \$ 7.4 million
	FY07	- \$11.9 million

Fiscal year-to-date October 2003 Corporate Income Tax receipts were significantly above original budget levels (up 8.7% or \$2.2 million), reflecting improved economic conditions and corporate profits. The Committee's upward projection for FY04 and FY05 in this line is due, in part, to the improved underlying economics and to the delayed conformity to the Federal code with respect to bonus depreciation. The delay in conformity causes State tax collections to be higher in the 04/05 period, and to be lower

in the out years of the forecast. The downward revision in FY06 and 07 illustrates this expected swing.

**Cigarette and Tobacco Tax:**

REPROJECTION	FY04 - \$ 7.3 million
	FY05 - \$ 7.2 million
	FY06 - \$ 7.1 million
	FY07 - \$ 6.9 million

The significant drop in the sale of cigarette stamps due to effective anti-smoking campaigns, increased rolling of cigarettes, and the loss of sales to out-of-state and internet purchases has led to this downward projection in each of the 4 forecast years.

**Estate Tax:**

REPROJECTION	FY04 +\$2.9 million
	FY05 +\$3.1 million
	FY06 +\$0.3 million
	FY07 +\$0.0 million

Model updates and improving stock market conditions led the Committee to reproject Estate Tax revenues upward through the remainder of the time through which this tax is in place. The Estate Tax will be eliminated for deaths occurring after December 31, 2004.

**Income from Investments:**

REPROJECTION	FY04 - \$0.4 million
	FY05 - \$1.4 million
	FY06 - \$0.8 million
	FY07 - \$0.7 million

Following a detailed discussion, the Revenue Forecasting Committee accepted the recommendation of the State Treasurer to reproject the Income from Investments downward through the forecast period, reflecting lower than anticipated interest rates.

**Other Revenues:**

REPROJECTION	FY04 +\$4.1 million
	FY05 +\$2.2 million
	FY06 +\$3.7 million
	FY07 +\$3.2 million

The upward revision of Other Revenues is primarily due to a one-time anticipated increase in STA-CAP and annual upward revisions in Behavioral and Developmental Services revenues reflecting an increase in their cost allocation. This forecast also recognizes a one-time \$724,000 adjustment to the Real Estate Transfer Tax line in FY04 as well as a major Wall Street settlement in the Banking and Securities revenue line and increased securities revenue throughout the period. Detail of the “Other Revenue” forecast is contained in the fourth page of Table 3 (page of this document)

B. Highway Fund:

REPROJECTION	FY04 - \$1.8 million
	FY05 - \$3.3 million
	FY06 - \$4.0 million
	FY07 - \$5.3 million

The Revenue Committee revised Highway Fund projections downward by \$5.1 million (0.9%) for the 04/05 biennium and downward by \$9.3 million (1.4%) for 06/07. These downward revisions are due, in large part, to weakness in special fuel sales (diesel) because of tepid economic conditions and a lower inflation forecast which impacts the indexing of excise tax rates. In addition, lower interest rates led to weaker revenue growth from investment income in this fund, fines were reprojected downward, and there was a correction to properly account for the reimbursements to municipalities from the Municipal Excise Tax Fund. These reductions were only partially offset by an increase in revenue from Motor Vehicle Registrations and Fees.

C. Fund for a Healthy Maine:

REPROJECTION	FY04 - \$0.6 million
	FY05 - \$1.6 million
	FY06 - \$1.7 million
	FY07 - \$1.9 million

Tobacco Settlement Funds were revised downward by \$2.2 million (2.2%) over the 04/05 biennium and downward by \$3.6 million (3.5%) for 06/07 due to a decline in national cigarette sales and sustained low interest earnings (lowering Income on Investments for this fund).

**GENERAL FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY99 Actual	FY00 Actual	% Chg.	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY03 Budget	FY03 Variance	% Variance
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%	\$861,578,278	(\$4,091,477)	-0.5%
Individual Income Tax	\$1,004,937,795	\$1,074,621,614	6.9%	\$1,167,748,898	8.7%	\$1,069,834,791	-8.4%	\$1,071,701,694	0.2%	\$1,063,483,417	\$8,218,277	0.8%
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%	\$88,170,000	\$3,018,393	3.4%
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%	\$105,684,505	(\$7,270,035)	-6.9%
Public Utilities Tax	\$29,597,745	\$15,786,931	-46.7%	\$29,777,365	88.6%	\$30,479,783	2.4%	\$29,285,143	-3.9%	\$30,400,000	(\$1,114,857)	-3.7%
Insurance Companies Tax	\$37,730,425	\$42,697,847	13.2%	\$43,576,502	2.1%	\$55,244,333	26.8%	\$71,078,089	28.7%	\$56,646,354	\$14,431,735	25.5%
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%	\$23,821,692	\$6,698,628	28.1%
Property 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%	\$10,162,545	(\$232,442)	-2.3%
Income from Investments	\$19,759,308	\$20,312,457	2.8%	\$16,365,950	-19.4%	\$3,829,521	-76.6%	\$2,345,741	-38.7%	\$1,889,000	\$456,741	24.2%
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%	(\$102,674,817)	(\$364,404)	0.4%
Transfer from Liquor Commission	\$19,794,778	\$23,226,758	17.3%	\$24,231,271	4.3%	\$25,168,524	3.9%	\$26,073,276	3.6%	\$26,290,223	(\$216,947)	-0.8%
Transfer from Lottery Commission	\$39,600,544	\$38,138,174	-3.7%	\$35,677,299	-6.5%	\$39,317,891	10.2%	\$39,442,111	0.3%	\$39,635,176	(\$193,065)	-0.5%
Other Revenues *	\$131,139,945	\$142,225,349	8.5%	\$147,603,081	3.8%	\$164,081,792	11.2%	\$170,263,271	3.8%	\$167,219,181	\$3,044,090	1.8%
<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>\$2,372,305,554</b>	<b>\$22,384,636</b>	<b>0.9%</b>
<b>Change in Biennial Totals</b>												

\* See Detail of Revisions on separate page: General Fund Revenue - "Other Revenue" Summary

Updated: 12/2/03

**GENERAL FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY04 Budget	% Chg.	Recom. Chg.	FY04 Revised	% Chg.	FY05 Budget	% Chg.	Recom. Chg.	FY05 Revised	% Chg.
Sales and Use Tax	\$899,259,382	4.9%	\$0	\$899,259,382	4.9%	\$934,416,607	3.9%	\$0	\$934,416,607	3.9%
Individual Income Tax	\$1,132,802,013	5.7%	\$0	\$1,132,802,013	5.7%	\$1,195,104,203	5.5%	\$0	\$1,195,104,203	5.5%
Corporate Income Tax	\$95,277,841	4.5%	\$8,420,000	\$103,697,841	13.7%	\$99,759,101	4.7%	\$4,420,000	\$104,179,101	0.5%
Cigarette and Tobacco Tax	\$104,958,014	6.6%	(\$7,341,074)	\$97,616,940	-0.8%	\$104,139,047	-0.8%	(\$7,219,183)	\$96,919,864	-0.7%
Public Utilities Tax	\$29,500,000	0.7%	(\$600,000)	\$28,900,000	-1.3%	\$28,600,000	-3.1%	(\$550,000)	\$28,050,000	-2.9%
Insurance Companies Tax	\$69,409,975	-2.3%	\$5,333	\$69,415,308	-2.3%	\$65,355,916	-5.8%	(\$8,000)	\$65,347,916	-5.9%
Estate Tax	\$29,213,470	-4.3%	\$2,890,161	\$32,103,631	5.2%	\$28,683,082	-1.8%	\$3,058,827	\$31,741,909	-1.1%
Property Tax - Unorg. Territory	\$10,202,624	2.7%	\$0	\$10,202,624	2.7%	\$10,407,086	2.0%	\$0	\$10,407,086	2.0%
Income from Investments	\$1,652,000	-29.6%	(\$364,115)	\$1,287,885	-45.1%	\$2,418,000	46.4%	(\$1,391,805)	\$1,026,195	-20.3%
Transfer to Municipal Rev. Sharing	(\$108,494,302)	5.3%	(\$429,420)	(\$108,923,722)	5.7%	(\$113,693,278)	4.8%	(\$225,420)	(\$113,918,698)	4.6%
Transfer from Liquor Commission	\$26,356,396	1.1%	\$0	\$26,356,396	1.1%	\$0	-100.0%	\$0	\$0	-100.0%
Transfer from Lottery Commission	\$42,321,885	7.3%	\$0	\$42,321,885	7.3%	\$43,423,093	2.6%	\$0	\$43,423,093	2.6%
Other Revenues	\$271,406,160	59.4%	\$4,082,207	\$275,488,367	61.8%	\$240,651,254	-11.3%	\$2,164,452	\$242,815,706	-11.9%
Total - General Fund Revenue	\$2,603,865,458	8.7%	\$6,663,092	\$2,610,528,550	9.0%	\$2,639,264,111	1.4%	\$248,871	\$2,639,512,982	1.1%
Change in Biennial Totals								\$6,911,963		

\* See Detail of Revisions on separate page: General Fund Revenue - "Other Revenue" Summary

Updated: 12/2/03



**GENERAL FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Sales and Use Tax	\$976,904,193	4.5%	(\$648,000)	\$976,256,193	4.5%	\$1,023,047,061	4.7%	(\$648,000)	\$1,022,399,061	4.7%
Individual Income Tax	\$1,263,783,243	5.7%	(\$3,077,000)	\$1,260,706,243	5.5%	\$1,329,192,731	5.2%	(\$3,077,000)	\$1,326,115,731	5.2%
Corporate Income Tax	\$101,685,952	-2.4%	(\$7,350,000)	\$94,335,952	-9.4%	\$103,785,086	2.1%	(\$11,940,000)	\$91,845,086	-2.6%
Cigarette and Tobacco Tax	\$103,230,241	6.5%	(\$7,104,881)	\$96,125,360	-0.8%	\$102,333,838	-0.9%	(\$6,900,344)	\$95,433,494	-0.7%
Public Utilities Tax	\$27,300,000	-2.7%	(\$540,000)	\$26,760,000	-4.6%	\$26,300,000	-3.7%	(\$425,000)	\$25,875,000	-3.3%
Insurance Companies Tax	\$63,923,969	-2.2%	(\$8,000)	\$63,915,969	-2.2%	\$66,476,733	4.0%	(\$8,000)	\$66,468,733	4.0%
Estate Tax	\$2,382,372	-92.5%	\$252,339	\$2,634,711	-91.7%	\$0	-100.0%	\$0	\$0	-100.0%
Property Tax - Unorganized Territory	\$10,690,713	2.7%	\$0	\$10,690,713	2.7%	\$10,982,067	2.7%	\$0	\$10,982,067	2.7%
Income from Investments	\$2,418,000	135.6%	(\$810,947)	\$1,607,053	56.6%	\$2,418,000	0.0%	(\$666,792)	\$1,751,208	9.0%
Transfer to Municipal Rev. Sharing	(\$121,803,416)	6.9%	\$575,900	(\$121,227,516)	6.4%	(\$127,713,293)	4.9%	\$814,580	(\$126,898,713)	4.7%
Transfer from Liquor Commission	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Transfer from Lottery Commission	\$43,423,093	0.0%	\$0	\$43,423,093	0.0%	\$43,423,093	0.0%	\$0	\$43,423,093	0.0%
Other Revenues	\$164,792,890	-32.1%	\$3,679,767	\$168,472,657	-30.6%	\$166,855,617	1.3%	\$3,167,308	\$170,022,925	0.9%
Total - General Fund Revenue	\$2,638,731,250	0.0%	(\$15,030,822)	\$2,623,700,428	-0.6%	\$2,747,100,933	4.1%	(\$19,683,248)	\$2,727,417,685	4.0%
Change in Biennial Totals								(\$34,714,070)		

\* See Detail of Revisions on separate page: General Fund Revenue - "Other Revenue" Summary

Updated: 12/2/03

**Summary of General Fund "Other Revenue" Changes - December 2003**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	
<b>Other Revenue Variances - Revisions</b>	<b>\$4,082,207</b>	<b>\$2,164,452</b>	<b>\$3,679,767</b>	<b>\$3,167,308</b>	<b>Notes</b>
<b>Detail</b>					
DAFS - STA-CAP Charges	\$1,000,000	\$0	\$0	\$0	One-time adjustment in FY04 based on STA-CAP Variances
DAFS - Real Estate Transfer Tax	\$724,181	\$0	\$0	\$0	One-time adjustment in FY04 based on variances in collections
Agriculture - Harness Racing	(\$113,200)	\$0	\$0	\$0	One-time adjustment in FY04 to adjust for negative variance
Agriculture - Miscellaneous Fees	(\$345,792)	\$0	\$0	\$0	One-time adjustment in FY04 to adjust for negative variance
Attorney General - Fines	\$53,419	\$0	\$0	\$0	One-time adjustment in FY04 based on variances in collections
Behavioral and Developmental Services	\$1,224,559	\$1,131,766	\$624,649	\$93,252	Adjustment for revised cost allocation revenue
Conservation - Park Fees	(\$309,468)	\$0	\$0	\$0	One-time adjustment for FY04 negative variance in park fees
Corrections	\$86,142	\$114,856	\$114,856	\$114,856	Revenue related to rate increase for federal prisoners
Environmental Protection	\$13,500	\$13,500	\$13,500	\$13,500	Revenue item left off the December 2002 Forecast
DHS	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	Adjustment for different account of Food Stamp overpayments
IF&W - Gas Tax Adjustment based on reforecast	\$0	\$0	\$2,125	\$550	Adjustment to IF&W Revenue based on Gas Tax Adjustment
Judicial Department - Fine Revenue	\$498,303	\$515,330	\$525,637	\$536,150	Slower growth of fines - offset by revenue shifted from HF
Professional and Financial Reg. - Banking	\$1,269,063	\$300,000	\$300,000	\$300,000	FY04 fine revenue and recognize additional securities revenue growth
Sec. of State - Corporation Fees	\$102,500	\$210,000	\$220,000	\$230,000	Additional license fee growth for foreign corporations
Sec. of State - Archives	(\$21,000)	(\$21,000)	(\$21,000)	(\$21,000)	Decline in fee received from microfilming services
Treasury - Unclaimed Property	\$0	\$0	\$2,000,000	\$2,000,000	Continued revenue from change in unclaimed property law

Updated: 12/2/03

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY99 Actual	FY00 Actual	% Chg.	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual	% Chg.	FY03 Budget	FY03 Variance	% Variance
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%	\$187,500,000	\$401,008	0.2%
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%	\$79,432,966	\$3,599,455	4.5%
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%	\$3,683,907	\$485,866	13.2%
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%	\$3,057,180	(\$525,488)	-17.2%
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%	\$1,418,000	(\$79,206)	-5.6%
Other Revenues	\$5,985,729	\$5,379,040	-10.1%	\$5,467,245	1.6%	\$5,737,782	4.9%	\$9,272,396	61.6%	\$9,154,514	\$117,882	1.3%
Total - Highway Fund Revenue	\$244,163,962	\$262,918,937	7.7%	\$273,117,902	3.9%	\$281,984,017	3.2%	\$288,246,084	2.2%	\$284,246,567	\$3,999,517	1.4%
<b>Change in Biennial Totals</b>												

Updated: 12/1/03

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY04 Budget	% Chg.	Recom. Chg.	FY04 Revised	% Chg.	FY05 Budget	% Chg.	Recom. Chg.	FY05 Revised	% Chg.
Fuel Taxes	\$211,786,463	12.7%	(\$1,290,014)	\$210,496,449	12.0%	\$220,565,566	4.1%	(\$2,566,745)	\$217,998,821	3.6%
Motor Vehicle Registration & Fees	\$76,805,062	-7.5%	\$1,600,000	\$78,405,062	-5.6%	\$77,072,714	0.3%	\$1,600,000	\$78,672,714	0.3%
Inspection Fees	\$3,461,771	-17.0%	\$0	\$3,461,771	-17.0%	\$3,470,359	0.2%	\$0	\$3,470,359	0.2%
Fines, Forfeits and Penalties	\$3,118,323	23.2%	(\$995,422)	\$2,122,901	-16.1%	\$3,180,689	2.0%	(\$1,015,330)	\$2,165,359	2.0%
Income from Investments	\$1,128,000	-15.7%	(\$702,783)	\$425,217	-68.2%	\$1,655,000	46.7%	(\$628,805)	\$1,026,195	141.3%
Other Revenues	\$9,091,970	-1.9%	(\$459,053)	\$8,632,917	-6.9%	\$9,086,932	-0.1%	(\$643,000)	\$8,443,932	-2.2%
Total - Highway Fund Revenue	\$305,391,589	5.9%	(\$1,847,272)	\$303,544,317	5.3%	\$315,031,260	3.2%	(\$3,253,880)	\$311,777,380	2.7%
Change in Biennial Totals								(\$5,101,152)		

Other Revenues - Change reflects adjustments to STA-CAP Transfer in FY04 (+\$183,781) and to the Municipal Excise Tax Reimbursement Fund Transfer  
Updated: 12/1/03

**HIGHWAY FUND REVENUE**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Fuel Taxes	\$228,396,861	4.8%	(\$3,314,061)	\$225,082,800	3.2%	\$237,653,222	4.1%	(\$4,539,326)	\$233,113,896	3.6%
Motor Vehicle Registration & Fees	\$77,828,254	-1.1%	\$1,600,000	\$79,428,254	1.0%	\$78,596,584	1.0%	\$1,600,000	\$80,196,584	1.0%
Inspection Fees	\$3,476,649	0.2%	\$0	\$3,476,649	0.2%	\$3,483,001	0.2%	\$0	\$3,483,001	0.2%
Fines, Forfeits and Penalties	\$3,264,303	50.8%	(\$1,035,637)	\$2,228,666	2.9%	\$3,329,189	2.0%	(\$1,055,950)	\$2,273,239	2.0%
Income from Investments	\$1,655,000	61.3%	(\$628,805)	\$1,026,195	0.0%	\$1,655,000	0.0%	(\$628,805)	\$1,026,195	0.0%
Other Revenues	\$9,121,733	8.0%	(\$643,000)	\$8,478,733	0.4%	\$9,164,261	0.5%	(\$643,000)	\$8,521,261	0.5%
Total - Highway Fund Revenue	\$323,742,800	3.8%	(\$4,021,503)	\$319,721,297	2.5%	\$333,881,257	3.1%	(\$5,267,081)	\$328,614,176	2.8%
Change in Biennial Totals								(\$9,288,584)		

Other Revenues - Change reflects adjustments to STA-CAP Transfer in FY04 (+\$183,781) and to the Municipal Excise Tax Reimbursement Fund Transfer  
Updated: 12/1/03

**TOBACCO SETTLEMENT REVENUE (FUND FOR A HEALTHY MAINE)**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY00 Actual	FY01 Actual	% Chg.	FY02 Actual	% Chg.	FY03 Actual *	% Chg.	FY03 Budget	FY03 Variance	% Variance
Initial Payments	\$35,541,456	\$16,839,539	-52.6%	\$16,236,644	-3.6%	\$16,458,172	1.4%	\$16,634,010	(\$175,838)	-1.1%
Base Payments	\$27,422,283	\$30,926,515	12.8%	\$40,055,643	29.5%	\$39,348,861	-1.8%	\$40,251,240	(\$902,379)	-2.2%
Attorney General Reimbursements	\$212,904	\$53,226	-75.0%	\$25,475	-52.1%	\$0	-100.0%	\$0	\$0	0.0%
Income from Investments	\$1,604,300	\$3,605,927	124.8%	\$1,233,998	-65.8%	\$681,756	-44.8%	\$517,115	\$164,641	31.8%
Total - Tobacco Settlement Revenue	\$64,780,943	\$51,425,207	-20.6%	\$57,551,760	11.9%	\$56,488,789	-1.8%	\$57,402,365	(\$913,576)	-1.6%

Change in Biennial Totals

\* 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.

Updated: 12/1/03

**TOBACCO SETTLEMENT REVENUE (FUND FOR A HEALTHY MAINE)**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY04 Budget	% Chg.	Recom. Chg. **	FY04 Revised	% Chg.	FY05 Budget	% Chg.	Recom. Chg.	FY05 Revised	% Chg.
Initial Payments	\$0	-100.0%	\$0	\$0	-100.0%	\$0	0.0%	\$0	\$0	0.0%
Base Payments	\$49,654,499	26.2%	(\$515,649)	\$49,138,850	24.9%	\$50,307,367	1.3%	(\$1,535,240)	\$48,772,127	-0.7%
Attorney General Reimbursements	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Income from Investments	\$82,601	-87.9%	(\$57,601)	\$25,000	-96.3%	\$134,525	62.9%	(\$109,525)	\$25,000	0.0%
Total - Tobacco Settlement Revenue	\$49,737,100	-12.0%	(\$573,250)	\$49,163,850	-13.0%	\$50,441,892	1.4%	(\$1,644,765)	\$48,797,127	-0.7%
Change in Biennial Totals								(\$2,218,015)		

Updated: 12/1/03

**TOBACCO SETTLEMENT REVENUE (FUND FOR A HEALTHY MAINE)**  
**REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - DECEMBER 2003**

Source	FY06 Budget	% Chg.	Recom. Chg.	FY06 Revised	% Chg.	FY07 Budget	% Chg.	Recom. Chg.	FY07 Revised	% Chg.
Initial Payments	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Base Payments	\$51,215,374	1.8%	(\$1,645,684)	\$49,569,690	1.6%	\$52,075,923	1.7%	(\$1,747,640)	\$50,328,283	1.5%
Attorney General Reimbursements	\$0	0.0%	\$0	\$0	0.0%	\$0	0.0%	\$0	\$0	0.0%
Income from Investments	\$134,525	0.0%	(\$109,525)	\$25,000	0.0%	\$134,525	0.0%	(\$109,525)	\$25,000	0.0%
Total - Tobacco Settlement Revenue	\$51,349,899	1.8%	(\$1,755,209)	\$49,594,690	1.6%	\$52,210,448	1.7%	(\$1,857,165)	\$50,353,283	1.5%
Change in Biennial Totals								(\$3,612,374)		

Updated: 12/1/03



## V. CONCLUSION

The current outlook for the Maine economy is virtually identical to the February 2003 outlook prepared by the Consensus Economic Forecasting Commission, thus economic conditions have had little affect on the revenue rejections presented in this report. Overall, the revised General Fund revenue projections are relatively small. Minor upward revisions for FY04 and FY05 and subsequent downward revisions for FY06 and FY07 are primarily due to the Legislature's decision to delay conformity to the Federal tax code with respect to the treatment of bonus depreciation. Changes in auditing/enforcement staff at the Maine Revenue Services over the 4-year period also caused small revisions in total revenue as did a change in the baseline and the outlook for interest rates.

The downward revisions in each of the forecast years for the Highway Fund reflect weaker sales, and thus tax collections, of special fuels, a lower inflation forecast, and lower interest earnings.

The downward revisions of anticipated Tobacco Settlement revenues throughout the forecast period are due, in large part, to lower interest rates and declining national cigarette sales.

# APPENDIX A

## CONSENSUS ECONOMIC FORECASTING COMMISSION REPORT

**Report of the  
MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION  
October 28, 2003**

Commissioners Present:

Charlie Colgan, Muskie School, USM, Chair  
Michael Donihue, Colby College  
John Davulis, CMP  
Alan Day, Banknorth Investment Management Group  
John Dorrer, National Center on Education and the Economy

Others present:

Michael Allen, MRS  
Dana Evans, DOL  
Galen Rose, SPO  
Jerome Gerard, MRS  
Gerry Stanhope, MRS  
Laurie Lachance, SPO  
Paul Dube, BOB  
Grant Pennoyer, OFPR

The Commission met on October 3, 2003 to discuss whether their February 2003 forecast should be revised before the Revenue Forecasting Committee met in November. The committee left the February 2003 forecast largely unchanged. A small upward revision in the personal income growth rate from 3.2% to 3.5% for 2003 was made, but the growth is forecast to primarily affect transfer payments and thus minimally affect revenues. The table on the following page shows the Commission's expected growth rates for employment, personal income and its components, and inflation.

**Maine Consensus Economic Forecasting Commission**  
**Forecast of October 2003**  
 (corrected 10/16/03)

	History									Forecast				
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Rate or Annual Growth Rate													
CPI-u	-	2.8%	3.0%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.0%	2.0%	2.0%	2.5%	2.5%
Me. Unemployment Rate	7.4	5.7	5.1	5.4	4.4	4.1	3.4	3.9	4.4	4.6	4.7	4.3	4.0	3.9
3-Month Treasury Bill Rate	4.2%	5.5%	5.0%	5.1%	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	2.0%	3.9%	5.0%	5.0%
10-Year Treasury Note Rate	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	3.9%	4.4%	4.8%	5.8%	5.9%
Maine Agricultural Empl.(1,000's)	14.5	14.4	14.3	13.8	16.1	13.4	16.1	13.1	14.0	17.0	14.0	14.0	14.0	14.0
	Employment Levels (1,000's)													
Maine Wage & Salary Employmen	531.6	538.2	542.5	553.7	569.2	586.3	603.5	609.4	607.3	607.4	612.4	618.8	625.2	631.7
Mining	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	21.0	21.7	23.2	23.3	25.1	28.0	29.4	29.7	29.1	28.8	29.0	29.2	29.4	29.6
Manufacturing	91.4	91.1	88.3	87.8	87.1	86.2	85.2	81.2	74.3	69.3	66.3	64.3	62.5	60.7
Transp/Commun./Publ. Utilis.	22.6	22.3	22.6	23.1	23.6	24.1	24.5	24.7	24.6	24.6	25.0	25.5	26.0	26.5
Wholesale Trade	23.9	25.1	25.8	26.0	26.5	27.0	27.1	26.9	26.8	26.8	27.0	27.2	27.4	27.6
Retail Trade	110.4	111.9	111.4	113.4	115.8	119.0	122.8	124.4	124.9	125.9	127.3	128.8	130.2	131.6
FIRE	26.3	26.0	27.0	28.4	29.7	31.4	32.4	33.6	33.5	33.6	33.9	34.3	34.7	35.1
Services	141.6	146.8	151.1	158.7	166.8	173.9	182.5	187.0	191.3	196.3	201.6	206.9	212.0	217.2
Government	94.1	93.2	92.8	93.0	94.6	96.7	99.6	101.8	102.7	102.0	102.2	102.5	102.9	103.3
	Annual Growth Rates													
Maine Wage & Salary Employmen	-	1.2%	0.8%	2.1%	2.8%	3.0%	2.9%	1.0%	-0.3%	0.0%	0.8%	1.0%	1.0%	1.0%
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%	0.0%
Construction	-	3.0%	7.0%	0.5%	7.5%	11.6%	5.1%	1.0%	-2.0%	-1.0%	0.7%	0.7%	0.7%	0.7%
Manufacturing	-	-0.4%	-3.0%	-0.6%	-0.8%	-1.1%	-1.2%	-4.6%	-8.5%	-6.7%	-4.3%	-3.0%	-2.8%	-2.9%
Transp/Commun./Publ. Utilis.	-	-1.4%	1.5%	2.2%	1.9%	2.2%	1.6%	0.8%	-0.4%	0.0%	1.6%	2.0%	2.0%	1.9%
Wholesale Trade	-	4.8%	2.9%	0.6%	1.8%	2.2%	0.2%	-0.7%	-0.4%	0.0%	0.7%	0.7%	0.7%	0.7%
Retail Trade	-	1.4%	-0.4%	1.8%	2.2%	2.7%	3.2%	1.3%	0.4%	0.8%	1.1%	1.2%	1.1%	1.1%
FIRE	-	-1.1%	3.8%	5.2%	4.4%	5.6%	3.3%	3.7%	-0.3%	0.3%	0.9%	1.2%	1.2%	1.2%
Services	-	3.7%	3.0%	5.0%	5.1%	4.2%	5.0%	2.5%	2.3%	2.6%	2.7%	2.6%	2.5%	2.5%
Government	-	-1.0%	-0.4%	0.2%	1.8%	2.2%	3.0%	2.2%	0.9%	-0.7%	0.2%	0.3%	0.4%	0.4%
	Million \$ - at Seas. Adjusted Annual Rates													
Personal income	24173.8	25046.3	26434.0	27772.8	29468.5	30679.8	32866.5	34491.5	35990.8	37250.4	38740.4	40483.8	42305.5	44209.3
Wage and salary disbursements	12408.5	12923.3	13456.5	14315.8	15242.5	16251.0	17217.0	17975.0	18501.0	19056.0	19742.0	20630.4	21662.0	22745.1
Other labor income	2121.8	2064.8	2104.0	2033.5	2058.5	2143.0	2254.0	2393.3	2623.3	2715.1	2850.8	2993.4	3143.0	3300.2
Non-farm Proprietors' income	1885.5	1791.8	1959.0	2052.0	2223.3	2374.0	2492.5	2575.3	2682.5	2763.0	2881.8	3011.5	3147.0	3288.6
plus: Dividends, interest, and rent	4346.8	4691.0	5037.0	5362.0	5824.8	5704.3	6445.3	6723.8	6812.5	6948.8	7254.5	7580.9	7922.1	8278.6
plus: Transfer payments	4190.5	4401.8	4686.8	4903.3	5010.0	5136.3	5416.3	5875.0	6387.0	6836.8	7139.2	7457.4	7686.4	7920.5
less: Personal contrb. for social in	999.8	1050.8	1084.8	1145.0	1210.5	1288.8	1339.8	1420.0	1500.5	1575.5	1654.3	1737.0	1823.9	1915.1
plus: Adjustment for residence	140.0	183.3	208.3	240.3	274.5	291.3	332.5	345.0	482.0	501.3	521.3	542.2	563.9	586.4
Farm Income	145.5	113.8	145.0	92.0	125.0	142.5	130.3	112.0	98.0	101.9	106.0	110.2	114.6	119.2
	Annual Growth Rates													
Personal income	-	3.6%	5.5%	5.1%	6.1%	4.1%	7.1%	4.9%	4.3%	3.5%	4.0%	4.5%	4.5%	4.5%
Wage and salary disbursements	-	4.1%	4.1%	6.4%	6.5%	6.6%	5.9%	4.4%	2.9%	3.0%	3.6%	4.5%	5.0%	5.0%
Other labor income	-	-2.7%	1.9%	-3.4%	1.2%	4.1%	5.2%	6.2%	9.6%	3.5%	5.0%	5.0%	5.0%	5.0%
Non-farm Proprietors' income	-	-5.0%	9.3%	4.7%	8.3%	6.8%	5.0%	3.3%	4.2%	3.0%	4.3%	4.5%	4.5%	4.5%
plus: Dividends, interest, and rent	-	7.9%	7.4%	6.5%	8.6%	-2.1%	13.0%	4.3%	1.3%	2.0%	4.4%	4.5%	4.5%	4.5%
plus: Transfer payments	-	5.0%	6.5%	4.6%	2.2%	2.5%	5.5%	8.5%	8.7%	7.0%	4.4%	4.5%	3.1%	3.0%
less: Personal contrb. for social in	-	5.1%	3.2%	5.6%	5.7%	6.5%	4.0%	6.0%	5.7%	5.0%	5.0%	5.0%	5.0%	5.0%
plus: Adjustment for residence	-	30.9%	13.6%	15.4%	14.3%	6.1%	14.2%	3.8%	39.7%	4.0%	4.0%	4.0%	4.0%	4.0%
Farm Income	-	-21.8%	27.5%	-36.6%	35.9%	14.0%	-8.6%	-14.0%	-12.5%	4.0%	4.0%	4.0%	4.0%	4.0%

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Unemployment Rate is from SPO Fall 2003 Forecast

3 month T-bill and 10yr Treas. Note rates are from Economy.com - August, 2003

In leaving the economic forecast essentially unchanged, the Committee considered the following:

1. Data from the State Planning Office showed that the Maine economy was essentially flat in 2003 and would likely continue that way until the national economy picked up. Housing permits, construction contract awards, residential construction awards, non-farm wage and salary employment, taxable retail sales, and even bankruptcies showed little change over the same periods in 2002.
2. Information from the Maine Department of Labor showed similar trends. Non-farm wage and salary employment was down 1,300 jobs (0.3%) between August of 2002 and the same month of 2003. Most of the job losses were in manufacturing, but these were largely offset by gains in educational and health services. Initial claims for unemployment insurance were declining slightly, suggesting that the rate of job losses was slowing. Dana Evans of the Department suggested that total resident employment would likely be up slightly for the year due to a slightly increased labor participation rate, and that the annual average unemployment rate would probably be around 5%, up somewhat from the 4% of 2002.
3. General Fund revenues for the first two months of the fiscal year were very slightly above budget (\$852,000 or 0.3%). The largest variance from budget was the Corporate Income Tax line, which often shows large variance in July and August. The other major tax lines, Individual Income and the Sales Tax, were on budget through August, and preliminary September data suggested a strong month.
4. Data from the national and Maine economic forecasts reviewed by the Commission is consistent with the earlier forecasts. Global Insights has shown a very strong recovery beginning next year, but this was considered an optimistic forecast. However, Global Insight does not expect Maine will experience a strong recovery. In fact, its forecast for Maine is weaker than a year ago. Both the Colby College and New England Economic Project forecasts for Maine were also largely consistent with the February outlook and did not support significant revisions at this time.
5. Commissioners noted a number of trends which suggested the Maine economy still confronted difficulties. These included:
  - a. Continued loss of manufacturing jobs, particularly in northern and eastern Maine.
  - b. The effects of the looming federal deficit in the out years as the short term direct fiscal stimulus wanes over the next year. Federal debt is being added to high levels of corporate and personal debt.
  - c. National help-wanted advertising has been at its lowest level in 40 years.
  - d. Temporary help services have seen little or no growth.

- e. Unemployment has been drifting upward, and the unemployment rates among college graduates are on par with those of high school graduates. Also, unemployment rates of 20 to 24 year-olds is around 10%, and the rate among those in their fifties is uncharacteristically rising.
  - f. There is evidence that consumption growth is being fueled in part by households pulling equity out of their homes through refinancing, meaning growth is being financed by tapping savings and borrowing against the house as opposed to wage gains.
6. Several positive trends should portend growth in the national economy as measured by the GDP, though growth in the job market remains uncertain. These trends include:
- a. Stock market prices have rebounded somewhat this year and that's putting some wealth back into the New England economy. The Federal Reserve Bank's most recent flow of funds report also had some good news in that it showed household net worth rebounding somewhat.
  - b. No change in the accommodative stance of the Federal Reserve Board is expected in the near future.
  - c. In September, the national job count increased for the first time in 8 months, although the increase was very small.

# APPENDIX B

## BACKUP MATERIALS FOR REVENUE FORECASTING COMMITTEE MEETING NOVEMBER 14, 2003

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NOTE: This appendix is not available in the Acrobat pdf document. Those wishing to examine Appendix B documents can contact either –

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