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## Fiscal News, May 2009

Maine State Legislature

Office of Fiscal and Program Review

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# FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

MAY 2009

## Volume 3 Number 5

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



## Month In Review

The release of the final General Fund and Highway Fund revenue numbers for the month of April confirmed the preliminary assessment of April's dismal performance that prompted the Revenue Forecasting Committee (RFC) to make additional downward adjustments beyond what the revised economic forecast would suggest. The revised economic and revenue forecasts were the largest downward revisions in the history of Maine's consensus revenue forecasting process.

With the final revenue estimates nailed down by the Revenue Forecasting Committee, the Governor submitted revised budget recommendations based on the new shortfalls in early May. After a one-day public comment session on the major elements of the Governor's new recommendations to address the new 3-year General Fund revenue shortfall totaling \$569.2 million, the Appropriations Committee with the assistance of the other policy committees went to work and quickly concluded this effort with a unanimous committee report. The General Fund Biennial Budget Bill received very favorable votes in the House and Senate on the way to addressing a General Fund structural gap even greater than the amounts faced in the early 1990's.

One incentive to work expeditiously for passage of the budget was to minimize delays in payments to providers under the MaineCare program. One payment cycle had to be deferred one week in mid-May due to the lack of current funding to address the MaineCare funding shortfall.

April's cash balances did not recover as well as hoped and remained significantly below historical balances. While the enactment of the 2010-2011 Biennial Budget bill addressed the budget shortfall, it did nothing to improve the State's cash outlook for the current fiscal year and next. With the depletion of the major General Fund reserves, the outlook at least for the short-term is a continued erosion of the State's cash balances with an even greater need for external cash flow borrowing.



### General Fund Revenue Update

#### Total General Fund Revenue - FY 2009 (\$'s in Millions)

	Budget	Actual	Variance	% Var.	Prior Year	% Growth
April	\$423.1	\$338.9	(\$84.1)	-19.9%	\$457.1	-25.9%
FYTD	\$2,264.5	\$2,153.0	(\$111.5)	-4.9%	\$2,360.1	-8.8%

General Fund revenue for April was under budget by \$84.1 million or 19.9% and fell \$111.5 million or 4.9% below budget for the Fiscal Year-to-date (FYTD). These variances do not yet reflect the May 2009 revenue revision, which will not be reflected until the report on May revenue. The Revenue Forecasting Committee (RFC) based its May 2009 forecast on the preliminary revenue data for April. That poor performance based on preliminary data and confirmed by the actual revenue performance in April led the Revenue Forecasting Committee to a downward projection of General Fund revenue in FY 2009 totaling \$129.3 million. The RFC needed to make additional adjustments downward beyond what the tax models projected using the updated economic variables.

Individual income tax revenues were under budget by \$71.8 million in April. This very unpleasant "April surprise" was on top of a December forecast that had a significant decline built in. Tax year 2008 net capital gains realizations were projected to decline by 50% from the previous year in the December 2008 forecast. Obviously, the decline was much worse. Maine was not alone in this income tax shortfall as all states with an individual income tax

and the federal government were reporting similar fates. Corporate income tax collections also performed well below the old forecast.

The negative variances in sales tax collections accelerated in April and was \$7.7 million under budget. Through April, sales tax collections have declined 4.8% compared with the same period in FY 2008. Maine's taxable sales for the 1<sup>st</sup> quarter of calendar year 2009 were 9% below the same period with the building supply and automobile/transportation sectors showing the greatest declines. Nationally, that quarter showed the largest decline in taxable sales in the last 50 years.

Through April, FY 2009 General Fund revenue has decline 8.8% from the same period in FY 2008. This decline is even steeper than that projected in the revised revenue forecast, which assumed a decline for FY 2009 of 8.3%. While this decline is steeper than the revised forecast and is a concern, it is largely the result of April's very poor income tax performance and should return to the forecasted decline. Very preliminary data for May tax collections indicate that the major tax lines are tracking closely with or are slightly above the revised May 2009 forecast.

### Highway Fund Revenue Update

#### Total Highway Fund Revenue - FY 2009 (\$'s in Millions)

	Budget	Actual	Variance	% Var.	Prior Year	% Growth
April	\$27.8	\$25.5	(\$2.4)	-8.4%	\$25.7	-0.8%
FYTD	\$259.4	\$248.0	(\$11.4)	-4.4%	\$249.4	-0.6%

Highway Fund revenue was under budget by \$2.4 million or 8.4% in April and \$11.4 million or 4.4% for the FYTD through April 2009. This variance was based on the December 2008 revenue forecast. Based on an assessment of preliminary April collections data and the new economic forecast, the Revenue Forecasting Committee revised Highway Fund revenue downward by \$16.7 million in FY 2009.

In addition to a decline of fuel consumption after last summer's record high prices, the negative variances in the gas tax collections have also been driven by a greater than anticipated shift by distributors to the

use of "E-10" gasoline-ethanol mix. The E-10 gasoline-ethanol mix qualifies for a tax rate that is approximately \$0.01 lower than the rate for gasoline. The Governor has proposed the elimination of this special treatment of E-10 gasoline-ethanol mix in his recommended amendments (his "change package") to the Highway Fund Biennial Budget Bill, LD 333.

A preliminary look at May Highway Fund revenue indicates that fuel tax revenue appears to be tracking slightly ahead of the revised forecast. However, the Bureau of Motor Vehicles indicated that their revenue sources were still performing poorly and would likely fall below the revised forecast.



**Cash Balances Update**

April's total average cash pool balance was only \$250.7 million, which was \$195.7 million less than April 2008. The average balance for April during the last 7 years, 2002 to 2008, was \$535.4 million. April is usually a month that shows some sizeable improvement in the State's cash position with the receipt of April income tax payments. April's very poor revenue performance in the major tax categories produced very little recovery from March's typical low point in the fiscal year. In fact, April's average balance was below March's average balance this fiscal year.

General Fund internal borrowing increased to \$323.2 million in March, \$166.2 million more than the same period last year. Excluding reserve fund balances and internal borrowing, the General Fund average cash balance was negative by \$418.9 million. Several of the actions included in the budget based on the recommendations to close the additional shortfall created by the May 2009 revenue revision will continue to erode the General Fund cash positions. These include:

- Depleting 100% of current balances in the 2 major General Fund reserve accounts;
- Borrowing \$16 million between FY 2010 and FY 2011 from Other Special Revenue Funds; and
- Changing the accounting of revenue sharing transfers to increase budgeted resources in FY 2009 by \$20.1 million.

These initiatives support a higher level of spending in FY 2009 and FY 2010 than would otherwise be supported by monthly cash receipts.

The balance in the Dirigo Health Fund remained substantially negative in April, averaging \$15.8 million in April. Each month it has continued to be below the average balance of the same month one year earlier, although the rate of the decline has lessened recently. The average balance in April 2009 was less than \$1 million more negative than April 2008. The Biennial Budget Bill, LD 353 as enacted as PL 2009, c. 213, includes a one-day borrowing of \$20 million from Other Special Revenue Funds balances at

<b>Summary of Treasurer's Cash Pool</b>		
<b>April Average Daily Balances</b>		
	<b>Millions of \$'s</b>	
	<b>2008</b>	<b>2009</b>
General Fund (GF) Total	\$26.2	\$20.3
General Fund (GF) Detail:		
Budget Stabilization Fund	\$118.9	\$75.4
Reserve for Operating Capital	\$40.6	\$40.6
Tax Anticipation Notes	\$0.0	\$0.0
Internal Borrowing	\$157.0	\$323.2
Other General Fund Cash	(\$290.3)	(\$418.9)
Other Spec. Rev. - Interest to GF	\$54.3	(\$19.7)
Other State Funds - Interest to GF	(\$11.3)	(\$11.4)
Highway Fund	\$24.6	\$31.7
Other Spec. Rev. - Retaining Interest	\$64.5	\$29.4
Other State Funds	\$158.9	\$138.6
Independent Agency Funds	\$129.2	\$61.8
<b>Total Cash Pool</b>	<b>\$446.4</b>	<b>\$250.7</b>

the close of FY 2009 to "balance" the Dirigo Health Fund at the end of FY 2009. Legislation has been proposed to address the ongoing Dirigo Health Fund resource issues.

The enactment of the Biennial Budget Bill will allow the draw down of federal cash under the federal American Recovery and Reinvestment Act of 2009 (ARRA) and improve the cash position related to federal funds. American Recovery and Reinvestment Act of 2009 funding was being expensed in existing Federal Expenditures Fund accounts, but the State was not able to draw down the ARRA funds until the budget was enacted. In April, the negative balances related to federal funds totaled \$22.2 million. This negative position continued to increase through the end of May, when allotment in the ARRA accounts can be established pursuant to the Biennial Budget Bill, PL 2009, c. 213.

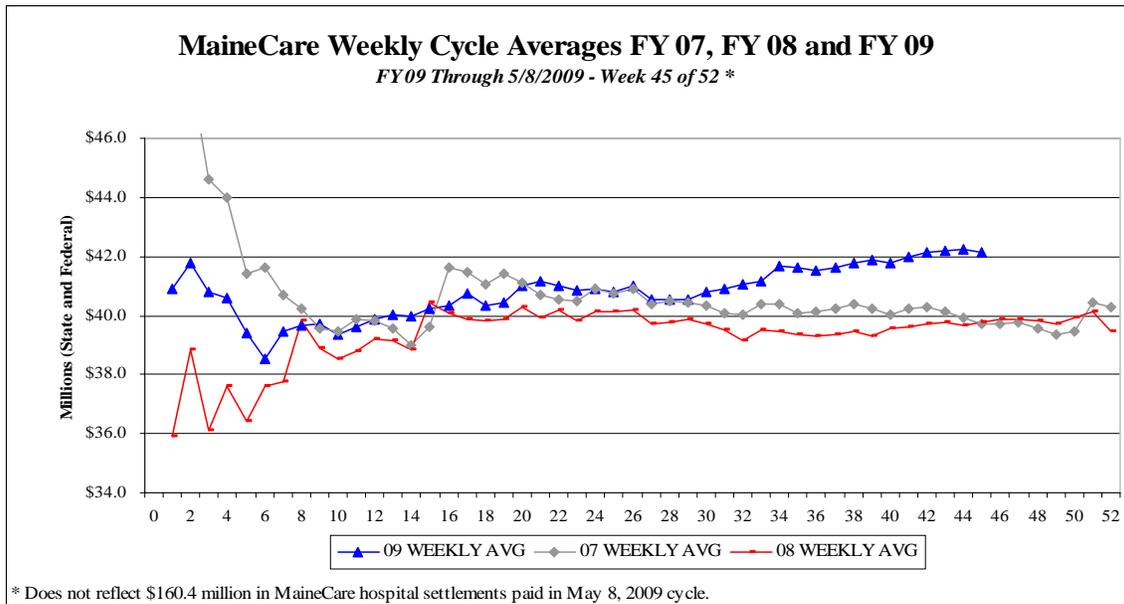
The State Treasurer and the State Controller will have a much more difficult time over the next year managing a very tight cash position. With the difficulty in benefitting from arbitrage earnings on any external borrowing in the current financial market environment, that option is less attractive and will need to be managed very actively to avoid unbudgeted costs.



### MaineCare Update

As summarized in the chart below the increase in average MaineCare weekly payment cycles to approximately \$42 million (state and federal dollars) per week that began in the second half of the calendar year has continued through Week 45. Not reflected in the chart below are \$160.4 million (approximately \$45 million state share) in MaineCare hospital settlement

payments included in the May 8, 2009 cycle. As authorized in PL 2009, c. 1, Part E, these settlement payments were made by Financial Order from MaineCare savings resulting from the enhanced Federal Medical Assistance Percentage provided in the federal American Recovery and Reinvestment Act of 2009. Funding for these same settlement payments are also reflected in PL 2009 c. 213.



During final consideration of the 2010-2011 Biennial Budget, the AFA Committee was informed that more recent MaineCare payment trends would allow for a reduction of the estimated MaineCare shortfall for FY09 from \$65 million, including \$15 million to correct a prior period accounting error related to the repayment of MaineCare interim payments, to \$60 million. This modification is reflected in the PL 2009,

c. 213. The AFA Committee was also notified that while the May 22<sup>nd</sup> MaineCare cycle would need to be delayed until May 29<sup>th</sup>, the earlier than assumed availability of hospital tax revenue would allow for the payment of both the May 22<sup>nd</sup> and May 29<sup>th</sup> cycles during the week of May 29<sup>th</sup>, and allow for continued payments until additional funding provided in PL 2009, c. 213 is available.

### Biennial Budget Summary

At one-thirty in the morning on May 19<sup>th</sup>, the Appropriations and Financial Affairs Committee closed the budget after sixteen weeks of public hearings, work sessions, discussions with policy committees and caucuses. In January, the committee was presented with a budget proposal with net savings of over \$340 million below the baseline budget and several initiatives with which the policy committees of jurisdiction disagreed. On April 28<sup>th</sup>, in the middle of the difficult deliberations on what was before them and after a tremendous amount of work on the part of the policy committees in their areas of the budget, the committee was dealt an additional obstacle; a virtually

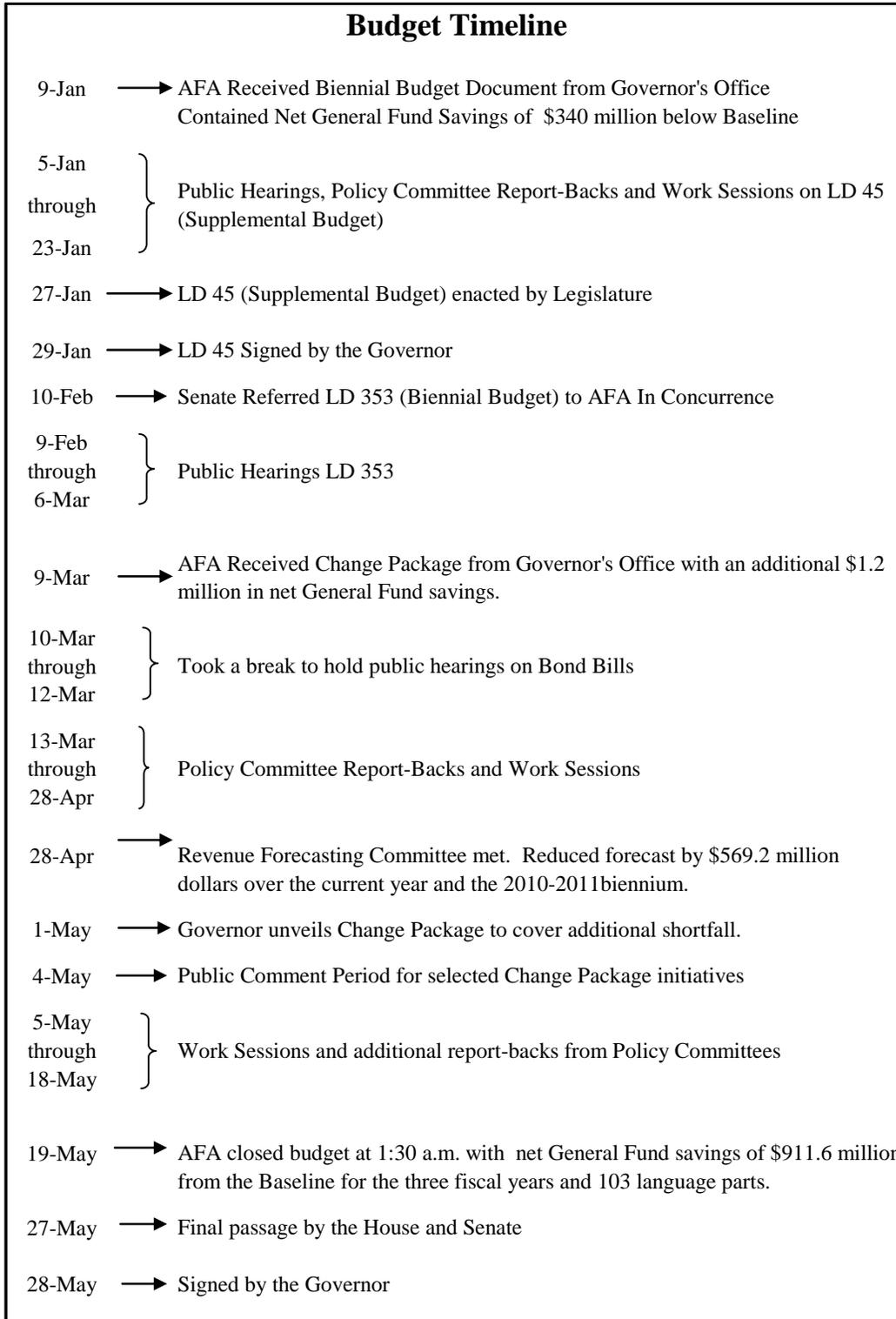
unprecedented reduction in forecasted revenue of \$440 million in the next biennium and \$129 million in the current fiscal year. Beginning almost anew, they held a public comment period on the Governor’s proposal for filling the additional gap and solicited additional feedback from the policy committees. Armed with that feedback they continued deliberating, debating and building consensus to reach that point in those early hours when the Senate Chair’s gavel came down and their committee work on the budget was done... until... this summer when they begin their work on finding \$30 million in savings as called for in Part QQQ (the “Streamlining Initiative”). But that is a subject for future *Fiscal News* reports.



**Biennial Budget Summary (continued)**

In the meantime, we are providing summary charts of the biennial budget and the full timeline of this year’s budget process in this issue. More detail can be found in the “Summary of 2010-2011 Biennial Budget

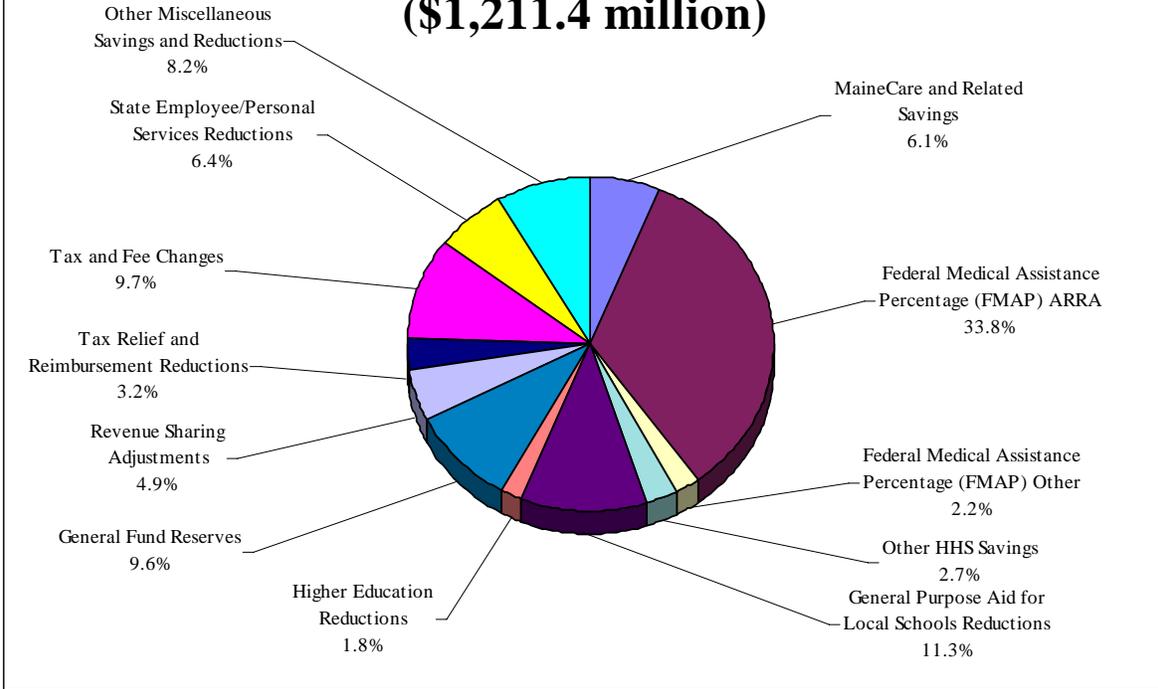
LD 353 as Amended” available on our website at: [http://www.maine.gov/legis/ofpr/appropriations\\_committee/materials/index.htm](http://www.maine.gov/legis/ofpr/appropriations_committee/materials/index.htm)



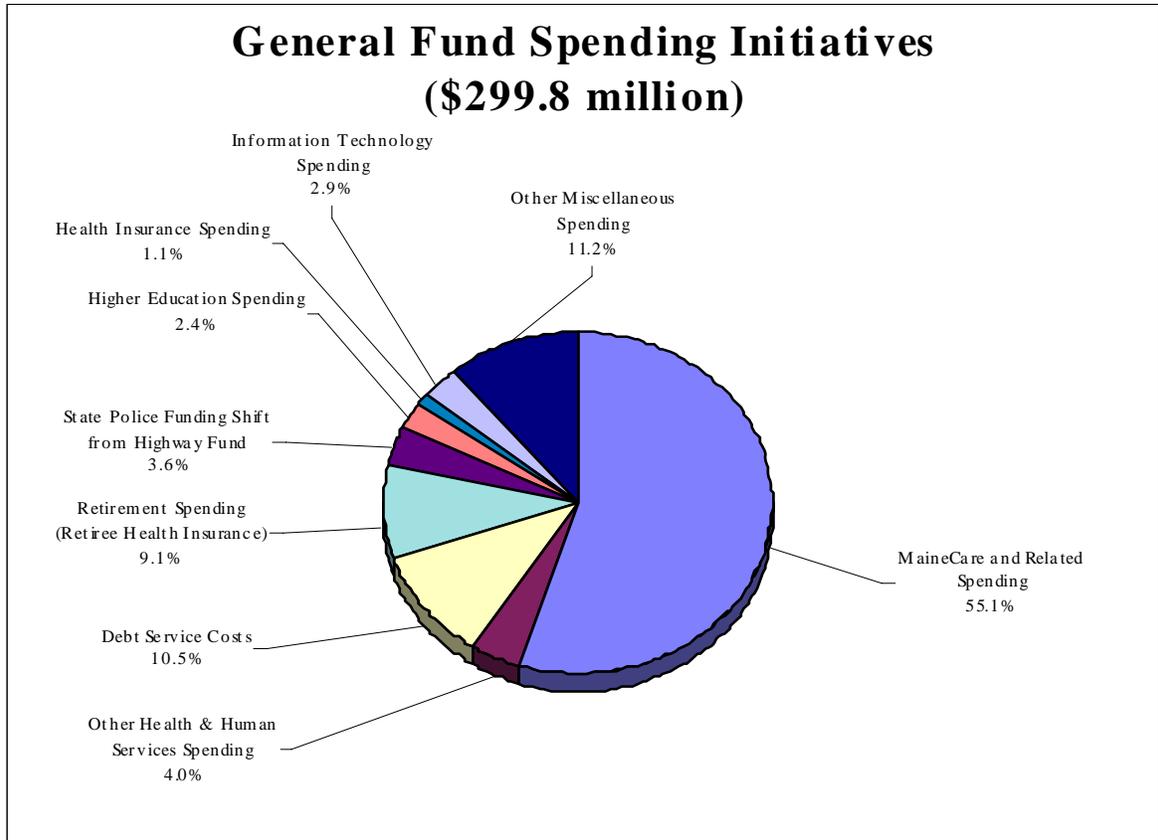


**Biennial Budget Summary (continued)**

**General Fund Savings Initiatives  
(\$1,211.4 million)**



**General Fund Spending Initiatives  
(\$299.8 million)**



**General Fund and Highway Fund Revenue**  
**Fiscal Year Ending June 30, 2009**  
**Reflecting Budgeted Amounts Through December 2008 Revenue Forecast and PL 2009, c. 1**

**APRIL 2009 REVENUE VARIANCE REPORT**

Revenue Line	April '09 Budget	April '09 Actual	April '09 Variance	FY09 YTD Budget	FY09 YTD Actual	FY09 YTD Variance	FY09 YTD Variance %	FY09 Budgeted Totals
<b>General Fund</b>								
Sales and Use Tax	72,145,886	64,419,676.10	(7,726,209.90)	735,930,909	697,222,167.14	(38,708,741.86)	-5.3%	987,320,733
Service Provider Tax	4,455,326	4,387,673.97	(67,652.03)	40,071,317	39,871,988.04	(199,328.96)	-0.5%	53,452,742
Individual Income Tax	287,064,591	215,235,609.62	(71,828,981.38)	1,054,725,866	999,900,017.95	(54,825,848.05)	-5.2%	1,327,231,135
Corporate Income Tax	29,000,000	18,518,077.11	(10,481,922.89)	122,810,000	110,931,940.98	(11,878,059.02)	-9.7%	168,904,770
Cigarette and Tobacco Tax	11,447,764	12,871,779.06	1,424,015.06	124,373,474	119,730,926.25	(4,642,547.75)	-3.7%	149,948,844
Public Utilities Tax	0	0.00	0.00	231,238	231,231.27	(6.73)	0.0%	18,405,029
Insurance Companies Tax	9,476,177	9,991,073.49	514,896.49	35,823,711	39,562,791.69	3,739,080.69	10.4%	71,978,985
Estate Tax	3,088,920	1,742,574.13	(1,346,345.87)	22,992,659	22,507,369.96	(485,289.04)	-2.1%	35,288,827
Property Tax - Unorganized Territory	0	0.00	0.00	11,006,279	10,995,373.00	(10,906.00)	-0.1%	12,969,540
Income from Investments	(130,730)	(119,363.40)	11,366.60	413,952	1,255,747.74	841,795.74	203.4%	752,451
Transfer to Municipal Revenue Sharing	(20,025,956)	(15,429,347.05)	4,596,608.95	(100,210,493)	(94,242,926.05)	5,967,566.95	6.0%	(129,962,428)
Transfer from Lottery Commission	4,042,247	4,411,847.18	369,600.18	43,454,177	41,559,579.14	(1,894,597.86)	-4.4%	52,599,250
Other Revenue	22,520,831	22,906,007.05	385,176.05	172,847,333	163,426,319.98	(9,421,013.02)	-5.5%	212,931,559
<b>Totals</b>	<b>423,085,056</b>	<b>338,935,607.26</b>	<b>(84,149,448.74)</b>	<b>2,264,470,422</b>	<b>2,152,952,527.09</b>	<b>(111,517,894.91)</b>	<b>-4.9%</b>	<b>2,961,821,437</b>
<b>Highway Fund</b>								
Fuel Taxes	17,080,890	16,481,674.98	(599,215.02)	169,962,940	161,679,510.00	(8,283,430.00)	-4.9%	234,197,278
Motor Vehicle Registration and Fees	9,733,557	7,869,866.59	(1,863,690.41)	75,394,442	72,979,931.19	(2,414,510.81)	-3.2%	99,146,017
Inspection Fees	188,416	438,329.10	249,913.10	3,852,419	3,262,176.58	(590,242.42)	-15.3%	4,474,821
Fines	144,582	172,305.84	27,723.84	1,461,451	1,478,015.80	16,564.80	1.1%	1,795,049
Income from Investments	13,000	24,647.16	11,647.16	373,473	405,019.61	31,546.61	8.4%	1,000,000
Other Revenue	666,414	490,008.49	(176,405.51)	8,318,175	8,155,107.04	(163,067.96)	-2.0%	9,629,561
<b>Totals</b>	<b>27,826,859</b>	<b>25,476,832.16</b>	<b>(2,350,026.84)</b>	<b>259,362,900</b>	<b>247,959,760.22</b>	<b>(11,403,139.78)</b>	<b>-4.4%</b>	<b>350,242,726</b>

## Comparison of Actual Year-to-Date Revenue Through April of Each Fiscal Year

REVENUE CATEGORY	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg	FY 2009	% Chg
<b>GENERAL FUND</b>										
Sales and Use Tax	\$668,317,945.41	2.3%	\$706,246,052.23	5.7%	\$727,924,791.68	3.1%	\$732,603,524.37	0.6%	\$697,222,167.14	-4.8%
Service Provider Tax	\$32,834,677.83	N/A	\$31,725,611.56	-3.4%	\$34,997,598.59	10.3%	\$38,870,025.85	11.1%	\$39,871,988.04	2.6%
Individual Income Tax	\$1,044,071,919.99	12.3%	\$1,088,940,290.10	4.3%	\$1,176,374,367.50	8.0%	\$1,261,043,240.25	7.2%	\$1,120,532,568.53	-11.1%
Individual Income Tax (Circuitbreaker)	(\$26,010,600.40)	N/A	(\$40,561,510.60)	-55.9%	(\$41,944,612.11)	-3.4%	(\$43,590,063.46)	-3.9%	(\$46,460,432.07)	-6.6%
Individual Income Tax (BETR)	\$0.00	N/A	(\$66,841,198.06)	N/A	(\$66,229,155.48)	0.9%	(\$67,629,347.56)	-2.1%	(\$74,172,118.51)	-9.7%
Corporate Income Tax	\$100,637,173.52	20.4%	\$148,101,567.51	47.2%	\$132,737,820.49	-10.4%	\$143,433,409.85	8.1%	\$110,931,940.98	-22.7%
Cigarette and Tobacco Tax	\$80,118,652.03	0.5%	\$127,091,870.93	58.6%	\$131,657,353.89	3.6%	\$125,741,515.63	-4.5%	\$119,730,926.25	-4.8%
Public Utilities Tax	\$419,105.93	255.9%	\$0.00	-100.0%	(\$1,854,396.00)	N/A	\$347,980.26	118.8%	\$231,231.27	-33.6%
Insurance Companies Tax	\$36,252,972.56	-7.4%	\$40,131,292.98	10.7%	\$32,713,789.65	-18.5%	\$36,878,882.96	12.7%	\$39,562,791.69	7.3%
Estate Tax	\$23,070,614.43	27.0%	\$61,839,825.02	168.0%	\$41,980,038.35	-32.1%	\$25,640,079.84	-38.9%	\$22,507,369.96	-12.2%
Property Tax - Unorganized Territory	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%	\$10,238,664.00	-1.6%	\$10,995,373.00	7.4%
Income from Investments	\$3,647,687.89	135.0%	\$4,964,621.46	36.1%	\$922,415.08	-81.4%	\$1,672,430.15	81.3%	\$1,255,747.74	-24.9%
Revenue Sharing Transfers	(\$92,812,406.90)	-7.2%	(\$95,248,151.46)	-2.6%	(\$100,156,901.36)	-5.2%	(\$105,301,270.01)	-5.1%	(\$94,242,926.05)	10.5%
Liquor Transfers	\$50,022,130.78	121.0%	\$2,554,641.00	-94.9%	\$3,450.00	-99.9%	\$0.00	-100.0%	\$6,190,531.00	N/A
Lottery Transfers	\$41,093,518.13	18.6%	\$43,290,026.10	5.3%	\$42,038,985.68	-2.9%	\$40,706,921.47	-3.2%	\$41,559,579.14	2.1%
Other Revenue	\$160,127,086.36	-2.8%	\$159,521,459.54	-0.4%	\$166,510,168.45	4.4%	\$159,443,388.10	-4.2%	\$157,235,788.98	-1.4%
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$2,131,428,854.56</b>	<b>7.6%</b>	<b>\$2,221,316,797.31</b>	<b>4.2%</b>	<b>\$2,288,079,089.41</b>	<b>3.0%</b>	<b>\$2,360,099,381.70</b>	<b>3.1%</b>	<b>\$2,152,952,527.09</b>	<b>-8.8%</b>
<b>HIGHWAY FUND</b>										
Fuel Taxes	\$165,176,286.23	3.7%	\$165,486,725.60	0.2%	\$168,332,477.56	1.7%	\$167,430,291.57	-0.5%	\$161,679,510.00	-3.4%
Motor Vehicle Registration and Fees	\$67,285,834.69	1.9%	\$68,654,661.11	2.0%	\$68,687,072.78	0.0%	\$67,910,304.81	-1.1%	\$72,979,931.19	7.5%
Inspection Fees	\$3,437,868.79	-8.7%	\$3,529,493.11	2.7%	\$3,576,974.90	1.3%	\$3,292,981.51	-7.9%	\$3,262,176.58	-0.9%
Fines	\$1,373,084.29	-13.1%	\$1,490,743.45	8.6%	\$1,430,018.63	-4.1%	\$1,464,389.22	2.4%	\$1,478,015.80	0.9%
Income from Investments	\$912,366.95	90.2%	\$1,265,384.20	38.7%	\$699,998.88	-44.7%	\$1,111,890.60	58.8%	\$405,019.61	-63.6%
Other Revenue	\$7,677,837.70	-4.5%	\$8,278,371.75	7.8%	\$8,227,875.14	-0.6%	\$8,175,810.74	-0.6%	\$8,155,107.04	-0.3%
<b>TOTAL HIGHWAY FUND REVENUE</b>	<b>\$245,863,278.65</b>	<b>2.8%</b>	<b>\$248,705,379.22</b>	<b>1.2%</b>	<b>\$250,954,417.89</b>	<b>0.9%</b>	<b>\$249,385,668.45</b>	<b>-0.6%</b>	<b>\$247,959,760.22</b>	<b>-0.6%</b>

Adjusted for Service Provider Tax Split