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## Fiscal News, May 2008

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 2008

## Volume 2 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

April's General Fund revenue collections were above budget primarily in the income tax categories, which reflect prior calendar year performance. Looking ahead, forecasters are concerned about the assumptions underlying the current forecast and the effect on consumption-related taxes of record high energy prices. Highway Fund revenue, which is heavily dependent on fuel taxes, has been under budget and may require financial order transactions at the end of the fiscal year to stay in balance.

The State issued General Obligation bonds totaling \$108.5 million with favorable rates. The rating agencies did not change the State's credit rating and classified the outlook for the State as "stable."

## General Fund Revenue Update

**Total General Fund Revenue - FY 2008 (\$'s in Millions)**

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
April	\$433.9	\$457.1	\$23.2	5.3%	\$413.4	10.6%
FYTD	\$2,314.8	\$2,360.1	\$45.3	2.0%	\$2,288.1	3.1%

General Fund revenue was over budget by \$23.2 million in April, increasing the Fiscal Year-to-date (FYTD) positive variance to \$45.3 million or 2.0%. April's strong growth increased the growth rate for the FYTD to 3.1% over the same period in FY 2007.

This year's pleasant "April Surprise" from Individual Income Tax receipts resulted in a positive variance of \$30.6 million in April and \$42.7 million for the FYTD. Corporate Income Tax collections also exceeded projections and were \$11.0 million over budget for the FYTD. These positive variances primarily reflect the prior calendar year's performance and are assumed to reflect very strong growth in non-wage income sources of upper income households, such as capital gains.

Sales and Use Tax revenue was under budget for the month, eating into a positive variance for the FYTD. Taxable sales were down by 5.1% compared to March 2007. With gasoline prices approaching \$4 per gallon, this downward trend is likely to continue.

The Cigarette Tax, Estate Tax and Insurance Companies Tax remained under budget for the FYTD as did the Other Revenue category. The Other Revenue category was under budget by \$6.3 million in April. \$5.5 million of this was because the payment from Maine Beverage Company related to the profit sharing from liquor sales was budgeted in April but not received until May. Inland Fisheries and Wildlife (IFW) revenue was under budget by \$1.8 million in April, which reflected the reduction of an accounting backlog in the distribution of revenue from prior months and moved revenue to other funds. This accounting backlog had artificially produced a positive variance in IFW revenue.



### Highway Fund Revenue Update

**Total Highway Fund Revenue - FY 2008 (\$'s in Millions)**

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
April	\$26.8	\$25.7	(\$1.2)	-4.3%	\$26.6	-3.6%
FYTD	\$250.0	\$249.4	(\$0.6)	-0.3%	\$251.0	-0.6%

Highway Fund revenue was under budget by \$1.2 million in April and by \$0.6 million or 0.3% for the FYTD.

Negative growth in Highway Fund revenue continued through April and the prospect for a turnaround does not seem likely with fuel prices at record levels. The fuel tax variance was the major contributor to the total FYTD negative revenue variance. The decline in gasoline consumption appears to be accelerating with the increases in gasoline prices.

### Cash Balance Update

**Summary of Treasurer's Cash Pool****April 2008 Average Daily Balances  
Millions of \$'s**

General Fund (GF) Total	\$26.2
General Fund (GF) Detail:	
Budget Stabilization Fund	\$118.9
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$157.0
Other General Fund Cash	(\$290.3)
Other Spec. Rev. - Interest to GF	\$54.3
Other State Funds - Interest to GF	(\$11.3)
Highway Fund	\$24.6
Other Spec. Rev. - Retaining Interest	\$64.5
Other State Funds	\$158.9
Independent Agency Funds	\$129.2
<b>Total Cash Pool</b>	<b>\$446.4</b>

The average total cash pool balance in April was \$446.4 million, \$77.2 million higher than March's \$369.2 million average balance. However, April's balance was well below the average \$550.2 million balance of the last 6 years for April. General Fund reserves are at their highest dollar level, but so is the amount of internal borrowing. General Fund cash balances excluding reserves and internal borrowing were negative by \$290.3 million in April. This is much more negative than the average of the last 6 years of a negative \$225.6 million.

### FY 2008 General Fund Surplus Distribution

April's General Fund revenue performance has increased the prospect for a sizeable year-end General Fund surplus, potentially in the \$35 to \$40 million range or rough 1.3%. This level assumes that the General Fund surplus of \$45 million at the end of April will erode over the last 2 months of the fiscal year based on the performance of consumption-related taxes. Presented below is the distribution of the increase in the unappropriated surplus above the budgeted ending balance at the close of FY 2008 that results from the revenue surplus, any lapsed appropriation balances and any other accounting adjustments.

FY 2008 Year-end Surplus Distribution or "Cascade" in order of priority:

- 1) State Contingent Account transfer to replenish the account up to \$350,000 (5 MRSA §1507);
- 2) Loan Insurance Reserve Fund transfer to the Finance Authority of Maine up to \$1,000,000 (5 MRSA §1511);

- 3) Maine Budget Stabilization Fund transfer up to \$10,000,000 (PL 2007, c. 700);
- 4) MaineCare transfer for prospective interim payments (PIP's) to hospitals up to \$63,601,643, which is \$82,000,000 less the \$18,398,357 received from the FY 2007 year-end "Cascade" (PL 2007, c. 240, Part MM); and
- 5) Transfers of any remaining surplus pursuant to 5 MRSA §1536, the on-going statutory transfers to the Maine Budget Stabilization Fund (35%), the Retirement Allowance Fund (20%), the Reserve for General Fund Operating Capital (20%), the Retiree Health Insurance Fund (15%) and Capital Construction and Improvements Reserve Fund (10%).

Based on an assumed surplus in the range of \$35 to \$40 million, the first 3 priorities will likely be fully funded and MaineCare hospitals payments may receive from \$23.6 to \$28.6 million.

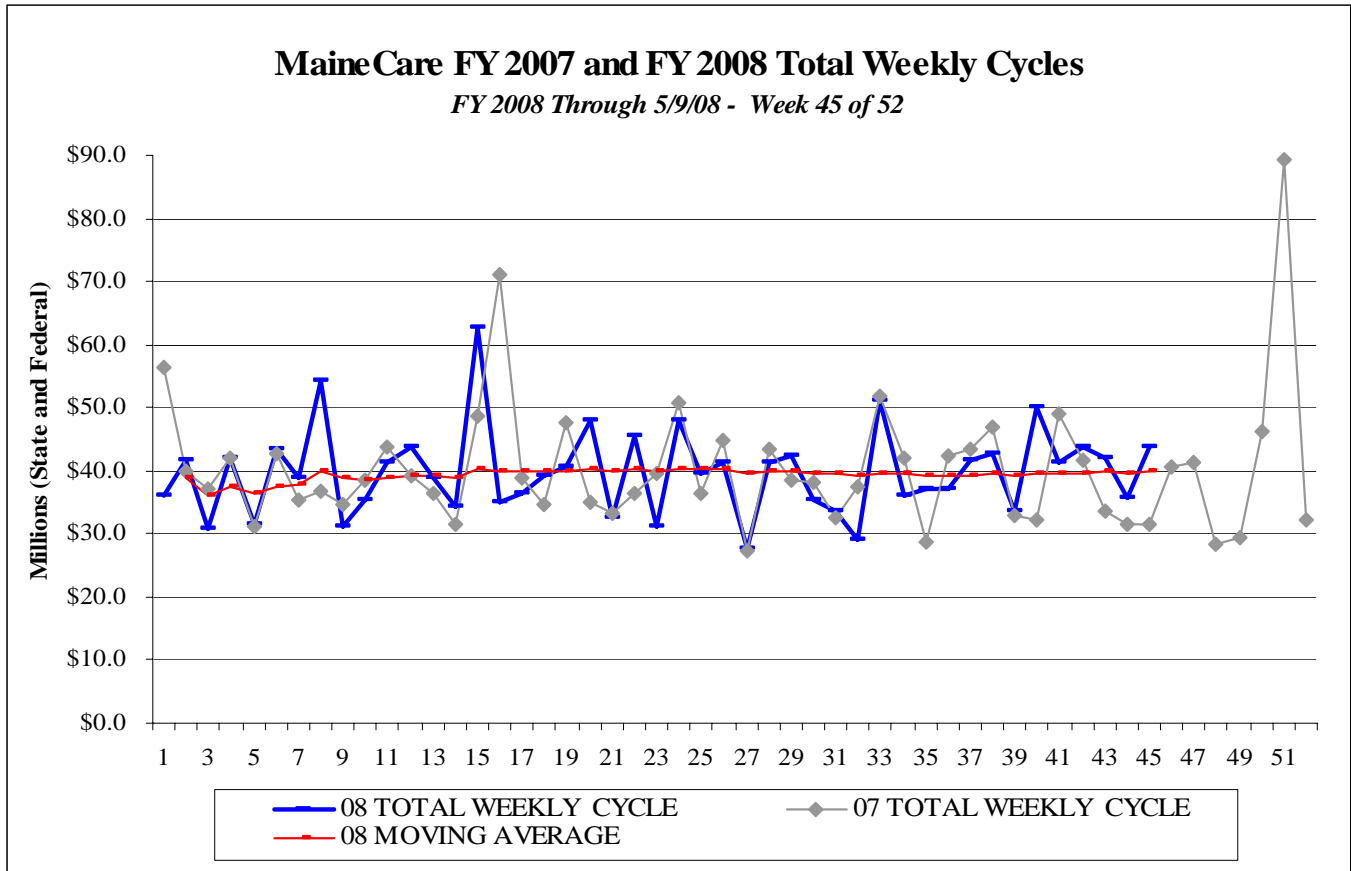


### MaineCare Spending Update

The table below summarizes MaineCare weekly cycle payments for FY 2008. Weekly cycle payments for FY 2008 are currently averaging \$39.8 million (state and federal dollars) through Week 45 of 52. For comparison purposes, the table also includes FY 2007 MaineCare weekly cycle payments. While the Department of Health and Human Services (DHHS) began capping FY 2007 weekly cycles on Week 33 of 52 last year at \$36.5 million per week, for comparison purposes here “uncapped” FY 2007 weekly cycle payments are reflected. (Note: FY 2008 “high points” at Weeks 8 and 15 include hospital settlement payments. FY 2007 “high points” also reflect hospital settlements and for week 51, paying down the” capped claims” balance.)

In her presentation to the Appropriation and Financial Affairs Committee on May 22, 2008, DHHS Deputy Commissioner Figueroa indicated that while the Department still faces financial challenges related to MECMS functionality fixes and hospital prospective interim payments (PIPs), they expect to be able to complete the current state fiscal year without capping weekly MaineCare cycle payments.

Based on a recent correction to the FY 2007 closing unappropriated surplus in the General Fund, the amount of the transfer to MaineCare for hospital payments based on the FY 2007 closing transactions was increased by \$0.6 million to \$18.4 million. Based on April’s General Fund revenue performance, the MaineCare program will also receive an upward adjustment to its appropriations from the FY 2008 closing surplus.





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### ***State Issues General Obligation Bonds***

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The State of Maine recently completed the sale of approximately \$108.5 million of general obligation bonds. The sale benefited from strong support from Maine investors who bought more than \$92 million of the \$94.255 million of bonds eligible for retail sale. The remaining bonds were sold to the institutional market. The interest rate for the \$102.6 million tax-exempt bonds was 3.35% and the interest rate for the \$5.9 million taxable bonds was 4.69%, producing a true interest cost blended rate of 3.42%. The bonds will be issued for 10 years with the final debt service payment on June 15, 2018. The average annual debt service payment will be \$12,910,413. Formal closing of the transaction is scheduled for May 29, 2008. The amount and the interest rate are below the assumptions in the current budget of \$120 million and 5.25%. This will result in some savings in the FY

2009 budget. The FY 2009 savings based on the lower issued amount represents a deferral of costs to future years.

The proceeds of the issue (par plus premium) will be used to pay off almost \$89 million in bond anticipation notes that mature on June 10, 2008 and internal cash pool borrowings and provide funding for an additional \$19.4 million of existing authorizations. The bond anticipation notes were issued within FY 2008 to provide short-term financing until the bonds could be issued in the spring. The bond ratings from three credit rating agencies remained unchanged from the ratings received for the June 2007 bond issue. Moody's Rating Service rated the issue at Aa3 outlook stable, Standard & Poor's rated it at AA outlook stable and Fitch Ratings rated it at AA outlook stable.

**General Fund and Highway Fund Revenue**  
**Fiscal Year Ending June 30, 2008**  
**Reflecting Budgeted Amounts Through 123 Legislature, 1st Special Session**

**APRIL 2008 REVENUE VARIANCE REPORT**

Revenue Line	April '08 Budget	April '08 Actual	April '08 Variance	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
<b>General Fund</b>								
Sales and Use Tax	72,503,051	71,786,950.74	(716,100.26)	731,662,369	732,603,524.37	941,155.37	0.1%	978,060,502
Service Provider Tax	3,136,722	4,338,195.16	1,201,473.16	37,243,442	38,870,025.85	1,626,583.85	4.4%	51,181,910
Individual Income Tax	301,254,999	331,881,135.34	30,626,136.34	1,107,133,212	1,149,823,829.23	42,690,617.23	3.9%	1,400,047,321
Corporate Income Tax	25,350,000	28,736,923.30	3,386,923.30	132,470,000	143,433,409.85	10,963,409.85	8.3%	182,170,000
Cigarette and Tobacco Tax	11,536,454	12,154,372.85	617,918.85	127,565,559	125,741,515.63	(1,824,043.37)	-1.4%	154,786,180
Public Utilities Tax	0	0.00	0.00	0	347,980.26	347,980.26	N/A	17,476,987
Insurance Companies Tax	10,183,047	9,915,667.21	(267,379.79)	37,240,691	36,878,882.96	(361,808.04)	-1.0%	76,751,673
Estate Tax	3,800,000	1,958,519.54	(1,841,480.46)	30,100,000	25,640,079.84	(4,459,920.16)	-14.8%	44,562,240
Property Tax - Unorganized Territory	0	0.00	0.00	10,403,375	10,238,664.00	(164,711.00)	-1.6%	12,611,986
Income from Investments	400,000	(352,753.99)	(752,753.99)	152,018	1,672,430.15	1,520,412.15	1000.2%	950,648
Transfer to Municipal Revenue Sharing	(20,545,083)	(22,273,903.43)	(1,728,820.43)	(102,390,817)	(105,301,270.01)	(2,910,453.01)	-2.8%	(133,184,448)
Transfer from Lottery Commission	3,756,477	2,779,357.76	(977,119.24)	40,382,163	40,706,921.47	324,758.47	0.8%	49,154,250
Other Revenue	22,551,938	16,218,133.33	(6,333,804.67)	162,834,315	159,443,388.10	(3,390,926.90)	-2.1%	206,171,173
<b>Totals</b>	<b>433,927,605</b>	<b>457,142,597.81</b>	<b>23,214,992.81</b>	<b>2,314,796,327</b>	<b>2,360,099,381.70</b>	<b>45,303,054.70</b>	<b>2.0%</b>	<b>3,040,740,422</b>
<b>Highway Fund</b>								
Fuel Taxes	17,012,719	16,363,573.46	(649,145.54)	166,947,633	167,430,291.57	482,658.57	0.3%	223,368,718
Motor Vehicle Registration and Fees	8,449,609	8,347,772.74	(101,836.26)	68,556,173	67,910,304.81	(645,868.19)	-0.9%	85,953,481
Inspection Fees	370,408	165,029.12	(205,378.88)	3,682,966	3,292,981.51	(389,984.49)	-10.6%	4,468,458
Fines	149,000	163,606.10	14,606.10	1,494,050	1,464,389.22	(29,660.78)	-2.0%	1,794,049
Income from Investments	75,000	37,459.51	(37,540.49)	900,000	1,111,890.60	211,890.60	23.5%	1,000,000
Other Revenue	779,868	602,870.63	(176,997.37)	8,432,257	8,175,810.74	(256,446.26)	-3.0%	9,771,333
<b>Totals</b>	<b>26,836,604</b>	<b>25,680,311.56</b>	<b>(1,156,292.44)</b>	<b>250,013,079</b>	<b>249,385,668.45</b>	<b>(627,410.55)</b>	<b>-0.3%</b>	<b>326,356,039</b>

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

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
<b>GENERAL FUND</b>										
Sales and Use Tax	\$685,087,843.45	7.8%	\$668,317,945.41	2.3%	\$706,246,052.23	5.7%	\$727,924,791.68	3.1%	\$732,603,524.37	0.6%
Service Provider Tax	\$0.00	N/A	\$32,834,677.83	N/A	\$31,725,611.56	-3.4%	\$34,997,598.59	10.3%	\$38,870,025.85	11.1%
Individual Income Tax	\$929,449,943.19	10.3%	\$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%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$26,010,600.40)	N/A	(\$40,561,510.60)	-55.9%	(\$41,944,612.11)	-3.4%	(\$43,590,063.46)	-3.9%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$66,841,198.06)	N/A	(\$66,229,155.48)	0.9%	(\$67,629,347.56)	-2.1%
Corporate Income Tax	\$83,601,917.43	22.9%	\$100,637,173.52	20.4%	\$148,101,567.51	47.2%	\$132,737,820.49	-10.4%	\$143,433,409.85	8.1%
Cigarette and Tobacco Tax	\$79,711,297.16	-2.1%	\$80,118,652.03	0.5%	\$127,091,870.93	58.6%	\$131,657,353.89	3.6%	\$125,741,515.63	-4.5%
Public Utilities Tax	(\$268,757.41)	-530.3%	\$419,105.93	255.9%	\$0.00	-100.0%	(\$1,854,396.00)	N/A	\$347,980.26	118.8%
Insurance Companies Tax	\$39,139,169.03	-5.3%	\$36,252,972.56	-7.4%	\$40,131,292.98	10.7%	\$32,713,789.65	-18.5%	\$36,878,882.96	12.7%
Estate Tax	\$18,168,113.98	-14.3%	\$23,070,614.43	27.0%	\$61,839,825.02	168.0%	\$41,980,038.35	-32.1%	\$25,640,079.84	-38.9%
Property Tax - Unorganized Territory	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%	\$10,238,664.00	-1.6%
Income from Investments	\$1,552,011.10	-22.6%	\$3,647,687.89	135.0%	\$4,964,621.46	36.1%	\$922,415.08	-81.4%	\$1,672,430.15	81.3%
Revenue Sharing Transfers	(\$86,605,124.93)	-9.8%	(\$92,812,406.90)	-7.2%	(\$95,248,151.46)	-2.6%	(\$100,156,901.36)	-5.2%	(\$105,301,270.01)	-5.1%
Liquor Transfers	\$22,632,063.01	5.4%	\$50,022,130.78	121.0%	\$2,554,641.00	-94.9%	\$3,450.00	-99.9%	\$0.00	-100.0%
Lottery Transfers	\$34,653,635.63	5.7%	\$41,093,518.13	18.6%	\$43,290,026.10	5.3%	\$42,038,985.68	-2.9%	\$40,706,921.47	-3.2%
Other Revenue	\$164,795,133.72	24.7%	\$160,127,086.36	-2.8%	\$159,521,459.54	-0.4%	\$166,510,168.45	4.4%	\$159,443,388.10	-4.2%
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,980,854,337.36</b>	<b>9.5%</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>HIGHWAY FUND</b>										
Fuel Taxes	\$159,269,766.12	14.1%	\$165,176,286.23	3.7%	\$165,486,725.60	0.2%	\$168,332,477.56	1.7%	\$167,430,291.57	-0.5%
Motor Vehicle Registration and Fees	\$66,062,088.34	0.5%	\$67,285,834.69	1.9%	\$68,654,661.11	2.0%	\$68,687,072.78	0.0%	\$67,910,304.81	-1.1%
Inspection Fees	\$3,766,985.03	11.8%	\$3,437,868.79	-8.7%	\$3,529,493.11	2.7%	\$3,576,974.90	1.3%	\$3,292,981.51	-7.9%
Fines	\$1,579,964.19	-25.3%	\$1,373,084.29	-13.1%	\$1,490,743.45	8.6%	\$1,430,018.63	-4.1%	\$1,464,389.22	2.4%
Income from Investments	\$479,780.74	-55.6%	\$912,366.95	90.2%	\$1,265,384.20	38.7%	\$699,998.88	-44.7%	\$1,111,890.60	58.8%
Other Revenue	\$8,036,190.73	3.7%	\$7,677,837.70	-4.5%	\$8,278,371.75	7.8%	\$8,227,875.14	-0.6%	\$8,175,810.74	-0.6%
<b>TOTAL HIGHWAY FUND REVENUE</b>	<b>\$239,194,775.15</b>	<b>8.9%</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>

Adjusted for Service Provider Tax Split