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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

JULY 2008

Volume 2 Number 7

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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

Revenue collections for the Highway Fund reversed recent trends and were above budget in June. As a result, the Highway Fund joined the General Fund with a surplus for FY 2008. These surpluses were distributed to various reserves and programs through the so-called “Cascade.” Most of the General Fund surplus (\$44.6 million of the \$55.9 million) will increase MaineCare hospital payments in FY 2009. For the Highway Fund, \$1.9 of the \$2.4 million surplus will be distributed to the Highway and Bridge Capital program in FY 2009.

With the addition of \$10 million to the Maine Budget Stabilization Fund through the FY 2008 “Cascade,” the balances in the major General Fund reserve accounts have reached their highest dollar values ever, but balances expressed as a percentage of General Fund revenue were below the FY 2001 peak.

Interest earnings on the Treasurer’s cash pool investments that had been withheld to reserve against potential investment losses associated with the Mainsail II commercial paper investment, currently in default, were not distributed to cash pool participants at the close of FY 2008 as originally anticipated. Given the market value of the investment set at the close of FY 2008 for accounting purposes, the State Controller and State Treasurer felt it was prudent and appropriate to retain those funds in reserve across fiscal years.

Cash balances, particularly General Fund and Highway Fund balances, remain a concern, prompting the State Controller to opt out of a budget initiative to reduce required Teachers’ Retirement payments. The State Controller recently decided that the General Fund could make quarterly payments to achieve a portion of the budgeted savings.

The “Citizens’ Veto” of the tax provisions of the Dirigo Health bill, LD 2247, PL 2007, c. 629, Parts D, E and F, was submitted to the Secretary of State with more than the minimum number of signatures. The timely submission of the petitions with the signatures has stayed the effective date of those provisions. If it is determined that there are a sufficient number of valid signatures on the petitions, the provisions of these Parts will be submitted to the voters in November.

The last weekly MaineCare payment cycle in FY 2008 was deferred until FY 2009 due to concerns about available funding. These concerns appear to have been unfounded as the balance that carried forward in MaineCare accounts was more than sufficient to cover the deferred payment.



General Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
June	\$479.5	\$479.7	\$0.2	0.0%	\$478.7	0.2%
FYTD	\$3,040.7	\$3,087.8	\$47.1	1.5%	\$3,019.6	2.3%

General Fund revenue was over budget by \$0.2 million in June, resulting in a positive variance for FY 2008 of \$47.1 million or 1.5%. Revenue ended FY 2008 with a modest annual growth rate of 2.3%.

Sales Tax collections exceeded budgeted projections largely due to the effect of the stimulus checks coming sooner than the revenue forecast anticipated. The Revenue Forecasting Committee assumed that the effects of the stimulus check would occur during the 1st quarter of FY 2009 and made a special upward adjustment of \$8.0 million in the sales tax over the tax model forecast based only on the economic variables.

Other Revenue was over budget in June by \$7.1 million and when combined with the Sales Tax collections offset negative variances in most of the other major tax lines. The positive variance in the Other Revenue line in June was distributed throughout the various state agencies and included such items as an unbudgeted \$1.1 million legal settlement with Merck.

Most of the positive variance in General Fund revenue was due to tax year 2007 individual income tax collections. The Individual Income Tax line accounted for \$43.4 million or 92% of the positive variance for FY 2008. That performance seems unlikely to continue in the current economic environment.

Highway Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
June	\$50.2	\$53.7	\$3.6	7.1%	\$54.2	-0.8%
FYTD	\$326.4	\$328.1	\$1.8	0.5%	\$330.8	-0.8%

Highway Fund revenue was over budget by \$3.6 million in June and concluded FY 2008 with a positive variance

of \$1.8 million or 0.5%. However, FY 2008 revenue was 0.8% less than FY 2007.

Fuel Taxes reversed the recent trend of negative variances in June and posted a positive variance of \$2.5 million in June bringing total Highway Fund revenue back into positive territory.

Fund for a Healthy Maine Revenue Update

Total Fund for a Healthy Maine Revenue - FY 2008 (\$ in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
FY 2008	\$61.3	\$62.0	\$0.8	1.3%	\$51.0	21.8%

The Fund for a Healthy Maine concluded FY 2008 with a positive variance of \$0.8 million (1.3%) and growth of 21.8% over FY 2007. This growth was due to the Strategic Contribution Payments that began in FY 2008, increasing payments in FY 2008 by approximately \$10.7

million based on budgeted amounts. As noted in the April 2008 issue of the Fiscal News, the largest contributing factor to this year's positive variance was the decision by Philip Morris USA not to withhold any disputed amounts from the April 2008 payment. The Revenue Forecasting Committee assumed that all participating manufacturers would withhold disputed payments from their April 2008 payments.



FY 2008 Year-end Transfers Update

The General Fund and the Highway Fund each have accounts that record the balances of available resources that have not been appropriated or allocated each fiscal year. These accounts are called the “Unappropriated Surplus” for the General Fund and the “Unallocated Surplus” for the Highway Fund. The amounts in these accounts are consistent with the “available” balances in each of these funds. At the close of each fiscal year, these accounts are increased by total revenue in excess of budgeted amounts, lapsed balances from program accounts and the net unbudgeted accounting adjustments that occur throughout the year. In recent years, the Legislature has discovered a means of committing these unbudgeted amounts to various priorities. This process, which has been dubbed the “Cascade,” determines the “available” balance for distribution and provides funding for the first priority purpose. The remaining balance cascades down to the next priority and then the next until the balance is depleted. When determining the “available” balance, the budgeted ending balance at the end of the fiscal year is considered committed and deducted from the “available” balance for the Cascade.

General Fund Cascade - The increase in the General Fund Unappropriated Surplus at the close of FY 2008 totaled \$55.9 million: \$47.1 million from the revenue variance; \$8.1 million from unbudgeted lapsed balances; and \$0.7 million from various net accounting adjustments. The FY 2008 Cascade had several exceptions that preempted many of the normal

on-going statutory distributions. The FY 2008 Cascade was distributed as follows in priority order:

1. State Contingent Account – \$0.35 million replenishes the balance in this account;
2. Loan Insurance Reserve Fund - \$1.0 million to the Finance Authority of Maine;
3. Budget Stabilization Fund - \$10.0 million was established late this past legislative session as a separate transfer from the normal statutory percentage transfers that were preempted in FY 2007 and FY 2008; and
4. MaineCare Hospital Payments - \$44.6 million was transferred to the Medical Care Payments to Providers (MAP) program in DHHS as an adjustment to appropriations to increase MaineCare prospective interim payments to hospitals.

Highway Fund - The increase in the Highway Fund Unallocated Surplus at the close of FY 2008 totaled \$2.4 million: \$1.8 million from the positive revenue variance; \$0.9 million from unbudgeted lapsed balances; and reduced by \$0.2 million from various negative net accounting adjustments. \$1.9 million of this unallocated surplus was distributed to the Highway and Bridge Capital program. The remainder, \$0.5 million was retained in Unallocated Surplus and increased the budgeted ending balance in the Highway Fund.

Cash Balances Update

Summary of Treasurer's Cash Pool

June 2008 Average Daily Balances

Millions of \$'s

General Fund (GF) Total	\$25.9
General Fund (GF) Detail:	
Budget Stabilization Fund	\$118.9
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$13.5
Other General Fund Cash	(\$147.1)
Other Spec. Rev. - Interest to GF	\$155.0
Other State Funds - Interest to GF	(\$12.7)
Highway Fund	\$18.4
Other Spec. Rev. - Retaining Interest	\$78.7
Other State Funds	\$200.7
Independent Agency Funds	\$87.5
Total Cash Pool	\$553.5

The average total cash pool balance in June was \$553.5 million. The June 2008 average balance remained well below the June average balance of \$642.2 million for the last 6 years. As noted last month, General Fund and Highway Fund balances were below their average balances, while other funds in the cash pool were roughly equal to their average balances.



Mainsail II Investment Update

The \$20 million cash pool investment in Mainsail II commercial paper that is in default was valued for accounting purposes or “marked to market” on June 30, 2008 at 33% of par value by Deutsche Bank and the State’s new investment advisor. If this turns out to be the final resolution of this investment, the cash pool will experience an investment loss of \$13.3 million. Based on this valuation, the State Controller and the State Treasurer felt that it was appropriate for the amounts reserved throughout FY 2008 to remain in reserve and not be distributed to cash pool participants at the close of the fiscal year as originally planned and reported in last month’s

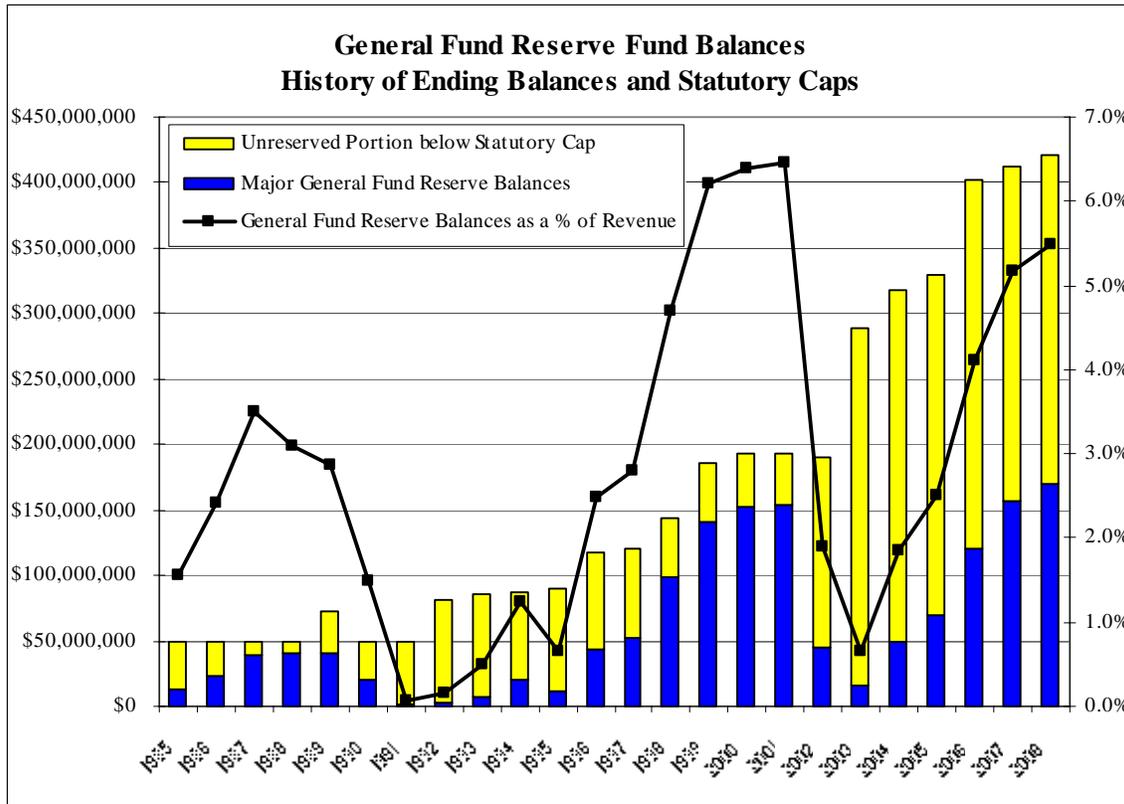
Fiscal News. At the close of FY 2008, \$6.8 million had been reserved from interest earnings.

The State is pursuing many avenues to recover this investment including a potential enforcement action by the Attorney General’s Office. Looking ahead, a resolution or “wind-down” of Mainsail II asset is planned for later this summer, which will likely offer much more clarity on the investment’s true market value. The results of the Attorney General’s investigation may also supplement the recovery through the wind-down and bring clarity to the ultimate resolution of this cash pool investment.

General Fund Reserve Fund Balances

Balances in the major General Fund reserves (the Maine Budget Stabilization Fund and the Reserve for General Fund Operating Capital) increased by \$13.4 million during FY 2008 to \$169.5 million. All of this increase was in the Budget Stabilization Fund and was primarily due to the transfer of \$10 million from unappropriated surplus at the close of FY 2008. The remaining increase resulted from interest earnings accruing to the Budget Stabilization Fund.

In dollar terms, the ending balance at the close of FY 2008 is the highest these reserve balances have ever been. However, when these reserve balances are expressed as a percentage of General Fund revenue, the peak balances were in the period from FY 1999 to FY 2001. At the close of FY 2001, these reserve balances equaled 6.5% of General Fund revenue. At the close of FY 2008, these balances were 5.5% of General Fund revenue.





Prepayment of Teacher Retirement Costs

As noted in last month's *Fiscal News*, the State Controller notified the Maine Public Employees Retirement System (MainePERS) that there would not be sufficient cash flow to implement a budget savings initiative that authorized prepayment of FY 2009 Teachers' Retirement costs at the beginning of the fiscal year. The estimated savings of that initiative on total retirement payments would have been 6,794,293. The State Controller decided on a

middle ground approach and notified MainePERS that the State would prepay teacher retirement costs at the beginning of each quarter during FY 2009. This option reduces the amount of total General Fund savings in Teachers' Retirement payments to \$1,762,398 and will require a supplemental appropriation of \$5,031,895 to fund the shortfall in this retirement program.

People's Veto of "Dirigo Taxes"

A coalition of Maine citizens, businesses and organizations calling itself "Fed Up With Taxes" filed with the Secretary of State more signatures than the 55,087 required to delay the implementation of Parts D, E and F of PL 2007, c. 629, "An Act To Continue Maine's Leadership in Covering the Uninsured," which was scheduled to take effect on August 1st. Those parts of the bill repealed the Savings Offset Payment (SOP), created a Health Access Surcharge of 1.8% on all paid health insurance claims, increased the excise taxes on beer and wine effective August 1st, and implemented a new soft drink and syrup tax effective August 1st. The proceeds of these taxes were dedicated to the Dirigo Health Program, although an indirect effect on sales tax collections also increased budgeted General Fund revenue in FY 2009.

With the filing of the signatures, the implementation is at least delayed until the Secretary of State certifies the signatures or rejects the petition. That office has until the end of business on August 18th to certify the signatures. There is also a 5-day appeal period after the determination by the Secretary of State. If the signatures are denied after this period, the effective date for Part D, E and F will be delayed for approximately one month affecting the amount of revenue accruing to the General Fund and the Dirigo

Health Program. If accepted or certified, these Parts will become contingent on the outcome of a question on the November 2008 ballot.

If the signatures are certified, the General Fund revenue will become contingent on the vote and therefore will be backed out of the budgeted resources reducing the ending General Fund balance by \$0.4 million to \$0.9 million at the close of FY 2009. If the People's Veto is rejected by the voters in November, the General Fund revenue amount will be added back to budgeted revenue, but at a lesser amount in FY 2009 due to the delay of more than 4 to 5 months.

As a contingency, the Board of Dirigo Health Program has begun proceedings to implement a Savings Offset Payment or SOP for the next fiscal year, since its repeal has been delayed by the submission of the signatures. The SOP was to be replaced by other revenues included in the Parts suspended by the Citizens' Veto. Many of these taxes were scheduled to take effect on August 1, 2008. Maine Revenue Services (MRS) received an appropriation to do the advance work to implement the taxes and was prepared to send out the forms and implement the tax changes as directed by the Act. MRS will notify taxpayers that the tax will not take effect on August 1st due to the filing of signatures before the deadline.

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

JUNE 2008 REVENUE VARIANCE REPORT

Revenue Line	June '08 Budget	June '08 Actual	June '08 Var.	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	177,518,752	179,304,525.25	1,785,773.25	978,060,502	983,057,278.30	4,996,776.30	0.5%	978,060,502
Service Provider Tax	8,602,219	8,803,231.83	201,012.83	51,181,910	52,100,663.57	918,753.57	1.8%	51,181,910
Individual Income Tax	189,637,583	188,742,885.21	(894,697.79)	1,400,047,321	1,443,468,204.05	43,420,883.05	3.1%	1,400,047,321
Corporate Income Tax	41,600,000	37,720,462.21	(3,879,537.79)	182,170,000	184,514,568.35	2,344,568.35	1.3%	182,170,000
Cigarette and Tobacco Tax	14,289,498	13,122,372.32	(1,167,125.68)	154,786,180	150,499,431.93	(4,286,748.07)	-2.8%	154,786,180
Public Utilities Tax	0	0.00	0.00	17,476,987	16,858,472.04	(618,514.96)	-3.5%	17,476,987
Insurance Companies Tax	24,718,324	22,751,026.33	(1,967,297.67)	76,751,673	72,292,532.14	(4,459,140.86)	-5.8%	76,751,673
Estate Tax	10,662,240	10,795,990.03	133,750.03	44,562,240	39,890,576.91	(4,671,663.09)	-10.5%	44,562,240
Property Tax - Unorganized Territory	2,208,611	1,978,417.00	(230,194.00)	12,611,986	12,217,081.00	(394,905.00)	-3.1%	12,611,986
Income from Investments	398,630	(419,533.41)	(818,163.41)	950,648	1,074,143.31	123,495.31	13.0%	950,648
Transfer to Municipal Revenue Sharing	(21,285,288)	(21,143,126.31)	142,161.69	(133,184,448)	(135,820,175.16)	(2,635,727.16)	-2.0%	(133,184,448)
Transfer from Lottery Commission	4,076,479	3,904,621.69	(171,857.31)	49,154,250	49,491,086.25	336,836.25	0.7%	49,154,250
Other Revenue	27,117,055	34,175,626.56	7,058,571.56	206,171,173	218,175,129.41	12,003,956.41	5.8%	206,171,173
Totals	479,544,103	479,736,498.71	192,395.71	3,040,740,422	3,087,818,992.10	47,078,570.10	1.5%	3,040,740,422
Highway Fund								
Fuel Taxes	39,892,671	42,358,950.86	2,466,279.86	223,368,718	225,235,339.36	1,866,621.36	0.8%	223,368,718
Motor Vehicle Registration and Fees	9,151,787	9,794,882.61	643,095.61	85,953,481	86,094,837.27	141,356.27	0.2%	85,953,481
Inspection Fees	337,960	686,502.89	348,542.89	4,468,458	4,193,874.09	(274,583.91)	-6.1%	4,468,458
Fines	149,999	136,742.95	(13,256.05)	1,794,049	1,747,985.91	(46,063.09)	-2.6%	1,794,049
Income from Investments	25,000	40,600.00	15,600.00	1,000,000	1,152,490.60	152,490.60	15.2%	1,000,000
Other Revenue	637,033	727,200.92	90,167.92	9,771,333	9,712,051.34	(59,281.66)	-0.6%	9,771,333
Totals	50,194,450	53,744,880.23	3,550,430.23	326,356,039	328,136,578.57	1,780,539.57	0.5%	326,356,039

Comparison of Actual Year-to-Date Revenue Through June of Each Fiscal Year

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
GENERAL FUND										
Sales and Use Tax	\$917,243,244.74	7.0%	\$896,576,322.41	2.6%	\$946,174,276.49	5.5%	\$971,455,721.16	2.7%	\$983,057,278.30	1.2%
Service Provider Tax	\$0.00	N/A	\$44,645,517.02	N/A	\$47,028,430.04	5.3%	\$49,400,531.56	5.0%	\$52,100,663.57	5.5%
Individual Income Tax	\$1,156,715,908.58	7.9%	\$1,296,255,556.72	12.1%	\$1,364,368,543.16	5.3%	\$1,464,928,346.49	7.4%	\$1,558,032,960.61	6.4%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$26,030,227.29)	N/A	(\$42,796,070.28)	-64.4%	(\$44,440,759.07)	-3.8%	(\$46,689,380.27)	-5.1%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$67,065,809.69)	N/A	(\$66,553,092.48)	0.8%	(\$67,875,376.29)	-2.0%
Corporate Income Tax	\$111,616,050.67	22.4%	\$135,862,913.44	21.7%	\$188,015,557.61	38.4%	\$183,851,533.23	-2.2%	\$184,514,568.35	0.4%
Cigarette and Tobacco Tax	\$96,604,646.31	-1.8%	\$96,350,703.70	-0.3%	\$156,951,369.91	62.9%	\$158,953,466.08	1.3%	\$150,499,431.93	-5.3%
Public Utilities Tax	\$27,991,187.93	-4.4%	\$25,403,213.56	-9.2%	\$20,627,030.00	-18.8%	\$16,317,029.00	-20.9%	\$16,858,472.04	3.3%
Insurance Companies Tax	\$72,206,052.78	1.6%	\$75,669,053.48	4.8%	\$76,065,864.43	0.5%	\$74,452,541.68	-2.1%	\$72,292,532.14	-2.9%
Estate Tax	\$32,075,501.16	5.1%	\$32,255,726.97	0.6%	\$75,330,514.40	133.5%	\$54,820,038.11	-27.2%	\$39,890,576.91	-27.2%
Property Tax - Unorganized Territory	\$10,709,308.07	7.8%	\$10,622,666.00	-0.8%	\$11,559,305.00	8.8%	\$11,376,293.00	-1.6%	\$12,217,081.00	7.4%
Income from Investments	\$2,310,207.08	-1.5%	\$5,854,625.01	153.4%	\$8,271,869.40	41.3%	\$1,215,836.12	-85.3%	\$1,074,143.31	-11.7%
Revenue Sharing Transfers	(\$111,464,335.43)	-8.2%	(\$119,712,814.17)	-7.4%	(\$124,222,179.55)	-3.8%	(\$130,490,756.35)	-5.0%	(\$135,820,175.16)	-4.1%
Liquor Transfers	\$102,182,743.02	291.9%	\$49,845,026.94	-51.2%	\$2,560,043.62	-94.9%	\$4,412,264.00	72.4%	\$5,534,346.00	25.4%
Lottery Transfers	\$41,272,645.44	4.6%	\$49,328,102.14	19.5%	\$50,879,646.68	3.1%	\$50,624,741.35	-0.5%	\$49,491,086.25	-2.2%
Other Revenue	\$224,076,396.96	31.6%	\$217,918,667.48	-2.7%	\$218,077,295.40	0.1%	\$219,271,655.50	0.5%	\$212,640,783.41	-3.0%
TOTAL GENERAL FUND REVENUE	\$2,683,539,557.31	12.1%	\$2,790,845,053.41	4.0%	\$2,931,825,686.62	5.1%	\$3,019,595,389.38	3.0%	\$3,087,818,992.10	2.3%
HIGHWAY FUND										
Fuel Taxes	\$212,600,960.83	13.1%	\$220,484,728.32	3.7%	\$221,575,308.92	0.5%	\$226,824,017.56	2.4%	\$225,235,339.36	-0.7%
Motor Vehicle Registration and Fees	\$82,577,637.26	-0.5%	\$84,645,422.12	2.5%	\$87,658,962.22	3.6%	\$87,291,873.62	-0.4%	\$86,094,837.27	-1.4%
Inspection Fees	\$4,708,196.38	12.9%	\$4,260,058.93	-9.5%	\$4,373,691.60	2.7%	\$4,342,518.85	-0.7%	\$4,193,874.09	-3.4%
Fines	\$1,918,703.46	-24.2%	\$1,518,580.08	-20.9%	\$1,809,813.31	19.2%	\$1,667,999.77	-7.8%	\$1,747,985.91	4.8%
Income from Investments	\$720,046.31	-46.2%	\$1,440,738.71	100.1%	\$1,833,806.41	27.3%	\$1,105,986.72	-39.7%	\$1,152,490.60	4.2%
Other Revenue	\$9,502,442.02	2.5%	\$13,728,627.10	44.5%	\$9,294,574.07	-32.3%	\$9,588,686.28	3.2%	\$9,712,051.34	1.3%
TOTAL HIGHWAY FUND REVENUE	\$312,027,986.26	8.3%	\$326,078,155.26	4.5%	\$326,546,156.53	0.1%	\$330,821,082.80	1.3%	\$328,136,578.57	-0.8%

Adjusted for Service Provider Tax Split