

12-1-2008

## Fiscal News, December 2008

Maine State Legislature

Office of Fiscal and Program Review

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### Recommended Citation

Maine State Legislature; Office of Fiscal and Program Review; and Pennoyer, Grant T., "Fiscal News, December 2008" (2008). *Office of Fiscal and Program Review*. 73.

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# FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

DECEMBER 2008

## Volume 2 Number 12

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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*

General Fund and Highway Fund revenues were under budget in November based on the old forecast prior to the December 2008 downward revisions. The next monthly revenue report for December's revenue will reflect the new revised forecast.

While the Revenue Forecasting Committee made substantial downward adjustments to the major tax lines, there are some concerns that the underlying economic conditions have become even worse than the recent economic forecast updated for the November 1<sup>st</sup> report. Recent jobs data and layoff announcements along with a decline in consumer spending have certainly increased concerns that the economic and revenue forecasts may be facing another downward revision. Due to the new delayed revenue forecasting report deadline of May 1<sup>st</sup>, the Consensus Economic Forecasting Commission and the Revenue Forecasting Committee agreed to an interim meeting in early February to assess holiday sales and new jobs and income data.

In mid-December, the Governor released his emergency supplemental budget. The General Fund budget bill is consistent with many of the initiatives released earlier in his emergency curtailment of allotments. In addition to the roughly \$80 million in General Fund spending reductions in the curtailment, the budget also contains additional net General Fund savings of \$60 million to close the \$140 million shortfall recognized by the December 2008 General Fund revenue revision. The Legislature plans to address the emergency FY 2009 supplemental budget bill expeditiously by the end of January so that it can focus its attention on the more significant budget issues in the 2010-2011 Biennial Budget due to be released by the Governor on January 9th.

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
November	\$212.6	\$198.6	(\$14.0)	-6.6%	\$216.6	-8.3%
FYTD	\$1,076.3	\$1,044.3	(\$32.0)	-3.0%	\$1,052.6	-0.8%

General Fund revenue was under budget by \$14.0 million in November, increasing the negative variance to \$32.0 million or 3.0% for the first 5 months of FY 2009. As noted earlier, the negative variances are from the old forecast prior to the December revenue revisions. Fiscal Year-to-date (FYTD) revenue showed a decline of 0.8% compared with the same period last fiscal year.

Sales tax revenue was under budget by \$4.9 million in November and \$8.5 million under budget for the FYTD, reflecting the decline in consumer confidence. The Revenue Forecasting Committee (RFC) revised this category downward by \$20.3 million for FY 2009. Christmas and holiday sales primarily affecting December and January sales tax collections will be critical to assessing whether this adjustment was enough. L.L. Bean's recent announcement that it missed its holiday sales goal by 10% is worrisome.

Corporate income tax revenue was also significantly under budget in November, \$5.5 million for the month and \$14.2 million (28.3%) for the FYTD. The RFC revised this category downward by \$28.1 million for FY 2009.

While sales and corporate income taxes had the largest negative variances, all of the major taxes showed deteriorating performances relative to the old forecast. Individual income tax, while only slightly below budget through November, was revised downward by \$76.4 million because of expectations that January estimated tax payments and April final payments will drop significantly. This expectation is based on the recent performance of the financial markets and the resulting decline in capital gains income. The RFC in the December revenue forecast projects both corporate and individual income tax revenues to be 8.5% below FY 2008. Overall, General Fund revenue was revised downward by \$140.3 million in the December forecast, which would mean a decline of 4.3% below FY 2008.

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
November	\$30.4	\$27.4	(\$3.0)	-9.8%	\$28.5	-3.9%
FYTD	\$127.5	\$118.6	(\$8.9)	-7.0%	\$120.7	-1.7%

Highway Fund revenue was under budget by \$3.0 million in November, falling \$8.9 million or 7.0% under budget for the first 5 months of FY 2009. Again, these negative variances were from the old forecast prior to the December 2008 revenue revisions. Highway Fund revenue has continued to show negative growth from FY 2008 levels, declining by 1.7% for the first 5 months of FY 2009 compared to the same period in FY 2008, despite the indexing of fuel tax rates for inflation.

The Revenue Forecasting Committee (RFC) revised the aggregate Highway Fund revenue forecast

downward by \$8.3 million for FY 2009 with fuel tax revenue revised downward by \$4.4 million. Fuel taxes were already under budget by \$5.3 million through November. Despite the recent declines in fuel prices, fuel tax revenues continued to decline below FY 2008 levels, 2.4% below the same period in FY 2008 through November. Unless consumption turns around dramatically over the next few months, the Highway Fund will be facing another downward revision on May 1<sup>st</sup>, the next scheduled update of the RFC.



**Cash Balances Update**

<b>Summary of Treasurer's Cash Pool</b>		
<b>November Average Daily Balances</b>		
<b>Millions of \$'s</b>		
	<b>2007</b>	<b>2008</b>
General Fund (GF) Total	\$22.1	\$20.2
General Fund (GF) Detail:		
Budget Stabilization Fund	\$117.1	\$130.9
Reserve for Operating Capital	\$40.6	\$40.6
Tax Anticipation Notes	\$0.0	\$0.0
Internal Borrowing	\$84.3	\$125.0
Other General Fund Cash	(\$220.0)	(\$276.3)
Other Spec. Rev. - Interest to GF	\$77.6	\$39.9
Other State Funds - Interest to GF	\$2.4	(\$13.1)
Highway Fund	\$35.7	\$11.8
Other Spec. Rev. - Retaining Interest	\$77.7	\$62.3
Other State Funds	\$263.5	\$204.9
Independent Agency Funds	\$134.4	\$78.5
<b>Total Cash Pool</b>	<b>\$630.0</b>	<b>\$404.5</b>

Presented above is a comparison of the average cash balances of November 2007 and November 2008. The average total cash pool balance last month was \$404.5 million, which was \$225.5 million less than the November 2007 average. The average balance for the last 7 Novembers, 2001 to 2007, was \$570.9 million.

General Fund internal borrowing was \$40.7 million higher than November 2007, despite having reserve fund balances \$13.8 million higher than last year. The

Governor's budget proposals include using \$45 million of the balance in the Budget Stabilization Fund to help close the shortfall for FY 2009. This will likely make it difficult to meet General Fund cash flow needs without going to an external line of credit borrowing. The budget for the State Treasurer currently includes some funding for debt service costs related to external borrowing.

The lower balances for investment, particularly balances of independent agencies such as the University of Maine System, have resulted in some savings on some fees paid for those investments. The Governor's emergency supplemental budget recognizes some of these savings.

The Dirigo Health Fund's average negative balance had improved to \$16.9 million in October, but worsened in November averaging \$19.0 million. Dirigo's cash position will improve in December with the receipt of additional Savings Offset Payments. While the allocations from the Dirigo Health Fund were adjusted to reflect the impact of the successful People's Veto of the Dirigo Health Fund tax provisions, the Governor's emergency supplemental budget recommendations do not include any offsets to this negative Dirigo Health Fund balance in FY 2009.

**Emergency FY 2009 Supplemental Budget Proposals**

The Governor submitted his Emergency FY 2009 Supplemental Budget (EFY09 Budget) proposals in mid-December to address spending needs in the current fiscal year and to close a General Fund shortfall of \$140 million created by the December 2008 revenue revision. The General Fund bill was printed as LD 45 just before Christmas so that public hearings could begin on Monday, January 5<sup>th</sup>. The expedited public hearings schedule plans for public testimony on the EFY09 Budget proposals over 3 days, concluding on Wednesday, January 7<sup>th</sup>. With the Governor's biennial budget proposals scheduled for release on Friday, January 9<sup>th</sup>, the Appropriations Committee plans an overview that day, but plans to

start work sessions on the EFY09 Budget on Monday, January 12<sup>th</sup>. All policy committee recommendations on the EFY09 Budget are due by Friday, January 16<sup>th</sup>. The goal is to enact these budget proposals by the end of January so that the Legislature can focus its attention on the 2010-2011 biennial budget.

The Governor's EFY09 Budget proposals incorporate most of the initiatives included in his November 20<sup>th</sup> Executive Order temporarily curtailing General Fund allotments. Those curtailment proposals (summarized in the November Fiscal News) included a \$27.0 million reduction to school subsidies, \$11.8 million reductions to the public higher education institutions,

**Emergency FY 2009 Supplemental Budget Proposals—Continued**

and \$30.8 million of reductions in the Department of Health and Human Services. Not all of the initiatives in the \$79.8 million curtailment order were included in the EFY09 Budget proposals as the net reductions to appropriations in LD 45 is \$74.7 million, which includes additional spending requests.

In addition to the appropriations changes, the EFY09 Budget proposes tax and other revenue increases that increase budgeted revenue by \$6.8 million. The remaining shortfall is addressed by various transfers that increase the General Fund budgeted balance by \$58.1 million, including \$45 million from the Budget Stabilization Fund, \$6.4 million from Retiree Health Insurance balances, \$2.1 million from the Capital

Construction Reserve Fund and \$1.6 million from the Legislature's carrying balance. As noted earlier, the Governor proposes to address several emergency spending needs totaling approximately \$19.8 million; the most significant include spending for fuel and utility costs of \$4.8 million statewide and \$5.0 million to offset savings not realized from the prepayment of teachers' retirement contributions. The table below and the pie charts on the next page summarize the Governor's EFY09 Budget Proposals for the General Fund. More information on the EFY09 Budget proposals is available at: [http://www.maine.gov/legis/ofpr/appropriations\\_committee/materials/index.htm](http://www.maine.gov/legis/ofpr/appropriations_committee/materials/index.htm).

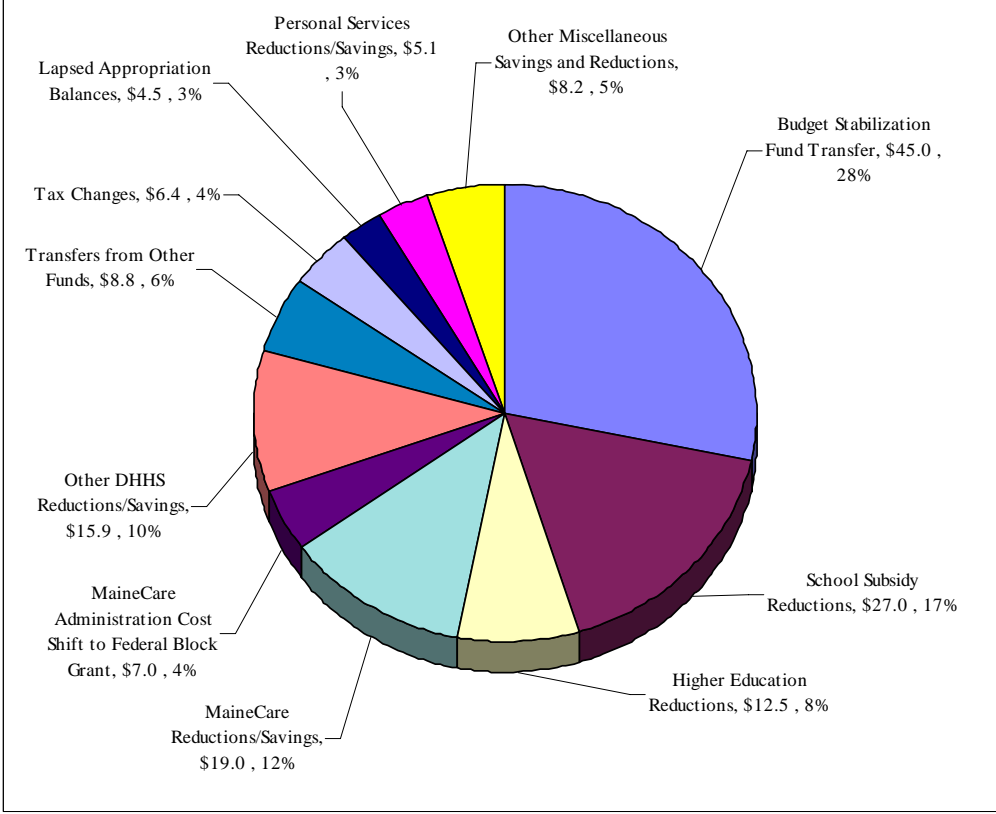
**Overview - General Fund Balance****\$'s in millions**

<b>Changes to General Fund Balance - Additional Resources Less Appropriations</b>	
<b>FY09 Budgeted Ending General Fund Balance - Prior to December RFC</b>	<b>\$0.933</b>
- December 2008 RFC Revenue Revision	(\$140.341)
<b>FY09 Budgeted Ending General Fund Balance - Prior to LD 45</b>	<b>(\$139.408)</b>
<b>Net Changes to Resources</b>	
- Net Changes to Transfers/Adjustments to Balance - LD 45	\$58.077
- Net Changes to Revenue (FY09 Only) - LD 45	\$6.787
FY09 Shortfall with additional General Fund Resources in LD 45	(\$74.544)
Net Changes to Appropriations - LD 45	(\$74.742)
<b>FY09 Budgeted Ending Balance after EFY09 Budget Bill (LD 45)</b>	<b>\$0.198</b>
<b>Changes to General Fund Balance - "Savings" Initiatives Less "Spending" Initiatives</b>	
<b>FY09 Budgeted Ending General Fund Balance - Prior to LD 45</b>	<b>(\$139.408)</b>
"FY09 Savings" (General Fund Resources Added) by LD 45	\$159.408
<b>Subtotal - Available FY09 General Fund Resources with LD 45</b>	<b>\$20.000</b>
Less "FY09 Spending" (General Fund Resources Decreased) by LD 45	\$19.802
<b>FY09 Budgeted Ending Balance after EFY09 Budget Bill (LD 45)</b>	<b>\$0.198</b>

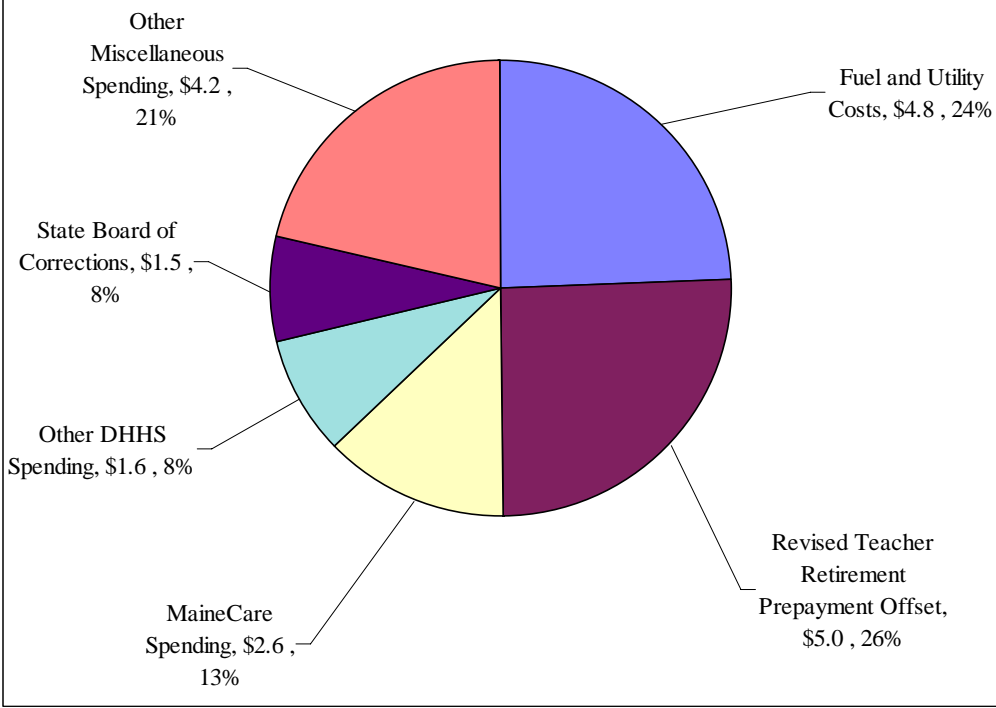


### Emergency FY 2009 Supplemental Budget Proposals—Continued

#### EFY09 General Fund Savings Recommendations \$159.4 Million (\$'s in Millions)



#### EFY09 General Fund Spending Recommendations \$19.8 Million (\$'s in Millions)



**General Fund and Highway Fund Revenue**  
**Fiscal Year Ending June 30, 2009**  
**Reflecting Budgeted Amounts Through 123 Legislature, 1st Special Session**

**NOVEMBER 2008 REVENUE VARIANCE REPORT \***

Revenue Line	November '08 Budget	November '08 Actual	November '08 Variance	FY09 YTD Budget	FY09 YTD Actual	FY09 YTD Variance	FY09 YTD Variance %	FY09 Budgeted Totals *
<b>General Fund</b>								
Sales and Use Tax	81,755,660	76,843,224.76	(4,912,435.24)	375,599,165	367,075,566.32	(8,523,598.68)	-2.3%	1,007,627,341
Service Provider Tax	4,365,533	4,477,589.26	112,056.26	18,043,587	18,347,090.83	303,503.83	1.7%	53,452,742
Individual Income Tax	96,173,385	96,710,146.63	536,761.63	477,664,877	476,658,385.14	(1,006,491.86)	-0.2%	1,397,517,286
Corporate Income Tax	(2,400,000)	(7,895,916.42)	(5,495,916.42)	50,230,000	36,029,240.41	(14,200,759.59)	-28.3%	197,244,770
Cigarette and Tobacco Tax	12,897,770	12,861,959.75	(35,810.25)	69,283,419	66,776,768.37	(2,506,650.63)	-3.6%	153,408,502
Public Utilities Tax	0	231,237.60	231,237.60	0	231,237.60	231,237.60	N/A	16,464,397
Insurance Companies Tax	4,768,953	4,870,297.41	101,344.41	12,692,307	12,524,627.82	(167,679.18)	-1.3%	77,169,754
Estate Tax	4,160,000	2,903,300.19	(1,256,699.81)	12,120,000	7,548,059.65	(4,571,940.35)	-37.7%	49,524,882
Property Tax - Unorganized Territory	0	0.00	0.00	11,006,279	10,995,373.00	(10,906.00)	-0.1%	12,229,199
Income from Investments	(296,137)	44,272.04	340,409.04	(926,727)	1,413,013.31	2,339,740.31	252.5%	(3,204,682)
Transfer to Municipal Revenue Sharing	(9,174,624)	(8,676,887.25)	497,736.75	(46,998,419)	(45,803,624.41)	1,194,794.59	2.5%	(136,028,000)
Transfer from Lottery Commission	5,100,898	3,874,811.98	(1,226,086.02)	22,443,917	21,232,975.86	(1,210,941.14)	-5.4%	53,049,250
Other Revenue	15,266,491	12,372,719.22	(2,893,771.78)	75,116,082	71,246,969.04	(3,869,112.96)	-5.2%	216,919,557
<b>Totals</b>	<b>212,617,929</b>	<b>198,616,755.17</b>	<b>(14,001,173.83)</b>	<b>1,076,274,487</b>	<b>1,044,275,682.94</b>	<b>(31,998,804.06)</b>	<b>-3.0%</b>	<b>3,095,374,998</b>
<b>Highway Fund</b>								
Fuel Taxes	19,877,673	18,546,288.33	(1,331,384.67)	81,775,320	76,500,183.68	(5,275,136.32)	-6.5%	234,197,278
Motor Vehicle Registration and Fees	7,492,723	5,923,626.01	(1,569,096.99)	37,213,986	34,358,975.10	(2,855,010.90)	-7.7%	99,146,017
Inspection Fees	290,795	241,682.25	(49,112.75)	2,055,038	1,553,309.28	(501,728.72)	-24.4%	4,474,821
Fines	154,220	158,175.91	3,955.91	751,297	752,486.09	1,189.09	0.2%	1,795,049
Income from Investments	85,000	39,638.80	(45,361.20)	405,000	307,794.77	(97,205.23)	-24.0%	1,000,000
Other Revenue	2,449,817	2,454,224.56	4,407.56	5,308,249	5,126,198.71	(182,050.29)	-3.4%	9,629,561
<b>Totals</b>	<b>30,350,228</b>	<b>27,363,635.86</b>	<b>(2,986,592.14)</b>	<b>127,508,890</b>	<b>118,598,947.63</b>	<b>(8,909,942.37)</b>	<b>-7.0%</b>	<b>350,242,726</b>

\* Does not reflect Revenue Forecasting Committee's December 2008 Revenue Forecast



## Comparison of Actual Year-to-Date Revenue Through November 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	\$336,338,857.49	4.1%	\$347,412,686.14	3.3%	\$359,721,619.31	3.5%	\$365,583,284.40	1.6%	\$367,075,566.32	0.4%
Service Provider Tax	\$14,808,699.07	N/A	\$13,697,481.02	-7.5%	\$15,992,103.97	16.8%	\$17,421,407.83	8.9%	\$18,347,090.83	5.3%
Individual Income Tax	\$446,444,778.74	9.9%	\$469,860,736.59	5.2%	\$505,971,284.98	7.7%	\$527,709,442.60	4.3%	\$548,650,995.98	4.0%
Individual Income Tax (Circuitbreaker)	(\$21,922,405.42)	N/A	(\$30,910,949.33)	-41.0%	(\$32,947,950.46)	-6.6%	(\$33,937,452.77)	-3.0%	(\$38,183,194.21)	-12.5%
Individual Income Tax (BETR)	\$0.00	N/A	(\$39,270,908.10)	N/A	(\$34,145,786.80)	13.1%	(\$31,252,366.00)	8.5%	(\$33,809,416.63)	-8.2%
Corporate Income Tax	\$39,582,527.66	59.7%	\$53,737,876.19	35.8%	\$45,613,413.73	-15.1%	\$51,233,529.33	12.3%	\$36,029,240.41	-29.7%
Cigarette and Tobacco Tax	\$43,031,562.75	1.7%	\$59,923,162.72	39.3%	\$72,612,503.63	21.2%	\$67,440,425.79	-7.1%	\$66,776,768.37	-1.0%
Public Utilities Tax	(\$150,000.00)	48.9%	\$0.00	100.0%	(\$116,564.00)	N/A	\$347,980.26	398.5%	\$231,237.60	-33.5%
Insurance Companies Tax	\$14,150,166.45	17.5%	\$11,897,839.03	-15.9%	\$11,621,238.40	-2.3%	\$13,439,459.68	15.6%	\$12,524,627.82	-6.8%
Estate Tax	\$7,617,912.95	24.0%	\$38,283,546.95	402.5%	\$18,902,490.83	-50.6%	\$8,428,859.78	-55.4%	\$7,548,059.65	-10.4%
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	\$1,544,452.58	74.5%	\$2,429,322.28	57.3%	\$1,919,702.20	-21.0%	\$1,718,899.41	-10.5%	\$1,413,013.31	-17.8%
Revenue Sharing Transfers	(\$41,577,875.32)	-6.1%	(\$41,540,873.04)	0.1%	(\$43,870,438.92)	-5.6%	(\$45,734,650.11)	-4.2%	(\$45,803,624.41)	-0.2%
Liquor Transfers	\$50,013,012.14	313.3%	\$10,950.00	-100.0%	\$11,671.36	6.6%	\$0.00	-100.0%	\$0.00	N/A
Lottery Transfers	\$20,796,702.47	20.7%	\$20,906,831.99	0.5%	\$21,923,100.30	4.9%	\$20,704,169.39	-5.6%	\$21,232,975.86	2.6%
Other Revenue	\$77,776,254.91	4.0%	\$78,746,885.26	1.2%	\$79,673,388.94	1.2%	\$79,301,197.18	-0.5%	\$71,246,969.04	-10.2%
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$998,093,023.47</b>	<b>10.5%</b>	<b>\$994,744,986.70</b>	<b>-0.3%</b>	<b>\$1,033,285,152.47</b>	<b>3.9%</b>	<b>\$1,052,642,850.77</b>	<b>1.9%</b>	<b>\$1,044,275,682.94</b>	<b>-0.8%</b>
<b>HIGHWAY FUND</b>										
Fuel Taxes	\$79,919,953.51	6.5%	\$78,556,059.52	-1.7%	\$79,276,851.38	0.9%	\$78,374,257.70	-1.1%	\$76,500,183.68	-2.4%
Motor Vehicle Registration and Fees	\$31,216,635.62	2.5%	\$33,856,608.25	8.5%	\$33,545,831.71	-0.9%	\$33,957,048.96	1.2%	\$34,358,975.10	1.2%
Inspection Fees	\$1,667,933.96	-14.2%	\$1,934,973.29	16.0%	\$1,883,687.32	-2.7%	\$1,660,148.01	-11.9%	\$1,553,309.28	-6.4%
Fines	\$744,564.05	-7.2%	\$780,476.21	4.8%	\$762,928.45	-2.2%	\$739,551.62	-3.1%	\$752,486.09	1.7%
Income from Investments	\$303,172.28	43.3%	\$742,565.25	144.9%	\$376,613.21	-49.3%	\$614,953.10	63.3%	\$307,794.77	-49.9%
Other Revenue	\$2,947,539.94	-38.3%	\$4,826,271.40	63.7%	\$5,143,614.11	6.6%	\$5,341,369.41	3.8%	\$5,126,198.71	-4.0%
<b>TOTAL HIGHWAY FUND REVENUE</b>	<b>\$116,799,799.36</b>	<b>3.2%</b>	<b>\$120,696,953.92</b>	<b>3.3%</b>	<b>\$120,989,526.18</b>	<b>0.2%</b>	<b>\$120,687,328.80</b>	<b>-0.2%</b>	<b>\$118,598,947.63</b>	<b>-1.7%</b>

Adjusted for Service Provider Tax Split