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Office of Fiscal and Program Review

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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

MAY 2007

Volume 1, 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 Appropriations Committee continued work on the biennial budget bill, although they did take 4 days to hold public hearings on all of the 60 plus other bills remaining in committee. The committee is hoping to complete work and vote on the budget prior to the Memorial Day weekend.

The Taxation Committee continued work on a tax reform package on top of all of the committee’s other bills. The Committee was planning to conclude its work on the package and all bills also before the Memorial Day weekend. Many elements of the tax reform package are still moving targets, although some elements have been receiving press coverage of late.

April’s revenue picture did not result in a substantial positive “April Surprise,” but the results were large enough, particularly in light of additional bad news regarding MaineCare Spending (see article on page 4), that the State Budget Officer called a special meeting of the Revenue Forecasting Committee to review fiscal year 2007 revenue.

As we enter the final month before statutory adjournment, the Legislature will be facing a mountain of fiscal decisions including enacting the two biennial budget bills, reviewing a tax reform package and reviewing all of the bills on the Special Appropriations Table and Special Highway Table.

General Fund Revenue Update

Total General Fund Revenue - FY 2007 (\$’s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Apr ‘07	408.3	413.4	5.2	1.3%	382.0	8.2%
FYTD	2,275.1	2,288.1	13.0	0.6%	2,221.3	3.0%

General Fund revenue was over budget by \$5.2 million in April. This increased the positive Fiscal Year-to-date (FYTD) variance to \$13.0 million (+0.6%). See attachments on pages 6 and 7.

Individual Income Tax and Estate Tax are major positive variances. While Cigarette Tax and Insurance Companies Tax were the major negative variances. Insurance Companies Tax negative variance appears to be a timing issue that will be offset in May.

Other Revenue was under budget in April by \$6.4 million, but \$4.4 million of this was related to liquor profit sharing that was received late.



Highway Fund Revenue Update

Total Highway Fund Revenue - FY 2007 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Apr '07	24.2	26.6	2.5	10.3%	24.1	10.5%
FY TD	250.7	251.0	0.2	0.1%	248.7	0.9%

Highway Fund revenue recovered in April. Total Highway Fund revenue was over budget by \$2.5 million in April, resulting in a modest positive variance of \$0.2 million (+0.1%) for the FYTD. See attachments on pages 6 and 7. Fuel Tax is a concern that might be further affected by the recent gas price increases.

Cash Balances Update

Average Cash Pool balance was \$514.7 million in April. This balance is lower than the average of the last 5 years of \$557.3 million, largely a result of the use of internal borrowing rather than relying on Tax Anticipation Notes. General Fund internal borrowing peaked during this fiscal year in April at \$236.0 million. April individual income tax collections increased General Fund cash and reduced internal borrowing, but it remained above \$20 million in mid-May and was not reduced to \$0 until May 17, 2007.

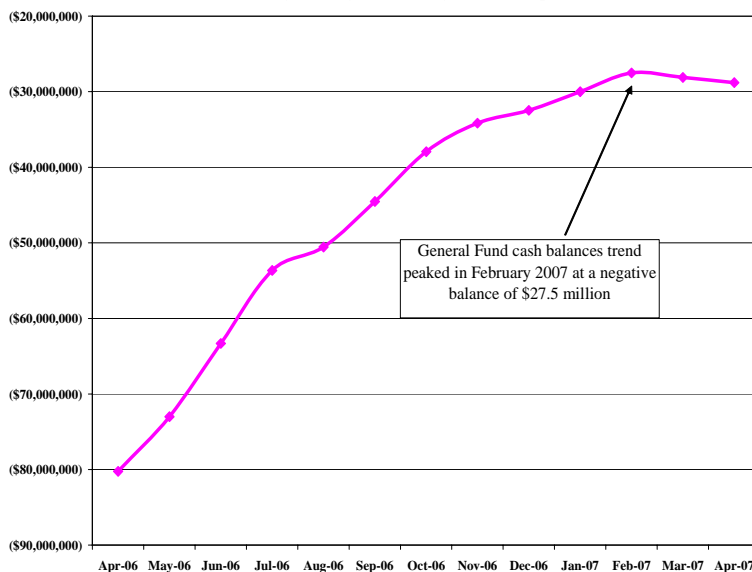
Trends of General Fund cash balances as measured by a 12-month moving average showed improvement through February 2007, but have recently turned downward (see chart below). General Fund cash balance trend had shown steady improvement when it bottomed out in November 2003 at a negative balance of \$243.8 million and appears to have peaked in February 2007 at a negative balance of \$27.5 million.

Summary of Treasurer's Cash Pool

April 2007 Average Daily Balances Millions of \$'s

General Fund (GF) Total	\$26.6
General Fund (GF) Detail:	
Budget Stabilization Fund	\$113.3
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$161.6
Other General Fund Cash	(\$289.0)
Other Spec. Rev. - Interest to GF	\$79.0
Other State Funds - Interest to GF	\$18.4
Highway Fund	\$25.1
Other Spec. Rev. - Retaining Interest	\$75.6
Other State Funds	\$176.7
Independent Agency Funds	\$113.2
Total Cash Pool	\$514.7

General Fund Average Daily Cash Balances
12-month Moving Average Excluding Tax Anticipation Notes



General Fund cash balances will be adversely affected later this fiscal year when the accounting entries are implemented to recognize the prepayment of the federal share of MaineCare interim recoveries (see discussion under MaineCare Spending Update).

Highway Fund cash balances recently have shown a modest recovery from historic lows. This recovery is the result of very active management of cash outlays to maintain positive balances by delaying highway and bridge improvement projects. Beginning next fiscal year, the Administration will allow Highway Fund cash balances to go temporarily negative and use internal borrowing from the cash pool to offset negative balances. Until then and until the results of the June 2007 bond referendum are known, some highway projects will be delayed.



Revenue Forecast Update

As authorized by Maine Revised Statutes Title 5, §1710-G, the State Budget Officer called a special meeting of the Revenue Forecasting Committee (RFC) to look at current year, fiscal year 2007, revenue variances, individual income tax in particular. The Revenue Forecasting Committee (RFC) met on Thursday, May 17th to review the major variances, both positive and negative for fiscal year 2007 and recommend changes. The only changes made on an on-going basis were changes to the estimates of revenue from the Racino in Bangor, which was being reviewed by special legislative request based on new information from the operators of the Racino.

Presented below are tables summarizing the RFC recommendations for revisions to General Fund and Fund for a Healthy Maine revenue above its March 2007 revenue forecast. The RFC recommendations are also available at the RFC's web page, <http://www.maine.gov/legis/ofpr/rfcmain.htm>. While the RFC made no recommendations for changes to Highway Fund revenue, some members expressed concern about the gasoline tax, which had been running under projections. The increase in gasoline prices in recent months and seasonal supply issues may drive gasoline prices higher and curb consumption, reducing revenue further.

General Fund Summary

	FY07	FY08	FY09	FY10	FY11
Current Forecast	\$2,987,211,473	\$3,057,687,944	\$3,142,467,585	\$3,245,731,326	\$3,309,551,500
Annual % Growth	1.9%	2.4%	2.8%	3.3%	2.0%
Net Increase (Decrease)	\$17,787,281	\$492,048	\$1,052,352	\$1,515,934	\$1,903,456
Revised Forecast	\$3,004,998,754	\$3,058,179,992	\$3,143,519,937	\$3,247,247,260	\$3,311,454,956
Annual % Growth	2.5%	1.8%	2.8%	3.3%	2.0%
Summary of Revenue Revisions by Major Revenue Category					
Individual Income Tax	\$20,500,000	\$0	\$0	\$0	\$0
Cigarette and Tobacco Tax	(\$6,000,000)	\$0	\$0	\$0	\$0
Estate Tax	\$3,000,000	\$0	\$0	\$0	\$0
Transfer to Municipal Rev. Sharing	(\$1,045,500)	\$0	\$0	\$0	\$0
Other Revenues	\$1,332,781	\$492,048	\$1,052,352	\$1,515,934	\$1,903,456
Total Revisions – Inc. (Dec.)	\$17,787,281	\$492,048	\$1,052,352	\$1,515,934	\$1,903,456

Fund for a Healthy Maine Summary

	FY07	FY08	FY09	FY10	FY11
Current Forecast	\$46,420,624	\$60,576,711	\$63,055,886	\$68,058,585	\$71,788,653
Annual % Growth	-1.0%	30.5%	4.1%	7.9%	5.5%
Net Increase (Decrease)	\$3,989,370	\$616,945	\$1,104,291	\$1,326,187	\$1,503,637
Revised Forecast	\$50,409,994	\$61,193,656	\$64,160,177	\$69,384,772	\$73,292,290
Annual % Growth	7.5%	21.4%	4.8%	8.1%	5.6%
Summary of Revenue Revisions by Major Revenue Category					
Base Payments	\$3,728,051	\$0	\$0	\$0	\$0
Racino Revenue	\$261,319	\$616,945	\$1,104,291	\$1,326,187	\$1,503,637
Total Revisions – Inc. (Dec.)	\$3,989,370	\$616,945	\$1,104,291	\$1,326,187	\$1,503,637



Maine's Credit Rating Update

As part of the process for issuing general obligation bonds, typically each June, the State must make presentations about Maine's finances and economy to the 3 major credit rating agencies: Moody's Investors Service; Standard and Poor's; and Fitch Ratings. These ratings determine the interest rate for the bonds and consequently the cost of the bond issue. The better the credit rating, the lower the debt costs. Maine's credit rating is just one level down from the highest level of the 3 major rating agencies.

Two years ago, each of the rating agencies lowered Maine's credit rating within this 2nd highest rating tier noting concerns about structural budget imbalances, tight liquidity (cash position) and depletion of reserves. This year's presentation to the rating agencies by members of the Administration focused on Maine's improvements in each of these areas. As a result, Standard and Poor's increased our credit rating from AA- to AA. The 2 other agencies affirmed our previous ratings. This June's bond issue will be approximately \$60 million, \$27 million of which will be Highway Fund bonds.

MaineCare Spending Update

The Department of Health and Human Services (DHHS) continues to provide regular updates to the Appropriations Committee on MaineCare spending. The data reported in these updates and included in past issues of the Fiscal News track MaineCare spending and interim payments recoveries. Through May 11, 2007, week 45 of 52, data indicate the following:

- Interim payment recoveries (see Chart 1) for week 45 exceeded the trend of the last few months, but overall recoveries still look like they will fall approximately \$30 million (state and federal funds) short of the budget target of \$160 million. The State's share of this shortfall will depend on the amount and timing of the accounting entries made by DHHS and the State Controller to reconcile the prepayment of the Federal share of these recoveries (see April 2007 Fiscal News).

- The cap on weekly cycles of approximately \$34.7 million (state and federal funds), has now resulted in the deferral of claims payments totaling \$56.8 million (see Chart 2). The amount of the deferral continues to be greater than a weekly payment cycle and as a result providers are experiencing delays in payments of more than one week. In addition, the Department has now for the first time included hospital payments, which are made on a weekly estimated basis (the so called prospective interim payments or PIP's) in the deferral process.

In their May 18th MaineCare briefing to the Appropriations Committee, DHHS indicated they have increased their estimate of the total MaineCare General Fund carry forward from \$54.4 million to \$66.1 million (state funds only). This increased estimate is the result of updated activity and corrections in the Department's forecasting methodology. After using the \$30 million contingency appropriation provided in PL 2007, c. 1, the estimated carry forward, deferred expenditures, from FY 07 to FY 08 is now estimated to be \$36.1 million.



MaineCare Spending Update (continued)

Chart 1. MaineCare Interim Payment Recoveries FY 07

Actual Recoveries through 5/11/07 - Week 45 of 52

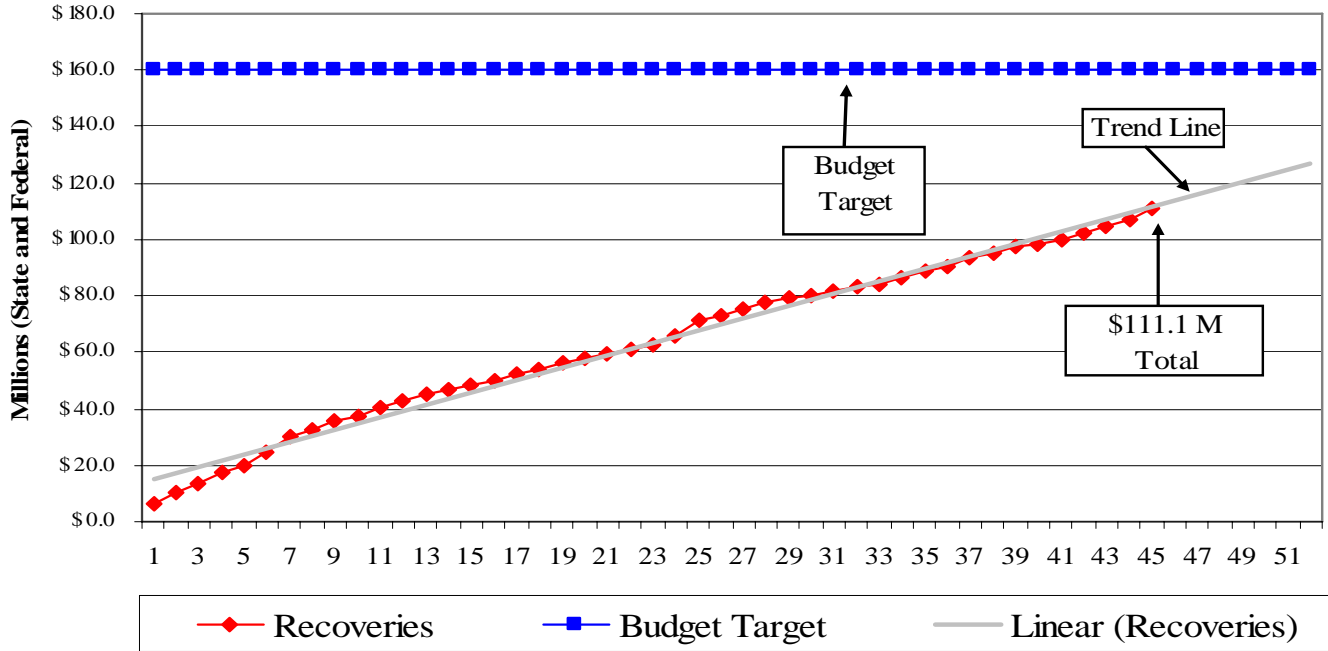
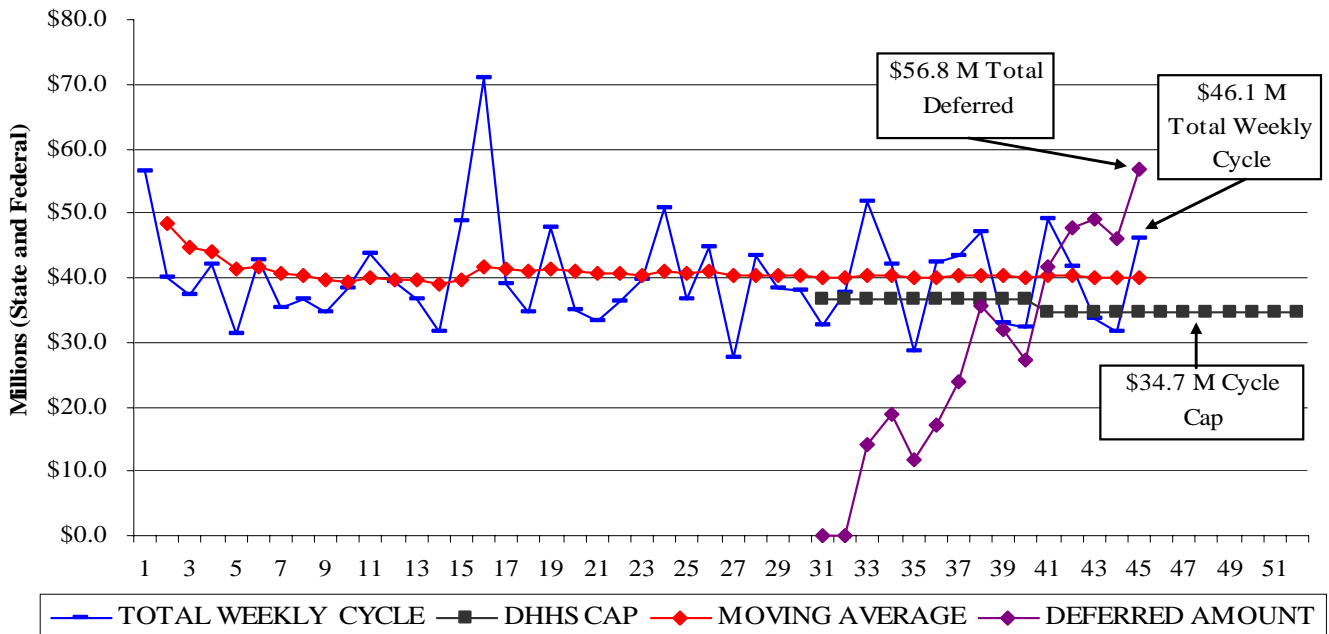


Chart 2. MaineCare FY 07 Total Weekly Cycles

Through 5/11/07 - Week 45 of 52



General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2007
Reflecting March 2007 RFC Adjustments AND PL 2007, c. 1 (Emergency FY07 Supplemental Budget Bill)

APRIL 2007 REVENUE VARIANCE REPORT

Revenue Line	April '07 Budget	April '07 Actual	April '07 Variance	FY07 YTD Budget	FY07 YTD Actual	FY07 YTD Variance	FY07 YTD Variance %	FY07 Budgeted Totals
General Fund								
Sales and Use Tax	74,120,899	72,086,806.78	(2,034,092.22)	729,403,322	727,924,791.68	(1,478,530.32)	-0.2%	974,740,367
Service Provider Tax	4,509,578	3,016,078.58	(1,493,499.42)	35,627,254	34,997,598.59	(629,655.41)	-1.8%	48,911,765
Individual Income Tax	269,824,851	288,531,875.61	18,707,024.61	1,047,386,708	1,068,200,599.91	20,813,891.91	2.0%	1,327,119,508
Corporate Income Tax	23,538,000	26,196,012.91	2,658,012.91	130,079,808	132,737,820.49	2,658,012.49	2.0%	172,078,755
Cigarette and Tobacco Tax	12,962,604	11,300,493.83	(1,662,110.17)	136,213,522	131,657,353.89	(4,556,168.11)	-3.3%	164,502,981
Public Utilities Tax	0	0.00	0.00	(1,737,832)	(1,854,396.00)	(116,564.00)	-6.7%	16,891,746
Insurance Companies Tax	12,121,770	7,317,942.52	(4,803,827.48)	39,240,212	32,713,789.65	(6,526,422.35)	-16.6%	76,336,389
Estate Tax	3,505,457	4,697,886.74	1,192,429.74	38,443,670	41,980,038.35	3,536,368.35	9.2%	52,465,498
Property Tax - Unorganized Territory	0	0.00	0.00	10,150,628	10,403,375.00	252,747.00	2.5%	11,597,312
Income from Investments	(367,025)	(625,067.32)	(258,042.32)	1,137,375	922,415.08	(214,959.92)	-18.9%	1,517,319
Transfer to Municipal Revenue Sharing	(18,971,662)	(19,881,369.48)	(909,707.48)	(99,067,354)	(100,156,901.36)	(1,089,547.36)	-1.1%	(128,665,369)
Transfer from Lottery Commission	3,798,827	3,911,797.05	112,970.05	41,787,094	42,038,985.68	251,891.68	0.6%	50,334,250
Other Revenue	23,237,315	16,880,602.24	(6,356,712.76)	166,404,824	166,513,618.45	108,794.45	0.1%	219,380,952
Totals	408,280,614	413,433,059.46	5,152,445.46	2,275,069,231	2,288,079,089.41	13,009,858.41	0.6%	2,987,211,473
Highway Fund								
Fuel Taxes	17,033,267	17,023,686.74	(9,580.26)	169,021,936	168,332,477.56	(689,458.44)	-0.4%	227,484,941
Motor Vehicle Registration and Fees	5,918,415	8,297,704.87	2,379,289.87	67,435,567	68,687,072.78	1,251,505.78	1.9%	86,476,317
Inspection Fees	317,523	295,391.00	(22,132.00)	3,566,725	3,576,974.90	10,249.90	0.3%	4,379,756
Fines	167,535	150,460.97	(17,074.03)	1,651,931	1,430,018.63	(221,912.37)	-13.4%	2,018,239
Income from Investments	60,000	99,715.01	39,715.01	676,643	699,998.88	23,355.88	3.5%	795,000
Other Revenue	662,941	782,300.30	119,359.30	8,363,445	8,227,875.14	(135,569.86)	-1.6%	9,603,076
Totals	24,159,681	26,649,258.89	2,489,577.89	250,716,247	250,954,417.89	238,170.89	0.1%	330,757,329

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

REVENUE CATEGORY	FY 2003	% Chg	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg
GENERAL FUND										
Sales and Use Tax	\$635,424,745.17	2.5%	\$685,087,843.45	7.8%	\$668,317,945.41	2.3%	\$706,246,052.23	5.7%	\$727,924,791.68	3.1%
Service Provider Tax	\$0.00	N/A	\$0.00	N/A	\$32,834,677.83	N/A	\$31,725,611.56	-3.4%	\$34,997,598.59	10.3%
Individual Income Tax	\$842,536,626.35	-1.9%	\$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%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	\$0.00	N/A	(\$26,010,600.40)	N/A	(\$40,561,510.60)	-55.9%	(\$41,944,612.11)	-3.4%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	(\$66,841,198.06)	N/A	(\$66,229,155.48)	0.9%
Corporate Income Tax	\$68,050,412.40	12.8%	\$83,601,917.43	22.9%	\$100,637,173.52	20.4%	\$148,101,567.51	47.2%	\$132,737,820.49	-10.4%
Cigarette and Tobacco Tax	\$81,391,141.03	1.0%	\$79,711,297.16	-2.1%	\$80,118,652.03	0.5%	\$127,091,870.93	58.6%	\$131,657,353.89	3.6%
Public Utilities Tax	\$62,464.36	-86.8%	(\$268,757.41)	-530.3%	\$419,105.93	255.9%	\$0.00	-100.0%	(\$1,854,396.00)	N/A
Insurance Companies Tax	\$41,327,279.49	46.1%	\$39,139,169.03	-5.3%	\$36,252,972.56	-7.4%	\$40,131,292.98	10.7%	\$32,713,789.65	-18.5%
Estate Tax	\$21,195,356.80	84.3%	\$18,168,113.98	-14.3%	\$23,070,614.43	27.0%	\$61,839,825.02	168.0%	\$41,980,038.35	-32.1%
Property Tax - Unorganized Territory	\$9,300,585.00	5.4%	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%
Income from Investments	\$2,004,944.83	-41.8%	\$1,551,839.60	-22.6%	\$3,647,687.89	135.1%	\$4,964,621.46	36.1%	\$922,415.08	-81.4%
Revenue Sharing Transfers	(\$78,846,600.97)	-0.5%	(\$86,605,124.93)	-9.8%	(\$92,812,406.90)	-7.2%	(\$95,248,151.46)	-2.6%	(\$100,156,901.36)	-5.2%
Liquor Transfers	\$21,462,395.86	4.4%	\$22,632,063.01	5.4%	\$50,022,130.78	121.0%	\$2,554,641.00	-94.9%	\$3,450.00	-99.9%
Lottery Transfers	\$32,791,194.75	-1.9%	\$34,653,635.63	5.7%	\$41,093,518.13	18.6%	\$43,290,026.10	5.3%	\$42,038,985.68	-2.9%
Other Revenue	\$132,125,298.78	3.5%	\$164,795,305.22	24.7%	\$160,127,086.36	-2.8%	\$159,521,459.54	-0.4%	\$166,510,168.45	4.4%
TOTAL GENERAL FUND REVENUE	\$1,808,825,843.85	1.9%	\$1,980,854,337.36	9.5%	\$2,131,428,854.56	7.6%	\$2,221,316,797.31	4.2%	\$2,288,079,089.41	3.0%
HIGHWAY FUND										
Fuel Taxes	\$139,629,212.86	3.6%	\$159,269,766.12	14.1%	\$165,176,286.23	3.7%	\$165,486,725.60	0.2%	\$168,332,477.56	1.7%
Motor Vehicle Registration and Fees	\$65,707,952.27	-0.7%	\$66,062,088.34	0.5%	\$67,285,834.69	1.9%	\$68,654,661.11	2.0%	\$68,687,072.78	0.0%
Inspection Fees	\$3,370,612.28	29.1%	\$3,766,985.03	11.8%	\$3,437,868.79	-8.7%	\$3,529,493.11	2.7%	\$3,576,974.90	1.3%
Fines	\$2,113,960.38	34.0%	\$1,579,964.19	-25.3%	\$1,373,084.29	-13.1%	\$1,490,743.45	8.6%	\$1,430,018.63	-4.1%
Income from Investments	\$1,079,551.14	-50.5%	\$479,780.74	-55.6%	\$912,366.95	90.2%	\$1,265,384.20	38.7%	\$699,998.88	-44.7%
Other Revenue	\$7,752,475.39	66.8%	\$8,036,190.73	3.7%	\$7,677,837.70	-4.5%	\$8,278,371.75	7.8%	\$8,227,875.14	-0.6%
TOTAL HIGHWAY FUND REVENUE	\$219,653,764.32	3.6%	\$239,194,775.15	8.9%	\$245,863,278.65	2.8%	\$248,705,379.22	1.2%	\$250,954,417.89	0.9%

Adjusted for Service Provider Tax Split