1-1-2007

Fiscal News, January 2007

Maine State Legislature

Office of Fiscal and Program Review

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Introduction – Inaugural Issue of the Fiscal News

This is the first issue of the FISCAL NEWS, a monthly newsletter published by the Office of Fiscal and Program Review (OFPR), a nonpartisan staff office of the Legislative Council. This newsletter is an extension of the monthly fiscal briefings OFPR’s Director has provided to the Legislative Council, which are then shared with the Joint Standing Committee on Appropriations and Financial Affairs. Our goal is to provide information to all legislators about the important fiscal issues happening each month. This issue includes the usual update of General Fund and Highway Fund revenue and the State’s cash position. Future issues will include additional articles providing updates of any expenditure/program funding issues, economic data releases and a notice of fiscal data and publications released during the month. We hope you find this newsletter useful and informative. As always, we appreciate your questions, comments and feedback.

General Fund and Highway Fund Revenue Update

General Fund revenue was under budget by $11.1 million in December, resulting in a negative variance of $9.0 million (-0.7%) for the first half of fiscal year 2007. This variance is from the revised December 2006 revenue forecast, which increased General Fund revenue by $86.4 million for this current fiscal year. This negative variance was driven by December’s Corporate Income Tax collections, which were under budget by $16.9 million for the month and for the fiscal year-to-date. Maine’s experience in this area differs substantially from the federal experience and many other states’ experiences. As yet, no good explanation for this negative variance is available. There was some hope that this was a timing issue and that January collections would offset some of this negative variance; however, a preliminary look at January collections indicates that this variance will not be reversed and may even worsen.

With the exception of Corporate Income Tax collections, the other revenue categories are tracking well with the revised forecast and are over budget by $7.9 million in aggregate for the first half of the fiscal year.

Highway Fund revenue, with the downward revision of fiscal year 2007 revenue by $9.6 million in the December 2006 revenue forecast, is now performing much closer to budget.
Economic and Revenue Forecast Update

The Consensus Economic Forecasting Commission (CEFC) met on Tuesday, January 23rd to begin the winter update of the revenue forecast. This group of 5 “outside” individuals with expertise in economic forecasting has 2 reporting dates each year, November 1st and February 1st. These dates are one month in advance of the Revenue Forecasting Committee’s reporting dates of December 1st and March 1st. This CEFC provides the forecast of key economic variables that are used by Maine Revenue Services to help the Revenue Forecasting Committee forecast the major tax lines.

While the economic forecast is still going through some refinement, the CEFC’s forecast of the major economic variables of employment and personal income will show modest improvement in the short-term compared to their prior forecast. The CEFC also lowered its forecast of inflation.

The Revenue Forecasting Committee will meet in the later part of February to provide an update of the revenue forecast. This update will include a look at the effect of the modest improvement to the economic forecast on the major tax lines and a struggle to find an explanation for the poor performance of Corporate Income Tax collections during December and January of this fiscal year.

Cash Balances Update

The State Treasurer is responsible for managing and investing the State’s cash balances. Other independent agencies also invest and “pool” their excess cash with the State Treasurer to earn a better return on short-term investments. The average return on the Cash Pool in December 2006 was 5.88%.

The table below presents a summary of the average balances in the Cash Pool in December 2006. The Cash Pool balance has dropped from $689.3 million in July 2006 to $494.8 million in December. Last December’s average balance was $520.5 million, but that amount included $123.6 million of Tax Anticipation Note (TAN) borrowing. The recent decline is largely due to the General Fund’s reliance on internal borrowing from Other Special Revenue Funds rather than TAN borrowing. That internal borrowing increased to over $100 million in December.

At this point, the State Treasurer and the State Controller still hope to avoid a formal TAN borrowing for this fiscal year.

Highway Fund Cash balances have continued their downward trend. This has been driven by the funding pressures of the Highway and Bridge Improvement program within the Department of Transportation. The Highway Fund average cash balance in December was only $8.7 million. The balance should recover during the winter months before the spring construction season begins.

<table>
<thead>
<tr>
<th>Summary of Treasurer’s Cash Pool</th>
<th>December 2006 Average Daily Balances</th>
<th>Millions of $’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund (GF) Total</td>
<td>$13.1</td>
<td></td>
</tr>
<tr>
<td>General Fund (GF) Detail:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Stabilization Fund</td>
<td>$111.2</td>
<td></td>
</tr>
<tr>
<td>Reserve for Operating Capital</td>
<td>$40.6</td>
<td></td>
</tr>
<tr>
<td>Tax Anticipation Notes</td>
<td>$0.0</td>
<td></td>
</tr>
<tr>
<td>Internal Borrowing</td>
<td>$104.3</td>
<td></td>
</tr>
<tr>
<td>Other General Fund Cash</td>
<td>($243.0)</td>
<td></td>
</tr>
<tr>
<td>Other Special Rev. - Interest to GF</td>
<td>$64.3</td>
<td></td>
</tr>
<tr>
<td>Other State Funds - Interest to GF</td>
<td>$11.4</td>
<td></td>
</tr>
<tr>
<td>Highway Fund</td>
<td>$8.7</td>
<td></td>
</tr>
<tr>
<td>Other Spec. Rev. - Retaining Interest</td>
<td>$59.7</td>
<td></td>
</tr>
<tr>
<td>Other State Funds</td>
<td>$217.8</td>
<td></td>
</tr>
<tr>
<td>Independent Agency Funds</td>
<td>$120.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash Pool</strong></td>
<td><strong>$494.8</strong></td>
<td>(Amounts may not add due to rounding)</td>
</tr>
</tbody>
</table>

See the following web site for information about the Revenue Forecasting Committee: http://www.maine.gov/legis/ofpr/rfcmain.htm
### General Fund and Highway Fund Revenue
#### Fiscal Year Ending June 30, 2007
Reflecting December 2006 RFC Adjustments AND Enacted Laws Through the 122nd Legislature

#### DECEMBER 2006 REVENUE VARIANCE REPORT

<table>
<thead>
<tr>
<th>Revenue Line</th>
<th>December '06</th>
<th>December '06 Variance</th>
<th>FY07 YTD</th>
<th>FY07 YTD Variance</th>
<th>FY07 YTD Variance %</th>
<th>FY07 Budgeted Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>73,681,497</td>
<td>74,883,126.33</td>
<td>801,629.33</td>
<td>433,403,117</td>
<td>434,204,745.64</td>
<td>801,628.64 0.2%</td>
</tr>
<tr>
<td>Service Provider Tax</td>
<td>5,104,173</td>
<td>3,907,808.06</td>
<td>(1,196,364.94)</td>
<td>19,298,875</td>
<td>19,899,748.03</td>
<td>600,873.03 3.1%</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>111,490,000</td>
<td>113,280,029.19</td>
<td>1,790,029.19</td>
<td>550,020,057</td>
<td>552,157,576.91</td>
<td>2,137,519.91 0.4%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>44,000,000</td>
<td>27,088,752.75</td>
<td>(16,911,247.25)</td>
<td>89,613,414</td>
<td>72,702,166.48 (16,911,247.52) -18.9%</td>
<td>199,210,000</td>
</tr>
<tr>
<td>Cigarette and Tobacco Tax</td>
<td>13,225,338</td>
<td>12,011,984.75</td>
<td>(1,213,353.25)</td>
<td>85,609,538</td>
<td>84,624,488.38 (985,049.62) -1.2%</td>
<td>164,502,981</td>
</tr>
<tr>
<td>Public Utilities Tax</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>(116,564.00)</td>
<td>(116,564.00) N/A</td>
<td>19,695,000</td>
</tr>
<tr>
<td>Insurance Companies Tax</td>
<td>14,202</td>
<td>(85,128.17)</td>
<td>(99,330.17)</td>
<td>11,490,262</td>
<td>11,536,110.23</td>
<td>45,848.23 0.4%</td>
</tr>
<tr>
<td>Estate Tax</td>
<td>3,505,457</td>
<td>8,434,055.43</td>
<td>4,838,598.43</td>
<td>24,421,842</td>
<td>27,246,546.26</td>
<td>2,824,704.26 11.6%</td>
</tr>
<tr>
<td>Property Tax - Unorganized Territory</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>10,150,628</td>
<td>10,403,375.00</td>
<td>252,747.00 2.5%</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>338,950</td>
<td>(67,360.99)</td>
<td>(406,310.99)</td>
<td>2,216,570</td>
<td>1,852,341.21 (364,228.79) -16.4%</td>
<td>4,565,000</td>
</tr>
<tr>
<td>Transfer to Municipal Revenue Sharing</td>
<td>(11,948,058)</td>
<td>(11,156,737.17)</td>
<td>791,320.83</td>
<td>(55,709,105)</td>
<td>(55,027,176.09)</td>
<td>681,928.91 1.2%</td>
</tr>
<tr>
<td>Transfer from Lottery Commission</td>
<td>4,748,533</td>
<td>3,726,902.15</td>
<td>(1,021,630.85)</td>
<td>25,642,080</td>
<td>25,650,002.45</td>
<td>7,922.45 0.0%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>15,071,445</td>
<td>16,598,177.03</td>
<td>1,526,732.03</td>
<td>94,275,288</td>
<td>96,283,401.33</td>
<td>2,008,113.33 2.1%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>259,231,537</td>
<td>248,131,609.36</td>
<td>(11,099,927.64)</td>
<td>1,290,432,566</td>
<td>1,281,416,761.83 (9,015,804.17) -0.7%</td>
<td>3,020,607,710</td>
</tr>
</tbody>
</table>

#### Highway Fund

<table>
<thead>
<tr>
<th>Revenue Line</th>
<th>December '06</th>
<th>December '06 Variance</th>
<th>FY07 YTD</th>
<th>FY07 YTD Variance</th>
<th>FY07 YTD Variance %</th>
<th>FY07 Budgeted Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Taxes</td>
<td>18,746,621</td>
<td>19,046,304.66</td>
<td>299,683.66</td>
<td>97,773,223</td>
<td>98,323,156.04</td>
<td>549,933.04 0.6%</td>
</tr>
<tr>
<td>Motor Vehicle Registration and Fees</td>
<td>6,278,450</td>
<td>6,125,809.18</td>
<td>(152,640.82)</td>
<td>39,637,795</td>
<td>39,671,640.89</td>
<td>33,845.89 0.1%</td>
</tr>
<tr>
<td>Inspection Fees</td>
<td>528,787</td>
<td>583,803.30</td>
<td>55,016.30</td>
<td>2,480,752</td>
<td>2,467,490.62 (13,261.38) -0.5%</td>
<td>4,379,756</td>
</tr>
<tr>
<td>Fines</td>
<td>159,018</td>
<td>135,332.17</td>
<td>23,685.63</td>
<td>999,890</td>
<td>898,260.82 (101,629.18) -10.2%</td>
<td>2,018,239</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>80,000</td>
<td>49,043.32</td>
<td>(30,956.68)</td>
<td>456,643</td>
<td>425,656.53 (30,986.47) -6.8%</td>
<td>795,000</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>615,117</td>
<td>53,915.24</td>
<td>(77,201.76)</td>
<td>5,905,106</td>
<td>5,681,529.35 (223,576.65) -3.8%</td>
<td>9,603,076</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>26,407,993</td>
<td>26,478,208.07</td>
<td>70,215.07</td>
<td>147,253,409</td>
<td>147,467,734.25</td>
<td>214,325.25 0.1%</td>
</tr>
</tbody>
</table>
## Comparison of Actual Fiscal Year-to-Date Revenue Through December of Each Fiscal Year

<table>
<thead>
<tr>
<th>REVENUE CATEGORY</th>
<th>FY 2003</th>
<th>% Chg</th>
<th>FY 2004</th>
<th>% Chg</th>
<th>FY 2005</th>
<th>% Chg</th>
<th>FY 2006</th>
<th>% Chg</th>
<th>FY 2007</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GENERAL FUND</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>$379,697,840.85</td>
<td>2.3%</td>
<td>$408,189,897.08</td>
<td>7.5%</td>
<td>$405,149,718.96</td>
<td>3.8%</td>
<td>$418,714,548.29</td>
<td>3.3%</td>
<td>$434,204,745.64</td>
<td>3.7%</td>
</tr>
<tr>
<td>Service Provider Tax</td>
<td>$0.00</td>
<td>100.0%</td>
<td>$0.00</td>
<td>N/A</td>
<td>$18,525,818.29</td>
<td>N/A</td>
<td>$18,622,863.08</td>
<td>0.5%</td>
<td>$19,899,748.03</td>
<td>6.9%</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>$495,099,793.63</td>
<td>3.7%</td>
<td>$524,838,576.81</td>
<td>6.0%</td>
<td>$566,624,897.95</td>
<td>8.0%</td>
<td>$601,139,418.04</td>
<td>6.1%</td>
<td>$627,283,171.00</td>
<td>4.3%</td>
</tr>
<tr>
<td>Individual Income Tax (Circuitbreaker)</td>
<td>$0.00</td>
<td>N/A</td>
<td>$0.00</td>
<td>N/A</td>
<td>$22,648,007.38</td>
<td>N/A</td>
<td>$33,646,723.94</td>
<td>-48.6%</td>
<td>($35,480,955.57)</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>$39,381,709.06</td>
<td>4.8%</td>
<td>$46,599,878.32</td>
<td>18.3%</td>
<td>$60,725,525.27</td>
<td>30.3%</td>
<td>$90,767,543.41</td>
<td>49.5%</td>
<td>$72,702,166.48</td>
<td>-19.9%</td>
</tr>
<tr>
<td>Estate Tax</td>
<td>$11,459,764.12</td>
<td>28.2%</td>
<td>$12,855,317.23</td>
<td>12.2%</td>
<td>$15,059,488.32</td>
<td>48.5%</td>
<td>$47,701,811.13</td>
<td>205.1%</td>
<td>$27,246,546.26</td>
<td>-42.9%</td>
</tr>
<tr>
<td>Property Tax - Unorganized Territory</td>
<td>$9,300,585.00</td>
<td>5.4%</td>
<td>$8,937,092.00</td>
<td>-3.9%</td>
<td>$9,638,377.00</td>
<td>7.8%</td>
<td>$9,560,399.00</td>
<td>-0.8%</td>
<td>$10,403,375.00</td>
<td>8.8%</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>$1,420,103.60</td>
<td>-45.9%</td>
<td>$1,014,749.57</td>
<td>-28.5%</td>
<td>$1,907,749.24</td>
<td>88.0%</td>
<td>$2,918,778.76</td>
<td>53.0%</td>
<td>$1,852,341.21</td>
<td>-36.5%</td>
</tr>
<tr>
<td>Revenue Sharing Transfers</td>
<td>($46,623,146.51)</td>
<td>-3.2%</td>
<td>($49,961,045.98)</td>
<td>-7.2%</td>
<td>($52,447,257.59)</td>
<td>-5.0%</td>
<td>($53,621,225.39)</td>
<td>-2.2%</td>
<td>($55,027,176.09)</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Liquor Transfers</td>
<td>$14,381,200.51</td>
<td>3.2%</td>
<td>$14,837,299.16</td>
<td>3.2%</td>
<td>$50,013,353.52</td>
<td>231.7%</td>
<td>$11,850.00</td>
<td>-100.0%</td>
<td>$11,536,110.23</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Lottery Transfers</td>
<td>$19,471,130.04</td>
<td>-4.4%</td>
<td>$20,950,501.64</td>
<td>7.6%</td>
<td>$24,607,810.77</td>
<td>17.5%</td>
<td>$25,453,919.23</td>
<td>3.4%</td>
<td>$25,650,002.45</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>$71,512,344.83</td>
<td>7.0%</td>
<td>$90,565,384.89</td>
<td>26.6%</td>
<td>$94,430,523.25</td>
<td>4.3%</td>
<td>$91,020,216.16</td>
<td>-3.6%</td>
<td>$96,271,729.97</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>TOTAL GENERAL FUND REVENUE</strong></td>
<td>$1,055,988,156.59</td>
<td>4.1%</td>
<td>$1,139,728,015.99</td>
<td>7.9%</td>
<td>$1,237,052,953.41</td>
<td>8.5%</td>
<td>$1,263,149,533.05</td>
<td>2.1%</td>
<td>$1,281,416,761.83</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

| **HIGHWAY FUND**               |         |       |         |       |         |       |         |       |         |       |
| Fuel Taxes                     | $80,901,573.07 | 2.9%  | $92,886,837.98 | 14.8% | $98,054,337.80 | 5.0%  | $96,743,673.36 | -1.3% | $98,323,156.04 | 1.6%  |
| Motor Vehicle Registration and Fees | $36,707,455.08 | -1.8% | $36,775,272.29 | 0.2%  | $37,505,170.83 | 2.0%  | $40,237,605.78 | 7.3%  | $39,671,640.89 | -1.4% |
| Inspection Fees               | $2,290,846.81 | 99.0%  | $2,144,487.68 | -6.4% | $2,380,476.87 | 11.0% | $2,459,568.89 | 3.3%  | $2,467,490.62 | 0.3%  |
| Fines                         | $1,246,156.01 | 26.7%  | $939,306.68 | -24.6% | $886,896.79 | -5.6% | $922,398.97 | 4.0%  | $889,260.82 | -2.6%  |
| Income from Investments        | $665,750.98 | -51.0% | $256,310.33 | -61.5% | $380,400.69 | 48.4% | $865,591.55 | 127.5% | $425,656.53 | -50.8% |
| Other Revenue                  | $5,352,846.43 | 94.6%  | $5,275,722.94 | -1.4% | $5,059,588.10 | -4.1% | $5,743,458.79 | 13.5% | $5,681,529.35 | -1.1%  |
| **TOTAL HIGHWAY FUND REVENUE** | $127,164,612.34 | 4.0%  | $138,278,392.90 | 8.7%  | $144,266,870.97 | 4.3%  | $146,972,297.34 | 1.9%  | $147,467,734.25 | 0.8%  |

Adjusted for Service Provider Tax Split