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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

December General Fund and Highway Fund revenue was under budget despite factoring in the December reductions to revenue estimates by the Revenue Forecasting Committee. This was an indicator that the underlying economic forecast was too optimistic. The Consensus Economic Forecasting Committee confirmed that at its January meeting, leaving a looming downward revenue projection on the horizon as the Legislature deals with the known budget shortfalls.

The Governor’s supplemental budget, LD 2173, was printed just in time for the beginning of public hearings on the proposals to offset the \$95 million shortfall. This supplemental budget also includes the recommendations of “The Initiative” to Streamline State Government to achieve \$10.1 million of General Fund savings.

At the end of January, the Commissioners of Education and Health and Human Services broke the bad news about recent federal Center for Medicaid and Medicare Services rule changes. This will add to the budget woes created by the new economic forecast.

General Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Dec,	\$252.9	\$241.2	(\$11.7)	-4.6%	\$248.1	-2.8%
FYTD	\$1,301.7	\$1,293.8	(\$7.8)	-0.6%	\$1,281.4	1.0%

General Fund revenue for December was under budget by \$11.7 million, resulting in a \$7.8 million negative variance (-0.6%) for the Fiscal Year-to-date (FYTD). This variance is based on the revised December 2007 revenue forecast, which decreased total budgeted General Fund revenue in FY 2008 by \$37.8 million.

The growth of General Fund revenue from the first half of FY 2007 to the first half of FY 2008 remained at a very modest 1.0% and below the 1.2% projected for the entire fiscal year. Most of the major tax lines were under performing relative to the new revenue forecast, particularly the consumption taxes, the sales and use taxes and the cigarette and tobacco products taxes.



Highway Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Dec.	\$27.2	\$27.4	\$0.2	0.7%	\$26.5	3.6%
FYTD	\$148.6	\$148.1	(\$0.5)	-0.3%	\$147.5	0.4%

Highway Fund revenue was over budget in December by \$0.2 million, decreasing the negative variance for the first half of the fiscal year to \$0.5 million or 0.3%. Highway Fund revenue for the 1st half of FY 2008 showed a modest, but positive growth rate of 0.4% over the same period in FY 2007.

Fuel tax collections were over budget by approximately \$1.0 million in December, which is a welcome change for the Highway Fund. This positive variance is from the revised December forecast, which reduced the FY 2008 Fuel Tax revenue estimate by \$10.9 million. However, the Motor Vehicles Registration and Fees category was under budget by \$1.0 million in December. This category may need to be revised downward in the March 2008 revenue forecast based on downward trends in motor vehicle title fees and long-term trailer registration revenue.

Revenue Forecasting Update

The winter revenue update, which concludes with the Revenue Forecasting Committee's (RFC) report by the statutory deadline of March 1st, began with the January 22nd meeting of the Consensus Economic Forecasting Commission (CEFC). As expected, the CEFC was more pessimistic than its previous forecast one quarter ago (see table at right). The current calendar year reflects the greatest downward adjustments as the CEFC felt the effect of the national economic crisis on Maine would be relatively short. These CEFC adjustments reflect lower expectations for national economic growth and continued high energy prices. The forecast calls for no employment growth in calendar year 2008. The CEFC did reduce the growth rates of personal income by an average of a half percentage point per year with the largest effect in calendar year 2008 in which the growth slowed from 4.4% growth to 3.5% growth. The CEFC did reduce its assumptions for inflation, lowering CPI in each year going forward. The final report of the CEFC is available at: http://www.maine.gov/legis/ofpr/CEFC_Feb2008.pdf.

Consensus Economic Forecasting Commission Comparison of November 2007 and February 2008 Economic Forecasts

Calendar Years	2007	2008	2009	2010	2011
• Wage & Salary Employment (Annual Percentage Change)					
> Consensus 11/2007	0.5	0.3	0.6	0.7	0.7
> Consensus 2/2008	0.5	0.0	0.6	0.7	0.6
Difference	0.0	-0.3	0.0	0.0	-0.1
• Personal Income (Annual Percentage Change)					
> Consensus 11/2007	4.9	4.4	4.5	4.5	4.6
> Consensus 2/2008	5.1	3.5	4.1	4.2	4.1
Difference	0.2	-0.9	-0.4	-0.3	-0.5
• Consumer Price Index (Annual Percentage Change)					
> Consensus 11/2007	2.8	2.5	2.5	2.5	2.5
> Consensus 2/2008	2.8	2.3	2.1	2.1	2.2
Difference	0.0	-0.2	-0.4	-0.4	-0.3

The Revenue Forecasting Committee (RFC) will be meeting on Monday, February 25th, to revise the revenue forecast based on the new economic forecast. The RFC will be meeting at 1:00 p.m. in the Legislative Council Chambers, Room 334 of the State House.



Cash Balances Update

Summary of Treasurer's Cash Pool

December 2007 Average Daily Balances

Millions of \$'s

General Fund (GF) Total	\$22.8
General Fund (GF) Detail:	
Budget Stabilization Fund	\$117.6
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$127.9
Other General Fund Cash	(\$263.3)
Other Spec. Rev. - Interest to GF	\$50.2
Other State Funds - Interest to GF	\$0.5
Highway Fund	\$33.0
Other Spec. Rev. - Retaining Interest	\$79.4
Other State Funds	\$269.6
Independent Agency Funds	\$132.8
Total Cash Pool	\$588.3

Average balance for the total cash pool in December was \$588.3 million, compared to an average balance for the month of December for the last 6 years of \$536.8 million. Cash balances

continue to remain close to or above averages despite the fact that the State has relied on internal borrowing from within the cash pool rather than going out to external, short-term borrowing, such as Tax Anticipation Notes. That General Fund internal borrowing averaged \$127.9 million in December, \$23.6 million more than last December's \$104.3 million of General Fund internal borrowing.

The Treasurer of State remains hopeful that the \$20 million that is currently tied up in the Mainsail II investment will be fully recovered. In the meantime, the Treasurer has created a study group to review the State's investment policies. The Cash Pool Investment Design Committee has held several meetings. These began with an examination of the current written investment policy of the State Treasurer. Changes have been recommended to enhance achievement of the objectives of the investment program and discussion of these and possibly other suggestions continue. The expectation is that acceptance of any changes will be in place in time to impact the Request for Proposals (RFP) process for investment services. The current contract for these services expires in May of 2008 and an RFP will need to be issued as soon as possible to allow adequate time for the RFP process to unfold in a timely manner. Accordingly, the work of the committee will need to conclude within the next few weeks.

Governor's Supplemental Budget Bill

The Governor released a draft of his supplemental budget proposals on January 10th. The printed bill, LD 2173, was available on Monday, January 28th, the first day of joint public hearings. The hearings on the supplemental budget proposals are scheduled to run for a full 2 weeks and conclude on February 8th. This supplemental budget includes the Governor's recommendations to address the \$95.2 million shortfall created by the December 2007 downward General Fund revenue revision. It also includes the \$10.1 million of General Fund savings related to "The Initiative" to Streamline State Government. A listing of the results of the Appropriation Committee's recommendations may be found on the web page at <http://www.maine.gov/legis/ofpr/afaInitiative.html>.

OFPR has provided an overview of the supplemental budget proposals, which is posted at: http://www.maine.gov/legis/ofpr/08_09_Supplemental_Budget/ofpr_summary.pdf.

The Governor supplemental budget results in net deappropriations of \$75.1 million after adjusting for the offset to the \$10.1 million statewide deappropriation for "The Initiative" to Streamline State Government. The bulk of these net deappropriations affect the Department of Health and Human Services (DHHS); appropriations to DHHS were reduced by \$61.2 million over the 2008-2009 biennium. The overview mentioned above includes additional detail on the DHHS changes.

Other major "savings" initiatives in the Governor's supplemental budget proposals are the transfers from the State's health insurance programs. The Governor's supplemental budget returns excess working capital in health insurance internal service fund accounts. The General Fund's share of the excess working capital transfers is \$20.4 million.

Another major piece of savings is related to General Purpose Aid for Local Schools, which is covered separately in the School Funding Update article.



School Funding Update

The December 2007 issue of Fiscal News included an article on the Commissioner’s Recommended Funding Level for K-12 public education for fiscal year 2008-09. The recommendation reflects the funding level necessary to support the costs of K-12 public education as determined by the essential programs and services model and must be based on statutory requirements. The Commissioner recommended, and the State Board approved, a funding level for FY 2009 of \$1,875.5 million, with the State contributing 55% of that cost, or \$1,031.5

million. This amount is approximately \$11.0 million over the current General Fund appropriation for FY 2009 of \$1,020.8 million.

The Governor’s proposed 2008-2009 supplemental budget recommends a funding level for K-12 public education of \$1,017.5 million for FY 2009. This amount is approximately \$14 million lower than the Commissioner’s recommendation, and \$3.0 million less than current appropriations. Factors contributing to the reduced funding request are presented in the table below:

**General Purpose Aid for Local Schools
FY 2009 Funding Adjustments**

Commissioners Recommended Funding Level	\$1,031,523,534
 <u>GPA Savings Proposals</u>	
Debt service savings due to lower than anticipated interest rates	\$ (1,500,000)
Savings due to holding CPI at FY 2007-08 levels	\$ (1,500,000)
Savings in purchasing of school buses	\$ (990,000)
Reduced weight given to SAU's for each economically disadvantaged student	\$ (11,624,320)
Other net savings	\$ (223,436)
 Total GPA Savings proposals:	 \$ (15,837,756)
 <u>GPA Spending Proposals:</u>	
Shifts funding for 4 positions in MIS program to GPA and funds 55% of cost	\$ 175,074
Shifts funding for Distance Learning Support program to GPA and funds 55% of cost	\$ 507,118
Increase weight given to school SAU's for each Limited English Proficiency student	\$ 1,181,460
 Total GPA spending proposals	 \$ 1,863,652
 Governor's Recommended Funding Level	 \$1,017,549,430

Medicaid Rule Changes

On January 30, 2008, Commissioners Brenda Harvey of the Department of Health and Human Services and Susan Gendron of the Department of Education briefed the Appropriations and Financial Affairs Committee on the impact of new federal regulations affecting reimbursement for a number of Medicaid service categories. The departments provided a preliminary estimate of the net costs to the General Fund resulting from the federal changes of \$6.9 million for FY 2008 and \$38.1 million for

FY 2009. For the most part, these impacts were not assumed in the Governor’s proposed 2008-2009 supplemental budget (LD 2173).

The changes in federal regulations affect Medicaid reimbursement for: **targeted case management (TCM) services** (effective March 3, 2008); **rehabilitation services** (effective July 1, 2008); **hospital outpatient physician services** (effective July 1, 2008); **school-based administrative and**



Medicaid Rule Changes—continued

transportation services (effective February 26, 2008); and **certified seed-funded** services (effective May 25, 2008). The departments are meeting with MaineCare providers to further determine the impact of these regulations on services provided by the MaineCare program. They are also participating in national efforts to modify or delay the impact of the regulations.

While the departments’ preliminary estimate of the total GF net impact over the 2008-2009 biennium is \$45.1 million, the impact on specific programs will vary. The targeted case management changes that affect federal reimbursement for services provided by state-employed case managers could affect General Fund revenue estimates as early as the March 2008

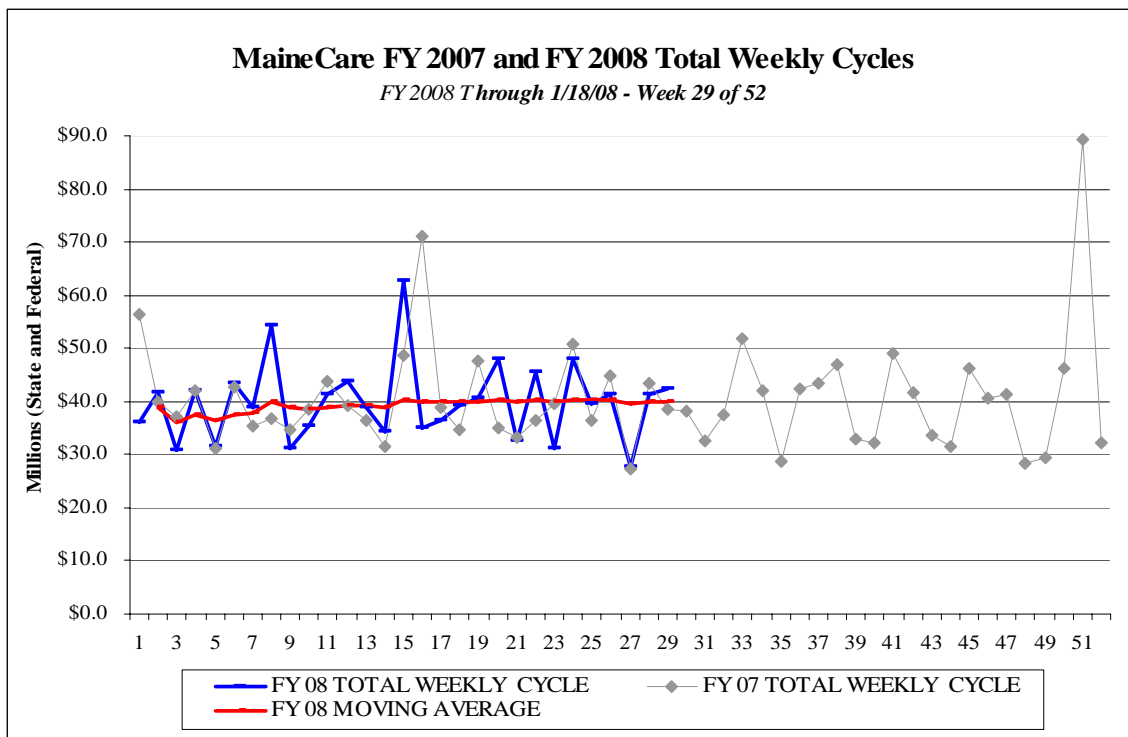
RFC forecast. The preliminary estimate provided for the DHHS General Fund TCM impact is \$4.9 million for FY 2008 and \$14.6 million for FY 2009.

The impact of provisions affecting other MaineCare providers will vary from replacing reduced federal dollars with all state dollars, to eliminating or reducing reimbursement for the services provided, to billing for the services under other MaineCare service categories. For the most part, the details of these impacts have not been provided and in many cases have not been determined. The Governor’s 2008-2009 supplemental budget (LD 2173) proposes a \$7.0 million FY 2009 deappropriation related to the hospital outpatient physician services changes.

MaineCare Spending Update

The table below summarizes MaineCare weekly cycle payments for FY 2008. Average weekly cycle payments for FY 2008 are currently averaging \$39.8 million (state and federal dollars) through Week 29 of 52. For comparison purposes, the table also includes FY 2007 MaineCare weekly cycle payments. While 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, decreasing the capped claims balance.)



General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2008
Reflecting Budgeted Amounts Through December 2007 Revenue Forecast

DECEMBER 2007 REVENUE VARIANCE REPORT

Revenue Line	December '07 Budget	December '07 Actual	December '07 Variance	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	75,210,728	73,620,900.76	(1,589,827.24)	440,794,012	439,204,185.16	(1,589,826.84)	-0.4%	985,065,063
Service Provider Tax	4,063,950	4,183,203.00	119,253.00	20,695,739	21,604,610.83	908,871.83	4.4%	51,181,910
Individual Income Tax	119,896,741	117,467,085.17	(2,429,655.83)	582,214,328	579,986,709.00	(2,227,619.00)	-0.4%	1,400,953,225
Corporate Income Tax	28,100,000	26,768,845.60	(1,331,154.40)	79,600,000	78,002,374.93	(1,597,625.07)	-2.0%	194,600,000
Cigarette and Tobacco Tax	12,128,076	10,976,872.09	(1,151,203.91)	79,568,502	78,417,297.88	(1,151,204.12)	-1.4%	157,706,180
Public Utilities Tax	0	0.00	0.00	0	347,980.26	347,980.26	N/A	17,476,987
Insurance Companies Tax	(47,879)	1,244.60	49,123.60	11,780,241	13,440,704.28	1,660,463.28	14.1%	76,751,673
Estate Tax	3,800,000	2,707,184.20	(1,092,815.80)	14,900,000	11,136,043.98	(3,763,956.02)	-25.3%	45,258,169
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	219,131.18	(180,868.82)	2,100,000	1,938,030.59	(161,969.41)	-7.7%	901,571
Transfer to Municipal Revenue Sharing	(11,641,841)	(11,324,041.76)	317,799.24	(57,043,708)	(57,058,691.87)	(14,983.87)	0.0%	(134,221,812)
Transfer from Lottery Commission	4,791,762	4,371,678.21	(420,083.79)	24,917,124	25,075,847.60	158,723.60	0.6%	49,834,250
Other Revenue	16,168,862	12,194,143.98	(3,974,718.02)	91,721,838	91,495,341.16	(226,496.84)	-0.2%	209,801,236
Totals	252,870,399	241,186,247.03	(11,684,151.97)	1,301,651,451	1,293,829,097.80	(7,822,353.20)	-0.6%	3,067,920,438
Highway Fund								
Fuel Taxes	19,005,698	19,983,950.22	978,252.22	97,379,956	98,358,207.92	978,251.92	1.0%	234,550,398
Motor Vehicle Registration and Fees	6,805,877	5,802,985.87	(1,002,891.13)	41,241,850	39,760,034.83	(1,481,815.17)	-3.6%	87,290,064
Inspection Fees	611,675	780,153.09	168,478.09	2,589,063	2,440,301.10	(148,761.90)	-5.7%	4,433,458
Fines	159,534	168,657.20	9,123.20	1,000,808	908,208.82	(92,599.18)	-9.3%	2,018,239
Income from Investments	50,000	139,649.23	89,649.23	640,000	754,602.33	114,602.33	17.9%	795,000
Other Revenue	614,458	566,558.96	(47,899.04)	5,735,933	5,907,928.37	171,995.37	3.0%	10,195,906
Totals	27,247,242	27,441,954.57	194,712.57	148,587,610	148,129,283.37	(458,326.63)	-0.3%	339,283,065

Comparison of Actual Year-to-Date Revenue Through December 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	\$408,189,897.08	7.5%	\$405,149,718.96	3.8%	\$418,714,548.29	3.3%	\$434,204,745.64	3.7%	\$439,204,185.16	1.2%
Service Provider Tax	\$0.00	N/A	\$18,525,818.29	N/A	\$18,622,863.08	0.5%	\$19,899,748.03	6.9%	\$21,604,610.83	8.6%
Individual Income Tax	\$524,838,576.81	6.0%	\$566,624,897.95	8.0%	\$601,139,418.04	6.1%	\$627,282,395.89	4.3%	\$654,470,832.13	4.3%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$22,648,007.38)	N/A	(\$33,646,723.94)	-48.6%	(\$35,480,955.57)	-5.5%	(\$36,436,513.13)	-2.7%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$44,201,072.58)	N/A	(\$39,643,863.41)	10.3%	(\$38,047,610.00)	4.0%
Corporate Income Tax	\$46,599,878.38	18.3%	\$60,725,525.27	30.3%	\$90,767,543.44	49.5%	\$72,702,166.48	-19.9%	\$78,002,374.93	7.3%
Cigarette and Tobacco Tax	\$50,662,442.32	-1.6%	\$49,996,215.75	-1.3%	\$76,821,990.42	53.7%	\$84,624,488.38	10.2%	\$78,417,297.88	-7.3%
Public Utilities Tax	(\$293,687.83)	-106.0%	(\$167,633.34)	42.9%	\$0.00	100.0%	(\$116,564.00)	N/A	\$347,980.26	398.5%
Insurance Companies Tax	\$12,855,317.23	12.2%	\$15,059,488.32	17.1%	\$11,885,217.41	-21.1%	\$11,536,110.23	-2.9%	\$13,440,704.28	16.5%
Estate Tax	\$10,531,610.72	10.3%	\$15,636,391.40	48.5%	\$47,701,811.13	205.1%	\$27,246,546.26	-42.9%	\$11,136,043.98	-59.1%
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	\$1,014,755.07	-28.5%	\$1,907,749.24	88.0%	\$2,918,778.76	53.0%	\$1,852,341.21	-36.5%	\$1,938,030.59	4.6%
Revenue Sharing Transfers	(\$49,961,045.98)	-7.2%	(\$52,447,275.59)	-5.0%	(\$53,621,225.39)	-2.2%	(\$55,027,176.09)	-2.6%	(\$57,058,691.87)	-3.7%
Liquor Transfers	\$14,837,299.16	3.2%	\$50,013,353.52	237.1%	\$11,850.00	-100.0%	\$11,671.36	-1.5%	\$0.00	-100.0%
Lottery Transfers	\$20,950,501.64	7.6%	\$24,607,810.77	17.5%	\$25,453,919.23	3.4%	\$25,650,002.45	0.8%	\$25,075,847.60	-2.2%
Other Revenue	\$90,565,379.39	26.6%	\$94,430,523.25	4.3%	\$91,020,216.16	-3.6%	\$96,271,729.97	5.8%	\$91,495,341.16	-5.0%
TOTAL GENERAL FUND REVENUE	\$1,139,728,015.99	7.9%	\$1,237,052,953.41	8.5%	\$1,263,149,533.05	2.1%	\$1,281,416,761.83	1.4%	\$1,293,829,097.80	1.0%
HIGHWAY FUND										
Fuel Taxes	\$92,886,837.98	14.8%	\$98,054,337.80	5.6%	\$96,743,673.36	-1.3%	\$98,323,156.04	1.6%	\$98,358,207.92	0.0%
Motor Vehicle Registration and Fees	\$36,775,727.29	0.2%	\$37,505,170.83	2.0%	\$40,237,605.78	7.3%	\$39,671,640.89	-1.4%	\$39,760,034.83	0.2%
Inspection Fees	\$2,144,487.68	-6.4%	\$2,380,476.76	11.0%	\$2,459,568.89	3.3%	\$2,467,490.62	0.3%	\$2,440,301.10	-1.1%
Fines	\$939,306.68	-24.6%	\$886,896.79	-5.6%	\$922,398.97	4.0%	\$898,260.82	-2.6%	\$908,208.82	1.1%
Income from Investments	\$256,310.33	-61.5%	\$380,400.69	48.4%	\$865,591.55	127.5%	\$425,656.53	-50.8%	\$754,602.33	77.3%
Other Revenue	\$5,275,722.94	-1.4%	\$5,059,588.10	-4.1%	\$5,743,458.79	13.5%	\$5,681,529.35	-1.1%	\$5,907,928.37	4.0%
TOTAL HIGHWAY FUND REVENUE	\$138,278,392.90	8.7%	\$144,266,870.97	4.3%	\$146,972,297.34	1.9%	\$147,467,734.25	0.3%	\$148,129,283.37	0.4%

Adjusted for Service Provider Tax Split