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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

January's focus was on passing a supplemental budget to address the \$140 million General Fund revenue shortfall for the current fiscal year ending in June. The expedited public hearings in 3 days on the General Fund emergency supplemental budget bill, LD 45, began on January 5th before the Legislature had reconvened after the 1st Legislative Day in December. The Appropriations Committee and the policy committees worked diligently to achieve a unanimous report from the Appropriations Committee on January 23rd. The effort concluded the last week of January as the Governor signed the budget bill into law as PL 2009, c. 1.

General Fund revenues were over budget in December compared to the revised forecast due to strong performances from corporate and individual income taxes. However, the Sales and Use Tax continues to deteriorate along with consumer confidence. The Sales and Use Tax problem was compounded by the discovery of an accounting and computer programming error involving the distribution of internet tax filings of the Service Provider Tax. This resulted in an overstatement of the Sales and Use Tax during the last 2 fiscal years and the 1st half of the current fiscal year. The \$11.1 million overstatement for the prior years was offset in the budget bill. The \$10.5 million overstatement in the current fiscal year, recorded in January, further reduces Sales and Use Tax revenue below projections.

Highway Fund revenue was under budget in December despite the reduction in the December revenue forecast. Fuel taxes continue to fall below projections despite the decline in gas prices. Motor vehicle registration and fees have also been adversely affected by the decline in auto sales.

While the enactment of the supplemental budget brings the General Fund budget into balance for FY 2009, the use of \$56.1 million from the Maine Budget Stabilization Fund means that the General Fund cash position will continue to decline over the course of FY 2009.

As January ends, the attention over the remainder of the session will shift to the biennial budget and the hope that Washington will deliver a stimulus package that will help soften the impact of budget balancing decisions.



General Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
December	\$224.4	\$241.5	\$17.2	7.6%	\$241.2	0.1%
FYTD	\$1,271.8	\$1,285.8	\$14.0	1.1%	\$1,293.8	-0.6%

General Fund revenue was over the revised forecast by \$17.2 million in December, resulting in a positive variance of \$14.0 million or 1.1% for the first half of FY 2009. Despite the positive variance, FY 2009 Fiscal Year-to-date (FYTD) revenue declined by 0.6% compared with the same period in FY 2008. The December 2008 General Fund revenue forecast projects a decline of 4.3% for total General Fund revenue in FY 2009.

This positive variance overstates the actual performance for the FYTD as an accounting and computer programming error resulted in the overstatement of Sales and Use Tax revenue through December. The General Fund portion of the Service Provider Tax dollars received from taxpayers was recorded in the accounting system twice, once as Service Provider Tax revenue and again, but in error, as Sales and Use Tax revenue. This problem started with the implementation of internet filing of the Service Provider Tax in FY 2007 and continued through December 2008 before the Office of the State Controller identified the overstatement in the preparation of the Comprehensive Annual Report for FY 2008. At the close of FY 2007, the amount of the overstatement of revenue was less than \$3 million. At the close of FY 2008, that amount had grown to \$11.1 million for the 2 years. That overstatement was large enough that it offset other balances in the aggregate balance of suspense accounts statewide. These suspense or holding accounts statewide are used to recognize revenue as a cash receipt when received so that it can be deposited in the State's bank accounts without having to wait for the revenue to be assigned to the proper revenue category.

PL 2009, c. 1, the Emergency FY 2009 Supplemental Budget, recognized the prior period

adjustments by a transfer from the General Fund unappropriated surplus to the suspense account at Maine Revenue Services. An entry to make the correction for the 1st half of FY 2009 was recorded in January. The State Controller chose to manually adjust the December revenue report so that the issue could be discussed before the Emergency Supplemental Budget was enacted. That report differs from the table above and the attachments on pages 7 and 8.

Sales Tax revenue appeared to be the only major tax category that was substantially below revised projections. After adjusting for the double-counting of revenue, Sales and Use Tax revenue had fallen \$16.0 million below budget for the first half of FY 2009 despite being revised downward by \$20.3 million for FY 2009 in the December revenue forecast. Consumer spending nationally fell below previous estimates and has declined for the last half of calendar year 2008. The extent of the decline in consumer spending was not anticipated in the current economic forecast.

Individual Income Tax collections were over budget for the FYTD through December by \$10.0 million. A positive variance from the Business Equipment Tax Reimbursement (BETR), Business Equipment Tax Exemption (BETE) and Circuitbreaker tax reimbursement programs of \$8.8 million increased the positive variance for the Individual Income Tax category to \$18.8 million. Corporate Income Tax was also running ahead of revised projections for the FYTD by \$11.6 million based on December revenue. Much of these positive variances are thought to be timing issues that will be offset in future months. These lines have built up some cushion, which might help soften the blow from potential adverse results when final payments come due in March and April.

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
December	\$29.1	\$26.4	(\$2.7)	-9.3%	\$27.4	-3.7%
FYTD	\$150.0	\$145.0	(\$5.0)	-3.3%	\$148.1	-2.1%

Highway Fund revenue was under budget by \$2.7 million in December, falling \$5.0 million or 3.3% under budget for the first half of FY 2009. The decline of Highway Fund revenue from FY 2008 accelerated to 2.1% after December's revenue performance. In the revised forecast, Highway Fund revenue was projected to grow by 4.2%.

Fuel Taxes continue to fall below projections despite the \$4.4 million FY 2009 downward adjustment for this category by the Revenue Forecasting Committee. It appears that the tax model forecasts for fuel taxes have failed to adequately capture consumers' reactions to the current economic situation. Another contributing

factor may be the expanding use of gasoline with 10% ethanol, whose tax rate is approximately one cent per gallon less.

The Motor Vehicle Registration and Fees and Inspection Fees Highway Fund revenue categories were also running behind the revised forecast through December. Both these categories were revised downward in the December revenue forecast. Motor vehicle fees, particularly title fee revenue, have been adversely affected by the greater than anticipated decline in auto sales. Most of the effect on inspection fee revenue was related to a timing issue, a large amount of revenue was received early in the month of January, rather than at the end of December.

Cash Balances Update

The table to the right presents a comparison of the average balances of December 2007 and December 2008. The average total cash pool balance last month was \$382.1 million, which was \$206.2 million less than December 2007. The average balance for the last 7 Decembers, 2001 to 2007, was \$544.1 million.

The General Fund revenue situation has increased the amount of internal borrowing to \$170.0 million in December. That additional reliance on cash flow borrowing will increase as the curtailment of General Fund spending does not offset the entire revenue shortfall projected by the December 2008 revenue forecast. The enacted Emergency FY 2009 Supplemental Budget relies on a \$56.1 million transfer from the Budget Stabilization Fund to address the FY 2009 General Fund shortfall in addition to offsetting the prior period adjustment related to the overstatement of Sales and Use Tax revenue.

Summary of Treasurer's Cash Pool**December Average Daily Balances
Millions of \$'s**

	2007	2008
General Fund (GF) Total	\$22.8	\$29.7
General Fund (GF) Detail:		
Budget Stabilization Fund	\$117.6	\$131.1
Reserve for Operating Capital	\$40.6	\$40.6
Tax Anticipation Notes	\$0.0	\$0.0
Internal Borrowing	\$127.9	\$170.0
Other General Fund Cash	(\$263.3)	(\$312.0)
Other Spec. Rev. - Interest to GF	\$50.2	(\$0.1)
Other State Funds - Interest to GF	\$0.5	(\$10.0)
Highway Fund	\$33.0	\$17.9
Other Spec. Rev. - Retaining Interest	\$79.4	\$61.7
Other State Funds	\$269.6	\$202.8
Independent Agency Funds	\$132.8	\$80.1
Total Cash Pool	\$588.3	\$382.1

With December receipts of Savings Offset Payments, the Dirigo Health Fund's average balance in December improved from November's balance of negative \$16.9 million to negative \$14.2 million.



Emergency FY 2009 Supplemental Budget

The Emergency FY 2009 Supplemental Budget (EFY09 Budget) was enacted and signed into law (PL 2009, c. 1) in the last week of January, closing a \$140 million revenue shortfall for the General Fund. The EFY09 Budget had to be dealt with very quickly in order to meet the goal of enacting the bill by the end of January. Public hearings on the budget proposals started on January 5th before the Legislature had reconvened on January 7th. Most committees were faced with participating in the joint budget hearings before having their independent organizational meetings. In spite of this, the policy committees worked diligently and provided the Appropriations Committee with recommendations that were largely adopted in a unanimous report.

While most of the Governor's original proposals were accepted by the policy committees and the Appropriations Committee, there were some key differences adopted by the Legislature. Some of these came through the Governor's "Change Package," a proposed set of amendments presented by the Administration to the Appropriations Committee, while others came from the policy committees and a special working group on hospitals. Some of the major differences from the original LD 45 proposals include:

- The Governor's retraction of an original proposal eliminating the Forestry Inventory Program shortly after the public hearing;
- The continuation of one of the housing units at Charleston Correctional Facility and the retention of 15 limited-period positions until June 2009;
- The recognition of some savings in some tax reimbursement programs by the Administration used to provide offsets to the restoration of funds for Adult Education; and
- The recognition of an \$11.1 million reduction in General Fund balance as a result of the prior period adjustment for the FY 2007 and FY 2008 overstatement of Sales and Use Tax offset by the increase in the Budget Stabilization Fund transfers from \$45 million to \$56.1 million.

More information on the General Fund EFY09 Budget proposals is available at: http://www.maine.gov/legis/ofpr/appropriations_committee/materials/index.htm.

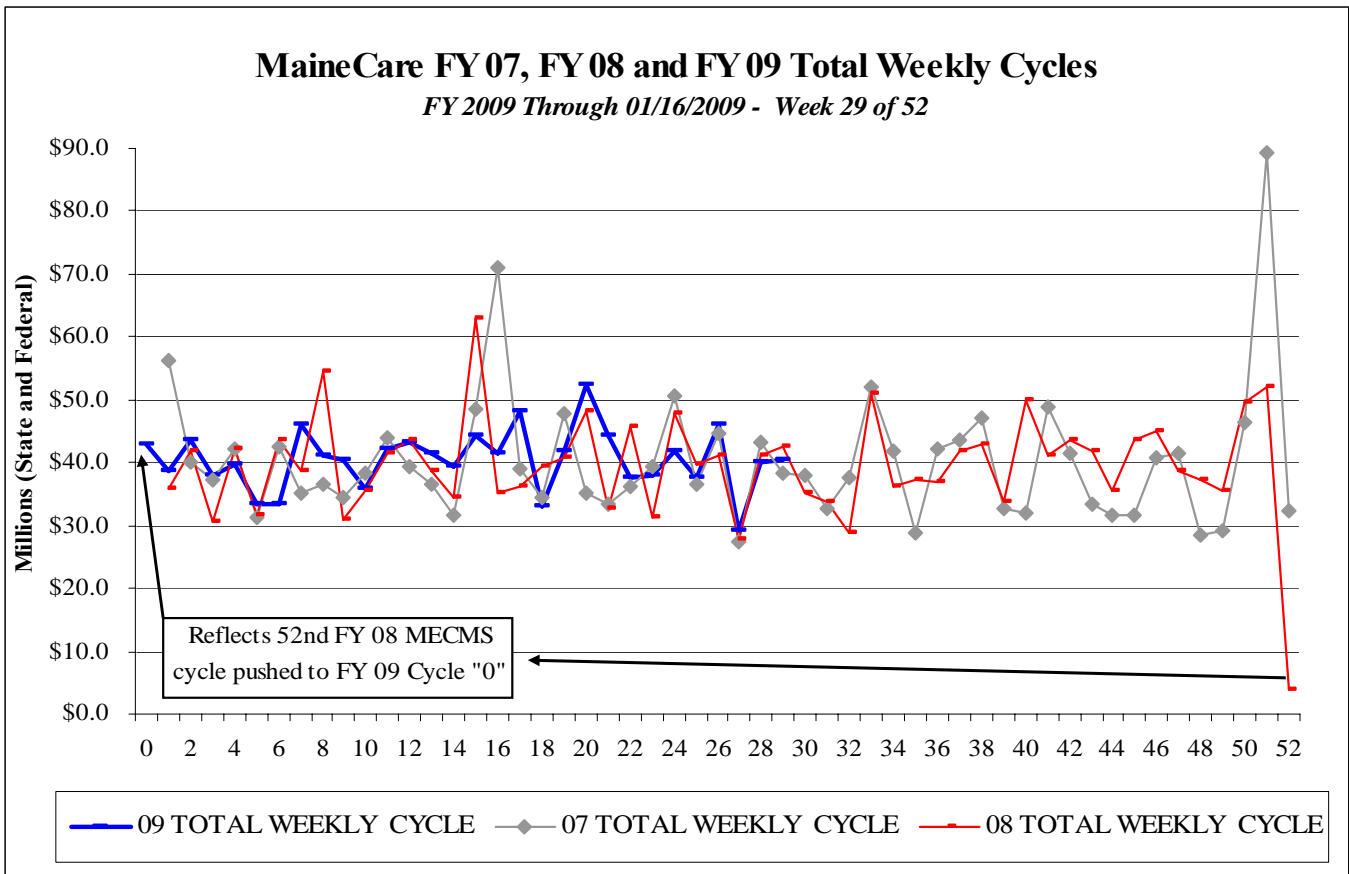
The Highway Fund Emergency FY 2009 Supplemental Budget, LD 61, has received a public hearing and is scheduled for further work sessions during the first week of February.



MaineCare Spending Update

The chart below summarizes MaineCare weekly cycle payments to date for FY 2009. Weekly cycle payments for FY 2009 are now averaging \$40.5 million (state and federal dollars) through Week 29 of 52. For comparison purposes, the chart also includes FY 2007 and FY 2008 MaineCare weekly cycle payments. With the exceptions of some spikes in certain weeks for hospital settlements in FY 2007 and FY 2008 and in week 51 of FY 2007

from paying down a “capped claims” balance, the weekly cycle payments for the 3-year period have remained remarkably consistent. This consistency is likely the result of budget initiatives to restrain spending growth in the MaineCare programs but may also reflect Department of Health and Human Services actions to ensure weekly cycle payments are managed within available budgeted resources.





MaineCare Caseload Update

The table below summarizes recent trends in MaineCare caseload, focusing on the traditional Medicaid program (i.e., adults and children in receipt of financial benefits such as TANF and IV-E Foster Care; aged and disabled persons; and institutionalized persons) and expansions to eligibility made in recent years. While caseloads in the traditional categories have been trending up over this period, expansion populations other than

the non-categorical adult waiver eligibles have remained relatively stable once fully implemented. The non-categorical adult waiver eligible population has fluctuated reflecting policy changes made to keep the waiver program within federal and state budgetary spending limits. The decline in 2008 caseload in particular reflects enacted budget initiatives to cap spending on the waiver program at a level significantly below that allowed under the approved federal waiver.

MaineCare Caseload							
Calendar Year/Month	Traditional Medicaid	SCHIP Medicaid Expansion	SCHIP "Cub Care"	Medicaid Expansion Parents ≤ 150% FPL	Non-Categorical Adults ≤ 100% FPL	Medicaid Expansion Parents >150% FPL	Total
2002 Avg.	174,962	8,597	4,209	13,756	1,349	0	202,873
2003 Avg.	195,664	8,142	4,734	14,019	14,738	0	237,298
2004 Avg.	203,608	9,397	4,502	16,414	21,138	0	255,058
2005 Avg.	209,817	10,130	4,159	18,301	19,875	2,016	264,298
2006 Avg.	212,842	10,289	4,518	18,790	14,670	4,998	266,106
2007 Avg.	215,763	9,909	4,524	19,010	20,060	5,490	274,756
Jan-08	216,870	9,667	4,526	18,607	18,512	5,642	273,824
Feb-08	218,150	9,342	4,556	18,207	17,669	5,685	273,609
Mar-08	218,304	9,362	4,566	18,179	16,651	5,679	272,741
Apr-08	217,789	9,341	4,588	18,121	15,633	5,616	271,088
May-08	217,582	9,327	4,604	17,943	14,742	5,597	269,795
Jun-08	216,912	9,278	4,561	18,013	13,954	5,610	268,328
Jul-08	216,163	9,408	4,467	18,050	13,684	5,574	267,346
Aug-08	215,970	9,508	4,349	18,126	13,198	5,526	266,677
Sep-08	216,242	9,586	4,386	18,270	12,620	5,462	266,566
Oct-08	216,817	9,749	4,544	18,688	11,975	5,561	267,334
Nov-08	217,676	9,812	4,528	18,589	11,548	5,495	267,648
Dec-08	218,097	9,772	4,611	18,481	11,121	5,537	267,619
2008 Avg.	217,214	9,513	4,524	18,273	14,276	5,582	269,381
DHHS Eligibility Descriptions:							
• Traditional Medicaid includes adults and children in receipt of a financial benefit (TANF, IV-E); aged and disabled persons in receipt of a financial benefit (SSI, SSI Supplement), institutionalized persons (NF), and others not included below.							
• SCHIP (State Child Health Insurance Program) Medicaid Expansion Children (M S-CHIP) (effective July 1998) are children with family incomes above 100% and up to and including 150% of the Federal Poverty Level (FPL).							
• SCHIP "Cub Care" Children (effective July 1998) are children with family incomes above 150% and up to and including 200% of FPL.							
• Medicaid Expansion Parents are persons who function as the primary caretakers of dependent children and whose income is above 100% and up to and including 150% of FPL (effective September 2000); and beginning May 2005, up to and including 200% of FPL.							
• Non-Categorical Adults (effective October 2002) are persons who are over 21 and under 65, not disabled, not the primary caretakers of dependent children, and whose income is not more than 100% of FPL.							

General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2009
Reflecting Budgeted Amounts Through 123 Legislature, 1st Special Session and December 2008 Revenue Forecast

DECEMBER 2008 REVENUE VARIANCE REPORT

Revenue Line	December '08 Budget	December '08 Actual	December '08 Variance	FY09 YTD Budget	FY09 YTD Actual	FY09 YTD Variance	FY09 YTD Variance %	FY09 Budgeted Totals *
General Fund								
Sales and Use Tax	73,989,006	68,293,276.60	(5,695,729.40)	441,064,572	435,368,842.92	(5,695,729.08)	-1.3%	987,320,733
Service Provider Tax	4,296,149	4,358,131.16	61,982.16	22,339,736	22,705,221.99	365,485.99	1.6%	53,452,742
Individual Income Tax	93,278,114	112,014,875.39	18,736,761.39	569,936,501	588,673,260.53	18,736,759.53	3.3%	1,321,326,135
Corporate Income Tax	21,000,000	32,625,706.22	11,625,706.22	57,029,241	68,654,946.63	11,625,705.63	20.4%	168,904,770
Cigarette and Tobacco Tax	11,436,604	10,845,996.08	(590,607.92)	78,213,372	77,622,764.45	(590,607.55)	-0.8%	149,948,844
Public Utilities Tax	0	0.00	0.00	231,238	231,237.60	(0.40)	0.0%	17,609,999
Insurance Companies Tax	8,129	6,491.31	(1,637.69)	12,564,003	12,531,119.13	(32,883.87)	-0.3%	71,978,985
Estate Tax	3,088,920	4,213,599.44	1,124,679.44	10,636,979	11,761,659.09	1,124,680.09	10.6%	35,288,827
Property Tax - Unorganized Territory	0	0.00	0.00	11,006,279	10,995,373.00	(10,906.00)	-0.1%	12,969,540
Income from Investments	(149,987)	(7,290.87)	142,696.13	1,027,052	1,405,722.44	378,670.44	36.9%	414,058
Transfer to Municipal Revenue Sharing	(10,400,776)	(11,081,891.46)	(681,115.46)	(56,313,408)	(56,885,515.87)	(572,107.87)	-1.0%	(129,661,273)
Transfer from Lottery Commission	4,042,245	5,435,297.88	1,393,052.88	26,274,619	26,668,273.74	393,654.74	1.5%	52,549,250
Other Revenue	23,780,205	14,826,138.68	(8,954,066.32)	97,761,120	86,073,107.72	(11,688,012.28)	-12.0%	212,931,559
Totals	224,368,609	241,530,330.43	17,161,721.43	1,271,771,304	1,285,806,013.37	14,034,709.37	1.1%	2,955,034,169
Highway Fund								
Fuel Taxes	20,793,787	18,036,460.66	(2,757,326.34)	97,293,971	94,536,644.34	(2,757,326.66)	-2.8%	234,197,278
Motor Vehicle Registration and Fees	6,747,545	6,863,770.80	116,225.80	42,811,947	41,222,745.90	(1,589,201.10)	-3.7%	99,146,017
Inspection Fees	950,253	457,278.40	(492,974.60)	2,901,949	2,010,587.68	(891,361.32)	-30.7%	4,474,821
Fines	120,015	127,528.25	7,513.25	871,312	880,014.34	8,702.34	1.0%	1,795,049
Income from Investments	13,678	13,677.54	(0.46)	321,473	321,472.31	(0.69)	0.0%	1,000,000
Other Revenue	522,087	924,249.42	402,162.42	5,792,894	6,050,448.13	257,554.13	4.4%	9,629,561
Totals	29,147,365	26,422,965.07	(2,724,399.93)	149,993,546	145,021,912.70	(4,971,633.30)	-3.3%	350,242,726

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

REVENUE CATEGORY	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg	FY 2009	% Chg
GENERAL FUND										
Sales and Use Tax	\$405,149,718.96	3.8%	\$418,714,548.29	3.3%	\$434,204,745.64	3.7%	\$439,204,185.16	1.2%	\$435,368,842.92	-0.9%
Service Provider Tax	\$18,525,818.29	N/A	\$18,622,863.08	0.5%	\$19,899,748.03	6.9%	\$21,604,610.83	8.6%	\$22,705,221.99	5.1%
Individual Income Tax	\$566,624,897.95	8.0%	\$601,139,418.04	6.1%	\$627,282,395.89	4.3%	\$654,470,832.13	4.3%	\$672,552,799.64	2.8%
Individual Income Tax (Circuitbreaker)	(\$22,648,007.38)	N/A	(\$33,646,723.94)	-48.6%	(\$35,480,955.57)	-5.5%	(\$36,436,513.13)	-2.7%	(\$39,821,811.67)	-9.3%
Individual Income Tax (BETR)	\$0.00	N/A	(\$44,201,072.58)	N/A	(\$39,643,863.41)	10.3%	(\$38,047,610.00)	4.0%	(\$44,057,727.44)	-15.8%
Corporate Income Tax	\$60,725,525.27	30.3%	\$90,767,543.44	49.5%	\$72,702,166.48	-19.9%	\$78,002,374.93	7.3%	\$68,654,946.63	-12.0%
Cigarette and Tobacco Tax	\$49,996,215.75	-1.3%	\$76,821,990.42	53.7%	\$84,624,488.38	10.2%	\$78,417,297.88	-7.3%	\$77,622,764.45	-1.0%
Public Utilities Tax	(\$167,633.34)	42.9%	\$0.00	100.0%	(\$116,564.00)	N/A	\$347,980.26	398.5%	\$231,237.60	-33.5%
Insurance Companies Tax	\$15,059,488.32	17.1%	\$11,885,217.41	-21.1%	\$11,536,110.23	-2.9%	\$13,440,704.28	16.5%	\$12,531,119.13	-6.8%
Estate Tax	\$15,636,391.40	48.5%	\$47,701,811.13	205.1%	\$27,246,546.26	-42.9%	\$11,136,043.98	-59.1%	\$11,761,659.09	5.6%
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	\$1,907,749.24	88.0%	\$2,918,778.76	53.0%	\$1,852,341.21	-36.5%	\$1,938,030.59	4.6%	\$1,405,722.44	-27.5%
Revenue Sharing Transfers	(\$52,447,275.59)	-5.0%	(\$53,621,225.39)	-2.2%	(\$55,027,176.09)	-2.6%	(\$57,058,691.87)	-3.7%	(\$56,885,515.87)	0.3%
Liquor Transfers	\$50,013,353.52	237.1%	\$11,850.00	-100.0%	\$11,671.36	-1.5%	\$0.00	-100.0%	\$0.00	N/A
Lottery Transfers	\$24,607,810.77	17.5%	\$25,453,919.23	3.4%	\$25,650,002.45	0.8%	\$25,075,847.60	-2.2%	\$26,668,273.74	6.4%
Other Revenue	\$94,430,523.25	4.3%	\$91,020,216.16	-3.6%	\$96,271,729.97	5.8%	\$91,495,341.16	-5.0%	\$86,073,107.72	-5.9%
TOTAL GENERAL FUND REVENUE	\$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%	\$1,285,806,013.37	-0.6%
HIGHWAY FUND										
Fuel Taxes	\$98,054,337.80	5.6%	\$96,743,673.36	-1.3%	\$98,323,156.04	1.6%	\$98,358,207.92	0.0%	\$94,536,644.34	-3.9%
Motor Vehicle Registration and Fees	\$37,505,170.83	2.0%	\$40,237,605.78	7.3%	\$39,671,640.89	-1.4%	\$39,760,034.83	0.2%	\$41,222,745.90	3.7%
Inspection Fees	\$2,380,476.76	11.0%	\$2,459,568.89	3.3%	\$2,467,490.62	0.3%	\$2,440,301.10	-1.1%	\$2,010,587.68	-17.6%
Fines	\$886,896.79	-5.6%	\$922,398.97	4.0%	\$898,260.82	-2.6%	\$908,208.82	1.1%	\$880,014.34	-3.1%
Income from Investments	\$380,400.69	48.4%	\$865,591.55	127.5%	\$425,656.53	-50.8%	\$754,602.33	77.3%	\$321,472.31	-57.4%
Other Revenue	\$5,059,588.10	-4.1%	\$5,743,458.79	13.5%	\$5,681,529.35	-1.1%	\$5,907,928.37	4.0%	\$6,050,448.13	2.4%
TOTAL HIGHWAY FUND REVENUE	\$144,266,870.97	4.3%	\$146,972,297.34	1.9%	\$147,467,734.25	0.3%	\$148,129,283.37	0.4%	\$145,021,912.70	-2.1%

Adjusted for Service Provider Tax Split