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Questions or Comments regarding specific sections contact:

Grant T. Pennoyer, Director
Office of Fiscal and Program Review
5 State House Station
Augusta, Maine 04333-0005
Telephone: (207) 287-1635

grant.pennoyer@legislature.maine.gov

www.maine.gov/legis/ofpr/

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

As FY 2008 comes to a close, General Fund revenue remained ahead of budget by nearly \$47 million, although this still reflects prior tax year income tax performance and not current year activity. Sales Tax with a relatively low budgeted amount was one of the only major tax lines that were above budget for May.

Record high fuel prices and the consequent drop in fuel consumption have been taking their toll on Highway Fund revenue, which was under budget again in May. The Administration will likely have to make some last minute adjustments to keep the Highway Fund from running a deficit for FY 2008.

Cash balances have been below historical averages in FY 2008 primarily due to General Fund and Highway Fund budget shortfalls and concerns over FY 2009 cash flows prompted the State Controller to notify the Maine Public Employees Retirement System that they would not be implementing a budget savings initiative to prepay teachers' retirement obligations at the beginning of FY 2009.

MaineCare (Medicaid) spending jumped significantly with the implementation of new claims management system or MECMS functionalities. The Department of Health and Human Services was announced its intent to delay the last FY 2008 MaineCare payment by one week to push it outside of FY 2008 into FY 2009.

General Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
May	\$246.4	\$248.0	\$1.6	0.6%	\$252.8	-1.9%
FYTD	\$2,561.2	\$2,608.1	\$46.9	1.8%	\$2,540.9	2.6%

General Fund revenue was over budget by \$1.6 million in May, increasing the Fiscal Year-to-date (FYTD) positive variance for General Fund revenue to \$46.9 million or 1.8%. The growth rate for the FYTD was 2.6% over the same period in FY 2007.

Sales Tax was above budget for May and remained above budget for the FYTD despite the recent increases in fuel prices. However, May's sales tax budget target was relatively low for a couple of reasons: a) the distribution of budgeted revenue was based on prior year results which were depressed last May by April snow storms (May sales tax is primarily based on April taxable sales) and b) the revised revenue forecast for the year assumed only modest growth for the Sales Tax of 0.7%.



General Fund Revenue Update—Continued

Other Revenue was over budget in May by \$8.3 million, but most of this was timing issues: \$5.5 million was related to the liquor profit sharing payment due and budgeted in April but received in May; and \$1.9 million was related to a timing issue related to transfers from the Fund for the Efficient Delivery of Local and Regional Services.

Most of the other major tax revenue categories were under budget in May. Individual Income Tax, if not for positive variances in the Circuitbreaker and BETR transfers would also have been negative in May.

Highway Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
May	\$26.1	\$25.0	(\$1.1)	-4.4%	\$25.7	-2.6%
FYTD	\$276.2	\$274.4	(\$1.8)	-0.6%	\$276.6	-0.8%

Highway Fund revenue was under budget by \$1.1 million in May and by \$1.8 million or 0.6% for the FYTD. The negative growth in FYTD Highway Fund revenue worsened through May to 0.8%.

Fuel Taxes, which were under budget by \$1.1 million in May, continued to be the major reason for the negative Highway Fund revenue variance. Even diesel fuel consumption, which had been more stable remaining at or above budget despite record high prices, appears to have begun to show signs of adjusting downward, adding to the negative variances in the gasoline tax portion of fuel taxes. Through May, FYTD Fuel Tax revenue declined by 1.0% despite rate increases related to indexing for inflation.

Cash Balances Update

Summary of Treasurer's Cash Pool

**May 2008 Average Daily Balances
Millions of \$'s**

General Fund (GF) Total	\$19.3
General Fund (GF) Detail:	
Budget Stabilization Fund	\$118.9
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$6.8
Other General Fund Cash	(\$147.0)
Other Spec. Rev. - Interest to GF	\$166.3
Other State Funds - Interest to GF	(\$14.3)
Highway Fund	\$27.9
Other Spec. Rev. - Retaining Interest	\$85.2
Other State Funds	\$192.0
Independent Agency Funds	\$119.8
Total Cash Pool	\$596.0

The average total cash pool balance in May was \$596.0 million. The May 2008 average balance remained well below the May average balance for the last 6 years of \$699.6 million. General Fund and Highway Fund balances were below their average balances, while other funds in the cash pool were roughly equal to their average balances.

Of note in this month's average balances is the fact that the Maine Budget Stabilization Fund balance did not change from the April average. All positive interest earnings are being held in the reserve until the close of the fiscal year to reserve against an adverse outcome related to the \$20 million Mainsail II commercial paper investment. If there is no resolution to the Mainsail II commercial paper issue in this fiscal year, any FY 2008 interest earnings withheld will be distributed to the appropriate accounts and the reserving process will begin again at the beginning of FY 2009.



Prepayment of Teacher Retirement Costs

On June 18, 2008, the State Controller notified the Maine Public Employees Retirement System (MainePERS) that there would not be sufficient cash flow to implement a budget savings initiative in Part T of Public Law 2007, chapter 240, the 2008-2009 Biennial Budget Bill, that authorized prepayment of teacher retirement costs for FY 2009. The State is responsible for funding 100% of the employer's share of the total retirement contributions for public school teachers. Normally, the State makes monthly payments to MainePERS equal to one-twelfth of the annual amount appropriated to the Teacher Retirement program for the employer's share of the cost of teachers' retirement. Part T of the Biennial Budget Bill authorized the prepayment of the annual cost of teachers' retirement for FY 2009 to be made on or before July 15, 2008 if the cash flow in the General

Fund was determined to be sufficient to cover the entire amount due.

For FY 2009, the total teacher retirement payments were estimated to be \$185,464,103. The one-time reduction in the payments associated with this initiative was estimated to be \$6,794,273. After deducting the revenue loss associated with the estimated reduction of interest earnings of \$4,913,420, the net savings of this initiative was \$1,880,853. Unless an alternative source of funding is found that will allow for the prepayment to occur, the revenue adjustment will occur in the December 2008 revenue forecast and the Emergency FY 2009 Budget Bill next January will require a supplemental appropriation of \$6,794,273 to the Teacher Retirement program in FY 2009.

MaineCare Spending Update

The chart on the next page summarizes MaineCare weekly cycle payments for FY 2008. Average weekly cycle payments for FY 2008 are now averaging \$39.9 million (state and federal dollars) through Week 50 of 52. For comparison purposes, the chart also includes FY 2007 MaineCare weekly cycle payments. While the Department of Health and Human Services (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.

In their presentation to the Appropriation and Financial Affairs Committee on May 22, 2008, DHHS noted that while MaineCare still faced financial challenges related to Maine Claims Management System (MECMS) functionality fixes and hospital prospective interim payments (PIPs), they expected to be able to complete the current state fiscal year without capping weekly MaineCare cycle payments. In their June 20th weekly MaineCare report to the Appropriation and Financial Affairs Committee, DHHS advised the Committee that in the last two weeks (cycle weeks 50 and 51) MaineCare has experienced an unanticipated increase in the volume of claims submitted due to

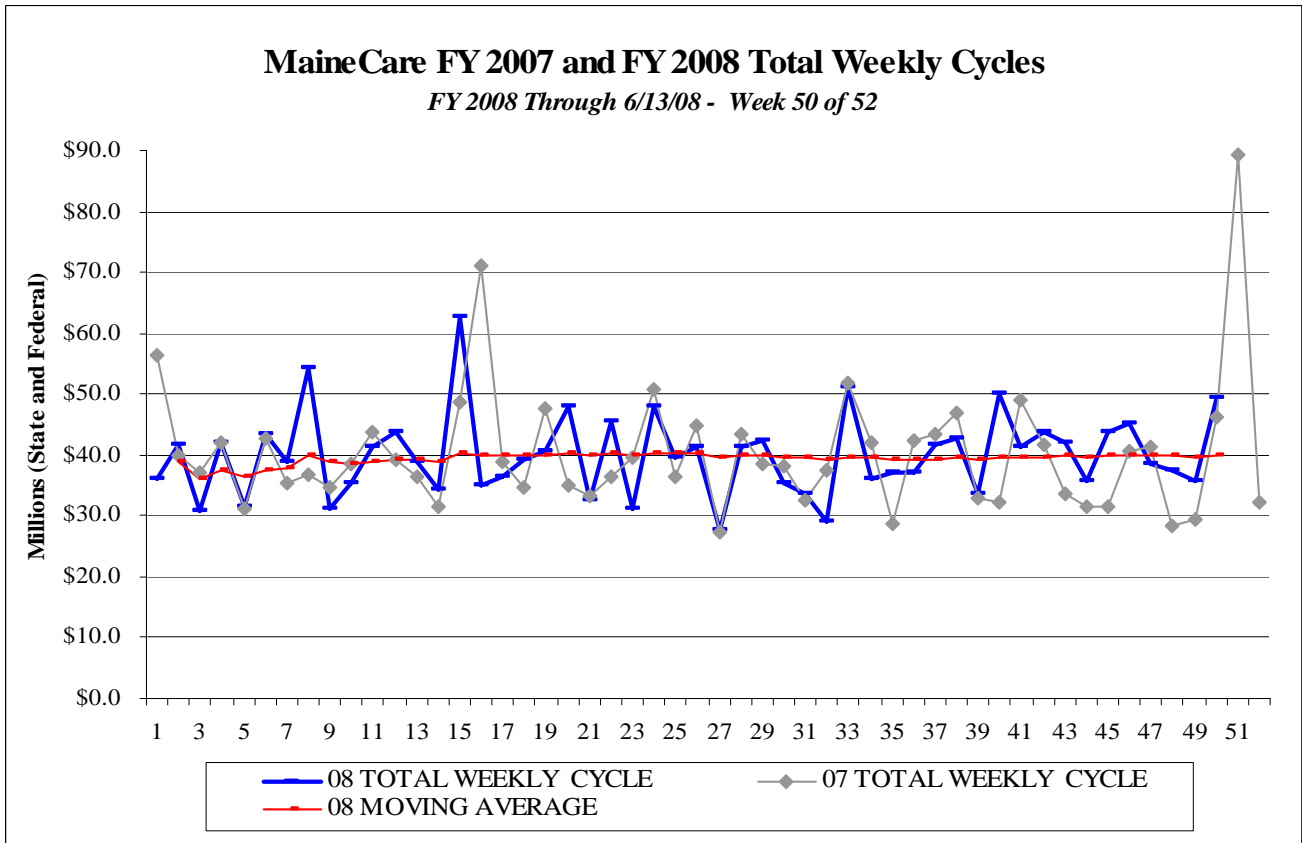
improved MECMS functionality, resulting in the processing of \$25 million (state and federal dollars) more in paid claims than the anticipated \$39.6 million (state and federal dollars) weekly average.

DHHS further informed the Committee that they now expect to delay the processing of the 52nd MECMS claims cycle (estimated at \$32 million state and federal dollars) until July 1st, after the close of FY 2008. This will mean that week 52 electronic fund transfer (EFT) payments will be delivered to provider accounts on July 3rd and checks on July 7th, a one week delay. DHHS indicated the first regular FY 2009 cycle will process normally on July 2nd; but due to the 4th of July holiday EFT payments will arrive on July 7th and checks on July 8th.

The FY 2009 state budget impact of delaying the estimated \$32 million week 52 MECMS claims cycle would be approximately \$11 million (state share). While DHHS believes there are not sufficient funds in MaineCare accounts to cover the 52nd cycle this year, any unused appropriation balances in these accounts in FY 2008 would carry and therefore, may still be available to offset the impact of the delay in FY 2009.



MaineCare Spending Update—Continued



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

MAY 2008 REVENUE VARIANCE REPORT

Revenue Line	May '08 Budget	May '08 Actual	May '08 Var.	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	68,879,381	71,149,228.68	2,269,847.68	800,541,750	803,752,753.05	3,211,003.05	0.4%	978,060,502
Service Provider Tax	5,336,249	4,427,405.89	(908,843.11)	42,579,691	43,297,431.74	717,740.74	1.7%	51,181,910
Individual Income Tax	103,276,526	104,901,489.61	1,624,963.61	1,210,409,738	1,254,725,318.84	44,315,580.84	3.7%	1,400,047,321
Corporate Income Tax	8,100,000	3,360,696.29	(4,739,303.71)	140,570,000	146,794,106.14	6,224,106.14	4.4%	182,170,000
Cigarette and Tobacco Tax	12,931,123	11,635,543.98	(1,295,579.02)	140,496,682	137,377,059.61	(3,119,622.39)	-2.2%	154,786,180
Public Utilities Tax	17,476,987	16,510,491.78	(966,495.22)	17,476,987	16,858,472.04	(618,514.96)	-3.5%	17,476,987
Insurance Companies Tax	14,792,658	12,662,622.85	(2,130,035.15)	52,033,349	49,541,505.81	(2,491,843.19)	-4.8%	76,751,673
Estate Tax	3,800,000	3,454,507.04	(345,492.96)	33,900,000	29,094,586.88	(4,805,413.12)	-14.2%	44,562,240
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	(178,753.43)	(578,753.43)	552,018	1,493,676.72	941,658.72	170.6%	950,648
Transfer to Municipal Revenue Sharing	(9,508,343)	(9,375,778.84)	132,564.16	(111,899,160)	(114,677,048.85)	(2,777,888.85)	-2.5%	(133,184,448)
Transfer from Lottery Commission	4,695,608	4,879,543.09	183,935.09	45,077,771	45,586,464.56	508,693.56	1.1%	49,154,250
Other Revenue	16,219,803	24,556,114.75	8,336,311.75	179,054,118	183,999,502.85	4,945,384.85	2.8%	206,171,173
Totals	246,399,992	247,983,111.69	1,583,119.69	2,561,196,319	2,608,082,493.39	46,886,174.39	1.8%	3,040,740,422
Highway Fund								
Fuel Taxes	16,528,414	15,446,096.93	(1,082,317.07)	183,476,047	182,876,388.50	(599,658.50)	-0.3%	223,368,718
Motor Vehicle Registration and Fees	8,245,521	8,389,649.85	144,128.85	76,801,694	76,299,954.66	(501,739.34)	-0.7%	85,953,481
Inspection Fees	447,532	214,389.69	(233,142.31)	4,130,498	3,507,371.20	(623,126.80)	-15.1%	4,468,458
Fines	150,000	146,853.74	(3,146.26)	1,644,050	1,611,242.96	(32,807.04)	-2.0%	1,794,049
Income from Investments	75,000	0.00	(75,000.00)	975,000	1,111,890.60	136,890.60	14.0%	1,000,000
Other Revenue	702,043	809,039.68	106,996.68	9,134,300	8,984,850.42	(149,449.58)	-1.6%	9,771,333
Totals	26,148,510	25,006,029.89	(1,142,480.11)	276,161,589	274,391,698.34	(1,769,890.66)	-0.6%	326,356,039

Comparison of Actual Year-to-Date Revenue Through May 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	\$752,587,905.47	7.6%	\$735,784,841.31	2.6%	\$776,695,912.29	5.6%	\$795,461,202.60	2.4%	\$803,752,753.05	1.0%
Service Provider Tax	\$0.00	N/A	\$36,686,202.81	N/A	\$39,023,058.52	6.4%	\$40,942,009.35	4.9%	\$43,297,431.74	5.8%
Individual Income Tax	\$993,970,957.64	8.5%	\$1,123,679,264.77	13.0%	\$1,187,362,162.98	5.7%	\$1,279,080,375.97	7.7%	\$1,366,441,880.32	6.8%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$26,018,842.00)	N/A	(\$41,388,925.85)	-59.1%	(\$43,178,569.86)	-4.3%	(\$44,087,213.92)	-2.1%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$67,061,726.06)	N/A	(\$66,525,182.48)	0.8%	(\$67,629,347.56)	-1.7%
Corporate Income Tax	\$89,173,112.52	25.3%	\$104,551,137.84	17.2%	\$161,328,700.54	54.3%	\$140,193,897.61	-13.1%	\$146,794,106.14	4.7%
Cigarette and Tobacco Tax	\$86,690,962.93	-5.0%	\$87,334,445.85	0.7%	\$139,947,609.91	60.2%	\$145,082,532.80	3.7%	\$137,377,059.61	-5.3%
Public Utilities Tax	\$27,990,139.69	-4.0%	\$25,414,127.56	-9.2%	\$20,627,036.49	-18.8%	\$16,317,029.00	-20.9%	\$16,858,472.04	3.3%
Insurance Companies Tax	\$50,438,779.79	-1.5%	\$50,024,352.32	-0.8%	\$51,917,486.60	3.8%	\$50,222,077.54	-3.3%	\$49,541,505.81	-1.4%
Estate Tax	\$21,942,083.20	-8.5%	\$25,330,612.55	15.4%	\$66,070,425.00	160.8%	\$46,254,278.01	-30.0%	\$29,094,586.88	-37.1%
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	\$1,699,709.01	-16.0%	\$4,221,872.98	148.4%	\$5,476,072.09	29.7%	\$583,000.25	-89.4%	\$1,493,676.72	156.2%
Revenue Sharing Transfers	(\$93,622,330.78)	-8.9%	(\$100,708,812.81)	-7.6%	(\$104,853,918.30)	-4.1%	(\$109,444,660.41)	-4.4%	(\$114,677,048.85)	-4.8%
Liquor Transfers	\$100,114,969.87	321.2%	\$50,158,495.87	-49.9%	\$2,557,443.62	-94.9%	\$4,412,264.00	72.5%	\$5,534,346.00	25.4%
Lottery Transfers	\$37,917,897.75	5.2%	\$45,696,533.75	20.5%	\$47,395,090.59	3.7%	\$46,116,785.74	-2.7%	\$45,586,464.56	-1.1%
Other Revenue	\$180,411,906.48	25.6%	\$176,812,061.44	-2.0%	\$181,919,092.35	2.9%	\$184,931,106.63	1.7%	\$178,465,156.85	-3.5%
TOTAL GENERAL FUND REVENUE	\$2,258,253,185.57	12.3%	\$2,348,604,671.24	4.0%	\$2,476,575,919.77	5.4%	\$2,540,851,521.75	2.6%	\$2,608,082,493.39	2.6%
HIGHWAY FUND										
Fuel Taxes	\$174,603,544.92	14.5%	\$181,227,818.21	3.8%	\$181,884,807.88	0.4%	\$184,711,916.09	1.6%	\$182,876,388.50	-1.0%
Motor Vehicle Registration and Fees	\$73,247,218.06	-0.5%	\$75,207,713.68	2.7%	\$78,800,336.25	4.8%	\$76,785,930.67	-2.6%	\$76,299,954.66	-0.6%
Inspection Fees	\$4,175,280.63	11.8%	\$3,819,562.58	-8.5%	\$3,936,452.92	3.1%	\$3,946,804.85	0.3%	\$3,507,371.20	-11.1%
Fines	\$1,748,011.49	-27.4%	\$1,373,064.29	-21.4%	\$1,651,258.11	20.3%	\$1,535,951.28	-7.0%	\$1,611,242.96	4.9%
Income from Investments	\$560,361.32	-52.7%	\$1,093,274.98	95.1%	\$1,440,493.29	31.8%	\$826,786.24	-42.6%	\$1,111,890.60	34.5%
Other Revenue	\$8,578,483.15	3.3%	\$8,109,328.43	-5.5%	\$8,673,444.45	7.0%	\$8,825,560.16	1.8%	\$8,984,850.42	1.8%
TOTAL HIGHWAY FUND REVENUE	\$262,912,899.57	8.7%	\$270,830,762.17	3.0%	\$276,386,792.90	2.1%	\$276,632,949.29	0.1%	\$274,391,698.34	-0.8%

Adjusted for Service Provider Tax Split