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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

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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 2008 legislative sessions concluded on Friday, April 18th, 2 days after the statutory adjournment date. The 1st Special Session, a special continuation of the 2nd Regular Session, began on April 1st, one day after the enactment as a non-emergency measure of the Supplemental Budget Bill, LD 2289. The adjournment of the 2nd Regular Session on March 31st began the 90-day waiting period for the budget to take effect on the last day of FY 2008. The 1st Special Session addressed the remaining fiscal-related bills that had been set aside on the Special Appropriations Table, the Special Highway Table or the Legislative Study Table.

The recent news on the revenue front is very good, at least in the short-term. March corporate and individual income tax collections were above revised projections and April's revenue continues this trend pointing to a positive "April Surprise" of roughly \$45 million for the income tax categories. If oil and gas prices stay at their very high levels, some of this positive surprise may be offset with negative variances in consumption-related taxes over the final 2 months of fiscal year 2008 and into fiscal year 2009. The Highway Fund is particularly at risk given its dependence on fuel taxes.

General Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
March	\$174.4	\$193.0	\$18.6	10.7%	\$173.6	11.2%
FYTD	\$1,880.9	\$1,903.0	\$22.1	1.2%	\$1,874.6	1.5%

General Fund revenue was over budget by \$18.6 million in March increasing the positive variance for the Fiscal Year-to-date (FYTD) to \$22.1 million (1.2% above revised projections). March's revenue growth was very strong at 11.2% over last March. March's performance increased the growth rate for the FYTD to 1.5% over the same period in FY 2007. The FYTD growth rate was only 0.5% through February.

March corporate income tax receipts were over revised projections by \$8.7 million, reversing a negative variance at the end of February and posting a positive variance of \$7.6 million through March (a 7.1% variance). Individual income tax revenue had a positive variance of \$12.8 million in March, mainly the result of refunds being significantly below projections.

As noted above, April income tax collections continued to be above projections. Combined with March variances, the income tax categories may be as much as \$45 million over projections for the fiscal year through April.



Highway Fund Revenue Update

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

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
March	\$27.2	\$27.4	\$0.1	0.5%	\$26.7	2.6%
FYTD	\$223.2	\$223.7	\$0.5	0.2%	\$224.3	-0.3%

Highway Fund revenue was slightly over revised budgeted revenue in March (adjusted downward by \$2.3 million for FY 2008 in the March forecast). For the FYTD, Highway Fund revenue was above budget by \$0.5 million or 0.2%. Highway Fund revenue through March showed a decrease of 0.3% over the same period in FY 2007.

Tobacco Settlement Revenue Update

April payments under the Master Settlement Agreement (MSA) with participating tobacco manufacturers that accrue to the Fund for a Healthy Maine (FHM) exceeded budgeted projections. Payments received in the month of April totaled \$58.2 million compared to the \$57.4 million budgeted. There are some indications that there will be some additional payments over the next few months that will increase this \$0.8 million positive variance. The largest contributing factor to this positive variance is related to Philip Morris USA's decision to

make the full payment and not withhold any disputed amounts. The Revenue Forecasting Committee (RFC) projected that all participating manufacturers would withhold the disputed amounts pending the outcome of legal proceeding under the Master Settlement Agreement. The RFC also projected that the State would recover these disputed payments in future years. As a result, the RFC will likely reduce future budgeted revenue to the Fund for a Healthy Maine when it meets in the fall to update revenue projections.

Fiscal Year 2008 Surplus Distributions

Assuming that the positive **General Fund** revenue variances hold up through the end of FY 2008, the resulting from any excess revenue and lapsed appropriation balances will be set aside for various purposes, in a process that has become known as the "Cascade." For the close of FY 2008, as it was for the close of FY 2007, the normal cascade established in Maine Revised Statutes Title 5, chapter 142 was preempted to provide additional funding to the MaineCare program for hospital payments (see Public Law 2007, c. 240, Part MM). Late in the session, the Legislature enacted a new reserving requirement (see LD 2305, PL 2007, c. 700) that would set aside up to \$10.0 million to the Maine Budget Stabilization Fund before the transfers for hospital payments at the close of FY 2008 to provide an additional cushion against any new revenue shortfall resulting from the deteriorating national economy and the effects of high oil prices.

For the **Fund for a Healthy Maine**, any surplus revenue and unexpended lapsed balances above projections will help reduce the amount of the \$5.0 million statewide FHM program deallocations to offset a new on-going allocation to the Dirigo Health Fund. The amount of

the budgeted ending balance at the close of FY 2009, currently budgeted to be \$3.4 million may also be used to reduce this statewide deallocation during the 124th Legislature. An allocation to offset the statewide deallocation will be required.

The **Highway Fund** also has a year-end "cascade" of sorts. Although the odds of a Highway Fund surplus at the close of FY 2008 are not as high as the General Fund or the Fund for a Healthy Maine, any increase in the unallocated surplus of the Highway Fund greater than \$100,000 will be transferred to the Highway and Bridge Capital program and be available for expenditure in FY 2009. This Highway Fund "cascade" also will increase the budgeted ending balance in the Highway Fund at the close of FY 2009. In the event that Highway Fund revenue falls short of projections and normal lapsed balances are insufficient to offset the shortfall, the Administration may be required to transfer balances from carrying accounts by emergency financial order and increase the lapsed balances as it did at the close of FY 2006.



Cash Balances Update

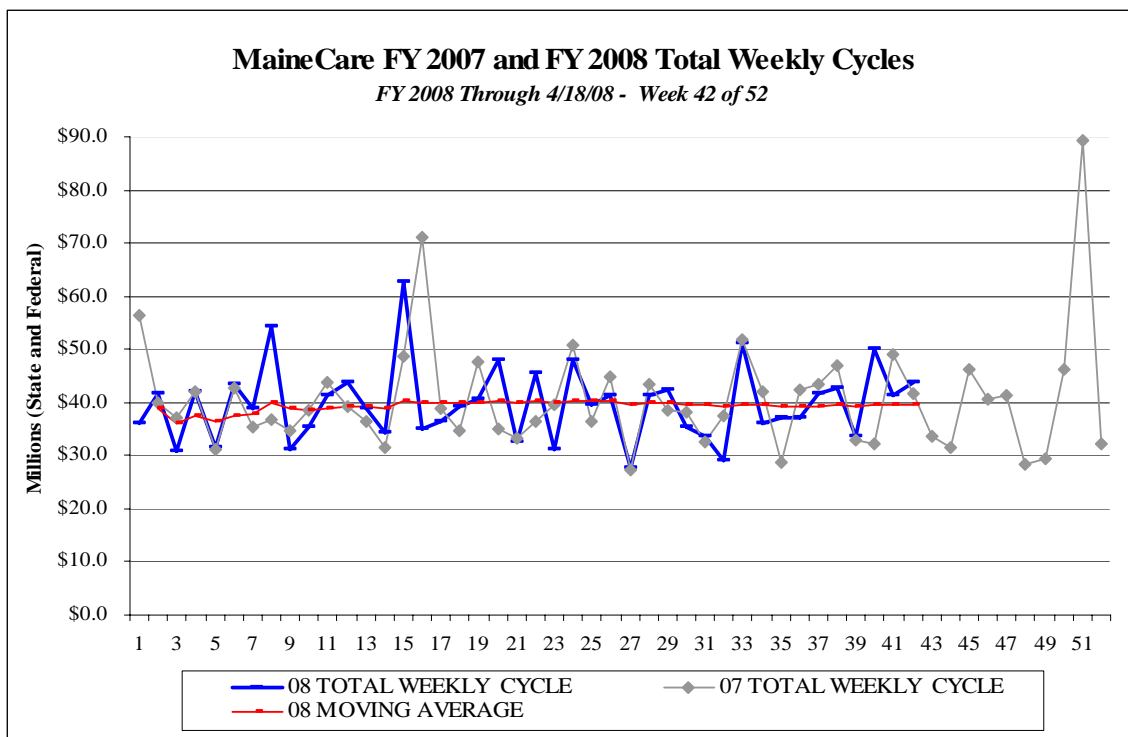
Summary of Treasurer's Cash Pool	
March 2008 Average Daily Balances	
Millions of \$'s	
General Fund (GF) Total	\$17.9
General Fund (GF) Detail:	
Budget Stabilization Fund	\$118.7
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$241.9
Other General Fund Cash	(\$383.3)
Other Spec. Rev. - Interest to GF	\$0.0
Other State Funds - Interest to GF	(\$8.2)
Highway Fund	\$29.1
Other Spec. Rev. - Retaining Interest	\$40.9
Other State Funds	\$142.6
Independent Agency Funds	\$146.8
Total Cash Pool	\$369.2

The average total cash pool balance in March was \$369.2 million, which was well below the average March balance of the last 6 years of \$519.6 million. Allotments should be adjusted to curtail expenditures in anticipation of the budget bill becoming effective on June 30th. This reduction of expenditures in combination with March's strong revenue performance, the normal individual income tax positive cash flow in April and the repayment of the working capital advance to the Fund for a Healthy Maine from April's tobacco settlement payments should help improve the General Fund cash position. The General Fund balance, excluding reserve balances (\$159.3 million) and internal borrowing (\$241.9 million), was a negative \$383.3 million. March generally has the lowest General Fund cash balances during the fiscal year.

MaineCare Spending Update

The table below summarizes MaineCare weekly cycle payments for FY 2008. Weekly cycle payments for FY 2008 are currently averaging \$39.6 million (state and federal dollars) through Week 42 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, paying down the "capped claims" balance.)



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

MARCH 2008 REVENUE VARIANCE REPORT

Revenue Line	March '08 Budget	March '08 Actual	March '08 Var.	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	61,148,186	62,805,441.77	1,657,255.77	659,159,318	660,816,573.63	1,657,255.63	0.3%	978,237,102
Service Provider Tax	3,885,586	4,310,696.38	425,110.38	34,106,720	34,531,830.69	425,110.69	1.2%	51,181,910
Individual Income Tax	44,428,495	57,226,313.00	12,797,818.00	805,878,213	817,942,693.89	12,064,480.89	1.5%	1,400,532,225
Corporate Income Tax	17,470,000	26,165,509.29	8,695,509.29	107,120,000	114,696,486.55	7,576,486.55	7.1%	182,170,000
Cigarette and Tobacco Tax	13,417,701	10,723,924.77	(2,693,776.23)	116,029,105	113,587,142.78	(2,441,962.22)	-2.1%	154,786,180
Public Utilities Tax	0	0.00	0.00	0	347,980.26	347,980.26	N/A	17,476,987
Insurance Companies Tax	13,645,862	12,575,622.22	(1,070,239.78)	27,057,644	26,963,215.75	(94,428.25)	-0.3%	76,751,673
Estate Tax	3,800,000	2,721,417.34	(1,078,582.66)	26,300,000	23,681,560.30	(2,618,439.70)	-10.0%	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	(799,477)	(81,157.69)	718,319.31	(247,982)	2,025,184.14	2,273,166.14	916.7%	952,018
Transfer to Municipal Revenue Sharing	(6,259,346)	(7,675,905.98)	(1,416,559.98)	(81,845,734)	(83,027,366.58)	(1,181,632.58)	-1.4%	(133,218,185)
Transfer from Lottery Commission	4,695,608	5,414,978.70	719,370.70	36,625,686	37,927,563.71	1,301,877.71	3.6%	48,834,250
Other Revenue	18,981,824	18,811,153.33	(170,670.67)	140,282,377	143,225,254.77	2,942,877.77	2.1%	206,171,058
Totals	174,414,439	192,997,993.13	18,583,554.13	1,880,868,722	1,902,956,783.89	22,088,061.89	1.2%	3,041,049,444
Highway Fund								
Fuel Taxes	18,140,136	19,271,939.94	1,131,803.94	149,934,914	151,066,718.11	1,131,804.11	0.8%	223,368,718
Motor Vehicle Registration and Fees	7,875,792	7,183,491.75	(692,300.25)	60,106,564	59,562,532.07	(544,031.93)	-0.9%	85,953,481
Inspection Fees	339,442	251,099.19	(88,342.81)	3,312,558	3,127,952.39	(184,605.61)	-5.6%	4,468,458
Fines	150,000	122,288.59	(27,711.41)	1,345,050	1,300,783.12	(44,266.88)	-3.3%	1,795,049
Income from Investments	75,000	87,849.46	12,849.46	825,000	1,074,431.09	249,431.09	30.2%	1,000,000
Other Revenue	650,504	440,069.95	(210,434.05)	7,652,389	7,572,940.11	(79,448.89)	-1.0%	9,771,333
Totals	27,230,874	27,356,738.88	125,864.88	223,176,475	223,705,356.89	528,881.89	0.2%	326,357,039

Comparison of Actual Year-to-Date Revenue Through March 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	\$614,734,165.37	7.6%	\$600,936,171.28	2.5%	\$634,246,561.15	5.5%	\$655,837,984.90	3.4%	\$660,816,573.63	0.8%
Service Provider Tax	\$0.00	N/A	\$28,977,986.46	N/A	\$30,027,668.72	3.6%	\$31,981,520.01	6.5%	\$34,531,830.69	8.0%
Individual Income Tax	\$729,055,069.54	6.3%	\$801,808,464.43	10.0%	\$835,836,301.12	4.2%	\$883,570,078.33	5.7%	\$925,888,646.39	4.8%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$25,976,808.19)	N/A	(\$39,511,481.54)	-52.1%	(\$40,748,498.53)	-3.1%	(\$42,094,824.93)	-3.3%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$66,201,554.08)	N/A	(\$63,152,855.50)	4.6%	(\$65,851,127.57)	-4.3%
Corporate Income Tax	\$65,915,835.92	24.1%	\$81,890,391.31	24.2%	\$122,495,609.97	49.6%	\$106,541,807.58	-13.0%	\$114,696,486.55	7.7%
Cigarette and Tobacco Tax	\$72,492,856.02	-1.8%	\$72,126,110.34	-0.5%	\$113,821,089.96	57.8%	\$120,356,860.06	5.7%	\$113,587,142.78	-5.6%
Public Utilities Tax	(\$268,757.41)	-109.9%	(\$150,000.00)	44.2%	\$0.00	100.0%	(\$1,854,396.00)	N/A	\$347,980.26	118.8%
Insurance Companies Tax	\$29,918,750.03	-4.2%	\$30,151,880.08	0.8%	\$27,820,819.96	-7.7%	\$25,395,847.13	-8.7%	\$26,963,215.75	6.2%
Estate Tax	\$16,732,888.95	1.0%	\$21,377,451.05	27.8%	\$60,068,119.38	181.0%	\$37,282,151.61	-37.9%	\$23,681,560.30	-36.5%
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	\$1,400,168.10	-28.4%	\$3,221,089.70	130.1%	\$4,567,774.05	41.8%	\$1,547,482.40	-66.1%	\$2,025,184.14	30.9%
Revenue Sharing Transfers	(\$66,592,346.05)	0.3%	(\$75,869,446.44)	-13.9%	(\$77,361,548.39)	-2.0%	(\$80,275,531.88)	-3.8%	(\$83,027,366.58)	-3.4%
Liquor Transfers	\$20,658,510.43	5.2%	\$50,017,501.85	142.1%	\$2,550,891.00	-94.9%	\$0.00	-100.0%	\$0.00	N/A
Lottery Transfers	\$31,227,102.23	7.0%	\$37,090,007.93	18.8%	\$38,760,032.33	4.5%	\$38,127,188.63	-1.6%	\$37,927,563.71	-0.5%
Other Revenue	\$149,085,607.07	28.8%	\$146,867,792.99	-1.5%	\$142,660,548.73	-2.9%	\$149,633,016.21	4.9%	\$143,225,254.77	-4.3%
TOTAL GENERAL FUND REVENUE	\$1,673,296,942.20	8.6%	\$1,782,106,969.79	6.5%	\$1,839,341,231.36	3.2%	\$1,874,646,029.95	1.9%	\$1,902,956,783.89	1.5%
HIGHWAY FUND										
Fuel Taxes	\$143,394,920.60	14.6%	\$148,841,224.49	3.8%	\$148,789,886.34	0.0%	\$151,308,790.82	1.7%	\$151,066,718.11	-0.2%
Motor Vehicle Registration and Fees	\$58,394,228.32	0.6%	\$59,298,000.12	1.5%	\$62,605,025.37	5.6%	\$60,389,367.91	-3.5%	\$59,562,532.07	-1.4%
Inspection Fees	\$3,513,905.68	15.7%	\$3,058,081.19	-13.0%	\$3,215,881.71	5.2%	\$3,281,583.90	2.0%	\$3,127,952.39	-4.7%
Fines	\$1,380,476.83	-16.2%	\$1,288,297.79	-6.7%	\$1,311,985.70	1.8%	\$1,279,557.66	-2.5%	\$1,300,783.12	1.7%
Income from Investments	\$407,347.32	-57.9%	\$728,702.31	78.9%	\$1,118,893.87	53.5%	\$600,283.87	-46.4%	\$1,074,431.09	79.0%
Other Revenue	\$7,205,526.03	5.7%	\$6,865,191.99	-4.7%	\$7,539,784.43	9.8%	\$7,445,574.84	-1.2%	\$7,572,940.11	1.7%
TOTAL HIGHWAY FUND REVENUE	\$214,296,404.78	9.5%	\$220,079,497.89	2.7%	\$224,581,457.42	2.0%	\$224,305,159.00	-0.1%	\$223,705,356.89	-0.3%

Adjusted for Service Provider Tax Split