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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

General Fund revenue woes continued in July and revenues look to once again be under budget in August with the Individual Income Tax and the Sales and Use Tax categories being the major drivers of the negative variances as they have been since the May 2009 revenue forecast. However, the size of the negative variances in these categories appears to be lessening, coming back closer to budget targets, in July and August.

The Highway Fund had a good month in July, with revenue coming in substantially ahead of projections. Though, it now appears based on preliminary August results that some of that positive variance in July was a timing issue between months, gas tax collections are running ahead of projections in August.

The Fund for a Healthy Maine (FHM) ended FY 2009 with a modest positive revenue variance, but the ending balance increased significantly when all lapsed balances and accounting adjustments were recognized. This increase in the ending balance will eliminate the need for a statewide reduction in allocations to FHM programs enacted in the Biennial Budget.

The State's cash position remains historically low, but the State Treasurer and the State Controller have not yet felt the need to implement any external cash flow borrowing.

The Appropriations Committee's initiative to streamline state government is beginning to gather momentum with 3 meetings planned for the month of September. "Homework assignments" from agencies and committee members due in early September will help accelerate activity.

General Fund Revenue Update

Total General Fund Revenue - FY 2010 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
July	\$234.3	\$223.4	(\$10.8)	-4.6%	\$247.3	-9.7%
FYTD	\$234.3	\$223.4	(\$10.8)	-4.6%	\$247.3	-9.7%

General Fund revenue was under budget by \$10.8 million in July or a 4.6% negative variance. General Fund revenue fell by 9.7% from July 2008. Significant negative variances in the Sales and Use Tax and the Individual Income Tax were partially offset by positive variances in most of the other major revenue categories.



General Fund Revenue Update (continued)

July's Sales and Use Tax collections were \$11.3 million under budget. This negative variance was more than twice as large as the June variance and represented the 2nd month in a row of year-over-year declines in taxable sales greater than 12%. Preliminary revenue data for August suggests that the negative variances will continue, but will be closer to projections. Part of August's improvement in the amount of the negative variance may be related to a temporary distortion in the budgeted amounts due to the calculation of the amount of the FY 2009 year-end revenue accrual that is reversed as an offset to August revenue. Sales tax receipts reflect a decline of roughly 7% in August (July sales), which is still well below projections for sales tax collections but better than the 12% declines of the last couple of months.

The temporary effect on automobile sales from the "Cash for Clunkers" program may have boosted July and August taxable sales (representing tax receipts in August and September). The return of summer weather in August may also help September sales tax payments. There are concerns that there was a shift of automobile sales from future months to the "Cash for Clunkers" program period and that heating oil and energy prices will increase as we head into the late fall and the heating season.

Individual Income Tax was \$8.3 million under budget in July, primarily the result of a significant negative

variance in individual income tax withholding (\$5.4 million under projections). While this is a substantial negative variance, it is only half as large as projected in the last *Fiscal News* as a result of some sizeable last minute receipts in July. August individual income tax collections will likely come in much closer to budget but will still fall below latest projections.

Though individual income and sales tax collections reflect substantial negative variances, other revenue categories seem to be performing well with an \$8.8 million offset to the negative variance. Unfortunately, \$2.4 million of that offset is related a misclassification of revenue by the Department of Education, which will be corrected in August.

July's monthly revenue report for the General Fund also reflects the first change at least since the early 1980's in the major categories that are reported each month. Two major categories that are collected only once or twice per year (Public Utilities Taxes and Property Tax – Unorganized Territory) were replaced by other significant revenue categories for which monthly reporting makes more sense. In addition, the changes in the treatment of the transfers to the tax relief programs (the Circuitbreaker, BETR and BETE programs) mean these tax relief program transfers are no longer deducted from and netted out of individual income tax revenue. They are reported in a separate category.

Highway Fund Revenue Update

Total Highway Fund Revenue - FY 2010 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
July	\$25.0	\$28.1	\$3.0	12.2%	\$25.2	11.4%
FYTD	\$25.0	\$28.1	\$3.0	12.2%	\$25.2	11.4%

Highway Fund revenue was over budget by \$3.0 million or 12.2% in July. This represented an increase of 11.4% over July 2008. This double digit positive growth is wildly different than the forecast for FY 2010, which projects a decline of 3.8% from FY 2009. There is no data to suggest that a change in the forecast is in order. Consequently, it has to be assumed that some of the receipts received late in July were budgeted for August and that August revenue will be under budget.

Preliminary revenue collections for August bear this out as Bureau of Motor Vehicle revenue appears to be

well below budget for the month, but will be slightly ahead of budget for the first 2 months of FY 2010. As for fuel taxes, the end of the month due date for monthly tax filings makes it much easier for fuel taxes collections to shift back and forth between months. Two million dollars in special fuel collections came in on the last day in July, which was unusual, is just such an example. However, gas tax collections in August appear to be running ahead of projections without a good explanation. It would seem logical for July's weather to have suppressed August collections instead of causing an improvement.



Fund for a Healthy Maine Update

The Fund for a Healthy Maine (FHM) ended FY 2009 with a modest positive revenue variance, which helped to increase the 2010-2011 biennium's budgeted ending fund balance. At the close of the 124th Legislature's 1st Regular Session the budgeted ending balance was virtually nothing, only \$121. In addition to the positive revenue variance, the FHM's budgeted balance was further enhanced by FY 2009 unexpended balances in the various FHM programs that lapsed back to the uncommitted balance. These lapsed balances totaled \$3.5 million with the largest amounts

Drugs for the Elderly and Disabled program (\$2.3 million) and the Bureau of Health program (\$0.8 million from smoking cessation and school grants). With the addition of prior period adjustments that increased the fund balance by \$1.4 million and some other accounting adjustments, the budgeted ending balance for the 2010-2011 biennium increased to \$5.1 million (see table below). The actual ending FHM balance at the end of FY 2009 of \$11.8 million is reduced by \$3.1 million in FY 2010 and \$3.7 million in FY 2011 to end the biennium at \$5.1 million.

FUND FOR A HEALTHY MAINE BALANCE		
2010-2011 Biennium		
Revised for FY 2009 Actual Ending Balance (\$'s in millions)		
	FY 2010	FY 2011
BEGINNING BALANCE	\$11.8	\$8.8
BUDGETED NET CHANGE	(\$3.1)	(\$3.7)
ENDING BALANCE	<u>\$8.8</u>	<u>\$5.1</u>

The \$5.1 million budgeted ending balance at the close of the 2010-2011 biennium makes it possible to offset a fundwide deallocation of \$536,000 that was to be distributed to FHM programs if the budgeted balance

was not sufficient. The next supplemental budget bill will likely include an offsetting allocation lowering the FHM budgeted ending balance to just over \$4.5 million, but avoiding additional program reductions.

Cash Balances Update

Presented to the right is a summary of the State's average cash balances in June compared to June 2008. The poor General Fund revenue performances over the last 2 months and the use of all reserves continued to deplete cash balances. The average balance for the total cash pool in July of \$438.6 million was \$25.6 million below July 2008 and significantly below July's 2002 to 2008 historical average of \$595.2 million. While the State Treasurer and the State Controller announced that they would need to issue Tax Anticipation Notes (TAN's) totaling \$125 million to help with cash flow issues in FY 2010, they have not issued any to date, relying instead on internal borrowing to avoid the debt services costs associated with TAN's.

The Dirigo Health Fund has continued its decline and had an average negative balance in July of \$21.9 million. The Biennial Budget, PL 2009, c. 213, included authority for a \$25 million cash advance during FY 2010 to the Dirigo Health Fund from the General Fund. That advance was not entered into the accounting system until the last week of August, hence the substantial negative average balance in July, which will also continue in August.

Summary of Treasurer's Cash Pool		
July Average Daily Balances		
Millions of \$'s		
	2008	2009
General Fund (GF) Total	\$27.6	\$23.5
General Fund (GF) Detail:		
Budget Stabilization Fund	\$123.4	\$19.7
Reserve for Operating Capital	\$40.6	\$40.6
Tax Anticipation Notes	\$0.0	\$0.0
Internal Borrowing	\$48.4	\$166.9
Other General Fund Cash	(\$184.8)	(\$203.7)
Other Spec. Rev. - Interest to GF	\$104.1	\$8.6
Other State Funds - Interest to GF	(\$15.6)	(\$17.1)
Highway Fund	\$12.9	\$30.6
Other Spec. Rev. - Retaining Interest	\$77.5	\$44.4
Other State Funds	\$178.6	\$261.8
Independent Agency Funds	\$79.0	\$86.7
Total Cash Pool	\$464.1	\$438.6

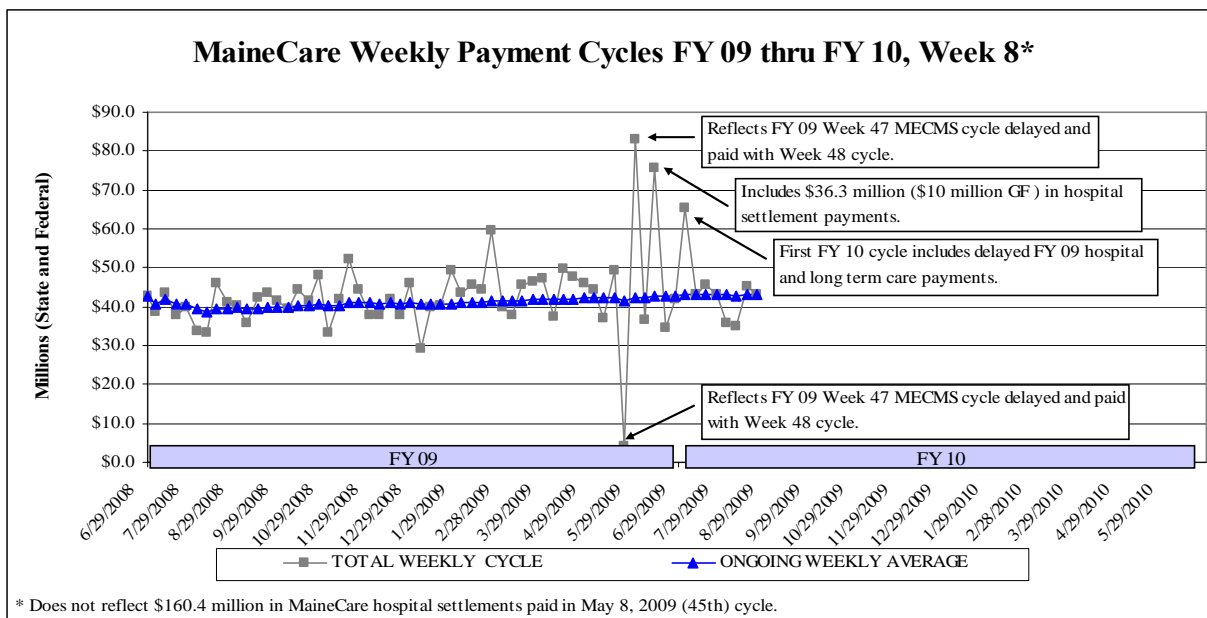


MaineCare Update

As summarized in the chart below the increase in average MaineCare weekly payment cycles that began in FY 2009 continued through Week 8 (through August 21, 2009) of FY 2010. The average of paid cycles for FY 2009 and FY 2010 through Week 8 was \$43.0 million (state and federal), not including hospital settlement payments of \$160.4 million issued in Cycle 45 of FY 2009. The average of paid cycles including these hospital settlement payments was \$45.6 million. Other items of note in recent cycle payments include:

- The decrease in the cycle average through FY 2009 Week 47 reflects the delay in payment of the Week 47 cycle until Week 48, when two cycles were paid.

- An additional \$36.3 million (\$10 million General Fund) in hospital settlements authorized in PL 2009, c. 213 were paid in FY 2009 Cycle 50.
- As required in PL 2009, c. 1, FY 2009 week 52 hospital prospective interim payments (PIP's) of approximately \$7.3 million and three weeks of June 2009 private non-medical institution (PNMI) and nursing facility (NF) payments of approximately \$19.8 million were delayed until FY 2010 Cycle 1. The cumulative FY 2009 General Fund deappropriation included in PL 2009, c. 1 was \$9.6 million.



The table on the next page summarizes recent trends in MaineCare caseload, focusing on the traditional Medicaid program (i.e., adults and children receiving 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 waiver eligibles have remained relatively stable once fully implemented. The non-categorical waiver eligible population has fluctuated reflecting policy changes made to keep the waiver program within federal and state budgetary spending limits. The decline in 2009 caseload through April reflected enacted budget initiatives to cap spending on the waiver program at a

level significantly below that allowed under the approved federal waiver.

Recently released July 2009 MaineCare caseload data show a continued significant increase in the “traditional Medicaid” enrollment category this year. The July 2009 caseload data also show that the significant increase in the non-categorical waiver population from 9,474 persons in April 2009 to 11,538 persons in May 2009, has leveled off somewhat at 11,638 persons in June and 11,427 in July. The recent increase was the result of DHHS actions to open enrollment for non-categorical eligible adults currently on waiting lists for the non-categorical waiver program. At the AFA Committee’s July 23rd meeting, DHHS Commissioner Harvey, informed the Committee that the program has once again been closed to new enrollment.

**MaineCare Update (continued)**

MaineCare Caseload							
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
2008 Avg.	217,214	9,513	4,524	18,273	14,276	5,582	269,381
Detail by Month							
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
Jan-09	219,754	9,765	4,631	18,607	10,719	5,532	269,008
Feb-09	222,145	9,145	4,674	18,062	10,341	5,396	269,763
Mar-09	223,664	9,171	4,730	18,076	9,886	5,510	271,037
Apr-09	223,582	9,321	4,741	18,315	9,474	5,653	271,086
May-09	224,463	9,364	4,797	18,582	11,538	5,800	274,544
Jun-09	225,693	9,447	4,741	18,900	11,638	5,832	276,251
Jul-09	227,163	9,653	4,790	19,242	11,427	5,884	278,159

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, 2010
Reflecting Budgeted Amounts Through 124th Legislature, 1st Regular Session

JULY 2009 REVENUE VARIANCE REPORT

Revenue Line	July '09 Budget	July '09 Actual	July '09 Variance	FY10 YTD Budget	FY10 YTD Actual	FY10 YTD Variance	FY10 YTD Variance %	FY10 Budgeted Totals
General Fund								
Sales and Use Tax	97,381,924	86,043,221.23	(11,338,702.77)	97,381,924	86,043,221.23	(11,338,702.77)	-11.6%	981,766,394
Service Provider Tax	4,808,770	4,394,493.00	(414,277.00)	4,808,770	4,394,493.00	(414,277.00)	-8.6%	55,590,852
Individual Income Tax	114,900,000	106,615,517.25	(8,284,482.75)	114,900,000	106,615,517.25	(8,284,482.75)	-7.2%	1,410,317,850
Corporate Income Tax	6,900,000	9,859,328.15	2,959,328.15	6,900,000	9,859,328.15	2,959,328.15	42.9%	144,697,500
Cigarette and Tobacco Tax	13,421,755	14,971,856.80	1,550,101.80	13,421,755	14,971,856.80	1,550,101.80	11.5%	137,881,705
Insurance Companies Tax	1,004,803	714,195.82	(290,607.18)	1,004,803	714,195.82	(290,607.18)	-28.9%	71,985,000
Estate Tax	2,878,326	2,712,654.07	(165,671.93)	2,878,326	2,712,654.07	(165,671.93)	-5.8%	30,124,796
Other Taxes and Fees	9,697,814	11,936,155.93	2,238,341.93	9,697,814	11,936,155.93	2,238,341.93	23.1%	143,840,376
Fines, Forfeits and Penalties	3,591,944	3,559,631.22	(32,312.78)	3,591,944	3,559,631.22	(32,312.78)	-0.9%	43,654,018
Income from Investments	10,409	217.97	(10,191.03)	10,409	217.97	(10,191.03)	-97.9%	947,908
Transfer from Lottery Commission	3,810,323	3,757,517.09	(52,805.91)	3,810,323	3,757,517.09	(52,805.91)	-1.4%	49,534,250
Transfers to Tax Relief Programs	(584,014)	(604,496.39)	(20,482.39)	(584,014)	(604,496.39)	(20,482.39)	-3.5%	(116,953,498)
Transfers for Municipal Revenue Sharing	(16,871,699)	(14,979,137.69)	1,892,561.31	(16,871,699)	(14,979,137.69)	1,892,561.31	11.2%	(112,509,131)
Other Revenue	(6,666,079)	(5,542,982.58)	1,123,096.42	(6,666,079)	(5,542,982.58)	1,123,096.42	16.8%	23,703,648
Totals	234,284,276	223,438,171.87	(10,846,104.13)	234,284,276	223,438,171.87	(10,846,104.13)	-4.6%	2,864,581,668
Highway Fund								
Fuel Taxes	17,749,979	19,075,244.52	1,325,265.52	17,749,979	19,075,244.52	1,325,265.52	7.5%	220,305,526
Motor Vehicle Registration and Fees	6,211,778	7,925,672.58	1,713,894.58	6,211,778	7,925,672.58	1,713,894.58	27.6%	77,674,394
Inspection Fees	335,416	246,915.50	(88,500.50)	335,416	246,915.50	(88,500.50)	-26.4%	4,157,802
Fines, Forfeits and Penalties	147,845	163,529.48	15,684.48	147,845	163,529.48	15,684.48	10.6%	1,795,049
Income from Investments	0	0.00	0.00	0	0.00	0.00	N/A	203,237
Other Revenue	575,958	653,630.16	77,672.16	575,958	653,630.16	77,672.16	13.5%	8,605,431
Totals	25,020,976	28,064,992.24	3,044,016.24	25,020,976	28,064,992.24	3,044,016.24	12.2%	312,741,439

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

REVENUE CATEGORY	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg	FY 2009	% Chg	FY 2010	% Chg
GENERAL FUND										
SALES TAX	\$91,925,611.73	4.1%	\$93,534,191.99	1.7%	\$96,425,943.06	3.1%	\$98,337,702.41	2.0%	\$86,043,221.23	-12.5%
SERVICE PROVIDER TAX	\$3,637,926.31	N/A	\$4,102,139.88	12.8%	\$4,269,329.99	4.1%	\$4,601,685.31	7.8%	\$4,394,493.00	-4.5%
INDIVIDUAL INCOME TAX	\$81,609,866.28	2.1%	\$91,540,695.33	12.2%	\$95,539,504.76	4.4%	\$113,031,238.18	18.3%	\$106,615,517.25	-5.7%
CORPORATE INCOME TAX	\$6,572,991.46	16.3%	\$10,487,769.39	59.6%	\$7,127,700.88	-32.0%	\$7,378,233.41	3.5%	\$9,859,328.15	33.6%
CIGARETTE TAX	\$9,398,358.31	11.5%	\$14,563,501.15	55.0%	\$14,365,548.31	-1.4%	\$14,589,036.35	1.6%	\$14,971,856.80	2.6%
INSURANCE COMPANIES TAX	\$736,893.40	-29.4%	\$325,410.48	-55.8%	\$1,787,969.51	449.5%	\$1,319,438.27	-26.2%	\$714,195.82	-45.9%
ESTATE TAX	\$8,939,072.87	898.1%	\$2,017,602.79	-77.4%	\$2,017,093.52	0.0%	\$2,699,799.97	33.8%	\$2,712,654.07	0.5%
OTHER TAXES AND FEES	\$10,407,077.26	1.1%	\$12,372,764.22	18.9%	\$9,296,139.75	-24.9%	\$11,041,964.93	18.8%	\$11,936,155.93	8.1%
FINES, FORFEITS AND PENALTIES	\$2,763,147.51	9.8%	\$2,748,132.88	-0.5%	\$1,708,484.92	-37.8%	\$4,140,982.04	142.4%	\$3,559,631.22	-14.0%
EARNINGS ON INVESTMENTS	\$4,207.14	N/A	\$61.67	-98.5%	\$27,352.24	44252.6%	\$4,964.14	-81.9%	\$217.97	-95.6%
LOTTERY TRANSFER	\$3,953,794.97	19.8%	\$4,170,265.27	5.5%	\$4,359,853.37	4.5%	\$4,258,950.93	-2.3%	\$3,757,517.09	-11.8%
TRANSFERS FOR TAX RELIEF	(\$97,864.30)	89.2%	(\$711,441.36)	-627.0%	(\$782,282.82)	-10.0%	(\$681,132.46)	12.9%	(\$604,496.39)	11.3%
REVENUE SHARING TRANSFERS	(\$9,366,075.10)	-1270.8%	(\$10,146,621.11)	-8.3%	(\$10,331,589.99)	-1.8%	(\$11,356,054.06)	-9.9%	(\$14,979,137.69)	-31.9%
OTHER REVENUE	(\$2,132,586.00)	-104.3%	(\$2,600,448.80)	-21.9%	(\$2,560,567.99)	1.5%	(\$2,045,885.99)	20.1%	(\$5,542,982.58)	-170.9%
TOTAL GENERAL FUND REVENUE	\$208,352,421.84	-17.7%	\$222,404,023.78	6.7%	\$223,250,479.51	0.4%	\$247,320,923.43	10.8%	\$223,438,171.87	-9.7%
HIGHWAY FUND										
Fuel Taxes	\$17,732,329.87	-2.3%	\$20,682,151.50	16.6%	\$18,682,142.91	-9.7%	\$17,728,062.23	-5.1%	\$19,075,244.52	7.6%
Motor Vehicle Registration and Fees	\$6,554,161.22	-0.9%	\$6,613,980.83	0.9%	\$6,206,512.71	-6.2%	\$6,326,454.89	1.9%	\$7,925,672.58	25.3%
Inspection Fees	\$407,492.80	49.5%	\$365,218.86	-10.4%	\$421,379.50	15.4%	\$343,952.70	-18.4%	\$246,915.50	-28.2%
Fines	\$0.00	-100.0%	\$135,942.08	N/A	\$0.00	-100.0%	\$137,274.56	N/A	\$163,529.48	19.1%
Income from Investments	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A
Other Revenue	\$770,704.72	44.4%	\$549,277.49	-28.7%	\$504,917.94	-8.1%	\$654,038.21	29.5%	\$653,630.16	-0.1%
TOTAL HIGHWAY FUND REVENUE	\$25,464,688.61	-1.1%	\$28,346,570.76	11.3%	\$25,814,953.06	-8.9%	\$25,189,782.59	-2.4%	\$28,064,992.24	11.4%

Adjusted for Service Provider Tax Split