



FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

FEBRUARY 2007

Volume 1, Number 2

Month in Review.....1
 General Fund Revenue Update.....1
 Highway Fund Revenue Update.....2
 Revenue Forecasting Update.....2
 Cash Balances Update.....3
 MaineCare Spending Update.....3

Attachments

- **January 2007 Revenue Variance Report.....6**
- **Comparison of Actual Fiscal Year-To-Date Revenue.....7**

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

On the fiscal front, this session has gotten off to a very fast start. Two emergency supplemental budgets for the current fiscal year were quickly reported out unanimously from the Appropriations and Transportation Committees. The Appropriations Committee even voted on the Emergency FY 07 Budget Bill (LD 215) before 6PM and a day earlier than scheduled, paving the way to an early start to an ambitious hearing schedule for the Biennial Budget Bill, LD 499. On top of the fast start, the Office of Fiscal and Program Review has implemented a new Fiscal Note and Budget System developed in-house by the Legislature's Office of Information Services. This new information system, one of the information technology success stories that you don't hear about, has made budget bill production in the Office of Fiscal and Program Review and the Office of the Revisor of Statutes much easier. It has also helped OFPR more quickly adapt forms and reports as we implement a new budget process. Looking ahead, the pace will likely accelerate as the hearings on the Biennial Budget Bill conclude and work sessions begin.

General Fund Revenue Update

Table 1. Total General Fund Revenue - FY 2007 Through January

Millions of \$'s

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Jan	\$276.8	\$280.1	\$3.3	1.2%	\$256.0	9.4%
FYTD	\$1,567.2	\$1,561.6	(\$5.7)	-0.4%	\$1,519.2	2.8%

General Fund revenue was over budget \$3.3 million in January, reducing the negative variance for the Fiscal Year-to-date (FYTD) to \$5.7 million (-0.4%). As feared, the negative variance in Corporate Income Tax collections did not recover in January and actually worsened by \$1.6 million to \$18.5 million for the FYTD. This represents a 16.7% decline over the same period last year. Individual Income Tax remained over budget through January. Business Equipment Tax Reimbursement (BETR) and Circuit Breaker program transfers account for a \$13.0 million positive variance for the FYTD, which was offset by a negative variance in Individual Income Tax refunds of \$9.2 million. Both of these variances within the Individual Income Tax are largely timing issues resulting from delays or extensions in BETR filings and a very efficient and early processing of tax refunds. The performance of the Estate Tax is still surprisingly strong running \$3.2 million over budget for the FYTD. Some areas of concern in addition to the Corporate Income Tax are the Cigarette Tax and Income from Investments.



Highway Fund Revenue Update

Highway Fund revenue, which was running slightly ahead of budget in December, suffered a set-back in January, largely as a result of Fuel Tax collections, which were under budget by \$1.3 million in January. In total the Highway Fund revenue was under budget in January by \$1.4 million, resulting in a negative variance of \$1.2 million through January. This is below collections for the same period in fiscal year 2006.

Table 2. Total Highway Fund Revenue - FY 2007 Through January

Millions of \$'s						
	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Jan	\$26.2	\$24.8	(\$1.4)	-5.5%	\$25.6	-3.3%
FYTD	\$173.5	\$172.2	(\$1.2)	-0.7%	\$172.6	-0.2%

Revenue Forecasting Update

The Revenue Forecasting Committee (RFC) met on Friday, February 23rd to review the revenue picture armed with an updated economic forecast of the Consensus Economic Forecasting Commission (CEFC). Presented at right is the table summarizing the modest changes of the CEFC in its February 1st Report. Employment projections were increased slightly in 2007 and 2008 and personal income was increased in calendar year 2006 only. Forecasts of inflation were lowered slightly for each year of the forecast. The full report is available at: <http://www.maine.gov/legis/ofpr/CEFCFeb2007.pdf>.

Table 3. Consensus Economic Forecasting Commission
Comparison of February and November Economic Forecasts

Calendar Years	2006	2007	2008	2009	2010	2011
• Wage & Salary Employment (Annual Percentage Change)						
> Consensus 11/2006	0.5	0.4	0.6	0.8	0.7	0.7
> Consensus 2/2007	0.5	0.7	0.8	0.8	0.7	0.7
Difference	0.0	0.3	0.2	0.0	0.0	0.0
• Personal Income (Annual Percentage Change)						
> Consensus 11/2006	5.2	4.3	4.5	4.5	4.3	4.2
> Consensus 2/2007	5.6	4.3	4.5	4.5	4.3	4.2
Difference	0.4	0.0	0.0	0.0	0.0	0.0
• Consumer Price Index (Annual Percentage Change)						
> Consensus 11/2006	3.5	2.5	2.2	2.2	2.2	2.2
> Consensus 2/2007	3.2	2.1	2.2	2.1	2.1	2.1
Difference	-0.3	-0.4	0.0	-0.1	-0.1	-0.1

As expected, the modest changes to the economic forecast did not produce much of a change to the revenue forecast as Maine Revenue Services tax models were updated with the new economic forecast. The preliminary results of the model results and a review of the non-tax revenue changes were presented to the Revenue Forecasting Committee (RFC) on Friday, February 23rd. Those preliminary General Fund revenue recommendations to the RFC would have resulted in a downward revision for each year of the forecast, \$20.4 million, \$10.4 million and \$5.9 million in fiscal years 2007, 2008, and 2009, respectively. These preliminary downward recommendations were primarily driven by unexplained drop in corporate income tax collections. Maine's recent corporate income tax performance is inconsistent with national trends. Without any explanation for Maine's anomalous performance, the RFC decided to defer its final decisions on the March forecast update until after the March 15th corporate income tax filing date.

The RFC was hopeful that final payments for calendar year corporate tax filers due on March 15th would recover and produce the expected growth in corporate income tax that is more consistent with the national experience of large corporations. However, the RFC also noted that the experience could also cause the forecast to be revised downward even further. The RFC will meet again at the end of March to revisit the corporate income tax after a short period of tax return processing.

For the Highway Fund, the RFC's preliminary recommendations suggested only modest downward revisions of approximately \$5.0 million over the 2008-2009 biennium tied to the inflation forecast and the lower assumptions for fuel tax indexing. Preliminary recommendations for the Fund for a Healthy Maine indicate an increase of \$20,000 annually in interest earnings. MaineCare Dedicated Revenue Tax also received a more favorable outlook based on preliminary recommendations, increasing by roughly \$4 million per year.



Cash Balances Update

Table 4
Summary of Treasurer's Cash Pool
January 2007 Average Daily Balances

Millions of \$'s	
General Fund (GF) Total	\$39.8
General Fund (GF) Detail:	
Budget Stabilization Fund	\$111.7
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$74.0
Other General Fund Cash	(\$186.5)
Other Spec. Rev. - Interest to GF	\$73.8
Other State Funds - Interest to GF	\$11.1
Highway Fund	\$11.9
Other Spec. Rev. - Retaining Interest	\$78.5
Other State Funds	\$234.6
Independent Agency Funds	\$115.0
Total Cash Pool	\$564.9

Average Cash Pool balance was \$564.9 million in January. While this is below the \$689.3 million balance in July 2006, it does represent an improvement over the \$494.8 million in December. This decline from the start of the fiscal year is largely due to the reliance on General Fund internal borrowing from Other Special Revenue Funds rather than using Tax Anticipation Note (TAN) borrowing. TAN borrowing in FY 06 was \$123.6 million. General Fund internal borrowing from Other Special Revenue Funds, which averaged over \$100 million in December, dropped to \$74 million in January, but jumped back over \$100 million in early February. While the use of internal borrowing has created savings on debt service expenditures, the lower balances have adversely affected General Fund revenue from interest earnings by more than \$3 million per year from current projections.

Highway Fund average cash balance trends recovered slightly in January, but average balances remain very low, which may affect the Department of Transportation's ability to implement new projects.

MaineCare Spending Update

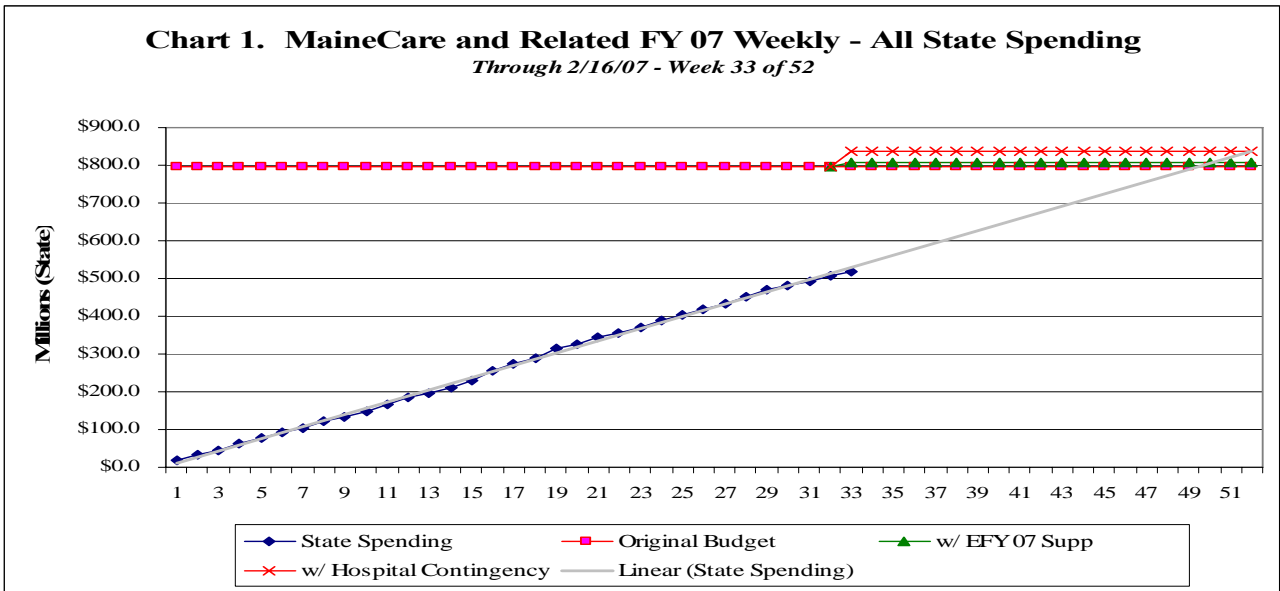
In PL 2007, c.1 (the Emergency FY 07 Budget Bill), the Legislature approved a number of adjustments to MaineCare appropriations and allocations that are intended to provide the MaineCare seed accounts with sufficient funding to finish the current fiscal year. In addition, the bill appropriated \$20 million for the state share of prior year MaineCare hospital payment settlements to be expended this year and appropriated \$30 million for the state share of increased hospital prospective interim payments (PIP's) to be expended in fiscal year 2007-08. To address additional concerns about the adequacy of MaineCare funding for the remainder of the current fiscal year, and to avoid the need to delay provider payments until next year, Part L of the supplemental budget bill gives the Department of Health and Human Services (DHHS) authority to access the \$30 million hospital PIP appropriation to "facilitate the timely payment of any current year MaineCare provider claims." The bill also requires DHHS to make weekly reports to the Legislature on the status of the MaineCare budget.

Chart 1 compares state-funded spending (including General Fund and Other Special Revenue Funds) through 2/16/07 on MaineCare and related programs to budgeted amounts prior to and after the enactment of the Emergency FY 07 Budget. The chart also includes a statistically valid trend line that estimates end of year spending based on the spending trend through 2/16/07. If current trends continue through the remainder of this fiscal year, it appears DHHS would need to access the \$30 million contingency provided in Part L of the supplemental appropriations bill.

During work session discussions on the MaineCare budget, DHHS identified two critical initiatives they will implement to modify the current spending trend and keep MaineCare spending within budgeted resources for the year. The first is to limit weekly MaineCare payment cycles to \$36.5 million (total federal and state funds). The second is to accelerate current efforts to recover interim payments made to providers as part of the MECMS (claims management system) reconciliation process, to achieve total recoveries of \$160 million (total federal and state funds) by the end of the current fiscal year.



Chart 1. MaineCare and Related FY 07 Weekly - All State Spending
Through 2/16/07 - Week 33 of 52

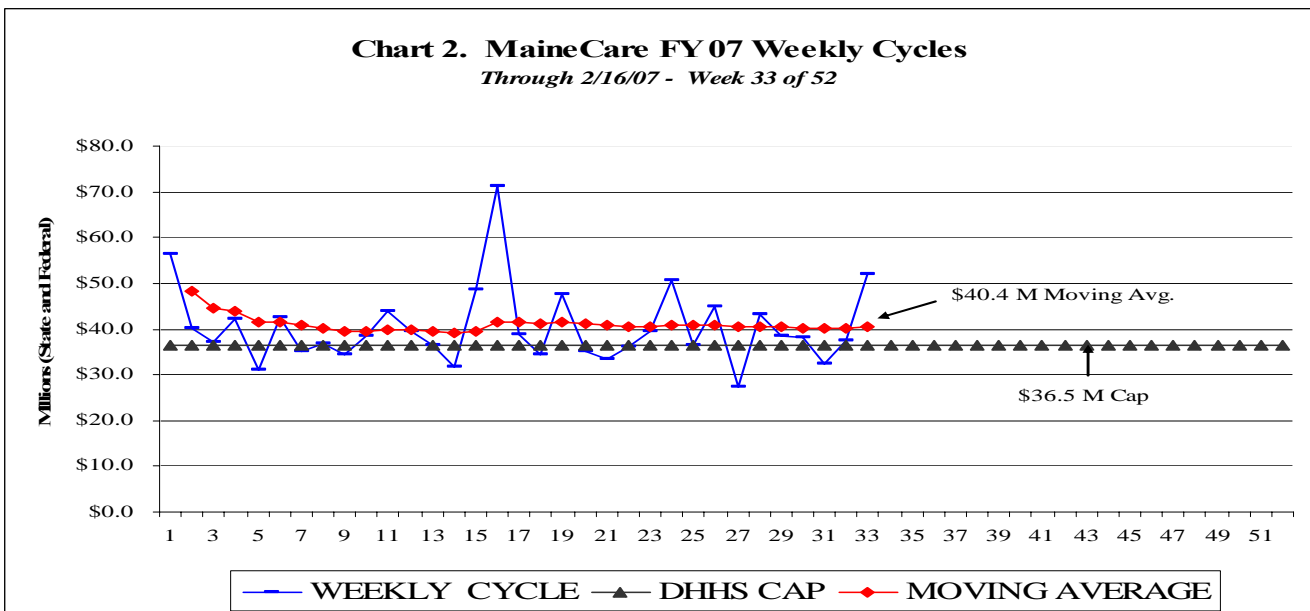


Charts 2 and 3 summarize the latest weekly payment cycle and interim payment recovery information provided by DHHS in their weekly reports. While MaineCare payment cycles had remained within the cap amounts for the first two weeks since enactment of the supplemental appropriations bill, spending for the week ending 2/16/07 (Week 33 of 52) totaled \$51.9 million (total federal and state funds), exceeding the DHHS \$36.5 million weekly cap by \$15.4 million. In addition, while interim payment recoveries through 2/9/07 have totaled \$83.4 million, they have not yet accelerated to the rate needed to meet the \$160 million target.

Another key factor affecting MaineCare spending is the monthly caseload (or participation) in the

program. Over the course of the current biennium, participation has increased from 264,151 to 273,547 persons through January, an increase of 3.6%. Within these aggregate totals, participation in the MaineCare non-categorical adults waiver program has fluctuated significantly from just under 20,000 persons at the beginning of the biennium, dropping to just under 11,000 persons by July 2006 as a result of a freeze imposed on new participation, only to increase back above 20,000 when the program was opened for new enrollment in July of 2006. New enrollment has again been suspended in an attempt to keep the costs of this waiver program within federal budget limitations.

Chart 2. MaineCare FY 07 Weekly Cycles
Through 2/16/07 - Week 33 of 52



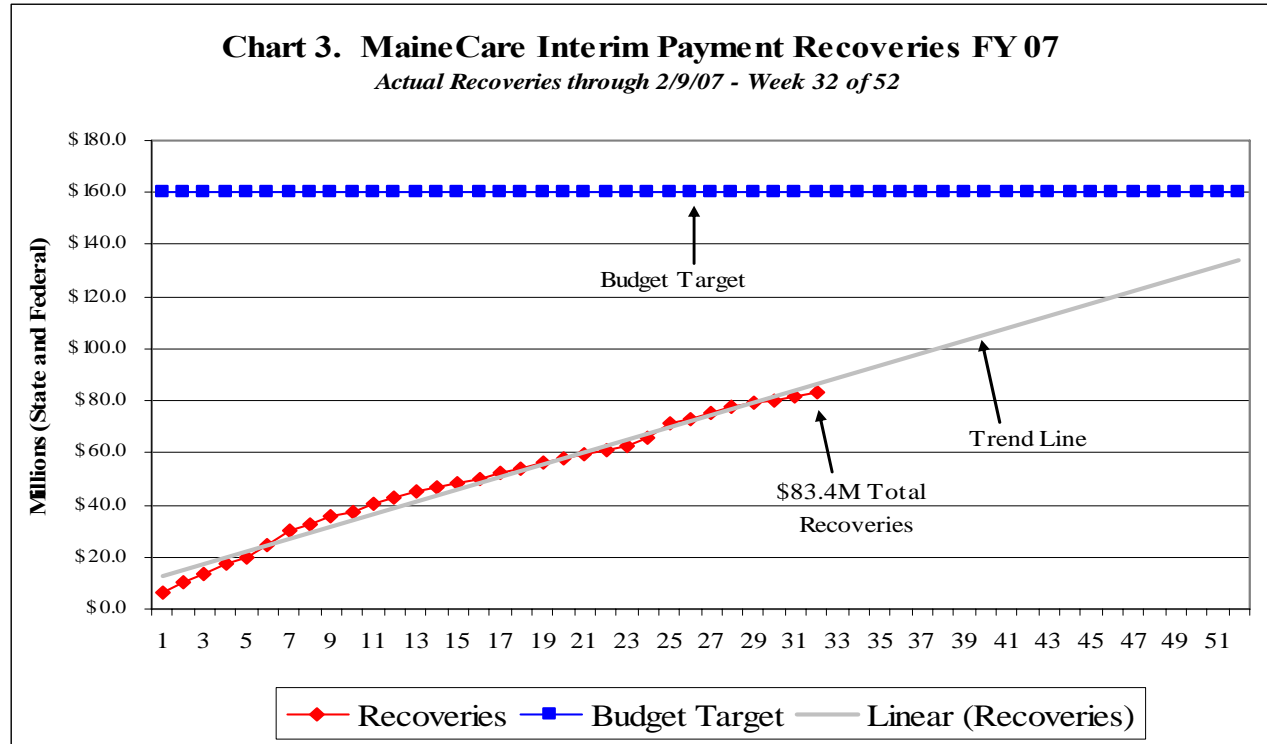


Table 5. MaineCare Caseload

	Traditional Medicaid	SCHIP Children	Medicaid Expansion Parents ≤ 150% FPL	Medicaid Expansion Parents >150% FPL	Non-Categorical Adults ≤ 100% FPL	TOTAL
Jul-05	209,973	14,149	18,339	2,442	19,248	264,151
Aug-05	209,974	14,345	18,319	3,075	18,029	263,742
Sep-05	209,806	14,368	18,447	3,766	16,895	263,282
Oct-05	210,191	14,580	18,587	4,040	15,933	263,331
Nov-05	210,502	14,752	18,607	4,288	15,087	263,236
Dec-05	210,666	14,705	18,453	4,340	13,634	261,798
Jan-06	211,114	14,921	18,669	4,545	12,972	262,221
Feb-06	212,099	14,890	18,671	4,749	12,462	262,871
Mar-06	213,767	14,679	18,500	4,907	11,824	263,677
Apr-06	213,195	14,780	18,749	5,010	11,430	263,164
May-06	213,410	14,724	18,776	5,091	11,058	263,059
Jun-06	213,643	14,779	18,876	5,108	10,795	263,201
Jul-06	212,833	14,808	18,920	5,048	10,872	262,481
Aug-06	212,515	14,814	18,824	5,100	16,123	267,376
Sep-06	212,686	14,769	18,730	5,005	18,091	269,281
Oct-06	212,938	14,873	18,891	5,090	19,249	271,041
Nov-06	212,796	14,825	18,918	5,129	20,249	271,917
Dec-06	213,104	14,825	18,955	5,194	20,910	272,988
Jan-07	213,955	14,936	19,051	5,249	20,356	273,547

Note: Does not include Drugs for Elderly and Disabled (DEL) and Maine Rx program caseloads.

General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2007
Reflecting December 2006 RFC Adjustments AND Enacted Laws Through the 122nd Legislature

JANUARY 2007 REVENUE VARIANCE REPORT

Revenue Line	January '07 Budget	January '07 Actual	January '07 Variance	FY07 YTD Budget	FY07 YTD Actual	FY07 YTD Variance	FY07 YTD Variance %	FY07 Budgeted Totals
General Fund								
Sales and Use Tax	97,688,620	98,428,040.11	739,420.11	531,091,737	532,632,785.75	1,541,048.75	0.3%	974,740,367
Service Provider Tax	4,559,091	3,973,028.83	(586,062.17)	23,857,966	23,872,776.86	14,810.86	0.1%	48,911,765
Individual Income Tax	144,220,000	148,537,510.46	4,317,510.46	694,240,057	700,695,087.37	6,455,030.37	0.9%	1,333,572,271
Corporate Income Tax	8,000,000	6,378,309.12	(1,621,690.88)	97,613,414	79,080,475.60	(18,532,938.40)	-19.0%	199,210,000
Cigarette and Tobacco Tax	11,988,258	11,716,437.30	(271,820.70)	97,597,796	96,340,925.68	(1,256,870.32)	-1.3%	164,502,981
Public Utilities Tax	0	0.00	0.00	0	(116,564.00)	(116,564.00)	N/A	19,695,000
Insurance Companies Tax	7,626	47,717.05	40,091.05	11,497,888	11,583,827.28	85,939.28	0.7%	76,336,389
Estate Tax	3,505,457	3,835,804.25	330,347.25	27,927,299	31,082,350.51	3,155,051.51	11.3%	52,465,498
Property Tax - Unorganized Territory	0	0.00	0.00	10,150,628	10,403,375.00	252,747.00	2.5%	11,597,312
Income from Investments	444,197	(237,792.46)	(681,989.46)	2,660,767	1,614,548.75	(1,046,218.25)	-39.3%	4,565,000
Transfer to Municipal Revenue Sharing	(12,977,856)	(13,123,161.32)	(145,305.32)	(68,686,961)	(68,150,337.41)	536,623.59	0.8%	(130,378,153)
Transfer from Lottery Commission	3,798,827	4,251,426.63	452,599.63	29,440,907	29,901,429.08	460,522.08	1.6%	50,334,250
Other Revenue	15,563,687	16,329,869.15	766,182.15	109,838,975	112,613,270.48	2,774,295.48	2.5%	215,055,030
Totals	276,797,907	280,137,189.12	3,339,282.12	1,567,230,473	1,561,553,950.95	(5,676,522.05)	-0.4%	3,020,607,710
Highway Fund								
Fuel Taxes	18,922,448	17,579,768.97	(1,342,679.03)	116,695,671	115,902,925.01	(792,745.99)	-0.7%	227,484,941
Motor Vehicle Registration and Fees	6,302,712	6,426,538.33	123,826.33	45,940,507	46,098,179.22	157,672.22	0.3%	86,476,317
Inspection Fees	214,587	272,617.78	58,030.78	2,695,339	2,740,108.40	44,769.40	1.7%	4,379,756
Fines	156,888	114,903.55	(41,984.45)	1,156,778	1,013,164.37	(143,613.63)	-12.4%	2,018,239
Income from Investments	50,000	43,955.46	(6,044.54)	506,643	469,611.99	(37,031.01)	-7.3%	795,000
Other Revenue	572,970	339,502.84	(233,467.16)	6,478,076	6,021,032.19	(457,043.81)	-7.1%	9,603,076
Totals	26,219,605	24,777,286.93	(1,442,318.07)	173,473,014	172,245,021.18	(1,227,992.82)	-0.7%	330,757,329

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

REVENUE CATEGORY	FY 2003	% Chg	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg
GENERAL FUND										
Sales and Use Tax	\$462,395,129.13	2.8%	\$497,849,160.48	7.7%	\$494,925,790.31	3.7%	\$513,456,218.41	3.7%	\$532,632,785.75	3.7%
Service Provider Tax	\$0.00	N/A	\$0.00	N/A	\$21,310,682.71	N/A	\$23,022,256.14	8.0%	\$23,872,776.86	3.7%
Individual Income Tax	\$631,219,231.16	2.4%	\$672,490,319.37	6.5%	\$716,573,079.38	6.6%	\$746,293,732.81	4.1%	\$784,297,902.72	5.1%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	\$0.00	N/A	(\$24,497,612.41)	N/A	(\$36,193,933.66)	-47.7%	(\$37,744,640.33)	-4.3%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	(\$54,849,530.76)	N/A	(\$45,858,175.02)	16.4%
Corporate Income Tax	\$40,530,397.80	8.4%	\$49,374,235.20	21.8%	\$67,762,594.88	37.2%	\$94,895,605.08	40.0%	\$79,080,475.60	-16.7%
Cigarette and Tobacco Tax	\$58,488,677.29	0.8%	\$56,793,787.94	-2.9%	\$57,997,230.77	2.1%	\$87,587,650.83	51.0%	\$96,340,925.68	10.0%
Public Utilities Tax	(\$142,411.20)	-367.5%	(\$293,687.83)	-106.2%	(\$150,000.00)	48.9%	\$2,264.39	101.5%	(\$116,564.00)	-5247.7%
Insurance Companies Tax	\$11,686,816.13	31.7%	\$12,883,674.25	10.2%	\$14,940,592.35	16.0%	\$11,890,563.34	-20.4%	\$11,583,827.28	-2.6%
Estate Tax	\$13,970,611.07	119.7%	\$12,096,985.78	-13.4%	\$17,459,599.66	44.3%	\$49,367,403.81	182.8%	\$31,082,350.51	-37.0%
Property Tax - Unorganized Territory	\$9,300,585.00	5.4%	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%
Income from Investments	\$1,606,966.03	-45.2%	\$1,143,062.38	-28.9%	\$2,310,366.90	102.1%	\$3,458,620.13	49.7%	\$1,614,548.75	-53.3%
Revenue Sharing Transfers	(\$57,841,382.65)	-2.8%	(\$62,205,399.48)	-7.5%	(\$65,079,801.26)	-4.6%	(\$65,617,841.75)	-0.8%	(\$68,150,337.41)	-3.9%
Liquor Transfers	\$16,187,386.76	4.2%	\$16,751,853.49	3.5%	\$50,013,788.33	198.6%	\$11,850.00	-100.0%	\$14,971.36	26.3%
Lottery Transfers	\$21,397,720.67	-8.2%	\$24,622,765.73	15.1%	\$29,632,072.93	20.3%	\$28,970,855.82	-2.2%	\$29,901,429.08	3.2%
Other Revenue	\$83,308,812.39	1.1%	\$111,466,718.14	33.8%	\$111,452,586.00	0.0%	\$107,308,351.12	-3.7%	\$112,598,299.12	4.9%
TOTAL GENERAL FUND REVENUE	\$1,292,108,539.58	3.1%	\$1,401,910,567.45	8.5%	\$1,504,289,347.55	7.3%	\$1,519,164,464.71	1.0%	\$1,561,553,950.95	2.8%
HIGHWAY FUND										
Fuel Taxes	\$96,216,085.37	1.9%	\$110,380,787.79	14.7%	\$116,010,600.88	5.1%	\$114,789,282.40	-1.1%	\$115,902,925.01	1.0%
Motor Vehicle Registration and Fees	\$43,150,186.58	-1.2%	\$42,398,300.02	-1.7%	\$44,018,765.86	3.8%	\$46,751,990.29	6.2%	\$46,098,179.22	-1.4%
Inspection Fees	\$2,572,773.01	60.3%	\$2,892,806.18	12.4%	\$2,553,344.89	-11.7%	\$2,673,189.39	4.7%	\$2,740,108.40	2.5%
Fines	\$1,432,131.40	29.0%	\$1,087,593.52	-24.1%	\$1,033,122.89	-5.0%	\$1,056,699.39	2.3%	\$1,013,164.37	-4.1%
Income from Investments	\$762,534.06	-52.6%	\$304,365.58	-60.1%	\$479,271.15	57.5%	\$956,578.43	99.6%	\$469,611.99	-50.9%
Other Revenue	\$5,697,111.03	80.4%	\$5,852,885.70	2.7%	\$5,751,709.87	-1.7%	\$6,378,015.68	10.9%	\$6,021,032.19	-5.6%
TOTAL HIGHWAY FUND REVENUE	\$149,830,821.45	2.9%	\$162,916,738.79	8.7%	\$169,846,815.54	4.3%	\$172,605,755.58	1.6%	\$172,245,021.18	-0.2%

Adjusted for Service Provider Tax Split