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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

After performing much better than budget during the closing months of FY 2011, General Fund revenue performance in July was disappointing, falling below budget by \$17.2 million. Most of this shortfall was tied to individual income tax withholding. The variance in the withholding payments remains largely unexplained at this point. Preliminary data for August revenue shows an improvement in revenue performance.

Highway Fund revenue also opened FY 2012 with a negative variance. Some of this variance is related to processing delays resulting from staffing issues in the Bureau of Motor Vehicles. It is expected to be offset in a few months.

The Revenue Forecasting Committee and the Consensus Economic Forecasting Commission met to discuss forecasting process improvements and to get some data updates, but not to revise either the revenue or economic forecasts. Those updates will occur in the late fall. Some of the employment data suggest that the current economic forecast may be too optimistic in its projections of employment growth.

The average MaineCare weekly cycle payment through Week 7 (August 19th) of FY 2012 is \$43.5 million, significantly above last year's weekly average of \$40.4 million. The increase in the average weekly cycle reflects increased cycle payments over the last two weeks – the average for the first five weeks of FY 2012 had been below the FY 11 weekly average. While some of the recent increase in payments is the result of one-time monthly payments, it is too early to determine if the average through Week 7 represents a new higher trend or if it will converge back down to last year's experience. Recent caseload data has been inconsistent with previous historical data because the Department of Health and Human Services (DHHS) began using a new data source for tracking caseload. DHHS has been working to reconcile its caseload data sources.

General Fund Revenue Update

Total General Fund Revenue - FY 2012 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
July	\$224.4	\$207.2	(\$17.2)	-7.6%	\$216.7	-4.4%
FYTD	\$224.4	\$207.2	(\$17.2)	-7.6%	\$216.7	-4.4%

General Fund revenue was under budget by \$17.2 million (7.6%) for the first month of FY 2012. This performance represented a decline of 4.4% compared with July 2010. A single month's variance is not a good indicator of a change in trend. Preliminary data for August indicate that some of this negative variance will be offset, but September revenue will be a key indicator for the major tax lines and General Fund revenue.



General Fund Revenue Update (continued)

July's shortfall was caused primarily by a \$15.8 million variance in individual income tax withholding receipts. Some of this is a timing issue as August's withholding payments rebounded above budget by roughly \$3 million, but much of this variance is unexplained at this point and is a concern.

July sales tax collections achieved, and August collections appear to have achieved, the higher growth assumptions that were projected to increase more than 3.5% beginning in FY 2012. The average growth for taxable sales in this calendar year has been only 2.3%. Therefore, it seems unlikely that this level of growth can be sustained throughout the course of FY 2012. July's stretch of wonderful summer weather was probably the major factor in achieving the higher growth in August sales tax revenue.

Corporate Income Tax was under budget in July, but July is such a relatively small collection month that this is not a cause for concern, particularly as August's performance for final payments will produce

a nearly \$4 million positive variance for the month. Nationally, forecasts for 2011 corporate profits are significantly higher than the projections used for the current forecast, which suggests that this category will do substantially better than the current projections over the course of FY 2012, particularly in September, which is an estimated payment month.

\$1.3 million of July's negative variance was from revenue sharing transfers that were based on strong income and sales tax collections in June 2011. This lag effect will produce a positive variance in this category for August revenue of \$0.7 million.

There are some problem areas that merit close scrutiny over the next few months, including fine revenue, cigarette and tobacco tax revenue and lottery revenue. Inland Fisheries and Wildlife revenue was on budget for July, but it still deserves of special attention after ending FY 2011 with a negative variance of \$1.3 million.

Highway Fund Revenue Update

Total Highway Fund Revenue - FY 2012 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
July	\$27.6	\$26.8	(\$0.8)	-2.9%	\$27.8	-3.9%
FYTD	\$27.6	\$26.8	(\$0.8)	-2.9%	\$27.8	-3.9%

Highway Fund revenue was under budget by \$0.8 million (2.9%) for the first month of FY 2012 and declined by 3.9% compared with July 2010. It is too early to gauge whether July's performance represents a negative trend that will require a downward adjustment to the revenue forecast. Most of the substantial variances appear to be only temporary shortfalls.

Fuel tax collections were only modestly under budget in July and have been fluctuating up and down relative to budget each month, because receipts are due late in the month. It is difficult to project how

Much should be split between each month. July's negative variance was primarily due to Special Fuel Taxes, which have rebounded strongly in August, more than erasing July's negative variance.

Much of the remaining negative variance in July resulted from a variance in revenue from motor vehicle registration fees receipts. This variance represents a delay in the processing of receipts from municipalities this summer due to staffing issues at the Bureau of Motor Vehicles. While this variance is likely to continue through August, it is expected to be reversed in the fall as these staffing issues are addressed.



Cash Update

The average total cash pool balance for July was \$576.1 million, \$90.1 million higher than one year ago. General Fund internal cash flow borrowing was \$115.6 million less than a year ago, reflecting some significant improvement in General Fund reserve balances. Some decline in the status of General Fund cash balances is expected over the course of FY 2012 as a result of an interfund advance of \$43 million in FY 2012 to be repaid in FY 2013.

Despite the negative effect of the interfund cash advance, the State appears to have a strong enough cash position to avoid external borrowing in FY 2012, assuming no significant revenue or expenditure variances. The last time the State issued a Tax Anticipation Note or borrowed externally for cash flow purposes was in FY 2006.

Summary of Treasurer's Cash Pool

July Average Daily Balances		
Millions of \$'s		
	2010	2011
General Fund (GF) Total	\$21.1	\$39.9
General Fund (GF) Detail:		
Budget Stabilization Fund	\$16.5	\$53.6
Reserve for Operating Capital	\$6.2	\$14.4
Tax Anticipation Notes	\$0.0	\$0.0
Internal Borrowing	\$180.6	\$65.0
Other General Fund Cash	(\$182.2)	(\$93.2)
Other Spec. Rev. - Interest to GF	\$20.0	\$102.6
Other State Funds - Interest to GF	\$7.7	\$20.4
Highway Fund	\$58.0	\$47.0
Other Spec. Rev. - Retaining Interest	\$60.4	\$48.9
Other State Funds	\$210.4	\$205.4
Independent Agency Funds	\$108.3	\$111.9
Total Cash Pool	\$486.0	\$576.1

Economic and Revenue Forecasting Update

On August 19th, the Consensus Economic Forecasting Commission (CEFC) and the Revenue Forecasting Committee (RFC) met in a joint retreat to discuss and evaluate the economic and revenue forecasting processes. These annual joint retreats are not intended to update either the economic or revenue forecasts, although the group did receive some updated revenue and employment data.

Before delving into the revenue and employment updates, the CEFC needed to fill a vacancy on the commission caused by a recent resignation. The vacant seat happened to be the one that is appointed by the other 4 members of the CEFC. After considering several candidates, the CEFC nominated and selected former State Economist, Michael LeVert, who now is an economist for Hannaford/Delhaize America. The other members and information about the CEFC is available at http://www.maine.gov/legis/ofpr/revenue_forecasting_committee/consensus_economic_forecast/index.htm.

Michael Allen of Maine Revenue Services provided a revenue update for the major tax lines (see General Fund Revenue Update) and Glen Mills of the Department of Labor provided an update of employment data and trends. Mr. Mills noted that

while the unemployment rate was reported as declining in the last 2 months, this statistic is misleading may be misleading, because many Mainers are leaving the work force, discouraged by lack of employment opportunities. He noted that the household survey indicated that total employment declined had declined by 6,000 jobs from April to July. Another payroll survey measure indicated that the number of jobs has been relatively flat. Looking at the more recent data and comparing that to the current CEFC forecast for employment, it is very unlikely that employment will achieve the forecasted growth.

With a full turnover of its membership in 2011, the CEFC decided to explore other data sources for the Maine economy and invited to RFC members to an information-gathering session on September 29th in the Appropriations Committee Room, Room 228 of the State House. The CEFC is inviting various industries and industry groups to discuss what data might be available to help inform and improve the economic forecast. The CEFC has made it clear that it is not seeking policy recommendations about what should be, instead it wants to know trends based on what is.

The CEFC will schedule 2 meetings during the last week of October to finalize an update to the economic



Economic and Revenue Forecasting Update (continued)

economic forecast in time for the November 1st statutory reporting date. The RFC is scheduled to conclude its revenue revisions and issue a report by its December 1st statutory reporting date.

The CEFC and the RFC also reviewed a recommendation of the former CEFC members that the Governor and the Legislature repeal a provision in the Pine Tree Development Zone Act, a program designed to encourage new business investment

with multiple tax benefits. The targeted provision effectively requires an alternative forecast by the CEFC to project the Maine economy backing out the effects of the Pine Tree Development Zone activity. The CEFC has been unable to comply with this provision, which has been in the statutes for 3 years but has yet to be implemented. The current CEFC affirmed that recommendation.

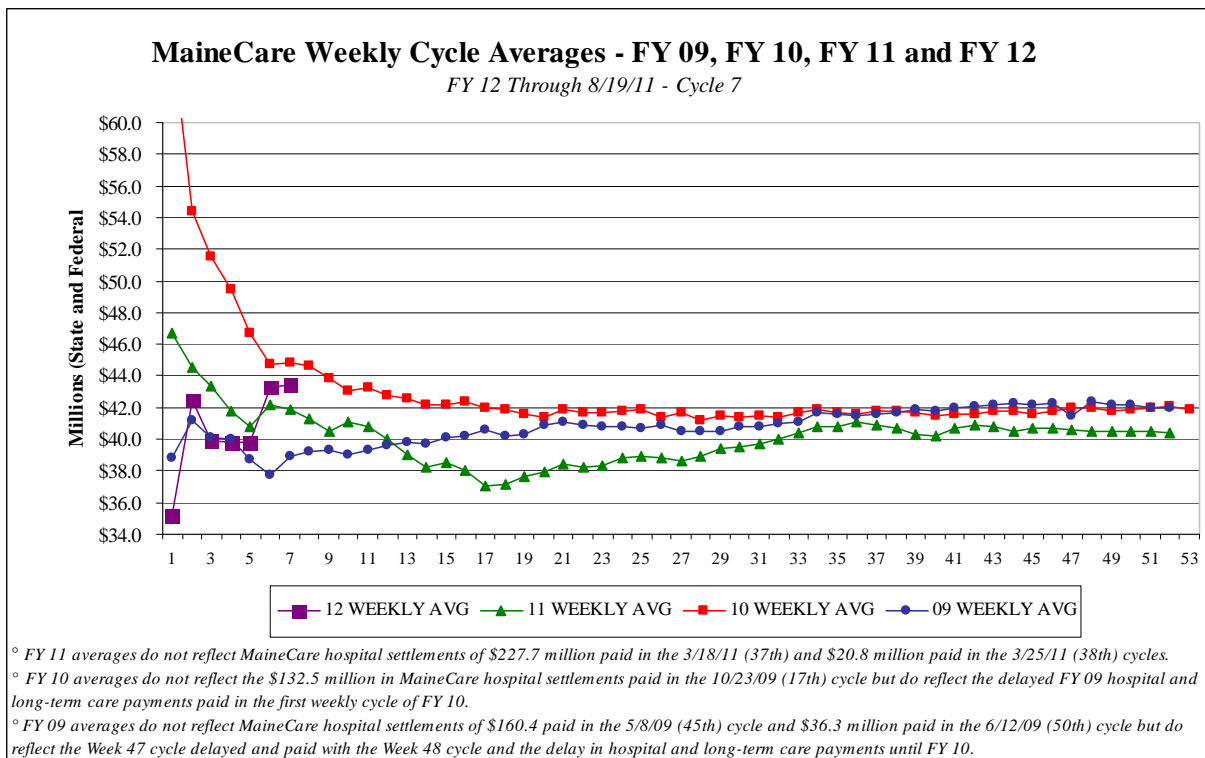
MaineCare Update

The average weekly MaineCare cycle for FY 2012 through Week 7 was \$43.5 million (state and federal dollars), a significant increase over the comparable MaineCare weekly cycle averages for FY 2011 of \$40.4 million and for FY 2010 and FY 2009 of \$42.0 million each year. This increase in the average weekly cycle reflects increased cycle payments over the last two weeks - \$60.3 million for Week 6 and \$45.1 million for week 7. The average for the first five weeks of FY 2012 had been below the FY 2011 weekly average. While it is known that some part of the Week 6 increase is the result of one-time monthly payments to providers, it is too early to determine if the average through Week 7 represents a new higher trend or if the weekly cycles will return to last year's experience. The chart below

summarizes average weekly MaineCare cycle payments for FY 2012 as well as comparable payment cycle averages for FYs 2009 through 2011.

MaineCare Caseload

In the July 2011 *Fiscal News* it was noted that beginning with its June 2011 MaineCare Caseload report, the Department of Health and Human Services (DHHS) had switched the source for its MaineCare caseload data from the old "WELFRE" system to the new Maine Integrated Health Management Solution (MIHMS) claims processing system. This switch resulted in data anomalies in the June report that DHHS is working to analyze and explain. As a further consequence, a July 2011 MaineCare caseload report is not yet available.



General Fund Revenue
Fiscal Year Ending June 30, 2012 (FY 2012)
July 2011 Revenue Variance Report

Revenue Category				Fiscal Year-To-Date					FY 2012 Budgeted Totals
	July '11 Budget	July '11 Actual	July '11 Variance	Budget	Actual	Variance	Variance %	% Change from Prior Year	
Sales and Use Tax	91,959,420	93,011,342	1,051,922	91,959,420	93,011,342	1,051,922	1.1%	4.7%	955,812,221
Service Provider Tax	4,975,449	4,313,717	(661,732)	4,975,449	4,313,717	(661,732)	-13.3%	-10.2%	56,877,680
Individual Income Tax	101,866,988	88,705,638	(13,161,350)	101,866,988	88,705,638	(13,161,350)	-12.9%	-9.5%	1,445,821,209
Corporate Income Tax	9,153,534	8,582,079	(571,455)	9,153,534	8,582,079	(571,455)	-6.2%	-6.2%	180,396,827
Cigarette and Tobacco Tax	13,875,029	12,977,570	(897,459)	13,875,029	12,977,570	(897,459)	-6.5%	-0.3%	143,623,350
Insurance Companies Tax	827,090	1,687,988	860,898	827,090	1,687,988	860,898	104.1%	296.1%	76,215,000
Estate Tax	2,716,075	2,540,479	(175,596)	2,716,075	2,540,479	(175,596)	-6.5%	-5.5%	35,810,855
Other Taxes and Fees *	9,008,925	8,305,301	(703,624)	9,008,925	8,305,301	(703,624)	-7.8%	-19.4%	135,094,104
Fines, Forfeits and Penalties	2,547,744	1,693,512	(854,232)	2,547,744	1,693,512	(854,232)	-33.5%	-36.1%	28,399,692
Income from Investments	0	2	2	0	2	2	N/A	-64.2%	257,766
Transfer from Lottery Commission	4,783,038	4,441,246	(341,792)	4,783,038	4,441,246	(341,792)	-7.1%	-6.5%	50,700,000
Transfers to Tax Relief Programs *	(235,929)	(681,923)	(445,994)	(235,929)	(681,923)	(445,994)	-189.0%	-219.7%	(112,068,263)
Transfers for Municipal Revenue Sharing	(12,671,151)	(14,024,436)	(1,353,285)	(12,671,151)	(14,024,436)	(1,353,285)	-10.7%	-7.3%	(94,003,511)
Other Revenue *	(4,430,108)	(4,328,410)	101,698	(4,430,108)	(4,328,410)	101,698	2.3%	7.3%	42,691,921
Totals	224,376,104	207,224,103	(17,152,001)	224,376,104	207,224,103	(17,152,001)	-7.6%	-4.4%	2,945,628,851

* Additional detail by subcategory for these categories is presented on the following page.

General Fund Revenue
Fiscal Year Ending June 30, 2012 (FY 2012)

July 2011 Revenue Variance Report

Revenue Category				Fiscal Year-To-Date					FY 2012 Budgeted Totals
	July '11 Budget	July '11 Actual	July '11 Variance	Budget	Actual	Variance	Variance %	% Change from Prior Year	
Detail of Other Taxes and Fees:									
- Property Tax - Unorganized Territory	0	0	0	0	0	0	N/A	N/A	13,536,928
- Real Estate Transfer Tax	939,616	853,489	(86,127)	939,616	853,489	(86,127)	-9.2%	-55.7%	9,767,309
- Liquor Taxes and Fees	2,052,582	2,035,447	(17,135)	2,052,582	2,035,447	(17,135)	-0.8%	-3.4%	20,467,530
- Corporation Fees and Licenses	294,015	259,991	(34,024)	294,015	259,991	(34,024)	-11.6%	-8.1%	7,697,099
- Telecommunication Personal Prop. Tax	0	71,690	71,690	0	71,690	71,690	N/A	N/A	14,641,734
- Finance Industry Fees	1,904,581	1,520,300	(384,281)	1,904,581	1,520,300	(384,281)	-20.2%	-13.8%	23,265,980
- Milk Handling Fee	93,877	94,605	728	93,877	94,605	728	0.8%	-84.9%	1,126,529
- Racino Revenue	1,000,212	823,284	(176,928)	1,000,212	823,284	(176,928)	-17.7%	-13.9%	10,849,437
- Boat, ATV and Snowmobile Fees	640,494	553,087	(87,407)	640,494	553,087	(87,407)	-13.6%	-13.6%	4,500,295
- Hunting and Fishing License Fees	1,531,938	1,630,058	98,120	1,531,938	1,630,058	98,120	6.4%	7.0%	17,332,248
- Other Miscellaneous Taxes and Fees	551,610	463,350	(88,260)	551,610	463,350	(88,260)	-16.0%	-2.3%	11,909,015
Subtotal - Other Taxes and Fees	9,008,925	8,305,301	(703,624)	9,008,925	8,305,301	(703,624)	-7.8%	-19.4%	135,094,104
Detail of Other Revenue:									
- Liquor Sales and Operations	2,027	1,800	(227)	2,027	1,800	(227)	-11.2%	-14.3%	7,669,727
- Targeted Case Management (DHHS)	116,666	690,346	573,680	116,666	690,346	573,680	491.7%	-22.4%	5,225,200
- State Cost Allocation Program	1,345,467	1,108,099	(237,368)	1,345,467	1,108,099	(237,368)	-17.6%	-6.5%	16,467,934
- Unclaimed Property Transfer	0	0	0	0	0	0	N/A	N/A	2,333,420
- Toursim Transfer	(5,876,495)	(5,876,495)	0	(5,876,495)	(5,876,495)	0	0.0%	-5.9%	(9,305,250)
- Transfer to Maine Milk Pool	(219,919)	0	219,919	(219,919)	0	219,919	100.0%	100.0%	(1,108,312)
- Transfer to STAR Transportation Fund	(2,072,166)	(2,072,166)	0	(2,072,166)	(2,072,166)	0	0.0%	-0.3%	(3,115,000)
- Other Miscellaneous Revenue	2,274,312	1,820,006	(454,306)	2,274,312	1,820,006	(454,306)	-20.0%	-3.1%	24,524,202
Subtotal - Other Revenue	(4,430,108)	(4,328,410)	101,698	(4,430,108)	(4,328,410)	101,698	2.3%	7.3%	42,691,921
Detail of Transfers to Tax Relief Programs:									
- Me. Resident Prop. Tax Program (Circuitbreaker)	(235,929)	(681,923)	(445,994)	(235,929)	(681,923)	(445,994)	-189.0%	-183.9%	(41,083,286)
- BETR - Business Equipment Tax Reimb.	0	0	0	0	0	0	N/A	-100.0%	(51,552,995)
- BETE - Municipal Bus. Equip. Tax Reimb.	0	0	0	0	0	0	N/A	N/A	(19,431,982)
Subtotal - Tax Relief Transfers	(235,929)	(681,923)	(445,994)	(235,929)	(681,923)	(445,994)	-189.0%	-219.7%	(112,068,263)
Inland Fisheries and Wildlife Revenue - Total	2,258,122	2,261,537	3,415	2,258,122	2,261,537	3,415	0.2%	-0.2%	22,820,946

Highway Fund Revenue
Fiscal Year Ending June 30, 2012 (FY 2012)
July 2011 Revenue Variance Report

Revenue Category				Fiscal Year-To-Date					FY 2012 Budgeted Totals
	July '11 Budget	July '11 Actual	July '11 Variance	Budget	Actual	Variance	% Variance	% Change from Prior Year	
Fuel Taxes:									
- Gasoline Tax	15,691,979	16,581,576	889,597	15,691,979	16,581,576	889,597	5.4%	-0.3%	198,610,000
- Special Fuel and Road Use Taxes	4,571,284	3,445,718	(1,125,567)	4,571,284	3,445,718	(1,125,567)	-32.7%	-13.2%	44,360,000
- Transcap Transfers - Fuel Taxes	(1,482,814)	(1,475,130)	7,684	(1,482,814)	(1,475,130)	7,684	0.5%	2.1%	(17,842,752)
- Other Fund Gasoline Tax Distributions	(492,409)	(518,649)	(26,240)	(492,409)	(518,649)	(26,240)	-5.1%	-0.5%	(5,066,641)
Subtotal - Fuel Taxes	18,288,040	18,033,515	(254,525)	18,288,040	18,033,515	(254,525)	-1.4%	-2.9%	220,060,607
Motor Vehicle Registration and Fees:									
- Motor Vehicle Registration Fees	6,041,013	5,559,446	(481,567)	6,041,013	5,559,446	(481,567)	-8.7%	-8.6%	64,805,936
- License Plate Fees	278,465	320,718	42,253	278,465	320,718	42,253	13.2%	0.9%	3,345,309
- Long-term Trailer Registration Fees	409,485	474,988	65,503	409,485	474,988	65,503	13.8%	9.3%	8,884,523
- Title Fees	941,666	891,595	(50,071)	941,666	891,595	(50,071)	-5.6%	-4.6%	11,044,291
- Motor Vehicle Operator License Fees	736,011	618,578	(117,433)	736,011	618,578	(117,433)	-19.0%	26.1%	9,124,826
- Transcap Transfers - Motor Vehicle Fees	0	0	0	0	0	0	N/A	N/A	(14,883,030)
Subtotal - Motor Vehicle Reg. & Fees	8,406,640	7,865,325	(541,315)	8,406,640	7,865,325	(541,315)	-6.9%	-4.8%	82,321,855
Motor Vehicle Inspection Fees	240,200	238,464	(1,736)	240,200	238,464	(1,736)	-0.7%	-26.7%	2,982,500
Other Highway Fund Taxes and Fees	125,934	111,432	(14,502)	125,934	111,432	(14,502)	-13.0%	-25.9%	1,313,165
Fines, Forfeits and Penalties	108,841	98,118	(10,723)	108,841	98,118	(10,723)	-10.9%	-23.2%	1,205,049
Interest Earnings	0	0	0	0	0	0	N/A	N/A	32,446
Other Highway Fund Revenue	385,410	405,375	19,965	385,410	405,375	19,965	4.9%	0.3%	8,449,178
Totals	27,555,065	26,752,230	(802,835)	27,555,065	26,752,230	(802,835)	-3.0%	-3.9%	316,364,800