



FISCAL NEWS

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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 suffered a setback in August as individual income tax withholding fell significantly below projections. Fortunately, July’s strong performance was enough to keep General Fund revenue in positive territory for the fiscal year through August. Both the Individual and Corporate Income Tax categories were under budget in August after strong performances in FY 2014. Preliminary data for September show income taxes coming back at or above budget for the month. Sales tax receipts were modestly over budget in July after 3 months of failing to meet budgeted growth, but fell slightly below budget in August. Preliminary data for September Sales and Use Tax receipts show the category may get close to budget for the month.

Highway Fund revenue was under budget in August, but remained over budget for the fiscal year. The Fuel Taxes category was under budget by just under \$1.0 million, largely due to the normal volatility of special fuel tax collections. For the fiscal year, the Fuel Taxes category maintained a sizeable positive variance. Long-term Trailer Registration Fees revenue was over budget again in August. Positive variances in July and August were the result of a major expansion of the fleet of one of the companies participating in Maine’s long-term trailer registration program.

The Fund for a Healthy Maine closed FY 2014 with \$7.1 million surplus. While this surplus increased the balance forward that becomes a budgeted resource in FY 2015, the \$14.5 million budgeted ending balance for FY 2015 is overstated by \$5.6 million that was budgeted in FY 2015 but received in FY 2014. The next revenue forecast later this fall will make adjustments for this and lower the budgeted ending balance accordingly.

Total average balance in the cash pool for August was substantially higher than the last two fiscal years, but General Fund internal borrowing was only slightly below August of 2012, a year that also involved the repayment of budget balancing borrowing. The health of the total cash pool seems strong enough that cash flow needs may be handled internally once again this fiscal year, absent any fiscal surprises.

While MaineCare spending through the first quarter has been consistent with last year’s spending, MaineCare and Related General Fund spending will need to be reduced by 2.4% below FY 2014 spending levels in order to stay within budgeted appropriations for FY 2015. Whether this can be achieved will depend on the Department of Health and Human Services realizing the savings initiatives enacted for the 2014-2015 biennium that were only partially achieved in FY 2014. The nearly \$10 million MaineCare General Fund balance carried forward from FY 2014 will help the effort to stay within budgeted resources.

**General Fund Revenue Update****Total General Fund Revenue - FY 2015 (\$'s in Millions)**

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
August	\$84.0	\$80.5	(\$3.5)	-4.1%	\$85.0	-5.2%
FYTD	\$328.7	\$333.2	\$4.5	1.4%	\$303.2	9.9%

General Fund revenue was under budget by \$3.5 million in August, but remained over budget for the fiscal year by \$4.5 million (1.4%). As a reminder, August revenue was reduced by \$187.5 million to offset amounts that were accrued and recorded as revenue in June of FY 2014. This is the last fiscal year that the year-end accrual will distort monthly revenue so significantly. Beginning in FY 2016, the reduction to the accrual will be offset in June at the same time as the accruals for the next fiscal year.

Individual Income Tax revenue, which had been generating most of the recent positive revenue variances, was under budget by \$3.2 million in August. Withholding receipts in August were \$11.9 million below projections. Some of this may be related to the offset of the revenue accrual and some of it may be a timing issue. The performance over the next month or two will help determine whether some portion of this shortfall is structural and will lead to a downward revision in the fall revenue forecast. Positive variances from refund activity and final payments have been sufficient to offset the withholding shortfall and maintain a positive variance for the Individual Income Tax category for the first two months of FY 2015. Preliminary data for September withholding payments show that they will be close to budget for the month and not offset August's shortfall so that withholding will be under budget for the first quarter of FY 2015.

Corporate Income Tax collections, which had also been contributing to the positive General Fund revenue variance in FY 2014, fell below budget in August by \$0.8 million, but remained above budget for the fiscal year through August by \$0.2 million. Estimated and final payments have declined and

fallen below projections. Preliminary September data show a substantial rebound in both estimated and final payments. Lower than projected refunds have produced positive variances that offset the shortfalls in estimated and final payments through August, but some substantial refund requests remain that are pending review by Maine Revenue Services.

Sales and Use Tax collections fell below budget in August after being slightly above budget in July. For the first two months of FY 2015, this category was below budget by \$0.6 million (0.5%). June taxable sales (July revenue) were likely helped by deferred spring purchases. July taxable sales (August revenue) showed continued strong growth in the building supply sector and may also be from the effects of a very late spring this year. A significant decline in taxable purchases by businesses in July was the major factor that stunted growth of overall taxable sales and the negative variance for the Sales and Use Tax category in August.

Through August, Transfers for Municipal Revenue Sharing were higher than budgeted by \$1.1 million, a negative General Fund revenue variance. As noted in last month's Fiscal News, July's transfer included an additional reduction because the repeal of the additional \$40 million reduction to Municipal Revenue Sharing was not effective until August 1, 2014. The remaining eleven months will be adjusted upward to offset the additional July reduction. September's distribution to municipalities is typically low due to the significant effect of the revenue accrual offset in August for the major tax lines. This September will be the last year that Municipal Revenue Sharing will be affected by the accrual.

Highway Fund Revenue Update**Total Highway Fund Revenue - FY 2015 (\$'s in Millions)**

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
August	\$8.6	\$8.2	(\$0.5)	-5.3%	\$8.4	-2.4%
FYTD	\$36.7	\$38.4	\$1.6	4.4%	\$36.9	4.1%

Highway Fund revenue was under budget by \$0.5 million (5.3%) in August, but remain over budget for the fiscal year by \$1.6 million. Roughly \$21 million was accrued at year-end in FY 2014 in Gasoline Tax and Special Fuel and Road Use Taxes revenue, which

was offset in August and reduced revenue in the Fuel Taxes category. Consistent with the change for the accrual offset for the General Fund beginning in FY 2016, this will be the last year that the accrual causes such a distortion of monthly Highway Fund revenue.



Highway Fund Revenue Update (Continued)

The Fuel Taxes category was under budget by just under \$1.0 million, largely because of special fuel tax collections. As noted many times in the past, monthly volatility is common for special fuel collections as they are due at the very end of the month. For the fiscal year through August, the Fuel Taxes category maintained a sizeable positive variance.

Long-term Trailer Registration Fees revenue was over budget again in August. Most of the positive variances

in July and August were the result of major expansions of the fleets of two of the companies that participate in Maine’s long-term trailer registration program. As a result, this category was over budget by \$0.9 million (153.1%) for the first two months of FY 2015. Whether all or some of the variance from these two fleet expansions will increase the revenue forecast will depend on the actions of these companies when renewals are due in January.

Fund for a Healthy Maine Update

The Fund for a Healthy Maine closed FY 2014 with an actual ending balance of \$7.3 million. This \$7.1 million increase above the final budgeted balance of \$0.2 million was generated by a \$4.6 million positive revenue variance, \$1.7 million of lapsed balances and \$0.7 million of prior period recoveries and other accounting adjustments.

Although the budgeted ending balance for FY 2015 currently reflects \$14.5 million as “available,” that FY 2015 amount still assumes the receipt of \$5.6 million that was already received in FY 2014 from the release of 2003 disputed payments. The next revenue forecast

later this fall will need to adjust for this and lower the budgeted ending balance accordingly.

In addition to the \$5.6 million reduction related to the timing of the receipt of the disputed funds, it appears that there was a negative variance in the estimates for the on-going tobacco settlement payments. The amount of the negative variance in the on-going revenue is difficult to determine at this time because of the inconsistency of reporting on the actual amount of the disputed payments that Maine received. The Revenue Forecasting Committee will try to sort that out prior to the conclusion of the fall revenue forecast.

Cash Update

The average total cash pool balance for August was \$568.8 million. This average balance was \$92.7 million higher than last August and \$6.1 million above the 10-year average balance for August, but was \$15.4 million less than July.

Average General Fund internal borrowing in August increased by \$37.8 million from July and is \$18.0 million higher than August 2013. However, a better historical comparison is August 2012, which had a similar budget balancing interfund borrowing repayment at the beginning of the fiscal year. August 2014 is roughly \$4 million less than August 2012. Given the improvement in the total average cash pool over the previous two years, the circumstances seem favorable for another year in which cash flow needs are handled internally and no external borrowing is required.

Highway Fund cash balances improved in August compared with July and are modestly above the averages in August of 2012 and 2013. The trend over the next 3 months will be critical to how well the Highway Fund can survive the early December payment for the Local Road Assistance program. Last

fiscal year in December, the first year of the change over to a single annual payment for this program, the Highway Fund balance dipped very close to \$0 and it took nearly one quarter before balances recovered to the levels of previous years.

Summary of Treasurer's Cash Pool		
August Average Daily Balances		
	Millions of \$'s	
	2013	2014
General Fund (GF) Total	\$32.8	\$34.9
General Fund (GF) Detail:		
Budget Stabilization Fund	\$59.7	\$68.3
Reserve for Operating Capital	\$2.6	\$4.9
Tax Anticipation Notes	\$0.0	\$0.0
Internal Borrowing	\$148.0	\$166.0
Other General Fund Cash	(\$177.5)	(\$204.3)
Other Spec. Rev. - Interest to GF	\$38.9	\$46.7
Other State Funds - Interest to GF	\$17.8	\$23.4
Highway Fund	\$29.3	\$31.2
Other Spec. Rev. - Retaining Interest	\$66.9	\$83.3
Other State Funds	\$192.4	\$253.8
Independent Agency Funds	\$97.9	\$95.4
Total Cash Pool	\$476.1	\$568.8



Cash Update (Continued)



MaineCare Update

MaineCare Spending

The average weekly MaineCare cycle for FY 2015 through Week 11 was \$45.9 million (state and federal dollars), slightly above the MaineCare weekly cycle average for FY 2014 through 11 weeks of \$45.5 million but a decrease from the annual average for all of FY 2014 of \$46.5 million. MaineCare Chart 1 below summarizes average weekly MaineCare cycle payments for FY 2015 as well as comparable payment cycle averages for FY 2013 and FY 2014. MaineCare Chart 2 summarizes the actual cycles each week for FY 2015 and for FY 2013 and FY 2014.

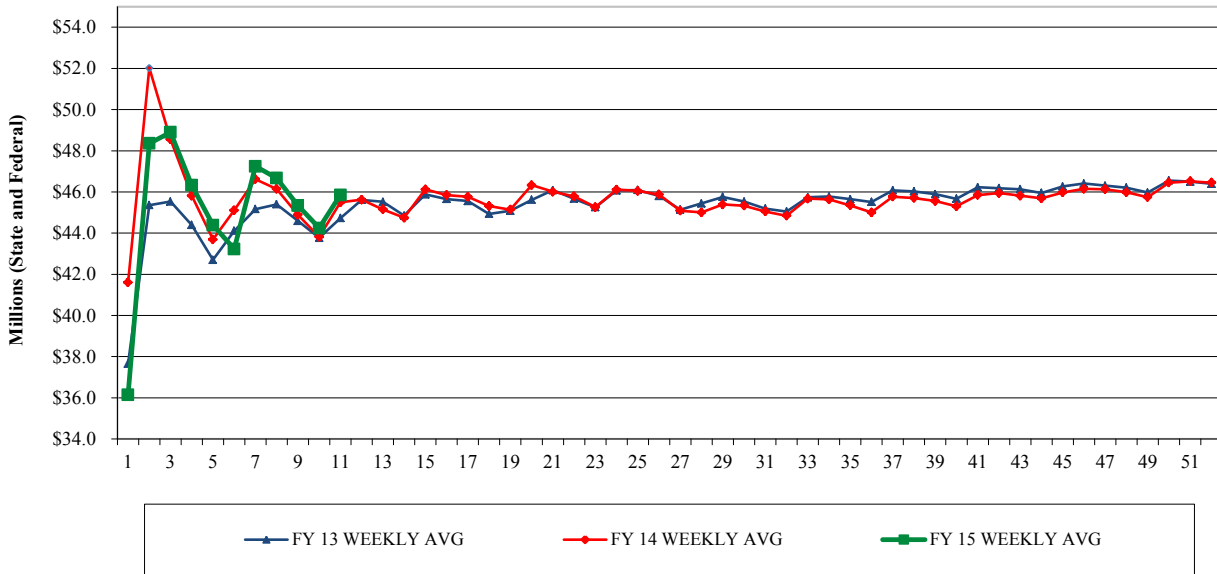
While MaineCare cycles to date have been consistent with last year's cycles through eleven weeks, MaineCare

and Related General Fund spending will need to be reduced by 2.4% below FY 2014 spending levels in order to stay within budgeted appropriations for FY 2015. Whether this can be achieved will depend on the Department of Health and Human Services (DHHS) fully realizing savings for budget initiatives enacted for the 2014-2015 biennium that were only partially achieved in FY 2014. The planned usage of MaineCare carrying balances from FY 2014 to offset the increase in nursing home rates that took effect in early August will also help to achieve the budget target.



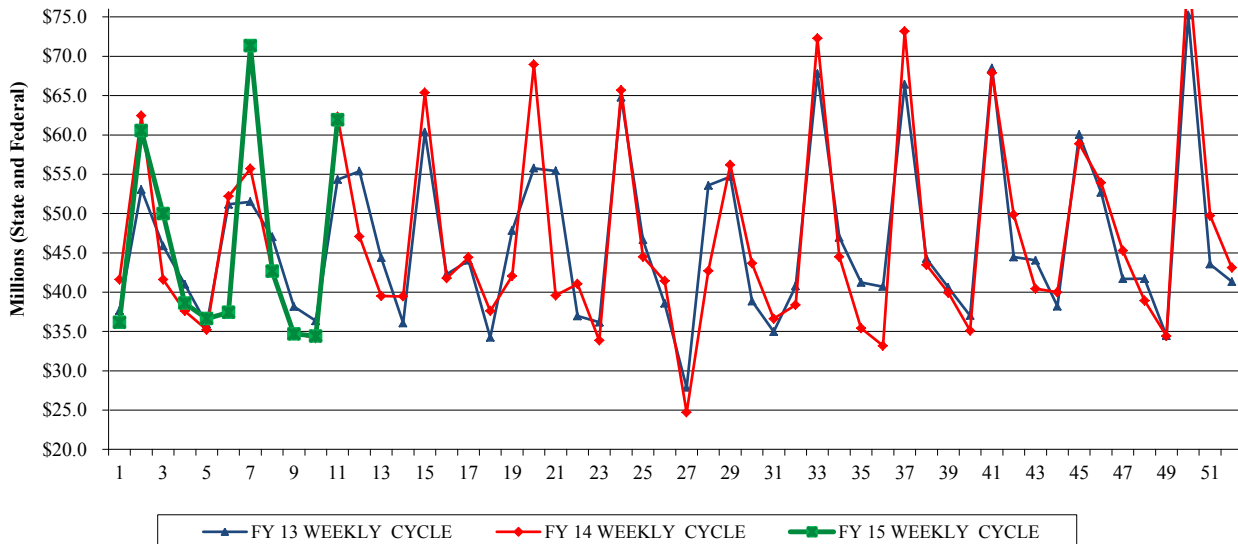
MaineCare Update (Continued)

MaineCare Weekly Cycle Averages - FY 13, FY 14 and FY 15 FY 15 Through 9/13/14 - Week 11



° FY 14 averages do not reflect MaineCare hospital settlements of \$490.2 million paid in the 9/21/13 (12th) cycle but do include \$9.3 million to reimburse in-State hospitals for crossover claims incurred between late March and June 2011 paid in the 6/11/14 (50th) cycle. FY 13 averages do not reflect MaineCare hospital settlements of \$26.3 million paid in the 9/29/12 (13th) cycle.

MaineCare Weekly Cycles - FY 13, FY 14 and FY 15 FY 15 Through 9/13/14 - Week 11



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**MaineCare Update (Continued)****MaineCare Expenditure Detail through Two Months**

MaineCare Table 1 uses expenditure data from the State's financial warehouse (MFASIS) through August of 2014 to compare MaineCare expenditures by expenditure category for the first two months for the last three fiscal years. Total MaineCare "All Funds" spending through two months remained essentially unchanged from FY 2014 to FY 2015. As detailed in MaineCare Table 1, FY 2015 spending through two months increased significantly in the residential care (nursing home payments), home and community-based care waivers, medical professionals, mental health services, certified seed and transportation services expenditure categories; and decreased in the Medicare crossover payments, hospital and pharmacy and related services expenditure categories.

FY 2015 MaineCare "All Funds" spending through August was also offset by significant increases in the "16 Other Adjustments" category that reflects financial transactions (e.g., third party liability collections, audit settlements, etc.) that are not assigned to another expenditure category, and by a reduction in the "15 Accounting Adjustments" category that includes bad-debt write-offs. Spending for the first two months of FY 2015 without these offsets increased by 4.4% over last year's spending through two months. MaineCare Table 1 also shows that aggregate General Fund expenditures for the first two months of FY 2015 decreased by 6.1% compared to the first two months of FY 2014. General Fund spending for the first two months without the offsets noted above increased by 3.3% from the first two months of FY 2014.

MaineCare Table 1 - MaineCare and Related Expenditures Detail Through 2 Months*All Funds*

Expenditure Categories	FY 2013	FY 2014	FY 2015	Chgs. FY 2014 to FY 2015	
	2 Months	2 Months	2 Months	\$	%
1 Hospital Services	\$79,137,227	\$91,935,405	\$88,884,093	(\$3,051,312)	-3.3%
1A Hospital Settlements	\$0	\$0	\$0	\$0	na
2 Residential Care	\$89,846,375	\$74,641,079	\$86,830,416	\$12,189,337	16.3%
3 HCBC Waivers	\$56,167,168	\$53,290,441	\$59,820,703	\$6,530,263	12.3%
4 Pharmacy and Related	\$48,597,487	\$52,113,399	\$51,115,313	(\$998,085)	-1.9%
5 Medical Professionals	\$28,031,396	\$25,728,619	\$27,392,160	\$1,663,541	6.5%
6 Medicare Crossover Payments	\$25,592,825	\$22,569,069	\$15,794,661	(\$6,774,408)	-30.0%
7 Mental Health Services	\$45,446,897	\$46,577,474	\$49,043,729	\$2,466,255	5.3%
8 Clinic Services	\$8,390,662	\$7,768,511	\$8,560,018	\$791,507	10.2%
9 Home Health	\$5,176,254	\$5,517,695	\$5,289,300	(\$228,395)	-4.1%
10 Rehabilitation Services	\$3,706,350	\$4,153,859	\$4,953,136	\$799,277	19.2%
11 Case Management	\$7,505,071	\$7,642,282	\$7,409,848	(\$232,434)	-3.0%
12 Certified Seed	\$4,001,606	\$3,324,165	\$4,901,630	\$1,577,465	47.5%
13 Transportation Services	\$7,985,027	\$8,676,019	\$10,941,722	\$2,265,703	26.1%
14 Other Expenditure Codes	\$1,728,451	\$845,059	\$1,703,911	\$858,852	101.6%
15 Accounting Adjustments ¹	\$633,376	\$4,023,427	(\$628,185)	(\$4,651,613)	-115.6%
16 Other Adjustments ¹	(\$7,288,646)	(\$1,872,526)	(\$14,875,257)	(\$13,002,731)	694.4%
All Funds Total	\$404,657,527	\$406,933,977	\$407,137,198	\$203,221	0.0%
Minus Accounting and Other Adjustments ¹	\$6,655,269	(\$2,150,902)	\$15,503,442	\$17,654,344	-820.8%
All Funds Adjusted Total	\$411,312,796	\$404,783,075	\$422,640,640	\$17,857,565	4.4%
General Fund Totals	\$134,932,425	\$143,083,016	\$134,376,583	(\$8,706,433)	-6.1%
Minus Accounting and Other Adjustments ¹	\$4,796,459	(\$5,712,877)	\$7,495,284	\$13,208,161	-231.2%
General Fund Adjusted Totals	\$139,728,884	\$137,370,139	\$141,871,867	\$4,501,728	3.3%

¹ Includes bad debt write-offs and other adjustments (e.g., third party liability collections, audit settlements, etc.) that are not assigned to a specific expenditure category.

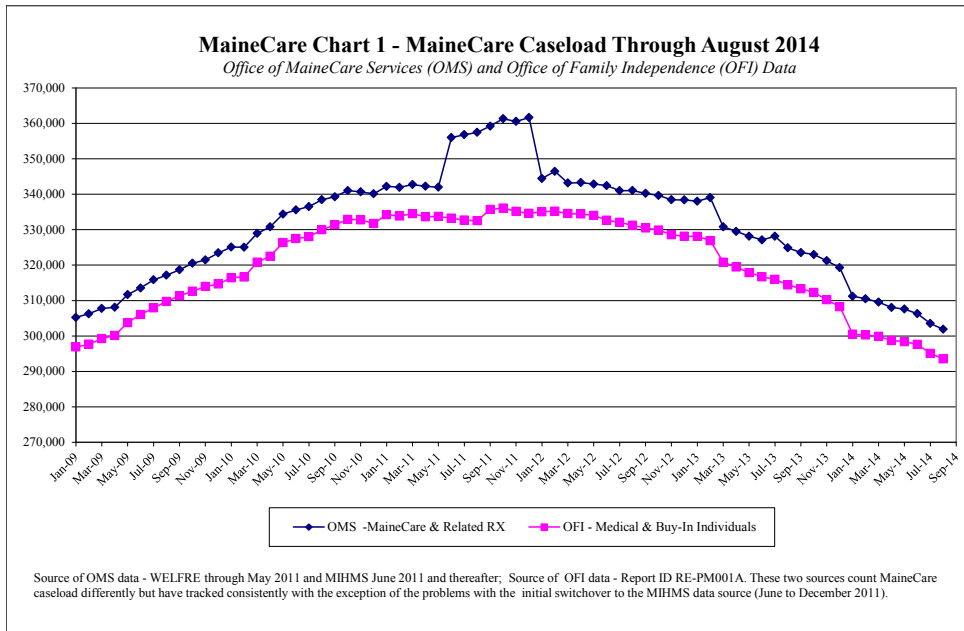


MaineCare Update (Continued)

MaineCare Caseload

MaineCare caseload data for August released by the DHHS Office of MaineCare Services (OMS) and by the DHHS Office of Family Independence (OFI) show aggregate MaineCare caseload continues to decrease. MaineCare Chart 1 shows OMS and OFI aggregate caseload data over time. As shown in MaineCare Table 2, in more recent months the continued overall decline in MaineCare caseload has been driven by a reduction in the

number of individuals on MaineCare transitional assistance, presumably the parents and children with incomes from 134% to 150% of the FPL who lost coverage in the March-April 2013 period but had been on transitional Medicaid coverage for up to a year. The children of these parents would not be losing coverage after the year; they would just move back to their original eligibility status.



	Total MaineCare Caseload	% Monthly Change	Transitional Assistance Caseload	Net MaineCare Caseload w/Out Transitional Assistance	% Monthly Change
Feb-13	339,055		8,221	330,834	
Mar-13	330,809	-2.4%	13,895	316,914	-4.2%
Apr-13	329,503	-0.4%	15,106	314,397	-0.8%
May-13	328,159	-0.4%	15,807	312,352	-0.7%
Jun-13	327,135	-0.3%	16,011	311,124	-0.4%
Jul-13	328,121	0.3%	16,188	311,933	0.3%
Aug-13	324,876	-1.0%	16,164	308,712	-1.0%
Sep-13	323,547	-0.4%	15,628	307,919	-0.3%
Oct-13	322,998	-0.2%	15,430	307,568	-0.1%
Nov-13	321,236	-0.5%	15,236	306,000	-0.5%
Dec-13	319,288	-0.6%	15,414	303,874	-0.7%
Jan-14	311,216	-2.5%	30,264	280,952	-7.5%
Feb-14	310,504	-0.2%	34,596	275,908	-1.8%
Mar-14	309,539	-0.3%	30,362	279,177	1.2%
Apr-14	308,068	-0.5%	27,359	280,709	0.5%
May-14	307,599	-0.2%	24,890	282,709	0.7%
Jun-14	306,280	-0.4%	23,045	283,235	0.2%
Jul-14	303,519	-0.9%	19,402	284,117	0.3%
Aug-14	301,894	-0.5%	17,625	284,269	0.1%

Source: DHHS-OMS Monthly Caseload Reports