

MAINE STATE LEGISLATURE

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Fiscal Briefing for the Legislative Council

Legislative Council Meeting
April 24, 2006

*Prepared by the
Office of Fiscal & Program Review*

Executive Summary

1. General Fund and Highway Fund Revenue Update

- General Fund revenue was \$32.2 million over budget for the month of March, increasing the positive variance to \$32.6 million for the fiscal year-to-date (FYTD). This variance reflects the March revenue revisions but does not include the revenue from the 2006-2007 Supplemental Budget Bill, PL 2005, c. 519, which increases FY06 General Fund budgeted revenue by \$0.4 million. Most of the major lines performed well in March.
- It is still too early in April's Individual Income Tax processing to determine whether or not we will have an "April Surprise." While collections are behind last year's, the timing of the Patriots Day holiday this year delayed the filing deadline and the number of returns processed.
- Highway Fund revenue was over budget in March by \$0.9 million, reducing the negative variance for the FYTD to \$1.2 million (-0.6%). The Fuel Taxes line is the major reason for this negative variance. It remained \$2.3 million under budget despite being revised downward by \$4.1 million in FY06 in the March 2006 revenue forecast. Fuel Tax revenue may be adversely affected by the recent increases in oil prices. These recent price increases were not anticipated in the economic forecast and, consequently, the revenue forecast.

2. Cash Pool and Cash Balance Trends

- In March, Cash Pool average balance and General Fund average balances were lower than anticipated. MaineCare interim payment recovery performance has adversely affected General Fund cash balances and the total Cash Pool. Internal borrowing from Other Special Revenue Funds spiked up to \$83.5 million during recent weeks. This internal borrowing will subside in the next few weeks as Individual Income Tax revenue collections increase General Fund cash balances. Average General Fund cash balances are typically the lowest each April.
- Highway Fund cash balances over the last 2 months have shown a modest recovery over the last 2 months after dropping significantly earlier this fiscal year as a result of the budget problems within the Department of Transportation. The Revenue Forecast Committee assumes that Highway Fund cash balances will only recover to an average of \$30 million each fiscal year through FY09 after averaging nearly \$60 million last fiscal year.

General Fund and Highway Fund Revenue Update

Highlights and Summary – March 2006 Revenue

General Fund Revenue

General Fund revenue was \$32.2 million over budget for the month of March, increasing the positive variance to \$32.6 million for the fiscal year-to-date (FYTD). This variance reflects the March revenue revisions but does not include the revenue from the 2006-2007 Supplemental Budget Bill, PL 2005, c. 519, which increases FY06 General Fund budgeted revenue by \$0.4 million. Most of the major lines performed well in March.

General Fund Revenue – March 2006 Variance by Major Category/Line

- **Sales and Use Tax** – March: +\$2.7 million FYTD: +\$10.3 million (+1.6%). This revenue category was revised downward by \$3.1 million in the March 2006 revenue revision. This revision was based on revenue performance through January 2006 and the downward revision of the economic forecast. Sales Tax revenue in February (20.7% higher than February 2005) and in March (8.0% higher than March 2006) rebounded significantly. FYTD revenue through March is 5.5% above the same period of the prior fiscal year, which is budgeted to increase by 3.8% in FY06 over FY05. The performance of February and March turned around the growth of sales tax collections, which for the FYTD through January was only 3.7% over the same period of the previous year. It is uncertain whether this is just temporary spike from pent up sales that had been delayed during the winter heating season, which turned out to be much milder than anticipated.
- **Service Provider Tax** – March: +\$0.03 million FYTD: -\$0.1 million (-0.4%).
- **Individual Income Tax** – March: +\$11.4 million FYTD: +\$11.0 million (+1.5%). The negative variance in February related to a timing issue regarding refunds was reversed in March as expected. The critical period for collections under this month is in late April.
- **Corporate Income Tax** – March: +\$10.3 million FYTD: +\$10.9 million (+9.8%). This category was increased by \$9.9 million in FY06 in March 2006 revenue forecast. March performance was significantly above the upward revision and indicates a substantial positive variance in this category through the end of FY06.
- **Cigarette and Tobacco Tax** – March: +\$0.3 million FYTD: +\$3.2 million (+2.9%). This category was increased by \$4.5 million in the March 2006 forecast to account for the previously unbudgeted inventory effect of the recent tax increase. Performance continues to exceed revised budget.
- **Public Utilities Tax** – No revenue is budgeted in this line until May.
- **Insurance Company Tax** – March: -\$0.6 million FYTD: -\$0.4 million (-1.4%). This category was revised downward by \$5.0 million for FY06 in the March 2006 forecast. March revenue in this category was under the revised budgeted amounts. Through March, the FYTD revenue in this category is 7.7% less than the same period in FY05. However, March 2006 revenue was 8.0% greater than March of 2005. Most of the revenue in this category comes in the last quarter of the fiscal year.
- **Estate Tax** – March: +\$3.4 million FYTD: \$3.4 million (+5.9%). This category was increased by \$6.0 million in FY06 by the March 2006 forecast. March revenue brought this line well above the revised budgeted revenue based on a couple of moderately large estates tax payments. Monthly variances up and down are expected in this line, but FYTD estate tax revenue collections continue to be very strong, 181% above the same period last fiscal year.

- **Property Tax -Unorganized Territory** – The October transfer represents an estimate based on the prior year and was slightly over budget. The next transfer will be in June, based on actual General Fund expenditures.
- **Income from Investments** – March: +\$0.01 million FYTD: +\$0.04 million (+0.9%). Forecast for investment income was revised upward by \$1.3 million in the March 2006 forecast. This category remains close to budget.
- **Revenue Sharing Transfers** – March: -\$1.2 million FYTD: -\$1.6 million (-2.1%). This revenue line is calculated based on 5.1% of Sales, Service Provider, Individual Income and Corporate Income Taxes. The variance in this line reflects 5.1% of the inverse of the total variances for the above mentioned tax lines.
- **Lottery Transfer** – March: +\$0.7 million FYTD: +\$1.0 million (+2.7%). Lottery revenue, which had been under performing recovered well in February and March to move to a positive variance for the FYTD.
- **Other Revenue** – March: +\$5.2 million FYTD: -\$5.1 million (-3.4%). The Department of Health and Human Services remained under budget for the FYTD by \$9.6 million despite a \$3.0 million downward revision in March by \$3.5 million. The Judicial Department reduced its negative variance to \$2.3 million for the FYTD after a downward revenue revision of \$2.5 million in the March revenue forecast.

Highway Fund Revenue

Highway Fund revenue was over budget in March by \$0.9 million, reducing the negative variance for the FYTD to \$1.2 million (-0.6%). The Fuel Taxes line is the major reason for this negative variance. It remained \$2.3 million under budget despite being revised downward by \$4.1 million in FY06 in the March 2006 revenue forecast.

Highway Fund Revenue – March 2006 Variance by Major Category/Line

- **Fuel Taxes** – March: -\$0.04 million FYTD: -\$2.3 million (-1.5%). See discussion above.
- **Motor Vehicle Registration and Fees** – March: \$0.9 million FYTD: +\$0.6 million (+0.9%).
- **Inspection Fees** – This revenue line is running slightly over budget for the FYTD.
- **Fines** – Highway Fund fine revenue was under budget in March and was under budget for the FYTD by \$0.1 million (-8.2%).
- **Income from Investments** – March: +\$0.03 million FYTD: \$0.03 million (+2.7%). This category was revised downward by \$0.3 million in FY06 in the March 2006 revenue forecast, reflecting concerns about recent very low cash balances in the Highway Fund. Those balances, which nearly reached 10-year lows, have begun to recover.
- **Other Revenue** – March: +\$0.1 million FYTD: +\$0.6 million (+8.0%).

OTHER REVENUE SUMMARY MATERIALS THAT FOLLOW INCLUDE:

- **Summary Table of March Revenue Variances for the General Fund and Highway Fund (Page 3)**
- **Comparison of Fiscal Year-to-Date Revenue through March for FY03, FY04, FY05 and FY06 (Page 4)**
- **Graphs of Monthly Revenue History:**
 - **General Fund (see page 5)**
 - **Highway Fund (see page 6)**

**General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2006
REFLECTING MARCH 2006 RFC ADJUSTMENTS**

MARCH 2006 REVENUE VARIANCE REPORT

Revenue Line	Mar. '06 Budget	Mar. '06 Actual	Mar. '06 Var.	FY06 YTD Budget	FY06 YTD Actual	FY06 YTD Variance	FY06 YTD Variance %	FY06 Budgeted Totals
General Fund								
Sales and Use Tax	58,366,130	61,109,541.00	2,743,411.00	623,973,997	634,246,561.15	10,272,564.15	1.6%	930,641,080
Service Provider Tax	4,132,532	4,164,672.66	32,140.66	30,160,881	30,027,668.72	(133,212.28)	-0.4%	46,494,165
Individual Income Tax	41,855,840	53,241,988.37	11,386,148.37	719,087,708	730,123,265.50	11,035,557.50	1.5%	1,228,307,845
Corporate Income Tax	12,766,482	23,021,793.15	10,255,311.15	111,608,694	122,495,609.97	10,886,915.97	9.8%	175,150,000
Cigarette and Tobacco Tax	12,748,676	13,074,031.60	325,355.60	110,614,383	113,821,089.96	3,206,706.96	2.9%	151,738,325
Public Utilities Tax	0	0.00	0.00	0	0.00	0.00	0.0%	21,440,000
Insurance Companies Tax	15,213,025	14,622,874.09	(590,150.91)	28,219,368	27,820,819.96	(398,548.04)	-1.4%	72,141,931
Estate Tax	2,680,765	6,053,395.03	3,372,630.03	56,695,494	60,068,107.99	3,372,613.99	5.9%	70,099,322
Property Tax - Unorganized Territory	0	0.00	0.00	9,522,077	9,560,399.00	38,322.00	0.4%	11,278,476
Income from Investments	342,474	355,357.67	12,883.67	4,527,308	4,567,712.74	40,404.74	0.9%	6,563,582
Transfer to Municipal Revenue Sharing	(5,973,172)	(7,218,437.76)	(1,245,265.76)	(75,733,538)	(77,361,548.39)	(1,628,010.39)	-2.1%	(121,410,248)
Transfer from Lottery Commission	3,871,862	4,582,938.03	711,076.03	37,750,689	38,760,032.33	1,009,343.33	2.7%	50,334,250
Other Revenue	19,513,393	24,713,502.40	5,200,109.40	150,332,798	145,211,512.43	(5,121,285.57)	-3.4%	214,531,681
Totals	165,518,007	197,721,656.24	32,203,649.24	1,806,759,859	1,839,341,231.36	32,581,372.36	1.8%	2,857,310,409
Highway Fund								
Fuel Taxes	17,697,436	17,661,640.00	(35,796.00)	151,074,598	148,789,886.34	(2,284,711.66)	-1.5%	226,776,993
Motor Vehicle Registration and Fees	8,450,473	9,323,250.14	872,777.14	62,039,505	62,605,020.37	565,515.37	0.9%	87,172,358
Inspection Fees	323,732	345,025.82	21,293.82	3,206,688	3,215,881.71	9,193.71	0.3%	4,397,970
Fines	179,170	123,609.19	(55,560.81)	1,428,847	1,311,985.70	(116,861.30)	-8.2%	1,973,665
Income from Investments	61,217	93,774.83	32,557.83	1,089,868	1,118,893.87	29,025.87	2.7%	1,300,000
Other Revenue	554,593	640,188.78	85,595.78	6,983,994	7,539,789.43	555,795.43	8.0%	9,286,173
Totals	27,266,621	28,187,488.76	920,867.76	225,823,500	224,581,457.42	(1,242,042.58)	-0.6%	330,907,159

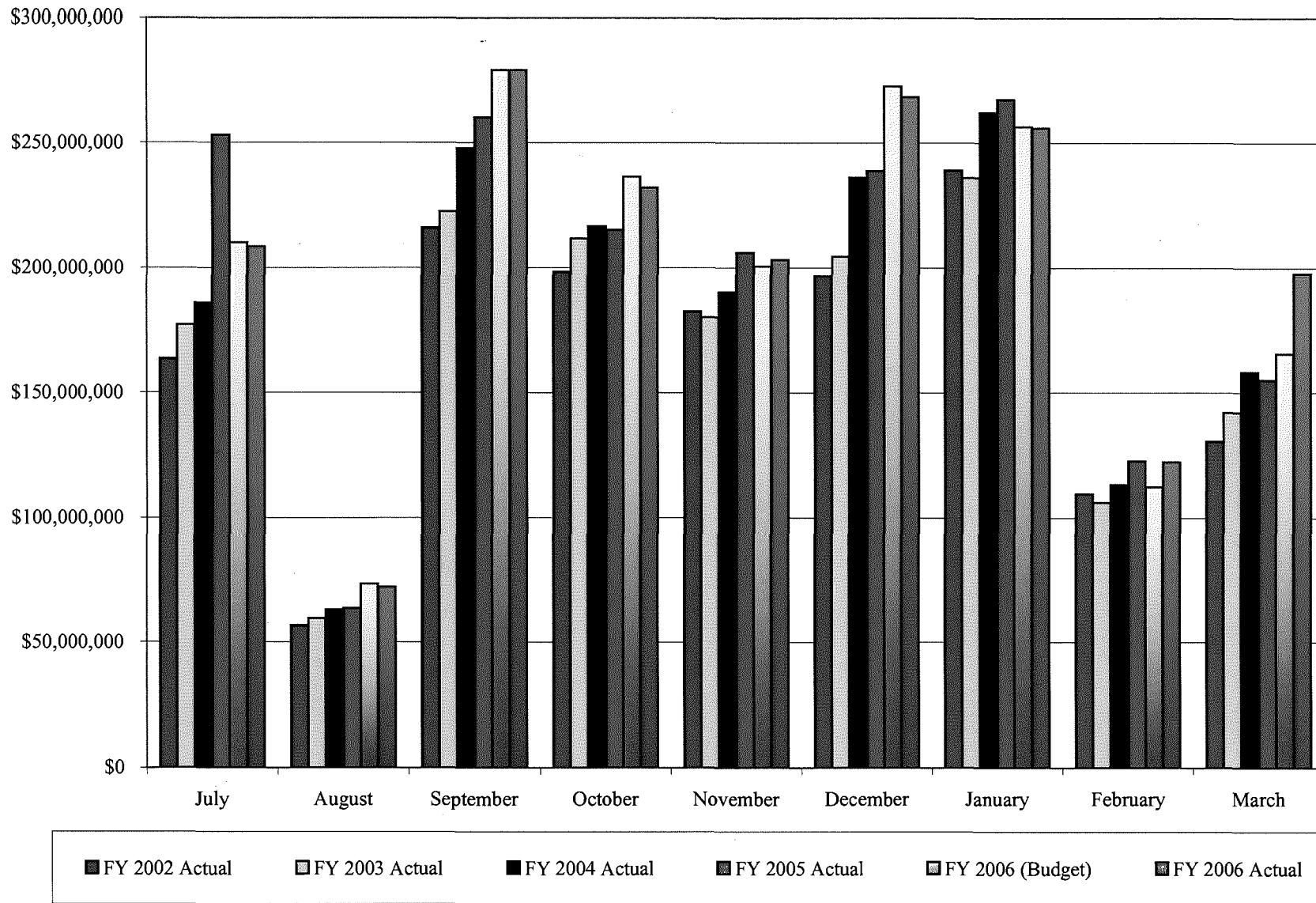
Comparison of Actual Year-to-Date Revenue Through March of Each Fiscal Year

Revenue Line	FY 2003	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg
General Fund							
Sales and Use Tax	\$571,205,681	\$614,734,165	7.6%	\$600,936,171	2.5%	\$634,246,561	5.5%
Service Provider Tax		\$0	N/A	\$28,977,986	N/A	\$30,027,669	3.6%
Individual Income Tax	\$685,717,398	\$729,055,070	6.3%	\$801,808,464	10.0%	\$835,836,301	4.2%
Ind. Income Tax - BETR & CB Transfers	\$0	\$0	N/A	(\$25,976,808)	N/A	(\$105,713,036)	307.0%
Corporate Income Tax	\$53,126,660	\$65,915,836	24.1%	\$81,890,391	24.2%	\$122,495,610	49.6%
Cigarette and Tobacco Tax	\$73,826,991	\$72,492,856	-1.8%	\$72,126,110	-0.5%	\$113,821,090	57.8%
Public Utilities Tax	(\$128,030)	(\$268,757)	109.9%	(\$150,000)	-44.2%	\$0	-100.0%
Insurance Companies Tax	\$31,233,086	\$29,918,750	-4.2%	\$30,151,880	0.8%	\$27,820,820	-7.7%
Estate Tax	\$16,564,033	\$16,732,889	1.0%	\$21,377,451	27.8%	\$60,068,108	181.0%
Property Tax - Unorganized Territory	\$9,300,585	\$8,937,092	-3.9%	\$9,638,377	7.8%	\$9,560,399	-0.8%
Income from Investments	\$1,955,138	\$1,400,168	-28.4%	\$3,221,090	130.1%	\$4,567,713	41.8%
Transfer to Revenue Sharing	(\$66,812,537)	(\$71,894,959)	7.6%	(\$75,869,446)	5.5%	(\$77,361,548)	2.0%
Transfer from Liquor Commission	\$19,637,499	\$20,658,510	5.2%	\$50,017,502	142.1%	\$16,500	-100.0%
Transfer from Lottery Commission	\$29,173,342	\$31,227,102	7.0%	\$37,090,008	18.8%	\$38,760,032	N/A
Other Revenue	\$115,786,295	\$149,085,607	28.8%	\$146,867,793	-1.5%	\$145,211,512	-1.1%
General Fund Totals	\$1,540,586,140	\$1,667,994,330	8.3%	\$1,782,106,970	6.8%	\$1,839,357,731	3.2%
Highway Fund							
Fuel Taxes	\$125,159,351	\$143,394,921	14.6%	\$148,841,224	3.8%	\$148,789,886	0.0%
Motor Vehicle Registration and Fees	\$58,026,700	\$58,394,228	0.6%	\$59,298,000	1.5%	\$62,605,020	5.6%
Inspection Fees	\$3,036,055	\$3,513,906	15.7%	\$3,058,081	-13.0%	\$3,215,882	5.2%
Fines	\$1,647,895	\$1,380,477	-16.2%	\$1,288,298	-6.7%	\$1,311,986	1.8%
Income from Investments	\$967,892	\$407,347	-57.9%	\$750,219	84.2%	\$1,118,894	49.1%
Other Revenue	\$6,818,752	\$7,205,526	5.7%	\$6,843,675	-5.0%	\$7,539,789	10.2%
Highway Fund Totals	\$195,656,645	\$214,296,405	9.5%	\$220,079,498	2.7%	\$224,581,457	2.0%

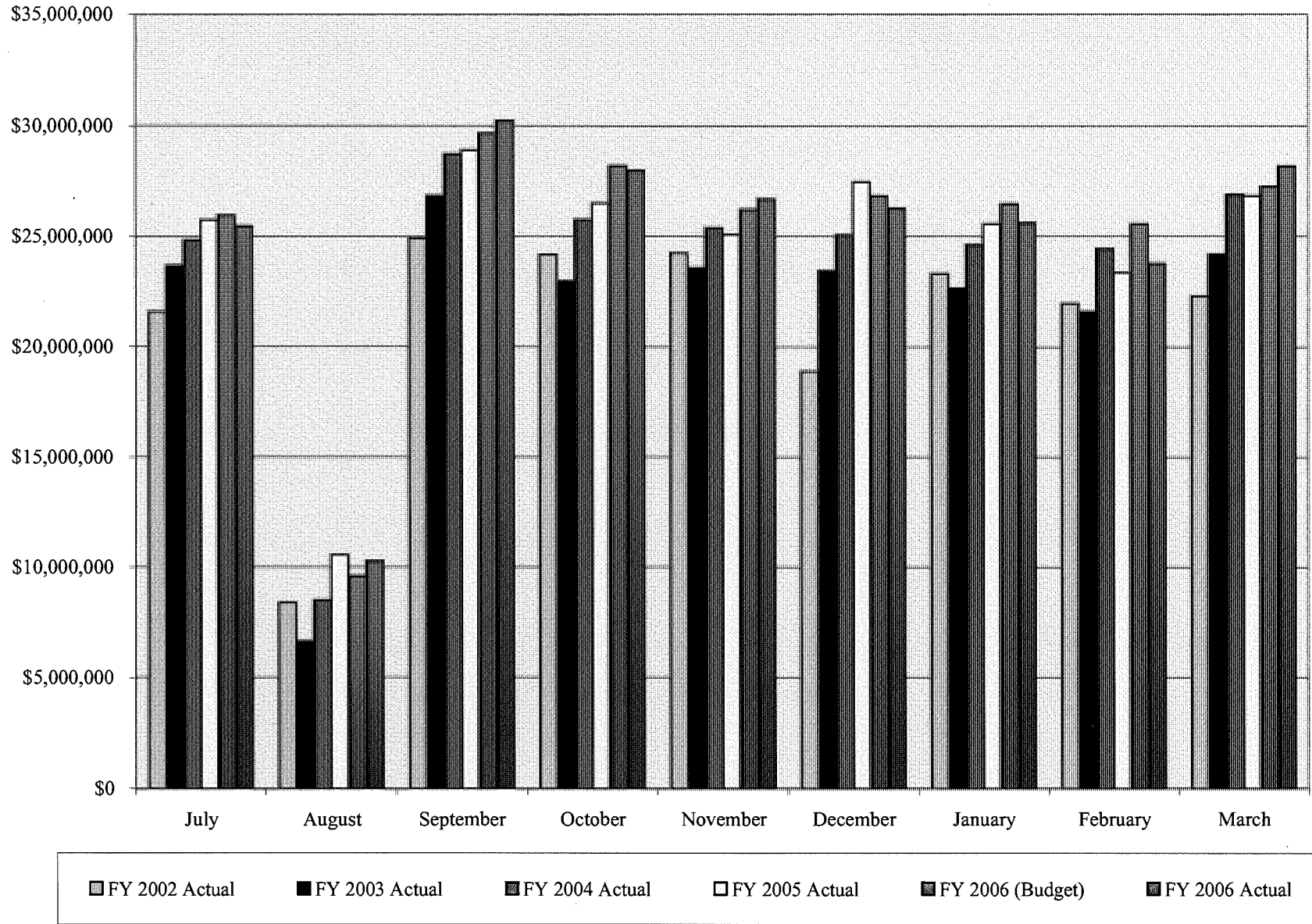
Adjusted for Service Provider Tax Split

Monthly Historical Comparisons - General Fund Revenue FY 2002 - FY 2006

April 2006 Fiscal Briefing - General Fund and Highway Fund Revenue Update
 Prepared by the Office of Fiscal and Program Review
 Attachment A - Page 5



Monthly Historical Comparisons - Highway Fund Revenue FY 2002 - FY 2006



Cash Pool and Cash Balance Trends Summary

March 2006 Cash Pool Average Balances (see pages 2)

- Average balance of the Cash Pool was \$593.3 million in March. This is very close to the average balance since the beginning of FY 2002 of \$594.5 million, but is less than last March's balance of \$633.8 million.
- Highway Fund balance has recovered slightly from the very low average balances of January and February to an average balance of \$35.7 million in March. This is still significantly below the recent 12-month moving average balance of approximately \$60 million and is substantially below last March's average balance of \$74.8 million. See trend discussion below.
- General Fund cash position averaged \$24.2 million in March. This amount included \$123.6 million in Tax Anticipation Notes (TAN's), \$48.3 million in the Budget Stabilization Fund, \$23.1 million in the Reserve for General Fund Operating Capital and \$65.5 million of internal borrowing from Other Special Revenue. The internal borrowing amount is substantially above anticipated amounts largely as a result of Medicaid interim payment recovery performance. Absent these reserve balances and temporary borrowing, the General Fund would have had a negative average balance in March of \$236.3 million. This is \$8.3 million lower than a year ago. See trend discussion below.
- Other State Funds and Independent Agency Funds at \$533.5 million in aggregate in March were above the averages over the last 4½ years, but due to the substantial internal borrowing was \$13.4 million less than a year ago.

General Fund Cash Balance Trends (see charts on pages 3 and 4)

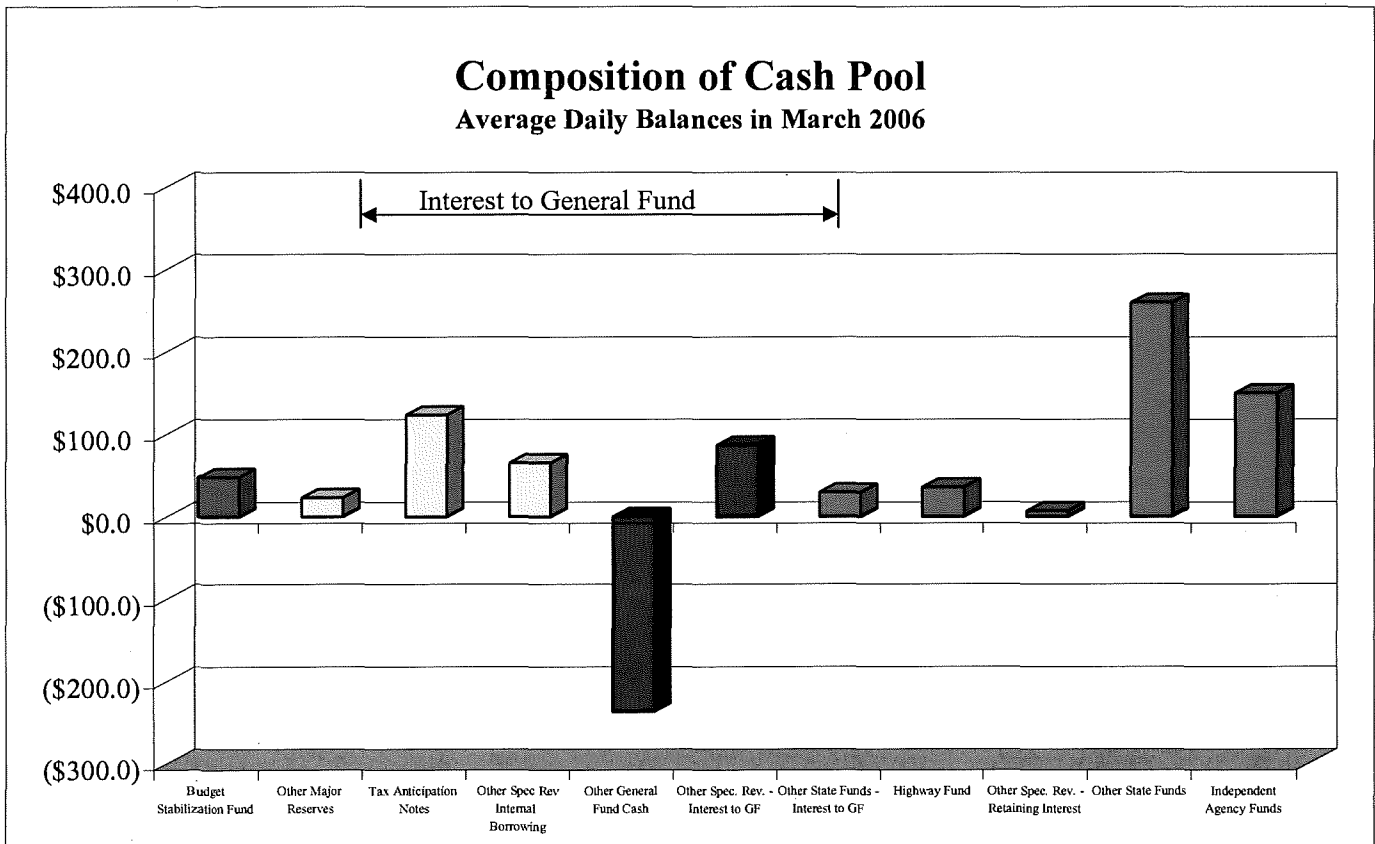
- General Fund trend (as measured by a 12-month moving average) continues to improve in the chart on page 4, which factors out the effect of the General Fund's reduced reliance on Tax Anticipation Notes (TAN's).
- The declining trend in the chart on page 3 reflects reduced TAN borrowing, which decreased from \$190 million in FY05 to \$123.6 million in FY06.

Highway Fund Cash Balance Trends (see chart on page 5)

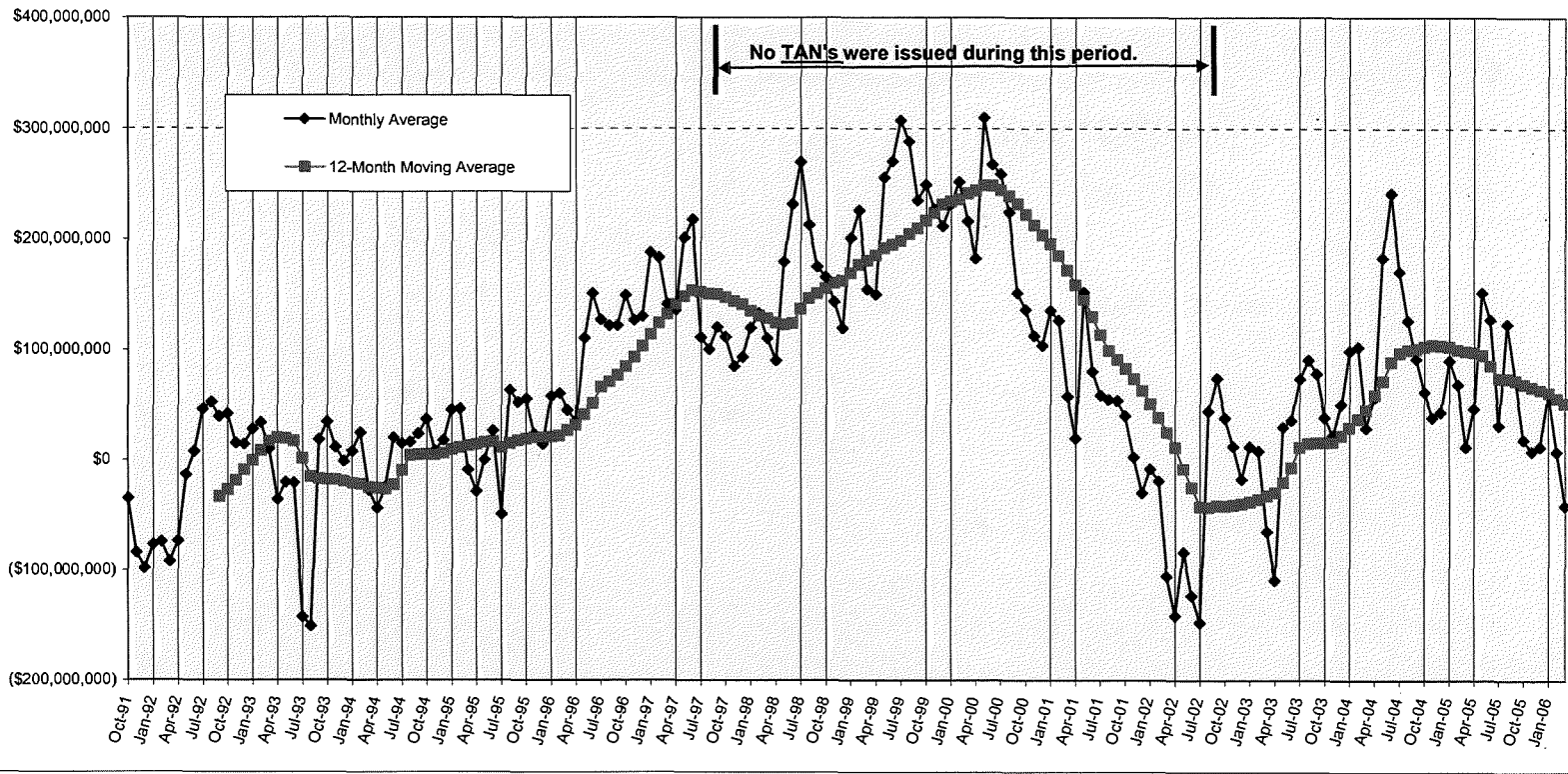
- Highway Fund cash balances have dropped precipitously during this fiscal year and have only recently started to recover.
- Highway and Bridge Improvement program shortfall due to inflationary pressures and earmarking of a higher portion of new federal funding has eroded cash balances and delayed the normal seasonal recovery in Highway Fund cash.
- April's average daily beginning balances as tracked by OFPR have shown some modest improvement over March's average balance, but balances remain near 10-year lows.

Composition of State's Cash Pool March 2006 Average Daily Balances

	March 2006
General Fund - Total	\$24,162,731
General Fund - Detail	
Budget Stabilization Fund (Rainy Day Fund)	\$48,295,270
Reserve for General Fund Operating Capital	\$23,093,792
Tax Anticipation Notes	\$123,625,000
Internal Borrowing from Other Special Revenue	\$65,483,871
General Fund - Other	(\$236,335,202)
Highway Fund	\$35,688,420
Other Special Revenue - Contributing to General Fund	\$86,949,725
Other Special Revenue - Retaining Interest Earned	\$7,218,584
Other State Funds - Contributing Interest to General Fund	\$29,654,115
Other State Funds	\$259,647,386
Independent Agency Funds	\$149,990,153
Total Cash Pool	\$593,311,115



**GENERAL FUND
DAILY STARTING CASH BALANCES**

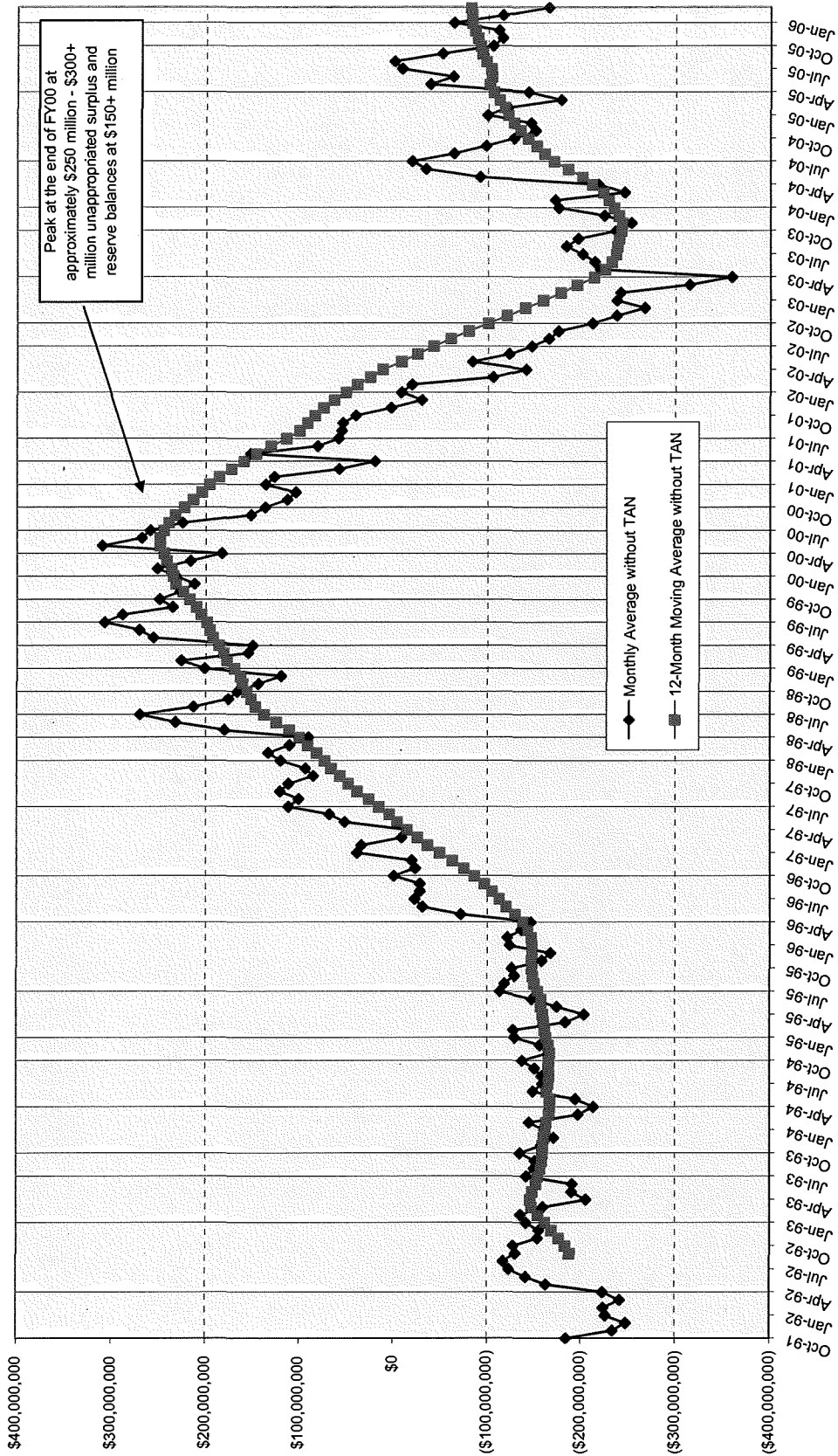


TAX ANTICIPATION NOTES (TAN's) - History from FY 1990-91 ⁽¹⁾

Fiscal Year	Amount Authorized	Amount Issued	Reference
2005-06 ⁽¹⁾	\$314,718,914 ⁽¹⁾	\$123,625,000	5 MRSA, §150 (as amended by PL 2001, c. 705)
2004-05 ⁽¹⁾	\$309,540,537 ⁽¹⁾	\$190,000,000	5 MRSA, §150 (as amended by PL 2001, c. 705)
2003-04 ⁽¹⁾	\$293,657,381 ⁽¹⁾	\$275,000,000	5 MRSA, §150 (as amended by PL 2001, c. 705)
2002-03 ⁽¹⁾	\$282,869,203 ⁽¹⁾	\$250,000,000	5 MRSA, §150 (as amended by PL 2001, c. 705)
2001-02	\$100,000,000	\$0	5 MRSA, §150 (as amended by PL 2001, c. 467)
1997-98	\$100,000,000	\$0	PL 1997, c. 24, §F-1 (Repealed by PL 1997, c. 643, §E-5)
1996-97	\$190,000,000	\$150,000,000	PL 1995, c. 665 §P-1
1995-96	\$182,000,000	\$182,000,000	PL 1995, c. 368, §V-1
1994-95	\$175,000,000	\$175,000,000	PL 1993, c. 707, §P-2
1993-94	\$170,000,000	\$170,000,000	PL 1993, c. 382, §1
1992-93	\$170,000,000	\$170,000,000	PL 1991, c. 780, §BB-1
1991-92	\$150,000,000	\$150,000,000	PL 1991, c. 589, §1
1990-91	\$125,000,000	\$115,000,000	PL 1991, c. 5, §1

Notes: ⁽¹⁾ 5 MRSA, §150 provides the statutory authorization for Tax Anticipation Notes. As amended by PL 2001, c. 705, the limit is the same as that imposed by the Constitution of Maine, Article IX, Sec. 14, 10% of total General Fund appropriations and Highway Fund allocations or 1% of the State Valuation, whichever is less. The amounts authorized for fiscal years 2002-03 through 2004-05 reflect final General Fund appropriations and Highway Fund allocations. Amounts for fiscal year 2005-06 reflect budgeted amounts through the 122nd Legislature, 2nd Special Session. Special exceptions to the general authorization levels are detailed in this table.

**GENERAL FUND
DAILY STARTING CASH BALANCES - EXCLUDING TAX ANTICIPATION NOTES**



HIGHWAY FUND
DAILY STARTING CASH BALANCES

