

Update on the State of Maine Budget

By David Winslow, MHA

The State's General Fund continues to run slightly ahead of budget for FY 2015, according to the Office of Fiscal and Program Review's monthly update.

The surplus is \$10 million (+1.4%) through the first three months of the current fiscal year. August receipts were below estimates, as expected, due to various timing issues, after July's receipts came in above budget. While the total General Fund revenues collected were only modestly above the budgeted estimate, they were a full 10% above last year's collections.

The Fund for Healthy Maine finished last fiscal year with an approximately \$10 million surplus that will be available to the next Legislature.

The State's cash pool was also a full \$91 million above last year's amount. The stronger the cash pool, the less likely external borrowing may be necessary.

MaineCare weekly cycle payments were \$45.9 million through the first 11 weeks. This is below the 52-week average from last fiscal year (\$46.5 million). The Legislature cut the Medicaid budget by 2.4% in FY 2015 compared to FY 2014. As has become the misleading trend in budgeting, there will likely need to be a Supplemental Budget in January requiring "more money" for Medicaid. What will be less understood is that the original budget called for a cut to the program.

The MaineCare caseload has remained relatively stable over the past several months. The eligibility cuts enacted almost two years ago have mostly worked through the system. As previously reported, some of the individuals who lost Medicaid were entitled to "transitional" assistance for up to one year. There were only 17,625 people remaining on transitional assistance in August. Total MaineCare enrollment (including those on transitional assistance) is about 285,000. The low point over the past year occurred in February when the total dropped to 275,000.

The Department of Health and Human Services (DHHS) noted that it has not yet implemented the budget initiative enacted by the Legislature last year that called for the "aging" of Medicaid claims. As you may recall, this initiative would have delayed the turnaround time for Medicaid remits from 10-14 days to 20-24 days. This action would cause the push of a cycle payment from this fiscal year until next fiscal year; resulting in a one-time budget savings to the state. The Appropriations Committee hoped to achieve \$20 million in savings from this initiative.

DHHS indicated that it has not been able to devise a way to implement the initiative without hurting providers who can't absorb such a delay in payment. Appropriations Committee members appeared willing to wait until the Legislature convenes in January to revisit the necessity for this action.

Looking ahead to the next biennium (July 1, 2015-June 30, 2017), the State's Department of Administrative & Financial Services reports the next Legislature will face a so-called

structural gap of \$461 million. The structural gap is the difference between what is required in statute to be spent and what the state anticipates for revenues.

Every new Legislature faces a structural gap. Four years ago, the two-year projected structural gap was \$1.1 billion.

The biggest and easiest example of why the structural gap exists is related to education funding. State law requires the Legislature to cover 55 percent of the costs of K-12 education. Each biennium, the Legislature fails to do that (it currently funds around 45 percent). However, the Legislature does not repeal the 55 percent law, it merely suspends it. The 55 percent requirement is in place for the next biennium, and the structural gap analysis presumes the Legislature will fund 55 percent of K-12 education.

If the state flat-funded K-12 education aid at its current level of 45 percent, almost \$300 million of the structural gap would disappear.

The second biggest contributor to the structural gap is the assumption that the state will provide municipal revenue sharing at the statutorily required amounts. Currently, the state is providing less than half the revenue sharing to cities and towns than the law otherwise requires. If the state were to flat-fund municipal revenue sharing at its FY 2015 amount (\$65 million) rather than at the required annual amount (\$150 million) the rest of the structural gap would essentially disappear.

While arguably not part of the structural gap, the expiration of the temporary sales tax increase at the end of this fiscal year is a major issue as well and this expiration will result in the state receiving \$60 million less over the next two years.

On the spending side, the structural gap analysis presumes modest growth in DHHS programs, including Medicaid, over the next two years.