STATE OF MAINE
REVENUE FORECASTING COMMITTEE

May 1, 2023

TO: Governor Janet T. Mills
Members, 131st Legislature

FROM: Christopher Nolan, Chair
Revenue Forecasting Committee

RE: Revenue Forecast Committee May 1, 2023 Report

The Revenue Forecasting Committee (RFC) has concluded its update of the revenue forecast to comply with its statutory reporting date of May 1st, to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on April 1, 2023 and to provide a forecast that reflects revenue performance through the first nine months of FY23 and preliminary revenues for April. Tables showing the changes made to all the funds forecasted by the committee and a detailed presentation that includes the key assumptions made in developing the forecast have been posted to the RFC's web page and are available here. A more complete report will be available later this week and added to the web page.

General Fund Summary

	FY23	FY24	FY25	FY26	FY27
Current Forecast	$5,041,253,968	$5,179,999,232	$5,317,894,450	$5,557,257,689	$6,037,175,196
Annual % Growth	-6.5%	2.8%	2.7%	4.5%	8.6%
Net Increase (Decrease)	$223,156,604	$26,215,113	$45,026,357	$34,673,450	($10,564,429)
Revised Forecast	$5,264,410,572	$5,206,214,345	$5,362,920,807	$5,591,931,139	$6,026,610,766
Annual % Growth	-2.4%	-1.1%	3.0%	4.3%	7.8%

In its May 2023 update, the RFC revised General Fund revenue estimates upward by $223.2 million for FY23 and by $71.2 million (0.7%) for the 2024-2025 biennium. The forecasted rate of year-over-year change in General Fund revenue for FY23 is now -2.4%, followed by -1.1% for FY24 and then growth of 3.0% for FY25. The May 2023 forecast also updates projections for the 2026-2027 biennium, with overall FY26 General Fund revenue projected to grow at a 4.3% rate and FY27 at a 7.8% rate. These growth rates are greater than those projected for the 2024-2025 biennium largely because of the impact of expiring federal tax changes that under current law tax conformity would significantly increase individual income tax revenues starting in tax year 2026. LD 7 currently under consideration in the Legislature would maintain the Maine standard deduction and dependent exemption tax credit at current levels, thereby reducing individual income tax revenue from the May 2023 forecast levels by -$47.2 million in FY26 and -$299.0 in FY27 if enacted.

Changes to FY23 General Fund individual income tax revenue (+$137.5 million) are primarily the result of tax year 2022 net liability growth being slightly stronger than previously forecasted (approximately $73.0 million) and a positive variance in one-time withholding receipts in tax year 2023 (approximately $52.0 million). Adjustments for tax year 2021 net liability growth, fiduciary payments, and other tax year 2023 receipts account for the remaining net increase to the FY23 individual income tax forecast. FY24-FY27 changes are relatively minor, mainly because the April 2023 CEFC forecast made no changes to wage and salary growth for CY23-CY27, and only minor changes to other key economic variables used in the individual income tax revenue forecasting model. Better than projected capital gains realizations in tax year 2022 accounts for $68 million of the tax year 2022 net tax liability increase and the slightly better performance of final payments in April. The State did experience a significant decline in April final payments of approximately 35 percent, but the December forecast assumed a decline of 40 percent. The RFC is now forecasting a 33 percent decline in tax year 2022 capital gains realizations compared to a 50 percent decline assumed in the December forecast. Capital gains growth is forecasted to grow slower than personal income during the forecast period, resulting in the capital gains to personal income ratio falling back to its long-run average of 3.1% by tax year 2027.

The annual adjustments of approximately $30.0 million to the General Fund sales and use tax forecast reflect a positive variance of $19.5 million through April and the new economic forecast from the CEFC. Beginning in CY23, the April 2023 economic forecast for personal income adjusted by the saving rate (i.e., personal consumption) results in slightly stronger consumer spending. While the forecast still assumes a continued shift back to the consumption of tax-excluded services, the shift is not as much as forecasted in the November 2022 economic forecast and the higher level of real consumer spending allows for stronger durable and nondurable goods sales, particularly automobile purchases. Despite these more optimistic assumptions, sales and use tax revenue growth is only forecasted to be 1.5% to 2% a year over the forecast window.

Corporate income tax receipts continue to perform well above budget. Through April, corporate income tax revenue is $67.0 million over budget. Unlike individual income tax, corporate income tax payments in April exceeded the historic levels experienced a year ago. It is not clear why corporate income tax receipts continue to be so strong. Actual tax return data for corporate income tax filers is lagged by over 2 years, resulting in little information to explain the recent increases in corporate receipts. The corporate income tax forecast accounts for the surplus through April, and then assumes that corporate receipts will decline significantly on a yearly basis during the remaining two months of FY23. Going forward corporate income tax revenue will decline in FY24 by 10 percent, then start growing again, but slightly below levels forecasted in December. There is great downside risk in the corporate forecast, and the RFC has tried to be as conservative as possible in this part of the General Fund forecast, but with little understanding of why corporate revenue growth has been so strong in recent years it is difficult to forecast a collapse in revenues over the forecast period.

Highway Fund Summary

	FY23	FY24	FY25	FY26	FY27
Current Forecast	$339,773,819	$341,143,708	$343,086,724	$344,622,580	$345,981,178
Annual % Growth	-1.5%	0.4%	0.6%	0.4%	0.4%
Net Increase (Decrease)	$4,802,511	$605,144	($45,499)	($542,428)	($812,119)
Revised Forecast	$344,576,330	$341,748,852	$343,041,225	$344,080,152	$345,169,059
Annual % Growth	-0.1%	-0.8%	0.4%	0.3%	0.3%

The RFC has revised Highway Fund revenue estimates upward by $4.8 million for FY23 and by $0.6 million (0.1%) for the 2024-2025 biennium. The forecasted rate of year-over-year change for Highway

Fund revenue for FY23 is now -0.1%, followed by -0.8% for FY24 and then growth of 0.4% for FY 25. The May 2023 forecast updates projections for the 2026-2027 biennium, with Highway Fund revenue projected to grow at a 0.3% annual rate for FY26 and FY27. The Highway Fund revenue changes are the result of decreases in overall motor fuels revenue, with increases estimated for gasoline tax revenue partially offset by decreases in estimates for special fuels tax revenue, and forecasted increases in the motor vehicle registration and fees and other highway fund revenue lines.

The revenue changes estimated in this forecast reflect Maine's revenue collection experience through the first ten months of FY23 and concerns by many economic forecasters that the global economy is facing a significant slowdown at best, or worse a recession during the latter part of CY23. However, as noted in recent forecasts, uncertainty continues to be the norm. Most of the short-term risk to the current revenue forecast should continue to be a net positive, while ongoing issues facing the economy (e.g., inflation, bank instability and supply chain and labor force constraints) make the FY24-27 portions of the forecast volatile and susceptible to significant downside risk. The time between this forecast and the next one scheduled for December 2023 provides time for many of these issues to be resolved or it could result in additional uncertainty, but either way the long-term part of this forecast will remain uncertain until at least later in CY23.

cc: Members, Revenue Forecasting Committee
Members, Consensus Economic Forecasting Commission
Jeremy Kennedy, Chief of Staff, Governor's Office
Kirsten Figueroa, Commissioner, DAFS
Clerk of the House
Secretary of the Senate
Suzanne Gresser, Executive Director, Legislative Council