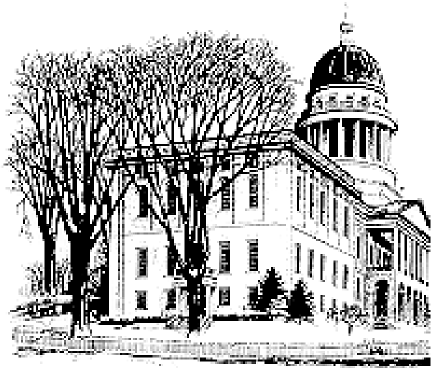

STATE OF MAINE
REVENUE FORECASTING COMMITTEE

Members:

Amanda Rector, State Economist, Chair
Christopher Nolan, Director, Office of Fiscal and Program Review
Michael Allen, Associate Commissioner of Tax Policy
Marc Cyr, Principal Analyst, Office of Fiscal and Program Review
Darryl Stewart, Acting State Budget Officer
Todd Gabe, Professor of Economics, University of Maine

March 1, 2024

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

FROM: Amanda Rector, Chair
Revenue Forecasting Committee

RE: Revenue Forecasting Committee March 1, 2024, Report

The Revenue Forecasting Committee (RFC) has concluded its update of the revenue forecast to comply with its statutory reporting date of March 1, 2024, to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on February 1, 2024, and to provide a forecast that reflects revenue performance through the first seven months of FY24 and preliminary revenues for February 2024. 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 next week and added to the web page.

General Fund Summary

	FY23	**FY24**	**FY25**	**FY26**	**FY27**
Current Forecast	$5,379,492,013	$5,249,523,398	$5,311,008,295	$5,421,191,639	$5,619,472,393
Annual % Growth	-0.2%	-2.4%	1.2%	2.1%	3.7%
Net Increase (Decrease)	$0	$82,371,821	($5,443,882)	($27,562,075)	($45,014,285)
Revised Forecast	$5,379,492,013	$5,331,895,219	$5,305,564,413	$5,393,629,565	$5,574,458,108
Annual % Growth	-0.2%	-0.9%	-0.5%	1.7%	3.4%

In its March 2024 update, the RFC revised General Fund revenue upward by $82.4 million for FY24 and downward by $5.4 million for FY25 for a net increase of $76.9 million (0.7%) for the 2024-2025 biennium. The resulting forecasted rate of year-over-year change in General Fund revenue for FY24 is now a 0.9% decrease from FY23 final revenue amounts, followed by a decrease of 0.5% for FY25. The March 2024 forecast revises 2026-2027 revenue estimates downward by $72.6 million (0.7%) for the biennium, with a forecasted rate of year-over-year growth of 1.7% for FY26 and 3.4% for FY27. **It is important to note the March 2024 RFC forecast includes a significant increase in General Fund payments (transfers) to the Maine Milk Pool required as a result of a major substantive rule submitted by the Maine Milk Commission to the Legislature in January that will become law as proposed if not acted upon by the Legislature this session. Without these estimated increased milk pool transfers, the March 2024 update would have revised General Fund revenue upward by $83.0 million for FY24 and by $24.7 million for FY25 for a combined increase of $107.8 million (1.0%)**

for the 2024-2025 biennium. Without the estimated increased milk pool transfers, 2026-2027 biennium General Fund revenue estimates would have been revised downward by $2.9 million (0.03%) for the biennium, with a forecasted rate of year-over-year growth of 1.7% for FY26 and 3.4% for FY27.[1]

The changes in General Fund revenue during the forecast period from the three largest revenue lines are primarily from the corporate income tax, with individual income tax and sales and use tax changes being less impactful on net than in past revenue forecasts.

Corporate Income Tax Revenue estimates are revised upward by $60.4 million for FY24 and $40.4 million for FY25. Upward revisions to FY26 and FY27 are $24.7 million and $24.2 million, respectively. Corporate income tax receipts continue to perform above budget, with relatively large positive variances in each of the three months since the December revenue forecast. Through January, corporate income tax revenue was $32.3 million (15.5%) over budget and continued strong payments plus unusually large one-time audit payments in February will increase the year-to-date surplus to $47.0 million. Based on tax year 2022 tax returns filed on extension in October, corporate income tax liability is now estimated to have increased by 34.0% over tax year 2021. The much stronger 2022 liability growth has significantly reduced the concern we had through much of last year regarding corporate payments far in excess of liability. The lower positive adjustments to the forecast in FY26 and FY27 reflect the impact of the new DIRIGO Business Incentive Program and the moderation of tax increases due to conformity with provisions in the 2017 federal Tax Cuts and Jobs Act.

Individual Income Tax Revenue estimates are revised upward by $6.0 million for FY24, but are reduced by $22.0 million for FY25, $27.0 million for FY26, and $33.0 million for FY27. In the November 2023 report, the CEFC increased its wage and salary growth forecast for 2023 from 6.0% to 7.5%, which significantly increased annual tax liability over the forecast period. Based on updated information from Maine Department of Labor the CEFC reversed that change in its February forecast, thereby reversing the related increase in revenue in the RFC’s December revenue forecast. The reduction in 2023 wage and salary growth is estimated to decrease tax year 2023 individual income liability by $32.7 million as wages and salaries are the largest source of taxable income. The lower base for wages and salaries in 2023 results in forecasted annual decreases in individual income tax liability of $34.5 million in tax year 2024 and rising to approximately $56.7 million in tax year 2027. In addition, with most tax year 2022 returns processed and available for review, it has become apparent that tax year 2022 tax liability was lower than forecasted in the December revenue forecast. Applying the CEFC’s economic forecast to this lower tax base further reduces the individual income tax forecast. Some changes did partially offset the negative impacts of the wage and salary forecast and lower tax year 2022 tax liability. First, the CEFC lowered its inflation forecast for the forecast period, which will increase individual income tax receipts because lower inflation will reduce inflation adjustments to numerous individual income tax parameters (e.g., standard deduction amounts, personal exemption amount, tax brackets, etc.). Second, more optimistic forecasts of capital gains and business income helped to limit the net decrease in FY25-FY27 individual income tax revenues.

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Informational : General Fund Summary without Milk Pool Transfer Proposed Change

	FY23	*FY24*	*FY25*	*FY26*	*FY27*
Current Forecast	*$5,379,492,013*	*$5,249,523,398*	*$5,311,008,295*	*$5,421,191,639*	*$5,619,472,393*
Annual % Growth	*-0.2%*	*-2.4%*	*1.2%*	*2.1%*	*3.7%*
Net Increase (Decrease)	*$0*	*$83,039,643*	*$24,732,518*	*$6,407,546*	*($9,318,088)*
Revised Forecast	*$5,379,492,013*	*$5,332,563,041*	*$5,335,740,813*	*$5,427,599,186*	*$5,610,154,305*
Annual % Growth	*-0.2%*	*-0.9%*	*0.1%*	*1.7%*	*3.4%*

Sales and Use Tax Revenue estimates are revised upward by a relatively minor $4.7 million for FY24, $5.7 million for FY25, and $1.9 million for FY26. FY27 has been adjusted down by $8.7 million. The fiscal year adjustments to the sales and use tax forecast reflect a resilient consumer, but an expectation that overall consumer spending will be lower than previously projected over the forecast period. The shift in consumer spending back to mostly nontaxed services is expected to continue, with the percentage of personal consumption expenditures on services now forecasted to return to its pre-pandemic level later in calendar year 2025. While sales tax revenue growth is forecasted to grow in nominal terms, real growth (adjusted for inflation) is expected to decline beginning in FY25.

Highway Fund Summary

	FY23	FY24	FY25	FY26	FY27
Current Forecast	$349,536,401	$489,795,518	$494,419,943	$493,899,509	$492,568,033
Annual % Growth	1.4%	40.1%	0.9%	-0.1%	-0.3%
Net Increase (Decrease)	$0	$9,320,307	$9,846,579	$10,985,800	$11,855,501
Revised Forecast	$349,536,401	$499,115,825	$504,266,522	$504,885,309	$504,423,534
Annual % Growth	1.4%	42.8%	1.0%	0.1%	-0.1%

The RFC has revised Highway Fund revenue estimates upward by $9.3 million for FY24 and by $9.8 million for FY25 for a total increase of $19.2 million (1.9%) for the 2024-2025 biennium. The forecasted rate of year-over-year change in Highway Fund revenue for FY24 is 42.8% from FY23 final revenue amounts, followed by 1.0% for FY25. The March 2024 forecast revises 2026-2027 biennium revenue estimates upward by $22.8 million (2.3%) for the biennium, with a resulting forecasted rate of year-over-year increase of 0.1% for FY26 and a decrease of 0.1% for FY27. The increases in the March 2024 Highway Fund forecast are largely the result of increases in the estimates for the new liquor operations fund transfer to the Highway Fund and increases in motor vehicle registration and fees. As was noted in the December forecast, the significant increase in estimated FY24 Highway Fund revenue from FY23 final amounts is largely the result of the newly enacted automotive sales tax transfer included in the 2024-2025 Highway Fund Budget (PL 2023, c. 189, Part I) of $107.5 million and the liquor operations fund transfer originally budgeted at $53 million for FY24.

In their February report the CEFC noted that, “demographic changes and global geopolitical tensions were among the key risks to continued economic growth,” and that, “while Maine is expected to continue seeing higher in-migration of working-age people in the coming years, this may not be sufficient to fully offset retirements in the future.” These assumptions of current uncertainty in the larger economic environment paired with future demographically related changes in the Maine economy are reflected in the economic variables used by the RFC in this March revenue forecast. While there has been ongoing strength in revenues related to corporations and capital gains, it is difficult to attribute strength in these revenues to specific economic trends in Maine and these revenue sources will require continued monitoring. Withholding has slowed in recent months although it is unclear whether this is a temporary or longer-term trend. The shift in consumer spending from goods to services has continued at a slower-than-expected pace, bolstering sales tax revenue in the near term. Both the CEFC and RFC will continue to monitor changes in economic conditions over the coming months in preparation for their required November 2024 and December 2024 reports.

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