Members:

Michael Allen, Chair, Associate Commissioner of Tax Policy
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Amanda Rector, State Economist

April 30, 2021

TO: Governor Janet T. Mills
         Members, 130th Legislature

FROM: Michael Allen, Chair
         Revenue Forecasting Committee

RE: **Revenue Forecast Committee May 1, 2021 Report**

The Revenue Forecasting Committee (RFC) has concluded its mid-session update of the current revenue forecast to comply with this year's statutory reporting date of May 1st, to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on April 1, 2021 and to provide a forecast that reflects revenue performance through the first ten months of FY21. 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 added to the web page next week.

General Fund Summary

	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$4,070,279,515	$4,174,531,432	$4,317,597,709		
Annual % Growth	2.5%	2.6%	3.4%		
Net Increase (Decrease) Forecast	($527,809,542)	($433,731,150)	($449,465,768)		
August 2020 Forecast	$3,542,469,974	$3,740,800,282	$3,868,131,941		
Annual % Growth	-10.8%	5.6%	3.4%		
Net Increase (Decrease) Forecast	$272,806,942	$231,967,435	$255,473,700		
December 2020 Forecast	$3,815,276,916	$3,972,767,717	$4,123,605,641	$4,276,170,128	$4,431,148,462
Annual % Growth	-3.9%	4.1%	3.8%	3.7%	3.6%
Net Increase (Decrease) Enacted Leg.	($123,763,062)	$34,312,346	$54,056,820	$5,970,750	$6,403,000
Net Increase (Decrease) Forecast	$479,428,979	$241,344,813	$219,186,512	$223,297,647	$213,216,979
May 2021 Forecast	$4,170,942,833	$4,248,424,876	$4,396,848,973	$4,505,438,525	$4,650,768,441
Annual % Growth	5.1%	1.9%	3.5%	2.5%	3.2%
Change % from March 2020 RFC	2.5%	1.8%	1.8%	na	na

In its May 2021 update, the RFC revised General Fund (GF) revenue estimates upward by $479.4 million for FY21 and by $460.5 million for the 2022-2023 biennium. The forecasted rate of year-over-year growth for General Fund revenue for FY21 is now 5.1%, followed by growth of 1.9% for FY22 and 3.5% for FY23. Relative to the RFC's pre-pandemic March 1, 2020 forecast, GF revenues are now projected to be $100.7 million (2.5%) higher in FY21 and $153.1 million (1.8% per year) higher for the 2022-2023 biennium (this biennial increase includes $95.3 million from the extension of revenue sharing at 3.75%

for the biennium enacted in the 2022-2023 Biennial Budget, PL 2021, c. 29). As discussed below, the GF revenue changes are largely the result of positive adjustment to the sales and use and individual income taxes lines. The RFC also made a significant positive adjustment to the estate tax line totaling $22.0 million for FY 21 after being presented with additional information at a brief meeting on April 30th on actual collections to date for FY21.

Highway Fund (HWF) revenues are being decreased by $0.2 million for FY21 and by $7.0 million for the 2022-2023 biennium. Highway Fund revenues relative to the RFC's pre-pandemic March 1, 2020 forecast are now projected to be $19.6 million lower in FY21 and $28.4 million lower for the 2022-2023 biennium. The Highway Fund revenue changes are largely the result of negative adjustments to the motor fuels tax lines.

The $177.3 million upward adjustment in FY21 to the General Fund sales and use tax forecast reflects a positive variance of $75.2 million through March and preliminary April receipts that point to a monthly positive variance of approximately $35 million. In addition, because of weak sales in early summer last calendar year, the annual net accrual this June will be unusually large, contributing a one-time boost of $35 million to the FY21 sales tax forecast. The net accrual is one reason why the projected change in FY22 and FY23 are lower than FY21, but the primary reason for the drop off is the year-over-year revenue growth from the sale of consumer goods (+16.6%) that has occurred during the first three months of CY21. The new forecast assumes much of this growth, which is expected to continue through June, is being fueled by the $600 and $1,400 stimulus checks issued during the early part of 2021 and the extension of enhanced unemployment insurance benefits of $300 per week that will expire in early September. This surge in consumer spending and a shift back to spending on services is expected to slow sales tax growth during the second half of CY21. While meal and lodging sales are expected to return to 2019 levels during the summer tourism season, this assumption is only slightly more optimistic than the December forecast and therefore does not contribute significantly to changes in this revenue forecast. Adjusting for the expected ramp up in sales of adult use marijuana, the forecast of revenue growth from FY23-FY25 is expected to average 2.5%.

Changes to the General Fund individual income tax are primarily the result of the CEFC's more optimistic assumption of wage and salary growth over the forecast period. The April CEFC forecast assumes that wages and salaries combined with taxable enhanced unemployment insurance (UI) benefits that were part of the Consolidated Appropriations Act of 2020 and the American Rescue Plan of 2021 will increase 6% during CY21 compared to -1.8% projected in the November economic forecast. Wages and salaries represent a significant portion of taxable income and therefore any increase in their forecasted level leads to higher individual income tax liability. Other key factors impacting the individual income tax forecast are: (1) stronger growth in capital gains realizations than the December forecast, (2) slightly stronger growth in business income, and (3) continued adjustments to estimates of State conformity to the various federal stimulus acts that were part of the FY21 Supplemental Budget. Like sales tax, the revenue increase in FY21 is larger than the later years partly because of timing in receipts. Extremely strong final estimated payments for tax year 2020 and withholding payments during the first half of CY21, and a shift in a portion of the negative revenue impact of conformity to PPP and the $10,200 unemployment insurance exemption from FY21 to FY22 are boosting the reprojection for FY21.

Over the last year both the CEFC and RFC have made unusually large adjustments to their previous forecasts as both forecasting groups, along with other economic and revenue forecasters, have tried to understand and adjust to changing health and economic conditions caused by the historic global pandemic. In addition, the fiscal and monetary response by Congress and the Federal Reserve System is the largest as a percentage of GDP since the Great Depression and has included tax and expenditure programs unique to the economic dislocations caused by the pandemic induced recession. While the percentage of the population that has received the COVID-19 vaccine continues to climb and herd immunity is expected by early to mid-summer, a high degree of uncertainty remains about the state of the pandemic and the path

of the economy later this year and next. Both the CEFC and the RFC remain committed to using the flexibility provided to us by Maine's Consensus Revenue Forecasting law (5 MRS, Chapter 151-B) to make sure the Governor and Legislature are updated as quickly and as accurately as possible as health and economic conditions change between this forecast exercise and the next one later this fall.

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
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