STATE OF MAINE
REVENUE FORECASTING COMMITTEE

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Todd Gabe, Professor of Economics, University of Maine

December 1, 2023

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

FROM: Christopher Nolan, Chair
Revenue Forecasting Committee

RE: Revenue Forecast Committee December 1, 2023 Report

The Revenue Forecasting Committee (RFC) has concluded its update of the revenue forecast to comply with its statutory reporting date of December 1st, to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on November 1, 2023 and to provide a forecast that reflects revenue performance through the first four months of FY24 and preliminary revenues for November 2023. 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	$5,110,178,531	$5,185,737,630	$5,302,662,217	$5,481,454,883
Annual % Growth	-0.2%	-5.0%	1.5%	2.3%	3.4%
Net Increase (Decrease)	$0	$139,344,867	$125,270,665	$118,529,423	$138,017,510
Revised 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%

In its December 2023 update, the RFC revised General Fund revenue upward by $139.3 million for FY24 and by $125.3 million for FY25 for a total increase of $264.6 million (2.6%) for the 2024-2025 biennium. The resulting forecasted rate of year-over-year change in General Fund revenue for FY24 is now a 2.4% decrease from FY23 final revenue amounts, followed by a 1.2% rate of growth for FY25. It is important to note the residual decrease in estimated FY24 General 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) that transfers $107.5 million from the General Fund to the Highway Fund in FY24. The December 2023 forecast also revises 2026-2027 revenue estimates upward by $256.5 million (2.4%) for the biennium, with a forecasted rate of year-over-year growth of 2.1% for FY26 and 3.7% for FY27. The increases in General Fund revenue during the forecast period are primarily from income and sales and use taxes changes summarized below.

Individual Income Tax Revenue estimates are revised upward by $41.6 million for FY24, $75.5 million for FY25, $81.6 million for FY26 and $104.5 million for FY27. In the November 1st report, the CEFC increased its wage and salary growth forecast for 2023 from 6.0 percent to 7.5 percent but kept growth rates the same for 2024-2027. The increase in 2023 growth is estimated to increase tax year 2023 individual income liability by $35.4 million as wage and salaries is the largest source of taxable income. The higher base for wages and salaries in 2023 results in forecasted annual increases in individual income tax liability of $37.4 million in tax year 2024 and rising to approximately $43.0 million in tax year 2027. In addition, the CEFC lowered its inflation forecast for the forecast period, which again will increase individual income tax receipts because lower inflation will reduce inflation adjustments to numerous individual income tax provisions (e.g., standard deduction amounts, personal exemption amount, tax brackets, etc.). The December forecast assumes the lower inflation forecast will add $12.2 million to tax year 2024 liability, $38.6 million to tax year 2025 liability, $28.0 million to tax year 2026 liability, and $59.2 million to tax year 2027. Finally, the forecast of nonresident liability has been increased through the forecast period based on tax year 2022 tax filings. For the first time since the start of the pandemic unearned income such as capital gains and business income have little impact on the new individual income tax forecast.

Sales and Use Tax Revenue estimates are revised upward by $57.4 million for FY24, $43.2 million for FY25, $46.7 million for FY26 and $52.8 million for FY27. The fiscal year adjustments to the sale and use tax forecast reflect a resilient consumer as reflected in a positive budget variance of $47.9 million through the first four months of FY24. While sales tax revenue growth has clearly moderated, growth has been consistently stronger than forecasted in May. Lower inflation, higher personal income, and lower personal saving in the new CEFC forecast imply continuing, though modest, growth in real spending. The shift in consumer spending back to mostly nontaxed services is expected to continue, with the percentage of personal consumption expenditures on services forecasted to return to its pre-pandemic level by early 2025.

Corporate Income Tax Revenue estimates are revised upward by $20 million for FY24, are unchanged for FY25, but revised downward by $10.7 million for FY26 and $14.3 million for FY27. Corporate income tax receipts continue to perform above budget, but the positive variance has narrowed considerably. Through October, corporate income tax revenue is $7.5 million (6.5 percent) over budget. Based on tax year 2022 tax returns filed on extension in October, corporate income tax liability is now estimated to increase by 30 percent over tax year 2021. While the much stronger 2022 liability growth reduces the concern we had in May regarding payments far in excess of liability, that concern remains albeit at a lower level of risk. The downward adjustments to the forecast in FY26 and FY27 reflect a lower CEFC forecast of the growth in pre-tax corporate profits.

Highway Fund Summary

	FY23	FY24	FY25	FY26	FY27
Current Forecast	$349,536,401	$489,713,575	$493,177,367	$494,437,014	$495,917,823
Annual % Growth	1.4%	40.1%	0.7%	0.3%	0.3%
Net Increase (Decrease)	$0	$81,943	$1,242,576	($537,505)	($3,349,790)
Revised 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%

The RFC has revised Highway Fund revenue estimates upward by $0.1 million for FY24 and by $1.2 million for FY25 for a total increase of $1.3 million (0.1%) for the 2024-2025 biennium. The forecasted rate of year-over-year change in Highway Fund revenue for FY24 is 40.1% from FY23 final revenue amounts, followed by 0.9% for FY25. It is important to note the residual 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) that transferred $107.5 million from the General Fund to the Highway Fund in FY24. The December 2023 forecast also revises 2026-2027 biennium revenue estimates downward by \$3.9 million (0.4%) for the biennium, with a resulting forecasted rate of year-over-year decreases of 0.1% for FY26 and 0.3% for FY27. The Highway Fund revenue forecast changes are the result of decreases in overall motor fuels revenue partially offset by forecasted increases in motor vehicle registration and fees and other highway fund revenue lines including an increase in the estimate for the automotive sales tax transfer from the General Fund.

In their November report the CEFC noted there is "ongoing heightened uncertainty in economic conditions in the near-term, especially regarding geo-political upheaval, but does not anticipate a recession in its forecast." The CEFC further noted that "inflation and interest rates, demographic changes, access to housing, and a tight labor market were among the key risks to continued economic growth". This revenue forecast is based on those CEFC economic assumptions that are heavily influenced by these uncertainties. The RFC would like to highlight that while this revenue forecast increases General Fund revenues by approximately \$130 million per year, the continued transition to a post-COVID economy and recently enacted tax changes result in declining or weak revenue growth over the FY24-26 fiscal years. Depending on how these known risks listed above, and more importantly unknown events, unfold in 2024 this revenue forecast could prove to be overly optimistic or pessimistic. Both the CEFC and RFC will continue to monitor the situation over the coming months in preparation for their required February 2024 and March 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