STATE OF MAINE
REVENUE FORECASTING COMMITTEE

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Amanda Rector, State Economist, Chair
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Luke Lazure, Principal Analyst, Office of Fiscal and Program Review

May 1, 2025

TO: Governor Janet T. Mills
Members, 132nd Legislature

FROM: Amanda Rector, Chair
Revenue Forecasting Committee

RE: Revenue Forecasting Committee May 1, 2025, Report

The Revenue Forecasting Committee (RFC) has concluded its update of the revenue forecast to comply with its statutory reporting date of May 1, 2025, to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on April 1, 2025, and to provide a forecast that reflects revenue performance through the first 9 months of FY25 and preliminary revenues for April 2025. 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.

General Fund Summary

	FY25	FY26	FY27	FY28	FY29
Current Forecast	$5,581,157,269	$5,538,177,275	$5,686,239,390	$5,862,453,837	$6,063,446,943
Annual % Growth	4.3%	-0.8%	2.7%	3.1%	3.4%
Net Increase (Decrease)	$24,353,647	$1,107,912	($24,401,139)	($2,900,557)	($30,023,935)
Revised Forecast	$5,605,510,916	$5,539,285,187	$5,661,838,251	$5,859,553,280	$6,033,423,008
Annual % Growth	4.7%	-1.2%	2.2%	3.5%	3.0%

In its May 2025 update, the RFC revised General Fund revenue estimates upward by $24.4 million for FY25 but downward by -$23.3 million for the 2026-2027 biennium. The forecasted rate of year-over-year change in General Fund revenue for FY25 is 4.7%, followed by -1.2% for FY26 and 2.2% for FY27. The May 2025 forecast also reduced projections downward for FY28 by -$2.9 million and for FY29 by -$30.0 million. The forecasted rate of year-over-year growth is 3.5% for FY28 and 3.0% for FY29.

Individual Income Tax Revenue estimates are revised upward by $57.0 million for FY25, $57.0 million for FY26 and $36.0 million for FY27. The primary source of the upward reprojection is incoming information on the strength of tax year 2024. The growth in tax year 2024 liability before refundable credits is estimated to be 8.4%, resulting in 2024 tax liability being revised up by $47 million. Capital gains realizations are the main explanation for the strong 2024 tax liability growth; taxable IRA distributions and interest income also contributed. Capital gains are assumed to have increased by 30% in 2024, up from 15% in the December forecast. Downward revisions to the Student Loan Repayment Credit in tax years 2024 and 2025, and the Dirigo Tax Credit in all tax years contribute to the positive adjustments as well.

Corporate Income Tax Revenue estimates are revised downward by -$77.0 million for FY25, -$47.0 million for FY26 and -$56 million for FY27. Since the release of the December 1, 2024, revenue forecast, corporate payments have consistently been under budget. Through March, corporate payments were under budget by $37.7 million, and preliminary April payments are under budget by an additional $21.8 million. It appears that corporations have started to reduce their payments to the state reflecting the overpayments they have made over the previous four years. In addition, new and existing refundable tax credits are costing more than previously estimated, resulting in increased refunds being issued. Like the individual income tax, the forecasted revenue loss from the new Dirigo Tax Credit has been reduced, helping to mitigate the total negative revenue adjustment in the forecast. The combination of these factors is forecasted to bring corporate income tax receipts down to approximately $400 million per fiscal year, compared to approximately $450 million per fiscal year forecasted in the December RFC revenue forecast.

Sales and Use Tax Revenue estimates are revised downward by -$0.16 million for FY25, -$19.1 million for FY26 and -$24.1 million for FY27. The new forecast of consumer spending is essentially unchanged in calendar year 2025 but then is lower than the previous forecast in every year after that due to a combination of lower personal income and higher saving rates. The composition of the reduced consumer spending results in additional negative adjustments to the sales tax forecast because all the decrease in consumer spending comes from durable goods (e.g., automobiles, appliances, building materials). Durable goods spending is the main driver of sales tax revenue, resulting in negative revisions in every fiscal year, maxing out at -$25.0 million in fiscal year 2027.

Estate Tax estimates are revised upward by $13 million for FY25, $6.7 million for FY26, and $6.9 million for FY27. Estate tax receipts were over budget through March by $15.2 million, primarily from January receipts being over budget by $15.7 million. Some unusually large tax payments in January are not expected to be repeated in future years, but new tax return data since last November suggests an ongoing upward adjustment is warranted.

Income from Investments (Interest) estimates are revised upward by $4.2 million for FY25, $3.7 million for FY26, and $3.2 million for FY27. These increases result from upward adjustments to the underlying assumptions regarding fund balances and cash pool interest rates.

Highway Fund Summary

	FY25	FY26	FY27	FY28	FY29
Current Forecast	$514,765,126	$504,792,382	$505,702,254	$506,217,668	$506,299,754
Annual % Growth	0.8%	-1.9%	0.2%	0.1%	0.0%
Net Increase (Decrease)	($1,647,811)	($1,235,137)	($933,902)	($1,771,003)	($1,432,953)
Revised Forecast	$513,117,315	$503,557,245	$504,768,352	$504,446,665	$504,866,801
Annual % Growth	0.4%	-1.9%	0.2%	-0.1%	0.1%

In its May 2025 update, the RFC revised Highway Fund revenue estimates downward by -$1.6 million for FY25 and downward by -$2.2 million for the 2026-2027 biennium. The forecasted rate of year-over-year change in Highway Fund revenue for FY25 is now 0.4%, followed by -1.9% for FY26 and 0.2% for FY27. The May 2025 forecast also reduces projections for the 2028-2029 biennium, with overall FY28 Highway Fund revenue projected to decrease at a -0.1% rate with FY29 only slightly above the FY28 forecasted level. The decreases in the May 2025 Highway Fund forecast are largely the result of a decrease in the fuels tax forecast of -$2.4 million for FY25 with more modest decreases forecasted for FY26 through FY29. The forecast for Highway Fund income from investments (interest) for FY26 through FY29 is also decreased as a result of reduced assumptions for fund balances.

In its April 2025 report the CEFC emphasized the high degree of uncertainty in the current economic forecast. In particular, it highlighted rapidly changing tariff policies, a period of significant federal fiscal austerity, and global geopolitical tensions, including between Canada and the U.S. that could drive a decline in Canadian tourism to Maine. The RFC continued the discussion of heightened uncertainty, especially as it relates to the frequent changes in tariff policy and the effects on consumer and business sentiment, both of which have seen substantial declines over the past three months. The volatility in stock and bond markets further reflects the uncertainty being felt by businesses. The CEFC made only minor changes to key economic variables used by the RFC in their revenue forecast, in part due to the high degree of uncertainty in the economic forecast.

It is important to bear in mind that there is a high degree of risk associated with the revenue forecast as a result of the extremely uncertain economic environment we are currently facing. However, the forecast for FY25 is based almost entirely on activity that has already happened; the greater risk to the revenue forecast is for the coming biennium. Both the CEFC and RFC will continue to monitor changes in economic conditions over the coming months in preparation for their required November and December 2025 reports and discussed the possibility of reconvening sooner if conditions change significantly.

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