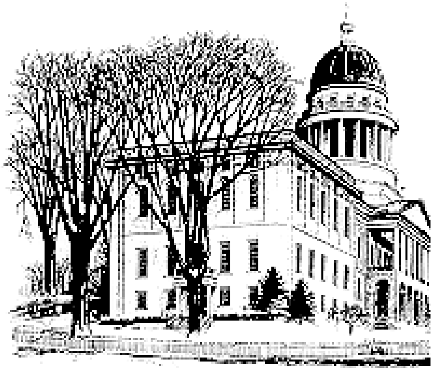

STATE OF MAINE
REVENUE FORECASTING COMMITTEE

Members:

Michael Allen, Chair, Associate Commissioner of Tax Policy
Beth Ashcroft, State Budget Officer
Ryan Wallace, University of Maine System
Marc Cyr, Principal Analyst, Office of Fiscal and Program Review
Christopher Nolan, Director, Office of Fiscal and Program Review
Amanda Rector, State Economist

November 30, 2021

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

FROM: Michael Allen, Chair
Revenue Forecasting Committee

RE: Revenue Forecast Committee December 1, 2021 Report

The Revenue Forecasting Committee (RFC) has concluded its update of the current 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, 2021 and to provide a forecast that reflects revenue performance through the first four months of FY22. 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 later this 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%		
May 2021 Forecast Adjusted [1]	$4,520,591,145	$4,179,154,919	$4,325,387,503	$4,484,402,527	$4,628,688,473
Annual % Growth	13.9%	-7.6%	3.5%	3.7%	3.2%
Net Increase (Decrease)	$0	$443,172,347	$379,073,003	$401,908,593	$419,689,617
Dec 2021 Forecast	$4,520,591,145	$4,622,327,266	$4,704,460,506	$4,886,311,120	$5,048,378,090
Annual % Growth	13.9%	2.3%	1.8%	3.9%	3.3%
Change $ from March 2020 RFC	$450,311,629	$447,795,834	$386,862,797	na	na
Change % from March 2020 RFC	11.1%	10.7%	9.0%	na	na

1/ Reflects FY21 actual revenue and revenue changes enacted subsequent to the May 2021 Forecast

In its December 2021 update, the RFC revised General Fund revenue estimates upward by $443.2 million for FY22 and by $379.1 million for FY23 for a total increase of $822.2 million (9.7%) for the 2022-2023 biennium. The forecasted rate of year-over-year growth for General Fund revenue for FY22 is 2.3% and for FY23 is 1.8%. Relative to the RFC's pre-pandemic March 1, 2020 forecast, GF revenue was $450.3 million (11.1%) higher for FY21 and is now projected to be $834.7 million (9.8%) higher for the 2022-2023 biennium. As discussed below, the GF revenue changes are largely the result of positive adjustments to the sales and use and individual income tax lines.

The RFC revised Highway Fund revenue estimates upward by $4.0 million for FY22 and by $1.9 million for FY23 for a total increase of $5.9 million (0.9%) for the 2022-2023 biennium. The forecasted rate of year-over-year growth for Highway Fund revenue for FY22 is 0.2% and for FY23 is 1.1%. The Highway Fund revenue changes are largely the result of increases in the motor vehicle registration and fees and other highway fund revenue lines, while the motor fuels tax lines were unchanged.

The $209.0 million upward adjustment in FY22 to the General Fund sales and use tax forecast reflects a positive variance of $92.5 million through October and preliminary November receipts that point to a monthly positive variance of approximately $20 million. While the sales tax forecast assumes year-over-year growth will slow starting in calendar year 2022, the CEFC's economic forecast estimates Maine households will experience income growth capable of sustaining the current level of spending on taxable goods and services. After FY22, annual sales tax growth is forecasted to be between 2.5 and 3.0 percent, reflecting higher inflation and a gradual shift back to in person non-taxable services as consumers adjust their mix of spending to where it was pre-pandemic.

Changes to the General Fund individual income tax are primarily the result of the 2020 tax year being stronger than previously forecasted, revenue performance through the first 10 months of tax year 2021 indicating that tax year 2021 will grow by more than previously forecasted, and more optimistic assumptions of wage and salary growth over the remainder of the forecast period. The November CEFC forecast assumes that wages and salaries will increase 5.5% during CY21, 5.0% per year for the CY22-CY24 period, and 4% in CY25. The wages and salaries forecast results in an increase in forecasted individual income tax liability of $39 million in tax year 2021, $60 million in tax year 2022, $84 million in tax year 2023, and approximately $110 million in tax years 2024 and 2025. Stronger growth in capital gains realizations increases 2021 tax liability by $64 million but has limited impact relative to the May forecast after 2021 as projected decreases in capital gains realizations eventually reduces tax liability. The revenue increase in FY22 is larger than the later years partly because of timing in receipts. The new forecast assumes some shifting of income into tax year 2021 and out of future tax years to avoid potential tax increases at the federal level. This behavior by high-income taxpayers will boost FY22 revenues at the expense of future fiscal years. If Congress passes a significant tax package prior to the end of calendar year 2021 it's entirely possible that the income shifting may be larger than we are currently estimating and the FY22 individual income tax forecast will need to be adjusted up in the March 1, 2022 revenue forecast.

The significant revenue increases estimated in this forecast represent the latest thinking by economic forecasters on the trajectory of the U.S. and Maine economies over the next four years. As the last few days have shown, the historic COVID-19 pandemic remains highly uncertain, and variants can appear unexpectedly and spread across the globe quickly. Most of the short-term risk to the current revenue forecast is positive, while ongoing issues (inflation, stock and real estate market valuations, supply chain and labor force constraints etc.) facing the economy make the FY23-25 portions of the forecast volatile and susceptible to significant downside risk. The short time horizon between this forecast exercise and the next one in early CY22 doesn't provide a lot of time for many of the global challenges to be resolved, which means the long-term part of this forecast will remain uncertain until late next year.

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
Legislative Staff Office Directors