

Revenue Outlook and Forecast

Background

The Revenue Forecasting Committee was established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the State Budget Officer with analyses and recommendations related to the projection of General Fund and Highway Fund revenues. Creation of the committee was in response to the recommendation of Special Commission on Government Restructuring to develop independent and consensus based revenue projections. Public Law 1995, chapter 368 enacted in statute the Revenue Forecasting Committee. This law provided that membership on the committee would include the State Budget Officer, the State Tax Assessor, the State Economist, the Director of the Legislative Office of Fiscal and Program Review and an economist on the faculty of the University of Maine System selected by the Chancellor.

Public Law 1997, chapter 655 expanded the membership of the committee to include an analyst from the Legislative Office of Fiscal and Program Review designated by the Director of that office. The revenue projections of the committee also would no longer be advisory but would become the actual revenue projections used by the Executive Branch in setting budget estimates and recommendations and out-biennium budget forecasts for both the General Fund and the Highway Fund. The State Budget Officer also was empowered to convene a meeting of the committee to review any new data that might become available, affecting the revenue projections for the General Fund and the Highway Fund.

The committee is required to meet at least four times a year or when called by a majority vote of the committee members, or at the request of the State Budget Officer. The committee is required to develop four year revenue forecasts for the General Fund and the Highway Fund, or other funds of the state. No later than December 1st and March 1st (May 1st during odd-numbered years) annually the committee must submit to the Governor, the Legislative Council, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the State Budget Officer its findings, analyses and recommendations for General Fund and Highway Fund revenues. The revenue forecasts are developed using econometric models for Sales and Use Tax, Individual Income Tax, Corporate Income Tax, Fuel Tax and Cigarette Tax. Forecasts for the remaining revenue lines are developed using trend data, national economic assumptions, department subject matter experts and operational analysis (e.g., net profit from liquor sales).

Findings – Major Revenue Sources

Overview – In November 2010, the Consensus Economic Forecasting Commission (CEFC) provided its forecasts for the major economic variables that were used as inputs to Maine Revenue Services' tax models to help project revenue from the major taxes. Amidst continued economic uncertainty over the national economy, the forecast by the CEFC was mixed, recognizing improved but still negative wage and salary employment growth in calendar year 2010 while reducing previously estimated gains for 2011 and 2012. The changes made by the CEFC in November to their forecast is consistent with the idea that the economy had picked up in 2010 a bit more than had been expected but will continue to improve at a slower, more prolonged pace than expected. Personal income growth in 2010 was revised upward strongly; previous growth in 2011 was left unchanged on a percentage basis, but that growth will be increasing from a higher base and an already strong 2012 performance was revised upwards further. The Revenue Forecasting Committee (RFC) after taking into consideration the CEFC forecast projected an increase in the Income Tax and Corporate tax lines of \$166.0 million in FY 12 and \$188.0 million in FY 13.

Sales and Use Tax – Sales tax receipts have been significantly impacted by the recent recession. The decline in sales and use tax revenue during the “Great Recession” was the deepest and most prolonged in Maine history. The recovery in sales tax revenue over the last year has mimicked the national economic recovery; slow and uneven. The current revenue forecast assumes the slow recovery in sales tax receipts will continue through the first half of calendar year 2011 and will begin to grow at a more moderate rate during the second half of 2011. The strength in sales tax revenue is tied to an improving labor market and a slow steady rise in energy prices.

Individual Income Tax – The Individual Income Tax is forecast with the input of a number of economic variables: the components of Personal Income, inflation, total employment growth, the unemployment rate, and the 3-month treasury bill and 10-year treasury note rates. In addition to these economic variables, Maine Revenue Services must also input assumptions about net capital gains. For the most part the relationship and the effect of these variables on the individual income tax are obvious. Personal Income and the distribution of that variable into its components (salaries and wages; dividends, interest and rent; proprietor's income; and transfer payments) affect the accuracy of the Individual Income Tax forecast. The forecast for the Individual Income Tax while consistent with the changes in these economic variables is primarily influenced by recent data from federal and state income tax returns. Similar to the sales tax forecast, the forecast for individual income tax is highly dependent on the recovery in Maine's labor market.

Corporate Income Tax – The Corporate Income Tax model is driven by employment growth by sector, the CPI forecast and a national forecast of corporate pre-tax profits. The recent increases in corporate income tax receipts are the result of historic profits realized through cost reductions implemented during the recession. The modest growth in corporate income tax receipts in the upcoming biennia reflects a forecast of more moderate growth in corporate profits as the economic recovery unfolds.

Cigarette and Tobacco Tax – Maine appears to have recaptured some sales previously leaking across the border to New Hampshire after its recent cigarette tax increase significantly narrowed the price differential between Maine and New Hampshire. The Revenue Forecasting Committee in December 2010 raised its budgeted revenue projections by approximately \$8.5 million for each year of the 2012-2013 biennium based on a higher amount collected in FY 10. Despite this jump in the starting base, the long-term trend is still expected to be a slow decline in sales each year due to declining consumption of tobacco products.

Insurance Company Tax – The forecast for Insurance Company Tax for fiscal years 2011-12 and 2012-13 continues to remain relatively flat. The Revenue Forecasting Committee in December 2010 did increase the baseline budgeted revenues by approximately \$4.0 million each year based on higher revenue collections in FY10.

Municipal Revenue Sharing – Sales and Use Tax, Service Provider Tax, Individual Income Tax and Corporate Income Tax are subject to Municipal Revenue Sharing in accordance with Title 30-A, section 5681 of the Maine Revised Statutes. That section of statute requires that an amount equal to 5.0% of the sales, income, corporate and service provider tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). (Beginning in FY 12 funds for revenue sharing will be appropriated instead of transferred).

Estate Tax – Estate tax estimates are forecast by Maine Revenue Services using a model based on the growth in household net worth. Looking at aggregated data of actual tax returns using a data warehouse enhances the data and the model. Tax year 2008 returns are the most recent available and is the adjusted base year upon which this forecast derives. The growth in estate tax revenue in the upcoming biennium reflects the recovery in the stock market and an assumed weak recovery in housing values.

Transfers to Municipal Revenue Sharing – The amounts transferred for municipal revenue sharing are based on a percentage of the Individual Income Tax, Corporate Income Tax, Sales and Use Tax and the Service Provider Tax. Consequently, the estimate of these amounts is a simple calculation based on the forecast for those taxes. (Beginning in FY 12 funds for revenue sharing will be appropriated instead of transferred).

The adopted Revenue Forecasting Committee forecasts for the General Fund, the Highway Fund and the Tobacco Settlement Fund are reflected in Tables B – 1 through B – 3 below.

TABLE B - 1

GENERAL FUND REVENUE FORECAST									
SOURCE	FY 10 ACTUAL	FY 11	% CHANGE	BIENNIUM	FY 12	% CHANGE	FY 13	% CHANGE	BIENNIUM
Sales and Use Tax	897,938,873	904,850,262	0.77%	1,802,789,135	945,475,809	4.49%	992,958,416	5.02%	1,938,434,225
Service Provider Tax	56,086,391	57,814,486	3.08%	113,900,877	59,555,680	3.01%	61,840,807	3.84%	121,396,487
Individual Income Tax	1,298,036,055	1,370,120,000	5.55%	2,668,156,055	1,474,900,000	7.65%	1,545,750,000	4.80%	3,020,650,000
Corporate Income Tax	175,292,433	200,490,112	14.37%	375,782,545	209,802,975	4.65%	230,072,072	9.66%	439,875,047
Cigarette & Tobacco Tax	149,066,678	146,209,555	-1.92%	295,276,233	143,623,350	-1.77%	141,095,285	-1.76%	284,718,635
Insurance Company Tax	80,019,145	76,765,000	-4.07%	156,784,145	76,040,000	-0.94%	76,040,000		152,080,000
Estate Tax	31,209,840	42,978,079	37.71%	74,187,919	41,061,512	-4.46%	49,370,677	20.24%	90,432,189
Fines, Forfeits and Penalties	32,787,060	31,133,161	-5.04%	63,920,221	30,738,549	-1.27%	30,757,049	0.06%	61,495,598
Income from Investments	265,091	27,332	-89.69%	292,423	4,142	-84.85%	57,595	1290.51%	61,737
Transfer from Lottery Commission	52,201,531	52,034,250	-0.32%	104,235,781	52,034,250		52,034,250		104,068,500
Transfers for Tax Relief Programs	(113,604,905)	(112,087,945)	-1.34%	(225,692,850)	(126,984,977)	13.29%	(124,182,298)	-2.21%	(251,167,275)
Transfers for Revenue Sharing	(97,425,079)	(93,088,096)	-4.45%	(190,513,175)	(136,340,658)	46.46%	(143,962,951)	5.59%	(280,303,609)
Other Taxes and Fees	149,588,680	149,003,882	-0.39%	298,592,562	140,976,202	-5.39%	140,384,112	-0.42%	281,360,314
Other Revenues	44,220,707	59,224,977	33.93%	103,445,684	42,387,016	-28.43%	43,798,834	3.33%	86,185,850
TOTAL REVENUE	2,755,682,500	2,885,475,055	4.71%	5,641,157,555	2,953,273,850	2.35%	3,096,013,848	4.83%	6,049,287,698

TABLE B - 2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	FY 10 ACTUAL	FY 11	% CHANGE	BIENNIUM	FY 12	% CHANGE	FY 13	% CHANGE	BIENNIUM
Fuel Taxes	219,190,706	215,873,796	-1.51%	435,064,502	219,567,295	1.71%	224,549,313	2.27%	444,116,608
Motor Vehicle Registration & Fees	77,767,700	78,047,070	0.36%	155,814,770	81,382,533	4.27%	81,722,242	0.42%	163,104,775
Motor Vehicle Inspection Fees	2,810,679	2,952,500	5.05%	5,763,179	2,982,500	1.02%	2,982,500		5,965,000
Miscellaneous Taxes and Fees	1,338,193	1,325,823	-0.92%	2,664,016	1,305,805	-1.51%	1,305,805		2,611,610
Fines, Forfeits and Penalties	1,440,062	1,305,049	-9.38%	2,745,111	1,305,049		1,305,049		2,610,098
Income from Investments	162,488	122,038	-24.89%	284,526	94,531	-22.54%	94,531		189,062
Other Revenues	8,480,545	8,102,531	-4.46%	16,583,076	8,388,443	3.53%	8,410,404	0.26%	16,798,847
TOTAL REVENUE	311,190,373	307,728,807	-1.11%	618,919,180	315,026,156	2.37%	320,369,844	1.70%	635,396,000

TABLE B - 3

TOBACCO SETTLEMENT REVENUE ESTIMATES									
SOURCE	FY 10 ACTUAL	FY 11	% CHANGE	BIENNIUM	FY 12	% CHANGE	FY 13	% CHANGE	BIENNIUM
Initial Payments									
Base Payments	53,132,291	48,435,474	-8.84%	101,567,765	49,116,739	1.41%	49,146,193	0.06%	98,262,932
Attorney General Reimbursements									
Transfers to General Fund	(92,660)	(145,147)	56.64%	(237,807)		-100.00%			
Racino Revenue	4,500,000	4,500,000		9,000,000	4,500,000		4,500,000		9,000,000
Income from Investments	20,511	3,766	-81.64%	24,277	4,175	10.86%	8,834	111.59%	13,009
Total - Tobacco Settlement Revenue	57,560,142	52,794,093	-8.28%	110,354,235	53,620,914	1.57%	53,655,027	0.06%	107,275,941

Public Law 2007 chapter 467 requires the transfer of \$92,660 and \$145,147 from the Fund for a Healthy Maine to the General Fund no later than June 30, 2010 and June 30, 2011 respectively. For fiscal years beginning on or after July 1, 2011, the State Controller, in consultation with the State Tax Assessor, shall determine the General Fund revenue loss resulting from the sale of flavored cigarettes and cigars and shall transfer that amount at least annually from the Fund for a Healthy Maine to the General Fund.