


STATE OF MAINE
REVENUE FORECASTING COMMITTEE

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Jerome Gerard, Chair, Acting State Tax Assessor
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Grant Pennoyer, Director, Office of Fiscal and Program Review
Catherine Reilly, State Economist
Ellen Jane Schneider, State Budget Officer

November 26, 2007

TO: Governor John Baldacci
Members, 123rd Legislature

FROM:  Jerome Gerard, Chair
Revenue Forecasting Committee

RE: **Summary of December 2007 Revenue Forecast**

The Revenue Forecasting Committee (RFC) met November 19, 2007 to review the revenue forecast and has revised its revenue projections through the fiscal years ending June 30, 2011 for the General Fund, Highway Fund, Fund for a Healthy Maine and the Medicaid Dedicated Revenue Taxes to comply with the statutory December 1st reporting date.

The RFC considered modestly changed economic measures as forecast by the Consensus Economic Forecasting Commission (CEFC) in its November 1, 2007 report, the year-to-date performance through October 2007 of the various revenue lines and other information presented to reach its conclusions. The CEFC changes included a small reduction in Wage and Salary Growth in the near term, an increase in Personal Income in 2007 followed by a decrease in 2008 and an increase in the expectation for inflation as measured by the Consumer Price Index (CPI) which was largely attributable to increased energy prices. This memo and attachments summarize the results of the December revenue forecast. A more detailed report will be available early in December. Provided below are the summaries of the aggregate forecast for these funds.

As we have warned in previous forecasts, there is a substantial amount of economic risk surrounding this forecast. These are very volatile times and the timing of the CEFC, in late October, may not have fully captured recent events. The RFC found itself, particularly with respect to the Sales Tax estimates, trying to force the tax model outputs to match actual experience. When the CEFC meets in late January for the February 1st economic update, there is a greater downside risk for the underlying economic forecast. Maine, unlike several other states, has not been as severely affected by the sub-prime mortgage crisis. That crisis, along with the weakening US dollar and oil prices now in excess of \$90 per barrel present substantial downside risk to this current forecast, particularly if Maine has a cold winter.

Summary of Revenue Revisions

General Fund Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$3,019,595,389	\$3,105,693,525	\$3,193,917,944	\$3,291,745,050	\$3,354,444,227
Annual % Growth	3.0%	2.9%	2.8%	3.1%	1.9%
Net Increase (Decrease)		(\$37,773,087)	(\$57,388,283)	(\$85,352,276)	(\$117,577,887)
Revised Forecast	\$3,019,595,389	\$3,067,920,438	\$3,136,529,661	\$3,206,392,774	\$3,236,866,340
Annual % Growth	3.0%	1.6%	2.2%	2.2%	1.0%

Highway Fund Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$330,821,083	\$339,283,065	\$344,645,761	\$347,617,154	\$353,213,511
Annual % Growth	1.3%	2.6%	1.6%	0.9%	1.6%
Net Increase (Decrease)		(\$10,645,188)	(\$5,471,900)	(\$3,638,965)	(\$4,279,731)
Revised Forecast	\$330,821,083	\$328,637,877	\$339,173,861	\$343,978,189	\$348,933,780
Annual % Growth	1.3%	-0.7%	3.2%	1.4%	1.4%

Fund for a Healthy Maine Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$50,950,512	\$61,193,656	\$64,160,177	\$69,384,772	\$73,292,290
Annual % Growth	8.6%	20.1%	4.8%	8.1%	5.6%
Net Increase (Decrease)		\$159,415	\$1,466,401	\$1,182,733	(\$3,624,473)
Revised Forecast	\$50,950,512	\$61,353,071	\$65,626,578	\$70,567,505	\$69,667,817
Annual % Growth	8.6%	20.4%	7.0%	7.5%	-1.3%

Medicaid/MaineCare Dedicated Revenue Taxes Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$125,704,185	\$127,070,482	\$128,760,211	\$130,492,181	\$132,267,451
Annual % Growth	6.4%	1.1%	1.3%	1.3%	1.4%
Net Increase (Decrease)		\$2,556,670	\$2,620,587	\$2,686,100	\$2,753,252
Revised Forecast	\$125,704,185	\$129,627,152	\$131,380,798	\$133,178,281	\$135,020,703
Annual % Growth	6.4%	3.1%	1.4%	1.4%	1.4%

General Fund revenues were revised downward by \$95.2 million over the 2008-2009 biennium, led by Sales and Use Tax revenues with downward adjustments of \$21 million in FY 2008 and \$19.6 million in FY 2009. Exceptionally high oil prices were thought to be a major drag on the economy and a main reason for the drop in this category, with consumer confidence as a contributing factor. Corporate Income Tax was revised downward by \$7.5 million in FY 2008 and \$7.3 million in FY 2009. Cigarette and Tobacco Tax revenue was reduced by \$6.1 million in FY 2008 and \$6.4 million in FY 2009. The only major tax line to show improvement in FY 2008 was the Individual Income Tax which was raised by \$18,165,000 largely on the basis of a year-to-date positive variance thought to be caused by higher than expected capital gains in 2006 and 2007. However, the RFC continued to assume that capital gains will return to its long-term historical trend of just over 6% of tax liability by the end of the forecast period. This assumption significantly reduces Individual Income Tax revenue growth in FY 2009 through FY 2011 by reducing capital gains liability by roughly \$30 million per year.

More than one-half of the downward adjustment to General Fund revenue during the 2008-2009 biennium resulted from non-economic related revenue adjustments. Unclaimed Property Transfers were reduced by \$13.1 million in FY 2008 and \$15.5 million in FY 2009 because out-of-state corporations have refused to comply with Maine's unclaimed gift card statutes. Although enforcement action is under review by the Attorney General, it is clear that no

revenues from this source will be forthcoming until the issue is resolved. The other major non-economic related revenue adjustments were in the Targeted Case Management and DHHS Services Rendered revenue categories collected by the Department of Health and Human Services. These categories were adjusted downward by \$10.9 million each year.

Highway Fund revenues were projected lower by \$10.6 million in FY 2008 and \$5.5 million in FY 2009. High oil prices, which had been expected to return to more normal (lower) levels sooner than what is now expected, lower Fuel Taxes revenue by decreasing demand for gasoline and diesel fuel. Lower motor vehicle registration fees also contributed to lower revenue projections in FY 2009 and beyond.

The Fund for a Healthy Maine (FHM) revenue forecast was revised upward for the 2008-2009 biennium primarily based on increased tobacco settlement payments and improved racino revenue projections. The net result for the 2008-2009 biennium is an upward revision of \$1.6 million.

Medicaid/MaineCare Dedicated Revenue Taxes were revised upward by \$5.2 million in the 2008-2009 biennium and by \$5.4 million in the 2010-2011 biennium. The increases came after review of recent actual experience. The higher base from this review increased projections for future years assuming the same future growth assumptions.

Attachments

cc: Members, Revenue Forecasting Committee
Members, Consensus Economic Forecasting Commission
Jane Lincoln, Chief of Staff, Governor's Office
Rebecca Wyke, Commissioner, DAFS
Millie MacFarland, Clerk of the House
Joy O'Brien, Secretary of the Senate
David Boulter, Executive Director, Legislative Council
Legislative Staff Office Directors