

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. Public Law 2011, chapter 655 replaced the State Tax Assessor with the Associate Commissioner for Tax Policy as a member of the Committee. 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 2012, 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. National and state economic indicators suggest little improvement in economic conditions since the CEFC met in February 2012. Maine's coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over the three months ending in August. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. Personal income in Maine grew 3.0% year-over-year in the first half of 2012, while wage and salary income grew 1.3% over the same period. The Consumer Price Index was 2.0% higher in September 2012 than it was in September 2011. The Revenue Forecasting Committee (RFC) after taking into consideration the CEFC forecast projected a decrease in the Corporate and Sales Tax lines of \$54.2 million in FY 14 and \$59.4 million in FY 15.

Sales and Use Tax – Sales tax receipts slowed during the second half of the calendar year to 2% as energy prices increased, elections neared and federal budget negotiations occurred. The current revenue forecast assumes consumer and business spending will increase during the first half of 2013 by approximately 4% as the federal budget crisis is resolved.

Individual Income Tax – 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 also influenced by recent data from federal and state income tax returns. The Individual Income Tax, similar to sales tax, slowed in the second half of 2012. Maine's experience was similar to the rest of New England and the Northeast. Likely the election, federal budget concerns and the on-going problems in Europe affected the Northeast. While the RFC didn't account for it, it's possible the fiscal cliff crisis and new taxes in 2013 from the Affordable Care Act caused high income taxpayers to shift income from other years into 2012 to take advantage of lower tax rates.

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 corporate income tax is being affected by recent legislation to conform to Sec. 179 and federal bonus depreciation through a tax credit. In addition, the disallowance of Net Operating Losses (NOLs) for 2009- 2011 has ended and businesses will be able to begin taking NOLs again in the 2012 tax year. We expect corporate receipts to fully transition into the changes by the end of calendar year 2012 and begin to stabilize during the second half of fiscal year 2012-13.

Cigarette and Tobacco Tax –The Revenue Forecasting Committee in December 2012 lowered its budgeted revenue projections by approximately \$1.1 million for each year of the 2014-2015 biennium based on a higher amount collected in FY 10. 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 Revenue Forecasting Committee in December 2012 projected an increase in Insurance Company Tax of \$1.5 million each year over the 2014-2015 biennium. The forecast for the insurance premiums taxes was increased as a result of the better than expected performance of these tax lines in Fiscal Year 2012 . The forecast is flat because revenue from these taxes tends to fluctuate up and down within a fairly narrow range.

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). (For the 2014-2015 biennium, Revenue Sharing is proposed to be suspended).

Estate Tax – Estate tax estimates are forecast by Maine Revenue Services using a model based on the growth in household net worth. Additional changes to the forecast were the result of using new data from actual calendar year 2010 estate tax returns and preliminary data from calendar year 2011 returns. This revenue source will begin to diminish in fiscal year 2013-14 as the tax changes enacted in fiscal year 2010-2011 begin to take effect.

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. (For the 2014-2015 biennium, Revenue Sharing is proposed to be suspended).

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.

Table B-1

GENERAL FUND REVENUE FORECAST									
SOURCE	FY 12	FY 13	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 14	YR. TO YR. % CHANGE	FY 15	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	981,257,805	1,006,986,404	2.62%	1,988,244,209	1,043,075,568	3.58%	1,088,095,304	4.32%	2,131,170,872
Service Provider Tax	48,255,501	53,586,812	11.05%	101,842,313	56,403,674	5.26%	58,442,148	3.61%	114,845,822
Individual Income Tax	1,434,217,189	1,413,890,000	-1.42%	2,848,107,189	1,386,440,000	-1.94%	1,438,300,000	3.74%	2,824,740,000
Corporate Income Tax	232,117,995	186,021,732	-19.86%	418,139,727	207,042,188	11.30%	214,288,665	3.50%	421,330,853
Cigarette & Tobacco Tax	139,729,147	138,180,000	-1.11%	277,909,147	135,900,000	-1.65%	133,590,000	-1.70%	269,490,000
Insurance Company Tax	82,985,771	80,715,000	-2.74%	163,700,771	80,715,000	0.00%	80,715,000	0.00%	161,430,000
Inheritance & Estate Tax	44,865,567	57,878,175	29.00%	102,743,742	24,838,239	-57.09%	24,077,457	-3.06%	48,915,696
Fines, Forfeits and Penalties	25,120,959	24,452,139	-2.66%	49,573,098	24,402,754	-0.20%	24,397,754	-0.02%	48,800,508
Income from Investments	155,531	66,082	-57.51%	221,613	51,713	-21.74%	98,540	90.55%	150,253
Transfer from Lottery	53,785,567	52,550,000	-2.30%	106,335,567	52,550,000	0.00%	53,600,000	2.00%	106,150,000
Trans for Tax Relief Progs	(115,336,149)	(112,086,562)	-2.82%	(227,422,711)	(121,721,774)	8.60%	(125,463,865)	3.07%	(247,185,639)
Trans. to Muni. Rev. Share	(96,876,964)	(93,076,067)	-3.92%	(189,953,031)	(138,317,706)	48.61%	(143,171,899)	3.51%	(281,489,605)
Other Taxes and Fees	131,893,407	151,399,353	14.79%	283,292,760	126,519,978	-16.43%	129,854,801	2.64%	256,374,779
Other Revenues	53,366,896	60,219,187	12.84%	113,586,083	36,409,629	-39.54%	34,740,767	-4.58%	71,150,396
TOTAL REVENUE	3,015,538,222	3,020,782,255	0.17%	6,036,320,477	2,914,309,263	-3.52%	3,011,564,672	3.34%	5,925,873,935

Table B-2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	FY 12 ACTUAL	FY 13	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 14	YR. TO YR. % CHANGE	FY 15	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	219,463,118	216,943,386	-1.15%	436,406,504	213,653,411	-1.52%	212,526,536	-0.53%	426,179,947
Motor Vehicle Registrations & Fees	83,563,402	87,375,782	4.56%	170,939,184	83,333,033	-4.63%	82,437,588	-1.07%	165,770,621
Inspection Fees	2,997,953	2,982,500	-0.52%	5,980,453	2,982,500	0.00%	2,982,500	0.00%	5,965,000
Other Highway Fund Taxes and Fees	1,361,886	1,276,365	-6.28%	2,638,251	1,313,165	2.88%	1,276,365	-2.80%	2,589,530
Fines Forfeits & Penalties	1,044,271	1,039,868	-0.42%	2,084,139	1,039,868	0.00%	1,039,868	0.00%	2,079,736
Income from Investments	141,082	124,642	-11.65%	265,724	122,453	-1.76%	225,181	83.89%	347,634
Other Revenues	8,630,697	9,123,222	5.71%	17,753,919	9,210,821	0.96%	9,251,981	0.45%	18,462,802
TOTAL REVENUE	317,202,409	318,865,765	0.52%	636,068,174	311,655,251	-2.26%	309,740,019	-0.61%	621,395,270

Table B-3

TOBACCO SETTLEMENT REVENUE ESTIMATES									
SOURCE	FY 12 ACTUAL	FY 13	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY 14	YR. TO YR. % CHANGE	FY 15	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Base Payments	42,306,831	41,024,383	-3.03%	83,331,214	40,587,014	-1.07%	40,154,309	-1.07%	80,741,323
Strategic Contribution Payments	8,702,217	8,450,202	-2.90%	17,152,419	8,359,943	-1.07%	8,270,648	-1.07%	16,630,591
Racino Revenue	4,500,000	0	-100.00%	4,500,000	4,946,587	0.00%	5,001,109	1.10%	9,947,696
Income from Investments	7,858	5,067	-35.51%	12,925	5,768	13.82%	8,764	51.94%	14,532
Attorney General Reimbursements	0	0	0.00%	0	0	0.00%	-	0.00%	0
Total Tobacco Settlement Revenue	55,516,906	49,479,652	-10.87%	104,996,558	53,899,312	8.93%	53,434,830	-0.86%	107,334,142