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 Service Provider Tax Individual Income Tax Corporate Income Tax Cigarette & Tobacco Tax Insurance Company Tax Inheritance & Estate Tax Fines, Forfeits and Penalties Income from Investments Transfer from Lottery**  **Trans for Tax Relief Progs Trans. to Muni. Rev. Share Other Taxes and Fees**  **Other Revenues** | 981,257,805  48,255,501  1,434,217,189  232,117,995  139,729,147  82,985,771  44,865,567  25,120,959  155,531  53,785,567 (115,336,149) (96,876,964)  131,893,407  53,366,896 | 1,006,986,404  53,586,812  1,413,890,000  186,021,732  138,180,000  80,715,000  57,878,175  24,452,139  66,082  52,550,000 (112,086,562) (93,076,067)  151,399,353  60,219,187 | 2.62%  11.05%  -1.42%  -19.86%  -1.11%  -2.74%  29.00%  -2.66%  -57.51%  -2.30%  -2.82%  -3.92%  14.79%  12.84% | 1,988,244,209  101,842,313  2,848,107,189  418,139,727  277,909,147  163,700,771  102,743,742  49,573,098  221,613  106,335,567 (227,422,711) (189,953,031)  283,292,760  113,586,083 | 1,043,075,568  56,403,674  1,386,440,000  207,042,188  135,900,000  80,715,000  24,838,239  24,402,754  51,713  52,550,000 (121,721,774) (138,317,706)  126,519,978  36,409,629 | 3.58%  5.26%  -1.94%  11.30%  -1.65%  0.00%  -57.09%  -0.20%  -21.74%  0.00%  8.60%  48.61%  -16.43%  -39.54% | 1,088,095,304  58,442,148  1,438,300,000  214,288,665  133,590,000  80,715,000  24,077,457  24,397,754  98,540  53,600,000 (125,463,865) (143,171,899)  129,854,801  34,740,767 | 4.32%  3.61%  3.74%  3.50%  -1.70%  0.00%  -3.06%  -0.02%  90.55%  2.00%  3.07%  3.51%  2.64%  -4.58% | 2,131,170,872  114,845,822  2,824,740,000  421,330,853  269,490,000  161,430,000  48,915,696  48,800,508  150,253  106,150,000 (247,185,639) (281,489,605)  256,374,779  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**  **Motor Vehicle Registrations & Fees**  **Inspection Fees**  **Other Highway Fund Taxes and Fees Fines Forfeits & Penalties Income from Investments**  **Other Revenues** | 219,463,118  83,563,402  2,997,953  1,361,886  1,044,271  141,082  8,630,697 | 216,943,386  87,375,782  2,982,500  1,276,365  1,039,868  124,642  9,123,222 | -1.15%  4.56%  -0.52%  -6.28%  -0.42%  -11.65%  5.71% | 436,406,504  170,939,184  5,980,453  2,638,251  2,084,139  265,724  17,753,919 | 213,653,411  83,333,033  2,982,500  1,313,165  1,039,868  122,453  9,210,821 | -1.52%  -4.63%  0.00%  2.88%  0.00%  -1.76%  0.96% | 212,526,536  82,437,588  2,982,500  1,276,365  1,039,868  225,181  9,251,981 | -0.53%  -1.07%  0.00%  -2.80%  0.00%  83.89%  0.45% | 426,179,947  165,770,621  5,965,000  2,589,530  2,079,736  347,634  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 Strategic Contribution Payments Racino Revenue**  **Income from Investments**  **Attorney General Reimbursements** | 42,306,831  8,702,217  4,500,000  7,858  0 | 41,024,383  8,450,202  0  5,067  0 | -3.03%  -2.90%  -100.00%  -35.51%  0.00% | 83,331,214  17,152,419  4,500,000  12,925  0 | 40,587,014  8,359,943  4,946,587  5,768  0 | -1.07%  -1.07%  0.00%  13.82%  0.00% | 40,154,309  8,270,648  5,001,109  8,764  - | -1.07%  -1.07%  1.10%  51.94%  0.00% | 80,741,323  16,630,591  9,947,696  14,532  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** |
|  | | | | | | | | | |