
Consensus Economic Forecasting Commission
&
Revenue Forecasting Committee
Retreat
September 24, 2020

Maine Revenue Services – Office of Tax Policy

Current Economic Forecast

- Consensus Economic Forecasting Commission July 1, 2020 Results
 - Significant revisions to February 1, 2020 economic forecast
 - Normal UI withholding of \$2.1M in CY18 and CY19, through 9/15/20 ME DOL reports UI withholding for CY20 of \$49.5M
 - CEFC forecast assumes “further federal stimulus will follow later this year that includes support for.....the unemployed.”

Calendar Years	2019	2020	2021	2022	2023	2024	2025
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 02/2020	0.9	0.5	0.2	0.1	0.0	0.0	0.0
CEFC Forecast 07/2020	0.9	-8.0	4.0	2.0	0.0	0.0	0.0
Personal Income (Annual Percentage Change)							
CEFC Forecast 02/2020	4.7	4.1	4.0	3.7	3.5	3.5	3.5
CEFC Forecast 07/2020	4.6	3.9	-1.2	3.7	3.5	3.6	3.6
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 02/2020	4.5	4.1	3.7	3.4	3.2	3.2	3.2
CEFC Forecast 07/2020	4.6	-5.0	2.0	3.0	3.0	3.0	3.0
CPI (Annual Percentage Change)							
CEFC Forecast 02/2020	1.8	1.9	2.0	2.0	2.0	2.0	2.0
CEFC Forecast 07/2020	1.8	0.9	1.5	1.7	2.0	2.0	2.0

Current Revenue Forecast

Revenue Forecasting Committee revised revenues in the August 2020 report

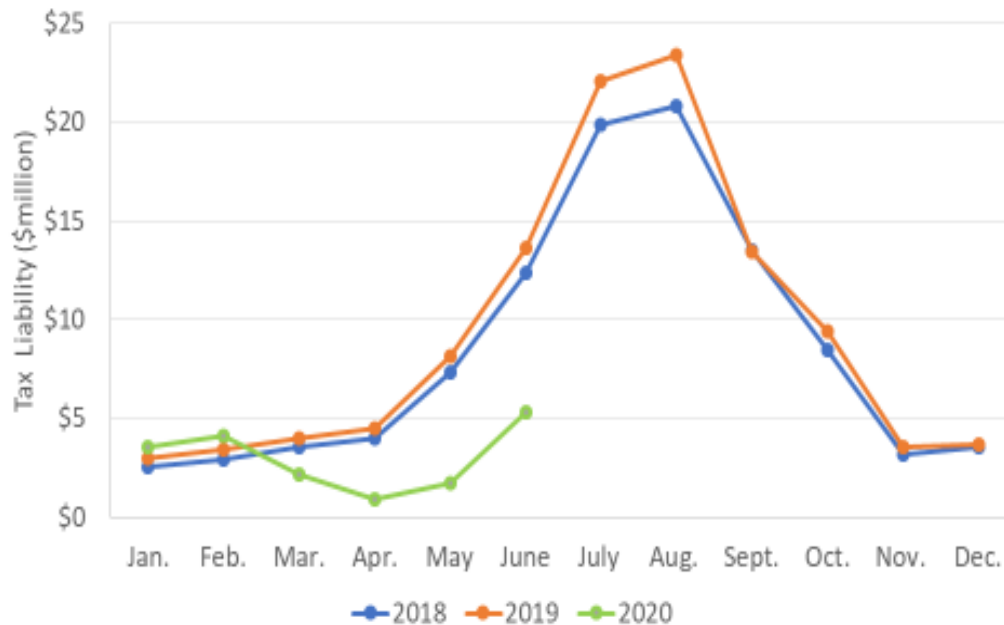
- FY 2021 General Fund revised downward by \$527.8 million. Most of FY 2021 change is from individual income and sales taxes, \$260.3 million and \$238.0 million, respectively
- General Fund revenues reduced by \$433.7 million for FY 2022 and \$449.5 million for FY 2023
- Approximately 60% of the \$238 million reduction in FY21 Sales & Use tax line is attributable to taxable prepared foods and lodging. Improvements in these two areas help moderate revenue reductions in FY22 and FY23
- The evolution of wage income and unemployment insurance compensation are key to understanding why the downward forecast revision grows over time.

General Fund Summary

	FY20 Actual	FY21	FY22	FY23
Current Forecast	\$3,969,343,702	\$4,070,279,515	\$4,174,531,432	\$4,317,597,709
Annual % Growth	3.1%	2.5%	2.6%	3.4%
Net Increase (Decrease)		(\$527,809,542)	(\$433,731,150)	(\$449,465,768)
Revised Forecast	\$3,969,343,702	\$3,542,469,974	\$3,740,800,282	\$3,868,131,941
Annual % Growth	3.1%	-10.8%	5.6%	3.4%

Rental of Lodging Sales Tax

Rental of Lodging Sales Tax



CY 2019 liability = \$112.3 million

Share of total CY 2019 sales & use tax = 7.3%

CY 2019 Share of Taxable Sales by Quarter:

1	9.3%
2	23.4%
3	52.5%
4	14.8%

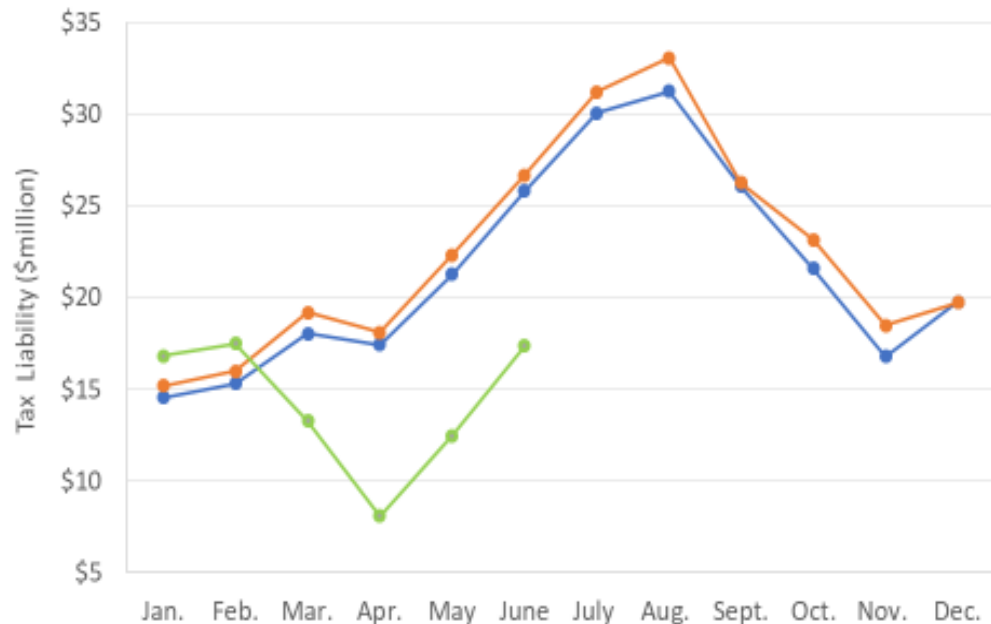
YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
10.0%	-45.6%	-80.2%	-78.5%	-60.5% to -61.3%	-69.5% to -69.9%

Prepared Foods Sales Tax

Prepared Foods Sales Tax

Includes sales at both restaurants and food stores



CY 2019 liability = \$269.4 million

Share of total CY 2019 sales & use tax = 17.5%

CY 2019 Share of Taxable Sales by Quarter:

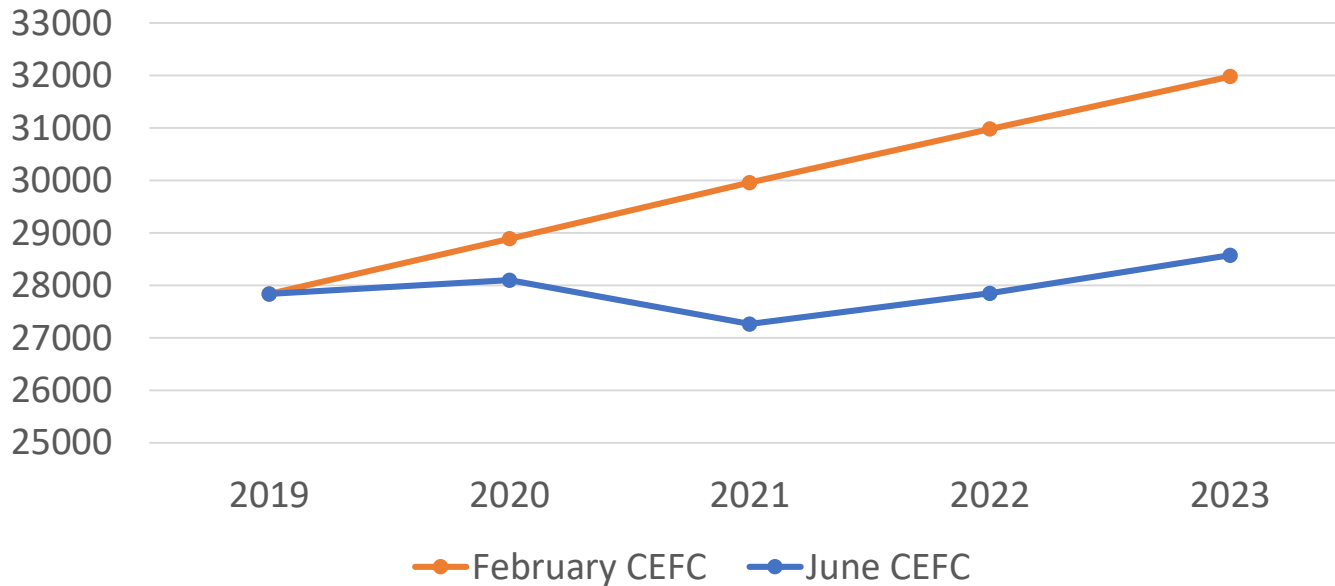
1	18.7%
2	24.9%
3	33.6%
4	22.8%

YoY Growth, 2020

— 2018 — 2019 — 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
5.4%	-30.9%	-55.2%	-44.1%	-35.9% to -33.9%	-43.8% to -43.0%

Individual Income Tax: Resident 1040 Wages + Unemployment Insurance Income (\$million)



	2020	2021	2022	2023
June wages relative to Feb.	-8.7%	-10.2%	-10.5%	-10.7%
June wages + UI relative to Feb.	-2.7%	-9%	-10.1%	-10.6%
Unemployment rate forecast	8%	5.7%	4.3%	3.7%

Fiscal Year 2021 Year to Date – August – Comparison to Budget

	Month				Year to Date			
	Actual	Budget	Variance Over/(Under)	Percent Over/(Under)	Actual	Budget	Variance Over/(Under)	Percent Over/(Under)
Sales and Use Tax	\$ 157,640,018	\$ 147,535,690	\$ 10,104,328	6.8%	\$ 309,005,687	\$ 298,901,359	\$ 10,104,328	3.4%
Service Provider Tax	\$ 4,786,871	\$ 5,105,201	\$ (318,330)	-6.2%	\$ 9,599,945	\$ 9,918,274	\$ (318,329)	-3.2%
Individual Income Tax	\$ 138,944,207	\$ 121,670,697	\$ 17,273,510	14.2%	\$ 227,595,215	\$ 210,321,702	\$ 17,273,513	8.2%
Corporate Income Tax	\$ 7,688,209	\$ 1,690,466	\$ 5,997,743	354.8%	\$ 19,102,784	\$ 13,105,042	\$ 5,997,742	45.8%
Cigarette and Tobacco Tax	\$ 12,603,672	\$ 12,470,262	\$ 133,410	1.1%	\$ 25,376,099	\$ 25,242,688	\$ 133,411	0.5%
Insurance Companies Tax	\$ 86,007	\$ 33,158	\$ 52,849	159.4%	\$ 583,054	\$ 530,206	\$ 52,848	10.0%
Estate Tax	\$ 9,736	\$ 500,000	\$ (490,264)	-98.1%	\$ 478,961	\$ 969,225	\$ (490,264)	-50.6%
Fines, Forfeits & Penalties	\$ 759,111	\$ 914,441	\$ (155,331)	-17.0%	\$ 1,658,445	\$ 1,939,627	\$ (281,182)	-14.5%
Income from Investments	\$ 461,988	\$ 341,115	\$ 120,873	35.4%	\$ 461,988	\$ 341,115	\$ 120,873	35.4%
Transfer from Lottery Commission	\$ 6,929,644	\$ 5,013,186	\$ 1,916,458	38.2%	\$ 12,200,994	\$ 9,662,120	\$ 2,538,874	26.3%
Transfers for Tax Relief Programs	\$ 31,950	\$ (521,898)	\$ 553,848	106.1%	\$ 32,151	\$ (521,898)	\$ 554,049	106.2%
Transfer to Municipal Revenue Sharing	\$ (9,609,162)	\$ (9,609,163)	\$ 1	0.0%	\$ (22,723,816)	\$ (22,723,816)	\$ (0)	0.0%
Other Taxes and Fees	\$ 7,875,995	\$ 8,804,697	\$ (928,702)	-10.5%	\$ 16,606,103	\$ 31,608,363	\$ (15,002,260)	-47.5%
Other Revenues	\$ 4,556,442	\$ 3,887,800	\$ 668,642	17.2%	\$ (12,077,081)	\$ (13,694,072)	\$ 1,616,991	11.8%
Total Collected	\$ 332,764,689	\$ 297,835,652	\$ 34,929,037	11.7%	\$ 587,900,528	\$ 565,599,935	\$ 22,300,593	3.9%

Fiscal Year 2021 Year to Date – August – Comparison to Prior Year

	Month				Year to Date			
	Actual	Prior Year	Variance Over/(Under)	Percent Over/(Under)	Actual	Prior Year	Variance Over/(Under)	Percent Over/(Under)
Sales and Use Tax	\$ 157,640,018	\$ 160,499,009	\$ (2,858,991)	-1.8%	\$ 309,005,687	\$ 312,034,360	\$ (3,028,673)	-1.0%
Service Provider Tax	\$ 4,786,871	\$ 4,793,431	\$ (6,560)	-0.1%	\$ 9,599,945	\$ 9,760,259	\$ (160,314)	-1.6%
Individual Income Tax	\$ 138,944,207	\$ 145,530,902	\$ (6,586,695)	-4.5%	\$ 227,595,215	\$ 260,017,074	\$ (32,421,859)	-12.5%
Corporate Income Tax	\$ 7,688,209	\$ 990,465	\$ 6,697,744	676.2%	\$ 19,102,784	\$ 10,523,125	\$ 8,579,659	81.5%
Cigarette and Tobacco Tax	\$ 12,603,672	\$ 9,759,550	\$ 2,844,122	29.1%	\$ 25,376,099	\$ 25,114,747	\$ 261,352	1.0%
Insurance Companies Tax	\$ 86,007	\$ 12,428	\$ 73,579	592.0%	\$ 583,054	\$ 269,516	\$ 313,538	116.3%
Estate Tax	\$ 9,736	\$ 3,203,975	\$ (3,194,239)	-99.7%	\$ 478,961	\$ 9,120,516	\$ (8,641,555)	-94.7%
Fines, Forfeits & Penalties	\$ 759,111	\$ 1,268,544	\$ (509,434)	-40.2%	\$ 1,658,445	\$ 2,603,289	\$ (944,844)	-36.3%
Income from Investments	\$ 461,988	\$ 1,380,055	\$ (918,067)	-66.5%	\$ 461,988	\$ 1,380,055	\$ (918,067)	-66.5%
Transfer from Lottery Commission	\$ 6,929,644	\$ 6,519,125	\$ 410,519	6.3%	\$ 12,200,994	\$ 10,891,906	\$ 1,309,088	12.0%
Transfers for Tax Relief Programs	\$ 31,950	\$ (49,781)	\$ 81,731	-164.2%	\$ 32,151	\$ (2,131,672)	\$ 2,163,823	-101.5%
Transfer to Municipal Revenue Sharing	\$ (9,609,162)	\$ (8,415,630)	\$ (1,193,532)	14.2%	\$ (22,723,816)	\$ (18,545,817)	\$ (4,177,999)	22.5%
Other Taxes and Fees	\$ 7,875,995	\$ 9,893,869	\$ (2,017,874)	-20.4%	\$ 16,606,103	\$ 21,584,221	\$ (4,978,118)	-23.1%
Other Revenues	\$ 4,556,442	\$ 3,772,638	\$ 783,804	20.8%	\$ (12,077,081)	\$ (11,662,807)	\$ (414,274)	3.6%
Total Collected	\$ 332,764,689	\$ 339,158,580	\$ (6,393,891)	-1.9%	\$ 587,900,528	\$ 630,958,770	\$ (43,058,243)	-6.8%

Updated Estimate of FY20 Revenue Shortfall

- Individual Income Tax
 - Estimate \$42.0 million shortfall; approximately \$28 million from final payments and \$14 million from April and June estimated payments
 - Adjusting for \$11.6 million surplus on WH during FY20 results in estimated net shortfall of \$30.4 million; doesn't account for refunds

- Corporate Income Tax
 - Estimate \$6.6 million shortfall from estimated payments and \$5.5 million surplus from final payments.
 - \$1.1 million deficit; doesn't account for refunds

- Sales & Use and Service Provider Taxes
 - \$61 million shortfall

- Updated Revenue Shortfall
 - \$80 - \$90 million; takes into account other GF revenue lines (+\$9.7 million)
 - Compared to \$200M shortfall estimated in March using 2018 stress-test

Issues OTP was Looking at for July Revenue Forecast & November Forecast

- Withholding receipts are performing better primarily because of enhanced UI benefits. Does the \$600 benefit sunset at the end of July or does Congress extend? **\$300 EO extension**
- Distribution of reduced wage and salary income – so far reductions have been to lower wage jobs.
- Capital Gains – stock market recovered most of initial correction, although volatile in recent weeks – **S&P 500 flat for CY20 as of today**
- Corporate income tax is always difficult and continued transition from TCJA, federal tax changes in CARES Act, and recession will make it more difficult to forecast.
- PCE since March are much different relative to previous recessions. Services impacted much harder in this recession compared to Great Recession.
- Restaurants and lodging were hardest hit sectors in April, decreasing YOY by 58% and 80%, respectively. CY19 restaurant and lodging sales in March-May period were 15% of total sales, July and August they were 25% of total sales. **Appear to have performed better than expected**
- Collection of sales taxes on remote sales has helped, how do they perform over remainder of recession and recovery.
- Psychological factor important in this recession. Consumer spending not driven by income as much as ability and/or desire to engage in activities that require interaction with public. Savings rate of 33% in April compared to 8.4% last April. What happens to savings rate over forecasting period? **Declined, but still elevated**

“Stress Test” Revenues – October 1, 2020 Report

- Used the February 1, 2020 economic forecast from the CEFC as the baseline and modeled two alternative scenarios:
 - Moderate recession
 - Severe recession – Used July 1, 2020 economic forecast
- Moderate Recession Results – Relative to March 1, 2020 Baseline Revenue Forecast
 - Individual and sales tax revenues would be reduced by 3.9% in FY21, 4.4% in FY22, and 2.6% in FY23; forecasted to increase relative to baseline by 0.5% in FY24 and 2.5% in FY25
 - Total GF revenues decline slightly more in FY21-23 and increase slightly less in FY24/25 biennium; corporate profits recover slower than severe recession scenario
 - Milder than 2018 moderate recession scenario and much faster and stronger recovery
 - Sufficiency of BSF needs further analysis
- Severe Recession Results – Relative to March 1, 2020 Baseline Revenue Forecast – July 2020 CEFC economic forecast
 - Individual and sales tax revenues would be reduced by 14.1% in FY21, 11.8% in FY22, and 11.7% in FY23; forecasted to decrease relative to baseline by 12.0% in FY24 and FY25
 - Total GF revenues decline more in FY21 because of deferral of income tax payments from FY20 to FY21 and subsequent reversal of accrual.
 - More immediate impact compared to 2018 severe recession scenario because of pandemic’s effect on prepared food and lodging. Slower recovery because of individual income tax
 - Sufficiency of BSF needs further analysis

Moderate Recession Scenario

Total General Fund							
Fiscal Years			2021	2022	2023	2024	2025
March 2020 RFC Forecast			\$4,070.3	\$4,174.5	\$4,317.6	\$4,467.0	\$4,623.2
Moderate Recession Forecast			\$3,911.6	\$3,971.4	\$4,195.7	\$4,487.8	\$4,725.8
Variance			(\$158.7)	(\$203.1)	(\$121.9)	\$20.7	\$102.6
Percent Change			-3.9%	-4.9%	-2.8%	0.5%	2.2%
General Fund Appropriation Limitation and Sufficiency of the Maine Budget Stabilization Fund (Moderate Recession)							
Fiscal Years		2020	2021	2022	2023	2024	2025
Base Appropriations Limitation as of 10/1/20			\$4,152.4	\$3,929.1	\$4,061.1	\$4,204.9	\$4,353.9
Revenues/Resources Minus Appropriations Limitation			(\$56.7)	\$42.3	\$134.6	\$282.9	\$371.9
Budget Stabilization Fund at Fiscal Year End		\$258.8	\$202.1	\$244.4	\$378.9	\$661.8	\$1,033.7

Severe Recession Scenario – July 2020 CEFC Forecast

Total General Fund							
Fiscal Years			2021	2022	2023	2024	2025
March 2020 RFC Forecast			\$4,070.3	\$4,174.5	\$4,317.6	\$4,467.0	\$4,623.2
Severe Recession Forecast			\$3,542.5	\$3,740.8	\$3,868.1	\$3,989.2	\$4,124.9
Variance			(\$527.8)	(\$433.7)	(\$449.5)	(\$477.9)	(\$498.3)
Percent Change			-13.0%	-10.4%	-10.4%	-10.7%	-10.8%

General Fund Appropriation Limitation and Sufficiency of the Maine Budget Stabilization Fund (Severe Recession)

Fiscal Years		2020	2021	2022	2023	2024	2025
Base Appropriations Limitation as of 10/1/20			\$4,152.4	\$3,929.1	\$4,061.1	\$4,204.9	\$4,353.9
Revenues/Resources Minus Appropriations Limitation			(\$422.4)	(\$188.3)	(\$193.0)	(\$215.7)	(\$229.0)
Budget Stabilization Fund at Fiscal Year End		\$258.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0