

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 membership on 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 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 – The changes to the General Fund revenue forecast are primarily driven by continuing gains in sources of income such as capital gains, dividend income, and business income that traditionally are received by upper-income taxpayers. The Revenue Forecasting Committee (RFC) felt comfortable making these changes to the forecast after taking into consideration the recent modest forecast by the Consensus Economic Forecasting Commission which was not a significant factor in the adjustments made by the RFC. General Fund revenue growth is projected to be between 2% and 3% during the upcoming biennium.

Sales and Use Tax – High volatile energy prices and a correction in the residential housing market have slowed the growth on this revenue line during the last 18 months. These market conditions have negatively affected automobile sales in particular; during the first 10 months of calendar year 2006 the auto/transportation sector has reported taxable sales that are 4% below the same period last year. The negative adjustment to this revenue line by the RFC reflects an assumption that automobile sales will continue to be weak during the remainder of this fiscal year, be flat in FY08 and then increase by 5% or more in FY09 and beyond.

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. Recent tax return data show that much of the increase in individual income tax receipts has been the result of the growth in income being more at the upper end of the income distribution than projected. As a result of these skewed income gains a slow down in the economy could result in a reversal of these revenues that is disproportionate to the underlying impact on traditional economic measures listed above.

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 unprecedented. The modest growth in corporate income tax receipts in the upcoming biennia reflects a forecast of slower growth in corporate profits and a recapture by many businesses of bonus depreciation disallowed by the state between 2002 and 2004. Similar to the individual income tax, a slow down in the economy may result in a bigger decline in corporate income tax receipts than standard economic measure would indicate.

Cigarette and Tobacco Tax – The Revenue Forecasting Committee had forecast a significant drop in the sale of cigarette stamps due to the \$1 per pack increase in the cigarette excise tax in September 2005. The forecast is reduced by an additional \$800,000 annually in this forecast as a result of targeting the model to recent revenue performance.

Insurance Company Tax – The forecast for Insurance Company Tax for fiscal years 2007-08 and 2008-09 reflects a flattening of insurance premiums following significant growth immediately after the terrorist attacks and the stock market correction earlier this decade.

Municipal Revenue Sharing – Sales and Use 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 5.1% (5.2% starting with fiscal year 2007-08) of the sales and income tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). Municipal Revenue Sharing is a calculation based on the forecasts of the sales and income tax lines.

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 2004 returns are the most recent available and is the adjusted base year upon which this forecast derives. The unusual -91.6% growth in FY11 is related to the state conformity with the repeal of the federal estate tax rate schedule for deaths in 2010.

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 General Fund portion of the Service Provider Tax. Consequently, the estimate of these amounts is a simple calculation based on the forecast for those taxes.

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 06 ACTUAL	FY 07	% CHANGE	BIENNIUM	FY 08	% CHANGE	FY 09	% CHANGE	BIENNIUM
Sales and Use Tax	946,174,276	974,740,367	3.02%	1,920,914,643	1,005,068,924	3.11%	1,046,414,548	4.11%	2,051,483,472
Service Provider Tax	47,028,430	48,911,765	4.00%	95,940,195	51,181,910	4.64%	53,452,742	4.44%	104,634,652
Individual Income Tax	1,254,506,663	1,333,572,271	6.30%	2,588,078,934	1,378,445,408	3.36%	1,404,883,901	1.92%	2,783,329,309
Corporate Income Tax	188,015,558	199,210,000	5.95%	387,225,558	211,670,000	6.25%	221,390,000	4.59%	433,060,000
Cigarette & Tobacco Tax	156,951,370	164,502,981	4.81%	321,454,351	163,774,241	-0.44%	162,497,725	-0.78%	326,271,966
Public Utilities Tax	20,627,030	19,695,000	-4.52%	40,322,030	18,520,000	-5.97%	17,460,000	-5.72%	35,980,000
Insurance Company Tax	76,065,864	76,336,389	0.36%	152,402,253	76,751,673	0.54%	77,169,754	0.54%	153,921,427
Inheritance & Estate Tax	75,330,514	52,465,498	-30.35%	127,796,012	44,973,169	-14.28%	51,854,974	15.30%	96,828,143
Property Tax - Unorganized Terr.	11,559,305	11,597,312	0.33%	23,156,617	11,958,218	3.11%	12,332,279	3.13%	24,290,497
Income from Investments	8,271,869	4,565,000	-44.81%	12,836,869	4,500,000	-1.42%	4,500,000		9,000,000
Municipal Revenue Sharing	(124,222,180)	(130,378,153)	4.96%	(254,600,333)	(137,611,044)	5.55%	(142,350,766)	3.44%	(279,961,810)
Transfer from Lottery	50,879,647	50,334,250	-1.07%	101,213,897	49,834,250	-0.99%	49,834,250		99,668,500
Other Revenues	220,637,339	215,055,030	-2.53%	435,692,369	197,413,814	-8.20%	198,830,743	0.72%	396,244,557
TOTAL REVENUE	2,931,825,685	3,020,607,710	3.03%	5,952,433,395	3,076,480,563	1.85%	3,158,270,150	2.66%	6,234,750,713

TABLE B - 2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	FY 06 ACTUAL	FY 07	% CHANGE	BIENNIUM	FY 08	% CHANGE	FY 09	% CHANGE	BIENNIUM
Fuel Taxes	221,575,309	227,484,941	2.67%	449,060,250	236,650,637	4.03%	242,698,100	2.56%	479,348,737
Motor Vehicle Registration & Fees	87,658,962	86,476,317	-1.35%	174,135,279	86,908,059	0.50%	86,789,607	-0.14%	173,697,666
Inspection Fees	4,372,402	4,379,756	0.17%	8,752,158	4,433,458	1.23%	4,489,821	1.27%	8,923,279
Fines, Forfeits and Penalties	1,809,833	795,000	-56.07%	2,604,833	2,018,239	153.87%	2,018,239		4,036,478
Income from Investments	1,833,806	2,018,239	10.06%	3,852,045	795,000	-60.61%	795,000		1,590,000
Other Revenues	9,295,844	9,603,076	3.31%	18,898,920	10,190,906	6.12%	10,405,753	2.11%	20,596,659
TOTAL REVENUE	326,546,156	330,757,329	1.29%	657,303,485	340,996,299	3.10%	347,196,520	1.82%	688,192,819

TABLE B - 3

TOBACCO SETTLEMENT REVENUE ESTIMATES									
SOURCE	FY 06 ACTUAL	FY 07	% CHANGE	BIENNIUM	FY 08	% CHANGE	FY 09	% CHANGE	BIENNIUM
Initial Payments									
Base Payments	45,011,759	43,021,643	-4.42%	88,033,402	57,286,505	33.16%	58,092,962	1.41%	115,379,467
Attorney General Reimbursements									
Racino Revenue	1,771,212	3,097,701	74.89%	4,868,913	3,052,445	-1.46%	4,652,986	52.43%	7,705,431
Income from Investments	124,780	70,000	-43.90%	194,780	70,000		70,000		140,000
Total - Tobacco Settlement Revenue	46,907,751	46,189,344	-1.53%	93,097,095	60,408,950	30.79%	62,815,948	3.98%	123,224,898