STATE OF MAINE
REVENUE FORECASTING COMMITTEE

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December 2, 2024

TO: Governor Janet T. Mills
Members, 131st Legislature and 132nd Legislature

FROM: Amanda Rector, Chair
Revenue Forecasting Committee

RE: Revenue Forecasting Committee December 1, 2024, Report

The Revenue Forecasting Committee (RFC) has concluded its update of the revenue forecast to comply with its statutory reporting date of December 1, 2024, to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on November 1, 2024, and to provide a forecast that reflects revenue performance through the first four months of FY25 and preliminary revenues for November 2024. Tables showing the changes made to all the funds forecasted by the committee and a detailed presentation that includes the key assumptions made in developing the forecast have been posted to the RFC's web page and are available here. A more complete report will be available next week and added to the web page.

General Fund Summary

	FY25	FY26	FY27	FY28	FY29
Current Forecast	$5,333,253,940	$5,424,649,560	$5,597,580,185		
Annual % Growth	-0.4%	1.7%	3.2%		
Net Increase (Decrease)	$247,903,330	$113,527,715	$88,659,205		
Revised Forecast	$5,581,157,269	$5,538,177,275	$5,686,239,390	$5,862,453,837	$6,063,446,943
Annual % Growth	4.3%	-0.8%	2.7%	3.1%	3.4%

In its December 2024 update, the RFC revised General Fund revenue estimates upward by $247.9 million for FY25 and by $202.2 million (1.8%) for the 2026-2027 biennium. The forecasted rate of year-over-year change in General Fund revenue for FY25 is now 4.3%, followed by -0.8% for FY26 and 2.7% for FY27. The FY25 positive reprojection includes approximately $80.0 million in one-time non-withholding individual income tax revenue resulting from the deferral of tax filings and payments in April 2024 and June 2024 until July 2024 because of the natural disaster declaration related to the January 2024 winter storm. Had the $80.0 million in one-time revenue been deposited in FY24 and not FY25, the rate of year-over-year growth would have been 1.3% for FY25 and 0.7% for FY26. The December 2024 forecast adds projections for the 2028-2029 biennium, with overall FY28 General Fund revenue projected to grow at a 3.1% rate and FY29 at a 3.4% rate.

The changes in General Fund revenue during the forecast period are primarily from the three largest revenue lines: individual income tax, corporate income tax, and the sales and use tax. The estate tax and the income from investment revenue lines are also significant contributing factors to the positive General Fund variance in the December 2024 RFC forecast.

Individual Income Tax Revenue estimates are revised upward by $185.0 million for FY25, $62.0 million for FY26, and $44.0 million for FY27. Almost half of the FY25 revision is from the deferral of payments because of the January winter storm. In addition, the CEFC increased the wage and salary income forecast for CY24 from 5.0% to 6.0% and the RFC is now assuming that resident capital gains realizations in CY24 will increase 14.9% rather than decrease by 6.2% as assumed in the March 1, 2024, revenue forecast. Stronger interest and dividend income also contribute to the FY25 and ongoing positive reprojection. The FY24-25 biennial budget included several tax cuts that will first impact revenues when taxpayers file their tax year 2024 tax returns in early 2025. It’s estimated that tax year 2024 resident liability will increase 1.4% but would have increased by 7.1% absent the enacted tax cuts. Individual income tax growth is forecasted to increase by approximately 5% between FY27 and FY29.

Corporate Income Tax Revenue estimates are revised upward by $17.0 million for FY25, $7.0 million for FY26 and $15.0 million for FY27. Corporate income tax receipts continue to be higher than revenue projections, but the positive variances have narrowed significantly. A more optimistic forecast of pre-tax corporate profits by the CEFC accounts for most of the upward reprojection for FY25, with modest positive changes in the future years as the new Dirigo business investment and training incentive becomes effective January 1, 2025. FY26 is estimated to be the first year that the Dirigo incentive will have any meaningful impact on General Fund revenue.

Sales and Use Tax Revenue estimates are revised upward by $23.4 million for FY25, $30.8 million for FY26 and $27.0 million for FY27. The prior forecast had predicted a significant slowdown in growth: from 4.5% in FY23 down to 3.6% in FY24 and 1.5% in FY25. The new forecast still projects a slowdown, but not as severe as the prior forecast. The more positive outlook is a combination of three factors: the positive variances observed in FY24 and through the first 5 months of FY25, the changes in the new CEFC forecast, and lease stream legislation that passed in the spring, which moves to taxing rental payments on leased tangible personal property rather than taxing the purchase of rental property up front. This change will take effect January 2025. The fiscal note for that bill is included in the current budget, but we have since increased the estimate of the fiscal impact of that change. The growth rates in FY26 and FY27 are lower due to anticipated refunds. In FY26 we anticipate refunds of use tax paid on purchases of battery energy storage systems. In FY27 there will be refunds related to the lease stream bill that takes effect in January, which will refund use tax paid in calendar years 2023 and 2024 on property purchased for lease or rental. The higher growth rate in FY28 is due to those refunds in FY27.

Estate Tax estimates are revised upward by $11.4 million for FY25, $8.3 million for FY26, and $8.5 million for FY27. These changes are mostly from a more optimistic CEFC forecast of household net worth and actual estate tax revenues and returns received since the March forecast.

Income from Investments (Interest) estimates are revised upward by $22.4 million for FY25, $11.5 million for FY26, and $11.1 million for FY27. These increases result from upward adjustments to the underlying assumptions regarding fund balances and cash pool interest rates.

Highway Fund Summary

	FY25	FY26	FY27	FY28	FY29
Current Forecast	$503,560,608	$504,184,363	$503,727,720		
Annual % Growth	-1.4%	0.1%	-0.1%		
Net Increase (Decrease)	$11,204,518	$9,901,317	$11,622,968		
Revised Forecast	$514,765,126	$514,085,680	$515,350,688	$516,089,665	$516,188,380
Annual % Growth	0.8%	-0.1%	0.2%	0.1%	0.0%

In its December 2024 update, the RFC revised Highway Fund revenue estimates upward by $11.2 million for FY25 and by $21.5 million (2.1%) for the 2026-2027 biennium. The forecasted rate of year-over-year change in Highway Fund revenue for FY25 is now 0.8%, followed by -0.1% for FY26 and 0.2% for FY27. The December 2024 forecast adds projections for the 2028-2029 biennium, with overall FY28 Highway Fund revenue projected to grow at a 0.1% rate and FY29 only slightly above the FY28 forecasted level. The increases in the December 2024 Highway Fund forecast are largely the result of increases in the gas tax revenue forecast of $8.6 million in FY25, $10.8 million in FY26, and $12.4 million in FY27. The March 2024 forecast had assumed a decline in gas tax revenue resulting from increased fuel economy while the new forecast assumes slowing growth. Income from investments (interest) also contributed to the Highway Fund positive variance in the December 2024 forecast.

In its November report the CEFC continued to recognize ongoing uncertainty in economic conditions in the near-term but did not anticipate a recession in its forecast. The CEFC noted that, “demographic changes, a possible slowdown in job openings, and global geopolitical tensions were among the key risks to continued economic growth.” The CEFC also noted that, “Net migration is likely to be positive in the coming years and may play a role in the future supply of, and demand for, jobs. Some of the future demand for labor may be filled through productivity gains.” These assumptions of current uncertainty in the larger economic environment paired with changes to demographics in Maine, anticipated in the future, are reflected in the economic variables used by the RFC in this December revenue forecast. The CEFC made only minor changes to key economic variables used by the RFC in their revenue forecast. Both the CEFC and RFC will continue to monitor changes in economic conditions over the coming months in preparation for their required April 2025 and May 2025 reports.

While revenue growth has clearly moderated, it remains stronger than previously anticipated. With the start of the new year state tax cuts enacted two years ago will begin to affect General Fund revenues; only then will we understand the true impact of those tax changes. In addition, a new president and Congress will be sworn in in early January and deliberations relating to expiring provisions of the 2017 “Tax Cuts and Jobs Act” (TCJA) will begin in earnest. Those congressional negotiations and subsequent legislation will likely have a significant impact on Maine income and estate taxes and will require legislative review to determine if Maine will or will not conform.

cc: Members, Revenue Forecasting Committee
Members, Consensus Economic Forecasting Commission
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