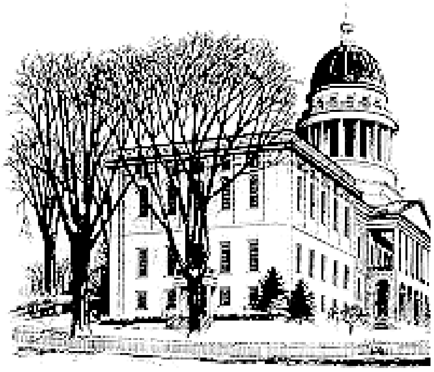

STATE OF MAINE
REVENUE FORECASTING COMMITTEE

November 25, 2020

TO: Governor Janet T. Mills
Members, 129th Legislature
Members, 130th Legislature

FROM: Michael Allen, Chair
Revenue Forecasting Committee

RE: Revenue Forecast Committee' December 1, 2020 Report

The Revenue Forecasting Committee (RFC) has concluded its statutorily required December 1 update of its most recent revenue forecast (August 1, 2020) in order to incorporate the new economic forecast released by the Consensus Economic Forecasting Commission (CEFC) on November 1, 2020 and to provide you with a forecast that reflects revenue performance through the first four months of FY21. 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 added to the web page later next week.

General Fund Summary

	FY21	FY22	FY23	FY24	FY25
March 2020 Forecast	$4,070,279,515	$4,174,531,432	$4,317,597,709		
Annual % Growth	2.5%	2.6%	3.4%		
Net Increase (Decrease)	($527,809,542)	($433,731,150)	($449,465,768)		
August 2020 Forecast	$3,542,469,974	$3,740,800,282	$3,868,131,941		
Annual % Growth	-10.8%	5.6%	3.4%		
Net Increase (Decrease)	$272,806,942	$231,967,435	$255,473,700		
December 2020 Forecast	$3,815,276,916	$3,972,767,717	$4,123,605,641	$4,276,170,128	$4,431,148,462
Annual % Growth	-3.9%	4.1%	3.8%	3.7%	3.6%

In its December 2020 update, the RFC has revised General Fund (GF) revenue estimates upward by $272.8 million for FY21 and by $487.4 million for the FY22/23 biennium. The forecasted rate of year-over-year growth for General Fund revenue in FY21 is now -3.9%, followed by growth of 4.1% in FY22 and 3.8% for FY23. Relative to the RFC's pre-pandemic March 1, 2020 forecast GF revenues are now projected to be $255 million lower in FY21 and $395.8 million lower in the FY22-23 biennium. In addition, Highway Fund (HWF) revenues are being increased by $11.4 million in FY21 and $9.1 million in the FY22/23 biennium. Relative to the RFC's pre-pandemic March 1, 2020 forecast HWF revenues are now projected to be $19.3 million lower in FY21 and $21.4 million lower in the FY22-23 biennium. Also, the December revenue forecast includes the first official estimates of FY24-25 biennial revenues for each of the funds included in the RFC report.

The CEFC convened on October 23, 2020 to review and revise its July 1, 2020 off-cycle economic forecast. The CEFC noted that record-setting job losses in March and April were followed by sharp but incomplete gains through the summer. The new economic forecast assumes total nonfarm employment will decrease by 8.0% in 2020, with recovery of 4.0% and 2.0% in 2021 and 2022, before slowing to 0.1% in 2023-2025. The forecast anticipates employment will decline from around 636,000 in 2019 to a trough of around 585,200 in 2020, recovering to about 622,600 in 2025. This is a slight improvement over the July 1 forecast, which saw a peak of 620,700 in 2023 that remained flat through 2025, reflecting upside risks to the labor market recovery as a result of structural changes.

Total personal income was revised up in all years, notably to 5.3% in 2020 compared to 3.9% in the prior forecast. These revisions were driven by data showing a stronger rebound of middle- and high-income jobs. Changes to estimates of non-payroll sources of income resulted in additional upward revisions in 2021 to 2025.

Overall, the CEFC agreed with their original assessment of the economic and public health conditions made during the summer. Since the last forecast, the CEFC identified higher uncertainty regarding the timing of further federal stimulus and remains optimistic about Maine's opportunities to see increased immigration in the upcoming years. The Commission reiterated that current conditions are unprecedented, highly uncertain, and changing rapidly. Additionally, the CEFC noted their concern that the exacerbation of inequality as different groups experience uneven paces of economic recovery will hold back the overall recovery of the state and place additional demands on state educational and social service programs while threatening to reduce the tax revenues that fund them.

Almost 90% ($243.9 million) of the RFC's $272.8 million reprojection in FY21 is from sales and use and individual income taxes, and 88% of the FY22 and FY23 net increases are attributable to these two revenue lines. In both cases, stimulus from the federal government and the Federal Reserve System has helped to moderate the impact on State revenues of the historic COVID-19 recession during the final quarter of FY20 and the first five months of FY21. While the CEFC now assumes that Congress will provide an additional stimulus in the first quarter of CY21, the severity of the recession leads to smaller, but still significant ongoing reductions in the State's two largest sources of GF revenue relative to the RFC's pre-pandemic March forecast.

The $136.5 million upward adjustment in FY21 to the sales and use tax forecast reflects a positive variance of $53.5 million through October and preliminary November receipts that point to another monthly variance of $20 million or more. The two primary areas fueling the revenue surplus are lodging and automobile sales. Lodging receipts through October exceed budget by $14.4 million and are now expected to be approximately $22 million higher for the fiscal year than projected in August. While lodging sales were down 28.6 percent year-over-year (YOY) during the important July-September quarter, the August revenue forecast assumed a 50 percent YOY decline during the summer tourism season. After declining over 15 percent YOY between March and June, sales and use tax receipts related to automobile sales have rebounded, increasing by 17 percent YOY during the three-month period ending in September. Actual revenue performance through October and a less pessimistic forecast from the CEFC of CY20 new automobile registrations results in a FY21 increase of $42 million in sales and use tax from automobile sales. The RFC has tried to capture the expected decline in taxable services during the coming winter months as the rising rate of rate of COVID-19 impacts consumer purchases of in-person services.

Changes to the individual income tax are primarily the result of the CEFC's more optimistic assumption of wage and salary growth over the forecast period. The November CEFC forecast assumes that wages and salaries combined with taxable enhanced unemployment insurance (UI) benefits that were part of the CARES Act, will more than offset the reduction in wages and salaries during CY20 relative to their February economic forecast. After CY20 the CEFC assumes that UI benefits will fall back to normal levels and growth as unemployment declines, but that wage and salary growth will be stronger than their previous forecast. Wages and salaries represent a significant portion of taxable income and therefore any increase in their forecasted level leads to higher individual income tax liability. Other key factors impacting the individual income tax forecast are: (1) a smaller decrease in capital gains realizations than the August forecast, (2) slightly stronger growth in business income and (3) a reduction in IRA income in tax year 2020 due to federal tax law changes.

In the conclusion to our August 1st report we stated that "there's a high probability that significant changes, positive or negative, may be take place in the next forecasting exercise." While this forecast includes significant positive reprojections for the GF, the uncertainties of the pandemic, the effectiveness and availability of potential vaccines, and additional fiscal stimulus will all influence the accuracy of this forecast as well. The RFC is committed to closely monitoring incoming economic and revenue data, and keeping the Governor and Legislature apprised of any variances that appear to be developing prior to the next economic and revenue forecasting meetings. To that end, the RFC will be reaching out to our CEFC colleagues to have an informal joint meeting in mid-February to discuss how the two recent forecasts are unfolding. By mid-February revenue data on holiday shopping sales and the final tax year 2020 estimated payments for individuals and corporations will be available, providing key information that will help inform policymakers as they develop a FY22-23 biennial budget.

cc: Members, Revenue Forecasting Committee
Members, Consensus Economic Forecasting Commission
Jeremy Kennedy, Chief of Staff, Governor's Office
Kirsten Figueroa, Commissioner, DAFS
Clerk of the House
Secretary of the Senate
Suzanne Gresser, Executive Director, Legislative Council
Legislative Staff Office Directors