CONSENSUS ECONOMIC FORECASTING COMMISSION

TO: The Honorable Paul R. LePage, Governor
Sen. Richard W. Rosen, Chair, Appropriations and Financial Affairs
Rep. Patrick S. A. Flood, Chair, Appropriations and Financial Affairs
Members, Appropriations and Financial Affairs
Sen. Christopher W. Rector, Chair, Labor, Commerce, Research and Economic Development
Rep. Kerri L. Prescott, Chair, Labor, Commerce, Research and Economic Development
Members, Labor, Commerce, Research and Economic Development

FROM: James A. Clair, Chair
Consensus Economic Forecasting Commission

DATE: October 4, 2011

RE: Recommendation on Pine Tree Development Zone Requirement

PL 2009, chapter 461 established a requirement that the Revenue Forecasting Committee prepare a separate projection of revenue that isolates the effects of Pine Tree Development Zone (PTDZ) initiatives. Attached is a memo dated November 1, 2010 from our predecessor Consensus Economic Forecasting Commission (CEFC) members, and proposed legislation from the former CEFC, recommending that this PTDZ provision be repealed.

At the August 19, 2011 joint retreat of the Consensus Economic Forecasting Commission and Revenue Forecasting Committee (RFC), this recommendation was reviewed and members concurred with the previous finding that the provision is not feasible. A detailed explanation is given in the attached memo. No action was taken on the previous recommendation from November 1, 2010 due to the transition between administrations.

The CEFC recommends you consider the attached memo and legislation to remove the provisions in law affecting the economic and revenue forecasting processes.

We would be pleased to answer your questions about our recommendation.

Attachment

Cc: Members, Consensus Economic Forecasting Commission
Members, Revenue Forecasting Committee
H. Sawin Millett, Commissioner, Department of Administrative and Financial Services
Dawna Lopatosky, State Budget Officer

CONSENSUS ECONOMIC FORECASTING COMMISSION

TO: The Honorable John E. Baldacci, Governor
Members, 124th Legislature

FROM: Charles S. Colgan PhD, Chair
Consensus Economic Forecasting Commission

DATE: November 1, 2010

RE: Recommendation on Pine Tree Development Zone Requirement

PL 2009, chapter 461 established a requirement that the Revenue Forecasting Committee prepare a separate projection of revenue that isolates the effects of Pine Tree Development Zone (PTDZ) initiatives. As a prerequisite to determining the amount of revenue that can be considered to have been generated by PTDZ initiatives, the Consensus Economic Forecasting Commission (CEFC) must produce a separate forecast of the Maine economy incorporating the effects of extending the PTDZ incentives to most of the State. After considerable deliberation, the CEFC has concluded that we are unable to develop a credible separate forecast. While information about past use of PTDZ incentives is available, the CEFC has not been able to develop a method for extrapolating past experience to the entire State, particularly in the extraordinarily difficult forecasting environment in which we are currently operating. In any case, this new forecast would be little more than a speculative exercise. Even historical data on PTDZ initiatives is subject to significant assumptions in the certification that the approved projects would not have accrued "but for" PTDZ incentives.

In addition to the concerns about complicating an already very difficult forecast responsibility, the members of the CEFC and the Revenue Forecasting Committee (RFC) raised several other issues with regard to implementing this requirement during their last 2 joint meetings. The issues ranged from the unintended, adverse budget consequences associated with the set-aside to the requirement's failure to accomplish the intent of addressing a concern with the fiscal note process.

Therefore, the CEFC recommends you consider the attached legislation to remove the provisions in law affecting the economic and revenue forecasting processes.

Attachment

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

An Act to Eliminate New Requirements within the Revenue Forecasting Process Regarding Pine Tree Development Zones

Sec. 1. 5 MRSA, §1710-F, subsection 2 as amended by PL 2009, c. 461 as further amended to read:

2. Biennial revenue projections. The committee shall submit recommendations for state revenue projections for the next 2 fiscal biennia and analyze revenue projections for the current fiscal biennium, which must be approved by a majority of the committee members. No later than December 1st of each even-numbered year, the committee shall 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 a report that presents the analyses, findings and recommendations for General Fund and Highway Fund revenue projections for the next 2 fiscal biennia. In its report the committee shall fully describe the methodology employed in reaching its recommendations. Revenue projections for other funds of the State may be included in the report at the discretion of the committee. ~~Revenue projections for the General Fund may not include revenue that accrues pursuant to Title 30-A, section 5250-I, subsection 14 and is deposited into the Pine Tree Development Zone Reserve Fund pursuant to Title 30-A, section 5250-J, subsection 4-B that would not have accrued to the State but for the availability of Pine Tree Development Zone benefits as stated in Title 30-A, section 5250-I, subsection 17, paragraph A.~~

Sec. 2. 30-A MRSA, §5250-J, sub-§4-B as enacted by PL 2009, c. 461, §20 is repealed. (Text is provided for information only)

~~**4-B. Pine Tree Development Zone Reserve Fund established.** The Pine Tree Development Zone Reserve Fund, referred to in this subsection as "the fund," is established as a nonlapsing fund to capture all net positive revenues pursuant to section 5250-I, subsection 14 that accrue to the State and that would not have accrued to the State but for the availability of Pine Tree Development Zone benefits as stated in section 5250-I, subsection 17, paragraph A. The Office of the State Controller shall administer the fund, which notwithstanding Title 5, section 1666 is not subject to legislative allocation. The fund must be established and held separate from any other fund and used and administered exclusively for the purposes of this section. The fund consists of all revenues received pursuant to section 5250-I, subsection 14.~~

~~The State Tax Assessor shall identify all revenues that accrue to the State pursuant to section 5250-I, subsection 14 and deposit them into the fund. The State Controller shall transfer or authorize the transfer of funds from the fund in accordance with Title 36, sections 2016 and 6758 and any other relevant provisions. Any excess revenues not transferred pursuant to this section must be deposited by the State Controller into the General Fund.~~

Summary

This proposed legislation repeals a recent requirement that called for the Revenue Forecasting Committee to exclude revenue that accrues from the Pine Tree Development Zone program from the State's revenue forecast so that all revenue accruing from the Pine Tree Development Zone program could be set aside in a separate fund to pay the benefits. This requirement effectively requires the Consensus Economic Forecasting Commission to develop a separate economic forecast so that the Revenue Forecasting Committee can forecast the revenue to be set aside in the separate fund. The Consensus Economic Forecasting Commission has found that they lack the time and resources to effectively implement this separate forecast requirement.