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**M E M O R A N D U M**

**TO:** Governor Paul R. LePage  
Members, Legislative Council  
Members, Joint Standing Committee on Appropriations and Financial Affairs  
Members, Joint Standing Committee on Taxation

**FROM:** H. Sawin Millett Jr., Commissioner  
Department of Administrative & Financial Services

**DATE:** April 17, 2012

**SUBJ:** Revenues – March

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March General Fund revenues were over budget by \$27.3 million or 13.7%. For the first three-quarters of the fiscal year General Fund revenues are \$35.0 million over budget (+1.9%). Compared to the same nine month period last fiscal year, General Fund revenues are up \$34.3 million (+1.8%). Note the Controller's report for March has been updated for the latest revenue forecast by the Revenue Forecasting Committee (RFC) and includes \$13.7 million of January receipts that were not cleared from holding accounts in a timely fashion.

The revelation of an accounting error in January revenue provides a much clearer picture of consumer activity during the holiday shopping season and the first two months of 2012. The taxable sales report for the November-December two month period shows year-over-year growth of 5.7% in consumer sales, which is now consistent with actual tax receipts for that same period and national data. January and February taxable sales indicate that Maine consumers continued to spend post-holiday season. January sales were up 4.9% for consumers and February consumer sales increased by 11.1%; one of the best months since the start of the recession. With the exception of lodging sales, February taxable sales were solid across all business sectors. It's likely that a portion of the February activity was because of the unusually warm weather, but even adjusting for that it appears that household confidence is rising. The only concern going forward is that this increased consumption is being financed through a lower saving rate. Rising energy prices and weak income growth are requiring households to reduce their saving and increase their borrowing to support their increased spending. The shift in sales because of the

warm weather and an early Easter will likely result in consumer spending moderating a bit over the next few months.

### Sales & Use Taxes

Revenue was \$9.1 million over budget for the month and \$11.2 million (+1.7%) over budget fiscal year-to-date. Fiscal year-to-date revenue was \$37.7 million (+6.1%) over fiscal year 2011.

### Taxable Sales

Total taxable sales for the month of February (March revenue) were up 9.0% from February 2011. The annual rate of change was 4.2%. Building supply sales were up 20.1% for the month and 9.0% for the year ending in February. Sales of taxable items in food stores were up 5.9% for the month and 1.8% for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 9.4% for the month and 0.6% for the year. Sales in other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 3.7% for the month and 3.7% for the year. Auto/transportation sector sales were up 15.7% for the month and 5.6% for the year. Sales of meals and other prepared foods were up 11.6% for the month and 3.9% for the year. Lodging sales were down 1.6% for the month and up 3.4% for the year. Business operating sales (primarily use tax paid by businesses) were down 4.3% for the month and up 5.3% for the year.

### Service Provider Tax

Revenue was \$163,650 under budget for the month and \$334,929 (-1.0%) under budget fiscal year-to-date.

### Individual Income Tax

Revenue was \$2.9 million over budget for the month and \$2.9 million (+0.3%) over budget fiscal year-to-date. Fiscal year-to-date withholding payments were 2.3% over fiscal year 2011. Estimated payments were up 0.4% and final payments were up 5.6% fiscal year-to-date. Fiscal year-to-date revenue was \$13.6 million (+1.5%) over fiscal year 2011.

### Corporate Income Tax

Revenue was \$13.7 million over budget for the month and \$13.7 million (+9.6%) over budget fiscal year-to-date. Estimated payments were up 3.3% and final payments were up 24.1% fiscal year-to-date. Fiscal year-to-date revenue was \$13.2 million (+9.2%) over fiscal year 2011.

### Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$525,314 under budget for the month and \$266,493 (-0.3%) under budget fiscal year-to-date.

### Insurance Companies Taxes

The Insurance Companies Taxes were \$2.5 million over budget for the month and \$4.8 million over budget fiscal year-to-date.

#### Estate Tax

The estate tax was \$2.1 million over budget for the month and \$2.1 million over budget fiscal year-to-date.

#### Transfers for Tax Relief Programs

Refunds for the tax & rent, Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) were over budget in March by \$0.9 million. Fiscal year-to-date the tax relief programs are over budget by \$0.9 million (-0.8%).

#### Municipal Revenue Sharing

Revenue sharing was close to budget for the month and fiscal year.

#### Lottery

Lottery Revenues were over budget in March by \$713,952. Year-to-date this line remains over budget by \$2.2 million.

#### Other Revenues

Other Revenues are under budget for the month by \$0.8 million and are slightly under budget year-to-date

#### Highway Fund

Motor fuel tax receipts were under budget in March by \$0.8 million. The Highway Fund as a whole was \$1.1 million under budget for the month. For the fiscal year motor fuel excise taxes are under budget by \$1.7 million (-1.2%). The Highway Fund is under budget year-to-date by \$0.4 million (-0.2%).

#### National Economy

The latest national economic data implies that the economy grew by at least 2.5% in the first quarter of 2012. While this growth is still relatively low for this stage of an economic recovery, it does reflect a steady growth that appears to be sustainable despite high energy prices. If the European debt crisis remains muted and energy prices don't go much higher, the economy should be strong enough to withstand a more contractionary fiscal policy that is likely to occur after the November elections.

#### Maine Economy

The Revenue Forecasting Committee (RFC) will convene at the end of this month at the request of the State Budget Officer. The RFC will review the revenue adjustments required by the January accounting error and the results of the 2011 tax year filings. With only two months remaining in the fiscal year, the RFC will certainly have a good fix on FY12 revenues and should be able to make some adjustments to the out year forecasts as well. Significant long term changes to the revenue forecast will be tempered until the Consensus Economic Forecasting Commission meets again in late October and provides an updated economic forecast to the RFC.

HSM:mja

Attachments

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