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

**TO:** Governor Janet T. Mills  
Members, Legislative Council  
Members, Joint Standing Committee on Appropriations and Financial Affairs  
Members, Joint Standing Committee on Taxation

**FROM:** Commissioner Kirsten LC Figueroa  
Department of Administrative and Financial Services

**DATE:** March 20, 2019

**SUBJECT:** Revenues – February 2019

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February General Fund revenues were under budget by \$28.3 million or 15.9 percent. For the first eight months of fiscal year 2019, General Fund revenues are \$20.3 million under budget (-0.8 percent). Compared to the same eight-month period of last fiscal year, fiscal year 2019 General Fund revenues are up by 5.3 percent (+\$122.4 million).

January taxable sales (February revenue) increased 4.1 percent over last year. For the month, sales and use and service provider taxes, combined, were \$0.1 million over budget. The three-month moving average of growth has slowed to 4 percent, compared to the 12-month moving average of 5.6 percent. National data released last week showed retail sales in January rebounded from a surprisingly weak December, but January year-over-year retail sales only increased by 2.3 percent. Even when adjusting for volatile energy and auto sales, year-over-year growth in “core sales” in January (+3.7 percent) remained well below the growth during the summer and fall.

Individual income tax revenues were under budget in February by \$25.1 million. Most of the monthly variance was from refunds exceeding budget by \$17 million. For the fiscal year refunds are now over budget by \$9.8 million. At this time, we believe this is a timing issue and refunds will be close to budget at the end of April after the bulk of refunds are issued. Withholding (-\$4.4 million), final payments (-\$1.9 million), and fiduciary (-\$2.8 million) receipts accounted for the remaining deficit in February. Like refunds, we believe timing explains the negative variances in these other sources of individual income tax receipts, and expect revenues to come back into alignment with the forecast by the close of April.

Corporate income tax receipts were under budget in February by \$7.6 million, but remain over budget for the fiscal year by \$11.5 million. Refunds and estimated payments accounted for the weak monthly performance. February is not a big month for corporate income tax receipts, so the timing of refunds can result in negative revenues for the month. April is the next big month for corporate income tax revenues when 2018 final payments and the first estimated payment for calendar year filers is due.

### Sales and Use Taxes

Revenue was \$0.2 million over budget for the month and \$0.35 million over budget for the fiscal year. Revenue was \$58.6 million or 5.9 percent over prior fiscal year-to-date collections.

### Taxable Sales

Total taxable sales for the month of January (February revenue) were 4.1 percent over January 2018. The annual rate of change, excluding utilities, was 5.6 percent. Building supply sales were up 9.3 percent for the month and up 7.3 percent for the last 12 months. Sales of taxable items in food stores were up 2.5 percent for the month and up 3.7 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 1.4 percent for the month and 2.7 percent for the year. Sales in other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 8.3 percent for the month and up 15.3 percent for the year. Auto/transportation sector sales were up 4.6 percent for the month and 5.5 percent for the year. Sales of meals and other prepared foods were up 4.9 percent for the month and up 5 percent for the year. Lodging sales were up 21.5 percent for the month and up 6.8 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 2.7 percent for the month and up 8.4 percent for the year.

### Service Provider Tax

Revenue was under budget for the month by \$0.1 million and is now \$0.6 million over budget for the fiscal year. Revenue is \$0.5 million or 1.3 percent over prior fiscal year-to-date collections.

### Individual Income Tax

Revenue was \$25.1 million or 41.7 percent under budget for the month and \$43.9 million or 3.9 percent under budget fiscal year-to-date. Fiscal year-to-date withholding payments were 6.1 percent over fiscal year 2018. Estimated payments were down 13.5 percent and final payments were up 3.2 percent fiscal year-to-date.

### Corporate Income Tax

Revenue was under budget for the month by \$7.6 million and over budget for the fiscal year-to-date by \$11.5 million. Estimated payments and final payments were up 36 percent and 61 percent fiscal year-to-date, respectively. Revenue was \$45.3 million or 54.2 percent over prior fiscal year-to-date collections.

### Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.8 million under budget for the month and \$1 million or 1.1 percent under budget fiscal year-to-date. Fiscal year-to-date revenue was \$2.1 million or 2.4 percent over prior fiscal year-to-date collections.

### Insurance Companies Taxes

The Insurance Companies Taxes were \$0.5 million over budget for the month and \$0.4 million over budget fiscal year-to-date.

### Estate Tax

The estate tax was \$1.7 million over budget for the month and \$0.2 million over budget fiscal year-to-date.

### Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were under budget in February by \$4.1 million and are now \$6.4 million under budget year-to-date.

### Municipal Revenue Sharing

Revenue sharing was under budget in February by \$0.4 million and is now on budget for the first eight months of the fiscal year.

### Lottery

Lottery revenues were slightly under budget for the month and remain over budget for the fiscal year by \$2.5 million.

### Other Revenues

Other Revenues were under budget for the month by \$1 million. For the fiscal year, other revenues are over budget by \$1.1 million or 10.8 percent.

### Highway Fund

Motor fuel excise tax receipts were over budget in February by \$0.6 million. The Highway Fund, in total, was over budget for the month by \$1.8 million. For the first eight months of the fiscal year, motor fuel excise tax revenues are under budget by \$0.2 million and total Highway Fund receipts are over budget by \$3.8 million.

### National Economy

Recent national data reports point toward weak first quarter GDP growth, well below 1 percent at an annualized rate. Furthermore, delayed information on the fourth quarter of 2018 because of the government shutdown implies the 2.6 percent initial estimate of real GDP growth will be revised to a rate closer to 2 percent. While temporary factors such as the partial government shutdown, harsh weather, and delayed tax refunds have slowed growth, there are ongoing factors at play as well.

The February Beige Book Report by the Federal Reserve Districts noted that, “numerous manufacturing contacts conveyed concerns about weakening global demand, higher costs due to tariffs, and ongoing trade policy uncertainty.” On a positive note, the tight labor market is resulting in solid wage growth, which should provide continued support for consumer spending.

### Maine Economy

Earlier this month the Tax Policy Center (TPC) released a report on 2018 third quarter state and local tax revenues. Third quarter year-over-year growth in tax revenues was strong at 8.8 percent, but preliminary data show that growth slowed in the fourth quarter of 2018 primarily because of individual income receipts. The TPC report is consistent with the revenue trends in Maine. TPC concluded their report as follows: “Despite the strong growth in the overall economy, state fiscal year 2019 year-to-date revenues are below the forecasts in most states. Poor state revenue performance is driven by the heightened revenue volatility as a result of the TCJA as well as recent fluctuations in the stock market. The stock market fragility and volatility throughout the most recent four months stems from several factors including the weakening global economy, the federal government shutdown, volatility in oil prices, and declining world trade. Although the near-term economic outlook is positive, state revenue forecasters would be prudent to maintain a cautious revenue outlook for the remainder of state fiscal year 2019 and fiscal year 2020.”

KF: mja

### Attachments

cc:     Jeremy Kennedy  
          Mary Anne Turowski  
          Grant Pennoyer  
          Chris Nolan  
          Marc Cyr  
          Amanda Rector  
          Jim Breece  
          Jerome Gerard  
          Jenny Boyden