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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: April 17, 2019

SUBJECT: Revenues – March 2019

March General Fund revenues were over budget by \$40.6 million or 23 percent. For the first three quarters of fiscal year 2019, General Fund revenues are \$20.3 million over budget (+0.8 percent). Compared to the same nine-month period of last fiscal year, fiscal year 2019 General Fund revenues are up by 5.9 percent (+\$147.2 million).

February taxable sales (March revenue) increased 4.4 percent over last year. For the month, sales and use and service provider taxes, combined, were \$0.8 million over budget. A 24.2 percent growth in business operating sales was the primary driver of monthly sales growth. Consumer sales increased by 2.5 percent, one of the weakest over the last 12 months. National retail sales year-over-year (YOY) growth was only 2.2 percent in February, marking three months in a row with sub-3 percent YOY growth. Smaller federal tax refunds continue to be the main explanation for the recent weakness in household spending.

Individual income tax revenues rebounded in March, coming in over budget by \$26.2 million. Most of the monthly variance was from refunds being below budget by \$16.3 million. For the fiscal year refunds are now under budget by \$6.5 million. Withholding (\$8 million), final payments (\$1 million), and estimated payments (\$0.6 million) accounted for the remaining surplus in March. Individual income tax receipts enter April \$17.7 million under budget for the fiscal year, with most of the negative variance coming from estimated and fiduciary payments (-\$25.2 million). We expect most of the year-to-date shortfall to be offset by stronger than budgeted April final payments.

Corporate income tax receipts were over budget in March by \$10.6 million, and remain over budget for the fiscal year by \$22.1 million (+17.1 percent). Estimated payments accounted for most monthly surplus, exceeding budget by \$7 million. April is a big month for corporate income tax revenues, with 2018 final payments and the first estimated payment for calendar year filers due.

Sales and Use Taxes

Revenue was \$0.8 million over budget for the month and \$1.1 million over budget for the fiscal year. Revenue was \$63.8 million or 5.9 percent over prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of February (March revenue) were 4.4 percent over February 2018. The annual rate of change, excluding utilities, was 5.4 percent. Building supply sales were down 1.5 percent for the month and up 6.3 percent for the last 12 months. Sales of taxable items in food stores were up 0.5 percent for the month and up 3.5 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 1.9 percent for the month and down 3 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 6.8 percent for the month and up 14.6 percent for the year. Auto/transportation sector sales were up 0.5 percent for the month and 4.9 percent for the year. Sales of meals and other prepared foods were up 4.4 percent for the month and up 4.9 percent for the year. Lodging sales were up 22.8 percent for the month and up 6.8 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 24.2 percent for the month and up 9.9 percent for the year.

Service Provider Tax

Revenue was over budget for the month by \$0.1 million and is now \$0.7 million over budget for the fiscal year. Revenue is \$0.3 million or 0.6 percent over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$26.2 million or 130.9 percent over budget for the month and \$17.7 million or 1.6 percent under budget fiscal year-to-date. Fiscal year-to-date withholding payments were 5.3 percent over fiscal year 2018. Estimated payments were down 13.2 percent and final payments were up 5.4 percent fiscal year-to-date.

Corporate Income Tax

Revenue was over budget for the month by \$10.6 million and over budget for the fiscal year-to-date by \$22.1 million. Estimated payments and final payments were up 36.9 percent and 53 percent fiscal year-to-date, respectively. Revenue was \$53.1 million or 54 percent over prior fiscal year-to-date collections.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$4.1 million under budget for the month and \$5.1 million or 5.1 percent under budget fiscal year-to-date. Fiscal year-to-date revenue was \$1.3 million or 1.4 percent under prior fiscal year-to-date collections.

Insurance Companies Taxes

The Insurance Companies Taxes were \$1.2 million over budget for the month and \$1.7 million over budget fiscal year-to-date.

Estate Tax

The estate tax was \$0.1 million under budget for the month and on 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 over budget in March by \$0.1 million and are now \$6.3 million under budget year-to-date.

Municipal Revenue Sharing

Revenue sharing was under budget in March by \$0.7 million and is now under budget for the first nine months of the fiscal year by \$0.7 million.

Lottery

Lottery revenues were over budget for the month by \$2.4 million and are over budget for the fiscal year by \$4.8 million.

Other Revenues

Other Revenues were under budget for the month by \$0.6 million. For the fiscal year, other revenues are over budget by \$0.5 million or 6.9 percent.

Highway Fund

Motor fuel excise tax receipts were under budget in March by \$0.9 million. The Highway Fund, in total, was over budget for the month by \$0.2 million. For the first nine months of the fiscal year, motor fuel excise tax revenues are under budget by \$1.1 million and total Highway Fund receipts are over budget by \$4 million (1.5 percent).

National Economy

The March jobs report provided further evidence that the labor market remains strong. Payrolls increased by 196,000 in March, rebounding from a weak February report of only 33,000 net jobs. The three-month average was 180,000, slower than the average for 2018, but still a solid average for a late cycle economy. Year-over-year average hourly earnings growth of 3.2 percent while slightly lower than recent months, remains firmly above 3 percent. Despite the continuation of the robust labor market, lower than normal tax refunds and rising energy prices have slowed consumer spending in the first quarter of 2019. These two factors are expected to negatively impact the auto and other durable good sales over the next few months.

Maine Economy

The Maine Consensus Economic Forecasting Commission (CEFC) convened on March 29, 2019, to review and revise its forecast through 2023. The Commission made modest changes to the existing forecast. CPI was revised downward from 2018 to 2023 to match the Federal Reserve Bank's long-term inflation target of 2.0 percent and modest upward revisions were made to components of personal income for the later years (2021, 2022, 2023). Non-farm proprietors' income and corporate profits remain unchanged. While there has been more positive data on in-migration recently, the Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability.

The Revenue Forecasting Committee (RFC) is scheduled to meet on May 1, 2019 to review revenue recommendations from the Maine Revenue Services' Office of Tax Policy and other state agencies. The new CEFC forecast is not expected to have much of an effect in the short-term, and may have a modest positive impact in the out years of the forecast period. Any significant adjustments to the December 1, 2018 forecast will be based on the April performance of individual and corporate income taxes.

KF: mja

Attachments

cc: Jeremy Kennedy
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