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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: August 21, 2019

SUBJECT: Revenues – July 2019

July General Fund revenues were over budget by \$9.1 million or 3.2 percent. Compared to last fiscal year, fiscal year 2020 July General Fund revenues were up by 7.0 percent (+\$19.1 million).

June taxable sales (July revenue) increased 5.6 percent over last year. For the month, sales and use and service provider taxes, combined, were \$3.2 million over budget. Consumer sales increased by 7.1 percent over a year ago, with mixed growth across business categories. The large increase in general merchandise sales is a timing issue associated with filing issues a year ago. Auto/transportation posted year-over-year growth of 4.8 percent. Lodging sales increased by 14.8 percent in June, and 16.5 percent for the first half of calendar year 2019. Business operating sales have started to slow, with flat year-over year growth in June and 3.8 percent for the quarter; well below the 12-month average rate of 9.3 percent.

Individual income tax receipts began the fiscal year \$4.1 million over budget, and 9.1 percent higher than last fiscal year. The positive monthly variance was spread across all sources of income, except for fiduciary payments which were under budget by \$0.3 million. Withholding revenues increased 8.4 percent over last July, bringing the calendar year-to-date growth rate up to 3.9 percent.

Corporate income tax receipts were under budget in July by \$3.3 million and were 30 percent below a year ago. The next big month for corporate income tax revenue is September when the third estimated payment for calendar year filers is due.

Sales and Use Taxes

Revenue was \$3.4 million over budget for the month (+2.3 percent). Fiscal year 2020 revenue was \$8.4 million or 5.8 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of June (July revenue) were 5.6 percent over June 2018. The annual rate of change, excluding utilities, was 5.6 percent. Building supply sales were up 0.4 percent for the month and up 3.6 percent for the last 12 months. Sales of taxable items in food stores were up 0.5 percent for the month and up 2.3 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 22.3 percent for the month and up 1.5 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 8.4 percent for the month and up 12.7 percent for the year. Auto/transportation sector sales were up 4.8 percent for the month and 5.7 percent for the year. Sales of meals and other prepared foods were up 3.4 percent for the month and up 4.5 percent for the year. Lodging sales were up 14.8 percent for the month and up 8.7 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 0.1 percent for the month and up 9.3 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$0.2 million. Revenue was \$0.2 million or 3.3 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$4.1 million or 3.7 percent over budget for the month. Compared to fiscal year 2019 withholding payments increased 8.4 percent. Estimated payments were up 16.1 percent and final payments were up 21.2 percent compared to last July.

Corporate Income Tax

Revenue was under budget for the month by \$3.3 million, and \$4 million (-30 percent) below a year ago. Estimated payments and final payments were down 30.0 percent and 41.3 percent, respectively.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$6.4 million over budget for the month. We believe the monthly surplus is a timing issue that will be reversed in August.

Insurance Companies Taxes

The Insurance Companies Tax was \$0.1 million over budget for the month and \$0.3 million below last fiscal year.

Estate Tax

The estate tax was \$5.3 million over budget for the month and \$6.0 million higher than last July. Unusually large payments that are not assumed in the baseline forecast account for the monthly surplus.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) program were over budget in July by \$2.0 million. Payments budgeted for the previous fiscal year that slipped into the first few days of fiscal year 2020 account for the overage.

Municipal Revenue Sharing

Revenue sharing was over budget in July by \$6.0 million. An error in calculating the monthly distribution of revenue sharing is the reason for the large monthly variance. This error should persist, but moderate over the next few months until the error can be corrected after the December 1, 2019 revenue forecast is completed.

Lottery

Lottery revenues were under budget for the month by \$0.2 million or -4.6 percent.

Other Revenues

Other Revenues were over budget for the month by \$0.3 million. Other revenues were 5.6 percent below a year ago. Other revenues are negative in July because of transfers from the General Fund to the Tourism Marketing Fund and Multimodal Transportation Fund.

Highway Fund

Motor fuel excise tax receipts were under budget in July by \$0.1 million. The Highway Fund, in total, was over budget for the month by \$1.0 million. Compared to last July, motor fuel excise tax revenues increased by \$0.2 million (+0.8 percent) and total Highway Fund receipts were up by \$0.7 million (+2.3 percent).

National Economy

An inverted yield curve, trade tensions, and data showing that key European economies contracted last quarter have raised the specter of a recession in the next 12-18 months. All this uncertainty is causing volatility in the stock market and businesses to pull-back on investing in new plant and equipment. The one area that remains strong is consumer spending. The recent retail report for July showed growth accelerated last month across a broad spectrum of retailers. Walmart, an important indicator of consumer health, reported solid sales in the last quarter and were upbeat about the rest of the year. Labor market data will be key going forward as any softening employment will dampen consumer confidence and spending.

Maine Economy

The Maine Department of Labor reported that July's preliminary seasonally adjusted unemployment rate was 3.0 percent, down from 3.2 percent in June and 3.4 percent a year ago. The preliminary estimate of 633,500 nonfarm payroll jobs in July is up 5,500 from one year ago. The robust labor market data supports the solid withholding and taxable sales growth the state has been experiencing during calendar year 2019. Relatively low and stable energy prices during the height of the summer driving season is providing additional support for Maine households and out-of-state tourists.

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Attachments

cc: Jeremy Kennedy
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