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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: September 20, 2019

SUBJECT: Revenues – August 2019

August General Fund revenues were under budget by \$1.1 million or -0.3 percent. For the first two months of the fiscal year General Fund revenues are over budget by \$8.0 million or 1.3 percent. Compared to the first two months of last fiscal year, fiscal year 2020 General Fund revenues are up by 4.8 percent (+\$29.1 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 5.9 percent compared to the same period last fiscal year.

July taxable sales (August revenue) increased 6.5 percent over last year. For the month, sales and use and service provider taxes, combined, were \$3.8 million over budget. Consumer sales increased by 7.8 percent over a year ago, with solid growth across all business categories. Auto/transportation posted year-over-year growth of 10.9 percent, one of the strongest months of the calendar year. Lodging sales increased by 15.5 percent in July, and 16.5 percent for the first seven months of the calendar year 2019. Business operating sales growth improved in July (+3.5 percent), but growth over the last three months is well below the 12-month average rate of 7.8 percent.

Individual income tax receipts exceeded budget in August by \$2.4 million (1.7 percent) and are \$6.5 million over budget (2.5 percent) for the first two months of fiscal year 2020. Withholding was on budget for the month and is up 5.9 percent year-to-date. Except for fiduciary payments (on budget), all the sources of individual income tax are slightly over budget after the first two months of the fiscal year. The third estimated payment for tax year 2019 is due in September.

Corporate income tax receipts were under budget in August by \$3.7 million and are \$7 million under budget (-40 percent) for the fiscal year. All three sources of corporate income tax revenue were under budget for the month and are under budget year-to-date. 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 \$4.0 million over budget for the month (+2.5 percent) and is now \$7.4 million over budget year-to-date. Fiscal year 2020 revenue is \$18.6 million or 6.4 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of July (August revenue) were 6.5 percent over July 2018. The annual rate of change, excluding utilities, was 5.8 percent. Building supply sales were up 4.8 percent for the month and up 3.3 percent for the last 12 months. Sales of taxable items in food stores were up 4.1 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 5.7 percent for the month and up 2.3 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 11.1 percent for the month and up 12.3 percent for the year. Auto/transportation sector sales were up 10.9 percent for the month and 6.2 percent for the year. Sales of meals and other prepared foods were up 3.5 percent for the month and up 4.5 percent for the year. Lodging sales were up 15.5 percent for the month and up 11.7 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 3.5 percent for the month and up 8.2 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$1.2 million and is under budget for the fiscal year by \$1.4 million (-12.5 percent). Revenue is \$1.3 million or 11.7 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$2.4 million or 1.7 percent over budget for the month. For the fiscal year, individual income tax receipts are \$6.5 million over budget (+2.5 percent). Compared to the first two months of fiscal year 2019 withholding payments are up 5.9 percent, estimated payments are up 16.4 percent, and final payments are up 15.3 percent.

Corporate Income Tax

Revenue was under budget for the month by \$3.7 million, bringing the year-to-date negative variance to \$7.0 million or -40 percent. Compared to last fiscal year corporate income tax revenue is \$8.6 million lower or -45 percent. Year-to-date, estimated payments and final payments are down 30.6 percent and 38.3 percent, respectively.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$5.6 million under budget for the month, bringing the year-to-date variance to \$0.8 million. Compared to the same two-month period last year, cigarette and tobacco taxes are \$1.3 million higher (+5.4 percent).

Insurance Companies Taxes

The Insurance Companies Tax was close to budget for the month and \$0.1 million over budget for the fiscal year.

Estate Tax

The estate tax was \$2.7 million over budget for the month and is now \$8.0 million over budget year-to-date. Estate tax receipts are \$7.8 million higher than last fiscal year.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) program were under budget in August by \$0.5 million. For the fiscal year, property tax relief payments are over budget by \$1.5 million.

Municipal Revenue Sharing

Revenue sharing was over budget in August by \$2.5 million. For the first two months of the fiscal year revenue sharing is \$8.5 million over budget. An error in calculating the monthly distribution of revenue sharing is the reason for the large year-to-date 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 over budget for the month by \$1.6 million or 32.5 percent. For the first two months of the fiscal year lottery revenues are \$1.4 million over budget (14.6 percent).

Other Revenues

Other Revenues were over budget for the month by \$0.9 million and are now under budget for the fiscal year by \$1.2 million.

Highway Fund

Motor fuel excise tax receipts were over budget in August by \$0.3 million. The Highway Fund, in total, was over budget for the month by \$0.9 million. Compared to last fiscal year, motor fuel excise tax revenues exceed budget by \$0.2 million (+0.4 percent) and total Highway Fund receipts are over budget by \$1.9 million (+3.0 percent). For the first two months of the fiscal year motor fuel excise tax receipts are up 1.4 percent.

National Economy

The Federal Reserve's Federal Open Market Committee (FOMC) met this month and lowered its federal funds target by 25 basis points for the second time this year. The FOMC pointed to weakened business fixed investment and exports because of "global developments" as the reason behind the rate cut. While it was expected the FOMC would take this action, expectations about future reductions is uncertain. Seven members of the committee supported the 25-basis reduction, 2 members preferred to maintain the previous target range, and one member wanted the committee to lower the rate by 50 basis points. Eric S.

Rosengren the President of the Boston Federal Reserve Bank, and a current voting member of the FOMC, was one of the two members who preferred no change.

Maine Economy

National retail sales figures for July show consumer spending accelerated over the summer, increasing by 3.4 percent year-over-year; one of the strongest months this calendar year. Excluding autos and gas retail sales increased 4.2 percent compared to last July. Taxable sales in Maine were similarly strong in July, and like the national data the growth was across most business categories. One reason Maine's year-over-year growth is stronger than the national data is the law change that became effective last October 1st that requires transient rental platforms to collect and remit sales tax on lodging rentals that they facilitate. Maine has the highest percentage of residential properties used for seasonal and recreational use and was one of the first states to require casual rentals of living quarters for 15 days or more to register and collect the 9 percent tax on rental quarters. Taxable lodging sales have averaged over 15 percent since the law change has been fully implemented.

The recent attack on Saudi Arabia's oil infrastructure caused a temporary spike in energy prices, but oil prices have quickly receded from their highs as the kingdom quickly restored half of the production lost in the attack and estimates to be back at full production levels by the end of the month. Energy prices in Maine are expected to increase in the short-term but remain at relatively modest levels as the start of the winter heating season approaches.

KF: mja

Attachments

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