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MEMORANDUM

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: October 25, 2019

SUBJECT: Revenues – September 2019

September General Fund revenues were over budget by \$20.2 million or 5.0 percent. For the first quarter of the fiscal year General Fund revenues are over budget by \$31.5 million or 3.1 percent. Compared to the first three months of last fiscal year, fiscal year 2020 General Fund revenues are up by 5.1 percent (+\$51.0 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 6.0 percent compared to the same period last fiscal year.

August taxable sales (September revenue) increased 5.6 percent over last year. For the month, sales and use and service provider taxes, combined, were \$2.7 million over budget. Consumer sales increased by 5.6 percent over a year ago, with solid growth across most business categories. Auto/transportation posted year-over-year growth of 2.3 percent, approximately half the growth recorded over the last twelve months. Lodging sales increased by 18.2 percent in August, and 16.7 percent for the first eight months of calendar year 2019. Restaurant sales rebounded in August, increasing 6.9 percent over a year ago. For the three-month summer tourism season, restaurant and lodging sales increased 4.7 percent and 16.4 percent, respectively. Business operating sales growth continued to improve in August (+4.6 percent), but growth over the last three months is well below the 12-month average rate of 7.7 percent.

Individual income tax receipts exceeded budget in September by \$9.9 million (5.6 percent) and are \$16.4 million over budget (3.8 percent) for the first quarter of fiscal year 2020. Withholding was over budget for the month by \$5.4 million and is up 5.1 percent year-to-date. Except for fiduciary payments (\$1.9 million under budget), all the sources of individual income tax are over budget after the first three months

of the fiscal year. The third estimated payment for tax year 2019 was due on September 15th and exceeded budget by \$4.1 million. For tax year 2019 the first-three estimated payments have averaged 12.3 percent growth. Federal tax reform has altered the pattern of state level estimated payments because of the \$10,000 cap on state and local tax deductions. Therefore, it's possible that the final estimated payment due in January will be much lower than currently forecasted.

Corporate income tax receipts were over budget in September by \$9.0 million and are \$2 million over budget (3.4 percent) for the fiscal year. The third estimated payment for calendar year filers was due in September and was \$7.5 million over budget. Like individual income tax, corporate estimated payments have been impacted by conformity to the 2017 federal tax reform law. After months of increasing by over 30 percent, estimated payments for tax year 2019 are currently down by 2 percent. While a decrease in corporate estimated payments was expected, through September the reduction has been less than projected. The final estimated payment for corporate calendar year filers is due December 15th.

Sales and Use Taxes

Revenue was \$2.6 million over budget for the month (1.6 percent) and is now \$9.9 million over budget year-to-date. Fiscal year 2020 revenue is \$26.0 million or 5.8 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of August (September revenue) were 5.6 percent over August 2018. The annual rate of change, excluding utilities, was also 5.6 percent. Building supply sales were down 0.6 percent for the month and up 2.5 percent for the last 12 months. Sales of taxable items in food stores were up 1.2 percent for the month and up 2.1 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 4.6 percent for the month and up 2.8 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 11.3 percent for the month and up 12.1 percent for the year. Auto/transportation sector sales were up 2.3 percent for the month and 5.4 percent for the year. Sales of meals and other prepared foods were up 6.9 percent for the month and up 4.6 percent for the year. Lodging sales were up 18.2 percent for the month and up 14.4 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 4.6 percent for the month and up 7.7 percent for the year.

Service Provider Tax

Revenue was over budget for the month by \$0.1 million and is under budget for the fiscal year by \$1.3 million (-7.9 percent). Revenue is \$1.1 million or 7.0 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$9.9 million or 5.6 percent over budget for the month. For the fiscal year, individual income tax receipts are \$16.4 million over budget (3.8 percent). Compared to the first quarter of fiscal year 2019 withholding payments are up 4.6 percent, estimated payments are up 8 percent, and final payments are up 19.4 percent.

Corporate Income Tax

Revenue was over budget for the month by \$9.0 million, bringing the year-to-date positive variance to \$2.0 million or 3.4 percent. Compared to last fiscal year corporate income tax revenue is \$3.8 million lower or -5.9 percent. Year-to-date, final payments are down 23.1 percent and estimated payments are up 1.0 percent.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.6 million under budget for the month, bringing the year-to-date variance to -\$1.6 million. Compared to the same three-month period last year, cigarette and tobacco tax growth is flat.

<u>Insurance Companies Taxes</u>

The Insurance Companies Tax was under budget for the month by \$0.8 million and \$0.7 million under budget for the fiscal year.

Estate Tax

The estate tax was \$1.3 million under budget for the month and is now \$6.6 million over budget year-to-date. Estate tax receipts are \$7.4 million higher than last fiscal year.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) program were over budget in September by \$1.4 million. For the fiscal year, property tax relief payments are over budget by \$2.9 million.

Municipal Revenue Sharing

Revenue sharing was under budget in September by \$1.3 million. For the first three months of the fiscal year revenue sharing is \$3.2 million over budget.

Lottery

Lottery revenues were under budget for the month by \$0.7 million or 14.2 percent. For the first quarter of the fiscal year lottery revenues are \$0.7 million over budget (4.7 percent).

Other Revenues

Other Revenues were over budget for the month by \$1.1 million and are now over budget for the fiscal year by \$2.3 million.

Highway Fund

Motor fuel excise tax receipts were over budget in September by \$3.3 million. The Highway Fund, in total, was over budget for the month by \$3.8 million. Compared to last fiscal year, motor fuel excise tax revenues exceed budget by \$3.5 million (5.4 percent) and total Highway Fund receipts are over budget by

\$5.7 million (6.3 percent). For the first three months of the fiscal year motor fuel excise tax receipts are up 6.9 percent.

National Economy

The recent Beige Book Report from the Federal Reserve System shows that regional disparities in economic growth are increasing. A slowdown in manufacturing and in the agricultural sector are taking a toll on the economies in the Midwest and Great Plains, which are reporting "slight" growth, while the remaining districts report a "modest" to "moderate" pace of growth. A slower pace of growth and labor market tightness "across skill levels and occupations was widely cited as a factor restraining hiring." The tight labor market is resulting in manufacturing businesses reducing work hours rather than laying off workers that may not be available when demand increases. The report also noted that employers continue to "use non-wage approaches such as bonuses and benefits to attract and retain talent."

Maine Economy

The Federal Reserve Bank of Boston's report of First District activity indicated some slowing since their last report. The Boston Fed noted that "except for software and IT services, most responding firms had downgraded their outlooks since the last round." Labor markets remain tight across the district and retailers are expecting a good holiday shopping season but are concerned that sales will slow during 2020. Like the rest of the nation manufacturers noted that trade issues are having a negative impact on their businesses. One sector where there was variation across the region was in the commercial real estate market. Commercial real estate activity "remained strong" in the Boston and Portland metro areas, while activity in the other large metro areas across the region were described as "tepid" or slowing.

KF: mja

Attachments

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