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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: November 14, 2019

SUBJECT: Revenues – October 2019

October General Fund revenues were over budget by \$0.2 million or 0.1 percent. For the first third of the fiscal year General Fund revenues are over budget by \$31.7 million or 2.3 percent. Compared to the first four months of last fiscal year, fiscal year 2020 General Fund revenues are up by 4.0 percent (\$52.9 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 5.2 percent compared to the same period last fiscal year.

September taxable sales (October revenue) increased 5.2 percent over last year. For the month, sales and use and service provider taxes, combined, were \$3.7 million over budget. Consumer sales increased by 4.8 percent over a year ago, with moderate growth across most business categories. Auto/transportation posted year-over-year growth of 6.1 percent, consistent with the growth recorded over the last twelve months. Lodging sales increased by 0.8 percent in September, and 14.1 percent for the first nine months of calendar year 2019. Restaurant sales slowed in September, increasing 1.6 percent over a year ago. Business operating sales growth continued to improve in September (8.4 percent), bringing growth into line with the 2019 year-to-date average rate of 7.0 percent.

Individual income tax receipts were below budget in October by \$0.5 million (0.4 percent) and are \$16.0 million over budget (2.8 percent) for the first four months of fiscal year 2020. Withholding was over budget for the month by \$1.9 million and is up 8.8 percent year-to-date. Fiduciary payments (-\$0.9 million) and final payments (-\$0.4 million) were both under budget for the month.

Estimated payments exceeded budget by \$2.5 million. Refunds associated with tax year 2018 extension returns were over budget by \$3.5 million.

Corporate income tax receipts were under budget in October by \$0.2 million. Overages on final and estimated payments were more than offset by refunds exceeding budget by \$1.6 million. Total corporate income tax revenue is \$1.8 million over budget fiscal year-to-date and is 17 percent (\$14.7 million) below fiscal year 2019 receipts through the first third of the fiscal year.

Other taxes and fees were under budget this month by \$4.9 million because of a correction to the distribution of real estate transfer tax (RETT) revenues between the General Fund and the Housing Opportunities for Maine (HOME) fund. Approximately \$4.3 million of RETT revenue that should have been deposited in the HOME fund during the first quarter of the fiscal year was mistakenly deposited in the General Fund. An accounting adjustment was made in October to correct this error resulting in the monthly negative variance for the General Fund.

Sales and Use Taxes

Revenue was \$4.3 million over budget for the month (3.0 percent) and is now \$14.3 million over budget year-to-date. Fiscal year 2020 revenue is \$36.6 million or 6.2 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of September (October revenue) were 5.2 percent over September 2018. The annual rate of change, excluding utilities, was 5.5 percent. Building supply sales increased 5.0 percent for the month and are up 2.4 percent for the last 12 months. Sales of taxable items in food stores were up 1.9 percent for the month and up 1.7 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 4.8 percent for the month and up 3.4 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 10.2 percent for the month and up 11.6 percent for the year. Auto/transportation sector sales were up 6.1 percent for the month and 5.4 percent for the year. Sales of meals and other prepared foods were up 1.6 percent for the month and up 3.9 percent for the year. Lodging sales were up 0.8 percent for the month and up 13.5 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 8.4 percent for the month and up 7.3 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$0.6 million and is under budget for the fiscal year by \$1.9 million (-9.0 percent). Revenue is \$1.7 million or 8.1 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$0.5 million or 0.4 percent under budget for the month. For the fiscal year, individual income tax receipts are \$15.9 million over budget (2.8 percent). Compared to the first four months of fiscal year 2019 withholding payments are up 8.8 percent, estimated payments are up 9.3 percent, and final payments are up 9.5 percent.

Corporate Income Tax

Revenue was under budget for the month by \$0.2 million, bringing the year-to-date positive variance to \$1.8 million or 2.6 percent. Compared to last fiscal year corporate income tax revenue is \$14.7 million lower or -17.1 percent. Year-to-date, final payments are down 38.7 percent and estimated payments are down 3.3 percent.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.3 million over budget for the month, bringing the year-to-date variance to -\$0.3 million. Compared to the same four-month period last year, cigarette and tobacco tax growth is up 4.9 percent.

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$0.2 million and \$0.5 million under budget for the fiscal year.

Estate Tax

The estate tax was \$2.9 million over budget for the month and is now \$9.5 million over budget year-to-date. Estate tax receipts are \$10.1 million higher than last fiscal year.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) program were under budget in October by \$1.4 million. For the fiscal year, property tax relief payments are over budget by \$1.6 million.

Municipal Revenue Sharing

Revenue sharing was over budget in October by \$4.5 million. For the first four months of the fiscal year revenue sharing is \$7.7 million over budget.

Lottery

Lottery revenues were under budget for the month by \$0.5 million or 10.2 percent. For the first third of the fiscal year lottery revenues are \$0.2 million over budget (1.1 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 \$3.4 million.

Highway Fund

Motor fuel excise tax receipts were under budget in October by \$4.0 million. The Highway Fund, in total, was under budget for the month by \$3.3 million. For the fiscal year, motor fuel excise tax revenues are under budget by \$0.6 million (0.7 percent) and total Highway Fund receipts are over budget by \$2.4

million (2.0 percent). For the first four months of the fiscal year motor fuel excise tax receipts are up 0.6 percent.

National Economy

A better than expected October employment report along with upward revisions to previous months job gains provided reassurance to Federal Reserve decisionmakers and economic forecasters that the economy is not at risk of a near term recession. The Federal Reserve's Federal Open Market Committee (FOMC) lowered its target for the federal funds rate by a quarter point last week and signaled this is the last rate change for the foreseeable future. During October, payroll employment rose 128,000 despite the strike at General Motors. Furthermore, August and September changes in payroll employment were revised up by an average of 48,000 per month. Additionally, labor force growth and average hourly earnings each posted solid increases in October.

Maine Economy

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 25, 2019, to review and revise its economic forecast through 2023. The CEFC made minor changes to the existing forecast, preferring to maintain stability in the forecast absent any compelling evidence that would require revisions. The CEFC holds cautious optimism for the near term, acknowledging 2018 annual data and preliminary 2019 data are showing continued growth in the U.S. and Maine, while at the same time there is uncertainty regarding national policy in the coming year.

All revisions to the forecast were upward revisions. Revisions were made to wage and salary employment (revised up to 0.8% in 2019 and 0.4% in 2020), total personal income (4.1%, 3.6%, and 3.5% in 2020, 2022, and 2023, respectively), wage and salary income (4.5%, 4.1% , 3.7%, 3.4%, and 3.2% in 2019 through 2023), and supplements to wages and salaries (4.0%, 4.0%, and 3.6% in 2019, 2020, and 2021). Non-farm proprietors' income; dividends, interest, and rent; personal current transfer receipts; corporate profits; and CPI all remain unchanged.

The Revenue Forecasting Committee (RFC) will meet on November 25, 2019, to review and revise their previous forecast. The December RFC forecast will be based on the latest economic forecast from the CEFC.

KF: mja

Attachments

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