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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: December 12, 2019

SUBJECT: Revenues – November 2019

November General Fund revenues were over budget by \$13.2 million or 4.7 percent. For the first five months of the fiscal year General Fund revenues are over budget by \$44.8 million or 2.7 percent. Compared to the first five months of last fiscal year, fiscal year 2020 General Fund revenues are up by 5.5 percent (\$87.8 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 6.8 percent compared to the same period last fiscal year. Please note, the November Controller's Report is based on the May 2019 revenue forecast as adjusted for laws enacted through the end of the 1st Regular Session. The December Controller's report will reflect the new revenue forecast released by the Revenue Forecasting Committee on December 1, 2019.

October taxable sales (November revenue) increased 7.7 percent over last year. For the month, sales and use and service provider taxes, combined, were \$4.8 million over budget. Consumer sales increased by 8.4 percent over a year ago, buoyed by the collection of taxable sales by marketplace facilitators which became effective on October 1st. Auto/transportation posted year-over-year growth of 7.5 percent, much higher than the 5.1 percent growth recorded over the last twelve months. Lodging sales increased by 11.3 percent in October, and 14.1 percent for the first ten months of calendar year 2019. Restaurant sales had a good month in October, increasing 6.7 percent over a year ago. Business operating sales growth continued to be strong in October (8.9 percent), exceeding the 2019 year-to-date average rate of 7.0 percent.

Individual income tax receipts were over budget in November by \$0.9 million (0.7 percent) and are \$16.8 million over budget (2.4 percent) for the first five months of fiscal year 2020. Withholding was over

budget for the month by \$4.9 million and is up 6.6 percent fiscal year-to-date. Fiduciary payments (-\$0.9 million) and final payments (-\$0.9 million) were both under budget for the month. Estimated payments exceeded budget by \$0.2 million. Refunds associated with tax year 2018 extension returns were over budget by \$2.5 million.

Corporate income tax receipts were over budget in November by \$1.1 million. Total corporate income tax revenue is \$2.9 million over budget fiscal year-to-date and is 20.1 percent (\$16.3 million) below fiscal year 2019 receipts through the first five months of the fiscal year. The final estimated payment for calendar year filers is due December 15th.

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 October (November revenue) were 7.7 percent over October 2018. The annual rate of change, excluding utilities, was 5.5 percent. Building supply sales increased 1.2 percent for the month and are up 1.5 percent for the last 12 months. Sales of taxable items in food stores were up 1.2 percent for the month and up 1.5 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 5.6 percent for the month and up 3.8 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 28.6 percent for the month and up 12.4 percent for the year. Auto/transportation sector sales were up 7.5 percent for the month and 5.1 percent for the year. Sales of meals and other prepared foods were up 6.7 percent for the month and up 4.3 percent for the year. Lodging sales were up 11.3 percent for the month and up 13.5 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 8.9 percent for the month and up 6.9 percent for the year.

Service Provider Tax

Revenue was over budget for the month by \$0.3 million and is under budget for the fiscal year by \$1.6 million (-6.2 percent). Revenue is \$1.6 million or 6.1 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$0.9 million or 0.7 percent over budget for the month. For the fiscal year, individual income tax receipts are \$16.8 million over budget (2.4 percent). Compared to the first five months of fiscal year 2019 withholding payments are up 6.6 percent, estimated payments are up 9.4 percent, and final payments are up 6.2 percent.

Corporate Income Tax

Revenue was over budget for the month by \$1.1 million, bringing the year-to-date positive variance to \$2.9 million or 4.7 percent. Compared to last fiscal year corporate income tax revenue is \$16.3 million lower or -20.1 percent. Year-to-date, final payments are down 38.7 percent and estimated payments are down 3.1 percent.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.7 million over budget for the month, bringing the year-to-date variance to \$1.4 million. Compared to the same five-month period last year, cigarette and tobacco tax revenue is up 6.5 percent.

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$2.1 million and \$1.6 million over budget for the fiscal year.

Estate Tax

The estate tax was \$0.25 million under budget for the month and is now \$9.3 million over budget year-to-date. Estate tax receipts are \$10.5 million higher than last fiscal year.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) program were under budget in November by \$0.9 million. For the fiscal year, property tax relief payments are over budget by \$0.6 million.

Municipal Revenue Sharing

Revenue sharing was over budget in November by \$1.5 million. For the first five months of the fiscal year revenue sharing is \$9.3 million over budget.

Lottery

Lottery revenues were over budget for the month by \$3.0 million or 65.6 percent. For the first five months of the fiscal year lottery revenues are \$3.2 million over budget (13.5 percent).

Other Revenues

Other Revenues were over budget for the month by \$0.4 million and are now over budget for the fiscal year by \$3.9 million.

Highway Fund

Motor fuel excise tax receipts were on budget in November. The Highway Fund, in total, was over budget for the month by \$2.3 million. For the fiscal year, motor fuel excise tax revenues are under budget by \$0.6 million (0.6 percent) and total Highway Fund receipts are over budget by \$4.7 million (3.1 percent). For the first five months of the fiscal year motor fuel excise tax receipts are up 2.0 percent.

National Economy

With economic data showing the national economy continues to create jobs and the absence of any significant fiscal and monetary policy actions compared to a year ago, the holiday shopping season is off to a solid start and is expected to exceed last year's shopping by 4.5 percent or more. Black Friday sales

were strong, particularly online sales which were estimated to be up 19 percent over a year ago. Concerns about a slowdown in the economy were downgraded with the recent jobs report showing payroll employment increased by 266,000 jobs in November. In addition, job gains in previous months were revised upward. All of this points to continued growth through the early part of next year.

Maine Economy

The Revenue Forecasting Committee (RFC) has concluded its update of the current revenue forecast to comply with this year's statutory reporting date of December 1st. Except for FY20, the changes made in the December 2019 revenue forecast are relatively small and reflect the modest changes made by the Consensus Economic Forecasting Commission (CEFC) in their November 2019 economic forecast. The RFC increased its previous forecast by \$74.6 million for the FY2020-21 biennium and \$39.2 million for the FY2022-23 biennium.

The December RFC revenue forecast echoes the CEFC's message of cautious optimism about the Maine economy in the near term, and recognizes the uncertainty surrounding national fiscal and trade policies that will impact future economic growth. In addition, both forecasting groups continue to incorporate the demographic challenges facing the Maine economy into their respective forecasts. While only a few months separate this revenue forecast from the next, information on the holiday shopping season, final individual and corporate estimated payments, and initial tax year individual income tax refunds will be available to the RFC when we meet in late February.

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Attachments

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