

**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
78 STATE HOUSE STATION
AUGUSTA, ME 04333-0078**

**PHONE: 207-624-7800
FAX: 207-624-7804
TDD: 207-287-4537**

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: March 20, 2020

SUBJECT: Revenues – February 2020

February General Fund revenues were under budget by \$6.6 million or -4.0 percent. For the first eight months of the fiscal year General Fund revenues are over budget by \$21.3 million or 0.8 percent. Compared to the first eight months of last fiscal year, fiscal year 2020 General Fund revenues are up by 5.0 percent (\$122.3 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 6.1 percent compared to the same period last fiscal year. Please note that this report is relative to the December 1, 2019 revenue forecast. The new forecast released by the Revenue Forecasting Committee (RFC) on March 1, 2020 will be reflected in the March Controller's Report.

January taxable sales (February revenue) increased 12.5 percent over last year. For the month, sales and use and service provider taxes, combined, were \$7.9 million over budget. Consumer sales increased by 14.1 percent over a year ago, with all business categories exhibiting very strong year-over-year growth. Other retail sales grew by 42.3 percent buoyed by the marketplace facilitators bill that became effective October 1, 2019. Auto/transportation posted year-over-year growth of 10.8 percent, well above the 5.8 percent growth recorded for the last 12 months. Lodging sales increased by 20.7 percent in January, and 10.3 percent for the 12-month period. Business operating sales growth continued to be solid in January increasing by 7.3 percent over last January. It's important to note that January sales were prior to the outbreak of the coronavirus disease 2019 (COVID-19) in the United States. We don't expect February sales be nearly as strong as January but do expect February taxable sales growth to be consistent with growth during the final quarter of calendar year 2019. March sales (April revenue) will likely be the first month where the impact of COVID-19 first becomes apparent in certain business sectors.

Individual income tax receipts were under budget in February by \$8.9 million (-18.7 percent). Withholding was slightly under budget for the month by \$1.1 million and is up 6.0 percent fiscal year-to-date. Refunds in February, reflecting 2019 tax filings, exceeded expectations by \$7 million which accounts for most of the monthly negative variance. Through March 8th MRS has processed 25,000 more returns than the same time last year. The faster processing of income tax returns has resulted in refunds increasing by \$16 million through March 8th compared to a year ago. At this time the average refund amount is not significantly different than last year which suggests that the February variance is a timing issue that should correct itself over the next few months.

Corporate income tax receipts were over budget in February by \$5.8 million. For the fiscal year corporate income tax is over budget by \$4.9 million or 4.2 percent. Total corporate income tax revenue is 4.5 percent (\$5.7 million) below fiscal year 2019 receipts through the first eight months of the fiscal year. All the monthly variance is attributable to refunds being well below budget.

Sales and Use Taxes

Revenue was \$8.1 million over budget for the month (8.3 percent) and is now \$11.0 million over budget year-to-date. Fiscal year 2020 revenue is \$80.4 million or 7.7 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of January (February revenue) were 12.5 percent higher than January 2019. The annual rate of change, excluding utilities, was 7.1 percent. Building supply sales increased 8.9 percent for the month and were up 1.9 percent for the last 12 months. Sales of taxable items in food stores were up 5.6 percent for the month and up 4.1 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 6.3 percent for the month and up 4.4 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 42.3 percent for the month and up 20.6 percent for the year. Auto/transportation sector sales were up 10.8 percent for the month and 5.8 percent for the year. Sales of meals and other prepared foods increased 10.8 percent for the month and up 5.0 percent for the year. Lodging sales were up 20.7 percent for the month and up 10.3 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 7.3 percent for the month and were up 7.5 percent for the year.

Service Provider Tax

Revenue was very close to budget for the month and for the fiscal year. Revenue is \$2.0 million or 4.9 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$8.9 million or 18.7 percent under budget for the month. For the fiscal year, individual income tax receipts are \$1.5 million under budget (0.1 percent). Compared to the first eight months of fiscal year 2019 withholding payments are up 6.0 percent, estimated payments are up 9.2 percent, and final payments are up 12.6 percent.

Corporate Income Tax

Revenue was under budget for the month by \$5.9 million, bringing the year-to-date positive variance to \$4.9 million or 4.2 percent. Compared to last fiscal year corporate income tax revenue is \$5.7 million lower or -4.5 percent. Year-to-date, final payments are down 3.8 percent and estimated payments are down 12.4 percent.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$2.0 million under budget for the month, bringing the year-to-date variance to -\$2.6 million. Compared to the same eight-month period last year, cigarette and tobacco tax revenue is up 1.4 percent.

Insurance Companies Taxes

The Insurance Companies Tax was under budget for the month by \$0.5 million and is \$0.3 million under budget for the fiscal year.

Estate Tax

The estate tax was \$1.9 million over budget for the month and is now \$4.8 million over budget year-to-date. Estate tax receipts are \$13.8 million higher than last fiscal year.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were over budget in February by \$3.2 million. For the fiscal year, property tax relief payments are under budget by \$7.2 million. BETR payments are the primary reason for the shortfall and are believed to be a timing issue because of a delay in processing of returns.

Municipal Revenue Sharing

Revenue sharing was over budget in February by \$7.8 million. For the first eight months of the fiscal year revenue sharing is \$7.2 million over budget.

Lottery

Lottery revenues were over budget for the month by \$1.8 million or 38.5 percent. For the first eight months of the fiscal year lottery revenues are \$4.9 million over budget (12.7 percent).

Other Revenues

Other Revenues were over budget for the month of February by \$0.6 million and are now over budget for the fiscal year by \$0.4 million.

Highway Fund

Motor fuel excise tax receipts were under budget in February by \$0.8 million. The Highway Fund, in total, was under budget for the month by \$0.6 million. For the fiscal year, motor fuel excise tax revenues

are under budget by \$3.2 million (2.0 percent) and total Highway Fund receipts are over budget by \$0.5 million (0.2 percent). For the first eight months of the fiscal year motor fuel excise tax receipts are down 0.7 percent.

National Economy

The U.S. and world economies most likely entered a deep recession at the beginning of this month. The breadth and depth of the impact of the coronavirus pandemic on the economy is changing so quickly that it's impossible to project the full magnitude of the economic contraction and its length. The Federal Reserve has slashed interest rates and the federal government is preparing a stimulus package to counter the quickly declining economy. Little real time economic data is available at this time, but some data should begin to trickle out over the next couple of weeks that will show the early damage the virus is having on economic activity.

Maine Economy

Like the national economy, the many sectors of the Maine economy are in the process of scaling back or fully shutting down. The Maine Department of Labor is reporting that unemployment claims spiked the early part of this week. Unfortunately, this is only the beginning of many service sector employees applying for UI benefits. Withholding will likely see some impact in the final week of March, but most other tax revenue received in March is based on economic activity that took place prior to the downsizing of the economy. Revenue during the final quarter of the fiscal year will take the full brunt of the COVID-19 induced recession.

KF: mja

Attachments

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