$40.3 million of net accruals were recorded in the Month of June. Footnote 3 to Exhibit 1 of the State Controller’s monthly report contains the amounts that were recognized in June for which collections have been deferred until July 15. The table below shows budgeted and actual cash receipts through June. Individual and corporate estimated payments that were due by June 15th were the primary accruals in June. Like April’s report, the June Controller’s report provides information on the amount of estimated payments accrued for the month of June and the fiscal year, as well as accrued final payments for the fiscal year.

<table>
<thead>
<tr>
<th></th>
<th>Jun-20</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted Revenue</td>
<td>$ 403,168,280</td>
<td>$ 3,998,107,125</td>
</tr>
<tr>
<td>Revenue with Accruals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Accrual for Individual Income Tax</td>
<td>$ (18,299,068)</td>
<td>$ (257,992,054)</td>
</tr>
<tr>
<td>Less Accrual for Corporate Income Tax</td>
<td>$ (22,012,429)</td>
<td>$ (46,788,400)</td>
</tr>
<tr>
<td>Revenue without Accruals</td>
<td>$ 377,572,181</td>
<td>$ 3,664,563,248</td>
</tr>
<tr>
<td>Budgeted Revenue Variance with Accruals</td>
<td>$ 14,715,398</td>
<td>$ (28,763,423)</td>
</tr>
<tr>
<td>% Budget Variance with Accruals</td>
<td>3.6%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Budgeted Revenue Variance without Accruals</td>
<td>$ (25,596,099)</td>
<td>$ (333,543,877)</td>
</tr>
<tr>
<td>% Budget Variance without Accruals</td>
<td>-6.3%</td>
<td>-8.3%</td>
</tr>
</tbody>
</table>
With the accruals:

June General Fund revenues were over budget by $14.7 million or 3.6 percent. For the fiscal year General Fund revenues were under budget by $28.8 million or -0.7 percent. Compared to last fiscal year, fiscal year 2020 General Fund revenues were up by 3.1 percent ($120.8 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues increased by 4.1 percent compared to last fiscal year.

May taxable sales (June revenue) decreased 2.5 percent over last year. For the month, sales and use and service provider taxes, combined, were $17.2 million under budget. Consumer sales decreased by 2.8 percent over a year ago, with the general merchandise, restaurants, and lodging categories exhibiting double-digit declines from a year ago. Lodging and restaurant sales continued to be hard hit by required closures and consumer avoidance of those establishments, decreasing by 79.3 and 46.7 percent, respectively, in May. General merchandise stores fell 17.7 percent compared to last May, with stores selling a wide variety of goods having a good month and department stores selling a more focused product line experiencing significant declines. Auto/transportation posted year-over-year negative growth of 4.2 percent, much improved from the previous two months. Other retail sales grew by 57.9 percent buoyed by the marketplace facilitators bill that became effective October 1, 2019 and an increase in online purchasing by consumers who continued to avoid bricks and mortar stores. Food stores and building supply stores benefited from the continued demand for their products during the crisis, increasing by 6.1 and 16.1 percent, respectively. Business operating sales growth increased in May by 1.6 percent over a year ago. With more businesses opening in June the decline in taxable sales will moderate, but larger declines will likely return in July and August when tourism related sales are normally at their seasonal highs.

Individual income tax receipts were over budget in June by $17.0 million (10.4 percent). Refunds and final payments in June, reflecting 2019 tax filings, contributed $3.0 and $3.8 million, respectively, to the monthly variance. Withholding receipts were over budget by $9.1 million once again supported by enhanced unemployment benefits. Withholding receipts ended the fiscal year over budget by $11.6 million, up 6.1 percent over last fiscal year. $33.4 million of estimated payments was accrued in June representing the difference between what was budgeted and expected in June and what was received because taxpayers chose to defer their payment until July 15th.

Corporate income tax receipts were over budget in June by $2.8 million. For the fiscal year corporate income tax is under budget by $1.1 million or -0.5 percent. Weak estimated refunds in June ($2.1 million) accounted for most of the monthly surplus. Like individual income tax, $23.0 million of corporate estimated payments was accrued in June representing the difference between what was budgeted and expected in June and what was received because taxpayers chose to defer their payment until July 15th.

Sales and Use Taxes

Revenue was $18.6 million under budget for the month and $61.8 million under budget for the fiscal year. Fiscal year 2020 revenue was $51.9 million or 3.5 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of May (June revenue) were 2.5 percent lower than May 2019. The annual rate of change, excluding utilities, was 4.4 percent. Building supply sales increased 16.1 percent
for the month and were up 6.1 percent for the last 12 months. Sales of taxable items in food stores were up 6.1 percent for the month and up 5.5 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 17.7 percent for the month and down 1.3 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 57.9 percent for the month and up 30.5 percent for the year. Auto/transportation sector sales declined 4.2 percent for the month and decreased 0.1 percent for the year. Sales of meals and other prepared foods decreased 46.7 percent for the month and down 6.3 percent for the year. Lodging sales were down 79.3 percent for the month and down 2.9 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 1.6 percent for the month and were up 3.0 percent for the year.

Service Provider Tax

Revenue was over budget for the month by $1.3 million and for the fiscal year by $1.0 million. Revenue was 1.0 million or 1.7 percent under prior fiscal year collections.

Individual Income Tax

Revenue was $17.0 million or 10.4 percent over budget for the month. For the fiscal year, individual income tax receipts were $25.7 million over budget (1.4 percent). Compared to last fiscal year withholding payments were up 6.1 percent, estimated payments were up 12.0 percent, and final payments were up 8.7 percent. The growth rates for estimated and final payments include adjustments to recognize the amount due April 15 and June 15 for which collections have been deferred until July 15 in response to the COVID-19 pandemic of $67.5 million and $190.5 million, respectively.

Corporate Income Tax

Revenue was over budget for the month by $2.4 million, bringing the fiscal year negative variance to $1.1 million or -0.5 percent. Compared to last fiscal year corporate income tax revenue was $36.7 million lower or -14.5 percent. At year-end final payments were down 12.5 percent and estimated payments were down 25.0 percent. Both declines were expected as revenue in FY19 from conformity to certain provisions of the federal Tax Cuts and Jobs Act was projected to be one-time. The growth rates for estimated and final payments include adjustments to recognize the amount due April 15 and June 15 for which collections have been deferred until July 15 in response to the COVID-19 pandemic of $37.1 million and $9.7 million, respectively.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was $0.6 million under budget for the month, bringing the year-to-date negative variance to $4.3 million. Compared to last fiscal year, cigarette and tobacco tax revenue was up 9.0 percent. The strong year-to-date growth was affected by the tax rate increase in the other tobacco tax to 43 percent of the wholesale price and the expansion of the tax base to vaping products.

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by $2.5 million and was $6.2 million over budget for the fiscal year.
Estate Tax

The estate tax was $0.2 million under budget for the month and was $0.6 million over budget for the fiscal year. Estate tax receipts were $5.2 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 June by $2.2 million. For the fiscal year, property tax relief payments were under budget by $2.2 million. BETR payments were the primary reason for the tax relief payments ending the fiscal year $1.6 million below budget.

Municipal Revenue Sharing

Revenue sharing was under budget in June by $4.1 million. For the fiscal year revenue sharing was $1.7 million over budget and $39.5 million higher than last year.

Lottery

Lottery revenues were over budget for the month by $0.7 million or 15.6 percent. For the fiscal year lottery revenues were $7.6 million over budget (13.3 percent).

Other Revenues

Other Revenues were over budget for the month of June by $5.7 million and were under budget for the fiscal year by $1.5 million.

Highway Fund

Motor fuel excise tax receipts were under budget in June by $4.3 million (-21.5 percent). The Highway Fund, in total, was under budget for the month by $2.0 million. For the fiscal year, motor fuel excise tax revenues were under budget by $16.1 million (-6.9 percent) and total Highway Fund receipts were under budget by $18.2 million (-5.3 percent). For the fiscal year motor fuel excise tax receipts were down 5.4 percent compared to fiscal year 2019. Demand for gasoline and special fuels has improved since the initial decline in mid-March and April but remains approximately 20 percent below last year.

National Economy

As expected, second quarter U.S. GDP growth plunged by 32.9 percent on an annualized basis, breaking the previous record of 10.0 percent during the first quarter of 1958. Most of the decline in economic activity (25.1 percentage points) was from consumer spending, with spending on services representing the bulk of the decrease as consumers were sheltering in place and most service establishments were closed. With many sectors of the economy reopening most economic forecasters are projecting that third quarter GDP growth will increase by 15 to 20 percent on an annualized basis. Like the second quarter, forecasters expect consumer spending to be the primary component of change in third quarter as pent up demand and federal stimulus dollars saved during the shutdown fuel household spending. One concern is that the recent rise in COVID-19 cases in many parts of the country will cause those States to reverse their previous decisions to reopen stunting the recovery during the third quarter.
Maine Economy

With the end of FY20 and preliminary revenue data for July of FY21, we have started the process of estimating what the revenue shortfall in FY20 would have been if the State did not allow individual and corporate income taxpayers to defer their April and June final and estimated payments until July. The table below shows how the estimate has evolved from the initial analysis in March using the severe recession scenario from the 2018 Stress-Test Report, to the end of the fiscal year based on actual revenue collected, to the end of July when payments made on July 15th were processed.

<table>
<thead>
<tr>
<th>Estimated FY20 Revenue Shortfall</th>
<th>As of 3/15/20</th>
<th>As of 7/1/20</th>
<th>As of 7/31/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; Use and SPT</td>
<td>$(100,000,000)</td>
<td>$(61,000,000)</td>
<td>$(61,000,000)</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>$(89,000,000)</td>
<td>$(44,000,000)</td>
<td>$(35,331,930)</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>$(11,000,000)</td>
<td>$(25,000,000)</td>
<td>$(4,187,550)</td>
</tr>
<tr>
<td>Total</td>
<td>$(200,000,000)</td>
<td>$(130,000,000)</td>
<td>$(100,519,480)</td>
</tr>
<tr>
<td>Other GF Revenue Lines</td>
<td></td>
<td></td>
<td>$9,669,542</td>
</tr>
<tr>
<td>Estimated FY20 GF Revenue Shortfall as 7/31/20</td>
<td></td>
<td></td>
<td>$(90,849,938)</td>
</tr>
</tbody>
</table>

The mid-March estimate utilizing the 2018 stress-test assumed sales and use and service provider taxes would be 25 percent below forecast during the final quarter of FY20; $100 million less than the March 1, 2020 forecast. While May receipts (April sales) were 22.1 percent below budget, April (March sales) and June (May sales) tax receipts were only below budget by 12.5 percent and 10.3 percent, respectively. Strong sales activity during the first half of March, the start of a phased reopening in May, and significant federal stimulus to Maine households and businesses resulted in these two revenue lines ending the fiscal year a net $61 million below forecast, $39 million better than our initial estimate.

The stress-test approach projected an individual income tax shortfall of $89.0 million in FY20 from a combination of reduced withholding ($30.0 million) and lower estimated payments in April and June ($59.0 million). Final payments and refunds associated with the 2019 tax year were assumed to come in on budget and have little to no impact on FY20 revenue shortfall. Enhanced unemployment benefits and the Paycheck Protection Program (PPP), both part of the federal CARES legislation, resulted in withholding being over budget by $11.6 million at the end of FY20. Based on estimated payments received during the final quarter of FY20 and in July, we estimate that April and June estimated payments were under budget by $14.8 million, well below the $59 million projection in March. While many pass-through businesses have been negatively affected by the COVID-19 pandemic, tax practitioners likely advised their clients to make the first two estimated payments based on their 2019 liability with only minor adjustments for the pandemic and to more fully adjust their September and January estimated payments to account for the impact of the recession on their earnings. Final payments for the 2019 tax year made during the April-June quarter of FY20 and on July 15th are currently $33.1 million below the March forecast. Combining the final and estimated payments shortfalls with the overage on withholding results in an estimated individual income tax net shortfall of $35.3 million for the FY20 fiscal year. Lower than budgeted refunds and additional final payments over the next few months will likely reduce that shortfall, but as of the end of July this is our best estimate.

Corporate estimated payments in April and June were expected to fall short of the March forecast by $11 million in FY20, but like individual income tax those payments were deferred until July. At the end of July, we estimate those two estimated payments fell short of budget by $9.3 million. Corporate final payments are estimated to be $5.1 million over budget, leaving a net corporate income tax shortfall of $4.2 million. Like individual income taxes, additional final payments and refunds associated with the
2019 tax year that normally would have been processed last fiscal year may result in that $4.2 shortfall being adjusted over the next few months.

Considering variances on the other General Fund revenue lines leaves a FY20 shortfall of approximately $90.8 million. Again, this is the estimated FY20 shortfall if income taxes due in April and June were not deferred until July 15th. As described above, this estimate is likely to shrink over the next few months as final payments and refunds are processed.

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