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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:** September 17, 2020

**SUBJECT:** Revenues – August 2020

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August General Fund revenues were over budget by \$35.0 million or 11.7 percent. For the first two months of the fiscal year, fiscal year 2021 General Fund revenues are over budget by \$22.3 million or 3.9 percent. Compared to the same two-month period last fiscal year, General Fund revenues are down by 6.8 percent (-\$43.1 million). Note, the August Controller's Report has been updated to reflect revenue forecast released by the Revenue Forecasting Committee on August 1, 2020.

July taxable sales (August revenue) decreased 0.5 percent over last year. Excluding restaurant and lodging sales July taxable sales were up 9.4 percent. For the month, sales and use and service provider taxes, combined, were \$9.8 million over budget. Consumer sales decreased by 1.8 percent over a year ago. General merchandise, food stores, restaurants, and lodging categories exhibited declines from a year ago. While improving compared to prior months, lodging and restaurant sales continued to be hard hit by required occupancy limitations and consumer avoidance of those establishments, decreasing by 39.6 and 29.3 percent, respectively, in July. General merchandise stores fell 3.7 percent compared to last July. Auto/transportation posted year-over-year growth of 1.4 percent. Other retail sales grew by 43.1 percent as on-line purchasing by consumers continues to increase in the COVID-19 economy. Building supply stores continue to have strong demand for their products during the crisis, increasing by 13.9 percent. Business operating sales growth increased in July by 8.7 percent over a year ago. The lack of another federal stimulus package may begin to impact sales tax receipts as the previous stimulus ends and the holiday shopping season approaches.

Individual income tax receipts were over budget in August by \$17.3 million (14.2 percent). Positive variances from withholding (14.4 million), final payments (\$5.9 million) and estimated payments (\$2.1 million), were offset by higher than budgeted refunds (-\$3.1 million) and lower than expected revenue from fiduciary returns (-\$2.0 million). While withholding was down 4 percent from last August because there was one less Thursday this year, withholding was stronger than projected because of the enhanced unemployment benefits. For the first two months of the fiscal year withholding receipts are 9 percent higher than the same period a year ago. If withholding on UI benefits is excluded, withholding year-over-year growth for the same period drops to 3.2 percent.

Corporate income tax receipts were over budget in August by \$6.0 million. Final payments associated with the 2019 tax year exceeded budget by \$1.9 million, and estimated payments for the 2020 tax year were over budget by \$1.7 million. Refunds were less than budgeted by \$2.4 million.

### Sales and Use Taxes

Revenue was \$10.1 million over budget for the month (6.8 percent). Year-to-date, fiscal year 2021 revenue is \$3.0 million or 1.0 percent less than fiscal year 2020 collections.

### Taxable Sales

Total taxable sales for the month of July (August revenue) were 0.5 percent lower than July 2019. The annual rate of change, excluding utilities, was 3.4 percent. Building supply sales increased 13.9 percent for the month and were up 9.3 percent for the last 12 months. Sales of taxable items in food stores were down 0.7 percent for the month and up 5.0 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 3.7 percent for the month and down 3.0 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 43.1 percent for the month and up 35.7 percent for the year. Auto/transportation sector sales increased 1.4 percent for the month and increased 0.1 percent for the year. Sales of meals and other prepared foods decreased 29.3 percent for the month and down 14.5 percent for the year. Lodging sales were down 39.6 percent for the month and down 21.8 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 8.7 percent for the month and were up 4.1 percent for the year.

### Service Provider Tax

Revenue was under budget for the month by \$0.3 million. Revenue is 0.2 million or 1.6 percent under prior fiscal year collections.

### Individual Income Tax

Revenue was \$17.3 million or 14.2 percent under budget for the month. Compared to the same two-month period last fiscal year individual income tax receipts are down 4.5 percent (-\$6.6 million). The year-over-year comparison is affected by the adjustment of \$257.9 million reflecting the reversal of amounts accrued in April and June for which collections were deferred until July 15<sup>th</sup> in response to the COVID-19 pandemic.

### Corporate Income Tax

Revenue was over budget for the month by \$6.0 million or 354.8 percent. Year-to-date corporate income tax revenue is \$8.6 million higher or 81.5 percent. The year-over-year comparison is affected by the adjustment of \$46.8 million reflecting the reversal of amounts accrued in April and June for which collections were deferred until July 15<sup>th</sup> in response to the COVID-19 pandemic.

### Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.1 million over budget for the month and fiscal year. Compared to last fiscal year, cigarette and tobacco tax revenue is up 1.0 percent (\$0.3 million).

### Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$0.05 million and is \$0.3 million more than the first two-months of last fiscal year.

### Estate Tax

The estate tax was \$0.5 million under budget for the month or -98.1 percent. Estate tax receipts are \$8.6 million less than last fiscal year.

### Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were under budget in August by \$0.6 million. BETR applications for property taxes paid during CY19 began August 1<sup>st</sup> and a limited number of reimbursements were issued in August.

### Municipal Revenue Sharing

Revenue sharing was on budget in August. For the fiscal year revenue sharing is \$4.2 million higher than last year. The increase in revenue sharing from 3.0 percent to 3.75 percent contributes to the increase compared to a year ago.

### Lottery

Lottery revenues were over budget for the month by \$1.9 million or 38.2 percent. Compared to last fiscal year, lottery revenue is \$1.3 million higher or 12.0 percent.

### Other Taxes and Fees

Other taxes and fees were under budget for the month of August by \$0.9 million. Year-to-date other taxes and fees are under budget by \$15.0 million. The shortfall for the fiscal year is primarily because of an incorrect budgeted amount of \$12.4 million for Unorganized Territory (UT) Property Tax in July. The UT tax is due in October at which time the negative variance will be significantly reduced.

## Highway Fund

Motor fuel excise tax receipts were over budget in August by \$1.0 million (5.4 percent). The Highway Fund, in total, was over budget for the month by \$2.1 million (7.2 percent). Motor fuel excise tax receipts are down 13.0 percent compared to fiscal year 2020. Demand for gasoline and special fuels has improved since the initial decline in mid-March and April but remains approximately 10-15 percent below last year.

## National Economy

The Federal Reserve's Federal Open Market Committee (FOMC) met for the last time before the November elections and signaled their intention to maintain their current interest rate targets for the foreseeable future. The FOMC indicated adjustments will be made as "risks emerge." The FOMC statement added "readings on public health" as information they will be reviewing in addition to the usual economic indicators of "labor market conditions, inflation pressures and inflation expectations, and financial and international developments." During their meeting the FOMC reviewed the latest economic projections from the regional Fed banks that were generally less pessimistic about the decline in 2020 GDP growth compared to their June forecasts, but are now expecting slower growth in calendar years 2021 and 2022.

## Maine Economy

Earlier this month the Federal Reserve System released their latest Beige Book report on current economic conditions in the 12 Federal Reserve Districts. The Boston Federal Reserve Bank reported that business activity in New England has "modestly improved in July and early August", but some sectors continue to see little improvement. Some retailers such as furniture stores and automobile dealerships cited strong activity, while tourism related sectors such as air travel, restaurants, and hotels remained very soft. Manufacturing was mixed, with home goods, health care and semiconductor businesses reporting strong year-over-year growth, while manufacturers that produce airplane or automobile parts reported very weak demand. Residential real estate markets are getting back to normal during the summer after a weak spring season. Commercial real estate markets were mixed, "with the retail and office sectors still very weak and warehouse and lab space robust." A high level of uncertainty exists across all sectors as we enter the final quarter of the calendar year.

KF: mja

## Attachments

cc: Jeremy Kennedy  
Mary Anne Turowski  
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Chris Nolan  
Marc Cyr  
Amanda Rector  
Jim Breece  
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