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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: October 20, 2020

SUBJECT: Revenues – September 2020

September General Fund revenues were over budget by \$45.8 million or 11.8 percent. For the first quarter of the fiscal year, fiscal year 2021 General Fund revenues are over budget by \$68.1 million or 7.1 percent. Compared to the same three-month period last fiscal year, General Fund revenues are down by 3.3 percent (-\$34.4 million). Adjusting for the increase in revenue sharing, General Fund revenues are down by 2.6 percent compared to the first quarter of fiscal year 2020.

August taxable sales (September revenue) increased 1.6 percent over last year. Excluding restaurant and lodging sales August taxable sales were up 9.9 percent. For the month, sales and use and service provider taxes, combined, were \$13.2 million over budget. Consumer sales increased by 1.8 percent over a year ago. General merchandise, 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, both decreasing by 24.6 percent in August. The August revenue forecast assumed year-over-year declines of 52 and 30 percent, respectively. General merchandise stores fell 7.8 percent compared to last August. Auto/transportation posted year-over-year growth of 11.3 percent and is up 9.2 percent for the three-month period ending in August. Automobile dealership sales increased 4.1 percent, and use tax transferred by the Bureau of Motor Vehicles (BMV) increased 48.1 percent. The use tax growth is the result of municipal offices opening and processing private and out of state sales from previous months. Other retail sales grew by 37.4 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 19.0 percent. Business operating sales increased in August by 2.3 percent over a year ago.

Concerns remain that a lack of another federal stimulus package may begin to impact sales tax receipts as the benefits of the previous stimulus ends and the holiday shopping season approaches.

Individual income tax receipts were over budget in September by \$30.8 million (17.9 percent). Positive variances from withholding (\$17.2 million), final payments (\$2.4 million), fiduciary payments (\$2.4 million) and estimated payments (\$13.0 million), were offset by higher than budgeted refunds (-\$4.2 million). Withholding increased 8.4 percent from last September. For the first three months of the fiscal year withholding receipts are 9.2 percent higher than the same period a year ago. The third-estimated payment for tax year 2020 was due September 15th and increased 15.4 percent over last September. The first three estimated payments for this tax year are down 14 percent.

Corporate income tax receipts were under budget in September by \$1.5 million. Final payments associated with the 2019 tax year were below budget by \$0.7 million, and estimated payments for the 2020 tax year were under budget by \$0.8 million. The third estimated payment for tax year 2020 was due September 15th for calendar year filers and was down 13.0 percent compared to last September. Refunds were slightly more than budgeted by \$0.07 million.

Sales and Use Taxes

Revenue was \$13.8 million over budget for the month (9.4 percent). Year-to-date, fiscal year 2021 revenue is \$4.5 million or 0.9 percent less than fiscal year 2020 collections.

Taxable Sales

Total taxable sales for the month of August (September revenue) were 1.6 percent higher than August 2019. The annual rate of change, excluding utilities, was 3.1 percent. Building supply sales increased 19.0 percent for the month and were up 11.2 percent for the last 12 months. Sales of taxable items in food stores increased by 1.1 percent for the month and up 4.8 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 7.8 percent for the month and down 4.2 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 37.4 percent for the month and up 37.7 percent for the year. Auto/transportation sector sales increased 11.3 percent for the month and increased 0.9 percent for the year. Sales of meals and other prepared foods decreased 24.6 percent for the month and down 18.3 percent for the year. Lodging sales were down 24.6 percent for the month and down 28.9 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 2.3 percent for the month and were up 3.9 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$0.6 million. For the first quarter of the fiscal year 2021 revenue is 1.0 million or 6.5 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$30.8 million or 17.9 percent over budget for the month. Compared to the same three-month period last fiscal year individual income tax receipts are down 3.7 percent (-\$16.6 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 15th in response to the COVID-19 pandemic. Some of the negative variance is from final and estimated payments in July being less than what we accrued in FY 20.

Corporate Income Tax

Revenue was under budget for the month by \$1.5 million or 3.5 percent. Year-to-date corporate income tax revenue is flat compared to the same three-month period a year ago. 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 15th in response to the COVID-19 pandemic. Some of the negative variance is from final and estimated payments in July being less than what we accrued in FY 20.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$2.3 million over budget for the month and \$2.5 million for the fiscal year. Compared to last fiscal year, cigarette and tobacco tax revenue is up 14.3 percent (\$5.0 million).

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$0.028 million and is \$0.750 million more than the first three-months of last fiscal year.

Estate Tax

The estate tax was \$0.037 million under budget for the month or -3.4 percent. Year-to-date, estate tax receipts are \$7.6 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 September by \$1.4 million. BETR applications for property taxes paid during CY19 began August 1st and a limited number of reimbursements have been issued thus far.

Municipal Revenue Sharing

Revenue sharing was over budget in September by \$1.2 million. For the fiscal year revenue sharing is \$6.4 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 under budget for the month by \$0.350 million or -6.7 percent. Compared to last fiscal year, lottery revenue is \$1.8 million higher or 12.2 percent.

Other Taxes and Fees

Other taxes and fees were over budget for the month of September by \$1.9 million. Year-to-date other taxes and fees are under budget by \$13.1 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 September by \$2.1 million (12.0 percent). The Highway Fund, in total, was over budget for the month by \$0.3 million (1.3 percent). Motor fuel excise tax receipts are down 16.8 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

There is consensus amongst economists that third quarter GDP growth will be approximately 30 percent at an annualized rate after contracting by 31.4 percent in the second quarter. The third quarter growth is stronger than originally predicted primarily because of the impact the federal CARES Act has had on the economic recovery. The lack of another stimulus package is causing forecasters to reduce their projections for fourth quarter growth and shift that growth to the first quarter of 2021 when passage of the next stimulus package is now expected. Another issue that is resulting in slightly slower growth during the current quarter is a recent surge in COVID cases across the country.

Maine Economy

Like Maine, many states are seeing revenues exceed their most recent revenue forecast. The timing and magnitude of the federal response during the early stages of the pandemic helped to offset the impact of the historic rise in unemployment and household physical distancing on economic activity. While revenues are exceeding forecast, it's important to note that revenues are still down through the first quarter of fiscal year 2021 in Maine and in other states. The timing of another stimulus package and the severity of the pandemic during the winter months create significant uncertainty going forward. The lack of another federal stimulus package and concerns about a resurgence in the COVID-19 virus has revenue forecasters concerned that positive revenue variances in recent months will be needed to offset negative variances during the upcoming holiday shopping season.

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Attachments

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