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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:** November 19, 2020

**SUBJECT:** Revenues – October 2020

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October General Fund revenues were over budget by \$78.2 million or 27.1 percent. For the first four months of the fiscal year, fiscal year 2021 General Fund revenues are over budget by \$146.3 million or 11.8 percent. Compared to the same four-month period last fiscal year, General Fund revenues are down by 0.3 percent (-\$4.4 million). Adjusting for the increase in revenue sharing, General Fund revenues are up by 0.4 percent compared to the same period of fiscal year 2020.

September taxable sales (October revenue) increased 12.0 percent over last year. Excluding restaurant and lodging sales September taxable sales were up 18.4 percent. For the month, sales and use and service provider taxes, combined, were \$29.4 million over budget. Consumer sales increased by 13.9 percent over a year ago. Restaurant and lodging were the only categories exhibiting declines from a year ago. While improving compared to prior months, lodging and restaurant sales continued to be hard hit, decreasing by 17.6 and 15.9 percent, respectively. The August revenue forecast assumed year-over-year declines in September of 50 and 30 percent, respectively. General merchandise stores increased 4.5 percent compared to last September. Auto/transportation posted year-over-year growth of 22.2 percent and is up 10.4 percent for the July-September quarter. Other retail sales grew by 46.1 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 26.5 percent. Business operating sales increased in September by 4.7 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 October by \$25.8 million (19.2 percent). All the sources of individual income tax had positive variances; withholding (\$6.8 million), final payments (\$7.6 million), fiduciary payments (\$1.2 million), estimated payments (\$3.2 million), and refunds (\$7.0 million). Withholding increased 4.2 percent from last October. For the first four months of the fiscal year withholding receipts are 7.8 percent higher than the same period a year ago. Withholding is expected to be closer to budget going forward as most of the enhanced unemployment benefit programs included in the CARES Act have now ended.

Corporate income tax receipts were over budget in October by \$2.9 million. Final payments associated with the 2019 tax year were over budget by \$0.6 million and estimated payments for the 2020 tax year were over budget by \$3.9 million. Maine allowed corporate calendar filers an extra month to file their 2019 tax returns on extension: it is possible that some corporations filed on October 15<sup>th</sup>, but we expect many to take advantage of the extra time and file on November 15<sup>th</sup>. Refunds were more than budgeted by \$1.6 million.

### Sales and Use Taxes

Revenue was \$29.6 million over budget for the month (22.8 percent) and is now \$53.5 million over budget for the fiscal year. Year-to-date, fiscal year 2021 revenue is \$5.5 million or 0.9 percent more than fiscal year 2020 collections.

### Taxable Sales

Total taxable sales for the month of September (October revenue) were 12.0 percent higher than September 2019. The annual rate of change, excluding utilities, was 3.7 percent. Building supply sales increased 26.5 percent for the month and were up 13.3 percent for the last 12 months. Sales of taxable items in food stores increased by 7.9 percent for the month and up 5.2 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 4.5 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 46.1 percent for the month and up 40.5 percent for the year. Auto/transportation sector sales increased 22.2 percent for the month and increased 2.2 percent for the year. Restaurant sales decreased 15.9 percent for the month and down 19.9 percent for the year. Lodging sales were down 17.6 percent for the month and down 31.0 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 4.7 percent for the month and were up 3.7 percent for the year.

### Service Provider Tax

Revenue was under budget for the month by \$0.2 million. For the first four months of fiscal year 2021 revenue is 0.8 million or 4.3 percent under prior fiscal year collections.

### Individual Income Tax

Revenue was \$25.8 million or 19.2 percent over budget for the month. Compared to the same four-month period last fiscal year individual income tax receipts are down 0.4 percent (-\$2.3 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. 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 over budget for the month by \$2.9 million or 49.5 percent. Year-to-date corporate income tax revenue is down by only \$1.2 million (-1.8 percent) compared to the same four-month period a year ago.

### Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$3.1 million under budget for the month and \$0.6 million for the fiscal year. Year-to-date, cigarette and tobacco tax revenue is flat compared to the same four months of fiscal year 2020.

### Insurance Companies Taxes

The Insurance Companies Tax was under budget for the month by \$1.0 million and is now \$0.9 million under budget fiscal year-to-date.

### Estate Tax

The estate tax was \$8.3 million over budget for the month. Year-to-date, estate tax receipts are \$1.4 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 October by \$2.5 million. BETR applications for property taxes paid during CY19 began August 1<sup>st</sup> and a limited number of reimbursements have been issued thus far but are expected to pick up over the next few months.

### Municipal Revenue Sharing

Revenue sharing was over budget in October by \$1.6 million. For the fiscal year revenue sharing is \$9.6 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 \$0.7 million or 12.7 percent. Compared to last fiscal year, lottery revenue is \$3.5 million higher or 18.2 percent.

### Other Taxes and Fees

Other taxes and fees were over budget for the month of October by \$12.1 million. Year-to-date other taxes and fees are under budget by \$1.0 million. The large overage for the month is primarily because the Unorganized Territory (UT) property tax which is due in October was incorrectly budgeted to the month of July. Going forward, the variance for the other taxes and fees line will reflect actual performance and will no longer be affected by this incorrect monthly distribution of budgeted revenue.

## Highway Fund

Motor fuel excise tax receipts were over budget in October by \$0.2 million (1.0 percent). The Highway Fund, in total, was over budget for the month by \$1.4 million (5.0 percent). Motor fuel excise tax receipts are down 10.5 percent compared to the same four-month period of 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

Third quarter GDP growth surged as the economy improved from the shutdowns and other responses to contain the COVID-19 pandemic during the second quarter. Real GDP rose 33.1% at an annualized rate in the third quarter, by far the largest on record. Despite the record third quarter growth the economy hasn't recovered, as GDP is 3.5% below its peak in the fourth quarter of 2019. The economy got a boost in the third quarter from reopening and fiscal stimulus. Real consumer spending soared in the third quarter, rising 40.7% at an annualized rate, adding 25.3 percentage points to GDP growth. The composition of spending shifted significantly, favoring goods. This isn't surprising, as services have been hit hardest by COVID-19 and a complete recovery will take time and may be tied to a broad-based distribution of a therapeutic or vaccine.

Economists remain concerned that the lack of an additional fiscal stimulus from Congress combined with a resurgence of the pandemic will strain households, particularly lower income households, as we enter the winter holiday season. It appears that any additional stimulus will be delayed until the first quarter of calendar year 2021. One positive is that many households saved a portion of the benefits received from the CARES Act and those savings are available to bridge the period between the end of the CARES benefits and an anticipated second stimulus package.

## Maine Economy

The Consensus Economic Forecasting Commission (CEFC) convened on October 23, 2020, to review and revise its forecast through 2025. This meeting follows the off-cycle forecast update of July 1, 2020, resulting from the extraordinary circumstances of the past eight months and recession caused by the onset of COVID-19. Total personal income was revised up in all years, notably to 5.3% in 2020 compared to 3.9% in the prior forecast. These revisions are driven by data showing a stronger rebound of middle- and high-income jobs. Changes to estimates of non-payroll sources of income resulted in additional upward revisions in 2021 to 2025.

Overall, the CEFC agreed with the original assessment of the economic and public health conditions made during the summer. Since the last forecast, the CEFC identified higher uncertainty regarding the timing of further federal stimulus and remains optimistic about Maine's opportunities to see increased immigration in the upcoming years. The Commission reiterated that current conditions are unprecedented, highly uncertain, and changing rapidly. Additionally, the CEFC noted their concern that the exacerbation of inequality as different groups experience uneven paces of economic recovery will hold back the overall recovery of the state and place additional demands on state educational and social service programs while threatening to reduce the tax revenues that fund them.

The Revenue Forecasting Committee (RFC) is meeting November 23<sup>rd</sup> to review the updated CEFC economic forecast and develop an updated revenue forecast by the statutorily required date of December 1<sup>st</sup>.

KF: mja

Attachments

cc: Jeremy Kennedy  
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