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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: December 21, 2020

SUBJECT: Revenues – November 2020

November General Fund revenues were over budget by \$81.1 million or 31.6 percent. For the first five months of the fiscal year, fiscal year 2021 General Fund revenues are over budget by \$227.4 million or 15.2 percent. Compared to the same five-month period last fiscal year, General Fund revenues are up by 2.5 percent (\$42.0 million). Adjusting for the increase in revenue sharing, General Fund revenues are up by 3.3 percent compared to the same period of fiscal year 2020. Please note, the budgeted amounts in the November Controller's Report are based on the August 1, 2020 Revenue Forecasting Committee (RFC) forecast. The December Controller's Report will be updated for the RFC forecast released on December 1, 2020.

October taxable sales (November revenue) increased 8.1 percent over last year. Excluding restaurant and lodging sales September taxable sales were up 12.6 percent. For the month, sales and use and service provider taxes, combined, were \$26.3 million over budget. Consumer sales increased by 9.8 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 19.8 and 14.3 percent, respectively. The August revenue forecast assumed year-over-year declines in September of 40 and 30 percent, respectively. General merchandise stores increased 7.1 percent compared to last October. Auto/transportation posted year-over-year growth of 11.1 percent and is up 14.7 percent for the August-October period. Other retail sales grew by 33.2 percent as e-commerce sales continue to increase in the COVID-19 economy. Note, the taxation of marketplace sales began last October providing the first true year-over-year comparisons for the other retail category. Building supply stores continue to have strong demand for their products during the crisis, increasing by 18.7 percent.

Business operating sales increased in October by 1.2 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 and home heating season begins.

Individual income tax receipts were over budget in November by \$35.5 million (29.7 percent). All the sources of individual income tax had positive variances; withholding (\$19.0 million), final payments (\$4.0 million), fiduciary payments (\$3.1 million), estimated payments (\$2.6 million), and refunds (\$6.8 million). Withholding increased 11.2 percent from last November. Some of the extraordinary monthly growth may be a timing issue because November 30th fell on a Monday this year compared to a Saturday last year. For the first five months of the fiscal year withholding receipts are 8.6 percent higher than the same period a year ago. Absent additional federal action, withholding is expected to moderate 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 November by \$13.9 million. Final payments associated with the 2019 tax year were over budget by \$2.0 million and estimated payments for the 2020 tax year were over budget by \$2.8 million. Maine allowed corporate calendar filers an extra month to file their 2019 tax returns on extension, moving the due date from October 15th to November 15th, which may explain the overage on final payments in November. Refunds were under budget by \$9.2 million, which could also be because of the extra month afforded calendar year filers.

Sales and Use Taxes

Revenue was \$26.7 million over budget for the month (23.3 percent) and is now \$80.2 million over budget for the fiscal year. Year-to-date, fiscal year 2021 revenue is \$13.5 million or 1.8 percent more than fiscal year 2020 collections.

Taxable Sales

Total taxable sales for the month of October (November revenue) were 8.1 percent higher than October 2019. The annual rate of change, excluding utilities, was 3.9 percent. Building supply sales increased 18.7 percent for the month and were up 14.9 percent for the last 12 months. Sales of taxable items in food stores increased by 7.9 percent for the month and up 5.6 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 7.1 percent for the month and down 3.8 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 33.2 percent for the month and up 40.4 percent for the year. Auto/transportation sector sales increased 11.1 percent for the month and increased 2.9 percent for the year. Restaurant sales decreased 14.3 percent for the month and down 21.6 percent for the year. Lodging sales were down 19.8 percent for the month and down 33.2 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 1.2 percent for the month and were up 3.1 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$0.5 million. For the first five months of fiscal year 2021 revenue is \$1.5 million or 6.3 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$35.5 million or 29.7 percent over budget for the month. Compared to the same five-month period last fiscal year individual income tax receipts are up 3.1 percent (\$22.5 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. The year-over-year growth is lower because final and estimated payments in July are less than what we accrued in FY 20.

Corporate Income Tax

Revenue was over budget for the month by \$13.9 million or 187.6 percent. Year-to-date corporate income tax revenue is up by \$11.7 million (18.1 percent) compared to the same four-month period a year ago. The deferral of extension returns from October to November has delayed corporate refunds which do contribute to the strong performance in November and year-to-date. We expect the payment of those refunds to shift to the December-February period.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.4 million over budget for the month and \$0.7 million for the fiscal year. Year-to-date, cigarette and tobacco tax revenue is up \$2.8 million (4.7 percent) compared to the same five months of fiscal year 2020.

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$2.4 million and is now \$1.5 million under budget fiscal year-to-date.

Estate Tax

The estate tax was \$1.0 million over budget for the month. Year-to-date, estate tax receipts are flat compared to last fiscal year.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were on budget in November. Year-to-date property tax relief payments are \$4.4 million below budget. BETR applications for property taxes paid during CY19 began August 1st 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 November by \$2.2 million. For the fiscal year revenue sharing is \$12.8 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 \$0.7 million or 12.6 percent. Compared to last fiscal year, lottery revenue is \$0.8 million higher (3.0 percent).

Other Taxes and Fees

Other taxes and fees were over budget for the month of November by \$3.9 million. Year-to-date other taxes and fees are over budget by \$2.9 million.

Highway Fund

Motor fuel excise tax receipts were over budget in November by \$0.7 million (4.1 percent). The Highway Fund, in total, was over budget for the month by \$7.1 million (27.8 percent). Motor fuel excise tax receipts are down 10.0 percent compared to the same five-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 5-10 percent below last year.

National Economy

The most recent Beige Book Report from the Federal Reserve was released earlier this month and noted that economic activity leading up to Thanksgiving was generally growing at a modest rate, but that regions of the country in the early stages of the recent surge in COVID-19 were beginning to show signs of stress. The national summary noted that initial interviews with business contacts were generally positive, but “optimism has waned – many contacts cited concerns over the recent pandemic wave, mandated restrictions (recent and prospective), and the looming expiration dates for unemployment benefits and for moratoriums on evictions and foreclosures.”

In their summary of the New England economy, the Boston Federal Reserve Bank described an economy going in different directions depending on the level of in person interaction. Leisure, hospitality, and entertainment sectors that improved over the summer are now in the “doldrums” as the cold weather has set in. Brick and mortar stores while still below year ago levels have performed better than expected leading up to the holiday shopping season. Except for commercial aviation and autos, manufacturing has done well, and contacts were generally positive about the near term. Commercial real estate for retail and office space continues to be weak, while industrial and lab space is doing well. Residential real estate is hot across the region as low interest rates and a shift in activity, normally seen in the spring, to the summer/fall, have increased sales in recent months. Regional contacts expect the residential market to remain strong through the winter. The Boston Fed concluded their summary on the residential real estate market by noting, “the Maine contact noted a substantial influx of out-of-state buyers.”

Maine Economy

The Revenue Forecasting Committee (RFC) met on November 23, 2020 to review and update its off-cycle August 1, 2020 revenue forecast, to assess the ongoing impact of the COVID-19 pandemic on State revenues, and to incorporate the changes made by the Consensus Economic Forecasting Commission in its November 1, 2020 report. The RFC revised its revenue projections through the fiscal year ending June 30, 2023 and extended the forecast period through the fiscal year ending June 30, 2025 for the General Fund, Highway Fund, Fund for a Healthy Maine and Medicaid/MaineCare Dedicated Revenue Taxes.

General Fund revenue estimates are revised upward by \$272.8 million for FY21 and by \$487.4 million for the 2022-2023 biennium. The forecasted rate of year-over-year growth for General Fund revenue in FY21 is now -3.9%, followed by growth of 4.1% in FY22 and 3.8% for FY23. Relative to the RFC's pre-pandemic March 1, 2020 forecast, General Fund revenues are now projected to be \$255.0 million lower in FY21 and \$395.8 million lower for the 2022-2023 biennium.

In its conclusion, the RFC committed itself to closely “monitor incoming economic and revenue data, and keeping the Governor and Legislature apprised of any variances that appear to be developing prior to the next economic and revenue forecasting meetings.” The two committees are finalizing a date for a mid-February meeting to discuss revenue data on holiday shopping sales, the final tax year 2020 estimated payments for individuals and corporations, and new national and state economic data.

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Attachments

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