

**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
78 STATE HOUSE STATION
AUGUSTA, ME 04333-0078**

**PHONE: 207-624-7800
FAX: 207-624-7804**

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 23, 2021

SUBJECT: Revenues – October 2021

October General Fund revenues are over budget by \$64.2 million or 18.0 percent. For the first third of fiscal year 2022, General Fund revenues are over budget by \$193.3 million or 12.8 percent.

Compared to last October, General Fund revenues are up by 15.1 percent (\$55.3 million). For July – October 2021, adjusting for the increase in revenue sharing, General Fund revenues are \$334.8 million, or 24.1 percent higher compared to July – October 2020.

States that have released October revenue reports are seeing similar year-over-year growth rates both for the month and for the four-month period ending in October.

September taxable sales (October revenue) increased 14.0 percent over last year. Year-over-year (YOY) comparisons remain distorted because of the COVID-19 pandemic, but with the start of the third quarter of calendar year 2021 those distortions will begin to moderate. For the month, sales and use and service provider taxes, combined, were \$22.3 million over budget. Consumer sales increased by 12.8 percent over September 2020 and 28.5 percent over September 2019. Federal stimulus programs via the American Rescue Plan Act (ARPA), healthy household balance sheets, and pent up demand for in-person taxable services account for the unprecedented growth compared to 2019. September lodging sales were up 70.0 percent over last year, and 40.0 percent over September 2019. Restaurant sales increased by 30.2 percent compared to a year ago, and 9.5 percent compared to 2019.

The auto/transportation sector posted YOY growth of 1.9 percent, but sales by auto dealers fell by 2.5 percent as demand has slowed because of the lack of inventory for both new and used autos. While taxable sales growth remains high compared to 2020 and 2019, it is clearly slowing as we go further into the fall.

Individual income tax receipts were over budget in October by \$28.4 million (16.2 percent). Final, estimated, and fiduciary payments were all over budget, contributing a combined \$24.0 million to the monthly positive variance. October final and fiduciary payments reflect the strength of tax year 2020; taxpayers filing on extension were required to file their 2020 returns by October 15th. The high level of final and fiduciary payments on those extension returns means that taxpayers had a much better 2020 than they anticipated last spring. Estimated payments are representative of current economic activity and October estimated payments receipts continue to show that 2021 is a very good year as well. Refunds were \$12.1 million under budget which contributed a significant amount to the monthly overage. At this time, we believe a significant amount of the October refund variance is a timing issue that will reverse in November. Withholding was the only source of revenue under budget in October (-\$11.0 million), offsetting a positive variance of the same amount in September. Withholding receipts through the first four months of fiscal year 2022 are up 11.4 percent compared to the same four-month period last year and are now \$14.2 million (2.5 percent) over budget fiscal year-to-date.

Corporate income tax receipts were over budget in October by \$15.1 million. Estimated payments exceeded forecast for the month by approximately \$7.4 million and final payments were over budget by \$4.6 million. Like the individual income tax, October 15th was the due date for filing on extension for calendar year corporate filers. Corporate refunds were under budget for the month by \$3.1 million. The variance on refunds is likely a timing issue and may resolve itself over the next few months as corporate refund requests are reviewed and paid.

Sales and Use Tax

Revenue was \$22.2 million over budget for the month (13.5 percent) and is over budget for the fiscal year by \$92.5 million (13.4 percent). Sales tax receipts have increased \$154.1 million or 24.5 percent more than fiscal year 2021 collections through the first third of the fiscal year.

Taxable Sales

Total taxable sales for the month of September (October revenue) were 14.0 percent higher than September 2020 and 27.7 percent higher than September 2019. The annual rate of change was 20.9 percent. Building supply sales increased 5.2 percent for the month and were up 21.9 percent for the last 12 months. Sales of taxable items in food stores increased by 3.8 percent for the month and were up 6.8 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 11.2 percent for the month and up 19.2 percent for the year. Sales by remote sellers and other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 13.8 percent for the month and up 27.6 percent for the year. Auto/transportation sector sales increased 1.9 percent for the month and increased 20.3 percent for the year. Restaurant sales increased 30.2 percent compared to the same month a year ago and were up 22.9 percent for the last 12 months.

Lodging sales increased 69.8 percent compared to last September and were up 74.2 percent for the 12-month period ending in September. Business operating sales (primarily use tax paid by businesses) increased 19.5 percent for the month and were up 17.2 percent for the year.

Service Provider Tax

Revenue was slightly over budget for the month by \$0.1 million. For the fiscal year revenue is \$1.5 million or 7.8 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$24.8 million or 16.2 percent over budget for the month. Compared to last fiscal year individual income tax receipts were up 22.8 percent (\$134.7 million). Withholding receipts for fiscal year 2022 are up 11.4 percent.

Corporate Income Tax

Revenue was over budget for the month by \$15.1 million. Corporate income tax revenue is up for the fiscal year by \$49.2 million (70.5 percent) compared to fiscal year 2021.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.7 million over budget for the month and \$1.2 million over budget for the fiscal year. All the year-to-date surplus is from cigarette excise tax revenue (+\$3.8 million). The excise tax on adult use marijuana is below budget through October by \$2.1 million. Through the first third of the fiscal year cigarette and tobacco tax revenues are up \$3.4 million (7.0 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was under budget in October by \$2.0 million and on budget fiscal year-to-date. The negative variance is a timing issue that will be partially corrected for in November. For the fiscal year insurance companies' tax is up 16.2 percent compared to last fiscal year.

Estate Tax

The estate tax was \$4.8 million over budget for the month and are now \$3.2 million over budget for the fiscal year. Estate tax receipts are down 18.7 percent (\$2.0 million) 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 under budget in October by \$0.4 million.

Property tax relief payments are \$0.3 million over budget for the fiscal year. Most payments for both BETR and BETE will begin going out over the next few months.

Municipal Revenue Sharing

Revenue sharing was over budget in October by \$2.5 million and was over budget for the fiscal year by \$11.6 million. For the fiscal year, revenue sharing payments to local communities are \$29.2 million higher than last year (59.0 percent). The increase in revenue sharing rate from 3.75 percent to 4.5 percent contributes to the increase compared to a year ago as well as the strong performance of sales and income taxes.

Lottery

Lottery revenues were over budget for the month by \$1.9 million or 36.1 percent. Compared to last fiscal year, lottery revenue is \$1.3 million higher (5.6 percent).

Other Taxes and Fees

Other taxes and fees were under budget for the month of October by \$2.8 million. Year-to-date other taxes and fees are under budget by \$1.4 million.

Highway Fund

Motor fuel excise tax receipts were under budget in October by \$1.1 million (5.3 percent). The Highway Fund, in total, was under budget for the month by \$0.9 million (3.1 percent). For the fiscal year total Highway Fund revenues exceed budget by \$3.5 million (3.0 percent). Motor fuel excise tax receipts are up 8.9 percent (\$6.7 million) compared to the first third of fiscal year 2021. Demand for gasoline and special fuels has steadily improved over last year but remain below pre-pandemic levels by approximately 2.5 percent.

National Economy

Rising prices haven't deterred household spending thus far. The Census Bureau's October retail sales report increased 1.7 percent from September and 16.3 percent compared to a year ago (14.9 percent excluding auto and gas). The retail sales report is not adjusted for inflation, so some of the year-over-year growth is the result of rising prices, but even after adjusting for inflation the growth remains solid. One reason for the increase in October is early holiday spending as consumers are shifting their purchasing from December into October, and likely November, in response to supply chain concerns. The availability of cash and credit and a continued reluctance to shift spending back to services because of the pandemic will keep retail sales strong through the remainder of the calendar year, but comparisons with a year ago will become difficult during the first-half of 2022.

Maine Economy

The Consensus Economic Forecasting Commission (CEFC) met on October 29th to receive updates from representatives of various business sectors across the state, and to update their April 1, 2021 economic forecast.

The key conclusion from the CEFC meeting was that “The new forecast accounts for both a decelerating labor market recovery in 2021, in large part at the hands of the Delta variant, as well as an upside potential for increased migration into the state in the following years. The commission is also optimistic that other factors, such as the return of K-12 school and childcare accessibility and a growing willingness by employers both to train potential workers who may not currently possess the experience and skills they have traditionally expected and to be increasingly flexible in work hours and locations will aid in employment growth in coming years. The CEFC continues to monitor structural changes that may impact the long-term trajectory of employment, in migration, and labor force participation trends. The Commission is hopeful that this more optimistic medium-term forecast will be confirmed with future data. The revised forecast anticipates employment will reach pre-pandemic levels by 2023 and continue growing to 647.9 thousand in 2025. The April 1, 2021, forecast reached 640 thousand in 2025. The CEFC remains optimistic regarding the upside opportunity of increased migration into the state as COVID-19 has been a catalyst for remote work but is cautious of the constraints that may be caused by ongoing tight real estate markets.”

The CEFC economic forecast is a key component of the upcoming Revenue Forecasting Committee (RFC) meeting. The RFC will meet November 23rd to provide the Governor and Legislature with a December 1st revenue forecast.

KF: mja

Attachments

cc: Jeremy Kennedy
Mary Anne Turowski
Suzanne Gresser
Chris Nolan
Marc Cyr
Amanda Rector
Ryan Wallace
Jerome Gerard
Jenny Boyden
Beth Ashcroft