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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: January 5, 2022

SUBJECT: Revenues – November 2021

Please note, the budgeted figures in the November Controller’s report are based on the May 1, 2021 Revenue Forecasting Committee (RFC) revenue forecast, as adjusted for enacted legislation. The December Controller’s report will be updated to reflect the December 1, 2021 RFC revenue forecast.

November General Fund revenues are over budget by \$32.7 million or 9.7 percent. For the first five months of fiscal year 2022, General Fund revenues are over budget by \$226.0 million or 12.2 percent. Note, a delay in recognizing service provider tax receipts resulted in only \$963 being reported in November. December’s Controller’s report will have both November and December revenues combined.

Compared to last November, General Fund revenues are up by 9.3 percent (\$31.5 million). For July – November 2021, adjusting for the increase in revenue sharing, General Fund revenues are \$369.3 million, or 21.4 percent higher compared to July – November 2020.

October taxable sales (November revenue) increased 12.7 percent over last year. Year-over-year (YOY) comparisons remain distorted because of the COVID-19 pandemic, but with the start of the fourth quarter of calendar year 2021 those distortions have started to moderate. For the month, sales and use taxes were \$22.9 million over budget. Consumer sales increased by 12.1 percent over October 2020 and 23.0 percent over October 2019. Healthy household balance sheets and a slower shift back to in-person non-taxable services account for the unprecedented growth compared to 2019.

October lodging sales were up 74.6 percent over last year, and 40.5 percent over October 2019. Restaurant sales increased by 28.9 percent compared to a year ago, and 10.4 percent compared to 2019. The auto/transportation sector posted YOY growth of 2.2 percent, but sales by auto dealers fell by 1.9 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 calendar year.

Individual income tax receipts were over budget in November by \$15.1 million (10.0 percent). Final, estimated, and withholding payments were all over budget, contributing a combined \$23.5 million to the monthly positive variance. Withholding was over budget in November by \$12.0 million, increasing 13 percent over last year. Withholding receipts through the first five months of fiscal year 2022 are up 11.8 percent compared to the same five-month period last year and are now \$26.2 million (3.7 percent) over budget fiscal year-to-date. Refunds were \$6.5 million over budget for November reversing some of the October deficit. Fiscal year-to-date, refunds are \$12.9 million over budget.

Corporate income tax receipts were over budget in November by \$5.3 million. Payments exceeded forecast for the month by approximately \$4.6 million and refunds were under budget by \$0.7 million. The final estimated payment for the 2021 calendar year is due December 15th for corporate calendar year filers.

Sales and Use Tax

Revenue was \$22.9 million over budget for the month (15.8 percent) and is over budget for the fiscal year by \$115.4 million (13.8 percent). Sales tax receipts have increased \$180.2 million or 23.4 percent more than fiscal year 2021 collections through the first five months of the fiscal year.

Taxable Sales

Total taxable sales for the month of October (November revenue) were 12.7 percent higher than October 2020 and 21.8 percent higher than October 2019. Over the 12-month period ending in October, the rate of change was 21.3 percent. Building supply sales increased 8.6 percent for the month and were up 20.8 percent for the last 12 months. Sales of taxable items in food stores increased by 3.2 percent for the month and were up 6.4 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 10.3 percent for the month and up 19.4 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 12.4 percent for the month and up 25.9 percent for the year. Auto/transportation sector sales increased 2.2 percent for the month and increased 19.4 percent for the year. Restaurant sales increased 28.9 percent compared to the same month a year ago and were up 27.6 percent for the last 12 months. Lodging sales increased 74.6 percent compared to last October and were up 86.1 percent for the 12-month period ending in October. Business operating sales (primarily use tax paid by businesses) increased 16.2 percent for the month and were up 18.5 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$4.2 million because of a delay in recognizing November revenue. December's service provider tax line will be over budget by approximately \$4.2 million. For the fiscal year revenue is \$5.8 million or 25.3 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$15.1 million or 10.0 percent over budget for the month. Compared to last fiscal year individual income tax receipts were up 19.7 percent (\$146.8 million). Withholding receipts for fiscal year 2022 are up 11.8 percent.

Corporate Income Tax

Revenue was over budget for the month by \$5.3 million. Corporate income tax revenue is up for the fiscal year by \$53.0 million (69.4 percent) compared to fiscal year 2021.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.9 million under budget for the month and \$0.6 million under budget for the fiscal year. Most of the year-to-date surplus is from cigarette excise tax revenue (+\$2.4 million). The excise tax on adult use marijuana is below budget through November by \$2.5 million. Through the first five months of the fiscal year cigarette and tobacco tax revenues are up \$0.4 million (0.6 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was over budget in November by \$1.7 million and over budget fiscal year-to-date by \$1.8 million. For the fiscal year insurance companies' tax is up 8.1 percent compared to last fiscal year.

Estate Tax

The estate tax was \$6.0 million under budget for the month and are now \$2.8 million under budget for the fiscal year. Estate tax receipts are down 2.8 percent (\$0.4 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 November by \$0.3 million. For the first five months of the fiscal year, property tax relief payments are on budget. Most payments for both BETR and BETE began going out in December.

Municipal Revenue Sharing

Revenue sharing was over budget in November by \$2.8 million and was over budget for the fiscal year by \$14.4 million. For the fiscal year, revenue sharing payments to local communities are \$34.5 million higher than last year (55.6 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 under budget for the month by \$1.3 million or 23.5 percent. Compared to last fiscal year, lottery revenue is \$0.6 million higher (2.1 percent).

Other Taxes and Fees

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

Highway Fund

Motor fuel excise tax receipts were under budget in November by \$1.4 million (6.9 percent). The Highway Fund, in total, was over budget for the month by \$3.4 million (11.1 percent). For the fiscal year total Highway Fund revenues exceed budget by \$6.9 million (4.7 percent). Motor fuel excise tax receipts are up 7.0 percent (\$6.6 million) compared to the first five months 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

On December 15th the Federal Reserve's Federal Open Market Committee (FOMC) announced that they were accelerating their tapering of net asset purchases on a pace that will now end the process by March vs. July as originally planned. While the FOMC statement did not announce any direct interest rate increases, the summary of economic projections by the 12 regional banks that accompanies the FOMC statement indicates three interest rate increases may begin as early as mid-2022, followed by more in 2023. The FOMC dropped the term "transitory" to describe the current rise in inflation, instead describing the source of inflation as "supply and demand imbalances related to the pandemic and the reopening of the economy". The FOMC has clearly shifted their focus to combating what is now perceived to be a longer-term inflation situation.

Maine Economy

The Revenue Forecasting Committee released their December 1st report and increased forecasted FY22-FY25 revenues by approximately 10 percent a year, or \$400 million annually. Percentage changes by the RFC of this magnitude haven't been this large since the late 1990s; over 20 years ago. Most of the positive forecast changes were from the sales and use and income taxes.

Significant FY21 year-end and continuing monthly surpluses through October of FY22 on those revenue lines and an economic forecast by the Consensus Economic Forecasting Commission that supports continued growth of sales and income tax receipts were the primary drivers of the optimistic revenue forecast. The RFC notes at the end of the report that the economy remains volatile as it continues to adjust to the unfolding pandemic and the changing fiscal and monetary policies in response to the historic health crisis.

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Attachments

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