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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: March 24, 2022

SUBJECT: Revenues – February 2022

February General Fund revenues are over budget by \$37.3 million or 20.1 percent. For the eight months of fiscal year 2022, General Fund revenues are over budget by \$170.7 million or 5.7 percent. Note, the February Controller's Report has not been updated for the new revenue forecast released by the Revenue Forecasting Committee (RFC) on March 1, 2022. The March Controller's Report will be based on the March 1st RFC report.

Compared to last February, General Fund revenues are down by 20.4 percent (\$57.2 million). For July through February 2022, adjusting for the increase in revenue sharing, General Fund revenues are \$427.6 million, or 15.4 percent higher compared to the same period in fiscal year 2021.

January taxable sales (February revenue) increased 5.9 percent over last year. Year-over-year (YOY) comparisons continue to moderate and will be challenging over the next few months as stimulus payments led to a spike in household spending during the first half of 2021. For the month, sales and use taxes were essentially on budget. Consumer sales increased by 3.7 percent over January 2021 and 21.6 percent over January 2020. Healthy household balance sheets, inflation, and a slower shift back to in-person non-taxable services because of the Omicron variant account for the unprecedented growth compared to 2020.

Individual income tax receipts were over budget in February by \$45.2 million (107.9 percent). All sources of individual income tax contributed to the monthly surplus. Withholding (\$13.5 million) and estimated payments (\$23.2 million) accounted for a combined \$36.7 million of the monthly positive variance.

February is normally a low month for individual estimated payments, but the late due date of the final estimated payment for 2021 (January 18th) pushed some of the January payments into the first few days of February. Refunds were \$3.7 million under budget in February, but almost \$100 million more than last February when processing was delayed because of the pandemic. The additional individual income tax refunds this February is the main reason net General Fund revenues were well below February 2021.

Corporate income tax receipts were under budget in February by \$2.6 million. Payments were lower than forecast for the month by approximately \$0.6 million and refunds were over budget by \$2.0 million. Through the first eight-months of fiscal year 2022 corporate income tax receipts are 54.4 percent higher than the same period last fiscal year.

Sales and Use Tax

Revenue was \$0.76 million over budget for the month (0.1 percent) and is over budget for the fiscal year by \$12.2 million (0.9 percent). Sales tax receipts have increased \$234.0 million or 19.9 percent more than fiscal year 2021 collections through the first eight months of the fiscal year.

Taxable Sales

Total taxable sales for the month of January (February revenue) were 5.9 percent higher than January 2021 and 21.3 percent higher than January 2020. Over the 12-month period ending in January 2022, taxable sales rose at a rate of 21.1 percent. Building supply sales increased 4.5 percent for the month and were up 16.2 percent for the last 12 months. Sales of taxable items in food stores increased by 2.3 percent for the month and were up 4.7 percent for the year. General merchandise sales (primarily sales of goods in large department and discount stores) were down 2.8 percent for the month and up 21.0 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 3.0 percent for the month and up 20.2 percent for the year. Auto/transportation sector sales increased 1.0 percent for the month and increased 17.8 percent for the year. Restaurant sales increased 11.8 percent compared to the same month a year ago and were up 17.8 percent for the last 12 months. Lodging sales increased 62.3 percent compared to last January and were up 101.4 percent for the 12-month period ending in January. Business operating sales (primarily use tax paid by businesses) increased 12.6 percent for the month and were up 18.4 percent for the year.

Service Provider Tax

Service Provider Tax revenue was under budget for the month by \$0.2 million or 4.8 percent. Through the first eight months of fiscal year 2022 service provider tax receipts are \$0.1 million over budget (0.4 percent). For the fiscal year revenue is \$2.1 million or 6.0 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$45.2 million or 107.9 percent over budget for the month. Compared to last fiscal year individual income tax receipts were up 8.5 percent (\$112.0 million). Withholding receipts for fiscal year 2022 are up 13.0 percent.

Corporate Income Tax

Revenue was under budget for the month by \$2.6 million. Corporate income tax revenue is up for the fiscal year by \$73.3 million (54.4 percent) compared to fiscal year 2021. The Federal government and other States with a corporate income tax are seeing similar growth rates.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.7 million under budget for the month and on budget for the fiscal year. Through the first eight months of the fiscal year cigarette and tobacco tax revenues are up \$4.4 million (4.7 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was under budget in February by \$0.2 million and over budget fiscal year-to-date by \$1.6 million. For the fiscal year insurance companies' tax is up 5.9 percent compared to last fiscal year.

Estate Tax

The estate tax was \$1.1 million under budget for the month. Estate tax receipts have increased 82.6 percent (\$14.0 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 February by \$1.9 million. For the first eight months of the fiscal year, property tax relief payments are \$3.4 million under budget.

Municipal Revenue Sharing

Revenue sharing was over budget in February by \$1.6 million and was over budget for the fiscal year by \$5.2 million, meaning that more funds than expected have flowed to Maine's towns and cities. For the fiscal year, revenue sharing payments to local communities are \$48.6 million higher than last year (47.1 percent). The improvement 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 \$1.2 million or 23.2 percent. Compared to last fiscal year, lottery revenue is \$4.0 million lower (8.2 percent).

Other Taxes and Fees

Other taxes and fees were under budget for the month by \$2.4 million. Year-to-date other taxes and fees are over budget by \$0.4 million.

Highway Fund

Motor fuel excise tax receipts were under budget in February by \$0.7 million (3.7 percent). The Highway Fund, in total, was over budget for the month by \$0.045 million (0.0 percent). For the fiscal year total Highway Fund revenues are over budget by \$3.4 million (1.5 percent). Motor fuel excise tax receipts are up 6.9 percent (\$9.9 million) compared to the first eight months of fiscal year 2021.

National Economy

As expected, the Federal Open Market Committee (FOMC) increased its target range for the federal funds rate by 25 basis points during their March meeting. It's expected that the FOMC will continue to increase the federal funds rate at all their remaining 2022 meetings. The only question now is if the FOMC will continue to increase in 25 basis point increments or become more aggressive with a series of 50 basis point increases. The economic forecasts provided by the 12 regional banks reduced real GDP growth for 2022 and 2023 and increased their forecast for inflation. The FOMC's post-meeting statement noted that the invasion of Ukraine makes the trajectory of the U.S. economy "highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity."

Maine Economy

The Revenue Forecasting Committee met on March 1st to review the February 1, 2022 economic forecast from the Consensus Economic Forecasting Commission (CEFC) and to develop a new revenue forecast. In its March 2022 update, the RFC revised General Fund revenue estimates upward by \$234.9 million for FY22 and by \$176.8 million for FY23 for a total increase of \$411.7 million (4.4%) for the 2022-2023 biennium. The RFC noted that "uncertainty has become the norm" in the development of both economic and revenue forecasts over the last two years. As a result, the RFC made clear that "ongoing issues (inflation, stock and real estate market valuations, supply chain and labor force constraints etc.) facing the economy make the FY23-25 portions of the forecast volatile and susceptible to significant downside risk."

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Attachments

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