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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: August 3, 2022

SUBJECT: Revenues – June 2022

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June General Fund revenues were over budget by $100.9 million or 19.1 percent. For the fiscal year, fiscal year 2022 General Fund revenues were over budget by 534.4 million or 11.0 percent.

Compared to last fiscal year, General Fund revenues were up by 19.3 percent ($871.0 million). Adjusting for the increase in revenue sharing, General Fund revenues increased by $910.0 million, or 20.1 percent compared to fiscal year 2021.

As has been the case in recent months, most of the monthly and fiscal year surplus is from individual and corporate income tax receipts. Individual income taxes were over budget in June by $54.4 million (26.7 percent). Withholding accounted for $23.7 million of the monthly surplus, increasing for the fiscal year by 14.0 percent. Refunds were $8.9 million under budget for the month bringing the total variance for the fiscal year to $62.1 million below the budgeted amount. Final payments exceeded budget by $4.2 million in June resulting in a total positive variance for the fiscal year of $239.6 million, 59.6 percent above budget. Two contributing factors to this are: wage growth nearly 2 percentage points higher than the Consensus Economic Forecasting Commission's (CEFC) February forecast as well as a significant increase in capital gains realizations. While it's possible returns filed on extension and amended returns will result in higher-than-expected refunds and lower-than-expected final payments later this calendar year, as discussed in previous revenue reports the current size of the combined surplus from these two sources indicates that tax year 2021 was an historic year.

The second estimated payment for tax year 2022 was due June 15th and came in $11.3 million above forecast (+13.8 percent), and is 16.1 percent higher compared to a year ago. Combined, the first two estimated payments for tax year 2022 are up a solid 14.0 percent compared to a year ago. The remaining monthly variance was from fiduciary revenue, from trust or estate earnings, for example, being over budget by $6.3 million. Total fiscal year receipts of $45.9 million for fiduciary is a new record, beating last year's $44.0 million total.

Corporate income tax receipts were over budget in June by $39.7 million. June 15th was the due date of the second estimated payment for calendar year corporate filers and we estimate it was the second estimated payment (vs. final payments from previous tax years) that contributed to most of the monthly surplus. Corporate refunds were under budget in June by $2.2 million. For the fiscal year, corporate income tax receipts were $415.8 million, a positive variance of $85.8 million (26 percent). Compared to fiscal year 2021, corporate income tax revenues were up 46.3 percent ($131.5 million). Fiscal year 2022 is the first-time corporate income tax receipts have exceeded $300 million, never mind the $400 million level achieved this past fiscal year. The Federal government and other States with corporate income taxes are reporting similar growth in corporate income tax receipts.

Sales and Use Tax

Revenue was on budget for the month and was over budget for the fiscal year by $38.1 million (1.9 percent). Total fiscal year 2022 sales and use tax receipts were $2.1 billion, the first time the sales tax exceeded $2.0 billion. Sales tax receipts ended the fiscal year $274.6 million or 15.2 percent more than fiscal year 2021 collections. Revenue growth slowed considerably during the second half of the fiscal year, increasing YOY by 7.8 percent during the January-June 2022 period compared to 22.7 percent during the July-December 2021 period. As expected, most of the slowdown in growth has come from the 5.5% tax base, which reflects the impact supply chain issues and rising inflation are having on the purchase of durable and nondurable goods that consumers spent heavily on during the height of the pandemic. In addition, the shift back to in person services is drawing spending away from our tax base that is dependent on goods. The slight overage for the fiscal year is primarily attributable to restaurant and lodging sales performing much stronger than projected by the Revenue Forecasting Committee (RFC) in its March 2022 report.

Taxable Sales

Total taxable sales for the month of May (June revenue) were 5.8 percent higher than May 2021 and 39.1 percent higher than May 2020. The annual rate of change was 12.8 percent. Building supply sales increased 7.1 percent for the month and were up 8.8 percent for the last 12 months. Sales of taxable items in food stores increased by 3.2 percent for the month and were up 4.3 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 3.1 percent for the month and up 9.9 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 6.5 percent for the month and up 10.4 percent for the year. Auto/transportation sector sales decreased 0.7 percent for the month and increased 3.9 percent for the year.

Restaurant sales increased 9.0 percent compared to the same month a year ago and were up 32.9 percent for the last 12 months. Lodging sales increased 18.0 percent compared to the same month a year ago and increased 71.1 percent for the last12 months. Business operating sales (primarily use tax paid by businesses) increased 8.8 percent for the month and were up 14.8 percent for the year.

Service Provider Tax

Revenue was over budget for the month by $0.3 million and for the fiscal year by $0.3 million (0.6 percent). For the fiscal year revenue was $51.3 million, essentially the same amount as in fiscal year 2021.

Individual Income Tax

Revenue was $54.4 million or 26.7 percent over budget for the month. Compared to last fiscal year individual income tax receipts were up 24.7 percent ($511.0 million). As discussed previously, wage growth and capital gains impact this category. We have not experienced a YOY increase of this magnitude for individual income tax collections in the last 30 years.

Corporate Income Tax

Revenue was over budget for the month by $39.7 million. Corporate income tax revenue ended the fiscal year up by $131.5 million (46.3 percent) compared to fiscal year 2021. Like the individual income tax, the rate of YOY growth is an outlier, far exceeding any year of growth in recent memory.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was $1.4 million over budget for the month and $1.3 million over budget for the fiscal year. At the close of the fiscal year cigarette and tobacco tax revenues were up $0.3 million (0.2 percent) compared to fiscal year 2021. The difference between the figures above and those showing on the report is the transfer to the Adult Use Marijuana Public Health and Safety Fund.

Insurance Companies Taxes

The insurance companies' tax was over budget in June by $2.4 million. For the fiscal year insurance companies' tax was over budget by $13.4 million (15.2 percent), reaching a level of $101.7 million. The Insurance Companies tax usually experiences a YOY change of approximately +/- 4.0 percent, but in fiscal year 2022 it increased by 20.4 percent compared to last fiscal year. We will be researching the reason(s) behind this jump in revenue prior to the RFC December 2022 forecast, as the last time there was a percentage increase of this magnitude was after the September 11th attacks when insurance companies taxes increased by over 25 percent in both fiscal years 2002 and 2003.

Estate Tax

The estate tax was $1.7 million under budget for the month and $5.8 million under for the fiscal year. Estate tax receipts were $34.2 million in fiscal year 2022, down $6.2 million (15.4 percent) 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 slightly over budget in June. The property tax relief payments were $0.6 million higher than projected for the fiscal year.

Municipal Revenue Sharing

Revenue sharing was over budget in June by $1.9 million and was over budget for the fiscal year by $19.4 million. For the fiscal year revenue sharing was $76.3 million higher than last year (48.9 percent). The increase in revenue sharing 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 $0.2 million or 4.1 percent. Compared to last fiscal year, lottery revenue was $0.7 million higher (1.0 percent).

Other Taxes and Fees

Other taxes and fees were over budget for the month of June by $3.8 million. At the close of the fiscal year other taxes and fees were over budget by $6.0 million (3.9 percent).

Highway Fund

Motor fuel excise tax receipts were under budget in June by $0.6 million (3.0 percent). The Highway Fund, in total, was over budget for the month by $3.5 million (14.8 percent). For the fiscal year total Highway Fund revenues exceeded budget by $8.7 million (2.6 percent). Motor fuel excise tax receipts ended the fiscal year under budget by $1.9 million (0.9 percent). The fiscal year positive variance was primarily from motor vehicle registrations and fees. Motor fuel excise tax receipts increased 6.3 percent over last fiscal year. YOY growth in motor fuel excise taxes for gasoline and special fuels has been steady at approximately 6.5 percent since the start of the calendar year, despite the rise in energy prices over the last year.

National Economy

On July 27th the Federal Reserve's Federal Open Market Committee (FOMC) announced that it increased its target range for the federal funds rate by 0.75 percentage points for the second meeting in a row to tame inflation while not causing a severe downturn. This increase was widely anticipated, as are further increases to tame inflation even as the economy slows.

In its press release, the FOMC noted “Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures. Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.”

A day after the FOMC announcement, the Bureau of Economic Analysis (BEA) released their preliminary estimate for 2022 second quarter real GDP growth. BEA estimates that second quarter GDP contracted by 0.9 percent on an annualized basis. The second quarter decline follows a decline of 1.6 percent in the first quarter. While the common definition of a recession is two consecutive quarters of decline in real GDP, the actual determination of when a recession begins and ends is much more complicated. Most economists believe the U.S. economy has not entered a recession during the first half of 2022, but that a slowdown in economic growth is clearly underway and there is a growing risk of a recession later this calendar year or during the first half of 2023. Additional data over the coming months, including revisions by BEA to the GDP data, will provide more clarity to the status of the U.S. economy.

Maine Economy

The State of Maine closed fiscal year 2022 with Unappropriated Surplus in the General Fund of $595.1 million. Most of this ($534.4 million) is revenues above those recognized by the Revenue Forecasting Committee, based on information from CEFC, in its March 2022 report.

The process of distributing the funds, known as the “cascade”, is prescribed. Title 5, section 1536 defines the statutory order for priority transfers at year end. Additionally, for fiscal year 2022, the Legislature identified three additional funds to receive one-time monetary support: the Highway and Bridge Reserve Fund to support the capital improvement of the federal and state highway network; a newly created Education Stabilization Fund to help the State maintain its commitment - achieved for the first time ever under Governor Mills - to fund public schools at 55 percent; and the Disaster Recovery Fund to fund the State’s percentage of costs in the event of a FEMA-declared disaster.

The net after transfers is then distributed to the Final Priority Reserves: 80% to the Budget Stabilization Fund and 20% to the Highway and Bridge Capital Program. The Budget Stabilization Fund received $401.9 million and now stands at a record high of $895.9 million, which represents 16.6 percent of prior year General Fund Revenues – just short of the statutory 18 percent maximum prescribed in law. The Highway and Bridge Capital Fund received $100.5 million in funding. Combined with earlier fiscal year 2022 and 2023 budget efforts, these Highway and Bridge transfers result in an unprecedented $291.4 million in General Fund support for the Maine Department of Transportation for capital projects – a record investment to improve Maine’s transportation infrastructure and preventing, for the first time in years, the need to bond for transportation money.

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