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MEMORANDUM

TO: Governor Paul R. LePage
Members, Legislative Council
Members, Joint Standing Committee on Appropriations and Financial Affairs
Members, Joint Standing Committee on Taxation

FROM: Richard W. Rosen, Commissioner
Department of Administrative & Financial Services

DATE: September 26, 2016

SUBJ: Revenues – August

August General Fund revenues were over budget by \$18.9 million or 6.8 percent. For the first two months of the fiscal year, General Fund revenues are \$15.8 million over budget (+3.0%). Adjusting for timing issues with BETR payments and one-time Service Provider Tax audit payments, General Fund revenues would still be over budget through August by approximately \$10 million. Compared to the same two-month period of last fiscal year, FY17 General Fund revenues are up by 5.9 percent (+\$29.8 million).

July taxable sales (August revenue) increased by 4 percent over a year ago. Business sectors representing taxable sales primarily to households increased by 5 percent over last July. For the month, sales and use and service provider taxes combined were \$4 million over budget. Auto/transportation sales decreased by 4.1 percent over last July and are down 1.2 percent year-over-year for the three-month period. Tourism-related sales, specifically those tied to restaurants and lodging, increased over last July, growing 7 percent and 10.1 percent, respectively.

Building supply store sales in July increased by 1.8 percent year-over-year. During the first seven months of CY16, industry sales have risen by 9 percent, benefiting, in part, from Maine's mild winter and an early start to the construction season.

Corporate income tax receipts were over budget in August by \$4.3 million. Most of the monthly surplus (\$3.6 million) came from estimated payments. Since September is usually a big month for estimated payments, the August surplus may come at the expense of September receipts.

Estate tax revenue was over budget for the month by \$1.8 million, bringing the year-to-date variance to \$1.1 million over budget. As a reminder, Maine will begin to realize the effect of increasing the estate tax exemption amount starting with estate tax returns due to be filed in October.

Sales & Use Taxes

Revenue was \$3.2 million over budget for the month and \$5.3 million (+2.1%) over budget fiscal year-to-date. Revenue was \$16.4 million (+6.7%) over prior fiscal year-to-date collections. The year-to-date revenue growth is attributable, in part, to tax changes that became effective on January 1, 2016.

Taxable Sales

Total taxable sales for the month of July (August revenue) were 4.0 percent over July 2015. The annual rate of change, excluding utilities, was 6.1 percent. Building supply sales were up 1.8 percent for the month and 7.3 percent for the year ending in July. Sales of taxable items in food stores were up 23.2 percent for the month and 15.5 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 5.4 percent for the month and 4.4 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 3.7 percent for the month and 6.4 percent for the year.

Auto/transportation sector sales were down 4.1 percent for the month and up 5.9 percent for the year. As noted in last month's revenue report, auto sales have flattened out and most of the robust growth occurred during the first quarter of the calendar year.

Sales of meals and other prepared foods were up 7.0 percent for the month and 6.5 percent for the year. Lodging sales were up 10.1 percent for the month and 7.1 percent for the year. Business operating sales (primarily use tax paid by businesses) were down 0.8 percent for the month and 0.4 percent for the year.

Service Provider Tax

Revenue was \$851,263 over budget for the month and \$311,815 (+2.8%) over budget fiscal year-to-date. Revenue was \$3.5 million (+44.2%) over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$1.1 million over budget for the month and \$3.5 million (+1.8%) over budget fiscal year-to-date. Fiscal year-to-date withholding payments were 11.2 percent under fiscal year 2016. Estimated payments were up 3.1 percent and final payments were up 7.6 percent fiscal year-to-date. Revenue was \$17 million (-7.7%) under prior fiscal year-to-date collections. These differences reflect changes made by Maine Revenue Services to tax withholding tables as a result of tax changes that became effective on January 1, 2016.

Corporate Income Tax

Revenue was \$4.3 million over budget for the month and \$2.5 million (+25.6%) over budget fiscal year-to-date. Estimated payments were up 17 percent and final payments were down (-42.9%) fiscal year-to-date. Revenue was \$19.8 million (+260.8%) over prior fiscal year-to-date collections.

Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$573,048 over budget for the month and \$1.5 million (-5.8%) under budget fiscal year-to-date. Fiscal year-to-date revenue was \$3.1 million (-11.2%) under prior fiscal year-to-date collections.

Insurance Companies Taxes

The Insurance Companies Taxes were \$20,824 under budget for the month and \$72,311 under budget fiscal year-to-date.

Estate Tax

The estate tax was \$1.8 million over budget for the month and \$1.1 million over budget fiscal year-to-date.

Transfers for Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were under budget in August by \$4 million. August is the start of the new BETR reimbursement year. There were no BETR payments issued this August, but it is anticipated that payments will begin in September and quickly catch up to forecasted amounts.

Municipal Revenue Sharing

Revenue sharing was very close to budget in August, and is essentially on budget year-to-date.

Lottery

Lottery revenues were over budget for the month by \$0.5 million and are now over budget for the fiscal year by \$0.3 million.

Other Revenues

Other Revenues were over budget for the month by \$1.3 million. For the fiscal year other revenues are under budget by \$0.9 million or 9.9 percent.

Highway Fund

Motor fuel excise tax receipts were over budget in August by \$0.4 million. The Highway Fund, as a whole, was over budget for the month by \$1.4 million (+4.6%). For the first two months of FY17 motor fuel excise tax revenues are over budget by \$0.4 million and total Highway Fund receipts are over budget by \$1.9 million.

National Economy

Incoming data on manufacturing, retail sales, inflation, and inventories have caused most economic forecasters to revise down their projections of third quarter GDP growth. After economic growth of approximately 1 percent during the first half of 2016, economic forecasters had originally expected third quarter growth to be well in excess of 3 percent. After reviewing recent releases from the federal government, the general tendency for these economic projections is in the range of 2.5 percent growth. If the weaker than expected third quarter growth extends into the final quarter of 2016 overall economic growth in 2016 will fall below 2 percent.

The Federal Reserve is expected to delay any increase in short-term interest rates until after the November election.

Maine Economy

The July-August Beige Book Report of the New England region by the Boston Federal Reserve Bank shows that the regional economy continues to expand, but with some signs of slowing growth. Travel-related sectors reported a moderation in sales activity, but most of that came from business travel; leisure travel was strong over the summer tourism season. All sectors surveyed by the Boston Fed reported tight labor markets, with staffing firms experiencing high demand for their services and a short supply of labor.

Tourism-related sales were extremely strong in July (August revenue) and for the three-month period ending in July. For the latest three-month period, restaurant and lodging sales increased by 5.2 percent and 8.2 percent, respectively. In July alone restaurant sales increased by 7 percent on top of 7.4 percent growth a year ago. Lodging sales increased by 10.1 percent on top of 7.4 percent growth a year ago. Warm dry weather combined with low gas prices boosted tourism activity during a period that included two of the three holiday weekends of the summer season.

RWR: mja

Attachments

cc: John McGough
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