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M E M O R A N D U M

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: October 14, 2016

SUBJ: Revenues – September

September General Fund revenues were over budget by \$16.7 million or 4.7 percent. For the first quarter of fiscal year 2017, General Fund revenues are \$32.5 million over budget (+3.7%). Adjusting for timing issues with BETR payments and one-time Service Provider and Insurance Premium Tax audit payments, General Fund revenues would still be over budget through September by approximately \$22.5 million (+2.6%). Compared to the same three-month period of last fiscal year, FY17 General Fund revenues are up by 5.1 percent (+\$43.9 million).

August taxable sales (September revenue) increased by 7.7 percent over a year ago. Business sectors representing taxable sales made primarily to households increased by 7.8 percent over last August. For the month, sales and use and service provider taxes combined were \$4.5 million over budget. Auto/transportation sales increased by 8.5 percent over last August and are up 2 percent year-over-year for the three-month period. Tourism-related sales, specifically those tied to restaurants and lodging, increased over last August, growing 3.3 percent and 6.2 percent, respectively. For the three-month summer tourism season (June-August), restaurant sales increased by 5.9 percent over last year and lodging sales increased by 8.2 percent.

Corporate income tax receipts were over budget in September by \$4.9 million. Most of the monthly surplus (\$3.2 million) came from estimated and final payments. September is a key month for estimated payments, and estimated payments in September exceeded budget by \$1.3 million.

Individual income tax revenues were slightly (\$638,792) under budget for the month. Year-to-date individual income tax receipts are \$2.9 million over budget (+0.8%). Final and estimated payments accounted for most of the monthly variance, with withholding receipts ending the month under budget by \$4.4 million. The third estimated payment of the year was \$3.8 million over budget. The first three estimated payments of the fiscal year are down 2.5 percent over 2015, but that is better growth than forecasted. Withholding revenue is under budget by \$12.2 million through the first three months of the fiscal year. We are watching withholding receipts carefully as the next Revenue Forecasting Committee meeting approaches.

Sales & Use Taxes

Revenue was \$5.1 million over budget for the month and \$10.4 million (+2.7%) over budget fiscal year-to-date. Revenue was \$27.6 million (+7.4%) over prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of August (September revenue) were 7.7 percent over August 2015. The annual rate of change, excluding utilities, was 6.8 percent. Building supply sales were up 8.6 percent for the month and 8 percent for the year ending in August. Sales of taxable items in food stores were up 25.4 percent for the month and 17.7 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 4.4 percent for the month and 5 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 3.8 percent for the month and 6.5 percent for the year. Auto/transportation sector sales were up 8.5 percent for the month and 6.4 percent for the year. Sales of meals and other prepared foods were up 3.3 percent for the month and 6.5 percent for the year. Lodging sales were up 6.2 percent for the month and 8.5 percent for the year. Business operating sales (primarily use tax paid by businesses) were up 7.7 percent for the month and 0.3 percent for the year.

Service Provider Tax

Revenue was \$508,299 under budget for the month and \$196,484 (-1.2%) under budget fiscal year-to-date. Revenue was \$4.5 million (+38.9%) over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$638,792 under budget for the month and \$2.9 million (+0.8%) over budget fiscal year-to-date. Fiscal year-to-date withholding payments were 5.9 percent under fiscal year 2016. Estimated payments were down 2.5 percent and final payments were up 7.6 percent fiscal year-to-date. Revenue was \$14.8 million (-3.8%) under prior fiscal year-to-date collections.

Corporate Income Tax

Revenue was \$4.9 million over budget for the month and \$7.4 million (+20.5%) over budget fiscal year-to-date. Estimated payments were down 5.6 percent and final payments were down (-3.4%) fiscal year-to-date. Revenue was \$19.4 million (+79.7%) over prior fiscal year-to-date collections.

Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$2.1 million over budget for the month and \$629,779 (+1.7%) over budget fiscal year-to-date. Fiscal year-to-date revenue was \$2.3 million (+5.6%) over prior fiscal year-to-date collections.

Insurance Companies Taxes

The Insurance Companies Taxes were \$2 million over budget for the month and \$1.9 million over budget fiscal year-to-date.

Estate Tax

The estate tax was \$1 million under budget for the month and \$79,696 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 September by \$3.5 million and are now \$7.5 million under budget year-to-date. The BETR program has had a slow start and refunds are expected to pick up over the next few months.

Municipal Revenue Sharing

Revenue sharing was over budget in September and remains very close to budget on a year-to-date basis.

Lottery

Lottery revenues were over budget for the month by \$0.5 million and are now over budget for the fiscal year by \$0.8 million.

Other Revenues

Other Revenues were under budget for the month by \$0.5 million. For the fiscal year other revenues are under budget by \$1.4 million or 21.9 percent.

Highway Fund

Motor fuel excise tax receipts were under budget in September by \$0.4 million. The Highway Fund, as a whole, was under budget for the month by \$0.4 million (-1.3%). For the first three months of FY17 motor fuel excise tax revenues are on budget and total Highway Fund receipts are over budget by \$1.6 million.

National Economy

With the third quarter of 2016 now complete, most economists expect third quarter GDP growth to be between 2 and 2.5 percent. Data on inventory buildup have been below previous expectations and are

dragging third quarter down. Economists are projecting an increase in inventory investment in the final quarter of the year and GDP growth to end the year closer to 3 percent. Even 3 percent growth in the final quarter of 2016 will not be enough to pull GDP growth above 2 percent for the year.

Maine Economy

Maine consumers continue to spend above the current revenue forecast. Tight labor markets, low energy prices and warm weather have brought residents and visitors into the state during the summer tourism season. For the three month period ending in August, the year-over-year increase in restaurant and lodging sales were 5.9 percent and 8.2 percent, respectively. The auto/transportation sector rebounded in August, increasing 8.5 percent over a year ago. The last time auto/transportation sales were that strong was back in March.

The Consensus Economic Forecasting Commission (CEFC) is scheduled to meet on October 28th to develop a new economic forecast; the CEFC report is due November 1st. The CEFC and the Revenue Forecasting Committee (RFC) have set aside November 14th as a tentative joint meeting date to review the results of the November elections. There are numerous referenda on the state ballot that may impact the CEFC's view of the decisions made at their October meeting. If any of those referenda questions pass, the two committees will meet to discuss to what extent the new laws require adjustments to the CEFC forecast. The RFC has set November 28th to update their FY17 forecast, set the forecast for the FY18/19 biennium, and develop a revenue forecast for the FY20/21 biennium. The due date of the RFC report is December 1st.

RWR: mja

Attachments

cc: John McGough
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