



Peter Franchot
Comptroller

July 22, 2011

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21401

Honorable Thomas V. "Mike" Miller, Jr.
President, Senate of Maryland
State House
Annapolis, Maryland 21401

Honorable Michael E. Busch
Speaker, Maryland House of Delegates
State House
Annapolis, Maryland 21401

Dear Governor, President and Speaker:

General fund revenues for the month of June totaled \$1.574 billion, growth of over 17.5%. For the fiscal year to date, general fund revenues total \$12.663 billion, an increase of 8.5%. While fiscal year 2011 ended on June 30, about \$700 million of general fund revenue remains to be collected and accounted for. These accruals include a full month of sales tax collections, several hundred million dollars of individual income tax withholding, and several smaller revenue sources including interest income and tobacco taxes. In addition, all revenue sources are subject to potentially large accounting adjustments through the close of the fiscal year in late August.

Regardless of these collections and adjustments, it is apparent that general fund revenues will be roughly three hundred million dollars above the forecast for fiscal year 2011. Due primarily to a very strong filing season (reflecting calendar year 2010 activity) the individual income tax will finish the fiscal year approximately \$300 million over the estimate. On the other hand, the corporate income tax, essentially complete for the fiscal year, is \$40 million under the forecast. And while the sales tax has one more full month of collections to be accounted for, it will almost certainly finish at least \$30 million below the estimate. In the aggregate, the other revenue sources are likely to finish slightly above the forecast.

While these aggregate numbers offer cause for relief and even guarded optimism that economic recovery is on the horizon, this report also provides ample basis for continued caution. The lackluster pace of corporate income tax collections serve as a reminder that Maryland's employers continue to struggle with the effects of the economic crisis. In that same vein, our sagging sales tax receipts are yet further confirmation that Marylanders have yet to regain their purchasing power and consumer confidence—both of which are crucial to our state's long-term economic stability.

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In light of the ongoing economic volatility that is reflected in this report, as well as the sensitive fiscal challenges that continue to confront our state, it is my view that this entire amount of unanticipated revenue should be set aside in the Rainy Day Fund and not spent. This decision would further protect our state from uncertainty and disruption in the event of unexpected economic developments, and would be wholly compatible with our state's reputation for sound fiscal stewardship.

Individual Income Tax

General fund individual income tax receipts for the month of June totaled \$880.7 million, growth of almost 28%. The strong growth is a result of routine year-end transfers from the refund reserve account into the general fund. Since refunds were substantially under the estimate for the year (see below), this transfer was much larger than last year. Year-to-date, individual income tax revenues have increased 7.8%.

Income tax withholding increased 8.9% for the month bringing year-to-date growth to 4.7%; the full-year estimate calls for 4.0% growth. Receipts during the accrual period could decline by more than 10% and withholding would still exceed the full-year forecast. Estimated individual income tax payments increased 13.6% for the month, the best quarterly performance since June of 2007. It is possible that, rather than reflecting underlying growth, the strong performance simply reflects an adjustment related to requirements to avoid interest and penalties as taxpayers use tax year 2010 as the new base. Subject to accounting adjustments, estimated payments finished the year at \$1.425 billion, growth of 7.3% and \$110.2 million above the forecast.

Final payments and refunds are also essentially complete for the fiscal year, and demonstrate that tax year 2010 was substantially better than had been reflected by estimated income tax payments received throughout the year. Final payments increased 18.9% for the month of June, leaving year-to-date growth unchanged at 20.2%. After a 27% decline in June, refunds finished the year down 6.4% rather than flat as called for by the forecast. For the full year, final payments totaled \$1.204 billion, \$170.4 million above the estimate. At \$2.519 billion, refunds are a nearly identical \$171.9 million under the estimate (to the good).

While several hundred million dollars of income tax withholding remains to be accrued to fiscal year 2011, it is clear that the individual income tax will finish the fiscal year roughly \$300 million above the general fund forecast.

Corporate Income Tax

In contrast to the individual income tax, the corporate income tax will finish the fiscal year well below the estimate. Subject to accounting adjustments, the corporate income tax totaled \$571.1 million in fiscal year 2011, growth of 1.7% but \$40.2 million under the estimate. For the month, gross receipts increased 2.1%. Continuing recent trends, estimated payments increased modestly (6.3%), while final payments declined (almost 30%). At \$9.3 million, refunds were almost \$2 million lower than last June.

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Sales Tax

General fund sales tax receipts increased 2.6% in June (May sales), slightly reducing year-to-date growth to 3.4%. Sales tax growth has generally been sluggish throughout the year; the last three months have averaged only 0.6% growth. While one full month of collections remains, and that month is the second largest month of the year, the sales tax will almost certainly fall short of the full year forecast, which calls for growth of 5.0%. If the sales tax finishes the year at the current year-to-date growth rate, it will fall approximately \$57 million short of the forecast.

Lottery

Lottery sales increased 1.1% for the month, with Racetrax and Pick 4 showing the strongest growth. Mega Millions, Powerball, Pick 3 and instant tickets all declined for the month. For the year, Racetrax, Pick 4 and the combined Mega Millions and Powerball are the only games showing substantial growth. The largest game, instant tickets, saw flat sales, while the second-largest, Pick 3, experienced a decline of 1.7%. General fund revenues increased 0.5% for the month. For the full year, general fund revenues are up 1.6% to \$498.9 million. Subject to adjustment through the closeout of the fiscal year, the lottery will finish \$6.4 million over the estimate.

Other Revenues

Quarterly estimated payments for the franchise taxes and insurance premium tax are due in June; both saw a decline. Franchise tax payments were down 6.2%, while premium tax payments fell 4.0%. For the fiscal year to date, franchise tax collections are up 3.9%, above the forecast growth of 0.2%. Premium tax revenues have fallen 1.4%, while growth of 3.6% was expected. Adjustments in the accrual period can total several million dollars for both taxes; it appears that the franchise tax may finish the year about \$5 million above the estimate, while the premium tax might fall \$10 million or so below the forecast.

Estate tax revenues increased 16% for the month, and have grown 27% for the year. For the full year, payments from the largest estates totaled \$69.6 million, 31% above last year's total. Payments from mid-sized estates, those with liabilities between \$500,000 and \$1 million, more than doubled to \$20.0 million as the count of those estates increased from 15 to 28. The estate tax finished the year \$14.5 million above the estimate. Inheritance tax collections increased 38% in June, and are now up 15.8% for the year. One month of collections remains to be accounted for, but the year-to-date total of \$50.9 million is already \$2.0 million above the full-year forecast.

Due to a 23% decline in revenues from the clerks of court, court revenues fell 5.0% in June, slightly greater than the 3.5% decline for the full year. Interest (cash plus accrued interest) is up 14.9% for the year at \$52.6 million.

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The next revenue report will be the closeout report for fiscal year 2011, which will be issued in late August.

I hope this information is helpful. If you have any questions or concerns, please do not hesitate to contact me or David F. Roose, Director of the Bureau of Revenue Estimates.

Sincerely,

A handwritten signature in black ink that reads "Peter Franchot". The signature is written in a cursive style with a large, stylized initial "P".

Peter Franchot
Comptroller

cc: Treasurer Nancy K. Kopp
Secretary T. Eloise Foster
Senator Edward J. Kasemeyer
Senator Nancy Jacobs
Delegate Norman H. Conway
Delegate Sheila E. Hixson
Delegate Anthony J. O'Donnell
Warren G. Deschenaux
Len Foxwell
Linda L. Tanton

State of Maryland General Fund Source Revenue Collections
Fiscal Year 2011 (June)
Summary Report
(\$ in thousands)

	June			Year to Date		
	FY 2011	FY 2010	Growth	FY 2011	FY 2010	Growth
General Fund Receipts						
Individual Income Tax	880,659	689,131	27.8%	6,448,172	5,982,338	7.8%
Corporate Income Tax	110,976	107,331	3.4%	571,129	561,395	1.7%
Sales Tax	302,506	294,717	2.6%	3,310,982	3,202,215	3.4%
Lottery	39,215	39,026	0.5%	498,905	491,009	1.6%
Franchise Tax	53,187	56,684	-6.2%	210,241	202,305	3.9%
Premium Tax	59,057	61,522	-4.0%	275,053	278,977	-1.4%
Estate and Inheritance Tax	20,957	17,525	19.6%	210,374	168,459	24.9%
Alcohol / Tobacco	41,541	35,659	16.5%	410,088	404,233	1.4%
Court Revenues	13,566	14,284	-5.0%	123,732	128,167	-3.5%
Interest	528	3,711	-85.8%	52,610	45,788	14.9%
Highway User Revenues	29,546			324,207		
Miscellaneous	21,907	17,819	22.9%	227,322	202,976	12.0%
Total	1,573,646	1,337,409	17.7%	12,662,815	11,667,862	8.5%
Individual Income Tax Detail						
Withholding	917,163	842,416	8.9%	10,389,931	9,923,450	4.7%
Estimated	294,375	259,100	13.6%	1,425,091	1,327,629	7.3%
Final / Fiduciary	58,834	40,420	45.6%	1,272,498	1,046,288	21.6%
Gross Receipts	1,270,373	1,141,936	11.2%	13,087,521	12,297,367	6.4%
Refunds	(69,657)	(94,882)	-26.6%	(2,519,321)	(2,690,925)	-6.4%
Net Receipts	1,200,716	1,047,054	14.7%	10,568,199	9,606,443	10.0%
Corporate Income Tax Detail						
Estimated	146,829	138,110	6.3%	679,826	656,348	3.6%
Final	13,153	18,620	-29.4%	311,018	364,605	-14.7%
Gross Receipts	159,982	156,730	2.1%	990,844	1,020,953	-2.9%
Refunds	(9,384)	(11,019)	-14.8%	(215,232)	(258,561)	-16.8%
Net Receipts	150,598	145,711	3.4%	775,612	762,392	1.7%
Lottery Sales	137,573	136,034	1.1%	1,714,403	1,706,573	0.5%

Income tax receipts are shown before distributions to the local reserve fund and to/from the refund reserve fund for the individual income tax, and before distributions to the Transportation Trust Fund, Higher Education Investment Fund, and to/from the refund reserve fund for the Corporate Income Tax.