



**Peter Franchot**  
Comptroller

July 11, 2008

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 \$1.477 billion, 5.4% over June of last year. For the fiscal year to date, general fund collections are \$12.789 billion, growth of 5.1%. Baseline year-to-date growth is roughly 2.5%. Collections are now clearly lagging expectations, particularly the sales tax. The situation is deteriorating, and there is no indication that the slowdown in revenue growth has reached a bottom.

Please note that although June 30 has come and gone, roughly \$700 million of fiscal year 2008 revenue has yet to be collected and accounted for, including a full month of sales tax collections and several hundred million dollars of individual income tax withholding. In addition, all revenue sources are subject to accounting adjustments, which can be large, through the close of the fiscal year. The next revenue report, the closeout report for fiscal year 2008, will be issued in late August.

#### *Individual Income Tax*

General fund individual income tax receipts for the month of June declined 1.1%, bringing year-to-date growth to 3.8%. Income tax withholding of \$799.1 million reflected only 2.0% growth, bringing year-to-date growth to only 4.8%. Over the past four months, growth in withholding is only 1.3%, compared to 5.9% for November through February. It is likely that the increased personal exemption for 2008 is responsible for a portion of this deceleration. Estimated income tax payments were also disappointing for the month. Second quarter (calendar year) payments were due June 15. The \$363.5 million collected was 4.2% above last June's receipts, roughly the same rate of growth as in the first quarter, and like first quarter payments, were below expectations. For the full fiscal year (estimated income tax collections are complete for the year), estimated income tax payments totaled \$1.826 billion, \$61.6 million under the forecast (bear in mind that roughly 40% of the collections of individual income tax represent local income tax revenue, not general fund revenue).

Final and fiduciary payments grew modestly for the month, but for the full (complete) fiscal year, growth of 4.8% to \$1.659 billion was \$7.6 million over the combined estimates. Refunds were slightly less than

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expected for the month and, at \$2.246 billion, finished \$16.0 million under the estimate (to the good). As a result of lagging withholding and estimated payments, the individual income tax is under expectations for the year. Again, an accrual of several hundred million dollars of withholding remains to be accounted for in fiscal year 2008.

### *Corporate Income Tax*

General fund corporate income tax receipts increased 14.1% to \$132.0 million. Estimated income tax payments increased 18.0%, a relatively good sign, although adjusted for the corporate income tax rate increase, baseline growth is 1.8%. There is good news, however, in the fact that estimated payments, which generally reflect current activity, have increased for the second consecutive quarter. Corporate refunds, typically rather small in June, increased over 800% to \$19.4 million. Refunds were boosted by the resolution of several outstanding court cases, the effect of which were exacerbated from the State's fiscal standpoint by the recent statutory increase in the interest rate applied to certain refunds from the State. About 20% of June's total refunds was interest for three refunds to which the new law applied. As a result of the higher than expected refunds, the corporate income tax has finished the year \$7.1 million under the general fund forecast, subject to accounting adjustments through the closeout of the fiscal year.

### *Sales Tax*

General fund sales tax receipts grew 11.7% in June (May sales). After adjusting for the rate increase, however, baseline receipts declined about 6%, as was the case two months ago. Industry detail is not yet available, though an analysis of the largest taxpayers suggests that baseline receipts from food and beverage retailers and from general merchandise retailers increased marginally, while receipts from furniture retailers and utilities declined several percentage points. Actual receipts—including the rate increase—from the largest construction companies increased only 0.8%, and for hardware and machinery stores, receipts declined 4.8%. After adjusting for the rate increase, these results suggest substantial baseline declines in these categories overall. It appears that the continuing troubles of the housing market, now coupled with quickly rising prices for food and energy, both of which are generally nontaxable and which represent a sizable share of consumers' expenditures, are substantially affecting sales tax collections. The sales tax is now notably behind expectations with one full month of collections remaining for fiscal year 2008.

### *Lottery*

Lottery sales declined 6.0% in June, bringing the full fiscal year growth to 6.1%, a substantial improvement over last year's growth of 1.0%. Keno and Racetrax sales declined by almost 20% for the month, likely falling victim to rising food and energy prices. Combined, these games are the second largest for the lottery by a substantial margin; for the full fiscal year, sales dropped 0.4%. Pick 3 sales fell 6.9% while Pick 4 sales declined 4.1%. The only bright spots were Mega Millions, sales of which increased 31.8%, and instant ticket sales, for several years the largest lottery game, which grew 6.3% and 20.3% for the year. Overall, general fund revenues dropped 11.0% for the month, to \$39.2 million, but for the full fiscal year increased 7.3% to a record \$507.7 million (although under Chapter 589 of 2008, \$10.6 million will be credited to a special fund rather than the general fund). Favorable movements on prize payouts account for a large part of the discrepancy between sales and revenue growth.

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*Other Revenues*

Most other revenues showed substantial growth in June. Alcohol and tobacco tax receipts increased by 64.1%, boosted by the doubling of the cigarette tax. Death taxes, court revenues, and interest, all unchanged by statute, increased from 22% to 35%. Quarterly estimated taxes were due for the premium tax and franchise taxes; the former increased by 6.2% for the month, roughly matching growth for the year, and the latter declined marginally, resulting in a marginal increase for the year through June. Taken together, these revenues are close to expectations, with substantially higher than expected estate taxes offsetting a sizeable shortfall in tobacco tax revenues. Again, all revenue sources are subject to potentially significant accruals and accounting adjustments, positive or negative, before the close of the fiscal year.

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,



Peter Franchot  
Comptroller

cc: Treasurer Nancy K. Kopp  
Secretary T. Eloise Foster  
Senator Ulysses Currie  
Senator David R. Brinkley  
Delegate Norman H. Conway  
Delegate Sheila E. Hixson  
Delegate Anthony J. O'Donnell  
Warren G. Deschenaux  
Len Foxwell  
Linda L. Tanton  
David Weaver

**State of Maryland General Fund Source Revenue Collections**  
**Fiscal Year 2008 (June)**  
**Summary Report**  
(\$ in thousands)

	June			Year to Date		
	FY 2008	FY 2007	Growth	FY 2008	FY 2007	Growth
<b>General Fund Receipts</b>						
Individual Income Tax	740,208	748,298	-1.1%	6,711,531	6,463,041	3.8%
Corporate Income Tax	131,991	115,699	14.1%	551,673	589,782	-6.5%
Sales Tax	327,920	293,563	11.7%	3,345,351	3,091,161	8.2%
Lottery	39,191	44,028	-11.0%	507,677	473,119	7.3%
Franchise Tax	51,632	52,323	-1.3%	209,391	206,594	1.4%
Premium Tax	67,637	63,688	6.2%	302,316	284,525	6.3%
Death Taxes	18,765	14,107	33.0%	239,314	218,086	9.7%
Alcohol / Tobacco	43,844	26,711	64.1%	374,816	286,493	30.8%
Court Revenues	12,238	9,042	35.3%	139,971	154,259	-9.3%
Interest	10,478	8,613	21.7%	115,306	138,630	-16.8%
Miscellaneous	33,265	25,921	28.3%	291,523	263,717	10.5%
<b>Total</b>	<u>1,477,169</u>	<u>1,401,993</u>	<u>5.4%</u>	<u>12,788,868</u>	<u>12,169,407</u>	<u>5.1%</u>
<b>Individual Income Tax Detail</b>						
Withholding	799,145	783,646	2.0%	9,809,090	9,364,011	4.8%
Estimated	363,459	348,869	4.2%	1,825,895	1,741,312	4.9%
Final / Fiduciary	38,987	38,410	1.5%	1,659,284	1,583,748	4.8%
Gross Receipts	1,201,591	1,170,925	2.6%	13,294,270	12,689,071	4.8%
Refunds	(92,522)	(83,041)	11.4%	(2,246,080)	(2,071,268)	8.4%
Net Receipts	<u>1,109,069</u>	<u>1,087,883</u>	<u>1.9%</u>	<u>11,048,189</u>	<u>10,617,803</u>	<u>4.1%</u>
<b>Corporate Income Tax Detail</b>						
Estimated	152,614	129,280	18.0%	661,286	596,825	10.8%
Final	19,224	20,981	-8.4%	319,410	323,030	-1.1%
Gross Receipts	171,838	150,261	14.4%	980,696	919,854	6.6%
Refunds	(19,368)	(2,068)	836.7%	(245,373)	(137,825)	78.0%
Net Receipts	<u>152,470</u>	<u>148,193</u>	<u>2.9%</u>	<u>735,324</u>	<u>782,030</u>	<u>-6.0%</u>
<b>Lottery Sales</b>	127,244	135,328	-6.0%	1,673,039	1,577,284	6.1%

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, the Higher Education Investment Fund and to/from the refund reserve fund for the corporate income tax.