



Peter Franchot
Comptroller

June 11, 2009

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:

May's general fund revenue collections of \$772.8 million were down 19.6% against last year, a decrease of \$188.2 million (see attached table). This large single month decline served to further exacerbate year to date collections, which are now down 4.9% (\$554.0 million). May is typically a small month for revenues; with many revenue sources generating in only small dollar amounts, growth rates can be volatile. Combined with some timing issues, the nearly 20% drop is perhaps not quite as concerning as it might otherwise appear, although this should not be taken to mean that substantial concern for current and future revenue collections does not exist—as discussed below, most revenue sources now appear likely to fall short of their respective forecasts for the year.

Individual Income Tax

General fund individual income tax receipts for the month of May decreased 22.9% over last year to \$362.3 million, dragging year to date growth down to -6.4%. Income tax withholding fell 7.4% to \$722.7 million for the month. This drop is partly a result of one less deposit day this year than last, although that likely does not account for the entirety of the shortfall. Year to date, withholding is now slightly down. Although May is generally not a significant collection month for estimated or final/fiduciary payments, final/fiduciary receipts were down \$114.3 million (note that accounting adjustments have shifted some revenue received in March and April from estimated payments to final payments; both are still down substantially on the year). The decline is attributable to an unusual volume of returns received in late April 2008, with most of those returns and payments processed in May. At this point, withholding and possibly refunds are the only individual income tax components that may meet the estimates for the year; fiduciary, final, and estimated payments will all miss the forecast by a substantial amount, as will the individual income tax altogether.

Corporate Income Tax

Though the 32% decline in corporate income tax collections appears problematic, May is not a significant month for corporate income tax collections. While corporate estimated and final payments were down 28.5% and 44.7% respectively, the \$8.0 million combined loss in receipts is both modest in dollar terms and not indicative of the much more substantial June quarterly payment. Recent collection trends are not encouraging, however, and the corporate income tax will almost certainly fall short of the full year forecast.

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Sales Tax

General fund sales tax collections fell 11.9% to \$284.0 million in May (April sales), although gross receipts were down only 6.5% (with the difference largely attributable to this year's new distribution of 5.3% of revenues to the Transportation Trust Fund). Though consumer confidence as measured by the Conference Board has been gaining momentum since February, April's numbers remain depressed relative to non-recessionary times. Further depressing consumer spending, Maryland's unemployment rate has been at 6.8% or higher the past three months, a level not seen since early 1992, and the (national) savings rate has been steadily increasing since August 2008 to 5.8% in April, the highest rate in almost 15 years. Nonetheless, with two full months of collections remaining, the sales tax appears likely to meet the full-year estimate.

Lottery

May is the first month since December that general fund lottery revenues have posted a year over year increase, with a 0.8% increase in revenues on a 1.3% sales increase. While Pick 3 continued an unfavorable payout ratio, Pick 4 saw revenues increase 22% on an 8.6% sales increase. Keno/Racetrax has enjoyed continued popularity as both sales and revenues grew by 9.7%. Instant ticket sales and revenues were down for the fifth straight month, possibly the result of the aforementioned change in consumer spending patterns. With one month of sales remaining, the lottery also appears likely to meet the full-year estimate.

Other Revenues

While alcohol/tobacco revenues fell 24%, the decline is attributable to the \$12.2 million in floor (inventory) tax last May, a distortion caused by the 2008 cigarette tax increase. Alcohol tax revenues increased 2.4% while tobacco tax revenues grew 5.8% aside from the distortions caused by the floor tax. May is not a significant collection month for the insurance premium tax, although an accounting adjustment shifting revenues from the general fund to a special fund resulted in negative collections of \$11.9 million. Court revenues show a strong 32% increase, however, the increase is attributable to an administrative issues related to the withholding from real estate sales of nonresidents last year that severely deflated collections for the month. Most of the other revenue sources are on track to finish the year below their respective forecasts.

I hope this information is helpful. If you have any questions, 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 Allan H. Kittleman
Delegate Norman H. Conway
Delegate Sheila E. Hixson
Delegate Anthony J. O'Donnell
Warren G. Deschenaux
Linda L. Tanton
Len N. Foxwell

State of Maryland General Fund Source Revenue Collections
Fiscal Year 2009 (May)
Summary Report
(\$ in thousands)

	May			Year to Date		
	FY 2009	FY 2008	Growth	FY 2009	FY 2008	Growth
General Fund Receipts						
Individual Income Tax	362,288	469,830	-22.9%	5,591,901	5,971,323	-6.4%
Corporate Income Tax	9,006	13,289	-32.2%	440,893	419,682	5.1%
Sales Tax	283,947	322,360	-11.9%	3,015,644	3,017,431	-0.1%
Lottery	43,618	43,257	0.8%	429,457	468,486	-8.3%
Franchise Tax	4,931	5,227	-5.7%	151,438	157,759	-4.0%
Premium Tax	(11,851)	3,541	-434.7%	212,860	234,661	-9.3%
Death Taxes	12,083	13,451	-10.2%	190,693	220,549	-13.5%
Alcohol / Tobacco	33,951	44,402	-23.5%	368,843	330,972	11.4%
Court Revenues	10,085	7,656	31.7%	115,524	127,733	-9.6%
Interest	(436)	15,545	-102.8%	48,842	104,828	-53.4%
Miscellaneous	25,199	22,493	12.0%	191,618	258,258	-25.8%
Total	772,821	961,051	-19.6%	10,757,715	11,311,680	-4.9%
Individual Income Tax Detail						
Withholding	722,714	780,246	-7.4%	8,976,870	9,009,945	-0.4%
Estimated	11,677	26,753	-56.4%	1,284,565	1,462,436	-12.2%
Final / Fiduciary	48,117	162,432	-70.4%	1,175,155	1,620,298	-27.5%
Gross Receipts	782,508	969,431	-19.3%	11,436,589	12,092,678	-5.4%
Refunds	(237,348)	(231,879)	2.4%	(2,330,018)	(2,153,558)	8.2%
Net Receipts	545,160	737,553	-26.1%	9,106,572	9,939,120	-8.4%
Corporate Income Tax Detail						
Estimated	11,209	15,673	-28.5%	523,762	508,672	3.0%
Final	4,438	8,021	-44.7%	280,735	300,186	-6.5%
Gross Receipts	15,648	23,694	-34.0%	804,498	808,858	-0.5%
Refunds	(1,179)	(5,711)	-79.4%	(195,690)	(226,005)	-13.4%
Net Receipts	14,469	17,983	-19.5%	608,807	582,853	4.5%
Lottery Sales	147,880	145,910	1.3%	1,557,938	1,545,795	0.8%

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.