



Peter Franchot
Comptroller

February 8, 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 January totaled \$1.356 billion, an increase of 1.6% over January 2007. For the fiscal year to date, general fund collections are \$6.553 billion, 3.2% higher than last year at this time (see attached table). Bottom-line revenue performance remains on track with the December estimates of the Board of Revenue Estimates. Coupled with recent economic data, the revenue data indicate that job losses have not materialized on a large scale in Maryland, but consumers and businesses have restrained spending substantially. Developments in the sales tax and estimated payments for the individual income tax may be a harbinger of the slowing economy.

Individual Income Tax

General fund individual income tax receipts for the month of January increased 3.0% over a year ago. Year to date growth is now 5.8%. Withholding, the largest single source of revenue for the State, increased 4.2% for the month and is now up 6.7% for the year. Withholding is running somewhat ahead of expectations; the relatively strong performance mirrors job growth, which advanced at a healthy 1.4% for the last six months of calendar year 2007.

January is the most important month of the year for estimated payments of the individual income tax, with receipts typically exceeding one-quarter of full year collections. Estimated payments increased 5.2%, and are now up 5.6% for the year. Coupled with marginally better performance in December, estimated payments for the fourth calendar quarter grew by only 5.5%, a deceleration from the 15% growth of third quarter payments. This weak performance is concerning for two reasons—the December forecast calls for 9.9% growth for the full year, so estimated payments are behind expectations, and it may imply bad news is on the way for final payments and refunds in April. We will be analyzing fourth-quarter results and their possible implications for the filing season as we approach the March revenue estimate revisions.

Final/fiduciary payments declined 15.6% in January and are down 3.2% for the year, although dollar amounts for both are relatively small thus far in the fiscal year. Income tax refunds were down 8.0% for the month but are 10.9% above last year's levels. General fund individual income tax receipts are currently only slightly behind expectations through January.

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Corporate Income Tax

The corporate income tax can be volatile, reflecting as it does underlying economic trends, past economic performance (through net operating loss carryforwards), and taxpayer behavior. Gross receipts from the corporate income tax in January increased over 60%, and are now flat for the year. Both final payments and quarterly estimated payments grew, the latter by 87%. Refunds increased as well, 82.5% in January, leaving the year-to-date growth at 76%. Net receipts increased 54.7% in January and are down 23.8% year to date, a substantial improvement from last month. December's performance (a surprising 15.6% drop in gross receipts) left the corporate income tax lagging well behind expectations; this month's results have reversed the situation, and the corporate income tax is now slightly ahead. My office is continuing its analysis of corporate income tax data.

Sales Tax

General fund sales tax receipts declined 5.5% in January (December sales). Reports of retail activity in December had led to lowered expectations for January receipts, but January results are still surprisingly weak. The early Thanksgiving in November may have resulted in a shift of some sales from December to November (and sales tax receipts from January to December), but receipts from the two months combined were still down 1.7% from the prior year—obviously a great concern. Year-to-date collections are up 1.9%, while the (baseline) forecast calls for growth of 2.9%. As a result of January's performance, the sales tax is well behind expectations. Note that the rate increase from 5% to 6% was not effective until January 3 and will not be due to the Comptroller from retailers until this month. The law change therefore had no impact on January revenues.

Lottery

Lottery sales put in a relatively weak performance in January, with sales basically flat compared to last year. Year-to-date growth, however, remains a strong 8.8%. Instant ticket sales continued their very strong growth, at 22%, while Keno/Racetrax and Mega Millions posted low single-digit growth. Pick 3 sales fell 10.1% and Pick 4 sales dropped 5.4%. As a result of favorable trends in prize payouts and the fact that the distribution to the Maryland Stadium Authority was completed in November, however, general fund revenues increased 14.0% for the month and are now up 9.8% year to date. Relative to expectations, the lottery is on track.


Other Revenues

In January, alcohol and tobacco revenues increased 19.1% as a result of the doubling of the tobacco tax (alcoholic beverage excise tax receipts declined slightly). January is an off-month for business taxes, but insurance premium tax refunds almost tripled, to \$8.4 million. Despite the decline, the premium tax as well as the franchise tax are essentially on target. Death taxes dropped almost 30% for the month, but remain well ahead of the forecast. All other revenue sources are at or ahead of expectations.

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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, flowing style.

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 (January)
Summary Report
(\$ in thousands)

	January			Year to Date		
	FY 2008	FY 2007	Growth	FY 2008	FY 2007	Growth
General Fund Receipts						
Individual Income Tax	840,941	816,113	3.0%	3,459,338	3,269,620	5.8%
Corporate Income Tax	31,606	18,176	73.9%	202,251	264,372	-23.5%
Sales Tax	358,075	379,012	-5.5%	1,791,838	1,759,155	1.9%
Lottery	43,033	37,765	13.9%	283,039	257,704	9.8%
Franchise Tax	4,312	973	342.9%	82,318	75,472	9.1%
Premium Tax	(8,401)	(2,252)	273.0%	133,094	136,378	-2.4%
Death Taxes	15,639	22,320	-29.9%	149,898	153,328	-2.2%
Alcohol / Tobacco	27,557	23,129	19.1%	174,251	164,551	5.9%
Court Revenues	11,409	13,373	-14.7%	83,425	88,539	-5.8%
Interest	9,118	4,929	85.0%	55,882	60,435	-7.5%
Miscellaneous	22,261	20,480	8.7%	137,205	119,341	15.0%
Total	<u>1,355,549</u>	<u>1,334,018</u>	<u>1.6%</u>	<u>6,552,541</u>	<u>6,348,896</u>	<u>3.2%</u>
Individual Income Tax Detail						
Withholding	1,089,289	1,045,281	4.2%	5,702,410	5,346,760	6.7%
Estimated	532,704	506,327	5.2%	1,163,116	1,101,859	5.6%
Final / Fiduciary	38,223	45,296	-15.6%	241,116	249,179	-3.2%
Gross Receipts	1,660,216	1,596,905	4.0%	7,106,641	6,697,798	6.1%
Refunds	(130,180)	(141,514)	-8.0%	(419,255)	(378,084)	10.9%
Net Receipts	<u>1,530,036</u>	<u>1,455,391</u>	<u>5.1%</u>	<u>6,687,386</u>	<u>6,319,714</u>	<u>5.8%</u>
Corporate Income Tax Detail						
Estimated	42,683	22,823	87.0%	348,029	336,930	3.3%
Final	13,977	12,453	12.2%	119,852	128,254	-6.6%
Gross Receipts	56,660	35,276	60.6%	467,881	465,184	0.6%
Refunds	(13,691)	(7,503)	82.5%	(199,990)	(113,470)	76.2%
Net Receipts	<u>42,968</u>	<u>27,773</u>	<u>54.7%</u>	<u>267,891</u>	<u>351,714</u>	<u>-23.8%</u>
Lottery Sales	139,063	139,848	-0.6%	968,290	889,882	8.8%

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 and to/from the refund reserve fund for the corporate income tax.