



Peter Franchot
Comptroller

July 26, 2013

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 \$1.493 billion, growth of 9.7%, though for comparative purposes, monthly growth was closer to 4.2%; a timing issue accounts for an additional \$75 million this June relative to last June. For the fiscal year to date, general fund revenues total \$14.048 billion, an increase of 6.6%, or 6.0% after adjusting for the aforementioned timing issue. While the fiscal year has ended according to the calendar, approximately \$800 million of fiscal year 2013 revenue has yet to be collected and accounted for. These revenues include a full month of sales tax collections, several hundred million dollars for 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 mid to late August.

At the moment it seems very unlikely that closeout will vary significantly from the full year 2013 fiscal estimate. Preliminary readings suggest that we are roughly \$22 million below our expectations for this point in the year, a variance of just -0.2%. Based on that projection, it seems likely that the fiscal year closeout will not finish substantially higher or lower than the full-year estimate. Risks to that statement, while not substantial, are weighted more heavily towards a further under-attainment as the remaining revenues to collect are highly concentrated in income tax withholding and sales tax, two sources whose recent performance indicate that they may not realize their accrual estimates.

Individual Income Tax

General fund individual income tax receipts for the month of June increased 17.2%, resulting in year-to-date growth of 11.1%. However, for comparative purposes a timing issue exists, this year the remaining balance of the refund reserve was swept to the general fund (\$75.8 million), whereas last year the balance was transferred in July. After adjusting, growth for the month is 4.8% and year-to-date growth is 10.0%. Withholding, the largest source of collections in June, declined 0.7% for the month, and year to date growth remains fragile at 2.7%. It is important to note that there was one fewer deposit day in June of this year compared to June of last year, for the fiscal year there was one less deposit day relative to last year (fiscal year 2012 was a leap year); adjusting for the lost day this month would put growth in-line with the prior two months, around 4.5%.

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Refunds spiked during June, but still remain down 2.6% for the year, to the good of the State. June is a quarterly month for estimated payments –up 13.4% for the month and 18.2% for the year. Fiduciary payments saw record growth in the last quarter of the year and are now up 53.6% for the year. The last major component of the individual income tax, final payments, were up 12.2% for the month and 22.9% for the year. Subject to accounting adjustments, estimated, fiduciary, final payments, and refunds are complete for the year.

In the aggregate, the income tax should finish very close to the full year estimate, though the components of variance will be important. Withholding, the greatest single revenue source and linked to ongoing activity, has been disappointing, while many of the measures related to the prior tax year have outperformed our expectations.

Corporate Income Tax

The corporate income tax is final for fiscal year 2013, subject to accounting adjustments. General fund receipts increased 28.6% for the year to \$817.4 million. The corporate income tax's general fund share of net receipts was greater this year than for the prior; adjusting for the different distribution rates, year-to-date growth is 10.2%. Estimated receipts for June (a quarterly month for calendar year taxpayers) grew 4.9%; up 6.6% for the year. Final payments further declined in June (-1.8%) and for the year (-7.4%). Despite strong growth relative to last fiscal year, general fund corporate income tax receipts will fall short of the estimate by around \$55.0 million.

Sales Tax

General fund sales tax receipts grew an anemic 1.6% in June (May sales). Sales tax growth has generally been sluggish through the year – declining three of the last six months. Year to date receipts for the consumer component (about 70% of total receipts) are up 1.2% for the year but have been up an average of just 30 basis points for the last three months. It appears that despite strong reported employment reports, weak wage growth and the prospect for sequester related impacts are restraining taxable consumer spending. However, more recently, the construction segment has been a bright spot, up just 3.3% for the year but up more than 10.0% for the last two months as real-estate related activity has increased. One full month of sales and use tax collections remains, but if the sales tax finishes the year at the current year-to-date growth, receipts will finish close to the estimate.

Lottery

Lottery sales declined 6.3% for the month, while revenues dropped a staggering 15.9%. Higher payouts coupled with declining sales in all but two games bore the most direct impact on revenues for the month. For the full year, sales have dropped 2.2% and general fund revenues are down 1.9% to \$525.7 million. Pick 4 was the single greatest subtraction from growth in June as the payout ratio hit 65.2%, significantly higher than last June and the statistically expected ratio. Keno sales and revenues continued to decline in June (sales down 12.1% for the month) – down 11% for year to date sales and 10.4% for year to date revenues, respectively. Instant tickets sales, the largest game by sales volume, was down 1.9% for the month and is down 3.9% for the fiscal year (includes 5 Card Cash sales). Subject to adjustment through the closeout of the fiscal year, the lottery is set to finish within \$1.0 million of the estimate.

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Other Revenues

Quarterly estimated payments for the franchise taxes and insurance premium tax are due in June. Franchise taxes collections declined for the month and year, while the insurance premium tax saw strong growth for both; up 13.8% and 7.5%, respectively. Adjustments made after the close of the fiscal year can total several million dollars for both taxes; it appears the business franchise will fall slightly below the estimate (1.1%) while the tax on insurance premiums will finish the year above the estimate (3.9%).

Estate and inheritance taxes declined for the month; however are up 17.8% for the year. For the full year, payments from the largest estates totaled \$84.4 million compared to \$28.5 million in fiscal year 2012. The average large estate grew from \$1.8 million to \$2.8 million, reflecting some combination of stronger asset prices and possibly wealthier decedents. One month of collections remains to be accounted for, but the year-to-date total of \$227.6 million is more than \$10.0 million above the full-year forecast.

The next revenue report will be the closeout report for fiscal year 2013, 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 Andrew Schaufele, Director of the Bureau of Revenue Estimates.

Sincerely,



Peter Franchot
Comptroller

cc: Treasurer Nancy K. Kopp
Secretary T. Eloise Foster
Senator Edward J. Kasemeyer
Senator Edward J. Pipkin
Delegate Norman H. Conway

Delegate Sheila E. Hixson
Delegate Anthony J. O'Donnell
Warren G. Deschenaux
David F. Roose
Len N. Foxwell