



Peter Franchot
Comptroller

July 16, 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:

General fund revenues for the month of June totaled \$1.300 billion, a decline of 12.0% from June of last year. For the fiscal year to date, general fund collections are \$12.058 billion, a decline of 5.7%. Please note that although fiscal year 2009 has ended, roughly \$700 million of fiscal year 2009 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 potentially large accounting adjustments through the close of the fiscal year. Regardless, it is clear at this point that fiscal year 2009 revenues will fall substantially short of the official estimate.

Individual Income Tax

General fund individual income tax receipts for the month of June declined 10.7%; year-to-date, individual income tax revenues have declined 6.8%. Estimated individual income tax payments fell 31.7% in June, when second (calendar) quarter payments were due. This drop is slightly larger than the 30.7% decline in first quarter payments received in April. For the full fiscal year (estimated income tax collections are complete for the year), estimated payments totaled \$1.533 billion, a 16% decline from fiscal year 2008 and \$243.6 million under the estimate (roughly 40% of individual income tax collections represent local income tax revenue, not general fund revenue). Final and fiduciary payments are also complete for the year, at \$1.213 billion, and also have declined substantially with a 27% drop. Combined, these income tax components were \$143.2 million under expectations. Income tax refunds increased 114% for the month to \$197.9 million due to the limited resources available for processing income tax returns during the filing season, although there is no backlog of unprocessed returns at this point. For the complete fiscal year, refunds

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increased 12.5% to \$2.528 billion, \$25.9 million above the estimate. Withheld income taxes totaled \$801.3 million for the month, growth of 0.3%, while year-to-date growth is -0.3%. Over the past six months, withholding performance has generally been flat, indicative of the troubled labor market. Again, an accrual of several hundred million dollars of withholding remains to be accounted for in fiscal year 2009. It is clear at this point that, due to the steep declines in estimated and final payments, general fund individual income tax revenues will finish the year roughly \$300 million below expectations.

Corporate Income Tax

Subject to accounting adjustments, fiscal year 2009 corporate income tax collections are final. General fund corporate income tax receipts declined 17% to \$109.8 million in June, and for the full fiscal year general fund receipts were nearly flat at \$550.6 million (receipts for much of the year were boosted by the rate increase from 7% to 8.25%). Estimated income tax payments, reflective of current activity, fell 13.6% for the month and finished the year down 0.9%. Final payments and refunds are typically small in June, and that was the case this year. For the full year, gross receipts fell 3.0% to \$951.7 million, while refunds dropped 17% to \$202.7 million. General fund corporate income tax revenues finished the year \$31.7 million under expectations.

Sales Tax

General fund sales tax receipts declined 13% in June (May sales) to \$285.0 million. With one full month of collections remaining, receipts have declined 1.3%. After adjusting for the rate increase and distribution changes, however, gross receipts have declined roughly 6% for the year. Industry detail shows that receipts from consumers have consistently declined by mid-single digits over the past several months, while receipts from construction activity and purchases of capital goods have also consistently declined, though at rates of 15% to 20%. The past few months show some deterioration in receipts from utilities, with baseline receipts declining in three of the last four after having increased for the 16 months prior. If recent trends continue for one more month, however, the sales tax will finish fiscal year 2009 at or ahead of the forecast, although it will still show a substantial decline relative to fiscal year 2008.

Lottery

Lottery sales increased 10.1% in June, bringing growth for the complete fiscal year to 1.5%. Keno and Racetrax sales, perhaps spurred by the new Keno Super Bonus, increased 24% for the month. Mega Millions sales increased almost 30%, while Pick 4 sales grew 8.7%. For the full fiscal year, sales of instant tickets, the Lottery's largest game, fell 2.3%. Pick 4 sales increased 6.1% and Keno/Racetrax, which when combined are the second largest game, saw a sales increase of 4.9%. Mega Millions, sales of which are dependent on jackpots, fell by 2.7% for the year, while Pick 3 sales were nearly flat with only 0.7% growth. General fund revenues increased 10.3% for the month, resulting in a decline of 6.9% for the full year (adjusting for a change in revenue distribution

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in fiscal year 2008). As has been mentioned previously, Pick 3 and Pick 4 revenues declined substantially as a result of an increase in prize payouts, falling 16.5% and 17.8% on the year. Revenues for most other games increased commensurately with sales, Bonus Match 5 being the notable exception with a 17% increase in revenues on flat sales. Again, subject to accounting adjustments, general fund lottery revenues finished the year \$17.1 million ahead of the estimate.

Other Revenues

All other revenue sources showed declines for the month, and all but alcohol and tobacco taxes are down for the fiscal year. Quarterly estimated payments were due for franchise taxes and premium taxes; both fell, though both fell less than the year-to-date declines. Death taxes declined 41% for the month and are down 16% for the year. While one month of inheritance tax collections will accrue to fiscal year 2009, the estate tax has finished the year with a 21% decline and, at \$153.4 million, is \$23.1 million under the forecast. Alcohol and tobacco tax receipts fell 16% for the month, but are up 8.2% on the year as a result of the increase in the cigarette tax which boosted collections in the first half of the year. A significant accrual remains for the excise taxes. Miscellaneous revenues are down 25% for the year; again, a significant general fund accrual will be recorded before the fiscal year closes. Most of these other revenues are likely to fall short of their respective estimates by several million dollars each, in some cases greater than ten million dollars.

The next revenue report, the closeout report for fiscal year 2009 with a complete analysis of the fiscal year's results, 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,



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
Len Foxwell
Linda L. Tanton

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

	June			Year to Date		
	FY 2009	FY 2008	Growth	FY 2009	FY 2008	Growth
General Fund Receipts						
Individual Income Tax	660,914	740,208	-10.7%	6,252,815	6,711,531	-6.8%
Corporate Income Tax	109,752	131,991	-16.8%	550,645	551,673	-0.2%
Sales Tax	284,991	327,920	-13.1%	3,300,635	3,345,351	-1.3%
Lottery	43,488	39,418	10.3%	472,946	507,904	-6.9%
Franchise Tax	50,119	51,632	-2.9%	201,557	209,391	-3.7%
Premium Tax	62,532	67,637	-7.5%	275,393	302,298	-8.9%
Death Taxes	11,082	18,765	-40.9%	201,775	239,314	-15.7%
Alcohol / Tobacco	36,646	43,844	-16.4%	405,489	374,816	8.2%
Court Revenues	10,990	12,238	-10.2%	126,514	139,971	-9.6%
Interest	2,973	10,478	-71.6%	51,815	115,306	-55.1%
Miscellaneous	26,860	33,265	-19.3%	218,479	291,523	-25.1%
Total	1,300,347	1,477,395	-12.0%	12,058,064	12,789,075	-5.7%
Individual Income Tax Detail						
Withholding	801,285	799,145	0.3%	9,778,155	9,809,090	-0.3%
Estimated	248,409	363,459	-31.7%	1,532,974	1,825,895	-16.0%
Final / Fiduciary	37,881	38,987	-2.8%	1,213,036	1,659,284	-26.9%
Gross Receipts	1,087,575	1,201,591	-9.5%	12,524,165	13,294,270	-5.8%
Refunds	(197,897)	(92,522)	113.9%	(2,527,915)	(2,246,080)	12.5%
Net Receipts	889,678	1,109,069	-19.8%	9,996,250	11,048,189	-9.5%
Corporate Income Tax Detail						
Estimated	131,885	152,614	-13.6%	655,648	661,286	-0.9%
Final	15,300	19,224	-20.4%	296,036	319,410	-7.3%
Gross Receipts	147,186	171,838	-14.3%	951,683	980,696	-3.0%
Refunds	(6,974)	(19,368)	-64.0%	(202,664)	(245,373)	-17.4%
Net Receipts	140,212	152,470	-8.0%	749,019	735,324	1.9%
Lottery Sales	140,136	127,244	10.1%	1,698,074	1,673,039	1.5%

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.