



Peter Franchot
Comptroller

February 17, 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 revenue collections for January were \$1.245 billion, a decline of 8.2% over January 2008. For the fiscal year to date, general fund receipts are \$6.584 billion, growth of only 0.5% over 2008 (see attached table). Fourth quarter estimated payments for the individual income tax were alarmingly weak, and even with the bar set very low, sales tax performance continues to disappoint. While there are as yet no indications that any other revenue source will finish the year substantially short of the December revenue estimates, the extremely poor performance of fourth quarter estimated payments and the sales tax point to a substantial downward revision of general fund revenues next month.

Individual Income Tax

General fund individual income tax receipts for the month of January declined 12.2% to \$738.7 million, while year to date collections are down 2.2% at \$3.383 billion. Estimated payments fell 25.9% relative to last year, a decline of \$137.9 million. For the fourth quarter (December and January combined), estimated payments fell 18.3%. The decline, attributable to the collapse in the financial markets (as shown by the 42% decline in the Standard and Poor's 500 Index from September through the November 20 trough), is of roughly the same magnitude as in the fourth quarter of 2001 (17%). In that period, however, the decline was exacerbated by the effects of the phased-in 1998 tax cut, while the drop this year is understated due to the increases in the tax rates for tax year 2008. This development is disturbing in and of itself, and the implications for April final payments, which are under study, are perhaps even more problematic.

Individual income tax withholding fell 6.2% to \$1.022 billion bringing year to date growth down to 0.3%. The drop in January withholding is due in part to one fewer deposit day as well as to the likely effects of changes to withholding that were not fully reflected by employers in January of last year. Even accounting for those factors, the stagnant withholding is reflective of the very weak labor market that has developed over the past few months.

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Corporate Income Tax

January is not a significant month for corporate income tax collections. General fund revenues declined 73%, as estimated and final payments decreased 60% and 69% respectively. Year to date, gross receipts have increased 6.8%. After adjusting for the rate increase, however, gross receipts have actually declined about 5.0%. Corporate refunds were \$4.8 million lower than last January. Despite deteriorating economic conditions, reflected to a degree in baseline gross receipts, corporate refunds for the fiscal year through January are almost 20% under last year's record levels. Analysis of corporate income tax collections is ongoing.

Sales Tax

Representing ever-important December retail sales, general fund sales tax receipts for January increased 3.5% to \$370.4 million, bringing year to date revenues to 6.9%. These figures reflect the 20% higher rate, however, and changes to the distribution of sales tax revenues. Adjusted for the rate increase, baseline receipts declined approximately 8% for the month, the fourth consecutive month of decline. Baseline revenues from consumers were down about 7%, a deceleration of one percentage point from the prior month, which was itself about two percentage points worse than the month before that. Construction and capital goods receipts were both down about 15% for the month, while receipts from utilities were the sole source of growth. The December forecast called for a 3.5% decline in the fiscal year 2009 baseline. As baseline revenues have declined roughly 6% for the year, and no turnaround is in sight, sales tax receipts will almost certainly be revised downward—yet again—next month.

Lottery

Unfavorable prize payouts (from the State's perspective) in most lottery games was the theme for lottery collections in January. In the aggregate, sales fell 1.8% to \$136.6 million while revenues slumped 8.3% to \$39.5 million. The Pick 3 and Pick 4 games continued their inauspicious payout ratios with both games posting sales increases but revenue declines, 17.3% in the case of Pick 3. Instant ticket sales decreased 2.3% while revenues fell 5.1%. Racetrax had the most unfavorable sales/revenue ratio, recording a 19.2% increase in sales in conjunction with a 5.5% decline in revenues.

Other Revenues

January is not a significant collection month for either the insurance premium or business franchise taxes, although substantial refunds against the insurance premium tax were paid out last January resulting in negative revenues (a loss of \$8.4 million). This year's collections were \$235,228, a notable improvement. Increases in both estate and inheritance taxes resulted in the 20% increase in death tax revenues, while the 26% growth in alcohol and tobacco taxes remains a result of the increased tobacco tax. Miscellaneous revenues for January reflect adjustments for misreported agency revenues.

As noted above, year to date growth in general fund revenues is 0.5%. The December estimates of the Board of Revenue Estimates called for an increase of 0.9%. January collections of individual income tax estimated payments and the sales tax indicate further deterioration can be expected in those two revenue sources, over 80% of general fund revenues.

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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, appearing to read "Peter Franchot". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

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 (January)
Summary Report
(\$ in thousands)

	January			Year to Date		
	FY 2009	FY 2008	Growth	FY 2009	FY 2008	Growth
General Fund Receipts						
Individual Income Tax	738,737	840,941	-12.2%	3,382,756	3,459,338	-2.2%
Corporate Income Tax	8,637	31,606	-72.7%	243,538	202,251	20.4%
Sales Tax	370,438	358,075	3.5%	1,916,008	1,791,838	6.9%
Lottery	39,458	43,033	-8.3%	254,825	283,039	-10.0%
Franchise Tax	1,455	4,312	-66.2%	80,785	82,318	-1.9%
Premium Tax	235	(8,401)	-102.8%	131,977	133,094	-0.8%
Death Taxes	18,744	15,639	19.9%	129,087	149,898	-13.9%
Alcohol / Tobacco	34,667	27,557	25.8%	232,838	174,251	33.6%
Court Revenues	11,947	11,409	4.7%	74,477	83,425	-10.7%
Interest	18,312	9,118	100.8%	32,226	55,882	-42.3%
Miscellaneous	2,348	22,261	-89.5%	105,369	137,205	-23.2%
Total	1,244,978	1,355,549	-8.2%	6,583,886	6,552,541	0.5%
Individual Income Tax Detail						
Withholding	1,022,164	1,089,289	-6.2%	5,719,748	5,702,410	0.3%
Estimated	394,848	532,704	-25.9%	1,068,062	1,163,116	-8.2%
Final / Fiduciary	27,487	38,223	-28.1%	223,508	241,116	-7.3%
Gross Receipts	1,444,499	1,660,216	-13.0%	7,011,318	7,106,641	-1.3%
Refunds	(128,663)	(130,180)	-1.2%	(449,478)	(419,255)	7.2%
Net Receipts	1,315,836	1,530,036	-14.0%	6,561,841	6,687,386	-1.9%
Corporate Income Tax Detail						
Estimated	17,270	42,683	-59.5%	391,128	348,029	12.4%
Final	4,382	13,977	-68.6%	108,522	119,852	-9.5%
Gross Receipts	21,651	56,660	-61.8%	499,650	467,881	6.8%
Refunds	(8,870)	(13,691)	-35.2%	(160,902)	(199,990)	-19.5%
Net Receipts	12,781	42,968	-70.3%	338,748	267,891	26.4%
Lottery Sales	136,615	139,063	-1.8%	968,049	968,290	0.0%

The year to date figure for interest does not include accrued fiscal year 2009 interest of \$17.4 million.

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.