



Peter Franchot
Comptroller

May 22, 2014

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 receipts decreased 5.6% for the month of April to \$1.770 billion. For the fiscal year, receipts have increased 1.1% to \$11.535 billion. Marking the due date for individual income tax liabilities, April is a significant month for collections and therefore the estimates. Final payments, those payments made in connection with the filing of a tax return or the filing of an extension, decreased 19.5% for the month. This result was below expectations and has resulted in negative risk for the aggregate general fund estimate.

While estimate-to-actual variance is difficult to interpret and there are significant monies left to collect for this fiscal year, our current analysis indicates that fiscal year-to-date general fund revenues are \$92.0 million below the March estimate. Also, given the April final payments result, it seems highly probable that the deficit will grow in May. The current income tax deficit of \$216.4 million from estimate is partially offset by positive variances in the miscellaneous taxes and fees, corporate income tax, and insurance premium tax; however, it must be noted that each of those sources can be highly volatile. Additionally, while much of the above discussion regards activity related to calendar year 2013 and references to fiscal year-to-date, it should be noted that revenue expectations for the remainder of this fiscal year incorporate improvements in economic activity.

Individual Income Tax

General fund individual income tax receipts for the month of April decreased 11.9%, resulting in year-to-date growth of 0.2%. The monthly decrease, as noted above, was driven by a 19.5% decrease in final payments. Relative to the fiscal year-to-date estimate, final payments are \$332.2 million below; roughly 62.0% of that amount (\$206.0 million) is attributable to the general fund with the remainder attributable to the local income tax. The actual-to-estimate variance for the other sources of the individual income tax are within a suitable tolerance at this point. April represents the first quarterly payment for 2014 for individual income tax and receipts increased 2.3%. Withholding growth was 2.0% for April and fiscal year-to-date growth is now 2.7%; the pace of growth for the remaining fiscal year will have to accelerate to 4.1% to reach the full year fiscal estimate. Refunds were up 0.5% for April and are now up 2.8% for the fiscal year. For the aggregate income tax after distributions, we estimate that the general fund individual income tax is \$216.4 million, or 3.4%, below estimate.

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Now that we have early, but incomplete, results for tax year 2013, it is fair to speculate that the actual-to-estimate variance is attributable to an undervaluing of the fiscal cliff's significance. To wit, underlying economic and revenue activity in 2012 may have been even worse than prior expectations. It could then be inferred that the estimate for 2012 capital gains income as well as certain 2012 income components reported by the Bureau of Economic Analysis are undervalued. The implication for the estimate is that tax year 2013 aggregate tax liability should have been lower as more 2012 income than initially expected was extraordinary and therefore, either should not have been included in the 2012 base for 2013 expectations or more accurately reflected by economic variables. Furthermore, as much of that 2012 extraordinary income would have likely been recognized in future tax years, those future tax years should have been penalized to a greater degree than in the most recent estimate.

Of course, the above speculative analysis is in hindsight with information that was not available *a priori*. Detailed tax information will not be available until early next calendar year as the lag for information delivery from the Internal Revenue Service and the subsequent analysis is significant.

Corporate Income Tax

Representing another significant month for corporate income tax collections, April corporate income tax gross receipts increased 39.8% while corporate income tax refunds decreased 56.9%. As a result, net corporate income tax receipts were up 48.3% for the month and increased year-to-date growth of 4.4%. April's year-to-date growth represented the first increase in year-to-date growth this fiscal year. Monthly revenue was boosted by a one-time corporate income tax payment as a result of a court case settlement. However, underlying corporate income tax receipts growth were still promising.

The general fund receives a lower percentage of corporate income tax revenue compared to the prior fiscal year, resulting in the general fund corporate income tax receipts increasing to a lesser degree; increasing 21.2% for the month. However, year-to-date growth is down 8.9% for the year. To truly compare underlying activity, net receipts is a more comparable measure.

Sales Tax

April general fund sales tax receipts increased 1.1% on gross receipts growth of 0.9%. April receipts generally represent March sales activity. Receipts growth has been muted for the last several months as retail activity, particularly activity related to housing, has suffered from disruptive weather conditions. That is not to say that taxable consumer spending would have been healthy in the absence of such weather, only that weather has been a drag on growth. At this point, receipts are 0.2% below the estimate. Growth needs to accelerate to 3.2% for the remaining months to meet the estimate; while, growth of 2.5% would maintain the current actual-to-estimate variance. Growth has not exceeded 2.0% since periods attributable to the fourth quarter of calendar year 2013, though the economic forecast does call for improving economic conditions for the rest of this fiscal year.

Lottery

Lottery sales increased 3.6%, however, revenues decreased 9.5%. The large discrepancy between sales and revenues can be attributed to the much higher payout ratio this fiscal year versus last fiscal year: 61.1% and 56.8% respectively. Sales growth was led by Instant tickets, which increased roughly \$4.5 million or 10.9%; driven by the success of two relatively new tickets. The increase in Instant ticket sales marked the second consecutive monthly increase, the first consecutive increase for the fiscal year. As previously mentioned, payout ratios eliminated any revenue gains from the increase in sales. The largest change in the payout ratio

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was Pick 4, increasing to 50.8% from a prior 31.7%. Year-to-date lottery sales and revenues are down 1.8% and 4.9%, respectively; however, relative to the estimate, sales are only down 0.4% and revenues are down 0.9%.

Other Revenues

Quarterly payments for the insurance premium and business franchise taxes are both due in April. Franchise tax collections were up 18.5% for the month, and year-to-date collections are up 15.4%. Premium tax collections increased 35.3% for the month, up 23.0% year-to-date. Estate and inheritance tax revenues were down 47.3% for the month, largely the result of a truly extraordinary estate payment last fiscal year. District Court revenue fell rather significantly (-56.6%) though it is largely attributable to an accounting error that should be corrected next month. Clerks of Court revenues fell 33.3% with the decline likely attributable to the negative impact which weather has had on housing activity for the last several months.

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 David R. Brinkley
Delegate Norman H. Conway

Delegate Sheila E. Hixson
Delegate Nicholas R. Kipke
Warren G. Deschenaux
David F. Roose
Len N. Foxwell

State of Maryland General Fund Source Revenue Collections
Fiscal Year 2014 (April)
Summary Report
(\$ in thousands)

	April			Year to Date		
	FY 2014	FY 2013	Growth	FY 2014	FY 2013	Growth
General Fund Receipts						
Individual Income Tax	1,037,572	1,178,143	-11.9%	6,135,594	6,122,122	0.2%
Corporate Income Tax	123,904	102,248	21.2%	570,452	626,335	-8.9%
Sales Tax	345,630	342,021	1.1%	3,042,131	3,018,815	0.8%
Lottery	43,539	48,089	-9.5%	417,703	439,438	-4.9%
Franchise Tax	60,240	50,826	18.5%	165,667	143,532	15.4%
Premium Tax	60,275	44,560	35.3%	265,966	216,307	23.0%
Estate and Inheritance Tax	14,210	26,950	-47.3%	170,796	195,730	-12.7%
Alcohol / Tobacco	39,551	36,539	8.2%	331,920	340,555	-2.5%
Court Revenues	6,387	12,139	-47.4%	101,812	100,280	1.5%
Interest	174	664	-73.7%	4,963	3,642	36.3%
Transfer Tax Revenues	-	-		89,199	-	
Miscellaneous	38,654	32,087	20.5%	238,880	198,336	20.4%
Total	1,770,135	1,874,266	-5.6%	11,535,084	11,405,093	1.1%
Individual Income Tax Detail						
Withholding	1,037,362	1,016,992	2.0%	9,433,920	9,189,401	2.7%
Estimated	227,232	222,090	2.3%	1,360,525	1,327,107	2.5%
Final	797,923	990,844	-19.5%	1,309,188	1,423,753	-8.0%
Fiduciary	24,228	27,421	-11.6%	65,741	49,753	32.1%
Gross Receipts	2,086,745	2,257,347	-7.6%	12,169,375	11,990,015	1.5%
Refunds	(552,023)	(549,473)	0.5%	(2,183,955)	(2,124,093)	2.8%
Net Receipts	1,534,722	1,707,873	-10.1%	9,985,419	9,865,922	1.2%
Corporate Income Tax Detail						
Estimated	97,469	97,681	-0.2%	587,681	601,595	-2.3%
Final	74,329	25,231	194.6%	333,549	268,639	24.2%
Gross Receipts	171,798	122,912	39.8%	921,231	870,234	5.9%
Refunds	(4,284)	(9,930)	-56.9%	(160,595)	(141,422)	13.6%
Net Receipts	167,514	112,983	48.3%	760,636	728,812	4.4%
Lottery Sales	150,408	145,124	3.6%	1,440,802	1,455,686	-1.0%

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.