



Peter Franchot
Comptroller

February 27, 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 revenue collections totaled \$1.48 billion in January, a 2.8% decline from the prior fiscal year. For the fiscal year-to-date, revenues of \$7.62 billion reflect growth of 1.5% over last year. With the Board of Revenue Estimates set to meet next month (March 6), it should be noted that components of weakness in January's collections cast a negative outlook. February's collections could lessen the severity of that negative outlook, albeit only to a marginal degree.

January personal estimated income tax collections, which mark the conclusion for fourth quarter tax year 2013 personal income tax estimated payments, finished in disappointing fashion (-6.3%) and may suggest that our tax liability target for those taxpayers is optimistic. Withholding, the State's largest source of revenue, has continued to show weakness; year-to-date growth is just 1.5%. While the outlook for withholding calls for only tepid growth (3.2%), recent trends seem to indicate that our current estimate may be somewhat difficult to attain. January sales tax collections, which are attributable to taxable consumer sales in December, grew a disappointing 0.9%. Furthermore, timing issues from last year serve to distort that growth in a positive manner; underlying growth for December is estimated to have been close to negative 3.0%. Additionally, despite a 3.1% increase in sales, the lottery game Pick 4 produced \$9.7 million less in revenue this year relative to last as it paid out almost 90% of sales to winners.

Individual Income Tax

General fund individual income tax receipts for the month of January decreased 3.0%, resulting in year-to-date growth of 2.5%. January's withholding increased 0.5%, continuing to show weakness as the economy sluggishly improves. As January ended on a Friday, it is likely that several withholding accounts were not processed in the month of January and spilled over into February. Upon investigating the possible spillover, the first several processing days of February saw a large amount of cash processed. Therefore, January withholding was likely artificially depressed, however, even taking this into account withholding remains frail. As we look forward, fiscal year third quarter withholding will need to show significant growth in March in order to hit the estimate.

Estimated payments decreased 6.3% for the month and are now up only 0.7% for the year. This marks the third consecutive month of a decrease in estimated payments. Combined fourth quarter estimated payments were down 6.6%, however, fiscal years 2013 estimated payments saw extraordinary growth of 27.5% due to the fiscal cliff and tax changes that pulled estimated payments forward. Outside of fiscal year 2013, estimated payments would have posted fairly strong growth. Fiduciary posted a strong fourth quarter up 121% over last fiscal year; however, much of this growth can be attributable to a relatively weak fiscal year 2013. January is a relatively small month for both refunds and final payments which were down 32.6% (to the good of the State) and 24.5% respectively.

Corporate Income Tax

General fund corporate income tax receipts decreased \$9.9 million (21.7%) in January, and are now down 20.1% for the fiscal year; however, the general fund is receiving a lesser distribution of receipts this fiscal year relative to last. Gross receipts before distribution, a better proxy for corporate income tax activity, were down 4.3% for the month and are down 3.5% for the year. January is a relatively miniscule month for corporate income tax receipts, the next large payment will occur in March. Looking to March, corporate income tax receipts are expected to comprise a large portion of the current underachievement, as fiscal year 2013 payments were low.

Sales Tax

January general fund sales tax receipts (December sales) grew 0.9% and, after six months, collections are up 1.6% for the year. As the weakest growth since September, the holiday season provided little positive news regarding the sales and use tax. This lackluster growth is even more troublesome as fiscal year 2013 January receipts (December sales) included a technical error causing December sales to be pushed into January. Therefore, the 0.9% growth in fiscal year 2014 is artificially inflated, meaning it is likely that growth was approximately negative 3.0%.

Lottery

Lottery sales decreased 3.6% in January. Keno had the largest influence as sales decreased 14.5% for the month. Although sales only had a modest decrease, revenues decreased 25.7% for the month of January. The extraordinary decrease in revenues is entirely attributable to the 85.2% monthly payout ratio for Pick 4 (versus a 41.2% payout the prior January). Absent Pick 4, revenues would have decreased 3.9%.

Year-to-date lottery sales are down 2.4%, with only Pick 4, Racetrax, and Mega Millions showing year-to-date growth. Our estimates assume that the addition of casinos is cannibalizing traditional lottery ticket sales, especially for lottery agents located in close proximity. The total distribution to the Stadium Authority, based on Mega Millions sales and revenues, was reached in December and therefore will no longer subtract from general fund revenues.

Other Revenues

As January is not a large month for many payments, collections of other revenues for January are not a crucial indicator of revenue performance. Both alcohol and tobacco revenues decreased for the month, down 8.0% and 4.6% for the year. It is important to note the 27.4% decrease in miscellaneous revenues for the month. This decrease is due to a timing issue, as year-to-date revenues are up 3.2%.

Letter to Honorable Martin O'Malley,
Thomas V. "Mike" Miller, Jr., and
Michael E. Busch
February 27, 2014
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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 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 (January)
Summary Report
(\$ in thousands)

	January			Year to Date		
	FY 2014	FY 2013	Growth	FY 2014	FY 2013	Growth
General Fund Receipts						
Individual Income Tax	901,905	930,001	-3.0%	4,018,769	3,922,286	2.5%
Corporate Income Tax	35,886	45,825	-21.7%	309,594	387,250	-20.1%
Sales Tax	407,710	404,079	0.9%	2,118,470	2,085,984	1.6%
Lottery	31,659	42,591	-25.7%	278,627	303,783	-8.3%
Franchise Tax	913	1,039	-12.1%	82,980	74,344	11.6%
Premium Tax	557	(1,762)	-131.6%	163,575	141,429	15.7%
Estate and Inheritance Tax	17,567	18,014	-2.5%	123,293	144,796	-14.9%
Alcohol / Tobacco	32,955	35,818	-8.0%	228,690	239,760	-4.6%
Court Revenues	9,278	10,803	-14.1%	75,117	72,373	3.8%
Interest	1,666	1,333	25.0%	4,065	3,686	10.3%
Transfer Tax Revenues	13,722			82,439	-	
Miscellaneous	23,032	31,729	-27.4%	134,597	130,384	3.2%
Total	1,476,849	1,519,469	-2.8%	7,620,215	7,506,075	1.5%
Individual Income Tax Detail						
Withholding	1,206,827	1,201,149	0.5%	6,457,258	6,360,582	1.5%
Estimated	473,543	505,118	-6.3%	1,078,931	1,071,180	0.7%
Final / Fiduciary	43,917	43,434	1.1%	358,642	281,610	27.4%
Gross Receipts	1,724,286	1,749,702	-1.5%	7,894,831	7,713,371	2.4%
Refunds	(14,222)	(21,104)	-32.6%	(343,986)	(340,518)	1.0%
Net Receipts	1,710,065	1,728,597	-1.1%	7,550,846	7,372,854	2.4%
Corporate Income Tax Detail						
Estimated	47,627	47,555	0.2%	440,256	449,412	-2.0%
Final	9,140	11,765	-22.3%	108,177	118,676	-8.8%
Gross Receipts	56,767	59,320	-4.3%	548,433	568,089	-3.5%
Refunds	(3,903)	(8,962)	-56.4%	(140,541)	(117,480)	19.6%
Net Receipts	52,864	50,358	5.0%	407,892	450,609	-9.5%
Lottery Sales	133,117	138,064	-3.6%	988,169	1,012,343	-2.4%

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.