Report of the

Maryland Board of Revenue Estimates

on

ESTIMATED MARYLAND REVENUES

FISCAL YEARS ENDING JUNE 30, 2005 AND JUNE 30, 2006

Submitted to

Robert L. Ehrlich, Jr.

Governor

December 21, 2004

State of Maryland
Board of Revenue Estimates

Louis L. Goldstein Treasury Building, P. O. Box 466
Annapolis, Maryland 21404-0466
E-Mail: bre@comp.state.md.us

December 21, 2004

Honorable Robert L. Ehrlich, Jr.
Governor of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Ehrlich:

In compliance with Section 6-106(b) of the State Finance and Procurement Article of the Annotated Code of Maryland, the Board of Revenue Estimates has prepared and herewith submits to you new estimates of State revenues for the fiscal years ended June 30, 2005 and June 30, 2006, based upon current laws and administrative practices. These estimates are set forth in the accompanying Report on Estimated State Revenues. As in the past, the estimates represent the collective efforts of each of the Board members and their staffs.

The Board will continue its study of economic and revenue trends and will report to you any significant changes that may affect Maryland's revenues.

Respectfully yours,

William Donald Schaefer

William Donald Schaefer, Chairman

Nancy K. Kopp

Nancy K. Kopp

James C. DiPaula Jr.

James C. DiPaula

Telephone: 410-260-7450

Toll free: 1-888-674-0017 • fax: 410-974-5221 • for the hearing impaired: MRS 1-800-735-2258 • TDD 410-260-7157 • EOE

Executive Summary

Maryland's economy has regained its footing after several years of uneven advances. As has been the case for a number of years, the State has outperformed the nation by nearly every measure. The State's economic performance is due in large part to the strengthening national economy, although Maryland has some unique strengths. Employment growth in the State accelerated throughout the first half of 2004, and in the latter half of the year job growth was about 2%, indicative of a healthy economy. This level of sustainable expansion is expected to continue throughout 2005, leading to solid growth in wages and salaries of 5.8%. In 2006, employment growth is anticipated to slow to a still respectable 1.6%, causing wage and salary growth to decelerate to 5.4%. Unemployment of around 4% is expected throughout the forecast period.

The general fund's major revenue sources are beneficiaries of the expanding economy, although every revenue source is now expected to bring in more general fund revenues than had been previously estimated. Current general fund revenues will increase by 6.1% in fiscal year 2005 to $10.869 billion; this figure includes about $63 million in abandoned property revenue from the demutualization of insurance companies which will not recur in later years. In addition, a one-time amount of $151.0 million has been received in fiscal year 2005 through the Delaware holding company settlement. In fiscal year 2006, ongoing general fund revenue growth will be 4.0% as revenues are estimated to reach $11.306 billion.

The individual income tax is expected to grow by 5.9% in fiscal year 2005 to $5.4 billion, an increase in the official estimate of $25.4 million. The Board estimates income tax withholding will advance by an impressive 6.8%, and estimated income tax payments will increase by an even more impressive 12.6%. Withholding and, to a lesser extent, estimated payments will be boosted by both increases in the local income tax in a number of counties (which do not affect general fund revenue) and by law changes; baseline income tax growth in 2005 is forecast at 5.6%. In 2006, individual income tax general fund revenue is expected to grow by 6.4% as the economy remains strong (baseline growth will be 6.2%).

In fiscal year 2005, general fund sales tax revenue growth will decelerate sharply, but the slowdown comes after very strong 8.3% growth in 2004. Sales taxes related to construction activity will lead the way, increasing by an estimated 10.6%. Consumer sales taxes, over two-thirds of total sales taxes, are expected to increase by a healthy 4.2%. The Board forecasts general fund sales tax revenue growth of 5.6% to $3.087 billion, $115.5 million above the previous official forecast. In 2006, construction-related taxes will stagnate, and other components of the sales tax will not compensate; growth is expected to slow to 4.6% as revenues rise to $3.230 billion.

Baseline corporate income taxes are expected to grow by an impressive 23.7% in 2005 due to resurgent corporate profits over the past several years. Growth will be further boosted by legislation enacted by the 2004 General Assembly addressing the Delaware holding company issue, bringing ongoing revenues to an estimated $420.1 million. In 2006, the Board forecasts an increase in general fund revenues (excluding the 2005 settlement receipts) of 11.1% due largely to a sizable decline in heritage structure rehabilitation credits expected to be claimed.

Lottery sales are expected to grow by 3.8% in fiscal year 2005, led by Pick 4, Keno and instant tickets. General fund revenues will advance by only 2.3%, due primarily to an unfavorable swing in prize payouts. Sales will increase by 2.4% in 2006 to a record $1.482 billion, and general fund revenues will grow by an estimated 3.3%, aided by a move towards more normal prize payouts. Estate tax revenues are up strongly through the first five months of 2005, leading to an upwards revision in death tax revenue of $24.5 million for the fiscal year. The Board is increasing its forecast of insurance premium taxes by $20.0 million as premium growth has not slowed as quickly as anticipated, and the Board is raising its miscellaneous revenue estimate for fiscal year 2005 by $75.1 million largely as a result of extraordinary increases in unclaimed property revenue.

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Annapolis, Maryland 21404-0466
E-Mail: bre@comp.state.md.us

The Board of Revenue Estimates thanks the following participants of the Business Advisory Panel for their assistance.

Mr. Gary Bigg
Bank of America

Dr. Stephen Fuller
George Mason University

Mr. James White
Maryland Port Administration

Mr. Jeffrey Samet
Colliers Pinkard

Mr. Robert McGlotten
Anne Arundel Economic Development Corporation

Mr. Gino Gemignani
Whiting-Turner Contracting Co.

Mr. Brian Rosen
MedImmune

Ms. Kathleen Murphy
Maryland Bankers Association

Dr. Toby Gordon
Johns Hopkins Hospital

Mr. Tom Saquella
Maryland Retailers Association

Mr. Lee McDaniel
Maryland Farm Bureau

Telephone: 410-260-7450

Toll free: 1-888-674-0017 • fax: 410-974-5221 • for the hearing impaired: MRS 1-800-735-2258 • TDD 410-260-7157 • EOE

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E-Mail: bre@comp.state.md.us

The Board of Revenue Estimates thanks the following participants of the Revenue Monitoring Committee for their assistance.

James M. Arnie
Director, REVENUE ADMINISTRATION DIVISION

Robert C. Bates
Assistant Director, BUREAU OF REVENUE ESTIMATES

Stephen M. Cordi
Deputy Comptroller, OFFICE OF THE COMPTROLLER

Warren G. Deschenaux
Director, Policy Analysis, DEPARTMENT OF LEGISLATIVE SERVICES

George L. Freyman
Manager, Revenue Accounting, REVENUE ADMINISTRATION DIVISION

Jay Ladin
Fiscal Planner, DEPARTMENT OF BUDGET AND MANAGEMENT

Lewis E. Logan
Director of Finance, STATE TREASURER'S OFFICE

Carol A. Novella
Tax Revenue Analyst, BUREAU OF REVENUE ESTIMATES

David F. Roose
Director, BUREAU OF REVENUE ESTIMATES

Linda L. Tanton
Director, COMPLIANCE DIVISION

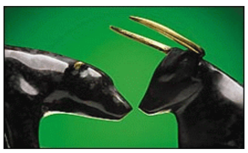
Theresa M. Tuszynski
Economist, DEPARTMENT OF LEGISLATIVE SERVICES

Telephone: 410-260-7450

Toll free: 1-888-674-0017 • fax: 410-974-5221 • for the hearing impaired: MRS 1-800-735-2258 • TDD 410-260-7157 • EOE

The U.S. Economy

The United States economy continued its acceleration following the short-lived recession of 2001, with real gross domestic product expected to grow by 4.4%, the best performance since 1999, and only one-tenth of a percentage point below the 4.5% growth achieved in both 1999 and 1997. Economic growth was very strong in the last half of 2003 and into 2004, though the economy hit a "soft patch" in mid-year. Most indicators show strength returning in the second half of the year, however, and expectations are that the economy will grow by 3.2% in 2005, its long-term potential.



The Current Situation

While from a national income perspective 2004 will prove to have been a very good year, with real GDP growth of 4.4% (well above the roughly 3.1% annual average growth since 1984), other economic data are mixed. Employment will grow by only 1.0%, though an improvement over the 0.3% decline in employment in 2003. Over 300,000 jobs were added in March and April, and about 200,000 added in May, but since then job gains have averaged about 100,000 a month. While there are explanations for this weak growth, including business uncertainty and spending on capital rather than labor, 1% employment growth is extraordinarily low for this point in the business cycle.

Due to fluctuations in the labor market, however, the unemployment rate remains at low levels not sustained in over 30 years, backing off about one percentage point from its 6.3% peak in mid-2003. Inflation, after rather substantial concerns mid-year, is subdued; the personal consumption deflator excluding food and energy, the Federal Reserve's price measure of choice, grew just 0.7% in the third quarter, the lowest increase in more than four decades. With inflation in check, interest rates are expected to remain low. Many observers expect continued deliberate movement, leaving the federal funds rate no higher than 3% at the end of 2005–levels not seen consistently for about forty years.

On balance, consumers have found the economy to be performing satisfactorily. Consumer confidence has bounced back from its low of 61.4 in March 2003 (when Iraq was invaded) to over 100 in June and July of this year. The next two months saw a slight retrenchment, to the high 90s, but consumers have regained confidence more quickly than after the recession of the early 1990s (during which confidence fell to a low of 47.3, the second-lowest trough on record).

The low interest rates and reasonably strong consumer confidence have kept the housing markets growing. Both existing and new home sales reached their third-highest level ever in September, and both will set a record high for the fourth consecutive year. This high pace is unlikely to be sustained, particularly as interest rates move slightly higher, but a cooling of the market will still mean relatively high levels of sales and near-record high levels of home ownership.

Sales of new and existing homes generally lead to consumer expenditures on new goods to fill the house. Consumer expenditures have driven the economy for the past three years, growing by 2.5% to 3.5% annually while nonresidential investment declined in 2001 and 2002 (and grew by a modest 3.3% in 2003). Growth in consumption will accelerate slightly for 2004 to 3.5%, despite 1.6% growth in the second quarter of the year (the lowest since the second quarter of 2001). Federal income tax cuts and another sustained burst of mortgage refinancing boosted consumer spending through this period, but those stimulative factors have now run their course.

Business investment has also been boosted by federal income tax cuts, specifically the increased expensing for small businesses (§179 expensing) and bonus depreciation, which expires this December 31. The recent recession was largely a result of substantial declines in nonresidential investment–4.2% in 2001 and 8.9% in 2002–so it is not surprising to see investment coming back strong. Nonresidential investment grew by a meager 3.3% in 2003, but will finish 2004 at over 10% growth, led by strong performance in computer and software investment. Investment in transportation equipment has bounced back strongly, and will grow by 5% in 2004 after four consecutive years of decline averaging almost 8% annually, and investment in structures will also increase again in 2004 after three years of decline. With stronger corporate balance sheets, high returns on capital spending, pent-up demand from the lack of investment over the past several years and the federal tax incentives, the environment could not have been more favorable for a resurgence of nonresidential investment, and businesses responded.

The trade deficit reached a record high in June, and was nearly as high in August due largely to high oil prices. Despite the much lower value of the dollar, exports have been flat for the past several months while imports continue to increase (although most of the August increase in imports is attributable to the rise in oil prices and the one-time impact of $800 million in royalty payments for broadcast rights for the Athens Olympics). Trade will be a drag on growth through the remainder of the year.

Government spending has obviously been highly stimulatory over the past several years, largely by design. The deficit is at a record level, $413 billion for federal fiscal year 2004, but was only 3.6% of GDP, well short of the record 5.1% in 1983. A 12.7% increase in defense expenditures helped the way to a total increase in expenditures of 6.2%, while strong corporate income tax receipts and modest individual income tax receipts pushed revenues up only 5.5%, leading to the widening deficit. Of note, projections had been for a deficit of $521 billion (the original forecast called for a deficit of $475 billion), but revenues performed much better than initially expected over the course of the year. For calendar year 2004, federal government spending will grow by 4.8%, slowing from 2003's 6.6% increase, but the poor fiscal condition of state and local governments (and the requirement, in 49 states, for a balanced budget) will lead to growth of only 0.8% in their spending, pulling down governments' overall contribution to GDP growth this year.

The Outlook

In 2005, the national economy will grow at about its long-term potential growth rate, at 3.2% (potential growth is the sustainable growth of the economy if all resources are fully employed). Growth is no longer driven primarily by consumers. Consumption has been the engine of economic growth for the most of the past six years (in fact, consumption provided over 100% of GDP growth in 2001 and 2002, with other factors providing a net negative contribution to growth), but other drivers, notably nonresidential investment, have come to the fore. Many of the factors that have boosted consumption in recent years are largely spent–federal tax cuts, record-low interest rates, cash-out mortgage refinancings and substantial incentives for automobile purchases–and several new difficulties present themselves, particularly the risk of sustained high oil prices.

While on balance, oil prices seem likely to decline to $35 - $40 per barrel from the recent levels of about $50, the possibility of continuing prices at this level, or even higher, exist. As new supplies come on-line, both international and domestic, and the $15 per barrel risk premium erodes (perhaps especially after the US and Iraqi elections), prices should drop. The high prices in 2004 restrained GDP growth by about 0.5 percentage points; the expected drop in oil prices will add about that much in 2005, and will help to mitigate the end of stimulative monetary and fiscal policy. Consumption will grow by 2.9% in 2005, a slight slowdown from the 3.5% of 2004. Growth at about 3% is expected in the out-years.

The locus of growth will remain with nonresidential investment. Despite the expiration of bonus depreciation, the meager investment in 2001 and 2002 means there is still pent-up demand, and business investment will grow strongly again in 2005 though more slowly than the 10.4% growth of 2004. Investment in all types of equipment and software save transportation equipment will slow, while spending on structures will accelerate, particularly due to the manufacturing rebound. Nonresidential investment will still post a robust 7.4% growth for 2005, moderating further to a still-strong 5.9% growth in 2006. Questions exist, however, about current levels of capacity utilization–if some estimates are to be believed, there is substantial manufacturing slack, which implies a downside risk to manufacturing investment.

Government spending will be almost neutral for GDP growth in 2005. Growth in federal government purchases will slow from 4.8% in 2004 to 3.4% in 2005 as budget constraints become tighter, although state and local government purchases will accelerate slightly, from under 1.0% growth in 2004 to 1.4% growth in 2005. The outcome of the election seems unlikely to make a large difference to this outlook in the near term.

Solid but not spectacular economic growth will finally convince employers to hire new employees at a faster pace in 2005. Employment growth will accelerate the most in the professional and business services industry, reaching 4.5%. Other strong sectors of the economy will include information services at about 2.0%, the first growth since 2000 for this beleaguered sector; education and health services at 2.2%, demonstrating remarkably consistent, demographically-driven growth; and leisure and hospitality services at over 2%, as the growing economy gives consumers more income to spend on leisure. Manufacturing employment will grow by 1.2%, obviously not making up the losses of the past two years, but a good sign nonetheless. Nationwide, employment will increase by 1.7% in 2005, a solid showing, before decelerating to about 1.2% growth in 2006.

While growth in the economy is unlikely to return to the peaks achieved in the late 1990s technology bubble, it also at this point seems very unlikely to fall back into the stagnation of 2002 and early 2003. Respectable, consistent economic growth is the most likely path for the foreseeable future.

Table 1
Forecast of the U.S. Economy
Primary Indicators

	2000	2001	2002	2003	2004	2005	2006
Real Gross Domestic Product ($ billions)	9,817	9,891	10,075	10,381	10,837	11,187	11,524
	3.7%	*0.8%*	*1.9%*	*3.0%*	*4.4%*	*3.2%*	*3.0%*
Federal Funds Rate (%)	6.2	3.9	1.7	1.1	1.3	2.6	3.4
10-Year Treasury Bond Yield (%)	6.0	5.0	4.6	4.0	4.3	4.7	5.2
Consumer Price Index (%Δ from prior year)	3.4	2.8	1.6	2.3	2.7	2.2	1.3
Housing Starts (thousands of units)	1,573	1,601	1,710	1,853	1,941	1,832	1,692
	-4.5%	*1.8%*	*6.8%*	*8.4%*	*4.7%*	*-5.6%*	*-7.6%*
Light Vehicle Sales (thousands of units)	17,342	17,115	16,779	16,626	16,750	16,898	17,129
	2.7%	*-1.3%*	*-2.0%*	*-0.9%*	*0.7%*	*0.9%*	*1.4%*
Corporate Profits Before Tax ($ in billions)	817.9	767.3	874.6	1,021.1	1,184.1	1,263.1	1,298.4
	-3.9%	*-6.2%*	*14.0%*	*16.8%*	*16.0%*	*6.7%*	*2.8%*
Total Non-Agricultural Employment (thousands)	131,791	131,837	130,343	129,937	131,295	133,501	135,058
	2.2%	*0.0%*	*-1.1%*	*-0.3%*	*1.0%*	*1.7%*	*1.2%*
Unemployment Rate (%)	4.0	4.8	5.8	6.0	5.5	5.4	5.5
Total Personal Income ($ in billions)	8,430	8,724	8,879	9,162	9,638	10,109	10,657
	8.0%	*3.5%*	*1.8%*	*3.2%*	*5.2%*	*4.9%*	*5.4%*

Sources: Global Insight, November 2004
Bureau of Revenue Estimates

The Maryland Economy

By most measures, Maryland's economy has outperformed the national economy over the past five years. This year has been no exception, and the trend looks set to continue in the near future. Assisted by a strong federal government presence and relative lack of manufacturing, employment in the State did not decline during or after the recent recession. Growth of 0.4% and 0.2% in 2002 and 2003 was modest at best, though rather respectable when compared to national declines of 1.1% and 0.3%. While the State's unemployment rate has risen from the unprecedented low of 3.5% achieved in 1999 by a full percentage point to 4.5% in 2003, the national unemployment rate has risen from 4.2% to 6.0% over the same period. Personal income, wage and salary income, and sales and prices of existing single-family homes have all grown faster from 1998 to 2003 in Maryland than nationwide, while bankruptcies and the number of unemployed have grown more slowly.

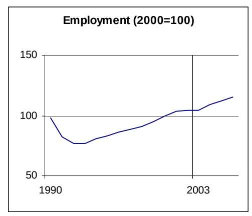
Maryland's economy accelerated throughout the first half of 2004, with year-over-year employment growth stronger in every month than the month before except for August. In fact, employment growth in the State has accelerated in 14 of the past 18 months, stretching back to March of 2003. Personal income growth has accelerated for five consecutive quarters through the second quarter of 2004, while wage and salary income has accelerated in four of the five, slowing to a still respectable 5.6% growth in the second quarter of this year.

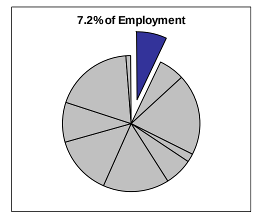
At 1.4% through the first ten months of 2004, Maryland has the fourteenth fastest rate of employment growth; ten of the faster-growing states are in the West–generally states that are much more natural-resources oriented than is Maryland. The State's recovery has been broad-based, with seven of ten major industries showing accelerating growth in 2004. Currently, employment in leisure and hospitality services and construction are booming, with 4.5% and 4.9% year-over-year growth in October; only manufacturing employment is still shrinking, although manufacturing is showing a marked improvement from 6.9% and 5.8% declines in 2002 and 2003.

Maryland's economy is set to improve over the coming eighteen months. Forecasts are calling for a generally-improving national economy; one of the few major risks to the national outlook, that of sustained high oil prices, is likely to have a disproportionately light impact on the State. There currently appear to be no particular risks specific to Maryland's economy on the horizon, save the unquantifiable possibility of another terrorist attack. While the economy won't show as much improvement in the foreseeable future as it did in the past year, it will show sustained strong performance and will continue to outgrow the national economy.

Construction

Year	Employment	
	Number	Change
2003	168.2	0.4%
2004	175.4	4.3%
2005	180.8	3.1%
2006	185.6	2.7%
	(thousands)	





The strong housing market has helped the construction sector recover from two nearly flat years. Through the first eight months of 2004, construction employment has been the second-best performer, up 4.1%; for all of 2004, growth should exceed 4.3%, the best performance since 2000. Increasing mortgage rates, a slowdown in the housing market and high prices for materials through at least the middle of 2005 will cause growth to slow to 3.1% in 2005 with a further deceleration in 2006, but construction employment will be supported generally by private sector activity as the economy grows at a solid pace.

A number of companies have announced plans for large new facilities, including the aforementioned American Woodmark Company, whose new Allegany plant will be 250,000 square feet. Tractor Supply is building a 482,000 square foot distribution center in Hagerstown, Lowe's is replacing its 60,000 square foot distribution center with a 281,000 square foot building, and FedEx is building a 335,000 square foot distribution center for opening in 2006. Substantial public construction projects across the State, from the Woodrow Wilson Bridge replacement to the Bay Bridge resurfacing and other transportation projects, the expansion of the House Office Building in Annapolis, an $18 million parking garage in Baltimore and others will also keep contractors busy.

Real estate markets have been somewhat soft as a result of the general economic slowdown, although the office market has generally fared better than the industrial market. Office vacancy rates in both the Baltimore region and the DC suburbs were essentially stagnant at mid-year, at about 16.5% in Baltimore and just over 11% further south. In both markets, about one million square feet of space was absorbed. The office market in Howard County has taken some time to rebound from the dot-com and fiber-optics bust several years ago, but in the first half of the year it absorbed the most space in the Baltimore region, bringing vacancy rates below the regional average. The BWI market continues to show strength with the further development of defense and intelligence-related businesses; the vacancy rate of 7.4% is among the very lowest in the State.

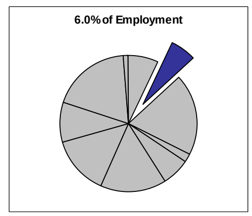
The recent eviction of a number of private companies from Ft. Meade will bring the vacancy rate around the airport down further. About 2,500 employees will be looking for an estimated 500,000 square feet of office space–more than is currently available in the BWI market. Along with natural growth, this eviction will also be a boon to the Annapolis area market, which saw its vacancy rate decline for the first time in five years, to a respectable 12%. Downtown Baltimore currently has a vacancy rate of 18%, among the highest in the state, although about 3.5 percentage points of that is attributable to the huge Montgomery Park project. About half of the 1.3 million square feet of new construction in the Baltimore area is in the BWI market, much of which is speculative, although there is no reason to think finding tenants will be difficult. New development in much of the rest of the region, however, is entering a relatively soft market and may keep vacancy rates from falling much in the near term. With the exception of the BWI/Annapolis area, lease rates are not expected to rise substantially.

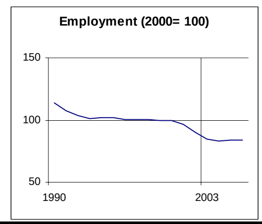
The Maryland suburban office market has also been relatively stable. The I-270 corridor, Montgomery County and Prince George's County markets all saw net absorption in the first half of the year of about 1.3% of their respective markets. Vacancy rates declined slightly in Montgomery County over the first half of the year, while they declined just over a full percentage point to 11% in Prince George's County. Of the almost 2.5 million square feet under construction, over one-third is in that county, although it currently hosts just over 17% of the office space in the region. The outlook for the suburban market is good, with strong development activity and enough pre-leasing to encourage speculative development. Increasing demand will drive vacancy rates below 10% over the short term, resulting in higher lease rates in these markets.

The industrial markets in both regions exhibit the same pattern as the office markets, with higher vacancy rates in and around Baltimore than in the DC suburbs; in both cases, vacancy rates are only slightly above office vacancy rates. The Baltimore market currently has 18% of the 85 million square feet of space unleased. Bulk distribution space showed negative net absorption of 767,000 square feet in the first half of the year, driving vacancy rates from 18.2% at the start of the year to 20%. Harford County is particularly weak, with vacancy rates currently at 37%. A meager 800,000 square feet is currently under construction. The suburban industrial market is in somewhat better shape, with vacancy rates of 11.8% and only 223,000 square feet under construction, again mostly in Prince George's County. In both regions, leasing activity is expected to pick up in 2005; substantial increases in construction activity are unlikely to occur until that happens.

Manufacturing

Year	Employment	
	Number	Change
2003	147.6	-5.7%
2004	144.8	-1.9%
2005	145.5	0.4%
2006	146.0	0.4%
	(thousands)	





Like the rest of the country, employment in Maryland's manufacturing sector is shrinking in relation to other sectors. This has a smaller relative effect in Maryland, however, as the State's manufacturing sector is small, just 5.3% of employment compared with 11.2% nationwide. The manufacturing sector is not expected to see significant overall change in the next few years, with employment remaining relatively constant. There will be continue to be layoffs as companies change their operations. These job reductions, however, will be relatively small and expected compared with the past few years when dozens of Maryland manufacturers laid off thousands of workers.

While workers at Hedwin Corp., which makes industrial plastic containers, were able to purchase the company from its Belgium-based parent preserving 300 jobs in Baltimore, many manufacturing workers were not so fortunate. ConAgra closed its hot dog plant in Queenstown, putting 100 people out of work. General Motors is expected to close its Broening Highway Plant in 2005 when it terminates its Astro-Safari line, eliminating 1,100 jobs there as well as dozens in companies that supply the plant. Already the company has extended its winter holiday closing by an extra week. Uncertainty must exist at the Sparrows Point steelworks, which employs about 2,500 workers, 40% fewer than when Bethlehem Steel sold itself to ISG just over a year ago. By the end of October, part of the operating line will have been boxed up and shipped to China; perhaps of more concern, ISG just sold itself to Britain-based Ispat International.

These layoffs will be offset by other manufacturers' expansion, resulting in fairly steady employment levels. Volvo is investing $100 million in its Mack Truck engine plant in Hagerstown, expanding production to include engines for Volvo trucks. North American Ship Recycling, located at Sparrows Point, has a contract to begin disassembling the James River "Ghost Fleet" of obsolete, unused Navy ships stored in Newport News, Virginia. The first two ships should arrive in Baltimore by the end of the year with at least 50 new jobs. In January, American Woodmark's new cabinet plant in Allegany County is expected to open with 50 to 70 new jobs and employing up to 500 by 2009. Solo Cup, which recently bought Sweetheart Cups, will be eliminating roughly 130 Maryland sales and management jobs, but will be adding 100 to 200 manufacturing jobs to its payroll in the State.

High-tech manufacturers, large and small, are steadily replacing the stalwarts. MedImmune recently opened a new headquarters with room for 2,000 employees, 1,400 more than were immediately transferred to the facility. Although the company has only four products on the market, its FluMist flu vaccine received a substantial boost when the shortages of vaccine shots developed. The company increased production of FluMist by 50% to three million doses. FluMist is only recommended for healthy people between five and 49 years old, the population that has been asked not to get the traditional flu injection so that people at greater risk can be inoculated. The Centers for Disease Control also added FluMist to the Vaccines for Children program, making children ages 5-18 eligible for free FluMist vaccinations in 2005. The company also has a number of new products under development, including drugs for asthma and cancer, although human tests for an arthritis drug failed and development of that drug for those purposes has ended.

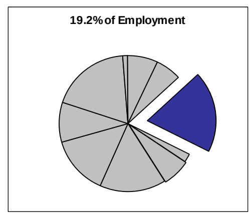
The biotech industry suffered a blow when Novavax moved its headquarters from Columbia to Philadelphia, taking 50 jobs with it, and when Human Genome Sciences cut about 200 jobs in the spring. But MedImmune's production facility will get a new neighbor in Frederick County when anthrax vaccine maker BioPort builds a new 200,000 square foot manufacturing facility nearby. The State is also working to attract an Amgen manufacturing facility. Smaller players in the Maryland industry continue cutting-edge work on anthrax, eye diseases, vaccines, pathogen detection, cancer and more.

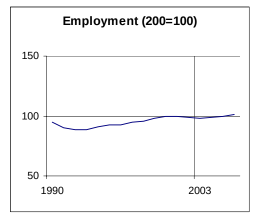
Northrop Grumman, the largest manufacturer in the State, has created a Network-Centric Systems Unit to develop technologies for navigation, defense systems and more. Northrop is expanding to take over an entire 100,000 square foot building at Anne Arundel County's National Business Park, following up the lease of another 100,000 square feet at Airport Square 1 near BWI Airport. Northrop, Middle River Aircraft Systems, and BAE Systems alone have won over $200 million in federal contracts related to defense and homeland security in the past year; many other smaller companies have won contracts for at least as much for related work in the State. Recovery in the manufacturing sector led by defense-related firms will provide a disproportionate boost for the State's economy as average weekly wages are rising 5.3%, the third fastest rate in the State. In 2005, manufacturing employment will grow for the first time since 2000; while the growth will be well under 1%, it will represent a vast improvement over the past two years.

Trade, Transportation, and Utilities

The recession took its toll on the trade, transportation and utilities sector which, along with manufacturing, was the only one to contract for three consecutive years. As this is the largest supersector of the State's economy, its recovery in 2004 will help boost the overall economy. Employment is slightly above last year's level through August, and will continue to accelerate throughout the year, resulting in growth of 0.4%. All three components have contributed to the slowdown, though the transportation piece declined the most, averaging a drop of 1.9% annually for the past three years.

Year	Employment	
	Number	Change
2003	462.6	-0.6%
2004	464.5	0.4%
2005	469.5	1.1%
2006	477.1	1.6%
	(thousands)	





The retail sector has resumed growth in Maryland. Department stores saw sales rebound while sales at discounters Kohls, Target, and Wal Mart softened. Several companies announced plans to invest heavily in new facilities, showing confidence in this sector. The Village of Cross Keys in Baltimore received a $3 million renovation, Lerner Enterprises is renovating White Flint Mall, and Westfield announced plans to expand and convert its Shoppingtown Montgomery into a hybrid enclosed/lifestyle mall. Federal Real Estate Investment Trust expects to have no difficulty filling the 26,000 square feet occupied by Whole Foods if, as expected, the grocery store decamps to the White Flint Crossing center to be built by JBG Cos. The first stores have opened in Westminster Crossing recently. The Mills Corporation also purchased Lakeforest Mall and Marley Station Mall from GM Asset Management. Mills also announced it would move its headquarters from Arlington to Chevy Chase, Maryland, bringing 300 employees across the Potomac.

Although the major Maryland grocery retailers settled new contracts without labor unrest, Royal Ahold's decision to combine its management of Giant Foods with its Boston-based Stop & Shop led the company's US operations to a 30% decline in profits. The merger will result in the loss of 650 or so administrative jobs in Landover. Nonetheless, the chain continues to expand, having opened five stores in the State, including two in downtown Baltimore. The company is also expanding its Peapod Internet delivery service, which operates predominantly in the D.C. metropolitan area, to Baltimore. Weis Markets is also expanding in the state, opening a new superstore in Honeygo Village Center in White Marsh. Wal-Mart and Super Fresh are both looking for sites in the city; Wal-Mart is also replacing several stores statewide with their larger supercenters. Other major changes in the retail landscape of the State include Office Depot adding several stores to its current lineup of 10 Maryland outlets; bankrupt KB Toys, which has closed seven stores, recently announced the closings of three more and listed an additional three as candidates for closure; and Target opening at least four new stores in 2004 and one in 2005.

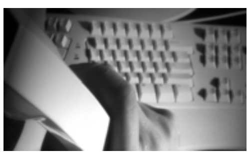
Maryland's distribution industry also continues to grow, with Burris Logistics, a temperature-controlled food distribution company, announced plans to add a new warehouse in Elkton, requiring 250 employees. Tractor Supply Co. expects to add 180 jobs by the end of the year in its expanded Hagerstown operation; as mentioned above, Lowe's and FedEx are also expanding their Hagerstown distribution operations.

Coming off of its best year in over 45 years, business at the Port of Baltimore is growing strongly. Mercedes just finalized an agreement to consolidate its activities in Harford County and Dundalk to the port as part of a major expansion. When the new facility is operational, the company will ship nearly double the number of vehicles through the port, from 86,000 annually to about 160,000. This deal alone will increase the number of vehicles through the port by over 10%. With Jaguar also doubling the number of automobiles sent through the port, to about 15,000 annually under a new three-year contract, the port seems likely to retain if not expand its 50% market share in roll-on/roll-off cargo. In addition to an expanded facility for Mercedes, new facilities will be built at the port for paper and wood products imports. These developments, along with the hiring of an experienced marketing director and a Baltimore City law which will help preserve large waterfront parcels for future expansion of the port, will sustain growth at the port despite several concerns. Hampton Roads has improved its competitive position in container cargo with an agreement with A.P. Moller-Maersk, the world's largest shipping line, for a $450 million terminal, and cruise ships have not as yet found Baltimore as attractive a location for departures as had been hoped.

Baltimore-Washington International Airport is nearing the end of a tumultuous period; despite a major expansion, increased security concerns and continuous difficulties in the airline industry, the airport has been one of the best performers in the country. The expansion project continues on schedule, with a new rental car facility, 8,400-car parking garage, and a skywalk opening in the past year; the addition of 26 gates in concourses A and B will be complete by the end of 2005. USAirways, with 36 daily flights and over 5% of the passenger market at BWI has declared bankruptcy, and is seeking $1.5 billion in concessions from its employees; its pilots just approved an agreement that could reduce their pay and benefits by $300 million system-wide. Southwest Airlines remains the predominant airline at the airport with almost half of the passenger market, but recently began service at Philadelphia International Airport. Airport officials are not overly concerned about competition from Philadelphia, as most Pennsylvania customers of BWI come from the central part of the state. Southwest, Air Tran and USA 3000 have all added flights to BWI this year, though not at the pace of past years.

Notwithstanding the relative stagnation of flights and the loss of an Army contract to serve as the main point of entry for rest and recuperation flights from the Middle East (which funneled about 80 servicemen daily through the airport), traffic has increased substantially in 2004. Passenger traffic is up 7.2% and cargo traffic up 12.8% through August. If this pace continues through the remainder of the year, new traffic records will be set, with passenger traffic exceeding the previous height attained in 2001. This growth at both the Port of Baltimore and BWI, along with the above-mentioned boom in distribution centers in Hagerstown and elsewhere in the State, will lead the transportation sector out of the doldrums to growth of 0.5% in 2004 and strong 3.1% growth in 2005.

The ongoing impact of utility deregulation has resulted in a three-year decline in utility employment that exceeds that of the manufacturing sector. Constellation Energy is growing and very profitable, but that growth and profit arises from its energy marketing and management operations, not the utility operations of BGE, its largest component. Troubled Allegheny Energy realized a profit in the first quarter of the year, its first in over two years, but losses returned in the second quarter. The company relocated about 50 workers from the State when it moved its headquarters from Hagerstown to Greensburg, Pennsylvania. Utility employment will decline by 6.1% this year, with losses moderating in 2005 and 2006. Altogether, these factors will result in employment growth in the trade, transportation and utilities sector of 1.1% in 2005 and 1.6% in 2006.

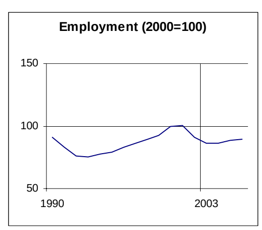


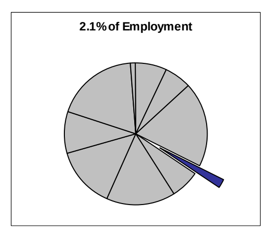
Information Services

The information services sector will be stagnant in 2004, although that is a significant improvement over the prior two years in which the bursting of the high-tech bubble caused the sector to lose 8.9% and 5.8% of its jobs. Through August, the sector is accelerating faster than any other part of Maryland's economy save leisure and hospitality services. Unlike that industry, however, information services boasts the second-fastest growth in average weekly wage, at a very strong 13.1% (in the first quarter, the latest data available).

Year	Employment	
	Number	Change
2003	50.2	-5.8%
2004	50.2	0.0%
2005	51.5	2.7%
2006	52.3	1.4%

(thousands)





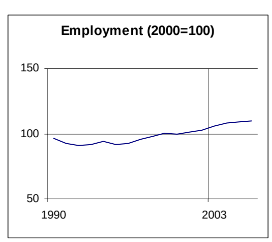
Verizon Wireless announced that it would be adding 300 new jobs in the area, primarily at its Laurel call center. Verizon Wireless, a joint venture between New York-based Verizon and London-based VodaFone, continued to add new customers. By contrast, Verizon saw a continued decrease in lines and revenue from traditional wired phone services. This is consistent with national trends, as it is expected that in 2005 households will spend more on wireless phone services than land lines for the first time ever. The company is adding 300 employees throughout the State, including at its call center in Laurel, and recently announced plans to add millions of homes in nine states to its fiber-optics network, which will result in 3,000 to 5,000 additional jobs by the end of 2005, many in Maryland.

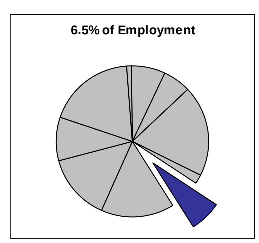
Not just the big players are growing. USi, recovering from a severe downturn, will be increasing net employment by about 130 positions resulting from its purchase of Appshop, a provider of online Oracle applications. Columbia-based i2S recently received $2 million in financing, helping it to expand its information services consulting business; Silver Spring’s Optimus just received a $16 million contract from the Environmental Protection Agency; and iBiquity, the only FCC-approved provider of digital radio equipment, will get a boost as the Corporation for Public Broadcasting recently gave over $2 million in grants to 29 public radio stations to help purchase digital broadcasting equipment. Baltimore’s Port Networks, a provider of wireless Internet service, recently purchased Oneder, a competitor, and plans to expand aggressively among both government and private sector customers. Rapid expansion is possible in a market that is expected to grow by 200% nationwide this year. Verizon is expanding its regional Wi-Fi network, Amtrak added Wi-Fi service to Baltimore’s Penn Station, and other efforts are underway across the State. This activity will redound to the benefit of network security providers Bluefire (wireless devices) and Columbia’s Sourcefire. Bluefire just joined a strategic partnership with Motorola and received a large infusion of cash, while Sourcefire is adding 35 jobs. Baltimore’s Cedar Group, a provider of educational software and services, moved about 15 employees from the Fairfax office of Software Armada, which it recently purchased. Due in part to these developments, the information services sector will grow by 2.7% in 2005, the best performance since 2000, and by a further 1.4% in 2006.

Financial Services

The financial services sector has been one of the best-performing industries in the State over the past three years. Of benefit to the industry have been continuing historically low mortgage rates and record levels of mortgage refinancing, higher asset management fees and stronger commercial borrowing activity; on the debit side of the ledger, very high levels of corporate profits have obviated the need for many businesses to raise cash through debt issuances (which is where most revenues for securities and brokerage companies arise), and the recent mutual fund scandals and sideways market have led to stagnant

Year	Employment	
	Number	Change
2003	155.9	3.0%
2004	158.3	1.5%
2005	160.0	0.8%
2006	161.3	0.6%
	(thousands)	





mutual fund inflows. On balance, though, the profit outlook for the industry remains strong. T. Rowe Price, which decided in mid-year to keep its headquarters and 1,100 employees in downtown Baltimore, has seen surging revenues and earnings for the first three quarters of the year. Company-wide, employment at the 4,000-strong firm grew by 6% in the first half of the year. Legg Mason has also seen a very strong 2004.

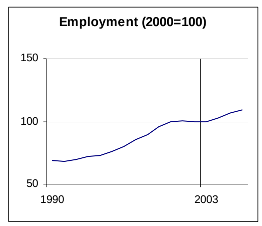
On the downside, CitiFinancial, an arm of CitiGroup, announced it would close its office in Hanover, eliminating 116 jobs. State Farm Insurance is consolidating some of its Maryland operations into its Charlottesville, Virginia office, taking between 400 and 500 jobs to the Commonwealth. The Rouse Co. announced that it would be acquired by General Growth Properties, a Chicago real estate developer. It is still unclear what will happen to Rouse's 3,000+ Maryland employees.

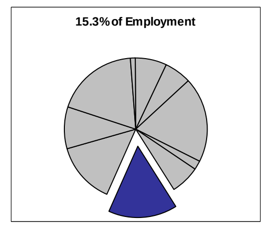
The number of bank branches in the State declined slightly (0.8%) from 2003 to 2004, but deposits increased by 5.4% to $85 billion. The market leaders, Bank of America (18.7% market share in 2004), M&T Bank (8.9%) and Chevy Chase Bank (8.1%) remain unchanged in 2004. Bank of America, which bought FleetBoston Financial, will reduce its company-wide workforce by 13,000 jobs, or about 7%. How much of that impact will fall on Maryland is unknown, although since FleetBoston had no branches in Maryland the impact seems likely to be minimal.

The trend of mergers and acquisitions in Maryland's banking industry continues, and it is not limited to the largest banks–some smaller, regional banks are strengthening their positions through purchases or consolidations. Susquehanna Bank combined its eight subsidiaries into three, with "limited" position reductions. Mercantile Bankshares, which purchased Frederick's F&M Bancorp last year, turned 11 of its community bank affiliates into four. A number of back office employees were let go, although most customer service employees were retained. Provident Bank, Maryland's eighth largest, purchased Southern Financial, which opens up the Virginia and DC markets. While such activity seems likely to continue, reducing bank employment, and rising interest rates will take their toll, the financial services industry as a whole will continue to grow, at 1.5% in 2004, slowing to 0.8% and 0.6% in 2005 and 2006, respectively.

Professional and Business Services

Year	Employment	
	Number	Change
2003	361.0	-0.1%
2004	370.1	2.7%
2005	385.1	3.8%
2006	395.3	2.7%
	(thousands)	





The professional and business services sector, in addition to being the third largest supersector in the State, is also the most diverse. It includes companies of several employees to well over 1,000, at all levels of education, skill and pay—from janitorial services companies to law, architectural and engineering firms. In the late 1990s, this industry was one of the major drivers of the State's economy, growing at a striking 5.3% annually from 1995 to 2000. With the recession, however, its fortunes dimmed, with employment declining by 0.9% in 2002 and 0.1% in 2003. The profits recovery and resoloution of uncertainty prior to the war in Iraq, among other factors, have led to a resurgent business spending on services. The sector, which has grown by 2.1% for the eight months through August, has accelerated throughout the year; employment in August was 4.4% over the level of August 2003. Not only is this sector currently the third largest and the third fastest growing in the State, but wages are growing at 5.0%, the fourth fastest rate.

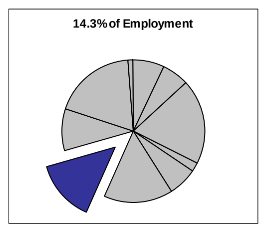
Growth in the sector will be supported by all types of companies. Bechtel is relocating a unit from San Francisco to Frederick, bringing over 100 new jobs to the State from California and another 78 from Virginia. The Bechtel National division is responsible for most of the company's contracts with the federal government. Bechtel currently has about 1,500 employees in Frederick. Internosis, an Arlington information technology contractor, announced in August it would move to Prince George's County. The company will bring about 170 employees initially and expects to have 250 employees in the county by 2006. Absolute Quality, a technical support and testing company, plans to expand its Hunt Valley operations from 133 employees. Booz Allen Hamilton is expanding its office space in Anne Arundel County by 60% to 162,500 square feet; as it is a strategy and technology consultant, much of that space will presumably be filled by new employees. Titan, an IT consulting firm, just announced its new Annapolis Junction five-story office building is open for business; the building has space for 600 employees.

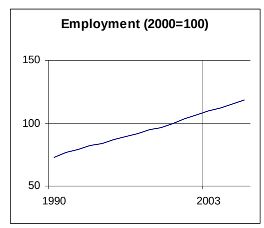
Baltimore advertiser Trahan, Burden and Charles has added a five-person corporate services division, essentially dealing in public relations. Baltimore Research, a Towson-based business and consumer research group, has increased employment by almost 50% this year to 66 positions, and plans to add another dozen next year. Battelle, whose two-year old Harford offices employ over 200 scientists, is exploring the possibility of constructing another facility on its 89-acre property. These developments can only hint at the activity of this very broad industry, which will finish 2004 with growth of 2.7%–over 25% of new Maryland jobs will come from this industry, which is currently under 15% of Maryland employment. This industry will grow by a stronger 3.8% in 2005, by far the best growth rate and the highest number of new jobs. Growth in 2006 will moderate to 2.7%.

Education and Health Services

The education and health services industry has been the fastest growing sector since the start of the recession, growing about 3% annually, as it did in the seven years leading up to the recession. As this supersector is the fourth-largest in the State's economy, providing over 340,000 jobs, this very steady growth has been extraordinarily helpful. Had this sector experienced no growth in 2002 and 2003, annual total employment growth in the State would have been almost 0.5 percentage points lower, and employment would actually have declined in both years.

Year	Employment	
	Number	Change
2003	339.0	2.5%
2004	346.8	2.3%
2005	356.2	2.7%
200	365.3	2.5%
	(thousands)	





The health services sector will suffer a blow when Sierra Military Health Services shuts its doors. The company–a health care provider for military beneficiaries–lost its only contract, which was with the Department of Defense. The contract expired August 31; by next April, all 744 employees will have been laid off. Another major threat to the health services sector is the rising cost of medical malpractice insurance. Rates of the primary malpractice insurer increased by 28% in 2004 and are expected to rise by an additional 33% in January 2005. Governor Ehrlich and legislative leaders have been discussing the possibility of a special session of the General Assembly to forestall such a large increase, but time is running short. Advocates for medical practitioners warn that many will simply quit the business rather than continue in an increasingly less profitable profession. A recent survey by MedChi, the State's association of doctors, found that 40% of the almost 800 respondents are considering closing their practice or leaving the State. This issue affects not just doctors, but nurse practitioners, nurses and others.

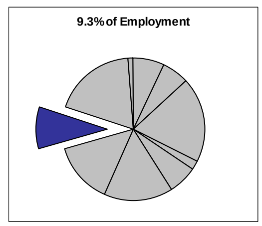
But the larger trends in the health care industry, aside from the obvious demographic ones, ensure that growth will continue. For reasons of both cost and customer convenience, diagnostic, outpatient and inpatient facilities are decentralizing–hospitals are no longer the sole choice for a variety of tests and treatment. This type of expansion will clearly result in growth of office employment, and likely for direct service providers as well. At the same time, hospitals continue to grow. Anne Arundel Medical Center is nearly out of space, only two years after moving out of downtown Annapolis; planning is underway for the center's needs through 2010. Kennedy-Krieger is also out of space; a new $15 million center for spinal cord research is currently under construction. Sinai Hospital in Baltimore anticipates adding a three-story addition for its emergency department, and St. Joseph Medical Center is constructing a 60,000 square foot cancer center. Franklin Square Center Hospital opened a similar-sized cancer center as part of an $18 million expansion.

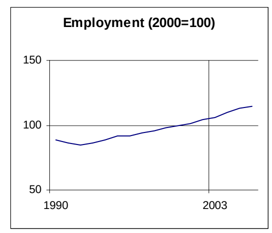
All of the hospital expansions will obviously require additional medical professionals and staff, which are in short supply. Other health services businesses continue to add employees. Symphony Health Services, a Hunt Valley spin-off of Integrated Health Services, will have added about 100 jobs by the end of this year to provide health services to schools, hospitals and nursing homes. American Healthways, a disease management company, opened a 70-nurse call center in Columbia last January; they anticipate adding a further 180 employees through the end of this year.

The education services component of this industry has also contributed to stability and growth during the recession, and will continue to grow as workers and students strive to attain the skills and knowledge necessary to succeed in today's information- and service-based economy. The Baltimore School of Massage signed a lease for 30,000 square feet in Annapolis, which is twice the size of its old Baltimore campus. RWD Technologies has added a group to provide training to federal employees, with an initial focus on enterprise resource planning software. The Baltimore company will add about 20 employees for this group by next year. Mitretek Systems just opened a five-person office in Linthicum to help the National Security Agency with security-related training. Washington Post subsidiary Kaplan Education opened a business school branch campus in Frederick offering certificate programs in health-related fields. Sylvan Learning Systems split itself into two groups in mid-year by selling off its K-12 tutoring business, which became Educate Inc.; the remaining business, focusing on the higher education market, became Laureate Education. Both are expanding rapidly nationally and, in the case of Laureate, internationally, though it is not clear how much this growth will affect their Baltimore headquarters. With strength from both the health and education sides, this sector will continue its very consistent growth, increasing employment by about 2.7% in 2005 and 2.5% in 2006.

Leisure and Hospitality Services

Year	Employment	
	Number	Change
2003	218.6	1.6%
2004	226.4	3.6%
2005	233.1	2.9%
2006	236.1	1.3%
	(thousands)	





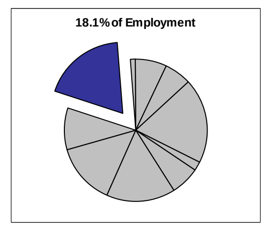
The leisure and hospitality services industry is currently the fastest growing industry in the State, with growth of 4.7% for the year through August, and August employment a full 8.5% higher than the level of August 2003. On an aggregate level, that fast growth compensates for the fact that the growth in average weekly wages is the second slowest in the State at a meager 2.7%. Growth in this sector is all the more remarkable given the lingering effects of September 11 (with passenger traffic at BWI yet to recover to 2000 levels) and the high gas prices that have persisted throughout most of the year. The State broke a new tourism record in 2003, with over 20 million visitors, and expects to top that in 2004. The biggest growth is in cultural attractions and African American tourism. Hotel occupancy was very strong in the spring and summer, with many hotels hiring well above last year's levels, and several having to bump customers to other hotels. Rates, however, appear to have remained flat.

Phillips Foods, a mainstay of the Maryland restaurant landscape, has opened the first two "fast-casual" Phillips Famous Seafood restaurants in Rockville and Silver Spring, with up to eight more to follow by the end of 2005. But Phillips and other restaurant companies and hotels had difficulty this past summer in filling positions that in recent years have been filled by foreign students, largely due to increased security concerns affecting both the granting of visas and actual travel. Phillips was only able to get about 20% of the 160 seasonal worker visas it needed for its Ocean City outlets. Labor shortages caused by limitations on the temporary foreign worker program has affected this industry more than any other except perhaps the health services industry. The opening of the restored Hippodrome Theater in downtown Baltimore has spurred the establishment of several new restaurants, and promises to reinvigorate the area around Lexington Market. Towson, Pikesville and Bethesda are also experiencing growth in the restaurant business, from chains such as McDonald's Chipotle Mexican Grill, Panera Bread and, of course, Starbucks, to stand-alone Irish, Indian and other ethnic eateries.

The recently-formed Camden Yards Sports and Entertainment Commission under the Maryland Stadium Authority is intended to provide a coordinated effort to bring high-profile events to M&T Bank Stadium and Oriole Park. Should the commission succeed, the leisure and hospitality services sector should experience some very large paydays in the near future, if not even more substantial growth. This industry is expected to moderate to 2.9% growth in 2005 and to slow further in 2006, largely due to the fact that recent gains will be consolidated and that other, higher-paying sectors of Maryland's economy will provide better opportunities for many individuals.

Government

Year	Employment	
	Number	Change
2003	462.7	0.4%
2004	459.1	-0.8%
2005	461.2	0.5%
2006	463.3	0.5%
	(thousands)	



Government employment stabilized the Maryland economy in the recent recession. The impact of that downturn on State and local government revenues, however, has caused a dramatic slowdown. In 2002, when total employment grew by a slight 0.4%, government employment grew by 2.0%. The following year saw a deceleration in the government sector to 0.4% growth, compared to an even lower 0.2% growth rate statewide. In 2004, though, as the private sector has recovered and total employment will grow by 1.5%, government employment will drop by 0.8%, the only supersector other than manufacturing to decline.

Federal spending has provided a substantial boost to the Maryland economy, but direct federal employment has stagnated of late, dropping 1.1% in 2004 after a flat 2003. Very modest growth is expected in the next several years as the federal government's fiscal position will remain precarious. One growth area, however, is the National Security Agency, already the State's largest employer. The aforementioned evictions from Ft. Meade are to accommodate the NSA's growth. Declining employment may be mitigated to a degree as Congress appears to be moving towards approval of a 3.5% cost of living adjustment for federal employees in 2005 (the bulk of federal retirees are receiving a 2.7% COLA).

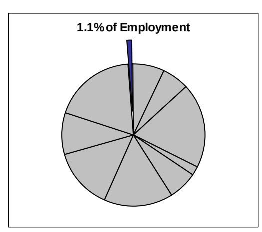
The State's budget situation has been much worse much longer than the federal government's. Several years of hundreds of millions of dollars of budget actions simply to balance the budget have taken their toll on State government employment. A hiring freeze was put into place in late 2001; while it was relaxed in mid-2003, it still exists. The number of authorized positions in the State budget for fiscal year 2005 is slightly lower than that which existed for fiscal year 2001. As the fiscal situation of the State will remain very tight until at least fiscal year 2009, any growth in State employment will be marginal at best.

Local government employment has fared better, partly because a major contributing factor to the State's budget problem has been mandated increases for aid to education. Local governments have also been supported by sizable property tax revenue increases due to continuing large increases in property values. Due to phased-in assessment increases and the homeowners tax credit program, property tax revenue increases lag property value increases.

One goal of the increased State aid for education is to reduce the student/teacher ratio, obviously by hiring more teachers. A recent report to the State Board of Education indicates that there is a shortage of teachers in the State–over 6,200 new hires were required for this school year, but the staffing pool fell over 400 individuals short. Even the Baltimore City Public Schools will add employees, the first increase in staff in several years, although many will be security staff. Despite the need, though, new hires (not net increases in employment) for the next few years are expected to be about 1,500 employees lower (20%) than over the past few years. Maintenance of effort requirements for education spending will also crimp other local government expenditures and therefore employment; what growth in state and local government does come over the next two years–expected to be under 1% annually–will come almost entirely from K-12 education.

Agriculture

Year	Employment Number	Employment Change
2003	25.6	-0.7%
2004	26.5	3.5%
2005	27.0	2.2%
2006	27.5	1.7%
	(thousands)	



Japan lifted its ban on Maryland poultry since it appears that avian influenza has been eliminated. The ban was also lifted on poultry from Delaware and Rhode Island, but continues on Connecticut, New Jersey and Texas. The ban affected about 2,000 poultry farms in Maryland, the largest sector in the State's agricultural industry, followed by greenhouse/nursery, milk and dairy, and vegetables. Maryland's corn harvest is expected to be at a near-record amount for 2004: 63.8 million bushels, or a yield of 152 bushels per acre. Soybean production is up 26% this year. Maryland corn and soybeans are used primarily as animal feed. Reversing a trend that started with tobacco farm buy-outs, tobacco harvests are up 13% over 2003 to 1.8 million pounds.

Farmers continue to be pinched by a number of factors. The high cost of energy affects them both directly and indirectly because natural gas is a raw material for fertilizer. High steel prices make farm equipment more expensive, and declining agricultural subsidies reduce farm revenue.

The Chesapeake Bay continues to sputter, with most commercial fishing yields down in 2003. The 2004 commercial rockfish quota was set at 1.873 million pounds, but through the end of October, only 2/3 of that amount had been landed. In 2003 the total commercial landing was 1.8 million pounds. The catch of other fin fish totaled 8.7 million pounds, down from 2002's total of 10.6 million pounds. The recovery of the blue crab harvest continues to slow, with 26.4 million bushels pulled out of the State’s waters in 2003, only 1.4 bushels million more than in 2002, and far below the 10-year high of 45.5 million bushels in 1994. Chesapeake Bay oysters are virtually extinct for commercial purposes. The 2003-2004 harvest was about 25,000 bushels, only a quarter of what it was in 2002-2003, and 1% of what it was as recently as 1981. One hope for the watermen is the State program of seeding oyster bars in and around the Bay with Asian oysters, although this is a nascent program from a harvesting standpoint. Employment growth in the agricultural sector will continue, although it is likely there will be fewer and fewer jobs on the water.

Table 2

Forecast of the Maryland Economy

	2000	2001	2002	2003	2004	2005	2006
Total Non-Agricultural Employment (thousands)	2,450.0	2,467.4	2,476.8	2,481.9	2,514.4	2,563.1	2,605.0
	2.7%	*0.7%*	*0.4%*	*0.2%*	*1.3%*	*1.9%*	*1.6%*
Total Personal Income ($ in millions)	181,958	191,257	198,544	206,166	217,624	229,936	242,889
	8.9%	*5.1%*	*3.8%*	*3.8%*	*5.6%*	*5.7%*	*5.6%*
Wages and Salaries	93,833	98,633	102,042	105,893	111,766	118,258	124,585
	7.8%	*5.1%*	*3.5%*	*3.8%*	*5.5%*	*5.8%*	*5.4%*
Proprietors' Income	10,934	12,414	12,927	13,959	15,101	15,968	17,096
	15.0%	*13.5%*	*4.1%*	*8.0%*	*8.2%*	*5.7%*	*7.1%*
Dividends, Interest and Rent	32,998	33,529	33,052	32,535	33,555	35,133	36,810
	9.3%	*1.6%*	*-1.4%*	*-1.6%*	*3.1%*	*4.7%*	*4.8%*
Residence Adjustment	19,893	20,313	21,149	22,245	23,772	25,175	26,662
	13.0%	*2.1%*	*4.1%*	*5.2%*	*6.9%*	*5.9%*	*5.9%*
Transfer Payments	18,245	19,896	21,405	22,783	23,977	25,269	26,745
	5.6%	*9.0%*	*7.6%*	*6.4%*	*5.2%*	*5.4%*	*5.8%*
Capital Gains	11,294	5,365	3,735	4,202	4,412	4,677	4,958
	21.3%	*-52.5%*	*-30.4%*	*12.5%*	*5.0%*	*6.0%*	*6.0%*
Unemployment Rate (%)	3.8	4.0	4.4	4.5	4.1	4.2	4.2
Housing Starts (units)	30,014	29,831	29,786	28,844	27,749	27,484	27,057
	-0.6%	*-0.6%*	*-0.2%*	*-3.2%*	*-3.8%*	*-1.0%*	*-1.6%*

Bureau of Revenue Estimates, December 2004

General Fund Revenues

In preparing these estimates, all of the State's revenue collecting agencies were consulted. In addition, the Board of Revenue Estimates continued to rely on the Revenue Monitoring Committee, comprised of key State staff with revenue estimating collection responsibility or knowledge. The committee compared and considered alternative economic forecasts from economists at the University of Maryland, RESI, and Sage Policy Group as well as national economic consulting firms Economy.com and Global Insight.

In addition, the Board considered the advice and recommendations of the Business Advisory Panel. The panel, including representatives from various sectors of the economy and regions of the State and several economists, was consulted on the economic outlook. The Board of Revenue Estimates has incorporated the advice and comments of the Business Advisory Panel into the economic assumptions that underlie the revenue forecast.

Table 3 shows detail on general fund and selected special fund revenue sources for fiscal years 2004 through 2006. Table 4 provides further detail on general fund revenues. The following sections of this report provide detail on each of the State's general fund revenue sources.

Table 3

Selected Revenues

Fiscal Years 2004 - 2006

$ Thousands	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 2004 Actual	Fiscal Year 2005 Revised Estimate	Fiscal Year 2006 Estimate	Fiscal Year 2004 Actual	Fiscal Year 2005 Revised Estimate	Fiscal Year 2006 Estimate	Fiscal Year 2004 Actual	Fiscal Year 2005 Revised Estimate	Fiscal Year 2006 Estimate
INCOME TAXES									
Personal	5,077,581	5,376,238	5,718,090				5,077,581	5,376,238	5,718,090
Corporation	328,553	420,093	466,676	103,754	132,661	147,371	432,307	552,754	614,047
Total	5,406,134	5,796,331	6,184,766	103,754	132,661	147,371	5,509,888	5,928,992	6,332,137
SALES AND USE TAXES	2,921,794	3,086,586	3,229,679	23,265	23,265	23,940	2,945,059	3,109,851	3,253,619
STATE LOTTERY RECEIPTS	436,373	446,195	461,059	72,563	73,052	72,817	508,936	519,247	533,876
TRANSPORTATION REVENUES									
Motor Vehicle Fuel Tax	13,026	13,319	13,622	733,129	749,481	766,278	746,155	762,800	779,900
Motor Vehicle Licenses, Fees				409,581	593,580	606,162	409,581	593,580	606,162
Motor Vehicle Titling Tax				719,757	733,000	750,000	719,757	733,000	750,000
Maryland Transit Fees				108,577	110,000	110,000	108,577	110,000	110,000
Maryland Port Fees				90,600	94,000	92,000	90,600	96,000	92,000
Maryland Aviation Fees				140,458	125,000	162,000	140,458	125,000	162,000
Total	13,026	13,319	13,622	2,202,102	2,405,061	2,486,440	2,215,128	2,420,380	2,500,062
PROPERTY TAXES, FRANCHISES, ETC.									
State Real and Personal Property Tax				468,355	512,824	566,629	468,355	512,824	566,629
Property Transfer Tax				181,371	215,259	194,492	181,371	215,259	194,492
Business Franchises and Filing Fees	190,637	194,918	194,813				190,637	194,918	194,813
State Tobacco Tax	272,430	270,222	265,747				272,430	270,222	265,747
Tax on Insurance Companies	260,046	274,072	277,313				260,046	274,072	277,313
Alcoholic Beverages Excises	26,863	26,957	27,386				26,863	26,957	27,386
Death Taxes	153,774	164,281	160,396						
Clerks of the Court	56,810	47,306	42,337						
District Courts	84,402	84,299	83,707				84,402	84,299	83,707
Hospital Patient Recoveries	90,852	84,035	83,751						
Interest on Investments	26,604	50,846	42,346		--- See Notes ---			--- See Notes ---	
Miscellaneous Fees, Other Receipts	300,957	329,886	239,381						
Total	1,463,375	1,526,822	1,417,177						
Total Current Revenues	10,240,702	10,869,253	11,306,303					--- See Notes ---	
Extraordinary Revenues	-36,378	151,043	-	3,643	47,698	-			
GRAND TOTAL	10,204,324	11,020,296	11,306,303		--- See Notes ---				

Notes: Includes all general fund revenues, all Transportation revenues and selected special fund taxes. Additional federal recoveries were received in fiscal year 2004.

Fiscal year 2004 extraordinary revenues include $11.5 million from the Comptroller's Delaware holding company settlement and a GAAP transfer of -$50.4 million. Fiscal year 2005 extraordinary revenues are revenues from the legislatively-mandated Delaware holding company settlement.

In conjunction with Appendix B of the Fiscal Year 2006 Budget Book, this table will comprise the official estimate of total state revenues.

Table 4

Maryland General Fund Revenues

Fiscal Years 2002 - 2006

$ Thousands	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Official Estimate	FY 2005 Revised Estimate	FY 2005 Difference	FY 2006 Estimate
INCOME TAXES:							
Personal	4,771,649	4,703,738	5,077,581	5,350,873	5,376,238	25,365	5,718,090
Corporation	273,235	288,274	328,553	376,341	420,093	43,752	466,676
Total	5,044,884	4,992,012	5,406,134	5,727,214	5,796,331	69,117	6,184,766
SALES AND USE TAXES	2,642,477	2,697,061	2,921,794	2,971,089	3,086,586	115,497	3,229,679
STATE LOTTERY	414,063	422,945	436,373	441,410	446,195	4,785	461,059
FRANCHISES, EXCISES, LICENSES, FEES:							
Business Franchise Taxes	145,180	143,364	190,637	193,824	194,918	1,094	194,813
Tax on Insurance Companies	193,718	228,476	260,046	254,085	274,072	19,987	277,313
Death Taxes	184,725	142,311	153,774	139,824	164,281	24,457	160,396
Tobacco Tax	209,887	199,201	272,430	264,256	270,222	5,966	265,747
Alcoholic Beverages Excise Tax	25,747	25,651	26,863	26,737	26,957	220	27,386
Motor Vehicle Fuel Tax	12,266	12,520	13,026	13,109	13,319	210	13,622
District Courts	72,592	71,573	84,402	79,367	84,299	4,932	83,707
Clerks of the Court	42,634	51,573	56,810	42,674	47,306	4,632	42,337
Hospital Patient Recoveries	97,788	73,681	90,852	77,127	84,035	6,908	83,751
Interest on Investments	71,510	31,901	26,604	48,100	50,846	2,746	42,346
Miscellaneous	198,598	224,751	300,957	254,796	329,886	75,090	239,381
Total	1,254,644	1,205,002	1,476,401	1,393,899	1,540,141	146,242	1,430,799
Total Current Revenues	9,356,068	9,317,020	10,240,702	10,533,611	10,869,253	335,642	11,306,303
Extraordinary Revenues	147,974	12,119	(36,378)	8,270	151,043	142,773	--
GRAND TOTAL	9,504,042	9,329,140	10,204,324	10,541,881	11,020,296	478,415	11,306,303

Individual Income Tax

Maryland's individual income tax posted strong 8.0% growth in fiscal year 2004, rebounding from two consecutive years of decline. Growth was boosted by a package of administrative and compliance measures enacted in 2003, including the requirement for a tax clearance before most state licenses can be renewed, a streamlined process for attaching bank accounts for delinquent tax liabilities, the removal of the effect of graduated income tax rates on withholding, and a requirement for withholding of tax from sales of real estate by nonresidents. These measures generated almost $70 million in fiscal year 2004, providing about 3.4 percentage points of the growth. Baseline growth of 4.6% reflected the state of the economy–accelerating throughout the fiscal year, but still suffering some of the effects of the stagnation in employment following the 2001 recession.

Baseline liability for tax year 2003, much of which is paid in fiscal year 2004, increased by 4.0% over the prior year. The growth rate of withholding almost doubled to 4.1%–still somewhat weak. Estimated payments, however, declined for the third straight year. The 1.7% reduction is most likely not attributable to capital gains, as they have declined to a level about one-third of the peak reached just three years before and no longer have a substantial impact on Maryland income tax revenues. The decline, which did represent a large improvement over the 10.4% decline of the prior year, was probably due to the effect of the slow economy on self-employed individuals and others from whose pay taxes were not withheld.

The baseline tax year 2004 forecast shows improvement almost across the board. Withholding continued to accelerate as employment growth improved throughout the year (from July through October, employment was at levels about 2% higher than the same period in 2003). Withholding is expected to finish 2004 with 5.0% growth, and will perform even better in 2005 as employment increases at 1.9% for the entire year, supporting the strongest growth in wages and salaries since 2000. Estimated income tax payments will improve even more for 2004, again with little assistance from capital gains, which are expected to grow in the mid-single digit range. Rather, strong growth of 15.0% will result from the effect of the improving economy and increased propensity of businesses to spend on services, resulting in a much better year for Maryland's small businesses, consultants and contractors (many of whom do not have taxes withheld from their income). Given the recent rise in property values, estimated payments may also be receiving a boost from real estate sales. Growth in estimated payments will moderate to 5.7% for tax year 2005. Overall liability will increase by an estimated 6.4% in 2004, by far the best performance since 2000, but barely half the growth rate of that year (which simply shows how strong the economy and the income tax were performing prior to 2001). Growth will continue at about the same rate for tax year 2005.

On a fiscal year basis, baseline withholding is expected to grow by 5.2% in fiscal year 2005, improving to solid 6.1% in fiscal year 2006. Withholding will be boosted by the continuing effect of a number of legislative changes effective for a full fiscal year for the first time, including the flat rate of withholding and the withholding of tax from real estate sales of nonresidents. In addition, six counties, including some of the largest and wealthiest in the State, raised their local income tax for tax year 2004, resulting in the collection of 1.85% more income tax than otherwise would have been the case. Much of that revenue will be received as withholding. These changes will result in growth of actual withholding receipts of 6.8% in fiscal year 2005, slowing to 6.2% in 2006 as the effect of those changes on growth (although not the level of collections) goes away.

Baseline estimated payments are expected to grow by 9.6% in fiscal year 2005, slowing to 5.9% in 2006. Two factors will result in actual collections increasing by 12.6% in 2005 and by 6.3% in 2006–the aforementioned increase in local income taxes, and a new requirement for a tax on nonresidents in the amount of the minimum local income tax rate in effect. Fiduciary payments have recovered strongly along with the economy, and are forecast to grow by 10.0% and 11.4% in 2005 and 2006; unfortunately fiduciary payments comprise a very small piece of the income tax, so the strong growth will not have a large impact on the bottom line. Baseline final payments will grow by 9.4% in 2005 and 8.1% in 2006; actual final payments are expected to grow by 16.4% in 2005 and 7.0% the following year. The sizable increase is largely due to the fact that the new tax on nonresidents was retroactively effective at the beginning of 2004, and it is thought that payments through the year will not reflect the full liability.

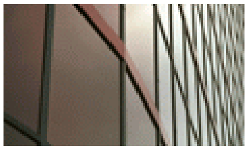
Refunds are expected to increase by 11.0% in fiscal year 2005. Much of this increase reflects three factors. Removing the impact of graduated rates on withholding did not change liability; any amounts withheld over and above tax liability will be refunded when tax returns are filed (although approximately $10 million will be collected for delinquent liabilities than otherwise would have been). The refundable earned income credit increases from 18% to 20% of the federal credit for tax year 2004, boosting refunds by about $15 million. And not as many heritage structure rehabilitation credits were claimed for tax year 2003 as had been previously expected, so the pool of earned but unclaimed credits is higher than previously thought.

Net collections are expected to grow by 7.7% in fiscal year 2005, slowing to 6.1% in 2006. After the distribution of local revenues, which will increase by 10.6% in 2005 due to the tax year 2004 rate increases, and $2 million for the income tax checkoffs, general fund revenues will total an estimated $5.376 billion in fiscal year 2005, 5.9% above fiscal year 2004 collections. In fiscal year 2006, general fund revenues will total $5.718 billion for growth of 6.4%.

Table 5
Individual Income Tax Revenues
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Gross Receipts (State & Local)				
Withholding	7,413,434	7,901,872	8,440,214	8,962,601
Estimated Payments	991,133	1,074,042	1,208,850	1,284,265
Payments with Final Returns	701,829	824,392	959,876	1,027,004
Fiduciary	40,015	53,439	58,806	65,533
Gross Receipts	9,146,411	9,853,745	10,667,746	11,339,403
Refunds	(1,552,801)	(1,603,438)	(1,783,603)	(1,916,784)
Net Receipts, State & Local	7,593,610	8,250,307	8,884,143	9,422,619
Local Reserve Account	(2,888,316)	(3,170,970)	(3,505,905)	(3,702,529)
Income Tax Check-offs	(1,555)	(1,755)	(2,000)	(2,000)
Net General Fund	4,703,738	5,077,581	5,376,238	5,718,090

Figures may not sum to totals due to rounding.



Corporate Income Tax

Corporate income tax revenues grew by 18.0% in fiscal year 2004, largely due to resurgent corporate profits. Excluding the impact of a settlement offered by the Comptroller for companies who had taken advantage of the Delaware holding company loophole, net revenues increased by 14.1%. Corporate profits peaked nationwide in the fourth quarter of 1999 before falling on a year-over-year basis for eight straight quarters. Since the start of 2002, however, growth has been robust–profits grew 14.0% in 2002 and 16.75% in 2003; for the first three quarters of 2004, profits have increased by 23.3%. The impact of this strong profit recovery has just now appeared in the State's books, as would generally be expected. Strong growth in tax receipts has continued in fiscal year 2005, with baseline gross receipts through November increasing by 17.8% over the first five months. In addition, refunds are down 23.7%; baseline net receipts have therefore grown a striking 62.2%.

The 2004 General Assembly adopted two pieces of legislation addressing the Delaware holding company issue. One bill allowed a settlement for delinquent holding company-related taxes—taxes prior to 1995 were waived, and penalty and half of the interest were waived for holding company liability for 1995 to the present if the full amount was paid by November 1. The other bill addressed the problem going forward by requiring parent companies to addback intangible transfers to holding companies, or the holding companies themselves have to file a Maryland income tax return.

The settlement offer was taken by 443 companies (parents and holding companies) and resulted in net collections of $198.7 million ($207.8 million of payments net of $9.0 million of refunds related to the Comptroller's settlement offer of last year). This revenue will be distributed as is all corporate income tax revenue–76%, or $151.0 million to the general fund, and the remainder, $47.7 million, to the Transportation Trust Fund.

The other piece of legislation requiring the addback was effective July 1. One provision of this bill required taxpayers to include this liability in their September estimated payments for all of tax year 2004 through that month. While any firm estimate of the fiscal impact of the addback will not be known until 2004 returns are filed (most likely September 2005 for calendar year taxpayers, although many tax year 2004 returns will not be received until March 2006), based on tax-year-to-date growth through August, it is estimated that September estimated payments included $18.8 million attributable to holding company liability. Some taxpayers would have reflected three quarters of liability in the September payment, while some would have reflected much less if their tax year started after January 1. Those taxpayers whose tax year starts after September 30 will not have reflected any impact of this legislation in their September payment. It is estimated that the full-year effect of the addback is $30 million; due to timing issues, $41.25 million will be received in fiscal year 2005.

Corporate income tax revenues will continue to be affected by the heritage structure rehabilitation tax credit. Based on the past distribution of credits on individual and corporate income tax returns, credits for completed projects which have yet to appear on a tax return, and the anticipated completion dates of uncompleted projects, the corporate income tax forecast includes $34.2 million of heritage credits in fiscal year 2005 and $7.6 million in fiscal year 2006 under the program as it existed prior to the 2004 legislative session. Revenues will also be affected by the American Jobs Creation Act of 2004, a federal tax bill that largely deals with the taxation of income earned from international operations. At this time, the net impact of this legislation is thought to be relatively moderate, at $5 million for fiscal year 2006 and $10 million in 2007 and 2008.

Baseline growth in corporate income taxes (both net and general fund) will be 24.0% in fiscal year 2005, moderating to 9.2% in fiscal year 2006. Accounting for all changes except the holding company settlement, revenues will grow by 33.5% in fiscal year 2005—a marked slowdown from the current rate of growth. Bottom-line growth will slow sharply in 2006 to 6.5%.

Table 6

Corporate Income Tax Revenues

Fiscal Years 2003-2006

($ in thousands)

	2003 Actual	2004 Actual[1]	2005 Revised Estimate[2]	2006 Estimate
Gross Receipts	535,240	576,116	395,795	732,761
Refunds	(155,933)	(143,809)	(143,042)	(118,714)
Net Receipts	397,307	432,307	552,754	614,047
Transportation Trust Fund	91,034	103,754	132,661	147,371
Net General Fund	288,274	328,553	420,093	466,676

[1] Excludes $11,536,719 in general fund revenues from the Comptroller's Delaware holding company settlement.

[2] Excludes $198,740,984 ($207,784,377 less $9,043,393 in refunds related to the Comptroller's settlement offer) collected from the legislative Delaware holding company settlement, of which $151,043,148 went to the general fund and $47,697,836 to the Transportation Trust Fund.

Sales and Use Taxes

Sales tax revenue, over 28% of general fund revenue, will not perform as well as it did in fiscal year 2004, but 2004 was the best year for the sales tax since 1993 (and that year's growth was supported by several legislative changes). Last year, sales taxes were boosted by several factors including federal income tax reductions, mortgage refinancing and rebuilding after Hurricane , leading to outstanding growth of 8.3%. The impact of these events has faded, and growth will be more in line with economic fundamentals.

The consumer component of sales tax revenues, over two-thirds of net collections, grew by 7.3% in 2004 to just over $2 billion. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced federal income taxes by over $1 billion for Marylanders, resulting in greater disposable income. It is estimated that roughly 1.8 percentage points of the growth of consumer sales taxes is attributable to the impact of this federal tax cut. Mortgages refinanced in Maryland totaled about $70 billion in 2003, over $25 billion more than the prior year. While the amount representing cash taken out of the house is uncertain, it is reasonable to believe that funds spent after cash-out refinancing are responsible for some sizable portion of the growth in this category (both of these factors also played a large role in boosting construction-related sales tax revenues). Baseline growth of this segment was therefore in the neighborhood of 4.5% to 5.0% in 2004.

For the first four months of fiscal year 2005, revenues from this category have grown 4.8%. Growth for the full year is projected at 4.25%, and revenues will reach $2.087 billion. Growth will slow over the course of the year with no more impact from the aforementioned factors, and as high (though now falling) gas prices and rising interest rates take their toll. Baseline growth will be in the 6.0% range. In 2006, growth will slow to 5.1% as the economy moderates, with revenues reaching $2.193 billion.

Construction-related sales tax revenues, now over 15% of total sales tax revenues, grew by 15.9% in 2004, the best showing since (no doubt inflation-assisted) 1984. The federal tax cuts and mortgage refinancing led to a surge in home improvements, which, along with construction of new homes, was also helped by continuing low interest rates. And Hurricane Isabel led to additional construction spending in areas around the Chesapeake Bay and elsewhere. A huge surge in demand for materials, caused largely by the rapidly expanding Chinese economy and also by the four hurricanes that hit Florida, led to substantial price increases for plywood, cement, steel and other construction-related materials. These price increases explain part of the double-digit growth in revenues.

Low interest rates, the housing boom and high inflation for materials have all carried over into fiscal year 2005, leading to 12.9% growth through October sales. That growth will not be sustained, however, as interest rates rise and construction activity slows. For the full year, though, healthy growth of 10.6% is expected as revenues will rise to $492.6 million. In 2006, as building activity comes to a standstill, revenues will be nearly flat at $494.6 million.

Sales tax revenues from capital goods grew by 3.6% in 2004, after two consecutive years of declines. Federal tax incentives and the necessity to repair and replace worn out equipment have supported a resurgence in business investment that had diminished dramatically during the recession. Through four months of fiscal year 2005, these revenues have grown 7.6%, and they may in fact accelerate for two more months. But this growth rate is likely inflated above the baseline, and growth will slow the remainder of the year since one set of federal tax incentives for investment (the bonus depreciation) expires December 31. For the full year, capital goods revenues will increase 5.7%. Other federal tax benefits (enhanced §179 expensing) will continue through 2007; those benefits, along with the need for businesses to remain competitive in the marketplace, particularly with respect to information technology hardware and software, will result in 7.5% growth to $288.7 million in fiscal year 2006.

Utility revenues, largely from sales of utilities to commercial and industrial users, sales of equipment used by utilities, and cellular telephone service, are the smallest major component of the sales tax. These revenues grew by 5.9% in 2004, helped in part by high oil prices (revenues posted double-digit growth four of the last five months of the year). Revenue growth has been near that level through four months of 2005, at 9.1%, and will decelerate only slightly, finishing the year at 8.2% ($257.4 million). In 2006, with oil prices at lower levels and the cellular telephone market ever more saturated, growth will slow to 6.0% as revenues reach $272.8 million.

Assessments reached a level in excess of 1% of gross collections for the first time since the mid-1990s as the slow economy reduced turnover among the Comptroller’s auditors, resulting in a more experienced and productive staff, and because of a number of new compliance programs. Assessments are expected to continue at about the same level as last year, as are refunds. Revenues for the Transportation Trust Fund, from the sales tax on rental vehicles, are expected to be flat for fiscal year 2005 (they are currently down for the year) before growing modestly in 2006. Altogether, general fund sales tax revenues will reach $3.087 billion in fiscal year 2005 (growth of 5.6%) and $3.230 billion in 2006 (4.6% growth).

Table 7

Sales and Use Tax Revenues

Fiscal Years 2003-2006

($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Consumer	1,865,740	2,002,190	2,087,186	2,192,924
Construction	384,521	445,587	492,597	494,634
Capital Goods	245,127	254,024	268,498	288,675
Utilities	224,693	237,919	257,402	272,796
Net Collections	2,720,081	2,939,720	3,105,683	3,249,029
Assessments	17,160	29,720	27,845	29,359
Refunds	(17,078)	(24,381)	(23,677)	(24,770)
Transportation Trust	(23,102)	(23,265)	(23,265)	(23,939)
Total General Fund	2,697,061	2,921,794	3,086,586	3,229,679

Lottery

Lottery sales rebounded in fiscal year 2004, growing by a healthy 5.5% to nearly $1.4 billion. Instant ticket sales and Mega Millions, spurred by several large jackpots, provided between them $59.5 million of the $73.2 million increase in sales. The other major contributor to sales growth was Keno ($12.4 million), although its growth of 3.3% was less than half of its annual average growth since 1997. Pick 3 sales fell by 2.0%, continuing the long-term trend, but the $5.9 million in lost sales was nearly made up by the $4.5 million in increased Pick 4 sales (growth of 2.7%).

Fiscal year 2005 has started very strongly, with sales of three of the largest games–instant tickets, Keno, and Pick 4–all growing over 8.5% through the first five months of the year. Pick 3 is up 2.5% through November, and Mega Millions is up over 50% (due to large jackpots compared to a period last year when there weren't any). The only two games with declining sales are the smallest—Lotto and Bonus Match 5 represent under 4% of total sales. So far in fiscal year 2005, about $7.5 million in unclaimed prize fund balance has been used for a variety of promotions, particularly in the Pick 3 and Keno. An anticipated $15 million will be used in fiscal year 2005 and about $11 million in 2006.

Sales are not expected to continue at this pace throughout the year, although the Lottery Agency has developed new promotions and will continue to do so. While the addition of Sunday draws for Pick 3 and Pick 4 appears to have had no measurable impact on net sales, both games are expected to grow in fiscal year 2005. Pick 3, supported by additional promotions in the latter half of the year, is expected to finish the year up 2.0%. Prize payouts will be nearly 3 percentage points higher than last year, however, resulting in a 2.2% decline in revenues. Pick 4 sales, which seem to benefit whenever Pick 3 is promoted heavily, are expected to grow 6.5% this year, which would be the best performance since 9.5% growth in 1996. Unfortunately, a similar situation holds for Pick 4 with respect to prizes—payouts were abnormally low last year (47.4% of sales instead of the expected 49.5%), and they have been higher than statistically expected thus far this year. The payout ratio is expected to swing slightly over 3 percentage points, resulting in a revenue decrease of 0.2%. A return to trend growth and more normal prize payouts will result in a revenue decline of 1.2% for Pick 3 and a revenue increase of 4.0% for Pick 4 in fiscal year 2006.

Keno sales are expected to increase by 7.5% this year, which is nearly the average annual growth rate over the past seven years. A Keno doubler promotion had great success at the start of the year, and a new Keno tripler promotion will keep growth high. Sales growth will slow to 3.0% in 2006, largely as a result of the fact that opportunities for expanding the game are slim. Revenues will increase by 12.8% in fiscal year 2005 and by 4.8% in 2006, with the large 2005 increase a result of the use of unclaimed prize fund dollars.

Sales of instant ticket games are expected to grow by 7.5% in 2005, under the 10-year average of 10.9% but strong nonetheless. Revenues will grow at nearly that level, as prize payouts have been very close to expected levels both in fiscal year 2004 and thus far in 2005. Mega Millions is volatile, given the massive impact on sales that a large jackpot has, but the addition of Texas midway through the last fiscal year and restructuring of the game may make those jackpots of several hundred million dollars more likely. Sales are expected to total $75.7 million in fiscal year 2005, down substantially from 2004, a year in which there were several of the very large jackpots. Sales growth of 5% is expected for 2006. Revenue growth will follow those patterns.

Both Lotto and Bonus Match 5 sales are expected to be down, although the overall impact on the lottery will be minimal. For fiscal year 2005, $21.2 million will be distributed to the Stadium Authority; this amount will decline to $21.0 million in fiscal year 2006. Lottery general fund revenues will increase by 2.3% to $446.2 million in fiscal year 2005, and grow by a further 3.3% to $461.1 million in fiscal year 2006.

Table 8

Lottery Sales and Revenues by Game

Fiscal Years 2003-2006

($ in millions)

	Sales				Revenues[1]			
	2003 Actual	2004 Actual	Estimated 2005	Estimated 2006	2003 Actual	2004 Actual	Estimated 2005	Estimated 2006
Pick 3	296.7	290.8	295.8	289.9	138.9	126.7	124.0	122.5
Pick 4	203.7	209.2	222.8	226.7	79.2	89.2	89.0	92.6
Lotto	34.2	36.2	32.6	29.3	13.8	14.2	13.6	12.8
Cash-in-Hand & Instant Win	3.2	2.9	--	--	1.3	0.6	--	--
Instant	316.7	355.0	381.6	404.5	64.3	67.9	73.3	78.7
Keno	377.4	389.8	419.0	431.6	112.1	115.0	129.6	135.9
Match 5	21.3	21.2	20.7	20.7	7.2	7.3	6.9	7.0
Mega Millions	69.2	90.3	75.7	79.5	28.2	37.6	31.0	32.6
Total	1,322.2	1,395.4	1,448.3	1,482.3	444.9	458.4	467.4	482.1
Less Stadium Authority Revenue					(21.9)	(22.0)	(21.2)	(21.0)
General Fund Revenue					422.9	436.4	446.2	461.1

Figures may not sum to totals due to rounding.

[1] Special fund revenues (the Lottery Agency's operating expenses) of $51.9 million in 2003 and $50.6 million in 2004 are not included in revenues; these revenues, generally proportional to sales by game, are expected to be $51.8 million in both 2004 and 2005.

Business Franchise Taxes

Business franchise taxes have changed substantially in the past several years. With the deregulation of electric utilities, the public service company franchise tax was changed in 2000 from 2% of gross receipts to a 2% tax on distribution and a tax of 0.062¢ per kilowatt hour and 0.402¢ per therm of natural gas. The financial institution franchise tax was repealed in tax year 2001, with the tax base shifted to the corporate income tax. A gross receipts tax of 2% still applies to telecommunications companies.

Revenues from the public service company franchise tax will be relatively stagnant over the next several years. Modest growth is expected from the taxes on electricity and natural gas as the number of households, businesses, and general economic activity increases. This growth will be offset by declines in tax revenue from telecommunications companies. While the declines in the cost of telecommunications services over the past several years may have stabilized, the tax base is now under threat from the increasing use of the Internet for telephony. There is a risk to the forecast that such use will increase dramatically over the forecast period, eroding revenues more than currently anticipated.

The 2003 General Assembly adopted legislation that increased the filing fee from $100 to $300 for corporate entities doing business in the State, and applied the filing fee to most noncorporate entities (all except partnerships and sole proprietorships). This change resulted in a revenue increase of over $38.5 million, bringing filing fees to $53.2 million in fiscal year 2004. Revenues will increase further in fiscal year 2005 to an estimated $58.5 million with the fee increase affecting late filings.

Table 9
Business Franchise Tax Revenues
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Public Service Company Franchise Tax	130,142	137,373	137,168	136,185
Financial Institution Franchise Tax	(1,409)	20	(750)	(750)
Filing Fees	14,631	53,244	58,500	59,378
Total	143,394	190,637	194,918	194,813

Insurance Premium Tax

The insurance premium tax is levied at a rate of 2% of premiums collected by insurance companies. Revenues are cyclical as the industry tends to be more competitive in prosperous years and rate increases are kept to a minimum or in fact decline, and in bad years rates can rise substantially. From the early 1990s to fiscal year 2002, revenues averaged growth of about 3% annually. In fiscal year 2003, revenues increased by 17.9%, followed by a further 13.8% rise in fiscal year 2004.

Industry data show premium growth having peaked in 2002, driven upwards largely by low returns on insurers' portfolios and underwriting losses, but while the rate of growth has slowed, the cost of insurance is still rising at above-normal rates. Revenues have increased by 9.2% for tax year 2004 payments, very strong growth historically but down from the 12.4% growth through the same period last year. Healthy growth will continue through March of 2005, when tax returns are due for 2004; premium growth will continue to decelerate through fiscal year 2006, with the result of growth of 5.4% in 2005 and 1.2% in 2006. Fiscal year 2006 revenues include $500,000 from the reduced distribution to the Spinal Cord Injury Research Trust Fund as enacted by the Budget Reconciliation and Financing Act of 2004.

Table 10
Insurance Premium Tax Revenues
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Premium Tax	228,476	260,046	274,072	277,313

Death Taxes

Death taxes are comprised of two parts: the inheritance tax and the estate tax. The inheritance tax is a tax on the privilege of receiving Maryland property (real or personal) from a decedent. The estate tax is a tax on the estate of a decedent, similar to the federal estate tax. Death tax revenues are strongly dependent on economic conditions that affect wealth, particularly the stock market and the real estate market. They are also dependent on how decedents choose to dispose of their property. In recent years the estate tax has also been affected by significant changes in federal law that flow through to Maryland; the State has made a number of changes to the inheritance tax.

The direct inheritance tax was repealed on June 30, 2000. As a result, the revenue from that source is for property passing to direct relatives from a person who died prior to that date. This figure will continue to decline until there is no longer any property from these estates to be distributed. The collateral inheritance tax is expected to rebound in fiscal 2005 after several years of decline caused by a gradual elimination of the tax on inheritance by siblings and declines in the values of bequests since the 2001 recession.

The estate tax was affected by the recession as well; that effect has been exacerbated by changes in federal estate tax law which increased the size of the unified credit. That change has the effect of exempting smaller estates from the tax. The table below shows the size of the estates that are effectively exempted from the federal estate tax by the increase in the unified credit. In 2004, however, the General Assembly decoupled Maryland's estate tax from the increases in the federal unified credit. For State purposes, the credit will be maintained at $1 million, resulting in substantially more estate tax revenue than otherwise would have been collected.

Tax Years	Exemption Amount
2001	$675,000
2002, 2003	$1,000,000
2004, 2005	$1,500,000
2006, 2007, 2008	$2,000,000
2009	$3,500,000

As shown on Table 11 on the next page, the direct inheritance tax will continue to decline. The collateral inheritance tax will rebound as economic factors that affect wealth have improved in recent years, growing by 7.4% in fiscal year 2005 and 3.4% in fiscal 2006. Estate taxes are expected to decline modestly in fiscal year 2006 as 2005 revenues have included an inordinate number of very large estate tax payments in the first five months of the year.

Table 11
Death Tax Revenues
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Collateral Inheritance Tax	45,204	41,978	45,105	46,637
Direct Inheritance Tax	1,416	432	360	240
Estate Tax	95,691	111,296	118,816	113,519
Total	142,311	153,774	164,281	160,396

Alcohol and Tobacco Excise Taxes

As expected, the higher tax rate on cigarettes imposed on June 1, 2002, accelerated the ongoing decline in consumption. The number of cigarettes sold declined by over 10% in two years, which equates to 600 million fewer cigarettes sold each year in Maryland since the tax increase (31.4 million 20-pack equivalents). Declining consumption leads to declining revenues; this trend is expected to continue. Cigarette sales are expected to decline by about 1.9% in both fiscal years 2005 and 2006. Special fund revenue shown in Table 12 for fiscal year 2003 was a fixed amount, estimated at the revenues from the tax increase, that was diverted to a special fund to help pay for additional aid to local governments for schools (to fund the Bridge to Excellence in Public Schools Act, commonly called the "Thornton Plan").

Growth in sales of other tobacco products, however, continues unabated. In fiscal year 2004 tax revenue from non-cigarette tobacco products grew by nearly 13%, and for the first four months of fiscal 2005, growth is up another 10.0%. The revenue from this tax has grown by about 8% annually since it was first imposed in fiscal year 2001. In fiscal years 2005 and 2006 that level of growth is expected to continue, resulting in revenue of $7.9 million in fiscal 2005 and $8.6 million in fiscal 2006.

Unlike the steady decline of the cigarette tax and the steady increase of the tax on other tobacco products, the excise tax revenues on alcohol are anything but steady. Alcohol tends to be more of a luxury item than tobacco, and substitution effects can be more pronounced. All three components of the excise tax–spirits, wine and beer–saw revenue increases in fiscal 2004, after only revenue from wine sales increased the prior year. The tax on sales of distilled spirits led the pack in fiscal 2004, with an increase of 5.7%. Wine came in second, with a 4.5% increase. Beer sales, the slowest component, still had a fairly healthy growth of 3.6%. In fiscal year 2005 these revenues will moderate, with growth of 0.8% for beer, 2.8% for wine, and a 0.9% drop for spirits. Distilled spirits revenue will resume growth, at about 1.7%, in fiscal year 2006 while wine and beer will exhibit consistent growth. Combined tax revenue is expected to be $27.0 million in fiscal year 2005 and $27.4 million in fiscal year 2006.

Table 12
Excise Tax Revenues
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Cigarette Tax	272,634	265,095	262,300	257,191
Other Tobacco Products Tax	6,498	7,335	7,922	8,556
Total Tobacco Taxes	279,132	272,430	270,222	265,747
General Fund	199,201	272,430	270,222	265,747
Special Fund	80,524	--	--	--
Distilled Spirits Tax	12,223	12,915	12,802	13,021
Wine Tax	4,371	4,567	4,696	4,828
Beer Tax	9,057	9,381	9,459	9,537
Total Alcoholic Beverages Tax	25,651	26,863	26,957	27,386

Hospital Patient Recoveries

Hospital patient recoveries are revenues received for services provided in State hospitals paid by the patients, their sponsors, or insurance, and by the federal Medicaid and Medicare programs. These estimates are based on projections of use and reimbursement rates.

Legislation was enacted in 2004 which levied a provider fee on State hospitals. This fee will raise approximately $3.8 million, which will be matched at 50% by the federal government. The fee revenue appears in Department of Health and Mental Hygiene miscellaneous revenues, while the federal match increases hospital patient recoveries by about $1.9 million annually beginning in fiscal year 2004.

Table 13
Hospital Patient Recoveries
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Medicaid	52,903	55,947	52,177	51,821
Medicare	2,170	2,961	2,513	2,599
Insurance and Sponsors	8,251	8,243	5,645	5,631
	63,325	67,151	60,335	60,051
Disproportionate Share	10,356	23,701	23,700	23,700
Total	73,681	90,852	84,035	83,751

Court Revenues

General fund revenue from the clerks of the circuit courts comes mostly from transactions involving real property records. From 2001 to 2004, these revenues increased a striking 43%, due in large part to low interest rates that created a red-hot housing market through much of the central part of the State and in waterfront areas. As interest rates edge up, the volume of sales transactions is expected to moderate, leading to a 16.7% decline in revenues in fiscal year 2005 and a further 10.5% decline in 2006. At $42.3 million, the fiscal year 2006 figure will still be very high by historical standards.

Revenues from the District Court of Maryland come primarily from traffic fines and court fees, many of which vary with driving patterns, enforcement activities, and the weather. They are also affected by the court activities: the number of people that contest citations, the rate at which citations are dismissed or upheld, and the fees and fines imposed by the judges. Revenues rose 17.9% in fiscal 2004 due to an unusually large 14.7% increase in motor vehicle cases and a fee increase. In fiscal years 2005 and 2006 it is expected that the number of motor vehicle cases will decline to a more typical amount, leading to lower revenue.

Table 14
General Fund Court Revenues
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Clerks of the Court	51,573	56,810	47,306	42,337
District Court	71,573	84,402	84,299	83,707

Interest Earnings

Interest on investments declined for a third consecutive year in fiscal year 2004 to $26.6 million, a level less than 20% of the general fund interest earned by the State in fiscal year 2000. Interest earnings are determined by rates and balances; both have generally fallen throughout this period. With revenues and balances growing again, and rates on the upswing, interest earnings will increase substantially in fiscal year 2005.

The forecast for three-month Treasury bill rates, which averaged under 1% in fiscal year 2004, is 2.16% in fiscal year 2005, an increase of 125%. Rates have in fact started to rise—three-month T-bills were earning 2.08% in the secondary markets in November, more than double the 0.93% earned in November 2003. The increase in rates is expected to continue throughout fiscal year 2005 and into the next. But as forecasting interest rates is notoriously difficult, the estimate of interest earnings for fiscal year 2005 prudently calls for a 91.1% increase. As currently sizable State balances are drawn down through fiscal year 2006, interest earnings are expected to decline by 16.7% despite the projected increase in rates to over 3.5%.

Table 15
Total Interest Earnings
Fiscal Years 2003-2006
($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Interest Earnings	31,901	26,604	50,846	42,346

Miscellaneous Revenues

Miscellaneous revenues include a wide variety of revenue sources, from vending machine proceeds in the 5th Regiment Armory in Baltimore City to unclaimed property that is turned over to the State. Because there is such a wide variety of revenues, there are frequently one-time effects and often many law changes that affect these revenues.

The biggest changes in miscellaneous revenues have been and continue to be due to law changes. For unclaimed property, the holding period was shortened from five years to four in fiscal year 2003 and from four to three in fiscal year 2004, resulting in the collection of two years' worth of revenue in both of those years. Unclaimed property revenue in fiscal year 2005 includes a one-time windfall from the demutualization of several insurance companies, and also a one-time $2.5 million from a new requirement that holders of certain abandoned property remit the property at the time they report the property to the Comptroller. Reimbursement of teachers' retirement costs returned to the general fund in fiscal year 2004, causing the surge in education revenues. Public Service Commission and Workers' Compensation Commission revenues largely became special fund revenues in 2004. Fee increases have raised revenue collected by the State Department of Assessments and Taxation, the Vital Statistics Administration in the Department of Health and Mental Hygiene, and the Office of Administrative Hearings.

Other fluctuations in revenue are not directly related to legislative changes, but are due to changes in the way agencies operate or other events. The Motor Vehicle Administration has increased the amount of money it collects in uninsured motorist penalties by stepping up enforcement activities and through more efficient operations–these activities will continue in fiscal year 2005. Large settlements with financial analysts in fiscal year 2004 increased the Attorney General's revenue above normal levels. Overall, miscellaneous revenues are expected to increase in fiscal year 2005 to $329.9 million, and then decline in 2006 to $239.4 million, largely due to the one-time unclaimed property windfall in 2005.

Table 16

Miscellaneous Revenues

Fiscal Years 2003-2006

($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Recording, Organization & Capitalization Fees	4,200	9,152	11,475	11,475
Transportation - Filing Fees & License Tags	10,054	10,227	10,410	10,645
PSC Fines, Citations and Filing Fees	(38)	49	60	60
Excess Fees of Office	8,458	5,349	4,856	4,728
Legislature	315	490	300	300
Workers' Compensation	7,462	54	21	21
Public Defender	2,790	1,331	1,500	1,500
Attorney General	20,353	24,726	20,900	21,000
Executive & Administrative Control	3,086	5,375	6,368	6,636
Financial & Revenue Administration	14,359	10,180	9,395	9,542
Budget & Fiscal Administration	2,097	1,879	1,095	883
General Services	3,012	747	1,225	100
Natural Resources	617	697	558	368
Agriculture	316	168	85	67
Health & Mental Hygiene	8,136	12,241	17,262	17,537
Human Resources	2,327	1,801	1,824	1,822
Labor, Licensing & Regulation	14,381	17,421	13,377	17,612
Public Safety & MD State Police	10,743	11,763	10,814	10,814
Public Education	3,457	27,482	25,334	25,521
Housing and Community Development	747	675	846	1,015
Environment	443	489	457	302
Juvenile Services	483	228	239	250
Unclaimed Property	71,714	103,213	137,000	42,500
Alcoholic Beverage Licenses	636	1,012	1,000	1,000
Local Income Tax Reimbursement	12,454	13,145	12,522	12,397
Uninsured Motorist Penalty Fees	29,338	40,218	35,962	36,286
Miscellaneous Revenues and Transfers	4,930	845	5,000	5,000
Total	236,870	300,957	329,886	239,381

Figures may not sum to totals due to rounding.

Transportation Revenues

Titling tax revenues grew by a strong 7.5% in fiscal year 2004, spurred by manufacturer's incentives and increased federal income tax incentives for the purchase of vehicles, along with the effect of federal income tax reductions and mortgage refinancing on consumers' wallets. All of these factors will come to an end in fiscal year 2005 and, as a result, titling tax revenue will increase by only 1.8% to $733 million.

Despite the nearly 33% increase in gasoline prices in Maryland between the start and the end of fiscal year 2004, motor fuel tax revenues increased by a striking 4.1%–average annual growth over the past ten years is only 2.3%. The seeming anomaly is most likely explained by the fact that economic activity increased briskly over that period, both in Maryland and nationwide, and for businesses, the increased cost of gasoline was offset by increasing opportunities for profit; individuals simply don't have much latitude in the short term when faced with large increases in gasoline prices, so consumers' consumption of gasoline was likely largely unaffected.

Other transportation related revenues are expected to continue relatively stable trends with several exceptions. Revenue from motor vehicle registrations will increase by about 75% as a result of legislation increasing the registration fee for the first time in 17 years. The fee increase is part of an effort fo pay for $10.5 billion in unfunded transportation capital needs identified by the Governor's Transportation Task Force in 2003, along with provisions in the Budget Reconciliation and Financing Act of 2004 to raise miscellaneous Motor Vehicle Administration fees. Revenue from the sales tax on rental vehicles is expected to be flat for fiscal year 2005 before resuming moderate growth in 2006.

Table 17

Maryland Motor Vehicle User Revenues

Fiscal Years 2003-2006

($ in thousands)

	2003 Actual	2004 Actual	2005 Revised Estimate	2006 Estimate
Motor Vehicle Administration				
Registrations	188,024	198,787	348,700	351,500
Licenses	37,617	39,688	41,500	37,600
Med-Evac Surcharge	50,509	50,795	52,031	51,719
Trauma Physician Services Surcharge	0	10,403	10,819	10,754
Miscellaneous Motor Vehicle Fees	82,684	90,377	95,500	108,800
Vehicle Emission Inspection Fees	4,856	5,413	5,500	5,500
Security Interest Filing Fees				
Special Funds	3,598	3,666	3,720	3,780
General Funds	5,396	5,499	5,580	5,670
General Funds - Baltimore City	2,998	3,055	3,100	3,150
Hauling Fees	7,739	8,791	10,000	10,000
Special License Tags				
Special Funds	380	380	380	380
General Funds	1,660	1,673	1,730	1,825
DOT	409	437	445	450
Chesapeake Bay/Ag Tags - MDOT	682	845	1,045	1,045
Titling Tax	669,253	719,757	733,000	750,000
Sales Tax on Rental Vehicles				
MDOT-Rental Vehicles	23,102	23,265	23,265	23,940
	1,078,907	1,162,830	1,336,315	1,366,113
Motor Vehicle Fuel Tax	701,507	730,234	746,600	763,400
Road Tax	14,485	15,816	16,200	16,500
Decals	92	105	0	0
	716,084	746,155	762,800	779,900
Total	1,794,991	1,908,985	2,099,115	2,146,013

Five Year Forecast

These estimates are based on a trend scenario for the U.S. and Maryland economies. A trend scenario does not attempt to forecast cyclical economic patterns, but projects the average growth that the economy is likely to register based on the fundamental factors affecting the economy.

As discussed in the economic outlook, the State's economy will grow at a healthy, sustainable rate through fiscal year 2005 and into 2006. Maryland is expected to continue to outperform the nation, supported by federal spending, especially on defense and national security, and by strong growth in the business services and education and health services industries, two of Maryland's largest. Revenue growth will stabilize at about 4.5% to 5.0% over the foreseeable future after a strong 2005, which is also enhanced by significant legislative changes.

Individual income taxes and the sales tax, over three-quarters of general fund revenue, should both grow at or slightly below the growth in personal income. Corporate income taxes will level off after a period of strong growth reflecting both the jump in corporate profits in 2002 and 2003 and the resolution of the Delaware holding company issue. Lottery sales and most of the smaller revenue sources are expected to grow in the low single-digits, although tobacco taxes will continue their long-term decline and the estate tax will continue to be extremely volatile and unpredictable. Miscellaneous revenues have grown substantially over the past few years with changes to the abandoned property holding period and several one-time realizations of abandoned property. Over the forecast period, these revenues will stay well below the peak reached in fiscal year 2005.

Table 18

Long Term Economic Forecast

Primary Indicators

CALENDAR YEAR	2002	2003	2004	2005	2006	2007	2008
U.S. GDP (billion $ 96 chained)	10,075	10,381	10,837	11,187	11,524	11,884	12,254
% change	*1.9%*	*3.0%*	*4.4%*	*3.2%*	*3.0%*	*3.1%*	*3.1%*
U.S. Total Non-Farm Employment (millions)	130,343	129,937	131,295	133,501	135,058	136,200	137,296
% change	*-1.1%*	*-0.3%*	*1.0%*	*1.7%*	*1.2%*	*0.8%*	*0.8%*
U.S. Personal Income (billion $)	8,879	9,162	9,638	10,109	10,657	11,209	11,827
% change	*1.8%*	*3.2%*	*5.2%*	*4.9%*	*5.4%*	*5.2%*	*5.5%*
CPI - % Change	1.6%	2.3%	2.7%	2.2%	1.3%	1.7%	1.7%
U.S. 10-Year Treasury Bond Yield (%)	4.6%	4.0%	4.3%	4.7%	5.2%	5.40%	5.90%
Md. Total Non-Farm Employment (millions)	2,476.8	2,481.9	2,514.4	2,563.1	2,605.0	2,642.8	2,676.1
% change	*0.4%*	*0.2%*	*1.3%*	*1.9%*	*1.6%*	*1.4%*	*1.3%*
Md. Total Personal Income (million $)	198,544	206,166	217,624	229,936	242,889	256,080	269,757
% change	*3.8%*	*3.8%*	*5.6%*	*5.7%*	*5.6%*	*5.4%*	*5.3%*

Table 19

Maryland General Fund Revenues

Fiscal Years 2004-2010

($ in thousands)

	2004 Actual	2005 Estimate	2006 Estimate	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate
Income Taxes							
Individual	5,077,581	5,376,238	5,718,090	6,004,112	6,322,291	6,665,315	7,032,874
Corporation	328,553	420,093	466,676	468,794	474,142	496,210	517,629
TOTAL	5,406,134	5,796,331	6,184,766	6,472,906	6,796,433	7,161,525	7,550,503
Sales and Use Taxes	2,921,794	3,086,586	3,229,679	3,383,400	3,554,247	3,739,069	3,937,872
State Lottery	436,373	446,195	461,059	474,891	489,137	503,812	518,926
Franchise, Excise, License, Fee	1,439,933	1,540,141	1,430,799	1,457,477	1,481,189	1,501,411	1,523,498
TOTAL CURRENT REVENUES	10,204,234	10,869,253	11,306,303	11,788,675	12,321,007	12,905,815	13,530,800

Numbers may not sum due to rounding.

Note: In fiscal year 2004 extraordinary revenues of –$36.4 million were realized, including $11.5 million from the Comptroller’s Delaware holding company settlement and a GAAP transfer of –$50.4 million. Fiscal year 2005 extraordinary revenues of $151.0 million were received from the legislatively mandated Delaware holding company settlement over and above the $10.869 billion.