Report of the

Maryland Board of Revenue Estimates

on

ESTIMATED MARYLAND REVENUES

FISCAL YEARS ENDING JUNE 30, 2006 AND JUNE 30, 2007

Submitted to

Robert L. Ehrlich, Jr.

Governor

December 14, 2005

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 14, 2005

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, 2006 and June 30, 2007, 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

Cecilia Januszkiewicz
Cecilia Januszkiewicz

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 continued its strong performance throughout 2005, and is entering 2006 with a full head of steam. Employment is expected to finish 2005 growing 2.0%, led by the professional and business services and leisure and hospitality services industries. The former is expected to be the leading industry throughout the forecast period, sustaining a 2.0% rate of growth for total employment in the State in 2006. As the national economy passes the peak of the economic cycle, Maryland's economy is expected to slow in 2007, with employment growth falling to a still robust 1.6%. Wage and salary growth is expected to total 6.5% in 2005, decelerating slightly to 6.3% in 2006, before slowing along with employment to 5.6% growth in 2007. Maryland's unemployment rate will remain at historically low levels throughout, around 4.0%, from a half- to a full percentage point lower than national unemployment.

The primary risk to the economy in the short term is energy prices, particularly in the event of a very cold winter. Longer term, the course of the housing market will be one of the more important determinants of the State's economic performance. The State's economy will receive a powerful stimulus as the recommendations of the Base Closure and Realignment Commission are implemented. An estimated 20,000 jobs are expected to be added, primarily at Aberdeen Proving Grounds and Ft. Meade, between 2007 and 2010. These jobs, and economic activity directly and indirectly generated by them, provides a large upside risk for the economy.

Most general fund revenue sources–both those sensitive to economic variables and those that are not–are expected to grow in fiscal year 2006. The Board of Revenue Estimates forecasts current general fund revenues will grow 7.1% to $12.2 billion in fiscal year 2006. Growth will slow to an estimated 5.2% in fiscal year 2007, when revenues will exceed $12.8 billion.

The Board expects that individual income tax revenues will slow from the heady 11.5% pace of 2005, but will still increase by an estimated 8.5% in 2006 and a further 6.7% in 2007. Income tax withholding, over 75% of gross collections, will grow 7.4% this year and 6.4% next year, generally following wage and salary growth but boosted 35 basis points in 2006 by law changes. Capital gains, especially from real estate, are forecast at growth of 30% in calendar year 2005 and 11% in 2006. This will drive the growth of nonwithheld income tax payments to an estimated 20.4% in fiscal year 2006, falling to 9.1% in 2007. Along with real estate, the strong capital gains growth will be supported by the exhaustion of carryforward losses from 2001 and 2002. There is a risk that the housing market is in a bubble that will burst; if so, the rate of growth for the income tax, as well as other revenue sources, will be substantially affected.

The corporate income tax is expected to reach record levels in 2006, partly as a result of the Delaware holding company addition modification, but also due to double-digit corporate profit growth (nationally) in 11 of the last 13 quarters. Estimated growth of 22.3% will bring general fund revenues to $626.6 million. Continued profit growth and the absorption of net operating losses by the 2005 Delaware holding company settlement are expected to result in growth of 7.6%, as general fund revenues reach $674.6 million in fiscal year 2007.

The booming housing market is also supporting sales tax growth. Fiscal year 2006 is expected to reflect a slight slowdown in sales tax revenues from construction-related activities, but the slowdown is to a strong 9.0% growth. Sales taxes from utilities are forecast to reach double-digit growth in 2006, spurred partly by the increase in energy prices. The consumer segment of the sales tax, two-thirds of the total, will grow a more sedate but steady 5.3% in 2006 and 4.9% in 2007. Altogether, general fund sales tax will grow by a healthy 6.4% in 2006, bringing in an estimated $3.331 billion, and is forecast to grow by 5.1% with a slowing housing market and broader economy in 2007 to $3.665 billion.

Lottery sales will slow, particularly since Keno and instant tickets, the two largest games, have been relatively weak through the first five months of the year. Those weak sales have been offset thus far by Mega Millions which had a $315 million jackpot in November, but the strong performance of Mega Millions will only continue with another very large jackpot. Revenues are expected to grow 3.4% in 2006 to $471.3 million, slowing to 2.6% growth in 2007 as a new contract comes into force and the discount for lottery agents increases by 0.5 percentage points. Revenues are expected to total $483.7 million in fiscal year 2007.

Estate taxes have soared in the first five months of this year, growing 23.6%. Continuation of this rate of growth would likely require one or two eight-figure estate tax liabilities the remainder of the year, and is therefore not expected though it is not outside the realm of possibility. The Board has revised death tax revenues to $210.3 million in fiscal year 2006 (growth of 14.8%), and expects a slight decline to $203.2 million in 2007. Tobacco tax revenues reversed a long-term trend of year-over-year declines in fiscal year 2005, growing by 1.3%. With cigarette tax revenues growing for the first five months of fiscal year 2006, another increase is forecast. Tobacco tax revenues are expected to grow to $278.2 million in 2006, with a smaller increase to $279.2 million in 2007.

Revenues from the clerks of court, which are largely related to recordation-related activity, have been revised substantially upwards. Rising interest rates had been expected to affect mortgage rates, thereby slowing the housing markets, but the long-expected increase in mortgage rates has only very recently taken hold. Revenues from the clerks are estimated at $58.2 million in fiscal year 2006, before declining 9.4% to $52.8 million in 2007. Higher interest rates, along with substantially higher general fund balances than previously expected, will result in estimated interest earnings of $113.3 million in fiscal year 2006. Declining balances will more than offset the impact of still-rising rates in 2007, and interest earnings will fall to $95.6 million in 2007. Miscellaneous revenues are expected to fall from $377.7 million in 2005 to $291.8 million in 2006, primarily due to an expected $66 million reduction in abandoned property revenues. Miscellaneous revenues are forecast to grow slightly to $294.7 million in fiscal year 2007.

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Louis L. Goldstein Treasury Building, P.O. Box 466
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

Mr. Robert Noble
Northrop Grumman

Mr. Jeffrey Samet
Colliers Pinkard

Mr. Gino Gemignani
Whiting-Turner Contracting Co.

Ms. Linda Greene
BWI Business Partnership

Mr. John Cavanaugh
Maryland Bankers Association

Mr. Brian Rosen
MedImmune

Dr. Toby Gordon
Johns Hopkins Hospital

Mr. Tom Saquella
Maryland Retailers Association

Mr. Lee McDaniel
Maryland Farm Bureau

Mr. Drew Cobbs
Maryland Petroleum Council

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

Marc Nicole
Deputy Director, Office of Budget Analysis, DEPARTMENT OF BUDGET AND MANAGEMENT

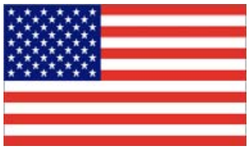
David Treasure
Executive Director, Office of Budget Analysis DEPARTMENT OF BUDGET AND MANAGEMENT

Cherie Gerard
Assistant Director, Office of Budget Analysis DEPARTMENT OF BUDGET AND MANAGEMENT

Bernadette Benik
Director of Operations, STATE TREASURER'S OFFICE

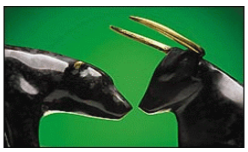
Telephone: 410-260-7450

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

Over the past several months, the national economy has weathered hurricanes, spiking energy prices, political turbulence and more, and has emerged relatively unscathed. The economy has posted performance that, even in calm times, would not be unimpressive. There are some hurdles yet to be overcome, but the economy seems likely to continue expanding for the foreseeable future. Momentum will carry into next year, with real gross domestic product expected to exceed the potential growth rate of slightly over 3%, finishing 2006 with growth of 3.4%.



The Current Situation

Real gross domestic product grew at a 4.3% annual rate in the third quarter of 2005, accelerating from 3.3% in the second quarter despite the aforementioned troubles (although hurricane Katrina struck two-thirds of the way through the quarter). Growth was led by business investment in equipment and software (up 10.8%) and federal spending (up 8.1%). Consumer spending remained strong at 4.2% growth, although consumer confidence took a sharp hit after Katrina, falling from 105.5 to 85.0.

Employment growth has stalled due to several hundred thousand jobs lost in the Gulf region, though that setback is certainly temporary. Employment declined by 35,000 in September, but would have grown by 220,000 to 250,000 were it not for the hurricane. Through the first nine months of 2005 employment growth is 1.7%, performance not seen since 2000 when employment grew by 2.2%. In percentage terms, the natural resources and mining industry is expanding the fastest, growing at 7.0% year-to-date, boosted obviously by the strong demand for energy. A distant second is the construction

Figure 1 Source: Bureau of Labor Statistics

sector, growing at 4.0% as the housing boom continues. Manufacturing employment is down slightly (0.3%), and the information industry is flat nationwide.

Energy prices have just recently receded from record highs. Oil is trading at just over $60 per barrel after peaking at $70 per barrel for several days after Katrina's landfall on August 29. Natural gas was $9.86 per million BTUs on August 29, but the next day it was 26% higher at $12.43. As Rita approached in late September, prices rose to $15.00 per MBTUs; they are now down to about $13. In both instances, the price spikes punctuated recent trends. Natural gas prices have risen from levels just over $2.00 per MTBU in early 2002 to over $7.00 in mid-2005, while oil prices were under $20 per barrel in January 2002 and have risen steadily since. Consumers have paid the price, with the average cost of regular unleaded gasoline rising from $2.29 per gallon at the end of July to $3.04 per gallon five weeks later. Home heating oil rose from $1.67 per gallon on August 1 to $2.17 on September 1, and spiked again as Rita approached.

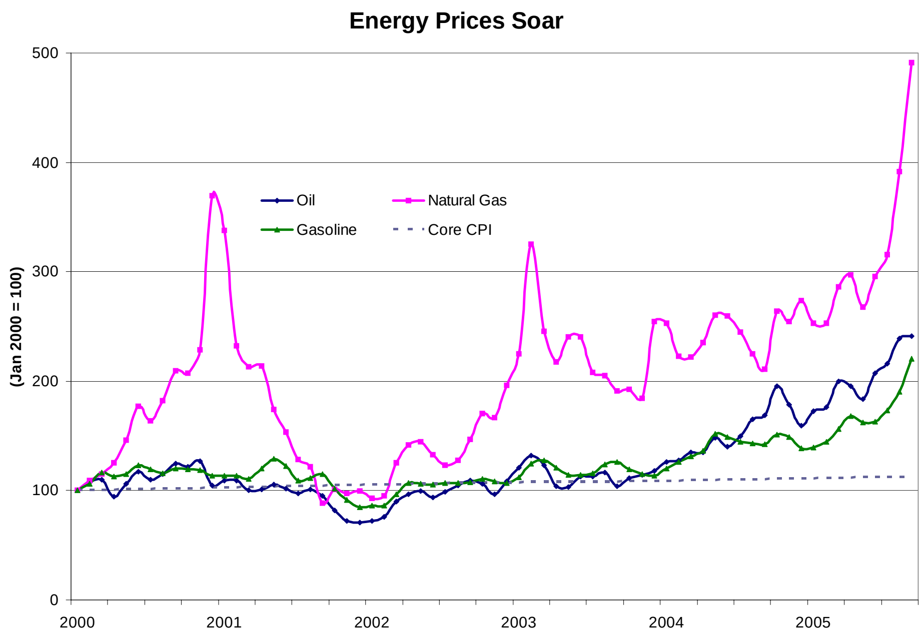


Figure 2 Source: Bureau of Labor Statistics

Despite these high energy prices, the impact has yet to spread throughout the economy. Minutes of the Federal Reserve Board's Open Market Committee meeting of September 20 did note concern that energy prices were "boosting overall inflation, and some of that increase would pass through for a time into core prices." But although the consumer price index rose 1.2% in September, the largest increase since December 1979, almost all of the increase was attributable to energy. Core inflation is rising at an annual rate of about 2%. Worries over the impact of energy prices on core inflation will reinforce the likelihood that the Fed will continue its policy of "measured" rate increases through the into 2006, with the federal funds rate ending at 4.75% or 5.00%.

The Fed has raised the federal funds rate 25 basis points at each of its last thirteen meetings, since June 2004, but the booming housing market has hardly noticed until very recently. New and existing home sales increased by an annualized 25% in the second quarter of the year, and have stayed at roughly that level since. Price appreciation remains in double-digits, though is slowing somewhat. The 30-year fixed mortgage rate has just inched above 6%, although for three years has generally been between 5.5% and 6.0%. The National Association of Home Builders housing market index has fluctuated between 64 and 72 since July 2003; readings over 50 indicate that more builders view sales conditions as good than poor.

The housing market has been one of the engines of the national economy over the past several years. Housing related jobs–including contractors, supplies wholesalers and retailers, mortgage brokers, real estate agents, and others–have grown by over one million in the last two years. Without that growth, monthly job gains would have hovered right around the 150,000 required to maintain a constant unemployment rate. Similarly, housing's contribution to GDP is significant. Economy.com estimates that 30% of real GDP growth since 2001 is attributable to home construction and remodeling and the wealth effect from housing (roughly $700 billion in equity cashed out in the first half of 2005); without that contribution the economy would have grown below its potential for the last two and a half years.

While the Federal Reserve has been tightening monetary policy, fiscal policy remains expansionary. Federal spending rose by $180 billion (7.9%) in federal fiscal year 2005, and the deficit was $319 billion–an improvement over the 2004 deficit of $413 billion. The deficit would have been substantially larger were it not for an unexpected revenue surge, largely from the corporate and individual income taxes. Federal revenues grew by 14.6%, and revenues as a share of GDP increased for the first time since 2000. While revenue growth in 2006 is likely to exceed prior expectations, spending continues its inexorable upward rise. The projected deficit for 2006 is about $17 billion smaller than 2005's, but that does not take into account the $62 billion in federal aid for hurricane relief already appropriated or any additional funding for Iraq, Afghanistan or homeland security. While past performance is no guarantee of future results, a reasonable observer could conclude that recent efforts in Congress to restrain spending growth will be for naught.

The Outlook

The economy appears to be at the midpoint of the economic cycle. Consumer spending is solid and while nonresidential investment is slowing it remains robust. Federal spending will continue, and the Fed's measured tightening seems, at this point, unlikely to overshoot the mark. There are significant risks that could derail the economy virtually overnight, but it appears that the probable near-term course is one of continued steady growth, accelerating employment growth, and moderate inflation.

The primary risk to the outlook is energy prices. Already at sustained high levels there is a real chance of further spikes. While prices have fallen back from record highs in mid-September, in many regions to levels lower than they were before Katrina, inventories are depleted, particularly for natural gas. No matter what happens, most households will face substantially higher costs for heating this winter, which could put a crimp in retail sales and consumer confidence. With a very cold winter, though, prices will jump again, and even more worryingly, shortages of natural gas could develop. In that case, there is a strong chance the economy will fall into recession.

As the Fed continues to tighten to rein in inflation, the housing market will eventually falter. With ten-year Treasury yields expected to rise by about one percentage point over the next nine to twelve months, 30-year fixed mortgage rates will approach 7%. There could also be a rush to refinance by those who were only able to purchase their homes with adjustable rate mortgages. The housing boom has been sustained in part by ARMs–interest-only ARMS account for 30% of mortgage applications and 45% of the dollars, up from 15% and 20% just two years ago. And investors make up an increasingly large share of mortgage originations, increasing steadily from about 6% in 2000 to almost 17% in the first quarter of 2005. If those who stretched as far as possible to buy their homes choose not to or cannot finance in the face of rising interest rates, both consumer spending and the housing market will be negatively affected. And if investors move on to another asset class, the effect on home prices and turnover will be accentuated.

That the housing market will eventually cool is a foregone conclusion, particularly in light of the fact that the Federal Reserve seeks to provide greater regulation in the mortgage market. Aggressively marketed products such as interest-only loans, second loans, and negative amortization ARMs, while useful in some instances, place much greater risks on the holders and may not be fully understood in many cases. An orderly slowing in the housing market will become necessary to prevent the economy from overheating; an orderly slowing likely cannot be accomplished by rate increases alone.

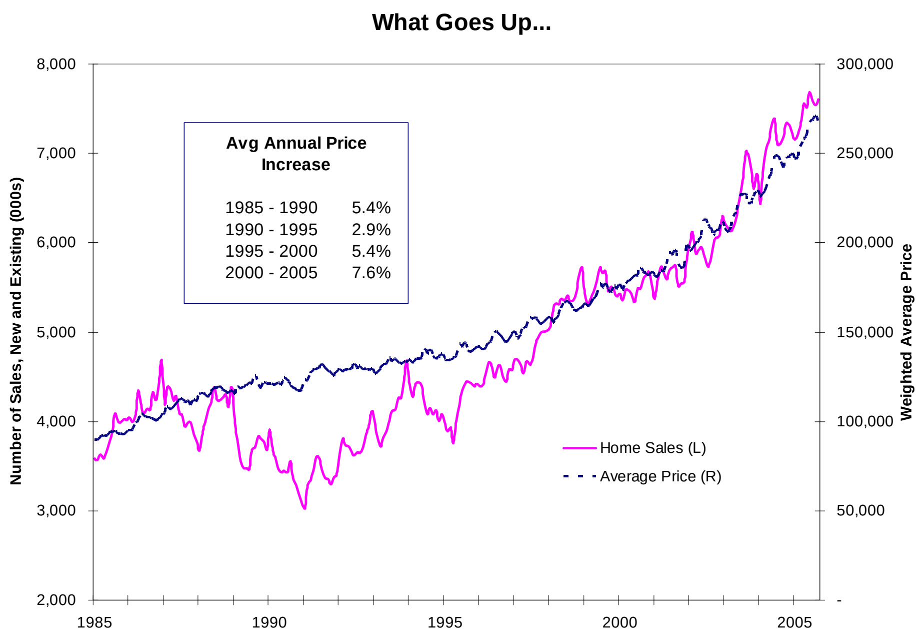


Figure 3 Source: Census Bureau, National Association of Home Builders

Assuming the economy makes it through the winter without substantial energy price shocks or shortages, whether the Fed can orchestrate a smooth landing for the housing market through coordinated rate increases and regulatory actions will determine whether the economy tips into recession. That transition is still one to two years off.

Table 1

Forecast of the U.S. Economy

Primary Indicators

	2001	2002	2003	2004	2005	2006	2007
Real Gross Domestic Product ($ billions)	9,891	10,049	10,321	10,756	11,140	11,522	11,876
	0.8%	*1.6%*	*2.7%*	*4.2%*	*3.6%*	*3.4%*	*3.1%*
Federal Funds Rate (%)	3.9	1.7	1.1	1.4	3.2	4.7	4.8
10-Year Treasury Bond Yield (%)	5.0	4.6	4.0	4.3	4.3	5.2	5.3
Consumer Price Index (%Δ from prior year)	2.8	1.6	2.3	2.7	3.4	2.6	1.5
Housing Starts (thousands of units)	1,601	1,710	1,854	1,950	2,061	1,873	1,838
	1.8%	*6.8%*	*8.4%*	*5.2%*	*5.7%*	*-9.1%*	*-1.8%*
Light Vehicle Sales (thousands of units)	17,115	16,816	16,643	16,865	16,844	16,493	16,982
	-1.3%	*-1.7%*	*-1.0%*	*1.3%*	*-0.1%*	*-2.1%*	*3.0%*
Corporate Profits Before Tax ($ in billions)	767.3	886.3	1,031.8	1,161.5	1,333.8	1,492.8	1,495.9
	-6.2%	*15.5%*	*16.4%*	*12.6%*	*14.8%*	*11.9%*	*0.2%*
Total Non-Agricultural Employment (thousands)	131,833	130,345	129,999	131,475	133,616	135,693	137,599
	0.0%	*-1.1%*	*-0.3%*	*1.1%*	*1.6%*	*1.6%*	*1.4%*
Unemployment Rate (%)	4.8	5.8	6.0	5.5	5.1	4.8	4.9
Total Personal Income ($ in billions)	8,724	8,882	9,169	9,713	10,269	10,938	11,583
	3.5%	*1.8%*	*3.2%*	*5.9%*	*5.7%*	*6.5%*	*5.9%*

Sources: Global Insight, November 2005
Bureau of Revenue Estimates

The Maryland Economy

Maryland's economy continued its strong performance in 2004 and through the first three-quarters of 2005. Almost 27,000 jobs were created in 2004, as employment growth was 1.1%. For the first three quarters of this year almost 50,000 jobs have been created with a robust 1.9% employment growth, stronger than the national average of 1.7%. Wage and salary income increased 6.5% in the first half of 2005, also an acceleration from the year before (5.7% growth). A booming housing market, federal spending on defense, homeland security, and health, very strong corporate profitability and a growing tourism trade have helped drive Maryland's economy.

Current risks to Maryland's economy include the national economic impact of hurricane Katrina, rising energy prices and interest rates, and the Base Closure and Realignment (BRAC) process. Shortly after hurricane Katrina struck, many economists estimated that national economic growth would slow by about one percentage point in the last half of 2005, and increase by about the same amount in the first half of 2006. The majority of the impact would obviously be in Louisiana and Mississippi, but the slowdown was expected to affect most of the country. After more consideration, the consensus now seems to be that the impact on the national economy will be about half of that previously estimated, and, with one exception, the impact will essentially be concentrated in the states which were directly affected by the storm.

The one exception–a significant one–is energy prices. While gasoline prices are now below the levels they spiked to for several weeks immediately following Katrina in most if not all of the country and oil prices have receded to around $60 a barrel from a peak of $70.85, gasoline and oil prices are still very high relative to not long ago. The situation with natural gas is much more dire; Katrina had a larger effect on gas production than oil production in the Gulf. Inventories of gas are very low as a result; a cold winter could result in shortages. Prices of both natural gas and heating oil will be much higher this winter than last. A further sharp rise in energy prices, aside from the effect on overall inflation as it flows through the economy, could be enough to tip the country into recession and slow Maryland's growth precipitously, if not bring it to a halt.

Rising interest rates could bring a dramatic slowing to the housing market, which has been a significant impetus to the State's economy. The Federal Reserve has raised interest rates 25 basis points for twelve consecutive meetings. Not until recently have the increases in the federal funds rate affected long-term interest rates. Fixed-rate 30-year mortgages are currently hovering around 6%, roughly where they have stood since the end of 2002. The regulatory steps the Fed is taking to restrict the expansion of new types of mortgages, which can be risky for many borrowers, may perhaps have more of an impact. Given Maryland's relative lack of developable land and the stability the federal presence currently lends to the State's economy, Maryland's housing market is probably at less risk than most others that have grown similarly over the past several years.

Finally, the largest positive risk in the outlook is the BRAC process. President Bush signed the commission's report on September 15; Congress neglected to act, so the recommendations became law. As adjusted by the BRAC Commission, Maryland will gain a net of about 6,000 jobs. The bulk of the new jobs will be at Ft. Meade (5,300) and Aberdeen Proving Grounds (2,200). Estimates of the new jobs created indirectly through this process range from 5,000 to 14,000; longer-term, the number of direct, indirect and induced jobs could reach as high as 60,000. Many industries will be affected from central Maryland through Harford County, and the boost to the State's economy will be substantial. The process won't be complete for a number of years, although the first impacts will begin to be seen in 2007.

Barring a very cold winter and spiking energy prices, Maryland's economy will continue steady growth over the next 18 months. Services, especially professional and leisure services, local government, and retail trade will contribute to a healthy economy. Manufacturing's decline seems likely to slow, and federal and State employment is likely to stagnate over this period. Employment growth will be stable at about 2.0% in 2005 and 2006 before slowing to 1.6% in 2007 as interest rate increases take hold, the housing market slows, and the current national expansion nears its end. Maryland wage and salary growth will slow slightly from a healthy 6.5% in 2005 to 6.3% in 2006, and decelerate further to 5.6% in 2007. The following provides a detailed discussion of the rather positive outlook for Maryland over the next two years.

Construction

The construction industry in Maryland had a very strong year in 2004, with employment growing by 4.7%. The housing boom, boosted by continuing low interest rates, and a recovering economy helped propel this sector to its best performance since 2000. The near-term outlook is relatively strong, as mortgage rates have only recently started to climb, public sector spending has recovered after several weak years, and with very strong corporate profits, business expansion will continue.

Mixed-use projects are at various stages of completion across the State. In Baltimore County, a "rock-breaking" ceremony was held as construction started at Quarry Lake, which will have 225,000 square feet of office space, half that amount of retail and almost 600 residential units. Several major projects are proceeding in Annapolis: Acton's Landing (the old Anne Arundel Medical Center site), Park Place and Severn Bank (West End Circle), and two buildings in the Annapolis Technology Park. Major new housing developments on West Street at Chinquapin Round Road and the former Annapolis Capital site in the historic district are also in the works. In Silver Spring, JBG is redeveloping the Canada Dry building into 210 condominiums; nearby is their Silver Spring Gateway, planned for 450 apartments and a grocery store.

In other parts of the State, a $60-million mixed use development, Water's Edge Corporate Campus, is starting in Harford County. A 280-acre parcel near Arundel Mills is also slated for development of 2 million square feet of office space, 500 apartments, 440 homes, 300,000 square feet of retail, and two hotels. About 500,000 square feet of office space in various locations around BWI airport has been constructed and occupied with another 750,000 square feet planned. Much of this space is near Ft. Meade in anticipation of expansion there due to the BRAC process and the National Security Agency's decision move to contractors off the base itself.

Plenty of activity is occurring in Baltimore. A $46 million luxury apartment building overlooking Camden Yards started in October–the 21-story Zenith will have retail space and 191 apartments. Construction will last about 20 months. Village Commons, a $90 million condo and retail project near Johns Hopkins, broke ground about the same time. Silo Point, with 213 condominiums in the old Locust Point grain terminal and additional office and retail space, will be underway by the end of the year; Pulte has already begun construction of 121 townhouses on 7.5 acres of the land they had bought. In Aberdeen, a $22 million Mariott is underway. The hotel is a replica of the warehouse overlooking Oriole Park at Camden Yards; a replica of the stadium will also be built.

Two hotel projects in Baltimore City were recipients of the State's heritage structure rehabilitation tax credits. The Kimpton Hotel at Recreation Pier in Fells Point received $3 million, and is expected to be underway shortly. A Marriott at the Maryland Trust Building on South Calvert Street received $1.3 million; work is expected to start at the end of this year and be completed by the end of 2006. The Baltimore City Council just approved the 752-room $186 million convention center Hilton hotel, which will provide jobs through 2008, while the 110,000 square foot Broom Factory in Canton is drawing attention from Struever Bros. Eccles & Rouse and Ed Hale for possible redevelopment, while the 182-acre Broening Highway site of the former General Motors factory has several suitors. Hopes are that the 3.2 million square foot factory will be demolished and replaced by distribution warehouses, manufacturing plants and mid-rise offices for use of companies related to the Port of Baltimore.

Overall, construction activity remained strong in the Baltimore metropolitan area, with 617,000 square feet of new office space delivered in the first half of 2005 and 2.5 million square feet under construction. The industrial market was quieter, with 316,000 square feet of delivered space and 1.3 million under construction. The Suburban Maryland market had no new office space delivered and less than 500,000 square feet under construction, and about 200,000 square feet of industrial space both delivered and under construction. The office market is tightest in Annapolis, with a vacancy rate of 7.3%, followed by the BWI region at 10.1%. The weakest region remains downtown Baltimore with an 18.6% vacancy rate, nearly unchanged from last year. Industrial vacancy rates are highest in Cecil and Harford counties, at 47% and 30% respectively, and lowest in Montgomery and Frederick counties, at 5.3% and 7.7%.

The market looks reasonably strong; about 40% of office space under construction in the Baltimore region is pre-leased, but the remainder ought to be absorbed relatively easily. Demand is increasing in the DC suburbs, with net absorption quadrupling in the second quarter to 415,000 square feet. The industrial market appears weaker, with net absorption declining in the DC area (only Prince George's County showed positive absorption) and substantial amounts of space coming available in the Baltimore region in the latter half of 2005, including the 600,000 square foot Gap distribution center in Harford County.

Aside from rising interest rates, a major threat to the near-term outlook for the construction industry is the cost of materials. Prices have risen rapidly; in every month from January 2003 through June 2005, the producer price index for construction rose more than the overall index. Price growth slowed in August for many materials, although cement was a notable exception. Reconstruction in the aftermath of hurricane Katrina, however, will put pressure on all prices, particularly plywood and other lumber products. These pressures will cause employment growth in the construction industry to slow to 1.0% in 2005, before easing prices accelerate growth to 2.4% in 2006. As rising interest rates take their toll, employment is expected to 0.9% in 2007.

Manufacturing

The manufacturing industry continues to decline in Maryland. Although the industry posted its best performance in four years in 2004, it still declined by 2.9%. In May 2005 the long-anticipated closure of General Motors' Broening Highway plant, which produced Safari vans, finally occurred. The closure resulted directly in the loss of 1,100 jobs, over three-quarters of one percent of all Maryland manufacturing jobs. Those who lost their jobs, however, will be paid through 2007 as a result of the latest union contract, which will help to mitigate the economic impact on the State. Falling like dominoes were three GM suppliers in Belcamp–Tower Automotive, Johnson Controls, and Monarch Manufacturing, which provided frames, seats, and dashboards, respectively. A further 100 jobs were lost as a result.

There were other closures in 2005, unrelated to GM and the Broening Highway plant, in the same field. Fleetwood Travel Trailers closed its Hancock plant early in the year, although some of its 300 employees were able to find jobs at its Williamsport and Somerset, PA plants. GST Auto Leather laid off its 400 employees at the closed Williamsport plant. While the Hagerstown headquarters remains, GST has moved all US manufacturing to China and Mexico. As a result, GST's former employees are eligible for aid through the Department of Labor's Trade Adjustment Assistance Program, again, modestly mitigating the impact on the State's economy. Possible help for those laid off fell through when PepsiCo decided to locate a $150 million Gatorade plant and 200 to 500 jobs in Virginia rather than nearby Allegany County.

Early in the year, Phoenix Color sold its printing equipment and shut down its printing facilities in Hagerstown, although some of the 180 employees affected had the opportunity to find a job at the company's nearby book cover plant. Lasaffre Yeast Corporation, which purchased Red Star Yeast in 2001, anticipates shifting production from Red Star's Baltimore plant to a more efficient facility in Iowa by the end of 2005, laying off about 120 employees. There is a possibility that due to an increase in electricity costs of up to $72 million, Alcoa will close its Eastalco plant near Frederick. Layoff notices to 640 employees were sent in mid-October. The State is working with Alcoa and Allegheny Energy in hopes of saving the jobs.

Even some defense-related companies are cutting back. Northrop Grumman will cut 400 jobs by the end of 2005, offering voluntary severance packages so as to avoid involuntary reductions. The reductions are due to falling global orders for airplanes in which the radar and electronic systems produced in Linthicum are installed. The loss of jobs will be partially offset by the addition of 300 engineers and other professional positions. In the longer term, as Joint Strike Fighter production comes online, activity and employment at the Linthicum plant are expected to resume growth. Smiths Aerospace closed its plant in Germantown, where it makes recording, data storage and data transfer devices for transmitting data between aircraft and ground stations. About 65 manufacturing jobs will be lost, though 175 office jobs will be maintained.

While the overall outlook for the manufacturing sector in Maryland is not positive, there are in fact growing companies, both old-line and high-tech. Solo Cup expanded its Harford County workforce by 10%, while the Coast Guard shipyard in Baltimore has begun work on modernizing 25 old cutters, work that should last eight to ten years. General Dynamics Robotics Systems will add 135 jobs in the next four years at a new facility in Carroll County, beginning in 2006.

The future path of Maryland's manufacturing industry depends crucially on the success of biotechnology companies and whether they decide to locate manufacturing plants in the State when products come online. There is a strong foundation, as Montgomery County hosts the headquarters of two of the largest biotechs, MedImmune and Human Genome Sciences. MedImmune is awaiting data from a clinical trial of its second-generation FluMist flu vaccine, which only requires refrigeration rather than freezing. The company plans to apply for approval for use in patients younger than five and older than 49 next year. As part of the effort to prepare for a possible avian flu pandemic, MedImmune has partnered with the National Institute of Allergy and Infectious Diseases to compile a library of prototype flu vaccines that could be quickly produced if need be; the NIAID will run the clinical trials. MedImmune has also applied for approval to start human tests on MEDI-545, a drug to combat lupus.

Human Genome Sciences is completing work on a $250 million, 290,000 square foot manufacturing plant in Montgomery County that will be able to produce its drugs on a commercial scale. Sometime by the end of 2006 the facility should be approved by the Food and Drug Administration. Around the same time, HGS may have a number of drugs approaching marketability, including ones for lupus, hepatitis-C, lymphoma and lung cancer. HGS just won a federal contract to supply ten grams of ABthrax, a treatment for anthrax. If the drug stands up to testing, the federal government has an option to order up to 100,000 doses.

BioPort is producing 5 million doses of its anthrax vaccine under a $122.7 million contract at its new Frederick manufacturing facility, while Annapolis' PharmAthene, which has just applied to start human tests on Valortim, another anti-anthrax drug. Other companies addressing similar needs are Dynport, which has received FDA approval for VIGIL, a treatment for complications from smallpox vaccination, and contract manufacturer Cambrex Bio Science Baltimore which just developed a successful manufacturing process for StaphVAX, a vaccine against staphylococcus infections. The Florida-based developer of the vaccine will apply to the FDA for approval, which would lead to more work for Cambrex. There have been reports that a pharmaceutical manufacturing operation has investigated the Crossroads @95 business park for a 400-employee operation, although any such development would be some time in coming.

As biotechnology works its way towards profitability, the next big thing for Maryland's manufacturing industry could be nanotechnology–the manipulation of matter at the atomic level. The State was recently listed as the seventh top area in the country for nanotechnology. As with biotechnology, however, it will take more than a few years before nanotechnology has a measurable impact on the State's economy. In the meantime, manufacturing will continue its decline, dropping by about 2.7% in 2005. Employment is expected to be flat in 2006 and drop slightly in 2007.

Trade, Transportation, and Utilities

Retail and wholesale trade represent 15.5% of the State's jobs, roughly in line with national figures. Taken together, trade is the second largest sector of Maryland's economy, behind only government. After three down years for retail trade and two for wholesale trade, Maryland employment in the trade sector bounced back in 2004, with retail growing by 0.8% and wholesale growing by 0.5%. The declines during and after the recession had not been as deep as they were nationally, but the rebound was not quite as strong. Maryland's wealth, high per capita incomes, and expanding economy will support the trade sector. So will the booming housing market, both through sales of new and existing homes, which require furnishing appliances, and through home equity loans and, more importantly, cash-out mortgage refinancing. Refinancing has receded from record highs reached in early 2003 but continued throughout 2004 at historically high levels (see Figure 5) and, with home values still rising at 20% and more, are likely to continue to do so despite rising interest rates. These factors will support growth of 1.4% and 1.7% in the trade sector for 2005 and 2006. With a slowing economy in 2007, the trade industry will slow to 0.9% expected growth.

The grocery environment is becoming ever more competitive. New entrants are arriving in the State, and those which have long been present in the State are trying to maintain their position. Giant Food has had difficulty in that regard, partly as a result of its administrative merger with Massachusetts-based Stop & Shop. Same-store sales (system-wide) declined by about four percent in the first half of 2005, attributed by the parent company "primarily [to] competitive store openings." To counter this trend, the company is adding a special Staples-branded section carrying up to 1,200 Staples office supply items on 40 to 80 feet of shelf space in every Giant store. Giant said in May that its Landover headquarters would be sold, a number of manufacturing plants closed or sold, and 500 employees would be laid off by the end of the year, although about 250 management positions will be added in support of system-wide operations.

In September, Giant announced plans to remodel 18 stores. A month later, Food Lion completed the renovations of 63 stores in Maryland and Delaware. Whole Foods will build its second-largest store in Parole, triple the size of its current 25,000 square-foot store, into which Balducci's of Bethesda will move. Santoni's Marketplace and Catering in Glyndon just spent $1.5 million on an expansion, and the Timonium Super Fresh expanded its bakery and organic foods department. Much of this activity is driven by the entrance of Wegmans Food Market into the Baltimore region. The Hunt Valley Wegmans, which opened in October, is 250% larger than a regular grocery store, employs 600, and carries 400 cheeses and up to 700 types of produce. Such was the excitement of the opening that shoppers arrived hours before the 7:00 am opening; several hundred were there as the doors opened. The presence of Wegmans will only increase the competitive pressures for grocers over the coming years.

Competition is less direct in many other retail segments. The merger of Federated Department Stores with May Stores will lead to the closing of three Macy's stores, in Owings Mills, White Marsh, and Marley Station malls. Existing Hecht's will be converted into Macy's. No jobs will be cut until next March, and Federated plans to offer positions to "the vast majority" of employees. An agreement between Federated and the Attorneys General of five states, including Maryland, will require the company to give preference for the space occupied by its closed department stores to its competitors; in that event, the ultimate impact on jobs in the State would be negligible. Big box retailers continue to move into the State. Lowe's opened its newest Maryland store at the end of October, employing 175 people. Target is planning stores at the Annapolis Town Centre and Ritchie Station Marketplace, on the Capitol Beltway in Prince George's County. Also planned for that location are a Wal-Mart, Sam's Club (replacing an existing store that just closed) and Kohl's, which is also opening a 150-employee store in Timonium. Near Ritchie Station, the Woodmore Towne Centre is also hoping to lure national retailers with 700,000 square feet of planned retail space. These two developments may mean the end for Landover Mall; if so, another parcel with a good location will be open for future redevelopment.

Wal-Mart continues its expansion in the State, opening four new stores in 2005 (although one was a Supercenter replacing an existing store). The Prince George's County Council recently passed legislation allowing two Wal-Marts, including the first one inside the

Washington Beltway. Wal-Mart had planned a distribution center in Westover, although they have delayed their purchase of the 170 acres until next year. State legislation levying a tax on Wal-Mart and any other employer with 10,000 employees that doesn't spend 8% of total payroll on health benefits (Wal-Mart is currently the only such employer) was vetoed by Governor Ehrlich after criticism from Wal-Mart and others in the business community. The company's plans for the 600 to 750 employee distribution center are presumably up in the air until this issue is settled.

Two of the State's major economic drivers continue to grow. Baltimore-Washington International Thurgood Marshall Airport, which serves as a test bed for the Transportation Security Agency (most recently in its use of explosives detection equipment for both baggage and passengers) continues to expand with the opening of Terminal A/B. The terminal provides 11 new gates for Southwest, an advanced baggage screening facility, a new baggage claim area and food and other concessions. Southwest now has over 2,500 local employees, and its 164 daily flights are almost half of the airport's business. The airport has had some difficulty in expanding its roster of international destinations, although direct flights to Mexico City will begin December 1 on Mexicana, Mexico's largest airline. Simmons Air is expanding the airport's domestic schedule with nine daily roundtrip flights from the airport to Ocean City.

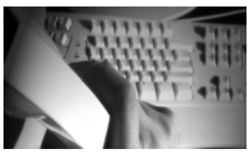
The Port of Baltimore continues to perform well, although 2005 was a year of retrenchment. The port, as all ports in the nation, has drawn attention from many concerned about its potential as a terrorist target. Over $14 million in federal grants over the past three years along with State money, most recently $5.5 million, has been spent on new security systems including radiation detectors, communications networks, perimeter security and video surveillance. BP sold a 60-acre waterfront site to Fishing Point Properties, which will use it for port-related logistics and storage. This property could ease some of the port's space concerns. An expansion of ATC Logistics' automobile handling facility will increase capacity by 35%, allowing the port to continue to grow in an area in which it excels.

As home to one of the few liquified natural gas (LNG) facilities and one of several potential sites nationwide for the first nuclear reactor to be built since Three Mile Island, Maryland's utility industry–more precisely, Calvert County's utility industry–is uniquely poised for growth. Cove Point LNG marine terminal is the largest in the country, one of just four. Brought out of mothballs in 2003, the five tanks at the terminal receive LNG from about 80 ships a year, bringing natural gas from Algeria, Trinidad, and elsewhere. Dominion, owner of the terminal, has proposed to the Federal Energy Regulatory Commission an $850 million expansion including two more tanks and 48 miles of pipeline that would increase the capacity of the plant by 85%. Construction is scheduled to start in early 2006, and the expansion is slated to come online in the latter half of 2008. The construction phase will create almost 160 jobs; when the facility is operational, roughly 40 jobs will be maintained.

More significantly in terms of both jobs and energy, Constellation Energy would like to expand its Calvert Cliffs nuclear power plant by adding a third reactor, a plan made more feasible by the enactment of the federal Energy Policy Act of 2005. Constellation recently formed Annapolis-based UniStar Nuclear, a joint enterprise with French energy company AREVA, to provide a business framework for the planning, construction, and operation of 1,600 megawatt nuclear power plants. UniStar is competing with a number of other groups, including NuStart, a consortium of which Constellation was a founding member, but Constellation has taken Calvert Cliffs out of the running as a site for NuStart. Construction of a nuclear power plant could create several thousand jobs, while operating the plant would require 400 or more employees. At best, however, a new nuclear reactor would not be operational until 2015.

In the immediate future, Constellation is constructing and managing a heating, cooling and backup power plant for the Canton Crossing development on the Canton waterfront. To be completed by March, the plant is Constellation's fourth such project, but first in the State. Sempra Generation, a California-based company, plans to build a 600-megawatt plant on leased land at the Eastalco plant. To be operational in two years, the plant will create about 450 construction jobs and 25 jobs for the long term.

Altogether, the trade, transportation and utilities industry is expected to grow by 1.3% in 2005, weighed down by the transportation and utility sectors. High gas and energy prices and the ongoing impact of utility deregulation several years ago will offset the strong growth of the retail trade sector. Growth will increase marginally to 1.6% in 2006, before slowing with the trade sector to 0.8%.



Information Services

The information industry has been on a roller coaster ride of late, reaching higher highs and lower lows over the last five years than any other industry in Maryland. At the end of the technology boom in 2000, job growth in this sector reached 7.9%, the best growth of any major industry since 1990. And just two years later the sector cratered as a result of massive overinvestment in telecommunications during the prior several years and the wind-down from Y2K, falling by 8.9%, the second-worst performance of any industry in the State since 1990. Following two less-severe down years, this industry is recovering in 2005, growing by 0.9% through the first three quarters, well ahead of the national growth rate of 0.1%.

The investment cycle is in full swing as Y2K improvements have reached the end of their useful lives, new ways of connecting to the Internet are being rolled out and cellular communications are being upgraded. Spending on IT is broad-based, as companies in virtually all industries are recognizing that in order to remain competitive, such expenditures are a necessity. The demand for IT workers in the State is such that there are now shortages for jobs requiring specific skills. This sector is likely to experience growth for the foreseeable future, probably with more stability than over the past few years, although it does not look likely to achieve its 2000 peak for some time.

The information sector includes some of the largest companies in the world, and some of the smallest in the State. By its nature, the industry lends itself to garage- or basement-based startups, and also requires the expertise of the most advanced and experienced companies in business. A Lockheed Martin subsidiary, Lockheed Martin Information Technology, has added 200 new jobs to its Woodlawn location in support of its contracts with the Social Security Administration and the Centers for Medicare and Medicaid Services. Ciena has started a subsidiary, Ciena Government Solutions, to focus its provision of advanced voice, data and video services to government agencies.

At the other end of the spectrum is Your Traffic Angel, an Annapolis-based start-up business with a handful of employees. The company provides text-message traffic alerts and live telephone support to commuters in the Greater Baltimore area, and hopes to provide service to the Washington, D.C. area at the start of the year. At a slightly more advanced stage of development is Eldersburg's America's Remote Help Desk, a 19-person firm that provides remote IT support. The company doubled in size in 2004, and expects sales to grow another 50% this year.

Internet service providers are growing in number, size and variety. The relative paucity of broadband service on the Eastern Shore led to the development of Bay Broadband, based in Chestertown. As Verizon introduces DSL service and Comcast brings cable Internet to more and more communities, Bay Broadband is skipping the landlines, going straight to wireless access. Across the Bay, Mid-Atlantic Broadband, a provider of telecommunications, Internet and high-speed data services, will be adding 60 jobs over the next five years as they incorporate a Texas-based business recently purchased and expand their customer service center.

One risk to the information industry in the coming years is the competition between behemoths Verizon and Comcast. As they strive to be the preeminent provider of Internet, phone, and television service in a bundled package, there are opportunities for both growth and loss in the State. The outcome of this competition, however, will not be determined for several years. With Howard and Montgomery counties as the second- and third-highest ranked counties in the nation in the proportion of early adopters of technology (and Anne Arundel ranked 12th), and the ever-present possibility of federal contracts, the information industry will perform relatively well in Maryland over the next few years. After growth of about 1.0% in 2005, employment is expected to increase by about 1.7% in 2006 and 2007.

Financial Services

As the state with the fifth highest per capita income, Maryland is fertile ground for finance-related business. While the number of FDIC-insured institutions dropped by six due to mergers, a net of 18 bank branches opened in Maryland in 2004; both trends will continue. Through the first half of 2005, employment at these institutions has increased by 4.8% (annualized); net income is on pace to reach almost $600 million, growth of over 16%, and almost the prior peak which was reached in 2002.

Many finance businesses already present in Maryland are expanding their presence, while some not in the State are looking to enter the market. First Mariner Bank opened a new Columbia Branch, joining Citizens National, Columbia, and Howard banks in opening new branches in Howard County. North Carolina's First Citizens Bankshares is opening its first Maryland branch in Annapolis.   HSBC, the third largest and third most profitable worldwide has only one branch in the Maryland-D.C.-Virginia region, but the company has just formed a unit to develop a commercial banking presence here. Nicholas Financial, a consumer finance company specializing in automobile loans, opened a branch in Glen Burnie, and plans to establish a second outlet in the Baltimore area. Paradigm Financial Group, a credit card processing and business loan firm, has also expanded in Glen Burnie and plans to add 15 jobs by the end of 2006.

Baltimore-based Legg Mason and Citigroup agreed in June to swap Legg Mason's brokerage unit for the asset management component of Citigroup, which oversees $436 billion for wealthy individuals and institutions. Citigroup gets Legg Mason's 1,540 regional brokers and a small ownership share of Legg Mason, while Legg Mason will double its assets under management, becoming the world's fifth largest money manager. The many Legg Mason brokers in Maryland will benefit from a very generous retention package from Citigroup–10% to

50% of the amount of fees and commissions brought in last year; other brokerages sense an opportunity and are reportedly offering up to double those amounts. The capital markets division of Legg Mason faced more uncertainty than most other units involved in the trade, as it was thought Citigroup would likely sell it. That is in fact what happened, with the division being sold to Stifel Financial, based in St. Louis. The roughly 300 employees in the division will form Stifel's first Baltimore branch. Citigroup has not yet announced any job reductions in Baltimore or Maryland, and may not plan to do so.

Employment in the financial activities sector has grown 2.0% year-to-date, supported in large part by the continuing real estate boom. Growth will continue in 2006, although as interest rates rise and the housing market cools, job losses in mortgage- and other housing-related finance businesses are expected to cause a deceleration to 1.5% in 2006 and 0.8% in 2007.

Professional and Business Services

The professional and business services industry is Maryland's third largest at 14.8% of nonagricultural employment, behind only trade, transportation and utilities and government. It has, however, demonstrated a stronger growth potential than either of those two industries, and average wage growth is almost as strong as in the government sector and is much stronger than in the trade industry, so the impact on economic growth is much greater. After growing more than 4.5% annually for the four years through 2000, the recession took the wind out of the industry's sails and led to stagnant performance for the next three years. In 2004, however, as the State and national economies regained their footing, the professional and business services industry recovered, growing by 2.8%, behind only the construction industry.

Through the first three quarters of 2005, this industry has grown 4.0%, second-best in the State, and contributed an outsized 30.5% of new jobs in Maryland. The strong cash position of businesses nationwide has contributed to this growth and will continue to do so. Profits have increased by double-digits eleven of the last thirteen quarters, tying a record in the post World War II era, and after-tax margins are at a record high. That and the need to maintain a competitive edge will lead to continuing and increasing expenditures on business services that will help the economies of service-oriented states such as Maryland. Maryland benefits further, obviously, through the vast amounts of federal spending on contractors of all descriptions, spanning the entire industry from janitorial services to network consultants.

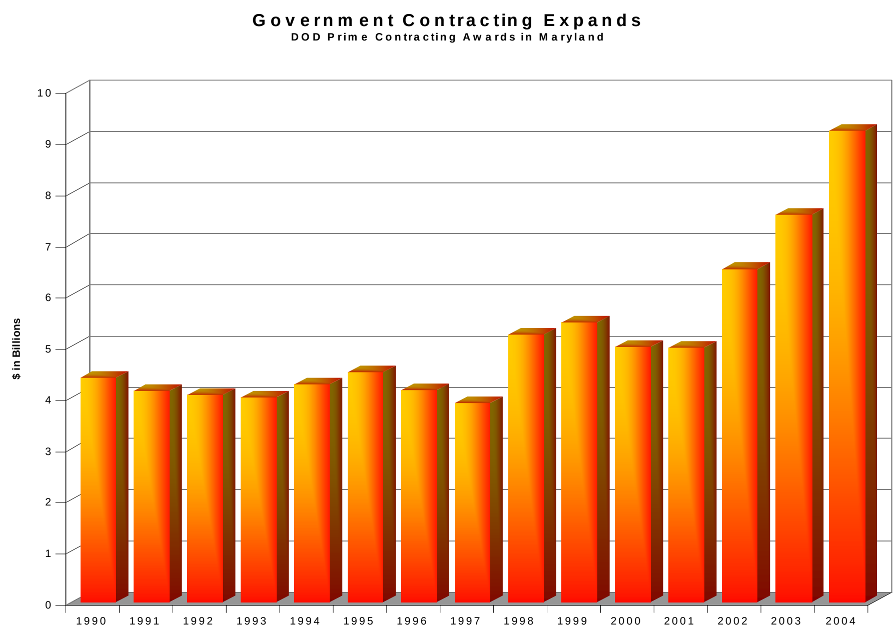


Figure 4 Source: Department of Defense

Sparta, an engineering services consultant to the Department of Defense, recently doubled its office space in Columbia in preparation for the hiring of 100 new employees. The company is confident enough in its expectations of new contracts that it is moving ahead with its expansion plans, and will occupy the new space by the middle of next year. Another Columbia-based engineering consultant to the intelligence community, Dragon Development, has recently added fifteen employees and is preparing for a strong growth surge. The company has hired a new COO and several additional staff to develop a new marketing plan and standardize operations throughout the company and across contracts. The Chesapeake Innovation Center in Annapolis has thrived in the current international environment, bringing seven new security and intelligence-related companies under its roof in 2005.

Call center employment is again contributing to employment growth in the State, several years after the implementation of the national "do not call" registry. Civic Development Group, a fund-raising company, opened two new call centers, one in Baltimore City that will bring 200 new jobs through the middle of 2007, and another in Prince George's County, which will also create 200 new jobs. American Healthways, which provides counseling to chronically ill individuals, is more than doubling its 135-employee call center in Columbia by adding 200 new positions. Limousine company Carey International opened a call center in Frederick, hiring 100. And while MCI closed its Hunt Valley call center in September, putting 300 individuals out of work, it is possible that some will find employment around the Baltimore Beltway, where Verizon Wireless is hiring 300 for a customer service call center in Hanover. The company is moving most of the 500 employees from its existing Laurel facility to Hanover, which may eventually expand to 1,100 employees.

The professional and business services industry will continue to be a leader in Maryland, adding more jobs than any other industry over the next three years. Growth of 3.7% is expected for 2005, followed by two more strong years of 3.6% and 3.9% growth. The greatest impact of the base realignment process will be on this industry. The first effects will likely occur in 2007, and will strongly support the growth of this sector through the end of the decade.

Education and Health Services

Maryland’s education and health services industry had what for it was a relatively poor year in 2004, growing by only 2.2%. This was the industry’s lowest rate of growth since 1990, although it was double the growth of Statewide 2004 employment. In fact, only once since 1990 has growth in this industry not kept pace with total employment in the State; its annual average growth rate of 3.2% over that period makes it the fastest-growing industry, almost three times the Statewide average of 1.1%. The presence of Johns Hopkins, national leader in terms of research funding for five consecutive years, the University of Maryland Medical Center and the National Institutes of Health have made Maryland one of the premier states for both health research and treatment, while there is a thriving private-sector education industry led by Educate and Laureate Education, spun-off components of Sylvan Learning Systems.

Demographic realities, ever-improving treatments and other factors are leading to continually increasing demand for health care services. Maryland hospitals are attempting to meet this trend by expanding, both at their current locations and by branching out. Upper Chesapeake Medical Center, Howard County General, Carroll Hospital Center, Johns Hopkins Bayview Medical Center, Sinai Hospital, Mercy Medical Center and Franklin Square are among the hospitals planning or undergoing expansions, from the $9 million addition of four operating rooms at Johns Hopkins Bayview to the $150 million to $200 million expansion of Franklin Square, adding about fifty beds, new emergency and critical care departments, conversion of shared rooms to private rooms and conversion of old facilities to administrative office space. The University of Maryland Medical System, meanwhile, is working towards a $400 million expansion primarily intended to consolidate its outpatient facilities.

Anne Arundel Medical Center will begin work next summer on a $10 million clinic on Kent Island. When the facility opens in 2008, it will provide primary care, laboratory tests and more to Eastern Shore residents. In a similar but even more localized move, four CVS drugstores will provide walk-in clinics through a partnership with MinuteClinic, adding to the existing clinics in CVS locations in Baltimore and Annapolis.

All of this facilities growth requires staffing. The seemingly perennial nursing shortage at Maryland hospitals has eased somewhat, with the average vacancy rate at acute care hospitals falling below 10% for the first time in five years. Lowering the vacancy rate to 7%, which is thought to be the minimally sufficient number of nurses, will require the hiring of another 1,500. While this problem will not be addressed overnight, local colleges including Villa Julie and Towson University report increasing interest in nursing among freshmen; Johns Hopkins recently received $10 million from two foundations to expand the Johns Hopkins School of Nursing. While the nursing shortfall may be on its way towards being resolved, shortages have now developed for therapists and laboratory technicians. Vacancy rates for physical therapists increased almost 60%, from 10.2% in 2003 to 16.2% in 2004, while vacancy rates for laboratory technicians tripled to 13.1%. Hospitals, competing with biotech and home health care firms, are offering bonuses and looking overseas to find suitable employees.

The demographic realities, not to mention the fiscal ones, will likely lead to reduced Medicare reimbursement rates for doctors. A 4.3% reduction has been proposed for calendar year 2006, although Representative Cardin has co-sponsored a bill to increase the rates by 2.7% or more. The proposed reduction would mean $39 million less in reimbursements in Maryland in 2006 alone. Final regulations are expected shortly.

After a year-long ordeal, Omnicare and Baltimore’s NeighborCare were finally able to come to agreement on the takeover of the latter. The $1.9 billion purchase brings NeighborCare into the nation’s largest institutional pharmacy company. While the deal may help Omnicare realize greater profits out of its current operations, the company anticipates savings of $60 million to $70 million from the consolidation. Shortly after the purchase was announced, Omnicare cut 10% of the workforce at the NeighborCare headquarters. Other than to say that most of the consolidation would occur in 2006 and that Omnicare intends to maintain a presence in Baltimore, plans for the other 450 employees in Baltimore have not yet been announced.

Active Services, an adult day care provider, moved its 35-employee headquarters from Alabama to Owings Mills. The company will grow to 58 day care centers with the purchase of 19 from another company; eight of those are in Maryland. It is estimated that there are only 35% of the required adult day care centers nationwide; Active Services expects to grow to about 100 centers over the next two or three years, and they plan to add 25 employees to the new headquarters by mid-2006.

Educational institutions are growing in ways designed to meet the needs of the broader economy. The University of Maryland at Baltimore wants to extend its current Masters program in public health to a fully-accredited school of public health, while the Community College of Baltimore County received a grant from the National Science Foundation to create a biomanufacturing training center. The University of Maryland created the Sloan Biotechnology

Industry Center to study economic and regulatory issues surrounding that industry. In the field of primary education, Johns Hopkins and Morgan State are planning a K-8 school for the neighborhood around the East Baltimore Biotechnology Park. Education Station, a subsidiary of Educate which provides tutoring under the No Child Left Behind Act, will be sold by its parent. Plans are uncertain, but the headquarters and its several hundred employees will likely remain in Baltimore.

The education and health services sector will post another strong year in 2005, with growth expected to be 2.3%. Covering two areas of great concern to baby boomers and parents, this industry's prospects for the future continue to look very strong, with estimated growth of 3.1% in 2006 and 2.1% in 2007.

Leisure and Hospitality Services

The leisure and hospitality services industry provides just 8.9% of Maryland's jobs, but since 2001 the industry has grown much faster than the State's economy, averaging 2.6% annually compared to 1.8% for the State as a whole. Through the first three quarters of 2005, its performance is even stronger, both absolutely and relatively, at 5.7%, more than 40% faster than the second-fastest growing industry, professional and business services, and almost four full percentage points above the growth in statewide employment of 1.9%. An important factor in the growth of this industry is tourism. In 2004, the number of domestic visitors increased by 4.8% to more than 21 million, outpacing national growth of 2.1%.

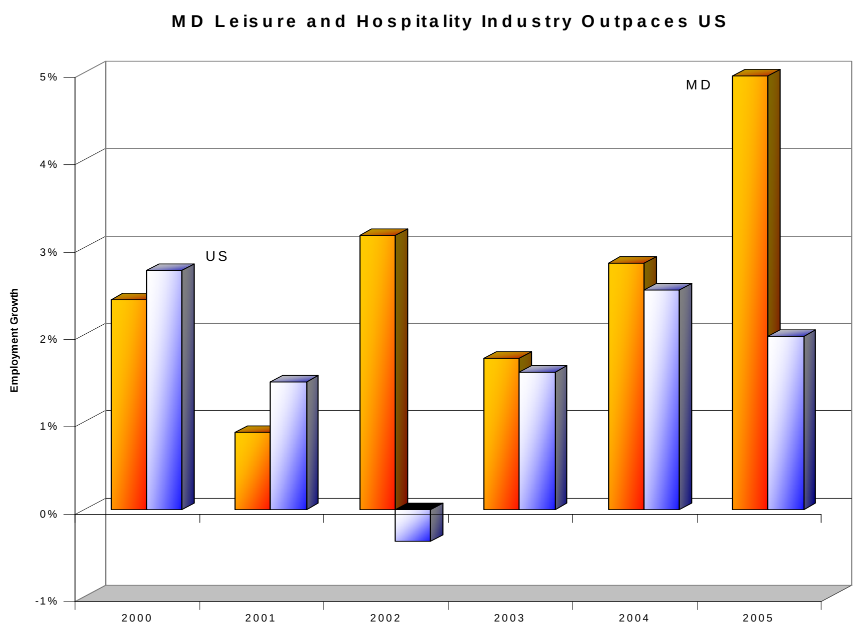


Figure 5 Source: Bureau of Labor Statistics

A $13 million museum, the Frederick Douglass-Isaac Myers Maritime Park, is scheduled to open in November. The park will highlight the contributions of 19th century African-Americans to Baltimore's economy and the maritime industry. Also in Baltimore, the Reginald F. Lewis Museum of Maryland African American History and Culture opened in June, while in Annapolis the Banneker-Douglass museum is undergoing a $6 million expansion. At Camden Yards, Geppi's Entertainment Museum, a comic book museum, and Sports Legends, a museum showcasing Maryland athletes, opened this past summer. The Maryland Port Administration is spending $4 million to convert a cargo warehouse in Locust Point into a cruise ship terminal. With the new terminal, intended to be privately operated, there are hopes of reversing the recent slide in cruise ships calling on Baltimore. There were 60 calls in 2004, but just 30 scheduled for 2005. Economic development officials expect the new terminal to triple the number of ships visiting Baltimore and to create 280 jobs.

The leisure and hospitality industry is not likely to continue the torrid pace of 2005. High gasoline prices will affect leisure travel; a larger looming problem is a lack of convention business planned for Baltimore in 2006. After growth of about 5% in the number of room-nights booked for citywide conventions in 2005, the number currently booked for 2006 is down by more than one-third. Overall occupancy rates are expected to be lower this winter than the past two years. Some hotels have boosted sales staff, and all are working hard to resolve the problem. In the meantime, the city is moving forward on plans for a convention headquarters hotel–a 752 room Hilton, slated to open in 2008. Once construction starts, conventions may start bookings.

Magna Entertainment, owner of the Pimlico and Laurel racetracks, announced that they would reduce the number of live racing days from 198 to 129, and would sell the Bowie Training Center to developers. The proposal was rejected by the Maryland Racing Commission, but it seems likely that there will ultimately be a substantial reduction in the number of racing days in 2006. These moves by Magna raised concerns about the possibility of the Preakness moving out of Maryland, although Magna's chairman has committed to keeping the race at Pimlico. The Maryland Stadium Authority has contracted consultants to study the economic impact and fiscal viability of a Maryland Horse Park on the site of the Naval Academy's 800-acre Anne Arundel dairy farm. If the project is deemed feasible, legislation will be introduced at the 2006 session of the General Assembly.

Any impact from the Maryland Horse Park is tentative and some years away, but the other developments in the leisure and hospitality industry will boost its 2005 growth to 5.3%, easily the best performance of any industry in the State. Growth is expected to slow dramatically in 2006 and 2007 to about 1.5%.

Government

Government employment has obviously been a mainstay of Maryland's economy. All told, 18.4% of Maryland's workers are employed directly by the federal, State, or local governments, compared to a national average of 16.4%. All of the 16 states with a greater concentration of government employment (except for the District of Columbia, which is first on the list) are western or southern, and most have very different economies than Maryland. None, again with the exception of D.C., have anything close to Maryland's level of per capita personal income, partly because many government workers in Maryland are executives in the federal government, which helps boost the State's personal income figures.

The federal fiscal situation is not ideal, although it could be worse. The budget deficit for fiscal year 2005 was $318.6 billion, a large improvement over the prior year's shortfall of $412.6 billion. That improvement, however, was caused by a revenue surge that seems unlikely to continue. The projected deficit for fiscal year 2006 deteriorates to $375 billion, although that is only about 2.8% of gross domestic product, compared to deficits in the 5% to 6% range in the 1980s and 1990s. While there has been discussion of paring back federal spending, particularly in light of the damage caused by hurricane Katrina, at present it appears unlikely that substantial action will be taken, at least through 2008. Federal employment has declined 0.5% through the first nine months of 2005, and looks to finish the year down slightly and remain stable over the longer term. Pay increases will partly compensate for Maryland's economy, however, as federal employees will be receiving a 3.1% COLA in January. Personal income will also be boosted by the 4.1% COLA federal retirees in the Civil Service Retirement System will be receiving next year.

State revenues also surged in fiscal year 2005, resulting in a $603 million unappropriated general fund surplus. The revenue outlook for the next several fiscal years has improved significantly, although most of the unexpected revenue will be required to fund the Thornton education spending and Medicaid, not to mention the recently estimated $20 billion actuarial shortfall for retiree benefits. As a result, State employment is not expected to grow appreciably in the coming years–it is up 0.2% through the first three quarters of this year, and the fiscal year 2006 budget authorized twelve fewer positions than the prior year's budget.

Generally, the fiscal position of local governments has improved greatly due to rapidly rising property tax revenues, the fact that all Maryland counties have an individual income tax, and substantial increases in State aid (though the increases are funneled almost entirely to education spending). Local government employment is up 2.4% so far in 2005. Growth will moderate in the forecast period, but it is probable that whatever growth occurs in the government sector will be at the local level.

Agriculture

Traditional commodity production in Maryland's agriculture economy continues to decline. Although motor fuel prices have recently moderated, they are still very high, increasing the costs of planting, tending, harvesting, and transporting agricultural products and supplies. Natural gas prices, on the other hand, are expected to continue to rise in the short and medium terms, which means fertilizer costs will not be declining any time soon. On the revenue side, commodity farmers are being pinched by decreased federal subsidies and keener competition from both domestic and foreign competitors. These trends are also expected to continue.

In addition to these national trends, Maryland farmers are faced with high land values that lead to development of farmland and make it more difficult to expand to gain economies of scale. A declining agricultural infrastructure also makes it more difficult to continue traditional farming as suppliers and services leave areas without a sufficient customer base. To combat these challenges, Maryland's agricultural industry is continuing to move from traditional bulk commodity production to niche markets. Floriculture production, for example, increased from $51 million in 2000 to $101 million in 2004. A few more farms this year switched to producing organic products such as milk and eggs, which command far higher prices than conventional products. In 2004, 78 farms received organic certification from the Maryland Organic Certification Program and 15 farms not subject to the certification requirements were registered.

Acreage and production in corn, hay, soybean, winter wheat, and potatoes all declined in 2005 due to lower prices, disease, weather, and other factors. Barley planting and yield increased about 10% to 46,000 acres and 86,000 bushels. Peach production was basically the same as last year at 4.2 tons, and apple production declined two tons to 30,000 lbs.

Food harvest from the Chesapeake Bay showed mixed results. The National Marine Fisheries Service is considering adding the Eastern oyster to the endangered species list, which could end their harvest in the Bay and affect plans to introduce Asian oysters to the Bay. A preliminary decision is expected in January, although a final decision could be two years away.

The American eel and the Atlantic sturgeon are also under consideration for endangered species protection in the Bay.

On the positive side, it appears the prospects for both blue crab and rockfish are improving. The Department of Natural Resources uses an index calculated on samples of juvenile striped bass from 22 locations around the bay. This year's index of 17.8 is much higher than the average of 12, predicting higher yields next year. There is concern, however, that the low number of menhaden in the Bay, an important source of food for rockfish, may lead to higher rockfish mortality. Supplies of crabs are expected to be higher, and supplies of crab processors is also expected to be good this year as the federal government expanded the H2B visa program that has allowed workers from Mexico, Central America, and South America to process the catch.

While disease, dwindling habitat, weather, and other factors have hurt the oyster and blue crab industries in the bay, red tide, a toxic algae that renders clams dangerous to eat, has helped the Bay clammers. Red tide affected the east coast from Maine to Massachusetts, increasing demand for Bay clams and raising prices about 10%. This pick up in business may be short-lived, however, as dermo, which has decimated the oyster population, is spreading to clams, and neoplasia is also affecting clams.

Employment in the agricultural sector is expected to remain steady or increase slightly over the forecast period, with more jobs on land (particularly in horticulture) and fewer on the water.

Table 2

Forecast of the Maryland Economy

	2001	2002	2003	2004	2005	2006	2007
Total Non-Agricultural Employment (thousands)	2,473.3	2,482.0	2,491.7	2,518.6	2,569.7	2,620.5	2,661.6
	0.6%	*0.4%*	*0.4%*	*1.1%*	*2.0%*	*2.0%*	*1.6%*
Total Personal Income ($ in millions)	191,257	198,544	206,166	220,261	234,088	249,135	262,931
	5.1%	*3.8%*	*3.8%*	*6.8%*	*6.3%*	*6.4%*	*5.5%*
Wages and Salaries	98,633	102,042	105,893	112,384	119,711	127,223	134,287
	5.1%	*3.5%*	*3.8%*	*6.1%*	*6.5%*	*6.3%*	*5.6%*
Proprietors’ Income	12,414	12,927	13,959	15,216	16,222	17,285	18,388
	13.5%	*4.1%*	*8.0%*	*9.0%*	*6.6%*	*6.6%*	*6.4%*
Dividends, Interest and Rent	33,529	33,052	32,535	34,292	35,087	37,075	38,924
	1.6%	*-1.4%*	*-1.6%*	*5.4%*	*2.3%*	*5.7%*	*5.0%*
Residence Adjustment	20,313	21,149	22,245	23,895	25,692	27,580	28,803
	2.1%	*4.1%*	*5.2%*	*7.4%*	*7.5%*	*7.3%*	*4.4%*
Transfer Payments	19,896	21,405	22,783	24,028	25,692	27,259	29,058
	9.0%	*7.6%*	*6.4%*	*5.5%*	*6.9%*	*6.1%*	*6.6%*
Capital Gains	5,365	3,735	5,258	8,167	10,653	11,870	11,587
	-52.5%	*-30.4%*	*40.8%*	*55.3%*	*30.4%*	*11.4%*	*-2.4%*
Unemployment Rate (%)	4.0	4.4	4.5	4.2	4.2	3.9	3.9
Housing Starts (units)	28,953	28,752	28,251	25,838	30,072	34,725	29,407
	-3.0%	*-0.7%*	*-1.7%*	*-8.5%*	*16.4%*	*15.5%*	*-15.3%*

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 2005 through 2007. Table 4 provides additional historical detail on general fund revenues. The following sections of this report provide more information on each of the State's general fund revenue sources.

Table 3

Selected Revenues

Fiscal Years 2005 - 2007

$ Thousands	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 2005 Actual	Fiscal Year 2006 Revised Estimate	Fiscal Year 2007 Estimate	Fiscal Year 2005 Actual	Fiscal Year 2006 Revised Estimate	Fiscal Year 2007 Estimate	Fiscal Year 2005 Actual	Fiscal Year 2006 Revised Estimate	Fiscal Year 2007 Estimate
INCOME TAXES									
Personal	5,660,614	6,144,059	6,557,285				5,660,614	6,144,059	6,557,285
Corporation	512,237	626,635	674,568	161,760	197,885	213,021	673,997	824,520	887,589
Total	6,172,851	6,770,694	7,231,853	161,760	197,885	213,021	6,334,611	6,968,579	7,444,874
SALES AND USE TAXES	3,129,352	3,330,910	3,502,079	24,323	25,539	26,816	3,153,675	3,356,449	3,528,895
STATE LOTTERY RECEIPTS	455,863	471,338	483,658	74,766	73,700	79,000	530,630	545,038	562,658
TRANSPORTATION REVENUES									
Motor Vehicle Fuel Tax	13,159	13,332	13,747	739,841	749,968	773,253	753,000	763,300	787,000
Motor Vehicle Licenses, Fees				589,077	589,639	614,469	589,077	589,639	614,469
Motor Vehicle Titling Tax				717,699	742,000	773,000	717,699	742,000	773,000
Maryland Transit Fees				106,941	109,828	112,325	106,941	109,828	112,325
Maryland Port Fees				94,697	91,263	92,265	94,697	91,263	92,265
Maryland Aviation Fees				126,635	144,931	157,491	126,635	144,931	157,491
Total	13,159	13,332	13,747	2,374,890	2,427,629	2,522,803	2,388,049	2,440,961	2,536,550
PROPERTY TAXES, FRANCHISES, ETC.									
State Real Property Tax				516,534	572,969	644,406	516,534	572,969	644,406
Property Transfer Tax				237,250	276,449	264,491	237,250	276,449	264,491
Business Franchises and Filing Fees	197,907	200,717	202,699				197,907	200,717	202,699
State Tobacco Tax	276,044	278,176	279,172				276,044	278,176	279,172
Tax on Insurance Companies	268,912	265,742	273,740				268,912	265,742	273,740
Alcoholic Beverages Excises	27,341	27,730	28,223				27,341	27,730	28,223
Death Taxes	183,115	210,257	203,210				183,115	210,257	203,210
Clerks of the Court	55,465	58,217	52,773				55,465	58,217	52,773
District Courts	87,408	89,365	97,872				87,408	89,365	97,872
Hospital Patient Recoveries	85,139	83,475	83,938				85,139	83,475	83,938
Interest on Investments	64,397	113,274	95,556		--- See Notes ---			--- See Notes ---	
Miscellaneous Fees, Other Receipts	377,713	291,827	294,726						
Total	1,623,442	1,618,780	1,611,909						
Total Current Revenues	11,394,669	12,205,054	12,843,246					--- See Notes ---	
Extraordinary Revenues	153,365	20,393		47,698	6,440				
GRAND TOTAL	11,548,033	12,225,447	12,843,246		--- See Notes ---				

Notes: Includes all general fund revenues, all Transportation revenues and selected special fund taxes. Corporate receipts for fiscal year 2005 do not include $198.7 million from the legislatively-mandated Delaware holding company settlement and for fiscal year 2006 do not include the $26.8 million settlement with MCI; these revenues are included as extraordinary receipts. In conjunction with Appendix B of the Fiscal Year 2007 Budget Book, this table will comprise the official estimate of total state revenues.

Table 4

Maryland General Fund Revenues

Fiscal Years 2003 - 2007

$ Thousands	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Official Estimate	FY 2006 Revised Estimate	FY 2006 Difference	FY 2007 Estimate
INCOME TAXES:							
Personal	4,703,738	5,077,581	5,660,614	5,801,045	6,144,059	343,014	6,557,285
Corporation	288,274	328,553	512,237	501,294	626,635	125,341	674,568
Total	4,992,012	5,406,134	6,172,851	6,302,340	6,770,694	468,354	7,231,853
SALES AND USE TAXES	2,697,061	2,921,794	3,129,352	3,255,921	3,330,910	74,989	3,502,079
STATE LOTTERY	422,945	436,373	455,863	463,848	471,338	7,490	483,658
FRANCHISES, EXCISES, LICENSES, FEES:							
Business Franchise Taxes	143,364	190,637	197,907	194,813	200,717	5,904	202,699
Tax on Insurance Companies	228,476	260,046	268,912	277,313	265,742	(11,571)	273,740
Death Taxes	142,311	153,774	183,115	160,396	210,257	49,861	203,210
Tobacco Tax	199,201	272,430	276,044	265,747	278,176	12,429	279,172
Alcoholic Beverages Excise Tax	25,651	26,863	27,341	27,386	27,730	344	28,223
Motor Vehicle Fuel Tax	12,520	13,026	13,159	13,574	13,332	(242)	13,747
District Courts	71,573	84,402	87,408	83,707	89,365	5,658	97,872
Clerks of the Court	51,573	56,810	55,465	41,274	58,217	16,943	52,773
Hospital Patient Recoveries	73,681	90,852	85,139	83,751	83,475	(276)	83,938
Interest on Investments	31,901	26,604	64,397	42,346	113,274	70,928	95,556
Miscellaneous	224,751	300,957	377,713	246,509	291,827	45,318	294,726
Total	1,205,002	1,476,401	1,636,601	1,436,815	1,632,112	195,297	1,625,656
Total Current Revenues	9,317,020	10,240,702	11,394,669	11,458,924	12,205,054	746,130	12,843,246
Extraordinary Revenues	12,119	(36,378)	153,365	--	20,393	20,393	--
GRAND TOTAL	9,329,140	10,204,324	11,548,033	11,458,924	12,225,447	766,523	12,843,246

Individual Income Tax

The individual income tax exceeded expectations substantially in fiscal year 2005, growing by 11.5%. Surprisingly, this growth was better than any year in the late 1990s. One has to look back to Tax Reform Act of 1986-assisted 13.0% growth in fiscal year 1987 to find better performance from the income tax. All components of the tax–withholding, estimated payments, fiduciary payments, final payments and refunds–performed better than the estimates. An “April surprise,” however, in which $266 million more than expected was collected in final and fiduciary payments and lower refunds, represented over 70% of the variance for the fiscal year. Withholding and estimated payments over-performed, but much more modestly (especially as a percentage of collections).

Reasons for the April surprise, which occurred in many other states and with the federal income tax as well, are primarily capital gains related. The forecast for fiscal year 2005 was based on growth of capital gains in the mid-single digits. Instead, the latest available data indicate that capital gains grew by 50% or more in Maryland (preliminary IRS data show 57% growth nationally; Maryland capital gains are usually close to the national figures). Capital gains growth was driven by two primary factors–the booming real estate market and the exhaustion of capital loss carryforwards from 2001 and 2002.

Hard, timely data on these issues do not exist, especially at the state level. But an extensive analysis of data from the State Department of Assessments and Taxation on every sale of real property in the State from 2001 to 2004 indicates extraordinary growth in the number of sales of residential property which probably resulted in taxable gains. Since 1997, gains on the sale of primary residents are taxable, with an exclusion of $250,000 for single tax filers and $500,000 for joint filers. There has not been a provision allowing an exemption for any amounts rolled over into a new home since that time. Booming market values–a statewide increase of 46.4% in the median sale price from 2001 to 2004–have resulted in many home sellers realizing a modest taxable gain, and more than a few who would have had a modest taxable gain had they sold several years ago realizing a substantial taxable gain with their 2004 sale. Exact estimates of this effect on income tax revenues are impossible, as the basis for income tax purposes is not the prior sales price in most cases (which is the closest proxy available). Nevertheless, it appears that roughly half of the April surprise (with respect to final payments and refunds) is attributable to sales of residential real estate, with a significant additional amount attributable to sales of nonresidential real estate (by individual owners or pass-through entities, income of which is reported on the individual income tax form).

Also boosting net capital gains is the very strong probability that many taxpayers had either exhausted capital losses they had been carrying forward for several years, or they had much less in 2004 than gains realized. After declines in the Standard and Poor’s 500 of 13% and 23% in 2001 and 2002, the market rebounded with a 26% increase in 2003 and almost 9% in 2004. Thus, those who had sold assets purchased after or several years before the market collapse (the S&P was up 25% from the end of 1997 to the end of 2004) could have realized significant gains; 2003's strong results could have absorbed, for many taxpayers, much or all of whatever losses they were carrying from 2001 and 2002.

Income tax withholding, over 75% of gross collections, grew by a strong 8.3% in fiscal year 2005. Adjusted for law changes and increases in the local income tax in six counties, baseline growth was about 6.6%. Maryland employment increased by 1.6% during the fiscal year, leading to growth in wage and salary income of 6.2%, both accelerating from the year before. Estimated income taxes grew by 17.3% as a result of improving business conditions for small businesses, consultants and contractors (many of whom do not have income taxes withheld) and the generally improving stock market.

In fiscal year 2006, income tax revenues are forecast to grow 8.5% to $6.144 billion. Both employment and personal income growth are expected to reach a peak for the current economic cycle during the fiscal year, providing a strong underlying base for the income tax. Baseline withholding will grow by just over 7.0%; boosted by a number of legislated changes including withholding from lump-sum retirement distributions and adjustments to withholding for the special nonresident tax, actual growth of 7.4% is forecast. As the economy slows slightly in fiscal year 2007, withholding growth will decelerate to 6.4%. Similarly, estimated income tax payments are expected to slow slightly in fiscal year 2006 to 15.0% growth, dropping further in 2007 to 7.1% growth.

The forecast for final payments, fiduciaries and refunds, and hence the bottom line, is predicated on a relatively healthy real estate market through the end of calendar year 2006. While some anecdotal information indicates the housing market slowed in the last quarter of 2005, 2005 as a whole will turn out to have been almost as strong (in growth terms) as the year before. In 2006, as mortgage rates continue their slow climb and the Federal Reserve tightens regulations on non-traditional mortgages and other recent innovations, price growth will slow and the number of transactions will likely fall. In 2007, the number of transactions is expected to drop significantly; even if modest growth in prices continues, the net effect on taxable gains from real estate is expected to be a significant drop. In this scenario, taxable gains from real estate will increase by two-thirds for tax year 2005 and a further 20% for tax year 2006 before falling 19% in tax year 2007. Total taxable gains are expected to increase 30% in 2005 and 11% in 2006, before falling by 2.5% in 2007.

Final payments will remain at the high level attained in 2005, but will grow much more slowly–a sharp slowdown from the record 40.5% growth of fiscal year 2005 to 14.6% is expected. Growth will slow further to 8.7% in 2007, as both the broader economy and capital gains slacken. Fiduciary payments will follow a similar pattern, slowing from 85% growth in fiscal year 2005 to "just" 34.4% in 2006, and decelerating again to 17.0% growth the following year.

One of the largest risks to the income tax forecast is obviously the course of the real estate market over the next several years. Should prices decline precipitously, the number of transactions will most likely fall even more quickly. The net effect on taxable gains would be immense, causing a large drag on revenue growth (possibly in excess of $100 million). This outcome appears relatively unlikely, especially in light of the BRAC process, which will bring thousands of families into the center of the State, where the housing market is the tightest. Another risk to the forecast is a federal income tax provision passed into law shortly after Hurricane Katrina struck which removes the limitation on the deduction for charitable contributions. For charitable contributions–to any charity, anywhere, for any purpose–made after August 28, 2005, the 50% of federal adjusted gross income limitation does not apply. This provision has received a lot of attention and promotion from both large nonprofit institutions and financial advisors; the impact on revenues is not expected to be measurable, but it is a risk.

Net individual income tax collections are expected to grow by 8.5% in fiscal year 2006, slowing to 6.7% in fiscal year 2007. After the distribution of local revenues, general fund revenues will total an estimated $6.144 billion in fiscal year 2006. In fiscal year 2007, general fund revenues will reach $6.557 billion.

Table 5

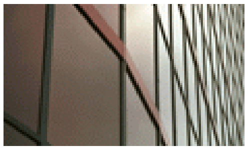
Individual Income Tax Revenues

Fiscal Years 2004-2007

($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Gross Receipts (State & Local)				
Withholding	7,901,872	8,545,756	9,174,869	9,763,730
Estimated Payments	1,074,042	1,259,992	1,448,693	1,551,951
Payments with Final Returns	824,392	1,158,288	1,327,337	1,443,314
Fiduciary	53,439	98,604	132,482	154,987
Gross Receipts	9,853,745	11,062,641	12,083,380	12,913,981
Refunds	(1,603,438)	(1,701,842)	(1,927,068)	(2,079,023)
Net Receipts (State & Local)	8,250,307	9,360,799	10,156,313	10,834,958
Local Reserve Account	(3,170,970)	(3,698,503)	(4,009,754)	(4,275,173)
Income Tax Check-offs	(1,755)	(1,681)	(2,500)	(2,500)
Net General Fund	5,077,581	5,660,614	6,144,059	6,557,285

Figures may not sum to totals due to rounding.



Corporate Income Tax

Corporate income tax revenues grew by 55.9% in fiscal year 2005, excluding the $198.7 million received from the Delaware holding company settlement (shown in Tables 3 and 4 as extraordinary revenues). Corporate profits have nearly doubled over the last four years–the best performance in the last half-century. While corporate income tax revenues do not move precisely with corporate profits (due to timing issues and net operating loss carrybacks and carryforwards), revenues increased by 84% from fiscal year 2002 to 2005. Revenues in 2005 do include those from the Delaware holding company addition modification–the ongoing solution to the holding company problem. Estimated payments for tax year 2004 due on or after July 1 were required to reflect the increased tax liability due to the addback.

Total receipts arising from the addback cannot be calculated until all tax year 2004 returns are processed, which will not occur for some time yet (with filing extension and non-calendar year taxpayers, most returns will be due by March 15, 2006 at the latest), but it is clear that the addback has generated a substantial amount of revenue. Through the first week of December 2005, 437 returns showed an addback that increased 2004 taxable income, resulting in $33 million of revenue (revenue that had been collected as estimated, final or extension payments but cannot be identified as related to the addback until the returns are filed). An additional 112 returns showed an addback that did not increase taxable income as there were losses on those returns that exceeded the addback amount.

Through November, net corporate income tax revenues have grown 65%, with gross receipts increasing by 38.4% and refunds declining 23.2%. One factor causing gross receipts to surge is the fact that the holding company settlement and the addback have absorbed net operations losses, causing many corporations to pay taxes now when otherwise they would not have had a liability until some point in the future. In other cases, the absorption of the losses did not cause an immediate liability, but will result in the payment of taxes sooner than would otherwise have been the case, whether in tax year 2005, 2006, 2007 or later.

Growth in gross receipts is expected to slow for the remainder of the year, since estimated payments for this period of time last year should have included the addback for most corporations. With the year off to such a strong start and corporate profits continuing to increase, net receipts are forecast to increase 22.3%. In addition, $26.8 million has been received in a settlement with MCI; these revenues are shown as extraordinary revenues (with $20.4 million distributed to the general fund). In fiscal year 2007, with profits continuing to rise and the ongoing effect of accelerated liabilities due to the exhaustion of losses, net receipts are expected to rise 7.6%. General fund revenues, after the distribution to the Transportation Trust Fund, will rise to $626.6 million in fiscal year 2006 and $674.6 million in fiscal year 2007.

Table 6

Corporate Income Tax Revenues

Fiscal Years 2004-2007

($ in thousands)

	2004 Actual [1]	2005 Actual [2]	2006 Revised Estimate [3]	2007 Estimate
Gross Receipts	576,116	780,186	917,292	992,689
Refunds	(143,809)	(106,189)	(92,772)	(105,100)
Net Receipts	432,307	673,997	824,520	887,589
Transportation Trust Fund	(103,754)	(161,760)	(197,885)	(213,021)
Net General Fund	328,553	512,237	626,635	674,568

[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.

[3] Excludes $26,832,319 from the MCI settlement ($20,392,562 to the general fund and $6,439,757 to the Transportation Trust Fund).

Sales and Use Taxes

Sales and use taxes, the second-largest source of general fund revenue, have had two solid years in a row, with growth of 8.3% in fiscal year 2004 and 7.4% in 2005. Growth is expected to continue slowing though remain robust throughout the forecast period as revenues reach $3.331 billion in fiscal year 2006 and $3.502 billion in 2007. Growth in fiscal year 2007 is weaker than the baseline due to the tax-free week and the expiration of the reduced vendor discount. Without these changes, revenues would be about $16 million higher.

The consumer segment of sales tax revenues, almost two-thirds of net collections, bounced back strongly from the recession, growing by 7.3% in 2004 and 5.2% in 2005. With the State's economy expected to perform steadily at a relatively high rate of growth over the next several years, the consumer component will grow consistently. Growth of 5.3% is forecast in fiscal year 2006, as many of the factors that stimulated growth over the past several years, including new federal income tax reductions and substantial amounts of cash-out mortgage refinancing, are expected to be absent. Baseline growth in the low 5% range is expected, although the tax-free week in August 2006 will reduce revenues by an estimated $5.5 million. Sales tax revenues from consumers are expected to grow 5.3% in fiscal year 2006 to $2.218 billion, and by 4.9% in 2007 to $2.327 billion.

The construction component of the sales tax, the second-largest, grew by 15.9% in 2004 and 12.9% in 2005. The booming housing market, mortgage refinancing for home improvement, and rising prices for building materials, particularly lumber, steel and cement, have led to this superb performance. Growth is forecast to decelerate slightly in fiscal year 2006 as the housing market cools and the pace of home improvement slows with rising interest rates, but 9.0% growth will lead to revenues of $548.6 million. In fiscal year 2007, as higher mortgage rates and the expected efforts of the Federal Reserve to more tightly regulate innovative products from mortgage lenders and others take hold, growth will slow dramatically to 2.9% as revenues reach $564.8 million.

Spurred by federal income tax incentives, fiscal year 2005 saw the best performance from sales taxes on capital goods since 1999 with growth of 8.8%. Some of those incentives have expired (bonus depreciation), but others will continue through 2007 (enhanced §179 expensing). The strong cash position of many businesses, resulting from record corporate profits, should offset the impact of the expiration of bonus depreciation. Growth of 9.4% to $302.6 million is expected for fiscal year 2006, with a slowing to 7.4% growth ($324.9 million) for 2007.

Sales tax revenues from utilities, primarily from cellular telephone service and sales of electricity and natural gas to commercial and industrial users, grew by 10.8% in 2005 – the best growth since the massive overinvestment in telecommunications at the turn of the century. These revenues, the smallest major component of the sales tax, are expected to grow by 10.0% in fiscal year 2006 with high energy prices and the continuing expansion of cell phones and services. Growth is expected to remain relatively strong in 2007 at 9.2%. Revenues will reach an estimated $290.0 million in 2006 and $316.5 million in 2007.

Sales tax assessments declined 25% in 2005, largely due to the improving economy which increased turnover among the Comptroller's auditors, resulting in a less experienced staff. Assessments are expected to remain at this level throughout the forecast period. Revenues for the Transportation Trust Fund, from sales tax collections on rental vehicles, are expected to grow 5.0% annually, reaching $25.5 million in fiscal year 2006 and $26.8 million in fiscal year 2007.

Table 7
Sales and Use Tax Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Consumer	2,002,190	2,106,755	2,218,176	2,326,834
Construction	445,587	503,285	548,623	564,805
Capital Goods	254,024	276,677	302,587	324,949
Utilities	237,919	263,677	289,983	316,524
Gross Collections	2,939,720	3,150,395	3,359,369	3,533,112
Assessments	29,720	22,150	22,150	22,150
Refunds	(24,381)	(18,870)	(25,070)	(26,367)
Transportation Trust Fund	(23,265)	(24,323)	(25,539)	(26,816)
Total General Fund	2,921,794	3,129,352	3,330,910	3,502,079

Lottery

Lottery sales reached almost $1.5 billion in fiscal year 2005, growing by 6.4%. Mega Millions sales were strongest at 10.4%, growing to $99.7 million, but instant ticket sales were best in dollar terms, growing by $36 million (10.1%) to $391.0 million. Keno continued as the largest game, with sales growing by 6.9% to $416.5 million. Pick 3 sales grew for the first time in three years, and Pick 4 sales increased by 7.8%, the best performance since fiscal year 1996. General fund revenues grew by only 4.4%, largely because the prize payout for every game except Keno and Mega Millions increased.

Sales have not been quite as strong as expected through the first five months of fiscal year 2006. Pick 3 has resumed its long-term decline while Pick 4 growth has slowed more than three percentage points. Instant ticket sales at 5.9% and especially Keno sales at 2.1% have been disappointing. The only major bright spot--Mega Millions--has more than compensated for the other games, with very large jackpots resulting in 40.3% growth year-to-date. The smaller games Bonus Match 5 and Lotto have both exceeded relatively modest expectations, but Lotto will be replaced in February with a new game, Multi Match, that is intended to end the long-term decline of the small jackpot game.

Instant ticket sales will be boosted this year by the introduction of a $20 ticket with a minimum prize of $25, while sales in fiscal year 2007 will accelerate with a new warehousing and tracking system, which will more quickly deliver to agents games that are selling well. Keno sales will accelerate in 2007 with additional outlets. Pick 3 sales will continue a modest drop, which will be more than offset by increases in Pick 4 sales. Mega Millions sales will stay at high levels, and have the potential to do far better than expected. California joined the game at the start of this fiscal year; the concomitant increase in jackpot odds increase the likelihood of higher jackpots and therefore sales.

Revenues will continue to grow more slowly than sales in fiscal year 2006 because of the higher prize payouts. While statistically expected payouts should return in fiscal year 2007, boosting revenues, two factors will slow revenue growth. Commissions to lottery agents are rising 0.5 percentage points to 5.5%, reducing revenues by an estimated $8.1 million, and a new contract taking effect for fiscal year 2007 will increase costs by about $4.8 million. Despite these factors, general fund lottery revenues are expected to grow 3.4% to $471.3 million in fiscal year 2006, and a further 2.6% to $483.7 million in fiscal year 2007.

Table 8

Lottery Sales and Revenues by Game

Fiscal Years 2004-2007

($ in millions)

	Sales				Revenues[1]			
	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Pick 3	290.8	296.1	291.7	288.7	126.7	125.7	119.6	119.7
Pick 4	209.2	225.5	234.5	242.7	89.2	92.1	97.0	98.3
Lotto/ Multimatch	36.2	34.1	35.1	35.1	14.2	13.5	13.8	13.6
Instant Win	2.9	-	-	-	0.6	-	-	-
Instant	355.0	391.0	416.4	443.4	67.9	71.3	75.6	80.3
Keno	389.8	416.5	429.0	441.9	115.0	125.4	126.6	130.4
Match 5	21.2	21.9	23.8	24.9	7.3	7.1	7.9	71.2
Mega Millions	90.3	99.7	122.0	134.3	37.6	41.9	51.3	55.1
Total[2]	1,395.4	1,484.8	1,552.4	1,611.0	458.4	477.1	491.8	504.7
Less Stadium Authority Revenue					(22.0)	(21.2)	(20.5)	(21.0)
General Fund Revenue					436.4	455.9	471.3	483.7

Figures may not sum to totals due to rounding.

[1] Special fund revenues (the Lottery Agency's operating expenses) of $50.6 million in 2004 and $53.5 million in 2005 are not included in revenues; these revenues, generally proportional to sales by game, are expected to be $53.2 million in 2006 and $58.0 million 2007.

[2] Fiscal year 2005 revenues include $0.2 million from trial of new game, Racetrax.

Business Franchise Taxes

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 as prices are falling and the base is eroding 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, resulting in a larger decline in this revenue 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. Filing fee revenues are expected to reach $66.2 million in fiscal year 2006, growing in fiscal year 2007 about 2% due to new business formations to $67.5 million.

Table 9
Business Franchise Tax Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Public Service Company Franchise Tax	137,373	133,310	134,588	135,196
Filing Fees	53,244	64,850	66,179	67,503
Financial Institution Franchise Tax	20	(253)	(50)	-
Total	190,637	197,907	200,717	202,699

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 is very competitive–in good years, premiums can therefore decline, but in bad years premiums can increase significantly. Premium growth peaked in 2002, driven upwards by low returns on portfolios and underwriting losses. As interest rates are increasing and portfolio income rises, the need for premium growth will lessen, all else equal.

Despite the fact that eight of the 11 most expensive disasters in United States history have struck in the last four years (five of those being among the 11 most expensive in world history), premium growth for property/casualty insurance is expected to remain very modest in calendar year 2006, largely due to the very strong financial position of most insurers. Commercial insurance premiums have been declining for several quarters, but the declines have moderated. Estimated payments for the first three quarters of calendar year 2005 declined about 2.0% from 2004, but the improving market for commercial insurance will lead to a modest acceleration in fourth quarter payments, and an improving situation next year. In fiscal year 2006, revenues are expected to decline by 1.2% to $265.7 million, before rebounding with 3.0% growth in 2007, to $273.7 million.

Table 10
Insurance Premium Tax Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Premium Tax	260,046	268,912	265,742	273,740

Death Taxes

Inheritance tax revenues are now almost entirely from the collateral inheritance tax, a 10% tax on bequests to anyone except lineal relatives and siblings. Tax revenues are driven by a number of factors, but economic conditions affecting wealth are the primary force. Revenues declined for four consecutive years due to a reduction and ultimate repeal of the tax on bequests to siblings and the collapse of the stock market. From the peak in fiscal year 2000, revenues fell almost 25% by 2004. Revenues rebounded in 2005 with 7.4%, however, as the stock markets resumed growth, and possibly as a result of the booming housing market. Growth is expected to continue in 2006 and 2007 at about 3.5% annually, with revenues increasing to $46.6 million in fiscal year 2006 and $48.3 million in 2007. The direct inheritance tax was repealed for decedents dying after June 30, 2000. Residual revenues will likely be received for years; $400,000 is estimated for 2006 and $300,000 for 2007.

Estate tax revenues have grown substantially since the record 28.7% drop in fiscal year 2003. Following growth of 16.3% in 2004 and 23.5% in 2005, revenues are up 23.6% through the first five months of fiscal year 2006. While the number of very large estates–those with a liability of over $1 million–is down from 11 to eight, payments from these estates are up $3.3 million to $37.7 million. Mid-sized estates, with a liability between $500,000 and $1 million, are performing even better, as the number has almost doubled from eight to 14, and payments have increased from $5.9 million to $9.4 million. For the full fiscal year, the estimates assume payments from the large and mid-sized estates will increase by $2.9 million. As estates with eight-figure liabilities are not unknown, however, it is possible that the estimates will prove to be very conservative. Revenues from these estates are expected to decline by about $10 million in fiscal year 2007, as several extraordinarily large payments have been received this year.

Smaller estates have outpaced the larger ones, with payments increasing from $29.5 million in the first five months of fiscal year 2005 to $40.1 million for the same period this year. The growth is likely driven by the booming housing market, which, coupled with the fact that Maryland effectively exempts only those estates with taxable value of $1 million or less, means that the estates of many "middle class" decedents who own a home and relatively modest investments are now subject to the estate tax. The smaller estates are expected to grow in importance over the next two years, from under 48% of receipts in 2005 to almost 57% of receipts in 2007, as the number of these estates is expected to increase from almost 66,000 to over 88,000. Growth in this period is higher than it would have been before the General Assembly took action to decouple Maryland's estate tax from the increase in the federal unified credit; as the federal credit increases to $3.5 million through 2010, taxable estates of $1 million will be subject to the Maryland tax.

Table 11
Death Tax Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Collateral Inheritance Tax	42,046	45,174	46,608	48,251
Direct Inheritance Tax	432	475	400	300
Estate Tax	111,296	137,467	163,249	154,659
Total	153,774	183,115	210,257	203,210

Figures may not sum to totals due to rounding

Alcohol and Tobacco Excise Taxes

Revenues from alcoholic beverage excise taxes increased by 1.8% in fiscal year 2005, a slowdown from the 4.7% growth of 2004, but not far off the five-year average growth of 2.3%. Wine revenues grew the strongest, at 5.2%, while distilled spirits increased by only 2.0%, but each grew by about $250,000. Beer revenues were flat. Altogether, revenues reached $27.3 million, the highest since fiscal year 1990.

In fiscal year 2006, distilled spirits revenue is expected to grow at 2.1%, while revenues from beer will rebound to 0.7% growth. Revenues from wine have started the year very slow, growing just 0.1% through the first five months. Growth is expected to accelerate in the second half of the year, finishing the year at 1.0%, well below the five-year average of 3.1%. Total revenues will grow by 1.4% to $27.7 million in fiscal year 2006. In fiscal year 2007, distilled spirits and beer are forecast to continue steady growth, while revenues from wine will grow at 3.0%, about the five-year average. Total revenues will increase by 1.8% to $28.2 million.

Tobacco tax revenues grew by 1.3% in fiscal year 2005 as cigarette tax revenues increased by 1.1%. Modest growth of 0.7% is expected in 2006, with the first five months of the fiscal year show about that rate of growth, and every month but one shows growth over last year. Cigarette tax revenues are expected to be roughly flat in fiscal year 2007. The 15% tax on other tobacco products has grown quite strongly since its inception, averaging almost 9.0% annually since 2001. The pace has slackened in 2006, however, with growth of just 6.4%. For the full fiscal year, revenues are expected to increase to $8.5 million, with growth continuing at a lower rate in 2007 as revenues reach $8.9 million. Altogether, tobacco tax revenues are forecast at $278.2 million in 2006 and $279.2 million in 2007.

Table 12
Excise Tax Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Cigarette Tax	265,095	267,890	269,668	270,238
Other Tobacco Products Tax	7,335	8,155	8,508	8,934
Total Tobacco Taxes	272,430	276,044	278,176	279,172
Distilled Spirits Tax	12,915	13,168	13,440	13,717
Wine Tax	4,567	4,805	4,853	4,999
Beer Tax	9,381	9,368	9,437	9,507
Total Alcoholic Beverages Tax	26,863	27,341	27,730	28,223

Figures may not sum to totals due to rounding

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. Medicaid reimbursements, the largest share of recoveries, primarily relates to patients in psychiatric hospitals. Modest growth in revenues is expected as the average daily count of patients is slowly increasing. There is a risk that administrative changes required due to the federal Medicare prescription drug benefit will be difficult and could have a negative impact on collections, but any such difficulties are likely to be temporary, and any lost reimbursements can be recouped later.

Table 13
Hospital Patient Recoveries
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Medicaid	55,947	50,283	50,970	51,366
Medicare	2,961	3,561	3,224	3,330
Insurance and Sponsors	8,243	7,463	5,490	5,451
	67,151	61,306	59,684	60,147
Disproportionate Share	23,701	23,833	23,791	23,791
Total	90,852	85,139	83,475	83,938

Figures may not sum to totals due to rounding

Court Revenues

Revenues from the District Court of Maryland arise primarily from traffic fines and court fees, which vary with enforcement activities, weather, the rate of contested citations, and the fees and fines imposed. Fees were increased in fiscal year 2004 which led to a 17.9% increase in revenues. Growth in fiscal year 2005 was slightly above the long-term average at 3.6%, but it is expected to return to the long-term average of 2.2% in fiscal years 2006 and 2007, although a fee increase in the Budget Reconciliation and Financing Act of 2005 related to the Law Enforcement and Correctional Training Fund will boost fiscal year 2007 general fund revenues by an estimated $6.5 million. Revenues will grow to $89.4 million in fiscal year 2006 and $97.9 million in fiscal year 2007.

General fund revenue from the clerks of the circuit courts is chiefly from transactions involving real property revenues, although about $8.5 million annually is received from a variety of court fees. Revenues soared over the past several years with the booming real estate market, but as it peaked in late 2004/early 2005, revenues leveled off, dropping by 2.4%. Through the first five months of fiscal year 2005, revenues have grown about 12%, perhaps a result of refinancing to lock in relatively low mortgage rates. If mortgage rates increase over the next year as expected, the number of real estate transactions will fall, leading to falling revenues for the Clerks. Growth of 5.0% is forecast for fiscal year 2006, followed by a decline of 9.4% in fiscal year 2007.

Table 14
General Fund Court Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
District Courts	84,402	87,408	89,365	97,872
Clerks of the Court	56,810	55,465	58,217	52,773

Interest Earnings

Interest on investments increased for the first time in four years in fiscal year 2005, as revenues grew strongly, the State's balances increased significantly, and interest rates began to rise. All three trends are expected to carry through fiscal year 2006, resulting in another sizable increase in interest earnings. The forecast for three-month Treasury bill rates calls for an increase from 2.24% in fiscal year 2005 to 3.97% in fiscal year 2006, an increase of over 75%. Rates will rise further in 2007, though at a slower pace, to 4.65%. These factors, along with smaller (though still large) balances, will lead to expected interest earnings of $113.3 million in fiscal year 2006, an increase of 76%, and a decline to $95.6 million in fiscal year 2007, a 15.6% drop.

Table 15
Interest Earnings
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Interest Earnings	26,604	64,397	113,274	95,556

Miscellaneous Revenues

The general fund receives a number of large non-tax revenue sources. Over the last several years, these revenues have become a substantial portion of total revenues. Some of these revenues, such as recording, organization and capitalization fees and the reimbursement to the State from the counties for the costs of administering the local income tax, are relatively stable. Others are more volatile. Revenues from unclaimed property rose dramatically in 2003 and 2004 due to a reduction in the holding period from five years to four years to three years. Revenues in fiscal year 2005 were even stronger due to the demutualization of a number of insurance companies. While some revenue will be received from that factor in 2006, total revenue from abandoned property is expected to fall to a “normal” level of $90 million.

Miscellaneous revenues will decline from $251.2 million to $180.4 million in fiscal year 2006, due entirely to the fall in unclaimed property revenue. In fiscal year 2007, with unclaimed property revenue increasing about 7%, total miscellaneous revenues will grow to $188.9 million.

Table 16
Miscellaneous Revenues
Fiscal Years 2004-2007
($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Recording, Organization & Capitalization Fees	9,152	9,930	11,475	11,475
Transportation - Filing Fees & License Tags	10,227	9,945	10,195	10,550
Excess Fees of Office	5,349	6,614	6,462	6,669
Unclaimed Property	103,213	156,497	90,000	96,818
Local Income Tax Reimbursement	13,145	11,857	13,376	13,959
Uninsured Motorist Penalty Fees	40,218	47,177	47,414	47,920
Miscellaneous Revenues and Transfers	845	9,136	1,500	1,500
Total	182,149	251,156	180,422	188,891

Figures may not sum to totals due to rounding.

Miscellaneous Agency Revenues

Many agencies whose primary purpose is not the collection of revenue do in fact collect some revenue for the general fund. This is usually comprised of various fees and penalties, but also includes large items such as multi-million dollar settlements from the Attorney General's office and small items such as vending machine revenue. This revenue tends to be stable over time, with most significant changes usually occurring because of law or regulatory changes.

In fiscal year 2006, agency revenues will total $111.4 million, a decline of 12.0% from the $126.6 million of fiscal year 2005. Revenues from the Department of Health and Mental Hygiene were boosted about $8.3 million in 2005 by one-time reversions, but are expected to return to normal levels going forward. Maryland State Police revenues were $8.5 million higher in fiscal year 2005 due to a transfer from a special fund, and similarly are expected to return to normal levels. In 2006, revenues from unpresented checks are expected to nearly double, causing most of the $6 million growth in revenues from financial and revenue administration agencies. Revenues are expected to be stable in fiscal year 2007, with the exception of the resumption of a normal level of unpresented checks, totaling $105.8 million.

Table 17

Miscellaneous Agency Revenues

Fiscal Years 2004-2007

($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
PSC Fines, Citations and Filing Fees	49	0	60	60
Legislature	490	436	425	425
Workers' Compensation	54	54	54	54
Public Defender	1,331	1,661	1,500	1,500
Attorney General	24,726	19,690	21,000	22,000
Executive & Administrative Control	5,375	4,151	4,084	4,134
Financial & Revenue Administration	10,180	5,226	11,250	4,750
Budget & Fiscal Administration	1,879	965	725	689
General Services	747	1,135	500	0
Natural Resources	697	417	368	371
Agriculture	168	108	75	75
Health & Mental Hygiene	12,241	25,591	18,508	18,460
Human Resources	1,801	2,107	91	56
Labor, Licensing & Regulation	17,421	14,420	12,310	11,802
Public Safety & MD State Police	11,763	19,301	10,850	10,848
Public Education	27,482	28,179	27,067	27,945
Housing and Community Development	675	813	968	988
Environment	489	1,015	303	444
Juvenile Services	228	277	268	235
Alcoholic Beverage Licenses	1,012	1,009	1,000	1,000
Total	118,808	126,556	111,405	105,835

Figures may not sum to totals due to rounding.

Transportation Revenues

Titling tax revenues declined by 0.3% in fiscal year 2005. The decline was likely attributable to high gas prices and the difficulty manufacturers experienced in developing new incentive programs. While gasoline prices are likely to average in excess of $2.00 per gallon for the remainder of fiscal year 2006, revenues for the first four months of the year were very strong (even despite the over $3.00 per gallon prices in September, following hurricane Katrina). Growth is presumably not driven by the purchase of expensive, low-mileage SUVs as in years past; it is possible that the growth is a result of drivers buying new vehicles sooner than they otherwise would have in order to get a more fuel-efficient vehicle. Based on strong performance year-to-date, titling tax revenues are expected to grow to $742 million in fiscal year 2006, growth of 3.4%. Revenue growth is forecast to accelerate slightly, to 4.1% in 2007.

Despite the very high gas prices–prices that finally hit a record high after adjusting for inflation, motor fuel tax revenues are still expected to increase in fiscal year 2006. The increase, however, is forecast at 1.4%, well under the 2.3% average growth of the prior ten years. Strong economic activity is supporting fuel sales. As prices recede from the record highs, and as consumers adjust to $2.00 per gallon gasoline, consumption is expected to increase by 3.1% in fiscal year 2007. Other transportation revenues are expected to remain relatively stable over the forecast period.

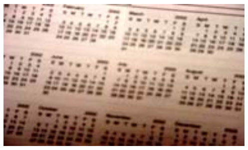
Table 18

Maryland Motor Vehicle User Revenues

Fiscal Years 2004-2007

($ in thousands)

	2004 Actual	2005 Actual	2006 Revised Estimate	2007 Estimate
Motor Vehicle Administration				
Registrations	198,787	351,333	357,000	363,100
Licenses	39,688	41,342	37,300	37,300
Med-Evac Surcharge	50,795	51,009	51,367	52,908
Trauma Physician Services Surcharge	10,403	11,387	11,467	11,811
Miscellaneous Motor Vehicle Fees	90,377	96,924	103,400	110,600
Vehicle Emission Inspection Fees	5,413	5,881	6,500	6,500
Security Interest Filing Fees				
Special Funds	3,666	3,513	3,630	3,750
General Funds	5,499	5,313	5,445	5,625
General Funds - Baltimore City	3,055	2,952	3,025	3,125
Hauling Fees	8,791	9,491	9,500	9,500
Special License Tags				
Special Funds	380	380	380	380
General Funds	1,673	1,680	1,725	1,800
DOT	437	408	450	475
Chesapeake Bay/Ag Tags - MDOT	845	1,000	1,045	1,045
Titling Tax	719,757	717,699	742,000	773,000
Sales Tax on Rental Vehicles				
MDOT-Rental Vehicles	23,265	24,323	25,539	26,816
	1,162,830	1,324,635	1,359,773	1,407,735
Motor Vehicle Fuel Tax	730,234	736,591	746,700	769,900
Road Tax	15,816	16,291	16,600	17,100
Decals	105	118	-	-
	746,155	753,000	763,300	787,000
Total	1,908,985	2,077,635	2,123,073	2,194,735



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 is expected to grow at a healthy rate throughout 2006 and into 2007. Maryland is expected to continue to outperform the nation, with professional and business services, one of Maryland's largest industries, benefitting from the currently strong position of all businesses. In addition, changes brought about by the BRAC process will help to sustain growth in 2008 through 2010. Revenue growth will stabilize at about 4.5% to 5.0% over the foreseeable future after the (positive) distortions from the housing market wear away.

Individual income taxes and the sales tax, over three-quarters of general fund revenue, should both generally grow at or slightly below the growth in personal income. Corporate income taxes will grow modestly in the out-years, but since a decline in corporate profits is not expected, revenues should not drop from the historically high levels expected in fiscal year 2006. Lottery sales and most of the smaller revenue sources are expected to grow in the low single-digits, although the now substantial estate tax will continue to be extremely volatile and unpredictable. Miscellaneous revenues have grown substantially over the past few years, largely due to abandoned property. Over the forecast period, these revenues are expected to stay well below the peak reached in fiscal year 2005.

Table 19

Long Term Economic Forecast

Primary Indicators

CALENDAR YEAR	2003	2004	2005	2006	2007	2008	2009
U.S. GDP (billion $ 96 chained)	10,321	10,756	11,140	11,522	11,876	12,278	12,658
% change	*2.7%*	*4.2%*	*3.6%*	*3.4%*	*3.1%*	*3.4%*	*3.1%*
U.S. Total Non-Farm Employment (millions)	129,999	131,475	133,616	135,693	137,599	139,332	140,715
% change	*-0.3%*	*1.1%*	*1.6%*	*1.6%*	*1.4%*	*1.3%*	*1.0%*
U.S. Personal Income (billion $)	9,169	9,713	10,269	10,938	11,583	12,269	12,990
% change	*3.2%*	*5.9%*	*5.7%*	*6.5%*	*5.9%*	*5.9%*	*5.9%*
CPI - % Change	2.3%	2.7%	3.4%	2.6%	1.5%	2.0%	2.2%
U.S. 10-Year Treasury Bond Yield (%)	4.0%	4.3%	4.3%	5.2%	5.3%	5.4%	5.7%
Md. Total Non-Farm Employment (millions)	2,491.7	2,518.6	2,569.7	2,620.5	2,661.6	2,709.5	2,758.3
% change	*0.4%*	*1.1%*	*2.0%*	*2.0%*	*1.6%*	*1.8%*	*1.8%*
Md. Total Personal Income (million $)	206,166	220,261	234,088	249,135	262,931	276,886	291,643
% change	*3.8%*	*6.8%*	*6.3%*	*6.4%*	*5.5%*	*5.3%*	*5.3%*

Table 20

Maryland General Fund Revenues

Fiscal Years 2005-2011

($ in thousands)

	2005 Actual	2006 Estimate	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate	2011 Estimate
Income Taxes							
Individual	5,660,614	6,144,059	6,557,285	6,949,125	7,352,942	7,769,806	8,183,924
Corporation	512,237	626,635	674,568	703,133	720,876	722,564	713,423
TOTAL	6,172,851	6,770,694	7,231,853	7,652,258	8,073,818	8,492,370	8,897,347
Sales and Use Taxes	3,129,352	3,330,910	3,502,079	3,665,328	3,834,472	4,005,837	4,192,036
State Lottery	455,863	471,338	483,658	502,102	519,836	536,698	554,014
Franchise, Excise, License, Fee	1,636,603	1,632,112	1,625,656	1,627,437	1,656,037	1,688,650	1,722,296
TOTAL CURRENT REVENUES	11,394,669	12,205,054	12,843,246	13,447,125	14,084,162	14,723,554	15,365,693

Numbers may not sum due to rounding.

Note: Fiscal year 2005 extraordinary revenues of $153.4 million were received (including $151.0 million from the legislatively-mandated Delaware holding company settlement) over and above the $11.4 billion. Fiscal year 2006 extraordinary revenues of $20.4 million were received from the MCI settlement over and above the $12.2 billion.