Report of the

Maryland Board of Revenue Estimates

on

ESTIMATED MARYLAND REVENUES

FISCAL YEARS ENDING JUNE 30, 2007 AND JUNE 30, 2008

Submitted to

Robert L. Ehrlich, Jr.

Governor

December 13, 2006

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 13, 2006

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, 2007 and June 30, 2008, 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

Executive Summary

The Maryland economy, which has outperformed the national economy by most measures for the last seven or eight years, has been sluggish over the past several months. Following the 2001 recession, the economy never returned to the strong growth achieved in the late 1990s, with employment growing by just 1.2% and 1.4% in 2004 and 2005. Growth is expected to have been steady in 2006 at 1.4%, but that is likely to be the peak for the next several years. The national economy is expected to slow in 2007, dragged down by manufacturing and the housing market. While Maryland manufacturing is expected to perform better over the near term than it has in the recent past, fallout from the housing downturn will have a large impact on the State. Along with the national economic currents, this is expected to result in decelerating employment growth in 2007, followed by a modest rebound in 2008 as the effects of the housing downturn dissipate. Personal income is expected to grow 6.7% in 2006, boosted by very strong wage and salary growth in the first quarter, but it will slow rather sharply to 5.8% growth in 2007.

The risk of a national recession has grown in recent months, but most economists put that risk at only about one in three. In the event of a recession, however, the chances that Maryland could escape unscathed are slim. Aside from the risk of a national recession and the possibility that the troubles of the housing market will be greater than currently anticipated, a slowdown in federal spending is another major Maryland-specific risk. While that seems likely to occur sooner or later, it may take several years to unfold, and could well be offset by the one major upside risk for the State's economy, the impact of BRAC changes in the latter part of this decade. The most likely path for Maryland's economy is a period of slow growth through 2007, similar to the period in the mid-1990s.

Maryland revenues have performed better than would have been predicted by economic statistics over the past several years. Ongoing general fund revenue growth of 11.3% and 8.6% in fiscal years 2005 and 2006 was better than that of the late 1990s, when employment growth was over 2.5% for four consecutive years. A major cause of the overperformance–the housing market–supported growth in the individual income tax, the estate tax, and clerks of court revenues. Rising real estate values boosted the sales tax through the wealth effect and cash-out refinancing spent on taxable goods and home improvement, and the insurance premium tax may also have benefitted from rising home values. Growth in capital gains was 69.0% in 2004 and is estimated to have been 28.4% in 2005; capital gains growth is also expected in 2006, helped in part by strong merger and acquisition activity and a stock market that has grown more than 75% in the last four years (more than 15% in the last five months alone). But due to the slowdown in sales, the housing market will start detracting from capital gains growth. Capital gains are therefore expected to increase approximately 5% in 2006 and for the next several years.

General fund revenue growth is expected to slow precipitously in fiscal year 2007, from the 8.6% of 2006 to 3.9%, reflecting in part slower economic growth affecting most of the major revenue sources and very weak year-to-date performance from the corporate income tax.

Revenues will reach $12.874 billion in 2007, and are forecast to grow to $13.453 billion in 2008, growth of 4.5%.

Individual income tax revenues are expected to follow the broader economic trends with one notable exception. Income tax withholding will grow an estimated 5.2% in fiscal year 2007, with a weak start to the fiscal year coupled with a slowdown in the overall economy. Estimated income tax payments, however, closely related to capital gains and small business activity among other things, are forecast to grow 14.7%. Net collections, and baseline growth, will increase 5.9%, reaching $10.850 billion. General fund revenues, however, will grow by 6.7% with an adjustment to the amount distributed to the local income tax reserve fund necessitated by a consistent $50 million overdistribution to that fund over the past three years. Baseline growth, excluding that factor, is about 6.1%. In 2008, growth will increase to 6.8% as withholding growth is forecast to accelerate by nearly a full percentage point.

Corporate income tax performance has been very weak relative to reported economic statistics thus far in fiscal year 2007. Gross receipts are down 3.5%, with estimated payments in calendar year 2006 up only 0.8%; estimated payments declined 16.5% for the third calendar quarter. This contrasts noticeably with reported national corporate profit growth of 30.9% in the third quarter, and growth of 22.6% for the first three quarters of the year. In addition to weaker gross receipts, refunds have grown sharply. As a result, general fund corporate income tax revenues are now expected to decline by 8.0% in fiscal year 2007 to $573.5 million, before growing 3.0% in 2008.

Sales tax receipts have also been weak at the start of fiscal year 2007, increasing just 2.8% in the first four months of the year. In part, this is due to the tax-free period for clothing in August, as well as an increase in the amount retailers retain as compensation for collecting the tax. Baseline growth is actually about 3.7%–still historically weak. The impact of an uncertain and slowing economy on consumer spending, which comprises about two-thirds of sales tax revenues, results in expected growth of 3.4% to $2.3 billion in revenues from consumers. The slowdown in the housing market along with an expected falloff in home renovations will result in a slight decline in construction-related revenues. As these revenues total about 17% of the sales tax, and the extent to which the housing market and construction activity will fall during the fiscal year is uncertain, this revenue source represents one of the larger risks in the overall forecast. In all, sales tax revenue growth of 3.0% is forecast for fiscal year 2007 (baseline growth of about 3.7%) as revenues reach $3.457 billion. The stronger economy in 2008 will result in an estimated $3.623 billion of sales tax, growth of 4.8%.

Growth in lottery sales will slow, partly as a result of a lack of large jackpots for Mega Millions. General fund revenues are expected to decline slightly in fiscal year 2007 as a result of higher than statistically expected prize payouts, but the forecast includes statistically expected payouts in 2008. Revenues from the clerks of court, stemming largely from recordation-related activity, are projected to decline by 22.8% in fiscal year 2007.

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

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

Mr. Gary Bigg
Bank of America

Mr. Jeffrey Samet
Colliers Pinkard

Dr. Fred Flick
Maryland Association of Realtors

Dr. Stephen Fuller
George Mason University

Mr. Gino Gemignani
Whiting-Turner Contracting Co.

Mr. Bob Johnson
BAE Systems

Ms. Linda Greene
BWI Business Partnership

Mr. Brian Rosen
MedImmune

Mr. Tom Saquella
Maryland Retailers Association

Mr. Drew Cobbs
Maryland Petroleum Council

Mr. Lee McDaniel
Maryland Farm Bureau

Telephone: 410-260-7450

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

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

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

James M. Arnie
Director, REVENUE ADMINISTRATION DIVISION

Bernadette T. Benik
Director of Operations, STATE TREASURER'S OFFICE

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

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

Karl Glover
Fiscal Planner, DEPARTMENT OF BUDGET AND MANAGEMENT

Mary G. Haselton
Economist, BUREAU OF REVENUE ESTIMATES

Mary Christine Jackman
Director of Investments, STATE TREASURER'S OFFICE

Patricia Konrad
Director of Debt Management, STATE TREASURER'S OFFICE

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

Carol A. Novella
Assistant Director, BUREAU OF REVENUE ESTIMATES

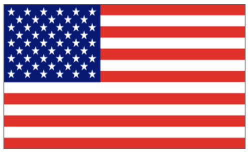
David F. Roose
Director, BUREAU OF REVENUE ESTIMATES

Linda L. Tanton
Deputy Comptroller, OFFICE OF THE COMPTROLLER

Theresa M. Tuszynski
Economist, DEPARTMENT OF LEGISLATIVE SERVICES

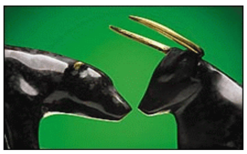
Telephone: 410-260-7450

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



The U.S. Economy

The U.S. economy has weakened measurably in recent months, pulled down by the sagging housing market and the travails of American automobile manufacturers. The key question at this point is whether the weak housing market will tip the economy into recession. At this point, on balance, several factors appear likely to carry the economy through with sustained growth, albeit below potential. The risk of recession, however, is higher than it has been for several years.



The Current Situation

By many measures, the economy is performing well. Despite consistently high energy prices, real gross domestic product (GDP) has grown by 3.2% annually over the past three years, almost as strong as the 3.7% from 1991 to 2000 (including several years of growth well in excess of potential in the late 1990s). For the same periods, corporate profit growth has been more than twice as strong, 14.5% compared to 6.8%, housing starts have grown by 6.6% compared to 5.1%, and the unemployment rate has been 5.5%, slightly better than the 5.6% of the 1990s. The unemployment rate is now at its lowest level in five years, and the Dow Jones Industrial Average reached an all-time high (although the S&P 500 and, even more so, the NASDAQ lag behind).

But the economy has weakened over the course of 2006. Job growth has slowed in 2006, averaging fewer than 150,000 per month, compared to 170,000 the two years prior. Third quarter growth in real gross domestic product was only 2.2%, the third weakest performance since the start of 2003. Consumer spending grew 3.1%, just slightly below the average rate of growth over the past four years. Other than a modest contribution from government spending, consumers provided the only impetus for economic growth in the third quarter.

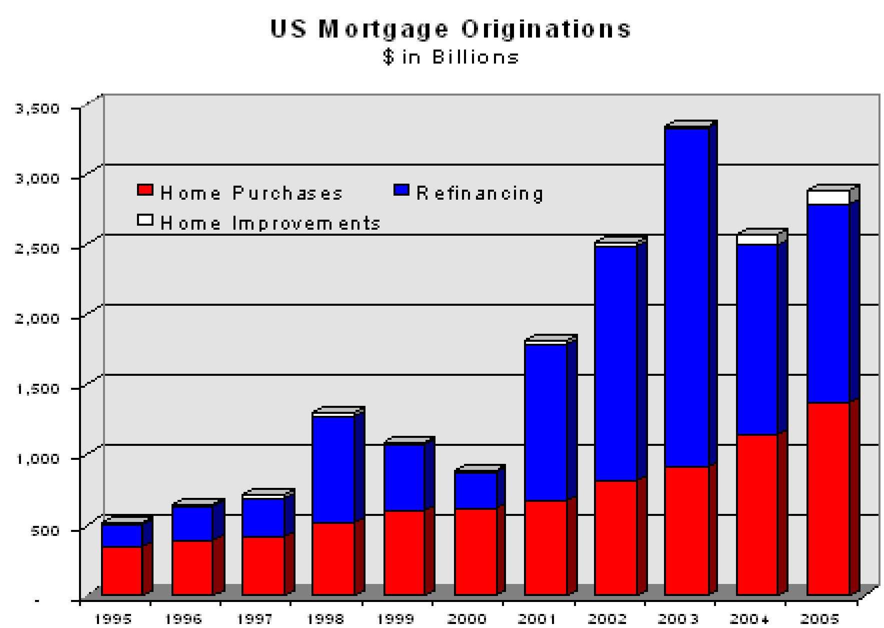


Figure 1 Source: Federal Financial Institutions Examination Council

The weakening of the housing market is currently the largest drag on the economy. Existing home sales have fallen from a peak of over 7.2 million (annualized) in June of 2005 to 6.2 million in October. Inventories have risen, but prices, though falling in some markets and flattening in most others, remain high. As a result, investment in residential construction fell by 17.4% in the third quarter, the fourth consecutive quarter of decline, and over one full percentage point of GDP growth was lost. Nonresidential investment, on the other hand, actually grew by 8.6%, driven by strong expansion in investment in structures. All told, private investment fell 2.0% in the third quarter, shaving 0.34 percentage points of growth off of real GDP.

The falling housing market may have a greater impact on the economy than putting construction workers, mortgage bankers and real estate agents out of work–it could have a substantial impact on consumer spending. In 2001, $1.1 trillion was pulled out of homeowners' equity through mortgage refinancing, more than 50% of the amount withdrawn in the prior six years (see Figure 1). From 2002 to 2005, an additional $6.8 trillion was pulled out. The $7.9 trillion of homeowner's equity withdrawn over these five years is greater than total personal consumption expenditures in 2003, providing substantial support to consumers' spending over that time and for at least a short time into the future.

The Outlook

The risk of recession has risen over the past several months. Although there are some notable bearish voices, the consensus appears to be that the chances of the economy falling into recession in 2007 are, optimistically, one in five, or pessimistically, one in three. A risk to be sure, but continued expansion still seems the most likely path.

The arguments for a recession in the near future include a telling indicator and arguments that recent growth may not be as strong as currently estimated. The yield curve is currently inverted. Without exception, every time the yield curve has inverted in the past five decades, a recession followed shortly thereafter. There is one important distinction between this inversion and previous ones, however. At the same time short term rates have been driven up by the 17 consecutive rate increases of the Federal Reserve, long term rates have been driven down by massive and increasing foreign investments. Foreign holdings of U.S. Treasury securities have doubled since the last time the yield curve inverted, in 2000, to almost $2.2 trillion. This factor, coupled with the fact that correlation is not causation, leads many to believe the yield curve has lost its utility as a predictor, at least at this particular point in this particular economic cycle.

Some economists also argue that third quarter real GDP growth was overstated. The reported growth of 1.6% included 0.72 percentage points of growth from motor vehicle output; automobile production was reported to have increased at an annualized rate of 26% in the third quarter. This puzzling surge in growth appears to be a result of adjustments for inflation, and does not square with the Federal Reserve Board’s report of industrial production for the third quarter, which showed a decline of 12.2% in auto production. The boost from inflation will likely be reversed in the fourth quarter, at a time when the major U.S. manufacturers are cutting back on production; the net impact could be a drag of around one percentage point for fourth-quarter growth. Other factors pointed to by pessimists include the fact that a large amount of corporate profit growth from S&P 500 companies is from energy and financial firms and likely will not continue; same-store sales at Wal-Mart rose only 0.5% in October, the lowest growth since the start of the last recession; and that the trough of the housing market may be much lower than the consensus currently estimates.

Several factors are expected to counteract the downturns in housing and manufacturing. The trade deficit has been narrowing due to a steady decline in the dollar and strong global economic growth. Trade added about 0.25 percentage points of growth in the first half of the year, a trend which may continue, particularly if China allows additional appreciation of the yuan. Inflation has likely peaked, and there is a growing expectation of one or more interest rate cuts by the Federal Reserve in 2007. Over the past four quarters, nonresidential construction has grown at its fastest pace of the decade. Growth will be sustained by continued rebuilding in the Gulf and increasing capacity utilization rates. Lower energy prices have put more dollars in consumers' pockets to spend; the drop in gasoline prices alone increases disposable income by about $84 billion, nearly one percent of the total. Consumer spending will slow in 2007, but is likely to stay near 3% growth.

Historically low interest rates, relatively moderate energy prices, a declining dollar and a strong world economy are expected to keep the U.S. economy afloat over the next year, although the risks are substantial and weighted very heavily to the downside. Direct and indirect effects of the slowdown in housing will most likely determine whether the economy does continue to grow or slips into recession, although energy price shocks remain a large risk. The national economy appears to be headed toward a soft landing in 2007, with growth below potential.

Table 1

Forecast of the U.S. Economy

Primary Indicators

	2002	2003	2004	2005	2006	2007	2008
Real Gross Domestic Product ($ billions)	10,049	10,301	10,704	11,049	11,408	11,678	12,040
	1.6%	*2.5%*	*3.9%*	*3.2%*	*3.2%*	*2.4%*	*3.1%*
Federal Funds Rate (%)	1.7	1.1	1.4	3.2	5.0	4.8	4.5
10-Year Treasury Bond Yield (%)	4.6	4.0	4.3	4.3	4.8	4.6	4.9
Consumer Price Index (%Δ from prior year)	1.6	2.3	2.7	3.4	3.2	2.1	1.9
Housing Starts (thousands of units)	1,710	1,854	1,950	2,073	1,828	1,594	1,669
	6.8%	*8.4%*	*5.2%*	*6.3%*	*-11.8%*	*-12.8%*	*4.7%*
Light Vehicle Sales (thousands of units)	16,816	16,643	16,866	16,948	16,490	16,316	16,545
	-1.7%	*-1.0%*	*1.3%*	*0.5%*	*-2.7%*	*-1.1%*	*1.4%*
Corporate Profits Before Tax ($ in billions)	886.3	993.1	1,182.6	1,330.7	1,571.8	1,633.4	1,712.9
	15.5%	*12.1%*	*19.1%*	*12.5%*	*18.1%*	*3.9%*	*4.9%*
Total Non-Agricultural Employment (thousands)	130,342	129,993	131,424	133,459	135,343	136,788	138,572
	-1.1%	*-0.3%*	*1.1%*	*1.5%*	*1.4%*	*1.1%*	*1.3%*
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.7	4.7	4.5
Total Personal Income ($ in billions)	8,882	9,164	9,731	10,239	10,974	11,569	12,186
	1.8%	*3.2%*	*6.2%*	*5.2%*	*7.2%*	*5.4%*	*5.3%*

Sources: Global Insight, November 2006 forecast
Bureau of Revenue Estimates

The Maryland Economy

Maryland's economy has slowed in 2006. Employment growth was 1.4% in 2005, below national growth for the first time in six years, but growth has fallen to under 1.4% through ten months of 2006, and the gap between national growth has widened. Unemployment is currently at 4.0%, having risen half a point from its low earlier in the year, but is still at historically low levels and still more than half a point below the national average, although this gap has narrowed. Slowdowns in the construction, leisure and health services, and professional and business services industries have offset the accelerating education and health services and information industries. While the State's economy is expected to continue to expand, it, like the national economy, is expected to slow through 2007.

The housing market in Maryland outperformed that nationwide over the past five years. Since 2000, when the median price of existing homes was nearly the same in Maryland and the nation, home prices in Maryland more than doubled, while national home prices have only risen by two-thirds. This has caused a surge in housing-related employment. Maryland's construction, building supplies, finance, and real estate industries have all benefitted over the past five years, growing roughly 39.8% as a group while the rest of the private sector grew by only 3.0%. These sectors generated over 18,000 new jobs in the State since 2000, almost one-quarter of the total, despite representing only 3.1% of private sector employment in 2005.

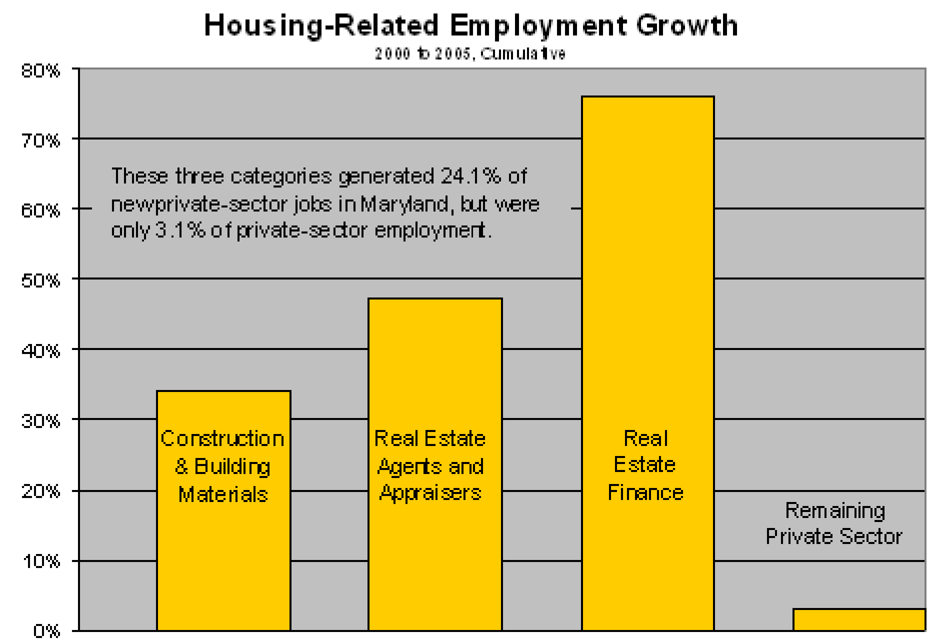


Figure 2 Source: Department of Labor, Licensing and Regulation

But the housing market has turned, and the drivers of economic growth over the past five years are now likely to become drags. The impact of the housing market on construction employment is one of the key factors facing the State's economy at this point. Whether nonresidential construction can compensate and how far residential construction falls will play a large role in determining whether economic growth in the State in 2007 is stagnant or negative, or is relatively strong for this point in the business cycle.

Aside from the housing sector, the State's economy faces other risks. Energy prices have fallen dramatically over the past few months, but they could spike at any time, particularly with continued instability in the Middle East. The very high cost of energy over the past year did not put a noticeable brake on Marylanders' spending, but much of that spending has been financed by debt. Another bout of high gasoline or natural gas prices may not be so easily absorbed. If the national economy falls into recession, due to housing or any other reason, Maryland will not escape unscathed.

Lastly, there is a risk that the Base Realignment and Closure Commission recommendations will not result in as great an impact on Maryland's economy as initially hoped. Over the past year, with more detailed analysis of the impact of the BRAC recommendations, a consensus has developed that many of the jobs moved into the State, particularly from New Jersey, will not bring the incumbents with them but instead will be filled by naturally occurring population growth. And many of the jobs brought over from Virginia may be filled by the incumbents, but at least for the short term, many will commute into the State or telecommute. State and local agencies are continuing study of the impact. Despite these issues, the BRAC process will be a substantial positive for the State's economy over the latter half of this decade.

Maryland's economy is expected to continue growing, although at a slower rate than in 2005. Housing-related industries including construction, finance and real estate will join with a declining manufacturing sector and stagnant trade industry to offset healthy expansion in the services, especially education and health services. Federal government procurement, only about half of which is defense-related, and other federal spending will continue to provide a solid base for the State, as will the State's wealth and increasing number of high-skill jobs. Employment growth is expected to reach 1.4% in 2006 before slowing to 1.3% in 2007. A modest acceleration to 1.5% in 2008 is forecast. Wage and salary growth will reach 7.6% in 2006 before slowing to 5.8% in 2007 and 2008. The following provides a detailed discussion of the outlook for Maryland's economy over the next two years.

Construction

The construction industry has outpaced all others the past two years, growing an average 4.4% in 2004 and 2005 (the next strongest, professional and business services, lagged behind by a full percentage point and a half). This surge was caused by a number of factors including record-low mortgage rates–the composite rate was below 6.0% from January 2003 to October 2005–and soaring housing prices, both of which spurred residential construction. But the rapid deterioration in the housing market has already caused a deceleration in the industry–growth was only 1.7% through the first three quarters of 2006. The slowdown is expected to continue, with the industry increasing only 1.5% in 2007, largely as a result of a falloff in residential construction, before a rebound to about 2.3% in 2008, driven in part by BRAC preparations.

At this point, any number of anecdotes and statistics support the fact that the housing market in Maryland is slumping. According to the Maryland Association of Realtors, the active inventory of homes for sale increased from 9,000 to 26,000 over the course of 2005, almost exactly reversing the five-year decline. In the first nine months of 2006, the active inventory has nearly doubled from that level. Median home prices statewide have not yet declined, but growth has decelerated tremendously, from over 21% in 2005 to just 3.5% in the third quarter of this year. And the number of sales has fallen 25% or more in each of the past four months. Downward pressure on the market has been exacerbated by speculative investors who are pricing their properties to sell.

One recent study listed not Baltimore (sixth place) and not the Washington metropolitan area (seventh place) as the most overpriced markets in the nation, but Hagerstown, with prices more than 34% over equilibrium prices. Permits for single-family homes fell 20% in the second quarter, the first fall since the second quarter of 2000. NVR, one of the largest home builders in the nation, reported the cancellation rate in the Washington area was 39% and in Baltimore, 24%. Both of those are more than double the rates of a year prior.

The investor/speculator-fueled condominium market had perhaps been more bubbly than that for single family homes, particularly in the D.C. region, where prices have declined for three consecutive months, dropping 6.1% in August. In Ocean City, the number of condos on the market has increased from fewer than 900 in July 2005 to almost 1,700 in August 2006. A buyer's market is in full swing–one financial advisor has suggested offering 20% less than the asking price for an Ocean City condo. Across the Delmarva peninsula, the waterfront condo market in Crisfield, which was booming a year ago, has cooled considerably.

The slowdown, reflected in a number of project cancellations and conversions to apartments, hasn't stopped all projects. Despite the Ocean City glut, condos are for sale at the 196-unit Gateway Grand, with prices from $1 million to over $2 million, and occupancy available in August 2008. Half of the 192 $1 million to $5 million units in the waterfront Federal Hill Ritz-Carlton project will be ready for occupancy in September 2007, with the rest in early 2008. Over two-thirds of the units have been bought. Around the Inner Harbor, residents will be moving into the 312-unit 414 Water Street in early 2007; 85% of those units have been sold. And in Bethesda, construction on a $200 million project with 173 units is expected to start construction in mid-2007, with completion about two years later. The developers are "very cognizant of the market conditions," but are aiming for downsizing baby boomers.

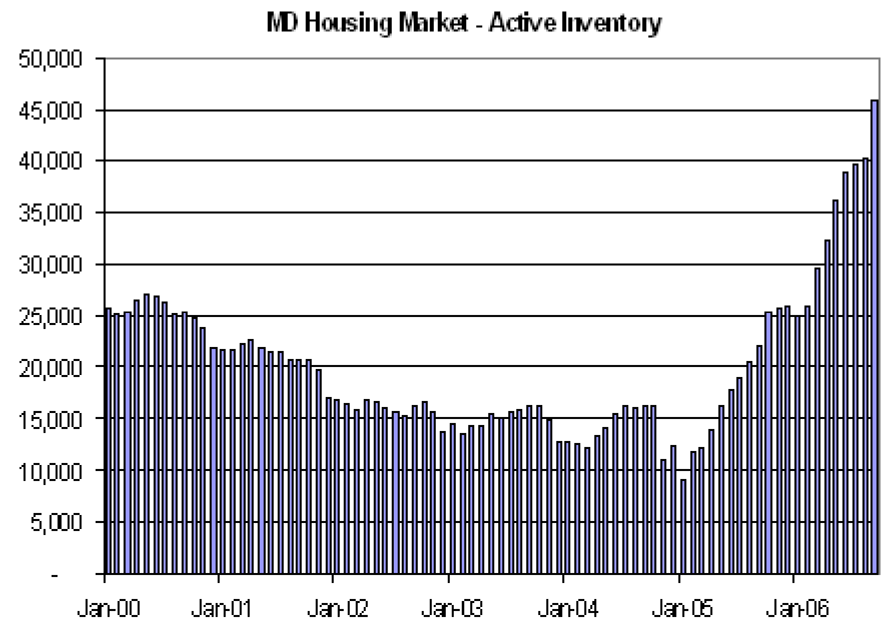


Figure 3 Source: Maryland Association of Realtors

Two mixed-use developments are underway in Prince George's County. The New Carrollton Hotel is undergoing a $75 million renovation. The reborn Sheraton Four Points Hotel will include 75,000 square feet of retail and office space, into which the developer, American Hospitality Management, will relocate its offices next spring. Nearby, 100 townhouse condos will be completed by late 2008. A $750 million project in Greenbelt is moving toward approval. The developer plans to demolish 2,900 apartments and build 5,800 residential units, one-third of which will be condos, and a modest amount of retail space. Assuming a relatively smooth approval process, construction will start by early 2008; build-out will take ten years.

Broadly speaking, nonresidential construction activity remains healthy, although is likely to slow from the heady pace of the last two years. In the Baltimore region, 628,000 square feet of space were delivered in the first half of 2006, but 97% was in one building. Just under one million square feet of space are currently under construction, a 25% drop from the prior year. Vacancy rates are 16.9%; with limited construction and continued expansion at the Port of Baltimore, the industrial market seems balanced at this point. Completed construction in Baltimore's office market expanded by 77% to almost 1.1 million square feet, but the space under construction declined by about 8% to 2.3 million square feet. The vacancy rate is 15.2%, a slight increase over the past three months. Some of the larger projects coming online are substantially pre-leased; the 510,000 square foot Canton Crossing Tower has already let 45% of the space, and over two-thirds of the 190,000 square feet at 600 Exeter Street have been pre-leased. Over two million square feet of office space was absorbed in the Baltimore region in both 2004 and 2005; typically that level of activity cannot be sustained.

In suburban Maryland, the industrial market has been hit by several factors. The flex market experienced negative absorption of 116,000 square feet, mostly due to move-outs, while the warehouse market experienced negative absorption of almost 480,000 square feet due to Giant Foods' sale of its 750,000 square foot distribution center. Vacancy rates increased the first half of the year, but the increase is essentially attributable to the one building involved in the Giant sale. The suburban office market is in better shape than the Baltimore market. The vacancy rate, having declined for 12 consecutive quarters, stands at 11.5%. Almost 300,000 square feet of speculative space were delivered in the first half of the year; 1.1 million square feet in 11 buildings were under construction in the first quarter, with all but one of the buildings speculative. At mid-year, a total of 1.7 million square feet were under construction. Although the regional economy is expected to remain strong, demand will have to pick up considerably or the vacancy rates will rise.

The Food and Drug Administration is in the midst of consolidating its headquarters in White Oak over an eight-year period. Fourteen buildings (2.3 million square feet) are planned including laboratory and office space; three have been completed, the most recent with many "green" features. Ultimately, the campus will house over 7,700 employees when completed in 2011, pending Congressional appropriations. A few miles away in Bethesda, Lockheed Martin will build a 230,000 square foot hotel and training center for the 4,500 employees it trains in 130 classes each year. The project will start in early 2007 and be completed by the end of 2008.

BRAC-related construction will provide a boost to the industry. A 2 million square-foot research and development center is planned for Aberdeen Proving Grounds, and an $80 million, half-million square-foot office park is underway in Belcamp, with many future tenants expected as a result of BRAC. Ft. Meade and Howard and Anne Arundel counties have signed an agreement to construct a large bus maintenance facility near Ft. Meade in preparation for expansions to mass transit necessitated by BRAC. Plans are being developed for 5.5 million square feet of office space in Odenton to support Ft. Meade. While this activity will support construction employment, much of it will not get underway until 2008.

Manufacturing

After four years of job losses ranging from 2.9% to 6.9% resulting in a cumulative employment reduction of 18%, the manufacturing job base declined just 1.5% in 2005. Over half of the 2,100 jobs lost resulted, directly and indirectly, from the closure of General Motors' Broening Highway plant. Through the first nine months of 2006, manufacturing job losses have accelerated slightly, but the full year will likely still see a decline of just under 2.0%. To be sure, the industry is expected to continue to shrink in the future, although at a much slower rate than experienced over the last five years.

The loss of 1,100 jobs at Broening Highway has been mitigated by several factors. These include GM's March buyout offer, accepted by 115 former employees at the plant (along with 37 from the nearby Allison Transmission facility) and GM's job bank, which requires employees to volunteer or return to school, among other activities, in exchange for receiving up to 95% of their former wages and the first opportunity for other jobs at GM. About 450 of the laid off workers joined the job bank. In August, 170 positions in GM's Wilmington plant were made available to job bank members, as were 31 positions at Allison. While the positions in Wilmington will not affect Maryland employment statistics, they will certainly be of benefit to those employees who take the jobs, and will affect Maryland personal income for those individuals who choose to commute to Wilmington.

The future of another longtime Maryland manufacturing fixture is uncertain. The Sparrows Point steel plant, recently acquired by Netherlands-based Mittal Steel through its purchase of ISG, may have to be sold again under a consent decree with the United States Department of Justice. If the divestment falls through, the DOJ will order Mittal to sell either Sparrows Point or a West Virginia facility. In addition to several ownership transfers over the past several years, the plant suffered a failure of the main blast furnace in July, resulting in the temporary layoff of about 150 workers. More recently, an unknown number of voluntary layoffs began in mid-October as Mittal cut production in response to declining demand. There will be two rounds of five-week layoffs.

One of Maryland manufacturing's recent success stories, the Volvo (formerly Mack Truck) engine plant in Hagerstown, turned sour with the announcement that 600 of almost 1,800 employees will be laid off early next year. New emissions standards for 2007 will add about $7,500 to the cost of a truck; customers have been purchasing ahead of the new regulations, and sales are therefore expected to drop significantly in 2007. Another recent success story is building on its success–Paul Reed Smith Guitars is quadrupling its Kent Island headquarters. The company will have more office and manufacturing space, a recording studio and a museum. The expansion will support the addition of 65 jobs over the next several years.

Defense-related manufacturing continues to prosper in the State. BAE Systems recently won a $450 million contract from the Navy to manufacture obsolete aircraft parts. The contract will be administered from St. Mary's County. The company also recently won an Army contract worth up to $482 million, including options, for work related to the Army Space and Missile Defense Future Warfare Center. Employees from the Washington area as well as Colorado and Alabama will be involved. Northrop Grumman has recently been awarded an Army contract to build intercoms for tanks and humvees at its Linthicum facility. Northrop was one of the State's largest exporters in 2005. Bethesda-based Lockheed Martin recently opened an office in Frederick County which may ultimately house 500 employees relocated from Montgomery County. Most of the company's manufacturing work, such as the $4 billion successor to the space shuttle, is performed outside of Maryland. But many projects, like the construction of the Navy's Littoral Combat Ship, which will take place in Louisiana, are headquartered in the State.

The biotechnology in Maryland continues to expand and mature. Firms large and small are garnering government contracts and private sector investments despite the fact that most still are not profitable, demonstrating both the promise of biotechnology and the significance of the issues they are addressing. DynPort, which will shortly test a vaccine for plague, was recently awarded a $242.5 million federal contract to develop flu vaccines. PharmAthene won a Defense Department contract worth up to $213 million to develop an antidote to nerve agents. Should testing be successful, the government could eventually purchase almost 100,000 doses of the drug. The National Institutes of Health will give $63 million over five years to MacroGenics to work on drugs for the West Nile virus, smallpox, and the avian flu. These companies have also both recently raised about $50 million in private financing. A South Korean company, RNL Bio, and the Institute for Cell Engineering at Johns Hopkins have formed a partnership to conduct adult stem cell research with the possibility of the company's establishment of a U.S. headquarters at the university's planned science and technology park.

Industry giant MedImmune is pushing ahead on a number of fronts. The military recently contracted for an additional 85,000 to 190,000 packages of Flumist, the flu vaccine delivered via nasal spray, while the company is working towards approval of its CAIV-T, a drug similar to Flumist but that only needs refrigeration rather than frozen storage and, hopefully, a much broader recommended age range than Flumist. Under a $170 million Department of Health and Human Services contract, MedImmune has also started the first round of human trials for a Flumist-like drug to combat avian flu. Partnering with Micromet, a California company that is currently considering Montgomery County for its new headquarters, MedImmune is developing MT103, a drug for non-Hodgkins lymphoma, and, jointly with Infinity Pharmaceuticals, is developing several other cancer drugs. The company has also entered into an agreement with the National Institutes of Health to develop vaccines for several respiratory diseases in children.

More importantly for Maryland's economy is MedImmune's expansion of its manufacturing facility in Frederick. The first phase of the expansion should be complete by 2009. Over 200 jobs could be added at the plant, which will produce many of the drugs currently under development. Several contract manufacturers and clinical researchers will be adding about 230 employees to their Baltimore-area locations, which may help to persuade Maryland biotechs to manufacture in the State after their drugs are developed here. And the State's new biotechnology investment tax credit may induce greater venture capital funding for emerging Maryland biotech firms, further supporting the industry.

The biotechnology industry has suffered some recent setbacks. Novartis has decided to place a $500 million flu vaccine manufacturing facility in North Carolina instead of Maryland, which had been one of the three finalists. The more than 700 jobs that will ultimately be at the plant would have provided strong support to Maryland's manufacturing employment. Of more concrete and immediate concern is the closure of Actavis Group's 240-employee Woodlawn plant. The company, one of the largest generic drug makers in the world, had experienced a number of regulatory problems at the plant. Over 100 employees will remain at the company's distribution and research and development locations in the State. While the biotechnology sector is healthy and growing, the time when it has a significant impact on Maryland's economy is still several years away.

Trade, Transportation, and Utilities

The trade, transportation and utility industry includes a diverse group of jobs, but in the past two years and for the foreseeable future they all have one thing in common--high energy prices are likely to constrain growth, either directly as with transportation-related businesses, or indirectly, through the impact on consumer spending.

Baltimore-Washington Thurgood Marshall Airport has seen growth in 2006 despite challenging circumstances. In July, airlines raised ticket prices in response to increasing jet fuel costs, but despite higher prices and longer security lines, Southwest, the airport's biggest carrier by far, has seen its traffic at BWI increase by 10% in the 3rd quarter. The company does not expect its recent introduction of service at nearby Dulles International Airport to cut into traffic at BWI. Southwest has continued its expansion at BWI, most recently introducing nonstop flights to Detroit.

The Port of Baltimore is celebrating its 300th year by changing its name to the Helen Delich Bentley Port of Baltimore. Other reasons to celebrate included reporting the highest value of cargo in its history in 2005, doubling the feet of cranes, the construction of new warehouses and, most recently, winning a $4.8 million grant from the Federal government for security. The stage is set for the construction of a new 50 foot berth to handle larger ships. An expected weakening of the dollar and increased exports may support continued growth at the Port.

Constellation Energy's merger with Florida Power & Light, which would have created a Fortune 100 company, was called off in October. The deal would have allowed Constellation to grow faster that it otherwise would have, although it raised concerns among consumer advocates and legislators about control of Maryland's electricity market and prices, about which substantial concern already existed. While the merger was derailed, Constellation's plan for the construction of a third nuclear reactor at Calvert Cliffs is still on track. This would be the first nuclear reactor to be built in this country since the early 1980's. The project is expected to create 3,200 construction jobs over 5 years, and 400 permanent jobs. With their partner, the French energy company AREVA, Constellation is planning on constructing three other nuclear reactors around the country.

In October, Dominion and Statoil broke ground on a new expansion of the Cove Point liquid natural gas terminal in Southern Maryland. This project, a significant expansion of natural-gas storage and pipeline capacity in Maryland and Pennsylvania, is expected to be operational by late 2008. The temporary construction jobs and permanent employment benefits to Maryland are estimated by some accounts to be $61.1 million. Additionally, this will result in increased natural gas available to Southern Maryland consumers.

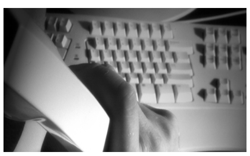
As a result of the FERC speeding up the approval process for much needed electricity transmission lines, in 2006 Allegheny Energy proposed construction of a high voltage transmission line (500 kV) from West Virginia to central Maryland and PEPCO is seeking approval for a 500kV line from northern Virginia, up the Delmarva peninsula to New Jersey. American Electric Power is seeking approval for a transmission line from West Virginia through central Maryland to New Jersey at the highest voltage transmission level built in this country (765 kV). All of these projects are intended to increase reliability and relieve congestion in the region while speeding increased amounts of electricity to the mid-Atlantic population centers.

Comcast and Verizon are now rivals in the cable TV market in Maryland, since Verizon has won approval to offer its fiber-based FiOS TV to customers in Anne Arundel, Howard, and

Montgomery counties along with the cities of Laurel and Bowie. Comcast employs 3,800 in Maryland and Delaware, and has announced plans to hire 410 more.

Shopping is still perceived as a popular indoor sport in Maryland. A number of large and small retail space additions are coming on line or are under construction. In Annapolis alone, retail floor space is expected to increase by nearly 1,000,000 sq ft in the next two years as the Westfield Mall completes its expansion in 2007 and the Annapolis Towne Centre finishes construction in 2008. Additional smaller amounts of upscale retail space are coming on line this year or next in two mixed use projects. Elsewhere, the Hunt Valley Mall redesign is bringing on an additional 400,000 sq ft. The Glen Burnie Mall redesign is adding 35,000 sq ft and two new anchor stores. Plans are being held up locally for a Target in Wayson's Corner and a Walmart in Crofton. Department store chain Boscov's purchased three old Hecht's sites from Federated Department Stores, and opened the Boscov's in late October.

In the grocery arena, Giant is finishing the remodeling and expansion of six stores in the area. In 2009, the state's second Wegman's is scheduled to open in Waugh Chapel. The first one of these super-sized grocers opened last year in Hunt Valley. Starbucks and Dunkin Donuts both have significant expansion plans in the State, as they do in the rest of the country and world. Growth in the trade, transportation and utilities industry is expected to be stagnant over the forecast period.



Information Services

After average annual growth of 4.8% during the dot-com bubble years of 1996 through 2000, Maryland's information services industry has yet to post employment gains and has shrunk by an average of 3.2% annually. Job losses in 2005, however, were just 0.25%, and the industry is expected to resume growth in 2006, a trend that should continue for the foreseeable future. One of the more dynamic sectors of Maryland's economy, relatively modest expected growth masks much of the activity in the industry.

Expanding companies include G1440, an information technology consultant which will be moving into the mixed-use Clipper Mill development at the start of 2007. The company currently employs 68 people, having doubled over the past three years, and expects to grow by another 25 employees over the next several years. AvcomEast, a Virginia-based IT consultant, found their business expanding in the Baltimore region and so opened an office in downtown Baltimore. MITRE opened a Catonsville office with 35 employees to provide support to the Centers for Medicare and Medicaid Services.

Manugistics, a supply chain management software company headquartered in Rockville, was purchased in July by JDA Software for $211 million. While JDA will maintain a Maryland office with some senior management, it is possible that layoffs will ultimately result. Science Systems and Applications, a public- and private-sector information technology consultant, laid off 237 employees from its Lanham office earlier this year. Annapolis' USi, one of the first application service providers, will be acquired by AT&T for $300 million. The company will operate as a separate subsidiary; layoffs are not currently expected.

The difficulties at USi in the early parts of this decade, including bankruptcy and the loss of more than half of its peak 1,600 employee workforce, have actually led to a number of information services startup companies in the area. Zenoss, which develops software that tracks network activity and is also based in Annapolis, has three former USi employees in senior management. The company just received $4.8 million in financing, including $200,000 from the Department of Business and Economic Development's Enterprise Investment Fund. Annapolis' eTelemetry similarly was founded by and employs a number of USi alumni. Currently employing a dozen people and expecting to more than double its workforce over the next year, the company may also boost Maryland's economy through its signature products which monitor computer network usage, allowing managers to, among other things, determine which employees are surfing the Internet rather than working.

ARINC, a communications technology company and one of Anne Arundel County's largest employers with 1,300 positions, is up for sale. The company is primarily owned by a consortium of airlines including American and Delta. Those cash-strapped companies are not in a position to make investments to allow ARINC to take full advantage of the increase in government homeland security projects (the military currently provides two-thirds of the company's revenue). ARINC Managed Services, a wholly owned subsidiary that provides check-in and security systems to airports, was recently spun off. AMS just moved into new office space in Edgewater so it has room to expand.

Another information industry company that may be sold is the Baltimore Sun. The Sun's circulation has been dropping–4.4% for the daily newspaper over the past six months, and 9% for the Sunday paper–as has that of most other major metropolitan newspapers. As a result, Tribune, the Sun's owner, announced in September that the company might sell some or all of its assets. An investment group of local businessmen and philanthropists has made an offer to Tribune for the Sun.

The information industry is expected to grow 0.5% in 2006, with growth tripling in 2007 to 1.5%. Growth at about that rate should continue as the base realignment process gets underway.

Financial Services

After a stagnant 2004, the financial activities industry rebounded to 1.4% growth in 2005. As a high-wealth State in the midst of a housing boom, certain sectors of this industry had outstanding performance. Investment advisors, mortgage and other financial brokers, and realtors, roughly 12% of the financial activities industry, provided over 95% of the industry's job growth. All three of these categories, however, showed decelerating job growth in the first quarter of 2006 (the latest of this detailed data available), and as a result, the industry has shown only modest growth this year.

The mortgage industry employed about 7,000 people in 2000. Five years later, it had grown by 100%–average annual growth of 15%. Growth peaked in 2003 at 33%, but moderated significantly in 2005 to just 7.6%. The experience of Castle Point Mortgage, headquartered in Howard County with offices in Pennsylvania, New Jersey, and Massachusetts and licensed in 12 other states, typifies the very strong performance of this sector over the past several years. The company was established in 2002 and grew to 150 employees by early 2006. In June, Castle Point signed a lease on a new building, giving them space for an additional 250 employees. Reports indicate the company may bring on an additional 100 employees in the near future, although it remains to be seen if the company will follow through in light of recent market events.

Real estate agent and brokerage businesses and real estate appraisal companies also have fared very well since 2000, growing by 26% and 42% respectively, adding over 2,100 jobs. With the rapidly slowing housing market, many of these recently-created jobs are expected to disappear, if they haven't already. Growth in the numbers of real estate agents and appraisers has slowed by more than two thirds in the first quarter of 2006; as home sales stay at low levels until the market reaches equilibrium, the mortgage lenders will also shed jobs.

While the spate of bank mergers and expansions over the past several years has cooled, one of significance was recently reported–the $6 billion purchase of Mercantile Bankshares, the State's largest independent bank, by PNC. The merger is expected to result in $100 million of savings by 2008, at least half from job reductions. Mercantile has 3,600 employees; how many will be affected remains to be seen. Most at risk are back office employees, such as the 40 employees at Mercantile's Annapolis Bank & Trust headquarters in Annapolis, since the branches have very little overlap. First Horizon Bank is opening three new branches by early 2007, and plans to open three more annually in the Baltimore area for at least the next three years.

Another merger within the industry was reported in early November, when CB Richard Ellis, the world's largest commercial real estate services company, announced plans to buy Trammell Crow for $1.8 billion. Again, back-office functions are the likely targets for efficiencies. Combined, the two firms have over 100 employees in Baltimore and many more in the region.

There have been some recent positive developments in the industry. Insurer Chubb Corporation is bringing about 250 back office jobs to Montgomery Park, due in part to a State workforce training grant and a $500,000 loan from Baltimore City. Boutique investment bank Signal Hill Capital is doubling its staff to 30 employees, hoping to take advantage of the recent shakeup in the local industry over the past several years. The company plans to expand to 150 employees over the next five years.

Despite the good news from some quarters, the financial activities industry is likely to be held down by the downturn in the housing market. Employment growth of 1.5% is forecast for 2006, slowing to 0.7% in 2007 before a rebound to 1.3% in 2008. While the downside risk for this industry is substantial, it will be mitigated if long-term interest rates remain low.

Professional and Business Services

The professional and business services industry, second largest in the State behind trade, transportation and retail, provided over one-third of Maryland's job growth in 2005. The industry posted the second-best performance of the year at 3.4% growth, behind only the construction industry's 3.7%. Growth is fueled in part by the strong business environment. Corporate profits as a share of national income are currently just several basis points below the high of the last 50-plus years (1966Q1) at 13.6%. By the end of 2006, profits are expected to have more than doubled since 2001, with double-digit growth for five consecutive years. This performance will best the only other period of double-digit growth in five years, 1993-1997, with average annual growth of 15.7% compared to 12.6% in the earlier period.

The strong national backdrop provides a solid foundation for Maryland businesses; currently, over 70% of Maryland businesses surveyed for the quarterly Maryland Business Climate Survey expect revenue growth in 2007, while almost two-thirds expect employment growth. Further, the proportion of firms viewing Maryland's business climate as positive is at an all-time high at nearly 75%. These factors, along with continued federal government outsourcing, will maintain this industry's status as one of the strongest-growing in the State.

Government contractors are doing well, and should continue to do so. Concurrent Technologies Corporation, Strategic Application & Technology, and Sparta have added a combined 185 jobs in Columbia this year. Proteus Technologies is relocating its headquarters from Columbia to Annapolis Junction so as to be closer to its primary customers at Ft. Meade and because it was outgrowing its old location. By the end of 2007, it will have increased its workforce by over 50% to more than 100 employees.

Private-sector companies are expanding as well. Verizon Wireless expects to add another 350 positions to its call center in Hanover. The facility opened in late 2005 and was expected to fill out to about 1,100 employees, which it has done in short order. These new jobs will bring the total to about 1,450. Affiliated Computer Services added 80 positions to its expanded call center in Allegany County.

Growth is not uniform across the industry, however. Of the mass layoffs reported under the Workforce Adjustment and Retraining Notification Act, over one-third of the actions have been from this sector, as have over 45% of the employees laid off. Most recently, research and development biotech Gene Logic laid off 85 employees from its genomics division, which licenses proprietary gene databases and offers services to biotech and pharmaceutical companies. Reynolds and Reynolds, a business services provider for automobile dealerships, closed its training center in Sparks. Sixty employees were offered the opportunity to relocate to Ohio, but only seven took the offer. Another twenty individuals have kept their jobs, but will work from home. Arrow Financial Services, a collection agency which is a component of Sallie Mae, closed its Gaithersburg call center resulting in the loss of 200 jobs. In November, the Regulus Group, a contract remittance processor, will shutter its facility in Greenbelt, resulting in the loss of another 125 jobs.

Despite these setbacks, the professional and business services industry will remain one of Maryland's leaders. The industry is projected to grow by 2.2% in 2006, slowing only slightly to 2.1% in 2007.

Education and Health Services

The education and health services industry has shown the most stable growth of any industry in the State since 1999, and has also added more jobs than any other. Representing under 13% of total 1999 employment, this industry has grown by over 54,000 jobs, just shy of one-third of net jobs created since then. Strong growth in this sector is expected to continue given the emphasis placed on both health and education.

The No Child Left Behind (NCLB) act has created market opportunities nationwide for tutoring firms by providing federal funds for free tutoring of children who receive reduced-price lunches and attend low performing schools. To take advantage of what is expected to be a $25 billion market, Massachusetts-based Chyten Education Services is expanding into Maryland and elsewhere in the Northeast. Opportunities exist for rapid growth in Maryland, as elsewhere in the country, with only about 25% of eligible students taking advantage of the program. Baltimore's Educate, meanwhile, sold its NCLB tutoring business, Education Station, to an Oregon company for $6 million, but also received $10 million in licensing fees for online services and $2 million for information technology and other services. The company, which has disappointed investors as it has been struggling with high expenses in its K-12 tutoring centers, was recently bid for by its management in an effort to take the company private. As it has tried to turn its performance around, the company announced plans with an Illinois company to bring to market early in 2007 a line of electronic educational toys. A 60-person division has been created to develop new products for the company.

Educate's former corporate sibling, Laureate Education, has seen rapid growth in its higher education services, including its 15-nation university network and its online services. The company, which in its most recent quarter reported 20% growth in online enrollment, added about 75 positions in its online higher education division. As further evidence of an expanding market for higher education, the Baltimore International College recently announced a new master of science program in hospitality and tourism management, the first of its kind in the State. Shortly afterwards, Strayer University, with six campuses in Maryland, announced a similar concentration for its graduate and undergraduate business degrees. The University of Maryland, Baltimore recently received approval to establish an entire new school, a graduate program in public health. With the start of the 2007 academic year, freshmen and sophomores are again attending the University of Baltimore, which for the last three decades has only served juniors, seniors and graduate students.

Continual increases in health care demand have had a mixed impact on the State's economy, even aside from increased costs. The Shock Trauma Center at the University of Maryland Medical Center anticipates an $83 million upgrade, including a 30% increase in the number of beds, although one factor for the growth is a decline in the required specialists at the State's community and regional hospitals. Shady Grove Adventist Hospital opened an $12 million, 21-bed emergency center in Germantown. Suburban Hospital, in conjunction with the National Institutes of Health and Johns Hopkins Medicine, opened a new cardiac surgery and angioplasty center in Bethesda. St. Joseph Medical Center in Towson inaugurated a new neonatal intensive care unit, and St. Agnes Hospital in Baltimore City recently completed a $15 million renovation and expansion of its emergency department as part of its $160 million renovation, which will be complete in several years.

Off-site clinics are also expanding. ExpressCare, an urgent care center, opened its second site in the State in August. Patient First, with five similar centers in Baltimore, is hoping to open three more in the city through the end of 2007. Chase Brexton Health Services opened its third clinic for low-income HIV patients. The Greater Baltimore Medical Center, meanwhile, closed a four-doctor health center in the City which served 3,500 low-income patients.

A resurgent issue is the nursing shortage in the State. According to the Maryland Hospital Association, the vacancy rate for registered nurses in hospitals was 10.0% in 2005, increasing from 9.2% the year before. This was the first increase in the vacancy rate since 2001, when it stood at 15.6%. Hospitals are short 1,700 nurses, while statewide the shortfall is about 6,000. While enrollment in nursing programs in the state has increased 46% since 2001, the aging population means the demand for nurses will only increase–one recent study found that the gap could grow to 10,000 nurses in ten years, while another foresees a 17,000 nurse shortfall by 2012. While the strong demand for nurses and other medical specialists will help maintain the growth of this industry, it will most likely come at the cost of higher health care price inflation, as higher salaries (among other factors) will be required to ease the shortages.

Leisure and Hospitality Services

Maryland's leisure and hospitality service sector, which was the third-fastest growing industry in 2004 and 2005, benefits from the State's wealth, the Chesapeake Bay, its location near Washington, D.C., the strong growth of BWI Thurgood Marshall Airport, and more. The industry is expected to continue to outperform, growing in the low 2% range for the foreseeable future.

Restaurants provide more than two-thirds of the jobs in this industry; this sector is booming. The State has proven attractive for national chains and local outlets alike. P. F. Chang's China Bistro, with locations in 39 states, will double its Maryland restaurants with new restaurants at Lockwood Place in Baltimore City and at Annapolis Towne Centre at Parole to go along with those in Columbia and Bethesda. McCormick & Schmick's, a Portland-based seafood chain, recently opened its second Baltimore location and will have another at the National Harbor by the end of 2007. Franchisor Raving Brands, with nine different "fast-casual" restaurant lines including Moe's Southwest Grill, will bring 25 more restaurants to the area by the end of 2009.

Local restaurateurs are also on the move. The owners of Crazy Lil's in Federal Hill have opened oZ. Chophouse, an upscale steak restaurant in Howard County. The owner of Jordan's Steakhouse in Ellicott City plans two more in Howard County, while Della Rose's Avenue Tavern will open a second restaurant, at Canton Crossing in East Baltimore. There is, however, more turnover in the restaurant business than most others. Seventy-year old Peerce's Plantation closed in June, while Vespa, an Italian restaurant in Federal Hill, did so in September. Canton's Pearls, also at Canton Crossing, closed over the summer, but reopened as Canton Dockside, a crab house.

Several developments may work at cross purposes in supporting the business climate for restaurants in the State. A smoking ban in Baltimore City may be picking up support, including from some restaurateurs, though most believe a smoking ban will hurt business. On the other hand, a new law that took effect July 1 allows diners to take home unfinished bottles of wine. Additionally, a company can now have six alcoholic beverage licenses in Anne Arundel County, rather than the previously allowed two, which should spur growth of national chains and local restaurants alike.

Other segments of the leisure and hospitality industry are also building momentum for the future. The largest-ever convention in Baltimore occurred in June 2006, with 50,000 Baptists coming to town for the National Baptist Congress of Christian Education. Convention-goers filled 25,000 rooms, resulting in sell-outs as far afield as Annapolis, and spent an estimated $41 million. This single conference more than compensated for the first quarter of 2006, which was the weakest for the Convention Center in three years; nonetheless, convention bookings were up 22% for fiscal year 2006. The $305 million, city-financed Hilton convention center hotel should help to spur conference growth upon its completion in 2008–it is already credited with bringing the Institute for Supply Management's annual conference along with $2.3 million in spending to Baltimore in 2012. Elsewhere in the State, the Mid-Atlantic Bio Conference will be in Bethesda in 2007, presumably drawing more than the 800 attendees from 18 states attending the 2006 conference in Washington.

In May, the new $13 million cruise ship terminal opened in Locust Point, providing a non-industrial environment in which cruise-goers can embark. Currently, Royal Carribean is the only cruise line with Baltimore-based cruises; they have scheduled 29 cruises in 2007, but they plan to add additional cruises to New England and Canada. State officials hope to bring another line to Baltimore and double the State's cruise business to more than $100 million.

Hotel development in the State is continuing. Hospitality Development plans to build three hotels at the Maryland Science and Technology Center in Bowie, with the first opening towards the end of 2008 and the last by October 2010. State- and county-owned land near the Odenton MARC station was recently sold to developers who, among other amenities, plan to build a hotel; similarly, a hotel is planned near the Savage MARC station. Both stations are close to Ft. Meade, which will be expanding under the Base Realignment and Closure recommendations.

Government

The government sector remains one of Maryland's least dynamic--or, in other words, most stable--showing less variation in growth over the past ten years than any other industry. It does, however, remain one of the largest in the State, behind only trade, transportation and utilities. Government provides 18.2% of jobs in the State, compared to 16.3% nationwide. This divergence is due to federal government employment, which represents 4.9% of total employment, while it represents just 2.0% of nationwide employment.

Federal government employment is expected to decline slightly over the next several years. The dispersal of federal agencies from Washington has not resulted in a flood of new employment in the State, and budget constraints will prevent most agencies from growing. Nondefense, non-homeland security discretionary spending will rise about 1.0% in (federal fiscal year) 2007, but is projected to decline by more than 2% annually through 2011. Defense spending is also projected to fall by about 1.7% annually over this period. Only homeland security spending is expected to increase through 2011. Although official figures show improving deficits over the next five years, they are still in excess of $300 million, and few observers actually expect them to shrink.

The State government is in a much better fiscal position, with a surplus of $122 million expected for the current fiscal year, even after including almost 1,250 new positions in the budget. About 200 of the new positions are in public safety, 100 in the judicial branch, and education, health and transportation also picking up dozens of new employees. While the long-term fiscal outlook may be slightly better than in past years since fiscal year 2008 will see the last increment of the phased-in Thornton plan for education, a structural deficit remains. Very modest growth in State government employment is expected.

Local governments are in a reasonably strong fiscal position. The individual income tax, which in Maryland is a local revenue source as well as a State one, has performed very strongly over the past several years. And soaring property values of the past five years mean that a majority of most counties' property tax revenues will be growing around the limits imposed by the homestead property tax credit (which is 5% or more in most counties) for some years to come. Local government employment has grown by almost 2% through the first three quarters of 2006. As has been the case for several years, the majority of growth in the government sector will come from local government employment.

Agriculture

Development continues to pressure Maryland's agriculture industry. The upside for farmers is that the value of their land increases. Maryland's pasture land has the highest value in the country except for that in New Jersey, at $8,300 per acre–far more than twice that in all but five states. The downside is, just as obviously, that agriculture in Maryland is declining. Over the past twenty years, 5,000 farm have been lost, with the land in farms declining from 2.5 million acres to just over 2 million acres. To address problems caused by high land prices as well as increased competition and greater environmental regulation, the Governor's Agricultural Forum released a Statewide Plan for Agricultural Policy and Resource Management. The 30 recommendations are intended to "enhance profitability, ensure an adequate base of well-managed agricultural land, and advance research, education and the advocacy of agriculture."

Market conditions are currently rather positive. Corn prices are up 50% from last October, and 24% from September, which is good news for those Maryland farmers with corn yet to sell. Unless those farmers also have beef cattle–beef prices are down slightly from last year, but are likely to fall shortly as farmers sell their cattle so as to not have to pay the much higher prices for corn feed. Soybean prices–soybeans are one of the primary crops in Maryland, second only to corn–have fallen about 5% this year. But at about $5.50 per bushel, the price is right around the average for the past five years. Wheat and barley prices are up more than 20% over last year's levels. Yields have fallen for wheat and barley; soybean production is roughly flat while corn yields are up about 8%.

One continuing bright spot is Maryland's burgeoning viticulture industry. At least half a dozen vineyards and wineries have opened since 2004, and two more are set to open shortly. Sales of Maryland wine grew by over 13% annually from 2000 to 2005. The industry is focused in the center of the State, although in recent years it has expanded to Southern Maryland and the Eastern Shore. In recent years the State has supported the industry through a number of law changes and, in 2005, the establishment of the Maryland Wine and Grape Promotion Fund, which made its first grant last September.

Aquaculture is another industry trying to grow in the State. There are about 30 aquaculture businesses in the State, down about 25% from several years ago. Fierce international competition in the tilapia market (tilapia is one of the best-suited fish for aquaculture) caused the closure of a number of Maryland businesses. A new oyster farm opened last spring in Cambridge, just one of a few in the State. The owners expect to sell about four million oysters annually, participating in a business with revenues of just $200,000 in 2005. That compares with $3.4 million of wild oysters sold–an amount almost equal to the revenues of the State's entire aquaculture industry.

Table 2
Forecast of the Maryland Economy

	2002	2003	2004	2005	2006	2007	2008
Total Non-Agricultural Employment (thousands)	2,480.4	2,486.9	2,517.9	2,554.1	2,589.9	2,623.6	2,662.9
	0.4%	*0.3%*	*1.2%*	*1.4%*	*1.4%*	*1.3%*	*1.5%*
Total Personal Income ($ in millions)	198,824	206,370	221,284	235,196	250,704	265,298	280,431
	3.7%	*3.8%*	*7.2%*	*6.3%*	*6.6%*	*5.8%*	*5.7%*
Wages and Salaries	102,368	106,441	112,470	118,822	127,803	135,248	143,157
	3.8%	*4.0%*	*5.7%*	*5.6%*	*7.6%*	*5.8%*	*5.8%*
Proprietors' Income	12,921	13,619	14,959	16,299	16,946	17,912	18,901
	4.1%	*5.4%*	*9.8%*	*9.0%*	*4.0%*	*5.7%*	*5.5%*
Dividends, Interest and Rent	32,939	32,266	35,688	37,862	40,490	43,485	46,460
	-2.9%	*-2.0%*	*10.6%*	*6.1%*	*6.9%*	*7.4%*	*6.8%*
Residence Adjustment	20,996	21,927	23,958	25,249	26,779	28,258	29,877
	3.3%	*4.4%*	*9.3%*	*5.4%*	*6.1%*	*5.5%*	*5.7%*
Transfer Payments	21,488	23,075	24,054	25,985	27,459	29,121	30,773
	8.0%	*7.4%*	*4.2%*	*8.0%*	*5.7%*	*6.1%*	*5.7%*
Capital Gains	3,735	5,258	8,884	11,406	12,163	12,700	13,541
	-30.4%	*40.8%*	*69.0%*	*28.4%*	*6.6%*	*4.4%*	*6.6%*
Unemployment Rate (%)	4.4	4.5	4.2	4.2	3.7	3.7	3.6

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 2006 through 2008. 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 2006 - 2008

$ Thousands	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 2006 Actual	Fiscal Year 2007 Revised Estimate	Fiscal Year 2008 Estimate	Fiscal Year 2006 Actual	Fiscal Year 2007 Revised Estimate	Fiscal Year 2008 Estimate	Fiscal Year 2006 Actual	Fiscal Year 2007 Revised Estimate	Fiscal Year 2008 Estimate
INCOME TAXES									
Personal	6,200,194	6,613,245	7,061,752				6,200,194	6,613,245	7,061,752
Corporations [1]	623,224	573,500	590,705	196,807	181,105	186,538	820,031	754,605	777,243
Total	6,823,417	7,186,745	7,652,457	196,807	181,105	186,538	7,020,225	7,367,850	7,838,995
SALES AND USE TAXES	3,355,168	3,457,229	3,622,962	26,527	28,517	29,884	3,381,695	3,485,746	3,652,846
STATE LOTTERY RECEIPTS	480,471	477,372	499,219	75,113	79,449	79,476	555,584	556,821	578,695
TRANSPORTATION REVENUES									
Motor Vehicle Fuel Tax	13,207	13,317	13,589	744,693	751,983	766,211	757,900	765,300	779,800
Motor Vehicle Licenses, Fees				608,264	623,342	639,443	608,264	623,342	639,443
Motor Vehicle Titling Tax				719,206	715,000	725,000	719,206	715,000	725,000
Maryland Transit Fees				110,136	112,695	115,564	110,136	112,695	115,564
Maryland Port Fees				90,907	96,235	96,305	90,907	96,235	96,305
Maryland Aviation Fees				139,579	156,798	168,358	139,579	156,798	168,358
Total	13,207	13,317	13,589	2,412,785	2,456,053	2,510,881	2,425,992	2,469,370	2,524,470
PROPERTY TAXES, FRANCHISES, ETC.									
State Real and Personal Property Tax				575,131	551,959	618,000	575,131	551,959	618,000
Property Transfer Tax				269,995	201,317	188,582	269,995	201,317	188,582
Business Franchises and Filing Fees	196,235	199,187	205,658				196,235	199,187	205,658
State Tobacco Tax	280,306	285,127	288,296				280,306	285,127	288,296
Tax on Insurance Companies	274,901	286,141	293,295				274,901	286,141	293,295
Alcoholic Beverages Excises	27,953	28,497	29,033				27,953	28,497	29,033
Death Taxes	221,909	220,146	200,329				221,909	220,146	200,329
Clerks of the Court	58,704	45,347	45,992				58,704	45,347	45,992
District Courts	91,281	104,155	106,863				91,281	104,155	106,863
Hospital Patient Recoveries	85,777	83,121	84,936				85,777	83,121	84,936
Interest on Investments	162,493	172,795	95,000						
Miscellaneous Fees, Other Receipts	298,081	314,798	315,213		--- See Notes ---			--- See Notes ---	
Total	1,697,640	1,739,314	1,664,615						
Total Current Revenues	12,369,903	12,873,977	13,452,842						
Extraordinary Revenues[2]	20,393			6,440				--- See Notes ---	
GRAND TOTAL	12,390,296	12,873,977	13,452,842		--- See Notes ---				

Notes: Includes all general fund revenues, all Transportation revenues and selected special fund taxes. In conjunction with Appendix B of the Fiscal Year 2008 Budget Book, this table will comprise the official estimate of total state revenues.

[1] Fiscal year 2006 corporate income tax revenues do not include $20.4 million from a settlement with MCI.

[2] Extraordinary revenues include the MCI settlement in fiscal year 2006.

Table 4

Maryland General Fund Revenues

Fiscal Years 2004 - 2008

$ Thousands	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Official Estimate	FY 2007 Revised Estimate	FY 2007 Difference	FY 2008 Estimate
INCOME TAXES:							
Personal	5,077,581	5,660,614	6,200,194	6,578,897	6,613,245	34,348	7,061,752
Corporation	328,553	512,237	623,224	685,687	573,500	(112,187)	590,705
Total	5,406,134	6,172,851	6,823,417	7,264,584	7,186,745	(77,839)	7,652,457
SALES AND USE TAXES	2,921,794	3,129,352	3,355,168	3,501,493	3,457,229	(44,264)	3,622,962
STATE LOTTERY	436,373	455,863	480,471	483,380	477,372	(6,008)	499,219
FRANCHISES, EXCISES, LICENSES, FEES:							
Business Franchise Taxes	190,637	197,907	196,235	202,614	199,187	(3,427)	205,658
Tax on Insurance Companies	260,046	268,912	274,901	273,740	286,141	12,401	293,295
Death Taxes	153,774	183,115	221,909	219,382	220,146	764	200,329
Tobacco Tax	272,430	276,044	280,306	279,172	285,127	5,955	288,296
Alcoholic Beverages Excise Tax	26,863	27,341	27,953	28,223	28,497	274	29,033
Motor Vehicle Fuel Tax	13,026	13,159	13,207	13,704	13,317	(387)	13,589
District Courts	84,402	87,408	91,281	101,565	104,155	2,590	106,863
Clerks of the Court	56,810	55,465	58,704	46,896	45,347	(1,549)	45,992
Hospital Patient Recoveries	90,852	85,139	85,777	83,938	83,121	(817)	84,936
Interest on Investments	26,604	64,397	162,493	117,373	172,795	55,422	95,000
Miscellaneous	300,957	377,713	298,081	298,625	314,798	16,173	315,213
Total	1,476,401	1,636,601	1,710,847	1,665,232	1,752,631	87,398	1,678,204
Total Current Revenues	10,240,702	11,394,669	12,369,903	12,914,689	12,873,977	(40,712)	13,452,842
Extraordinary Revenues	(36,378)	153,365	20,393	-	-	-	-
GRAND TOTAL	10,204,324	11,548,033	12,390,296	12,914,689	12,873,977	(40,712)	13,452,842

Individual Income Tax

The individual income tax has performed very well over the past three years, perhaps better than economic data might suggest. From calendar years 2003 through 2006, Maryland personal income will have grown an estimated 6.7% annually. Respectable performance, but weaker than the 7.2% average annual growth from 1997 to 2000. And yet income tax revenues averaged 9.6% annually from fiscal years 2003 through 2006, stronger than the 8.0% average in the four fiscal years through 2000. The discrepancy is explained largely by two factors: Capital gains increased 18.9% annually in the earlier period, but are expected to have grown 32.3% annually in the later years, and there were a number of legislative changes in the last several years that have added to revenue growth. Nonetheless, individual income tax growth compares favorably to any period in the last fifteen years.

Income tax withholding grew by 8.1% in fiscal year 2006, helped in part by very strong growth in wage and salary income of 7.9% in the first half of calendar year 2006, reportedly attributable in part to large bonuses. Legislative changes, particularly relating to income taxes of nonresidents, also supported the strong growth. Capital gains, which grew by an estimated 28.4% in tax year 2005, helped estimated payments grow by 17.8%, marginally faster than the year before, and also supported growth of 14.0% in final payments (on top of record 40.5% growth in fiscal year 2005). Net general fund receipts increased by 9.5%. General fund growth was lower than it should have been, as the amount distributed to the local income tax reserve account was $51.1 million too high (as determined by the regular GAAP analysis conducted each October, after the close of the fiscal year).

As the economy hit a soft patch in mid-2006, however, income tax growth slowed sharply. Employment grew just over 1.5% in the first six months of 2006, but growth was just under 1.3% from July to October. Income tax withholding, a fairly clear indicator of current economic performance, decelerated more sharply, having grown 7.5% in the first half of the year but only 4.8% in the four months since. This drop is also steeper than the decline in wage growth nationally, from 7.1% to 5.8%. While withholding has weakened, growth in estimated payments has accelerated. In the second quarter of 2006, estimated payments increased 15.6%, and third quarter payments grew 17.9%. Strength in estimated payments reflects growing capital gains, driven by a strong stock market, sustained high real estate prices (even if some prices have come down over the past year, if the property has been held more than a year or two, large gains are likely still there to be had), and, based on anecdotal information, from merger and acquisition activity, particularly among financial firms. Estimated income tax payments are also driven by an apparently still-healthy business environment for small businesses, federal contractors and consultants, many of whom do not have income taxes withheld, although it is possible that these taxpayers are not accurately estimating their tax year 2006 liability.

In fiscal year 2007, net general fund income tax receipts are projected to increase by 6.7% to $6.613 billion. Baseline growth, accounting for the adjusted amount distributed to the local reserve account, is about 6.1%. Income tax revenues are forecast to grow to just under $7.062 billion in 2008, growth of 6.8% (baseline growth of 3.6%). Maryland's economy is expected to slow marginally in calendar year 2007, with employment growth slowing from 1.4% to 1.3%, although growth in personal income will slow more abruptly, from 7.6% to 5.8%. The weakness in withholding experienced at the start of fiscal year 2007 is expected to keep withholding to 5.2% growth, accelerating by a percentage point in fiscal year 2008 as the economy picks up. Estimated payments are forecast to slow to 14.7% growth in 2007, and to slow even further to 6.5% growth in 2008 largely due to a sizable deceleration in capital gain income. After growing 28.4% in 2005, capital gains are expected to grow in the mid-single digit range for the next several years, pulled down in part by declines in capital gains from real estate.

Major risks to the income tax forecast include residential real estate and nonresidents. Much of the recent surge in individual income tax collections, especially in fiscal year 2005, is attributed to capital gains from residential real estate sales. The exact amount cannot be determined, but based on analyses of sales data from the State Department of Assessments and Taxation, income tax revenues for 2004 and 2005 may have been boosted by $200 million or more by gains from sales of all real estate. Whether or not housing prices decline, the falloff in sales will result in declining capital gains from this source. If sales and/or prices fall more severely than anticipated, the impact on the income tax would be commensurate. Several law changes over the past few years have both increased State tax liability for nonresidents and improved the State's ability to collect that liability. In tax year 2005, revenues from nonresidents reached almost 5% of total State liability, up from just 1.7% in tax year 2000. Aside from these changes, income of nonresidents typically grows faster and is more volatile than the rest of the tax base since it is primarily business income. As nonresidents' share of total liability increases, fluctuations in the income tax will become more pronounced.

Net income tax collections will be just under $10.850 billion in fiscal year 2007, growing by 5.9%. In 2008, growth in net collections is expected to increase to 6.6%, to $11.587 billion. Starting in June 2007, a reciprocal program with the federal government will be instituted allowing for the capture of State tax liabilities from payments to federal vendors and vice versa. Based on a test run, over $2.5 million in delinquent State tax liability, mostly from the income tax, may be expected for the first few months. It is expected that collections will fall as the backlog of delinquent liabilities is cleared, although collections will be ongoing. Income tax revenues for fiscal year 2008 have been adjusted upwards by $10 million to account for this program.

Table 5

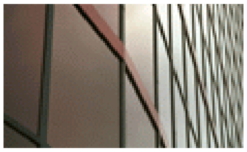
Individual Income Tax Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Gross Receipts (State & Local)				
Withholding	8,545,756	9,255,246	9,738,696	10,356,497
Estimated Payments	1,259,992	1,484,608	1,702,669	1,813,978
Payments with Final Returns	1,158,288	1,320,098	1,440,832	1,591,770
Fiduciary	98,604	87,941	94,266	103,167
Gross Receipts	11,062,641	12,147,893	12,976,463	13,865,412
Refunds	(1,701,842)	(1,904,793)	(2,126,518)	(2,278,320)
Net Receipts (State & Local)	9,360,799	10,243,099	10,849,945	11,587,092
Local Reserve Account	(3,698,503)	(4,041,150)	(4,234,950)	(4,587,092)
Income Tax Check-offs	(1,681)	(1,756)	(1,750)	(1,750)
Net General Fund	5,660,614	6,200,194	6,613,245	7,061,752

Figures may not sum to totals due to rounding.



Corporate Income Tax

Growth in corporate income tax revenues decelerated in fiscal year 2006, although a slowdown was almost a certainty after the 55.9% growth in 2005. Net receipts grew by a still-strong 21.7% last year as corporate profits nationwide remained healthy and the effect of the new Delaware holding company addition modification was still having an incremental impact as more taxpayers reflected the payments for a full year. The revenue increase from the addback is difficult to know for certain, however, especially in the current year.

Tax return data from 2004 shows that the addback resulted in $44.1 million of revenue, while 2005 returns show $40.7 million in additional revenue. As more 2005 returns are filed (many are yet to be received due to the fact that many corporations' tax year starts July 1 or later, and corporate returns are usually filed under the seven-month filing extension), additional revenue that has already been collected through estimated or extension payments will be seen to have resulted from the addback. For tax year 2004, the revenue attributable to the addback reported on returns filed between November 2005 and November 2006 increased by about 33%. Should a similar pattern appear for tax year 2005, an additional $14 million or so will turn out to have been a result of the addback. That news is good, because that revenue would otherwise not have been collected, but it also means baseline growth is that much lower.

Baseline growth in fiscal year 2007 is clearly weak. Through the first four months of the fiscal year, gross receipts have declined by 3.5%. This decline is peculiar, coming as it does at a time when national corporate profits are still soaring–growth in the third quarter was reported at 30.9% over the third quarter of 2005. Estimated payments for the third quarter were down 16.5%. Refunds, largely attributable to tax year 2005 activity, increased 97% in the first four months of this fiscal year. Part of this increase is due to administrative issues that delayed processing of some returns in November 2005, but it appears that underlying refund growth is quite strong.

Why this should be so is uncertain, as corporate profits have been growing at or near double digits since the second quarter of 2002, and many states, including nearby ones, are still showing very strong corporate income tax growth. It is possible that issues related to the holding company addback, decoupling from federal tax law changes (especially depreciation changes), the interplay between these issues and net operating loss carry-forwards, and/or issues related to safe harbor provisions for estimated tax payments are at play.

Regardless of the cause, slowing estimated payments, declining final payments and very high refunds add up to declining net receipts–down 23.8% through November. For the full fiscal year, gross receipts are expected to decline by 3.5%, and refunds are projected to increase by 27.1%. Net receipts will decline by 8.0%. In the out-years, growth in the low single-digits is forecast as corporate profit growth is expected to recede substantially.

Table 6

Corporate Income Tax Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual[1]	2006 Actual[2]	2007 Revised Estimate	2008 Estimate
Gross Receipts	780,186	940,952	908,303	944,635
Refunds	(106,189)	(120,921)	(153,697)	(167,391)
Net Receipts	673,997	820,031	754,606	777,244
Transportation Trust Fund	(161,760)	(196,807)	(181,105)	(186,539)
Net General Fund	512,237	623,224	573,500	590,705

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

[2] Fiscal year 2006 revenues exclude $20,392,562 from a settlement with MCI. An additional $6,439,757 from the settlement went to the Transportation Trust Fund.

Figures may not sum to totals due to rounding.

Sales and Use Taxes

Sales and use taxes are coming off three years of very solid growth: 8.3% in fiscal year 2004, 7.1% in 2005, and 7.2% in 2006. The sales tax, second only to the individual income tax as a source of general fund revenue, is expected to slow significantly to 3.0% in fiscal year 2007 as the effects of slower economic growth and the housing downturn move through the Maryland economy. Baseline growth, adjusted for issues discussed below, is about 3.7%. A rebound to 4.8% growth is expected in 2008 as the State's economy accelerates. General fund revenues are predicted to reach $3.457 billion in 2007 and $3.623 billion in 2008.

The consumer segment of sales tax revenues, about two-thirds of sales tax collections, posted 5.6% growth in fiscal year 2006, boosted in part by strong personal income growth in the latter half of the year. Growth in the consumer sector is forecast to pull back in fiscal year 2007 to 3.4%, for a total of $2.301 billion. The expected slowdown reflects the forecast one percentage point drop in growth of personal income and the housing market's slowdown, which will affect sales tax revenues indirectly through lower residential construction and renovation activity and indirectly through the wealth effect, operating in reverse. Legislative changes are also restraining growth in 2007. The sales tax holiday last August saved consumers about $5.6 million, and as of the start of this fiscal year the amount of sales taxes retained by retailers as compensation for collecting the tax reverted to the amount in law prior to fiscal year 2002, when it was halved for four years to help the State through its fiscal crisis. Adjusting for these factors, baseline growth in 2007 is forecast at about 4.2%. Growth will rebound in 2008 to 5.2% as the economy accelerates, with estimated collections of $2.422 billion.

The second-largest segment of the sales tax, and the most volatile, is the construction component. The booming housing market resulted in spectacular double-digit growth in receipts for the past three years, including the current calendar year. With the housing construction downturn, commercial construction will be carrying this segment in 2007 and 2008. Revenues from construction-related sales are expected to decline slightly in fiscal year 2007, but will return to positive, albeit fairly slow, growth of 2.0% in 2008. Revenues from the construction component will reach $558.9 million in 2007 and $570.0 million in 2008.

Revenue from the utility sector, largely from sales of electricity and natural gas to commercial and industrial customers, purchases of equipment by electric, gas and telephone companies, and of cellular phone service grew by 11.7% in fiscal year 2006–the best performance since the recession. In fiscal year 2007 revenues are expected to rise 5.4% to $310.6 million and 5.5% to $327.6 million in 2008. Growth from communications-related revenue sources–primarily cellular phone service–has waned and will continue to fall, but, at least for the current period, revenue growth from utilities has accelerated, partly as a result of higher energy prices.

Growth in receipts from sales of capital goods–generally durable goods purchased and used by businesses–slowed from 7.1% in fiscal year 2005 to 5.4% in 2006. The downward trend will continue through 2007, with growth of only 3.9% and revenues of $302.9 million. Federal tax law changes several years ago providing accelerated depreciation brought forward sales of depreciable assets, hence the decelerating growth. The picture for fiscal year 2008 is expected to improve as the economy picks up, with revenues increasing 6.0% to $321.1 million.

Table 7

Sales and Use Tax Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Consumer	2,106,755	2,225,066	2,301,329	2,421,503
Construction	503,285	559,279	558,939	569,996
Capital Goods	276,677	291,574	302,882	321,129
Utilities	263,677	294,608	310,566	327,611
Gross Collections	3,152,399	3,370,527	3,473,716	3,640,239
Assessments	22,150	23,259	24,666	25,848
Refunds	(18,870)	(12,091)	(12,636)	(13,241)
Transportation Trust Fund	(24,323)	(26,527)	(28,517)	(29,884)
Total General Fund	3,129,352	3,355,168	3,457,229	3,622,962

Figures may not sum to totals due to rounding.

Lottery

Lottery sales reached $1.561 billion in fiscal year 2006, growth of 5.1%. Mega Millions was again the strongest performer, growing 16.6% to $116.3 million, while instant tickets provided the largest growth in dollar terms, $24.4 million. Despite this success, growth of the biggest games, instant tickets and Keno, decelerated by about four and two percentage points, respectively. This slowdown can be traced to several factors, including high gas prices and modest issues with the transition to a new lottery vendor which particularly affected Keno.

Sales in the first five months of fiscal year 2007 have decelerated further–in fact, they have declined by 3.5%, in large part due to the 43.9% decline in Mega Millions sales because there have been no large jackpots this year. Pick 3 sales have declined modestly, and Keno sales have declined by 2.6%. The reason for this decline, however, is because of the new Racetrax game, also a monitor game. Sales figures show cannibalization of Keno sales of about 8% to 9% in locations with both games. Taken together, sales of these games are 2.3% over last year's levels. Racetrax is expected to be at 700 locations by the end of December and at about 1,500 outlets by the end of the fiscal year.

Sales of Countdown to Millions, a new raffle game with the best odds ever offered by the Maryland lottery to win $1 million, are underway–$8.4 million of tickets will be sold. The drawing, with four $1 million prizes, was originally scheduled for New Year's Eve, but may be postponed due to the lack of advertising as a result of the bankruptcy of the Lottery's advertising firm. Sales of instant tickets are flat for the year, but are expected to pick up shortly when an advanced distribution system, promoting the most successful games to lottery agents, rolls out. In fiscal year 2007 sales are expected to total $1.605 billion, growth of only 2.8%, the lowest since 2003. In 2008 growth will accelerate slightly as the instant ticket distribution system is fully implemented, and there are presumably with some large Mega Millions jackpots. Sales are expected to reach $1.663 billion, growth of 3.6%.

General fund revenues are forecast to decline modestly in fiscal year 2007, largely due to higher than statistically predicted prize payouts. The agency anticipates supplementing prizes with about $8 million from the Unclaimed Prize Fund, partly mitigating the impact. Revenues are forecast at $477.4 million. In fiscal year 2008, revenues are expected to grow by 4.6% to $499.2 million with a return to statistically expected prize payouts.

Table 8
Lottery Sales and Revenues by Game
Fiscal Years 2005-2008
($ in millions)

	Sales				Revenues			
	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Pick 3	296.1	298.1	295.1	295.1	125.7	116.2	122.5	122.6
Pick 4	225.5	236.5	247.1	255.7	92.1	108.6	102.4	104.1
Lotto/ Multimatch	34.1	35.8	32.6	32.6	13.5	13.3	10.4	12.6
Instant/ Countdown to Millions	391.0	415.3	431.6	444.3	71.3	74.9	76.6	79.3
Keno/ Racetrax	416.5	436.5	471.9	492.6	125.4	131.6	137.8	146.2
Match 5	21.9	22.4	22.0	22.0	7.1	8.2	6.0	6.4
Mega Millions	99.7	116.3	104.6	120.3	41.9	48.3	42.6	49.6
Total	1,484.8	1,560.9	1,604.9	1,662.7	477.1	501.0	498.4	520.7
Less Stadium Authority Revenue					21.2	20.5	21.0	21.5
General Fund Revenue					455.9	480.5	477.4	499.2

Figures may not sum to totals due to rounding.

Note: Special fund revenues (the Lottery Agency's operating expenses) of $53.5 million in 2005 and $54.6 million in 2006 are not included in this table; these revenues, generally proportional to sales by game, are expected to be $58.4 million in 2007 and $58.0 in 2008.

Business Franchise Taxes

Franchise taxes are collected from electric and gas utilities and telephone companies. Prior to 2000, the amount of the public service company franchise tax was essentially 2% of gross receipts. Deregulation of the electric and gas industries brought a consumption tax of 0.062 cents per kilowatt hour and 0.402 cents per therm of natural gas along with a 2% tax on the cost of distribution. The tax on telephone service was unchanged at 2%.

Since the tax change, revenues from the electric and gas utilities have grown very modestly at 0.6% annually, although growth has been modestly restricted by increasing use of the Maryland-mined coal tax credit. Use of the credit is apparently expanding in tax year 2006, the last year before the credit becomes capped, to over $15 million. Modest growth in baseline revenues is expected as energy consumption continues to increase, but the likely higher credits claimed for tax year 2006 will result in a decline in revenues from the utilities of 1.9%. In tax year 2007 the credit is capped at $9 million in the aggregate, resulting in forecast revenue growth of 10.0% in fiscal year 2008. Revenues from telephone companies have exhibited a longtime downward trend as mergers and competitive pressures have brought prices down and, more recently, as Internet telephony has taken customers from the traditional phone companies. Declining growth is expected to continue over the forecast period. Altogether, revenues from the public service company franchise tax will reach $128.5 million in fiscal year 2007 (growing only because of a timing issue in 2006 receipts), and will increase by 4.5% to $134.3 million as a result of the cap on the Maryland-mined coal credit.

Filing fees are collected from corporate and most non-corporate entities. These revenues grew by 7.8% in fiscal year 2006 as recent changes became effective for a full fiscal year. Growth in these fees will slow to about 1.1% in fiscal years 2007 and 2008, increasing at the rate of growth in the number of entities. The financial institution franchise tax was fully repealed in tax year 2001; residual revenues are expected for several more years. But in fiscal year 2006, audit activity for prior periods resulted in the collection of about $1.2 million.

Table 9

Business Franchise Tax Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Public Service Company Franchise Tax	133,310	125,154	128,486	134,270
Filing Fees	64,850	69,921	70,681	71,388
Financial Institution Franchise Tax	(253)	1,160	20	-
Total	197,907	196,235	199,187	205,658

Figures may not sum to totals due to rounding.

Insurance Premium Tax

The insurance premium tax is levied at a rate of 2% of premiums collected by insurance companies. Revenues are cyclical and generally follow economic trends. Rapidly rising premium levels were experienced as the housing market boomed in 2003 and 2004 as a result of many new, higher-valued homes being purchased, and because new car sales have been very high since 2001. Additionally, low returns on insurance company investments and underwriting losses required increased rates for insurance. Growth in premiums fell off in 2005 and especially in 2006, primarily because insurers are now in a very strong financial position. The industry may experience the best underwriting performance result in more than half a century in calendar year 2006. And as a result, low growth in premium tax receipts is forecast to continue for the next two years.

Revenues from the insurance premium tax were $274.9 million in 2006, an increase of 2.2% over 2005. Revenues are forecast to grow at a rate of 4.4% to $286.1 million in fiscal year 2007 and at a rate of 2.4% in 2008 to $293.3 million.

Table 10
Insurance Premium Tax Revenues
Fiscal Years 2005-2008
($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Premium Tax	268,912	274,901	286,141	293,295

Death Taxes

Death tax revenues are inherently volatile, as a group the second most volatile revenue source behind the corporate income tax, effectively resulting as they do from the number of individuals who die each year and the value of their (taxable) assets. And in recent years, gyrations in the value of stocks, real estate, and other assets have caused changes of $20 million or more from one year to the next; State and federal law changes have also played a role, although Maryland's estate tax is decoupled from most of the recent changes in the federal estate tax.

Estate tax revenues are more volatile than even the corporate income tax. Since 1989, the annual change in revenues has ranged from growth of over 100% to declines of more than 28%. On average, revenues have increased 14.1%. Fiscal year 2006 revenues increased by 24.8% to $171.5 million, as a record $60.6 million was received from 18 estates with estate tax liabilities greater than $1 million, and a record $23.0 million was received from 33 estates with tax due of $500,000 to $1 million. But the largest growth came from estates with liabilities under $500,000–a 38.5% increase to $91.0 million from over 1,600 estates. A likely cause of this surge is the residential housing market. Estates with a taxable value of over $1 million are subject to the tax, and many middle-class homes in the State are now worth close to or over $1 million. For many individuals in the State, it doesn't take much more in the way of assets to find one's estate potentially subject to the tax.

Through the first five months of fiscal year 2007, the largest estates, excluding some extraordinary payments, have had an average liability of only $1.7 million, less than half of last year's average liability of $3.4 million (again, for those estates with a liability greater than $1 million). Whether this is a result of some underlying fundamentals affecting wealth or is simply the luck of the draw is uncertain. Unless there are almost no more of these largest estates in fiscal year 2007, however, revenues from this category will increase due to the extraordinary payments. Revenues from the small estates are projected to decline by 6.0% in 2007, before growing modestly in 2008. Estate tax revenues altogether are expected to total $172.2 million in fiscal year 2007, declining to $150.3 million in 2008 as a result of the extraordinary 2007 payments.

Inheritance tax revenue is now essentially from the collateral inheritance tax, a 10% tax applied to bequests to anyone aside from lineal relatives and siblings of the decedent. As with the estate tax, inheritance tax revenues have fluctuated over the years. Following four consecutive years of decline starting in 2000, partially as a result of legislative changes, the last two years have seen growth of 7.4% and 10.6%. Due to declining revenues through the first part of the fiscal year, however, a decline of 8.6% is now forecast. Based on longer-term trends, growth of 4.4% to $49.7 million in fiscal year 2008 is expected. Residual revenues from the direct inheritance tax, repealed in mid-2000, will continue at a very low level for some time. Revenues of $300,000 and $240,000 are expected over the next two years.

Table 11

Death Tax Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Collateral Inheritance Tax	45,174	50,031	47,649	49,746
Direct Inheritance Tax	475	375	300	240
Estate Tax	137,467	171,503	172,197	150,343
Total	183,115	221,909	220,146	200,329

Figures may not sum to totals due to rounding

Alcohol and Tobacco Excise Taxes

Revenues from alcohol beverage excise taxes increased by 2.8% in fiscal year 2006, slightly above the average annual growth of 2.3% over the past five years. Distilled spirits revenue grew the strongest at 3.8% while wine revenues increased 1.2% and beer was flat. Total revenues for the year were just shy of $28 million. Revenues from distilled spirits are forecast to increase 3.6% to $14.2 million in fiscal year 2007 while wine revenues are expected to grow by 4.3% this year to $5.1 million. Revenues from sales of beer have declined over the first four months of the fiscal year, and are projected to decline by 1.7% to $9.3 million. In fiscal year 2008, a return to longer-term trend growth is expected, with revenue from distilled spirits growing by 2.2%, wine revenues increasing 3.0%, and beer revenues nearly flat at 0.8% growth. Altogether, revenues from alcoholic beverages are forecast to increase 1.9% in both fiscal years 2007 and 2008, growing to $28.5 million and $29.0 million.

Tobacco tax revenues grew by 1.7% in fiscal year 2006 as cigarette taxes increased for the second year in a row, to $272.0 million, perhaps indicating that the long-term trend of declining cigarette sales has ended. Revenues from the 15% tax on other tobacco products increased by 6.8% to $8.7 million. Through the first part of fiscal year 2007, cigarette excise tax revenues have continued to grow at a steady 1.7%. Accordingly, growth at that rate is expected for a full year, with revenues reaching $276.1 million. More modest growth of 0.8% is expected in 2008. Revenues from other tobacco products are projected to continue to show healthy growth, reaching $9.0 million in 2007 and $9.8 million in 2008.

Table 12
Excise Tax Revenues
Fiscal Years 2005-2008
($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Cigarette Tax	267,890	271,598	276,145	278,456
Other Tobacco Products Tax	8,155	8,708	8,982	9,840
Total Tobacco Taxes	276,044	280,306	285,127	288,296
Distilled Spirits Tax	13,168	13,664	14,160	14,476
Wine Tax	4,805	4,864	5,072	5,222
Beer Tax	9,368	9,425	9,265	9,335
Total Alcoholic Beverages Tax	27,341	27,953	28,497	29,033

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 relate to patients in psychiatric hospitals. A total of $85.8 million was received in fiscal year 2006, a 0.7% increase from the prior year. Revenues are expected to decline by about 3.1% to $83.1 million in fiscal year 2007, largely attributable to a lower estimate for reimbursements related to the State's four residential centers for developmentally disabled individuals. The lower estimate results from two factors: fewer Medicaid-billable days attributable to an expected smaller number of individuals at these facilities as the facilities continue to downsize, and lower rates of reimbursement resulting from budget reductions, which will require deficiency appropriations. The timing of the receipt of any deficiency funding will not permit an increase in rates during fiscal year 2007, depressing receipts in that year, but higher cost settlements will likely materialize over the next two years. These higher cost settlements are, therefore, expected to contribute to growth of 2.2% to $84.9 million in fiscal year 2008.

Table 13
Hospital Patient Recoveries
Fiscal Years 2005-2008
($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Medicaid	50,283	51,648	48,693	50,148
Medicare	3,561	4,513	4,220	4,562
Insurance and Sponsors	7,463	5,882	5,809	5,827
	61,306	62,043	58,722	60,537
Disproportionate Share	23,833	23,734	24,399	24,399
Total	85,139	85,777	83,121	84,936

Figures may not sum to totals due to rounding

Court Revenues

Revenues from the District Court of Maryland result from court fees and traffic fines, which vary with enforcement activities, weather, the rate of contested citations, and the fees and fines actually imposed. Fees were increased in the 2005 Budget Reconciliation Act by about $6 million in fiscal year 2006; in that year, the fees were special fund revenue, but in 2007 and later these fees are credited to the general fund. Aside from that change, District Court revenues are expected to continue their long-term trend of modest increases.

Revenues from the clerks of court are derived largely to recordation-related activity, although about $8.5 million annually is received from a variety of court fees. The performance of the housing market, with calendar year 2005 existing home sales 43% higher than 2000 levels and the median home price just about doubling, have resulted in growth of revenues from the clerks of more than 50% from fiscal year 2000 to fiscal year 2006. Now that the housing market is deflating, with the number of sales down over 20% through October and stagnant if not declining prices, revenues from the clerks have declined 31.4% for the first four months of the fiscal year. Declines will continue through the end of the fiscal year; revenues are expected to decline by 22.8% to $45.3 million for the full year. In fiscal year 2008, when the housing market is expected to stabilize, if not recover, revenues are forecast to grow a modest 1.4%.

Table 14
General Fund Court Revenues
Fiscal Years 2005-2008
($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
District Courts	87,408	91,281	104,155	106,863
Clerks of the Court	55,465	58,704	45,347	45,992

Interest Earnings

Interest earnings grew over 150% in fiscal year 2006 as interest rates rose, the State's balances were very high and general fund revenues were growing rapidly. Interest rates are projected to average somewhat higher in fiscal year 2007 than in 2006, although rates are not expected to change much from current levels over the remainder of the fiscal year. While the State's balances will be drawn down throughout the year, the higher rates are expected to result in an increase in interest income of 6.3%. In fiscal year 2008, interest earnings are forecast to decline by 45.0% based upon the anticipated smaller balances available for investment. Revenues of $172.8 million are expected in 2007, dropping to $95.0 million in 2008.

Table 15
Interest Earnings
Fiscal Years 2005-2008
($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Interest Earnings	64,397	162,493	172,795	95,000

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, boosted by the effects of the demutualization of a number of insurance companies. Although some small amount of revenue continued to be received from that factor in 2006, the distortion was not large, and revenues fell to $72.3 million.

Miscellaneous revenues dropped from $251.1 million in fiscal year 2005 (a 29.5% decline) to $177.0 million in fiscal year 2006, with most of fall due to the large decline in unclaimed property revenue. Partially offsetting that fall, uninsured motorist penalties increased by 19.7% in fiscal year 2006 after growing by 17.3% the previous year. An expected increase of 14.8% in revenues from the penalties, coupled with growth of 10.6% in revenues from unclaimed property, will raise total miscellaneous revenues by 10.2% to $195.0 million in fiscal year 2007. Continued strong growth in uninsured motorist penalty fees should result in an overall increase in miscellaneous revenues of 2.8% to $200.4 million in fiscal year 2008.

Table 16
Miscellaneous Revenues
Fiscal Years 2005-2008
($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Recording, Organization & Capitalization Fees	9,930	10,940	11,260	11,265
Transportation - Filing Fees & License Tags	9,945	9,718	9,715	9,785
Excess Fees of Office	6,614	5,503	5,303	5,299
Unclaimed Property	156,497	72,336	80,000	80,000
Local Income Tax Reimbursement	11,857	13,090	13,959	12,396
Uninsured Motorist Penalty Fees	47,177	56,459	64,805	71,670
Miscellaneous Revenues and Transfers	9,069	8,981	10,000	10,000
Total	251,089	177,027	195,042	200,415

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 multimillion dollar settlements from the Attorney General's office and reimbursements from the counties related to education, and very small items such as vending machine revenue. Generally stable over time, most significant changes usually occur because of law or regulatory changes.

In fiscal year 2006, agency revenues totaled $121.1 million–a decline of 4.5% from the $126.6 million collected in fiscal year 2005. The fiscal year 2005 increase in revenues from the Department of Health and Mental Hygiene was due to an $8.3 million in one-time reversions, but revenues returned to a more normal level in 2006 and are expected to remain at that level in the out-years. Maryland State Police revenues were $8.5 million higher in fiscal year 2005 due to a transfer from a special fund, and similarly returned to a normal level in 2006; both fiscal years 2007 and 2008 are expected to stay at normal levels. In 2007, revenues from unpresented checks are expected to more than double, causing most of the growth in revenues from financial and revenue administration agencies. In 2008, those revenues are expected to decline by $6 million to $5.5 million causing most of the 4.1% decline in miscellaneous agency revenues. A total of $114.8 million in revenue is expected from these agencies in fiscal year 2008.

Table 17

Miscellaneous Agency Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
PSC Fines, Citations and Filing Fees	0	306	60	60
Legislature	436	225	225	230
Workers' Compensation	54	54	54	54
Public Defender	1,661	1,529	1,500	1,500
Attorney General	19,690	20,534	24,500	24,500
Executive & Administrative Control	4,151	5,901	4,731	4,963
Financial & Revenue Administration	5,226	8,072	11,750	5,750
Budget & Fiscal Administration	965	558	1,330	760
General Services	1,135	613	1,200	100
Natural Resources	417	281	220	215
Agriculture	108	89	73	61
Health & Mental Hygiene	25,591	18,298	18,220	18,647
Human Resources	2,107	314	752	926
Labor, Licensing & Regulation	14,420	18,846	11,251	10,372
Public Safety & MD State Police	19,301	11,845	10,365	10,365
Public Education	28,179	29,785	30,642	33,528
Housing and Community Development	813	1,196	1,008	1,028
Business & Economic Development	11	273	-	-
Environment	1,015	807	854	724
Juvenile Services	277	469	20	15
Alcoholic Beverage Licenses	1,067	1,058	1,000	1,000
Total	126,624	121,054	119,756	114,798

Figures may not sum to totals due to rounding.

Transportation Revenues

Titling tax revenues have been essentially flat for three consecutive years. This performance is in stark contrast to the strong growth of several years prior; it reflects the difficulties auto manufacturers are having in designing compelling incentive programs to maintain sales in times of high gasoline prices, declining real estate prices and rising economic uncertainty. This is particularly true of high-priced SUVs, which have contributed greatly to the strong growth in titling tax revenues for the past 10 years. Economic turmoil in Detroit is probably enough to continue this situation through 2007 and into 2008. Titling tax revenues are forecast to remain flat, falling by a scant 0.6% in fiscal year 2007 to $715.0 million, and to increase by only 1.4% in 2008 to $725.0 million.

Fiscal year 2006 was a year of continuing high gasoline prices. As a result, motor fuel tax revenues increased only slightly in 2005 and 2006, 1.0% and 0.4%, well below the 2.5% average growth of the prior ten years. Low growth is predicted for 2007 as gas prices remain relatively high and general economic growth slows slightly. Motor fuel tax revenues are forecast to increase to $748.1 million in fiscal year 2007, growth of just 1.0%. As economic growth accelerates in 2008, revenues are expected to approach more normal growth, increasing by 1.9% to $762.2 million.

Table 18

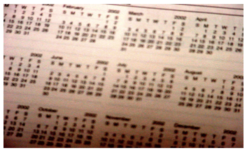
Maryland Motor Vehicle User Revenues

Fiscal Years 2005-2008

($ in thousands)

	2005 Actual	2006 Actual	2007 Revised Estimate	2008 Estimate
Motor Vehicle Administration				
Registrations	351,333	360,981	365,300	371,500
Licenses	41,342	38,132	38,800	44,200
Med-Evac Surcharge	51,009	52,687	51,805	52,686
Trauma Physician Services Surcharge	11,387	11,688	11,774	11,974
Miscellaneous Motor Vehicle Fees	96,924	103,171	112,400	115,700
Vehicle Emission Inspection Fees	5,881	6,710	7,300	7,400
Security Interest Filing Fees				
Special Funds	3,513	3,488	3,480	3,510
General Funds	5,313	5,232	5,220	5,265
General Funds - Baltimore City	2,952	2,907	2,900	2,925
Hauling Fees	9,491	10,071	10,500	10,000
Special License Tags				
Special Funds	380	380	380	380
General Funds	1,680	1,579	1,595	1,595
DOT	408	520	525	525
Chesapeake Bay/Ag Tags - MDOT	1,000	892	900	900
Titling Tax	717,699	719,206	715,000	725,000
Sales Tax on Rental Vehicles				
MDOT-Rental Vehicles	24,323	26,527	28,517	29,884
	1,324,635	1,344,171	1,356,396	1,383,444
Motor Vehicle Fuel Tax	736,591	740,560	748,100	762,200
Road Tax	16,291	17,206	17,200	17,600
Decals	118	134	-	-
	753,000	757,900	765,300	779,800
Total	2,077,635	2,102,071	2,121,696	2,163,244

Figures may not sum to totals due to rounding.



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 continue to expand through 2007, though at a slower rate than in the several years prior. Maryland is expected to grow at about the same rate as the national economy, with professional and business services and education and health services leading the way. In addition, changes brought about by the BRAC process will help to sustain growth in 2009 through 2011. Revenue growth will stabilize at about 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 after the expected sharp decline in fiscal year 2007. 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, but are now also expected to grow in the low single-digits.

Table 19

Long Term Economic Forecast

Primary Indicators

CALENDAR YEAR	2004	2005	2006	2007	2008	2009	2010
U.S. GDP (billion $ 00 chained)	10,704	11,049	11,408	11,678	12,040	12,441	12,848
% change	*3.9%*	*3.2%*	*3.2%*	*2.4%*	*3.1%*	*3.3%*	*3.3%*
U.S. Total Non-Farm Employment (millions)	131,424	133,459	135,343	136,788	138,572	140,646	142,602
% change	*1.1%*	*1.5%*	*1.4%*	*1.1%*	*1.3%*	*1.5%*	*1.4%*
U.S. Personal Income (billion $)	9,731	10,239	10,974	11,569	12,186	12,908	13,672
% change	*6.2%*	*5.2%*	*7.2%*	*5.4%*	*5.3%*	*5.9%*	*5.9%*
CPI - % Change	2.7%	3.4%	3.2%	2.1%	1.9%	1.8%	1.7%
U.S. 10-Year Treasury Bond Yield	4.3%	4.3%	4.8%	4.6%	4.9%	5.3%	5.4%
MD Total Non-Farm Employment (millions)	2,517.9	2,554.1	2,589.9	2,623.6	2,662.9	2,710.8	2,760.8
% change	*1.2%*	*1.4%*	*1.4%*	*1.3%*	*1.5%*	*1.8%*	*1.8%*
MD Total Personal Income (million $)	221,284	235,196	250,704	265,298	280,431	296,563	314,469
% change	*7.2%*	*6.3%*	*6.6%*	*5.8%*	*5.7%*	*5.8%*	*6.0%*

Table 20

Maryland General Fund Revenues

Fiscal Years 2006-2012

($ in thousands)

	2006 Actual	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Income Taxes							
Individual	6,200,194	6,613,245	7,061,752	7,508,028	8,006,425	8,505,887	9,019,929
Corporation	623,224	573,500	590,705	603,717	616,109	623,494	635,621
TOTAL	6,823,417	7,186,745	7,652,457	8,111,745	8,622,534	9,129,381	9,655,550
Sales and Use Taxes	3,355,168	3,457,229	3,622,962	3,789,371	3,982,723	4,159,793	4,377,077
State Lottery	480,471	477,372	499,219	519,513	538,989	559,194	577,361
Franchise, Excise, License, Fee	1,710,847	1,752,631	1,678,204	1,706,088	1,739,896	1,774,233	1,813,214
TOTAL CURRENT REVENUES	12,369,903	12,873,977	13,452,842	14,126,717	14,884,142	15,622,601	16,423,202

Figures may not sum to totals due to rounding.

Note: Fiscal year 2006 corporation income tax revenues exclude $20.4 million from a settlement with MCI.