Report of the

Maryland Board of Revenue Estimates

on

ESTIMATED MARYLAND REVENUES

FISCAL YEARS ENDING JUNE 30, 2008 AND JUNE 30, 2009

Submitted to

Martin O'Malley

Governor

December 13, 2007

State of Maryland
Board of Revenue Estimates
Louis L. Goldstein Treasury Building, P.O. Box 466
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December 13, 2007

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21401

Dear Governor O'Malley:

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, 2008 and June 30, 2009, based upon current laws, including the effect of legislation enacted during the 2007 Special Session, and administrative practices. 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,

Peter Franchot

Peter Franchot, Chairman

Nancy K. Kopp

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T. Eloise Foster

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Executive Summary

The nation's economy has been volatile over the past year, with good news usually on the heels of bad. Each release of housing-related data seems worse than the last with inventory swelling and new home construction almost in freefall, while the Standard and Poor's 500 stock market index has posted a gain of about 7% for the year through mid-December (accompanied by significant volatility). Real gross domestic product grew 4.9% in the third quarter, accelerating from the 3.8% pace of the second, but national job growth has fallen short of 100,000 a month more often than not. As might be expected in such an environment, strong growth does not seem likely to appear any time in the near future.

Maryland's economy has followed a similar course. The housing market has taken a tumble, with sales of existing homes down 21% over the first ten months of the year and average prices starting to decline. But employment has continued to grow, by over 2% in the case of two of Maryland's largest and highest-income industries, professional and business services and education and health services. Maryland's unemployment rate has been at 4% or under for two full years, but energy prices have remained at historically high levels. Mirroring the national economy, Maryland's economy faces substantial risks (perhaps disproportionately large with respect to the housing market); growth is expected to continue through the forecast period, albeit weak through much of 2008.

After growing by 0.8% in 2007, Maryland employment growth is expected to slow to 0.7% in 2008. Construction, trade and most service industries are forecast to slow, primarily as a result of the housing market. As home sales decline and prices fall, consumer confidence will follow. At the same time, uncertainty as to the worth of mortgage-related investments will continue to reverberate throughout the credit markets, resulting in tighter credit for some period of time. Both business and consumer spending are likely to be affected, slowing the overall economy. As the imbalances in the housing market and related issues are worked through, confidence will return and the economy will accelerate in 2009. Personal income is expected to follow a similar pattern, with a period of relatively weak growth in 2008.

Perhaps the largest risk to both the national and State economies is that a vicious cycle in the housing market will develop, with falling sales resulting in rising inventories and falling prices, exacerbating the drop in sales as potential buyers wait for the bottom to appear. In addition, tight credit markets could stall business expansion and make mortgages more difficult to obtain, and also tip the economy into recession. By some estimates, the risk of recession is approaching 50%, and it now stands at a higher level than at any time since early 2001–when the economy actually was in recession. The consensus remains, however, that the national economy will skirt a recession.

Maryland revenue performance is expected to follow path similar to the economy's, with a slowdown in fiscal year 2008 followed by accelerating revenue growth in fiscal year 2009. Baseline general fund revenues (before accounting for the impact of the 2007 Special Session of the General Assembly) are expected to increase only 2.2% in fiscal year 2008, with declines in the corporate income tax, estate taxes and interest income and relatively weak 4.7% growth in the individual income tax and 2.9% growth in the sales tax. In 2009, baseline growth is forecast to accelerate to roughly 5.2% as the economic weakness ebbs and most major revenue sources grow at more normal rates.

The 2007 Special Session of the General Assembly resulted in substantial changes to the sales tax and tobacco tax for fiscal year 2008, and the income taxes for fiscal year 2009. The increase in the sales tax rate from 5% to 6% in January, along with several other changes, boosts the expected general fund sales tax revenue growth to 9.2% in fiscal year 2008. In fiscal year 2009, when the rate increase will be effective for the full year and the sales tax on computer services becomes effective, growth will rise to an estimated 14.1%. The doubling of the tobacco tax will boost growth to an estimated 41% in 2008 (including $23.0 million of floor tax) and, when effective for the full fiscal year, revenue growth is projected at 14.8% in 2009.

The additional individual income tax brackets, the changes to personal exemptions and the increase in the refundable earned income credit will result in a boost to 5.3% growth for the individual income tax, up from the 4.7% baseline growth. In fiscal year 2009, actual revenue growth is forecast at 5.6%, compared to baseline growth of 6.1%. The increase in the corporate income tax rate for tax year 2008 from 7% to 8.25% will take several fiscal years before the full tax year impact is realized due to the fact that tax year 2008 starts later than January 1 for many corporations. The additional revenue will cause the forecast baseline decline of 10.6% to lessen to a decline of 5.3% in fiscal year 2008, and growth in fiscal year 2009 is forecast at 20.4% rather than the baseline growth of 12.0%.

All together, general fund revenues are expected to reach $13.632 billion in fiscal year 2008 and $14.743 billion in 2009, growth of 5.3% and 8.1%. Of those figures, legislative actions at the 2007 special session represent approximately $403 million and $837 million. The State has taken strides in addressing its fiscal shortfall, but the general fund outlook will be challenging due to current economic conditions.

State of Maryland
Board of Revenue Estimates

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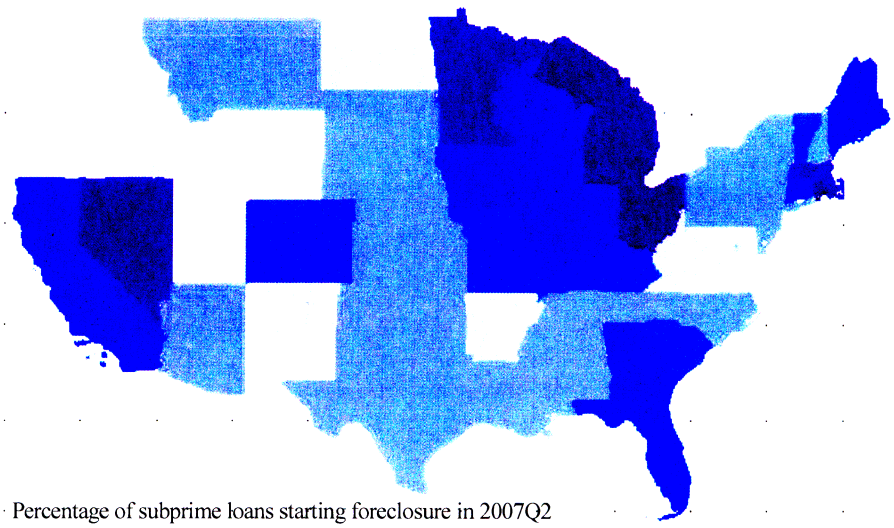
The U.S. Economy

Uncertainty characterizes U.S. economic performance over the past year, with good news immediately following bad and vice versa. The overall picture has been of an economy buffeted by the bursting of the housing bubble, yet holding its own against the potentially large spillovers. The damage is more serious in certain sectors and certain geographical areas, but the large and diversified national economy appears to have held up through a year of turmoil–growth in real gross domestic product slowed to a low of 0.6% in the first quarter of 2007, but bounced back to 3.8% in the second quarter, and though that was deemed unsustainable, the third quarter followed with a surprising 4.9% growth rate. Some sectors have contracted over the course of the past year, yet the recession anticipated by some has never appeared. And although risks of recession remain elevated, they have eased somewhat over the past month.

The bursting of the housing bubble and the potential of a more general impact has loomed over the economy. Home prices have stalled; the S&P/Case Schiller Index shows a 3.9% decline in July from the prior year. This price drop is still too small to clear out the buildup of 10 months of unsold housing inventory on the market. New home construction has fallen precipitously—housing starts were down 24% this quarter from last year—taking with it 4.3% of employment in residential construction. Resets of adjustable rate mortgages have resulted in an increase in subprime foreclosures of over 50%, flooding the market with homes for sale, while wary potential home purchasers are waiting to see where it all bottoms out. Until recently, the foreclosures have primarily been in regions where the economy has been weak rather than in areas that experienced the biggest run-up in housing prices; more recent data indicate the defaults are now spreading to the formerly booming regions.



Percentage of subprime loans starting foreclosure in 2007Q2

4% 2% <1%

These defaults have roiled the credit market, partly because of the manner in which the mortgages were packaged for sale to investors. Due to uncertainty as to their true value, many banks have been left with sizable amounts of unsellable credit assets. In recent days, some of the country's largest banks have announced sizable write-downs—some analysts are predicting these write-offs will ultimately reach $64 billion.

As a result, banks are cutting back on credit available to customers in order to improve their own balance sheets. Tightening of mortgage loan criteria is one result, which then makes purchases of homes more difficult and contributes to the continuation of the housing inventory buildup. Anecdotal evidence collected by the Federal Reserve in the October Beige Book suggests, however, that commercial and industrial loan activity remains strong.

Job growth continues, although it has generally decelerated since early 2006 (from over 2% to 1.2% most recently). Consumer confidence has dropped along with housing, as the Conference Board's index fell below 100 in September for the first time in nearly two years. Retail sales have followed, with growth slowing from 5.9% in 2006 to 3.9% through the first three quarters of 2007. Unemployment has remained low, though, increasing only to 4.7% through this period of very modest expansion. Personal income has continued to rise over the year, 6.4% in the second quarter, with wage and salary income growing at a healthy 6.8%. The outlook is for more of the same—uncertainty. The length and depth of the decline of the housing sector and the extent to which it affects the broader economy will almost certainly be the primary factor in the performance of the U.S. economy through 2008, although rising energy prices, faltering household balance sheets and declining business confidence may all play a significant role. The risk of recession remains elevated, and has risen in recent months—the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters (from mid-August, and so not including consideration of the effects of the credit market turmoil from several days before) indicated that the consensus risk of a negative quarter of GDP growth had risen two to three percentage points for the last quarter of this year and first half of next year, to about 19%. But the consensus is that the expansion will continue, though at a very moderate pace and with substantial downside risks.

Growth in real GDP is forecast to slow to about 1.5% for the next several quarters as the full impact of the housing downturn and credit market issues comes to bear. The economy is expected to grow 2.3% in 2008, only a marginal acceleration from 2007. In 2009, the rate of growth is expected to accelerate to 3.3%, somewhat ahead of potential growth. Job growth is forecast to slow from 1.3% to 0.8% in 2008 as jobs continue to be lost in the construction industry and finance and other industries are hobbled by the spillover effects. In 2009 and later, growth will pick up to between 1.0% and 1.5% as the economy rebounds. Similarly, personal income is expected to grow at 4.8% in 2008, a drop of 1.7 percentage points from 2007, before accelerating to 5.1% in 2009. While a recession is likely to be avoided and the economy will continue to expand, economic growth will be modest for the foreseeable future.

Table 1

Forecast of the U.S. Economy

Primary Indicators

	2003	2004	2005	2006	2007	2008	2009
Real Gross Domestic Product ($ billions)	10,355	10,746	11,065	11,370	11,618	11,859	12,189
	2.7%	*3.8%*	*3.0%*	*2.8%*	*2.2%*	*2.1%*	*2.8%*
Federal Funds Rate (%)	1.1	1.4	3.2	5.0	5.0	4.3	4.6
10-Year Treasury Bond Yield (%)	4.0	4.3	4.3	4.8	4.7	4.5	5.0
Consumer Price Index (%Δ from prior year)	2.3	2.7	3.4	3.2	2.9	2.0	1.6
Housing Starts (thousands of units)	1,854	1,950	2,073	1,812	1,346	1,020	1,296
	8.4%	*5.2%*	*6.3%*	*-12.6%*	*-25.7%*	*-24.2%*	*27.1%*
Light Vehicle Sales (thousands of units)	16,643	16,866	16,948	16,504	16,040	15,698	16,018
	-1.1%	*1.3%*	*0.5%*	*-2.6%*	*-2.8%*	*-2.1%*	*2.0%*
Corporate Profits Before Tax ($ in billions)	993	1,231	1,373	1,554	1,619	1,637	1,708
	12.1%	*24.0%*	*11.5%*	*13.2%*	*4.2%*	*1.1%*	*4.3%*
Total Non-Agricultural Employment (thousands)	129,990	131,423	133,696	136,175	137,992	139,163	140,881
	-0.3%	*1.1%*	*1.7%*	*1.9%*	*1.3%*	*0.8%*	*1.2%*
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	5.0	5.0
Total Personal Income ($ in billions)	9,164	9,727	10,301	10,983	11,701	12,273	12,881
	3.2%	*6.2%*	*5.9%*	*6.6%*	*6.5%*	*4.9%*	*5.0%*

Sources: Global Insight, November 2007 forecast
Bureau of Revenue Estimates

The Maryland Economy

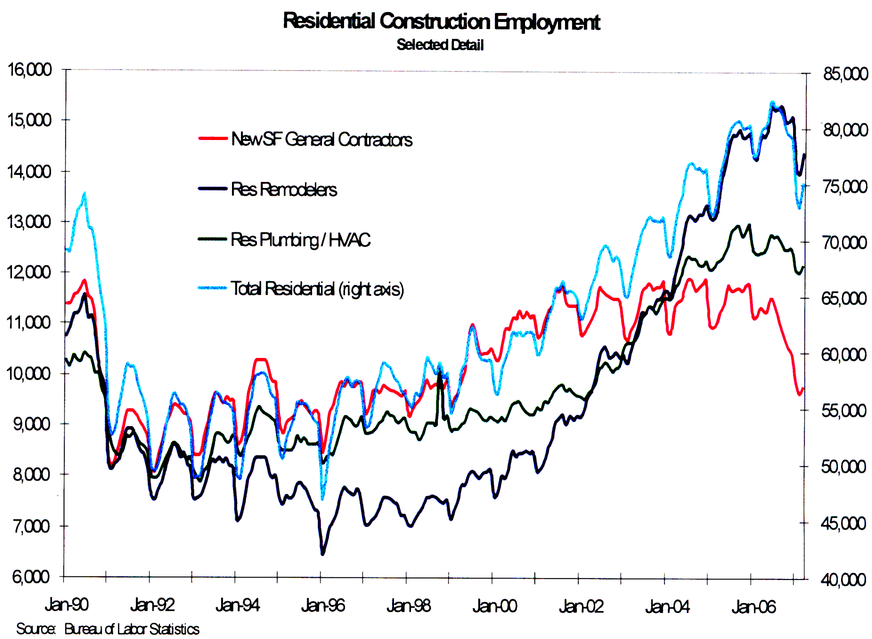
Maryland's economy, like the national economy, has grown at a lackluster pace over the past year, though it has continued to grow. Employment growth was under 1.0% from the third quarter of 2006 through the second quarter of 2007, although it rebounded to 1.5% in the third quarter of this year. Personal income grew 5.8% the first half of this year, essentially the same pace as 2006, while wage and salary growth has actually accelerated about a third of a percentage point to 5.7%. Unemployment, the one measure by which Maryland clearly outperforms the nation, currently stands at a low 3.9%, supporting income growth and acting perhaps as a limiting factor on job growth.

All of the uncertainties and drags at the national level–energy prices, credit concerns, financial market volatility, declining consumer confidence and especially the troubled housing market–are affecting the State's economy. But the economy has to date absorbed all of the bad news, and expectations of future bad news, and continued to expand. The key question at this point is whether future expectations regarding the housing market are accurate. It appears that most economists have chased the bad news, adjusting forecasts downward with every new release of data. Direct and indirect effects of the housing market downturn and the impact of resets of adjustable rate mortgages, which had been expected for some time and have been unfolding since late 2005, have now had a measurable impact on the State's economy and are likely to pose an increasingly formidable challenge to economic growth through the end of next year and perhaps beyond.

At present, fallout from the housing market seems likely to hold back the State's economy through 2008, directly or indirectly affecting virtually every industry. The possibility exists that these issues will develop to such an extent that the national or State economies slip into recession. The housing market in Maryland has deteriorated rapidly in recent months—sales of existing homes in September were down 38% from September 2006, and are now nearly 60% below 2004 levels. September was the third lowest sales month since January 2000. For the first time on record, sales in September were lower than sales the prior January and February, which does not bode well for the near term. The median sales price of existing homes sold dropped 9.3% from June to September, more than twice the seasonal decline experienced in any other year this decade. As a result of a sharp decline in sales and apparently falling prices, the active inventory of existing homes for sale has increased nearly 12,000 units over the course of this year to just over 50,000, a record high.

The first effects of the deteriorating housing market on the broader economy have shown themselves in the construction industry. Employment in residential construction dropped noticeably in the first quarter of 2007 (the latest detailed data available). Employment at single-family housing contractors was down 12.9%, while multi-family contractors experienced an 8.8% contraction, both dropping at faster rates than the fourth quarter, when they fell 10.2% and 0.9%. Of the 23 subsectors in residential construction, 17 declined in the first quarter and two others showed decelerating growth. Altogether, residential construction jobs dropped 5.4% in the first quarter after falling 0.9% in the fourth quarter of 2006 (see graph at top of page 5). Developments in the housing market since then, described above, give no hope for recovery in the near future.

Public construction may take up some of the slack. Nationally, public construction projects comprise one-fifth of construction put in place and about half of nonresidential construction. The high demand for school construction, facilities at community colleges and public institutions of higher education, new roads and maintenance of existing transportation facilities in Maryland will not be satisfied in the near future, and thus at least half of the nonresidential construction sector has at worst a very stable outlook. With the State's Capital Debt Affordability Committee recommending a 15% increase for the fiscal year 2009 capital program and the recent court decision allowing construction of the intercounty connector, the outlook for public construction could be one of accelerating growth, absorbing some of the downturn in the residential sector. Likewise, the outlook for commercial construction is moderately positive. Rents for commercial property in Bethesda are currently 40% of those in the District of Columbia and 60% of those in Northern Virginia, providing an attractive alternative. BRAC activity, which may also absorb some of the excess residential capacity, will help to support commercial rents and construction in the Baltimore region.



The financial services industry will also be directly affected by the housing slowdown. Two mortgage brokerages have already reported mass layoffs totaling 250 employees under the Workforce Adjustment and Retraining Act, and more are likely to follow. This relatively narrow sector—mortgage loan brokers—poses a relatively substantial risk to Maryland's economy. Just 1.9% of employment in the financial services industry in 2000, it increased to 4.8% of that industry by 2006, providing almost 40% of the 9,000 additional financial jobs in the State. The number of establishments increased 125% to 765 over that period. These figures are in contrast with national data for this sector—mortgage brokerages represented 1.1% of financial employment nationwide in 2000, increasing to 2.4% in 2006, representing a disproportionate, though much less so, 18% of growth in the financial industry.

Indirect effects of the housing slump, through many avenues, will likely be less severe though will have a much broader impact on the State's economy. Further price declines, expected through 2008 due to the swollen active inventory, will have several substantial impacts on consumers:

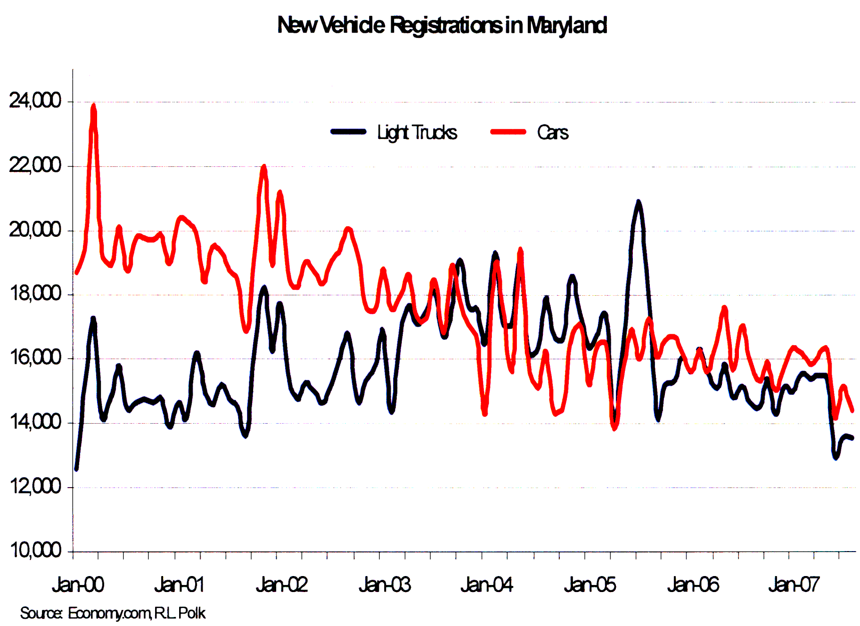
- Potential homebuyers may sit on the fence until prices stabilize, which means the economic activity that typically accompanies the purchase of a home will decline (and which could exacerbate the falling prices);

- As homeowners lose equity, they will feel less wealthy–the negative wealth effect from housing is estimated at up to 10¢ per dollar of real estate wealth, and is thought to be more substantial than that from other financial assets; and

- The use of home equity as a source of cash for consumption will slow even further.

In addition, resets of adjustable rate mortgages are expected to continue at very high levels through the end of 2008. These factors, along with volatility in the stock markets, the loss of spending power from those in the construction and finance industries who have lost their jobs, and high and once again rising energy prices (which have diverted up to 2.5% of personal income from other spending over the past two years), may keep consumer spending from strengthening appreciably in the near term. The only significant counterbalances are low interest rates and a relatively tight labor market in Maryland.

Weak consumer spending—as demonstrated by growth in State sales tax collections of just 1.9% in fiscal year 2007—translates into low profit growth and flat employment for the trade industry, particularly retail trade. Vehicle sales are also showing the effects of weak consumer spending brought about by the above factors. Car sales have been flat for more than two years, and may have recently resumed the longer-term downward trend. Sales of light trucks have been declining for more than three years, although light truck sales have just recently dropped below 2000 levels despite high gas prices; while light truck sales represented only 40% of total sales in 2000, they have been almost 50% of sales since late 2003. Recent trends may show, however, that high gasoline prices, low homeowner's equity and other pressures on consumer spending may finally be taking a toll on consumers' vehicle purchases, both in the aggregate and in the mix of vehicles purchased.



Weak consumer spending will also affect the leisure and hospitality services sector, although the weak dollar may help to cushion the blow by encouraging international tourism. Passenger traffic at BWI Thurgood Marshall Airport surpassed pre-September 11 levels in 2006, due partly to the continuing expansion of Southwest and AirTran, although cargo volume has declined recently. The falling dollar has, however, boosted exports from the Port of Baltimore. Automobile exports jumped 92% in fiscal year 2007, closing the gap between imports and exports to the narrowest it has been for years. Total exports increased about 40% through the first three quarters of this year. With the dollar not expected to recover any time soon, U.S. manufacturers should keep the Port busy. Although imports have become more expensive, they have increased 10% through the first half of 2007.

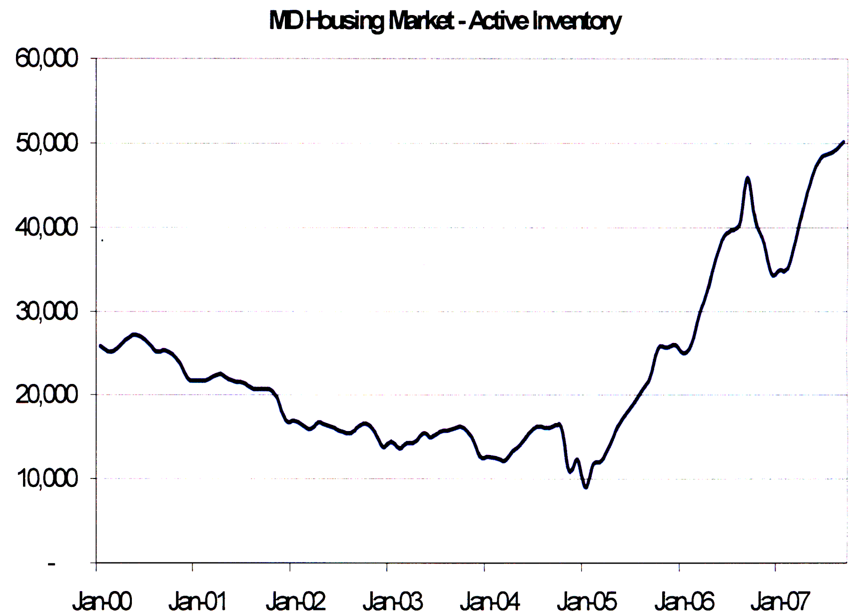
Government, which has acted as a stabilizing factor for the State's economy for some time, will also be affected by the housing market through the effect on tax revenues. At the federal level, individual income tax revenues from capital gains on both owner occupied and non-owner occupied residential property will decline; that factor will also affect State income tax revenues. State revenues will also be affected through the estate tax, sales tax, and certain court-related revenues, while local governments will largely be affected through recordation and transfer taxes (property tax growth will be largely unaffected due to the homestead property tax credits, which cap growth in the taxable assessment at 10% or less annually for owner-occupied property; given the enormous run-up in prices, it will be quite some time before taxable assessments reach market values, even if prices fall 10%).

These fiscal pressures may cause a belt-tightening at the State and local levels, although the outcome of the ongoing special session of the General Assembly may provide the State, in particular, more flexibility. Federal employment in the State will have declined five consecutive years by the end of 2007, but the federal fiscal situation has improved in recent years—the fiscal year 2007 deficit of $163 billion was $85 million less than the 2006 shortfall, and the lowest since 2002. Federal spending in the State on science and technology dropped in the second half of 2006, but spending on defense and homeland security continues at high levels. Maryland received less than 5% of total federal procurement spending in 1997, a share that has grown by over a full percentage point since then. BRAC aside, government may not be an engine of growth over the next several years, but it should continue to be a large stabilizing presence for the State's economy.

Another stabilizing sector over the near term, and one that will provide some growth, is the health and education services industry. Federal spending does support this sector, with a disproportionately large 5% of federal health spending coming to the State, 7th most in absolute terms but on a per capita basis twice the amount of the six states receiving more dollars. Unsurprisingly, over 90% of that funding is focused in Baltimore. More broadly, Maryland receives the third highest amount of science and engineering funding from the federal government (over three-quarters of which is health and education related), behind only California and New York. The health research/services infrastructure which has built up around Baltimore City and the Washington suburbs will continue to have additional resources funneled to it.

As the national economy slows through mid-2008, the impact on Maryland's economy will be exacerbated by a larger impact from housing. Employment growth will slow from an already weak 0.8% in 2007 to 0.7% in 2008 before accelerating to 1.5% in 2009. Construction employment will be nearly flat next year, as will retail trade. Employment in financial activities is expected to grow only modestly in the near future. Two of the largest and most important industries in Maryland will take divergent paths over the next several years. Professional and business services are expected to decelerate sharply in 2008 with the general economic slowdown, from 2.2% in 2007 to 0.7%. Education and health services, meanwhile, are expected to maintain relatively stable growth around 2% in the forecast. Government employment is not expected to expand strongly at any level, although federal employment is expected to reverse the recent declining trend. Personal income growth is expected to dip to 5.1% in 2008 as wage and salary growth slows half a percentage point to 5.4%. In 2009, income growth is expected to lag the employment recovery, increasing only to 5.5%.

Risks to the forecast are clearly on the downside. The largest negative risk, particularly in Maryland, is the development of a self-reinforcing downward cycle in the housing market. There is a possibility that, as the economy slows and ARMs continue to reset, foreclosures will increase. As the supply of homes expands, further downward pressure will be exerted on prices. In turn, more potential buyers will delay purchases, while at the same time it becomes more difficult for those facing resets to refinance before the higher payments (often 30% higher) come due, further expanding the supply. The impact of such a vicious cycle on the broader economy would be substantial, even more so if mortgage-related risks are currently mispriced in the stock and bond markets. Longer-term risks for the State's economy include slowing population growth. Current Census estimates show decelerating growth each year since 2001 in Maryland, with 2006 growth of under 0.5%, the weakest since 1979. This trend may be reversed over the next several years due to BRAC activity, but growth in population seems unlikely to exceed 1.0% any time in the foreseeable future.



Source: Maryland Association of Realtors

There are positive factors working in Maryland's favor. Of the 50 states, Maryland has the highest median household income, the fifth-highest per capita personal income, the fourth-lowest poverty rate and the fourth-highest percentage of residents with a bachelor's degree, all of which make Maryland a desirable location for both employers and employees. The concentration of high-tech and bioscience companies around Baltimore and Washington, including Northern Virginia, will act as a long-term catalyst for growth. And upcoming BRAC activity will, at the very least, provide an extra boost to the State's economy as it resumes stronger growth in 2009. Maryland is well-positioned for future economic growth, once the imbalances caused by the housing market have worked through the system.

Table 2

Forecast of the Maryland Economy

	2003	2004	2005	2006	2007	2008	2009
Total Non-Agricultural Employment (thousands)	2,486.8	2,517.6	2,555.7	2,587.5	2,608.2	2,626.5	2,665.9
	0.3%	*1.2%*	*1.5%*	*1.2%*	*0.8%*	*0.7%*	*1.5%*
Total Personal Income ($ in millions)	205,737	219,938	232,457	245,821	260,116	273,448	288,465
	3.5%	*6.9%*	*5.7%*	*5.7%*	*5.8%*	*5.1%*	*5.5%*
Wages and Salaries	106,440	113,180	119,622	126,026	133,429	140,694	148,571
	4.0%	*6.3%*	*5.7%*	*5.4%*	*5.9%*	*5.4%*	*5.6%*
Proprietors' Income	13,618	15,215	16,513	17,032	17,244	17,854	18,765
	5.4%	*11.7%*	*8.5%*	*3.1%*	*1.2%*	*3.5%*	*5.1%*
Dividends, Interest and Rent	32,266	34,271	35,172	38,259	40,612	42,729	45,139
	-2.0%	*6.2%*	*2.6%*	*8.8%*	*6.2%*	*5.2%*	*5.6%*
Residence Adjustment	21,639	23,452	25,027	26,419	27,960	29,260	30,811
	3.1%	*8.4%*	*6.7%*	*5.6%*	*5.8%*	*4.6%*	*5.3%*
Transfer Payments	23,079	23,941	25,841	27,433	29,784	31,866	34,107
	7.4%	*3.7%*	*7.9%*	*6.2%*	*8.6%*	*7.0%*	*7.0%*
Capital Gains	5,258	8,884	11,532	12,734	13,161	13,728	14,735
	40.8%	*69.0%*	*29.8%*	*10.4%*	*3.4%*	*4.3%*	*7.3%*
Unemployment Rate (%)	4.5	4.3	4.2	3.9	3.8	4.1	3.9

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 local economists at 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 Economic 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 Economic 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 2007 through 2009. 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 2007 - 2009

$ Thousands	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 2007 Actual	Fiscal Year 2008 Revised Estimate	Fiscal Year 2009 Estimate	Fiscal Year 2007 Actual	Fiscal Year 2008 Revised Estimate	Fiscal Year 2009 Estimate	Fiscal Year 2007 Actual	Fiscal Year 2008 Revised Estimate	Fiscal Year 2009 Estimate
INCOME TAXES									
Personal	6,679,168	7,035,060	7,431,594				6,679,168	7,035,060	7,431,594
Corporations	589,782	558,769	672,973	192,247	179,190	240,688	782,030	737,959	913,661
Total	7,268,950	7,593,829	8,104,567	192,247	179,190	240,688	7,461,197	7,773,019	8,345,255
SALES AND USE TAXES	3,420,149	3,735,208	4,260,155	27,689	138,796	363,352	3,447,838	3,874,004	4,623,507
STATE LOTTERY RECEIPTS	473,119	497,111	507,269	72,808	79,438	83,700	545,927	576,549	590,969
TRANSPORTATION REVENUES									
Motor Vehicle Fuel Tax	13,197	13,350		742,535	750,650	779,300	755,733	764,000	779,300
Motor Vehicle Licenses, Fees				609,387	622,495	664,100	609,387	622,495	664,100
Motor Vehicle Titling Tax				703,815	714,000	767,000	703,815	714,000	767,000
Maryland Transit Fees				123,122	122,000	124,000	123,122	122,000	124,000
Maryland Port Fees				94,499	98,000	100,000	94,499	98,000	100,000
Maryland Aviation Fees				151,620	168,000	182,000	151,620	168,000	182,000
Total	13,197	13,350		2,424,978	2,475,145	2,616,400	2,438,176	2,488,495	2,616,400
PROPERTY TAXES, FRANCHISES, ETC.									
State Real and Personal Property Tax				552,659	641,731	694,910	552,659	641,731	694,910
Property Transfer Tax				212,534	165,126	166,298	212,534	165,126	166,298
Business Franchises and Filing Fees	206,568	209,077	206,485				206,568	209,077	206,485
State Tobacco Tax	278,189	393,262	450,980				278,189	393,262	450,980
Tax on Insurance Companies	283,342	289,647	295,799				283,342	289,647	295,799
Alcoholic Beverages Excises	28,682	29,553	30,290				28,682	29,553	30,290
Death Taxes	224,341	202,987	213,029				224,341	202,987	213,029
Clerks of the Court	52,316	46,896	46,349				52,316	46,896	46,349
District Courts	97,026	99,036	101,096				97,026	99,036	101,096
Hospital Patient Recoveries	84,945	86,090	86,278				84,945	86,090	86,278
Interest on Investments	178,903	122,585	125,000		--- See Notes ---			--- See Notes ---	
Miscellaneous Fees, Other Receipts	330,499	313,812	315,843						
Total	1,764,812	1,792,945	1,871,149						
Total Current Revenues	12,940,228	13,632,443	14,743,140						
Extraordinary Revenues								--- See Notes ---	
GRAND TOTAL	12,940,228	13,632,443	14,743,140		--- See Notes ---				

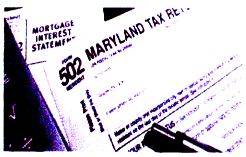
Notes: Includes all general fund revenues, all Transportation revenues and selected special fund taxes. In conjunction with Appendix B of the Fiscal Year 2009 Budget Book, this table will comprise the official estimate of total state revenues.

Table 4

Maryland General Fund Revenues

Fiscal Years 2005 - 2009

				FY 2008			
$ Thousands	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	Official Estimate	Revised Estimate	Difference	FY 2009 Estimate
INCOME TAXES:							
Personal	5,660,614	6,200,194	6,679,168	7,040,738	7,035,060	(5,678)	7,431,594
Corporation	512,237	623,224	589,782	598,083	558,769	(39,314)	672,973
Total	6,172,851	6,823,417	7,268,950	7,638,821	7,593,829	(44,992)	8,104,567
SALES AND USE TAXES	3,129,352	3,355,168	3,420,149	3,622,702	3,735,208	112,506	4,260,155
STATE LOTTERY	455,863	480,471	473,119	499,219	497,111	(2,108)	507,269
FRANCHISES, EXCISES, LICENSES, FEES:							
Business Franchise Taxes	197,907	196,235	206,568	200,478	209,077	8,599	206,485
Tax on Insurance Companies	268,912	274,901	283,342	293,295	289,647	(3,648)	295,799
Death Taxes	183,115	221,909	224,341	200,329	202,987	2,658	213,029
Tobacco Tax	276,044	280,306	278,189	288,296	393,262	104,966	450,980
Alcoholic Beverages Excise Tax	27,341	27,953	28,682	29,033	29,553	520	30,290
Motor Vehicle Fuel Tax	13,159	13,207	13,197	13,586	13,350	(236)	-
District Courts	87,408	91,281	97,026	106,863	99,036	(7,827)	101,096
Clerks of the Court	55,465	58,704	52,316	45,992	46,896	904	46,349
Hospital Patient Recoveries	85,139	85,777	84,945	84,936	86,090	1,154	86,278
Interest on Investments	64,397	162,493	178,903	95,000	122,585	27,585	125,000
Miscellaneous	377,713	298,081	330,499	318,729	313,812	(4,917)	315,843
Total	1,636,601	1,710,847	1,778,009	1,676,537	1,806,295	129,758	1,871,149
Total Current Revenues	11,394,669	12,369,903	12,940,228	13,437,279	13,632,443	195,163	14,743,140
Extraordinary Revenues	153,365	20,393					
GRAND TOTAL	11,548,033	12,390,296	12,940,228	13,437,279	13,632,443	195,163	14,743,140



Individual Income Tax

Maryland's individual income tax performed well in fiscal year 2007, although growth slowed from prior years. Income tax withholding, about three-quarters of gross collections, grew by 5.1%, a drop of three percentage points from 2006. Growth in Maryland wage and salary income slowed 0.7 percentage points to 5.3%; the remainder of the deceleration is attributable, anecdotally, to strong bonus and stock option activity in late calendar year 2005 that dissipated a year later. Estimated income tax payments increased 17.0% (the third consecutive year with growth of 17% or more), partly as a result of capital gains growth estimated to have been in excess of 10% in tax year 2006. Net collections increased 7.2%, resulting in general fund revenue growth of 7.7% as revenues reached almost $6.7 billion.

Growth in net collections has slowed in fiscal year 2008, to 4.9% for the first five months of the year. Estimated payments are only up 5.6% while final payments are down 4.4% and refunds are up over 22%—luckily, no conclusions about the full fiscal year can be drawn from year to date performance of the latter two components as the vast majority of final payments are received and refunds are paid out during the second half of the fiscal year. There are some positive signals–withholding has actually accelerated to 6.2% growth, and third quarter estimated payments, received in September and October, were 14.6% over the prior September.

Baseline Forecast

Before accounting for actions taken during the 2007 Special Session of the General Assembly, net collections in fiscal year 2008 are expected to grow 4.7%, slightly under the current rate of growth. As the economy slows over the coming year, withholding growth will average 5.2% over the rest of the fiscal year, finishing at 5.6%. As growth in capital gains slows to the low single-digits, estimated payments will continue at their markedly slower pace, ending the year 6.5% above fiscal year 2007 levels. Payments from fiduciaries are expected to remain strong, with growth in double-digits, but refunds are also expected to increase by almost 10%. Net collections are forecast to exceed $11.5 billion, but growth of 4.7% will be the weakest performance since fiscal year 2003.

In fiscal year 2009, income tax withholding is expected to accelerate only modestly to 5.8% while estimated payment growth will decelerate further to 5.4% as growth in capital gains remains in the low single digits. As the economy slows, more taxpayers will take advantage of the current year safe harbor provision, requiring payment only of 90% of the current tax year's liability rather than 110% of the prior years. Net collections are forecast to grow at 6.1% to $12.3 billion, largely as a result of slower growth in refunds and an acceleration in final payments.

General fund revenues are projected to increase 4.7% in 2008 to almost $7.0 billion. The discrepancy between the 5.4% growth rate of net collections and the 4.7% growth rate of general fund receipts results from an adjustment of the share of collections distributed to the local income tax reserve fund. This fund was underdistributed to (on an accounting basis only) by $72.8 million in fiscal year 2007. A larger share will therefore be distributed to the local reserve fund in fiscal year 2008 and 2009, resulting in slower growth for the general fund in fiscal year 2008. Baseline general fund receipts in fiscal year 2009 will grow at the same 6.1% as net receipts.

Special Session Adjustments

Senate Bill 2 made three substantial changes to Maryland's individual income tax. It instituted three new brackets at high levels of net taxable income, with rates of 5.0%, 5.25% and 5.5%. The bill increased the refundable earned income credit from 20% of the federal credit to 25%, and it also established variable personal exemptions based on federal adjusted gross income. The latter two changes reduce tax liability (in the aggregate in the case of the exemptions; high-income taxpayers will pay more), while the new brackets increase State revenue. The net impact in tax year 2008 is estimated at $33.4 million, as the $196.7 million estimated new revenue from the higher brackets is largely offset by a $124.9 million loss from the exemption changes and $38.5 million from the refundable earned income credit change. The net impact of the changes are forecast to grow about $12 million to $15 million annually.

On a fiscal year basis, the revenue impact in the first two years will be relatively minimal. It is expected that the effects of the new brackets will largely be seen in estimated payments since they will only affect high-income individuals; only one-third of a tax year's estimated payments are received in the first half of the year, fiscal year 2008 in this case. The impact of the exemption change, on the other hand, will mostly be seen in income tax withholding, which generally is received evenly throughout the calendar year. In 2008, however, it is expected that it will take some time for employers and individuals to fully adjust withholding, with the result that the fiscal year 2008 impact is only 25% of the tax year 2008 effect. Half of the $124.9 million loss will show up in withholding in the latter half of the year, while the remaining 25% will be paid out in refunds the following April (fiscal year 2009). Finally, the increase in the refundable earned income credit will have no effect in fiscal year 2008, as the tax year 2008 credits will also be claimed as higher refunds in April 2009.

As a result of these timing issues, general fund revenues are expected to increase by $33.7 million in fiscal year 2008 but only $6.5 million in fiscal year 2009 (as the remainder of the tax year 2008 exemption change is paid out in refunds). In fiscal year 2010, revenues will increase by an estimated $50.2 million, increasing by about $15 million annually thereafter. Accounting for the changes in Senate Bill 2, individual income tax revenues are expected to reach $7.035 billion in fiscal year 2008 (growth of 5.3%), increasing to $7.432 billion in fiscal year 2009 (growth of 5.6%). In fiscal year 2010, as the extra fiscal year 2009 refunds resulting from the withholding changes do not recur, growth increases to 7.1% as revenues are forecast to reach almost $8.0 billion.

Table 5

Individual Income Tax Revenues

Fiscal Years 2006-2009

($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Gross Receipts (State & Local)				
Withholding	9,255,246	9,710,470	10,222,553	10,656,055
Estimated Payments	1,484,608	1,736,947	1,914,176	2,150,127
Payments with Final Returns	1,320,098	1,484,307	1,583,640	133,198
Fiduciary	87,941	103,500	121,470	1,748,168
Gross Receipts	12,147,893	13,035,224	13,841,839	14,687,548
Refunds	(1,904,793)	(2,071,268)	(2,262,129)	(2,517,966)
Net Receipts (State & Local)	10,243,099	10,963,956	11,579,710	12,169,582
Local Reserve Account	(4,041,150)	(4,282,932)	(4,542,650)	(4,735,988)
Income Tax Check-offs	(1,756)	(1,857)	(2,000)	(2,000)
Net General Fund	6,200,194	6,679,168	7,035,060	7,431,594

Figures may not sum to totals due to rounding.

Corporate Income Tax

Corporate income tax revenues posted strong growth of 56% in fiscal year 2005 (boosted by the Delaware holding company settlement and addback) and 22% in 2006, but declined by 5.4% in fiscal year 2007 despite continued growth in corporate profits nationally. Gross receipts fell 2.2% last year, and refunds increased 14%. At this point in time last year, Maryland was one of the few states in the country experiencing declines in corporate income tax revenues. Over the past 12 months, however, more states have seen deteriorating corporate income tax revenues as the national economy has slowed and profit growth fallen to low single-digits.

Through the first five months in fiscal year 2008, gross receipts have reversed course, growing 1.8%. Refunds, however, have soared 81%, due in part to a small number of extraordinary refunds. Excluding those factors, however, refunds are still up about 50%. And, even excluding those factors, more refunds have been paid out in the first five months of this fiscal year than in any complete fiscal year in the past. An examination of tax return data from 2005 and 2006 suggests that this unprecedented growth in refunds is concentrated in the areas of banking, mortgage finance, and homebuilding–sectors that have all suffered financial reverses related to the widening housing downturn that started in mid-2006.

Baseline Forecast

Before accounting for actions taken during the 2007 Special Session of the General Assembly, gross receipts are expected to increase 8.2% in fiscal year 2008, reflecting the modest growth in corporate profits. The near-doubling of refunds, however, will result in a decline of net receipts, and general fund revenues, of 10.6%. In fiscal year 2009, with profits expected to continue modest growth, refunds are expected to decline since, aside from other factors, liability of housing-related sectors will have become a much smaller percentage of the total. Corporate income tax refunds are still expected to stay at very high levels, however–$200.5 million. But the $52.4 million drop in refunds, coupled with low growth in gross receipts, will result in growth in net receipts of 12.0%.

Special Session Adjustments

The corporate income tax rate was increased from 7% to 8.25% as a result of the special session, and the distribution of corporate revenues was adjusted, with a portion of the revenues dedicated to the Higher Education Investment Fund. Due to the fact that not all corporations' tax years start on January 1, gross receipts will not increase by a proportionate amount for several fiscal years. The rate increase will result in an increase of gross receipts of $44.5 million in fiscal year 2008 and $137.2 million in fiscal year 2009. Refunds will be essentially unaffected in the near term, as the refunds will be for tax years beginning before the rate increase. The changes to the distribution of corporate income tax revenues were intended to hold the Transportation Trust Fund harmless, which for all practical purposes they do. The new Higher Education Investment Fund is expected to receive $16.0 million in fiscal year 2008 and $54.3 million in 2009, while general fund revenues will be $31.8 million and $82.9 million higher than they would have been in the absence of the rate increase. With the boost from the rate increase, general fund revenues will decline 5.3% in fiscal year 2008 (rather than the 10.6% baseline decline).

With falling refunds and further support from the higher rate in fiscal year 2009, general fund revenues are forecast to increase 20.4%.

Table 6

Corporate Income Tax Revenues

Fiscal Years 2006-2009

($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Gross Receipts	940,952	919,854	990,883	1,114,141
Refunds	(120,921)	(137,825)	(252,924)	(200,480)
Net Receipts	820,031	782,029	737,959	913,661
Transportation Trust Fund	(196,807)	(186,247)	(163,190)	(186,350)
Electric Universal Service Fund		(6,000)		
Higher Education Investment Fund			(16,000)	(54,338)
Net General Fund	623,224	589,782	558,769	672,973

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 tax revenues, the second largest source of general fund revenue, grew very strongly from fiscal year 2004 to 2006, on average 7.5% a year. This growth was supported by the booming housing market–cash-out refinancing and home equity loans and the wealth effect supported by rapidly escalating home prices led to increased consumer spending, as did the usual purchases that follow the purchase of a home--appliances, furniture and more. The second largest segment of the sales tax, the construction component, experienced double-digit growth many months in this period, on occasion in excess of 20%. In fiscal year 2007, however, the bill came due, and total sales tax revenue grew by only 1.9% (about 2.6%, adjusted for several legislative changes). Increasing prices for energy, coupled with the effects of the housing market downturn, brought about the rapid deceleration. Construction-related revenue declined 5.1%, while revenues from consumer spending increased only 2.7%. Total sales tax revenues actually declined in two months in fiscal year 2007–not an unprecedented occurrence outside of a recession, but certainly unusual.

Growth has accelerated in fiscal year 2008, although it remains relatively low at 3.9% for the first five months of the year. Performance has been volatile, with baseline growth of about 5.7% in September (August sales), followed by 0.2% growth in October, and 5.7% growth in November. Revenues from construction continue to decline, down 2.3% for the year, while consumer-related revenues have accelerated a bit, to 3.9%.

Baseline Forecast

Before accounting for actions taken during the 2007 Special Session of the General Assembly, sales tax revenues are forecast to grow 2.9% in fiscal year 2008, while in 2009 improved economic conditions will bring baseline revenue growth back to the range expected in normal economic times, albeit at the low end of the range at 4.4%. The improved performance in fiscal year 2008 is a function of moderate improvement in revenue from consumer purchases and a smaller decline in construction-related revenues. Commercial construction has been carrying this segment as of late, but cannot compensate for all of the decline. Construction revenues are expected to moderate their decline in fiscal year 2008 to only 3.7%, and to show growth of 2.7% in fiscal year 2009. Revenue growth from the utility component (the tax applies to utility sales to commercial and industrial users, as well as cellular phone service) will moderate from double-digit growth in 2007 (and the two years prior) as competition in the cellular market brings prices down and as industrial and commercial purchasers of electricity and natural gas conserve due to high though relatively stable energy prices. Sales tax collections from capital goods will increase at low-single digit rates with the slow-growing economy.

Special Session Adjustments

The recent special session resulted in a number of changes for the sales tax. The sales tax rate will increase from 5% to 6% on January 3, 2008, and the amount that retailers are permitted to keep as compensation for costs incurred in collecting the tax will be capped at $500 per month. On July 1, computer services will become subject to the tax. The distribution of sales tax revenue will also be altered as of that date, with 55% of the revenue from the sales tax on short-term rental vehicles (at 11.5% for cars and 8.0% for trucks) distributed to the new Chesapeake Bay 2010 Trust Fund, and 6.5% of the remainder distributed to the Transportation Trust Fund. In addition, $110 million in fiscal year 2008 will be distributed to the State Police Helicopter Fund.

The increase in the rate to 6% is projected to raise revenues by $315.3 million in fiscal year 2008, and $685.9 million in fiscal year 2009, when it is effective for a full fiscal year. The cap on the vendor discount will result in an additional $10.8 million and $19.2 million. The sales tax on computer services is forecast to generate $214 million in fiscal year 2009. As a result of these changes, and the new distributions, general fund revenues are expected to increase 9.2% in 2008 and 14.1% in 2009, while the Transportation Trust Fund will receive an additional $296.2 and $311.3 million in fiscal years 2009 and 2010. In fiscal year 2010, when all of the changes will have been in effect for a full year, growth will effectively return to the baseline, at 5.1%.

Table 7

Sales and Use Tax Revenues

Fiscal Years 2006-2009

($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Consumer	2,225,066	2,285,296	2,591,323	2,967,144
Construction	559,279	530,606	558,063	624,900
Capital Goods	291,574	299,163	337,288	383,918
Utilities	294,608	325,196	378,538	424,366
Computer Services				214,000
Gross Collections	3,370,527	3,440,260	3,865,212	4,614,328
Assessments	23,259	16,233	17,695	18,476
Refunds	(12,091)	(8,655)	(8,904)	(9,297)
Transportation Trust Fund	(26,527)	(27,689)	(28,796)	(326,397)
Other[1]			(110,000)	(36,955)
Total General Fund	3,355,168	3,420,149	3,735,208	4,260,155

Figures may not sum to totals due to rounding.

[1] Includes the State Police Helicopter Replacement Fund in fiscal year 2008 and the Chesapeake Bay 2010 Fund in fiscal year 2009.

Lottery

Lottery sales reached $1.578 billion in fiscal year 2007, growth of 1.1%. After a very strong performance in 2006 as a result of a $315 million jackpot, Mega Millions sales declined 15.5% in 2007 despite the world's largest jackpot of $390 million. The jackpot rolled up to that level much more quickly than in the past, resulting in fewer drawings with a very large jackpot. Instant ticket sales (including Countdown to Millions) increased by 3.9%, the weakest performance since 1998, while the lottery's largest game, Keno (including Racetrax) grew by 6.0%. General fund revenue declined by 1.5% to $473.4 million, largely as a result of unusually large prize winnings for Pick 4 and the decline in Mega Millions sales.

Total sales are up 12.1% through the first five months of fiscal year 2008. Mega Millions and instant ticket sales are up enormously, 27% and 60% respectively. Instant ticket sales were flat for the first five months of fiscal year 2006, which partly explains the strong growth, but higher-value tickets and a new inventory management system have resulted in strong fundamental growth. Pick 3 and MultiMatch (a relatively small game) sales have declined year to date, and Pick 4 has grown only marginally. Racetrax is now in about 1,200 locations and is still being rolled out to as many locations as possible–there are currently over 2,100 Keno locations in the State. Maryland Hold 'em, a new game, will remain steady at about 100 locations as the lottery assesses the impact on Racetrax and Keno.

The strong growth in instant ticket sales is expected to continue through most of the year, with sales finishing the year at $515.3 million, growth of 19.4%–if this forecast holds, instant tickets will become the lottery's largest game in terms of sales. Keno/Racetrax sales are projected to finish fiscal year 2008 7.5% above last year's levels at $497.2 million, remaining the largest game in terms of net revenue–$138.3 million. Pick 3 is forecast to decline almost 4.0%, with revenues dropping almost 7.0% as prize payouts return to normal levels from last year's abnormally low levels. Mega Millions, sales of which depend entirely upon the size of jackpots and the number of draws with large jackpots, are expected to increase 22.2% to $120.0 million.

Total sales are expected to exceed $1.7 billion, growing 8.3% this fiscal year. As instant ticket sales and, to a lesser degree, Keno sales growth moderate, lottery sales are forecast to reach $1.75 billion in fiscal year 2009, growth of 2.8%. General fund revenues are forecast to grow by 5.1% to $497.1 million in fiscal year 2008, and by 2.0% to $507.3 million in 2009. Net revenues will increase 2.4% in 2009, but an increase in the revenues distributed to the Maryland Stadium Authority will affect general fund revenue growth.

Table 8

Lottery Sales and Revenues by Game

Fiscal Years 2006-2009

($ in millions)

	Sales				Revenues			
	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Pick 3	298.1	291.9	280.6	273.6	116.2	126.0	117.6	113.4
Pick 4	236.5	240.1	243.1	247.9	108.6	94.3	103.4	101.8
Lotto/ Multimatch	35.8	30.1	28.9	27.2	13.3	10.6	9.2	9.8
Instant/ Countdown to Millions	415.3	431.6	515.3	547.1	74.9	81.1	93.2	101.2
Keno/ Racetrax	436.5	462.5	497.2	522.1	131.6	133.0	138.3	149.9
Match 5	22.4	22.9	23.6	24.3	8.2	7.1	7.1	8.2
Mega Millions	116.3	98.2	120.0	114.0	48.3	41.9	49.9	46.9
Total	1,560.9	1,577.6	1,708.7	1,756.2	501.0	494.1	518.6	531.3
Less Stadium Authority Revenue					20.5	21.0	21.5	24.0
General Fund Revenue					480.5	473.1	497.1	507.3

Figures may not sum to totals due to rounding.

Note: Special fund revenues (the Lottery Agency's operating expenses) of $54.6 million in 2006 and $51.8 million in 2007 are not included in this table; these revenues, generally proportional to sales by game, are expected to be $57.9 million in 2008 and $59.7 in 2009.

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 0.5% annually, although growth has been somewhat restricted by increasing use of the Maryland-mined coal tax credit. Starting in tax year 2007, that credit is limited to $9 million in total per year through 2010, at which point the cap drops to $6 million. Roughly $14 million of credits have been claimed annually–the cap will result in a roughly $5 million increase in fiscal year 2008 revenues. Baseline growth, however, is expected to remain in low single digits, particularly as the high cost of energy is encouraging conservation.

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 (which is exempt from the franchise tax) 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 increase by 0.9% to reach $134.0 million in fiscal year 2008, and are forecast to decline by 3.3% to $129.6 million in fiscal year 2009.

Filing fees are collected from corporate and most non-corporate entities. These revenues grew by 3.4% in fiscal year 2007. Growth in these fees will slow to about 2.3% in fiscal years 2008 and 2009. The financial institution franchise tax was fully repealed in tax year 2001; minuscule residual revenues are expected for several more years. But in fiscal year 2007, audit activity for prior periods resulted in the collection of about $500,000.

Table 9
Business Franchise Tax Revenues
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Public Service Company Franchise Tax	125,154	132,789	134,028	129,635
Filing Fees	69,921	73,290	75,049	76,850
Financial Institution Franchise Tax	1,160	489	0	0
Total	196,235	206,568	209,077	206,485

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 premiums. Growth in premiums have been falling in the past few years primarily because insurers are now in a very strong financial position. Industry performance is still expected to continue to be strong under the current economic conditions 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 $283.3 million in 2007, an increase of 3.1% over 2006. Revenues are forecast to grow at a rate of 2.3% to $289.7 million in fiscal year 2008 and at a rate of 2.1% in 2009 to $295.8 million.

Table 10
Insurance Premium Tax Revenues
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Premium Tax	274,901	283,342	289,674	295,799

Death Taxes

Death tax revenues are one of the State's most volatile revenue sources, as they depend on the number of individuals who die each year and the value of their estates. The presence or absence of just a few large estates can cause swings of millions of dollars from one year to the next. In fiscal year 2002, for example, 24 payments over $1 million were made, totaling almost $63 million. The following year, only 14 such payments were received, and the aggregate value fell to $35 million. In 2004, two dozen large payments were again remitted, but the total was only $48 million.

Through the first five months of fiscal year 2007, one dozen estate tax payments in excess of $1 million were made, worth $38.0 million, and an additional dozen payments over $500,000 were made, totaling $8.2 million. Although eight more payments of over $500,000 were received this year than the first five months of last year, total receipts from large estates have fallen almost 27%. Payments from small estates (from an estate tax perspective), those under $500,000, have increased about $9 million, and the number of small payments exceeds the previous record (2002) by 15%. Based on the year to date performance, estate tax revenues are forecast at $149.3 million in fiscal year 2008, increasing to $157.5 million in fiscal year 2009. Revenue expected from large estates (liabilities over $500,000) in both years of the forecast is projected at less than the amount received in the past three fiscal years. Almost literally overnight, those amounts could be achieved.

Inheritance tax revenue is almost entirely from the collateral inheritance tax, as the direct inheritance tax has been repealed. The collateral tax is a 10% tax applied to bequests to anyone other than lineal relatives and siblings of the decedent. Revenues declined 5.1% in fiscal year 2007 after two years of relatively strong growth. Year to date, however, growth is 21.4%. Receipts are expected to moderate through the remainder of the year, finishing at $53.5 million, a still respectable 12.6% growth. In fiscal year 2009, a return to long-term trends is expected, with growth of 3.5% bringing revenues to $55.4 million. Residual revenues from the direct inheritance tax, which was repealed in 2000, will continue at a very low level for some time to come. Revenues of $210,000 and $180,000 are expected in fiscal years 2008 and 2009.

Table 11
Death Tax Revenues
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Collateral Inheritance Tax	50,031	47,478	53,481	55,353
Direct Inheritance Tax	375	297	210	180
Estate Tax	171,503	176,565	149,296	157,496
Total	221,909	224,341	202,987	213,029

Figures may not sum to totals due to rounding

Alcohol and Tobacco Excise Taxes

Tobacco revenues were down 0.7% in fiscal year 2007. After two years of growth, cigarette tax revenues reverted to their long-term trend of decline, falling 0.9% to $269.1 million. Other tobacco products revenue increased by only 4.0% in 2007, far below the previous five-year average of 8.5%, to just over $9 million. Through the first part of fiscal year 2008, tobacco revenues are down 2.7% compared to 2007, but revenue from other tobacco products has grown above the long-term average at 9.0%.

A trend decline of 1.1% in revenue from the cigarette tax is expected in fiscal year 2008, although the tax was increased from $1 per pack to $2 per pack by the General Assembly at the 2007 Special Session, effective January 1, 2008. The higher price will cause a steeper sales decline, but revenues are expected to increase to $383.6 million, including an estimated $23.0 million in floor (inventory) tax. In fiscal year 2009, when the higher tax rate is effective for the full year, revenues will increase to $440.6 million, although sales will continue to decline. Revenue from other tobacco products is forecast to grow at 7.3% annually.

Revenues from the alcohol excise taxes increased by 2.6% in fiscal year 2007, slightly above the 2.4% average annual growth for the past five years. Distilled spirits revenue grew at 3.7%, very close to the 3.8% rate of fiscal year 2006. Revenue from beer sales was flat for the third consecutive year, while wine revenues sparkled with revenues growing 4.8% in 2007 after weak 1.2% in 2006. Total revenues reached $28.7 million. For the first four months of fiscal year 2008 revenues from wine have increased by 4.4% while beer revenues have accelerated to 3.0% growth. Revenue from spirits have increased only 2.3%. Year to date revenues are up 2.9%. Total revenues from the alcohol tax are forecast to increase 3.0% to $29.6 million in fiscal year 2008 and 2.5% to $30.3 million in 2009.

Table 12

Excise Tax Revenues

Fiscal Years 2006-2009

($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Cigarette Tax[1]	271,598	269,135	383,550	440,559
Other Tobacco Products Tax	8,708	9,054	9,712	10,421
Total Tobacco Taxes	280,306	278,189	393,262	450,980
Distilled Spirits Tax	13,664	14,165	14,608	15,065
Wine Tax	4,864	5,101	5,294	5,495
Beer Tax	9,425	9,416	9,651	9,730
Total Alcoholic Beverages Tax	27,953	28,682	29,553	30,290

Figures may not sum to totals due to rounding

[1] Includes floor (inventory) tax of $23.0 million.

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 $84.9 million was received in fiscal year 2007, a 1.0% decrease from the prior year. The lower receipts in 2007 result from two factors: fewer Medicaid-billable days attributable to an expected smaller number of individuals as 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 did 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 expected to contribute to growth of 1.3% as revenues rise to $86.1 million in fiscal year 2008. Revenues are expected to be flat in fiscal year 2009.

Table 13
Hospital Patient Recoveries
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Medicaid	51,648	49,650	50,350	50,880
Medicare	4,513	4,995	5,006	5,017
Insurance and Sponsors	5,882	6,540	6,462	6,364
	62,043	61,185	61,818	62,261
Disproportionate Share	23,734	23,761	24,272	24,017
Total	85,777	84,945	86,090	86,278

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. District Court revenues are expected to continue their long-term trend of modest increases.

Revenues from the clerks of court are derived largely from recordation-related activity, although about $8.5 million annually is received from a variety of court fees. The booming housing market, which resulted in 2005 home sales 43% above 2000 levels and a near-doubling in the median home price over that period, led to an increase in revenue from the clerks of court of more than 50% from fiscal year 2000 to fiscal year 2006. With the housing market deflating, revenues from the clerks declined 10.9% in fiscal year 2007. Declines will continue through fiscal year 2008 and into 2009 as the housing market reaches its lowest ebb. In fiscal year 2008, revenues will decline 10.4% to $46.9 million, with a modest decline of 1.2% expected in fiscal year 2009.

Table 14
General Fund Court Revenues
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
District Courts	91,281	97,026	99,036	101,096
Clerks of the Court	58,704	52,316	46,896	46,349

Interest Earnings

General fund interest earnings grew 10.1% in fiscal year 2007 as the State's balances were very high and revenue growth was strong. Interest rates have fallen in the first five months of fiscal year 2008 and are projected to remain low through the beginning of fiscal year 2009. While the State's balances were drawn down through the first half of fiscal year 2008, revenue actions coming out of the General Assembly's 2007 Special Session will build balances back up over the course of the year. In fiscal year 2008, interest earnings are forecast to decline by 31.5% to $122.6 million. A full fiscal year of higher revenues and rising interest rates in fiscal year 2009 are expected to result in a small increase in interest income to $125.0 million.

Table 15
Interest Earnings
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Interest Earnings	162,493	178,903	122,585	125,000

Miscellaneous Revenues

The general fund receives revenue from 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.

Miscellaneous revenues declined 6.1% in fiscal year 2007 to $166.2 million. They are forecast to increase 17.7% in 2008 to $195.7 million, largely as a result of higher collections from unclaimed property, and will grow modestly in 2009 to $197.0 million. Action taken by the General Assembly at the 2007 Special Session redirected from the general fund revenue from transportation filing fees and license tags, starting in fiscal year 2009, and a State admissions and amusement tax was instituted on electronic bingo and tip jars, effective January 3, 2008. These actions will increase general fund revenues by an estimated $2.5 million in fiscal year 2008, and will result in a general fund revenue loss of about $4 million in fiscal year 2009.

Table 16
Miscellaneous Revenues
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Recording, Organization & Capitalization Fees	10,940	10,923	12,060	12,060
Transportation - Filing Fees & License Tags	9,718	9,807	9,505	0
Excess Fees of Office	5,503	5,462	5,500	5,500
Unclaimed Property	72,336	69,792	80,000	80,000
Local Income Tax Reimbursement	13,090	11,484	10,004	11,251
Uninsured Motorist Penalty Fees	56,459	67,254	66,123	73,215
State Admissions & Amusement Tax	0	0	2,500	5,000
Miscellaneous Revenues and Transfers	8,981	(8,505)	10,000	10,000
Total	177,027	166,218	195,692	197,026

Figures may not sum to totals due to rounding.

Miscellaneous Agency Revenues

Many agencies whose primary purpose is not revenue collection do in fact collect some general fund revenue. 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 2007, revenues took a large jump of 36% to $164.3 million. The one-time occurrences that led to this increase are not expected to repeat; revenues for fiscal years 2008 and 2009 are forecast to decline to more normal levels. Miscellaneous agency revenues for 2008 are forecast at $118.1 million, and 2009 at $118.8 million.

Table 17
Miscellaneous Agency Revenues
Fiscal Years 2006-2009
($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
PSC Fines, Citations and Filing Fees	306	160	171	161
Legislature	225	235	230	230
Workers' Compensation	54	53	54	54
Public Defender	1,529	1,496	1,500	1,500
Attorney General	20,534	24,163	21,604	21,604
Executive & Administrative Control	5,901	10,363	4,842	5,223
Financial & Revenue Administration	8,072	19,432	6,750	5,750
Budget & Fiscal Administration	558	3,410	1,147	844
General Services	613	2,127	200	100
Natural Resources	281	594	145	145
Agriculture	89	110	115	74
Health & Mental Hygiene	18,298	35,499	23,647	23,847
Human Resources	314	367	931	931
Labor, Licensing & Regulation	18,846	12,781	9,778	10,430
Public Safety & MD State Police	11,845	11,444	10,516	10,516
Public Education	29,785	32,741	33,797	34,585
Housing and Community Development	1,196	871	1,050	1,082
Business & Economic Development	273	6,017	0	0
Environment	807	1,306	631	728
Juvenile Services	469	25	15	15
Alcoholic Beverage Licenses	1,058	1,085	1,000	1,000
Total	121,054	164,282	118,120	118,817

Figures may not sum to totals due to rounding.

Transportation Revenues

Titling tax revenues have been essentially flat for four consecutive years, and, prior to actions taken by the General Assembly at the 2007 Special Session, were expected to decline in fiscal year 2008. 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. As a result of the Special Session, the titling tax rate will increase from 5% to 6%, effective January 1, 2008, although the attendant revenue increase will be mitigated by a new trade-in allowance. These two changes are expected to result in a 1.4% increase in titling tax revenues in fiscal year 2008 to $714.0 million. As the economy improves in fiscal year 2009, revenues are projected to increase 7.4% to $767.0 million.

Gasoline prices remained high throughout fiscal year 2007; motor fuel tax revenues declined slightly, after two years of growth under 1.0%. Low growth is forecast for 2008 as well, picking up slightly in 2009 as the economy revives. Fuel tax revenues are expected to increase 1.1% in 2008 and 2.0% in 2009. The Transportation Trust Fund receives a variety of other revenues, including license and registration fees, emissions inspection fees, and others. Portions of some of these revenue sources, along with a small part of the motor fuel tax, have been distributed to the general fund. Action taken at the 2007 Special Session results in a redirection of almost all transportation-related revenue from the general fund, generally to the Transportation Trust Fund.

Table 18

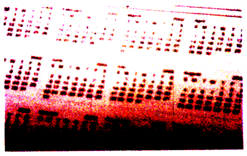
Maryland Motor Vehicle User Revenues

Fiscal Years 2006-2009

($ in thousands)

	2006 Actual	2007 Actual	2008 Revised Estimate	2009 Estimate
Motor Vehicle Administration				
Registrations	360,981	372,498	367,400	380,300
Licenses	38,132	38,157	43,700	45,300
Med-Evac Surcharge	52,687	50,980	52,500	52,250
Trauma Physician Services Surcharge	11,688	11,586	11,900	11,850
Miscellaneous Motor Vehicle Fees	103,171	113,161	124,100	141,000
Vehicle Emission Inspection Fees	6,710	7,440	7,700	7,800
Security Interest Filing Fees				
Special Funds	3,488	3,463	3,390	11,600
General Funds	5,232	5,194	5,085	
General Funds - Baltimore City	2,907	2,886	2,825	
Hauling Fees	10,071	10,475	10,000	10,500
Special License Tags				
Special Funds	380	380	380	3,500
General Funds	1,579	1,717	1,595	
DOT	520	386	525	
Chesapeake Bay/Ag Tags - MDOT	892	859	900	
Titling Tax	719,206	703,815	714,000	767,000
Sales Tax on Rental Vehicles				
MDOT-Rental Vehicles	26,527	27,689	28,796	30,236
6.5% Sales Tax Distribution	0	0	0	296,161
	1,344,171	1,350,686	1,374,796	1,757,497
Motor Vehicle Fuel Tax	740,560	741,158	749,300	764,300
Road Tax	17,206	14,453	14,700	15,000
Decals	134	122	0	0
	757,900	755,733	764,000	779,300
Total	2,102,071	2,106,421	2,138,796	2,536,797

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 experience a period of very slow growth through 2008 as the broad economic effects of the housing market decline are worked through. As the economy revives and the recent legislative changes take effect for a full year, general fund revenues will grow strongly in 2009. Revenues are expected to increase about 5.8% in 2010, but growth around 5.0% is expected in the years beyond.

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 are expected to grow very modestly after the very strong performance leading up to 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	2005	2006	2007	2008	2009	2010	2011
U.S. GDP (billion $ 00 chained)	11,065	11,370	11,618	11,659	12,189	12,519	12,826
% change	*3.0%*	*2.8%*	*2.2%*	*2.1%*	*2.8%*	*2.7%*	*2.5%*
U.S. Total Non-Farm Employment (millions)	133,696	136,175	137,992	139,163	140,881	142,707	144,442
% change	*1.7%*	*1.9%*	*1.3%*	*0.8%*	*1.2%*	*1.3%*	*1.2%*
U.S. Personal Income (billion $)	10,301	10,983	11,701	12,273	12,881	13,557	14,263
% change	*5.9%*	*6.6%*	*6.5%*	*4.9%*	*5.0%*	*5.2%*	*5.1%*
CPI - % Change	3.4%	3.2%	2.9%	2.0%	1.6%	1.9%	1.8%
U.S. 10-Year Treasury Bond Yield	4.3%	4.8%	4.7%	4.5%	5.0%	5.3%	5.3%
MD Total Non-Farm Employment (millions)	2,556	2,588	2,608	2,627	2,666	2,711	2,752
% change	*1.5%*	*1.2%*	*0.8%*	*0.7%*	*1.5%*	*1.7%*	*1.5%*
MD Total Personal Income (million $)	232,457	245,821	260,079	273,343	288,376	304,814	321,274
% change	*5.7%*	*5.7%*	*5.8%*	*5.1%*	*5.5%*	*5.7%*	*5.4%*

Table 20

Maryland General Fund Revenues

Fiscal Years 2007-2013

($ in thousands)

	2007 Actual	2008 Estimate	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate	2013 Estimate
Income Taxes							
Individual	6,679,168	7,035,060	7,431,594	7,960,114	8,454,442	8,976,919	9,488,603
Corporation	589,782	558,769	672,973	746,526	762,113	779,504	810,684
TOTAL	7,268,950	7,593,829	8,104,567	8,706,640	9,216,554	9,756,423	10,299,287
Sales and Use Taxes	3,420,149	3,735,208	4,260,155	4,477,930	4,680,721	4,884,001	5,099,266
State Lottery	473,119	497,111	507,269	519,951	532,949	546,273	559,930
Franchise, Excise, License, Fee	1,778,009	1,806,295	1,871,149	1,887,301	1,924,833	1,972,515	2,014,418
TOTAL CURRENT REVENUES	12,940,228	13,632,443	14,743,140	15,591,822	16,355,058	17,159,212	17,972,901

Figures may not sum to totals due to rounding.

2007 Special Session

To address the State's structural budget deficit, with an impending general fund shortfall well in excess of $1 billion for fiscal year 2009, Governor O'Malley called the General Assembly into a special session in October, 2007. The Governor proposed a number of substantial changes to Maryland's revenues, including an increase in the sales tax rate from 5% to 6% and an increase in the cigarette tax from $1.00 per pack to $2.00 per pack, both to be effective in January 2008. The Governor also proposed several new individual income tax brackets, with a top marginal rate of 6.5% for those with net taxable income over $500,000, an increase in the corporate income tax rate from 7% to 8%, combined reporting for the corporate income tax, an expansion of the sales tax base to several services, and slot machines at certain locations, among other recommendations. In order to lessen the impact on low-income residents, the Governor proposed increasing the State refundable earned income credit, expanding the lower income tax brackets, creating an additional refundable $50 credit for those with income under $30,000, and several other changes.

The General Assembly modified many of the Governor's proposals, although the outcome was largely as proposed. The most significant departures from the Governor's plan include the following:

- The individual income tax brackets are unchanged from currrent law for single individuals with taxable incomes below $150,000 and married couples with taxable incomes below $200,000;

- The top marginal income tax rate is 5.5% rather than 6.5%;

- Personal exemptions are increased from $2,400 to $3,200 for single individuals with federal adjusted gross income (FAGI) under $100,000 and married couples with FAGI under $150,000, and the refundable $50 credit was not enacted;

- Computer services are subject to the sales tax, effective July 1, 2008, and the services proposed to be made taxable by the Governor were not;

- Combined reporting for corporations was not enacted; and

- The issue of slot machines will be sent to the voters for referendum in November 2008.

The table below shows the revenue effects of the changes enacted by the General Assembly and signed into law by the Governor as estimated by the Department of Legislative Services during the special session, and as estimated by the Board of Revenue Estimates. Altogether, these actions will increase general fund revenues by an estimated $403.1 million in fiscal year 2008 and $836.9 million in fiscal year 2009. In addition, Transportation Trust Fund revenues will now be several hundred million dollars higher annually, about $70 million will be dedicated to the Higher Education Investment Fund over the next two years, $110 million will be used to replace helicopters for the Maryland State Police, and tens of millions of dollars will be generated for the Chesapeake Bay 2010 Fund.

Impact of Special Session Law Changes on General Fund Revenues

$ Millions	From DLS Fiscal Notes					From BRE December Estimates					Difference ($ in millions)				
Law Change	FY 08	FY 09	FY 10	FY 11	FY 12	FY 08	FY 09	FY 10	FY 11	FY 12	FY 08	FY 09	FY 10	FY 11	FY 12
Individual Income Tax															
New rates and brackets	91.6	197.0	209.0	220.6	232.3	64.9	201.6	217.0	233.6	250.7	(26.7)	4.6	8.0	13.0	18.4
Higher exemption amounts with phaseouts	(62.1)	(130.4)	(132.0)	(133.1)	(134.3)	(31.2)	(156.7)	(126.7)	(127.9)	(129.0)	30.9	(26.3)	5.3	5.2	5.3
Earned income credit raised from 20% to 25%		(38.5)	(40.2)	(39.8)	(41.9)		(38.5)	(40.2)	(39.8)	(41.9)	-	-	-	-	-
Licensing Clearances for Lawyers		1.0	1.5	1.5	1.5		1.0	1.5	1.5	1.5	-	-	-	-	-
General Fund	29.5	29.1	38.3	49.2	57.6	33.7	7.5	51.7	67.4	81.3	4.2	(21.6)	13.4	18.2	23.7
Corporate Income Tax															
Rate raised from 7% to 8.25%	40.5	140.1	146.5	146.9	143.7	44.5	137.2	139.9	143.5	149.1	4.0	(2.9)	(6.6)	(3.4)	5.4
New distributions of net receipts:															
Higher Education Investment Fund	(16.0)	(55.5)	(58.0)	(58.2)	(56.9)	(16.0)	(54.3)					1.2	58.0	58.2	56.9
Change to TTF distribution	-	-	-	-	-	3.2	-	0.5	0.3	(0.2)	3.2	-	0.5	0.3	(0.2)
General Fund	24.5	84.6	88.5	88.7	86.8	31.7	82.9	140.4	143.8	148.9	7.2	(1.7)	51.9	55.1	62.1
Sales and Use Tax															
Rate increased from 5% to 6%	315.2	687.2	724.9	761.9	800.6	315.3	685.9	721.6	756.4	793.3	0.1	(1.3)	(3.3)	(5.5)	(7.3)
Tax computer services		214.0	220.4	227.0	233.8		214.0	220.4	227.0	233.8	-	-	-	-	-
Offset for new distribution to TTF		(13.9)	(14.3)	(14.8)	(15.2)						-	13.9	14.3	14.8	15.2
Tax-free holidays				(9.6)	(10.1)				(9.6)	(10.1)	-	-	-	-	-
Offset for new distribution to TTF				0.6	0.7						-	-	-	(0.6)	(0.7)
Cap vendor credit for timely filed returns	7.1	14.8	15.2	15.6		10.8	19.2	20.4	21.5		3.7	4.4	5.2	5.9	-
Offset for new distribution to TTF		(1.0)	(1.0)	(1.0)							-	1.0	1.0	1.0	-
New distributions of net receipts:															
Helicopter replacement	(110.0)					(110.0)						-	-	-	-
55% of rental car tax to Chesapeake Bay 2010		(36.6)	(38.1)	(39.6)	(41.2)		(37.0)	(38.8)	(40.7)	(42.8)	-	(0.4)	(0.7)	(1.1)	(1.6)
TTF (DLS fiscal note includes rate increase only; BRE number includes all effects of new distribution)		(281.5)	(297.0)	(312.1)	(327.9)		(296.2)	(311.3)	(325.4)	(341.0)	-	(14.7)	(14.3)	(13.3)	(13.1)
General Fund	212.3	583.0	610.1	628.0	640.7	216.1	585.9	612.3	629.2	633.2	3.8	2.9	2.2	1.2	(7.5)
Admissions and Amusement Tax															
New State tax on electronic bingo and tip jars	2.5	5.0	5.0	5.0	5.0	2.5	5.0	5.0	5.0	5.0	-	-	-	-	-
Tobacco Tax															
Rate increased from $1.00 to $2.00 per pack	98.1	162.2	156.9	151.6	146.5	119.1	179.0	177.0	175.1	173.2	21.0	16.8	20.1	23.5	26.7
Eliminate Distributions from Motor Vehicle Revenues to the General Fund															
From the MVFT for Chesapeake Bay-Related Programs		(13.7)	(13.9)	(14.1)	(14.3)		(13.6)	(13.8)	(14.0)	(14.2)		0.1	0.1	0.1	0.1
From special license plates and security interest filing fee revenues		(10.6)	(11.3)	(11.8)	(12.2)		(9.8)	(10.2)	(10.8)	(11.3)		0.8	1.1	1.0	0.9
General Fund		(24.3)	(25.2)	(25.9)	(26.5)		(23.4)	(24.0)	(24.8)	(25.5)		0.9	1.2	1.1	1.0
Total General Fund	366.9	839.6	873.6	896.6	910.1	403.1	836.9	962.4	995.7	1,016.0	36.2	(2.7)	88.8	99.1	105.9

Note: The distribution of corporate income tax to the Higher Education Investment Fund sunsets after fiscal year 2009, although SB 2 states that it is the intent of the General Assembly to adopt legislation in 2009 to continue the distribution if "affordable and fiscally prudent to do so." A continuation of the distribution is assumed in the fiscal note for SB 2, but not the Board's estimates.