Report of the

Maryland Board of Revenue Estimates

on

ESTIMATED MARYLAND REVENUES

FISCAL YEARS ENDING JUNE 30, 2009 AND JUNE 30, 2010

Submitted to

Martin O' Malley

Governor

December 16, 2008

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

Members

Peter Franchot
State Comptroller

Nancy K. Kopp
State Treasurer

T. Eloise Foster
Secretary, Department of
Budget and Management

Executive Secretary:
David F. Roose
Director, Bureau of
Revenue Estimates

December 16, 2008

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, 2009 and June 30, 2010, based upon current laws 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

Nancy K. Kopp

T. Eloise Foster

T. Eloise Foster

Telephone: 410-260-7450

Toll free: 1-888-674-0017 • Fax: 410-974-5221 • For the hearing impaired: Maryland Relay 711 • TTY 410-260-7157 • EOE

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

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

George P. Clancy, Jr.
Chevy Chase Bank

Joel Naroff
Commerce Bancorp

Gary Chackman
Chackman Financial Group

Jane Fairweather
Jane Fairweather Real Estate

Lou Baker
Pulte Homes

Bryant Foulger
Fougler-Pratt Companies

Will McCullough
Lincoln Property Company

Joesph Slater
Southern Md. Electric Cooperative

Betty Buck
Buck Distributing Company, Inc.

Scott Porter
Northrup Grumman

G. Hale Harrison
Harrison Group Hotels and Restaurants

Tom Saquella
MD Retailers Association

Laura Gamble
Maryland Bank of America

William J. McCarthy, Jr.
Sun Trust Bank

W. Moorehead Vermilye
Shore Bancshares, Inc.

Iona Harrison
MD Association of Realtors

Tom Earnest
Century 21 Comstock Earnest, Inc.

Clarence E. Horst
Coldwell Banker Residential Mortgage

Michael Owings
Homebuilders Association of Maryland

Robert A. Manekin
Manekin, LLC

Douglas Donatelli
First Potomac Realty Trust

Chuck Ferrar
Bay Ridge Wine and Spirits

Peter Kitzmiller
Maryland Automobile Dealers Association

Eddie Dopkin
Classic Catering/Miss Shirley's
Cafe/Alonso's

Telephone: 410-260-7450

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

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

David F. Roose
Director, Bureau of Revenue Estimates, Office of the Comptroller

James M. Arnie
Director, Revenue Administration Division, Office of the Comptroller

Bernadette T. Benik
Director of Operations, State Treasurer's Office

Matthew Caminiti
Revenue Analyst, **Bureau of Revenue Estimates, Office of the Comptroller**

Warren G. Deschenaux
Director, Office of Policy Analysis, Department of Legislative Services

George L. Freyman
Ass't to the Director, Revenue Administration Division, Office of the Comptroller

George Manev
Fiscal Planner, Department of Budget Management

Mary Christine Jackman
Director of Investments, State Treasurer's Office

Patricia Konrad
Director of Debt Management, State Treasurer's Office

James Loftus
Director, Compliance Division, Office of the Comptroller

Melissa Moye
Deputy Treasurer for Financial Policy, State Treasurer's Office

Marc Nicole
Deputy Director, Office of Budget Analysis,

Carol A. Novella
Assistant Director, Bureau of Revenue Estimates, Office of the Comptroller

Andrew Schaufele
Revenue Analyst, **Bureau of Revenue Estimates, Office of the Comptroller**

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: Maryland Relay 711 • TTY 410-260-7157 • EOE

Executive Summary

The national economy, sluggish through the first half of the year, deteriorated rapidly in the second half. Real gross domestic product declined for only the second time since 2001, almost 1.5 million jobs were lost, the unemployment rate reached a 14-year high, consumer confidence reached a record low, and retail sales declined at the fastest rate in more than 40 years. The proximate cause for the trouble is, of course, the collapsed housing bubble and its effects on the nation's and world's financial markets. Events continue to develop rapidly as decades-old mainstays of the economy collapse virtually overnight amid federal rescue plans measured in percentage points of gross domestic product. The national economy has been in recession for a year, with no end in sight. At this point, the consensus appears to be that the recession will rival the worst of the post-war period.

Maryland's economy has appeared to fare better, with employment growth as measured by the monthly payroll survey reported at 0.9% for the year. Less timely though more accurate measures, however, indicate that job growth was almost negligible for the first quarter, and there is every reason to believe that the situation has worsened over the intervening period. The construction, finance, and manufacturing industries have all lost jobs, and the retail industry is close behind. In recent weeks, a number of large Maryland employers have announced cutbacks, with more virtually certain to follow. Employment is expected to contract 0.2% in 2008, the first loss of jobs on an annual basis in Maryland since 1992.

The State's housing market shows no signs of turning around, with sales declining 28% in November and 28% for the year. The median sales price has declined almost 20% since the peak in June 2007, and the active inventory of homes for sale remains near an all-time high. Declining home values, high energy prices during the first half of the year, and other factors have caused increasingly jittery consumers to cut back on their spending—Maryland sales tax revenues have declined seven of ten months this calendar year, and light vehicle registrations have fallen 17.5% through September.

With the housing market still falling, consumer spending under pressure and business confidence faltering, the downturn will accelerate in the first half of 2009. Construction employment will be particularly hard hit, falling by double-digits over the course of the year, while finance, manufacturing and trade are also expected to show sizable declines. Most other industries are projected to contract, with only education and health services and government showing positive growth. As the national economy begins recovery in 2010, job losses will lessen, with only construction expected to fall by more than 2%. Total employment is forecast to be essentially flat for the year. Personal income is expected to finish 2008 at 3.9% growth, with wage and salary income growing a full percentage point more slowly. Growth of total income is forecast to slow to 1.7% in 2009, the lowest since 1954, while forecast wage and salary growth of 1.5% will be the weakest since 1991. Income growth will recover in 2010, only to levels reached during the 2001 recession.

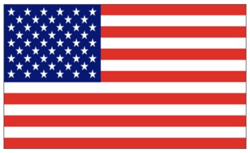
Revenues have grown at a recessionary pace for much of calendar year 2008, and deceleration is expected through the end of fiscal year 2009. The largest source of general fund revenue, the individual income tax, is expected to grow only 2.4% to $7.104 billion this year, slowing to 1.1% growth in 2010 as collections reach $7.181 billion. Withholding is projected to grow 0.8% in 2009 as employment falls, and estimated and final payments are both expected to decline with an estimated 45% drop in capital gains. Receipts will be boosted by an estimated $357.4 million in fiscal year 2009 from the new income tax brackets, with rates ranging from 5.0% to 6.25%. This increase will be offset by the increased personal exemption and the higher refundable earned income credit. In all, these changes will add an estimated $166.5 million to general fund revenues. Adjusting for these changes, baseline individual income tax receipts are expected to decline 0.1% in fiscal year 2009. Fiscal year 2010 baseline growth of 1.6% is expected, after accounting for the $123.9 million in additional revenue from these law changes.

Corporate income taxes will contribute an estimated $582.3 million to the general fund in fiscal year 2009, growth of 5.6%. Revenues will increase a further 6.1% in 2010 to $617.6 million. These figures mask underlying trends, however, as an increase in the corporate income tax rate from 7% to 8.25% coupled with a decline in refunds from record highs reached in fiscal year 2008 obscure the fact that baseline gross receipts are expected to decline 6.3% and 5.7% this year and next.

Sales tax revenues were the first to show weakness as the economy slowed, with baseline revenues declining 0.4% in fiscal year 2008. In fiscal year 2009, sales tax receipts are projected to fall 3.5% after adjusting for the rate increase from 5% to 6% and other law changes, with all major components of the sales tax declining except for receipts from utilities. Baseline revenues are projected to decline 0.1% in fiscal year 2010. Including the rate increase, new distributions and other changes, general fund sales tax revenues will grow 1.2% to $3.718 billion in 2009, but are forecast to decline 0.4% in 2010 to $3.702 billion.

Almost all other revenues are projected to decline in fiscal year 2009. Tobacco tax revenues are forecast to grow 11.5%, although that increase is entirely attributable to the $1.00 per pack tax increase fully effective for fiscal year 2009. In fiscal year 2010, most minor revenue sources will resume growth, with the notable exception of the estate tax, which is projected to fall 28% due to the receding equity markets and falling real estate values.

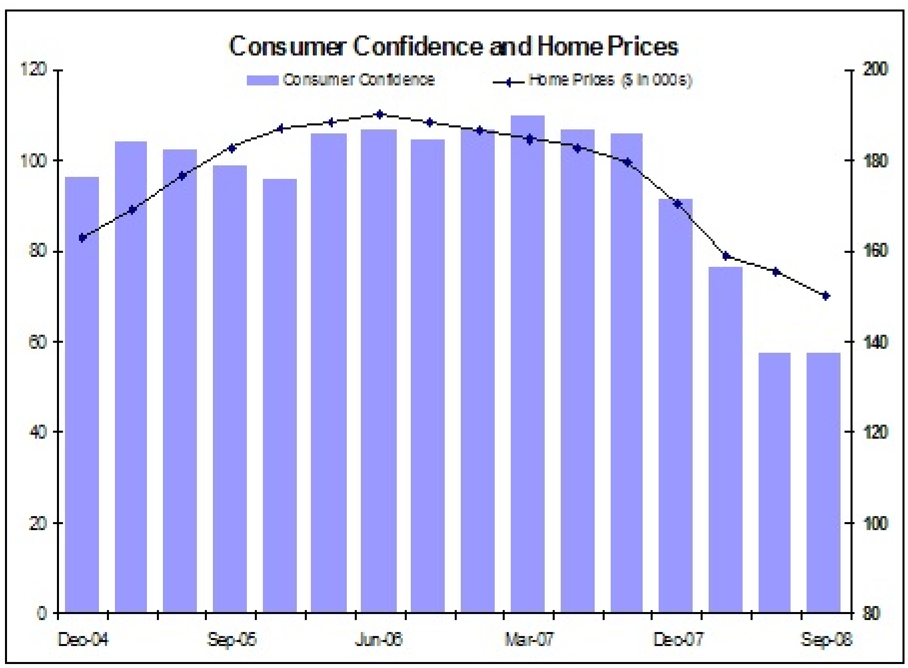
General fund revenues are forecast to increase 0.9% to $13.674 billion for fiscal year 2009, $415.3 million lower than the previous forecast. General fund revenue growth is expected to slow further to 0.5% in fiscal year 2010 as revenues reach $13.738 billion, $963.5 million lower than the previous forecast. Revenue growth in fiscal year 2009, however, is boosted by the tax changes enacted over the past year including new individual income tax brackets, a higher corporate income tax rate, an increase in the sales tax rate, and a doubling of the cigarette tax. Adjusting for these changes, baseline general fund revenues are projected to decline by 5.4% in fiscal year 2009, a decline that exceeds the 4.6% drop in actual revenue collections in fiscal year 2002. Baseline growth is forecast at 1.0% in 2010.



The U.S. Economy

During the second half of 2008, the U.S. economy has been devastated by a cascading series of events spurred by the housing bubble. The butterfly effect initiated by the collapsed housing market has spread through the financial markets and into the real economy, affecting almost every industry and, at this point, most individuals in the United States. The opaque, complex nature of mortgage-backed securities led to a crisis of confidence in financial institutions themselves, resulting in a staggering impact in equity markets. The major indices had declined about 20% for the year at the start of October; several days later, the NASDAQ had fallen over 50% for the year, and the S&P 500 and Dow Jones Industrial Average were not far behind. Many major economic indicators released in November and December have hit levels not seen in decades, if ever. The setbacks in financial markets and an emerging credit crunch encouraged the federal government to craft bailout packages designed to restore confidence and create liquidity in the market, although it appears any stimulative effect has yet to take hold. As it turns out, the economy had been floundering long before events of October made it apparent–on December 1, the National Bureau of Economic Research declared that the United States economy has been in a recession since the fourth quarter of 2007.

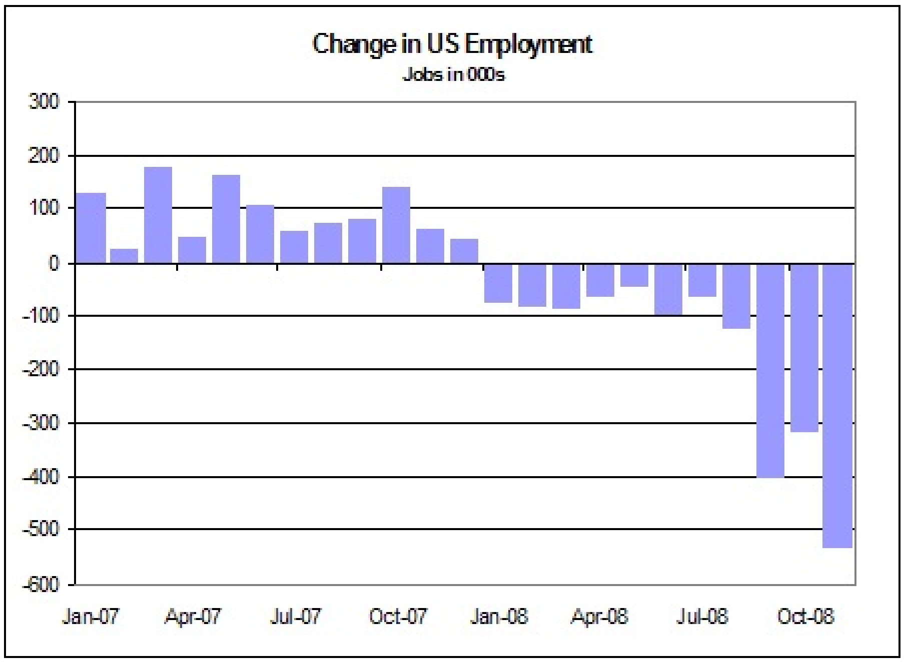
The impetus for the troubles–the housing market–has yet to improve. Although the active inventory of homes for sale has declined slightly, the 4.1 million homes for sale in October were almost twice as many as were for sale each month from 1999 through 2004. National median home prices fell 11.3% to $183,300 in October according to the National Association of Realtors, the largest decline since 1968 when the index began (the index peaked at $230,660 in October 2005). According to the S&P/Case Shiller Index, home values have retreated back to first quarter 2004 levels. Most economists agree that prices have yet to reach the market bottom. In the meantime, 449,000 homes were foreclosed on in the second quarter, 421,250 mortgages were 60 days delinquent, and 372,950 were 90 days delinquent.



Source: Conference Board, S&P/Case-Shiller Housing Price Index

While the crisis initially centered on real estate and then spread to the financial markets, it has in the last few months dramatically affected the real economy. Falling home values, halved stock portfolios, and worries of recession have had a major impact on consumers. Consumer confidence (as reported by the Conference Board) had been trending downward, and hit a record low in October. Chain store sales have been on a steady downward trend, and are now at year-ago levels. Vehicle sales hit 10.1 million units in November, with general economic worries compounded by possible bankruptcy of any or all of the Big 3. This level of sales is the lowest since the 1980s; all major automakers experienced at least 30% unit declines from last year. Consumption, roughly 70% of GDP, fell 3.7% in the third quarter.

As businesses witness the drawback of demand, they have cut production, capital investment, and employment. The Institute for Supply Management's manufacturing index had hovered between 48 and 50 for most of the last year, indicating neither growth nor contraction in manufacturing. The index declined in September, October and November, and now stands at 36.2, indicating a severe recession. Similarly, the ISM's nonmanufacturing index plunged from a stable level slightly above 50 to 44 in October and to 37 in November. Both indices are at levels not seen since the early 1980s. Around 100,000 jobs were lost each month from January through August, but employers reduced payrolls by 1,256,000 jobs the last three months. Initial claims for unemployment insurance were less than 400,000 through the first half of the year, but have steadily risen to 573,000 as of the first week of December, while continuing claims stand at 4.4 million after the largest one-week gain in over 30 years.



Source: Bureau of Labor Statistics

The deterioration in the economy, and in the economic outlook, has been as swift as it has been sharp. In mid-August, the Philadelphia Federal Reserve's Survey of Professional Forecasters indicated real gross domestic product (GDP) would grow by 0.7% in the fourth quarter–a 1.1 percentage point drop from the 1.8% forecast just three months prior. The risk of a negative fourth quarter was still thought to be less than 50%. Three months later, in the report released in mid-November, the forecast for real GDP growth in the fourth quarter was -2.9%, with the risk of a negative quarter more than 90%. The economy has continued to deteriorate more quickly than expected since mid-November; one indication is that the survey projected employment losses of 222,000 per month in the fourth quarter, but the number of jobs declined by 320,000 in October and 533,000 in November.

The federal government has taken several measures to curtail the spiraling crisis and attempt to provide a backstop. Congress approved a $700 billion package to aid the Treasury Department in providing liquidity to the financial markets. The Treasury created the Troubled

Assets Relief Program (TARP) to purchase distressed assets from financial institutions, freeing up capital. While it appears that TARP funding has more often been used by recipients to invest in the debt and equity of troubled financial organizations, it may have achieved its goal of stabilizing credit markets. In late November, the federal government pledged to purchase up to $600 billion of Fannie Mae and Freddie Mac debt and $200 billion to provide financing to investors buying securities backed by student loans, car loans, credit-card debt, and small business loans. The market reacted swiftly with a 50 basis point reduction in 30 year fixed mortgage rates. Further federal actions are possible, including a bailout of domestic automobile manufacturers and, under the new administration, substantial federal spending on infrastructure as an economic stimulus..

Real GDP is expected to decline into the second half of 2009, with a contraction of 1.8% for the full year. Job losses are expected to continue through the end of the year, with the unemployment rate exceeding 8% by that point. Housing will continue to pull growth down, and it remains unclear when the market will stabilize. Consumer spending will be roughly flat this year, and is expected to decline 0.5% next year. The substantial decline in gasoline prices will provide only modest support, and cannot outweigh the negatives. Capital spending is expected to fall by double-digits, and with the recession now global, exports are not likely to provide any relief. Despite a forecast that in most respects indicates the worst economic performance in at least several decades, the risks are almost entirely on the downside.

The outlook is, however, exceedingly uncertain at this juncture. Hundreds of billions of dollars have already been deployed to settle and then stimulate the economy, with promises of more on the way. While it has been several weeks since long-standing American institutions have gone under overnight, the troubles of General Motors, Ford, and Chrysler could conceivably set off another round of business failures. And other than falling gas prices, consumers have no reason for optimism and no reason to spend more, even if they have the ability. In just a few short months, reasonable observers have gone from debating whether or not the economy is in a recession to whether this recession will be the worst in the post-war era.

Table 1

Forecast of the U.S. Economy

Primary Indicators

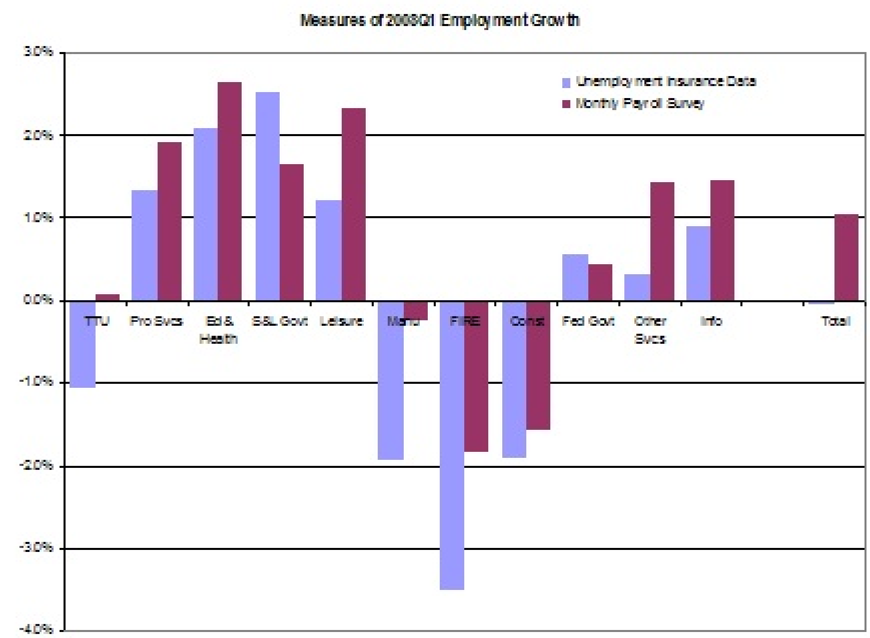
	2004	2005	2006	2007	2008	2009	2010
Real Gross Domestic Product ($ billions)	10,676	10,990	11,295	11,524	11,662	11,456	11,692
	3.6%	*2.9%*	*2.8%*	*2.0%*	*1.2%*	*-1.8%*	*2.1%*
Federal Funds Rate (%)	1.3	3.2	5.0	5.0	2.0	0.1	1.2
10-Year Treasury Bond Yield (%)	4.3	4.3	4.8	4.6	3.7	3.2	3.9
Consumer Price Index (%Δ from prior year)	2.7	3.4	3.2	2.9	3.8	-1.5	2.4
Housing Starts (thousands of units)	1,950	2,073	1,812	1,341	921	662	969
	5.2%	*6.3%*	*-12.6%*	*-26.0%*	*-31.3%*	*-28.1%*	*46.4%*
Light Vehicle Sales (thousands of units)	16,866	16,948	16,504	16,089	13,094	11,180	13,005
	1.3%	*0.5%*	*-2.6%*	*-2.5%*	*-18.6%*	*-14.6%*	*16.3%*
Corporate Profits Before Tax ($ in billions)	1,205	1,621	1,874	1,886	1,595	1,607	1,785
	32.7%	*34.5%*	*15.6%*	*0.7%*	*-15.4%*	*0.7%*	*11.1%*
Total Non-Agricultural Employment (thousands)	131,419	133,695	136,092	137,618	137,377	134,794	134,910
	1.1%	*1.7%*	*1.8%*	*1.1%*	*-0.2%*	*-1.9%*	*0.1%*
Unemployment Rate (%)	5.5	5.1	4.6	4.6	5.8	8.2	8.6
Total Personal Income ($ in billions)	9,727	10,270	10,994	11,663	12,122	12,315	12,632
	6.2%	*5.6%*	*7.1%*	*6.1%*	*3.9%*	*1.6%*	*2.6%*

Source: Global Insight, December 2008 forecast

The Maryland Economy

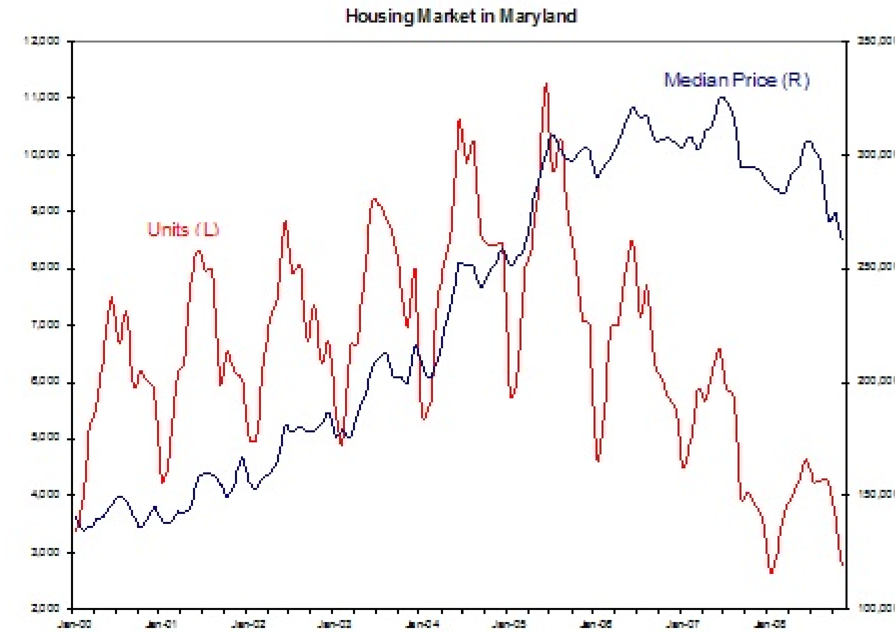
Economic growth in Maryland has all but ground to a halt and has now perhaps reversed, largely as a result of the sustained downturn in the housing market. Broad national trends, including the credit crunch, low consumer confidence and falling consumer spending, will continue to drag down the State's economy. Recent weeks have brought announcements of layoffs from companies with substantial Maryland connections–Legg Mason, PNC Bank, Solo Cup, Volvo, Circuit City, Bank of America and Constellation Energy plan on shedding more than 1,000 jobs in the State by mid-January. While the State's economy had seemed much more stable than the national economy throughout 2008, that stability may have been part illusion, and the remainder appears to be crumbling.

Maryland's economy appears to have been stagnant throughout 2008, after a relatively weak 2007. While monthly survey data from the Bureau of Labor Statistics indicate job growth of around 1% every month of this year, an acceleration over 2007's growth of 0.8%, other indicators suggest growth has been substantially slower. Data from unemployment insurance records, nearly a census of employment in the State, show growth of about 0.33% for the first quarter of the year. Initial claims for unemployment insurance have increased at 20% or more (year-over-year) every week but three since the beginning of March, and nearly doubled in the last week of October. Continuing claims for unemployment insurance are nearing the highest level on record, almost 62,000 in early 2003. The unemployment rate has jumped from 3.6% to 5.0% in just six months, reaching the highest level in over 12 years.



Even the stronger payroll survey data show substantial acceleration in 2008 for only a few industries–professional and business services, leisure and hospitality services, and the federal government. But a comparison of first quarter data with the unemployment insurance records shows the survey data likely overstate growth for all industries save two–state and local government and the federal government. Three industries are unambiguously declining, though none are a surprise. Manufacturing, construction, and finance and real estate services all declined by about 2% or more in the first quarter according to the unemployment insurance data. Particularly given the events of late summer through early October, there is no reason to expect that performance of these particular industries has improved since the first quarter.

On a year-over-year basis, sales of existing homes have fallen virtually every month since October of 2005—37 of 38 months. Growth in the median sales price has generally decelerated for even longer, since early 2005, and prices have declined every month since August 2007. The inventory to sales ratio currently stands at 17.4, up strongly from 1.6 just a little over three years ago. All indications are that the Maryland housing market has further to fall. Until the market bottom, housing-related industries–construction, finance, and real estate, among others–are unlikely to see a resumption of consistent growth.



Source: Maryland Association of Realtors

Consumer spending and the retail sector are also unlikely to see a resumption of growth until the housing market bottom, if not later. Just as the runup in housing prices provided support for consumer spending through the wealth effect (as well as through the simple extraction of equity), falling housing prices will reverse the effect. And that impact will be exacerbated by the 40% decline in stock prices. Estimates of the negative wealth effect are around 5% over two years–that is, for every dollar of wealth lost, spending falls by five cents over the next two years. All segments of the economy dependent on consumer spending, including retail, transportation, and leisure services and, more broadly, manufacturing and government, are thus in store for an extended period of difficulty.

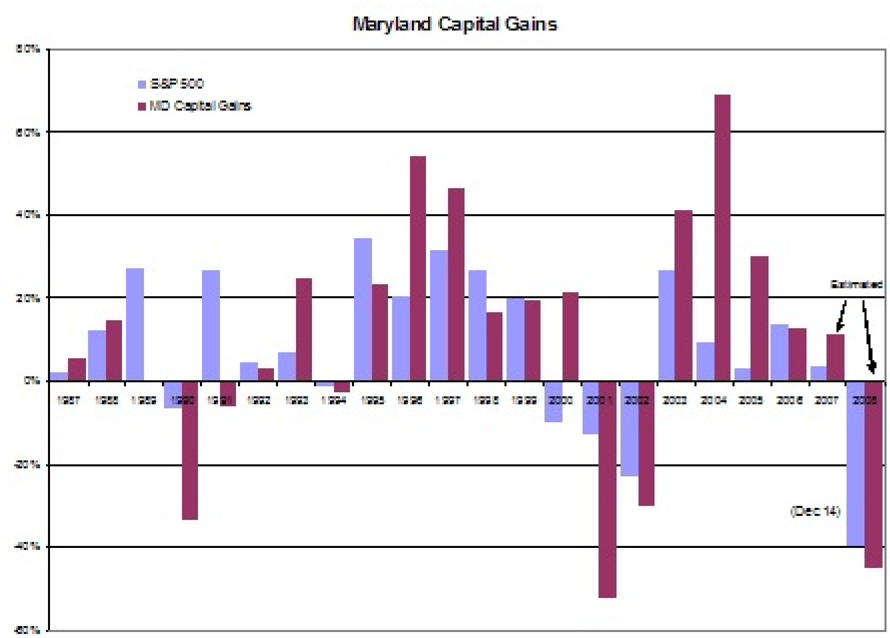
A number of retailers with a heavy presence in Maryland had cut back even before the most recent economic difficulties, including Boscov's, which closed three department stores, and Best Buy, which shut down a 100-employee repair center in Elkridge. More recently, Circuit City announced it is closing at least one Maryland store after filing for bankruptcy in early November. The slowdown in consumer spending even threatens the existence of the nation's second-oldest Chevrolet dealership, Bell Motor Co. in Leonardtown. The Maryland Retailers Association is expecting a decline in holiday sales this year for the first time in 23 years. Particularly with tightened lending standards and the weakening labor market putting pressure on consumer spending, the recovery of the housing market is crucial to a resumption of consumer spending in the State.

The recent collapse of several large financial firms and recent bank consolidations will have a direct impact on Maryland's economy, although nowhere near the extent of New York, Charlotte, and several other locations. Reverberations have been felt in the State, though, as Chevy Chase Bank was purchased by Capital One after the latter received TARP funds. But the related impact on credit–almost two-thirds of banks nationally are tightening business lending standards–will result in a slowing or stoppage of business investment. Credit has become more difficult to obtain at the same time profits have fallen, largely as a result of the slowdown in consumer spending, and business confidence has collapsed. In addition, the availability of commercial paper to small and mid-sized businesses may still precipitate leaner business spending and even bankruptcies. The lack of credit will cause the construction industry to continue to contract as commercial and industrial projects are scaled back, delayed, or cancelled. Projects potentially at risk include the Greenbelt Towne Center, East Campus at the University of Maryland, and Konterra in Laurel.

Professional and business services, an integral industry in Maryland's economy, will also experience substantially slower growth. Those firms closely aligned with financial services will be the hardest hit. As businesses cut expenses, slowing business travel will likely affect Maryland more than many other areas. Leisure and hospitality services, a sector with above average growth since the last recession, will experience a sharp deceleration in growth if not an outright decline in 2009. Hotel occupancy statewide was down more than 2.5% through the first three quarters of the year. Hotels, restaurants and related businesses near BWI Thurgood Marshall Airport and the Washington D.C. suburbs are most at risk–passenger traffic at the airport was down 8.3% from last November.

Maryland's transportation industry is also showing the effects of recent economic turmoil. Southwest Airlines, the dominant carrier at BWI Thurgood Marshall, reported its first quarterly loss in 17 years, ironically as a result of falling energy prices which resulted in a writedown of fuel price hedging contracts that had enabled it to remain profitable over the past several years. The airline is trying to give up about a quarter of its gates at the airport, although they do not plan to cut back on the number of flights. Whether the availability of additional gates will entice other airlines to expand at the airport, at least when the economy rebounds, remains to be seen. The Port of Baltimore, meanwhile, is storing many more imported vehicles than it used to as demand from dealers plummets. The number of vehicles flowing through the port is expected to fall 15% this year, and may not recover in 2010. There is opportunity even in this climate, however–the port just signed a 10-year contract with UPM, a Finnish paper company, the second contract with a Finnish paper company signed this year.

One of Maryland's steadier industries in recent years, government, is also expected to experience a slowdown over the forecast period. The State's fiscal condition has deteriorated along with the economy as revenue collections have slowed. And county governments, with a much greater reliance on income taxes than local governments in the rest of the country, are also facing severe budget difficulties. As a result, state and local employment growth is expected to slow to below1% after several years of growth well in excess of 1.5%. The change in administrations and the greatly increased federal budget deficit create different dynamics for federal employment than are usually present, although this sector is expected to remain relatively healthy.



After final figures are tallied, Maryland employment is expected to have declined by almost a quarter of a percentage point in 2008. As the national recession deepens, job losses of 2.0%–over

50,000 jobs–are forecast. The construction industry will bear the brunt of the slowdown, but trade, finance and manufacturing are all expected to see declines well in excess of 3%. The only industries expected to show any job growth in 2009 are education and health services and government. With employment lagging possibly the worst national economic slowdown since World War II, job growth is not expected to return in 2010. Personal income is projected to slow to an increase of just 1.7% in 2009, the slowest rate of growth in over half a century, with wage and salary growth slowing to 1.5%, the worst performance since 1991.

With the United States economy now not expected to recover until the latter half of 2009, and risks decidedly on the downside, prospects for the State are bleak. While some states that also had exuberant housing markets may have neared the market trough, and thus may be expected to recover concurrently with the national economy, Maryland's housing market has yet to hit bottom. As a result of that and other factors, the State's economy is unlikely to resume growth until early 2010 at the soonest.

Table 2
Forecast of the Maryland Economy

	2004	2005	2006	2007	2008	2009	2010
Total Non-Agricultural Employment (thousands)	2,517.6	2,555.7	2,589.4	2,609.9	2,603.5	2,552.4	2,553.9
	1.2%	*1.5%*	*1.3%*	*0.8%*	*-0.2%*	*-2.0%*	*0.1%*
Goods Producing	312.5	317.8	319.2	316.0	302.9	280.0	272.7
	1.3%	*1.7%*	*0.4%*	*-1.0%*	*-4.1%*	*-7.6%*	*-2.6%*
Services	1,736.2	1,765.3	1,792.5	1,808.9	1,807.6	1,776.7	1,780.5
	1.3%	*1.7%*	*1.5%*	*0.9%*	*-0.1%*	*-1.7%*	*0.2%*
Government	462.4	465.9	471.1	478.7	487.0	489.7	494.8
	0.0%	*0.8%*	*1.1%*	*1.6%*	*1.7%*	*0.6%*	*1.0%*
Total Personal Income ($ in millions)	220,127	232,931	246,542	262,072	272,189	276,941	286,412
	7.0%	*5.8%*	*5.8%*	*6.3%*	*3.9%*	*1.7%*	*3.4%*
Wages and Salaries	113,181	119,703	126,146	132,458	136,361	138,347	143,271
	6.3%	*5.8%*	*5.4%*	*5.0%*	*2.9%*	*1.5%*	*3.6%*
Dividends, Interest and Rent	34,271	35,461	39,336	44,123	45,539	44,622	44,507
	6.2%	*3.5%*	*10.9%*	*12.2%*	*3.2%*	*-2.0%*	*-0.3%*
Capital Gains ($ in millions)	8,884	11,532	12,970	14,384	7,911	6,724	7,733
	69.0%	*29.8%*	*12.5%*	*10.9%*	*-45.0%*	*-15.0%*	*15.0%*
Unemployment Rate (%)	4.3	4.1	3.8	3.6	4.2	5.7	5.9

Source: Board of Revenue Estimates

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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 knowledge or collection responsibility. 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 2008 through 2010. Table 4 provides additional 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 2008 - 2010

$ Thousands	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 2008 Actual	Fiscal Year 2009 Revised Estimate	Fiscal Year 2010 Estimate	Fiscal Year 2008 Actual	Fiscal Year 2009 Revised Estimate	Fiscal Year 2010 Estimate	Fiscal Year 2008 Actual	Fiscal Year 2009 Revised Estimate	Fiscal Year 2010 Estimate
INCOME TAXES									
Personal	6,940,134	7,103,524	7,181,241				6,940,134	7,103,524	7,181,241
Corporations	551,673	582,316	617,601	183,651	208,466	157,929	735,324	790,782	775,530
Total	7,491,807	7,685,840	7,798,842	183,651	208,466	157,929	7,675,458	7,894,306	7,956,771
SALES AND USE TAXES	3,675,263	3,717,988	3,701,717	73,659	227,977	240,687	3,748,922	3,945,965	3,942,404
STATE LOTTERY RECEIPTS	497,111	455,843	496,534	79,973	79,221	78,684	577,084	535,064	575,218
Video Lottery Terminals - Licenses						90,000			90,000
TRANSPORTATION REVENUES									
Motor Vehicle Fuel Tax	13,199	6,500		741,977	734,100	749,100	755,176	740,600	749,100
Motor Vehicle Licenses, Fees				599,634	623,208	620,934	599,634	623,208	620,934
Motor Vehicle Titling Tax				649,657	550,000	561,000	649,657	550,000	561,000
Maryland Transit Fees				117,869	118,000	123,000	117,869	118,000	123,000
Maryland Port Fees				96,880	101,000	105,000	96,880	101,000	105,000
Maryland Aviation Fees				180,254	178,000	185,000	180,254	178,000	185,000
Total	13,199	6,500		2,386,271	2,304,308	2,344,034	2,399,470	2,310,808	2,344,034
OTHER REVENUES									
State Real and Personal Property Tax				625,710	701,019	749,983	625,710	701,019	749,983
Property Transfer Tax				153,534	121,506	114,735	153,534	121,506	114,735
Business Franchises and Filing Fees	207,968	209,236	211,623				207,968	209,236	211,623
State Tobacco Tax	376,112	419,215	414,255				376,112	419,215	414,255
Tax on Insurance Companies	301,831	303,340	310,347				301,831	303,340	310,347
Alcoholic Beverages Excises	28,966	29,009	29,584				28,966	29,009	29,584
Death Taxes	243,541	226,555	178,613				243,541	226,555	178,613
Clerks of the Court	42,559	32,445	32,801				42,559	32,445	32,801
District Courts	91,307	88,323	88,750				91,307	88,323	88,750
Hospital Patient Recoveries	86,556	77,296	66,396				86,556	77,296	66,396
Interest on Investments	166,518	109,000	98,000					--- See Notes ---	
Miscellaneous Fees, Other Receipts	322,901	305,380	310,802						
Total	1,868,259	1,799,799	1,741,171						
Total Current Revenues	13,545,639	13,665,970	13,738,264					--- See Notes ---	
Extraordinary Revenues[1]		7,917							
GRAND TOTAL	13,545,639	13,673,887	13,738,264		--- 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 2010 Budget Book, this table will comprise the official estimate of total state revenues.

[1] Extraordinary revenues include a GAAP transfer of $7.9 million in fiscal year 2009.

Table 4

Maryland General Fund Revenues

Fiscal Years 2008 - 2010

$ Thousands	FY 2008 Actual	FY 2009 September Estimate	FY 2009 December Estimate	FY 2009 Difference	FY 2009 % Growth	FY 2010 September Estimate	FY 2010 December Estimate	FY 2010 Difference	FY 2010 % Growth
INCOME TAXES:									
Personal	6,940,134	7,309,840	7,103,524	(206,316)	2.4%	7,697,728	7,181,241	(516,487)	1.1%
Corporation	551,673	672,705	582,316	(90,389)	5.6%	746,526	617,601	(128,925)	6.1%
Total	7,491,807	7,982,545	7,685,840	(296,705)	2.6%	8,444,254	7,798,842	(645,412)	1.5%
SALES AND USE TAXES	3,675,263	3,787,370	3,717,988	(69,382)	1.2%	3,932,843	3,701,717	(231,126)	-0.4%
STATE LOTTERY	497,111	495,201	455,843	(39,358)	-8.3%	507,778	496,534	(11,244)	8.9%
OTHER REVENUES									
Business Franchise Taxes	207,968	200,885	209,236	8,351	0.6%	209,381	211,623	2,242	1.1%
Tax on Insurance Companies	301,831	309,377	303,340	(6,037)	0.5%	317,111	310,347	(6,764)	2.3%
Death Taxes	243,541	210,445	226,555	16,110	-7.0%	214,077	178,613	(35,464)	-21.2%
Tobacco Tax	376,112	433,004	419,215	(13,789)	11.5%	427,851	414,255	(13,596)	-1.2%
Alcoholic Beverages Excise Tax	28,966	28,688	29,009	321	0.1%	29,255	29,584	329	2.0%
Motor Vehicle Fuel Tax	13,199	6,500	6,500	-	-50.8%	-	-	-	-
District Courts	91,307	93,511	88,323	(5,188)	-3.3%	95,773	88,750	(7,023)	0.5%
Clerks of the Court	42,559	40,816	32,445	(8,371)	-23.8%	40,396	32,801	(7,595)	1.1%
Hospital Patient Recoveries	86,556	75,313	77,296	1,983	-10.7%	62,000	66,396	4,396	-14.1%
Interest on Investments	166,518	122,000	109,000	(13,000)	-34.5%	115,000	98,000	(17,000)	-10.1%
Miscellaneous	322,901	303,515	305,380	1,865	-5.4%	306,022	310,802	4,780	1.8%
Total	1,881,458	1,824,054	1,806,299	(17,755)	-4.0%	1,816,866	1,741,171	(75,695)	-3.6%
Total Current Revenues	13,545,639	14,089,170	13,665,970	(423,200)	0.9%	14,701,741	13,738,264	(963,477)	0.5%
Extraordinary Revenues			7,917	7,917	-				
GRAND TOTAL	13,545,639	14,089,170	13,673,887	(415,283)	0.9%	14,701,741	13,738,264	(963,477)	0.5%

Individual Income Tax

General fund individual income tax revenues increased 3.9% in fiscal year 2008 to $6.940 billion. Income tax withholding, the majority of collections, grew 4.8% to $10.184 billion. While this represents only a marginal slowdown from the year before, the second half of the year was much weaker than the first. Wage and salary income increased 4.0% during the fiscal year, a deceleration of just over one percentage point from the year prior, which was itself a percentage point slower than growth in fiscal year 2006. With the increased personal exemption and new income tax brackets enacted at the 2007 Special Session of the General Assembly, baseline withholding growth is difficult to determine precisely. Given that these changes work in opposite directions and that they were enacted shortly before the start of tax year 2008, it is probable they did not have much of an impact on fiscal year 2008 (although all liability associated with these changes will be reflected on 2008 tax returns), and likely reduced baseline growth by several tenths of one percentage point.

Estimated payments, also affected for half of the year by the new tax brackets, grew 5.1% to $1.826 billion, a steep deceleration from the 17% growth of fiscal year 2007. Growth in quarterly payments slowed throughout the year. While the plunge in the equity markets did not occur until well after the end of the fiscal year, dramatically slowing growth of income from the self-employed and dividend, interest and rental income in the first half of 2008 are most likely responsible. Final income tax payments increased 2.9% to $1.528 billion, also a sharp slowdown and likely a result at, least in part, of the troubled real estate market. Net income tax collections rose 4.1% for the year.

In fiscal year 2009, revenue growth has slowed further. Through the first five months of the year, amid a deteriorating national economy, withholding is up only 1.9%. Estimated payments have increased 5.2%, although collections are now no doubt boosted much more by the new brackets than they were in the first half of the tax year. Net collections have grown only 1.8% on the year. This very weak growth includes declines in final payments and accelerating refunds, both of which essentially reflect tax year 2007 activity, but that is not factor that mitigates concerns over collections..

Before accounting for law changes from the 2007 Special Session, fiscal year 2009 net collections are expected to decline 0.7%. This would be only the fourth decline since the implementation of the modern income tax structure in 1967, but it would also be the third in the past seven years (fiscal years 1992, 2002, and 2003 are the others). Withholding is forecast to grow only 2.8% as a result of accelerating job losses in the State and accompanying weak growth in wage and salary income. The autumn swoon in equity markets, with the S&P 500 and NASDAQ both now down more than 40% for the year, coupled with the ongoing housing market troubles, is expected to result in a drop in capital gains of 45%. Declines in estimated, fiduciary and final payments will result, estimated at 2.9%, 13.7% and 13.1%, respectively. Relatedly, refunds are expected to increase a relatively strong 7.8%.

The baseline outlook improves, but only slightly, in fiscal year 2010. Withholding growth is expected to accelerate to 3.5%, still very weak from a historical standpoint. Estimated and final payments are expected to continue to decline, as capital gains are forecast to fall another 15% and the economy remains in the doldrums. Perhaps the only good news is that growth in refunds is expected to be cut in half, to 3.9%, as estimated payments catch up from the shock of the sharp drop in capital gains the year before. Gross collections are projected to increase 2.0%, although growth in net collections will be only 1.6%.

With the law changes from the 2007 Special Session, revenue growth improves. The higher income tax brackets will bring in an estimated $294.8 million for tax year 2008 and, with falling capital gains, an estimated $284.8 million for tax year 2009. On a fiscal year basis, the new brackets are expected to generate $357.4 million in fiscal year 2009. Because tax year 2008 estimated payments were not required to reflect the 6.25% bracket, the estimated $106.5 million from that bracket will be received as final payments in fiscal year 2009. The increased personal exemptions will result in a reduction of gross receipts estimated at $250.1 million for fiscal year 2009. The refundable earned income credit was increased from the amount by which 20% of the federal credit exceeds State tax to 25%, and will reduce fiscal year 2009 revenues by approximately $38.5 million.

Incorporating these changes, net collections are forecast to increase 2.4% in fiscal year 2009 and 1.1% in 2010. After deducting local income tax receipts and an estimated $2.0 million for income tax checkoffs, general fund revenues are projected to reach $7.104 billion in fiscal year 2009 and $7.181 billion in fiscal year 2010.

Table 5

Individual Income Tax Revenues

Fiscal Years 2007-2010

($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Gross Receipts (State & Local)				
Withholding	9,710,047	10,184,029	10,268,443	10,688,362
Estimated Payments	1,736,947	1,825,895	1,993,575	1,962,976
Payments with Final Returns	1,484,307	1,527,824	1,440,873	1,316,170
Fiduciary	103,500	131,460	113,392	114,029
Gross Receipts	13,035,224	13,669,209	13,816,284	14,081,537
Refunds	(2,071,268)	(2,246,080)	(2,460,786)	(2,557,182)
Net Receipts (State & Local)	10,963,956	11,423,129	11,355,497	11,524,356
Local Reserve Account	(4,282,932)	(4,481,227)	(4,249,973)	(4,341,115)
Income Tax Check-offs	(1,857)	(1,769)	(2,000)	(2,000)
Net General Fund	6,679,168	6,940,133	7,103,524	7,181,241

Figures may not sum to totals due to rounding.

Corporate Income Tax

Corporate income tax general fund revenues declined 6.5% in fiscal year 2008 to $551.7 million. Gross receipts actually increased 6.6% as estimated payments, reflecting current activity during the fiscal year, grew 10.8%. The decline in general fund revenues, however, is attributable to a 78% increase in corporate income tax refunds. Corporate profits slowed sharply from double-digit growth in the third quarter of 2006 (the 18th consecutive quarter) to declines in the first quarter of 2007. Refunds paid out in fiscal year 2008 would largely have reflected 2007 activity and resulted from overpayment of estimated taxes, or represented carrybacks of net operating losses realized in 2007.

Through the first five months of fiscal year 2009, gross receipts have increased 6.0%. After adjusting for the rate increase from 7% to 8.25%, however, baseline gross receipts are down about 6.0% for the year. With corporate profits projected to decline by 8.2% in fiscal year 2009 and 5.5% in fiscal year 2010, baseline gross receipts are expected to follow suit. Adjusting for the rate increase, however, results in growth in gross receipts of 2.6% in fiscal year 2009, followed by a 1.0% decline in 2010. Corporate refunds are expected to decline from the peak of 2008, although they will remain well above any previous year. Through October, refunds had fallen 40%, but a surge in refunds claimed in November brought the year-to-date decline to 18.7%. Refunds are projected to decline 12.0% in fiscal year 2009, before increasing 2.5% in fiscal year 2010 with the deteriorating profit picture.

General fund revenues are expected to increase 5.6% in fiscal year 2009 to $582.3 million, resulting from the rate increase coupled with the anticipated decline in refunds. In fiscal year 2010, general fund revenues will grow an estimated 6.1% to $617.6 million despite an expected 1.0% drop in net receipts. The growth is entirely due to the cessation of the revenue distribution to the Higher Education Investment Fund, which will instead under current law be distributed to the general fund and the Transportation Trust Fund.

Table 6

Corporate Income Tax Revenues

Fiscal Years 2007-2010

($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Gross Receipts	919,854	980,696	1,006,592	996,794
Refunds	(137,825)	(245,373)	(215,811)	(221,264)
Net Receipts	782,029	735,324	790,782	775,530
Transportation Trust Fund	(186,247)	(167,651)	(161,060)	(157,929)
Electric Universal Service Fund	(6,000)	(16,123)	-	-
Higher Education Investment Fund	-	-	(47,406)	-
Net General Fund	589,782	551,673	582,316	617,601

Figures may not sum to totals due to rounding.

Sales and Use Taxes

Sales and use tax revenues provide the second largest source of general fund revenue. In fiscal year 2008, net collections (including a one-time $50 million distribution to the State Police Helicopter Replacement Fund) increased 8.9%. Adjusting for the one percentage point increase in the tax rate, from 5% to 6%, baseline revenues actually declined 0.4%, the first decline since fiscal year 1991. Revenues from consumer sales, the largest portion of the sales tax, were flat for the year after accounting for the rate increase, as were revenues from the sale of capital goods. Construction-related revenues declined approximately 6% with the fall in residential construction and related activity, while revenues from utilities increased by about 3%. By most measures, the economy deteriorated throughout fiscal year 2008, with consumer confidence and home prices falling and energy prices rising. Consumer sales tax collections declined five of the seven months after the price of regular gas prices $3.00 per gallon in December 2007, and construction-related revenues fell all but two months of the year.

Year-to-date in fiscal year 2009 (four months of collections), net sales taxes from returns are up 15.7%. Baseline receipts, however, are down approximately 4.1%. The consumer and construction segments have declined 3.8% and 12.2% respectively. While the first two months of the fiscal year showed modest baseline increases, September and October sales resulted in declines of more than 10% and 6%. Baseline collections have now declined in seven of the last eleven months. The only similar period since fiscal year 1982 is September 1990 through October 1991, when collections declined in 12 of 13 months. All but three of those declines, however, were less than 2%. The current period has seen six drops in excess of 2%, all but one of those at 5.5% or greater.

Before accounting for the rate increase and statutory apportionments, sales tax revenues are expected to decline 3.5% in fiscal year 2009 and to remain flat in fiscal year 2010. In 2009, very weak personal income growth and low consumer confidence result in a projected 2.0% decline in the consumer sales tax. Construction-related receipts are expected to fall 13.2% as the housing market continues to struggle and remodeling activity continues to fall. Capital goods are forecast to decline 6.6% because of falling business investment in the weak economy. Utilities are likely to be the one bright spot, increasing an expected 6.9% on strong growth in receipts from electric and gas utilities as well as from cellular phone service and other communications companies. Adjusting for the rate increase ($617.2 million) and cap on the vendor discount, as well as new distributions, including the distribution of 5.3% of revenues collected at the 6% rate, to the Transportation Trust Fund (TTF), general fund revenues are expected to grow 1.2% to $3.718 billion in fiscal year 2009. General fund revenues will include $18.5 million from the sales tax on short-term vehicle rentals, while the Chesapeake Bay 2010 Fund will receive an estimated $3.2 million. The TTF will receive $224.8 million, $17.7 million from the sales tax on vehicle rentals and the remainder from the 5.3% distribution.

Consumer revenues are expected to recover to 3.9% growth in fiscal year 2010 due to recovering consumer confidence and improved household balance sheets. However, the other three major components of sales tax collections are expected to decline. Construction revenues are forecast to drop another 17.0%, with problems in the residential housing market compounded by reduced investment in non-residential structures. Revenues from capital goods are projected to continue falling at a rate of 5.0% as the economy and business confidence remain soft through at least the first half of the fiscal year. The utilities sector will turn negative, -3.9%, resulting from declining telecommunications investment, flat sales of cellular equipment and services, and falling energy prices. After accounting for the rate increase and other law changes, general fund revenues are projected to fall 0.4% to $3.702 billion. The TTF will receive $222.3 million, and the Chesapeake Bay 2010 Fund will receive $18.4 million.

Table 7

Sales and Use Tax Revenues

Fiscal Years 2007-2010

($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Consumer	2,285,296	2,494,831	2,670,112	2,777,318
Construction	530,606	544,768	515,455	427,901
Capital Goods	299,163	326,465	331,983	315,526
Utilities	325,196	368,232	426,342	409,860
Gross Collections	3,440,260	3,734,296	3,943,892	3,930,605
Assessments	16,233	25,435	18,206	21,978
Refunds	(8,655)	(10,809)	(16,133)	(10,179)
Transportation Trust Fund	(27,689)	(23,659)	(224,790)	(222,253)
Other[1]		(50,000)	(3,187)	(18,434)
Total General Fund	3,420,149	3,675,263	3,717,988	3,701,717

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

Figures may not sum to totals due to rounding.

Lottery

Lottery sales totaled $1.673 billion in fiscal year 2008, growth of 6.1%. Instant ticket sales (including Countdown to Millions, a raffle-type game actually held in fiscal year 2007 but accounted for in fiscal year 2008) grew a striking 20.3% to $519.0 million, surpassing Keno/Racetrax as the lottery's largest game. Keno remained the largest contributor in terms of revenue, although sales declined 0.4% to $460.8 million. Both Pick 3 and Pick 4 saw sales declines, Pick 3 by 6.0%, the largest drop in more than twenty years. Mega Millions sales increased 32% to $129.4 million. Net revenue increased 7.1% to $529.4 million, with Pick 4, Mega Millions, and instant tickets providing all of the growth. General fund revenues increased 5.1% to $497.1 million, although growth would have been 7.4% except for a one-time special fund distribution of revenues in excess of the fiscal year 2008 estimate.

Fiscal year 2009 sales through November, $676.8 million, are down 0.8% from last year. Pick 4, at 4.1%, is the only large game showing significant growth year to date, although Pick 3 sales have turned around from last year's large drop to 0.4% growth. Sales have also increased for MultiMatch and Bonus Match 5 (16.1% and 2.3% respectively), but these are the smallest games in terms of both sales and revenues. Mega Millions sales have declined 12.5% due to a lack of large jackpots thus far this year. Keno/Racetrax sales are flat due to lower business in restaurants and bars, and the Lottery agency is concerned that several outlets have gone out of business as a result of the slowing economy. Instant tickets, which have averaged annual growth of 12.6% since 1999, may have hit a brief plateau.

Revenues have declined much more sharply than sales, mainly due to unfavorable payouts. The culprits, Pick 3 and Pick 4, are down 24.7% and 29.2% respectively. Between the two games, a series of the same number has been drawn 8 times through November, about four times higher than statistically expected. For example, in August, Pick 4 drew 1-1-1-1 forcing a $7 million payout among 1,400 players ($5,000 each). Revenues from most other games have moved commensurately with sales except for Keno/Racetrax, which has seen revenue growth of 2.9% relative to flat sales. In total, revenues are down 12.7% through November.

For the full fiscal year, sales are projected to decline 0.5% with revenues falling 10.4%. Instant ticket sales are expected to finish the year down 2.0% (half of the decline results from the discontinuation of Countdown to Millions), although revenues are expected to increase slightly. Keno/Racetrax will likely end the year with nearly flat sales and a 3.2% decline in revenues. Pick 3 and Pick 4 are projected to continue at their year-to-date pace, although revenues will finish the year down 17.3% and 20.2% respectively with more normal prize payouts the rest of the year. Mega Millions, sales of which are determined entirely by jackpot size, is expected to post declines of 10.0% in sales and 10.6% in revenues due to the lack of substantial jackpots through the first five months of the year. General fund revenues are forecast at $455.8 million, a decline of 8.3%.

Sales performance is forecast to improve in fiscal year 2010, with a 3.0% gain in sales. Sales growth is forecast for all games except Pick 3, which has trended down 2.3% annually since 1996. Revenues are expected to increase in the largest six games, particularly in Pick 3 and Pick 4 (9.2% and 13.5%) with a return to statistically expected prize payouts. General fund revenues are forecast to increase 8.9% to $496.5 million.

Table 8

Lottery Sales and Revenues by Game

Fiscal Years 2007-2010

($ in millions)

	Sales				Revenues			
	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Pick 3	291.9	274.3	274.3	271.5	126.0	124.7	103.1	112.8
Pick 4	240.1	234.9	244.3	250.4	94.4	111.8	89.3	101.6
Multimatch	30.1	31.2	34.3	36.0	10.6	11.1	10.9	10.7
Instant/Countdown to Millions	431.6	519.0	508.7	534.2	81.1	92.0	92.3	97.8
Keno/Racetrax	462.6	460.8	462.0	471.9	133.0	129.2	125.1	134.4
Bonus Match 5	22.9	23.4	23.9	24.5	7.1	7.2	7.4	7.1
Mega Millions	98.2	129.4	116.5	125.2	41.9	53.5	47.9	51.6
Total	1,577.3	1,673.0	1,664.1	1,713.7	494.1	529.4	475.8	516.1
Less Stadium Authority Revenue					21.0	21.5	20.0	19.6
Less distribution to special fund per Chapter 589, Acts of 2008						10.8		
General Fund Revenue					473.1	497.1	455.8	496.5

Figures may not sum to totals due to rounding.

Note: Special fund revenues (the Lottery Agency's operating expenses) of $51.8 million in 2007 and $58.5 million in 2008 are not included in this table; these revenues, generally proportional to sales by game, are expected to be $59.2 million in 2009 and $59.1 million in 2010.

Business Franchise Taxes

Public service company franchise taxes are collected from telecommunications companies and electric and gas utilities. Revenues from telecommunications companies have trended downward for some time. Deregulation and increasing competition started off the decline. In more recent years, the replacement of traditional land-based long-distance and now local telephone service with set-price cellular service and, even more recently, with Internet telephony has continued the trend. Modest declines from this source are expected over the forecast period. Revenues from electric and gas utilities have grown slightly in recent years, although growth in fiscal year 2008 was supported by the reduction in the credit allowed for the use of Maryland-mined coal. The recent significant fall in energy prices is expected to result in marginal growth in these revenues in fiscal year 2009, with longer-term trends reasserting themselves in 2010. Franchise tax collections are forecast at $133.7 million in fiscal year 2009 and $135.0 million in 2010.

Filing fees are collected annually from corporate and most non-corporate entities. In fiscal year 2008, receipts increased 1.9%, a noticeable slowdown from the 4.8% growth of 2007. The faltering economy is expected to result in growth of 1.1% in 2009 as some entities go out of business and fewer new ones are created than in good times. Growth is expected to accelerate modestly in fiscal year 2010 as economic conditions begin to improve. Receipts will reach an estimated $75.5 million in fiscal year 2009, growing to $76.6 million in 2010.

Table 9
Business Franchise Tax Revenues
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Public Service Company Franchise Tax	132,789	133	133,700	134,954
Filing Fees	73,290	74,440	75,536	76,669
Financial Institution Franchise Tax	489	15	-	-
Total	206,568	207,968	209,236	211,623

Figures may not sum to totals due to rounding.

Insurance Premium Tax

Insurance premiums are taxed at a rate of 2%. Premium growth is generally related to insurance companies' returns on investments and underwriting losses–the better investments perform, the slower premiums grow; the more losses, obviously, the faster they grow. Modest growth for the premium tax is forecast for both fiscal years 2009 and 2010. There have been no broad catastrophic losses in Maryland in recent years, and insurance companies generally manage their portfolios more conservatively than other types of financial institutions, so investment losses have been relatively minimal (at least through the first half of calendar year 2008). Revenues have declined 9.3% through the first five months of the fiscal year, although about half of that decline is attributable to a heritage structure rehabilitation credit, not ongoing activity. Much if not all of the remaining decline is due to changes in process within the Maryland Insurance Administration, and is only a temporary issue. Revenues are forecast to grow a modest 0.5% to $303.3 million in fiscal year 2009, increasing to $310.3 million in fiscal year 2010.

Table 10
Insurance Premium Tax Revenues
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Premium Tax	283,342	301,831	303,340	310,347

Death Taxes

Death tax revenues are generated from both the estate tax and inheritance taxes. Revenues are inherently volatile, as by definition they are determined by the number of deaths each year and the wealth of the decedents. An example of the volatility can be seen in current year collections. Revenues from the largest estates, those with a liability over $1 million, have declined almost 50% to $19.7 million. There were only two fewer such estates compared to last year; the drop in revenues from these estates is primarily due to a decrease in the average estate liability–from $3.8 million to just $2.0 million this year. Fiscal year 2008 estate tax revenues grew $17.9 million (10.1%) to $194.5 million. Payments from estates of all sizes increased, although it was those with a liability under $500,000 that provided most of the growth.

Through five months of fiscal year 2009, revenues have declined 14.7% as a result of the 50% decline in revenues from the largest estates. Mid- and small-sized estates, however, those with liabilities between $500,000 and $1 million and under $500,000, have both shown growth this year. Payments from mid-sized estates have increased 14.3% while those from small estates have grown 9.2%. These trends are expected to continue through the year, resulting in revenues of $176.6 million, a decline of 9.1% from fiscal year 2008. Since estate taxes are due nine months from the date of death and the largest drops in the stock markets were in October, fiscal year 2010 revenues are expected to decline 28% to $127.2 million, with payments from estates of all sizes declining.

The collateral inheritance tax has recently proven almost as volatile as the estate tax, evidenced by sporadically declining growth in two of the past five years. Further, at this point in fiscal year 2008 revenues had increased 22%, although they finished ahead only 1.9%. Year-to-date 2009 receipts are down 1.2%, but growth is expected to accelerate, resulting in a 2.8% increase to $49.8 million by the end of the year. Long-term trends are expected to continue in fiscal year 2010, with growth expected to continue at 2.9% to $51.3 million. Although the direct inheritance tax was repealed in 2000, residual receipts are still collected. Direct inheritance tax receipts are expected to total $200,000 and $180,000 in 2009 and 2010, respectively.

Table 11
Death Tax Revenues
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Collateral Inheritance Tax	47,478	48,432	49,797	51,260
Direct Inheritance Tax	297	632	200	180
Estate Tax	176,565	194,477	176,558	127,173
Total	224,341	243,541	226,555	178,613

Figures may not sum to totals due to rounding

Alcohol and Tobacco Excise Taxes

Fiscal year 2008 tobacco revenues increased 35.2% to $376.1 million. The additional $1.00 per pack tax, approved by the General Assembly in the 2007 Special Session, was effective for half of the year and boosted revenues by just over $100 million. Demand for cigarettes did prove to be highly elastic, as tobacco stamp sales have declined by over 25% sine the rate increase took effect. Revenues from other tobacco products were up 7.6%, to $9.7 million in fiscal year 2008, continuing their pattern of strong growth.

Tobacco revenues are up 48.4% through November, with the cigarette tax up 49.8%, $36.4 million over the year prior. However, tobacco stamp sales are down 26% year to date, which can be attributed to a number of factors including a decline in smoking, a possible increase in cross-border and Internet sales, as well as a possible increase in smuggling. Cigarette revenues are expected to finish up 11.6% in fiscal year 2009 at $408.8 million. The tax on other tobacco products is forecast to increase 7.3%. In the aggregate, the tobacco tax is expected to grow by 11.5% to $419.2 million, reflecting a full year of the tax increase. Fiscal year 2010 should see a marginal decline of 1.2%.

Alcohol excise revenues increased 1.0% to $29.0 million in fiscal year 2008, continuing a decelerating growth trend. Revenues from distilled spirits rose 1.2% to $14.3 million, beer fell by 0.1% to $9.4 million, and wine grew to $5.2 million, or 2.4% from 2007. Year-to-date, the tax on distilled spirits is up 1.6%, while wine is down 2.4% from last year; revenues from the tax on beer are down 1.4%. Combined alcohol revenues are forecast to grow 0.1% to $29.0 million in fiscal year 2009 before accelerating to 2.0% in fiscal year 2010 to $29.6 million.

Table 12

Excise Tax Revenues

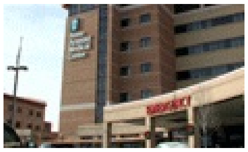
Fiscal Years 2007-2010

($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Cigarette Tax[1]	269,135	366,374	408,766	403,043
Other Tobacco Products Tax	9,054	9,738	10,449	11,212
Total Tobacco Taxes	278,189	376,112	419,215	414,255
Distilled Spirits Tax	14,165	14,334	14,567	14,925
Wine Tax	5,101	5,222	5,168	5,326
Beer Tax	9,416	9,410	9,274	9,333
Total Alcoholic Beverages Tax	28,682	28,966	29,009	29,584

Figures may not sum to totals due to rounding

[1] Includes floor (inventory) tax of $25.7 million in fiscal year 2008.



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 are the largest share of recoveries and perhaps the most volatile. The closure of two hospitals, Rosewood and, to a lesser degree RICA Southern Maryland, will be largely responsible for a nearly $10 million decline in revenues from Medicaid reimbursements in fiscal year 2009. The fluctuating per diem reimbursement rates will reduce revenues in fiscal year 2010 by about $11 million.

Medicare and insurance reimbursements primarily relate to patients in psychiatric hospitals. The estimates take into account current trends in State psychiatric hospital admissions. Revenues from these sources are expected to remain at close to 2008 levels (about $11 million per year) throughout the forecast period. Disproportionate share revenues will also remain fairly constant at about $24 million for both fiscal years 2009 and 2010.

Table 13
Hospital Patient Recoveries
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Medicaid	49,650	51,053	41,932	32,017
Medicare	4,995	5,507	5,591	5,450
Insurance and Sponsors	6,540	5,885	5,680	4,814
	61,185	62,445	53,203	42,281
Disproportionate Share	23,761	24,111	24,093	24,115
Total	84,945	86,556	77,296	66,396

Figures may not sum to totals due to rounding

Court Revenues

Made up largely of fines and fees related to traffic citations, District Court revenues fluctuate from year to year due to a number of factors, including enforcement activities, weather, the rate of contested citations, and the fees and fines actually imposed and collected. During fiscal year 2008, the number of citations and dispositions dropped by about 3%, resulting in revenues of $91.3 million, a 6% decline from the previous year. Through November of this year, District Court revenue has declined 6.6% from fiscal year 2008. The downward trend is expected to turn around, but revenues will still end the year 3.3% below last year. Flat performance is forecast for fiscal year 2010.

Most of the revenues from the clerks of court are derived from recordation-related activity, although about $8.5 million annually is received from a variety of court fees. The bursting of the housing bubble, which had raised home sales and home prices to unsustainable levels, has produced a sharp fall-off in these revenues. As of the end of November, revenues were running more than 25% below fiscal year 2008 levels. As the housing market is not expected to end its decline until late 2009, revenues from the clerks of courts are expected to continue to drop to just $32.4 million in fiscal year 2009. Fiscal year 2010 revenues are expected to grow at a very slow 1.1%.

Table 14
General Fund Court Revenues
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
District Courts	97,026	91,308	88,323	88,750
Clerks of the Court	52,316	42,559	32,445	32,801

Interest Earnings

General fund interest earnings fell 6.9% to $166.5 million in fiscal year 2008, as State balances declined and interest rates fell throughout the fiscal year. Rates are expected to continue to fall through the end of fiscal year 2009, as are State balances. As a result, interest income is expected to fall 34.5% to $109 million dollars. In fiscal year 2010, despite a rather steep increase expected in interest rates, very low State balances will lead to a further decline in interest. An estimated $98 million of interest will be credited to the general fund, 10.1% less than the year before.

Table 15
Interest Earnings
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Interest Earnings	178,903	166,518	109,000	98,000

Miscellaneous Revenues

The general fund receives a substantial amount of revenues each year from a number of fees and other non-tax revenue sources. The bulk of this revenue comes from unclaimed property and uninsured motorist penalties. Uninsured motorist penalties are the only revenue source expected to perform well, with forecast growth of 10.6% in fiscal year 2009 and 9.7% in 2010.

Changes made during the 2007 Special Session moved monies formerly set aside from transportation license tags and filing fees to the Transportation Trust Fund, taking nearly $10 million from the general fund each year. Another Special Session change was the creation of a new State admissions and amusement tax of 20% of the proceeds from electronic bingo and tip jars. The new tax, expected to bring in $5 million per year, was effectively repealed during the regular 2008 Session when electronic bingo and tip jars were banned, although some of the devices were allowed to operate until June 30, 2009. In effect for only half of fiscal year 2008, revenues of $2.9 million were collected. An additional $5 million from the tax is expected to be collected in fiscal year 2009.

The local income tax reimbursement, the amount paid to the State by local governments for the administration of the local income tax, will be about $3.6 million higher in fiscal year 2010 with the addition of their share of the cost of a new tax processing system. Other revenues will remain at or close to the amount collected in fiscal year 2008. In total, miscellaneous revenues of $176.4 million will be collected in fiscal year 2009, a 1.4% increase over 2008. For fiscal year 2010, a 4.5% increase is expected, with revenues rising to $181.7 million.

Table 16
Miscellaneous Revenues
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Recording, Organization & Capitalization Fees	10,923	11,892	11,960	11,960
Transportation - Filing Fees & License Tags	9,807	9,078	-	-
Excess Fees of Office	5,462	5,526	5,568	5,948
Unclaimed Property	69,792	73,271	70,000	70,000
Local Income Tax Reimbursement	11,484	11,678	13,144	16,780
Uninsured Motorist Penalty Fees	67,254	59,363	65,683	72,026
State Admissions & Amusement Tax	-	2,874	5,000	-
Miscellaneous Revenues and Transfers	(8,505)	279	5,000	5,000
Total	166,218	173,961	176,355	181,714

Figures may not sum to totals due to rounding.

Miscellaneous Agency Revenues

Nearly all agencies collect some general fund revenue, including agencies whose primary purpose is not revenue collection. Some of the significant sources of revenue include the amounts collected by the Attorney General's office from large settlements, and education-related reimbursements from Maryland's counties. Other agencies collect small amounts from fees or penalties. In fiscal year 2008, these revenues declined by more than $15 million, a drop of 9% from an extraordinarily high 2007. Legislative changes can affect these revenues, such as the redirection of banking-related fees collected by the Department of Labor, Licensing and Regulation from the general fund to a special fund in fiscal year 2009.

Table 17
Miscellaneous Agency Revenues
Fiscal Years 2007-2010
($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
PSC Fines, Citations and Filing Fees	160	147	161	161
Legislature	235	289	260	260
Workers' Compensation	53	54	54	54
Public Defender	1,496	1,094	1,100	1,100
Attorney General	24,163	26,337	22,004	22,004
Executive & Administrative Control	10,363	7,790	4,036	4,181
Financial & Revenue Administration	19,432	15,080	9,134	9,321
Budget & Fiscal Administration	3,410	556	1,477	752
General Services	2,127	322	150	-
Natural Resources	594	347	53	53
Agriculture	110	140	88	88
Health & Mental Hygiene	35,499	32,025	31,000	31,620
Human Resources	367	592	1,841	1,556
Labor, Licensing & Regulation	12,781	13,008	7,949	8,377
Public Safety & MD State Police	11,444	11,603	11,485	11,483
Public Education	32,741	35,794	35,583	35,584
Housing and Community Development	871	1,438	900	900
Business & Economic Development	6,017	587	-	-
Environment	1,306	678	744	595
Juvenile Services	25	41	5	-
Alcoholic Beverage Licenses	1,085	1,017	1,000	1,000
Total	164,282	148,939	129,025	129,088

Figures may not sum to totals due to rounding.

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Transportation Revenues

After essentially flat revenues for the past four years, titling tax revenues declined in fiscal year 2008 despite a titling tax rate increase from 5% to 6% that took effect on January 1, 2008. High fuel prices through much of 2008, falling property values, and general economic uncertainty kept many potential motor vehicle buyers out of the market. Those who did purchase a vehicle were much less likely to buy an expensive, inefficient SUV. With the economic outlook continuing to worsen into 2009, titling taxes are expected to decline by nearly $100 million in fiscal year 2009 before leveling out in 2010 as the economy begins to recover. A slowing economy had a similar effect on registration revenues, which declined by close to 5% in fiscal year 2008 and, while registration revenues should recover slightly in 2009, they are expected to drop again in fiscal year 2010.

Gasoline prices remained high throughout fiscal year 2008 resulting in flat revenues. Despite the recent, dramatic fall in prices, the recession is expected to reduce gasoline consumption and revenues are expected to decline by about 2% in fiscal year 2009. As the economy recovers in fiscal year 2010, consumption will increase marginally.

The Transportation Trust Fund also receives a variety of other revenues, including fees for special license tags and security interest filings. Portions of these two revenues sources, along with a small part of the motor fuel tax, were in the past distributed to the general fund. Action taken at the 2007 Special Session resulted in a redirection of most of this revenue–more than $20 million–to the Transportation Trust Fund.

Table 18

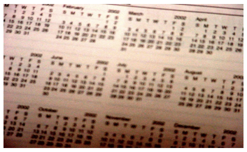
Maryland Motor Vehicle User Revenues

Fiscal Years 2007-2010

($ in thousands)

	2007 Actual	2008 Actual	2009 Revised Estimate	2010 Estimate
Department of Transportation				
Registrations	372,498	354,967	365,000	360,700
Licenses	38,157	42,780	44,300	45,100
Med-Evac Surcharge	50,980	50,996	51,550	51,290
Trauma Physician Services Surcharge	11,586	11,590	11,720	11,660
Miscellaneous Motor Vehicle Fees	113,161	114,797	119,938	121,084
Vehicle Emission Inspection Fees	7,440	7,954	7,800	8,000
Security Interest Filing Fees				
Special Funds	3,463	3,156	8,900	9,000
General Funds	5,194	4,735	-	-
General Funds - Baltimore City	2,886	2,630	-	-
Hauling Fees	10,475	11,788	10,500	10,500
Special License Tags			3,500	3,600
Special Funds	380	380	-	-
General Funds	1,726	1,714	-	-
DOT	387	435	-	-
Chesapeake Bay/Ag Tags - MDOT	860	791	-	-
Titling Tax	703,815	649,657	550,000	561,000
Sales Tax on-Rental Vehicles	27,689	23,659	17,744	15,082
Special Distribution from Sales Tax	-	-	207,046	207,171
	1,350,697	1,282,029	1,397,998	1,404,187
Motor Vehicle Fuel Tax	741,158	740,852	726,500	734,900
Road Tax	14,453	14,177	14,100	14,200
Decals	122	147	-	-
	755,733	755,176	740,600	749,100
Total	2,106,430	2,037,206	2,138,598	2,153,287

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 beyond the current period, 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 have contracted slightly in 2008, with a substantial 2.0% decline in employment following in 2009. As the recovery begins in 2010, employment is expected to remain stagnant before a return to robust growth in 2011 and beyond. General fund revenues are expected to increase 4.9% in fiscal year 2011, accelerating to 5.3% growth in 2012.

Structural changes in the long-term outlook include the sunset of the 6.25% individual income tax bracket for taxable income over $1 million, beginning in tax year 2011, with the change largely affecting fiscal year 2012. Beginning in fiscal year 2013, the distribution of sales tax revenue to the Transportation Trust Fund increases from 5.3% to 6.5%. In addition, video lottery terminals (VLTs) are expected to be operational in fiscal year 2012. While the estimated $687 million in revenues (along with $90 million in license fees received in fiscal year 2010) are special fund revenues, the long-term general fund forecast assumes a reduction in lottery revenues as a result of VLTs of $6.2 million in 2011, $41.4 million in 2012, and $56.8 million in 2013.

Table 19

Long Term Economic Forecast

Primary Indicators

CALENDAR YEAR	2006	2007	2008	2009	2010	2011	2012
U.S. GDP (billion $, chained)	11,295	11,524	11,662	11,456	11,692	12,063	12,422
% change	*2.8%*	*2.0%*	*1.2%*	*-1.8%*	*2.1%*	*3.2%*	*3.0%*
U.S. Total Non-Farm Employment (thousands)	136,092	137,618	137,377	134,794	134,910	136,917	139,193
% change	*1.8%*	*1.1%*	*-0.2%*	*-1.9%*	*0.1%*	*1.5%*	*1.7%*
U.S. Personal Income (billion $)	10,994	11,663	12,122	12,315	12,632	13,226	13,904
% change	*7.1%*	*6.1%*	*3.9%*	*1.6%*	*2.6%*	*4.7%*	*5.1%*
CPI - % Change	3.2%	2.9%	3.8%	-1.5%	2.4%	3.1%	2.3%
U.S. 10-Year Treasury Bond Yield	4.8%	4.6%	3.7%	3.2%	3.9%	5.1%	5.4%
MD Total Non-Farm Employment (thousands)	2,589	2,610	2,604	2,552	2,554	2,593	2,648
% change	*1.3%*	*0.8%*	*-0.2%*	*-2.0%*	*0.1%*	*1.5%*	*2.1%*
MD Total Personal Income (million $)	246,542	262,072	272,189	276,941	286,412	303,290	320,748
% change	*5.8%*	*6.3%*	*3.9%*	*1.7%*	*3.4%*	*5.9%*	*5.8%*

Table 20

Maryland General Fund Revenues

Fiscal Years 2008-2014

($ in thousands)

	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate	2013 Estimate	2014 Estimate
Income Taxes							
Individual	6,940,134	7,103,524	7,181,241	7,474,004	7,863,889	8,259,773	8,655,836
Corporation	551,673	582,316	617,601	670,515	753,101	792,609	816,387
TOTAL	7,491,807	7,685,840	7,798,842	8,144,519	8,616,990	9,052,382	9,472,223
Sales and Use Taxes	3,675,263	3,717,988	3,701,717	3,984,482	4,260,219	4,441,784	4,673,797
State Lottery	497,111	455,843	496,534	502,766	480,312	477,873	489,820
Franchise, Excise, License, Fee	1,881,458	1,806,299	1,741,171	1,775,947	1,812,779	1,846,637	1,880,057
TOTAL CURRENT REVENUES	13,545,639	13,665,970	13,738,264	14,407,714	15,170,299	15,818,676	16,515,897

Figures may not sum to totals due to rounding.