Report of the

Maryland Board of Revenue Estimates

on

ESTIMATED MARYLAND REVENUES

FISCAL YEARS ENDING JUNE 30, 2010 AND JUNE 30, 2011

Submitted to

Martin O'Malley

Governor

December 16, 2009

State of Maryland
Board of Revenue Estimates
Louis L. Goldstein Treasury Building, P.O. Box 466
Annapolis, Maryland 21404-0466
E-mail: bre@comp.state.md.us

December 16, 2009

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, 2010 and June 30, 2011, 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

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TABLE OF CONTENTS

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Executive Summary

Maryland’s revenue outlook is beginning to stabilize, but State revenue collections will not recover from the “Great Recession” this year. Even as U.S. gross domestic product (GDP) increased 2.8% in the third quarter, employment continues to decline, though at a moderating rate. A tenuous expansion appears to be underway, but it requires recovery in the labor market and a return of solid growth in consumer spending to become sustainable.

The labor market may be on the cusp of growth, as the November jobs report showed only 11,000 jobs lost nationwide. Businesses are in a good position to hire—profits are recovering as a result of cost-cutting (including layoffs), and remaining employees are more productive than at any time since the early 1960s. But it may not be clear yet that demand is sufficient to justify business expansion, particularly with consumers reducing debt rather than increasing spending. Current fiscal and monetary policy may be sufficient to hold off a recessionary relapse until businesses add jobs and consumers resume spending.

Maryland’s economy has not been as sharply affected by the recession as the national economy, although the impact has been substantial. On a year-over-year basis, employment has declined more than 2% every month but two in 2009. Only two industries, government and education and health services, have added jobs this year. Construction and finance have lost about 14% and 6% of their jobs compared to last year, and trade and manufacturing are not far behind. Maryland’s unemployment rate currently stands at 7.3%, the highest level since mid-1983.

The good news is that Maryland’s economy may have hit bottom. The rate of job losses has slowed each of the past two months by 20 basis points, to 2.0% in October. Boosted by the federal tax credit for first-time homebuyers, home sales turned positive this year, having grown 4.7% through October. Prices are still falling, but it appears that the housing market is reaching equilibrium. Consumer spending as measured by sales tax receipts was nearly flat in October after seven straight months of decline (and many months of decline in 2008). As the national recovery begins, Maryland employment is forecast to decline 2.9% in 2009, followed by another 0.4% drop in 2010. As a result of the job losses and tightening of employers’ belts, wage and salary income is expected to decline this year, and total personal income will be nearly flat. Modest growth for both is expected in 2010.

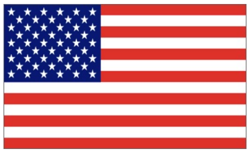
General fund revenues are expected to decline again in fiscal year 2010, following up a 4.9% drop in fiscal year 2009 with a 4.7% fall. All major revenue sources except the lottery are expected to decline, as are many of the other revenues. Through the first five months of the fiscal year, however, most revenue sources are performing in line with the September forecast. Accordingly, the general fund revenue estimate for fiscal year 2010 is being revised downward by only $14.8 million. In fiscal year 2011, generally modest growth is expected for most revenue sources, resulting in general fund revenue growth of 3.0% for the year. Again, this represents a relatively modest downward revision of $62.2 million, largely as a result of slightly slower economic growth than previously forecast.

The individual income tax forecast for fiscal year 2010 is unchanged from the September forecast, although forecasts of components of the income tax have been adjusted. General fund revenues are expected to decline 5.5% to $6.122 billion. Withholding had been expected to decline slightly but is now forecast to grow slightly, by 0.3%. Estimated payments had been forecast to fall about 9%, but are now expected to drop by almost 14%. The fiscal year 2011 forecast is revised downward by $49.8 million, to growth of 3.0%. As the economy slowly improves, withholding is expected to grow by 2.9% with estimated payments flat.

Corporate income tax receipts are expected to decline 10.1% in fiscal year 2010 to $495.0 million, as the longest and largest drop in U.S. corporate profits comes to an end. With a strong rebound in profitability beginning with the fourth quarter of calendar year 2009, net corporate income tax receipts are expected to grow 4.5% in fiscal year 2011, with a larger 13.0% increase in general fund revenues resulting from a change in the revenue distribution. The estimate is unchanged for fiscal year 2010; fiscal year 2011 is revised upward by $18.1 million.

General fund sales tax collections are being revised downward by $17.1 million for fiscal year 2010, a decline of 3.1% from fiscal year 2009. The 2011 forecast is being revised upward by $3.2 million, for growth of 4.1%. With the exception of receipts from utilities, the major components of the sales tax are expected to perform better than in fiscal year 2009. Unfortunately, all four pieces are still expected to decline in fiscal year 2010. This includes the consumer segment, which is now forecast to drop 0.8%, although that is a significant improvement over the 5.8% baseline decline of fiscal year 2009. Revenues from consumer spending are expected to increase modestly in 2011, growing 2.6%, while receipts from construction spending are forecast to rebound from two years of declines with 13.7% growth.

In the aggregate, the other revenue sources have been revised downward by $18.3 million in fiscal year 2010 and $39.1 million in fiscal year 2011. Major downward revisions have been made to the estate tax and miscellaneous revenues, while cigarette tax revenues have been adjusted upward.



The U.S. Economy

What some have dubbed the “Great Recession” is over, but the national economy will likely struggle for some time. As is usually the case following downturns, economic production is reviving long before the labor market, which continues to contract. With job losses ongoing, personal income growth is weak. Consumer confidence and spending will follow, with a very sluggish recovery expected. To be sure, risks remain. The possibility of a double-dip recession is real.

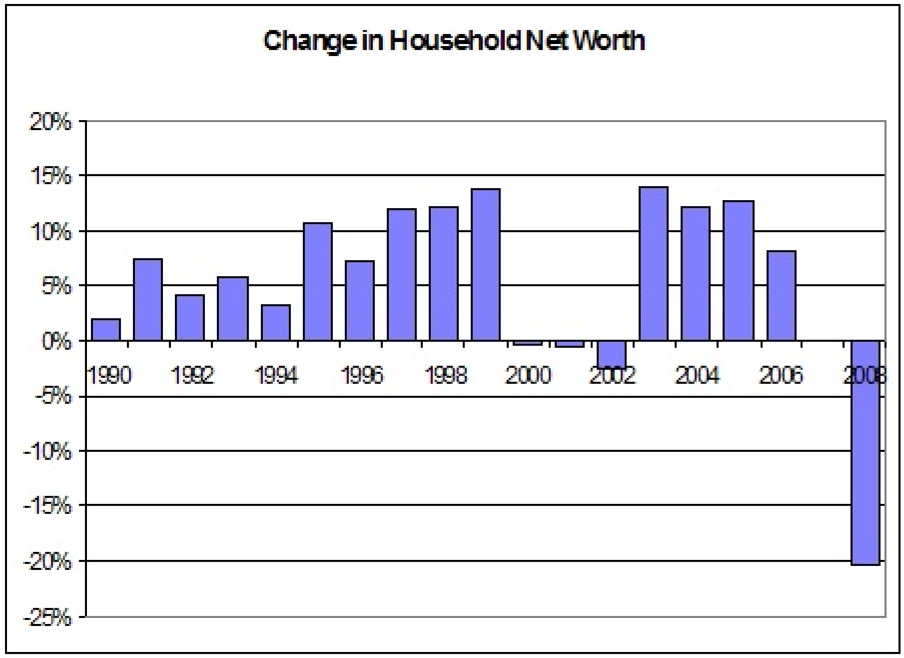
In the third quarter of 2009, real gross domestic product (GDP) increased at a 2.8% annual rate, revised downward from the initially-reported 3.5% growth. Real GDP declined for four consecutive quarters, the first time in the postwar period, and the drop from the peak was greater than any other recession in the past sixty years. So growth in the third quarter comes as a relief-but that growth was boosted by the “cash for clunkers” program, with motor vehicle purchases contributing more than a quarter of the overall increase in GDP. Exports increased in the third quarter as the dollar continued dropping, while inventory liquidation slowed, also boosting economic growth.

Employment continues to decline, although the pace of job losses has slowed dramatically. In each of the first three months of 2009, an average of 673,000 jobs disappeared. In the third quarter, the average dropped to 135,000, while November’s losses were surprisingly light at 11,000. Goods producing industries continued to contract in November, with construction losing 27,000 jobs and manufacturing 41,000, while private service-sector employment increased by 51,000. This increase was driven by the third-largest jump since 1990 in temporary employment, which is thought to be a leading indicator. With November’s release, October and September employment levels were both revised upward by about 80,000. November was the third month in a row with positive revisions for the prior month, a trend that often occurs during turning points.

The labor market is headed in the right direction partly because the declines in corporate profits are slowing. Profits have fallen on a year-over-year basis each of the past 11 quarters, peaking at a 25% decline in the fourth quarter of 2008. The longest prior string of drops was the eight quarters of 2001 and 2002; the largest prior year-over-year fall in profits was 22.7% (1958Q1). As profits improve, the need to cut spending lessens. Despite the sharp fall, corporate profits remain near their long-term average as a percent of national income, so businesses should be able to hire when demand and confidence return. But improvement is likely to be slow, as remaining employees are working record low hours; hiring will not grow markedly until current employees are fully utilized.

Both fiscal and monetary policy will buy time until the economy can sustain an expansion. In addition to the cash for clunkers program, the credit for first-time homebuyers was recently expanded to include many current homeowners, and much of the federal stimulus package is just now coming on line. The federal funds rate is near zero, and is expected to remain there until the end of 2010.

Consumers have had reason to cut back on spending other than the lack of confidence due to the loss of more than seven million jobs since the start of 2008. Home prices are down more than a quarter from their peak in mid-2006, and the number of homes entering foreclosure each quarter increased from 450,000 at the start of 2008 to over 633,000 in the third quarter of 2009. Although the Standard and Poor's 500 Index has increased about 65% from its early March lows, it remains almost 30% below the October 2007 high. According to Federal Reserve data, household wealth fell $13.1 trillion in 2008, an 20.4% decline.



Source: Federal Reserve Bank

After the third quarter jump from cash for clunkers–real consumer spending increased at a 3.4% annualized rate–modest growth is expected for the next several quarters. Increasing unemployment, a higher savings rate, and continuing tight credit will bring annualized growth to around 1% for the next several quarters. But there will be growth, unlike five of the past seven quarters. Due to rising home sales and pent up demand, spending on durable goods is likely to show strong gains in 2011, bringing about a more vigorous recovery. It is entirely possible, however, that consumer spending patterns have been fundamentally changed as a result of the economic turmoil over the past two years.

While substantial uncertainty still exists, the economic situation is much more settled than at this time last year. The recession is over, and while the labor market will remain troubled well into 2010, the end is in sight. Real GDP is expected to increase around 2% through 2010 before accelerating to near 4% in 2012. Lingering effects of the Great Recession, however, will continue for some time; whether it has permanently altered the U.S. economy remains to be seen.

Table 1

Forecast of the U.S. Economy

Primary Indicators

	2005	2006	2007	2008	2009	2010	2011
Real Gross Domestic Product ($ billions)	12,638	12,976	13,254	13,312	12,985	13,277	13,660
	3.1%	*2.7%*	*2.1%*	*0.4%*	*-2.5%*	*2.2%*	*2.9%*
Federal Funds Rate (%)	3.2	5.0	5.0	1.9	0.2	0.2	1.7
10-Year Treasury Bond Yield (%)	4.3	4.8	4.6	3.7	3.2	3.5	3.9
Consumer Price Index (%Δ from prior year)	3.4	3.2	2.9	3.8	-0.3	1.5	2.0
Housing Starts (thousands of units)	2,073	1,812	1,342	900	575	852	1,263
	6.3%	*-12.6%*	*-25.9%*	*-32.9%*	*-36.1%*	*48.2%*	*48.2%*
Light Vehicle Sales (thousands of units)	16,948	16,504	16,089	13,195	10,254	11,228	13,797
	0.5%	*-2.6%*	*-2.5%*	*-18.0%*	*-22.3%*	*9.5%*	*22.9%*
Corporate Profits Before Tax ($ in billions)	1,609	1,785	1,730	1,425	1,440	1,628	1,796
	34.7%	*10.9%*	*-3.1%*	*-17.6%*	*1.1%*	*13.1%*	*10.3%*
Total Non-Agricultural Employment (thousands)	133,699	136,098	137,604	137,046	131,894	130,648	132,921
	1.7%	*1.8%*	*1.1%*	*-0.4%*	*-3.8%*	*-0.9%*	*1.7%*
Unemployment Rate (%)	5.1	4.6	4.6	5.8	9.2	10.0	9.4
Total Personal Income ($ in billions)	10,486	11,268	11,894	12,239	11,973	12,291	12,795
	5.5%	*7.5%*	*5.6%*	*2.9%*	*-2.2%*	*2.7%*	*4.1%*

Source: Global Insight (December 2009 forecast)

The Maryland Economy

Maryland's economy, though stronger than the nation's in most respects, has seen significant deterioration since the onset of the "Great Recession" in December 2007. Factors contributing to the cause and the persistence of the recession are many and interconnected, marking recovery a daunting task. Despite many sightings of "green shoots" over the last nine months, many vital indicators have only now appeared to actually bottom out; few are showing actual improvement. Nonetheless, it appears the State's economy is almost through the contraction, and recovery is expected to begin in late 2010.

The Great Recession was instigated by the United States real estate bubble and related finance activity. In Maryland, the median existing home price grew by an average of 2.3% per quarter year-over-year throughout the 1990s before exploding to an average growth rate of 16.5% between the fourth quarter of 2001 and the first quarter of 2006. At the start of that period, the extravagant growth may have made some economic sense–as housing supply fell, prices increased. However, contrary to healthy economic growth, prices continued to rise as inventories soared in 2005. Investors, or speculators, were purchasing homes secure in the knowledge that they would reap significant rewards. As is now clear, those rewards were not as secure as had been thought.

Banks were able to supply the increased demand for housing by lumping mortgages into collateralized debt securities that, once sold off to investors, freed lending capital. The popularity of such securities enticed lenders to offer loans with unconventional terms, such as reduced down payments and adjustable rates. Between 2002 and 2006, 25% of purchase loans in the United States contained an adjustable rate provision (often offered to borrowers with substandard credit). By the second quarter of 2005, 15.2% of all mortgages were subprime, a stark increase from 4.5% in 2002. Concern grew over the long term viability of the related securities as 20% of adjustable rate subprime borrowers fell behind on their payments. The response to this realization was a mass reduction in the market capitalization of both retail and investment banks, the subsequent consolidation of the industry, frozen capital markets, and declining home values. The combination of frozen capital markets, falling housing prices, and the effect on consumer spending paved the way towards recession.

Maryland jobs directly related to housing and financial activities (including real estate) suffered immediately. Construction employment, which had seen significant growth early in the decade, began to fall in the first quarter of 2007. Between then and the third quarter of 2009, 22% of construction jobs have been lost. Financial activities job losses began to accrue in the fourth quarter of 2006, declining 12% between the first quarter of 2006 and third quarter of 2009. While most of the Maryland finance jobs were not directly tied to the credit crisis, losses likely occurred within lending service companies and back office/processing jobs, where cost cutting and industry consolidation were rampant.

Construction job losses are expected to decelerate in the fourth quarter of 2009 before posting actual growth in the third quarter of 2010. Home prices may be approaching their trough as supply is coming into line with demand. Homebuilding is slowly resuming. Housing starts bottomed at 8,427 units (annualized) in the second quarter of 2009, and are forecast to grow by almost 50% in 2010 and 80% in 2011 (very strong growth, but still below 2005 levels). Another early indicator of coming construction activity, while not specific to Maryland, is architectural billings, which have seen a sharp improvement in their rate of decline over the past eight months.

Financial activity job losses are expected to slow in the fourth quarter of 2009 as well, though growth is not expected until the first quarter of 2012. Some early real estate-related job growth may occur as the federal first-time homebuyer credit has proven very successful in creating sales; that credit has recently been expanded. Mortgage originations are expected to grow at a steady pace beginning in the third quarter of 2011, which should trigger solid real estate-related job growth. Financial industry jobs will likely decline until that time, however, as cost cutting continues, processing/call center jobs are automated or shifted off shore, and firms continue to evaluate their businesses needs following merger and acquisition activity.

Consumer sentiment has suffered greatly through the recession, and with sentiment went spending. In the same month that Maryland's median home values began to decline, consumer confidence–as measured by the Conference Board–began to fall from reasonably high levels. The index continued to erode at a somewhat moderate pace, loosely correlated to the housing market, until the major sell-off in the stock market. The Standard and Poor's 500 Index lost 56% of its value between its peak (the week of October 12, 2007) and the week of March 6, 2009. In less than a month, between the weeks of September 19, 2008 and October 10, 2008, the S&P lost 28% of its value. It should not come as a surprise that consumer confidence fell 37% between September and October.

The real estate and stock market's effects on Maryland's consumer spending were evident immediately. As measured by sales tax collections, September consumer spending fell 11.7% (year over year). The immediate spending changes likely reflected what economists refer to as the wealth effect. The sudden decrease in the household balance sheet, whether or not consumers had actually lost money on asset sales, left many people psychologically affected, causing them to reign in spending. To the extent the wealth effect was not at play, tremendous anxiety over the near-term course of the economy likely was.

The above problems have been exacerbated by declining employment, a situation not experienced in Maryland since the early 1990s. As months passed, and consumer spending continued to erode, business owners and managers slashed payrolls in preparation for a slump. While job losses in the construction, manufacturing, and financial activities sectors had been both prevalent and assumed, losses began to mount across the broader economy. Information and professional/business services, both high-paying industries symbolic of Maryland's knowledge economy, began to shrink. Even the leisure and hospitality industry, which hadn't contracted since 1996, did so for the first time in the fourth quarter of 2008. Each job loss reinforced pressure on consumers to cutback spending and focus on reducing the liability side of their personal balance sheets.

In this regard, Maryland has not suffered to the same extent as the nation as a whole. Education and health employment, in tandem with a strong government presence, has helped keep Maryland out of the abyss. The education and health services sectors have averaged 2.5% quarterly employment growth since 2006. Federal government employment, which had been declining marginally since the second quarter of 2003, picked up momentum in the fourth quarter of 2007 and has grown since–a big boost is approaching with the 2010 Census. Increases in local government employment throughout 2008 also has played a roll in keeping Maryland's economy from experiencing the same declines as the nation's.

Looking forward, consumers should begin to regain their confidence in the first half of 2010. Except for State and local government, all industries are expected to see decelerating job losses in the fourth quarter of 2009, although only education and health services and federal government employment are expected to grow. Maryland employment is expected to decline 2.9% in calendar year 2009, the largest drop in employment since 1991. As the economy recovers in 2010, though not significantly until the end of the year, employment is expected to decline another 0.4%. Maryland employment is not expected to increase until calendar year 2011, at a rate of 1.6%. Personal income growth is expected to slow to 0.7% in 2009, the lowest growth (in nominal terms) on record. Growth will remain very weak in 2010 at 2.0%. In both years, wage and salary income will be the driving force, expected to decline 1.4% in 2009–again, the worst performance on record–and to increase by only 1.2% in 2010. While employment growth is expected to return to more normal levels in 2011, high unemployment will cause income growth to lag. Total personal income is forecast to grow 3.7% in 2011, with wage and salary income increasing 4.4%. Not until midway through 2012 will income growth return to levels that would generally be considered normal for Maryland's economy.

Table 2
Forecast of the Maryland Economy

	2005	2006	2007	2008	2009	2010	2011
Total Non-Agricultural Employment (thousands)	2,555.7	2,589.4	2,608.4	2,598.7	2,524.5	2,515.4	2,555.9
	1.5%	*1.3%*	*0.7%*	*-0.4%*	*-2.9%*	*-0.4%*	*1.6%*
Goods Producing	317.8	319.2	315.7	301.9	267.1	260.4	267.6
	1.7%	*0.4%*	*-1.1%*	*-4.4%*	*-11.5%*	*-2.5%*	*2.8%*
Services	1,765.3	1,792.5	1,808.0	1,803.3	1,767.3	1,761.9	1,796.2
	1.7%	*1.5%*	*0.9%*	*-0.3%*	*-2.0%*	*-0.3%*	*1.9%*
Government	466.0	471.1	478.4	487.1	490.2	493.1	492.1
	0.8%	*1.1%*	*1.6%*	*1.8%*	*0.6%*	*0.6%*	*-0.2%*
Total Personal Income ($ in millions)	237,522	252,781	264,368	272,542	274,583	280,092	290,448
	5.6%	*6.4%*	*4.6%*	*3.1%*	*0.7%*	*2.0%*	*3.7%*
Wages and Salaries	121,524	128,481	134,946	138,135	136,239	137,841	142,608
	5.6%	*5.7%*	*5.0%*	*2.4%*	*-1.4%*	*1.2%*	*3.5%*
Dividends, Interest and Rent	37,730	43,241	46,240	47,423	44,988	45,307	47,286
	4.1%	*14.6%*	*6.9%*	*2.6%*	*-5.1%*	*0.7%*	*4.4%*
Capital Gains ($ in millions)	11,532	12,970	15,614	5,699	3,790	4,264	4,605
	29.8%	*12.5%*	*20.4%*	*-63.5%*	*-33.5%*	*12.5%*	*8.0%*
Unemployment Rate (%)	4.1	3.8	3.5	4.4	7.1	7.7	6.9

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 2009 through 2011. 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 2009 - 2011

$ Thousands	GENERAL FUND Fiscal Year 2009 Actual	GENERAL FUND Fiscal Year 2010 Revised Estimate	GENERAL FUND Fiscal Year 2011 Estimate	SPECIAL FUND Fiscal Year 2009 Actual	SPECIAL FUND Fiscal Year 2010 Revised Estimate	SPECIAL FUND Fiscal Year 2011 Estimate	TOTAL Fiscal Year 2009 Actual	TOTAL Fiscal Year 2010 Revised Estimate	TOTAL Fiscal Year 2011 Estimate
INCOME TAXES									
Individual	6,477,157	6,121,847	6,308,374				6,477,157	6,121,847	6,308,374
Corporations	550,740	495,013	559,178	198,262	177,230	142,989	749,001	672,243	702,167
Total	7,027,897	6,616,860	6,867,552	198,262	177,230	142,989	7,226,158	6,794,090	7,010,541
SALES AND USE TAXES	3,620,431	3,506,736	3,650,453	230,860	230,405	256,878	3,851,291	3,737,141	3,907,331
STATE LOTTERY RECEIPTS	473,206	522,975	527,640	79,058	70,741	74,092	552,264	593,716	601,732
TRANSPORTATION REVENUES									
Motor Vehicle Fuel Tax	6,500	8,386		729,605	731,814	751,400	736,105	740,200	751,400
Motor Vehicle Licenses, Fees				611,525	608,322	630,562	611,525	608,322	630,562
Motor Vehicle Titling Tax				514,155	514,000	552,000	514,155	514,000	552,000
Maryland Transit Fees				117,557	118,000	124,000	117,557	118,000	124,000
Maryland Port Fees				93,635	94,000	95,000	93,635	94,000	95,000
Maryland Aviation Fees				181,580	185,000	195,000	181,580	185,000	195,000
Total	6,500	8,386		2,248,057	2,251,136	2,347,962	2,254,557	2,259,522	2,347,962
OTHER REVENUES									
State Real and Personal Property Tax				698,569	759,790	781,143	698,569	759,790	781,143
Property Transfer Tax				113,659	116,466	149,891	113,659	116,466	149,891
Business Franchises and Filing Fees	201,378	216,123	216,123				201,378	216,123	216,123
State Tobacco Tax	405,579	396,592	387,922				405,579	396,592	387,922
Tax on Insurance Companies	275,203	266,946	273,821				275,203	266,946	273,821
Alcoholic Beverages Excises	29,168	29,512	30,035				29,168	29,512	30,035
Death Taxes	205,492	161,822	157,076				205,492	161,822	157,076
Clerks of the Court	40,514	44,606	46,810				40,514	44,606	46,810
District Courts	89,379	91,042	92,558				89,379	91,042	92,558
Hospital Patient Recoveries	96,462	70,978	67,427				96,462	70,978	67,427
Interest on Investments	83,050	35,000	43,000					--- See Notes ---	
Miscellaneous Fees, Other Receipts	338,302	311,192	305,898						
Total	1,764,524	1,623,813	1,620,670						
Total Current Revenues	12,892,558	12,278,770	12,666,315					--- See Notes ---	
Extraordinary Revenues[1]	7,917	20,700	5,400		300	150			
GRAND TOTAL	12,900,475	12,299,470	12,671,715		--- See Notes ---				

[1] Extraordinary revenues include a GAAP transfer of $7.9 million in fiscal year 2009. For fiscal years 2010 and 2011, extraordinary revenues represent anticipated collections from the 2009 tax amnesty program.

Notes: Includes all general fund revenues, all Transportation revenues and selected special fund taxes. In conjunction with Appendix B of the Fiscal Year 2011 Budget Book, this table will comprise the official estimate of total state revenues.

Table 4

Maryland General Fund Revenues

Fiscal Years 2009 - 2011

$ Thousands	FY 2009 Actual	FY 2010 September Estimate	FY 2010 December Estimate	FY 2010 Difference	FY 2010 Growth	FY 2011 September Estimate	FY 2011 December Estimate	FY 2011 Difference	FY 2011 Growth
INCOME TAXES:									
Individual	6,477,157	6,121,847	6,121,847	0	-5.5%	6,358,220	6,308,374	(49,846)	3.0%
Corporation	550,740	495,013	495,013	0	-10.1%	541,071	559,178	18,107	13.0%
Total	7,027,897	6,616,860	6,616,860	0	-5.8%	6,899,291	6,867,552	(31,739)	3.8%
SALES AND USE TAXES	3,620,431	3,523,871	3,506,736	(17,135)	-3.1%	3,647,243	3,650,453	3,210	4.1%
STATE LOTTERY	473,206	522,975	522,975	0	10.5%	530,412	527,640	(2,772)	0.9%
OTHER REVENUES									
Business Franchise Taxes	201,378	216,123	216,123	0	7.3%	216,123	216,123	0	0.0%
Tax on Insurance Companies	275,203	275,753	266,946	(8,807)	-3.0%	281,268	273,821	(7,447)	2.6%
Death Taxes	205,492	180,209	161,822	(18,387)	-21.3%	178,274	157,076	(21,198)	-2.9%
Tobacco Tax	405,579	380,250	396,592	16,342	-2.2%	375,672	387,922	12,250	-2.2%
Alcoholic Beverages Excise Tax	29,168	29,512	29,512	0	1.2%	29,866	30,035	169	1.8%
Motor Vehicle Fuel Tax	6,500	8,386	8,386	0	29.0%	0	0	0	-100.0%
District Courts	89,379	88,579	91,042	2,463	1.9%	87,515	92,558	5,043	1.7%
Clerks of the Court	40,514	42,015	44,606	2,591	10.1%	40,172	46,810	6,638	4.9%
Hospital Patient Recoveries	96,462	65,716	70,978	5,262	-26.4%	67,060	67,427	367	-5.0%
Interest on Investments	83,050	38,000	35,000	(3,000)	-57.9%	48,500	43,000	(5,500)	22.9%
Miscellaneous	338,302	326,000	311,192	(14,808)	-8.0%	332,520	305,898	(26,622)	-1.7%
Total	1,771,024	1,650,543	1,632,199	(18,344)	-7.8%	1,656,970	1,620,670	(36,300)	-0.7%
Total Current Revenues	12,892,558	12,314,249	12,278,770	(35,479)	-4.8%	12,733,916	12,666,315	(67,601)	3.2%
Extraordinary Revenues	7,917	0	20,700	20,700	161.5%	0	5,400	5,400	-73.9%
GRAND TOTAL	12,900,475	12,314,249	12,299,470	(14,779)	-4.7%	12,733,916	12,671,715	(62,201)	3.0%

Individual Income Tax

General fund individual income tax revenues declined 6.7% in fiscal year 2009 to $6.477 billion. Income tax withholding, the largest component of the individual income tax, declined 0.5% for the fiscal year. Wage income increased at only 0.5% over the course of the fiscal year, the lowest growth on record. That weak growth, coupled with the effective increase in personal exemptions beginning in tax year 2008, led to the withholding decline. After growing by almost 10% in the first quarter of the fiscal year (the third quarter of 2009), estimated income tax payments fell by 18% in the second fiscal quarter and over 30% in both quarters in the last half of the fiscal year. The 48% peak to trough decline of the Standard and Poor’s 500 Index over the course of the fiscal year dramatically reduced taxpayers’ expectations for both tax years 2008 and 2009. Capital gains are estimated to have fallen 64% for tax year 2008; as a result, final payments for tax year 2008, received in April 2009, fell by 28% or $291 million, and refunds paid out during the filing season increased by 14%, or $257 million, further depressing revenues.

Through November, individual income tax receipts have performed largely as expected. Withholding is down 1.6% for the year, although the first quarter of the fiscal year is likely to be the trough. Estimated payments for third calendar quarter activity received in September declined by 28.7%, a marginal improvement over the 31% and 32% declines of the first quarter. While final payment and refund activity at this point in the fiscal year is likely not indicative of full-year performance, both are running somewhat ahead of expectations. General fund receipts have declined 7.4% on the year.

For fiscal year 2010 as a whole, general fund revenues are expected to decline by 5.5%. Income tax withholding is expected to increase a very modest 0.3% as job losses moderate through the end of the fiscal year. Estimated payments are forecast to decline 13.6% with continuing troubles for small businesses and the self-employed, along with an expected 34% drop in capital gains (in calendar year 2009). In fiscal year 2011, as the economy moves toward recovery, withholding is expected to increase a historically very weak 2.8%. Growth at that rate would be the fourth lowest on record. Estimated payments, supported by safe harbor requirements, will be flat for the year. Gross receipts are expected to increase 3.0%, and general fund revenues are forecast to grow by the same modest amount, to $6.308 billion.

Changes to the individual income tax effective beginning in tax year 2008, including an increase in the maximum personal exemption, new income tax brackets, and an increase in the refundable earned income credit, resulted in a net increase in general funds of $65.8 million in fiscal year 2009. Due to the recession and the slump in capital gains, high-income taxpayers are expected to have substantially reduced incomes in 2009 and 2010. Accordingly, the impact of these law changes is expected to fall to just $20.9 million for fiscal year 2010, almost entirely a result of less taxable income in the new, higher tax brackets. Timing issues and a sluggish economy combine to result in a revenue increase estimated at just $4.9 million in fiscal year 2011.

Several of the largest risks in the revenue forecast are contained within the individual income tax. The forecast requires that estimated income tax payments grow in the first two quarters of calendar year 2010. As taxpayers reset their expectations at the start of each tax year, making estimated payments based on either the prior year's liability or expected liability for the current year, there is no direct connection between estimated payments in one year and the next. But there is a risk that, even if the forecast for tax year 2010 liability is correct, taxpayers' expectations at the start of the year may be pessimistic and, therefore, estimated payments could be weaker than expected. Similarly, if estimated payments for tax year 2009 did not fully reflect the impact of the recession and the fall in capital gains, final payments in April would be substantially lower than expected, and refunds could be higher than expected.

The individual income tax rarely declines–only on four occasions since 1967 has that occurred, in fiscal years 1992, 2002, 2003, and 2009. The current situation looks similar to 2002 and 2003 with respect to capital gains, but the broader economy is much weaker than during that period. If the current forecast is met, the income tax will have fallen 11.8% over the course of fiscal years 2009 and 2010, well in excess of the 8.4% decline over fiscal years 2002 and 2003. The individual income tax, half of general fund revenues, is expected to fall below fiscal year 2006 levels in 2010, and remain below 2007 collections in 2011.

Table 5

Individual Income Tax Revenues

Fiscal Years 2008-2011

($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Gross Receipts (State & Local)				
Withholding	10,184,029	10,139,154	10,167,246	10,456,256
Estimated Payments	1,825,895	1,532,974	1,324,503	1,315,622
Payments with Final Returns	1,527,824	1,146,673	955,318	1,013,421
Fiduciary	131,460	66,364	56,004	59,304
Gross Receipts	13,669,209	12,885,165	12,503,072	12,844,603
Refunds	(2,246,080)	(2,532,839)	(2,630,585)	(2,671,410)
Net Receipts (State & Local)	11,423,129	10,352,326	9,872,487	10,173,192
Local Reserve Account	(4,481,227)	(3,873,349)	(3,748,639)	(3,862,818)
Income Tax Check-offs	(1,769)	(1,820)	(2,000)	(2,000)
Net General Fund	6,940,133	6,477,157	6,121,847	6,308,374

Figures may not sum to totals due to rounding.

Corporate Income Tax

General fund corporate income tax revenues declined 0.2% in fiscal year 2009 despite the 15.5% decline in U.S. corporate profits during the year. The reason for the relatively good performance is the increase in the corporate income tax rate from 7% to 8.25% effective for tax year 2008. Boosted by the rate increase, gross receipts fell only 3.0%. Estimated payments fell only 0.9%, but after adjusting for the rate increase, the decline was 10.0%. Final payments fell 7.3%, almost 15% after adjusting for the rate increase. Corporate income tax refunds declined 17.4% from the record levels of fiscal year 2008, although they were still 30% higher than any other previous year. Net receipts, adjusted for the rate increase, fell about 10%.

Through the first five months of fiscal year 2010, net corporate income tax receipts have declined 7.8% (most payments at this point are at the 8.25% rate). In the third quarter of calendar year 2009, corporate profits declined 6.7% nationally. Gross receipts have been roughly in line with profits, falling 6.1% through November. The fall in profits last quarter was the eleventh consecutive quarter of decline–the longest such period in postwar history. Profits are expected to rebound strongly in the fourth calendar quarter of 2009, by over 20%. The rebound is expected to continue through the end of the fiscal year, with growth in profits above 10%.

Despite the strong rebound in profits, gross receipts are forecast to decline 1.5% in fiscal year 2010. Estimated payments, which generally reflect current economic activity, may increase slightly, but many taxpayers will likely use the safe harbor of 110% of last year’s liability, and hence underpay their actual estimated liability through this period. Final payments are expected to decline as a result of the very poor environment in 2008, a year which saw the largest quarterly drop in corporate profits on record. Refunds are expected to surge to $265.3 million, a record level, again because of the miserable performance of corporate profits during (and before) calendar year 2008. In fiscal year 2011, the strong profit growth will show itself in gross receipts, which are forecast to increase 3.9%. Final payments are still expected to fall, while estimated payments will show accelerating growth. Refunds are expected to remain at high levels in fiscal year 2011 as a result of net operating loss (NOL) carryforwards.

While it is true that, as one of the State’s most volatile revenue sources, the corporate income tax forecast is the source of much risk for the overall revenue estimate, and that risk is heightened this year. Given the record drop in corporate profits over the past three years, particularly calendar year 2008, many corporations will have realized NOLs. As tax year 2008 returns are filed (typically on October 15, 2009 for calendar year taxpayers), NOLs, if any, will be determined. NOLs can be carried back two tax years–once the NOLs are calculated, taxpayers can file amended returns for the two prior tax years, with the losses offsetting any taxable income they may have had. To the extent that the NOLs offset that income, taxpayers can claim a refund. Effectively, a very bad year, as 2008 was, can potentially eliminate tax liability for three years at one time. To date, few returns have been amended for NOLs realized in 2008, although they would likely just now be submitted by taxpayers. Based on historical data and year to date collections, it would be extraordinary if the fiscal year 2010 estimate for refunds were exceeded. Corporate profits before, during and after tax year 2008, however, behaved in an extraordinary manner.

Table 6

Corporate Income Tax Revenues

Fiscal Years 2008-2011

($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Gross Receipts	980,696	951,683	937,568	967,493
Refunds	(245,373)	(202,682)	(265,325)	(265,325)
Net Receipts	735,324	749,001	672,243	702,167
Transportation Trust Fund	(167,651)	(151,304)	(136,896)	(142,989)
Electric Universal Service Fund	(16,123)	0	0	0
Higher Education Investment Fund	0	(46,957)	(40,335)	0
Net General Fund	551,673	550,740	495,013	559,178

Figures may not sum to totals due to rounding.

Sales and Use Taxes

Sales and use taxes, the second-largest source of general fund revenue, have grown two years in a row, with growth before distributions of 8.7% in fiscal year 2008 and 2.6% in fiscal year 2009. While the decline in growth rates may seem alarming, greater concern arises when collections are adjusted for the rate increase. Had the rate not been raised from 5% to 6% in January 2008, collections would have been essentially flat in 2008 and declined 6.3% in fiscal year 2009. Year to date receipts are down 6.9%, though the rate of decline has moderated each month this fiscal year. Collections are expected to continue improving as the year moves forward, finishing down 3.0% in fiscal year 2010 but improving to 4.6% growth for fiscal year 2011. The general fund portion is expected to fall 3.0% for fiscal year 2010 and increase 4.1% in fiscal year 2011, with the differences attributable to varying special fund distributions.

The consumer segment of sales tax revenues, about two-thirds of gross sales tax collections, finished up 9.2% in fiscal year 2008 and 4.9% in fiscal year 2009. Baseline growth, adjusted for the rate increase, reduces growth to 0.4% and -4.2%, respectively. Coincidentally, year to date collections are currently tracking down 4.2%. The decline in spending is likely attributable to the wealth effect and growing unemployment. The S&P 500 has grown signifcantly since bottoming out in March 2009 and housing price declines may be near the bottom. Wealth revival, in tandem with an expected decline in the rate of job losses in the back half of this fiscal year, are expected to bring shoppers back out. Consumer-related collections are forecast to fall 0.8% in fiscal year 2010 before increasing by 2.6% in fiscal year 2011.

The second-largest segment of the sales tax, and the most volatile, is the construction component. Construction related remittances had surged throughout the middle of this decade, shadowing the housing boom. Falling home prices, mortgage refinancing, and sales volume led to a reduction in home improvements and new home construction. Baseline construction collections fell 5.8% in fiscal year 2008 and 14.4% in fiscal year 2009. Year to date collections are down 17.7%, though the rate of decline has improved recently. With sales volume expected to increase throughout the last half of the fiscal year, 2010 construction receipts are forecast to fall only 10.9%. In fiscal year 2011, increasing housing starts, prices, and remodeling activity are forecast to boost construction receipts by 13.7% off of a relatively low base.

Revenue from the utility sector–largely from sales of electricity and natural gas to commercial and industrial customers, purchases of equipment by electric, gas, and telephone companies, and cellular phone service–grew 3.3% and 3.6% in fiscal years 2008 and 2009, respectively (baseline basis). Much of the recent growth is likely attributable to continued investment in non-residential communications equipment such as the development of 3G and FIOS networks as well as increased electricity prices, but this growth has come to an end with the continuing recession. Year to date collections are down 13.4% as many businesses have either closed or reduced activity and communications equipment investment has slowed. The current situation is forecasted to improve, with fiscal year 2010 collections falling 4.3% and fiscal year 2011 collections increasing 4.8%

Growth in remittances from sales of capital goods—generally durable goods purchased and used by business—fell 12.8% for fiscal year 2009 after essentially flat growth in fiscal year 2008 (baseline). Year to date, receipts are down 8.5%. Companies have reduced their capital investments in line with expectations about the economy and will likely not increase investment activity until fiscal year 2011 when the economic recovery accelerates. Collections are expected to fall 8.8% in fiscal year 2010 before increasing 7.3% in fiscal year 2011.

Table 7

Sales and Use Tax Revenues

Fiscal Years 2008-2011

($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Consumer	2,494,483	2,617,052	2,596,597	2,664,192
Construction	544,768	510,754	454,870	517,354
Capital Goods	326,465	312,950	285,367	306,267
Utilities	368,232	416,952	398,887	418,028
Gross Collections	3,734,296	3,857,707	3,735,720	3,905,841
Assessments	25,435	16,153	14,804	15,516
Refunds	(10,809)	(22,570)	(13,383)	(14,026)
Transportation Trust Fund	(23,659)	(223,085)	(217,117)	(227,961)
Other[1]	(50,000)	(7,776)	(13,288)	(28,917)
Total General Fund	3,675,263	3,620,431	3,506,736	3,650,453

[1] Other distributions include the State Police Helicopter Replacement Fund in 2008 and the Chesapeake Bay 2010 Fund in 2009 and later.

Figures may not sum to totals due to rounding.

Lottery

General fund lottery collections declined by 4.8% to $473.2 million in fiscal year 2009, falling nearly to fiscal year 2008 levels. Sales increased 1.5% to $1.7 billion, but they could not offset a year of abnormally unfavorable payouts from the State's perspective. Gross revenues fell 6.8% before the $20 million distribution to the Stadium Authority. The primary cause for the revenue decline was a swing from fiscal year 2008's abnormally low prize payouts for Pick 3 and Pick 4 (46.0% and 42.7% of sales, respectively), which boosted revenues, to somewhat higher than statistically expected payouts this year (about 53.2% for both games). In addition, high gas prices in the beginning of the year, together with record sales growth the year before, derailed Instant ticket sales (which comprise almost 30% of total sales), by 2.3%. Mega Millions sales were down 2.7%, as jackpots failed to reach their record levels of fiscal year 2008. Other games fared somewhat better. Keno/Racetrax posted stronger 4.9% growth in both sales and revenues, while MultiMatch sales and revenues grew 5.4% and 2.9%, respectively.

Before the Stadium Authority distribution, year to date lottery revenues are up 16.0% on a 2.8% increase in sales. The revenue increase has been driven by a return to more normal payouts from Pick 3 and Pick 4, and large jackpots in the Mega Millions and MultiMatch games. Despite falling sales for both Pick 3 and Pick 4, revenues are up 11.8% and 55.9%, respectively. Mega Millions jackpots have been high through the first half of the fiscal year, yielding a 39% increase in both sales and revenues. In August the pot reached $333 million, with a $200 million jackpot in October. MultiMatch, while a relatively small piece of the pie, had a record $5 million jackpot in September (the jackpot is usually under $1 million) and sales are subsequently up 24.2% for the year. Other games have made more modest impacts. The introduction of new bonus games in both Keno and Racetrax have aided sales, with growth up a combined 2.6%, though revenues are down 4.7%. In addition, a new Baltimore Ravens scratch-off ticket may have played a role in instant ticket sales and revenue growth, up 1.3% and 5.4% respectively.

In fiscal year 2010, gross revenues are expected to increase 10.0% to $542.6 million on 2.3% sales growth. A resurgence in the economy is expected to play a role in the sales growth of most games. Sales in both Pick 3 and Pick 4 are expected to risein the second half of the year and the prize payouts are expected to return to statistically normal levels. Keno/Racetrax will continue its present level of sales growth, though here also, payout levels should normalize. Instant ticket sales are expected to continue to grow, with commensurate growth in revenues for the rest of the year.

Powerball sales may come to Maryland in February. Powerball is currently in 31 states and the District of Columbia, including all of Maryland's neighbors except for Virginia. The introduction of a new, large jackpot game may bring in additional sales; fiscal year 2010 sales and revenues for Mega Millions and Powerball, when it comes about, are expected to increase 12.9% and 16.4%, respectively. Sales performance is expected to moderate in fiscal year 2011.

Table 8

Lottery Sales and Revenues by Game

Fiscal Years 2008-2011

($ in millions)

	Sales				Revenues			
	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Pick 3	274.3	276.3	270.3	264.1	124.7	104.2	108.2	111.7
Pick 4	234.9	249.2	251.0	254.2	111.8	92.0	114.1	106.5
Multimatch	31.2	32.9	37.5	38.3	11.1	11.4	13.7	14.0
Instant/Countdown to Millions	519.0	507.1	518.2	526.0	92.0	90.1	95.4	97.9
Keno/Racetrax	460.8	483.2	496.1	503.1	129.2	135.5	143.1	146.1
Bonus Match 5	23.4	23.5	22.3	22.6	7.2	8.4	7.9	7.9
Mega Millions	129.4	126.0	142.3	151.2	53.5	51.7	60.2	63.6
Total	1,673.0	1,698.1	1,737.7	1,759.4	529.4	493.2	542.6	547.6
Less Stadium Authority Revenue					(21.5)	(20.0)	(19.6)	(20.0)
Less distribution to special fund per Chapter 589, Acts of 2008					(10.8)	0.0	0.0	0.0
General Fund Revenue					497.1	473.2	523.0	527.6

Figures may not sum to totals due to rounding.

Note: Special fund revenues (the Lottery Agency's operating expenses) of $58.5 million in 2008 and $59.1 million in 2009 are not included in this table; these revenues, generally proportional to sales by game, are expected to be $51.1 million in 2010 and $54.1 million in 2011.

Business Franchise Taxes

The public service company tax, or business franchise tax, is levied on electric and gas utilities and telephone companies. Natural gas is taxed at 0.402 cents per therm and electricity at 0.062 cents per kilowatt hour. In addition, there is a 2.0% tax on the cost of distribution. The tax on telephone service is also 2.0%. Filing fees, collected from corporate and non-corporate entities, are also included in business franchise taxes. The filing fee is an annual fee of $300 required from most entities doing business in the State.

Business franchise tax receipts declined 3.2% in fiscal year 2009 to $201.4 million with the decline coming from the public service company franchise tax. Receipts fell in both electric and gas utilities and telephone company segments, 5.3% and 8.4% respectively. The decline in electric and gas utilities came in the second half of the year , generally in line with contracting economic activity. It should also be noted that Maryland-mined coal credits taken against the franchise tax totaled $7.4 million in fiscal year 2009, from $5.9 million in 2008. While there was a slight pickup in telephone company receipts, they have been declining for years as consumers and businesses have abandoned land lines in favor of cellular phones.

Fiscal year to date, franchise tax collections are down 3.5%, but are expected to rebound and grow 7.3% to $216.1 million as economic activity increases. A portion of the expected increase is based on the $4.5 million statutory cap on the Maryland-mined coal credit for fiscal years 2010 and 2011. Flat growth is forecast for fiscal year 2011.

Table 9
Business Franchise Tax Revenues
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Public Service Company Franchise Tax	133,513	124,915	139,454	139,454
Filing Fees	74,440	76,435	76,669	76,669
Financial Institution Franchise Tax	15	28	0	0
Total	207,968	201,378	216,123	216,123

Figures may not sum to totals due to rounding.

Insurance Premium Tax

Insurance premiums are taxed at a rate of 2.0%. Collections declined 8.8% in fiscal year 2009, marking the first year receipts have fallen since 1994. Across the different lines, growth in insurance premiums is closely tied to automobile purchases, home ownership, home prices, employment, and general business activity. A reduction in policies written, however, is not the sole culprit in the diminution of collections; increased competition has also driven a reduction in premium prices. The historic structure rehabilitation tax credit can be claimed against the insurance premium tax; over the past two years, credits against the tax have risen. Premium tax revenues are expected to fall 3.0% to $266.9 million in fiscal year 2010, but grow by 2.6% to $273.8 million in fiscal year 2011.

Table 10
Insurance Premium Tax Revenues
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Premium Tax	301,831	275,203	266,946	273,821

Death Taxes

Death tax revenues are inherently volatile, resulting as they do from the value of taxable estates left by decedents. In recent years, gyrations in the value of stocks, real estate, and other assets have caused changes of up to $42 million in estate and inheritance taxes from one year to the next. State and federal law changes have also played a role, although Maryland's estate tax is decoupled from most of the recent changes in the federal estate tax.

Estate tax revenues are more volatile than even the corporate income tax. Since 1989, the annual change in revenues has ranged from growth of over 100% to declines of more than 28%. On average, revenues have increased 15.5%. Fiscal year 2008 collections reached a record high of $194.5 million before falling 21.1% to $153.4 million in fiscal year 2009.

Through the first five months of fiscal year 2010, nine estates made payments over $1 million with an average value of over $3 million. In contrast, at this point last year there were ten such estates but the average value was only $2 million. Whether this is a result of some underlying fundamentals affecting wealth or is simply random is uncertain. Payments from estates of between $500,000 and $1 million are down 70% in dollars and 64% in number. Large estate tax refunds are also up by $6.2 million. In the aggregate, the estate tax is down 32.1%. Accordingly, fiscal year 2010 revenues are expected to decline 26.6% tax despite a forecast increase in average net wealth. Receipts in fiscal year 2011 are also expected to decline, contracting 5.1% to $106.9 million.

Inheritance tax revenue is now essentially from the collateral inheritance tax, a 10% tax applied to bequests to anyone aside from lineal relatives and siblings of the decedent. As with the estate tax, inheritance tax revenues have fluctuated over the years. Year to date revenues are down 6.0%; for the full fiscal year revenues are forecast to decline 5.6% to $49.0 million, with a modest 2.1% increase in fiscal year 2011.

Table 11

Death Tax Revenues

Fiscal Years 2008-2011

($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Collateral Inheritance Tax	48,432	51,842	48,962	49,988
Direct Inheritance Tax	632	221	200	200
Estate Tax	194,477	153,429	112,660	106,888
Total	243,541	205,492	161,822	157,076

Figures may not sum to totals due to rounding.

Alcohol and Tobacco Excise Taxes

Tobacco tax collections increased 7.8% in fiscal year 2009 to $405.6 million. The growth is entirely attributable to the $1.00 per pack tax increase on January 1, 2008, which resulted in lower pack sales as demand proved highly elastic–cigarette pack sales fell 27% between calendar years 2007 and 2008. In addition to the State tax increase, the federal tobacco tax rate increased 62¢, effective March 31, 2009, further reducing demand at the end of the fiscal year. For fiscal year 2009 (the higher rate was only effective for second half of fiscal year 2008), pack sales declined almost 18%. The tax on other tobacco products increased 12.7% to just under $11.0 million, possibly receiving a boost as a substitute product for cigarettes.

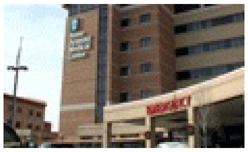
Year to date in fiscal year 2010, pack sales are down roughly $1 million or 1.3%. Revenues have declined $4.4 million, or 3.0%. In line with long-term activity, pack sales are expected to decline 2.5% both this year and next. Revenues from other tobacco products are up 9.1% for the fiscal year, and are expected to show strong growth throughout the fiscal year. In the aggregate, tobacco revenues are expected to fall 2.2% in both fiscal year 2010 and 2011.

Continuing a decelerating trend, alcohol excise tax revenues grew just 0.7% to $29.2 million in fiscal year 2009. Revenues from spirits and wine climbed 2.6% and 2.8%, respectively. Most major producers of beer increased prices in response to higher input costs and reduced demand, which likely played a role in the subsequent 3.4% decline. Combined alcohol revenues are forecast to accelerate to 1.2% to $29.5 million in fiscal year 2010 and 1.8% in fiscal year 2011.

Table 12
Excise Tax Revenues
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Cigarette Tax	366,374	394,080	384,737	375,119
Other Tobacco Products Tax	9,738	10,977	11,855	12,803
Total Tobacco Taxes	376,112	405,057	396,592	387,922
Distilled Spirits Tax	14,334	14,708	15,088	15,484
Wine Tax	5,222	5,365	5,544	8,825
Beer Tax	9,410	9,095	8,880	5,726
Total Alcoholic Beverages Tax	28,966	29,168	29,512	30,035

Figures may not sum to totals due to rounding.



Hospital Patient Recoveries

Hospital patient recoveries are revenues received for services provided in State hospitals which are paid by the patients, their sponsors or insurance, and federal Medicaid and Medicare programs. Medicaid reimbursements, the largest share of recoveries, primarily relates to patients in psychiatric hospitals. A total of $96.5 million in hospital patient recoveries was collected in fiscal year 2009, an 11.4% increase over the previous year. A sharp decline is forecast in fiscal year 2010, down 26.4% to $71.0 million. The lower estimate is the result of fewer Medicaid-billable days attributable to a reduction of the number of patients treated and beds available as several facilities are either now closed or in the process of closing. Fiscal year 2011 revenues are expected to fall another 5.0%.

Table 13
Hospital Patient Recoveries
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Medicaid	51,053	58,397	36,266	33,353
Medicare	5,507	7,456	5,665	5,423
Insurance and Sponsors	5,885	5,843	4,932	4,536
	62,445	71,695	46,863	43,312
Disproportionate Share	24,111	24,766	24,115	24,115
Total	86,556	96,462	70,978	67,427

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. Revenues fell 5.9% and 2.1% in fiscal years 2008 and 2009, respectively, the first declines since 2003. Fiscal year 2010 year to date performance stands at 2.8% growth, though expectations are for a pull back to 1.9% for fiscal year 2010 and a 1.7% increase in 2011.

General fund revenue from the clerks of the circuit courts are derived largely from recordation-related activity, although about $8.5 million is received annually from a variety of court fees. Revenue from the clerks has fallen in each of the preceding three fiscal years, mirroring the performance of the real estate market. Between fiscal years 2004 and 2006 an average of 1.3 million homes were sold annually in Maryland. In fiscal year 2009, that number fell by 66% to 447,000. Year to date revenues are up 7.6%, however, a result of the recent increase in home sales, spurred by the federal first-time homebuyers tax credit. Accordingly, fiscal year 2010 revenues are expected to finish up 10.1% at $44.6 million before climbing to $46.8 million in 2011 as recordation activity, though at levels below those of the boom years, continues to increase.

Table 14
General Fund Court Revenues
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
District Courts	91,308	89,379	91,042	92,558
Clerks of the Court	42,559	40,514	44,606	46,810

Interest Earnings

Interest on investments fell significantly in fiscal year 2009 as interest rates, revenues, and the State's balances declined. All three trends are expected to carry through fiscal year 2010 and improve moderately in fiscal year 2011. The current forecast for three-month Treasury bill rates calls for a decline to 0.176% in fiscal year 2010 before a substantial increase to a still modest 0.985% in fiscal year 2011. Rates are expected to increase to more normal levels in the out years. Lower rates in combination with smaller balances leads to expected interest earnings of $35.0 million in fiscal year 2010 and $43.0 million in fiscal year 2011.

Table 15
Interest Earnings
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Interest Earnings	166,518	83,050	35,000	43,000

Miscellaneous Revenues

The general fund receives a substantial amount of revenues each year from a number of fees and other non-tax revenue sources. As in past years, the majority of this revenue is from unclaimed property and uninsured motorist penalty fees. While revenues from unclaimed property declined by nearly 9.5% in fiscal year 2009, some of this loss was offset by 7.6% growth in revenues from uninsured motorist penalties. However, total miscellaneous revenues declined by nearly $8.0 million, or 4.6%, for the year.

Revenues from the State admissions & amusement tax also grew in 2009 as it was effective for a full fiscal year. Previously scheduled to expire at the end of 2009, along with the electronic bingo machines from which the tax derives, legislation enacted at the 2009 Session of the General Assembly extended the sunset until the end of fiscal year 2012. These revenues are expected to remain stable throughout the forecast period. Changes made during the 2007 Special Session changed the distribution of revenues from transportation license tags and filing fees to the Transportation Trust Fund, beginning with fiscal year 2009.

Other revenues will remain at or close to the amounts collected in fiscal year 2009. In total, the general fund is expected to receive $173.5 million in miscellaneous revenues in fiscal year 2010, an increase of 4.5% over 2009 and closer to the 2008 level of receipts, and approximately $175.5 million in fiscal year 2011, growth of 1.1% from 2010.

Table 16
Miscellaneous Revenues
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Recording, Organization & Capitalization Fees	11,892	10,448	8,700	8,875
Transportation - Filing Fees & License Tags	9,078	0	0	0
Excess Fees of Office	5,526	4,643	3,583	3,540
Unclaimed Property	73,271	66,341	70,000	70,000
Local Income Tax Reimbursement	11,678	12,593	12,100	12,494
Uninsured Motorist Penalty Fees	59,363	63,858	66,138	67,556
State Admissions & Amusement Tax	2,874	8,105	8,000	8,000
Miscellaneous Revenues and Transfers	279	15	5,000	5,000
Total	173,961	166,003	173,520	175,466

Figures may not sum to totals due to rounding.

Miscellaneous Agency Revenues

Agency general fund revenue is collected by those agencies whose primary purpose is not revenue collection, but whose ancillary collections are directed to the general fund. Significant amounts are collected by the Department of Health and Mental Hygiene (DHMH), the Attorney General's office and the Maryland State Department of Education. Most other agencies collect small amounts from various fees or penalties. In fiscal year 2009, miscellaneous agency revenues increased almost 16%, with DHMH revenues growing substantially, largely as a result of accounting activity related to federal reimbursements. For fiscal years 2010 and 2011, these revenues are expected to return to their historical levels, declining by nearly 27% to $137.7 million in 2010, and declining slightly further in 2011, to $130.4 million.

Table 17
Miscellaneous Agency Revenues
Fiscal Years 2008 - 2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
PSC Fines, Citations and Filing Fees	147	(6)	161	161
Legislature	289	186	185	165
Workers' Compensation	54	54	54	54
Public Defender	1,094	2,298	2,000	1,500
Attorney General	26,337	24,137	28,500	22,600
Executive & Administrative Control	7,790	7,735	4,259	4,557
Financial & Revenue Administration	15,080	14,735	10,577	11,777
Budget & Fiscal Administration	556	1,632	735	745
General Services	322	76	0	0
Natural Resources	347	127	304	14
Agriculture	140	169	133	114
Health & Mental Hygiene	32,025	48,164	27,592	26,370
Human Resources	592	2,787	1,375	1,375
Labor, Licensing & Regulation	13,008	9,653	10,394	9,948
Public Safety & MD State Police	11,603	18,209	12,884	12,961
Public Education	35,794	39,528	35,958	35,322
Housing and Community Development	1,438	959	1,000	1,000
Business & Economic Development	587	77	0	0
Environment	678	737	561	769
Juvenile Services	41	32	0	0
Alcoholic Beverage Licenses	1,017	1,009	1,000	1,000
Total	148,939	172,299	137,672	130,432

Figures may not sum to totals due to rounding.

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Transportation Revenues

The recession produced a substantial decline of $135.5 million in fiscal year 2009 titling tax revenues. Due to the extreme economic uncertainty from September through mid-spring, not to mention the precarious financial position of major automobile manufacturers, consumers understandably held off on automobile purchases. The "cash for clunkers" program, under development towards the end of the fiscal year, only enhanced the incentive for consumers to delay purchases. The effects of the recession and lingering unemployment are expected to result in no growth in titling tax revenues in fiscal year 2010. In 2011, as the economy rebounds, revenues are forecast to increase 7.4% as consumers release their pent up demand. As a result of fewer vehicle purchases and the slow economy, registration fees are similarly expected to grow very modestly in fiscal year 2010 but to accelerate to 4.8% growth in fiscal year 2011.

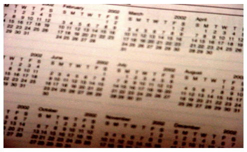
Motor fuel tax revenues are projected to increase a slight 0.6% in fiscal year 2010. Gasoline prices have come down from their 2008 highs, and appear to be stable for the time being, but reduced economic activity during the recession has lessened demand. Again, as the economy picks up in 2011, gas tax revenues are forecast to grow 1.5%.

The Transportation Trust Fund also receives a variety of other revenues, including license, emission inspection and other fees. Beginning with fiscal year 2009, 5.3% of the sales tax is distributed to the Trust Fund rather than the general fund, along with the 45% of sales taxes from rental vehicles that has been distributed to the Trust Fund for some time. Action taken at the 2007 Special Session results in a redirection of almost all transportation revenue from the general fund, generally to the Transportation Trust Fund.

Table 18
Maryland Motor Vehicle User Revenues
Fiscal Years 2008-2011
($ in thousands)

	2008 Actual	2009 Actual	2010 Revised Estimate	2011 Estimate
Department of Transportation				
Registrations	354,967	354,983	357,000	374,100
Licenses	42,780	42,947	40,100	37,300
Med-Evac Surcharge	50,996	49,984	50,234	51,239
Trauma Physician Services Surcharge	11,590	11,362	11,418	11,646
Miscellaneous Motor Vehicle Fees	114,797	122,616	122,470	125,777
Vehicle Emission Inspection Fees	7,954	8,048	6,000	8,400
Security Interest Filing Fees				
Special Funds	3,156	2,441	8,100	8,500
General Funds	4,735	3,662	0	0
General Funds - Baltimore City	2,630	2,034	0	0
Hauling Fees	11,788	10,117	9,500	10,000
Special License Tags				
Special Funds	380	381	3,500	3,600
General Funds	1,714	1,720	0	0
DOT	435	436	0	0
Chesapeake Bay/Ag Tags - MDOT	791	794	0	0
Titling Tax	649,657	514,155	514,000	552,000
Sales Tax on-Rental Vehicles	23,659	21,498	21,591	23,659
Special Distribution from Sales Tax	-	201,586	195,526	204,302
	1,282,029	1,348,764	1,327,839	1,398,423
Motor Vehicle Fuel Tax	740,852	724,719	728,800	739,800
Road Tax	14,177	11,239	11,400	11,600
Decals	147	147	0	0
	755,176	736,105	740,200	751,400
Total	2,037,206	2,084,870	2,068,039	2,149,823

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 experienced the most significant contraction in nearly 20 years in 2009, with a substantial 2.9% decline in employment. As the recovery begins late in 2010, employment is expected to remain stagnant before a return to moderate growth in 2011 and beyond.

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 which, while not directly affecting the general fund revenue forecast, are expected to have a negative impact on lottery sales in that year.

Table 19

Long Term Economic Forecast

Primary Indicators

CALENDAR YEAR	2007	2008	2009	2010	2011	2012	2013
U.S. GDP (billion $, chained)	13,254	13,312	12,973	13,264	13,647	14,162	14,599
% change	*2.1%*	*0.4%*	*-2.5%*	*2.2%*	*2.9%*	*3.8%*	*3.1%*
U.S. Total Non-Farm Employment (thousands)	137,604	137,046	131,894	130,648	132,921	136,327	139,074
% change	*1.1%*	*-0.4%*	*-3.8%*	*-0.9%*	*1.7%*	*2.6%*	*2.0%*
U.S. Personal Income (billion $)	11,894	12,239	11,973	12,291	12,795	13,462	14,171
% change	*5.6%*	*2.9%*	*-2.2%*	*2.7%*	*4.1%*	*5.2%*	*5.3%*
CPI - % Change	2.9%	3.8%	-0.3%	1.7%	2.0%	1.9%	1.9%
U.S. 10-Year Treasury Bond Yield	4.6%	3.7%	3.2%	3.5%	3.9%	4.5%	4.8%
MD Total Non-Farm Employment (thousands)	2,608	2,599	2,525	2,515	2,556	2,587	2,645
% change	*0.7%*	*-0.3%*	*-2.8%*	*-0.4%*	*1.6%*	*1.2%*	*2.2%*
MD Total Personal Income (million $)	264,368	272,542	274,583	280,092	290,448	303,542	319,706
% change	*4.6%*	*3.1%*	*0.7%*	*2.0%*	*3.7%*	*4.5%*	*5.3%*

Source: Global Insight (December 2009 forecast) and Board of Revenue Estimates

Table 20

Maryland General Fund Revenues

Fiscal Years 2009-2015

($ in thousands)

	2009 Actual	2010 Estimate	2011 Estimate	2012 Estimate	2013 Estimate	2014 Estimate	2015 Estimate
Income Taxes							
Individual	6,477,157	6,121,847	6,308,374	6,609,493	7,053,937	7,541,577	8,014,117
Corporation	550,740	495,013	559,178	575,953	633,549	671,562	711,855
TOTAL	7,027,897	6,616,860	6,867,552	7,185,446	7,687,486	8,213,139	8,725,972
Sales and Use Taxes	3,620,431	3,506,736	3,650,453	3,867,933	4,091,015	4,220,873	4,352,937
State Lottery	473,206	522,975	527,640	502,709	517,790	533,324	549,324
Franchise, Excise, License, Fee	1,771,024	1,632,199	1,620,670	1,673,975	1,714,681	1,742,814	1,773,646
TOTAL CURRENT REVENUES	12,900,475	12,299,470	12,671,715	13,230,064	14,010,972	14,710,151	15,401,879

Figures may not sum to totals due to rounding.
Totals do not include extraordinary revenues.

Table 21

Evolution of Maryland's General Fund Revenue Forecast

($ in millions)

	Mar '09	Sept '09	Change from Mar '09	Dec '09	Change from Mar '09
Individual Income Tax					
FY 2010	6,782	6,122	(660)	6,122	(660)
FY 2011	6,637	6,358	(279)	6,308	(329)
Sales Tax					
FY 2010	3,611	3,524	(87)	3,507	(104)
FY 2011	3,592	3,647	55	3,650	58
Total General Fund					
FY 2010	13,228	12,314	(914)	12,299	(929)
FY 2011	13,022	12,734	(288)	12,672	(350)

General fund revenue forecasts of the Board of Revenue Estimates since the adoption of the fiscal year 2010 budget (2009 Regular Session). The forecasts from September 2009 and later include legislative changes from the 2009 Regular Session of the General Assembly.

Board of Revenue Estimates, December 16 2009