*Report of the*

**Maryland Board of Revenue Estimates**

*on*

# ESTIMATED MARYLAND REVENUES

**FISCAL YEARS ENDING JUNE 30, 2011 AND JUNE 30, 2012**

*Submitted to*

Martin O'Malley
Governor

December 15, 2010

State of Maryland
# Board of Revenue Estimates
Louis L. Goldstein Treasury Building, P.O. Box 466
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December 15, 2010

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, 2011 and June 30, 2012, 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

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# Executive Summary

While the recession ended in June of 2009, it was not until early 2010 that signs of renewed growth were present in Maryland's economy or revenues. Although most economic indicators have been in positive territory for the latter half of the year or slightly longer, many will remain negative for calendar year 2010. The risk of a double-dip recession has receded; that risk will become more remote if the recent fiscal compromise between the Obama Administration and congressional Republicans is enacted essentially as drafted. Maryland's economy has accelerated throughout most of 2010, and most major revenue sources are now growing on a year-over-year basis. Despite the benefits of the Base Realignment and Closure (BRAC) process, normalcy with respect to revenue growth is still several years off.

The United States economy is expanding, with five consecutive quarters of growth in real gross domestic product since the end of the recession in mid-2009. The pace of growth has been uneven, however, with growth of 5.0% in the fourth quarter of 2009 and just 1.7% in the second quarter of 2010. The labor market has been similarly inconsistent, with 432,000 jobs added in May of this year, and more than 60% of that number then lost over the next four months before a modest rebound in October. Wage income and total personal income have seen similar ups and downs, though in recent quarters the trends are in the right direction. The economy seems poised for growth, with corporate balance sheets in their best position in at least five decades. Whether fiscal and monetary policymakers can push the economy beyond the lingering uncertainties about substantial systemic risks into a robust recovery remains to be seen, but at this point sustainable growth seems the likely course for the U.S. economy over the forecast period.

Maryland's economy was not hit as hard by the recession as the national economy, but the impact was nevertheless greater than that of any recession in the past sixty years. Peak to trough, Maryland lost 139,000 jobs–5.3% of total employment, larger than the 5.0% job loss during the recession of the early 1990s. Over 25% of construction jobs were lost, and the manufacturing, finance, and information industries each lost more than 10% of their jobs. The only major industries to add jobs during this period were education and health services and the federal government. Maryland wages declined for only the third time on record in 2009, with the 0.8% drop only slightly better than the record 0.9% decline of 1954. Growth in total personal income in 2009 was the lowest on record at 0.4%, with 1949 and 1954 the only other years growth was lower than 3.4%. Home sales have faltered again, as the impact of the federal income tax credit for homebuyers has waned, and home prices are now down more than 20%.

Maryland's economy, however, is recovering. Since February, all but three major industries–manufacturing, information and other services–have resumed job growth. Over 53,000 jobs have been created, more than one-third of the net jobs lost. The most recent data, for October, show year-over-year job growth of 1.1%, a rate that has not been exceeded since June 2006. With the national economy moving forward and recent momentum in the State, Maryland employment is projected to increase by 1.3% in 2011 after a slight decline in 2010. In 2012, with BRAC moves completed, employment growth will accelerate to 1.6%. With the expanding labor market, wage income is forecast to grow 2.3% in 2010, accelerating to 3.3% in 2011 and 4.1% in 2012. "Normal," however, is not projected to return until 2013 at the earliest.

General fund revenues are expected to grow for the first time in three years in fiscal year 2011. All major revenue sources except the corporate income tax will increase, and the decline in the corporate income tax is due only to extraordinary activity that boosted fiscal year 2010 revenues. General fund revenues are expected to exceed $13.162 billion in fiscal year 2011, growth of 4.6% (baseline growth of 2.7%, after accounting for the new distribution of highway user revenues to the general fund and extraordinary corporate income tax receipts in fiscal year 2010). As would be expected with revenues performing in line with the September revenue estimates, the adjustment to the official forecast is relatively minor–a $57.0 million increase. In fiscal year 2012, revenues are projected to exceed $13.597 billion, growth of 3.3% and a reduction to the forecast of just $8.7 million.

The individual income tax forecast is reduced $23.3 million and $61.9 million for fiscal years 2011 and 2012, respectively. Net collections are expected to be about $210 million stronger over the forecast period, as withholding is expected to grow slightly more quickly than previously, and, with taxpayers appearing to have fared better in tax year 2010 than previously expected, final payments are forecast to be higher and refunds are forecast to be lower than previously expected. A GAAP accounting adjustment is the cause of the general fund writedown. Corporate income tax gross receipts have performed stronger than expected through the first five months of the fiscal year, while refunds are substantially below expectations–concerns over large net operating losses from 2008 and 2009 affecting current collections have yet to be realized. Accordingly, general fund corporate income tax receipts have been written up $67.9 million for fiscal year 2011 and by $54.0 million for fiscal year 2012. The downward revisions to the lottery forecast are primarily a result of weaker sales than previously expected, particularly in Keno and the large jackpot games Mega Millions and Powerball. Remaining revenue revisions largely reflect year-to-date performance.

The Board of Revenue Estimates has assumed in its economic forecast an extension of current provisions of federal income tax law, as have most economists. The Board has not included in either its economic or revenue forecasts the impact of a two percentage point reduction in the payroll tax, a 13 month extension of unemployment benefits, or a federal pay freeze, all of which are currently under consideration by Congress. If these provisions are enacted in their current form, there will be a noticeable boost to Maryland's economy and revenues, both directly and indirectly. These impacts are detailed in a later section of this report.

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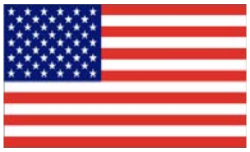


# The U.S. Economy

Although the “Great Recession” is deemed to have ended in June of 2009, the past year has been a tumultuous period for the United States economy. Much of the increase in economic activity this year has been overshadowed by concerns of uncertainty, particularly that arising from global economic conditions and the domestic political and fiscal situation. The increase in economic production has coincided with income growth, and as was expected, the labor market has begun to show its first signs of recovery. Consumers remain wary, though their pace of spending has increased in recent months. Despite the many remaining risk factors, the foundation has been set for a sustainable recovery.

In the third quarter of 2010, real gross domestic product (GDP) grew at an annual rate of 2.5%, marking the fifth straight quarter of economic growth. To foster growth, the federal government had provided several forms of stimulus to the economy. Most notably, the American Recovery and Reinvestment Act of 2009 and the Car Allowance Rebate System provided much needed short-term stimulation and helped lay the groundwork for recovery. Those stimulative efforts and expanding business inventories helped weather the storm and provide the first several quarters of GDP growth; it now seems that sustainable growth has arrived. Personal consumption expenditures and business spending on capital goods are increasing at a healthy rate and a weaker dollar and low unit labor costs have provided the basis for substantial export growth.

Personal incomes began to grow, somewhat tepidly, on a year over year basis in December of 2009. Since then, that rate of growth has accelerated, though concerns exist regarding the income’s source. Unsurprisingly, income from assets, composed of interest and dividend income, has fallen significantly since October of 2008. The interest rate on a ten year treasury note is currently at its lowest level since 1955 and many companies slashed their dividend rates as the stock market fell in the tail end of 2008. In the aggregate, much of this income decrease has been supplemented by a large increase in government transfer payments, which consists of unemployment benefits, food stamps, and a variety of other social welfare programs. However, the largest component of income, wages and salaries, which had remained depressed through January 2010, has grown on a year over year basis in each period since. As the employment situation improves, so will the components of income.

In the third quarter of 2010, the United States economy realized its first quarter of year-over-year employment growth since its peak level in the first quarter of 2008. However, there remains a long way to go; the recession resulted in the loss of 8.3 million jobs, or 6.0% of all jobs, from peak to trough. Since that trough, in the fourth quarter of 2009, the economy has added 705,000 jobs. While surging corporate profits and cash-heavy corporate balance sheets point towards the ability to hire, a reduction in employment mobility caused by depressed housing prices and underwater mortgages, coupled with the slower than usual recovery after a recession, will result in a slow labor market recovery. Many economists believe it will not be until mid-2013, at the earliest, before the economy will have recovered all of the lost jobs.

Although goods producing industries are soon expected to resume employment growth, recent data show that they continue to contract, led by the manufacturing and construction sectors. The construction industry has not added a job since the first quarter of 2007 while the manufacturing sector, which has seen declining job growth since the late 1990s, realized far more precipitous job growth in 2009 before adding 28,000 jobs in the third quarter of 2010.

The service producing sectors of the economy have fared somewhat better, losing 4.3 million jobs from peak to trough before adding 619,000 jobs since that point. The education and health services sector, which received much of the federal stimulus funding, continued to add jobs throughout the recession and continue to do so now. Importantly, the professional and business services sector grew 2.1% in the third quarter of 2010. The service sector is expected to lead the job recovery.

Government employment also provided support to the labor market during the recession, especially at the federal and local levels, although since the end of the recession, state and local government employment has been declining. The general consensus among economists is that, in an effort to reconcile budgets with sharply lower tax revenues, state and local governments will continue to trim employment in the near term.

Consumer spending has always been and will remain the primary source of economic activity in the United States. Several factors contributed to the decline in consumer spending: severe drops in the wealth of individuals, in their stock and retirement portfolios as well as their home values; decreased confidence in the national and global economies; and rampant job losses. Personal consumption expenditures, however, are now on the rise.

Some of this increased spending is likely tied to pent-up demand–the need to acquire certain items that may have been put off, either pending the resolution of some uncertainty or until the need could no longer be deferred. Pent-up demand will continue to drive spending in the near future. More importantly for a sustainable recovery, household balance sheets have improved. The Standard and Poor’s 500 Index has rebounded from a recessionary trough of 683 in March 2009 to 1240.4 on December 10, 2010, a gain of 82%. Additionally, household debt burdens are falling; the Federal Reserve Board reports that in the second quarter of 2010, the percentage of disposable income devoted to interest and principal payments had fallen to 12.1%, the lowest level since the first quarter of 2001. While depressed home prices will continue to place downward pressure on spending, consumers generally are in a good position to move forward.

Several factors continue to hold back a robust recovery. As noted above, housing prices remain depressed and will likely continue to face intense pressure due to the increasing number of foreclosed properties expected to hit the market and the possible existence of a very large “shadow inventory.” The shadow inventory is the inventory of homes that are likely to be put on the market shortly, including foreclosed homes, homes that have been reluctantly rented by owners who had to move, and homes that will be put on the market when conditions improve. In an effort to provide additional relief for the housing market, as well as the broader economy, the Federal Reserve announced in November that it would provide further quantitative easing (the Federal Reserve purchased $1.7 trillion of treasuries and mortgage backed securities between December 2008 and March 2010) by purchasing up to $600 billion in long-term United States Treasury bonds. This move is expected to reduce and keep mortgage rates lower so as to encourage purchasing and refinancing activity.

Recently, there have been fears of a sovereign debt default, the national equivalent of a personal or corporate bankruptcy. Most notably, Greece and Ireland have drawn the ire of bond holders. Concern over their abilities to make interest and principal payments, and an interest in preventing contagion, prompted the European Union and the International Monetary Fund to create bailout packages to the tune of $251 billion dollars for Greece and $113 billion dollars for Ireland. The bailouts have reduced the likelihood of default in those two countries, though investors remain concerned about Spain and Portugal. A sovereign default would have worldwide economic ramifications, with or without intercession by the world's economic powers.

While substantial uncertainties over the foundations of the world's economy remain, a sustainable national economic recovery is underway–continued economic expansion is expected. Confidence in the expansion will be boosted if Congress enacts the recently announced compromise on taxes, which would extend existing tax law for two years, provide a two percentage point reduction in payroll taxes, and extend emergency unemployment insurance benefits for thirteen months. Such a deal would provide support to the recovering labor market and real GDP, which is currently expected to increase 2.8% in both 2010 and 2011 before accelerating to 4.4% in 2012.

Table 1

# Forecast of the U.S. Economy

## Primary Indicators

| CALENDAR YEAR | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| Real Gross Domestic Product ($ billions) | 12,976 | 13,229 | 13,229 | 12,881 | 13,247 | 13,618 | 14,211 |
| | *2.7%* | *1.9%* | *0.0%* | *-2.6%* | *2.8%* | *2.8%* | *4.4%* |
| Federal Funds Rate (%) | 5.0% | 5.0% | 1.9% | 0.2% | 0.2% | 0.2% | 1.4% |
| 10-Year Treasury Bond Yield (%) | 4.8% | 4.6% | 3.7% | 3.3% | 3.2% | 3.5% | 5.0% |
| Consumer Price Index (%Δ from prior year) | 3.2% | 2.9% | 3.8% | -0.3% | 1.6% | 1.5% | 2.6% |
| Housing Starts (thousands of units) | 1,812 | 1,342 | 900 | 554 | 599 | 801 | 1,401 |
| | *-12.6%* | *-25.9%* | *-32.9%* | *-38.4%* | *8.1%* | *33.8%* | *74.9%* |
| Light Vehicle Sales (thousands of units) | 16,505 | 16,089 | 13,195 | 10,402 | 11,489 | 12,644 | 14,657 |
| | *-2.6%* | *-2.5%* | *-18.0%* | *-21.2%* | *10.4%* | *10.1%* | *15.9%* |
| Corporate Profits Before Tax ($ in billions) | 1,608 | 1,511 | 1,263 | 1,258 | 1,630 | 1,724 | 1,935 |
| | *10.5%* | *-6.1%* | *-16.4%* | *-0.4%* | *29.5%* | *5.8%* | *12.2%* |
| Total Non-Agricultural Employment (thousands) | 136,086 | 137,588 | 136,777 | 130,911 | 130,255 | 131,583 | 134,211 |
| | *1.8%* | *1.1%* | *-0.6%* | *-4.3%* | *-0.5%* | *1.0%* | *2.0%* |
| Unemployment Rate (%) | 4.6% | 4.6% | 5.8% | 9.3% | 9.7% | 10.0% | 9.1% |
| Total Personal Income ($ in billions) | 11,268 | 11,912 | 12,391 | 12,175 | 12,538 | 13,075 | 14,048 |
| | *7.5%* | *5.7%* | *4.0%* | *-1.7%* | *3.0%* | *4.3%* | *7.4%* |

Source: Board of Revenue Estimates and Moody's Analytics (December 2010 Forecast)

# The Maryland Economy

Maryland's economy, by many measures set back several years by the recession, is now plodding forward. Since the start of 2010, most economic indicators have turned the corner and shown growth. The recovery will be slow, relying primarily on the national economy finding its footing. An important factor supporting the State's recovery, activity revolving around the Base Realignment and Closure (BRAC) process, will shortly be fully underway; BRAC's impact will be apparent in State employment data several months from now. Several industries in the State are still contracting, though many–including some of the most important to the State's economy–are now expanding. While continued expansion is not guaranteed, trends are certainly moving in the right direction for the State's economy.

Maryland's economy has, as has often been the case in recent years, outperformed the nation–which in this instance means the recession in Maryland has only been as bad as or slightly worse than previous deep downturns. Real gross domestic product declined 2.1% nationally in 2009, while the State's economy eked out a one basis point increase in economic output. Maryland unemployment peaked at 7.7% in early 2010, having risen about four points, while the national unemployment rate broached 10% in October 2009, starting from 4.5% at the recession's onset. Perhaps surprisingly, even home prices are faring better in Maryland, falling 9.4% in 2009 compared to 10.4% nationally, and down 20.6% since the 2006 peak compared to a nationwide 22.3% drop.

The recent recession caused the greatest job loss, peak to trough, that Maryland has experienced since the economic dislocations at the end of World War II. Employment rolls in Maryland shrank by 139,000 jobs, or 5.3%, between February 2008 and February 2010–slightly worse than the 5.0% loss of jobs in recession of the early 1990s. Nominal wage income declined each quarter of 2009, the longest such period on record, and total personal income increased only 0.4% for the full year, two basis points more slowly than the previous worst on record, 1954. Bankruptcies have more than doubled since the start of the recession, and foreclosure rates have more than quadrupled.

The litany of bad news, though, has come to an end as one after another, Maryland economic indicators have swung from decline to growth. Since the trough in February, 53,000 net jobs have been created in the State. There are currently 3.3% fewer jobs than there were at the start of the recession, but the most recent month of data showed job growth in excess of 1.1%; ten of the past twelve months have shown better year-over-year performance than the month before. The unemployment rate has stabilized at a level slightly lower than the high reached earlier in the year. Total personal income grew 2.4% in the first half of 2010, a substantial improvement over the 0.4% growth of all of 2009. Home prices rose in the third quarter of 2010 for the first time in more than three years, and foreclosure rates may have peaked.

The recovery in Maryland has been led by the professional and business services industry. This industry, one of the largest and highest-paying in the State, lost jobs in 2009 for only the third time since 1990. With the end of extraordinary uncertainty about the underpinnings of the economy, with businesses sitting on record levels of cash, and with the presence of the federal government continuing to support legions of contractors, defense and otherwise, it is no surprise that professional services and business-to-business transactions have led the way in recovery. After falling 3.4% in 2009, this industry has rebounded with 1.6% growth in the first ten months of 2010; October data show growth of 3.5%, making this the second-best performing industry in the State.

Just as the rebound in the professional and business services industry indicates an acceleration in business activity, a rebound in the leisure and hospitality services industry and, to a lesser degree, the retail trade sector, indicates that Maryland consumers are loosening their hold on their wallets. Both sectors saw sizable declines in 2009, with the former falling 2.6% and the latter by 5.8%. While the retail industry is still down for the first ten months of the year, the decline is only 0.8%. Employment in the leisure and hospitality industry fell 2.6% in 2009, but has increased by 3.6% for the year to date, with several months showing employment growth over 6.5%. A further sign of loosened purse strings is evident in sales tax collections, which have increased for eight consecutive months after twenty months of decline.

Through the recession, only education and health services and the federal government consistently added jobs. Mainstays of Maryland's economy, these stabilizing forces increased employment 8.1% and 9.7% respectively since the start of the recession, adding almost 43,000 jobs to the State's rolls. Along with leisure and hospitality services (adding 4,300 jobs, or 1.8%) and State and local government (adding 3,600 jobs, or 1.0%), these are the only industries with more employees now than at the start of the recession.

Federal employment has stabilized Maryland's economy for some time. The federal presence was recently boosted by the decennial Census, though a more significant and permanent boost in terms of both jobs and income will be provided by the ongoing BRAC process. Over 21,400 military and civilian jobs are moving from New Jersey, Virginia and elsewhere to Aberdeen Proving Grounds, Fort Meade, and other facilities within the State. While the moves are underway, the bulk of the jobs will come to the State over the first nine months of 2011, adding a quarter of a percentage point to employment growth in 2011 and by 15 basis points in 2012. Given that these jobs, predominantly high-education and high-technology jobs, will have an average salary approaching or exceeding $90,000, their impact wage growth will be disproportionately greater. BRAC will provide further support to Maryland's labor market over time, even after all of the federal jobs have relocated, through the induced effect on Maryland's economy from the additional income and spending.

Aside from BRAC, the National Security Agency's continuing expansion at Fort Meade, including the newly created U.S. Cyber Command, will provide additional support to Maryland's employment base, although exact figures are and will remain unknown. The Cyber Command, activated on May 21 and made fully operational on October 31, is expected to add about 1,000 jobs annually for the next several years. While the federal government has been a stabilizing presence for the past two decades, the likelihood is that it will not add jobs at the rate it has in the recent past. Given the recent election results and increasing concern about the federal government's fiscal position, it is conceivable that federal employment will have a negative influence on Maryland's employment. This impact will likely not be felt immediately, however.

Several industries have not fully recovered from the recession. The construction sector, which lost over 25% of its jobs from peak to trough, fell 14.4% in calendar year 2009. For the first ten months of 2010, employment is off 4.9%, and construction will finish the year smaller than it was in 2009–employment is now at levels last seen in 1998. On a year-over-year basis, however, employment in this industry has increased each of the past three months, including growth of 2.1% in October. Given the current state of the housing market and difficulties in commercial real estate, however, it will be quite some time before the 40,000 jobs lost in this industry are recovered. The finance industry, tied closely to the construction sector during the housing boom and bust, lost 5.5% of its jobs in 2009. The situation has not improved, as the losses have accelerated to 5.7% for the first ten months of 2010. The finance industry, along with perennially-contracting manufacturing, information services, and other services, were the only major sectors showing year-over-year declines in October.

For all of calendar year 2010, employment is expected to fall 0.4%, although momentum has been building throughout the year. In 2011, employment is forecast to grow 1.3%, accelerating to 1.6% in 2012 with assistance from BRAC in both years. Wage and salary income is forecast to increase 2.3% in 2010, moving with employment to 3.3% growth in 2011 and 4.1% in 2012. Even without the boost to the nation's economy from the likely-to-be-enacted federal payroll tax reduction and extension of unemployment insurance benefits, Maryland's economy is headed back towards "normal," albeit more slowly than any would hope for.

Table 2
# Forecast of the Maryland Economy

| CALENDAR YEAR | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| Total Non-Agricultural Employment (thousands) | 2,589.4 | 2,608.4 | 2,600.1 | 2,520.5 | 2,511.4 | 2,543.1 | 2,583.0 |
| | *1.3%* | *0.7%* | *-0.3%* | *-3.1%* | *-0.4%* | *1.3%* | *1.6%* |
| Goods Producing | 325.8 | 322.0 | 308.2 | 272.8 | 262.0 | 266.7 | 269.0 |
| | *0.4%* | *-1.2%* | *-4.3%* | *-11.5%* | *-3.9%* | *1.8%* | *0.8%* |
| Services | 1,792.4 | 1,807.9 | 1,804.1 | 1,755.3 | 1,757.9 | 1,787.8 | 1,815.3 |
| | *1.5%* | *0.9%* | *-0.2%* | *-2.7%* | *0.2%* | *1.7%* | *1.5%* |
| Government | 471.1 | 478.5 | 487.8 | 492.4 | 491.5 | 488.6 | 498.7 |
| | *1.1%* | *1.6%* | *1.9%* | *0.9%* | *-0.2%* | *-0.6%* | *2.1%* |
| Total Personal Income ($ in millions) | 252,431 | 264,375 | 273,934 | 275,144 | 282,948 | 292,782 | 306,090 |
| | *6.4%* | *4.7%* | *3.6%* | *0.4%* | *2.8%* | *3.5%* | *4.5%* |
| Wages and Salaries | 128,481 | 134,704 | 137,996 | 136,874 | 140,058 | 144,742 | 150,696 |
| | *5.7%* | *4.8%* | *2.4%* | *-0.8%* | *2.3%* | *3.3%* | *4.1%* |
| Dividends, Interest and Rent | 43,241 | 46,995 | 49,847 | 47,288 | 47,601 | 48,465 | 50,289 |
| | *14.6%* | *8.7%* | *6.1%* | *-5.1%* | *0.7%* | *1.8%* | *3.8%* |
| Capital Gains ($ in millions) | 12,970 | 15,614 | 5,806 | 3,484 | 4,006 | 4,607 | 4,976 |
| | *12.5%* | *20.4%* | *-62.8%* | *-40.0%* | *15.0%* | *15.0%* | *8.0%* |
| Unemployment Rate (%) | 3.8 | 3.6 | 4.4 | 7.0 | 7.4 | 7.7 | 7.1 |

Source: Board of Revenue Estimates and Moody's Analytics (December 2010 Forecast)

# Potential Federal Changes

As of the publishing of this report, a number of major tax changes are under consideration by the United States Congress. The economic forecasts of consultants to the Board of Revenue Estimates, and the Board's forecast, generally assumed the extension of most of the federal tax provisions that are set to expire at the end of this year, including the federal rate structure. Additional provisions are under consideration, however; the economic and revenue effect of these has not been accounted for in the Board's official forecast.

The most significant tax proposal relates to the employee payroll (FICA) tax that is assessed on the first $106,800 of an individual's gross income. The current proposal is to lower this rate by 2 percentage points to 4.2% for 2011. The cut would apply to all workers, regardless of their income level, and thus has a broader macroeconomic reach then the expiring Making Work Pay credit. In addition to the payroll tax break, federal unemployment benefits would be extended for an additional 13 months, through the end of 2011. These emergency benefits are directed at individuals who have been unemployed for more than 26 weeks, which is the period covered by regular unemployment benefits.

Tax cuts enacted in 2001 and 2003 will be extended through 2012. These tax cuts include the lower federal tax rates on regular income, with the top rate remaining at 36% instead of increasing to 39.6%, the rate for most long-term capital gains remaining at 15% rather than rising to 20%, dividends being taxed at a special 15% rate rather than being taxed as regular income, and an extension of several individual income tax credits: a child tax credit of $1,000; a credit for dependent care expenses; and an additional credit for higher education expenses. In addition, itemized deductions for all taxpayers will remain unlimited, and a number of other smaller tax-saving provisions will also remain in place. Finally, the annual alternative minimum tax "patch" would be extended for two additional years, and an exemption of $5 million per individual for the estate tax, with a top rate of 35% rather than 55%, would be put in place.

While most economic forecasts had already assumed an extension of the "Bush-era" tax cuts, the most unexpected provision is the lowering of the FICA rate. However, the provision with the most potential to benefit the broader economy is expected to be the full-year extension of unemployment insurance (UI). Most forecasts, including that of Moody's Analytics, had only expected benefits to be extended for a few months. Because unemployment benefits are generally spent as they are received, rather than saved, Moody's expects real GDP to increase by $1.60 for every additional dollar in UI. Taken together, Moody's estimates that these unexpected actions will increase real GDP growth by an additional percentage point in 2011, increasing the overall forecast to 3.9%.

Moody's analysts also expect job growth to be more than twice as strong as currently thought, with an additional 1.4 million jobs created in 2011 as a result of these stimulative measures. These additional jobs will lower the unemployment rate from near 10% to 8.7% by the end of 2011. Overall, Moody's Analytics predicts that the economy will grow "measurably faster" than its current potential in 2011. While not all economists agree on the magnitude of the impact, they do agree that these measures will have a positive short-term impact on the general economy in 2011 and into 2012, pulling growth forward and substantially reducing the risk of a relapse into recession.

While the effect of the extension of current provisions of tax law have already been incorporated into the current State economic and revenue forecast, the enactment of the reduced payroll tax rate and the extension of unemployment insurance is expected to result in an additional boost to Maryland revenues. These provisions are expected to put an additional $2.4 billion in the pockets of Maryland residents, leading to increased spending and, as a result, increased sales tax receipts of at least $35.8 million in fiscal year 2011 and $35.6 million in 2012. In addition, Maryland employment could increase by an additional 25,000 jobs in 2011 and 2012. In that case, individual income tax revenues could be $50 million or more higher than would have been in the absence of this yet-to-be-enacted legislative package.

One potential weight on growth is the proposed two-year freeze on the annual cost of living adjustment (COLA) for federal workers. The COLA is currently set at 1.4% for 2011, and would presumably be comparable in 2012. Due to Maryland's proximity to Washington, D.C., there are a disproportionate number of federal employees living in the State. With federal wages in Maryland of around $25 billion, the loss of the COLA could result in a reduction of individual income tax revenues of approximately $7.5 million in fiscal year 2011 and about $16.5 million in fiscal year 2012.

# 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 Moody's Analytics and Global Insight.

Table 3 shows detail on general fund and selected special fund revenue sources for fiscal years 2010 through 2012. 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 2010 - 2012

| $ Thousands | GENERAL FUND | | | SPECIAL FUND | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fiscal Year 2010 Actual | Fiscal Year 2011 Revised Estimate | Fiscal Year 2012 Estimate | Fiscal Year 2010 Actual | Fiscal Year 2011 Revised Estimate | Fiscal Year 2012 Estimate | Fiscal Year 2010 Actual | Fiscal Year 2011 Revised Estimate | Fiscal Year 2012 Estimate |
| INCOME TAXES | | | | | | | | | |
| Individual | 6,178,243 | 6,336,819 | 6,650,229 | | | | 6,178,243 | 6,336,819 | 6,650,229 |
| Corporations | 689,311 | 611,310 | 621,929 | 200,997 | 180,402 | 187,866 | 890,308 | 791,712 | 809,795 |
| Total | 6,867,554 | 6,948,129 | 7,272,158 | 200,997 | 180,402 | 187,866 | 7,068,551 | 7,128,531 | 7,460,024 |
| SALES AND USE TAXES | 3,522,774 | 3,672,461 | 3,796,001 | 225,026 | 236,708 | 264,172 | 3,747,800 | 3,909,169 | 4,060,173 |
| STATE LOTTERY RECEIPTS | 491,009 | 492,550 | 503,549 | 71,523 | 73,686 | 74,292 | 562,532 | 566,236 | 577,841 |
| TRANSPORTATION REVENUES | | | | | | | | | |
| Motor Vehicle Fuel Tax | 8,386 | 5,000 | | 721,311 | 566,172 | 591,767 | 729,697 | 571,172 | 591,767 |
| Highway User Revenue | | 370,012 | 338,187 | | | | | 370,012 | 338,187 |
| Motor Vehicle Licenses, Fees | | | | 606,852 | 555,707 | 573,373 | 606,852 | 555,707 | 573,373 |
| Motor Vehicle Titling Tax | | | | 543,411 | 483,448 | 538,277 | 543,411 | 483,448 | 538,277 |
| Maryland Transit Fees | | | | 125,057 | 125,000 | 126,000 | 125,057 | 125,000 | 126,000 |
| Maryland Port Fees | | | | 69,222 | 44,000 | 51,000 | 69,222 | 44,000 | 51,000 |
| Maryland Aviation Fees | | | | 194,308 | 204,000 | 205,000 | 194,308 | 204,000 | 205,000 |
| Total | 8,386 | 375,012 | 338,187 | 2,260,161 | 1,978,327 | 2,085,417 | 2,268,547 | 2,353,339 | 2,423,604 |
| OTHER REVENUES | | | | | | | | | |
| State Real and Personal Property Tax | | | | | --- See Notes --- | | | | |
| Property Transfer Tax | | | | 123,356 | 113,808 | 118,915 | 123,356 | 113,808 | 118,915 |
| Business Franchises and Filing Fees | 202,452 | 202,919 | 204,265 | | | | 202,452 | 202,919 | 204,265 |
| State Tobacco Tax | 405,915 | 412,548 | 408,709 | | | | 405,915 | 412,548 | 408,709 |
| Tax on Insurance Companies | 277,007 | 287,044 | 300,027 | | | | 277,007 | 287,044 | 300,027 |
| Alcoholic Beverages Excises | 29,874 | 30,504 | 31,153 | | | | 29,874 | 30,504 | 31,153 |
| Death Taxes | 173,473 | 194,709 | 211,982 | | | | 173,473 | 194,709 | 211,982 |
| Clerks of the Court | 35,484 | 31,227 | 31,516 | | | | 35,484 | 31,227 | 31,516 |
| District Courts | 87,331 | 86,458 | 87,755 | | | | 87,331 | 86,458 | 87,755 |
| Hospital Patient Recoveries | 72,690 | 74,649 | 66,485 | | | | 72,690 | 74,649 | 66,485 |
| Interest on Investments | 50,223 | 54,000 | 63,000 | | | | | --- See Notes --- | |
| Miscellaneous Fees, Other Receipts | 335,928 | 296,819 | 282,964 | | | | | | |
| Total | 1,670,377 | 1,670,878 | 1,687,857 | | | | | | |
| **Total Current Revenues** | 12,560,100 | 13,159,029 | 13,597,751 | | | | | --- See Notes --- | |
| Extraordinary Revenues | 27,015 | 3,700 | 0 | 729 | 100 | 0 | | | |
| GRAND TOTAL | 12,587,115 | 13,162,729 | 13,597,751 | | --- 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 2012 Budget Book, this table will comprise the official estimate of total state revenues.

Table 4
**Maryland General Fund Revenues**
Fiscal Years 2010 - 2012

| $ Thousands | FY 2010 Actual | FY 2011 September Estimate | FY 2011 December Estimate | FY 2011 Difference | FY 2011 Growth | FY 2012 September Estimate | FY 2012 December Estimate | FY 2012 Difference | FY 2012 Growth |
|---|---|---|---|---|---|---|---|---|---|
| INCOME TAXES: | | | | | | | | | |
| Individual | 6,178,243 | 6,360,116 | 6,336,819 | (23,297) | 2.6% | 6,712,097 | 6,650,229 | (61,868) | 4.9% |
| Corporation | 689,311 | 543,433 | 611,310 | 67,877 | -11.3% | 567,887 | 621,929 | 54,042 | 1.7% |
| Total | 6,867,554 | 6,903,549 | 6,948,129 | 44,580 | 1.2% | 7,279,984 | 7,272,158 | (7,826) | 4.7% |
| SALES AND USE TAXES | 3,522,774 | 3,655,513 | 3,672,461 | 16,948 | 4.2% | 3,778,360 | 3,796,001 | 17,641 | 3.4% |
| STATE LOTTERY | 491,009 | 510,908 | 492,550 | (18,358) | 0.3% | 519,341 | 503,549 | (15,792) | 2.2% |
| OTHER REVENUES | | | | | | | | | |
| Business Franchise Taxes | 202,452 | 202,919 | 202,919 | (0) | 0.2% | 204,265 | 204,265 | 0 | 0.7% |
| Tax on Insurance Companies | 277,007 | 287,044 | 287,044 | 0 | 3.6% | 300,027 | 300,027 | 0 | 4.5% |
| Death Taxes | 173,473 | 182,291 | 194,709 | 12,418 | 12.2% | 190,060 | 211,982 | 21,922 | 8.9% |
| Tobacco Tax | 405,915 | 404,190 | 412,548 | 8,358 | 1.6% | 402,549 | 408,709 | 6,160 | -0.9% |
| Alcoholic Beverages Excise Tax | 29,874 | 30,504 | 30,504 | 0 | 2.1% | 31,153 | 31,153 | 0 | 2.1% |
| Motor Vehicle Fuel Tax | 8,386 | 5,000 | 5,000 | 0 | -40.4% | 0 | 0 | 0 | -100.0% |
| Highway User Revenue | | 363,389 | 370,012 | 6,623 | | 338,400 | 338,187 | (213) | -8.6% |
| District Courts | 87,331 | 86,458 | 86,458 | 0 | -1.0% | 87,755 | 87,755 | 0 | 1.5% |
| Clerks of the Court | 35,484 | 35,079 | 31,227 | (3,852) | -12.0% | 35,404 | 31,516 | (3,888) | 0.9% |
| Hospital Patient Recoveries | 72,690 | 67,427 | 74,649 | 7,222 | 2.7% | 66,078 | 66,485 | 407 | -10.9% |
| Interest on Investments | 50,223 | 54,000 | 54,000 | 0 | 7.5% | 63,000 | 63,000 | 0 | 16.7% |
| Miscellaneous | 335,928 | 312,026 | 296,819 | (15,207) | -11.6% | 310,075 | 282,964 | (27,111) | -4.7% |
| Total | 1,678,764 | 2,030,327 | 2,045,890 | 15,563 | 21.9% | 2,028,766 | 2,026,043 | (2,723) | -1.0% |
| **Total Current Revenues** | 12,560,100 | 13,100,297 | 13,159,029 | 58,732 | 4.8% | 13,606,452 | 13,597,751 | (8,701) | 3.3% |
| Extraordinary Revenues | 27,015 | 5,400 | 3,700 | (1,700) | -86.3% | 0 | 0 | 0 | -100.0% |
| GRAND TOTAL | 12,587,115 | 13,105,697 | 13,162,729 | 57,032 | 4.6% | 13,606,452 | 13,597,751 | (8,701) | 3.3% |

# Individual Income Tax

General fund individual income tax revenues fell 4.6% in fiscal year 2010, the second consecutive year of decline. Since the imposition of the modern income tax in 1968, revenues have declined in only two other periods–fiscal year 1992 and fiscal years 2002 and 2003. This most recent period combines the worst aspects of both of those earlier periods, with extraordinarily weak withholding growth, similar to the early 1990s, and plummeting capital gains, as was the case during the last recession. In fiscal year 1992, income tax withholding increased just 3.2%, the weakest performance on record (after adjusting for law changes) prior to this recession. Capital gains declined 53% in tax year 2001 with the collapse of the stock markets, and a further 30% in 2002.

Income tax withholding actually declined 0.5% in fiscal year 2009 (partly as a result of increases in the personal exemption), and increased a very weak 1.3% in 2010. Capital gains, meanwhile, declined 62.8% in tax year 2008, and are estimated to have fallen 40.0% in tax year 2009, with the impact largely falling in fiscal years 2009 and 2010. As a result, the two-year decline in individual income tax revenues for the last two years is the worst downturn on record–a cumulative drop of 11.0%, compared to a baseline decline of roughly 6.0% in fiscal years 2002 and 2003.

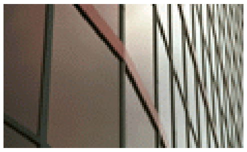
After very weak 1.3% withholding growth in fiscal year 2010, acceleration to 4.0% is forecast for fiscal year 2011 with the consistent improvement in the labor market. Continued acceleration to 4.5% is expected for fiscal year 2012 as, aside from other factors, all of the BRAC-related job transfers will be completed and the positions should be filled. Estimated payments declined 13.3% in fiscal year 2010, after a 16.0% decline in fiscal year 2009–the first three quarters of calendar year 2009 saw declines of about 30%, reflecting the turmoil in the stock markets in late 2008. Estimated payments are expected to be essentially flat in the forecast, with modest declines of 1.1% and 2.6% for fiscal years 2011 and 2012. Growth in the stock markets and a generally improving economic climate will boost non-wage income. Capital gains growth of 15% is called for in calendar years 2010 and 2011, and proprietor's income and, to a lesser degree, dividend, interest and rent income are both expected to accelerate throughout the forecast period. Safe harbor provisions, however, will restrain growth.

Payments after refunds are forecast to grow 4.1% in fiscal year 2011 and 4.4% in fiscal year 2012. This growth marks a notable improvement over the 3.6% decline in fiscal year 2010, but is well below the average growth of 7.4% for the five years prior to the recession. An accounting adjustment for GAAP issues brings growth in general fund individual income tax revenues to 2.6% for fiscal year 2011, and to 4.9% in fiscal year 2012. Growth in both years, especially fiscal year 2012, is affected by the expiration of the 6.25% income tax bracket for those with taxable income over $1 million. The general fund estimates of $6.337 billion and $6.650 billion are $23.3 million and $61.9 million lower than the previous forecast.

Table 5
**Individual Income Tax Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Gross Receipts (State & Local) | | | | |
| Withholding | 10,139,154 | 10,273,070 | 10,682,493 | 11,168,501 |
| Estimated Payments | 1,532,974 | 1,329,324 | 1,314,897 | 1,281,028 |
| Payments with Final Returns | 1,146,673 | 1,021,465 | 1,033,178 | 1,133,389 |
| Fiduciary | 66,364 | 44,021 | 44,304 | 46,984 |
| Gross Receipts | 12,885,165 | 12,667,880 | 13,074,872 | 13,629,902 |
| Refunds | (2,532,839) | (2,689,866) | (2,691,247) | (2,793,089) |
| Net Receipts (State & Local) | 10,352,326 | 9,978,014 | 10,383,625 | 10,836,813 |
| Local Reserve Account | (3,873,349) | (3,776,596) | (4,044,806) | (4,184,584) |
| Income Tax Check-offs | (1,820) | (1,615) | (2,000) | (2,000) |
| Amnesty | | (21,560) | | |
| Net General Fund | 6,477,157 | 6,178,243 | 6,336,819 | 6,650,229 |

Figures may not sum to totals due to rounding.



# Corporate Income Tax

General fund corporate income tax revenues increased 25.2% in fiscal year 2010, although excluding several truly extraordinary transactions, revenues declined 5.8%, more in line with the 16.4% decline in U.S. corporate profits in calendar year 2008 and the 0.4% decline in calendar year 2009. After the record-breaking drop in corporate profits in 2008 and continued year-over-year decline in the first three quarters of 2009, profits rebounded strongly beginning in the fourth quarter of 2009, with growth averaging over 30% through the third quarter of 2010. Estimated income tax payments were flat in fiscal year 2010, although final payments increased 23%, indicating a better year than had generally been expected by taxpayers. Refunds, however, increased 28%, most likely reflecting the impact of net operating losses (NOLs) from 2008 and earlier in 2009.

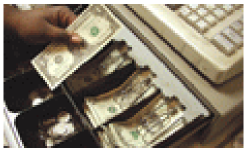
Through the first five months of fiscal year 2011, gross corporate income tax receipts have increased about 12.2%, adjusting for extraordinary transactions in fiscal year 2010. Refunds are down almost 20%, resulting in an increase of baseline net receipts of nearly 50%. The decline in refunds is surprising–the previous forecast called for 7.0% growth in refunds, expecting a continued impact from NOLs. As the time has passed when most taxpayers would be certain both of their NOLs related to the period of plummeting corporate profits and the liability to which the NOLs could be applied is known, and given that the larger the NOLs and the bigger the tax savings the less likely taxpayers would be to leave any resulting refunds in the State’s hands, it appears that the risk of large NOLs affecting current collections is receding.

Accordingly, with corporate profits having increased substantially in recent quarters and forecasts calling for growth in the low single-digits in the near future, baseline gross receipts are expected to increase by 8.4% in fiscal year 2011 (actual gross receipts will fall by 9.1%), slowing to 0.9% growth in 2012. Rather than increasing by 7.0% in fiscal year 2011, refunds are now expected to decline by 16.6%. As two-thirds or more of refunds for a fiscal year are typically paid out by November, the risk of a large impact of NOLs on the forecast is limited, but the risk remains. Refunds are expected to decline by 2.1% in fiscal year 2012. Net receipts are forecast to fall 6.9% this year (baseline increase of 17.6%), and increase by 1.7% next year. General fund revenues, however, will fall 11.3% this year due to special distributions of revenue in fiscal year 2010, but will grow at the rate of growth of net receipts, 1.7%, in fiscal year 2012.

Table 6
**Corporate Income Tax Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Gross Receipts | 951,683 | 1,149,953 | 1,045,813 | 1,055,732 |
| Refunds | (202,682) | (258,561) | (215,633) | (211,133) |
| Net Receipts | 749,001 | 891,392 | 830,180 | 844,599 |
| Transportation Trust Fund | (151,304) | (155,254) | (169,058) | (171,994) |
| Higher Education Investment Fund | (46,957) | (45,744) | (49,812) | (50,676) |
| Amnesty | | (1,083) | | |
| Net General Fund | 550,740 | 689,311 | 611,310 | 621,929 |

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, realized a decline in gross receipts of 2.4% in fiscal year 2010, the first such decline since fiscal year 1991. When adjusted for the rate increase from 5% to 6%, however, gross collections have now declined for three consecutive years. General fund collections declined 2.7% to $3.523 billion in fiscal year 2010. Conditions are now improving, however, with receipts up 3.4% for the first four months of the year. Growth is expected to pick up throughout the year, reaching 4.1% for the full fiscal year before a slight deceleration to 3.9% growth for fiscal year 2012. The general fund distribution is expected to increase 4.1% for fiscal year 2011 and 3.4% in fiscal year 2012, with much of the difference in 2012 attributable to varying special fund distributions and an expired vendor discount cap.

The consumer segment of sales tax revenues, about two-thirds of sales tax collections, fell 0.9% in fiscal year 2010. The Conference Board's consumer confidence index averaged 106 between 2000 and 2007, but averaged only 53 over the course of fiscal year 2010. Job losses, reduced use of credit, shrinking retirement accounts and falling home values, among other factors, have taken their toll on consumer spending during the recession. However, for the fiscal year to date, consumer collections are up 4.5%. Continued wealth revival–the Standard and Poor's 500 Index is up 86% since its recessionary trough–in concert with improved employment and income, are expected to sustain growth. Consumer-related collections are forecast to increase 4.6% in fiscal year 2011, based on the strong performance in the first part of the year, and 3.2% in fiscal year 2012.

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, in concert with the housing boom. Reduced home sales and prices led to a dramatic slowdown in new home construction and much lower home improvement activity. Construction collections fell 7.6% in fiscal year 2010; baseline collections (adjusted for the rate increase) have fallen four years in a row. Collections have increased each of the last eight months, however, and year to date, collections are up 2.8%. While investment in commercial structures are expected to continue declining, residential activity is beginning to pick up–permits for residential construction are expected to increase by double digits in fiscal years 2011 and 2012–although levels remain well below those realized before the collapse of the housing bubble. Construction-related receipts are expected to increase 2.4% to $483.1 million in fiscal year 2011, with 4.8% in fiscal year 2012.

Sales tax revenue derived from the utility sector–from sales of electricity and natural gas to commercial and industrial customers, purchases of equipment by electric, gas, and telephone companies, and sales of cellular phone service–declined 8.6% in fiscal year 2010. This decline is the first since fiscal year 2002 when deregulation of the power industry took place. Much of the growth in past years is attributable to continued investment in non-residential communications equipment such as the development of 3-G networks, and higher energy prices. However, year to date collections are down 2.6%, likely due to reduced consumption of energy as many businesses have reduced activity or are searching for savings, and also due to slowing investment in communications equipment. Collections are expected to accelerate through the fiscal year, with 0.7% growth for fiscal year 2011 and 5.9% growth in fiscal year 2012.

Growth in remittances from sales of capital goods–generally durable goods purchased and used by businesses, but also including sales of computers–fell 0.8% for fiscal year 2010 after declining 4.6% in fiscal year 2009 (2009 baseline growth was -12.5%). Year to date, receipts are up 3.3% as companies are likely increasing their capital investments after several years of deferred activity, and in line with improved expectations for the economy. Collections are expected to increase 7.2% in fiscal year 2011 as companies continue to invest in durable equipment and take advantage of current special tax expense provisions related to capital spending. Fiscal year 2012 is expected to see continued growth of 5.4% to $350.6 million.

Table 7
**Sales and Use Tax Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Consumer | 2,617,052 | 2,593,402 | 2,711,754 | 2,798,727 |
| Construction | 510,754 | 471,667 | 483,081 | 506,241 |
| Capital Goods | 312,950 | 310,341 | 332,643 | 350,573 |
| Utilities | 416,952 | 381,302 | 384,132 | 406,888 |
| Gross Collections | 3,857,707 | 3,756,712 | 3,911,610 | 4,062,429 |
| Assessments | 16,153 | 14,302 | 13,706 | 19,614 |
| Refunds | (22,570) | (17,026) | (11,701) | (17,770) |
| Transportation Trust Fund | (223,085) | (218,791) | (228,732) | (237,569) |
| Other[1] | (7,776) | (6,235) | (12,422) | (30,703) |
| Amnesty | | (6,187) | | |
| Total General Fund | 3,620,431 | 3,522,775 | 3,672,461 | 3,796,001 |

[1] Other distributions include the Chesapeake Bay 2010 Fund, beginning in 2009 and later.

Figures may not sum to totals due to rounding.

# Lottery

Net general fund lottery collections increased 3.8% to $491.0 million in fiscal year 2010, despite a sales increase of only fifty basis points. The growth in gross revenues and the general fund distribution was primarily due to lower payout ratios after a year of abnormally unfavorable payouts in fiscal year 2009. Gross revenues increased by approximately 3.5% before the $19.6 million distribution to the Stadium Authority. Sales increased to over $1.7 billion in fiscal year 2010, with help from the new games Powerball and Racetrax Bonus. Sales of instant tickets, the largest game, fell by 3.2%, while sales of Pick 3, the third-largest game, declined 3.4%. Despite the rather significant decline in Pick 3 sales, revenues grew 5.2% due to a better prize payout ratio (52.0% in fiscal year 2010 compared to 53.2% in fiscal year 2009). Sales of the multi-state jackpot games, Mega Millions and Powerball, increased $28.1 million, growth of 22.4%, and a commensurate revenue increase of $13.2 million. Additionally, commissions and operating expenses were reduced substantially, contributing a combined $15.9 million to the bottom line.

Before the Stadium Authority distribution, fiscal year to date revenues are down 3.7% on a 1.4% drop in sales. The revenue decline results from both lower sales, particularly those of the multi-state jackpot games, and the fact that several games' payout rates are higher than they were at this point last year. For instance, Pick 4 sales are up 3.4% year to date but revenues are down; despite a better than statistically expected payout ratio year to date, this year's payout ratio is higher than last year's. Alternatively, Keno game sales are down 2.9%, but revenues are up 0.5% because of a ninety basis point reduction in the payout ratio from last year. Instant tickets, the largest game by sales volume, is down 0.3% in sales and down 2.6% in revenues as the sales mix has driven the payout ratio to higher than normal levels. General fund collections are down 1.5%, with much of the discrepancy between gross revenues and general fund revenues attributable to the Stadium Authority distribution. As that distribution is comprised solely of Mega Millions revenues, the introduction of Powerball has resulted in a lower distribution of revenue at this point in the year.

Pick 3 sales have been declining for some time, a trend that is expected to continue this year as sales are expected to finish down 2.0%. Pick 4, conversely, is expected to grow 3.0% this year. Fiscal year 2012 should see a similar trajectory, with Pick 3 down another 2.0% and Pick 4 up 2.5%. Instant ticket sales growth has declined both of the past two years; sales are expected to decrease 1.0% this year and be flat in fiscal year 2012. Sales of the monitor games, Racetrax and Keno, are expected to stagnate this year, with Racetrax continuing to canabilize sales from Keno, and doing so at a higher payout rate. Growth of 1.1% is expected in fiscal year 2012.

The jackpot games, in the aggregate, are expected to encounter somewhat severe declines in sales this year, largely due to depressed jackpot levels in both the MegaMillions and Powerball games (both games average fiscal year to date jackpots are down 28.0% compared to those of the past five fiscal years). Sales of the two games in the aggregate are expected to decline 3.2% this year although a rebound is expected in fiscal year 2012, with a return to normal jackpot levels. MultiMatch is the other game that has been negatively affected by the introduction of Powerball; sales are expected to fall 23.0% this year before growing 7.2% next year. Bonus Match 5, the smallest game by both sales and revenue, is expected to grow 0.6% this year before accelerating to 8.4% in fiscal year 2012.

Table 8

**Lottery Sales and Revenues by Game**

Fiscal Years 2009-2012

($ in millions)

| | Sales | | | | Revenues | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
| Pick 3 | 276.3 | 266.9 | 261.6 | 256.4 | 104.2 | 109.5 | 103.8 | 106.7 |
| Pick 4 | 249.2 | 246.7 | 254.1 | 260.4 | 92.0 | 92.0 | 111.3 | 110.7 |
| Multimatch | 32.9 | 35.2 | 27.1 | 29.1 | 11.4 | 12.6 | 9.9 | 10.6 |
| Instant/Countdown to Millions | 507.1 | 490.9 | 485.9 | 485.9 | 90.1 | 89.7 | 89.2 | 91.5 |
| Keno/Racetrax | 483.2 | 492.0 | 492.3 | 498.0 | 135.5 | 134.1 | 128.8 | 132.0 |
| Bonus Match 5 | 23.5 | 20.8 | 20.9 | 22.6 | 8.4 | 7.8 | 7.1 | 7.7 |
| Mega Millions/Powerball | 126.0 | 154.1 | 149.2 | 153.1 | 51.7 | 64.9 | 62.5 | 64.3 |
| Total | 1,698.1 | 1,706.6 | 1,691.2 | 1,705.5 | 493.2 | 510.6 | 512.6 | 523.5 |
| Less Stadium Authority Revenue | | | | | (20.0) | (19.6) | (20.0) | (20.0) |
| General Fund Revenue | | | | | 473.2 | 491.0 | 492.6 | 503.5 |

Figures may not sum to totals due to rounding.

Note: Special fund revenues (the Lottery Agency's operating expenses) of $51.9 million in 2010 are not included in this table; these revenues, generally proportional to sales by game, are expected to be $53.7 million in 2011 and $54.3 million in 2012.

# Business Franchise Taxes

Business franchise taxes are collected from 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, an annual $300 fee collected from corporate and non-corporate entities doing business in the State, are included in the business franchise taxes. Franchise tax receipts increased 0.5% in fiscal year 2010 to $202.5 million, with a 0.4% increase in receipts from electric and gas utilities but a 9.1% decline in receipts from telephone companies, continuing a long-time trend as consumers and businesses abandon land lines in favor of cellular phones. Receipts were boosted by the fact that Maryland mined coal credits taken against the franchise tax totaled $4.5 million in fiscal year 2010 rather than the $7.4 million claimed in 2009. Despite the recession, filing fee collections increased 2.5%.

Fiscal year to date, franchise tax collections are up 2.8%, with gross receipts taxes up 8.0% year to date, but filing fees are down 12.3%. Gross receipts activity reflects just one quarter of estimated payments, and the bulk of filing fees are collected in April and June, so year-to-date growth is not necessarily indicative of full-year activity. As general economic activity increases, gross receipts taxes related to the power businesses are expected to rise moderately through fiscal years 2011 and 2012, similar to their trajectory following the 2001 recession. Receipts from the telephone service sector are expected to continue trending downwards and to outweigh the gains of the power sector, resulting in a total gross receipts tax decline of 1.2% in fiscal year 2011 and a further decline of 0.8% in fiscal year 2012. Filing fee growth has remained strong throughout the recession; there is no reason at this point to believe such activity will not continue. Fiscal year 2011 filing fees are expected to grow 2.5% to $80.4 million, with a further 2.9% increase in fiscal year 2012. In the aggregate, business franchise taxes are expected to grow modestly in fiscal years 2011 and 2012, by 0.2% and 0.7% respectively.

Table 9
**Business Franchise Tax Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Public Service Company Franchise Tax | 124,915 | 124,081 | 122,562 | 121,583 |
| Filing Fees | 76,435 | 78,371 | 80,357 | 82,682 |
| Financial Institution Franchise Tax | 28 | 0 | 0 | 0 |
| Total | 201,378 | 202,452 | 202,919 | 204,265 |

# Insurance Premium Tax

Insurance premiums are taxed at a rate of 2.0%. Collections increased 0.7% in fiscal year 2010 after declining 8.8% in fiscal year 2009, which marked the first year of negative collection growth since 2000. Insurance premiums, and hence collections, are tied to automobile purchases, home ownership, home prices, and earnings, among other factors. Accordingly, it is not surprising to see collections decline during a recession. However, volume and value reductions are not the sole culprit in the diminution of collections; increased competition has led to a reduction in premium prices. Also restraining growth in the past two years is the historic structure rehabilitation tax credit, which have been claimed against the premium tax in increasing amounts the past two years. Premium tax revenues are expected to increase 3.6% to $287.0 million in fiscal year 2011 and increase 4.5% in fiscal year 2012 as economic conditions improve.

Table 10
**Insurance Premium Tax Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Premium Tax | 275,203 | 277,007 | 287,044 | 300,027 |

# Death Taxes

Death tax revenues are inherently volatile, as a group the second most volatile revenue source behind the corporate income tax. In recent years, unusually high volatility in the value of stocks, real estate, and other assets have resulted in dramatic year-over-year changes that measure in the tens of millions of dollars. State and federal law changes can also play a role, although Maryland's estate tax is decoupled from most of the recent changes in the federal estate tax. Since 1995, the annual change in revenues has ranged from growth of more than 50% to a decline in excess of 28%; on average, revenues have increased by 9.1% annually. Fiscal year 2008 collections reached a record high of $194.5 million before falling 21.1% to $153.4 million in fiscal year 2009, and again by 17.9% to $126.0 million in fiscal year 2010. This represents a drop of more than one-third from the fiscal year 2008 high.

Through the first five months of fiscal year 2011, estate tax revenues are up 21.1%. As was the case last year, nine estates have made tax payments over $1 million, with the average payment more than $3.6 million, an increase in the average from just over $3 million last year. In addition, the number of and payments from estates making payments between $500,000 and $1 million has more than doubled from last year, with the average tax payment increasing by nearly 21%. Even more dramatically, estate tax payments under $500,000 are up 42% in the first five months of the year. Previous forecasts had expected continued declines in wealth, but given the strong growth in estate tax payments under $500,000, it appears that wealth has resumed growth sooner than expected–the Standard and Poor's 500 Index was up about 20% in calendar year 2009, and is up a further 10% this year. Accordingly, the estimates are $12.4 million higher for fiscal year 2011 and $21.9 million higher in fiscal year 2012

Inheritance tax revenue is now essentially from the collateral inheritance tax, a 10.0% 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 up 5.8% or just under $1.0 million. Continued increasing wealth as the economy stabilizes is expected to result in an annual increase of 3.0% for fiscal years 2011 and 2012.

Table 11

**Death Tax Revenues**

Fiscal Years 2009-2012

($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Collateral Inheritance Tax | 51,842 | 47,310 | 48,717 | 50,202 |
| Direct Inheritance Tax | 221 | 197 | 175 | 175 |
| Estate Tax | 153,429 | 125,967 | 145,817 | 161,605 |
| Total | 205,492 | 173,473 | 194,709 | 211,982 |

Figures may not sum to totals due to rounding.

# Alcohol and Tobacco Excise Taxes

Tobacco taxes increased slightly in fiscal year 2010, with the growth coming primarily from the tax on other tobacco products. Cigarette tax revenues increased slightly in fiscal year 2010 after two years of distortions caused by State and federal cigarette tax increases. With cigarette stamp sales up 0.8% through the first four months of the fiscal year and revenues up even stronger, growth of 1.5% is forecast for the full year. A 1.2% decline is forecast for fiscal year 2012, although it is conceivable that the long-term trend of declining consumption has come to an end–the recent tax increases have obscured what may have been a reversal of that trend. The tax on other tobacco products continues to grow consistently just under $1 million annually; that rate of growth is expected in the forecast period.

Alcoholic beverage tax revenues increased 2.4% in fiscal year 2010, led by the 4.4% increase in revenues from the tax on wine. Revenues from the tax on beer increased only 0.3%, likely a result of higher prices driven by increasing costs of inputs. Modest growth is expected in the forecast period for revenues from beer taxes, but revenues from distilled spirits and wine are expected to bring growth of alcoholic beverage excise taxes to just over 2.1% for both 2011 and 2012.

Table 12
**Excise Tax Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Cigarette Tax | 394,080 | 394,147 | 399,939 | 395,140 |
| Other Tobacco Products Tax | 10,977 | 11,769 | 12,609 | 13,569 |
| Total Tobacco Taxes | 405,057 | 405,915 | 412,548 | 408,709 |
| | | | | |
| Distilled Spirits Tax | 14,708 | 15,153 | 15,585 | 16,029 |
| Wine Tax | 5,365 | 5,600 | 5,778 | 5,962 |
| Beer Tax | 9,095 | 9,121 | 9,141 | 9,162 |
| Total Alcoholic Beverages Tax | 29,168 | 29,874 | 30,504 | 31,153 |

Figures may not sum to totals due to rounding.

# Hospital Patient Recoveries

Hospital patient recoveries are revenues received for services provided in State hospitals paid by the patients, their sponsors or insurance, and by the federal Medicaid and Medicare programs. Medicaid reimbursements, the largest share of recoveries, primarily relates to patients in psychiatric hospitals. A total of $72.7 million was collected in fiscal year 2010, a decrease of 24.6% from the previous year. The sharp decline is mainly 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.

Recoveries in fiscal year 2011 are supported by the American Recovery and Reinvestment Act. Not only does the enhanced funding expire at the end of the fiscal year, but the Joseph D. Brandenburg Center is closing. As a result, Medicaid recoveries are projected to fall by 22.8% in fiscal year 2012, and total recoveries are expected to decline 10.9%.

Table 13
**Hospital Patient Recoveries**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Medicaid | 58,397 | 33,959 | 35,483 | 27,384 |
| Medicare | 7,456 | 6,956 | 6,547 | 6,614 |
| Insurance and Sponsors | 5,843 | 5,017 | 6,103 | 6,093 |
| | 71,695 | 45,932 | 48,133 | 40,091 |
| Disproportionate Share | 24,766 | 26,758 | 26,516 | 26,394 |
| Total | 96,462 | 72,690 | 74,649 | 66,485 |

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. While the long-term trend is positive, revenues have fallen each year since fiscal year 2008, when they declined by 5.9%. In fiscal year 2009, revenues declined by 2.1%, and in fiscal year 2010, they fell again, this time by 2.3%. Currently, year to date performance is down nearly 5.9%; consequently, revenues are expected to drop by 1.0% for fiscal year 2011 before recovering slightly by 1.5% for fiscal year 2012.

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. Clerks revenue has fallen in each of the preceding four fiscal years as the State's housing market has struggled. Between fiscal years 2004 and 2006, an average of over 96,500 existing homes were sold each year, with a median price rising to over $300,000. In each of the three fiscal years following, sales declined by double-digit percentages. While sales increased by 28% in fiscal year 2010, that pace of sales was boosted by the federal income tax credit for homebuyers and may be unsustainable. In addition, prices continued to fall, with the median price more than 20% below its peak. As a result, revenues declined 12.4%. Sales are expected to continue to decline in fiscal year 2011, as are revenues from the clerks, which are projected to fall 12.0%. As the housing market bottoms out in fiscal year 2012 and recordation activity stagnates, revenues are expected to be flat at $31.5 million.

Table 14
**General Fund Court Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| District Courts | 89,379 | 87,331 | 86,458 | 87,755 |
| Clerks of the Court | 40,514 | 35,484 | 31,227 | 31,516 |

# Interest Earnings

Interest on investments fell significantly in fiscal year 2010 as interest rates, revenues, and the States balances continued to decline. The current forecast for three-month Treasury bill rates calls for a modest increase to a still very low 0.26% in fiscal year 2011 before rising more substantially to 0.73% in fiscal year 2012. General fund interest earnings were boosted in fiscal year 2010 by the temporary crediting to the general fund of interest from a variety of special funds, a redistribution that continues through fiscal year 2011, when $54 million of general fund interest is forecast. Rising rates, however, along with rising revenues will more than offset the expiration of that distribution in fiscal year 2012 as interest earnings increase to $63 million.

Table 15
**Interest Earnings**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Interest Earnings | 83,050 | 50,223 | 54,000 | 63,000 |


# 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 combined revenues from these two major revenue sources declined by approximately 3.6% in fiscal year 2010, this loss was partially offset by 55% growth in State Admission & Amusement tax revenues. As a result, total miscellaneous revenues increased by more than $3.4 million, or 2.1%, in 2010.

Legislation passed in recent years has affected the amount reported as miscellaneous revenues. Legislation from the 2008 legislative session extended the provision allowing for 20 percent of the proceeds from electronic bingo and tip jars to go to the general fund. This revenue is reported as State Admissions & Amusement Tax collections, and in FY 2009, a full year's worth of revenue was deposited into the general fund for the first time. Legislation from the 2009 legislative session extended the sunset provision to 2012. Changes made during the 2007 Special Session moved monies formerly set aside from transportation license tags and filing fees to the Transportation Trust Fund, diverting nearly $10 million from the general fund each year.

In total, the general fund is expected to receive $159.8 million in miscellaneous revenues in fiscal year 2011, a decrease of 5.7% from 2010, and decline an additional $3.2 million – or 2.0% – in fiscal year 2012 to $156.6 million.

Table 16
**Miscellaneous Revenues**
Fiscal Years 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Recording, Organization & Capitalization Fees | 10,448 | 10,304 | 9,067 | 9,158 |
| Excess Fees of Office | 4,643 | 2,878 | 3,583 | 3,540 |
| Unclaimed Property | 66,341 | 64,259 | 60,000 | 60,000 |
| Local Income Tax Reimbursement | 12,593 | 12,613 | 13,407 | 13,407 |
| Uninsured Motorist Penalty Fees | 63,858 | 61,261 | 55,000 | 55,000 |
| State Admissions & Amusement Tax | 8,105 | 12,599 | 11,600 | 8,400 |
| Miscellaneous Revenues and Transfers | 15 | 5,515 | 7,100 | 7,100 |
| Total | 166,003 | 169,430 | 159,757 | 156,605 |

Figures may not sum to totals due to rounding.

# Miscellaneous Agency Revenues

Agency general fund revenue is made up of revenue received by those agencies whose primary purpose is not revenue collection, but whose ancillary collections are directed to the general fund. Significant amounts of miscellaneous revenues are submitted by the Department of Health and Mental Hygiene (DHMH), Public Education, and the Attorney General's Office; when combined, these agencies accounted for 65% of all fiscal year 2010 collections. While revenue received from DHMH comes from a variety of sources, the Attorney General's generally stem from large settlements and Public Education's from education-related reimbursements from Maryland's counties. Other agencies collect small amounts from fees or penalties. In fiscal year 2010, miscellaneous revenues declined by approximately $5.8 million, an decrease of 3.4% from 2009. For fiscal years 2011 and 2012, agency miscellaneous revenues are expected to decline significantly, with much of that loss attributable to unusual collections for DHMH in fiscal year 2010.

Table 17
**Miscellaneous Agency Revenues**
Fiscal Years 2009 - 2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| PSC Fines, Citations and Filing Fees | (6) | 233 | 161 | 161 |
| Legislature | 186 | 178 | 74 | 53 |
| Workers' Compensation | 54 | 55 | 55 | 55 |
| Public Defender | 2,298 | 1,765 | 1,500 | 1,200 |
| Attorney General | 24,137 | 26,627 | 22,600 | 22,000 |
| Executive & Administrative Control | 7,735 | 7,335 | 5,938 | 6,033 |
| Financial & Revenue Administration | 14,735 | 13,443 | 12,000 | 10,000 |
| Budget & Fiscal Administration | 1,632 | 1,008 | 900 | 850 |
| General Services | 76 | 88 | 75 | 75 |
| Natural Resources | 127 | 186 | 68 | 69 |
| Agriculture | 169 | 192 | 90 | 90 |
| Health & Mental Hygiene | 48,164 | 39,875 | 24,900 | 21,827 |
| Human Resources | 2,787 | 1,321 | 1,325 | 1,325 |
| Labor, Licensing & Regulation | 9,653 | 11,863 | 10,629 | 10,387 |
| Public Safety & MD State Police | 18,209 | 16,366 | 11,752 | 11,012 |
| Public Education | 39,528 | 42,024 | 42,279 | 38,710 |
| Housing and Community Development | 959 | 955 | 1,000 | 1,000 |
| Business & Economic Development | 77 | 904 | 0 | 0 |
| Environment | 737 | 577 | 716 | 512 |
| Juvenile Services | 32 | 390 | 0 | 0 |
| Alcoholic Beverage Licenses | 1,009 | 1,114 | 1,000 | 1,000 |
| Total | 172,299 | 166,499 | 137,062 | 126,359 |

Figures may not sum to totals due to rounding.

# Transportation Revenues

After a sharp decline in titling tax revenues in fiscal year 2009 due to the weak economy, revenues rebounded somewhat in fiscal year 2010, climbing by $29.3 million; however, this revenue source is still well below its fiscal year 2008 level of $649.7 million. Some of this growth was a result of the ongoing federal “cash for clunkers” program, which continued into the first several months of fiscal year 2010, likely leading to an increase in purchases during these months. While the effects of the recession and unusually high unemployment continue to linger, a small amount of growth, 5.1%, is expected again in fiscal year 2011, with a somewhat more substantial growth of 9.1% for fiscal year 2012 as the economy continues to strengthen and consumers act on pent up demand. However, because the economic recovery will be relatively slow, registration fees are expected to grow only modestly again in fiscal year 2010, by only 4.0%, and to continue to grow slowly in fiscal year 2012, by just 0.7%.

Motor fuel tax revenues are also projected to continue to increase only modestly in fiscal years 2011 and 2012, by 1.0% and 1.2%, respectively, and remain more than $12 million off their 2008 attainment. Gasoline prices remained stable in the first part of fiscal year 2011, although a strengthening global economy, among other factors, has caused prices to begin to creep higher in the last month; prices are expected to continue to remain at elevated levels, and perhaps even continue to increase slightly, as a global economic recovery takes hold, significantly increasing demand.

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 2009-2012
($ in thousands)

| | 2009 Actual | 2010 Actual | 2011 Revised Estimate | 2012 Estimate |
|---|---|---|---|---|
| Department of Transportation | | | | |
| Registrations | 354,983 | 350,120 | 364,100 | 366,600 |
| Licenses | 42,947 | 39,322 | 35,000 | 34,500 |
| Med-Evac Surcharge | 49,984 | 50,898 | 52,930 | 53,294 |
| Trauma Physician Services Surcharge | 11,362 | 11,564 | 12,026 | 12,108 |
| Miscellaneous Motor Vehicle Fees | 122,616 | 124,994 | 118,777 | 123,098 |
| Vehicle Emission Inspection Fees | 8,048 | 9,541 | 28,500 | 30,000 |
| Security Interest Filing Fees | | | | |
| Special Funds | 2,441 | 8,040 | 8,300 | 8,900 |
| General Funds | 3,662 | 0 | 0 | 0 |
| General Funds - Baltimore City | 2,034 | 0 | 0 | 0 |
| Hauling Fees | 10,117 | 8,990 | 9,500 | 10,000 |
| Special License Tags | | | | |
| Special Funds | 381 | 3,383 | 3,500 | 3,600 |
| General Funds | 1,720 | 0 | 0 | 0 |
| DOT | 436 | 0 | 0 | 0 |
| Chesapeake Bay/Ag Tags - MDOT | 794 | 0 | 0 | 0 |
| Titling Tax | 514,155 | 543,411 | 571,000 | 623,000 |
| Sales Tax on-Rental Vehicles | 21,498 | 22,366 | 24,155 | 25,121 |
| Special Distribution from Sales Tax | 201,586 | 195,976 | 204,577 | 212,448 |
| | 1,348,764 | 1,368,605 | 1,432,365 | 1,502,669 |
| Motor Vehicle Fuel Tax | 724,719 | 712,620 | 720,000 | 728,700 |
| Road Tax | 11,239 | 8,573 | 8,800 | 8,900 |
| Decals | 147 | 118 | 0 | 0 |
| | 736,105 | 721,311 | 728,800 | 737,600 |
| Total | 2,084,870 | 2,089,916 | 2,161,165 | 2,240,269 |

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 rebound slowly from the most severe recession in the past sixty years. With assistance of BRAC, employment is expected to grow in 2011 for the first time in four years, accelerating to 1.6% growth in 2012–approaching "normal" economic growth.

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 2014, the distribution of sales tax revenue to the Transportation Trust Fund increases from 5.3% to 6.5%. In addition, the increasing presence of video lottery terminals will restrain growth of lottery revenues.

Table 19

**Long Term Economic Forecast**

Primary Indicators

| CALENDAR YEAR | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| U.S. GDP (billion $, chained) | 13,229 | 12,881 | 13,247 | 13,618 | 14,211 | 14,841 | 15,304 |
| *% change* | *0.0%* | *-2.6%* | *2.8%* | *2.8%* | *4.4%* | *4.4%* | *3.1%* |
| U.S. Total Non-Farm Employment (thousands) | 136,777 | 130,911 | 130,255 | 131,583 | 134,211 | 138,596 | 142,629 |
| *% change* | *-0.6%* | *-4.3%* | *-0.5%* | *1.0%* | *2.0%* | *3.3%* | *2.9%* |
| U.S. Personal Income (billion $) | 12,391 | 12,175 | 12,538 | 13,075 | 14,048 | 15,062 | 15,868 |
| *% change* | *4.0%* | *-1.7%* | *3.0%* | *4.3%* | *7.4%* | *7.2%* | *5.4%* |
| CPI - % Change | 3.8% | -0.3% | 1.6% | 1.5% | 2.6% | 3.0% | 2.5% |
| U.S. 10-Year Treasury Bond Yield | 3.7% | 3.3% | 3.2% | 3.5% | 5.0% | 5.2% | 5.0% |
| MD Total Non-Farm Employment (thousands) | 2,600 | 2,520 | 2,511 | 2,543 | 2,583 | 2,632 | 2,692 |
| *% change* | *-0.3%* | *-3.1%* | *-0.4%* | *1.3%* | *1.6%* | *1.9%* | *2.3%* |
| MD Total Personal Income (million $) | 273,934 | 275,144 | 282,948 | 292,782 | 306,090 | 322,067 | 339,332 |
| *% change* | *3.6%* | *0.4%* | *2.8%* | *3.5%* | *4.5%* | *5.2%* | *5.4%* |

Source: Moody's Analytics (December 2010 forecast) and Board of Revenue Estimates

Table 20

**Maryland General Fund Revenues**

Fiscal Years 2010-2016

($ in thousands)

| | 2010 Actual | 2011 Estimate | 2012 Estimate | 2013 Estimate | 2014 Estimate | 2015 Estimate | 2016 Estimate |
|---|---|---|---|---|---|---|---|
| **Income Taxes** | | | | | | | |
| Individual | 6,178,243 | 6,336,819 | 6,650,229 | 7,067,417 | 7,503,710 | 7,939,767 | 8,371,963 |
| Corporation | 689,311 | 611,310 | 621,929 | 668,574 | 718,717 | 747,465 | 777,364 |
| TOTAL | 6,867,554 | 6,948,129 | 7,272,158 | 7,735,991 | 8,222,427 | 8,687,232 | 9,149,327 |
| **Sales and Use Taxes** | 3,522,774 | 3,672,461 | 3,796,001 | 4,019,603 | 4,193,644 | 4,357,281 | 4,527,949 |
| **State Lottery** | 491,009 | 492,550 | 503,549 | 479,756 | 494,149 | 508,973 | 524,243 |
| **Franchise, Excise, License, Fee** | 1,678,763 | 2,045,889 | 2,026,043 | 2,074,478 | 2,122,329 | 2,170,806 | 2,220,151 |
| **TOTAL CURRENT REVENUES** | 12,560,100 | 13,159,029 | 13,597,751 | 14,309,828 | 15,032,548 | 15,724,293 | 16,421,669 |

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 '10 | Sept '10 | Change from Mar '10 | Dec '10 | Change from Initial |
|---|---|---|---|---|---|
| Individual Income Tax | | | | | |
| FY 2011 | 6,308 | 6,360 | 52 | 6,337 | 28 |
| FY 2012 | | 6,712 | -- | 6,650 | (62) |
| Sales Tax | | | | | |
| FY 2011 | 3,650 | 3,656 | 5 | 3,672 | 22 |
| FY 2012 | | 3,778 | -- | 3,796 | 18 |
| Total General Fund | | | | | |
| FY 2011 | 12,672 | 13,128 | 456 | 13,163 | 491 |
| FY 2012 | | 13,606 | -- | 13,598 | (9) |

General fund revenue forecasts of the Board of Revenue Estimates since the adoption of the fiscal year 2011 budget (2010 Regular Session). The forecasts from September 2010 and later include legislative changes from the 2010 Regular Session of the General Assembly. The legislative adjustment for fiscal year 2011 includes $370 million of Highway User Revenues.

Board of Revenue Estimates, December 15 2010