

# State of Maryland

## Board of Revenue Estimates

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Director, Bureau of  
Revenue Estimates

March 10, 2010

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

Dear Governor O'Malley:

In accordance with our continuing policy of keeping you fully advised of developments concerning Maryland's revenue prospects, the Board of Revenue Estimates has reviewed the current estimates of general fund revenue in light of the most recent economic data and developments along with current collection trends. Based on our review, the Board submits to you revised general fund revenue estimates of \$12.233 billion for fiscal year 2010 and \$12.671 billion for fiscal year 2011. These figures represent a reduction to fiscal year 2010 estimates of \$66.0 million, and the fiscal year 2011 forecast is unchanged from the previous official forecast in December 2009. Despite the fact that the aggregate revision is relatively modest, the general fund revenue outlook remains poor, with a decline of 5.2% in fiscal year 2010, the largest decline on record, and a modest 3.6% increase in fiscal year 2011.

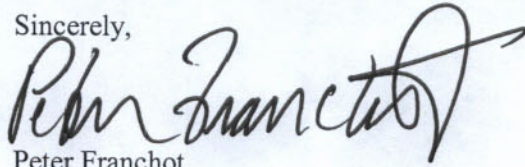
After reviewing economic data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, the Department of Labor, Licensing and Regulation, and our consultants' forecasts, we see no fundamental change to our December economic outlook. The recession may be over, and Maryland's economy has not contracted as much as the national economy, but the effects of the recession will linger. Maryland employment is expected to continue to decline through the first half of calendar year 2010, although at a moderating pace. Growth will resume towards the end of the year, though it is expected to be sluggish through 2011. When final figures are released, growth in personal income for 2009 is expected to have been the worst since 1954, due largely to stagnant wage income. As employment begins its slow recovery, wages will as well, but a return to relatively healthy growth is not expected until 2012.

With the economic forecast essentially the same as that from our December forecast (and, in many respects, from our September forecast), no substantial changes to the revenues are warranted. The largest adjustment, a reduction to the individual income tax of \$53.1 million, arises because of indications that final payments for calendar year 2009 may not be quite as strong as previously expected. Because this relates to past rather than current activity, there will be no impact on fiscal year 2011 revenues. The corporate income tax is being revised upward by a conservative \$36.8 million to account for very strong year-to-date performance relative to the estimates, although a decline of 3.4% is still expected. There is a very high risk that net operating losses from 2008 and 2009 will result in immediate refunds on amended returns due to carrybacks. In addition, the losses could lead to lower estimated or final corporate income tax payments. To account for that risk, the revenue writeup is not as large as would otherwise be the case, and the estimate for fiscal year 2011 is unchanged. The \$32.8 million reduction to the sales tax and the \$16.9 million reduction to lottery revenues simply reflect the estimated impact of the December and February blizzards. As these were one-time occurrences, there is again no effect on the fiscal year 2011 estimates.

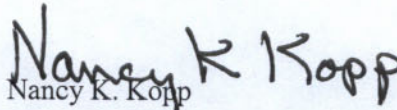
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The last three revenue forecasts have been at similar levels from an estimating perspective, as shown in the attached table. While the estimates have shown stability over the course of this budget cycle, the revenue outlook remains bleak, and risks to the forecast are still substantial. We will continue to monitor the situation and keep you informed of any major developments.

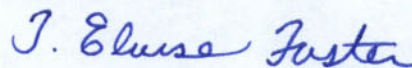
Sincerely,



Peter Franchot



Nancy K. Kopp



T. Eloise Foster

Attachments

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**Maryland General Fund Revenues**  
**Fiscal Years 2009 - 2011**  
 \$ in thousands

	FY 2010					FY 2011			
	FY 2009 Actual	December Estimate	March Estimate	Difference	% Growth	December Estimate	March Estimate	Difference	% Growth
<b>INCOME TAXES</b>									
Individual	6,477,157	6,121,847	6,068,779	(53,068)	-6.3%	6,308,374	6,308,374	-	3.9%
Corporations	550,740	495,013	531,786	36,773	-3.4%	559,178	559,178	-	5.2%
Total	7,027,897	6,616,860	6,600,565	(16,295)	-6.1%	6,867,552	6,867,552	-	4.0%
<b>SALES AND USE TAXES</b>	3,620,431	3,506,736	3,473,936	(32,800)	-4.0%	3,650,453	3,650,453	-	5.1%
<b>STATE LOTTERY RECEIPTS</b>	473,206	522,975	506,096	(16,879)	7.0%	527,640	527,640	-	4.3%
<b>OTHER REVENUES</b>									
Business Franchise Taxes	201,378	216,123	216,123	-	7.3%	216,123	216,123	-	0.0%
Tax on Insurance Companies	275,203	266,946	266,946	-	-3.0%	273,821	273,821	-	2.6%
Death Taxes	205,492	161,822	161,822	-	-21.3%	157,076	157,076	-	-2.9%
Tobacco Tax	405,579	396,592	396,592	-	-2.2%	387,922	387,922	-	-2.2%
Alcoholic Beverages Excises	29,168	29,512	29,512	-	1.2%	30,035	30,035	-	1.8%
Motor Vehicle Fuel Tax	6,500	8,386	8,386	-	29.0%	-	-	-	-100.0%
District Courts	89,379	91,042	91,042	-	1.9%	92,558	92,558	-	1.7%
Clerks of Court	40,514	44,606	44,606	-	10.1%	46,810	46,810	-	4.9%
Hospital Patient Recoveries	96,462	70,978	70,978	-	-26.4%	67,427	67,427	-	-5.0%
Interest on Investments	83,050	35,000	35,000	-	-57.9%	43,000	43,000	-	22.9%
Miscellaneous	338,302	311,192	311,192	-	-8.0%	305,898	305,898	-	-1.7%
Total	1,771,024	1,632,199	1,632,199	-	-7.8%	1,620,670	1,620,670	-	-0.7%
<b>TOTAL CURRENT REVENUES</b>	12,892,558	12,278,770	12,212,796	(65,974)	-5.3%	12,666,315	12,666,315	-	3.7%
Extraordinary Revenues	7,917	20,700	20,700	-	161.5%	5,400	5,400	-	-73.9%
<b>GRAND TOTAL</b>	12,900,475	12,299,470	12,233,496	(65,974)	-5.2%	12,671,715	12,671,715	-	3.6%

### Evolution of Maryland's General Fund Revenue Forecast

(\$ in millions)

	<u>Mar '09</u>	<u>Sept '09</u>	Change from Mar '09	<u>Dec '09</u>	Change from Mar '09	<u>Mar '10</u>	Change from Mar '09
Individual Income Tax							
FY 2010	6,637	6,122	(515)	6,122	(515)	6,069	(568)
FY 2011	6,899	6,358	(541)	6,308	(591)	6,308	(591)
Sales Tax							
FY 2010	3,592	3,524	(68)	3,507	(85)	3,474	(118)
FY 2011	3,861	3,647	(213)	3,650	(210)	3,650	(210)
Total General Fund							
FY 2010	13,022	12,314	(708)	12,299	(722)	12,233	(788)
FY 2011	13,643	12,734	(909)	12,672	(971)	12,672	(971)

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.