



# State of Maryland Board of Revenue Estimates

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September 16, 2010

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

Dear Governor O'Malley:

At the beginning of a new budget cycle, the Board of Revenue Estimates has adopted revised general fund revenue estimates for fiscal year 2011 and the first official estimates for fiscal year 2012. We have reviewed the current estimate for fiscal year 2011 in light of the most recent economic data and developments, as well as revenue collections for fiscal year 2010. Based on our analysis, the Board submits to you a revised estimate of general fund revenues for fiscal year 2011 of \$13.128 billion and an estimate of \$13.606 billion for fiscal year 2012. The fiscal year 2011 estimate represents an increase of \$88.6 million over the March estimate, upon which the fiscal year 2011 budget was based. Increases in the estimates for individual and corporate income taxes are primarily responsible for these revisions. While general fund revenues are forecast to increase 4.5% in fiscal year 2011, baseline growth is a weak 2.5%.

Our economic forecast is largely unchanged from March, anticipating a drawn-out recovery from the recent recession, although our forecast for wage income and hence total personal income is slightly stronger. Two significant aspects of the forecast are the impact of the Base Realignment and Closure (BRAC) process and the housing market. BRAC is now underway, and we have a much better understanding of what is expected by the end of 2011, the point at which all job transfers must be completed. This forecast explicitly takes account of the 21,400 jobs and additional income now expected to come to Maryland as a result of BRAC. Additionally, the recovery of the housing market is, once again, expected to take longer than previously projected. Home sales are up on a year-over-year basis, although they remain well below levels of prior years, even as far back as 2000 and 2001. The median sales price of existing homes continues to decline, though in recent months at a slower pace than in 2009. Given the likelihood of a large shadow inventory—houses that have recently been foreclosed upon and those that haven't been put on the market for several years due to falling prices—a rebound of any magnitude seems some time off.

### Maryland Economic Forecast

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Employment	-0.4%	1.5%	1.9%
Personal Income	3.2%	4.3%	5.1%
Wage & Salary Income	2.3%	3.9%	4.8%

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The forecast for individual income tax revenues in fiscal year 2011 is revised upward by \$68.1 million to \$6.360 billion, an increase of 2.9% over fiscal year 2010, and growth of 5.5% is expected for fiscal year 2012. Income tax withholding finished 2010 well above the estimate, growing a full percentage point over the forecast growth of 0.3%. As a result of last year's relatively strong showing and BRAC, we are now projecting 3.6% growth in withholding for fiscal year 2011 and 4.9% in fiscal year 2012. The 2011 withholding forecast is \$185.0 million above the prior forecast, but that increase is partly offset by a greater than previously expected decline in income of wealthy taxpayers, who are included in the new income tax brackets implemented for tax year 2008, coupled with lower growth in capital gains forecast for tax year 2010.

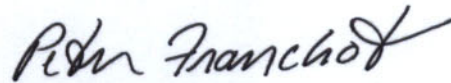
The forecast for corporate income tax revenues calls for a decline of 21% in fiscal year 2011, although the decline is entirely attributable to several very large extraordinary transactions in fiscal year 2010. While corporate profits have risen dramatically nationally, the risk of large net operating losses negatively affecting current collections remains. As a result, our forecast calls for modest baseline growth both this year and next, although even that modest growth results in an increase in the 2011 estimate of \$29.8 million. Sales tax collections finished fiscal year 2010 \$40.8 million above the forecast, although they declined 2.7% from fiscal year 2009. Every component of sales tax collections is expected to rebound from last year's declines, although as a result of the ongoing problems in the housing market, revenues from construction-related activities are now expected to grow a modest 2.7%. The prior forecast expected 13.7% growth from this revenue source; the \$11.7 million reduction to the sales tax estimate reflects this change, with slight upward revisions to the other components of the sales tax. Growth of 3.8% is expected in fiscal year 2011, and, due to legislative changes, growth will slow to 3.4% in fiscal year 2012.

Most of the revisions to remaining revenues largely reflect last year's performance. Lottery sales are projected to decline 0.1%, which would be the first drop in fourteen years. As a result of unexpectedly high prize payouts last year, however, revenues are expected to increase 4.1% as payouts return to normal. Estate and inheritance taxes are revised upward \$25.2 million for fiscal year 2011, reflecting expectations for relatively stable collections, as growth would be a modest 5.1%. We are revising the tobacco tax forecast upwards by \$16.3 million; after distortions caused by recent State and federal tax increases, it appears that the trend decline is not as large as we had expected. Expected revenues from the clerks of court are now \$11.7 million lower, a direct result of the extended housing market decline.

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To summarize, we now expect general fund revenues to reach \$13.128 billion in fiscal year 2011, growth of 4.3% and an increase of \$88.6 million over the previous forecast. Growth in 2011 is boosted by \$363.4 million of Highway User Revenue newly directed to the general fund. Discounting those revenues (and the extraordinary corporate income tax revenues in fiscal year 2010), the forecast would call for 2.5% growth. Revenues are expected to grow 3.6% in 2012 to \$13.606 billion. We will keep you apprised of further developments.

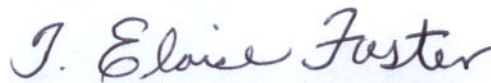
Sincerely,



Peter Franchot



Nancy K. Kopp



T. Eloise Foster

Attachments



**Maryland General Fund Revenues**  
**Fiscal Years 2010 - 2012**  
(\$ in thousands)

	FY 2010			FY 2011				FY 2012	
	Official Estimate	Actual	Difference	Current Estimate	September Revision	Difference	% Growth	September Estimate	% Growth
<b>INCOME TAXES</b>									
Individual	6,068,779	6,178,243	109,464	6,292,009	6,360,116	68,107	2.9%	6,712,097	5.5%
Corporations	660,786	689,311	28,525	513,624	543,433	29,809	-21.2%	567,887	4.5%
<b>Total</b>	<b>6,729,565</b>	<b>6,867,554</b>	<b>137,989</b>	<b>6,805,633</b>	<b>6,903,549</b>	<b>97,916</b>	<b>0.5%</b>	<b>7,279,984</b>	<b>5.5%</b>
<b>SALES AND USE TAXES</b>	3,481,936	3,522,774	40,838	3,667,203	3,655,513	(11,690)	3.8%	3,778,360	3.4%
<b>STATE LOTTERY RECEIPTS</b>	506,096	491,009	(15,087)	527,640	510,908	(16,732)	4.1%	519,341	1.7%
<b>OTHER REVENUES</b>									
Business Franchise Taxes	216,123	202,452	(13,671)	216,123	202,919	(13,204)	0.2%	204,265	0.7%
Tax on Insurance Companies	266,946	277,007	10,061	273,821	287,044	13,223	3.6%	300,027	4.5%
Death Taxes	161,822	173,473	11,651	157,076	182,291	25,215	5.1%	190,060	4.3%
Tobacco Tax	396,592	405,915	9,323	387,940	404,190	16,250	-0.4%	402,549	-0.4%
Alcoholic Beverages Excises	29,512	29,874	362	30,035	30,504	469	2.1%	31,153	2.1%
Motor Vehicle Fuel Tax	8,386	8,386	0	5,000	5,000	-	-40.4%	-	-100.0%
Highway User Revenue				363,389	363,389	-		338,400	-6.9%
District Courts	91,042	87,331	(3,711)	92,558	86,458	(6,100)	-1.0%	87,755	1.5%
Clerks of Court	44,606	35,484	(9,122)	46,810	35,079	(11,731)	-1.1%	35,404	0.9%
Hospital Patient Recoveries	70,978	72,690	1,712	67,427	67,427	-	-7.2%	66,078	-2.0%
Interest on Investments	46,900	50,223	3,323	54,000	54,000	-	7.5%	63,000	16.7%
Miscellaneous	332,220	335,928	3,709	338,901	333,901	(5,000)	-0.6%	310,075	-7.1%
<b>Total</b>	<b>1,665,126</b>	<b>1,678,764</b>	<b>13,637</b>	<b>2,033,080</b>	<b>2,052,202</b>	<b>19,122</b>	<b>22.2%</b>	<b>2,028,766</b>	<b>-1.1%</b>
<b>TOTAL CURRENT REVENUES</b>	<b>12,382,723</b>	<b>12,560,100</b>	<b>177,376</b>	<b>13,033,556</b>	<b>13,122,172</b>	<b>88,616</b>	<b>4.5%</b>	<b>13,606,452</b>	<b>3.7%</b>
Extraordinary Revenues	20,700	27,015	6,315	5,400	5,400	-		-	-100.0%
<b>GRAND TOTAL</b>	<b>12,403,423</b>	<b>12,587,115</b>	<b>183,692</b>	<b>13,038,956</b>	<b>13,127,572</b>	<b>88,616</b>	<b>4.3%</b>	<b>13,606,452</b>	<b>3.6%</b>