



State of Maryland Board of Revenue Estimates

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Revenue Estimates

March 9, 2011

Honorable Martin O'Malley
Governor, State of Maryland
State House
Annapolis, Maryland 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 collections trends. Based on our review, the Board submits to you revenue estimates for fiscal years 2011 and 2012 that are unchanged from our December estimates.

Maryland's economy continues to show signs of recovery from the recent recession. Maryland employment showed positive year-over-year growth every month from June through December 2010 (the most recent data available), the first growth in jobs since May 2008. Wage income grew in the first three quarters of 2010 (again, the most recent data available) after declining every quarter in 2009, and has now passed its pre-recession peak. In recent months, the acceleration has slowed, as job growth has remained at about 1.0% each of the past three months; Maryland's unemployment rate has been fixed at 7.4% for the past four months. Fundamentally, however, the economic outlook remains unchanged, with a slow but steady acceleration through the forecast period.

General fund revenues have largely followed expectations over the course of the fiscal year. Some revenue sources have shown relative strength, while others have underperformed expectations to date. Individual income tax withholding has grown 5.0% year-to-date, above the 4.0% called for by the full year forecast; there are some indications that final income tax payments may be stronger than previously expected, largely due to stronger-than-expected estimated payments for the fourth quarter and a good finish for equity markets in 2010. On the other hand, sales tax revenues have not kept pace with expectations. Revenues from capital goods and utilities are up 2.9% and down 0.7%, respectively, for the fiscal year, while the full-year forecasts call for growth of 7.1% and 0.7%.

What momentum revenue collections have been building in recent months may well be slowed by two substantial risks to the regional and national economies. The possibility of a federal government shutdown persists, despite the recently-enacted continuing resolution which keeps the government operating through March 18. There appears to be little movement towards a long-term

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solution for the fiscal year 2011 budget. Accordingly, even if a shutdown is avoided, the lingering uncertainty may cause federal employees, contractors, and dependent businesses to rein in their spending. Sales tax collections could be affected in short order. If there is not a quick resolution, this situation could conceivably create a drag on the broader regional economy.

Of perhaps greater long-term concern is the recent rise in oil prices, a result of the instability in the Middle East. West Texas Intermediate pushed above \$100 per barrel late last week for the first time since the summer of 2008, up from under \$85 per barrel less than three weeks before. The price for regular gasoline in Maryland was at \$3.48 per gallon on March 4, up 13% in three weeks. If prices remain at this heightened level for several months, sales tax collections are likely to be adversely affected as consumer spending is redirected from taxable goods to gasoline. If prices remain at this level for an extended period, let alone rise further, the national economic recovery may stall. While a much greater increase than is currently expected would likely be required to cause a recession, the possibility of a double-dip recession is again under consideration, slight though it is at this point.

We are leaving the official revenue estimates unchanged. Positive signs in current revenue collections are tempered by the significant economic risks associated with rising oil and gasoline prices, likely federal budget reductions and a possible federal government shutdown. The forecast calls for general fund revenues of \$13.163 billion in fiscal year 2011 and \$13.598 billion in fiscal year 2012. 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

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

	FY 2010	FY 2011				FY 2012			
	Actual	December Estimate	March Estimate	Difference	% Growth	December Estimate	March Estimate	Difference	% Growth
INCOME TAXES									
Individual	6,178,243	6,336,819	6,336,819	-	2.6%	6,650,229	6,650,229	-	4.9%
Corporations	689,311	611,310	611,310	-	-11.3%	621,929	621,929	-	1.7%
Total	6,867,554	6,948,129	6,948,129	-	1.2%	7,272,158	7,272,158	-	4.7%
SALES AND USE TAXES									
	3,522,774	3,672,461	3,672,461	-	4.2%	3,796,001	3,796,001	-	3.4%
STATE LOTTERY RECEIPTS									
	491,009	492,550	492,550	-	0.3%	503,549	503,549	-	2.2%
OTHER REVENUES									
Business Franchise Taxes	202,452	202,919	202,919	-	0.2%	204,265	204,265	-	0.7%
Tax on Insurance Companies	277,007	287,044	287,044	-	3.6%	300,027	300,027	-	4.5%
Death Taxes	173,473	194,709	194,709	-	12.2%	211,982	211,982	-	8.9%
Tobacco Tax	405,915	412,548	412,548	-	1.6%	408,709	408,709	-	-0.9%
Alcoholic Beverages Excises	29,874	30,504	30,504	-	2.1%	31,153	31,153	-	2.1%
Motor Vehicle Fuel Tax	8,386	5,000	5,000	-	-40.4%	-	-	-	-100.0%
Highway User Revenue		370,012	370,012	-		338,187	338,187	-	-8.6%
District Courts	87,331	86,458	86,458	-	-1.0%	87,755	87,755	-	1.5%
Clerks of Court	35,484	31,227	31,227	-	-12.0%	31,516	31,516	-	0.9%
Hospital Patient Recoveries	72,690	74,649	74,649	-	2.7%	66,485	66,485	-	-10.9%
Interest on Investments	50,223	54,000	54,000	-	7.5%	63,000	63,000	-	16.7%
Miscellaneous	335,928	296,819	296,819	-	-11.6%	282,964	282,964	-	-4.7%
Total	1,678,764	2,045,889	2,045,889	-	21.9%	2,026,043	2,026,043	-	-1.0%
TOTAL CURRENT REVENUES									
	12,560,100	13,159,029	13,159,029	-	4.8%	13,597,751	13,597,751	-	3.3%
Extraordinary Revenues									
	27,015	3,700	3,700	-	-86.3%	-	-	-	-100.0%
GRAND TOTAL									
	12,587,115	13,162,729	13,162,729	-	4.6%	13,597,751	13,597,751	-	3.3%

Evolution of Maryland's General Fund Revenue Forecast
(\$ in millions)

	<u>Mar '10</u>	<u>Sept '10</u>	<u>Change from Mar '10</u>	<u>Dec '10</u>	<u>Change from Mar '10</u>	<u>Mar '11</u>	<u>Change from Mar '10</u>
Individual Income Tax							
FY 2011	6,308	6,360	52	6,337	28	6,337	28
FY 2012	6,609	6,712	103	6,650	41	6,650	41
Sales Tax							
FY 2011	3,650	3,656	5	3,672	22	3,672	22
FY 2012	3,868	3,778	(90)	3,796	(72)	3,796	(72)
Total General Fund							
FY 2011	12,672	13,128	456	13,163	491	13,163	491
FY 2012	13,230	13,606	376	13,598	368	13,598	368

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, including the distribution of an estimated \$370.0 million of highway user revenues to the general fund in fiscal year 2011, and \$338.2 million in fiscal year 2012.