



# State of Maryland Board of Revenue Estimates

Louis L. Goldstein Treasury Building, P.O. Box 466  
Annapolis, Maryland 21404-0466  
E-Mail: [bre@comp.state.md.us](mailto:bre@comp.state.md.us)

Members  
Peter Franchot  
State Comptroller

Nancy K. Kopp  
State Treasurer

T. Eloise Foster  
Secretary, Department of  
Budget and Management

Executive Secretary:  
David F. Roose  
Director, Bureau of  
Revenue Estimates

September 21, 2011

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

Dear Governor O'Malley:

The Board of Revenue Estimates submits to you revised general fund revenue estimates for fiscal year 2012 and the first official estimates for fiscal year 2013. We have reviewed the current estimate for fiscal year 2012 in light of the most recent economic data and developments, as well as revenue collections for fiscal year 2011. Based on our analysis, the Board submits a revised estimate of general fund revenues for fiscal year 2012 of \$14.105 billion and an estimate of \$14.494 billion for fiscal year 2013. The fiscal year 2012 estimate represents an increase of \$195.0 million over the March estimate, upon which the fiscal year 2012 budget was based. The individual income tax was revised substantially upward, reflecting the unexpectedly strong performance in fiscal year 2011, and the sales tax, corporate income tax, and interest were revised downward. General fund revenues are forecast to increase 4.1% in fiscal year 2012, although adjusted for statutory changes, growth is 3.6%.

Our revised economic forecast calls for marginal changes in the outlook for calendar year 2011, but it reflects much slower growth than the prior forecast for 2012 and beyond. Employment growth for the next three years is expected to hover around 1.0% as the national economic recovery is expected to drag on longer than previously anticipated. Job transfers related to the Base Realignment and Closure process are now complete, although there will be some residual support for employment growth as vacant positions are filled. Total personal income is projected to increase 5.1% this year, in part because of the two percentage point payroll tax reduction enacted by Congress in late 2010, which has the effect of increasing total personal income by nearly one percentage point.

#### Maryland Economic Forecast

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Employment	1.0%	0.9%	1.0%
Personal Income	5.1%	3.7%	2.8%
Wage & Salary Income	4.0%	3.7%	3.9%

Telephone: 410-260-7450

The economic forecast assumes an extension through 2012 of the payroll tax reduction, the sunset of which causes total personal income to increase only 2.8% in 2013, and lengthened unemployment insurance benefits, both of which are set to expire at the end of this year. If these provisions are not extended as assumed, the economic forecast will be adversely affected. In addition, the forecast may be affected by the actions, or lack thereof, of the Congressional Super Committee and Congress, which are charged with finding \$1.5 trillion in federal budget savings over the next decade. The impact of these decisions on the nation's and Maryland's economy will depend upon how the budget savings are structured.

The individual income tax forecast has been revised upward by \$322.7 million, with growth of 5.5% expected. This revision largely reflects the strong performance in tax year 2010 and its ongoing impact through safe harbor requirements for estimated payments, as well as tax year 2010 final payments and refunds that are received through the extension period. Growth slows in fiscal year 2013 to 4.4%, however, primarily due to sluggish growth in income tax withholding resulting from the modest increases in employment. The corporate income tax forecast has been revised downward by \$33.8 million, reflecting the fiscal year 2011 close. General fund growth of 25.6% in fiscal year 2013 is driven by changes in the distribution of revenue; underlying growth is only 7.1%.

The sales tax forecast has been reduced by \$102.0 million, reflecting both the weak finish in fiscal year 2011 and the weaker economic outlook. Three of the four major sales tax components – consumer, capital goods, and utilities – ended fiscal year 2011 substantially under expectations. The forecasts for each of these have been reduced as consumers are reluctant to spend and businesses are hoarding cash. The result is a projected increase of 3.5% in net collections, a reduction from the 4.3% growth of the prior forecast. Growth in net receipts slows further to 3.0% in fiscal year 2013, largely a result of the sunset of the payroll tax cut at the end of calendar year 2012, which will reduce disposable personal income. General fund revenues are expected to grow 11.1% in fiscal year 2012 due, again, to statutory changes in the distribution of revenue.

Most of the remaining revisions reflect adjustments for last year's performance. Estate and inheritance taxes are inherently volatile; we are not relying on the strong trends of fiscal year 2011 to continue. Receipts for the District Courts and clerks of court reflect a shift in the accounting of revenue from one category to the other; the combined revenues reflect recent trends, which have generally been negative. Interest on investments have been revised downward by \$40 million in fiscal year 2012 as a result of the current yield curve, with rates of under one percent even out to five years. General fund highway user revenues are expected to decline by nearly 50% in fiscal year 2012 as a result of a final change in the statutory distribution of revenue. Beginning in fiscal year 2013, highway user revenues will no longer be distributed to the general fund.

To summarize, we now expect general fund revenues to reach \$14.105 billion in fiscal year 2012, growth of 4.2% and an increase of \$195.0 million over the previous forecast.

Letter to Honorable Martin O'Malley  
September 21, 2011  
Page 3

Adjusting for statutory changes, baseline growth is 3.6%. Revenues are expected to grow 2.8% in 2013 to \$14.494 billion, with baseline growth of 3.2%. The slowdown from fiscal year 2012 is attributable to the assumed expiration of the payroll tax reduction. The Board of Revenue Estimates will meet on October 5 to formally adopt this forecast, and will keep you apprised of further developments.

Sincerely,

A handwritten signature in black ink that reads "Peter Franchot". The signature is written in a cursive style with a large, stylized initial "P".

Peter Franchot

A handwritten signature in black ink that reads "Nancy K. Kopp". The signature is written in a cursive style with a large, stylized initial "N".

Nancy K. Kopp

A handwritten signature in black ink that reads "T. Eloise Foster". The signature is written in a cursive style with a large, stylized initial "T".

T. Eloise Foster

Attachment

**Maryland General Fund Revenues**  
**Fiscal Years 2011 - 2013**  
(\$ in thousands)

	FY 2011			FY 2012				FY 2013	
	Official Estimate	Actual	Difference	Current Estimate	September Revision	Difference	% Growth	September Estimate	% Growth
<b>INCOME TAXES</b>									
Individual	6,339,319	6,643,429	304,110	6,688,081	7,010,773	322,692	5.5%	7,321,800	4.4%
Corporations	611,310	571,301	(40,009)	622,470	588,652	(33,818)	3.0%	739,258	25.6%
Total	6,950,629	7,214,730	264,101	7,310,551	7,599,425	288,874	5.3%	8,061,058	6.1%
<b>SALES AND USE TAXES</b>	3,708,261	3,656,043	(52,218)	4,164,055	4,062,020	(102,035)	11.1%	4,177,665	2.8%
<b>STATE LOTTERY RECEIPTS</b>	492,550	499,394	6,844	503,949	511,651	7,702	2.5%	506,378	-1.0%
<b>OTHER REVENUES</b>									
Business Franchise Taxes	202,919	210,171	7,252	206,135	209,191	3,056	-0.5%	208,932	-0.1%
Tax on Insurance Companies	287,044	285,942	(1,102)	301,897	298,901	(2,996)	4.5%	308,109	3.1%
Estate & Inheritance Taxes	194,709	216,044	21,335	211,982	214,037	2,055	-0.9%	205,336	-4.1%
Tobacco Tax	412,548	407,570	(4,978)	408,709	407,545	(1,164)	0.0%	406,932	-0.2%
Alcoholic Beverages Excises	30,504	30,435	(69)	31,213	30,533	(680)	0.3%	31,089	1.8%
Motor Vehicle Fuel Tax	5,000	5,000	0	5,000	5,000	-	0.0%	5,000	0.0%
Highway User Revenue	370,012	377,055	7,043	188,004	190,895	2,891	-49.4%	-	-100.0%
District Courts	86,458	86,867	409	87,755	80,783	(6,972)	-7.0%	80,783	0.0%
Clerks of Court	31,227	29,263	(1,964)	31,553	33,516	1,963	14.5%	34,339	2.5%
Hospital Patient Recoveries	74,649	74,233	(416)	67,985	67,985	-	-8.4%	67,985	0.0%
Interest on Investments	54,000	58,381	4,381	70,000	30,000	(40,000)	-48.6%	35,000	16.7%
Miscellaneous	318,982	386,234	67,253	321,262	363,573	42,311	-5.9%	365,648	0.6%
Total	2,068,052	2,167,196	99,145	1,931,494	1,931,959	465	-10.9%	1,749,153	-9.5%
<b>TOTAL CURRENT REVENUES</b>	13,219,492	13,537,364	317,872	13,910,049	14,105,055	195,006	4.2%	14,494,254	2.8%
Extraordinary Revenues	3,700	-	(3,700)	-	-	-		-	
<b>GRAND TOTAL</b>	13,223,192	13,537,364	314,172	13,910,049	14,105,055	195,006	4.2%	14,494,254	2.8%