



State of Maryland

Board of Revenue Estimates

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Revenue Estimates

March 13, 2012

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 of \$13.975 billion for fiscal year 2012 and \$14.372 billion for fiscal year 2013, reductions of \$80.1 million and \$50.8 million respectively. Growth is now forecast at 3.2% (\$437.8 million) in fiscal year 2012, and 2.8% (\$397.1) million in fiscal year 2013.

In the second full year of the national economic recovery, Maryland's economy continues to grow, albeit at a slow pace. Current data show that Maryland employment increased by over 8,700 jobs in 2011, growth of just 0.3%, although the upcoming benchmarking of 2011 employment data from the Bureau of Labor Statistics is expected to show revised growth approaching 1.0% for the year. The unemployment rate remained at just over 7% for most of the year, but dropped over the last quarter to 6.6% in December. Wage and salary income increased 3.5% in the first quarter of 2011, the best performance in three years, but it slowed to only 2.5% growth in the third quarter, while average hourly wages declined 1.4% for the year. There are no indications that our December forecast of Maryland's economy, calling for continued modest growth, requires revision.

General fund revenues have largely followed expectations over the course of the fiscal year, although the individual income tax is lagging. The underperformance is partially a matter of timing, with 12.5% growth in tax returns filed through February driving refunds to 5.7% growth, well above expectations. However, estimated payments for the fourth quarter declined unexpectedly by 7.5%, and are below the full year forecast of 3.8% growth. This is only the second time in over three decades that estimated payments were down in the fourth quarter but up overall for the year. As a result, we are reducing our estimate for estimated payments and, therefore, final payments by a combined \$163.5 million, resulting in a reduction of \$101.5 million in general fund collections.

Sales tax collections are growing 2.7% through February after adjusting for distribution

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Letter to Honorable Martin O'Malley
March 13, 2012
Page 2

changes and the 9% sales tax on alcohol; this slow growth is slightly ahead of the estimates. However, high gas prices are expected to take their toll over the course of the fiscal year, and a very large refund is expected to be paid out before the end of the year. The fiscal year 2012 estimate is therefore left unchanged. The stronger underlying performance is expected to continue into the next fiscal year, resulting in an increase to the forecast of \$43.2 million, although growth is expected to remain at 2.7%.

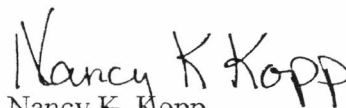
Corporate income tax collections have outperformed since December, with stronger growth in estimated payments and slower growth in refunds than expected, resulting in a \$21.4 million write-up this year and a \$27.1 million increase next year. The 26% growth in fiscal year 2013 is a result of a change in the distribution of corporate income tax revenues to the general fund. Lastly, a technical correction to miscellaneous revenues results in a \$13.3 million write-down.

We will continue to monitor the situation and keep you informed of any major developments.

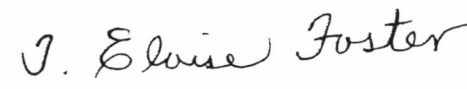
Sincerely,



Peter Franchot



Nancy K. Kopp



T. Eloise Foster

Attachment

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

	FY 2011	FY 2012				FY 2013			
	Actual	December Estimate	March Estimate	Difference	% Growth	December Estimate	March Estimate	Difference	% Growth
INCOME TAXES									
Individual Corporations	6,643,429	7,099,212	6,997,727	(101,485)	5.3%	7,412,049	7,304,285	(107,764)	4.4%
	571,301	559,035	580,465	21,430	1.6%	706,702	733,792	27,090	26.4%
Total	7,214,730	7,658,247	7,578,192	(80,055)	5.0%	8,118,751	8,038,077	(80,674)	6.1%
SALES AND USE TAXES	3,656,043	3,979,527	3,979,527	-	8.8%	4,043,889	4,087,088	43,199	2.7%
STATE LOTTERY RECEIPTS	499,394	502,693	502,693	-	0.7%	507,464	507,464	-	0.9%
OTHER REVENUES									
Business Franchise Taxes	210,171	209,191	209,191	-	-0.5%	208,932	208,932	-	-0.1%
Tax on Insurance Companies	285,942	298,901	298,901	-	4.5%	308,109	308,109	-	3.1%
Estate and Inheritance Taxes	216,044	200,379	200,379	-	-7.3%	219,352	219,352	-	9.5%
Tobacco Tax	407,570	407,545	407,545	-	0.0%	406,932	406,932	-	-0.2%
Alcoholic Beverages Excises	30,435	30,533	30,533	-	0.3%	31,089	31,089	-	1.8%
Motor Vehicle Fuel Tax	5,000	5,000	5,000	-	0.0%	5,000	5,000	-	0.0%
Highway User Revenue	377,055	190,895	190,895	-	-	-	-	-	-100.0%
District Courts	86,867	80,783	80,783	-	-7.0%	80,783	80,783	-	0.0%
Clerks of Court	29,263	33,516	33,516	-	14.5%	34,339	34,339	-	2.5%
Hospital Patient Recoveries	74,233	67,985	67,985	-	-8.4%	67,985	67,985	-	0.0%
Interest on Investments	58,381	30,000	30,000	-	-48.6%	35,000	35,000	-	16.7%
Miscellaneous	386,234	359,988	359,988	-	-6.8%	355,415	342,115	(13,300)	-5.0%
Total	2,167,196	1,914,716	1,914,716	-	-11.7%	1,752,936	1,739,636	(13,300)	-9.1%
TOTAL CURRENT REVENUES	13,537,364	14,055,183	13,975,128	(80,055)	3.2%	14,423,040	14,372,265	(50,775)	2.8%
Extraordinary Revenues	-	-	-	-	-	-	-	-	-
GRAND TOTAL	13,537,364	14,055,183	13,975,128	(80,055)	3.2%	14,423,040	14,372,265	(50,775)	2.8%