State of Maryland
Board of Revenue Estimates

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September 20, 2017

Honorable Lawrence J. Hogan Jr.
Governor, State of Maryland
State House
Annapolis, MD 21401

Dear Governor Hogan:

The Board of Revenue Estimates submits to you revised general fund revenue estimates for fiscal year 2018 and the first official estimates for fiscal year 2019. We have reviewed the current estimate for fiscal year 2018 in light of the most recent economic data and developments, as well as revenue collections for fiscal year 2017. Based on our analysis, the Board submits a revised estimate of general fund revenues for fiscal year 2018 of $17.132 billion and an estimate of $17.614 billion for fiscal year 2019. The fiscal year 2018 estimate represents a decrease of $53.0 million from the March estimate upon which the fiscal year 2018 budget was based. The revision and the projection for fiscal year 2019 are primarily the result of carrying forward weak growth in the Sales and Use Tax (SUT) as well as a modestly reduced outlook for average wage growth. General fund revenues are forecast to increase 2.6% in fiscal year 2018 and 2.8% in fiscal year 2019. Excluding the statutorily defined transfer tax distributions to the general fund, ongoing general funds would increase 2.9% and 3.2% for fiscal years 2018 and 2019, respectively.

Fiscal year 2017 closed out $90.3 million above the March 2017 estimate of $16.608 billion. This was due in large part to a strong July accrual period, driven mainly by timing issues related to pay periods that benefitted income tax withholding. Therefore, the over-attainment is not carried forward in the September estimate. The main driver of the decreased revenue outlook for fiscal year 2018 is reduction in SUT growth. It appears that revenue growth of the SUT per unit of overall economic growth has declined. This is due in part to demographic forces. Beyond middle age, individuals tend to consume less overall and a greater share of non-taxable services. In addition to the rise of online retailing and digital goods, the internet has enabled a sharing economy and more frequent consumer-to-consumer sales of used goods. These factors result in lower SUT collections per dollar spent by consumers.

Employment has continued to grow at a healthy clip of 1.4% year over year for 2017 Q1, but wage growth has not met expectations. We now expect employment growth to be 1.3% in 2017 compared to 1.0% in our March estimate; however, this is counteracted by a reduction in average wage growth to 2.6% for 2017, compared to 2.9% in March. Strong employment growth in sectors with below average wages has held down economy-wide average wage growth. The retiring of baby boomers also serves to dampen wage growth as such individuals tend to earn higher wages than younger workers. Additionally, inflation remains below the Federal Reserve's target and is lower than in prior expansions, resulting in slower nominal income growth.

Maryland, like Virginia, continues to be impacted by uncertainty relating to the federal budget, both in terms of overall spending and employment. The continued use of short-term continuing resolutions for the federal budget as well as a stated intention to reduce non-defense federal agency spending has created great uncertainty for many direct federal employees as well as the related private sector. That uncertainty is resonating in reduced SUT collections and throughout the broader economy by way of reduced investment. To be sure, defense related industries, particularly cyber, stand to benefit; whether or not the defense benefit outweighs the non-defense impact remains to be seen.

There is also considerable uncertainty relating to federal tax policy. Expected changes in tax policy will incentivize individuals, to the extent they are able, to shift the realization of income between tax years, to the detriment of forecast accuracy. While we cannot be certain, the tax base appears to include a tremendous amount of unrealized capital gains. Should Congress act before the end of the year to benefit capital gains rates for tax year 2017, there could be a one-time windfall. The reverse is true as well – taxpayers could shift income into future years should Congress choose not to act.

Other areas of note include the Estate Tax and the Insurance Premium Tax. While Estate Tax revenue is decreasing as a result of a phased recoupling with federal exclusion amounts, underlying growth compared to past estimates has been strong. Demographic factors as well as elevated asset prices may help explain underlying trends for the Estate Tax. Growth in the Insurance Premium Tax (IPT) likely reflects increasing premiums; however, data does not yet exist to support that conclusion. The Board views IPT revenues cautiously and will continue to investigate.

The Board and the Revenue Monitoring Committee will continue to meet and analyze revenue and economic trends in anticipation of December's estimates.

Respectfully yours,

Peter Franchot

Peter Franchot, Chairman

Nancy K. Kopp

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Marc Nicole for

David R. Brinkley

Maryland General Fund Revenues
Fiscal Years 2017 - 2019
($ in thousands)

	FY 2017			FY 2018				FY 2019	
	Official Estimate[1]	Actual	Difference	Current Estimate[1]	September Revision	Difference	% Growth	September Estimate	% Growth
INCOME TAXES									
Individual	8,942,374	9,019,278	76,904	9,395,883	9,380,740	(15,143)	4.0%	9,764,866	4.1%
Corporations	784,602	795,594	10,992	827,409	827,257	(152)	4.0%	873,550	5.6%
Total	9,726,976	9,814,871	87,896	10,223,292	10,207,997	(15,295)	4.0%	10,638,416	4.2%
SALES AND USE TAXES	4,587,254	4,539,320	(47,934)	4,727,127	4,654,892	(72,236)	2.5%	4,787,447	2.8%
STATE LOTTERY RECEIPTS	493,791	484,332	(9,458)	504,514	519,500	14,987	7.3%	522,818	0.6%
OTHER REVENUES									
Business Franchise Taxes	223,513	228,437	4,923	227,337	232,168	4,831	1.6%	198,109	-14.7%
Tax on Insurance Companies	294,802	328,734	33,932	304,066	326,341	22,274	-0.7%	349,984	7.2%
Estate & Inheritance Taxes	206,720	227,947	21,227	184,512	198,489	13,977	-12.9%	184,063	-7.3%
Tobacco Tax	393,827	386,976	(6,850)	392,214	381,556	(10,658)	-1.4%	378,333	-0.8%
Alcoholic Beverages Excises	32,947	32,490	(458)	33,365	32,878	(486)	1.2%	33,293	1.3%
District Courts	70,255	69,303	(952)	70,240	67,566	(2,674)	-2.5%	66,443	-1.7%
Clerks of Court	36,947	36,146	(801)	36,393	34,586	(1,807)	-4.3%	34,229	-1.0%
Hospital Patient Recoveries	57,781	62,180	4,399	58,296	58,296	-	-6.2%	58,296	0.0%
Interest on Investments	20,000	22,492	2,492	35,000	35,000	-	55.6%	47,250	35.0%
Miscellaneous	353,391	355,277	1,887	326,620	321,389	(5,230)	-9.5%	315,235	-1.9%
Total	1,690,182	1,749,981	59,799	1,668,041	1,688,269	20,228	-3.5%	1,665,234	-1.4%
TOTAL CURRENT REVENUES	16,498,202	16,588,505	90,303	17,122,974	17,070,658	(52,316)	2.9%	17,613,916	3.2%
Extraordinary Revenues [2&3]	47,432	47,432	-	15,688	14,996	(692)	-68.4%	-	-100.0%
Transfer Tax Revenues [4]	62,771	62,771	-	46,028	46,028	-	-26.7%	-	-100.0%
GRAND TOTAL	16,608,405	16,698,707	90,303	17,184,690	17,131,682	(53,008)	2.6%	17,613,916	2.8%

[1] The 2017 Legislative Session resulted in revenue adjustments beyond the March 2017 official estimate; this table has been adjusted accordingly
[2] The fiscal year 2016 GAAP audit of the Local Income Tax Reserve account found that the account was overfunded by $47.4 million
[3] The 2017 Budget Reconciliation and Financing Act directed certain Casino revenues to the general fund for fiscal year 2018
[4] The Tax Property Article §13-209 has been altered across several legislative sessions so as to provide various distributions to the general fund

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