

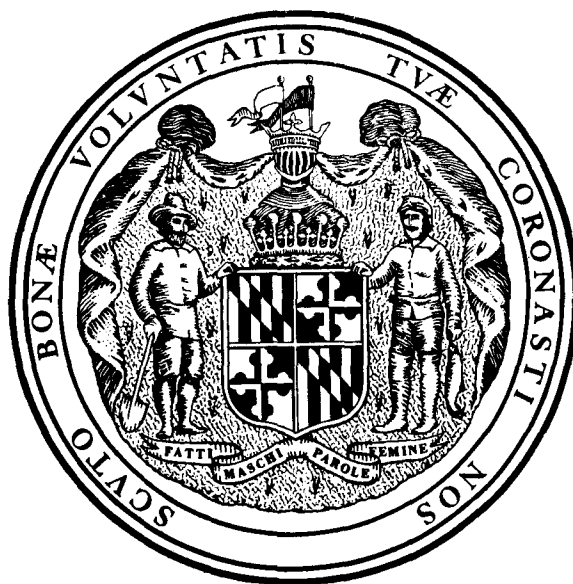
**REPORT OF THE MARYLAND
BOARD OF REVENUE ESTIMATES
ON
ESTIMATED MARYLAND REVENUES**

FISCAL YEARS ENDING

JUNE 30, 1979

AND

JUNE 30, 1980



SUBMITTED TO
ACTING GOVERNOR BLAIR LEE III
DECEMBER 11, 1978

December 11, 1978

Honorable Blair Lee III
Acting Governor of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Lee:

Inasmuch as you are now preparing your next State Budget program for the General Assembly, covering the Fiscal Year ending June 30, 1980, and in compliance with Article 41, Section 194 of the Annotated Code of Maryland, the Board of Revenue Estimates has prepared and herewith submits to you new estimates of State revenues for the Fiscal Years ending June 30, 1979 and June 30, 1980, based on the current State revenue outlook. These estimates are set forth, together with their basic data, in the accompanying Report on State Revenues.

Since the revenue outlook may be affected by rapidly changing economic developments, the Board will continue its study of revenue data, and will keep you fully advised in coming months of any further important developments affecting revenue prospects.

Respectfully yours,

Thomas W. Schmidt

William S. James

Louis L. Goldstein, Chairman

Robert D. Rader, Executive Secretary

RDR:cah
Enclosures

GENERAL FUND REVENUE AND APPROPRIATION ACCOUNT
FOR FISCAL YEARS 1978, 1979 AND 1980

(\$ THOUSANDS)

	<u>1978 ACTUAL</u>	<u>1979 PRESENT BUDGET ESTIMATE</u>	<u>1979 REVISED ESTIMATE</u>	<u>DIFFERENCE</u>	<u>1980 ESTIMATE</u>
GENERAL FUND SURPLUS (Beginning of Year)	64,308	185,152	185,152	-	202,153
ADDITIONS - GENERAL FUND REVENUE					
Income Taxes - Individual	884,379	950,986	962,482	11,496	1,049,887
Income Taxes - Corporation	99,783	97,672	111,678	14,006	103,062
Retail Sales and Use Taxes	628,059	667,132	687,075	19,943	738,687
Franchises, Excises, Fees	329,604	310,196	360,032	49,836	349,367
State Lottery Receipts	112,947	95,000	120,000	25,000	125,000
Title XIX Recoveries	22,963	25,809	26,829	1,020	30,475
Federal Revenue Sharing	51,782	45,500	46,931	1,431	45,700
Total Additions	<u>2,129,517</u>	<u>2,192,295</u>	<u>2,315,027</u>	122,732	<u>2,442,178</u>
TOTAL AVAILABLE	<u>2,193,825</u>	<u>2,377,447</u>	<u>2,500,179</u>	122,732	<u>2,644,331</u>
DEDUCTIONS					
Expenditures					
Appropriations	2,028,550	2,308,026	2,308,026	-	N.A.
Less Reversions	19,877	10,000	10,000	-	N.A.
Total Deductions	<u>2,008,673</u>	<u>2,298,026</u>	<u>2,298,026</u>	-	N.A.
GENERAL FUND SURPLUS (End of Year)	<u><u>185,152</u></u>	<u><u>79,421</u></u>	<u><u>202,153</u></u>	122,732	N.A.

REPORT OF THE BOARD OF REVENUE ESTIMATES
ON ESTIMATED STATE REVENUES
FOR THE FISCAL YEARS 1979 AND 1980

The Board of Revenue Estimates has completed its regular annual review of the State revenue outlook which it makes in the Fall of each year while the next State Budget is being prepared by the Governor.

New estimates of State revenues have been established by the Board for the Fiscal Years ending June 30, 1979 and June 30, 1980, based on the current economic outlook.

These estimates are based on the existing revenue structure as set forth in Maryland statutes and on study by the Board of available information on present economic trends as they may affect collections.

In arriving at the estimates, all revenue collecting agencies of the State Government were contacted and their estimates and advice obtained.

National and State economic trends were studied for their effect on State revenues, including economic statistics and related data published by Federal and State Government and by leading business and private organizations. In addition, national econometric forecasts prepared by Wharton Econometrics, Chase Econometrics, Manufacturers Hanover Trust and other organizations were employed in preparing State economic and revenue forecasts.

There are a number of difficult economic factors to measure at the present time in arriving at revenue estimates.

U.S. Economic Prospects

The U.S. economic outlook is perhaps at its most uncertain point since the 1974-75 Recession. Although most analysts see no structural imbalances at present that would cause the economy to depart from a path of growth during the next two years, there are a number of factors that could cause a recession to develop during 1979 or early 1980. Among these factors are: the advanced age of the current recovery; high inflation; rising interest rates in response to inflation and decline of the dollar on foreign currency markets.

During and after the most severe winter in modern history, real Gross National Product declined at a rate of 0.1 percent in the first quarter (1978.1) before growing at rates of 8.4 percent in the second quarter (1978.2) and 3.4 percent during the third quarter (1978.3) of Calendar Year 1978. It is anticipated that real GNP will continue to grow during 1978.4 and that real growth will average slightly less than 4.0 percent for the year as a whole.

Economic growth during 1979 should be generated primarily by Capital Investment and Foreign Trade. Business Fixed Investment is expected to continue to be strong through the first half of

Calendar Year 1979 on the basis of current contract commitments, while improvements in economic prospects for Europe, Japan and Canada should increase the demand for U.S. exports overseas.

Inflation has increased markedly during Calendar Year 1978 and it is to be expected that inflation prospects will continue to worsen in coming months. Among the factors contributing to further price increases are a slowdown in the growth of worker productivity and new Federal legislation increasing the minimum wage, Social Security taxes and certain commodity prices. In addition, rising food and energy prices have exerted and will continue to exert pressure on the overall price level.

Although U.S. employment has increased dramatically during the past two years, the advanced age of the current expansion plus a slowdown in the growth of worker productivity indicate that employment growth will slow in the future, with a corresponding rise in the unemployment rate.

Consumer spending should provide little or no growth in 1979 due to prospects for slower employment growth, a slowdown in the growth of real disposable income, a low savings rate, a very high level of outstanding consumer debt and inflationary prospects, which negatively affect consumer confidence.

U.S. Housing Starts in October were at an annual rate of 2.1 million units, virtually unchanged from September. However, higher mortgage interest rates and credit tightening are expected to reduce housing starts by perhaps 20 percent during Calendar Year 1979.

According to industry planning analysts, total New Automobile sales in the U.S. by domestic and foreign manufacturers should reach 11 million units in 1978. Although favorable demographic factors and the possibility of significant advance buying to avoid future price increases and downsizing of certain models will stimulate sales during coming months, there are a number of factors that could depress sales, particularly during the latter half of Calendar Year 1979. Among these are higher interest rates and base prices, extended credit repayment terms, declining consumer confidence and the prospects for a UAW strike against General Motors in late 1979.

The most optimistic outlook for the U.S. economy is that Calendar Year 1979 will be a period of very slow growth with a frail economy subject to unusual events such as harsh weather, even a brief labor strike or a sudden jump in interest rates. These events could generate a recession of two or more quarters' duration.

Additional comments regarding the national economic outlook are included in Appendix A.

State Economic and Revenue Outlook

Parallelling the nation, Maryland's economy has shown considerable growth. This growth, as measured by gains in employment and personal income, has been particularly strong since April 1977. During this period, personal income increased -- for the first time ever -- by more than \$1 billion between successive quarters. Further, this growth has occurred three times during the last five measurable quarters (\$1,013 million or 13.6% during 1977.2; \$1,174 million or 14.8% during 1977.4; and \$1,056 million or 12.8% during 1978.2). Total employment grew by 189,000 between 1977.1 and 1978.3. This growth includes an incredible increase of 100,000 jobs between 1977.3 and 1978.3.

Accompanying this unexpectedly strong growth in Maryland's economy, General Fund revenues have grown at a very fast rate during the past eighteen months. During Fiscal Year 1977, General Fund revenues exceeded estimates by \$38.8 million, principally due to economic growth during the April - June 1977 period. During Fiscal Year 1978, General Fund revenues exceeded the Board's rather bullish revenue estimates by \$69.9 million, principally due to higher than expected State Lottery revenues, Corporation taxes and Interest on Investments.

Although the national developments described above and projected slower State economic growth are expected to damp the trend in Maryland's future revenue growth, it is to be expected that, as in the past, the level of revenue attainment during the prior fiscal year will affect the level of revenues received during subsequent fiscal years.

Fiscal Year 1979 revenues are currently being expanded by \$16,286,000 in non-recurring revenues which the Board recognized but excluded from last year's report due to uncertainty regarding the actual timing of collections. Of this amount, \$14,028,000 represents a settlement between Maryland and the U.S. Department of Health, Education and Welfare. This settlement, which was recently ratified by Congress, liquidates an outstanding claim of \$24,754,000 for Federal reimbursements by the Department of Human Resources for services provided under various provisions of the Social Security Act during Fiscal Years 1972 and 1973. Another \$2,258,000 in delinquent Railroad Gross Receipts taxes and accrued interest will be received during Fiscal Year 1979 from the Penn Central Transportation Company. Under the repayment agreement, another \$693,000 in delinquent taxes and accrued interest will be received from Penn Central during Fiscal Year 1980.

Table 1 below lists the actual State revenue for the Fiscal Year ended June 30, 1978 and the Board's current estimates for the Fiscal Years ending June 30, 1979 and June 30, 1980.

MARYLAND REVENUE RECEIPTS
FISCAL YEARS 1978, 1979 AND 1980

	GENERAL FUND			SPECIAL FUNDS			TOTAL		
	F.Y. 1978	F.Y. 1979	F.Y. 1980	F.Y. 1978	F.Y. 1979	F.Y. 1980	F.Y. 1978	F.Y. 1979	F.Y. 1980
	Actual	Revised Estimate	Estimate	Actual	Revised Estimate	Estimate	Actual	Revised Estimate	Estimate
----- \$ THOUSANDS -----									
INCOME TAXES:									
Individual	884,379	962,482	1,049,887	13	10	5	884,392	962,492	1,049,892
Corporation	99,783	111,678	103,062	12,745	13,571	13,861	112,528	125,249	116,923
Total	984,162	1,074,160	1,152,949	12,758	13,581	13,866	996,920	1,087,741	1,166,815
RETAIL SALES AND USE TAXES	628,059	687,075	738,687	-	-	-	628,059	687,075	738,687
TRANSPORTATION REVENUES:									
Motor Vehicle Fuel Tax	-	-	-	194,758	201,000	204,000	194,758	201,000	204,000
Motor Vehicle Licenses, Fees	-	-	-	95,301	97,688	100,095	95,301	97,688	100,095
Motor Vehicle Titling Tax	24,936	26,500	28,000	99,742	106,000	112,000	124,678	132,500	140,000
Mass Transit Fees	-	-	-	33,159	31,725	31,825	33,159	31,725	31,825
Maryland Port Fees	-	-	-	18,125	22,535	24,409	18,125	22,535	24,409
State Aviation Fees	-	-	-	10,080	11,932	12,406	10,080	11,932	12,406
Total	24,936	26,500	28,000	451,165	470,880	484,735	476,101	497,380	512,735
PROPERTY TAXES, FRANCHISES, ETC.:									
State Real and Personal Property Tax	-	-	-	80,412	71,511	76,516	80,412	71,511	76,516
Property Transfer Tax	-	-	-	25,069	24,500	25,000	25,069	24,500	25,000
Corporation Franchises and Filing Fees	61,315	65,695	71,220	4,799	5,070	5,302	66,114	70,765	76,522
State Tobacco Tax	37,621	37,665	37,665	15,842	15,835	15,835	53,463	53,500	53,500
Tax on Insurance Companies	49,871	53,675	58,461	-	-	-	49,871	53,675	58,461
Alcoholic Beverage Excises	18,348	18,823	19,140	9,713	9,895	10,060	28,061	28,718	29,200
Death Taxes	17,169	18,600	18,700	-	-	-	17,169	18,600	18,700
Tax on Horse Racing	14,049	15,197	15,520	6,253	5,838	5,935	20,302	21,035	21,455
District Courts	23,283	26,500	27,825	-	-	-	23,283	26,500	27,825
Hospital Patient Recoveries	18,216	17,930	18,130	-	-	-	18,216	17,930	18,130
University of Maryland, State Colleges	-	-	-	216,447	231,190	253,282	216,447	231,190	253,282
Interest on Investments	25,426	30,000	18,000	6,123	6,000	5,000	31,549	36,000	23,000
Miscellaneous Fees, Other Receipts	39,370	49,447	36,706	63,670	73,593	78,784	103,040	123,040	115,490
State Lottery Receipts	112,947	120,000	125,000	165,747	180,000	175,000	278,694	300,000	300,000
Total	417,615	453,532	446,367	594,075	623,432	650,714	1,011,690	1,076,964	1,097,081
FEDERAL FUNDS:									
Highway Transit Reimbursements, Grants	-	-	-	217,531	422,221	426,559	217,531	422,221	426,559
Human Resources	-	-	-	219,810	217,991	226,952	219,810	217,991	226,952
Public Education	-	-	-	183,981	212,438	227,826	183,981	212,438	227,826
Public Health	22,963	26,829	30,475	196,399	165,843	184,987	219,362	192,672	215,462
Law Enforcement	-	-	-	17,411	10,619	9,700	17,411	10,619	9,700
Natural Resources, Etc.	-	-	-	23,622	21,258	24,634	23,622	21,258	24,634
Federal Revenue Sharing	51,782	46,931	45,700	-	-	-	51,782	46,931	45,700
Total	74,745	73,760	76,175	858,754	1,050,370	1,100,658	933,499	1,124,130	1,176,833
GRAND TOTAL	2,129,517	2,315,027	2,442,178	1,916,752	2,158,263	2,249,973	4,046,269	4,473,290	4,692,151

TABLE 1

The following table shows the current revision of the General Fund Revenue and Surplus Account for the Current Fiscal Year 1979.

	<u>PRESENT BUDGET ESTIMATE</u>	<u>REVISED ESTIMATE</u>	<u>SURPLUS INCREASE</u>
	-----\$ THOUSANDS-----		
GENERAL FUND SURPLUS (Beginning of Year)	185,152	185,152	-
ADDITIONS - GENERAL FUND REVENUE			
Income Taxes - Individual	950,986	962,482	11,496
Income Taxes - Corporation	97,672	111,678	14,006
Retail Sales and Use Taxes	667,132	687,075	19,943
Franchises, Excises, Fees	310,196	360,032	49,836
State Lottery Receipts	95,000	120,000	25,000
Title XIX Recoveries	25,809	26,829	1,020
Federal Revenue Sharing	45,500	46,931	1,431
Total Additions	<u>2,192,295</u>	<u>2,315,027</u>	<u>122,732</u>
TOTAL AVAILABLE	<u>2,377,447</u>	<u>2,500,179</u>	<u>122,732</u>
DEDUCTIONS			
Expenditures			
Appropriations	2,308,026	2,308,026	-
Less Reversions	10,000	10,000	-
Net Appropriations	<u>2,298,026</u>	<u>2,298,026</u>	<u>-</u>
UNAPPROPRIATED GENERAL FUND SURPLUS (End of Year)	<u>79,421</u>	<u>202,153</u>	<u>122,732</u>

The revised estimate of Federal Revenue Sharing monies includes \$1,334,000 in receipts from the Antirecession Fiscal Assistance program, which expired on September 30, 1978.

An extended analysis of General Fund revenues covering Fiscal Years 1974 to 1981 is contained in Table 2 following.

MARYLAND GENERAL FUND REVENUES
FISCAL YEARS 1974 to 1981

	1974 <u>Actual</u>	1975 <u>Actual</u>	1976 <u>Actual</u>	1977 <u>Actual</u>	1978 <u>Actual</u>	1979		1980 <u>Estimate</u>	1981 <u>Preliminary Estimate</u>
						<u>Present Budget Estimate</u>	<u>Revised Estimate</u>		
-----(\$ THOUSANDS)-----									
INCOME TAXES:									
Individual	581,631	665,921	790,334	806,726	884,379	950,986	962,482	1,049,887	1,137,500
Corporation	72,594	75,990	88,675	92,261	99,783	97,672	111,678	103,062	107,000
Total	<u>654,225</u>	<u>741,911</u>	<u>879,009</u>	<u>898,987</u>	<u>984,162</u>	<u>1,048,658</u>	<u>1,074,160</u>	<u>1,152,949</u>	<u>1,244,500</u>
RETAIL SALES AND USE TAXES	<u>364,717</u>	<u>396,019</u>	<u>419,412</u>	<u>465,858</u>	<u>628,059</u>	<u>667,132</u>	<u>687,075</u>	<u>738,687</u>	<u>788,500</u>
FRANCHISES, EXCISES, LICENSES, FEES:									
Business Franchise Taxes	37,906	43,207	47,418	74,132	61,315	60,529	65,695	71,220	75,000
State Tobacco Tax	17,010	20,256	38,184	38,228	37,621	38,368	37,665	37,665	38,000
Tax on Insurance Companies	28,850	31,729	34,649	60,805	49,871	41,749	53,675	58,461	63,500
Alcoholic Beverage Excises	17,125	17,525	17,960	18,506	18,348	19,404	18,823	19,140	19,500
Death Taxes	14,713	15,946	15,465	19,785	17,169	17,750	18,600	18,700	19,000
Motor Vehicle Titling Tax	15,725	16,053	19,504	22,824	24,936	24,400	26,500	28,000	29,000
Tax on Horse Racing	12,874	14,351	16,093	13,377	14,049	15,835	15,197	15,520	15,700
Hospital Patient Recoveries	15,626	14,066	16,186	17,028	18,216	17,215	17,930	18,130	18,300
Interest on Investments	23,768	18,316	11,684	13,715	25,426	16,000	30,000	18,000	16,000
District Courts	14,760	16,897	19,562	21,497	23,283	26,100	26,500	27,825	29,000
State Lottery	-	10,025	15,374	90,769	112,947	95,000	120,000	125,000	125,000
Miscellaneous	26,974	22,982	24,819	29,912	39,370	32,846	49,447	36,706	37,500
Total	<u>225,331</u>	<u>241,353</u>	<u>276,898</u>	<u>420,578</u>	<u>442,551</u>	<u>405,196</u>	<u>480,032</u>	<u>474,367</u>	<u>485,500</u>
FEDERAL TITLE XIX RECOVERIES	<u>68,219</u>	<u>17,616</u>	<u>34,874</u>	<u>24,298</u>	<u>22,963</u>	<u>25,809</u>	<u>26,829</u>	<u>30,475</u>	<u>32,500</u>
FEDERAL REVENUE SHARING	<u>54,445</u>	<u>40,103</u>	<u>42,047</u>	<u>48,900</u>	<u>51,782</u>	<u>45,500</u>	<u>46,931</u>	<u>45,700</u>	<u>45,900</u>
Grand Total	<u><u>1,366,937</u></u>	<u><u>1,437,002</u></u>	<u><u>1,652,240</u></u>	<u><u>1,858,621</u></u>	<u><u>2,129,517</u></u>	<u><u>2,192,295</u></u>	<u><u>2,315,027</u></u>	<u><u>2,442,178</u></u>	<u><u>2,596,900</u></u>

TABLE 2

INDIVIDUAL INCOME TAXES

After the most severe winter in modern history, during which the U.S. and Maryland economies were threatened by the prolonged U.S. Coal Strike, Maryland's economic picture brightened significantly and resumed the path of strong growth which began in April 1977. Employment grew from 1,837,000 during 1978.1 to 1,955,000 during 1978.3. This was an increase of 100,000, or 5.4 percent over employment during 1977.3. Corresponding to this increase in employment, Maryland's unemployment rate continued its steady decline and, during 1978.3 was 4.6 percent. This is the lowest level since 1974.3.

Accompanying this favorable employment trend, Maryland personal income grew, for the first time ever, by more than \$1 billion during each of 1977.2 and 1977.4 and also during 1978.2. Despite the severe winter, Maryland's personal income during the first half of Calendar Year 1978 was 9.3 percent greater than during the first half of Calendar Year 1977. A continuation of growth through the end of 1978 is expected, based upon the above employment trends.

Some damping effects upon further increases in Maryland employment and personal income during Calendar Years 1979 and 1980 should be expected due to prospects for a sharp slowdown or recession in the U.S. economy. This may in turn affect Individual Income Tax receipts.

The State's General Fund portion of Fiscal Year 1978 Individual Income Tax revenues were reduced by approximately \$8.6 million due to emergency legislation sponsored by the State Comptroller, enacted by the General Assembly and signed into law by Acting Governor Lee. This legislation permitted taxpayers to claim itemized deductions on their 1977 and subsequent year Maryland tax returns even though they had claimed the standard deduction on their Federal returns.

In addition to the optional itemized deduction legislation, the 1978 General Assembly also enacted legislation allowing a deduction for child care expenses and liberalizing the pension exclusion for the 1978 and subsequent tax years. These enactments are expected to reduce General Fund Individual Income Tax receipts by \$18.7 million in Fiscal Year 1979 and by \$19.7 million in Fiscal Year 1980.

Fiscal Year 1979 and 1980 Individual Income Tax receipts are expected to be reduced by approximately \$1.5 million due to higher filing requirements and other modifications adopted in the Federal Revenue Act of 1978.

By recommendation of the Legislative Auditor, revenue recognition policies for Income Tax receipts during the month of July will be adjusted to conform more closely to Generally Accepted Accounting Principles. Accordingly, \$7 million of July 1978 Individual Income Tax receipts from sources other than employer withholding were counted as Fiscal Year 1979 revenues rather than as Fiscal Year 1978 revenue as required by previous policies. This action created a one-time-only windfall during Fiscal Year 1979.

The net effect of the above factors is summarized in Table 3.

MARYLAND INDIVIDUAL INCOME TAX REVENUES
FOR FISCAL YEARS 1977, 1978, 1979 AND 1980
(\$ Thousands)

<u>TAX YEAR</u>	<u>1977 Actual</u>	<u>1978 Actual</u>	<u>1979 Estimate</u>	<u>1980 Estimate</u>
PRIOR YEARS	11,873	13,393	14,000	14,500
1976	540,787			
1977	641,238	587,296		
1978		718,937	622,089	
1979			792,119	684,310
1980				859,042
TOTAL	<u>1,193,898</u>	<u>1,319,626</u>	<u>1,428,208</u>	<u>1,557,852</u>
Fair Campaign Fund	142	129	120	100
City, County, Town	14	13	10	5
Local Tax	<u>387,016</u>	<u>435,105</u>	<u>465,596</u>	<u>507,860</u>
GENERAL FUND TOTAL	<u><u>806,726</u></u>	<u><u>884,379</u></u>	<u><u>962,482</u></u>	<u><u>1,049,887</u></u>

TABLE 3

CORPORATION INCOME TAXES

For Fiscal Years 1979 and 1980, the Corporation Income Tax revenue will be received from the following tax years:

	<u>1978-79</u>	<u>1979-80</u>
1976 & Prior Years	5%	4%
1977	17%	-
1978	59%	19%
1979	19%	58%
1980	-	19%

A different rate of growth was applied to each tax year receipts. For Calendar Year 1977, we used the present rate of growth in Corporate Income Tax receipts projected to the end of the calendar year. For Calendar Years 1978, 1979 and 1980 we used growth rates of 6.0 percent, 2.4 percent and 2.8 percent, respectively. These growth rates reflect an average of the projected growth rates in corporate profits as forecast by various professional econometric consultants and incorporate an historical long-run elasticity assumption regarding the relationship between Maryland Corporation Income Tax receipts and U.S. Corporate profits.

There are numerous uncertainties which could affect corporate profits over the next two years. Slower growth is expected in the future due to the maturity of the current national economic expansion and the projected slowdown or decline in economic activity. It is to be expected that, at this stage of the business cycle, productivity gains will continue to lessen, leading to higher unit labor costs, slower growth and perhaps even a decline in Corporate profits. This in turn has historically lead to higher Maryland Corporation Income Tax refunds.

The same rates of growth in calendar year Corporate profits were used in projecting Fiscal Year 1979 and 1980 receipts.

Under the new revenue recognition policies recommended by the Legislative Auditor, \$12 million of July 1978 Corporation Income Tax receipts were counted as Fiscal Year 1979 General Fund revenues, thus creating a one-time-only windfall.

Table 4 contains a detailed analysis of the projected revenues from Corporation Income Taxes.

MARYLAND CORPORATION INCOME TAX REVENUES
FOR FISCAL YEARS 1977, 1978, 1979 AND 1980
(\$ Thousands)

<u>TAX YEAR</u>	<u>Percent Rate of Growth</u>	<u>1977 Actual</u>	<u>1978 Actual</u>	<u>1979 Estimate</u>	<u>1980 Estimate</u>
PRIOR YEARS	-	7,390	6,753	7,000	5,000
1975	+ 0.9	23,827			
1976	+14.4	63,014	23,280		
1977	+18.0	28,978	74,331	24,491	
1978	+ 6.0		25,514	82,685	26,269
1979	+ 2.4			27,189	80,925
1980	+ 2.8				27,189
TOTAL		<u>123,209</u>	<u>129,878</u>	<u>141,365</u>	<u>139,383</u>
Less: Trans. Trust		9,252	12,745	13,571	13,861
Refunds		21,696	17,350	16,116	22,460
GENERAL FUND TOTAL		<u><u>92,261</u></u>	<u><u>99,783</u></u>	<u><u>111,678</u></u>	<u><u>103,062</u></u>

TABLE 4

RETAIL SALES AND USE TAXES

Retail Sales and Use Tax collections are experiencing a continuation of the strong growth that began in April 1977 and at the end of November were 11.4 percent ahead of prior year collections.

Although retail sales are expected to continue to be strong through Christmas, there are a number of factors which portend slower growth during Calendar Year 1979. Among these are: high inflation, which erodes buying power and undermines consumer confidence; the high level of outstanding consumer installment debt; high interest rates, which should cut deeply into new housing starts and eventually should damp consumer demand for furniture and appliances; and slower growth in employment and disposable personal income.

In particular, the high level of consumer debt is very troublesome. Nationally, consumer credit during 1978 will be 49 percent higher than in 1975, while mortgage debt will be 54 percent higher than in 1975, according to Business Week. Townsend-Greenspan calculates the ratio of household debt payments to disposable cash income during 1978.3 to be 25 percent -- a record high.

Based upon these factors, it is to be expected that the growth rate of Retail Sales and Use Tax collections will slacken during Fiscal Year 1979.

The 1978 General Assembly enacted legislation eliminating the sales tax on the electricity fuel rate adjustment surcharge and imposing the tax upon carry-out food. The net effect of these enactments is projected to result in neither increased nor reduced revenues.

Based upon an assessment of the above factors, Retail Sales and Use Tax receipts are projected to grow by 9.4 percent during Fiscal Year 1979 and by 7.5 percent during Fiscal Year 1980. Collections during Fiscal Year 1979 are expected to total \$687,075,000, while collections during Fiscal Year 1980 are expected to total \$738,687,000.

STATE LOTTERY REVENUES

State Lottery revenues have grown very rapidly since the inception of the daily "Numbers Game" on July 29, 1976. Actual gross receipts from all games for the July 1, 1976 to June 30, 1977 period amounted to \$165,252,000, making the Maryland State Lottery the nation's most successful in terms of per capita sales volume and growth. Net receipts for this period amounted to \$57,026,000.

During Fiscal Year 1978, gross receipts of \$24,795,000 were derived from the \$.50 and \$1.00 weekly games, and \$253,898,000 was collected from the daily "Numbers Game". After deduction of the 5 percent seller's commissions, administrative expenses, prizes paid and reserve, net receipts of \$112,946,552 were paid into the General Fund from Fiscal Year 1978 operations. This was nearly twice the amount collected during the same period of Fiscal Year 1977.

During Fiscal Year 1979, gross receipts of \$278,000,000 are expected from the daily "Numbers Game", and an additional \$22,000,000 is expected from the weekly games. After deduction of seller's commissions, administrative expenses and prizes paid, net receipts of \$120,000,000 are expected to be received by the General Fund from these collections.

Fiscal Year 1980 operations are expected to gross \$300,000,000, of which \$125,000,000 are projected to be available to fund the 1980 General Fund budget. Of this amount, roughly \$5 million represents cost savings accruing to the State under the new vendor contract for operating the "Numbers Game".

INTEREST ON INVESTMENTS

In response to high interest rates, interest received on invested State General Funds increased sharply during Fiscal Year 1978 and amounted to \$25,426,000 -- almost twice the amount received during Fiscal Year 1977. To date, interest rates have risen further, resulting in increased interest income. The Board currently projects earnings on General Fund investments to reach \$30 million in Fiscal Year 1979.

However, as interest rates peak and recede as expected in the future, interest income will decline. Accordingly, the Board currently projects investment earnings to decline to \$18 million in Fiscal Year 1980.

TRANSPORTATION REVENUES

The outlook for these revenues is highlighted by uncertainty concerning future new car sales levels. Although most industry analysts are currently predicting unit sales to approximate 11 million units in 1978, the outlook for 1979 and early 1980 is clouded by a number of factors. Among these are: the possibility of a strike against GM in late 1979; recently-announced price increases; and the growing probability of an economic recession in 1979 or early 1980.

In addition, some signs of advance buying in order to avoid future price increases and downsizing of models are beginning to surface. This, in conjunction with a substantial increase in the number of new car loans financed for longer than 36 months, could have an adverse effect upon future sales levels.

Based upon the above factors, Motor Vehicle Titling Tax receipts are currently expected to grow by 8.6 percent in Fiscal Year 1979 and by 5.7 percent in Fiscal Year 1980.

Motor Fuel supplies are currently adequate and are expected to remain adequate through June 1980. However, it is to be expected that, as more fuel-efficient new cars become available and begin to replace vehicles of lesser efficiency, the growth trend in motor fuels consumption will also slow.

This trend has recently become apparent in Maryland, as the growth in gallonage collections has been less than what should be expected on the basis of their historical relationship with price and income. Based upon these factors, we currently expect Motor Fuels Tax revenues to grow by 3.2 percent in Fiscal Year 1979 and by 1.5 percent in Fiscal Year 1980.

Miscellaneous Motor Vehicle Fees are expected to increase by \$150,000 per year due to legislation establishing a \$10 fee for seven-day temporary tags. Driver's Education Licenses are expected to increase during Fiscal Year 1979 due to legislation permitting youths to receive such licenses 90 days before their sixteenth birthday. No fees will be collected from this source after Fiscal Year 1980. The Special Fund portion of Special License Tags will increase by \$50,000 in Fiscal Year 1979 and by \$100,000 in Fiscal Year 1980 as a result of legislation establishing a Distinguished Scholarship Program.

All other sources are expected to increase in line with past trends.

Table 5 summarizes Motor Vehicle User Revenues.

MARYLAND MOTOR VEHICLE USER REVENUES
FOR FISCAL YEARS 1976, 1977, 1978, 1979 AND 1980

(\$ Thousands)

	1976 Actual	1977 Actual	1978 Actual	1979		1980 Estimate
				Present Budget Estimate	Revised Estimate	
MOTOR VEHICLE REVENUES:						
Motor Vehicle Licenses and Registrations	\$ 75,031	\$ 78,508	\$ 82,009	\$ 83,000	\$ 83,400	\$ 85,450
Miscellaneous Motor Vehicle Fees	2,787	3,054	3,104	3,200	3,400	3,550
Wreckers and Scrappers Recording Charge	788	826	822	860	838	845
Security Interest Filing Fees - Counties	891	999	1,040	1,060	1,100	1,150
Security Interest Filing Fees - Special Funds	915	999	1,040	1,060	1,100	1,150
Security Interest Filing Fees - Court Costs	1,833	1,997	2,081	2,120	2,200	2,300
Hauling Fees	823	1,167	1,269	1,300	1,300	1,400
Driver's Education Licenses, Fees	2,906	2,704	3,786	4,000	4,150	4,000
Special License Tags - Special Funds	200	200	150	150	200	250
Special License Tags - General Fund	184	228	320	309	283	244
4% Motor Vehicle Titling Tax - Transportation Fund	58,511	69,622	99,742	97,600	106,000	112,000
1% Motor Vehicle Titling Tax - General Fund	19,504	22,824	24,936	24,400	26,500	28,000
TOTAL	\$164,373	\$183,128	\$220,299	\$219,059	\$230,471	\$240,339
MOTOR VEHICLE FUEL TAX	181,406	189,167	194,758	199,000	201,000	204,000
GRAND TOTAL	\$345,779	\$372,295	\$415,057	\$418,059	\$431,471	\$444,339

TABLE 5

REAL AND PERSONAL PROPERTY TAXES

The present estimate of the State's Assessable Basis for Fiscal Year 1979, made by the Department of Assessments and Taxation, is \$35,755,307,000. Although official estimates for Fiscal Year 1980 have not yet been formalized, the Board projects that the Fiscal Year 1980 Assessable Basis will increase by 7 percent to \$38,258,178,000.

The State Tax Rate for the Current 1978-79 year is 20¢ per \$100 of assessable property as established by the Board of Public Works. The Board is required by law to calculate the rate necessary for Debt Service on full faith and credit General Obligation Bonds by May 1 of each year.

The projection of State Property Tax revenues on the basis of this rate is as follows:

FISCAL YEAR 1979	\$71,511,000
FISCAL YEAR 1980	\$76,516,000

STATE TOBACCO TAX

Cigarette sales in Maryland have been affected by an apparent drop in per capita consumption nationally and other factors. It is to be expected that these factors will continue to influence State Tobacco Tax revenues, and that these revenues will yield approximately \$53.5 million during each of Fiscal Years 1979 and 1980.

Following is an analysis of these revenues:

	1977	1978	1979	1980
	<u>Actual</u>	<u>Actual</u>	<u>Revised</u>	<u>Estimate</u>
			<u>Estimate</u>	
	-----\$ THOUSANDS-----			
Total Revenue	54,325	53,463	53,500	53,500
Less - Share to Counties and Baltimore City	16,097	15,842	15,835	15,835
Balance to General Fund	<u>38,228</u>	<u>37,621</u>	<u>37,665</u>	<u>37,665</u>

ALCOHOLIC BEVERAGES EXCISES

Tax receipts from Alcoholic Beverages are influenced by various factors, such as inventory deliveries, tax payment methods and the overall state of the economy.

Distilled Spirits, Wine and Beer Tax revenues are expected to show consistent growth comparable with past trends. For Fiscal Year 1979, Alcoholic Beverage Taxes are expected to grow by 2.3 percent above Fiscal Year 1978 receipts. Fiscal Year 1980 receipts are projected to grow by an additional 1.7 percent.

Following is a current analysis of these revenues:

	<u>1977</u> <u>Actual</u>	<u>1978</u> <u>Actual</u>	<u>1979</u> <u>Revised</u> <u>Estimate</u>	<u>1980</u> <u>Estimate</u>
-----\$ THOUSANDS-----				
Tax on Distilled Spirits				
Total Revenue	16,285	16,548	16,750	16,950
Less - Share to Local Governments	<u>5,448</u>	<u>5,485</u>	<u>5,583</u>	<u>5,650</u>
Balance to General Fund	<u>10,837</u>	<u>11,063</u>	<u>11,167</u>	<u>11,300</u>
Tax on Wine (General Fund)	<u>2,955</u>	<u>3,069</u>	<u>3,168</u>	<u>3,250</u>
Tax on Beer				
Total Revenue	8,959	8,444	8,800	9,000
Less - Share to Local Governments	<u>4,245</u>	<u>4,228</u>	<u>4,312</u>	<u>4,410</u>
Balance to General Fund	<u>4,714</u>	<u>4,216</u>	<u>4,488</u>	<u>4,590</u>
Total to General Fund	<u><u>18,506</u></u>	<u><u>18,348</u></u>	<u><u>18,823</u></u>	<u><u>19,140</u></u>

CORPORATION FRANCHISE TAXES AND FILING FEES

Franchise Taxes will be expanded during Fiscal Years 1979 and 1980 by the settlement of a claim against the Penn Central Transportation Company for delinquent Railroad Gross Receipts taxes and accrued interest. These taxes were owed for the period January 1, 1970 to March 31, 1975. Under the terms of the settlement, Penn Central paid 26.4% of the delinquency in cash on October 24, 1978, with the remainder to be paid, with interest, in the following installments during Fiscal Years 1979 and 1980: December 31, 1978 - \$605,000; June 30, 1979 - \$121,000; December 31, 1979 - \$589,000; June 30, 1980 - \$104,000.

Another \$642,834.03 plus accumulated interest in the subject of possible litigation concerning Penn Central and Conrail for Gross Receipts taxes owed for the period April 1, 1975 to December 31, 1975. The receipt of this amount is uncertain due to the possible litigation and, consequently, no estimate is included in the Board's revenue projections for Fiscal Years 1979 or 1980.

Following is an analysis of Franchise Tax revenues:

	1977 <u>Actual</u>	1978 <u>Actual</u>	1979 Revised <u>Estimate</u>	1980 <u>Estimate</u>
	-----\$ THOUSANDS-----			
Franchise Tax on Gross Receipts	61,218	48,809	55,181	59,861
Franchise Tax on Net Earnings of Savings Banks, Building and Loan Associations	3,004	4,028	4,230	4,441
Franchise Tax on Building and Loan Associations	888	966	1,063	1,170
Domestic Corporation Filing Fees	1,632	1,662	1,765	1,810
Filing Fees on Foreign Corporations	401	403	426	440
Franchise Tax on Net Earnings of Financial Institutions	10,778	10,246	8,100	8,800
TOTAL	<u>77,921</u>	<u>66,114</u>	<u>70,765</u>	<u>76,522</u>
Less - Allocations to Local Governments:				
Franchise Tax on Net Earnings of Savings Banks, Building and Loan Associations	2,973	3,968	4,188	4,397
Domestic Corporation Filing Fees	816	831	882	905
BALANCE TO GENERAL FUND	<u>74,132</u>	<u>61,315</u>	<u>65,695</u>	<u>71,220</u>

DEATH TAXES

	<u>1977</u> <u>Actual</u>	<u>1978</u> <u>Actual</u>	<u>1979</u> <u>Revised</u> <u>Estimate</u>	<u>1980</u> <u>Estimate</u>
	-----\$ THOUSANDS-----			
Collateral Inheritance Tax	9,411	9,485	9,500	9,500
Direct Inheritance Tax	3,089	3,413	3,400	3,400
Maryland Estate Tax	5,717	2,596	3,950	3,950
Tax on Commissions of Executors and Administrators	1,568	1,675	1,750	1,850
TOTAL	<u>19,785</u>	<u>17,169</u>	<u>18,600</u>	<u>18,700</u>

UNIVERSITY OF MARYLAND, STATE COLLEGES

	<u>1977</u> <u>Actual</u>	<u>1978</u> <u>Actual</u>	<u>1979</u> <u>Revised</u> <u>Estimate</u>	<u>1980</u> <u>Estimate</u>
University of Maryland*	205,045	171,457	184,301	204,648
Bowie State College	3,076	2,745	3,128	3,230
Coppin State College	1,816	2,034	2,362	2,557
Frostburg State College	5,554	5,905	6,351	6,465
Salisbury State College	4,242	5,092	5,481	5,966
Towson State University	13,348	15,477	15,233	15,448
University of Baltimore	3,740	3,961	4,440	4,434
St. Mary's College of Maryland	1,957	1,991	2,094	2,230
Morgan State University	7,311	7,785	7,800	8,304
TOTAL	<u>246,089</u>	<u>216,447</u>	<u>231,190</u>	<u>253,282</u>

*Federally-sponsored projects which were included in Special Funds in Fiscal Year 1977 have been included as Federal Funds starting with Fiscal Year 1978.

APPENDIX A

1979 ECONOMIC PROSPECTS

1. Data Resources Special Forecast Bulletin November 3, 1978 -

Data Resources is changing its 1979 near-recession forecast to a genuine recession. The risks have become too great. Events of the last few days and the measures announced to defend the dollar make a 1979 recession probable. Interest rates are at a point where housing activity will drop for lack of mortgage money and because of prohibited rates. Consumer purchases of automobiles and other big-ticket items will be hurt by tougher credit terms, including shortened maturities. Business outlays for plant and equipment will be held down by weaker industrial markets and financial uncertainties. Because the higher interest rates, the age of expansion also contributes to the odds on recession. Auto and housing demands have been so strong for several years that a letdown is inevitable. Consumer credit is overextended. With banks, savings and loans, and credit unions now unable to meet borrower's needs, the turndown is accentuated. How bad a recession are we in for? Because the downturn has been so well advertised for so long, business has been cautious in building up inventories and adding to capacity. There is no reason--yet--to look for anything worse than a garden variety recession of two quarters without growth next year, followed by recovery in 1980.

The aging of this recovery is also auguring for a downturn. Excluding the extended expansion of the 1960's, no recovery has lasted longer than three and one-half years and the average length--trough to peak--is just under three years. The 1975 trough was far deeper than any of the previous recessions, falling to 94.3% of its previous peak value in the first quarter of 1975. The growth since the trough has been more modest than average, a partial explanation why the current recovery has already outlasted the average of its predecessors.

2. Wharton Quarterly Model Forecast November 3, 1978 -

The recent policy moves by the Federal Reserve in raising the discount rate and Federal Funds rate have considerably weakened the outlook making the economy more susceptible to shocks such as a major strike, an unexpectedly high increase in OPEC petroleum prices or another severe winter. A continuation of the current policy trend would, almost certainly, result in a recession.

Constant dollar GNP growth will continue near the 3.4% rate reported in 1978.3. The expansion should continue into 1979.1 with growth slowing to near 2.5% regardless of policy moves. The mid-year period promises to be weak regardless of whether the Fed moves toward more restriction or some lowering of interest rates.

With further rises in interest rates, growth can be expected to be essentially zero or slightly negative in 1979.3 with a definite downturn near year end.

Prices should continue their sharp rise. A slower growth rate or recession engineered by high interest rates is unlikely to alter this outlook substantially. The unemployment rate should be essentially flat through 1979. Interest rates should peak sharply in early 1979, with the Federal Funds rate to peak in the 10.25 - 10.50% range and the prime rate to peak at 12%.

3. Chase Econometric Macro Interim Report of November 2, 1978 -

The recent actions by the Federal Reserve in raising the discount and Federal Funds rates--though clearly the correct ones--will probably lead to a mild recession in 1979. Chase expects rates to peak in 1979.2, with the discount rate at 10%, the Federal Funds rate at 11% and the prime rate at 12%.

Housing starts are expected to average 1.48 million in 1979, reaching a trough of 1.4 million in 1979.3. New car sales are expected to decline to 10.2 million units. Plant and equipment spending will increase by a mere 1%.

4. Fortune's Forecast for the Next Eighteen Months - July 17, 1978 Issue -

The U.S. economy will register its fourth straight year of solid economic expansion in the period ahead, but one marked by slower growth and more rapid inflation. Then, over the second half of 1979, the economy will enter upon a new period that now looks likely to be a growth recession. That sort of slowdown can later prove to be just a pause that refreshes or, as more often in the past, a precursor to the real thing, a decline in output. Which it will turn out to be is by no means clear yet, and business will not be alone in trying to discern the answer. With a presidential election coming up, Washington policy makers will be trying to arrange the answer, but with a limited degree of freedom to operate.

The spurt of real GNP, from no change in the first quarter to nearly a 9% rate in the spring, has been plainly slowing down on a monthly basis. Over the coming year the growth rate will run at only about 3.8%, down about half a percentage point from the average of the past six or twelve months. The rate may fluctuate from quarter to quarter, as it has done for the past three years, but by the middle of 1979 it will be subsiding more definitely. During the second half, GNP growth may be little more than 1% a year and industrial production, after a gain of 5% in the coming twelve months, should level out altogether.

5. The Wall Street Journal - October 30, 1978 -

The economy may be slowing down, but corporate profits are showing considerable strength. On a year-to-year basis, according to a Wall Street Journal survey of 548 major companies, third quarter after tax profits showed a rise of almost 21%, compared with a 10% gain recorded in a similar survey of the second quarter. Airlines and steel chalked up especially large advances.

The picture in autos was mixed, but the number one producer, General Motors, Friday reported a gain of 31%. It was the company's most profitable third quarter yet. The outlook for future profits obviously depends to a large extent on where the economy goes from here. Most economists believe that the gross national product, after adjustment for inflation, will rise more slowly in 1979, and some are predicting an actual recession.

Among those forecasting a recession is Merrill Lynch Economics, the consulting subsidiary of the big brokerage firm. It expects after tax profits to slip by 1.2% next year; by comparison, it expects this year's profits to be about 12% from 1977's.

A number of other factors could affect profits in 1979. Robert Ortner, Senior Vice President of the Bank of New York, expects after tax profits to rise by 5% next year, "But I am assuming that we won't have another terrible winter," he adds. Mr. Ortner says he is also watching major wage negotiations, starting with the Teamsters in March. Costly pay settlements he says could damage the outlook on growth, inflation and corporate profits. Auto industry contracts expire next September.

Most Wall Street analysts are predicting that U.S. car sales will fall to between 10.2 and 10.4 million units in 1979, down from a brisk 11.3 or 11.4 million units expected to be retailed this calendar year. If that happens, the big three will have to curtail production and their earnings could suffer.

6. Townsend-Greenspan November 2, 1978 -

Alan Greenspan predicted a recession for 1979.

7. U.S. Economic Outlook and Policy October 17, 1978 -

Heller - Perry Model predicts a recession for 1979.

8. Karl Scheld - Federal Reserve Bank of Chicago -

The peak in interest rates comes after the recession has begun. Therefore, we can assume that interest rates have not peaked.

9. The Automotive Outlook - Robert J. Kleine of Michigan -

The automobile industry has just completed its second best year in history in car and truck sales.

There is a gradual shift toward smaller size cars.

The automobile contract expires next September. It could be General Motors turn for a strike.