



# State of Maryland Board of Revenue Estimates

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Revenue Estimates

March 8, 2002

Honorable Parris N. Glendening  
Governor, State of Maryland  
State House  
Annapolis, MD 21401

Dear Governor Glendening:

In accordance with our policy of keeping you fully advised of developments affecting revenue prospects, the Board of Revenue Estimates has reviewed the current estimates of general fund revenues for fiscal years 2002 and 2003 as well as the underlying assumptions about economic activity in the State. Based on this review, the Board submits to you revised estimates of total general fund revenue of \$9,627.6 million for fiscal year 2002 and \$9,662.6 million for fiscal year 2003. This represents a downward revision of \$124.4 million for fiscal year 2002 and \$124.7 million for fiscal year 2003 when compared to our December estimate. Combined, the downward revision totals \$249.1 million.

Despite recent news of the national economy beginning to recover and evidence that Maryland's economy has been relatively unscathed by the recession, we are revising our estimate of income tax revenues downward by \$263.3 million for the two fiscal years. This revision is **not** due to a deterioration in present or future economic activity, for which our expectations are generally unchanged-accelerating growth throughout fiscal year 2003. Rather, it is due to an apparently sharper decline in realized capital gains in tax year 2001 than previously expected; that is, it is due to events that have already occurred.

Quarterly estimated income tax payments (which reflect much of the tax liability for capital gains) for the first three quarters of tax year 2001 grew by 9.8%. Our December forecast expected a fourth quarter decline of about 2%. Instead, fourth quarter payments declined by almost 17%, indicating that taxpayers' tax year 2001 liability may be much less than we had expected.

The decline in fourth quarter estimated payments is unprecedented. In the last 22 years, these payments declined only three times-in 1989, 1990 and 1991 (the last recessionary period), with the largest decline in 1990 at 12.7%. Final payments for tax year 1990 declined nearly 11.0%, and growth was very modest for 1989 and 1991. The drop in estimated payments does not bode well for final payments and refunds as taxpayers file their returns for tax year 2001.

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Our prior forecast was based on a decline in realized capital gains of 15% for tax year 2001. Given the most recent tax data, we now believe capital gains have declined by much more. As you are aware, much of the growth in the income tax in recent years has been driven by capital gains. Between 1994 and 2000, capital gains tripled when measured as a percent of taxable income, from 2.1% to 6.4%. While the revenue increase from capital gains has been positive for the State as capital gains grew disproportionately, a decline in capital gains now has a much larger impact on State revenues than similar declines would have prior to 1995.

We have also adjusted the estimate for general fund lottery revenues. Based on changes to existing games, general fund revenues from the lottery are expected to total \$417.5 million in fiscal year 2003, an increase of \$14.2 million. New York and Ohio are joining the Big Game on May 15, which will increase the pool of potential players by roughly 60%. The minimum jackpot will increase from \$5 million to \$10 million, and all of the other prizes will increase. Along with some structural changes that will decrease the odds of winning the jackpot, these changes should result in much more play and higher jackpots, which in turn will encourage more play. Our estimate for Keno revenues has also increased. The Keno game is currently drawn every five minutes. By the beginning of fiscal year 2003, next July, the game will be played every four minutes for 25% more draws.

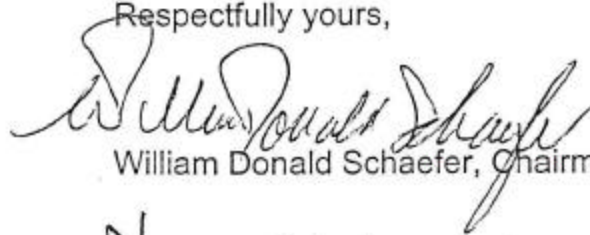
There are, as always, several substantial risks to the forecast. On the positive side, all other revenue sources are currently performing to expectations. This is also true for income tax withholding, the largest component of the individual income tax. These facts imply that Maryland's economy remains fundamentally sound. If the national economy has in fact pulled out of the recession, we may expect to see stronger performance in withholding and the sales tax than currently forecast. Although not warranting a change to the estimates at this point in time it is possible that death taxes and interest income could finish the fiscal year several million dollars ahead of the estimates.

Despite the brightening economic situation, negative risks continue to outweigh the positive. These include even weaker capital gains performance than currently expected, as well as the potential of a "double-dip" recession. In addition, the timing of taxpayers' claiming of heritage preservation income tax credits could measurably affect individual or corporate income tax receipts, since several projects have each earned millions of dollars of credits.

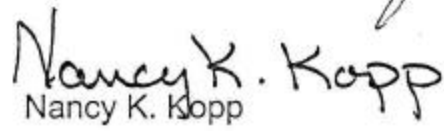
The possibility exists that Maryland could respond sluggishly to the national recovery as it did at the end of the last recession, although we discount this possibility due to the structural changes in Maryland's economy since that time. Finally, as this past week's events have reminded us, the struggle against terrorism has not ended; unforeseen events at home or abroad could dramatically alter the State's fiscal position.

Taken together, these factors call for continuing caution. We will keep you informed as the income tax filing season unfolds and as any other developments substantially affect State revenues.

Respectfully yours,



William Donald Schaefer, Chairman



Nancy K. Kopp



T. Eloise Foster

**Maryland General Fund Revenues**  
Fiscal Years 2001 - 2003

\$ Thousands	FY 2002					FY 2003			
	FY 2001 Actual	December Estimate	March Estimate	Difference	Growth	December Estimate	March Estimate	Difference	Growth
<b>INCOME TAXES:</b>									
Personal	5,133,726	5,113,497	4,989,097	(124,400)	-2.8%	5,197,893	5,058,993	(138,900)	1.4%
Corporation	374,397	245,212	245,212	0	-34.5%	302,370	302,370	0	23.3%
<b>Total</b>	<b>5,508,123</b>	<b>5,358,709</b>	<b>5,234,309</b>	<b>(124,400)</b>	<b>-5.0%</b>	<b>5,500,263</b>	<b>5,361,363</b>	<b>(138,900)</b>	<b>2.4%</b>
<b>SALES AND USE TAXES</b>	<b>2,626,775</b>	<b>2,635,530</b>	<b>2,635,530</b>	<b>0</b>	<b>0.3%</b>	<b>2,731,403</b>	<b>2,731,403</b>	<b>0</b>	<b>3.6%</b>
<b>STATE LOTTERY</b>	<b>385,045</b>	<b>396,745</b>	<b>396,745</b>	<b>0</b>	<b>3.0%</b>	<b>403,345</b>	<b>417,545</b>	<b>14,200</b>	<b>5.2%</b>
<b>FRANCHISES, EXCISES, LICENSES, FEES:</b>									
Business Franchise Taxes	167,416	157,390	157,390	0	-6.0%	168,609	168,609	0	7.1%
Tax on Insurance Companies	190,397	192,662	192,662	0	1.2%	197,105	197,105	0	2.3%
Death Taxes	168,803	171,645	171,645	0	1.7%	139,228	139,228	0	-18.9%
Tobacco Tax	205,636	203,643	203,643	0	-1.0%	199,873	199,873	0	-1.9%
Alcoholic Beverages Excise Tax	24,522	25,108	25,108	0	2.4%	24,997	24,997	0	-0.4%
Motor Vehicle Fuel Tax	11,984	11,983	11,983	0	0.0%	12,076	12,076	0	0.8%
District Courts	69,606	70,822	70,822	0	1.7%	72,058	72,058	0	1.7%
Clerks of the Court	39,534	40,196	40,196	0	1.7%	38,619	38,619	0	-3.9%
Hospital Patient Recoveries	66,221	87,691	87,691	0	32.4%	63,886	63,886	0	-27.1%
Interest on Investments	140,588	72,623	72,623	0	-48.3%	70,259	70,259	0	-3.3%
Miscellaneous	197,783	179,317	179,317	0	-9.3%	165,619	165,619	0	-7.6%
<b>Total Franchises, Excises, Licenses, Fees</b>	<b>1,282,491</b>	<b>9,604,064</b>	<b>9,479,664</b>	<b>(124,400)</b>	<b>639.2%</b>	<b>1,152,329</b>	<b>9,662,640</b>	<b>(124,700)</b>	<b>1.9%</b>
<b>TOTAL CURRENT REVENUES</b>									
GAAP Transfer	--	119,500	119,500	0	--	--	--	--	--
Tax Amnesty	--	28,453	28,453	0	--	--	--	--	--
<b>GRAND TOTAL</b>	<b>9,802,434</b>	<b>9,752,017</b>	<b>9,627,617</b>	<b>(124,400)</b>	<b>-1.8%</b>	<b>9,787,340</b>	<b>9,662,640</b>	<b>(124,700)</b>	<b>0.4%</b>

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