



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

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

State of Maryland Board of Revenue Estimates Minutes of Meeting December 16, 2009

A meeting of the Board of Revenue Estimates was held in the Assembly Room in the Louis L. Goldstein Treasury Building.

Those present were:

Honorable Peter Franchot, State Comptroller, Chairman
Honorable Nancy K. Kopp, State Treasurer
Secretary T. Eloise Foster, Department of Budget & Management
David F. Roose, Director, Bureau of Revenue Estimates

Those also present were:

Len Foxwell, Chief of Staff
Linda Tanton, Deputy Comptroller
James Arnie, Revenue Administration Division
Joseph Shapiro, Office of Communications
Carol Novella, Bureau of Revenue Estimates
Andrew Schaufele, Bureau of Revenue Estimates
Matthew Caminiti, Bureau of Revenue Estimates
Marc Nicole, Department of Budget Management
George Manev, Department of Budget Management
Theresa Tuszynski, Department Legislative Services
Melissa Moye, State Treasurer's Office
Linda Williams, Maryland Department of Transportation

Comptroller Peter Franchot opened the meeting by introducing David Roose, Director, Bureau of Revenue Estimates.

"The Board of Revenue Estimates brings news today that is about as good as can be expected" stated David Roose, Bureau of Revenue Estimates. Estimates of general fund revenue before the Board today call for a downward revision of only \$15 million for fiscal year 2010 and a downward revision of \$62 million for fiscal year 2011.

To put these changes in context, in September the Board wrote the estimates down \$683 million for fiscal year 2010 alone. It appears at this point that our expectations have now caught up with economic reality, so it's good news that the estimates are being revised by a relatively modest amount.

That's also the bad news, however, these estimates call for a decline in general fund revenue of 4.5% in fiscal year 2010, and very weak 3.0% growth in fiscal year 2011.

Changes to the economic outlook underlying these estimates are modest;

- national recession, which hit Maryland much harder than the recession of 2001, appears to be over;
- real gross domestic product increased 2.8% in the third quarter;
 - personal consumption was as strong as it has been since before the recession began, spurred by a variety of federal programs including Cash for Clunkers;
 - growth will slow over the next several quarters, but is expected to remain positive, reaching 3% by 2011;
- despite the fact that the recession is over, its effects will linger for some time, both here and across the nation;
- Board's forecast expects Maryland jobs to decline 2.9% this year, with a further 0.4% decline next year;
 - this is the sharpest drop in employment since 1991, when Maryland lost 3.25% of its jobs;
 - construction and finance industries have unsurprisingly been especially hard hit;
 - retail trade and manufacturing have as well;
 - 2009 we expect employment to increase only in education and health services and in the federal government;
 - 2010 job losses will moderate across the board; by the end of the year, many industries will be expanding;
 - Onset of the 2010 Census will help boost employment growth, along with continuing BRAC developments and other federal programs;
 - Personal income is forecast to rise only 0.7% in calendar year 2009;
 - 2010 total personal income is forecast to increase a still very modest 2.0%, with wages growing 1.2%;
 - We do not expect income growth to reach these long-term averages even in 2011, as the forecast calls for growth in income of 3.75% in that year, and 3.5% in wage income;
- This forecast of Maryland's economy is essentially unchanged from the September forecast;
- As a result, the revenue revisions for fiscal year 2010 are minor, resulting largely from year-to-date performance;
- While the changes for fiscal year 2011 are affected by the slight change in the economic forecast;
- While the general fund estimate for the individual income tax is unchanged, for fiscal year 2010, the Board is now expecting slight growth in withholding, where a slight decline was in the old forecast;
- Corporate income tax estimate is also unchanged;
- Sales tax forecast is revised downward by \$17.1 million this year;
- Forecast for lottery revenues is unchanged for this fiscal year, and revised slightly downward, \$2.3 million, for next year;

- Other revenue changes include;
 - Insurance premium tax, as intense competition within the industry is compounded by the impact of the recession on the demand for insurance;
 - Those revenues are reduced \$8.8 million and \$7.4 million for this year and next;
 - Estate tax is being written down \$18.4 million this year based on year-to-date collections being weaker than expected in September; that reduction flows through to next year, with a \$21.2 million reduction;
 - Tobacco tax revenues are being revised upward \$16.3 million this year and \$12.25 million next year;
 - Revenues from the clerks of the court are being revised upward due to the recent growth in the housing market, as clerks' revenues are related to recordation activity;
 - Interest on investments is revised slightly downward to account for a change to the forecast of interest rates;
 - Miscellaneous revenues are being written down \$14.8 million and \$26.6 million, with a large part of the write-down resulting from lower cost settlements with the federal government in 2010 and 2011 than had been expected in September, which was based 2009 results;
- The estimates before the Board today are 14.8 million lower than the official forecast for 2010, and \$62.2 million lower for fiscal year 2011;
- General fund revenues are expected to decline 4.7% this year, growing by 3.0% next year;
- The 2011 estimate is almost exactly midway between the 2006 and 2007 general fund collections;
 - The recession has therefore cost Maryland more than 4.5 years of revenue growth, as these estimates include the additional revenues from the tax changes enacted at the 2007 special session;
- There is still a great deal of downside risk to the forecast; we are not out of the woods yet;
- It remains to be seen whether the recession has fundamentally affected behavior of consumers and businesses alike.

Comptroller Franchot thanked Mr. Roose and his staff as well as members of the Revenue Monitoring Committee for their collaborative efforts. Comptroller Franchot also thanked the business leaders who spoke at the Board's last meeting earlier in the fall.

"My first reaction to this report is one of great relief" stated Comptroller Franchot. While revenues continue to decline, I am pleased to that our forecast finally appears to have caught up with economic conditions, and that revenue performance is in line with our exceedingly modest expectations. I certainly don't want to jinx ourselves and suggest that stability has been restored; because there are so many variables that are beyond our control. I am hopeful the days of massive write downs are behind us now.

"As you know the Board of Public Works has already made three separate rounds of general fund reductions and reversions which total over a billion dollars in the current fiscal year" stated Comptroller Franchot.

The Governor and his team have undertaken a series of really extraordinarily painful actions in direct response to the nation's economic crisis. I appreciate the work that they have already done to contain spending, and recognize that, with a \$2 billion deficit looming, tougher choices lay ahead. I'm glad we are not here today to compound the scope of their challenges. and the Governor has done to contain spending.

"My second reaction, however, is one of unbridled caution" stated Comptroller Franchot. It's become fashionable among economists and other drivers of public opinion to announce that the recession has ended and the recovery has begun. Even if that's true, it will take a very long time for the State of Maryland to recover from the catastrophic loss of jobs, homes and financial security. I believe the current economic conditions still present ample room for caution, if not trepidation. For example, an economy is fueled primarily by consumer spending, not truly recovered at a time when unemployment is still in the double digits and employers are not hiring. Someone who has lost their job, might be on the verge of losing their job, or has seen co-workers, neighbors, and family members lose jobs, is not going to sustain their traditional spending habits. Frankly, no amount of stimulus funding or federal pump priming is going to change that.

"There is still a great deal of volatility in the real estate sector" stated Comptroller Franchot. We are on pace to set another new record on home foreclosures in 2009. According to the Mortgage Banker's Association, one out of ten homeowners is now behind at least a month on their mortgages; one in four mortgages are under water. It's difficult to see how this bodes well for the health of the real estate and homebuilding industries, both of which are such dependable source of well paying jobs.

Furthermore, this really concerns me; there is a growing sense, with good reason, that the commercial real estate sector is headed for the same type of catastrophic event that occurred in the residential market. We've spoken at length with leaders in the commercial real estate industry, and they all describe the same set of conditions; soaring vacancy levels, plummeting rental rates, deteriorating property values and frozen credit markets. The widespread inability of commercial property owners to refinance their existing mortgages will likely have a devastating effect on national and regional markets, and will reverberate throughout the rest of the economy.

"Finally my increasing concerns from a growing number of people from both parties, about the federal debt load; currently stands at \$12.1 trillion, now exceeds 50% of our nation's gross domestic product" stated Comptroller Franchot. Over the past two years, all of us have experienced the devastating consequences of uncontrolled spending and excessive borrowing. It is now painfully obvious that our federal government is heading down that very same path. This course is unsustainable and left untended, it will end badly, with devastating consequences for the federal and state economies. Lest anyone try to reassure themselves that this is merely a federal issue, it's worth noting that federal funds are the State of Maryland's largest and fastest growing single source of operating revenue.

"Again, thanks to everyone involved for their effort in putting this report together" stated Comptroller Peter Franchot. Comptroller Franchot asked Treasurer Nancy Kopp if she had any comments.

“There is little I can add to your well thought out extensive comments” stated Treasurer Kopp. Maryland has in all this time of trouble benefitted from its investment in education, health, public services; three areas that in fact throughout the country are the strongest, three that are the strongest in Maryland. We don’t know what the next year is going to bring, but according to almost all the numbers we have seen clearly we are not going down as quickly as we were before. It seems to be leveling out; there is the potential during the calendar year 2010, fiscal year 2011 to begin a recovery of some sort but beyond that I think we would be foolish to try and predict.

Comptroller Peter Franchot asked Budget Secretary T. Eloise Foster if she had any comments.

“I would like to echo the Comptroller’s comments” stated Secretary Foster. Secretary Foster also thanked David Roose and other members of the Revenue Monitoring Committee on their efforts consisting of staff from the Comptroller’s Office, Treasurer’s Office, Legislative Services and staff from Budget Management Office.

“Maryland revenues appear to be stable which is the good news today”, stated Budget Secretary T. Eloise Foster. It looks as though we are beginning to be on the road to recovery. While we certainly have some difficult tasks and challenges ahead of us, that the least of which is getting the 2011 budget balanced.

Comptroller Peter Franchot made a motion to adopt downward revision general fund revenue revision of \$15 million for fiscal year 2010, to \$12.3 billion. Budget Secretary T. Eloise Foster seconded the motion, all in favor.

Governor Martin O’Malley accepted the Board’s presentation and thanked them for their hard work. “Hopefully we are seeing the beginnings of the leveling out” stated Governor O’Malley. We have to keep working hard protecting our priorities and fighting our way through this recession. This downturn is not over so we have to maintain fiscal responsibility and find ways to create jobs working for partnerships with our business leaders and also our federal leaders.

/liv