State of Maryland
Board of Revenue Estimates
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Minutes of Meeting
March 10, 2010

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 at 3:05 p.m. by welcoming Honorable Nancy Kopp, Secretary T. Eloise Foster and David Roose. The Comptroller then asked David Roose for his report on the March estimates.

DAVID ROOSE: There has not been a fundamental change in either the economic outlook or the revenue outlook since the Board met last December. In fact, there has been very little change to either since the Board's September meeting. The economy and revenues have been progressing essentially as forecasted.

Today's relatively minor recommended revision, a reduction of fiscal year 2010 revenues of $66 million, reflects that fact.

To recap, the Board's September forecast expected a 2.9% decline in Maryland employment in 2009, followed by marginal decline in 2010.

Personal income was expected to fall slightly in 2009 in the September forecast; in December expectation were adjusted upwards, with a slight increase expected. The poor performance of personal income is driven by the even worse performance of wage income; both are expected to post their worst showings in over five decades. With unemployment remaining high over the near term, wage growth is expected to remain very weak even as employment recovers over the course of 2010.

A return to what would be considered normal is expected to take longer than usual following a recession, with robust growth not expected until 2011 at the earliest. There have been no indications over the past six months that those expectations should be significantly adjusted. Accordingly, the changes to the revenue forecast are small.

The sales tax and lottery estimates for 2010 are being revised downward by $33 million and $17 million, respectively, as a result of the snowstorms in December and last month. As these were one-time events, the estimates for fiscal year 2011 are not affected.

The corporate income tax estimate is being revised upward by $37 million in fiscal year 2010 due to better performance across the board.

Gross receipts are stronger than had been expected, and refunds are substantially below the forecast; note, though that revenues are still expected to drop by 3.4%.

There is a substantial risk that net operating losses from 2008 will be carried back to past tax years, which could cause refunds to go out immediately, or will carry forward to tax year 2009 and 2010 returns, affecting collections for several years.

The Board believes the $37 million increase for fiscal year 2010 with an unchanged estimate for fiscal year 2011 appropriately balances the good news of current collection with the ongoing risk of losses affecting future revenues.

The individual income tax estimate is revised downward by $53 million for fiscal year 2010, as tax year 2009 appears to have been slightly weaker than anticipated. Again, though, that is past activity, and no impact is expected on fiscal year 2011 collections.

While the revenue revision is small, ongoing general fund revenues are expected to drop by over 5% this year, the worst performance on record. Most of the State's major revenue sources are expected to decline this year and the rebound in 2011, forecast at 3.6% growth, is not expected to be particularly strong.

COMPTROLLER PETER FRANCHOT: Thank you, David, for this report and for the quality of the work that you and your team consistently provide to this Board. I'd also like to duly recognize the oversight that is provided by the Revenue Monitoring Committee, and commend them for the collaborative and consensus driven approach.

I have two responses to Mr. Roose's report. First and most obviously, I am pleased that revenue performance has, for the most part, been in line with this Board's dour expectations. Given the magnitude of our state's ongoing structural budget deficit, and the difficult choices that still confront the Governor and General Assembly; I am glad that we are not here today to add weight to their burden. I do not however, want anyone in this room to misconstrue the meaning of today's report. I do not want anybody to confuse short term revenue stability with economic recovery.

While it has become fashionable among many pundits to declare that the worst is behind us, and while we actually have seen glimmers of encouraging data in recent weeks, I believe there are still warning signs within this economy that point to ongoing volatility in the coming year.

First, the jobs market is still exceedingly fragile. As high as they are, the official U.S. unemployment rate of 9.7%, and the official state unemployment rate of 7.2% do not account for those who are underemployed; those who are afraid of losing their jobs; or those who have simply become frustrated and dropped out of the job market altogether. These folks aren't going to go out and buy new cars, new clothes or new washing machines, regardless of what they're told on CNBC. I believe that is one reason why the nation's Consumer Confidence Index fell unexpectedly by 10 points last month, and that is bad news for a national economy that depends primarily on consumer spending.

Second, the national and state housing markets remain exceedingly soft. Many folks were apparently surprised last week by the news that home prices across the U.S. dropped by more than 18% during the final quarter of 2009.

With all due respect, how could anybody be surprised by that? Foreclosure filings are still coming in at dangerous levels; Maryland about 40%, higher than the year before, even though we did experience a month-to-month drop.

Nearly 10% of the nation's borrowers are delinquent on their mortgages, and over 20% of homeowners are underwater – meaning they owe more than their house is worth. In other words, our nation's housing market remains mired in a vicious cycle of unemployment, foreclosures, market saturation and plummeting property values.

Third, the commercial real estate market remains poised for a severe correction, if not an outright collapse. According to a report issued last month by the Congressional Oversight Panel, 1.4 trillion in commercial real estate loans will expire between 2011 and 2014 and will require refinancing. Commercial property values have dropped more than 40% since 2007, and so nearly half of these properties are now underwater, cannot be refinanced and are thus at risk of foreclosure. While this looming crisis has been somewhat overshadowed by the collapse of the housing market, its cumulative effects on the nation's economy could be just as severe if not more so.

Finally, I continue to be concerned by the alarming growth of our national debt, which continues to spiral out of control and now poses a direct threat to our nation's economic security. The debt crisis is now being experienced in Greece and elsewhere in western

Europe is a jarring reminder of the consequences of excessive borrowing and indiscriminate government spending. Our nation's fiscal house is in disarray, and it affects us here in Maryland because the federal government is our State's most dependable economic engine as well as our single largest source of revenue.

It is for these reasons that I hope President Obama and our congressional leaders can summon the will to work in a bipartisan manner toward meaningful spending reform. Frankly, I'll reserve comment on the likelihood of that ever occurring. I'm far more confident, however, about Maryland's proven ability to meet challenges of this magnitude, and to do so in a manner that validates our hard-earned reputation for progressive values and sound fiscal management.

I've said it numerous times, but it bears repeating; these are tough times indeed, but Maryland is a resilient state. We've been in tight spots before and we have always emerged stronger for the experience. It's in that shared spirit of caution and optimism that I'll vote today to accept these estimates, with thanks once again to the whole team for a job well done particularly I want to salute the Treasurer and Budget Secretary for their leadership.

TREASURER NANCY KOPP: Thank you Comptroller Franchot and Mr. Roose and your staff, the Revenue Estimating group, staff of the Treasury Office and the department, I want to thank you all very much.

These are tough times and it's a very difficult time to make predictions and estimates. I think the fact you did so well is good; the fact that you did so well in being very conservative in recognizing that the growth is minus 5.2%; were just about on target with a very, as the Comptroller said; a very dour situation, but one that had been predicted and one that served the basis of the incoming gubernatorial budget and the legislative discussion. I think once again as the rating agency said and reaffirming our triple A bond rating; the fact that we have consensus estimates; the fact that we all work on the same projections; and the estimates have been accurate in times of great volatility will serve us well as we go forward with very significant budget cuts to match the very significant revenue declines.

I think you are right Mr. Comptroller; saying we have a shared spirit of caution and optimism. I think it is quite possible, we certainly hope that the national economy is coming to a point of stability. We hope we will not see a W shaped recovery, and going down again. I think it is very hard to tell. This time we all went through the recession of the early 90's together but this time is different. We are globally much more closely connected. We are a part of a global economy and not a separate island America.

Technology is moving us very quickly so, I think the fact that we can make predictions that are as accurate as they are, and have the ability to act on them is very important. I trust we will be seeing the projections and the reviews of revenues as they come in month by month and be able to see how accurate these estimates are. Those who invest in the state have great faith in the management of this state and also in the economy of this state. I trust that they will have invested well.

COMPTROLLER PETER FRANCHOT: Thank you Treasurer Kopp. Secretary Foster;

SECRETARY T. ELOISE FOSTER: Let me begin by just echoing the comments of the Comptroller and the Treasurer in terms of thanking David Roose for his leadership and also thanking the members of the Revenue Monitoring group for their hard work over the last several months. The last few years have been a rollercoaster ride for the members of the Revenue Monitoring group and I think it's been a rollercoaster ride for us as well and I think they have done a superb job.

While we are making some adjustments to today's estimates for fiscal year 2010, I think these adjustments are relatively modest. I think what is really noteworthy and what should be pointed out, is that this is really the first time in three years that the March revenue estimates will not be significantly revised because of deteriorating economic conditions. As David indicated in his report, the estimates we are reporting on today, generally reflect the same economic conditions we reported on in December. The revision that is being offered today is the result of the severe snowstorms that occurred in December and in February and that had a significant impact on consumer spending.

I know I tend to be an optimist and I like to take an optimistic outlook, but I see today's report as being good news. I think it is good news because it is the first sign that our revenue situation is beginning to stabilize and I think it is a first sign that we are poised to recovery. In terms of our economic recovery we are basically beginning to get back on track.

Let me again close by thanking David and members of the group, and I am obviously in full support of their recommendation.

TREASURER NANCY KOPP: So, I actually am between caution and optimism.

COMPTROLLER FRANCHOT: Thank you madam Secretary and madam Treasurer.

I entertain a motion to adopt the revised revenue estimates of $12.233 billion for fiscal year 2010 and $12.671 billion for fiscal year 2011.

SECRETARY T. ELOISE FOSTER: So ruled;

TREASURER NANCY KOPP: Seconded;

COMPTROLLER PETER FRANCHOT: All in favor; say "I'

SECRETARY T. ELOISE FOSTER and TREASURER NANCY KOPP: I

COMPTROLLER PETER FRANCHOT: Passes unanimously.

Meeting adjourned at 3:20 p.m.