

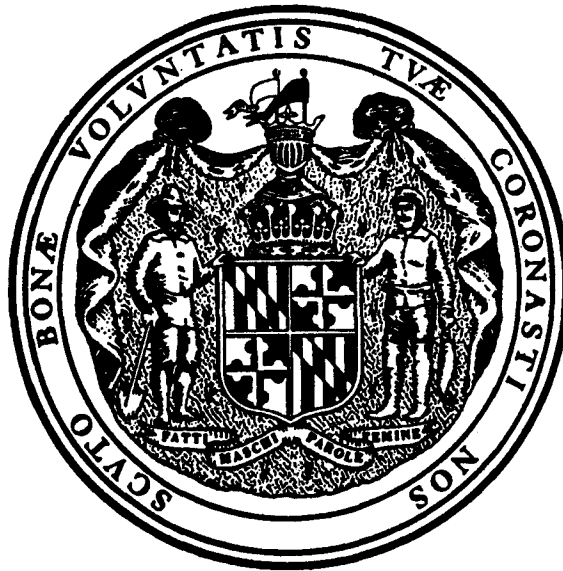
**REPORT OF THE MARYLAND
BOARD OF REVENUE ESTIMATES
ON
ESTIMATED MARYLAND REVENUES**

FISCAL YEARS ENDING

JUNE 30, 1984

AND

JUNE 30, 1985



SUBMITTED TO
GOVERNOR HARRY R. HUGHES

DECEMBER 14, 1983

STATE OF MARYLAND



BOARD OF REVENUE ESTIMATES
STATE TREASURY BUILDING
P. O. Box 466 - Phone 269-3881
ANNAPOLIS, MARYLAND 21404

December 14, 1983

MEMBERS
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BUDGET AND FISCAL PLANNING
EXECUTIVE SECRETARY:
ROBERT D. RADER III
CHIEF, BUREAU OF
REVENUE ESTIMATES

Honorable Harry Hughes
Governor of Maryland
State House
Annapolis, Maryland 21404

Dear Governor Hughes:

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 Fiscal Years 1984 and 1985, based upon current laws and administrative practices. These estimates are set forth in the accompanying Report on State Revenues.

The current economic recovery has occurred as forecast by the Board and future national and state economic prospects appear favorable. However, State General Fund revenue prospects are virtually unchanged from our previous forecast, and the General Fund balance is projected to be only \$636,000 at June 30, 1984. To enhance revenue prospects during Fiscal Year 1985, the Board recommends swift return of portions of the Corporation Income Tax currently distributed to the State Department of Transportation. This will increase General Fund resources by approximately \$53.3 million during Fiscal Year 1985. As shown in the discussion on page 5, this will have no adverse effect upon State or local transportation programs.

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,

H. Louis Stettler, III

William S. James

Louis L. Goldstein, Chairman

Robert D. Rader, Executive Secretary

RDR:doj
Enclosure

GENERAL FUND REVENUE AND APPROPRIATION ACCOUNT
FOR FISCAL YEARS 1983, 1984 AND 1985
\$ Thousands

	1983 <u>Actual</u>	1984		Difference	1985 <u>Estimate</u>
		<u>Present Estimate</u>	<u>Revised Estimate</u>		
GENERAL FUND BALANCE (Beginning of Year)	155,682	33,383	33,383	--	636
ADDITIONS - GENERAL FUND REVENUE					
Individual Income Taxes	1,458,654	1,628,329	1,607,037	(21,292)	1,776,524
Corporation Income Taxes	60,166	65,226	69,023	3,797	102,575
Retail Sales and Use Taxes	865,173	926,090	965,230	39,140	1,048,402
Franchises, Excises, Fees	459,317	514,502	504,904	(9,598)	487,223
State Lottery Receipts	206,012	209,585	209,585	--	229,048
Interest on Investments	47,131	50,000	36,000	(14,000)	36,000
Total Additions	3,096,453	3,393,732	3,391,779	(1,953)	3,679,772
TOTAL AVAILABLE	3,252,135	3,427,115	3,425,162	(1,953)	3,680,408
DEDUCTIONS					
Appropriations	3,263,528	3,449,526	3,449,526	--	n/a
Less Reversions	44,776	25,000	25,000	--	n/a
Total Deductions	3,218,752	3,424,526	3,424,526	--	n/a
GENERAL FUND BALANCE (End of Year)	33,383	2,589	636	(1,953)	n/a

REPORT OF THE BOARD OF REVENUE ESTIMATES
ON ESTIMATED STATE REVENUES
FOR THE FISCAL YEARS 1984 AND 1985

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, 1984 and June 30, 1985, 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 revenue 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, Chemical Bank, the University of Michigan 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

After suffering through two downturns and an abbreviated recovery since October 1979, the U.S. economy began to rebound from its eighth postwar recession in November 1982. During the first three quarters of 1983, real GNP grew at an average annual rate of 6.5 percent, unemployment has declined from 10.7 percent in December 1982 to 9.1 percent in September 1983, and consumer prices have risen by a relatively modest 4 percent.

The economy is now entering a second phase of expansion. Thus far, consumer spending and housing construction have been the major impetus to growth. Consumer spending, buoyed by net tax cuts, lower consumer debt levels, lower interest rates, improved asset positions and lower inflation, has been strong, particularly for big-ticket durable items. Recent employment and income gains will generate further increases in consumer spending which will be sustained for some time to come.

Prospects for Christmas sales are quite bright. Consumer confidence is very high and this, in conjunction with employment and income gains, should generate record Christmas sales levels.

Following four straight years of decline, residential building activity has increased dramatically in response to better economic conditions, lower mortgage rates and pent-up housing demand. Continued, though moderating, growth in residential construction activity is projected through at least mid-1984.

Economic growth should continue at a more restrained pace throughout 1984, with the business sector becoming a larger contributor and the consumer sector contributing relatively less. The sharp upturn in consumption that has occurred has led to a pronounced rise in capacity utilization and the start of a capital spending upturn, which will be fuelled in 1984 by surging corporate profits and by tax incentives enacted in 1981 and 1982. Inventory rebuilding should add to business investment spending, particularly in early 1984.

Some restraints to 1984 growth prospects appear to be posed by the foreign trade and government sectors. U.S. exports should continue to be weak due to overvaluation of the dollar, weakness in foreign economies and the large external debt loads of key Latin American countries. State and local government spending should remain relatively sluggish during the first half of 1984, owing to deficit carryovers from the 1981-82 recession and reduced federal grants, but could become moderately expansive in late 1984 and 1985 as revenue prospects brighten.

Some threat to continued expansion may result from the huge Federal deficits in prospect which could stifle future growth by crowding out private sector credit demands or through the growth-dampening steps (e.g., tax increases or expenditure cuts) which may be taken to shrink the size of these deficits.

The risks to the economic outlook appear evenly balanced. While a slower than expected rise in consumer spending or a sharp drop in housing activity could cause a sharper than expected slowdown in economic growth, a faster pickup in business investment and/or greater inventory growth could produce somewhat faster growth during 1984.

The consensus outlook is therefore for reasonable and continuing economic growth with a basically healthy consumer, no major acceleration of inflation and sustained improvement in capital spending, employment and corporate profitability during 1984 and into 1985.

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

State Economic Prospects

Parallelling the U.S., Maryland's economy has shifted from recovery to expansion and, except for parts of Western Maryland and the Lower Eastern Shore, is growing briskly. Total employment, which had been declining statewide since March 1981, began to grow during March 1983 and by October was 140,000 above the year earlier level. At the same time the unemployment rate has declined from 9.0 percent in January to 5.8 percent in September. This is the lowest

unemployment rate in Maryland since November 1979. Although the unemployment rate increased to 6.1 percent in October, this was principally due to an increase in the labor force and not to a decrease in the number employed.

As evidenced by tax data, key sectors of the Maryland economy are experiencing strong growth. Automobile sales, as gauged by titling tax collections, have performed well. Property sales, as measured by the property transfer tax, have grown at about twice the normal pace since bottoming out in April 1982. Accompanying this upturn, construction activity (based upon sales tax receipts) have similarly grown at twice its normal pace since bottoming out in February 1982.

According to the Chesapeake and Potomac Telephone Company, Gross State Product continues to increase, expanding at an annualized rate of 5.8 percent during the first half of 1983. Trade, construction and public utilities have shown the most significant advances thus far in 1983.

Housing permits issued in Maryland between January and September have averaged 39,000 and, for the year as a whole, should double the number issued in 1982. This is particularly significant in that 1983 will be only the second year since 1977 in which building permits exceeded the prior year's level. This bodes well for future homebuilding activity in Maryland.

According to Chase Econometrics, 1984 should be an even better year for Maryland, with production, employment and new car registrations showing healthy gains. Housing starts are expected to continue strong through mid-1984 before tapering off during the last half of the year. State personal income is expected to grow by 9.4 percent in Calendar Year 1984 and by 8.8 percent in Calendar Year 1985, after growing by 6.8 percent in Calendar Year 1983.

Appendix B contains statistics on Maryland's economic trends during the last five years.

State Revenue Trends and Outlook

During Fiscal Year 1983, Maryland's General Fund revenues were within \$2,983,958 or 0.1 percent of estimates. Income Taxes fell short of estimates by \$8,403,003 or 0.5 percent. Retail Sales and Use Taxes exceeded estimates by \$4,957,809 or 0.6 percent. All other revenues exceeded estimates by \$461,236 or 0.1 percent.

Fiscal Year 1983 revenues were affected by several factors, including the impact of the Economic Recovery Tax Act of 1981 (ERTA) and a lower than expected increase in State personal income. An additional \$8,000,000 was received from the State Lottery Agency from an unused reserve fund. Accounting changes designed to bring State accounting practices into line with generally-accepted accounting practices resulted in additional revenues of approximately \$7,500,000 in Hospital Patient and Title XIX revenues. An unexpected end-of-year cost settlement with the Federal government reduced General Fund revenues by \$5,777,957 during Fiscal Year 1983.

Fiscal Year 1984 revenues are being affected by a number of factors, including cost settlements, and changes in Federal and State law. Title XIX Recoveries are being reduced by \$3,000,000 in Fiscal Year 1984 due to Federal cost recoveries.

Motor Fuels Tax receipts will be augmented by \$51,500,000 during Fiscal Year 1984 by tax increases enacted by the 1982 General Assembly. These monies will be available to fund State and local transportation projects.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) is expected to increase Individual Income Tax receipts during each of Fiscal Years 1984 and 1985. TEFRA should offset the additional Corporation Income Tax losses arising from ERTA during Fiscal Years 1984 and 1985.

State and local revenues are being influenced by legislation enacted by the 1983 General Assembly affecting State Property, Corporation Income, Franchise and Horse Racing Taxes. Legislation which effectively exempts corporate personalty will reduce State Property Taxes by \$28,343,000 during Fiscal Year 1985. Approximately \$24,895,000 of this loss will be recouped by the General Fund during Fiscal Year 1985 resulting from the lower State property tax credit claimed by corporate income taxpayers.

Horse Racing revenues are being reduced by \$2,540,000 in Fiscal Year 1985 by legislation reducing the tax on harness racing. The General Fund reduction will amount to \$2,400,000. Local revenues will be reduced by \$2,970,000 in Fiscal Year 1985 by legislation converting the Franchise Tax on earnings of certain financial institutions from a gross receipts to net earnings basis. Larger revenue losses may be expected in future years.

During Fiscal Years 1984 and 1985, State Lottery revenues are expected to be adversely affected by competition from the Washington D.C. daily games.

Table 1 below lists the actual State revenue for the Fiscal Year ended June 30, 1983 and the Board's current estimates for the Fiscal Years ending June 30, 1984 and June 30, 1985.

MARYLAND REVENUE RECEIPTS
FISCAL YEARS 1983, 1984 AND 1985

	GENERAL FUND			SPECIAL FUND			TOTAL		
	Fiscal Year 1983 Actual	Fiscal Year 1984 Revised Estimate	Fiscal Year 1985 Estimate	Fiscal Year 1983 Actual	Fiscal Year 1984 Revised Estimate	Fiscal Year 1985 Estimate	Fiscal Year 1983 Actual	Fiscal Year 1984 Revised Estimate	Fiscal Year 1985 Estimate
-----\$ Thousands-----									
INCOME TAXES:									
Individual	1,458,654	1,607,037	1,776,524	--	--	--	1,458,654	1,607,037	1,776,524
Corporation	60,166	69,023	102,575	68,948	73,953	95,610	129,114	142,976	198,185
Total	1,518,820	1,676,060	1,879,099	68,948	73,953	95,610	1,587,768	1,750,013	1,974,709
RETAIL SALES AND USE TAXES	865,173	965,230	1,048,402	--	--	--	865,173	965,230	1,048,402
STATE LOTTERY RECEIPTS	206,012	209,585	229,048	17,824	13,319	19,417	223,836	222,904	248,465
TRANSPORTATION REVENUES:									
Motor Vehicle Fuel Tax	--	--	--	244,434	300,000	300,000	244,434	300,000	300,000
Motor Vehicle Licenses, Fees	--	--	--	103,129	107,700	107,780	103,129	107,700	107,780
Motor Vehicle Titling Tax	--	--	--	170,345	195,000	205,000	170,345	195,000	205,000
Mass Transit Fees	--	--	--	41,910	47,022	54,072	41,910	47,022	54,072
Maryland Port Fees	--	--	--	33,781	37,700	38,400	33,781	37,700	38,400
State Aviation Fees	--	--	--	24,601	27,907	30,510	24,601	27,907	30,510
Total	--	--	--	618,200	715,329	735,762	618,200	715,329	735,762
PROPERTY TAXES, FRANCHISES, ETC.:									
State Real and Personal Property Tax	--	--	--	110,852	119,122	98,331	110,852	119,122	98,331
Property Transfer Tax	--	--	--	28,684	40,277	45,239	28,684	40,277	45,239
Corporation Franchises and Filing Fees	101,716	110,763	115,579	5,346	6,717	4,306	107,062	117,480	119,885
State Tobacco Tax	53,032	52,800	52,400	15,579	15,200	15,100	68,611	68,000	67,500
Tax on Insurance Companies	67,959	74,391	79,350	--	--	--	67,959	74,391	79,350
Alcoholic Beverages Excises	19,224	19,050	19,000	9,759	9,800	9,700	28,983	28,850	28,700
Death Taxes	31,256	30,700	30,500	--	--	--	31,256	30,700	30,500
Tax on Horse Racing	13,750	14,752	12,359	3,414	3,688	3,566	17,164	18,440	15,925
District Courts	30,322	32,500	34,000	--	--	--	30,322	32,500	34,000
Hospital Patient Recoveries	77,338	73,400	77,930	--	--	--	77,338	73,400	77,930
University of Maryland, State Colleges	--	--	--	400,125	434,285	456,389	400,125	434,285	456,389
Interest on Investments	47,131	36,000	36,000	6,432	9,000	7,000	53,563	45,000	43,000
Miscellaneous Fees, Other Receipts	64,720	96,548	66,105	152,999	141,517	159,945	217,719	238,065	226,050
Total	506,448	540,904	523,223	733,190	779,606	799,576	1,239,638	1,320,510	1,322,799
FEDERAL FUNDS:									
Highway Transit Reimbursements, Grants	--	--	--	502,519	461,449	461,876	502,519	461,449	461,876
Human Resources	--	--	--	299,251	283,227	267,601	299,251	283,227	267,601
Employment and Training	--	--	--	--	63,787	89,034	--	63,787	89,034
Public Education	--	--	--	248,291	238,991	252,019	248,291	238,991	252,019
Public Health	--	--	--	283,204	307,880	353,029	283,204	307,880	353,029
Natural Resources, Etc.	--	--	--	49,013	74,613	70,909	49,013	74,613	70,909
Total	--	--	--	1,382,278	1,429,947	1,494,468	1,382,278	1,429,947	1,494,468
GRAND TOTAL	3,096,453	3,391,779	3,679,772	2,820,440	3,012,154	3,144,833	5,916,893	6,403,933	6,824,605

TABLE 1

The following table shows the current revision of the General Fund revenue surplus account for the current Fiscal Year 1984:

	<u>Present Estimate</u>	<u>Revised Estimate</u>	<u>Surplus Increase (Decrease)</u>
	-----\$ Thousands-----		
GENERAL FUND BALANCE (Beginning of Year)	<u>33,383</u>	<u>33,383</u>	--
ADDITIONS - GENERAL FUND REVENUE			
Individual Income Taxes	1,628,329	1,607,037	(21,292)
Corporation Income Taxes	65,226	69,023	3,797
Retail Sales and Use Taxes	926,090	965,230	39,140
Franchises, Excises, Fees	514,502	504,904	(9,598)
State Lottery Receipts	209,585	209,585	--
Interest on Investments	<u>50,000</u>	<u>36,000</u>	<u>(14,000)</u>
TOTAL ADDITIONS	<u>3,393,732</u>	<u>3,391,779</u>	<u>(1,953)</u>
TOTAL AVAILABLE	<u>3,427,115</u>	<u>3,425,162</u>	<u>(1,953)</u>
DEDUCTIONS			
Appropriations	3,449,526	3,449,526	--
Less Reversions	<u>25,000</u>	<u>25,000</u>	--
TOTAL DEDUCTIONS	<u>3,424,526</u>	<u>3,424,526</u>	--
UNAPPROPRIATED GENERAL FUND BALANCE (End of Year)	<u>2,589</u>	<u>636</u>	<u>(1,953)</u>

Based upon the analysis contained in Table 5 and on page 15, Transportation revenues are being expanded by \$84.8 million in Fiscal Year 1984, including new revenues from the recently-implemented 2½¢ increase in the Motor Fuels Tax and \$45.5 million in newly-revised estimates. To enhance General Fund revenue prospects for the 1985 budget, the Board proposes that legislation be enacted which would modify Article 81 Section 288A regarding the distribution of Corporation Income Tax receipts currently shared with the Department of Transportation. The portions of this tax reserved for the State Department of Transportation's own use would be returned to the General Fund after June 30, 1984. The programs under which those revenues are shared with local governments would remain intact. General Fund revenues would be increased by \$53.3 million during Fiscal Year 1985. This would not affect the allocation of Transportation revenues to local governments.

Because of the current growth above estimates in Transportation revenues, the recently-expanded federal assistance program and the availability of Interstate transfer funds, this

return of the Corporation Income Tax to the General Fund could be made without impairing State or local transportation programs.

Appendix C contains the historical background underlying this recommendation.

MARYLAND GENERAL FUND REVENUES
FISCAL YEARS 1979 TO 1986

	1979 <u>Actual</u>	1980 <u>Actual</u>	1981 <u>Actual</u>	1982 <u>Actual</u>	1983 <u>Actual</u>	1 9 8 4		1985 <u>Estimate</u>	1986 <u>Preliminary Estimate</u>
						<u>Present Estimate</u>	<u>Revised Estimate</u>		
-----\$ Thousands-----									
INCOME TAXES:									
Individual Corporation	1,005,511	1,096,889	1,205,406	1,354,610	1,458,654	1,628,329	1,607,037	1,776,524	1,945,000
	118,260	126,113	59,710	58,606	60,166	65,226	69,023	102,575	110,000
Total	1,123,771	1,223,002	1,265,116	1,413,216	1,518,820	1,693,555	1,676,060	1,879,099	2,055,000
RETAIL SALES AND USE TAXES	699,188	712,883	753,745	797,466	865,173	926,090	965,230	1,048,402	1,125,000
STATE LOTTERY	131,533	166,702	171,422	199,080	206,012	209,585	209,585	229,048	240,000
FRANCHISES, EXCISES, LICENSES, FEES:									
Business Franchise Taxes	68,538	79,937	82,633	96,081	101,716	109,778	110,763	115,579	120,000
State Tobacco Tax	37,113	36,971	56,994	54,283	53,032	54,100	52,800	52,400	52,000
Tax on Insurance Companies	52,668	57,475	61,750	64,767	67,959	77,001	74,391	79,350	85,000
Alcoholic Beverages Excises	19,022	19,144	19,660	21,144	19,224	19,400	19,050	19,000	20,000
Death Taxes	25,492	22,513	24,036	26,316	31,256	26,000	30,700	30,500	33,000
Motor Vehicle Titling Tax	27,210	25,419	656	--	--	--	--	--	--
Tax on Horse Racing	15,255	10,922	11,859	12,391	13,750	14,409	14,752	12,359	13,000
Hospital Patient Recoveries	45,037	54,873	88,726	74,564	77,338	89,550	73,400	77,930	77,000
Interest on Investments	57,605	67,312	74,290	78,532	47,131	50,000	36,000	36,000	35,000
District Courts	23,194	23,130	25,349	25,978	30,322	32,500	32,500	34,000	35,000
Miscellaneous	70,274	47,316	56,133	61,246	64,720	91,764	96,548	66,105	70,000
Total	441,408	445,012	502,086	515,302	506,448	564,502	540,904	523,223	540,000
FEDERAL REVENUE SHARING	46,931	44,532	11,022	--	--	--	--	--	--
GRAND TOTAL	2,442,831	2,592,131	2,703,391	2,925,064	3,096,453	3,393,732	3,391,779	3,679,772	3,960,000

TABLE 2

INDIVIDUAL INCOME TAXES

Maryland's Individual Income Tax is sensitive to changes in State employment and personal income. In response to the 1981-82 recession, State and local receipts for Tax Year 1982 grew at a 7.5 percent rate. This was the slowest growth rate ever experienced by the current income tax structure. Tax Year 1982 receipts were also affected by the Economic Recovery Tax Act of 1981, which reduced State and local receipts during Fiscal Year 1983.

The effects of the recession, the lower than expected increase in personal income and ERTA (all of which reduced Fiscal Year 1983 Individual Income Tax receipts below estimates) will also reduce Fiscal Year 1984 receipts below current estimates.

Although the level of current Individual Income Tax revenues is affected by the level of past collections, the revenue outlook for Fiscal Years 1984 and 1985 is being enhanced by current economic developments and future prospects for economic expansion. As evidenced in Appendix B, total employment has grown sharply throughout Calendar Year 1983 and currently stands at an all-time high level. Corresponding to the increase in employment, the unemployment rate dropped to 5.8 percent in September. This has been the lowest unemployment rate since November 1979.

Accompanying this favorable employment trend, Maryland personal income is expected to show strong growth in the future. According to the latest Chase Econometrics forecast, Maryland personal income is expected to grow by 6.8 percent in Calendar Year 1983, by 9.4 percent in Calendar Year 1984 and by 8.8 percent in Calendar Year 1985.

Some additional impetus to growth in Individual Income Tax receipts is expected from the Tax Equity and Fiscal Responsibility Act of 1982, which tightens certain deductions (e.g., medical and casualty loss) and strengthens compliance provisions. Other favorable factors influencing Individual Income Tax collections include the performance of the stock market thus far in 1983, continued improvement in the real estate market and the relative stability of money market interest rates during 1983. Each of these should help boost personal income.

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

MARYLAND INDIVIDUAL INCOME TAX REVENUES
FOR FISCAL YEARS 1982, 1983, 1984 AND 1985
\$ Thousands

<u>Tax Year</u>	<u>Collections</u>	<u>Percent Rate of Growth</u>	<u>1982 Actual</u>	<u>1983 Actual</u>	<u>1984 Estimate</u>	<u>1985 Estimate</u>
Prior Years	--	--	42,895	28,379	40,000	35,000
1981	1,881,286	11.7	920,725	.		
1982	2,022,907	7.5	1,041,382	981,525		
1983	2,228,003	10.1		1,130,295	1,097,708	
1984	2,481,995	11.4			1,260,854	1,221,141
1985	2,746,824	10.7				1,395,387
Total			<u>2,005,002</u>	<u>2,140,199</u>	<u>2,398,562</u>	<u>2,651,528</u>
Less: Fair Campaign Fund			92	--	--	--
City, County, Town			4	1	--	--
Local Tax			650,296	681,544	791,525	875,004
NET TO GENERAL FUND			<u>1,354,610</u>	<u>1,458,654</u>	<u>1,607,037</u>	<u>1,776,524</u>

TABLE 3

CORPORATION INCOME TAXES

For Fiscal Years 1984 and 1985, the net Corporation Income Tax revenues will be derived from the following tax years:

<u>Tax Year</u>	<u>Fiscal Year 1984</u>	<u>Fiscal Year 1985</u>
1982	2%	--
1983	74%	8%
1984	24%	71%
1985	--	21%
Total	100%	100%

A different rate of growth was applied to each tax year's receipts. For Tax Year 1982, a 2 percent decline was used. This reflects the current trend of collections projected to the end of Fiscal Year 1984. For Tax Years 1983, 1984 and 1985, growth rates of 21.3 percent, 10.6 percent and 6.6 percent, respectively, were used. These growth rates reflect the projected growth in U.S. corporate profits as forecast by Chase Econometrics, Wharton Econometrics, Chemical Bank of New York and the University of Michigan. The growth rates also incorporate historical long-run elasticity assumptions regarding the relationship between Maryland Corporation Income Tax receipts and U.S. corporate profits.

During Fiscal Years 1984 and 1985, receipts will continue to be affected by federal legislation enacted in 1981 and 1982. In 1981, ERTA provided liberalized depreciation schedules and permitted "Safe Harbor" leasing, both of which reduced future corporate tax liability and State tax receipts. In 1982, TEFRA tightened certain provisions pertaining to corporate taxation ("Safe Harbor" leasing, investment tax credit, corporate tax preferences, deductibility of interest and taxes during construction, etc.) which will increase corporate tax liability in subsequent years. During Fiscal Years 1984 and 1985, additional State tax losses from ERTA will be offset by gains from TEFRA.

During Fiscal Year 1985, revenues will be increased by legislation passed by the 1983 General Assembly which effectively eliminates the State personal property tax on corporate personalty effective July 1, 1984. Since this tax is a credit against State Corporation Income Tax liability, the effect of this legislation is to increase revenues by \$24,080,000 during Tax Year 1984 and by \$25,700,000 during Tax Year 1985. This increases General Fund revenues by approximately \$24,895,000 during Fiscal Year 1985.

Table 4 below contains a detailed analysis of net Corporation Income Tax revenues for each of Fiscal Years 1982 through 1985.

MARYLAND CORPORATION INCOME TAX REVENUES
FOR FISCAL YEARS 1982, 1983, 1984 AND 1985
\$ Thousands

<u>Tax Year</u>	<u>Collections</u>	<u>Percent Rate of Growth</u>	<u>1982 Actual</u>	<u>1983 Actual</u>	<u>1984 Estimate</u>	<u>1985 Estimate</u>
Prior Years	--	--	(2,734)	(8,500)	(5,000)	(5,000)
1980	133,932	-8.6	12,931			
1981	131,984	-1.4	93,149	6,471		
1982	129,344	-2.0	26,247	99,640	3,457	
1983	156,894	21.3		31,503	109,826	15,565
1984	197,543*	25.9			34,693	145,504
1985	210,581	6.6				42,116
Total			<u>129,593</u>	<u>129,114</u>	<u>142,976</u>	<u>198,185</u>
Less: Transportation Trust (0.75% of net taxable income)			14,712	16,080	16,585	21,234
D.O.T.			56,275	52,868	57,368	74,376
Baseline General Fund			<u>58,606</u>	<u>60,166</u>	<u>69,023</u>	<u>102,575</u>

* Includes \$24,080,000 arising from elimination of State personal property tax credit.

TABLE 4

RETAIL SALES AND USE TAXES

Since January 1983, Retail Sales and Use Tax collections have grown at a fairly strong pace. During the January - July period, these collections increased by 10.9 percent over receipts for the January - July 1982 period. Since July, collections have grown by 13.2 percent over receipts for the corresponding period of Fiscal Year 1983.

The improving growth rate in sales tax receipts principally reflects the impact of economic recovery and expansion upon consumer purchasing and the construction sectors. Sales and Use Tax receipts from construction activity reached a low point in February 1982 and have increased at an ever-growing rate since that date. Currently these receipts are growing at twice the normal pace for this stage of the construction cycle, and it is anticipated that this pace will continue through the end of Fiscal Year 1984 before moderating. Construction receipts are expected to increase by 24.1 percent during Fiscal Year 1984 and by 10.8 percent during Fiscal Year 1985.

Taxable consumer purchases (which amount to over 70 percent of total Retail Sales and Use Tax collections) have also rebounded in response to growth in employment and personal income. Based upon the current economic outlook, the Board expects continued growth in taxable consumer spending throughout the next eighteen months. Consequently, tax receipts from the consumer sectors are expected to increase by 8.1 percent in Fiscal Year 1984 and by 8.9 percent in Fiscal Year 1985.

Growth in tax receipts from the other business sectors is expected to continue in accordance with historic patterns. Receipts from the utilities and transportation sectors are expected to grow by 13.7 percent in Fiscal Year 1984 and by 10.1 percent in Fiscal Year 1985. Receipts from the capital goods sectors (comprising office equipment, machinery and equipment, containers and miscellaneous manufacturing) are expected to grow by 9.6 percent in Fiscal Year 1984 and by 8.7 percent in Fiscal Year 1985.

Overall, Retail Sales and Use Tax collections are expected to total \$965,230,000 during Fiscal Year 1984, 11.6 percent above Fiscal Year 1983 collections. For Fiscal Year 1985, the Board projects these revenues will rise by 8.6 percent to \$1,048,402,000.

STATE LOTTERY REVENUES

As seen in the table below, State Lottery revenues have grown very rapidly since the inception of the daily "Numbers Game" on July 26, 1976.

<u>Fiscal Year</u>	<u>Gross Sales</u>			<u>Total</u>	<u>Net Receipts</u>
	<u>Daily</u>	<u>Weekly</u>	<u>Instant</u>		
-----\$ Thousands-----					
1977	137,608	27,385	--	164,993	57,026
1978	256,401	24,692	--	281,093	112,947
1979	310,420	21,740	--	332,160	131,533
1980	354,581	17,679	--	372,260	166,702
1981	373,677	11,981	--	385,658	171,422
1982	395,037	7,989	54,409	457,435	199,080
1983	448,931	13,890	--	462,821	206,012

Fiscal Year 1984 revenues are being affected by several factors, including: (1) the new 4-digit game which began on April 7, 1983; (2) competition from the Washington D.C. daily lottery, which began on August 22, 1983; and (3) a higher than expected prize payout, which has averaged 55 percent so far this year. Competition from the D.C. lottery is currently expected to reduce Maryland's gross sales by approximately \$6,000,000 in Fiscal Year 1984 and by as much as \$32,000,000 in Fiscal Year 1985.

During Fiscal Year 1984, gross receipts of \$480,000,000 are expected from the daily "Numbers Games" and an additional \$3,000,000 is expected from weekly subscription sales. After deduction of seller's commissions, administrative expenses and a 52 percent prize share, net receipts of \$198,301,000 are expected to be received by the General Fund from State Lottery sales during Fiscal Year 1984.

Under the provisions of Chapter 394 of the Acts of 1983, the State is guaranteed \$209,585,000 during Fiscal Year 1984 from net State Lottery proceeds. Any deficiency arising from daily and weekly game operations is to be paid from the local distributions of net revenues from the new "Lotto Game," which began on October 31, 1983.

Under current law, net revenues from Lotto sales during this game's first year of operation will be distributed to local governments during Fiscal Years 1984 and 1985. During Fiscal Year 1984, net revenues of \$14,430,000 are expected to be available for such distributions. However, the Board stresses that, should the payout from the daily games continue to exceed 50 percent, some of these Lotto proceeds may be needed to supplement the State's share of Lottery revenues. The Board advises local governments to use extreme caution in estimating and budgeting Lotto revenues for Fiscal Years 1984 and 1985.

During Fiscal Year 1985, approximately \$33,400,000 is expected from Lotto sales. Of this amount, \$11,500,000 is expected to be available for distribution to local governments, before any deduction for State revenue losses. The remaining \$21,900,000 is to be paid into the State General Fund.

LOCAL GOVERNMENTS SHOULD BE WARNED THAT, SHOULD THE REVISED ESTIMATE OF \$198,301,000 IN NET RECEIPTS FOR FISCAL YEAR 1984 BE VALID, IT IS CONCEIVABLE THAT NO DISTRIBUTIONS OF LOTTO REVENUES MAY BE MADE DURING FISCAL YEAR 1985.

Fiscal Year 1985 gross receipts from the daily and subscription games are expected to total \$492,533,000. Of this amount \$207,148,000 is estimated to be available after deduction of seller's commissions, prizes and administrative expenses. Including the State's share of Lotto revenues, \$229,048,000 is expected to be available, under current law, to fund the 1985 General Fund budget.

INTEREST ON INVESTMENTS

Largely in response to lower interest rates and declining fund balances, the interest received on invested State General Funds has declined since October 1981. Based upon the current level and outlook for interest rates and investable State funds, a further significant deterioration in this revenue source is expected throughout Fiscal Year 1984 and into Fiscal Year 1985.

Accordingly, the Board projects earnings on General Fund investments will total \$36,000,000 during Fiscal Year 1984. This is 23.6 percent lower than the amount collected during Fiscal Year 1983. The Board further projects interest earnings to be flat in Fiscal Year 1985 and to again total \$36,000,000.

ALCOHOLIC BEVERAGE 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. Revenues from Alcoholic Beverages for Fiscal Years 1984 and 1985 are expected to conform to past trends.

Following is a current analysis of these revenues:

	<u>1982</u> <u>Actual</u>	<u>1983</u> <u>Actual</u>	<u>1984</u> <u>Revised</u> <u>Estimate</u>	<u>1985</u> <u>Estimate</u>
	----- \$ Thousands -----			
Tax on Distilled Spirits Total Revenue	17,589	15,733	15,400	15,300
Less - Share to Local Governments	<u>5,846</u>	<u>5,190</u>	<u>5,150</u>	<u>5,100</u>
Balance to General Fund	<u>11,743</u>	<u>10,543</u>	<u>10,250</u>	<u>10,200</u>
Tax on Wine (General Fund)	<u>4,039</u>	<u>3,787</u>	<u>3,850</u>	<u>3,900</u>
Tax on Beer Total Revenue	10,491	9,463	9,600	9,500
Less - Share to Local Governments	<u>5,129</u>	<u>4,569</u>	<u>4,650</u>	<u>4,600</u>
Balance to General Fund	<u>5,362</u>	<u>4,894</u>	<u>4,950</u>	<u>4,900</u>
TOTAL TO GENERAL FUND	<u><u>21,144</u></u>	<u><u>19,224</u></u>	<u><u>19,050</u></u>	<u><u>19,000</u></u>

STATE TOBACCO TAX

Cigarette sales in Maryland have been affected by a decline in per capita consumption nationally and other factors. It is expected that these factors, and the increase in the Federal Excise Tax on cigarettes will continue to influence State Tobacco Tax revenues in Fiscal Years 1984 and 1985.

Following is a current analysis of these revenues:

	<u>1982</u> <u>Actual</u>	<u>1983</u> <u>Actual</u>	<u>1984</u> <u>Revised</u> <u>Estimate</u>	<u>1985</u> <u>Estimate</u>
	----- \$ Thousands -----			
Total Revenue	70,246	68,611	68,000	67,500
Less - Share to Counties and Baltimore City	<u>15,963</u>	<u>15,579</u>	<u>15,200</u>	<u>15,100</u>
BALANCE TO GENERAL FUND	<u><u>54,283</u></u>	<u><u>53,032</u></u>	<u><u>52,800</u></u>	<u><u>52,400</u></u>

REAL AND PERSONAL PROPERTY TAXES

The State's assessable basis for Fiscal Year 1984, as prepared by the Department of Assessments and Taxation, is \$56,724,813,000. The Department projects that the Fiscal Year 1985 assessable basis subject to State taxes will decrease by 17.5 percent to \$46,824,139,000. This decrease is due to the enactment of Chapter 532 of the Acts of 1983, which effectively exempts business personalty from the State property tax rate.

The State tax rate for the current 1983-84 year is 21¢ 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 proceeds of the State property tax are exclusively dedicated to pay this debt service.

The projection of State property tax revenues on the basis of this 21¢ rate is as follows:

Fiscal Year 1984	\$119,122,000
Fiscal Year 1985	\$ 98,331,000

CORPORATION FRANCHISE TAXES AND FILING FEES

	<u>1982</u> <u>Actual</u>	<u>1983</u> <u>Actual</u>	<u>1984</u> <u>Revised</u> <u>Estimate</u>	<u>1985</u> <u>Estimate</u>
	-----\$ Thousands-----			
Franchise Tax on Gross Receipts	79,995	83,397	91,125	95,000
Franchise Tax on Net Earnings of Savings Banks, Building and Loan Associations	6,001	4,504	5,500	3,000*
Franchise Tax on Building and Loan Associations	1,138	1,652	1,829	2,012
Domestic Corporation Filing Fees	2,134	2,062	2,545	2,673
Filing Fees on Foreign Corporations	559	642	681	700
Franchise Tax on Net Earnings of Financial Institutions	<u>13,263</u>	<u>14,805</u>	<u>15,800</u>	<u>16,500</u>
TOTAL	103,090	107,062	117,480	119,885
LESS - Allocations to Local Governments:				
Franchise Tax on Net Earnings of Savings Banks, Building and Loan Associations	5,942	4,460	5,445	2,970
Domestic Corporation Filing Fees	<u>1,067</u>	<u>886</u>	<u>1,272</u>	<u>1,336</u>
BALANCE TO GENERAL FUND	<u>96,081</u>	<u>101,716</u>	<u>110,763</u>	<u>115,579</u>

* Per Chapter 358 of the Acts of 1983.

DEATH TAXES

	<u>1982</u> <u>Actual</u>	<u>1983</u> <u>Actual</u>	<u>1984</u> <u>Revised</u> <u>Estimate</u>	<u>1985</u> <u>Estimate</u>
	----- \$ Thousands -----			
Collateral Inheritance Tax	13,133	15,957	17,100	17,500
Direct Inheritance Tax	5,163	5,877	6,250	6,500
Maryland Estate Tax	5,835	7,134	4,950	4,000
Tax on Commissions of Executors and Administrators	<u>2,185</u>	<u>2,288</u>	<u>2,400</u>	<u>2,500</u>
TOTAL	<u>26,316</u>	<u>31,256</u>	<u>30,700</u>	<u>30,500</u>

UNIVERSITY OF MARYLAND, STATE COLLEGES

	<u>1982</u> <u>Actual</u>	<u>1983</u> <u>Actual</u>	<u>1984</u> <u>Revised</u> <u>Estimate</u>	<u>1985</u> <u>Estimate</u>
	----- \$ Thousands -----			
University of Maryland	289,248	333,840	357,682	375,149
Bowie State College	3,609	3,656	4,131	4,338
Coppin State College	2,221	2,453	2,634	2,942
Frostburg State College	8,189	8,775	9,456	9,717
Salisbury State College	7,934	8,800	8,884	9,434
Towson State University	21,951	23,492	30,843	32,273
University of Baltimore	5,018	5,971	6,383	6,557
St. Mary's College of Maryland	4,071	4,501	4,796	5,106
Morgan State University	<u>7,947</u>	<u>8,637</u>	<u>9,476</u>	<u>10,873</u>
TOTAL	<u>350,188</u>	<u>400,125</u>	<u>434,285</u>	<u>456,389</u>

TRANSPORTATION REVENUES

The outlook for Maryland's Motor Vehicle User revenues has brightened considerably due to economic prospects and the outlook for new car sales.

Motor fuel supplies are currently adequate and are expected to remain so through June 1985. It is expected that motor fuel prices will not rise substantially during this period. The 2½¢ increase in the motor fuels tax rate as enacted by the 1982 General Assembly will increase Motor Fuels Tax revenues by approximately \$51,000,000 during Fiscal Year 1984. Another \$500,000 will be derived during Fiscal Year 1984 from an increase in the fee from temporary truck permits.

Motor Vehicle Titling Tax receipts are projected to grow strongly in response to economic recovery and continued growth in automobile sales nationwide. Based on current projections of automobile sales by Chase Econometrics, Wharton Econometrics and the Michigan RSQE models, Titling Tax receipts are expected to total \$195,000,000 during Fiscal Year 1984 and \$205,000,000 in Fiscal Year 1985.

During Fiscal Year 1984 sales of the 350th anniversary car tags are expected to total \$900,000. One-third of this amount will accrue to the Transportation Trust Fund with the remainder accruing to the Heritage Fund. During Fiscal Year 1985, approximately \$60,000 will accrue to the Transportation Trust Fund and an additional \$120,000 will be received by the Heritage Fund.

Miscellaneous Motor Vehicle Fees are being augmented by newly enacted legislation requiring a penalty of \$100 plus \$2 per day for every day beyond 30 days that a vehicle is uninsured. Ten percent of the \$100 penalty and 50 percent of the \$2 per diem will be distributed to the Transportation Trust Fund (with the remainder to be distributed to the Maryland Automobile Insurance Fund). This legislation is expected to increase Miscellaneous Motor Vehicle Fees by approximately \$500,000 during each of Fiscal Years 1984 and 1985.

Senate Bill 594 enacted by the 1983 General Assembly doubled the Hauling Fees. This will augment these revenues by approximately \$1,400,000 during Fiscal Year 1984 and \$1,425,000 during Fiscal Year 1985. A \$5 increase in Motor Vehicle Fees will increase Driver's Education Fees by \$400,000 in each of Fiscal Years 1984 and 1985.

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

Table 5 below contains a detailed analysis of Transportation revenues for each of Fiscal Years 1982 through 1985.

MARYLAND MOTOR VEHICLE USER REVENUES
 FOR FISCAL YEARS 1982, 1983, 1984 AND 1985
 (\$ in thousands)

	1982 <u>Actual</u>	1983 <u>Actual</u>	1984		1985 <u>Estimate</u>
			<u>Present Budget Estimate</u>	<u>Revised Estimate</u>	
MOTOR VEHICLE REVENUES:					
Motor Vehicle Licenses and Registrations	86,632	88,038	88,000	89,800	90,060
Miscellaneous Motor Vehicle Fees	5,290	5,456	5,400	6,000	6,100
Wreckers and Scrappers Recording Charges	683	732	700	750	800
Security Interest Filing Fees - Counties	796	891	900	950	975
Security Interest Filing Fees - Special Funds	813	916	900	950	975
Security Interest Filing Fees - Court Costs	1,609	1,806	1,800	1,900	1,950
Hauling Fees	1,284	1,322	1,400	2,800	2,850
Driver's Education Fees	3,578	3,618	3,400	3,600	3,600
Special License Tags - Special Funds	350	350	350	350	350
Special License Tags - General Funds	426	564	500	600	650
Special License Tags - Heritage Fund	--	--	--	600	120
Motor Vehicle Titling Tax	139,610	170,345	170,000	195,000	205,000
Total	241,071	274,038	273,350	303,300	313,430
Motor Vehicle Fuel Tax	193,518	244,434	284,500	300,000	300,000
GRAND TOTAL	434,589	518,472	557,850	603,300	613,430

TABLE 5

APPENDIX A

U.S. ECONOMIC PROSPECTS

The following narrative provides a summary of the various national economic forecasts consulted in the preparation of this report on Maryland's revenue prospects for Fiscal Years 1984 and 1985:

U.S. Economic Policy and Outlook (Heller-Perry) - October 14, 1983

During the first three quarters of the year, real GNP grew at an average annual rate of 6½ percent, unemployment fell to below 10 percent and consumer prices have risen by less than 3 percent. Consumer spending (buoyed by lower debt levels, lower interest rates, higher liquid assets and rising employment and income) and housing construction have been the major impetus to growth thus far in 1983.

It now appears that economic recovery will have to proceed with a combination of huge deficits and high interest rates. With fiscal policy apparently on "hold" until after the election, the fate of the expansion is largely in the hands of the Fed. We do not believe they will let rising interest rates bring it to an untimely end in 1983 or 1984.

We expect 1983 to end on a 6½ percent growth rate during the second half of the year. During 1984, we expect a strong start at a 6 percent-plus growth, tapering down to 4 percent or so by year end. A combination of reasonably good growth in consumption and inventories with stronger growth in capital spending and government outlays will keep the expansion going even though net exports will behave poorly.

Wharton Quarterly Model Forecast - October 20, 1983

The U.S. economy is now entering a second phase of expansion. During 1983.2 and 1983.3 the consumption and housing sectors led the way, surging as interest rates and mortgage rates dropped. The economy is now starting to show some strength in business fixed investment and inventories. Solid improvements in these two key sectors are necessary for the recovery to mature into a sustainable economic expansion.

Prospects for Christmas sales are quite bright, due to sharp advances in employment and income and moderation in inflation. Consumer confidence is very high, and prospects for continued employment gains are good.

Interest rates are expected to decline in coming months, owing to a forecast slowing of growth in the economy and the relatively modest Treasury refinancing needs during 1983.4.

The following table summarizes key elements of the Wharton forecast for the 1983, 1984 and 1985 calendar years.

	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Percent Change In:</u>			
Real GNP	3.5%	5.8%	3.6%
GNP Price Index	4.3%	4.8%	5.7%
Pre-Tax Corporate Profits	21.8%	29.7%	16.0%
<u>Level Of:</u>			
New Car Sales (000)	9,200	10,600	10,400
Housing Starts (000)	1,730	1,790	1,590

Chase Econometrics Macro Report - October 26, 1983

Output is growing rapidly, principally reflecting inventory rebuilding, increased residential construction, sharply rising output of military equipment and a sharp acceleration in production of business equipment.

It is likely that production will grow less rapidly in the months ahead and in 1984. The inventory rebuilding currently underway represents an adjustment to the depletion of stocks earlier this year. In the future, this restocking will be relatively modest, owing to still high interest rates, relatively low inflation, improved methods of inventory control and continued efforts by many companies to improve profit margins.

Declining home sales and rising apartment vacancy rates have caused housing starts to drop somewhat, and this should cause residential construction expenditures to slow by year end.

Consumer spending will remain strong through next year in response to net tax cuts, lower inflation and expanding employment. Investment spending will moderate but continue expanding as equipment expenditures offset declines in commercial structures and housing.

A substantial shift in the sources of economic growth is now underway, with the business sector becoming a larger contributor and the household sector contributing less. Next year's GNP increase will probably be somewhat below the average of previous recoveries because of relatively high real interest rates and the overvalued U.S. dollar. Interest rates will not rise during the months ahead, although any declines that will occur will be relatively modest.

The risks to the Chase scenario now appear to be evenly balanced. While a slower than expected rise in consumer spending, a sharp drop in housing activity or the adverse effects of an LDC debt default could cause an even sharper slowdown in growth, a faster pickup in business investment and/or greater inventory rebuilding could produce somewhat faster growth.

The following table summarizes key elements of the Chase forecast for the 1983, 1984 and 1985 calendar years.

	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Percent Change In:</u>			
Real GNP	3.4%	4.9%	3.3%
GNP Price Index	4.2%	4.9%	6.3%
Pre-Tax Corporate Profits	21.3%	16.0%	21.4%
<u>Level Of:</u>			
New Car Sales (000)	9,100	10,400	10,600
Housing Starts (000)	1,670	1,620	1,610

Chemical Bank U.S. Economic Outlook - November 1983

The U.S. economy began to recover from its eighth postwar recession in November 1982. In the year since, real GNP has grown about 6 percent, the unemployment rate has declined from nearly 11 percent to near 9 percent and prices are up by only around 4 percent.

As the year has unfolded there has been little sense of comfort about the economy's performance. These anxieties reflected fears that robust economic growth would rekindle inflationary pressures which would lead the Federal Reserve to increase monetary restraint and choke off growth again as it did in 1981.

Other anxieties relate to the huge Federal deficits in prospect which could stifle future growth prospects by crowding out private sector credit demands or through the growth-dampening steps which may be taken to shrink the size of these deficits.

Our outlook is for economic growth to continue at a more restrained pace throughout 1984. Recent employment and income gains will generate further increases in consumer spending which will be sustained for some time to come. The sharp upturn in consumption that has occurred has led to a pronounced rise in capacity utilization and the start of a capital spending upturn, which will be fueled in 1984 by surging corporate profits and the effects of the new ACRS.

Some drag on economic growth during 1984 is expected to be exerted by continued high interest rates; inventories and home building (which are past their largest cyclical effect); and foreign trade.

The following table summarizes key elements of the Chemical Bank forecast for the 1983 and 1984 calendar years.

	<u>1983</u>	<u>1984</u>
<u>Percent Change In:</u>		
Real GNP	3.4%	5.2%
GNP Price Index	4.2%	4.3%
Pre-Tax Corporate Profits	17.7%	21.7%
<u>Level Of:</u>		
New Car Sales (000)	9,200	10,400
Housing Starts (000)	1,710	1,860

Turning Points - November 11, 1983

The current cycle got off to a slow start in 1983.1. Since this time the growth in GNP has proceeded in steady upward normality for this stage of the business cycle.

The recovery in production is coming along at a good pace -- indeed now running above the average recovery. The most probable forecast is for continued growth of around 9 - 10 percent through May 1985. Even the "worst case" scenario is for growth of around 7 percent through 1984.

The following table summarizes key elements of the Turning Points forecast for the 1983 and 1984 calendar years.

	<u>1983</u>	<u>1984</u>
<u>Percent Change In:</u>		
Real GNP	3.5%	5.8%
GNP Price Index	4.2%	4.2%
<u>Level Of:</u>		
New Car Sales (000)	9,500	10,500
Housing Starts (000)	1,700	1,750

University of Michigan RSQE Forecast - August 11, 1983

The recovery from the 1981-82 recession is solidly underway. And it is looking a bit better than the average of its recent predecessors.

The 1983 turnaround is paced by sharply higher consumer spending (especially for durable goods) and a 39 percent increase in the level of building activity following four straight years of declining residential construction. If all other GNP components were held at their 1982 levels, consumption and home building alone would raise GNP by 4 percent during 1983. Foreign trade, government and business investment have actually depressed overall growth during 1983.

Business investment is expected to grow briskly during 1984, owing to rising capacity utilization and corporate profits. This will add to economic growth during 1984.

The current level of interest rates should soon exert a moderating effect upon the overall rate of economic growth. However, the Federal Reserve will not allow interest rates to choke off the expansion, which is expected to keep going right on through 1984 at least.

The following table summarizes key elements of the RSQE forecast for the 1983 and 1984 calendar years.

	<u>1983</u>	<u>1984</u>
<u>Percent Change In:</u>		
Real GNP	3.2%	5.9%
GNP Price Index	4.6%	5.0%
Pre-Tax Corporate Profits	14.1%	28.2%
<u>Level Of:</u>		
New Car Sales (000)	9,300	10,500
Housing Starts (000)	1,701	1,815

National Association of Business Economists Annual Survey - November 1983

In spite of the concerns over federal economic policies, members are unusually upbeat regarding the coming year's economic outlook. We see reasonable and continuing economic growth, no major acceleration of inflation, a basically healthy consumer and some renewed life in capital spending, employment and corporate profitability.

The following table summarizes key elements of the NABE survey for the 1983 and 1984 calendar years.

	<u>1983</u>	<u>1984</u>
<u>Percent Change In:</u>		
Real GNP	3.2%	4.5%
Consumer Prices	3.5%	5.0%
Pre-Tax Corporate Profits	26.7%	17.2%
<u>Level Of:</u>		
New Car Sales (000)	9,100	10,000
Housing Starts (000)	1,640	1,680

Journal of Business Forecasting Consensus Forecast of Financial Institutions - Fall 1983

Economic growth in 1984 will be less spectacular than in 1983 but more sustainable. The expansion will get less push from the consumer and more from investment. Housing starts will continue to increase through 1984.2 before levelling off at 1,700,000 units. Auto sales should continue strong and should average 10,200,000 units in 1984. Industrial capacity utilization should increase steadily to 80.3 percent by 1984.4. Inflation will remain moderate and short-term interest rates should remain level during the first half of 1984 before rising later in the year.

Corporate profits are expected to grow by 23 percent in 1983 and by 28 percent in 1984.

Journal of Business Forecasting Kent Economic Outlook - Fall 1983

The recovery will continue throughout this year and accelerate in 1984. Three basic assumptions underpin this forecast. First, the Fed's restrictive monetary policy will continue but will not choke economic growth. Second, the large federal deficits will not crowd private business out of financial markets. Third, recovery will be well paced and will expand to more industries as it progresses.

Inflation will be modest through 1984 owing to downward pressure on fuel prices, the strength of the dollar, moderation in wage increases and the slow rate at which joblessness will fall. Personal income will grow by 6.6 percent in 1983 and by 9.7 percent during 1984.

The following table summarizes key elements in the Kent forecast for the 1983, 1984 and 1985 calendar years.

	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Percent Change In:</u>			
Real GNP	3.0%	4.5%	3.7%
GNP Price Index	N.A.	N.A.	4.9%
<u>Level Of:</u>			
New Car Sales (000)	N.A.	9,200	9,500
Housing Starts (000)	N.A.	1,686	1,579

APPENDIX B

MARYLAND STATE ECONOMIC STATISTICS

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Year	
LABOR FORCE (thousands)	1979	2,049	2,058	2,070	2,093	2,116	2,174	2,156	2,132	2,130	2,117	2,136	2,161	2,116
	1980	2,106	2,110	2,125	2,143	2,167	2,185	2,204	2,177	2,143	2,159	2,164	2,177	2,155
	1981	2,136	2,139	2,142	2,156	2,167	2,197	2,198	2,168	2,166	2,149	2,158	2,170	2,163
	1982	2,135	2,127	2,141	2,154	2,171	2,193	2,192	2,166	2,153	2,166	2,168	2,166	2,161
	1983	2,097	2,085	2,104	2,122	2,145	2,189	2,217	2,225	2,230	2,263			
TOTAL EMPLOYMENT (thousands)	1979	1,916	1,915	1,949	1,979	2,006	2,046	2,028	2,005	2,014	2,000	2,013	2,022	1,991
	1980	1,964	1,969	1,988	2,013	2,035	2,032	2,052	2,033	2,007	2,023	2,027	2,037	2,015
	1981	1,968	1,971	1,988	2,011	2,025	2,041	2,038	2,012	2,015	1,997	1,996	2,000	2,005
	1982	1,935	1,932	1,954	1,979	1,998	2,009	2,008	1,982	1,978	1,986	1,990	1,984	1,978
	1983	1,907	1,900	1,932	1,969	2,004	2,045	2,077	2,083	2,101	2,126			
UNEMPLOYMENT (thousands)	1979	133	143	121	114	110	128	128	128	116	117	123	139	125
	1980	142	141	137	131	132	153	152	144	136	136	137	140	140
	1981	167	168	155	145	142	156	158	156	151	152	162	170	157
	1982	200	195	187	176	173	184	184	184	175	180	179	181	183
	1983	190	185	172	153	141	144	140	142	129	137			
UNEMPLOYMENT RATE (%)	1979	6.5	7.0	5.9	5.5	5.2	5.9	5.9	6.0	5.4	5.5	5.7	6.4	5.9
	1980	6.7	6.7	6.5	6.1	6.1	7.0	6.9	6.6	6.3	6.3	6.3	6.4	6.5
	1981	7.9	7.9	7.2	6.7	6.6	7.1	7.2	7.2	7.0	7.1	7.5	7.8	7.3
	1982	9.4	9.2	8.7	8.2	8.0	8.4	8.4	8.5	8.1	8.3	8.2	8.4	8.4
	1983	9.0	8.9	8.2	7.2	6.6	6.6	6.3	6.4	5.8	6.1			
BALTIMORE AREA CPI-W (1967=100)	1979	205.0	-	210.4	-	215.3	-	221.4	-	224.9	-	227.9	-	217.5
	1980	234.5	-	243.9	-	247.8	-	250.8	-	253.2	-	257.4	-	247.9
	1981	262.6	-	269.3	-	268.6	-	273.7	-	281.6	-	280.9	-	272.8
	1982	282.3	-	282.2	-	283.6	-	287.0	-	288.8	-	290.1	-	285.7
	1983	289.7	-	295.0	-	296.7	-	297.4	-	299.5	-			
WASHINGTON AREA CPI-W (1967=100)	1979	209.4	-	213.4	-	216.0	-	221.9	-	224.4	-	226.7	-	218.6
	1980	233.0	-	239.2	-	242.0	-	248.7	-	251.8	-	255.7	-	245.1
	1981	259.4	-	264.2	-	267.7	-	271.4	-	275.7	-	279.3	-	269.6
	1982	281.8	-	283.8	-	278.4	-	286.3	-	291.9	-	286.3	-	284.8
	1983	289.0	-	294.3	-	297.5	-	300.0	-	300.9	-			
HOUSING PERMITS (thousands)	1979	28	18	22	31	24	22	28	26	32	27	30	19	26
	1980	19	23	18	18	14	14	20	20	28	24	20	19	20
	1981	18	15	25	24	21	19	18	20	13	8	11	15	17
	1982	11	18	16	23	16	18	20	16	25	18	25	29	20
	1983	31	50	43	35	37	48	39	39	33				
MARYLAND PERSONAL INCOME (\$millions)	1979	-	-	37937	-	-	38571	-	-	39948	-	-	41035	39373
	1980	-	-	42431	-	-	42975	-	-	44422	-	-	45990	43955
	1981	-	-	47230	-	-	48010	-	-	49640	-	-	50410	48820
	1982	-	-	50560	-	-	51510	-	-	52590	-	-	53440	52010
	1983	-	-	53680	-	-	54840	-	-	56190	-	-		

APPENDIX C

RETURN OF CORPORATION INCOME TAX REVENUES TO THE GENERAL FUND

During the 1980 General Assembly session, Chapter 532 was enacted which shifted portions of the Corporation Income Tax to the Department of Transportation. Sixteen percent of net receipts (after deduction of refunds and the 3/4 of 1 percent of net taxable income distributable to the Port Administration) is currently paid into the Gasoline and Motor Vehicle Revenue Account and an additional 32 percent is paid into the Transportation Revenue Sharing Account.

Of these revenues, the Department of Transportation receives 65 percent of the Gasoline and Motor Vehicle Revenue Account money and 75 percent of the Transportation Revenue Sharing money. The remaining portions are distributable to Baltimore City and the counties and cities. During Fiscal Year 1984, approximately \$57.4 million will be divided between the Department and local governments, with the Department receiving \$41.1 million and the local governments receiving \$16.3 million. During Fiscal Year 1985, approximately \$74.4 million will be so divided, with the Department receiving \$53.3 million and local governments receiving \$21.1 million. This is displayed in the following table:

	<u>Department of Transportation</u>	<u>Local Governments</u>	<u>Total</u>
-----\$ in thousands-----			
F.Y. 1984			
Gasoline & Motor Vehicle Revenue Account	\$12,430	\$ 6,693	\$19,123
Transportation Revenue Sharing Account	<u>28,684</u>	<u>9,561</u>	<u>38,245</u>
Total	41,114	16,254	57,368
F.Y. 1985			
Gasoline & Motor Vehicle Revenue Account	16,115	8,677	24,792
Transportation Revenue Sharing Account	<u>37,188</u>	<u>12,396</u>	<u>49,584</u>
Total	\$53,303	\$21,073	\$74,376

During Fiscal Year 1984, the Department will receive approximately \$84.8 million (16.4 percent) more in license, motor fuels, titling tax revenues than was collected by the Comptroller's Office and the Motor Vehicle Administration during Fiscal Year 1983. This includes \$45.5 million in revised estimates, based upon the latest forecast by the Board of Revenue Estimates. In addition, the Department will receive \$5.0 million more in corporation income taxes than was collected in Fiscal Year 1983.

	1983	1984	
	<u>Actual</u>	<u>Original</u>	<u>Revised</u>
Licenses and Registrations	\$103,129	\$102,850	\$107,700
Motor Vehicle Titling Tax	170,345	170,000	195,000
Motor Vehicle Fuel Tax	244,434	284,500	300,000
Total	517,908	557,350	602,700
Corporation Income	68,948	72,790	73,953
Grand Total	\$586,856	\$630,140	\$676,653

At June 30, 1983, the Transportation Trust Fund balance was \$114.4 million. During Fiscal Year 1984, the Department expects to spend \$814.9 million from the Trust Fund. This level of spending is to be funded by the above revenues plus operating receipts from the modal administrations (Mass Transit, Port, Aviation) plus an anticipated \$30.0 million in Consolidated Transportation Bonds.

Because of the current growth above estimates in Transportation revenues, the recently-expanded federal assistance program and the availability of Interstate transfer funds, portions of the Corporation Income Tax could be returned to the General Fund without impairing State or local transportation programs.

The Board recommends that Article 81 Section 288A be revised to return to the General Fund those monies currently distributed to the Department of Transportation for its own use. This would increase General Fund revenues by \$53.3 million during Fiscal Year 1985 and would not affect the allocation of Transportation revenues to local governments. During Fiscal Year 1985, local governments would still receive approximately \$21.1 million and, during subsequent fiscal years, local governments would continue to receive distributions from this revenue source.