

State of Maryland

Board of Revenue Estimates

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Revenue Estimates

March 10, 2010

Honorable Martin O'Malley
Governor, State of Maryland
State House
Annapolis, MD 21401

Dear Governor O'Malley:

In accordance with our continuing policy of keeping you fully advised of developments concerning Maryland's revenue prospects, the Board of Revenue Estimates has reviewed the current estimates of general fund revenue in light of the most recent economic data and developments along with current collection trends. Based on our review, the Board submits to you revised general fund revenue estimates of \$12.233 billion for fiscal year 2010 and \$12.671 billion for fiscal year 2011. These figures represent a reduction to fiscal year 2010 estimates of \$66.0 million, and the fiscal year 2011 forecast is unchanged from the previous official forecast in December 2009. Despite the fact that the aggregate revision is relatively modest, the general fund revenue outlook remains poor, with a decline of 5.2% in fiscal year 2010, the largest decline on record, and a modest 3.6% increase in fiscal year 2011.

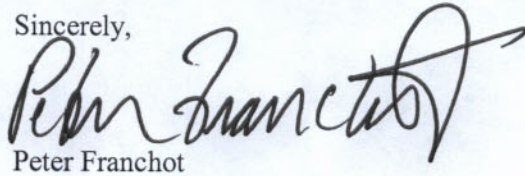
After reviewing economic data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, the Department of Labor, Licensing and Regulation, and our consultants' forecasts, we see no fundamental change to our December economic outlook. The recession may be over, and Maryland's economy has not contracted as much as the national economy, but the effects of the recession will linger. Maryland employment is expected to continue to decline through the first half of calendar year 2010, although at a moderating pace. Growth will resume towards the end of the year, though it is expected to be sluggish through 2011. When final figures are released, growth in personal income for 2009 is expected to have been the worst since 1954, due largely to stagnant wage income. As employment begins its slow recovery, wages will as well, but a return to relatively healthy growth is not expected until 2012.

With the economic forecast essentially the same as that from our December forecast (and, in many respects, from our September forecast), no substantial changes to the revenues are warranted. The largest adjustment, a reduction to the individual income tax of \$53.1 million, arises because of indications that final payments for calendar year 2009 may not be quite as strong as previously expected. Because this relates to past rather than current activity, there will be no impact on fiscal year 2011 revenues. The corporate income tax is being revised upward by a conservative \$36.8 million to account for very strong year-to-date performance relative to the estimates, although a decline of 3.4% is still expected. There is a very high risk that net operating losses from 2008 and 2009 will result in immediate refunds on amended returns due to carrybacks. In addition, the losses could lead to lower estimated or final corporate income tax payments. To account for that risk, the revenue writeup is not as large as would otherwise be the case, and the estimate for fiscal year 2011 is unchanged. The \$32.8 million reduction to the sales tax and the \$16.9 million reduction to lottery revenues simply reflect the estimated impact of the December and February blizzards. As these were one-time occurrences, there is again no effect on the fiscal year 2011 estimates.

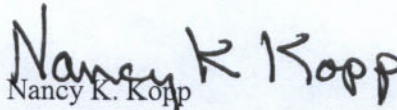
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The last three revenue forecasts have been at similar levels from an estimating perspective, as shown in the attached table. While the estimates have shown stability over the course of this budget cycle, the revenue outlook remains bleak, and risks to the forecast are still substantial. We will continue to monitor the situation and keep you informed of any major developments.

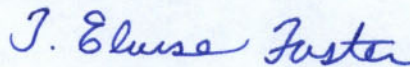
Sincerely,



Peter Franchot



Nancy K. Kopp



T. Eloise Foster

Attachments

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Maryland General Fund Revenues
Fiscal Years 2009 - 2011
 \$ in thousands

| | FY 2010 | | | | | FY 2011 | | | |
|-------------------------------|-------------------|----------------------|-------------------|------------|----------|----------------------|-------------------|------------|----------|
| | FY 2009 Actual | December Estimate | March Estimate | Difference | % Growth | December Estimate | March Estimate | Difference | % Growth |
| INCOME TAXES | | | | | | | | | |
| Individual | 6,477,157 | 6,121,847 | 6,068,779 | (53,068) | -6.3% | 6,308,374 | 6,308,374 | - | 3.9% |
| Corporations | 550,740 | 495,013 | 531,786 | 36,773 | -3.4% | 559,178 | 559,178 | - | 5.2% |
| Total | 7,027,897 | 6,616,860 | 6,600,565 | (16,295) | -6.1% | 6,867,552 | 6,867,552 | - | 4.0% |
| SALES AND USE TAXES | 3,620,431 | 3,506,736 | 3,473,936 | (32,800) | -4.0% | 3,650,453 | 3,650,453 | - | 5.1% |
| STATE LOTTERY RECEIPTS | 473,206 | 522,975 | 506,096 | (16,879) | 7.0% | 527,640 | 527,640 | - | 4.3% |
| OTHER REVENUES | | | | | | | | | |
| Business Franchise Taxes | 201,378 | 216,123 | 216,123 | - | 7.3% | 216,123 | 216,123 | - | 0.0% |
| Tax on Insurance Companies | 275,203 | 266,946 | 266,946 | - | -3.0% | 273,821 | 273,821 | - | 2.6% |
| Death Taxes | 205,492 | 161,822 | 161,822 | - | -21.3% | 157,076 | 157,076 | - | -2.9% |
| Tobacco Tax | 405,579 | 396,592 | 396,592 | - | -2.2% | 387,922 | 387,922 | - | -2.2% |
| Alcoholic Beverages Excises | 29,168 | 29,512 | 29,512 | - | 1.2% | 30,035 | 30,035 | - | 1.8% |
| Motor Vehicle Fuel Tax | 6,500 | 8,386 | 8,386 | - | 29.0% | - | - | - | -100.0% |
| District Courts | 89,379 | 91,042 | 91,042 | - | 1.9% | 92,558 | 92,558 | - | 1.7% |
| Clerks of Court | 40,514 | 44,606 | 44,606 | - | 10.1% | 46,810 | 46,810 | - | 4.9% |
| Hospital Patient Recoveries | 96,462 | 70,978 | 70,978 | - | -26.4% | 67,427 | 67,427 | - | -5.0% |
| Interest on Investments | 83,050 | 35,000 | 35,000 | - | -57.9% | 43,000 | 43,000 | - | 22.9% |
| Miscellaneous | 338,302 | 311,192 | 311,192 | - | -8.0% | 305,898 | 305,898 | - | -1.7% |
| Total | 1,771,024 | 1,632,199 | 1,632,199 | - | -7.8% | 1,620,670 | 1,620,670 | - | -0.7% |
| TOTAL CURRENT REVENUES | 12,892,558 | 12,278,770 | 12,212,796 | (65,974) | -5.3% | 12,666,315 | 12,666,315 | - | 3.7% |
| Extraordinary Revenues | 7,917 | 20,700 | 20,700 | - | 161.5% | 5,400 | 5,400 | - | -73.9% |
| GRAND TOTAL | 12,900,475 | 12,299,470 | 12,233,496 | (65,974) | -5.2% | 12,671,715 | 12,671,715 | - | 3.6% |

Evolution of Maryland's General Fund Revenue Forecast

(\$ in millions)

| | <u>Mar '09</u> | <u>Sept '09</u> | Change from Mar '09 | <u>Dec '09</u> | Change from Mar '09 | <u>Mar '10</u> | Change from Mar '09 |
|-----------------------|----------------|-----------------|------------------------|----------------|------------------------|----------------|------------------------|
| Individual Income Tax | | | | | | | |
| FY 2010 | 6,637 | 6,122 | (515) | 6,122 | (515) | 6,069 | (568) |
| FY 2011 | 6,899 | 6,358 | (541) | 6,308 | (591) | 6,308 | (591) |
| Sales Tax | | | | | | | |
| FY 2010 | 3,592 | 3,524 | (68) | 3,507 | (85) | 3,474 | (118) |
| FY 2011 | 3,861 | 3,647 | (213) | 3,650 | (210) | 3,650 | (210) |
| Total General Fund | | | | | | | |
| FY 2010 | 13,022 | 12,314 | (708) | 12,299 | (722) | 12,233 | (788) |
| FY 2011 | 13,643 | 12,734 | (909) | 12,672 | (971) | 12,672 | (971) |

General fund revenue forecasts of the Board of Revenue Estimates since the adoption of the fiscal year 2010 budget (2009 Regular Session). The forecasts from September 2009 and later include legislative changes from the 2009 Regular Session of the General Assembly.