



State of Maryland

Board of Revenue Estimates

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Revenue Estimates

March 9, 2017

Honorable Larry Hogan
Governor, State of Maryland
State House
Annapolis, MD 21401

Dear Governor Hogan:

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 collections trends. Based on our review, the Board submits to you revenue estimates of \$16.586 billion for fiscal year 2017 and \$17.183 billion for fiscal year 2018, a decrease of \$35.3 million for the current fiscal year and a \$2.3 million increase for fiscal year 2018. Growth is now forecast at 2.4% in fiscal year 2017 and 3.6% in fiscal year 2018.

The economic outlook remains unchanged; we expect a rate of economic growth that is lower than in comparable periods of economic expansion. In the absence of an economic outlook adjustment, the above revisions are based on year-to-date collections and their implications for future years as well as adjustments to tailor our outlook to known federal policy impacts.

In order to avoid obscuring the revenue implications of the federal hiring freeze by amending the general economic outlook, the Board has made explicit adjustments to revenues. In fiscal year 2018, we estimate that the President's executive order will have reduced the number of Maryland residents employed by the federal government by an average of 4,653 positions for the year, a loss of 3.5% of the non-defense federal jobs held by Maryland residents. This will reduce Maryland residents' aggregate wages by \$473.5 million and general fund income tax withholding by \$25.0 million. There is an additional \$7.2 million subtracted from the sales tax in fiscal year 2018 for the corresponding reduction in taxable spending.

The President has intimated interest in expanding federal defense related spending. Just as reduced non-defense spending accrues to Maryland in a disproportionate manner, so would the benefit of increased defense spending, albeit at a reduced rate. The publicly mentioned \$54.0 billion increase in defense spending would require a law change from Congress that lifts the pre-existing sequestration defense spending targets; therefore, incorporating the revenue impacts from a defense spending increase would render any estimate unreliable at this point in time.

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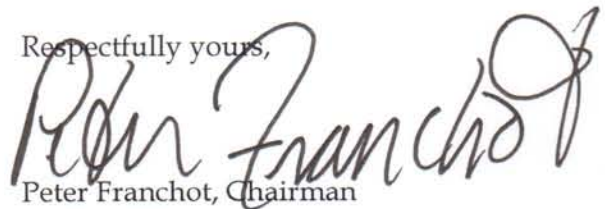
It must be noted that, as it currently appears, the hiring freeze is an incremental step in the President's broader plan for his administration of the federal government. The freeze requires the Office of Management and Budget to develop a long-term plan to "reduce the size of the Federal Government workforce through attrition." The hiring freeze expires upon implementation of that plan. As such, considerable uncertainty remains with regard to the long-term outlook for federal employment of Maryland residents. The impacts of the hiring freeze and eventual long-term plan and their impacts on State employment and revenues will be continuously monitored by the Board and Revenue Monitoring Committee.

An additional adjustment to revenues has been made to account for tax planning that is believed to have been undertaken as a result of the November elections in expectation of reduced federal taxation for tax year 2017. Anecdotal reports of planning were confirmed to some degree by an acceleration of fourth quarter estimated payments into December of this year, thus reducing taxable income for tax year 2016 while potentially increasing it for tax year 2017. An evaluation of prior tax planning experiences, most notably 1986 and 2012, and a shortened time frame for planning relative to those two occurrences, guide our decision to shift \$59.4 million in general fund personal income tax revenues from tax year 2016 to tax year 2017. While the shift is not one-for-one on a fiscal year basis, it does reduce revenues for fiscal year 2017 and increases revenues in fiscal year 2018.

The adjustments for year-to-date revenues are minor. The corporate income tax benefits from an extraordinary compliance settlement for historical tax periods. The Attorney General's share of the settlement with Moody's Corporation increases miscellaneous revenues. A minor adjustment to the sales tax results from the communications sector remittances coming in lower than expected.

We will continue to monitor the situation and keep you informed of any major developments.

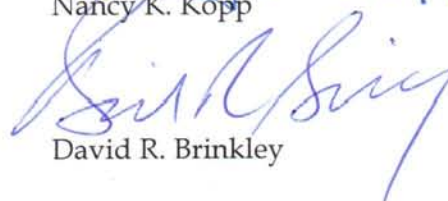
Respectfully yours,



Peter Franchot, Chairman



Nancy K. Kopp



David R. Brinkley

March Estimates
Maryland General Fund Revenues
Fiscal Years 2016 - 2018

\$ Thousands	FY 2017					FY 2018			
	FY 2016 Actual	December Estimate	March Estimate	Difference	Growth	December Estimate	March Estimate	Difference	Growth
INCOME TAXES:									
Individual	8,517,585	8,991,352	8,942,374	(48,978)	5.0%	9,389,593	9,405,788	16,195	5.2%
Corporate	874,465	771,602	784,602	13,000	-10.3%	830,074	830,074	-	5.8%
Total	9,392,050	9,762,953	9,726,976	(35,978)	3.6%	10,219,667	10,235,862	16,195	5.2%
SALES AND USE TAXES	4,444,481	4,592,595	4,587,254	(5,342)	3.2%	4,741,168	4,727,251	(13,916)	3.1%
STATE LOTTERY	529,754	492,309	492,309	-	-7.1%	505,178	505,178	-	2.6%
OTHER REVENUES									
Business Franchise Taxes	221,967	223,513	223,513	-	0.7%	227,345	227,345	-	1.7%
Tax on Insurance Companies	287,407	294,802	294,802	-	2.6%	304,618	304,618	-	3.3%
Estate and Inheritance Taxes	261,932	206,720	206,720	-	-21.1%	184,512	184,512	-	-10.7%
Tobacco Taxes	395,279	393,827	393,827	-	-0.4%	392,214	392,214	-	-0.4%
Alcoholic Beverages Excise Taxes	31,946	32,947	32,947	-	3.1%	33,365	33,365	-	1.3%
Motor Vehicle Fuel Taxes	4,625	-	-	-	-100.0%	-	-	-	
District Courts	72,334	70,255	70,255	-	-2.9%	70,240	70,240	-	0.0%
Clerks of the Court	34,203	36,947	36,947	-	8.0%	36,393	36,393	-	-1.5%
Hospital Patient Recoveries	57,499	57,781	57,781	-	0.5%	58,296	58,296	-	0.9%
Interest on Investments	15,008	20,000	20,000	-	33.3%	35,000	35,000	-	75.0%
Miscellaneous	334,145	326,485	332,485	6,000	-0.5%	326,311	326,311	-	-1.9%
Total	1,716,344	1,663,276	1,669,276	6,000	-2.7%	1,668,292	1,668,292	-	-0.1%
Total Current Revenues	16,082,630	16,511,134	16,475,814	(35,320)	2.4%	17,134,305	17,136,584	2,279	4.0%
Extraordinary Revenues ¹	-	47,432	47,432	-		-	-	-	-100.0%
Transfer Tax Revenues ²	115,367	62,771	62,771	-	-45.6%	46,028	46,028	-	-26.7%
GRAND TOTAL	16,197,996	16,621,336	16,586,017	(35,320)	2.4%	17,180,333	17,182,612	2,279	3.6%

¹ The fiscal year 2016 GAAP audit of the Local Income Tax Reserve account found that the account was overfunded by \$47.4 million

² The Tax Property Article §13-209 has been altered across several legislative sessions so as to provide various distributions to the general fund