

REVENUE ESTIMATES AND ECONOMIC OUTLOOK

October 28, 2022

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Director

Board of Revenue Estimates

SEPTEMBER FORECAST

Maryland General Fund Revenues
Fiscal Years 2022 - 2024
(\$ in thousands)

	FY 2022			FY 2023			FY 2024		
	Official Estimate ¹	Actual	Difference	Current Estimate ¹	September Revision	Difference	% Growth	September Estimate	% Growth
INCOME TAXES									
Individual	12,537,593	13,548,045	1,010,452	13,125,770	14,091,877	966,107	4.0%	14,846,299	5.4%
Corporations	1,606,435	1,700,268	93,832	1,661,123	1,477,464	(183,659)	-13.1%	1,622,505	9.8%
Total	14,144,028	15,248,313	1,104,284	14,786,893	15,569,341	782,448	2.1%	16,468,804	5.8%
SALES AND USE TAXES	5,698,831	5,966,843	268,012	5,782,402	6,150,168	367,766	3.1%	6,194,835	0.7%
STATE LOTTERY RECEIPTS	647,263	635,075	(12,188)	629,051	650,458	21,407	2.4%	650,386	0.0%
OTHER REVENUES									
Business Franchise Taxes	244,484	264,443	19,958	212,708	219,156	6,448	-17.1%	223,039	1.8%
Insurance Premium Tax	567,602	631,380	63,778	585,590	607,272	21,682	-3.8%	623,013	2.6%
Estate & Inheritance Taxes	214,330	266,055	51,725	225,071	250,427	25,356	-5.9%	231,055	-7.7%
Tobacco Taxes	532,719	479,158	(53,562)	519,667	482,248	(37,419)	0.6%	437,477	-9.3%
Alcoholic Beverages Excises	33,621	39,076	5,456	32,326	33,688	1,362	-13.8%	33,970	0.8%
District Courts	43,757	41,256	(2,500)	48,767	46,948	(1,819)	13.8%	45,813	-2.4%
Clerks of Court	71,084	36,893	(34,191)	34,822	33,304	(1,518)	-9.7%	33,178	-0.4%
Hospital Patient Recoveries	60,142	68,829	8,687	61,715	62,300	585	-9.5%	63,200	1.4%
Interest on Investments	15,000	48,978	33,978	20,000	75,000	55,000	53.1%	50,000	-33.3%
Miscellaneous	311,403	331,920	20,516	400,044	403,082	3,038	21.4%	321,864	-20.1%
Total	2,094,143	2,207,988	113,845	2,140,710	2,213,424	72,714	0.2%	2,062,611	-6.8%
TOTAL CURRENT REVENUES	22,584,265	24,058,218	1,473,953	23,339,056	24,583,391	1,244,335	2.2%	25,376,636	3.2%
Extraordinary Revenues ²	-	16,311	16,311	-	-	-	-	-	-
Rental Housing Fund ³	(30,000)	(30,000)	-	-	-	-	-	-	-
Blueprint for Maryland's Future Fund ⁴	-	-	-	(800,000)	(800,000)	-	-	-	-
Revenue Volatility Cap ⁵	(80,000)	-	80,000	(100,000)	(100,000)	-	-	(120,000)	-
GRAND TOTAL⁶	22,474,265	24,044,529	1,570,264	22,439,056	23,683,391	1,244,335	-1.5%	25,256,636	6.6%

¹ The 2022 Legislative Session resulted in revenue adjustments beyond the March 2022 official estimate; this table has been adjusted accordingly

² Amount reflects a payment to the General Fund from the Maryland Technology Development Corporation (TEDCO).

³ Chapters 336 & 337 of 2022 diverted \$30 million from individual income tax revenues to the Rental Housing Fund.

⁴ Chapter 33 of 2022 diverts \$800 million from individual income tax revenues to the Blueprint Fund

⁵ Established by Chapters 4 & 550 of 2017 and amended by several succeeding Budget Reconciliation And Financing Acts.

⁶ In FY 2022, \$870.3 million of specified income tax revenues was transferred to the Rainy Day Fund and Fiscal Responsibility Fund per the requirements of the Revenue Volatility Cap.

Summary of September Changes

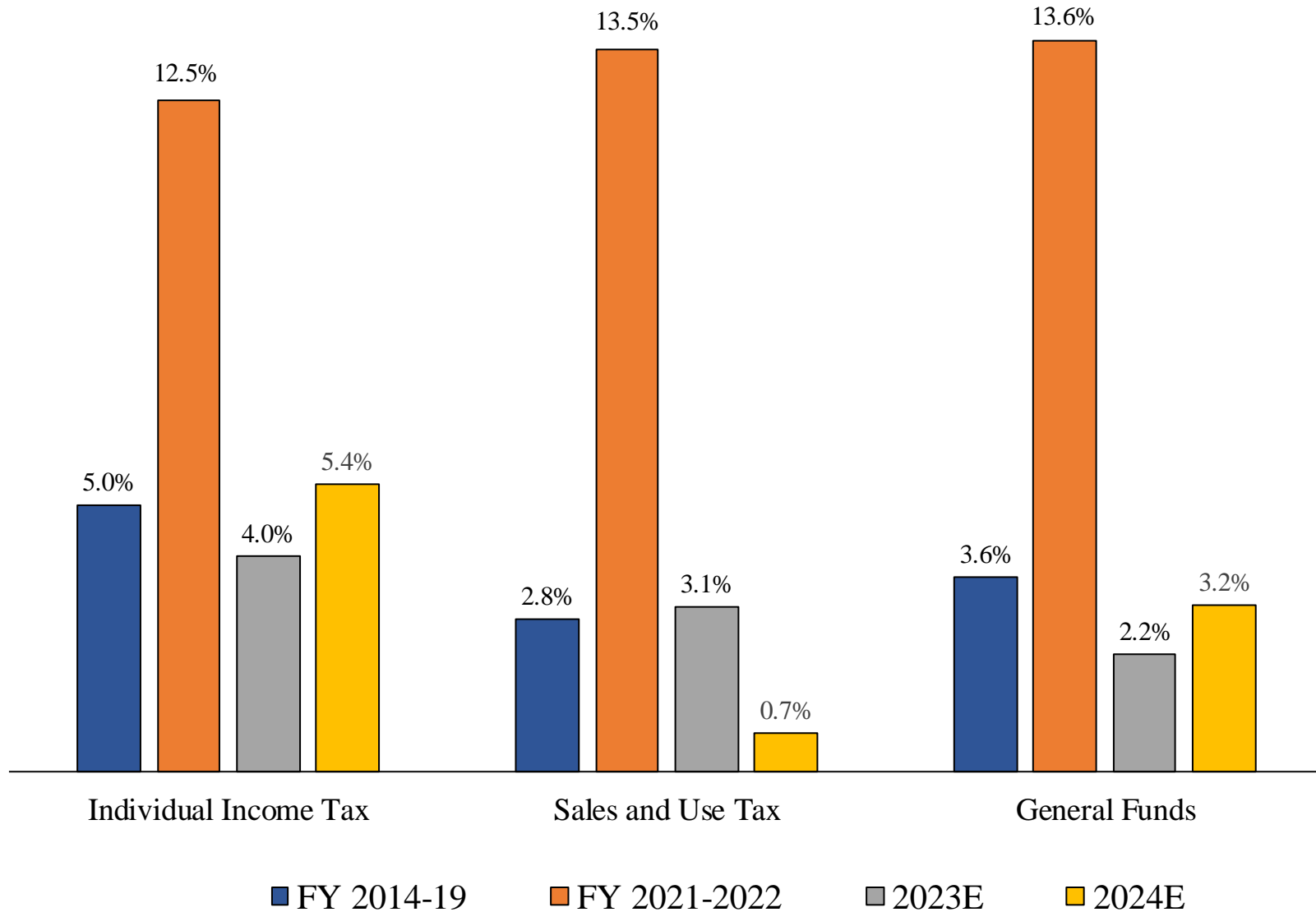
	Fiscal Year 2022		Fiscal Year 2023		Fiscal Year 2024	
	\$ Change From Est	% Growth From Prior Year	\$ Change From Est	% Growth From Prior Year	\$ Change From Est	% Growth From Prior Year
Personal Income Tax	\$1,010	15.7%	\$966	4.0%	\$837	5.4%
Corporate Income Tax	\$94	16.3%	(\$184)	-13.1%	(\$41)	9.8%
Sales Tax	\$268	19.6%	\$368	3.1%	\$380	0.7%
Other	\$198	5.7%	\$94	-30.6%	\$30	32.0%
Total	\$1,570	15.4%	\$1,244	-1.5%	\$1,205	6.6%

Notes: dollars in millions; amounts may not sum from rounding; Mar22 estimate adj for 2022 Session

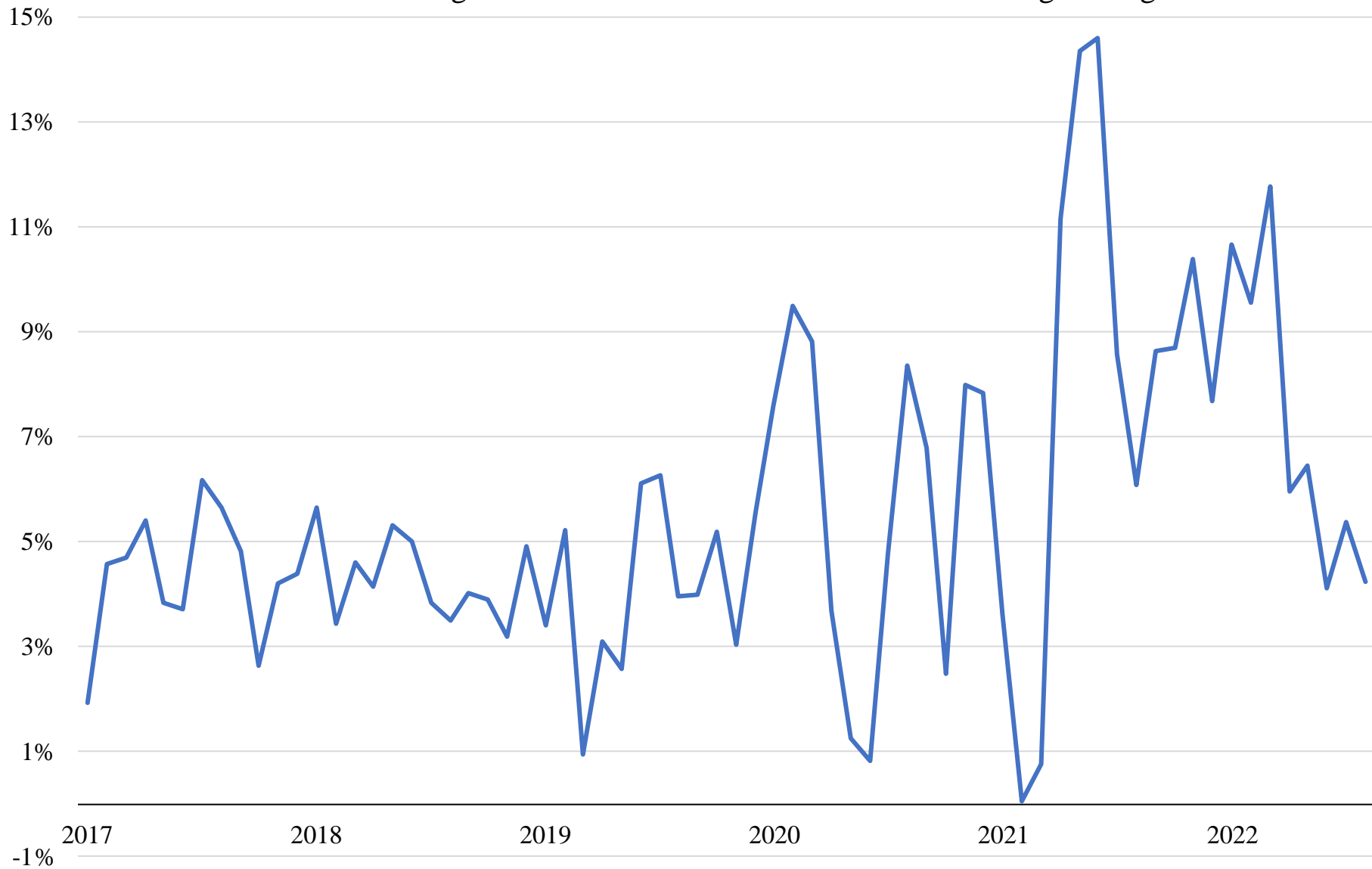
Forecast Assumptions and Risks

- Recent above average revenue growth mainly reflected the impact of federal stimulus and is not expected to continue
- Forecast is largely consistent with March forecast, but slower economic growth primarily in fiscal 2023
- Federal Reserve reduces inflation without causing a recession
- Volatile income sources that have recently increased may work against us if economic conditions deteriorate

Revenue Growth is Expected to Moderate



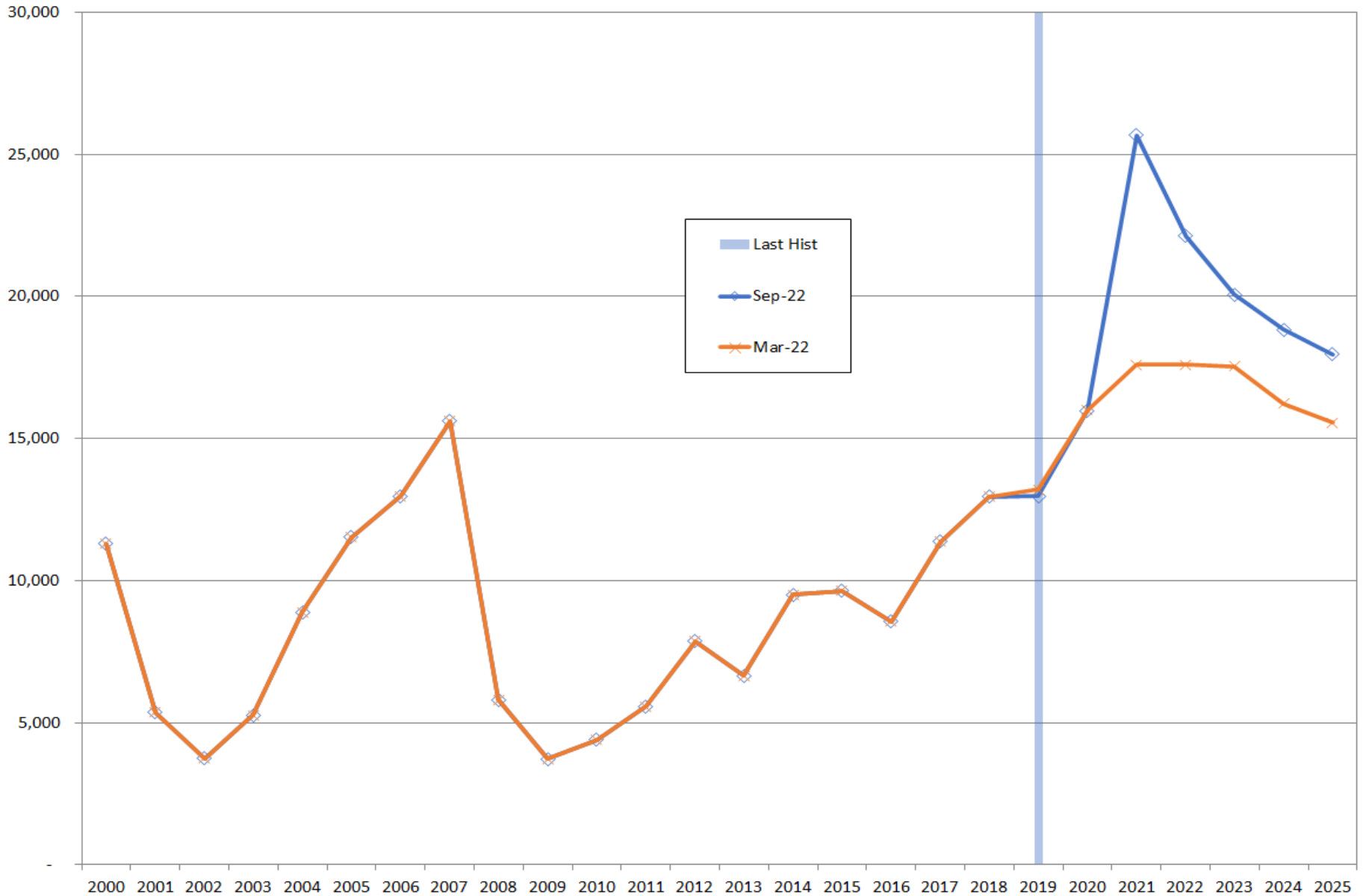
Withholding - Year-Over-Year Growth - 3 Month Moving Average



PIT Component Growth Rates

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Withholding	5.7%	5.3%	5.1%	4.6%	4.5%	4.7%
Estimated Payments	1.8%	2.2%	2.0%	0.6%	-0.4%	2.9%
Fiduciary	-11.8%	1.3%	1.7%	2.2%	3.0%	2.8%
Final	-4.6%	1.2%	2.6%	2.6%	1.4%	3.7%
Gross	3.3%	4.2%	4.2%	3.8%	3.4%	4.3%
Refunds	5.0%	-0.9%	1.0%	2.3%	6.7%	3.3%
Net	3.1%	5.0%	4.7%	4.0%	3.0%	4.4%
Local Share	2.2%	4.2%	4.7%	4.0%	3.0%	4.4%

Taxable Capital Gains



Fiscal 2023 Revenues – Quarter 1

- Uncertainty over the economic outlook has increased but economic data and State revenue data do not at present indicate a broad-based slowdown
- Fiscal 2023 revenues (through September) are slightly above estimates, mostly due to the corporate income tax
- Personal income tax and consumer spending taxes (sales and use, lottery, and gambling revenues) are in line with estimates
- BRE is carefully monitoring economic data revenues sources for signs of weakening and establishing thresholds of concern
- State revenues often lag behind changes in economy

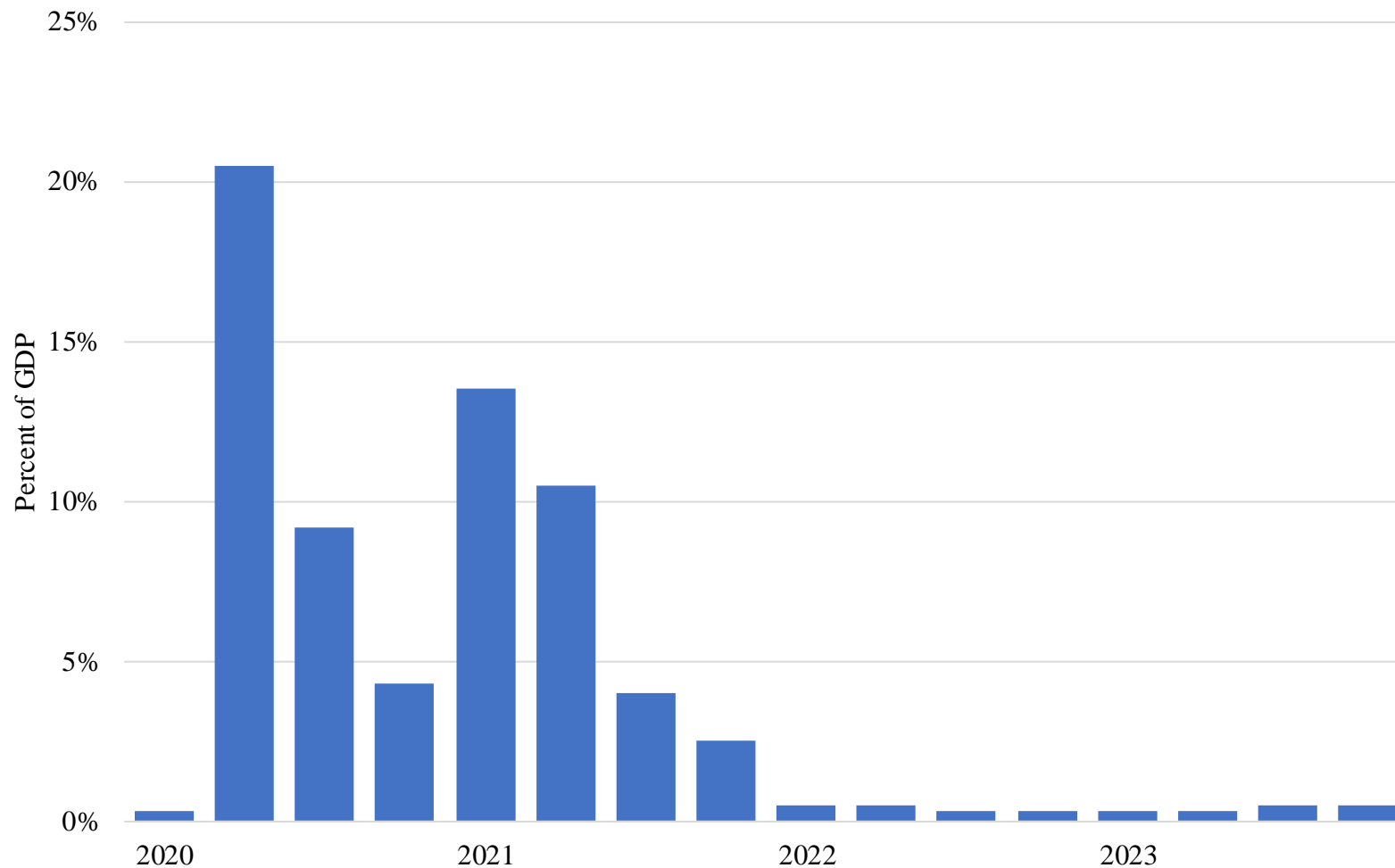
NEAR-TERM UNCERTAINTIES

Many Events Drive Uncertainty

- COVID-19 pandemic
- Federal fiscal stimulus
- Supply chain issues
- Russia's war against Ukraine
- Inflation
- Pivot of federal government policy from supporting economic recovery to focus on reducing inflation
- Response of economy and financial markets to higher inflation rates

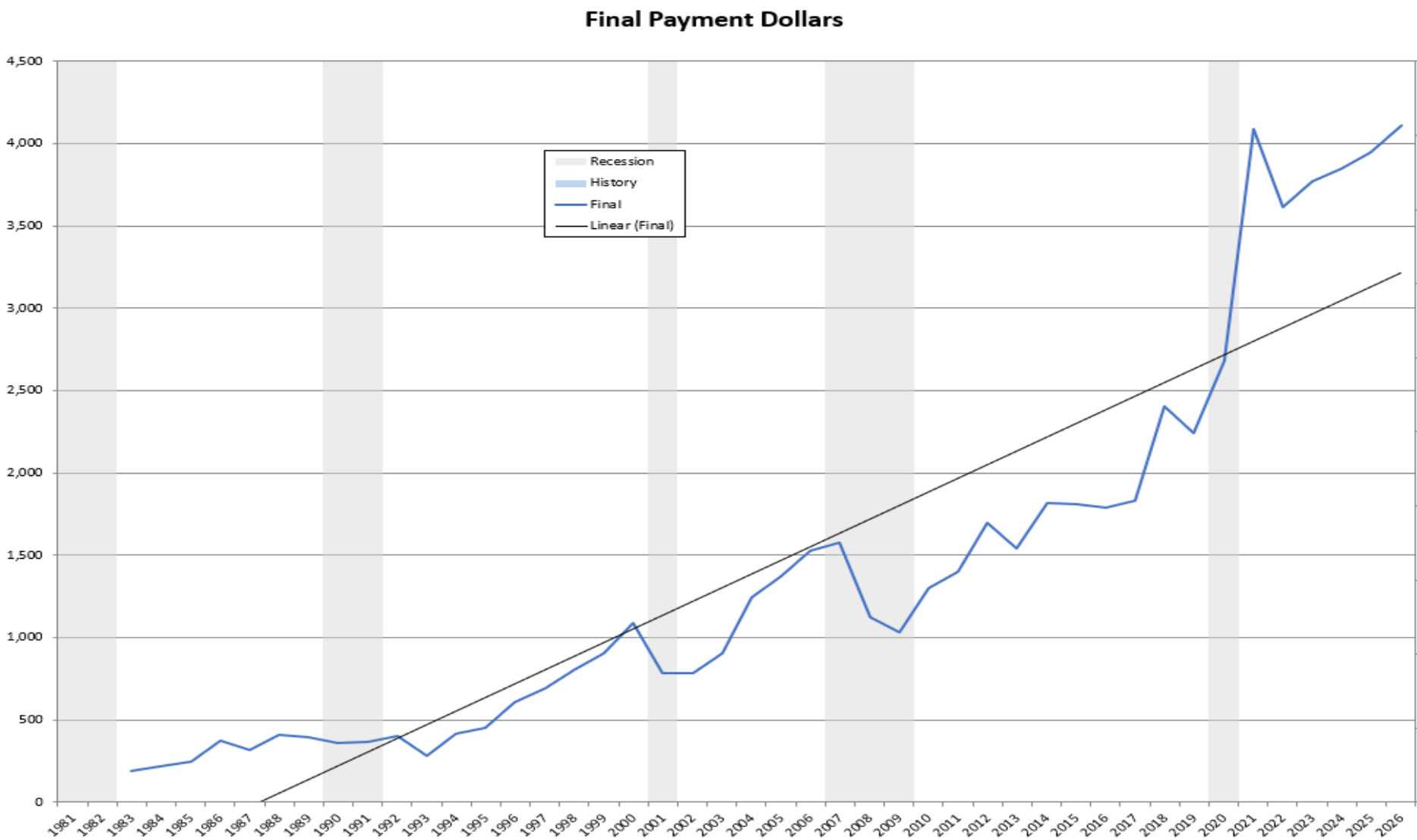
Impact of Fiscal Stimulus is Fading

Federal Economic Assistance and Infrastructure Spending

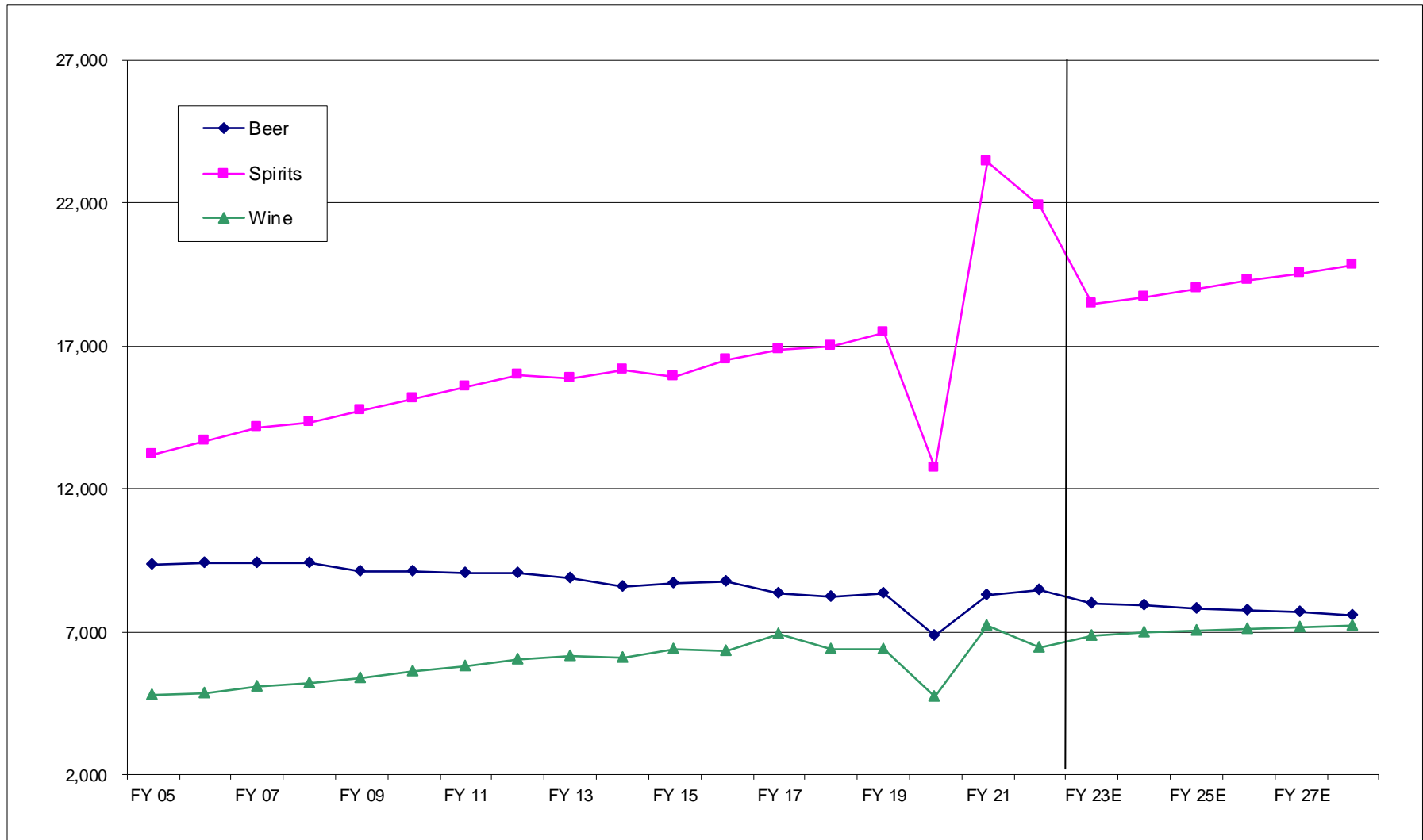


Source: IHS Markit, Bureau of Revenue Estimates

Forecast Includes Growth from Recent Stimulus Gains

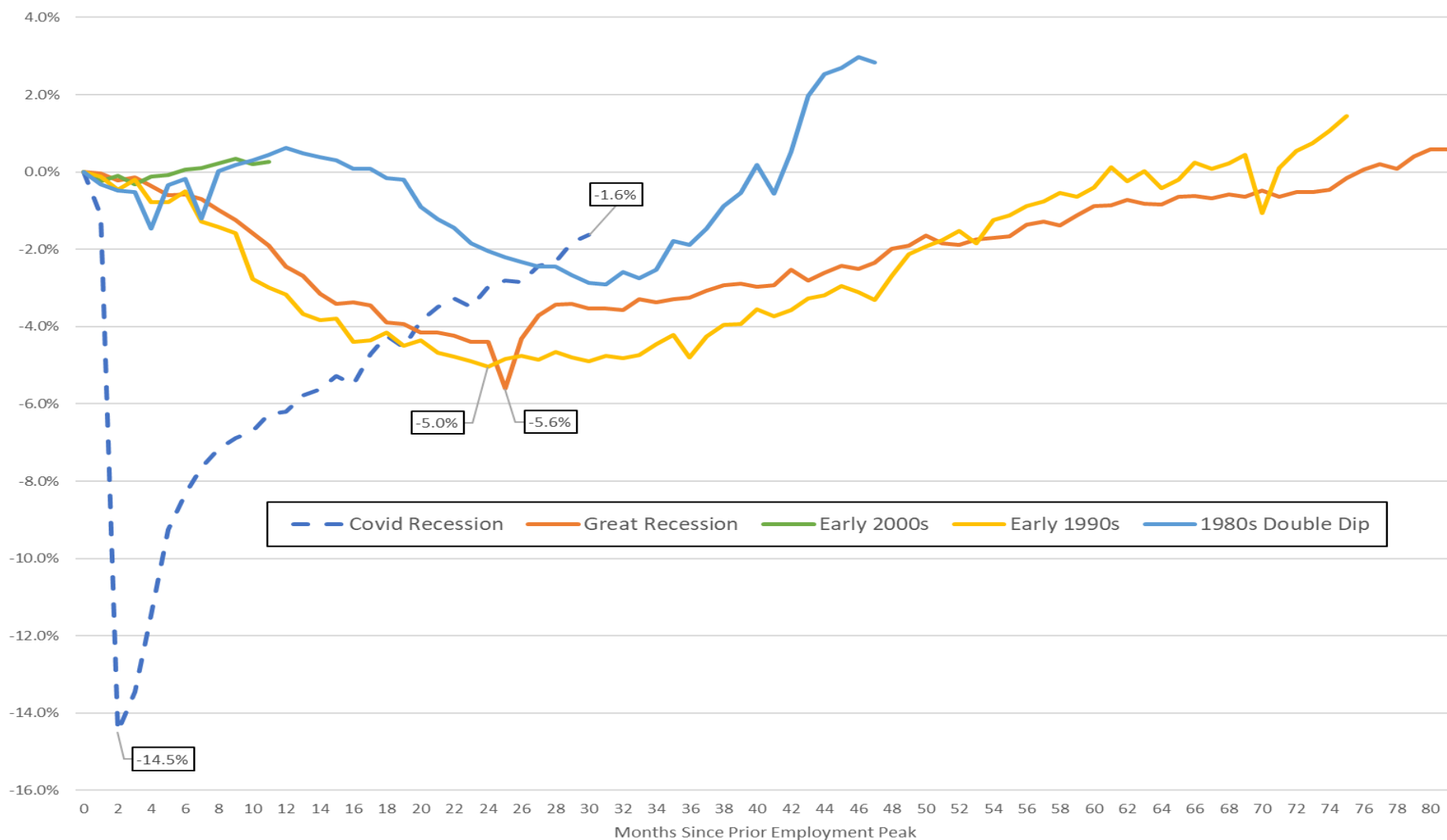


Spirits Consumption – Normalization Assumption

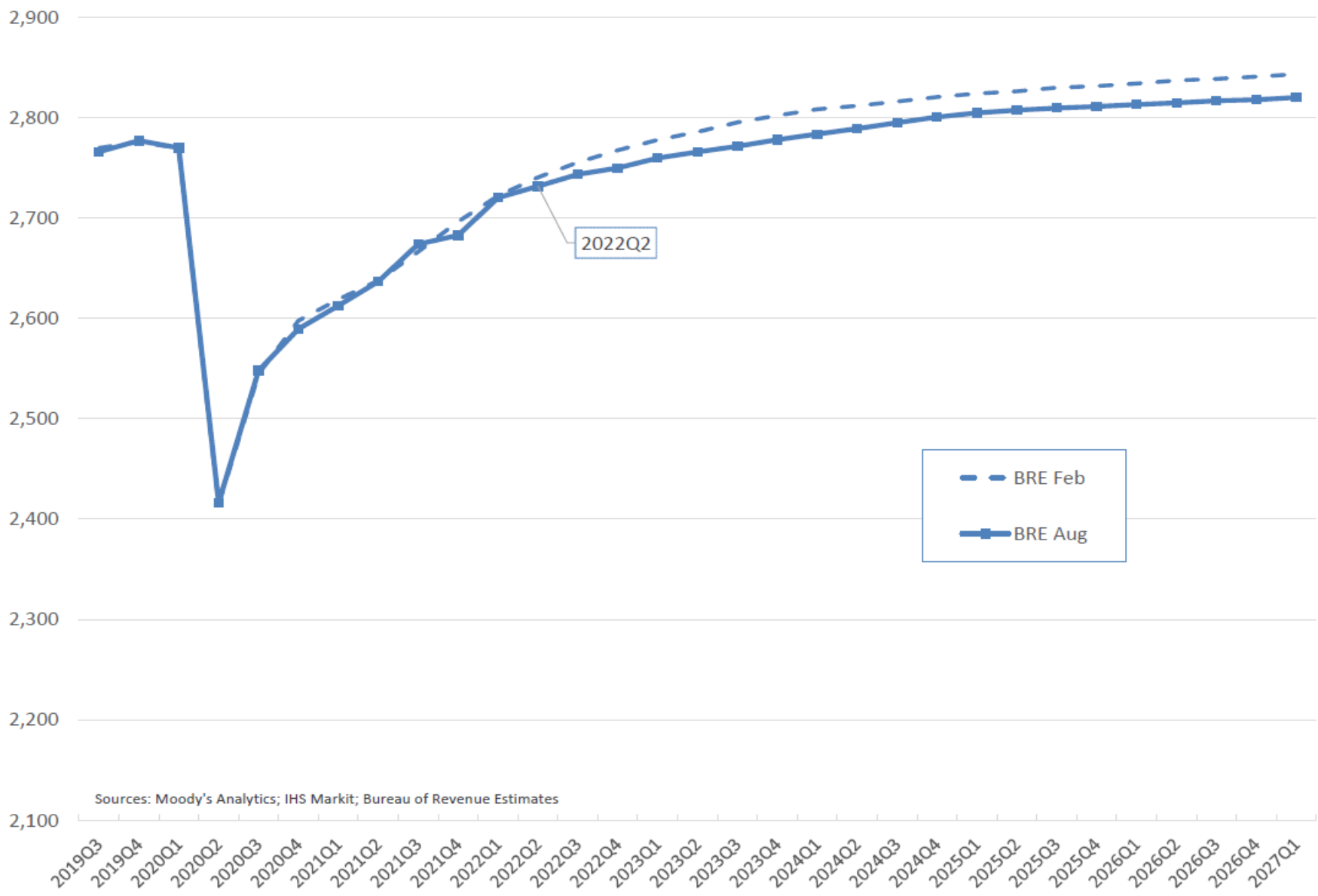


Employment – Faster Recovery but Slowing

Maryland Total Employment Indexed to Prior Peak



Forecast of Jobs in Maryland (000s)



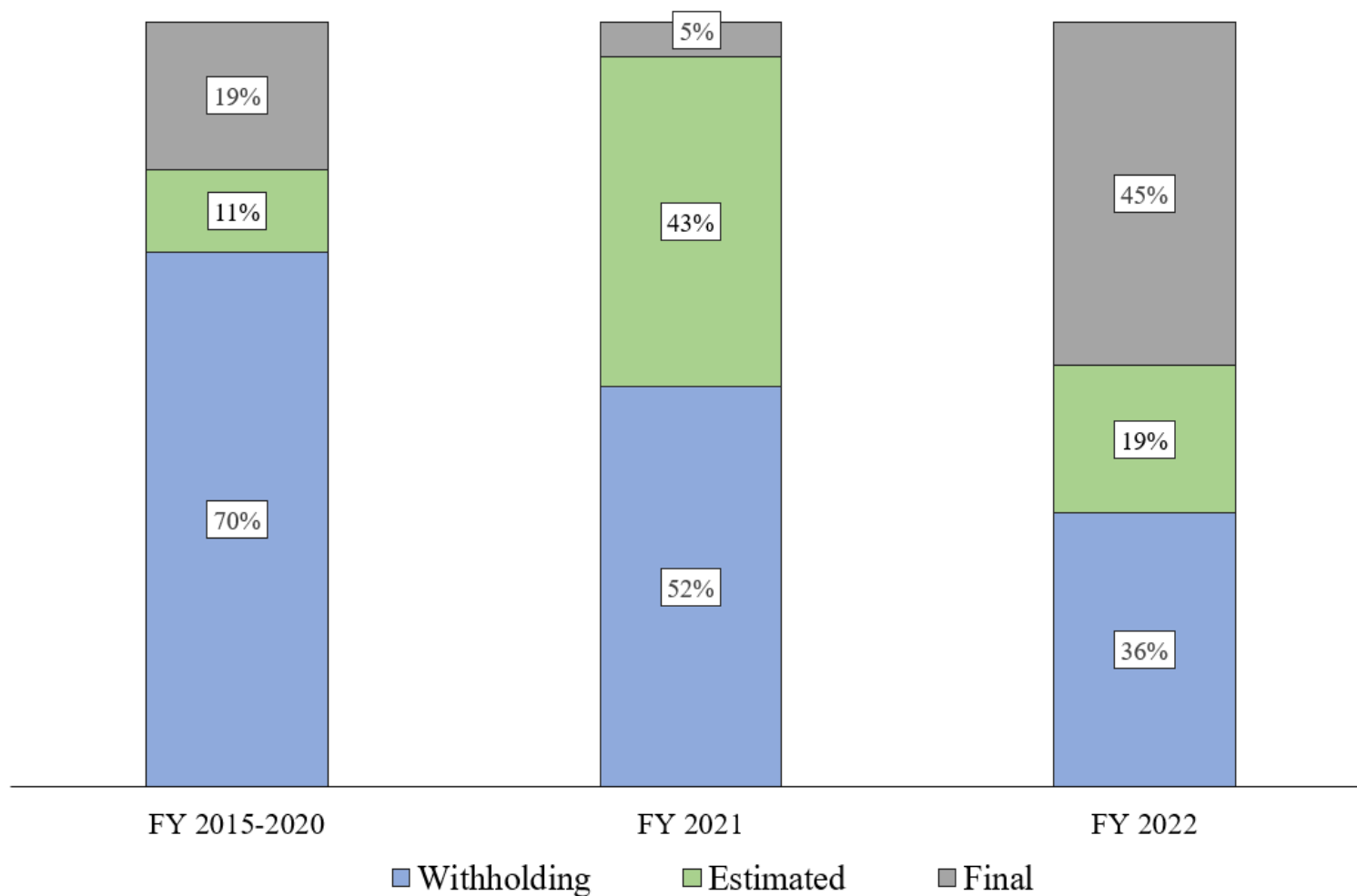
REVENUE VOLATILITY

Volatile Revenue Sources Are an Increasing Share of the General Fund

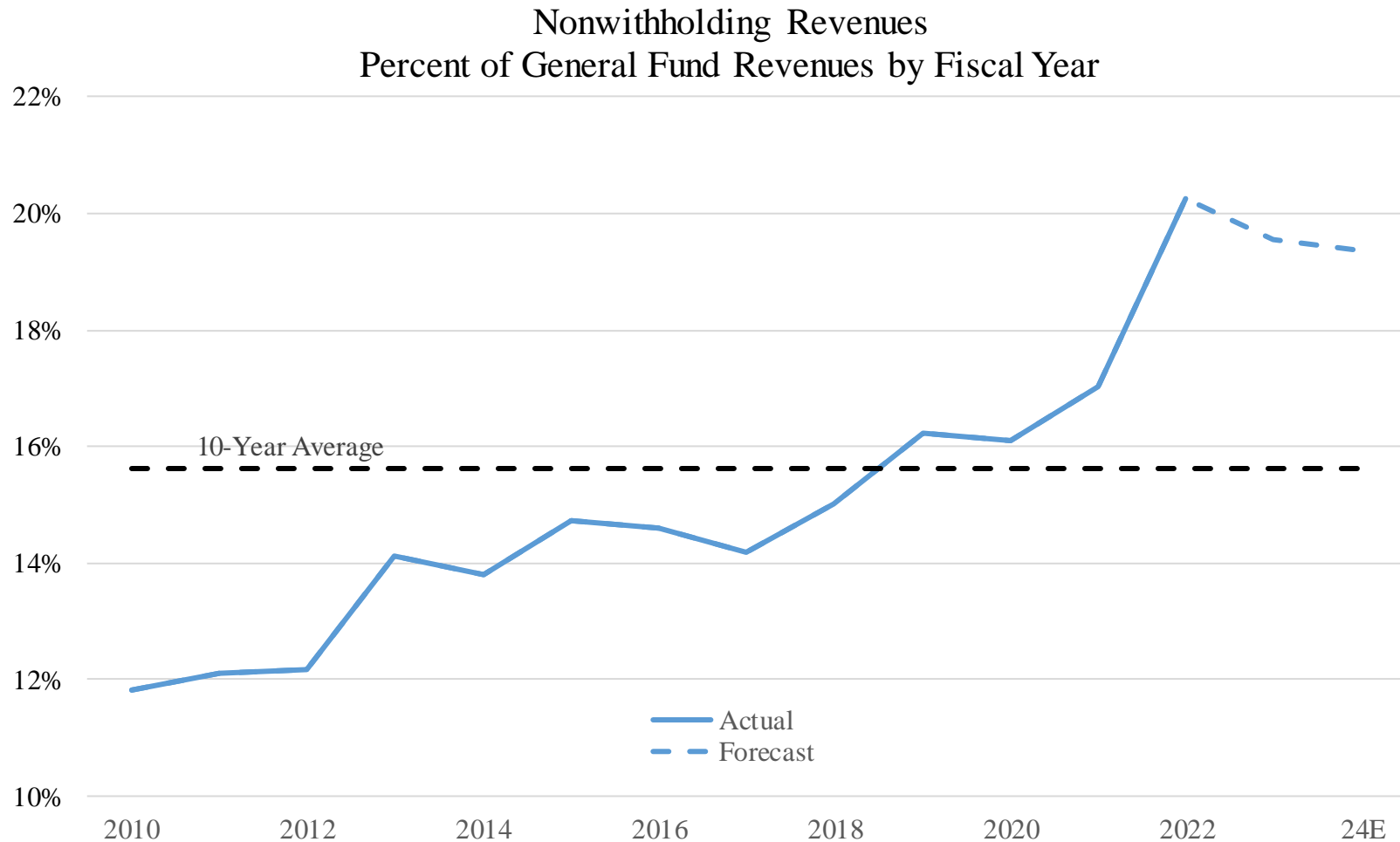
- Wages do not typically decline without significant job losses
- Non-wage income is not as stable and can decline precipitously in a short span of time
- Non-wage income data is harder to monitor
- State's largest tax source has shifted from being overwhelmingly wage based to more non-wage based income

Estimated and Final Payments are Driving Recent Individual Income Tax Revenues

Contribution to Personal Income Tax Growth



State Revenue Sources are Now More Volatile



Note: FY 2023 does not reflect impact of \$800 million PIT transfer
Source: Bureau of Revenue Estimates

Revenue Volatility Cap

- Chapters 4 and 550 of 2017 implemented the revenue volatility cap, a fiscal policy designed to mitigate the impact of these volatile revenue sources on the State budget
- The BRE, subject to specified maximum amounts, must “cap” its official fiscal year estimates of nonwithholding revenues if the estimate exceeds a 10-year average
- FY 2023 estimate is reduced by \$100 million. In absence of maximum limitation, estimate would have been reduced by about \$475 million
- If actual nonwithholding revenues exceed the capped estimated, unanticipated revenues must be applied to cover any revenue shortfall
 - Otherwise, specified amounts must be distributed to the Rainy Day Fund and Fiscal Responsibility Fund
 - FY 2022: Total of \$500 million to Rainy Day Fund & \$370 million to Fiscal Responsibility Fund

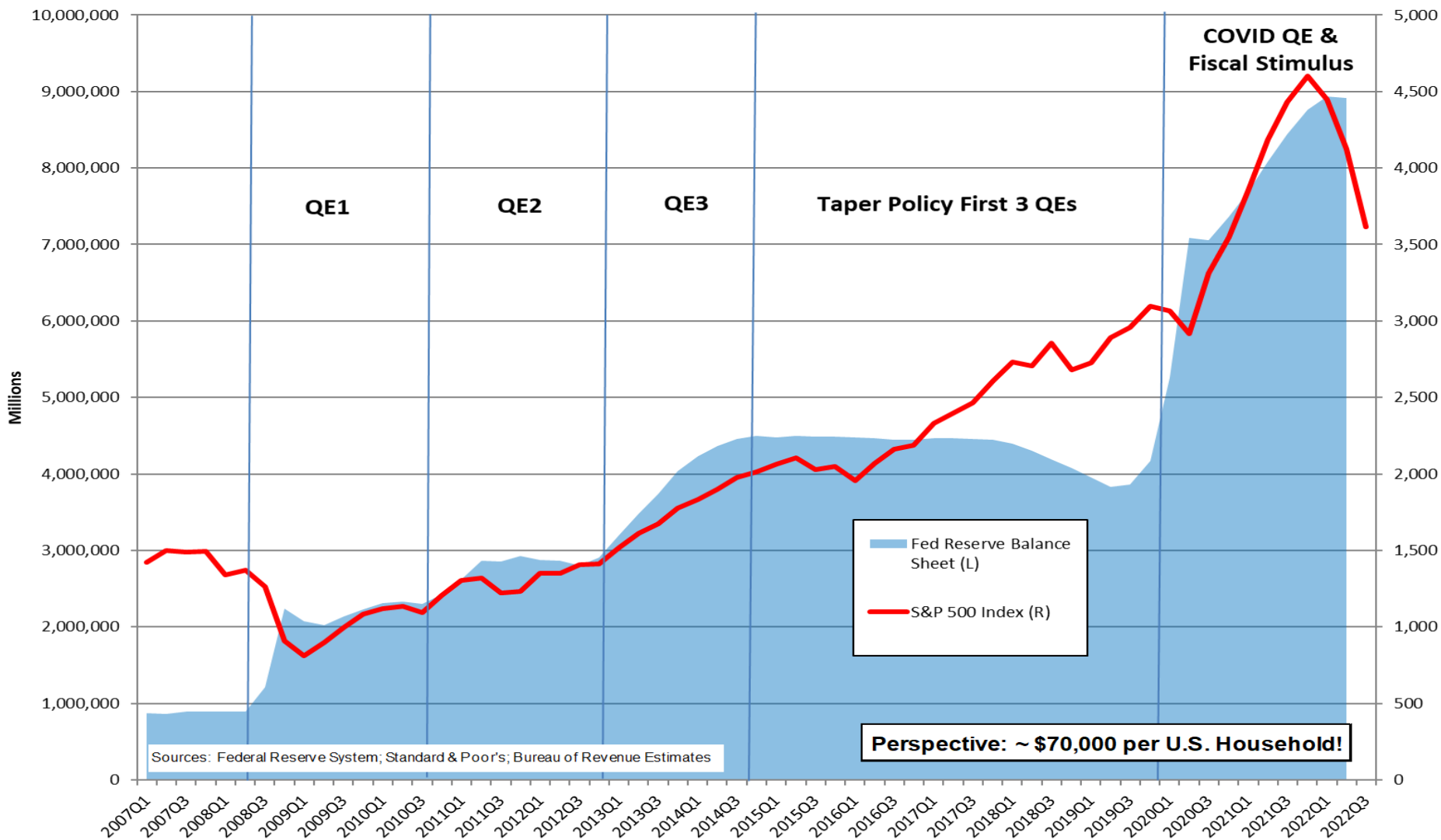
THE LONG-TERM

Entering a New Business Cycle?

- Prior Business Cycle - Great Recession Recovery:
 - Low inflation and interest rates
 - Deflationary impact of globalization
 - Favorable demographics
 - Long cyclical labor market and asset price recovery
- Next business cycle?
 - More challenging outlook for equities
 - Slowing or reversal of globalization
 - Increasing government debt
 - Demographic and labor market challenges

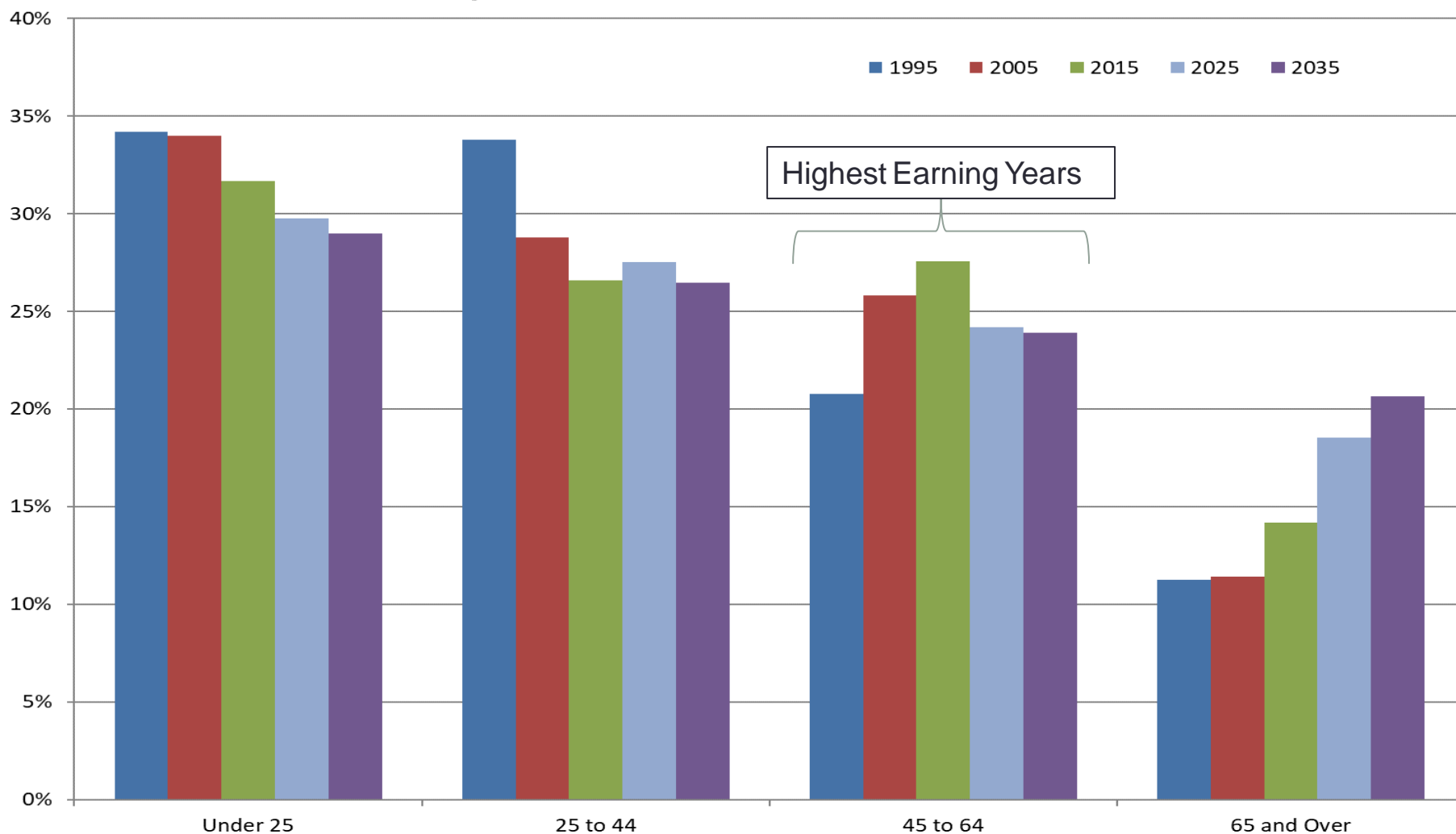
Fed Reserve and Equity Markets

Federal Reserve Liquidity Actions and Equity Prices



State Labor Force Demographics

Age Distribution of MD Residents



2023 LEGISLATIVE SESSION

State Enters 2023 Session with Strong Cash Position

- Fiscal Year 2022 closed out with excess unallocated general funds
 - Also \$1.7 billion in Rainy Day Fund & \$370 million in Fiscal Responsibility Fund
- Fiscal Year 2023 general fund estimates (current year) and Fiscal Year 2024 were recently increased by a combined \$2.4 billion
- Fiscal Year 2023 budget allocates \$1.3 billion to the Rainy Day Fund
- State has a greater ability to endure a “normal” downturn with current reserves without slashing services or raising taxes

Potential 2023 Fiscal Issues

- Earned income and child tax credit enhancements enacted during 2020 Session expire at the end of tax year 2022
- Recreational Marijuana – Implementing legislation contingent on voter approval
- Constitutional amendment alters budgeting powers and process beginning with Fiscal 2024
 - General Assembly has additional budgetary powers
 - Governor may issue line-item vetoes

Thank You

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