

HOUSE APPROPRIATIONS COMMITTEE

Delegate Ben Barnes, Chair

Delegate Mark Chang, Vice Chair

HOUSE COMMITTEE ON WAYS AND MEANS

Delegate Vanessa Atterbeary, Chair

Delegate Jheanelle Wilkins, Vice Chair

Agenda

Thursday, March 9, 2023

4:00 p.m.

HOB 120

I. Call to Order and Opening Remarks

II. Presentation from the Bureau of Revenue Estimates

Robert Rehmann, Director, Bureau of Revenue Estimates

Department of Legislative Services

David Romans, Coordinator Fiscal and Policy Analysis

III. Closing Remarks and Adjournment

REVENUE ESTIMATES AND ECONOMIC OUTLOOK

March 9, 2023

Robert J. Rehrmann
Executive Secretary
Board of Revenue Estimates

Maryland General Fund Revenues

Fiscal Years 2022 - 2024

		FY 2023				FY 2024			
	FY 2022	December	March			December	March		
\$ Thousands	Actual	Estimate	Estimate	Difference	Growth	Estimate	Estimate	Difference	Growth
INCOME TAXES:									
Individual	13,548,045	14,052,616	13,802,924	(249,691)	1.9%	14,667,670	14,339,006	(328,663)	3.9%
Corporation	1,700,268	1,477,464	1,731,940	254,475	1.9%	1,622,505	1,673,174	50,669	-3.4%
Total	15,248,313	15,530,080	15,534,864	4,784	1.9%	16,290,175	16,012,181	(277,994)	3.1%
SALES AND USE TAXES	5,966,843	6,150,168	6,018,016	(132,152)	0.9%	6,194,835	6,047,564	(147,271)	0.5%
STATE LOTTERY	635,075	636,451	636,451	-	0.2%	622,942	622,942	-	-2.1%
OTHER REVENUES									
Business Franchise Taxes	264,443	222,983	222,983	-	-15.7%	223,872	223,872	-	0.4%
Tax on Insurance Companies	631,380	648,027	648,027	-	2.6%	664,910	664,910	-	2.6%
Estate and Inheritance Taxes	266,055	268,741	268,741	-	1.0%	229,043	229,043	-	-14.8%
Tobacco Tax	479,158	463,766	463,766	-	-3.2%	424,538	424,538	-	-8.5%
Alcoholic Beverages Excise Tax	39,076	35,911	35,911	-	-8.1%	35,890	35,890	-	-0.1%
District Courts	41,256	40,269	40,269	-	-2.4%	42,088	42,088	-	4.5%
Clerks of the Court	36,893	33,304	33,304	-	-9.7%	33,178	33,178	-	-0.4%
Hospital Patient Recoveries	68,829	62,300	62,300	-	-9.5%	63,200	63,200	-	1.4%
Interest on Investments	48,978	125,000	175,000	50,000	257.3%	50,000	75,000	25,000	-57.1%
Miscellaneous	331,920	422,228	422,228	-	27.2%	335,196	335,196	-	-20.6%
Total	2,207,988	2,322,528	2,372,528	50,000	7.5%	2,101,916	2,126,916	25,000	-10.4%
Total Current Revenues	24,058,218	24,639,226	24,561,858	(77,368)	2.1%	25,209,867	24,809,602	(400,265)	1.0%
Extraordinary Revenues ¹	16,311	-	-	-	-100.0%	-	-	-	
Rental Housing Fund ²	(30,000)	-	-	-		-	-	-	
Blueprint for Maryland's Future Fund ³	-	(800,000)	(800,000)	-		-	-	-	
Revenue Volatility Cap ⁴	-	(100,000)	(100,000)	-		(120,000)	(120,000)	-	20.0%
GRAND TOTAL ⁵	24,044,529	23,739,226	23,661,858	(77,368)	-1.6%	25,089,867	24,689,602	(400,265)	4.3%

¹ Amount reflects a payment to the General Fund from the Maryland Technology Development Corporation (TEDCO).

² Chapters 336 & 337 of 2022 diverted \$30 million from individual income tax revenues to the Rental Housing Fund.

³ Chapter 33 of 2022 diverts \$800 million from individual income tax revenues to the Blueprint Fund.

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

⁵ 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.

What Has Changed Since December?

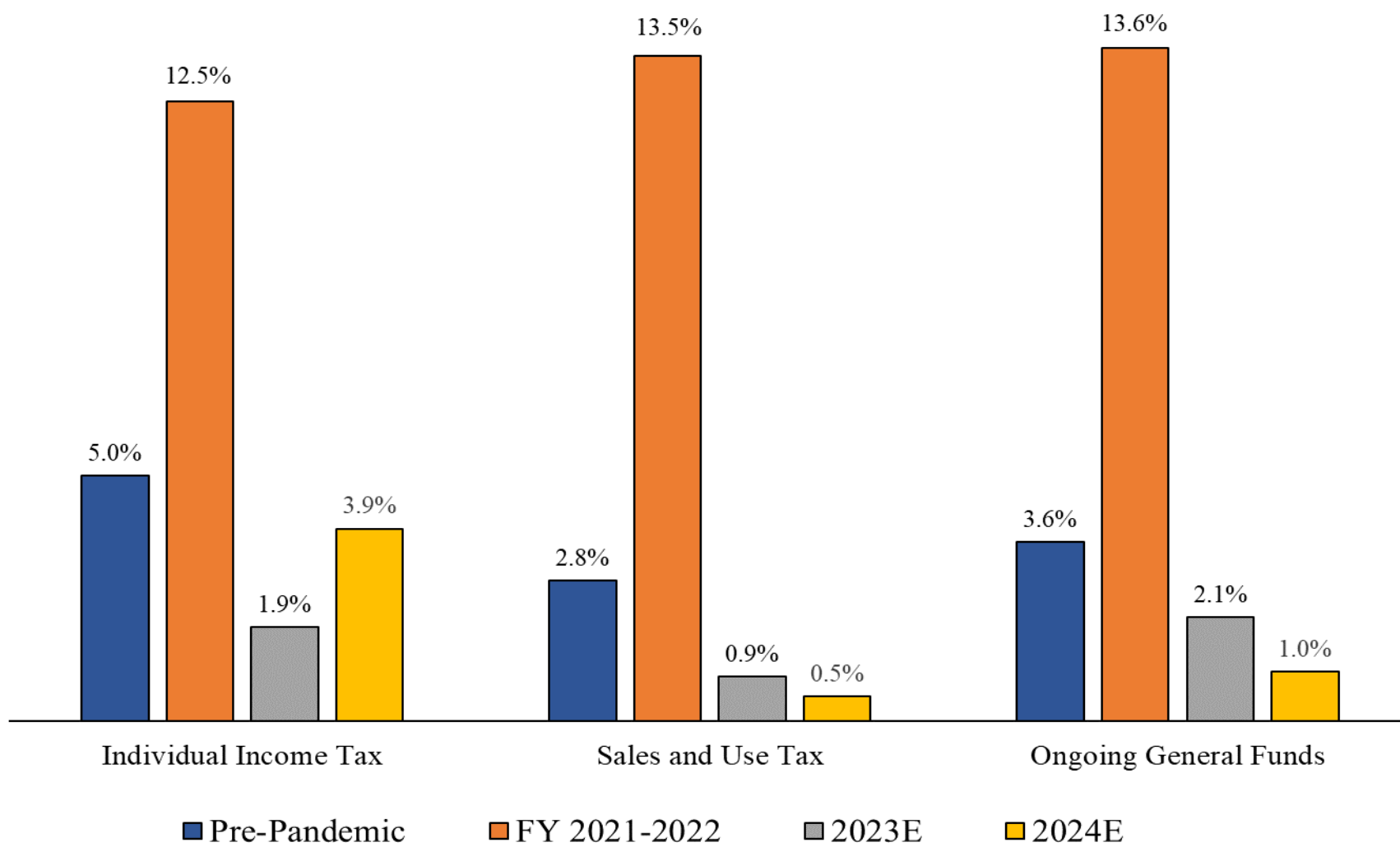
- Year-to-date revenue, which was performing as expected, has slowed in the last few months and in total is now below the December forecast
- March forecast includes greater decreases in nonwage income
 - Estimated payments, which were increasing, had a sharp decline for the 4th quarter of tax year 2022
- Recent, preliminary data shows the Maryland economy is underperforming relative to the U.S. economy
 - Labor market and consumer spending in Maryland slowed faster than anticipated
- March forecast has slower growth rates but does not include a recession

Summary of March Changes

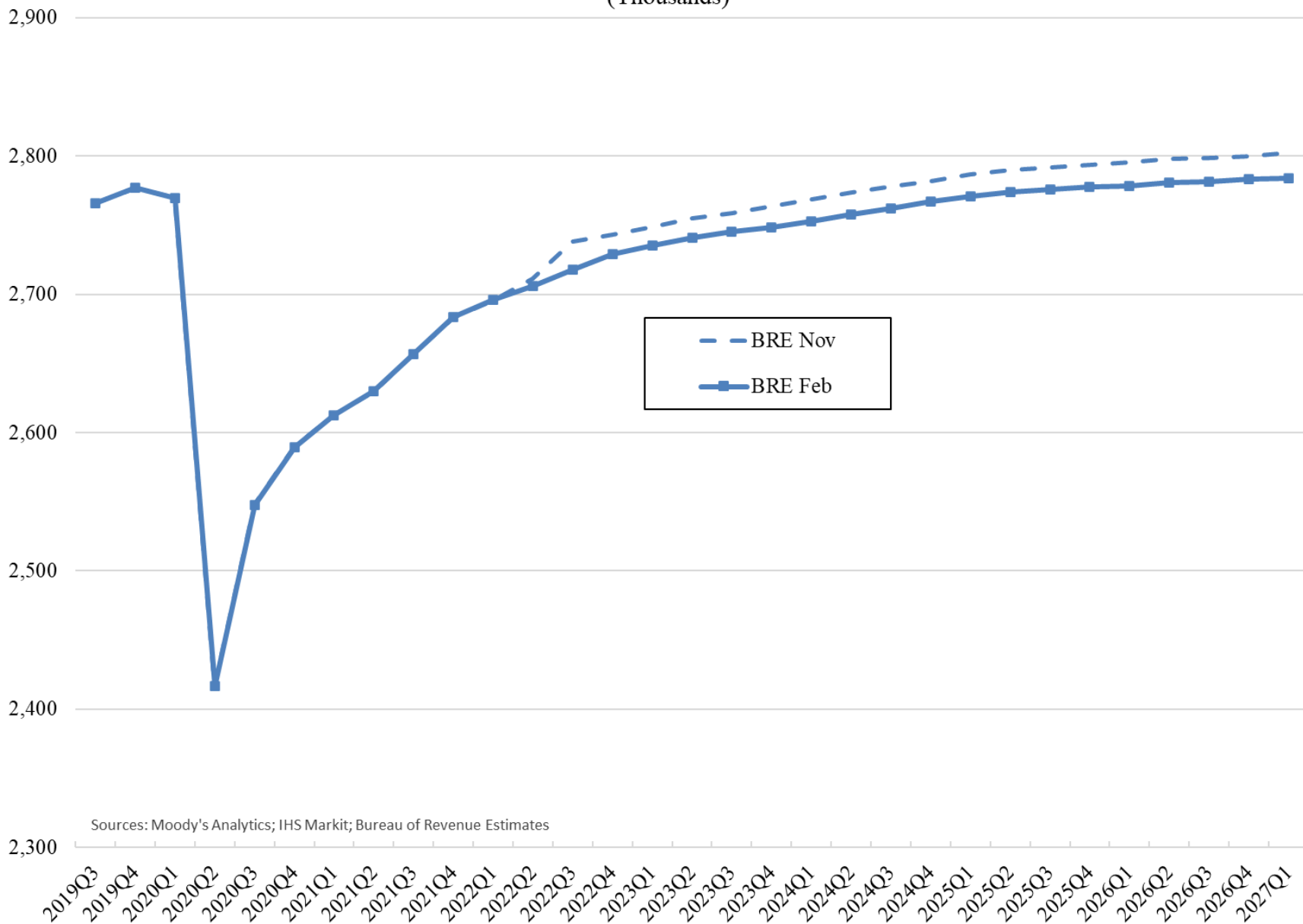
	Fiscal Year 2023		Fiscal Year 2024	
Revenue Source	\$ Change From Est	% Change From Prior Year	\$ Change From Est	% Change From Prior Year
Personal Income Tax	(\$249.7)	1.9%	(\$328.7)	3.9%
Corporate Income Tax	\$254.5	1.9%	\$50.7	-3.4%
Sales Tax	(\$132.2)	0.9%	(\$147.3)	0.5%
Other	\$50.0	5.8%	\$25.0	-8.6%
Total – Ongoing Revenues	(\$77.4)	2.1%	(\$400.3)	1.0%

Notes: dollars in millions; amounts may not sum from rounding.

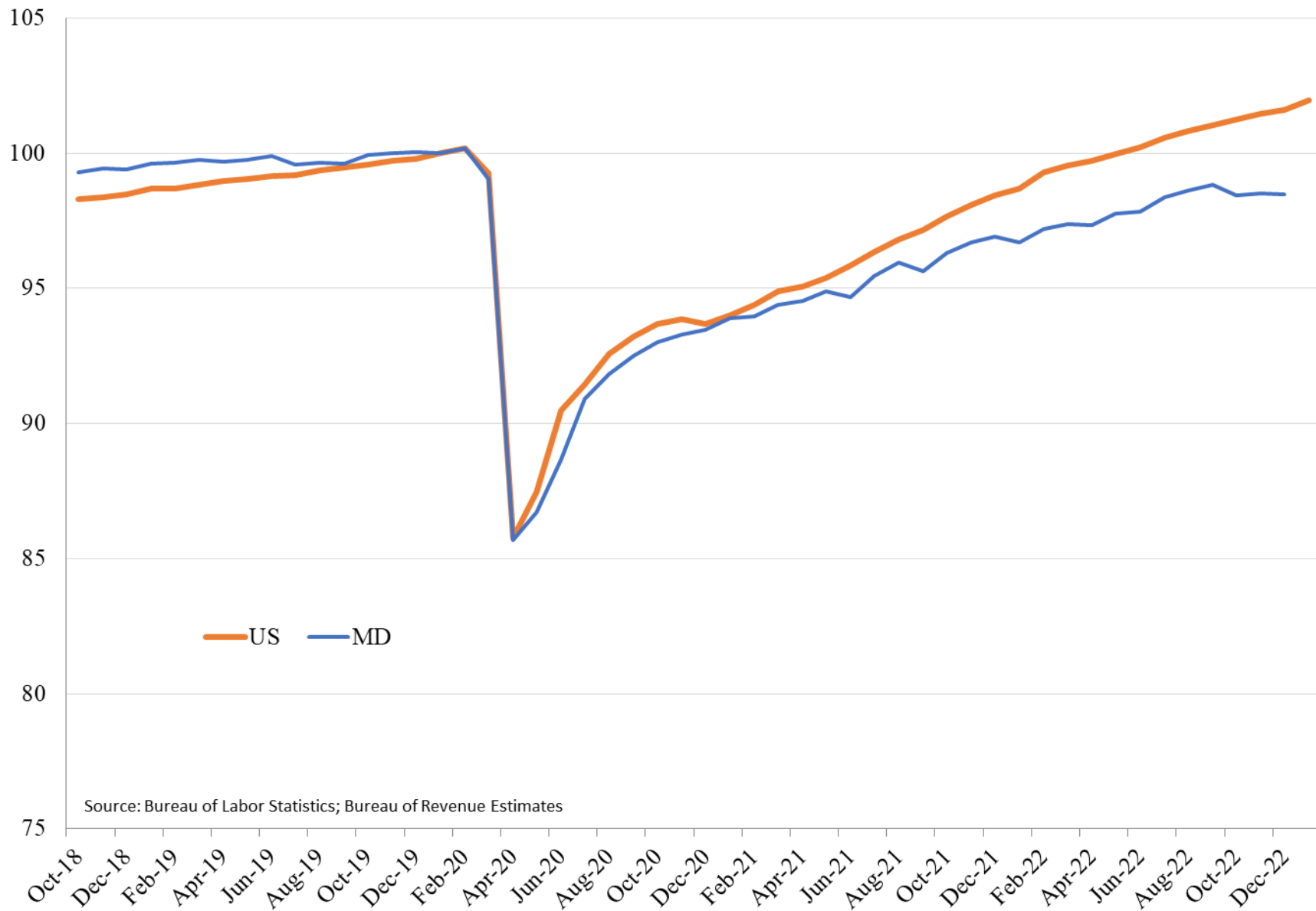
Comparison of General Fund Growth Rates



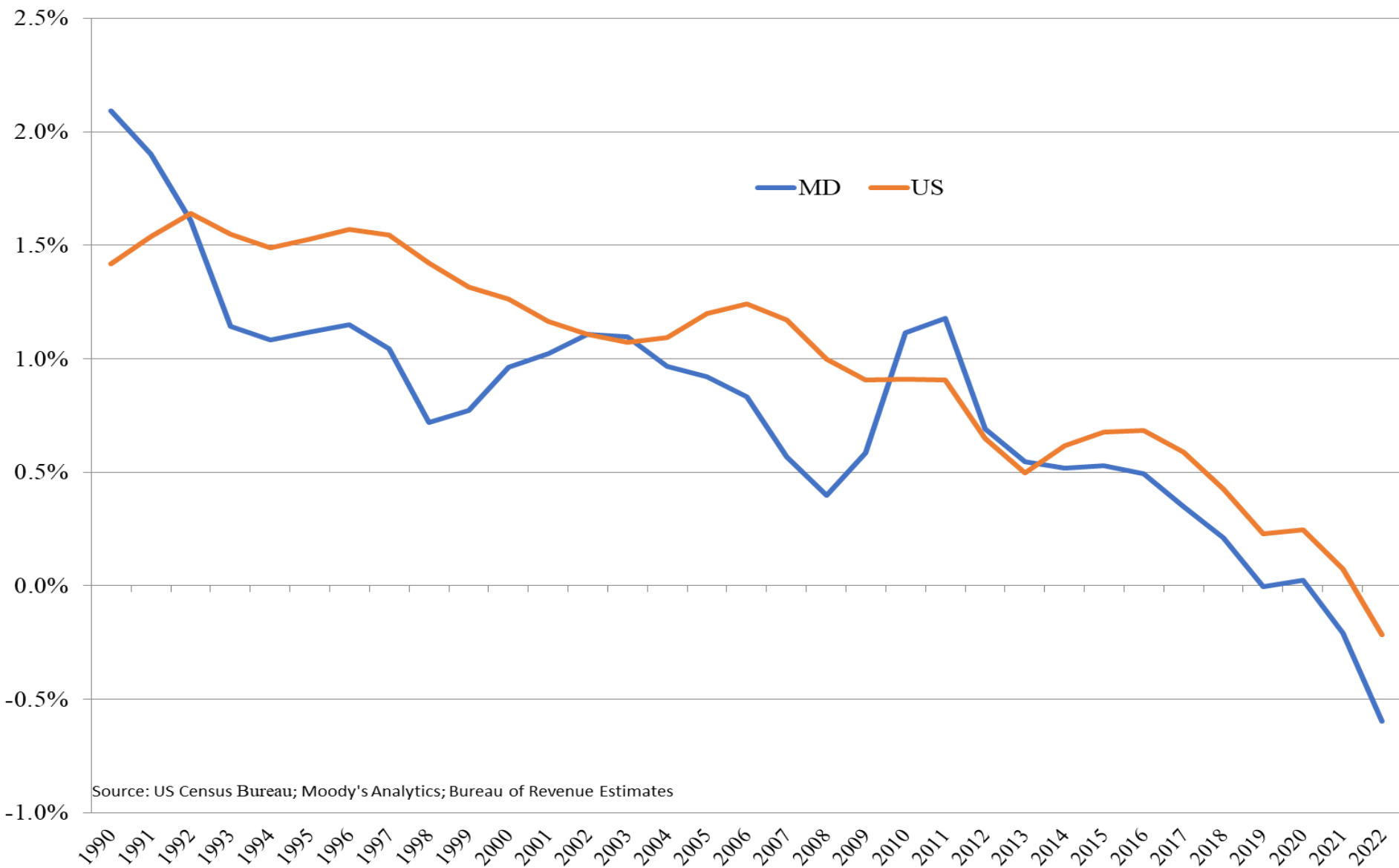
Forecasts of Jobs in Maryland (Thousands)



Payroll Employment, Indexed to Feb 2020

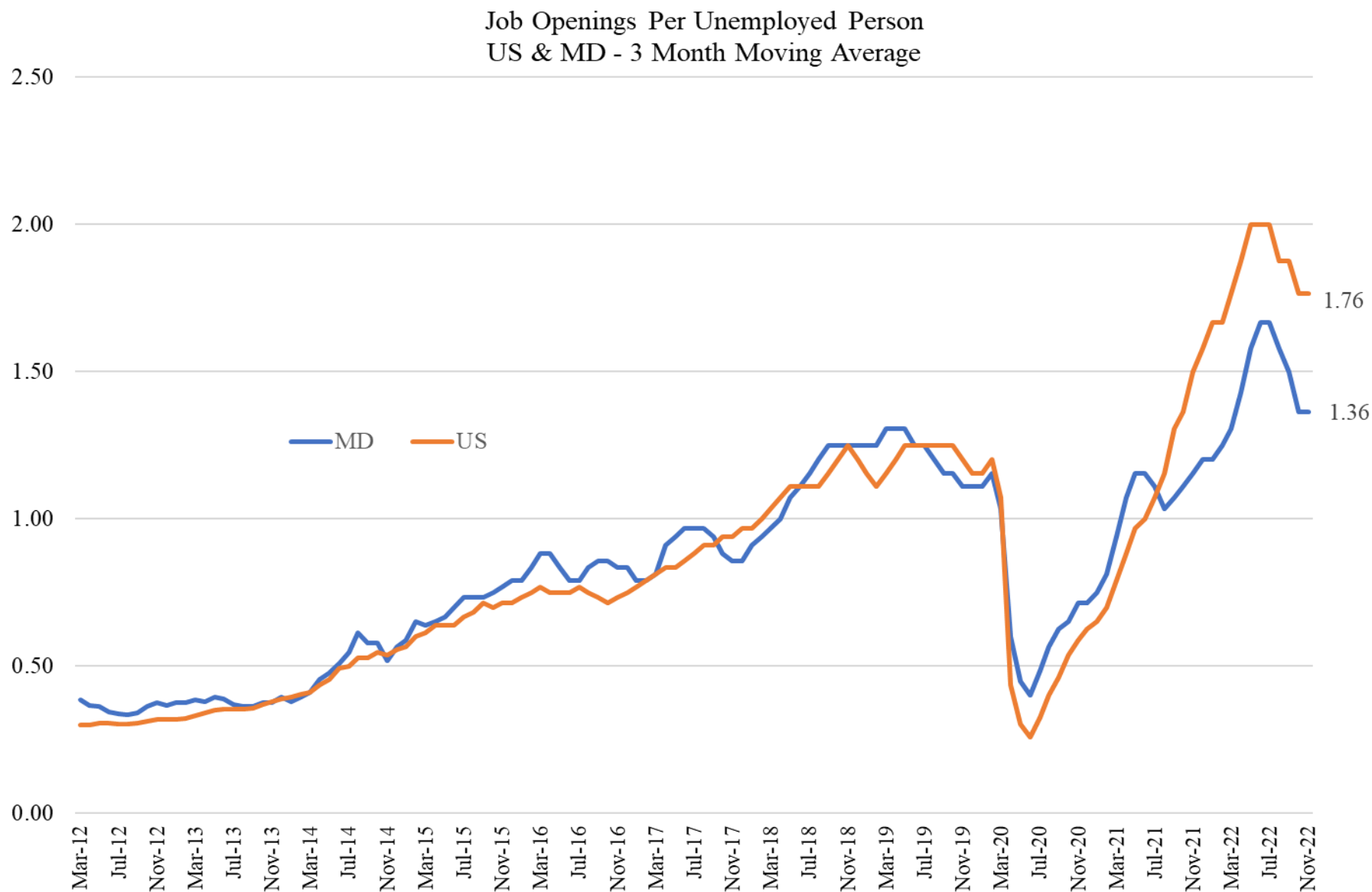


Working Age Population Change

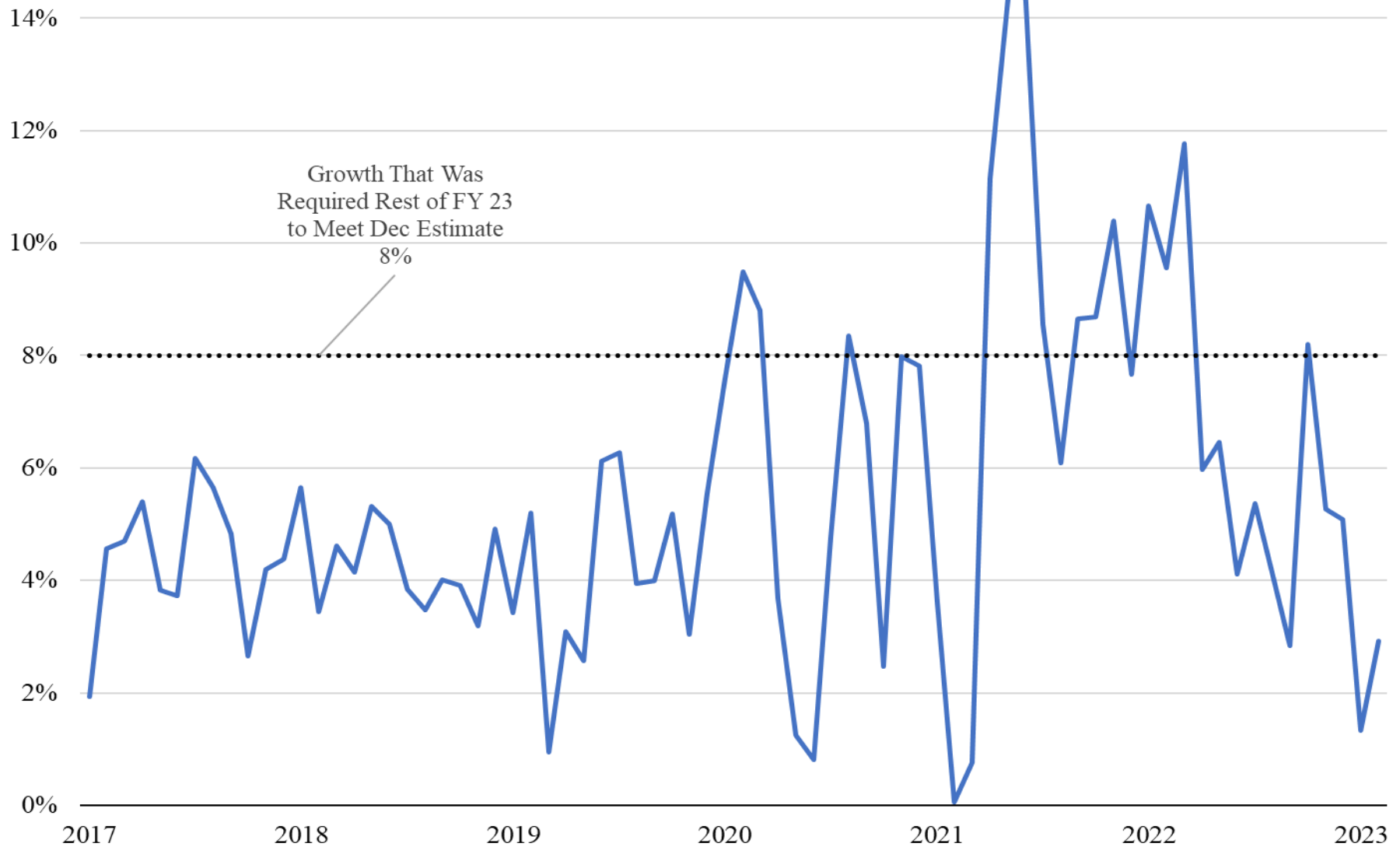


Source: US Census Bureau; Moody's Analytics; Bureau of Revenue Estimates

Note: Change is two-year moving average

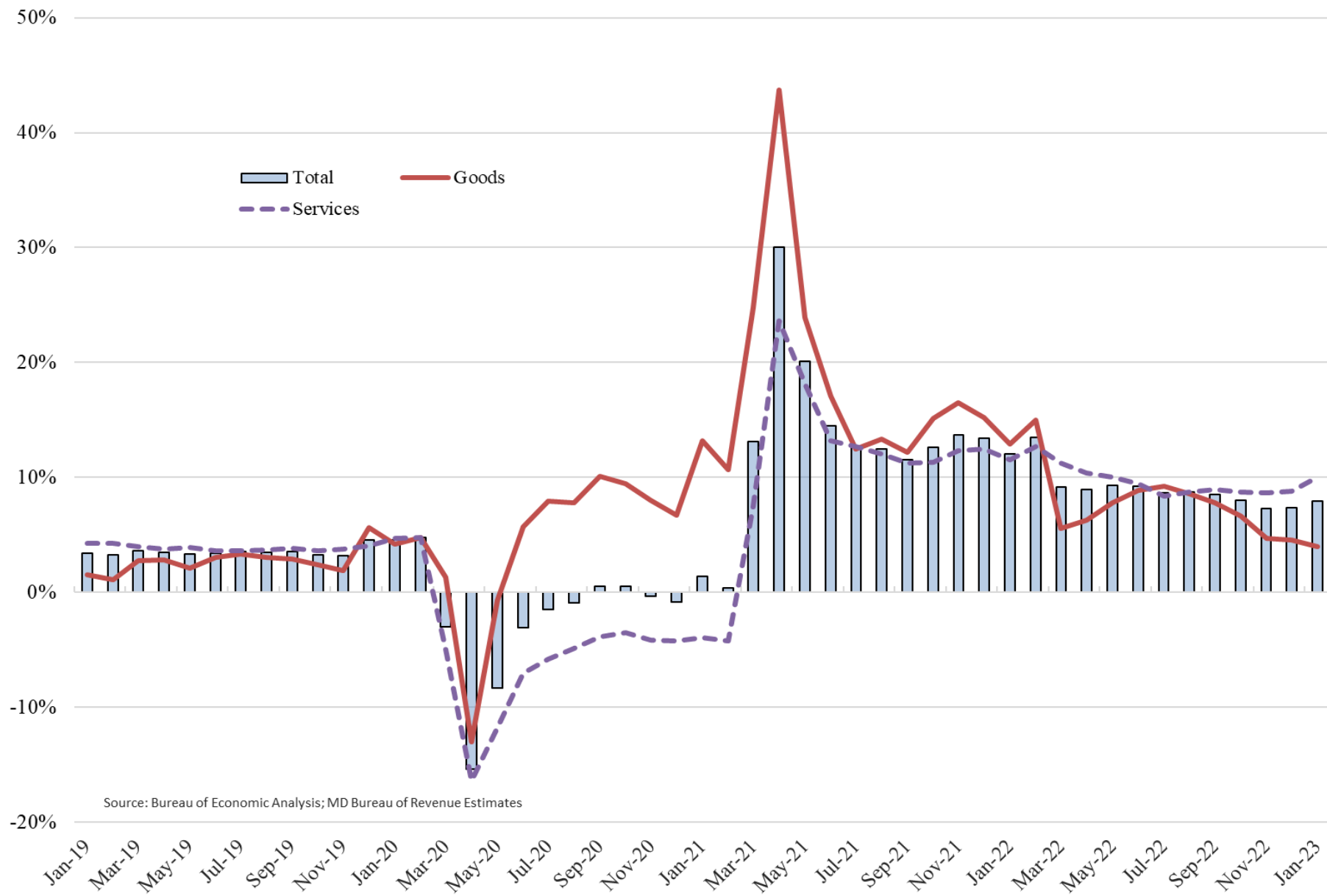


Withholding - Year-Over-Year Growth - 3 Month Moving Average

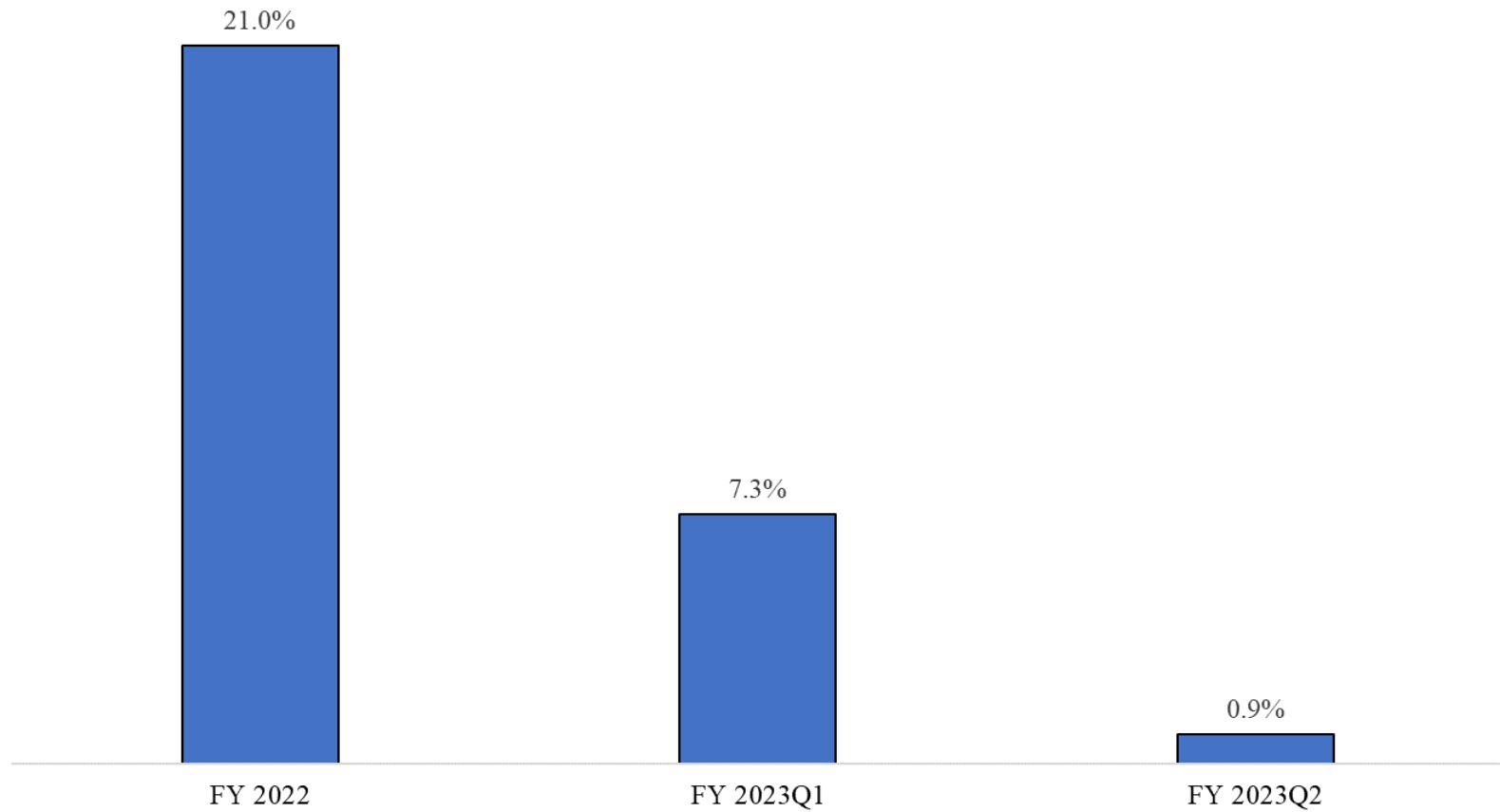


Growth That Was
Required Rest of FY 23
to Meet Dec Estimate
8%

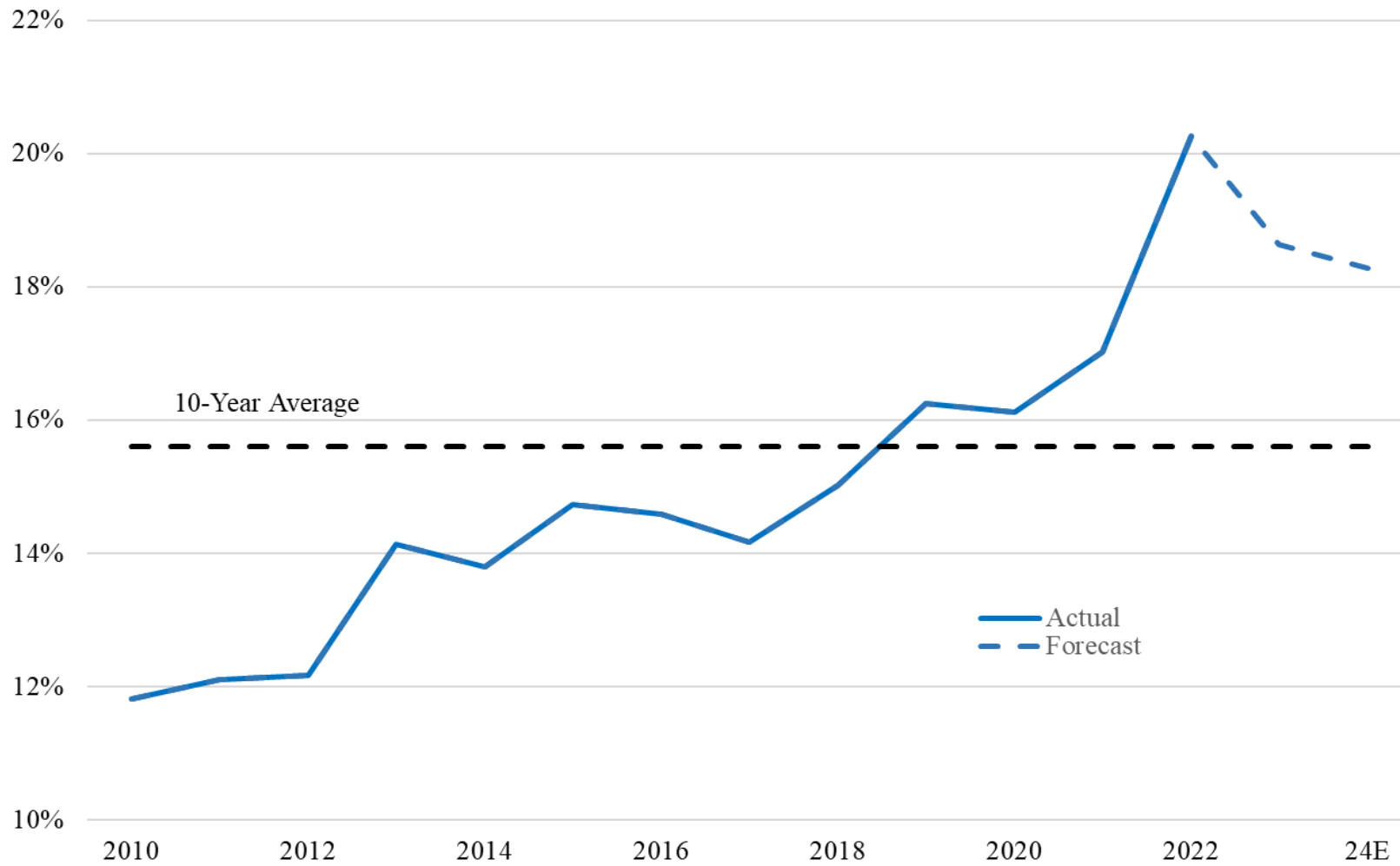
Year-over-Year Growth in US Consumption Expenditures



Sales and Use Tax Gross Receipts
Year-over-Year Growth Rates

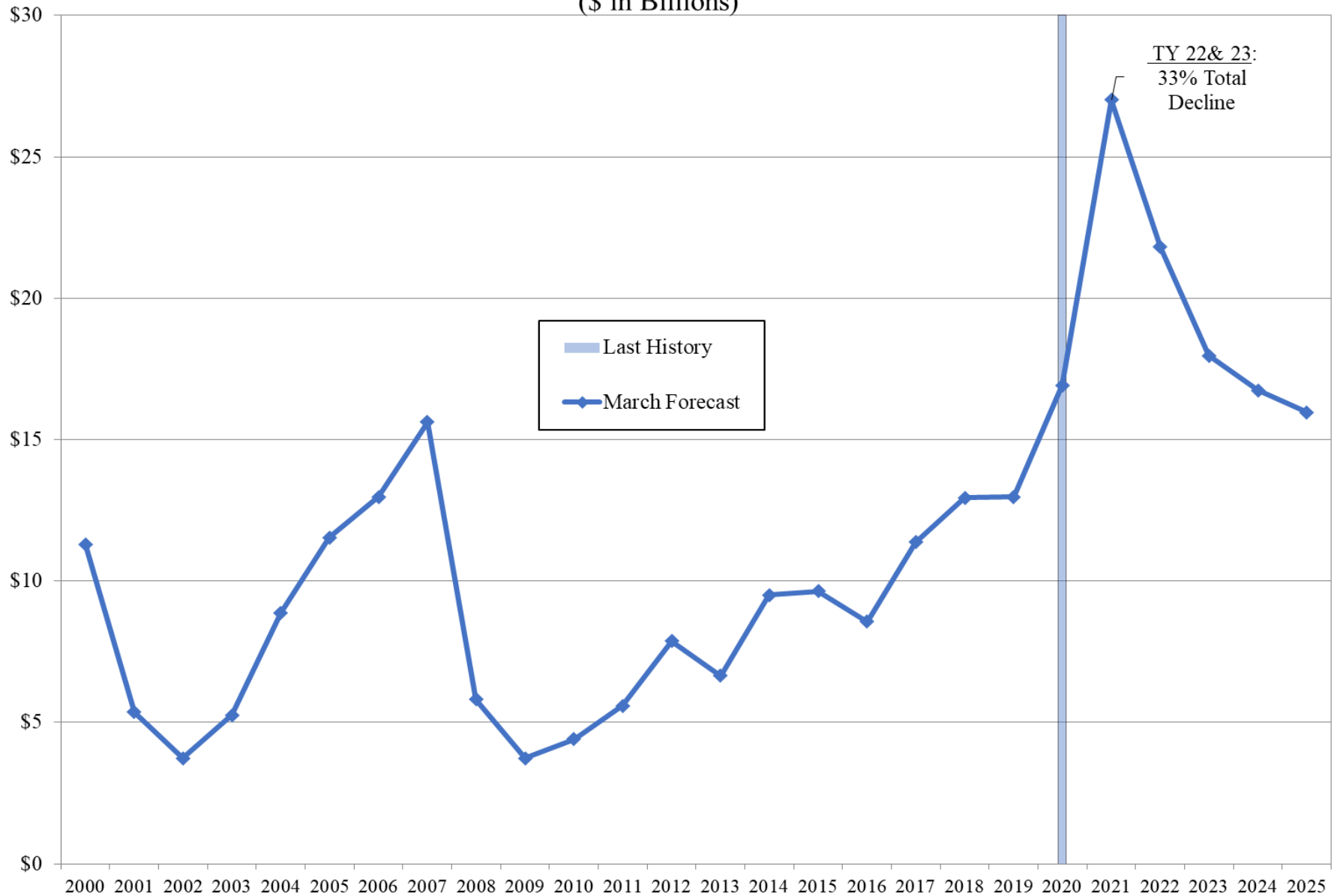


Nonwithholding Revenues Percent of General Fund Revenues by Fiscal Year

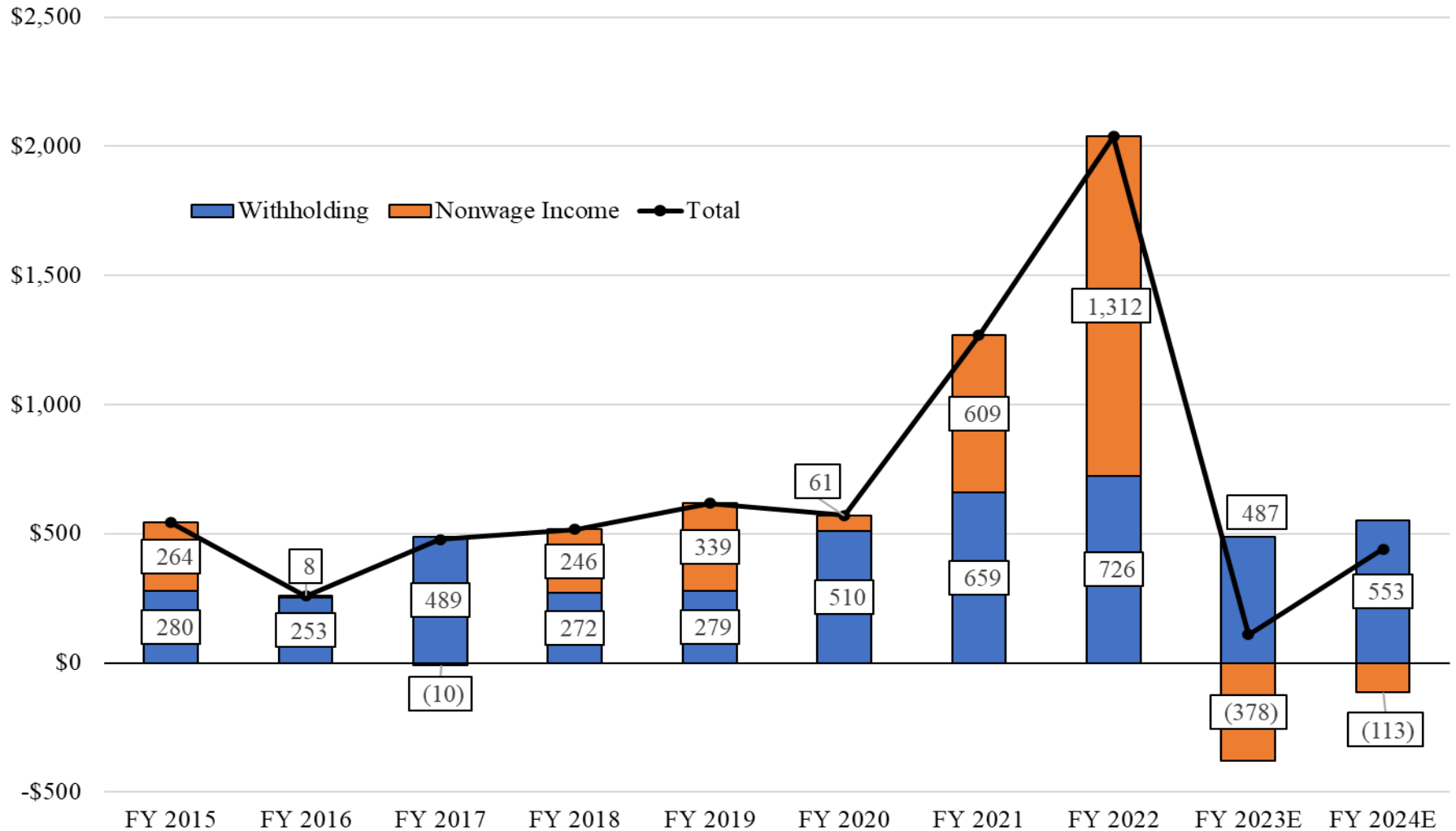


Note: FY 2023 does not reflect impact of \$800 million PIT transfer
Source: Bureau of Revenue Estimates

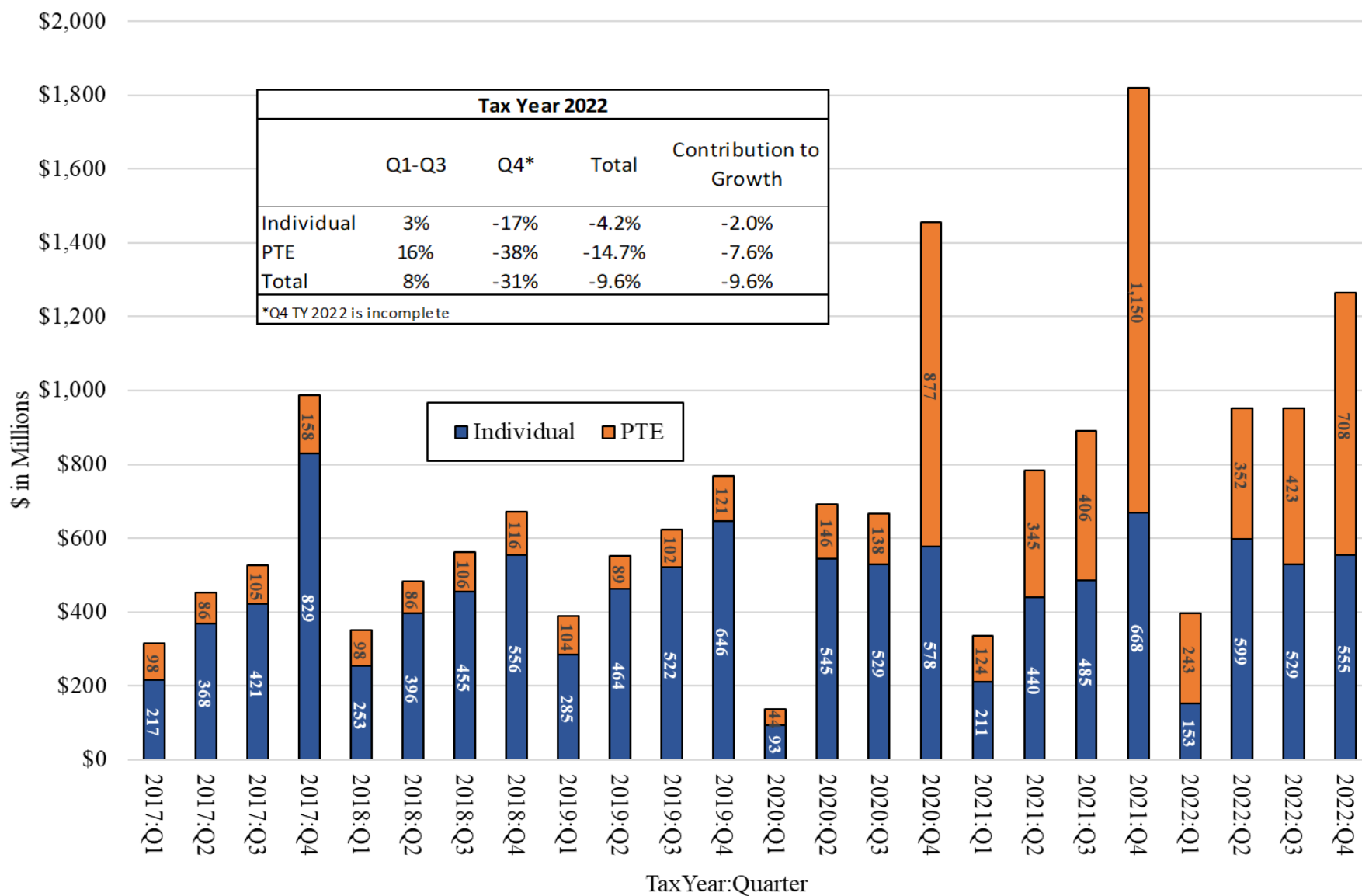
Capital Gains Forecast by Tax Year (\$ in Billions)



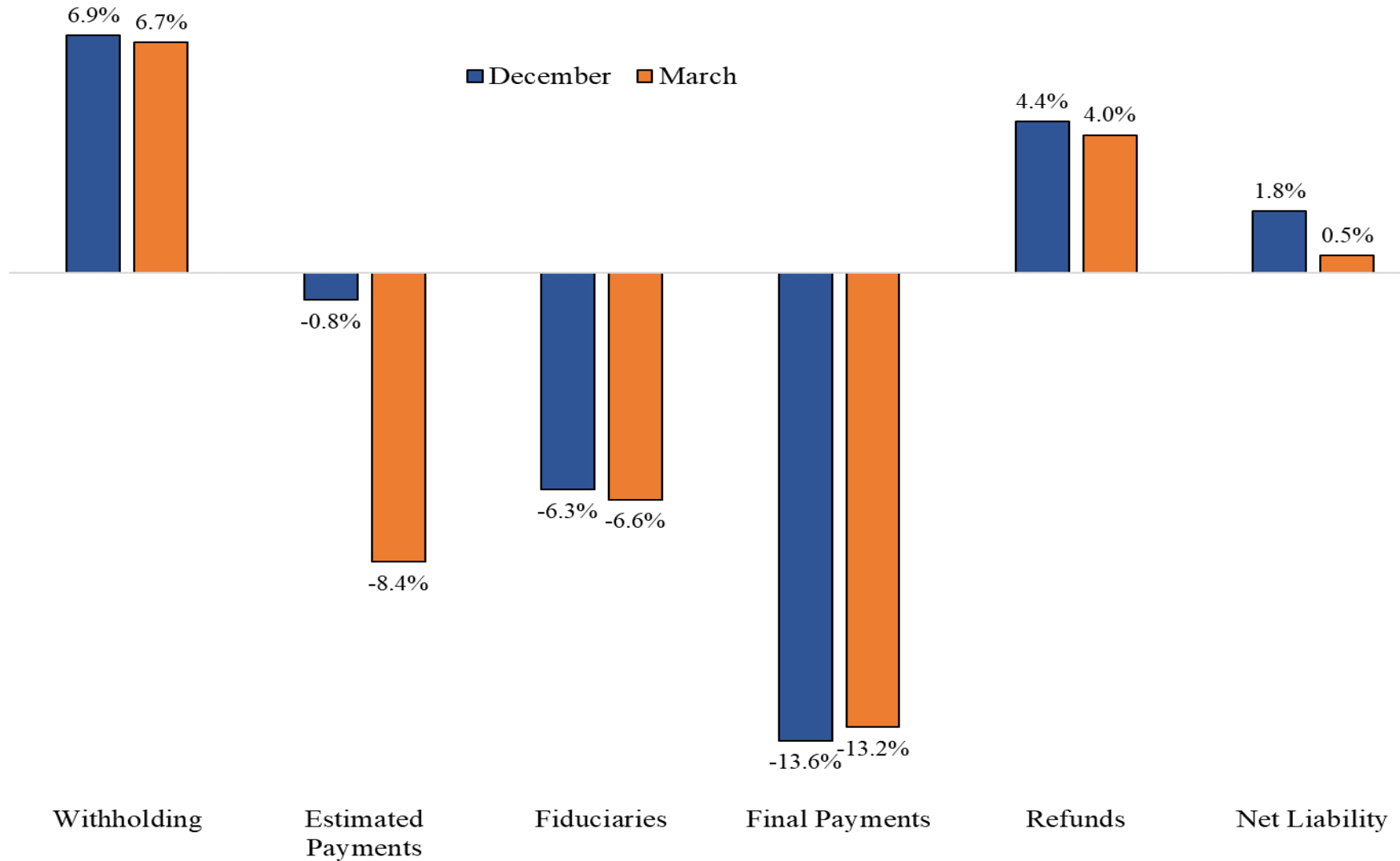
Change in General Fund Revenue by Fiscal Year Withholding and Nonwage Income (\$ Millions)



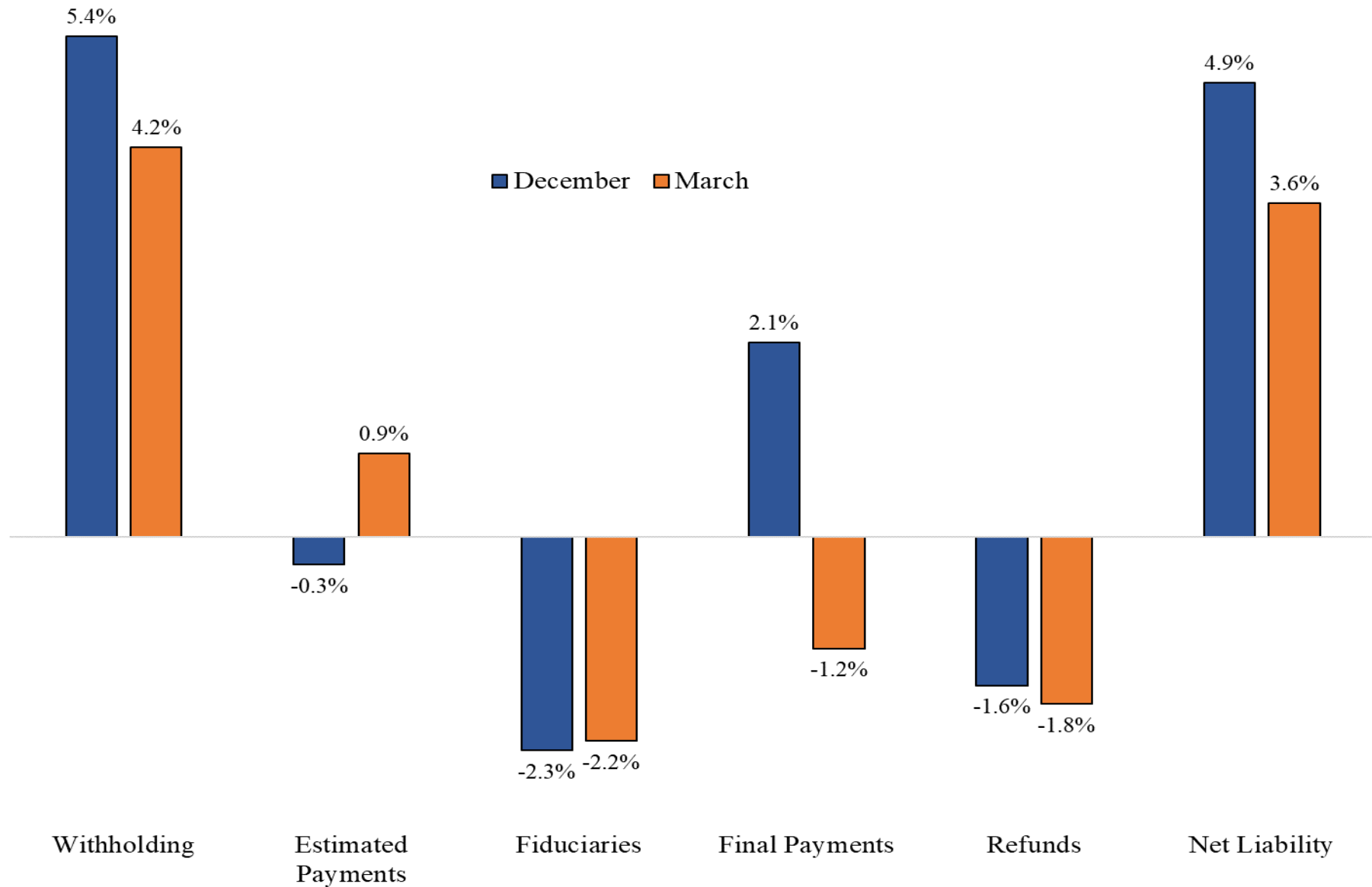
Estimated Payments By Source and TaxYear Quarter Paid



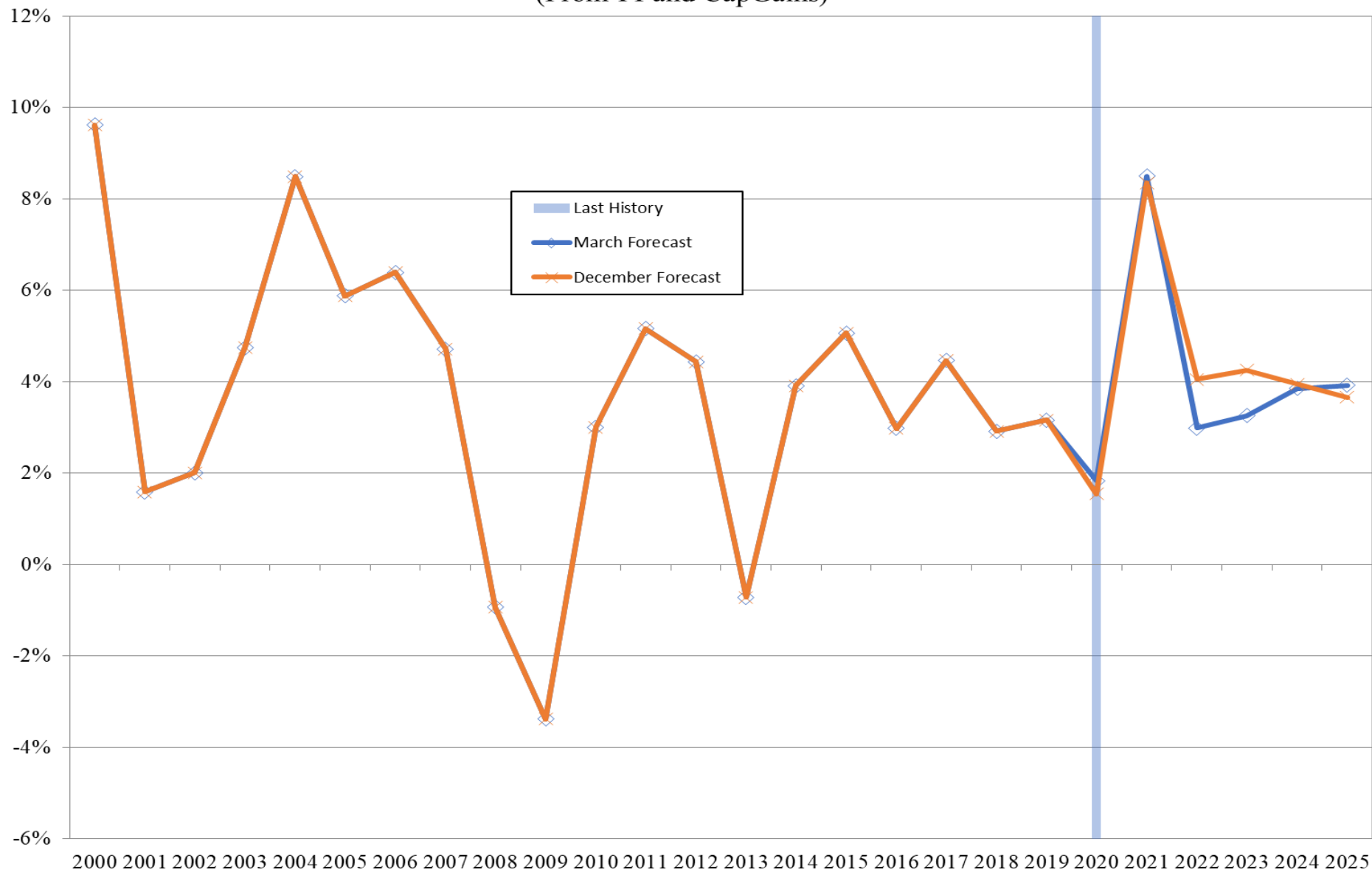
Tax Year 2022 Personal Income Tax Comparison



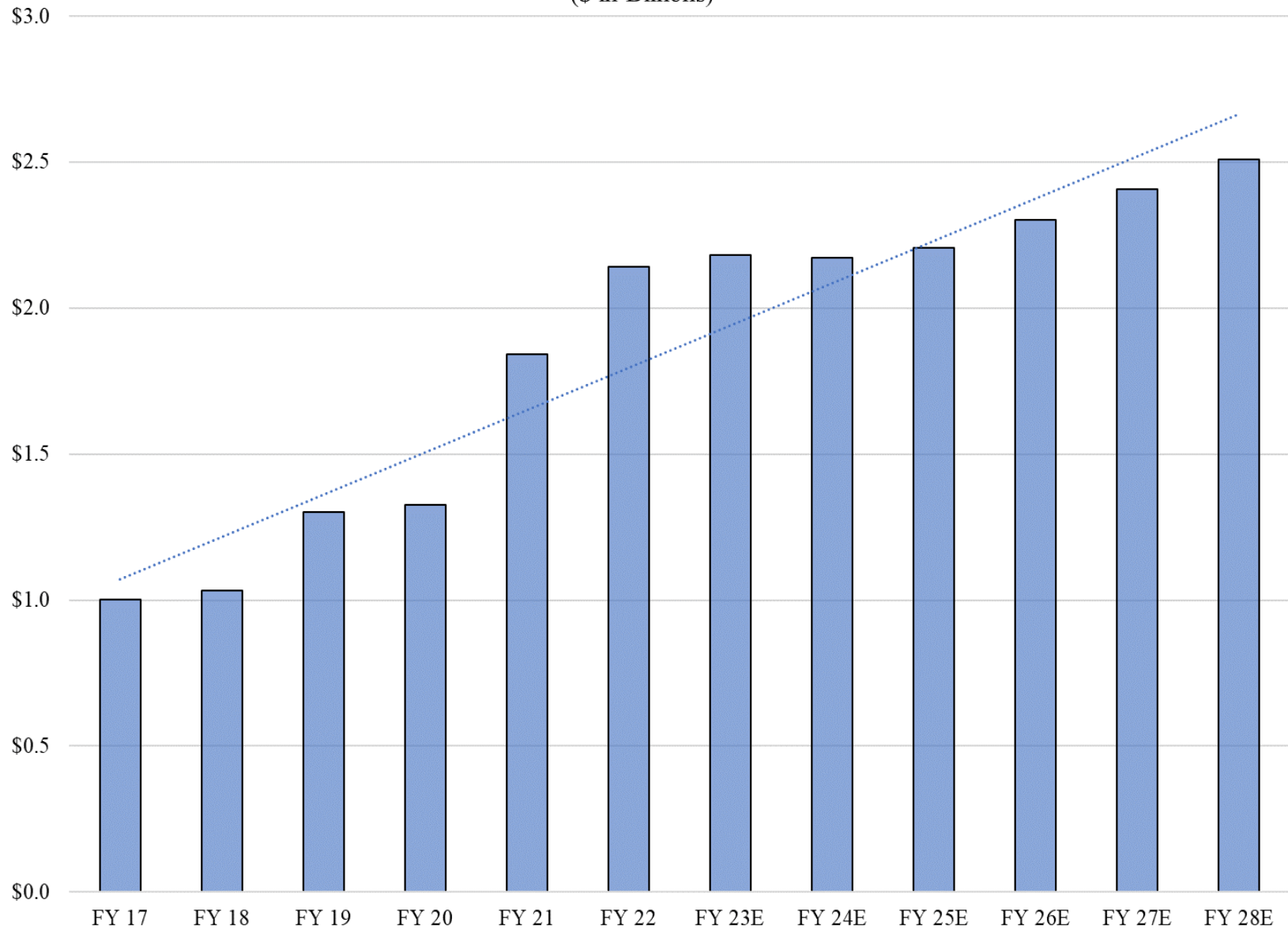
Tax Year 2023 Personal Income Tax Comparison



Total Taxable Income Forecast (From PI and CapGains)



Corporate Income Tax - Net Revenue Forecast
(\$ in Billions)



Source: Bureau of Revenue Estimates

In Summary

- Maryland revenues and economy slowed faster than anticipated
 - Estimated payments, which were increasing, had a sharp decline for the 4th quarter of tax year 2022
 - March forecast adjusts downward sales and use tax and withholding revenue due to recent underattainment
 - Corporate income tax revenue and interest income revenue are above expectations, partially offsetting the decrease in the PIT and SUT forecast
- Recession poses downside risk to forecast
 - Inflation has recently moderated, but must decrease significantly more before the Federal Reserve can stop interest rate increases
- Nonwage income is at very high levels and remains a risk
 - Magnitude and timing of any downturn is particularly difficult to estimate
 - Forecast incorporates a double-digit decline in tax year 2022 final payments but downside risk remains

Thank You

Robert J. Rehrmann

Chief, Bureau of Revenue Estimates

Comptroller of Maryland

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Fiscal 2024 General Fund Budget Outlook

\$ in Millions

	<u>Cash</u>	<u>Structural</u>
Fiscal 2024 Closing Balance as Proposed by Administration	\$820.0	\$340.0
Board of Revenue Estimates Revisions	-477.7	-400.3
Fiscal 2024 Closing Balance Adjusted for Revenue Revisions	\$342.3	-\$60.3
Spending Affordability Goal	\$350.0	\$100.0
<i>Gap to Close</i>	<i>\$7.7</i>	<i>\$160.3</i>

General Fund: End-of-year Balances
Fiscal 2022-2024
(\$ in Millions)

<u>Funds Available</u>	<u>2022 Actual</u>	<u>2023 Working</u>	<u>2024 Allowance</u>
Total Funds Available	\$26,429	\$30,418	\$27,342
Total Spending	20,931	28,129	27,000
Cash Balance/(Shortfall)	\$5,499	\$2,289	\$342
Structural Balance (Ongoing Revenues Less Ongoing Spending)	\$3,620	\$1,095	-\$60
Ratio (Ongoing Revenues/Ongoing Operating Costs)	117.7%	104.7%	99.8%