



Analysis of state policy choices with particular attention to their impacts on low- and moderate-income Marylanders

SPECIAL REPORT

Maryland Budget Update

- **BOARD REVISES OFFICIAL ESTIMATES DOWN \$1.1 BILLION**
- **STATE REVENUES ARE NOW PROJECTED TO DECLINE IN 2009 AND AGAIN 2010**
- **NEW ESTIMATES LEAVE \$550 MILLION BUDGET GAP AFTER ACCOUNTING FOR STIMULUS REVENUE**
- **INCOME AND SALES TAX GROWTH REVERSED BY POOR NATIONAL ECONOMY**

Special Report
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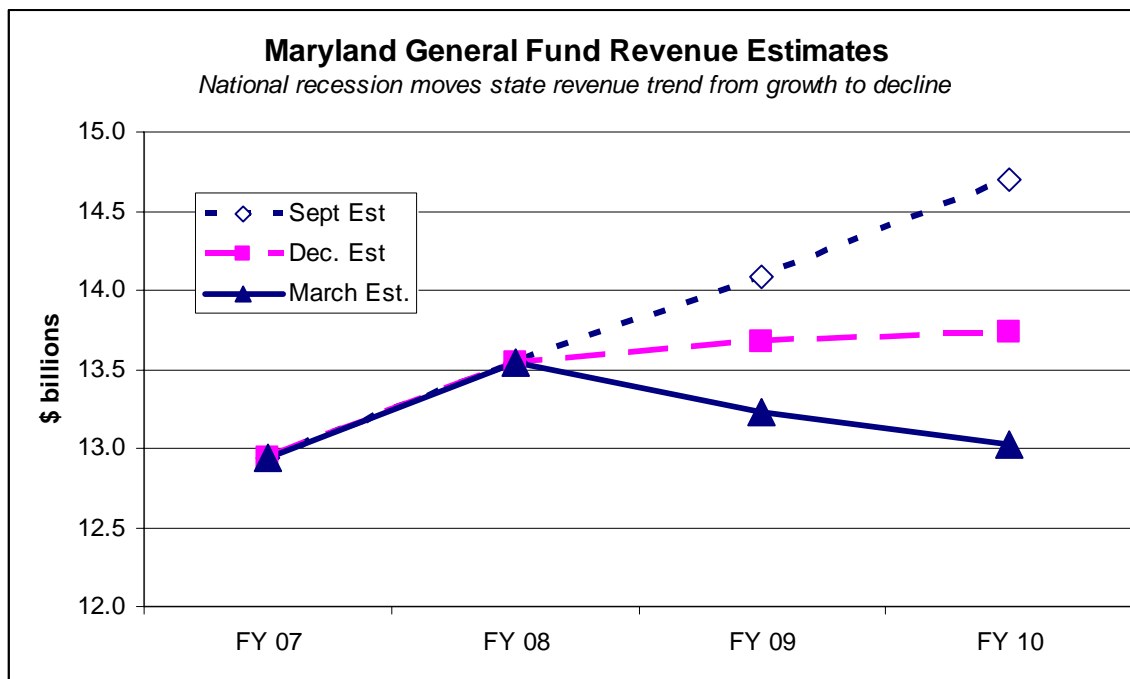
BOARD REVISES OFFICIAL ESTIMATES DOWN \$1.1 BILLION

On March 11, the Maryland Board of Revenue Estimates announced that state revenues for fiscal years 2009 and 2010 will come in \$1.1 billion below previous estimates. Governor O'Malley anticipated part of this reduction in his plan to use Federal stimulus funds. In addition to the general fund reduction, revenue from application fees for slot machine licenses will be less than assumed in the original budget. Between these two factors, legislators must now find an additional \$550 million in the Maryland State Budget to restore balance – even after accounting for federal stimulus aid.

The Board of Revenue Estimates consists of the Comptroller, the Treasurer and the Secretary of Budget and Management. It is supported by a small professional staff, economists and financial professionals in various state agencies, and an Economic Advisory Panel of volunteer private-sector and academic experts. The Board issues estimates of state revenues three times a year. In September, it issues preliminary estimates for the Governor to use in budget planning. In December, it releases the estimates that the Governor uses to balance the budget he submits to the General Assembly. In March, before the legislature completes its action on the budget, the Board updates its estimate to reflect any new factors in either economic or collection data.

The reductions in the March report are almost entirely in the income and sales taxes. These two revenue sources together make up over three quarters of state general fund revenue. Both sources are highly sensitive to the economic conditions.

Revenues are now projected to decline 2.3% this year (fiscal year 2009) and another 1.6% in fiscal year 2010. The estimate for 2010 is within one percent of the dollar amount actually collected in fiscal year 2007 – before recent increases in sales tax and corporation income tax.



The decline in revenue estimates is entirely attributable to national economic factors. Nationally, employment is down by nearly 2 million jobs in the three months since the December revenue estimate. Maryland's unemployment rate is at 6.2%, up from 4% as recently as last April.

Last month, Governor O'Malley announced a detailed plan for balancing the budget using federal stimulus aid in fiscal years 2009, 2010 and 2011. In that plan, the Governor allowed for a reduction of \$300 million each year in the revenue estimates. The Board's estimates, however, are even \$500 million worse than that. In addition, the original budget assumed \$90 million in revenue from licensing fees for slot machine operations. It now appears that \$38 million is the most the state can expect given the bids that applicants have submitted. This produces another \$52 million shortfall.

General Funds \$millions		
Sources	FY 2009	FY 2010
Starting Balance	487	270
Transfers	842	250
Revenues: Original Budget	13,682	13,766
March Revenue Revision	(446)	(717)
Stimulus Aid	420	586
Total Sources	14,985	14,155
Expenditures		
Original Budget	14,587	14,394
Stimulus Restorations	129	262
Replace Slot License Revenue		52
Total	14,716	14,708
Ending Balance	270	(553)

As a result, the Governor and legislature face a \$550 million gap in their budget plan.

The House Appropriations Committee is set to make its decisions on the budget next week. Following that action, the full House will approve a budget plan and the budget bill will move to the Maryland Senate.

The constitutional target date for the House and Senate to agree on a final budget is April 6.

Sources

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O'Malley, Martin, *Impact of American Recovery and Reinvestment Act and Fully Funding Maryland Schools*, February 2009.

About the Maryland Budget & Tax Policy Institute

The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting low-income Marylanders and other vulnerable populations and the important community programs that serve them. For additional information, to be added to our e-mail list, or to make a tax-deductible contribution, please visit our website at www.marylandpolicy.org.

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