

Revenue Estimates and Economic Outlook

March 6, 2025

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Executive Secretary

Board of Revenue Estimates

Table 4
Maryland General Fund Revenues
 Fiscal Years 2024 - 2026

\$ Thousands	FY 2025					FY 2026			
	FY 2024 Actual	December Estimate	March Estimate	Difference	Growth	December Estimate	March Estimate	Difference	Growth
INCOME TAXES:									
Individual	13,616,685	14,431,916	14,289,048	(142,867)	4.9%	14,860,589	14,659,748	(200,842)	2.6%
Corporation	1,903,957	1,945,179	1,923,632	(21,547)	1.0%	1,960,852	1,931,942	(28,911)	0.4%
Total	<u>15,520,642</u>	<u>16,377,095</u>	<u>16,212,680</u>	<u>(164,414)</u>	<u>4.5%</u>	<u>16,821,442</u>	<u>16,591,689</u>	<u>(229,753)</u>	<u>2.3%</u>
SALES AND USE TAXES	5,896,606	5,996,032	5,978,655	(17,378)	1.4%	6,134,721	6,124,298	(10,423)	2.4%
STATE LOTTERY	654,968	522,944	522,944	-	-20.2%	507,741	507,741	-	-2.9%
OTHER REVENUES									
Business Franchise Taxes	280,148	280,769	280,769	-	0.2%	285,222	285,222	-	1.6%
Insurance Premium Tax	741,837	749,039	749,039	-	1.0%	737,345	737,345	-	-1.6%
Estate and Inheritance Taxes	213,407	217,016	217,016	-	1.7%	232,404	232,404	-	7.1%
Tobacco Tax	405,071	363,385	363,385	-	-10.3%	293,071	293,071	-	-19.3%
Alcoholic Beverages Excise Tax	34,102	34,455	34,455	-	1.0%	34,284	34,284	-	-0.5%
District Courts	37,266	35,602	35,602	-	-4.5%	34,027	34,027	-	-4.4%
Clerks of the Court	26,603	27,193	27,193	-	2.2%	28,006	28,006	-	3.0%
Hospital Patient Recoveries	77,036	84,259	84,259	-	9.4%	76,935	76,935	-	-8.7%
Interest on Investments	379,818	225,000	300,000	75,000	-21.0%	125,000	125,000	-	-58.3%
Miscellaneous	445,284	338,978	338,978	-	-23.9%	314,323	314,323	-	-7.3%
Total	<u>2,640,573</u>	<u>2,355,696</u>	<u>2,430,696</u>	<u>75,000</u>	<u>-7.9%</u>	<u>2,160,617</u>	<u>2,160,617</u>	<u>-</u>	<u>-11.1%</u>
Total Current Revenues	<u>24,712,789</u>	<u>25,251,767</u>	<u>25,144,975</u>	<u>(106,792)</u>	<u>1.7%</u>	<u>25,624,522</u>	<u>25,384,346</u>	<u>(240,176)</u>	<u>1.0%</u>
Extraordinary Revenues ¹	150,000	-	-	-	-100.0%	-	-	-	
Revenue Volatility Cap ²	#N/A	-	-	-		(272,104)	(205,109)	66,995	
GRAND TOTAL	<u>24,862,789</u>	<u>25,251,767</u>	<u>25,144,975</u>	<u>(106,792)</u>	<u>1.1%</u>	<u>25,352,418</u>	<u>25,179,237</u>	<u>(173,181)</u>	<u>0.1%</u>

¹ The fiscal 2023 GAAP audit of the local income tax reserve account determined that the account was overfunded by \$316 million.

² Established by Chapters 4 & 550 of 2017 and amended by several succeeding Budget Reconciliation And Financing Acts.

Summary of March Changes

(\$ in Millions)

Revenue Source	FY 2025	FY 2026	Total
Personal Income Tax	(\$142.9)	(\$200.8)	(\$343.7)
Corporate Income Tax	(\$21.5)	(\$28.9)	(\$50.4)
Sales Tax	(\$17.4)	(\$10.4)	(\$27.8)
Lottery	\$0.0	\$0.0	\$0.0
Other	\$75.0	\$0.0	\$75.0
Total- Ongoing Revenues	(\$106.8)	(\$240.2)	(\$347.0)
Revenue Volatility Cap	\$0.0	\$67.0	\$67.0
GRAND TOTAL	(\$106.8)	(\$173.2)	(\$280.0)

Revenue Growth Rates

Revenue Source	FY 2024	FY 2025E	FY 2026E
Personal Income Tax	1.1%	4.9%	2.6%
Corporate Income Tax	4.8%	1.0%	0.4%
Sales Tax	-1.8%	1.4%	2.4%
Lottery	-0.1%	-20.2%	-2.9%
Other	4.5%	-7.9%	-11.1%
Total- Ongoing Revenues	1.0%	1.7%	1.0%
GRAND TOTAL	5.0%	1.1%	0.1%

March Forecast – Federal Uncertainty

- Given the uncertainty over federal government actions the December forecast made only technical changes to the FY 2026 forecast
 - This “hedge” against federal reductions prevented more reductions in the forecast
- Compared to what we knew in December, a worse case situation has developed
 - Quicker than expected and as bad or worse than feared
- No data yet on employment reductions or planned spending reductions
 - Court challenges may slow or blunt the impacts but most probable event is significant reduction in employment and spending that will slow Maryland’s economy
- Federal government slowdown is expected to impact withholding income taxes the most but we are also making modest reductions in the sales tax and corporate income tax
- Forecast also reduces nonwage income forecast due to weaker than expected tax year 2024 estimated payments



Federal Government – Potential Direct Employment Impacts

- Reduction in recent “excess labor demand” for Maryland residents
- Allow attrition to take place
 - About 9,000 Maryland employees separate from federal service in each year
 - Not replacing these employees could decline withholding by 0.4%
- Terminate existing employees
 - Probationary employees (there are at least 15,000 in Maryland)
 - Reduction in Force
- Relocate agencies out of the region
- Prolonged government shutdown



Federal Government – Other Impacts

- Reduction in federal contracts
 - Defense and nondefense contracts are equal to about 10% of Maryland's private GDP
- Reduction in other federal government spending
 - Grant funding
 - Medicaid and hospital reimbursements
- Most laid off workers will eventually be reemployed but likely at lower salaries
 - Labor market is constrained, but it will be a buyer's market
 - Average federal wage in Maryland is significantly higher than private sector
 - Layoffs could increase outmigration
- Consumer and business uncertainty



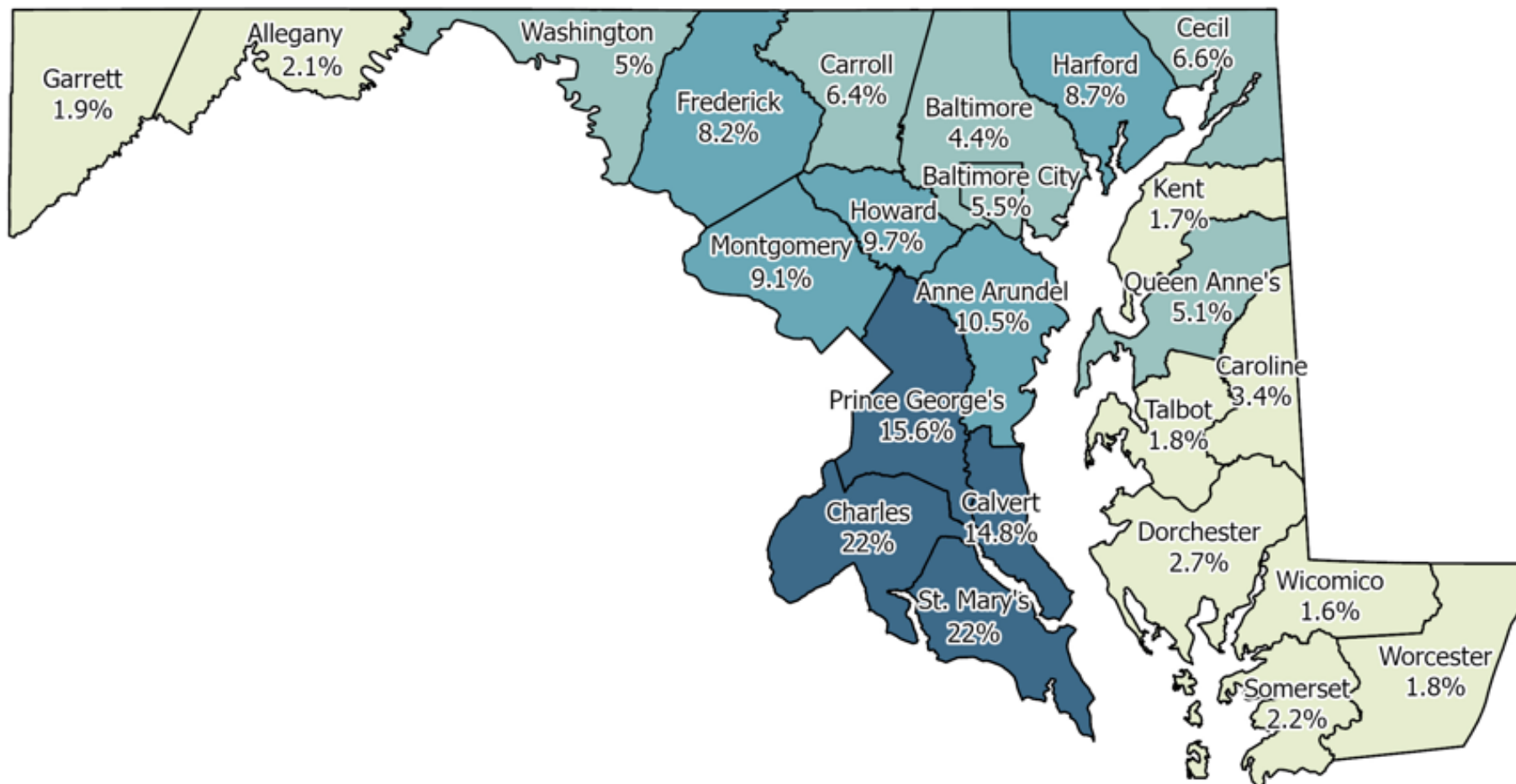
Federal Government Employment and Wages

- There are a about 550,000 federal civilian jobs in Maryland, the District of Columbia, and Virginia
 - About 161,000 of these are located in Maryland
 - The District of Columbia and Virginia each have more than 190,000 jobs
 - About 250,000 Maryland residents work in the District of Columbia
- In tax year 2023, about 252,000 Maryland households reported a total of \$26.9 billion in federal wages
- Since this data includes only direct federal employment and does not include federal contractors it underestimates the importance of the federal government on Maryland's economy
 - Both federal government defense and nondefense employment and contracting has a strong presence in Maryland

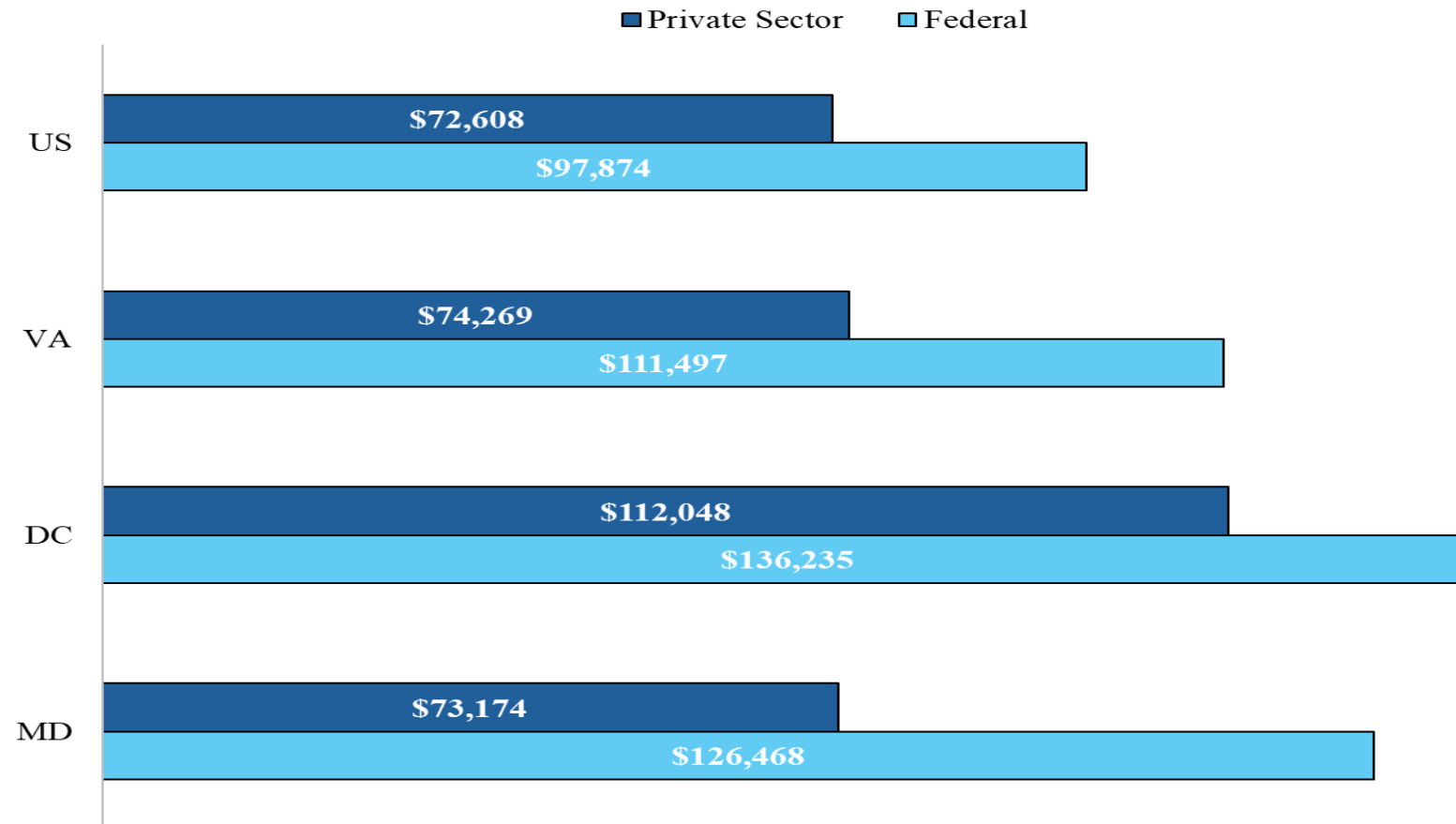


Share of Gross Income from Federal Wages

Tax Year 2023

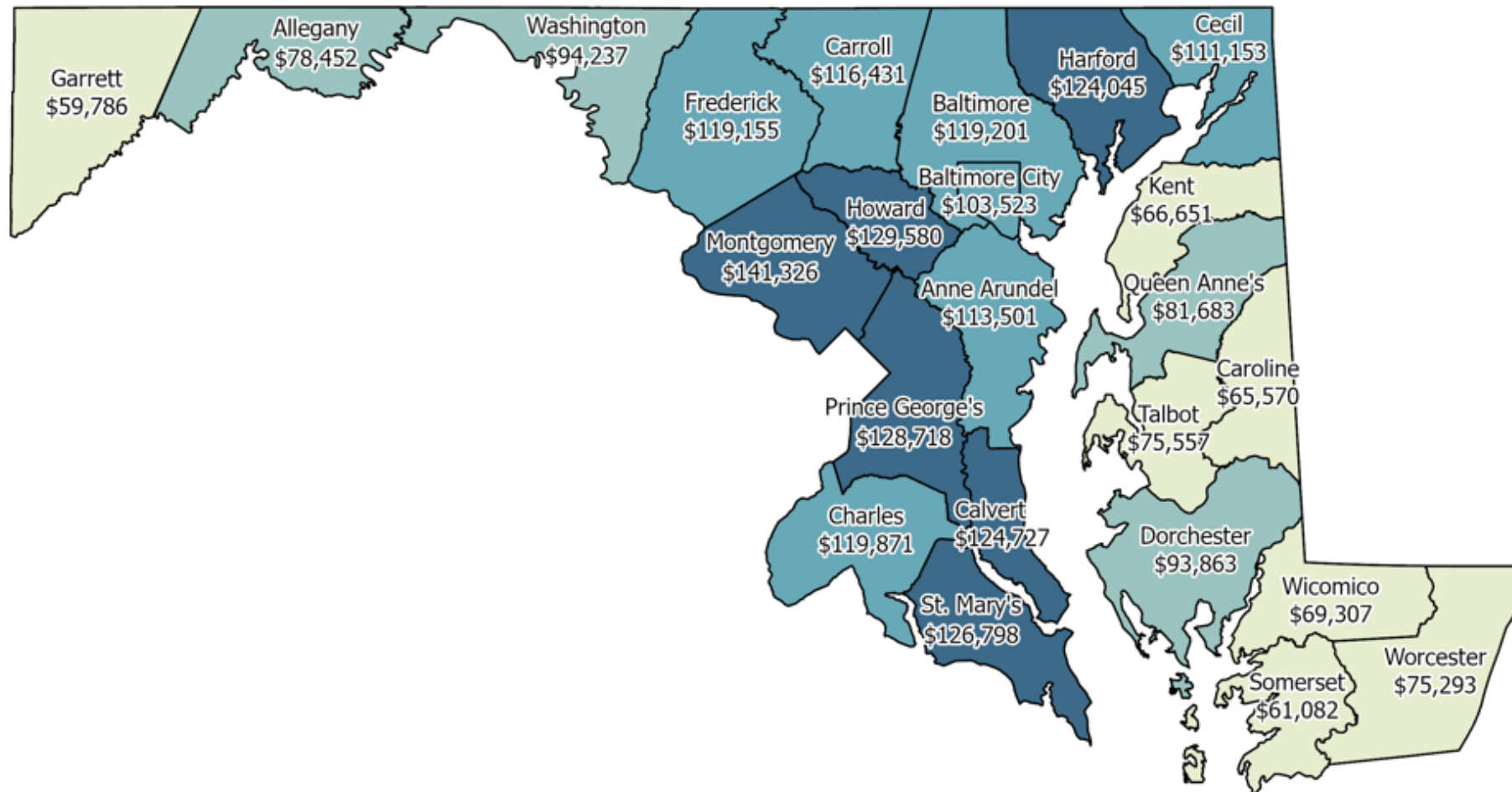


Average Federal Civilian and Private Sector Salary Calendar 2023



Average Federal Civilian Salary by County

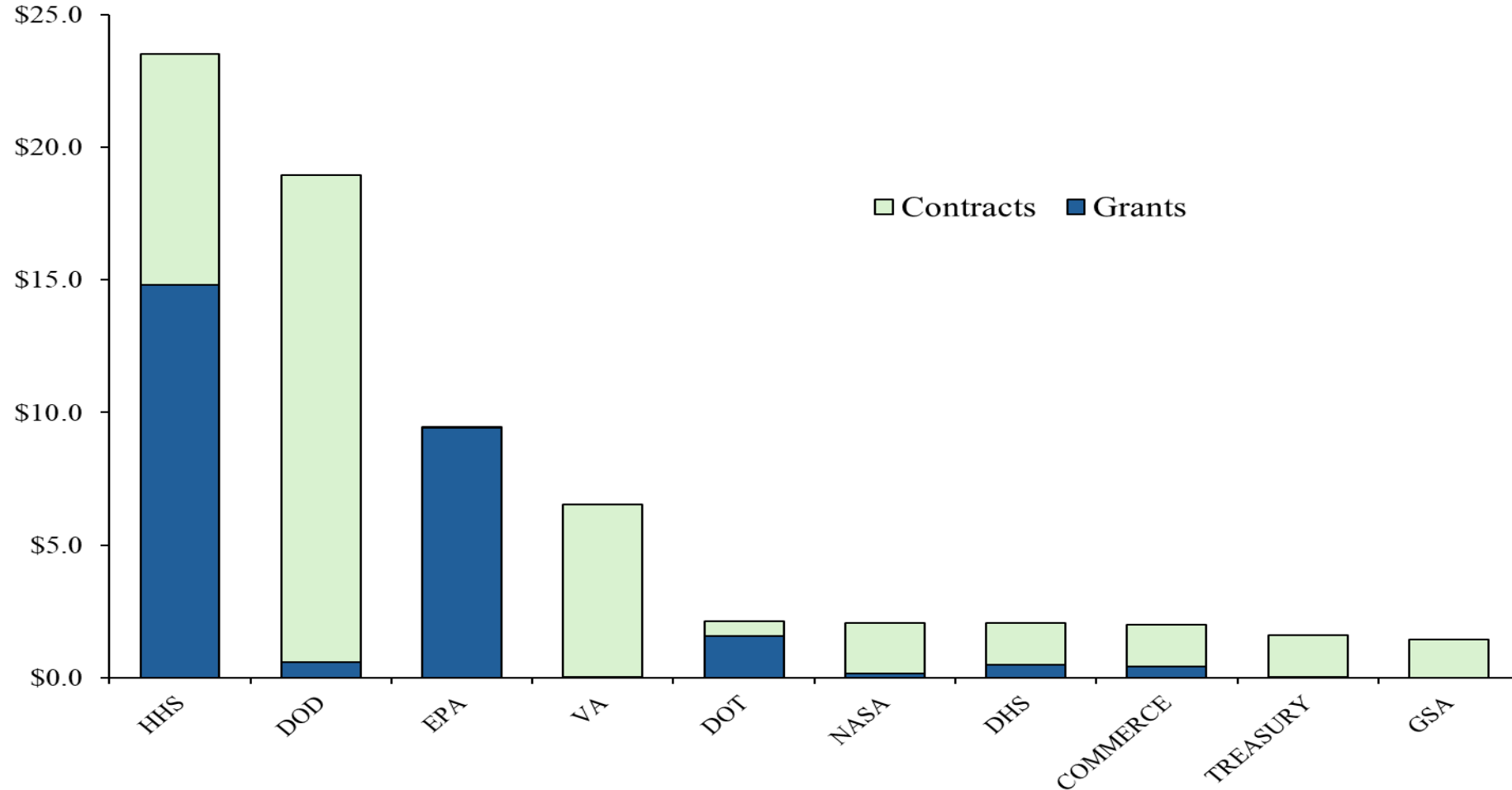
Calendar 2023



Top 10 Federal Government Contracts and Grants

Maryland – FFY 2024

(\$ in Billions)



What Impact did Prior Federal Reductions Have?

- Sequestration resulted in across-the-board reductions in federal agency budgets as well as mandatory government expenditures

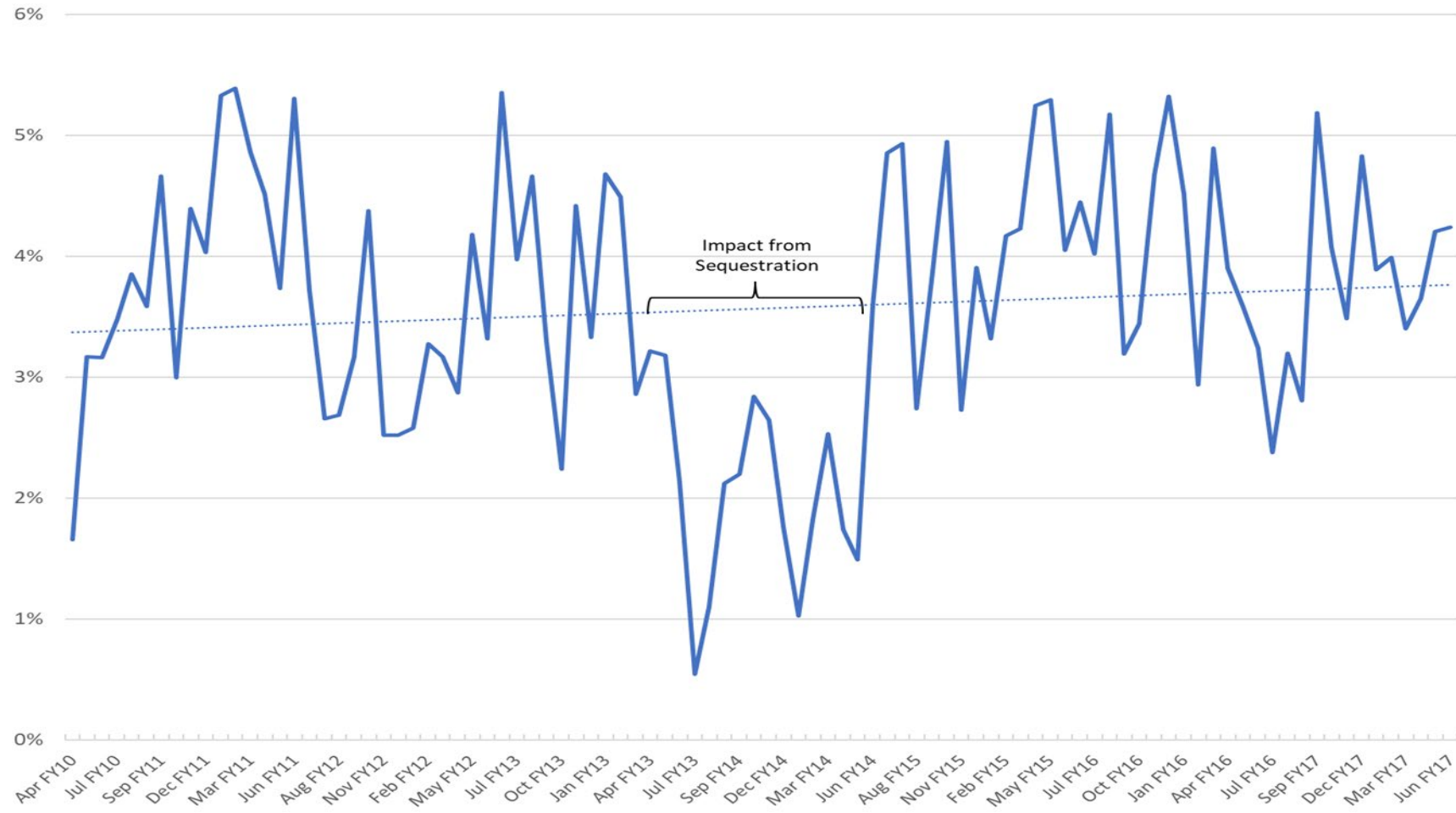
Federal Government Spending Reduction (FFY 11-13)	
Discretionary	-10.7%
Total	-4.1%
Maryland Federal Employment Loss (Dec 12-Sept 14)	(7,917)
Mass Layoffs Federal Government Contractors (CY 10-13)	2,940

- Maryland's labor market and withholding income tax revenues slowed significant in tax year 2013
 - March forecast uses this slowdown as a guidepost
 - Indicated reductions now are much larger this time and quicker to materialize



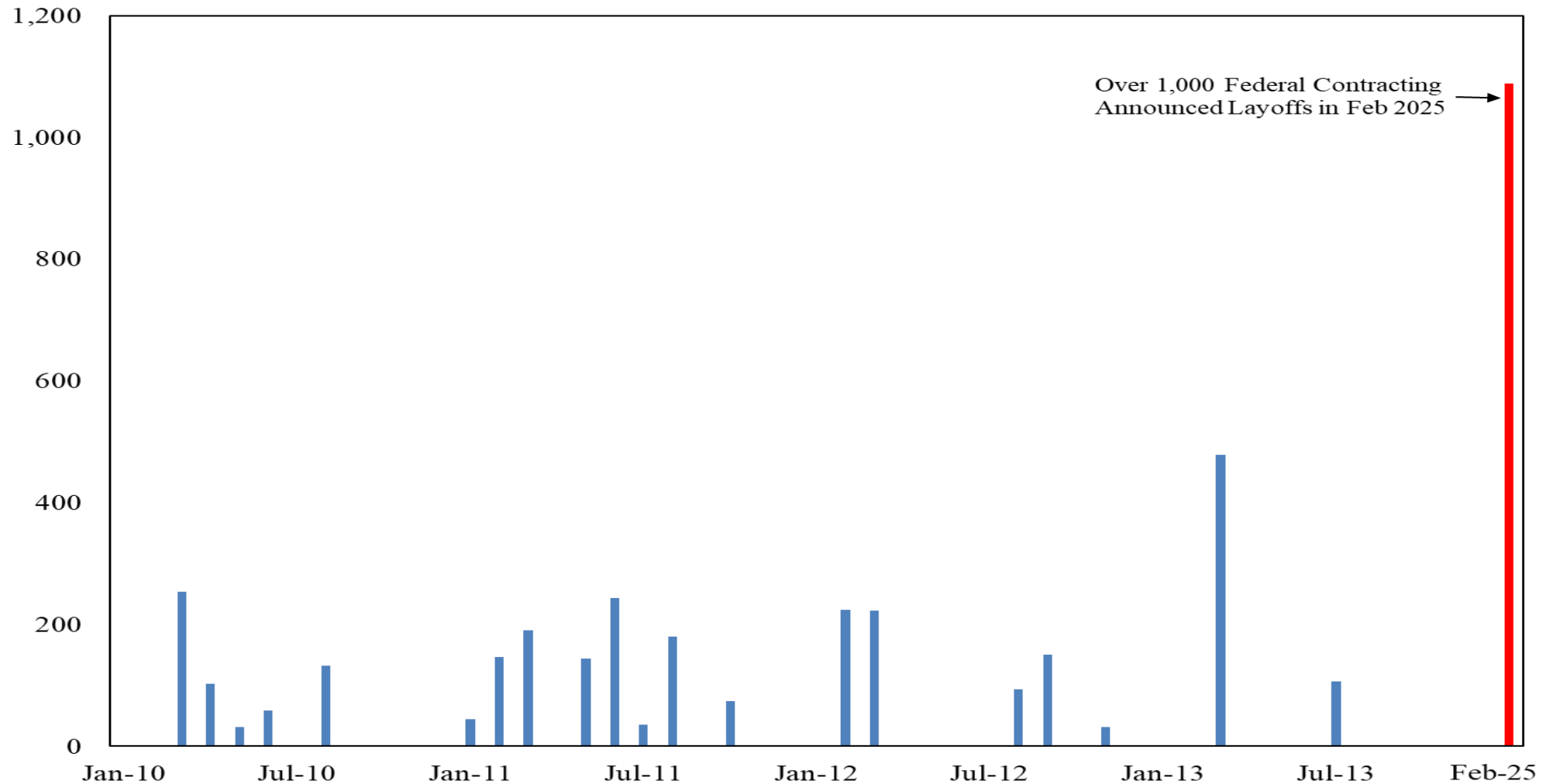
Sequestration Impact - Withholding Revenues

Six-Month Moving Average



Initial Pace of Contracting Layoffs is Much Greater

Federal Government Related WARN Notices in Maryland



Source: Maryland Department of Labor

Announced Federal Job Losses

	<u>Announced Layoffs and Position Changes</u>				<u>Potential Elimination of Positions in Future</u>			Total
	Administrative Leave	Layoffs through February	Layoffs After February	Subtotal	Buyout Option - September	Non- Essential Workers	Subtotal	
Total Reductions	931	40,392	64,738	106,061	77,000	94,115	171,115	277,176
Estimated in Maryland	93	5,052	6,474	11,619	7,700	9,412	17,112	28,730

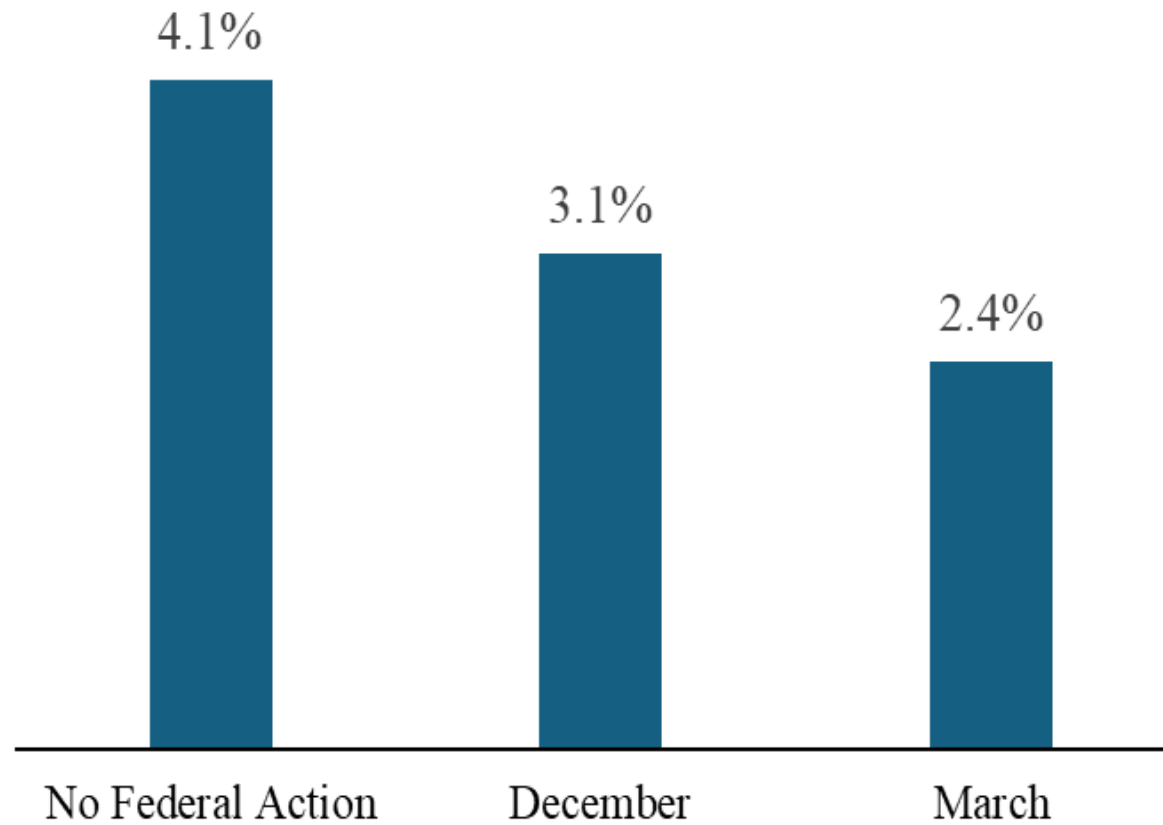
Federal Government Impact on Withholding

- In December, we lowered our tax year 2025 withholding forecast growth from 4.1% to 3.1% due to uncertainty over federal government actions
 - We further lower our forecast to 2.4%
- We expect that federal actions will reduce tax year 2025 State and local withholding collections by \$262 million
 - This is a reduction of about \$3 billion in Maryland wages and a reduction in Maryland employment of a little more than 30,000
- We will be vigilantly monitoring federal data and our tax data to estimate the impacts
 - Future forecasts will be informed by this data



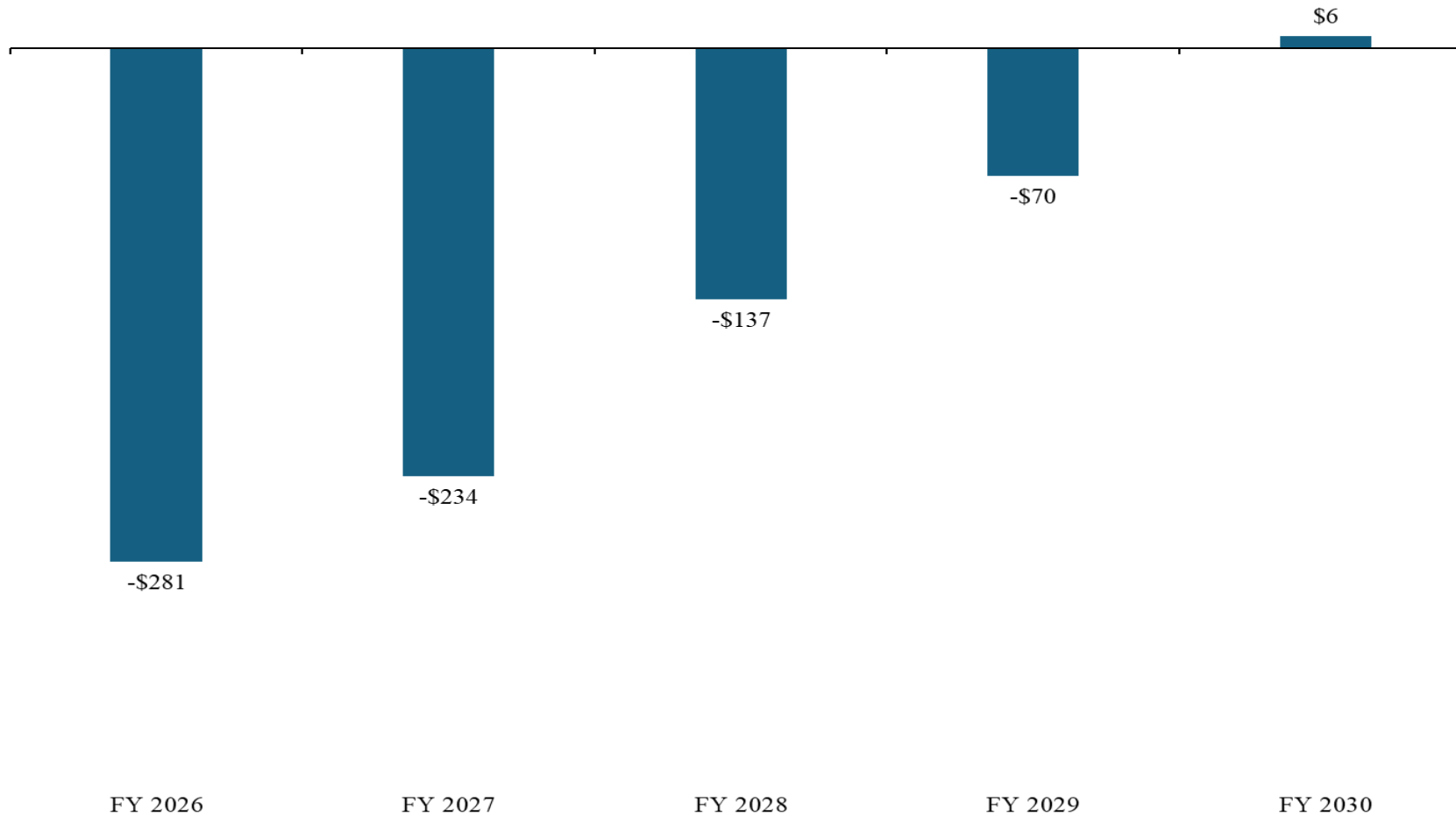
Tax Year 2025 Withholding Forecasts

Compared to Baseline Forecast



Change in Withholding Revenue Forecast Compared to no Federal Impact

Gross Collections
(\$ in Millions)



Thank You

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