Brooke E. Lierman
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News Release

Comptroller Lierman Releases Statement on Updated Revenue Estimates

ANNAPOLIS, Md. (March 9, 2023) - Comptroller Brooke Lierman led her first meeting of the Board of Revenue Estimates and released the following statement regarding the Board of Revenue Estimates' vote on the revenue forecast for Fiscal Years 2023 and 2024:

"Earlier this afternoon, the Board of Revenue Estimates voted to decrease Maryland's revenue projection by .3% percent for Fiscal Year 2023 and 1.6 percent in Fiscal Year 2024, for a combined reduction to the general fund of $478 million, representing a change of approximately 1% of the total revenue projection.

"We are projecting positive ongoing revenue growth this fiscal year and the next: 2.1% for this fiscal year and 1.0% for FY 24. This is slower growth than we experienced in the prior two fiscal years when we saw significant growth due to a one-time federal pandemic stimulus. The proposed March revisions also show decreases to the personal income tax and sales and use tax forecasts, which are offset at least partially by increases in corporate income taxes and interest income revenues.

"The revenue forecasts should not be considered alarming, but they should be seen as a flashing yellow light — a warning that the economy of Maryland is seeing the lingering effects of national inflation, with a disproportionate impact being felt by our families making low to moderate incomes. Maryland is not alone in this trend. In our region, both Virginia and New Jersey are also seeing greater-than-expected revenue slowdowns.

"The Maryland economy appears to be underperforming compared to the national economy in terms of employment and consumer spending, which explains the decreased sales and use tax and withholding income tax forecasts. On top of that, we have an aging population larger than the national average, ongoing competition for high-wage jobs with our neighboring states, and state coffers that are very dependent on nonwage income tax from the top 1% of tax filers. Almost 1 out of every 5 dollars in our general fund comes from nonwage income, which has proven to be a volatile revenue stream over the years.

"This trend is indicative of larger underlying challenges facing our state's revenue structure and economy. We are experiencing a new baseline or walking speed for our economy that we have yet to fully define.

"Moving forward, my office will take a proactive approach to study and better understand the structural changes in our economy and revenue base and the risks, challenges, and opportunities we have. Doing this work is essential to ensure that Maryland's stakeholders — our business leaders, policymakers, economists, and taxpayers — have access to the data required to make the best possible decisions in a shifting economic environment."

Summary of the March 9 Board of Revenues Estimates Meeting

- The proposed March revision to the official general fund forecast projects that general fund revenues will decrease by 1.6% and total $23.66 billion in FY 2023 and increase by 4.3% and total $24.69 billion in FY 2024. The proposed March revision reduces the general fund forecast by $477.6 million or about 1% of total general fund revenues over the two-year period.
- On an ongoing basis (taking out one-time transfers and other impacts), general fund revenues are projected to increase by 2.1% in FY 2023 and 1.0% in FY 2024.
- The proposed revision decreases the personal income tax and sales and use tax forecast. This decrease is partially offset by an increase in corporate income tax and interest income revenues.

<u>Why did the forecast change?</u>

- Non-wage income tax revenue (including capital gains and non-corporate business income) has consistently been highlighted as a risk to the forecast and showed a decline in January. The March estimate decreases our forecast for nonwage income revenue under the personal income tax.
- This forecast and prior forecasts have included a significant slowdown in growth compared to the high growth rates in the prior two fiscal years which were mainly due to one-time federal pandemic assistance. The March forecast calls for a modest growth rate that is below our typical trend rate of growth:
- In the last few months, the Maryland economy appears to be slowing faster than anticipated and is underperforming relative to our modest expectations and relative to the U.S. economy.

- It is too soon to know if this is a short-term deviation from expectations or a longer-term trend.
- Due to the greater-than-expected slowing in the Maryland labor market and consumer spending, we are decreasing our forecasts for the sales and use tax and withholding income tax due and adjusting the forecast to this recent under attainment.
- The March estimate increases the CIT forecast due to better-than-expected YTD revenues, a combination of greater revenue and fewer refunds. The forecast also increases interest income revenues due to the recent rise in interest rates.

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The Bureau of Revenue Estimates serves as economic staff for the Comptroller and staff for the Board of Revenue Estimates. As such, the Bureau forecasts and analyzes the State and national economies; forecasts, analyzes, and monitors State revenues; and analyzes the effects of State and federal tax legislation on the State's revenues. In addition, the Bureau provides updates and analyses of the State's economy, revenue performance, and revenue forecasts to the bond rating agencies prior to every bond sale and otherwise as conditions warrant. For more information, visit https://www.marylandtaxes.gov/divisions/bre.php

Materials from the Board of Revenue Estimates' meeting will be available later this afternoon at this link: https://mdbre.gov/revenue-estimates.php.

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