COMPTROLLER of MARYLAND
Serving the People

Peter Franchot
Comptroller

Sandra Zinck
Director
General Accounting Division

August 30, 2016

The Honorable Peter Franchot
Comptroller of Maryland
Comptroller's Office
80 Calvert Street
Annapolis, Maryland 21404

Dear Comptroller Franchot:

Enclosed you will find the statement of General Fund Balance for the year ended June 30, 2016. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2016 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2016 with a fund balance of $384.5 million in the General Fund. Of this amount $188.0 million was assigned by the 2016 General Assembly for fiscal year 2017 operations leaving an unassigned fund balance of $196.5 million.

Please advise me if you have any questions or would like additional information.

Sincerely,

Sandra L. Zinck
Director

SZ:mh

Enclosure

cc: The Honorable David Brinkley
The Honorable Nancy Kopp
Mr. Warren Deschenaux
Mr. Len Foxwell
Ms. Sharonne Bonardi
Mr. Andrew Schaufele

General Fund Balance
June 30, 2016

General Fund Balance, June 30, 2015		$ 320,393,038
Add:		
2016 Estimated Revenues (Board of Revenue Estimates March 2016)		16,444,507,075
Adjustments to Revenues (See detail)		3,600,000
Reimbursement from reserve for Tax Credits		18,306,619
Transfers from other funds - 2015 Session (See detail)		4,500,000
Deduct:		
2016 General Fund Appropriations		
Appropriated by 2015 General Assembly	$ 16,434,206,830	
Deficiency appropriations	207,264,261	
Specific reversions (See detail)	(371,522,366)	
Estimated agency reversions	(30,000,000)	
		16,239,948,725
Estimated 2016 General Fund Balance		551,358,007
Less:		
Excess of Estimated Revenues over actuals	(250,110,735)	
Excess of Estimated Transfers over actuals	(411,903)	
		(250,522,638)
Add:		
Excess of Actual Reversions over estimates		83,667,668
Total General Fund Balance		384,503,037
Deduct:		
General Fund Balance Reserved for 2017 Operations	551,358,007	
Minus 2017 Estimated Surplus	(363,319,078)	
		188,038,929
2016 Unassigned General Fund Balance		$ 196,464,108

EXHIBIT A

GENERAL FUND BUDGET SUMMARY

Detail - Fiscal Year 2016

Adjustments to Revenues - Other	
MSDE - SWCAP Revenue	$3,600,000
Transfers from Other Funds	
State Unemployment Trust Fund (2015 Session)	$4,000,000
DHMH - Spinal Cord Trust Fund (2015 Session)	500,000
Total	$4,500,000
Specific Reversions	
Section 48 - Medicaid Provider Reimbursement	($26,564,295)
Section 48 - BPW PAYGO	(10,200,000)
Section 48 - DHR Assistance Payments	(13,000,000)
Section 48 - MSDE Foundation Formula	(11,910,705)
Section 48 - Dedicated Purpose Account	(21,435,000)
DHMH - Medicaid Provider Payments	(202,622,945)
DHMH - Behavioral Health	(11,500,000)
DHMH - Prior Year Medicaid Accrual	(54,000,000)
BPW PAYGO Prince George's Fields	(2,800,000)
DJS - Major IT encumbrance	(3,000,000)
DJS - Prior Year Encumbrances	(6,665,434)
DHR - Foster Care/Out of Home Placements	(6,410,139)
MSDE	(1,027,716)
Shared Services HR - Department of Aging	(217,340)
Shared Services Payroll - Various Agencies	(168,792)
Total	($371,522,366)

STATE OF MARYLAND
State Reserve Fund
June 30, 2016
(In Dollars)

	Revenue Stabilization Account (Rainy Day) A0101 (fund 0201)	Dedicated Purpose Account A0201 (fund 0202)	Economic Development Opportunity (Sunny Day) A0301 (fund 0203)	Catastrophic Event Account A0401 (fund 0204)	Total
Beginning Balance - July 1, 2015	$773,463,067	-	$6,243,339	$172,937	$779,879,343
Investment Earnings	8,926,974				8,926,974
Replenishment	50,000,000	$ 2,500,000	20,000,000	10,000,000	82,500,000
Distributions/Transfers	-		-	-	-
Ending Balance - June 30, 2016	$832,390,041	$2,500,000	$26,243,339	$10,172,937	$871,306,317

Peter Franchot
Comptroller

Andrew M. Schaufele
Director, Bureau of Revenue Estimates

August 30, 2016

To: Honorable Peter Franchot
Honorable Nancy K. Kopp
Secretary David R. Brinkley

From: Andrew Schaufele
Director, Bureau of Revenue Estimates

Subject: Fiscal Year 2016 Revenues

General fund revenues were $16,198.0 million, an increase of 1.7%, but 1.5% or $250.1 million below estimate. The ongoing rate of growth for the general fund was just 1.9%. The lethargic rate of growth for the year is attributable to continued weakness in wage growth and taxable spending as well as poor net collections associated with the filing of tax returns. It is clear that this economic expansion continues to provide fractured results; households that principally derive their income from wages have not fared well relative to other expansions and continue to face elevated economic uncertainty. This dampens taxable spending and creates an unfavorable feedback loop.

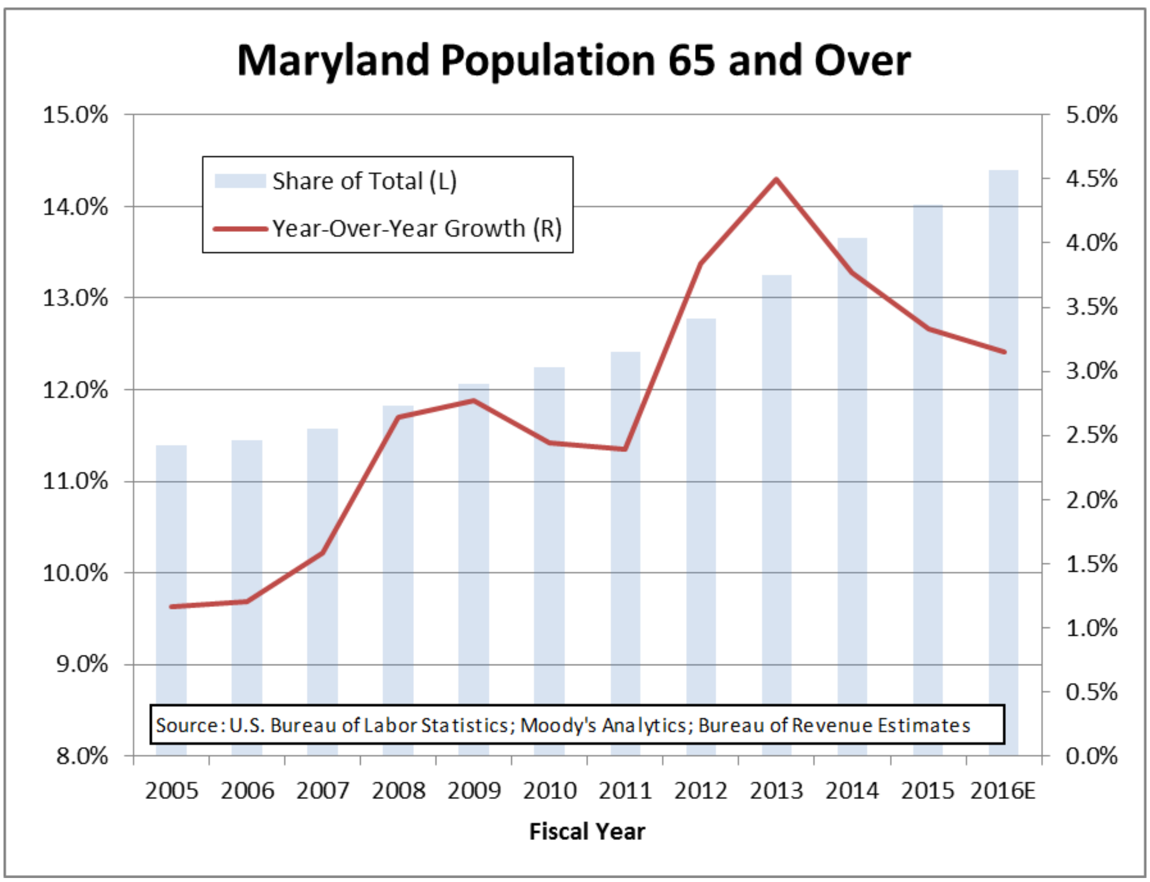
The significant variance from estimate is caused by two factors. First, tax year 2015 will finish below our already conservative expectations. Refunds for the tax year proved substantial and are likely attributable to volatility in non-wage income, particularly capital gains. Moreover, net collections with tax returns for fiscal year 2016 (principally attributable to tax year 2015) declined almost 30.0% -- the estimate called for a decline of 1.0%. Second, withholding growth, a proxy for wages in the aggregate, slowed significantly for the first half of 2016, particularly in the second quarter.

Slow Growth

The results for this year are indicative of continued weakness in wage growth and the corresponding impact that depressed wage growth and general economic uncertainty have on consumer spending. Withholding growth finished the year just 3.4% better than the prior year. This seems counterintuitive given that employment in fiscal year 2016 is reported to have increased 1.8%. However; the top-line employment factors mask impacts from the mix of jobs that have been created. While there are some very encouraging signals coming from the job market, particularly the construction industry, a significant portion of the jobs that have been created are in industries with below average wages relative to the Statewide average. The impact on wages of an unfavorable job mix is compounded by continued slack in the labor market as well as low inflation; inflation in 2015 was just 0.1%, providing employers no incentive to raise wages in order to maintain existing living standards for employees.

The sales tax increased just 2.2% from the prior year. Amplifying this weakness is the fact that fiscal year 2016 was the first full year of collections from Amazon and its subsidiaries, meaning that comparable growth was below 2.0%. The relationship between wages and sales taxes is both intuitive and significant; depressed wage growth will restrain general spending. However, several other factors are likely serving to restrain taxable sales growth. Americans have shifted spending to services that are generally non-taxable and continue to source sales from non-nexus retailers, but these have been ongoing events for the last decade. While a factor, they are likely not the most significant causes for such slow growth in fiscal year 2016. There are likely two other shifts worth noting.

First, the baby boomer generation continues to enter an age cohort where spending patterns shift dramatically. It is estimated by Moody's Analytics that 14.4% of the total population was 65 or over in fiscal year 2014 and that the age cohort increased in size by 3.2%. The chart below portrays the change in this demographic category for the last several years.



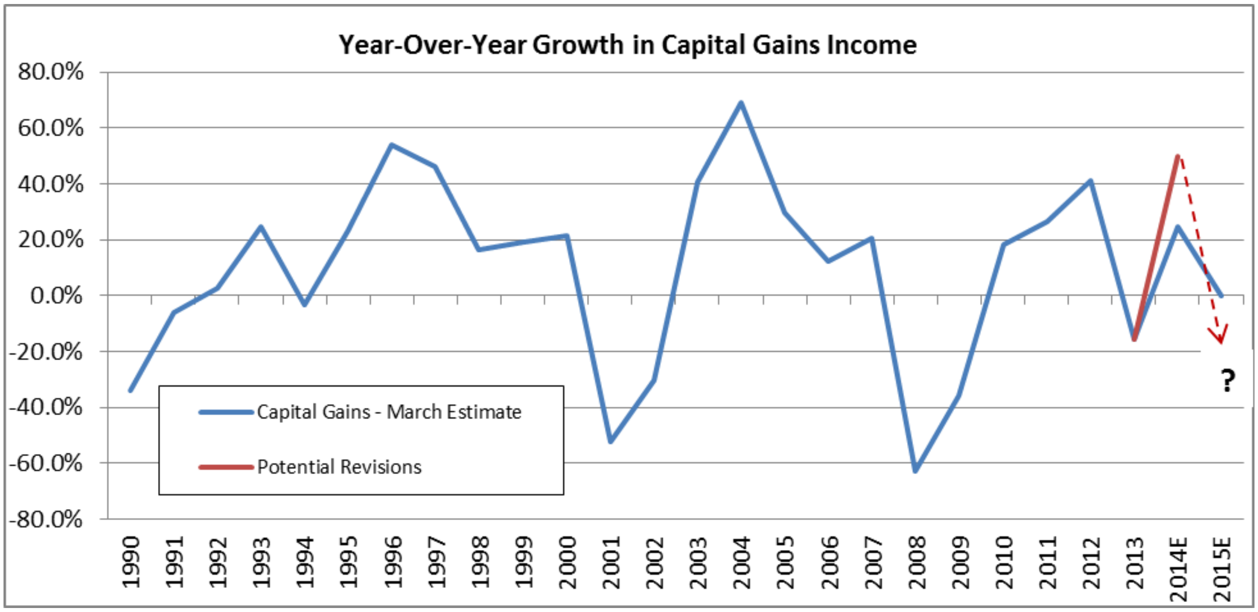
As consumers age beyond the age 65 mark, incomes are reduced and spending patterns shift. For example, in 2014 as measured by the Bureau of Labor Statistics' Consumer Expenditure Survey, the national average annual expenditure for a household of 65 and over was $43,635 compared to an average of $63,703 for the 55 to 64 age group. An elevated stock market and semi-restored housing market are enabling retirement opportunities. It is likely that gains in wages and spending from the millennial generation have not been significant enough to offset shifts from the baby boomers.

Second, another shifting preference continues to cannibalize retail sales – casino gambling. Top-line revenue for the casinos has fared quite well; the amount of dollars generated (cash-in less pay-outs) at the casinos eclipsed the $1.00 billion mark in fiscal year 2015 and increased a further 10.2% in fiscal year 2016 to reach $1.14 billion. While we have not performed an empirical analysis to measure the impact of this effect, with limited growth in disposable income since the recession, common sense suggests that a large share of the dollars generated by the casinos would have otherwise been spent on taxable sales.

Variance From Estimate

Withholding increased 3.4% in fiscal year 2016 as an unexpected slow-down in growth (read wage growth) for the second quarter of 2016 resulted in a negative variance of 1.1%. Adjusting for certain timing issues between the fourth quarter of 2015 and the first quarter of 2016, withholding growth attributable to the first three quarters of the fiscal year averaged 4.2% before slowing to 2.2% for the last. While 1.1% is not an extraordinary rate of variance from the estimate, that rate coupled with the State's single largest revenue source amounts to a negative impact of roughly $93.0 million to the general fund. Data to support the analysis of this slowdown will not be available until late November.

Other factors, generally related to tax year 2015, drove the remainder of the variance. Growth from payments submitted with tax returns was essentially flat while growth from refunds for the fiscal year was 8.5%. It should be noted that those figures exclude refunds resulting from the Wynne case; so-called "Wynne refunds" do not impact the general fund and have been accounted for separately. While we do not yet have all of the tax returns for the year or detailed income information, it is highly likely that the variance from estimate was driven by capital gains growth. It is also worth noting that we do not yet have a final figure for capital gains income for tax year 2014; our estimate for tax year 2014 was 24.5%. However, indicators only now available to us show that capital gains likely increased approximately 50.0% for that year.



For tax year 2015 we estimated flat growth. It now seems likely that capital gains growth may have been strongly negative. It is worth noting that if capital gains growth was in fact negative, it would be the first year, excluding the fiscal cliff, in which capital gains decreased while the stock market increased (annual average) since 1991. Although, given that corporate profit fundamentals and typical asset pricing models seem to have, at least momentarily, reduced in import, this may not be overly surprising. It should also be pointed out that the Comptroller's Office began collecting capital gains information on the Maryland tax return in tax year 2014; therefore, assuming the data is of decent quality, the Board should have better decision making criteria for 2015 capital gains by late November of this year.

Actual and Estimated General Fund Revenue
Fiscal Year 2016

	Fiscal Year 2016				Fiscal Year 2015		
			Difference from Estimate			Growth FY 15 - FY 16	
	Actual	Estimated [1]	$	%	Actual	$	%
INCOME TAXES							
Individual	8,517,585,385	8,779,117,792	(261,532,407)	-3.0%	8,346,144,636	171,440,749	2.1%
Corporations	874,464,801	866,635,562	7,829,240	0.9%	777,321,180	97,143,621	12.5%
Total	9,392,050,186	9,645,753,354	(253,703,167)	-2.6%	9,123,465,817	268,584,370	2.9%
SALES AND USE TAXES	4,444,481,368	4,449,683,000	(5,201,632)	-0.1%	4,350,726,023	93,755,346	2.2%
STATE LOTTERY RECEIPTS	529,753,844	520,372,583	9,381,261	1.8%	506,492,645	23,261,199	4.6%
OTHER REVENUES							
Business Franchise Taxes	221,966,885	230,413,078	(8,446,193)	-3.7%	225,698,685	(3,731,800)	-1.7%
Tax on Insurance Companies	287,406,711	297,612,585	(10,205,874)	-3.4%	316,050,344	(28,643,632)	-9.1%
Estate and Inheritance Taxes	261,932,260	251,128,086	10,804,174	4.3%	243,417,898	18,514,363	7.6%
Tobacco Tax	395,279,375	392,374,161	2,905,214	0.7%	391,462,919	3,816,456	1.0%
Alcoholic Beverages Excises	31,946,225	31,511,742	434,482	1.4%	31,306,462	639,763	2.0%
Motor Vehicle Fuel Tax	4,624,687	4,624,687	-	0.0%	5,000,000	(375,313)	-7.5%
District Courts	72,333,915	77,717,601	(5,383,686)	-6.9%	77,701,820	(5,367,905)	-6.9%
Clerks of Court	34,203,350	37,552,614	(3,349,264)	-8.9%	34,432,591	(229,242)	-0.7%
Hospital Patient Recoveries	57,498,710	59,713,384	(2,214,674)	-3.7%	65,182,216	(7,683,506)	-11.8%
Interest on Investments	15,007,511	11,000,000	4,007,511	36.4%	10,708,649	4,298,863	40.1%
Miscellaneous	334,144,612	323,283,500	10,861,111	3.4%	396,727,923	(62,583,312)	-15.8%
Total	1,716,344,241	1,716,931,438	(587,198)	0.0%	1,797,689,507	(81,345,266)	-4.5%
TOTAL CURRENT REVENUES	16,082,629,640	16,332,740,375	(250,110,735)	-1.5%	15,778,373,991	304,255,649	1.9%
Transfer Tax Revenues [2]	115,366,700	115,366,700	-	0.0%	144,188,544	(28,821,844)	
GRAND TOTAL	16,197,996,340	16,448,107,075	(250,110,735)	-1.5%	15,922,562,535	275,433,805	1.7%

[1] The 2016 Legislative Session resulted in an additional $3.6 million in estimated revenues beyond the March 2016 official estimate; this table has been adjusted accordingly

[2] The Tax Property Article §13-209 has been been altered across several legislative sessions so as to provide various distributions to the general fund

Bureau of Revenue Estimates, August 30, 2016