



Peter Franchot
Comptroller

Roland L. Unger
Director
General Accounting Division

September 1, 2010

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, 2010. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2010 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2010 with a fund balance of \$344.0 million in the General Fund. Of this amount, actual revenues and transfers in excess of estimates were \$190.9 million. Fund balance is unassigned since the 2011 estimated balance is higher than the 2010 estimated balance. As you know, State law requires the governor to appropriate all surplus funds that exceed \$10 million into the Revenue Stabilization Account (Rainy Day Fund). The Revenue Stabilization Account closed the year with a balance of \$611.6 million.

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

Sincerely,

Roland L. Unger, D. Mgt., C.P.A.

RLU:bb

Enclosure

cc: Hon. T. Eloise Foster
Hon. Nancy Kopp
Mr. Warren Deschenaux
Ms. Linda Tanton
Mr. Len Foxwell
Mr. David Roose

General Fund Surplus
June 30, 2010

General Fund Balance, June 30, 2009 available for 2010 operations		\$ 87,172,364
Add:		
2010 Estimated Revenues	12,233,496,317	
Adjustments to Revenues:		
Corporate Income Tax - Constellation	129,000,000	
Sales & Use Tax - divert portion from Chesapeake Bay 2010 Fund	8,000,000	
Other (see Exhibit A)	<u>32,927,088</u>	12,403,423,405
Add:		
Transfers from other funds:		
Transfers from Gas and Motor Vehicle Revenue Account	298,136,085	
Reimbursement from reserve for Heritage Tax Credits	11,413,883	
Reimbursement from reserve for Biotechnology Tax Credits	6,000,000	
Transfer from Revenue Stabilization Account	210,000,000	
Transfers from other funds - 2009 Session (see Exhibit A)	54,369,248	
Transfers from other funds - 2010 Session (see Exhibit A)	181,201,724	
Transfers from other capital related funds - 2010 Session (see Exhibit A)	<u>330,071,000</u>	1,091,191,940
Deduct:		
2010 General Fund Appropriations:		
Appropriated by 2009 General Assembly	13,827,355,023	
Expenditure reductions - Board of Public Works	(531,426,769)	
Deficiency appropriations	195,751,988	
Specific reversions (see Exhibit A)	(33,679,735)	
Estimated agency reversions	<u>(30,000,000)</u>	
Total 2010 General Fund Appropriations		<u>13,428,000,507</u>
Estimated 2010 General Fund Balance		153,787,202
Add (Deduct):		
Actual Revenues in excess of Estimates	183,691,633	
Actual Transfers in excess of Estimates	<u>7,160,439</u>	
Actual Revenues and Transfers in excess of Estimates		190,852,072
Deduct: Estimated Reversions in excess of Actuals		631,250
Unassigned 2010 General Fund Balance		<u><u>\$ 344,008,024</u></u>

EXHIBIT A
GENERAL FUND BUDGET SUMMARY (cont.)
Detail - Fiscal Year 2010

	2010
Adjustments to Revenues - Other	
Statewide - Special Fund Interest	\$ 11,900,000
DHMH - Pfizer Settlement	5,145,972
DHMH - Miscellaneous Revenues	4,314,176
Allocate Admissions and Amusement Tax to the GF	3,400,000
DPSCS - unspent capital appropriation	2,455,987
Stadium Authority Rent Payment	2,000,000
Allocate Moving Violations Revenue to the GF	1,500,000
Comptroller - Corporate Purchasing Card rebates	700,000
Attorney General settlement - Outdoor World	500,000
Revenue Transfer from Maryland Environmental Service	500,000
MSP - Revenues from Salvage Program	370,953
Office of Administrative Hearings	100,000
Treasurer - Banking Recoveries	40,000
	<u>\$32,927,088</u>
 Specific Reversions	
General Assembly	\$ (5,000,000)
Judiciary	(8,500,000)
DHMH - 2009 Medicaid Surplus	(8,700,000)
DHMH - other	(4,167,500)
Planning - Heritage Tax Credit	(2,000,000)
Planning - other	(250,000)
Agriculture	(45,000)
School for the Deaf - Furloughs	(450,000)
DLLR - SAEF	(400,000)
State Department of Education	(1,329,392)
Public Safety and Correctional Services	(2,100,000)
Juvenile Services	(376,472)
GOCCP - Local Law Enforcement Grants	(280,000)
African American Museum	(81,371)
	<u>\$ (33,679,735)</u>
 Transfers from other funds - 2009 session	
DBED - MD Economic Development Assistance Fund (MEDAAF)	\$6,000,000
Transfer Tax - 2010 revenues	30,971,139
Catastrophic Event Fund - State Reserve Fund	7,398,109
Central Collection Unit	10,000,000
	<u>\$ 54,369,248</u>

EXHIBIT A
GENERAL FUND BUDGET SUMMARY (cont.)
Detail - Fiscal Year 2010

	2010
Transfers from other funds - 2010 session	
Injured Workers' Insurance Fund	\$ 6,000,000
Treasurer - State Insurance Trust Fund	5,221,332
Treasurer - Cash Management Improvement Fund	733,339
Assessments and Taxation - Charter Unit	3,000,000
Maryland Insurance Administration - Insurance Regulation Fund	2,000,000
MSP - Vehicle Theft Prevention Fund	1,824,924
MDE - Oil Contaminated Site Environmental Cleanup Fund	3,000,000
MDE - Oil Reserve Fund	1,200,000
MDE - State Used Tire Cleanup and Recycling Fund	1,100,000
MDE - Oil Disaster Containment Cleanup and Contingency Fund	1,000,000
MDE - Tidal Wetlands Compensation Fund	1,000,000
MDE - State Radiation Control Fund	500,000
MDE - Maryland Clean Air Fund	300,000
DNR - Transfer Tax	4,459,496
DNR - Chesapeake 2010 Fund	2,500,000
DNR - Land Trust Grant Fund	1,500,000
DNR - Waterway Improvement Fund	994,450
DNR - Shore Erosion Control Construction Loan Fund	305,481
University System of Maryland	133,319,852
Morgan State University	2,113,653
St. Mary's College of Maryland	204,368
Baltimore City Community College	1,374,254
DHMH - Boards and Commissions various balances	1,226,568
DHMH - Spinal Cord Injury Research Trust Fund	1,559,000
DHMH - Community Health Resources Commission Fund	1,800,000
DHMH - Maryland Health Care Commission	472,026
DLLR - Horse Racing Special Fund	602,800
DLLR - State Occupational and Professional Design Boards' Fund	300,000
DBM - Central Collection Unit	500,000
DPSCS - Maryland Correctional Enterprises Revolving Fund	500,000
MDA - State Chemist Reserve Fund	150,000
DHCD - Neighborhood Business Development Fund	62,687
DHCD - Community Legacy Financial Assistance Fund	53,373
DHCD Rental Housing Programs Fund	87,758
DHCD - Partnership Rental Housing Fund	87,758
DHCD - Homeownership Programs Fund	92,040
DHCD - Special Loan Programs Fund	56,565
	\$ 181,201,724

EXHIBIT A
GENERAL FUND BUDGET SUMMARY (cont.)
Detail - Fiscal Year 2010

	2010
Transfers from other capital related funds - 2010 session	
MDE - Bay Restoration Fund	\$ 155,000,000
Transfer Tax - capital appropriations	153,073,000
Waterway Improvement Fund	12,515,000
DNR - Ocean Beach Replenishment Fund	3,401,000
DHCD - Neighborhood Business Development Fund	3,566,000
DHCD - Community Legacy Financial Assistance Fund	396,000
DHCD - Special Loan Programs Fund	2,120,000
	<u>\$ 330,071,000</u>



Peter Franchot
Comptroller

David Roose
Director
Bureau of Revenue Estimates

September 1, 2010

To: Honorable Peter Franchot
Honorable Nancy K. Kopp
Secretary T. Eloise Foster

From: David F. Roose
Director, Bureau of Revenue Estimates

Subject: Fiscal Year 2010 Revenues

General fund revenues totaled \$12.587 billion in fiscal year 2010, \$183.7 million (1.5%) above the forecast. While revenue performance was better than expected, general fund revenues declined 2.4%. Baseline revenues—collections adjusted for \$169.9 million in legislative changes and extraordinary transactions for fiscal year 2010—would have fallen 3.7%. That 3.7% decline represents the third-worst revenue performance since 1969 (only last year and 2002 experienced more precipitous declines). Revenues are now \$1.1 billion below the fiscal year 2008 peak. Several major revenue sources declined in 2010, reflecting the continuing impact of the recession. Most revenue sources, however, exceeded their estimates.

Individual income tax revenues contributed \$6.178 billion to the general fund, a decline of 4.6%, but receipts were \$109.5 million over the forecast. Income tax withholding grew 1.2% for the year, rebounding from last year's 0.5% decline. One of the primary drivers for withholding, Maryland employment, bottomed out at a 3.4% year-over-year decline in October. Following that month, the drops in employment were progressively smaller, though the rate of improvement picked up markedly in February. As a result, withholding was down 0.5% through February but grew 4.5% over the remainder of the fiscal year. Estimated income tax payments fell 13.3% for the year, a marginal improvement over last year's 16.0% decline and in line with expectations. As with withholding, performance of estimated payments improved over the course of 2010, falling 19.4% in the first half of the fiscal year but increasing 0.4% in the second half. A fairly strong rebound in the stock market likely played a role—the S&P 500 Index rose over 25% in calendar year 2009—as did taxpayers' expectations for flat to moderate income growth in tax year 2010. Payments with returns fell just under \$1.0 billion, down 12.7% from last year but more than \$100 million over the forecast, while income tax refunds increased 6.2% to nearly \$2.7 billion, \$60.3 million ahead of expectations.

General fund corporate income tax revenues increased 25% for the year to \$689.3 million, \$28.5 million over the estimate. Excluding several truly extraordinary transactions, however, general fund revenues actually declined 3.7%. Gross receipts increased 4.0% for the year—estimated payments were flat, while final payments increased 13%, implying that prior periods were stronger than taxpayers had anticipated. Corporate profits peaked nationally at \$1.655 trillion (seasonally adjusted annual rate) in the third quarter of 2006, but by the end of 2008, they had fallen almost 40%.

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Several quarters of very strong growth, particularly during fiscal year 2010, have brought profits back to \$1.639 trillion—nearly back to the peak. The steep losses, though, have been reflected in refunds of corporate income taxes over the past several years, including a record \$258.6 million in fiscal year 2010, more than 20% above fiscal year 2009 levels.

General fund sales and use tax receipts declined 2.7% to \$3.523 billion, but were \$40.8 million (1.2%) above the forecast. Gross receipts fell 2.4%, the second consecutive decline and only the third since 1969. Revenues from consumers, about two-thirds of total sales tax collections, dropped 0.8%. The Conference Board's consumer confidence index averaged 106 between 2000 and 2007, but averaged only 53 over the course of fiscal year 2010. Job losses, reduced use of credit, shrinking retirement accounts and falling home values, among other factors, have taken their toll on consumer spending during the recession. Construction-related sales tax receipts performed better in 2010, with a decline of only 7.6% compared to a 16% drop the prior year. While residential building permits and the value of those permits increased somewhat significantly this year, up 14.3% and 18.8% respectively, related activity was not enough to offset declines in the value of commercial construction (down 13.3%) and retail sales of building materials (down 4.2%). Revenues from sales of capital goods were off only 0.3%, a strong rebound from last year's 14% decline, perhaps indicating stabilizing business confidence. Despite the fact that these three categories declined, all three exceeded their respective estimates by a combined \$74.9 million. Receipts from utilities were down 8.2%, after this sector was the only one showing growth in 2009; and utility-related receipts were \$17.4 million short of the forecast.

In contrast to many other revenue sources that declined for the year but outperformed their estimates, general fund lottery collections grew in fiscal year 2010, but fell short of the forecast. Revenues increased by 3.8% to \$491.0 million but finished \$15.1 million (3.0%) under the estimate. Sales increased 0.5% to \$1.707 billion, with help from the new games Powerball and Racetrax Bonus. Sales of instant tickets, the largest game, fell by 3.2%, while sales of Pick 3, the third-largest game, decreased 3.4%. Despite the rather significant decline in Pick 3 sales, revenues grew 5.2% thanks to a better prize payout ratio (52.0% this year vs. 53.2% last year). The large jackpot games (Mega Millions combined now with Powerball) resulted in a sales increase of \$13.2 million, growth of 25.4%. Additionally, commissions and operating expenses were reduced by 7.2% and 12.1% respectively, contributing a combined \$15.8 million to the bottom line.

Business franchise taxes grew 0.5% to \$202.5 million, although they ended 6.3% lower than the estimate, a \$13.7 million shortfall. Business filing fees, accounted for within this tax, increased 2.5%, indicating a net creation of new business entities, which seems counterintuitive given the economic climate. Public service company franchise taxes were flat, falling 0.7% this year compared to 6.4% the year before. Separately, insurance premium taxes outperformed expectations, ending up modestly for the year but \$10.1 million over the estimate.

Death taxes—the estate and inheritance taxes—fell 15.6% to \$173.5 million, but were \$11.7 million over expectations. The estate tax generated \$126.0 million in revenue, a decline of almost 16%, but was \$11.8 million over the forecast. Large estates, those making tax payments of \$1 million or more, generated \$35.6 million in revenue, also a 16% decline, although the average payment from these estates dropped from \$2.5 million to \$1.6 million.

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Revenues from mid-sized estates, those making payments from \$500,000 to \$1 million, fell by 46% to \$9.1 million. Inheritance taxes declined 8.8%, meeting the forecast.

Tobacco tax revenues were essentially flat at \$405.9 million, although they ended \$9.3 million (2.4%) over the estimate. While the estimate called for a 2.2% drop, based on the long-term trend of declining pack sales and a reduction in demand due to the recently-increased federal excise tax rate, there were only 52,500 fewer stamps sold in fiscal year 2010 than the year before—a drop of only three basis points. The tax on other tobacco products increased 7.2% to \$11.8 million, slightly lower than the estimate but a continuation of the strong growth this revenue source has experienced since its inception in fiscal year 2001.

Of note among the remaining revenue sources, court revenues fell \$7.1 million, and were \$12.8 million below the estimates. Receipts from the clerks of court were \$9.1 million under the forecast—almost three-quarters of the shortfall. These revenues are largely related to real estate activity, and are reflective of continuing weakness in the housing market. General fund interest income, despite a boost from \$12.9 million of interest redirected from special funds, fell nearly 40%, although it exceeded the estimate by \$3.3 million. Miscellaneous revenues were \$3.3 million (1.0%) over the forecast. Revenues from unclaimed property and uninsured motorist penalty fees were each about \$5 million under their estimates, offset by \$6.1 million in revenues over the estimates from public education. The 2009 tax amnesty brought in \$27.0 million in general fund revenue, \$6.3 million more than anticipated.

The Revenue Monitoring Committee will be analyzing the fiscal year 2010 results and the current economic outlook over the next several weeks in preparation for the September 16 Board of Revenue Estimates meeting. At that meeting, we will present for your approval revised estimates for fiscal year 2011 and the first official estimates for fiscal year 2012. In the meantime, if you have any questions, please do not hesitate to contact me.

**Actual and Estimated General Fund Revenue
Fiscal Year 2010**

	Fiscal Year 2010				Fiscal Year 2009		
	Actual	Estimated ¹	Difference from Estimate		Actual	Growth FY 09 - FY 10	
			\$	%		\$	%
INCOME TAXES							
Individual	6,178,242,639	6,068,779,000	109,463,639	1.8%	6,477,157,049	(298,914,409)	-4.6%
Corporations	689,310,989	660,786,000	28,524,989	4.3%	550,739,805	138,571,184	25.2%
Total	6,867,553,628	6,729,565,000	137,988,628	2.1%	7,027,896,854	(160,343,226)	-2.3%
SALES AND USE TAXES	3,522,773,696	3,481,936,000	40,837,696	1.2%	3,620,430,842	(97,657,146)	-2.7%
STATE LOTTERY RECEIPTS	491,008,631	506,096,000	(15,087,369)	-3.0%	473,206,260	17,802,371	3.8%
OTHER REVENUES							
Business Franchise Taxes	202,451,759	216,123,000	(13,671,241)	-6.3%	201,377,678	1,074,081	0.5%
Tax on Insurance Companies	277,006,782	266,946,000	10,060,782	3.8%	275,202,541	1,804,241	0.7%
Death Taxes	173,473,468	161,822,000	11,651,468	7.2%	205,491,628	(32,018,160)	-15.6%
Tobacco Tax	405,915,108	396,592,000	9,323,108	2.4%	405,579,110	335,998	0.1%
Alcoholic Beverages Excises	29,873,865	29,512,000	361,865	1.2%	29,167,770	706,095	2.4%
Motor Vehicle Fuel Tax	8,385,845	8,385,845	-	0.0%	6,500,000	1,885,845	29.0%
District Courts	87,331,485	91,042,000	(3,710,515)	-4.1%	89,378,643	(2,047,158)	-2.3%
Clerks of Court	35,483,707	44,606,000	(9,122,293)	-20.5%	40,513,736	(5,030,029)	-12.4%
Hospital Patient Recoveries	72,690,184	70,978,000	1,712,184	2.4%	96,461,733	(23,771,549)	-24.6%
Interest on Investments	50,223,150	46,900,000	3,323,150	7.1%	83,049,522	(32,826,372)	-39.5%
Miscellaneous	335,928,466	332,219,560	3,708,906	1.1%	338,301,591	(2,373,125)	-0.7%
Total	1,678,763,818	1,665,126,405	13,637,413	0.8%	1,771,023,951	(92,260,133)	-5.2%
TOTAL CURRENT REVENUES	12,560,099,774	12,382,723,405	177,376,369	1.4%	12,892,557,907	(332,458,133)	-2.6%
Extraordinary Revenues ²	27,015,264	20,700,000	6,315,264	30.5%	7,917,000	19,098,264	241.2%
GRAND TOTAL	12,587,115,038	12,403,423,405	183,691,633	1.5%	12,900,474,907	(313,359,869)	-2.4%

¹ The fiscal year 2011 budget increased 2010 revenue estimates by \$169.9 million; the estimates for corporate income tax, sales and use taxes, interest on investments and miscellaneous revenues have been adjusted accordingly.

² The extraordinary revenues in 2010 reflect the 2010 tax amnesty; 2009 extraordinary revenues include revenue transfers from a GAAP account.

There were additional budgeted transfers from other funds into the general fund totaling \$1.008 billion in fiscal year 2009 and \$1.098 billion in fiscal year 2010.