



Peter Franchot
Comptroller

J. Michael Dougherty, Jr., J.D., CPA
Director
General Accounting Division

August 29, 2013

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

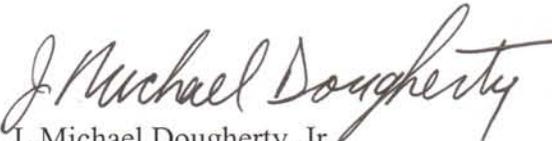
Dear Comptroller Franchot:

Enclosed you will find the statement of General Fund Balance for the year ended June 30, 2013. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2013 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2013 with a fund balance of \$510.7 million in the General Fund. Of this amount \$263.7 million was assigned by the 2013 General Assembly for fiscal year 2014 operations leaving an unassigned fund balance of \$247.0.

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

Sincerely,


J. Michael Dougherty, Jr.
Director

JMD:pc

Enclosure

cc: Hon. T. Eloise Foster
Hon. Nancy Kopp
Mr. Warren Deschenaux
Mr. Len Foxwell
Mr. David Roose
Mr. Andrew Schaufele

EXHIBIT A
GENERAL FUND BUDGET SUMMARY
Detail: Fiscal Year 2013

| | |
|---|--------------------|
| Adjustments to Revenues – Other | |
| Comptroller - Abandoned Property | 5,000,000 |
| Cultural Arts Revenue | 1,900,500 |
| DBM Central Collections Unit | 1,956,753 |
| DLLR – SAEF Revenues | 1,328,000 |
| Maryland Stadium Authority – Rent Payment | 1,500,000 |
| Toyota Settlement | 644,000 |
| Maryland Environmental Service | 452,630 |
| Sustainable Communities Tax Credit – Expired Tax Credits | 430,000 |
| Lottery Revenue – Restricted Appropriation/Reduction | 167,119 |
| Total | <hr/> 13,379,002 |
| Budget Restoration Fund Transfers | |
| Budget Restoration Fund balance 6-30-12 | 2,800,000 |
| Transfer Tax – Capital Appropriations | 96,870,649 |
| IWIF Payment | 50,000,000 |
| University System of Maryland | 5,000,000 |
| DPSCS – Maryland Correctional Enterprises Revolving Fund | 500,000 |
| DHMH – Spinal Cord Injury Research Trust Fund | 500,000 |
| DHMH – Boards and Commissions Various Balances | 426,530 |
| DLLR Horse Racing Impact Aid | 351,000 |
| Morgan State University | 250,000 |
| Treasurer – State Insurance Trust Fund | 206,000 |
| Secretary of State – Division of State Documents | 50,000 |
| Total | <hr/> 156,954,179 |
| Specific Reversions | |
| DoIT – Statewide Personnel System | (12,790,502) |
| MSDE – Nonpublic Placements | (6,780,000) |
| MSDE – Ed Jobs | (60,000) |
| GOC – Salaries | (20,000) |
| Total | <hr/> (19,650,502) |
| Transfers from other funds contingent upon legislation | |
| Treasurer – State Insurance Trust Fund | 1,000,000 |
| Total | <hr/> 1,000,000 |

**GENERAL FUND BALANCE
JUNE 30, 2013**

| | | |
|---|----------------------|--------------------------------|
| General Fund Balance, June 30, 2012 | | \$ 551,152,508 |
| Add: | | |
| 2013 Estimated Revenues (Bd. Of Revenues Est. March 2013) | | 14,925,301,000 |
| Adjustments to Revenues – Other (see detail) | | 13,379,002 |
| GAAP Transfer | | 17,483,021 |
| Transfer from Budget Restoration Fund (see detail) | | 156,954,179 |
| Reimbursement from reserve for Tax Credits | | 11,250,892 |
| Transfers from other funds contingent upon legislation (see detail) | | 1,000,000 |
| Deduct: | | |
| 2013 General Fund Appropriations: | | |
| Appropriated by the 2012 General Assembly | 14,623,003,880 | |
| Budget Restoration Fund Appropriations | 430,277,543 | |
| Deficiency appropriations | 115,302,179 | |
| Specific reversions (see detail) | (19,650,502) | |
| Estimated agency reversions | <u>(30,000,000)</u> | |
| | | 15,118,933,100 |
| Estimated 2013 General Fund Balance | | <u>557,587,502</u> |
| Less: | | |
| Excess of Estimated Revenues over actual | (62,352,977) | |
| Add: | | |
| Excess of Actual Transfers over estimates | <u>1,446,083</u> | (60,906,894) |
| Add: | | |
| Excess of Actual Reversions over estimates | | 14,017,005 |
| Total General Fund Balance | | <u>510,697,613</u> |
| Deduct: | | |
| General Fund Balance reserved | | |
| For 2014 Operations | 557,587,502 | |
| Minus 2014 Estimated Surplus | <u>(293,903,888)</u> | |
| | | 263,683,614 |
| 2013 Unassigned General Fund Balance | | <u>\$ 247,013,999</u> ===== |

STATE OF MARYLAND
State Reserve Fund
June 30, 2013
(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 Fund A0401 (fund 0204) | Total |
|----------------------------------|---|--|--|--|----------------------|
| Beginning Balance - July 1, 2012 | \$671,528,290 | - | \$1,825,690 | \$1,000,000 | \$674,353,980 |
| Investment Earnings | 6,148,974 | | | | 6,148,974 |
| Replenishment | 27,757,774 | \$ 10,000,000 | 6,610,717 | | 44,368,491 |
| Distributions/Transfers | (5,000,000) | | 759,266 | (432,313) | (4,673,047) |
| Ending Balance - June 30, 2013 | <u>\$700,435,038</u> | <u>\$10,000,000</u> | <u>\$9,195,672</u> | <u>\$567,687</u> | <u>\$720,198,397</u> |

Source: 63 Cash Control screen

Note: The \$10 million replenishment in the Dedicated Purpose Account was the result of a FY 2013 deficiency appropriation authorized in the FY 2014 Budget Act. The \$6,610,717 was returned by DBED. The \$432,313 distribution in the Catastrophic Event Fund was authorized by budget amendment 112-13 and is related to the Derecho and Hurricane Sandy.



Peter Franchot
Comptroller

Andrew Schaufele
Director
Bureau of Revenue Estimates

August 29, 2013

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

From: Andrew Schaufele
Director, Bureau of Revenue Estimates

Subject: Fiscal Year 2013 Revenues

General fund revenues totaled \$14.894 billion in fiscal year 2013, only 0.4% (\$62.4 million) below the forecast. Current revenues increased 4.3%, or \$618.5 million, with the growth almost entirely attributed to extraordinary dynamics surrounding tax year 2012, most notably the State's retroactive personal income tax changes and the tax planning strategies surrounding prior federal tax policy uncertainty. Masked by the personal income tax's overall performance, the State's single largest source for ongoing revenue, income tax withholding, fell well short of the estimate (receipts missed by \$171.3 million) and increased a meager 2.5% for the fiscal year (see Table 1 below). Such poor performance for arguably the best barometer of wage growth in Maryland is indicative of continued slack in the labor market and is, at the very least, highly correlated with the poor performance of the sales tax. While sales tax collections, the second largest source of general funds, finished within twenty basis points of the estimate, general funds increased just 0.7% from the prior year, below the rate of inflation for the same period. The elevated fiscal year 2013 general fund share of the corporate income tax contributed an additional \$131.1 million in revenue (corporate income tax growth was 6.3%, adjusted for the distribution difference), almost enough to compensate for the absence of the highway user revenue distribution.

Table 1

*Gross receipts—before distributions
Dollars in Thousands

| | 2013 Actual | 2012 Actual | % Growth | 2013 Estimate | Estimate Variance |
|----------------------|-------------|-------------|----------|---------------|-------------------|
| Withholding Receipts | 11,379,185 | 11,102,250 | 2.5% | 11,550,511 | -171,326 |

Individual income tax revenues contributed \$7.691 billion to the general fund, an increase of \$576.7 million— \$5.3 million (0.1%) above the forecast. While final payments, estimated payments, and refunds – largely related to the prior tax year – have all outperformed expectations, withholding remittals were quite weak, finishing up only 2.5% versus an estimate for 4.0% growth. Furthermore, employers were presumably withholding at higher rates starting in January, amplifying concern over the lackluster performance of late. While the unemployment rate has remained uncharacteristically high, illustrating slack in the labor market and therefore exerting downward pressure on wages, other factors may also be contributing to poor performance. It is plausible, even likely, that the federally reported employment figures could be revised downwards

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as benchmarking information becomes available in the near future (the Current Employment Statistics (CES) from the Bureau of Labor Statistics show 1.3% employment growth for Maryland in fiscal year 2013). Additionally, it must be noted that neither the CES employment series, nor the federal wage data, is capturing the Maryland residents that have seen their wages reduced or jobs eliminated in Washington D.C. and Virginia as the federal government and its contractors cope with sequestration, both prior to and after sequester's actual implementation date. Also negatively affecting hiring and wage decisions, particularly in the first half of the fiscal year, was the extraordinary uncertainty surrounding the tax policy component of the "fiscal cliff".

As noted above, data relating to tax year 2012 displays over-attainment compared to expectations, compensating for the withholding shortfall. Planning for possibly higher federal income tax rates in 2013, taxpayers realized income in calendar year 2012, which in the absence of such policy uncertainty, they would not have. The extraordinary realizations coupled with the greater, retroactively applied, tax rates at the State level account for tax year 2012's remarkable revenue growth. The timing of the increased tax rates and federal tax policy uncertainty likely drove the strong growth in estimated and final payments and the reduction in refunds. Final payments, which include extension payments, were up 26.7% for tax year 2012. Estimated payments, which displayed volatility in the first three quarters of 2012, much like the broader economy at the time, increased 27.5% in the fourth quarter. Since then, estimated payments related to tax year 2013 have shown substantial growth, up 10.0% and 13.4% for the first two quarters, respectively. However, 2013 estimated payment's to-date performance is not necessarily demonstrative of current economic conditions; those amounts compare periods of different tax rates and include taxpayers paying to meet safe-harbor requirements. Refunds for tax year 2012 were down 4.0% by the fiscal year end. In addition, fiduciary payments, while small in the big picture, finished at \$94.0 million – up 53.6% from the prior fiscal year, with tax year 2012 receipts boosted by the same factors that affected the tax on individuals.

General fund corporate income tax revenues increased 26.6% for the year to \$818.2 million. The growth over the prior year coupled strong corporate payments with a decrease in the distribution percentage to the Transportation Trust Fund, benefiting the general fund. Gross receipts rose 2.4% for the year, while refunds dropped a dramatic 23.4% – both positively affecting the general fund. Adjusting for the increased distribution, corporate general fund income tax receipts growth is 6.3%. Estimated payments, which comprise approximately 70% of corporate income tax receipts and generally reflect the tax year's expectations, grew 6.6% for the year – this growth compensated for a 7.2% decline in final payments. Final payments received in fiscal year 2013 may have been affected by carryovers of net operating losses arising from the recession, when corporate profits suffered one of their longest and deepest declines.

Sales and use tax receipts remained relatively flat from fiscal year 2012, only growing 0.7% (\$28.4 million), and finished \$6.7 million below the estimate; gross receipts increased a meager 1.1% over the prior year. In the beginning of 2013, the fiscal cliff was averted for many taxpayers; however, Maryland's disproportionate share of high income earners were and continue to be negatively impacted (from a disposable income standpoint) by the 2013 tax policy changes signed into law on January 2, 2013. Additionally, according to the Tax Policy Center in Washington, the impact of the payroll tax cut is about \$700 per year for the average worker, also reducing

disposable income. While tax changes continue to depress disposable income, consumers have also been deeply impacted by stagnant wages and poor employment situations, all while prices for consumer staples, such as gasoline and food (both not taxable goods), have seen significant growth since the recession's onset. Revenues from individual consumers, approximately two-thirds of total sales tax collections, grew just 1.1%. Sales appeared to be picking up during the beginning of fiscal year 2013, but then tailed off as sequester and tax policy uncertainty increased. As of late, construction receipts, a current indicator of the housing market, have been a bright spot – up 3.1% for the year and surpassing the estimate by 2.0%. The strengthening of new home construction is demonstrated by the number of residential permits for Maryland – an estimated increase of 26.1% in fiscal year 2013.

General fund lottery receipts ended slightly above the estimate, decreasing 0.3% (\$1.5 million) from fiscal year 2012. Sales dropped 2.2% compared to a 2.0% drop in revenues (\$11.1 million), due to a slight decrease in payouts – to the benefit of the State. Somewhat troubling is the sales decline of the three largest games – instant ticket sales, the largest game, fell 4.1%; Keno, the second largest game, dropped an astounding 11.0%; and Pick 3, the third largest game, dropped 3.6%. While studies are still being conducted, there appears to be a direct correlation between decreased sales and casino location proximity. The multi-state lottery games (Mega Millions and Powerball), collectively exceeded expectations, slightly outperforming the forecast. Powerball ticket prices were increased to \$2 in January 2012 (halfway through fiscal year 2012) and in April 2013, the Powerball game expanded to California. The impact of these changes has been larger and more frequent jackpots; for example, the Powerball jackpot reached \$600 million in May 2013 and during fiscal year 2013, there were nine Powerball drawings with jackpots greater than \$250 million versus just one for the prior year.

Business franchise taxes, composed of business filing fees and public service company franchise taxes, fell 2.7% to \$201.6 million, finishing the year slightly below the estimate (0.9%). Business filing fees, which are collected when business entities register with the State, and were surprising resilient throughout the depths of the recession, declined 2.5% this fiscal year. Gross receipts from utilities decreased 2.9% from the prior year.

Estate and inheritance taxes grew a strong 19.2% to \$37.7 million over the prior year—\$16.8 million over the estimate. In general, assets are up as the stock market has somewhat rebounded and real estate has improved, leading to higher taxable estates for decedents. The estate tax generated \$195.5 million in revenue, an increase of \$34.4 million (21.8%). Large estates, those making payments of \$1.0 million or more, generated \$84.4 million in revenue – up almost 200.0% from fiscal year 2012. The average size of these estates increased from \$1.8 million in fiscal year 2012 to \$2.8 million in fiscal year 2013. Conversely, revenues from mid-sized estates, those making payments from \$500,000 to \$1 million, fell by 36.7% to \$16.6 million, with some of the decline likely attributable to some estates moving into the higher wealth category. Inheritance taxes increased 2.2%, falling just shy of the estimate.

Tobacco tax revenues grew 1.1%, largely attributable to the increased excise tax rate on the wholesale price of other tobacco products. Effective July 1, 2012 the tax rate for other tobacco products increased from 15% on the following products: non-premium cigars – to 70%; all other tobacco products – to 30%; premium cigars – remains unchanged at 15%. As a result of the higher

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rates, retailers were required to remit a “floor tax” on all other tobacco in stock on that date. Including the floor tax (\$2.3 million), collections for other tobacco products increased 224% to more than \$40.0 million. The more significant portion of the tobacco tax, stamp sales from cigarettes (\$2 per pack), declined at a greater rate than in any other year absent a tax rate change. While the cause is uncertain, it seems highly likely that the decrease is attributable to a major shift in the tobacco market – the consumer adoption of electronic cigarettes. Such cigarettes, which may or may not contain nicotine and are not stamped, have recently risen in popularity; the Center for Disease Control estimates that 21% of adults who smoke cigarettes have tried electronic cigarettes. The advent of electronic cigarettes also supplies another cessation tool. Relative to the estimate, the tobacco taxes fell short by \$1.9 million.

Insurance premium taxes declined 0.1% from the prior year—missing the estimate by \$10.8 million. Court revenues were collectively flat. Receipts from the clerks of court were \$3.4 million above fiscal year 2012. These revenues, largely related to real estate activity, are reflective of an improving real estate market. General fund interest income continued to decline; the average yield on a three-month Treasury bill in fiscal year 2013 was a low 0.8%, growing a trifling amount from 0.5% in fiscal year 2012 – for perspective, the average rate was 3.3% between fiscal years 2000 and 2008. Among miscellaneous revenue sources, several outperformed their revenue estimates, including unclaimed property (up \$15.1 million) and uninsured motorist penalty fees (up \$3.8 million). Those over-attainments, however, were not enough to compensate for other revenue sources’ underperformance, particularly as miscellaneous revenues from the Maryland State Department of Education, which were expected to decrease significantly in the absence of federal subsidies, declined more than anticipated.

The Revenue Monitoring Committee will continue to analyze the fiscal year 2013 results and the current economic outlook over the next several weeks in preparation for next month’s revision of the revenue estimates. In the meantime, if you have any questions, please do not hesitate to contact me.

**Actual and Estimated General and Budget Restoration Fund Revenue
Fiscal Year 2013**

| | Fiscal Year 2013 | | | | Fiscal Year 2012 | | |
|-------------------------------------|------------------|------------------------|--------------------------|-------|------------------|----------------------|---------|
| | Actual | Estimated ¹ | Difference from Estimate | | Actual | Growth FY 12 - FY 13 | |
| | | | \$ | % | | \$ | % |
| INCOME TAXES | | | | | | | |
| Individual | 7,691,380,537 | 7,686,126,000 | 5,254,537 | 0.1% | 7,114,679,409 | 576,701,129 | 8.1% |
| Corporations | 818,221,090 | 872,877,000 | (54,655,910) | -6.3% | 646,474,825 | 171,746,265 | 26.6% |
| Total | 8,509,601,627 | 8,559,003,000 | (49,401,373) | -0.6% | 7,761,154,233 | 748,447,394 | 9.6% |
| SALES AND USE TAXES | 4,067,790,962 | 4,074,524,000 | (6,733,038) | -0.2% | 4,039,347,838 | 28,443,124 | 0.7% |
| STATE LOTTERY RECEIPTS | 534,788,700 | 526,183,000 | 8,605,700 | 1.6% | 536,250,630 | (1,461,930) | -0.3% |
| OTHER REVENUES | | | | | | | |
| Business Franchise Taxes | 201,561,229 | 203,352,000 | (1,790,771) | -0.9% | 207,194,403 | (5,633,174) | -2.7% |
| Tax on Insurance Companies | 303,756,105 | 314,517,000 | (10,760,895) | -3.4% | 304,021,925 | (265,820) | -0.1% |
| Estate and Inheritance Taxes | 234,614,880 | 217,814,000 | 16,800,880 | 7.7% | 196,896,858 | 37,718,023 | 19.2% |
| Tobacco Tax | 415,946,894 | 417,835,000 | (1,888,106) | -0.5% | 411,427,075 | 4,519,819 | 1.1% |
| Alcoholic Beverages Excises | 31,161,610 | 31,100,000 | 61,610 | 0.2% | 31,009,500 | 152,110 | 0.5% |
| Motor Vehicle Fuel Tax | 13,000,000 | 13,000,000 | - | 0.0% | 5,000,000 | 8,000,000 | 160.0% |
| Highway User Revenues | - | - | - | | 186,721,617 | (186,721,617) | -100.0% |
| District Courts | 75,476,361 | 77,000,000 | (1,523,639) | -2.0% | 79,394,724 | (3,918,363) | -4.9% |
| Clerks of Court | 38,546,047 | 40,000,000 | (1,453,953) | -3.6% | 35,138,952 | 3,407,095 | 9.7% |
| Hospital Patient Recoveries | 64,461,472 | 60,883,000 | 3,578,472 | 5.9% | 66,384,810 | (1,923,338) | -2.9% |
| Interest on Investments | 14,507,923 | 10,000,000 | 4,507,923 | 45.1% | 17,917,602 | (3,409,679) | -19.0% |
| Miscellaneous | 371,113,214 | 393,469,002 | (22,355,788) | -5.7% | 379,982,454 | (8,869,239) | -2.3% |
| Total | 1,764,145,736 | 1,778,970,002 | (14,824,266) | -0.8% | 1,921,089,920 | (156,944,183) | -8.2% |
| TOTAL CURRENT REVENUES | 14,876,327,025 | 14,938,680,002 | (62,352,977) | -0.4% | 14,257,842,621 | 618,484,404 | 4.3% |
| Extraordinary Revenues ² | 17,483,021 | 17,483,021 | - | 0.0% | - | 17,483,021 | |
| GRAND TOTAL | 14,893,810,046 | 14,956,163,023 | (62,352,977) | -0.4% | 14,257,842,621 | 635,967,425 | 4.5% |

¹ The fiscal year 2013 budget increased 2013 revenue estimates by \$13.4 million; the estimates for miscellaneous revenues have been adjusted accordingly.

² The extraordinary revenues in 2013 include a GAAP transfer of \$17.5 million.

There were additional budgeted transfers from other funds into the general fund totaling \$238.6 million in fiscal year 2012 and \$17.0 million in fiscal year 2013.