



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

**Peter Franchot**  
*Comptroller*

**Sandra Zinck**  
*Director*  
*General Accounting Division*

September 14, 2022

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, 2022. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2022 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2022 with a fund balance of \$5.499 billion in the General Fund. Of this amount \$4.377 billion was assigned by the 2022 General Assembly for fiscal year 2023 operations leaving a preliminary unassigned fund balance of \$1.992 billion. In accordance with Chapters 4 & 550 of 2017 establishing the Revenue Volatility Cap, \$870.3 million of specific income tax revenues is transferred to the Rainy Day Fund and Fiscal Responsibility Fund, resulting in a final unassigned balance of \$1.121 billion.

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

Sincerely,

Christopher Kratzen  
Deputy Director, General Accounting Division

CK:ld

Enclosures

cc: The Honorable David Brinkley  
The Honorable Dereck E. Davis  
Ms. Victoria Gruber  
Mr. Emmanuel Welsh  
Mr. Andrew Schaufele

**General Fund Balance**  
**June 30, 2022**

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<b>General Fund Balance, June 30, 2021</b>		\$3,239,132,778
Add:		
2022 Estimated Revenues (Board of Revenue Estimates March 2022)		22,458,790,525
Adjustments to Revenues (see detail)		15,474,590
Reimbursement from reserve for Tax Credits		20,443,335
Other adjustments to revenue:		
Transfer from Revenue Stabilization Account		-
Transfer from other funds		100,000
Deduct:		
2022 General Fund Appropriations		
Appropriated by 2021 General Assembly	20,931,625,077	
Deficiency appropriations	617,045,249	
Bill reductions	(350,000,000)	
Specific reversions (see detail)	(33,585,521)	
Estimated agency reversions	<u>(35,000,000)</u>	
Net appropriations		<u>(21,130,084,805)</u>
<b>Estimated 2022 General Fund Balance</b>		4,603,856,423
Add:		
Excess of Actual Revenues over (under) estimates	1,570,264,366	
Excess of Actual Transfers over (under) estimates	<u>(874,975,775)</u>	
		695,288,591
Add:		
Excess of Actual Reversions over estimates	199,561,769	
		<u>199,561,769</u>
<b>Total General Fund Balance</b>		5,498,706,783
Deduct:		
General Fund Balance Reserved for 2022 Operations	4,603,856,423	
Minus 2023 Estimated Surplus	<u>(226,578,561)</u>	
		<u>4,377,277,862</u>
<b>2022 Unassigned General Fund Balance</b>		<u><u>\$ 1,121,428,921</u></u>

**TOTAL AVAILABLE CASH**

**June 30, 2022**

	<b>Unassigned General Fund</b>	<b>Revenue Stabilization Account (Rainy Day Fund)</b>	<b>Fiscal Responsibility Fund</b>	<b>TOTAL</b>
Fund Balance - Pre-Distribution	\$ -	\$ 1,162,095,967	\$ -	\$ 1,162,095,967
FY2022 Unassigned Bal & Distributions <sup>1</sup>	1,121,428,921	500,244,249 <sup>1</sup>	370,012,784 <sup>1</sup>	1,991,685,954
<b>Ending Available Cash</b>	<b>\$ 1,121,428,921</b>	<b>\$ 1,662,340,216</b>	<b>\$ 370,012,784</b>	<b>\$ 3,153,781,921</b>

<sup>1</sup> - Chapters 4 & 550 of 2017 established the Revenue Volatility Cap. In FY 2022, \$870.3 million of specified income tax revenues is transferred to the Rainy Day Fund and Fiscal Responsibility Fund.

**EXHIBIT A**  
**GENERAL FUND BUDGET SUMMARY**  
**Detail - Fiscal Year 2022**

**Adjustments to Revenues - Other**

Ch. 33 of 2022 - Sales Tax Redistribution	\$ 46,900,000
Ch. 337 of 2022 - Rental Housing Fund Distribution	(30,000,000)
Lottery Adjustment	<u>(1,425,410)</u>
	<u>\$ 15,474,590</u>

**Fenced Off Items**

MSDE - State Aided Institutions	\$ (500,000)
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**Agency Reversions**

MDH - DDA Prior Year EFMAP Savings	(20,000,000)
MDH - Medicaid Carryover and EFMAP	<u>(13,085,521)</u>
	<u>\$ (33,585,521)</u>

**Transfers from Other Funds**

MD National Capital Park and Planning Commission	<u>\$ 100,000</u>
	<u>\$ 100,000</u>

**STATE OF MARYLAND**  
**State Reserve Fund**  
**June 30, 2022**  
**(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, 2021	\$ 631,174,714	\$ 10,000,500	\$ 1,733,614	\$ 3,810,190	\$ 646,719,018
Investment Earnings	5,132,771				5,132,771
Replenishments	1,026,032,731	218,860,950	3,270,000	10,000,000	1,258,163,681
Distributions/Transfers	-	(118,965,945) a	(5,000,000) b	(3,755,775) c	(127,721,720)
Ending Balance - June 30, 2022	<u>\$ 1,662,340,216</u>	<u>\$ 109,895,505</u>	<u>\$ 3,614</u>	<u>\$ 10,054,415</u>	<u>\$ 1,782,293,750</u>

Source: DAFRG110 & DAFRG400.

- (a) \$25,000,000 Transfer to OPEB Trust.
- (a) Budget Amendment #073-22 \$9,570,955 to DOIT.
- (a) Budget Amendment #106-22 \$40,412,201 transfer to MDH.
- (a) Budget Amendment #012-22 \$40,326,404 transfer to DNR.
- (a) Budget Amendment #012-22 \$3,534,546 transfer to MDA.
- (a) Budget Amendment #095-22 \$121,839 transfer to DGS.
- (b) \$5,000,000 transfer to Economic Development Opportunity Fund.
- (c) Budget Amendment #033-22 \$3,800,000 transfer to DHCD.
- (c) Transfers from DHCD - \$44,225.18.



**Peter Franchot**  
*Comptroller*

**Robert J. Rehrmann**  
*Director*  
*Bureau of Revenue Estimates*

September 14, 2022

To: Honorable Peter Franchot  
Honorable Dereck Davis  
Secretary David R. Brinkley

From: Robert J. Rehrmann  
Director, Bureau of Revenue Estimates

Subject: Fiscal Year 2022 Revenues

General Fund (GF) revenues in Fiscal Year (FY) 2022 totaled \$24.045 billion, an increase of 15.4%, and 7.0%, or \$1.570 billion, above the estimate. Excluding extraordinary distributions and transfers, revenues totaled \$24.058 billion, an increase of 17.5%, and 6.5%, or \$1.474 billion, above the estimate.

### Key Variances

(\$ in Millions)

Item	Dollar Variance	\$ Variance Rank	Percent Variance	% Variance Rank
<b>Total General Fund</b>	\$1,570.3	NA	7.0%	NA
<b>Personal Income Tax</b>	1,010.5	1	8.1%	9
<b>Sales Tax</b>	268.0	2	4.7%	13
<b>Corporate Income Tax</b>	93.8	3	5.8%	11

The unprecedented federal stimulus coupled with State measures in response to the COVID-19 pandemic had a larger positive impact on State tax revenues than initially anticipated:

- The impact of this stimulus continues to ripple through the economy
- Inflation was higher and more persistent than expected
  - The Federal Reserve's efforts to tighten monetary policy have not kept up with this inflation
- Higher inflation results in higher nominal revenue

- Personal Income Tax (PIT)
  - Personal income tax general fund revenues increased 15.7% due to better than expected results for tax year 2021
    - Significant non-wage income growth
    - Wage growth was elevated, but primarily has just kept up with inflation
- Sales and Use Tax (SUT)
  - General fund sales tax revenue increased 19.6%
  - Total SUT revenue increased by 22.0%
  - Bolstered by:
    - High nominal income growth
    - SUT base has recently expanded to include online retailers and digital goods
- Corporate Income Tax (CIT)
  - Corporate income tax increased 16.3% due to:
    - Significant profit growth following a slump in the second quarter of 2021
    - Refunds less than anticipated

### *The Big Picture – Ongoing Revenue Impacts after Federal Stimulus*

Revenue growth since the onset of the COVID-19 pandemic (the pandemic) has been elevated compared to prior norms, which we attribute to the unprecedented federal stimulus efforts. Elevated growth continued in FY 2022. We expect growth to slow in the near-term, though the pace and size of the slowdown are difficult to predict. Whether the State's tax revenue continues to grow on top of this unexpectedly high base over our forecast horizon – to what extent the revenue gains of the past few years will be temporary or sustained – depends primarily on whether, and at what pace, the economy continues to grow.

In the near-term, economic growth will be heavily influenced by Federal Reserve policies. In retrospect it now appears that the Fed waited too long to begin tightening policy to keep inflation from becoming persistent, and now needs to slow the rate of spending growth. If the Fed tightens monetary policy too much, it is very likely to push growth negative and cause a recession. If the Fed does too little, the inflationary boom will continue in the near-term. Eventually, the Fed would need to tighten policy more aggressively to reduce inflation, risking a more severe recession later. If the Fed gets the balance right, recent revenue gains are likely to be sustained.

Non-wage income presents another risk. It is a volatile source and is a growing share of total income. Capital gains income now accounts for more than a billion dollars in personal income tax revenue and contributed to the high rate of growth in fiscal 2022 personal income tax revenues. Beginning in January; however, stock prices began to decrease. In addition, both government and corporate bonds, which are typically considered safe havens by investors, have also declined

throughout the year. This unusual decline across asset classes reflected the anticipation of more restrictive monetary policy as well as increased uncertainty over the economic outlook.

### *Personal Income Tax (PIT)*

Personal income tax general fund revenues totaled \$13.55 billion in FY 2022, an increase of 15.7% from the prior year and \$1.01 billion more than estimated. Both the variance and increase mostly reflects tax year 2021 activity as well as fewer than anticipated refunds issued.

Withholding revenues increased by 7.4% in the fiscal year. This increase includes withholdings remitted for local income tax collections. This strong rate of growth reflected a continued recovery of the labor market and high nominal wage growth. Withholding revenue growth peaked in March; however, and has recently moderated.

Although withholding revenues exhibited strong growth, this was incorporated in the Board of Revenue Estimates (BRE) forecast. Revenues were within 0.5% of the estimate and did not meaningfully contribute to the variance in personal income tax revenues. In addition, although these revenues are the largest component of personal income tax revenues, most of the revenue gain was due to growth in estimated and especially final payments.

While the tax year is not yet complete, preliminary data indicates tax year 2021 income tax collections roughly doubled the growth of the prior year. Much of the variance for the fiscal year is attributable to payments that were received at the end of the fiscal year due to an extended due date. Additionally, refunds were less than forecast. Refunds were likely reduced due to higher income than taxpayers expected.

Final payments, including local income tax collections, increased by 59% in fiscal 2022, well above its typical growth of 8%. The magnitude of the over-attainment and high growth in estimated and final payments typically reflects growth in non-wage income and in particular capital gains. Although capital gains data is only available through tax year 2019, equity markets realized another strong year of gains in calendar 2021, with the S&P 500 and Nasdaq up by 27% and 21%, respectively. These increases were on top of two prior years of significant market gains.

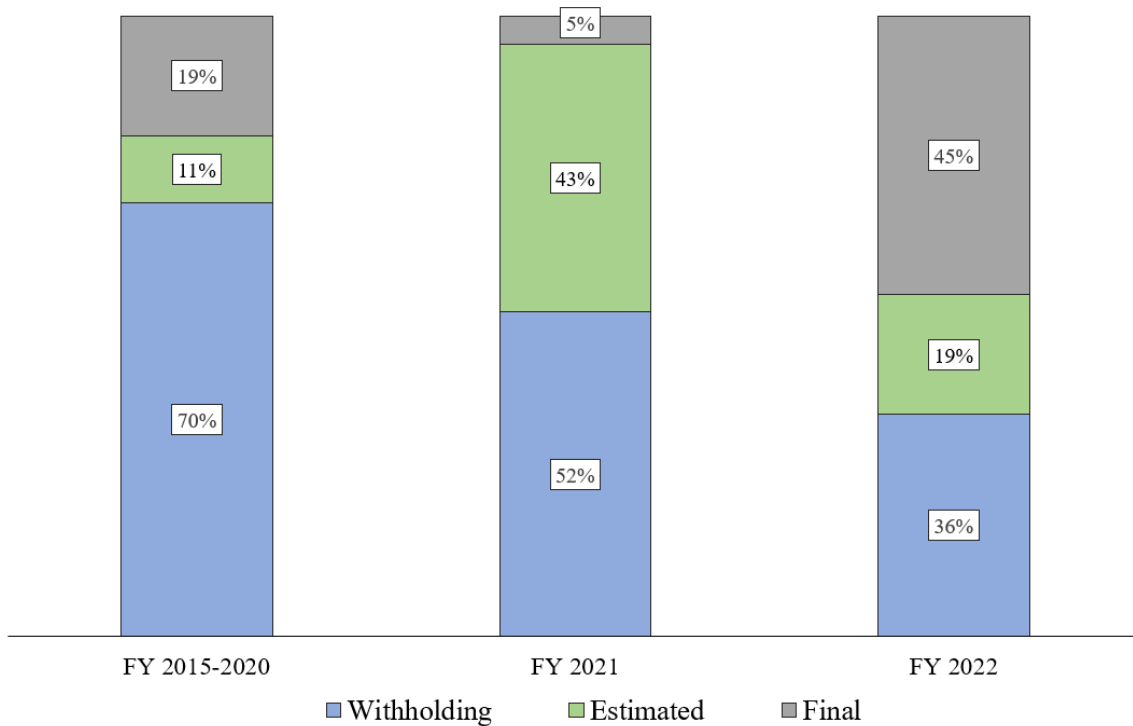


Withholding		Estimated Payments		Fiduciary Payments		Final & Extension Payments		Refunds		Net Tax Payments	
\$		\$		\$		\$		\$		\$	
%	Variance	%	Variance	%	Variance	%	Variance	%	Variance	%	Variance
7.4%	63.2	19.6%	-35.7	31.6%	30.9	58.8%	1,253.5	10.6%	-204.1	15.9%	1,516.0

Notes: Dollars are in millions and are variance from estimate; Dollars include the local share of collections; Percent is the growth rate relative to prior year

Although the change in personal income tax revenues is the sum of all the components listed above, the change in each year is typically driven by withholding, estimated payments, and final payments. The chart below focuses on the relative contribution of these three revenue sources to the recent annual growth in personal income tax revenues. After two successive years of high growth, personal income tax revenues are now about one-quarter larger than in fiscal 2020. Most of this growth was not driven by withholding revenues but instead by the disproportionately high impact of estimated payments, and in particular payments made by pass-through entities in fiscal 2021, and final payments in fiscal 2022.

**Contribution to Personal Income Tax Growth**



Notes: Reflects the relative contribution of these three components to the increase in personal income tax revenues  
 Fiscal 2015-2020 reflects the average change in each fiscal year

Source: Bureau of Revenue Estimates

While most State major revenue sources including the personal income tax vary with the business cycle, nonwithholding revenues are significantly more volatile, especially capital gains. The 2016 Joint Chairmen's Report required that the Department of Budget and Management, the Comptroller of Maryland, and the Department of Legislative Services examine the volatility in Maryland's revenue structure and recommend an approach to reducing volatility. In response to the findings and recommendations of this report, the Spending Affordability Committee in its final report to the Governor recommended the consideration of legislation to mitigate the impact of these volatile revenue sources on the State budget.

Chapters 4 and 550 of 2017 implemented a revenue volatility cap by requiring the BRE to calculate the 10-year average share of general fund revenues represented by nonwithholding income tax revenues. The BRE, subject to specified maximum amounts, must “cap” its official fiscal year estimates of nonwithholding revenues if the estimate exceeds this 10-year average.

In each fiscal year, if general fund revenues for the fiscal year are less than BRE’s March estimate, the amount of nonwithholding income tax revenues that exceeds the capped estimate must be applied to close the revenue gap for that fiscal year. Specified amounts must then be distributed to the Rainy Day Fund (up to the amount that brings the balance of the fund to 10% of general fund revenues), and the Fiscal Responsibility Fund. Money distributed to this fund must be appropriated in the second following fiscal year for specified pay-as-you-go capital projects.

In fiscal 2022, nonwithholding revenues exceeded the capped BRE estimate by \$870.3 million. Pursuant to the requirements of Chapters 4 and 550, as amended by subsequent Budget Reconciliation and Financing Acts, the Comptroller distributed \$500.2 million to the Rainy Day Fund, bringing its total balance to \$1.66 billion. The remaining \$370.0 million was distributed to the Fiscal Responsibility Fund. The calculations of the distributions are included in the Revenue Volatility Cap Implementation Table.

### *Sales and Use Tax (SUT)*

\$5.967 billion in general fund revenue was collected through the SUT in FY 2022, 4.7% above the estimate. Revenue increased 19.6% in FY 2022, following an increase of 7.6% in FY 2021.

Consumption spending held up well over the pandemic because total income kept growing, largely due to government stimulus efforts. The last round of fiscal stimulus became law in March 2021. However, there is a delay between the allocation of money and its expenditure, and much of the stimulus checks and payments sent to individuals were saved. This means that the impact of the stimulus took time to dissipate.

Furthermore, the Fed has only recently begun to tighten monetary policy to bring inflation under control. Over the course of FY 2022, spending boomed as prices rose. However, the 19.6%

rate of SUT revenue growth was well above inflation, meaning that inflation can explain only part of the elevated SUT revenue growth.

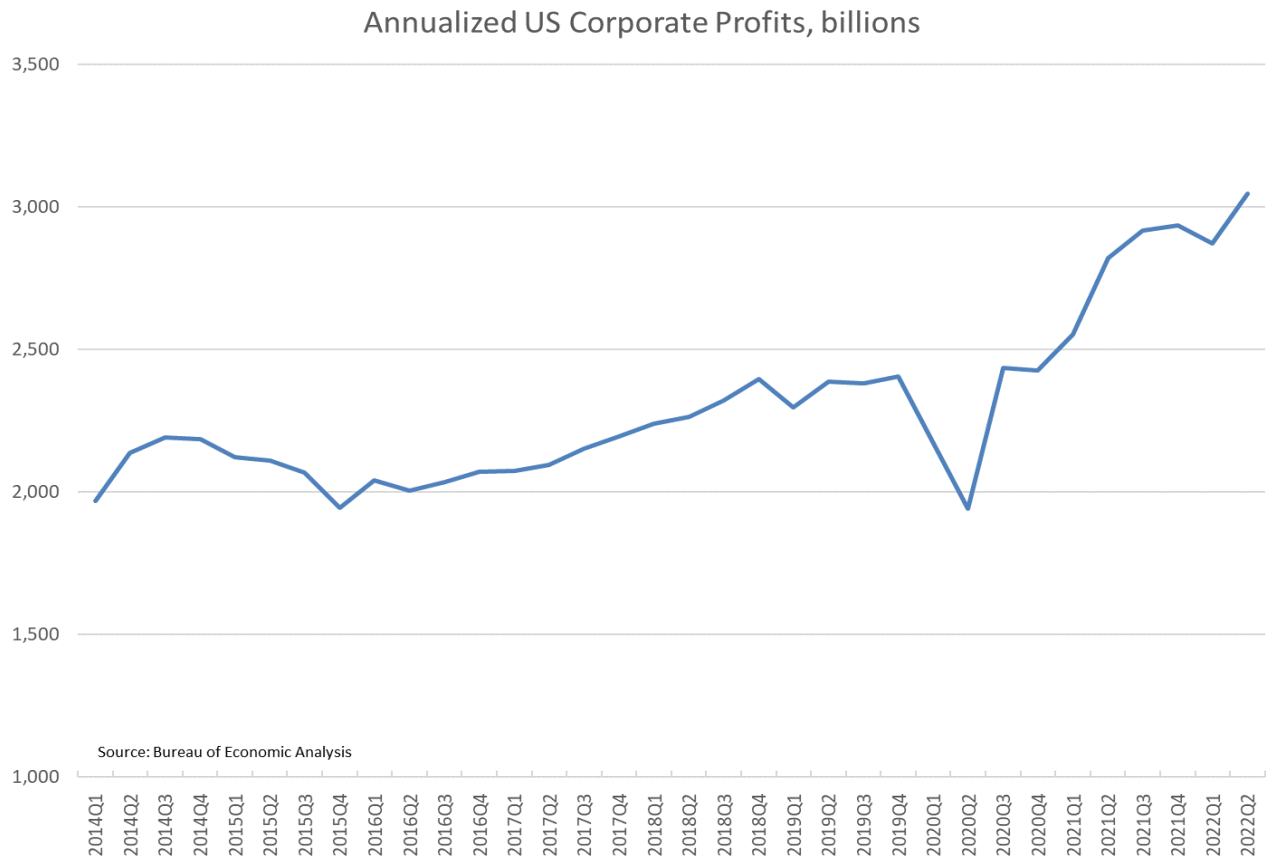
At the time of the March forecast, the war in Ukraine had just started, causing a new negative supply shock that reduced output of energy and food goods with resulting real price increases. Energy and food are generally not taxed under the SUT. When these prices rise, consumers have less income available to spend on all other goods and services. It was therefore expected that SUT revenue growth would slow because of this new supply shock. Although taxable consumption spending growth slowed from 24.0% fiscal year to date in February to 21.0% by the end of FY 2022, it was less than what was expected in the forecast.

SUT revenue collected from remote sellers, including the revenue remitted by marketplace facilitators, and digital goods is distributed to the Blueprint Fund and general fund. In fiscal 2022, \$212.1 million was distributed to the general fund and \$542.7 million to the Blueprint Fund.

#### *Corporate Income Tax (CIT)*

\$1.700 billion in general fund revenue was collected through the CIT in FY 2022, 5.8% higher than the estimate and 16.3% higher than the prior fiscal year. In FY 2021 growth was 39.0%. Final payments, based on TY 2021 profits, grew by 21.9%, while estimated payments, based on TY 2022 expected profits, grew by 8.1%.

US Corporate profits fell 19.2% from peak to trough in the pandemic recession but reattained their prior peak by the third quarter of calendar year 2020. Since then, corporate profits have grown 25.1% to the second quarter of calendar year 2022. Gross revenue collected in FY 2022 grew 12.6% while refunds fell by 24.1%, following a decrease in refunds of 15.2% in FY 2021. As a result, net revenue grew 16.3%. Refunds were expected to return to more normal levels in FY 2022 but did not. While gross revenue came generally in line with expectations, net revenue exceeded the forecast.



CIT revenue has doubled since 2018. This growth can be attributed to the *Tax Cuts and Jobs Act* (TCJA), which led to higher reported domestic profits, and the impact of the pandemic and government stimulus. In a recession, firms cut costs to maximize profit in the face of falling revenue, mainly by cutting employment. After an initial decline in profits in the pandemic recession, demand recovered due to the monetary and fiscal stimulus, and supply constraints raised prices. Once demand recovered, firms in the aggregate saw significant profit growth.

The unequal impact of the pandemic, coupled with significant government assistance for firms in all sectors, means firms in the sectors least affected by the pandemic have done very well. Firms in those sectors, such as professional business services, typically have higher profit margins.

Additionally, the International Monetary Fund finds that competition among producers is declining. As competition decreases, firms receive more profit by producing less at a higher real price than a more competitive market would. This is a structural factor that changes gradually over time, but it helps explain profits growing faster than national income.

**Actual and Estimated General Fund Revenue  
Fiscal Year 2022**

	Fiscal Year 2022				Fiscal Year 2021	Growth FY 21 - FY 22	
	Actual	Estimated <sup>1</sup>	Difference from Estimate		Actual	\$	%
			\$	%			
<b>INCOME TAXES</b>							
Individual	13,548,045,155	12,537,592,994	1,010,452,162	8.1%	11,704,777,161	1,843,267,995	15.7%
Corporation	1,700,267,793	1,606,435,471	93,832,322	5.8%	1,461,892,592	238,375,201	16.3%
<b>Total</b>	<b>15,248,312,948</b>	<b>14,144,028,465</b>	<b>1,104,284,483</b>	<b>7.8%</b>	<b>13,166,669,752</b>	<b>2,081,643,196</b>	<b>15.8%</b>
<b>SALES AND USE TAXES</b>	<b>5,966,843,130</b>	<b>5,698,830,906</b>	<b>268,012,224</b>	<b>4.7%</b>	<b>4,988,077,776</b>	<b>978,765,354</b>	<b>19.6%</b>
<b>STATE LOTTERY RECEIPTS</b>	<b>635,074,503</b>	<b>647,262,751</b>	<b>(12,188,248)</b>	<b>-1.9%</b>	<b>631,718,854</b>	<b>3,355,649</b>	<b>0.5%</b>
<b>OTHER REVENUES</b>							
Business Franchise Taxes	264,442,531	244,484,139	19,958,392	8.2%	210,510,209	53,932,321	25.6%
Insurance Premium Tax	631,379,817	567,602,000	63,777,817	11.2%	358,070,541	273,309,276	76.3%
Estate and Inheritance Taxes	266,054,790	214,330,116	51,724,674	24.1%	240,592,073	25,462,717	10.6%
Tobacco Taxes	479,157,750	532,719,344	(53,561,595)	-10.1%	388,260,529	90,897,220	23.4%
Alcoholic Beverages Excises	39,076,478	33,620,823	5,455,655	16.2%	39,721,900	(645,422)	-1.6%
District Courts	41,256,487	43,756,868	(2,500,382)	-5.7%	35,191,437	6,065,049	17.2%
Clerks of Court	36,893,162	71,084,016	(34,190,853)	-48.1%	36,096,166	796,996	2.2%
Hospital Patient Recoveries	68,829,266	60,142,265	8,687,001	14.4%	64,753,615	4,075,650	6.3%
Interest on Investments	48,977,994	15,000,000	33,977,994	226.5%	12,297,405	36,680,589	298.3%
Miscellaneous	331,919,546	311,403,421	20,516,124	6.6%	300,450,570	31,468,975	10.5%
<b>Total</b>	<b>2,207,987,819</b>	<b>2,094,142,993</b>	<b>113,844,827</b>	<b>5.4%</b>	<b>1,685,944,446</b>	<b>522,043,374</b>	<b>31.0%</b>
<b>TOTAL CURRENT REVENUES</b>	<b>24,058,218,401</b>	<b>22,584,265,115</b>	<b>1,473,953,286</b>	<b>6.5%</b>	<b>20,472,410,828</b>	<b>3,585,807,573</b>	<b>17.5%</b>
Income Tax Revenues <sup>2</sup>	(30,000,000)	(30,000,000)	-	0.0%	-	(30,000,000)	#N/A
Extraordinary Revenues <sup>3</sup>	16,311,081	-	16,311,081	#N/A	358,603,137	(342,292,056)	-95.5%
Volatility Cap		(80,000,000)			-	-	#N/A
<b>GRAND TOTAL<sup>4</sup></b>	<b>24,044,529,481</b>	<b>22,474,265,115</b>	<b>1,570,264,366</b>	<b>7.0%</b>	<b>20,831,013,964</b>	<b>3,213,515,517</b>	<b>15.4%</b>

<sup>1</sup> The 2022 Legislative Session resulted in an additional \$45.5 million in estimated revenues beyond the March 2022 official estimate; this table has been adjusted accordingly

<sup>2</sup> Chapters 336 & 337 of the 2022 Legislative Session diverted \$30 million from individual income tax revenues to the Rental Housing Fund

<sup>3</sup> Extraordinary revenues reflect \$16,311,081 which is attributable to the Maryland Technology Development Corporation (TEDCO)

<sup>4</sup> Chapters 4 & 550 of 2017 established the Revenue Volatility Cap. In FY 2022, \$870.3 million of specified income tax revenues is transferred to the Rainy Day Fund and Fiscal Responsibility Fund.

## Revenue Volatility Cap Implementation

	Fiscal Year 2022	
	Actual	
Total FY 2022 Other GF Overattainment	\$700,007,333	
March BRE estimate	22,538,790,525	
Nonwithholding Overattainment	870,257,033	
Attainment > Capped Estimate, to distribute	870,257,033	
March BRE estimate	22,538,790,525	
RDF - % of GF	6.0%	10.0%
RDF Balance Required to Meet Treshhold	1,352,327,432	2,253,879,053
RDF - Actual Balance	1,162,095,967	
<b>Revenue Required</b>	<b>190,231,465</b>	<b>1,091,783,086</b>
Distribution 1- Fill Fiscal Responsibility Fund - COLA	60,000,000	
<b>Net Remaining</b>	<b>810,257,033</b>	
Distribution 2- RDF to 6%	190,231,465	
<b>Net Remaining</b>	<b>620,025,569</b>	
Distribution 3- 50% RDF(max 10%) 50% FRF		
RDF	310,012,784	
Fiscal Responsibility Fund	310,012,784	
<b>Net Remaining</b>	<b>0</b>	
<b>TOTALS:</b>		
Rainy Day Fund	\$500,244,249	
Fiscal Responsibility Fund	\$370,012,784	
<b>TOTAL DISTRIBUTIONS:</b>	<b>\$870,257,033</b>	