



Peter Franchot
Comptroller

John D. Kenney
Director
General Accounting Division

August 28, 2008

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

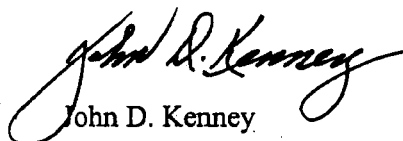
Dear Comptroller Franchot:

Enclosed you will find the statement of General Fund Balance for the year ended June 30, 2008. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2008 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2008 with a fund balance of \$487.1 million in the General Fund. Of this amount \$301.4 million was designated by the 2008 General Assembly for fiscal year 2009 operations leaving an undesignated fund balance of \$185.7 million. 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 \$684.8 million.

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

Sincerely,


John D. Kenney

JDK/ja

Enclosure

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

**General Fund
Statutory Fund Balance
June 30, 2008**

Adjustments to revenues:

Sales Tax-originally for Helicopter Replacement Fund (SB 527)	\$ 60,000,000
DHMH - Rosewood closure	(1,356,239)
Medicaid - CVS Settlement	<u>406,000</u>
	<u>\$ 59,049,761</u>

Transfers from other funds:

Dedicated Purpose Account (SB540)	\$ 100,000,000
Revenue Stabilization Account	<u>978,017,757</u>
	<u>\$ 1,078,017,757</u>

Specific Reversions:

Medicaid - 2007 Surplus	\$ (30,000,000)
CCIF - Rehab Option Waiver	(6,000,000)
Judiciary - BPW July 2007	(3,000,000)
Legislature - BPW July 2007	(1,800,000)
DLLR - Federal indirect costs	(1,285,586)
2007 Children's Health program surplus	(1,000,000)
IAC - Wiring in Schools lease payments	<u>(260,000)</u>
	<u>\$ (43,345,586)</u>

**General Fund
Statutory Fund Balance
June 30, 2008**

General Fund Balance, June 30, 2007 available for 2008 operations		\$ 284,711,236
2008 Estimated Revenues	\$ 13,557,787,900	
Adjustments to revenues (see attachment 1)	59,049,761	
Reimbursement from Reserve for Heritage Tax Credits	13,955,681	
Reimbursement from Reserve for Biotechnology Tax Credits	<u>6,000,000</u>	13,636,793,342
Transfer from other funds (see attachment 1)		1,078,017,757
Appropriations:		
Appropriated by the 2007 General Assembly	14,590,861,715	
Expenditure Reductions - Board of Public Works-July-07	(128,430,816)	
Expenditure Reductions - Board of Public Works-Jan-08	(5,000,000)	
Deficiency appropriations - 2008 General Assembly	77,452,659	
Specific reversions - (see attachment 1)	(43,345,586)	
Estimated agency reversions	<u>(30,000,000)</u>	
Total 2008 General Fund Appropriations		<u>(14,461,537,972)</u>
Estimated 2008 General Fund Balance		537,984,363
Add (Deduct):		
Estimated Revenues and Reimbursements in excess of Actuals		(73,458,292)
Actual Reversions in Excess of Estimates		22,584,941
2008 General Fund Balance		<u>487,111,012</u>
Designated for 2009 Operations		<u>(301,363,433)</u>
Undesignated General Fund Balance, June 30, 2008		<u>\$ 185,747,579</u>



COMPTROLLER
of MARYLAND
Serving the People

Peter Franchot
Comptroller

David F. Roose
Director
Bureau of Revenue Estimates

August 28, 2008

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

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

Subject: Fiscal Year 2008 Revenues

General fund revenues (including tax credit reimbursements) totaled \$13.563 billion in fiscal year 2008, \$73.5 million (0.5%) below the forecast. Growth of 4.7% in ongoing revenues was driven by the individual income tax, sales tax, and tobacco tax, although those three revenue sources all underperformed expectations, falling a cumulative \$139.9 million short. Interest income and death taxes did exceed their respective estimates by sizeable amounts, \$67.0 million altogether. Changes enacted during the 2007 Special Session to the sales tax, tobacco tax, and income taxes boosted fiscal year 2008 revenues by approximately \$375 million, adding roughly three percentage points to the baseline growth rate (growth adjusted for the tax changes) of 1.8%.

General fund revenues from the individual income tax increased 3.9% to \$6.940 billion, falling \$46.3 million (0.7%) short of expectations. Income tax withholding grew 4.9% to \$10.185 billion, but was \$38.0 million under the forecast. Growth decelerated only marginally from the 5.1% rate of fiscal year 2007, although the annual figure masks the underlying trends. In the first half of fiscal year 2008, withholding grew over 7%; growth slowed sharply to under 3% in the second half of the fiscal year. Some of the slowdown is attributable to the increase in the personal exemption for tax year 2008 (\$3,200 compared to \$2,400 in most instances), but that explains only about one percentage point of the change at most. Maryland's slowing economy is primarily responsible—growth in wage and salary income was 5.2% for fiscal year 2007, but was only 4.6% in the first quarter of (calendar year) 2008.

The slowing economy has also affected estimated individual income tax payments. After increasing 17% each year in 2005, 2006, and 2007, growth in estimated payments dropped to 4.9% in fiscal year 2008. Stagnant or falling capital gains are likely a major factor; the Standard and Poors' 500 Index fell roughly 17.5% during the fiscal year, and the continuing slump in the housing market has almost certainly resulted in falling gains from real estate. Similarly, the deteriorating economy has likely affected the income of small business owners and others who do not have income tax withheld from wages. Of some concern is that taxpayers are required to reflect the effect of the new tax brackets enacted during the 2007 Special Session. If taxpayers are in fact doing so, baseline growth may be two percentage points or more lower. Regardless, at \$1.826 billion, estimated payments for fiscal year 2008 were \$61.6 million under the estimate. Individual income tax payments from fiduciaries grew a strong 27% for the fiscal year, finishing

\$10.0 million over the forecast. Final payments finished essentially on target, growing 3.2% for the fiscal year, while refunds actually finished \$16.0 million under the forecast, increasing 8.4%.

General fund corporate income tax revenues declined 6.5% to \$551.7 million, \$7.1 million lower than expected. The good news is that the bad news may be in the past. Estimated payments, reflecting current activity, increased 10.8%; estimated payments for tax year 2008 activity alone grew 32.3%, though boosted in part by the rate increase from 7% to 8.25%. The decline in net collections was a result of substantial growth in corporate income tax refunds, which largely reflect prior years' activity. Refunds increased 78% for the fiscal year to a record high \$245.4 million. Nationally, corporate profits have declined every quarter since the first quarter of 2007, following 20 consecutive quarters of growth (18 quarters of double-digit growth). Maryland's corporate income tax receipts deteriorated earlier than those of most other states; it is possible that, as Maryland's corporate tax base led the way in decline, it may be ahead of the nation in recovery.

General fund sales tax collections grew 7.5% to \$3.675 billion, but were \$76.5 million short of the forecast. Had the sales tax rate not increased from 5% to 6% for the last half of the fiscal year, receipts (including a one-time \$50 million distribution to the State Police Helicopter Replacement Fund) would have been essentially flat, the worst performance since 1991 when sales tax collections fell 2.0%. All four major components of gross receipts fell short of their respective forecasts. Consumer spending, indirectly affected by the current economic uncertainty and declining consumer confidence, was directly affected by higher than expected gasoline and food prices. As a result, some amount of spending was shifted from taxable goods to these nontaxable goods. The consumer segment of the sales tax, about two-thirds of the total, increased 9.1% for the year, but only about 0.3% after adjusting for the rate increase (baseline growth). Consumer receipts were \$41.3 million (1.6%) short of the estimate. Receipts from construction-related activities increased 2.8%, but the baseline was down 5.7%, the second year of decline in a row. This sector was \$13.5 million (2.4%) below the forecast. Revenues from capital goods increased 9.3% (baseline growth was marginal), and revenues from utilities grew 13.4% (3.5% baseline growth); both of these categories were about \$10 million under expectations. Also of note is the fact that revenues from rental vehicles, a portion of which is distributed to the Transportation Trust Fund, were down 14.6%, the only decline this decade.

Lottery sales grew 6.1% to \$1.67 billion. Baseline general fund revenues increased 7.4%, although \$10.8 million in revenue (the revenue over the estimate) was redirected from the general fund to a special fund for community service providers through the Department of Health and Mental Hygiene. Thus general fund receipts matched the estimate at \$497.1 million, growth of 5.1%. Sales of instant tickets grew \$88.8 million (21%) while Mega Millions sales were \$31.2 million (32%) above last year's level. Sales of Pick 3, however, dropped \$17.6 million (6.0%, the largest decline in at least 15 years), and sales of Pick 4 fell \$5.2 million (2.2%). All other sales, including Keno and the other monitor games, were roughly flat.

Business franchise taxes increased 0.7% to \$208.0 million, \$1.1 million under the forecast. The shortfall was split evenly between the public service company gross receipts tax and filing fees. Insurance premium taxes increased 6.5%, finishing the year at \$301.8 million, \$12.2 million over the estimate. Death taxes grew 8.6% to \$243.5 million, \$23.1 million over

the forecast. Estate tax receipts reached a record \$194.5 million, 10.1% above last year's collections, the previous record. There were 55 estate tax payments in excess of \$500,000, totaling just shy of \$100 million of collections. Inheritance tax receipts grew 2.8% to \$49.1 million, but were \$4.6 million under the forecast.

As a result of the doubling of the cigarette tax rate, effective January 1, tobacco tax revenues increased 35% to \$376.1 million. Revenues, however, were \$17.1 million short of the forecast. Cigarette pack sales had been expected to drop 17%, largely as a result of the rate change which resulted in an increase in the average price per pack of roughly 24%. In fact, however, pack sales fell almost 25%, likely affected by high gas and food prices as well as the tax increase. The tax on other tobacco products finished the year nearly right on the estimate, at \$9.7 million. Revenues from beer were flat, while revenues from spirits and wine increased, although less than expected. All together, alcoholic beverage excise tax revenues grew 1.0% and were \$587,000 short of the forecast. Motor vehicle fuel tax revenues were flat as a result of the high price of gasoline in the second half of the fiscal year, and were \$151,000 under the estimate.

Court revenues ended the year \$12.1 million under the forecast, due in part to the ongoing slump in the housing market which affects recordation fees collected by the clerks of court. District Court revenues dropped 5.9%, the second-largest decline on record. Interest income fell 6.9%, but falling interest rates and the drawdown of very large balances at the start of the fiscal year did not affect earnings as much as had been expected. As a result, interest income finished the year \$43.9 million (36%) above the estimate. Miscellaneous revenues dropped 2.4%, but were \$10.0 million (3.2%) above the forecast. Revenues from unclaimed property and uninsured motorist penalty fees were each about \$6.75 million under the forecast, while revenues from the Department of Health and Mental Hygiene were \$9.3 million higher than expected.

The Revenue Monitoring Committee will be analyzing the fiscal year 2008 results and the current economic outlook over the next several weeks, and will present you with recommended revenue estimates for fiscal years 2009 and 2010 in the near future. In the meantime, should you have any questions, please do not hesitate to contact me.

**Actual and Estimated General Fund Revenue
Fiscal Year 2008**

	Fiscal Year 2008				Fiscal Year 2007		
	Actual	Estimated ¹	Difference from Estimate		Actual	Growth FY 07 - FY 08	
			\$	%		\$	%
INCOME TAXES							
Individual	6,940,134,008	6,986,396,000	(46,261,992)	-0.7%	6,679,167,820	260,966,188	3.9%
Corporations	551,672,600	558,769,000	(7,096,400)	-1.3%	589,782,478	(38,109,878)	-6.5%
Total	7,491,806,608	7,545,165,000	(53,358,392)	-0.7%	7,268,950,298	222,856,310	3.1%
SALES AND USE TAXES	3,675,263,017	3,751,717,000	(76,453,983)	-2.0%	3,420,149,427	255,113,590	7.5%
STATE LOTTERY RECEIPTS	497,111,000	497,111,000	-	0.0%	473,119,273	23,991,727	5.1%
OTHER REVENUES							
Business Franchise Taxes	207,967,736	209,077,000	(1,109,264)	-0.5%	206,568,001	1,399,735	0.7%
Tax on Insurance Companies	301,830,605	289,647,000	12,183,605	4.2%	283,342,492	18,488,113	6.5%
Death Taxes	243,541,022	220,487,000	23,054,022	10.5%	224,341,116	19,199,906	8.6%
Tobacco Tax	376,112,273	393,262,000	(17,149,727)	-4.4%	278,188,855	97,923,418	35.2%
Alcoholic Beverages Excises	28,966,186	29,553,000	(586,814)	-2.0%	28,682,046	284,140	1.0%
Motor Vehicle Fuel Tax	13,199,104	13,350,000	(150,896)	-1.1%	13,197,238	1,866	0.0%
District Courts	91,307,305	99,036,000	(7,728,695)	-7.8%	97,026,026	(5,718,721)	-5.9%
Clerks of Court	42,559,225	46,896,000	(4,336,775)	-9.2%	52,315,764	(9,756,539)	-18.6%
Hospital Patient Recoveries	86,555,827	86,090,000	465,827	0.5%	84,945,197	1,610,630	1.9%
Interest on Investments	166,517,552	122,585,000	43,932,552	35.8%	178,903,214	(12,385,662)	-6.9%
Miscellaneous	322,901,060	312,861,661	10,039,399	3.2%	330,499,439	(7,598,379)	-2.3%
Total	1,881,457,895	1,822,844,661	58,613,234	3.2%	1,778,009,388	103,448,507	5.8%
TOTAL CURRENT REVENUES	13,545,638,520	13,616,837,661	(71,199,141)	-0.5%	12,940,228,386	605,410,134	4.7%
Reimbursements ²	17,696,530	19,955,681	(2,259,151)	-11.3%		17,696,530	
GRAND TOTAL	13,563,335,050	13,636,793,342	(73,458,292)	-0.5%	12,940,228,386	623,106,664	4.8%

¹ The fiscal year 2009 budget increased 2008 revenue estimates by \$59.0 million; the estimate for sales tax and miscellaneous revenues have been adjusted accordingly.

² Includes reimbursements for the Heritage Tax Credits (\$11,678,736) and the Biotechnology Tax Credits (\$6,017,794).

There were additional budgeted transfers from other funds into the general fund totaling \$194.1 million in fiscal year 2007 and \$1.078 billion in fiscal year 2008.