



COMPTROLLER
of MARYLAND
Serving the People

Peter Franchot
Comptroller

Roland L. Unger
Director
General Accounting Division

September 1, 2009

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, 2009. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2009 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2009 with a fund balance of \$87.2 million in the General Fund. Of this amount \$349.2 million was designated by the 2009 General Assembly for fiscal year 2010 operations leaving an undesignated fund balance of (\$262.0) 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 \$691.8 million.

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

Sincerely,

Roland L. Unger, CPA

RLU/ja

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, 2009

General Fund Balance, June 30, 2008 available for 2009 operations		\$ 487,111,012
2009 Estimated Revenues	\$ 13,228,370,759	
DHMH Prior Year Recoveries	6,000,000	
Adjustments to Revenues (see Appendix A)	<u>14,002,143</u>	13,248,372,902
Transfers from other funds:		
Reimbursement from reserve for Heritage Tax Credits	21,270,915	
Reimbursement from reserve for Biotechnology Tax Credits	6,000,000	
Transfer from accounting reserves	380,163,631	
Transfer from Revenue Stabilization Account	170,000,000	
Transfer from Central Collection Unit - 2008 Session	25,000,000	
Transfer from other funds - 2009 Session (see Appendix A-1)	<u>414,399,880</u>	1,016,834,426
2009 General Fund Appropriations:		
Appropriated by the 2008 General Assembly	15,079,558,284	
Expenditure reductions - Board of Public Works	(414,452,460)	
Deficiency appropriations	(273,028,567)	
Withdrawn appropriation - 2009 Session	(1,598,760)	
Specific reversions (see Appendix A)	(45,234,197)	
Estimated agency reversions	<u>(30,000,000)</u>	
Total 2009 General Fund Appropriations		<u>(14,315,244,300)</u>
Estimated 2009 General Fund Balance		437,074,040
Add (Deduct):		
Estimated Revenues in excess of Actuals	(347,897,995)	
Estimated Transfers in excess of Actuals	(8,517,675)	
Estimated Revenues and Transfers in excess of Actuals		(356,415,670)
Actual Reversions in excess of Estimates		6,513,994
2009 General Fund Balance		<u>87,172,364</u>
Designated for 2010 Operations		<u>(349,155,681)</u>
Undesignated General Fund Balance (deficit), June 30, 2009		<u>\$ (261,983,317)</u>

APPENDIX A
GENERAL FUND BUDGET SUMMARY (cont.)
Detail - Fiscal Years 2009 and 2010

	2009
Adjustments to Revenues - Other	
DHMH - Cost Settlement Revenue	6,435,889
DHMH - Hospital Patient Recoveries	5,000,000
BPW Capital Appropriation - unspent appropriation	1,500,000
Information Technology - Telecom Recoveries	693,040
DPSCS - Special fund recovery	303,214
DHMH - Vital Records fees	70,000
Sales and Use Tax - Divert portion from Chesapeake Bay 2010 Fund	
Motor Fuel Tax - Divert portion from Chesapeake Bay 2010 Fund	
Lottery - Adjust Sales Commissions Level	
HB 193 - Instant Bingo	
Reduce Mined Coal Tax Credit	
Lottery	
SB 552 - Tax Amnesty	
SB 785 - Inheritance Tax Exemption	
Office of Administrative Hearings - Traffic Violations fees	
Federal reimbursement for cemetery expansion	
Other Legislative Changes	
	14,002,143

Specific Reversions	
	(5,371,000)
Planning - Heritage Tax Credit	(8,371,429)
Legislature - per 10/15/08 Board of Public Works Item	(5,560,763)
Judiciary - per 10/15/08 Board of Public Works Item	(6,741,888)
Children's Cabinet Interagency Fund	(1,000,000)
DBED - Veteran's Loan Program	(6,000,000)
State Department of Education	(308,478)
IAC - Aging Schools	(103,700)
Budget and Management	(40,000)
Board of Public Works	(11,100,000)
DHMH - Medicaid	(291,939)
Maryland School for the Deaf - Furloughs	(300,000)
DLLR - SAEF	(45,000)
MDA - Agricultural Fair Board	(45,234,197)

APPENDIX A-1
GENERAL FUND BUDGET SUMMARY (cont.)
Detail - Fiscal Years 2009 and 2010

2009

Transfers from other funds - 2009 Session

Dedicated Purpose - State Reserve Fund	73,000,000
Transfer Tax - Program Open Space	71,300,000
Transfer tax - Unencumbered Program Open Space Balance	65,775,339
Helicopter Fund	52,700,000
University System of Maryland	29,000,000
Injured Workers Insurance Fund for future liability	28,000,000
Trauma Fund	17,000,000
Community Health Resources Fund	12,100,000
Insurance Trust Fund	10,000,000
State Self-Insured Unemployment Insurance Reserve	10,000,000
MAIF - Uninsured Division	7,000,000
DBED - MD Economic Development Assistance Fund (MEDAAF)	6,000,000
Universal Service Trust Fund	5,000,000
Economic Development Opportunities Fund - State Reserve Fund	5,000,000
Central Collection Unit	5,000,000
DHMH - Board of Physicians	3,200,000
MDE - State Used Tire Cleanup and Recycling Fund	3,000,000
Senior Prescription Drug Program	2,600,000
MDE - Oil Disaster Containment, Cleanup and Contingency	2,006,000
DHMH - Health Care Commission	2,000,000
MIA - Insurance Regulation Fund	1,605,035
Vehicle Theft Prevention Fund	1,000,000
DHMH - Board of Nursing, Audiology	500,000
School Bus Safety	900,000
MDE - Small Business Pollution Compliance Loan Fund	277,785
DAT - Expedited Service Fund	435,721
Local Highway User Revenues	
Transfer Tax - 2010 Revenues	
Catastrophic Event Fund - State Reserve Fund	
	414,399,880

STATE OF MARYLAND
State Reserve Fund
June 30, 2009
(In Dollars)

	Revenue Stabilization Account (Rainy Day) A0101	Dedicated Purpose Account A0201	Economic Development Opportunity (Sunny Day) A0301	Catastrophic Event Fund A0401	Total
Beginning Balance - July 1, 2008	\$684,752,002	22,000,000	\$5,147,889	\$8,398,109	\$720,298,000
Investment Earnings	30,522,352				30,522,352
Replenishment	146,543,342	\$ 85,591,128	858,999	-	232,993,469
Distributions/Transfers	(170,000,000)	(107,001,466)	(5,000,000)	-	(282,001,466)
Ending Balance - June 30, 2009	<u>\$691,817,696</u>	<u>\$589,662</u>	<u>\$1,006,888</u>	<u>\$8,398,109</u>	<u>\$701,812,355</u>

Source: DAFRG400
DAFR9090
DAFRG110



COMPTROLLER
of MARYLAND
Serving the People

Peter Franchot
Comptroller

David F. Roose
Director

Bureau of Revenue Estimates

September 1, 2009

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 2009 Revenues

General fund revenues totaled \$12.900 billion in fiscal year 2009, \$347.9 million (2.6%) below the forecast. Despite the fact that 2009 was the first full fiscal year many of the tax changes enacted during the 2007 special session were effective, ongoing revenues declined 4.8%. Only twice before in the last four decades, in fiscal years 2002 and 2003, have general fund revenues declined; considering law changes, the decline in fiscal year 2009 is several percentage points larger than that in 2002. This is just one of many measures that indicates the severity of the current economic recession.

Individual income tax revenues contributed \$6.477 billion to the general fund, a decline of 6.7% and \$304.3 million (4.5%) under the estimate. While the income tax fell by 7.1% in fiscal year 2001, the largest drop on record, roughly two percentage points of that decline were caused by the phased-in 1998 income tax reduction. Fiscal year 2009 collections would likely have been even lower, however, were it not for the additional income tax brackets effective for tax year 2008. Adjusted for law changes, then, 2009 was the worst year on record for the modern income tax.

While the income tax was weak across the board, estimated and final tax payments performed exceedingly poorly. Estimated payments fell 16.0%, the largest decline since at least 1980, with the last two quarters of the fiscal year (the first two quarters of tax year 2009) showing drops of over 30%. This result is all the more striking considering that estimated payments throughout the year were supposed to reflect all but the highest of the new income tax brackets that were first effective for tax year 2008. Final payments fell by 24.9%, also the worst performance since at least 1980 and perhaps even more striking since these payments should have reflected all of the new brackets, including the 6.25% bracket on taxable income over \$1 million. A full analysis is not possible until after the October filing extension, although it seems clear that falling real estate prices and the near-40% drop in the S&P 500 stock index played a substantial role. Estimated payments fell \$243.6 million short of the estimate (including local income taxes), contributing more than half of the general fund shortfall in the individual income tax, while final payments were \$108.1 million down, representing almost another quarter.

Income tax withholding finished the year at \$10.138 billion, a decline of 0.5%, and fell \$64.6 million below the forecast. This drop is the first in withholding since at least 1980, with the previous low being a 2.1% increase in fiscal year 2002. On a year-over-year basis, employment declined every month of the fiscal year, finishing 1.6% lower than in fiscal year 2008, while wage and salary income increased a weak 2.4% in the first three quarters of the fiscal year, the latest data available. Part of the discrepancy between wage growth and withholding is explained by the increase in the personal exemption first effective for tax year 2008, and hence affecting all four quarters of fiscal year 2009. Income tax payments by fiduciaries, highly dependent on interest rates and capital gains, fell substantially short of the \$101.4 million estimate. Fiduciaries finished the year at \$66.4 million, down 49.5% from 2008. Income tax refunds increased 12.5% to \$2.528 billion, slightly above the estimate of \$2.502 billion.

General fund corporate income tax revenues were nearly flat, with a 0.2% decline to \$550.7 million, but they fell \$31.6 million (5.4%) short of the forecast. Nationwide, corporate profits declined 15.1% over the course of the fiscal year, following a 7.5% decline during fiscal year 2008. Despite the sharp fall in profits, corporate income tax gross receipts fell only 3.0%, cushioned by the increase in the tax rate from 7% to 8.25% effective for tax year 2008 and later. Estimated payments, largely reflecting economic activity throughout the fiscal year, fell just 0.9%, but after accounting for the increase in the rate, the decline was 10.0%. Payments with returns fell 7.3%, or almost 15% after adjusting for the rate increase. Corporate income tax refunds, almost 90% from tax years prior to 2008, fell back 17.4% from the record level of fiscal year 2008, to a level still 30% higher than any other previous year. Net corporate receipts actually increased 1.9%, but after adjusting for the rate increase they fell approximately 10%. Changes to the distribution of corporate income tax revenue resulted in the 0.2% general fund decline.

General fund sales and use tax receipts declined 1.5% to \$3.620 billion, and were \$9.5 million (0.3%) above the forecast. Gross receipts increased 3.0% for the year, although they were boosted by the rate increase from 5% to 6% that was effective for only half of fiscal year 2008. Adjusting for the rate increase, gross receipts declined roughly 6%, only the second decline in the last 40 years, exceeding the 2.0% drop in fiscal year 1991. Revenues from consumers, about two-thirds of total sales tax collections, dropped 5.8% after adjusting for the rate increase. As the recession took hold over the course of the fiscal year, mounting job losses and the sharp decline in the stock markets and housing values, among other factors, led to record low consumer confidence. Uncertain about the future, consumers cut back on spending as the savings rate rose to levels not seen in more than ten years. The collapse of the housing boom, with single-family permits falling by approximately 30% over the course of the fiscal year, led to a drop of about 16% in construction-related revenues, while sales of capital goods fell off as business investment was cut back almost 10% nationally, resulting in a decline in related sales tax revenue of about 14%. The declines in all three of these categories, after adjusting for the increase in the sales tax rate, are the largest on record (since 1981). The discrepancy between the growth in gross receipts and general fund growth is largely explained by the new distribution of 5.3% of revenues to the Transportation Trust Fund, which resulted in \$201.6 million being distributed to that fund.

General fund lottery collections declined by 4.8% to \$473.2 million, but finished the year \$17.4 million (3.8%) above the forecast. Sales increased 1.5% to \$1.698 billion, driven by growth in excess of 5% from Pick 4, Keno/Racetrax, and Multi-Match. Sales of instant tickets, the largest game, fell by 1.3%, while sales of Pick 3, now the third-largest game, increased by only 0.7%. Despite the modest increase in sales, gross revenues declined 6.8%. The primary cause for the decline is a swing from last year's abnormally low prize payouts for Pick 3 and Pick 4 (46.0% and 42.7% of sales, respectively), which boosted revenues, to somewhat higher than statistically-expected payouts this year (about 53.2% for both). Had the payout percentage for these two games been unchanged this year, gross revenues would have been about \$46 million higher and would have increased about 1.9%, much more in line with sales growth.

Business franchise taxes dropped 3.2% to \$201.4 million, \$7.9 million (3.8%) under the forecast. Business filing fees, accounted for within this tax, increased 5.9% to \$78.8 million, \$3.3 million above the forecast. This performance is notable because the implication is that there has been a sizable increase in business entities during what many now consider the worst recession in the post-war period. Partly as a result of the recent decline in energy prices, public service company franchise taxes fell 6.4% to \$124.9 million. Insurance premium taxes fell 8.8% to \$275.2 million, \$23.1 million below the forecast, attributable in part to businesses and consumers cutting costs during the recession.

Death taxes—the estate and inheritance taxes—fell 15.6% to \$205.6 million, and were \$21.0 million (9.3%) below expectations. The estate tax generated \$153.4 million in revenue, a decline of over 21%, and was \$23.1 million (13.0%) under the forecast. Volatility in the estate tax is not unusual—there have been three larger drops in the past 20 years—but the last three months of the fiscal year were particularly weak. No three-month period has seen weaker collections in more than five years. There were 17 payments over \$1 million in fiscal year 2009, compared to 26 the year before, and the average large payment fell from over \$3.1 million to \$2.5 million. Inheritance taxes, on the other hand, exceeded the forecast by \$2.1 million, growing 6.4%.

Tobacco tax revenues increased by 7.8% to \$405.6 million, although they fell \$8.2 million (2.0%) short of the estimate. The growth is entirely a result of the doubling of the cigarette tax, which was effective for only half of the fiscal year. Revenues did not increase significantly because of the decline in consumption brought on by the tax increase, exacerbated by an increase in the federal tax on cigarettes in April. Pack sales fell almost 18% for the fiscal year, to just under 200 million packs, while the trend in recent years has been roughly flat sales. Cigarette taxes accounted for all of the general fund shortfall, coming in \$8.7 million (2.2%) below expectations. The tax on other tobacco products increased 12.7% to \$11.0 million, \$500,000 above the forecast. Alcoholic beverage excise taxes hit the forecast, growing by 0.7%. By law, a flat \$6.5 million of motor vehicle fuel tax was distributed to the general fund.

Notable results among the remaining revenues include the clerks of court, interest, and miscellaneous revenues. Revenues from the clerks, largely related to real estate activity, fell 4.8% to \$40.5 million but were \$8.1 million (24.9%) above the estimate. About three-quarters of this overage results essentially from budgetary activity rather than revenue collection;

discounting that amount, revenues would have declined 18.4%, more in line with the forecast. Interest income declined 50%, and fell \$20.0 million (19.4%) under expectations as lower revenue collections and lower balances than expected along with decades-low interest rates took their toll. Miscellaneous revenues increased 4.8%, finishing \$30.3 million (9.9%) over the forecast. Several agencies collected more revenue than expected, including the departments of Health and Mental Hygiene and Public Safety and Correctional Services, the State Police and the Treasurer's Office. The large non-agency miscellaneous revenues, including unclaimed property, uninsured motorist penalty fees and the like, finished \$10.4 million under the forecast.

The Revenue Monitoring Committee will be analyzing the fiscal year 2009 results and the current economic outlook over the next several weeks, and will present you with recommended revenue estimates for fiscal years 2010 and 2011 before the September 17 Board of Revenue Estimates meeting. In the meantime, if you have any questions, please do not hesitate to contact me.

**Actual and Estimated General Fund Revenue
Fiscal Year 2009**

	Fiscal Year 2009				Fiscal Year 2008		
	Actual	Estimated ¹	Difference from Estimate		Actual	Growth FY 08 - FY 09	
			\$	%		\$	%
INCOME TAXES							
Individual	6,477,157,049	6,781,487,000	(304,329,951)	-4.5%	6,940,134,008	(462,976,960)	-6.7%
Corporations	550,739,805	582,316,000	(31,576,195)	-5.4%	551,672,600	(932,795)	-0.2%
Total	7,027,896,854	7,363,803,000	(335,906,146)	-4.6%	7,491,806,608	(463,909,754)	-6.2%
SALES AND USE TAXES	3,620,430,842	3,610,951,000	9,479,842	0.3%	3,675,263,017	(54,832,175)	-1.5%
STATE LOTTERY RECEIPTS	473,206,260	455,843,000	17,363,260	3.8%	497,111,000	(23,904,740)	-4.8%
OTHER REVENUES							
Business Franchise Taxes	201,377,678	209,236,000	(7,858,322)	-3.8%	207,967,736	(6,590,058)	-3.2%
Tax on Insurance Companies	275,202,541	298,340,000	(23,137,459)	-7.8%	301,830,605	(26,628,064)	-8.8%
Death Taxes	205,491,628	226,555,000	(21,063,372)	-9.3%	243,541,022	(38,049,394)	-15.6%
Tobacco Tax	405,579,110	413,773,000	(8,193,890)	-2.0%	376,112,273	29,466,837	7.8%
Alcoholic Beverages Excises	29,167,770	29,009,000	158,770	0.5%	28,966,186	201,583	0.7%
Motor Vehicle Fuel Tax	6,500,000	6,500,000	-	0.0%	13,199,104	(6,699,104)	-50.8%
District Courts	89,378,643	88,323,000	1,055,643	1.2%	91,307,305	(1,928,662)	-2.1%
Clerks of Court	40,513,736	32,445,000	8,068,736	24.9%	42,559,225	(2,045,490)	-4.8%
Hospital Patient Recoveries	96,461,733	94,731,889	1,729,844	1.8%	86,555,827	9,905,905	11.4%
Interest on Investments	83,049,522	103,000,000	(19,950,478)	-19.4%	166,517,552	(83,468,029)	-50.1%
Miscellaneous	338,301,591	307,946,013	30,355,578	9.9%	322,901,060	15,400,530	4.8%
Total	1,771,023,951	1,809,858,902	(38,834,951)	-2.1%	1,881,457,895	(110,433,944)	-5.9%
TOTAL CURRENT REVENUES	12,892,557,907	13,240,455,902	(347,897,995)	-2.6%	13,545,638,520	(653,080,613)	-4.8%
Extraordinary Revenues ²	7,917,000	7,917,000	-	0.0%	17,696,530	(9,779,530)	-55.3%
GRAND TOTAL	12,900,474,907	13,248,372,902	(347,897,995)	-2.6%	13,563,335,050	(662,860,143)	-4.9%

¹ The fiscal year 2010 budget increased 2009 revenue estimates by \$20.0 million; the estimates for hospital patient recoveries and miscellaneous revenues have been adjusted accordingly.

² The \$7.9 million in 2009 extraordinary revenues reflects a transfer of revenues from a GAAP account; 2008 extraordinary revenues include tax credit reimbursements.

There were additional budgeted transfers from other funds into the general fund totaling \$1.078 billion in fiscal year 2008 and \$1.008 billion in fiscal year 2009.