



COMPTROLLER
of MARYLAND
Serving the People

Peter Franchot
Comptroller

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

August 30, 2012

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

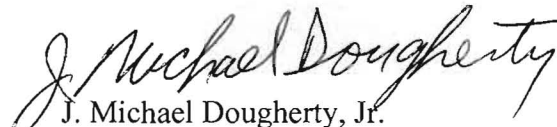
Dear Comptroller Franchot:

Enclosed you will find the statement of General Fund Balance for the year ended June 30, 2012. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2012 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2012 with a fund balance of \$551.2 million in the General Fund. Of this amount \$119.9 million was assigned by the 2012 General Assembly for fiscal year 2013 operations leaving an unassigned fund balance of \$431.3 million.

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

Sincerely,


J. Michael Dougherty, Jr.
Director

JMD:bb

Enclosure

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

GENERAL FUND BALANCE
JUNE 30, 2012

General Fund Balance, June 30, 2011		\$ 990,115,128
Add:		
2012 Estimated Revenues (Bd. Of Revenues Est. March 2012)		13,975,128,000
Sales & Use Tax – extension of federal payroll tax cut		39,000,000
Adjustments to Revenues – Other (see detail)		14,030,103
Reimbursement from reserve for Sustainable Comm. Tax Credits		4,006,176
Reimbursement from reserve for Biotechnology Tax Credits		8,000,000
Transfers from other funds – 2011 Session (see detail)		36,403,007
Transfers from other capital related funds – 2011 Session (see detail)		189,281,115
Deduct:		
2012 General Fund Appropriations:		
Appropriated by the General Assembly	14,781,136,445	
Deficiency appropriations	191,691,010	
Specific reversions (see detail)	(7,134,750)	
Estimated agency reversions	<u>(30,000,000)</u>	
		14,935,692,705
Estimated 2012 General Fund Balance		<u>320,270,824</u>
Add:		
Excess of Actual Revenues over estimates	229,684,518	
Excess of Actual Transfers over estimates	<u>865,913</u>	
		230,550,431
Excess of Actual Reversions over estimates		331,253
Total General Fund Balance		<u><u>551,152,508</u></u>
Deduct:		
General Fund Balance reserved		
For 2013 Operations	320,270,824	
Minus 2013 Estimated Surplus	<u>(200,374,579)</u>	
		119,896,245
2012 Unassigned General Fund Balance		<u><u>\$ 431,256,263</u></u>

EXHIBIT A
GENERAL FUND BUDGET SUMMARY
Detail: Fiscal Year 2012

Adjustments to Revenues – Other

State Admissions and Amusement Tax-Electronic Bingo	
Unclaimed Property – balance	
DHMH – Glaxo Medicaid Settlement	
National Mortgage Foreclosure Settlement	7,194,747
DBM – Central Collection Unit	6,405,703
District of Columbia Hospital Claims Processing Charge	
DLLR – SAEF Revenues	2,745,255
Lottery – Internet Lottery	
DHMH – OHCQ fees	
Individual Income Tax – W2 Electronic Matching	
DHMH – Merck Medicaid Settlement	
DHMH – Newborn Screening Fee	
PEPCO Fine	
Corporate Income Tax – property tax credits for telecom companies	
Maryland Stadium Authority – Rent Payment	750,000
Maryland Environmental Service	712,009
Sales & Use Tax – Cylinder demurrage	
Federal reimbursement for cemetery expansion	
DHMH – Death Certificate fees	
DHMH – Food Control fees	
Office of Administrative Hearings Fee	41,048
Retirement Statewide Indirect Costs	362,839
Maryland School for the Deaf – Tuition Revenue	167,000
DHMH Community Services Fees	
SB332 – Family Security Trust Fund – Req. to Transfer Int. to GF	
Hosp. Patient Recoveries – Assisted Living	
SB167 – Tax Credits for Qualifying Employees with Disabilities	
HB511 – State Board of Env. Health Specialists – Transfer of Responsibilities	
SB19 – Sales & Use Exemption – Veteran’s Organizations	
SB40 – Sales & Use – Machinery and Equip. – Energy Star Windows/Doors	
SB807 – Income Tax – Subtraction Modification- Land Acq. for MDOT	
HB1289 – Economic Development – One MD Economic Dev. Tax Credit	
SB294 – Family Farm Preservation Act of 2012	
HUR revenues under estimate	(4,348,498)
 Total	<hr/> 14,030,103

Specific Reversions

DBED – MIDFA Restricted Funds	(2,400,000)
MDP – Sustainable Communities Tax Credit	(2,000,000)
CCIF- Children’s Cabinet	(2,598,750)
DHCD – Rental Assistance	(136,000)
Total	<u>(7,134,750)</u>

Transfers from other funds – 2011 session

DBED – MD Not-For-Profit Dev. Center Program Fund	125,000
Circuit Court – Real Property Records Improvement Fund	10,000,000
Section 22 Voluntary Separation Program- various SF balances	8,591,538
Injured Workers’ Insurance Fund	4,130,000
Maryland Automobile Insurance Fund	4,000,000
Section 49 Electricity Reductions – various SF balances	2,976,551
Baltimore City Community College	2,297,142
Treasurer – State Insurance Trust Fund	2,000,000
Senior Prescription Drug	1,500,000
DHMH – Spinal Cord Injury Research Trust Fund	500,000
DHMH – State Board of Pharmacy Fund	237,888
DHMH – State Board of Examiners of Psychologists Fund	44,888
Total	<u>36,403,007</u>

Transfers from other capital related funds – 2011 session

MDE – Bay Restoration Fund	90,000,000
Transfer Tax – capital appropriations	94,491,115
DNR – Waterway Improvement Fund	1,090,000
DHCD – Special Loan Programs Fund	2,200,000
DHCD – Homeownership Programs Fund	1,500,000
Total	<u>189,281,115</u>

STATE OF MARYLAND
State Reserve Fund
June 30, 2012
(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, 2011	\$624,418,787		\$3,825,690	\$1,000,000	\$629,244,477
Investment Earnings	7,109,503				7,109,503
Replenishment	40,000,000	\$ 15,000,000			55,000,000
Distributions/Transfers		(15,000,000)	(2,000,000)		(17,000,000)
Ending Balance - June 30, 2012	<u>\$671,528,290</u>	<u>\$0</u>	<u>\$1,825,690</u>	<u>\$1,000,000</u>	<u>\$674,353,980</u>

Source: 63 Cash Control screen

Note: The \$40 million replenishment in the Revenue Stabilization Account is from the Transportation Trust Fund in accordance with Chapter 397 of the Acts of 2011 (Budget Reconciliation and Financing Act of 2011).



Peter Franchot
Comptroller

David Roose
Director
Bureau of Revenue Estimates

August 30, 2012

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

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

Subject: Fiscal Year 2012 Revenues

General fund revenues totaled \$14.258 billion in fiscal year 2012, \$229.7 million (1.6%) above the forecast. Growth of 5.3% in general fund revenues was driven by the individual income tax and sales tax. Adjusted for changes to distributions and other legislative actions that affected revenues, baseline general fund growth was 4.7%. Revenues generally classified as “Other Revenues” declined 3.1% after adjusting for the distribution of highway user revenues. Changes enacted to the sales tax during the 2011 legislative session boosted general fund revenues by approximately \$285.3 million, with \$76.0 million attributable to the increased tax rate on alcohol and \$209.3 million to the elimination of the Transportation Trust Fund distribution, while the change in the distribution of highway user revenues deducted \$193.3 million from the general fund. Major revenue sources reflect the struggling economic recovery and the fact that wage growth is barely keeping pace with inflation.

Individual income tax revenues contributed \$7.115 billion to the general fund, an increase of 7.1% from last year and 1.7% above the estimate. Withholding, the single largest component of general fund revenue, finished the year nearly on the forecast, which called for only modest growth of 3.7%. The average unemployment rate for fiscal year 2012 was 6.8%, well above the pre-recession average of 4.1% to which Marylanders are accustomed, and high enough to restrain wage growth. Based on wage data from the Bureau of Economic Analysis, through the first three quarters of fiscal year 2012 (the most recent data available) the average wage in Maryland grew only 1.7% while total wage income increased only 3.6%.

Estimated payments finished slightly (2.0%) below the full year estimate—down \$28.3 million—and fell 2.3% for the fiscal year. Estimated payments that related to tax year 2011 activity increased 3.9% while payments related to tax year 2012 dropped 11.5%, possibly an indication of the slowdown in business activity that is being reported nationwide, although it is too early to be certain. Final payments and refunds finished strong and were the largest contributors to the over attainment of general fund revenues. Final payments, which are almost entirely attributable to tax year 2011 activity, finished the year 11.5% higher than last year and \$66.8 million (5.2%) above the estimate. Refunds finished the year down 3.5% for the year and \$157.3 million better than the estimate. Those refunds, also almost entirely attributable to tax year 2011, represent the second fiscal year in a row in which refunds have decreased.

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General fund corporate income tax revenues increased significantly (13.2%) over fiscal year 2011, 11.4% above the estimate. This performance resulted from strong growth in gross receipts coupled with falling refunds. Gross receipts increased \$91.3 million (9.2%), while refunds decreased \$10.7 million (5.0%). Estimated payments, largely reflecting economic activity throughout the fiscal year, outpaced the national growth rate of corporate profits through the third quarter of fiscal year 2012 (the most recent data available), growing 13.3% compared to a reported 8.7% increase in corporate profits.

General fund sales and use tax receipts increased \$383.3 million from fiscal year 2011 (10.5% growth) and finished \$20.8 million above the estimate (0.5%). However, after accounting for legislative changes, baseline sales tax growth is a weak 2.7% (below the rate of inflation). These changes include the new 9% sales tax rate on sales of alcohol, which produced an additional \$76.0 million, and the redirection of 5.3% of sales tax collections from the Transportation Trust Fund to the general fund.

Sales tax gross receipts increased 4.5%, reflecting mixed economic factors which, in the aggregate, were a drag on consumer activity. The prices of gasoline and food, both necessities which are not taxable, increased 12.6% and 4.0%, respectively, well above the average rate of wage growth. Prices of existing home sales in Maryland declined for the fourth straight fiscal year, although the drop was only 0.4%. Counterbalancing these factors, consumer confidence remained at fiscal year 2011 levels, the financial assets of consumers as reported by the Federal Reserve increased 2.0%, and the total amount of installment credit outstanding grew 4.1%.

Construction-related sales tax receipts finished slightly better than anticipated, up 3.8% for the year and surpassing the estimate by 1.3%. The number of new homes constructed and the number as well as the units sold in the State appears to be strengthening; the number housing starts in Maryland as estimated by Moody's Analytics increased 23.6% over last fiscal year, and the number of units sold increased 0.3%. Revenues from sales of both capital goods and utilities were down 1.0% and 4.6% from the prior fiscal year, respectively. Revenues from sales of computer software and hardware, the largest component of the capital goods category, declined 1.6%. The utilities segment is primarily comprised of receipts from communications services and nonresidential sales of electricity, which dropped 5.2% and 3.7%.

General fund lottery revenues increased 7.4% from fiscal year 2011, finishing the year 6.7% above the estimate (\$33.6 million). Lottery sales increased 4.7% for the year with strong sales growth in Racetrax, Powerball, and Mega Millions. Sales of the aforementioned jackpot games were the result of increased ticket sales related to large jackpots; the average Powerball jackpot increased from \$63.4 million in fiscal year 2011 to \$85.0 million in fiscal year 2012, and while the average jackpot growth for Mega Millions was not as impressive, the largest jackpot in history (\$640 million) was achieved in March. The largest game by sales volume, instant tickets, were buoyed by the introduction of the popular Monopoly ticket, and finished strongly relative to the prior three years, up 2.7% in sales and 2.9% in revenues. Although not related to sales performance, Pick 3 displayed strong revenue performance as the ratio of payouts to sales declined significantly from the prior year and was below the statistically expected level.

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Business franchise taxes were short of the estimate by close to \$2.0 million and declined 1.4% on a year over year basis. Business filing fees, which comprise roughly 40% of franchise taxes, grew 1.9%, indicating a net creation of new business entities. However, the franchise tax component declined 3.4% as remittances from gas and electric companies were down 4.5% after abnormally strong growth last fiscal year and receipts from telephone companies fell only 0.8%.

Insurance premium taxes increased 6.3% over the prior year and were 1.7% above the estimate; this was the first year of the past several years in which a heritage structure rehabilitation tax credit was not taken against the tax; in the past that amount has averaged about \$5.0 million annually. Estate and inheritance taxes fell from \$216.0 million to \$196.9 million; \$3.5 million (1.7%) short of the estimate. A naturally volatile tax, the decrease in death taxes is mainly because the number and average value of the payments for estates over \$1.0 million declined 32.0% and 39.2%, respectively. Interest income fell almost 70% as the average yield on a three month Treasury bill in fiscal year 2012 was less incredibly low at 0.05%, less than half of what it was in fiscal year 2011.

The Revenue Monitoring Committee will be analyzing the fiscal year 2012 results and the current economic outlook over the next several weeks in preparation for the revision of the revenue estimates next month. In the meantime, if you have any questions, please do not hesitate to contact me.

**Actual and Estimated General Fund Revenue
Fiscal Year 2012 (Preliminary)**

	Fiscal Year 2012				Fiscal Year 2011		
	Actual	Estimated ¹	Difference from Estimate		Actual	Growth FY 11 - FY 12	
			\$	%		\$	%
INCOME TAXES							
Individual	7,114,679,409	6,997,727,000	116,952,409	1.7%	6,643,428,888	471,250,521	7.1%
Corporations	646,474,825	580,465,000	66,009,825	11.4%	571,301,425	75,173,400	13.2%
Total	<u>7,761,154,233</u>	<u>7,578,192,000</u>	<u>182,962,233</u>	<u>2.4%</u>	<u>7,214,730,313</u>	<u>546,423,920</u>	<u>7.6%</u>
SALES AND USE TAXES	4,039,347,838	4,018,527,000	20,820,838	0.5%	3,656,043,473	383,304,364	10.5%
STATE LOTTERY RECEIPTS	536,250,630	502,693,000	33,557,630	6.7%	499,393,851	36,856,779	7.4%
OTHER REVENUES							
Business Franchise Taxes	207,194,403	209,191,000	(1,996,597)	-1.0%	210,171,002	(2,976,599)	-1.4%
Tax on Insurance Companies	304,021,925	298,901,000	5,120,925	1.7%	285,942,114	18,079,811	6.3%
Estate and Inheritance Taxes	196,896,858	200,379,000	(3,482,142)	-1.7%	216,044,159	(19,147,301)	-8.9%
Tobacco Tax	411,427,075	407,545,000	3,882,075	1.0%	407,570,396	3,856,679	0.9%
Alcoholic Beverages Excises	31,009,500	30,533,000	476,500	1.6%	30,434,733	574,766	1.9%
Motor Vehicle Fuel Tax	5,000,000	5,000,000	-	0.0%	5,000,000	-	0.0%
Highway User Revenues	186,721,617	186,546,502	175,115	0.1%	377,054,884	(190,333,267)	-50.5%
District Courts	79,394,724	80,783,000	(1,388,276)	-1.7%	86,867,248	(7,472,523)	-8.6%
Clerks of Court	35,138,952	33,516,000	1,622,952	4.8%	29,263,499	5,875,453	20.1%
Hospital Patient Recoveries	66,384,810	67,985,000	(1,600,190)	-2.4%	74,233,348	(7,848,539)	-10.6%
Interest on Investments	17,917,602	30,000,000	(12,082,398)	-40.3%	58,380,514	(40,462,912)	-69.3%
Miscellaneous	379,982,454	378,366,601	1,615,853	0.4%	386,234,327	(6,251,874)	-1.6%
Total	<u>1,921,089,920</u>	<u>1,928,746,103</u>	<u>(7,656,183)</u>	<u>-0.4%</u>	<u>2,167,196,225</u>	<u>(246,106,306)</u>	<u>-11.4%</u>
TOTAL CURRENT REVENUES	<u>14,257,842,621</u>	<u>14,028,158,103</u>	<u>229,684,518</u>	<u>1.6%</u>	<u>13,537,363,863</u>	<u>720,478,758</u>	<u>5.3%</u>

¹ The fiscal year 2012 budget increased 2012 revenue estimates by \$53.0 million; the estimates for the sales and use taxes and miscellaneous revenues have been adjusted accordingly.

There were additional budgeted transfers from other funds into the general fund totaling \$347.0 million in fiscal year 2011 and \$238.6 million in fiscal year 2012.

Bureau of Revenue Estimates, August 30, 2012