



Peter Franchot  
*Comptroller*

Wayne P. Green, CPA  
*Director*  
*General Accounting Division*

August 28, 2014

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, 2014. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2014 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2014 with a fund balance of \$147.6 million in the General Fund. Of this amount \$43.5 million was assigned by the 2014 General Assembly for fiscal year 2015 operations leaving an unassigned fund balance of \$104.1 million.

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

Sincerely,

Wayne P. Green  
Director

WPG:pc

Enclosure

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

**GENERAL FUND BALANCE  
JUNE 30, 2014**

General Fund Balance, June 30, 2013		\$ 501,897,613
Add:		
2014 Estimated Revenues (Bd. Of Revenues Est. March 2014)		15,103,901,944
Adjustments to Revenues – Other (see detail)		29,630,426
Reimbursement from reserve for Tax Credits		16,097,415
Transfers from other funds - 2014 Session (see detail)		58,246,632
Deduct:		
2014 General Fund Appropriations:		
Appropriated by the 2013 General Assembly	15,705,051,151	
Deficiency appropriations	(46,045,461)	
Specific reversions (see detail)	(46,199,607)	
Estimated agency reversions	<u>(30,000,000)</u>	
		15,582,806,083
Estimated 2014 General Fund Balance		<u>126,967,947</u>
Less:		
Excess of Estimated Revenues over actual	(27,351,077)	
Add:		
Excess of Actual Transfers over estimates	<u>3,642,384</u>	(23,708,693)
Add:		
Excess of Actual Reversions over estimates		44,298,163
Total General Fund Balance		<u>147,557,417</u>
Deduct:		
General Fund Balance reserved For 2015 Operations	126,967,947	
Minus 2015 Estimated Surplus	<u>( 83,473,404)</u>	
		43,494,543
2014 Unassigned General Fund Balance		<u><u>\$ 104,062,874</u></u>

**EXHIBIT A**  
**GENERAL FUND BUDGET SUMMARY**  
**Detail: Fiscal Year 2014**

<b>Adjustments to Revenues – Other</b>	
Medicaid False Claims Collections	\$10,000,000
Lottery Commissions	16,667
Chesapeake Bay Trust Fund	8,000,000
DLLR – SAEF Revenues	2,955,571
GlaxoSmithKline	5,885,188
DBM Central Collections Unit	2,314,000
DGS Revenue	339,000
Board of Physicians Dispensing Practitioners Permit Fees	120,000
 Total	 <u>\$29,630,426</u>
 <b>Transfers from other funds</b>	
Sustainable Communities Tax Credit	\$19,096,632
University System of Maryland	31,000,000
Morgan State University	2,000,000
Maryland Correctional Enterprises	1,800,000
Senior Prescription Drug Program	1,000,000
Biotech Tax Credit Fund	650,000
Radiation Control	300,000
Chesapeake Bay Trust Fund	2,400,000
 Total	 <u>\$58,246,632</u>
 <b>Specific Reversions</b>	
MEA-PAYGO Appropriation	\$(7,200,000)
Stadium Authority – Bond Refunding	(250,000)
Health Exchange – Prior Year Encumbrances	(1,660,000)
TEDCO	(400,000)
Office of Administrative Hearings	(83,000)
Oil Control Program	(550,000)
Higher Education	(299,803)
State Treasurer’s Office – Cash Management System	(200,000)
State Personnel System	(7,306,804)
DHMH – FY 2013 Medicaid Surplus	(28,250,000)
 Total	 <u>\$(46,199,607)</u>

**STATE OF MARYLAND**  
**State Reserve Fund**  
**June 30, 2014**

	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 - June 30, 2013	\$700,435,038	\$10,000,000	\$9,195,672	\$567,687	\$720,198,397
Investment Earnings	7,896,704				7,896,704
Replenishment	55,256,263		512,515		55,768,778
Distributions/Transfers		(10,000,000) (a)	(1,071,429) (b)	(259,184) (c)	(11,330,613)
Ending Balance - June 30, 2014	<u>\$763,588,005</u>	<u>\$0</u>	<u>\$8,636,758</u>	<u>\$308,503</u>	<u>\$772,533,266</u>

(a) 5 agencies had critical programs totaling \$10 million that were impacted by federal sequestration. Those programs were replaced with deficiency appropriations funded from the Dedicated Purpose Account.

(b) Budget amendment #113-14 provided for funding from the Sunny Day account for a project paid by the Economic Development Opportunity Fund administered by DBED.

(c) Provided funding from the Catastrophic Event Account for a Deficiency Appropriation to MEMA for unanticipated emergency activations and multiple snow storms.

Source: 63 Cash Control screen



**Peter Franchot**  
*Comptroller*

**Andrew Schaufele**  
*Director*  
*Bureau of Revenue Estimates*

August 28, 2014

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

From: Andrew Schaufele  
Director, Bureau of Revenue Estimates

Subject: Fiscal Year 2014 Revenues

General fund revenues totaled \$15.106 billion in fiscal year 2014, only 0.2% (\$27.4 million) below the forecast. Current revenues increased 1.0%, or \$149.5 million, from the prior year. The personal income tax provided the greatest negative variance to the full year estimate, though counteracting support was provided from several of the mid-size revenue sources. The personal income tax variance is almost entirely attributable to less than expected payments with tax returns during the primary processing season for tax year 2013 (April to June); the impetus for the miss-estimation, discussed in detail in the personal income tax section, is a possible over-estimation of highly volatile capital gains and extraordinary income dynamics resulting from the 2012 fiscal cliff. Support for the general fund variance was driven primarily by the corporate income tax and miscellaneous revenue, while the business franchise and insurance premium taxes also aided. Corporate income tax variance from estimate was driven by a favorable Maryland Court of Appeals decision while miscellaneous revenues were boosted by substantial Medicaid cost settlements pursued by the Attorney General's office. While unanticipated positive and negative variances are, of course, common occurrences throughout the estimation period, it must be noted that the causes for positive variance within the aforementioned sources are likely one-time revenue, not ongoing support.

While I am pleased to report that the State's two largest sources of general fund revenue, income tax withholding and sales tax, finished with very little variance to their respective estimates, the results are nevertheless disappointing in that both estimates called for meager growth. Withholding and sales tax are the best proxies available for measuring wage growth and consumer spending within the State's tax structure. Withholding finished just \$1.7 million from estimate, a positive variance of just 0.01%; however, growth from the prior fiscal year was just 2.9%. Such poor performance in an expanding labor market indicates that newly created jobs are likely lower paying positions than the State average and that wages are growing slowly for existing wage earners. Combining wage and employment data for the first three quarters of fiscal year 2014 from the Bureau of Economic Analysis and Bureau of Labor Statistics provides

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further support for the prior statement; indeed, growth in the average wage for that period was only 0.1%. Of course, sales tax collections are greatly affected by wage and employment growth, and given that average wage growth seems to have been substantially below the rate of inflation, it comes as no surprise that general fund sales tax collections finished up just 1.9% from the prior year (only 0.3% from the estimate). There may be a glimmer of good news within the detail of sales tax; collections from the final quarter of the fiscal year actually increased 4.5% with each of the months better than 3.7%.

Individual income tax revenues contributed \$7.774 billion to the general fund, an increase of \$82.4 million, growth of 1.1% from the prior fiscal year. However, the income tax finished \$169.3 million (2.1%) below the forecast. The large actual-to-estimate variance was almost entirely attributable to the negative "April surprise" for final payments. Final payments, payments principally related to the prior tax year and remitted with the filing of a tax return, finished the fiscal year \$254.7 million (14.0%) below the forecast. It is important to note that the full \$254.7 million variance is not fully attributable to the general fund, the difference includes the combination of State and local government income taxes; the State portion is approximately \$159.0 million.

April's final payment receipts, which represented 52.4% of total final payment receipts for the fiscal year, decreased 19.5% from the prior year, pushing fiscal-year-to-date growth to -8.0%. Prior to the end of fiscal year 2014, a portion of the variance was recouped, likely as a result of greater than expected late-filers, and final payments finished the fiscal year down 5.4%.

Although data is not yet available for tax year 2013, the tax period for which fiscal year 2014 final payments are largely attributable, it is fair to speculate that the April surprise is attributable to an undervaluing of the fiscal cliff's significance. To wit, underlying economic and revenue activity in 2012 may have been even worse than prior expectations. It could then be inferred that the estimate for 2012 capital gains income as well as certain 2012 income components reported by the Bureau of Economic Analysis are possibly undervalued. The implication for the State income tax estimate is that tax year 2013 aggregate tax liability should have been lower as more 2012 income than initially expected was extraordinary and therefore, either should not have been included in the 2012 base for 2013 expectations or more accurately reflected by economic variables. Furthermore, as much of that 2012 extraordinary income would have likely been recognized in future tax years, those future tax years should have been penalized to a greater degree than in the most recent estimate.

Withholding, the State's single largest source of revenue, finished in line with its meager growth expectations (up just 2.9% versus an estimate for 2.9%, variance of only 0.01%). While encouraging from a revenue estimator's perspective, such weak growth in a supposed period of economic expansion is indicative of very poor average wage growth. In fact, amalgamating employment and income data from the Bureau of Labor Statistics and the Bureau of Economic Analysis shows that through the third quarter of fiscal year 2014 (most recent data available) average wage growth was just 0.1%.

Such results also require a discussion of reported industry employment; Maryland is reported to have increased employment by 0.7% throughout the fiscal year, adding roughly 19,000 jobs. The largest number of jobs created was in the Leisure and Hospitality sector (added ~7,700 jobs), while the casino expansion has certainly aided, this has been a successful industry nationwide; however, the jobs typically are not high paying. The very well compensated Professional and Business Services grouping is reported to have boosted employment by 1.1% during fiscal year 2014 (added ~4,800 jobs). Offsetting gains, perhaps those most related to Professional and Business Services, were Federal jobs which declined 2.0% in Maryland (lost ~2,900 jobs). Of course, as Maryland is a net exporter of workers and withholding is generally designated by residence, aspects of the District of Columbia's (D.C.) job market matter. For D.C., Federal jobs declined 2.4% (lost ~4,600 jobs) while Professional and Business Services gained only 0.6% (added ~1,000 jobs). The result is essentially a net-zero addition for the above high paying positions while lower paying jobs are expanding.

The personal income tax's other components also finished very close to their respective estimates, with a collective variance of just \$19.5 million, again including State and local government receipts. Estimated payments finished the fiscal year up 5.0% compared to fiscal year 2013, completing the year 0.2% above the forecast. While growth was expected, it was reassuring to hit our target even after the extraordinary growth witnessed as a result of the fiscal cliff in fiscal year 2013 when estimated payments increased 18.2%. Fiduciary receipts finished up 15.9% for the fiscal year with much of the growth attributable to payments with returns from tax year 2012 extension filers in the early months of the fiscal year and the tax year 2013 fourth quarter estimated payment. Finally, refunds were weaker than expected (to the benefit of the State), finishing the year with growth of 1.4% compared to the prior year.

General fund corporate income tax revenues decreased 7.0% for the fiscal year to \$761.2 million; however, the general fund estimate was exceeded by a significant \$44.4 million. It must be noted that neither the year-over-year growth rate nor the estimate-to-actual variance are as significant as they seem at first glance. First, the general fund received a lesser share of corporate income tax revenue when compared to the prior fiscal year. Therefore, to compare underlying corporate activity, corporate net receipts prior to distributions should be evaluated; corporate net receipts before distribution increased 3.4% for the fiscal year. Estimated payments, which represented almost 70% of corporate income tax receipts fell 0.2% for the year while final corporate payments increased 16.7%. Refunds increased 11.6%, a bounce back relative to last year, but well below recent periods where refunds inclusive of net operating losses incurred during the recession.

Second, a significant share of the corporate income tax surplus is attributable to unanticipated revenue from the Maryland Court of Appeals favorable ruling (from the State's perspective) in the case of *Gore Enterprise Holdings, Inc. v. Comptroller of the Treasury*. Of course, we cannot disclose specific taxpayer information to the public.

General fund sales and use tax receipts increased 1.9%, finishing \$11.8 million ahead of the estimate (0.3%). Gross receipts finished slightly ahead of the general fund, increasing 2.0% in fiscal year 2014. The largest component of the sales and use tax, consumer receipts, increased a meager 1.1% for the year. The extraordinary winter weather caused consumer gross receipts to decrease 1.9% in the third quarter of fiscal year 2014, however, consumer gross receipts rebounded in the final quarter of the fiscal year, growing 3.9%. It is important to note that the final quarter of fiscal year 2013 was likely negatively impacted by the federal government sequester. Therefore, the federal government sequestration likely depressed consumer sales and use tax receipts during this time period, which provided a lower base for comparison at the end of fiscal year 2014.

While finishing the year on a high note, the overall lackluster growth shown in the consumer segment likely directly relates to the nearly flat growth in average employee compensation and the relatively weak growth in employment. As mentioned in the discussion of withholding performance, average wage growth was just 0.1% while employment growth was reported at just 0.7%. Additionally, consumer confidence as reported by The Conference Board increased during fiscal year 2014 relative to fiscal year 2013, though the index remained depressed relative to non-recession times; fiscal year 2014 consumer confidence averaged a 79 reading whereas the average reading in fiscal year 2005 was over 100. While the preceding factors are all somewhat inter-related, it cannot be denied that the conglomeration of lagging confidence, non-existent wage growth, weak employment growth, and federal policy austerity and uncertainty engendered consumers' reluctance to spend throughout fiscal year 2014.

Although they account for a smaller share of total sales and use tax receipts, construction and utility receipts both increased in fiscal year 2014. The second largest component of the sales and use tax, construction receipts, fell short of the estimate by \$5.1 million, however, the segment still showed growth of 5.8% in fiscal year 2014. After growing 9.4% in the first half of the fiscal year, the construction piece of the sales and use tax was negatively affected by the harsh winter, falling 4.9% in the third quarter of the fiscal year before rebounding to 7.9% for the final quarter. Alternatively, the business power segment of the utilities category likely benefited from the winter's extraordinarily cold temperatures as sales and use tax receipts from the power utilities increased 8.5%. The communications segment of utilities increased an impressive 7.7% for the fiscal year.

General fund lottery receipts ended just shy of the estimate (off by only ~\$4,000), with general fund revenue decreasing 4.7% for the year. Total lottery revenues decreased 4.5% (difference is distribution to Maryland Stadium Authority), while sales decreased to a lesser degree, falling 1.8% in fiscal year 2014. In looking at the traditional lottery sales in more detail, the largest drop off occurred in Powerball, which decreased \$25.6 million or 19.5%. However, when combining Powerball with Mega Millions, Maryland's other multi-state jackpot game, sales actually increased 1.9% or \$3.9 million. It should be noted that fiscal year 2014 was the first full year for which California was part of Powerball. Additionally, in early fiscal year 2014 Mega Millions made significant structural changes to the award structure so that jackpots would grow for longer periods of time. Instant tickets sales, Maryland's largest lottery game, decreased



1.3% while revenues decreased 2.5%. However, instant ticket sales saw a sign of growth the final few months of the fiscal year, growing 6.7% in the final quarter. Keno, the State's second largest lottery game, saw sales decrease 10.6% as revenues fell 13.6%. The final large component of traditional lottery, Pick 3 and Pick 4, saw a decrease of 0.4% and an increase of 1.1%, respectively. The decrease in traditional lottery, most notably Keno, can be largely explained by the increase in Maryland casino activity. However, casino based revenue is not general fund revenue, so while total gaming revenues (traditional lottery plus casino) increased in fiscal year 2014, the increase was due to the expansion and substitution of casino revenue.

Business franchise taxes, comprised of business filing fees and public service company franchise taxes, increased 13.3% to \$228.4 million, finishing the year above the estimate (7.8%). Both the gas and electric companies and the telephone companies showed strong growth in fiscal year 2014, growing 12.1% and 15.0%, respectively. These companies made up approximately 61.0% of business franchise tax revenue, with business filing fees composing the rest. Filing fees for fiscal year 2014 increased 14.0%. However, as a result of a timing issue at the end of fiscal year 2013, fiscal year 2014 saw approximately \$4.7 million in additional revenue that should have been accounted for in fiscal year 2013. Accounting for this adjustment, fiscal year 2014 filing fees increased roughly 1.9%.

After a strong fiscal 2013, estate and inheritance taxes fell 8.9% to \$213.8 million in fiscal year 2014. Inheritance taxes decreased \$2.3 million (-4.4%), while estate tax payments decreased \$18.5 million (-10.2%). Large estate tax payments, payments greater than \$1 million, decreased significantly, falling \$37.5 million (-44.5%) in fiscal year 2014. The average size of these estates decreased from \$2.8 million in fiscal year 2013 to \$2.5 million in fiscal year 2014. Conversely, revenues from mid-sized estates, those making payments from \$0.5 million to \$1.0 million, increased by 0.7% to \$16.8 million in fiscal year 2014. Although estate tax revenue fell compared to fiscal year 2013, it exceeded the estimate by 6.9%.

Tobacco general fund revenues fell 3.3% or \$13.5 million over the prior year, falling short of the estimate by \$10.6 million (-2.6%). Cigarettes, which comprise 91.5% of tobacco revenue, fell 2.9% in fiscal year 2014. Although it is hard to quantify, cigarette sales have likely been reduced due to the growing popularity of electronic-cigarettes (e-cigarettes). E-cigarettes are currently not subject to the tobacco stamps tax, and therefore the growing substitution of this product for traditional cigarettes is presumed to be a net revenue loss for the State. The other two components of tobacco tax, other tobacco products and miscellaneous tobacco, decreased 0.6% and 97.9%, respectively. The decrease in miscellaneous tobacco revenue was expected as last year's significant collections were the result of the increased tax rate for other tobacco products and the corresponding "floor tax." Relative to the estimate, cigarette tax revenue fell 1.3% short while other tobacco products was 14.0% below of the estimate.

Insurance premium tax revenue posted strong growth of \$31.1 million (10.2%) compared to fiscal year 2013. The impact of the Affordable Care Act on the insurance premium tax remains uncertain, though early indications point toward much of the increased enrollment being attributable to non-profit insurance companies for which the premium tax is not distributed to the

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general fund. As a result, it seems that the increase may actually be attributable to increasing base values for property and casualty insurance lines as well as increased rates charged by insurance companies. We will continue to research the exact causes of the spike in premium tax, though, despite frequent requests, information regarding rate increases has not been forthcoming from the Insurance Administration.

District court revenue increased \$2.2 million (2.9%), as several new traffic law violations have likely sparked an increase in District Court revenues. Clerks of Court revenues declined 8.3% as the housing market struggled throughout much of the fiscal year (the housing component of Clerks was down 13.0%). General fund interest income grew 47.4%, collecting \$6.9 million more than the prior fiscal year. Interest income also beat the estimate by a substantial margin, accumulating \$6.4 million more than anticipated. Although interest rates and thus interest income remains well below pre-precession levels, the large jump in the five-year treasury yield (0.8% in fiscal year 2013 compared to 1.6% in fiscal year 2014) allowed interest income to grow significantly this fiscal year.

Miscellaneous revenue grew \$53.6 million or 14.4% from the prior fiscal year. Significantly exceeding their estimates were Public Education and Health and Mental Hygiene (DHMH). Public Education exceeded their estimate by \$15.1 million; it seems that the timing estimate for the phase-out of federal reimbursements that subsidize teacher pensions was overly aggressive. DHMH exceeded their estimate by \$13.2 million with the support of the Attorney General's office, who recouped significant revenues through Medicaid false claims settlements. The above analysis of miscellaneous revenues is preliminary and will be further developed in preparation for the September revenue estimates.

The Revenue Monitoring Committee will continue to analyze the fiscal year 2014 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 2014**

	Fiscal Year 2014				Fiscal Year 2013		
	Actual	Estimated <sup>1</sup>	Difference from Estimate		Actual	Growth FY 13 - FY 14	
			\$	%		\$	%
<b>INCOME TAXES</b>							
Individual	7,773,773,453	7,943,064,000	(169,290,547)	-2.1%	7,691,380,537	82,392,916	1.1%
Corporations	761,208,285	716,800,000	44,408,285	6.2%	818,221,090	(57,012,805)	-7.0%
Total	8,534,981,738	8,659,864,000	(124,882,262)	-1.4%	8,509,601,627	25,380,111	0.3%
<b>SALES AND USE TAXES</b>	4,143,173,894	4,131,351,000	11,822,894	0.3%	4,067,790,962	75,382,931	1.9%
<b>STATE LOTTERY RECEIPTS</b>	501,106,648	501,110,667	(4,019)	0.0%	525,988,700	(24,882,052)	-4.7%
<b>OTHER REVENUES</b>							
Business Franchise Taxes	228,389,384	211,834,000	16,555,384	7.8%	201,561,229	26,828,155	13.3%
Tax on Insurance Companies	334,806,834	310,112,000	24,694,834	8.0%	303,756,105	31,050,729	10.2%
Estate and Inheritance Taxes	213,784,966	203,290,000	10,494,966	5.2%	234,614,880	(20,829,915)	-8.9%
Tobacco Tax	402,417,785	412,973,000	(10,555,215)	-2.6%	415,946,894	(13,529,109)	-3.3%
Alcoholic Beverages Excises	31,144,388	30,859,000	285,388	0.9%	31,161,610	(17,222)	-0.1%
Motor Vehicle Fuel Tax	5,000,000	5,000,000	-	0.0%	13,000,000	(8,000,000)	-61.5%
District Courts	77,669,782	80,748,000	(3,078,218)	-3.8%	75,476,361	2,193,420	2.9%
Clerks of Court	35,352,448	39,227,000	(3,874,552)	-9.9%	38,546,047	(3,193,600)	-8.3%
Hospital Patient Recoveries	63,038,878	56,918,000	6,120,878	10.8%	64,461,472	(1,422,594)	-2.2%
Interest on Investments	21,391,849	15,000,000	6,391,849	42.6%	14,507,923	6,883,926	47.4%
Miscellaneous	424,724,145	386,047,148	38,676,997	10.0%	371,113,214	53,610,930	14.4%
Total	1,837,720,458	1,752,008,148	85,712,310	4.9%	1,764,145,736	73,574,722	4.2%
<b>TOTAL CURRENT REVENUES</b>	15,016,982,738	15,044,333,815	(27,351,077)	-0.2%	14,867,527,025	149,455,712	1.0%
Extraordinary Revenues <sup>2</sup>					17,483,021	(17,483,021)	
Transfer Tax Revenues <sup>3</sup>	89,198,555	89,198,555	-	0.0%		89,198,555	
<b>GRAND TOTAL</b>	15,106,181,293	15,133,532,370	(27,351,077)	-0.2%	14,885,010,046	221,171,246	1.5%

<sup>1</sup> The fiscal year 2014 budget increased 2014 revenue estimates by \$29.6 million; the estimates for sales and use taxes, lottery, and miscellaneous revenues have been adjusted accordingly.

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

<sup>3</sup> Chapter 425 of the 2013 Legislative Session directs a portion of transfer tax revenues to the general fund: \$89.2 million in fiscal year 2014 and \$75.1 million in fiscal year 2015.