



Peter Franchot
Comptroller

Sandra Zinck
Interim Director
General Accounting Division

September 3, 2015

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, 2015. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2015 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2015 with a fund balance of \$320.4 million in the General Fund. Of this amount \$25.1 million was assigned by the 2015 General Assembly for fiscal year 2016 operations leaving an unassigned fund balance of \$295.3 million.

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

Sincerely,

Sandra L. Zinck
Interim Director

SZ:pc

Enclosure

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

**GENERAL FUND BALANCE
JUNE 30, 2015**

General Fund Balance, June 30, 2014		\$ 147,557,417
Add:		
2015 Estimated Revenues (Bd. Of Revenues Est. March 2015)		15,691,891,844
Adjustments to Revenues – Other (see detail)		16,556,920
Reimbursement from reserve for Tax Credits		17,560,000
Transfers from other funds - 2015 Session (see detail)		143,482,741
Deduct:		
2015 General Fund Appropriations:		
Appropriated by the 2014 General Assembly	15,806,825,957	
Deficiency appropriations	187,811,770	
Specific reversions (see detail)	(291,538)	
Estimated agency reversions	(<u>30,000,000</u>)	
		15,964,346,189
Estimated 2015 General Fund Balance		<u>52,702,733</u>
Add:		
Excess of Actual Revenues over estimates	214,113,771	
Less:		
Excess of Estimated Transfers over actual	<u>(85,370)</u>	
		214,028,401
Add:		
Excess of Actual Reversions over estimates		53,661,904
Total General Fund Balance		<u>320,393,038</u>
Deduct:		
General Fund Balance reserved For 2016 Operations	52,702,733	
Minus 2016 Estimated Surplus	<u>(27,645,487)</u>	
		25,057,246
2015 Unassigned General Fund Balance		<u>\$ 295,335,792</u> =====

EXHIBIT A
GENERAL FUND BUDGET SUMMARY - Detail - Fiscal Year 2015

Adjustments to Revenues - Other

Maryland Stadium Authority	\$ 3,000,000
Maryland Environmental Service	642,304
DHMH - Early Medical Loss Ratio payment	10,000,000
Lottery- Revenue Adjustment	456,116
DLLR - SAEF Funding (July 2014 BPW)	1,630,000
Sunny Day Repayment Diversion	828,500
Total	<u><u>\$ 16,556,920</u></u>

Transfers from other funds

MDP - Sustainable Communities Tax Credit Operating revenue	\$ 58,000
DPSCS - Maryland Correctional Enterprise (2014 session)	1,000,000
DNR - Program Open Space Unencumbered Balance	10,500,000
MEA - Strategic Energy Investment Fund	6,000,000
Baltimore Community College	4,000,000
State Unemployment Trust Fund	4,000,000
MEA - Jane E. Lawton Conservation Loan Fund	3,000,000
DLLR - Mortgage Lender Originator Fund	3,000,000
DHMH - Board of Nursing	2,500,000
DHMH -Board of Physicians	1,800,000
DHMH - Board of Pharmacists	1,600,000
DHMH - Spinal Cord Trust Fund	500,000
DNR - Waterway Improvement Fund	2,180,000
MHEC - Health Personnel Shortage Incentive Fund	1,700,000
MDA - Bay Restoration Fund	1,375,000
DGS - Helicopter Replacement Fund	269,741
Local Income Tax Reserve Fund	100,000,000
Total	<u><u>\$ 143,482,741</u></u>

Specific Reversions

BPW - Worcester BEKA Settlement	(\$280,000)
Office of Administrative Hearings (July 2014 BPW)	(5,769)
State Retirement - (July 2014 BPW)	(5,769)
Total	<u><u>(\$291,538)</u></u>

STATE OF MARYLAND
State Reserve Fund
June 30, 2015
(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, 2014	\$763,588,005	-	\$8,636,758	\$308,503	\$772,533,266
Investment Earnings	8,145,063				8,145,063
Replenishment	14,785,500				14,785,500
Distributions/Transfers	(13,055,501) (a)		(2,393,419) (b)	(135,566) (c)	(15,584,486)
Ending Balance - June 30, 2015	<u>\$773,463,067</u>	<u>\$0</u>	<u>\$6,243,339</u>	<u>\$172,937</u>	<u>\$779,879,343</u>

(a) To reimburse State agencies for costs associated with protests in Baltimore City. Budget Amendments 114-15 & 176-15.

(b) Budget amendment # 001-15 provided for partial funding from the Sunny Day account to a DBED grant. Also, transfer of Sunny Day excess funds to the State.

(c) Budget amendment # 186-14 provided funds to the Military Department for soldiers placed on active duty during snow storm.

Source: 63 Cash Control screen & DAFRG110, DAFRG400.



Peter Franchot
Comptroller

Andrew Schaufele
Director
Bureau of Revenue Estimates

September 3, 2015

To: Honorable Peter Franchot
Honorable Nancy K. Kopp
Secretary David R. Brinkley

From: Andrew Schaufele
Director, Bureau of Revenue Estimates

Subject: Fiscal Year 2015 Revenues

General fund revenues totaled \$15.923 billion in fiscal year 2015, 1.4% (\$214.1 million) above the forecast. The headline current revenue growth rate of 5.1% is substantial; however, it masks underlying timing issues which serve to overstate growth relative to underlying economic activity. Economic growth throughout the year seems to have been relatively in-line with the Board of Revenue Estimates' projections for moderate activity; the aforementioned timing issues relate to ongoing disturbances created by the fiscal cliff and the addition of a new sales tax collector.

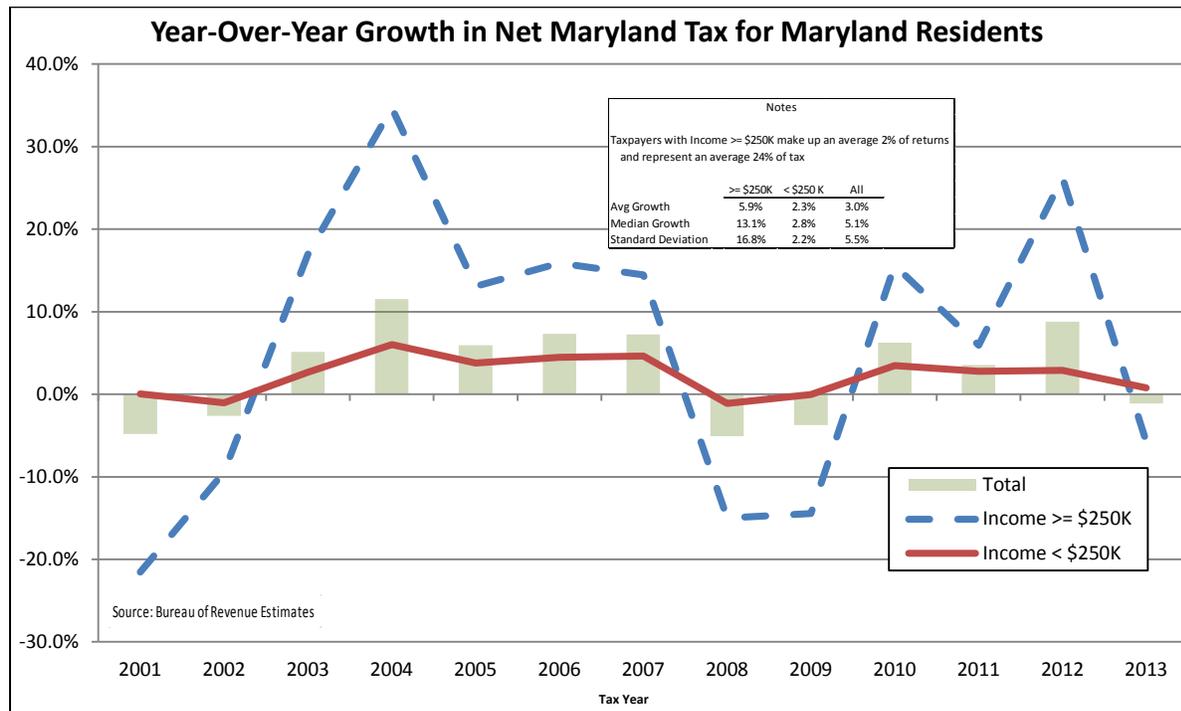
While the aggregate variance is, as always, the summation of various puts-and-takes across the various funding sources, the individual income tax is paramount (\$177.7 million). Constituting more than half of all general fund revenues, this is hardly a surprise, but the cause of the variance and likelihood of continued occurrences deserves thorough comment (please see income tax section below). Sales tax collections increased an impressive 5.0% for the fiscal year, but remember that this year included essentially nine months of collections from Amazon and its subsidiaries. Withholding growth finished the year up 3.9% from the prior year, in line with expectations and an improvement from last year's 3.0%, but subdued relative to pre-recession rates of growth and a reminder of continued economic pressures facing wage earners.

Individual Income Tax Detail

The individual income tax is segregated into several categories for estimation and tracking purposes; though it is the "final payments" category that produced the bulk of the variance. Final payments are those payments made either with a tax return completed for which the taxpayer owes a balance or an extension-to-file request for which the taxpayer believes they have a balance due. Those payments totaled \$1.7 billion this fiscal year. Generally, these payments are sourced from relatively wealthier taxpayers with non-wage income, such as capital gains, business income or loss, and pass-through entity income. Income from those sources and therefore those taxpayers is highly volatile.

In recent years, the “fiscal cliff” of 2012 has served to magnify that volatility. The fiscal cliff is the term used to define the expiration of myriad preferential federal tax code treatments (generally referred to as the Bush tax cuts from 2001 and 2003) as well as the need to raise the federal debt ceiling; all of which, in the absence of congressional action, were set to occur at the end of calendar year 2012. Although a deal was reached that ameliorated the coming impact, including an agreement to increase the debt ceiling, the deal was not reached and signed by the President until January 2, 2013. With such a late deal and the American public’s general pessimism with regard to federal lawmakers’ ability to accomplish any policy changes throughout 2012, taxpayers recognized income throughout the second half of tax year 2012 that would have most likely been recognized at later dates, thereby essentially pulling income forward. As such, income was skewed higher for tax year 2012 and lower for 2013. Therefore, this year’s final payments growth (up 13.2% for the fiscal year, but 17.3% between February and June), and therefore to some extent the bottom line growth rate, are skewed higher as a result of an artificially depressed tax year 2013.

The below chart illustrates the general volatility of wealthy taxpayers as well as the prominent fiscal cliff effect. As you can see in the text box, the average and median growth rates for taxpayers with income greater than or equal to \$250 thousand is substantial; however, the standard deviation from the average is monumental by statistical standards. Tax year 2014 data will not be available until the extension deadline, but will likely show a strong recovery for the wealthier grouping.



Letter to Honorable Peter Franchot,
Nancy K. Kopp, and David R. Brinkley
September 3, 2015
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Further complicating the estimation of final payments is that they are also a function of taxpayer behavior. Taxpayers making final payments also typically make estimated payments throughout the year. Many taxpayers take advantage of safe harbor rules; meaning that they must pay either 90% of the current year's liability or 110% of the prior year's liability through payments prior to the filing of the actual tax return. Failure to meet this requirement results in 13% interest; therefore, there is substantial incentive to hit one of those benchmarks. For those that follow the 110% rule, their payments throughout the year provide no insight into their actual liability and therefore whether or not a final payment or refund will be issued at filing. Moreover, taxpayers making final payments typically do so in April; approximately 70% of final payments are processed between April and June (typically filing a return with extension by October), meaning that there is little to no indication of where these payments will finish at the time of the March revenue estimates.

As income growth for wealthier individuals continues to outpace wage growth and that income continues to be taxed at higher rates, there should be an expectation for ongoing, perhaps more pronounced, variance from estimate within this category. In some years this variance might be mitigated by variances in other sources (as it was in fiscal year 2014); in other years, such as this year, that may not be the case. The Bureau of Revenue Estimates and the Revenue Monitoring Committee will continue to work to reduce this risk, but a solution, whether limited or not, remains elusive.

The Revenue Monitoring Committee will continue to analyze the fiscal year 2015 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 Fund Revenue
Fiscal Year 2015**

	Fiscal Year 2015				Fiscal Year 2014		
	Actual	Estimated ¹	Difference from Estimate		Actual	Growth FY 14 - FY 15	
			\$	%		\$	%
INCOME TAXES							
Individual	8,346,144,636	8,168,396,302	177,748,335	2.2%	7,773,773,453	572,371,183	7.4%
Corporations	777,321,180	767,580,839	9,740,341	1.3%	761,208,285	16,112,896	2.1%
Total	9,123,465,817	8,935,977,141	187,488,676	2.1%	8,534,981,738	588,484,079	6.9%
SALES AND USE TAXES	4,350,726,023	4,334,793,321	15,932,702	0.4%	4,143,173,894	207,552,129	5.0%
STATE LOTTERY RECEIPTS	506,492,645	500,466,304	6,026,341	1.2%	501,106,648	5,385,997	1.1%
OTHER REVENUES							
Business Franchise Taxes	225,698,685	230,277,000	(4,578,315)	-2.0%	228,389,384	(2,690,699)	-1.2%
Tax on Insurance Companies	316,050,344	312,863,272	3,187,071	1.0%	334,806,834	(18,756,490)	-5.6%
Estate and Inheritance Taxes	243,417,898	239,366,325	4,051,573	1.7%	213,784,966	29,632,932	13.9%
Tobacco Tax	391,462,919	393,221,417	(1,758,498)	-0.4%	402,417,785	(10,954,865)	-2.7%
Alcoholic Beverages Excises	31,306,462	31,623,802	(317,341)	-1.0%	31,144,388	162,073	0.5%
Motor Vehicle Fuel Tax	5,000,000	5,000,000	-	0.0%	5,000,000	-	0.0%
District Courts	77,701,820	78,524,150	(822,330)	-1.0%	77,669,782	32,038	0.0%
Clerks of Court	34,432,591	36,607,466	(2,174,875)	-5.9%	35,352,448	(919,856)	-2.6%
Hospital Patient Recoveries	65,182,216	63,288,153	1,894,063	3.0%	63,038,878	2,143,338	3.4%
Interest on Investments	10,708,649	20,361,000	(9,652,351)	-47.4%	21,391,849	(10,683,201)	-49.9%
Miscellaneous	396,727,923	381,890,869	14,837,054	3.9%	424,724,145	(27,996,222)	-6.6%
Total	1,797,689,507	1,793,023,454	4,666,053	0.3%	1,837,720,458	(40,030,951)	-2.2%
TOTAL CURRENT REVENUES	15,778,373,991	15,564,260,220	214,113,771	1.4%	15,016,982,738	761,391,253	5.1%
Transfer Tax Revenues ²	144,188,544	144,188,544	-	0.0%	89,198,555	54,989,989	
GRAND TOTAL	15,922,562,535	15,708,448,764	214,113,771	1.4%	15,106,181,293	816,381,242	5.4%

¹ The 2015 Legislative Session resulted in an additional \$16.6 million in estimated revenues beyond the March 2015 official estimate; this table has been adjusted accordingly

² Chapters 425 and 464 of the 2013 and 2014 Legislative Sessions, respectively, direct a portion of transfer tax revenues to the general fund: \$89.2 million in fiscal year 2014 and \$144.2 million in fiscal year 2015.