COMPTROLLER of MARYLAND
Serving the People

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Brooke E. Lierman
Comptroller

Luther Dolcar
Director,
General Accounting Division

September 13, 2024

The Honorable Brooke E. Lierman
Comptroller of Maryland
Comptroller's Office
80 Calvert Street
Annapolis, Maryland 21404

Dear Comptroller Lierman:

Enclosed you will find the statement of General Fund Balance for the year ended June 30, 2024. In addition, you will find a schedule of General Fund revenues and an analysis of the variances between the 2024 estimated and actual revenues prepared by the Bureau of Revenue Estimates.

The State closed the fiscal year ended June 30, 2024 with a fund balance of $1.060 billion in the General Fund. Of this amount $581 million was assigned by the 2024 General Assembly for fiscal year 2025 operations leaving an unassigned fund balance of $479 million.

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

Sincerely,

Luther Dolcar

Luther Dolcar
Director, General Accounting Division

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EXHIBIT A
GENERAL FUND BUDGET SUMMARY
Detail - Fiscal Year 2024

Adjustments to Revenues - Other

Extraordinary Revenues	$	150,000,000
Lottery Adjustment		(1,975,114)
Changes to Lottery Agent Commissions - BRFA		1,690,991
Redirect Special Fund Interest Earnings - BRFA		2,250,000
CH 241 of 2024 Cannabis Reform		180,000
	$	152,145,877

Adjustments to Revenues - Revenue Volatility

Revenue Volatility Cap - Statute	$	(120,000,000)
Revenue Volatility Cap - BRFA		120,000,000
	$	-

Agency Reversions

MCA - Social Equity Partnership Grant Program	$	(2,000,000)
BPW - PAYGO Bard Building (FY 2022 Funding)		(2,000,000)
MDoA - Senior Care Waitlist Funding		(4,500,000)
MDVA - Charlotte Hall General Funds		(4,500,000)
MDH - Cancer Research Grants		(4,228,328)
STO - Maryland 529		(1,250,000)
SDAT - Homeowners Tax Credit Projections		(11,000,000)
DBM - Statewide Account Vacancy Savings		(30,000,000)
	$	(59,478,328)

Transfers from Other Funds

DPA - Operational Funding Transfer - Contingent	$	149,500,476
DPA - PAYGO Funding Transfer - Contingent		43,974,000
Local Income Tax Reserve Fund		150,000,000
	$	343,474,476

Transfers from Revenue Stabilization Account

FY 2024 Adjustment to 10%	$	479,000,000

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Brooke E. Lierman
Comptroller

Robert J. Rehrmann
Director
Bureau of Revenue Estimates

September 13, 2024

To: Honorable Brooke E. Lierman
Honorable Dereck E. Davis
Secretary Helene Grady

From: Robert J. Rehrmann, Director
Bureau of Revenue Estimates

Subject: Fiscal Year 2024 Revenues

General Fund (GF) revenues in Fiscal Year (FY) 2024 totaled $24.863 billion, an increase of 5.0% over FY 2023, and 0.9%, or $217.2 million, above the estimate. Excluding extraordinary revenues and distributions, ongoing GF revenues totaled $24.713 billion, an increase of just 1.0% over FY 2023, also 0.9% above the estimate. The difference between ongoing revenue and total revenue is due to the timing of extraordinary revenue impacts. In FY 2023, there was a one-time $800.0 million special distribution from the GF to the Blueprint for Maryland's Future Fund (Blueprint Fund). This transfer boosted the grand total, or bottom-line, GF revenue growth in FY 2024 by reducing the grand total in FY 2023. Also contributing to bottom-line growth is a one-time transfer of $150.0 million in FY 2024 from the Local Income Tax Reserve Fund (LITRF) to the GF. An audit determined the LITRF was over-funded by $316.0 million.

The table below displays the forecast variance of the largest revenue sources. The State's major revenue sources, the personal income tax (PIT), the sales and use tax (SUT), and corporate income tax (CIT), account for 86.7% of ongoing general funds. The forecast for those three tax types combined was off by just 0.2%, or $37.8 million out of $21.4 billion. PIT is the largest revenue source, so it typically has a high dollar variance even when the error percentage is small. SUT was the most accurately forecast tax type, with a forecast error of -0.2%. The under-attainment in the PIT and SUT revenue was offset by the over-attainment in CIT revenue. In dollar terms the largest misses were the CIT, miscellaneous revenues, and interest on investments.

Variances of Key Tax Types
($ in Millions)

Item	Dollar Variance	Dollar Variance Rank	Percent Variance	Percent Variance Rank
Total General Fund	$217.2	*n/a*	0.9%	*n/a*
Personal Income Tax	(79.7)	3	-0.6%	13
Sales Tax	(13.1)	8	-0.2%	14
Corporate Income Tax	130.5	1	7.4%	6

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Lottery revenues were slightly above the estimate. The remaining ten revenue sources totaled $2.6 billion and widened the small over-attainment of the major revenue sources as they were in total $173.8 million, or 7.0% over the estimated amount. Three revenues came in below the forecast while three other revenue sources, Hospital Patient Recoveries, Interest on Investments, and Miscellaneous exceeded their forecasts by more than 20%.

Over the course of FY 2024 economic and revenue growth continued to slow, largely due to the Federal Reserve's efforts to slow spending growth and reduce inflation. This outcome, of slow but positive growth, was generally anticipated in the Revenue Monitoring Committee's economic outlook.

- Personal Income Tax
  - PIT revenues increased by 1.1%
    - Withholding revenue growth (3.7%) was slightly below expectations
    - Refunds were modestly above the forecast
    - Nonwage income recovered from a sharp decline in tax year 2022 and increased in the fiscal year by 1%, the total amount was only 0.3% above the estimate

- Sales and Use Tax
  - GF revenue decreased 1.8%
  - Total revenue increased by 0.8%
    - Taxable consumption spending slowed due to
      - overall slowdown in economic activity
      - shift in consumption spending back to services
      - gradual rebuilding of personal savings following post-pandemic trough
    - Lower GF growth reflects increase in the percent share of total revenues that are distributed to the Blueprint Fund – increased to 11.0% from 9.2%
- Corporate Income Tax (CIT)
  - GF revenue increased 4.8%:
    - Profit growth increased significantly and more than expected
    - Refunds grew 10.0% but were less than anticipated – refunds remain lower than was typical before FY 2020 despite significant revenue growth
- Other Revenues
  - Interest on investments was higher due to:
    - Elevated State cash balances
    - High nominal interest rates
  - Miscellaneous revenue growth was largely due to unclaimed property
  - Remaining revenue sources on net exceeded expectations

The Big Picture – Ongoing Revenue Impacts after Federal Stimulus

Economic growth following the COVID-19 pandemic (the pandemic) spiked due to federal pandemic assistance and monetary stimulus. Over the course of FY 2024 the Federal Reserve maintained relatively tight monetary policy in order to reduce nominal spending growth and therefore inflation. It is particularly difficult to forecast revenue when economic growth rates are in flux. To be accurate, the forecast must correctly predict both the timing and duration of the slowdown.

The economic outlook called for growth to continue to slow, but remain positive, as the Federal Reserve tightened monetary policy. This outlook proved to be generally accurate, though it was necessary to adjust revenue down in the March forecasts of PIT and SUT revenue as year to date growth had slowed more than previously expected. These adjustments improved the accuracy of the PIT and SUT forecasts by reducing the under-attainment of those revenue sources. However, over-attainments in the CIT and anomalously high smaller revenue sources more than offset the under-attainments in PIT and SUT.

The continuing slowdown is evident in ongoing GF revenue growth, which declined to 1.0% in FY 2024 from 1.7% in FY 2023, compared to 17.5% growth in FY 2022. The ongoing GF growth of 1.0% is not only a sharp deceleration from the elevated growth rates of the pandemic years, but is also below the typical pre-pandemic growth rate for the State. This low growth is the result of the slowing economy. Another contributing factor to the slower growth is recent legislation that allocates a greater share of sales tax and corporate income tax revenues to education and transportation funding, respectively.

Revenue growth going forward depends primarily on whether, and at what pace, the economy continues to grow. Inflation remains just above the Federal Reserve's target, while job growth has slowed. If the Federal Reserve eases too soon inflation will rise again, necessitating another round of tightening. If the Federal Reserve eases too late then the economy will slow further and likely go into a recession. Nonwage income, as always, is a source of risk to revenue growth going forward. It is a volatile source and is typically the primary driver of forecast errors.

Personal Income Tax

The fiscal year 2024 forecast expected that the personal income tax would rebound from the decline that occurred in fiscal 2023 collections that was primarily due to a greater than expected decrease in final payments. However, the forecast expected modest revenue growth that was below the trend rate of growth.

PIT revenues were in line with expectations and increased by 1.1% compared to FY 2023. Revenues were only $79.7 million or -0.6% below expectations for this volatile revenue source. The less than expected revenue was attributable to multiple, modest variances - slightly less withholding revenue and estimated payments, less than expected fiduciary revenue, and more than expected refunds.

Component	YoY Change	Estimate $ in Millions	Variance %
Withholding	3.7%	($64.5)	-0.3%
Estimated Payments	-3.2%	(48.4)	-1.5%
Fiduciary Payments	-5.7%	(7.3)	-4.8%
Final and Extension	5.6%	77.4	2.3%
Payments Refunds	7.2%	113.4	3.2%

Note: Includes both State and local income taxes

Sales and Use Tax

SUT revenues totaled $5.897 billion, only 0.2%, or $13.1 million, below the estimate. GF revenue decreased 1.8% in FY 2024 following an increase of 0.6% in FY 2023. Gross revenue across all funds increased 0.8% in FY 2024 compared to 1.7% in FY 2023. In FY 2024, 11.0% of gross revenue excluding rental vehicles was distributed to the Blueprint Fund, up from 9.2% in FY 2023. The distribution to the Blueprint Fund will increase until it eventually equals 12.1% in FY 2027. As a result, the GF share of revenue will grow more slowly than total revenue.

Growth in taxable consumption spending remained sluggish in FY 2024 due primarily to the overall slowdown in economic activity and inflation, and the continuing gradual shift of consumption spending back to services following its rapid shift towards goods in the pandemic. In large part these trends were anticipated, resulting in a relatively small forecast error.

Corporate Income Tax

A total of $1.904 billion in GF revenue was collected in FY 2024, 7.4% or $130.5 million over the estimate. GF revenue increased by 4.8% in FY 2024, compared to 6.8% in FY 2023. Final payments, based on tax year 2023 profits, grew by 17.6% while estimated payments increased by 4.0%. The months of April through the end of the fiscal year experienced particularly strong revenue growth that was not anticipated based on year to date revenue collection at the time of the March FY 2024 Board of Revenue Estimates forecast.

According to Moody's Analytics, U.S. corporate profits (with inventory valuation and capital consumption adjustments) increased 5.3% in FY 2023 and are estimated to have grown 4.2% in FY 2024, a return to more normal rates of growth compared to the elevated rates of FYs 2021 and 2022. Gross revenue increased by 8.2% in FY 2024 compared to 6.2% growth in FY 2023. Refunds rose 10.0%, marginally reducing the growth of net revenue. Refunds continue to be lower than pre-pandemic levels. This was largely anticipated in the forecast and as a result, lower refunds did not contribute as much to the over-attainment of revenue as in prior years.

CIT revenue has about doubled since 2018. This increase is attributable to the federal *Tax Cuts and Jobs Act* (TCJA), which led to higher reported domestic profits, the impacts of the pandemic, and government stimulus. In a recession, firms cut costs to maximize profit in the face of falling revenue, mainly by cutting employment. After an initial decline in profits in the pandemic recession, demand more than recovered due to fiscal and monetary stimulus. Prices rose due to both higher demand and supply constraints. As a result, firms in the aggregate experienced lower labor costs and higher demand, leading to a temporary surge in profit growth that appears to have since normalized.

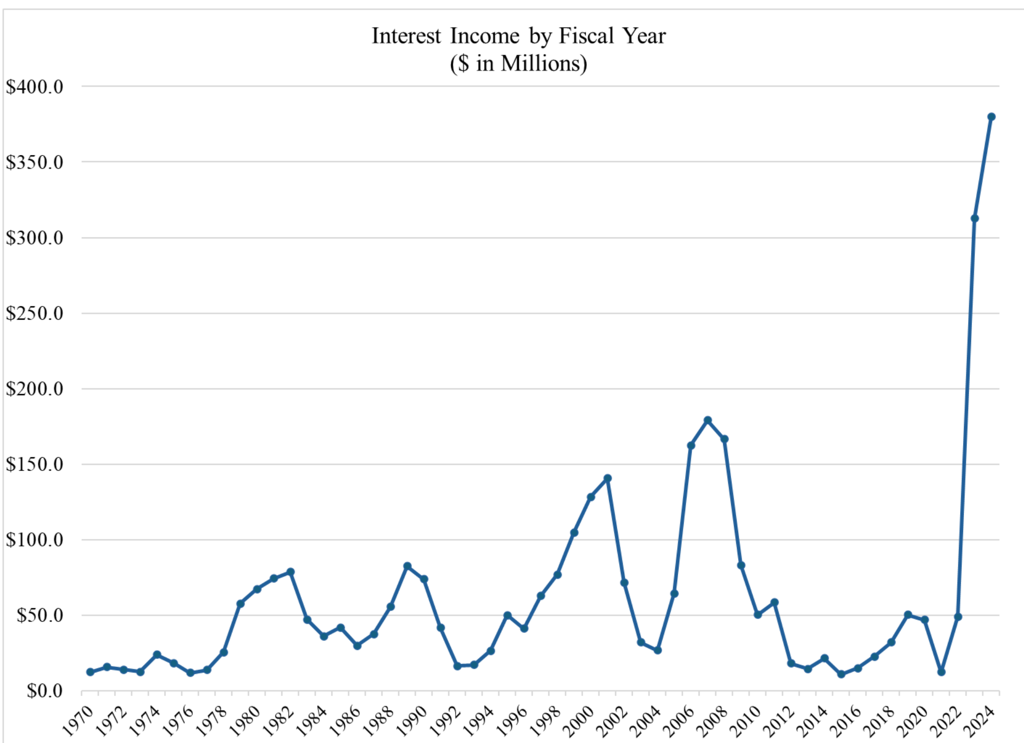
Additionally, analysis by the International Monetary Fund and others finds that competition among producers is declining over time. As competition decreases, the remaining firms are more able to increase profits by producing less, resulting in higher inflation-adjusted prices. This is a structural factor that changes gradually, but it helps explain profits growing faster than overall income over time.

Interest Income

Interest income depends primarily on two factors – the magnitude of the State's investable cash position and the interest rate that this cash earns. Until recently, interest income has not been a significant revenue source and generated about $30.0 million annually in FY 2010 through 2022. The surge in State revenues that were fueled mainly by federal pandemic assistance helped to boost the State's daily investable balance. In addition, the Federal Reserve increased the federal funds rate eleven times between March 2022 and July 2023 as inflation continued to be well above its 2% target. These factors contributed to interest income generating $379.8 million in general fund revenues in FY 2024 as well as additional special fund revenues.

The FY 2024 forecasts increased the interest income forecast, including a $100.0 million increase in the September estimate and an additional increase of $125.0 million in the December forecast. Given uncertainty over the future path of interest rates and the State's cash position, it was expected that a similar amount of interest income ($300 million) would be generated in FY 2024. Legislative changes reallocating certain special fund interest income to the general fund was expected to increase revenues by $2.4 million, bringing the FY 2024 interest income forecast to $302.4 million.

Interest income revenues surpassed FY 2023 and totaled $379.8 million, which was $77.4 above the estimate. An increase in interest rates earned by the State's investments compared to FY 2023 likely explains the greater than expected interest income. As shown in the Exhibit below, this general fund revenue is the most in at least 50 years. Even after adjusting for inflation, FY 2024 interest income is over $100 million greater than the prior peak that occurred in FY 2007.

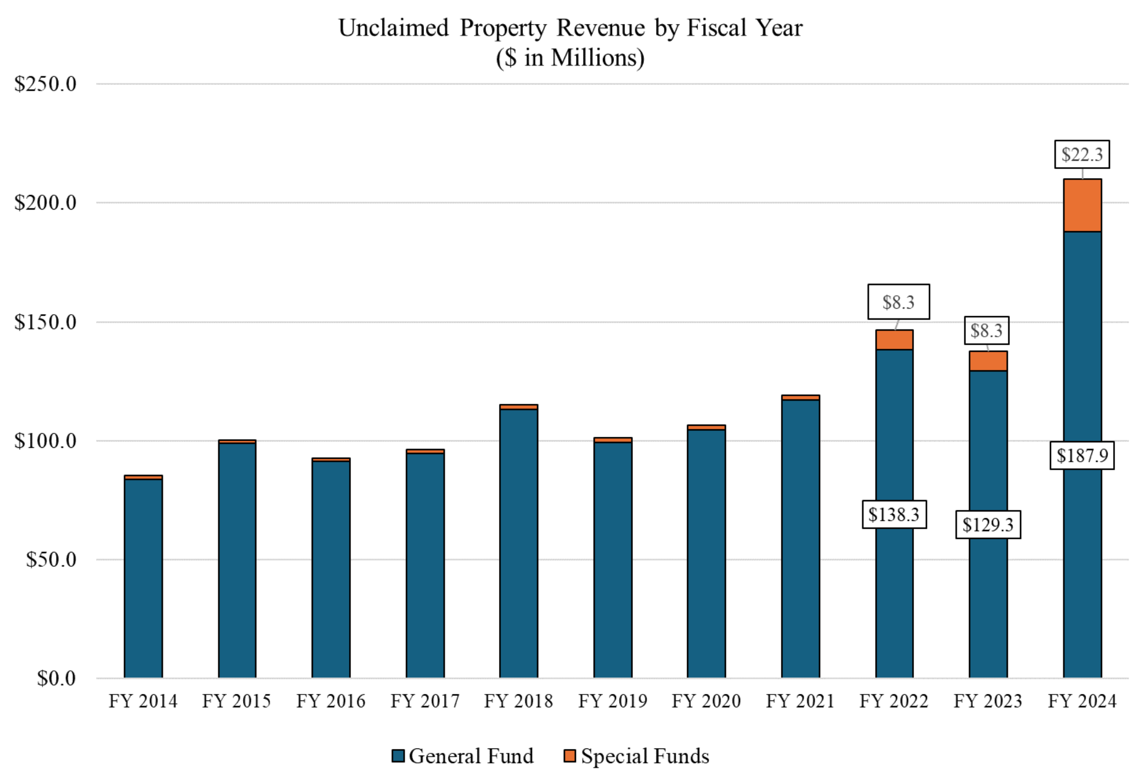


Miscellaneous Revenues

Miscellaneous revenues increased by 35% compared to FY 2023 and totaled $445.3 million. These revenues were a significant source of over-attainment relative to the forecast as it was $86.8 million above the estimate, the second highest forecast variance in both absolute and percentage terms. By comparison, miscellaneous revenues are the sixth largest source of general fund revenues.

Most of the over-attainment was driven by more than expected unclaimed property revenue. Unclaimed property typically had generated $100 million annually for the general fund and was stable from one year to the next; however, revenues have recently increased. The FY 2024 forecast expected this increase to continue despite an additional $14 million in certain special fund distributions from the fund.

General fund revenues surged to $187.9 million in FY 2024, well above recent levels. An additional $22.3 million was distributed to special funds for a total of $210.2 million in FY 2024, as shown below.



Note: Includes only certain special funds
Source: Bureau of Revenue Estimates

Miscellaneous revenues have been unusually volatile in the last two years. In contrast to the over-attainment this year, miscellaneous revenues were $141.9 million under the estimate in FY 2023. The Treasurer's Office and the State Department of Assessments and Taxation also realized greater than expected revenues, as shown below.

Miscellaneous Revenues by Source	FY 2024 Revenues Actual ($ in Millions)	% Growth	Difference from Estimate $ in Millions	%
Comptroller-Unclaimed Property	$187.9	45.3%	$67.5	56.0%
Treasury- Unpresented and Undeliverable Checks	44.3	348.0%	35.0	376.1%
SDAT - Recording, Organization & Capitalization Fees	30.7	94.0%	14.9	94.7%
All Other Revenues	182.4	4.0%	(31.1)	-14.6%
Total	**$445.3**	**34.8%**	**$86.4**	**24.1%**

Revenue Volatility Cap

The 2016 Joint Chairmen's Report required that the Department of Budget and Management, the Comptroller of Maryland, and the Department of Legislative Services examine the volatility in Maryland's revenue structure and recommend an approach to reducing volatility. In response to the findings and recommendations of this report, the Spending Affordability Committee in its final report to the Governor recommended the consideration of legislation to mitigate the impact of these volatile revenue sources on the State budget.

Chapters 4 and 550 of 2017 implemented a two-part policy to mitigate the impact of volatile nonwage income on the State budget. First, in each fiscal year, if general fund revenues for the fiscal year are less than the March estimate, the amount of non-withholding income tax revenues that exceed the capped estimate must be applied to close the revenue gap for that fiscal year. Specified amounts must then be distributed to the Rainy Day Fund (up to the amount that brings the balance of the fund to 10% of estimated general fund revenues), and the Fiscal Responsibility Fund. Money distributed to this fund must be appropriated in the second following fiscal year for specified pay-as-you-go capital projects.

In FY 2024, nonwage income was slightly above the estimate and other revenue sources were on net above the estimates. Pursuant to the requirements of Chapters 4 and 550, as amended by subsequent Budget Reconciliation and Financing Acts, the Comptroller distributed $9,143,411 to the Rainy Day Fund and $9,143,411 to the Fiscal Responsibility Fund.

Actual and Estimated General Fund Revenue
Fiscal Year 2024

	Fiscal Year 2024				Fiscal Year 2023	Growth FY 23 - FY 24	
			Difference from Estimate				
	Actual	Estimated [1]	$	%	Actual	$	%
INCOME TAXES							
Individual	13,616,685,217	13,696,400,022	(79,714,806)	-0.6%	13,469,498,165	147,187,052	1.1%
Corporation	1,903,957,204	1,773,415,971	130,541,233	7.4%	1,816,002,296	87,954,908	4.8%
Total	15,520,642,420	15,469,815,993	50,826,427	0.3%	15,285,500,461	235,141,960	1.5%
SALES AND USE TAXES	5,896,605,704	5,909,680,653	(13,074,949)	-0.2%	6,005,249,395	(108,643,691)	-1.8%
STATE LOTTERY RECEIPTS	654,967,634	649,366,798	5,600,836	0.9%	655,388,397	(420,764)	-0.1%
OTHER REVENUES							
Business Franchise Taxes	280,147,745	271,375,748	8,771,997	3.2%	272,397,806	7,749,940	2.8%
Insurance Premium Tax	741,836,984	710,324,639	31,512,345	4.4%	682,832,959	59,004,026	8.6%
Estate and Inheritance Taxes	213,407,273	247,616,582	(34,209,309)	-13.8%	303,713,151	(90,305,878)	-29.7%
Tobacco Taxes	405,070,693	416,569,558	(11,498,865)	-2.8%	448,656,959	(43,586,266)	-9.7%
Alcoholic Beverages Excises	34,101,890	36,553,401	(2,451,510)	-6.7%	37,171,335	(3,069,444)	-8.3%
District Courts	37,266,478	36,489,726	776,752	2.1%	38,633,847	(1,367,369)	-3.5%
Clerks of Court	26,603,375	23,696,318	2,907,056	12.3%	28,245,062	(1,641,687)	-5.8%
Hospital Patient Recoveries	77,036,214	63,200,000	13,836,214	21.9%	72,075,364	4,960,850	6.9%
Interest on Investments	379,818,398	302,430,000	77,388,398	25.6%	312,525,713	67,292,685	21.5%
Miscellaneous	445,283,980	358,509,940	86,774,040	24.2%	330,290,846	114,993,134	34.8%
Total	2,640,573,031	2,466,765,913	173,807,118	7.0%	2,526,543,040	114,029,991	4.5%
TOTAL CURRENT REVENUES	24,712,788,789	24,495,629,357	217,159,432	0.9%	24,472,681,293	240,107,496	1.0%
Blueprint for Maryland's Future Fund [2]	-	-	-		(800,000,000)	800,000,000	-100.0%
Extraordinary Revenues [3]	150,000,000	150,000,000	-	0.0%	-	150,000,000	
GRAND TOTAL [4]	24,862,788,789	24,645,629,357	217,159,432	0.9%	23,672,681,293	1,190,107,496	5.0%

[1] The 2024 Legislative Session resulted in an additional $2.1 million in estimated revenues beyond the March 2024 official estimate; this table has been adjusted accordingly
[2] Chapter 33 of 2022 diverted $800 million from individual income tax revenues to the Blueprint Fund
[3] The fiscal 2023 GAAP audit of the local income tax reserve account determined that the account was overfunded by $316 million
[4] In FY 2024, $18.3 million has been transferred to the Rainy Day Fund and Fiscal Responsibility Fund per the requirements of the Revenue Volatility Cap.

Bureau of Revenue Estimates, September 12, 2024