



COMPTROLLER  
*of* MARYLAND  
*Serving the People*

William Donald Schaefer  
*Comptroller*

David F. Roose  
*Director*  
*Bureau of Revenue Estimates*

August 28, 2002

To: Honorable William Donald Schaefer  
Comptroller of Maryland

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

Subject: Fiscal Year 2002 General Fund Revenue Collections

General fund revenues totaled \$9,532.5 million in fiscal year 2002, a decline of \$269.9 million, or 2.75%, from fiscal year 2001. Excluding revenues from the tax amnesty and a one-time transfer, current revenues declined by \$417.9 million, or 4.25%. Revenues fell short of expectations by \$103.0 million, or 1.1%. All revenue sources except the income taxes, business franchise taxes and interest on investments experienced growth in 2002. XXXXX

The \$4,771.7 million of individual income tax revenue accounted for the entire revenue shortfall and more, falling \$217.4 million (4.4%) below the estimate, and actually declining by \$362.0 million (7.1%) from fiscal year 2001 levels. Income tax withholding, the majority of income tax revenue, was slightly behind expectations. The revenue estimate called for withholding growth of 2.65%, but actual growth was only 2.11% (this growth includes the impact of the final step of the phased-in income tax reduction, which took effect January 1, 2002). The employment situation in the State deteriorated throughout fiscal year 2002. Employment grew at a 1.0% year-over-year rate in August of 2001, but after decelerating through the remainder of the year, it declined by 0.7% in June. In each of the last six months of the fiscal year, employment levels were about 0.5% lower than the same time the year before. Although withholding did not meet the forecast, less than one-eighth of the income tax shortfall is attributable to its underperformance.

The bulk of the income tax shortfall in 2002 is a result of a severe slump in realized capital gains reflected both through lower than expected estimated payments and final payments, and higher than expected refunds. Estimated payments declined by 18.0%, while the estimate only called for a 13.6% drop. Likewise, final payments declined by 17.5%, compared to an expected decline of 12.0%. The estimate called for refunds to grow by 2.8%, but they actually grew by 17.5%. The vast majority of final payments and refunds received during a fiscal year relate to the prior tax year—nearly 75% of these final settlements in fiscal year 2002 were received during the February to May filing season, nearly entirely reflective of tax year 2001 activity.

General fund sales tax revenues exceeded the estimates by \$xxx, but growth was an anemic 0.7%.

All revenue sources except the sales taxes, franchise taxes, district courts and hospital patient recoveries exceeded expectations. When the detail of the estimates are examined, however, there is cause for concern for fiscal years 2002 and 2003, especially in light of developments in the State and national economies since last December. Withholding is the lone bright spot, indicating a strong underlying economy. The weakness in sales taxes and estimated payments suggest that the engines of revenue growth, consumer spending and capital gains, may continue to slow. The Revenue Monitoring Committee will be assessing these issues and more as we prepare our preliminary estimates for September.

Please let me know if I can provide any further information.

cc: Treasurer Richard N. Dixon  
Secretary T. Eloise Foster

**General Fund Surplus**  
**June 30, 2002**

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Undesignated General Fund Balance June 30, 2001		\$191,028,777
Reserved from Fiscal Year 2001		347,324,046
Fiscal Year 2002:		
Estimated Revenues		9,627,617,496
Adjustments		7,866,000
Transfer from State Reserve Fund:		
Revenue Stabilization Fund Account	533,168,686	
Dedicated Purpose Fund Account	29,783,320	
Economic Development Opportunities Fund Account	7,500,000	
The Joseph Fund Account	8,000,000	578,452,006
Transfer from Other Funds:		
911 Emergency Number Fund	1,000,000	
Business and Economic Development Capital Programs	15,500,000	
Housing and Community Development Capital Programs	13,000,000	
Insurance Regulation Fund	2,000,000	
Maryland Automobile Insurance Fund	20,000,000	
Maryland Stadium Authority	1,000,000	
Program Open Space	15,000,000	
Self Insurance Fund	5,000,000	
State Use Industries	2,000,000	
Transfer Tax Revenues	11,227,425	
Used Tire Cleanup Fund	2,500,000	
Waterway Improvement Fund	8,000,000	
Maryland Food Center Authority Fund	3,000,000	
Others (less than \$1 million dollars each)	1,725,222	100,952,647
Transfer from Prior Years' PAYGO Capital Projects*		128,446,000
Appropriations	10,814,352,323	
Deficiencies	171,650,501	
Reductions approved by Board of Public Works-11/14/01	(57,548,000)	
Specific Reversions/Withdrawn Appropriations	(342,501,707)	
Estimated Reversions	(25,000,000)	
		<u>(10,560,953,117)</u>
Estimated 2002 General Fund Balance		\$420,733,855
Add:		
Excess of Actual Revenues over Estimates		(131,441,922)
Total Net Revenues in R*Stars	10,311,892,227	
Minus transfers not in estimates*	(807,850,653)	
Excess of Actual Reversions over Estimates	25,000,000	19,848,352
DAFR6000/appn bal	38,548,352	
DPSCS reversion - paygo*	6,300,000	
(Total reversions)	44,848,352	
Reduction of Loan Reserve		
		(111,593,570)
Total Fund Balance		\$309,140,285

**State Reserve Fund**  
**June 30, 2002**  
(In Dollars)

	Revenue Stabilization Account (Rainy Day) A0101	Dedicated Purpose Account A0201	Economic Development Opportunity (Sunny Day) A0301	Catastrophic Event Fund A0401	Joseph Fund A0601	Total
Beginning Balance 1-Jul-01	\$ 888,125,889	\$ 115,653,754	\$ 13,840,442	\$ 1,727,630	\$ 10,619,713	\$ 1,029,967,428
Investment Earnings	21,199,578				447,698.00	21,647,276
Replenishment	171,759,408	45,000,000	11,625,000		5,000,000	233,384,408
Distributions/Transfers	(533,168,686)	(59,883,320)	(4,375,813)	(1,500,000)	(8,000,000)	(606,927,819)
Ending Balance June 30, 2002	\$ 547,916,189	\$ 100,770,434	\$ 21,089,629	\$ 227,630	\$ 8,067,411	\$ 678,071,293

Source: DAFRG400 08/20/02  
DAFRG110 08/20/02  
DAFRG9090 08/20/02