

## IMPORTANT FINANCIAL INNOVATIONS

During 1979 the State initiated a number of important programs which will improve the future financial condition of the State and provide dividends to the taxpayers. These programs include pension reform, debt management, and tax relief measures.

### Pension Reform

The General Assembly established two Pension Systems that are required to be fully advance funded, beginning in 1981, and established a program beginning in 1980 for the advance funding of the existing Retirement Systems. Membership in the new systems is mandatory for all new employees who enter the systems after December 31, 1979, and optional for existing employees. The new systems contain substantial changes in benefits. In addition, actuarial methods and assumptions will change for both new and existing systems. While the full advance funding provisions will increase pension funding requirements in the near future, the full impact of the pension reform will be realized in substantial long-term cost savings.

### Debt Management

In 1978, Maryland began a formal annual review of the size and condition of the State general obligation debt for the purpose of determining fiscally prudent debt limits. As a result, important steps were taken during 1979 to reduce the level and trend of Maryland's indebtedness. Significantly greater general fund appropriations were made available to assist in financing the capital budgets for 1979 and 1980 on a current rather than long-term basis. Also, new bond authorizations to support the 1980 capital budget were limited to approximately \$155 million. Consequently, Maryland was able to contain bond issues to \$115,350,000 during fiscal year 1979, well below the amount of \$218,145,000 issued during fiscal year 1978.

### Tax Relief

Maryland's very strong economy along with prudent financial management produced improved

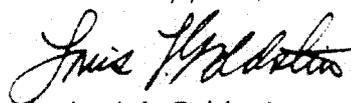
revenues and cost savings for the State in 1979 beyond even the most optimistic forecasts. These considerations along with improved revenue prospects for 1980 prompted the enactment of significant tax relief legislation that is applicable to fiscal year 1980. The projected dividends (savings) for the taxpayers of the principal items included in the tax relief legislation are: tripling the State income tax standard deduction — \$50 million; eliminating the sales tax on heating oil and other energy used to heat residences — \$49 million; eliminating the sales tax on manufacturing and farm machinery and equipment — \$11 million; and further extending the circuit breaker property tax program — \$8 million.

Other indirect tax relief totaling approximately \$70 million was granted by increased aid to local governments in the form of transportation grants, indemnification for revenues lost due to the liberalized standard deduction, and unclaimed withholding of individual income taxes.

The actions taken during this past year to implement improved financial reporting and disclosure, pension reform, debt management, and revenue and expenditure management, are demonstrations of steps that the State of Maryland has taken on its own initiative to continue its long tradition of responsible fiscal management. While the outlook for the national economy is uncertain, Maryland's diversified economy should fare better than the national economy taken as a whole. These two factors will enable the State to continue to provide the essential services of government to its citizens without impairing its overall strong financial condition.

I will be pleased to furnish additional information on the State's finances upon request.

Cordially yours,



Louis L. Goldstein  
Comptroller of the  
Treasury of Maryland