

MAJOR INITIATIVES

New laws enacted by the 1998 General Assembly and signed by Governor Parris N. Glendening provided for an acceleration of the income tax reduction enacted last year, the creation of a Children's Health Program and increased funding for K-12 and higher education.

During the upcoming General Assembly Session, the Glendening Administration plans to introduce legislation to improve patients' rights, provide additional scholarship assistance for Maryland students and reduce class size. The Governor also plans to continue to increase funding for education and school construction.

FINANCIAL INFORMATION

The State has issued guidelines to its agencies for establishing an effective system of internal control. Internal control is the overall plan of organization and all the coordinate methods used to safeguard assets, ensure the reliability of the accounting data, promote efficient operations and ensure compliance with established governmental policies, laws, regulations and contracts. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met.

As a recipient of federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines. Additionally, the State is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act and U.S. Office of Management and Budget Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations". Detail information related to these single audits is included in separate reports.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations.

Maryland maintains its accounts to conform with generally accepted accounting principles and also to comply with the legally mandated budget. Financial control is generally exercised under the budgetary system.

GENERAL GOVERNMENTAL FUNCTIONS

Revenues of the general governmental functions (excluding capital projects) totaled \$14,050,131,000 for the fiscal year ended June 30, 1998. This represents an increase of 3.9% over revenues for the fiscal year 1997. Income tax, the largest source of revenue, produced 32.0% of general governmental revenues compared to 30.2% last year. The revenues from various sources and the changes from last year are shown in the following tabulation (amounts expressed in thousands):

<u>Revenue Source</u>	<u>Amount</u>	<u>Increase (Decrease) Over 1997 Actual</u>	
		<u>Amount</u>	<u>Percent</u>
Income taxes.....	\$ 4,491,384	\$ 407,237	10.0%
Sales and use taxes	2,161,158	67,282	3.2
Motor vehicle taxes and fees.....	1,426,340	53,338	3.9
Other taxes.....	1,149,092	91,500	8.7
Other licenses and fees.....	289,414	6,921*	2.4
Charges for services	737,099	78,516	11.9
Interest and other investment income	151,296	13,701	10.0
Federal revenue.....	3,509,817	(17,065)*	(0.5)
Other.....	134,531	(172,434)*	(56.2)
Total.....	<u>\$14,050,131</u>	<u>\$ 528,976</u>	<u>3.9%</u>

* After the reclassification of certain prior year revenue amounts.

Individual and corporate income tax totaled \$4,139,808,000 and \$351,576,000, respectively, representing an increase of \$403,712,000 and \$3,525,000, compared to the prior year. The individual income taxes increased 10.8% due to continued gains in personal income and capital gains.