

The State is insured for workers' compensation losses by the State Accident Fund under a contract which provides for the State to pay premiums based upon loss experience plus a proportionate share of administrative costs. Recent State practice has been to pay premiums based upon actual losses paid by the State Accident Fund plus a proportionate share of administrative costs. In the event of termination of the contract, the State is obligated for any premium deficiency existing at the time of termination. As of June 30, 1979, anticipated workers' compensation claims, in the amount of \$14,200,000 applicable to State employees were accrued in Nonexpendable Trust Funds.

Effective July 1, 1979, the State is required to distribute to its political subdivisions the estimated local portion of income tax withholding and estimate payments received for which no individual income tax returns, claiming the payments, were filed by the taxpayers. In July 1979 the State distributed approximately \$26 million applicable to payments received for tax years prior to 1976. Amounts received for tax years after 1975 will become distributable to the political subdivisions upon the expiration of the three year period during which taxpayers have the right to file tax returns and claim refunds. As of June 30, 1979, the approximate balance of such unclaimed payments was \$6 million, \$9 million and \$22 million for the tax years 1976 to 1978, respectively. Because the legislation requiring these distributions became effective July 1, 1979, the State will recognize the distributions applicable to tax years prior to 1979 as expenditures in the year they become payable.

#### **14. Contingencies**

The State and its units are parties to numerous legal proceedings, many of which normally recur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

In addition, the State and its units are involved in certain other legal proceedings which, if decided adversely to the State may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. The more significant proceedings involve expanded treatment for the mentally retarded, expanded prison facilities, reallocation or increases in State aid to public schools, reductions in Federal grants for public education, limitations on the State's ability to expand its port facilities, and limitations on the State's access to the financial assets of persons confined to State health institutions for purposes of reducing medicaid benefits. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the State.

As of June 30, 1979, mortgage loan insurance programs included in Other Enterprise Funds were contingently liable as insurer of mortgage loans payable, or portions of mortgage loans payable, in an aggregate amount of approximately \$49 million.

The State receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. As of June 30, 1979, the State estimates that no material liabilities will result from such audits.

#### **15. Retirement and Pension Systems**

The consulting actuary of the three contributory Maryland State Retirement Systems prepared a valuation as of June 30, 1979 using the entry age actuarial cost method. Retirement costs for 1979 on this basis aggregated approximately \$379 million, including amortization of unfunded accrued liabilities over 40 years and interest thereon. The actuarially computed value of the unfunded accrued benefits as of June 30, 1979 aggregated approximately \$2,804 million. The actuarially computed value of vested benefits is not available.

The consulting actuary of the Mass Transit Administration Pension Plan prepared a valuation as of June 30, 1979 using the frozen initial liability cost method. Retirement costs for 1979 on this basis aggregated approximately \$3 million, including amortization of unfunded accrued liabilities over 30 years. The actuarially computed value of the unfunded accrued benefits as of June 30, 1979 aggregated approximately \$32 million. The actuarially computed value of vested benefits is not available.

In 1979, the Maryland General Assembly passed legislation which, among other things, established two new Pension Systems that are required to be fully advance funded, and established a program, beginning in 1980 for the advance funding of the three existing Maryland State Retirement Systems. All employees hired after January 1, 1980 will become members of one of the two new Pension Systems. Existing employees have