

**DISCUSSION AND ANALYSIS OF THE
COMBINED SUMMARY OF REVENUES, EXPENDITURES,
OTHER SOURCES AND USES OF FINANCIAL
RESOURCES AND CHANGES IN FUND BALANCES**

In the year ended June 30, 1979, governmental financial activities were recorded in the General, Special Revenue, Debt Service and Capital Projects Funds ("GAAP Funds") in conformity with generally accepted accounting principles. In prior years, governmental financial activities were recorded in the Budgetary General, Special, Federal, Annuity Bond and Loan Funds ("Budgetary Funds") in conformity with accounting practices followed for budgeting purposes. The Combined Summary of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances was prepared from the audited financial statements of the GAAP Funds for the year ended June 30, 1979; and from the financial statements of the Budgetary Funds for the years ended June 30, 1975 through 1978.

The Financial activities recorded in the Budgetary Funds for the years ended June 30, 1975 through 1978 are generally comparable to the financial activities recorded in the GAAP Funds after adjustments to the Budgetary Funds to remove transactions related to activities recorded in proprietary GAAP funds.

As described in Note 4 of the Notes to Combined Financial Statements, certain adjustments were made to fund balance as of July 1, 1978 to present the financial statements for the year ended June 30, 1979 in conformity with generally accepted accounting principles. These adjustments principally consist of adjustments to revenues and expenditures of prior years reported in Budgetary Funds. It was not practicable to adjust the financial statements of prior years to reflect these adjustments. However, the Office of the Comptroller believes the effect of such adjustments would not be material to the Combined Summary of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances for the years ended June 30, 1975 through 1978.

The following legislative changes and other matters affect the year to year comparability of the Combined Summary of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances:

Revenues:

For the 1979 year, the property tax was reduced from 23¢ to 20¢ per \$100 of assessed value, resulting in a reduction of \$10,900,000 over the revenues that would have been realized had the rate remained at 23¢.

The sales and use tax was increased on June 1, 1977 from 4% to 5%. This had the effect of increasing revenues from those taxes in 1978 by \$122,979,000 over the revenues that would have been realized at the former rate. The motor vehicle titling tax was also increased from 4% to 5% on June 1, 1977, resulting in \$24,936,000 more in revenues in 1978 than would have been realized if the rate had remained at 4%.

Revenues for the year 1977 reflect increases in the property tax, the sales and use tax and the motor vehicle titling tax. In the 1977 year, the State property tax was increased from 21¢ to 23¢ per \$100 of assessed value, resulting in additional revenues of \$6,040,000 over the revenues that would have been realized had the rate remained at 21¢. As discussed above, the sales and use taxes and the motor vehicle titling tax were increased from 4% to 5% on June 1, 1977. Accordingly, year 1977 contains one month of revenues at the higher rate, resulting in an additional \$9,890,000 in the sales and use tax and \$2,624,000 in the motor vehicle titling tax over the revenues that would have been otherwise realized.

As a result of the increase in the tax on cigarettes on June 1, 1975 to 10¢ per pack, the State realized an additional \$20,800,000 in 1976 and \$2,200,000 in 1975 over the revenues it would have realized had the tax remained at 6¢ per pack.

For the years ended June 30, 1975 through 1978 revenues from the activities of Clerks of Courts and Registers of Wills were recorded net of related expenditures. For the year ended June 30, 1979 the full amount of revenues and expenditures were recorded. If the practices of prior years were followed for the year ended June 30, 1979, other taxes and other revenues would have been reduced by approximately \$27 million and \$62 million, respectively, and public safety and judicial expenditures would have been reduced by approximately \$89 million.

Expenditures and Operating Transfers:

For the year ended June 30, 1979 pension costs were determined on an accrual basis predicated on actuarial valuations. As a result, unfunded pension costs in the amount of \$150,836,000 are recorded in personnel and retirement costs. Personnel and retirement expenditures for the years ended June 30, 1975 through 1978 do not include unfunded pension costs.

For the year ended June 30, 1979 material employee benefit costs applicable to proprietary funds were transferred to proprietary funds. Accordingly, operating transfers out include employee benefit costs in the amount of \$45,825,000 applicable to proprietary funds.

Operating transfers in reflect the amounts received by the General Fund from the Maryland State Lottery Agency. Annual increases in the amounts reflect the increasing volume of Lottery ticket sales.