

industry is expected to continue to add jobs at a healthy rate, making it one of the brightest areas of growth for the state. Another expanding business services industry is telemarketing. A number of telemarketing firms have set up shop in Western Maryland, where affordable land costs and an available labor pool are a draw for back office operations. A third business services category, temporary agencies, has seen employment grow by 25% in the past two years. Because of the increased flexibility and lower costs, firms are relying more heavily on temporary workers even for relatively long assignments. In total, business services employment grew by 5.9% in 1996 and is expected to rise at an average annual rate of 4.75% during 1996-1998.

Employment in health services slowed over the past two years, as continued pressures from health insurers for lower cost treatment has directed demand from traditional types of care toward managed care plans, HMOs and outpatient clinics. Hospitals have responded to cost pressures by merging. As a result, hospital employment dropped by about 2% or 1,500 jobs since 1994. At the same time, employment gains at HMOs and outpatient clinics have been strong, exceeding 4% per year over the past five years.

Over the past several years, the trucking, warehousing and wholesale trade sectors have been important engines of growth for the state, as Maryland emerged as a key site for distribution facilities. Maryland's superior infrastructure, including the Port of Baltimore, BWI Airport and the excellent road system, and the state's position within one of the largest and most affluent markets in the nation, have made it an attractive location for these facilities.

Employment in retail trade increased by 2.5% in calendar year 1995, an addition of 10,000 jobs. The retail sector has added over 20,000 jobs in the last two years, spurred by the recovery in consumer spending and by the construction of a number of new stores and shopping centers. Employment gains are expected to be much weaker over the next two years. Higher debt burdens and the satisfaction of pent up demand will cause consumer spending to slow. Moreover, the higher minimum wage will raise labor costs, lowering the demand for new workers.

Job losses in the weakest areas of Maryland's economy are expected to moderate in the coming years. In the banking sector, many of the state's larger banks have already been acquired, so the pace of job loss will slow. Non-defense federal employment is expected to continue to decline, but employment will rise at both the Patuxent River Naval Base and the National Security Agency over the next several years, partially offsetting the drop at Maryland's non-defense federal agencies.

In total, Maryland employment is expected to increase at an average annual rate of 1.3% between 1996 and 1998. The solid performance of the economy will also be reflected in steady income gains. Growth in personal income is projected to average 4.6% per year between 1996 and 1998.

MAJOR INITIATIVES

New laws enacted by the 1996 Session of the General Assembly and signed by Governor Parris N. Glendening provided for construction of two new professional football stadiums, new job creation tax credits, welfare reform and improvements to the "Sunny Day Fund." Significant Medicaid reform was also enacted, under which Medicaid recipients will be enrolled in managed care organizations.

During the upcoming 1997 General Assembly Session, the Glendening Administration is expected to present personal income tax reduction and cigarette tax increase legislation, as well as programs to increase access to higher education and to direct state resources into existing neighborhoods and designated growth areas.

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 is accomplished through the internal control guidelines. Additionally, the State, excluding higher education institutions, is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-128. The State's higher education institutions' single audit is performed under Circular A-133. Detail information related to these single audits is included in separate reports.