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WILLIAM DONALD SCHAEFER
Comptroller

Honorable Members of the General
Assembly and the Governor,
State of Maryland:

November 1, 1999

INTRODUCTION

The Comprehensive Annual Financial Report of the State of Maryland, for the fiscal year ended June 30, 1999, submitted herewith, includes financial statements of the State of Maryland as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller. I believe that the data, as presented, are accurate in all material respects; that they are presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the State's financial affairs have been included.

This Report is presented in three sections; introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the report of independent public accountants on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

The accompanying financial statements include all funds and account groups of the State of Maryland (primary government), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. Accordingly, the various colleges and universities, the Maryland Stadium Authority, the Maryland Food Center Authority, Maryland Environmental Service and the Maryland Industrial Development Financing Authority are reported as discretely presented component units.

ECONOMIC CONDITION AND OUTLOOK

Maryland's economy experienced continued robust growth in calendar year 1998. Almost 55,000 new jobs were created, bringing the total number of jobs created in the State since the end of the recession in the early 1990's to over 244,000. The strongest areas of growth in 1998 were services, construction, and government. The service sector added the most jobs, nearly 30,600, and the government sector added almost 9,800 jobs, primarily in local governments. No primary sector of the economy lost jobs in 1998, although the wholesale trade sector and transportation, communication and utilities sector grew by only 480 and 725 jobs, respectively. Total non-agricultural employment in the State increased by 2.5%. Growth would have been greater, but for an ever-tightening labor market.

The service sector, by far the largest in terms of employees, outpaced all other sectors with growth of 3.8%. Growth has slowed, however, from an average annual rate of 4.2% over the prior four years. Business services grew at an 8.5% annual rate and are expected to continue to grow strongly through 1999. Computer-related services are expected to slow or decline slightly in 2000, as Year 2000 remediation projects are completed. Legal and health services, representing almost 30% of this sector, grew by only 2.2% and 1.6%, respectively. Tightening costs, consolidations and declining admissions at some hospitals are expected to result in a slowdown in job growth in the health services sector, which will lead to an overall reduction in the rate of growth of the service industry. Growth in the service sector is expected to be 3.8% for 1999, slowing to 2.9% in 2000 and accelerating to 3.7% in 2001.