

**Y01A
State Reserve Fund**

Operating Budget Data

(\$ in Thousands)

	<u>FY 02 Actual</u>	<u>FY 03 Working</u>	<u>FY 04 Allowance</u>	<u>Change</u>	<u>% Change Prior Year</u>
General Fund	\$221,759	\$181,029	\$0	-\$181,029	-100.0%
Total Funds	\$221,759	\$181,029	\$0	-\$181,029	-100.0%

- There are no Reserve Fund appropriations in fiscal 2004.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Revenue Stabilization Fund: The fund's balance is projected to be \$505 million at the end of fiscal 2004, which exceeds the required 5% of general fund operating revenues threshold by \$3.8 million.

Dedicated Purpose Fund: The administration budget proposes depleting this fund by transferring \$1 million to the general fund in fiscal 2003 and \$11.4 million to welfare programs in fiscal 2004.

Catastrophic Event Fund: The budget does not anticipate any activity in this fund in fiscal 2003 and 2004. The fund balance is expected to remain at \$227,630.

Joseph Fund: The administration proposes deleting this fund by transferring the remaining \$8.2 million to support child welfare services.

Issues

Comparison of Maryland's Rainy Day Fund with Other AAA States: The issue examines Rainy Day Fund policies and actions of Maryland and other AAA-rated States. **The Department of Budget and Management should brief the committees on the administration's Rainy Day Fund policies.**

Proposed Changes to Reserve Fund: The issue identifies proposed changes to the Reserve Fund that include increasing the Rainy Day Fund repayment and clarifying the Dedicated Purpose Fund uses. **The Department of Budget and Management should brief the committees on the administrations position with regard to these changes.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Budget Reconciliation and Financing Act of 2002 Authorizes Transfer of Funds Out of the Reserve Fund: A listing of reserve fund transfers authorized by the act is provided.

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Operating Budget Analysis

Program Description

The State Reserve Fund provides a means to designate monies for future use. It is a general description for five individual funds: Revenue Stabilization Fund ("Rainy Day Fund"); Dedicated Purpose Fund; Catastrophic Event Fund ("Stormy Day Fund"); Joseph Fund; and Economic Development Opportunities Program Fund ("Sunny Day Fund"). The purpose and status of each fund is discussed in more detail in the body of this analysis. A separate analysis is prepared for the Sunny Day Fund so it is not discussed in this analysis.

Proposed Transfers in Fiscal 2003 and 2004

The administration proposes transferring \$12.4 million out of the Dedicated Purpose Fund (DPF) and \$8.2 million out of the Joseph Fund. Fiscal 2003 transfers \$988,500 from DPF to the general fund, contingent on the administration's budget reconciliation bill, including:

- \$661,000, which is the last remaining funds dedicated to the Maryland Department of Transportation (MDOT) Woodrow Wilson Bridge replacement and Addison Road Metrorail extension capital projects. Chapter 440, Acts of 2002 (the Budget Reconciliation and Financing Act of 2002 (BRFA)) authorized the expenditure of these funds for the Charlotte Hall Veterans' Home. The funds were not needed because a deficiency appropriation provided these funds. Since the funds are no longer necessary for the veterans' home, the administration proposes transferring these funds to the general fund; and
- \$327,500 from the Public Service Commission's (PSC) public utility restructuring education program. The transfer includes \$250,000 to clear out the account. Also transferred is another \$77,500 in funds that were unspent funds from previous years that was not included in the fiscal 2002 end-of-year fund balance.

In fiscal 2004, the administration proposes the following transfers:

- \$11.4 million from the DPF to support the Local Family Investment Program in the Department of Human Resources (DHR). This proposed action transfers the remaining Temporary Assistance for Needy Families (TANF) and welfare funds out of the DPF and depletes the DPF; and
- \$8.2 million from the Joseph Fund. Last year, BRFA authorized the use of the fund to support increased Temporary Cash Assistance (TCA) payments in fiscal 2003 and 2004. Because the required increase was nominal, the funds were not needed for TCA payments. With this budget, the administration is proposing to use these funds to support the administration of the DHR Child Welfare Program, which supports such activities as foster care and adoption services. This proposed action depletes the Joseph Fund budget. This proposal is also contingent on budget reconciliation legislation

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to be introduced during the 2003 session.

Governor's Proposed Budget

There is no appropriation for the Reserve Fund in the fiscal 2004 allowance. State law requires that the Governor include an appropriation to the Rainy Day Fund equal to the unappropriated general fund surplus from the most recent fiscal year that ended in excess of \$10 million. This resulted in a \$181 million appropriation in fiscal 2003 attributable to the unappropriated fund balance at the end of fiscal 2001. Insofar as fiscal 2002 closed with no unappropriated general fund balance, no appropriation is required in the fiscal 2004 allowance.

Exhibit 1

**Governor's Proposed Budget
State Reserve Fund
(\$ in Thousands)**

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$221,759	\$181,029	\$0	-\$181,029	-100.0%
Total Funds	\$221,759	\$181,029	\$0	-\$181,029	-100.0%

Where It Goes:

Unappropriated Fiscal 2001 General Fund Surplus Appropriated to Rainy Day Fund -\$181,029

Note: Numbers may not sum to total due to rounding.

Exhibit 2 provides an overview of all activity in each fund account for fiscal 2002 to 2004. Detail for each account can be found in **Appendix 3** (Rainy Day Fund), **Appendix 4** (Dedicated Purpose Fund), **Appendix 5** (Stormy Day Fund), and **Appendix 6** (Joseph Fund).

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Exhibit 2

Reserve Fund Activity – Fiscal 2002 to 2004
(\$ in Millions)

	Rainy Day Fund	Dedicated Purpose Fund	Catastrophic Event Fund	Joseph Fund
Balances on Hand 6/30/01	\$888.1	\$115.7	\$1.7	\$10.6
Fiscal 2002 Appropriations:				
Unappropriated FY 00 Balance	141.8 ¹			5.0 ²
MDOT Capital		45.0 ³		
TANF/Welfare Programs Reallocation		9.6 ⁴		
Fiscal 2002 Deficiency Appropriations:	30.0 ⁵	-9.6 ⁴		
Expenditures:				
PSC: Public education utility restruct.		-2.8 ⁶		
Southern Maryland Tornado Relief			-1.5 ⁷	
DDA Waiting List Initiative		-5.0 ⁸		
TANF/Welfare Programs		-22.1 ⁴		
Transfer to General Fund:	-533.2 ⁹	-30.1 ¹ ₀		-8.0 ¹ ₁
Estimated Interest:	21.2			0.4
Balances on Hand 6/30/02	547.9	100.8	0.2	8.1
Fiscal 2003 Appropriations:	181.0 ¹			
Unspent Public Service Commission Funds:		0.1 ¹ ₂		
Expenditures:				
TANF/Welfare Programs		-10.0 ⁴		
Transfers:				
General Fund - 2002 Session	-249.0 ⁹	-78.4 ¹ ₃		
General Fund - 2003 Session		-1.0		
Estimated Interest:	10.6			0.2
Balances on Hand 6/30/03	490.6	11.4	0.2	8.2
Fiscal 2004 Appropriations				
Expenditures:				
Child Welfare Services				-8.2
TANF/Welfare Programs		-11.4		
Estimated Interest:	14.7			0.0
Estimated Balances 6/30/04	\$505.3	\$0.0	\$0.2	\$0.0

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Balance in Excess of 5% GF Revenues

\$3.8

Footnotes:

- ¹ Chapter 4 of 1998 requires that unappropriated general fund balances exceeding \$10 million be appropriated in the Revenue Stabilization Fund. The \$141.8 million appropriation in fiscal 2001 represents the excess, unappropriated fund balance from fiscal 2000. The fiscal 2003 appropriation of \$181.0 million was the unappropriated balance in excess of \$10 million from fiscal 2001. During the 2002 legislative session, the General Assembly, through BFRA, amended Section 7-311 of the State Finance and Procurement Article to require these appropriations annually.
- ² Chapter 517 of 1999 created the Joseph Fund beginning in fiscal 2001. The Act provides that an appropriation may be included in the fiscal 2001 budget equivalent to the lesser of 40 percent of the fiscal 1999 unappropriated general fund surplus or \$10 million. In fiscal 2002 and thereafter, the transfer may total the lesser of \$5.0 million or 20% of the two years' prior unappropriated general fund surplus.
- ³ The Governor's fiscal 2002 allowance included \$45 million in general funds for the Woodrow Wilson Bridge replacement and the Addison Road Metrorail extension capital projects. In the fiscal 2001 budget, \$50 million was appropriated for these projects. At the time, the plan was to provide \$360 million in general fund support through fiscal 2006.
- ⁴ These funds represent a negative deficiency and transfers to the Department of Human Resources (DHR). The fiscal 2002 negative deficiency of \$9.6 million represents an offset to the "excess" TANF monies originally set aside in the Dedicated Purpose Fund from DHR. The fiscal 2002 transfer of \$22.1 million to DHR as a deficiency also represents funds previously set aside for future welfare costs. Fiscal 2003 funds going to DHR include the remaining balance of \$10.0 million originating from the Citizen's Tax Reduction and Fiscal Reserve Account appropriated to the Dedicated Purpose Fund in fiscal 1999.
- ⁵ Chapter 275 of 2001 provided tax amnesty in Maryland. Funds generated supported pharmaceuticals at the Mental Hygiene Administration (MHA). To fund the services in fiscal 2001, \$30 million was transferred from the Rainy Day Fund to the Dedicated Purpose Fund, which transferred the funds by budget amendment to MHA. In fiscal 2002, \$30 million transferred from the general fund to the Rainy Day Fund to reimburse the fund. The \$30 million was \$28.45 million generated from tax amnesty (after a \$2 million deduction for the Comptroller to implement tax amnesty) and an additional \$1.55 million from the Rainy Day Fund so that the fund is reimbursed the entire \$30 million transferred to the Dedicated Purpose Fund.
- ⁶ In fiscal 2001, \$6 million was appropriated for the Public Service Commission's (PSC) public utility restructuring education program. The funds were to be allocated to fiscal 2001 and 2002 (\$3 million each year). In fiscal 2002, \$2.8 million was transferred to the PSC. (This budget bill proposes transferring the remaining funds to the general fund.)
- ⁷ To support southern Maryland's tornado relief efforts, the General Assembly's Legislative Policy Committee authorized \$1.5 million from the Catastrophic Event Fund. The funds included \$700,000 for the Maryland Emergency Management Agency, \$500,000 for DHR's Community Services Administration, and \$300,000 for the Department of Business and Economic Development.
- ⁸ In 1999 a commitment was made to reduce the waiting list for the Developmental Disabilities Administration. This reflects the funds that were appropriated to the DPF for that purpose.
- ⁹ Represents total funds transferred to support operating and PAYGO spending under the Governor's allowance.
- ¹⁰ These funds represent transfers to the general fund through BRFA. The source is the \$50 million MDOT capital appropriation from fiscal 2001 and \$45 million MDOT capital appropriation in fiscal 2002. From fiscal 2001, this action transfers \$24.9 million (the rest of the funds were spent on MDOT's capital program). This \$5.9 million transferred from the fiscal 2002 appropriation. (As noted earlier in the Proposed Transfers section of the analysis, \$661,000 of this original transfer was not necessary and this budget bill proposes transferring these funds in fiscal 2003.)
- ¹¹ This transfer was authorized in BRFA. The funds are transferred to the general fund. BRFA also authorizes the transfer of funds from the Joseph Fund to support increases in Temporary Cash Assistance payments in fiscal 2003 and 2004.
- ¹² This represents a technical adjustment recognizing funds appropriated in the Dedicated Purpose Fund for the PSC's public utility restructuring education program. (As noted in earlier in the Proposed Transfers section of the analysis, the administration proposes transferring this \$77,500 to the general fund in fiscal 2003.)
- ¹³ These funds represent transfers to the general fund through BRFA. The action transfers \$39.3 million from fiscal 2000 and 2001 family investment program appropriations and \$39.1 million from fiscal 2002 MDOT capital appropriations.

Issues

1. Comparison of Maryland's Rainy Day Fund with Other AAA States

During difficult economic times, it can be useful to examine Rainy Day Fund policies in Maryland and in other States. This analysis examines the policies in other States, how these States have managed their budget deficits, and if Maryland's current Rainy Day Fund policies are appropriate. This analysis compares the practices of the other seven AAA rated states. The States chosen are only those states that have AAA ratings from all three rating agencies, Fitch, Moody's, and Standard and Poor's.

AAA State Rainy Day Funds Compared

Exhibit 3 shows the differences in Rainy Day Funds of different AAA states. Missouri has the largest minimum balance, which is 7.5%. Georgia has the smallest minimum fund balance, 3%. Some states, such as Delaware, Missouri, and Virginia, limit the maximum fund balance. Although most fund balances are compared to general fund revenues, there is some variation, as Virginia relates its fund balance to income and retail sales tax receipts and Utah relates its fund balance to general fund appropriations.

Compared to other AAA states, the size of Maryland's fund is fairly average, as the 5% limit is smaller than some and larger than others. Maryland also uses general fund revenues as the point-of-reference, which is the most common practice among AAA states.

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Exhibit 3

AAA States' Rainy Day Funds
(\$ in Millions)

<u>State</u>	<u>Fund Name</u>	<u>Determination of Fund Size</u>	<u>Procedure for Expenditures</u>
Maryland	Revenue Stabilization Fund	Statutory 5% of general fund revenues	Act of General Assembly or budget bill authorization
Delaware	Budget Reserve Account	Excess unencumbered funds, no greater than 5% of gross general fund revenues	3/5 vote of legislature for unanticipated deficit or revenue reduction resulting from legislative action
Georgia	Revenue Shortfall Reserve	3% of prior year net revenue	Revenue shortfall during current year
Minnesota	Budget Reserve	Set in statute at \$622 million (approximately 4% to 5% of annual general fund revenues)	Commissioner of Finance with approval of the Governor and after consulting Legislative Advisory Commission
Missouri	Budget Reserve Fund	7.5% to 10% of net general revenue	Governor determines shortfall, subject to legislative disapproval
South Carolina	Capital Reserve Fund (CRF) General Reserve Fund	2% of general fund revenue of last fiscal year 3% of general fund revenue of last fiscal year	Use when year-end deficit is projected Use for shortfall when CRF is depleted
Utah	Budget Reserve Account	25% of end-of-year general fund surplus, the account balance may not exceed 8% of the general fund appropriation for that fiscal year	Expenditures are limited to retroactive tax refunds and operating deficits, upon legislative approval
Virginia	Revenue Stabilization Fund	Capped at 10% of annual tax revenues on income and retail sales tax receipts for the 3 years immediately preceding fiscal year	Legislative appropriation

Note: The table includes all States that have AAA ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's.

Sources: National Association of State Budget Officers, *Budget Processes of the State*, January 2002

Recent State Actions

In the current economic climate, most states are experiencing budget shortfalls. AAA states have

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taken a number of actions in recent years to transfer Rainy Day Funds into the general fund. Notable actions include:

- **Minnesota:** Since fiscal 2002 and 2003, the State's reserve fund balance has been reduced from \$653 to \$24 million. The Minnesota Department of Finance notes that its Rainy Day Fund balance was 4.9% of expenditures on June 30, 2001.
- **South Carolina:** Withdrawals from the General Reserve Fund were \$87 million in fiscal 2001 and \$63 million in fiscal 2002. The fiscal 2003 fund balance is just under \$39 million, which is 0.8% of projected fiscal 2002 general fund revenues.
- **Utah:** In fiscal 2002, \$105 million was withdrawn from its Rainy Day Fund. The end-of-year fund balance was \$19 million, 1.1% of fiscal 2002 appropriations.
- **Virginia:** The Governor is proposing transferring \$246 million in fiscal 2003 and \$129 million in fiscal 2004 to the general fund. This leaves an estimated fund balance totaling \$129 million at the end of fiscal 2004.

Compared to other AAA states, Maryland's projected Rainy Day Fund balance is quite high. In this recession Maryland has refrained from transferring funds into the general fund and reducing its balance below its minimum. This gives the State a cushion in case revenue projections are lowered during fiscal 2004 and additional cost containment reductions need to be made.

Should Maryland Increase Its Minimum Rainy Day Fund Balance?

A question that is frequently asked while the State is experiencing a budget deficit is if the State's Rainy Day Fund is adequate. The 5% threshold requires about a \$500 million fund balance. This is intended to provide an operative source of reserve to permit policymakers to implement structural actions.

The current session problem illustrates the difficulty in determining the appropriate magnitude of reserves to solve the fiscal 2003 and 2004 problem. The Governor has proposed temporary actions totaling \$778 million and new revenues totaling \$455 million. If the Rainy Day Fund was to have sufficient reserves to address this \$1.2 billion shortfall, it would have required a balance equal to 12% of estimated general fund revenue. Even this balance would not adequately address the problem, since a structural deficit in the range of \$500 - \$700 million is projected in fiscal 2005. Though it is difficult to estimate how large a Rainy Day Fund would need to be to insulate the State from budget deficits, it is clear that the State would need to increase its Rainy Day Fund balance many times over. Neither bond rating agencies nor the Department of Legislative Services recommend increasing the Rainy Day Fund's minimum balance.

A benefit that the Rainy Day Fund provides the State is the time it buys decision makers to meet and take corrective action. For example, if revenue collections do not meet expectations next fall, Rainy Day Fund transfers could be used to support the budget until the legislature is able to meet and deal with the problem in the next session. In other words, the purpose of the Rainy Day Fund is not to insulate the State

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from the effects of an economic downturn, but rather to mitigate the effects so that decision makers have time to make adjustments to revenues or expenditures.

Conclusion

Maryland's Rainy Day Fund appears to be adequately funded, when compared to other states' Rainy Day Funds. Maryland has also shown restraint and is maintaining its fund balance in spite of difficult economic times. Though there are clearly benefits to maintaining a higher fund balance, a higher balance cannot solve all the State's fiscal problems. It is also unclear how much of a balance would be needed to insulate the State from future budget deficits. In the final analysis, the Rainy Day Fund is only one tool among many that helps the State manage difficult economic times.

The Department of Budget and Management should brief the committees on the administration's Rainy Day Fund policies.

2. Legislation Affecting the Reserve Fund

The Governor's budget, as introduced, includes transfers out of the reserve fund. The administration plans to introduce a budget reconciliation bill to authorize the following transfers that require legislation:

- \$1 million from the DPF to the general fund; and
- \$8.2 million from the Joseph Fund to child welfare services.

In addition to the actions proposed by the administration, it is recommended that the General Assembly adopt amendments to the budget reconciliation bill that amend the State Reserve Fund to:

- **Increase the Repayment Amount for the Revenue Stabilization Fund:** Section 7-311 of the State Finance and Procurement Article requires that the fund's balance be at least 5% of estimated general fund revenues. If the fund is below 5%, the administration is required to appropriate the lesser of \$50 million or whatever amount is required for the fund balance to reach the 5% threshold. DLS is concerned that, if the Rainy Day Fund were depleted, it would take too long to replenish the fund. For example, by appropriating \$50 million to the Rainy Day Fund, it could take a decade to replenish the fund balance of \$500 million. Insofar as State revenues are likely to grow, the 5% threshold is likely to increase beyond \$500 million, which exacerbates the problem. **To provide for a quicker repayment of Rainy Day Fund balance, it is recommended that the General Assembly amend Section 7-311 of the State Finance and Procurement Article to require a minimum \$100 million repayment, instead of a \$50 million repayment.**
- **Clarify Dedicated Purpose Fund Uses:** Current law provides for two kinds of DPF appropriations, "specific purpose" and "general purpose." With respect to "specific purpose" appropriations, Section 7-310 of the State Finance and Procurement Article requires Legislative Policy Committee (LPC) approval to be transferred out of the DPF. "General purpose" appropriations require notification of the Senate Budget and Taxation Committee and House Committee on Appropriations, as well as LPC

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approval. **Since the Dedicated Purpose Fund is for explicit purposes, it is recommended that the General Assembly amend Section 7-310 of the State Finance and Procurement Article to delete references to “general purposes” and “specific purposes.” It is also recommended that there be one approval procedure for all dedicated purposes and that these procedures include notifying the budget committees and require LPC approval.**

It is also recommended that the following two technical changes be made to the State Reserve Fund:

- **Change the Name of the Funds within the State Reserve Fund from “Funds” to “Accounts:”** For example, the Revenue Stabilization Fund would become the Revenue Stabilization Account. This is a technical correction to reflect that each “Fund” is an account within the State Reserve Fund.
- **Repeal Obsolete Uncodified Language:** Repeal uncodified language stipulating that purchase of childcare funds placed in the dedicated purpose fund shall not transfer to the Rainy Day Fund if not spent in four years. All funds have been removed from the dedicated purpose fund and the provision is no longer needed.

The Department of Budget and Management should brief the committees on the administration’s position with regard to these changes.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Budget Reconciliation and Financing Act of 2002 Authorizes Transfer of Funds Out of the Reserve Fund

As discussed throughout the analysis, Chapter 440, Acts of 2002 (the Budget Reconciliation and Financing Act of 2002 or BRFA) authorized the transfer of funds from the Dedicated Purpose Fund and Joseph Fund to support State operating and PAYGO capital programs. **Exhibit 4** provides a comprehensive list of BRFA actions as they pertain to State Reserve Fund transfers.

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Exhibit 4

Budget Reconciliation and Financing Act of 2002
Reserve Fund Transfers
(\$ in Millions)

<u>Fund Source</u>	<u>Recipient Name</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Total</u>
DPF - TANF/Welfare Programs	General Fund	-	\$39.30	\$39.30
DPF - MDOT Capital	General Fund	\$29.78	-	29.78
DPF - MDOT Capital	Charlotte Hall Veterans Home	0.66	2.60	3.261
DPF - MDOT Capital	Department of General Services Security	0.29	-	0.29
DPF - MDOT Capital	UMBC Public Policy Institute	-	15.34	15.34
DPF - MDOT Capital	DPSCS - Hagerstown Central Kitchen	-	3.44	3.44
DPF - MDOT Capital	UMB Structural Deficit	-	3.00	3.00
DPF - MDOT Capital	UMMS Primary Care and Mental Health	-	3.00	3.00
DPF - MDOT Capital	University System of MD Deferred Maintenance	-	2.80	2.80
DPF - MDOT Capital	East Baltimore Biotechnology Park	-	2.00	2.00
DPF - MDOT Capital	Annapolis Complex Security	-	1.40	1.40
DPF - MDOT Capital	Maryland Primary Care Program	-	1.11	1.11
DPF - MDOT Capital	Baltimore City State's Attorney's Office	-	1.00	1.00
DPF - MDOT Capital	Community College Formula/BCCC	-	1.00	1.00
DPF - MDOT Capital	MSU Deferred Maintenance	-	1.00	1.00
DPF - MDOT Capital	Attorney General Legal Expenses	-	0.85	0.85
DPF - MDOT Capital	Department of General Services Security	-	0.50	0.50
DPF - MDOT Capital	Governor's Salary Commission Recommendations	-	0.08	0.08
Subtotal DPF - MDOT Capital		\$30.74	\$39.12	\$69.86
Less: Deficiency Appropriation for Charlotte Hall Veterans' Home		-0.66	-	-0.66
Subtotal DPF Transfers		\$30.08	\$78.42	\$108.49
Joseph Fund to General Fund		8.00	-	8.00
Total Reserve Fund Transfers		\$38.08	\$78.42	\$116.49

Notes:

UMBC = University of Maryland, Baltimore County
DPSCS = Department of Public Safety and Correctional Standards
UMB = University of Maryland, Baltimore
BCCC = Baltimore City Community College
MSU = Morgan State University

Sources: Chapter 440, Acts of 2002, Sections 1, 2, 8, and 26, and the Department of Budget and Management.

Current and Prior Year Budgets

**Current and Prior Year Budgets
State Reserve Fund
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2002					
Legislative Appropriation	\$201,359	\$0	\$0	\$0	\$201,359
Deficiency Appropriation	20,400	0	0	0	20,400
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$221,759	\$0	\$0	\$0	\$221,759
Fiscal 2003					
Legislative Appropriation	\$181,029	\$0	\$0	\$0	\$181,029
Budget Amendments	0	0	0	0	0
Working Appropriation	\$181,029	\$0	\$0	\$0	\$181,029

Note: Numbers may not sum to total due to rounding.

Fiscal Summary
State Reserve Fund

<u>Unit/Program</u>	<u>FY02 Actual</u>	<u>FY03 Legislative Appropriation</u>	<u>FY03 Working Appropriation</u>	<u>FY02 - FY03 % Change</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 % Change</u>
01 Revenue Stabilization Fund	\$ 171,759,408	\$ 181,028,777	\$ 181,028,777	5.4%	\$ 0	- 100.0%
02 Dedicated Purpose Fund	45,000,000	0	0	- 100.0%	0	0%
06 The Joseph Fund	5,000,000	0	0	- 100.0%	0	0%
Total Expenditures	\$ 221,759,408	\$ 181,028,777	\$ 181,028,777	- 18.4%	\$ 0	- 100.0%
General Fund	\$ 221,759,408	\$ 181,028,777	\$ 181,028,777	- 18.4%	\$ 0	- 100.0%
Total Appropriations	\$ 221,759,408	\$ 181,028,777	\$ 181,028,777	- 18.4%	\$ 0	- 100.0%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

Revenue Stabilization Fund (Rainy Day Fund)

Fund Characteristics

- **Purpose:** The fund was established in 1986 to retain State revenues to meet future needs and to reduce the need for future tax increases by moderating revenue growth.
- **Appropriations:** The fund consists of direct appropriations in the budget bill and interest earned from all fund accounts, except for the Joseph Fund.
- **Other:** Current law requires that annual appropriations of at least \$50 million be made until the fund balance reaches 5% of estimated general fund revenues. The fund has surpassed the 5% target since fiscal 1996.

Mechanisms for Transferring and Spending Funds

To transfer funds from the Rainy Day Fund requires:

- specific authorization by an act of the General Assembly; or
- specific authorization in the budget bill.

Funds may not be transferred by budget amendment but are instead transferred to the general fund.

Sweeper Provision Sunset Lifted

The General Assembly requires that the administration allocate any unappropriated general fund surplus in excess of \$10 million into the Rainy Day Fund. This allocation is made to the budget two years after the unappropriated general fund surplus is generated. For example, fiscal 2001 closed with an unallocated surplus totaling \$181 million so in January 2002 the administration's fiscal 2003 budget bill included a \$181 million appropriation to the Rainy Day Fund. This is referred to as the "sweeper provision."

Chapter 4, Acts of 1998 required that the Governor allocate the unappropriated general fund surplus in excess of \$10.0 million from fiscal 1998 through 2001 to the Rainy Day Fund in the budgets for fiscal 2000, 2001, 2002, and 2003. The provision was due to sunset at the end of fiscal 2003. Chapter 440, Acts of 2002, the Budget Reconciliation and Financing Act of 2002 (BRFA) codified the sweeper provision and lifted the sunset.

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Rainy Day Fund Activity

The following table illustrates fiscal 2000 through 2004 activity in the Rainy Day Fund. Fiscal 1998 to 2001 ended with unappropriated surpluses in excess of \$10 million, which resulted in Rainy Day Fund appropriations for fiscal 2000 to 2003, as required by the sweeper provision. As a result, the fund's balance grew until it reached a peak of \$888 million at the end of fiscal 2001. The fund's balance was \$398 million in excess over 5% of general fund revenues.

In fiscal 2002 and 2003, the fund still received substantial appropriations attributable to unanticipated revenue growth from fiscal 2000 and 2001. These years also included large transfers of funds to support operating budget and PAYGO capital budget activities. At the end of fiscal 2003, the fund balance is projected to be \$491 million, which is \$17 million in excess of 5% compared to statutory requirements of general fund revenues.

Fiscal 2004 does not include an appropriation, since fiscal 2002 ended without an unappropriated general fund surplus. The fund balance is just above 5% and there are no withdrawals currently planned.

Revenue Stabilization Fund Status Fiscal 2000 through 2004 (\$ in Millions)

	<u>Fiscal</u> <u>2000</u>	<u>Fiscal</u> <u>2001</u>	<u>Fiscal</u> <u>2002</u>	<u>Fiscal</u> <u>2003</u>	<u>Fiscal</u> <u>2004</u>
Beginning Balance	\$634.9	\$581.9	\$888.1	\$547.9	\$490.5
Appropriation	82.2	235.0	171.8	181.0	0.0
Transfer from Dedicated Purpose Fund	0.0	38.9	0.0	0.0	0.0
Interest	38.8	62.4	21.2	10.6	14.7
Transfer to General Fund	-174.0	-30.0	-533.2	-249.0	0.0
Ending Balance	\$581.9	\$888.1	\$547.9	\$490.5	\$505.3
General Fund Revenues	\$9,220.1	\$9,802.4	\$9,504.0	\$9,477.6	\$10,029.2
Excess Over 5%	\$120.9	\$398.1	\$72.7	\$16.6	\$3.8

Source: Department of Budget and Management, January 2003

Governor's Out-year Forecast

The administration's forecast is proposing \$45 million in additional Rainy Day Fund appropriations from 2005 to 2007. These appropriations range from \$35 million in fiscal 2005 to \$5 million in fiscal 2006 and 2007. These funds are added to the budget because the administration is projecting that revenues from new sources will increase and additional funds will be needed to maintain the fund balance at 5% of general fund revenues.

Dedicated Purpose Fund

Fund Characteristics

- **Purpose:** The fund was established in 1986 to retain appropriations for major, multi-year expenditures where the magnitude and timing of cash needs are uncertain and to meet expenditure requirements that may be effected by changes in federal law or fiscal policies, or other contingencies.
- **Appropriations:** The fund consists of direct appropriations in the budget bill for either a specific dedicated purpose or a general dedicated purpose. Interest earnings are credited to the Rainy Day Fund.
- **Other:** The unspent balance of an appropriation reverts to the Rainy Day Fund four years after the end of the fiscal year for which the appropriation was made. Chapter 686, Acts of 1998 stipulates that appropriations to the Fund for the Family Investment Program are exempt from the transfer provisions. If the Governor determines that certain funds are no longer needed for their appropriated purpose, they may be transferred by budget amendment after submission to the budget committees and approval by the Legislative Policy Committee.

Mechanism for Transferring and Spending Funds

To transfer funds for a **specific** purpose from the Dedicated Purpose Fund:

- funds may be reflected in the State budget as special funds, subject to appropriation; or
- after notice to and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

To transfer funds for a **general** purpose from the Dedicated Purpose Fund:

- funds may be reflected in the State budget subject to appropriation; or
- after submission to the budget committees and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

Dedicated Purpose Fund Activity

The following table illustrates the activity in the Dedicated Purpose Fund from fiscal 2000 through fiscal 2004. The most significant trend in this account is the declining fund balance from fiscal 2002 to 2004. Chapter 440, Acts of 2002, the Budget Reconciliation and Financing Act of 2002 (BRFA) transferred \$108 million from DPF to support the general fund. Last session, \$10 million was transferred out of the DPF to support welfare programs in fiscal 2003. This session, the administration proposes transferring \$1 million into the general fund and \$11.4 million to support the Local Family Investment Program. By the end of fiscal 2004, the DPF is depleted.

Y01A - State Reserve Fund

Dedicated Purpose Fund Status
Fiscal 2000 through 2004
(\$ in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Beginning Balance	\$90.7	\$97.9	\$115.7	\$100.8	\$11.4
<u>Appropriations</u>					
Tax Amnesty	0.0	30.0	0.0	0.0	0.0
PSC Utility Restructuring Education Program	0.0	6.0	0.0	0.0	0.0
TANF/Welfare Programs	22.3	34.8	9.6	0.0	0.0
TANF/Welfare Programs - Negative Deficiency Appropriation	0.0	0.0	(9.6)	0.0	0.0
MDOT Capital	0.0	60.2	45.0	0.0	0.0
800 MHz	2.0	0.0	0.0	0.0	0.0
High Speed Data Network	<u>6.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Appropriations	\$30.3	\$131.0	\$45.0	\$0.0	\$0.0
<u>Transfers</u>					
800 MHz	2.0	0.0	0.0	0.0	0.0
Fund federal Social Services Block Grant shortfall with TANF	11.1	0.0	0.0	0.0	0.0
Tax Amnesty to DHR	0.0	30.0	0.0	0.0	0.0
TANF/Welfare Programs	0.0	0.0	22.1	10.0	11.4
PSC Utility Restructuring Education Program	0.0	3.0	2.8	0.0	0.0
PSC Unspent Education Program Funds	0.0	0.0	0.0	(0.1)	0.0
General Fund*	0.0	0.0	0.0	1.0	0.0
High Speed Data Network	5.0	1.0	0.0	0.0	0.0
DDA waiting list initiative	5.0	5.0	5.0	0.0	0.0
Transfer to Rainy Day Fund	0.0	38.9	0.0	0.0	0.0
BRFA Transfer - MDOT Capital to General Fund	0.0	0.0	30.1	39.1	0.0
BRFA Transfer - TANF/Welfare Program Funds Capital to General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>39.3</u>	<u>0.0</u>
Total Transfers	\$23.1	\$113.2	\$59.9	\$89.3	\$11.4
Ending Balance	\$97.9	\$115.7	\$100.8	\$11.4	\$0.0

*This transfer funds from MDOT's capital program and PSC's utility restructuring. The transfer is contingent on legislation.

Source: Department of Budget and Management, January 2003

Catastrophic Event Fund (Stormy Day Fund)

Fund Characteristics

- **Purpose:** The fund was established in 1990 to enable the State to respond quickly to a natural disaster or catastrophe that could not be addressed within existing State appropriations.
- **Appropriations:** The fund consists of direct appropriations in the budget bill. Interest earnings are credited to the Rainy Day Fund.
- **Other:** The Legislative Policy Committee has recommended that the fund maintain a \$3.0 to \$5.0 million fund balance. Stormy Day funds may not be used to offset operating deficiencies in regular programs of State government.

Mechanism for Transferring and Spending Funds

After notice to and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

Stormy Day Fund Activity

The following table shows that the Stormy Day Fund's year-end balance ranges between \$3 million and \$227,630. The fund began with a balance of \$3 million in fiscal 2000. Funds used in fiscal 2000 to support drought assistance and snow storms were partially replaced with appropriations, reducing the fund balance to \$1.7 million. Since fiscal 2000 there have been no funds appropriated into the Stormy Day Fund. A transfer supporting tornado relief in southern Maryland reduced the balance to \$227,630 at the end of fiscal 2002. There is no activity planned for fiscal 2003 and 2004.

Y01A - State Reserve Fund

Catastrophic Event Fund Status
Fiscal 2000 to 2004
(\$ in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Beginning Balance	\$3.0	\$1.7	\$1.7	\$0.2	\$0.2
Appropriations	3.0	0.0	0.0	0.0	0.0
<u>Transfers</u>					
Drought Assistance	-2.0	0.0	0.0	0.0	0.0
Snow Storm State of Emergency	-2.3	0.0	0.0	0.0	0.0
Southern MD Tornado Relief	<u>0.0</u>	<u>0.0</u>	<u>-1.5</u>	<u>0.0</u>	<u>0.0</u>
Total Transfers	-\$4.3	\$0.0	-\$1.5	\$0.0	\$0.0
Ending Balance	\$1.7	\$1.7	\$0.2	\$0.2	\$0.2

Source: Department of Budget and Management

Joseph Fund

Fund Characteristics

- **Purpose:** The fund was established in 1999 to meet the emergency needs of economically disadvantaged citizens of the State, especially in times of economic downturn.
- **Appropriations:** The fund consists of direct appropriations in the budget bill, interest earnings, and monies from any other government or private source. For fiscal 2001 the appropriation could equal the lesser of 40% of the fiscal 2000 unappropriated general fund surplus, or \$10.0. For fiscal 2002 and subsequent years, appropriations may equal the lesser of \$5.0 million, or 20% of the unappropriated general fund surplus from two years prior to the year of appropriation.
- **Other:** Monies from the Joseph Fund may not be considered the sole source of funds to meet the emergency needs of economically disadvantaged citizens. Funds can be used for programs and services that (1) serve children in need; (2) provide health services to individuals at or below 150% of the federal poverty level; and (3) provide food or shelter assistance to individuals in need. Funds cannot supplant existing public and private expenditures unless the unemployment rate has increased for three consecutive months and reductions in public and private funds warrant supplantation. No funds may be expended until the Joseph Fund balance reaches \$15.0 million.

Mechanism for Transferring and Spending Funds

A 13-member Joseph Fund Board may forward recommendations for spending to the Governor. The Governor may authorize expenditures from the fund equal to 25% of the investment earnings from the prior fiscal year. If the Department of Labor, Licensing, and Regulation certifies that the statewide unemployment rate has increased for three consecutive months, the Governor may authorize the expenditure of 100% of the investment earnings and 40% of the fund balance. After notice to and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

Joseph Fund Activity

The following table shows that since its inception, the Joseph Fund has received two appropriations, \$10 million in fiscal 2001 and \$5 million in fiscal 2002. Since interest generated from the fund's account balance is credited to the fund, it has also received interest income totaling an estimated \$1.2 million from fiscal 2001 to 2003. These revenues are offset by two transfers. Chapter 440, Acts of 2002, the Budget Reconciliation and Financing Act of 2002 (BRFA) authorized the transfer of \$8 million to the general fund. In its fiscal 2004 budget, the administration is proposing to transfer the remaining estimated Joseph Fund balance to support Child Welfare Services. The Joseph Fund is projected to be depleted at the end of fiscal 2004.

Y01A - State Reserve Fund

Joseph Fund Status
Fiscal 2001 to 2004
(\$ in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Beginning Balance	\$0.0	\$10.6	\$8.1	\$8.2
Appropriations	10.0	5.0	0.0	0.0
<u>Transfers</u>				
To General Fund	0.0	-8.0	0.0	0.0
Child Welfare Program Administration	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>-8.2</u>
Total Transfers	\$0.0	-\$8.0	\$0.0	-\$8.2
Interest	0.6	0.4	0.2	0.0
Ending Balance	10.6	8.1	8.2	0.0

Source: Department of Budget and Management