

**Y01A
State Reserve Fund**

Operating Budget Data

(\$ in Thousands)

	FY 04 <u>Actual</u>	FY 05 <u>Working</u>	FY 06 <u>Allowance</u>	FY 05-06 <u>Change</u>	% Change <u>Prior Year</u>
General Fund	<u>\$10,000</u>	<u>\$106,653</u>	<u>\$333,685</u>	<u>\$227,033</u>	<u>212.9%</u>
Total Funds	\$10,000	\$106,653	\$333,685	\$227,033	212.9%
Adjusted Total	\$10,000	\$106,653	\$333,685	\$227,033	212.9%

- The allowance includes \$249.7 million for the Rainy Day Fund.
- Appropriations to the Dedicated Purpose Account includes \$50 million to be transferred from the general fund into the Transportation Trust Fund (TTF), medical malpractice funding of \$30 million, and \$2 million to support substance abuse programs.
- The allowance includes \$2 million to increase the Catastrophic Event Account balance.

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

For further information contact: Patrick S. Frank

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Additional Funds Are Provided for the Rainy Day Fund: The allowance includes \$249.7 million for the Rainy Day Fund. This increases the balance to approximately \$796 million, which is 7% of projected statutory general fund revenues. The Administration’s long-term plan assumes that \$227 million will be transferred out of the Rainy Day Fund in fiscal 2007.

This Budget Includes the First Transfer of General Funds to the TTF: State law requires that the Governor include up to \$50 million of unappropriated general fund surpluses into the State Reserve Fund to be transferred to the TTF. The law was enacted to allow for a mechanism to repay the TTF \$314.9 million that was transferred out of the TTF into the general fund in fiscal 2003 and 2004.

Recommended Actions

	<u>Funds</u>
1. Add budget bill language requiring the Department of Budget and Management to report on the use of substance abuse funds in the Dedicated Purpose Account prior to transferring those funds into a State agency budget.	
2. Delete funds for medical malpractice insurance rate stabilization.	\$ 30,000,000
Total Reductions	\$ 30,000,000

Updates

General Assembly Modifies the Sweeper Provision to Provide a Mechanism for Transferring General Funds into the TTF: The update addresses a law change that, under certain conditions, requires the transfer of a portion of unappropriated general fund surpluses into the TTF.

Y01A State Reserve Fund

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 accounts: Revenue Stabilization Account (“Rainy Day Fund”); Dedicated Purpose Account (DPA); Catastrophic Event Account; Joseph Fund Account; and Economic Development Opportunities Program Account (“Sunny Day Fund”). The purpose and status of four of these accounts are discussed in more detail in the body of this analysis. A separate analysis is prepared for the Sunny Day Fund in the Department of Business and Economic Development, so it is not discussed in this analysis.

Governor's Proposed Budget

The fiscal 2006 allowance proposes appropriating \$333.7 million. These proposed appropriations include mandatory appropriations, such as appropriations required by the “sweeper provision” discussed in the Updates section and discretionary appropriations to the Dedicated Purpose and Catastrophic Event Accounts. **Exhibit 1** shows that the allowance provides:

- \$249.7 million in proposed appropriations to the Rainy Day Fund. This appropriation is required by law;
- \$50 million in proposed appropriations to the Dedicated Purpose Account to be transferred to the Transportation Trust Fund (TTF). This appropriation is required by law;
- \$30 million in proposed appropriations to the DPA to support medical malpractice insurance premiums paid by doctors;
- \$2 million in proposed appropriations to the DPA to support substance abuse case management programs. The proposed appropriation would provide additional funds for the Departments of Human Resources (DHR) and Juvenile Services so that the departments could provide more services at the front end as individuals enter the system. The Department of Budget and Management (DBM) advises that the Compact for Sound Government would attempt to leverage these funds by getting additional grants from foundations that could also support these programs. An example of the kind of program the initiative might support is the Family Recovery Program. The program attempts to reach parents with children under five as they enter foster care. In this example, the program supplements a case worker by providing a case manager, substance abuse services, regular contact with courts, and graduated sanctions and rewards. The program’s goal is to resolve the child’s situation more quickly. Ideally, the additional resources would allow the parent(s) and child(ren) to be reunited more quickly and reduce the State’s foster care costs; and

**Exhibit 1
Governor's Proposed Budget
State Reserve Fund
(\$ in Thousands)**

How Much It Grows:	General Fund	Total
2005 Working Appropriation	\$106,653	\$106,653
2006 Governor's Allowance	<u>333,685</u>	<u>333,685</u>
Adjusted Allowance	333,685	333,685
Amount Change	\$227,033	\$227,033
Percent Change	212.9%	212.9%

Where It Goes:

Rainy Day Fund Changes

Fiscal 2006 appropriation sweeper appropriation into Rainy Day Fund	\$249,685
Fiscal 2005 appropriation sweeper appropriation into Rainy Day Fund	-103,653

Dedicated Purpose Account Changes

Fiscal 2006 DPA appropriation of unappropriated general funds to be transferred to the TTF	50,000
Medical malpractice insurance rate stabilization.....	30,000
Substance abuse case management pilot program funding.....	2,000
Fiscal 2005 Hurricane Isabel relief support for the Department of Housing and Community Development (DHCD) homeowner programs in the DPA	-3,000

Catastrophic Event Account Changes

Increase balance of Catastrophic Event Account	2,000
--	-------

Total	\$227,033
--------------	------------------

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

- \$2 million in proposed appropriations to increase the account balance in the Catastrophic Event Account. DBM advises that it expects to transfer another \$225,000 for Hurricane Isabel relief in fiscal 2005. This leaves \$9.1 million in the account. DBM advises they are currently reviewing costs related to housing needs of owners whose primary residences were damaged by the hurricane. A substantial portion of the remaining \$9.1 million may be used.

Y01A – State Reserve Fund

Exhibit 2 provides an overview of State Reserve Fund activity between fiscal 2004 and 2006. Detail for each account can be found in **Appendix 3** (Rainy Day Fund), **Appendix 4** (Dedicated Purpose Account), **Appendix 5** (Catastrophic Event Account), and **Appendix 6** (Joseph Fund Account).

Exhibit 2
Fiscal 2005 to 2006 Reserve Fund Activity
(\$ in Millions)

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>	<u>Joseph Fund Acct.</u>
Balances on Hand 6/30/04	\$496.6	\$0.0	\$7.4	\$0.0
Fiscal 2005 Appropriations	103.7	3.0	0.0	0.0
Expenditures:				
Hurricane Isabel Reconstruction		-3.0	-0.2	
Transfers to General Fund	-91.0			
Estimated Interest	11.5			0.0
Estimated Balances 6/30/05	\$520.7	\$0.0	\$7.1	\$0.0
Fiscal 2006 Appropriations	249.7	82.0	2.0	0.0
Expenditures				
Super Sweeper – Reimburse TTF		-50.0		
Transfers to General Fund	0.0			
Estimated Interest	25.1			0.0
Estimated Balances 6/30/06	\$795.6	\$32.0	\$9.1	\$0.0
Balance in Excess of 5% GF Revenues	\$230.3			

Note: Totals may not sum due to rounding.

TTF = Transportation Trust Fund

Recommended Actions

1. Add the following language:

. provided that \$2,000,000 of this appropriation designated for substance abuse programs may not be transferred out of the Dedicated Purpose Account (DPA) until the Department of Budget and Management (DBM), in consultation with the State agency receiving the funds, has provided the budget committees with a report describing the uses of these funds and 45 days have elapsed from the committees’ receipt of the report. Specifically, the report should address the following issues:

- (1) the public policy goals of the program receiving the funds;
- (2) the parties involved and the responsibilities of each party;
- (3) the services provided and criteria for qualifying for those services;
- (4) specific benchmarks and performance measures that will be used to evaluate the effectiveness of the program supported by these funds;
- (5) projected savings or costs avoided related to funding the program; and
- (6) additional grant funds received from foundations and other non-governmental agencies to support substance abuse programs promoted by these appropriations.

Explanation: The DPA appropriation includes \$2 million to be transferred to programs providing substance abuse services. The appropriation will support programs that provide services for individuals entering social or juvenile service programs, such as foster care or juvenile detention facilities. The goal is to provide these services to individuals on the “front end” of the system to avoid more intense services on the “back end.” The Executive Branch has developed a process that evaluates which programs should receive funds and examines pilot programs that may provide improved services. The Department of Budget and Management (DBM) advises that the Compact for Sound Government would attempt to leverage these funds by getting additional grants from foundations that could also support these programs. The language requires that DBM provide a report to the budget committees on the use of any funds transferred out of the DPA for substance abuse programs prior to the expenditure of the funds. The language specifically asks DBM to provide details about the programs funded, agencies providing services, services provided, benchmarks and measures of success used to evaluate the programs, foundation grants received, and projected savings.

Information Request	Author	Due Date
Report on use of DPA funding for substance abuse services	DBM	Prior to the transfer of funds out of the DPA

Y01A – State Reserve Fund

	<u>Amount Reduction</u>	
2. Delete funds for medical malpractice insurance rate stabilization. The Maryland Patients’ Access to Quality Health Care Act of 2004 created a fund to stabilize medical malpractice insurance rates. The fiscal note projects that the fund will have a \$13.3 million fund balance at the end of fiscal 2006. Insofar as the new fund is projected to have a balance at the end of fiscal 2006, it is recommended that the funds be deleted.	\$ 30,000,000	GF
Total General Fund Reductions	\$ 30,000,000	

Updates

1. General Assembly Modifies the Sweeper Provision to Provide a Mechanism for Transferring General Funds into the TTF

State law provides a mechanism that transfers excess revenues into the Rainy Day Fund. Until 2004, this “sweeper provision” required that the general fund would receive the first \$10 million of any unappropriated general fund surplus and the Rainy Day Fund would receive the unappropriated general fund surplus exceeding \$10 million. Chapter 430, Acts of 2004 (Budget Reconciliation and Financing Act of 2004 (BRFA)) amended the “sweeper provision” to distribute the surplus as follows:

- up to the first \$10 million is retained by the general fund;
- between \$11 million and \$60 million is transferred to the TTF. This provides that up to \$50 million will be transferred to the TTF annually; and
- the Governor must appropriate any amount exceeding \$60 million into the Rainy Day Fund.

This law was changed to provide a mechanism by which funds could be transferred from the general fund to the TTF. Chapter 203, Acts of 2003 (2003 BRFA) transferred \$314.9 million from the TTF to the general fund. The purpose of amending the “sweeper provision” is to provide a mechanism to transfer that \$314.9 million back into the TTF.

The law became effective on June 1, 2004, thus making the fiscal 2004 closeout the first closeout in which the new law applies. Fiscal 2004 ended with a \$309.7 million unappropriated general fund surplus of which \$10 million is retained by the general fund. Consistent with State law, the remaining surplus is included in the State Reserve Fund’s fiscal 2006 as follows:

- \$249.7 million for the Rainy Day Fund; and
- \$50 million for the DPA to be transferred to the TTF.

Current and Prior Year Budgets

	(\$ in Thousands)				
	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$0	\$0	\$0	\$0	\$0
Deficiency Appropriation	10,000	0	0	0	10,000
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$10,000	\$0	\$0	\$0	\$10,000
Fiscal 2005					
Legislative Appropriation	\$106,653	\$0	\$0	\$0	\$106,653
Budget Amendments	0	0	0	0	0
Working Appropriation	\$106,653	\$0	\$0	\$0	\$106,653

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

Y01A – State Reserve Fund

**Fiscal Summary
State Reserve Fund**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 Revenue Stabilization Account	\$ 0	\$ 103,652,618	\$ 249,685,441	\$ 146,032,823	140.9%
02 Dedicated Purpose Account	0	3,000,000	82,000,000	79,000,000	2633.3%
04 Catastrophic Event Account	10,000,000	0	2,000,000	2,000,000	
Total Expenditures	\$ 10,000,000	\$ 106,652,618	\$ 333,685,441	\$ 227,032,823	212.9%
General Fund	\$ 10,000,000	\$ 106,652,618	\$ 333,685,441	\$ 227,032,823	212.9%
Total Appropriations	\$ 10,000,000	\$ 106,652,618	\$ 333,685,441	\$ 227,032,823	212.9%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

Revenue Stabilization Account (Rainy Day Fund)

Account Characteristics

- **Purpose:** The account 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 account consists of direct appropriations in the budget bill and interest earned from all Reserve Fund accounts except for the Joseph Fund Account.
- **Other:** Current law requires that annual appropriations of at least \$50 million be made until the account balance reaches 5% of estimated general fund revenues. If the account balance is below 3%, State law requires an appropriation of at least \$100 million. The account 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

State law requires that the Administration allocate any unappropriated general fund surplus in excess of \$60 million into the Rainy Day Fund. Specifically, the law provides that:

- the general fund retains the first \$10 million of any unappropriated general fund surplus;
- the TTF receives up to \$50 million. This provision was added through Chapter 430, Acts of 2004 (BRFA). Prior to 2004, the general fund would receive the first \$10 million of any unappropriated general fund surplus and the Rainy Day Fund would receive the unappropriated general fund surplus exceeding \$10 million. The law was changed to provide a mechanism to transfer funds from the general fund to the TTF. Chapter 203, Acts of 2003 (2003 BRFA) transferred \$314.9 million from the TTF to the general fund; and

Y01A – State Reserve Fund

- the Rainy Day Fund receives any amount in excess of \$60 million.

This allocation is made to the budget two years after the unappropriated general fund surplus is generated. For example, fiscal 2004 closed with an unappropriated surplus totaling \$309.7 million, the Administration’s fiscal 2006 allowance includes a \$249.7 million appropriation to the Rainy Day Fund. The general fund retains \$10 million, and the Governor’s allowance appropriates \$50 million into the DPA. This appropriation to the Rainy Day Fund is referred to as the “sweeper provision.”

Rainy Day Fund Activity

The following table illustrates fiscal 2002 through 2006 activity in the Rainy Day Fund. Fiscal 2000 and 2001 ended with unappropriated surpluses in excess of \$10 million, which resulted in Rainy Day Fund appropriations for fiscal 2002 and 2003, as required by the sweeper provision. In spite of these appropriations, the fund balance declined due to the State withdrawing funds from the Rainy Day Fund. The funds supported general fund expenditures. The fund maintained a fund balance in excess of 5% of general fund revenues.

At the end of fiscal 2002, there was no unappropriated general fund surplus, and there were no appropriations in fiscal 2004. Fiscal 2005 and 2006 received appropriations attributable to unappropriated general fund surpluses in prior years. The fund balanced dipped below 5% of general fund revenues at the end of fiscal 2004 and is projected to again at the end of fiscal 2005. This is attributable to actual revenues attained exceeding projections. The fiscal 2006 allowance proposes a \$249.7 million appropriation into the Rainy Day Fund, increasing the fund balance to over 7% of estimated general fund revenues.

Y01A – State Reserve Fund

Revenue Stabilization Account Status
Fiscal 2002 –2006
(\$ in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Beginning Balance	\$888.2	\$547.9	\$490.2	\$496.6	\$520.7
Appropriation	171.8	181.0	0.0	103.7	249.7
Transfer to General Fund	-533.2	-249.0	0.0	-91.0	0.0
Excess Revenue/Transfers	0.0	0.0	0.0	0.0	0.0
Interest	21.2	10.3	6.4	11.5	25.1
Ending Balance	\$547.9	\$490.2	\$496.6	\$520.7	\$795.6
Pct of GF Revenues					
GF Operating Revenues	9,504.0	9,317.0	10,240.7	10,869.3	11,306.3
Excess over 5%	72.7	24.3	-15.5 *	-22.7 *	230.3

* Results from revised estimates or attainments in excess of budget estimate.

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

Source: Department of Budget and Management, January 2005

Governor's Out-year Forecast

The Administration's forecast projects that \$227 million will be transferred out of the Rainy Day Fund in fiscal 2007. The forecast also assumes that the fund will generate \$117 million in interest from fiscal 2007 to 2010. The fund balance is estimated to remain above 5% of general fund revenues through fiscal 2010.

Dedicated Purpose Account

Account Characteristics

- **Purpose:** The account 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 account consists of direct appropriations in the budget bill committed to a specific purpose. Interest earnings generated by the account 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.

Mechanism for Transferring and Spending Funds

To transfer funds from the DPA:

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

Dedicated Purpose Account Activity

The following table illustrates the activity in the Dedicated Purpose Account from fiscal 2002 through 2006. The most significant trend in this account is the declining account balance from fiscal 2002 to 2004. Chapter 440, Acts of 2002 (2002 BRFA), transferred \$108 million from the DPA to support the general fund. In 2002 an additional \$10 million was transferred out of the DPA to support welfare programs in fiscal 2003. The remaining funds were transferred out of the account in fiscal 2004. By the end of fiscal 2004, the DPA was depleted.

In fiscal 2005 the fund received \$3 million to support Hurricane Isabel relief efforts, which is expected to be transferred to the Department of Housing and Community Development (DHCD) in fiscal 2005. In fiscal 2006 the Governor's allowance includes \$50 million to transfer to the TTF. The Governor is required to appropriate up to \$50 million from the unappropriated general fund surplus of fiscal 2004 (see Updates section for details). The fiscal 2006 appropriation also includes \$30 million for medical malpractice insurance rate stabilization and \$2 million to support substance abuse case management.

Y01A – State Reserve Fund

Dedicated Purpose Account Status
Fiscal 2002 – 2006
(\$ in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Beginning Balance	\$115.7	\$100.8	\$11.4	\$0.0	\$0.0
Appropriation	45.0	0.0	0.0	3.0	82.0
Reallocation of TANF block grant *	9.6				
TANF block grant negative deficiency approp.	-9.6				
TTF Payback for 2003 BRFA transfers					50.0
WW bridge/metro expansion	45.0				
Compact – Substance Abuse Case Mgmt.					2.0
Medical Malpractice					30.0
DHCD Housing Relief for Isabel				3.0	
Transfers	-\$59.9	-\$89.3	-\$11.4	-\$3.0	-\$50.0
TANF/welfare costs	-22.1		-11.4		
PSC education on utility restructuring	-2.8	-0.3			
WW bridge/metro expansion **		-0.7	0.0	0.0	0.0
DDA waiting list initiative***	-5.0				
Transfer to DHR		-10.0			
DHCD Housing Relief for Isabel				-3.0	
TTF BRFA 2003 Payback					-50.0
Medical Malpractice (Not required under HB 2)					
BRFA transfer – MDOT funding****	-30.1	-39.1			
BRFA transfer – TANF funding		-39.3			
Ending Balance	\$100.8	\$11.4	\$0.0	\$0.0	\$32.0
Ending Balance excluding FF	100.8	11.4	0.0	0.0	32.0

* In fiscal 2002, the Governor’s allowance in January 2001 included \$9.6 million for TANF. The DPA was reduced \$9.6 million, through a negative deficiency in the January fiscal 2002 allowance, for a net appropriation of \$0.

** Includes \$953k in fiscal 2002 for various capital projects that may not be spent. (See BA 266-02 at \$292k)

*** BA 125-02 allowed DDA to spend previously unspent funds (transferred in a previous fiscal year) and did not affect the fiscal 2002 \$5 million transfer.

**** Fiscal 2003 funds are transferred to the general fund.

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

PSC = Public Service Commission

TANF = Temporary Assistance for Needy Families

MDOT = Maryland Department of Transportation

DHR = Department of Human Resources

DDA = Developmental Disabilities Administration

BRFA = Budget Reconciliation and Financing Act

Source: Department of Budget and Management, January 2005

Catastrophic Event Account

Account Characteristics

- **Purpose:** The account 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 account consists of direct appropriations in the budget bill. Interest earnings are credited to the Rainy Day Fund.
- **Other:** Catastrophic Event Account funds may not be used to offset operating deficiencies in regular programs of State government. The funds support costs associated with a natural disaster or catastrophic situation.

Mechanism for Transferring and Spending Funds

Prior to transferring funds by budget amendment to the appropriate executive branch agency, the Administration must notify the Legislative Policy Committee of the proposed amendment and allow the committee 45 days to review and comment upon the proposed amendment.

Catastrophic Event Account Activity

The following table shows that the account's year-end balance was \$1.7 million at the beginning of fiscal 2002. The balance is projected to increase to \$9.1 million at the end of fiscal 2006.

Toward the end of fiscal 2002, \$1.5 million was transferred out of the account to support tornado relief in Southern Maryland. This reduced the balance to \$227,630 at the end of fiscal 2002.

The account received a \$10 million deficiency appropriation in fiscal 2004, allowing the transfer of \$2.9 million for Hurricane Isabel relief efforts. This provided \$2.5 million to DHR for other needs assistance programs for individuals and \$400,000 to the Maryland Department of the Environment for soil contamination remediation. DBM advises that it expects to transfer another \$225,000 for Hurricane Isabel relief in fiscal 2005. This leaves \$9.1 million in the account. DBM advises they are currently reviewing costs related to housing needs of owners whose primary residences were damaged by the Hurricane. A substantial portion of the remaining \$9.1 million may be used.

Y01A – State Reserve Fund

Catastrophic Event Account Status
Fiscal 2002 – 2006
(\$ in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Beginning Balance	\$1.7	\$0.2	\$0.2	\$7.4	\$7.1
Appropriation	0.0	0.0	10.0	0.0	2.0
Transfers					
Hurricane Isabel relief	0.0	0.0	-2.9	-0.2	0.0
Southern Maryland tornado relief	-1.5	0.0	0.0	0.0	0.0
Ending Balance	\$0.2	\$0.2	\$7.4	\$7.1	\$9.1

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

Source: Department of Budget and Management, January 2005

Joseph Fund Account

Account Characteristics

- **Purpose:** The account was established in 1999 to meet the emergency needs of economically disadvantaged citizens of the State, especially in times of economic downturn.
- **Appropriations:** The account 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 Account 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 Account 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 Account Activity

The following table shows that since its inception, the Joseph Fund began fiscal 2002 with a \$10.6 million fund balance. The fund received a \$5 million appropriation in fiscal 2002 and generated over \$428,000 in interest earnings.

Y01A – State Reserve Fund

These revenues are offset by two transfers. Chapter 440, Acts of 2002 (2002 BRFA) authorized the transfer of \$8 million to the general fund. The fiscal 2004 budget transferred \$8.2 million from the Joseph Fund Account to support Child Welfare Services. At the end of fiscal 2004, the account balance was just under \$13,000. Interest earnings are projected to provide \$400 to \$500 annually in fiscal 2005 and 2006.

Joseph Fund Account Status
Fiscal 2002 – 2005
(\$ in Thousands)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Beginning Balance	10,640	8,067	8,226	13	13
Appropriation	5,000	0	0	0	0
Interest	428	159	20		
Transfers					
Child Welfare Protective Services Staff			-8,233		
To General Fund - Chapter 440, Acts of 2002, Section 1	-8,000				
Ending Balance	8,067	8,226	13	13	13

Note: The Joseph Fund requires a \$15 million balance prior to transferring funds.

Source: Department of Budget and Management, January 2005