

Y01A State Reserve Fund

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$114,653	\$325,685	\$1,416,282	\$1,090,597	334.9%
Total Funds	\$114,653	\$325,685	\$1,416,282	\$1,090,597	334.9%

- As required by Section 7-311 of the State Finance and Procurement Article, \$593.3 million is appropriated into the Rainy Day Fund. This amount represents the fiscal 2005 unappropriated general fund balance, less \$10 million that is retained by the general fund.
- The allowance also proposes transferring \$770 million out of the Rainy Day Fund and appropriating that amount into the Dedicated Purpose Account (DPA).
- The DPA allowance totals \$823 million, which provides \$670 million for fiscal 2008 operations and \$100 million to support the State's retiree health insurance liability.
- Another \$53 million is provided in the DPA allowance to support the construction of the Intercounty Connector (ICC). Chapter 472, Acts of 2005 requires that the general fund repay the remaining \$264.9 million borrowed from the Transportation Trust Fund by fiscal 2010. These funds are to be transferred to the Maryland Transportation Authority to support ICC construction.

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

For further information contact: Patrick S. Frank

Phone: (410) 946-5530

Analysis in Brief

Issues

Spending Affordability Committee Recommends Increasing the Rainy Day Fund’s Statutory Balance to at Least 7.5% of General Fund Revenues: The current statutory minimum is 5% of estimated general fund revenues. The committee expressed the concern that the importance which the bond rating agencies place on maintaining a Rainy Day Fund balance of at least 5% of general fund revenues has changed the practical use of the fund so that funds are not available to meet the statutory goals of the fund. The committee recommends increasing the fund balance goal to 7.5% so that the fund can again serve as a short-term revenue source in times of distress. **Budget bill language limiting fiscal 2007 transfers out of the Rainy Day Fund is recommended, in order to increase the fund balance consistent with recommendations of the Spending Affordability Committee.**

Recommended Actions

	<u>Funds</u>
1. Add budget bill language that limits the transfer of funds out of the Rainy Day Fund and into the general fund to \$200 million.	
2. Delete Dedicated Purpose Account appropriation for fiscal 2008 expenditure requirements.	\$ 670,000,000
Total Reductions	\$ 670,000,000

Updates

Transportation Program Repayment Update: The update outlines the general fund’s repayment of \$314.9 million transferred out of the Transportation Trust Fund in 2002 and 2003 legislation.

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.

Fiscal 2006 Proposed Deficiency

The Administration’s budget bill proposes that \$13 million be appropriated into the DPA. This deficiency proposes to set aside funds for services to low-income families vulnerable to high energy costs. The Administration has expressed concerns of possible increased utility costs. If appropriated, the funds would provide:

- \$8.5 million to the Office of Home Energy Programs in the Department of Human Resources (DHR). Specifically, the funding would support estimated additional costs for federally supported Maryland Energy Assistance Programs which provides assistance for low income families and State funded Electric Universal Service Program which provides assistance for electric bills in arrears;
- \$4 million will support expanding the DHR support by increasing income eligibility from 150% to 175% of poverty; and
- \$500,000 to support the Weatherization Program in the Department of Housing and Community Development (DHCD).

The actual amounts needed in fiscal 2006 may be less than the amounts being requested. The U.S. Congress is currently preparing the federal budget and some members have made efforts to provide additional federal funding for low-income families. Increased federal funds would obviate the need for some of the State funds. At this time, it is unclear how much additional federal support may be provided or when the money could be available.

The source of the funds includes \$7 million in special funds from the Energy Overcharge Restitution Fund (EORF) and \$6 million in general funds. The Administration estimates that there is sufficient funding available in EORF and that there is the legal authority to transfer the full amount without legislation. There is a concern that drawing down the EORF balance will adversely affect the Maryland Energy Administration, which relies heavily on EORF revenues for its operating and capital programs. Prior to transferring the funds out of the EORF, the State will also need to obtain approval from the courts and federal government.

Y01A – State Reserve Fund

This appropriation raises a number of issues such as how much the fiscal 2006 need is, the availability of special funds, and the effect of transferring \$7 million out of the EORF on programs supported by the fund. These issues will be addressed in the budget analyses of the Maryland Energy Administration (D13A13), DHCD (S00A), and DHR's Adult and Community Services (N00C01).

Governor's Proposed Budget

Exhibit 1 shows that the allowance provides \$1.4 billion for the State Reserve Fund. This includes \$593.3 million for the Rainy Day Fund and \$823 million for the DPA. Specific appropriations include:

- \$593.3 million for the Rainy Day Fund. Section 7-311 of the State Finance and Procurement Article requires that in the budget for the second subsequent fiscal year the Governor appropriate an amount equal to the unappropriated general fund balance at closeout exceeding \$10 million into the Rainy Day Fund. At the end of fiscal 2005, the unappropriated general fund balance totaled \$603.3 million, of which \$10 million remains in the general fund and the remainder is appropriated into the Rainy Day Fund in fiscal 2007;
- \$670 million for the DPA to provide funding for fiscal 2008 operations. The funds for this appropriation are available because the budget bill transfers \$770 million out of the Rainy Day Fund and into the general fund. This provides the Administration with funds that can be transferred into the Dedicated Purpose Account;
- \$100 million for the DPA to support the State's unfunded retiree health insurance liability. The Government Accounting Standards Board (GASB) was created to establish standards of accounting and financial reporting applicable to state and local governmental entities. Recently GASB issued Statement 45 requiring that governmental employers account for liabilities associated with commitments to Other Post Employment Benefits (OPEB) in fiscal 2008. The effect is to move OPEB from cash accounting to accrual accounting. This requires that the State not just appropriate funds when payments for services are due, but rather appropriate funds for future commitments that the State has made. Insofar as the State has not fully funded the amount necessary to support the entire liability, there is an unfunded liability. Maryland provides OPEB in the form of health insurance for retired employees. Beginning in fiscal 2008, the State will need to show the amount of this entire liability on its balance sheet. The total liability, as estimated by AON Consulting, is \$20.4 billion. The \$100 million in the DPA provides sufficient general funds so that the estimated general fund liability does not grow in fiscal 2007. The issue is discussed more fully in the Department of Budget and Management' (DBM) Personnel budget analysis (F10A02); and

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

How Much It Grows:	General Fund	Total
2006 Working Appropriation	\$325,685	\$325,685
2007 Governor's Allowance	<u>1,416,282</u>	<u>1,416,282</u>
Amount Change	\$1,090,597	\$1,090,597
Percent Change	334.9%	334.9%

Where It Goes:

Rainy Day Fund Changes

Fiscal 2006 sweeper appropriation	-\$249,685
Fiscal 2007 sweeper appropriation	593,282

Dedicated Purpose Account Changes

Fiscal 2006 DPA appropriation of unappropriated general funds to be transferred to the TTF	-50,000
General fund repayment of transportation program dedicated to construction of the InterCounty Connector	53,000
Fiscal 2006 funds for projected Medicaid deficiencies	-20,000
Substance Abuse Case Mgmt. Compact	-2,000
DJS Consent Decree	-2,000
Reserve for fiscal 2008 operations.....	670,000
State's future costs of retiree health insurance	100,000

Other Changes

Fiscal 2006 appropriation to increase account balance.....	-2,000
--	--------

Total **\$1,090,597**

DPA = Dedicated Purpose Account
TTF = Transportation Trust Fund
DJS = Department of Juvenile Services

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

Y01A – State Reserve Fund

- \$53 million for the DPA to support Intercounty Connector (ICC) construction. Chapter 472, Acts of 2005 provided for the financing of the ICC. The budget reconciliation acts of 2002 and 2003 transferred \$314.9 million from the Transportation Trust Fund (TTF) into the general fund. The first \$50 million was repaid to the TTF in fiscal 2006. The 2005 act dedicates the remaining \$264.9 million toward construction of the ICC as the remaining repayment by fiscal 2010.

Exhibit 2 provides an overview of State Reserve Fund activity between fiscal 2006 and 2007. 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 2006 and 2007 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>
Estimated Balances 6/30/05	\$521.4	\$0.0	\$7.1	\$0.0
Fiscal 2006 Appropriations	249.7	74.0	2.0	0.0
Fiscal 2006 Deficiency Appropriations		13.0		
Expenditures				
Reimburse Transportation Trust Fund		-50.0		
Medicaid Deficiencies		-20.0		
DJS Consent Decree		-2.0		
Hurricane Isabel Reconstruction			-0.8	
Fund PAYGO Capital Projects	-45.2			
Transfers to General Fund				
Estimated Interest	30.1			0.0
Estimated Balances 6/30/06	\$755.9	\$15.0	\$8.3	\$0.0
Fiscal 2007 Appropriations	593.3	823.0 ¹	0.0	0.0
Expenditures				
Reimburse Transportation Trust Fund		-53.0		
Energy Subsidies for Low-income residents		-13.0		
Substance Abuse Case Mgmt. Compact		-2.0		
Transfers to General Fund	-770.0 ¹			
Estimated Interest	64.7			0.0
Estimated Balances 6/30/07	\$643.9	\$770.0	\$8.3	\$0.0
Balance in Excess of 5% GF Revenues	\$1.8			

¹ The Rainy Day Fund transfer of \$770 million is appropriated to the DPA. This includes \$670 million dedicated to fiscal 2008 spending, and \$100 million to reduce the retiree health insurance unfunded liability. The appropriation to the DPA also includes \$53 million to repay the TTF and fund the ICC.

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

DJS = Department of Juvenile Services
DPA = Dedicated Purpose Account
ICC = Intercounty Connector
TTF = Transportation Trust Fund

Source: Department of Budget and Management, January 2006

Issues

1. Spending Affordability Committee Recommends Increasing the Rainy Day Fund’s Statutory Balance to at Least 7.5% of General Fund Revenues

Section 7-311 of the State Finance and Procurement Article establishes the Rainy Day Fund to retain revenues for future needs and mitigate the need of future tax increases. The statute requires that the fund have a balance of at least 5% of the estimated general fund revenues and also allows for the withdrawal of funds.

In its December 2005 report, the Spending Affordability Committee (SAC) expressed the concern that the importance which the bond rating agencies place on maintaining a Rainy Day Fund balance of at least 5% of the estimated general fund revenues has changed the practical use of the Rainy Day Fund. During the recent fiscal distress, maintaining a balance equivalent to 5% of general fund revenues was treated as a necessity by the Administration. Thus, the reserves were not used to meet the statutory goals for the fund. For the Rainy Day Fund to again serve as a short-term revenue source in times of distress, a balance in excess of 5% is required.

Therefore, the committee recommended that Section 7-311 of the State Finance and Procurement Article be amended to require a fund balance of at least 7.5%. This requirement provides the State with a mechanism for ensuring that the Rainy Day Fund balance is well above the amount recommended by the rating agencies, thus providing the State with a more flexible Rainy Day Fund. For fiscal 2007, this would require the Rainy Day Fund to maintain an additional \$321 million balance above the \$642 million 5% balance.

The budget bill proposes to transfer \$770 million out of the Rainy Day Fund and into the DPA. This provides \$100 million for the State’s unfunded retiree health insurance liability and \$670 million for fiscal 2008 expenditures. The \$100 million is consistent with the committee’s recommendation to provide at least the level of funding recommended by the Retiree Health Task Force. However, the \$670 million transfer reduces the fiscal 2007 end-of-year balance to 5%, contrary to the recommendation of SAC. The proposed allocation is also problematic in that it fails to allow sufficient general fund balance (just \$32 million) to address potential deficiencies arising in the fiscal 2007 budget. Under the proposed scheme, it would be necessary to enact legislation or to invade the 5% rainy day balance to address any sizeable deficiency requirement.

To implement the recommendations of SAC, the Department of Legislative Services (DLS) recommends an alternate approach to allow for the transfer of \$100 million for retiree health insurance and up to \$100 million for the general fund. **Exhibit 3** shows that this approach would leave a fund balance that is 8.9% or \$507 million over the 5% target set in statute. This is sufficient to fully capitalize the Rainy Day Fund should a new statutory target be adopted. The new target would implement a structural mechanism to manage revenue shortfalls by providing that a portion of the Rainy Day Fund can be used to support short-term needs and still maintain a fund balance in excess of 5%.

Exhibit 3
Rainy Day Fund
Fiscal 2007 Activity
(\$ in Millions)

Fiscal 2006 End-of-year Fund Balance	\$756
Fiscal 2007 Allowance	593
Subtotal	\$1,349
Transfer to Dedicated Purpose Account for Unfunded Retiree Health Insurance Liability	-100
Transfer to General Fund	<u>-100</u>
Fiscal 2007 End-of-year Fund Balance	\$1,149
Amount over 5%	507
End-of-year Fund Balance as % of GF Revenues	8.9%

Source: Department of Legislative Services

Furthermore, adopting policies to increase the balance in excess of 5% would not be unique to Maryland. At last count, seven states (Indiana, Massachusetts, Mississippi, Oklahoma, Texas, Utah, and Virginia) had targets or caps ranging from 7% to 10%. This includes three states (Missouri, Utah, and Virginia) that have AAA bond rating from the three major rating agencies (Fitch, Moody's and Standard and Poor's). In the case of Missouri, the state is required to appropriate funds into its rainy day fund if the balance is below 7.5%.

To provide sufficient funding in the Rainy Day Fund to increase the minimum fund balance to 7.5%, it is recommended that the following budget bill language be added:

SECTION ---. AND BE IT FURTHER ENACTED, That for fiscal 2007, the total amount of funds transferred from the Revenue Stabilization Account of the State Reserve Fund to the general fund may not exceed \$200,000,000.

Recommended Actions

1. Add the following language:

SECTION ---. AND BE IT FURTHER ENACTED, That for fiscal 2007, the total amount of funds transferred from the Revenue Stabilization Account of the State Reserve Fund to the general fund may not exceed \$200,000,000.

Explanation: The language is consistent with a Spending Affordability Committee recommendation to increase the Revenue Stabilization Account (Rainy Day Fund) balance to 7.5%. The committee expressed the concern that the importance which the bond rating agencies place on maintaining a Rainy Day Fund balance of at least 5% of the estimated general fund revenues has changed the practical use of the Rainy Day Fund. Even during times of fiscal distress, maintaining a balance equivalent to 5% of general fund revenues is treated as a necessity. Thus, the reserves are not available to meet the statutory goals for the fund. For the Rainy Day Fund to again serve as a short-term revenue source in times of distress, a balance in excess of 5% is required.

The language limits the amount of funds transferred out of the Revenue Stabilization Account (Rainy Day Fund) to \$200 million. This leaves the fund with an estimated balance of at least \$1,149 million, which is \$507 million over the 5% current minimum. The language also allows the administration to transfer \$100 million into the Dedicated Purpose Account and \$100 million into the general fund, resulting in an estimated general fund balance of \$132 million at the end of fiscal 2007.

	<u>Amount Reduction</u>	
2. Delete Dedicated Purpose Account appropriation for fiscal 2008 expenditure requirements. This represents a transfer of funds out of the Rainy Day Fund, decreasing the fund balance to 5%. To be consistent with the Spending Affordability Committee’s recommendations, it is recommended that the appropriation be deleted and the funds remain in the Rainy Day Fund. This provides sufficient funds to increase the Rainy Day Fund balance to at least 7.5%.	\$ 670,000,000	GF
Total General Fund Reductions	\$ 670,000,000	

Updates

1. Transportation Program Repayment Update

Chapter 203, Acts of 2003 (2003 BRFA) transferred \$314.9 million from the TTF to the general fund. The law states the intent that the TTF be reimbursed the entire \$314.9 million. To provide a mechanism by which funds could be transferred from the general fund to the TTF, Chapter 430, Acts of 2004 (Budget Reconciliation and Financing Act of 2004 (BRFA)) amended the “sweeper provision” to distribute up to \$50 million per year of the unappropriated general fund surplus to the TTF until full repayment was achieved. The fiscal 2006 budget included the first \$50 million to the TTF.

The sweeper provision was amended again by Chapter 472, Acts of 2005. The new law provides that the general fund repayment support the construction of the ICC, which is a Maryland Transportation Authority (MdTA) project. The Administration is required to appropriate at least \$50 million annually for the MdTA, and the amount must be repaid fully by fiscal 2010. In fiscal 2007 to 2009, the MdTA will receive \$53 million annually according to the Department of Budget and Management’s (DBM) long-term forecast. DBM projects that the final \$105.9 million appropriation will be made in fiscal 2010, which concludes repayment.

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 2005					
Legislative Appropriation	\$106,653	\$0	\$0	\$0	\$106,653
Deficiency Appropriation	8,000	0	0	0	8,000
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$114,653	\$0	\$0	\$0	\$114,653
Fiscal 2006					
Legislative Appropriation	\$325,685	\$0	\$0	\$0	\$325,685
Budget Amendments	0	0	0	0	0
Working Appropriation	\$325,685	\$0	\$0	\$0	\$325,685

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

In fiscal 2005, \$8 million in deficiencies were appropriated to support a shortfall in the Department of Juvenile Services Community Supervision Programs.

**Fiscal Summary
State Reserve Fund**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Revenue Stabilization Account	\$ 103,652,618	\$ 249,685,441	\$ 593,282,470	\$ 343,597,029	137.6%
02 Dedicated Purpose Account	11,000,000	74,000,000	823,000,000	749,000,000	1012.2%
04 Catastrophic Event Account	0	2,000,000	0	-2,000,000	-100.0%
Total Expenditures	\$ 114,652,618	\$ 325,685,441	\$ 1,416,282,470	\$ 1,090,597,029	334.9%
General Fund	\$ 114,652,618	\$ 325,685,441	\$ 1,416,282,470	\$ 1,090,597,029	334.9%
Total Appropriations	\$ 114,652,618	\$ 325,685,441	\$ 1,416,282,470	\$ 1,090,597,029	334.9%

Note: The fiscal 2006 appropriation does not include proposal deficiencies.

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, if the fund balance is between 3% and 5%, 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.

Sweeper Provision

State law requires that the administration appropriate an amount equal to any unappropriated general fund balance at closeout in excess of \$10 million into the Rainy Day Fund. This appropriation is made to the budget two years after the unappropriated general fund surplus is generated. For example, fiscal 2005 closed with an unappropriated surplus totaling \$603.3 million, thus the Administration's fiscal 2007 allowance includes a \$593.3 million appropriation to the Rainy Day Fund. This appropriation to the Rainy Day Fund is referred to as the "sweeper provision."

Rainy Day Fund Activity

The following table illustrates fiscal 2003 through 2007 activity in the Rainy Day Fund. Appropriations into the Rainy Day Fund were made each year except fiscal 2004. The appropriations are attributable to unappropriated general funds being swept into the Rainy Day Fund, as required by law. Funds were transferred out of the Rainy Day Fund and into the general fund in fiscal 2003 and 2005. In fiscal 2006, funds were transferred out to support specific capital projects. In fiscal 2007, the Administration proposes transferring \$770 million from the Rainy Day Fund into the DPA. This provides \$670 million for fiscal 2008 expenditures and \$100 million for the State’s unfunded retiree health care liability.

From fiscal 2003 to 2005, the Rainy Day Fund balance hovered around 5% of general fund revenues. Each year, the General Assembly appropriated sufficient funds to provide a 5% end-of year fund balance. The balance did not end the year at 5% in fiscal 2004 and 2005 because actual revenues exceeded estimated revenues. Beginning in fiscal 2006, the law was changed so that only the Bureau of Revenue Estimates’ December (immediately prior to the legislative session) general fund estimate is used. The ratio will no longer drop below 5% when revenues exceed expectations. In fiscal 2006, the Rainy Day Fund balance is \$190 million over the 5% targeted minimum fund balance. The Administration proposes to reduce the fund balance back down to 5% at the end of fiscal 2007.

Revenue Stabilization Account Status

Fiscal 2003 –2007

(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Beginning Balance	\$547.9	\$490.2	\$496.6	\$521.4	\$755.9
Appropriation	181.0	0.0	103.7	249.7	593.3
Transfer to General Fund	-249.0	0.0	-91.0	0.0	-770.0
Fund PAYGO Capital Projects	0.0	0.0	0.0	-45.2	0.0
Interest	10.3	6.4	12.1	30.1	64.7
Ending Balance	\$490.2	\$496.6	\$521.4	\$755.9	\$643.9
Pct of GF Revenues					
GF Operating Revenues	9,317.0	10,240.7	11,394.7	11,306.3	12,843.2
5% of GF Revenues	465.9	512.0	569.7	565.3	642.2
Excess over 5% ¹	24.3	-15.5	-48.4	190.6	1.8

¹ Chapter 430, Acts of 2004, modified how the 5% is calculated. The new law sets the limit at 5% of the Board of Revenue Estimates’ (BRE) December (immediately prior to the legislative session) general fund estimate. Beginning in fiscal 2006, the general fund amount represents the BRE estimate, not the actual revenues collected.

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

Source: Department of Budget and Management, January 2006

Governor's Out-year Forecast

In the out-years, the Administration's Rainy Day Fund forecast projects that the fund balance will hover around 5%. The fund is projected to be \$5 million and \$3 million below 5% in fiscal 2008 and 2009, respectively. Given the amount of general funds generated annually and the fund balance, this is a quite moderate difference. For example, if interest rates increase by 0.25%, sufficient interest revenue is generated to bring the fund balance above 5%. By the end of fiscal 2011, the fund is projected to have a \$768 million balance and be \$7 million above the 5% goal.

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 approval 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 DPA from fiscal 2003 through 2007. The account began the period with a \$100.8 million fund balance. Most of these funds were either transferred to the general fund or transferred to support other needs during the fiscal crisis. By the end of fiscal 2004, the fund was depleted. In fiscal 2005 and 2006, funds were appropriated for specific needs. DBM advises that these funds will be transferred to their respective purposes before the end of fiscal 2007. As previously noted, the fiscal 2007 allowance proposes \$670 million for fiscal 2008 expenditures and \$100 million for the unfunded employee health insurance liability. DBM proposes that these funds are expected to remain in the account, leaving an end-of-year balance that totals \$770 million.

Y01A – State Reserve Fund

Dedicated Purpose Account Status
Fiscal 2003 – 2007
(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Beginning Balance	\$100.8	\$11.4	0.0	0.0	\$15.0
Appropriation:	0.0	0.0	\$11.0	\$87.0	\$823.0
TTF payback for 2003 BRFA transfers				50.0	53.0
Fiscal 2008 expenditure requirements					670.0
Reduce unfunded other post employment benefits liability					100.0
Energy subsidies for low-income residents				13.0	
Substance abuse case mgmt. compact				2.0	
Medicaid deficiencies				20.0	
DJS consent decree			8.0	2.0	
DHCD housing relief for Isabel			3.0		
Transfers:	-\$89.3	-\$11.4	-\$11.0	-\$72.0	-\$68.0
TANF/welfare costs		-\$11.4			
PSC education on utility restructuring	-0.3				
WW bridge/metro expansion	-0.7	0.0	0.0	0.0	
DDA waiting list initiative					
Transfer to DHR	-10.0				
DHCD housing relief for Isabel			-3.0		
Transportation BRFA payback				-50.0	-53.0
Energy subsidies for low-income residents					-13.0
Medicaid deficiencies				-20.0	
DJS deficiencies			-8.0		
DJS consent decree				-2.0	
Substance abuse case mgmt. compact					-2.0
BRFA transfer - MDOT funding	-39.1				
BRFA transfer - TANF funding	-39.3				
Ending Balance	\$11.4	0.0	0.0	\$15.0	\$770.0
Ending Balance excluding FF	\$11.4	0.0	0.0	\$15.0	\$770.0

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

BRFA = Budget Reconciliation and Financing Act	MDOT = Maryland Department of Transportation
DDA = Developmental Disabilities	PSC = Public Service Commission
DHCD = Department of Housing and Community Development	TANF = Temporary Assistance for Needy Families
DHR = Department of Human Resources	TTF = Transportation Trust Fund
DJS = Department of Juvenile Services	WW = Woodrow Wilson Bridge

Source: Department of Budget and Management, January 2006

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 approve the proposed amendment.

Catastrophic Event Account Activity

The account's balance was \$227,630 at the beginning of fiscal 2003. The following table shows that the balance is projected to be \$8.3 million at the end of fiscal 2007.

The account received a \$10 million deficiency appropriation in fiscal 2004 and a \$2 million appropriation in fiscal 2006. The deficiency allowed for the transfer of \$2.9 million for Hurricane Isabel relief efforts in fiscal 2004, including \$2.5 million to DHR for other needs assistance programs for individuals and \$400,000 to the Maryland Department of the Environment (MDE) for soil contamination remediation. In fiscal 2005, \$264,700 was transferred providing \$250,000 for MDE's soil contamination remediation and \$14,700 for DHR's other needs assistance programs. The final Isabel transfer was approved in fiscal 2005 but the transfer was not made until fiscal 2006. The amendment transferred \$800,000 into the DHCD to support homeowners whose residences were damaged by Hurricane Isabel.

Y01A – State Reserve Fund

Catastrophic Event Account Status
Fiscal 2003 – 2007
(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Beginning Balance	\$0.2	\$0.2	\$7.4	\$7.1	\$8.3
Appropriation	0.0	10.0	0.0	2.0	0.0
Transfers					
Hurricane Isabel	0	(2.9)	(0.3)	(0.8)	0
Southern MD tornado relief					
Ending Balance	\$0.2	\$7.4	\$7.1	\$8.3	\$8.3

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

Source: Department of Budget and Management, January 2006

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 million. 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 the Joseph Fund began fiscal 2003 with an \$8.1 million fund balance. That year, the fund earned approximately \$159,000 in interest. 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 approximately \$500 annually.

Y01A – State Reserve Fund

Joseph Fund Account Status
Fiscal 2003 – 2007
(\$ in Thousands)

	<u>FY</u> <u>2003</u>	<u>FY</u> <u>2004</u>	<u>FY</u> <u>2005</u>	<u>FY</u> <u>2006</u>	<u>FY</u> <u>2007</u>
Beginning Balance	\$8.067	\$8.226	\$0.013	\$0.013	\$0.013
Appropriation	0	0	0	0	0
Interest	0.159	0.020	0.000	0.000	0.001
Transfers					
Child Welfare Protective Services Staff (e.g., foster care)					
To General Fund – Chapter 440, Acts of 2002, Section 1 (BRFA)	0	-8,213	0	0	0
Ending Balance	\$8.226	\$0.013	\$0.013	\$0.013	\$0.014

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

Source: Department of Budget and Management, January 2006