

**Y01A
State Reserve Fund**

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$349,372	\$771,382	\$315,795	-\$455,588	-59.1%
Special Fund	<u>9,210</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Total Funds	\$358,582	\$771,382	\$315,795	-\$455,588	-59.1%

- The Rainy Day Fund balance is projected to be 5% of general fund revenues at the end of fiscal 2008.
- The Administration proposes to support the fiscal 2008 budget with transfers of \$967 million from the Rainy Day Fund to the general fund and \$11 million from the Dedicated Purpose Account to the general fund.
- The allowance proposes to delay a required general fund transfer for the InterCounty Connector and instead make the transfer in the out-years.

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

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Analysis in Brief

Major Trends

Rainy Day Fund Balance Is Reduced to 5% of Projected General Fund Revenues: The Rainy Day Fund ends fiscal 2007 with a balance that is almost 11% of general fund revenues. The Administration’s fiscal 2008 plan assumes that \$967 million is transferred out of the fund and into the general fund. This reduces the fund balance to 5% of revenues, the minimum allowed without proposing a long-term plan to resolve the structural deficit.

Issues

Transfers from the Reserve Fund to the General Fund: There are two transfers from the Reserve Fund to the general fund: \$967 million from the Rainy Day Fund and \$11 million from the Dedicated Purpose Account. The Rainy Day Fund transfer is consistent with Spending Affordability Committee guidelines. The \$11 million Dedicated Purpose Account transfer withdraws funds dedicated to support the purchase of E-Poll books for elections. The budget proposes to finance these costs instead. **The Department of Budget and Management should brief the budget committees on the financing of the E-Poll books.**

Recommended Actions

1. Concur with Governor’s allowance.

Updates

Comparison of AAA-rated States’ Rainy Day Funds: In addition to Maryland, there are another five states with AAA bond rating from the three major rating agencies. They are Delaware, Georgia, Missouri, Utah, and Virginia. The update examines their rainy day fund policies and recent actions.

2006 Legislation Modifies Rainy Day Fund: The update discusses legislation enacted in 2006 that requires the Administration to provide a general fund appropriation for the Rainy Day Fund if the fund balance is less than 7.5% of projected general fund revenues. The legislation also requires an Act of the General Assembly other than the budget bill to transfer funds from the Rainy Day Fund to the general fund if the transfer results in a fund balance that is less than 5% of projected general fund revenues.

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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 under the Department of Business and Economic Development, so it is not discussed in this analysis.

Governor's Proposed Budget

Exhibit 1 shows that the allowance provides \$315.8 million for the State Reserve Fund. This includes \$162.8 million for the Rainy Day Fund and \$153 million for the DPA. Specific appropriations include:

- \$162.8 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 2006, the unappropriated general fund balance totaled \$172.8 million, of which \$10 million remains in the general fund and an amount equal to the remainder is appropriated into the Rainy Day Fund in fiscal 2008;
- \$100 million for the DPA to support the State’s unfunded retiree health insurance liability. The Governmental 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 Buck Consultants, is \$14.5 billion. The funds are appropriated so that the State can begin to reduce this unfunded liability. The fiscal 2007 budget also appropriated \$100 million; and

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

How Much It Grows:	General Fund	Total
2007 Working Appropriation	\$771,382	\$771,382
2008 Governor’s Allowance	<u>315,795</u>	<u>315,795</u>
Amount Change	-\$455,588	-\$455,588
Percent Change	-59.1%	-59.1%

Where It Goes:

Rainy Day Fund Changes

Fiscal 2007 sweeper appropriation	-\$593,282
Fiscal 2008 sweeper appropriation	162,795

Dedicated Purpose Account Changes

Energy assistance programs	-25,100
Fiscal 2007 reduction of Other Post-employment Benefits unfunded liability	-100,000
Fiscal 2008 reduction of Other Post-employment Benefits unfunded liability	100,000
Fiscal 2007 InterCounty Connect/general fund repayment	-53,000
Fiscal 2008 InterCounty Connect/general fund repayment	53,000

Total	-\$455,588
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Note: Numbers may not sum to total due to rounding.

- \$53 million for the DPA to support InterCounty Connector (ICC) construction. Chapter 472 of 2005 provided for the financing of the ICC. Chapter 203 of 2003 (the Budget Reconciliation and Financing Act of 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. Chapter 472 dedicates the remaining \$264.9 million toward construction of the ICC as the remaining repayment by fiscal 2010. The budget assumes the enactment of legislation (SB 73/HB 57) absolving the Administration from making this payment in fiscal 2008 only, to support the ICC. This legislation is discussed in the Maryland Department of Transportation Overview budget analysis.

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
State Reserve Fund Activity
Fiscal 2007 and 2008
(\$ in Millions)

	<u>Rainy Day</u> <u>Fund</u>	<u>Dedicated</u> <u>Purpose Acct.</u>	<u>Catastrophic</u> <u>Event Acct.</u>	<u>Joseph</u> <u>Fund Acct.</u>
Estimated Balances 6/30/06	\$758.8	\$31.5 ¹	\$8.3	\$0.0
Fiscal 2007 Appropriations	593.3	178.1	0.0	0.0
Expenditures				
Fund Projects and Programs	-15.7			
Reimburse Transportation and Support ICC		-53.0		
Energy Subsidies for Low-income Residents		0.0		
2006 Election Voting Machines		-11.0		
Substance Abuse Case Mgmt. Compact		-1.0		
Transfers to General Fund	0.0			
Estimated Interest	78.8			0.0
Estimated Balances 6/30/07	1,415.2	144.7	8.3	0.0
Fiscal 2008 Appropriations	162.8	153.0 ²	0.0	0.0
Expenditures				
Reimburse Transportation and Support ICC		-53.0 ²		
Energy Subsidies for Low-income Residents		-26.5		
Substance Abuse Case Mgmt. Compact		-1.0		
Transfers to Rainy Day Fund	11.0 ³	-11.0 ³		
Transfers to General Fund	-978.0 ³			
Estimated Interest	62.7			
Estimated Balances 6/30/08	\$673.7	\$206.1 ⁴	\$8.3	\$0.0
Balance in Excess of 5% GF Revenues	\$1.0			

ICC: InterCounty Connector

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

¹ This includes \$22 million for voting equipment, \$7.5 million for energy assistance, and \$2 million for substance abuse services.

² By law, the Administration is required to appropriate at least \$50 million for the ICC each year until fiscal 2010. The appropriation totals \$53 million. The Administration's plan assumes SB 73/HB 57 relaxing this requirement is enacted.

³ The Dedicated Purpose Account includes \$11 million for election equipment. The budget proposes transferring these remaining funds to the general fund.

⁴ The remainder is \$200 million appropriated to reduce the unfunded OPEB liability and \$6.1 million for energy assistance.

Source: Department of Budget and Management

Issues

1. Transfers from the Reserve Fund to the General Fund

The Administration’s budget plan assumes the transfer of funds from the Reserve Fund to the general fund. Specific transfers proposed are:

- \$967 million from the Rainy Day Fund to the general fund; and
- \$11 million from the DPA to the general fund through the Rainy Day Fund.

Transfer from Rainy Day Fund to the General Fund

There is a consensus between the legislative and executive branches that the State faces a long-term structural deficit. In December 2006, the Spending Affordability Committee stated that because the fund balance exceeds 5% and the State faces a gap between revenue and spending, the committee supported withdrawing funds so long as the balance exceeds 5% of projected general fund revenues. The report also noted that “[a]ny reduction in the balance below 5% must be accompanied by a long-term solution to the imbalance between ongoing revenues and operating spending.” The estimate is to use the Board of Revenues Estimates’ (BRE) December general fund projections. For the fiscal 2008 allowance, 5% of revenues total \$673 million.

The Department of Budget and Management (DBM) projects that there are sufficient funds to support a transfer of \$967 million from the Rainy Day Fund to the general fund. Another \$11 million is transferred from the DPA through the Rainy Day Fund and then to the general fund.

The Administration’s plan to transfer funds from the Rainy Day Fund to the general fund is consistent with the policies of the Spending Affordability Committee.

Transfer from Dedicated Purpose Account to the General Fund

The DPA has received \$17.7 million in fiscal 2006 general fund deficiency appropriations and \$4.3 million in special fund deficiency appropriations. These funds were to support the purchase of E-Poll books to be used in State and local elections. Two budget amendments transferring almost \$11 million to support the purchases have been approved and the funds have been transferred. This leaves just over \$11 million remaining in the DPA.

The Administration’s plan transfers these funds from the DPA to the general fund through the Rainy Day Fund. Budget Amendment 116-07 has been submitted for legislative consideration. The Governor declares the funds surplus in the amendment. As required by law, a letter will also be sent to the Legislative Policy Committee asking for approval. If approved, the funds will be transferred from the DPA to the Rainy Day Fund. From the Rainy Day Fund, they will be transferred into the general fund.

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DBM also advises that the State Board of Elections will still purchase the E-Poll books. Instead of purchasing it in fiscal 2008, the plan is to lease/purchase it over five years. From a fiscal standpoint, this increases available revenues in fiscal 2008 and pushes expenses from fiscal 2008 into the out-years. **Exhibit 3** shows the Department of Legislative Services' (DLS) estimate of the financing costs. Over the five-year financing, this proposal adds another \$1.7 million in interest payments and administrative fees, bringing the total costs to \$17.8 million. **This proposal is consistent with current laws, and DLS does not object to the proposal.**

Exhibit 3
E-Poll Equipment Lease/Purchase Costs
Fiscal 2008-2012
(\$ in Thousands)

<u>Year</u>	<u>Administrative Fee</u>	<u>Interest Payments</u>	<u>Principal Payments</u>	<u>Total Debt Service</u>
2008	8	561	3,089	3,657
2009	6	451	3,077	3,534
2010	5	337	3,191	3,533
2011	3	218	3,310	3,531
2012	1	95	3,433	3,530
Total	23	1,663	16,100	17,785

Note: Finance costs based on recent equipment lease purchases.

Source: Department of Budget and Management

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Comparison of AAA-rated States' Rainy Day Funds

Currently, there are seven states with AAA ratings from all three agencies: Fitch, Moody's, and Standard & Poor's. Those states are Maryland, Delaware, Georgia, Missouri, North Carolina, Utah, and Virginia. **Exhibit 4** shows the differences in rainy day funds of different AAA states.

Exhibit 4
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 Account	Statutory 7.5% of general fund revenues	Act of General Assembly or budget bill authorization if balance above 5%, Act of General Assembly if balance below 5%
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	Capped at 10% of prior year's net revenue	Revenue shortfall during current year
Missouri	Budget Reserve Fund	Capped at 7.5% of net general revenue, if the balance is less than 7.5% general revenues appropriated into fund	Governor determines shortfall, subject to legislative disapproval up to one-half of fund balance may be transferred
North Carolina	Savings Reserve Account	Capped at 5% of the previous years' general fund appropriation	Act of General Assembly
Utah	Budget Reserve Fund and Education Reserve Fund	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 that fiscal year	Legislative appropriation up to one-half of the fund's balance

Source: National Conference of State Legislators and state budget documents and offices, January 2007

Recent State Actions

In the current economic climate, states are recovering from budget shortfalls. AAA states have taken a number of actions in recent years to transfer rainy day funds into the general fund and are now replenishing those funds. Examples of states' actions include:

- **Delaware:** The budget office advises that the Budget Reserve Account balance is \$175 million, which is at the 5% limit. Delaware has maintained its balance throughout the national economic slowdown in recent years.
- **Georgia:** According to budget documents, the Revenue Shortfall Reserve peaked in fiscal 2001, with a \$734 million fund balance. Funds were withdrawn from fiscal 2002 through 2004. In fiscal 2005, over \$200 million was appropriated into the fund, and the closing balance was \$257 million. Fiscal 2005 general fund revenues totaled \$16.8 billion.
- **Missouri:** The budget office advises that the Budget Reserve Fund balance declined slightly from \$470 million in fiscal 2002 to \$444 million in fiscal 2004. The balance was \$493 million in fiscal 2006. Missouri general revenues totaled \$7.04 billion in fiscal 2006.
- **North Carolina:** Budget documents show that that the Savings Reserve Account end-of-year balance is projected to be \$635 million in fiscal 2006 through 2007, which is 4% of the prior year's general fund appropriations.
- **Utah:** According to budget documents, the Budget Reserve Fund balance declined from \$120 million to \$20 million in fiscal 2002. Over a period of years, the fund balance was built up. In fiscal 2003, the state created the Education Reserve Fund. These two funds are projected to have a combined balance totaling approximately \$275 million in fiscal 2007. General and education funds are estimated to total \$4.98 billion in fiscal 2007.
- **Virginia:** According to budget documents, the Revenue Stabilization Fund's balance declined from \$716 million in fiscal 2001 to \$248 million in fiscal 2003. The state has been appropriating funds into the balance, which is projected to be \$1.3 billion in fiscal 2008, when it reaches its statutory cap.

2. 2006 Legislation Modifies Rainy Day Fund

Chapters 51 and 52 of 2006 modified the Rainy Day Fund. Specifically, the law requires that:

- appropriations be made into the fund if the fund balance is projected to be less than 7.5% of projected general fund revenues; and

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- an Act of the General Assembly, other than the budget bill, is required to transfer funds from the Rainy Day Fund to the general fund if the fund balance is projected to be below 5% of projected general fund revenues.

Appropriation Required If Fund Balance Is Less Than 7.5% of General Fund Revenues

Past law required that annual appropriations be made into the Rainy Day Fund if the account balance is below 5% of estimated general fund revenues. If the account balance falls below 3%, State law required an appropriation of at least \$100 million. If the fund balance is between 3 and 5%, the law required \$50 million appropriations.

In its 2005 report, the Spending Affordability Committee expressed concerns that the Rainy Day Fund did not have sufficient funds above 5% of revenues and, therefore, was not sufficiently flexible to provide sufficient revenues in case of an economic downturn. To provide a more flexible fund, the committee recommended that the State law be changed so that appropriations be required if the fund balance falls below 7.5% of projected general fund revenues. Any fund balance exceeding 5% can be transferred to the general fund to be used to mitigate cyclical variations in general fund revenues.

Act of the General Assembly Other Than the Budget Bill Required If a Transfer Reduces the Rainy Day Fund Balance Below 5%

A second feature of the law is to make transferring funds from the Rainy Day Fund to the general fund more stringent. Prior to 2006, transferring funds from the Rainy Day Fund required:

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

Under the new law, funds can still be transferred through a specific authorization in the budget bill if the resulting Rainy Day Fund balance is at least 5% of general fund revenues. However, if the resulting fund balance is less than 5%, the law requires the transfer to be authorized in an act of the General Assembly other than the budget bill.

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 2006					
Legislative Appropriation	\$325,685	\$0	\$0	\$0	\$325,685
Deficiency Appropriation	23,687	9,210	0	0	32,897
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$349,372	\$9,210	\$0	\$0	\$358,582
Fiscal 2007					
Legislative Appropriation	\$771,382	\$0	\$0	\$0	\$771,382
Budget Amendments	0	0	0	0	0
Working Appropriation	\$771,382	\$0	\$0	\$0	\$771,382

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

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2006

Fiscal 2006 included the following deficiency appropriations for the Dedicated Purpose Account:

- \$17.7 million in general funds to support the purchase of E-Poll books for elections;
- \$6 million in general funds to support energy assistance programs;
- \$4.9 million in special funds to support energy assistance programs; and
- \$4.3 million in special funds to support the purchase of E-Poll books for elections.

**Fiscal Summary
State Reserve Fund**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Revenue Stabilization Account	\$ 249,685,441	\$ 593,282,470	\$ 162,794,899	-\$ 430,487,571	-72.6%
02 Dedicated Purpose Account	106,896,686	178,100,000	153,000,000	-25,100,000	-14.1%
04 Catastrophic Event Account	2,000,000	0	0	0	0%
Total Expenditures	\$ 358,582,127	\$ 771,382,470	\$ 315,794,899	-\$ 455,587,571	-59.1%
General Fund	\$ 349,372,488	\$ 771,382,470	\$ 315,794,899	-\$ 455,587,571	-59.1%
Special Fund	9,209,639	0	0	0	0.0%
Total Appropriations	\$ 358,582,127	\$ 771,382,470	\$ 315,794,899	-\$ 455,587,571	-59.1%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 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.
- **Required Appropriations If Account Balance Is Less Than 7.5% of General Fund Revenues:** Current law requires that annual appropriations of at least \$50 million, if the fund balance is between 3 and 7.5% of projected general fund revenues, be made until the account balance reaches 7.5% of estimated general fund revenues. If the account balance is below 3%, State law requires an appropriation of at least \$100 million. Prior to the 2006 session, the law only required appropriations if the balance was less than 5%. The law was changed to increase the reserves available in the event of an economic downturn.
- **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 realized. For example, fiscal 2006 closed with an unappropriated surplus totaling \$172.8 million, thus the Administration’s fiscal 2008 allowance includes a \$162.8 million appropriation to the Rainy Day Fund. This appropriation to the Rainy Day Fund is referred to as the “sweeper provision.”
- **Section 13-209 (g) of the Tax Property Article:** The article requires that any transfer tax revenues transferred to the general fund from the transfer tax special fund after fiscal 2005 be repaid by the general fund beginning in fiscal 2012. The law requires that an amount equivalent to unappropriated general fund revenues exceeding \$10 million be appropriated into the transfer tax special fund. The maximum annual transfer is limited to \$50 million. If unappropriated general fund revenues exceed \$60 million, the amount in excess of \$60 million is retained by the general fund. In fiscal 2006, \$90 million was transferred from the transfer tax special fund to the general fund. The funds will need to be repaid in fiscal 2012 if there are unappropriated general fund revenues in fiscal 2010. No funds were transferred in fiscal 2007, and there are no plans to transfer any funds in fiscal 2008.

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 if the transfer results in a Rainy Day

Fund balance that is at least 5% of projected general fund revenue. To transfer an amount that would reduce the Rainy Day Fund balance below 5% requires the transfer to be authorized in an Act of the General Assembly other than the budget bill.

Rainy Day Fund Activity

The following table illustrates fiscal 2004 through 2008 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. In fiscal 2008, the Administration proposes transferring \$978 million from the Rainy Day Fund into the general fund.

Revenue Stabilization Account Status Fiscal 2004-2008 (\$ in Millions)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance	\$490.2	\$496.6	\$521.4	\$758.8	\$1,415.2
Appropriation	-	103.7	249.7	593.3	162.8
Transfer to General Fund	-	-91.0	-	-	-978.0
Fund Projects and Programs	-	-	-45.2	-15.7	-
Excess Revenue/Transfers	-	-	-	-	11.0
Interest Earnings	6.4	12.1	32.9	78.8	62.7
Ending Balance	\$496.6	\$521.4	\$758.8	\$1,415.2	\$673.7
Percent of GF Revenues					
GF Operating Revenues	10,240.7	11,394.7	11,306.3	12,892.0	13,452.8
5% of GF Revenues	512.0	569.7	565.3	644.6	672.6
Excess over 5% ¹	-15.5	-48.4	193.5	770.6	1.0
Excess over 7.5%	n/a	n/a	n/a	448.3	-335.3
Fund Balance as % of General					
Fund Operating Revenues	4.85%	4.58%	6.71%	10.98%	5.01%
Interest Rate Assumption	1.30%	2.24%	4.55%	5.20%	4.75%

GF: general fund

¹ Chapter 430 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 2007

Governor's Out-year Forecast

In the out-years, the Administration's Rainy Day Fund forecast projects that the fund balance will slowly increase to almost 5.5% by fiscal 2012. Because a \$50 million appropriation is required if the fund balance falls below 7.5%, the Administration assumes a \$50 million appropriation annually from fiscal 2009 through 2012. The forecast also assumes that the funds will immediately be transferred back to the general fund to support spending. Since interest earnings are projected to provide sufficient revenues to maintain the balance at least 5% of revenues, no additional appropriations are necessary after withdrawing the \$50 million each year.

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.
- the Governor may declare appropriations to DPA surplus and may transfer funds by budget amendment to the Rainy Day Fund following review by the budget committees and the Legislative Policy Committee.

Dedicated Purpose Account Activity

The following table illustrates the activity in the DPA from fiscal 2004 through 2008. The account began the period with an \$11.4 million fund balance. The funds were transferred to support welfare costs during the fiscal crisis, and the fund was depleted at the end of fiscal 2004. Since fiscal 2005, funds were appropriated for specific needs. The following table shows DPA activity from fiscal 2004 through 2008.

Dedicated Purpose Account Status
Fiscal 2004-2008
(\$ in Millions)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance	\$11.4	\$0.0	\$0.0	\$31.5	\$144.7
Appropriation	0.0	11.0	106.9	178.1	153.0
TTF payback for 2003 BRFA transfers			50.0	53.0	53.0*
Defray pension enhancements					
Reduce unfunded OPEB liability				100.0	100.0
Early voting/other			22.0		
Energy subsidies for low-income residents			10.9	25.1	
Substance abuse case management compact			2.0		
Medicaid deficiencies			20.0		
DJS deficiencies		8.0			
DJS consent decree			2.0		
DHCD housing relief for Isabel		3.0			
Transfers	-11.4	-11.0	-75.4	-65.0	-91.5
TANF/welfare costs	-11.4				
DHCD housing relief for Isabel		-3.0			
TTF MdTA ICC payback			-50.0	-53.0	-53.0*
Reduce Unfunded OPEB Liability					
Energy subsidies for low-income residents			-3.4	0.0	-26.5
Medicaid deficiencies			-20.0		
2006 election voting machines			0.0	-11.0	
Transfer remaining election funds to the Rainy Day Fund					-11.0
DJS deficiencies		-8.0			
DJS consent decree			-2.0		
Substance abuse case management compact				-1.0	-1.0
Ending Balance	0.0	0.0	31.5	144.7	206.1

TTF: Transportation Trust Fund
OPEB: Other Post-employment Benefits
DHCD: Department of Housing and Community Development
MdTA: Maryland Transportation Authority

BRFA: Budget Reconciliation and Financing Act
DJS: Department of Juvenile Services
TANF: Temporary Assistance for Needy Families
ICC: InterCounty Connector

*By law, the Administration is required to appropriate at least \$50 million for the ICC each year until fiscal 2010. The appropriation totals \$53 million. The Administration's plan assumes SB 73/HB 57 relaxing this requirement is enacted.
Note: Numbers may not sum to total due to rounding.

Source: Department of Budget and Management, January 2007

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 2004. The following table shows that the balance is projected to be \$8.3 million at the end of fiscal 2008.

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 the Department of Human Resources (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.

Catastrophic Event Account Status
Fiscal 2004-2008
(\$ in Millions)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance	\$0.2	\$7.4	\$7.1	\$8.3	\$8.3
Appropriation	10.0	0.0	2.0	0.0	0.0
Transfers					
Hurricane Isabel	-2.9	-0.3	-0.8	0.0	0.0
Ending Balance	\$7.4	\$7.1	\$8.3	\$8.3	\$8.3

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

Source: Department of Budget and Management, January 2007

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.
- **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 2004 with an \$8.2 million balance. 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 \$12,976. From fiscal 2006 through 2008, interest earnings are projected to provide approximately \$500 annually.

Joseph Fund Account Status
Fiscal 2004-2008
(\$ in Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance	\$8,226	\$13	\$13	\$13	\$14
Appropriation	0	0	0	0	0
Interest	20	0	1	1	1
Transfer to General Fund – Chapter 440 of 2002, Section 1 (BRFA)	-8,233	0	0	0	0
Ending Balance	\$13	\$13	\$14	\$14	\$15

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

Source: Department of Budget and Management, January 2007