Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 28 (Delegate Krimm)
Appropriations Budget and Taxation

Unappropriated General Fund Surplus - Appropriation to Pension Fund and Postretirement Health Benefits Trust Fund

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This bill requires that, beginning in fiscal 2021, an amount equal to one-quarter of the unappropriated general fund surplus in excess of $10.0 million from the second prior fiscal year be paid to both the State Retirement and Pension System (SRPS) trust fund and the Postretirement Health Benefits Trust Fund. The amounts contributed to each of the two funds may not exceed $25.0 million in a given fiscal year. The bill also modifies an existing reporting requirement for the Department of Legislative Services (DLS), establishing that DLS must conduct a review and make recommendations regarding the appropriate amount to be contributed to SRPS when the system's funding level reaches 85%.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Special fund revenues for the Revenue Stabilization Account (Rainy Day Fund) decrease by up to $50.0 million beginning in FY 2021, meaning that those funds are not available for transfer to the general fund for budget relief, if needed. Special fund revenues (divided equally) increase by a commensurate amount for the SRPS trust fund and the Postretirement Health Benefits Trust Fund. The actual amount paid to the SRPS trust fund and Postretirement Health Benefits Trust Fund cannot be reliably estimated because they are contingent on the level of unappropriated general fund surplus in each fiscal year, which cannot be estimated. Supplemental payments to the two trust funds reduce future State liabilities and employer costs, but those benefits cannot be estimated and occur beyond the five-year scope of this fiscal and policy note. DLS can complete the required review with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Budget Reconciliation and Financing Act of 2015 (Chapter 489) required that, for fiscal 2017 through 2020, an amount equal to one-half of the unappropriated general fund surplus in excess of $10.0 million from the second prior fiscal year be paid to the SRPS trust fund, up to a maximum of $50.0 million annually. Chapter 489 also required DLS to review and make recommendations by December 1, 2019, regarding the appropriate amount to be paid to the SRPS trust fund and whether those payments should be altered or eliminated.

Any unappropriated general fund balance in excess of $10.0 million that is not otherwise paid to the pension trust fund is paid to the Revenue Stabilization Account (also known as the Rainy Day Fund). Any funds in the Rainy Day Fund in excess of 5% of the State's annual operating expenditures are available for transfer to the general fund for budget relief; if the transfer reduces the Rainy Day Fund balance below 5%, funds may only be transferred contingent on separate authorizing legislation.

Chapter 466 of 2004 created the Postretirement Health Benefits Trust Fund to provide a vehicle for the State to prefund future costs associated with providing health coverage to State retirees.

Background: The unappropriated general fund balance at closeout exceeded $10.0 million in both fiscal 2015 ($295.3 million) and fiscal 2016 ($196.5 million). At these levels, the maximum $50.0 million contribution to the SRPS trust fund was made in fiscal 2017 and is required to be included in the Governor's allowance again in fiscal 2018. The SRPS funded level is not expected to reach 85% until at least fiscal 2026.

The State continues to fund retiree health benefits on a pay-as-you-go basis. Total claims costs for retirees were $490.8 million in fiscal 2016. The State made contributions to the Postretirement Health Benefits Trust Fund in fiscal 2007, 2008, and 2009 but has not made any contributions to the fund since then. As of June 30, 2016, the market value of assets in the fund was $276.0 million.

State Fiscal Effect: Under current law, the $50.0 million "sweeper" provision that allocates up to $50.0 million from the unallocated general fund surplus to the SRPS trust fund terminates after fiscal 2020. Therefore, the bill causes up to $50.0 million in surplus general funds to be paid to the SRPS trust fund and the Postretirement Health Benefits

Trust Fund instead of to the Rainy Day Fund beginning in fiscal 2021. This represents a reduction in special fund revenues (for the Rainy Day Fund) and a corresponding increase in other special fund revenues (for each of the two trust funds). Since those funds are no longer being paid to the Rainy Day Fund, they are not available for transfer to the general fund for budget relief.

The supplemental payments made to the two trust funds reduce State pension and retiree health liabilities in future years. As the State funds pension benefits on an actuarial basis, the reduction in pension liabilities likely reduces employer pension contributions beginning in fiscal 2023, which is beyond the five-year scope of this fiscal and policy note. Moreover, those reductions cannot be reliably estimated since it is not known whether the supplemental payments will be made and, if so, how much those payments will be. As the State continues to fund retiree health benefits on a pay-as-you-go basis, the reduction in liabilities has no practical effect on State expenditures for those benefits, but the bill provides added resources to the trust fund to cover those costs in future years.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management; Segal Group, Inc.; State Retirement Agency; Department of Legislative Services

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