Y01A
State Reserve Fund

Operating Budget Data

($ in Thousands)

	FY 12 Actual	FY 13 Working	FY 14 Allowance	FY 13-14 Change	% Change Prior Year
General Fund	$15,000	$27,758	$476,256	$448,498	1615.8%
Contingent & Back of Bill Reductions	0	0	-100,000	-100,000	
Adjusted General Fund	**$15,000**	**$27,758**	**$376,256**	**$348,498**	**1255.5%**
Adjusted Grand Total	**$15,000**	**$27,758**	**$376,256**	**$348,498**	**1255.5%**

- The fiscal 2014 allowance for the State Reserve Fund totals $476.3 million; an increase of $448.5 million over the fiscal 2013 working appropriation. However, the Administration proposes $100.0 million in reductions contingent upon budget reconciliation legislation, which would lower the allowance to $376.3 million.

- The appropriation to the Rainy Day Fund totals $371.3 million, which accounts for $343.5 million of the increase. The Administration proposes to transfer $166.0 million to the general fund, leaving a balance of $921.1 million in the account. This is equal to 6% of estimated general fund revenues.

- The appropriation to the Dedicated Purpose Account totals $105.0 million. Of this, $50.0 million represents a mandated appropriation toward the repayment of monies transferred to the general fund from Program Open Space (POS); $50.0 million is an initial repayment for funds borrowed from the Local Reserve Account; and $5.0 million is allocated for a new Government Innovation Fund.

- Budget reductions contingent upon the Budget Reconciliation and Financing Act of 2013 propose to delete the appropriations for POS and the Local Reserve Account. The Administration also proposes to repeal the requirement to repay the first $350.0 million that was borrowed from the Local Reserve Account.

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

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Analysis in Brief

Major Trends

Rainy Day Fund Balance Increased to 6%: Each year, the Governor is required to appropriate an amount equivalent to the surplus above $10.0 million from the most recently completed fiscal year. For fiscal 2014, the amount from the fiscal 2012 closeout totals $371.3 million, although $166.0 million is transferred to the general fund. This increases the balance in the Rainy Day Fund to $921.1 million, or 6% of estimated general fund revenues. This is the largest balance since fiscal 2007.

Issues

Cash Management Lessons from the 2008 Recession: During the last two recessions, general fund revenues fell by approximately 5.0% a year, necessitating multi-year solutions to maintaining balanced budgets. This included several billion dollars in transfers from various programs and fund balances. Efforts should be undertaken to build cash reserves in the Rainy Day Fund and general fund balance to better position the State against the effects of future downturns. **It is recommended that the percent of the Rainy Day Fund that can only be accessed through separate legislation be phased up to 7.5%, and that the Spending Affordability Committee continue recommending a minimum fund balance requirement each year.**

Program Open Space Repayment Proposed for Deferral: A $90 million transfer from POS to the general fund in fiscal 2006 is required to be repaid under current law. Due to the slow recovery and economic uncertainty the repayment was deferred in fiscal 2012 and 2013 and is proposed to be deferred until at least fiscal 2016, if then. **It is recommended that the budget committees consider repealing the general fund repayment requirement of the outstanding $90 million obligation to POS.**

Repeal of Local Reserve Account Repayment Is Proposed: In fiscal 2011, $550 million was transferred from the Local Reserve Account to help balance the general fund budget. The first $350 million is to be repaid starting in fiscal 2014, at $50 million per year for seven years. The Administration proposes repealing this repayment requirement, but this will increase the State's unfunded liabilities. **It is recommended that the Administration address whether this unfunded liability should ever be repaid if the requirement is repealed.**

Recommended Actions

		Funds
1.	Reduce Rainy Day Fund appropriation to conform with the Administration's funding plan.	$ 166,000,000
2.	Strike contingent language to reimburse the Local Reserve Account.	
3.	Strike contingent language to reimburse Program Open Space.	
4.	Concur with the reduction proposed by the Governor and delete general funds to reimburse Program Open Space.	50,000,000
5.	Concur with the reduction proposed by the Governor to delete general funds to repay the Local Reserve Account.	50,000,000
6.	Delete funds for the Government Innovation Fund.	5,000,000
7.	Add language to retain funds in the Rainy Day Fund Balance.	
	Total Reductions	**$ 271,000,000**

Updates

Comparison of AAA-rated States' Rainy Day Funds: In addition to Maryland, there are eight states with AAA bond ratings from the three major rating agencies. They are Alaska, Delaware, Georgia, Iowa, Missouri, North Carolina, Utah, and Virginia. The update examines the reserve fund policies and recent actions in these states.

State Reserve Fund

Operating Budget Analysis

Program Description

The State Reserve Fund provides a means to designate monies for future use. It comprises four individual accounts:

- Revenue Stabilization Account (Rainy Day Fund);
- Dedicated Purpose Account (DPA);
- Catastrophic Event Account; and
- Economic Development Opportunities Account (Sunny Day Fund).

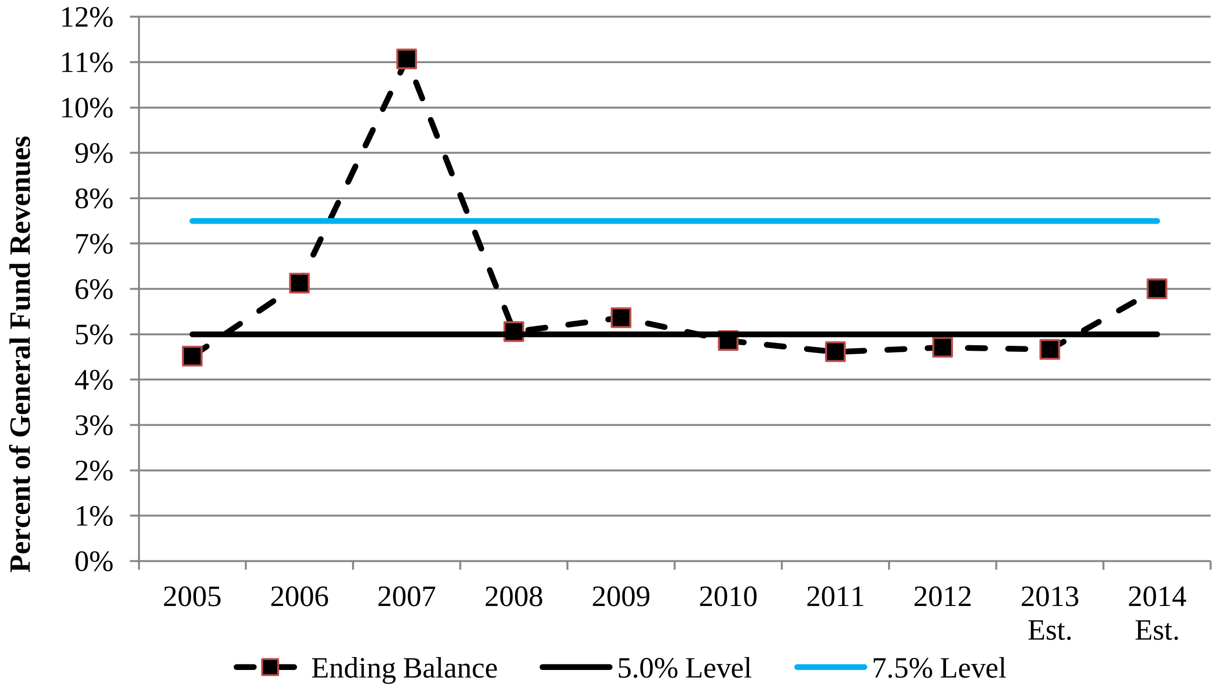
The purpose and status of three of these accounts is discussed in more detail in this analysis. Discussion of the Sunny Day Fund can be found in the analysis of the Department of Business and Economic Development.

Performance Analysis: Managing for Results

1. Rainy Day Fund Balance Increased to 6%

Section 7-311 of the State Finance and Procurement Article establishes a target reserve balance of 7.5% of estimated general fund revenues. The Governor is authorized to expend balances down to 5.0% in the annual budget bill, which has been the case over the past seven fiscal years as the State grappled with structural deficits. **Exhibit 1** provides the actual and estimated closing balances in the Rainy Day Fund since fiscal 2005. The fund reached a peak of 11.0% in fiscal 2007, which was drawn down to 5.0% to aid in balancing the fiscal 2008 budget. Since then annual appropriations to the fund have been used to help balance annual budgets following the 2008 recession.

Exhibit 1
Rainy Day Fund End-of-year Balances
Fiscal 2005-2014
($ in Millions)



Source: Department of Budget and Management, January 2013

Proposed Budget

The fiscal 2014 allowance, net of contingent reductions, totals $376.3 million, an increase of $348.5 million over the fiscal 2013 working appropriation. This includes one appropriation to the Rainy Day Fund and three appropriations to the DPA.

Rainy Day Fund

As shown in **Exhibit 2**, the allowance provides $371.3 million to the Rainy Day Fund, equal to the fiscal 2012 closing surplus over $10.0 million. As part of the Administration's fiscal plan for the 2013 session, $166.0 million is proposed to be transferred to the general fund. This leaves a balance of $921.1 million, which is 6.0% of estimated general fund revenues. The fund is short of the required 7.5% balance by $230.2 million.

Exhibit 2
Proposed Budget
State Reserve Fund
($ in Thousands)

How Much It Grows:	General Fund	Total
2013 Working Appropriation	$27,758	$27,758
2014 Allowance	476,256	476,256
Amount Change	$448,498	$448,498
Percent Change	1615.8%	1615.8%
Contingent Reductions	-$100,000	-$100,000
Adjusted Change	$348,498	$348,498
Adjusted Percent Change	1255.5%	1255.5%

Where It Goes:	
Rainy Day Fund	
Fiscal 2013 appropriation to the Rainy Day Fund	-$28
Fiscal 2014 appropriation to the Rainy Day Fund	371
Dedicated Purpose Fund	
Program Open Space repayment	50
Contingent reduction of Program Open Space repayment	-50
Local Reserve Account repayment	50
Contingent reduction of Local Reserve Account repayment	-50
Government Innovation Fund	5
Total	**$348**

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

Dedicated Purpose Account

The allowance includes three appropriations to the Dedicated Purpose Account, although two of them are proposed to be deleted contingent on budget reconciliation legislation:

- $50 million toward repayment of $90 million that was transferred from Program Open Space (POS) to the general fund to help balance the fiscal 2006 budget. Section 13-209(g) of the Tax-Property Article required repayment starting in fiscal 2012 but thus far repayment has been deferred each year;

- $50 million toward repayment of the first $350 million transfer from the Local Reserve Account that was used in balancing the fiscal 2011 budget; and

- $5 million to create a new Government Innovation Fund. This one-time funding would allow State agencies to implement proposals that would improve operational efficiency.

Budget Reconciliation Legislation

As it pertains to the Reserve Fund, the Budget Reconciliation and Financing Act (BRFA) of 2013 proposes two contingent reductions totaling $100 million. First, the Administration proposes a contingent reduction of $50 million, which is the first mandated repayment of the $350 million transfer from the Local Reserve Account. In addition, the BRFA would repeal the requirement for the full repayment which under current law is required between fiscal 2014 and 2020. A second $50 million contingent reduction would apply to the partial repayment of POS transfer of $90 million in fiscal 2006. This requirement would be delayed until fiscal 2016.

Exhibit 3 provides an overview of State Reserve Fund activity between fiscal 2013 and 2014. Detail for each account may be found in **Appendix 3** (Rainy Day Fund), **Appendix 4** (Dedicated Purpose Account), and **Appendix 5** (Catastrophic Event Account).

Exhibit 3
State Reserve Fund Activity
Fiscal-2014
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Account	Catastrophic Event Account
Estimated Balances 6/30/12	**$671.5**	**$0.0**	**$1.0**
Fiscal 2013 Appropriations	27.8	0.0	0.0
Supplemental Teacher Retirement Grants	-5.0		
Estimated Interest	6.8		
Estimated Balances 6/30/13	**$701.1**	**$0.0**	**$1.0**
Fiscal 2014 Appropriations	371.3	105.0	0.0
Expenditures			
Program Open Space Contingent Reduction*		-50.0	
Local Reserve Account Contingent Reduction*		-50.0	
Government Innovation Fund		-5.0	
Transfers to the General Fund			
Fiscal 2014 Budget Bill	-166.0		
Estimated Interest	14.8		
Estimated Balances 6/30/14	**$921.1**	**$0.0**	**$1.0**
Percent of Revenues in Reserve	**6.0%**		

* Funding will be reduced contingent upon enactment of HB 102/SB 127, the Budget Reconciliation and Financing Act of 2013.

Source: Department of Budget and Management, January 2013

Issues

1. Cash Management Lessons from the 2008 Recession

Although the State had accumulated 5% of general fund revenues in reserve, the balance was never used in addressing the shortfalls brought about by either the 2001 or 2008 recessions. Instead, a variety of budget actions were adopted including reductions, ongoing and short-term revenues, and transfers from a number of special and nonbudgeted funds. With the general fund structural deficit reduced to a manageable level, this is an opportune time to examine and modify the State's cash management policies for the reserve fund and general fund cash balance.

Current Reserve and Cash Balance Policy

Under current statute, the State's reserve fund policy includes the following components:

- A balance requirement equal to 7.5% of general fund revenues from the Board of Revenue Estimates December forecast;
- Accessing the balance below 5.0% requires separate legislation, while use of balances above 5.0% may be spent in the budget bill; and
- Repayment to the fund requires annual appropriations of $100 million if the balance falls below 3.0% and $50 million if the balance is below 7.5%. To aid in this objective, an amount equal to unappropriated general funds above $10 million at closeout are required to be appropriated into the fund.

Maryland has no requirement for a minimum general fund balance.

2001 and 2008 Recessions

During both the 2001 and 2008 recessions, general fund revenues fell approximately 5% in the first year and decreased less than another percent in the second year. At the same time additional spending pressures were realized due to higher Medicaid and Temporary Cash Assistance caseloads. Because of the multi-year effect of each downturn on revenue and spending, the State relied on $2.4 billion in fund transfers from fiscal 2002 through 2005, and nearly $3.6 billion in fund transfers from fiscal 2008 to 2011. **Exhibit 4** shows the distribution of transfers during the most recent recession.

The bulk of the transfers over this most recent four-year period, totaling $1.6 billion, came largely from the balance of the Rainy Day Fund above 5%, although funds also came from the Dedicated Purpose, Joseph Fund, and Catastrophic Event Fund Accounts. Over $900 million came from the balance of the Local Reserve Account. This included $550 million that the State is obligated to repay to satisfy accounting reserve requirements and $367 million in overpayments that

Exhibit 4
Transfers to the General Fund
Fiscal 2008-2011
($ in Millions)

	2008	2009	2010	2011	Total 2008-2011	% of Total
State Reserve Fund	$1,078.0	$248.0	$242.4	$0.0	$1,568.4	44%
GAAP Accounts	0.0	388.1	0.0	550.0	938.1	26%
Program Open Space/Transfer Tax	0.0	137.1	205.4	27.5	370.0	10%
State Agency Funds	0.0	154.3	42.3	31.7	228.3	6%
PAYGO Capital	0.0	6.0	167.5	52.7	226.2	6%
Higher Education	0.0	29.0	137.0	13.5	179.5	5%
Nonbudgeted Agencies	0.0	35.0	6.0	0.0	41.0	1%
Total	**$1,078.0**	**$997.5**	**$800.6**	**$675.3**	**$3,551.5**	**100%**

GAAP: generally accepted accounting principles
PAYGO: pay-as-you-go

Source: Department of Legislative Services

the State made to the account from income tax revenue. The requirement for local governments to repay the $367 million transfer was repealed through Chapter 1 of the First Special Session of 2012. The remaining $1.0 billion of transfers was taken from the transfer tax, agency funds, pay-as-you-go capital programs, higher education fund balance, and nonbudgeted agencies (mostly payments from the reserve held by the Injured Workers' Insurance Fund for the State's unfunded liability).

Issues

- ***Failure to Replenish the Usual Suspects:*** Balancing budgets over the past few years required extraordinary use of the GAAP reserve from the Local Reserve Account, reliance on the transfer tax, and the issuance of debt in place of PAYGO capital for programs (e.g., housing, and economic development) which would otherwise require the issuance of taxable bonds. In the Administration's out-year budget plan and Capital Improvement Program, the Governor is proposing to forego repayment of $350 million to the Local Reserve Account, to continue use of the transfer tax to support general fund spending through fiscal 2018, and to issue taxable debt to support private activity related projects in the Department of Housing and Community Development and the Department of Information Technology (i.e., to not support this spending through general fund PAYGO, which would be the usual practice). Thus, all of these resources may not be available to assist in balancing future budgets following the next economic downturn;

- ***Cash Balance Levels:*** The Government Finance Officers Association recommends reserve fund balances ranging from 5.0 to 15.0% of general fund revenues, or one to two months of operating expenses (8.0 to 16.0%). However, as the experience of the last two recessions demonstrates, balancing post-recession budgets on reserves alone would require more than 30.0% of revenues or spending. While it is unrealistic to expect to accumulate balances of this magnitude, policies to maintain larger cash balances would mitigate the need to turn to other programs and fund balances.

- ***Access to Balance:*** Under current law, a Governor can spend the reserve fund balance down to 5.0% in the budget bill for any purpose. With this process it will be difficult to achieve a 7.5% balance in reserve. This is similar to Georgia's policy which has a balance requirement of 15.0%, but the Governor may draw balances down to 4.0%. Balances have remained in the 4.0% range. One approach to building the reserve balance would be to increase the amount that requires separate legislation from 5.0 to 6.0% for fiscal 2014 (the current balance level) and then by increasing the requirement by 25 basis points per year until 7.5% is reached in fiscal 2020.

- ***Practices in Other States:*** Maryland's hesitance to use the full fund balance lest it impact the AAA bond rating seems unwarranted. Six of the nine AAA-rated states used their reserve fund balances to address budget shortfalls after 2008 without impacting their rating. In the early 1990s, Maryland used the entire reserve balance (then at 2.0% of revenues) without negative consequence to its bond rating.

- ***No Fund Balance Requirement:*** Currently, the general fund balance is set arbitrarily based on the amount of cash that the Governor chooses to leave in fund balance, as well as what remains after legislative action. For fiscal 2014, the Spending Affordability Committee (SAC) recommended a fund balance of at least $200 million due to the uncertainty of federal action and the economy.

It is recommended that the budget committees consider the following modifications to the State's reserve fund and fund balance to improve cash management policies in advance of the next economic downturn.

- **Increase the amount of the Rainy Day Fund that can be accessed through separate legislation from 5.0 to 6.0% of general fund revenue. Beginning in fiscal 2015, increase the requirement by 25 basis points per year until accessing the full 7.5% would require separate legislation in fiscal 2020.**

- **Have the Spending Affordability Committee make an annual recommendation for a minimum fund balance.**

2. Program Open Space Repayment Proposed for Deferral

Section 13-209(g) of the Tax-Property Article requires repayment of any funds transferred from POS since fiscal 2006. Nearly $800.0 million has been diverted from the transfer tax to the general fund since fiscal 2006, including a proposed transfer of $89.2 million in fiscal 2014. Nearly all but the initial $90.0 million of transfers has been or will be repaid through general obligation bonds in the capital budget. Therefore, this amount is subject to statutory provisions which require that up to $50.0 million per year in surplus funds at closeout be allotted to repayment, starting in fiscal 2012.

Fiscal 2012 was the first year for repayment, but no funds were included in the budget due to mandate relief provided in budget reconciliation legislation. The fiscal 2013 budget included a mandated appropriation of $50 million but was proposed for deletion by the Governor in budget reconciliation legislation as part of the plan to balance the budget. The appropriation is included in the fiscal 2014 allowance with a similar proposal to again forego repayment, tied to the BRFA of 2013, which would also defer repayment until fiscal 2016. Because no end-of-year surplus general fund balances are projected after fiscal 2014, the Administration does not account for repayment at all in its fiscal 2014 to 2018 forecast.

Issues

Deferral of the POS repayment was made to help balance recent budgets, and is now proposed for deletion to aid in achieving the $200 million balance recommended by SAC. Given the tenuous nature of the current economic recovery, as well as the uncertainty surrounding federal budget action, it is unclear when or if the general fund will be in position to reimburse the $90 million transfer. The budget committees should consider repealing the repayment requirement for the $90 million transfer from fiscal 2006.

It is recommended that the budget committees consider repealing the general fund repayment requirement of the outstanding $90 million obligation to POS.

3. Repeal of Local Reserve Account Repayment Is Proposed

In fiscal 2011, $550 million was transferred from the Local Reserve Account to help balance the State budget. This included:

- $350.0 million to the Education Trust Fund. Chapter 484 (the BRFA of 2010) required that this amount be repaid in $50.0 million increments from fiscal 2014 through 2020; and

- $200.0 million for Medicaid. Chapter 484 required this amount to be repaid from fiscal 2021 through 2026 at $33.3 million per year.

According to generally accepted accounting principles (GAAP), the State is supposed to maintain a sufficient fund balance to pay future refunds, in case the income tax is no longer collected. Enactment of this repayment structure allowed the State to avoid having to report this $550 million as an unfunded liability in the *Comprehensive Annual Financial Report* (CAFR). While the first $50 million repayment is budgeted in the allowance, the Administration proposes to cut the appropriation contingent on a provision in budget reconciliation legislation to repeal the repayment of the first $350 million that was transferred. If no provision for repayment is in place, this will require reporting the liability in the CAFR.

It is recommended that the Administration address whether this unfunded liability should ever be repaid if this requirement is repealed.

Recommended Actions

		Amount Reduction	
1.	Reduce Rainy Day Fund appropriation to conform with the Administration's proposal for a fund balance equal to 6% of general fund revenues.	$ 166,000,000	GF

2. Strike the following language from the general fund appropriation:

~~, provided that $50,000,000 of this appropriation shall be reduced contingent upon the enactment of legislation repealing the required repayment to the Local Income Tax Reserve.~~

Explanation: The Administration is required to appropriate $50 million per year from fiscal 2014 through fiscal 2020 to repay $350 million transferred from the Local Reserve Account to the Education Trust Fund, as part of the plan to balance the budget at the 2011 session. The legislature can adopt this reduction without the need for contingent budget bill language; therefore, a separate reduction to concur with the Administration proposal is recommended. Striking this language is a technical action.

3. Strike the following language from the general fund appropriation:

~~Further provided that $50,000,000 of this appropriation shall be reduced contingent upon the enactment of legislation deferring the required repayment of State transfer tax revenue.~~

Explanation: The Administration is required to appropriate $50 million to partially reimburse Program Open Space for funds transferred to the general fund in fiscal 2006. The legislature can adopt this reduction without the need for contingent budget bill language; therefore, a separate reduction to concur with the Administration proposal is recommended. Striking this language is a technical action.

		Amount Reduction	
4.	Concur with the reduction proposed by the Governor to delete general funds to reimburse Program Open Space and related programs. In its fiscal 2014 budget plan, the Administration recommends deleting these funds. The Department of Legislative Services concurs with the proposed reduction.	50,000,000	GF

5.	Concur with the reduction proposed by the Governor as part of the budget, and delete general funds to reimburse the Local Reserve Account in fiscal 2014. In its budget plan the Administration recommends deleting these funds. The Department of Legislative Services concurs with the proposed reduction.	50,000,000	GF
6.	Delete the Government Innovation Fund. The Administration should first solicit agency proposals and ascertain estimated costs and savings. It would be prudent to fund initial proposals during the fiscal year from the Board of Public Works Contingent Fund, prior to embarking on a more expansive investment.	5,000,000	GF

7. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That for fiscal 2014, no funds may be transferred from the Revenue Stabilization Account of the State Reserve Fund to the General Fund.

Explanation: This action precludes the transfer of balance out of the Rainy Day Fund and into the general fund. Legislative action leaves a fund balance of 6% in the Rainy Day Fund, consistent with the Governor's plan.

Total General Fund Reductions **$ 271,000,000**

Updates

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

Nine states have AAA ratings from all three bond rating agencies: Alaska, Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Utah, and Virginia. All AAA-rated states have a Rainy Day Fund. **Exhibit 6** compares reserve fund policies.

Recent State Rainy Day Fund Actions

AAA-rated states had built up their Rainy Day Fund balances before the 2008 recession began. In response to the downturn, a number of states have withdrawn funds from their reserves. Examples of states' actions include:

- ***Alaska:*** The Statutory Budget Reserve and the Constitutional Budget Reserve ended fiscal 2012 with a combined balance of $16.7 billion, which is more than 200% of the fiscal 2012 budget. Because of higher oil related revenues, Alaska did not need to use reserve fund balances following the 2008 recession.

- ***Delaware:*** The Budget Reserve Account ended fiscal 2012 with a balance totaling $186.0 million, which is 5% of general fund revenues. Delaware has never used the balance of its reserve account since its inception.

- ***Georgia:*** The Revenue Shortfall Reserve's balance peaked at $1.5 billion in fiscal 2007. Funds were transferred out of the account to help balance the budget after the recession, with the balance declining to $103.7 million at the end of fiscal 2009 (equal to 1% of revenues). The fund has been partially replenished, with a balance of $328.0 million at the end of fiscal 2012. This represents about 2% of prior year revenue.

- ***Iowa:*** From fiscal 2009 to 2011, the balances in the reserve funds fell below the statutory maximums due to the recession that caused state tax revenues to decline. During this period, the reserves were used to offset state general fund appropriation reductions for numerous programs (primarily Medicaid). The reserves ended fiscal 2011 with a combined balance of $440.4 million, which was $102.3 million below the $542.7 million target. For fiscal 2012, the combined balances in the reserve funds reached $601.3 million, which, due to year end accounting adjustments, was slightly more than the statutory maximum of $595.5 million. Iowa projects that the reserve fund balances will reach 10% of revenues at the end of both fiscal 2013 and 2014.

- ***Missouri:*** The Budget Reserve Fund balance has been used to help balance budgets in recent years. It decreased from $557.0 million at the end of fiscal 2008 to approximately $500.0 million at the end of fiscal 2012. This is about 7% of net general fund revenue collections.

- ***North Carolina:*** The projected balance for the end of fiscal 2008 was $787.0 million, which was approximately 4% of the prior year's general fund appropriation. The state used some of these funds in fiscal 2009 and 2010; the account balance declined to $150.0 million by April 2010. The legislature increased the account by $146.0 million (one mid-year transfer was authorized) during the 2011 legislative session, and again in 2012 by $123.0 million, bringing the balance to $419.0 million or 2% of the prior year's appropriation.

- ***Utah:*** The general fund Budget Reserve Account and Education Fund Budget Reserve Account balances totaled $419.0 million at the end of fiscal 2009. Funds were withdrawn, and the balance is estimated at $233.0 million at the end of fiscal 2012. The Administration does not propose to withdraw additional funds. Fund balances are approximately 5% of general and education fund appropriations.[1]

- ***Virginia:*** The Revenue Stabilization Fund's balance ended fiscal 2008 with just over $1.0 billion. Funds were withdrawn to help balance post-recession budgets, leaving the fund with a balance of $304.0 million at the end of fiscal 2012. This is approximately 2% of general fund revenues. The State plans to increase deposits to the fund in fiscal 2013 and 2014 to build an expected balance of $681.0 million.

[1] In Utah, substantial revenues, such as individual and corporate income taxes, are deposited into the education fund instead of the general fund. Since these revenues are general fund revenues for other states, the Rainy Day Fund balance comparison to general funds includes education funds.

Exhibit 6
AAA States' Rainy Day Funds

State	Fund Name	Determination of Fund Size	Procedure for Expenditures
Maryland	Revenue Stabilization Account	Statutory 7.5% of general fund revenues.	Authorization in legislation or budget bill for balances above 5.0%. Separate legislation to spend balance below 5.0%.
Alaska	Statutory Budget Reserve (SBR), Constitutional Budget Reserve (CBR) Fund, and the Alaska Housing Capital Corporation Fund	Appropriations are made to the funds and there is no limit on fund balance.	The SBR and AHCC can be used for any purpose upon a simple majority vote of the legislature. If the amount appropriated is less than the prior fiscal year the CBR can be accessed up to the prior year's appropriation, upon a three-fourths vote of the legislature.
Delaware	Budget Reserve Account	Excess unencumbered funds, no greater than 5.0% of gross general fund revenues set by joint resolution for the next fiscal year.	Three-fifths vote of the legislature for unanticipated deficit or revenue reduction resulting from legislative action.
Georgia	Revenue Shortfall Reserve	Capped at 15.0% of the prior year's net revenue.	The Governor can spend balances over 4.0%, but not below 4.0% unless there is a revenue shortfall at the end of a fiscal year. A mid-year allocation is made for education if revenues exceed estimates by 1.0% or more at closeout.
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.	Up to one-half of the fund balance may be transferred upon a request from the Governor after he has either declared an emergency or reduced expenditures below their appropriations due to a cash shortfall, and a two-thirds super majority vote by the legislature.

State	Fund Name	Determination of Fund Size	Procedure for Expenditures
Iowa	Cash Reserve Fund (CRF) and Economic Emergency Fund (EEF)	CRF capped at 7.5% of estimated revenues, and EEF capped at 2.5% of revenues. EEF can support a prior year deficit up to $50 million if certain conditions are met.	Appropriations by the General Assembly with funds replenished each year.
North Carolina	Savings Reserve Account	July 2007 established a goal that the balance equal at least 8.0% of the prior years' general fund operating budget.	Appropriations by the General Assembly.
Utah	General Fund Budget Reserve Account and Education Fund Budget Reserve Account	25.0% of end-of-year general fund surplus is deposited into the Budget Reserve Fund and 25.0% of any education fund revenue surplus is deposited in the Education Reserve Fund. An additional 25.0% of any surplus is deposited when funds have been used until balances are replenished to prior levels. Automatic year end deposits are capped at 8.0% of general fund appropriations and 9.0% of education fund appropriations for that year. The legislature can appropriate above those levels.	Expenditures are limited to retroactive tax refunds, legal settlements, and operating deficits, upon legislative approval.
Virginia	Revenue Stabilization Fund	Capped at 15.0% of average annual tax revenues on income and retail sales tax receipts for the three years immediately preceding that fiscal year.	Legislative appropriation of the lesser of the deficit or one-half of the fund's balance if income and sales tax revenue falls more than 2.0% below projections in the enacted budget.

Source: State Legislative Fiscal Offices, January 2013

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2012					
Legislative Appropriation	$15,000	$0	$0	$0	$15,000
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	**$15,000**	**$0**	**$0**	**$0**	**$15,000**
Fiscal 2013					
Legislative Appropriation	$27,758	$0	$0	$0	$27,758
Budget Amendments	0	0	0	0	0
Working Appropriation	**$27,758**	**$0**	**$0**	**$0**	**$27,758**

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

Fiscal 2012

In fiscal 2012, $15 million in general funds was appropriated to the DPA as part of the State's multi-year commitment of grants for the Prince George's County Hospital.

Fiscal 2013

A total of $27.8 million was appropriated to the Rainy Day Fund in fiscal 2013, representing the amount necessary to maintain at least a 5% balance in the account.

Fiscal Summary
State Reserve Fund

Program/Unit	FY 12 Actual	FY 13 Wrk Approp	FY 14 Allowance	Change	FY 13 - FY 14 % Change
01 Revenue Stabilization Account	$ 0	$ 27,757,774	$ 371,256,263	$ 343,498,489	1237.5%
01 Dedicated Purpose Account	15,000,000	0	105,000,000	105,000,000	0%
Total Expenditures	**$ 15,000,000**	**$ 27,757,774**	**$ 476,256,263**	**$ 448,498,489**	**1615.8%**
General Fund	$ 15,000,000	$ 27,757,774	$ 476,256,263	$ 448,498,489	1615.8%
Total Appropriations	**$ 15,000,000**	**$ 27,757,774**	**$ 476,256,263**	**$ 448,498,489**	**1615.8%**

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Appendix 3

Revenue Stabilization Account (Rainy Day Fund)

Section 7-311 State Finance and Procurement Article

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.

- ***Required Appropriations If Account Balance Is Less Than 7.5% of General Fund Revenues:*** Current law requires that if the fund balance is between 3.0 and 7.5% of projected general fund revenues, annual appropriations of at least $50.0 million must be made until the account balance reaches 7.5% of estimated general fund revenues. If the account balance is below 3.0%, State law requires an appropriation of at least $100.0 million.

- ***Sweeper Provision:*** State law requires that the Administration appropriate an amount equal to any unassigned general fund balance at closeout in excess of $10.0 million into the Rainy Day Fund. This appropriation is made to the budget two years after the unassigned general fund surplus is realized. For example, fiscal 2008 closed with an unassigned surplus totaling $185.7 million, thus the Administration's fiscal 2010 allowance included a $175.7 million appropriation to the Rainy Day Fund. This appropriation to the Rainy Day Fund is referred to as the "sweeper".

- ***Transfer Tax Repayment:*** Section 13-209(g) of the Tax-Property Article requires that any Transfer Tax revenues transferred to the general fund after fiscal 2005 be repaid starting in fiscal 2012. The law stipulates that the first $10.0 million of unassigned general fund surplus shall be credited to the general fund, followed by a maximum of $50.0 million annually to the Transfer Tax special fund. Amounts above $60.0 million are credited to the Rainy Day Fund. The only transfer to which this applies was made in fiscal 2006, for $90.0 million. Subsequent transfers were or are in the process of largely being repaid through General Obligation bonds. No part of the $90.0 million has yet to be paid, as mandate relief in budget reconciliation legislation led to no appropriation in fiscal 2012 and funds were cut from the fiscal 2013 allowance to ensure a sufficient general fund balance.

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 2010 through 2014 activity in the Rainy Day Fund. There was no appropriation to the account in fiscal 2011 because there was no unappropriated general fund surplus in excess of $10.0 million at the end of fiscal 2009. In fiscal 2012, mandate relief included in budget reconciliation legislation exempted the closeout sweeper provision to avoid conflicting with the requirements of the federal American Recovery and Reinvestment Act of 2009. An appropriation of about $28.0 million was made in fiscal 2013 to ensure a minimum 5% fund balance, but was offset by an authorized transfer of $5.0 million to fully fund Teacher Retirement Supplemental grants. The fiscal 2014 allowance includes $371.3 million, which is equal to the unappropriated fiscal 2012 closeout balance above $10.0 million. The Governor is proposing to transfer $166.0 million from the account to the general fund in support of fiscal 2014 spending, thus the Rainy Day Fund is estimated to end fiscal 2014 with a balance equal to 6% of general fund revenues.

Revenue Stabilization Account Status
Fiscal 2010-2014
($ in Millions)

	2010	2011	2012	2013 Est.	2014 Est.
Beginning Balance	$691.8	$611.6	$624.4	$671.5	$701.1
Appropriation	139.9	0.0	0.0	27.8	371.3
Transfer to General Fund	-235.0	0.0	0.0	0.0	-166.0
Transfer from the Transportation Trust Fund	0.0	0.0	40.0	0.0	0.0
Transfer from the Dedicated Purpose Account	0.0	0.1	0.0	0.0	0.0
Fund Projects and Programs	0.0	0.0	0.0	-5.0	0.0
Interest Earnings	14.9	12.7	7.1	6.8	14.8
Ending Balance	**$611.6**	**$624.4**	**671.5**	**$701.1**	**$921.1**
General Fund Operating Revenues	$12,587.1	$13,537.4	$14,257.8	$15,035.0	$15,351.2
Excess over 5.0%	-17.7	-52.4	-41.4	-50.7	153.5
Excess over 7.5%	-332.4	-390.9	-397.8	-426.6	-230.2
Fund Balance as % of General Fund Operating Revenues	4.86%	4.61%	4.71%	4.66%	6.00%
Interest Rate Assumption	2.25%	2.05%	1.39%	1.00%	1.50%

Note: Numbers may not sum due to rounding.

Source: Department of Budget and Management, January 2013

Governor's Out-year Forecast

In the out-years, the Administration's Rainy Day Fund forecast projects that the fund balance will remain at 6.0% through fiscal 2018. Since the fund balance is projected to be less than 7.5% of general fund revenues, a minimum $50 million appropriation is assumed from fiscal 2016 to 2018. The forecast also assumes that funds above 6.0% are transferred back to the general fund. The forecast period ends with an estimated balance of $1.1 billion at the end of fiscal 2018.

Appendix 4

Dedicated Purpose Account
Section 7-310 State Finance and Procurement Article

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 affected 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.

Mechanisms for Transferring and Spending Funds

To transfer funds from the Dedicated Purpose Account (DPA):

- funds may be reflected in the State budget subject to appropriation;

- after submission to the budget committees and review and approval by the Legislative Policy Committee (LPC) funds may be transferred by budget amendment to the appropriate Executive Branch agency; or

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

Dedicated Purpose Account Activity

The following table illustrates the activity in the DPA from fiscal 2010 through 2014. The account ends the period with no fund balance.

Dedicated Purpose Account Status
Fiscal 2010-2014
($ in Millions)

	2010	2011	2012	2013	2014
Beginning Balance	**$0.6**	**$0.1**	**$0.0**	**$0.0**	**$0.0**
Appropriation:	**$0.0**	**$15.0**	**$15.0**	**$0.0**	**$105.0**
Local Income Tax Reserve Repayment					50.0
Prince George's County Hospital		15.0	15.0		
POS Repayment for General Fund Transfers					50.0
Government Innovation Fund					5.0
Transfers:	**-$0.5**	**-$15.1**	**-$15.0**	**$0.0**	**-$105.0**
Local Reserve Account Repayment*					-50.0
Prince George's County Hospital	-0.5	-15.0	-15.0		
POS Repayment for General Fund Transfers*					-50.0
Government Innovation Fund					-5.0
General Fund		-0.1			
Ending Balance	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

POS: Program Open Space

*Both appropriations would be deleted contingent upon the Budget Reconciliation and Financing Act of 2013.

Source: Department of Budget and Management, January 2013

Governor's Out-year Forecast

As discussed in the Issues section of this analysis, $550.0 million was transferred from the Local Reserve Account in fiscal 2011. The transfers provided $350.0 million for the Education Trust Fund and $200.0 million for the general fund in support of Medicaid. Chapter 484 (the Budget Reconciliation and Financing Act (BRFA) of 2010) stipulated that the State reimburse the account for the first $350.0 million at $50.0 million per year from fiscal 2014 through fiscal 2020. The remaining $200.0 million is to to be repaid through additional payments of $33.3 million from fiscal 2021 through 2026. However, in the BRFA of 2013, the Administration proposes to repeal the repayment of the initial $350.0 million. Thus there are no projected payments shown in the out-year forecast. Repayment of the $200.0 million transfer would remain in statute and the State would have to report the $350.0 million as an unfunded liability.

A contingent reduction of $50 million to partially repay the fiscal 2006 Program Open Space transfer will be implemented by the BRFA of 2013, and the repayment requirement would be deferred until fiscal 2016. Because the Administration's out-year forecast does not project positive closing general fund balances beyond fiscal 2014, there are no appropriations shown for repayment in the Dedicated Purpose Account through fiscal 2018.

Appendix 5

Catastrophic Event Account
Section 7-324 State Finance and Procurement Article

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 generated by the account are credited to the Rainy Day Fund.

Mechanisms 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 Purpose Account Activity

The following table shows that the account's balance was $8.4 million at the start of fiscal 2010. Chapter 487 (the Budget Reconciliation and Financing Act of 2009) transferred $7.4 million into the general fund in fiscal 2010. The account is expected to close fiscal 2014 with a $1.0 million balance.

Catastrophic Event Account
Fiscal 2010-2014
($ in Millions)

	2010	2011	2012	2013	2014
Beginning Balance	$8,398	$1,000	$1,000	$1,000	$1,000
Transfer to General Fund	-7,398	0	0	0	0
Ending Balance	$1,000	$1,000	$1,000	$1,000	$1,000

Source: Department of Budget and Management, January 2013