# Y01A
# State Reserve Fund

## *Operating Budget Data*

**($ in Thousands)**

| | FY 13 Actual | FY 14 Working | FY 15 Allowance | FY 14-15 Change | % Change Prior Year |
|---|---|---|---|---|---|
| General Fund | $37,758 | $55,256 | $228,214 | $172,958 | 313.0% |
| **Adjusted General Fund** | **$37,758** | **$55,256** | **$228,214** | **$172,958** | **313.0%** |
| **Adjusted Grand Total** | **$37,758** | **$55,256** | **$228,214** | **$172,958** | **313.0%** |

- The fiscal 2015 allowance for the State Reserve Fund totals $228.2 million; an increase of $173.0 million over the fiscal 2014 working appropriation. The entire appropriation is for the Revenue Stabilization Account (also referred to as the Rainy Day Fund). However, the Administration proposes to transfer $204.5 million to the general fund, leaving a balance of $800.4 million in the account. This is equal to 5% of estimated general funds.

## *Analysis in Brief*

### Major Trends

***Rainy Day Fund Balance Remains at 5% of Revenues:*** Each year, the Governor is required to appropriate an amount equivalent to the unappropriated surplus above $10 million from the most recently completed fiscal year. For fiscal 2015, the amount from the fiscal 2013 closeout totals $228 million, although $205 million is transferred to the general fund. This increases the balance in the Rainy Day Fund to $800 million, or 5%, of estimated general fund revenues.

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

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## Recommended Actions

1. Concur with Governor's allowance.

## Updates

***Comparison of AAA-rated States' Rainy Day Funds:*** There are 10 states with AAA bond ratings from the three major rating agencies. They are Alaska, Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Texas, Utah, and Virginia. The update examines the reserve fund policies and recent actions in these states.

***Program Open Space Repayment Is Deferred:*** State law required that any transfer tax revenues transferred into the general fund after fiscal 2005 were to be repaid beginning in fiscal 2012. The Budget Reconciliation and Financing Act of 2013 delayed the repayment until fiscal 2016 at the earliest.

***Disposition of Sequestration Funds:*** Sequestration is a federal budget process by which across-the-board spending reductions are implemented. Sequestration resulted in reduced federal fund appropriations in State agency budgets. The fiscal 2014 budget provided up to $97.1 million to support programs losing funds due to federal sequestration. This includes $87.1 million in pension contribution appropriations and a $10.0 million fiscal 2013 deficiency appropriation.

# 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).

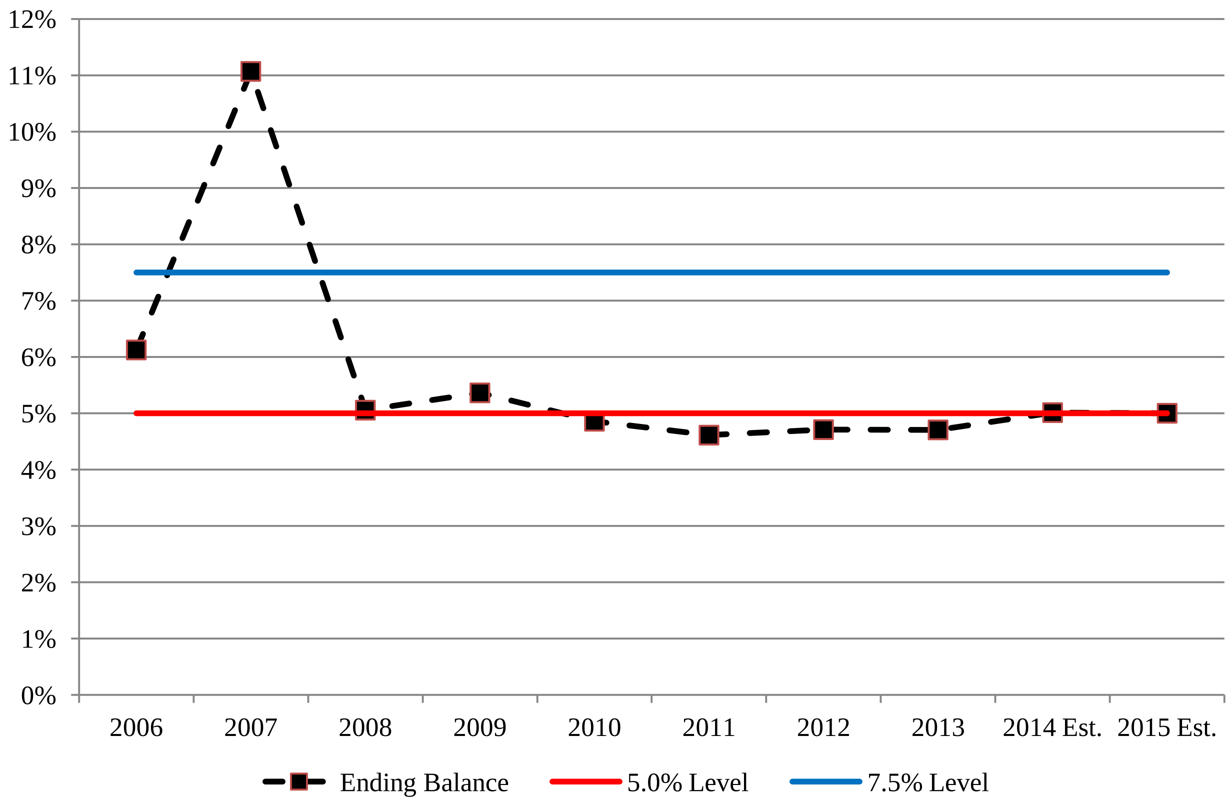
The purpose and status of three of these accounts is discussed in more detail in this analysis. Discussion of the Sunny Day Fund can be found in the analysis of the Department of Business and Economic Development (DBM).

## Performance Analysis: Managing for Results

### 1. Rainy Day Fund Balance Remains at 5% of Revenues

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 eight 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 2006. 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 2006-2015 Est.**




Source: Department of Budget and Management, January 2014

## Proposed Budget

**Exhibit 2** shows that the fiscal 2015 allowance totals $228.2 million, an increase of $173.0 million over the fiscal 2014 working appropriation. The statutorily required appropriation is equal to the unappropriated fiscal 2013 closing surplus over $10.0 million. As part of the Administration's fiscal plan for the 2014 session, $204.5 million is proposed to be transferred to the general fund. This leaves a balance of $800.4 million, which is 5.0% of estimated general fund revenues. The fund is short of the required 7.5% balance by $400.0 million.

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

| How Much It Grows: | General Fund | Total |
|---|---|---|
| 2014 Working Appropriation | $55,256 | $55,256 |
| 2015 Allowance | 228,214 | 228,214 |
| Amount Change | $172,958 | $172,958 |
| Percent Change | 313.0% | 313.0% |

| Where It Goes: | |
|---|---|
| **Rainy Day Fund** | |
| Fiscal 2014 Rainy Day Fund Appropriation | -$55,256 |
| Fiscal 2015 Rainy Day Fund Appropriation Amount Equal to Sweeper | 228,214 |
| **Total** | **$172,958** |

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

**Exhibit 3** provides an overview of State Reserve Fund activity between fiscal 2014 and 2015. 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 2014-2015**
**($ in Millions)**

| | Rainy Day Fund | Dedicated PurposeAccount | Catastrophic Event Account |
|---|---|---|---|
| **Estimated Balances 6/30/13** | **$700.4** | **$10.0** | **$0.6** |
| Fiscal 2014 Appropriations | 55.3 | 0.0 | |
| Expenditures | | | |
| Federal Sequestration | | -10.0 | |
| Estimated Interest | 7.6 | | |
| **Estimated Balances 6/30/14** | **$763.3** | **$0.0** | **$0.6** |
| Fiscal 2015 Appropriations | 228.2 | | |
| Transfer to General Fund | | | |
| Fiscal 2015 Budget Bill | -204.5 | | |
| Estimated Interest | 13.3 | | |
| **Estimated Balances 6/30/15** | **$800.4** | **$0.0** | **$0.6** |
| **Percent of Revenues in Reserve** | **5.0%** | | |

Source: Department of Budget and Management, January 2014

# *Recommended Actions*

1. Concur with Governor's allowance.

# *Updates*

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

Ten states have AAA ratings from all three bond rating agencies: Alaska, Delaware, Georgia, Iowa, Maryland, Missouri, North Carolina, Texas, Utah, and Virginia. All AAA-rated states have a Rainy Day Fund. **Exhibit 4** compares reserve fund policies. Most states' Rainy Day Fund balances were substantially reduced from fiscal 2007 to 2010. This was due to revenue reductions attributable to the Great Recession. Two states with substantial energy revenues (Alaska and Texas) did not substantially reduce Rainy Day Fund balances. Delaware was able to get through the period without using its Rainy Day Fund.

### 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 2013 with a combined balance of $17.1 billion, which is more than 200.0% of the fiscal 2013 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 5.0% 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 $104.0 million at the end of fiscal 2009 (equal to 1.0% of revenues). The fund has been partially replenished, with a balance of $378.0 million at the end of fiscal 2013. This represents about 4.0% 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 $440.0 million, which was $102.0 million below the $543.0 million target. By fiscal 2013, the combined balances in the reserve funds reached $622.0 million, which meets the statutory maximum of 10.0% of revenues. The administration's budget plans to maintain the fund balances at 10.0% of revenues.

## Exhibit 4
## 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 (AHCC) | Appropriations are made to the funds and there is no limit on fund balance. | The SBR and the 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. |
| Iowa | Cash Reserve Fund (CRF) and Economic Emergency Fund (EEF) | The CRF is capped at 7.5% of estimated revenues, and the EEF is capped at 2.5% of revenues. The 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. |

| State | Fund Name | Determination of Fund Size | Procedure for Expenditures |
|---|---|---|---|
| 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. |
| 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. |
| Texas | Economic Stabilization Fund | The fund receives an amount equal to 75.0% of oil and natural gas production revenues in any fiscal year that exceeds fiscal 1987 collections and one-half of any unencumbered General Revenue Fund (GRF) balance at surplus at the end of each biennium. The fund balance cannot exceed 10.0% of certain GRF revenues. | Funds may be appropriated to close a deficit caused by a revenue decline if approved by 3/5 of the legislature. For other purposes, 2/3 of the legislature must approve an appropriation. |

| State | Fund Name | Determination of Fund Size | Procedure for Expenditures |
|---|---|---|---|
| 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 preceeding 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 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 $505.0 million at the end of fiscal 2013. This is about 7.0% of net general fund revenue collections.

- ***North Carolina:*** The projected balance for the end of fiscal 2008 was $787.0 million, which was approximately 4.0% of the prior year's general fund appropriation. The state used some of these funds in fiscal 2009; the account balance declined to $150.0 million by the end of fiscal 2009. Appropriations to the reserve account increased the fund balance to $651.0 million by the end of fiscal 2013, bringing the balance to over 3.0% of the prior year's appropriation.

- ***Texas:*** Unlike most states, Texas' Economic Stabilization Fund increased its ending balances from fiscal 2007 ($1.3 billion) to 2010 ($7.7 billion). Funds increased because of high levels of oil and natural gas production transfers and limited use of the fund. In fiscal 2011, $3.2 billion was transferred to reduce the projected budget shortfall. Another $1.9 billion was transferred in a supplemental appropriation to support wildfire and water development board projects. At the end of fiscal 2013, the fund balance was $6.2 billion, which is 5.1% of general fund revenues.

- ***Utah:*** The general fund Budget Reserve Account and Education Fund Budget Reserve Account balances peaked at $429.0 million at the end of fiscal 2008. Funds were withdrawn, and the balances are actually at $210.0 million at the end of fiscal 2010. At the end of fiscal 2013, the fund balances increased to $404.0 million. Fund balances are just under 8.0% of general and education fund appropriations.[1] The Administration does not propose to withdraw additional funds. In addition to any required fund balances, the Governor's proposed fiscal 2015 budget includes an additional $1.0 million to the balances.

- ***Virginia:*** The Revenue Stabilization Fund's balance peaked at the end of fiscal 2007 at $1.2 billion. Funds were withdrawn to help balance post-recession budgets, leaving the fund with a balance of $295.2 million at the end of fiscal 2010. At the end of fiscal 2013, the fund balance was $440.0 million, which is almost 3.0% of revenues. The Governor's proposed fiscal 2014 to 2016 budget provides funding sufficient to increase the fund balance to $1.0 billion by the end of fiscal 2016.

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[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.

## 2. Program Open Space Repayment Is Deferred

Section 13-209 of the Tax – Property 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 unassigned general fund revenues exceeding $10 million be appropriated into the transfer tax special fund. The maximum annual transfer is limited to $50 million. This process is referred to as a "sweeper."

**Exhibit 5** shows the transfers of transfer tax revenues from the transfer tax special fund to the general fund after fiscal 2005.

**Exhibit 5**
**Program Open Space and Agricultural Land Preservation Repayments**

| Fiscal Year | Subject to Repayment | Not Subject to Repayment[1] |
|---|---|---|
| 2006 | $90,000,000 | $0 |
| 2009 | 0 | 136,542,477 |
| 2010 | 0 | 188,503,635 |
| 2011 | 0 | 23,546,577 |
| 2012 | 0 | 94,491,115 |
| 2013 | 0 | 96,870,649 |
| 2014 | 0 | 89,198,555 |
| 2015 Proposed | 0 | 144,188,544 |
| **Total** | **$90,000,000** | **$773,341,552** |

[1]Capital budget bills authorized general obligation bonds from fiscal 2009 to 2015.

Source: Department of Legislative Services, January 2014

Prior year Budget Reconciliation and Financing Acts (BRFA) delayed the effective date of the sweeper to repay the $90 million. The law now provides that a payment is not required until the fiscal 2016 appropriation. Based on DBM's general fund forecast, the unassigned balance to be appropriated in fiscal 2016 is $44 million. **Exhibit 6** shows how the amount was derived.

**Exhibit 6**
## Calculation of Fiscal 2016 Program Open Space Repayment
**($ in Millions)**

| Description | Amount |
|---|---|
| Fiscal 2014 End-of-year Fund Balance | $84 |
| Less: Fiscal 2015 Estimated Surplus | 30 |
| Unassigned General Fund Balance | 54 |
| Amount Remaining in General Fund | 10 |
| **Amount Required for POS Repayment** | **$44** |

POS: Program Open Space

Source: Department of Legislative Services

## 3. Disposition of Sequestration Funds

Sequestration is a federal budget process by which across-the-board spending reductions are implemented. The Budget Control Act (BCA) of 2011 included automatic across-the-board spending reductions if Congress and the President failed to enact a Joint Select Committee bill by January 15, 2012. The bill was required to reduce the federal budget deficit by at least $1.2 trillion over 10 years.

Congress was unable to enact the bill and the BCA required that automatic spending reductions, referred to as sequestration, take effect. A number of federal programs, such as Social Security, Medicaid, the Children's Health Insurance Program, Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, and Federal-Aid Highway Program Obligation Limitations were exempt from these reductions.

The fiscal 2014 budget provided up to $97.1 million to support programs losing funds due to federal sequestration. This includes $87.1 million in pension contribution appropriations and a $10.0 million fiscal 2013 deficiency appropriation.

### Pension Contributions

The State pension system was reformed in 2011. State employees' contributions increased from 5.0 to 7.0%. The cap on cost-of-living increases for employees in the Employees' Pension System, Teachers' Pension System, and Law Enforcement Officers' Pension System was reduced from 3.0 to 2.5% (if the system meets its annual investment target) or 1.0% (if the system did not meet its annual investment target). Though employees in the State Police Retirement System and Correctional Officers Retirement System did not have a cap on cost-of-living increases, they now have the same caps as other systems. For employees hired after June 30, 2011, the multiplier for years of service was reduced from 1.8 to 1.5% of the average final compensation. The State also established the goal of achieving 80.0% funding in 10 years. To achieve this goal, the legislation required that the State exceed contribution required in the budget by $300 million annually, beginning in fiscal 2014.

The fiscal 2014 budget provided that $87.1 million in general funds designated for the State pension fund are instead held in reserve and may be transferred into the DPA to support critical programs impacted by sequestration. Consequently, the fiscal 2014 appropriation is not $300.0 million more than required, but instead is $200.0 million more than required. The remaining $12.9 million are agency appropriations from nongeneral fund sources (such as special funds appropriated by the Maryland Department of Transportation). The BRFA of 2014 (SB 172) annually proposes to permanently require that the additional payments be limited to $200.0 million.

The fiscal 2014 budget bill language also required that DBM and the State Retirement Agency (SRA) determine whether limiting additional State payments to $200 million is appropriate in light of the State's simultaneous goals of reducing unfunded liabilities and budget sustainability.

DBM and SRA released a jointly prepared report in January 2014. The report notes that the State will reach the goal of achieving 80% funded status by:

- fiscal 2024, if an additional $300 million is reinvested annually;
- fiscal 2025, if an additional $200 million is reinvested annually; and
- fiscal 2027, if an additional $200 million is reinvested in fiscal 2014 and no additional funds are reinvested after fiscal 2014.

DBM recommends that the State reduce the annual additional contribution from $300 million to $200 million annually. This maintains the State's commitment to reinvest a portion of the savings and improves budget sustainability. DBM also notes that reducing the reinvestment to $200 million would "delay achievement of the 80% funded status for the pension system by only one year."

SRA recommends adherence to the policy established with the calendar 2011 reforms. The system notes that the State made commitments to improve the funded status of the pension system and believes that the State should be "faithful to them." The agency also expressed concerns that "(i)t is fair to expect that any further reneging on the State's reform plan will be dimly viewed (by the bond rating agencies)."

## Deficiency Appropriation

The Administration has identified programs for the $10.0 million deficiency appropriation to support. Budget amendment 005-14 transferred $8.8 million. The amendment was approved by the Legislative Policy Committee in August 2013. DBM indicates that the amendment supports the following:

- $4.1 million for the Maryland State Department of Education (MSDE) for Head Start programs, to support almost 500 low-income children attending Head Start;
- $0.8 million for MSDE vocational rehabilitation services, to provide vocational rehabilitation services for 50 individuals;
- $1.6 million for Department of Health and Mental Hygiene substance abuse prevention services, to support approximately 3,000 individuals participating in substance abuse prevention and treatment programs;
- $1.4 million for Maryland Department of Aging programs that support nutrition, employment, vulnerable adults to offer 180,000 meals for the elderly, 2,500 senior citizen health screenings, and home- and community-based services for approximately 200 seniors;
- $0.5 million for Department of Labor, Licensing, and Regulation (DLLR) training programs, to provide job placement and training assistance for approximately 7,000 people; and
- $0.4 million for DLLR adult education programs to support 75 adult education classes serving approximately 800 students.

The fiscal 2015 budget includes a $1.2 million fiscal deficiency appropriation to support the Social Services Block Grant for the Department of Human Resources (program N00G00.04). The Department of Legislative Services is advised that the funds will support salaries at the local departments.

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 2013** | | | | | |
| Legislative Appropriation | $27,758 | $0 | $0 | $0 | $27,758 |
| Deficiency Appropriation | 10,000 | 0 | 0 | 0 | 10,000 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Reversions and Cancellations | 0 | 0 | 0 | 0 | 0 |
| **Actual Expenditures** | **$37,758** | **$0** | **$0** | **$0** | **$37,758** |
| **Fiscal 2014** | | | | | |
| Legislative Appropriation | $55,256 | $0 | $0 | $0 | $55,256 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| **Working Appropriation** | **$55,256** | **$0** | **$0** | **$0** | **$55,256** |

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

## 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. An additional $10.0 million was appropriated during the 2013 session to provide a source of funds for agencies whose federal funds are reduced due to federal sequestration.

## Fiscal 2014

A total of $55.3 million in general funds was appropriated into the Rainy Day Fund, representing an amount sufficient to maintain a balance that is at least 5.0% of projected fiscal 2014 revenues.

Appendix 2

**Fiscal Summary**
**State Reserve Fund**

| Program/Unit | FY 13 Actual | FY 14 Wrk Approp | FY 15 Allowance | Change | FY 14 - FY 15 % Change |
|---|---|---|---|---|---|
| 01 Revenue Stabilization Account | $ 27,757,774 | $ 55,256,263 | $ 228,213,999 | $ 172,957,736 | 313.0% |
| 01 Dedicated Purpose Account | 10,000,000 | 0 | 0 | 0 | 0% |
| **Total Expenditures** | **$ 37,757,774** | **$ 55,256,263** | **$ 228,213,999** | **$ 172,957,736** | **313.0%** |
| | | | | | |
| General Fund | $ 37,757,774 | $ 55,256,263 | $ 228,213,999 | $ 172,957,736 | 313.0% |
| **Total Appropriations** | **$ 37,757,774** | **$ 55,256,263** | **$ 228,213,999** | **$ 172,957,736** | **313.0%** |

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 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. The fiscal 2014 Budget Reconciliation and Financing Act delayed earliest repayment until fiscal 2016.

## 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 2011 through 2015 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. Appropriations totaling $27.8 million in fiscal 2013 and $55.3 million in fiscal 2014 were made to ensure a minimum 5.0% fund balance. The Budget Reconciliation and Financing Act of 2012 authorized the transfer of $5.0 million to fully fund Teacher Retirement Supplemental grants. The fiscal 2015 allowance includes $228.2 million, which is equal to the unassigned fiscal 2013 closeout balance above $10.0 million. The Governor is proposing to transfer $204.5 million from the account to the general fund in support of fiscal 2015 spending, thus the Rainy Day Fund is estimated to end fiscal 2015 with a balance equal to 5.0% of general fund revenues.

### Revenue Stabilization Account Status

**Fiscal 2011-2015 Est.**
**($ in Millions)**

| | 2011 | 2012 | 2013 | 2014 Est. | 2015 Est. |
|---|---|---|---|---|---|
| Beginning Balance | $611.6 | $624.4 | $671.5 | $700.4 | $763.3 |
| Appropriation | 0.0 | 0.0 | 27.8 | 55.3 | 228.2 |
| Transfer to General Fund | 0.0 | 0.0 | 0.0 | 0.0 | -204.5 |
| Transfer from Transportation Trust Fund | 0.0 | 40.0 | 0.0 | 0.0 | 0.0 |
| Transfer from Dedicated Purpose Account | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fund Projects and Programs | 0.0 | 0.0 | -5.0 | 0.0 | 0.0 |
| Interest Earnings | 12.7 | 7.1 | 6.1 | 7.6 | 13.3 |
| **Ending Balance** | **$624.4** | **671.5** | **$700.4** | **$763.3** | **$800.4** |

| | 2011 | 2012 | 2013 | 2014 Est. | 2015 Est. |
|---|---|---|---|---|---|
| General Fund (GF) Operating Revenues | $13,537.4 | $14,257.8 | $14,885.0 | $15,230.6 | $16,005.3 |
| 5.0% of GF Revenues | 676.9 | 712.9 | 744.3 | 761.5 | 800.3 |
| 7.5% of GF Revenues | 1,015.3 | 1,069.3 | 1,116.4 | 1,142.3 | 1,200.4 |
| Excess over 5.0% | -52.4 | -41.4 | -43.8 | 1.8 | 0.1 |
| Excess over 7.5% | -390.9 | -397.8 | -415.9 | -379.0 | -400.0 |
| Fund Balance as % of GF Operating Revenues | 4.61% | 4.71% | 4.71% | 5.01% | 5.00% |
| Interest Rate Assumption | 2.05% | 1.39% | 1.00% | 1.00% | 1.50% |

Note: Numbers may not sum due to rounding.

Source: Department of Budget and Management, January 2014

## Governor's Out-year Forecast

In the out years, the Administration's Rainy Day Fund forecast projects that the fund balance will remain at 5.0% through fiscal 2019. Since the fund balance is projected to be less than 7.5% of general fund revenues, a minimum $50.0 million appropriation is assumed from fiscal 2016 to 2019. The forecast also assumes that funds above 5.0% are transferred back to the general fund. The forecast period ends with an estimated balance of $990.1 million at the end of fiscal 2019.

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 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 2011 through 2015. The account ends the period with no fund balance.

## Dedicated Purpose Account Status
**Fiscal 2011-2015**
**($ in Millions)**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Beginning Balance** | **$0.1** | **$0.0** | **$0.0** | **$10.0** | **$0.0** |
| | | | | | |
| **Appropriation:** | **$15.0** | **$15.0** | **$10.0** | **$0.0** | **$0.0** |
| Local Income Tax Reserve Repayment | | | | | |
| Prince George's County Hospital | 15.0 | 15.0 | | | |
| Federal Sequestration Impacts | | | 10.0 | | |
| | | | | | |
| **Transfers:** | **-$15.1** | **-$15.0** | **$0.0** | **-$10.0** | **$0.0** |
| Prince George's County Hospital | -15.0 | -15.0 | | | |
| Federal Sequestration | | | | -10.0 | |
| Federal Sequestration/Employee Pension | | | | | |
| General Fund | -0.1 | | | | |
| | | | | | |
| **Ending Balance** | **$0.0** | **$0.0** | **$10.0** | **$0.0** | **$0.0** |

Source: Department of Budget and Management, January 2014

## Governor's Out-year Forecast

As discussed in Update 2, State law requires that transfer tax funds diverted from Program Open Space and deposited into the general fund after fiscal 2005 must be repaid. Repayment has been deferred until fiscal 2016. Based on the Department of Budget and Management's general fund forecast, the law requires that $37 million be appropriated in fiscal 2016. For the remaining years, expenditures exceed revenues and no repayment will be required.

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 $1.0 million at the start of fiscal 2011. In fiscal 2013, approximately $432,313 was transferred to provide relief for victims of Hurricane Sandy and the derecho storm. The account is expected to close fiscal 2015 with a $567,687 balance.

**Catastrophic Event Account**
**Fiscal 2011-2015**
**($ in Thousands)**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Beginning Balance | $1,000 | $1,000 | $1,000 | $568 | $568 |
| Hurricane Sandy and Derecho Storm Relief | 0 | 0 | -432 | 0 | 0 |
| Ending Balance | $1,000 | $1,000 | $568 | $568 | $568 |

Source: Department of Budget and Management, January 2014