Y01A
State Reserve Fund

Operating Budget Data

($ in Thousands)

	FY 02	FY 03	FY 04	FY 02-04 Change	FY 05	FY 04-05 Change
Grants	221,759	181,029	0	-$221,759	137,653	137,653
FY 2004 Deficiencies	0	0	10,000	$10,000	0	-10,000
Adjusted Grand Total	**$221,759**	**$181,029**	**$10,000**	**-$211,759**	**$137,653**	**$127,653**
General Funds	221,759	181,029	0	-$221,759	137,653	137,653
FY 2004 Deficiencies	0	0	10,000	$10,000	0	-10,000
Adjusted General Funds	**$221,759**	**$181,029**	**$10,000**	**-$211,759**	**$137,653**	**$127,653**
Adjusted Grand Total	**$221,759**	**$181,029**	**$10,000**	**-$211,759**	**$137,653**	**$127,653**
Annual % Change		**-18.4%**	**-94.5%**		**1,276.5%**	

- The budget bill includes a $10 million deficiency for the Catastrophic Event Account. The allowance assumes $7.2 million to support Hurricane Isabel reconstruction and $3 million to provide fund balance for future catastrophic events.

- The fiscal 2005 allowance includes $112.7 million for the Revenue Stabilization Account. The appropriation is mandated by State law through the sweeper provision.

- The Administration proposes to provide a $25 million appropriation for the Dedicated Purpose Account. The funds are to be transferred to the Transportation Trust Fund (TTF) to reimburse the TTF for funds transferred from the TTF to the general fund in the Budget Reconciliation and Financing Act of 2003.

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

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Analysis in Brief

Issues

Comparison of Maryland's Rainy Day Fund with Other AAA States: The issue examines rainy day fund policies and actions of Maryland and other AAA-rated states. **The Department of Budget and Management should brief the committees on the Administration's policies.**

Rainy Day Fund's Minimum Fund Balance Requirement Is Ambiguous: Concerns are raised about ambiguities in the State law that requires that the Rainy Day Fund account balance be 5% of general fund revenues. **It is recommended that the law be changed to clarify which general fund forecast should be used to determine what an adequate Rainy Day Fund account balance is. Contingent language reducing the Rainy Day Fund balance to 5% of Board of Revenue Estimates' fiscal 2005 general fund estimate is recommended.**

Dedicated Purpose Account Allowance Includes $25 Million to Reimburse the TTF without Providing for a Comprehensive Plan: The issue discusses the Administration's proposal to begin reimbursing the trust fund. **The Administration should brief the committee on its plans to reimburse the TTF.**

Recommended Actions

		Funds
1.	Add budget bill language making Rainy Day Fund appropriations contingent on the enactment of clarifying legislation.	
2.	Delete proposed appropriation to Dedicated Purpose Account for the Transportation Trust Fund.	$ 25,000,000
	Total Reductions	**$ 25,000,000**

Updates

Budget Reconciliation and Financing Act Modifies Reserve Fund: This provides an update of the changes to the Reserve Fund enacted in the Budget Reconciliation and Financing Act of 2003.

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; Catastrophic Event Account; Joseph Fund Account; and Economic Development Opportunities Program Account ("Sunny Day Fund"). The purpose and status of each account is discussed in more detail in the body of this analysis. A separate analysis is prepared for the Sunny Day Fund so it is not discussed in this analysis.

Fiscal 2004 Actions

Proposed Deficiency

The budget bill includes $10 million for the Catastrophic Event Account. If approved, this appropriation increases funds available from $227,630 to $10.2 million. The Department of Budget and Management (DBM) proposes that $7.2 million will support Hurricane Isabel reconstruction efforts. Hurricane Isabel struck Maryland in September 2003. Although the storm was no longer a hurricane when it arrived in Maryland, the storm did extensive damage in the State. Most of the damage was concentrated along the Chesapeake Bay and was attributable to flooding. The hurricane came during the high tide, which resulted in a storm surge as high as eight feet in some places.

Exhibit 1 shows that DBM's preliminary cost estimate assumes a fiscal impact of $54.7 million to the State. At this point, this is still a preliminary estimate, and the costs change weekly. DBM has made two commitments totaling an estimated $3.2 million. The other needs assistance programs at the Department of Human Resources provide money for expenses not covered by insurance, such as medical, dental, personal property, and transportation. These costs are eligible for Federal Emergency Management Agency (FEMA) relief funds. Under this arrangement the State would be reimbursed 75% of costs with federal funds. It is currently assumed that this results in $7.5 million in federal reimbursements. DBM proposes funding the remaining $2.5 million with the Catastrophic Event Account. DBM also projects $2.7 million to support soil contamination remediation. This is primarily to clean up heating oil spills from tanks that were damaged during the hurricane. It is expected that FEMA will reimburse the State for $2 million.

Exhibit 1
Preliminary Costs of Hurricane Isabel to the State
($ in Millions)

Source	Federal Reimb.	Insurance Reimb.	Absorbed by State Agencies	Catastrophic Event Account	Total
Individual – Other Needs Assistance Program	$7.5	$0.0	$0.0	$2.5	$10.0
Soil Contamination Remediation	2.0	0.0	0.0	0.7	2.7
FEMA Claims for Damage to State Agency's Property	24.9	0.0	8.3	0.0	33.2
State Agency Insurance Claims	0.0	0.4	0.0	0.0	0.4
Operating Costs Ineligible for FEMA or Insurance	0.0	0.0	2.2	0.0	2.2
Shoreline Damage Remediation	0.0	0.0	5.0	0.0	5.0
Total Cost	**$34.4**	**$0.4**	**$15.5**	**$3.2**	**$53.5**
Revenue Loss	$0.0	$0.0	$1.2	$0.0	$1.2
Total State Agency Impact	**$34.4**	**$0.4**	**$16.7**	**$3.2**	**$54.7**

FEMA = Federal Emergency Management Agency

Source: Department of Budget and Management, January 2004

The remaining costs attributable to the hurricane are State property damage, operating costs, and shoreline damage. Currently, these costs are projected to be $34.4 million reimbursed by FEMA, $400,000 reimbursed by insurance, and $15.5 million absorbed by State agencies. It is currently assumed that approximately $400,000 of the damage to State property will be covered by insurance. With respect to the FEMA claims, it is possible that some of these claims will be eligible for insurance, which would reduce the State’s costs below the $8.3 million currently projected. Some State operating costs, such as additional overtime costs and 24-hour-a-day/7-day-a-week institutions, are ineligible for both insurance and FEMA costs, and these costs would be fully paid for by the State. DBM also estimates $5 million in costs to remediate damage to shorelines at State-owned facilities, such as the Department of Natural Resources’ Point Lookout State Park. These funds are currently not eligible for insurance or FEMA reimbursement.

To date, DBM has not made any commitment to fund the $15.5 million in State costs with the Catastrophic Event Account. This implies that the agencies will have to absorb these costs. It is unclear to what extent these costs will change and to what extent State agencies will be able to absorb these costs. The appropriation assumes that $4 million is sufficient for any funds that agencies cannot absorb and that a $3 million account balance will remain.

Governor's Proposed Budget

The fiscal 2005 allowance proposes appropriating $137.7 million. **Exhibit 2** shows that this includes:

- $112.7 million in proposed appropriations to the Rainy Day Fund. Section 7-311 of the State Finance and Procurement Article requires that the Governor's allowance include the unappropriated general fund surplus that exceeds $10 million for the most recently ending fiscal year. Fiscal 2003 closed with a $122.7 million unappropriated general fund surplus, hence a $112.7 million appropriation is required. In addition to appropriating the funds, the budget bill also assumes that $91 million will be transferred from the Rainy Day Fund to the general fund to support State expenditures. This leaves a net increase of $21.7 million for the account; and

- $25 million in proposed appropriations into the Dedicated Purpose Account (DPA) as an initial repayment to the Transportation Trust Fund (TTF). The details are discussed in **Issue 3**.

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

	FY 03 Actual	FY 04 Approp.	FY 05 Allowance	FY 04-05 Change	FY 04-05 % Change
General Funds	$181,029	$0	$137,653	$137,653	n/a
FY 2004 Deficiencies	0	10,000	0	-10,000	-100.0%
Adjusted General Funds	**$181,029**	**$10,000**	**$137,653**	**$127,653**	**1,276.5%**
Adjusted Grand Total	**$181,029**	**$10,000**	**$137,653**	**$127,653**	**1,276.5%**

Where It Goes:	
Personnel Expenses	
Other Changes	
Unappropriated Fiscal 2003 General Fund Surplus (Sweeper Provision)	$112,653
Dedicated Purpose Account Appropriation	25,000
Fiscal 2004 Deficiency Appropriation to Catastrophic Event Account	-10,000
Total	**$127,653**

Note: Numbers may not sum to total due to rounding

Exhibit 3 provides an overview of State Reserve Fund activity between fiscal 2003 and 2005. Detail for each account can be found in **Appendix 4** (Rainy Day Fund), **Appendix 5** (Dedicated Purpose Account), **Appendix 6** (Catastrophic Event Account), and **Appendix 7** (Joseph Fund Account).

Exhibit 3
Fiscal 2003 to 2005 Reserve Fund Activity
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.	Joseph Fund Acct.
Balances on Hand June 30, 2002	**$547.9**	**$100.8**	**$0.2**	**$8.1**
Fiscal 2003 Appropriations:	181.0			
Expenditures:				
TANF/Welfare Programs		-10.0		
Transfers:				
General Fund – 2002 Session	-249.0	-78.4		
General Fund – 2003 Session		-0.9		
Estimated interest:	10.3			0.2
Balances on Hand June 30, 2003	**$490.2**	**$11.4**	**$0.2**	**$8.2**
Fiscal 2004 Appropriations				
Fiscal 2004 Deficiency Appropriations			10.0	
Expenditures:				
Child Welfare Services				-8.2
TANF/Welfare Programs		-11.4		
Hurricane Isabel Reconstruction			-7.2	
Estimated Interest:	6.5			0.0
Estimated Balances June 30, 2004	**$496.7**	**$0.0**	**$3.0**	**$0.0**
Fiscal 2005 Appropriations	$112.7	$25.0		
Expenditures				
Reimburse Transportation Trust Fund		-$25.0		
Transfers to General Fund	-$91.0			
Estimated Interest	$10.4			$0.0
Estimated Balances June 30, 2005	**$528.8**	**$0.0**	**$3.0**	**$0.0**
Balance in Excess of 5% GF Revenues	**0.4**			

TANF = Temporary Assistance for Needy Families
Note: Numbers may not sum to total due to rounding.
Source: Department of Budget and Management

Issues

1. Comparison of Maryland's Rainy Day Fund with Other AAA States

This analysis examines other States' rainy day fund policies, by comparing the practices of the other six AAA-rated states. The states chosen are only those states that have AAA ratings from all three rating agencies, Fitch, Moody's, and Standard and Poor's. Currently, there are seven states with AAA ratings from all three agencies: Maryland, Delaware, Georgia, Missouri, South Carolina, Utah, and Virginia.

AAA State Rainy Day Funds Compared

Exhibit 4 shows the differences in rainy day funds of different AAA states. Missouri has the largest minimum balance, which is 7.5%. Georgia has the smallest minimum fund balance, 3%. Some states, such as Delaware, Missouri, and Virginia, limit the maximum fund balance. Although most fund balances are compared to general fund revenues, there is some variation, as Virginia relates its fund balance to income and retail sales tax receipts, and Utah relates its fund balance to general fund appropriations. There is also variation on how to measure a fund's minimum balance. For example, Utah uses the budget year's revenue figure to estimate its threshold, while Georgia uses prior year's revenues to estimate its threshold.

Compared to other AAA states, the size of Maryland's fund is fairly average, as the 5% limit is smaller than some and larger than others. Maryland also uses general fund revenues as the point-of-reference, which is the most common practice among AAA states.

Recent State Actions

In the current economic climate, most states are experiencing budget shortfalls. Some AAA states have taken a number of actions in recent years to transfer rainy day funds into the general fund. Examples of states responses to the economic slowdown include:

- **Delaware:** The Budget Reserve Account is projected to end fiscal 2004 with a $136.5 million fund balance, which is over 5% of revenues. Delaware has maintained its balance throughout the national economic slowdown in recent years.

- **South Carolina:** The Capital Reserve Fund balance is projected to be $98.6 million at the end of fiscal 2004, which is 2% of revenues. The General Reserve Fund balance is projected to be $49.3 million, which is 1% of revenues.

Exhibit 4
AAA States' Rainy Day Funds
($ in Millions)

State	Fund Name	Determination of Fund Size	Procedure for Expenditures
Maryland	Revenue Stabilization Account	Statutory 5% of general fund revenues	Act of General Assembly or budget bill authorization
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	3% of prior year net revenue	Revenue shortfall during current year
Missouri	Budget Reserve Fund	7.5 to 10% of net general revenue	Governor determines shortfall, subject to legislative disapproval
South Carolina	Capital Reserve Fund (CRF)	2% of general fund revenue of last fiscal year	Use when year-end deficit is projected
	General Reserve Fund	3% of general fund revenue of last fiscal year	Use for shortfall when CRF is depleted
Utah	Budget Reserve Account	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 fiscal year	Legislative appropriation

Source: National Association of State Budget Officers, *Budget Processes of the State*, January 2002

- **Utah:** In fiscal 2002, $105 million was withdrawn from its rainy day fund. The end-of-year fiscal 2003 fund balance was $26.6 million, which is just over 1% of appropriations. In December 2003, the Governor recommended that the legislature appropriate $25 million into the account.

- **Virginia:** The fund balance is estimated to be $158.6 million at the end of fiscal 2004, which is 1.3% of general fund revenues. In the budget proposed by the governor, the state would begin replenishing the fund in fiscal 2006. Moody's investor services recently put Virginia on credit watch.

Compared to some other AAA states, Maryland's projected Rainy Day Fund balance is quite high. In this recession Maryland has refrained from transferring funds into the general fund and reducing its balance below its minimum. This gives the State a cushion in case revenue projections are lowered during fiscal 2004 and additional cost containment reductions need to be made.

Why Minnesota Lost Its AAA Rating

Until June 2003, Minnesota was AAA rated by all three rating agencies. Minnesota's bond rating was downgraded to Aa1 by Moody's prior to its June 2003 bond sale. Moody's noted that Minnesota's fiscal problems began in its fiscal 2002-03 biennial budget. That budget was balanced primarily by fund transfers and dipping into its rainy day fund. Before enacting its new budget, Minnesota's projected fiscal 2004 – 2005 budget shortfall was $4.2 billion, compared to a fiscal 2002 – 2003 biennial budget that totaled $26.6 billion. Moody's downgraded Minnesota's debt because of concerns that the budget enacted did not adequately address the structural deficit. Specific concerns are:

- **Depleted rainy day fund:** The fund balance was projected to be $0 by the end of fiscal 2002 – 2003. The State's undesignated general fund balance was $56.5 million.

- **Over-reliance on fund transfers to balance budget:** The budget included $1.7 billion in fund transfers such as $1 billion in tobacco fund transfers and approximately $700 million through accelerating sales tax and human service payments.

- **Insufficient permanent revenue increases and/or expenditure reductions:** Spending was reduced by $2 billion, and revenues were increased by $200 million, which still left a $2 billion gap.

- **Overly optimistic revenue forecasting:** Moody's is concerned that personal income tax receipts are high when compared to other states, especially other Midwestern states.

Conclusion

Maryland's Rainy Day Fund appears to be adequately funded, when compared to other states' rainy day funds. Maryland has also shown restraint and is maintaining its account balance in spite of difficult economic times. While the fiscal 2005 budget still relies on fund transfers to balance the budget, the Administration has refrained from reducing the account balance below 5%. While an adequately funded Rainy Day Fund is an important component to maintaining the State's AAA bond rating, it is not the only component. **DBM should brief the committees on the Administration's Rainy Day Fund policies.**

2. Rainy Day Fund's Minimum Fund Balance Requirement Is Ambiguous

Section 7-311 of the State Finance and Procurement Article requires that Rainy Day Fund's balance be "5% of the estimated General Fund revenues for that fiscal year." The concern is that the law does not specify which general fund estimate should be used. The Board of Revenue Estimates (BRE) prepares the official revenue estimate each December, which is used when preparing the State budget. Often an Administration proposes additional revenues when preparing the budget. These additional revenues and the BRE estimated forecast are the basis for the budget. At times, the Administration's revenue estimates are not acceptable to all and much of the legislative session is spent examining various revenue proposals.

The law requiring that the Rainy Day Fund balance is 5% of revenues is too vague considering the ambiguities associated with the process by which revenue law is made. It is unclear if the December BRE estimate is legally sufficient, if the budget proposal introduced by the Administration is sufficient, or if the estimate needs to take into account every revenue proposal as the budget bill works its way through the General Assembly. Depending on the revenue estimate chosen, the required Rainy Day Fund balance can change by millions of dollars.

It is recommended that the General Assembly adopt language that clarifies the law that requires that the State maintain a Rainy Day Fund balance that is at least 5% of general fund revenues. It is recommended that the law clarify that the December BRE revenue estimate is the appropriate measure of 5% of general fund revenues. To effect this change, it is recommended that budget reconciliation legislation amend Section 7-311 (e) and (f) of the State Finance and Procurement Article so that in each instance "estimated General Fund revenues for the fiscal year" be amended to read "estimated General Fund revenues for the fiscal year AS RECOMMENDED BY THE BOARD OF REVENUE ESTIMATES IN DECEMBER PRIOR TO THE START OF THE LEGISLATIVE SESSION."

If the language clarifying the Rainy Day Fund's 5% fund balance requirement is adopted, the proposed fund balance is $9 million greater than would be required by the new law. **It is recommended that the General Assembly adopt language that reduces the appropriation $9 million, contingent on the enactment of a change in the law that clarifies the 5% fund balance requirement. The following language is proposed for the budget bill:**

, provided that the appropriation is reduced $9,000,000 if Senate Bill ?? or House Bill ?? clarifying the revenue estimate on which the Revenue Stabilization Account's five percent account balance is predicated is enacted.

3. Dedicated Purpose Account Allowance Includes a $25 Million Appropriation to Reimburse the Transportation Trust Fund without Providing for a Comprehensive Plan

Chapter 203, Acts of 2003 (Budget Reconciliation and Financing Act or BRFA) transferred $314.9 million ($160 million in fiscal 2003 and $154.9 million in fiscal 2004) from the TTF to the general fund. The Act also required that the Administration submit a plan to reimburse the TTF these funds by December 1, 2003.

This proposed fiscal 2005 $25 million appropriation and transfer of funds back into the TTF is the first in a proposed series of transfers by the administration to meet the requirements of the law. The administration's general fund forecast assumes that $25 million will be transferred from the general fund to the TTF through fiscal 2009, the end of the forecast period. The Administration advises that an additional $25 million will be transferred in fiscal 2010, resulting a total of $150 million in general fund transfers to repay the TTF.

At this point it is unclear how the TTF will be reimbursed for the remaining $164.9 million. In a December 31, 2003, letter the Administration noted that it was committed to reimbursing the TTF the entire $314.9 million within six years. However, the letter does not identify a specific funding plan. Instead, the letter notes three options: transfer of general funds to the TTF; increase vehicle related fees; and increase the gas tax. Based on the letter, it appears as though the remaining $164.9 million will be repaid with increasing vehicle related fees, increasing the gas tax, or both. This will most likely require legislation to implement.

DBM should brief the committees on the Administration's plan to reimburse the TTF $314.9 million in funds transferred out of the TTF and into the general fund. This should include a discussion of the specific revenue sources that are proposed.

The Department of Legislative Services (DLS) is concerned that there is no comprehensive plan to reimburse the TTF. For out-year planning purposes, it is important that there be a funding plan that clearly details how the TTF will be reimbursed. This provides both funds with a clearer sense of what their resources and obligations are. A plan clarifies to bond rating agencies, State agencies, and the public the out-year commitment that the State is making to the general fund and the TTF. Reimbursement should be based on a comprehensive plan and should not be done piecemeal. **In the absence of a comprehensive plan resolving the financing problems of both the TTF and the general fund, it is recommended that the funds for the TTF be deleted.**

Recommended Actions

1. Add the following language to the general fund appropriation:

    <u>, provided that the appropriation is reduced $9,000,000 if Senate Bill   or House Bill clarifying the revenue estimate on which the Revenue Stabilization Account's five percent account balance is predicated is enacted</u>.

    Explanation: The language reduces the Rainy Day Fund appropriation by $9 million contingent on the enactment of legislation that clarifies how the 5% minimum balance requirement is calculated. Current law does not specify which general fund revenue forecast should be used to determine the Rainy Day Fund's minimum balance. Language clarifying that the Board of Revenue Estimate's December forecast should be used has been recommended. If the language is adopted, the allowance can be reduced by $9 million.

	Amount Reduction	
2. Delete proposed appropriation to the Dedicated Purpose Account for the Transportation Trust Fund (TTF). The allowance includes $25 million to be transferred to the TTF. To date the Administration has not proposed a comprehensive plan to reimburse the TTF for $314.9 million transferred from the TTF to the general fund, as required by Chapter 203, Acts of 2003. The plan is important for out-year planning for both the TTF and general fund. Until such time as a comprehensive plan is approved, it is recommended that the funds are deleted.	$ 25,000,000	GF
Total General Fund Reductions	**$ 25,000,000**	

Updates

1. Budget Reconciliation and Financing Act Modifies Reserve Fund

Chapter 203, Acts of 2003 (BRFA) was enacted to support the fiscal 2004 budget. BRFA included several provisions that affected the State Reserve Fund by transferring funds, amending the Rainy Day Fund repayment requirements, clarifying the DPA uses, and making other technical changes. Specific transfers out the reserve fund were:

- $1 million from the DPA to the general fund. The source of funds was unspent Woodrow Wilson Bridge (WWB) replacement and Public Service Commission (PSC) utility restructuring education funds. WWB funds are available because alternate funding has been proposed for the project. PSC funds were left over after completion of the initiative; and

- $8.2 million from the Joseph Fund Account to child welfare services.

BRFA also made the following changes to the Reserve Fund:

- **Increased the Repayment Amount for the Revenue Stabilization Account:** Section 7-311 of the State Finance and Procurement Article requires that the account's balance be at least 5% of estimated general fund revenues. If the account balance is below 5%, the Administration is required to appropriate the lesser of $50 million or whatever amount is required for the account balance to reach the 5% threshold. To accelerate the repayment process if the Rainy Day Fund is severely depleted, BRFA added a provision requiring that $100 million be appropriated into the Rainy Day Fund if the balance falls below 3%. The provision does not affect appropriations if the account balance is between 3 and 5%: $50 million appropriations are still required when the fund balance is between 3 and 5%.

- **Clarified Dedicated Purpose Account Uses:** Previously, the law provided for two kinds of DPA appropriations, "specific purpose" and "general purpose." With respect to "specific purpose" appropriations, Section 7-310 of the State Finance and Procurement Article required Legislative Policy Committee (LPC) approval to be transferred out of the DPA. "General purpose" appropriations required notification of the Senate Budget and Taxation Committee and House Committee on Appropriations, as well as LPC approval. Since the Dedicated Purpose Account is for explicit purposes, BRFA amended Section 7-310 of the State Finance and Procurement Article to delete references to "general purposes" and "specific purposes." It also amended the law so that there be one approval procedure for all dedicated purposes. These procedures include budget committee notification and LPC approval.

Finally, BRFA made the following technical changes to the Reserve Fund:

- **Amended the Name of the Funds within the State Reserve Fund from "Funds" to "Accounts:"** For example, the Revenue Stabilization Fund was renamed the Revenue Stabilization Account. This was a technical correction to reflect that each "Fund" is an account within the State Reserve Fund.

- **Repealed Obsolete Uncodified Language:** Uncodified language stipulated that purchase of childcare funds placed in the Dedicated Purpose Fund shall not transfer to the Rainy Day Fund if not spent in four years. All funds have been removed from the Dedicated Purpose Account so the provision was removed.

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 2003					
Legislative Appropriation	$181,029	$0	$0	$0	$181,029
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	**$181,029**	**$0**	**$0**	**$0**	**$181,029**
Fiscal 2004					
Legislative Appropriation	$0	$0	$0	$0	$0
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$0**	**$0**	**$0**	**$0**

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

Object/Fund Difference Report
State Reserve Fund

Object/Fund	FY03 Actual	FY04 Working Appropriation	FY05 Allowance	FY04 - FY05 Amount Change	Percent Change
Objects					
12 Grants, Subsidies, and Contributions	$ 181,028,777	$ 0	$ 137,652,618	$ 137,652,618	N/A
Total Objects	**$ 181,028,777**	**$ 0**	**$ 137,652,618**	**$ 137,652,618**	**N/A**
Funds					
01 General Fund	$ 181,028,777	$ 0	$ 137,652,618	$ 137,652,618	N/A
Total Funds	**$ 181,028,777**	**$ 0**	**$ 137,652,618**	**$ 137,652,618**	**N/A**

Note: The fiscal 2004 appropriation does not include deficiencies and the fiscal 2005 allowance does not reflect contingent reductions.

Fiscal Summary
State Reserve Fund

Unit/Program	FY03 Actual	FY04 Legislative Appropriation	FY04 Working Appropriation	FY03 - FY04 % Change	FY05 Allowance	FY04 - FY05 % Change
01 Revenue Stabilization Account	$ 181,028,777	$ 0	$ 0	-100.0%	$ 112,652,618	
02 Dedicated Purpose Account	0	0	0	0%	25,000,000	
Total Expenditures	**$ 181,028,777**	**$ 0**	**$ 0**	**-100.0%**	**$ 137,652,618**	**N/A**
General Fund	$ 181,028,777	$ 0	$ 0	-100.0%	$ 137,652,618	N/A
Total Appropriations	**$ 181,028,777**	**$ 0**	**$ 0**	**-100.0%**	**$ 137,652,618**	**N/A**

Note: The fiscal 2004 appropriation does not include deficiencies and the fiscal 2005 allowance does not reflect contingent reductions.

Appendix 4

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 fund accounts, except for the Joseph Fund Account.

- ***Other:*** Current law requires that annual appropriations of at least $50 million be made until the account balance reaches 5% of estimated general fund revenues. If the account balance is below 3%, State law requires an appropriation of at least $100 million. The account has surpassed the 5% target since fiscal 1996.

Mechanisms for Transferring and Spending Funds

To transfer funds from the Rainy Day Fund requires:

- specific authorization by an act of the General Assembly; or

- specific authorization in the budget bill.

Funds may not be transferred by budget amendment but are instead transferred to the general fund.

Sweeper Provision

State law requires that the Administration allocate any unappropriated general fund surplus in excess of $10 million into the Rainy Day Fund. This allocation is made to the budget two years after the unappropriated general fund surplus is generated. For example, fiscal 2001 closed with an unappropriated surplus totaling $181 million, so in January 2002 the Administration's fiscal 2003 budget bill included a $181 million appropriation to the Rainy Day Fund. This is referred to as the "sweeper provision."

Rainy Day Fund Activity

The following table illustrates fiscal 2001 through 2005 activity in the Rainy Day Fund. Fiscal 1999 to 2001 ended with unappropriated surpluses in excess of $10 million, which resulted in Rainy Day Fund appropriations for fiscal 2001 to 2003, as required by the sweeper provision. As a result, the account's balance grew until it reached a peak of $888 million at the end of fiscal 2001. The account's balance was $398 million in excess over 5% of general fund revenues.

In fiscal 2002 and 2003, the account still received substantial appropriations attributable to unanticipated revenue growth from fiscal 2000 and 2001. These years also included large transfers of funds to support operating budget and PAYGO capital budget activities. At the end of fiscal 2004, the account balance is projected to be $496.7 million.

Fiscal 2005 includes an appropriation totaling $112.7 million. This is the amount of the fiscal 2003 unappropriated general fund surplus in excess of $10 million. The budget bill withdraws $91 million from the account to support operations. The amount withdrawn reduces the projected fiscal 2005 fund balance to $528.8 million, which is 5.00% of projected general fund revenues.

Revenue Stabilization Account Status
Fiscal 2001 through 2005
($ in Millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Beginning Balance	581.9	888.2	547.9	490.2	496.7
Appropriation	235.0	171.8	181.0	0.0	112.7
Transfer to General Fund	-30.0	-533.2	-249.0	0.0	-91.0
Excess Revenue/Transfers	38.9	0.0	0.0	0.0	0.0
Interest	62.4	21.2	10.3	6.5	10.4
Ending Balance	**888.2**	**547.9**	**490.2**	**496.7**	**528.8**
% of GF Revenues	9.06%	5.77%	5.24%	5.03%	5.00%
Excess over 5%	398.1	72.7	22.1	2.6	0.4

Source: Department of Budget and Management, January 2004

Governor's Out-year Forecast

The Administration's forecast projects $72 million in interest between fiscal 2006 and 2009. The Administration's general fund forecast does not assume any appropriations to the Rainy Day Fund between fiscal 2006 and 2009.

Appendix 5

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. If the Governor determines that certain funds are no longer needed for their appropriated purpose, they may be transferred by budget amendment after submission to the budget committees and approval by the Legislative Policy Committee.

Mechanism 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; or

- after submission to the budget committees and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

Dedicated Purpose Account Activity

The following table illustrates the activity in the Dedicated Purpose Account from fiscal 2001 through fiscal 2005. The most significant trend in this account is the declining account balance from fiscal 2002 to 2004. Chapter 440, Acts of 2002, the Budget Reconciliation and Financing Act of 2002 (BRFA) transferred $108 million from DPA to support the general fund. In 2002 an additional $10 million was transferred out of the DPA to support welfare programs in fiscal 2003. The remaining funds were transferred out of the account in fiscal 2004. By the end of fiscal 2004, the DPA will be depleted.

In fiscal 2005, the Administration proposes to appropriate $25 million to reimburse the Transportation Trust Fund (TTF). Chapter 203, Acts of 2003 (BRFA) transferred $314.9 million ($160 million in fiscal 2003 and $154.9 million in fiscal 2004) from the TTF to the general fund.

Dedicated Purpose Account Status
Fiscal 2001 through 2005
($ in Millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Beginning Balance	**$97.9**	**$115.7**	**$100.8**	**$11.4**	**$0.0**
Appropriations					
Repayment to the Transportation Trust Fund	0.0	0.0	0.0	0.0	25.0
Tax Amnesty	30.0	0.0	0.0	0.0	0.0
PSC Utility Restructuring Education Program	6.0	0.0	0.0	0.0	0.0
TANF/Welfare Programs	34.8	9.6	0.0	0.0	0.0
TANF/Welfare Programs – Negative Deficiency Appropriation	0.0	(9.6)	0.0	0.0	0.0
MDOT Capital	60.2	45.0	0.0	0.0	0.0
Total Appropriations	**$131.0**	**$45.0**	**$0.0**	**$0.0**	**$25.0**
Transfers					
Repayment to the Transportation Trust Fund	0.0	0.0	0.0	0.0	25.0
Tax Amnesty to DHR	30.0	0.0	0.0	0.0	0.0
TANF/Welfare Programs	0.0	22.1	10.0	11.4	0.0
PSC Utility Restructuring Education Program	3.0	2.8	0.0	0.0	0.0
MDOT for Woodrow Wilson Bridge and Metrorail Expansion	35.3	0.0	0.0	0.0	0.0
General Fund*	0.0	0.0	1.0	0.0	0.0
High Speed Data Network	1.0	0.0	0.0	0.0	0.0
DDA waiting list initiative	5.0	5.0	0.0	0.0	0.0
Transfer to the Rainy Day Fund	38.9	0.0	0.0	0.0	0.0
2002 BRFA Transfer - MDOT Capital to the General Fund	0.0	30.1	39.1	0.0	0.0
2002 BRFA Transfer - TANF/Welfare Program Funds Capital to the General Fund	0.0	0.0	39.3	0.0	0.0
Total Transfers	**$113.2**	**$59.9**	**$89.3**	**$11.4**	**$25.0**
Ending Balance	**$115.7**	**$100.8**	**$11.4**	**$0.0**	**$0.0**

* Transfers funds left over from PSC Utility Restructuring Education and MDOT Capital Construction.
Source: Department of Budget and Management, January 2004

PSC = Public Service Commission
TANF = Temporary Assistance for Needy Families
MDOT = Maryland Department of Transportation
DHR = Department of Human Resources
DDA = Developmental Disabilities Administration
BRFA = Budget Reconciliation and Financing Act

Appendix 6

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

After notice to and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

Catastrophic Event Account Activity

The following table shows that the account's year-end balance ranges between $1.7 million at the beginning of fiscal 2001 and $3.0 million at the end of fiscal 2005. The account began with a balance of $1.7 million in fiscal 2001. At the end of fiscal 2002, $1.5 million was transferred out of the account to support tornado relief in Southern Maryland. This reduced the balance to $227,630 at the end of fiscal 2002.

The Administration is proposing a $10 million deficiency appropriation for the account in fiscal 2004. This allows the transfer of $7.2 million to support reconstruction after Hurricane Isabel. A $3 million account balance is proposed at the end of fiscal 2004. There are no appropriations to the account in fiscal 2005. If catastrophe is avoided, the account balance will remain $3 million through fiscal 2005.

Catastrophic Event Account Status
Fiscal 2001 to 2005
($ in Millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Beginning Balance	1.7	1.7	0.2	0.2	3.0
Appropriation	0.0	0.0	0.0	10.0	0.0
Transfers					
Hurricane Isabel	0.0	0.0	0.0	-7.2	0.0
Southern Maryland tornado relief	0.0	-1.5	0.0	0.0	0.0
Ending Balance	**1.7**	**0.2**	**0.2**	**3.0**	**3.0**

Source: Department of Budget and Management, January 2004

Appendix 7

Joseph Fund Account

Account Characteristics

- ***Purpose:*** The account was established in 1999 to meet the emergency needs of economically disadvantaged citizens of the State, especially in times of economic downturn.

- ***Appropriations:*** The account consists of direct appropriations in the budget bill, interest earnings, and monies from any other government or private source. For fiscal 2001 the appropriation could equal the lesser of 40% of the fiscal 2000 unappropriated general fund surplus, or $10.0. For fiscal 2002 and subsequent years, appropriations may equal the lesser of $5.0 million, or 20% of the unappropriated general fund surplus from two years prior to the year of appropriation.

- ***Other:*** Monies from the Joseph Fund Account may not be considered the sole source of funds to meet the emergency needs of economically disadvantaged citizens. Funds can be used for programs and services that (1) serve children in need; (2) provide health services to individuals at or below 150% of the federal poverty level; and (3) provide food or shelter assistance to individuals in need. Funds cannot supplant existing public and private expenditures unless the unemployment rate has increased for three consecutive months and reductions in public and private funds warrant supplantation. No funds may be expended until the Joseph Fund Account balance reaches $15.0 million.

Mechanism for Transferring and Spending Funds

A 13-member Joseph Fund Board may forward recommendations for spending to the Governor. The Governor may authorize expenditures from the fund equal to 25% of the investment earnings from the prior fiscal year. If the Department of Labor, Licensing, and Regulation certifies that the statewide unemployment rate has increased for three consecutive months, the Governor may authorize the expenditure of 100% of the investment earnings and 40% of the fund balance. After notice to and approval by the Legislative Policy Committee, funds may be transferred by budget amendment to the appropriate executive branch agency.

Joseph Fund Account Activity

The following table shows that since its inception, the Joseph Fund has received two appropriations, $10 million in fiscal 2001 and $5 million in fiscal 2002. Since interest generated from the fund's account balance is credited to the fund, it has also received interest income totaling an estimated $1.2 million from fiscal 2001 to 2003.

These revenues are offset by two transfers. Chapter 440, Acts of 2002, the Budget Reconciliation and Financing Act of 2002 authorized the transfer of $8 million to the general fund. The fiscal 2004 budget transferred $8.2 million from the Joseph Fund Account to support Child Welfare Services. The account balance is projected to be approximately $12,900 at the end of fiscal 2004. The Administration did not include any funds for the account in the fiscal 2005 allowance. Interest earnings are projected to increase the fund balance to approximately $14,000 at the end of fiscal 2005.

Joseph Fund Account Status
Fiscal 2001 to 2005
($ in Thousands)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Beginning Balance	0	10,640	8,067	8,226	13
Appropriation	10,000	5,000	0	0	0
Interest	640	428	159	20	0
Transfers					
Child Welfare Protective Services Staff (e.g., foster care)	0	0	0	-8,233	0
To General Fund - Chapter 440, Acts of 2002, Section 1 (BRFA)	0	-8,000	0	0	0
Ending Balance	**10,640**	**8,067**	**8,226**	**13**	**14**

Source: Department of Budget and Management, January 2004