Y01A
State Reserve Fund

Operating Budget Data

($ in Thousands)

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change	% Change Prior Year
General Fund	$15,000	$15,000	$390,458	$375,458	2,503.1%
Contingent & Back of Bill Reductions	0	0	-50,000	-50,000	
Adjusted General Fund	**$15,000**	**$15,000**	**$340,458**	**$325,458**	**2,169.7%**
Adjusted Grand Total	**$15,000**	**$15,000**	**$340,458**	**$325,458**	**2,169.7%**

- The Revenue Stabilization Account (Rainy Day Fund) is projected to end fiscal 2013 with a fund balance that is 5% of general fund revenues. The allowance includes $340.5 million in appropriations, of which $315.0 million is transferred to the general fund.

- The Dedicated Purpose Account includes $50.0 million as required by Section 13-209 (g) of the Tax – Property Article to reimburse Program Open Space. The Administration proposes to delete these funds to reduce the general fund deficit.

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

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Analysis in Brief

Major Trends

The Balance in the Rainy Day Fund Remains Above 5.0% of Estimated General Fund Revenues: Over the last decade, the State has maintained at least the required balance of 5.0% of estimated general fund revenues in the Rainy Day Fund. Balances peaked in fiscal 2007 when unexpected revenue attainments were appropriated to the fund. Surplus balances were used in fiscal 2008. Although legislation was enacted to establish a funding goal of 7.5%, annual balances above 5.0% have been used annually to mitigate persistent general fund shortfalls.

Recommended Actions

		Funds
1.	Strike contingent language to reimburse Program Open Space.	
2.	Concur with the reduction proposed by the Governor as part of the budget, and delete general funds to reimburse Program Open Space.	$ 50,000,000
	Total Reductions	**$ 50,000,000**

Updates

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

Program Open Space and Agricultural Land Preservation Program Repayment: State law requires that transfer tax revenues which support Program Open Space and the Agricultural Land Preservation Program that are transferred to the general fund after fiscal 2005 must be repaid. The repayment is to be provided by unassigned general fund revenues realized beginning in fiscal 2010. To date, $90 million is required to be repaid.

Local Reserve Account Repayment: The Comptroller's Office administers this account to manage the cash flow of personal income tax revenue receipts and distributions. The Budget Reconciliation and Financing Act of 2010 approved the transfer of $550 million from this account to support education and Medicaid programs. The law requires that the State begin reimbursing the account in fiscal 2014.

State Reserve Fund

Operating Budget Analysis

Program Description

The State Reserve Fund provides a means to designate monies for future use. It is a general description for four individual accounts: Revenue Stabilization Account (Rainy Day Fund); Dedicated Purpose Account (DPA); Catastrophic Event Account; and Economic Development Opportunities Program Account (Sunny Day Fund). The purpose and status of three of these accounts are discussed in more detail in the body of this analysis. The Sunny Day Fund is discussed in conjunction with the Department of Business and Economic Development.

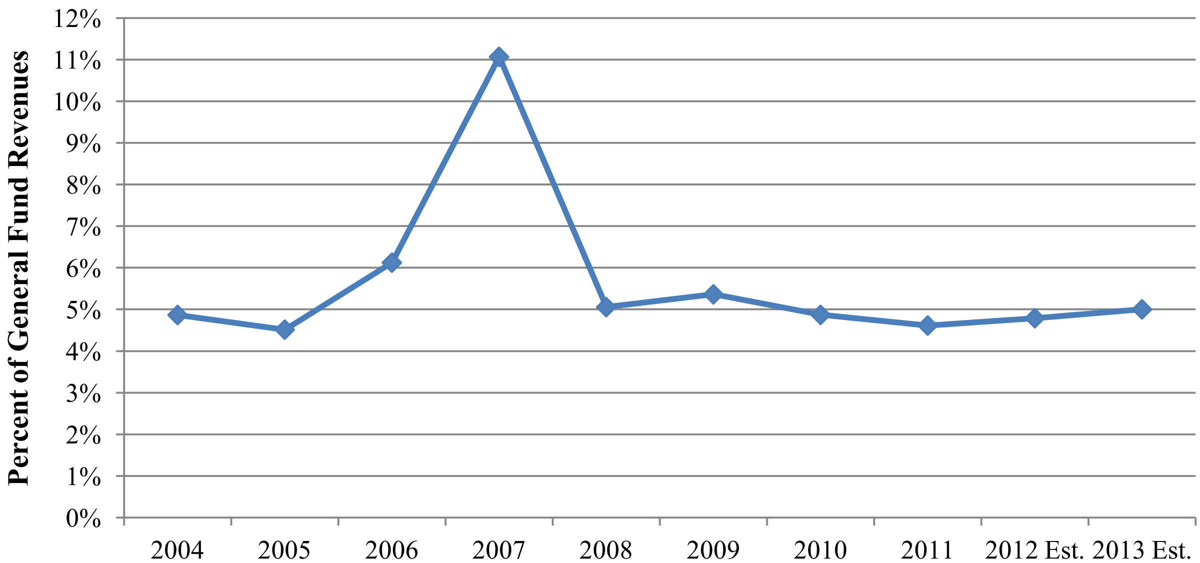
Performance Analysis: Managing for Results

Chapter 655 of 1986 enacted the Rainy Day Fund. The legislation required that funds be appropriated if the balance is less than 2%. Chapter 204 of 1993 increased the balance requirement to 5%. The fund also benefits from the statutory requirement that any unassigned general fund surplus at closeout in excess of $10 million must be appropriated to the Rainy Day Fund.[1] If the fund balance is above 5%, funds may be transferred out of the Rainy Day Fund in the budget bill. However, use of the fund balance below 5% requires an Act of the General Assembly other than the State budget bill. Credit rating agencies recommend that states maintain a 5% fund balance. In its December 2011 report, the Spending Affordability Committee recommended that the balance of the fund be maintained at or above 5.0% of estimated fiscal 2013 general fund revenues.

To enhance the Rainy Day Fund's balance, Chapters 51 and 52 of 2006 require that appropriations be made into the fund if the balance falls below 7.5%. **Exhibit 1** illustrates the balance in the Rainy Day Fund from fiscal 2004 through 2013. This objective was briefly attained at the end of fiscal 2007. By fiscal 2008, funds had been withdrawn from the Rainy Day Fund, and the balance has been hovering around 5.0% since.

[1] Section 13-209(g) of the Tax – Property Article provides for the temporary repayment of transfer tax revenues deposited into the general fund. Details are provided in Update 2.

Exhibit 1
Rainy Day Fund End-of-year Balances
Fiscal 2004-2013
($ in Millions)



Source: Department of Budget and Management

Proposed Budget

The fiscal 2013 allowance totals $390.5 million. This appropriates $50.0 million into the DPA and $340.5 million into the Rainy Day Fund. Section 15 of the Budget Reconciliation and Financing Act (BRFA) of 2012 proposes to delete the appropriation into the DPA. Consequently, the Administration's plan assumes a $340.5 million appropriation.

The $50 million appropriation into the DPA is required by Section 13-209 (g) of the Tax – Property Article. The article addresses the transfer of certain funds that support Program Open Space (POS). The article requires that any transfer tax revenues transferred to the general fund from the transfer tax special fund after fiscal 2005 be repaid by the general fund beginning in fiscal 2012. The law requires that an amount equivalent to 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 transfer is made prior to the appropriation of any funds to the Rainy Day Fund. In fiscal 2006, $90 million was transferred from the transfer tax special fund to the general fund. Section 15 of Senate Bill 152 (BRFA of 2012) proposes to provide general mandate relief through fiscal 2017 which, if enacted, would give the Governor the flexibility to delay repayment until fiscal 2018, at the earliest. The Administration proposes that the repayment be delayed so that these funds can support the State's general fund. Update 2 provides a summary of POS transfers and the status of POS repayment.

The $340.5 million appropriation into the Rainy Day Fund is required by the sweeper provision. Section 7-311(j) of the State Finance and Procurement Article 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. Fiscal 2011 closed with an unassigned surplus totaling $400.5 million, thus the Administration's fiscal 2011 allowance included a $340.5 million appropriation, after adjusting for the POS repayment, to the Rainy Day Fund.

Exhibit 2 provides an overview of State Reserve Fund activity between fiscal 2011 and 2012. 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 2
State Reserve Fund Activity
Fiscal 2012-2013
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/11	**$624.4**	**$0.0**	**$1.0**
Fiscal 2012 Appropriations[1]	0.0	15.0	0.0
Transfer from Transportation Trust Fund	40.0		
Expenditures			
Prince George's County Health System		-15.0	
Estimated Interest	8.7		
Estimated Balances 6/30/12	**$673.1**	**$0.0**	**$1.0**
Fiscal 2013 Appropriations	340.5	50.0	0.0
Reduction Contingent on BRFA of 2012		-50.0	
Transfers to General Fund	-315.0		
Estimated Interest	22.8		
Estimated Balances 6/30/13	**$721.4**	**$0.0**	**$1.0**
Balance in Excess of 5% GF Revenues	**$0.2**		

BRFA: Budget Reconciliation and Financing Act
GF: general funds

[1] The 2010 BRFA did not require the Governor to appropriate funds into the Rainy Day Fund in fiscal 2012.

Source: Department of Budget and Management

Recommended Actions

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

   ~~, provided that this appropriation shall be reduced by $50,000,000 contingent upon the enactment of the Budget Reconciliation and Financing Act~~

   Explanation: The Administration is required to appropriate $50 million to reimburse Program Open Space. With this language, the Administration recommends deleting this appropriation. It is not necessary for the General Assembly to include this language in the bill, so it is recommended that the language be deleted.

		Amount Reduction	
2.	Concur with the reduction proposed by the Governor as part of the budget, and delete general funds to reimburse Program Open Space and related programs. In its fiscal 2013 budget plan, the Administration recommends deleting these funds. The Department of Legislative Services recognizes that this reduction is necessary and concurs with the Administration's proposed reduction.	$ 50,000,000	GF
	Total General Fund Reductions	**$ 50,000,000**	

Updates

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

Eight states have AAA ratings from all major three rating agencies: Maryland, Delaware, Georgia, Iowa, Missouri, North Carolina, Utah, and Virginia. Of those states, Maryland and Virginia have been placed on a negative outlook by Moody's. Moody's concern is that states with a high degree of interdependence with the federal government should not be rated higher than the federal government. To evaluate interdependence, Moody's developed the following metrics:

- economic sensitivity: federal employment to total employment;
- economic sensitivity: federal procurement to gross domestic product;
- economic sensitivity: health care employment to total employment;
- exposure to federal transfers: Medicaid expenditures to total state expenditures; and
- capital markets exposure: short-term and puttable (such as commercial paper and variable rate demand bonds) debt to available resources.

States that have two or more of these ratios above 150% of the national rate are considered to have enough financial and economic exposure to be vulnerable to reductions in spending by the federal government. Therefore, their own rating could not exceed that of the U.S. government. Both Maryland and Virginia have higher than average levels of federal employment and procurement, so they have been placed on negative outlook.

In response, Virginia has created a Federal Action Contingency Trust Fund to support programs whose federal funds are reduced. Initially, the fund received $30 million. The Governor is proposing to appropriate another $20 million into the fund in fiscal 2014. This fund appears similar to Maryland's DPA, with replacement of federal funds as the dedicated purpose. Federal funds are a substantial share (approximately one-quarter of the $42 billion budget) of Virginia's budget. While this fund can provide some temporary relief, it is not a permanent solution if there are major changes in federal spending. As with Maryland, major changes in federal spending require long-term changes in State spending or revenues. Maryland's Spending Affordability Committee has examined this issue, but did not take any specific action.

State Rainy Day Fund Policies

All AAA-rated states have a Rainy Day Fund. **Exhibit 3** compares reserve fund policies.

Exhibit 3
AAA States' Rainy Day Funds
($ in Millions)

State	Fund Name	Determination of Fund Size	Procedure for Expenditures
Maryland	Revenue Stabilization Account	Statutory 7.5% of general fund (GF) revenues.	Legislation or budget bill authorization if balance above 5.0%, legislation if balance below 5.0%.
Delaware	Budget Reserve Account	Excess unencumbered funds, no greater than 5.0% of gross general fund revenues set by joint resolution for next fiscal year.	Three-fifths vote of legislature for unanticipated deficit or revenue reduction resulting from legislative action.
Georgia	Revenue Shortfall Reserve	Capped at 15.0% of prior year's net revenue.	Governor can access balance upon a revenue shortfall. In current year, legislature can appropriate 1.0% of fund for education.
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.	If the Governor determines that there is a shortfall, up to one-half of fund balance may be transferred upon a two-thirds super majority vote.
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 prior year deficit.	Appropriation 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 year's GF appropriation.	Appropriation by the General Assembly.
Utah	Budget Reserve Fund and Education Reserve Fund	25.0% of end-of-year GF surplus can be added to the balance up to 6.0% of the GF appropriation for that year. The legislature can appropriate above the 6.0% level.	Expenditures are limited to retroactive tax refunds 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 and Comprehensive Annual Financial Reports, January 2012

Recent State Rainy Day Fund Actions

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

- ***Delaware:*** The Budget Reserve Account ended fiscal 2010 and 2011 with a balance totaling \$186 million, which is approximately 5% of general fund revenues. The fiscal 2012 budget and the Administration's proposed fiscal 2013 budgets do not assume any appropriations into or transfers out of the account.

- ***Georgia:*** The Revenue Shortfall Reserve has been used in response to the economic downturn. The fund's balance peaked at \$1,733 million at the end of fiscal 2007. This was 9% of net revenue collections. Funds were transferred out of the account, and the balance declined to \$268 million by the end of fiscal 2010. The fund has been replenished somewhat and ended fiscal 2011 with a \$495 million balance. This is approximately 3% of net revenue collections.

- ***Iowa:*** The funds cover shortfalls and are generally replenished each year. However, during the recent severe recession, the funds balance fell below their targets. Fiscal 2011 ended with a combined balance totaling \$437 million, which was \$106 million below the \$543 million target. This is 8% of revenues. Iowa projects that the fund balance will reach 10% at the end of fiscal 2013.

- ***Missouri:*** The Budget Reserve Fund balance has remained steady in recent years; the balance decreased from \$557 million at the end of fiscal 2008 to \$507 million at the end of fiscal 2011. This is over 7% of net general revenue collections. The Administration is preparing the fiscal 2012 budget, and it is currently unclear to what extent the fund will be used.

- ***North Carolina:*** The projected balance for the end of fiscal 2008 is \$787 million, which is approximately 4% of the prior year's general fund appropriation. This funding level represents about one-half of the 8% target. The state used some of these funds in fiscal 2009 and 2010; the account balance declined to \$150 million by April 2010. The fiscal 2011 budget assumed \$184 million earmarked for the fund, to bring the account balance up to \$334 million. Even with the additional funds, the balance is less than 2% of revenues. The State's February 2011 Debt Affordability Study expressed concerns about the low level of reserves.

- ***Utah:*** The Budget Reserve Fund and Education Reserve Fund balances totaled \$419 million at the end of fiscal 2009. Funds were withdrawn, and the balance is \$233 million at the end of fiscal 2011. The Administration does not propose to withdraw additional funds. The fund is approximately 5% of general and education funds.[2]

- ***Virginia:*** The Revenue Stabilization Fund's balance ended fiscal 2008 with just over $1,036 million. Funds were withdrawn in fiscal 2009 and 2010, leaving the fund with a balance of $299 million at the end of fiscal 2011. This is approximately 2% of general fund revenues.

2. Program Open Space and Agricultural Land Preservation Program Repayment

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

Exhibit 4
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
Total	**$90,000,000**	**$539,954,453**

[1]General obligation bonds have been authorized to replace these lost revenues.

Source: Department of Legislative Services, February 2012

[2] 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.

As introduced, Section 15 of the BRFA of 2012 includes a provision that provides general mandate relief so that the Administration does not need to include an appropriation in the budget that exceeds the fiscal 2012 appropriation from fiscal 2013 to 2017. This provision would give the Governor the flexibility to delay the start of repayments to fiscal 2018, at the earliest.

3. Local Reserve Account Repayment

The Local Reserve Account is used to manage the cash flow of personal income tax payments and distributions to local governments. It is administered by the Comptroller's Office. The account is also used to meet the State's liability for local income taxes according to generally accepted accounting principles (GAAP). Each month a portion of personal income tax net receipts is put into the account representing an estimate of local income tax payments. In all but two months, a distribution of local income tax revenue is made from the account to local governments.

In fiscal 2011, $550 million was transferred from the account. The transfers provided:

- $350 million for the Education Trust Fund (ETF). ETF was established by Chapter 4 of the 2007 special session and consists of approximately 50.0% of the net revenues generated by video lottery terminals in the State. Funds in ETF may support the State's education aid formulas, public school construction, or public higher education construction, including community colleges. The effect was to maintain program funding while reducing general fund appropriations.

- $200 million for the general fund to support Medicaid. In fiscal 2011, Maryland received an enhanced federal Medicaid match (61.6% federal funds, 38.4% general funds) for the first half of fiscal year under the federal ARRA of 2009. When enacted, the fiscal 2011 budget assumed that the enhanced match (rather than the traditional 50/50 State-federal split of most Medicaid costs) would continue at the same level throughout fiscal 2011 and appropriated $389 million in federal funds based on that assumption. At the time, federal legislation only provided the enhanced match for half the fiscal year (through December 31, 2010). The additional $200 million was provided as a "backstop" in case the additional federal funds did not materialize by December 31, 2010. A provision in the BRFA of 2010 made the transfer "null and void" if the funds were received. Though some relief was provided, the full amount was not authorized by the U.S. Congress. Thus, the Administration assumes the full $200 million transfer to the general fund.

The BRFA of 2010 also required that the State reimburse the account for the $550.0 million that was transferred out of the account in fiscal 2011. The law requires that:

- $50.0 million be repaid annually from fiscal 2014 to 2020, with repayments totaling $350.0 million; and

- $33.3 million be repaid annually from fiscal 2021 to 2026, with repayments totaling $200.0 million.

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 2011					
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 2012					
Legislative Appropriation	$15,000	$0	$0	$0	$15,000
Budget Amendments	0	0	0	0	0
Working Appropriation	**$15,000**	**$0**	**$0**	**$0**	**$15,000**

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

Fiscal Summary
State Reserve Fund

Program/Unit	FY 11 Actual	FY 12 Wrk Approp	FY 13 Allowance	Change	FY 12 - FY 13 % Change
01 Revenue Stabilization Account	$ 0	$ 0	$ 340,457,774	$ 340,457,774	0%
02 Dedicated Purpose Account	15,000,000	15,000,000	50,000,000	35,000,000	233.3%
Total Expenditures	**$ 15,000,000**	**$ 15,000,000**	**$ 390,457,774**	**$ 375,457,774**	**2503.1%**
General Fund	$ 15,000,000	$ 15,000,000	$ 390,457,774	$ 375,457,774	2503.1%
Total Appropriations	**$ 15,000,000**	**$ 15,000,000**	**$ 390,457,774**	**$ 375,457,774**	**2503.1%**

Note: The fiscal 2012 appropriation does not include deficiencies. The fiscal 2013 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 2009 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."

- ***Section 13-209 (g) of the Tax – Property Article:*** The article requires that any transfer tax revenues transferred to the general fund from the transfer tax special fund after fiscal 2005 be repaid by the general fund beginning in fiscal 2012. The law requires that an amount equivalent to unassigned general fund revenues exceeding $10.0 million be appropriated into the transfer tax special fund. The maximum annual transfer is limited to $50.0 million. In fiscal 2006, $90.0 million was transferred from the transfer tax special fund to the general fund. Section 32 of the Budget Reconciliation and Financing Act (BRFA) of 2010 provides general mandate relief so that the Administration did not need to include an appropriation in the fiscal 2012 budget that exceeds the fiscal 2011 appropriation. This delayed the initial repayment. Section 15 of Senate Bill 152 (BRFA of 2012) proposes to provide general mandate relief through fiscal 2017, which would delay repayment of fiscal 2018, at the earliest, if enacted.

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 2009 through 2013 activity in the Rainy Day Fund. Appropriations into the Rainy Day Fund are made from fiscal 2009 to 2010. The appropriations are attributable to unassigned general funds being swept into the Rainy Day Fund, as required by law. The fund is projected to end fiscal 2013 with a balance that is 5% of general fund revenues.

Revenue Stabilization Account Status
Fiscal 2009-2013
($ in Millions)

	2009	2010	2011	2012	2013
Beginning Balance	$684.8	$691.8	$611.6	$624.4	$673.1
Appropriation	146.5	139.9	0.0	0.0	340.5
Transfer to General Fund	-170.0	-235.0	0.0	0.0	-315.0
Transfer from TTF	0.0	0.0	0.0	40.0	0.0
Interest Earnings	30.5	14.9	12.7	8.7	22.8
Ending Balance	**$691.8**	**$611.6**	**$624.4**	**$673.1**	**$721.4**
GF Operating Revenues	$12,900.5	$12,560.1	$13,537.4	$14,055.2	$14,423.0
Excess over 5.0%	46.8	-16.4	-52.4	-29.6	0.2
Excess over 7.5%	-275.7	-330.4	-390.9	-381.0	-360.3
Fund Balance as % of General Fund Operating Revenues	5.36%	4.87%	4.61%	4.79%	5.00%
Interest Rate Assumption	4.00%	2.25%	2.05%	1.30%	2.70%

GF: general fund
TTF: Transportation Trust Fund

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

Source: Department of Budget and Management, January 2012

Governor's Out-year Forecast

In the out-years, the Administration's Rainy Day Fund forecast projects that the fund balance will remain at approximately 5.0% through fiscal 2017. 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 2014 to 2017. The forecast also assumes that funds above 5.0% are transferred back to general fund balance. The forecast period ends with an $876 million fund balance in fiscal 2017.

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.

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;

- 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 2009 through 2013. The account ends the period with no fund balance.

Governor's Out-year Forecast

As discussed in Update 3, $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 to support Medicaid. The Budget Reconciliation and Financing Act of 2010 also required that the State reimburse the account for the $550.0 million that was transferred out of the account in fiscal 2011. The law requires that $50.0 million be repaid annually from fiscal 2014 to 2020, with repayments totaling $350.0 million and $33.3 million be repaid annually from fiscal 2021 to 2026, with repayments totaling $200.0 million. The out-year forecast assumes that $50.0 million is appropriated beginning in fiscal 2014.

Dedicated Purpose Account Status
Fiscal 2009-2013
($ in Millions)

	2009	2010	2011	2012	2013
Beginning Balance	**$22.0**	**$0.6**	**$0.1**	**$0.0**	**$0.0**
Appropriation	**$85.0**	**$0.0**	**$15.0**	**$15.0**	**$0.0**
TTF Payback for BRFA of 2003 Transfers	85.0				
Prince George's Hospital Center[1]			15.0	15.0	
POS Repayment for General Fund Transfers					50.0
Contingent Reduction					-50.0
Transfers	**-$106.4**	**-$0.5**	**-$15.1**	**-$15.0**	**$0.0**
Cost Containment	-20.0				
Substance Abuse Case Management Compact	-2.0				
Prince George's Hospital Center	-11.4	-0.5	-15.0	-15.0	
General Fund	-73.0		-0.1		
Ending Balance	**$0.6**	**$0.1**	**$0.0**	**$0.0**	**$0.0**

BRFA: Budget Reconciliation and Financing Act
POS: Program Open Space
TTF: Transportation Trust Fund

[1] The Administration has signed a memorandum of understanding with Prince George's County about the Prince George's County Health System. The forecast shows the State's required payments total $75 million ($15 million annually from fiscal 2011 to 2015) to the operator of the system. Prince George's Hospital Center appropriations are in the Department of Health and Mental Hygiene's Family Health Administration, beginning in fiscal 2013.

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

Source: Department of Budget and Management, January 2012

Appendix 5

Catastrophic Event Account Section
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 are credited to the Rainy Day Fund.

- ***Other:*** Catastrophic Event Account funds may not be used to offset operating deficiencies in regular programs of State government. The funds support costs associated with a natural disaster or catastrophic situation.

Mechanism for Transferring and Spending Funds

Prior to transferring funds by budget amendment to the appropriate Executive Branch agency, the Administration must notify the Legislative Policy Committee of the proposed amendment and allow the committee 45 days to review and approve the proposed amendment.

Catastrophic Event Account Activity

The following table shows that the account's balance was $8.4 million at the beginning of fiscal 2009. The Budget Reconciliation and Financing Act of 2009 transferred $7.4 million into the general fund in fiscal 2010. The fund is expected to close fiscal 2013 with a $1.0 million balance.

Catastrophic Event Account Status
Fiscal 2009-2013
($ in Thousands)

	2009	2010	2011	2012	2013
Beginning Balance	**$8,398**	**$8,398**	**$1,000**	**$1,000**	**$1,000**
Transfer to General Fund	0	-7,398	0	0	0
Ending Balance	**$8,398**	**$1,000**	**$1,000**	**$1,000**	**$1,000**

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

Source: Department of Budget and Management, January 2012