SB 729

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 729 Senator Neall)
Budget and Taxation Appropriations

Unappropriated General Fund Surplus - Appropriation for Reduction of State Debt

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This bill requires the Governor to earmark any unappropriated general fund surplus greater than $100 million from the second prior fiscal year to cover the cost for capital projects or programs for which State debt has been authorized. The purpose of the bill is to reduce the need to authorize additional State debt by covering the cost for authorized capital projects and programs from the State's unappropriated general fund surplus. The State Treasurer must provide the Governor a list of capital projects and programs for which State debt has been authorized but not yet been issued and that are likely to require funding in the current or subsequent fiscal year.

In addition, the bill repeals the provision requiring the Governor to include an appropriation to the Revenue Stabilization Account in fiscal 2003 of any unappropriated general fund surplus greater than $10 million as of the end of fiscal 2001.

Fiscal Summary

State Effect: Potential decrease in debt service expenditures in future years by earmarking unappropriated general fund surpluses for capital projects and programs. Revenues would not be affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 4 of 1998 requires the Governor, for fiscal 2000 through 2003, to include an appropriation to the Revenue Stabilization Account of any unappropriated general fund surplus greater than $10 million as of the end of fiscal 1998 through 2001, respectively.

Background: The Revenue Stabilization Fund (Rainy Day Fund) 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. The fund consists of direct appropriations in the budget bill and interest earnings. Current law requires a maximum $50 million annual appropriation until the fund balance reaches 5% of estimated general fund revenues. The fund has surpassed the 5% target since fiscal 1996. Legislation enacted in 1998 requires any unappropriated general fund surplus exceeding $10 million to be deposited in the fund. In fiscal 2001, $235 million in unappropriated general fund surplus for fiscal 1999 was appropriated to the Revenue Stabilization Fund. In fiscal 2002, $141.8 million in unappropriated general fund surplus for fiscal 2000 is authorized for the fund.

In recent years, the State has been using the fund to cover general fund expenditures in the State's operating budget. In fiscal 2002, $557 million is proposed to be transferred out of the fund to cover operating and PAYGO spending pursuant to the proposed State budget. The projected ending balance in fiscal 2002 thus is $552 million, $56.5 million in excess of the required 5% of general funds. Transferring funds from the Revenue Stabilization Fund requires specific authorization by an act of the General Assembly or specific authorization in the budget bill. **Exhibit 1** shows the fund status of the Revenue Stabilization Fund.

Issuance of General Obligation Debt

The Capital Debt Affordability Committee is required to review annually the size and condition of the State's debt and to submit to the Governor and the General Assembly, by September 10 of each year, an estimate of the maximum amount of new general obligation debt that prudently may be authorized for the next fiscal year. The committee is also required to submit an estimate of the amount of new bonds for academic facilities that prudently may be authorized. While the committee's recommendations are not binding, the Governor is required to give due consideration to the committee's findings in determining the total authorization of new State debt and in preparing a preliminary allocation for the next fiscal year.

Exhibit 1
Revenue Stabilization Fund Status
Fiscal 1996 through 2002
($ in Millions)

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Beginning Balance	$286.1	$461.2	$490.0	$617.9	$634.9	$581.9	$919.2
Appropriations	200.0	-	92.0	163.2	82.2	235.0	141.8
Interest Earnings[1]	31.6	28.8	35.9	39.1	38.8	63.5	38.1
Transfer to General Fund	(77.6)	-	-	(185.2)	(174.0)	-	(557.0)
Return of Excess Revenue	21.1	-	-	-	-	-	-
Transfer from Dedicated Purpose Fund	-	-	-	-	-	38.9	10.0
Ending Balance	**$461.2**	**$490.1**	**$617.9**	**$634.9**	**$581.9**	**$919.2**	**$552.0**
General Fund Revenues[2]	$7,211.0	$7,617.3	$8,051.3	$8,524.4	$9,220.1	$9,653.5	$9,911.3
% of General Fund Revenues	6.40%	6.43%	7.67%	7.45%	6.31%	9.5%	5.6%
Balance Exceeding 5% of GF	**$100.7**	**$109.2**	**$215.3**	**$208.7**	**$120.9**	**$436.5**	**$56.5**

(1) Interest estimates for fiscal 2001 and 2002 based on fiscal 2001 forecast for State interest earnings.

(2) Board of Revenue Estimates plus DBM adjustments used for fiscal 2001 and 2002 general fund revenue estimates. In fiscal 2001 additional revenues from hospital patient recoveries were anticipated, plus an additional fiscal 2000 reversion for Centro de la Comunidad Community Center. In fiscal 2002, additional revenues from hospital patient recoveries and additional lottery revenues are anticipated, plus the net of sales tax and corporate income tax transferred to the Transportation Trust Fund, contingent on legislation.

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

Source: Department of Budget and Management

The Capital Debt Affordability Committee recommended a $475 million limit for new general obligation debt authorization for the 2001 session, a $15 million increase over the 2000 debt limit. Bonds authorized in a given year are not all issued immediately. The Capital Debt Affordability Committee assumes that on average, it takes five years for an authorization to be fully issued as follows:

1st Year	2nd Year	3rd Year	4th Year	5th Year
31%	25%	20%	15%	9%

State Fiscal Effect: The fiscal 2001 ending balance for the State's general fund is estimated at $375 million, of which $350 million is included in the proposed fiscal 2002 State budget. Accordingly, the current projected unappropriated general fund surplus for fiscal 2001 totals $25 million. However, if actual State revenue collections exceed current projections, the unappropriated general fund surplus would increase. The State's unappropriated general fund surplus totaled $245 million in fiscal 1999 and $151.8 million in fiscal 2000. Pursuant to this legislation, $145 million in fiscal 2001 and $51.8

million in fiscal 2002 would have been earmarked for capital projects and programs and not transferred to the Revenue Stabilization Account.

Earmarking the unappropriated general fund surplus to cover the costs for capital projects and programs for which State debt has already been authorized would reduce debt service payments in future years and the amount of general obligation bonds that are issued each year.

State debt service expenditures, however, might not be affected if the Revenue Stabilization Fund would have been used in future years to fund PAYGO capital projects and to reduce the authorization of general obligation debt. Currently, PAYGO capital projects are being funded indirectly from the unappropriated general fund surplus in that moneys have been transferred out of the Revenue Stabilization Account to cover operating and PAYGO capital expenditures. For example, the fiscal 2002 State budget includes $648.7 million in general funds for PAYGO capital projects, which exceeds the unappropriated general fund surplus for fiscal 2000. However, the additional PAYGO funding in fiscal 2002 is not planned to be used to reduce the authorization of general obligation bonds below the recommendation of the Capital Debt Affordability Committee.

In addition, $557 million was transferred from the Revenue Stabilization Account to cover operating and PAYGO expenditures. Pursuant to this legislation, the State might not be able to transfer as much funds from the Revenue Stabilization Fund to cover ongoing operating and PAYGO expenditures. This could result in less capital projects receiving funding from PAYGO sources resulting in a lower overall capital program.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services, Department of Budget and Management

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