

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 70 (Delegate Madaleno)
 Appropriations

Operating Budget - Revenue Stabilization Fund - Minimum Appropriation

This bill provides that a minimum appropriation must be made to the Revenue Stabilization Fund until the fund balance reaches 10% of estimated general fund revenues. The bill also eliminates the requirement that the Governor allocate any unappropriated general fund surplus at the end of the fiscal year, in excess of \$10 million, to the Revenue Stabilization Fund.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: General fund expenditures would increase by \$50.0 million annually beginning in FY 2005. Future year expenditures reflect the minimum appropriation required pursuant to this legislation. Revenues would not be affected.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	50.0	50.0	50.0	50.0
Net Effect	\$0	(\$50.0)	(\$50.0)	(\$50.0)	(\$50.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Governor must include an annual appropriation in the budget bill, not exceeding \$50 million, for the Revenue Stabilization Fund until the fund balance reaches 5% of estimated general fund revenues. In addition, the Governor must allocate any unappropriated general fund surplus at the end of the fiscal year, in excess of \$10 million, to the Revenue Stabilization Fund.

Background: The Revenue Stabilization Fund (Rainy Day Fund) was established in 1986 to retain State revenues to meet future obligations 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 earned from the fund. Current law requires that annual appropriations not exceeding \$50 million be made until the fund balance reaches 5% of estimated general fund revenues. The fund has surpassed the 5% target since fiscal 1996.

Exhibit 1 shows the status of the Rainy Day Fund since fiscal 2000.

Chapter 4 of 1998 required the Governor to allocate any unappropriated general fund surplus at the end of fiscal 2000 through 2003, in excess of \$10 million, to the Rainy Day Fund. This requirement is known as the “sweeper” provision. The Budget Reconciliation and Financing Act of 2002 (Chapter 440 of 2002) codified this requirement for subsequent years.

Exhibit 1 Revenue Stabilization Fund Status Fiscal 2000 to 2004 (\$ in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Beginning Balance	\$634.9	\$581.9	\$888.2	\$547.9	\$490.5
Appropriation	82.2	235.0	171.8	181.0	0.0
Interest	38.8	62.4	21.2	10.6	14.7
Transfer from Dedicated Purpose Fund	0.0	38.9	0.0	0.0	0.0
Transfer to General Fund	-174.0	-30.0	-533.2	-249.0	0.0
Ending Balance	\$581.9	\$888.2	\$547.9	\$490.5	\$505.2
General Fund Revenues	\$9,220.1	\$9,802.4	\$9,504.0	\$9,477.6	\$10,029.2
% of General Fund Revenue	6.31%	9.06%	5.76%	5.18%	5.04%
Excess Over 5%	\$120.9	\$398.1	\$72.7	\$16.6	\$3.8
Excess Over 10% Beginning in FY 2004					-\$497.7

Source: Department of Legislative Services

State Fiscal Effect: The projected ending fund balance for the Rainy Day Fund is estimated at \$505.2 million for fiscal 2004. This is \$3.8 million above the current 5% target. To achieve the 10% target established in this bill, the ending fund balance would have to total \$1.0 billion. This amount is \$497.7 million below the current fund balance. To reach the new target, the minimum required appropriation to the fund would have to total \$50 million in fiscal 2005 and each subsequent year until the fund's balance reaches 10% of estimated general fund revenues. The proposed fiscal 2004 State budget does not include an appropriation to the fund.

Eliminating the requirement that the Governor allocate any unappropriated general fund surplus at the end of the fiscal year, in excess of \$10 million, to the Rainy Day Fund would not have an effect in fiscal 2004 or 2005. Based on projections by the Department of Legislative Services, the State's general fund ending balance would total \$5 million in fiscal 2004 and below \$10 million in fiscal 2005.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2003
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