

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 639 (Senator Lawlah, *et al.*)
 Budget and Taxation

State Reserve Fund - Federal Fund Replacement Account - Creation

This bill establishes the Federal Fund Replacement Account within the State Reserve Fund for the purpose of replacing federal funds that were anticipated in the State budget but were not received by the State.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: State expenditures would increase by \$50.0 million in FY 2008 to provide the minimum account balance required by the legislation. To the extent that anticipated federal funds are not received by the State, future year expenditures could increase by up to \$50.0 million annually.

| (\$ in millions) | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------------|---------|----------|---------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 50.0 | - | - | - |
| Net Effect | \$0 | (\$50.0) | \$0 | \$0 | \$0 |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A Federal Fund Replacement Account is established in the State Reserve Fund for the purpose of replacing federal funds that were anticipated in the State

budget but were not received by the State. If the fund's account balance falls below \$50 million, the Governor is required to include in the budget bill an appropriation sufficient to bring the account balance to at least \$50 million. The Governor can transfer funds from the account to the appropriate unit of State government when the State does not receive federal funds in the amount or for the purposes anticipated in the State budget for the fiscal year. This transfer can be made through the budget bill for the next fiscal year or by budget amendment. The budget amendment, however, must be approved by the Board of Public Works, submitted to the Senate Budget and Taxation Committee and the House Appropriations Committee, and approved by the Legislative Policy Committee.

Current Law: The State Reserve Fund provides a means to designate monies for future use and is a general description for five individual accounts. **Appendix 1** shows the account balances for the individual accounts.

- Revenue Stabilization Account (Rainy Day Fund): 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.
- Dedicated Purpose Account: The account was established in 1986 to retain appropriations for major, multiyear 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.
- Catastrophic Event Account: 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.
- Joseph Fund Account: The account was established in 1999 to meet the emergency needs of economically disadvantaged citizens of the State, especially in times of economic downturn.
- Economic Development Opportunities Program Account (Sunny Day Fund): The account was established in 1988 to provide conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

Background: The proposed fiscal 2007 State budget includes \$6.5 billion in federal funds which represent 22% of the total State budget. As shown in **Appendix 2**, most federal funds are provided to entitlement programs, health and human resources, and local governments. Federal entitlement programs (*i.e.*, medical assistance, assistance

payments, and foster care) account for about 43% of the federal funds. The Department of Health and Mental Hygiene and the Department of Human Resources receive 20% of federal funds and local governments receive 12%.

The proposed fiscal 2007 State budget also includes a \$67.7 million federal fund deficiency appropriation for medical assistance expenditures in fiscal 2006.

State Fiscal Effect: State expenditures would increase by \$50.0 million in fiscal 2008 to provide the minimum account balance required by the legislation. To the extent that anticipated federal funds are not received by the State, future year expenditures could increase by up to \$50.0 million annually.

Additional Information

Prior Introductions: None.

Cross File: HB 1227 (Delegate Madaleno, *et al.*) – Appropriations.

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

Fiscal Note History: First Reader - March 10, 2006
mll/ljm

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Appendix 1
Fiscal 2006 and 2007 Reserve Fund Activity
(\$ in Millions)

| | <u>Rainy Day Fund</u> | <u>Dedicated Purpose Acct.</u> | <u>Catastrophic Event Acct.</u> | <u>Joseph Fund Acct.</u> |
|--|---------------------------|------------------------------------|-------------------------------------|------------------------------|
| Estimated Balances 6/30/05 | \$521.4 | \$0.0 | \$7.1 | \$0.0 |
| Fiscal 2006 Appropriations | 249.7 | 74.0 | 2.0 | 0.0 |
| Fiscal 2006 Deficiency Appropriations | | 13.0 | | |
| Expenditures | | | | |
| Reimburse Transportation Trust Fund | | -50.0 | | |
| Medicaid Deficiencies | | -20.0 | | |
| DJS Consent Decree | | -2.0 | | |
| Hurricane Isabel Reconstruction | | | -0.8 | |
| Fund PAYGO Capital Projects | -45.2 | | | |
| Transfers to General Fund | | | | |
| Estimated Interest | 30.1 | | | 0.0 |
| Estimated Balances 6/30/06 | \$755.9 | \$15.0 | \$8.3 | \$0.0 |
| Fiscal 2007 Appropriations | 593.3 | 823.0 ¹ | 0.0 | 0.0 |
| Expenditures | | | | |
| Reimburse Transportation Trust Fund | | -53.0 | | |
| Energy Subsidies for Low-income residents | | -13.0 | | |
| Substance Abuse Case Mgmt. Compact | | -2.0 | | |
| Transfers to General Fund | -770.0 ¹ | | | |
| Estimated Interest | 64.7 | | | 0.0 |
| Estimated Balances 6/30/07 | \$643.9 | \$770.0 | \$8.3 | \$0.0 |
| Balance in Excess of 5% GF Revenues | \$1.8 | | | |

¹ The Rainy Day Fund transfer of \$770 million is appropriated to the DPA. This includes \$670 million dedicated to fiscal 2008 spending, and \$100 million to reduce the retiree health insurance unfunded liability. The appropriation to the DPA also includes \$53 million to repay the TTF and fund the ICC.

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

DJS = Department of Juvenile Services
DPA = Dedicated Purpose Account
ICC = Intercounty Connector
TTF = Transportation Trust Fund

Source: Department of Budget and Management, January 2006

Appendix 2
State Expenditures – Federal Funds
(\$ in Millions)

| Category | Actual FY 2005 | Work. Appr. FY 2006 | Allowance FY 2007 | FY 2006 to FY 2007 | |
|---------------------------------|---------------------------|--------------------------------|------------------------------|---------------------------|-----------------|
| | | | | \$ Change | % Change |
| Debt Service | \$0.0 | \$0.0 | \$0.0 | \$0.0 | n/a |
| Aid to Local Governments | | | | | |
| County/Municipal | 38.8 | 39.8 | 54.6 | 14.8 | 37.3% |
| Community Colleges | 0.0 | 0.0 | 0.0 | 0.0 | n/a |
| Education/Libraries | 695.2 | 743.3 | 749.8 | 6.6 | 0.9% |
| Health | 4.5 | 4.5 | 4.5 | 0.0 | 0.0% |
| | 738.5 | 787.5 | 808.9 | 21.4 | 2.7% |
| Entitlements | | | | | |
| Foster Care Payments | 81.4 | 89.1 | 95.9 | 6.7 | 7.6% |
| Assistance Payments | 406.8 | 382.1 | 407.7 | 25.6 | 6.7% |
| Medical Assistance | 2,030.1 | 2,206.5 | 2,299.0 | 92.5 | 4.2% |
| Property Tax Credits | 0.0 | 0.0 | 0.0 | 0.0 | n/a |
| | 2,518.4 | 2,677.7 | 2,802.6 | 124.8 | 4.7% |
| State Agencies | | | | | |
| Health | 651.1 | 692.4 | 748.5 | 56.1 | 8.1% |
| Human Resources | 443.9 | 519.4 | 560.0 | 40.6 | 7.8% |
| Systems Reform Initiative | 21.2 | 23.6 | 14.9 | -8.7 | -36.9% |
| Juvenile Justice | 15.9 | 16.9 | 15.0 | -1.9 | -11.2% |
| Public Safety/Police | 15.6 | 21.8 | 14.1 | -7.7 | -35.3% |
| Higher Education | 0.0 | 0.0 | 0.0 | 0.0 | n/a |
| Other Education | 124.2 | 143.1 | 142.8 | -0.3 | -0.2% |
| Transportation | 79.9 | 74.4 | 76.8 | 2.4 | 3.3% |
| Agric./Nat'l Res./Environment | 51.8 | 57.0 | 53.7 | -3.3 | -5.8% |
| Other Executive Agencies | 444.1 | 469.1 | 457.8 | -11.3 | -2.4% |
| Judicial/Legislative | 2.5 | 2.7 | 3.4 | 0.7 | 24.1% |
| | 1,850.3 | 2,020.6 | 2,087.2 | 66.6 | 3.3% |
| Subtotal | \$5,107.2 | \$5,485.9 | \$5,698.7 | \$212.9 | 3.9% |
| Capital | 771.0 | 919.9 | 792.4 | -127.5 | -13.9% |
| Grand Total | \$5,878.2 | \$6,405.8 | \$6,491.1 | \$85.3 | 1.3% |

Note: Fiscal 2006 includes \$67.7 million in deficiencies.

Source: Department of Legislative Services

