Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 616 (Senator Rosapepe)
Budget and Taxation

Anti-Deficit and Fiscal Responsibility Act of 2010

This bill increases the minimum account balance of the Revenue Stabilization Account (Rainy Day Fund) to 22.5% instead of 7.5% of the estimated general fund revenues. The bill also prohibits the transfer of funds from the account if it causes the account's fund balance to fall below 22.5% of the estimated general fund revenues for a particular fiscal year without General Assembly approval by an Act other than the State budget bill.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: To reach the 22.5% target, the Rainy Day Fund account balance would have to increase by approximately $2.2 billion in FY 2011. Practically, however, there is no impact on general fund revenues or expenditures over the next five years since the forecast assumes the Rainy Day Fund balance remains below 7.5% and requires annual $50.0 million appropriations. By FY 2017, or when the Rainy Day Fund balance exceeds the current target of 7.5%, general fund expenditures increase $50.0 million annually until the fund balance reaches 22.5% of general fund revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State Reserve Fund provides a means to designate monies for future use. It is a general description for four individual accounts: the Revenue Stabilization

Account (Rainy Day Fund), the Dedicated Purpose Account, the Catastrophic Event Account, and the Economic Development Opportunities Program Account (Sunny Day Fund).

The Revenue Stabilization 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. The account consists of direct appropriations in the budget bill and interest earned from all State Reserve Fund accounts.

If the account's fund balance is between 3.0% and 7.5% of projected general fund revenues, the Governor must include in the budget bill at least $50.0 million or whatever amount is required for the account balance to exceed 7.5% of estimated general fund revenues for that year. If the account fund balance is below 3.0% of the estimated general fund revenues for that fiscal year, an appropriation of at least $100.0 million must be made to the account.

If the account's balance exceeds 7.5% of projected general fund revenues, the Governor is not required to include additional funds for the account in the budget bill.

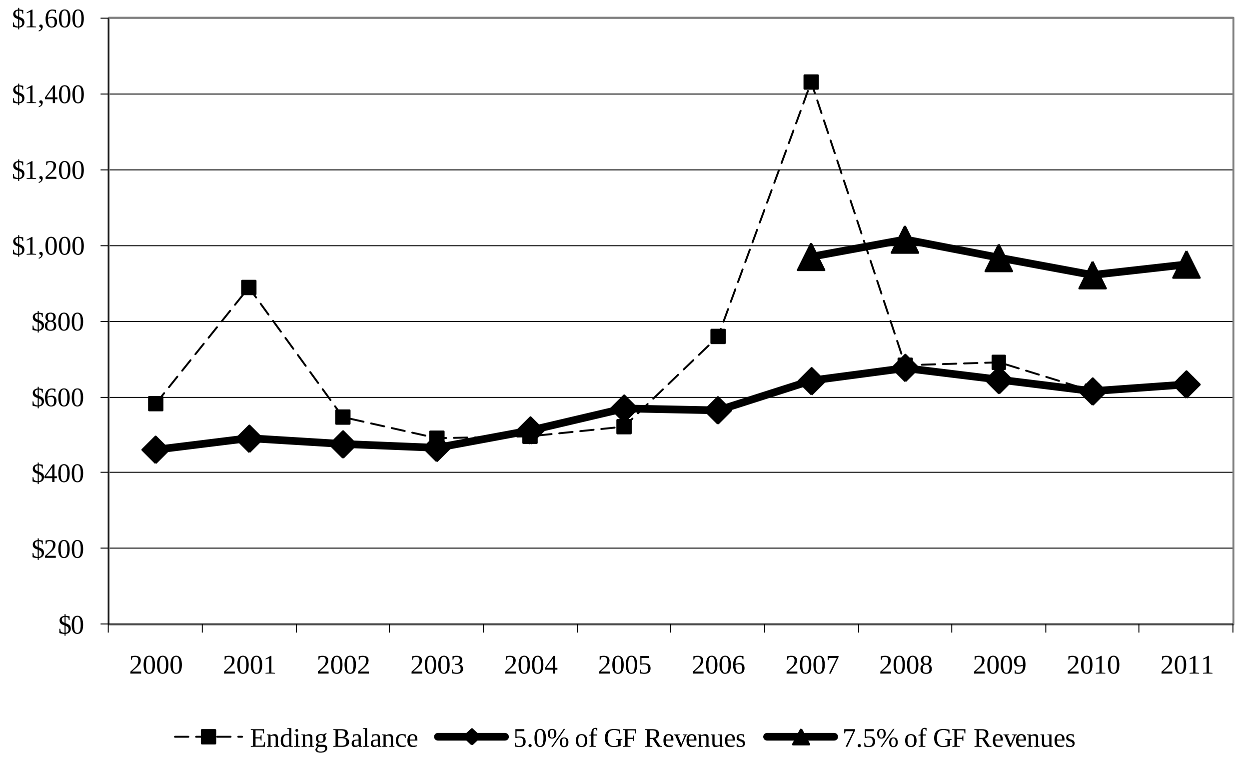
The Governor may transfer funds from the account to the general fund as necessary to support the operation of State government on a temporary basis, if the transfer (1) does not result in an account balance below 5% of the estimated general fund revenues for the fiscal year in which the transfer is made; and (2) is authorized by either an Act of the General Assembly or the State budget bill as enacted. However, if the transfer would result in an account balance below 5% of the estimated general fund revenues for the fiscal year in which the transfer is made, the Governor may transfer funds only if the transfer is authorized by an Act of the General Assembly other than the State budget bill.

The Governor must appropriate an amount equal to any unappropriated general fund balance at closeout in excess of $10.0 million into the account. This appropriation to the account is referred to as the "sweeper provision." This appropriation must be made to the budget two years after the unappropriated general fund surplus is realized but can be reduced by any required appropriation to the account in that fiscal year. For example, fiscal 2008 closed with an unappropriated surplus totaling $185.7 million, thus the fiscal 2010 budget included a $175.7 million appropriation to the account.

Background: Since fiscal 2000, the State has maintained at least the required balance of 5.0% of estimated general fund revenues in the account. Balances peaked in fiscal 2001 and 2007 when unexpected revenue attainments were appropriated to the fund. Surplus balances were used following the downturn of 2001, although throughout the period, the State chose not to use available funds below the 5.0% level. 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.

Exhibit 1 illustrates the balance in the account from fiscal 2000 through 2009 and the projected balances for fiscal 2010 and 2011 relative to 5.0% and 7.5% of estimated general fund revenues. A minimum 5.0% balance has been required since the enactment of Chapter 204 of 1993. The requirement was increased to 7.5% by Chapters 51 and 52 of 2006. Credit rating agencies recommend that states maintain a 5.0% fund balance. The State has maintained at least a 5.0% balance during this period. The balances reached 9.0% and 11.0% in fiscal 2001 and 2007, respectively, when better-than-expected revenue attainment resulted in the decision to place additional funds in reserve. The account also benefits from the statutory requirement that any unappropriated general fund surplus at closeout in excess of $10.0 million must be appropriated to the account.

Exhibit 1
Revenue Stabilization Account End-of-year Balances
Relative to 5.0% and 7.5% Benchmarks
Fiscal 2000-2011
($ in Millions)



GF: general funds

Source: Department of Budget and Management

Chapters 51 and 52 of 2006 also stipulated that use of the fund balance below 5.0% requires an Act of the General Assembly other than the State budget bill, but that the Governor may appropriate the balance between 5.0% and 7.5% in the State budget bill. In both fiscal 2009 and 2010, the Administration appropriated the unappropriated surplus as required but then applied the balance above 5.0% to the State budget. In fiscal 2011, there is no unappropriated surplus. Thus, as the exhibit shows, no progress has been made to date toward achieving the 7.5% fund balance requirement.

Exhibit 2 illustrates fiscal 2007 through 2011 activity in the account. Appropriations into the account are made from fiscal 2007 to 2010. The appropriations are attributable to unappropriated general funds being swept into the account, as required by law. The Governor's proposed fiscal 2011 budget projects an ending balance of $633.5 million in the account, which is 5% of general fund revenues. However, the Budget Reconciliation and Financing Act of 2010 (Senate Bill 141/House Bill 151) includes a provision that relieves the Governor in fiscal 2011 and 2012 from the requirement to appropriate funds to the account if the appropriation would result in the loss of federal stimulus funds or other federal funds.

Exhibit 2
Revenue Stabilization Account Status
Fiscal 2007-2011
($ in Millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Beginning Balance	**$758.8**	**$1,432.2**	**$684.8**	**$691.8**	**$614.8**
Appropriation	593.3	162.8	146.5	114.9	0.0
Transfer to General Fund	0.0	-978.0	-170.0	-210.0	0.0
Fund Projects and Programs	-12.7	0.0	0.0	0.0	0.0
Transfer from DPA	11.0	0.0	0.0	0.0	0.0
Interest Earnings	81.8	67.8	30.5	18.1	18.7
Ending Balance	**$1,432.2**	**$684.8**	**$691.8**	**$614.8**	**$633.5**
General Fund Operating Revenues	$12,940.2	$13,545.6	$12,900.5	$12,299.5	$12,671.7
5.0% of General Fund Revenues	647.0	677.3	645.0	615.0	633.6
7.5% of General Fund Revenues	970.5	1,015.9	967.5	922.5	950.4
Excess over 5.0%	785.2	7.5	46.8	-0.2	-0.1
Excess over 7.5%	461.7	-331.2	-275.7	-307.6	-316.8
Fund Balance as % General Fund Operating Revenues	11.07%	5.06%	5.36%	5.00%	5.00%
Interest Rate Assumption	4.75%	4.75%	3.75%	3.00%	3.00%

DPA: Dedicated Purpose Account
Note: Numbers may not sum to total due to rounding.
Source: Department of Budget and Management, January 2010

Six states, in addition to Maryland, have a AAA bond rating from all three rating agencies with Rainy Day Fund balances ranging from 5% to 10% of revenues.

State Fiscal Effect: For fiscal 2011, increasing the minimum fund balance of the Rainy Day Fund to 22.5% of the general fund revenue estimate would require an account balance of $2.85 billion, which is approximately $2.2 billion above the current 5% balance ($634 million). Currently, if the Rainy Day Fund balance exceeds 3% but is less than 7.5% of revenues, an annual appropriation of at least $50.0 million is required until reaching the 7.5% target. However, under this bill, beginning with fiscal 2011, if the Rainy Day Fund balance exceeds 3% but is less than 22.5% of revenues, annual appropriations of at least $50.0 million would continue until reaching the 22.5% target. The out-year forecast projects a Rainy Day Fund balance between 3.0% and 7.5% through at least fiscal 2015 or 2016; therefore, the bill has no impact in these years. Beginning in fiscal 2017, or whenever the Rainy Day Fund balance exceeds 7.5%, this bill would require annual $50.0 million appropriations until the 22.5% target is reached.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 9, 2010
ncs/rhh

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