

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

House Bill 910

(Frederick County Delegation)

Environmental Matters

Budget and Taxation

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**Frederick County - Budgetary Processes**

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This bill requires the Frederick County Commissioners to replenish the committed general fund balance by the end of the following third fiscal year in order to meet the statutory 5% fund balance requirement, if a specified committed general fund balance is appropriated and expended by the county commissioners. The bill also renames specified general fund balances in Frederick County in accordance with Governmental Accounting Standards Board 54 (GASB 54).

The bill takes effect July 1, 2012.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** The bill is not expected to materially affect Frederick County operations or finances.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The Frederick County Commissioners must maintain an unappropriated undesignated general fund balance equal to 5% of the general fund expenditures and transfers to the board of education and the Frederick Community College for the prior fiscal year. Any amount that exceeds 5% of the general fund expenditures and transfers to the board of education and the Frederick Community College for the prior fiscal year must be included as funds available for appropriation in the current fiscal year.

**Background:** In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which fundamentally altered the components used to report governmental fund balances, but not how the fund balances are calculated. GASB 54 shifts the focus of fund balance reporting from availability of fund resources for budgeting to “the extent which the government is bound to honor constraints on the specific purpose for which amounts in the fund can be spent.”

The comprehensive annual financial reports prepared by the counties show their general fund balances for a given fiscal year. These fund balances are currently divided into five categories based upon the requirements of GASB 54, which took effect for fiscal 2011. Descriptions of the fund balance categories are provided below:

- *Nonspendable* includes funds that cannot be spent either because they are in a nonspendable form (e.g., prepaid items and inventories of supplies) or because they are legally or contractually required to be maintained intact (e.g., the principal of an endowment or the capital of a revolving loan fund).
- *Restricted* includes spendable funds with limitations imposed by creditors, grantors, contributors, or laws or regulations of other governments, or limitations imposed by law through constitutional provisions or enabling legislation.
- *Committed* includes spendable funds with limitations imposed at the highest level of county decision-making authority.
- *Assigned* includes spendable funds that are constrained by the county government’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.
- *Unassigned* includes all spendable funds that cannot be assigned to any of the other fund balance categories.

As shown in **Exhibit 1**, Frederick County ended fiscal 2011 with total general fund balances, including “rainy day” accounts, totaling \$85.2 million. A county’s general fund balance as a percent of general fund revenues is one indicator of a county’s fiscal health and a county’s ability to withstand an economic downturn. As shown in **Exhibit 2**, spendable general fund balance, including “rainy day” funds, as a percent of general fund revenues totaled 14.0% in Frederick County. These are funds typically set aside for use in the event of an economic downturn.

**Local Fiscal Effect:** Frederick County reports that since 1988, when the fund balance requirement was established, the county has maintained a 5% unappropriated undesignated general fund balance every year except for fiscal years 1991 and 1994. To the extent the committed general fund balance falls below 5% of general fund expenditures and transfers to the board of education and the Frederick Community College, the fund balance will need to be replenished by the end of the third following fiscal year.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 802 (Senators Brinkley and Young) - Budget and Taxation.

**Information Source(s):** Frederick County, Government Finance Officers Association, Department of Legislative Services

**Fiscal Note History:** First Reader - March 12, 2012  
ncs/hlb

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**Exhibit 1**  
**County General Fund Balances in Fiscal 2011**  
(\$ in Thousands)

<b>County</b>	<b>Nonspendable</b>	<b>Restricted</b>	<b>Committed</b>	<b>Assigned</b>	<b>Unassigned</b>	<b>Total</b>
Allegany	\$1,202.0	\$110.8	\$2,649.7	\$1,868.3	\$11,394.4	\$17,225.1
Anne Arundel	1,952.4	0.0	0.0	31,313.8	27,775.6	61,041.7
Baltimore City <sup>1</sup>	-	-	-	-	-	-
Baltimore	6,942.0	12,689.0	0.0	65,223.0	165,200.0	250,054.0
Calvert	9,555.0	64.9	20,913.4	9,246.0	26,763.8	66,543.1
Caroline	246.0	0.0	0.0	0.0	2,865.0	3,111.0
Carroll	30,274.7	18,999.0	20,165.0	9,782.5	16,809.4	96,030.6
Cecil	1,807.8	0.0	13,885.4	7,784.0	12,876.3	36,353.5
Charles	1,805.2	699.8	27,022.6	8,806.7	2,050.1	40,384.3
Dorchester <sup>2</sup>	16.3	0.0	1,635.3	311.5	3,938.8	5,902.0
Frederick	1,648.7	21,961.7	1,246.9	60,368.1	0.0	85,225.4
Garrett	886.7	114.3	0.0	16,840.0	5,682.0	23,523.0
Harford	538.3	12,749.6	0.0	76,202.1	7,310.4	96,800.3
Howard <sup>2</sup>	0.0	0.0	56,803.6	27,066.6	8,700.0	92,570.2
Kent	614.3	156.2	611.9	0.0	4,254.5	5,637.0
Montgomery <sup>2</sup>	4,101.6	93,997.0	0.0	39,037.6	48,569.9	185,706.1
Prince George's	1,593.5	144,188.0	52,389.1	85,733.3	94,256.5	378,160.4
Queen Anne's	4.0	333.8	657.1	70.0	4,753.7	5,818.5
St. Mary's	823.1	262.9	12,615.0	2,651.9	30,156.5	46,509.3
Somerset	0.0	0.0	9,700.0	1,000.0	2,745.1	13,445.1
Talbot	56.3	0.0	7,000.0	1,350.0	15,517.0	23,923.3
Washington	77.8	539.4	33,246.3	22.2	3,687.2	37,572.9
Wicomico	471.3	2,800.0	8,524.4	1,445.2	17,658.2	30,899.1
Worcester	130.1	0.0	0.0	14,963.9	26,992.2	42,086.2
<b>Total</b>	<b>\$64,747.0</b>	<b>\$309,666.3</b>	<b>\$269,065.7</b>	<b>\$461,086.6</b>	<b>\$539,956.6</b>	<b>\$1,644,522.2</b>
State of Maryland	\$468,330.0	\$294.0	\$1,163,278.0	\$0.0	-\$292,292.0	\$1,339,610.0

Note: <sup>1</sup>Information not available. <sup>2</sup>Unaudited information. The audited financial statements were not available.

Source: County Audit Reports Fiscal 2011; County Finance Offices

**Exhibit 2**  
**County Spendable General Fund Balances and Rainy Day Funds in Fiscal 2011**  
(\$ in Thousands)

<b>County</b>	<b>General Fund Revenues</b>	<b>Spendable Funds<sup>3</sup></b>	<b>Percent of General Fund</b>	<b>“Rainy Day” Fund</b>	<b>Percent of General Fund</b>
Allegany	\$81,523.3	\$15,912.3	19.5%	\$7,750.0	9.5%
Anne Arundel	1,094,220.6	59,089.4	5.4%	17,212.1	1.6%
Baltimore City <sup>1</sup>	-	-	-	-	-
Baltimore	1,530,816.0	230,423.0	15.1%	84,610.1	5.5%
Calvert	228,102.3	56,923.2	25.0%	18,247.0	8.0%
Caroline	40,252.3	2,865.0	7.1%	2,865.0	7.1%
Carroll	333,532.2	46,756.9	14.0%	18,365.0	5.5%
Cecil	162,751.5	34,545.7	21.2%	12,242.5	7.5%
Charles	298,392.9	37,879.4	12.7%	23,871.4	8.0%
Dorchester <sup>2</sup>	53,855.7	5,885.6	10.9%	1,635.3	3.0%
Frederick	439,863.8	61,615.0	14.0%	0.0	0.0%
Garrett	76,135.5	22,522.0	29.6%	3,425.0	4.5%
Harford	445,341.4	83,512.5	18.8%	24,574.2	5.5%
Howard <sup>2</sup>	815,315.9	92,570.2	11.4%	56,803.6	7.0%
Kent	41,832.8	4,866.5	11.6%	0.0	0.0%
Montgomery <sup>2</sup>	2,666,775.7	181,604.4	6.8%	93,997.0	3.5%
Prince George’s	1,544,584.0	363,351.6	23.5%	130,972.7	8.5%
Queen Anne’s	98,076.4	5,480.7	5.6%	0.0	0.0%
St. Mary’s	196,030.9	45,423.3	23.2%	1,625.0	0.8%
Somerset	33,622.9	13,445.1	40.0%	400.0	1.2%
Talbot	61,255.3	23,867.0	39.0%	10,400.0	17.0%
Washington	198,954.9	36,955.7	18.6%	33,241.4	16.7%
Wicomico	113,448.7	27,627.8	24.4%	5,727.8	5.0%
Worcester	170,734.8	41,956.1	24.6%	0.0	0.0%
<b>Total</b>	<b>\$10,725,419.7</b>	<b>1,495,078.6</b>	<b>13.9%</b>	<b>\$547,965.3</b>	<b>5.1%</b>

Note: <sup>1</sup>Information not available. <sup>2</sup>Unaudited information. The audited financial statements were not available. <sup>3</sup>Spendable funds include all committed, assigned, unassigned and “rainy day” funds. Montgomery and Prince George’s counties report “rainy day” funds in the restricted category and those “rainy day” amounts are included in the spendable funds balance above. Although these reported fund balances represent available resources as of June 30, 2011, the county may have appropriated a portion of these amounts for the current fiscal year budget.

Source: County Audit Reports Fiscal 2011; County Finance Offices