

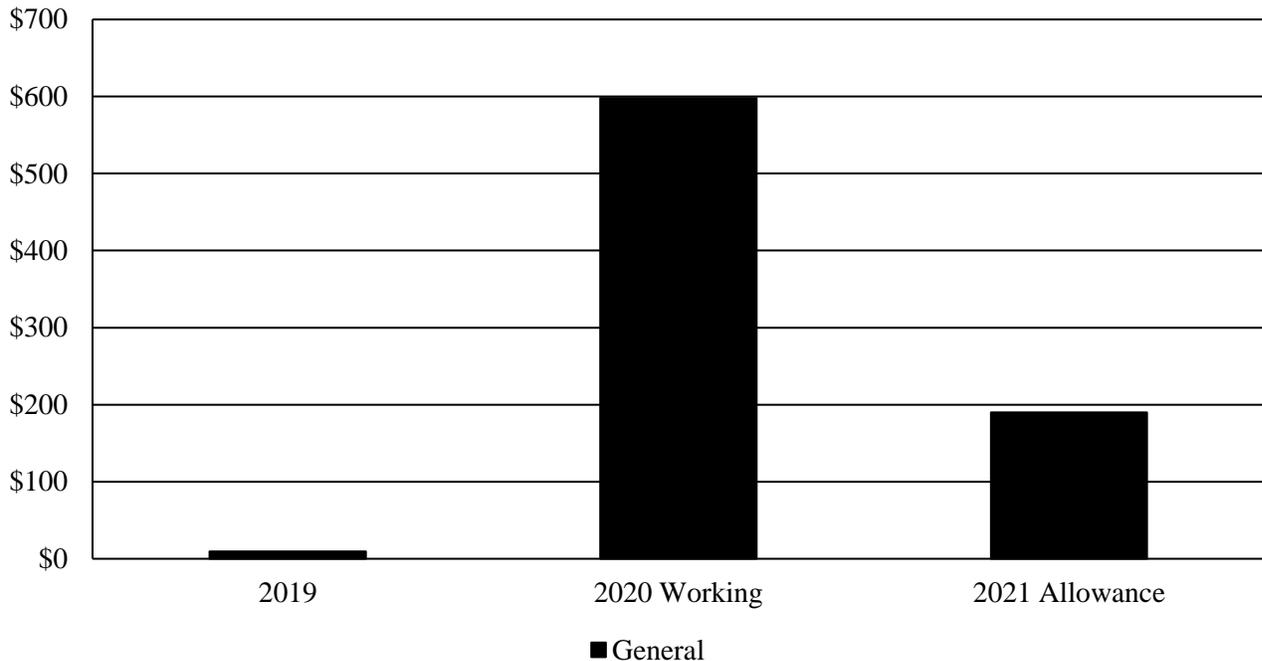
Y01A State Reserve Fund

Executive Summary

The State Reserve Fund provides a means to designate monies for future use. This analysis includes the Revenue Stabilization Account (Rainy Day Fund), the Dedicated Purpose Account (DPA), and the Catastrophic Event Account. Discussion of the Economic Development Opportunities Account can be found in the analysis of the Department of Commerce.

Operating Budget Summary

Fiscal 2021 Budget Decreases by \$408 Million or 68.2% to \$190.2 Million (\$ in Millions)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

- The fiscal 2021 appropriation to the Reserve Fund provides a \$7 million appropriation to the Rainy Day Fund and a \$183.2 million appropriation to the DPA after accounting for \$367.8 million in contingent reductions proposed in relation to actions included in SB 192, the Budget Reconciliation and Financing Act of 2020.

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- Within the DPA appropriation, the Administration proposes:
 - \$125.0 million for the Washington Metropolitan Area Transit Authority contribution;
 - \$38.2 million for the capital portion of the transfer tax repayment; and
 - \$20.0 million for cybersecurity assessments of State agencies.

Operating Budget Recommended Actions

1. Adopt annual narrative requiring the Department of Budget and Management and the Department of Housing and Community Development to report on a Catastrophic Event Account and a Small, Minority, and Women-Owned Businesses Account repayment plan.

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Operating Budget Analysis

Program Description

The State Reserve Fund provides a means to designate monies for future use. It comprises four individual accounts:

- the Revenue Stabilization Account (Rainy Day Fund);
- the Dedicated Purpose Account (DPA);
- the Catastrophic Event Account; and
- the Economic Development Opportunities Account (Sunny Day Fund).

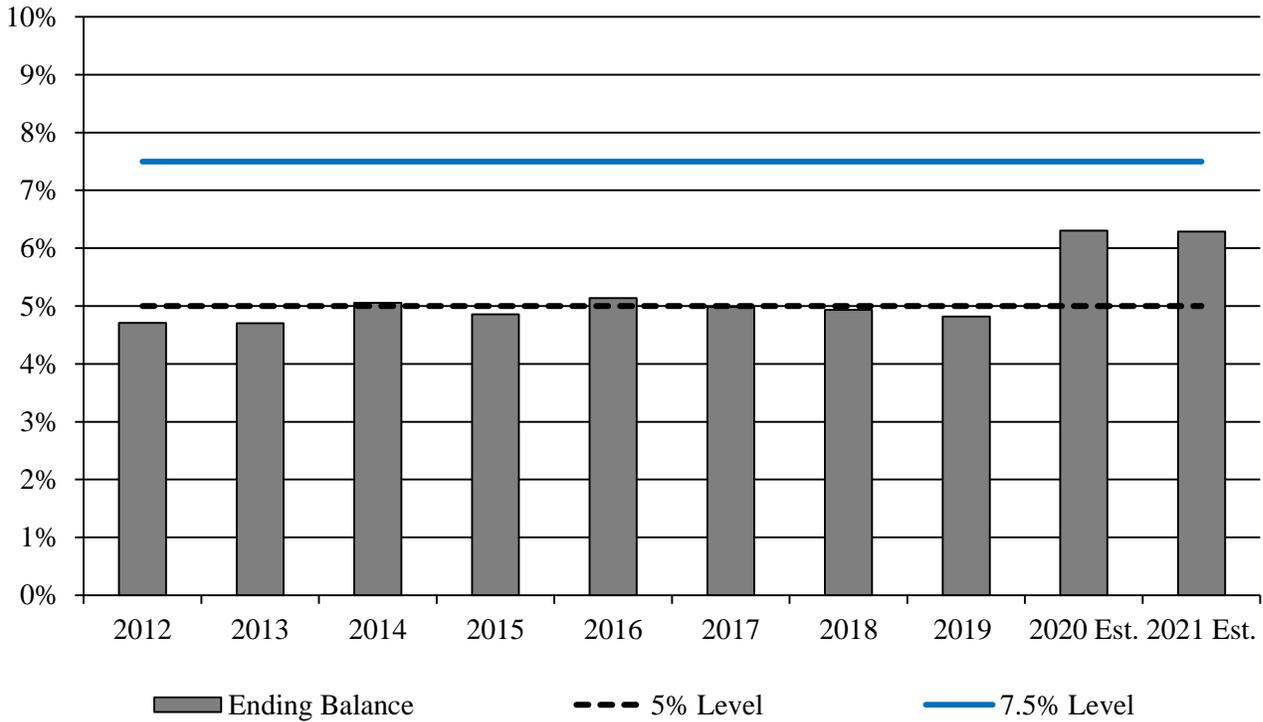
The purpose and status of the first three of these accounts are discussed in more detail in this analysis. Discussion of the Sunny Day Fund can be found in the analysis of the Department of Commerce.

Performance Analysis: Managing for Results

1. Rainy Day Fund Balance Estimated to Exceed 6% of Revenues for Second Year

Section 7-311 of the State Finance and Procurement Article establishes a target reserve balance of 7.5% of estimated general fund revenues. The Governor is authorized to expend balances down to 5.0% in the annual budget bill, which has been the case periodically over the past several fiscal years as the State grappled with structural deficits. **Exhibit 1** provides the actual and estimated closing balances in the Rainy Day Fund since fiscal 2012. Although not shown in the exhibit, the fund reached a peak of 11.0% in fiscal 2007 and was subsequently drawn down to 5.0% to aid in balancing the fiscal 2008 budget at the start of the Great Recession. Higher than anticipated revenues received in recent years, largely a result of the federal Tax Cut and Jobs Act of 2017, have the Rainy Day Fund balance projected to close above 6% for both fiscal 2020 and 2021, even after accounting for sizable diversions to the General Fund.

Exhibit 1
Rainy Day Fund End-of-year Balances
Fiscal 2012-2021 Est.



Source: Department of Budget and Management; Department of Legislative Services

Overview of Spending

Exhibit 2 provides an overview of State Reserve Fund activity between fiscal 2020 and 2021. Detail for each account may be found in **Appendix 2** (Rainy Day Fund), **Appendix 3** (DPA), and **Appendix 4** (Catastrophic Event Account).

Exhibit 2
State Reserve Fund Activity
Fiscal 2020 and 2021
(\$ in Millions)

	Rainy Day Fund	Dedicated Purpose Account	Catastrophic Event Account
Estimated Balances June 30, 2019	\$876.5	\$0.0	\$2.5
Fiscal 2020 Appropriations	\$443.8	\$215.9	\$0.5
Transfer to General Fund ¹	-158.0	-62.0	0.0
Restrict for Legislative Initiatives	0.0	0.0	0.0
DHCD BusinessWorks Loan Repayment	0.0	0.0	1.3
Transfer to POS	0.0	0.0	0.0
Grant to WMATA	0.0	-110.0	0.0
Interest Earnings	18.1	0.0	0.0
Estimated Balances June 30, 2020	\$1,180.4	\$43.9	\$4.3
Fiscal 2021 Appropriations	\$291.4	\$266.5	\$0.0
Transfer to General Fund ²	-284.4	0.0	0.0
Pension Sweeper ²	0.0	-25.0	0.0
OPEB Liability Sweeper ²	0.0	-25.0	0.0
Fiscal 2020 POS Transfer to General Fund ²	0.0	-43.9	0.0
Local Income Tax Reserve Repayment ²	0.0	-33.3	0.0
Transfer to POS	0.0	-38.2	0.0
Grant to WMATA	0.0	-125.0	0.0
Cybersecurity Assessments	0.0	-20.0	0.0
Interest Earnings	18.5	0.0	0.0
Estimated Balances June 30, 2021	\$1,205.9	\$0.0	\$4.3
Percent of Revenues in Reserve	6.3%		

DHCD: Department of Housing and Community Development

OPEB: Other Post Employment Benefits

POS: Program Open Space

WMATA: Washington Metropolitan Area Transit Authority

¹ The \$62.0 million fiscal 2020 transfer to the General Fund from the Dedicated Purpose Account reflects funds that will be reverted at the close of the fiscal year due to the Administration’s decision to not release funds restricted for other legislative priorities (school construction and housing programs).

² Contingent reduction based on a provision in SB 192, the Budget Reconciliation and Financing Act of 2020.

Source: Department of Budget and Management; Department of Legislative Services

Fiscal 2020

In total, the State Reserve Fund is expected to close fiscal 2020 with a balance of \$1.2 billion. Reflected in this closing balance is \$195.9 million in funding restricted by the General Assembly in the fiscal 2020 Budget Bill that the Administration is opting not to release. This includes \$90.0 million of the \$443.8 million appropriation to the Rainy Day Fund that had been restricted to support school construction projects. Those funds will remain as part of the Rainy Day Fund closing balance.

Within the DPA, the legislature had restricted \$105.9 million of the \$215.9 million appropriation, including \$37.0 million for school construction projects, \$25.0 million for projects and programs within the Department of Housing and Community Development (DHCD), and the \$43.9 million Program Open Space (POS) repayment for specific POS-related projects. The Governor’s fiscal 2021 budget plan assumes that \$62.0 million of the restricted funding will revert at the close of fiscal 2020 and that the \$43.9 million POS repayment funding will remain unreleased in the DPA and be subsequently transferred to the General Fund in fiscal 2021.

The Catastrophic Event Account was provided with an appropriation of \$464,250 in fiscal 2020. Repayment of loans provided to businesses in Ellicott City through the DHCD Neighborhood BusinessWorks loan program following severe flooding in 2016 and 2018 contributed \$1.3 million to the account, bringing the closing fund balance to \$4.3 million, which is above the \$4.0 million fund balance recommended to be maintained in the account by the Department of Legislative Services during the 2020 session. As such, the fiscal 2021 allowance does not include an additional appropriation to the Catastrophic Event Account.

Fiscal 2021 Proposed Budget

The fiscal 2021 allowance totals \$557.9 million and meets five statutorily required appropriations before accounting for \$367.8 million in proposed reductions contingent on enactment of SB 192, the Budget Reconciliation and Financing Act (BRFA) of 2020. Three appropriations relate to a “sweeper” to support the Rainy Day Fund and unfunded State employee benefit liabilities. The other two relate to required repayments to POS and the Local Income Tax Reserve Fund for prior year funding diversions into the General Fund.

Rainy Day Fund and Employee Benefit Sweeper Provisions

Since fiscal 2000, the State’s sweeper requires that the Administration appropriate an amount equal to any unassigned general fund balance at closeout in excess of \$10 million into the Rainy Day Fund. In recent years, a portion of the sweeper has also been earmarked to reduce unfunded liabilities. This appropriation is made to the budget two years after the unassigned general fund surplus is realized. The fiscal 2021 appropriation is determined by the unassigned balance at the end of fiscal 2019. Chapter 557 of 2017 altered statute to require that, for fiscal 2021 and beyond, for surpluses above \$10 million, the first \$100 million be divided between the Rainy Day Fund, the Pension System, and the Post-Retirement Health Benefits Trust Fund so that the Rainy Day Fund receives 50%, the Pension System receives 25%, and the Post-Retirement Health Benefits Trust Fund receives 25% on a dollar-for-dollar basis. Amounts above \$110 million are credited to the Rainy Day Fund.

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Fiscal 2019 ended with an unassigned balance totaling \$351.4 million. After deducting \$10 million, per law, this leaves a \$341.4 million unassigned balance. Of this amount, \$291.4 million is to be appropriated in fiscal 2021 to the Rainy Day Fund, and \$50 million is split equally to address unfunded liabilities in the State pension fund and the Post-Retirement Health Benefits Trust Fund. Based on a September 2019 actuarial valuation, the State’s pension system was 72.3% funded at the end of fiscal 2019 with an unfunded liability of \$19.5 billion. The pension fund is expected to be 80% funded by fiscal 2026. The unfunded liability of the Post-Retirement Health Benefits Trust Fund is significantly greater with a funded ratio of 2.4%. Approximately \$14.3 billion out of a total \$14.6 billion liability remains unfunded. The BRFA of 2020 proposes to eliminate funding for both of these sweeper provisions in fiscal 2021, redirecting the revenues to general fund balance. The statutory allocation would resume in fiscal 2022.

The Administration’s budget plan also includes a BRFA provision to reduce the appropriation to the Rainy Day Fund by \$284.4 million, redirecting those funds to the general fund balance and providing the Rainy Day Fund with a net appropriation of \$7.0 million. Combined with an estimated \$18.5 million in interest earnings for the fund, the closing Rainy Day Fund balance is estimated to be \$1,205.9 million in fiscal 2021, or 6.3%, of general fund revenues based on the December 2019 Board of Revenue Estimates (BRE) projections. This closing fund balance is approximately \$55.6 million above the 6% minimum threshold recommended by the Spending Affordability Committee (SAC).

Program Open Space Repayment

The allowance includes \$43.9 million for POS repayment, approximately \$38.2 million of which is budgeted within the DPA. This reflects the capital portion of the spending; the \$5.7 million used to support park service operations is appropriated directly in the Department of Natural Resources (DNR) budget. Chapter 10 of 2018 requires that transfer tax revenues redirected to the General Fund be reimbursed to POS. As previously discussed, the BRFA of 2020 alters the repayment of transfer tax revenue dedicated to POS to repeal the fiscal 2020 repayment and redirect the revenues to the General Fund in fiscal 2021. The provision also extends the repayment schedule by one year and restructures portions of the repayment to specific levels rather than shares of the total amount. The specifics of the provision and associated impacts are discussed further in the DNR capital budget analysis.

Washington Metropolitan Area Transit Authority Contribution

For fiscal 2021, the budget bill includes \$125 million in the DPA to provide a portion of the funding needed for the Washington Metropolitan Area Transit Authority (WMATA) capital grant. Chapters 351 and 352 of 2018 added provisions to the Transportation Article that require a new mandated \$167 million dedicated capital grant for WMATA in addition to the capital grant already being provided. The Administration is funding \$125 million of the WMATA capital grant with general funds instead of Transportation Trust Fund revenues. As discussed in the WMATA budget analysis (J00A01.04), this is \$15.0 million above the \$110.0 million in general funds provided for the additional grant in fiscal 2020. The Governor’s out-year forecast assumes that the entire \$167.0 million grant will be funded with the use of general funds beginning in fiscal 2022.

Local Income Tax Reserve Account Repayment

The State maintains a Local Income Tax Reserve Account. The State collects income taxes for local jurisdictions and makes payments to the counties and Baltimore City from this account. According to generally accepted accounting principles, the State is supposed to maintain a sufficient fund balance to pay future refunds realized during the fiscal year in case the income tax is no longer collected. If the account is insufficiently capitalized at the end of a fiscal year, the State is required to report the underfunding as an unfunded liability in the *Comprehensive Annual Financial Report (CAFR)*. If the State has a plan in place to reimburse the account, the State does not need to show an unfunded liability in CAFR.

The State has transferred funds from this account to support general fund spending on four occasions since fiscal 2009. Approximately \$716.8 million was borrowed from the fund in fiscal 2009 and 2010 with the proposed repayment plans repealed through subsequent BRFA actions. This leaves these funds as unfunded liabilities for the State. Chapter 484 of 2010 borrowed \$200 million from the account for Medicaid and required that this amount be repaid from fiscal 2021 through 2026 at \$33.3 million per year. The fiscal 2021 allowance reflects the first year appropriation in accordance with the plan; however, the Governor’s budget proposal also includes a contingent reduction in the same amount based on a provision in the BRFA of 2020 that would reduce the repayment to the Local Income Tax Reserve Account annually from \$33.3 million to \$10 million, extending the repayment period from fiscal 2026 to 2040. In addition, the BRFA provision proposes to change the repayment mechanism from an appropriation to a direct distribution from general fund revenues. This is similar to the repayment plan in place for \$100 million borrowed from the account in fiscal 2015, the last time that funds were transferred to support general fund operations.

Cybersecurity Assessments

The fiscal 2021 appropriation to the DPA includes \$20.0 million to fund cybersecurity assessments to evaluate and strengthen the State’s information technology (IT) systems. The funding is appropriated in the DPA in anticipation that expenditure of the funds will require more than one fiscal year to complete. The assessments will be coordinated by the Department of Information Technology, where the issue of cybersecurity for State IT systems is further discussed.

Issues

1. BRFA of 2020 Proposes to Adjust Revenue Volatility Cap

Due to the business cycle, revenue volatility is unavoidable for State governments. States that rely heavily on highly volatile revenue sources like capital gains to fund ongoing spending are especially vulnerable to the vagaries of the economy. Minimizing reliance on unstable revenue sources can help states soften the impact of recessions and avoid building unsustainable ongoing spending into their budgets during economic booms. In recent years, a number of states have adopted or considered changes to their revenue forecasting and budgetary practices to reduce their vulnerability to revenue volatility.

Legislation to Cap Income Tax Nonwithholding Revenues to Dedicate Funds for Reserves and Capital Projects Is Enacted

Following recommendations from a 2016 workgroup examining the volatility of Maryland’s revenue structure, Chapters 4 and 550 of 2017 codified key recommendations of the workgroup’s report. The legislation provided for a methodology to estimate unsustainable income tax nonwithholding, increase Rainy Day Fund balances, and determine how excess funds are appropriated. The legislation established a cap on income tax nonwithholding revenues based on the 10-year average of income tax nonwithholding revenues, up to 2% of general funds.

Use of Income Tax Nonwithholding Income Tax Revenues

Beginning with fiscal 2020, if actual income tax nonwithholding revenues exceed the cap, the amount of income tax nonwithholding revenues that exceed the capped estimate must be applied as follows:

- the first priority is to close the revenue gap for that fiscal year so that funds must be used to close any budget deficit;
- if the available nonwithholding income tax revenues exceed the amount that is needed to close the gap (or there is no budget deficit), the Comptroller must distribute any remaining amount to the Rainy Day Fund;
- if the Rainy Day Fund balance is equal to or exceeds 6% of estimated general fund revenues, the Comptroller must distribute 50% of any remaining amount to the Rainy Day Fund and the other 50% into the Fiscal Responsibility Fund; and
- if the Rainy Day Fund balance exceeds 10% of estimated general fund revenues, any remainder must be distributed to the Fiscal Responsibility Fund.

Establishment of the Fiscal Responsibility Fund

The bill established a special, nonlapsing Fiscal Responsibility Fund to provide supplemental pay-as-you-go (PAYGO) capital funds for public school construction, public school capital improvement projects, capital projects at public community colleges, and capital projects at four-year public institutions of higher education. The Governor must include in the budget bill for the second following fiscal year an appropriation equal to the amount in the fund for PAYGO capital projects.

The BRFA of 2019 altered the use of the Fiscal Responsibility Fund for one year to dedicate any revenues deposited at the close of fiscal 2020 to providing up to a 2% salary increase in fiscal 2021 for members of certain bargaining units. The BRFA of 2020 proposes to repeal this dedication for salary increases and split the funds between the Rainy Day Fund and capital projects.

Fiscal 2020 Is the First Year That the Cap Is Applied

The law requires that the State apply the cap in fiscal 2020, as modified by Chapter 10, which modified the amount of excess funds so that the impact would phase in gradually. Limits were set at 0.5% of general funds in fiscal 2020, 1% for fiscal 2021, and 2% beginning in fiscal 2022. Under these guidelines, the December BRE revenue estimate calculated a \$42.2 million volatility adjustment for fiscal 2020 and \$192.5 million adjustment for fiscal 2021. With the Rainy Day Fund projected to close with a balance of 6.3% of general fund revenues for 2021, the volatility adjustment would provide approximately \$97 million in additional school construction PAYGO funds in fiscal 2023 and \$42 million for a fiscal 2021 salary increase if the revenues materialize.

The BRFA of 2020 proposes to alter the revenue volatility cap to dollar amounts rather than a percent of general fund revenue, beginning with \$60 million in fiscal 2021 and increasing by \$20 million each year until reaching full phase-in to a 2% cap in fiscal 2026 rather than fiscal 2022. As seen in **Exhibit 3**, this proposal generates an estimated \$133.7 million in additional general fund revenues in fiscal 2021 but limits the amount of funding that would be directed to the Fiscal Responsibility Fund for supplemental capital projects. In addition, the proposal is in opposition to the recommendation of SAC that the revenue volatility phase-in outlined in existing statute be adhered to for fiscal 2021 and 2022.

Exhibit 3
Impact of Proposed Change to the Revenue Volatility Cap
Fiscal 2020-2025
(\$ in Millions)

Existing Law	2020	2021	2022	2023	2024	2025
	<u>BRE Est.</u>					
General Fund Revenues						
Operating Revenues	\$18,763	\$19,365	\$19,988	\$20,626	\$21,319	\$22,030
Volatility Adjustment	-42	-194	-347	-302	-260	-262
Adj. Operating Revenues	\$18,721	\$19,172	\$19,641	\$20,325	\$21,059	\$21,768
Governor’s Proposal						
General Fund Revenues						
Operating Revenues	\$18,763	\$19,365	\$19,931	\$20,573	\$21,272	\$21,987
Volatility Adjustment	-42	-60	-80	-100	-120	-140
Adj. Operating Revenues	\$18,721	\$19,305	\$19,851	\$20,473	\$21,152	\$21,847
Additional GF Revenues	\$0	\$134	\$267	\$202	\$140	\$122

BRE: Board of Revenue Estimates

GF: general fund

Source: Board of Revenue Estimates; Department of Legislative Services

Operating Budget Recommended Actions

1. Adopt the following narrative:

Repayment of the Catastrophic Event Account and the Small, Minority, and Women-Owned Businesses Account: In September 2016, \$2.5 million was transferred from the Catastrophic Event Account, and \$2.3 million was transferred from the Small, Minority, and Women-Owned Businesses Account (SMWOBA) into the Department of Housing and Community Development (DHCD) Neighborhood BusinessWorks program to provide loans to businesses in Ellicott City. Another \$2.5 million was transferred from the Catastrophic Event Account in July 2018. As part of its review of the transfer of funds from the Catastrophic Event Account, the Legislative Policy Committee recommended that DHCD develop a process by which the funds or repaid loans are credited to the Catastrophic Event Account. The department should submit a report that provides data regarding the number and amount of loans provided, the outstanding balance of these loans, and the number and amount of any forgiven loans. This report should be submitted to the budget committees by January 15, 2021.

Information Request	Authors	Due Date
Report on Catastrophic Event Account and SMWOBA repayment	DHCD Department of Budget and Management	January 15, 2021

Appendix 1
2019 Joint Chairmen’s Report Responses from Agency

The 2019 *Joint Chairmen’s Report* (JCR) requested that the Department of Housing and Community Development (DHCD) and the Department of Budget and Management (DBM) prepare one report for the State Reserve Fund. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Repayments to the Catastrophic Event Account:*** In 2016, the Governor provided \$2.5 million from the Catastrophic Event Account to provide loan assistance for small businesses recovering from severe flooding in Ellicott City. At the time that the use of the funds was approved, the Legislative Policy Committee also recommended that the loan repayments be credited back to the Catastrophic Event Account to replenish the fund. Annual committee narrative requests a joint report from DHCD and DBM on the status of the loan repayments. To date, \$2.45 million has been disbursed, and the current outstanding balance as of September 8, 2019, is \$1.05 million. One loan totaling \$50,000 has defaulted and been referred to the Central Collections Unit, and four loans have received partial forgiveness totaling just under \$100,000. A total of \$1.4 million has been repaid to the account.

Appendix 2
Revenue Stabilization Account (Rainy Day Fund)
Section 7-311 State Finance and Procurement Article

Account Characteristics

- **Purpose:** The account was established in 1986 to retain State revenues to meet future short-term funding needs and to reduce the need for future tax increases by moderating revenue growth.
- **Appropriations:** The account consists of direct appropriations in the budget bill and interest earned from all reserve fund accounts.
- **Required Appropriations If Account Balance Is Less Than 7.5% of General Fund Revenues:** Current law requires that if the fund balance is between 3% and 7.5% of projected general fund revenues, annual appropriations of at least \$50 million must be made until the account balance reaches 7.5% of estimated general fund revenues. If the account balance is below 3%, State law requires an appropriation of at least \$100 million.
- **Sweeper Provision:** State law requires that the Administration appropriate an amount equal to any unassigned general fund balance at closeout in excess of \$10 million into the Revenue Stabilization Account (Rainy Day Fund). This appropriation is made to the budget two years after the unassigned general fund surplus is realized. For example, fiscal 2008 closed with an unassigned surplus totaling \$185.7 million; thus, the Administration’s fiscal 2010 allowance included a \$175.7 million appropriation to the Rainy Day Fund. This appropriation to the Rainy Day Fund is referred to as the “sweeper.” Chapter 489 of 2015 modified the sweeper so that:
 - for fiscal 2017 to 2019, for surpluses above \$10 million, an amount equal to up to \$100 million is split between the Rainy Day Fund and the Pension System. Amounts above \$110 million go to the Rainy Day Fund;
 - for fiscal 2020, for surpluses above \$10 million, an amount equal to up to \$50 million each year goes to the Rainy Day Fund and the Pension System on a dollar-for-dollar basis, and amounts above \$110 million go to the Rainy Day Fund; and
 - per Chapter 557 of 2017, for fiscal 2021 and beyond, for surpluses above \$10 million, the first \$100 million is divided between the Rainy Day Fund, the Pension System, and the Post-Retirement Health Benefits Trust Fund so that the Rainy Day Fund receives 50%, the Pension System receives 25%, and the Post-Retirement Health Benefits Trust Fund receives 25% on a dollar-for-dollar basis. Amounts above \$110 million are credited to the Rainy Day Fund.

Mechanisms for Transferring and Spending Funds

The Governor can transfer balance from the Rainy Day Fund above 5% of estimated general fund revenues in the budget bill. To transfer an amount that would reduce the Rainy Day Fund balance below 5% requires the transfer to be authorized in an Act of the General Assembly other than the budget bill.

Rainy Day Fund Activity

The following table illustrates fiscal 2017 through 2021 activity in the Rainy Day Fund. The fiscal 2017 allowance included the required sweeper appropriation, which totaled \$235.3 million, and also included a \$170.0 million transfer to the General Fund. The budget was amended so that \$80 million was restricted for other uses. The Governor did not transfer funds for the restricted purposes, so the funds reverted to the General Fund. In fiscal 2018, the fund received a \$10.0 million appropriation to maintain the minimum 5% fund balance and \$1 million in unspent funds from the state of emergency that was declared to respond to disturbances in Baltimore City in May 2015. At the time, \$13.1 million was transferred to State agencies to support operations. The fiscal 2020 budget provided the required \$443.8 million sweeper appropriation and proposed to transfer \$158 million of the appropriation to the General Fund. Similar to fiscal 2017, the General Assembly restricted \$90 million of the Reserve Fund appropriation to instead be used toward school construction costs. The Governor opted to not release the funds for that purpose. Unlike fiscal 2017, a provision was added to Chapter 16 of 2019 (Budget Reconciliation and Financing Act (BRFA)) to only authorize the transfer of funds from the Rainy Day Fund or Dedicated Purpose Account for purposes identified in the fiscal 2020 Budget Bill. As such, the \$90 million remains in the Rainy Day Fund balance instead of reverting to the General Fund. The Administration proposed to reduce the statutorily required appropriation to the Rainy Day Fund in fiscal 2021 by \$284.4 million, contingent on a provision in the BRFA of 2020 authorizing the transfer. This would reduce the fund balance to an estimated 6.3% of general fund revenues.

Revenue Stabilization Account Status

Fiscal 2017-2021 Est.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020 Est.</u>	<u>2021 Est.</u>
Beginning Balance	\$832.4	\$832.5	\$856.8	\$876.5	\$1,180.4
Appropriation	\$235.3	\$10.0	\$47.8	\$443.8	\$291.4
Transfer to General Fund	-170.0	0.0	0.0	-158.0	-284.4 ¹
Transfer to or from BPW Contingent Fund	0.0	1.0	0.0	0.0	0.0
Fund Projects and Programs	0.0	0.0	-44.5	0.0	0.0
Excess Revenue/Transfers/GF Reversions	-80.0	0.0	0.0	0.0	0.0
Interest Earnings	14.7	13.4	16.3	18.1	18.5
Ending Balance	\$832.5	856.8	\$876.5	\$1,180.4	\$1,205.9

BPW: Board of Public Works

GF: general fund

¹Transfer is contingent on a provision in SB 192, the Budget Reconciliation and Financing Act of 2020.

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

Source: Department of Budget and Management

Appendix 3
Dedicated Purpose Account
Section 7-310 State Finance and Procurement Article

Account Characteristics

- **Purpose:** The account was established in 1986 to retain appropriations for major, multi-year 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.
- **Appropriations:** The account consists of direct appropriations in the budget bill committed to a specific purpose. Interest earnings generated by the account are credited to the Revenue Stabilization Account (Rainy Day Fund).
- **Other:** The unspent balance of an appropriation reverts to the Rainy Day Fund four years after the end of the fiscal year for which the appropriation was made.

Mechanisms for Transferring and Spending Funds

To transfer funds from the Dedicated Purpose Account (DPA):

- funds may be reflected in the State budget subject to appropriation;
- after submission to the budget committees and review and approval by the Legislative Policy Committee (LPC), funds may be transferred by budget amendment to the appropriate Executive Branch agency; or
- the Governor may declare appropriations to the DPA surplus and may transfer funds by budget amendment to the Rainy Day Fund following review by the budget committees and LPC.

Dedicated Purpose Account Activity

The following table illustrates the activity in the DPA from fiscal 2017 through 2021. The account ends the period with no fund balance. In fiscal 2017, the account opened with a balance of \$1.8 million in carryover funding from fiscal 2016 for information technology (IT) upgrades. Those upgrades were complete in fiscal 2017, eliminating all available balance. In fiscal 2019, \$6 million was appropriated for Program Open Space (POS) repayments. The fiscal 2020 allowance provided \$93.9 million in statutorily required appropriations: \$50 million to reduce the pension liability; and \$43.9 million in POS repayments, along with \$125 million for the Washington Metropolitan Area Transit Authority (WMATA). Final legislative actions on the budget reduced the WMATA grant by \$3 million and restricted \$105.9 million of the remaining \$212.9 million appropriation to provide an additional \$37 million to support school construction and \$25 million for housing programs and to specify the allocation of the \$43.9 million POS repayment. The Administration’s fiscal 2021 budget plan recognizes \$62.0 million of the restricted funds as assumed reversions for fiscal 2020 and transfers the \$43.9 million POS repayment to the General Fund in fiscal 2021. The

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fiscal 2021 budget included \$121.5 million in statutorily required appropriations: \$25.0 million each for the pension and Other Post Employment Benefits unfunded liabilities, \$33.3 million to begin repayment of the Local Income Tax Reserve Repayment and \$38.2 million for the capital portion of the POS repayment. The Budget Reconciliation and Financing Act of 2020 includes provisions to eliminate all of these appropriations in fiscal 2021. In addition, the allowance provides \$20.0 million to conduct cybersecurity assessment of State IT systems and \$125.0 million for the additional capital grant to WMATA.

Dedicated Purpose Account Status

Fiscal 2017-2021

(\$ in Millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Beginning Balance	\$1.8	\$0.0	\$0.0	\$0.0	\$43.9
Appropriation	\$0.0	\$0.0	\$6.0	\$215.9	\$266.5
Local Income Tax Reserve Repayment					\$33.3
Pension Sweeper				\$50.0	25.0
Other Post Employment Benefits (OPEB) Sweeper					25.0
Washington Metropolitan Area Transit Administration (WMATA) Contribution				122.0	125.0
Program Open Space (POS) Repayment for General Fund Transfers			\$6.0	43.9	38.2
Cybersecurity Assessments					20.0
Transfers	-\$1.8	\$0.0	-\$6.0	-\$215.9	-\$310.4
Local Reserve Account Repayment					-\$33.3*
Fiscal 2020 POS Repayment for General Fund Transfers			-\$6.0	\$0.0	-43.9*
POS Repayment				0.0	-38.2
Information Technology Upgrades	-\$1.8				
Transfer to Pension Fund					-25.0*
OPEB Sweeper					-25.0*
WMATA Contribution				-110.0	-125.0
General Fund Reversion				-62.0	
Cybersecurity Assessments					-20.0
Ending Balance	\$0.0	\$0.0	\$0.0	\$43.9	\$0.0

*Notes contingent reduction based on provision in SB 192, the Budget Reconciliation and Financing Act of 2020

Source: Department of Budget and Management

Appendix 4
Catastrophic Event Account
Section 7-324 State Finance and Procurement Article

Account Characteristics

- **Purpose:** 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.
- **Appropriations:** The account consists of direct appropriations in the budget bill. Interest earnings generated by the account are credited to the Revenue Stabilization Account.

Mechanisms for Transferring and Spending Funds

Prior to transferring funds by budget amendment to the appropriate Executive Branch agency, the Administration must notify the Legislative Policy Committee of the proposed amendment and allow the committee to review and approve the proposed amendment. The committee has 15 days to review and comment.

Catastrophic Event Purpose Account Activity

The following table shows that the account's balance was \$172,937 at the start of fiscal 2016. In fiscal 2016, the Administration's budget included a \$10,000,000 deficiency appropriation. In response to snowstorms, \$567,687 was transferred to the Military Department in fiscal 2016. The Department of Housing and Community Development's Neighborhood BusinessWorks program received \$2,500,000 to support Ellicott City's flood cleanup in fiscal 2017. About \$441,000 of the flood cleanup has been repaid from fiscal 2017 to 2019, with additional repayments anticipated, including \$1.33 million in fiscal 2020. The Administration has processed a budget amendment to provide \$2,500,000 for Baltimore City schools' heating, ventilation, and air conditioning repairs in fiscal 2018 and another \$2,500,000 for BusinessWorks in fiscal 2019, in response to a second flood. The fiscal 2020 budget included \$464,250 appropriation to the fund. No other activity is presently planned for fiscal 2020 or 2021.

Y01A – State Reserve Fund

Catastrophic Event Account
Fiscal 2017-2021
(\$ in Thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Beginning Balance	\$9.605	\$7.147	\$4.988	\$2.482	\$4.276
Appropriation	\$0.000	\$0.000	\$0.000	\$0.464	\$0.000
Military Department for Hurricane Florence			-0.064		
Ellicott City Flood Relief through Neighborhood BusinessWorks	-2.500		-2.500		
DHCD Neighborhood BusinessWorks Loan Repayment	0.042	0.341	0.058	1.330	
Baltimore City School Emergency HVAC Repairs		-2.500			
Ending Balance	\$7.147	\$4.988	\$2.482	\$4.276	\$4.276

DHCD: Department of Housing and Community Development
HVAC: heating, ventilation, and air conditioning

Source: Department of Budget and Management

**Appendix 5
Object/Fund Difference Report
State Reserve Fund**

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%
Total Objects	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%
Funds					
01 General Fund	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%
Total Funds	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.

**Appendix 6
Fiscal Summary
State Reserve Fund**

<u>Program/Unit</u>	<u>FY 19 Actual</u>	<u>FY 20 Wrk Approp</u>	<u>FY 21 Allowance</u>	<u>Change</u>	<u>FY 20 - FY 21 % Change</u>
01 Revenue Stabilization Account	\$ 3,345,241	\$ 443,836,013	\$ 291,439,149	-\$ 152,396,864	-34.3%
02 Dedicated Purpose Account	6,000,000	215,860,950	266,503,782	50,642,832	23.5%
04 Catastrophic Event Account	0	464,250	0	-464,250	-100.0%
Total Expenditures	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%
General Fund	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%
Total Appropriations	\$ 9,345,241	\$ 660,161,213	\$ 557,942,931	-\$ 102,218,282	-15.5%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.