

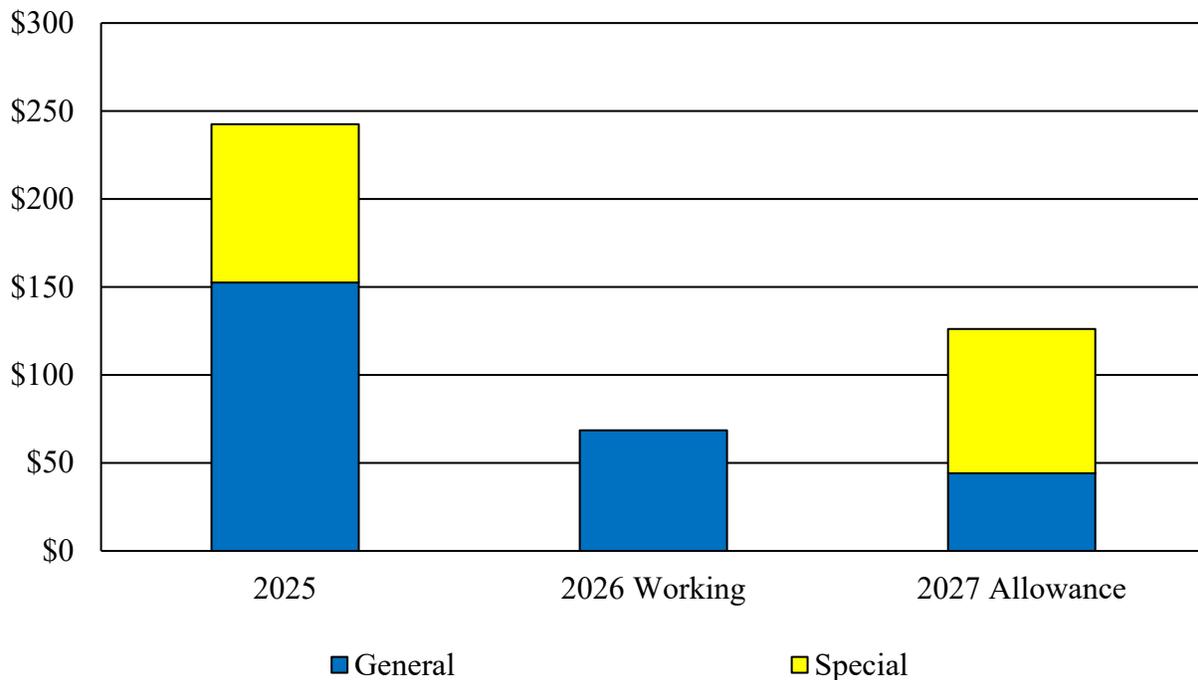
Y01A State Reserve Fund

Program Description

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. **Appendix 2**, **Appendix 3**, and **Appendix 4** provide details on the characteristics and spending mechanisms for each account. Discussion of the Economic Development Opportunities Account can be found in the fiscal 2027 operating budget analysis for T00 – Department of Commerce.

Operating Budget Summary

**Fiscal 2027 Budget Increases \$57.6 Million, or 84.1%, to \$126.1 Million
(\$ in Millions)**



- Language in the budget bill deletes the \$449.8 million appropriation to the Rainy Day Fund contingent on a Budget Reconciliation and Financing Act (BRFA) of 2026 provision repealing the required distribution to the Rainy Day Fund for fiscal 2027 only.

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- The fiscal 2027 allowance includes a \$82 million special fund appropriation using funds transferred from the Strategic Energy Investment Fund (SEIF) Alternative Compliance Payments (ACP). The appropriation is contingent on legislation expanding the uses of the SEIF, and the BRFA contains a provision authorizing use of these funds for specified purposes.

Fiscal 2026

Deficiency Appropriations

The fiscal 2027 budget includes proposed deficiency appropriations totaling \$42 million in general funds – \$30 million for emergency maintenance projects at Department of Public Safety and Correctional Services (DPSCS) facilities and \$12 million for flood recovery grants to Allegany County.

- The \$30 million for DPSCS will support primarily large scale projects such as fire suppression systems, security fencing and locks, full scale window or roof replacement, etc. for which funding has been deferred. The funding will not be used for new projects.
- The \$12 million for Allegany County is planned to cover \$5.5 million for George’s Creek riverbed maintenance; \$5.5 million for infrastructure repair – sewer and water lines, road, and bridge repairs; and \$1 million to restore the foundation and structural stability of the Westernport Library. Plans are being finalized, but funding will likely be distributed through the Department of Housing and Community Development. The funding is intended to support but not fully cover repair costs.

Legislative Additions

Section 21 of the fiscal 2026 Budget Bill added \$200,000 for an economic and land-use study of Greater Bladensburg to be carried out by the Maryland Economic Development Corporation (MEDCO). On February 10, 2026, the Department of Budget and Management submitted a budget amendment for Legislative Policy Committee review that would transfer the funds to the Department of Commerce which would then provide a grant to MEDCO.

Fiscal 2027 Overview of Agency Spending

Appendix 1 provides detail on the activity in the Rainy Day Fund for the fiscal 2025 through the 2027 allowance.

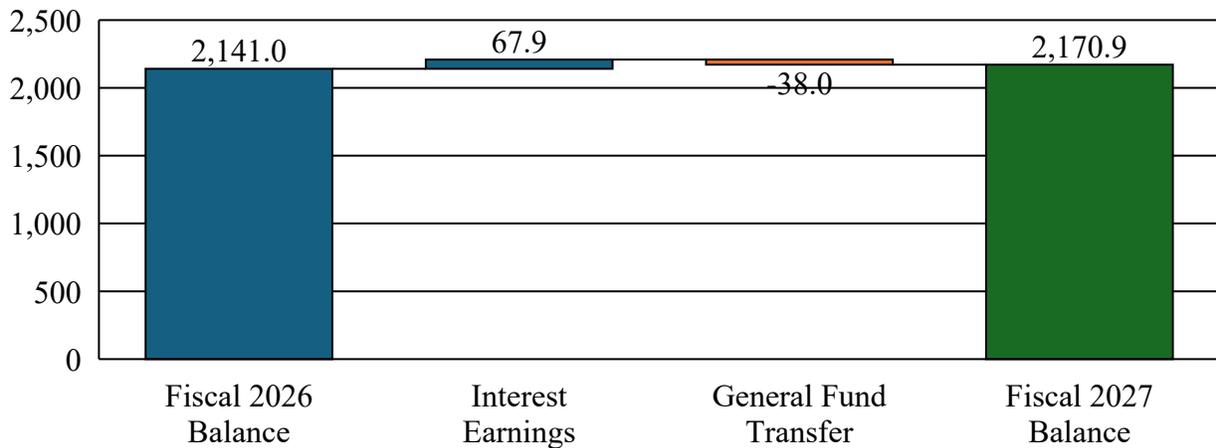
Rainy Day Fund

The Rainy Day Fund 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. Section 7-311 of the State Finance and Procurement Article requires that an amount equal to the unappropriated general fund surplus exceeding \$10 million from two fiscal years prior to the allowance year shall be appropriated into the Rainy Day Fund. An appropriation totaling at least \$50 million is required if projected revenues in the fund are less than 7.5% of general fund revenues.

Fiscal 2025 ended with an unappropriated general fund balance totaling \$459.8 million. The General Fund retains \$10 million of this surplus. Section 7-311 requires a \$449.8 million appropriation to the Rainy Day Fund. However, language in the fiscal 2027 Budget Bill would delete the mandated appropriation contingent on legislation repealing the requirement that funds be included in the fiscal 2027 budget. **The Department of Legislative Services (DLS) recommends deleting the \$449.8 million Rainy Day Fund appropriation and striking the language making this reduction contingent on the enactment of legislation.**

The Governor’s budget plan anticipates changes in the Rainy Day Fund balance that result in a net increase of \$29.9 million between fiscal 2026 and 2027. Specifically, the Rainy Day Fund balance would increase by \$67.9 million due to interest, while a transfer to the General Fund of \$38 million would reduce the Rainy Day Fund balance to \$2,170.9 million, approximately 8.0% of general fund revenues, as shown in **Exhibit 1**.

Exhibit 1
Fiscal 2027 Planned Draw Down of the Rainy Day Fund
(\$ in Millions)



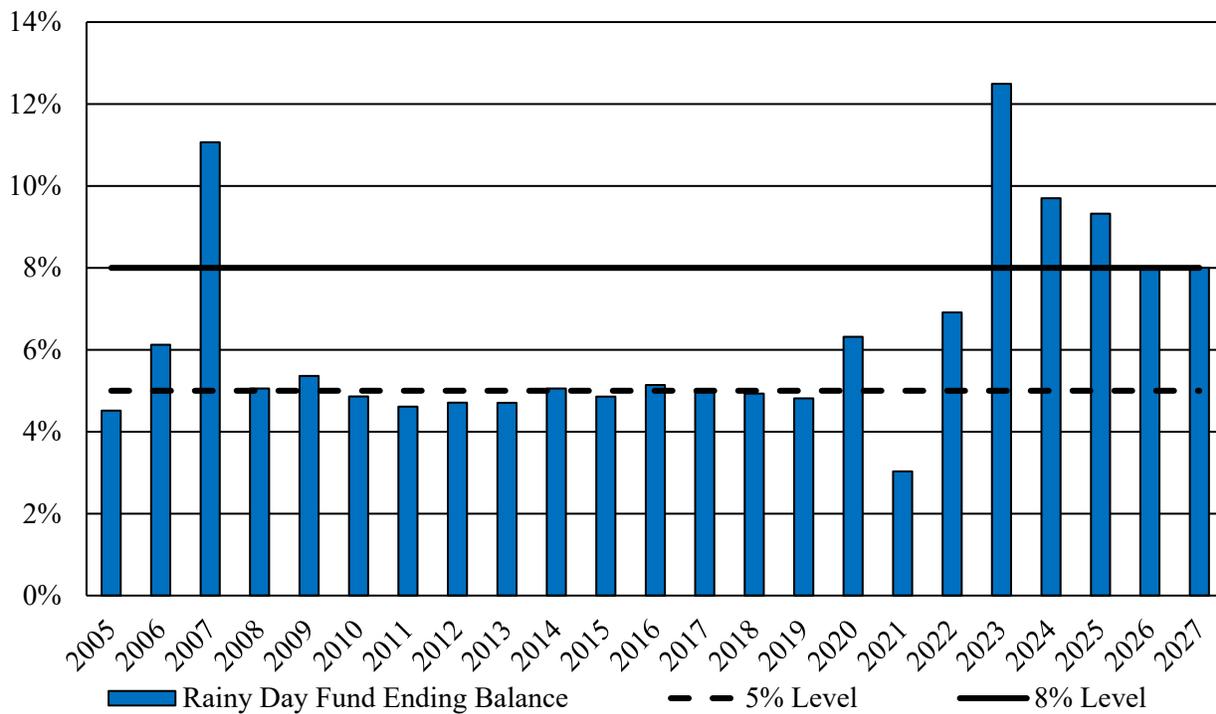
Rainy Day Fund: Revenue Stabilization Account

Source: Governor’s Fiscal 2027 Budget Books; Department of Legislative Services

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As shown in **Exhibit 2**, the Rainy Day balance peaked in fiscal 2023 due to a large fiscal 2021 general fund surplus that led to a mandated appropriation of \$2.4 billion to the Rainy Day Fund in fiscal 2023. Fiscal 2023 ended the year with a \$2.96 billion balance, equating to 12.5% of general fund revenues. Due to lower ending surpluses, transfers from the fund, and no new appropriations, the fund balance has declined since fiscal 2023. Fiscal 2025 ended the year with a \$2.53 billion balance, equating to 9.3% of general fund revenues.

Exhibit 2
Rainy Day Fund Balance as a Percentage of General Fund Revenues
Fiscal 2005-2027 Allowance



Rainy Day Fund: Revenue Stabilization Account

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

Dedicated Purpose Account

The DPA, also established in 1986, retains appropriations for major, multi-year expenditures where the magnitude and timing of cash needs are uncertain and meet expenditure requirements that may be affected by changes in federal law or fiscal policies or other contingencies. 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.

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Exhibit 3 provides details on how the \$126 million fiscal 2027 appropriation is allocated by purpose.

Exhibit 3
Dedicated Purpose Account
Appropriations by Purpose
Fiscal 2027 Allowance
(\$ in Millions)

<u>Purpose/Description</u>	<u>Allowance</u>
General Funds	
Legislative Priorities	\$30.0
Repeat Audit Findings Solutions	5.0
Certified Community Behavioral Health Clinics	4.6
HR 1 (One Big Beautiful Bill Act) Statewide Implementation	2.5
State Fiscal Leadership Capacity/Recruitment	2.0
<i>Subtotal – General Funds</i>	\$44.1
Special Funds	
Higher Education Research Fund	\$42.0
Energy Resource Adequacy and Planning Act Implementation (Chapters 7 and 19 of the 2025 Special Session)	25.0
Grid-Enhancing Technologies/ Advanced Transmission Technologies Planning	15.0
<i>Subtotal – Special Funds</i>	\$82.0
Grand Total	\$126.1

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

Fiscal 2027 Appropriations to the DPA

Authorized Uses of ACP Revenue in the SEIF

Section 9-20B-05 of the State Government Article limits use of ACP funds to loans and grants supporting creation of Tier 1 renewable energy or solar energy sources (depending on the source of the ACP). These energy sources must be owned in or directly benefit low-income communities located in:

- a census tract with an average median income at or below 80% of the average median income for the State,

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- overburdened or underserved communities, or
- low-to moderate-income households (solar only).

For solar ACPs, at least 20% must be used to support the installation of new solar energy generating systems under the Customer-Sited Solar Program with up to 10% for administrative expenses.

The fiscal 2027 allowance to the DPA includes \$82 million in special funds from the SEIF from ACP revenues to support three purposes. Language in the fiscal 2027 Budget Bill makes this appropriation contingent on the enactment of legislation expanding the allowable uses of the SEIF. The BRFA of 2026 contains a provision that, among other items, requires for fiscal 2027 only, the ACP revenue to be made available to particular purposes and amounts, which include:

- ***Higher Education Research Grant (\$42 Million):*** Grants to assist higher education institution research centers to transition to energy, resiliency, and climate-related research. The University System of Maryland (USM) is allocated \$25.0 million to distribute among USM institutions. Morgan State University and Johns Hopkins University each receive \$8.5 million. These grants are designed to offset, in part, loss of federal funding. **DLS recommends deleting these funds as providing one-time funding for research appears unlikely to provide benefits to the State. Prior State investments in higher education research have been ongoing (cancer research funded with Cigarette Restitution Funds) or targeted to allow the State to build capacity to leverage available federal research dollars. No increase in available federal dollars is expected in the near term.**
- ***Energy Resource Adequacy and Planning Act Implementation (\$25 Million):*** Chapters 7 and 19 of the 2025 special session established a Strategic Energy Planning Office as well as required the office to conduct certain reviews and submit certain reports. Under Chapters 7 and 19, the office was to be funded with an assessment on public service companies. The fiscal 2027 allowance appropriates \$25 million and is expected to be used over a five-year period to support costs of the new office.
- ***Grid-Enhancing Technologies/Advanced Transmission Technologies (GET/ATT) Planning (\$15 Million):*** SB 386 and HB 897, as introduced, define GET/ATT as those that increase the capacity, efficiency, or reliability of existing transmission lines and high-performance conductors. The bills require each transmission utility to submit an advanced transmission technology implementation report, and the Public Service Commission (PSC) would be authorized to provide performance-based incentives for the deployment of advanced transition technologies. The funding provided for this purpose in the DPA would provide \$10 million to PSC for research into GET/ATT as well as \$5 million for PSC to be used for grants to utility companies to construct or modify transmission facilities that incorporate GET/ATT.

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The BRFA of 2026 includes a number of actions that expand the use of the SEIF, which are not all related to the appropriation in the DPA. In addition, other legislation including SB 386/HB 897 proposes to expand the allowable uses of the SEIF, including for some of the same purposes as the BRFA of 2026. As drafted, any enacted legislation that expands the use of the SEIF, even if it is not related to this authorization, could be interpreted as meeting the contingency on this language. DLS also notes that the provision in the BRFA makes certain funds available to PSC rather than the DPA as they are currently appropriated. **DLS recommends modifying language making the \$82 million special fund appropriation contingent on legislation expanding the allowable uses of the SEIF to be more specific on the expansion that relates to the appropriation in the DPA.**

Fiscal 2027 General Fund Appropriations to the DPA

- ***Legislative Priorities (\$30.0 Million):*** The fiscal 2027 operating budget bill sets aside \$30.0 million to be allocated by the legislature. **DLS recommends deleting the funds which will create the capacity to add funds for specific legislative priorities.**
- ***Repeat Audit Findings Solutions (\$5.0 Million):*** In response to concerns from the legislature regarding repeat audit findings, the Department of Budget and Management (DBM) and the Governor’s Office are in the process of developing an implementation plan and have expressed plans to partner with the legislature in deciding how to expend the funding. Examples include hiring consultants to investigate unresolved accounting problems and providing training for fiscal shops at agencies.
- ***Certified Community Behavioral Health Clinics (CCBHC) (\$4.6 Million):*** An enhanced federal funding match for CCBHCs is available under the federal CCBHC Demonstration program. CCBHCs are required to serve anyone who requests care for mental health or substance use, regardless of their ability to pay, place of residence, or age. Many CCBHC services are reimbursable by Medicaid and qualify for an enhanced match. Chapter 275 of 2023 required Maryland to apply for the federal planning, demonstration, and implementation grants. Maryland was awarded a planning grant in fiscal 2025, with planning activities beginning in April 2025. The planning grant will extend through December 30, 2026. The Maryland Department of Health (MDH) plans to apply for the demonstration grant in the spring 2028 application cycle for potential award and implementation in fiscal 2029. This funding will be used to certify two of the five existing CCBHCs in Maryland beginning January 1, 2027. This appropriation represents the prorated State share of CCBHC service expenditures for fiscal 2027. MDH does not yet know which of the existing clinics will be certified.
- ***One Big Beautiful Bill Act (OBBBA) Statewide Implementation (\$2.5 Million):*** The fiscal 2027 allowance sets aside funding to cover costs of implementing HR 1, the OBBBA, that are unforeseen or require additional funding support. DBM expressed that funding may be used for additional staffing at agencies or local health departments, information

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technology (IT) upgrades/new IT systems, any contracts the State may need to enter into, or other costs as they arise.

- ***State Fiscal Leadership Capacity/Recruitment (\$2.0 Million):*** The State continues to see high turnover in key financial roles at agencies. Although specific plans are still in development, these funds may be used for activities such as training for agency staff, targeted/proactive recruiting for related roles as they arise, potentially adding additional staff and thus capacity at certain targeted agencies, and reclassification of roles at targeted agencies.

Fiscal Responsibility Fund Activity

Revenues deposited into the Fiscal Responsibility Fund (FRF) are to be used to support 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.

Based on the State closing each of fiscal 2024 and 2025 with a general fund surplus and nonwithholding revenues exceeding the cap in each year, revenues were distributed to the FRF totaling \$9.1 million in fiscal 2024 and \$191.2 in fiscal 2025. The fiscal 2026 appropriation includes \$9.1 million to the Interagency Commission on School Construction for Public School Construction reflecting the funds available from fiscal 2024 closeout. Due to the federal government shutdown, the Governor issued a state of emergency, and using authority under the state of emergency, appropriated \$62 million of the FRF for State-supported Supplemental Nutrition Assistance Program (SNAP) benefits due to delayed distributions resulting from the shutdown and \$10 million in the feeding organizations. Funding for each was administered by the Department of Human Services (DHS). Ultimately the State spent \$12.7 million of the appropriated funds including \$10 million for feeding organizations and \$2.7 million for SNAP benefits. SNAP costs were lower than expected due to the availability of federal funds for partial benefits. As a result, \$178.5 remains available in the FRF for capital projects.

The BRFA of 2026, however, authorizes the Governor to transfer \$187,609,007 from the FRF to the General Fund as long as the transfer occurs before June 30, 2026. **The Administration’s proposal overstates the available funding by \$9.1 million. An amendment to the BRFA is necessary to correct the error.**

Key Observations

1. BRFA Proposes to Transfer \$1 Million in Prior DPA Funds

The BRFA of 2026 proposes to transfer a total of \$1.04 million from prior appropriations that remain in the DPA to the General Fund in fiscal 2026. The funds are sourced from fiscal 2023

legislative priorities that have been completed and/or have small balances remaining. **Exhibit 4** shows the transfers by amount.

Exhibit 4
Appropriations Proposed for Transfer to General Fund
BRFA of 2026
Fiscal 2027

<u>Purpose</u>	<u>Total</u> <u>Appropriations</u>	<u>DPA Funds</u> <u>Remaining</u>
Grant to Domestic Violence Centers	\$3,000,000	\$355,760
Assisted Living Facilities	20,000,000	201,292
State Police Gun Center	3,400,000	152,732
Crossing Jurisdictional Boundaries	1,000,000	101,537
Center for Neuroscience of Social Injustice	2,250,000	100,001
Grants to Violence Prevention and Interruption Organizations	2,500,000	75,988
Greater Baltimore Regional Integrated Crisis System	2,000,000	51,600
Total BRFA Transfers to General Fund	\$34,150,000	\$1,038,910

BRFA: Budget Reconciliation and Financing Act
DPA: Dedicated Purpose Account

Source: Budget Reconciliation and Financing Act of 2026

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- **Grants to Domestic Violence Centers (\$355,760):** Funding totaling \$3.0 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. While the majority of funding was distributed in fiscal 2023, \$355,760 reverted to the DPA. The Governor’s Office of Crime Prevention and Policy (GOCPP) reports that grantee agencies faced staffing challenges that prevented distribution of the remaining funds. The remaining funding was withdrawn in the BRFA of 2025 as introduced but restored by the legislature in the enrolled bill. After this transfer, no funding will remain in the DPA for this purpose.
 - **Assisted Living Facilities (\$201,292):** Funding totaling \$20.0 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. While a majority of funding was distributed, DBM reports \$7,541,613 was returned to the DPA in fiscal 2024. However, this amount was not shown as returned in the Comptroller’s closeout report for fiscal 2024. The BRFA of 2024 transferred \$7,340,321 to the General Fund in fiscal 2025, leaving a

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reported balance of \$201,292. After this transfer, no funding will remain in the DPA for this purpose.

- ***State Police Gun Center (\$152,732)***: Chapter 142 of 2022 established the gun center as a Statewide firearms enforcement center for the tracking, screening, and vetting of all firearm crimes committed. Funding totaling \$3.4 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. Funding was transferred in installments in fiscal 2023 and 2025 primarily for personnel, operations contracts, vehicle expenses, and contractual staff necessary to carry out the work. After this transfer, no funding will remain in the DPA for this purpose.
- ***Crossing Jurisdictional Boundaries (\$101,537)***: Funding totaling \$1.0 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. While the majority of funding was distributed, GOCPP reports that grantee agencies faced staffing challenges that prevented distribution of the remaining funds. After this transfer, no funding will remain in the DPA for this purpose.
- ***Center for Neuroscience of Social Injustice (\$100,000)***: Funding totaling \$2.25 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. Fiscal 2025 Supplemental Budget No. 2 identified the remaining \$100,000 as a planned reversion for fiscal 2024. However, the funding transfer was not authorized in legislation, and the transfer did not occur. After this transfer, no funding will remain in the DPA for this purpose.
- ***Grants to Violence Prevention and Interruption Organizations (\$75,988)***: Funding totaling \$2.5 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. While the majority of funding was distributed, GOCPP reports that grantee agencies faced staffing challenges that prevented distribution of the remaining funds. After this transfer, no funding will remain in the DPA for this purpose.
- ***Greater Baltimore Regional Integrated Crisis System (\$51,600)***: Funding totaling \$2.0 million for this purpose was added to the DPA in fiscal 2023 as a legislative priority. Fiscal 2025 Supplemental Budget No. 2 identified the remaining \$51,600 as a planned reversion to the General Fund for fiscal 2024. However, the funding transfer was not authorized in legislation, and the transfer did not occur. After this transfer, no funding will remain in the DPA for this purpose.

Balances Remaining in the DPA

Significant surpluses in the State budget in recent years resulted in large amounts of funding being provided for specified purposes. As shown in **Exhibit 5**, the current budget plan is expected to result in \$89 million remaining in the DPA from fiscal 2026 or earlier, while \$164 million is added in fiscal 2027.

Exhibit 5
Funds Remaining in Dedicated Purpose Account
Fiscal 2023-2027 Appropriations

	<u>From Prior</u>	<u>2027</u>
	<u>Years</u>	
General Funds		
State Center Relocation	\$19,566,989	
Apprenticeships	13,000,000	
Division of Parole and Probation Staffing	5,000,000	
Awards to Erroneously Confined Individuals	4,503,030	
Capital lease between MDH and MEDCO	3,800,000	
Facilities Renewal – Higher Education	2,633,059	
Expedited Hiring of Former Federal Employees	1,724,134	
Cybersecurity	1,291,495	
Comptroller Cybersecurity	931,074	
Greater Bladensburg Economic and Land Use Study	200,000	
Rebuild State Government and Modernize HR practices	197,530	
Little Italy Neighborhood Business Improvement District	100,000	
Food Banks	7,044	
Legislative Priorities		\$30,000,000
Correctional Facilities		30,000,000
Allegany County Infrastructure Repairs		12,000,000
Repeat Audit Findings Solutions		5,000,000
HR 1 (OBBBA) Statewide Implementation		2,500,000
State Fiscal Leadership Capacity/Recruitment		2,000,000
Subtotal – General Funds	\$52,954,355	\$81,500,000
Special Funds		
Climate Solutions Now SEIF	\$36,322,344	
Higher Ed Research Fund SEIF		\$42,000,000
Energy Resource Adequacy and Planning Act Implementation SEIF		25,000,000
GET/ATT Planning SEIF		15,000,000
Subtotal – Special Funds	\$36,322,344	\$82,000,000
Grand Total	\$89,276,699	\$163,500,000

ATT: advanced transmission technologies
 GET: grid-enhancing technologies
 MEDCO: Maryland Economic Development Corporation

MDH: Maryland Department of Health
 OBBBA: One Big Beautiful Bill Act
 SEIF: Strategic Energy Investment Fund

Source: Department of Budget and Management

DLS recommends modifying the BRFA provision transferring funds from the DPA to the General Fund to transfer an additional \$1,135,648 to the General Fund from the following dedicated purposes due to unused remaining balances:

- **Comptroller Cybersecurity: \$931,074;**
- **Rebuild State Government and Modernize HR Practices: \$197,530; and**
- **Food Banks: \$7,044.**

2. Accounting the DPA

Tracking of DPA funding is complex and inconsistent, leading to inaccurate tracking of balances. DLS uses several sources to determine accurate DPA balances by purpose, including the enrolled operating budget bill for appropriations, budget amendment records transmitted by DBM, fiscal year-end closeout reports published annually by the Comptroller, as well as reviewing any transfers contained in enacted BRFAs. In combination, these records are intended to show each transaction to and from the DPA. However, information on transferred funds that are unused is not always clearly recorded or returned as required.

For instance, the BRFA of 2024 authorized transfer of \$4.5 million from the DPA for Learning in Extended Academic Programs (LEAP) to the General Fund. The Comptroller of Maryland's Fiscal 2024 Closeout Report, however, reflected a DPA ending balance that was \$4.5 million higher than expected and distributions that were \$4.5 million lower than expected. It is assumed that the \$4.5 million transfer for LEAP did not occur. However, this is not outright stated in any document. In addition, DLS was not able to confirm through available documentation that the \$201,292 intended for transfer to the General Fund in fiscal 2026 is available from the Assisted Living Facilities balance. Furthermore, MDH did not report \$9 million in cybersecurity funds that were unspent in fiscal 2024, leading to those funds being counted as expended by DLS during the 2025 legislative session. The funds were reappropriated by budget amendment 078-25 in July 2025, but this error highlighted a gap in reporting.

The annual closeout reports of the Comptroller include certain details on DPA transactions:

- appropriations;
- budget amendments transferring funds to agencies for expenditure;
- direct transfers, such as to the Maryland Department of Transportation, the General Fund, or other funds; and
- transfers from agencies returning unspent funds to the DPA.

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The Comptroller does not report the purpose to which funds are dedicated. DLS categorizes these transactions based on the available information and often matches amounts in order to confirm purpose. Budget amendment information is typically sufficient to determine purpose. However, the Comptroller does not report budget amendment information for transfers that return unspent funds back to the DPA. DLS has estimated balances by matching returned funds to purpose based on known transfer amounts or reasonable assumptions of use based on agency. Based on current documentation, DLS is unable to definitively categorize \$7.7 million in fiscal 2024 returns and \$2.0 million in fiscal 2025 returns, leading to potential misidentification of existing balances.

DLS requested full information on returns by budget amendment from the Office of the Comptroller General Accounting Division in November 2024. While initial assistance was provided, the information did not fully identify all purposes of returned funds. From November 2025 to January 2026, DLS requested further information on three occasions, but these attempts have been unsuccessful.

DLS recommends adding a section that restricts funds in DBM and the Office of the Comptroller pending submission of a report on funds returned to the DPA by the original budget amendment that transferred the funds and identifying by budget bill purpose to the extent practical.

The recommended language further expresses intent that the Comptroller, in the annual fiscal year-end closeout reports, identify the budget amendment of origin for funds returned to the DPA or the budget bill purpose in each fiscal year.

Operating Budget Recommended Actions

- | | <u>Amount
Change</u> |
|---|---------------------------------|
| 1. Reduce the appropriation to the Revenue Stabilization Account. Adequate funding exists to meet Spending Affordability Committee goals without the statutory appropriation to the Rainy Day Fund in fiscal 2027. | -\$449,787,611 GF |
| 2. Reduce the appropriation made for higher education research grants as one-time funding appears unlikely to have lasting benefits on higher education research capabilities. | -\$42,000,000 SF |
| 3. Reduce placeholder for legislative priorities. This is a technical action to strike the placeholder appropriation for legislative priorities so that the legislature can add legislative priorities in specified amounts for specified purposes. | -\$30,000,000 GF |

4. **Section XX Dedicated Purpose Account Accounting**

SECTION XX. AND BE IT FURTHER ENACTED, That \$100,000 of the general fund appropriation for the purpose of general administration within program F10A01.01 Executive Direction – Office of the Secretary and \$100,000 of the general fund appropriation for the purpose of general administration within program E00A01.01 Executive Direction – Office of the Comptroller may not be expended until the Office of the Comptroller, in collaboration with the Department of Management, submits a report that identifies, for each funding reversion to the Dedicated Purpose Account (DPA) for fiscal 2021 through 2025, the purpose as expressed in the appropriating language to the extent practical and the budget amendment number that authorized the transfer of funds. The report shall be submitted by July 15, 2026, and the budget committees shall have 45 days from the date of the receipt of the report to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees. It is the intent of the General Assembly that the Comptroller

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of Maryland, in annual fiscal year-end closeout reports beginning with the fiscal 2026 report, identify the budget amendment of origin for funds returned to the DPA or the budget bill purpose for which it was appropriated.

Explanation: This action adds a section to the budget bill restricting funds in the Department of Budget and Management (DBM) and the Office of the Comptroller, pending submission of a report identifying the purpose to which funds are returned in the DPA. This report will assist in providing a reconciliation of available funds in the DPA. The language also expresses intent that more detail be provided on returned funds in the annual closeout report.

Information Request	Author	Due Date
DPA accounting	Office of the Comptroller DBM	July 15, 2026

5. Strike the following language on the general fund appropriation:

~~, provided that \$449,787,611 of this appropriation shall be reduced contingent upon enactment of legislation eliminating the required Revenue Stabilization Account appropriation for fiscal 2027.~~

Explanation: This action strikes contingent language that is not needed for the General Assembly to reduce the appropriation directly.

6. Modify the following language to the special fund appropriation:

~~, provided that \$82,000,000~~\$25,000,000 of this appropriation made for the purpose of Energy Resource Adequacy and Planning Act Implementation is contingent upon the enactment of legislation expanding the allowable uses of the Strategic Energy Investment Fund (SEIF) to include implementation of the Energy Resource Adequacy and Planning Act.

Further provided that \$15,000,000 of this appropriation made for the purpose of Grid-Enhancing Technologies/Advanced Transmission Technologies Planning is contingent upon the enactment of legislation expanding the allowable uses of the SEIF to include activities related to grid-enhancing technologies and advanced transmission technologies.

Explanation: The fiscal 2027 allowance provides \$82 million from the SEIF to three purposes in the Dedicated Purpose Account: (1) Higher Education Research Grants; (2) Energy Resource Adequacy and Planning Act

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Implementation; and (3) Grid-Enhancing Technologies/Advanced Transmission Technologies Planning. While language in the budget bill makes this funding contingent on legislation expanding allowable uses of the SEIF, it is too broad and would allow the transfers to occur under any expansion of the SEIF, not just for the purposes of the appropriation in this program. This language ensures only related legislation would trigger the contingency for two of the purposes. Separate actions delete the funding for the third purpose.

7. Strike the following language on the special fund appropriation:

~~Higher Ed Research Fund 42,000,000~~

Explanation: This action amends line-item appropriations for funds that are being reduced by the General Assembly. This is a technical amendment.

8. Strike the following language on the general fund appropriation"

~~Legislative Priorities 30,000,000~~

Explanation: This action amends line-item appropriations for legislative priorities to be replaced by the General Assembly in separate actions. This is a technical amendment.

Total Net Change to Fiscal 2027 Allowance **-\$521,787,611**

Budget Reconciliation and Financing Act Recommended Actions

1. Modify the Budget Reconciliation and Financing Act provision transferring funds from the Dedicated Purpose Account to the General Fund to transfer an additional \$1,135,648 to the General Fund from the following dedicated purposes due to unused remaining balances: Comptroller Cybersecurity (\$931,074); Rebuild State Government and Modernize HR Practices (\$197,530); and Food Banks (\$7,044).

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**Appendix 1
Rainy Day Fund Activity
Fiscal 2025-2027
(\$ in Millions)**

	<u>Rainy Day Fund</u>
Closing Balance June 30, 2025	\$2,380.0
Fiscal 2026 Appropriation	\$0.0
Proposed Transfer to the General Fund	-326.3
Estimated Interest Earnings	87.4
Estimated Balance June 30, 2026	\$2,141.0
Fiscal 2027 Appropriation	\$0.0
Proposed Transfer to the General Fund	-38.0
Estimated Interest Earnings	67.9
Estimated Balance June 30, 2027	\$2,170.9

Note: Fiscal 2027 appropriation reflects reductions contingent on legislation.

Appendix 2
Rainy Day Fund
Section 7-311 of the 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 Rainy Day Fund. This appropriation is made to the budget two years after the unassigned general fund surplus is realized. For example, fiscal 2025 closed with an unassigned surplus totaling \$459.8 million; thus, the Administration’s fiscal 2027 allowance included a \$449.8 million appropriation to the Rainy Day Fund. This appropriation to the Rainy Day Fund is referred to as the “sweeper.”
 - The fiscal 2027 budget reduces funding for the Rainy Day Fund mandated appropriation contingent on the enactment of the BRFA, which repeals the Rainy Day Fund mandatory appropriation for fiscal 2027 only.

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.

Appendix 3
Dedicated Purpose Account
Section 7-310 of the 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 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 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.

Appendix 4
Catastrophic Event Account
Section 7-324 of the 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 Rainy Day Fund.

Mechanisms for Transferring and Spending Funds

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

Appendix 5
Fiscal Responsibility Fund
Section 7-330 of the State Finance and Procurement Article

The FRF is not a budgeted account within the State Reserve Fund. Authorized appropriations from the FRF are budgeted directly within the agency budgets. For administrative purposes, however, actions relating to the underlying revenue volatility calculation that distributes revenues to the FRF or other accounting maneuvers impacting the FRF balance are often discussed as a component of this analysis.

Account Characteristics

- **Purpose:** The account was established in 2017 to retain the amount of nonwithholding income tax revenues deposited to the fund in accordance with the revenue volatility calculation.
- **Authorized Uses:** Funds are to be used to support supplemental 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.

Mechanisms for Allocating Revenues and Spending Funds

Calculation of Available Revenues

Chapters 4 and 550 of 2017 established a cap on income tax nonwithholding revenues. The cap applies when the share of estimated general fund revenues attributable to income tax nonwithholding sources exceed the 10-year average. If nonwithholding revenues as a percentage of general fund revenues are less than the 10-year average percentage, there is no effect. The cap requires reducing the estimate of nonwithholding income tax revenues so that nonwithholding income tax revenues do not exceed the 10-year average. In some years, actual income tax nonwithholding revenues will exceed the capped estimate. In those years, the excess revenues are to be distributed (1) to close any revenue gap for the fiscal year; (2) to the Rainy Day Fund (if the account is less than 6.0% of general fund revenues) the amount that is required to provide a balance in the account of 6.0% of general fund revenues; and (3) the remainder split 50.0% to the Rainy Day Fund (until a maximum balance of 10% is achieved) and 50.0% to the FRF. If the Rainy Day Fund balance exceeds 10% of general fund revenues, 100% of the remainder is directed toward the FRF.

Y01A – State Reserve Fund

The BRFA of 2025 altered the amount of adjustment made to general fund revenues to \$0 through fiscal 2029. Per statute, the adjustment made may not exceed the following percentage of total general fund revenues or dollar value in a specified fiscal year:

- 0.225% for fiscal 2020;
- \$0 for fiscal 2021;
- \$80 million for fiscal 2022;
- \$100 million for fiscal 2023;
- \$0 for fiscal 2024 through 2029; and
- 2% for fiscal 2030 and each year thereafter.

Expenditure Requirements

The Governor must include in the budget bill for the second following fiscal year an appropriation equal to the amount in the fund for the authorized uses defined above. Authorized uses of the fund include public school construction and capital projects for higher education institutions.

Money expended from the fund for PAYGO capital projects is supplemental to and is not intended to take the place of funding that otherwise would be appropriated for capital projects, including those funded with PAYGO funds and the proceeds from the sale of general obligation bonds.

**Appendix 6
Fiscal Summary
State Reserve Fund**

<u>Program/Unit</u>	<u>FY 25 Actual</u>	<u>FY 26 Work Approp.</u>	<u>FY 27 Allowance</u>	<u>FY 26 - 27 \$ Change</u>	<u>% Change</u>
01 Revenue Stabilization Account	\$0	\$0	\$449,787,611	\$449,787,611	N/A
01 Dedicated Purpose Account	242,500,000	68,500,000	126,100,000	57,600,000	84.1%
Total Expenditures	\$242,500,000	\$68,500,000	\$575,887,611	\$507,387,611	740.7%
General Funds	\$152,500,000	\$68,500,000	\$493,887,611	\$425,387,611	621.0%
Special Funds	90,000,000	0	82,000,000	82,000,000	N/A
Total Appropriations	\$242,500,000	\$68,500,000	\$575,887,611	\$507,387,611	740.7%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations. The fiscal 2027 allowance does not include contingent reductions.