

**Y01A
State Reserve Fund**

Operating Budget Data

(\$ in Thousands)

| | <u>FY 09 Actual</u> | <u>FY 10 Working</u> | <u>FY 11 Allowance</u> | <u>FY 10-11 Change</u> | <u>% Change Prior Year</u> |
|--------------------------------------|-------------------------|--------------------------|----------------------------|----------------------------|--------------------------------|
| General Fund | \$211,543 | \$114,948 | \$171,913 | \$56,965 | 49.6% |
| Contingent & Back of Bill Reductions | 0 | 0 | -156,913 | -156,913 | |
| Adjusted General Fund | \$211,543 | \$114,948 | \$15,000 | -\$99,948 | -87.0% |
| Adjusted Grand Total | \$211,543 | \$114,948 | \$15,000 | -\$99,948 | -87.0% |

- The Revenue Stabilization Account (Rainy Day Fund) is projected to end fiscal 2011 with a \$633.5 million fund balance, which is 5% of estimated general fund revenues.
- The allowance includes \$15.0 million in the Dedicated Purpose Account for the Prince George's County Hospital Authority.
- The allowance also includes \$156.9 million in the Dedicated Purpose Account for the InterCounty Connector (ICC). The budget bill includes language that deletes the funds, contingent on legislation authorizing general obligation bonds for the ICC.

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

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Analysis in Brief

Major Trends

The Balance in the Rainy Day Fund Remains Above 5.0% of Estimated General Fund Revenues: Since fiscal 2000, the State has maintained at least the required balance of 5.0% of estimated general fund revenues in the Rainy Day Fund. 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.

Recommended Actions

1. Add language making Prince George’s County Hospital funds contingent on a local match and a report detailing how the funds are used.

Updates

Comparison of AAA-rated States’ Rainy Day Funds: In addition to Maryland, there are another six states with AAA bond ratings from the three major rating agencies. They are Delaware, Georgia, Missouri, North Carolina, Utah, and Virginia. The update examines the Rainy Day Fund policies and recent actions in these states.

Program Open Space Repayment: State law requires that transfer tax revenues, which support Program Open Space, that are transferred to the general fund after fiscal 2005 must be repaid to Program Open Space. The repayment is to be provided by unappropriated general fund revenues realized beginning in fiscal 2010. To date, \$90 million is required to be repaid, and the repayment will begin in fiscal 2012 if there are unappropriated general funds in fiscal 2010 in excess of \$10 million.

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State Reserve Fund

Operating Budget Analysis

Program Description

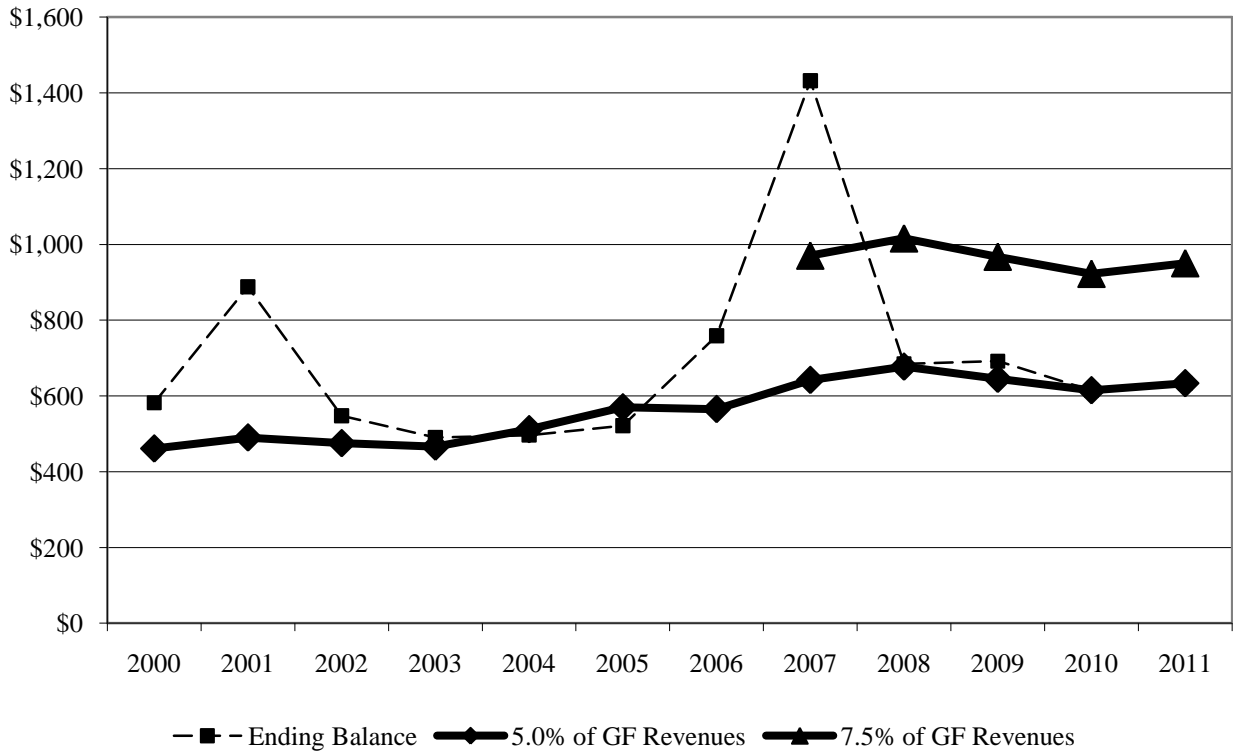
The State Reserve Fund provides a means to designate monies for future use. It is a general description for four individual accounts: Revenue Stabilization Account (Rainy Day Fund); Dedicated Purpose Account (DPA); Catastrophic Event Account; and Economic Development Opportunities Program Account (Sunny Day Fund). The purpose and status of three of these accounts are discussed in more detail in the body of this analysis. The Sunny Day Fund is discussed in conjunction with the Department of Business and Economic Development.

Performance Analysis: Managing for Results

Exhibit 1 illustrates the balance in the Rainy Day Fund from fiscal 2000 through 2009 and the projected balances for fiscal 2010 and 2011 relative to the 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 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 fund also benefits from the statutory requirement that any unappropriated general fund surplus at closeout in excess of \$10 million must be appropriated to the Rainy Day Fund.

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% balance requirement.

Exhibit 1
Rainy Day Fund 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

Fiscal 2010 Actions

Impact of Cost Containment

The November 18, 2009 cost containment actions taken by the Board of Public Works reduced the fiscal 2010 appropriation to the Rainy Day Fund. The action was permissible because the Board of Revenue Estimates reduced projected fiscal 2010 general fund revenues by \$683 million in

September. By reducing projected general fund revenues, the 5% threshold was reduced and the Administration responded by reducing the appropriation.

Proposed Budget

Exhibit 2 shows that the allowance provides \$171.9 million for the State Reserve Fund. This appropriation includes \$156.9 million for the InterCounty Connector (ICC) and \$15.0 million for the Prince George’s County Hospital.

Rainy Day Fund appropriations decline in fiscal 2011 because the allowance does not include a sweeper appropriation. Section 7-311 of the State Finance and Procurement Article requires that in the budget for the second subsequent fiscal year, the Governor shall appropriate an amount equal to the unappropriated general fund balance at closeout exceeding \$10 million into the Rainy Day Fund. At the end of fiscal 2009, there was no unappropriated general fund balance, so no appropriation is required in fiscal 2011.

Prince George’s County Hospital Appropriation

Chapter 680 of 2008 established the Prince George’s County Hospital Authority as a State entity to implement a competitive bidding process for transferring the Prince George’s County Health System to a new owner or owners. The health system consists of a number of parts: Prince George’s Hospital Center, a 269-bed acute-care hospital and regional referral center; Laurel Regional Hospital, a 138-bed acute-care community hospital; the Gladys Spellman Specialty Hospital and Nursing Center, a 110-bed comprehensive care and chronic care facility; and the Bowie Health Center.

The system has been faced with financial difficulties for the past several years. The system has experienced lost market share, revenue losses, low liquidity, significant deferred capital needs, poor bond ratings, and a disadvantageous payor mix. Both the State and Prince George’s County have provided significant financial support. Without that financial support, the system would have faced significant operational deficits.

In 2008, the State signed a memorandum of understanding (MOU) with Prince George’s County concerning the Prince George’s County Hospital. In the agreement, the State and county each agreed to provide \$15 million a year for five years, beginning in fiscal 2011. The allowance includes the State’s first appropriation. A discussion of the policy issues associated with this MOU is provided in the Department of Health and Mental Hygiene Overview analysis.

The legislation establishing the Hospital Authority included a specific time frame for the process of transferring the system to a new owner. The authority worked diligently through calendar 2008 to meet the deadlines imposed by Chapter 680. Ultimately, however, the national economic outlook clearly had a negative impact on the interest of health care entities in assuming ownership of the system, and an extension of the bidding process and other changes to the authority were made in Chapters 116 and 117 of 2009.

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As noted, the fiscal 2011 budget includes \$15 million in the Dedicated Purpose Account for Prince George’s County Hospital (not the system). The amount equates to the State’s original long-term financial commitment under the 2008 MOU with Prince George’s County. However, there is no specific contingency linking that funding to the eventual transfer of the system (although that obligation is statutorily relieved if no transfer is made) or indeed to continue some form of operating support (support that appears to be still needed by the system) until a long-term solution is found.

It should also be noted that there is also no language making the \$15 million contingent on matching funds being provided by Prince George’s County as envisaged by the ongoing long-term commitment MOU. This is pertinent given that Prince George’s County has indicated it will only be able to partially fulfill its current fiscal 2010 operating support obligation to the system, providing \$9 million rather than the \$12 million original commitment. **The Department of Legislative Services recommends addition of budget bill language restricting the \$15 million appropriation until Prince George’s County has provided its \$15 million share.**

Exhibit 2
Proposed Budget
State Reserve Fund
(\$ in Thousands)

| How Much It Grows: | General Fund | Total |
|----------------------------|-------------------------|----------------|
| 2010 Working Appropriation | \$114,948 | \$114,948 |
| 2011 Allowance | <u>171,913</u> | <u>171,913</u> |
| Amount Change | \$56,965 | \$56,965 |
| Percent Change | 49.6% | 49.6% |
| | | |
| Contingent Reductions | -\$156,913 | -\$156,913 |
| Adjusted Change | -\$99,948 | -\$99,948 |
| Adjusted Percent Change | -87.0% | -87.0% |

Where It Goes:

Rainy Day Fund Changes

| | |
|---|------------|
| Remove fiscal 2010 Sweeper Appropriation | -\$139,948 |
| Fiscal 2010 cost containment reduction to Sweeper Appropriation | 25,000 |

Dedicated Purpose Account Changes

| | |
|---------------------------------------|--------|
| Prince George’s County Hospital | 15,000 |
|---------------------------------------|--------|

| | |
|--------------|------------------|
| Total | -\$99,948 |
|--------------|------------------|

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

Impact of Contingent Reduction – Delete General Funds of ICC

Section 4-321 of the Transportation Article¹ requires that the Administration fund the remaining \$156.9 million in general fund support for the ICC in fiscal 2011. The statute allows the Administration to either fund this with general fund appropriations or general obligation (GO) bonds. The allowance includes \$156.9 million in general funds for the ICC. The appropriation includes language reducing this appropriation, contingent on the enactment of legislation to authorize use of

¹ This reimburses the transportation program funds transferred from the Transportation Trust Fund (TTF) to the general fund. Chapter 203 of 2003 (the Budget Reconciliation and Financing Act of 2003) transferred \$314.9 million from the TTF into the general fund. The first \$50.0 million was repaid directly to the TTF in fiscal 2006. Chapters 471 and 472 of 2005 dedicated the remaining \$264.9 million toward construction of the ICC. In fiscal 2007, the first \$53.0 million was appropriated for the ICC. Chapter 487 of 2009 required that the remaining \$211.9 million be repaid by fiscal 2011, of which \$55.0 million was to be repaid in fiscal 2010.

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GO bonds for the ICC. However, this authorization was granted in Chapter 487 of 2009 (the Budget Reconciliation and Financing Act (BRFA) of 2009).

The BRFA of 2010 (Senate Bill 141) proposes to amend the Transportation Article to provide \$126.9 million for the ICC in fiscal 2011 and another \$30.0 million in fiscal 2012. The capital budget includes \$126.9 million in GO bonds.

Impact of BRFA – Suspend Fiscal 2012 Appropriation If Balance Is Below 7.5% and Fiscal Stimulus Is Affected

Current law requires that if the Rainy Day Fund balance is between 3.0 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. Section 35 in the BRFA of 2010 proposes to exempt the Administration from appropriating funds into the Rainy Day Fund if the appropriation would result in the loss of federal stimulus funds or pay other federal funds.

Exhibit 3 provides an overview of State Reserve Fund activity between fiscal 2010 and 2011. Detail for each account may be found in **Appendix 3** (Rainy Day Fund), **Appendix 4** (Dedicated Purpose Account), and **Appendix 5** (Catastrophic Event Account).

Exhibit 3
State Reserve Fund Activity
Fiscal 2010 and 2011
(\$ in Millions)

| | Rainy Day Fund | Dedicated Purpose Acct. | Catastrophic Event Acct. |
|--|---------------------------|------------------------------------|-------------------------------------|
| Estimated Balances 6/30/09 | \$691.8 | \$0.6 | \$8.4 |
| Fiscal 2010 Appropriations | 139.9 | 0.0 | 0.0 |
| Withdrawn Appropriation ¹ | -25.0 | | |
| Expenditures | | | |
| Prince George’s County Hospital | | -0.6 | |
| Transfers to General Fund | | | |
| Fiscal 2010 Budget Bill | -210.0 | | |
| 2009 BRFA | | | -7.4 |
| Estimated Interest | 18.1 | | |
| Estimated Balances 6/30/10 | \$614.8 | \$0.0 | \$1.0 |
| Fiscal 2011 Appropriations | 0.0 | 171.9 | 0.0 |
| Contingent Reduction | | -156.9 | |
| Expenditures | | | |
| Prince George’s County Hospital | | -15.0 | |
| Transfers to General Fund | 0.0 | | 0.0 |
| Estimated Interest | 18.7 | | |
| Estimated Balances 6/30/11 | \$633.5 | \$0.0 | \$1.0 |
| Balance in Excess of 5% GF Revenues | -\$0.1 | | |

¹November 18, 2009 Board of Public Works Action

BRFA: Budget Reconciliation and Financing Act

Source: Department of Budget and Management

Recommended Actions

1. Add the following language to the general fund appropriation:

. provided that the expenditure of any State funds from this appropriation for the Prince George’s County Hospital is contingent on the expenditure of a like amount by Prince George’s County. The Department of Health and Mental Hygiene shall certify the expenditure of funds by Prince George’s County prior to any expenditure of State funds. Further provided that the funds may not be expended until the Department of Health and Mental Hygiene submits a report to the Legislative Policy Committee detailing how the funds will be spent. The budget committees shall have 45 days to review and comment from the date of the submission of the report.

Explanation: The Dedicated Purpose Account includes an appropriation for \$15.0 million for the Prince George’s County Hospital. The language requires that State funds cannot be spent until the county has provided its share. The language also requires a report detailing how the funds are to be spent and certifying that the county has spent its share. The budget committees will have 45 days to review and comment.

| Information Request | Author | Due Date |
|--|---|-----------------|
| Report on expenditure of Prince George’s County Hospital funds | Department of Health and Mental Hygiene | As needed |

Updates

1. Comparison of AAA-rated States' Rainy Day Funds

Seven states have AAA ratings from all three rating agencies: Maryland, Delaware, Georgia, Missouri, North Carolina, Utah, and Virginia. **Exhibit 4** compares reserve funds.

Exhibit 4 AAA States' Rainy Day Funds (\$ in Millions)

| <u>State</u> | <u>Fund Name</u> | <u>Determination of Fund Size</u> | <u>Procedure for Expenditures</u> |
|----------------|--|---|--|
| Maryland | Revenue Stabilization Account | Statutory 7.5% of general fund (GF) revenues. | Legislation or budget bill authorization if balance above 5.0%, legislation if balance below 5.0%. |
| Delaware | Budget Reserve Account | Excess unencumbered funds, no greater than 5.0% of gross general fund revenues set by joint resolution for next fiscal year. | 3/5 vote of legislature for unanticipated deficit or revenue reduction resulting from legislative action. |
| Georgia | Revenue Shortfall Reserve | Capped at 10.0% of prior year's net revenue. | Governor can access balance upon a revenue shortfall. In current year legislature can appropriate 1.0% of fund for education. |
| Missouri | Budget Reserve Fund | Capped at 7.5% of net general revenue. If the balance is less than 7.5% general revenues appropriated into fund. | If the Governor determines that there is a shortfall, up to one-half of fund balance may be transferred upon a 2/3 super majority vote. |
| North Carolina | Savings Reserve Account | July 2007 established a goal that the balance equal at least 8.0% of the prior years' GF appropriation. | Appropriation by the General Assembly. |
| Utah | Budget Reserve Fund and Education Reserve Fund | 25.0% of end-of-year GF surplus can be added to the balance up to 6.0% of the GF appropriation for that year. The legislature can appropriate above the 6.0% level. | Expenditures are limited to retroactive tax refunds and operating deficits, upon legislative approval. |
| Virginia | Revenue Stabilization Fund | Capped at 10.0% of average annual tax revenues on income and retail sales tax receipts for the three years immediately preceding that fiscal year. | Legislative appropriation up to one-half of the fund's balance if income and sales tax revenue falls more than 2.0% below projections in the enacted budget. |

Source: State legislative fiscal offices and legislative staff, January 2010

Recent State Actions

AAA-rated states had built up their Rainy Day Fund balances before the most recent recession began. In response to the recession, a number of states have withdrawn funds from their Rainy Day Funds. Examples of states' actions include:

- **Georgia:** The Revenue Shortfall Reserve has been used in response to the economic downturn. Legislative actions taken in 2009 reduced the projected fiscal 2008 balance from \$1,025 million to \$566 million. Actions included appropriating \$200 million for the fiscal 2009 budget and \$257 million for the fiscal 2010 budget. The Administration's fiscal 2010 and 2011 budgets propose additional reductions and result in a fund balance totaling \$104 million.
- **Missouri:** The Budget Reserve Fund balance has remained steady in recent years; the balance increased from \$557 million at the end of fiscal 2008 to \$560 million at the end of fiscal 2009. The Administration is preparing the fiscal 2011 budget, and it is currently unclear to what extent the fund will be used.
- **North Carolina:** The projected balance for the end of fiscal 2008 is \$787 million, which is approximately 4% of the prior year's general fund appropriation. This funding level represents about one-half of the 8% target. The Administration recommended using \$250 million from the fund in 2009.
- **Utah:** The Budget Reserve Fund and Education Reserve Fund balances totaled \$419 million at the end of fiscal 2009. No withdrawals are planned in fiscal 2010, as the balance is projected to remain at \$419 million. The Governor's proposed fiscal 2011 budget proposes to withdraw \$166 million from the Education Reserve Fund to replace one-time funding for public education.
- **Virginia:** The Revenue Stabilization Fund's balance ended fiscal 2008 with just over \$1 billion. In April 2009, \$490 million was withdrawn from the fund. The Administration's December 2009 budget plan proposes withdrawing an additional \$293 million in fiscal 2010.

2. Program Open Space Repayment

Section 13-209 of the Tax – Property Article requires that any transfer tax revenues transferred to the general fund from the transfer tax special fund after fiscal 2005 be repaid by the general fund beginning in fiscal 2012. The law requires that an amount equivalent to unappropriated general fund revenues exceeding \$10 million be appropriated into the transfer tax special fund. The maximum annual transfer is limited to \$50 million.

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To date, there have been the following transfers of transfer tax revenues from the transfer tax special fund to the general fund after fiscal 2005:

- In fiscal 2006, \$90.0 million was transferred. The law requires that this amount is repaid.
- In fiscal 2009, \$71.3 million was transferred. Chapter 419 of 2009 allows the Administration to issue bonds supported by State transfer tax revenues to offset the loss of revenues. Chapter 419 also specifies that the general fund does not need to reimburse program open space for the funds.
- The 2010 BRFA proposes to transfer \$153.1 million to the general fund in fiscal 2010, which is planned to be replaced with GO debt across fiscal 2011-2013. Another \$54.0 million is proposed to transfer to the general fund in fiscal 2011, with full replacement in the fiscal 2011 capital budget. The capital budget replaces the transfer tax revenues with GO bonds. If approved, the State would not need to reimburse Program Open Space for the transfer.

Should there be an unappropriated general fund balance in excess of \$10 million in fiscal 2010, the Administration will be required to begin repaying the \$90 million in State transfer tax revenues transferred to the general fund in fiscal 2012.

Current and Prior Year Budgets

Current and Prior Year Budgets State Reserve Fund (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|-------------------------|-------------------------|-------------------------|------------------------|------------------|
| Fiscal 2009 | | | | | |
| Legislative Appropriation | \$231,543 | \$0 | \$0 | \$0 | \$231,543 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Cost Containment | -20,000 ¹ | 0 | 0 | 0 | -20,000 |
| Reversions and Cancellations | 0 | 0 | 0 | 0 | 0 |
| Actual Expenditures | \$211,543 | \$0 | \$0 | \$0 | \$211,543 |
| Fiscal 2010 | | | | | |
| Legislative Appropriation | \$139,948 | \$0 | \$0 | \$0 | \$139,948 |
| Cost Containment | -25,000 ² | 0 | 0 | 0 | -25,000 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Working Appropriation | \$114,948 | \$0 | \$0 | \$0 | \$114,948 |

¹ October 15, 2008 cost containment withdrew \$20 million from the InterCounty Connector appropriation.

² November 18, 2009 cost containment withdrew \$25 million from the appropriation for the Rainy Day Fund.

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

| <u>Program/Unit</u> | Fiscal Summary State Reserve Fund | | <u>FY11 Allowance</u> | <u>Change</u> | <u>FY10 - FY11 % Change</u> |
|----------------------------------|--------------------------------------|----------------------------|---------------------------|----------------------|---------------------------------|
| | <u>FY09 Actual</u> | <u>FY10 Wrk Approp</u> | | | |
| 01 Revenue Stabilization Account | \$ 146,543,342 | \$ 114,947,579 | \$ 0 | -\$ 114,947,579 | -100.0% |
| 02 Dedicated Purpose Account | 65,000,000 | 0 | 171,913,000 | 171,913,000 | 0% |
| Total Expenditures | \$ 211,543,342 | \$ 114,947,579 | \$ 171,913,000 | \$ 56,965,421 | 49.6% |
| General Fund | \$ 211,543,342 | \$ 114,947,579 | \$ 171,913,000 | \$ 56,965,421 | 49.6% |
| Total Appropriations | \$ 211,543,342 | \$ 114,947,579 | \$ 171,913,000 | \$ 56,965,421 | 49.6% |

Note: The fiscal 2010 appropriation does not include deficiencies.

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 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 3.0 and 7.5% of projected general fund revenues, annual appropriations of at least \$50.0 million must be made until the account balance reaches 7.5% of estimated general fund revenues. If the account balance is below 3.0%, State law requires an appropriation of at least \$100.0 million.
- **Sweeper Provision:** State law requires that the Administration appropriate an amount equal to any unappropriated general fund balance at closeout in excess of \$10.0 million into the Rainy Day Fund. This appropriation is made to the budget two years after the unappropriated general fund surplus is realized. For example, fiscal 2008 closed with an unappropriated surplus totaling \$185.7 million, thus the Administration’s fiscal 2009 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 provision.”
- **Section 13-209 (g) of the Tax Property Article:** The article requires that any transfer tax revenues transferred to the general fund from the transfer tax special fund after fiscal 2005 be repaid by the general fund beginning in fiscal 2012. The law requires that an amount equivalent to unappropriated general fund revenues exceeding \$10.0 million be appropriated into the transfer tax special fund. The maximum annual transfer is limited to \$50.0 million. If unappropriated general fund revenues exceed \$60.0 million, the amount in excess of \$60.0 million is retained by the general fund. In fiscal 2006, \$90.0 million was transferred from the transfer tax special fund to the general fund. The funds will need to be repaid in fiscal 2012 if there are unappropriated general fund revenues at the fiscal 2010 closeout. Additional transfers made in fiscal 2009 of \$71.3 million do not need to be repaid since they were replaced by debt.

Mechanisms for Transferring and Spending Funds

To transfer funds from the Rainy Day Fund requires specific authorization by an Act of the General Assembly or specific authorization in the budget bill if the transfer results in a Rainy

Day Fund balance that is at least 5% of projected general fund revenue. 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 2007 through 2011 activity in the Rainy Day Fund. Appropriations into the Rainy Day Fund are made from fiscal 2007 to 2010. The appropriations are attributable to unappropriated general funds being swept into the Rainy Day Fund, as required by law. The fund is projected to end fiscal 2011 with a balance that is 5% of general fund revenues.

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

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|---|------------------|------------------|----------------|----------------|----------------|
| 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 |
| GF Operating Revenues | \$12,940.2 | \$13,545.6 | \$12,900.5 | \$12,299.5 | \$12,671.7 |
| 5.0% of GF Revenues | 647.0 | 677.3 | 645.0 | 615.0 | 633.6 |
| 7.5% of GF 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 % GF 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% |

GF: general fund

DPA: Dedicated Purpose Account

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

Source: Department of Budget and Management, January 2010

Governor’s Out-year Forecast

In the out-years, the Administration’s Rainy Day Fund forecast projects that the fund balance will remain at approximately 5.0% through fiscal 2015. Since the fund balance is projected to be less than 7.5% of general fund revenues, a minimum \$50 million appropriation is assumed from fiscal 2013 to 2015. The BRFA excludes the Administration from making this minimum appropriation in fiscal 2012, so no appropriation is projected in fiscal 2012. The forecast also assumes that funds above 5% are transferred back to general fund balance. The forecast period ends with a \$729 million fund balance in fiscal 2015 in the Rainy Day Fund.

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 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.

Mechanism 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, 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 the Legislative Policy Committee.

Dedicated Purpose Account Activity

The following table illustrates the activity in the DPA from fiscal 2007 through 2011. The account ends the period with no fund balance.

Governor’s Out-year Forecast

The Administration has signed a MOU with Prince George’s County about the Prince George’s County Health System. The forecast shows the State’s required payments total \$75 million (\$15 million annually from fiscal 2011 to 2015) to the operator of the system. Local income tax reserve repayment is proposed in the BRFA of 2010 at \$50 million per year for seven years beginning in fiscal 2014.

Analysis of the FY 2011 Maryland Executive Budget, 2010

**Dedicated Purpose Account Status
Fiscal 2007-2011
(\$ in Millions)**

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|---|----------------|-----------------|-----------------|---------------|-----------------|
| Beginning Balance | \$31.5 | \$142.6 | \$22.0 | \$0.6 | \$0.0 |
| Appropriation | \$198.1 | \$100.0 | \$85.0 | \$0.0 | \$171.9 |
| TTF Payback for 2003 GF transfers | 53.0 | | 85.0 | 0.0 | 156.9 |
| Reduce Unfunded OPEB Liability | 100.0 | 100.0 | | | |
| Energy Subsidies for Low-income Residents | 25.1 | | | | |
| Local Income Tax Reserve Repayment | | | | | |
| Prince George’s County Hospital | 20.0 | | | | 15.0 |
| Transfers | -\$87.0 | -\$220.6 | -\$106.4 | -\$0.6 | -\$171.9 |
| TTF MDTA ICC Payback | -53.0 | | | | |
| Cost Containment | | | -20.0 | | |
| Energy Subsidies for Low-income Residents | -12.0 | -20.6 | | | |
| 2006 Election Voting Machines | -11.0 | | | | |
| Transfer Remaining Election to RDF | -11.0 | | | | |
| OPEB transfer to special fund | | -100.0 | | | |
| Substance Abuse Case Mgmt. Compact | | | -2.0 | | |
| Prince George’s County Hospital | | | -11.4 | -0.6 | -15.0 |
| General Fund | | -100.0 | -73.0 | | -156.9 |
| Ending Balance | \$142.6 | \$22.0 | \$0.6 | \$0.0 | \$0.0 |

GF: general fund
 ICC: InterCounty Connector
 MDTA: Maryland Transportation Authority
 OPEB: Other Post Employment Benefits
 RDF: Rainy Day Fund
 TTF: Transportation Trust Fund

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

Source: Department of Budget and Management, January 2010

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 are credited to the Rainy Day Fund.
- **Other:** Catastrophic Event Account funds may not be used to offset operating deficiencies in regular programs of State government. The funds support costs associated with a natural disaster or catastrophic situation.

Mechanism 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 45 days to review and approve the proposed amendment.

Catastrophic Event Account Activity

The following table shows that the account's balance was \$8.3 million at the beginning of fiscal 2007. The account balance was increased \$0.1 million in fiscal 2008 to reflect unspent proceeds from Hurricane Isabel. The Budget Reconciliation and Financing Act of 2009 transferred \$7.4 million into the general fund in fiscal 2010. The fund is expected to close fiscal 2011 with a \$1.0 million balance.

Catastrophic Event Account Status
Fiscal 2007-2011
(\$ in Thousands)

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|-----------------------|----------------|----------------|----------------|----------------|----------------|
| Beginning Balance | \$8,310 | \$8,310 | \$8,398 | \$8,398 | \$1,000 |
| Appropriation | 0 | 0 | 0 | 0 | 0 |
| Transfers | | | | | |
| General Fund | 0 | 0 | 0 | -7,398 | 0 |
| Hurricane Isabel | 0 | 88 | 0 | 0 | 0 |
| Ending Balance | \$8,310 | \$8,398 | \$8,398 | \$1,000 | \$1,000 |

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

Source: Department of Budget and Management, January 2010