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**STATE RESERVE FUND
FY 2018 Budget Hearing**

**Testimony of
David R. Brinkley, Secretary
Department of Budget and Management**

**Senate Budget and Taxation Committee
February 14, 2017**

Chairman Kasemeyer and members of the Committee, thank you for this opportunity to respond to the Department of Legislative Services (DLS) analysis of the State Reserve Fund budget. The Administration appreciates DLS's thorough analysis and recommendations. Additionally, the Administration concurs with DLS's recommendation that the Department of Budget and Management (DBM) and the Department of Housing and Community Development (DHCD) issue a joint report providing the aggregate status of all outstanding loans and the status of current and proposed repayments to the Catastrophic Event Account but requests no funds be withheld.

ISSUES:

Report Examining Revenue Volatility Recommends Changes to the Revenue Forecasting Process and the Rainy Day Fund

The Administration is committed to maintaining a Rainy Day Fund balance of at least five percent of projected revenues. This threshold is critical to the State's ability to weather a recession and contributes to maintaining the State's AAA bond rating. As stated in the analysis, DBM, DLS, and the Comptroller of Maryland examined the volatility of the State revenue structure and recommended a cap on non-withholding revenue estimates. The Administration is in support of the recommendations made in the resulting report, particularly the recommendation limiting non-withholding revenues to a ten-year historical average. The report also recommends limiting how revenue over-attainment from non-withholding can be spent to certain specified purposes, including improving the Rainy Day balance, PAYGO Capital projects, and Other Post-Employment Benefits.

Neighborhood BusinessWorks Program Loan Repayments Should be Deposited into the Catastrophic Event Account

Providing support to Ellicott City businesses through the BusinessWorks program helped mitigate the financial hardship they faced due to acute flooding in the summer of 2016. DBM concurs with the DLS recommendation to prepare a report with DHCD providing details about the status of outstanding loans and any current or anticipated repayments to the Catastrophic Event Account. However, DBM would respectfully request that funds not be restricted pending submission of the report as the Department routinely complies with all legislative reporting requirements.