



LARRY HOGAN  
Governor

BOYD K. RUTHERFORD  
Lieutenant Governor

DAVID R. BRINKLEY  
Secretary

MARC L. NICOLE  
Deputy Secretary

**STATE RESERVE FUND  
FY 2019 Budget Hearing**

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

**Senate Budget and Taxation Committee  
February 13, 2018**

**House Appropriations Committee  
February 16, 2018**

The Department of Budget and Management (DBM) appreciates this opportunity to respond to the Department of Legislative Services' (DLS) thorough review of the State Reserve Fund budget. DBM's response to the analysis is provided below.

**ISSUE:**

**Status of Neighborhood BusinessWorks Program Loan Repayments to the Catastrophic Event Account**

DBM has been asked to brief the committees on debt repayment cash flows, the timing of quarterly repayments, and the process in place to transfer repayments to the Catastrophic Event Account.

To date, The Catastrophic Event Fund has received four quarterly repayments from the Neighborhood BusinessWorks Program totaling \$327,603. The payments are made on an as-available basis in the first month of each quarter, and have increased gradually. The details of the payments are illustrated below:

Quarter	Date of Payment	Amount of Payment
FY17 Q4	April 4, 2017	41,599.86
FY18 Q1	Closeout 2017	84,568.08
FY18 Q2	October 25, 2017	96,116.18
FY18 Q3	January 10, 2018	105,319.29
<b>Total</b>		<b>327,603.41</b>

## **DLS OPERATING BUDGET RECOMMENDATIONS:**

### **1. Report on Repayment of the Catastrophic Event Account and the Small, Minority, and Women-Owned Business Account**

**DBM Response:** DBM concurs with the reporting requirement, but respectfully requests that no funds be withheld from the DBM and DHCD budgets pending submission of the report as recommended by the analyst. DBM and DHCD complied with a similar reporting requirement earlier this year and we do not believe that restricting funds is necessary.

## **DLS BUDGET RECONCILIATION AND FINANCING ACT RECOMMENDATIONS**

### **1. Modify statute enacted in 2017 to phase in income tax nonwithholding revenue cap over three years.**

**DBM Response:** The Administration does not concur with the DLS recommendation to alter this new revenue cap policy before it has even been implemented. Just last year, the Administration, the Comptroller, and the General Assembly worked together to develop the legislation imposing the cap on nonwithholding revenue as a means of mitigating the impact of revenue volatility on the State budget. FY 2020 is the first year the cap will be applied and excess revenues above the cap distributed to the Rainy Day Fund. The bond rating agencies have spoken favorably about this approach, with Moody's stating in August 2017: "the measures should strengthen the state's overall credit profile in the long run by bolstering reserves and reducing leverage, although the gains may not be as great as intended if the state departs from the guidelines to gain short-term budget relief."

The Administration agrees with Moody's assessment and remains committed to implementing the cap policy as part of our approach to prudent fiscal management. We recognize that difficult decisions will result, but believe that the policy is as sound today as we all agreed it was last year when the General Assembly enacted the codifying legislation.

### **2. Impose legislative review and comment periods on budget amendment transfers from the Catastrophic Event Account and Dedicated Purpose Account.**

**DBM Response:** DBM believes that statutory language requiring legislative review and comment periods on budget amendment transfers from the Catastrophic Event and Dedicated Purpose Accounts is unnecessary. With regard to the Catastrophic Event Account, the very nature of the account, as stated in the statute, is to allow the State to respond "without undue delay" to a catastrophic situation that cannot be addressed with existing resources. In the past, Catastrophic Event funds have been used to provide relief from natural disasters such as the LaPlata tornado, Hurricane Isabel, the Derecho Storm, and Hurricane Sandy and, most recently, to provide immediate relief to students in Baltimore City schools with inadequate heating systems. Current statute allows for the process to be handled expeditiously via budget amendment, ensuring funds are available quickly if the situation warrants. DBM respectfully suggests the current process be allowed to remain in place.

With regard to the analyst's recommendation that a 45-day review and comment period be required for budget amendments transferring funds from the Dedicated Purpose Account, this seems unnecessary given that the dedicated purpose is known in advance and approved by the legislature when funding is appropriated to the Account.

**3. Continue annual \$10 million repayment into the Local Income Tax Reserve Account indefinitely.**

**DBM Response:** The Hogan Administration is committed to addressing the unfunded liability in the Local Income Tax Reserve Account. Our forecast of out-year spending includes funding to address the multiple repayments required under current law. The Administration is also hopeful that the repayment of funding to assist local governments with the Wynne decision will be honored at the appropriate time.

The Department of Budget and Management is supportive of the recommendation made by the Department of Legislative Services to continue the annual \$10 million repayment into the Account indefinitely. In fact, the Administration would support an amendment increasing the annual repayment to \$20 million a year beginning in fiscal year 2020.

Unfortunately, the existing liabilities are the result of decisions made by the previous Administration and General Assembly to use one-time sources of money to balance budgets. More unfortunate, is the fact that the repayments of some of these transfers were repealed. DBM would note that when the Hogan Administration proposed using the Local Income Tax Reserve Account to help balance the fiscal year 2015 budget, that funding was included in the fiscal year 2016 budget for immediate repayment of the transfer. However, the General Assembly did not see fit to approve the immediate repayment, instead proposing to make repayments of \$10 million a year for 10 years freeing up the remaining \$90 million to be used to support ongoing programs in the budget.