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State Rainy Day Funds

By Elaine Maag and Alison McCarthy

States use rainy day funds (RDFs), or budget stabilization funds, as a cushion against financial shocks. Every state except Vermont has some sort of balanced budget requirement so that, unlike the federal government, they must balance expenditures and revenues in any given budget cycle (typically one year). States can have RDFs that allow money to be carried over from good years to lean years. Five states — Arkansas, Colorado, Illinois, Kansas, and Montana — do not have RDFs.

All states with RDFs regulate deposits into and withdrawals out of those funds. Most states build RDFs through the deposit of year-end surpluses. Withdrawal rules generally specify that funds may only be used to cover budget shortfalls or emergencies when authorized by the governor or legislature. Thirty-one states have fund caps, usually limiting the size of RDFs to 2 percent through 10 percent of general fund revenue, which may be inadequate in times of fiscal stress. Six states, Alabama, Florida, Missouri, New York, Rhode Island, and South Carolina, require that withdrawn funds be replenished quickly, even though economic conditions may not have improved. That creates a disincentive to use the funds.

Contributions to state RDFs increased in 2005 and 2006 due to improved economic conditions and greater tax collections. The average RDF ending balance in 2005 was 2.9 percent of general fund revenue (in states with RDFs), a modest increase over 2.75 percent in the previous year. Contributions to RDFs in 2006 are projected to increase by 22 percent over 2005 while general funds are projected to increase by an average of 6.3 percent. Among states with RDFs, that will lead to a projected 3.4 percent balance of general funds.

In 2000, when state surpluses were at their peak, the average RDF balance was 6.2 percent of general fund revenue. Although those funds were used to stave off program cuts and tax increases in the latest recession, they ultimately proved insufficient. Combined state deficits during the recession years of 2001 through 2003 were five times greater than total RDF reserves, and in many states it was, of course, much worse. To better prepare for an economic downturn in the future, policy analysts have recommended that states immediately contribute funds to their rainy day accounts and increase fund caps to allow for greater reserve accumulations. Eighteen states made deposits to RDFs in their 2007 budgets.

Rainy Day Fund Ending Balance as a Percentage of General Fund Revenue, 2006 Projected

0.0% (No RDF Balance)	0.01%-1.9%	2.0%-2.9%	3.0%-3.9%	4.0%-4.9%	5.0%-9.9%	10.0% or Greater
California Hawaii Nevada Wisconsin	Arizona Georgia Idaho Kentucky Maine Michigan Mississippi New Jersey North Carolina Pennsylvania Texas	Alabama Indiana New Hampshire New York Ohio South Carolina Washington	Missouri Rhode Island Tennessee West Virginia	Florida Utah Vermont	Connecticut Delaware Iowa Louisiana Maryland Massachusetts Minnesota Nebraska New Mexico North Dakota Oklahoma Virginia	Alaska South Dakota Wyoming

Source: National Association of State Budget Officers, *The Fiscal Survey of States*, Dec. 2005. Data for Oregon are unavailable. Arkansas, Colorado, Illinois, Kansas, and Montana do not have rainy day funds.



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