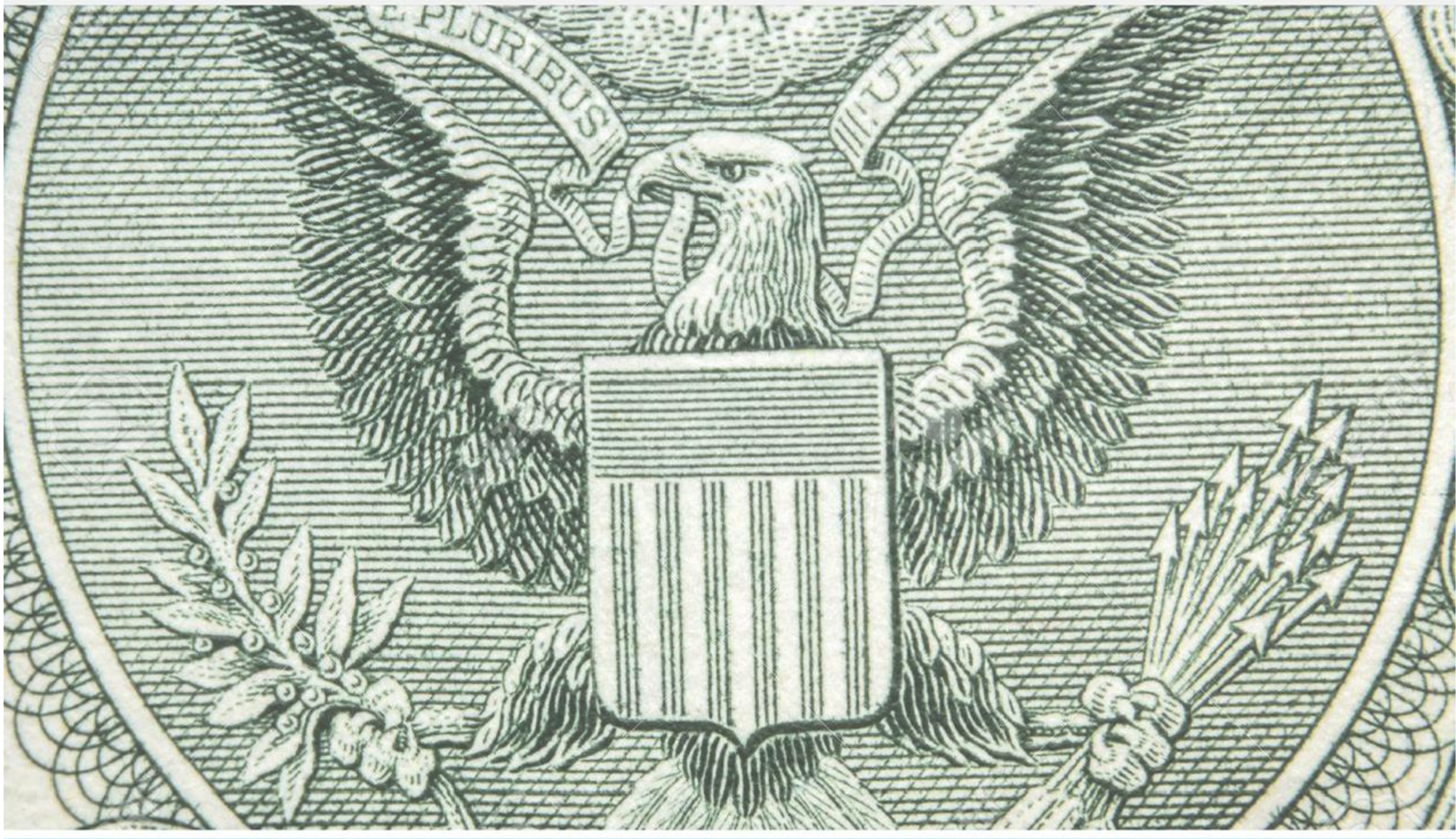
FISCAL BRIEF

Healthy Rainy Day Funds Not Immune from Ill Effects of Coronavirus



NATIONAL CONFERENCE OF STATE LEGISLATURES

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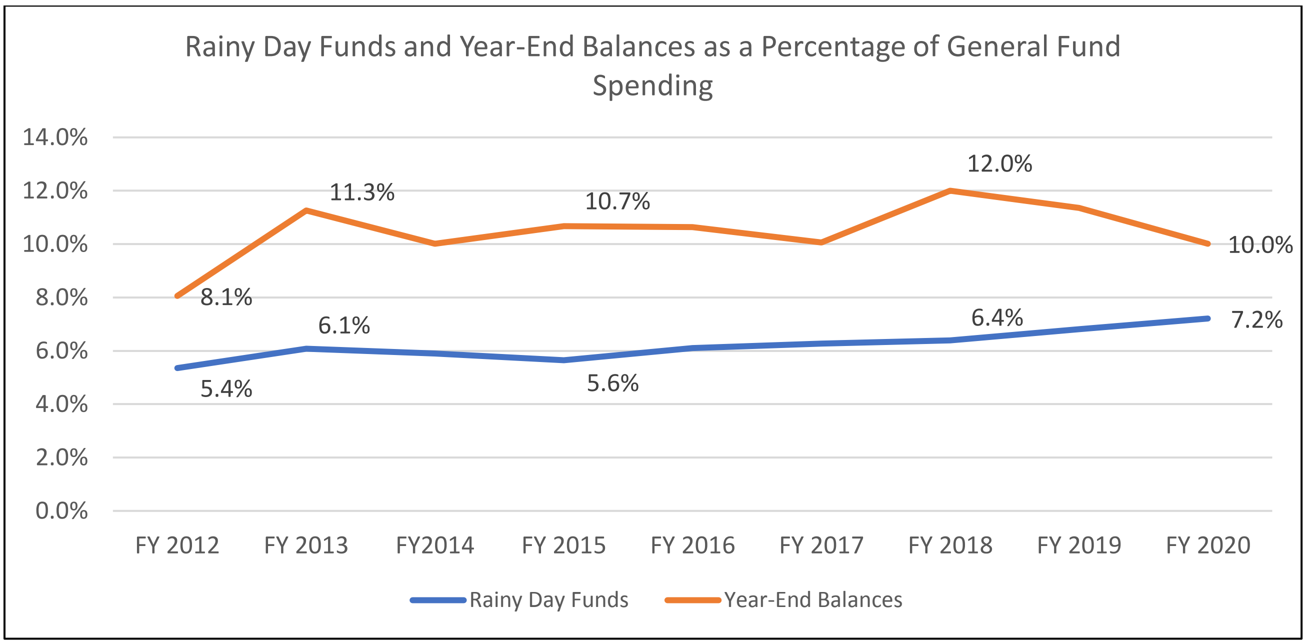
Heading into 2020, state budget reserves were as healthy as they had ever been, averaging between 8% and 12% for most states. Yet faced with the coronavirus pandemic and massive revenue reductions from the economic shutdown, those seemingly plentiful rainy day reserves amount to a mere drop in the bucket.

The concept of a rainy day fund is straightforward: Save money when times are good to use when the economy takes a downturn.

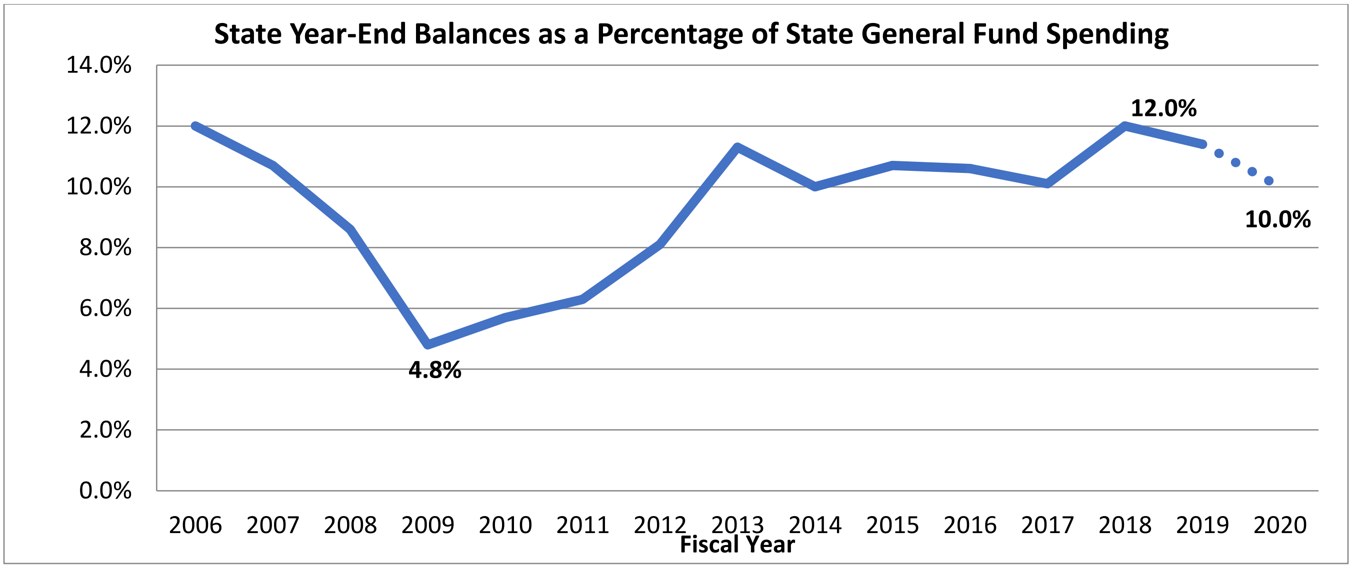
Rainy day funds are viewed as an important component of state fiscal health. However, many states also carry forward excess general funds and other funds from year to year that can help address budget shortfalls. These funds, combined with rainy day accounts, make up a state's year-end balance, which is a better indicator of overall state fiscal health.

Lessons of the Great Recession

During the Great Recession, states used a combination of budget cuts, revenue enhancements and budget reserve funds to close significant budget gaps. As the effects of the recession continued, year-end balances dropped to a low of about 4.8% of state general fund spending in FY 2009.



While the economic expansion that occurred after the Great Recession was characterized by slow but steady growth, states recognized the importance of their rainy day fund safety nets and took steps to replenish those funds. Since FY 2013, year-end balances have on average hovered between 10% and 12% of general fund spending. This will provide states some flexibility as they grapple with the catastrophic revenue fallout of the COVID-19 pandemic.



Fund volatility

However, rainy day funds and year-end balance amounts vary greatly by state, and no state likely has enough to cover the cost of the COVID-19 pandemic and resulting economic decline.

States with the largest year-end balances as a percentage of their general fund spending tend to be states heavily reliant on volatile severance tax revenues. Alaska had a year-end balance of about 40% of general fund spending in FY 2019, North Dakota's was 22% and New Mexico's was nearly 20%. Wyoming has the largest year-end balance as a percentage of its general fund spending at 109%. These states, however, are also dealing with low demand for oil in addition to revenue losses related to COVID-19. In some cases, oil prices per barrel are half of what states budgeted, so even states with the most robust rainy day funds may find them falling short.

While many states reliant on severance taxes tend to have the largest balances relative to their general funds, a number of other states build up above average year-end balances. These balances will help many states cover short-term costs as most state economies are shut down, but they may not be nearly enough to address the longer-term effects of the expected economic decline.

Will Rainy Day Funds be Enough to Weather the Storm?

There is a lot of uncertainty around the magnitude of revenue losses states will experience for the remainder of FY 2020 and into FY 2021. Revenue estimators do not know what the reopening of businesses will fully look like, or when states will welcome tourists back for conventions, sporting events and other large gatherings that generate significant revenue. But early estimates show states could face revenue losses upwards of 20% between the beginning of March and the end of December, nearly double the average state year-end balance.

Those revenue losses are only part of the equation. As we saw during the Great Recession, the demand for health and social service programs increases during a recession, squeezing state budgets. States have already been working to expand access to unemployment benefits, food assistance programs and health care. They have also been providing grants to small businesses and other assistance to companies affected by the shutdown. These are important steps to protect citizens and businesses during an unprecedented time, but these actions also increase state budget shortfalls.

States also face challenges relating to the use of their rainy day fund reserves. Many states cannot access their reserve funds without an act of the legislature. That may not be a challenge during normal years, but these are extraordinary times.

Several legislatures adjourned or suspended operations due to the COVID-19 pandemic. Other states have a cap on the amount that can be withdrawn in a fiscal year, or requirements that amounts withdrawn be replaced within the current or subsequent fiscal year, which could prove difficult if state revenues continue to decline. NCSL has more information on state rainy day fund deposit and withdrawal requirements in our Rainy Day Fund Structures report.

State lawmakers wisely heeded the call to prepare themselves for another economic downturn after the last recession, but none could have predicted a decline with such immediate and drastic effects on state finances. Rainy day fund and other state reserves may help states soften the blow, but states will still face difficult budget choices in the coming months, and perhaps years.

Budget Stabilization Funds: FY 2018, FY 2019 and FY 2020

--Millions of Dollars--

Jurisdiction	FY 2018	FY 2019 (estimated)	FY 2020 (projected)
Alabama	$609.4	$614.2	$666.4
Alaska	$2,396.8	$2,274.4	$2,484.4
Arizona	$457.8	$713.4	$1,018.8
Arkansas	$37.0	$13.1	$58.9
California	$10,807.0	$14,358.0	$16,516.0
Colorado	N/A	N/A	N/A
Connecticut	$1,185.3	$2,278.3	$2,707.8
Delaware	$231.6	$240.4	$252.4
District of Columbia	$1,335.5	$1,337.9	$1,339.7
Florida	$1,416.5	$1,483.0	$1,574.2
Georgia	$2,556.6	$2,556.6	N/R
Hawaii	$374.6	$380.6	$391.7
Idaho	$413.5	$373.2	$373.2
Illinois	$0.0	$0.0	$0.0
Indiana	$507.7	$519.1	$525.2
Iowa	$620.3	$762.1	$783.9
Kansas	$0.0	$0.0	$0.0
Kentucky	$93.8	$129.1	$306.2
Louisiana	$321.1	$405.3	$438.0
Maine	$272.9	$297.2	$297.2
Maryland	$856.8	$882.3	$1,206.6

Budget Stabilization Funds: FY 2018, FY 2019 and FY 2020 --Millions of Dollars--			
Jurisdiction	**FY 2018**	**FY 2019 (estimated)**	**FY 2020 (projected)**
Massachusetts	$2,001.3	$3,424.4	$3,990.2
Michigan	$1,006.0	$1,155.7	$1,218.3
Minnesota	$2,048.2	$2,424.7	$2,424.7
Mississippi	$295.3	$349.7	$549.6
Missouri	$616.2	$651.3	$658.8
Montana	$0.0	$60.7	$72.8
Nebraska	$339.9	$333.5	$377.1
Nevada	$179.9	$331.3	$375.8
New Hampshire	$110.0	$115.0	$115.0
New Jersey	$0.0	$401.4	$401.4
New Mexico	$526.8	$968.1	$1,473.8
New York	$540.0	$790.0	$1,218.0
North Carolina	$1,254.3	$1,254.3	$1,169.3
North Dakota	$113.4	$399.9	$479.4
Ohio	$2,034.1	$2,691.6	$2,691.6
Oklahoma	$70.1	$451.6	$806.2
Oregon	N/R	N/R	N/R
Pennsylvania	$22.8	$340.1	$518.3
Puerto Rico	N/R	N/R	N/R
Rhode Island	$198.5	$203.6	$210.2
South Carolina	N/R	N/R	N/R
South Dakota	$159.5	$169.8	$189.1
Tennessee	$800.0	$875.0	$1,100.0
Texas	$11,043.4	$6,912.5	$8,131.7
USVI	N/R	N/R	N/R
Utah	$578.2	$663.5	$757.4
Vermont	$123.3	$224.2	$225.9
Virginia	$283.3	$283.3	$643.8
Washington	$1,369.4	$1,622.1	$1,893.2
West Virginia	N/R	N/R	N/R
Wisconsin	$320.1	$617.7	$630.0
Wyoming	$1,642.0	$1,654.8	$1,667.6
Total	$52,170.2	$58,988.0	$64,929.7
Source: NCSL survey of legislative fiscal offices, 2019.			

State Year-End Balances as a Percentage of State General Fund Expenditures		
Jurisdiction	FY 2019	FY 2020 (projected)
Alabama ETF	9.2%	6.7%
Alabama GF	45.9%	46.1%
Alaska	39.1%	44.5%
Arizona	13.9%	9.1%
Arkansas	3.3%	1.0%
California	13.8%	12.1%
Colorado	9.3%	7.8%
Connecticut	17.7%	16.2%
Delaware	13.8%	9.1%
District of Columbia	42.6%	36.6%
Florida	9.1%	7.7%
Georgia	11.0%	0.0%
Hawaii	11.9%	10.9%
Idaho	13.4%	14.0%
Illinois	1.2%	1.5%
Indiana	8.2%	8.0%
Iowa	12.2%	13.9%
Kansas	12.2%	7.1%
Kentucky	1.1%	2.7%
Louisiana	4.2%	4.5%
Maine	11.8%	10.4%
Maryland	8.9%	6.7%
Massachusetts	9.3%	9.0%
Michigan ETF	0.4%	0.6%
Michigan GF	17.2%	18.5%
Minnesota	13.1%	10.8%
Mississippi	6.3%	9.6%
Missouri	13.6%	8.1%
Montana	10.6%	11.9%
Nebraska	13.9%	8.2%
Nevada	13.2%	15.2%
New Hampshire	20.9%	6.0%
New Jersey	4.4%	3.3%
New Mexico	19.2%	26.4%
New York	10.6%	9.1%
North Carolina	12.5%	14.0%
North Dakota	20.6%	22.5%
Ohio	18.3%	19.2%
Oklahoma	7.3%	12.1%

State Year-End Balances as a Percentage of State General Fund Expenditures		
Jurisdiction	FY 2019	FY 2020 (projected)
Oregon	N/R	N/R
Pennsylvania	1.0%	2.0%
Puerto Rico	N/R	N/R
Rhode Island	5.8%	5.2%
South Carolina	N/R	N/R
South Dakota	11.4%	11.4%
Tennessee	11.2%	7.1%
Texas	18.5%	13.7%
USVI	N/R	N/R
Utah EF	2.1%	0.9%
Utah GF	33.8%	30.2%
Vermont	14.0%	14.9%
Virginia	2.4%	2.9%
Washington	14.9%	13.8%
West Virginia	N/R	N/R
Wisconsin	9.2%	7.9%
Wyoming BRA	N/R	N/R
Wyoming GF	108.1%	109.0%
Average	**11.4%**	**10.0%**

Source: NCSL survey of Legislative Fiscal Offices, summer 2019

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