

July 13, 2009

IT'S TIME TO USE DC'S RAINY DAY FUND

The District, like most states, has a rainy day fund that it can use to address a major economic crisis. Some 27 states have tapped their rainy day funds to close budget gaps in 2009 or 2010, but the District has not.¹ Yet the decline in the District's economy and finances indicate that now is an appropriate time to use the rainy day reserves. Projected revenues for fiscal year 2010 have fallen by nearly \$1 billion, and unemployment in the city has hit a 25-year high. DC's Chief Financial Officer has certified that that District has met conditions needed to tap its rainy day fund. DC should consider using its rainy day fund now, especially to address the FY 2009 shortfall.

- **Using half of the rainy day fund would reduce DC's 2009-2010 budget gap by one-half or more.** If the District were to use half of the rainy day funds now — \$165 million — that would cover nearly half of the revenue shortfall for FY 2009 and FY 2010, leaving additional reserve funds for use in the future if needed.
- **Rainy day reserves limit the need to cut services or raise revenues during an economic downturn.** Spending rainy day funds stimulates the local economy and can help offset the effects of a recession.
- **Rainy day funds are fiscally responsible.** When states have rainy day reserves, they set aside funds when fiscal conditions are strong — rather than spending all of the growing revenues. They can then use those funds when fiscal conditions weaken.

Use of the rainy day fund would not fully eliminate the budget gap (and it would be unwise to fully use the reserve now). Even if the District taps its rainy day fund, it will need to find ongoing budget savings to balance the budget in FY 2010 and beyond. In this way, using the reserve does not delay budget-balancing efforts, although it does make them easier.

Federal Restrictions on DC's Rainy Day Fund Need to Be Addressed

The District's leaders should work with the federal government to give DC the same kind of flexibility over its rainy day fund that other states have.

- **Eliminate the Rule that Requires DC to Repay its Rainy Day Fund Within Two Years.** Some 39 of 46 states with a rainy day fund have no time-specific replenishment rule. (See the table on next page.)
- **Allow DC's Rainy Day Fund to be Used Flexibly to Meet Emerging Needs.** Nearly one-third (\$100 million) of DC's rainy day reserves is restricted for use in a natural disaster or a declared state of emergency. No other state restricts a portion of their rainy day fund for natural disasters.
- **Allow DC's Rainy Day Fund to be Used Whenever Falling Revenues Push the Budget Out of Balance.** Currently, the fund cannot be used unless a revenue shortfall is greater than five percent of the budget or roughly \$250 million. In 39 states, the rainy day fund can be used whenever revenue collections drop below expected levels by any amount.²

¹ National Association of State Budget Officers, *Fiscal Survey of the States: Spring 2009*, tables A-5a and A-5b (<http://www.nasbo.org/publications.php#fss2007>)

² DC Fiscal Policy Institute, *Fixing DC's Rainy Day Fund*, April 2003, page 6 (<http://dcfpi.org/?p=73>)

Summary of State Rainy Day Fund Rules			
State	Replenishment Required Within Specific Time Frame?	Restrictions on Withdrawal	How/When Deposits to Fund Are Made
Alabama	Within 5 years	Requires super-majority vote	One-time funds
Alaska	No	Requires super-majority vote	Mineral litigation settlements
Arizona	No	Limits amount of funds that can be used at one time	When personal income growth exceeds specified level
Arkansas	<i>no rainy day fund</i>		
California (2 accounts serve as rainy day funds)	No	50% of funds in one of the accounts are for retiring deficit recovery bonds	Year-end surplus; percent of estimated general fund revenues
Colorado	<i>no rainy day fund</i>		
Connecticut	No	None	Year-end surplus
Delaware	No	Requires super-majority vote	Year-end surplus
District of Columbia (has 2 funds: emergency reserve & contingency reserve)	Within 2 years	Only contingency reserve can be used for revenue shortfall, and it can only be used if revenues fall more than 5% below projections	Local funds (requires fund balance to be 7% of local budget)
Florida (has 2 funds)	Within 5 years	None	Year-end surplus
Georgia	No	None	Year-end surplus
Hawaii	No	Requires super-majority vote	Tobacco funds
Idaho	No	Limits amount of funds that can be used at one time	When revenue growth exceeds 4%
Illinois	<i>no rainy day fund</i>		
Indiana	No	Limits amount of funds that can be used at one time	When personal income growth exceeds specified level
Iowa	No	Requires super-majority vote	Year-end surplus
Kansas	<i>no rainy day fund</i>		
Kentucky	No	None	Year-end surplus
Louisiana	No	Requires super-majority vote; limits amount of funds that can be used at one time	Year-end surplus; oil and gas revenue above a certain amount
Maine	No	None	Year-end surplus
Maryland	No	None	Year-end surplus
Massachusetts	No	None	Year-end surplus; 0.5% of tax revenue from preceding year
Michigan	No	Limits amount of funds that can be used at one time	When personal income growth exceeds specified level
Minnesota	No	None	Year-end surplus
Mississippi	No	None	Year-end surplus
Missouri	Within 3 years	Requires super-majority vote; limits amount of funds that can be used at one time	When fund falls below required balance
Montana	<i>no rainy day fund</i>		
Nebraska	No	None	Year-end surplus
Nevada	No	None	Year-end surplus
New Hampshire	No	Requires super-majority vote; limits amount of funds that can be used at one time	Year-end surplus
New Jersey	No	None	Year-end surplus
New Mexico	No	None	Year-end surplus
New York (has 3 rainy day funds — two official and one unofficial)	Within 3 years	None	Year-end surplus

Summary of State Rainy Day Fund Rules

State	Replenishment Required Within Specific Time Frame?	Restrictions on Withdrawal	How/When Deposits to Fund Are Made
North Carolina	No	None	Year-end surplus
North Dakota	No	None	Year-end surplus
Ohio	No	None	Year-end surplus
Oklahoma	No	Requires super-majority vote; limits amount of funds that can be used at one time	Year-end surplus
Oregon (has 2 funds)	No	Requires super-majority vote; limits amount of funds that can be used at one time	Lottery revenue; 1% of year-end surplus
Pennsylvania	No	Requires super-majority vote to use fund	Year-end surplus
Rhode Island	Within 2 years	None	3% of revenue each year
South Carolina	Within 3 years	None	Year-end surplus
South Dakota	No	None	Year-end surplus
Tennessee	No	Limits amount of funds that can be used at one time	When revenue growth exceeds 10%
Texas	No	Requires super-majority vote	Year-end surplus
Utah	No	None	Year-end surplus
Vermont	No	None	Year-end surplus
Virginia	No	Limits amount of funds that can be used at one time	Based on formula using prior 6 years of revenue growth
Washington	No	Requires super-majority vote	Year-end surplus
West Virginia	No	"Part B" of rainy day fund cannot be tapped until original fund is depleted	Year-end surplus
Wisconsin	No	None	Year-end surplus
Wyoming	No	None	Year-end surplus

Source: Elizabeth McNichol and Brian Filipowich, "Rainy Day Funds: Opportunities for Reform," Center on Budget and Policy Priorities, Revised April 17, 2007, <http://www.cbpp.org/files/4-16-07sfp.pdf>.