# Which states have rainy-day funds?

BY JAMES CARROLL

During the recent stretch of economic growth, state governments have set aside money for the future in budget-stabilization funds or rainy-day funds to be ready for periods when they are economically strapped. States also have set aside funds to treat specific budgetary ills. Arizona, for example, has a fund specifically to provide temporary public assistance, and Utah has a fund to secure its Medicaid dollars.

As of February, 45 states and Puerto Rico have at least one rainy-day fund to be used for the purpose of overall budget stabilization, according to the National Association of State Budget Officers. States without rainy-day funds are Arkansas, Kansas, Illinois, Montana and Oregon. That is not to say that these states do not put anything aside. Kansas requires by statute that 7.5 percent of its general fund should be left over at the end of every year, thus ensuring financial solvency. Montana, as a constitutional mandate, has a trust funded with half of the state's coal-severance taxes that can be spent only upon a three-quarters vote of both houses of the Legislature.

**States have set aside money for bad economic times.**

Nine states have two stabilization funds: Alabama, Alaska, Florida, Iowa, Minnesota, New Mexico, Ohio, South Carolina and Utah. Arizona has three. These additional funds weave a stronger safety net. Some, such as those in Alabama and Utah, are earmarked for specific agencies, while others provide another pool of money from which to draw in a budget crisis.

While 32 states set caps on the size of rainy-day funds, their size often depends on the overall size of the state's budget and the size of the annual surplus. Most states deposit from 1 percent to 15 percent of general funds into their rainy-day funds until a cap is reached. Some states allow for a variable-percentage deposit of general revenues. Other states, such as Minnesota, specify a dollar amount. The size of a fund also depends on its scope, whether it is meant to cushion all or only some state services in case of a shortfall. Some states tie rainy-day funds to revenues from natural resources; for example, Alaska links deposits into its rainy-day fund to oil and gas revenues, while Louisiana links them to mineral revenues.

In 40 states, deposits must be approved by the executive budget officer or treasurer, or made by automatic transfer. Arizona, Indiana, Michigan, Virginia and Washington base their deposits on current economic conditions.

Most states allow expenditures from rainy-day funds by legislative or executive action. Ten states allow for expenditure from rainy-day funds with a supermajority vote in the legislature, usually a two-thirds vote. Texas and Delaware, however, require a three-fifths majority, and Alaska requires a three-fourths majority vote for its Constitutional Budget Reserve Fund. In other states the majority approval required depends on the situation. For example, in Oklahoma half the rainy-day fund can be used by declaration of the governor and a two-thirds majority vote in the Legislature; however, the fund may be also spent if the Legislature declares an emergency and authorizes spending by a three-fourths vote.

In addition to rainy-day funds, 48 states and Puerto Rico have separate contingency/emergency funds, according to NASBO. These funds are reserved for urgent situations such as natural disasters that call for swift spending of state dollars. They differ from rainy-day funds in that rather than being set aside to address a budget crisis, they supply a reserve of money for unexpected needs. Other uses for contingency funds include unexpected expenditures, authorized programs, deficiencies and public safety. Emergency funds range from Hawaii's $14,000 Governor's Contingency Fund to Illinois' $500 million General Revenue Fund, which can be used only in the event of a natural disaster. Altogether, 15 states have more than one contingency fund, and there are 69 state contingency funds nationwide.

In 21 states the governor is the only person who can authorize the allocation of at least one contingency fund, while in seven states the governor has partial control. The other states allow control by various executive-branch boards, commissions and department heads. In only five states does the legislature share control with the executive branch over a contingency fund. As an additional budget cushion, 23 states allow for unexpected funds to be carried forward to the next budget cycle.

For more information regarding this or other issues, contact the States Information Center at (888) CSG-4SIC or sic@csg.org.

*James Carroll is Southern regional coordinator with CSG's States Information Center.*