

Issue Brief – Budget Reserve Funds for AAA Rated States

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SUMMARY

All the information contained within this brief comes from the National Conference of State Legislatures (NCSL). The brief outlines the budget reserve funds for the seven states (including Utah) that have AAA bond ratings from the three major rating agencies and describes how these states have used the funds following the economic downturn of 2001.

DISCUSSION AND ANALYSIS

Seven states have “AAA” ratings from all three agencies: Maryland, Delaware, Georgia, Missouri, North Carolina, Utah, and Virginia. The following table shows how their reserve funds compare.

<u>State</u>	<u>Fund Name</u>	<u>Determination of Fund Size</u>	<u>Procedure for Expenditures</u>
Maryland	Revenue Stabilization Account	Statutory 7.5% of general fund revenues	Legislation or budget bill authorization if balance above 5%, Legislation if balance below 5%
Delaware	Budget Reserve Account	Excess unencumbered funds, no greater than 5% of gross general fund revenues set by Joint Resolution for next fiscal year.	3/5 vote of legislature for unanticipated deficit or revenue reduction resulting from legislative action
Georgia	Revenue Shortfall Reserve	Capped at 10% of prior year’s net revenue	Governor can access balance upon a revenue shortfall in current year. Legislature can appropriate 1% of fund for education.
Missouri	Budget Reserve Fund	Capped at 7.5% of net general revenue, if the balance is less than 7.5% general revenues appropriated into fund	If the Governor determines that there is a shortfall, up to one-half of fund balance may be transferred, upon a 2/3 supermajority vote.
North Carolina	Savings Reserve Account	July 2007 established a goal that the balance equal at least 8% of the prior years’ GF approp.	Appropriation by the General Assembly
Utah	Budget Reserve Fund and Education Reserve Fund	25% of end-of-year GF surplus, can be added to the balance up to 6% of the GF approp. for that year. The legislature can appropriate above the 6% level.	Expenditures are limited to retroactive tax refunds and operating deficits, upon legislative approval
Virginia	Revenue Stabilization Fund	Capped at 10% of annual tax revenues on income and retail sales tax receipts for the 3 years immediately preceding that fiscal year.	Legislative appropriation up to one-half of the fund’s balance, if income and sales tax revenue falls more than 2% below projections in the enacted budget.

Source: National Conference of State Legislatures

Recent State Actions

Some of the “AAA” rated states used their reserve fund balances following the economic downturn of 2001. AAA states have taken a number of actions in recent years to transfer rainy day funds into the general fund and are now replenishing those funds. Examples of states’ actions include:

- **Delaware:** The Budget Reserve Account balance is \$182.8 million, which is at the 5% limit. Delaware maintained its balance throughout the national economic slowdown in recent years.
- **Georgia:** The Revenue Shortfall Reserve peaked in fiscal 2001, with a \$734 million fund balance. Funds were withdrawn from fiscal 2002 through 2004, drawing down the balance to \$54 million. The balance as of June 30, 2007 was \$1.6 billion. Approximately \$188 million will be used in fiscal 2008 as a mid-year education adjustment, which is the 1% allocation that the legislature can provide in the budget bill. The Governor will also allocate funds for a dedicated gas and motor fuel account. The projected balance as of June 30, 2008 is expected to be in the \$1.4 billion range; about 7% of general fund revenues for the prior year.
- **Missouri:** The Budget Reserve Fund balance declined slightly from \$470 million in fiscal 2002 to \$444 million in fiscal 2004. The balance was about \$530 million at the end of fiscal 2007, which is at the 7.5% target level for general fund revenues.
- **North Carolina:** There is a statutory provision that requires that 25% of the unreserved year end surplus must be appropriated into the account unless changed in an appropriations act. For the current fiscal year this would have required an appropriation of about \$293 million, but the legislature changed that amount in the budget bill to \$175 million. The projected balance for the end of fiscal 2008 is \$786.6 million, which is slightly over 4% of the prior year’s general fund appropriation. This funding level represents about ½ of the new 8% goal.
- **Utah:** The Budget Reserve Fund balance declined from \$120 million to \$20 million in fiscal 2002. Over a period of years, the fund balance was built up. In fiscal 2003, the state created the Education Reserve Fund. These two funds are projected to have a combined balance totaling approximately \$414 million in fiscal 2008.
- **Virginia:** The Revenue Stabilization Fund’s balance declined from \$716 million in fiscal 2001 to \$248 million in fiscal 2003. The state has been appropriating funds into the balance, which is projected to be \$1.3 billion in fiscal 2008, when it reaches its statutory cap.

Source: National Conference of State Legislatures