

## Advisory Council Recommendation for "Rainy Day" Funds (Draft)

June 16, 2008

The Advisory Council recommends the following:

- The target for the Rainy Day Funds saving rate should be to maintain average growth in spending during the average recession. Both the Education Stability Fund (ESF) and the Rainy Day fund are expected to serve the stabilizing function and should be considered together. The saving rate should be based on achieving a 50% to 75% probability of having sufficient resources in the funds.
- From the information presented, this would require a saving rate of between 3% and 4% of general fund revenue during expansions. The funding for the Education Stability Fund is variable, but it amounts to about 1.5% of the general fund revenue. Thus, the revenue target for the Rainy Day Fund itself should be 1.5% to 2.5% of general fund revenue during periods of expansion.
- The current policy of adding the general fund ending balance, up to 1% of the general fund revenue, should be continued. Both the Governor's budget and the Co-chairs' budget should show an ending balance of at least 1% during periods of expansion.
- Sources should be identified that would provide the additional 0.5% to 1.5% of general fund revenue on average during periods of expansion. More money should be set aside in periods of above average growth allowing for a lower rate of savings during expansion periods of below average growth.
- The maximum for the Rainy Day funds should be 12% to 15% of the biennial budget. This would be sufficient to maintain average growth in spending through 90% of all recessions. Current maximums for the two funds would achieve the lower end of this range when both are fully funded.
- The ESF should be utilized first during periods of recession since it has a relatively stable source of replacement funding.
- We do not recommend any changes to current policies for using the funds.



**TABLE 1**  
**HISTORICAL SIM BASED ON FORECAST METHODOLOGY CHANGE**  
**RAINY DAY FUND DEPOSITS (ALL \$ IN MILLIONS)**

	COS	ACTUAL	DEPOSIT	COS	ACTUAL	DEPOSIT	COS	ACTUAL	DEPOSIT	TRIGGERS	RDF	% OF GF
81-83	\$ 2,704	\$ 2,641	\$ -	0.0%	\$ 348	\$ 249	0.0%	\$ -	0.0%	YES*	\$ -	0.0%
83-85	\$ 2,887	\$ 2,976	\$ 89	3.1%	\$ 285	\$ 299	3.1%	\$ 13	4.7%	NO	102.1	3.3%
85-87	\$ 2,915	\$ 3,139	\$ 163	5.6%	\$ 291	\$ 298	5.6%	\$ 7	2.3%	NO	250.8	7.5%
87-89	\$ 3,302	\$ 3,477	\$ 175	5.3%	\$ 288	\$ 325	5.3%	\$ 36	12.6%	NO	280.4	7.5%
89-91	\$ 4,145	\$ 4,331	\$ 186	4.5%	\$ 320	\$ 297	4.5%	\$ -	0.0%	YES*	92.5	2.0%
91-93	\$ 5,063	\$ 5,123	\$ 60	1.2%	\$ 337	\$ 355	1.2%	\$ 18	5.3%	NO	175.1	3.2%
93-95	\$ 5,797	\$ 5,960	\$ 164	2.8%	\$ 409	\$ 576	2.8%	\$ 130	31.9%	NO	477.8	7.5%
95-97	\$ 6,533	\$ 7,047	\$ 366	5.6%	\$ 428	\$ 684	5.6%	\$ 137	31.9%	NO	557.0	7.5%
97-99	\$ 7,567	\$ 7,736	\$ 168	2.2%	\$ 658	\$ 589	2.2%	\$ -	0.0%	NO	658.8	7.5%
99-01	\$ 9,113	\$ 9,367	\$ 255	2.8%	\$ 799	\$ 755	2.8%	\$ -	0.0%	NO	757.2	7.5%
01-03	\$ 10,195	\$ 8,946	\$ -	0.0%	\$ 860	\$ 420	0.0%	\$ -	0.0%	YES*	249.9	2.6%
03-05	\$ 10,199	\$ 9,797	\$ -	0.0%	\$ 540	\$ 641	0.0%	\$ 101	18.7%	YES*	82.5	0.8%
05-07	\$ 10,827	\$ 11,898	\$ 606	5.6%	\$ 500	\$ 844	5.6%	\$ 160	31.9%	NO	852.4	7.3%
<b>TOTAL</b>			\$ 2,231			\$ 602						

\*NO DEPOSITS ASSUMED FOR BIENNIA WHEN TRIGGERS ARE MET

TABLE 2  
ENDING BALANCE CALCULATIONS

	IN MILLIONS OF \$	ENDING BALANCE	APPROPRIATIONS	1% DEPOSIT	TRIGGERS	RDF	% OF GF
81-83	24.3	2857.3	28.6	YES	0.0 *		
83-85	197.8	3102.8	31.0	NO	61.0		2.0%
85-87	235.5	3343.6	33.4	NO	97.5		2.9%
87-89	294.2	3739.2	37.4	NO	139.8		3.7%
89-91	392.2	4532.5	45.3	YES	46.1 *		1.0%
91-93	366.4	5504.7	55.0	NO	103.5		1.9%
93-95	496.3	6410.1	64.1	NO	172.8		2.7%
95-97	800.1	7427	74.3	NO	255.7		3.4%
97-99	338.1	8784.5	87.8	NO	356.3		4.1%
99-01	363	10096.6	101.0	NO	475.1		4.7%
01-03	113.5	9674.2	96.7	YES	156.8 *		1.6%
03-05	308.5	10223.2	102.2	YES	51.7 *		0.5%
05-07	1436.7	11640.6	116.4	NO	170.7		1.5%

\*NO DEPOSIT ASSUMED FOR BIENNIA WHEN TRIGGERS ARE MET.  
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