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## Missouri's Rainy Day Utilizing the State Rainy Day Fund and Options for Reform

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Governor Nixon recently approved Missouri's Fiscal Year 2012 budget, which begins on July 1, 2011. With this approval, the Governor reduced the budget that had been approved by the General Assembly by an additional \$172 million in restrictions, or "withholds." These reductions in funding are in addition to the approximately \$800 million in reductions that were made in the previous year's budget, which in large part became permanent in the FY 2012 budget.

While a significant portion of the reductions are attributable to declining state revenue resulting from the economic crisis, \$50 million of the Governor's most recent restriction is tied directly to state costs resulting from the multiple natural disasters that have plagued Missouri this spring. Missouri's costs associated with these tragedies are not yet fully known, but given the extent of the damage the amount will very likely exceed the \$50 million initial set-aside. In addition to the short-term recovery costs associated with rebuilding, an array of state services including health, mental health, unemployment, child protection and foster care will likely have increased costs for a lengthy period that are directly related to the natural disasters.

Missouri has many opportunities to fund this increased need. In particular, there appears to be bipartisan interest in tapping into a portion of the state's Rainy Day Fund, which currently has a balance of over \$500 million. This fund was established to allow the state to respond to emergencies like the current situation, as well as state budget struggles due to economic crisis. In past years state lawmakers have been reluctant to utilize the available funding due to several barriers in the Rainy Day Fund's design, including stringent repayment requirements. **However, given the need to respond to recent tragedies, Missouri lawmakers could ask Missouri voters to reform some of these barriers. By asking Missourians to consider reforms, state lawmakers could:**

- Meet the current and projected increased needs for critical services directly related to the natural disasters;
- Restore funding to areas of the budget that are impacted by the Governor's restrictions, such as higher education and child protection; and
- Enhance Missouri's future security and ability to effectively respond in times of great need.

### Missouri's Current Rainy Day Fund

Missouri's State Constitution authorizes a "Budget Reserve Fund," which is commonly referred to as the "Rainy Day Fund."<sup>1</sup> It was most recently altered by Missouri voters in 2000 to combine the state's

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<sup>1</sup> Article IV- Section 27(a)

Budget Reserve Fund and Cash Operating Reserve Fund. The combined Rainy Day Fund serves two purposes:<sup>2</sup>

- **Cash Flow:** The Commissioner of Administration is authorized to transfer revenue from the fund to general revenue during current fiscal years to meet ongoing cash flow needs to ensure timely payment of state obligations. All transfers are required to be repaid with interest no later than May 16<sup>th</sup> of the fiscal year in which transfers are made. The state has routinely used the Rainy Day Fund for this purpose.
- **Budget Stabilization:** The Rainy Day Fund can also be used for budget stabilization under extraordinary circumstances, including emergencies. This category of the fund's use contains several significant restrictions that have made it largely unusable during the state's recent ongoing budget crisis, and may make legislators wary of using it in the current crisis.

Over the last ten years, the Missouri Rainy Day Fund has accumulated a substantial balance of more than \$500 million, an amount equal to about 7 percent of the state's expected general revenue collections in FY 2012.<sup>3</sup>

Missouri Rainy Day Fund Balance, in millions Fiscal Years 2001 – 2010 <sup>4</sup>	
Fiscal Year	Balance
2001	\$452.0
2002	\$469.9
2003	\$462.4
2004	\$444.2
2005	\$463.3
2006	\$493.0
2007	\$536.5
2008	\$557.3
2009	\$560.0
2010	\$527.4

In order to use the Rainy Day Fund for budget stabilization, several requirements must be met, including:

- The Governor must reduce expenditures below their appropriated levels;
- The Governor must request an emergency appropriation; and
- Two-thirds of the members of both chambers of the General Assembly must approve the request.

**In addition, lawmakers can use only one-half of the balance in the fund for stabilization purposes, and the amount borrowed is required to be repaid over the following three fiscal years.<sup>5</sup>**

<sup>2</sup> Missouri Senate Appropriations Committee, "2010 Annual Fiscal Report: Fiscal Year 2011," <http://www.senate.mo.gov/10info/RedBook10.pdf>

<sup>3</sup> Based upon the consensus revenue estimate figures from the Missouri Office of Administration

<sup>4</sup> Data from the Missouri Office of Administration

<sup>5</sup> IBID #2; Note: The fund balance is also capped at 7.5 percent of the state general revenue fund, unless the General Assembly explicitly appropriates an amount to enhance the fund balance. Under these circumstances, the total is restricted to 10 percent of the prior year's general fund collections.

Missouri's current rainy day fund guidelines – particularly the supermajority and the repayment requirements – have proven to be significant barriers. For example, requiring two-thirds majority approval for use of the funds gives a minority of legislators the ability to block approval. The fund's onerous repayment requirements, including nearly immediate repayment regardless of economic conditions, result in the reluctance of state lawmakers to tap into the funds.

### **Rainy Day Funds in Other States and Missouri's Options for Reform**

Missouri lawmakers have a critical opportunity, given the current emergency crisis in the state, to evaluate the effectiveness of the state's rainy day fund and recommend reforms to Missouri voters to ensure that the fund can be used most appropriately and effectively in future years. A good assessment of the fund's requirements can begin by comparing Missouri's rainy day fund to what other states have done.

Including Missouri, 45 states and the District of Columbia currently have rainy day funds.<sup>6</sup> Only Arkansas, Colorado, Illinois, Kansas, and Montana do not. During the most recent recession, more than 70 percent of states with rainy days funds utilized them to fill \$20 billion in state budget shortfalls.<sup>7</sup> By comparison, although significant resources are available in Missouri's rainy day fund, the state has not used it to avoid the substantial cuts made to critical state services over the last decade.

In a February paper, "*Why and How States Should Strengthen Their Rainy Day Funds: Recession Highlighted Importance of Funds and Need for Improvements*," the Center on Budget & Policy Priorities provides a comprehensive overview of state rainy day funds.<sup>8</sup> The data regarding state rainy day fund requirements, contained in the Center's paper, is summarized in the table in the appendix of this brief. However, when comparing Missouri's rainy day fund requirements with the requirements that other states maintain, it becomes clear that Missouri's fund is unnecessarily burdensome. Two policy constraints within Missouri's fund stand out as being clear barriers to its use during this time, and are particularly onerous compared to the experience of other states, specifically:

1. Burdensome repayment requirements, and
2. Super-majority approval for use.

Of the forty-five states that have rainy day funds, thirty-three states do not require repayment. Three other states, Alabama, Florida and Utah, allow more extensive repayment periods.

In contrast, Missouri's rainy day fund requires that any amounts used be repaid (with interest) beginning almost immediately. All borrowed funds are required to be repaid over a three year period, regardless of whether or not the emergency situation or economy has improved. This results in a significant disincentive to using the rainy day fund, as state legislators are rightly concerned that resources for repayment may not be available.

Missouri lawmakers could ask voters to consider changes in the repayment requirements that more appropriately allow the state to first overcome the emergency that prompted use of the fund. Repayment could instead be based on growth in economic conditions and state revenue and the repayment period could be extended to something less burdensome.

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<sup>6</sup> IBID # 6

<sup>7</sup> IBID

<sup>8</sup> Center on Budget & Policy Priorities, Elizabeth McNichol and Kwame Boadi, "*Why and How States Should Strengthen Their Rainy Day Funds Recession Highlighted Importance of Funds and Need for Improvements*," February 3, 2011, available at: [www.cbpp.org](http://www.cbpp.org)

In addition, only ten states, including Missouri, require supermajority approval to use the rainy day fund. In practice, attaining such a high threshold means that a minority of legislators are able to block the use of the fund. Missouri lawmakers could ask voters to consider removing the supermajority requirements from the fund.

These requirements have clearly limited Missouri's ability to utilize its rainy day fund to address budget shortfalls brought about by emergencies and/or economic crisis.

### **Summary**

Given the current needs brought about by numerous natural disasters in Missouri, coupled with the available resources in the Rainy Day Fund, it would be very appropriate for state policymakers to utilize the Rainy Day Fund to address increased state needs. Missouri's current crisis also provides an impetus for state lawmakers to propose revisions to Missouri's Rainy Day Fund that will provide for Missouri's future security and ability to effectively respond in times of great need.

## Appendix:

Summary of State Rainy Day Fund Requirements Center on Budget & Policy Priorities February, 2011 Table							
State	No RDF	Cap of less than 15%	Cap %	Replenish ment Rule	Limit on Use	Super- Majority Require ment	Type
Alabama*		X	10.0	X			Both
Alaska			no cap	X		X	Both
Arizona		X	7.0		X		Statute
Arkansas	X						
California*		X	5.0				Constitutional
Colorado	X						
Connecticut		X	10.0				Statute
Delaware		X	5.0			X	Constitutional
District of Columbia*		X	6.0	X	X		Statute
Florida		X	10.0	X			Constitutional
Georgia			15.0				Statute
Hawaii		X	10.0			X	Statute
Idaho		X	5.0		X		Statute
Illinois	X						
Indiana		X	7.0		X		Statute
Iowa*		X	10.0	X			Statute
Kansas	X						
Kentucky		X	5.0				Statute
Louisiana		X	4.0	X	X	X	Constitutional
Maine		X	12.0				Statute
Maryland		X	7.5	X			Statute
Massachusetts			15.0				Statute
Michigan		X	10.0		X		Statute
Minnesota			goal (4.0)				Statute
Mississippi		X	7.5				Statute
Missouri		X	7.5	X	X	X	Constitutional
Montana	X						
Nebraska			no cap				Statute
Nevada			20.0				Statute
New Hampshire		X	10.0		X		Statute
New Jersey		X	5.0				Statute
New Mexico			no cap				Statute
New York*		X	5.0	X			Statute
North Carolina			goal (8.0)				Statute
North Dakota		X	10.0				Statute
Ohio		X	5.0				Statute
Oklahoma			15.0		X	X	Statute
Oregon*		X	12.5		X	X	Both
Pennsylvania			no cap			X	Statute
Rhode Island		X	5.0	X			Statute
South Carolina*		X	5.0	X			Statute
South Dakota		X	10.0			X	Statute
Tennessee		X	5.0		X		Statute
Texas		X	10.0			X	Constitutional
Utah*		X	6.0	X			Statute
Vermont		X	5.0				Statute
Virginia			15.0		X		Constitutional
Washington		X	10.0				Constitutional
West Virginia		X	10.0	X			Statute
Wisconsin		X	5.0				Statute
Wyoming			no cap				Statute