

# Save for a Rainy Day?

**Background:** In our personal lives and in business as well, we have investments, savings accounts and/or cash reserves. Most of us put aside money in prosperous times to help us get through difficult times. Similarly, about 43 states have established “Rainy Day Funds,” also known as Budget Stabilization Funds, to help them through down economic times. The demands on government services are likely to be highest in a recession when tax revenue is low. Colorado is certainly no stranger to “boom and bust” economic cycles and might want to follow suit.

While Colorado has a 3% TABOR emergency reserve, it must be replenished in the *following fiscal year*, and it cannot be used for any purely economic reason such as a revenue shortfall, but is available only for things like natural disasters. There is also a “statutory” reserve, but it must be replenished in the *same fiscal year* in which it is spent. That means Colorado effectively has no Rainy Day Fund.

If Colorado were to implement a Rainy Day Fund, the following are some of the critical issues that would need to be resolved.

**Where would we get the money?** Many have suggested that a portion of any TABOR surplus (say 10% to 50%) be funneled into a Rainy Day Fund. Others argue that TABOR surpluses belong to taxpayers, and that existing programs should be cut to provide funds. Some believe that after ten years of TABOR, plus the recent cuts, Colorado’s budget is already “lean and mean” and can’t stand more cuts. What do you think?

**How large should a fund be?** Most states limit the size of their Rainy Day Funds to a percentage of their budget. Prior to the recent recession, most states had funds of about 5% to 10% of their budgets. Most of these were wiped out in the current recession. Should the size of the fund be limited? What’s the right size?

**Should the state be able to avoid all cuts?** Some argue that state government should share the pain of a recession, just as families do, and cut service levels. Others say the need for state services is greatest in a recession and spending should at least be allowed to grow within the current constitutional restrictions. How do you feel?

**What’s the trigger for accessing funds?** In states where there are no restrictions on accessing Rainy Day Funds, the funds often get raided for “critical” pet projects. Assuming it should only be accessible in an economic downturn, how large a budget shortfall should there be before it can be accessed? This could be combined with the above question. For example, the fund might only be used to backfill shortfalls greater than say 3%.

When considering options for TABOR, the Gallagher Amendment and Amendment 23, we work from existing constitutional policies. Considering options for a Rainy Day Fund is a bit different since Colorado is one of seven states that do not have a Rainy Day Fund. There is no existing policy to work from so if you believe we need a Rainy Day Fund; it must be designed “from scratch.”

The background information on the other side describes several critical issues that need to be addressed when designing a Rainy Day Fund. The following options are clearly not exhaustive. They are only provided as suggestions and a way to stimulate your thinking about Rainy Day Funds.

(next page)



