Delaware Economic and Financial Advisory Council
Advisory Panel Meeting

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About The Pew Charitable Trusts

The Pew Charitable Trusts is a public charity driven by the power of knowledge to solve today’s most challenging problems. Pew conducts fact-based research and rigorous analysis to improve policy, inform the public and invigorate civic life.

We help states apply fact-based solutions to a wide range of policy areas, including the environment, health, consumer safety, and in addressing state policy and economic issues.
Pew’s state fiscal health team focuses on helping states enact targeted, evidence-based solutions to pressing fiscal challenges.

We conduct independent research on significant budget and economic issues to identify new opportunities for policy solutions.

Our team works directly with state and local policymakers to provide tailored research and technical assistance.
Pew’s Rainy Day Fund Research Assistance

Pew assisted in implementing policy change in the following states:

- Arizona
- California
- Colorado
- Connecticut
- Delaware
- Maryland
- Massachusetts
- Montana
- New Mexico
- New York
- North Carolina
- Oregon
- Pennsylvania
- Rhode Island
- Tennessee
- Texas
- Utah
- Virginia
- Washington
- Wisconsin

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Pew’s Research on Rainy Day Funds
Regional Volatility Comparison

Volatility score as measured by typical annual revenue change, 1997-2016

Source: Pew Fiscal 50 Indicator
What are Budget Stabilization Funds?

- Dedicated reserve fund in statute or constitution, separate from general ending balance
- Tool to mitigate volatility
- Typically serve a different purpose than an “emergency fund”
Delaware Budget Reserve Account – 50-State Context

- 1 of 48 states with rainy day fund in statute or constitution
- 1 of 10 states to create a rainy day fund prior to 1980
- 1 of 8 states that did not withdraw from fund during the Great Recession
Budget Stabilization Fund Policy Choices

Deposit Rules
Saving Based on Surplus

23 states saved based on surplus prior to the Great Recession

Surplus deposit rules in 2007
Saving Based on Surplus

16 states save based on surplus in 2017

Surplus deposit rules in 2017

No longer save based on surplus
Saving Based on Forecast Error

5 states saved based on forecast error prior to the Great Recession

Forecast error rules in 2007
Saving Based on Forecast Error
4 states save based on forecast error in 2017

- Forecast error rules in 2017
- No longer save based on forecast error
Saving Based on Static Deposit

6 states required a specified annual deposit or balance prior to the Great Recession

Static deposit rules in 2007

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Saving Based on Static Deposit

4 states save based on static deposit in 2017

- Static deposit rules in 2017
- No longer save based on static deposits
Savings Tied to Volatility
9 states saved based on revenue or economic growth prior to the Great Recession
Savings Tied to Volatility

20 states now save based on revenue or economic growth in 2017

Volatility based rules prior to 2007

Added volatility based rule since 2007
Deposits Based on Volatility
Some states link deposits to volatility in overall revenues

- **Deposits half of general revenue that exceeds the six-year average growth rate.**

- **Deposits are made if general fund revenue grows more than 4 percent.** Deposits do not exceed 1 percent of annual revenues.
Deposits Based on Volatility
Some states link deposits to a single, volatile revenue stream

Massachusetts deposits capital gains tax revenue in excess of a threshold that grows with the economy.

Texas deposits ¾ of oil and gas severance tax revenue above the benchmark revenue from 1987.
Some states link deposits to economic indicator changes

### Deposits Based on Volatility

**IN**
- Deposits to the rainy day fund when **personal income growth** exceeds 2 percent in a given year

**AZ**
- Recommends savings deposits when **personal income growth** exceeds a trend line based on historical growth
Rules for Fund Use Varies Across States

- Budget Gap
- Forecast Error
- Revenue or Economic Downturn
- Non-Economic Events (e.g. disasters, legal settlements)
Rainy Day Fund Maximum Caps
As a percent of annual revenue or expenditures

States without an RDF

- NO CAP
- <= 5%
- 6% – 10%
- 11% – 20%

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