



## MEMBERS ONLY BRIEFING

### Ohio's Budget Stabilization Fund: *Planning for a Rainy Day*

April 29, 2020

#### Overview

The state's budget stabilization fund (BSF), most commonly known as the rainy-day fund, was created in the FY 1982 to FY 1983 biennial state operating budget, which also raised the state sales tax from 4% to 5%. The intent was to prevent a reoccurrence of the budget cutting of the previous budget by banking any excess revenues for release during economic downturns or “rainy days.”

As a matter of fiscal policy, the Voinovich administration would later choose 5% of the preceding year's general revenue fund (GRF) as the goal for the size of the fund. This number remains the goal today, even though it has been depleted to forestall appropriations during poor economic times.

The significance of this fund to state budgeting has been to provide the state with a cushion against faulty revenue estimates or economic assumptions. However, expenditures from the budget stabilization fund in one year may well lead to a structural imbalance the next year from use of these one-time revenues.

All or a portion of year-end surplus is deposited into the state's BSF. In most states, the BSF is dedicated to closing deficit gaps in the current year or maintaining government spending when revenues are projected to decline. However, withdrawal rules vary.

Thirty-one states cap the balances of their funds. The cap is typically a percentage of either revenues or expenditures, although some states have more complex formulas for determining maximum fund size. In Ohio, by law, the maximum balance of the BSF is 8.5% of the General Revenue Fund revenues. Any excess balance is generated by revenues exceeding estimates or spending below appropriated levels is required to be returned to the voters in the form of a personal income tax rebate.

So, how healthy is our budget stabilization fund? According to the Tax Policy Institute, Ohio's budget stabilization fund balance is 7.7% of general fund expenditures, ranking it 29th among the 50 States in terms of preparedness for an emergency like the current pandemic and the associated economic downturn.

Totaling \$62.4 billion nationally in 2019, rainy day funds are the savings accounts of U.S. states. They are vital fiscal tools that help governments cope with natural disasters and can help them avoid crushing spending cuts when economies falter and revenues nosedive. Ohio's rainy day fund balance current stands at \$2.691 billion, accounting for 4.3% of the U.S. total. For comparison, the Ohio population represents 3.6% of the U.S. population. Likewise, Ohio GDP represents 3.38% of US GDP which made it the 7th largest state economy in the nation in 2016.

## The Use of the Rainy Day Fund to Address COVID-19

Ohio law is clear in governing how funds are transferred to the BSF. Ohio Revised Code § 131.43, states:

*“There is hereby created in the state treasury the budget stabilization fund. It is the intent of the general assembly to maintain an amount of money in the budget stabilization fund that amounts to approximately five per cent of the general revenue fund revenues for the preceding fiscal year. The governor shall include in the state budget he submits to the general assembly under section 107.03 of the Revised Code proposals for transfers between the general revenue fund and the budget stabilization fund for the ensuing fiscal biennium. The balance in the fund may be combined with the balance in the general revenue fund for purposes of cash management.*

What is less clear is how the funds are to be withdrawn. Ohio is one of seven states —Illinois, Kansas, Kentucky, Maryland, Nebraska, Ohio, and Wyoming— that lack or have limited policies governing use of rainy day funds according to a 2019 analysis by the Volcker Alliance. That being said, the General Assembly must give its authorization for BSF expenditures. For example, HB 197, 133<sup>rd</sup> General Assembly, was passed and enacted on March 27, 2020, to address the current pandemic and included specific language authorizing the director of OBM to request authorization from Controlling Board to transfer cash from the BSF to the GRF to maintain a balanced budget for FY 2020:

### *SECTION 36. BUDGET STABILIZATION FUND TRANSFER*

*Notwithstanding division (D) of section 127.14 of the Revised Code, the Director of Budget and Management may request, prior to the end of fiscal year 2020, approval from the Controlling Board for a transfer of cash from the Budget Stabilization Fund to the General Revenue Fund to help ensure that the available revenue receipts and balances in the General Revenue Fund are not less than the expenditures for fiscal year 2020. Upon the approval of at least two members of the Controlling Board who are members of the Senate and at least two members of the Controlling Board who are members of the House of Representatives, the Director may transfer cash in the amount approved from the Budget Stabilization Fund to the General Revenue Fund.*

Recently, Lt. Governor Husted indicated the loss of revenues between now and the end of FY 2021 could approach twice the amount of the rainy day fund. This is consistent with the OESCA Members Only Brief put out on April 14 and updated April 17, which revealed a potential budget hole of up to \$6.051 billion (\$1.186 Billion in FY 2020 and \$4.865 billion in FY 2021) assuming a 20% reduction in GRF tax receipts.

OBM and the Governor’s Office have not yet announced any reductions for FY 2020 or FY 2021. However, reductions are expected to be announced by the end of this week. Clearly, a transfer of funds from the BSF is expected to be an important part of any budget balancing strategy from the DeWine Administration.

## History of Ohio's Rainy Day Fund Balance

Listed below are the BSF fund balances for the period 2000-2019.

| Year | Total              | % Change       |
|------|--------------------|----------------|
| 2000 | \$1,002,500,000.00 |                |
| 2001 | \$1,015,600,000.00 | 1.3%           |
| 2002 | \$427,900,000.00   | -57.9%         |
| 2003 | \$180,700,000.00   | -57.8%         |
| 2004 | \$180,700,000.00   | 0.0%           |
| 2005 | \$574,900,000.00   | 218.2%         |
| 2006 | \$1,012,300,000.00 | 76.1%          |
| 2007 | \$1,012,300,000.00 | 0.0%           |
| 2008 | \$1,012,300,000.00 | 0.0%           |
| 2009 | \$0.89             | -100.0%        |
| 2010 | \$0.89             | 0.0%           |
| 2011 | \$246,900,000.00   | 27741572933.7% |
| 2012 | \$482,000,000.00   | 95.2%          |
| 2013 | \$1,477,934,213.76 | 206.6%         |
| 2014 | \$1,477,934,213.76 | 0.0%           |
| 2015 | \$2,004,568,922.44 | 35.6%          |
| 2016 | \$2,034,051,458.44 | 1.5%           |
| 2017 | \$2,034,051,458.44 | 0.0%           |
| 2018 | \$2,691,554,191.00 | 32.3%          |
| 2019 | \$2,691,554,191.00 | 0.0%           |

### **Sources:**

Rainy Day Fund Structures, Fiscal Policy Brief, NCSL, November 2018  
 Rainy Day Fund Strategies, Volcker Alliance, July 2019  
 Tax Policy Institute  
 Legislative Service Commission Budget Stabilization Fund Infograph  
 Ohio Office of Budget and Management, [www.ohio.gov/obm](http://www.ohio.gov/obm)