

Bond Case Briefs

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How States Can Balance Saving for a Rainy Day and Other Priorities.

Budget stabilization funds can help states manage revenue volatility by allowing them to set aside money that can be used during difficult financial times. Policymakers use the funds to smooth budgets over multiple years and across different phases of the business cycle. That ensures governments have the resources needed to fund important priorities, no matter how the economy turns.

Undeniably, setting aside money for future needs requires trade-offs. In many states, leaders have emphasized the need to rebuild savings in the years following the Great Recession, but each dollar directed to reserves is a dollar that cannot be spent on public programs, tax reductions, paying down debt, or unfunded retirement costs. Policymakers often struggle with decisions about when to make deposits and how large they should be.

At the same time, the various savings strategies provide differing benefits, with some more effective than others. For instance, one of the most common triggers is a budget surplus, which allows states to set aside money when there is extra at the end of the fiscal year. This method may be straightforward, but the contributions are often the last—and frequently the lowest—priority in the budget process because of their timing. In addition, surpluses occur for multiple reasons, sometimes clouding whether the time is right to save. The debate in Ohio over funding the state's rainy day fund illustrates common challenges.

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Route Fifty

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