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Rainy Day Funds Reach Historic Levels: NASBO Budget Blog

As inflationary pressures, high interest rates, geopolitical conflict and other factors contribute to slower projections for economic growth, many economists are predicting that the next recession will occur sometime in 2023. How prepared are state governments to weather a possible downturn? After two consecutive years of widespread and sizeable budget surpluses and recent state policy actions to strengthen their reserves, states are now more financially prepared than ever to handle an economic downturn. Rainy day fund balances reached new heights in fiscal 2022, after already growing sharply in fiscal 2021. Based on enacted fiscal 2023 budgets, state reserves are projected to increase further by the end of the current year. While not all states would necessarily have to tap their reserves in the event of a recession, having a robust rainy day fund is a helpful tool many states rely on to manage fiscal uncertainty.

Rainy Day Funds Saw Substantial Growth During the Pandemic

Before the onset of the COVID-19 crisis, state rainy day funds were at a then all-time high in fiscal 2019, after a decade of rebuilding reserves following the Great Recession. In spring 2020, when the pandemic first hit, this financial cushion softened the immediate blow for states facing revenue shortfalls as well as cash flow challenges due to the tax filing deadline shift, helping them to close budget deficits by the end of fiscal 2020 – something most states are required by law to do. At the same time, as state revenue projections were plummeting further, concerns grew that states might end up depleting the rainy day funds they had worked so hard to build in recent years.

Continue reading.

NASBO Budget Blog

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