

NEWS FEATURE:

"Rainy Day" Fund Remains a Mystery to Many

May 25, 2018 -- Delaware's Rainy Day Fund is easily one of the most misunderstood mechanisms in state government.



Adopted in 1980, [Article 8, Section 6\(d\) of the Delaware Constitution](#)

established a "Budget Reserve Account within the General Fund." This reserve is known as "the Rainy Day Fund," although that moniker does not appear in the code.

Under state spending limits also contained in the constitution, government officials cannot spend any more than 98-percent of projected revenues, leaving a two percent buffer of "unencumbered money."

After the end of the fiscal year, a portion of the remaining unencumbered funds (if any) are paid into the Rainy Day Fund if it is below its statutory limit. The fund is capped at five percent of estimated General Fund revenues.

At present, the Rainy Day Fund contains about \$232 million, which is modestly invested.

The General Assembly has been very reluctant to tap it, treating it as an option of last resort. The fund went untouched even in 2009 when the state faced a FY 2010 budget gap topping \$750 million.

However, the actual language of the law states that the General Assembly can appropriate the reserve funds "as may be necessary to fund any unanticipated deficit in any given fiscal year or to provide funds required as a result of any revenue reduction enacted by the General Assembly." Any appropriation from the fund requires a three-fifths vote (60 percent) of both the House of Representatives and the Senate.

In other words, this fund was initially intended to be similar, in some respects, to a proposal currently gaining traction in the legislature known as a "budget smoothing fund" -- a monetary reserve that could be used to bridge budget shortfalls.

However, over time, lawmakers and executive branch officials began to view the Rainy Day Fund as something never to be touched short of a catastrophic occurrence.

Delaware is one of fewer than a dozen states to have secured the highest ratings for its bonds. As a result, the state can borrow money at lower rates, saving taxpayers millions-of-dollars annually. Some state officials have attributed this to the existence of a fully-funded Rainy Day Fund, although this point has been disputed.

The Pew Charitable Trusts issued a series of reports [identifying best practices for building better rainy day funds](#), "emphasizing that states should study how sensitive their tax systems are to economic volatility; identify concrete objectives and an appropriate savings target; link deposits to economic or revenue growth; and establish withdrawal conditions that encourage use during periods of fiscal stress."

During the last month of the legislative session, lawmakers are expected to investigate the creation of a budget smoothing fund that would encompass the Rainy Day Fund and be used to curtail the boom-and-bust budget cycles Delaware has increasingly experienced in recent years.