



**STATE OF VERMONT**  
**OFFICE OF THE STATE TREASURER**

**TO:** H.441 Conference Committee Members  
Secretary of Administration  
Chief Fiscal Officer  
Interested parties

**FROM:** Jeb Spaulding, State Treasurer

**DATE:** April 29, 2009

**RE:** Utilization of Budget Stabilization Reserves/Rainy Day Funds

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As the Administration and Legislature attempt to find common ground for finalizing spending and revenues plans for FY 2009 and FY 2010, I would like to share my perspective on the appropriate use of budget stabilization reserves, sometimes referred to as “rainy day funds.”

At the outset, I would like to stress that Vermont’s judicious use of these funds has been one of the pillars of our reputation for strong fiscal management that has been recognized favorably by the rating agencies, and will be important if we are to maintain our Triple A rating.

That does not mean budget stabilization reserves should never be used. If that were the case, it would be tantamount to having put the funds aside for no reason.

Appropriate usage of the reserves does require attention to the following criteria:

- Budget stabilization reserves should only be used sparingly and only as a last resort in the worst of economic storms;
- They should only be accessed consistent with state statute;
- They should be viewed as a short-term bridge to a fully funded budget, including replenishment of the reserves to the statutory level; and
- There should be an explicit, codified plan in place to replenish the reserves at the time they are accessed. This includes clear plans for budget cuts and/or revenue increases that will allow the reserve funds to be refilled in the subsequent fiscal year.

Certainly we are in a very serious economic storm right now and some incursion into the reserves may be justified consistent with the above criteria. However, we must keep in mind that we don’t know whether the storm will get worse or how long it will last. What that means to me is

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that we should resist utilizing the reserves in FY 2009, completely or, at least, to the absolute minimum extent possible. Some sparing use of the reserve funds in FY 2010 seems reasonable, in my opinion, given that the most recent official revenue forecasts predict revenues should begin picking up in FY 2011. In completing the work on the FY 2010 budget, I would recommend utilizing less than half of the available reserves, recognizing that there is considerable risk of further revenue downgrades in the coming months, in conjunction with ARRA funds, reduced spending, and limited revenue enhancements to put us on a path toward a balanced and sustainable budget, with full reserves, by the end of FY 2011.

What does the law say about how budget stabilization funds are to be used? The relevant section (32 V.S.A. § 308) states, “In any fiscal year if the general fund is found to have an undesignated fund deficit, the general fund budget stabilization reserve shall be used by the commissioner of finance and management to the extent necessary to offset the undesignated fund deficit as determined by Generally Accepted Accounting Principles.” There is identical language for the Transportation Fund.

Clearly then, the purpose of the budget stabilization reserves is to close an unavoidable revenue/expenditure gap at the end of a fiscal year. If revenues continue to weaken beyond expectations near year end and there is no time for the state to take remedial action before fiscal year end, that may be an appropriate time to access the reserves.

Although the relevant statutes do not speak to it, another time it might make common sense to utilize the budget stabilization funds would be when revenue declines are close to bottoming out and are predicted to pick up in the near term. In that situation, the budget stabilization reserve funds would provide a temporary bridge. In the 2001-2002 downturn, the State addressed the fiscal 2002 deficit through use of a portion of the general fund stabilization reserve, but still leaving it with a significant balance. We did not deplete the reserve fund in that downturn and refilled it quickly.

As stated above, if the Legislature plans to access the budget stabilization reserve funds in FY 2009 or FY 2010, it should also explicitly provide the means on how the reserves will be replenished and by when. If we have ongoing sustainability issues with available revenues and projected expenditures, utilizing the reserves without addressing the underlying problem cannot be viewed as prudent.