State Fiscal Health Project
Assisting states implement evidence-based policies

Presentation by Stephen Bailey, Manager, State Fiscal Health
About The Pew Charitable Trusts

• Conducts research and analysis to improve policy, inform the public, and invigorate civic life.

• Established expertise on fiscal management of states, supported by research and experience providing hands-on assistance.

• Committed to identifying fiscal best practices and focused on non-partisan, driven solutions.
About State Fiscal Health

- Economic Development
- Tax Incentives
- Managing State Debt
- State Budget Policy
- Local Fiscal Monitoring
“Don’t want this to be a report that collects dust on a shelf…”
State Shortfalls Outstripped Savings Nearly 2 to 1 in the First Year of the Great Recession

50-state total 2008 reserves and 2009 budget gaps, in billions of dollars

- Total state reserves, 2008: $59.9 billion
- Total state budget gaps, 2009: $117.3 billion
Rainy day funds help offset booms and busts of the economic cycle
How Much Should a State Save?

• The traditional “5 percent rule” has been debunked

• S&P gives top scores for states with formula-based reserve funds that can reach at least 8 percent of general fund revenue/expenditures

• Fitch and Moody’s says reserve size should be tailored to economy, tax structure, revenue volatility, and financial flexibility
State Savings Targets for Rainy Day Funds
As a percent of annual revenue or expenditures

- NO CAP
- <= 5%
- 6% – 10%
- 11% – 20%
- States without an RDF
Example: Arizona Optimal Size Analysis

Moderate recession

Cumulative Reserves Needed, % FY2017 Revenues

Year 1: 2.22%
Year 2: 3.84%
Year 3: 5.02%
Year 4: 5.88%
Year 5: 6.51%
Year 6: 6.97%
Example: Arizona Optimal Size Analysis

Severe recession

Cumulative Reserves Needed, % FY2017 Revenues

Year 1: 5.39%
Year 2: 9.32%
Year 3: 12.18%
Year 4: 14.27%
Year 5: 15.80%
Year 6: 16.91%
Arizona SB 1091 – 2019 Legislative Session
Increased the target on state’s rainy day fund from 7 to 10 percent

State of Arizona
Senate
Fifty-Fourth Legislature
First Regular Session
2019

CHAPTER 54
SENATE BILL 1091

AN ACT
AMENDING SECTION 35-144, ARIZONA REVISED STATUTES; RELATING TO STATE
FISCAL PROCEDURES.

(TEXT OF BILL BEGINS ON NEXT PAGE)