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Georgia Budget and Policy Institute

STATE BUDGET FACTS

REBUILDING GEORGIA'S RAINY DAY FUND IS KEY TO LONG-TERM BUDGET STABILITY

HOW THE RAINY DAY FUND WORKS

The Revenue Shortfall Reserve (RSR) is Georgia's rainy day fund, established to help the state in tough economic times. State funds are not appropriated directly to the RSR by lawmakers. The state auditor automatically places end-of-year surplus funds in the RSR. In order to keep Georgia's AAA bond rating, revenue estimates should account for a planned surplus.

WHY IS GEORGIA'S STABILITY IN TROUBLE?

At the end of FY 2007, the RSR contained $1.5 billion. The RSR at the end of FY 2009 contained only $103 million. The governor appropriately used more than $1.4 billion in RSR funds to help balance the state budgets in fiscal years 2008, 2009, and 2010.

Moody's Investor Service published the following statement in their bond rating report for Georgia: "The extent to which the coming fiscal year's budget allows for reserve rebuilding, through prudent economic assumptions and conservative revenue projections, will be a critical factor to the state's rating and outlook."

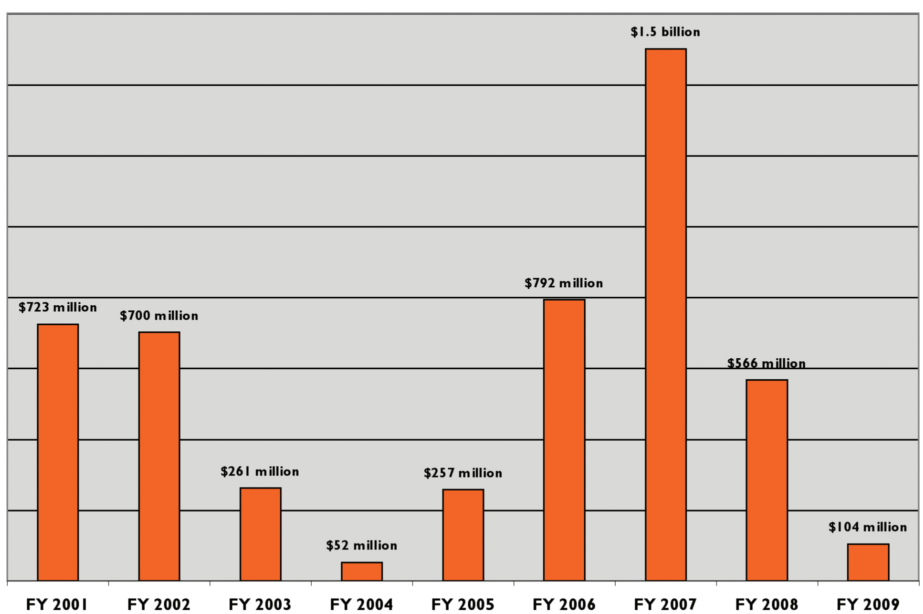
It is doubtful the governor's revenue estimates in FY 2010 or FY 2011 will lead to surpluses sizeable enough to begin rebuilding the RSR.

The complete report is available at www. GBPI.org.

RECOMMENDATION

- Over the next three to five years, the governor and General Assembly should plan for surpluses totaling between $1.5 billion and $2 billion in order to rebuild the RSR.
- Lawmakers should consider a balanced approach to the fiscal crisis that includes additional revenues in order to rebuild the RSR.
- Revenue estimates should be as conservative as possible in order to plan for an adequate surplus.
- Rating agency concerns regarding an adequate RSR should give pause to tax cut proposals that reduce state revenues.

REVENUE SHORTFALL RESERVE FY 2001 - FY 2009



THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

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