

## Saving for that Rainy Day: The Stabilization Fund

The balance in the state's Stabilization Fund has varied over the past 10 years (see accompanying chart). The Stabilization Fund – often referred to as the “Rainy Day Fund” – is a cushion for when the economy turns down. It is like a “savings account” for the state to turn to when there is not enough money in the General Fund (the “checking account”) to fund the state's operations.

At the end of FY 2001, the Rainy Day Fund carried a balance of \$1.71 billion. Over the next two years, a series of tax cuts and a recession led to revenue shortfalls, and close to \$1.7 billion was transferred out of the Fund to help balance the state's budget. As the economy recovered, the balance in the fund grew once again to more than \$2.34 billion in FY 2007. With the start of the current recession in FY 2008, the Rainy Day Fund has once again helped balance the state's budget: \$315 million taken out in FY 2008, \$1.39 billion taken out in FY 2009 and \$235 million taken out so far in FY 2010. The Governor, in his Fiscal Year 2011 proposal, balances the budget in part by withdrawing \$175 million from the Rainy Day Fund.

The fund was created so that even in difficult economic times, the state can use this “savings account” to help pay for health care, education, public safety, and other priorities funded by the state budget. To do this, the state needs to put enough money in the fund during good times, so that it has a large enough balance to protect needed services in bad times.

Up until this point, money in the Rainy Day Fund comes from several main sources:

- One-half of 1 percent of the prior year's taxes;
- Any funds left over in any of the state's budgeted funds (after a few adjustments);
- Investment income (interest) earned by the fund;
- Any transfers deposited from other sources as directed by the Legislature.

The Governor's budget proposes using a portion of the revenues raised through the capital gains tax to replenish the Rainy Day Fund.<sup>1</sup> Since capital gains taxes can vary widely from year to year, they are a relatively unreliable source of revenue to pay for ongoing state programs. In order to protect against the structural budget problems that come from making annual budget decisions dependent on capital gains taxes, the Governor proposes capping the amount of this tax that can be used for the budget at \$1 billion. He also proposes depositing 95 percent of the remainder of capital gains taxes into the Rainy Day Fund. This means that in years when tax revenues are high, the capital gains tax revenues deposited into the Rainy Day Fund would create a reserve that could then be drawn on when the economy turns down.

---

<sup>1</sup> Outside Section 13 available at: [http://www.mass.gov/bb/h1/fy11h1/os\\_11/h13.htm](http://www.mass.gov/bb/h1/fy11h1/os_11/h13.htm).

