

APPENDIX F. Budget Reserve (“Rainy Day”) Fund Update

By law, unappropriated General Fund operating surplus and revenue exceeding the volatility cap must be used to sustain the Budget Reserve Fund and/or to reduce certain long-term debts (primarily unfunded pension liabilities). The law requires the Budget Reserve Fund to contain any unappropriated General Fund operating surplus and revenue exceeding the volatility cap unless and until the balance of the Budget Reserve Fund reaches certain thresholds relative to net General Fund appropriations in the current fiscal year.⁸

Current law, as amended by PA 23-1, applies a 15% threshold to the FY 23 unappropriated General Fund operating surplus and revenues exceeding the volatility cap. The FY 23 balance of the Budget Reserve Fund is at the 15% cap, with the remaining approximate \$2 billion to be used to reduce long-term debts per the direction of the State Treasurer.⁹

Beginning July 1, 2024, an additional threshold of 18% is provided under PA 23-1 which will apply to the closing of the books on FY 24 and each fiscal year thereafter. The State Treasurer's discretion to direct the use of funds set aside to reduce long-term debts remains.

Method to Distribute FY 24+ General Fund Surplus/Excess Volatile Revenues

15% THRESHOLD

- The Budget Reserve Fund retains any unappropriated General Fund operating surplus and revenue exceeding the volatility cap until the Budget Reserve Fund has reached 15% of net General Fund appropriations.
- If the Budget Reserve Fund is between 15% to 18% of net General Fund appropriations, then an equal (50/50) distribution of funds exceeding the 15% threshold is made to the Budget Reserve Fund and to reduce long-term debts.

18% THRESHOLD

- Any funds exceeding the 18% threshold are used to reduce long-term debts.

Table 1 FY 24-FY 25 Budget Reserve Fund Status

In Millions of Dollars

Description	FY 24	FY 25
Budgeted surplus	399.7	297.8
Budgeted volatility cap adjustment	683.2	659.6
TOTAL	1,082.9	957.4

Of the \$2,040.3 million total over the FY 24 – FY 25 biennium that is budgeted to be deposited into the Budget Reserve Fund, it is anticipated that 42% or \$863.1 million of the total would remain in the Budget Reserve Fund and 58% or \$1,179.1 million of the total would go towards reducing long-term debt per the direction of the State Treasurer.

⁸ PA 23-1 amended the law to include an 18% threshold in addition to the 15% threshold established by PA 17-2.

⁹ The exact amount will be finalized with the closing of the FY 23 books in October – December of 2023.