

POLICY SOLUTIONS FOR THE PANDEMIC

POLICY MEMO: USING THE RAINY DAY
FUND TO FIGHT COVID-19'S IMPACT
APRIL 15, 2020

The Buckeye Institute's Recommendation

To address the COVID-19 crisis, Ohio should eliminate **unnecessary state spending** and then strategically use its **Budget Stabilization Fund**—commonly known as the rainy day fund—after first answering Governor DeWine's **call** to cut government budgets by at least 20 percent.

Background

The COVID-19 crisis has required state lawmakers to take swift, dramatic action to secure Ohio's public health and economy. That action, however, will strain Ohio's budget and tempt policymakers to raise state and local taxes to bolster depleted government coffers. Policymakers should resist that temptation.

Government spending will increase as Ohio consumes more public services, addresses a **record number** of unemployment claims, and pays for rising Medicaid expenses. And the spending increase comes just as tax **revenues are declining** as a result of businesses temporarily closing, families sheltering in place, and furloughed workers **paying little** to no income tax.

Under the state constitution, Ohio cannot spend more than its revenues. Instead of raising taxes that will strain cash-strapped businesses, workers, and families even further, or imperiling health care workers with across-the-board spending cuts, Ohio should surgically cut unnecessary spending and rely on the Budget Stabilization Fund to balance the budget. After all, rainy day funds are made for just such "rainy days."

Past recessions proved the importance of a solid rainy day fund during an economic crisis. During the **early 2000s recession**, Ohio drained 80 percent of the fund's original \$1 billion within two years. The Great Recession in 2008 famously forced then-Governor Strickland to use all but \$0.89 of the state's rainy day fund. Fortunately, then-Governor Kasich wisely **replenished** the fund (against widespread opposition), a sound fiscal decision that has given Ohio a **lifeline** during the current crisis. Because of the rainy day fund, Ohio policymakers have more financial firepower to withstand the fiscal assault brought on by COVID-19 and should not resort to tax increases or rely wholly on federal loans to cover state expenses. That weapon, however, should only be used after Ohio has cut unnecessary spending and fulfilled Governor DeWine's request to cut government budgets by at least 20 percent.

Conclusion

Rainy day funds are saved for rainy days. Rather than raising taxes, rather than indiscriminately cutting critical programs, and before public spending spirals out of control, Ohio should **reprioritize** and reduce government budgets, and then **turn to the rainy day fund** to weather this invisible storm.