

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Joint Budget Committee Members
FROM John Ziegler, JBC Staff (303-866-4956)
DATE April 25, 2018
SUBJECT Statutory Reserve

I reviewed the following two documents to get an idea of what level of statutory reserve is optimal.

- Rainy Day Funds – This is an LCS memorandum by Kate Watkins dated January 20, 2010. This document indicated that states do not have a standard reserve fund level. Various states' reserve levels are established differently in their individual laws and ranged anywhere from zero to upwards of 15 percent of General Fund appropriations depending on the fiscal year. The memorandum also indicates that other studies suggested a reserve size ranging anywhere from 5 percent to above 20 percent of annual General Fund appropriations. At the time of the memorandum the Colorado reserve was 4.0 percent. It was scheduled to increase by formula to 6.5 percent over time based on certain triggers. It has since been increased to 6.5 percent where it currently remains.
- Stress-Testing States – This is a document published by Moody's Analytics in October 2017. Moody's explained the need for a reserve, their viewpoint on the important factors regarding the business cycle, and created a model for stress testing states' readiness for a moderate or severe recession. The document indicates that, in Moody's estimation, there are two critical factors that need to be monitored for recessionary pressures, revenues and Medicaid spending. Moody's created a model attempting to predict the level various individual states would need in either a moderate or severe recession. The information they provided for Colorado predicated a moderate recession would require a reserve of 15.0 percent and a severe recession would require as much as a 26.0 percent reserve. As stated above, Colorado's reserve is currently 6.5 percent.