



Louisiana Budget Project

PROVIDING INDEPENDENT,  
NONPARTISAN research and analysis  
of Louisiana fiscal issues and their  
impact on low and moderate  
income residents.

## AMENDMENT NO. 4: A SENSIBLE SOLUTION TO STABILIZE THE RAINY DAY FUND

The Louisiana Budget Project is urging voters to approve Amendment No. 4 on the October 22 ballot. Amendment No. 4 is a sensible solution that will strengthen Louisiana’s Budget Stabilization Fund, also known as the “Rainy Day Fund.”

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The Rainy Day Fund was established in 1991 and acts as a “savings account” for the state that can be used in times of declining revenues—like during the recent recession—to fill a temporary budget gap. The Fund can only be used under specific circumstances and with the approval of two-thirds of the legislature. The size of the fund is capped at 4 percent of the previous year’s budget, and money in the fund is replenished using surplus revenue, other so-called “non-recurring funds,” and any oil and gas revenues that are collected above an \$850 million threshold.

The problem is that the law as originally written did not anticipate the major growth in oil and gas revenues. This set up an odd problem: when the legislature removes money from the Rainy Day Fund to cover a budget shortfall, the Fund is automatically refilled with oil and gas revenues *in the same year*, which further exacerbates the budget shortfall, because these same oil and gas revenues are normally appropriated in the state budget. This “revolving door” of oil and gas money in and out of the Fund during the same year makes no fiscal sense, and works in direct opposition to the intended purpose of the Rainy Day Fund, which is to protect the budget during tough fiscal times.

Amendment No. 4 would solve this unintended problem by setting up a timetable for repaying the Rainy Day Fund after money is taken out by the legislature. The amendment would set up a two-year “grace period”: in the fiscal year that money is removed from the Fund and in the next year, no oil and gas revenue would be required to be automatically paid back into fund (though the legislature could still choose to make payments). After that, the money taken out of the Fund would be paid back over the next three years in three, equal-sized payments.

A 2009 law passed by the legislature tried to accomplish a similar goal, by preventing money from going into the fund the same year that money is removed, but the law is being challenged in court and may be struck down. A constitutional amendment is necessary to reform and strengthen the Rainy Day Fund.

Amendment No. 4 strikes a balance between fiscal flexibility and fiscal responsibility. By allowing a two-year period before the fund has to be

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replenished, Amendment 4 strengthens the Rainy Day Fund's ability to support the state budget during extraordinarily tough times. On the other hand, by providing a strict timetable for repayment, the amendment ensures that the Rainy Day Fund will not be misused by the legislature and will be maintained for the future. Voters should vote "for" Amendment No. 4.

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana through a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative's 40 state budget projects that are coordinated by the national Center on Budget and Policy Priorities, we uphold a commitment to issuing work that is Credible, Timely, and Accessible.