

THE
PEW
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Building a Rainy Day Fund in Kansas

March 2016

The Kansas Statewide Efficiency Study

Relevant recommendations to Pew's rainy day fund research



Efficiency Study Recommendation 1

Establish a Risk-based Reserve Fund Policy

Efficiency Study Recommendation 2

Develop a Structurally Balanced Budget Policy

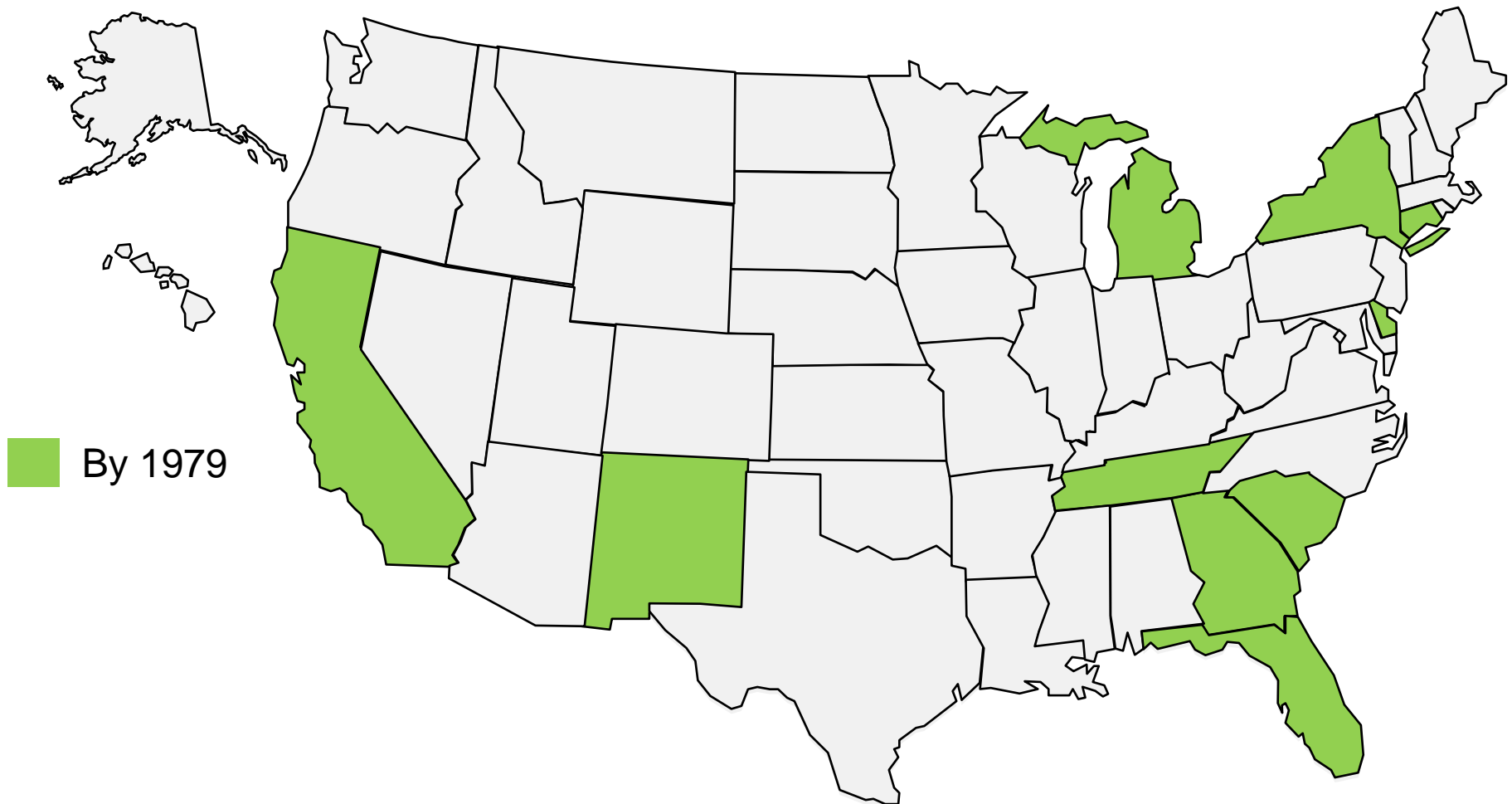
Pew's Rainy Day Fund Criteria



- **Dedicated fund with enabling legislation**
- **Operation across fiscal years and over the whole economic cycle**
- **Serves as a government-wide reserve for general purposes**

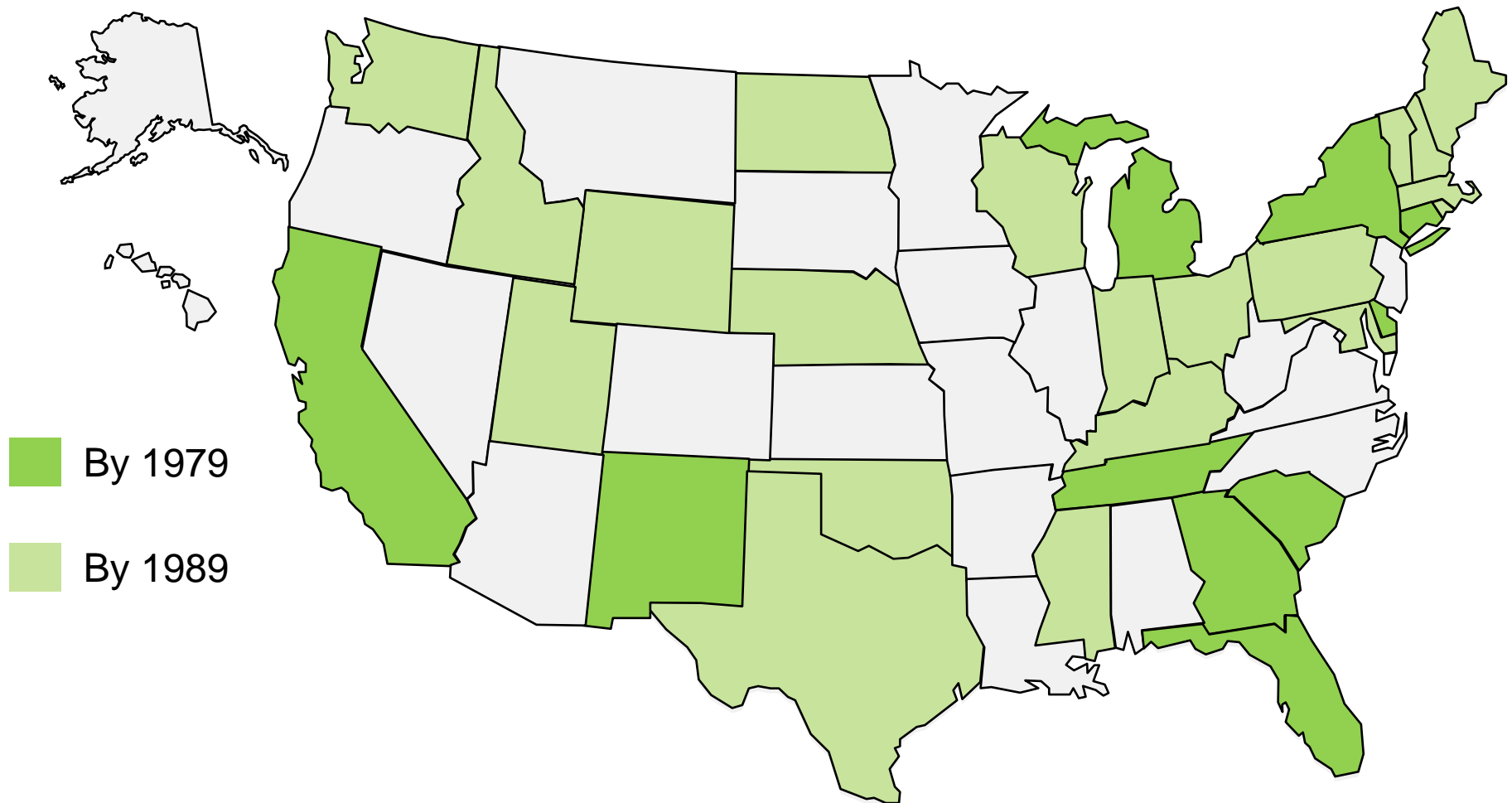
Rainy Day Funds in the United States

Established by 1979



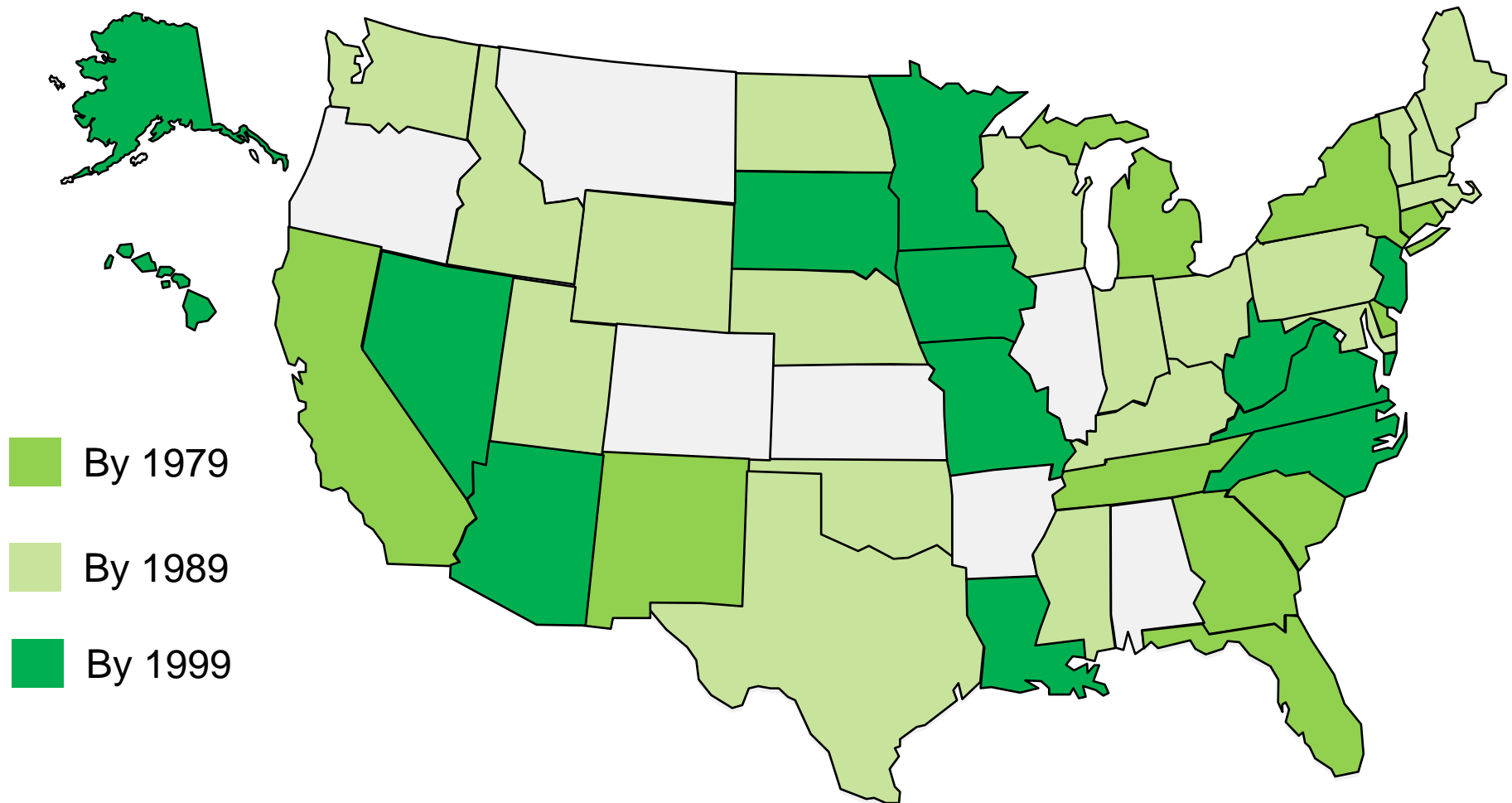
Rainy Day Funds in the United States

Established by 1989



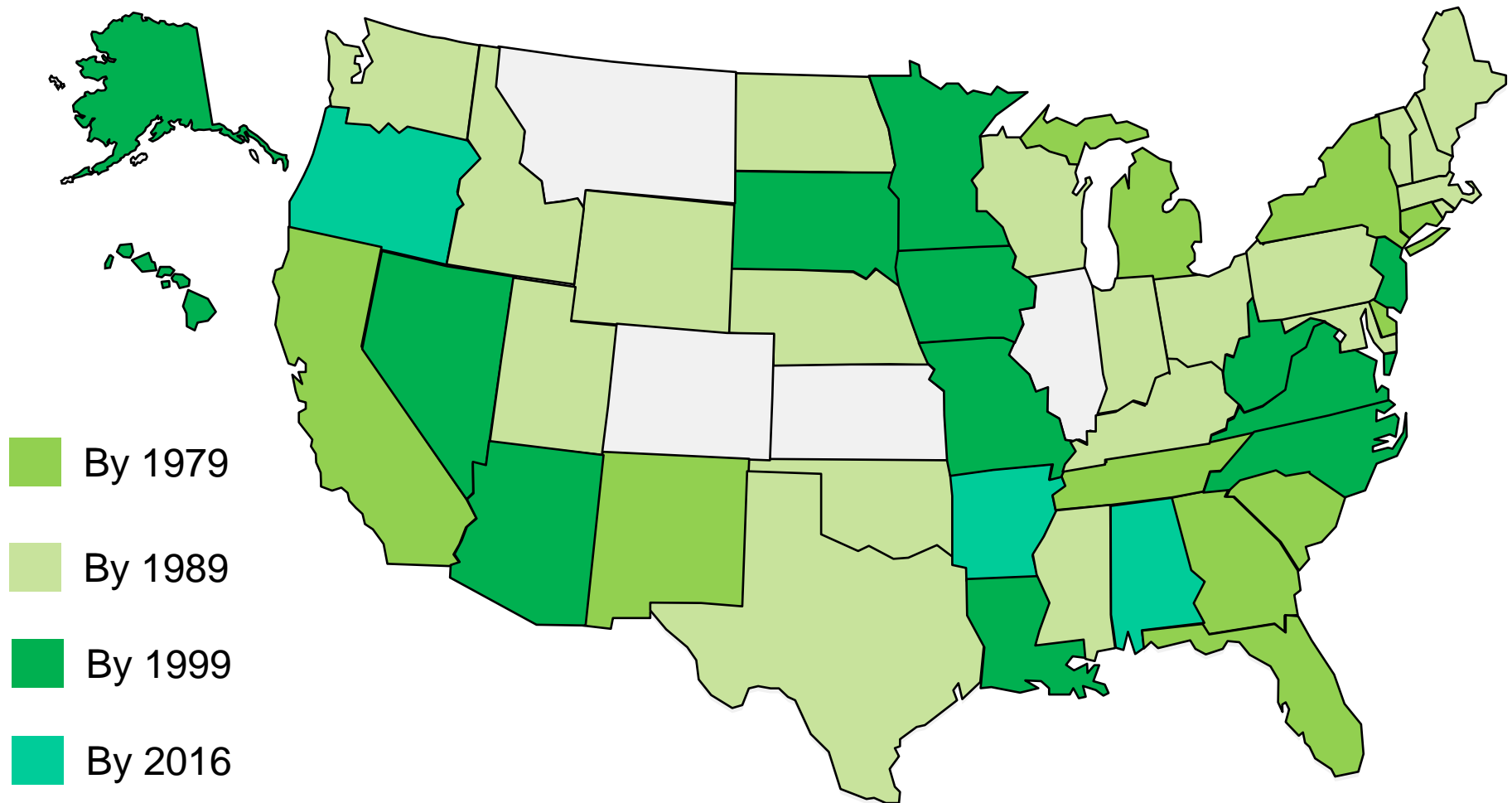
Rainy Day Funds in the United States

Established by 1999



Rainy Day Funds in the United States

Current States with Rainy Day Funds



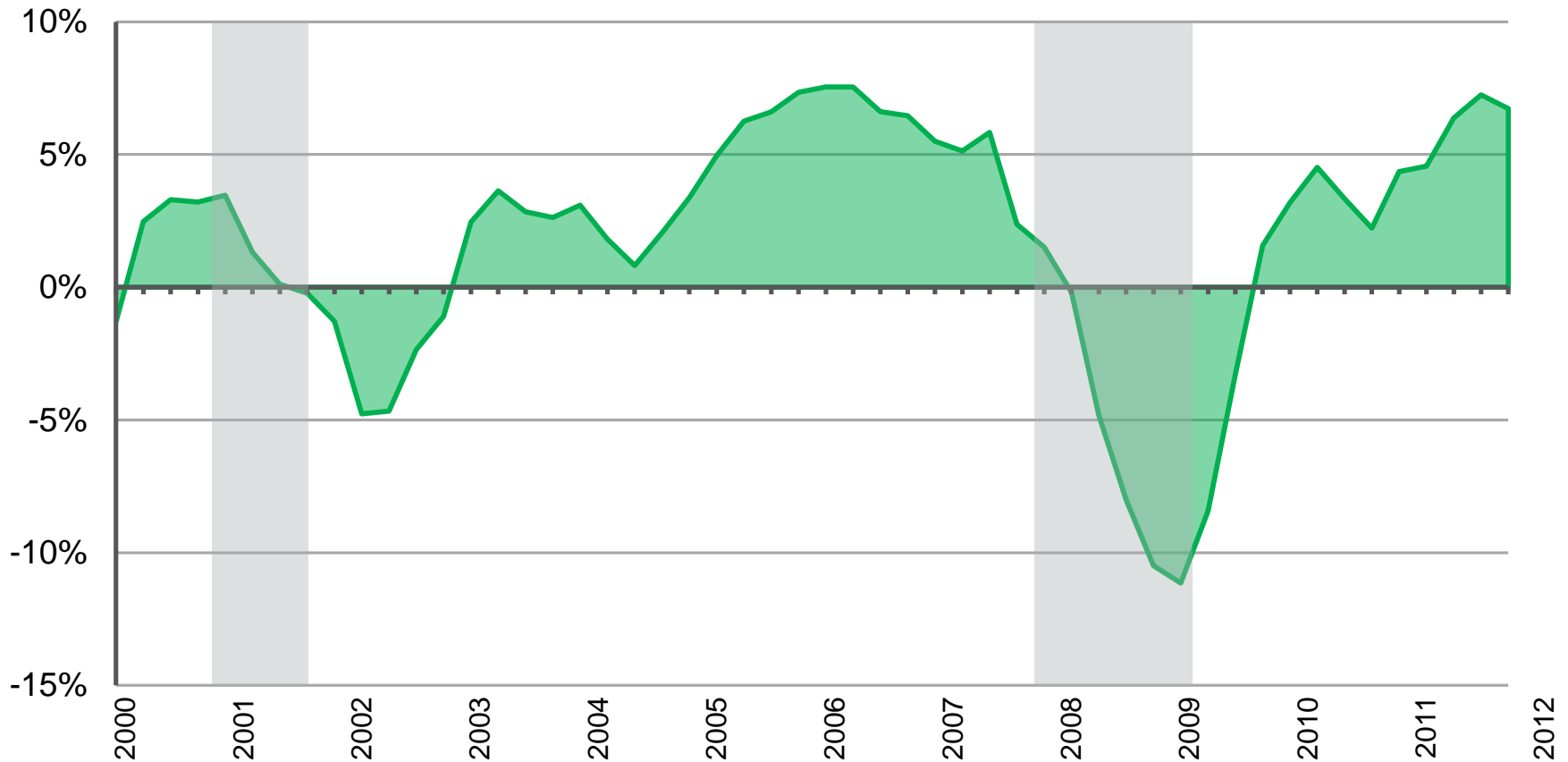
Why Create a Rainy Day Fund for Kansas?



- **Purpose driven savings**
- **Creates guidelines or rules that are distinct from those for a general fund**
- **Establishing an evidence-based rainy day fund sends a clear positive signal to credit rating agencies**

Revenue Fluctuations in Kansas

Kansas Tax Collections, 1995-2012, Year-Over-Year Growth



Source: State tax collections,
Rockefeller Institute of Government, SUNY, Albany, N.Y.

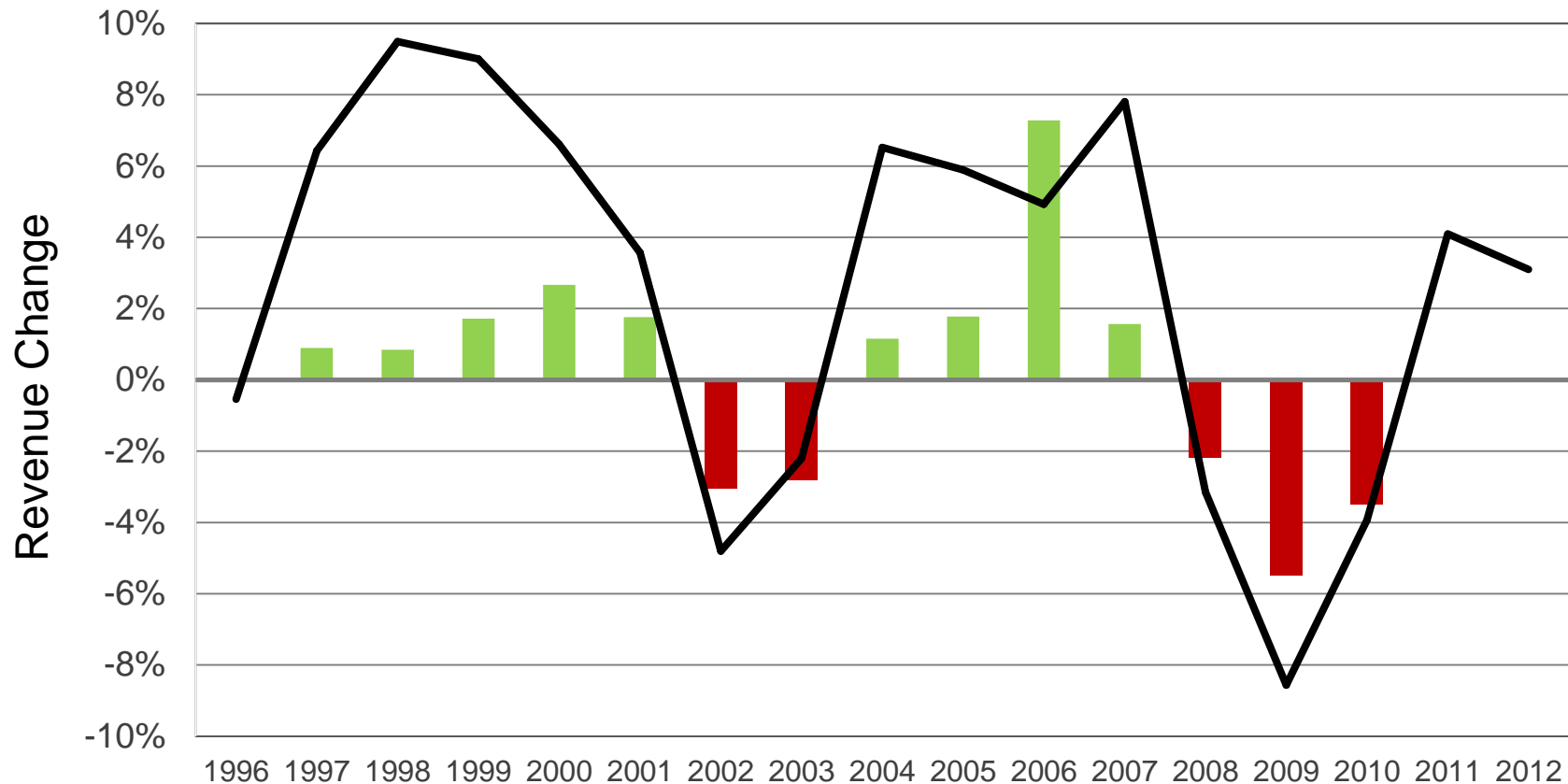
Why Does Volatility Matter?

- Influences **timing** and **size** of state budget surpluses and shortfalls
- Unpredictability confounds best efforts to craft and execute balanced budgets
- Smoothing volatility across the business cycle can lessen need for short-term budget fixes

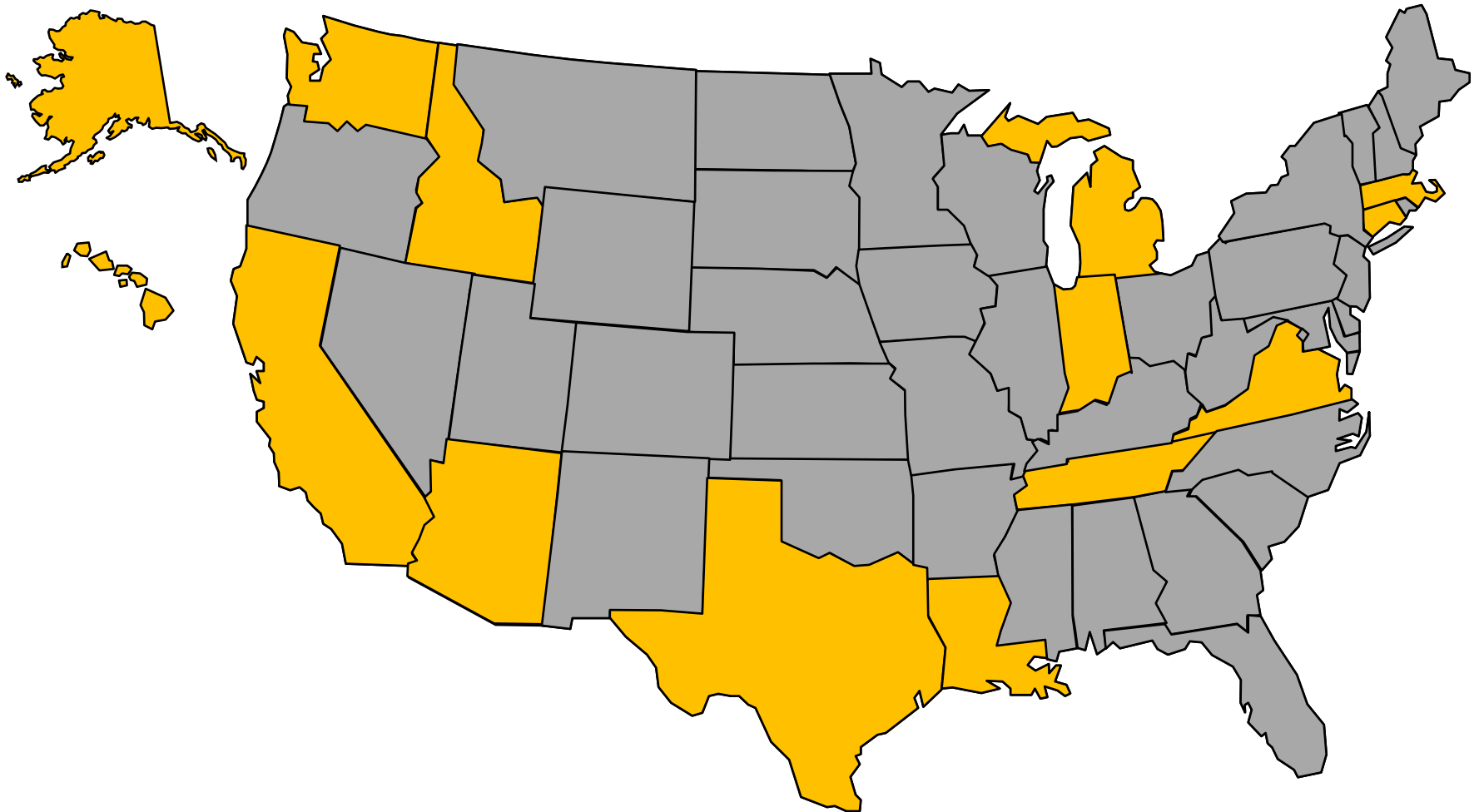


Virginia saves based on revenue growth

Saving when revenues are above-average



States Linking Rainy Day Fund Deposits to Volatility



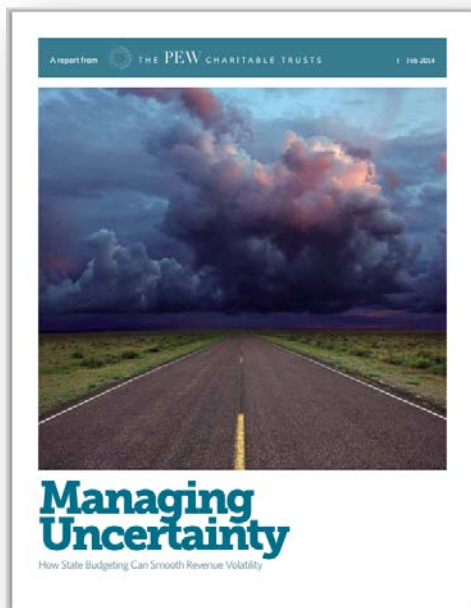
Steps to Build a Rainy Day Fund in Kansas

- Perform volatility study intended to inform reserve fund policy
- Establish a rainy day fund with a clear purpose
- Connect deposits to revenue volatility

Research by Pew on Rainy Day Funds



Three Pew Reports to Date Have Identified Elements of Sound Rainy Day Fund Design



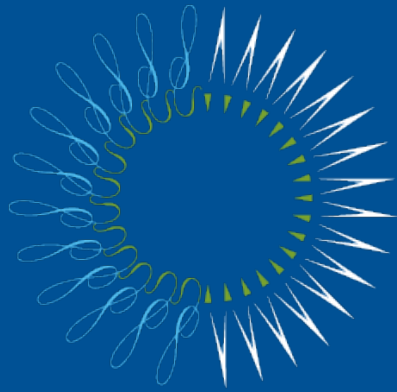
Causes and effects of volatility on state budgets



Best practices for depositing money into rainy day funds



Defining purpose and right-sizing rainy day funds



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