

THE
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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

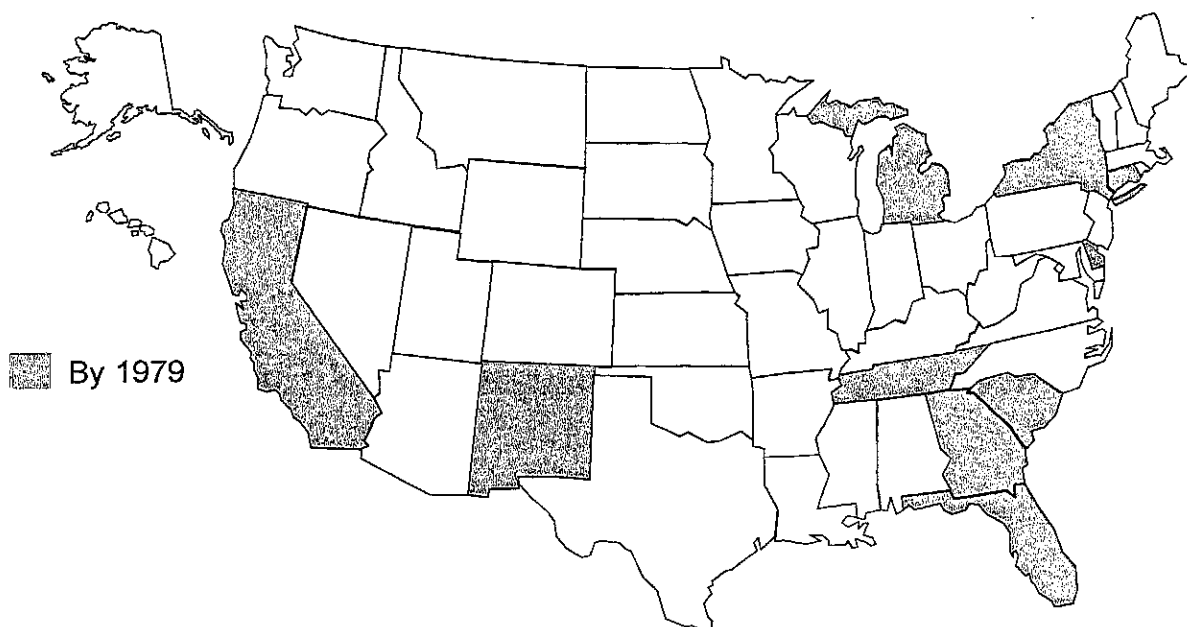


- **Dedicated fund with enabling legislation**
- **Operation across fiscal years and over the whole economic cycle**
- **Serves as a government-wide reserve for general purposes**

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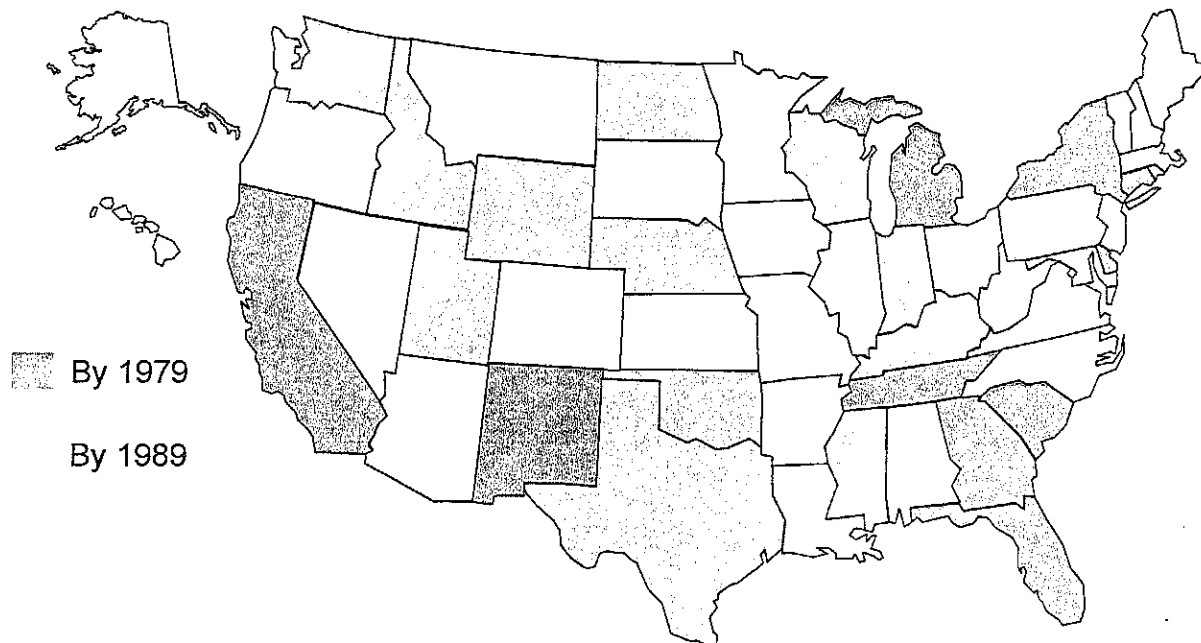
Rainy Day Funds in the United States

Established by 1979



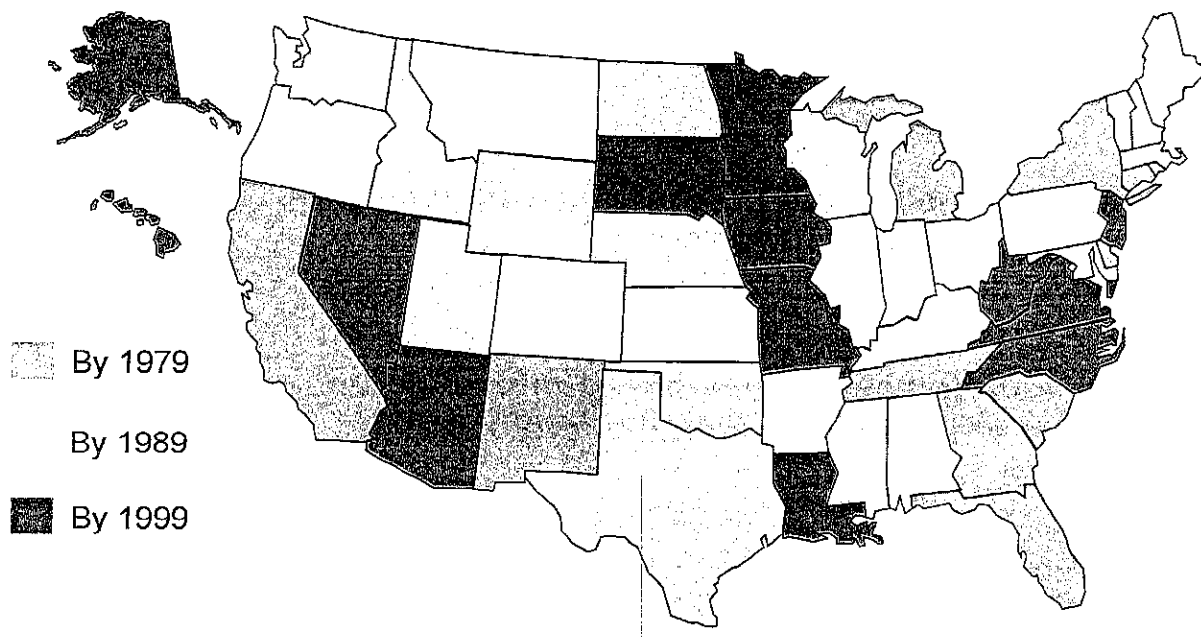
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Established by 1989



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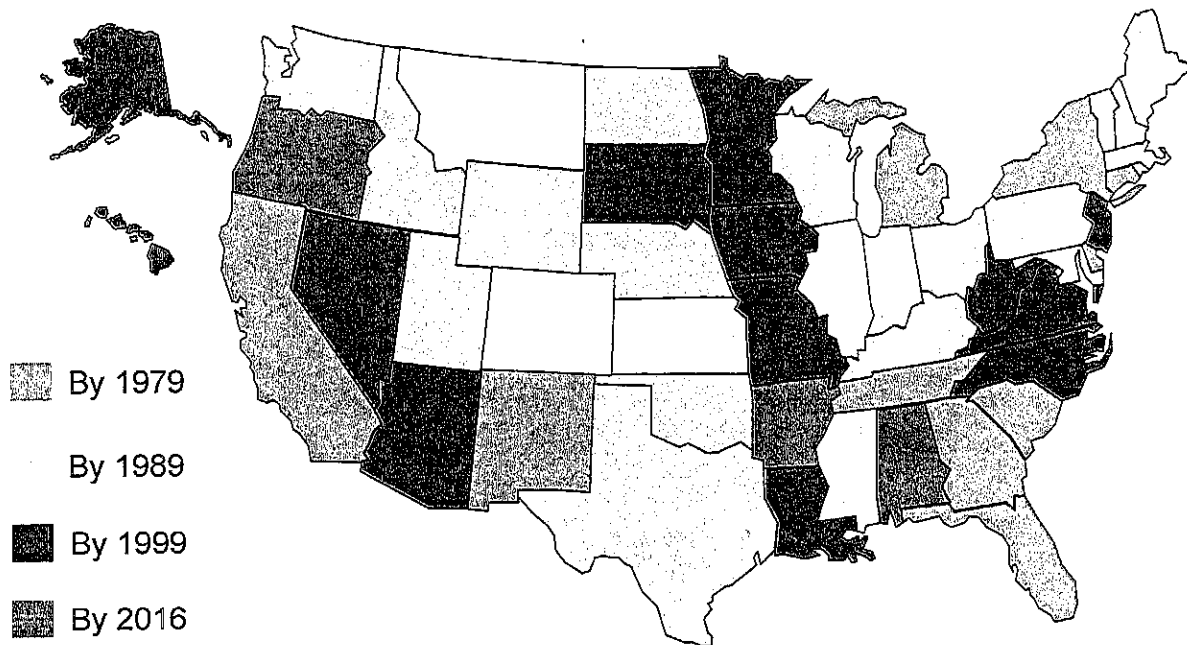
Established by 1999



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Rainy Day Funds in the United States

Current States with Rainy Day Funds



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Why Create a Rainy Day Fund for Kansas?

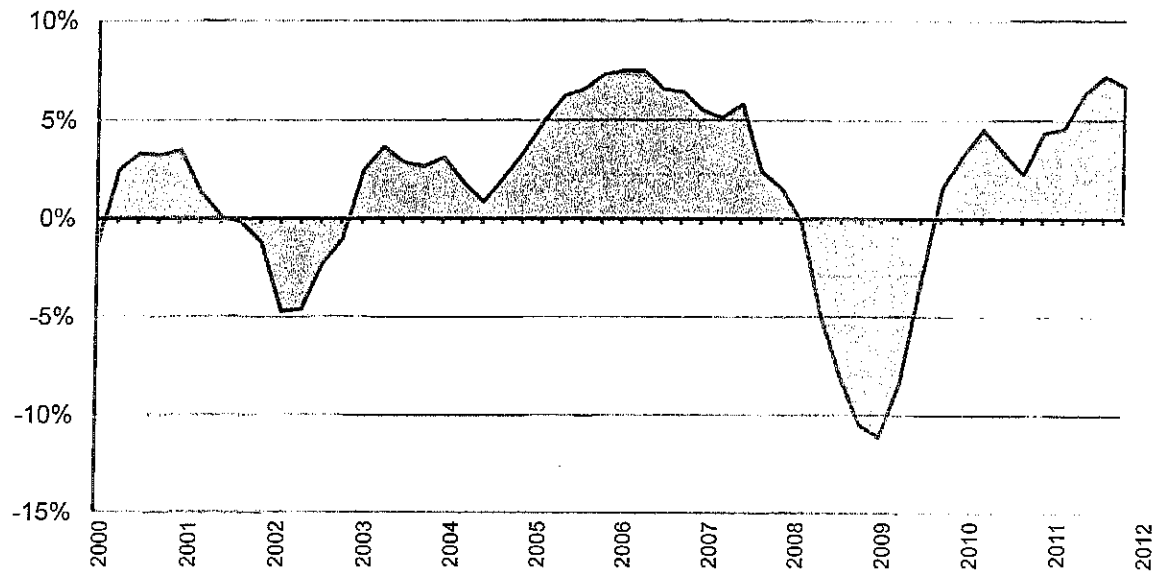


- Purpose driven savings
- Creates guidelines or rules that are distinct from those for a general fund
- Establishing an evidence-based rainy day fund sends a clear positive signal to credit rating agencies

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Revenue Fluctuations in Kansas

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

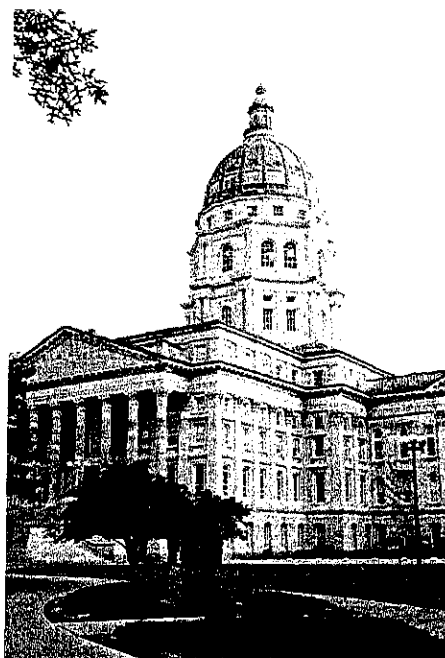


Source: State tax collections, Rockefeller Institute of Government, SUNY, Albany, N.Y.

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Why Does Volatility Matter?

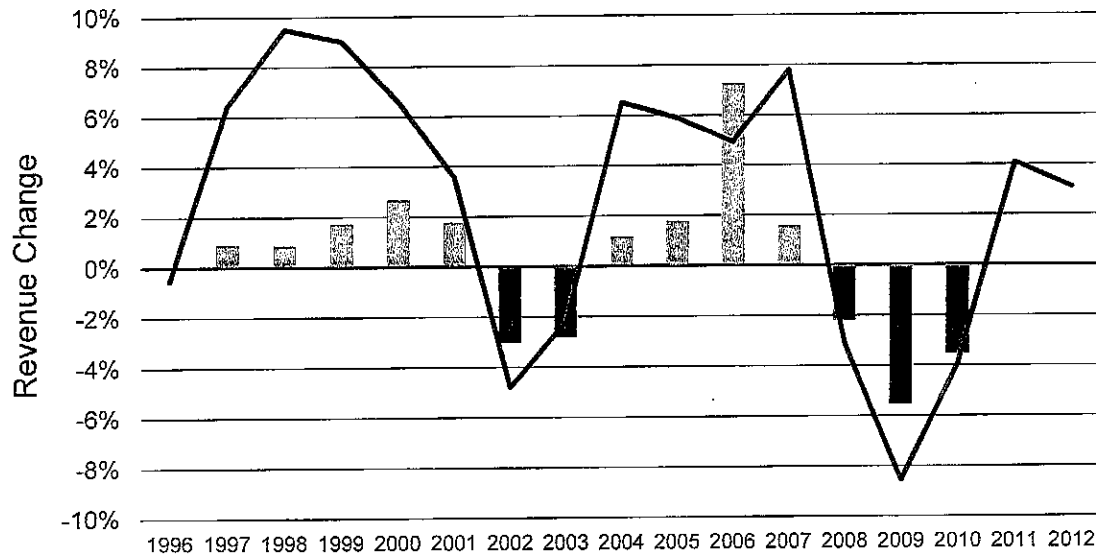
- Influences **timing** and **size** of state budget surpluses and shortfalls
- Unpredictability confounds best efforts to craft and execute balanced budgets
- Smoothing volatility across the business cycle can lessen need for short-term budget fixes



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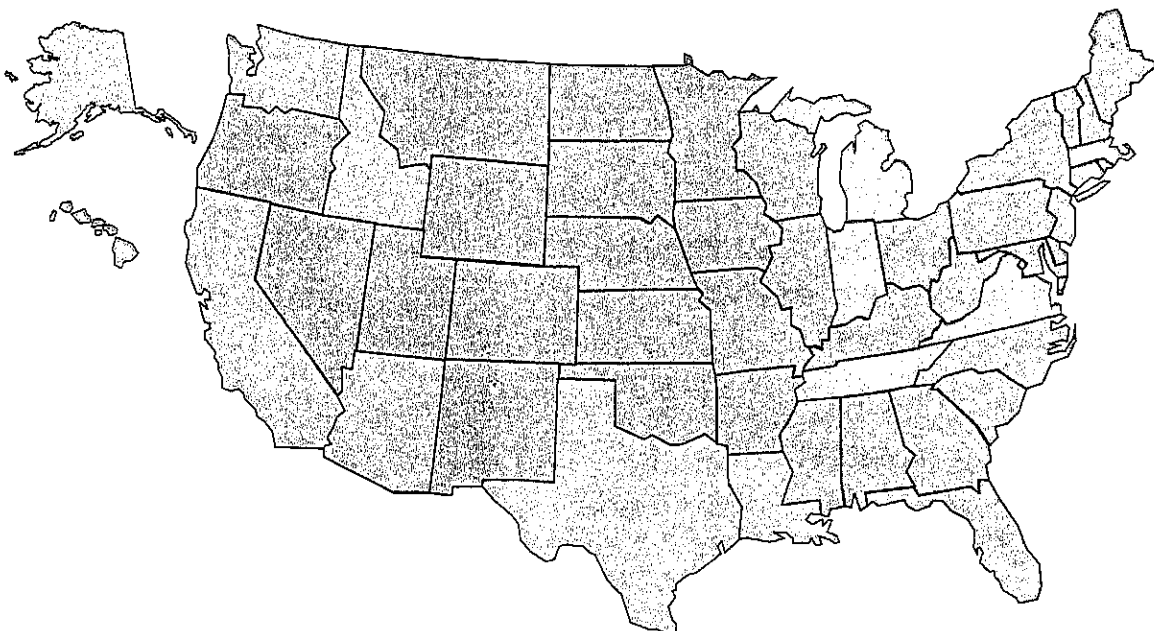
Virginia saves based on revenue growth

Saving when revenues are above-average



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States Linking Rainy Day Fund Deposits to Volatility



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Steps to Build a Rainy Day Fund in Kansas

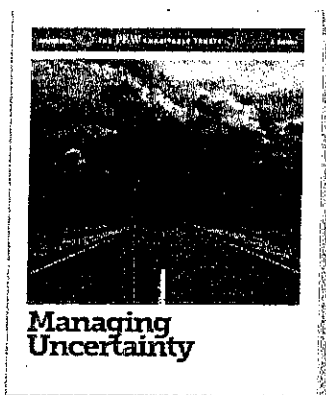


- 1 Perform volatility study intended to inform reserve fund policy
- 2 Establish a rainy day fund with a clear purpose
- 3 Connect deposits to revenue volatility

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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

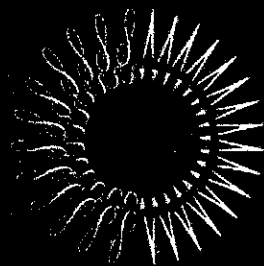


Best practices for depositing money into rainy day funds



Defining purpose and right-sizing rainy day funds

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