



Responsible Policy. Real Prosperity.

March 18, 2016
Annie McKay, Executive Director
Kansas Center for Economic Growth
House Bill 2734 Testimony
House Appropriations Committee

Chairman Ryckman and Members of the Committee:

The Kansas Center for Economic Growth (KCEG) is a nonpartisan organization dedicated to promoting balanced budget and tax policies that help ensure all Kansans prosper. On behalf of all Kansans, we urge the committee to consider policies that can restore the state's fiscal health. **Although KCEG supports the establishment of a state rainy day fund, we are neutral on House Bill 2734. It is simply not realistic, given the fiscal crisis we are facing, to divert state revenue to a rainy day fund before we address the ongoing structural imbalance with our budget and achieve the statutorily required ending balance.**

The state of Kansas is in fiscal crisis. Unprecedented changes to tax policy have left the state without the resources necessary to provide services for Kansans. Recurring declines in revenue continue to be detrimental to Kansas' ability to invest in our schools, roads, public safety, and communities. The state has wiped out its savings and resorted to one-time sweeps and transfers that jeopardize our fiscal health, leaving the state with a \$326 million structural imbalance for Fiscal Year 2016 with an additional \$400 million plus needed to achieve the statutorily required 7.5 percent ending balance.

The first step toward fiscal health is creating a structurally balanced budget – one in which recurring revenue at least equals recurring expenses. State lawmakers must revisit the tax policy changes that have left the state facing repeated revenue shortfalls. Two actions the Legislature could immediately take toward revisiting tax policy are closing the loophole that exempts 330,000 Kansans from paying income tax and repealing the formula that triggers future reductions in individual income tax rates. Until lawmakers revisit the state's overall tax policy the state will be stuck in a perpetual budget crisis, unable to meet its current obligations let alone save for a "rainy day".

Once Kansas' tax policy is rebalanced, policymakers can – and should – create structures that enable the state to save for rainy days. Most immediately, the state should meet the statutory requirement that the year-end carryover balance be 7.5 percent of expenditures. The state should also save additional revenue in a rainy day fund that is designated for use when recessions or other

unexpected events cause revenue declines or spending increases. Currently, Kansas lacks the resources necessary to adopt either of these common-sense practices.

Well-designed rainy day funds create budget stability and predictability, and help states weather difficult economic times. However, it is simply not realistic for Kansas to begin saving when we are in the midst of a perpetual budget crisis.