



Responsible Policy. Real Prosperity.

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Heidi Holliday, Executive Director
Kansas Center for Economic Growth
House Bill 2340 Testimony
House Appropriations Committee

Chair Waymaster 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 in general the establishment of a budget stabilization fund (or "rainy day fund"), we are opposed to House Bill 2340 for the following reasons:**

The state of Kansas is in a fiscal crisis. Before we can create a "rainy day fund" for Kansas, we must address the state's current financial situation. The 2012 tax policy changes have left Kansas scraping the barrel to pay for essential services to Kansans. The structural imbalance in Fiscal Year 2018 is estimated to be over \$900 million. We must focus on creating a structurally balanced budget and passing comprehensive tax reform before we can build up a rainy day fund.

HB 2340 does not meet the requirements of best practices for rainy day funds. The design of HB 2340 is not designed to build Kansas' reserves to plan for market and revenue volatility. Instead, it acts more as a debt reduction fund, restricting the expenditures from the Budget Stabilization Fund to reducing "the unfunded actuarial pension liability or to call or refund selected bonds for which debt service is paid from the State General Fund."¹ After extensive review of the state policies that exist, the Pew Charitable Trust identifies three best practices for rainy day funds:²

1. Require regular studies to identify specific drivers of volatility and present appropriate policy solutions
2. Tie budget stabilization fund deposits to observed volatility
3. Establish fund size targets that match the state's experience with volatility

¹ Fiscal Note for HB 2340,

http://www.kslegislature.org/li/b2017_18/measures/documents/fisc_note_hb2340_00_0000.pdf

² Pew Charitable Trusts, "Building State Rainy Day Funds."

http://www.pewtrusts.org/~media/assets/2014/07/sfh_rainy-day-fund-deposit-rules-report_artready_v9.pdf

HB 2340 does not meet any of these requirements. By limiting what the expenditures from the Budget Stabilization Fund can go toward, it limits the state's ability to use the fund to respond to unforeseen budget challenges.

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, and the establishment of a rainy day fund should follow the best practices identified by the Pew Charitable Trust and other research.