

MEMORANDUM

TO: Senate Ways and Means Committee

FROM: Adam Proffitt, Director of the Budget

DATE: January 31st, 2023

SUBJECT: Neutral Testimony on SB 67

Chair Billinger and Members of the Committee,

Thank you for the opportunity to provide this testimony on SB 67.

As you are aware, the Governor's budget recommendation includes a provision to deposit \$500.0 million into the Budget Stabilization Fund, raising the balance of the fund to \$1.5 billion. This amount would be equal to 15% of revenues, which is the proposed cap on the fund.

A \$1.5 billion balance in the Budget Stabilization Fund would allow the state to weather economic downturns; shoring up these funds is a common strategy that states have used in the face of the past two recessions. This balance would also place Kansas slightly above the national average.

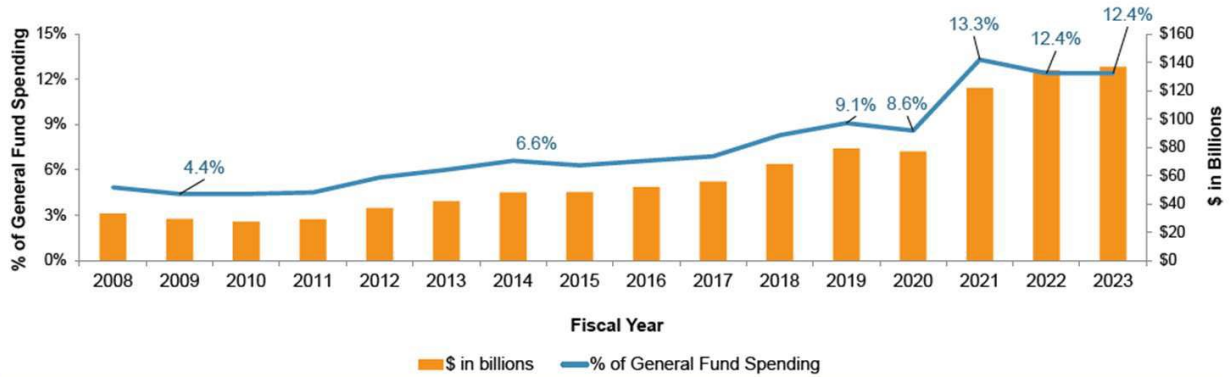
Governor Kelly and I believe that if you maintain a structurally balanced budget, a cushion of 15% is sufficient to deal with unexpected revenue loss.

To ensure the Budget Stabilization Fund is used in the times of most need, the Governor is also proposing more stringent safeguards around the use of these funds. These safeguards would include requiring specific purposes for withdrawals (i.e. – only for revenue missing forecast) and placing limits on annual maximum withdrawal.

The Governor appreciates the discussion around the need to address the policy questions related to the Budget Stabilization Fund. Until those proposed policy changes are addressed, depositing an amount beyond the \$500.0 million could unnecessarily restrict the flexibility of this funding. As written, SB 67 would leave a \$2 billion balance in the Budget Stabilization Fund, which would place Kansas far above the national average. Across all states, the median balance as a share of general fund spending is projected to be 11.9 percent in fiscal 2023

Figure 10.

Rainy Day Fund Balances in Dollars and as a Percentage of General Fund Expenditures



We know that the State General Fund needs to maintain healthy ending balances in order to continue fully funding education, to address special education excess cost shortfalls, and to replace temporary additional federal funding that has been available from the enhanced FMAP. The Governor's budget recommendation – including the \$500.0 million deposit into the stabilization fund – was built to ensure that the State General Fund retained necessary cash to fund critical services across the horizon.

The Governor is committed to a state budget that is structurally balanced, financially sustainable, and that meets the needs of the schools, roads, social services, criminal justice system, and other programs that Kansans rely on.

I appreciate the opportunity to provide this testimony and would be happy to answer any questions.