August 21, 2023

To: Legislative Budget Committee

From: Dylan Dear, Assistant Director for Fiscal Affairs

Re: Kansas Budget Stabilization Fund

Overview

Various laws or statutory sections are designed to provide certain safeguards with respect to state budgeting and managing of expenditures and to prevent deficit financing. The most recent measure taken by the Legislature is the Budget Stabilization Fund. The Budget Stabilization Fund is intended to receive revenues when receipts exceed expectations and conserve them for periods of economic recession.

The Budget Stabilization Fund can be expended solely by an act of appropriation by the Legislature or by the State Finance Council as an act of legislative delegation.

History: Creation in FY 2016 through FY 2022

The 2016 Legislature in HB 2739 established the Budget Stabilization Fund. The Legislative Budget Committee was statutorily charged in KSA 75-6706 with developing and recommending a method to fund the Budget Stabilization Fund based on a review of risk-based practices used by other states, relative annual variance from revenue and expenditure estimates, and the circumstances upon which the funds may be expended.

In FY 2020, 50.0 percent of the amount that State General Fund (SGF) receipts exceeded the consensus revenue estimates was transferred from the SGF to the Budget Stabilization Fund, totaling $81.9 million. Various other provisions, including the transfer of 10.0 percent of the unencumbered ending balance and transfers to the Kansas Public Employees Retirement System, were briefly enacted into law but suspended prior to application.

In FY 2021, the Governor recommended suspending transfers from the SGF to the Budget Stabilization Fund. The Governor also recommended the balance of the Budget Stabilization Fund be transferred into the SGF due to anticipated shortfall in revenue relating to the COVID-19 pandemic. Despite the fact that shortfalls were not realized, funds were transferred to the SGF via an act of appropriation for FY 2022.

In FY 2022, the balance of the Budget Stabilization Fund at the beginning of the fiscal year was zero. The 2022 Legislature transferred $500.0 million from the SGF to the Budget
Stabilization Fund in House Sub. for Sub. for SB 267, and an additional $250.0 million in HB 2510, for a total of $750.0 million in legislatively directed revenue transfers in FY 2022. In addition to these transfers, actual SGF receipts in FY 2022 exceeded consensus revenue estimates (CRE) by $438.1 million. These excess receipts resulted in a transfer of $219.1 million—half the total excess—at the end of FY 2022.

Transfers from the SGF to the Budget Stabilization Fund for FY 2022 totaled $969.1 million. Additionally, the Budget Stabilization Fund retains the interest based on the average daily balance (ADB) rate as certified by the Pooled Money Investment Board, and is growing at a rate of approximately $1.0 million per month. The balance in the Budget Stabilization Fund at the beginning of September 2022 was $971.7 million.

2023 Legislative Session

During the 2023 Legislative Session, the Legislature made a transfer of $600.0 million from the SGF to the Budget Stabilization Fund. The Legislature also made the following two policy adjustments: (1) extending the transfer of 50.0 percent of excess receipts through FY 2025, and (2) adding language suspending transfers from the SGF to the Budget Stabilization Fund when the balance in the Budget Stabilization Fund is greater than 20.0 percent of actual SGF receipts for that fiscal year. [Staff note: for FY 2023, that amount would have been $2.0 billion]

On June 30, 2023, the Director of the Budget certified that SGF receipts exceeded estimates by $25.9 million, and an additional transfer of $13.0 million was made from the SGF to the Budget Stabilization Fund.

The transfer of $613.0 million from the SGF to the Budget Stabilization Fund resulted in an ending balance of $1,610.3 million at the end of FY 2023.

In addition to transfers from the SGF, the Budget Stabilization Fund retained the interest earned on the balance. For July 2023, the ADB rate was 4.469 percent. At this rate, the fund earns approximately $6.0 million per month. The balance as of August 18, 2023, was $1,622.1 million.