Session of 2025

HOUSE BILL No. 2298

By Representatives Weigel and Helgerson

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AN ACT concerning state moneys; creating the liability reduction fund of the Kansas public employees retirement system and transferring $1,000,000,000 from the budget stabilization fund to such fund; using a portion of the interest earnings of the liability reduction fund to provide a cost-of-living adjustment to certain retirants of Kansas public employees retirement system and systems thereunder; authorizing certain transfers of such employer contribution savings from the state general fund to the budget stabilization fund; establishing requirements for the expenditure or transfer of moneys from the budget stabilization fund; amending K.S.A. 2024 Supp. 75-6706 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) The retirement benefit, pension or annuity payments accruing after June 30, 2025, to each retirant shall be increased by a cost-of-living adjustment in an amount as provided in subsection (b). Such payments shall be paid by the retirement system to the retirant utilizing a portion of the interest earnings of the liability reduction fund created in section 2, and amendments thereto.

(b) Each retirant whose date of retirement is on or before July 1, 2020, and who is entitled to receive a retirement benefit, pension or annuity payment from the retirement system on July 1, 2025, shall have such retirement benefit, pension or annuity increased by 2% of the retirement benefit, pension or annuity payment in effect on July 1, 2025.

(c) As used in this section:

(1) "Insured disability benefit recipient" means any person receiving an insured disability benefit under K.S.A. 74-4927, and amendments thereto;

(2) "retirement system" means the Kansas public employees retirement system, the Kansas police and firemen's retirement system, the state school retirement system and the retirement system for judges; and

(3) "retirant" means any:

(A) Person who is a member or special member of the retirement system pursuant to the provisions of K.S.A. 74-4901 et seq., and amendments thereto, and who retired on or before July 1, 2020;

(B) person who is a joint annuitant or beneficiary of any member

described in subparagraph (A); and

(C) insured disability benefit recipient.

(d) The provisions of this section shall be a part of and supplemental to K.S.A. 74-4901 et seq., and amendments thereto.

New Sec. 2. (a) There is hereby created in the state treasury the liability reduction fund. The purpose of such fund shall be to reduce the unfunded actuarial liability of the Kansas public employees retirement system. Subject to subsection (b), such fund shall be administered by the board of trustees of the Kansas public employees retirement system. All expenditures from the fund shall be made in accordance with appropriation acts upon warrants of the director of accounts and reports issued pursuant to vouchers approved by the chairperson of the board, the executive director of the system or the executive director's designee.

(b) The state treasurer shall retain control of the moneys of the liability reduction fund and shall credit such moneys to the budget stabilization fund for the purpose of responding to an extraordinary occasion pursuant to K.S.A. 75-6706, and amendments thereto, when authorized by an appropriation or other act of the legislature or by the state finance council, acting on this matter which is hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in K.S.A. 75-3711c(c), and amendments thereto. The crediting of such moneys from the liability reduction fund to the budget stabilization fund shall occur only after all other moneys in the budget stabilization fund have been expended or transferred to respond to an extraordinary occasion.

(c) The board of trustees shall be responsible for the management and investment of the moneys in the fund and shall discharge the board's duties with respect to such moneys solely in the interests of the liability reduction fund and shall invest and reinvest such moneys and acquire, retain, manage, including the exercise of any voting rights, and dispose of investments of such moneys within the limitations and according to the powers, duties and purposes as prescribed by this section.

(d) Moneys specified in subsection (c) shall be invested and reinvested to achieve the investment objective which is preservation of such moneys and accordingly providing that the moneys are as productive as possible, subject to the standards set forth in this section. No such moneys shall be invested or reinvested if the sole or primary investment objective is for economic development or social purposes or objectives.

(e) In investing and reinvesting moneys specified in subsection (c) and in acquiring, retaining, managing and disposing of investments of the moneys, the board of trustees shall exercise the judgment, care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of

like character and with like aims by diversifying the investments of the moneys so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, and not in regard to speculation but in regard to the permanent disposition of similar moneys, considering the probable income as well as the probable safety of their capital.

(f) In the discharge of such management and investment responsibilities the board of trustees may:

(1) Contract for the services of one or more professional investment advisors or other consultants in the management and investment of such moneys and otherwise in the performance of the duties of the board of trustees under this section; and

(2) arrange for the custody of such moneys as the board of trustees considers advisable with one or more member banks or trust companies of the federal reserve system or with one or more banks in the state of Kansas, or both, to be held in safekeeping by the banks or trust companies for the collection of the principal and interest or other income or of the proceeds of sale.

(g) The board of trustees shall require that each person contracted with under subsection (f) to provide services shall obtain commercial insurance that provides for errors and omissions coverage for such person in an amount to be specified by the board of trustees. The amount of such coverage specified by the board of trustees shall be at least the greater of $500,000 or 1% of the funds entrusted to such person up to a maximum of $10,000,000. The board of trustees shall require a person contracted with under subsection (f) to provide services to give a fidelity bond in a penal sum as may be fixed by law or, if not so fixed, as may be fixed by the board of trustees, with corporate surety authorized to do business in this state. Such persons contracted with the board of trustees pursuant to subsection (f) and any persons contracted with such persons to perform the functions specified in subsection (c) shall be deemed to be fiduciary agents of the board of trustees in the performance of contractual obligations.

(h) (1) Subject to the objective set forth in subsection (c) and the standards set forth in subsection (d), the board of trustees shall formulate and adopt policies and objectives for the investment and reinvestment of such moneys and the acquisition, retention, management and disposition of investments of the moneys. Such policies and objectives shall be in writing and shall include:

(A) Specific asset allocation standards and objectives;

(B) establishment of criteria for evaluating the risk versus the potential return on a particular investment; and

(C) a requirement that all investment advisors, and any managers or others with similar duties and responsibilities as investment advisors, shall

immediately report all instances of default on investments to the board of trustees and provide such board of trustees with recommendations and options, including, but not limited to, curing the default or withdrawal from the investment.

(2) The board of trustees shall review such policies and objectives, make changes considered necessary or desirable and readopt such policies and objectives on an annual basis.

(i) All interest or other income of the investments of the moneys invested under this section, after payment of any management fees, shall be deposited annually in the state treasury to the credit of the liability reduction fund. The board shall prepare a summary report that shall be submitted to the joint committee on pensions, investments and benefits no later than January 1 of the year that follows the end of the fiscal year in which the reporting is required.

(j) Such interest or other income of the liability reduction fund shall be considered assets of the Kansas public employees retirement system within the actuary's annual valuation under K.S.A. 74-4907(2), and amendments thereto.

(k) The provisions of this section shall be a part of and supplemental to K.S.A. 74-4901 et seq., and amendments thereto.

Sec. 3. K.S.A. 2024 Supp. 75-6706 is hereby amended to read as follows: 75-6706. (a) On July 1, 2017, the budget stabilization fund is hereby established in the state treasury. *The legislature shall strive to maintain a balance in the budget stabilization fund that is between 15% and 20% of the amount of expenditures from the state general fund in the preceding fiscal year.*

(b) On or before the 10th day of each month commencing July 1, 2017, the director of accounts and reports shall transfer from the state general fund to the budget stabilization fund interest earnings based on:

(1) The average daily balance of moneys in the budget stabilization fund, for the preceding month; and

(2) the net earnings rate of the pooled money investment portfolio for the preceding month.

(c) On and after July 1, ~~2017~~ *2025, except for the transfer authorized in subsection (e)*, no moneys in the budget stabilization fund shall be expended ~~pursuant to this subsection~~ *or transferred* unless the expenditure ~~either~~ *or transfer* has been approved by an appropriation or other act of the legislature or ~~has been approved~~ by the state finance council acting on this matter which is hereby characterized as a matter of legislative delegation and subject to the guidelines prescribed in K.S.A. 75-3711*c*(c), and amendments thereto*, in order to respond to the following extraordinary occasions:*

(1) Financial emergency caused by a natural disaster;

(2) deep downturn in state revenues of greater than 10% from the immediately preceding fiscal year; or

(3) crippling healthcare emergency caused by the deaths or illnesses of a significant percentage of the state's population.

(d) (1) The legislative budget committee shall study and review the policy concerning the balance of, transfers to and expenditures from the budget stabilization fund. The legislative budget committee study and review shall include, but not be limited to, the following:

(A) Risk-based budget stabilization fund practices utilized in other states.

(B) The appropriate number of years to review the state general fund:

(i) Revenue variances from projections; and

(ii) expenditure variances from budgets.

(C) The entity to certify the amount necessary in the budget stabilization fund to maintain the appropriate risk-based balance.

(D) Plan to fund the budget stabilization fund.

(E) Process and circumstances to reach the appropriate risk-based balance, including the amount of risk that is acceptable.

(F) Circumstances under which expenditures may be made from the fund.

(2) The legislative budget committee may make recommendations and introduce legislation as it deems necessary to implement such recommendations.

(e) On July 1, ~~2021~~ *2025*, the director of accounts and reports shall transfer ~~all moneys in~~ *$1,000,000,000 from* the budget stabilization fund to the ~~state general~~ *liability reduction* fund *of the Kansas public employees retirement system*.

(f) On July 1, 2026, and each July 1 thereafter, the director of the budget, in consultation with the executive director of the Kansas public employees retirement system, shall determine and certify to the director of accounts and reports the amount of annual employer contributions from the state general fund to the Kansas public employees retirement system that were the actual cost savings as a result of the transfer of moneys authorized in subsection (e) minus the annual cost of the cost-of-living adjustment authorized in section 1, and amendments thereto. The baseline shall be calculated from the December 31, 2024, actuarial valuation of the Kansas public employees retirement system. Upon receipt of each such certification, or as soon thereafter as moneys are available, the director of accounts and reports shall transfer such certified amount from the state general fund to the budget stabilization fund. When the director of the budget transmits such certification to the director of accounts and reports, the director of the budget shall transmit a copy to the director of legislative research.

Sec. 4. K.S.A. 2024 Supp. 75-6706 is hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.