Approved April 9, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by SENATOR AUGUST "GUS" BOGINA at
Chairperson

11:00 a.m./~~p.m.~~ on March 22, 1988 in room 123-S of the Capitol.

All members were present except:

Committee staff present:
Research Department: Scott Rothe, Russ Mills, Richard Ryan
Revisor's Office: Norman Furse
Committee Office: Judy Bromich, Pam Parker

Conferees appearing before the committee: *Attachment A

SB 718 - Creating the information technology fund and the information technology reserve fund.

Staff distributed and reviewed information concerning the status of the Department of Administration Service Funds. (Attachment 1)

Sherry Brown, DISC, distributed and reviewed a memorandum dated January 26, 1988 to Art Griggs regarding proposed legislation. (SB 718) (ATTACHMENT 2)

Senator Werts moved, Senator Talkington seconded, to recommend SB 718 favorably for placement on the Consent Calendar. The motion carried on a roll call vote.

SB 597 - KPERS, purchase of benefits for out-of-state school employment.

Staff reviewed SB 597. Senator Talkington moved, Senator Werts seconded, to report SB 597 favorably for placement on the Consent Calendar. The motion passed on a roll call vote.

SB 716 - KPERS, employer contribution rates.

Staff reviewed SB 716. The Chairman noted that in a letter to Marshall Crowther, KPERS, from Martin Segal Company, it was noted there was a slight modification in the fiscal note by extending the amortization of the school liability for 24 years so that, with an amendment to the bill to provide for non-state employers to be a group, the state rate would go to 3.1 percent and the cities and counties would go to 2.0 percent because there are fewer city and county employees than state employees.

Bernie Hayen, League of Municipalities, presented testimony. (Attachment 3)

John Torbert, Association of Counties, was the next conferee. (Attachment 4)

Gerry Ray, Johnson County, testified next. (Attachment 5)

John Miller, Assistant City Manager, Olathe, was the last conferee presenting testimony on SB 716. (Attachment 6)

No action was taken on SB 716.

SB 733 - Participation in KP&F by certain education institutions and university polic officers.

Staff reviewed SB 733. During discussion, Senator Winter noted that it was his intention that this legislation not mandate, but allow the

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

universities the option to enter KP&F for their police and fire employees and he assumed the decision would be made internally.

No action was taken on SB 733.

SB 615 - KPERS, investment authority of board for retirement fund.

Staff reviewed the bill and Senator Steineger, as prime sponsor of the Bill, appeared before the Committee. He stated that SB 615 will somewhat restrict the percieved speculative investments by KPERS Board. It leaves the prudent man rule intact and attempts to define what is not included within the context of the prudent man rule.

Senator Steineger stated that many are concerned about recent information regarding some investment strategies by the Board, i.e., news reports of consideration being given to investment in "junk bonds", distressed properties, taking second positions with pension fund monies, agreeing to high rates of interest that are only payable "if" funds are available. These types of speculations are not consistent, in some opinions, with the utilization or investments of pension funds. To distinguish between a speculation and investment becomes a question of judgement. The prudent man rule, in Senator Steineger's opinion, should preclude speculative investments. That is why he has tried to define what does not fall within the definition of prudent man rule. The test which many feel should be applied is asking the question if it would be a type of investment to be made for a person's grandmother, a trusted client or if it is the type investment a bank trust department would make. Those are the standards he suggested were more applicable to pension funds than real estate adventures. He suggested considering the advisability of trying to have an independent program audit of the KPERS fund in order to measure KPERS investment strategies. He suggested comparing with other state's pension funds, measuring a particular portion of a portfolio against a normal stock or bond index and looking at the types of investments being made by bank trust departments.

Basil Covey, Kansas Retired Teacher Association, presented his testimony. (Attachment 7)

John Foster was the next conferee. (Attachment 8)

The last conferee of the day was Brad Avery, KAPE. (Attachment 9)

Marshall Crowther told the Committee that at any time the Committee would wish to talk with him about any of KPERS' investments he would be willing to provide any information the Committee would wish.

The meeting was adjourned.

GUEST LIST

COMMITTEE: SENATE WAYS AND MEANS DATE: 3/22/88

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Basil Covey	Topeka	KRTA
John Miller	Olathe	City
John L. Foster	Lenexa	Police Dept.
Jim Kaup	Topeka	League of Municipalities
Bernie Hayen	"	" "
Marshall Crowther	Lawrence	KPERS
Jack Hawn	Topeka	"
Ron Bleidissel	"	"
Julie T. Dryden	"	Retired KPERS
Maribell Shevlin	Topeka	DISC, DOA
Michael E Mulvaney	Topeka	DISC, DofA
Sherry Brown	Topeka	DISC / DofA
Wesley H Fry	Shawnee	
Mabel Fry	Shawnee	
Terry Stevens	Topeka	City of Topeka
Craig Grant	Topeka	K-NEA
Jan Johnson	Topeka	Budget Division
Gerry Ray	Olathe	Johnson Co.
Larry L. Swatts	Olathe	Olathe-NEA
Don Meier	Olathe	Olathe-NEA
Walt Darling	Topeka	Div. of Budget
Jim Ferrand	Emporia	ESU
John Torbert	Topeka	KAC
Ruth Wilkin	Topeka	AAUP
Gregory S. Baly	Lawrence	Sen. Steineger's Office
Sen. Jack Steineger	Topeka	Senate
Thomas A. Zenda	Shawnee	Knights of Columbus
Bob Runnels	Leawood	Ks. Cath. Conf.
		SWAM 3-22-88

CONFEREES
SENATE WAYS AND MEANS COMMITTEE
March 22, 1988

Sherry Brown, Division of Information Systems and Communications

Bernie Hayen, League of Municipalities

John Torbert, Association of Counties

Gerry Ray, Johnson County

John Miller, Assistant City Manager, Olathe

Basil Covey, Kansas Retired Teachers Association

John Foster, Police Department, Lenexa

Brad Avery, KAPE

*Attachment A
SWAM 3-22-88

ATTACHMENT 1
SWAM 3/2

Status of Dept of Admin Service Funds

25-Feb-88

FUND	FY 1986 Actual	FY 1987 Actual	FY 1988 Estimate	FY 1989 Gov. Rec.
Data Processing Fund (6102)				
Fiscal Year Beginning Balance	57,134	58,170	26,406	12,400
Receipts	103,153	96,399	96,483	98,640
Operating Expenditures	102,447	128,163	110,489	96,635
Fiscal Year Ending Balance	57,840	26,406	12,400	14,405
Accounting Services Recovery Fund (6105)				
Fiscal Year Beginning Balance	234,276	306,210	4,565	132,577
Receipts	382,504	473,881	554,615	654,457
Operating Expenditures	285,433	747,300	404,995	712,582
Transfer Out	25,262	28,226	21,600	21,600
Fiscal Year Ending Balance	306,085	4,565	132,577	52,844
Motor Pool Service Fund (6109)				
Fiscal Year Beginning Balance	1,565,307	900,835	1,066,065	1,010,138
Receipts	3,093,696	2,909,956	3,747,988	3,505,687
Transfers Out	2,054,110	1,161,666	2,187,127	1,336,258
Operating Expenditures	1,780,233	1,583,060	1,616,788	1,675,881
Fiscal Year Ending Balance	824,660	1,066,065	1,010,138	1,503,686
Motor Pool Depr. Res. Fund (6113)				
Fiscal Year Beginning Balance	2,623,913	1,154,232	401,715	1,438,324
Receipts	(131,725)	1,401,269	2,664,727	1,641,102
Operating Expenditures	1,337,956	2,153,786	1,628,118	1,660,588
Fiscal Year Ending Balance	1,154,232	401,715	1,438,324	1,418,838
* Computer Services Fund (6111)				
Fiscal Year Beginning Balance	1,881,299	2,544,700	2,421,378	1,163,838
Receipts	11,116,621	12,150,171	9,128,528	11,309,487
Operating Expenditures	8,212,746	9,070,006	7,716,844	8,022,929
Transfer Out	2,464,097	3,203,487	2,669,224	3,269,241
Fiscal Year Ending Balance	2,321,077	2,421,378	1,163,838	1,181,155
* Computer Serv. Depr. Res. Fund (6147)				
Fiscal Year Beginning Balance	394,075	590,806	665,381	532,320
Receipts	2,594,995	3,470,022	2,702,224	3,302,241
Operating Expenditures	2,399,084	3,403,447	2,835,285	3,436,241
Fiscal Year Ending Balance	589,986	665,381	532,320	398,320
* Communications Services Fund (6145)				
Fiscal Year Beginning Balance	513,558	1,056,825	1,803,944	1,756,937
Receipts	10,543,935	11,918,656	17,491,402	18,799,935
Operating Expenditures	10,338,767	11,171,537	17,538,409	18,711,033
Fiscal Year Ending Balance	718,726	1,803,944	1,756,937	1,845,839

ATTACHMENT 1
SWAM 3-22-88

Status of Dept of Admin Service Funds

25-Feb-88

FUND	FY 1986 Actual	FY 1987 Actual	FY 1988 Estimate	FY 1989 Gov. Rec.
************************************	***********	***********	***********	***********
Central Mail Service Fund (6116)				
Fiscal Year Beginning Balance	135,457	144,778	166,341	208,599
Receipts	1,692,583	1,919,514	2,128,245	2,104,308
Operating Expenditures	1,683,262	1,897,951	2,085,987	2,102,643
Fiscal Year Ending Balance	144,778	166,341	208,599	210,264
Intragovt. Printing Service Fund (6130)				
Fiscal Year Beginning Balance	525,150	1,254,127	1,355,858	1,269,435
Receipts	5,307,816	4,982,382	5,286,076	5,291,061
Operating Expenditures	4,452,087	4,341,718	4,801,096	4,981,202
Transfer Out	138,348	169,229	273,242	163,049
Transfer Out--Bldg. Pymt.	0	369,704	298,161	659,860
Fiscal Year Ending Balance	1,242,531	1,355,858	1,269,435	756,385
Printing Service Depr. Res. Fund (6131)				
Fiscal Year Beginning Balance	125,417	312,356	292,040	305,282
Receipts	219,935	190,781	273,242	163,049
Operating Expenditures	32,996	211,097	260,000	107,400
Fiscal Year Ending Balance	312,356	292,040	305,282	360,931

ATTACHMENT 2
SWAM 3/22/88

STATE OF KANSAS
MIKE HAYDEN
Governor

DEPARTMENT OF ADMINISTRATION
Division of Information Systems
and Communications
DIRECTOR
900 S.W. Jackson, 7th Floor
Landon State Office Building
Topeka, Kansas 66612-1275
(913) 296-3463

Deputy Director
Administrative Services
(913) 296-3344

Deputy Director
Information Systems
(913) 296-3343

Deputy Director
Information Resource Management
(913) 296-2670

Deputy Director
Telecommunications
(913) 296-4124

approved
REJ
2/1

TO: Art Griggs, Assistant Secretary

FROM: Sherry Brown SBrown

DATE: January 26, 1988

Subject: Proposed Legislation

I probably need to discuss this with you as to how we proceed, but I wanted you to have the justification and raise any questions or concerns that you feel I need to address.

Many of the materials prepared by this Division speak to the integration of telecommunications and data processing technologies. This integration is posing some very practical problems for us internally with respect to accounting and rate development.

In the past, we had a clear cut distinction between expenditures from the Computer Services Fund and the State Communications Services Fund. Budgets, expenditures and rates were handled independently for voice and data processing services and the existence of the two funds presented no particular problem.

Today, however, we are spending an inordinate amount of time, both clerical and professional, trying to "work around" two funds. I think I can best explain by example.

ATTACHMENT 2
SWAM 3-22-88

The building wiring and cabling (premise distribution system) that we installed in the capital complex area last year serves both data terminals and telephones. We charge $4.60 per hookup to the wiring to recover costs of the wiring as well as a small portion of overhead (e.g. my salary). Salaries and other indirect costs are also allocated to most of our other rate categories (e.g. central processing, network connection, disk occupancy, local telephone service, etc.).

Keeping track of which expenditures should be made from which fund, or which receipts should be credited to which fund is becoming increasingly nightmarish. In fact, many of the decisions about fund use are totally arbitrary since there is no longer a clean way to distinguish between computer and telephone costs. The wiring example is just one of many.

Even in areas where a reasonable divison can be determined, significant amounts of staff time are required to prepare vouchers, bills, etc. since each transaction must be broken out by object code, by program and by fund. Since so many expenditures are financed by both funds, this gets a little cumbersome.

From our vantage point, it appears there is everything to gain and nothing to lose by creation of a single operating fund and a single depreciation reserve fund. I haven't spoken about the latter, but it is currently used only for capital outlay for computer expenditures. Capital expenditures on the telecommunications side are made from the operating fund. This also complicates our lives.

I realize that the legislation we are requesting is of limited interest to most. But we are struggling with this situation and the fund combination would certainly make things more manageable. Let me know if you would like further information.

cc: Ann Colgan

SAB:
88026PRO0003

ATTACHMENT 3
SWAM 3-22/88

League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL/112 WEST SEVENTH ST., TOPEKA, KANSAS 66603/AREA 913-354-9565

RE: SB 716--KPERS Employer Contribution Rates
TO: Senate Committee on Ways and Means
FROM: E.A. Mosher, Executive Director
DATE: March 22, 1988

The League is strongly in support of the concept of SB 716, to uncouple the KPERS employer contribution rate for the school and nonschool programs. At the end of this statement is a copy of the League's convention-adopted policy provision on this issue. Because of its long-term impact, legislation to uncouple the KPERS rate is probably the highest legislative priority of Kansas cities this session.

Our objection to the present averaging or coupling of the school and nonschool employer contribution rate is a matter of principle, as well as cost. The concern with principle is based on the fact that local governments joined the KPERS system recognizing an obligation to meet their actuarial requirements for general employees, <u>but not for teachers</u>. Local units became players in the system, only to find that the rules of the game have been changed. Cities, counties--nearly 1,000 local units--that are a part of KPERS, are now being asked to pick up and share a part of the cost, indirectly, of funding the teachers system, including substantial unfunded liability.

Our concerns about costs are obvious. The rate averaging established in 1987 increased the KPERS nonschool employer contribution rate for 1988 about 1.40% (3.04 less 1.5 less .14) <u>higher than necessary without coupling</u>. This 1.40% rate translates into about $5.8 million for 1988--the amount counties, cities and other local units will pay--more than is required to fund the KPERS system, excluding teachers, under the previous game rules.

As we understand Mr. Mackin's actuarial report of March 11, 1988, the school rate is now projected at 4.039%, and the nonschool (state and local) rate at 1.527%, a difference of 2.512%. And the local nonschool rate is projected at 1.982%, which is 1.058% less than this year's statutory rate of 3.04%. Regardless of the actual added rate for local units (1.4% or 2.512% or 1.058%), the cost is substantial (somewhere between $4.3 and $5.8 million) under these scenarios, for 1988. And it will grow in the future, unless changed. It is a subsidy to the state general fund and the teachers system that local governments, and their taxpayers should not have to pay, <u>simply as a matter of fairness</u>.

As we understand SB 716, line 85, the proposed uncoupled rate would begin in calendar year 1988. We do not request such a retroactive rate change. We are aware of the 1978 legislative action to fund certain benefit increases to retirants of KPERS, out of general fund appropriations, rather than future employer contributions. We understand that the benefits to local

ATTACHMENT 3
SWAM 3-22-88

governments from this arrangement resulted in a reduction in local government costs of about $3.3 million. This means that use of the coupled rate for 1988 will more than reimburse the state general fund for this action. We suggest the uncoupled rate change begin, for local units, on January 1, 1989.

Of obvious concern to this Committee is whether there should be separate state and nonstate rates with decoupling. We would prefer, as a matter of principle and simplicity, that there be a single state-local employer contribution rate for nonschool employees. However, we do not want to "dig" the state treasury to subsidize local government costs--even though this seems reasonable given state assumption of the local employer costs for the teachers system. We want to pay our fair share, and if a separate rate for nonstate, nonschool employers is necessary, as part of general fund-fee fund considerations as well as to secure proper actuarial distribution of the costs, so be it. As we understand the March 11 report from the Martin E. Segal Co., the nonstate, nonschool rate would be 1.982%, compared with a combined state and school rate of 3.124%.

Finally, it is worth noting that local governments are not favorably inclined to "get in bed" together in a retirement financing system covering both teachers and nonteachers. We believe that teachers tend to live longer, and are paid more, than general government employees, on the average, thus driving up the costs for nonteachers. In addition, the past service liability for the school system in 1986 was $230.9 million, compared with the nonschool prior service liability of $72.1 million. The Mackin report indicates the amortization percentage for school employees is 2.051%, compared to .828% for nonschool employees, and .685% for nonschool, nonstate.

In conclusion, I would restate our primary point: local governments are willing to pay their fair and equitable, actuarially determined share--to meet their fiscal responsibilities. But we don't think they should be asked to pay more, or even less.

C-7. **KPERS—Employer Contribution Rate.** Except for its first year of operation, the employer rate for the general KPERS non-school program has been based on an annual actuarial determination of the amount necessary to adequately fund the system from sources other than employee contributions. However, the 1987 legislature (Sec. 21 of Ch. 299 (HB 2354), amending K.S.A. Supp. 74-4920) established the employer contribution for 1988 at a rate needed to average-out the state-paid contribution for the KPERS teacher system and for the KPERS general, non-teacher system. The net effect of this averaging was to increase the local government employer contribution about 1.4% of payroll—approximately $5.8 million annually--above that which was necessary to meet the actuarial needs for local government employees. While this legislation also established a reduction in the employer rate, from 3.9% in 1987 to 3.04% in 1988, it still requires more than is necessary, indirectly resulting in local government subsidization of the state general fund. Since the unfunded past service liability for the KPERS school program ($230.9 million in 1986) is much greater than the KPERS non-school program ($72.1 million in 1986), a continuation of this practice will have a long-term adverse financial impact on local governments and their taxpayers.

We urgently request the 1988 legislature to un-couple the employer contribution rates for the two systems. We support a separate employer rate for state employees, which could include teachers, and for non-state employees excluding teachers, if this is deemed necessary to develop a fair and equitable system whereby local governments pay their fair share, but not more. It is estimated that the $5.8 million extra which will be paid by local governments in 1988 will fully reimburse the state for the 1978 action to make certain KPERS retireant benefit changes which were financed by general fund appropriations rather than through increased employer contributions.

ATTACHMENT 4
SWAM 3-22-88

Kansas Association of Counties

Serving Kansas Counties

212 S.W. Seventh Street, Topeka, Kansas 66603 Phone (913) 233-2271

March 22, 1988

Testimony

To - Members, Senate Ways & Means Committee

From - John T. Torbert, Executive Director
Kansas Association of Counties

Re - SB 716 - KPER's Employer Rate "Decoupling"

The Kansas Association of Counties is in support of this legislation, or any other legislation that would decouple the KPERS employer contribution rate for school and non-school programs. The position adopted at our annual meeting last November was as follows; "We support the review and modification of the contribution systems and support the seperation of the employer contribution rates for the non-school and school systems."

The issue, as has already been pointed out, is a matter of fairness. We are asking that the rate that local government employers pay on behalf of their employees simply reflect the actuarial costs of those employees. We are not interested in being responsible for any portion of the school employer liability.

I have read and am aware of the actuarial projections prepared by John Mackin of the Martin E. Segal Company which estimate that our employer rates would be higher if we were on our own (approximately 2.0%) than if our rate was coupled with other state employees (approximately 1.5%). Naturally, our preference would be the lower rate. But, again as a matter of fairness, we are willing to say that our part of the system should stand on its own and we are willing to pay the higher rate that would result.

ATTACHMENT 4
SWAM 3-22-88

ATTACHMENT 5
SWAM 2/88

Johnson County
Kansas

SENATE WAYS AND MEANS COMMITTEE

HEARING ON SENATE BILL 716

MARCH 22, 1988

TESTIMONY OF GERRY RAY, INTERGOVERNMENTAL COORDINATOR
JOHNSON COUNTY BOARD OF COMMISSIONERS

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS GERRY RAY, REPRESENTING THE JOHNSON COUNTY BOARD OF COMMISSIONERS. THANK YOU FOR THE OPPORTUNITY TO APPEAR IN SUPPORT OF SENATE BILL 716.

IN 1987 THE LEGISLATURE MADE A SIGNIFICANT POLICY CHANGE REGARDING THE KPERS CONTRIBUTION RATE FOR EMPLOYERS, WITH THE ADOPTION OF THE BLENDED RATE FOR SCHOOL AND NON-SCHOOL PARTICIPANTS. SENATE BILL 716 WOULD REVERSE THAT ACTION BY AGAIN SEPARATING THOSE RATES. THIS WOULD MEAN THAT JOHNSON COUNTY'S 1988 EMPLOYER CONTRIBUTION WOULD BE APPROXIMATELY $350,000 LESS THAN UNDER THE EXISTING RATE OF 3.04%

LAST YEAR WAS A YEAR THAT REQUIRED UNUSUAL AND INNOVATIVE ACTION TO ADDRESS THE STATE'S FISCAL CRISIS. WITH THE IMPROVED FINANCIAL SITUATION THIS YEAR WE FEEL IT IS AN APPROPRIATE TIME TO RETURN TO THE SEPARATE RATES. THE JOHNSON COUNTY COMMISSION REQUESTS THE WAYS AND MEANS COMMITTEE SUPPORT THIS POLICY CHANGE BY RECOMMENDING SENATE BILL 716 FAVORABLY FOR PASSAGE.

ATTACHMENT 5
SWAM 3-22-88

Office of County Administrator 100 E. Park, Suite 205 Olathe, Kansas 66061 (913) 782-5000 Ext 5251

ATTACHMENT 6
SWAM 3/2 8

CITY OF OLATHE

MEMORANDUM

TO: Members of the Senate Ways and Means Committee

FROM: Ray Barmby, Mayor of Olathe RB

SUBJECT: Senate Bill 716

DATE: March 22, 1988

Thank you for the opportunity to comment today about Senate Bill 716, concerning "decoupling" the school and non-school contribution rates for KPERS employers.

The City of Olathe supports the concept of this bill as a matter of fairness. A fundamental concept of all retirement plans is that contribution rates be established which reflect the actuarial needs of the plan. The present KPERS formula does not follow this concept.

Based on last year's change, local governments across Kansas will pay millions of dollars more than necessary in 1988 to meet the needs of KPERS beneficiaries. In 1988, the formula change amounts to an additional $95,000 for the City of Olathe. This figure will increase in future years as our KPERS payroll increases.

We urge your support of Senate Bill 716.

DRS/tgt

ATTACHMENT 6
SWAM 3-22-88

ATTACHMENT 7
SWAM 3/ '88

Kansas Retired Teachers Association

Retired — Not Withdrawn

1987 - 1988

March 22, 1988

Members of the Senate Ways & Means Committee:

My name is Basil Covey and I represent the Kansas Retired Teachers Association.

We do not support SB 615 that amends K.S.A. 74-4921 and repeals the existing section.

This bill attempts to change the procedure relating to management and investment of retirement funds in the Kansas public employees retirement system.

We do not challenge the authority of the legislature to amend KSA 74-4921 as we know they may do so. What we point out is the fact that KSA 74-4921 that sets up the creation of the board and sets forth its policies is adequate and does not need to be amended.

KPERS board members are appointed by the governor and serve four years on a staggered schedule. The best qualified people with investment experience are appointed. The board hires highly rated investment firms to make investments.

We feel that restrictions stated in this bill prevents the board from carrying out their duties. This bill reflects lack of confidence in the board and may cause members to resign.

We feel that KSA 74-4921 has guidelines sufficient to allow the board to work with their investment firms. We feel that his bill may be saying to the board that poor judgement in making investments has been noted and these restrictions are necessary.

A member of our association monitors the KPERS board meetings. We feel that this bill that amends KSA 74-4921 is not necessary that the board with its investment firms, exercise judgement and care under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs keeping in mind the

ATTACHMENT 7
SWAM 3-22-88

safety of their capital.

There has been publicity of a negative nature of past performance in investments, but a newly appointed board must be given the freedom allowed under KSA 74-4921 to carry-out their duties. The investment firms hired by the KPERS board are informed on ratings of investment prospects and will act accordingly.

We therefore urge you to give SB 615 a negative vote.

Sincerely,

Basil Covey

Basil Covey
Chairman, Legislative Committee
KRTA

ATTACHMENT 8
SWAM 3/ 38

Testimony of
John L. Foster
Concerning Senate Bill 615

Mr. Chairman and Members of the Committee, thank you for permitting me to participate as a conferee concerning Senate Bill 615.

I appear today, not as an expert on investing or any other financial matter, but as an interested member of the State Retirement System.

It would appear that since the inception of the System the Board of Trustees for the most part have made prudent investments that have allowed the System to flourish financially. The accounting rates in terms of tangible dollars for 1986 (17.4%) in 1987 (12.1%) reflect an attractive return on invested capital. If the old axiom of "putting all your eggs in one basket" applies, the diversification of the Systems investment portfolio surely addresses this time-honored financial advise. I know of no investment plan short of having all the money in gold and in hand, that is 100% risk free. In my judgment, it is only through aggressive investing that improvements in the System have been accomplished. The same will hold true for future improvements for the members.

The Legislature is to be commended for its interest in the well being of the System and the Public Employees of Kansas. If a part of the System is broken then it should be fixed. If not, the Board of Trustees should be allowed to pursue the path of maximizing the investment dollar.

Thank you.

ATTACHMENT 8
SWAM 3-22-88

ATTACHMENT 9
SWAM 3. 88

REMARKS OF BRAD AVERY, KAPE COUNSEL, BEFORE THE SENATE WAYS AND MEANS COMMITTEE, SEPTEMBER 21, 1988

Thank you, Mr. Chairman. My name is Brad Avery and I am the General Counsel for the Kansas Association of Public Employees. I am here to appear in opposition to Senate Bill 615.

The Kansas Public Employees Retirement System is one of the few benefits available to public employees with a value that has not been undermined or diluted in recent years. By any measurement, the return on the value of dollars contributed by employees has generally exceeded the cost of living by wide margins, providing the resources for a safe, comfortable retirement for its participants.

While S.B. 615 doesn't necessarily alter the stability of the retirement system, it proposes to take investment decisions out of the hands of professionals who have capably managed the fund and substitute the judgment of the legislature. This is bad precedent. Making investments is a role more properly assigned to the KPERS Board.

Certainly, no one would disagree that the often highly charged political environment of this or any legislative body renders it difficult to make investment decisions based only on the benefit to the members of the retirement system.

If Senate Bill 615 is passed by this committee, there is a dangerous potential that those with outside causes to promote, axes to grind and ambitions to fulfill will use this legislation as a vehicle for attempting

ATTACHMENT 9
SWAM 3-22-88

to do so. Any such attempts could interdict the basic interest of public employee, which is to have the fund remain as prosperous as possible so that retirement benefits will remain stable and perhaps improved.

I understand the bill's intent is to eliminate specific kinds of investments KPERS may make, which are presumed to be risky. However, it is our position that the "prudent man standard," which now governs the types of investments the fund may make, is in KAPE's judgment an adequate safeguard against unwise speculation. It requires those so charged to diversify the system's investments, considering both safety and income before risking an investment. Thus, the legislature has created a legal duty to which those who run the system must adhere or find themselves liable to the system's participants.

In sum, the means the legislature established for governing the retirement system is functioning more than adequately. We welcome continued legislative scrutiny of the retirement system, but it is KAPE's position that your attention should be focused primarily on how well the system is doing and making policy decisions regarding the dispersal of benefits.

Thank you for your attention.