

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson August Bogina at 11:00 a.m. on January 11, 1995 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Kathy Porter and Eric Milstead, Legislative Research Department  
Norman Furse, Revisor of Statutes  
Judy Bromich, Administrative Assistant  
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Richard Ryan, Director, Legislative Research Department  
Ben Barrett, Associate Director, Legislative Research Department  
Alan Conroy, Chief Fiscal Analyst, Legislative Research Department  
Julian Efird, Legislative Research Department

Others attending: See attached list

The Chairman welcomed committee members to the 1995 Session and introduced legislative staff assigned to Ways and Means. He requested a motion to introduce the Governor's appropriations bills for FY 96 as they are submitted. It was moved by Senator Salisbury and seconded by Senator Karr that all FY 96 appropriations bills as submitted to the Senate by the Governor be introduced. The motion carried on a voice vote.

The Chairman announced that an attempt to equalize the workload on the appropriations bills so that the first and second halves of the legislative schedule are more uniform might result in a few adjustments of membership on subcommittees.

Richard Ryan, Director of the Legislative Research Department, appeared before the Committee to review anticipated revenue receipts compared with latest consensus estimates. He stated that FY 94 SGF receipts were \$48.9 million or 1.6% above consensus estimates. Actual FY 94 receipts were 8.3% above receipts in FY 93. The reasons that receipts were over estimates was due in part to an early receipt of extraordinary inheritance tax and to the receipt of \$20.4 million in inheritance tax assessments which were not included in the revenue estimates. In addition, \$15.2 million receipts were due to changes made by the Legislature in property tax laws and an additional \$11 million was received from extraordinary assessments of corporate income tax. Factoring out these four items, the growth rate in FY 94 over FY 93 was 6.4% instead of 8.3%.

In regard to the current fiscal year, Mr. Ryan stated that the estimate of \$3.25 billion by the consensus group had been raised by \$37.5 million or 1.2%. He stated that revenue receipts through December are \$8.8 million below the current estimate for FY 95, but the best preliminary indicator will be at the end of January.

Mr. Ryan told members that the current revenue estimate for FY 95 and FY 96 is \$92.3 million above the November consensus estimates. In answer to a question, he stated that the growth rate is 3.5% for FY 95 and 3.5% for FY 96.

Mr. Ben Barrett, Associate Director of the Legislative Research Department, reviewed school finance estimates (Attachment 1). He noted that all revised estimates made in November have the impact of reducing general state aid requirements to school districts and explained the impact of changes in assessed valuation, motor vehicle tax receipts, and school district enrollments.

Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department, distributed and reviewed possible FY 96 State General Fund adjustments, supplemental requests in excess of \$100,000 from the SGF in FY 95, and the FY 95 status of the State Budget Stabilization Fund (Attachment 2).

## CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on January 11, 1995.

Julian Efird, Kansas Legislative Research Department, appeared before the Committee to review the status of the actuarial valuation of KPERS as of June 30, 1994 (Attachment 3). He noted that the results of the valuation of the new actuary reveal that the KPERS fund has assets available to fund 75% of future liabilities rather than 85% as reported by the previous actuary. He explained that a time frame of approximately 12-15 years would be required at the current level of contribution to "pay off the mortgage" and directed members' attention to a letter from the Chairperson of the KPERS Board of Trustees (Attachment 3-9) which indicates that the Board may request that the Legislature change contribution rates. Mr. Efird invited interested persons to attend the meeting of the Joint Committee on Pensions, Investments and Benefits which would meet in the afternoon.

The Chairman adjourned the meeting at 12:35 P.M. The next meeting is scheduled for January 18, 1995.

# SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: January 11, 1995

NAME	REPRESENTING
LINDA MCGILL	PETE MCGILL & ASSOC.
Jon Newman	KS Governmental Consulting
Scott Misoglu	Budget
Eric Sexton	WSU
David J. Monical	Washburn University
Craig Grant	HNEA
Stacey Simpson	Hein, Ebert & Weir
Ellen Piccolicchio	Assoc. of CMHCs
Paul M. Klotz	Assoc. of CMHCs K, Inc
Heather Gray	Senator Karr
Heather Randall	Senator Karr
Jamie Eaton	Senator Petty

**GENERAL AND SUPPLEMENTAL GENERAL STATE AIDS TO SCHOOL DISTRICTS**

**In Millions**

From State General Fund	Actual FY 1993	Actual FY 1994	Estimates as of November 10, 1994*			
			FY 1995	FY 1996	FY 1997	FY 1998
General Aid	\$ 922.8	\$ 1,270.3	\$ 1,311.7	\$ 1,303.1	\$ 1,298.3	\$ 1,293.5
Supp. Gen. Aid	24.6	36.0	40.3	52.2	70.0	94.7
<u>Total</u>	<u>947.4</u>	<u>1,306.2</u>	<u>1,351.9</u>	<u>1,355.3</u>	<u>1,368.3</u>	<u>1,388.2</u>
From School Dist. Fin. Fund						
General Aid	11.6	26.3	32.3	32.6	32.6	32.6
<u>Total Gen. Aid</u>	<u>934.4</u>	<u>1,296.6</u>	<u>1,343.9</u>	<u>1,335.7</u>	<u>1,330.9</u>	<u>1,326.1</u>

\* Estimates, based on current law, by the Legislative Research Department, Division of the Budget, and Department of Education.

Kansas Legislative Research Department  
November 17, 1994

# MEMORANDUM

## Kansas Legislative Research Department

300 S.W. 10th Avenue  
Room 545-N -- Statehouse  
Topeka, Kansas 66612-1504  
Telephone (913) 296-3181 FAX (913) 296-3824

November 14, 1994

To: Legislative Budget Committee

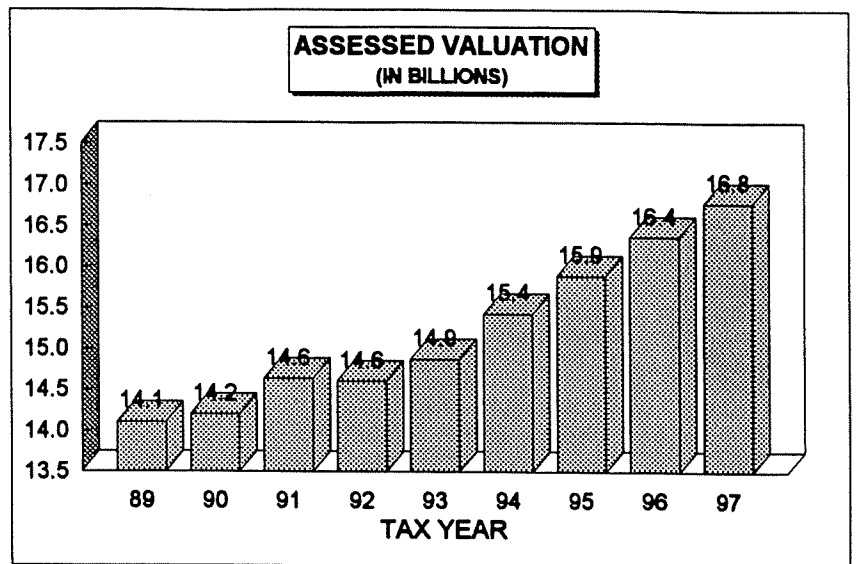
### ESTIMATES OF GENERAL AND SUPPLEMENTAL GENERAL STATE AIDS TO SCHOOL DISTRICTS (From State General Fund)

Estimates as of	In Millions			
	FY 1995	FY 1996	FY 1997	FY 1998
SGF Profile, 8/10/94	\$1,374.2*	\$ 1,396.1	\$ 1,431.7	\$ --
November 10, 1994	1,351.9	1,355.3	1,368.3	1,388.2
Difference	\$ (22.3)	\$ (40.8)	\$ (63.4)	\$ --

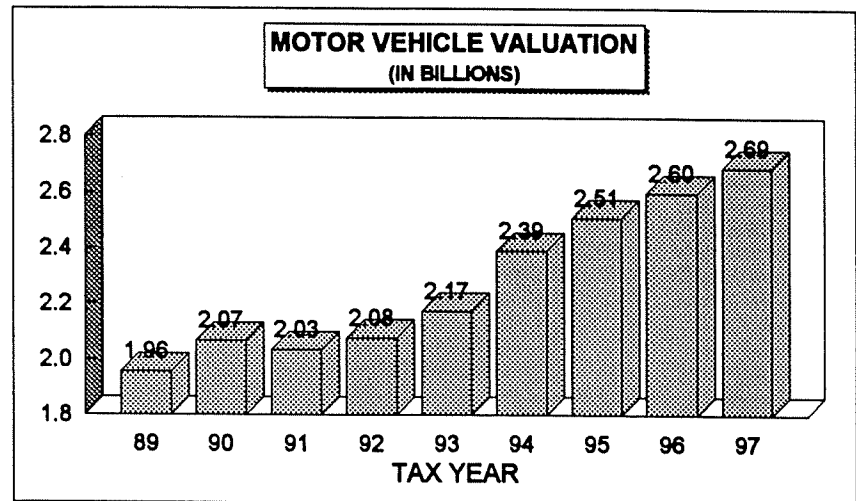
\* Amount appropriated by the 1994 Legislature.

**Note:** General state aids are estimated by the Legislative Research Department, Division of the Budget, and Department of Education. The above estimates are based on current law.

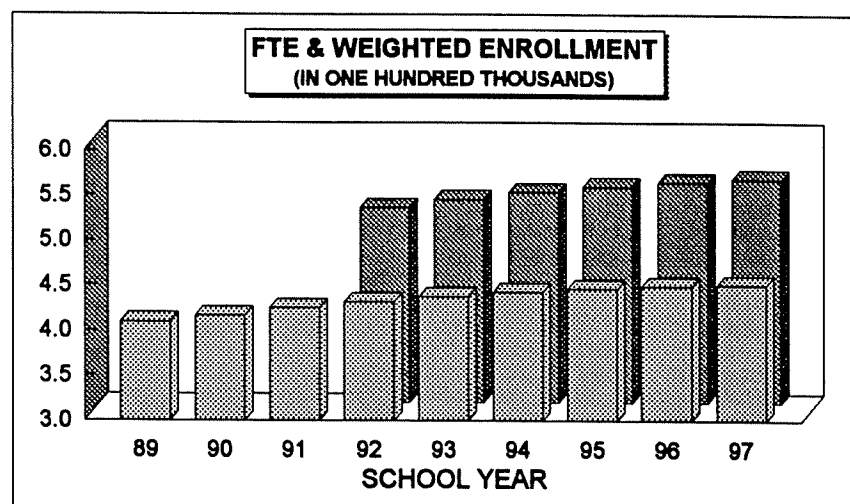
TAX YEAR	ASSESSED VALUATION (IN MILLIONS)
1989	14,104.5
1990	14,194.4
1991	14,630.6
1992	14,600.8
1993	14,870.1
(JULY 1) 1994	15,423.6
PROJ. 1995	15,886.3
PROJ. 1996	16,362.9
PROJ. 1997	16,772.0



TAX YEAR	MOTOR VEHICLE VALUATION (IN MILLIONS)
1989	1,955.1
1990	2,066.3
1991	2,033.2
1992	2,075.7
1993	2,172.4
EST. 1994	2,389.6
PROJ. 1995	2,509.1
PROJ. 1996	2,596.9
PROJ. 1997	2,687.8



SCHOOL YEAR	FTE ENROLLMENT	WEIGHTED ENROLLMENT
1989-90	409,656	
1990-91	416,383	
1991-92	424,737	
1992-93	431,321	516,221
1993-94	437,208	525,348
EST. 1994-95	441,993	533,000
PROJ. 1995-96	445,724	539,326
PROJ. 1996-97	448,371	544,323
PROJ. 1997-98	449,914	547,995



KLRD

November 10, 1994

**SCHOOL DISTRICT FINANCE AND QUALITY PERFORMANCE ACT:  
COMPARISON OF APRIL AND NOV. 1994 CONSENSUS EST.- SELECTED ITEMS**

<b>GENERAL FUND BUDGET</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>
<b>WEIGHTED ENROLLMENT</b>			
Est., April 1994	533,888	542,372	550,884
Est., November 1994	533,000	539,326	544,323
Difference	(888)	(3,046)	(6,561)
Amt. @ \$3,600 FTE (Millions)	(3.2)	(11.0)	(23.6)
Cumulative Total:			(37.8)
<b>ASSESSED VALUATION (IN MILLIONS)</b>			
Est., April 1994	15,204.7	15,508.8	15,818.9
Est., November 1994	15,423.6	15,886.3	16,362.9
Difference	218.9	377.5	544.0
Est., "Savings" FY State Aid (Millions)*	4.9	11.1	16.7
Cumulative Total:			32.7
<b>MOTOR VEHICLE VALUATION (IN MILLIONS)</b>			
Est., April 1994	2,259.3	2,420.2	2,505.0
Est., November 1994	2,389.6	2,509.1	2,596.9
Difference	130.3	88.9	91.9
Est., "Savings" FY State Aid (Millions)*	3.6	4.2	5.7
Cumulative Total:			13.5
<b>CUMULATIVE IMPACT (IN MILLIONS)</b>			
Reduction: General State Aid Requirement	11.7	26.3	46.0
Cumulative Total:			84.0

<b>LOCAL OPTION BUDGET</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>
<b>BUDGET (IN MILLIONS)</b>			
Est., April 1994	192.2	244.1	297.5
Est., November 1994	171.6	208.7	249.8
Difference (Reduction in Nov.)	20.6	35.4	47.7
<b>SUPP. GENERAL STATE AID (IN MILLIONS)</b>			
Est., April 1994	50.0	68.3	89.2
Est., November 1994	40.3	52.2	70.0
Reduction: Supp. Gen. State Aid Req.	9.7	16.1	19.2
Cumulative Total Reduction (Nov.)			45.0

\* Takes account of the fact that all of a tax year's levy is not received by school districts in one fiscal year.

November 10, 1994 KLRD

11/10/94 CONSENSUS ESTIMATES AND PROJECTIONS: LEGISLATIVE RESEARCH DEPT., DIVISION OF BUDGET, AND STATE DEPT. OF EDUCATION

(BASED ON JULY 1, 1994 ASSESSED VALUATION)

(Amounts in Thousands)

	ACTUAL (FY 1994)	ESTIMATED 1994-95 (FY 1995)	INCREASE (DECREASE)	PROJECTED 1995-96 (FY 1996)	INCREASE (DECREASE)	PROJECTED 1996-97 (FY 1997)	INCREASE (DECREASE)	PROJECTED 1997-98 (FY 1998)	INCREASE (DECREASE)
<b>SFA (BASE OPERATING BUDGET) @ \$3,600</b>									
Expenditures	1,890,925	1,918,800	27,875	1,941,573	22,773	1,959,562	17,989	1,972,782	13,220
Revenues:									
Local									
Property Tax (a)	481,989	512,116	30,127	539,021	26,905	555,191	16,171	570,004	14,813
Motor Vehicle Tax (RV & Lease/Rent Excise)	120,375	78,052	(42,324)	84,824	6,772	91,688	6,864	94,897	3,209
P.L. 874	8,778	8,500	(278)	8,500	0	8,500	0	8,500	0
Mineral Prod. Tax/IRBs/Student Tuition	4,297	4,400	103	4,100	(300)	3,850	(250)	3,850	0
Unspent Balance/Prior Year	4,521	4,400	(121)	2,000	(2,400)	2,000	0	2,000	0
Less Local Effort Remittance	(24,670)	(32,600)	(7,930)	(32,600)	0	(32,600)	0	(32,600)	0
Subtotal, Local	595,290	574,868	(20,423)	605,845	30,977	628,630	22,785	646,651	18,022
State (General State Aid)									
State General Fund (SGF) Approp.	1,270,277	1,324,207	53,930	1,324,207	0	1,324,207	0	1,324,207	0
Local Effort Remittance (Timely Rec.)	24,062	30,800	6,738	30,800	0	30,800	0	30,800	0
Carryover in SSDF/Prior Year	2,247	1,459	(788)	1,800	341	1,800	0	1,800	0
Subtotal, Gen. State Aid	1,296,586	1,356,466	59,880	1,356,807	341	1,356,807	0	1,356,807	0
<b>Total Revenue</b>	<b>1,891,876</b>	<b>1,931,334</b>		<b>1,962,652</b>		<b>1,985,437</b>		<b>2,003,459</b>	
<b>ADD. REVENUE NEEDED</b>	<b>(952) (b)</b>	<b>(12,534)</b>		<b>(21,079)</b>		<b>(25,875)</b>		<b>(30,677)</b>	
<b>Amt. Per FTE</b>	<b>(1.81)</b>	<b>(23.52)</b>		<b>(39.08)</b>		<b>(47.54)</b>		<b>(55.98)</b>	
<b>LOCAL OPTION BUDGET (LOB) (c)</b>									
Expenditures	146,712	171,640	24,928	208,719	37,079	249,844	41,125	295,917	46,073
Revenues									
Local									
Property Tax (a)	101,340	111,957	10,618	133,063	21,105	153,259	20,196	171,715	18,456
Motor Vehicle Tax	5,965	16,702	10,737	20,767	4,065	23,919	3,152	26,799	2,880
Other	5,972	2,710	(3,262)	2,710	0	2,710	0	2,710	0
State									
Supplemental General State Aid	35,962	49,993	14,031	49,993	0	49,993	0	49,993	0
<b>Total LOB Revenue</b>	<b>149,238</b>	<b>181,362</b>	<b>32,124</b>	<b>206,532</b>	<b>25,170</b>	<b>229,881</b>	<b>23,349</b>	<b>251,217</b>	<b>21,336</b>
<b>ADD. REVENUE NEEDED</b>	<b>(2,526)</b>	<b>(9,722)</b>		<b>2,187</b>		<b>19,963</b>		<b>44,701</b>	
<b>TOTAL: BASE BUDGET PLUS LOB</b>	<b>2,037,637</b>	<b>2,090,440</b>	<b>52,803</b>	<b>2,150,292</b>	<b>59,852</b>	<b>2,209,406</b>	<b>59,115</b>	<b>2,268,699</b>	<b>59,293</b>
<b>TOTAL: GEN. STATE AID NEEDED</b>	<b>1,295,634</b>	<b>1,343,932</b>	<b>48,298</b>	<b>1,335,728</b>	<b>(8,204)</b>	<b>1,330,932</b>	<b>(4,795)</b>	<b>1,326,130</b>	<b>(4,802)</b>
<b>TOTAL: SUPP. GEN. STATE AID NEEDED (d)</b>	<b>35,962</b>	<b>40,271</b>	<b>4,309</b>	<b>52,180</b>	<b>11,909</b>	<b>69,956</b>	<b>17,777</b>	<b>94,694</b>	<b>24,737</b>
<b>TOTAL: GEN. &amp; SUPP. GEN. STATE AID REQ.</b>	<b>1,331,596</b>	<b>1,384,203</b>	<b>52,607</b>	<b>1,387,908</b>	<b>3,705</b>	<b>1,400,889</b>	<b>12,981</b>	<b>1,420,824</b>	<b>19,935</b>
<b>FROM STATE GENERAL FUND: GENERAL AND SUPPLEMENTAL GENERAL STATE AID</b>									
General State Aid Required	1,269,325	1,311,674	42,348	1,303,128	(8,546)	1,298,332	(4,795)	1,293,530	(4,802)
General State Aid Available	1,270,277	1,324,207	NA	NA	NA	NA	NA	NA	NA
Amt. Req. in Excess of Amt. Available	(952) (b)	(12,534)		1,303,128		1,298,332		1,293,530	
Supplemental General State Aid Required	35,962	40,271	4,309	52,180	11,909	69,956	17,777	94,694	24,737
Supplemental Gen. State Aid Available	35,962	49,993	NA	NA	NA	NA	NA	NA	NA
Amt. Req. in Excess of Amt. Available	0	(9,722)		52,180		69,956		94,694	
<b>Total Gen. &amp; Supp. Gen. State Aid Req.</b>	<b>1,305,287</b>	<b>1,351,944</b>	<b>46,657</b>	<b>1,355,308</b>	<b>3,363</b>	<b>1,368,289</b>	<b>12,981</b>	<b>1,388,224</b>	<b>19,935</b>
<b>Total Gen. &amp; Supp. Gen. State Aid Avail.</b>	<b>1,306,239</b>	<b>1,374,200</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Amt. Req. in Excess of Amt. Available</b>	<b>(952) (b)</b>	<b>(22,256)</b>		<b>1,355,308</b>		<b>1,368,289</b>		<b>1,388,224</b>	
Amount Per Mill	14,870	15,424	554	15,886	463	16,363	477	16,772	409
Property Tax Rate In Mills	33	35	2	35	0	35	0	35	0
Mill Rate for District Portion of LOB	6.97	8.34	1.37	8.83	0.50	10.12	1.28	10.79	0.68
Estimated Adjusted Enrollment	525,727.8	533,000.0	7,272.2	539,325.7	6,325.7	544,322.8	4,997.1	547,994.9	3,672.1

(a) Includes property tax in the process of collection from prior year, current year property taxes, and delinquent property taxes from prior years.

(b) Overpayment, is included in the 1994-95 school year as part of "Unspent Balances/Prior Year."

(c) Assumes LOB usage at 43% in 1995-96, at 51% in 1996-97, and at 60% in 1997-98.

(d) Assumes an LOB state aid ratio at 25% in 1995-96, at 28% in 1996-97, and at 32% in 1997-98.

NOTES:

Assumed annual assessed valuation growth is 3.0% in 1995, 3.0% in 1996, and 2.5% in 1997. Does not anticipate effects of use-value adjustments. Base percentage growth uses 1.187% for weighted enrollment in 1995-96, 0.927% in 1996-97, and 0.675% in 1997-98.

Table does not include amounts for capital improvements state aid or special education and other categorical aid programs.



**Potential State General Fund Adjustments for FY 1996**

The following ongoing expenditures were financed in FY 1995 from one-time funding sources:

	<u>Amount</u>	
Department of Social and Rehabilitation Services:		
Final Balance in Social Service Contingency Fund	\$ (24.9)	
State Budget Stabilization Fund -- Operating Expenditures	(38.4)	
State Employee Base Salary Adjustment:		
State Budget Stabilization Fund	<u>(4.6)</u>	
Subtotal		\$ (67.9)

The following items would also require adjustments to State General Fund expenditures in FY 1996:

State Employee Base Salary Adjustment:		
Annualization of September 18, 1994 Starting Date	(2.6)	
State Employee Reclassification and Job Rate Study:		
Annualization of Final Phase Which Begins on December 18, 1994	(0.9)	
Appropriation for KU -- Hoch Auditorium	(3.8)	
Further Reduction in Federal Funds for SRS	<u>(26.7)</u>	
Subtotal		\$ (34.0)
Adjustment for One-Time Expenditure of Water Storage Capacity Purchase from the Federal Government	\$ 13.6	
Current State General Fund Profile Adjustment re "All Other Expenditures"	188.1	
Subtotal		<u>\$ 201.7</u>
TOTAL		<u>\$ 99.8 *</u>

\* Current estimates for FY 1995 KPERS-School indicate an additional \$2.8 million will be required from the State General Fund.

Note: Current estimated FY 1995 ending balance in the State Budget Stabilization Fund is \$8.8 million.



**FY 1995 STATE GENERAL FUND SUPPLEMENTAL REQUESTS IN EXCESS OF \$100,000**

Agency	Amount	Purpose of Requested Supplement
Department of Social and Rehabilitation Services: Other Medical Assistance	\$ 14,833,999	Primarily the Shift of Services for Foster Care Youth from Youth Services Aid and Assistance to Other Medical Assistance; Also Overexpenditure of FY 1994 Budget by \$2.1 Million.
State Operations	5,157,637	State Operations; Correct Federal Funding Mix; Computer Software Costs
Youth Services Aid and Assistance	(10,667,806)	Primarily Program Shift to Medical Assistance
Medical Assistance for Long Term Care	(7,169,205)	Shift of Financing to the SRS Fee Fund
Cash Assistance	(2,179,502)	Caseload Revisions
	<u>24,877</u>	Net Other Changes
	\$ 0	Total
Regents Institutions: Systemwide	\$ 5,438,702	Institutions' Estimates of General Fees Fund Shortfall (Board of Regents will consider this request on November 17, 1994)
Wichita State University	181,725	Rental Payments for Two Off-Campus Sites
University of Kansas	99,942	Fair Labor Standards Act Lawsuit
	<u>\$ 5,720,369</u>	Total
Department of Education:	\$ 2,833,622	Local School Employers' Contributions
	<u>210,145</u>	Teacher Preparation Programs/Teacher Certification Process
	\$ 3,043,767	Total
Kansas Highway Patrol	\$ 1,407,060	Settlement of Kinnett Overtime Lawsuit
Board of Indigents' Defense Services	\$ 1,074,102	Assigned Counsel Caseload
Homestead Property Tax Refund -- Department of Revenue	\$ 391,683	Higher Than Anticipated Refunds
Legislature	\$ 316,742	Operating Expenditures
Attorney General -- Kansas Bureau of Investigation	<u>\$ 124,892</u>	Operating Expenditures for Forensic Laboratory; Travel; Data Processing
	<u><u>\$ 12,078,615</u></u>	GRAND TOTAL

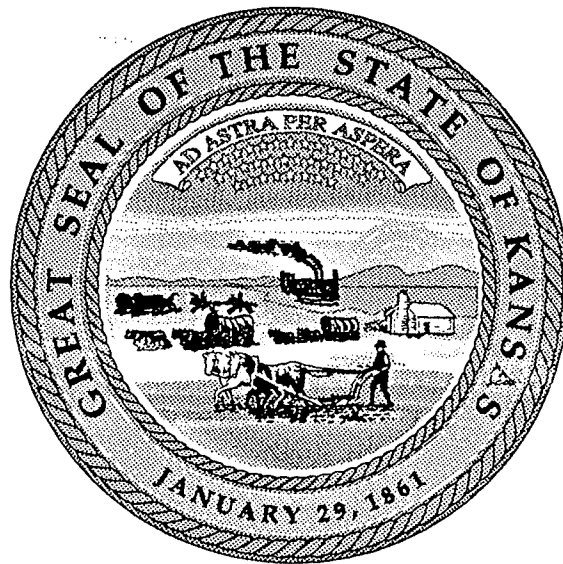


**FY 1995 STATUS OF THE STATE BUDGET STABILIZATION FUND**

	<u>FY 1994</u>	<u>FY 1995</u>
Beginning Balance	\$ 75,000,000	\$ 72,150,867
Less Transfers Out:		
Department of Social and Rehabilitation Services Mainly to Offset Reduction of Federal Funds	285,000	38,388,201
Department of Revenue Military Retirees	752,895	18,457,927
State Finance Council 1.5 Percent Base Salary Increase	--	4,559,705*
Historical Society Capital Improvements and Other One-Items	1,811,238	758,342
Department of Wildlife and Parks -- 1993 Flood	--	1,000,000
Department of Administration -- Capital Improvements	--	688,790
Adjutant General -- Capital Improvements/Capital Outlay	--	197,185
State Library -- Computers	--	160,000
Corporation for Change Evaluation of SRS Family Agenda	--	100,000
Board of Indigents Defense Services Management Study	--	65,000
Animal Health Department -- Livestock Indemnity	--	40,000
Board of Agriculture -- Octane Analysis Devices	--	24,000
Department on Aging -- Hold Harmless -- Population Shift	--	22,161
Soldiers' Home -- Capital Outlay	--	20,000
	<hr/>	<hr/>
FY Total Transfers	\$ 2,849,133	\$ 64,481,311
Ending Balance	\$ 72,150,867	\$7,669,556*

\* The actual transfer to the State Finance Council for the 1.5 percent base salary adjustment for state employees was \$6,288,496. However, the State Finance Council at their June 27, 1994 meeting only authorized expenditure of \$4,559,705 or \$1,728,791 less than had been estimated during the 1994 legislative session to finance the base salary increase.

*Kansas Public Employees  
Retirement System*



*Valuation as of June 30, 1994*

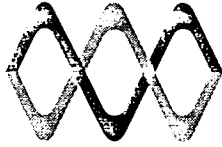


MILLIMAN & ROBERTSON, INC.

SWAM

1-11-95

Attachment 3



## MILLIMAN & ROBERTSON, INC.

Actuaries and Consultants

Suite 400  
2445 M Street N.W.  
Washington, D.C. 20037-1435  
Telephone: 202/429-9760  
Fax: 202/331-3387

December 14, 1994

Board of Trustees  
Kansas Public Employees Retirement Systems  
Capitol Tower - Suite 200  
400 S.W. 8th Avenue  
Topeka, KS 66063-3925

Dear Members of the Board:

At your request, we have conducted our annual valuation of the Kansas Public Employees Retirement Systems as of June 30, 1994. The results of the valuation are contained in the following report.

This valuation represents Milliman & Robertson's first valuation of the Kansas Public Employees Retirement Systems. The results of this valuation were significantly different than the prior year. The unfunded actuarial liability increased from \$968 million as of June 30, 1993 to \$1,505 million as of June 30, 1994.

The valuation report reflects the change in the asset valuation method adopted by the Board. To implement the new method, the actuarial value of assets has been set to the market value of assets as of June 30, 1994. In future years, the actuarial value of assets will be equal to the expected asset value based on the assumed interest rate plus  $\frac{1}{3}$  of the difference between the actual market value and the expected asset value.

There has been only one change in plan features since the prior valuation. An ad hoc cost of living increase was granted to retirees and beneficiaries in July, 1994. This benefit increase is reflected in the results of our valuation.

In preparing our report, we relied, without audit, on the employee census data and financial statements provided by the System. The census data and financial statements provided to us have been reviewed for reasonableness and consistency.

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Board of Trustees  
December 14, 1994  
Page Two

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the applicable Guides to Professional Conduct of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors under the Plan have been determined on the basis of actuarial assumptions and methods which are in the aggregate reasonable (taking into account the experience of the Plan and reasonable expectations) and which, in combination, offer our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.



Eugene M. Kalwarski, F.S.A.  
Principal

## SECTION I

### BOARD SUMMARY

#### OVERVIEW

This report presents the results of the June 30, 1994 actuarial valuations of the Kansas Public Employees' Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). The primary purposes of performing the valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- disclose asset and liability measures as of June 30, 1994, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The valuation results provide a "snapshot" view of each System's financial condition on June 30, 1994. The results include the benefit increase to retirees (COLA) in July, 1994 and the change in the determination of the actuarial value of assets which was effective June 30, 1994. All other benefit provisions and assumptions were unchanged from the 1993 valuation.

This valuation represents Milliman & Robertson's first valuation of the Kansas Public Employees Retirement Systems. As such, we normally encounter differences that require reconciliation between our work and that of our predecessors. In this valuation, the differences were significant. A significant amount of time and effort was spent reconciling results. Most substantive differences were resolved. We have deferred to our predecessor for valuation techniques in all areas except those where we were convinced that our approach is preferable. It is important to note that the final result will not affect the near term funding of KPERS due to statutory limitations on increases in employer contribution rates. However, there are no such limitations on increases in contribution rates for KP&F and Judges.

Please also note that all of the information in this report with respect to fiscal years before 1994 has been taken from the System's 1993 Annual Report or from previous actuarial valuations.



## CONTRIBUTION RATES

Kansas legislation with respect to KPERS provides that, for fiscal years beginning in 1995, the rates of contribution for State/School and Local certified by the Board may not increase by more than 0.1% of payroll over the prior year. Any additional cost resulting from correctional employees is added to the employer contribution rate for the Department of Corrections. This year's recommended rates for State/School and Local were also increased by the cost of the July 1, 1994 COLA. The statutory limits do not apply to TIAA, KP&F and Judges.

A summary of actuarial and recommended rates follows:

FY 96

System	1993 Valuation		Diff.
	Actuarial	Recom- mended	
State / School	4.11%	3.30% <sup>1/</sup>	0.81%
Local	3.05	2.30 <sup>1/</sup>	0.75
Correctional Employees – NRA 60	4.41	3.60 <sup>1/</sup>	0.81
Correctional Employees – NRA 55	5.21	4.40 <sup>1/</sup>	0.81
TIAA	1.75	1.75	0.00
Police & Fire – Uniform Rate <sup>3/</sup>	6.95	6.95	0.00
Judges	10.35	10.35	0.00
Weighted Average	4.11	3.21	0.90

FY 97

System	1994 Valuation		Diff.
	Actuarial	Recom- mended	
State / School	5.17%	3.49% <sup>1/,2/</sup>	1.68%
Local	3.72	2.48 <sup>1/,2/</sup>	1.24
Correctional Employees – NRA 60	5.47	3.79 <sup>1/,2/</sup>	1.68
Correctional Employees – NRA 55	6.27	4.59 <sup>1/,2/</sup>	1.68
TIAA	1.89	1.89	0.00
Police & Fire – Uniform Rate <sup>3/</sup>	9.65	9.65	0.00
Judges	16.00	16.00	0.00
Weighted Average	5.15	3.57	1.58

<sup>1/</sup> Rates, by statute, are allowed to increase by a maximum of 0.1% per year.

<sup>2/</sup> The KPERS recommended rates have also been increased for the cost of the July 1, 1994 COLA (0.09% for State/School and 0.08% for Local).

<sup>3/</sup> For KP&F, the recommended contribution rate is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability determined separately for each employer.





## EXPERIENCE – ALL SYSTEMS COMBINED

July 1, 1993 – June 30, 1994

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1993 and June 30, 1994. Below each component is examined.

### ASSETS

As of June 30, 1994, the System had total funds, when measured on a market value basis, of \$5.16 billion, including assets held for the Group Insurance and Optional Life reserves. This was an increase of \$32 million from the 1993 figure of \$5.13 billion. The components of this change (in millions) are set forth below and compared to book values:

	Book → Book	Market → Market
Assets, June 30, 1993	\$ 4,617	\$ 5,131
● Employer and Member Contributions	+ 267	+ 267
● Benefit Payments and Expenses	- 352	- 352
● Investment Income – Expected	+ 366	+ 407
● Investment Gain/(Loss)	+ 102	- 290
Assets, June 30, 1994	\$ 5,000	\$ 5,163

The Board of Trustees has elected to change the method used to value assets for actuarial valuation purposes to a method which recognizes market values but smooths year to year fluctuations. In the past, assets have been carried at book values. At the end of any year the actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus 1/3 of the difference between the actual market value and the expected asset value. In the first year of implementation of the new methodology, the 1994 valuation, the actuarial value of assets is set equal to the market value as of June 30, 1994. This asset valuation method is in keeping with long term trends at other State systems.



## LIABILITIES

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and asset values at the same date is referred to as the unfunded actuarial liability. The unfunded actuarial liability will be reduced if the employer's contributions exceed the employer's normal cost for the year, after allowing for interest earned on the previous balance of the unfunded actuarial liability. Benefit improvements, actuarial gains and losses, and changes in actuarial procedures will also have an effect on the total actuarial liability and on the portion of it that is unfunded.

Between June 30, 1993 and June 30, 1994 we estimate the change in the unfunded actuarial liabilities for the System as follows (in millions):

Unfunded Actuarial Liability, June 30, 1993	\$968
● investment gain at book values	(102)
● change in asset valuation method	(134)
● revised liabilities for 1993 COLA, return of employee contributions, deferred vested employees, and pre-retirement spouse benefits	228
● data and salary adjustments	150
● actual mortality, disability, retirement, turnover and salary experience	320
● actual 1994 COLA	75
Unfunded Actuarial Liability, June 30, 1994	\$1,505



## CONTRIBUTIONS

Generally, contributions to the System consist of:

- a "normal cost" for the portion of projected liabilities attributable to service of members during the year following the valuation date, (except TIAA)
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over assets on hand,
- a "group insurance" contribution which is statutory (except KP&F).

The combined Systems' contribution rate (before statutory limits) increased by 1.04% of pay, to 5.15% on June 30, 1994, from 4.11% on June 30, 1993. The primary components of this change are as follows:

Actuarial Contribution Rate, June 30, 1993	4.11 %
• investment gain	(0.23)
• change in asset valuation method	(0.37)
• liability changes	<u>1.64</u>
Actuarial Contribution Rate, June 30, 1994	5.15 %



# Kansas Public Employees Retirement System

December 28, 1994

Senator August "Gus" Bogina, Jr., P.E.  
Chairman, Senate Ways and Means Committee  
12510 W 62nd Terrace Suite 109  
Shawnee KS 66216

Dear Senator Bogina:

The KPERS Board of Trustees has received, reviewed, and accepted the June 30, 1994 Actuarial Valuation Report for the Kansas Public Employees Retirement System. The valuation establishes actuarial employer contribution rates and recommended employer contribution rates for the several groups of covered employers as summarized in the table below. All employer contribution rates are expressed as a percentage of payroll and are applicable to State fiscal year 1997 and local fiscal years beginning in 1996.

<u>Employer Contribution Rates</u> Fiscal Year 1997			
<u>System</u>	<u>Actuarial</u>	<u>Recommended</u>	<u>Diff.</u>
State/School	5.17%	3.49% <sup>1/2/</sup>	1.68%
Local	3.72	2.48 <sup>1/2/</sup>	1.24
Correctional Employees-NRA 60	5.47	3.79 <sup>1/2/</sup>	1.68
Correctional Employees-NRA 55	6.27	4.59 <sup>1/2/</sup>	1.68
TIAA	1.89	1.89	0.00
Police & Fire-Uniform Rate <sup>3/</sup>	9.65	9.65	0.00
Judges	16.00	16.00	0.00
Weighted Average	5.15	3.57	1.58

<sup>1/</sup> Rates, by statute, are allowed to increase by a maximum of 0.1% per year.  
<sup>2/</sup> The KPERS recommended rates have also been increased for the cost of the July 1, 1994 COLA (0.09% for State/School and 0.08% for Local).  
<sup>3/</sup> For KP&F, the recommended contribution rate is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability determined separately for each employer.

On a weighted average basis, the actuarial employer contribution rates increase just over 25 percent from current levels, with significantly larger increases in the actuarial employer contribution rates for Police & Fire members and Judges. The recommended employer contribution rates, again on a weighted average basis, increase 11 percent. The recommended "Uniform Rate" employer contribution for Police and Fire members increases 39 percent and the recommended Judges employer contribution rate increases 55 percent.

The large increases in the actuarial and recommended employer contribution rates reflect an unexpectedly large increase in the Retirement System's unfunded actuarial liability. The current valuation establishes the unfunded actuarial liability at \$1.505 billion, an increase of \$537 million or 56 percent over the level of the previous year's unfunded actuarial liability.

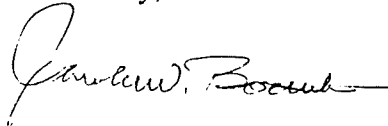
Some increase in the Retirement System's unfunded actuarial liability was expected. Specifically those costs associated with the cost-of-living adjustment provided all retired members on July 1, 1994 were correctly anticipated. Additionally and as anticipated, the gradual, capped escalation in KPERS employer contribution rates, as provided in 1993 House Bill No. 2211, also resulted in a shortfall between the actuarial and recommended levels of these rates. The largest portion of the remaining increase consists of previously understated liabilities for (1) the 1993 cost-of-living adjustment; (2) the 4,000 members who left covered employment, withdrew their contributions, and subsequently returned to covered employment; and (3) the 43 percent increase in the number of members retiring in fiscal year 1994.

The Board of Trustees is concerned that the Retirement System's unfunded liability not be allowed to grow out of control. Current Kansas law provides that the unfunded actuarial liability will be amortized over the next 38 1/2 years. Unfortunately, this sound public policy may now be subverted by one of the funding provisions of 1993 House Bill No. 2211: the capped, incremental increase in KPERS' employer contribution rates. As originally envisioned, the 1993 benefit enhancements were to be funded by increases in employer contribution rates until those rates, rising at no more than one tenth of one percent of covered payroll per year, reached the level necessary to fully amortize the unfunded liability within the designated timeframe.

Given the large increase in unfunded actuarial liabilities, the recommended KPERS employer contribution rates for fiscal years beginning in 1996 will trail the actuarial rates by 1.58 percent of covered payroll, almost twice the differential in the same rates for the previous fiscal year. In order to implement the intent of the 1993 legislation and to ensure the fiscal health and actuarial soundness of the Retirement System, it is absolutely essential that this differential narrow over time. Under the current cap, the unfunded liability will increase each year with the rise only partly offset in periods experiencing favorable investment returns. Furthermore, there have been and will be years when the total return on the fund(s) is less than the actuarial rate of eight percent. In those periods, the unfunded liability will increase. Given the information that was available at the time, the 1993 cap on employer contribution rate increases was fiscally responsible. Today's new information on the Retirement System's unfunded actuarial liability suggests that the cap issue be revisited.

On behalf of the Board of Trustees, I appreciate your careful attention to this very important matter. The Board, its staff, and the Retirement System's actuary will be available to assist you in your consideration.

Yours truly,



Jarold W. Boettcher, Chairperson  
Board of Trustees

cc: Alan Conroy, Legislative Research Department  
Julian Efird, Legislative Research Department