Approved: March 28, 1996
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 12:00 p.m. on March 22, 1996 in Room 123-S of the Capitol.

All members were present except: Senator Moran and Senator Morris, who were excused

Committee staff present: Alan Conroy, Legislative Research Department
Kathy Porter, Legislative Research Department
Julian Efird, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:
Don Rezac, State Employee Association of Kansas
Kelly Jennings, Kansas Association of Public Employees

Others attending: See attached list

SB 752: State officers and employees salaries and compensation

Mr. Don Rezac, representing the State Employee Association of Kansas, appeared before the Committee and testified in opposition to the longevity section of **SB 752** and requested that the Committee consider funding a 1% cost of living adjustment (Attachment 1). The Chairman observed that longevity is the only pay increase which is statutory and queried whether that policy set one group of employees above the majority of employees who are not eligible for longevity. He noted that longevity would have to be paid from one-time monies this year and inquired whether this would cause concern or whether payment of longevity should be determined on an annual basis.

Ms. Kelly Jennings, Kansas Association of Public Employees, testified in opposition to **SB 752** (Attachment 2). She explained how she believes the Governor's recommendation will create in inequity for longterm employees who are not on the last step of the pay range. Senator Karr inquired whether there is potential for job loss because of privatization. Ms. Jennings stated that there are no actual numbers available because the plans are indefinite, but she doesn't believe there will be any cost savings that could be used to pay longevity. In answer to the Chairman, she stated that state employees are looking elsewhere for employment because their satisfaction and commitment to the state is declining. The Chairman asked that she convey to the members the necessary increase in state contributions to KPERS caused by enhancements for state employees. Ms. Jennings stated that it is difficult for state employees to understand that when they see some of the returns on the investments and can't put the two together.

The Chairman noted that the bill would be held in Committee.

HB 2698: Requiring actuarial evaluations of early retirement incentive programs

Julian Efird, Kansas Legislative Research Department, appeared before the Committee at the Chairman's request to review the bill (Attachment 3). He told members that the bill was a recommendation of the 1995 Joint Committee on Pensions, Investments and Benefits and mandates an actuarial valuation once every three years beginning in FY 97 of the liabilities of early retirement incentive programs established by school districts, area vocational schools, and community colleges. He informed the Committee that a Post Audit study revealed that there is considerable potential expense involved with early incentive programs which were identified in 152 of the state's school districts. He added that USD 501 has conducted an actuarial valuation of their program and the unfunded liability has been estimated to be in the range of $24 million.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on March 22, 1996.

Chairman Kerr expressed his support for the bill, adding that even though the Legislature hates to place mandates on local units, early retirement plans have the potential of having a big impact on school finance. He commented that school districts across the state believe that they're saving money with early retirement incentive programs and the situation discovered by USD 501 may be repeated throughout the state. In answer to a question, he stated that even though school districts are responsible for the unfunded liability, the monies that are used to pay the unfunded liability are taken out of districts' general aid which is provided by the state.

In answer to Senator Salisbury, staff advised that the $90-$100 million cited in the supplemental note was the estimate of the unfunded liability that was developed by Post Audit as they looked at a sample of school districts and extended that estimate across the state.

A representative from the Wichita School District stated that USD 259 conducts an annual actuarial study and the $5 million that is spent on the early retirement program is taken out of the wage benefits package.

In answer to Senator Karr, it was stated that districts have developed unique retirement incentive programs whose benefits are not uniform statewide.

HB 2699: **Payment of actuarial services by local police and fire pension plans**

Staff reviewed the provisions of **HB 2699**, noting that this bill makes all local units pay costs of certain actuarial evaluations themselves rather than having KPERS bear the expense when a KPERS actuary is used (Attachment 4). He noted **HB 2699** would amend current law to make it consistent with provisions of **HB 2698**.

It was moved by Senator Petty and seconded by Senator Lawrence that the provisions of **HB 2698** be amended into **HB 2699**. The motion carried on a voice vote.

Senator Rock moved, Senator Burke seconded, that the provisions of **SB 554** as adopted by Committee on March 21, 1996 be amended into **HB 2699**. The motion carried on a voice vote.

In response to Senator Karr, Jack Hawn, Deputy Director of KPERS, reviewed costs associated with a 1% KPERS COLA for KP&F, judges, and the state school group (Attachment 5). Mr. Hawn noted that the table reflects a 1% COLA increase which takes effect for retirees at different ages.

It was moved by Senator Lawrence and seconded by Senator Burke that **HB 2699 as amended** be recommended favorably for passage. The motion carried on a roll call vote.

The Chairman adjourned the meeting at 1:25 P.M. The next meeting is not scheduled.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: March 22, 1996

NAME	REPRESENTING
Kelly Jennings	KAPE
Don Ryan	SEAK
Keith Tate	DOA
Connie Hafenstine	KDOT
Nancy Bogina	KDOT
Harriet Howell	KASB
Diane Gjerstad	USD 259 - Wichita
Jerry Sloan	OJA

State Employees Association of Kansas

P.O. Box 750131
Topeka, Ks. 66675-0131
(913) 357-7376

TESTIMONY OF DON REZAC REGARDING STATE EMPLOYEE
PAY ISSUES BEFORE THE SENATE WAYS AND MEANS COMMITTEE

The longevity bonus has been important part of the state employee pay package since its implementation in 1989. The Kansas Legislature provided for it in the statutes as a means of both rewarding state employees for long-term service and counteracting the contraction of the state pay matrix.

Under current law, each state employee with 10 or more years of satisfactory service receives a bonus of $40 for each year of service up to twenty-five years. In the seven years since its inception, the longevity formula has remained unchanged. While there have been many lean fiscal years for state employees since 1989, this is the first in which the longevity bonus has not been fully funded within the budget.

The budgetary proposal for fiscal 1997 would limit the number of employees eligible to receive the longevity bonus to those on the last step of the pay range. Obviously, the longevity concept was placed in the statutes to avoid making it discretionary and subject to each year's appropriations. A longevity bonus does not serve its purpose if an employee were to receive it in some years but not others.

Senate Ways & Means
March 22, 1996
Attachment 1

There are over 17,000 state employees who are eligible to receive the bonus under current law. A very small percentage of those are at the top of the pay matrix and would thus be eligible if the budgetary proposal were to be implemented. The vast majority of those currently eligible are being asked to give the bonus up this year for reasons that have never been clearly articulated.

If there were truly a fiscal crisis or other compelling justification for the generation of the top of the pay range proposal, most state employees would be able to at least understand why they are being called upon to give up this benefit. However, there is no evidence of a fiscal crisis.

State employees are being asked to swallow the absence of a longevity payment with no offsetting benefit or clear direction where toying with the statute would take us in the future. Clearly, a one year limitation in longevity payments sets a dangerous precedent that is neither fair or in the long term interest of the State of Kansas. We would therefore urge the committee to restore funding for longevity payments.

SEAK would also ask the committee to consider adding funding for a one per cent cost of living adjustment. As you are aware, the current proposal is to provide a 2.5 percent step movement with no cost of living adjustment. Should the budget be adopted without a c.o.l.a., it would be the second time in the last five fiscal years that no c.o.l.a. has been provided. It would also continue a trend of providing state employees with little or no real increase in wages relative to inflation.

Earlier this year, this committee was presented statistics by the Department of Administration which rated Kansas among 18 states comprising the Central States Association. Relative to the surrounding states of Iowa, Nebraska and Colorado, total wage adjustment in Kansas was approximately half of what was provided in those states.

The figure provided by the Department for the average steps plus c.o.l.a. adjustment average for the last 10 fiscal years, 4.25 percent, did not take into consideration that many of the c.o.l.a.s. have been partial year adjustments. That average was also distorted by the fact cost of living adjustments in the late 1980s and in 1990 were significantly higher than state employees have seen since that time. Even those modest gains, however, are threatened by the lack of cost of living adjustment this year.

Without a doubt, more, not less, will be expected out of state government in coming years. The administration of programs formerly run exclusively from Washington are being shifted to the states. In order to properly carry out its larger role, state government will be required to retain and attract a quality work force. It is up to the Legislature, as part of the management team, to insure a continuation of high quality services to the people of the State of Kansas.

SEAK believes that at least maintaining the current wage base is absolutely necessary if state government is to adequately carry out its responsibilities, and we would therefore request the committee's support of funding for longevity and a cost of living adjustment.

KAPE
FPE
KANSAS ASSOCIATION OF PUBLIC EMPLOYEES
1300 South Topeka Avenue Topeka, Kansas 66612 913-235-0262 Fax 913-235-3920

TESTIMONY OF KELLY JENNINGS
KANSAS ASSOCIATION OF PUBLIC EMPLOYEES

in opposition to Senate Bill 752
March 22, 1996

Good morning, my name is Kelly Jennings. I appreciate the opportunity to appear before you on behalf of the Kansas Association of Public Employees in opposition to the proposed changes in longevity pay as contained Senate Bill 752.

Longevity pay has been in effect since legislative enactment during the 1989 legislative session. SB 752 proposes to change the structure of longevity pay for FY 97 as recommended by the governor. The proposed changes provide that only employees on the last step of the pay range receive longevity pay for FY 97.

These proposed changes violate the original purpose of longevity. "The purpose of longevity pay is to recognize permanent employees who have provided experience and faithful long term service to the state of Kansas in order to encourage officers and employees to remain in the service of the state."

While the proposed changes contained in SB 752 do not violate the original intent of longevity pay, neither do they fulfill the entire intent of longevity pay. Unless full funding of longevity pay is granted, all current longevity eligible employees, except for those on the final pay step, will be receiving less of a pay raise in FY 97 than those who are not yet eligible for longevity pay.

At first glance, the governor's recommendations for pay increases do appear to be fair to all employees. Give step movements to all eligible employees and longevity pay for those employees on the final step of the pay matrix who are not eligible for step movements. However, this recommendation will create an inequity for long term employees. Because of the loss of longevity pay, all current longevity eligible employees will receive less than a 2.5% pay increase for FY 97. Over 15,000 long term employees will receive less than a 2.5% pay increase for FY 97. In fact, most of these employees at the lower pay ranges will receive a zero increase for FY 97.

KAPE urges this committee to vote no on SB 752 as it currently appears and to fully fund longevity pay for all employees currently eligible. KAPE understands the extremely tight budget constraints you are facing this year. However, the governor's proposal creates an unfair and inequitable manner for granting pay raises to state employees. Funding of full longevity along with full funding of the step movements will correct the inequities of the governor's proposals.

Thank you for your consideration on this matter. I would be happy to stand for any questions.

Senate Ways & Means
March 22, 1996
Attachment 2

MAR · 9 1996

SESSION OF 1996

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2698

As Amended by House Committee on Appropriations

Brief*

H.B. 2698, as amended, would require actuarial evaluations of liabilities for local early retirement incentive programs which are authorized by current law and have been implemented by school districts, area vocational schools, and community colleges. The first studies would be required to be completed in calendar year 1996. The bill sets the qualifications for firms and individuals that may perform these actuarial evaluations and requires that the results be submitted to the Joint Committee on Pensions, Investments, and Benefits. Finally, any school district or other institution which has completed a recent evaluation is exempted from having a new evaluation performed and any entity implementing a new program is required to have an actuarial evaluation performed within six months of adopting a new program.

Background

The Joint Committee on Pensions, Investments, and Benefits recommended this bill after its 1995 interim study of school district early retirement programs, which are supplemental to KPERS retirement benefits. The Legislative Division of Post Audit presented the results of a 1995 performance audit focusing on early retirement incentive programs (ERIPs) in Kansas schools. From FY 1990 to FY 1995, Kansas school districts with ERIPs reported spending more than $50 million to pay for benefits. Post Audit estimates that if half of those persons eligible in the 152 school districts which had ERIPs (and none of the other school districts add ERIPs) actually elect to retire early, then the cost to districts would be $90 million to $100 million. Community colleges are authorized to use ERIPs and 14 of the colleges have implemented such programs. Three cities and one county have offered ERIPs, according to the Post Audit report. The only actuarial evaluation of liability performed recently that was cited for the Joint

* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

17170/je

Senate Ways & Means
March 22, 1996
Attachment 3

Committee was one undertaken by USD 501 (Topeka) in which the unfunded liability for its ERIP is estimated at $24 million.

KPERS staff pointed out that the Legislature has no comprehensive information about the long-term unfunded liabilities of the school districts resulting from their ERIPs. It was noted that local police and fire retirement systems of the 1970s had significant unfunded liabilities and that the Legislature mandated a reporting requirement, based on an actuarial evaluation of unfunded liabilities, in order to find out the extent of that problem.

The House Committee amendments were recommended by the Subcommittee on KPERS issues in order to clarify certain portions of the bill as introduced. No opponents to the bill appeared at the Subcommittee hearing for this proposal. The Chairperson of the Joint Committee on Pensions, Investments, and Benefits supported this legislation and indicated that if passed, the bill would provide the 1997 Legislature with information about this potential problem area as it relates to school finance.

Kansas State Board of Education

120 S.E. 10th Avenue, Topeka, Kansas 66612-1182

January 25, 1996

TO: Gloria Timmer, Director
Division of the Budget

FROM: Dale M. Dennis, Interim
Commissioner of Education

SUBJECT: 1996 House Bill 2698

House Bill 2698 amends the early retirement incentive program for community colleges and unified school districts.

The law requires that beginning in calendar year 1996 and once every three years thereafter, each board that establishes an early retirement incentive program shall employ and pay an actuary or firm of actuaries to conduct an actuarial evaluation of the liabilities of the program.

House Bill 2698 would not require any additional state appropriation to this agency. There would be minor costs incurred by community colleges and school districts for the actuarial evaluations.

Post-it® Fax Note 7671

To Julian Efird		Date 3-22	# of pages 1
Co./Dept. LRD		From Dale Dennis	
Phone #		Co. KSBE	
Fax # 296-3824		Phone # 296-3871	
		Fax # 296-0459	

Dale M. Dennis
Deputy/Assistant Commissioner
Division of Fiscal Services and Quality Control
(913) 296-3871
Fax No. (913) 296-7933

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

LEGISLATIVE DATA SHEET

House Bill 2698
Sponsored by Joint Committee on Pensions, Benefits, and Investments

EFFECTS OF BILL:

The proposed legislation would provide that, commencing in FY 1997 and at least once every three years thereafter, each board that has established an early retirement incentive program must retain an actuary to conduct an actuarial valuation of the liabilities of the program and report the results of the valuation to the Legislature. Although these incentive programs were established in the early eighties no oversight or reporting has been required. Based on a recent Legislative Post Audit review of these programs, the Joint Committee on Pensions, Investments and Benefits is proposing this legislation as a mechanism to track these liabilities over time.

FISCAL IMPACT:

Any costs would be borne by the individual school districts or community colleges. The proposed legislation would not have any fiscal impact on the Retirement System or the State of Kansas.

Date: January 24, 1996 Source: Jack L. Hawn, Deputy Executive Secretary

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1504
(913) 296-2436
FAX (913) 296-0231

Bill Graves
Governor

Gloria M. Timmer
Director

January 25, 1996

The Honorable Robin Jennison, Chairperson
House Committee on Appropriations
Statehouse, Room 514-S
Topeka, Kansas 66612

Dear Representative Jennison:

SUBJECT: Fiscal Note for HB 2698 by Joint Committee on Pensions, Investments and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2698 is respectfully submitted to your committee.

HB 2698 amends current law to require that any community college or school district that has an Early Retirement Incentive Program must have an actuarial evaluation of the program completed by an actuarial firm at least once every three years beginning with FY 1997. The community college must also assume the costs of the evaluation. Under current law, no actuarial evaluation is required.

The Kansas Public Employees Retirement System indicates that passage of this bill would have no fiscal impact on the agency or the state, as the costs would be borne by the individual school district or community college.

Sincerely,

Gloria M. Timmer

Gloria M. Timmer
Director of the Budget

cc: Jack Hawn, KPERS
Dale Dennis, Education

MAR 9 19

SESSION OF 1996

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2699

As Recommended by House Committee on Appropriations

Brief*

H.B. 2699 would shift the cost of certain actuarial evaluations performed for local police and fire pension plans from the KPERS Board of Trustees to the local units of government. Current law permits local units to use the KPERS actuary and for the state to pay these costs if the KPERS actuary is used.

Background

This bill was recommended by the Joint Committee on Pensions, Investments, and Benefits. It would amend current law to make it consistent with another proposed bill (H.B. 2698) that would require local school boards and community colleges to pay the cost of their actuarial evaluations. Currently, only two cities (Newton and Leavenworth) that maintain separate retirement systems for police and fire have relied on the KPERS actuary to perform their evaluations at state expense. Other local units of government which do not use the KPERS actuary are required to pay for actuarial services. The FY 1996 cost for two actuarial evaluations for Newton and Leavenworth are reported at $3,250 by KPERS.

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* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

17169/je

Senate Ways & Means
March 22, 1996
Attachment 4

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1504
(913) 296-2436
FAX (913) 296-0231

Bill Graves
Governor

Gloria M. Timmer
Director

January 25, 1996

The Honorable Robin Jennison, Chairperson
House Committee on Appropriations
Statehouse, Room 514-S
Topeka, Kansas 66612

Dear Representative Jennison:

SUBJECT: Fiscal Note for HB 2699 by Joint Committee on Pensions, Investments and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2699 is respectfully submitted to your committee.

HB 2699 amends current law to require cities to pay the cost of actuarial analysis to determine the minimum annual rate of contribution for local police and fire pension plans. Under current law, the Kansas Public Employees Retirement System Board of Trustees has the responsibility for the cost, and the statute requires that the cost not be borne by the Kansas Public Employees Retirement Fund. Nonetheless, the KPERS Fund has borne the cost of the actuarial analysis in recent years by means of a proviso attached to the appropriation for the KPERS Fund that supersedes the substantive law.

The Kansas Public Employees Retirement System reports that currently two local units use the KPERS' actuary. The most recent valuation covering the cities of Leavenworth and Newton, conducted in 1995, cost $3,250. *The Governor's FY 1997 Budget Report* reflects financing of the study in FY 1996 from the Kansas Public Employees Retirement Fund in the manner described above.

Sincerely,

Gloria M. Timmer

Gloria M. Timmer
Director of the Budget

cc: Jack Hawn, KPERS

Senate Ways & Means
March 22, 1996
Attachment 5

KP&F

Actuarial Cost Study of Ad-hoc COLA
(Increase in Liability and Contribution Rate Shown Below

Ad-hoc COLA	*ELIGIBILITY WAITING PERIOD*							
	Age 62		*Age 65*		*Age 68*		*Age 70*	
	Liab ($M)	*Contr (%)*	*Liab ($M)*	*Contr (%)*	*Liab ($M)*	*Contr (%)*	*Liab ($M)*	*Contr (%)*
1.00%	2.4	.059	2.1	.051	1.7	.043	1.5	.037
1.50%	3.6	.089	3.1	.077	2.6	.065	2.3	.056
2.00%	4.8	.118	4.2	.102	3.5	.086	3.0	.074
2.50%	6.0	.148	5.2	.128	4.4	.108	3.8	.093
3.00%	7.3	.177	6.3	.153	5.2	.129	4.5	.111

5-2

JUDGES

Actuarial Cost Study of Ad-hoc COLA
(Increase in Liability and Contribution Rate Shown Below

Ad-hoc COLA	ELIGIBILITY WAITING PERIOD							
	Age 62		Age 65		Age 68		Age 70	
	Liab (000's)	Contr (%)	Liab (000's)	Contr (%)	Liab (000's)	Contr (%)	Liab (000's)	Contr (%)
1.00%	$212	.127	$209	.125	$199	.118	$188	.112
1.50%	$318	.191	$314	.188	$298	.177	$282	.168
2.00%	$424	.254	$418	.250	$398	.236	$376	.224
2.50%	$530	.318	$523	.313	$498	.295	$470	.280
3.00%	$636	.381	$627	.375	$597	.354	$564	.336

5-3

KPERS - TIAA

Actuarial Cost Study of Ad-hoc COLA
(Increase In Liability and Contribution Rate Shown Below

Ad-hoc COLA	ELIGIBILITY WAITING PERIOD							
	Age 62		Age 65		Age 68		Age 70	
	Liab (000's)	Contr (%)	Liab (000's)	Contr (%)	Liab (000's)	Contr (%)	Liab (000's)	Contr (%)
1.00%	$237	.012	$235	.012	$229	.011	$222	.011
1.50%	$356	.018	$353	.018	$344	.017	$333	.017
2.00%	$474	.024	$470	.024	$458	.022	$444	.022
2.50%	$593	.030	$588	.030	$573	.028	$555	.028
3.00%	$711	.036	$705	.036	$687	.033	$666	.033

5-4

KPERS - State/School

Actuarial Cost Study of Ad-hoc COLA
(Increase in Liability and Contribution Rate Shown Below

Ad-hoc COLA	ELIGIBILITY WAITING PERIOD							
	Age 62		Age 65		Age 68		Age 70	
	Liab ($M)	Contr (%)	Liab ($M)	Contr (%)	Liab ($M)	Contr (%)	Liab ($M)	Contr (%)
1.00%	18.2	.034	17.2	.032	15.5	.029	14.1	.026
1.50%	27.3	.051	25.8	.048	23.3	.044	21.1	.039
2.00%	36.4	.068	34.4	.064	31.1	.058	28.2	.052
2.50%	45.5	.085	43.0	.080	38.8	.073	35.2	.065
3.00%	54.5	.102	51.7	.096	46.6	.087	42.2	.078

KPERS - Local

5-5

Actuarial Cost Study of Ad-hoc COLA
(Increase in Liability and Contribution Rate Shown Below

Ad-hoc COLA	ELIGIBILITY WAITING PERIOD							
	Age 62		Age 65		Age 68		Age 70	
	Liab ($M)	Contr (%)	Liab ($M)	Contr (%)	Liab ($M)	Contr (%)	Liab ($M)	Contr (%)
1.00%	3.3	.026	3.1	.025	2.9	.023	2.6	.021
1.50%	4.9	.039	4.7	.038	4.3	.035	4.0	.032
2.00%	6.5	.052	6.3	.050	5.8	.046	5.3	.042
2.50%	8.1	.065	7.9	.063	7.2	.058	6.6	.053
3.00%	9.8	.078	9.4	.075	8.7	.069	7.9	.063