

MINUTES OF THE SENATE WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on February 4, 1999 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Legislative Research Department
Debra Hollon, Legislative Research Department
Rae Anne Davis, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ann Deitcher, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list.

The Chairman introduced Senator Salmans who made the motion to introduce rs 0683, seconded by Senator Salisbury and the motion passed by a voice vote.

Senator Feleciano moved and Senator Ranson seconded the introduction of rs 691 and rs 675. The motion passed by a voice vote.

Next, Senator Kerr, Chairman of the Education Subcommittee, read from the Subcommittee report. (Attachment 1).

The Subcommittee concurred with the Governor's recommendation, but called attention to the matters listed on page 2 regarding the cost of computer background checks. It was agreed by the Committee that the Senate Subcommittee charged with reviewing the budget of the KBI take this matter up with the agency.

Senator Kerr then read from the Subcommittee report for FY 2000. (Attachment 2).

The Subcommittee concurred with the Governor's recommendations, with the exceptions and comments listed.

Senator Kerr pointed out that the Education Committee had Dr. John Poggio from the Center for Educational Testing and Evaluation at Kansas University explain these new tests. This was in answer to their concern that the new tests deserve a further look since they are markedly different. The Committee had been told that the previous tests were the nation's leading in their quality, and Kansas would move to the forefront of all states in it's ability to test not only the knowledge but the performance of the students. Since the new tests are radically different, the Senate Education Committee met with Dr. Poggio, who is in charge of this assessment effort, and has invited him to appear before the Education Committee a second time on Monday, February 8.

Senator Kerr told the Committee there was the possibility that in Omnibus, they might be making a funding adjustment to the appropriations that are contained in this note.

It was moved by Senator Jordan and seconded by Senator Lawrence that the Subcommittee Report be amended to flag for possible Omnibus consideration. The motion carried on a voice vote.

It was moved by Senator Lawrence and seconded by Senator Jordan that the Subcommittee Report be adopted as amended. The motion carried on a voice vote.

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on February 4, 1999.

Pat Beckham, KPERS Actuary, Milliman and Robertson, Inc. gave her report to the Committee in regard to potential KPERS lump sum distributions. (Attachment 3).

She said there are some uncertainties at this point in time. There is some risk of what is called adverse selection. People in better than average health would elect to receive the monthly payment, where those in poor health would probably choose the lump sum. And the cash flow could be very different. They've not explored that area but they would be looking at paying out some substantial lump sum values because of the statistics of some 3200 people who retire every year.

Senator Kerr asked Ms. Beckham if her calculations of lump sum distribution didn't include any future COLAs. She replied that they do not assume any future COLAs when they do them. She was then asked that if the Legislature would provide a COLA, wouldn't this actually be a cost saving associated with a lump sum distribution. Ms. Beckham said that was correct.

Saying he felt there were a number of legislators who would like to look at this in detail as a possible thing that could be done for state employees, the Chairman thanked Ms. Beckham for her presentation. She suggested that perhaps KPERS would be willing to look into what might be required.

Meredith Williams of KPERS agreed to look into this.

The meeting was adjourned at 12:10 p.m. The next meeting is scheduled for Monday, February 8, 1999.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 2/4/99

NAME	REPRESENTING
Ken Baker	Ks. Governmental Consulting
Craig Grant	KNEA
MARK DEBETTI	KNEA
Kelly Broder	KACCT
Sheila Feahnd	KACCT
Jim Allen	Seaboard
Row NITCHER	Ks. State Education Dept
Lela McDemie	" " " "
Andy Tompkins	" " " "
Doug Bowman	CCEDS
Deb Voth	RAINBOWS United - Wichita
Bill Henry	Ks. Governmental Consulting
Bruce Burnett	USD 501 #
Martina L. Cooper	KACHA
Bonnie Pennie	Families Together, Inc
Jesie Torres	Ks DD Council
LINDA McGILL	MGA
Jacquie Oaker	SQE
Fay Alonge	Olathe Dist. schools

SUBCOMMITTEE REPORT

Agency: State Department of Education

Bill No. –

Bill Sec. –

Analyst: Rampey

Analysis Pg. No. 29

Budget Page No. 145

<u>Expenditure Summary</u>	<u>Agency Est. FY 99</u>	<u>Gov. Rec. FY 99</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 19,086,648	\$ 18,936,648	\$ 0
Aid to Local Units	2,419,421,379	2,413,441,906	0
Other Assistance	30,291,973	30,291,973	0
TOTAL	<u>\$ 2,468,800,000</u>	<u>\$ 2,462,670,527</u>	<u>\$ 0</u>
State General Fund:			
State Operations	\$ 9,362,889	\$ 9,212,889	\$ 0
Aid to Local Units	2,191,407,237	2,182,277,764	0
Other Assistance	319,222	319,222	0
TOTAL	<u>\$ 2,201,089,348</u>	<u>\$ 2,191,809,875</u>	<u>\$ 0</u>
FTE Positions	208.5	208.5	0.0
Unclass. Temp. Pos.	37.9	37.9	0.0
TOTAL	<u>246.4</u>	<u>246.4</u>	<u>0.0</u>

AGENCY OVERVIEW

The State Board of Education is a ten-member elected board established by the Kansas Constitution. It is responsible for the general supervision of public schools and all other educational interests of the state that are not under the jurisdiction of the Kansas Board of Regents. Its duties include accrediting elementary and secondary schools; establishing standard courses of study in the public schools; certifying teachers and administrators; approving public and private teacher education programs; administering a variety of state and federal aid programs; licensing proprietary schools; and supervising area vocational schools, technical colleges, and community colleges.

Agency Estimate/Governor's Recommendation

The State Department of Education estimates expenditures in FY 1999 of \$2,468,800,000. The amount is an increase of \$2,414,732 from the State General Fund (SGF) as the result of \$287,259 in savings carried forward as an unlimited reappropriation, \$150,000 requested as a supplemental appropriation to allow Kansas to participate in an international assessment of eighth graders in science and math, \$167,641 requested as a supplemental appropriation for juvenile detention facilities grants, and revisions made to estimated expenditures for several state aid programs. Revisions also are made to estimated expenditures from several federal funds as the result of more recent information about how much money will be available. Since submitting its budget, the State Department has withdrawn its request for funding for the international assessment of eighth graders because it now is too late in the year to participate in the activity.

Senate Ways and Means Committee

Date 2/2/99

Attachment # 1-1

The Governor recommends a total of \$2,462,670,527, which differs from the State Department's estimate primarily because the Governor had more recent information about estimated expenditures for several major state aid programs. (The State Department concurs with the Governor's estimates.) Areas of difference consist of the Governor recommending \$100,000 for juvenile detention facilities (\$67,641 less than requested) and not recommending \$150,000 for the eighth grade assessment.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendations, but calls attention to the following matter:

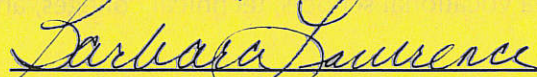
1. The 1998 Legislature enacted S.B. 298 which gives the State Board of Education the authority to deny applications for teaching certificates to persons who have been convicted of certain criminal offenses. The bill requires the county or district attorney to report to the State Department the name of persons who have committed an offense or have entered into a diversion agreement in connection with offenses addressed by the legislation. The State Department then cross-checks names reported against applications for initial teacher certification or renewal and does not grant licensure to applicants who are barred from teaching.

According to the State Department, it is not receiving reports from county and district attorneys. Therefore, the State Department is considering having the Kansas Bureau of Investigation (KBI) do a background check on the approximately 35,000 persons who currently hold teacher or administrator certification and thereafter have a check made of applicants for initial licensure. The KBI has informed the State Department that each check will cost \$3.75, for a total of \$131,250 to do the initial check of current licensees.

This total seems high to the Subcommittee. Therefore, it requests that the Senate Subcommittee charged with reviewing the budget of the KBI take this matter up with the agency and see if some arrangement can be made to reduce the cost of the checks.



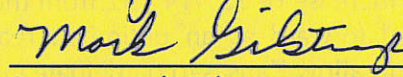
Senator Dave Kerr, Subcommittee Chair



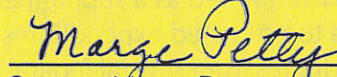
Senator Barbara Lawrence



Senator Larry Salmans



Senator Mark Gilstrap



Senator Marge Petty

SUBCOMMITTEE REPORT

Agency: State Department of Education

Bill No. –

Bill Sec. –

Analyst: Rampey

Analysis Pg. No. 29

Budget Page No. 145

<u>Expenditure Summary</u>	<u>Agency Req. FY 00</u>	<u>Gov. Rec. FY 00</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 19,110,204	\$ 18,544,269	\$ (239,906)*
Aid to Local Units	2,601,595,856	2,544,718,192	300,000
Other Assistance	30,737,412	30,727,249	0
TOTAL	\$ 2,651,443,472	\$ 2,593,989,710	\$ 60,094
State General Fund:			
State Operations	\$ 9,832,941	\$ 9,216,061	\$ (52,068)*
Aid to Local Units	2,385,762,135	2,311,373,364	250,000
Other Assistance	552,385	292,222	0
TOTAL	\$ 2,396,147,461	\$ 2,320,881,647	\$ 197,932
FTE Positions	208.5	208.5	0.0
Unclass. Temp. Pos.	36.9	36.9	0.0
TOTAL	245.4	245.4	0.0

* Includes a reduction of \$389,906 (\$202,068 from the State General Fund) for the Governor's employee salary adjustments.

Agency Request/Governor's Recommendation

The State Department of Education requests a total of \$2,651,443,472 for FY 2000, of which \$2,396,147,461 would be from the State General Fund (SGF). The amount is an increase of \$195.0 million over the State Department's estimate for the current year. Items that account for the greatest increase are general and supplemental general state aid (an increase of \$113,607,208) and special education (an increase of \$53.0 million). The State Board of Education requests an increase of \$75 in Base State Aid Per Pupil (BSAPP) and 100 percent funding of special education excess costs.

The Governor recommends expenditures of \$2,593,989,710, of which \$2,320,881,647 would be from the SGF. The Governor's SGF recommendation is an increase of \$129.1 million over his FY 1999 recommendation and includes funding for a \$35 increase in BSAPP and for 85 percent of special education excess costs.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendations, with the following exceptions and comments:

Senate Ways and Means Committee

Date: 2/4/99

Attachment # 2-1

Agency Operations

1. Delete \$389,906, of which \$202,068 is from the SGF, based on the decision to delete funding for the Governor's recommended pay plan adjustments. The adjustments consist of \$120,549 for a 2.5 percent classified step movement, \$82,118 for longevity bonus payments, \$72,186 for a 1.0 percent classified base salary adjustment, and \$115,053 for a 3.5 percent unclassified merit pool.
2. Add \$150,000 from the SGF for student assessments, for a SGF total of \$1,255,000. The addition would allow the State Board to initiate diagnostic reading tests for second graders. Part of the money would be used to help participating districts administer the tests and the rest would be used to pay the University of Kansas to validate the tests used. The Subcommittee agrees with the State Board that it is important to identify reading problems in the early grades.

State Aid and Other Assistance Programs

1. The Subcommittee concurs with the Governor's recommendations for general and supplemental general state aid, which would fund a \$35 increase in Base State Aid Per Pupil (BSAPP), lower the correlation weighting threshold from 1,750 students to 1,725, increase at-risk weighting from 8.0 percent to 9.0 percent, and expand the four-year old at-risk program from 1,350 students to 1,794. Because these changes would require a change in law, the Subcommittee recognizes that funding for school finance would have to be reconsidered at the end of the Session if legislation to implement the Governor's recommendations is not enacted as introduced.

The Subcommittee also flags for Omnibus consideration the matter of using money from the tobacco settlement. The Governor's recommendation uses \$5.1 million to help fund general state aid, \$777,833 to help fund the parent education program, and \$250,000 to fund part of a new discretionary grants program. Nobody knows when tobacco money will be available or what developments could affect the amount the states get, such as the bankruptcy of tobacco companies that are party to the settlement. Counting on money that might not come means programs would have to be cut or the money would have to be replaced. Furthermore, if the state does not get the money until the guaranteed date of June 30, 2000, the State Department says it will be too late to spend it in FY 2000. For these reasons, the Subcommittee believes the use of tobacco money in FY 2000 should be reviewed at the end of the Session when more information is available.

2. Add \$50,000 from the Economic Development Initiatives Fund for technology innovation grants to community colleges, area vocational schools, and technical colleges, for a total of \$250,000. Although the increase does not restore the program to the \$500,000 level of funding it had in prior years, it would provide additional funds for grants and internships to job training institutions for start-up support for innovative technical courses or programs in emerging technologies.
3. Add \$100,000 for Adult Basic Education, for a total of \$1,100,000. Services for adults who need basis skills in order to get jobs are among the most important the

state can provide and the Subcommittee strongly supports efforts of educational institutions in this regard.

4. Delete all funding (\$300,000 from the SGF) for Skilled Workforce Enhancement Grants, a new program recommended by the Governor. The Governor's recommendation would make \$10,000 available to each community college, area vocational school, and technical college for equipment, training opportunities, or any other purpose that would expand the workforce training capabilities of the institution. Instead, the Subcommittee recommends \$450,000 from the SGF for technology grants to community colleges and Washburn University, a program with a record of success that the Governor did not fund.
5. The Subcommittee concurs with the Governor's recommendation to provide \$2.5 million in vocational education capital outlay aid for area vocational school and technical colleges. Although the statutory purpose of the program includes funding for building construction, remodeling, and repairs, traditionally the money has been used to purchase equipment. However, the Subcommittee knows that many of the facilities were built in the 1960s and are in need of repair. For that reason, it states for the record that it does not discourage the State Board of Education from approving requests for capital improvements when a strong case can be made that the improvements are necessary.
6. The Subcommittee concurs with the Governor's recommendation to provide a total of \$26,401,234 from the SGF and the EDIF for postsecondary aid for area vocational schools and technical colleges. The amount is an increase of \$819,200 (3.2 percent) over the FY 1999 appropriation. The Subcommittee expresses its support for the job training and retraining programs offered by the institutions and notes that the appropriation for FY 1999 was an increase of only 1.8 percent over FY 1998.
7. The Subcommittee calls attention to a proposal by the State Board to create a design for connecting school districts, area vocational schools, and community colleges through a state technology infrastructure. The infrastructure also could serve the state universities, public libraries, hospitals, state and local units of government, and other similar organizations. The State Department has appointed an advisory committee comprised of representatives of the State Department, the Division of Information Services and Communications (DISC), and school districts to develop a framework or backbone that could be used to connect all school districts within the next 18 months and begin the research and development of a more advanced system to be recommended by the year 2002. Under the plan, school districts all would have Internet access, data transfer, and full motion video. The cost of the full range of services that would be available to schools, state agencies, and higher education institutions is estimated to be \$11.8 million the first year and \$8.9 million thereafter.

Although no specific funding for the proposal was requested, the State Board indicated that it would be willing to forego part of any recommended funding for school district, area vocational school, and community college technology in order to make funds available to develop the technology framework.

The Subcommittee is interested in the proposal because it believes schools should have access to available technology at a reasonable cost. The Subcommittee encourages the State Department to continue to work with DISC and to make the

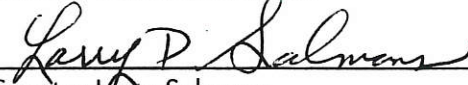
Joint Committee on Information Technology aware of its activities. The Subcommittee invites the State Board to submit a specific proposal for consideration in the Omnibus Bill.



Senator Dave Kerr, Subcommittee Chair



Senator Barbara Lawrence



Senator Larry Salmans

Senator Mark Gilstrap

Senator Marge Petty

MINORITY REPORT

One of the most important functions state government can do is provide for a strong system of public elementary-secondary education. The Governor's recommendations simply do not meet the needs of our students and, in some cases, actually are a step backward from the current level of funding. Examples are special education excess costs, which would be funded at a lower level than this year, and school district technology, for which the Governor recommends no money at all in FY 2000.

For these reasons, we cannot sign the majority report, which basically concurs with the Governor's recommendations. Instead, we endorse the recommendations of the Unified School Finance Coalition, a group of educational associations, school district superintendents, regional service centers, and the six largest school districts in Kansas. We share their conviction that an investment in public education pays off in better student performance. We cannot waver in our insistence that public education strive for excellence, nor can we abdicate our responsibility to provide the means by which excellence can be achieved. We, and the members of the Unified School Finance Coalition, urge support for the following items:

- Increase Base State Aid Per Pupil by \$100 (from \$3,720 to \$3,820), at a cost of \$57.3 million, or \$37.3 million more than the Governor.
- Reduce the correlation weighting threshold from 1,750 students to 1,700 students, at a cost of \$20.6 million, or \$10.3 million more than the Governor.
- Allow school districts to use the higher of the current year's enrollment or the enrollment of the two previous years (not just the most recent prior year) for purposes of determining their budget, at an estimated cost of \$11.3 million over the Governor's recommendation.
- Fund 100 percent of special education excess costs, at a cost of \$271,881,381, or \$40.8 million more than the Governor.
- Make \$20.0 million available for school district technology, twice the amount available in the current year and enough for the State Board of Education to work in conjunction with the Division of Information Services and Communications, school districts, and the Joint Committee on Information Technology to begin to develop the statewide telecommunications infrastructure that will make Internet access and other technologies available, not only to school districts, but to other public institutions and agencies as well. The Governor recommends no money for school district technology in FY 2000.



Senator Marge Petty



Senator Mark Gilstrap

COPY

December 9, 1998

Mr. Jack Hawn
Deputy Executive Secretary
Kansas Public Employees Retirement System
611 S. Kansas Avenue, Suite 100
Topeka, KS 66603-3803

Re: Lump Sum Payouts

Dear Mr. Hawn:

This letter is written in response to your request for information regarding the actuarial impact of KPERS offering a lump sum payment as an alternate form of benefit payment. If such a payout option were offered, the interest rate and mortality table used to determine the lump sum value would have to be defined. If this basis were the same as the actuarial assumptions used for purposes of determining the System's funding and contribution rates, theoretically there would be no increase in the liabilities of the System.

However, to the extent the System can earn a rate of return higher than the assumed interest rate for calculating the lump sum value, the System may be giving up the potential for future actuarial gains. Another consideration is the possibility of "adverse selection" where those individuals in poor health, whose life expectancy is shorter than average, will elect the lump sum payment while those in good health, whose mortality is better than average, will elect the monthly annuity option. If this were to occur, there would be an increased cost to the System over the long run.

A further consideration is the potential impact that offering lump sums might have on the investment strategy of the System. If large lump sum values are paid out of the System rather than being retained as part of the System's assets and paid out in monthly installments, the cash flow needs of the System may dictate a different investment strategy. You may want to discuss this in more detail with the KPERS Investment Staff.

Senate Ways and Means Committee

Date 2/4/99

Attachment # 3-1

December 9, 1998
Page 2

One of the main goals of the defined benefit plan design is providing postretirement income for the lifetime of the member. Although lump sums tend to be popular with members, they eliminate this basic feature of a defined benefit plan, i.e. guaranteed payments for the lifetime of the member. Once a lump sum is paid, there is no way to insure that members will spend the money wisely or invest to provide sufficient monthly income for life.

To our knowledge, there are no defined benefit plans in the public sector that currently offer a lump sum payment as an optional form of payment.

If you have any other questions, please let me know.

Sincerely,

Patrice A. Beckham, F.S.A.
Consulting Actuary

CC: Meredith Williams