Approved: February 16, 2000
Date

MINUTES OF THE SENATE WAYS & MEANS COMMITTEE.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on February 11, 2000 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Chief Fiscal Analyst, KLRD
Rae Anne Davis, KS Legislative Research Department
Debra Hollon, KS Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Asst. Revisor of Statutes
Judy Bromich, Administrative Assistant to the Chairman
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

Senator Salmans reviewed the FY 2001 subcommittee report for the **Citizens Utility Ratepayer Board**. (Attachment 1) Members spent some time discussing the enhancements that were requested by the agency but not addressed in the subcommittee report. Subcommittee members stated that they had not discussed what balances should be in the fee fund and did not want to change their recommendations at this time regarding the agency's requested enhancements.

Senator Salmans reviewed the FY 2001 subcommittee report on the **Governmental Ethics Commission**. (Attachment 2) Subcommittee members reiterated their concern about the declining balance in the agency's fee fund. Senator Salmans moved, Senator Jordan seconded that the subcommittee report be amended to include a chart demonstrating the status of ending balances in the agency's fee fund over the last 4 or 5 years. The motion to amend carried on a voice vote.

The FY 2001 subcommittee report on the **Kansas Human Rights Commission** was reviewed by Senator Downey. (Attachment 3)

The FY 2001 subcommittee report on the **Department of Administration** was reviewed by Senator Salisbury. (Attachment 4) In response to an concern regarding the subcommittee's recommendation to eliminate the Municipal Accounting and Training Services Office, Senator Salisbury noted that the subcommittee scheduled a public hearing and no one testified on this issue. She said that the Division of Accounts and Reports had prioritized their activities and this recommendation was the result of a difficult decision made by the Division.

There was discussion about the budget, the number of reports and the efficiency of the Performance Review Board. (Item 6 of Attachment 4-4) Senator Salisbury noted the investment of $876,000 between FY 97 and the current year has resulted in potential cumulative savings of $2.7 million.

Chairman Kerr reviewed the FY 2001 subcommittee report on the **Kansas Public Employees Retirement System**. (Attachment 5) He noted that recommendations 1-5 were agency enhancements that the Governor denied but the subcommittee believed would provide paybacks. In reviewing item 6, he stated that the subcommittee learned that the KPERS Board of Trustees decided to treat the $30 million in proceeds from litigation settlement as market gain and put it into the smoothing pool. He said that the result of that would mean that only $10 million would be recognized in FY 2001. The Chairman stated that he believed the Board was attempting to keep the unfunded liability looking as large as possible to keep pressure on the Legislature to add funds.

Senator Downey reviewed the minority report and noted the inclusion of a copy of the resolution which was passed in January and a chart of the projected impact of the one-year freeze on employer contributions. (Attachment 5, 6-9) In response to the statement, "The news KPERS recently announced about settlements totaling over $40 million, with approximately $30 million to be received by KPERS as net proceeds after paying expenses and legal fees, should be good news for all members, active and retired," Chairman Kerr stated that the unfunded liability exists within the KPERS fund and there's no responsibility on the part of retirees to pay that off. He added that the method of treatment by the majority report will benefit all members, not just the retired.

In answer to a question, Meredith Williams, Executive Secretary of KPERS, stated that the litigation proceeds in the accounting statements are reflected at full value upon receipt; the smoothing methodology only applies to actuarial computations made once a year to project future employer contribution rates. He stated that the financial statements of the retirement system have no smoothing methodology attached to them and never have.

Senator Downey stated that she objected to two issues:

- she believes that many KPERS members thought that retirement funds had been lost to them through poor investments and the litigation proceeds should be put back in for them.
- she believes that the Legislature needs to "stand on principle" and adhere to the policy made to fund COLA adjustments made in 1993 and 1998.

It was noted that losses due to poor investments and the enhanced benefits in 1993 and 1998 had all been used to calculate the general unfunded liability in KPERS.

In answer to a question, a representative from KPERS stated that regardless of whether the subcommittee report is adopted, the $30 million will go to the KPERS General Fund will be invested in the same way.

It was moved by Senator Salisbury and seconded by Senator Salmans that the FY 2001 subcommittee reports on the Citizens Utility Ratepayer Board, the Kansas Human Rights Commission, and the Department of Administration, and the FY 2001 Governmental Ethics Commission subcommittee report as amended be adopted. The motion carried on a voice vote.

Senator Lawrence moved, Senator Salisbury seconded that the FY 2001 subcommittee report on the Kansas Public Employees Retirement System be adopted. The motion carried on a voice vote.

It was moved by Senator Salisbury and seconded by Senator Morris that bill draft 9rs 2071 as requested by the subcommittee on the Department of Administration be introduced. The motion carried on a voice vote.

A motion was offered by Senator Jordan and seconded by Senator Gilstrap to approve the minutes of the February 9 meeting. The motion carried on a voice vote.

The Chairman adjourned the meeting at 12:25 p.m. The next meeting will be February 14, 2000.

SENATE WAYS & MEANS COMMITTEE GUEST LIST

DATE: February 11, 2000

NAME	REPRESENTING
Jack Hawn	KPERS
Meredith Williams	"
Lelae C Breed	"
Robert Woodard	"
Kevin Barone	Hein/weir Chrtd.
TK Shively	KS LEGAL SERVICES
Carolyn Middendorf	Ks St Ns Assn
SHIRLEY MOSES	Dept of Admin
Pat Higgins	D of A
DAN STANLEY	DoA
Vern R. Chesbro	KPERS
John Dukes	DOB
Carol Williams	Gov Ethics Commission
Louis Chabira	Budget
WALKER HENDRIX	CURB
John Kiefhaber	Ks Health Care Assn.
Nancy Pierce	KS Health Care Assn
Jim BECKWITH	Ks Assoc Area Agencies on Aging

Senate Subcommittee Report

Agency: Citizens' Utility Ratepayer Board **Bill No.** --- **Bill Sec.** —

Analyst: Severn **Analysis Pg. No.** 1516 **Budget Page No.** 95

Expenditure Summary	Agency Request FY 01	Gov. Rec. FY 01	Subcommittee Adjustments
Special Revenue Funds			
State Operations	$ 621,829	$ 470,195	$ (5,972) *
FTE Positions	6.0	4.0	0.0
Unclassified Temp. Positions	0.0	0.0	0.0
TOTAL	6.0	4.0	0.0

* The reduction of $5,972 from special revenue funds is entirely for the Governor's employee salary adjustment.

Agency Request/Governor's Recommendation

The agency's request for FY 2001 is for $621,829, an increase of $156,441 from the FY 2000 estimate. The agency requests enhancements of $148,349, including $40,000 for additional professional services for consulting services and 2.0 additional FTE, one staff attorney and one secretary. The Agency also requests that a temporary unclassified economist position be changed to an FTE position.

The Governor recommends FY 2001 expenditures of $470,195, an increase of $4,807 from the FY 2000 recommendation. The Governor includes $5,972 for his FY 2001 employee pay plan adjustment. The Governor concurs in making the economist position an FTE position but did not recommend any of the enhancements.

Senate Ways and Means Committee
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Attachment # 1

Fee Fund Analysis

The following table reflects the status of the agency's fee fund under the subcommittee recommendation.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor with the following exceptions:

1. Remove funding for the Governor's employee salary adjustment.
2. The subcommittee notes that the agency is doing good work under an increasing workload.
3. The subcommittee wishes to flag the agency's requested enhancements as worthy of consideration at omnibus.

Resource Estimate	Actual FY 1999	Agency Estimate FY 2000	Gov. Rec. FY 2000	Agency Request FY 2001	Gov. Rec. FY 2001	Subcom. Rec. FY 2001
Beginning Balance	$ (15,741)	$ 142,072	$ 142,072	$ 129,612	$ 129,612	$ 129,612
Projected Receipts	585,562	452,928	452,928	609,996	456,159	456,159
Total Available	$ 569,821	$ 595,000	$ 595,000	$ 739,608	$ 585,771	$ 585,771
Less: Expenditures	427,749	465,388	465,388	621,829	470,195	464,223
Ending Balance	$ 142,072	$ 129,612	$ 129,612	$ 117,779	$ 115,576	$ 121,548

Larry D. Salmans

Senator Larry D. Salmans, Chair

Christine Downey

Senator Christine Downey

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Senate Subcommittee Report

Agency: Governmental Ethics Commission **Bill No.** -- **Bill Sec.** --

Analyst: Hollon **Analysis Pg. No.** 1406 **Budget Page No.** 179

Expenditure Summary	Agency Req. FY 01	Gov. Rec. FY 01	Senate Subcommittee Adjustments*
State Operations:			
State General Fund	$ 404,344	$ 415,796	$ (9,285)
Special Revenue Funds	148,692	131,692	(393)
TOTAL	$ 553,036	$ 547,488	$ (9,678)
FTE Positions	9.0	9.0	0.0
Unclassified Temp. Positions	0.6	0.6	0.0
TOTAL	9.6	9.6	0.0

* Entire reduction for the Governor's salary adjustments.

Agency Request/Governor's Recommendation

The agency requests operating expenditures for FY 2001 of $553,036 which is an increase of $3,483 (0.6 percent) from the FY 2000 estimate. The request includes $438,969 for salaries and wages, $103,942 for contractual services, $4,925 for commodities, and $5,200 for capital outlay.

The Governor recommends operating expenditures for FY 2001 of $547,488 which is a decrease of $1,776 (0.3 percent) from the FY 2000 recommendation. The recommendation includes $433,421 for salaries and wages, $103,942 for contractual services, $4,925 for commodities, and $5,200 for capital outlay.

Senate Subcommittee Recommendations

The Subcommittee concurs with the Governor's recommendations with the following adjustments and notations:

1. Delete $9,678 ($9,285 SGF) for an unclassified merit pool.

2. Although the Subcommittee takes no action at this time, it notes the recommendation of the 1999 Legislature to review the agency's fee structure. This recommendation was made in response to the steadily

Senate Ways and Means Committee

Date February 11, 2000

Attachment # 2

decreasing balance in the agency's fee fund. The Subcommittee notes four options for maintaining sufficient funding for the agency in the future:

- Increase the State General Fund appropriation
- Raise the fees charged to candidates for elected office, political action committees, and lobbyists
- Investigate other sources of funding, or
- Reduce the agency's responsibilities and staff.

Larry D Salmans
Senator Larry Salmans, Chair

Christine Downey
Senator Christine Downey

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Senate Subcommittee Report

Agency: Kansas Human Rights Commission
Bill No. --
Bill Sec. --
Analyst: Nogle
Analysis Pg. No. --
Budget Page No. --

Expenditure Summary	Agency Request FY 01	Gov. Rec. FY 01	Senate Subcommittee Adjustments
State Operations:			
State General Fund	$ 1,596,373	$ 1,421,152	$ (50,980)
Special Revenue Funds	416,000	416,000	(5,971)
TOTAL	$ 2,012,373	$ 1,837,152	$ (56,951)*
FTE Positions	37.0	36.0	0.0
Unclassified Temp. Positions	1.0	1.0	0.0
TOTAL	38.0	37.0	0.0

* The entire reduction is the removal of the Governor's Pay Plan.

Agency Request/Governor's Recommendation

The agency requests FY 2001 state operations funding of $2,012,373, $139,943 (7.5 percent) more than the agency FY 2000 estimate.

The Governor recommends $1,873,152 for FY 2001. The recommendation includes $1,421,152 from the State General Fund and $416,000 from Special Revenue Funds. The Governor's recommendation is $175,221 (8.7 percent) less than the agency's request.

Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the Governor's recommendation with the following adjustments and observations:

1. The Senate Subcommittee removes the Governor's pay plan adjustments totaling $56,951.

2. The Senate Subcommittee recommends reviewing the enhancement request for 1.0 FTE position to increase the information/education staff at omnibus and notes the following:

   a. In its FY 2000 request the agency voluntarily eliminated two unclassified temporary positions and subsequently lost 1.0 FTE position to retirement reduction. The loss of three positions for FY 2000 causes potential problems for the agency for FY 2001.

Senate Ways and Means Committee
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Attachment # 3

b. As of January 1, 2000, the agency's pending case log had been reduced from an all-time high of 2,768 to 693 cases—a 75 percent decrease. The delay in processing time had decreased from the high of 24 months to about 6 months. The number of cases had been reduced from the high in 1994 of 154 complaints per month to less than 100 complaints per month due to the use of better screening methods and public education programs.

c. The mediation program with Kansas Legal Services (KLS) has a major impact on the agency's case backlog. Statistics indicate that 30 percent of complainants agree to participate in voluntary mediation and 35 percent of the cases are satisfactorily resolved. The mediation program is funded by a 3-to-1 match—for every $3 of state funds, KLS provides $1 of private funds. The private funds are donated by the Kansas Bar Association through the Interest in Lawyer's Trust Account (IOLTA). The IOLTA consists of interest money from trust accounts set up to hold client money for short periods of time. In FYs 1999, 2000, and 2001, KLS will provide $36,666 in match money to the state's $110,000.

Larry D. Salmans

Senator Larry Salmans, Chairman

Christine Downey

Senator Christine Downey

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Subcommittee Report

Agency: Department of Administration **Bill No.** ??? **Bill Sec.** ???

Analyst: West **Analysis Pg. No.** 1,432 **Budget Pg. No.** 13

Expenditure Summary	Agency Req. FY 01	Gov. Rec. FY 01	Senate Subcommittee Adjustments*
All Funds:			
State Operations	$ 22,242,874	$ 20,090,272	$ (379,060)
Aid to Local Units	544,014	458,295	0
Other Assistance	8,849,381	3,129,364	0
Subtotal—Operating	$ 31,636,269	$ 23,677,931	$ (379,060)
Capital Improvements	10,296,864	1,989,864	0
TOTAL	$ 41,933,133	$ 25,667,795	$ (379,060)
State General Fund:			
State Operations	$ 21,554,725	$ 19,282,209	$ (373,732)
Aid to Local Units	329,014	243,295	0
Other Assistance	7,804,731	1,734,714	0
Subtotal—Operating	$ 29,688,470	$ 21,260,218	$ (373,732)
Capital Improvements	10,282,000	1,975,000	0
TOTAL	$ 39,970,470	$ 23,235,218	$ (373,732)
FTE Positions:			
Reportable Budget	314.0	288.0	0.0
Nonreportable Budget	592.4	596.4	0.0
Subtotal—FTE	906.4	884.4	0.0
Unclass. Temp. Positions	20.8	19.8	0.0
TOTAL	927.2	904.2	0.0

* Includes a reduction of $379,060 ($373,732 State General Fund) for the Governor's state employee salary adjustment. Absent this reduction, the Subcommittee's recommendation concurs with the budget submitted by the Governor.

Agency Req./Governor's Recommendation

The agency requests an FY 2001 **reportable** operating budget of $31.6 million, an increase of $5.3 million (19.9 percent) from the current year estimate.

- The request includes $7.1 million for budget enhancements. Absent these enhancements, the agency's request would be $24.5 million, a decrease of $1.8 million (7.0 percent) from the current year.

Senate Ways an d Means Committee

Date February 11, 2000

Attachment # 4

The Governor recommends an FY 2001 **reportable** operating budget of $23.7 million, a decrease of $2.3 million (8.8 percent) from the current year.

- The recommendation includes a net decrease of 1.0 FTE position and a net increase 3.4 Unclassified Temporary positions from the current year recommendation, which reflects 3.0 FTE and 3.5 Unclassified Temporary positions added to DISC offset by the elimination of the 4.0 FTE associated with the **Municipal Accounting and Training Services Office**. The elimination of the Office reduces expenditures by $240,241, including $155,294 from the State General Fund.
- Fringe benefit costs are decreased from the agency's request with revised contribution rates for KPERS and Workers' Compensation.
- Recommended expenditures of $823,124 are shifted from the reportable to the nonreportable budget to minimize State General Fund expenditures.
- The recommendation includes $712,105 for enhancements requested by the agency.

Senate Subcommittee Recommendation

The Subcommittee concurs with the Governor's recommendations, with the following adjustments and observations:

1. Delete $379,060 (including $373,732 from the State General Fund) from the reportable budget and $657,826 from the nonreportable budget to remove funding recommended by the Governor for classified step movement, longevity pay, and unclassified merit pay.
2. S.B. 100, approved by the Senate, authorizes transfers from the State General Fund to the State Emergency Fund if needed in case of disasters. The Subcommittee recommends unencumbered balances in the State Emergency Fund in excess of $100,000 be transferred to the State General Fund. This transfer increases FY 2001 State General Fund revenues by $1.9 million above the Governor's recommendation.
3. The Subcommittee notes that the Governor recommends that the Municipal Accounting and Training Services Office of the Division of Accounts and Reports be eliminated, producing savings of $240,241, including $155,294 from the State General Fund. The Office provides technical assistance and training to local officials in preparation of their annual budgets. The Subcommittee has been informed that the Office's elimination is not a reflection on the merits of the program or the assistance the Office provides to local officials, but rather the recommendation is based purely on budgetary constraints. The Subcommittee notes that the Office is required to perform several statutory responsibilities and that

legislation has been requested by the agency that would repeal or amend the relevant statutes.

4. The Subcommittee notes that the Governor's nonreportable budget recommendation includes the following increased fees or new fees to be assessed against state agencies: The Division of Purchases fee for items purchased from state contracts is increased from 0.5 percent to 0.75 percent. The fee increase is anticipated to produce $181,058, which is used to offset State General Fund expenditures in the reportable budget. A new fee of $0.35 per payroll check or advice issued through the SHaRP will be assessed starting in FY 2001. $0.10 will go to the Division of Personnel Services, where it is used to offset $150,670 of State General Fund expenditures in the reportable budget. The balance goes to DISC, where it will be used to help finance future SHaRP upgrades. The Governor's recommendations also utilize available balances in nonreportable budget funds to shift expenditures in DISC ($65,000), Accounts and Reports ($176,396) and Architectural Services ($250,000). In all, the Governor's recommendation shifts $823,124 from the reportable budget to the nonreportable budget. In the absence of this shift, the Governor's recommended reportable all funds operating budget is a reduction of $1.5 million (5.6 percent) compared to the current year. The State General Fund budget is reduced by $1.9 million (7.8 percent) and the nonreportable budget is increased by $2.6 million (2.8 percent).

5. In reviewing the budget for the Public Broadcasting Council, the Subcommittee learned that the estimated cost of converting public television stations to digital broadcasting is $48.3 million through FY 2004. Of this amount, the Council is requesting $15.0 million from the state. The conversion to digital broadcast was mandated by the Federal Communications Commission, with a deadline for substantial implementation of May 1, 2003. The Subcommittee was informed by the Council that in order to meet this deadline the minimum state investment in FY 2001 is $1,450,000, with the balance deferred until later years. The Governor's FY 2001 recommendation includes $350,000 for a portion of this initiative. The Subcommittee was also informed that the federal government maintains a lien for a period of 10 years on equipment acquired in whole or in part with federal grants.

   The Subcommittee recommends that the Council work with the Department of Administration and the Kansas Development Finance Authority to explore alternative funding mechanisms, such as the State Master Lease program or bonding, and report back to the Subcommittee prior to Omnibus.

   The Subcommittee also recommends that the Public Broadcasting Council be a topic of study this interim. The interim study could include the costs and benefits of conversion to digital broadcasting, the extent to which the state should financially participate in the project, and an examination of the $2.00 per capita public funding goal established by the 1993 Legislature.

6. The Subcommittee notes with concern that the Governor's recommendation for the Performance Review Board will only support one study from State General Fund resources. The Governor's recommendation also includes a nonreportable budget for the Board of $74,962, with the resources to come from state agencies which have had savings identified by the Board's efforts. The Director of the Board noted that agencies are typically resistant to review and would be even more reluctant if they are to be charged for the review when no funding is available in the budget to pay for the charge.

   The Subcommittee learned that the Board's recommendations to date, including preliminary recommendations under review this month, could produce savings of $2.8 million if fully implemented. The Subcommittee reviewed the progress in implementing the Board's recommendations that were produced in two studies completed prior to this fiscal year. In the Central Motor Pool, implementation of the fleet card for fueling has produced savings of 3 cents per gallon of gas used by state agencies participating in the program. The Department of Human Resources has saved $60,000 by using Central Motor Pool vehicles instead of reimbursing for private milage. Other recommendations of the Board for the Central Motor Pool, primarily increased usage by other state agencies in lieu of maintaining their own vehicles, are gradually being implemented as the Central Motor Pool increases its capacity to handle other state agency needs and other agencies become convinced of the program benefits. The Subcommittee learned that one area of potentially large savings involves the Regents institutions utilizing Central Motor Pool vehicles instead of maintaining their own vehicle fleets. The institutions are reluctant to participate, perceiving problems about potential logistical difficulties, the Department of Administration's technical capacity and a lack of choice in vehicle colors and styles. The Subcommittee recommends that the Subcommittee of Higher Education review this reluctance with the institutions.

   For DISC, renegotiating long distance rates produced savings of $438,000 in FY 1999, $438,000 in FY 2000, with anticipated savings increasing to $548,000 in FY 2001. The Subcommittee also learned that DISC plans to rebid the contract for long distance service later this year to ascertain if additional savings can be achieved. The recommendation that DISC shift agency billing to the private sector has been put on hold for the time being because of the failure of AT&T to produce accurate bills. DISC reports that it will continue to pursue this initiative.

   The Subcommittee is concerned about the number of studies which can be supported from State General Fund resources under the Governor's recommendation. On the other hand, the Governor's recommendation that some portion of the savings in state agency budgets identified by the Performance Review Board be captured to support the Board's efforts is not without merit. The Subcommittee recommends that the Performance Review Board utilize its authority to bill agencies for the Board's services.

In lieu of that action, future legislatures should consider revenue transfers from the agencies which benefit from the Board's activities to support the Board in fulfilling its mission of making government more efficient.

The Subcommittee also notes with concern that while the quorum for meetings of the Board is four, up until recently there were only three members appointed to the Board by the Governor and that the fifth Board position still remains vacant.

Senator Alicia L. Salisbury, Subcommittee Chair

Senator Nick Jordan

Mark Gilstrap

Senator Mark S. Gilstrap

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Subcommittee Report

Agency: Kansas Public Employees Retirement System (KPERS) **Bill No.** -- **Bill Sec.** --

Analyst: Efird **Analysis Pg. No.** 1388 **Budget Page No.** 307

Expenditure Summary		Agency Request FY 01		Gov. Rec. FY 01		Subcommittee Adjustments
Agency Operations	$	6,172,175	$	5,727,983	$	291,170
Technology Project		0		0		0
Investment-Related Expenses		28,084,448		28,084,440		(1,208,055)
Subtotal–State Operations		34,256,623		33,812,423		(916,885)
Benefit Payments		535,133,467		0		0
Total–Operations	$	569,390,090	$	33,812,423	$	(916,885)
FTE Positions		79.0		78.0		1.0
Unclassified Temp. Positions		0.0		0.0		0.0
TOTAL		79.0		78.0		1.0

Note: Includes a reduction of $102,420 from all other funds for the Governor's employee salary plan adjustments. Absent the Subcommittee's adjustment to the Governor's salary plan, the total adjustment is a reduction of $814,762 from all other funds.

Agency Request/Governor's Recommendation

The agency's FY 2001 request reflects a net increase of almost $32.9 million. Benefit payments would increase $32,460,640, investment-relate expenses $1,788,525, and agency operations $1,049,333 (exclusive of any KSIP funding). New staffing is requested in addition to operating expenses resulting from implementation of the technology project. A total of 3.0 new FTE is requested.

The Governor's recommendation, which treats benefit payments as nonreportable expenditures in FY 2001, provides a net increase of less than $10,000 in the agency operating budget. The Governor concurs with the estimate for investment-related expenses of $28,084,440. Also recommended are 2.0 FTE new positions for the imaging project implementation.

Senate Ways and Means Committee

Date February 11, 2000

Attachment # 5

Senate Subcommittee Recommendations

The Subcommittee concurs with the Governor's recommendations in FY 2001, and makes the following additional adjustments:

1. Reduce $102,420 for the Governor's recommended pay plan adjustments, including $43,421 for step movement, $32,007 for longevity, and $26,892 for unclassified merit pay.

2. Add $300,000 to pay for advertising and other expenses relative to a proposed constitutional amendment on the November, 2000, general election ballot. The 1999 Legislature passed a concurrent resolution to replace a constitutional bank restriction with language that would permit KPERS to invest in banks and other financial institutions. KPERS estimates that annual savings on fees that KPERS pays to its investment managers will be $1,045,000 if the amendment is approved by the voters.

3. Add $36,122 for 1.0 FTE position to provide an investment accountant. This position would perform accounting duties for a $1 billion internally managed portfolio.

4. Add $57,469 for additional bonus awards that to be paid to some of the 12 unclassified staff. The Governor's recommendation includes $75,000 for an incentive compensation plan for eligible unclassified staff in FY 2001 This new additional amount of $57,469 would allow full funding since two new staff were added to the plan by the Board of Trustees, with eligible staff now including the executive secretary, five in the investment unit, one in the information technology unit, and one in the member services unit.

5. Reduce estimated expenses for investment-related and legal expenses by $1,208,055, including a reduction of $750,000 for litigation expenses. With the recent announced settlements in excess of $40 million, the KPERS litigation is drawing to a close and reductions in the $1.5 million amount budgeted would be possible. In addition, the fees paid to investment managers are market-driven and this adjustment should be reviewed further during the Omnibus period.

6. Recommend a proviso and substantive legislation that would apply the net proceeds of any settlements arising from KPERS litigation to paying for the unfunded liability of the 1998 COLA. KPERS recently announced settlements totaling over $40 million, of which approximately $30 million would be received by KPERS as net proceeds after paying expenses and legal fees. The Subcommittee recommends that this funding and any future settlement funding be applied exclusively to reducing the 1998 COLA unfunded liability which must be paid over a 15-year period beginning in FY 2001.

   The 1998 Legislature passed a 3.0 percent COLA and prepaid $20 million from the State General Fund in FY 1999. The remaining unfunded liability of $88 million was supposed to be paid with an increase of 0.19 percent for 15 years in the employer contribution rates beginning next fiscal year. The Governor's proposed freeze in FY 2001 of the retirement contribution rate at 3.59 percent (the FY 2000 rate) would defer until FY 2002 paying the first installment of 0.19 percent for the 1998 COLA and increasing the 0.20 percent for the annual adjustment to pay at the actuarial contribution rate by FY 2004 for the 1993 benefit enhancements.

This recommendation would direct KPERS to apply the settlement proceeds to reducing the unfunded liability for the 1998 COLA and for the first two to three years of the 15-year repayment period would eliminate the requirement for the state and other local participating employers from paying the 0.19 percent assessment increase. KPERS will develop a fiscal note to indicate when participating employers will need to begin paying an annual assessment for the 1998 COLA unfunded liability, taking into account the application of this $30 million payment that should eliminate at least the FY 2001 and FY 2002 installments for the state and local units of government. The Governor's proposal would not freeze the anticipated CY 2001 local rate increases for retirement payments. Only the insurance deferral that was addressed by the Governor's recommendations would have allowed local units to skip those payments for one year.

Dave Kerr

Senator Dave Kerr, Chairperson

Christine Downey

Senator Christine Downey

Barbara Lawrence

Senator Barbara Lawrence

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Kansas Public Employees Retirement System
Projected Impact of One Year Freeze of State School Contribution Rate
Adjusted for Litigation Settlement
Level of Contributions

	One Year Freeze (Adj. for Litigation Settlement)				Original Projections	
Fiscal Year	Cont Rate	Projected Contributions	Impact of Lit. Settle.	Adjusted Proj. Contributions	Projected Contributions	Changes in Contributions
2000	4.19%	$ 222.65		$ 222.65	4.19% $ 222.65	$ -
2001	4.19%	$ 231.55	$ -	$ 231.55	4.58% $ 243.45	$ (11.90)
2002	4.58%	$ 253.19	$ -	$ 253.19	4.78% $ 259.54	$ (6.35)
2003	4.78%	$ 269.92	$ -	$ 269.92	4.98% $ 276.52	$ (6.60)
2004	4.98%	$ 287.58	$ -	$ 287.58	5.18% $ 294.44	$ (6.86)
2005	5.18%	$ 306.22	$ (1.05)	$ 305.16	5.30% $ 310.52	$ (5.36)
2006	5.24%	$ 320.55	$ (1.32)	$ 319.22	5.19% $ 318.87	$ 0.36
2007	5.16%	$ 330.49	$ (1.57)	$ 328.91	5.10% $ 328.21	$ 0.71
2008	5.10%	$ 341.18	$ (1.75)	$ 339.43	5.03% $ 338.40	$ 1.03
2009	5.05%	$ 352.72	$ (1.91)	$ 350.81	4.98% $ 349.76	$ 1.05
2010	5.01%	$ 365.27	$ (2.05)	$ 363.21	4.94% $ 362.15	$ 1.06
2011	4.99%	$ 378.75	$ (2.18)	$ 376.57	4.91% $ 375.50	$ 1.07
2012	4.97%	$ 393.12	$ (2.31)	$ 390.81	4.90% $ 389.72	$ 1.09
2013	4.96%	$ 408.32	$ (2.43)	$ 405.89	4.89% $ 404.78	$ 1.11
2014	4.95%	$ 424.34	$ (2.56)	$ 421.78	4.88% $ 420.64	$ 1.14
2015	4.95%	$ 441.15	$ (2.68)	$ 438.47	4.88% $ 437.29	$ 1.18
2016	4.76%	$ 448.30	$ (2.80)	$ 445.50	4.69% $ 444.28	$ 1.22
2017	4.75%	$ 465.47	$ (2.93)	$ 462.54	4.67% $ 461.28	$ 1.26
2018	4.73%	$ 483.28	$ (3.07)	$ 480.22	4.66% $ 478.91	$ 1.31
2019	4.73%	$ 502.64	$ (3.21)	$ 499.44	4.66% $ 498.07	$ 1.36
2020	4.73%	$ 522.88	$ (3.35)	$ 519.53	4.66% $ 518.11	$ 1.42
2021	4.74%	$ 544.06	$ (3.50)	$ 540.56	4.66% $ 539.08	$ 1.48
2022	4.74%	$ 566.15	$ (3.66)	$ 562.49	4.67% $ 560.95	$ 1.54
2023	4.75%	$ 589.19	$ (3.82)	$ 585.36	4.67% $ 583.75	$ 1.61
2024	4.76%	$ 613.21	$ (3.99)	$ 609.22	4.68% $ 607.54	$ 1.68
2025	4.76%	$ 638.27	$ (4.18)	$ 634.10	4.69% $ 632.34	$ 1.76
2026	4.77%	$ 664.42	$ (4.37)	$ 660.05	4.69% $ 658.21	$ 1.84
2027	4.78%	$ 691.71	$ (4.57)	$ 687.14	4.70% $ 685.22	$ 1.92
2028	4.79%	$ 720.23	$ (4.79)	$ 715.44	4.71% $ 713.42	$ 2.01
2029	4.80%	$ 750.05	$ (5.02)	$ 745.03	4.72% $ 742.92	$ 2.11
2030	4.81%	$ 781.31	$ (5.28)	$ 776.03	4.73% $ 773.82	$ 2.22
2031	4.83%	$ 814.17	$ (5.55)	$ 808.61	4.75% $ 806.28	$ 2.33
2032	4.85%	$ 848.92	$ (5.87)	$ 843.05	4.77% $ 840.58	$ 2.46
2033	4.88%	$ 886.14	$ (6.24)	$ 879.89	4.80% $ 877.27	$ 2.62
2034	4.93%	$ 927.40	$ (6.75)	$ 920.65	4.85% $ 917.82	$ 2.83
Total contributions		$ 17,784.78	$ (104.78)	$ 17,680.00	$17,672.27	$ 7.73

KPERS
January 31, 2000

5-4

Kansas Public Employees Retirement System
Status of Unfunded Liability
As of June 30, 1999

Current Actuarial Value   Market Smoothing Method

Actuarial Liability - June 30, 1999	$9,999,245,726
Actuarial Valuation of Assets	$8,601,875,670
Unfunded Liability - June 30, 1999	($1,397,370,056)
Funded Ratio	86%

Actual Market Value Basis

Actuarial Liability - June 30, 1999	$9,999,245,726
Market Value of Assets	$9,436,103,979
Unfunded Liability - June 30, 1999	($563,141,747)
Funded Ratio	94%

Difference between Actuarial Value and Market Value at June 30, 1999	$834,228,309

KPERS
February 8, 2000

MINORITY REPORT

I am in agreement with the Subcommittee's recommendations 1-5, but do not agree with item 6 of the Subcommittee recommendations. The net proceeds of any settlements arising from KPERS litigation should be used for the exclusive benefit of **all** KPERS members, including those retired and others still employed, rather than buying down a part of the unfunded liability from the 1998 COLA for retired members.

The news KPERS recently announced about settlements totaling over $40 million, with approximately $30 million to be received by KPERS as net proceeds after paying expenses and legal fees, should be good news for **all** members, **active and retired**. It would be wrong to adopt the Subcommittee's recommendation that this funding and any future settlement funding be applied exclusively to reducing the unfunded liability that was caused by the1998 COLA and which must be paid over a 15-year period beginning in FY 2001.

The Governor's recommended "freeze" in the state's employer contribution would save $12 million, of which approximately $6 million would be for the 1998 COLA payment. The progress we have made toward paying off the unfunded liability would not only be delayed, we would also be taking a step backward by not meeting our statutory obligation to start paying for the unfunded liability attributed to the 1998 COLA.

A moratorium also has been proposed on the state's contribution to the KPERS Death and Disability Insurance Fund during FY 2001. Strong opposition to both of the KPERS proposals has been voiced by the Governor's own appointees to the KPERS Board of Trustees. The Board has stated in a resolution, "While neither proposal would present the retirement system from making current and future benefits payments, confidence in the continued sound financial status of the system would be severely undermined by the fear that every future budget challenge would be solved, in whole or in part, by looking to the trust funds of the retirement system."

Christine Downey

Senator Christine Downey

RESOLUTION

The Kansas Public Employees Retirement System is a multi-employer, defined benefit, public pension plan serving the needs of over 250,000 current and retired Kansas public servants, over 1,500 local units of Kansas government, and the State of Kansas. The Retirement System also administers life and disability insurance programs for its members. KPERS is funded on an actuarial reserve basis through member and employer contributions. Assets are accumulated and invested to provide benefits during employment and at retirement.

Today, 153,998 active KPERS members are providing services to the citizens of Kansas. These members include the police officer in Chanute, the hospital orderly in Larned, the correctional officer in Lansing, the school teacher in Oberlin, the sanitation worker in Garden City, and the court services officer in Rawlings County. The 52,905 retired members of the System receive an average monthly benefit of $767, based on an average of 22.3 years of public service. Over 85 percent of retired KPERS members continue to reside in Kansas.

The actuarial value of the System's assets, which are held in trust for the exclusive benefit of its members, totaled $8.6 billion at June 30, 1999. The actuarial retirement liabilities of the System totaled $10.0 billion at the same date. The $1.4 billion difference, the unfunded actuarial liability, is being paid off over a 40-year statutory amortization period through employer contributions that increase a prescribed amount each year. The KPERS System has always been funded on an actuarially sound basis; all scheduled amortization payments have been made on a timely basis.

The Retirement System also administers a death and disability coverage program for its members. The System holds assets with an actuarial value of $170.4 million for the package of death and disability benefits program that had an actuarial liability of $148.4 million at June 30, 1999. The program is funded by employer contributions that equal 0.6 percent of covered compensation. Actual costs for the program are currently at 0.62 percent of covered compensation. The $22 million excess funding is amortized over a 40-year period to bring costs down to 0.6 percent of covered compensation.

The Retirement System, as established by law, is governed by a nine-member Board of Trustees; four appointed by the Governor, one each appointed by the Speaker of the Kansas House of Representatives and the President of the Kansas Senate, two elected by the members of the System, and one, the State Treasurer, elected by the citizens of Kansas. Trustees are fiduciaries, requiring that their every decision be made exclusively in the best interests of the System's members. **Kansas law permits no exception to this fiduciary responsibility.**

(over)

The State of Kansas needs to bring expenditures in line with projected revenues. Among the proposals advanced to solve this situation are two that impact the Retirement System. One proposal would lead to a 15-month moratorium on employer contributions to the life and disability program. Such a moratorium would cost the Retirement System $33.67 million; creating a short run savings of $6.77 million for local units of government and $26.9 million for the State of Kansas. The funding of the death and disability program would decline from its current level of 115 percent to 100 percent, leaving no safety net for adverse financial markets or any increases in the rate of disability.

Another proposal would freeze the State of Kansas' employer contribution to the Retirement Fund at its current level for one year. This action would save the State $11.9 million dollars in the first year and a total of $36.02 million over the first five years. However, over the statutory amortization period, this intergenerational liability shift will cost taxpayers an additional $112.51 million. (This concept is illustrated on the attached chart.) This proposal has no impact on local units of government.

The Board of Trustees takes great pride in the prudent, effective and efficient operation of the Retirement System. The current proposals, if implemented, would establish a new and imprudent precedent of reducing the contribution to the employer-sponsored plan while an unfunded liability exists and while existing contribution rates are less than actuarially required. Progress toward paying off the unfunded actuarial liability would not only be interrupted, it would take a step backward. As of June 30, 1999, $360 million of the unfunded liability had accrued over the past five years due exclusively to the lag in adjusting employer contribution rates and the statutory cap on those rates. While neither proposal would prevent the Retirement System from making current and future benefit payments, confidence in the continued sound financial status of the System would be severely undermined by the fear that every future budget challenge would be solved, in whole or in part, by looking to the trust funds of the Retirement System.

The Board of Trustees, while fully cognizant of the difficult choices facing Kansas public policymakers, is opposed to any proposal to halt or freeze employer contributions to the Retirement System. In its fiduciary capacity, the Board urges policymakers to seek out prudent alternatives. To that end, the Board directs the Retirement System staff and consultants to evaluate actions necessary to honor its fiduciary duty and to assist Kansas policymakers in analyzing and evaluating other alternatives.

Adopted by the KPERS Board of Trustees
January 21, 2000

Kansas Public Employees Retirement System
Projected Impact of One Year Freeze of State School Contribution Rate
Level of Contributions
(in millions)

Fiscal Year	One Year Freeze: Cont Rate	One Year Freeze: Projected Contributions	Current Projections: Cont Rate	Current Projections: Projected Contributions	Changes in Contributions
2000	4.19%	$ 222.65	4.19%	$ 222.65	$ -
2001	4.19%	$ 231.55	4.58%	$ 243.45	$ (11.90)
2002	4.58%	$ 253.19	4.78%	$ 259.54	$ (6.35)
2003	4.78%	$ 269.92	4.98%	$ 276.52	$ (6.60)
2004	4.98%	$ 287.58	5.18%	$ 294.44	$ (6.86)
2005	5.18%	$ 306.22	5.30%	$ 310.52	$ (4.31)
2006	5.24%	$ 320.55	5.19%	$ 318.87	$ 1.68
2007	5.16%	$ 330.49	5.10%	$ 328.21	$ 2.28
2008	5.10%	$ 341.18	5.03%	$ 338.40	$ 2.78
2009	5.05%	$ 352.72	4.98%	$ 349.76	$ 2.96
2010	5.01%	$ 365.27	4.94%	$ 362.15	$ 3.12
2011	4.99%	$ 378.75	4.91%	$ 375.50	$ 3.25
2012	4.97%	$ 393.12	4.90%	$ 389.72	$ 3.40
2013	4.96%	$ 408.32	4.89%	$ 404.78	$ 3.54
2014	4.95%	$ 424.34	4.88%	$ 420.64	$ 3.70
2015	4.95%	$ 441.15	4.88%	$ 437.29	$ 3.85
2016	4.76%	$ 448.30	4.69%	$ 444.28	$ 4.02
2017	4.75%	$ 465.47	4.67%	$ 461.28	$ 4.20
2018	4.73%	$ 483.28	4.66%	$ 478.91	$ 4.38
2019	4.73%	$ 502.64	4.66%	$ 498.07	$ 4.57
2020	4.73%	$ 522.88	4.66%	$ 518.11	$ 4.77
2021	4.74%	$ 544.06	4.66%	$ 539.08	$ 4.98
2022	4.74%	$ 566.15	4.67%	$ 560.95	$ 5.20
2023	4.75%	$ 589.19	4.67%	$ 583.75	$ 5.43
2024	4.76%	$ 613.21	4.68%	$ 607.54	$ 5.68
2025	4.76%	$ 638.27	4.69%	$ 632.34	$ 5.93
2026	4.77%	$ 664.42	4.69%	$ 658.21	$ 6.21
2027	4.78%	$ 691.71	4.70%	$ 685.22	$ 6.50
2028	4.79%	$ 720.23	4.71%	$ 713.42	$ 6.80
2029	4.80%	$ 750.05	4.72%	$ 742.92	$ 7.14
2030	4.81%	$ 781.31	4.73%	$ 773.82	$ 7.49
2031	4.83%	$ 814.17	4.75%	$ 806.28	$ 7.89
2032	4.85%	$ 848.92	4.77%	$ 840.58	$ 8.33
2033	4.88%	$ 886.14	4.80%	$ 877.27	$ 8.86
2034	4.93%	$ 927.40	4.85%	$ 917.82	$ 9.58
Total contributions		$17,784.78		$17,672.27	$ 112.51

KPERS

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