Approved: December 9, 2002
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Representative Kenny Wilk at 9:00 a.m. on March 26, 2002, in Room 514-S of the Capitol.

All members were present except:	Representative Neufeld, Excused Representative Light, Excused Representative Peterson, Excused Representative Klein, Excused
Committee staff present:	Amy Kramer, Legislative Research Alan Conroy, Legislative Research Julian Efird, Legislative Research Deb Hollon, Legislative Research Becky Krahl, Legislative Research Audrey Nogle, Legislative Research Robert Waller, Legislative Research Paul West, Legislative Research Jim Wilson, Revisor of Statutes Mike Corrigan, Revisor of Statutes Nikki Feuerborn, Committee Secretary
Conferees appearing before the committee:	Barb Hinton, Legislative Post Audit Amy Brunner, Kansas Association of School Boards Glenn Deck, Executive Director, KPERS
Others attending:	See Attached

Hearing on Sub SB 365–Certain employer contributions for death and disability benefits

Julian Efird, Legislative Research Department, explained that this was a carry-over bill which would extend for six months in FY 2002 , the present moratorium on the employer contributions for insurance payments that finance the death and long-term disability benefits program administered by Kansas Public Employees Retirement System (KPERS) (Attachment 1). The Committee was informed of the payment which is due to the Department of Education for the state's contribution to KPERS on March 29 and the $8.0 million shortfall. A supplemental appropriation will be necessary but the funding source is yet to be determined. If the payment is late, KPERS has the authority to charge interest on money not timely submitted. There is no formula statutorily indicated for the interest rate.

Glenn Deck, Executive Director of KPERS, reported the interest rate usually charged by KPERS for late payment is determined by the Secretary of State. It is currently 7.25 percent but the Legislature could set a different interest rate formula statutorily.

Chairman Wilk closed the hearing on **Sub SB 365**.

Hearing, Discussion, and Action on SB 375–Reporting requirement for early retirement inventive programs established by boards of education

Julian Efird, Legislative Research Department, explained that the bill would eliminate the statutory requirement that community college boards and public school boards in districts having an early retirement incentive program must submit an actuarial valuation at least once every three years.

Barb Hinton, Legislative Post Audit, explained that requiring an actuarial valuation was extremely expensive for small districts and did not provide the type of information they need to forecast their costs for the next three years (Attachment 2).

Amy Brunner, Kansas Association of School Boards, testified in support of the bill as it would benefit the smaller districts (Attachment 3).

Written testimony supporting the bill was received from Sheila Frahm, Executive Director of KACCT, and Dr. Jackie Vietti, Chair, Council of Presidents (Attachment 4).

Representative Nichols moved to amend the bill by making the bill effective upon publication in the Kansas Statutes. Motion was seconded by Representative Landwehr. Motion carried.

Representative Hermes moved to report the bill favorably as amended. Motion was seconded by Representative Stone.

Representative Spangler moved to amend the bill by adding to Line 34 authority for the Kansas Public Employees Retirement System to place Charles Kohler in the retirement tier to which he claims he is entitled. Motion was seconded by Representative Nichols. Motion failed.

Representative Hermes renewed her motion to report the bill favorably as amended with the support of the second. Motion carried.

SB 386–KPERS funding of unfunded obligations of certain benefits of employees of regents' institutions for prior service

Julian Efird, Legislative Research, explained that the bill would allow anyone to become a special member of KPERS if the person is retired or retires in the future under subsection (3) of KSA 74-4925 which establishes a group for Regents unclassified staff with prior service credit under KPERS. This would allow the TIAA-CREF members to become eligible for death and disability benefits.

There were no proponents or opponents who appeared before the Committee. Chairman Wilk closed the hearing on **SB 386**.

Discussion and Action on SB 477–Protection from abuse fund; increased revenue; used for ongoing expenses of domestic violence or sexual assault programs

The Committee discussed that the language in the bill for **HB 2731** for which a hearing was held on February 27, 2002, was identical to that of **SB 477** except for two technical changes regarding the percentage of the docket fee and moving the increase from $1 to $4.

Representative Landwehr, Co-Chair of the Select Committee on Faith-based Issues, reported that their Committee was willing to work with other groups and the Attorney General's office for the success of domestic violence or sexual assault programs.

Representative Nichols moved to report **SB 477** favorably for passage. Motion was seconded by Representative Pottorff. Motion carried.

Discussion on HB 2770–Persian Gulf war veterans health initiative act, funding

Committee members discussed the need for an on-going funding mechanism for the needed research for the Gulf War veterans. The bill names the specialized license plate fund as being the principal payer of the $100,000 requested. This research is viewed as the responsibility of the federal government and if federal dollars do become available for a match, Kansas needs to be in a position to take advantage of the match money. The Committee discussed the following funding ideas:

- Expand the definition in Section 4 of the bill to include Gulf War Illness II or other GW illnesses
- Fund the Health Initiative Act through the State General Fund
- Make this enabling legislation so it exists even if state funding is not available
- Check with KDHE to explore availability of existing federal dollars
- Matching funds with Veteran's of Foreign Wars and American Legion dues being up to $1.00 per member
- In **SB 364,** the VIPS/CAMA Fund is extended for two additional years in order to collect a $1.00 fee when motor vehicle titles are issued or reissued. This fee could be increased by ten cents in order to fund the initiative act.

Discussion and Action on HB 2635–Kansas Development Finance Authority authorized to issue bonds to finance certain electric transmission lines and appurtenances; and HB 2712 – Kansas Development Finance Authority authorized to issue bonds to finance regional broadband technology

Representative Campbell, Chairman of the Subcommittee comprised of Representatives Stone and Klein, reviewed the Subcommittee report which examined the two bills: **HB 2635** which allows KDFA to be involved in the bonding of utilities and **HB 2712** which allows KDFA bonding authority on broadband technology. **HB 2712** is recommended to be amended into **HB 2635.** The Committee reported that they are comfortable that KDFA involvement does not obligate the state financially, but the philosophy or policy of the state being involved with the broadband cable which is more of a profit-type business, has caused some concern. Local municipalities have this authority at this time. This legislation would allow small towns or counties to form consortiums to work with KDFA. Cities or counties would not have to count this as debt against their debt limit if the bonding is run through KDFA. The fees of KDFA would not be an obligation of the state and the Committee recommended it for passage. The issue of taxing a line running into a city would be another issue.

Representative Minor moved for the approval of the minutes of February 19, 26, and March 6 as presented. Motion was seconded by Representative Campbell. Motion carried.

Chairman Wilk announced that **HCR 5054** was being referred to the Social Services Budget Committee.

Chairman Wilk adjourned the meeting at 10:45 a.m. The next meeting is scheduled for 8:30 a.m. on Wednesday, March 27, 2002.

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 3/26/02

NAME	REPRESENTING
Barb Hinton	Post Audit
Amy Brunner	KASB
[illegible] Arpin	Division of the Budget
Glenn Deck	KPERS
Leland Breedlove	KPERS
Jack Hawn	KPERS
Ed Redmon	Ks. State Council of Firefighters
Andy Sanchez	KAPE
Rebecca Reed	KS Dept of Agriculture
Melinda Gaul	DOB
[illegible]	KBI
Pat Lehman	KS Fire Service Alliance
Jim Keating	KSFFA

SB 365

KANSAS LEGISLATIVE RESEARCH DEPARTMENT Rm. 545N–Statehouse, 300 SW 10th Ave. Topeka, Kansas 66612-1504 (785) 296-3181 ◆ FAX (785) 296-3824

kslegres@klrd.state.ks.us http://skyways.lib.ks.us/ksleg/KLRD/klrd.html

March 26, 2002

KPERS SCHOOL PAYMENTS IN FY 2002

The State of Kansas is responsible for making the employer contributions on behalf of school districts, community colleges, and other educational entities for school employees covered by KPERS. The contributions are paid each quarter, with remission due in early July, October, January and April after KPERS presents an amount due to the Department of Education. There is a line item appropriation for the KPERS School amount in the Department of Education budget. For FY 2002, the appropriation is $98,391,841. The employer contribution includes both an amount for a retirement payment and another amount for a death and long-term disability benefits payment.

Prior to FY 1987, payments were made immediately after the end of a quarter. A change was made in FY 1987 when the fourth quarterly payment was delayed until after July 1, 1987, in order to address a cash flow problem that fiscal year. It was one of several measures adopted by the 1987 Legislature, including an across-the-board reduction of most FY 1987 SGF appropriations. The KPERS School payments schedule today is based on the 1987 change.

KPERS billing information that is due to be submitted to the Department of Education on Friday, March 29, indicates there will be a shortfall of almost $8.0 million in making the required payment after April 1 this fiscal year. Representatives of the Department of Education, KPERS, the Division of the Budget, and the Research Department met with the Budget Director on March 25, 2002, to review the revised KPERS estimates. There was consensus reached on the amount due. As shown below, the billings will total $106,376,867 in FY 2002, or $7,985,026 less than the amount appropriated for KPERS School payments. One method of prorating the shortfall is applied to determined the amounts attributed to the retirement payments and to death/disability payments that may not be met.

KPERS School Cashflow Model		Totals
FY 2002 Appropriation Amount	$	98,391,841
FY 2002 KPERS Billings Amount		106,376,867
Difference (Shortfall)	$	(7,985,026)
Estimated Death and Disability Shortfall	$	(4,951,595)
Estimated Retirement Shortfall	$	(3,033,431)

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HOUSE APPROPRIATIONS
DATE 3/26/02
ATTACHMENT 1

Testimony for the House Appropriations Committee on SB 375
Barb Hinton, Legislative Post Auditor
March 26, 2002

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you on SB 375. This bill would implement a recommendation we made in our recent audit of school districts' early retirement incentive programs.

In that audit, we recommended that the Legislature consider changing the law that currently requires actuarial valuations of those programs once every 3 years, to mandate less costly and more meaningful reports. I've attached a page from the audit that summarizes the main reasons why we thought this change was needed. I'd like to briefly summarize the highlights.

Actuarial valuations are essential for retirement systems like KPERS that set aside and invest moneys to pay for future retirement benefits. What those valuations do is compare how much money a system already has invested to fund all its future estimated retirement program costs, with how much it would need to have invested today to pay those future costs (given any other anticipated revenues over time). If there's not enough money set aside today, then the system has what's called an "unfunded" liability.

However, school districts aren't authorized by law to set aside and invest moneys for their early retirement programs. Instead, they fund them on an annual, pay-as-you-go basis. Thus, having an actuarial valuation for school districts' early retirement programs doesn't really make sense. About three-fourths of district officials said the information in their actuarial valuations wasn't helpful. Yet they had to spend from $250 to $13,000 on these valuations in 1999, or an average of about $1,600 each.

School districts still need certain information about their early retirement programs to help them in their funding, budgeting, and contract negotiating processes– especially forecasting how many employees might retire in the near future (each year for 3-5 years) and calculating the resulting costs (or savings from replacing higher-salaried employees with lower-salaried employees). Only about two-thirds of the districts with early retirement programs currently do these analyses. Most districts can project their own expected future early retirement program costs; districts with very large or complex programs still may need to use the services of an actuary or other professional.

This bill would require that such analyses be done at least once every 3 years. Because it will provide both districts and the Legislature with more meaningful information and eliminate unnecessary spending, I would urge the Committee to support it.

HOUSE APPROPRIATIONS
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ATTACHMENT 2

The Districts' Large Actuarial Liabilities For Their Early Retirement Incentive Programs Aren't Indicative Of Whether Those Programs Are Adequately Funded

State law requires each district with an early retirement incentive program to have an actuarial valuation at least once every 3 years, and to report the results to the Legislature. Part of the concern about whether districts have made appropriate arrangements to fund their early retirement programs stemmed from reports that the actuarial valuations showed those programs had estimated unfunded liabilities of more than $600 million in 1999.

During this audit, we determined the wrong figure inadvertently had been used in reporting this information to the Legislature. That year, these programs had unfunded actuarial liabilities of about $318 million, approximately $115 million of which was attributable to the Wichita school district.

Although this $318 million actuarial liability is a large number, it doesn't represent the amount districts will have to come up with to fund their early retirement programs. An actuarial liability is an estimate of how much money would have to be set aside and invested today to pay all the estimated costs of some future financial obligation, like early retirement benefits.

If districts' early retirement programs were funded like KPERS, this number would be useful in evaluating the adequacy of current funding for those future obligations. In other words, this number would let a district compare how much it already has invested to fund all its future estimated retirement program costs, with how much it would need to pay those future costs. The district could then determine if it still needs to contribute more.

However, school districts don't have the statutory authority to set aside and invest moneys to fund their early retirement incentive programs. Instead districts "pay as they go," meaning each year, districts fund the full cost of that year's early retirees' benefits out of that year's budget.

Because districts aren't allowed to set aside and invest money to fund future early retirement benefits, their programs will always be 100% unfunded in actuarial terms.

The actuarial report for the Wichita school district provided more information than other districts' reports. In addition to the amount that would need to be invested now to fund all the districts' future early retirement costs, the report also showed the actuary's projection of the grand total of those future costs. That figure was $356 million.

Although this figure does provide a snapshot of the district's estimated future costs, it's essentially equivalent to looking at the district's estimated future health care costs for its current employees–it's of no real use for planning, budgeting, or policy-making purposes. In addition, because districts have the ability to negotiate changes in their early retirement benefits for current employees, this number could change significantly over time.

Given the way their early retirement programs are funded, what districts really need are estimates about annual costs on a more relevant time frame. Information about projected costs by year would be helpful, especially over a 3-5 year time frame. (The farther out those annual projections go, the less accurate they're likely to be.) Such information could help districts in their funding, budgeting, and contract negotiating processes, and could provide more useful information to the Legislature as well.

It seems likely that most districts could project their own expected future early retirement program costs on this 3-5 year basis. (This topic is discussed more fully beginning on page 11.) However, districts with very large or complicated programs may need to enlist the help of an actuary or other professional.

KANSAS ASSOCIATION OF SCHOOL BOARDS
1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on
SB 375 – Early Retirement Programs (Actuarial Valuations)
Before the
House Appropriations Committee

By
Amy Brunner, Governmental Relations Specialist
Kansas Association of School Boards

March 26, 2002

Mr. Chairman, Members of the Committee:

We appreciate the opportunity to appear today as proponents of SB 375. We agree with the recommendations of the Joint Committee on Pensions, Investments and Benefits, which this bill embodies, to remove the requirement that school districts offering early retirement incentive plans conduct regular actuarial valuations, and instead require budget reporting on these programs.

Conducting an actuarial valuation can be a relatively costly requirement for districts that does not appear to provide relevant information to either the district or the state. This bill would eliminate that expense. It would require that certain information be reported every three years to the Kansas State Board of Education so that the state would continue to receive data about these programs.

Thank you for your consideration.

HOUSE APPROPRIATIONS

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ATTACHMENT 3

KACCT
KANSAS ASSOCIATION OF COMMUNITY COLLEGE TRUSTEES
700 SW Jackson, Suite 401 • Topeka, KS 66603-3757 • 785-357-5156 • FAX 785-357-5157
Sheila Frahm, Executive Director • E-mail: frahmkacct@cjnetworks.com

MEMO

TO: Representative Kenny Wilk
From: Sheila Frahm, Executive Director KACCT SF
Dr. Jackie Vietti, Chair, Council of Presidents JV
Date: March 26, 2002
RE: SB 375

Mr. Chairman and Members of the House Appropriations Committee:

Multiple committee overlapping schedules prevent our attendance at the House Appropriations Committee today. Please accept this testimony as confirmation of the Kansas Community College interest in and support of SB 375.

The issue of early retirement incentive programs, and specifically the extra audits required, has been a frequent agenda item for the Chief Financial Officers of the Kansas Community Colleges. When the Legislative Post Audit "Early Retirement Incentive Programs in Kansas School Districts", and the Joint Pension Committee's resulting request for SB 375 came to our attention, I confirmed that the same authorization creating early retirement incentive programs (KSA 71-212: 1981 & 1996)) and reporting requirements apply to the community colleges as well as the USD's. The Chief Bill sponsor, Senator Kerr, agreed to our request that community colleges should be included in the provisions and supported the necessary amendment in the Senate Ways and Means Committee.

We ask for your continued support of the amendment for community colleges in SB 375. Routine annual community college audits will contain the early retirement information and we believe an additional audit is time consuming and an unnecessary expense.

HOUSE APPROPRIATIONS
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ATTACHMENT 4