

Approved: May 20, 2002 (by letter)

Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Stephen Morris at 10:40 a.m. on March 6, 2002 in Room 123-S of the Capitol.

All members were present except: All Present

Committee staff present:

Alan Conroy, Chief Fiscal Analyst, Kansas Legislative Research Department
Deb Hollon, Kansas Legislative Research Department
Martha Dorsey, Kansas Legislative Research Department
Carolyn Rampey, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Michael Corrigan, Assistant Revisor of Statutes
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Jerry Sloan, Budget and Fiscal Officer, Office of Judicial Administration
Mike Taylor for Robert Lancaster, Pension Manager, City of Wichita

Others attending: See attached list

Chairman Morris opened the public hearing on:

SB 637--Appropriations for FY 2002 for operating expenses for the judicial branch

Staff briefed the Committee on the bill (Attachment 1).

Jerry Sloan, Budget and Fiscal Office, Office of Judicial Administration, testified in support of **SB 637** (Attachment 2). Mr. Sloan explained that it was crucial to take prompt action to get the recommended funding to the Judicial Branch as soon as possible, and noted that without additional funding, furlough days would be needed.

There being no further conferees to come before the Committee, the Chairman closed the public hearing on **SB 637**.

Senator Feleciano moved, with a second by Senator Downey, to amend **SB 637** effective upon publication in the Kansas Register. Motion carried on a voice vote.

Senator Feleciano moved, with a second by Senator Schodorf, to recommend **SB 637** favorably for passage as amended. Motion carried on a roll call vote.

The Chairman introduced and welcomed Roger Donlon and Charles Hagemeister, both Medal of Honor recipients, who were present for the committee meeting due to their interest in the issue of the provision of Veterans Services by the State through the Kansas Commission on Veterans' Affairs. A service flag was presented to Chairman Morris.

Subcommittee reports on:

Commission on Veterans Affairs (including the Kansas Soldiers' Home and the Kansas Veterans' Home) (Attachment 3)

Subcommittee Chairman Jackson reported that the Subcommittee concurs with the Governor's recommendations for FY 2002.

CONTINUATION SHEET

Subcommittee Chairman Jackson reported that the Subcommittee concurs with the Governor's recommendations for FY 2003 with notations as listed in the subcommittee budget report.

Senator Feleciano moved, with a second by Senator Jackson, to amend the subcommittee report in Item Number 7 to transfer \$30,000.00 from the Coordinated Public Transportation Assistance Fund in the Department of Transportation to the Commission on Veteran's Affairs. Motion carried on a voice vote.

Senator Feleciano moved, with a second by Senator Jackson, to adopt the subcommittee budget report on the Commission on Veterans Affairs (including the Kansas Soldiers' Home and the Kansas Veterans Home) for the FY 2002 and FY 2003 budget as amended. Motion carried on a voice vote.

Department of Human Resources (Attachment 4)

Subcommittee Chairman Huelskamp reported that the Subcommittee concurs with the Governor's recommendations for FY 2002.

Subcommittee Chairman Huelskamp reported that the Subcommittee concurs with the Governor's recommendations for FY 2003 with adjustments and comments as listed in the subcommittee budget report.

Senator Jackson moved, with a second by Senator Huelskamp, to adopt the subcommittee budget report on the Department of Human Resources for the FY 2002 and FY 2003 budget. Motion carried on a voice vote.

Chairman Morris opened the public hearing on:

HB 2622--Contribution rates for local police and fire pension plans

Staff briefed the Committee on the bill.

Mike Taylor, City of Wichita, testified on behalf of Robert L. Lancaster, Pension Manager, City of Wichita, in support of **HB 2622** (Attachment 5). It was noted in Mr. Lancaster's testimony that the City of Wichita and the Police and Fire Retirement System of Wichita recognize the necessity for adequate funding measures to insure the availability of pension benefits to the more than 1,000 active police and fire employees and 800 retirees and beneficiaries.

There being no further conferees to come before the Committee, the Chairman closed the public hearing on **HB 2622**.

Senator Feleciano moved, with a second by Senator Schodorf, to recommend **HB 2622** favorably for passage and be placed on the Consent Calendar. Motion carried on a roll call vote.

The meeting adjourned at 11:20 a.m. The next meeting is scheduled for March 7, 2002.

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST

DATE March 6, 2002

NAME	REPRESENTING
Julie Thomas	DOB
Bill Schaper	DOB
Jim Flays	KCVA
Chuck Hagemaster	Kansas Veterans
JACK E. WALKER	KCVA COMMISSIONER
ROGER H. C. DONLON	US Army - Special Forces
Steve Goodman	KCVA - Fort Dodge
Kim Fowler	Judicial Branch
Jerry Sloan	Judicial Branch
Kathy Porter	Judicial Branch
Wayne Bollig	KCVA
Ally Hays	Federico Consulting
ANDY SANCHEZ	KAPE
DWIGHT D. KEEN	KCVA - COMMISSIONER
DANIEL BECKER	St Ad, Ks VFW
Ralph Snyder	Ks Am. Legion
Joel E. Laughlin	American Legion Post 1
Martin H. Marshall	American Legion Post 1
GANT Coughrey	DAV Chap #22
RUSSELL HAIN	DISABLED AMERICA VETS KANSAS Legislative Chmn.
Kim Tatum	KCVA
John Pugh	KCVA

Briefing on SB 637

SB 637 is a supplemental appropriation of \$600,000 for the Judicial Branch. The purpose of the funding is to avert a furlough of nonjudicial employees of at least three and possibly four days. Without additional funding, days would be selected between now and the end of the current fiscal year when all nonjudicial employees would not report for work and would not be paid.

On June 29, 2001, the Office of Judicial Administration notified the state's 31 chief judges that the Judicial Branch faced a shortfall of between \$1.9 and \$2.0 million in FY 2002. The Kansas Supreme Court approved the following plan to address the deficit:

- Continue a 60-day delay in filling nonjudicial vacancies, which now has been extended to 90 days;
- Reduce the amount of funds available to hire temporary workers by 25 percent;
- Eliminate travel for district magistrate judges from outlying districts into districts that do not have district magistrate judges;
- Eliminate travel for Court of Appeals hearings; and
- Make other reductions specific to each judicial district.

The 60-day hiring freeze was expected to generate savings of between \$700,000 and \$800,000. The reduction in salaries for temporary employees and the elimination of travel for district magistrate judges was expected to generate an additional \$146,636. Required judicial district savings were expected to total \$524,611, based on each district's *pro rata* share of the budget. Normal turnover was expected to generate an additional \$528,753. According to the letter sent to the districts, if these measures did not eliminate the deficit and if the 2002 Legislature did not appropriate additional funding for FY 2002, the Kansas Supreme Court might have to impose one-day furloughs during the months of April, May, and June of 2002, with one day of furlough scheduled each month.

The Senate Subcommittee on the Judicial Branch's budget, which has been approved by the Ways and Means Committee, recommended the addition of \$600,000 from the State General Fund in FY for the purpose of averting a furlough of nonjudicial personnel.

Senate Ways and Means
3-6-02
Attachment 1



State of Kansas
Office of Judicial Administration

Kansas Judicial Center
301 SW 10th
Topeka, Kansas 66612-1507

(785) 296-2256

Senate Ways and Means Committee

Wednesday, March 6, 2002

Testimony on SB 637
Jerry Sloan

Thank you for the opportunity to testify on SB 637. This Committee's actions in adopting the Judicial Branch subcommittee report indicate that the Committee understands the need for this funding, and we are most appreciative of your efforts and support. I will not further address the underlying need for the funding.

I would like to say a few words, however, as to why it is crucial to take prompt action to get the recommended funding to the Judicial Branch as soon as possible. We have known since the FY 2002 budget was considered by the 2001 Legislature that, without additional funding, furlough days would be needed. If additional funding were not forthcoming, the least harmful impact to our employees would be to impose no more than one day of furlough per month. The viable prospect of additional funding has led us to delay announcing furlough days. However, the longer supplemental funding remains uncertain and furlough days are not announced, the greater the possibility that furlough days, if needed, will have to be compressed into a few pay periods. This would impose a greater hardship on Judicial Branch employees. An additional consideration is the need to give notice to judges and litigants that scheduled hearings and trials will need to be rescheduled.

The table below shows the pay periods remaining for FY 2002. The last day of the last pay period of FY 2002 is Saturday, June 8, and as of today's date only seven pay periods remain in the fiscal year.

Payroll Number	Pay Period Begin Date	Pay Period End Date	Pay Day
20	March 3, 2002	March 16, 2002	March 29, 2002
21	March 17, 2002	March 30, 2002	April 12, 2002
22	March 31, 2002	April 13, 2002	April 26, 2002
23	April 14, 2002	April 27, 2002	May 10, 2002
24	April 28, 2002	May 11, 2002	May 24, 2002
25	May 12, 2002	May 25, 2002	June 7, 2002
26	May 26, 2002	June 8, 2002	June 21, 2002

Thank you for your consideration of SB 637.

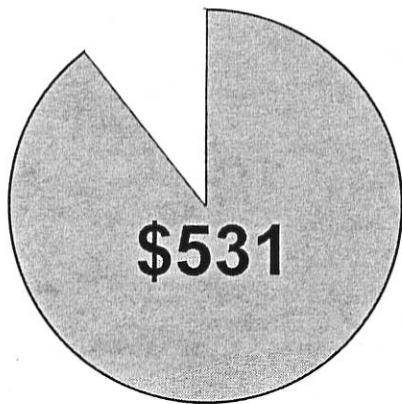
*Senate Ways and Means
3-6-02
Attachment 2*

Furlough Effect on Biweekly Pay

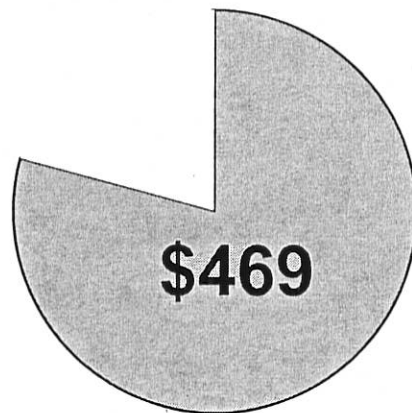
(Trial Court Clerk II with Member/Children Health Insurance)



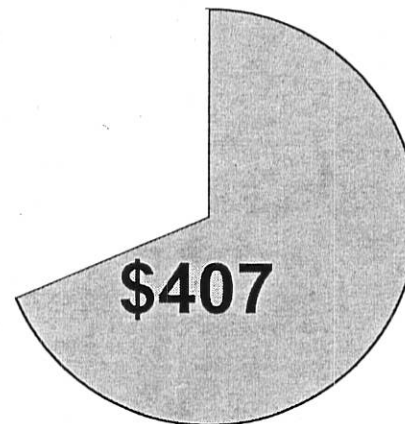
One Day



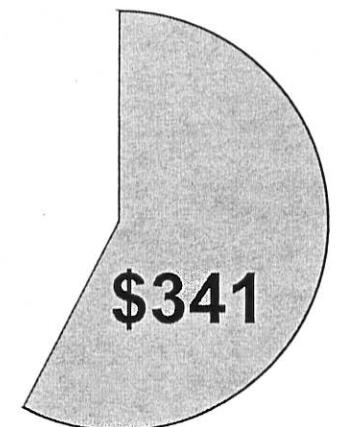
Two Days



Three Days



Four Days



Senate Subcommittee Report

Agency: Commission on Veterans Affairs **Bill No. ----** **Bill Sec. ----**
 (including the Kansas Soldiers' Home
 and the Kansas Veterans' Home)

Analyst: Hollon **Analysis Pg. No.** Vol. I - 567 **Budget Page No.** 461

Expenditure Summary	Agency Est. FY 02	Gov. Rec. FY 02	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 13,251,656	\$ 12,156,375	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	\$ 13,251,656	\$ 12,156,375	\$ 0
State General Fund:			
State Operations	\$ 4,564,213	\$ 3,794,070	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	\$ 4,564,213	\$ 3,794,070	\$ 0
FTE Positions	555.3	555.3	0.0
Non-FTE Unclass. Perm. Positions	5.0	5.0	0.0
TOTAL	560.3	560.3	0.0

Agency Estimate/Governor's Recommendation

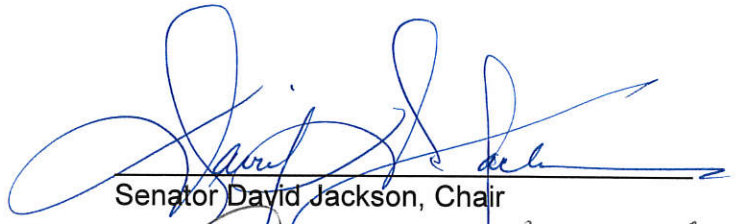
The agency estimates FY 2002 operating expenditures of \$13,251,656 (\$4,564,213 SGF) which is a decrease of \$515,401 from the approved budget. The estimate includes: \$10,068,808 for salaries and wages; \$1,781,171 for contractual services; \$1,187,091 for commodities; and \$214,586 for capital outlay.

The Governor recommends FY 2002 operating expenditures of \$12,156,375 (\$3,794,070 SGF) which is a decrease of \$1,610,682 from the approved budget. The recommendation includes: \$9,096,017 for salaries and wages; \$1,714,138 for contractual services; \$1,131,634 for commodities; and \$214,586 for capital outlay.

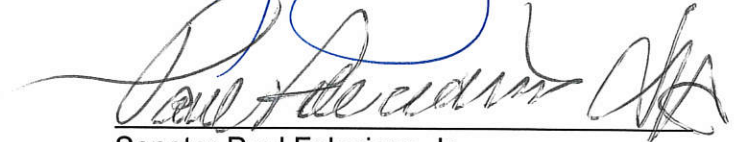
Senate Subcommittee Recommendations

The Senate Subcommittee concurs with the Governor's recommendation.

*Senate Ways and Means
 3-6-02
 Attachment 3*



Senator David Jackson, Chair



Senator Paul Feleciano Jr.

Senate Subcommittee Report

Agency: Commission on Veterans' Affairs **Bill No. ----** **Bill Sec. ----**
 (including the Kansas Soldiers' Home
 and the Kansas Veterans' Home)

Analyst: Hollon **Analysis Pg. No.** Vol. I - 567 **Budget Page No.** 461

Expenditure Summary	Agency Req. FY 03	Gov. Rec. FY 03	Senate Subcommittee Adjustments
All Funds:			
State Operations	\$ 17,969,474	\$ 14,098,276	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u><u>\$ 17,969,474</u></u>	<u><u>\$ 14,098,276</u></u>	<u><u>\$ 0</u></u>
State General Fund:			
State Operations	\$ 8,501,579	\$ 4,603,024	\$ 0
Aid to Local Units	0	0	0
Other Assistance	0	0	0
TOTAL	<u><u>\$ 8,501,579</u></u>	<u><u>\$ 4,603,024</u></u>	<u><u>\$ 0</u></u>
FTE Positions	573.3	555.3	0.0
Non-FTE Unclass. Perm. Positions	5.0	5.0	0.0
TOTAL	<u><u>578.3</u></u>	<u><u>560.3</u></u>	<u><u>0.0</u></u>

Agency Request/Governor's Recommendation

The agency requests FY 2003 operating expenditures of \$17,969,474 (\$8,501,579 SGF) which is an increase of \$4,717,818 from the FY 2002 estimate. The request includes: \$12,438,986 for salaries and wages; \$3,343,806 for contractual services; \$1,802,707 for commodities; and \$383,975 for capital outlay.

The Governor recommends FY 2003 operating expenditures of \$14,098,276 (\$4,603,024 SGF) which is an increase of \$1,941,901 from the FY 2002 recommendation. The recommendation includes: \$9,718,588 for salaries and wages; \$2,544,006 for contractual services; \$1,451,707 for commodities; and \$383,975 for capital outlay.

Senate Subcommittee Recommendations

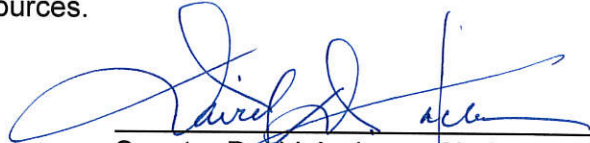
The Senate Subcommittee concurs with the Governor's recommendation with the following

notations:

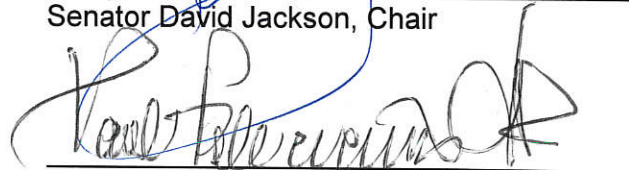
1. The Subcommittee acknowledges the opening of the first state veterans' cemetery at Ft. Dodge in September, 2002, and the fact that the Governor recommended only the federal portion (\$17,745) of the agency's enhancement request of \$108,938 (\$91,193 SGF) and 3.0 FTE positions for the operations of the Ft. Dodge and WaKeeney cemeteries. The Subcommittee recommends that remainder of the agency's enhancement request be reviewed as a priority for funding at Omnibus should additional revenue become available.
2. The Subcommittee makes the observation that the Governor's recommendation includes a reduction of \$70,980 SGF to reflect the closure of the Veterans Services Representative offices in Lawrence and Independence. The closure of two offices was a part of the agency's submitted reduced resources budget, but the specific offices to be closed had not been determined. The offices in Lawrence and Independence generate approximately \$3.4 million in federal funds for the veterans of 13 counties. The Subcommittee believes that the agency should be allowed to determine which offices should be closed and recommends that restoration of the item be reviewed as a priority for funding at Omnibus should additional revenue become available.
3. The Subcommittee expresses concern regarding the recommended FY 2003 shrinkage rates at the Veterans' Home (20.0 percent for administration/10.0 percent for all other positions) and the Soldiers' Home (19.8 percent). The agency has stated that meeting the recommended shrinkage rates would require the use of a hiring freeze or employee furlough. While not taking action at this time, the Subcommittee believes that the situation should be monitored closely to avoid the potential of lost accreditation due to staff reductions.
4. The Subcommittee recognizes the difficulties experienced by the agency in recruiting and retaining nursing staff at the Soldiers' Home and the Veterans' Home. It is the agency's belief that the salaries at the two Homes are far below those of similar state agencies. The Subcommittee recommends that the Division of Personnel Services conduct a salary comparison analysis of staff from various state agencies in similar positions and with similar experience levels. The Subcommittee further recommends that the results of the analysis be used to determine the best method to make the Homes more competitive with surrounding businesses including the possibility of reclassifying nursing staff at the Homes in a manner similar to that done with nursing staff within the Department of Social and Rehabilitation Services (SB 509).
5. The Subcommittee notes the agency's enhancement request of \$26,285 SGF for an additional Security Officer FTE position at the Soldiers' Home. The Home has only one security officer responsible for 110 buildings and approximately 400 residents and staff. This one individual will also be responsible for the Veterans' Cemetery and the equipment kept at that location when it opens.
6. The Subcommittee also notes the enhancement request of \$1,121,140 SGF to open the third of four buildings at the Veterans' Home and that the amount was updated to \$1,517,118 SGF subsequent to the budget submission. The amount

covers nine months of operation in FY 2003 and is adjusted for an estimated \$262,873 in Veterans Administration per diem payments typically delayed for the first eight months of operation until a federal inspection has been made.

7. The Subcommittee recommends that the Ways and Means Committee give serious consideration to the transfer of \$30,000 from the Coordinated Public Transportation Assistance Fund in the Department of Transportation to the Commission on Veterans' Affairs to fund the purchase of a wheel-chair lift van for the Kansas Veterans Home. The residents of the Veterans Home often have medical appointments in Wichita and the mileage of the present van is over 175,000 miles. The Coordinated Public Transportation Assistance Fund was established to financially assist transportation systems which provide coordinated transportation services to elderly persons, persons with disabilities and the general public.
8. The Subcommittee commends the agency for its exemplary job in maintaining operations in light of limited resources.



Senator David Jackson, Chair



Senator Paul Feleciano Jr.

Senate Subcommittee Report

Agency: Department of Human Resources Bill No. 457

Bill Sec. --

Analyst: Efird

Analysis Pg. No. Vol. I - 521 Budget Page No. 223

Expenditure Summary	Agency Est. FY 02	Governor's Recommendation FY 02	Subcommittee Adjustments
State Operations	\$ 54,256,998	\$ 54,256,998	\$ 0
Aid to Local Units	10,667,000	10,667,000	0
Other Assistance	234,515,000	234,515,000	0
Subtotal—Operating	\$ 299,438,998	\$ 299,438,998	\$ 0
Capital Improvements	120,862	120,862	0
TOTAL	\$ 299,559,860	\$ 299,559,860	\$ 0
State General Fund	\$ 2,906,889	\$ 2,906,889	\$ 0
All Other Funds	296,652,971	296,652,971	0
TOTAL	\$ 299,559,860	\$ 299,559,860	\$ 0
FTE Positions	963.4	963.4	0.0
Non FTE Uncl. Perm. Pos.	19.0	19.0	0.0
TOTAL	982.4	982.4	0.0

Agency Est./Governor's Recommendation


The agency estimate for State General Fund (SGF) financing increases \$54,727 from the amount approved by the 2001 Legislature, with KSIP funding used to pay the increased expenditures. For other funds, unemployment payments account for most of the increase with additional claims of \$30,415,000 estimated in FY 2002.

The Governor concurs with the agency request to spend KSIP funds and with other agency adjustments in current year spending, including \$54,727 SGF and \$125,000 in Workers Compensation for KSIP expenditures. For other funds, unemployment payments increase due to additional claims of \$30,415,000 estimated in FY 2002.


Senate Subcommittee Recommendation

The Subcommittee concurs.


*Senate Ways and Means
3-6-02
Attachment 4*



Senator Tim Huelskamp, Chairperson



Senator Jim Barone



Senator Dave Jackson

Senate Subcommittee Report

Agency: Department of Human Resources **Bill No.**

Bill Sec.

Analyst: Efird

Analysis Pg. No. Vol. I - 521

Budget Page No. 223

Expenditure Summary	Agency Req. FY 03	Governor's Recommendation FY 03	Subcommittee Adjustments
State Operations	\$ 54,021,783	\$ 53,997,231	\$ 0
Aid to Local Units	10,465,564	10,465,564	0
Other Assistance	241,515,000	241,515,000	0
Subtotal—Operating	\$ 306,002,347	\$ 305,977,795	\$ 0
Capital Improvements	360,000	395,000	0
TOTAL	\$ 306,362,347	\$ 306,372,795	\$ 0
 State General Fund	 \$ 2,658,722	 \$ 2,053,985	 \$ (190,841)
All Other Funds	303,703,625	304,318,810	190,841
TOTAL	\$ 306,362,347	\$ 306,372,795	\$ 0
 FTE Positions	 970.9	 961.4	 (20.0)
Non FTE Uncl. Perm. Pos.	19.0	19.0	20.0
TOTAL	989.9	980.4	0.0

Agency Req./Governor's Recommendation

The agency request includes a net reduction in SGF financing for FY 2003, with two program enhancements costing an additional \$550,590 that is offset by a reduction of \$722,044 in Employment Services where a matching SGF appropriation previously was required for obtaining federal funds. The additional 9.5 FTE positions are associated with the program enhancements. Most of the net increase for expenditures is attributed to \$7.0 million of higher unemployment benefit payments in FY 2003. The agency requests 2.0 new FTE positions for safety inspections, 2.0 new FTE positions for industrial hygiene, 1.5 new FTE positions for supervision and clerical support, and 4.0 FTE positions to support the registered apprenticeship system.

The Governor recommends additional reductions in SGF financing and no program enhancements that use SGF financing in FY 2003. The Governor concurs with the estimated increase for unemployment benefit payments in FY 2003 of \$7.0 million. The Governor's recommendation includes to reduced resources packages totaling \$84,325 in SGF cuts from the agency's original budget allocation in FY 2003.

Senate Subcommittee Recommendation


The Subcommittee concurs and makes the following additional adjustments or comments:

1. Shift 20.0 FTE positions to Non-FTE unclassified. The Subcommittee noted budgeted salary turnover rates as high as 25 percent in the unemployment security division, with additional high rates in employment services and administrative services. Although staff positions are budgeted, many are vacant because of a lack of federal funding. When the agency prepared its federal funding request, a full staffing compliment is requested, but based on Congressional allocations, less than full funding is received and consequently a higher than normal shrinkage rate is carried in the agency's state budget request where all federally requested positions are reflected (even though funding has not been received and must be reduced as shrinkage). The 20.0 FTE positions are representative of the 25 positions that have been vacant for 800 or more days, with 15 vacant for 1,000 or more days, and one vacant for 1,506 days as of January 16, 2002, when a SHaRP report was run.
2. Use \$72,000 available from the sale of a building and currently unbudgeted to replace \$72,000 of \$210,000 recommended by the Governor for preliminary planning of a building. Further provide that any money from the sale of two other buildings would be deposited into the same account that may be used in planning and acquiring the new facility. The amount of proceeds from the additional two sales is unknown at this time and may be revisited during Omnibus if new information becomes available.
3. Shift \$72,000 of Principal and Interest Fund money to replace State General Fund financing in FY 2003, and reduce the SGF appropriation by \$72,000.
4. Use a budgeted ending balance of \$118,841 in the Principal and Interest Fund to replace a like amount of SGF financing in FY 2003, and reduce the SGF appropriations by \$118,841. The Governor's FY 2003 recommendations for the Principal and Interest Fund anticipated resources of \$936,740, spending \$817,899, with a remaining balance of \$118,841 reflected in the DA 404B.
5. Note that the agency has applied for a \$10 million federal grant that is not reflected in the agency's budget, but which might be received by Omnibus when further review could be undertaken. The project involves a workforce development system and would be in cooperation with seven other states. An initial \$2 million federal grant led to the development of the Kansas Job Links System and interaction with some of the other states now partnering for the new grant. The Subcommittee anticipates that increasing the use of technology will lessen the need for FTE positions in many different areas, especially with federal funding only providing 75 to 80 percent of the agency's requested resources. The Subcommittee was encouraged that during the recent period of higher unemployment that deployment of the three telephone call centers and use of technology allowed the agency to respond to the public needs even with a 25 percent vacancy rate for unemployment insurance staff due to federal funding levels.
6. Express concern about the aging workforce in the Department of Human Resources and suggest development of a more comprehensive plan for meeting

future workforce needs in the agency. The Subcommittee heard from the agency that the average age of KDHR employees is 52, and that half of all employees will be eligible for retirement by 2006. (Subsequently the agency provided the following information after the Subcommittee's last meeting: First, the average age of our unclassified associates is 45; classified is 49. You had inquired about these number when I last met with you. That said, 54 percent of our staff is eligible to retire by December 2006.)



Senator Tim Huelskamp, Chairperson



Senator Jim Barone



Senator Dave Jackson



TESTIMONY

City of Wichita
Robert L. Lancaster, Pension Manager
455 N Main, Wichita, KS. 67202
Phone: 316.268.4544 Fax: 316.268.4656
Lancaster_b@ci.wichita.ks.us

House Bill 2622

Local Police & Fire Pension Plans

Delivered March 7, 2002

Senate Ways and Means Committee

House Bill 2622 amends K.S.A. 12-5002 regarding minimum funding standards for local police or fire pension plans. The bill was introduced last session as Senate Bill 340, was approved by the KPERs Sub-committee, the full Ways and Means Committee, and was later amended into House Bill 2040. Hearings were held by the Joint Committee on Pensions, Benefits and Investments during the 2001 Interim. The Joint Committee recommended the issue be drafted and introduced as a House Bill. That bill is House Bill 2622. House Bill 2622 was approved by the full House 115-7.

The Current Law

K.S.A. 12-5002 was enacted on January 1, 1978 and requires the funding of actuarial accrued liabilities (the difference between the actuarial assets available and the liabilities of a retirement system) to be amortized over a declining forty-year period. That is, the first year over forty years, the second year over thirty-nine years, etc. Most retirement systems have unfunded actuarial accrued liabilities. They arise each time new benefits are added and each time an actuarial loss is realized.

The existence of unfunded actuarial accrued liability is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liability does not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount.

The current statute requires local police and fire pension plans to amortize any unfunded actuarial accrued liability over a period of forty years beginning January 1, 1978. The Police & Fire Retirement System of Wichita, Kansas has seventeen years remaining in this amortization period.

The statute also requires such pension plans having no unfunded actuarial accrued liability to make annual contributions not less than the amount of benefits paid during the year.

How the Current Statute Hurts Wichita

As those unfunded liabilities are paid off, much as house payments reduce the amount owed, the potential impact of a large unexpected expense is increased because there are fewer years over which to spread the expense. This is similar to escrow accounts established for homeowners to accrue funds for insurance and property taxes. An increase or decrease in the cost of one of these items may result in an adjustment to the required payment for the accruing liability.

As reported in the December 31, 2000 actuarial valuation, the Police & Fire Retirement System of Wichita, Kansas is in an excess funded position (114.6%) and has no unfunded actuarial accrued liability.

*Senate Ways and Means
3-6-02
Attachment 5*

The stated funding objective of the Police & Fire Retirement System of Wichita, Kansas is to establish and receive contributions expressed as a percent of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens in the absence of benefit improvements." As the amortization period approaches its close, any existing unfunded liabilities must be paid for in a declining number of years. A spike (unanticipated increase) in such liabilities could alter the required contribution of the City, thus defeating the stated objective.

Due to the exercise of excellent fiduciary responsibility, Wichita's required annual contribution to the Police and Fire Pension Plan of Wichita, Kansas has reduced from a high of 37.5% in 1980 to 11.7% in 2001 while also providing additional plan benefits. Future decreases are possible.

The Police & Fire Retirement System of Wichita, Kansas is a "mature" pension system. That is, because it has existed for an extended period of time the total of employee and employer contributions is not sufficient alone to meet annual benefit payments. Investment income provides the "third leg" of the funding stool.

In its current form, K.S.A. 12-5002 would require the City of Wichita to make contributions equal to total annual benefit payments, approximately \$15 million. The City's actuarially required annual contribution for 2000 was approximately \$6 million. The statute, as written, would more than double the required contribution for a pension plan with excess funding. This would be an unnecessary expense to the taxpayers of Wichita.

How Will House Bill 2622 Benefit Wichita?

This legislation will remove the mandatory forty-year amortization period beginning January 1, 1978 and establish a twenty-year amortization period that could be reset by the Police & Fire Retirement Board. The City of Wichita believes that the implementation of a twenty-year rolling amortization period will be a positive stride towards insuring that the System's funding objectives are met. Utilization of a twenty-year rolling period (unfunded liabilities are always amortized over a twenty-year period) lessens the impact of any unexpected liability. Examples of such liabilities are a larger number of retirements than anticipated, a larger number of employee deaths than anticipated, fewer employees leaving City employment, or a reduction in the expected investment rate of return.

House Bill 2622 also removes the requirement that a fully funded pension plan sponsor make annual contributions equal to total annual benefits paid. For the City of Wichita it means that annual contributions to the Plan must equal funding requirements, as determined by the actuary.

Our Responses to Expected Objections

The Kansas Public Employees' Retirement System has reviewed the legislation and is not opposed to its enactment.

Closing

The City of Wichita and the Police & Fire Retirement System of Wichita, Kansas recognize the necessity for adequate funding measures to ensure the availability of pension benefits to the more than 1,000 active police and fire employees and 800 retirees and beneficiaries.

We believe that revision of the statute now will bring its funding requirements current to meet the needs of local police and fire pension plans while insuring adequate controls are in place to prevent future funding difficulties.

I ask for your support on House Bill 2622. Thank you.