

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chair Sharon Schwartz at 9:00 A.M. on February 16, 2007, in Room 514-S of the Capitol.

All members were present except:

- Representative Pat George - excused
- Representative JoAnn Pottorff - excused
- Representative Tom Sawyer - excused

Committee staff present:

- Alan Conroy, Legislative Research Department
- J. G. Scott, Legislative Research Department
- Becky Krahl, Legislative Research Department
- Julian Efird, Legislative Research Department
- Aaron Klaassen, Legislative Research Department
- Jim Wilson, Revisor of Statutes
- Shirley Jepson, Committee Assistant

Conferees appearing before the committee:

- Tracy Streeter, Kansas Water Office
- Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERs)

Others attending:

See attached list.

- Attachment 1 Budget Committee Report on Governmental Ethics Commission
- Attachment 2 Budget Committee Report on Department of Administration
- Attachment 3 Information presented by Tracy Streeter
- Attachment 4 Report by Joint Committee on Pensions, Investments, and Benefits regarding the State Deferred Compensation Plan
- Attachment 5 Fiscal Note on **HB 2385**
- Attachment 6 Testimony in support of **HB 2385** by Glenn Deck

Representative Bethell moved to introduce legislation with regard to the Board of Regents, Emporia State University and Kansas State University, relating to land transfer. The motion was seconded by Representative Holmes. Motion carried.

Representative Ballard moved to approve the Committee minutes as written of January 17, January 18, January 19, January 23, January 24, January 25, January 26, January 30, January 31, February 1 and February 2. The motion was seconded by Representative Kelsey. Motion carried.

Representative Lane, member of the General Government Budget Committee, presented the Budget Committee report on the Governor's budget recommendation for the Governmental Ethics Commission for FY 2007 and moved for the adoption of the Budget Committee recommendation for FY 2007 (Attachment 1). The motion was seconded by Representative Beamer. Motion carried.

Representative Lane, member of the General Government Budget Committee, presented the Budget Committee report on the Governor's budget recommendation for the Governmental Ethics Commission for FY 2008 and moved for the adoption of the Budget Committee recommendation for FY 2008 (Attachment 1). The motion was seconded by Representative Beamer. Motion carried.

Representative Lane, member of the General Government Budget Committee, presented the Budget Committee report on the Governor's budget recommendation for the Governmental Ethics Commission for FY 2009 and moved for the adoption of the Budget Committee recommendation for FY 2009 (Attachment 1). The motion was seconded by Representative Beamer. Motion carried.

Representative Yoder, Chair of the General Government Budget Committee, presented the Budget Committee report on the Governor's budget recommendation for the Department of Administration for FY 2007 and moved for the adoption of the Budget Committee recommendation for FY 2007

CONTINUATION SHEET

MINUTES OF THE House Appropriations Committee at 9:00 A.M. on February 16, 2007, in Room 514-S of the Capitol.

(Attachment 2). The motion was seconded by Representative Beamer. Motion carried.

With reference to Item No. 1, the Budget Committee stated that \$2,448,422 is the amount of savings by re-financing the bonds on the Capitol Restoration Project. The Budget Committee noted that they had discussion about the use of these funds and ultimately determined that there would be additional savings to the State with the installation of the a new Statewide Financial Management System. At this time, the action by the Budget Committee establishes the Statewide Financial Management System Fund, transfers the \$2.448 million into the fund and allows \$0 expenditures from the fund. Their intention is to review the issue at Omnibus. The Budget Committee stated that they felt it is important to move forward on a new statewide financial management system and review the possibility of including the Board of Regents universities in the proposal.

Representative McLeland made a substitute motion to delete \$2.448 million from the State General Fund for the proposed Statewide Financial Management System. The motion was seconded by Representative Beamer. Motion failed.

Representative Yoder, Chair of the General Government Budget Committee, presented the Budget Committee report on the Governor's budget recommendation for the Department of Administration for FY 2008 and moved for the adoption of the Budget Committee recommendation for FY 2008 (Attachment 2). The motion was seconded by Representative Beamer. Motion carried.

Chair Schwartz recognized Tracy Streeter, Kansas Water Office, who presented background comments in preparation for the presentation by John Paul Woodley, Jr., Assistant Secretary of the Army, who will appear before the Committee on Wednesday, February 21, 2007 (Attachment 3).

Hearing on HB 2385 - Transfer of the administration of the state deferred compensation plan from the department of administration to the board of trustees of the Kansas Public Employees Retirement System.

Julian Efird, Legislative Research Department, explained that **HB 2385** would transfer the administration of the State's Deferred Compensation Plan from the Department of Administration to the Kansas Public Employees Retirement System (Attachment 4). This issue was discussed by the Joint Committee on Pensions, Investments and Benefits who brought forth the legislation. The fiscal note on **HB 2385** was distributed to the Committee (Attachment 5).

Glenn Deck, Executive Director, Kansas Public Employees Retirement System (KPERS), presented testimony in support of **HB 2385** (Attachment 6). Mr. Deck stated that moving the administration of the State's Deferred Compensation Plan to KPERS would link all facets of the retirement plans together giving employees a greater understanding of the retirement and saving plans available to them. Responding to a question from the Committee, Mr. Deck noted that federal and state law will not allow the merging of funds from the various retirement or deferred compensation plans. Mr. Deck indicated that the agency goes through a bid process approximately every five years to obtain a service provider for the funds. The current service provider is ING.

- The Committee requested additional information on the amount of investment fees paid to ING.

The hearing on HB 2385 was closed.

The meeting was adjourned at 10:15 a.m. The next meeting of the Committee will be held at 9:00 a.m. on February 19, 2007.


Sharon Schwartz, Chair

House Appropriations Committee

February 16, 2007

9:00 A.M.

| NAME | REPRESENTING |
|------------------|--------------|
| Marilyn Jacobson | DIA |
| Peter | DISC |
| Vidilynn Hessel | Budget |
| Brad Smoot | F&G |
| John Botterby | ING |
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FY 2007 and FY 2008

HOUSE GENERAL GOVERNMENT BUDGET COMMITTEE

Governmental Ethics Commission


Representative Kevin Yoder, Chair


Representative Rocky Fund


Representative Kasha Kelley, Vice-Chair

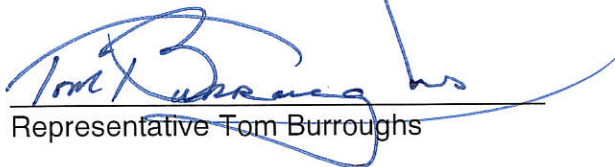

Representative Annie Kuether


Representative Harold Lane,
Ranking Minority Member


Representative JoAnn Pottorff


Representative Virginia Beamer


Representative Charles Roth


Representative Tom Burroughs

HOUSE APPROPRIATIONS

DATE 2-16-2007
ATTACHMENT 1

House Budget Committee Report

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

Bill Sec. --

Analyst: Spurgin

Analysis Pg. No. Vol. III-1618

Budget Page No. 475

| Expenditure Summary | Agency Estimate FY 07 | Governor's Recommendation FY 07 | House Budget Committee Adjustments |
|---------------------------------|-----------------------------|---------------------------------------|--|
| Operating Expenditures: | | | |
| State General Fund | \$ 526,740 | \$ 526,740 | \$ 0 |
| Other Funds | 144,325 | 144,325 | 0 |
| Subtotal - Operating | \$ 671,065 | \$ 671,065 | \$ 0 |
| Capital Improvements: | | | |
| State General Fund | \$ 0 | \$ 0 | \$ 0 |
| Other Funds | 0 | 0 | 0 |
| Subtotal - Capital Improvements | \$ 0 | \$ 0 | \$ 0 |
| TOTAL | \$ 671,065 | \$ 671,065 | \$ 0 |
| FTE Positions | 9.0 | 9.0 | 0.0 |
| Non FTE Uncl. Perm. Pos. | 0.5 | 0.5 | 0.0 |
| TOTAL | 9.5 | 9.5 | 0.0 |

Agency Estimate

The **agency's** estimate for FY 2007 is \$671,065, an increase of \$27,559, or 4.3 percent, above the approved amount. The increase is all State General Fund, for an increase in State General Fund expenditures of 5.5 percent. \$471 of the increase in State General Fund expenditures reflects the amount required to fully fund the pay plan approved by the 2006 Legislature. The remainder of the increase is attributable to the reappropriation of State General Funds which were not utilized in FY 2006 and carried over into FY 2007. The agency carried forward \$48,122 from FY 2006. The remaining \$21,034 is budgeted to be carried forward to FY 2008.

Governor's Recommendation

The **Governor** concurs with the agency's estimate for current year expenditures, but recommends that \$21,034 from reappropriated FY 2006 funds be lapsed back to the State General Fund in FY 2007.

House Budget Committee Recommendation

The House Budget Committee concurs with the Governor's recommendation.

House Budget Committee Report

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

Bill Sec. --

Analyst: Spurgin

Analysis Pg. No. Vol. III-1618

Budget Page No. 475

| Expenditure Summary | Agency Request FY 08 | Governor's Recommendation FY 08 | House Budget Committee Adjustments |
|---------------------------------|----------------------------|---------------------------------------|--|
| Operating Expenditures: | | | |
| State General Fund | \$ 522,415 | \$ 539,975 | \$ (17,560) |
| Other Funds | 119,135 | 119,135 | 0 |
| Subtotal - Operating | \$ 641,550 | \$ 659,110 | \$ (17,560) |
| Capital Improvements: | | | |
| State General Fund | \$ 0 | \$ 0 | \$ 0 |
| Other Funds | 0 | 0 | 0 |
| Subtotal - Capital Improvements | \$ 0 | \$ 0 | \$ 0 |
| TOTAL | \$ 641,550 | \$ 659,110 | \$ (17,560) |
| FTE Positions | 9.0 | 9.0 | 0.0 |
| Non FTE Uncl. Perm. Pos. | 0.5 | 0.5 | 0.0 |
| TOTAL | 9.5 | 9.5 | 0.0 |

Agency Request

The **agency** requests FY 2008 operating expenditures of \$641,550, a decrease of \$29,515, or 4.4 percent, below the FY 2007 revised estimate. The request includes \$522,415 from the State General Fund, a decrease of \$4,325, or 0.8 percent, below from the FY 2007 revised request. The request includes \$21,034 of State General Fund money carried forward from the previous year.

Governor's Recommendation

The **Governor** recommends FY 2008 operating expenditures of \$659,110, a decrease of \$11,955, or 1.8 percent, below the current year recommendation. Of this amount, \$539,975 is recommended from the State General Fund, which represents an increase of \$13,235, or 2.5 percent, above the current year State General Fund recommendation. The recommendation includes the Governor's pay plan adjustments.

House Budget Committee Recommendation

The House Budget Committee concurs with the Governor's recommendation with the following adjustment:

1-3

1. Delete \$17,560, all from the State General Fund, for the 1.5 percent base salary adjustment and a 2.5 percent step movement for classified employees, a 4.0 percent merit pool for unclassified employees, and the longevity enhancement. Funding for pay plan adjustments and longevity payments will be considered later.

House Budget Committee Report

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

Bill Sec. --

Analyst: Spurgin

Analysis Pg. No. Vol. III-1618

Budget Page No. 475

| Expenditure Summary | Agency Request FY 09 | Governor's Recommendation FY 09 | House Budget Committee Adjustments |
|---------------------------------|----------------------------|---------------------------------------|--|
| Operating Expenditures: | | | |
| State General Fund | \$ 511,910 | \$ 529,357 | \$ (17,447) |
| Other Funds | 158,223 | 159,733 | (510) |
| Subtotal - Operating | \$ 670,133 | \$ 689,090 | \$ (17,957) |
| Capital Improvements: | | | |
| State General Fund | \$ 0 | \$ 0 | \$ 0 |
| Other Funds | 0 | 0 | 0 |
| Subtotal - Capital Improvements | \$ 0 | \$ 0 | \$ 0 |
| TOTAL | \$ 670,133 | \$ 689,090 | \$ (17,957) |
| FTE Positions | 9.0 | 9.0 | 0.0 |
| Non FTE Uncl. Perm. Pos. | 0.5 | 0.5 | 0.0 |
| TOTAL | 9.5 | 9.5 | 0.0 |

Agency Request

The **agency** requests a FY 2009 operating expenditure limitation of \$670,133, an increase of \$28,583, or 4.5 percent, above the FY 2008 request. The request includes \$511,910 from the State General Fund, a decrease of \$10,505, or 2.0 percent, below above the FY 2008 request. Excluding the FY 2008 reappropriated funds, this represents a 2.1 percent increase above FY 2008 State General Fund expenditures.

Governor's Recommendation

The **Governor** recommends FY 2009 operating expenditures of \$688,090, an increase of \$28,980, or 4.4 percent, above the FY 2008 recommendation. The recommendation includes \$529,357 in State General Fund expenditures, a decrease of \$10,618, or 2.0 percent, below the FY 2008 recommendation. The recommendation includes the continuation of the Governor's pay plan adjustment from FY 2008.

House Budget Committee Recommendation

The House Budget Committee concurs with the Governor's recommendation with the following adjustment:

1-5

1. Delete \$17,957, including \$17,447 from the State General Fund, for the 1.5 percent base salary adjustment and a 2.5 percent step movement for classified employees, a 4.0 percent merit pool for unclassified employees, and the longevity enhancement. This is a continuation of the FY 2008 recommendation. Funding for pay plan adjustments and longevity payments will be considered later.

FY 2007 and FY 2008

HOUSE GENERAL GOVERNMENT BUDGET COMMITTEE

Department of Administration



Representative Kevin Yoder, Chair



Representative Rocky Fund

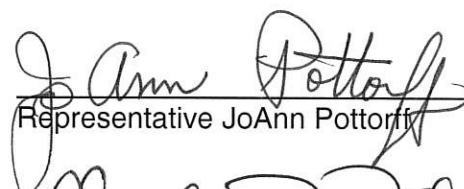
Representative Kasha Kelley, Vice-Chair



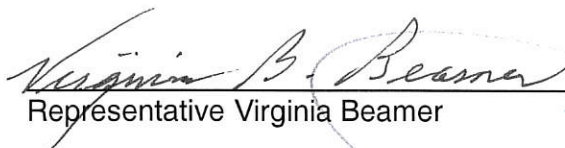
Representative Annie Kuether



Representative Harold Lane,
Ranking Minority Member



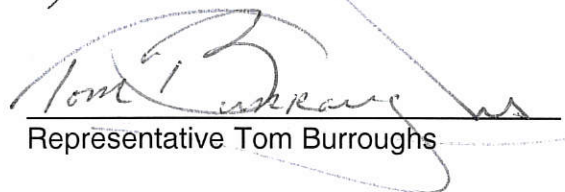
Representative JoAnn Pottorff



Representative Virginia Beamer



Representative Charles Roth



Representative Tom Burroughs

HOUSE APPROPRIATIONS

DATE 2-16-2007
ATTACHMENT 2

House Budget Committee Report

Agency: Department of Administration **Bill No.** HB

Bill Sec.

Analyst: Efird **Analysis Pg. No.** Vol.

Budget Page No. 13

| Reportable and Nonreportable Expenditure Summary | Agency Estimate FY 07 | Governor's Recommendation FY 07 | House Budget Committee Adjustments |
|---|------------------------------|---------------------------------------|--|
| Operating Expenditures: | | | |
| State General Fund | \$ 36,248,072 | \$ 38,546,494 | \$ (2,448,422) |
| Other Funds | 92,887,437 | 92,887,437 | 0 |
| Subtotal - Operating | <u>\$ 129,135,509</u> | <u>\$ 131,433,931</u> | <u>\$ (2,448,422)</u> |
| Capital Improvements: | | | |
| State General Fund | \$ 3,234,015 | \$ 3,234,015 | 0 |
| Other Funds | 2,898,236 | 2,898,236 | 0 |
| Subtotal - Capital Improvements | <u>\$ 6,132,251</u> | <u>\$ 6,132,251</u> | <u>\$ 0</u> |
| TOTAL | <u><u>\$ 135,267,760</u></u> | <u><u>\$ 137,566,182</u></u> | <u><u>\$ (2,448,422)</u></u> |
| | | | |
| FTE Positions | 757.3 | 759.6 | 0.0 |
| Non FTE Uncl. Perm. Pos. | 15.9 | 15.9 | 0.0 |
| TOTAL | <u><u>773.2</u></u> | <u><u>775.5</u></u> | <u><u>0.0</u></u> |

Agency Estimate

The agency's revised all funds estimate includes \$129.1 million for operating expenditures and \$6.1 million for capital improvements, including principal payments on bonds. The agency's revised estimate includes \$36.2 million from the State General Fund for operating expenditures and \$3.2 million from the State General Fund for capital improvements, including principal payments on bonds. The agency estimates 757.3 FTE positions.

Governor's Recommendation

The Governor concurs with the agency's all funds request of \$131.4 million for operating expenditures and \$6.1 million for capital improvements. The Governor generally concurs with the agency request of \$38.5 million from the State General Fund for operating expenditures and \$3.2 million from the State General Fund.

The Governor recommends adding \$2,298,422 from the State General Fund for a new Statewide Financial Management System and lapsing a corresponding amount to reflect savings in bond payments due to refinancing. Also included in the Governor's recommended FY 2007 State General Fund financing is a lapse of \$150,000 for gubernatorial transition expenses. The Governor makes a technical adjustment in the FTE positions by adding 2.3 FTE above the agency's estimate for personnel in the Division of Facilities Management.

House Budget Committee Recommendation

The Committee concurs with the Governor's recommendation with the following exceptions:

1. Delete \$2,448,422 from the State General Fund for the proposed Statewide Financial Management System. Instead, establish a new special revenue fund for the new software system and transfer in FY 2007 an amount of \$2,448,422 from the State General Fund to the new Statewide Financial Management System Fund. The Committee recommends appropriating this fund with a \$0 expenditure limit in FY 2007 and reviewing the proposed multiyear revenues and expenditures at Omnibus.

House Budget Committee Report

Agency: Department of Administration **Bill No.** HB

Bill Sec.

Analyst: Efirid **Analysis Pg. No.** Vol.

Budget Page No. 13

| Expenditure Summary | Agency Request FY 08 | Governor's Recommendation FY 08 | House Budget Committee Adjustments |
|---------------------------------|------------------------------|---------------------------------------|--|
| Operating Expenditures: | | | |
| State General Fund | \$ 57,217,637 | \$ 57,059,095 | \$ (5,463,139) |
| Other Funds | 91,388,636 | 92,362,576 | (3,099,051) |
| Subtotal - Operating | <u>\$ 148,606,273</u> | <u>\$ 149,421,671</u> | <u>\$ (8,562,190)</u> |
| Capital Improvements: | | | |
| State General Fund | \$ 24,222,690 | \$ 10,050,000 | \$ 0 |
| Other Funds | 2,552,676 | 2,497,676 | 0 |
| Subtotal - Capital Improvements | <u>\$ 26,775,366</u> | <u>\$ 12,547,676</u> | <u>\$ 0</u> |
| TOTAL | <u><u>\$ 175,381,639</u></u> | <u><u>\$ 161,969,347</u></u> | <u><u>\$ (8,562,190)</u></u> |
| FTE Positions | 760.5 | 762.8 | (3.0) |
| Non FTE Uncl. Perm. Pos. | 15.9 | 15.9 | 0.0 |
| TOTAL | <u><u>776.4</u></u> | <u><u>778.7</u></u> | <u><u>(3.0)</u></u> |

Agency Request

The agency's all funds request includes \$148.6 million for operating expenditures and \$26.8 million for capital improvements, including principal payments on bonds. The agency's request includes \$57.2 million from the State General Fund for operating expenditures and \$24.2 million from the State General Fund for capital improvements, including principal payments on bonds. The agency requests 760.5 FTE positions.

Governor's Recommendation

The Governor's all funds recommendation includes \$149.4 million for operating expenditures and \$12.5 million for capital improvements, including principal payments on bonds. The Governor's recommendation includes \$57.1 million from the State General Fund for operating expenditures and \$10.1 million from the State General Fund for capital improvements, including principal payments on bonds.

The Governor's recommendation includes an adjustment for pay plan and longevity financing as well as several State General Fund financed enhancements, including \$250,000 for public broadcasting grants, \$150,969 and 3.0 new FTE positions for the Long-Term Care Ombudsman, \$2.0 million for the second installment for a new software application, and \$12,900 for a replacement vehicle. The Governor recommends a technical adjustment in the FTE positions by adding 2.3 FTE above the agency's request for personnel in the Division of Facilities Management.

2-4

House Budget Committee Recommendation

The Committee concurs with the Governor's recommendation and makes the following adjustments and comments:

1. Delete \$1,378,396, including \$267,898 from the State General Fund, for the 1.5 percent base salary adjustment and 2.5 percent step movement for classified employees, a 4.0 percent merit pool for unclassified employees, and the longevity enhancement. Funding for the pay plan will be considered later.
2. Delete \$12,900 from the State General Fund for one replacement motor vehicle that will be considered during Omnibus.
3. Delete \$2,000,000 from the State General Fund for the proposed Statewide Financial Management System.
4. Delete \$1,988,553 in expenditures from a state agency user fee increase recommended by the Governor for a new telephone related-technology, and instead direct the fee revenues of \$1,988,553 to be deposited into the Statewide Financial Management System Fund. The Committee recommends appropriating this fund with a \$0 expenditure limit in FY 2008 and reviewing the proposed multiyear revenues and expenditures at Omnibus. The Committee further recommends during the Omnibus review, prior to authorizing any expenditures, to consider Regents participation in the new Statewide Financial Management System.
5. Delete \$3,000,000 from the State General Fund for 53.5 FTE positions in the Division of Accounts and Reports that the Governor recommends shifting financing from special revenue funds and review the recommended expenditures at Omnibus. The Committee does not recommend deleting the 53.5 FTE positions at this time since none are new staff positions.
6. Delete \$250,000 from the State General Fund recommended by the Governor as enhanced financing for the Public Broadcasting Council's operating grants for public radio and television stations. Instead, add \$218,628 from the State General Fund for the purpose of providing funds to KMUW-Wichita for the costs of relocating its transmitter site and adding digital equipment. The Committee recommends reviewing both operating grant enhancement funding and individual station equipment grant requests at Omnibus.
7. Delete \$150,969 from the State General Fund and 3.0 new FTE positions for the Long-Term Care Ombudsman's Office and defer consideration of this enhancement to Omnibus; however, the Committee is supportive of this program enhancement.

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Mr. John Paul Woodley, Jr., the Assistant Secretary of the Army (Civil Works), is responsible for the supervision of the Army's Civil Works program, including programs for conservation and development of the nation's water and wetland resources, flood control, navigation, and shore protection.

On May 16, 2005 President George W. Bush appointed John Paul Woodley, Jr., as Assistant Secretary of the Army (Civil Works) following confirmation by the Senate. Mr. Woodley had been serving as Principal Deputy Assistant Secretary of the Army (Civil Works) from December 9, 2004 until this appointment. Prior to this, he served as the Assistant Secretary of the Army (Civil Works) from August 22, 2003, until December 8, 2004, when his recess appointment concluded.

Mr. Woodley previously served as the Assistant Deputy Undersecretary of Defense (Environment). In this capacity Mr. Woodley oversaw the Defense environmental program, encompassing both environmental restoration and compliance and pollution prevention efforts. Mr. Woodley was also the principal advisor to the Secretary of Defense on environmental, safety and occupational health policy and programs.

Prior to his appointment as the Assistant Deputy Undersecretary of Defense (Environment), Mr. Woodley served as Secretary of Natural Resources in the Cabinet of Virginia Governor Jim Gilmore from January 1998 until October 2001. As Secretary of Natural Resources, Mr. Woodley supervised eight Virginia agencies responsible for environmental regulation, permitting and enforcement, natural and historic conservation, and outdoor recreation, including parks, fisheries and wildlife management.

Mr. Woodley also served as Deputy Attorney General of Virginia for Government Operations beginning in 1994. The Government Operations Division of the Attorney General's Office represented all state agencies in the areas of administration, finance, transportation, economic development, and natural resources.

Mr. Woodley attended Washington & Lee University in Lexington, Virginia, on an Army R.O.T.C. scholarship. He received a Bachelor of Arts degree from Washington & Lee in 1974, and was elected to Phi Beta Kappa. Mr. Woodley also attended the Law School at Washington & Lee, where he received his juris doctor degree cum laude in 1977.



HOUSE APPROPRIATIONS

DATE 2-16-2007
ATTACHMENT 3

Mr. Woodley served on active duty with the U.S. Army Judge Advocate General's Corps from 1979 until 1985 and retired from the Army Reserve in August 2003 as a Lieutenant Colonel. He has been awarded the Legion of Merit, the Meritorious Service Medal (2nd Oak Leaf Cluster), the Army Commendation Medal (1st Oak Leaf Cluster), and the Army Achievement Medal. His civilian awards include the Secretary of Defense Medal for Outstanding Public Service. Mr. Woodley is a native of Shreveport, Louisiana.

Report of the Joint Committee on
Pensions, Investments, and Benefits
to the
2007 Kansas Legislature

CHAIRPERSON: Senator Stephen Morris

VICE-CHAIRPERSON: Representative John Edmonds

OTHER MEMBERS: Senators Anthony Hensley, Laura Kelly, Ruth Teichman, and Dwayne Umbarger; and Representatives Richard Carlson, Ray Cox (replaced by Robert Olson in December), Geraldine Flaharty, Vaughn Flora, Margaret Long, Bill McCreary, and Melvin Neufeld

STUDY TOPICS

The Committee is directed to monitor the operations of KPERS, to review public retirement benefits, and to consider Governor's nominees to the KPERS Board of Trustees, with a recommendation to the Senate regarding confirmation.

LCC Referred Topics:

- **Proposed Alternative Retirement Plan.** Review a plan being developed by the KPERS Board of Trustees to address a long-term funding issue for the KPERS plan that covers state, school and local public employees. The KPERS Board has undertaken a study of the funding status, changing demographics and plan design options for future members and will report on development of alternative plans during the 2006 Interim period.
- **State's Deferred Compensation Plan.** Review the current status of the State's deferred compensation plan. Review if any changes need to be made in the plan.

December 2006

HOUSE APPROPRIATIONS

DATE 2-17-2007
ATTACHMENT 4

Joint Committee on Pensions, Investments, and Benefits

STATE'S DEFERRED COMPENSATION PLAN

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends:

- Administration of the state's deferred compensation plan should be transferred from the Department of Administration to the Kansas Public Employees Retirement System (KPERs).

Proposed Legislation: The Committee recommends introduction of a bill transferring supervision of the state's deferred compensation plan to KPERs.

BACKGROUND

The Joint Committee on Pensions, Investments, and Benefits was directed by the Legislative Coordinating Council to study the status of the state's deferred compensation plan and to review if any changes needed to be made in the plan.

COMMITTEE ACTIVITIES

The Committee met on July 24, September 26, November 15, and December 15, 2006. The minutes and attachments for all meetings are available from the Division of Legislative Administrative Services.

The state's deferred compensation plan includes both state and local employees with total assets of almost \$618.0 million and 25,782 participants as of December 31, 2005. Local units of government contract separately for participation in the program, hence a distinction between state and local components of the plan that includes the state and 238 other entities.

As of December 31, 2005, the assets for state employees in the state's deferred compensation plan totaled \$418.6 million,

an increase of \$32.0 million from \$386.6 million the previous December 31. During CY 2005, contributions (deferrals) totaled \$26.7 million. As of the end of CY 2005, there were 15,105 state participants who had investments in one or more funds utilized by the plan.

As of December 31, 2005, the assets for local employees in the deferred compensation program totaled \$199.3 million, an increase of \$38.4 million from \$160.9 million the previous December 31. During CY 2005, contributions (deferrals) totaled \$4.4 million. As of the end of CY 2005, there were 10,677 local participants who had investments in one or more funds utilized by the plan.

The Deputy Secretary of Administration, Department of Administration, reviewed the program for the Committee as representative of the Deferred Compensation Oversight Committee which was established by KSA 75-5529c in 1998. Members are appointed by the Secretary of Administration and currently include the Director of Accounts and Reports, the Executive Director of KPERs, and the Deputy Secretary of Administration.

She noted that the plan was implemented in 1980, with Aetna selected as the first plan service provider. Enabling legislation passed originally in 1976 authorizing the plan. In 2000, the deferred compensation division of Aetna was purchased by ING Life Insurance and Annuity Company (ING). Over the past 26 years, Aetna and ING have been selected as the plan service provider through two competitive procurement negotiations, with the most recent award of contract in 2002. The current contract began January 1, 2003 and will expire on December 31, 2007.

The Oversight Committee selected Segal and Company to assist as its investment consultant and in selection of a plan service provider for the period beginning in January of 2008. The Deputy Secretary indicated that a request for proposals would be released in early January of 2007 and that a negotiated contract with a service provider would be finalized as early as July 1, 2007, in case there was a transition from one firm to another firm.

The Committee also heard a report from the Kansas Securities Commissioner concerning regulatory actions in New Hampshire involving ING. The Commissioner related that there were serious allegations in New Hampshire. However, after initial review of the ING contract and operation in Kansas, the Commissioner stated that there was no cause for concern about ING activities in Kansas.

At a subsequent meeting during the 2006 Interim, the Deputy Secretary of Administration, Department of Administration, and the Executive Director of KPERS, provided recommendations for changes in the program. The primary recommendation is for legislation to transfer

administration of the plan from the Department of Administration to KPERS. Under the proposal, the KPERS Board of Trustees would assume responsibility for administering the plan.

The Executive Director of KPERS indicated that the KPERS Board had approved the proposal and that the transfer would accomplish the following initiatives:

- Provide state and local employees with coordinated retirement education and planning information. This would be accomplished by integrating the plan's educational and retirement planning information into KPERS publications.
- Increase the emphasis on personal savings as a component of retirement planning. KPERS retirement planning seminars would be expanded to include savings education and a deferred compensation components.

The KPERS Executive Director would provide leadership for the plan, while a new manager would handle the daily operations in conjunction with the plan's service provider. The administrative costs would continue to be self-funded by plan participant fees and there would be separate accounting for the plan and the regular KPERS retirement related operations.

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends introduction of legislation to transfer the deferred compensation plan to KPERS for administrative purposes, effective January 1, 2008.

February 15, 2007

The Honorable Sharon Schwartz, Chairperson
House Committee on Appropriations
Statehouse, Room 517-S
Topeka, Kansas 66612

Dear Representative Schwartz:

SUBJECT: Fiscal Note for HB 2385 by Joint Committee on Pensions, Investments,
and Benefits

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2385 is respectfully submitted to your committee.

Under current law, the Secretary of Administration, the Director of Accounts and Reports, as well as an Administrative Oversight Committee on Deferred Compensation are responsible for administering the Kansas Public Employees Deferred Compensation Plan. HB 2385 would transfer the administration and oversight from the Department of Administration to KPERS, effective January 1, 2008. As part of the system of regular payroll deductions, the bill would provide that the Director of Accounts and Reports continue to deduct the payroll deferrals from the compensation of state employees each payroll period and remit the funds to the contracted service provider, which is currently ING. As the service provider, ING provides both recordkeeping services, as well as a range of investment options for participants. The bill specifies that all contracts with service providers would be negotiated like other state contracts.

Current state law requires the management and administrative expenses associated with the plan to be self-funded through participant fees or recovery of costs from service providers. Under the current contract with ING, no participant fees are charged, but ING pays an annual allowance based on average plan assets each year. For the last two years, the plan has received annual credit allowances of \$175,000, plus annual reimbursements of \$85,000 for investment consultant and auditing services. The funds are deposited in the Deferred Compensation Fund in the Department of Administration and are available to pay for the state's administrative costs. HB 2385 would continue the self-funding requirement. The plan's receipts and expenditures would be transferred from the Department of Administration to KPERS. As a result, there would be no net fiscal effect on state operations. Based on an effective date of January 1, 2008, the


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The Honorable Sharon Schwartz, Chairperson
February 15, 2007
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following expenditure estimates, along with corresponding revenue from the service provider, would be transferred from the Department to KPERS:

| | Last Half of | |
|--------------------------------|----------------|----------------|
| | <u>FY 2008</u> | <u>FY 2009</u> |
| Investment Consultant Expenses | 29,000 | 58,000 |
| Annual Financial Audit | 25,000 | 25,000 |
| Administrative Expenses | 54,000 | 108,000 |
| Education & Communication | <u>21,000</u> | <u>42,000</u> |
| | \$129,000 | \$233,000 |

Sincerely,



Duane A. Goossen
Director of the Budget

cc: Pat Higgins, Administration
Mary Beth Green, KPERS

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HB 2385

Testimony for the House Appropriations Committee

Glenn Deck
Executive Director
Kansas Public Employees Retirement System

February 16, 2007

Madam Chair, Members of the Committee:

Thank you for this opportunity to appear in support of House Bill 2385 which transfers administration of the State's Deferred Compensation Plan from the Department of Administration to KPERS.

Plan Overview

Established in 1980, the Deferred Compensation Plan is a voluntary, tax-deferred retirement savings program for state employees. In addition, about 240 local units of government have adopted the terms of the plan as the basis for deferred compensation plans offered to their employees. At this time, the Plan has approximately 26,000 total participants (15,250 State employees and 10,850 local employees) with total assets of \$650 million.

Since its inception, the Plan has been administered by the Department of Administration with recordkeeping services and investment options provided through a third-party service provider (currently ING). The Director of Accounts and Reports and the Deferred Compensation Oversight Committee appointed by the Secretary of Administration (currently the Deputy Secretary of Administration, the Director of Accounts and Reports, and myself) oversee the Plan with Plan management and staffing assistance provided by various divisions within the Department of Administration. With the exception of deducting payroll deferrals for State employees and final approval for emergency withdrawals, ING staff are responsible for most day-to-day Plan communications, recordkeeping and investment transactions.

Recommended Transfer to KPERS

In 2006, the Secretary of Administration established a working group comprised of Department of Administration and KPERS staff to review the Plan and make recommendations for improving retirement education, planning and savings for State and local employees. Based on that group's findings and recommendations, the Secretary of Administration and the KPERS Board of Trustees recommended to the Joint Committee on Pensions, Investments and Benefits that Plan administration be transferred to KPERS.

Following a 2006 interim study, the Joint Committee recommended introduction of a bill transferring Plan administration to KPERS. Under the provisions of HB 2385, KPERS' Board and staff would assume responsibility for Plan administration and oversight, similar to responsibilities currently held by the Department of Administration and the Oversight Committee, effective January 1, 2008. The Board would oversee Plan administration including a) selecting and managing service providers; b) monitoring service levels and performance; c) selecting and monitoring investment options; d) selecting and working with a financial consultant and auditors; and e) entering into participation agreements.

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government. In addition, the Board would coordinate communications with participants regarding retirement issues generally and deferred compensation in particular.

As part of the regular payroll system, HB 2385 provides that the Director of Accounts and Reports would continue to deduct the payroll deferrals from state employees' salaries each pay period and to remit those funds to the service provider. The Plan would continue to use a service provider for account recordkeeping and services such as enrollments, phone inquiries, education and investment options.

A ♦ **Key Reasons for Transfer**

- Both the Deferred Compensation Plan and KPERS have the same goal of preparing public employees for retirement.
- KPERS' Board of Trustees and staff have expertise and resources in the areas of retirement benefit administration, investments and fiduciary issues that could improve Plan administration and options.
- KPERS and the Deferred Compensation Plan have significant overlap of participants and employers, providing additional opportunities for expanding outreach and services.
- Combined resources could maximize and integrate retirement education and planning.
- Joint communication and education could increase emphasis on the importance of personal savings for retirement.

♦ **Fiscal Impact of Transfer**

State law requires that the Deferred Compensation Plan's management and administrative expenses be self-funded through participant fees or recovery of costs from service providers. Under the current contract, during the last two years ING has paid \$175,000 annually as a credit allowance (based on average plan assets) plus \$85,000 annually to reimburse the Plan for investment consultant and auditing services. These funds are deposited into the Deferred Compensation Fund and are available to pay for the State's administrative costs. If Plan administration is transferred to KPERS, we would anticipate that:

- The Plan would continue to be self-funded, resulting in no net fiscal impact on KPERS or the State of Kansas.
- Separate budgetary and accounting systems would be maintained for the Plan's expenditures.
- Estimated Plan expenditures for fiscal year 2008 (January 1 to June 30) would be \$116,500 to \$129,000. Estimated expenditures for fiscal year 2009 would be \$208,000 to \$233,000. These estimates include investment consultant, auditing and administrative expenses.
- KPERS fiscal year 2008 budget would need to be amended to provide spending authority for Plan expenditures.

Conclusion

The KPERS Board and staff believe HB 2385 would be beneficial for our members as well as members of the Deferred Compensation Plan because it provides for improved coordination of retirement benefits and increased emphasis on personal savings for retirement. I would respectfully ask the Committee to recommend HB 2385 favorably for passage.

Thank you for your consideration. I would be happy to respond to any questions you may have.

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Deferred Compensation Plan Highlights

| | |
|--|--|
| Assets | \$649.7 million total portfolio invested by participants in 20 investment options. (State - \$435.8 million & Local - \$213.9 million) |
| Participants | 16,540 Active Participants (State – 8,994 & Local – 7,546) 26,098 Total Participants (State – 15,252 & Local – 10,846) |
| Employers | State agencies & 239 local governments (counties, municipalities, special districts) |
| Investment Management | ING provides range of investment options by 10 fund providers. Segal Advisors, investment consultant, assists with performance monitoring. |
| Communication & Education Resources | ING provides various participant publications and brochures, toll-free customer service number, website, financial and retirement seminars, on-line counseling and Plan representatives statewide. |

* Plan information as of 9-30-2006.

KPERS Highlights

| | |
|--|--|
| Assets | \$13 billion investment portfolio including all major asset classes. |
| Members | 149,073 Active Members 253,847 Total Members (149,073 active members; 63,348 retirees; 41,426 inactive members) |
| Employers | 1,474 employers (State agencies, counties, municipalities, school districts, special districts) |
| Investment Management | Use 14 outside institutional investment managers and manage 25 percent of portfolio with in-house staff using index strategies. |
| Communication & Education Resources | Various member publications and brochures, toll-free customer service InfoLine, statewide pre-retirement seminars and employer workshops and field services staff. |

* KPERS membership information as of 12-31-05; asset information as of 12-31-06.

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